

1 Sec. X. 32 V.S.A. § 5811 is amended to read:

2 § 5811. DEFINITIONS

3 As used in this chapter ~~unless the context requires otherwise:~~

4 \* \* \*

5 (18) “Vermont net income” means, for any taxable year and for any  
6 corporate taxpayer:

7 (A) the taxable income of the taxpayer for that taxable year under the  
8 laws of the United States, ~~without regard to 26 U.S.C. § 168(k), and~~ excluding  
9 income that under the laws of the United States is exempt from taxation by the  
10 states:

11 (i) increased by:

12 (I) the amount of any deduction for State and local taxes on or  
13 measured by income, franchise taxes measured by net income, franchise taxes  
14 for the privilege of doing business and capital stock taxes; ~~and~~

15 (II) to the extent such income is exempted from taxation under  
16 the laws of the United States ~~by~~<sub>2</sub> the amount received by the taxpayer on and  
17 after January 1, 1986<sub>2</sub>, as interest income from state and local obligations, other  
18 than obligations of Vermont and its political subdivisions, and any dividends  
19 or other distributions from any fund to the extent such dividend or distribution  
20 is attributable to such Vermont State or local obligations;

1 (III) the amount of any deduction for a federal net operating  
2 loss; ~~and~~

3 (IV) an amount equal to the bonus depreciation deduction taken  
4 on the taxpayer's federal income tax return for the taxable year under Section  
5 168(k) or (n) of the Internal Revenue Code;

6 (V) an amount equal to any deduction taken on the taxpayer's  
7 federal income tax return for the taxable year under Section 174 or 174A, or  
8 both, of the Internal Revenue Code; and

9 (VI) an amount equal to the amount of income deducted under  
10 Section 250 of the Internal Revenue Code for the taxable year to the extent  
11 deducted from net income; and

12 (ii) decreased by:

13 (I) the “gross-up of dividends” required by the federal Internal  
14 Revenue Code to be taken into taxable income in connection with the  
15 taxpayer's election of the foreign tax credit;

16 (II) the amount of income that results from the required  
17 reduction in salaries and wages expense for corporations claiming the Targeted  
18 Job or WIN credits; ~~and~~

19 (III) any federal deduction or credit that the taxpayer would  
20 have been allowed for the cultivation, testing, processing, or sale of cannabis

1 or cannabis products as authorized under 7 V.S.A. chapter 33 or 37, but for 26  
2 U.S.C. § 280E; and

3 (IV) for the taxable year in which the bonus depreciation  
4 deduction is taken on the taxpayer's federal income tax return under Section  
5 168(k) or (n) of the Internal Revenue Code and for each applicable taxable  
6 year thereafter, an amount equal to the depreciation deduction that would be  
7 allowed on that property if the taxpayer had made the election under Section  
8 168(k)(7) or (n)(6) of the Internal Revenue Code to not claim depreciation on  
9 that property. In the taxable year that property is sold or otherwise disposed  
10 of, an additional deduction shall be allowed to the extent the amount of  
11 depreciation claimed under Section 168(k) or (n) of the Internal Revenue Code  
12 on that property has not been recovered through the additional deductions  
13 provided under this subdivision (18). The aggregate amount deducted under  
14 this subdivision (18)(A)(ii)(IV) in all taxable years for any one piece of  
15 property shall not exceed the amount of the bonus depreciation deduction taken  
16 on that property on the taxpayer's federal income tax return under Section  
17 168(k) or (n) of the Internal Revenue Code, or exceed the amount of the  
18 additional modifications taken for that property on the taxpayer's Vermont  
19 income tax return under subdivision (A)(i)(IV) of this subdivision (18).

