

Corporate Income Tax Overview

House Committee on Ways and Means

Patrick Titterton, Senior Fiscal Analyst

January 8, 2026



JFO

1 Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • <https://ljfo.vermont.gov>

Corporate Income Tax



How Does Vermont Tax Businesses?

- Vermont – like the Federal government – treats taxes on net income/profit depending on how a business is structured.
- Two Characterizations:
 1. Corporations
 - Subject to the Corporate Tax.
 2. Pass-Through Businesses:
 - These include LLC's, Partnerships, S-corps, and Sole Proprietorships
 - Profits are divided amongst shareholders depending on shares of business.
 - Owners of the business pay taxes through the Personal Income Tax Code.
 - Increasing the corporate tax rate would not affect business income owners receive from pass-throughs.



IRS 1120 Form

- The IRS 1120 form is the tax form that all C-corps are required to fill out and submit to determine their taxable income.
- Vermont uses the federal definition of taxable income as the starting point on the State return (much like federal AGI is the starting point for State person income tax returns).



Other Business Types

- Pass through businesses have separate required forms.
- For example, S-corps file a 1120-S, multi-member LLC's will file a 1065, and sole proprietors will enter their pass-through net income directly into their PIT return.
- Multi-member businesses issue a K-1 form to its shareholders detailing their portion of net income, which they then enter into their PIT return.
- *Only C-corps are subject to Vermont corporate income tax.*



IRS Form 1120 – Determining Total Income

Income	1a	Gross receipts or sales	1a		
	b	Returns and allowances	1b		
	c	Balance. Subtract line 1b from line 1a		1c	
	2	Cost of goods sold (attach Form 1125-A)		2	
	3	Gross profit. Subtract line 2 from line 1c		3	
	4	Dividends and inclusions (Schedule C, line 23)		4	
	5	Interest		5	
	6	Gross rents		6	
	7	Gross royalties		7	
	8	Capital gain net income (attach Schedule D (Form 1120))		8	
	9	Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)		9	
10	Other income (see instructions—attach statement)		10		
11	Total income. Add lines 3 through 10		11		

- Total income does not equal taxable income.
- Corporations are eligible to take deductions before determining taxable income as seen on the next slide.



IRS Form 1120 – Determining Taxable Income

Deductions (See instructions for limitations on deductions.)	12	Compensation of officers (see instructions—attach Form 1125-E)		12	
	13	Salaries and wages (less employment credits)		13	
	14	Repairs and maintenance		14	
	15	Bad debts		15	
	16	Rents		16	
	17	Taxes and licenses		17	
	18	Interest (see instructions)		18	
	19	Charitable contributions		19	
	20	Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)		20	
	21	Depletion		21	
	22	Advertising		22	
	23	Pension, profit-sharing, etc., plans		23	
	24	Employee benefit programs		24	
	25	Energy efficient commercial buildings deduction (attach Form 7205)		25	
	26	Other deductions (attach statement)		26	
	27	Total deductions. Add lines 12 through 26		27	
		28	Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11.		28
	29a	Net operating loss deduction (see instructions)	29a		
	b	Special deductions (Schedule C, line 24)	29b		
	c	Add lines 29a and 29b	29c		

- Line 28 is the starting point for determining Vermont taxable corporate income.
- All changes made at the federal level that affect lines 1 through 27 do flow through to Vermont, while those further down the form do not.



Corporate Income Taxes

- Vermont currently applies an 8.5% marginal tax rate on net corporate income above \$25,000.
- Corporate income of a unitary group includes the total net income of a parent corporation and all subsidiaries.
- Income is determined by an apportionment formula:
 - Pre-2023: a three-factor formula used share of payroll, property and sales in Vermont relative to national payroll, property and sales.
 - Beginning January 2023: single sales factor apportionment
 - Tax rates apply to the net income apportioned to Vermont
- Firms with zero taxable income (roughly 70% of returns) pay the minimum tax, which ranges from \$100 to \$100,000 depending on their amount of gross receipts attributable to Vermont.



