

# Committee Bill 26-0804

House Committee on Ways and Means

Patrick Titterton, Senior Fiscal Analyst

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# Outline of talk

- 1% Vermont Taxpayers Overview
- Income Taxes in Other States
- Proposed New Top Marginal Bracket
- Proposed Investment Proceeds Tax
- Appendix: Potential Behavioral Responses



# Vermont Top 1% Taxpayers



# Overview

- This language would create a new top marginal bracket starting at \$586,634 of MFJ with a new rate of 13.3%.
- The new bracket would be adjusted for inflation each year.
- The surcharge would be effective retroactively for tax year 2026.
- <https://legislature.vermont.gov/Documents/2024/Docs/BILLS/H-0828/H-0828%20As%20Introduced.pdf>



## 2024 Vermont Personal Income Tax Returns - Dollars

AGI Income Bracket	Returns	Adjusted Gross Income (AGI)	Vermont Taxable Income	Vermont Tax	Adjusted Vermont Tax	NonRef Credits	Ref Credits	Net Vermont Tax	ETR
Negative	2,126	-129,389,981	2,636,471	180,500	180,500	*	137,403	17,076	NA
0 - 4999	18,940	38,870,065	347,751	16,735	16,733	*	1,046,342	-1,031,319	-2.7%
5000 - 9999	16,585	124,479,360	3,467,351	121,686	120,078	3,512	2,284,834	-2,168,268	-1.8%
10000 - 14999	15,445	192,208,699	20,145,172	680,145	668,890	29,306	3,869,946	-3,230,362	-1.7%
15000 - 19999	13,450	234,373,402	52,287,654	1,735,729	1,692,155	49,351	4,492,741	-2,849,937	-1.2%
20000 - 24999	12,450	279,927,034	85,287,254	2,821,342	2,737,564	78,468	4,800,954	-2,141,858	-0.8%
25000 - 29999	12,248	336,971,511	126,740,490	4,203,048	4,080,134	92,184	4,436,984	-449,034	-0.1%
30000 - 34999	13,147	427,558,506	191,497,531	6,384,419	6,216,771	125,084	4,145,535	1,946,152	0.5%
35000 - 39999	14,138	530,604,530	273,868,027	9,127,919	8,899,880	162,775	3,779,148	4,957,957	1.0%
40000 - 44999	14,601	620,308,108	346,178,374	11,529,229	11,298,726	217,841	3,218,582	7,862,303	1.3%
45000 - 49999	14,589	692,663,677	411,567,216	13,704,017	13,428,397	239,829	2,327,143	10,861,425	1.6%
50000 - 59999	26,246	1,439,857,295	925,709,463	30,899,560	30,362,104	569,731	2,868,080	26,924,293	1.9%
60000 - 74999	30,749	2,062,723,823	1,433,622,210	51,591,620	50,742,939	1,018,147	2,807,854	46,916,938	2.3%
75000 - 99999	34,709	3,008,259,676	2,241,441,772	87,321,534	85,955,698	2,094,773	4,003,225	79,857,700	2.7%
100000 - 124999	24,922	2,792,435,673	2,150,235,715	86,046,946	84,572,984	2,293,332	3,924,212	78,355,440	2.8%
125000 - 149999	18,094	2,473,488,213	1,975,096,896	87,284,845	85,933,383	2,898,333	2,664,250	80,370,800	3.3%
150000 - 199999	20,591	3,540,931,957	2,940,606,768	145,204,312	142,830,786	4,818,685	1,354,314	136,657,787	3.9%
200000 - 299999	14,736	3,527,106,682	3,074,065,649	171,334,716	167,180,769	6,752,265	661,347	159,767,157	4.6%
300000 - 499999	7,561	2,851,559,803	2,595,089,847	169,609,951	164,778,667	8,936,868	316,804	155,524,995	5.6%
500000 - 999999	3,126	2,073,568,609	1,944,863,288	146,035,955	141,795,728	10,824,381	109,644	130,861,703	6.5%
1,000,000 +	1,325	3,706,623,738	3,573,098,393	301,880,798	275,743,184	23,150,495	28,382	252,564,307	7.4%
<b>State Total</b>	<b>329,778</b>	<b>30,825,130,380</b>	<b>24,367,853,292</b>	<b>1,327,715,006</b>	<b>1,279,236,070</b>	<b>64,355,360</b>	<b>53,277,724</b>	<b>1,161,575,255</b>	<b>3.9%</b>
Out of State	52,703	31,858,058,335	30,381,174,560	2,497,118,854	100,511,261	766,486	428,925	99,315,850	NA
All Returns	382,481	62,683,188,715	54,749,027,852	3,824,833,860	1,379,747,331	65,121,846	53,706,649	1,260,891,105	3.9%



# Personal income tax data, 2024

- 3,298 returns with AGI of \$586,634 or more represented 8,496 exemptions or individuals
- 3,298 returns with AGI of \$586,634 or more accounted for:
  - 1% of all VT tax returns
  - 16.7% of all VT AGI
  - 29.8% of all net VT personal income tax paid

<b>Personal Income Tax Returns for Top 1%, Tax Year 2024</b>			
<b>All Vermont Resident Returns</b>			
<b># Returns</b>	<b>% Returns</b>	<b>%VT AGI</b>	<b>% Net VT Tax</b>
3,298	1.0%	16.7%	29.8%

