Title 32 : Taxation and Finance
Chapter 151 : Income Taxes
Subchapter 1: Definitions; General Provisions
(Cite as: 32 V.S.A. § 5811)

§ 5811. Definitions
As used in this chapter:
(1) [Repealed.]
(2) “Commissioner” means the Commissioner of Taxes appointed under section 3101 of this title or any officer or employee of the Department authorized by the Commissioner (directly or indirectly by one or more redelegations of authority) to perform the functions mentioned or described in this chapter.
(3) “Corporation” means any business entity subject to income taxation as a corporation, and any entity qualified as a small business corporation, under the laws of the United States, with the exception of the following entities that are exempt from taxation under this chapter:
(A) railroad and insurance companies that are taxed under chapter 211 of this title;
(B) credit unions organized under 8 V.S.A. chapter 221 and federal credit unions;
(C) nonprofit hospital service corporations organized under 8 V.S.A. chapter 123; and
(D) nonprofit medical service corporations organized under 8 V.S.A. chapter 125.
(4) [Repealed.]
(5) “Fiscal year” means an accounting period of 12 months ending on the last day of any month except December, or an accounting period of less than 12 months, which period is employed as the fiscal year of the taxpayer for U.S. income tax purposes.
(6) “Individual” means a natural person. However, if, for any taxable year, a spouse or a surviving spouse file a joint income tax return under this chapter, they shall be considered to be a single individual for that taxable year.
(7) “Laws of the United States” means, for any taxable year, the statutes of the United States relating to federal income taxes, whether enacted before or after this chapter effective for the taxable year, unless otherwise provided.
(8) “Nonresident estate” means any estate other than a resident estate.
(9) “Nonresident individual or trust” means, for any taxable year, an individual or trust not qualifying for residency in this State during any part of that taxable year.
(10) “Part-year resident individual or trust” means, for any taxable year, an individual or trust qualifying for residency in this State during only part of that taxable year.
(11) “Residency.”
(A) An individual qualifies for residency in this State for that portion of the taxable year during which:
(i) the individual is domiciled in this State; or
(ii) the individual maintains a permanent place of abode within this State if the individual both maintains a permanent place of abode and is present in this State for more than an aggregate of 183 days of that taxable year.
(B) A trust qualifies for residency in this State if it is:
(i) a trust, or a portion of a trust, consisting of property transferred by will or by a decedent who at his or her death was domiciled in this State; or
(ii) a trust, or a portion of a trust, consisting of property of:
(I) a person domiciled in this State at the time such property was transferred to the trust, if such trust or portion of a trust was then irrevocable, or if it was then revocable and has not subsequently become irrevocable; or
(II) a person domiciled in this State at the time such trust, or portion of a trust, became irrevocable, if it was revocable when such property was transferred to the trust but has subsequently become irrevocable.
(C) As used in subdivision (B) of this subdivision (11), a trust or a portion of a trust is revocable if it is subject to a power, exercisable immediately or at any future time, to revest title in the person whose property constitutes such trust or portion of a trust, and a trust or portion of a

trust becomes irrevocable when the possibility that such power may be exercised has been terminated.
(12) “Resident estate” means the estate of a decedent who, at the decendent’s death, was domiciled in this State.
(13) “Resident individual or trust” means, for any taxable year, an individual or trust qualifying for residency in this State during the entirety of that taxable year.
(14) “Tax” or “tax liability” includes the liability for all amounts owing by a taxpayer to the State of Vermont under this chapter.
(15) “Taxable corporation” means, for any taxable year, a corporation that, at any time during that taxable year:
(A) was incorporated under the laws of this State;
(B) possessed a certificate of authority to do business within this State; or
(C) received any income allocable or apportionable to this State under the provisions of section 5833 of this title, except that a corporation that would otherwise be taxable under this subdivision shall be exempt if the corporation’s activities in this State are limited to the performance of any activities that, without more, would not subject the corporation to taxation in this State, plus either:
(i) fulfillment operations as follows:
(I) maintenance of cash balances with banks or trust companies in this State;
(II) the following actions by a person unrelated to the corporation taken on behalf of the corporation:
(aa) sales order processing service;
(bb) credit card processing services;
(cc) receipt, storage, and removal from storage of property of the corporation in conjunction with the packaging or repackaging of such property for shipment to a customer of the corporation; and
(dd) reproduction of property of the corporation contained in or on electromagnetic or optical media, such as computer discs, magnetic tapes, compact discs, laser discs, and microprocessor chips, onto tangible media, and receipt, storage, and removal from storage of property of the corporation for shipment to a customer of the corporation or to the corporation itself in conjunction with any such reproduced property; or
(ii) any or all of the following necessary to create or maintain a World Wide Web page or internet site for the corporation:
(I) ownership of data or programming code in this State, or use of that data or programming code by a person other than the corporation or by a person not in this State;
(II) ownership of, or receipt of services from, computer servers in this State; and
(III) receipt of computer processing or web hosting services from a computer service provider or web hosting service in this State.
(16) “Taxable year” means the calendar year, or the fiscal year ending during the calendar year, with respect to which a tax is imposed under this chapter and, in the case of a return filed with respect to a fractional part of a year, the period with respect to which the return is filed.
(17) “Taxpayer” means a person obligated to file a return with or pay or remit any amount to this State under this chapter.
(18) “Vermont net income” means, for any taxable year and for any corporate taxpayer:
(A) the taxable income of the taxpayer for that taxable year under the laws of the United States, excluding income that under the laws of the United States is exempt from taxation by the states:
(i) increased by:
(I) the amount of any deduction for State and local taxes on or measured by income, franchise taxes measured by net income, franchise taxes for the privilege of doing business, and capital stock taxes;
(II) to the extent such income is exempted from taxation under the laws of the United States, the amount received by the taxpayer on and after January 1, 1986, as interest income from state and local obligations, other than obligations of Vermont and its political subdivisions, and

