Tax Provisions in H.R. 133
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Summary

Overall, while H.R. 133 contains numerous tax provisions, it does not appear to contain much that would have a significant direct impact on Vermont personal or corporate income tax revenues for tax year 2021 and beyond. However, as with the CARES Act, there are provisions that will flow through to Vermont absent any changes during the 2021 legislative session.

The following is an overview of some of the more significant tax provisions in the bill along with a brief overview of their impact on Vermont revenues:

1) Recovery Rebates for Individuals and Families

- Similar to CARES stimulus checks but smaller.
- $600 per individual in the household (adult dependents not eligible)
- Phases out depending upon income of the household: $75,000 for a single household, $150,000 for a married couple, and $112,500 for a head of household.
- **Impact on Vermont taxes:**
    - No direct impact. Recovery checks are not considered taxable income for the individual and therefore would not be considered as part of Vermont adjusted gross income.
    - Indirectly, the checks could stimulate increased spending, which could have effects on Vermont's consumption taxes.

2) Earned Income Tax Credits (EITC and Child Tax Credit)

- The bill allows those applying for the federal EITC and Child Tax Credit to "look back" to their 2019 incomes for the basis of these credits.
    - For many taxpayers, their 2020 wages could be too low to make them eligible for these credits when they file their taxes in April 2021. The lookback prevents this issue.
- Applicable only for the 2020 tax year.
- **Impact on Vermont taxes:**
    - Modest direct impact. Vermont's EITC piggybacks on the Federal EITC (36% of the Federal EITC). The rules around Vermont's EITC are the same as the Federal (for example, income thresholds).
    - Absent any Vermont legislation, Vermont's EITC would follow the same federal lookback for tax year 2020.
    - Vermont does not provide a child tax credit, and the federal child and dependent care credit is not impacted by this change.

3) Above the Line Charitable Deduction

- Allows a $600 (married) or $300 (single) charitable deduction for non-itemizing individuals to be taken before the calculation of adjusted gross income.
- This provision was in the CARES Act but was set to expire at the end of 2020. It has now been extended through tax year 2021.
- **Impact on Vermont taxes:**
    - Modest direct impact. Since the deduction is taken before Federal adjusted gross income, Vermont would be picking it up because AGI is the starting point for Vermont income taxes.
    - Absent any Vermont legislation, taxpayers would be “double dipping” on their charitable contributions: Vermont would be providing a tax benefit indirectly through the new deduction and also giving them a 5% credit through Vermont’s charitable tax credit.

4) Payroll Protection Program (PPP)

- The bill makes two important changes to PPP
    - A) It creates a second round of PPP. Loans will be limited to smaller businesses (less than 300 employees) who have experienced at least a 25% revenue drop in a 2020 quarter as compared to 2019.
        - Maximum loan size is $2 million.
    - B) It allows the deductibility of PPP expenses. Typically, a business cannot deduct expenses from their taxable income if the expense was paid for with tax-free income, like PPP. The bill now states that if a business used PPP money for expenses, the money can be deducted against their taxable income.
- **Impact on Vermont taxes:**
    - Direct, unknown impact. In theory, the deductibility of PPP expenses could significantly drive down net income of Vermont businesses, and therefore, have a major impact on taxes paid by businesses (corporate and personal income).
        - However, overall business income this year may already be negative (many businesses reporting losses) so this change may not have an impact.
    - The Joint Committee on Taxation, which provides revenue estimates for Federal bills, stated this provision would have no revenue impact on Federal revenues. If true, this would also likely mean no revenue impact on Vermont revenues.

<u>4) 7.5% AGI Medical Deduction Threshold</u>

- For the Federal medical deduction, taxpayers are able to deduct medical expenses in excess of 7.5% of their AGI. This limitation was increased to 10% in tax year 2020. The 7.5% threshold makes the deduction more generous and has been made permanent starting in tax year 2021.
- **Impact on Vermont taxes:**
    - Direct revenue loss of $300,000-$500,000. Vermont's Medical Deduction is based upon the Federal Medical Deduction. The 7.5% AGI threshold means Vermont Deduction will become more generous, and therefore, result in increased foregone revenue.

<u>5) Employee Retention Credits</u>

- The CARES Act created the Employee Retention Credits, which were credits against Social Security Taxes paid equal to 50% of wages paid, not to exceed $10,000 in wages paid per year.
- The new bill expands the credits by making the credits up to 70% of wages paid up to $10,000 per quarter.
- The bill also allows businesses who used PPP to take Employee Retention Credits, which was not permitted in the CARES Act.
- **Impact on Vermont taxes:**
    - No direct impact.

<u>6) Other tax provisions:</u>

- Delay of payment of Social Security and railroad retirement taxes has been extended from December 2020 through December 2021.
    - No revenue impact on Vermont
- 100% deduction for business meals for tax year 2021 and 2022
    - Will impact Vermont taxes through business net income, although the impact is expected to be modest.
- The CARES Act allowed for the payments of employer-paid student loans to be deducted as income for the individual. The limit is $5,250 per employee. The original expiration date was January 2021 but has been extended until 2026.
    - Minimal direct revenue impact on Vermont through the net income of businesses. It is estimated that very few businesses currently or will do this in Vermont.
- Repeals qualified tuition and expenses paid deduction, while increasing phaseout limits on lifetime learning credit.
- Unspent money from 2020 flexible spending accounts (FSA) can now be carried into 2021 and again in 2022.
- Extension or alterations of several Federal tax credits likely used by Vermonters, including the low-income housing credit (used by developers to fund the construction of low-income housing), the New Market Tax Credit program, the energy investment tax credit, and other renewable energy incentives.

- Permanent extension of lower federal excise taxes for alcohol passed in the CARES Act.