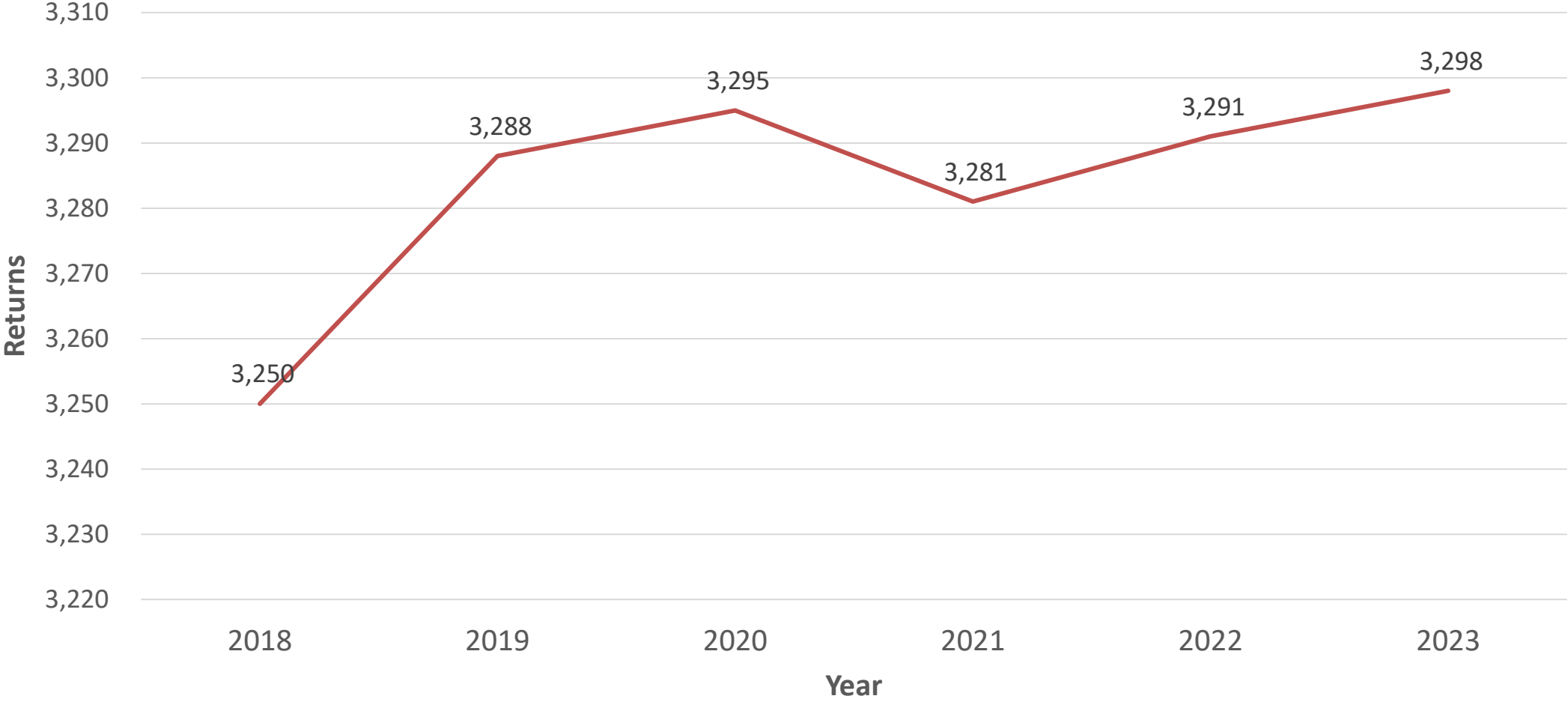


# Top 1% Returns - 2018 to 2024

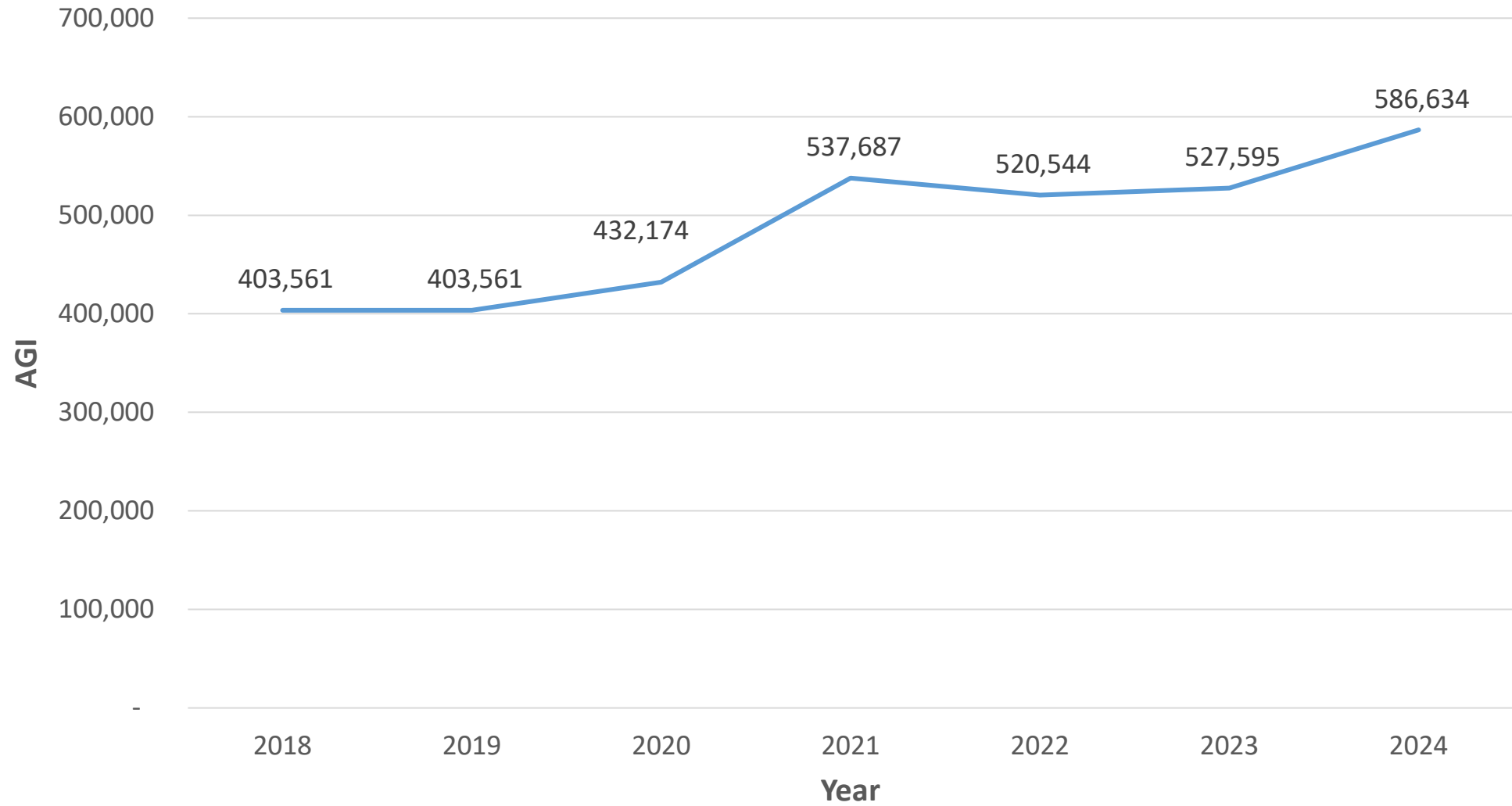
<b>Top 1% Vermont Resident Filers (2018-2024)</b>						
<b>Year</b>	<b>Count</b>	<b>AGI Start for Percentile</b>	<b>Total AGI</b>	<b>% Share of AGI</b>	<b>Total Net VT Taxes</b>	<b>% Share of Net VT Taxes</b>
2018	3,203	403,561	3,294,823,669	15%	204,771,154	27%
2019	3,250	403,561	3,717,500,195	17%	232,621,175	29%
2020	3,288	432,174	3,686,264,098	16%	228,717,717	28%
2021	3,295	537,687	5,211,559,990	19%	337,067,490	33%
2022	3,281	520,544	4,562,204,855	17%	294,584,203	30%
2023	3,291	527,595	4,322,340,406	15%	283,477,802	28%
2024	3,298	586,634	5,157,021,652	17%	345,905,453	30%