20 \* \* \*

1           (21) “Taxable income” means, in the case of an individual, federal  
2 adjusted gross income ~~determined without regard to 26 U.S.C. § 168(k)~~ and:

3           (A) increased by the following items of income (to the extent such  
4 income is excluded from federal adjusted gross income):

5           (i) interest income from non-Vermont state and local obligations;

6 ~~and~~

7           (ii) dividends or other distributions from any fund to the extent  
8 they are attributable to non-Vermont state or local obligations; ~~and~~

9           (iii) an amount equal to the bonus depreciation deduction taken on  
10 the taxpayer’s federal income tax return for the taxable year under Section  
11 168(k) or (n) of the Internal Revenue Code, including any amount of bonus  
12 depreciation deduction carried over on the taxpayer’s federal income tax return  
13 as part of a net operating loss from a prior taxable year that is deducted in the  
14 current taxable year;

15           (iv) an amount equal to any deduction taken on the taxpayer’s  
16 federal income tax return for the taxable year under Section 174 or 174A of the  
17 Internal Revenue Code, including any amount of such deductions carried over  
18 on the taxpayer’s federal income tax return as part of a net operating loss from  
19 a prior taxable year that is deducted in the current taxable year; and

1                   (v) an amount equal to any income or gain from the sale or  
2                   exchange of qualified small business stock excluded from federal gross income  
3                   for the taxable year under Section 1202(a) of the Internal Revenue Code; and

4                   (B) decreased by the following items of income (to the extent such  
5                   income is included in federal adjusted gross income):

6                   (i) income from U.S. government obligations;

7                   (ii) with respect to adjusted net capital gain income as defined in  
8                   26 U.S.C. § 1(h), but excluding any gain specifically included in taxable  
9                   income under subdivision (A)(v) of this subdivision (21), reduced by the total  
10                  amount of any qualified dividend income: either the first \$5,000.00 of such  
11                  adjusted net capital gain income or 40 percent of adjusted net capital gain  
12                  income from the sale of assets held by the taxpayer for more than three years,  
13                  except not adjusted net capital gain income from:

14                  (I) the sale of any real estate or portion of real estate used by  
15                  the taxpayer as a primary or nonprimary residence; or

16                  (II) the sale of depreciable personal property other than farm  
17                  property and standing timber; or stocks or bonds publicly traded or traded on  
18                  an exchange, or any other financial instruments; regardless of whether sold by  
19                  an individual or business; and provided that the total amount of decrease under  
20                  this subdivision (21)(B)(ii) shall not exceed 40 percent of federal taxable  
21                  income or \$350,000.00, whichever is less;

1           (iii) recapture of State and local income tax deductions not taken  
2 against Vermont income tax;

3           (iv) the portion of certain retirement income and federally taxable  
4 benefits received under the federal Social Security Act that is required to be  
5 excluded under section 5830e of this chapter;

6           (v) the amount of any federal deduction or credit that the taxpayer  
7 would have been allowed for the cultivation, testing, processing, or sale of  
8 cannabis or cannabis products as authorized under 7 V.S.A. chapter 33 or 37,  
9 but for 26 U.S.C. § 280E; ~~and~~

10           (vi) the amount of interest paid by a qualified resident taxpayer  
11 during the taxable year on a qualified education loan for the costs of attendance  
12 at an eligible educational institution; and

13           (vii) for the taxable year in which the bonus depreciation  
14 deduction is taken on the taxpayer's federal income tax return under Section  
15 168(k) or (n) of the Internal Revenue Code and for each applicable taxable  
16 year thereafter, an amount equal to the depreciation deduction that would be  
17 allowed on that property if the taxpayer had made the election under Section  
18 168(k)(7) or (n)(6) of the Internal Revenue Code to not claim bonus  
19 depreciation on that property. In the taxable year that property is sold or  
20 otherwise disposed of, an additional deduction shall be allowed to the extent  
21 the amount of depreciation claimed under Section 168(k) or (n) of the Internal

1 Revenue Code on that property has not been recovered through the additional  
2 deductions provided under this subdivision (21). The aggregate amount  
3 deducted under this subdivision (21)(B)(vii) in all taxable years for any one  
4 piece of property shall not exceed the amount of the bonus depreciation  
5 deduction taken on that property on the taxpayer's federal income tax return  
6 under Section 168(k) or (n) of the Internal Revenue Code, or exceed the  
7 amount of the addition modifications taken for that property on the taxpayer's  
8 Vermont income tax return under subdivision (A)(iii) of this subdivision (21);  
9 and

