

Personal & Corporate Income Taxes

Tax Workshop #4

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JFO

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

Personal Income Tax Calculation



Personal Income Tax Starting Point

Form 1040 Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **2022** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing Status Single Married filing jointly Married filing separately (MFS) Head of household (HOH) Qualifying surviving spouse (QSS)
 Check only one box. If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent:

Your first name and middle initial _____ Last name _____ Your social security number _____
 If joint return, spouse's first name and middle initial _____ Last name _____ Spouse's social security number _____

Home address (number and street). If you have a P.O. box, see instructions. _____ Apt. no. _____
 City, town, or post office. If you have a foreign address, also complete spaces below. _____ State _____ ZIP code _____
 Foreign country name _____ Foreign province/state/county _____ Foreign postal code _____
 You Spouse

Digital Assets At any time during 2022, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, gift, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.) Yes No

Standard Deduction **Someone can claim:** You as a dependent Your spouse as a dependent
 Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness You: Were born before January 2, 1958 Are blind **Spouse:** Was born before January 2, 1958 Is blind

Dependents (see instructions):

(1) First name	Last name	(2) Social security number	(3) Relationship to you	(4) Child tax credit	Credit for other dependents
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>

Income

1a Total amount from Form(s) W-2, box 1 (see instructions)	1a
b Household employee wages not reported on Form(s) W-2	1b
c Tip income not reported on line 1a (see instructions)	1c
d Medicaid waiver payments not reported on Form(s) W-2 (see instructions)	1d
e Taxable dependent care benefits from Form 2441, line 26	1e
f Employer-provided adoption benefits from Form 8839, line 29	1f
g Wages from Form 8919, line 6	1g
h Other earned income (see instructions)	1h
i Nontaxable combat pay election (see instructions)	1i
z Add lines 1a through 1h	1z
2a Tax-exempt interest	2a
3a Qualified dividends	3a
4a IRA distributions	4a
5a Pensions and annuities	5a
6a Social security benefits	6a
2b Taxable interest	2b
3b Ordinary dividends	3b
4b Taxable amount	4b
5b Taxable amount	5b
6b Taxable amount	6b
7 Capital gain or (loss). Attach Schedule D if required. If not required, check here	7
8 Other income from Schedule 1, line 10	8
9 Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income	9
10 Adjustments to income from Schedule 1, line 26	10
11 Subtract line 10 from line 9. This is your adjusted gross income	11

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.
 If you did not get a Form W-2, see instructions.

Attach Sch. B if required.

Standard Deduction for:
 • Single or Married filing separately, \$12,950
 • Married filing jointly or Qualifying surviving spouse, \$25,900
 • Head of household, \$14,700



Vermont's Personal Income Tax

From federal
form 1040

Federal adjusted gross income

plus

Additions to adjusted gross income

Bonus depreciation, interest from non-Vermont state and local bonds

minus

Subtractions from adjusted gross income

Standard deduction*

\$7,400 for single filer,
\$14,850 for married filer

Personal exemptions*

\$5,100 for taxpayer,
spouse, and any
dependents

Other subtractions

- Interest income from U.S. bonds
- Capital gains exclusion
- Social Security exemption
- Medical expenses

equals

Vermont taxable income

*Note: Amounts for Tax year 2024; indexed
annually for inflation*



Vermont's Personal Income Tax

Vermont taxable income (VTI)

Multiplied by

Income tax rates at various brackets of income

Single Individuals, Schedule X
Use if your filing status is:
Single

If VT Taxable Income is Over	But Not Over	VT Base Tax is	Plus	of the amount over
0	47,900	0.00	3.35%	0
47,900	75,000	1,605.00	6.60%	47,900
TAXABLE INCOME UNDER \$75,000 USE THE TAX TABLES				
75,000	116,000	3,393.00	6.60%	75,000
116,000	242,000	6,099.00	7.60%	116,000
242,000	-	15,675.00	8.75%	242,000

Married Filing Jointly, Schedule Y-1
Use if your filing status is:

Married Filing Jointly; Qualifying Widow(er); or Civil Union Filing Jointly

If VT Taxable Income is Over	But Not Over	VT Base Tax is	Plus	of the amount over
0	75,000	0.00	3.35%	0
TAXABLE INCOME UNDER \$75,000 USE THE TAX TABLES				
75,000	79,950	2,513.00	3.35%	75,000
79,950	193,300	2,678.00	6.60%	79,950
193,300	294,600	10,159.00	7.60%	193,300
294,600	-	17,858.00	8.75%	294,600

Equals

Initial Vermont Tax Liability (Before Credits)



2024 tax brackets

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2024 Vermont Tax Rate Schedules

Single Individuals, Schedule X

Use if your filing status is:
Single

If VT Taxable Income is Over	But Not Over	VT Base Tax is	Plus	of the amount over
0	47,900	0.00	3.35%	0
47,900	75,000	1,605.00	6.60%	47,900
TAXABLE INCOME UNDER \$75,000 USE THE TAX TABLES				
75,000	116,000	3,393.00	6.60%	75,000
116,000	242,000	6,099.00	7.60%	116,000
242,000	-	15,675.00	8.75%	242,000

Married Filing Separately, Schedule Y-2

Use if your filing status is:
Married Filing Separately; or Civil Union Filing Separately

If VT Taxable Income is Over	But Not Over	VT Base Tax is	Plus	of the amount over
0	39,975	0.00	3.35%	0
39,975	75,000	1,339.00	6.60%	39,975
TAXABLE INCOME UNDER \$75,000 USE THE TAX TABLES				
75,000	96,650	3,651.00	6.60%	75,000
96,650	147,300	5,080.00	7.60%	96,650
147,300	-	8,929.00	8.75%	147,300

