

Legislature Passes Significant Tax Changes

The need to fill a gaping budget hole and declining revenues overshadowed the 2009 legislative session, resulting in the passage of many new taxes and policy changes. The General Assembly's approach was to rely on spending cuts, Federal stimulus money, new revenues and changes to how we pay for government. In the end, \$21.3 million in new revenues was raised by the Legislature with another \$4.8 million in new enforcement and compliance measures passed. Finally, the legislature established a study committee to prepare a structural analysis of the state's revenue system and offer recommendations for improvements and modernization to further the state's goals. The Chamber and GBIC have formed a study group to provide input to the legislature's Blue Ribbon Tax Structure Commission and will be meeting over the summer to prepare recommendations for this commission's consideration.

The tax changes included in the budget bill (H.441) and the tax bill (H.442) are:

- The Vermont estate tax exclusion will be \$2 million instead of \$3.5 million and is effective January 1 of 2009.
- Effective July 1 of 2009, capital gains exemptions are changed from the 40 percent exclusion to a \$5,000 cap except for owners of farm and timber lands as well as taxpayers over the age of 70. The latter may elect to either take the 40 percent exclusion or a flat \$2,500 exemption between July 1 and December 31 of 2010. Beginning in tax year 2011, however, the flat exclusion will increase from \$2,500 to \$5,000 and taxpayers over age 70 will receive the same treatment as all other taxpayers.
- The State Income Tax Deduction is also capped at \$5,000.
- Changes to the Marginal Income Tax Rates are phased in over a two year period.

Current Rate	Tax Year 2009	Tax Year 2010
3.60	3.55	3.55
7.20	7.00	6.80
8.50	8.25	7.80
9.00	8.90	8.80
9.5	9.40	8.95

- Digital Downloads are now subject to a sales and use tax.
- A gas tax and increased motor vehicle registration fees will be charged.
- A new 6 % sales tax on liquor will be assessed.
- The cigarette tax increases by 25 cents and other tobacco products including moist tobacco products are now subject to taxes.
- The Unemployment Insurance fund shortfall will be addressed by increasing employer contributions to fund UI by raising the taxable wage base from \$8,000 - \$10,000 in 2010; freezing benefits by maintaining the maximum weekly benefit at \$425 (this amount was scheduled to increase to an estimated \$438 as of July 1st) and creating a 12 person study committee of legislators to review underlying issues such as those employers who carry negative balances.

- Research and Development tax credits are available as of FY 2011.
- Vermont will have two sales tax holidays, one on August 22 and one on March 6, 2010.

Legislators also enacted changes to the education property tax rates and a freezing of the base education amount paid per pupil over the next two years. The non-residential rate will decrease by a penny from FY2009 to \$1.35 in FY2010 and FY2011. The base education payment will be \$8,210 for FY2009, but will be level funded at \$8,544 for FY2010 and 2011, forcing local school boards to plan for declining state education payments.