Vermont Corporate Income Taxation

- Vermont uses the U.S. definition for taxable income for unitary groups within the U.S.
- C-Corps' taxable income is then apportioned to Vermont using a single sales factor.
- Single sales factor is agnostic about where a c-corp is located. The only determining factor in apportionment is the extent to which c-corps sell into the Vermont market.

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

Line 28 from 1120 form



Vermont Corporate Income Taxation

Example 1

	Federal Taxable Income		VT Sales		Vermont Taxable Income
C-Corp A	1,000	x	$\frac{0}{5,000}$	=	0
			U.S. Sales		

Example 2

	Federal Taxable Income		VT Sales		Vermont Taxable Income
C-Corp B	1,000	x	$\frac{5,000}{5,000}$	=	1,000
			U.S. Sales		

Example 3

	Federal Taxable Income		VT Sales		Vermont Taxable Income
C-Corp C	1,000	x	$\frac{2,500}{5,000}$	=	500
			U.S. Sales		

- These calculations are the same regardless of whether a corporation is based in Vermont or any other state.



Corporate Income Taxes

Marginal Tax Rates		
Income Allocable to Vermont		Tax Rate
\$0	\$10,000	6.0%
\$10,000	\$25,000	7.0%
\$25,000	and up	8.5%

Minimum Annual Tax		
Vermont Gross Receipts		Minimum Tax
\$0	\$500,000	\$100
\$500,000	\$1,000,000	\$500
\$1,000,000	\$5,000,000	\$2,000
\$5,000,000	\$300,000,000	\$6,000
\$300,000,000	and up	\$100,000



Corporate Income Tax by the Numbers



Corporate Income Tax Forecast Overview

- The July 2025 consensus forecast estimates corporate income tax revenue will generate \$240.3 million in revenue in FY 2026. This equates to approximately 10% of total forecasted General Fund revenue in FY 2026.
- CI tax revenue was approximately \$272.6 million in FY 2025. The July 2025 forecast represents a decrease of \$30.3 million, or -11.9% from the prior year.

