

1 S.282

2 Introduced by Senators Vyhovsky, Clarkson, Major, Watson and White

3 Referred to Committee on

4 Date:

5 Subject: Taxation; income tax; income tax surcharge; wealth proceeds tax; net
6 investment tax; education property tax; property valuation; tax

7 classifications; School Construction Aid Special Fund

8 Statement of purpose of bill as introduced: This bill proposes to create a
9 personal income tax surcharge imposed on taxpayers with more than
10 \$250,000.00 of AGI; create a wealth proceeds tax imposed on individuals,
11 estates, and trusts with taxable income over certain thresholds; and create a
12 property tax classification for nonhomestead residential properties with a tax
13 rate that is double the rate paid by homestead taxpayers. It further creates the
14 School Construction Aid Special Fund.

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

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

18 Sec. 1. SHORT TITLE

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

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

2 **§ 5822a. PERSONAL INCOME TAX SURCHARGE**

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

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

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

18 (d) Annually, the Commissioner of Taxes shall use the process required
19 under subdivision 5822(b)(2) of this title to adjust for inflation the minimum
20 amount of federal adjusted gross income necessary for an individual to incur a
21 surcharge under this section.

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

2 **CHAPTER 149. WEALTH PROCEEDS TAX**

3 **§ 5701. DEFINITIONS**

4 As used in this chapter:

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

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

9 (A) the trust does not qualify as a grantor trust under 26 U.S.C.
10 §§ 671–679; and

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

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

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

17 (5) “Threshold amount” has the same meaning as in 26 U.S.C.
18 § 1411(b).

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

1 § 5702. DETERMINATION OF WEALTH PROCEEDS

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

4 (1) increased by the following to the extent they are excluded from net

5 investment income:

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

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

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

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

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

12 (F) net gain excluded under 26 U.S.C. § 1411(c)(5), provided it is
13 attributable to net unrealized appreciation within the meaning of 26 U.S.C.
14 § 402(e)(4); and

15 (G) for a taxpayer who transferred property to an incomplete gift
16 nongrantor trust, any amounts recognized as wealth proceeds under this section
17 held by the trust, but reduced by any deductions of the trust, to the extent the
18 wealth proceeds and deductions of the trust would be taken into account in
19 computing the taxpayer's federal taxable income if the trust in its entirety were
20 treated as a grantor trust for federal tax purposes; and

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

3 (A) income from U.S. government obligations; and
4 (B) any amount exempted from state taxation under the laws of the
5 United States.

6 § 5703. IMPOSITION OF WEALTH PROCEEDS TAX

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

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

12 (2) married individuals filing jointly with taxable income exceeding
13 \$250,000.00;

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

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

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

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

1 (1) wealth proceeds for the taxable year; or
2 (2) federal modified adjusted gross income for the taxable year, reduced
3 by the threshold amount.
4 (d) For part-year and nonresident individuals, estates, and trusts, the tax
5 imposed by this section shall be calculated by multiplying a taxpayer's total
6 amount of wealth proceeds for the taxable year by the percentage of wealth
7 proceeds allocable to Vermont under section 5823 of this title.

8 § 5704. ADMINISTRATION

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

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

15 § 4152a. PROPERTY TAX CLASSIFICATIONS

16 (a) The grand list of a town shall include one or more tax classifications for
17 each parcel of real estate. A parcel shall be classified using one of the general
18 classes of real estate listed under subsection (b) of this section and based on the
19 considerations set forth in this section and by guidance provided by the
20 Division of Property Valuation and Review. The listers and assessors shall
21 annually update the grand list to include a tax classification not later than June

1 1 of every year, using information submitted to the Department of Taxes
2 pursuant to this section. The tax classification may be updated after June 1
3 when a taxpayer files a, or corrects an erroneously filed, homestead declaration
4 after June 1.

5 (b) A parcel shall be assigned one or more of the following general classes:
6 (1) homestead;
7 (2) nonhomestead nonresidential;
8 (3) nonhomestead residential; and
9 (4) nonhomestead seasonal.

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

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

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

1 (g) Persons aggrieved by a decision to classify property for taxation
2 purposes under this section may appeal in the manner provided for property
3 valuation appeals under this title.

4 Sec. 5. 32 V.S.A. § 4152 is amended to read:

5 § 4152. CONTENTS

6 (a) When completed, the grand list of a town shall be in such form as the
7 Director prescribes and shall contain such information as the Director
8 prescribes, including:

9 (1) In alphabetical order, the name of each real property owner and each
10 owner of taxable personal property.

11 (2) The last known mailing address of all such owners.

12 (3) A brief description of each parcel of taxable real estate in the town,
13 including a classification assigned pursuant to section 4152a of this title.

14 “Parcel” As used in this subdivision, “parcel” means a separate and sellable lot
15 or piece of real estate. Parcels may be combined to represent all contiguous
16 land in the same ownership, together with all improvements thereon.

17 * * *

18 Sec. 6. 32 V.S.A. § 5402 is amended to read:

19 § 5402. EDUCATION PROPERTY TAX LIABILITY

20 (a) A statewide education tax is imposed on all nonhomestead and
21 homestead property at the following rates:

1 (1) The tax rate for nonhomestead nonresidential and nonhomestead
2 seasonal property shall be \$1.59 per \$100.00 divided by the statewide
3 adjustment.

4 (2) The tax rate for homestead property shall be \$1.00 multiplied by the
5 education property tax spending adjustment for the municipality per \$100.00 of
6 equalized education property value as most recently determined under section
7 5405 of this title. The homestead property tax rate for each municipality that is
8 a member of a union or unified union school district shall be calculated as
9 required under subsection (e) of this section.

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

19 * * *

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.

1 Sec. 9. 16 V.S.A. § 4025 is amended to read:

2 § 4025. EDUCATION FUND

3 (a) The Education Fund is established to comprise the following:

4 (1) all revenue paid to the State from the statewide education tax on
5 nonhomestead and homestead property under 32 V.S.A. chapter 135, except
6 revenue deposited in the School Construction Aid Special Fund pursuant to
7 subdivision 3444(b)(1) of this title;

8 * * *

9 Sec. 10. PROPERTY TAX CLASSIFICATIONS; TRANSITION; DATA
10 COLLECTION

11 (a) For calendar year 2027, the Commissioner of Taxes shall amend and
12 create forms so that taxpayers report information on the use of their property
13 for such property to be classified as homestead, nonhomestead residential,
14 nonhomestead nonresidential, nonhomestead seasonal, or a proportional
15 classification of those uses. The information collected, and classifications
16 determined, shall align with the definitions and requirements of Sec. 1 of this
17 act. The Commissioner shall use the information to determine and assign a tax
18 classification for every grand list parcel and, on or before October 1, 2027, the
19 Commissioner shall provide that information to the Joint Fiscal Office.

20 (b) On or before August 1, 2027, the Commissioner of Taxes shall publish
21 guidance that interprets and explains the statutory definitions from Sec. 1 of

1 this act, which shall serve as the Department's official interpretation until the
2 Commissioner adopts rules relating to the property classification system
3 created by this act.

4 Sec. 11. EFFECTIVE DATES

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

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

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

11 (d) Secs. 4–9 (new property tax classifications and rates) shall take effect
12 on January 1, 2028.