10 \* \* \*

11 (28) "Taxable income" means, in the case of an estate or a trust, federal  
12 taxable income ~~determined without regard to 26 U.S.C. § 168(k)~~ and:

13 (A) increased by the following items of income:

14 (i) interest income from non-Vermont state and local obligations;

15 (ii) dividends or other distributions from any fund to the extent  
16 they are attributable to non-Vermont state or local obligations; and

17 (iii) the amount of State and local income taxes deducted from  
18 federal gross income for the taxable year; ~~and~~

19 (iv) an amount equal to the bonus depreciation deduction taken on  
20 the taxpayer's federal income tax return for the taxable year under Section  
21 168(k) or (n) of the Internal Revenue Code, including any amount of bonus

1 depreciation deduction carried over on the taxpayer's federal income tax return  
2 as part of a net operating loss from a prior tax year that is deducted in the  
3 current taxable year;

4 (v) an amount equal to any deduction taken on the taxpayer's  
5 federal income tax return for the taxable year under Section 174 or 174A of the  
6 Internal Revenue Code, including any amount of such deductions carried over  
7 on the taxpayer's federal income tax return as part of a net operating loss from  
8 a prior tax year that is deducted in the current taxable year; and

9 (vi) an amount equal to any income or gain from the sale or  
10 exchange of qualified small business stock excluded from federal gross income  
11 for the taxable year under Section 1202(a) of the Internal Revenue Code; and

12 (B) decreased by the following items of income:

13 (i) income from U.S. government obligations;

14 (ii) with respect to adjusted net capital gain income as defined in  
15 26 U.S.C. § 1(h), but excluding any gain specifically included in taxable  
16 income as described in subdivision (A)(vi) of this subdivision (28), reduced by  
17 the total amount of any qualified dividend income: either the first \$5,000.00 of  
18 such adjusted net capital gain income or 40 percent of adjusted net capital gain  
19 income from the sale of assets held by the taxpayer for more than three years,  
20 except not adjusted net capital gain income from:

1 (I) the sale of any real estate or portion of real estate used by  
2 the taxpayer as a primary or nonprimary residence; or

3 (II) the sale of depreciable personal property other than farm  
4 property and standing timber; or stocks or bonds publicly traded or traded on  
5 an exchange, or any other financial instruments; regardless of whether sold by  
6 an individual or business; and provided that the total amount of decrease under  
7 this subdivision (28)(B)(ii) shall not exceed 40 percent of federal taxable  
8 income or \$350,000.00, whichever is less; and

9 (iii) recapture of State and local income tax deductions not taken  
10 against Vermont income tax; and

11 (iv) for the taxable year in which the bonus depreciation deduction  
12 is taken on the taxpayer's federal income tax return under Section 168(k) or (n)  
13 of the Internal Revenue Code and for each applicable taxable year thereafter,  
14 an amount equal to the depreciation deduction that would be allowed on that  
15 property if the taxpayer had made the election under Section 168(k)(7) or  
16 (n)(6) of the Internal Revenue Code to not claim bonus depreciation on that  
17 property. In the taxable year that property is sold or otherwise disposed of, an  
18 additional deduction shall be allowed to the extent the amount of depreciation  
19 claimed under Section 168(k) or (n) of the Internal Revenue Code on that  
20 property has not been recovered through the additional deductions provided  
21 under this subdivision (28). The aggregate amount deducted under this

1 subdivision (28)(B)(iv) in all taxable years for any one piece of property shall  
2 not exceed the amount of the bonus depreciation deduction taken on that  
3 property on the taxpayer's federal income tax return under Section 168(k) or  
4 (n) of the Internal Revenue Code, or exceed the amount of the addition  
5 modifications taken on that property on the taxpayer's Vermont income tax  
6 return under subdivision (A)(iv) of this subdivision (28).

