Tax Expenditures Transition Report on Personal and Corporate Income Taxes

prepared for:

House Ways and Means Committee
House Appropriations Committee
Senate Finance Committee
Senate Appropriations Committee

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Introduction

Act 75 of the 2005 General Assembly requires the Tax Department and Joint Fiscal Office to work cooperatively to prepare a biennial report on tax expenditures in the individual and corporate income taxes, sales and use and meals and rooms taxes, and property tax, beginning January 15, 2009. In this first of three transitional tax expenditure reports required under Act 75, expenditures in the individual and corporate income taxes for tax year 2003, the most recent year for which nearly complete tax data are available are reported.

The body of the report is an itemized list of tax expenditures with a description of each expenditure, the statutory authorization and date of enactment, the estimated number of taxpayers affected and revenue impact in tax year 2003. A flowchart showing the calculation of the Vermont individual income tax precedes the itemized list and provides a framework for organizing the various exemptions, deductions, and credits. The expenditures are reported by tax type, that is, corporate income tax or individual income tax. If a credit or exemption is available to both corporate and individual income taxpayers, it is listed under each tax type and accompanying estimates pertain only to that particular tax.

What Are Tax Expenditures?

Taxes are an essential source of revenue for all state governments, but the manner in which they are imposed varies considerably from state to state. In its simplest form, a tax is an across-the-board levy on a base, such as income, to which a specific rate applies and for which no modifications exist. Taxes are rarely levied in this manner, however. Instead, most state tax codes incorporate a number of exclusions, exemptions, deductions, credits, and deferrals designed to encourage certain taxpayer activity or to limit the tax burden on certain types of individuals or endeavors. Known as "tax expenditures," these provisions reduce the amount of tax revenues that would be collected if no modifications existed. In this sense, the fiscal effects of a tax expenditure are identical to a direct government expenditure.

Some tax expenditures involve a permanent loss of revenue, and thus are comparable to a payment by the government; others allow a deferral of revenue to the future, and thus are comparable to an interest-free loan to the taxpayer. Since tax expenditures are designed to accomplish certain public goals that otherwise might be met through direct appropriation, it is appropriate for states to require the same kind of analysis and review of tax expenditures that the appropriations budget receives.

Defining the Basic Tax Structure

It is essential to distinguish between those provisions of the tax code that represent tax expenditures and those that are part of the basic structure of a given tax. The basic structure is the set of rules that defines the taxable base; a tax expenditure is an exception to those rules. The structure of state income taxes is linked to the federal tax structure, and Title 32 of the Vermont Statutes make repeated references to federal definitions of taxable income on which Vermont's corporate and individual income taxes are based. For that reason, the concept of "tax expenditures" for purposes of this report begins with federal taxable income and does not consider the myriad deductions, exclusions, and deferrals that reduce the federal tax base. Only those exclusions, exemptions, deductions, credits, and deferrals enacted into the Vermont tax code that modify the state's income tax base are subject to analysis in this report. The general definition of a tax expenditure as a deviation from the basic structure of a given tax, using federal taxable income as the base, does not eliminate all conceptual problems in the task of compiling a comprehensive list of tax expenditures. For example, some provisions in the state code are not included in this report because they are necessary adjustments to federal income. The "gross up" and targeted job credit addback allowed corporate income taxpayers as deductions from federal taxable income are ignored because they fall into a class of provisions in the Internal Revenue Code that requires income to be artificially increased as a condition of taking a credit against federal tax liability. As there is no credit against Vermont income tax, this additional income a necessary deduction.

Tax provisions reflecting federal prohibitions against state taxation are also considered part of the basic tax structure and therefore not considered in this report. Prohibitions can relate to types of income, such as interest income from U.S. government obligations or railroad retirement income, or to types of entities, such as non-profit corporations or federally chartered credit unions. Although the Vermont code is not identical to the federal exclusion for non-profit organizations, the exclusion of non-profit organizations enumerated in V.S.A. §5811(3) are considered part of the federal tax scheme and not included in this report. The exclusion from corporate income tax of certain businesses that are taxed under an alternative scheme, i.e., insurance companies and banks, is also considered part of the basic structure of the income tax.

Finally, the credit for income tax paid to another state is not included in this report. Although not required by federal law, the state credit is almost uniformly allowed as a mechanism to avoid double taxation of income. Were it to be eliminated, Vermont would need to find an alternative way to tax income without discriminating against interstate commerce.

Description of the Data

The design of Vermont's income tax forms, revenue processing systems, and off-line credit tracking spreadsheets provide a level of detail that allows a high degree of confidence in the revenue estimates for expenditures by individual and corporate income tax type. For this report, the Tax Department used individual and corporate tax returns for tax year 2003, as well as all spreadsheets maintained by Taxpayer Services to track various credits.

