

Wealth Proceeds Tax and High-Income Surcharge

Presented to the House Ways and Means Committee

Montpelier, VT
Thursday, April 16

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ACA created tax on passive income to balance payroll tax on wages and salaries

■ Medicare and Additional Medicare Tax ■ Net Investment Income Tax (NIIT)



Federal Net Investment Income Tax

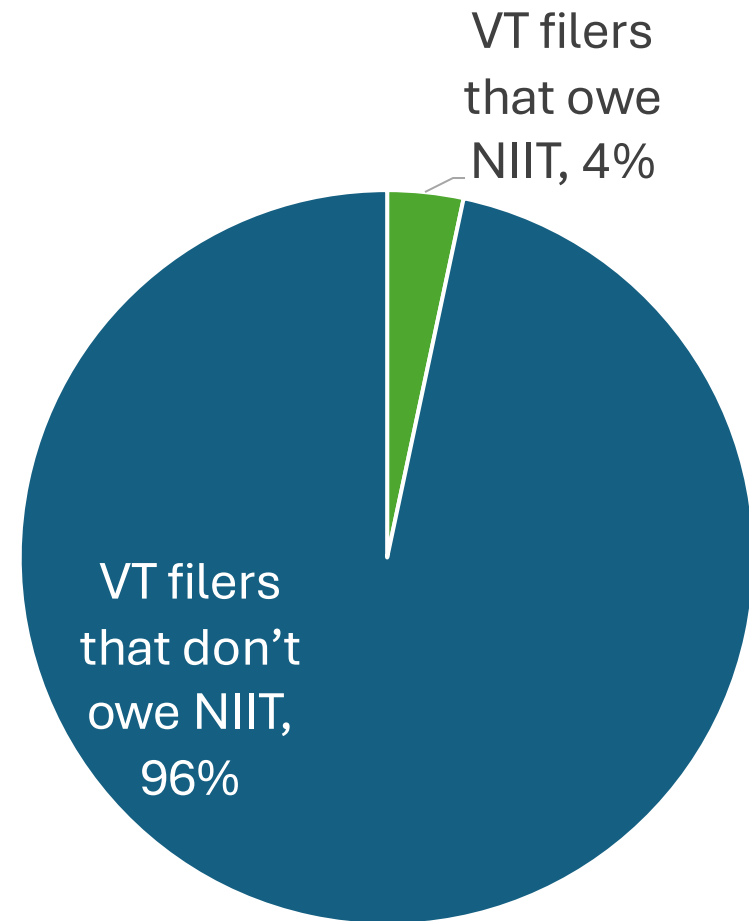
Rate: 3.8 %

Taxable income includes *passive*

- capital gains
- dividends
- interest
- business income
- non-qualified annuities

Income thresholds

- Married filing jointly: \$250,000
- Single/head of household: \$200,000
- Married filing separate: \$125,000
- Trusts and estates: \$16,000



Source: ITEP analysis of 2022 IRS data

Minnesota 2023

- 1% wealth proceeds tax on income over \$1m
- Paid for permanent free school meals program
- Generating \$68m/year



MN Schedule NIIT fits on a single page



2024 Schedule NIIT, Net Investment Income Tax



_____ Taxpayer Name	_____ FEIN, SSN, or ITIN	_____ Minnesota Tax ID
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Part 1 — Net Investment Income Calculation

1 Enter the total investment income from your federal Form 8960, line 8.	1
2 Total net gain included in line 1 relating to dispositions of Class 2a property (see instructions)	2
3 Net interest and mutual fund dividends from U.S. bonds	3
4 Add lines 2 and 3	4
5 Total Minnesota Investment Income. Subtract line 4 from line 1	5
6 Enter the total deductions and modifications from your federal Form 8960, line 11	6
7 Total deductions and modifications included in line 6 relating to the Class 2a property reported on line 2,	7
8 Total Minnesota Deductions and Modifications. Subtract line 7 from line 6	8
9 Minnesota Net Investment Income. Subtract line 8 from line 5	9

