

1 Introduced by Committee on Ways and Means

2 Date:

3 Subject: Taxation; income tax; personal income tax; tax brackets; investment
4 income;

5 Statement of purpose of bill as introduced: This bill proposes to create a new
6 marginal income tax bracket and create a new tax on investment income
7 imposed on taxpayers with investment income and total income over certain
8 thresholds.

9 An act relating to income tax brackets and investment income

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

11 Sec. 1. 32 V.S.A. § 5822 is amended to read:

12 § 5822. TAX ON INCOME OF INDIVIDUALS, ESTATES, AND TRUSTS

13 (a) A tax is imposed for each taxable year upon the taxable income earned
14 or received in that year by every individual, estate, and trust, subject to income
15 taxation under the laws of the United States, in an amount determined by the
16 following tables, and adjusted as required under this section:

17 (1) Married individuals filing joint returns and surviving spouses:

18 If taxable income is:	The tax is:
19 Not over \$64,600.00 <u>\$84,700.00</u>	3.35% of taxable income
20 Over \$64,600.00 <u>\$84,700.00</u> but	\$2,164.00 <u>\$2,837.00</u> plus 6.6% of the

1 not over ~~\$156,150.00~~ \$204,750.00 amount of taxable income over
2 ~~\$64,600.00~~ \$84,700.00
3 Over ~~\$156,150.00~~ \$204,750.00 but ~~\$8,206.00~~ \$10,761.00 plus 7.6% of
4 not over ~~\$237,950.00~~ \$312,050.00 the amount of taxable income over
5 ~~\$156,150.00~~ \$204,750.00
6 Over ~~\$237,950.00~~ \$312,050.00 but ~~\$14,423.00~~ \$18,916.00
7 not over \$586,625.00 plus 8.75% of the amount of taxable
8 income over ~~\$237,950.00~~
9 \$312,050.00
10 Over \$586,625.00 \$42,942.00 plus 13.3% of the
11 amount of taxable income over
12 \$586,625.00

13 (2) Heads of households:

14 If taxable income is: The tax is:

15 Not over ~~\$51,850.00~~ \$68,000.00 3.35% of taxable income

16 Over ~~\$51,850.00~~ \$68,000.00 but ~~\$1,737.00~~ \$2,278.00 plus 6.6% of the
17 not over ~~\$133,850.00~~ \$175,500.00 amount of taxable income over
18 ~~\$51,850.00~~ \$68,000.00

19 Over ~~\$133,850.00~~ \$175,500.00 but ~~\$7,149.00~~ \$9,373.00 plus 7.60% of
20 not over ~~\$216,700.00~~ \$284,150.00 the amount of taxable income over
21 ~~\$133,850.00~~ \$175,500.00

1	Over \$216,700.00 <u>\$284,150.00</u>	\$13,446.00 <u>\$17,630.00</u> plus 8.75% of
2	<u>but not over \$534,175.00</u>	the amount of taxable income over
3		\$216,700.00 <u>\$284,150.00</u>
4	<u>Over \$534,175.00</u>	<u>\$39,508.00 plus 13.3% of the</u>
5		<u>amount of taxable income over</u>
6		<u>\$534,175.00</u>
7	(3) Unmarried individuals (other than surviving spouse or head of	
8	household):	
9	If taxable income is:	The tax is:
10	Not over \$38,700.00 <u>\$50,750.00</u>	3.35% of taxable income
11	Over \$38,700.00 <u>\$50,750.00</u> but	\$1,296.00 <u>\$1,700.00</u> plus 6.6% of the
12	not over \$93,700.00 <u>\$122,850.00</u>	amount of taxable income over
13		\$38,700.00 <u>\$50,750.00</u>
14	Over \$93,700.00 <u>\$122,850.00</u> but	\$4,926.00 <u>\$6,459.00</u> plus 7.6% of the
15	not over \$195,450.00 <u>\$256,300.00</u>	amount of taxable income over
16		\$93,700.00 <u>\$122,850.00</u>
17	Over \$195,450.00 <u>\$256,300.00</u> but	\$12,659.00 <u>\$16,601.00</u> plus 8.75% of
18	<u>not over \$481,825.00</u>	the amount of taxable income over
19		\$195,450.00 <u>\$256,300.00</u>
20	<u>Over \$481,825.00</u>	<u>\$36,335.00 plus 13.3% of the</u>
21		<u>amount of taxable income over</u>

1 \$481,825.00

2 (4) Married individuals filing separate returns:

3 If taxable income is: The tax is:

4 Not over ~~\$32,300.00~~ \$42,350.00 3.35% of taxable income

5 Over ~~\$32,300.00~~ \$42,350.00 but ~~\$1,082.00~~ \$1,419.00 plus 6.6% of the
6 not over ~~\$78,075.00~~ \$102,375.00 amount of taxable income over

7 ~~\$32,300.00~~ \$42,350.00

8 Over ~~\$78,075.00~~ \$102,375.00 but ~~\$4,103.00~~ \$5,380.00 plus 7.6% of the
9 not over ~~\$118,975.00~~ \$156,025.00 amount of taxable income over

10 ~~\$78,075.00~~ \$102,375.00

11 Over ~~\$118,975.00~~ \$156,025.00 but ~~\$7,212.00~~ \$9,458.00 plus 8.75% of
12 \$293,325.00 the amount of taxable income over