The requirement to report by tax type has one significant deficiency--the overall revenue impact of a particular expenditure may be obscured if it is available across multiple tax types. For example, the estimated revenue impact to personal income tax from the Financial Services Tax Credit (Item #1.310) is only a portion of the total expenditure from this credit; the impact to corporate income tax (Item #2.111) must also be considered.

A few credits that are available to corporate and individual income taxpayers can also be applied against bank franchise tax and/or insurance premiums tax. The Charitable Housing Credit (Item #1.301 & 2.101) is allowed against all four tax types, but there were no expenditures in the bank franchise or insurance premiums tax in tax year 2003. A group of four credits known collectively as the "downtown credits" (Item # 1.306-1.309 & 2.107-2.110) are allowed against the personal income, corporate income, bank franchise, and insurance premiums tax. The revenue impact of these four credits are reported annually to the legislature, pursuant to V.S.A. §3101(b)(12). Only one other expenditure--the Affordable Housing Credit--is applied against a tax type not included in this report, the bank franchise tax. In tax year 2003, the expenditure value of that credit in the bank franchise tax was $237,000.

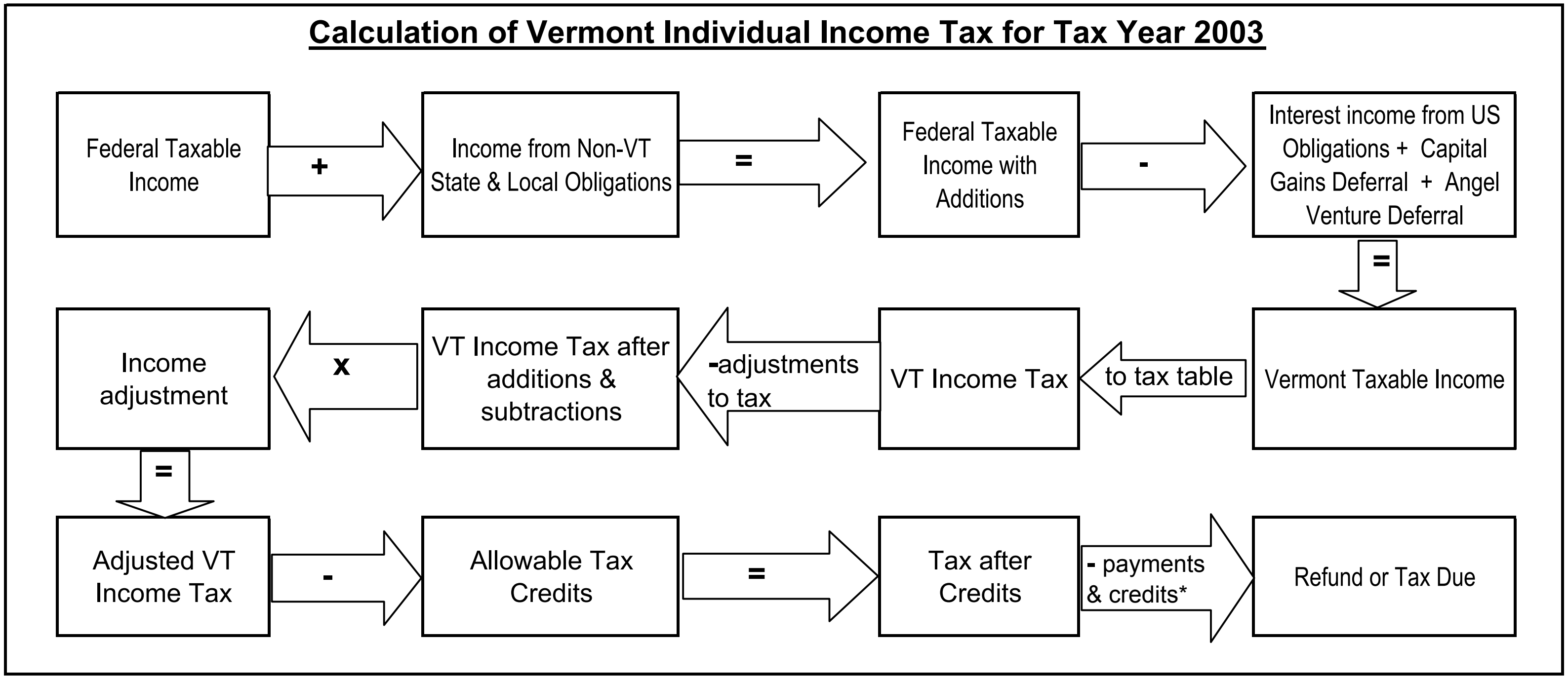
Aside from questions that relate to defining the basic tax structure, the data present challenging analytical problems. The calculation of revenue estimates involves first the identification of each expenditure within the flow of the tax calculation (see flowchart). The value of the expenditure differs depending on whether an expenditure is a deduction or exclusion from federal taxable income, an exclusion from the Vermont tax prior to applying the income adjustment, exempt income that is part of the income adjustment calculation, or a refundable or non-refundable credit against income tax. Each type of expenditure involves unique estimating problems and a different methodology.