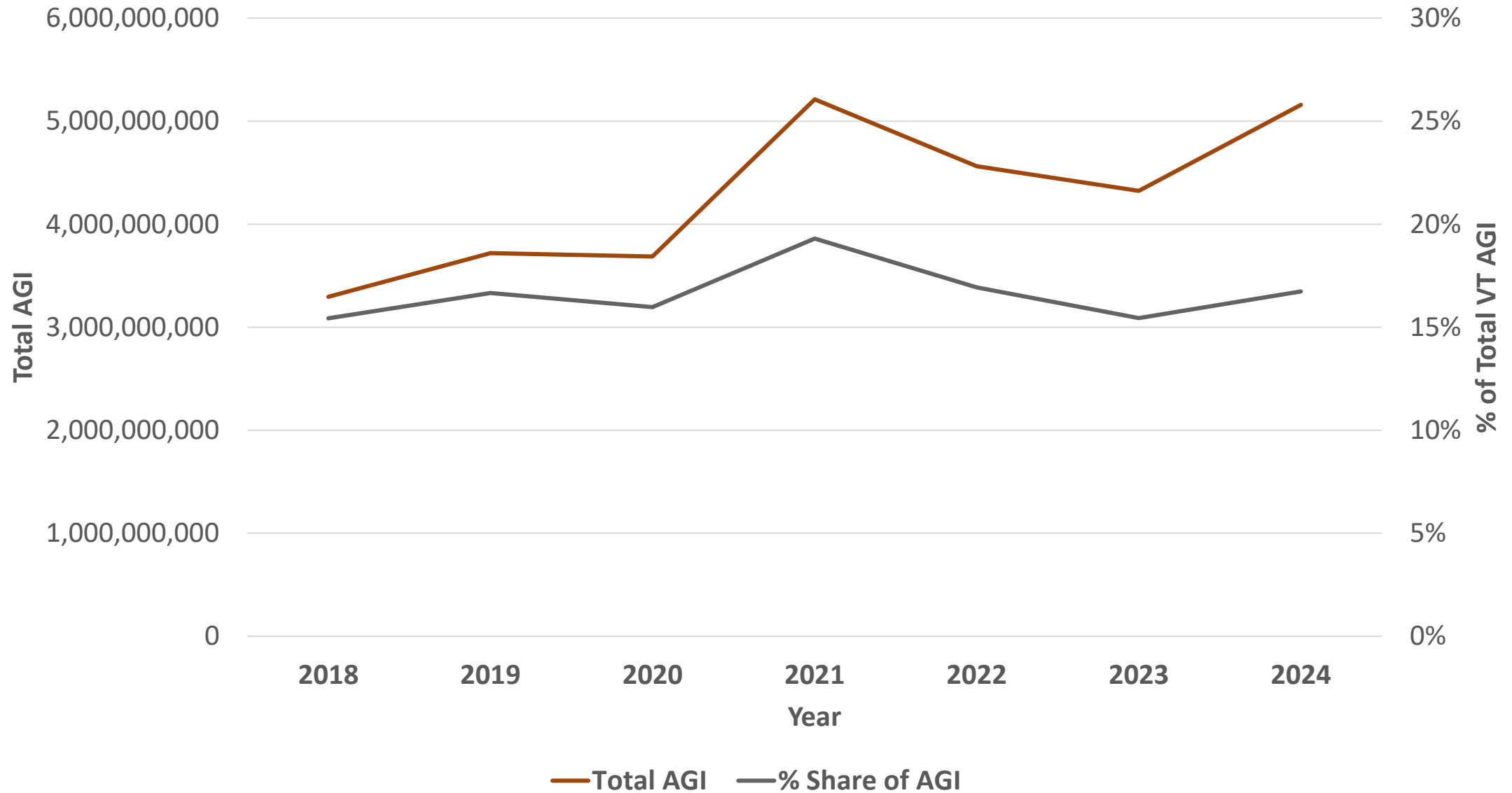
# VT Top 1% Returns



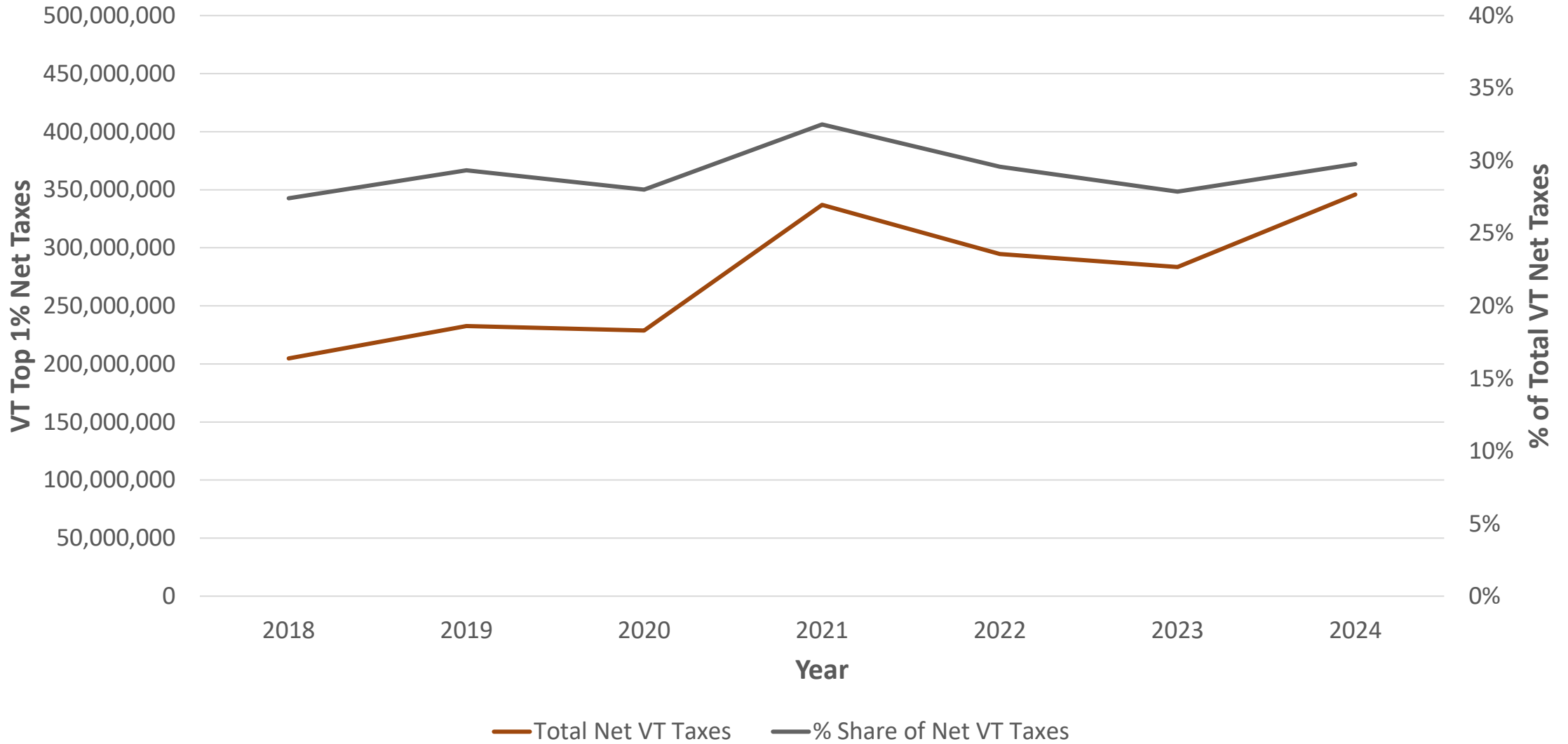
# AGI Start for Percentile



# VT Top 1% Total AGI



# VT Top 1% Net Taxes

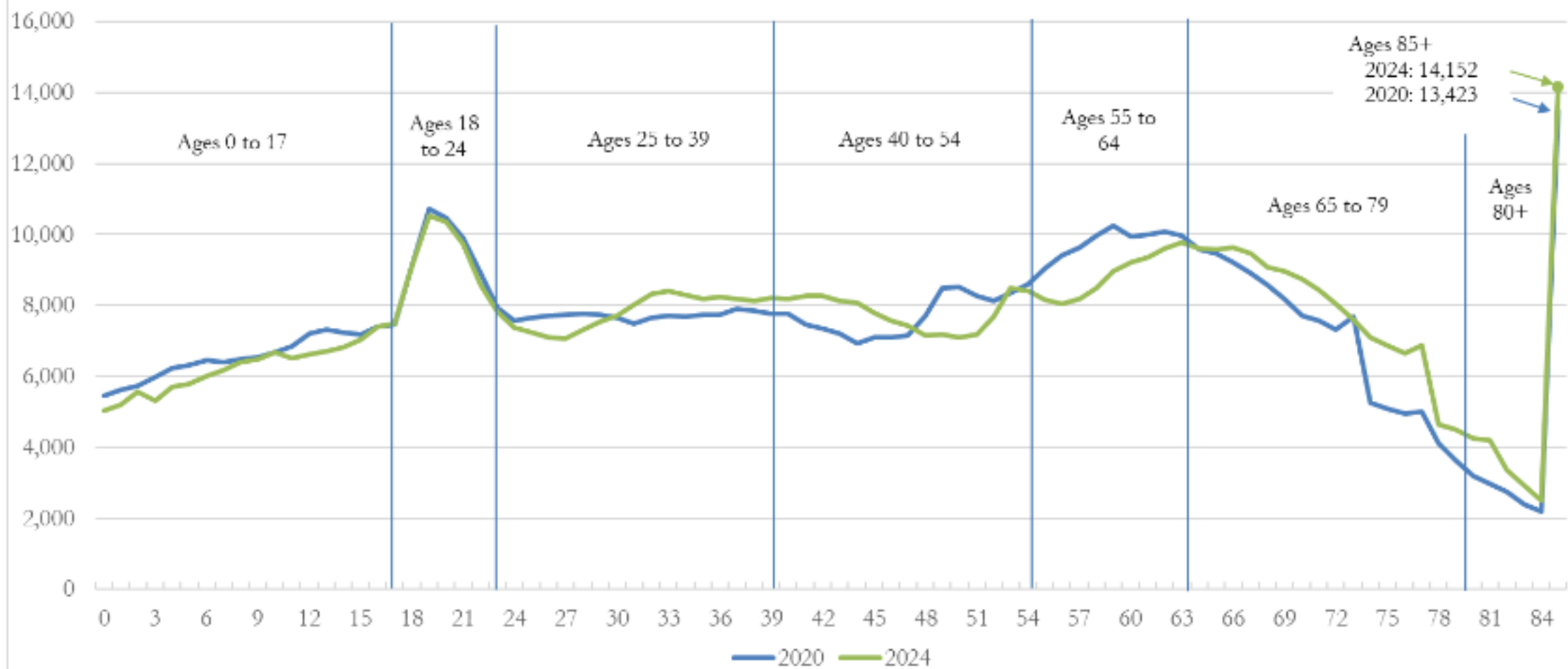


# Personal income tax data, 2024

<b>Personal Income Tax Returns for \$500,000+ and Millionaires, Tax Year 2024</b>				