any dividends or other distributions from any fund to the extent such dividend or distribution is attributable to such Vermont State or local obligations;
(III) the amount of any deduction for a federal net operating loss;
(IV) an amount equal to the bonus depreciation deduction taken on the taxpayer's federal income tax return for the taxable year under Section 168(k) or (n) of the Internal Revenue Code;
(V) for any taxpayer that does not qualify as an eligible taxpayer, an amount equal to any deduction taken on the taxpayer's federal income tax return for the taxable year under 26 U.S.C. § 174A and Pub. L. No. 119-21, 139 Stat. 72 (2025) § 70302(f)(2). For purposes of this subdivision (V), the term "eligible taxpayer" means any taxpayer (other than a tax shelter prohibited from using the cash receipts and disbursements method of accounting under 26 U.S.C. § 448(a)(3)) that meets the gross receipts test of 26 U.S.C. § 448(c) for the taxable year; and
(VI) an amount equal to the amount of income deducted under Section 250 of the Internal Revenue Code for the taxable year to the extent deducted from net income; and
(ii) decreased by:
(I) the "gross-up of dividends" required by the federal Internal Revenue Code to be taken into taxable income in connection with the taxpayer's election of the foreign tax credit;
(II) the amount of income that results from the required reduction in salaries and wages expense for corporations claiming the Targeted Job or WIN credits;
(III) any federal deduction or credit that the taxpayer would have been allowed for the cultivation, testing, processing, or sale of cannabis or cannabis products as authorized under 7 V.S.A. chapter 33 or 37, but for 26 U.S.C. § 280E;
(IV) for the taxable year in which the bonus depreciation deduction is taken on the taxpayer's federal income tax return under Section 168(k) or (n) of the Internal Revenue Code and for each applicable taxable year thereafter, an amount equal to the depreciation deduction that would be allowed on that property if the taxpayer had made the election under Section 168(k)(7) or (n)(6) of the Internal Revenue Code to not claim depreciation on that property. In the taxable year that property is sold or otherwise disposed of, an additional deduction shall be allowed to the extent the amount of depreciation claimed under Section 168(k) or (n) of the Internal Revenue Code on that property has not been recovered through the additional deductions provided under this subdivision (18). The aggregate amount deducted under this subdivision (18)(A)(ii)(IV) in all taxable years for any one piece of property shall not exceed the amount of the bonus depreciation deduction taken on that property on the taxpayer's federal income tax return under Section 168(k) or (n) of the Internal Revenue Code, or exceed the amount of the additional modifications taken for that property on the taxpayer's Vermont income tax return under subdivision (i)(IV) of this subdivision (18)(A);
(V) for a taxpayer that does not qualify as an eligible taxpayer for the taxable year, as defined under subdivision (i)(V) of this subdivision (18)(A), for the taxable year in which a deduction is taken on the taxpayer's federal income tax return under 26 U.S.C. § 174A, or Pub. L. No. 119-21, 139 Stat. 72 (2025) § 70302(f)(2), or both, and for each applicable taxable year thereafter, an amount equal to the deduction that would be allowed under 26 U.S.C. § 174 applied as those provisions were in effect on December 31, 2024. The aggregate amount deducted under this subdivision (18)(A)(ii)(V) in all taxable years may not exceed the amount of the deduction taken on that expenditure on the taxpayer's federal income tax return under the Internal Revenue Code, or exceed the amount of the addition modifications taken on the taxpayer's Vermont income tax return under subdivision (i)(V) of this subdivision (18)(A);
(VI) for a taxpayer that qualifies as an eligible taxpayer for the taxable year as defined under subdivision (i)(V) of this subdivision (18)(A) and has domestic research or experimental expenditures, as defined in 26 U.S.C. § 174A, as added by subsection 174A(a), which are paid or incurred in taxable years beginning after December 31, 2021, and before January 1, 2025, and which was charged to capital account pursuant to 26 U.S.C. § 174 as those provisions were in effect on December 31, 2024, and further elected under Pub. L. No. 119-21, 139 Stat. 72 (2025) § 70302(f)(1) to substitute "December 31, 2021" for "December 31, 2024" as the applicable effective date for certain provisions in 26 U.S.C. § 174A and accordingly filed an