Likewise, each type of expenditure produces different values. For example, an equal amount of exempt military pay, which is part of the income adjustment calculation, and interest income from Vermont government obligations, which is excluded from the addback of government obligations interest income to federal taxable income, will produce different tax results and, thus, expenditure values.

Act 75 calls for the revenue impact to be estimated by fiscal year, but a tax expenditure report highlights differences between accounting and budgetary concepts and tax returns processing. A reporting by fiscal year would represent a minimum of two tax years, especially for corporate income tax, which has a very long processing period due to varied corporate fiscal years and the prevalence of extension filings. The JFO and Tax agreed to report by tax year to reflect the data associated with one particular tax year. Even a report by tax year does not thoroughly represent revenue impact in the associated filing year. A taxpayer with a credit in 2003 offsetting tax liability will file a return in 2004 (or, more likely, 2005, if a corporation) but may choose to reduce the amount of estimated payments in 2003 in anticipation of the expected credit. Therefore, the revenue estimates contained in this expenditure report do not perfectly correspond to revenue reductions in calendar year or fiscal year 2004.

The estimated revenue impact for each expenditure is rounded to the nearest thousand dollars and the number of taxpayers benefiting from the expenditure is rounded to the nearest ten. In only one instance is there no available data to estimate impact.

Source of data: Vermont Department of Taxes



Calculation of Vermont Individual Income Tax for Tax Year 2003

* Payment & credits: withholding, estimated payments, VT earned income tax credit, homeowner property tax rebate, renter rebate, real estate withholding, nonresident payments by business entity, refundable low income child & dependent care credit

LIST OF 2003 PERSONAL INCOME TAX EXPENDITURES

1.000 Additions and Subtractions from Federal Taxable Income

1.001 Vermont Municipal Bond Income Exemption

Interest income from state and local government obligations is added to taxable income, but an exemption is made for interest income from Vermont state and local government obligations.

Statute: 32 V.S.A. §5811(21)(A)(i)
Enacted: 1986
Estimate: $3,909,000
Taxpayers benefiting from expenditure: 6,120

1.002 Capital Gains 40% Exclusion

Forty percent of adjusted net capital gain income, as defined in Section 1(h) of the Internal Revenue Code, is excluded from taxable income. The remaining 60% is taxed as ordinary income.

Statute: 32 V.S.A. §5811(21)(B)(ii)
Enacted: 2002
Estimate: $19,309,000
Taxpayers benefiting from expenditure: 28,430

1.003 Angel Venture Capital Gain Deferral

Qualified taxpayers are eligible for deferral of capital gain income under §5811(21)(B)(ii) resulting from eligible venture capital investment made by the taxpayer during the taxable year. Upon disposition of interest in the qualified business, a taxpayer is required to include the amount of deferred income in that year's taxable income.

Statute: 32 V.S.A. §5930v & §5811(21)(B)(iii) & (A)(iii)
Enacted: 2003
Estimate: Less than $500
Taxpayers benefiting from expenditure: Less than 10

1.100 Subtractions from VT Income Tax

1.101 Credit for Child and Dependent Care

Twenty-four percent of the amount of federal credit allowed under section 21 of the IRC for employment-related expenses for a qualifying individual. A credit in this section is in lieu of the Low Income Child & Dependent Care Credit available under subsection 5828c (*see item 1.401*).

Statute: 32 V.S.A. §5822(d)
Enacted: 1976
Estimate: $1,466,000
Taxpayers benefiting from expenditure: 13,160

1.102 Credit for Elderly or Disabled

Twenty-four percent of the amount of federal credit allowed under section 22 of the IRC.

Statute: 32 V.S.A. §5822(d)
Enacted: 1967
Estimate: $6,000
Taxpayers benefiting from expenditure: 120

1.103 Investment Tax Credit

Twenty-four percent of the amount of federal credit allowed for investment in the following activities: rehabilitation (IRC §47); energy (IRC §48(a)); advanced coal projects (IRC §48A); gasification projects (IRC §48B(e)).

Statute: 32 V.S.A. §5822(d)
Enacted: 1967
Estimate: $136,000
Taxpayers benefiting from expenditure: 240

1.104 Alternative Minimum Tax Credit

A credit in the amount of twenty-four percent of the federal credit against regular tax liability for the prior year minimum tax liability, as allowed under section 53 of the IRC.