7 \* \* \*

8 Sec. X. 32 V.S.A. § 5822 is amended to read:

9 § 5822. TAX ON INCOME OF INDIVIDUALS, TRUSTS, AND ESTATES

10 \* \* \*

11 (e) The tax determined under subsections (a) through (d) of this section  
12 shall be reduced by a percentage equal to the portion of adjusted gross income  
13 that is not Vermont income; provided, however, that if a taxpayer's Vermont  
14 income exceeds the taxpayer's adjusted gross income, no reduction shall be  
15 made and provided, further, that if a taxpayer has zero or negative Vermont  
16 income and the taxpayer's Vermont income computed without regard to the  
17 reductions in subsection 5823(a) of this chapter does not equal or exceed the  
18 taxpayer's adjusted gross income, no tax shall be due under this section. For  
19 the purposes of this subsection, adjusted gross income means federal adjusted  
20 gross income modified by the additions and subtractions provided for in  
21 subdivisions 5811(21)(A) and (B) of this chapter for an individual, and federal

1 adjusted gross income modified by the additions and subtractions provided for  
2 in subdivisions 5811(28)(A) and (B) of this chapter for an estate or a trust.

3 Sec. X. 32 V.S.A. § 5823 is amended to read:

4 § 5823. VERMONT INCOME OF INDIVIDUALS, ESTATES, AND  
5 TRUSTS

6 \* \* \*

7 (b) For any taxable year, the Vermont income of a nonresident individual,  
8 estate, or trust is the sum of the following items of income to the extent they  
9 are required to be included in the federal adjusted gross income of the  
10 individual after the value of those items are modified by the additions and  
11 subtractions provided for in subdivisions 5811(21)(A) and (B) of this chapter  
12 or the ~~gross~~ federal adjusted gross income of an estate or trust after the value of  
13 those items are modified by the additions and subtractions provided for in  
14 subdivisions (28)(A) and (B) of this chapter for that taxable year:

15 \* \* \*

16 Sec. X. 32 V.S.A. § 5930ii is amended to read:

17 § 5930ii. RESEARCH AND DEVELOPMENT TAX CREDIT

18 (a) A taxpayer of this State shall be eligible for a credit against the tax  
19 imposed under this chapter in an amount equal to ~~27~~ 75 percent of the amount  
20 of the federal tax credit allowed in the taxable year for eligible research and

1 development expenditures under 26 U.S.C. § 41(a) that are made within this  
2 State.

3 (b) Any unused credit available under subsection (a) of this section may be  
4 carried forward for up to 10 years.

5 (c) Each year, on or before January 15, the Department of Taxes shall  
6 publish a list containing the names of the taxpayers who have claimed a credit  
7 under this section during the most recent completed calendar year.

8 Sec. X. 32 V.S.A. § 5930ee is amended to read:

9 § 5930ee. LIMITATIONS

10 Beginning in fiscal year 2010 and thereafter, the State Board may award tax  
11 credits to all qualified applicants under this subchapter, provided that:

12 (1) the total amount of tax credits awarded annually, together with sales  
13 tax reallocated under section 9819 of this title, does not exceed ~~\$3,000,000.00~~  
14 \$5,000,000.00;

15 \* \* \*

16 Sec. X. 32 V.S.A. § 5824 is amended to read:

17 § 5824. ADOPTION OF FEDERAL INCOME TAX LAWS

18 The statutes of the United States relating to the federal income tax, as in  
19 effect on December 31, ~~2024~~ 2025, but without regard to federal income tax  
20 rates under 26 U.S.C. § 1, are hereby adopted for the purpose of computing the

1 tax liability under this chapter and shall continue in effect as adopted until  
2 amended, repealed, or replaced by act of the General Assembly.

3 Sec. X. 32 V.S.A. § 7402(8) is amended to read:

4 (8) “Laws of the United States” means the U.S. Internal Revenue Code  
5 of 1986, as amended through December 31, ~~2024~~ 2025. As used in this  
6 chapter, “Internal Revenue Code” has the same meaning as “laws of the United  
7 States” as defined in this subdivision. The date through which amendments to  
8 the U.S. Internal Revenue Code of 1986 are adopted under this subdivision  
9 shall continue in effect until amended, repealed, or replaced by act of the  
10 General Assembly.

11