



Implications of DR 26-0804 on Vermont’s Business Economy

High Income Surtax, AGI Minimum Tax Floor, and Investment Proceeds Tax Analysis

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Introduction

The Vermont Chamber of Commerce advances the Vermont economy through advocacy, community, and resources. In that role, we respectfully submit testimony in strong opposition to the proposed high income surtax, investment proceeds tax, and related minimum tax provisions under consideration.

While presented as a tax on wealth, this proposal reaches far beyond passive assets and would create significant unintended consequences for Vermont’s business community, including impacts on operating businesses, business succession, workforce competitiveness, and long-term economic resilience.

Because Vermont’s economy is structured differently than many larger states, the practical effects of this policy are broader than its framing suggests. In Vermont, this proposal functions not only as a tax on investment income, but in many cases as a tax on active business income.

I. Vermont’s Existing Tax Structure Is Already Highly Progressive

Before evaluating the proposed changes, it is important to understand Vermont’s current tax posture. Vermont already has one of the most progressive tax systems in the nation.

According to Vermont tax incidence data:

- Vermont ranks third nationally in overall tax progressivity
- Effective tax rates rise steadily across each income bracket
- Filers earning over \$1 million already face an average effective Vermont tax rate of 7.4 percent
- Filers with AGI above \$200,000 represent approximately 8 percent of returns, yet contribute roughly 60 percent of state income tax revenue

This matters because the proposal before the Committee is not addressing an absence of progressivity. Vermont already taxes progressively.

Institute on Taxation and Economic Policy Tax Inequality Index

Vermont has one of the most progressive tax systems in the country that redistributes wealth effectively. It is one of only 7 places that has a progressive tax structure, and only Minnesota and Washington D.C. score higher on the progressivity index.

This table is sorted by Index Value from most progressive to least by default. Click on any header to sort by that category -- click again to toggle between ascending and descending order. The rankings will update accordingly.

State	Index Value	Lowest 20%	Lowest 40%	Middle 60%	Top 20%	Top 1%
1 District of Columbia	3.1%	4.8%	9.1%	11.8%	11.6%	11.4%
2 Minnesota	2.6%	6.2%	7.5%	10.1%	10.0%	10.5%
3 Vermont	2.3%	6.3%	7.8%	9.8%	10.4%	10.1%
4 New York	1.6%	11.1%	11.6%	13.3%	13.4%	13.5%
5 California	0.8%	11.7%	10.7%	10.7%	11.1%	12.0%
6 New Jersey	0.7%	8.8%	9.2%	11.2%	10.5%	10.5%
7 Maine	0.2%	8.6%	9.1%	10.4%	10.3%	9.5%
8 Massachusetts	-0.1%	8.2%	8.9%	9.7%	8.7%	8.9%
9 New Mexico	-0.5%	7.1%	8.5%	11.0%	9.9%	8.1%
10 Oregon	-0.7%	12.0%	10.6%	10.4%	10.6%	10.4%
11 Delaware	-1.2%	8.2%	7.8%	8.0%	7.6%	6.8%
12 Maryland	-1.2%	9.6%	9.7%	11.3%	10.1%	9.0%
13 Colorado	-1.8%	8.3%	8.8%	9.4%	7.8%	7.0%
14 Montana	-2.0%	9.5%	8.0%	8.3%	7.8%	6.7%
15 Virginia	-2.1%	8.7%	9.4%	10.2%	8.7%	7.2%
16 Idaho	-2.4%	9.5%	8.3%	8.4%	7.7%	6.4%
17 Michigan	-2.6%	7.1%	8.5%	9.6%	7.4%	5.7%
18 South Carolina	-2.9%	10.1%	8.7%	9.1%	8.2%	6.5%
19 Rhode Island	-3.2%	13.3%	10.7%	10.1%	9.2%	8.6%
20 Georgia	-3.2%	10.3%	10.2%	9.8%	8.3%	6.9%
21 Missouri	-3.4%	9.8%	8.8%	8.7%	7.4%	5.7%
22 Nebraska	-3.5%	11.2%	10.4%	10.4%	9.2%	7.2%
23 West Virginia	-3.7%	11.6%	11.1%	9.9%	8.7%	7.2%
24 Utah	-3.7%	9.8%	9.9%	10.3%	7.9%	6.4%
25 Kansas	-3.8%	11.4%	11.2%	11.3%	9.7%	7.5%
26 Wisconsin	-3.8%	10.8%	10.3%	9.9%	8.0%	6.6%
27 North Dakota	-3.9%	9.8%	8.7%	7.5%	6.0%	4.9%
28 North Carolina	-4.0%	10.5%	9.8%	9.2%	7.5%	6.0%
29 Iowa	-4.1%	11.6%	11.4%	10.8%	9.3%	7.2%
30 Connecticut	-4.2%	12.4%	10.9%	11.8%	9.3%	7.9%
31 Hawaii	-4.2%	14.1%	13.8%	13.7%	11.0%	10.1%
32 Alaska	-4.4%	8.7%	6.7%	5.5%	3.6%	2.8%
33 Mississippi	-4.7%	12.4%	11.3%	10.5%	8.8%	6.9%
34 New Hampshire	-4.8%	8.9%	6.9%	6.4%	4.2%	2.8%
35 Oklahoma	-5.0%	12.2%	10.9%	10.1%	8.0%	6.3%
36 Kentucky	-5.0%	12.4%	11.3%	10.6%	8.9%	6.6%
37 Ohio	-5.3%	12.7%	11.1%	10.2%	8.3%	6.3%
38 Arizona	-5.9%	11.8%	10.6%	9.5%	6.8%	5.0%
39 Indiana	-5.9%	13.3%	11.6%	10.1%	7.9%	6.2%
40 Alabama	-6.0%	11.9%	11.6%	10.0%	7.3%	5.4%
41 Wyoming	-6.2%	11.1%	9.5%	7.4%	5.2%	3.4%
42 Louisiana	-6.3%	13.1%	12.8%	11.6%	8.9%	6.5%
43 Arkansas	-6.4%	13.1%	11.7%	10.7%	8.0%	5.8%
44 Illinois	-6.6%	14.8%	13.2%	12.1%	9.4%	7.3%
45 Texas	-7.2%	12.8%	11.6%	9.5%	6.0%	4.6%
46 South Dakota	-7.3%	11.4%	9.5%	7.8%	4.8%	2.6%
47 Pennsylvania	-7.8%	15.1%	13.4%	11.0%	8.1%	6.0%
48 Nevada	-7.8%	11.9%	10.2%	8.4%	4.8%	2.8%
49 Tennessee	-8.0%	12.8%	11.5%	9.4%	5.5%	3.8%
50 Washington	-8.5%	13.8%	11.7%	10.2%	6.2%	4.1%
51 Florida	-9.2%	13.2%	11.5%	9.1%	4.5%	2.7%