Statute: 32 V.S.A. §5811(4)
Enacted: 1988 (repealed for tax years 2004 and after)
Estimate: $340,000
Taxpayers benefiting from expenditure: 820

1.105 VT Farm Income Averaging Credit

A credit in the amount of twenty-four percent of the reduction in federal tax liability due to farm income averaging using Federal Form 1040 Schedule J.

Statute: 32 V.S.A. §5822(c)(2)
Enacted: 2002
Estimate: $17,000
Taxpayers benefiting from expenditure: 70

1.200 Adjustments to Vermont Income Tax

1.201 Military pay

1) Exempts military pay for full-time active duty earned outside Vermont. 2) Exempts the first $2,000 of military pay for in-state unit training to National Guard and U.S. Reserve personnel if adjusted gross income is less than $50,000. 3) Exempts funds received through the federal armed forces education loan repayment program under 10 U.S.C. chapters 109 and 1609, to the extent the funds are included in adjusted gross income.

Statute: 32 V.S.A. §5823 (a)(2) & (b)(3)
Enacted: 1966
Estimate: $603,000
Taxpayers benefiting from expenditure: 1,430

1.202 Lottery prizes from Vermont state-run lottery

Exempts income from the VT State Lottery, Tri-State Lottery, and, after July 1, 2003, Powerball.

Statute: 31 V.S.A. §664 & 674(S); 32 V.S.A.§ 5823 (b)(6)
Enacted: 1996 (repealed for tax years 2005 and after)
Estimate: $160,000
Taxpayers benefiting from expenditure: 530

1.203 Federal Employment Opportunity income

Exempts that portion of wages that is required to be included as adjusted gross income as provided in section 280C of the IRC, which relates to federal tax credit incentive work programs.

Statute: 32 V.S.A. §5823 (a)(5)
Enacted: 1979
Estimate: $5,000
Taxpayers benefiting from expenditure: 30

1.204 State payments for support of developmentally disabled person(s)

Exempts the amount paid by the state to a family for the support of an eligible person with a developmental disability as defined in section 8722(2) of V.S.A. Title 18, to the extent that amount was included in adjusted gross income.

Statute: 32 V.S.A. §5823 (a)(6)
Enacted: 1996
Estimate: $2,000
Taxpayers benefiting from expenditure: Less than 10

1.205 Americans with Disabilities Credit

Exempts that portion of expenses that are required to be included as adjusted gross income as provided in section 44 of the IRC, which relates to the federal disabled access credit.

Statute: 32 V.S.A. §5823 (a)(5)
Enacted: 1998
Estimate: Less than $500
Taxpayers benefiting from expenditure: Less than 10

1.206 Nonresident commercial film income

Exempts income of a nonresident from a dramatic performance in a commercial film production, to the extent such income is exempt in the taxpayer's home state.

Statute: 32 V.S.A. §5823 (b)(3) & (b)(4)(C)
Enacted: 1998
Estimate: Less than $500
Taxpayers benefiting from expenditure: Less than 10

1.300 Vermont Credits

1.301 Charitable Housing Credit

Credit for difference between interest income that would have been received at charitable threshold rate and actual interest income received. Rate effective each July 1st is 2% below Bank Prime Loan Rate for March.

Statute: 32 V.S.A. §5830c
Enacted: 1990
Estimate: $14,000
Taxpayers benefiting from expenditure: 40

1.302 Affordable Housing Credit

Credit for 25% of qualified basis of housing project.

Statute: 32 V.S.A. §5930u
Enacted: 2000
Estimate: Less than $500
Taxpayers benefiting from expenditure: Less than 10

1.303 Commercial Film Production Credit

Credit equals difference between the tax on earned income by an individual for a dramatic performance in a commercial film production in

Vermont at the highest personal income tax rate in the individual's state of residence and the Vermont income tax.

Statute: 32 V.S.A. §5826
Enacted: 1998
Estimate: $0
Taxpayers benefiting from expenditure: None

1.304 Qualified Sale of Mobile Home Park Credit
Credit equals 7% of gain on sale of mobile home park that is subject to federal income tax for the taxable year.

Statute: 32 V.S.A. §5828
Enacted: 1998
Estimate: Less than $500
Taxpayers benefiting from expenditure: Less than 10

1.305 Employee Training Credit
Credit for training expenses up to $400 per qualified employee.

Statute: 32 V.S.A. §5930t
Enacted: 1998
Estimate: $0
Taxpayers benefiting from expenditure: None

1.306 Rehabilitation of Certified Historic Buildings Credit
Credit equals 10% of qualified rehabilitation expenditures for a building located in a downtown development district or 5% of qualified rehabilitation expenditures on projects located within a designated village center.