Married Filing Jointly, Schedule Y-1

Use if your filing status is:
Married Filing Jointly; Qualifying Widow(er); or Civil Union Filing Jointly

If VT Taxable Income is Over	But Not Over	VT Base Tax is	Plus	of the amount over
0	75,000	0.00	3.35%	0
TAXABLE INCOME UNDER \$75,000 USE THE TAX TABLES				
75,000	79,950	2,513.00	3.35%	75,000
79,950	193,300	2,678.00	6.60%	79,950
193,300	294,600	10,159.00	7.60%	193,300
294,600	-	17,858.00	8.75%	294,600

Heads of Household, Schedule Z

Use if your filing status is:
Head of Household

If VT Taxable Income is Over	But Not Over	VT Base Tax is	Plus	of the amount over
0	64,200	0.00	3.35%	0
64,200	75,000	2,151.00	6.60%	64,200
TAXABLE INCOME UNDER \$75,000 USE THE TAX TABLES				
75,000	165,700	2,864.00	6.60%	75,000
165,700	268,300	8,850.00	7.60%	165,700
268,300	-	16,647.00	8.75%	268,300



Vermont's Personal Income Tax

Initial Vermont Tax Liability (Before Credits)

minus

Non-Refundable Credits

Credit for elderly and disabled, investment tax credit,
Charitable Tax Credit

minus

Refundable Credits

Earned Income Tax Credit, Child Tax Credit

Multiplied by

Vermont Apportionment Percentage

The percentage of income based in Vermont

Equals

Final Vermont Tax Liability (or Refund)



Deductions, Exemptions and Credits

- **Exemptions and Deductions:** reduce the amount of a taxpayer's income that is subject to tax, generally reducing the amount of tax the individual may have to pay.
- **Credits:** a dollar-for-dollar amount taxpayers claim on their tax return to reduce the income tax they owe.
 - There are two types:
 - **Refundable** credits mean that if a taxpayer's tax bill is less than the amount of a credit, they can get the difference back in their refund.
 - Example: if a taxpayer's liability is \$100 and they receive a \$200 refundable credit, their tax liability goes to \$0 and they receive \$100 in the form of a refund.
 - **Nonrefundable** credits mean that once a taxpayer's liability is zero, the taxpayer won't get any leftover amount back as a refund.
 - Example: if a taxpayer's liability is \$100 and they receive a \$200 nonrefundable credit, their tax liability goes to \$0 and they do not receive any payment in the form of a refund.



Vermont Deductions, Exemptions & Credits

Exemptions and Deductions

- Standard Deduction
- Personal Exemption
- Municipal Bond Income
- Capital Gains Exclusion
- Social Security Exemption
- Medical Deduction
- Military Pay
- Qualified Bond Interest Income

Credits

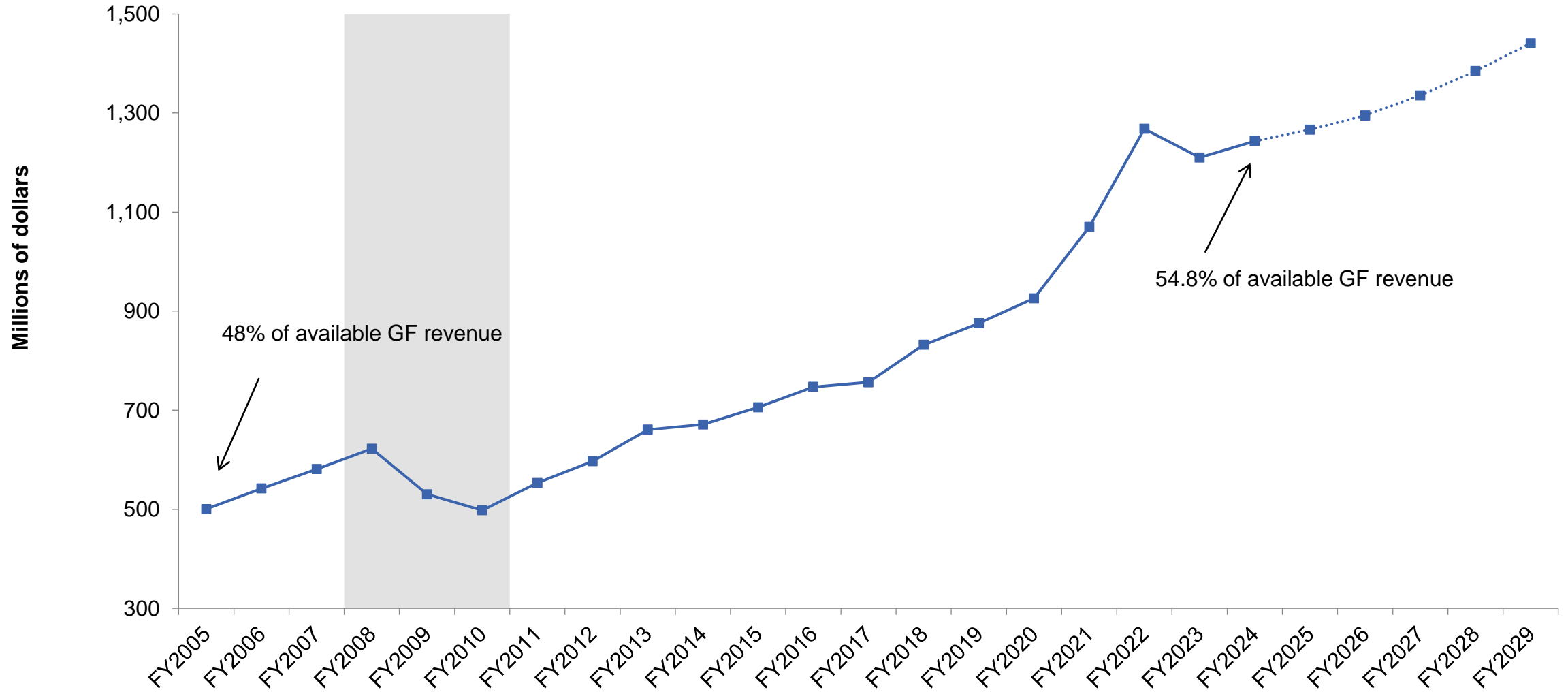
- Child and Dependent Care Credit
- Elderly or Disabled Credit
- Investment Tax Credit
- Farm Income Averaging Credit
- Charitable Contribution Tax Credit
- Charitable Housing Credit
- Affordable Housing Credit
- Qualified Sale of Mobile Home Park Credit
- Higher Education Investment Credit
- Entrepreneurs' Seed Capital Fund Credit
- Historical Rehabilitation Tax Credit
- Façade Improvement Tax Credit
- Code Improvement Tax Credit
- Research and Development Tax Credit
- Child Tax Credit
- Earned Income Tax Credit