<b>All Vermont Resident Returns</b>				
<b># returns</b>	<b>% returns</b>	<b>% VT AGI</b>	<b>% net VT tax</b>	
<b>\$500,000+</b>				
4,451	1.3%	18.8%	33.0%	
<b>\$1,000,000+</b>				
1325	0.4%	12.0%	21.7%	
<b>Ages 65+ Only</b>				
<b>\$500,000+</b>				
1,421	0.4%	7.5%	12.7%	
<b>\$1,000,000+</b>				
445	0.1%	5.0%	9.1%	



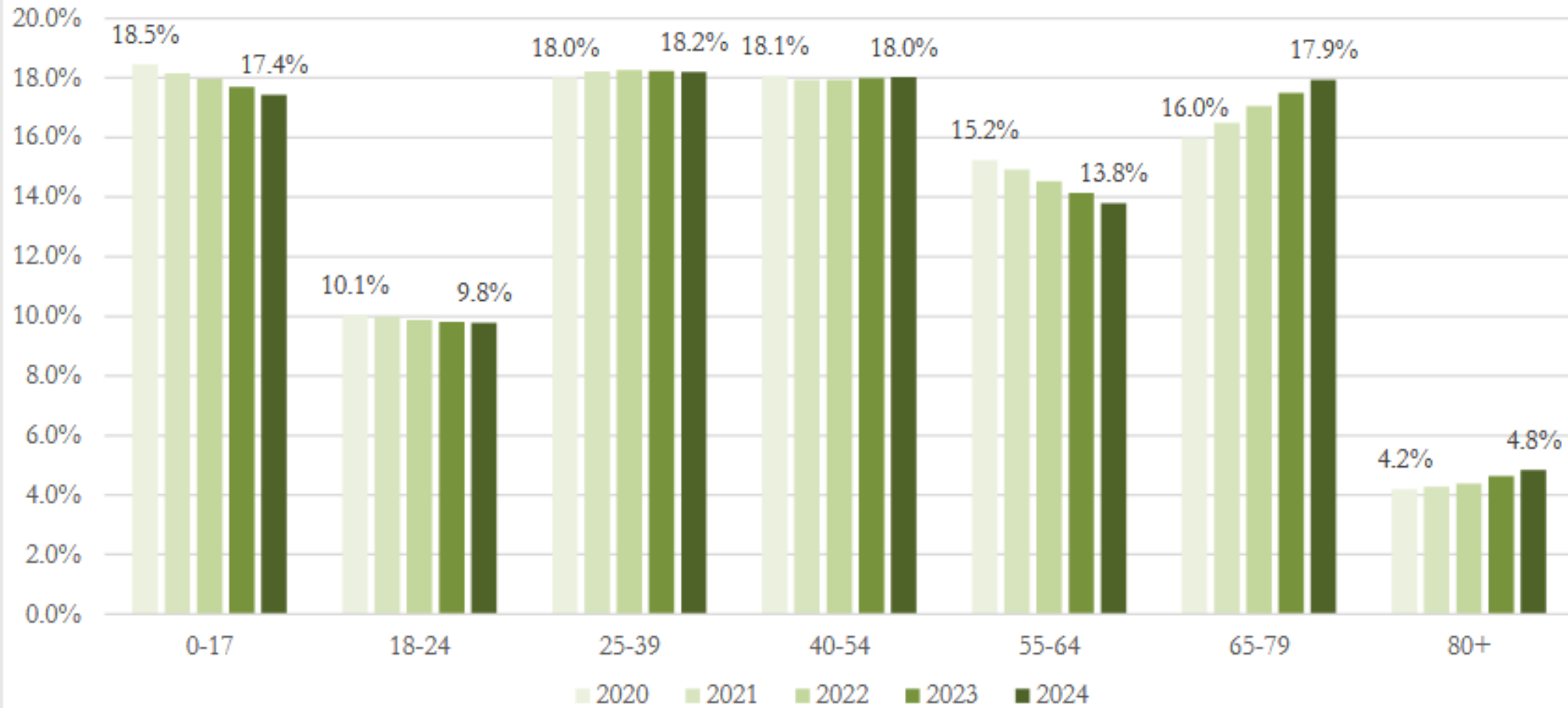
Figure 1: Vermont Population by Single Year of Age, 2020 and 2024



Source: Census Bureau, Annual Estimates of the Resident Population by Single Year of Age and Sex for Vermont: April 1, 2020 to July 1, 2024 (SC-EST2024-SYASEXD-50); <https://www.census.gov/data/tables/time-series/demo/popest/2020s-state-detail.html>