Part 2 — Individual Tax Computation

10 Minnesota net investment income (from line 9 above)	10
11 Subtract \$1,000,000 from line 10. If the result is less than zero, enter zero and stop.	11
12 Multiply line 11 by one percent (0.01)	12
13 Amount of line 10 allocated to Minnesota. (see instructions)	13
14 Divide line 13 by line 10. Carry to five decimal places	14
15 Minnesota Net Investment Income Tax. Multiply line 12 by line 14. Enter here and on line 14 of Form M1 ...	15

Part 3 — Estate and Trust Tax Computation

16 Minnesota net investment income (from line 9 above)	16
17 Amount of line 16 that is distributed to beneficiaries or charities.....	17
18 Undistributed Minnesota Net Investment Income. Subtract line 17 from line 16	18
19 Subtract \$1,000,000 from line 18. If the result is less than zero, enter zero and stop.	19
20 Multiply line 19 by one percent (0.01)	20
21 Amount of line 18 allocated to Minnesota. (See instructions)	21
22 Divide line 21 by line 18. Carry to five decimal places	22
23 Minnesota Net Investment Income Tax. Multiply line 20 by line 22. Enter here and on line 12 of Form M2 ...	23



Wealth Proceeds Tax

Rate: 4 %

Taxable income includes passive

- capital gains
- dividends
- interest
- business income
- non-qualified annuities
- **plus modifications**

Income thresholds

- Married filing jointly: \$250,000
- Single/head of household: \$200,000
- Married filing separate: \$125,000
- Trusts and estates: \$16,000



Scenarios with no taxable wealth proceeds (about 96 percent of Vermonters)

