

CORPORATE INCOME TAX AND CONFORMANCE WITH THE FEDERAL TAX CODE

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32 V.S.A. § 5824

ADOPTION OF FEDERAL INCOME TAX LAWS

The statutes of the United States relating to the federal income tax, as in effect on December 31, 2024, but without regard to federal income tax rates under 26 U.S.C. § 1, are hereby adopted for the purpose of computing the tax liability under this chapter and shall continue in effect as adopted until amended, repealed, or replaced by act of the General Assembly.

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ADOPTION OF FEDERAL INCOME TAX LAWS

Vermont's Conformity is “rolling.”

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The conformity section applies to both PIT and CIT.

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Conformity is subject to selective modification and decoupling.

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What if Vermont chooses not to link up?

- Vermont would have “static conformity” tied to December 31, 2024.
- Instead of actively decoupling from select parts of the IRC, Vermont would have to actively adopt the parts it wants to adopt.

Decouple from the entire IRC or just the parts relating to CIT?

- States vary re rolling conformity and static conformity.
- States are roughly evenly split between the two approaches.
- A few states, like Arkansas, start with federal gross income, do not adopt the entire IRC, and conform to select IRC sections as of a specific date.
- Unable to find a state that is rolling for PIT but static for CIT.

CIT CONFORMITY BY STATE

Rolling

AL, AK, CO, CT, DE, DC, IL, IA, KS, LA, MA, MI, MS, MO, MT, NE, NJ, NM, NY, ND, OK, OR, PA, RI, TN, UT

Static

AZ, AR, CA, FL, GA, HI, ID, IN, KY, ME, MD, MN, NH, NC, SC, VT*, VA, WV, WI

No CIT

NV, OH, SD, TX, WA, WY

* VT considered static because our annual link up provides a static date.

Source: Council on State Taxation

STATE CONFORMITY

Static Conformity States

Most static conformity states periodically update their date of conformity.

Could be seen as a version of rolling conformity with pauses that last for years.

Rolling Conformity States

Some rolling states automatically decouple from any federal change with a state revenue impact of \$X million. (ex: MD and VA)

EXAMPLE: CALIFORNIA

California uses “static conformity”

- Recently linked up to the tax year 2025 federal tax code (does not include HR1)
- Last link up was January 1, 2015
 - more than 1,000 federal tax changes took place in that 10-year period
 - California plans to pass a “clean up” bill to synchronize the California tax code with all of these changes

EXAMPLE: CALIFORNIA

What happens in between conformity years?

- The State Franchise Tax Board issues an annual summary of federal income tax changes
 - The summary lists every federal law passed, provides a description, and lists whether California conformed
- California annually publishes guidelines for California income tax adjustments
- Forms updated annually to account for federal changes that are not adopted

EXAMPLE: DECOUPLING FROM QSBS CHANGES

Before H.R. 1

No partial exclusion

Five year holding period

Exclusion cap up to \$10M

Business asset limit of \$50M

No inflator

After H.R. 1

50% exclusion; three years held

75% exclusion; four years held

Exclusion cap up to \$15M

Business asset limit of \$75M

Inflation adjustment

EXAMPLE: DECOUPLING FROM QSBS CHANGES

Decoupling

For stock acquired after July 4, 2025:

- Vermont would require an add-back for the partial exclusion of gains held for three or four years.
- Add back the exclusion cap.
- Not allow an exclusion for QSBS issued by a business with business assets exceeding \$50M, without regard for inflation.

The forms and related schedules would be amended, and taxpayers would have to calculate QSBS gains separately.

While business related, these gains would flow through to PIT.

EXAMPLE: DECOUPLING FROM CHANGES TO THE BUSINESS INTEREST DEDUCTION LIMIT

Before H.R. 1

Based on earnings before interest and taxes.

Less adjusted taxable income, therefore, smaller deduction.

After H.R. 1

Based on earnings before interests, taxes, depreciation, and amortization.

More ATI; larger deduction.

EXAMPLE: DECOUPLING FROM CHANGES TO THE BUSINESS INTEREST DEDUCTION LIMIT

Decoupling

For tax years beginning on or after January 1, 2025:

The forms and related schedules would be amended, and taxpayers would have to calculate the business interest deduction limit separately using EBIT.

Would Vermont also decouple from the constraint on certain elective interest capitalization?

Designed to prevent tax avoidance but would not automatically apply unless selectively adopted.

Conclusion

Rolling or Static?

Both approaches require selectively decoupling from certain IRC provisions.

No state adopts the entire IRC without modification.

Difference: Whether the default is to decouple or adopt federal changes.