

1 TO THE HONORABLE SENATE:

2 The Committee on Finance to which was referred Senate Bill No. 282
3 entitled “An act relating to increasing taxes on higher income earners and
4 creating the School Construction Aid Special Fund” respectfully reports that it
5 has considered the same and recommends that the bill be amended by striking
6 out all after the enacting clause and inserting in lieu thereof the following:

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

8 CHAPTER 149. INVESTMENT PROCEEDS TAX

9 § 5701. DEFINITIONS

10 As used in this chapter:

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

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

15 (3) “Threshold amount” means \$700,000.00 for individuals filing as
16 single or head of household, \$1,000,000.00 for married individuals filing
17 jointly, \$500,000.00 for individuals filing as married filing separately, and
18 \$100,000.00 for estates and trusts.

1 § 5702. IMPOSITION OF VERMONT INVESTMENT PROCEEDS TAX

2 (a) A Vermont investment proceeds tax is imposed for each taxable year on
3 individuals, estates, and trusts subject to the personal income tax under chapter
4 151 of this title as follows:

5 (1) individuals filing as single or head of household with federal
6 modified adjusted gross income exceeding \$700,000.00;

7 (2) married individuals filing jointly with federal modified adjusted
8 gross income exceeding \$1,000,000.00;

9 (3) individuals filing as married filing separately with federal modified
10 adjusted gross income exceeding \$500,000.00; and

11 (4) estates and trusts with adjusted gross income, as defined in 26
12 U.S.C. § 67(e), exceeding \$100,000.

13 (b) Tax is imposed at the rate of four percent of the lesser of:

14 (1) investment proceeds for the taxable year; or

15 (2) federal modified adjusted gross income for the taxable year, reduced
16 by the threshold amount.

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

19 (A) undistributed investment proceeds for the taxable year; or

20 (B) federal adjusted gross income for the taxable year, reduced by the
21 threshold amount.

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

3 (d) For part-year and nonresident individuals, estates, and trusts, the tax
4 imposed by this section shall be calculated by multiplying a taxpayer's total
5 amount of investment proceeds for the taxable year by the percentage of
6 investment proceeds allocable to Vermont under section 5823 of this title.

7 § 5703. DETERMINATION OF VERMONT INVESTMENT PROCEEDS

8 The investment proceeds of an individual, estate, or trust means net
9 investment income, as defined in 26 U.S.C. § 1411(c), decreased by the
10 following to the extent they are included in net investment income:

11 (1) income from U.S. government obligations;

12 (2) any amount exempted from state taxation under the laws of the
13 United States; and

14 (3) any gain that is not income from dividends, taxable interest, rents,
15 royalties, passive income from investments, business income, or nonqualified
16 annuity payments.

17 § 5704. ADMINISTRATION

18 The tax imposed under this chapter shall be administered and enforced
19 under this chapter in the same manner as the income tax imposed under section
20 5822 of this title, including all provisions relating to deficiencies, assessments,

1 refunds, appeals, enforcement, and collection under chapter 151, subchapters 8
2 and 9 of this title.

3 **Sec. 2.** 16 V.S.A. § 4025 is amended to read:

4 § 4025. EDUCATION FUND

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

6 * * *

7 (10) wind-powered electric generating facilities tax deposited pursuant
8 to 32 V.S.A. § 5402c; ~~and~~

9 (11) revenues from the short-term rental surcharge under 32 V.S.A.
10 § 9301; ~~and~~

11 (12) revenues raised by the investment proceeds tax imposed by
12 32 V.S.A. chapter 149.

13 * * *

14 **Sec. 3.** 32 V.S.A. chapter 151, subchapter 10C is added to read:

15 Subchapter 10C. Elective Pass-Through Entity Income Tax

16 § 5921a. DEFINITIONS

17 As used in this subchapter:

18 (1) “Distributive proceeds” means the net income, dividends, royalties,
19 interest, rents, guaranteed payments, and gains of a pass-through entity derived
20 from or connected with sources within the State.

1 (2) “Member” means a member of a limited liability company; a partner
2 in a general, limited, or limited liability partnership; or a shareholder of an S
3 corporation, provided the member is a natural person.

4 (3) “Pass-through entity” means a limited liability company, a
5 partnership, or an S corporation.

6 (4) “Pass-through entity business income tax” means the tax imposed
7 under this subchapter.

8 (5) “Share of distributive proceeds” means the portion of distributive
9 proceeds attributable to a member of a pass-through entity during a taxable
10 year.

11 § 5921b. PASS-THROUGH ENTITY INCOME TAX; ELECTION

12 (a) A pass-through entity may elect to be liable for and pay a pass-through
13 entity income tax during the taxable year, provided:

14 (1) at least one member of the entity is liable for income tax under this
15 chapter on that member’s share of distributive proceeds of the pass-through
16 entity during a taxable year;

17 (2) each member of the pass-through entity is a natural person and no
18 member is a C corporation or a pass-through entity; and

19 (3) consent is given by:

20 (A) each member of the electing entity who is a member at the time
21 the election is filed; or

1 (B) any officer, manager, or member of the electing entity who is
2 authorized, under law or the entity’s organizational documents, to make the
3 election and who represents having such authority under penalties of perjury.