Personal Income Tax By the Numbers



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



Source: July 2024 Consensus Revenue Forecast



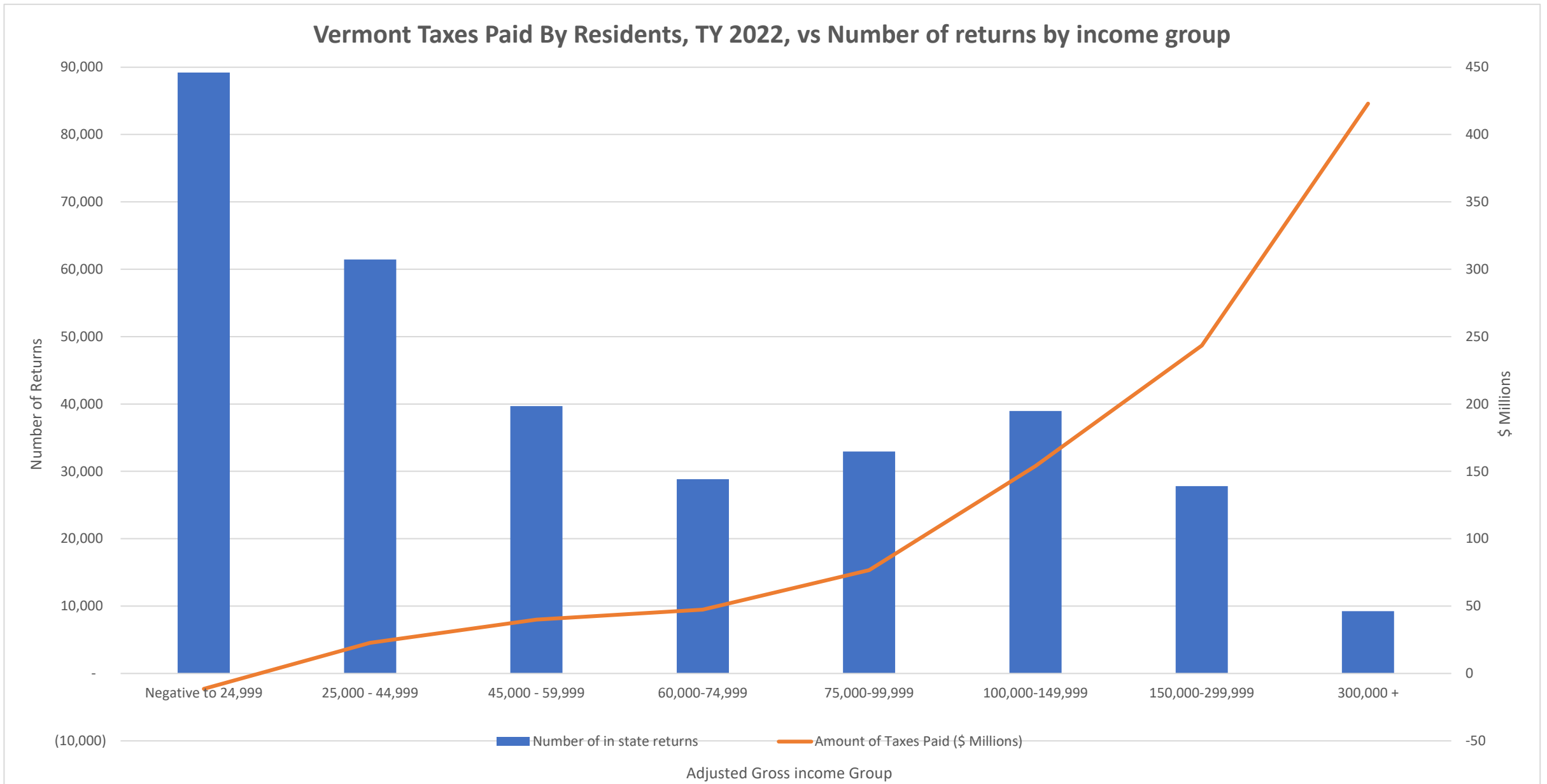
2022 Personal Income Tax Receipts

AGI income bracket	Number of state returns	in % of total	Amount of taxes paid (\$ Millions)	% of total
Negative to 24,999	89,206	27%	-11.40	-1%
25,000 - 44,999	61,461	19%	22.68	2%
45,000 - 59,999	39,688	12%	39.93	4%
60,000-74,999	28,825	9%	47.35	5%
75,000-99,999	32,932	10%	76.65	8%
100,000-149,999	38,964	12%	153.88	15%
150,000-299,999	27,793	8%	243.43	24%
300,000 +	9,232	3%	422.93	42%
Total	328,101		995.45	

