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ISSUE BRIEF

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Tax Provisions within the American Recovery and Reinvestment Act of 2009 with a State Revenue Impact

A few of the provisions of the American Recovery and Reinvestment Act of 2009 have a direct impact on the revenues of the State of Vermont. These are summarized below with fiscal year estimates:

- **Temporary increase in the Earned Income Tax Credit (EITC)**
  In tax years 2009 and 2010 only, the federal EITC credit amount is increased from 40% to 45% of the first $12,570 of earned income for families with three or more children. In addition, the phase-out range of the credit for all married couples filing a joint return would be increased by $1,880 from $19,540 to $21,420.

  The Vermont EITC is a piggy-back 32% of the federal credit. This change is estimated to reduce state revenues by approximately $800,000 in both FY 2010 and FY 2011.

- **Sales Tax Deduction for Vehicles Purchases**
  All taxpayers would be eligible for a federal income tax deduction for the amount of state and local sales and/or excise taxes paid on the purchase of new cars, light trucks, recreational vehicles and motorcycles. This is allowed for purchases made in 2009. There is a cap on the purchase price of the vehicle and there is a phase-out on the amount of adjusted gross income level for taxpayers claiming this deduction.

  Vermont's personal income tax is linked to federal taxable income and therefore this temporary deduction will also reduce Vermont taxable income. This is estimated to reduce Vermont FY 2010 personal income tax revenues by $1.5 million.

- **Temporary Suspension of Taxation of Unemployment Benefits**
  This proposal temporarily suspends the tax for the first $2,400 of unemployment benefits per recipient in tax year 2009 only.

  Under current law, unemployment benefits are subject to federal taxation, and therefore are included in Vermont taxable income and taxed at the state level as well. This provision is estimated to reduce state personal income tax revenues by $3.3 million in FY 2010.

A number of tax incentives for businesses would also affect state revenues because Vermont links to federal taxable income, including:

- **Extension of Enhanced Small Business Expensing (Sec. 179 Expensing)**
  This bill extends from 2008 to 2009 the temporary increases in the amount and phase-out levels for writing off capital expenditures.

- **5-Year Carryback of Net Operating Losses (NOLs) for Small Businesses**
  This extends the maximum NOL carryback period from two years to five years for businesses with gross receipts of $15 million or less.

- **Small Business Capital Gains**
  This provision allows an increase in the amount of the exclusion for individuals on the gain from the sale of certain small business stock held for more than five years.

Some of the renewable energy credit provisions in the stimulus bill pass-through because Vermont continues to "piggy-back" to the federal credits:

- **Election of the Federal Investment Tax Credit (ITC) in Lieu of Production Tax Credit**
  Allows wind, biomass and qualified hydroelectric projects to elect the ITC in place of the production tax credit. Vermont piggy-backs off the federal investment tax credit and could be affected by new facilities put into place in the next 3-4 years. Potential $5.0 million additional revenue loss in FY10 and FY11.

- **Repeal subsidized Energy Financing Limitation and Eliminate Credit Cap** Eliminates federal limitation on the investment tax credit requiring amount of credit to be reduced by the amount that qualifying property is also financed with federal, state or local subsidized financing; could substantially increase revenue impact of new business solar tax credit and other pass-through investment tax credits. Provision also eliminates the credit cap for qualified small wind energy property, which can now be taken as part of the ITC.

The additional un-quantified pass-throughs and tax credits are estimated to have a $1.5 million tax combined impact. **All together, these federal tax changes are expected to have a estimated negative $12.9 million state fiscal impact primarily in FY 2010.**

Estimated Vermont Tax Impact of The American Recovery and Reinvestment Act of 2009

	State Fiscal Impact		
Provision	FY 2009	FY 2010	FY 2011
Increase Earned Income Tax Credit		0.8	0.8
Sales Tax Deduction for Vehicle Purchases		1.5	
Temporary Suspension of Taxation of UI Benefits		3.3	
Election of the Investment Tax Credit in place of the Production Tax Credit		5.0	
All other incentives		1.5	
TOTAL	0.0	12.1	0.8

TOTAL $12.9 million