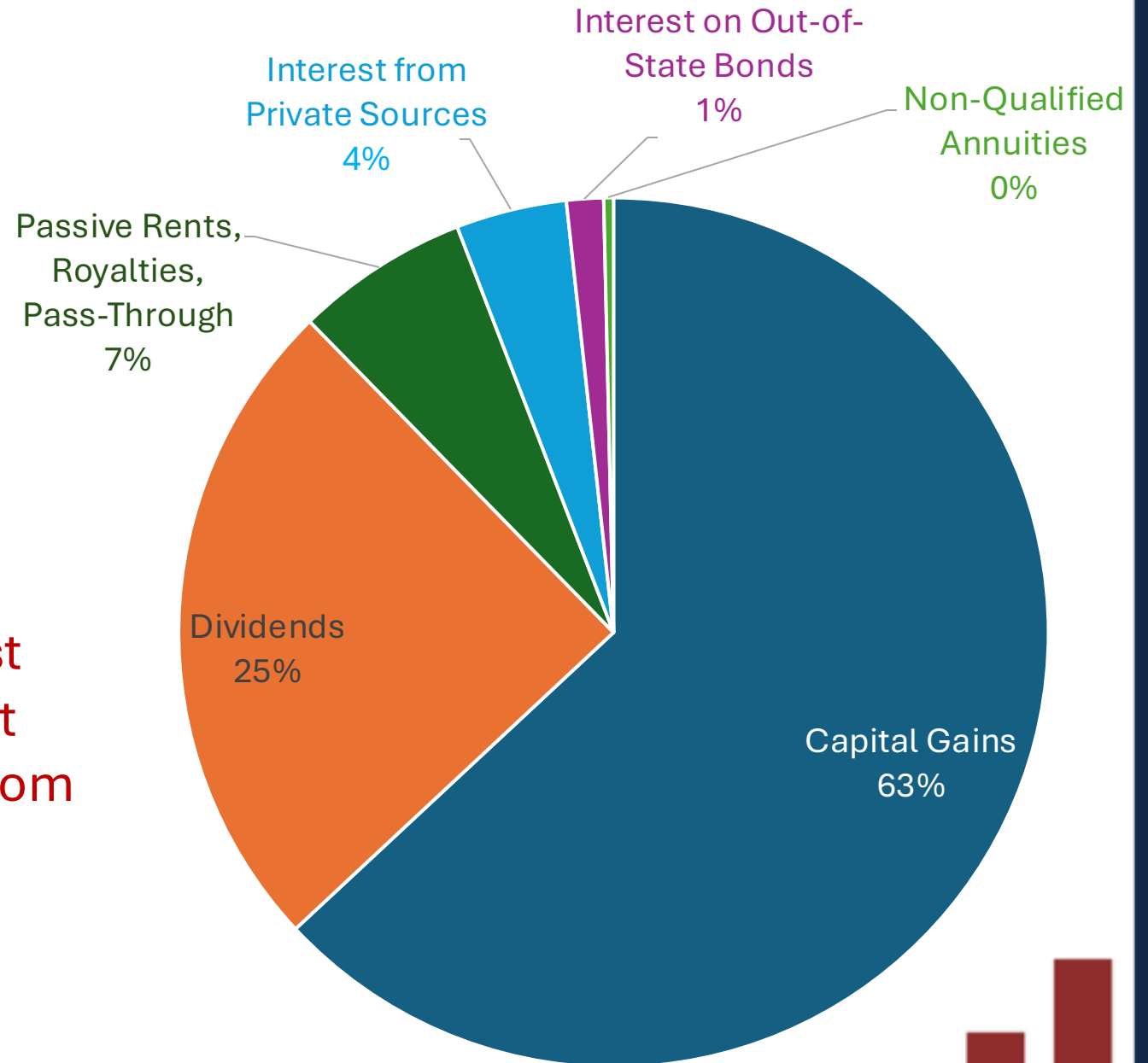


Scenarios with taxable wealth proceeds (about 4 percent of Vermonters)

