

# S. 282 Wealth/Investment Proceeds Tax Proposal

## Tax Department Feedback on Sec. 3 Wealth Proceeds Tax

- Implementation Timeline
- Vermont's Existing 40% Exclusion for Certain Capital Gains
- Types of Income Included in VT Wealth Proceeds Proposal
- Sourcing of Income (i.e. "Apportionment")

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## 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

# Types of Income Included in federal NIIT and S.282 Wealth Proceeds Tax Proposal

Type of Income	Share*	Description	Federal PIT Treatment	VT PIT Treatment
Capital Gains	60%	Profits generated from the increase in value of an asset at the time of sale	Short term gains (<1 year) taxed normally. Long term get lower rates based on income (0% -> 15% -> 20%)	See Prior slide
Dividends	22%	Profits distributed to shareholders of businesses	Qualified dividends (held longer than 60 days) get same rates as CG, other ordinary dividends taxed normally	Taxed Normally
Rents, Royalties, Trusts, etc.	10%	Income from <i>passive</i> business involvement	Taxed Normally	Taxed Normally
Interest	8%	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

## Vermont's Income Apportionment in PIT

- Personal Income Tax is apportioned based on where the income is sourced. For out of state residents, passive income is sourced to their state of residency.
  - [Vermont Personal Income Tax: Residency and Apportionment 101](#)
- Income from a Vermont business or the sale of real property (like a second home) is always sourced to Vermont. In fact, when an out of state owner sells a VT property an amount is withheld from the transaction to ensure income tax is paid on the gain
- *Question for a wealth proceeds tax:*
  1. What if a resident has rental income from another state that has already taxed it?  
Can they get a credit for taxes paid in that state?