13 ~~\$118,975.00~~ \$156,025.00

14 Over \$293,325.00 \$21,471.00 plus 13.3% of the
15 amount of taxable income over

16 \$293,325.00

17 (5) Estates and trusts:

18 If taxable income is: The tax is:

19 ~~\$2,600.00~~ \$3,400.00 or less 3.35% of taxable income

20 Over ~~\$2,600.00~~ \$3,400.00 but ~~\$87.00~~ \$114.00 plus 6.6% of the
21 not over ~~\$6,100.00~~ \$8,000.00 amount of taxable income over

1		\$2,600.00 <u>\$3,400.00</u>
2	Over \$6,100.00 <u>\$8,000.00</u> but	\$318.00 <u>\$418.00</u> plus 7.6% of the
3	not over \$9,350.00 <u>\$12,250.00</u>	amount of taxable income over
4		\$6,100.00 <u>\$8,000.00</u>
5	Over \$9,350.00 <u>\$12,250.00</u> but	\$565.00 <u>\$741.00</u> plus 8.75% of the
6	<u>not over \$25,500.00</u>	amount of taxable income over
7		\$9,350.00 <u>\$12,250.00</u>
8	<u>Over \$25,500.00</u>	<u>\$1,900.00 plus 13.3% of the amount</u>
9		<u>over \$25,500</u>

10 (6) If the federal adjusted gross income of the taxpayer exceeds
11 \$150,000.00, then the tax calculated under this subsection shall be the greater
12 of the tax calculated under subdivisions (1)–(5) of this subsection or three
13 percent of the taxpayer’s federal adjusted gross income.

14 (b) As used in this section:

15 (1) “Married individuals,” “surviving spouse,” “head of household,”
16 “unmarried individual,” “estate,” and “trust” have the same meaning as under
17 the Internal Revenue Code.

18 (2) The amounts of taxable income shown in the tables in this section
19 shall be adjusted annually for inflation by the Commissioner of Taxes using
20 the Consumer Price Index adjustment percentage, in the manner prescribed for
21 inflation adjustment of federal income tax tables for the taxable year by the

1 Commissioner of Internal Revenue, beginning with taxable year ~~2003~~ 2026;
2 provided, however, notwithstanding 26 U.S.C. § 1(f)(3), that as used in this
3 subdivision, “consumer price index” means the last Consumer Price Index for
4 All Urban Consumers published by the U.S. Department of Labor.

5 * * *

6 Sec. 2. 32 V.S.A. chapter 149 is added to read:

7 CHAPTER 149. VERMONT INVESTMENT PROCEEDS TAX

8 § 5701. DEFINITIONS

9 As used in this chapter:

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

12 (2) “Investment income” has the same meaning as net investment
13 income in 26 U.S.C. § 1411(c) as adjusted by section 5703 of this chapter.

14 (3) “Threshold amount” has the same meaning as in 26 U.S.C.
15 § 1411(b).

16 § 5702. IMPOSITION OF VERMONT INVESTMENT PROCEEDS TAX

17 (a) A Vermont investment proceeds tax is imposed for each taxable year on
18 individuals, estates, and trusts subject to the personal income tax under chapter
19 151 of this title as follows:

20 (1) individuals filing as single or head of household with federal
21 modified adjusted gross income exceeding \$200,000.00;

1 (2) married individuals filing jointly with federal modified adjusted
2 gross income exceeding \$250,000.00;

3 (3) individuals filing as married filing separately with federal modified
4 adjusted gross income exceeding \$125,000.00; and

5 (4) estates and trusts with adjusted gross income, as defined in 26
6 U.S.C. § 67(e), exceeding the dollar amount at which the highest tax bracket
7 begins for the taxable year under 26 U.S.C. § 1(e).

8 (b)(1) For individuals, tax is imposed at the rate of four percent of the
9 lesser of:

10 (A) investment income for the taxable year; or

11 (B) federal modified adjusted gross income for the taxable year,
12 reduced by the threshold amount.

13 (2) For estates and trusts, tax is imposed at the rate of four percent of the
14 lesser of:

15 (A) undistributed investment income for the taxable year; or

16 (B) the dollar amount at which the highest tax bracket begins for the
17 taxable year under 26 U.S.C. § 1(e).

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

20 (d) For part-year and nonresident individuals, estates, and trusts, the tax
21 imposed by this section shall be calculated by multiplying a taxpayer's total

1 amount of investment income for the taxable year by the percentage of
2 investment income allocable to Vermont under section 5823 of this title.

3 § 5703. DETERMINATION OF VERMONT INVESMENT INCOME

4 The Vermont investment income of an individual, estate, or trust means net
5 investment 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 investment income under this
19 section held by the trust, but reduced by any deductions of the trust, to the
20 extent the investment income and deductions of the trust would be taken into

1 account in computing the taxpayer’s federal taxable income if the trust in its
2 entirety were 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 § 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 title, including all provisions relating to deficiencies, assessments,
12 refunds, appeals, enforcement, and collection under chapter 151, subchapters 8
13 and 9 of this title.

14 Sec. 3. EFFECTIVE DATE

15 This act shall take effect on January 1, 2027, and shall apply to taxable
16 years beginning on and after January 1, 2027.