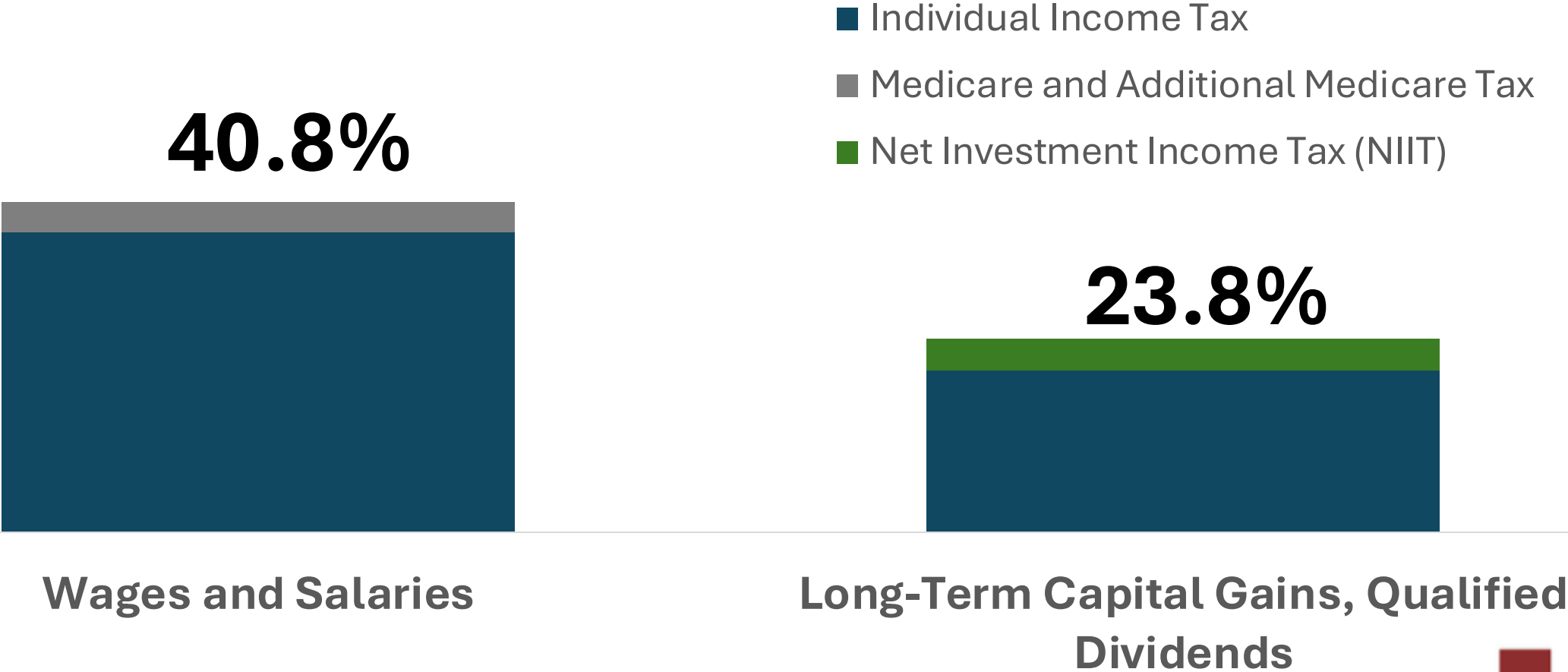


Wealth Proceeds

- capital gains
- dividends
- passive business income
- interest
- non-qualified annuities
- **plus modifications**
 - **subtracts federal bond interest**
 - **adds out of state bond interest**
 - **adds capital gains excluded from NII, including:**
 - **Business sales**
 - **Opportunity zones**
 - **QSBS exclusions**



Top federal rates on wages *70 percent higher* than those on most wealth proceeds



Note: Top federal tax rates on wages and salaries apply at taxable income levels over \$640,600 (single) and \$768,700 (married filing jointly) in 2026, while top rates on long-term capital gains and dividends apply starting at incomes over \$545,500 (single) and \$613,700 (married filing jointly).

Source: Institute on Taxation and Economic Policy

Composition of Proposed Wealth Proceeds Tax (WPT) Base and Federal Tax Treatment of Income, by Source, Under Individual Income Tax (IIT), Net Investment Income Tax (NIIT), and Payroll Tax -- VERMONT

	Share of WPT Base	Preferred Under IIT	Exempt from Federal NIIT	Exempt from FICA, SECA Payroll Tax
Long-Term Gains Subject to Federal NIIT	39.1%	Yes	No	Yes
Long-Term Gains Exempt from Federal NIIT	23.0%	Yes	Yes	Yes
Qualified Dividends	20.1%	Yes	No	Yes
Passive Rents, Royalties, Pass-Through	6.5%	No	No	Yes
Interest from Private Sources	4.1%	No	No	Yes
Non-Qualified Dividends	4.6%	No	No	Yes
Interest on Out-of-State Bonds	1.4%	Yes	Yes	Yes
Short-Term Gains	1.0%	No	No	Yes
Non-Qualified Annuities	0.4%	No	No	Yes
Total as a % of SB 282 Wealth Proceeds Tax Base	100.0%	83.5%	24.4%	100.0%

Note: Tax base shares calculated after deductions for investment expenses and application of income thresholds.

Source: Institute on Taxation and Economic Policy (ITEP) analysis of data from the IRS and state tax departments



A word on Trusts & Estates

JANUARY 28, 2026 LUKE FEDERICI

A Smart Way to Plan for High State Income Taxes: The Nevada ING Trust

As a trust and estates and tax attorney, I am frequently asked by clients (and colleagues) if there are options to reduce the income tax burden they expect to pay on portfolio income or when they expect to experience a liquidity event in the future. Clients who live in high-tax states (e.g., states with a state-level income tax) that have investment assets that generate interest, dividends, royalties, or capital gains are often prime candidates for NING trusts.

