

Miscellaneous Tax Bill – Revenue Provisions

House Committee on Ways and Means

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Proposed Language



The Proposed Language Would...

- Link Vermont up to:
 - Child and Dependent Care Tax Credit Expansion
 - Amended Limitation on Business Interest Deduction
 - More generous Expensing of Depreciable Assets
 - Pro Rata Share Rules
 - Charitable Deductions for Corporations
 - Deduction of Research and Experimental Expenses for small businesses
 - Other Miscellaneous Business and Corporate Provisions
- Decouple Vermont from:
 - Deduction of Research and Experimental Expenses for non-small businesses
 - Special Depreciation for Qualified Production Property
 - Qualified Small Business Stock Exclusion
 - Section 250 Deduction (NCTI and FDDEI)
- Additionally:
 - Increase the annual cap on Downtown and Village Center Tax Credits than can be awarded annually by \$2 million (\$5 million total)
 - Increase the State Research and Development Credit from 27% to 75% of the federal credit allowed for R&D expenditures within Vermont.
 - Authorize \$350,000 in total first-year credit allocations for loans through the VHFA Down Payment Assistance Program.



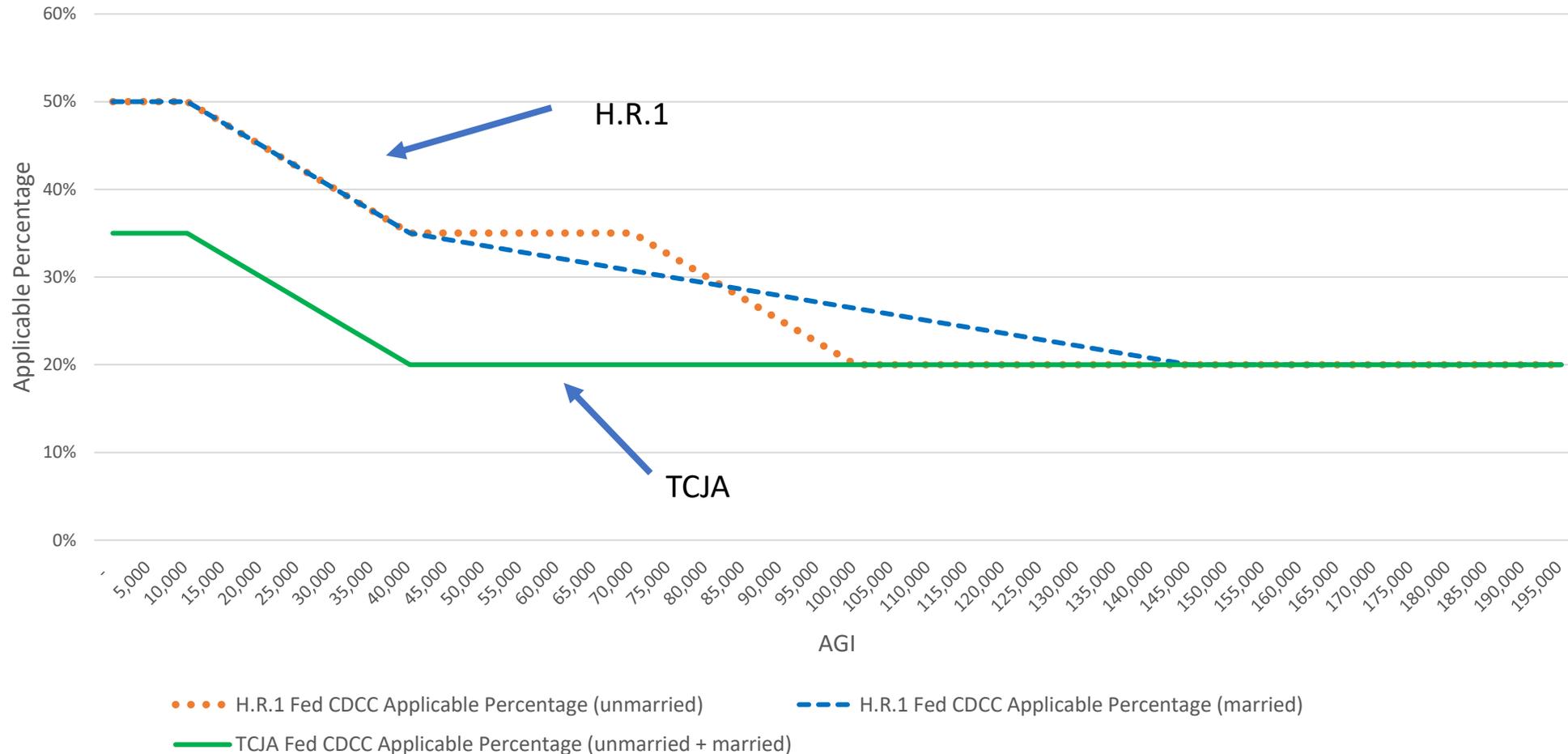
Federal changes to Child and Dependent Care Credit (CDCC)