These rankings have been inverted from the published ITEP rankings in order to display states from most to least progressive index values. This was done for clarity to fit with the Vermont Competitiveness Dashboard display of data that places an aspirational direction at the top of the rankings for each dataset.

Table: Vermont Future Project - Source: Institute on Taxation and Economic Policy (ITEP) - Created with Datawrapper

II. What This Proposal Does Mechanically

This proposal makes three major structural changes:

- First, it imposes new surcharge layers on higher income taxpayers above existing Vermont income tax brackets.
- Second, it creates a new investment proceeds tax that applies to qualifying investment related gains above specified thresholds.
- Third, the bill establishes a new minimum tax floor requiring taxpayers with federal adjusted gross income above \$150,000 to pay the greater of their calculated Vermont income tax liability or 3 percent of federal adjusted gross income.

This is a significant structural departure from Vermont's traditional income tax framework. Unlike marginal brackets tied to taxable income, this provision creates a minimum tax floor based on gross adjusted income rather than taxable income and may increase liability even where deductions, reinvestment, depreciation, or business expenses reduce taxable profit.

For pass-through businesses in particular, this creates heightened exposure because federal AGI may reflect business income flowing through personal returns even when much of that income remains committed to payroll, debt service, capital replacement, or retained operating reserves. This means taxpayers may face elevated liability even in years when cash flow is constrained or earnings are largely retained inside the business.

The Vermont Department of Taxes' preliminary analysis confirms that these changes are not narrow in effect. Under the proposal, Vermont's top marginal personal income tax rate would rise to 13.3 percent, making it the highest top marginal state income tax rate in the country.

This is not a marginal adjustment. It is a structural repositioning of Vermont's tax competitiveness relative to every neighboring state.

In practical terms, this means Vermont would:

- Increase marginal tax liability on higher earning households
- Add new tax liability on investment gains
- Capture both passive investment wealth and active pass-through business income reported on personal returns

The bill also expands the taxable investment base beyond standard federal net investment income definitions by including categories such as certain excluded capital gains, qualified small business stock exclusions, opportunity zone gains, and out of state municipal bond income.

As drafted, the investment proceeds tax is broader than a simple mirror of federal investment income taxation and reaches gains that taxpayers may not ordinarily expect to be subject to additional Vermont tax. According to the Tax Department's analysis, capital gains account for approximately 69 percent of the projected investment proceeds tax base. This is especially significant because capital gains are central to business succession transactions, including retirements, ownership transfers, and family business sales.