amended federal return for each taxable year affected by such election, for the tax year beginning on or after January 1, 2025, and for each applicable taxable year thereafter, a taxpayer may elect to deduct any remaining unamortized amount with respect to such expenditures in the first taxable year beginning after December 31, 2024, or to deduct such remaining unamortized amount with respect to such expenditures ratably over the two-taxable year period beginning with the first taxable year beginning after December 31, 2024. The aggregate amount deducted under this subdivision (A)(ii)(VI) when combined with any other deduction for the domestic research or experimental expenditure allowed pursuant to Vermont's adoption of the statutes of the United States relating to the federal income tax under section 5824 of this chapter in all taxable years may not exceed the amount of the deduction taken for that expenditure on the taxpayer's federal income tax return under the Internal Revenue Code; and

(VII) for a taxpayer that qualifies as an eligible taxpayer for the taxable year as defined under subdivision (i)(V) of this subdivision (18)(A) and has made an addition modification under subdivision (i)(V) of this subdivision (18)(A) in a prior tax year, an amount equal to the subtraction modification that would have been allowed in this taxable year under subdivision (V) of this subdivision (18)(A)(ii) but for the taxpayer's current status as an eligible taxpayer. The aggregate amount deducted under this subdivision (18)(A)(ii)(VII) in all taxable years for any expenditure may not exceed the amount of the deduction taken for that expenditure on the taxpayer's federal income tax return under the Internal Revenue Code, or exceed the amount of the addition modifications taken for that expenditure on the taxpayer's Vermont income tax return under subdivision (i)(V) of this subdivision (18)(A) for expenditures paid or incurred in taxable years on or after January 1, 2025.

(B) In the case of an "electing small business corporation" ("Subchapter S Corporation") under the laws of the United States, "Vermont net income" shall include only the Vermont net income of the corporation (as defined in this section) that is taxable to the corporation under the provisions of the Internal Revenue Code.

(C) For a taxable corporation that is a member of an affiliated group and that is engaged in a unitary business with one or more other members of that affiliated group, "Vermont net income" includes the allocable share of the combined net income of the group.

(D) For a corporation with federal exempt status, "Vermont net income" means all income that is subject to federal income tax, including unrelated business income under 26 U.S.C. § 511 and any income arising from debt-financed property subject to taxation under 26 U.S.C. § 514.

(19) [Repealed.]

(20) "Person" shall include an individual, firm, partnership, association, joint stock company, corporation, trust, estate, or other entity.

(21) "Taxable income" means, in the case of an individual, federal adjusted gross income and:

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

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

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

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

(iv) for any taxpayer that does not qualify as an eligible taxpayer, an amount equal to any deduction taken on the taxpayer's federal income tax return for the taxable year under 26 U.S.C. § 174A or Pub. L. No. 119-21, 139 Stat. 72 (2025) § 70302(f)(2), or both, and any amount of these deductions carried over on the taxpayer's federal income tax return as part of a net operating loss from a prior tax year that is deducted in the current taxable year. For purposes of this subdivision (iv), the term "eligible taxpayer" means any taxpayer (other than a tax shelter prohibited from using the cash receipts and disbursements method of accounting

under 26 U.S.C. § 448(a)(3)) that meets the gross receipts test of 26 U.S.C. § 448(c) for the taxable year; and

[Subdivision (21)(A)(v) applicable to taxable years beginning on and after January 1, 2026.]
(v) an amount equal to any income or gain from the sale or exchange of qualified small business stock excluded from federal gross income for the taxable year under Section 1202(a) of the Internal Revenue Code; and
(B) decreased by the following items of income (to the extent such income is included in federal adjusted gross income):
(i) income from U.S. government obligations;

[Subdivision (21)(B)(ii) applicable to taxable years beginning before January 1, 2026.]
(ii) with respect to adjusted net capital gain income as defined in 26 U.S.C. § 1(h) reduced by the total amount of any qualified dividend income: either the first $5,000.00 of such adjusted net capital gain income or 40 percent of adjusted net capital gain income from the sale of assets held by the taxpayer for more than three years, except not adjusted net capital gain income from:
(I) the sale of any real estate or portion of real estate used by the taxpayer as a primary or nonprimary residence; or
(II) the sale of depreciable personal property other than farm property and standing timber; or stocks or bonds publicly traded or traded on an exchange, or any other financial instruments; regardless of whether sold by an individual or business; and provided that the total amount of decrease under this subdivision (21)(B)(ii) shall not exceed 40 percent of federal taxable income or $350,000.00, whichever is less;