- H.R.1 expanded the phase out for the federal CDCC and increased the maximum credit rate to 50% from 35%.
 - Meaning qualifying expenses can be claimed for the credit at a rate of 50 cents per dollar.
- Vermont has a State CDCC that is refundable and set equal to 72% of what the claimant receives on their federal return.
 - Vermont does this for certain other State level credits like the Earned Income Tax Credit.
- Typically, because federal credits are calculated “below the line” they do not flow through to Vermont unless there is a State level credit linked directly to the federal calculation.
- The 2025 Tax Expenditure Report projected the CDCC to result in \$4.8 million in forgone revenue in FY 2026 under previous law.
- This language would conform Vermont with federal treatment.



Federal changes to CDCC

Change in Percent of Eligible Expenses Claimed for Fed CDCC



Amended Limitation on Business Interest Deduction

- H.R.1 expanded the limit to which corporations can deduct interest paid on loans for a business purpose.
- The limit on business interest deductions is limited by the sum of its business interest *income*, floor plan financing interest, or 30% of their adjusted taxable income.
- H.R.1 expanded the amount of business interest paid that can be deducted from 30% to 50%.
- This language would conform Vermont with federal treatment.



Limitation on Expensing For Depreciable Business Assets

- H.R.1 increases the maximum amount that a taxpayer may expense for the cost of a qualifying depreciable business asset in lieu of recovering the costs through depreciation.
- The maximum amount that can be expensed increased from \$1 million to \$2.5 million and will be indexed for inflation annually.
- This language would conform Vermont with federal treatment.



Changes to Pro Rata Share Rules

- H.R.1 changes the treatment of controlled foreign corporation (CFC)
 - A foreign corporation is a CFC if at least 50% of voting power or value of the stock are held by U.S. shareholders.
- Each U.S. shareholder must include in their gross income their pro rata share of the CFC's passive income in that tax year.
- Taxpayers that hold stock in CFC's will have to report more gross income than they would have previously.
- This language would conform Vermont with federal treatment.



Charitable Deductions for Corporations

- Previously, corporations could deduct charitable contributions equal to up to 10% of their taxable income.
- H.R.1 makes a change so that only contributions made in excess of 1% and up to 10% of taxable income can be deducted.
- This change reduces the amount that can be claimed by 1%, thus reducing the maximum deductible amount.
- This language would conform Vermont with federal treatment.



The Deduction for Domestic Research and Experimental Expenses

- H.R.1 changes how corporations calculate their R&E expenses deduction amount.
- Starting in 2022 (TCJA), these expenses were required to be amortized over five years, which meant the benefit from the deduction was realized incrementally over that period.
- Prior to TCJA, incurred R&E expenses could be deducted immediately. The H.R.1 changes revert back to pre-TCJA treatment.
- H.R.1 also makes this change retroactively to include any R&E expenses that have not been already deducted since 2022.
- This would front-load the cost of the deduction for R&E expenses.



