Worldwide Combined Reporting

Conformity to International Tax Attributes

Will Baker, AAG

Legal Director

Current Method: Unitary Combined Reporting

U.S. Federal Taxable Income (with adjustments) of unitary group within U.S.	X	VT Sales / U.S. Sales	X	Tax Rate =	Tax

Worldwide Combined Reporting

All net income (subject to definition/adjustments) of unitary group	X	VT Sales / All Sales	X	Tax Rate =	Tax

What does Vermont tax now?

U.S. Federal Taxable Income (with adjustments) of unitary group within U.S. X $\frac{\text{VT Sales}}{\text{U.S. Sales}}$ X Tax Rate = Tax

- Foreign Dividends received by the US unitary group.
- Subpart F Income

Subpart F Income

$$\text{U.S. Federal Taxable Income (with adjustments) of unitary group within U.S.} \times \frac{\text{VT Sales}}{\text{U.S. Sales}} \times \text{Tax Rate} = \text{Tax}$$

- In Unitary Combined Reporting Law, Legislature required that Subpart F income be included in tax base.

- Income from foreign corporations owned by US taxpayers. Includes in US income current year profits income, even if not distributed back to the US as a dividend (a "deemed dividend"). Some exemptions exist (already taxed at high rate, etc.)

Tax Cuts and Jobs Act, 2017

- For corporate provisions, why?
- Pattern of profits of foreign subsidiaries never repatriated to U.S.
- US had a global tax system
  - US Companies paid Federal tax on income earned in any country, at US tax rate, minus credit for taxes paid to other countries.
  - US Corporate Income tax rate was as high as 39%
- Significant incentive to offshore profits, locate intangible assets elsewhere.

Tax Cuts and Jobs Act, 2017

- Fundamental shift in Corporate Income Tax
- Global → Territorial
- Each subsidiary pays the tax rate of the country where it is located.
- Corporate tax rate of 21%
- One-time repatriation tax on profits in overseas subsidiaries: 8% (15.5% if held in cash)

Tax Cuts and Jobs Act, 2017

● GILTI

● Global Intangible Low-Taxed Income

● US shareholders (individuals, corporations, partnerships, etc.) MUST include in their US taxable income certain income using formulaic approach – include if earning more than 10% rate of return on assets, with adjustment for taxes paid in the foreign jurisdiction.

● Attempts to encourage businesses to locate intangibles in United States, penalty of tax if they don't.

Tax Cuts and Jobs Act, 2017

- GILTI is US income.

$$\frac{\text{U.S. Federal Taxable Income (with adjustments) of unitary group within U.S.}}{} \quad X \quad \frac{\text{VT Sales}}{\text{U.S. Sales}} \quad X \quad \text{Tax Rate} = \quad \text{Tax}$$

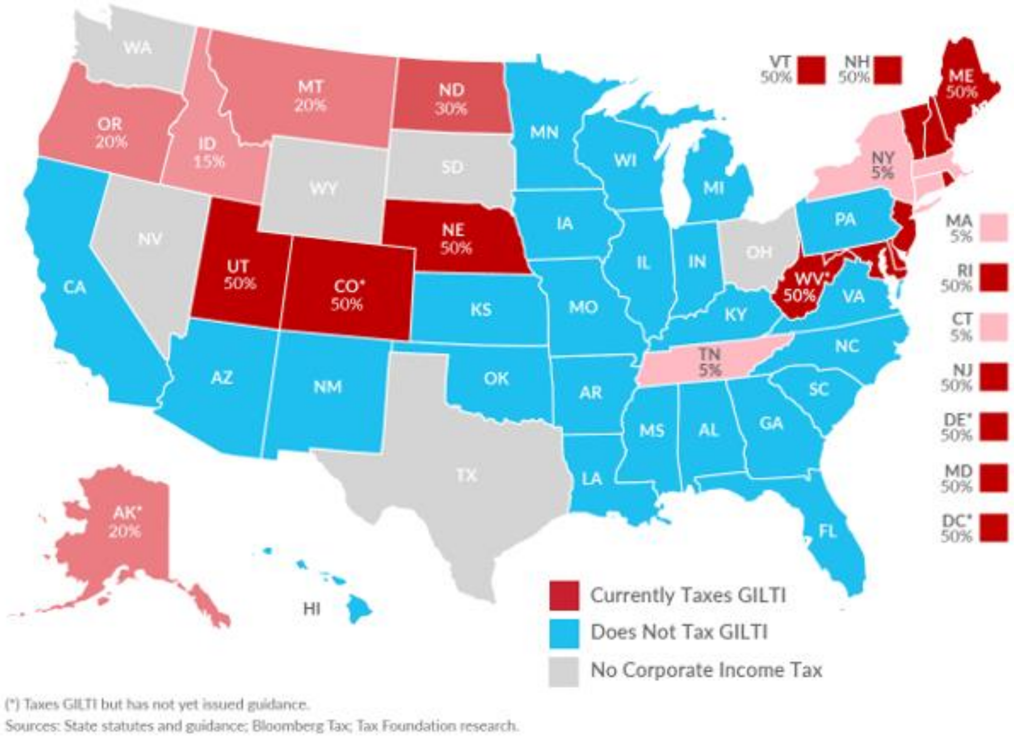
- Increases after 2025 (deduction reduced to 37.5%).

- Moore v. United States, 22-800 (2024)

  -Challenge to TCJA as unconstitutional tax on profits not repatriated to US.

Tax Cuts and Jobs Act, 2017

States taxing GILTI: (2021)



Tax Cuts and Jobs Act, 2017

- Vermont Conformity
  - Other than annual link-up, no specific new adoption.
  - Vermont taxed Repatriation and taxes GILTI because Vermont taxes Subpart F Income and foreign dividends as part of corporate net income.

Current Method: Unitary Combined Reporting

U.S. Federal Taxable Income (with adjustments) of unitary group within U.S. X VT Sales / U.S. Sales X Tax Rate = Tax

Worldwide Combined Reporting

All net income (subject to definition/adjustments) of unitary group X VT Sales / All Sales X Tax Rate = Tax

Federal Decoupling

U.S. Federal Taxable Income (with adjustments) of unitary group within U.S. X $\frac{\text{VT Sales}}{\text{U.S. Sales}}$ X Tax Rate = Tax

Worldwide Combined Reporting

All net income (subject to definition/adjustments) of unitary group X $\frac{\text{VT Sales}}{\text{All Sales}}$ X Tax Rate = Tax

↑ New Vermont-defined category of all income of group

Some subsidiaries with no US filing requirement or history

↑ All sales everywhere, excludes intercompany