

2018 Vermont Income Tax Guide for Tax Practitioners

This guide provides an overview of new legislation from the 2017-2018 regular and 2018 special legislative sessions.

Disclaimer: This guide is intended to provide an overview of major legislative changes to Vermont personal income tax. It is not exhaustive, and it does not constitute legal advice. Vermont tax statutes, regulations, court decisions, or Vermont Department of Taxes rulings supersede information presented here.

Vermont Taxable Income to Start from Federal AGI

Until 2018, the calculation for Vermont taxable income began with federal taxable income. During the 2017 Vermont legislative session, which was prior to the enactment of the [Tax Cuts and Jobs Act \(TCJA\)](#), the starting point for the Vermont personal income tax calculation was changed. Starting in tax year 2018, it will begin with federal adjusted gross income (AGI). One of the impacts of this change is that the [new federal deduction for qualified business income enacted in the TCJA](#) will not flow through to the Vermont return. [Act 73 of 2017, Secs. 13a, 32\(5\); 32 V.S.A. § 5811\(21\)](#).

In addition, Global Intangible Low-Tax Income (GILTI) is now included in federal gross income under the TCJA. [I.R.C. § 951A\(a\)](#). As a result, GILTI is automatically included in Vermont taxable income and Vermont net income. Furthermore, the GILTI deduction now allowed under I.R.C. § 250 is

also available to domestic corporations for Vermont corporate income tax purposes. The Department will publish further guidance on the treatment of this income in 2019.

Vermont-Defined Personal Exemption of \$4,150

Starting in 2018, Vermont filers will be allowed an exemption of \$4,150 for themselves, their spouse if they filed jointly, and any qualifying dependents. The TCJA suspended personal exemptions at the federal level, but Vermont will allow taxpayers the number of exemptions equal to the number of federal personal exemptions they would have had, absent federal tax reform. The amount of the personal exemption will be adjusted annually for inflation. The exemption will be available to all filers, regardless of income (no phase-out), and for any person not claimed as a dependent by another taxpayer. [Act 11 of 2018 \(Spec. Sess.\), Sec. H.1; 32 V.S.A. § 5811\(21\)\(C\)](#).

Vermont-Defined Standard Deduction of \$6,000 for Single, \$9,000 for Head of Household, and \$12,000 for Married Filing Jointly or Surviving Spouses

Starting in 2018, filers will be allowed to deduct a Vermont-defined standard deduction from their income based on their filing status. These deduction amounts are similar to what the federal standard deduction was in 2017, and would have been in 2018, absent federal tax reform. The Vermont standard deduction will be adjusted annually for inflation. [Act 11 of 2018 \(Spec. Sess.\), Sec. H.1; 32 V.S.A. § 5811\(21\)\(C\)](#).

An additional deduction of \$1,000 is available to filers who are age 65 or over and/or blind, and who qualified and received the deduction at the federal level. The amount of the additional deduction will be adjusted annually for inflation.

Help for tax practitioners

Email tax.preparer@vermont.gov or call (802) 828-6815
Mon.-Fri., 7:45 a.m.-4:30 p.m.



Disclaimer: This guide is intended to provide an overview of major legislative changes to Vermont personal income tax. It is not exhaustive, and it does not constitute legal advice. Vermont tax statutes, regulations, court decisions, or Vermont Department of Taxes rulings supersede information presented here.

Lower Marginal Rates in All Brackets

Until 2018, the marginal rates in Vermont were as follows: 3.55%, 6.8%, 7.8%, 8.8% and 8.95%. Starting in 2018, the bottom three tax brackets will remain the same, and the top two brackets will be condensed into a single bracket. The marginal rates are all lowered to: 3.35%, 6.6%, 7.6%, and 8.75%. [Act 11 of 2018 \(Spec. Sess.\), Secs. H.2, H.3, H.6](#); 32 V.S.A. § 5822.

2018 Vermont Tax Rate Schedules—Preliminary									
Married Filing Jointly					Single Individuals				
Taxable Income					Taxable Income				
over	But not over	Pay	+ % on Excess	of amt over	over	But not over	Pay	+ % on Excess	of amt over
0	64,600	0.00	3.35%	0	0	38,700	0.00	3.35%	0
64,600	156,150	2,164.00	6.60%	64,600	38,700	93,700	1,296.00	6.60%	38,700
156,150	237,950	8,206.00	7.60%	156,150	93,700	195,450	4,926.00	7.60%	93,700
237,950	-	14,423.00	8.75%	237,950	195,450	-	12,659.00	8.75%	195,450
Heads of Household					Married Filing Separately				
Taxable Income					Taxable Income				
over	But not over	Pay	+ % on Excess	of amt over	over	But not over	Pay	+ % on Excess	of amt over
0	51,850	0.00	3.35%	0	0	32,300	0.00	3.35%	0
51,850	133,850	1,737.00	6.60%	51,850	32,300	78,075	1,082.00	6.60%	32,300
133,850	216,700	7,149.00	7.60%	133,850	78,075	118,975	4,103.00	7.60%	78,075
216,700	-	13,446.00	8.75%	216,700	118,975	-	7,212.00	8.75%	118,975

Itemized Deductions

Starting in 2018, no federal itemized deductions will flow through to Vermont, but there will be a 5% credit (not a deduction) for charitable contributions. (See next item.) [Act 11 of 2018 \(Spec. Sess.\), Sec. H.1](#); 32 V.S.A. § 5811(21)(C).