Note: In 2022 there were 53,890 out of state returns providing \$106.88M in PI receipts



Vermont Taxes Paid By Residents, TY 2022, vs Number of returns by income group



Source: Dept of Taxes



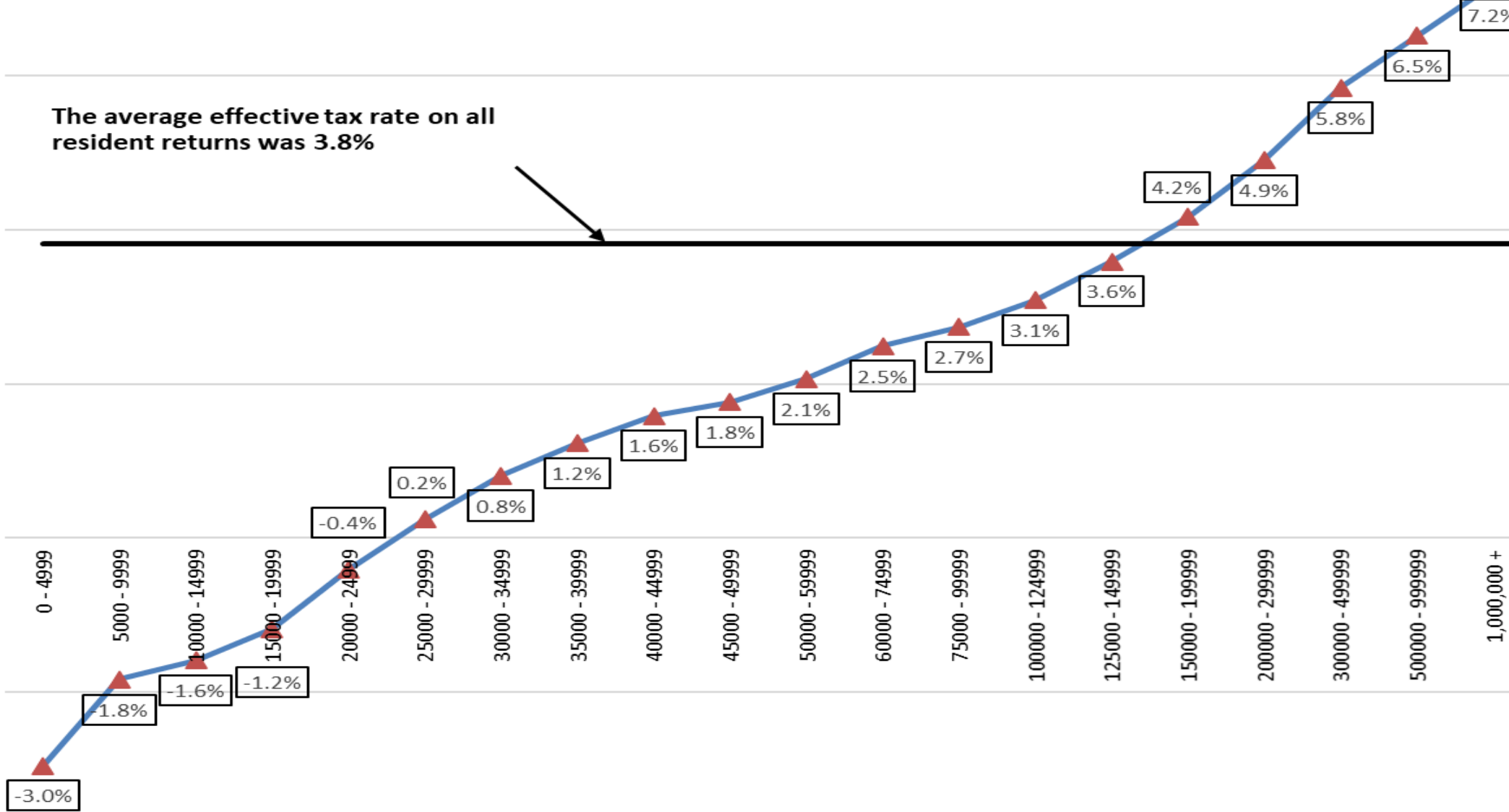
2022 Vermont Resident Effective Personal Income Tax Rate (Net Vermont Tax Divided by Vermont Adjusted Gross Income)

Effective Tax Rate

8.0%
6.0%
4.0%
2.0%
0.0%
-2.0%
-4.0%

The average effective tax rate on all resident returns was 3.8%

0 - 4999
5000 - 9999
10000 - 14999
15000 - 19999
20000 - 24999
25000 - 29999
30000 - 34999
35000 - 39999
40000 - 44999
45000 - 49999
50000 - 59999
60000 - 74999
75000 - 99999
100000 - 124999
125000 - 149999
150000 - 199999
200000 - 299999
300000 - 499999
500000 - 999999
1,000,000 +



State by State Comparison of State Top Marginal Personal Income Tax Rates

VT Income Tax Rate Schedules (2024)

Married Filing Jointly, Schedule Y-1

Use if your filing status is:

Married Filing Jointly; Qualifying Widow(er); or Civil Union Filing Jointly

If VT Taxable Income is Over	But Not Over	VT Base Tax is	Plus	of the amount over
0	75,000	0.00	3.35%	0
TAXABLE INCOME UNDER \$75,000 USE THE TAX TABLES				
75,000	79,950	2,513.00	3.35%	75,000
79,950	193,300	2,678.00	6.60%	79,950
193,300	294,600	10,159.00	7.60%	193,300
294,600	-	17,858.00	8.75%	294,600