Statute: 32 V.S.A. §5930n
Enacted: 1998
Estimate: $64,000
Taxpayers benefiting from expenditure: Less than 10

1.307 Older or Historic Building Rehabilitation Credit
Credit equals 25% of up to $100,000 in qualified expenditures for rehabilitation of buildings constructed prior to January 1, 1983 and located within downtown development districts.

Statute: 32 V.S.A. §5930p
Enacted: 1998
Estimate: $30,000
Taxpayers benefiting from expenditure: Less than 10

1.308 Platform Lifts, Elevators, and Sprinkler Systems Credit

Credit equals 50% of qualified expenditures for buildings located within downtown development districts; maximum for platform lifts is $12,000; maximum for elevator or sprinkler system is $25,000.

Statute: 32 V.S.A. §5930q
Enacted: 2002
Estimate: $4,000
Taxpayers benefiting from expenditure: Less than 10

1.309 Commercial Code Improvements Credit

Credit equals 50% of qualified expenditures, up to $5,000, for capital improvement or fixtures, or both, in a commercial building located in a designated village center to comply with state requirements for fire prevention, life safety and accessibility.

Statute: 32 V.S.A. §5930r
Enacted: 2002
Estimate: $5,000
Taxpayers benefiting from expenditure: Less than 10

1.310 Financial Services Tax Credit

Credit equals the ratio of Vermont payroll allocable to financial services provided for non-VT clients.

Statute: 32 V.S.A. §5922
Enacted: 1996
Estimate: $26,000
Taxpayers benefiting from expenditure: 10

1.311 EATI Payroll Tax Credit

A business may be authorized for a credit of up to 5-10 % of its increased payroll costs, defined as salaries and wages for full-time employees, above its costs of salaries and wages from the preceding tax year, depending on the amount of annual sales of the business.

Statute: 32 V.S.A. §5930c
Enacted: 1998
Estimate: $115,000
Taxpayers benefiting from expenditure: 20

1.312 EATI Research & Development Tax Credit

A business may be authorized for a credit of up to 10% of qualified research and development expenditures. Qualified R&D expenditures have the same meaning as qualified research and development expenditures included in 26 USC 41(b).

Statute: 32 V.S.A. §5930d
Enacted: 1998
Estimate: $298,000
Taxpayers benefiting from expenditure: Less than 10

1.313 EATI Capital Investment Tax Credit
A business may be authorized for a credit of up to 5 - 10 % of its total capital investments in, or capital lease of, plants, facilities, and machinery and equipment, depending on the number of full-time employees. (Formerly call the Small Business Tax Credit.)

Statute: 32 V.S.A. §5930g
Enacted: 1998
Estimate: $191,000
Taxpayers benefiting from expenditure: 30

1.314 EATI Workforce Development Tax Credit
A business may be authorized for a credit amount of up to 20% of qualified training, education and workforce development expenditures or 25% of qualified expenditures for the benefit of individuals who are participating in “Reach-Up” or other economic self-sufficiency programs.

Statute: 32 V.S.A. §5930e
Enacted: 1998
Estimate: Less than $500
Taxpayers benefiting from expenditure: Less than 10

1.315 EATI Export Tax Credit
A business that makes sales outside Vermont may be authorized for a credit equal to the income tax calculated under the existing state apportionment formula and an alternative formula which double-weights the sales factor and disregards throwback provisions.

Statute: 32 V.S.A. §5930f
Enacted: 1998
Estimate: $157,000
Taxpayers benefiting from expenditure: Less than 10

1.316 EATI High-Tech Business Credit
Credit amount is 6% of qualifying investments in machinery and equipment with credit maximum of $100,000, and up to 6% of investment for renovation of existing VT facility, and the Workforce Development credit.

Statute: 32 V.S.A. §5930k
Enacted: 2002

Estimate: $0
Taxpayers benefiting from expenditure: None

1.317 EATI Sustainable Technology R&D Tax Credit
A business may be authorized for a credit of up to 30% of qualified research and development expenditures. Qualified R&D expenditures have the same meaning as qualified research and development expenditures included in 26 USC 41(b).

Statute: 32 V.S.A. §5930w
Enacted: 2003
Estimate: $0
Taxpayers benefiting from expenditure: None

1.318 EATI Sustainable Technology Export Credit
A business that makes sales outside Vermont may be authorized for a credit equal to the income tax calculated under the existing state apportionment formula and an alternative formula which triple-weights the sales factor and disregards throwback provisions.

Statute: 32 V.S.A. §5930x
Enacted: 2003
Estimate: $0
Taxpayers benefiting from expenditure: None

1.400 Refundable Credits

1.401 Low Income Child & Dependent Care Credit
A resident with adjusted gross income less that $30,000 (or $40,000 for married, filing joint) is eligible for a refundable credit equal to 50% of the federal credit allowed under section 21 of the IRC if the services provided are in a registered home or licensed facility certified by the agency of human services. A credit in this section is in lieu of the Child and Dependent Care Credit available under subsection 5822 (d) (*see item 1.101*).