The most significant policy concern is not simply that taxes increase. It is that the proposal reaches forms of income that are deeply intertwined with Vermont business operations.

III. Vermont's Economic Structure Requires a Different Analysis

A central issue in evaluating this proposal is understanding how Vermont businesses are organized. Most Vermont businesses are not large publicly traded corporations. They are pass-through entities, including:

- LLCs
- S corporations
- Partnerships
- Sole proprietorships

Unlike C corporations, pass-through entities do not pay income tax at the corporate level. Instead, profits pass directly to owners' personal tax returns. This means income appearing on personal returns often reflects active business earnings, not passive wealth. This is particularly important in Vermont, where many rural employers are family-owned pass-through businesses rather than large corporate taxpayers.

For example, a manufacturer may report \$700,000 in pass-through income in a strong year. On paper, this appears as high personal income. In practice, much of that amount may already be committed to:

- Payroll for employees
- Equipment replacement
- Insurance costs
- Debt service on machinery financing

This proposal does not adequately distinguish between passive wealth accumulation and active business income. In Vermont, that distinction is critical.

That concern is intensified by the bill's 3 percent AGI minimum tax floor. Because AGI includes pass-through business earnings before many economic realities are reflected, a business owner may face elevated tax liability even when actual available cash is constrained by reinvestment obligations or retained operating capital.

For businesses with volatile annual income, seasonal cycles, or high gross receipts relative to margins, this provision can create tax outcomes disconnected from true economic profitability.

IV. Effects on Reinvestment and Business Growth

For pass-through businesses, higher personal tax liability directly affects business decisions. Reduced after-tax liquidity means fewer dollars available for:

- Hiring employees
- Increasing wages
- Purchasing equipment
- Facility expansion
- Product innovation

For example, a growing software company deciding whether to add two engineers may postpone those hires if higher tax liability reduces retained earnings needed to support expansion. Because many Vermont businesses rely on retained earnings rather than outside capital, tax increases on pass-through income immediately weaken reinvestment capacity.

The Vermont Economic Action Plan identifies business expansion as essential to long-term affordability and statewide prosperity. That strategy depends on stronger reinvestment capacity, not weaker.

V. Business Succession: One of the Most Serious Unintended Consequences

One of the most consequential impacts of this proposal is on business succession. When Vermont business owners sell companies, those transactions often generate capital gains reported on personal returns. These transactions are not incidental under this bill. They are a primary target of the new tax base.

Under this proposal, succession events may trigger:

- Federal capital gains tax
- Vermont income tax
- New investment proceeds tax

In many cases, those gains will also fall within the expanded definition of taxable investment income under the bill's investment proceeds tax provisions.

Consider a retiring owner of a family business selling after 35 years in business. Those sale proceeds are not speculative wealth. They represent retirement security built through decades of reinvestment and risk.

Higher tax liability may result in:

- Delayed retirements
- Reduced employee buyouts
- Fewer family transfers
- More sales to outside buyers
- More closures instead of transitions

In rural communities, these effects are especially damaging because local businesses are often anchor employers.

VI. Workforce Competitiveness and Recruitment Impacts

This proposal also intersects directly with Vermont's workforce challenge. Vermont Futures Project analysis identifies that affected income thresholds disproportionately capture workforce shortage professions including:

- Physicians
- Psychiatrists
- Dentists
- Engineers
- Software developers

Healthcare occupations dominate this list. Vermont already faces shortages in many of these fields. In competitive interstate recruitment markets, Vermont's tax position becomes one more disadvantage relative to neighboring lower-tax states. For example, if a hospital is recruiting a physician weighing Vermont against New Hampshire, tax liability becomes one more factor affecting that decision.

The question is not mass outmigration. The question is whether Vermont becomes incrementally less competitive in attracting the very professionals it most needs.

VII. Revenue Concentration and Fiscal Stability Risks

Further increasing dependence on a narrow group of high-income filers increases:

- Greater revenue volatility
- Higher forecasting uncertainty
- Greater sensitivity to taxpayer relocation and timing decisions

In a small state like Vermont, losing even a small number of high earning taxpayers can have outsized fiscal consequences. A resilient tax system broadens the base over time. This proposal narrows it further.

VIII. Affordability: Redistribution Is Not the Same as Structural Reform

Supporters frame this proposal as improving affordability. That framing deserves closer examination. Raising taxes on higher earners may redistribute revenue, but redistribution alone does not solve Vermont's structural affordability drivers unless it directly reduces underlying cost pressures.

