

Miscellaneous Tax Bill – Revenue Provisions

Senate Committee on Finance

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Outline of talk

- How do federal tax changes flow through to Vermont?
- HR1 changes that would flow through with regular conformity
- Proposed income tax changes in MTB



How do federal tax changes flow to Vermont?



Personal Income Tax Starting Point

Income 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.	1a	Total amount from Form(s) W-2, box 1 (see instructions)			1a			
	1b	Household employee wages not reported on Form(s) W-2			1b			
	1c	Tip income not reported on line 1a (see instructions)			1c			
	1d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)			1d			
	1e	Taxable dependent care benefits from Form 2441, line 26			1e			
	1f	Employer-provided adoption benefits from Form 8839, line 31			1f			
	1g	Wages from Form 8919, line 6			1g			
	1h	Other earned income (see instructions). Enter type and amount: _____			1h			
	1i	Nontaxable combat pay election (see instructions)		1i				
	1z	Add lines 1a through 1h			1z			
	Attach Sch. B if required.	2a	2a		b	Taxable interest	2b	
		3a	3a		b	Ordinary dividends	3b	
		c		Check if your child's dividends are included in		1	<input type="checkbox"/> Line 3a	2
4a		4a		b	Taxable amount	4b		
c		Check if (see instructions)		1	<input type="checkbox"/> Rollover	2	<input type="checkbox"/> QCD	
5a		5a		b	Taxable amount	5b		
c		Check if (see instructions)		1	<input type="checkbox"/> Rollover	2	<input type="checkbox"/> PSO	
6a		6a		b	Taxable amount	6b		
c		If you elect to use the lump-sum election method, check here (see instructions)					<input type="checkbox"/>	
d		If you are married filing separately and lived apart from your spouse the entire year (see inst.), check here					<input type="checkbox"/>	
7a	Capital gain or (loss). Attach Schedule D if required			7a				
b		Check if: <input type="checkbox"/> Schedule D not required <input type="checkbox"/> Includes child's capital gain or (loss)						
8	Additional income from Schedule 1, line 10			8				
9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7a, and 8. This is your total income			9				
10	Adjustments to income from Schedule 1, line 26			10				
11a	Subtract line 10 from line 9. This is your adjusted gross income			11a				

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2025) Created 9/5/25

- The federal form 1040 includes the calculation of income that adds up to Adjusted Gross Income (AGI).
- Line 11a is the starting point for Vermont Tax returns so any changes above that line *do* flow through to Vermont.
- Any other changes further down the form are “below the line” and *do not* flow through to Vermont.



Below the line new federal deductions

Form 1040 (2025) Page 2

Tax and Credits	11b Amount from line 11a (adjusted gross income)	11b
	12a Someone can claim <input type="checkbox"/> You as a dependent <input type="checkbox"/> Your spouse as a dependent	
	b <input type="checkbox"/> Spouse itemizes on a separate return c <input type="checkbox"/> You were a dual-status alien	
	d You: <input type="checkbox"/> Were born before January 2, 1961 <input type="checkbox"/> Are blind	
	Spouse: <input type="checkbox"/> Was born before January 2, 1961 <input type="checkbox"/> Is blind	
	e Standard deduction or itemized deductions (from Schedule A)	12e
	13a Qualified business income deduction from Form 8995 or Form 8995-A	13a
	b Additional deductions from Schedule 1-A, line 38	13b
	14 Add lines 12e, 13a, and 13b	14
	15 Subtract line 14 from line 11b. If zero or less, enter -0-. This is your taxable income	15
	16 Tax (see instructions). Check if any from Form(s): 1 <input type="checkbox"/> 8814 2 <input type="checkbox"/> 4972 3 <input type="checkbox"/>	16
	17 Amount from Schedule 2, line 3	17
	18 Add lines 16 and 17	18
	19 Child tax credit or credit for other dependents from Schedule 8812	19
	20 Amount from Schedule 3, line 8	20
	21 Add lines 19 and 20	21
	22 Subtract line 21 from line 18. If zero or less, enter -0-	22
	23 Other taxes, including self-employment tax, from Schedule 2, line 21	23
	24 Add lines 22 and 23. This is your total tax	24

Standard deduction for—

- Single or Married filing separately, \$15,750
- Married filing jointly or Qualifying surviving spouse, \$31,500
- Head of household, \$23,625
- If you checked a box on line 12a, 12b, 12c, or 12d, see inst.

- Schedule 1-A includes the new deductions for:
 - tipped income,
 - overtime pay,
 - car loan interest, and
 - enhanced deduction for seniors.
- These changes are “below the line” meaning they occur after the starting point for Vermont personal income taxes.



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*

\$5,300 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 2025; 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	49,400	0.00	3.35%	0
49,400	75,000	1,655.00	6.60%	49,400
TAXABLE INCOME UNDER \$75,000 USE THE TAX TABLES				
75,000	119,700	3,345.00	6.60%	75,000
119,700	249,700	6,295.00	7.60%	119,700
249,700	-	16,175.00	8.75%	249,700

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	82,500	2,513.00	3.35%	75,000
82,500	199,450	2,764.00	6.60%	82,500
199,450	304,000	10,482.00	7.60%	199,450
304,000	-	18,428.00	8.75%	304,000

Equals

Initial Vermont Tax Liability (Before Credits)



2025 tax brackets

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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, Child and Dependent Care Credit



Federal changes to the
CDCC show up here

Multiplied by

Vermont Apportionment Percentage

The percentage of income based in Vermont

Equals

Final Vermont Tax Liability (or Refund)



IRS Form 1120 – Corporate Income Tax Starting Point

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 – Corporate Income Tax Starting Point

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.