Statute: 32 V.S.A. §5828c
Enacted: 2002
Estimate: $43,000
Taxpayers benefiting from expenditure: 220

1.402 Earned Income Tax Credit
Thirty-two percent of the federal credit for earned income allowed under section 32 of the IRC. The amount of the credit was increased from 25% in 2000.

Statute: 32 V.S.A. §5828b
Enacted: 1988
Estimate: $17,424,000
Taxpayers benefiting from expenditure: 35,460

LIST OF 2003 CORPORATE INCOME TAX EXPENDITURES

2.000 Additions and Subtractions from Federal Taxable Income

2.001 Vermont Municipal Bond Income Exemption
Exemption for interest income from Vermont state and local government obligations. Interest income from non-Vermont obligations is included in taxable income.

Statute: 32 V.S.A. §5811(21)(A)(i)
Enacted: 1986
Estimate: N.A.
Taxpayers benefiting from expenditure: N.A.

2.100 Vermont Credits

2.101 Charitable Housing Credit
Credit for difference between interest income that would have been received at charitable threshold rate and actual interest income received. Rate effective each July 1st is 2% below Bank Prime Loan Rate for March.

Statute: 32 V.S.A. §5830c
Enacted: 1990
Estimate: $0
Taxpayers benefiting from expenditure: None

2.102 Affordable Housing Credit
Credit for 25% of qualified basis of housing project.

Statute: 32 V.S.A. §5930u
Enacted: 2000
Estimate: $5,000
Taxpayers benefiting from expenditure: Less than 10

2.103 Qualified Sale of Mobile Home Park Credit
Credit equals 7% of gain on sale of mobile home park that is subject to federal income tax for the taxable year.

Statute: 32 V.S.A. §5828
Enacted: 1998
Estimate: $0
Taxpayers benefiting from expenditure: None

2.104 Manufacturer's Investment Credit
Credit equal to the qualified capital expenditures of a qualified manufacturer, totaling at least $4 million for plant, equipment and machinery. No new credits were allowed after June 30, 1995, but credits in carryforward status can be applied against tax liability for tax years ending on or before June 30, 2005.

Statute: 32 V.S.A. §5930
Enacted: 1993
Estimate: $816,000
Taxpayers benefiting from expenditure: Less than 10

2.105 Employee Training Credit
Credit for training expenses up to $400 per qualified employee.

Statute: 32 V.S.A. §5930t
Enacted: 1998
Estimate: $0
Taxpayers benefiting from expenditure: None

2.106 New Jobs Credit
Credit available to qualified employers certified by the secretary of administration in the amount of not less than $2000 and not more than $3000 for each qualified new job created; employer may claim 10% of certified credit amount in each of 10 tax years ending on or before June 30, 2005.

Statute: 32 V.S.A. §5929
Enacted: 1993
Estimate: $0 (no credits applied after 1996)
Taxpayers benefiting from expenditure: None

2.107 Rehabilitation of Certified Historic Buildings Credit
Credit equals 10% of qualified rehabilitation expenditures for a building located in a downtown development district or 5% of qualified rehabilitation expenditures on projects located within a designated village center.

Statute: 32 V.S.A. §5930n
Enacted: 1998
Estimate: $5,000
Taxpayers benefiting from expenditure: Less than 10

2.108 Older or Historic Building Rehabilitation Credit
Credit equals 25% of up to $100,000 in qualified expenditures for rehabilitation of buildings constructed prior to January 1, 1983 and located within downtown development districts.

Statute: 32 V.S.A. §5930p
Enacted: 1998
Estimate: $0
Taxpayers benefiting from expenditure: None

2.109 Platform Lifts, Elevators, and Sprinkler Systems Credit
Credit equals 50% of qualified expenditures for buildings located within downtown development districts; maximum for platform lifts is $12,000; maximum for elevator or sprinkler system is $25,000.

Statute: 32 V.S.A. §5930q
Enacted: 2002
Estimate: $0
Taxpayers benefiting from expenditure: None

2.110 Commercial Code Improvements Credit
Credit equals 50% of qualified expenditures, up to $5,000, for capital improvement or fixtures, or both, in a commercial building located in a designated village center to comply with state requirements for fire prevention, life safety and accessibility.

Statute: 32 V.S.A. §5930r
Enacted: 2002
Estimate: $0
Taxpayers benefiting from expenditure: None

2.111 Financial Services Tax Credit
Credit equals the ratio of Vermont payroll allocable to financial services provided for non-VT clients.