5% Credit for Charitable Contributions

Starting in 2018, **all** filers will be allowed to claim a 5% non-refundable credit for any charitable contribution they make if the contribution is deductible according to IRS rules. Here are some [tips](#) from the IRS on what qualifies. This means that even filers who do not itemize at the federal level will be eligible for a credit for their charitable contributions against their Vermont income tax liability.

The maximum amount of charitable contributions that is eligible for the credit is \$20,000. **All filers should save the receipts from their 2018 charitable contributions in anticipation of this credit.** See the [IRS record-keeping requirements. Act 11 of 2018 \(Spec. Sess.\), Sec. H.3](#); 32 V.S.A. §§ 5813(x), 5822.

Increased EITC

Until 2018, filers who claimed the federal Earned Income Tax Credit could claim a credit of 32% of the federal credit amount against their Vermont income tax liability. Starting in 2018, that percentage will be increased to 36% of the federal credit amount. [Act 11 of 2018 \(Spec. Sess.\), Sec. H.4](#); 32 V.S.A. § 5828b(a).

Social Security Exemption

Starting in 2018, income-eligible Social Security beneficiaries may claim an exemption for the taxable portion of their Social Security benefits. For filers who are single, heads of household, widow(ers), and married/civil union filing separately, Social Security benefits will be fully exempt if their AGI is less than \$45,000 and partially exempt if their AGI is between \$45,000-\$55,000.

For married/civil union joint filers, Social Security benefits will be fully exempt if their AGI is less than \$60,000 and partially exempt if their AGI is between \$60,000-\$70,000. More detailed information will be available on the Department website. [Act 11 of 2018 \(Spec. Sess.\), Secs. H.2, H.5, H.6](#); 32 V.S.A. §§ 5811(21), 5813(w), 5830e.

Disclaimer: This guide is intended to provide an overview of major legislative changes to Vermont personal income tax. It is not exhaustive, and it does not constitute legal advice. Vermont tax statutes, regulations, court decisions, or Vermont Department of Taxes rulings supersede information presented here

Property Tax Adjustments

The 2018 budget bill made changes to the Vermont education financing system, notably how income sensitivity property tax adjustments are calculated. Starting July 1, 2018, the portion of the housesite value that is eligible for an adjustment will be capped at \$225,000 for households with income of \$90,000 or more instead of \$250,000 as under current law. The portion of the housesite value that is eligible for an adjustment will be capped at \$400,000 for households with income less than \$90,000 instead of \$500,000 as under current law. These changes will affect adjustments calculated based on 2017-2018 property taxes paid that are applied as credits to 2018-2019 property tax year bills. [Act 11 \(H.16\) \(Spec. Sess.\)](#), [Secs. H.11-H.15](#).

Starting July 1, 2019, the maximum annual municipal property tax adjustment for households earning \$47,000 or less will be \$2,400. The maximum annual State education property tax adjustment for eligible households will be \$5,600. The education and municipal adjustments will appear separately on the property tax bill and be clearly distinguished. These changes will affect adjustments calculated based on 2018-2019 property taxes paid that are applied as credits to 2019-2020 property tax year bills. The new calculation approach will not change the benefit amounts for most taxpayers. Please see the Department's online adjustment calculator, which will be posted in January 2019.

Some Notes on the Changes

Income tax forms

Please be advised that because of the many federal and Vermont tax changes, the location, presentation, and instructions for various line items on the state income tax forms may change in 2018. The Department of Taxes expects to release new draft forms in October 2018.

Withholding tables

The 2018 withholding tables were not updated in January 2018 because of the federal and state changes developing at that time. Employers and payroll firms were advised to continue with 2017 tables, and the Department does not expect to issue new tables until January 2019. The 2017 tables should sufficiently estimate eventual liabilities for all filers who generate most of their income from wages.

Estimated payments

The Vermont income tax changes for 2018 may cause some filers to have higher or lower liabilities than expected. The Department is in the process of establishing a protocol for the treatment of filers who made insufficient estimated payments as a result of federal and state tax changes.

Miscellaneous Legislative Changes

Individual healthcare coverage mandate

[Act 182 \(H.696\)](#) establishes a Vermont individual mandate, which requires all individuals and their eligible dependents to have minimum essential health care coverage at all times. While no financial penalty is imposed if an individual fails to comply for calendar year 2018, it is likely the legislature will enact a financial penalty or other enforcement mechanism in 2019. It is possible that this eventual penalty or other enforcement mechanism could apply retroactively to 2018.

New Remote Worker Grant

[Act 197 \(S.94\)](#) creates a New Remote Worker Grant Program for individuals who work remotely in Vermont. To be eligible, individuals must be full-time employees of non-Vermont businesses and become Vermont residents on or after Jan. 1, 2019. Grants are to be awarded through the [Agency of Commerce and Community Development](#) to eligible individuals who have up to \$5,000 of qualifying remote worker expenses (relocation, computer software, hardware, etc.) per year. The total amount of the grant is capped at \$10,000 per individual.