

Corporate Income Tax Overview

House Committee on Ways and Means

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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. Net income below \$10,000 is taxed at 6% and 7% up to \$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

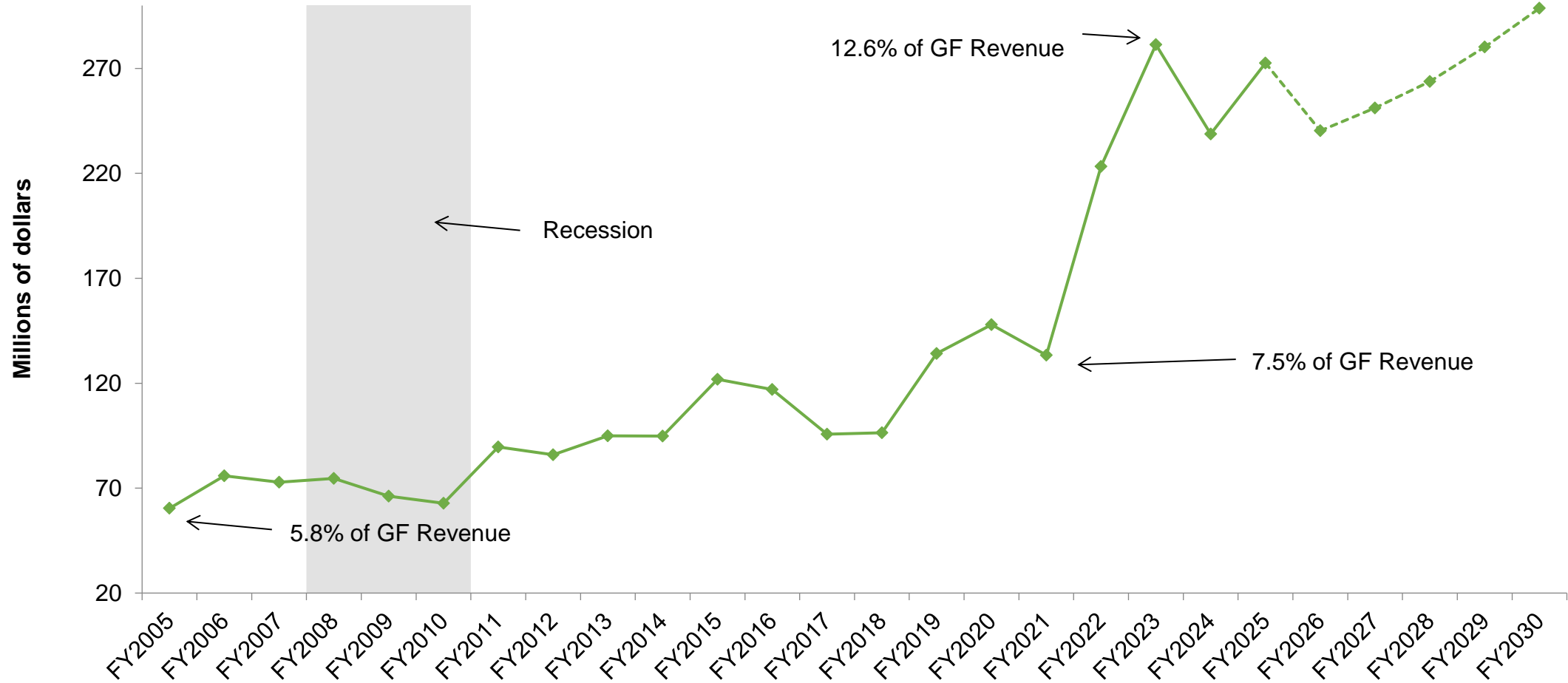


Corporate Income Tax Forecast Overview

- The 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 \$32.3 million, or approximately 12% from the prior year.