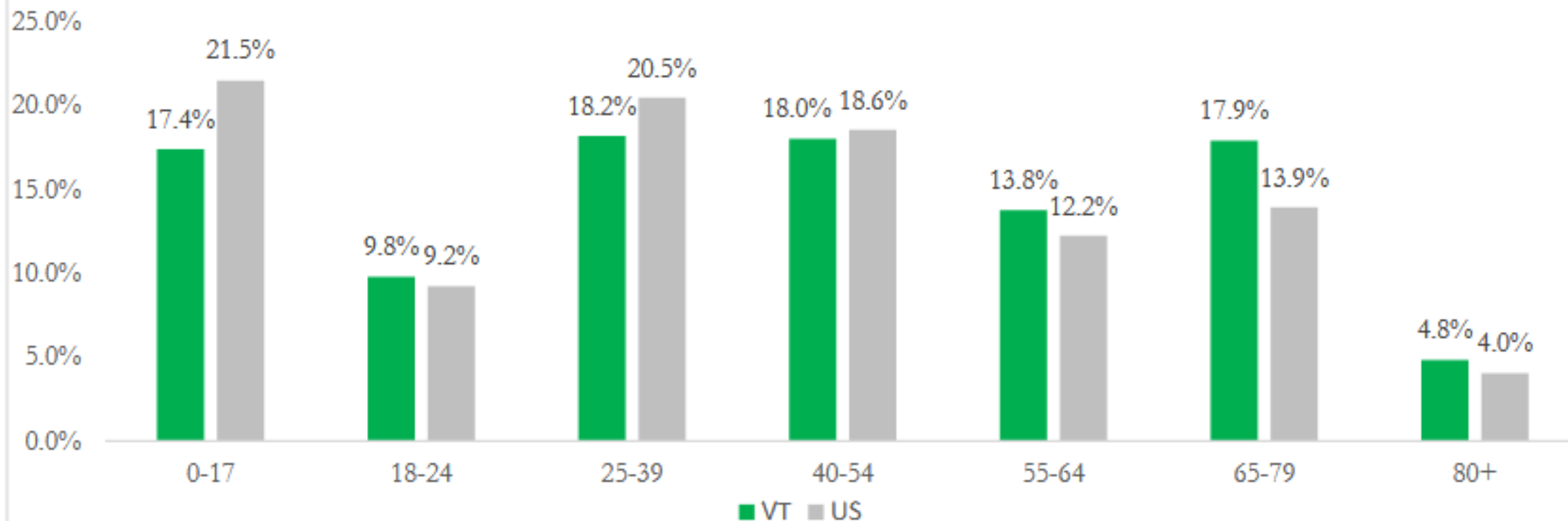
**Figure 2: Shares of Vermont's Population by Age Group, 2020-2024**



Source: Census Bureau, Annual Estimates of the Resident Population by Single Year of Age and Sex for Vermont: April 1, 2020 to July 1, 2024 (SC-EST-SYASEX-50); <https://www.census.gov/data/tables/time-series/demo/popest/2020s-state-detail.html>



Figure 3: Shares of the Vermont and U.S. Populations by Age Group, 2024



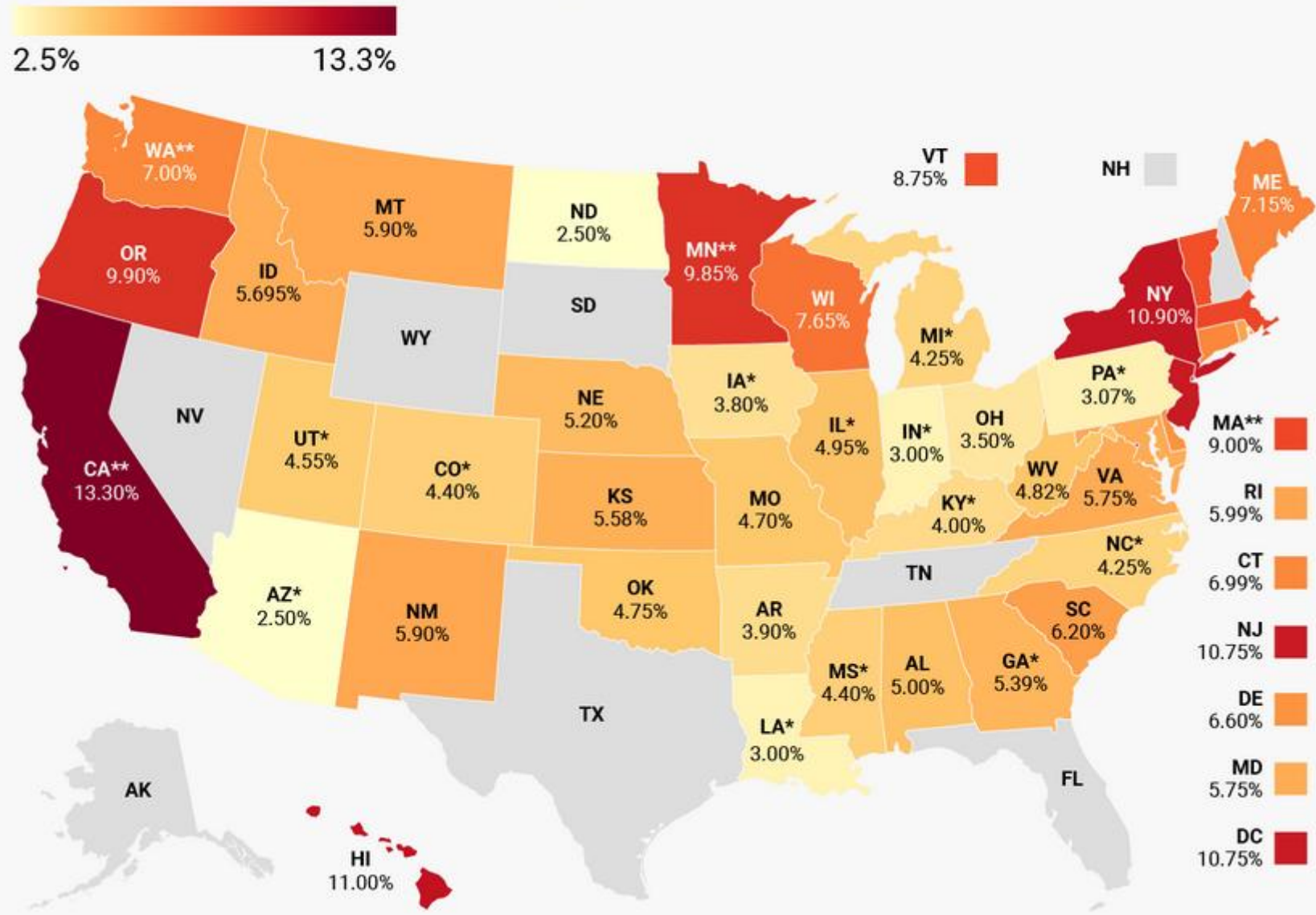
Source: Census Bureau, Annual Estimates of the Resident Population by Single Year of Age and Sex for Vermont: April 1, 2020 to July 1, 2024 (SC-EST-SYASEX-50); <https://www.census.gov/data/tables/time-series/demo/pepest/2020s-state-detail.html>