[Subdivision (21)(B)(ii) applicable to taxable years beginning on or after January 1, 2026.]
(ii)(I) with respect to adjusted net capital gain income as defined in 26 U.S.C. § 1(h) reduced by the total amount of any qualified dividend income: either the first $5,000.00 of such adjusted net capital gain income or 40 percent of adjusted net capital gain income from the sale of assets held by the taxpayer for more than three years, except not adjusted net capital gain income from:
(aa) the sale of any real estate or portion of real estate used by the taxpayer as a primary or nonprimary residence; or
(bb) the sale of depreciable personal property other than farm property and standing timber; or stocks or bonds publicly traded or traded on an exchange, or any other financial instruments; regardless of whether sold by an individual or business; and provided that the total amount of decrease under this subdivision (21)(B)(ii) shall not exceed 40 percent of federal taxable income or $350,000.00, whichever is less;
(II) notwithstanding the limitation under subdivision (I)(bb) of this subdivision (ii) relating to "stocks or bonds publicly traded or traded on an exchange, or any other financial instruments," gains from the sale or exchange of qualified small business stock added to taxable income under subdivision (A)(v) of this subdivision (21) may be decreased pursuant to this subdivision (ii); accordingly, for the purposes of this subdivision (ii), adjusted net capital gain income, federal adjusted gross income, and federal taxable income shall include any amounts added to a taxpayer's taxable income pursuant to subdivision (A)(v) of this subdivision (21);
(iii) recapture of State and local income tax deductions not taken against Vermont income tax;
(iv) the portion of certain retirement income and federally taxable benefits received under the federal Social Security Act that is required to be excluded under section 5830e of this chapter;
(v) the amount of interest paid by a qualified resident taxpayer during the taxable year on a qualified education loan for the costs of attendance at an eligible educational institution;
(vi) the amount of interest paid by a qualified resident taxpayer during the taxable year on a qualified education loan for the costs of attendance at an eligible educational institution;
(vii) for the taxable year in which the bonus depreciation deduction is taken on the taxpayer's federal income tax return under Section 168(k) or (n) of the Internal Revenue Code and for each

applicable taxable year thereafter, an amount equal to the depreciation deduction that would be allowed on that property if the taxpayer had made the election under Section 168(k)(7) or (n)(6) of the Internal Revenue Code to not claim bonus depreciation on that property. In the taxable year that property is sold or otherwise disposed of, an additional deduction shall be allowed to the extent the amount of depreciation claimed under Section 168(k) or (n) of the Internal Revenue Code on that property has not been recovered through the additional deductions provided under this subdivision (21). The aggregate amount deducted under this subdivision (21)(B)(vii) in all taxable years for any one piece of property shall not exceed the amount of the bonus depreciation deduction taken on that property on the taxpayer's federal income tax return under Section 168(k) or (n) of the Internal Revenue Code, or exceed the amount of the addition modifications taken for that property on the taxpayer's Vermont income tax return under subdivision (A)(iii) of this subdivision (21);

(viii) for a taxpayer that does not qualify as an eligible taxpayer for the taxable year, as defined under subdivision (A)(iv) of this subdivision (21), for the taxable year in which a deduction is taken on the taxpayer's federal income tax return under 26 U.S.C. § 174A, or Pub. L. No. 119-21, 139 Stat. 72 (2025) § 70302(f)(2), or both, and for each applicable taxable year thereafter, an amount equal to the deduction that would be allowed under 26 U.S.C. § 174 applied as those provisions were in effect on December 31, 2024. The aggregate amount deducted under this subdivision (21)(B)(viii) in all taxable years may not exceed the amount of the deduction taken on that expenditure on the taxpayer's federal income tax return under the Internal Revenue Code, or exceed the amount of the addition modifications taken on the taxpayer's Vermont income tax return under subdivision (A)(iv) of this subdivision (21);