The Deduction for Domestic Research and Experimental Expenses

- This language would do two things
 1. Conform Vermont with federal treatment for small businesses only.
 2. Decouple Vermont from federal treatment for non-small businesses.
- Small Businesses
 - A small business is defined federally in IRC 163(j) as a business with average annual gross receipts over three years not exceeding \$31 million
 - This language would allow these small businesses to fully deduct R&E expenses and would therefore not have to amortize those expense over five years.
- Non-small Businesses
 - Businesses not defined as small businesses would maintain pre-HR1 treatment and would still be required to amortize those expenses over five years.



Special Depreciation Allowance for Qualified Production Property

- H.R.1 would allow a deduction for qualified production property of 100% of its adjusted cost basis.
- These properties are typically depreciated over 39 years, but this change would allow that amount to be fully claimed up front.
- This change applies to properties built or bought after January 19, 2025 and before January 1, 2029.
- This language would decouple Vermont from the bonus depreciation treatment of these properties, but would allow them to depreciate the property over a 39-year time period.
- This is consistent with Vermont's treatment of bonus depreciation in other areas.



Exclusion on Gains from Qualified Small Business Stock

- H.R.1 allows stock for corporation issued after July 5, 2025 with aggregate gross assets (AGA) below \$75 million to qualify as a Qualified Small Business Stock (QSBS).
 - This is an increase from the previous \$50 million in AGA and will allow more businesses to qualify to issue QSBS.
- Investors who buy these shares can exclude 50% of capital gains if held for 3 years, 75% if held for 4 years, and 100% if held for 5 years.
- H.R.1 also increase the per-issuer exclusion cap from \$10 million to \$15 million.
- This language would decouple Vermont from federal treatment of this class of stock and would not allow preferential treatment to capital gains from these investments.



Section 250 Deduction

- HR1 amended IRC Section 250 to adjust the amount of foreign derived deduction eligible income (FDDEI) domestic corporations can deduct to 33.34% and net CFC tested income (NCTI) to 40%.
 - FDDEI is income earned by domestic corporations from exporting property or services for use outside of the United States.
 - NCTI is the aggregate of a U.S. shareholders income from all CFC's.
- This language would decouple Vermont from the federal deductions available to corporations for these income types.



Downtown and Village Tax Credit

- This language would increase the cap on the value of credits the Vermont Downtown Development Board can award for qualified projects to \$4 million, up from \$3 million.
- These credits are typically sold to banks or insurance companies by claimants but can also be used to reduce income tax liability.
- The credits are available for rehabilitation historic properties, façade improvements, code compliance, and flood mitigation projects.
- Projects must be within designated downtowns or village centers and the buildings must be at least 30 years old.



Down Payment Assistance Program

- This language would authorize \$350,000 in total first-year credit allocations for loans through VHFA's Down Payment Assistance Program through fiscal year 2031.
- Previously, in 2020 authorized total first-year credit allocation were capped at \$250,000 annually through fiscal year 2026.
- VHFA uses proceeds from selling these credits to provide down payment assistance to qualified homebuyers.
- Credits are awarded and claimed across a five-year period.
- The annual cost of this extension and expansion is predicted to peak in 2031 at \$1.75 million in foregone revenue.



Down Payment Assistance Program

Cash Flow for Increase in Down Payment Assistance Tax Credits (FY27 to FY35)

		Current Commitments			Proposed Additional Credits						
Fiscal Year	Status	FY26	FY27	FY28	FY 29	FY 30	FY31	FY32	FY33	FY34	FY35
2021	Sold										
2022	Sold	\$250,000									
2023	Sold	\$250,000	\$250,000								
2024	Sold	\$250,000	\$250,000	\$250,000							
2025	Sold	\$250,000	\$250,000	\$250,000	\$250,000						
2026	In process	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000					
2027			\$350,000	\$350,000	\$350,000	\$350,000	\$350,000				
2028				\$350,000	\$350,000	\$350,000	\$350,000	\$350,000			
2029					\$350,000	\$350,000	\$350,000	\$350,000	\$350,000		
2030						\$350,000	\$350,000	\$350,000	\$350,000	\$350,000	
2031							\$350,000	\$350,000	\$350,000	\$350,000	\$350,000
Annual claims of credits already approved		\$1,250,000	\$1,000,000	\$750,000	\$500,000	\$250,000	\$0	\$0	\$0	\$0	\$0
Increased cost to VT of proposal		\$0	\$350,000	\$700,000	\$1,050,000	\$1,400,000	\$1,750,000	\$1,400,000	\$1,050,000	\$700,000	\$350,000



