

H.794

Introduced by Representatives Logan of Burlington, Cina of Burlington, and
Tomlinson of Winooski

Referred to Committee on

Date:

Subject: Taxation; income tax; income tax surcharge; wealth proceeds tax; net
investment tax; education property tax; property valuation; tax
classifications; School Construction Aid Special Fund

Statement of purpose of bill as introduced: This bill proposes to create a
personal income tax surcharge imposed on taxpayers with more than
\$250,000.00 of AGI; create a wealth proceeds tax imposed on individuals,
estates, and trusts with taxable income over certain thresholds; and create a
property tax classification for nonhomestead residential properties with a tax
rate that is double the rate paid by homestead taxpayers. It further creates the
School Construction Aid Special Fund.

An act relating to increasing taxes on higher income earners and creating
the School Construction Aid Special Fund

It is hereby enacted by the General Assembly of the State of Vermont:

Sec. 1. SHORT TITLE

1 This act shall be known and may be cited as the “Preserving Revenue for
2 State Programs and Economic Resiliency Act.”

3 Sec. 2. 32 V.S.A. § 5822a is added to read:

4 § 5822a. PERSONAL INCOME TAX SURCHARGE

5 (a) There shall be a surcharge applied to the federal adjusted gross income
6 of individuals with federal adjusted gross income equal to or greater than
7 \$250,000.00. The surcharge shall be at a rate of two percent of the adjusted
8 gross income exceeding \$250,000.00. The surcharge shall be in addition to
9 any tax assessed under this chapter and shall be paid, collected, and enforced in
10 the same manner as the tax assessed under section 5822 of this title.

11 (b) There shall be an additional surcharge applied to the federal adjusted
12 gross income of individuals with federal adjusted gross income equal to or
13 greater than \$500,000.00. The surcharge shall be at a rate of six percent of the
14 adjusted gross income exceeding \$500,000.00. The surcharge shall be in
15 addition to any tax assessed under this chapter and shall be paid, collected, and
16 enforced in the same manner as the tax assessed under section 5822 of this
17 title.

18 (c) The surcharges imposed under this section shall be applied to
19 individuals without regard for filing status.

20 (d) Annually, the Commissioner of Taxes shall use the process required
21 under subdivision 5822(b)(2) of this title to adjust for inflation the minimum

1 amount of federal adjusted gross income necessary for an individual to incur a
2 surcharge under this section.

3 Sec. 3. 32 V.S.A. chapter 149 is added to read:

4 CHAPTER 149. WEALTH PROCEEDS TAX

5 § 5701. DEFINITIONS

6 As used in this chapter:

7 (1) “Federal modified adjusted gross income” means modified adjusted
8 gross income as defined in 26 U.S.C. § 1411(d).

9 (2) “Incomplete gift nongrantor trust” means a resident trust that meets
10 the following conditions:

11 (A) the trust does not qualify as a grantor trust under 26 U.S.C.
12 §§ 671–679; and

13 (B) the grantor’s transfer of assets to the trust is treated as an
14 incomplete gift under 26 U.S.C. § 2511.

15 (3) “Taxable income” has the same meaning as in subdivision 5811(21)
16 of this title.

17 (4) “Taxable year” has the same meaning as in subdivision 5811(16) of
18 this title.

19 (5) “Threshold amount” has the same meaning as in 26 U.S.C.
20 § 1411(b).

1 (6) “Wealth proceeds” has the same meaning as net investment income
2 in 26 U.S.C. § 1411(c) as adjusted by section 5702 of this chapter.

3 § 5702. DETERMINATION OF WEALTH PROCEEDS

4 The wealth proceeds of an individual, estate, or trust means net investment
5 income, as defined in 26 U.S.C. § 1411(c), and:

6 (1) increased by the following to the extent they are excluded from net
7 investment income:

8 (A) income from state and local obligations outside Vermont;

9 (B) net gain excluded under 26 U.S.C. § 1202;

10 (C) net gain excluded under 26 U.S.C. § 1400Z-2;

11 (D) net gain attributable to disposition of property held in trade or
12 business not described under 26 U.S.C. § 1411(c)(2);

13 (E) net gain described under the exception in 26 U.S.C. § 1411(c)(4);

14 (F) net gain excluded under 26 U.S.C. § 1411(c)(5), provided it is
15 attributable to net unrealized appreciation within the meaning of 26 U.S.C.

16 § 402(e)(4); and

17 (G) for a taxpayer who transferred property to an incomplete gift
18 nongrantor trust, any amounts recognized as wealth proceeds under this section
19 held by the trust, but reduced by any deductions of the trust, to the extent the
20 wealth proceeds and deductions of the trust would be taken into account in

1 computing the taxpayer's federal taxable income if the trust in its entirety were
2 treated as a grantor trust for federal tax purposes; and

3 (2) decreased by the following to the extent they are included in net
4 investment income:

5 (A) income from U.S. government obligations; and

6 (B) any amount exempted from state taxation under the laws of the
7 United States.