(ix) for a taxpayer that qualifies as an eligible taxpayer for the taxable year as defined under subdivision (A)(iv) of this subdivision (21) and has domestic research or experimental expenditures, as defined in 26 U.S.C. § 174A, as added by subsection 174A(a), which are paid or incurred in taxable years beginning after December 31, 2021, and before January 1, 2025, and which was charged to capital account pursuant to 26 U.S.C. § 174 as those provisions were in effect on December 31, 2024, and elected under Pub. L. No. 119-21, 139 Stat. 72 (2025) § 70302(f)(1) to substitute "December 31, 2021" for "December 31, 2024" as the applicable effective date for certain provisions in 26 U.S.C. § 174A and accordingly filed an amended federal return for each taxable year affected by such election, for the tax year beginning on or after January 1, 2025, and for each applicable taxable year thereafter, a taxpayer may elect to deduct any remaining unamortized amount with respect to such expenditures in the first taxable year beginning after December 31, 2024, or to deduct such remaining unamortized amount with respect to such expenditures ratably over the two-taxable year period beginning with the first taxable year beginning after December 31, 2024. The aggregate amount deducted under this subdivision (21)(B)(ix) when combined with any other deduction for the domestic research or experimental expenditure allowed pursuant to Vermont's adoption of the statutes of the United States relating to the federal income tax under section 5824 of this chapter in all taxable years may not exceed the amount of the deduction taken for that expenditure on the taxpayer's federal income tax return under the Internal Revenue Code; and

(x) for a taxpayer that qualifies as an eligible taxpayer for the taxable year as defined under subdivision (A)(iv) of this subdivision (21) and has made an addition modification under subdivision (A)(iv) of this subdivision (21) in a prior tax year, an amount equal to the subtraction modification that would have been allowed in this taxable year under subdivision (viii) of this subdivision (21)(B) but for the taxpayer's current status as an eligible taxpayer. The aggregate amount deducted under this subdivision (21)(B)(x) in all taxable years for any expenditure may not exceed the amount of the deduction taken for that expenditure on the taxpayer's federal income tax return under the Internal Revenue Code, or exceed the amount of the addition modifications taken for that expenditure on the taxpayer's Vermont income tax return under subdivision (A)(iv) of this subdivision (21) for expenditures paid or incurred in taxable years on or after January 1, 2025; and

(C) decreased by the following exemptions and deductions:

(i) a personal exemption of $4,150.00 per person for the taxpayer, for the spouse or the deceased spouse of the taxpayer whose filing status under section 5822 of this chapter is married filing a joint return or surviving spouse, and for each individual qualifying as a dependent of the taxpayer under 26 U.S.C. § 152, provided that no exemption may be claimed for an individual who is a dependent of another taxpayer;
(ii) a standard deduction determined as follows:
(I) for taxpayers whose filing status under section 5822 of this chapter is unmarried (other than surviving spouses or heads of households) or married filing separate returns, $6,000.00;
(II) for taxpayers whose filing status under section 5822 of this chapter is head of household, $9,000.00; and
(III) for taxpayers whose filing status under section 5822 of this chapter is married filing joint return or surviving spouse, $12,000.00;
(iii) an additional deduction of $1,000.00 for each federal deduction under 26 U.S.C. § 63(f) that the taxpayer qualified for and received; and
(iv) an amount equal to the itemized deduction for medical expenses taken at the federal level by the taxpayer, under 26 U.S.C. § 213:
(I) minus the amount of the Vermont standard deduction and Vermont personal exemptions taken by the taxpayer under this subdivision (C); and
(II) minus any amount deducted at the federal level that is attributable to the payment of an entrance fee or recurring monthly payment made to a continuing care retirement community regulated under 8 V.S.A. chapter 151, which exceeds the deductibility limits for premiums paid during the taxable year on qualified long-term care insurance contracts under 26 U.S.C. 213(d)(10)(A).
(D) The dollar amounts of the personal exemption allowed under subdivision (C)(i) of this subdivision (21), the standard deduction allowed under subdivision (C)(ii) of this subdivision (21), and the additional deduction allowed under subdivision (C)(iii) of this subdivision (21) shall be adjusted annually for inflation by the Commissioner of Taxes beginning with taxable year 2018 by using the Consumer Price Index and the same methodology as used for adjustments under 26 U.S.C. § 1(f)(3); provided, however, that as used in this subdivision (D), "consumer price index" means the last Consumer Price Index for All Urban Consumers published by the U.S. Department of Labor.
(22) "Affiliated group" means a group of two or more corporations in which more than 50 percent of the voting stock of each member corporation is directly or indirectly owned by a common owner or owners, either corporate or noncorporate, or by one or more of the member corporations, but shall exclude foreign corporations and corporations taxable under 8 V.S.A. § 6014.
(23) "Unitary business" means one or more related business organizations engaged in business activity both within and outside the State among which there exists a unity of ownership, operation, and use or an interdependence in their functions.
(24) [Repealed.]
(25) "Vermont net operating loss" means any negative income after allocation and apportionment of Vermont net income pursuant to section 5833 of this chapter.
(26) "Digital business entity" means a business entity that, during the entire taxable year:
(A) was not a member of an affiliated group or engaged in a unitary business with one or more members of an affiliated group that is subject to Vermont income taxation; did not have any Vermont property, payroll, or sales; and did not perform any activities in this State that would constitute doing business for purposes of income taxation except activities described in subdivisions (15)(C)(i) (fulfillment operations) and (C)(ii) (web page or internet site maintenance) of this section; and
(B) used mainly computer, electronic, and telecommunications technologies in its formation and in the conduct of its business meetings, in its interaction with shareholders, members, and partners, in executing any other formal requirements.
(27)(A) For the purposes of subdivisions (21)(B)(ii) and 28(B)(ii) of this section, the sale of a farm shall mean the disposition of real and personal property owned by a farmer as that term is