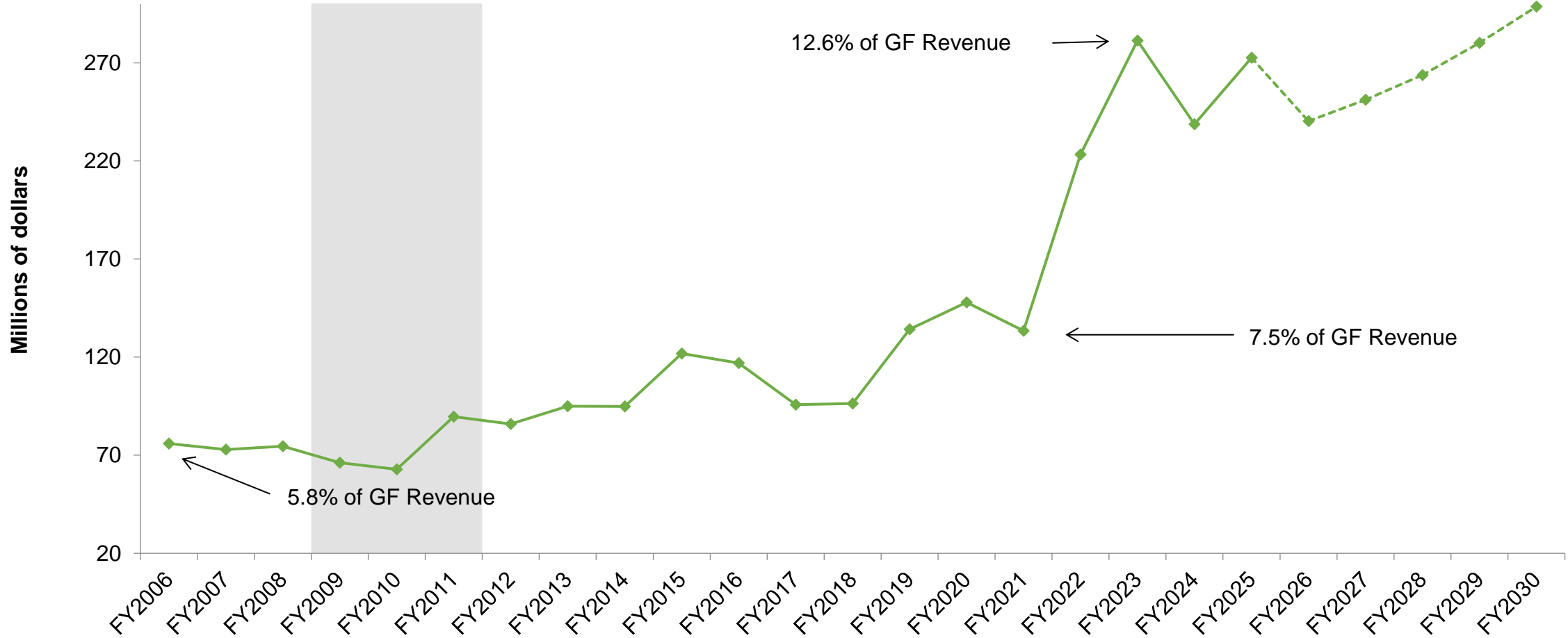


Corporate Income Tax Forecast Overview

- The July 2025 consensus forecast estimated an initial decrease in CIT revenue in FY 2026 relative to the prior year, but moderate growth in future years.
- In the first six months of FY 2026, corporate income tax revenue was below the July consensus forecast by approximately \$24.9 million, or 24.7%.