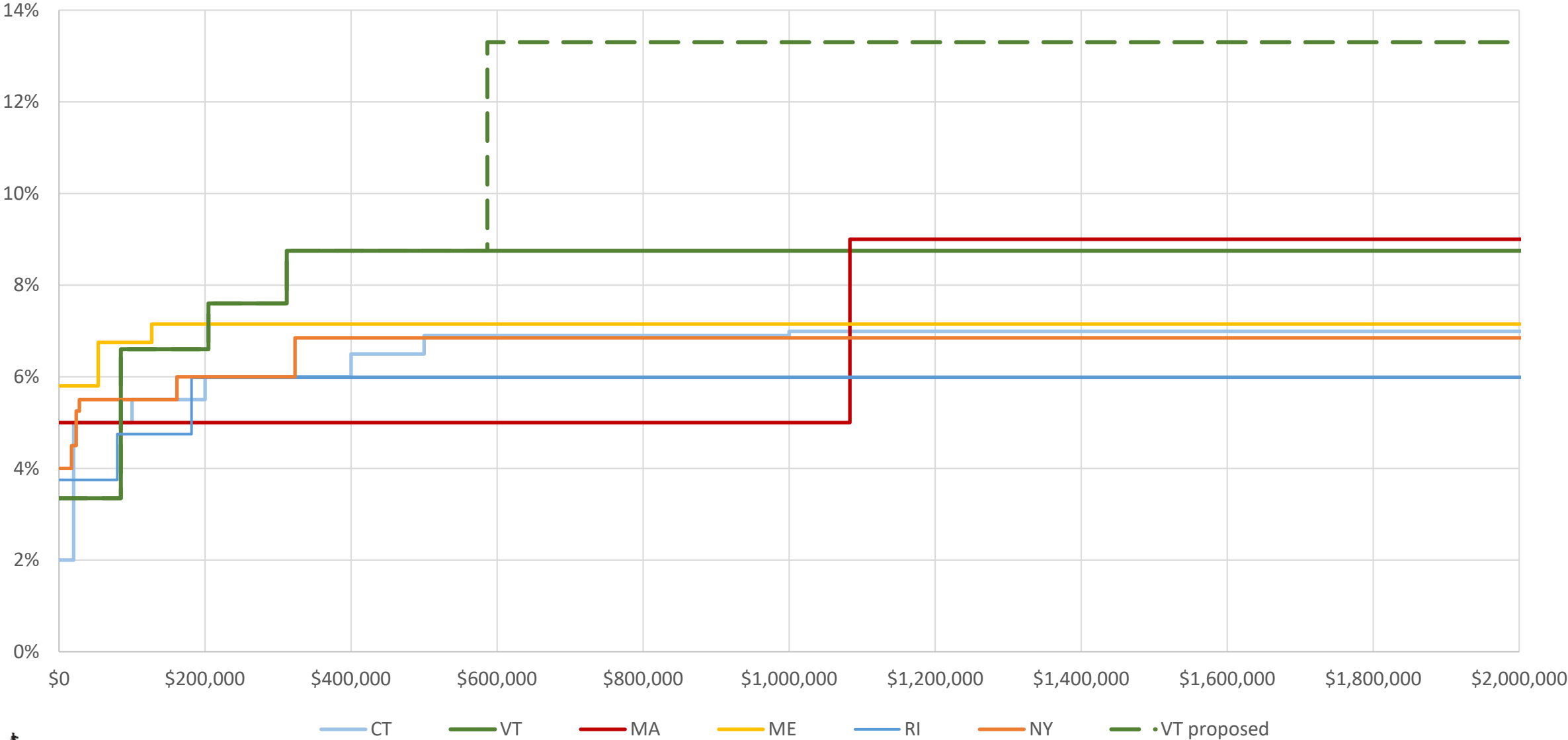
# Other States



# Top Marginal State Individual Income Tax Rates (as of January 1, 2025)



### New England, VT Proposed, New York Marginal Income Tax Rates, MFJ, 2025



Source: National Tax Foundation, State Individual Income Tax Rates and Brackets, as of January 1, 2025. Proposed Vermont new bracket and rate.



# Proposed New Top Marginal Bracket



# Proposed New Brackets

Filing Status: Single			Filing Status: Married Filing Jointly		
AGI		Marginal Tax Rate	AGI		Marginal Tax Rate
\$0	\$50,750	3.35%	\$0	\$84,700	3.35%
\$50,750	\$122,850	6.60%	\$84,700	\$204,750	6.60%
\$122,850	\$256,300	7.60%	\$204,750	\$312,050	7.60%
\$256,300	\$481,825	8.75%	\$312,050	\$586,625	8.75%
\$481,825	and up	13.30%	\$586,625	and up	13.30%
Filing Status: Head of Household			Filing Status: Married Filing Separately		
AGI		Marginal Tax Rate	AGI		Marginal Tax Rate
\$0	\$68,000	3.35%	\$0	\$42,350	3.35%
\$68,000	\$175,500	6.60%	\$42,350	\$102,375	6.60%
\$175,500	\$284,150	7.60%	\$102,375	\$156,025	7.60%
\$284,150	\$534,175	8.75%	\$156,025	\$293,325	8.75%
\$534,175	and up	13.30%	\$293,325	and up	13.30%

- These proposed new top marginal tax brackets are estimated to generate approximately \$114 million in additional revenue starting in fiscal year 2028.