Income Exempt from Wealth Proceeds

- Capital gains on primary homes up to \$250,000 for single filers and \$500,000 for joint filers
- Business income if the owner is working in the business
- All traditional retirement income: social security, pensions, 401(k)s, 403(b)s, 457(b) plans, and qualified annuities

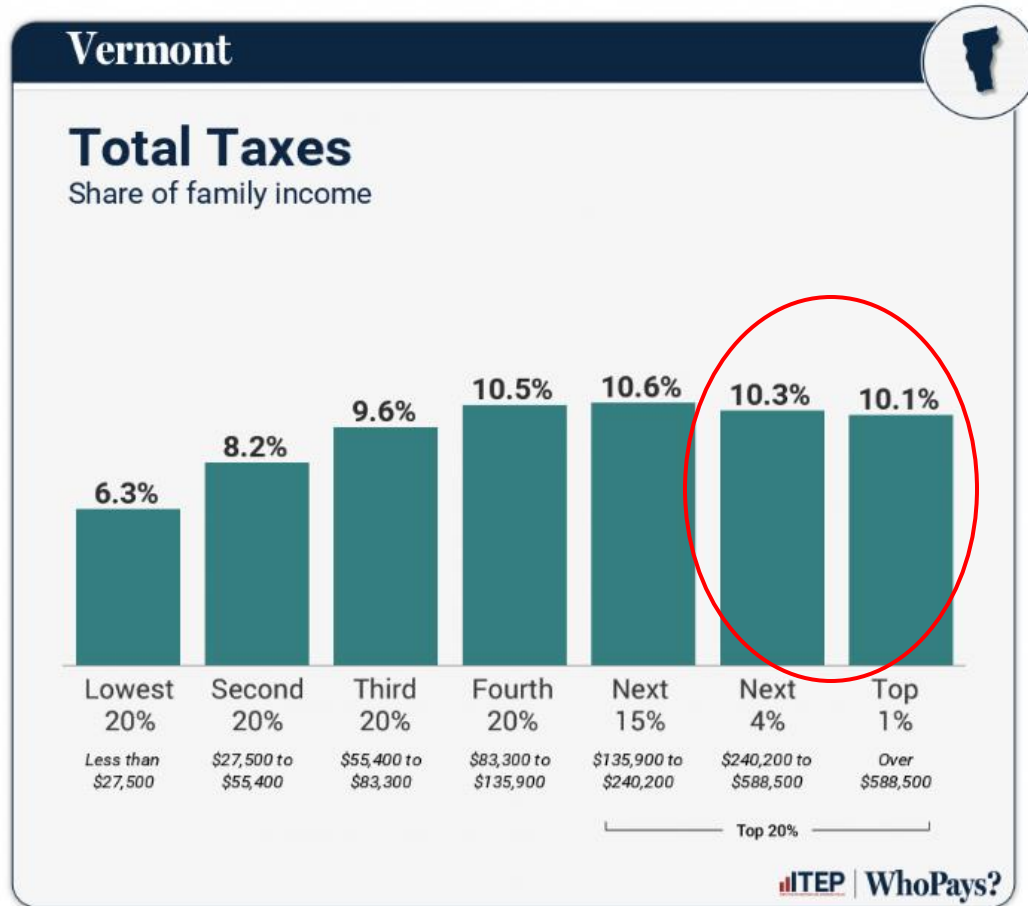


A WPT would generate **\$75 million** annually for Vermont

- ✓ Would help close the gap as federal funding for states declines
- ✓ Would largely tax highly tax-preferred income
- ✓ Would not fall on working families struggling to afford cost of living



Pairing the WPT with the proposed new top bracket in the bill would boost tax equity in the state



Impact of Trump Megabill in Vermont

Average tax change by income group in 2026

Income Range						
Less than \$36,700	\$36,700 to \$62,500	\$62,500 to \$96,400	\$96,400 to \$151,400	\$151,400 to \$321,800	\$321,800 to \$758,600	\$758,600 and above
Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Richest 1%
-\$110	-\$600	-\$1,530	-\$2,150	-\$5,530	-\$17,290	-\$57,080

Source: Institute on Taxation and Economic Policy Tax Microsimulation Model, July 2025

Debunking Millionaire Tax Flight Concerns

- Millionaire tax flight does sometimes occur, but they are far less mobile than commonly believed.
- The magnitude is small and is too small to matter for current tax policy.
- In the long-run, states can raise taxes on the rich to invest in public services that attract *future* top earners.