- CIT revenues are below target largely due to refunding activity in November and December.
 - This is largely due to overpayments in prior years that corporations have opted to receive cash refunds for rather than carry forward to apply towards future liabilities.
- CI revenue is projected to remain about 10% of total General Fund revenue going forward.



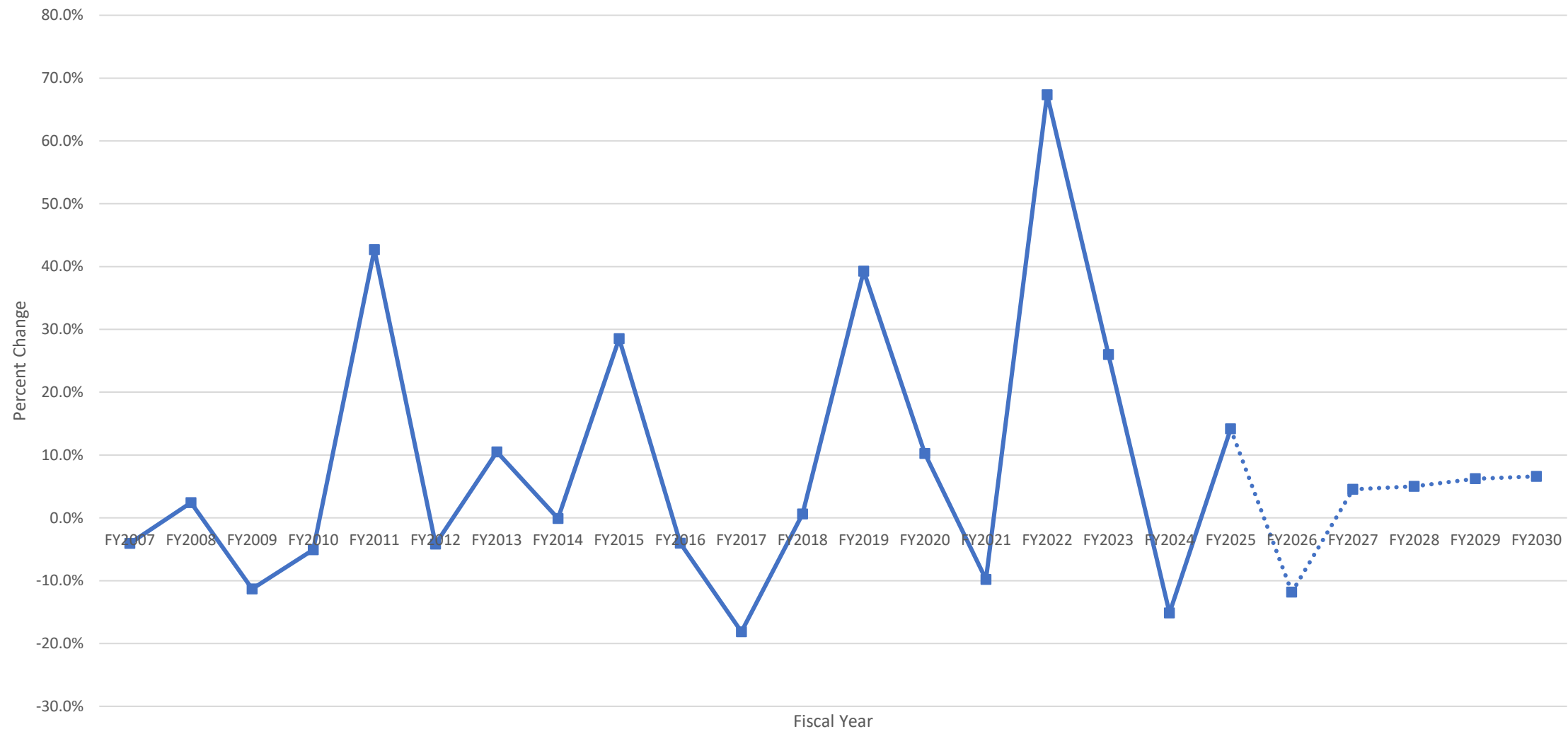
Corporate Income Tax Collections since FY2006 (Not Adjusted for Inflation)