Statute: 32 V.S.A. §5922
Enacted: 1996
Estimate: $1,898,000
Taxpayers benefiting from expenditure: Less than 10

2.112 EATI Payroll Tax Credit

A business may be authorized for a credit of up to 5-10 % of its increased payroll costs, defined as salaries and wages for full-time employees, above its costs of salaries and wages from the preceding tax year, depending on the amount of annual sales of the business.

Statute: 32 V.S.A. §5930c
Enacted: 1998
Estimate: $542,000
Taxpayers benefiting from expenditure: 20

2.113 EATI Research & Development Tax Credit

A business may be authorized for a credit of up to 10% of qualified research and development expenditures. Qualified R&D expenditures have the same meaning as qualified research and development expenditures included in 26 USC 41(b).

Statute: 32 V.S.A. §5930d
Enacted: 1998
Estimate: $120,000
Taxpayers benefiting from expenditure: Less than 10

2.114 EATI Capital Investment Tax Credit

A business may be authorized for a credit of up to 5 - 10 % of its total capital investments in, or capital lease of, plants, facilities, and machinery and equipment, depending on the number of full-time employees. (Formerly call the Small Business Tax Credit.)

Statute: 32 V.S.A. §5930g
Enacted: 1998
Estimate: $501,000
Taxpayers benefiting from expenditure: 20

2.115 EATI Workforce Development Tax Credit

A business may be authorized for a credit amount of up to 20% of qualified training, education and workforce development expenditures or 25% of qualified expenditures for the benefit of individuals who are participating in “Reach-Up” or other economic self-sufficiency programs.

Statute: 32 V.S.A. §5930e
Enacted: 1998
Estimate: $0
Taxpayers benefiting from expenditure: None

2.116 EATI Export Tax Credit

A business that makes sales outside Vermont may be authorized for a credit equal to the income tax calculated under the existing state apportionment formula and an alternative formula which double-weights the sales factor and disregards throwback provisions.

Statute: 32 V.S.A. §5930f
Enacted: 1998
Estimate: $153,000
Taxpayers benefiting from expenditure: Less than 10

2.117 EATI High-Tech Business Credit

Credit amount is 6% of qualifying investments in machinery and equipment with credit maximum of $100,000, and up to 6% of investment for renovation of existing VT facility, and the Workforce Development credit.

Statute: 32 V.S.A. §5930k
Enacted: 2002
Estimate: $251,000
Taxpayers benefiting from expenditure: Less than 10

2.118 EATI Sustainable Technology R&D Tax Credit

A business may be authorized for a credit of up to 30% of qualified research and development expenditures. Qualified R&D expenditures have the same meaning as qualified research and development expenditures included in 26 USC 41(b).

Statute: 32 V.S.A. §5930w
Enacted: 2003
Estimate: $0
Taxpayers benefiting from expenditure: None

2.119 EATI Sustainable Technology Export Credit

A business that makes sales outside Vermont may be authorized for a credit equal to the income tax calculated under the existing state apportionment formula and an alternative formula which triple-weights the sales factor and disregards throwback provisions.

Statute: 32 V.S.A. §5930x
Enacted: 2003
Estimate: $0
Taxpayers benefiting from expenditure: None

Tax Year 2003 Tax Expenditure Summary

Tax Expenditure	Item Number	2003 Tax Year	Taxpayers	Enacted
PERSONAL INCOME TAX				
Additions and Subtractions from Federal Taxable Income				
Vermont Municipal Bond Income Exemption	1.001	$3,909,000	6,120	1986
Capital Gains 40% Exclusion	1.002	$19,309,000	28,430	2002
Angel Venture Capital Gain Deferral	1.003	Less than $500	Less than 10	2003
Subtractions from VT Income Tax				
Credit for Child and Dependent Care	1.101	$1,466,000	13,160	1976
Credit for Elderly or Disabled	1.102	$6,000	120	1967
Investment Tax Credit	1.103	$136,000	240	1967
Alternative Minimum Tax Credit (1)	1.104	$340,000	820	1988
VT Farm Income Averaging Credit	1.105	$17,000	70	2002
Adjustments to Vermont Income Tax				
Military pay	1.201	$603,000	1,430	1966
Lottery prizes from Vermont state-run lottery (2)	1.202	$160,000	530	1996
Federal Employment Opportunity income	1.203	$5,000	30	1979
State payments for support of developmentally disabled person(s)	1.204	$2,000	Less than 10	1996
Americans with Disabilities Credit	1.205	Less than $500	Less than 10	1998
Nonresident commercial film income	1.206	Less than $500	Less than 10	1998
Vermont Credits				
Charitable Housing Credit*	1.301	$14,000	40	1990
Affordable Housing Credit	1.302	Less than $500	Less than 10	2000
Commercial Film Production Credit	1.303	$0	None	1998
Qualified Sale of Mobile Home Park Credit	1.304	Less than $500	Less than 10	1998
Employee Training Credit	1.305	$0	None	1998
Rehabilitation of Certified Historic Buildings Credit	1.306	$64,000	Less than 10	1998
Older or Historic Building Rehabilitation Credit	1.307	$30,000	Less than 10	1998
Platform Lifts, Elevators, and Sprinkler Systems Credit	1.308	$4,000	Less than 10	2002
Commercial Code Improvements Credit	1.309	$5,000	Less than 10	2002
Financial Services Tax Credit	1.310	$26,000	10	1996
EATI Payroll Tax Credit	1.311	$115,000	20	1998
EATI Research & Development Tax Credit	1.312	$298,000	Less than 10	1998
EATI Capital Investment Tax Credit	1.313	$191,000	30	1998
EATI Workforce Development Tax Credit	1.314	Less than $500	Less than 10	1998
EATI Export Tax Credit	1.315	$157,000	Less than 10	1998
EATI High-Tech Business Credit	1.316	$0	None	2002
EATI Sustainable Technology R&D Tax Credit	1.317	$0	None	2003
EATI Sustainable Technology Export Credit	1.318	$0	None	2003
Refundable Credits				
Low Income Child & Dependent Care Credit	1.401	$43,000	220	2002
Earned Income Tax Credit	1.402	$17,424,000	35,460	1988

