

Corporate Income Tax Overview

House Ways and Means
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Who Pays?

- **ONLY U.S. resident C-Corporations**
 - C-Corporations: Larger businesses, profits accrue to the corporation, 100+ shareholders
- **Corporate income tax is paid on the net income of a C-Corporation**
 - Vermont net income is outlined in 32 V.S.A. § 5811(18)
- **About 3/4th of corporations pay the minimum tax**
 - In 2018 = \$2.3 million
 - After Act 148, estimated to be \$4.8 million

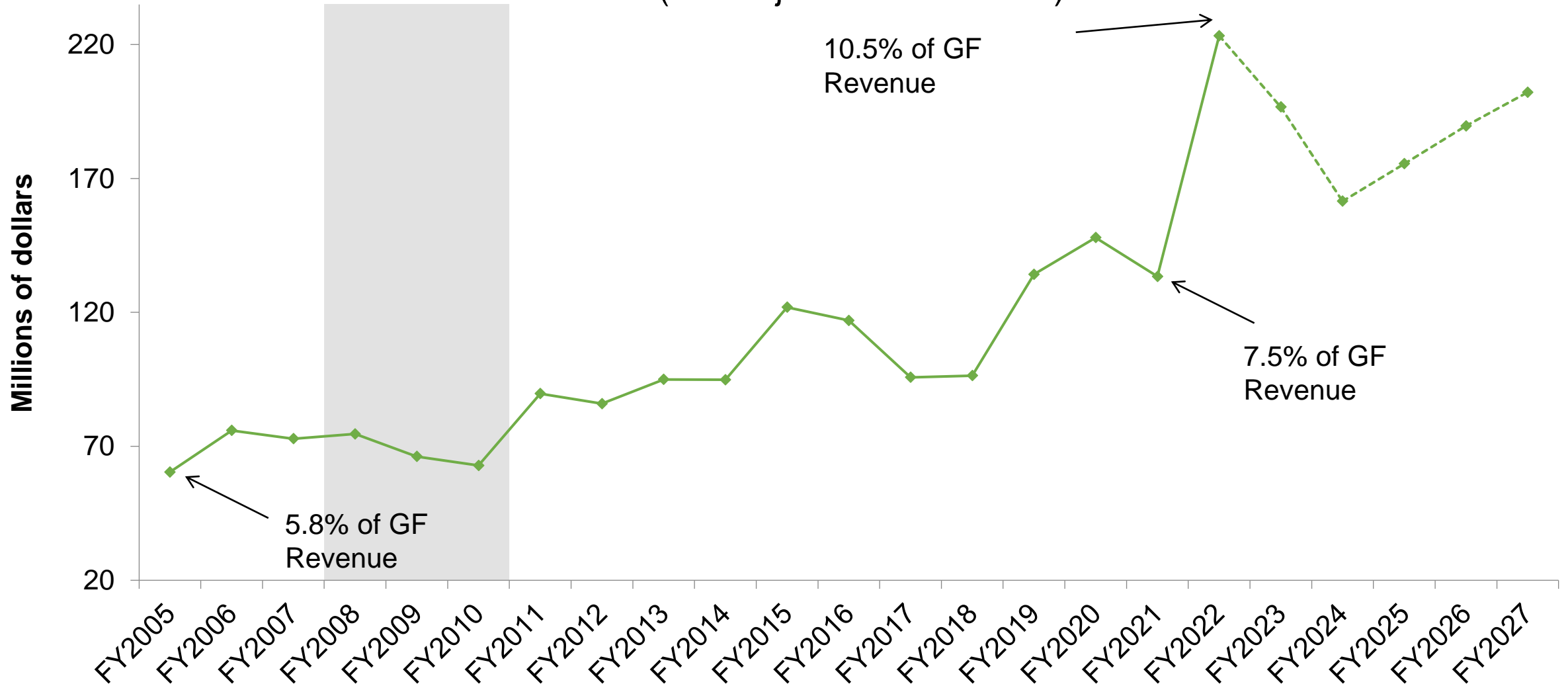


Who Does not Pay?

- Pass-Throughs: Profits get “passed through” to owners who pay on their own personal income taxes
 - S-Corporations and LLCs: usually smaller business, profits are dispersed to smaller number of shareholders
 - Sole Proprietors: Profits go to a single owner as their own income