Source: July 2025 Consensus Revenue Forecast



Percent Change in Corporate Income Tax Collections



Source: July 2025 Consensus Revenue Forecast

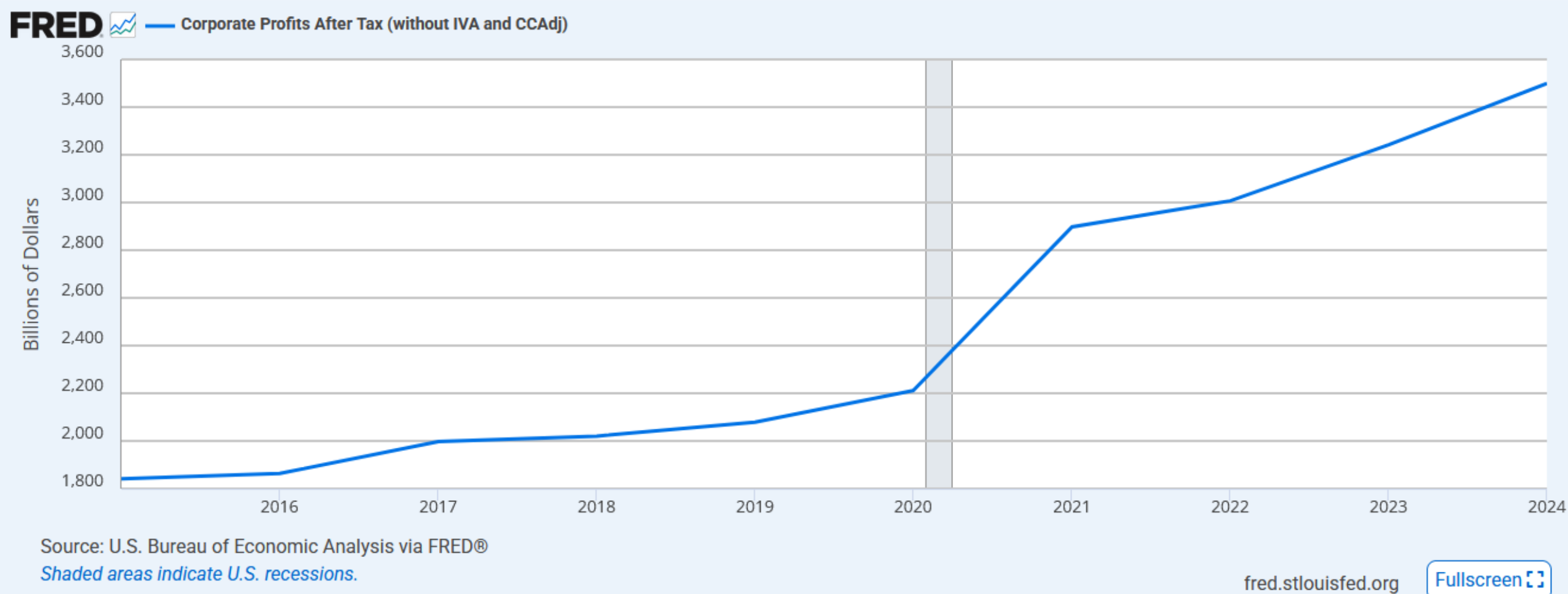


Corporate Income Tax in Other States

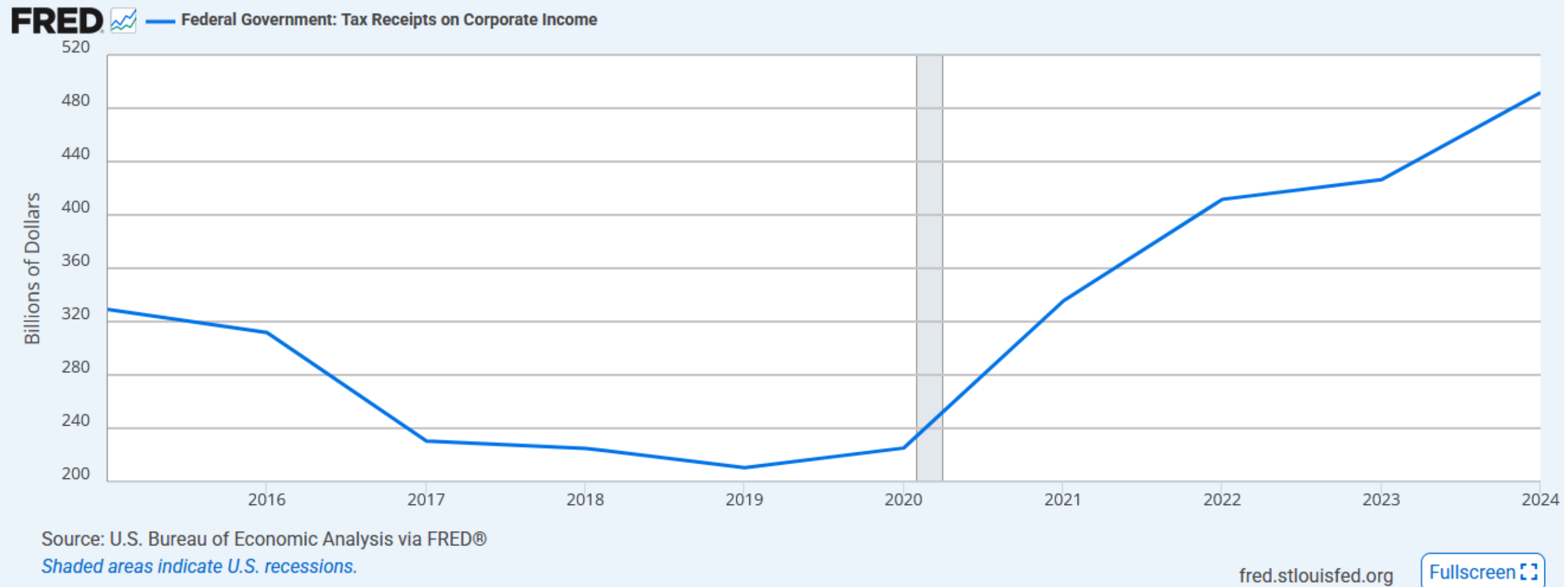
- 44 states have a corporate income tax.
- 15 of these states (including Vermont) have different rates that apply to different income brackets.
- The remainder levy a single tax rate on all levels of corporate income.
- Note that apportionment factors and determination of net income across states differ, so looking at the rate is only part of the story.
- Vermont's current 8.5% top corporate income tax rate starts at \$25,000 of net income.
 - At \$25,000 California (8.84%), Delaware (8.7%), Illinois (9.5%), and Minnesota (9.8%), have higher tax rates at that level.
- <https://taxfoundation.org/data/all/state/state-corporate-income-tax-rates-brackets/>