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



HR1 Changes that would 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



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 \$1 million (\$4 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.



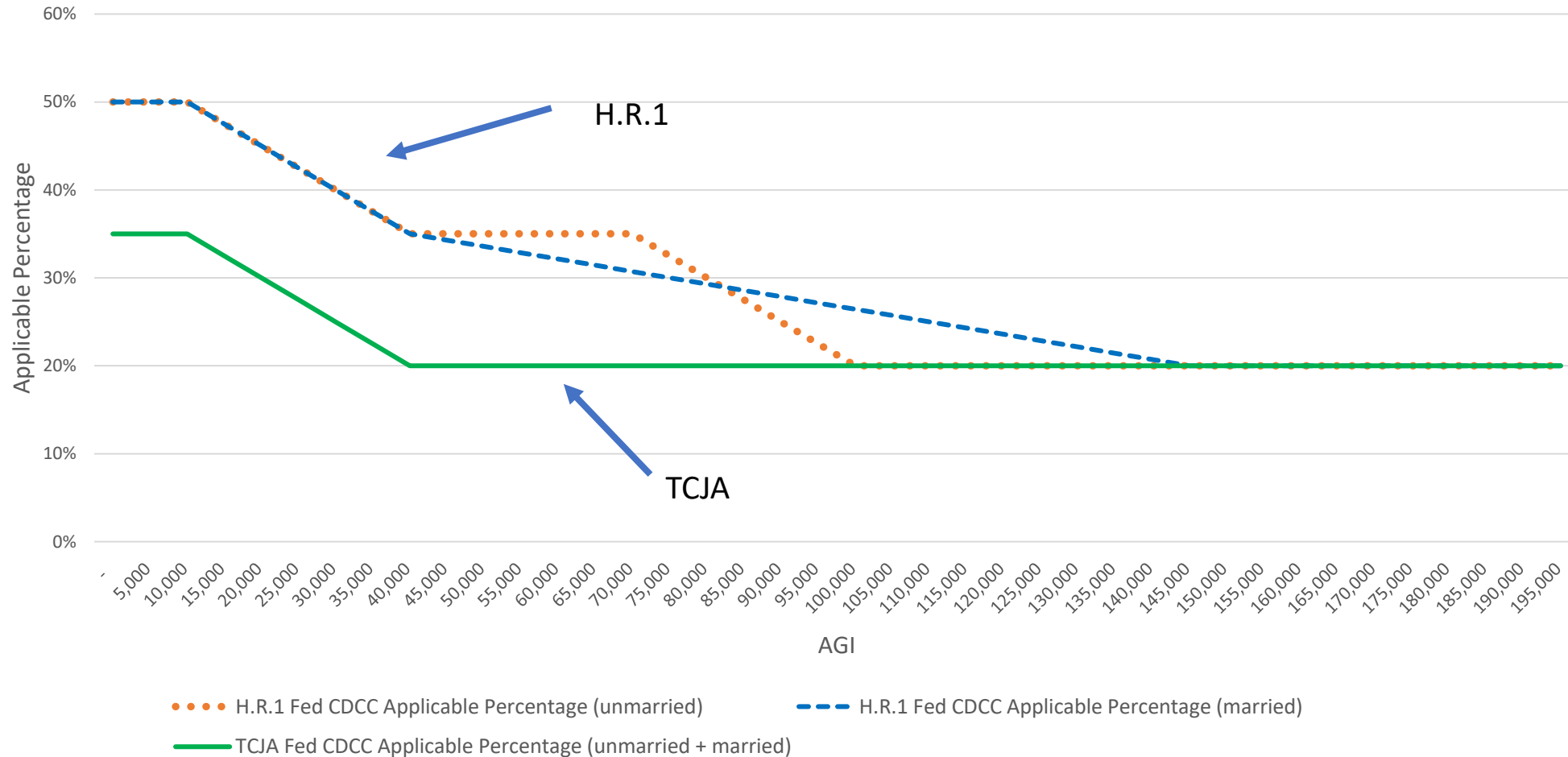
Federal changes to Child and Dependent Care Credit (CDCC)

- 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 but would allow the Vermont Capital Gains Exclusion to apply.



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.



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 \$1M		-	-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



Net Estimated Changes to State Revenue

Table 1: Summary of Fiscal Impacts of the Bill (\$ millions)

Section	Fund	Provision	FY 2026	FY 2027	FY 2028
17	General Fund	Increase Down Payment Assistance Program Tax Credits		(0.35)	(0.70)
54	General Fund	Vermont 10-Year Tax Study Appropriation		(0.10)	
55, 60, 61	General Fund	Linking and Decoupling to Federal Tax Provisions	(3.96)	15.33	16.61
58	General Fund	Increase Research and Development Tax Credit			(1.74)
59	General Fund	Expansion of Downtown and Village Center Tax Credit		(1.00)	(1.00)
62-63	Transportation Fund	P&U increase (from 66.7% to 73%)		9.90	10.10
	Education Fund	Net of P&U decrease (from 33.3% to 27%) and M&R increase (from 25% to 29%)		0.90	1.00
	General Fund	M&R decrease (from 69% to 65%)		(10.80)	(11.10)
Net Fiscal Impacts of the Bill					
	General Fund		(3.96)	3.08	2.07
	Education Fund			0.90	1.00
	Transportation Fund			9.90	10.10

Note: Across fiscal years 2026 and 2027, the net impact of the bill is -\$880,000 to the General Fund.



Questions?