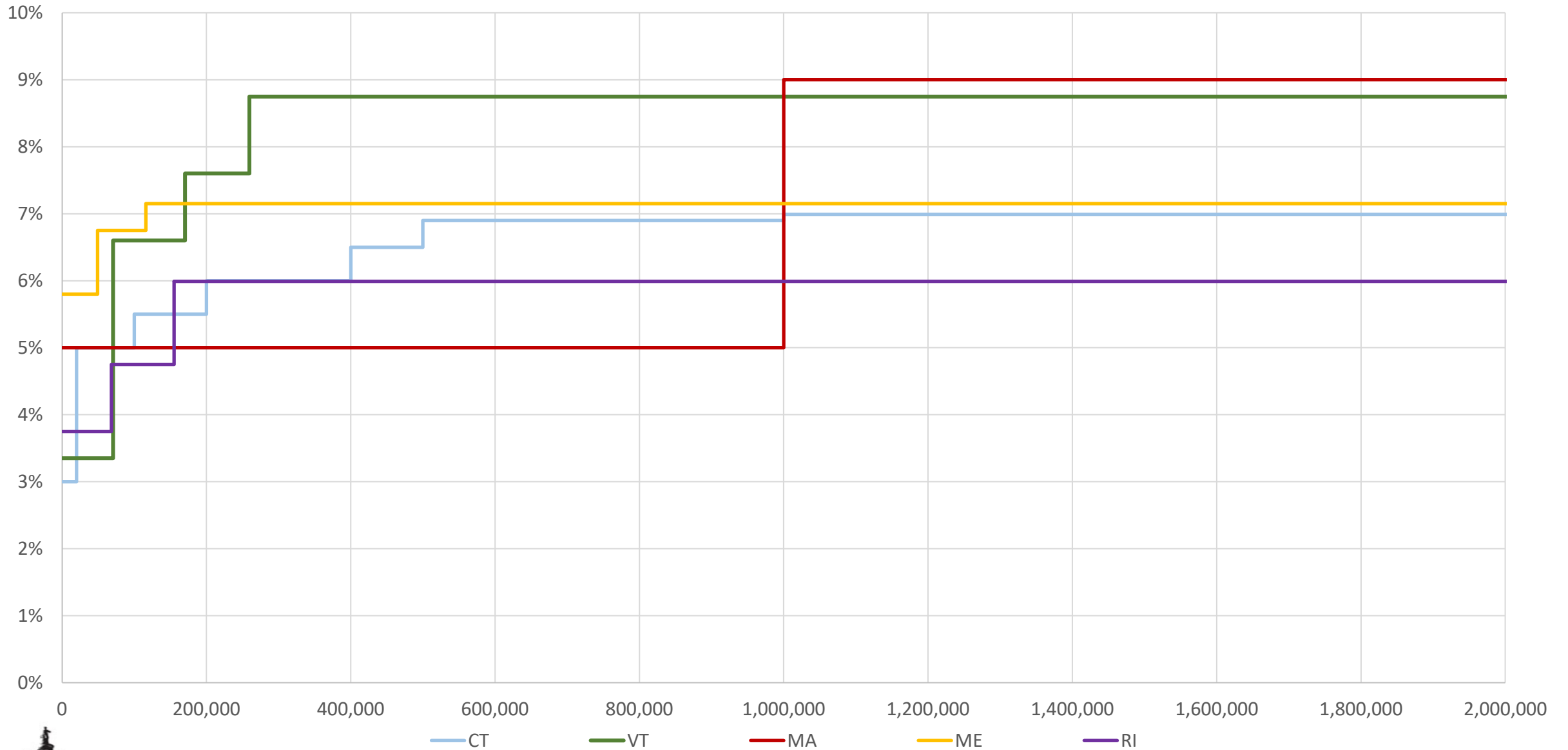
Top Marginal Tax Rate Comparison - Married Filing Jointly NE States - Tax Year 2024

State	Top Rate %	On Taxable Income (\$) Above:
Vermont	8.75	294,600
Connecticut	6.99	1,000,000
Maine	7.15	123,250
Massachusetts	9.00	1,053,750
New York	10.90	25,000,000
Rhode Island	5.99	176,050

Note: New Hampshire does not tax individual's earned income (W-2 wages). The state currently taxes income from dividends and interest but is scheduled to repeal that tax beginning in 2025.