8 § 5703. IMPOSITION OF WEALTH PROCEEDS TAX

9 (a) A wealth proceeds tax is imposed for each taxable year on individuals,
10 estates, and trusts subject to personal income tax pursuant to chapter 151 of
11 this title as follows:

12 (1) individuals filing as single or head of household with taxable income
13 exceeding \$200,000.00;

14 (2) married individuals filing jointly with taxable income exceeding
15 \$250,000.00;

16 (3) individuals filing as married filing separately with taxable income
17 exceeding \$125,000.00; and

18 (4) estates and trusts with taxable income exceeding \$15,200.00.

19 (b) The tax imposed under this section shall be in addition to any other tax
20 imposed under this title.

1 (c) Tax is imposed at the rate of four percent of the lesser of:

2 (1) wealth proceeds for the taxable year; or

3 (2) federal modified adjusted gross income for the taxable year, reduced
4 by the threshold amount.

5 (d) For part-year and nonresident individuals, estates, and trusts, the tax
6 imposed by this section shall be calculated by multiplying a taxpayer's total
7 amount of wealth proceeds for the taxable year by the percentage of wealth
8 proceeds allocable to Vermont under section 5823 of this title.

9 § 5704. ADMINISTRATION

10 The tax imposed under this chapter shall be administered and enforced
11 under this chapter in the same manner as the income tax imposed under section
12 5822 of this chapter, including all provisions relating to deficiencies,
13 assessments, refunds, appeals, enforcement, and collection under chapter 151,
14 subchapters 8 and 9 of this title.

15 Sec. 4. 32 V.S.A. § 4152a is added to read:

16 § 4152a. PROPERTY TAX CLASSIFICATIONS

17 (a) The grand list of a town shall include one or more tax classifications for
18 each parcel of real estate. A parcel shall be classified using one of the general
19 classes of real estate listed under subsection (b) of this section and based on the
20 considerations set forth in this section and by guidance provided by the
21 Division of Property Valuation and Review. The listers and assessors shall

1 annually update the grand list to include a tax classification not later than June
2 1 of every year, using information submitted to the Department of Taxes
3 pursuant to this section. The tax classification may be updated after June 1
4 when a taxpayer files a, or corrects an erroneously filed, homestead declaration
5 after June 1.

6 (b) A parcel shall be assigned one or more of the following general classes:

7 (1) homestead;

8 (2) nonhomestead nonresidential;

9 (3) nonhomestead residential; and

10 (4) nonhomestead seasonal.

11 (c) As used in this section:

12 (1) “Homestead” means a parcel, or portion of a parcel, declared as a
13 homestead on or before October 15 in accordance with section 5410 of this
14 title for the current year.

15 (2) “Nonhomestead nonresidential” means a parcel, or portion of a
16 parcel, that does not qualify as homestead or nonhomestead residential under
17 this section.

18 (3) “Nonhomestead residential” means a parcel, or portion of a parcel,
19 for which a homestead was not declared in accordance with section 5410 of
20 this title for the current year and that has a residential property, as defined by
21 the Commissioner by rule.

1 (4) “Nonhomestead seasonal” means a parcel, or portion of a parcel, that
2 would qualify as nonhomestead residential, except the parcel has no residential
3 property fit for habitation on a year-round basis. The Commissioner shall
4 adopt rules further defining residential property fit for habitation on a year-
5 round basis.

6 (d) A parcel with two or more portions qualifying for different tax
7 classifications under this section shall be classified proportionally based on the
8 percentage of floor space used.

9 (1) In the case of a homestead with 25 percent or less of floor space used
10 for a business purpose, the parcel shall be classified as a homestead pursuant to
11 subdivision 5401(7)(F) of this title.

12 (2) If a portion of floor space is used for more than one purpose, the use
13 for which the floor space is most often used shall be considered the primary
14 use, and the floor space shall be dedicated to that use for purposes of tax
15 classification.

16 (e) The Commissioner shall amend existing forms, and publish new forms,
17 as needed to gather the necessary attestations and declarations required under
18 this section.

19 (f) Nothing in this section shall be construed to alter the tax treatment or
20 enrollment eligibility of property as it relates to use value appraisal under
21 chapter 124 of this title.

(3) The tax rate for nonhomestead residential property shall be \$2.00 multiplied by the education property tax spending adjustment for the municipality per \$100.00 of equalized education property value as most recently determined under section 5405 of this title. The Commissioner of Taxes shall determine a nonhomestead residential education tax rate for each municipality that is a member of a union or unified union school district using the same process as is used for homesteads under subsection (e) of this section. Nonhomestead residential property shall use the same property dollar equivalent yield as homesteads in the same municipality.

