

Social Security Exemption Overview

Overview

Act 11 of the 2018 special legislative session established a Vermont personal income tax exemption for Social Security (SS) beneficiaries below certain income thresholds. This provision eliminates or reduces the Vermont tax imposed on federally taxable SS benefits for nearly 40,000 income-eligible taxpayers. The exemption takes effect in calendar year 2018 for tax returns filed in 2019.

Legislation

The new SS exemption became law as part of [Act 11 Sec. H.5](#) of the 2018 legislative special session.

Federal Taxation of Social Security Benefits & Effect on Vermont

At the federal level, the personal income of an SS beneficiary determines how much of his or her SS benefits are taxed. This taxable portion of SS benefits may become part of a Vermonter's Adjusted Gross Income (AGI) at the federal level, which flows through to Vermont's income tax structure.

This new Vermont exemption allows income-eligible taxpayers to subtract all or part of federally taxable SS benefits from their AGI. This means that the federally taxable portion of SS benefits is eliminated or reduced for Vermont income-eligible taxpayers that are social security beneficiaries.

For a breakdown of the federal taxation of SS benefits, see the table below. For more on federal taxation of social security benefits, please read this [overview by the Social Security Administration](#).

Table 1: Federal Taxation of Social Security Benefits by Income and Filing Status		
Single/Separate/Widow(er)/HoH Combined Income	Married Joint Combined Income	Percentage of Social Security Benefits that are Taxed
Less than \$25,000	Less than \$32,000	0%
\$25,000-\$34,000	\$32,000 - \$44,000	Up to 50%
Greater than \$34,000	Greater than \$44,000	Up to 85%

Vermont's Social Security Exemption

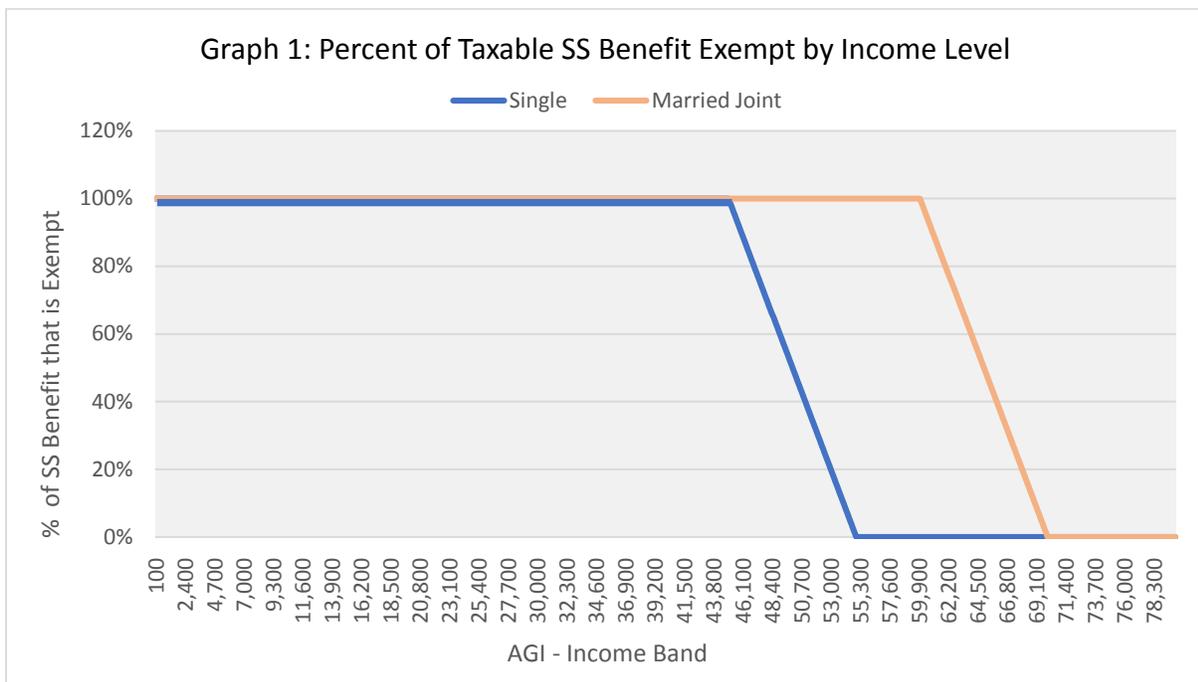
Vermont's new personal income tax exemption of SS benefits reduces tax liabilities mainly for lower- and middle-income Vermonters who are retired or disabled. It does this by excluding from taxable income all or part of taxable SS benefits reported on the Federal Form 1040 (Individual Income Tax Return), which are included in federal AGI. The exemption does not exclude other types of income.