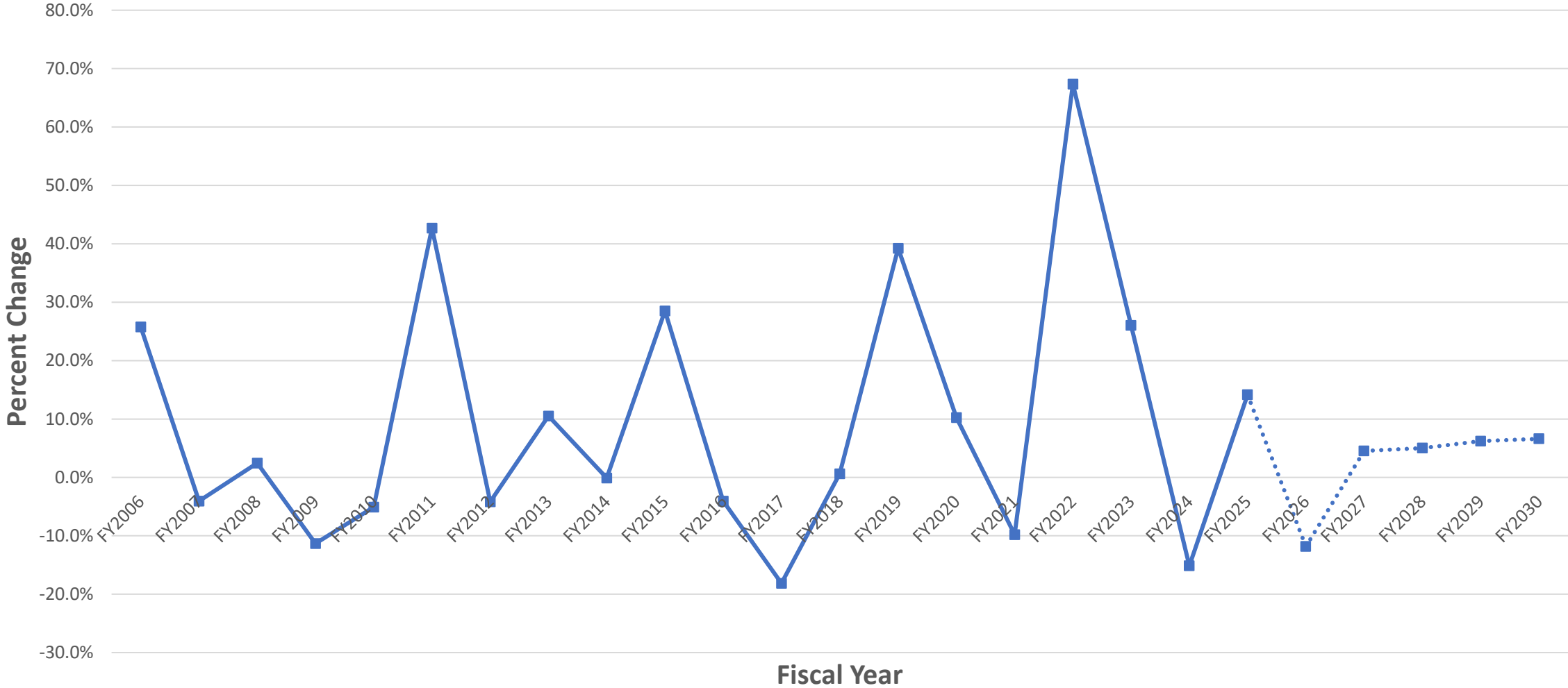
Corporate Income Tax Collections since FY2005 (Not Adjusted for Inflation)