# Proposed Vermont Investment Proceeds Tax



# Federal Net Investment Income Tax

- The federal Net Investment Income Tax (NIIT) was made effective January 1, 2013.
- Was implemented to fund in part the Affordable Care Act.
- The NIIT is a surtax in addition to personal income taxes.
  - Investment income is counted as regular income for personal income taxes.
  - The NIIT is in addition to this.



# Federal Net Investment Income Tax

- Federally, a 3.8% tax is levied on the lesser of Net Investment Income or the amount that exceeds MAGI of,
  - \$200,000 for single filers
  - \$250,000 for MFJ filers
  - \$125,000 for MFS filers
- MAGI is defined as AGI plus the foreign earned income exclusion.
  - Individuals living abroad may exclude up to \$130,000 of foreign wages.
  - For individuals without foreign earned income MAGI will equal AGI.



# Federal Net Investment Income Tax

- Examples:
  1. A single taxpayer has \$50,000 in net investment income and MAGI of \$300,000 (\$100,000 over the threshold).
    - The net investment income (\$50,000) is less than the amount of MAGI over the threshold (\$100,000).
    - 3.8% tax is applied to the \$50,000 and \$1,900 in tax is due.
  2. A single taxpayer has \$50,000 in net investment income and MAGI of \$225,000 (\$25,000 over the threshold).
    - The net investment income (\$50,000) is more than the amount of MAGI over the threshold (\$25,000).
    - 3.8% tax is applied to the \$25,000 and \$950 in tax is due.



# Federal Net Investment Income Tax

- Net investment income includes:
  - Capital gains
  - Dividends
  - Taxable interest
  - Rental and royalty income
  - Passive income from investments
  - Business income from trading financial instruments or commodities
  - Taxable portion of nonqualified annuity payments



# Federal Net Investment Income Tax

- Net investment income does not include:
  - Wages
  - Social security benefits
  - Unemployment pay
  - Qualified retirement plan withdrawals (401k or IRA)
  - Traditional defined benefit plan or retirement plan annuity
  - Deferred compensation plans
  - Interest from municipal bonds or funds
  - Income from the sale of your primary home
  - Life insurance
  - Active business income



# Vermont Investment Proceeds Tax

- This language proposes a tax type that is similar to the NIIT in several ways:
  - Surtax on investment income on a similar tax base
  - Applies to the lesser of investment income or the amount that MAGI exceeds certain thresholds
    - The thresholds are the same



# Vermont Investment Proceeds Tax

- Areas where this language differs from the federal NIIT include
  - Tax rate is 4% instead of 3.8%
  - Includes all the same income types as the NIIT but also adds:
    - Income from state and local obligations outside VT
    - Gains from qualified small business stock excluded under federal law
    - Gains from investments in opportunity zones excluded under federal law
    - Capital gains from the disposition of property held in a trade or business not subject to NIIT
      - This would be *active* business income
    - Any amount of gain not subject to NIIT from disposition of a partnership interest or S-corp stock
    - Net unrealized appreciation in securities of an employer corporation in certain retirement accounts
    - Wealth proceeds from an incomplete gift nongrantor trust that would be subject to federal income tax if the trust was a grantor trust



# Minnesota Net Investment Income Tax

- Minnesota is the only state that has a net investment income tax at the state level, but their version is structured differently than what is proposed in this language and the federal NIIT.
- The Minnesota NIIT includes the same types of investment income as the federal version.
- Levies a 1% tax on net investment income over \$1 million in investment income.
  - The income threshold is based on investment income and not AGI or MAGI.
- The Minnesota NIIT does not apply to gains from the sale of class 2a agricultural property located in Minnesota.



# Vermonters paying the federal NIIT

## Federal Net Investment Income Tax Distribution of Payers:

Adjusted Gross Income	\$100,000 to \$200,000	\$200,000 to \$500,000	\$500,000 to \$1,000,000	\$1,000,000 or more	Total
Estimated Number of NIIT Payers	180	8,820	2,260	970	12,230
Share of Total NIIT Payers	1.5%	72.1%	18.5%	7.9%	100%
Estimated Share of Federal NIIT Paid	0.1%	21.3%	22.4%	56.1%	100%

Source: IRS Individual Income and Tax Data, by State and Size of Adjusted Gross Income, Tax Year 2022



# Vermont Investment Proceeds Tax

- JFO estimates that the Vermont Investment Proceeds Tax proposed in this language would generate approximately \$59.6 million in additional revenue starting in fiscal year 2028.
- The tax would apply is roughly 12,000 taxpayers.



# Appendix: Potential Behavioral Responses



# Potential Behavioral Responses - California

- In 2012 California increased marginal tax rates by up to 3 percentage points for high-income households.
- A 2021 paper studied the effect of this increase in tax rates and estimated that behavioral responses eroded 45.2% of state windfall tax revenues.
- There were two effects the paper studied:
  - Extensive Margin: Out migration due to tax increase.
  - Intensive Margin: Decrease in reported taxable income due to tax increase.



# Potential Behavioral Responses - California

- The combined extensive and intensive responses were estimated to have resulted in an approximately 45.2% decrease in new tax revenue.
  - The extensive margin is estimated to have accounted for 9.5% of the total behavioral response.
  - The decrease in reported taxable income was estimated to account for the majority of the 45.2% decrease.
- Note: 45.2% decrease *does not* mean a decrease in overall revenue. It is the decrease in potential revenue without any behavioral responses.
- [https://www.nber.org/system/files/working\\_papers/w26349/w26349.pdf](https://www.nber.org/system/files/working_papers/w26349/w26349.pdf)



# Questions?