defined in subdivision 3752(7) of this title and used by the farmer in the business of farming as that term is defined in 26 C.F.R. § 1.175-3.
(B) For the purposes of subdivisions (21)(B)(ii) and 28(B)(ii) of this section, the sale of standing timber shall mean the disposition of standing timber by an owner of timber that would give rise to the owner recognizing a capital gain or loss as defined in 26 U.S.C. § 631(b).
(28) "Taxable income" means, in the case of an estate or a trust, federal taxable income and:
(A) increased by the following items of income:
(i) interest income from non-Vermont state and local obligations;
(ii) dividends or other distributions from any fund to the extent they are attributable to non-Vermont state or local obligations; and
(iii) the amount of State and local income taxes deducted from federal gross income for the taxable year;
(iv) an amount equal to the bonus depreciation deduction taken on the taxpayer's federal income tax return for the taxable year under Section 168(k) or (n) of the Internal Revenue Code, including any amount of bonus depreciation deduction carried over on the taxpayer's federal income tax return as part of a net operating loss from a prior tax year that is deducted in the current taxable year;
(v) for any taxpayer that does not qualify as an eligible taxpayer, an amount equal to any deduction taken on the taxpayer's federal income tax return for the taxable year under 26 U.S.C. § 174A or Pub. L. No. 119-21, 139 Stat. 72 (2025) § 70302(f)(2), or both, and any amount of these deductions carried over on the taxpayer's federal income tax return as part of a net operating loss from a prior tax year that is deducted in the current taxable year. For purposes of this subdivision (v), the term "eligible taxpayer" means any taxpayer (other than a tax shelter prohibited from using the cash receipts and disbursements method of accounting under 26 U.S.C. § 448(a)(3)) that meets the gross receipts test of 26 U.S.C. § 448(c) for the taxable year; and

[Subdivision (28)(A)(vi) applicable to taxable years beginning on and after January 1, 2026.]
(vi) an amount equal to any income or gain from the sale or exchange of qualified small business stock excluded from federal gross income for the taxable year under Section 1202(a) of the Internal Revenue Code; and
(B) decreased by the following items of income:
(i) income from U.S. government obligations;

[Subdivision (28)(B)(ii) applicable to taxable years beginning before January 1, 2026.]
(ii) with respect to adjusted net capital gain income as defined in 26 U.S.C. § 1(h) reduced by the total amount of any qualified dividend income: either the first $5,000.00 of such adjusted net capital gain income or 40 percent of adjusted net capital gain income from the sale of assets held by the taxpayer for more than three years, except not adjusted net capital gain income from:
(I) the sale of any real estate or portion of real estate used by the taxpayer as a primary or nonprimary residence; or
(II) the sale of depreciable personal property other than farm property and standing timber; or stocks or bonds publicly traded or traded on an exchange, or any other financial instruments; regardless of whether sold by an individual or business; and provided that the total amount of decrease under this subdivision (28)(B)(ii) shall not exceed 40 percent of federal taxable income or $350,000.00, whichever is less;

[Subdivision (28)(B)(ii) applicable to taxable years beginning on or after January 1, 2026.]
(ii)(I) with respect to adjusted net capital gain income as defined in 26 U.S.C. § 1(h) reduced by the total amount of any qualified dividend income: either the first $5,000.00 of such adjusted net capital gain income or 40 percent of adjusted net capital gain income from the sale of assets held by the taxpayer for more than three years, except not adjusted net capital gain income from:

(aa) the sale of any real estate or portion of real estate used by the taxpayer as a primary or nonprimary residence; or
(bb) the sale of depreciable personal property other than farm property and standing timber; or stocks or bonds publicly traded or traded on an exchange, or any other financial instruments; regardless of whether sold by an individual or business; and provided that the total amount of decrease under this subdivision (28)(B)(ii) shall not exceed 40 percent of federal taxable income or $350,000.00, whichever is less; and
(II) notwithstanding the limitation under subdivision (I)(bb) of this subdivision (ii) relating to "stocks or bonds publicly traded or traded on an exchange, or any other financial instruments," gains from the sale or exchange of qualified small business stock added to taxable income under subdivision (A)(vi) of this subdivision (28) may be decreased pursuant to this subdivision (ii); accordingly, for the purposes of this subdivision (ii), adjusted net capital gain income, federal adjusted gross income, and federal taxable income shall include any amounts added to a taxpayer's taxable income pursuant to subdivision (A)(vi) of this subdivision (28);
(iii) recapture of State and local income tax deductions not taken against Vermont income tax;
(iv) for the taxable year in which the bonus depreciation deduction is taken on the taxpayer's federal income tax return under Section 168(k) or (n) of the Internal Revenue Code and for each applicable taxable year thereafter, an amount equal to the depreciation deduction that would be allowed on that property if the taxpayer had made the election under Section 168(k)(7) or (n)(6) of the Internal Revenue Code to not claim bonus depreciation on that property. In the taxable year that property is sold or otherwise disposed of, an additional deduction shall be allowed to the extent the amount of depreciation claimed under Section 168(k) or (n) of the Internal Revenue Code on that property has not been recovered through the additional deductions provided under this subdivision (28). The aggregate amount deducted under this subdivision (28)(B)(iv) in all taxable years for any one piece of property shall not exceed the amount of the bonus depreciation deduction taken on that property on the taxpayer's federal income tax return under Section 168(k) or (n) of the Internal Revenue Code, or exceed the amount of the addition modifications taken on that property on the taxpayer's Vermont income tax return under subdivision (A)(iv) of this subdivision (28);
(v) for a taxpayer that does not qualify as an eligible taxpayer for the taxable year, as defined under subdivision (A)(v) of this subdivision (28), for the taxable year in which a deduction is taken on the taxpayer's federal income tax return under 26 U.S.C. § 174A or Pub. L. No. 119-21, 139 Stat. 72 (2025) § 70302(f)(2), or both, and for each applicable taxable year thereafter, an amount equal to the deduction that would be allowed under 26 U.S.C. § 174 applied as those provisions were in effect on December 31, 2024. The aggregate amount deducted under this subdivision (v) in all taxable years may not exceed the amount of the deduction taken on that expenditure on the taxpayer's federal income tax return under the Internal Revenue Code, or exceed the amount of the addition modifications taken on the taxpayer's Vermont income tax return under subdivision (A)(v) of this subdivision (28);
(vi) for a taxpayer that qualifies as an eligible taxpayer for the taxable year as defined under subdivision (A)(v) of this subdivision (28) and has domestic research or experimental expenditures, as defined in 26 U.S.C. § 174A, as added by subsection 174A(a), which are paid or incurred in taxable years beginning after December 31, 2021, and before January 1, 2025, and which was charged to capital account pursuant to 26 U.S.C. § 174 as those provisions were in effect on December 31, 2024, and elected under Pub. L. No. 119-21, 139 Stat. 72 (2025) § 70302(f)(1) to substitute "December 31, 2021" for "December 31, 2024" as the applicable effective date for certain provisions in 26 U.S.C. § 174A and accordingly filed an amended federal return for each taxable year affected by such election, for the tax year beginning on or after January 1, 2025, and for each applicable taxable year thereafter, a taxpayer may elect to deduct any remaining unamortized amount with respect to such expenditures in the first taxable year beginning after December 31, 2024, or to deduct such remaining unamortized amount with respect to such expenditures ratably over the two-taxable year period beginning with the first taxable year beginning after December 31, 2024. The aggregate amount deducted under this subdivision (28)(B)(vi) when combined with any other

deduction for the domestic research or experimental expenditure allowed pursuant to Vermont's adoption of the statutes of the United States relating to the federal income tax under section 5824 of this chapter in all taxable years may not exceed the amount of the deduction taken for that expenditure on the taxpayer's federal income tax return under the Internal Revenue Code; and

(vii) for a taxpayer that qualifies as an eligible taxpayer for the taxable year as defined under subdivision (A)(v) of this subdivision (28) and has made an addition modification under subdivision (A)(v) of this subdivision (28) in a prior tax year, an amount equal to the subtraction modification that would have been allowed in this taxable year under subdivision (v) of this subdivision (28)(B) but for the taxpayer's current status as an eligible taxpayer. The aggregate amount deducted under this subdivision (vii) in all taxable years for any expenditure may not exceed the amount of the deduction taken for that expenditure on the taxpayer's federal income tax return under the Internal Revenue Code, or exceed the amount of the addition modifications taken for that expenditure on the taxpayer's Vermont income tax return under subdivision (A)(v) of this subdivision (28) for expenditures paid or incurred in taxable years on or after January 1, 2025.

(29) As used in subdivision (21)(B)(vi) of this section:

(A) "Qualified education loan" and "eligible educational institution" shall have the same meanings as under 26 U.S.C. § 221(d).