Source: July 2025 Consensus Revenue Forecast



Percent Change in Corporate Income Tax Collections



Source: July 2025 Consensus Revenue Forecast



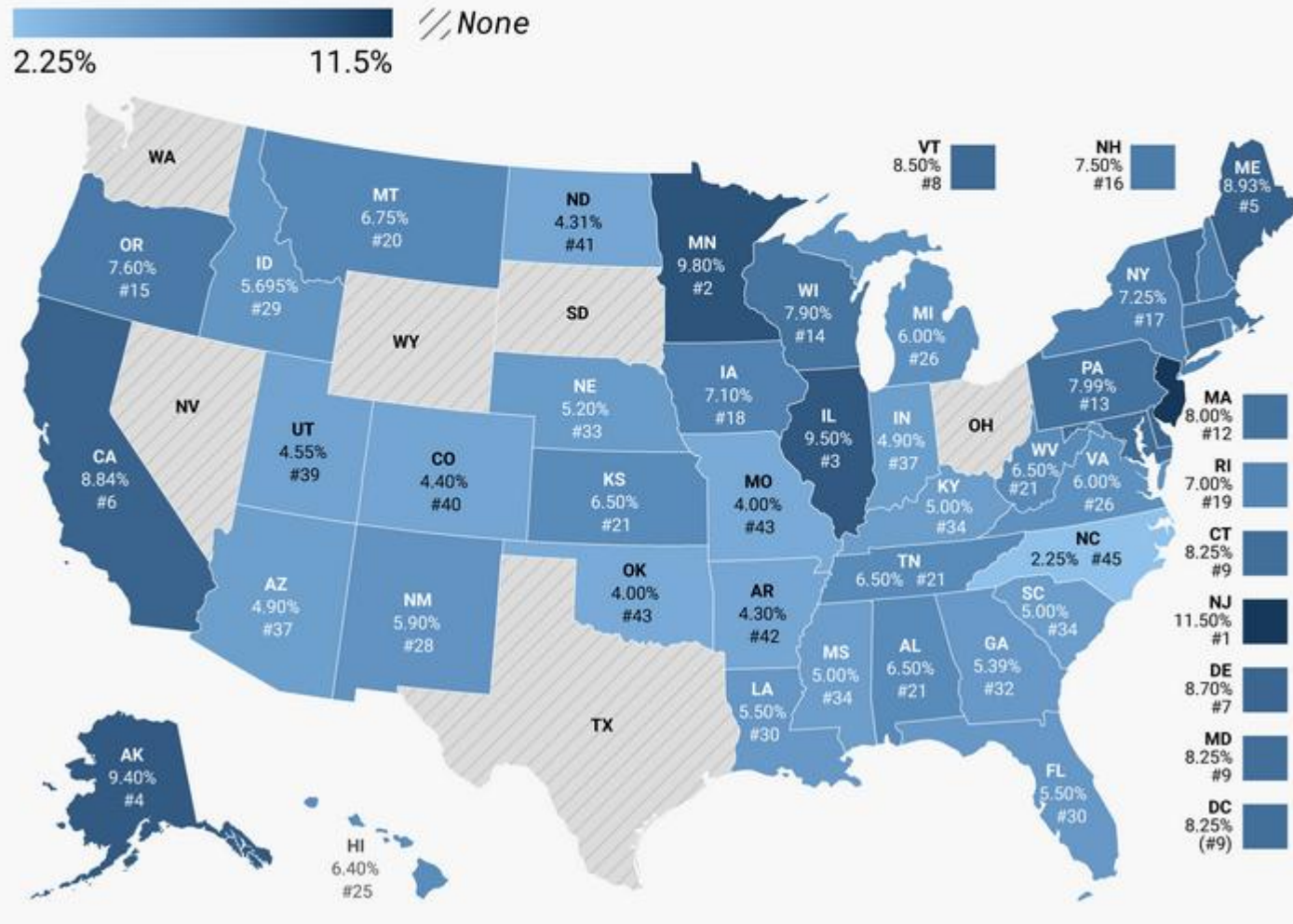
Corporate Income Tax in Other States

- 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%), 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/>



How High are Corporate Income Tax Rates in Your State?

Top Marginal Corporate Income Tax Rates as of January 1, 2025



Corporate Profits - Nationally



Federal Corporate Tax Collections



Tax Cuts and Jobs Act and Recent Vermont Legislation



Tax Cut and Jobs Act Corporate Income Changes

- TCJA implemented a flat 21% tax rate on corporations and eliminated the federal corporate alternative minimum tax (AMT).
- Implemented a territorial tax system, under which only domestic earnings are subject to tax.
- Changed the treatment of how intangible property is taxed.
- TCJA corporate changes do not expire, although some were scheduled to change starting in tax year 2026.
 - H.R.1 reversed some scheduled changes to TCJA and made numerous additional changes to federal corporate tax treatment. Some of these changes will flow through to Vermont, while others will not. More to come on this.



Inflation Reduction Act (2022) Corporate Income Changes

- IRA implemented a 15% corporate AMT which applies to financial statement income for corporations with profits of more than \$1 billion.
- Also implemented a 1% excise tax on the fair market value of corporate stock buybacks.
- Neither change affects VT corporate income tax revenue. These changes do not affect the definition of federal taxable income which Vermont uses so they therefore do not flow through to the state.



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



2025 Federal Reconciliation Act (H.R.1)



2025 Federal Reconciliation Act

- H.R.1, was enacted in 2025, makes numerous changes to business and corporate taxation.
- Many of these changes will “flow through” to Vermont, because the State is coupled to federal definitions for corporate and business net income, which are the basis for determining taxable income.
- It is expected that all the corporate and business tax changes in the bill will have a neutral or negative impact on State revenue collections.



2025 Federal Reconciliation Act

- Some of the changes relating to corporate and business taxes include but are not limited to;
 - Domestic research and experimental procedures
 - Amended limitation on business interest deduction
 - Exception from limitation on the business meals deduction
 - Increase limitation on expensing of 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
 - Accounting changes for certain residential construction
 - Expanded exclusion of gains from qualified small business stock
 - Charitable deduction for corporations
 - Capital gains from sale of farmland paid in four installments

