<u>Major Tax Changes of 2019 Session</u>

- ***Marketplace Facilitators (H.536)***
    - Requires places like Amazon, Etsy and Ebay to collect and remit sales tax from third party sales that occur on their platform
    - $13.4 million in sales tax revenue projected for FY20. All goes to Education Fund.
- ***Market-based sourcing and corporate income tax changes***
    - H.514 (Misc Tax) changes Vermont's apportionment formula for intangible sales to market-based sourcing from cost-of-performance.
    - H.514 also directs the Department of Taxes to study the impacts of switching from three factor apportionment to single sales.
    - H.514 also asks the Department of Taxes to study the impacts of switching financial institutions from the Bank Franchise Tax to the Corporate Income Tax.

Everything below here is in H.541:

- *Capital Gains Exclusion*
    - Current exclusion: taxpayers take a flat $5000 on any type of capital gain <u>or</u> a 40% exclusion on sales of farms, businesses and investment properties
    - **Change in H.541**: for the 40% exclusion, the taxpayer is limited to $350,000 in exclusion. This means they will not receive any more exclusion if the capital gain exceeds $875,000. Effective July 1, 2019
        - Largely affects very high-income taxpayers ($1,000,000+ AGI).
        - Raises $2.21 million in FY20, and $4.42 million in future years
- *Medical Deduction*
    - At the Federal level, taxpayers can deduct unreimbursed medical expenses in excess of 10% of their AGI
        - Example: $100,000 AGI, $50,000 in medical expenses
            - Deductible expenses are $40,000 (10% of $100,000 is $10,000, so subtract $10,000 from $50,000)
    - In Vermont, prior to this session, no itemized deductions flowed through from the Federal: everyone got a VT standard deduction equal to $6,000 (single) and $12,000 (married) and $4150 per exemption (taxpayer, spouse and any dependents)
    - **Change in H.541:** Taxpayers will be able to deduct medical expenses in excess of:
        - A) The Federal 10% floor
        - B) Their VT standard deduction
        - C) Their VT personal exemptions
    - **Also:** If a taxpayer is in a continuing care retirement community (Wake Robin), they will be unable to deduct their entrance and monthly fees. What they will be able to deduct is the amount allowed at the Federal level for long-term care insurance (varies by age, but for older taxpayers, it's about $5,000 a year).
    - Example: Married taxpayer with $100,000 AGI with $50,000 in Medical expenses
        - Federal deduction: $40,000

        - VT deduction: $40,000 (Federal) minus $12,000 (VT standard deduction) minus $8,300 (taxpayer and spouse personal exemptions) equals $19,700
    - Revenue impact: Revenue loss of just over $2 million per year
- *Estate Tax*
    - Current tax is 16% on value of estates over $2.75 million
    - **Change in H.541:** Increases the estate tax exclusion over 2 years.
        - Exclusion rises to $4.25 million effective January 1, 2020
        - Effective January 2021, exclusion rises to $5 million
    - Revenue impact: $0 in FY20 (estate tax returns are filed on a 9-month delay), -$4.46 million in FY21 growing to -$7.61 in FY21.
- *Online Travel Agents:*
    - **Change in H.541:** Requires OTAs to collect meals and rooms tax on the entirety of their booking fees.
    - See Fiscal Note for full explanation
- *Controlling Interest Transfers*
    - Current property transfer tax assesses the tax on the transfer of deed
    - **Change in H.541:** Property transfer tax would be due if greater than 50% of the interest of the property changes hands
        - Example: ski resort owned by Company A
            - A buyer purchases a 75% stake in Company A. There is no change in deed for the ski resort but the control of the resort has effective changed hands. The property transfer tax would now be due on this
    - See Fiscal Note for explanation.
- *(Almost) Land Gain Tax Repeal*
    - Land Gains tax is a tax on the change in value of land held for less than six years. There are numerous exemptions that prevent most people from paying the tax.
    - Was put in place to prevent speculation of land that was occurring in the 1970s.
    - Tax rate depends on how much the value of the land has grown and how long the land has been held.
    - **Change in H.541:** Basically repeals the Land Gains Tax. The only time land gains tax return would be required is if there is a subdivision of the land within 6 years of purchase. It would also exempt any land within a designated downtown or village center from the Land Gains Tax.
- *Fuel Tax*
    - Tax assessed on the sales of fuel and electricity in Vermont.
        - 2 cents per gallon of heating oil, dyed diesel fuel, kerosene and propane
        - 0.75% on gross receipts of natural gas and coal
        - 0.5% on gross receipts of electricity
    - **Change in H.541:**
        - Tax was due to sunset July 2019. Sunset extended 5 years
        - The 2 cents per gallon tax was amended to included all non-profits and state/local governments
            - Prior to 2016, this tax was a gross receipts tax on fuels that was paid by every purchaser in Vermont.

- When this was changed to a per-gallon tax, the language was accidentally changed to say only a “residence or business” would be required to pay it. Nonprofits said “we are not a residence or business” so they stopped paying. H.541 fixes this.