4 (b) The tax imposed on a pass-through entity under this section shall be
5 equal to the sum of each member’s share of taxable distributive proceeds
6 attributable to the pass-through entity for the taxable year, multiplied by the
7 second-highest marginal tax rate in section 5822 of this chapter.

8 (c) The election under this section shall be made annually, on or before the
9 due date for filing the entity’s return as established by the Commissioner, and
10 shall not apply retroactively. An election made under this section shall be
11 binding on all members of the pass-through entity for the year in which the
12 election is made. If the members decide to revoke an election, that revocation
13 shall occur on or before the due date for filing the entity’s return.

14 (d) Each pass-through entity that makes an election for a taxable year under
15 this section shall annually report to each of its members the member’s share of
16 distributive proceeds for the taxable year.

17 (e) Each pass-through entity that makes an election for a taxable year under
18 this section shall file an entity tax return and make payments on or before the
19 15th day of the third month following the close of each entity’s taxable year as
20 determined for federal income tax purposes. A pass-through entity shall make
21 estimated entity tax payments as provided under subchapters 10A and 10B of

1 this chapter except that a pass-through entity shall make the estimated entity
2 tax payments for residents and nonresidents alike.

3 (f) A member of a pass-through entity shall not be liable for the individual
4 income tax imposed under section 5822 of this chapter and shall not be
5 required to file an individual income tax return as prescribed under section
6 5861 of this chapter, provided:

7 (1) the member is a nonresident of this State; and

8 (2) the member's only Vermont income during the taxable year is
9 derived from a pass-through entity that has paid the tax imposed under this
10 section on the member's Vermont income.

11 § 5921c. REFUNDABLE INCOME TAX CREDIT; INDIVIDUAL

12 MEMBERS OF PASS-THROUGH ENTITIES

13 An individual taxpayer of this State shall be entitled to a refundable credit
14 against the income tax paid under this chapter for the taxable year, provided
15 the individual is a member of a pass-through entity that elects under section
16 5921b of this chapter to be liable for and pay the pass-through entity income
17 tax during the taxable year. For each pass-through entity of which the
18 individual is a member, the amount of the credit shall equal 90 percent of the
19 individual's pro rata share of the tax paid under section 5921b of this chapter
20 for the taxable year, and that credit shall be available to the member during the
21 same taxable year. The credit under this section shall be available after the

1 application of all other credits allowed by law and claimed by the individual
2 during the taxable year.

3 Sec. 4. 32 V.S.A. § 5825 is amended to read:

4 § 5825. CREDIT FOR TAXES PAID TO OTHER STATES AND
5 PROVINCES

6 * * *

7 (c) The credit claimed under this section shall include an amount of the tax
8 paid to another state that imposes a tax on the distributive proceeds of a pass-
9 through entity, provided the other state’s tax is substantially similar to the pass-
10 through entity income tax imposed under subchapter 10C of this chapter. The
11 nonrefundable credit under this subsection shall equal 90 percent of the
12 taxpayer’s pro rata share of tax paid to another state, provided the amount of
13 the credit does not exceed the amount of pass-through entity business income
14 tax owed or that would have been owed if the pro rata share of tax paid were
15 subject to the pass-through entity income tax under subchapter 10C of this
16 chapter. As used in this subsection, “distributive proceeds” and “pass-through
17 entity” have the same meanings as under section 5921a of this chapter.

18 Sec. 5. REPEALS; SALT DEDUCTION CAP WORKAROUND

19 (a) 32 V.S.A. chapter 151, subchapter 10C (Elective Pass-Through Entity
20 Income Tax) is repealed.

1 **(b) 32 V.S.A. § 5825(c) (credit for taxes paid to other states and provinces)**
2 **is repealed.**

3 Sec. 6. EFFECTIVE DATES

4 (a) Notwithstanding 1 V.S.A. § 214, this section, Sec. 1 (investment
5 proceeds tax), Sec. 2 (education fund), and Secs. 3–4 (SALT deduction cap
6 workaround) shall take effect retroactively on January 1, 2026, and apply to
7 taxable years beginning on and after January 1, 2026.

8 (b) Sec. 5 (repeals; SALT deduction cap workaround) shall take effect on
9 the later of December 31, 2027 or the date on which the federal limitation on
10 individual deductions for state and local taxes under 26 U.S.C. § 164(b)(6) is
11 repealed or otherwise abrogated.

12 and that after passage the title of the bill be amended to read: “An act relating
13 to the Vermont investment proceeds tax”

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2 (Committee vote: _____)

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Senator _____

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FOR THE COMMITTEE