For single, separate, head of household, and widow(er) filers who earn AGI up to \$45,000, the Vermont exemption applies in full. It then phases out smoothly for filers earning between \$45,000-\$55,000. It does not apply to filers with AGI greater than or equal to \$55,000. For married joint filers, the exemption applies in full up to \$60,000, phases out between \$60,000-\$70,000, and does not apply to filers with AGI greater than or equal to \$70,000. The exemption reduces a taxpayer's Vermont taxable income before state tax rates are applied.

Table 2 illustrates how the Vermont exemption is applied by filing status and income level. Graph

1 shows the percentage of taxable SS benefits that are exempt from Vermont taxable income based on filing status and AGI.

Table 2: Exemption by Filing Status and Income		
Filing Status	AGI	Exemption?
Single/Separate/Widow(er)/HoH	\$0 - \$45,000	Full Exemption
	\$45,001 - \$54,999	Partial Exemption
	Amounts >= \$55,000	No Exemption
Married Joint Filers	\$0 - \$60,000	Full Exemption
	\$60,001 - \$69,999	Partial Exemption
	Amounts >= \$70,000	No Exemption



Phaseout/Partial Exemption

Single, married separate, head of household, and widow(er) filers earning between \$45,000-\$55,000 and married joint filers earning between \$60,000-\$70,000 are eligible for a partial exemption of taxable SS benefits. Here’s how the partial exemption will be calculated:

1. Subtract the taxpayer’s AGI from the top of the exemption threshold
 - **Married Joint Filers:** \$70,000 – AGI = Line 1
 - **All Other Filers:** \$55,000 – AGI = Line 1
2. Divide the amount from Line 1 by \$10,000.
3. Multiply the amount on Line 2 by the taxable social security benefit. This is the amount of the partial exemption.

Here’s an example:

A single filer has an AGI of \$50,000 and an annual SS benefit of \$32,000 for which \$20,000 is taxable at the federal level. That means:

- \$12,000 of the \$32,000 in SS benefit is already exempt at the federal and therefore state level;
- \$30,000 of this filer's AGI is not SS benefit and is not subject to the exemption; and
- The \$20,000 of SS benefit that becomes part of the filer's AGI is the amount subject to an exemption. The exemption for single filers phases out between \$45,000-\$55,000, so this filer's exemption is in that range.

The partial exemption is calculated as follows:

1. Subtract the filer's AGI from the exemption threshold of \$55,000:
 - $\$55,000 - \$50,000 = \$5,000$
2. Divide the amount from Line 1 by \$10,000:
 - $\$5,000 / \$10,000 = 50\%$ (or .5)
3. Multiply the amount on Line 2 by the taxable social security benefit:
 - $50\% * \$20,000 = \$10,000$

This filer is eligible for a 50% exemption in taxable social security benefits. Of the filer's \$20,000 in taxable benefits, \$10,000 will therefore be exempt from the filer's Vermont taxable income.

Additional Examples

The following two examples illustrate how the exemption is claimed: 1) in full by a head-of-household filer, and 2) in-part by a married joint filer in the phaseout range of \$60,000-\$70,000.

Example 1: Head of Household (HoH) Filer – Full Exemption

Example 1 is an HoH filer earning \$40,000 in AGI, with an annual SS benefit of \$16,000 for which \$10,000 is taxable. Since this filer's income is less than the \$45,000-\$55,000 phaseout window for HoH filers, this filer can exempt the full \$10,000 of taxable SS benefits from taxable income.

Example 2: Married Joint Filer – Partial Exemption

Example 2 is a joint filer earning \$62,000 in AGI, with an annual SS benefit of \$32,000 for which \$20,000 is taxable. Since the exemption for joint filers phases out between \$60,000-\$70,000, this filer would be eligible for a partial exemption.

This filer's partial exemption is calculated as follows:

1. Subtract the filer's AGI from the exemption threshold of \$70,000:
 - $\$70,000 - \$62,000 = \$8,000$
2. Divide the amount from Line 1 by \$10,000:
 - $\$8,000 / \$10,000 = 80\%$ (or .8)
3. Multiply the amount on Line 2 by the taxable social security benefit:
 - $80\% * \$20,000 = \$16,000$

This filer is eligible for an 80% exemption in taxable social security benefits. Of the filer's \$20,000 in taxable SS benefits, \$16,000 will therefore be exempt from Vermont taxable income.