# What Is Taxable Income?

Taxable income is defined in 32 V.S.A. § 5811(21) as federal taxable income with certain additions and subtractions. For information on income that is taxable and nontaxable at the federal level, see IRS Publication 525, Taxable and Nontaxable Income.

## Additions

### Personal Income Taxation of Nonqualified Stock Options

Vermont follows federal treatment when taxing nonqualified stock options. This means they will usually be taxed when exercised. However, if a stock option is taxed under federal law when it is granted or vested, Vermont will also tax it at that time.

If an individual is a Vermont resident when an option becomes valued and taxable under federal law, the entire income is taxed by Vermont. The individual may claim a credit against Vermont tax for income taxes paid to a different state on that income. If an individual is a resident of a different state when an option becomes taxable under federal law, the income related to services performed in Vermont will be taxed by Vermont. The Vermont portion is determined by number of days worked in Vermont compared to the total number of days worked anywhere during the period from the option grant date to the vesting date.

### Income from Non-Vermont State and Local Obligations

Interest and dividend income from non-Vermont state and local obligations are taxable in Vermont and must be included in your Vermont taxable income. This may have been paid directly to you or through a mutual fund or other legal entity that invests in state and local obligations outside of Vermont.

Use Schedule IN-112, VT Tax Adjustments and Credits to calculate income.

### Bonus Depreciation Allowed Under Federal Law Depreciation

Vermont does not recognize the bonus depreciation allowed under federal law. Depreciation is an income tax deduction that allows a taxpayer to recover the cost or other basis of certain property. See the IRS website for more on depreciation.

Read Technical Bulletin 44, Disallowance of Bonus Depreciation Provisions of Federal Economic Stimulus Act of 2008, for information on calculating the amount to add back to taxable income.

# Subtractions

## Social Security Exemption

Act 11 of the 2018 special legislative session created a Vermont personal income tax exemption for Social Security beneficiaries who are below certain income thresholds. The new law eliminates or reduces the Vermont tax imposed on federally taxable Social Security benefits for nearly 40,000 income-eligible taxpayers. For more information, see the Social Security Exemption Overview.

## Interest Income from U.S. Obligations

Interest income from U.S. government obligations, such as U.S. Treasury bonds, bills, and notes, is exempt from Vermont tax under the laws of the United States. Read Technical Bulletin 24, Exemption of Income of U.S. Obligations, for more information.

## Capital Gains Exclusion

Vermont allows a portion of net adjusted capital gains, as defined by IRS Section 1(h), to be excluded from Vermont taxable income. Qualified Dividends are not eligible for capital gains treatment for Vermont tax purposes. You may elect to take either the Flat Exclusion or the Percentage Exclusion:

- The Flat Exclusion is the general exclusion amount allowed for a particular tax year or the actual amount of net adjusted capital gains, whichever is less.
- A Percentage Exclusion allows you to you exclude up to 40% of your adjusted net capital gain from the sale of assets held for more than three years. Only certain categories of capital gain income are eligible for this exclusion.

Pursuant to Act 71 (2019), effective July 1, 2019, the Percentage Exclusion for capital gains will be capped at $350,000. This means that any gain above $875,000 will be taxed at standard income tax rates. The Flat Exclusion was not adjusted and remains at $5,000.

The amount excluded cannot exceed 40% of federal taxable income.

To file for a capital gains exclusion, use Vermont Schedule IN-153, VT Capital Gains Exclusion. For more information, see the instructions on Schedule IN-153 and Reg. §1.5811.(21)(B)(ii).

Additional guidance and updated forms will be issued prior to the tax year 2019 filing season. Please also see our press release on this topic.

## Adjustment for Bonus Depreciation on Prior Year Property

If you claimed bonus depreciation in the previous year, you can subtract the difference between the Modified Accelerated Cost Recovery System (MACRS) depreciation and federal depreciation from your federal tax return.