

26-0804 An act relating to income tax brackets and investment income

Context and Commentary from the Tax Department

- **Who's benefiting from the tax changes in the "One Big Beautiful Bill Act" aka H.R.1?**
- **How much does a high-income filer pay in Vermont compared to what they'd pay in another state? How much would they pay under the proposal?**
- **What types of income would be taxed under the new Investment Proceeds tax proposed by the bill?**

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Who's benefiting from the tax changes in the "One Big Beautiful Bill Act" aka H.R.1?

Provision	Who Benefits?
No tax on tips	AGI up to \$150K (Single) or \$300K (Married) then phases out
Overtime deduction	AGI up to \$150K (Single) or \$300K (Married) then phases out
Auto loan interest deduction	AGI up to \$100K (Single) or \$200K (Married) then phases out
Bigger standard deduction for seniors	AGI up to \$75K (Single) or \$150K (Married) then phases out
Expanded Child and Dependent Care Credit	Increases the percentage of expenses eligible for the credit for filers with up to \$100K of AGI (Single) or \$150K (Married)
Increase in the State And Local Tax ("SALT") deduction from \$10K to \$40K	Modified AGI (MAGI) up to \$500K for both Single and Married then phases out over next \$100K of income
Charitable Contributions Changes	<p>Filers who don't itemize deductions can now deduct some charitable contributions</p> <p>Filers who itemize are now subject to a 0.5% of AGI minimum on their contributions and tax benefits for the highest income filers are capped</p>

How much does a high-income filer pay in Vermont compared to what they'd pay in another state? How much would they pay under the proposal?

TY26 Income Tax* on \$1,000,000		
1	Vermont (proposed)	\$ 98,000
2	Oregon	\$ 95,000
3	Washington D.C.	\$ 92,000
4	Hawaii	\$ 90,000
5	California	\$ 90,000
6	Minnesota	\$ 89,000
7	Vermont (current)	\$ 79,000
8	New Jersey	\$ 73,000
9	Maine	\$ 70,000
10	New York	\$ 69,000

TY26 Income Tax* on \$10,000,000		
1	Vermont (proposed)	\$ 1,295,000
2	California	\$ 1,282,000
3	Hawaii	\$ 1,080,000
4	Washington D.C.	\$ 1,059,000
5	New Jersey	\$ 1,040,000
6	New York	\$ 1,030,000
7	Oregon	\$ 986,000
8	Minnesota	\$ 976,000
9	Vermont (current)	\$ 867,000
10	Massachusetts	\$ 857,000

*Based on brackets only and assumes filing status is married filing jointly

TY26 Top Marginal Rates by State and Their Starting Points

TY26 Top Marginal Rates			Start Point
1	Vermont (proposed)	13.30%	\$586,625
2	California	13.30%	\$1,485,906
3	Hawaii	11.00%	\$650,000
4	New Jersey	10.75%	\$1,000,000
5	New York	10.30%	\$5,000,000
6	Oregon	9.90%	\$250,000
7	Minnesota	9.85%	\$337,930
8	Massachusetts	9.00%	\$1,083,150
9	Vermont (current)	8.75%	\$312,050
10	Wisconsin	7.65%	\$443,630

Assumes filing status is married filing jointly

What types of income would be taxed under the proposed Investment Proceeds tax?

Type of Income	Share of Base*	Description	Federal PIT Treatment	VT PIT Treatment
Capital Gains	69%	Profits generated from the increase in value of an asset at the time of sale	Short term gains (<1 year) taxed normally. Long term gains get lower rates based on filer's income (0% -> 15% -> 20%)	Taxed normally but 40% of some long-term gains excluded
Dividends	17%	Profits distributed to shareholders of businesses	Qualified dividends (held longer than 60 days) get same rates as Capital Gains, other ordinary dividends taxed normally	Taxed normally
Rents, Royalties, Trusts, etc.	8%	Income from <i>passive</i> business involvement	Taxed Normally	Taxed normally
Interest	6%	From bank accounts, bonds, and CDs	Taxed Normally	Taxed normally
Non-Qualified Annuities	<1%	Bought with after tax income (like a Roth IRA)	Gain portion is taxed normally	Gain portion is taxed normally

*According to ITEP's [report](#). Vermont shares may differ

Background on Vermont's 40% Capital Gains Exclusion

- Statutory Purpose (32 V.S.A. § 5813)
(b)... The 40-percent business capital gains exclusion mitigates the impact of one-time realizations in a progressive tax structure.
- Filers can deduct 40% of the gain from the sale of assets held longer than three years, except:
 - Any real estate or portion of real estate used as a primary or nonprimary home
 - Depreciable personal property other than farm property or standing timber
 - Publicly traded stocks and bonds or any other financial instruments

The amount deducted cannot exceed 40% of federal taxable income or \$350,000

Key Takeaways:

- **Who's benefiting from the tax changes in the "One Big Beautiful Bill Act" aka H.R.1?**
 - Low and middle-income filers, generally
 - No material change for high income filers compared to the prior eight years since the 2017 passage of the TCJA
 - Vermont GA reacted to the TCJA tax cuts by increasing taxes on high income filers in Act 11 of 2018
- **How much does a high-income filer pay in Vermont compared to what they'd pay in another state? How much would they pay under the proposal?**
 - Vermont's income taxes are already among the highest in the country and this bill would make VT #1
 - Some high-profile filers may physically move away, but generally... *If you tax income more, you get less income*
- **What types of income would be taxed under the new Investment Proceeds tax proposed by the bill?**
 - The proposal would tax an assortment of income streams that are already fully taxed in Vermont
 - Long term capital gains would make up a large portion of the tax base for the new surtax while simultaneously getting *preferential* treatment under Vermont's personal income tax code 😞
 - The only other state that does has this tax Minnesota and the rate is 1% on investment income over \$1,000,000