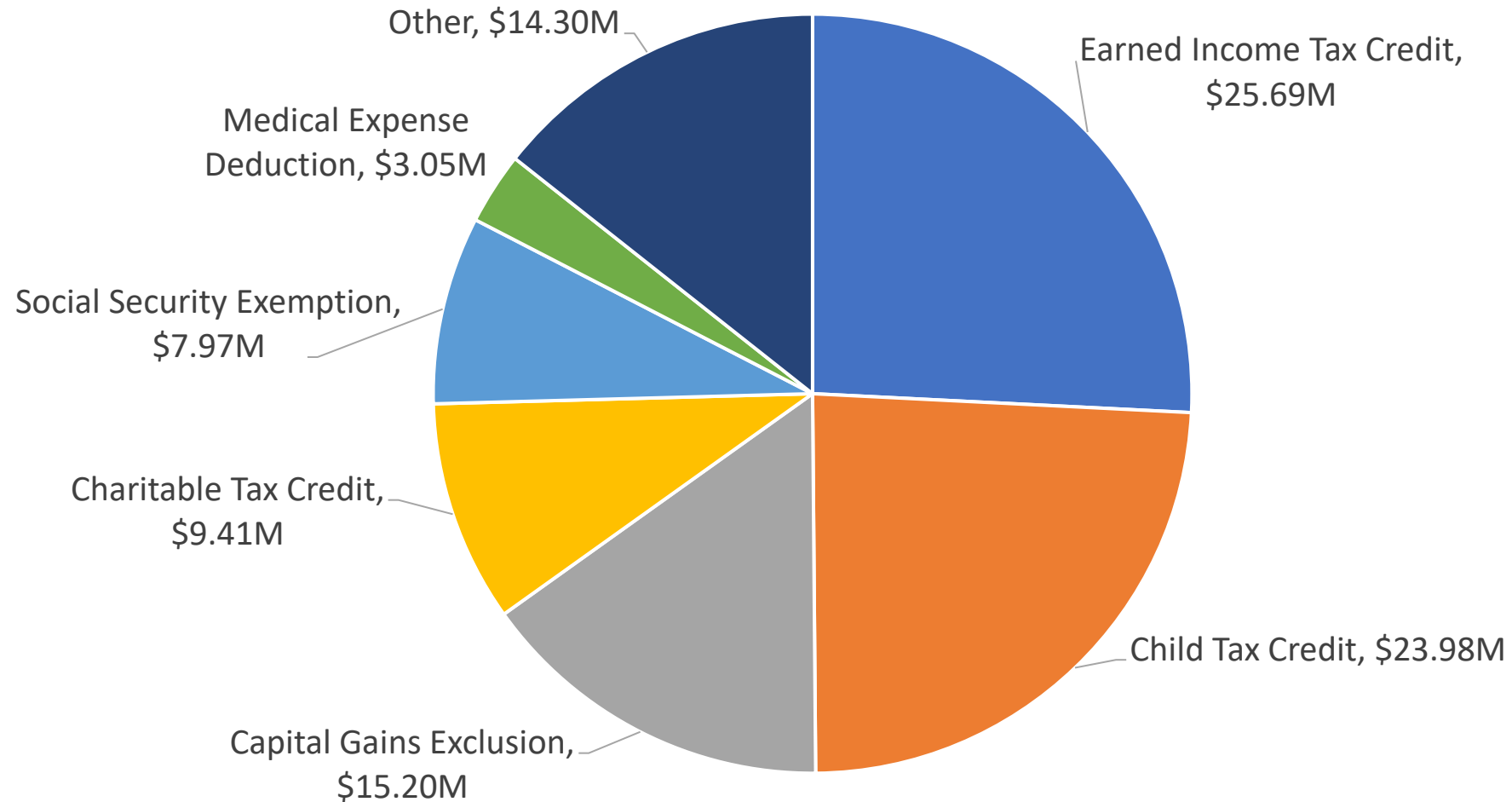
New England States and Vermont Proposed Marginal Income Tax Rates; Married Filing Jointly, Tax Year 2023



Source: JFO analysis by Joyce Manchester, intended to be illustrative only; not adjusted for differences in standard deduction, exemptions, credits, and the like. January 2024.

FY2024 Personal Income Tax Expenditures: \$99.6 million

(does not contain VT Standard Deduction or Personal Exemptions)



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:
 - 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.



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.

$$\text{U.S. Federal Taxable Income (with adjustments)} \times \frac{\text{VT Sales}}{\text{U.S. Sales}} \times \text{Tax Rate} = \text{Tax}$$

of unitary group within U.S.