(B) "Qualified resident taxpayer" means an individual qualifying for residency as defined under subdivision (11) of this section and whose adjusted gross income is equal to or less than:

(i) $120,000.00 if the individual's filing status is single, head of household, or married filing separately; or

(ii) $200,000.00 if the individual's filing status is married filing jointly. (Added 1966, No. 61 (Sp. Sess.), § 1, eff. Jan. 1, 1966; amended 1967, No. 121, § 1, eff. Jan. 1, 1968 for taxable years beginning on or after January 1, 1968; 1971, No. 73, § 12, eff. April 16, 1971; 1973, No. 90, § 4; 1975, No. 190 (Adj. Sess.), § 3, eff. for tax years beginning after December 31, 1974; 1977, No. 17, § 1, eff., March 22, 1977 for tax years ending on and after December 31, 1976; 1977, No. 117 (Adj. Sess.), §§ 1, 2, eff. Jan. 27, 1978 for tax years commencing on and after January 1, 1977; 1979, No. 105 (Adj. Sess.), §§ 1, 2, § 45, eff. April 2, 1980 for taxable years beginning after January 1, 1979; 1981, No. 152 (Adj. Sess.), § 1, eff. April 12, 1982 for taxable years beginning on and after Jan. 1, 1982; 1985, No. 262 (Adj. Sess.), §§ 5–7, eff. June 4, 1986, affecting income taxes beginning on and after Jan. 1, 1986; 1985, No. 266 (Adj. Sess.), §§ 1, 2, eff. June 4, 1986 for taxable years beginning on and after Jan. 1, 1986; 1987, No. 82, §§ 4, 5, 9, eff. June 9, 1987 affecting taxable years beginning on and after Jan. 1, 1987; 1987, No. 210 (Adj. Sess.), § 4; 1989, No. 119, § 2, eff. June 22, 1989, applying to taxes payable for taxable years beginning on and after Jan. 1, 1989; 1989, No. 210 (Adj. Sess.), § 296, eff. May 31, 1990, affecting taxable years beginning on or after Jan. 1, 1990; 1989, No. 222 (Adj. Sess.) § 4, eff. May 31, 1990, applying to taxable years beginning on or after Jan. 1, 1990; 1991, No. 32, eff. May 18, 1991, §§ 31, 32, eff. May 18, 1991, applying retroactively to taxable years beginning on and after January 1, 1990, § 33 eff. May 18, 1991, applying to loss years ending on and after April 30, 1991; 1991, No. 67, § 25, eff. June 19, 1991; 1995, No. 29, §§ 7, 8, eff. April 14, 1995; 1995, No. 169 (Adj. Sess.), §§ 14, 22, eff. May 15, 1996; 1997, No. 156 (Adj. Sess.), §§ 3, 51, eff. April 29, 1998; 2001, No. 67, §§ 2, 3, eff. June 16, 2001; 2001, No. 140 (Adj. Sess.), §§ 1-3, eff. June 21, 2002; 2001, No. 144 (Adj. Sess.), § 28, eff. June 21, 2002; 2003, No. 67, § 24a, eff. July 1, 2003; 2003, No. 152 (Adj. Sess.), § 2, eff. June 7, 2004; 2005, No. 94 (Adj. Sess.), § 1, eff. March 8, 2006; 2005, No. 207 (Adj. Sess.), §§ 9, 15, eff. May 31, 2006; 2007, No. 190 (Adj. Sess.), §§ 19, 36; 2009, No. 1 (Sp. Sess.), §§ H.25, H.47, H.51; 2009, No. 2 (Sp. Sess.), §§ 16a, 16b, 17, eff. June 9, 2009; 2009, No. 160 (Adj. Sess.), § 60, eff. June 4, 2010; 2013, No. 73, §§ 17, 18, eff. June 5, 2013; 2015, No. 57, § 64, eff. Jan. 1, 2015; 2017, No. 73, § 13a, eff. Jan. 1, 2018; 2018, No. 11 (Sp. Sess.), § H.1, eff. Jan. 1, 2018; 2019, No. 71, § 1; 2019, No. 71, § 2, eff. Jan. 1, 2019; 2019, No. 164 (Adj. Sess.), § 18, eff. Jan. 1, 2022; 2019, No. 164 (Adj. Sess.), §§ 18a, 18b, eff. Jan. 1, 2023; 2021, No. 105 (Adj. Sess.), § 532, eff. July 1, 2022; 2021, No. 138 (Adj. Sess.), §§ 5, 6, eff. Jan. 1, 2022; 2021, No. 148 (Adj. Sess.), § 1,

eff. Jan. 1, 2023; 2023, No. 6, § 375, eff. July 1, 2023; 2023, No. 85 (Adj. Sess.), §§ 467, 468, eff. July 1, 2024; 2025, No. 164 (Adj. Sess.), § 55a, eff. January 1, 2026; 2025, No. 164 (Adj. Sess.), § 55, eff. January 1, 2026.)