This proposal does not directly:

- Reduce housing prices
- Expand housing supply
- Lower healthcare premiums
- Reduce childcare costs
- Improve productivity

For example: A surcharge on a physician practice owner does not create new housing units. A higher tax on an engineering firm principal does not lower energy costs for Vermont families.

If the goal is affordability, Vermont should prioritize:

- Housing supply expansion
- Workforce development
- Healthcare cost reform
- Regulatory modernization

These are the policy levers that reduce costs over time and improve affordability at its source.

IX. Misalignment with Vermont’s Long Term Economic Strategy

Vermont’s long-term economic strategy depends on expanding, not constraining, the conditions for growth.

The Vermont Economic Action Plan calls for policies that increase housing, attract workforce, strengthen business formation, and improve competitiveness. At the same time, Vermont ranks 49th in the nation in economic outlook, reflecting existing structural weakness in growth capacity.

Against that backdrop, this proposal moves in the opposite direction. Rather than encouraging expansion, it risks discouraging:

- Business reinvestment
- Capital formation
- Ownership succession
- Workforce recruitment

In a state already struggling to attract workers, retain employers, and expand its tax base, policies that further weaken competitiveness should be approached with caution.

For these reasons, the Vermont Chamber recommends that this proposal not move forward in its current form.

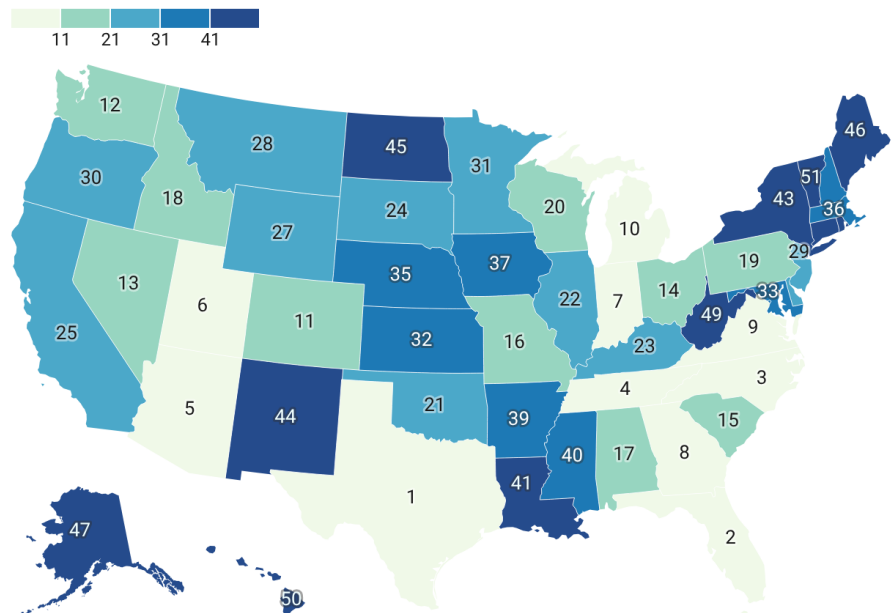
Any future framework should:

- Differentiate passive wealth from active business income
- Protect Vermont business succession transfers
- Avoid penalizing retained earnings used for reinvestment
- Evaluate workforce competitiveness implications before implementation

2025 Economic Momentum Rankings

Lagging Behind: States at Risk West Virginia (#49), Hawaii (#50), and Vermont (#51) struggle with population loss, limited economic diversification, and slow job growth.

Takeaway: These states need to rethink the basics and diversify their industry, invest in talent, and create a compelling case for why businesses should take a second look.



These momentum rankings are based on 4+ years of hard growth metrics including population shifts signaling labor and consumer demand, employment trends showing job creation, and macroeconomic output reflecting economic health. Entrepreneurial signals, like new business starts and tax structure analysis are used to assess business friendliness.

Map: Vermont Futures Project • Source: Camoin Associates • Created with Datawrapper

Conclusion

This proposal is framed as a tax on wealth, but in Vermont’s economy it functions much more broadly.

Because Vermont is dominated by pass-through businesses, this bill reaches directly into active business income, family business succession, and the very employers that sustain rural communities across the state.



The State's own analysis confirms that these impacts are not incidental. They are built into the structure of the bill.

In a state already ranked 49th in economic outlook, Vermont cannot afford policies that make it harder to reinvest, transfer businesses locally, attract workforce, and grow the tax base over time.

If the goal is long-term affordability and economic resilience, the stronger path is to expand opportunity through housing growth, workforce development, business investment, and policies that strengthen competitiveness rather than weaken it.

We urge the Committee to reject this proposal in its current form and instead pursue solutions that build a larger, stronger, and more sustainable Vermont economy.