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

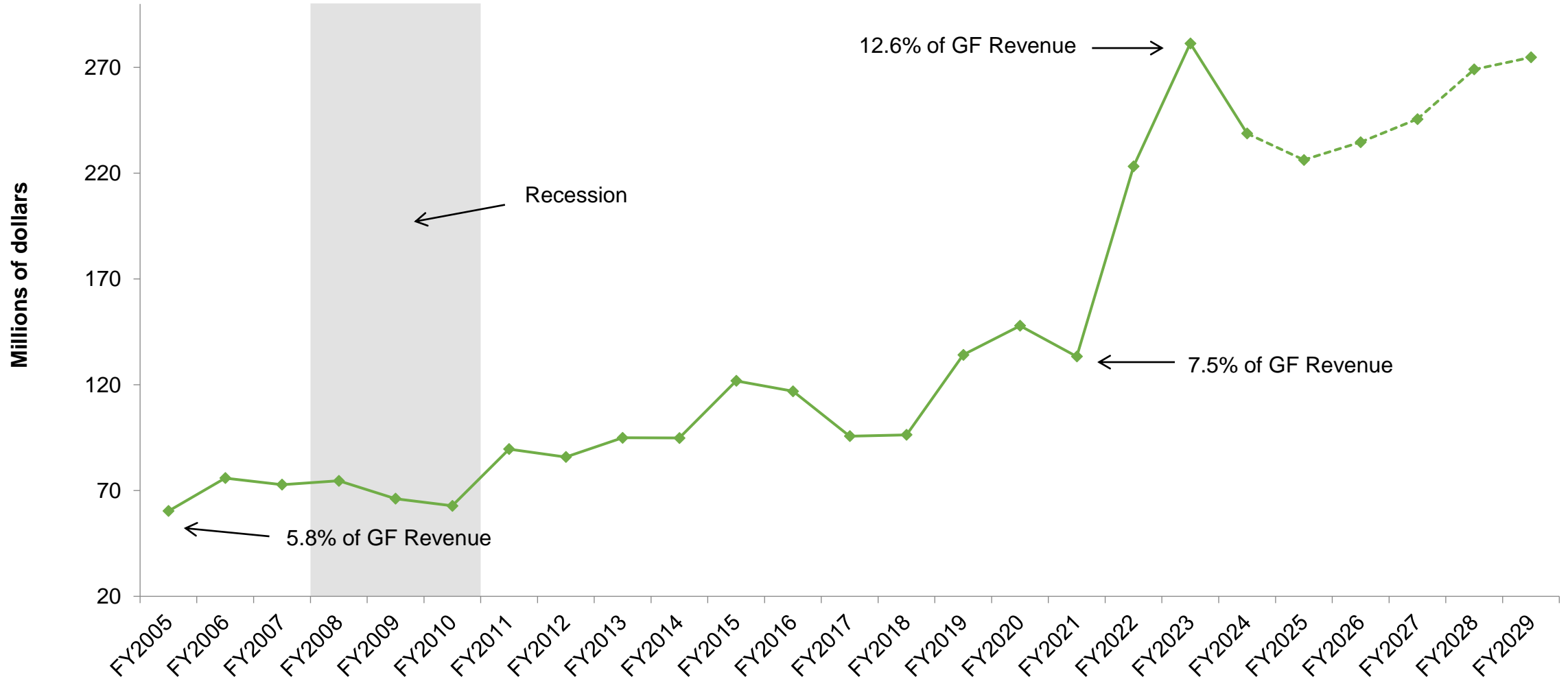


Corporate Income Tax Forecast Overview

- The January 2025 consensus forecast estimates corporate income tax revenue will generate \$259.3 million in revenue in FY 2025. This equates to approximately 10% of total forecasted General Fund revenue in FY 2025.
- CI tax revenue was approximately \$238.8 million in FY 2024. The July 2024 forecast represents a increase of \$20.5 million, or 8.5% from the prior year.
- CI revenue is projected to remain about 11% of total General Fund revenue going forward.



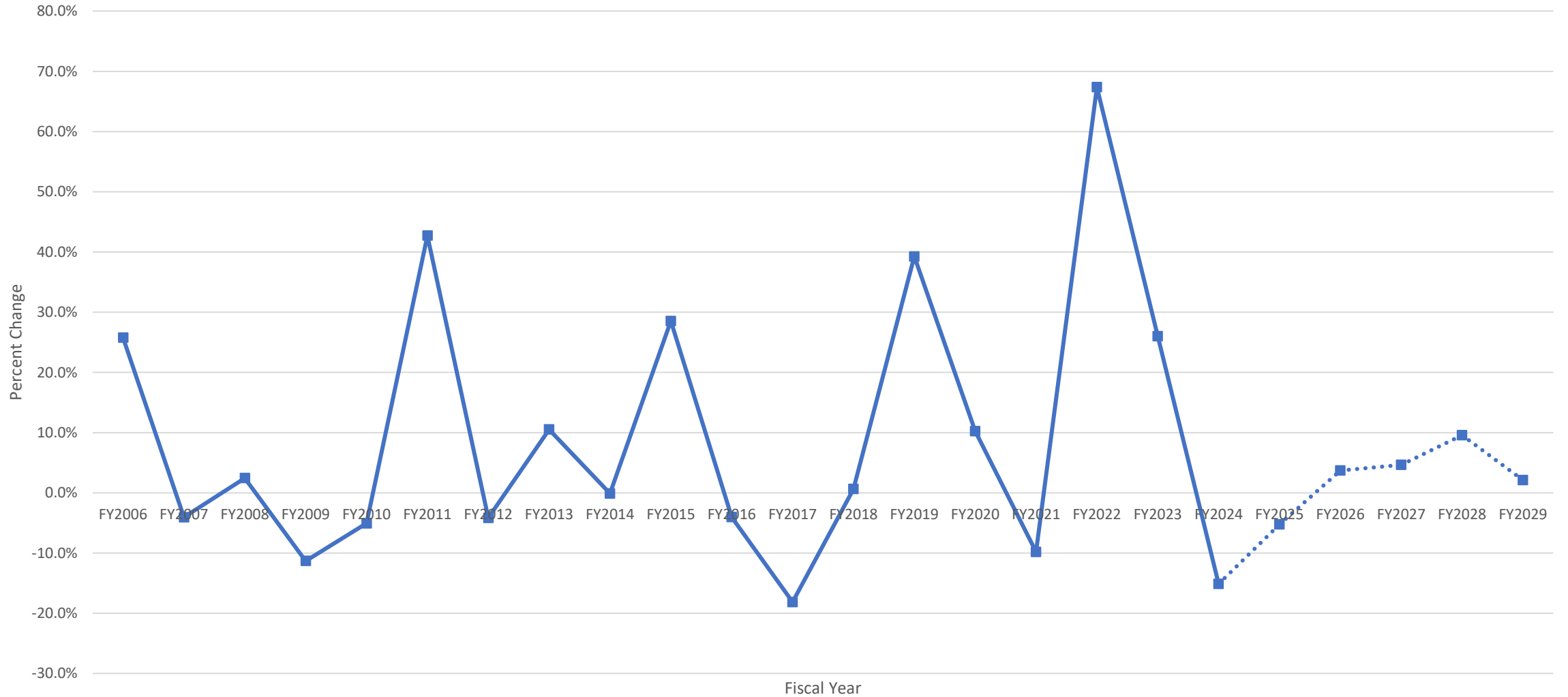
Corporate Income Tax Collections since FY2005 (Not Adjusted for Inflation)



Source: July 2024 Consensus Revenue Forecast



Percent Change in Corporate Income Tax Collections (not adjusted for inflation)