Research and Development Credit

- Vermont currently has a State Research and Development Credit equal to 27% of the federal credit allowed for eligible research and development expenditures.
- Eligible expenditures have to occur within Vermont and any unused credit can be carried forward for up to 10 years.
- The federal credit does require increasing R&D expenses to claim and is equal to 20% of R&D expenses in a given year over average R&D spending in the previous four years.
- This language would increase the State R&D Credit to 75% of what is allowed federally for eligible expenses within Vermont effective for tax year 2027.



Net Estimated Changes to State Revenue

Proposed Language (Link up R&E for small businesses only)	IRC Section	FY26 (Millions)	FY27 (Millions)	FY28 (Millions)
Link up to Child and Dependent Care Tax Credit Expansion	21	0.00	-1.00	-1.02
Link up to Amended Limitation on Business Interest Deduction	163(j)	-3.11	-3.65	-3.27
Link up to More Generous Expensing of Depreciable Assets	179	-0.86	-1.95	-1.98
Link up to Pro-Rata Share Rules	951, 951A	0.00	0.33	0.80
Link up to Charitable Deductions for Corporations	170(b)(2)(A), (d)(2)	0.00	0.48	0.89
Link up to Miscellaneous Business and Corporate Provisions		0.69	0.82	-0.69
Link up to HR1 Domestic R&E for Small Businesses Only	174(a)	-1.29	-1.30	-0.80
Decouple from Special Depreciation for Qualified Production Property	168(n)	-	-	-
Decouple from Qualified Small Business Stock Gain Exclusion	1202(a)(1)	-	2.65	2.73
Decouple from Section 250 Deduction	250(a)	0.61	19.22	20.23
Downtown and Village Tax Credit Increase by \$2M		-	-1.00	-1.00
Increase in Down Payment Assistance Tax Credits		-	-0.35	-0.70
Research & Development Credit Increase to 75%		-	-	-1.74
Total		-3.96	14.25	13.45



Appendix: HR1 Other Changes that will flow through with conformity



H.R.1 Changes to Business and Corporate Taxes

- There were many changes made to business and corporate income taxes that are considered “above the line” and will flow through to Vermont.
 - The deduction for domestic research and development expenses,
 - limitation on business interest deduction,
 - limitation on expensing for depreciable business assets,
 - special depreciation allowance for qualified production property,
 - foreign derived intangible income and global intangible low-taxed income,
 - changes to pro rata share rules,
 - charitable deduction for corporations,
 - expanded exclusion of gains from qualified small business stock, and
 - other miscellaneous business and corporate provisions.
- HR1 also expanded the Child and Dependent Care Credit, which is PIT but flows through.



Updated HR1 Vermont Revenue Impact Estimates

H.R.1 provisions that will flow through to VT with normal conformity	IRC Section	FY26 (Millions)	FY27 (Millions)
Child and Dependent Care Tax Credit Expansion	21	0.0	-1.0
Full Expensing of Domestic R&E	174(a)	-18.9	-19.1
Amended Limitation on Business Interest Deduction	163(j)	-3.1	-3.7
More Generous Expensing of Depreciable Assets	179	-0.9	-1.9
Special Depreciation for Qualified Production Property	168(n)	-0.8	-11.7
International Tax Provisions	250(a), 951A	1.7	2.1
Pro-Rata Share Rules	951, 951A	0.0	0.3
Charitable Deductions for Corporations	170(b)(2)(A), (d)(2)	0.0	0.5
Expanded Exclusion of Qualified Small Business Stock	Sec. 1202(a)(1)	0.0	0.0
Miscellaneous Business and Corporate Provisions		0.7	0.8
Total		-21.3	-33.7



Questions?