Corporate Profits - Nationally



Federal Corporate Tax Collections



Recent Vermont Legislation



Recent Corporate Tax Law Changes – Act 148 of 2022

- Repeal of 80/20 language
- Single sales factor
- Joyce to Finnigan Methodology
- Throwback rule repeal
- Minimum Corporate Taxes



Recent Corporate Tax Law Changes – Act 148 of 2022

- **Repeal of 80/20 language:** Previously, if a C-corp had a subsidiary whose primary source of sales came from overseas (defined as 80% of total sales or more), it was excluded from the sales of the parent C-corp. Act 148 repealed that language so that any subsidiary operating in Vermont had to be counted as a member of the unitary group's sales for sales apportionment.
- **Single Sales Factor:** Previously, VT relied on a three-factor apportionment that included a C-corp's payroll, property, and sales to apportion income for VT CIT. Act 148 shifted this to a single factor that apportions income on the basis of sales alone.



Recent Corporate Tax Law Changes – Act 148 of 2022

- **Joyce to Finnigan Methodology:** VT previously used the Joyce methodology which limited a C-corps nexus in VT to only the subsidiaries that have nexus in VT. Under the current Finnigan methodology, if one subsidiary has nexus, then the entire unitary group has nexus. This change impacted the apportionment formula for corporations.
- **Throwback rule repeal:** Previously, if a C-corp sold into a state in which it had no nexus (and therefore no taxability), it was required to count those sales as VT sales for the purpose of their apportionment factor. Act 148 repealed this requirement.



Recent Corporate Tax Law Changes – Act 148 of 2022

- **Minimum Corporate Taxes:** If a C-corp had zero or negative taxable income, it is subject to VT's corporate minimum tax. Act 148 changed the minimum tax schedule that C-corps are subject to.

Minimum Annual Tax		
Vermont Gross Receipts		Minimum Tax
\$0	\$500,000	\$100
\$500,000	\$1,000,000	\$500
\$1,000,000	\$5,000,000	\$2,000
\$5,000,000	\$300,000,000	\$6,000
\$300,000,000	and up	\$100,000



Recent Corporate Tax Law Changes

- The structure of the corporate tax changes effective for tax year 2023 is largely expected to be revenue neutral. Many of the changes represented a modernization of the VT corporate tax code.
- More details can be found in the fiscal note: https://ljfo.vermont.gov/assets/Publications/As-Passed-by-the-General-Assembly/bc8de0f4f0/GENERAL-361032-v5-S_53_Fiscal_Note_2022_Session.pdf

Table 1: Fiscal Impacts of S.53, Committee of Conference (in millions)				
Section	Description	FY2023	FY2024	FY2025
1	Repeal of 80/20 Language	\$0.83	\$2.28	\$2.29
2	Corporate Minimum Tax Changes	\$0.83	\$2.33	\$2.33
3	Change to Single Sales Apportionment Factor	-\$4.01	-\$11.00	-\$11.05
3	Throwback Rule Repeal	-\$0.30	-\$0.85	-\$0.85
5	Joyce to Finnigan Methodology	\$2.65	\$7.27	\$7.30
Overall Fiscal Impact (General Fund)		\$0.00	\$0.02	\$0.02



Questions?