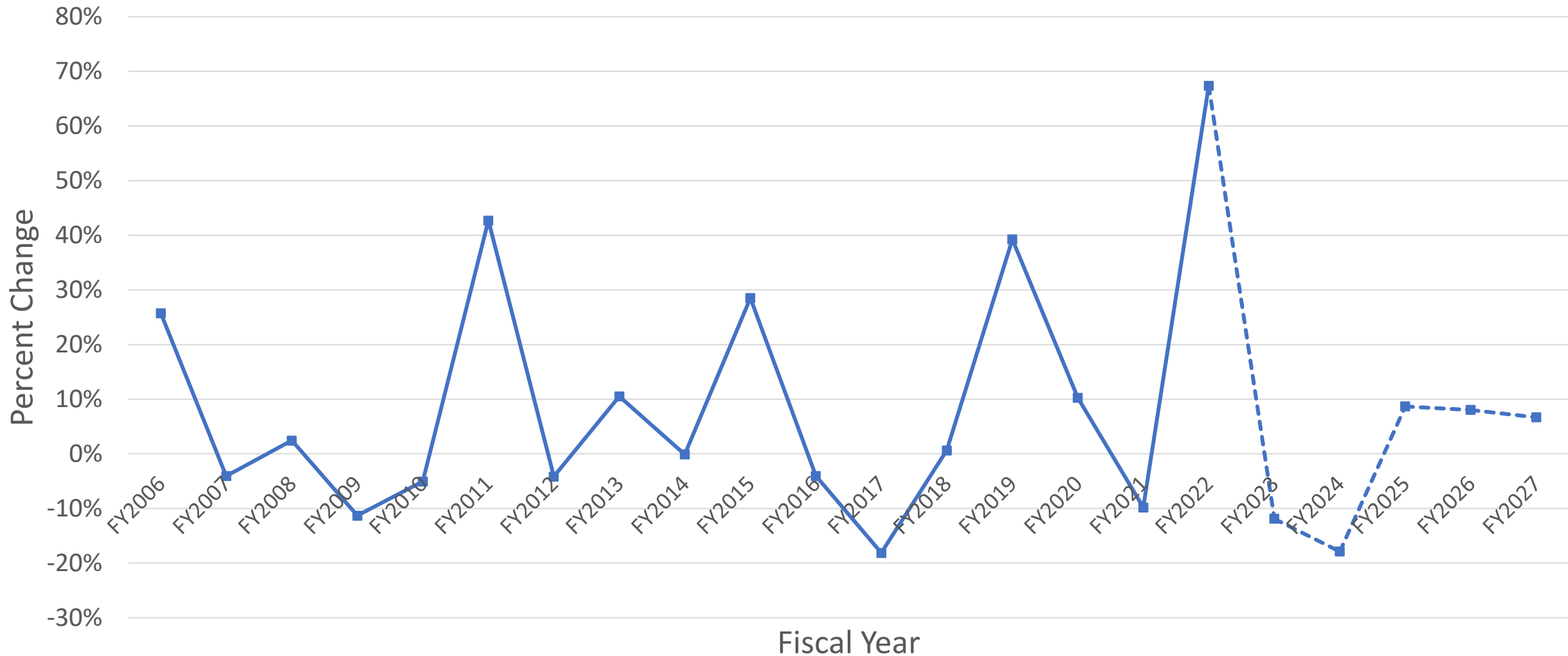
Corporate Income Tax Collections since FY2005 (Not Adjusted for Inflation)



Source: July 2022 Consensus Revenue Forecast



Percent Change in Corporate Income tax Collections



Source: July 2022 Consensus Revenue Forecast



Corporate Income Tax and the Six Principles



Six Principles

1. Sustainability/Reliability
2. Fairness
3. Simplicity
4. Economic Competitiveness
5. Tax Neutrality
6. Accountability

Source: <https://www.ncsl.org/research/fiscal-policy/principles-of-a-high-quality-state-revenue-system.aspx#principles>



Six Principles & Corporate Income Tax

1. Sustainability/Reliability

- Sustainability – The corporate income tax is known to be more volatile
 - Business income can be impacted by general economic conditions
 - A large amount of money comes from a small number of filers, revenue can be greatly impacted if it is a bad year for a small number of companies
 - A large sale of a business or Federal tax change can cause significant spikes or dips in revenue
- Reliability – economic cycle impacts the tax base
 - Economic cycles impact different sectors of the economy differently as well as the economy as a whole



Six Principles & Corporate Income Tax

2. Fairness

- Vermont's Corporate Income Tax is progressive = promotes Vertical Equity
 - High income corporations pay a higher portion of their business income in taxes

3. Simplicity

- Complexity from several different areas
 - Definitions/calculation of income
 - What is in, what is out?
 - Defining nexus
 - See corporate tax reform
 - Complexity of corporate income tax structures: foreign vs US subsidiaries
 - Legal Jurisdictions, for example, Joyce v. Finnegan



Six Principles & Corporate Income Tax

4. Economic Competitiveness

- Difficult to compare across states because tax competitiveness is determined by more than just the tax rate
 - How does a state define income of a corporation?
 - How does the state use unitary reporting?
 - How does the state determine whether the corporation has a nexus?
 - Single sales factor or property/payroll/sales?



Six Principles & Corporate Income Tax

5. Tax Neutrality

- Vermont includes some incentives through the Corporate Income Tax code to promote certain behaviors

6. Accountability

- Vermont Tax Expenditure Report published every 2 years
 - This year's will be out on January 17th
 - There are 14 Corporate Tax Expenditures
 - R&D Credit is the only reportable amount due to suppression requirements - \$2.89 Million in 2021