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1 Sec. 7. 32 V.S.A. § 5402b is amended to read:

2 § 5402b. STATEWIDE EDUCATION TAX YIELDS;

3 RECOMMENDATION OF THE COMMISSIONER

4 (a) Annually, not later than December 1, the Commissioner of Taxes, after
5 consultation with the Secretary of Education, the Secretary of Administration,
6 and the Joint Fiscal Office, shall calculate and recommend a property dollar
7 equivalent yield, an income dollar equivalent yield, and a nonhomestead
8 property tax rate for the following fiscal year. In making these calculations,
9 the Commissioner shall assume:

10 * * *

11 (4) the percentage change in the average education tax bill applied to
12 nonhomestead nonresidential property ~~and, the percentage change in the~~
13 average education tax bill applied to nonhomestead seasonal property, the
14 percentage change in the average education tax bill applied to nonhomestead
15 residential property, the percentage change in the average education tax bill of
16 homestead property, and the percentage change in the average education tax
17 bill for taxpayers who claim a credit under subsection 6066(a) of this title are
18 equal;

19 * * *

1 Sec. 8. 16 V.S.A. § 3444 is added to read:

2 § 3444. SCHOOL CONSTRUCTION AID SPECIAL FUND

3 (a) Creation. There is created the School Construction Aid Special Fund,
4 to be administered by the Agency of Education. Monies in the Fund shall be
5 used for the purposes of:

6 (1) awarding aid to school construction projects under section 3448 of
7 this title;

8 (2) awarding grants through the Facilities Master Plan Grant Program
9 established in section 3441 of this title;

10 (3) funding administrative costs of the State Aid for Capital
11 Construction Costs program; and

12 (4) awarding emergency aid under section 3448 of this title.

13 (b) Funds. The Fund shall consist of:

14 (1) half of the revenue generated by education property tax imposed on
15 nonhomestead residential properties;

16 (2) any amounts transferred or appropriated to it by the General
17 Assembly; and

18 (3) any interest earned by the Fund.

19 (c) Wage Requirements. A contract awarded for construction that is paid
20 for with aid or grant from the Fund shall adhere to the higher of:

1 (1) the prevailing wage requirements established for State construction
2 projects under 29 V.S.A. § 161(b); or

3 (2) the prevailing local wage requirements as determined by the U.S.
4 Department of Labor under the Davis-Bacon Act, related federal acts, and
5 related regulations.

6 Sec. 9. INTENT; USE OF REVENUE

7 It is the intent of the General Assembly that the revenue generated by the
8 income tax surcharge under 32 V.S.A. § 5822a and the wealth proceeds tax
9 imposed under 32 V.S.A. § 5703 be reserved for the implementation of Green
10 Mountain Care pursuant to 33 V.S.A. chapter 18, subchapter 2 in satisfaction
11 of the financing requirements set forth in 33 V.S.A. § 1822(a)(2).

12 Sec. 10. PROPERTY TAX CLASSIFICATIONS; TRANSITION; DATA
13 COLLECTION

14 (a) For calendar year 2027, the Commissioner of Taxes shall amend and
15 create forms so that taxpayers report information on the use of their property
16 for such property to be classified as homestead, nonhomestead residential,
17 nonhomestead nonresidential, nonhomestead seasonal, or a proportional
18 classification of those uses. The information collected, and classifications
19 determined, shall align with the definitions and requirements of Sec. 4 of this
20 act. The Commissioner shall use the information to determine and assign a tax

1 classification for every grand list parcel and, on or before October 1, 2027, the
2 Commissioner shall provide that information to the Joint Fiscal Office.

3 (b) On or before August 1, 2027, the Commissioner of Taxes shall publish
4 guidance that interprets and explains the statutory definitions from Sec. 4 of
5 this act, which shall serve as the Department's official interpretation until the
6 Commissioner adopts rules relating to the property classification system
7 created by this act.

8 Sec. 11. EFFECTIVE DATES

9 (a) This section, Sec. 1 (short title), Sec. 9 (intent), and Sec. 10 (transition
10 provisions) shall take effect on passage.

11 (b) Notwithstanding 1 V.S.A. § 214, Sec. 2 (income tax surcharge) shall
12 take effect retroactively on January 1, 2026, and apply to taxable years
13 beginning on and after January 1, 2026.

14 (c) Sec. 3 (wealth proceeds tax) shall take effect on January 1, 2027.

15 (d) Secs. 4–8 (new property tax classifications and rates) shall take effect
16 on January 1, 2028.