Source: July 2024 Consensus Revenue Forecast

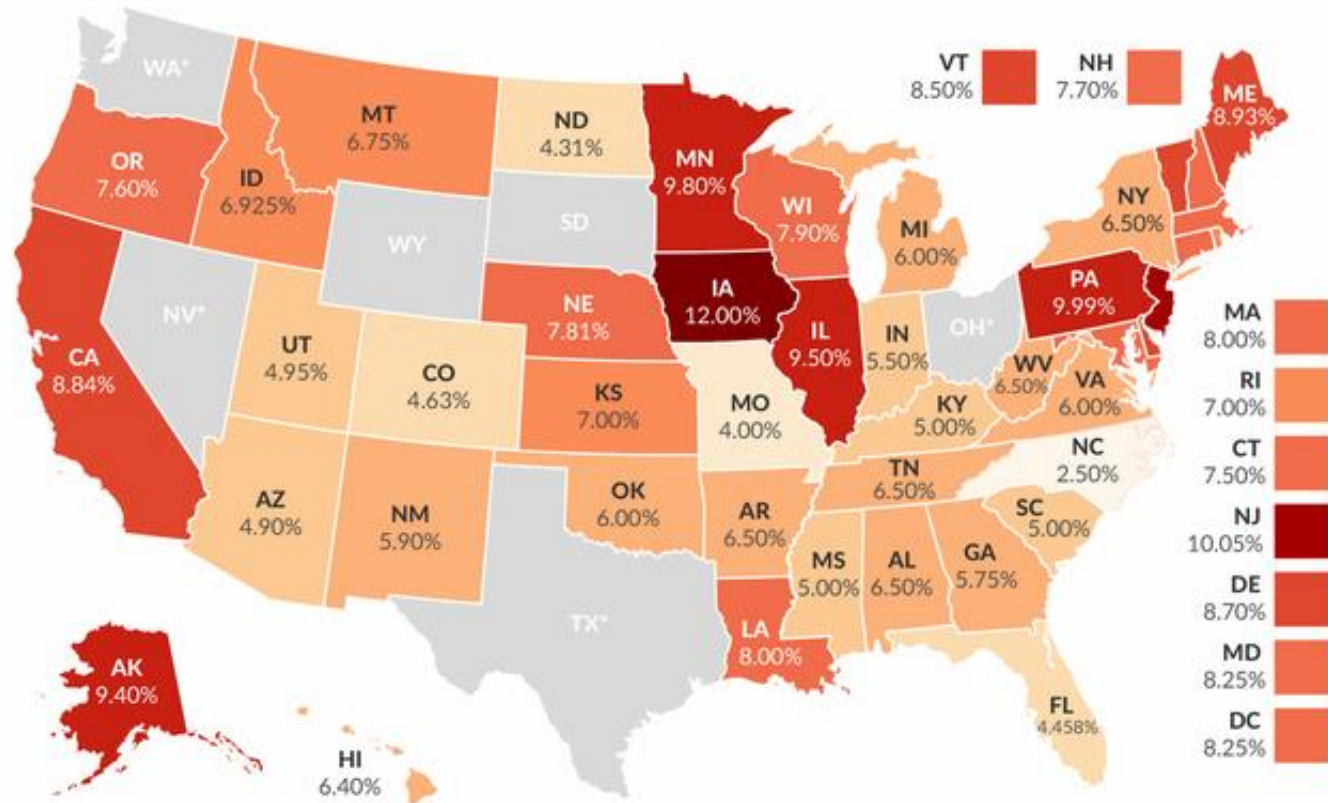


Corporate Income Tax in Other States

- 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%), Minnesota (9.8%), and Pennsylvania (8.9%) have higher tax rates at that level.
- <https://taxfoundation.org/data/all/state/state-corporate-income-tax-rates-brackets-2023/>

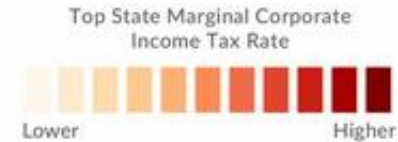


Top Marginal Corporate Income Tax Rates as of January 1, 2020



Note: (*) Nevada, Ohio, Texas, and Washington do not have a corporate income tax but do have a gross receipts tax with rates not strictly comparable to corporate income tax rates. Delaware and Oregon have gross receipts taxes in addition to corporate income taxes, as do several states like Pennsylvania, Virginia, and West Virginia, which permit gross receipts taxes at the local (but not state) level. Florida's corporate income tax rate will return to 5.5% for tax years beginning on or after Jan. 1, 2022. Georgia's corporate income tax rate will revert to 6% on January 1, 2026. The state could see a drop to 5.5% in 2020, pending legislative approval. Illinois' rate includes two separate corporate income taxes, one at a 7% rate and one at a 2.5% rate. Indiana's rate will change to 5.25% on July 1, 2020. The rate is scheduled to decrease to 4.9% by 2022. Mississippi continues to phase out the 3 percent bracket by increasing the exemption by \$1,000 a year. This year, the exemption is \$3,000. By the start of 2022, the 3 percent bracket will be fully eliminated. New Hampshire's rate is 7.9% for tax periods ending before Dec. 31, 2019. In New Jersey, the rates indicated apply to a corporation's entire net income rather than just income over the threshold. A temporary surcharge is in effect, bringing the rate to 10.5 percent for businesses with income over \$1 million. In addition to regular income taxes, many states impose other taxes on corporations such as gross receipts taxes and franchise taxes. Some states also impose an alternative minimum tax and special rates on financial institutions.

Sources: Tax Foundation; state tax statutes, forms, and instructions; Bloomberg Tax



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-corp's 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?