Tax Year 2003 Tax Expenditure Summary

Tax Expenditure	Item Number	2003 Tax Year	Taxpayers	Enacted
CORPORATE INCOME TAX				
Additions and Subtractions from Federal Taxable Income				
Vermont Municipal Bond Income Exemption	2.001	N.A.	N.A.	1986
Vermont Credits				
Charitable Housing Credit	2.101	$0	None	1990
Affordable Housing Credit	2.102	$5,000	Less than 10	2000
Qualified Sale of Mobile Home Park Credit	2.103	$0	None	1998
Manufacturer's Investment Credit	2.104	$816,000	Less than 10	1993
Employee Training Credit	2.105	$0	None	1998
New Jobs Credit (3)	2.106	$0	None	1993
Rehabilitation of Certified Historic Buildings Credit	2.107	$5,000	Less than 10	1998
Older or Historic Building Rehabilitation Credit	2.108	$0	None	1998
Platform Lifts, Elevators, and Sprinkler Systems Credit	2.109	$0	None	2002
Commercial Code Improvements Credit	2.110	$0	None	2002
Financial Services Tax Credit	2.111	$1,898,000	Less than 10	1996
EATI Payroll Tax Credit	2.112	$542,000	20	1998
EATI Research & Development Tax Credit	2.113	$120,000	Less than 10	1998
EATI Capital Investment Tax Credit	2.114	$501,000	20	1998
EATI Workforce Development Tax Credit	2.115	$0	None	1998
EATI Export Tax Credit	2.116	$153,000	Less than 10	1998
EATI High-Tech Business Credit	2.117	$251,000	Less than 10	2002
EATI Sustainable Technology R&D Tax Credit	2.118	$0	None	2003
EATI Sustainable Technology Export Credit	2.119	$0	None	2003

NOTES

For further explanation of estimated expenditure values, see "Description of the Data" on pp. 3-4.

Number of taxpayers rounded to nearest 10

Estimates rounded to nearest $1,000

(1) Repealed for tax years 2004 and after

(2) Repealed in 2004 for tax years beginning on or after January 1, 2005

(3) No credits applied after 1996

GLOSSARY

Depreciation: Annual deduction allowed for the gradual wearing away of assets used in the production of income.

Exclusion: The elimination from the tax base of income recognized as falling within its definition. The terms "exclusion" and "exemption" are sometimes used interchangeably.

Exemption: The legal elimination from the tax base of items or transactions recognized as falling within its definition, or of taxable units which would normally be subject to tax.

Gross income: The total of all items included in the concept of income that a taxpayer receives during the taxable period.

Taxable income: Amount of income to which the tax rates are applied, after consideration of deductions, exclusions, and exemptions. Vermont taxable income may be greater or smaller than federal taxable income (see flowchart).

Tax Credit: Entitles the taxpayer to subtract the amount of the credit (dollar-for-dollar) from the total income tax bill (or tax liability). Tax credits provide an equal value to taxpayers regardless of their taxable income class. A refundable credit is not limited by the amount of an individual's tax liability. Non-refundable credits only reduce a taxpayer's liability to zero. Refundable credits go beyond this and so can be considered a payment.

Tax Deduction: A tax deduction is an allowable expense subtracted from a taxpayer's adjusted gross income before the income tax liability is calculated. It reduces the taxable income base to which the tax rate is applied.