

The Wealth Proceeds Tax

A simple, shovel-ready way for states to tax the wealthy today

Economic inequality in the U.S. is large, growing, and highly unpopular. A large majority of Americans across the political spectrum are concerned about the rising gap between wealthy people and average Americans. At the same time, most Americans also say that wealthy people pay too little in tax – a view supported by careful economic analysis and leaked IRS data of wealthy people’s actual tax filings.

Against this backdrop, a growing number of state lawmakers are interested in enacting **robust taxes on the wealthy**. One underappreciated reform, first implemented in Minnesota, offers one of the best options yet for straddling the line between cold practicality and innovative reform. Specifically, Minnesota has created a tax that relies on a prepackaged, IRS-audited definition of passive income – or the proceeds generated simply by owning wealth – to identify and tax wealthy people.

Income vs. Wealth

Income is the flow of new money that a family receives each year. Most people earn their income through work, though some also receive passive income created by their wealth holdings, such as interest or stock dividends.

Wealth is the total amount of financial resources that a family owns. Because wealth accumulates over time and even across generations, it is more unequally distributed across society than income.

Most states levy broad-based income taxes as a core part of their tax codes. State taxes on wealth are far narrower, though, typically applying only to homes and other real estate.

According to new research from the Institute on Taxation and Economic Policy (ITEP), universal adoption of a modest 4% **Wealth Proceeds Tax**, based closely on federal rules, could raise \$45 billion in revenue annually for states. **Under ITEP’s preferred approach for an Enhanced Wealth Proceeds Tax that better taxes capital gains, states could collectively raise \$57 billion per year with a 4% rate.**

The wealth proceeds tax is laser-focused on the wealthy, not workers

Robust and progressive income taxes are an essential component of fair state tax policy, but there is good reason to diversify state tax systems to also include levies more squarely targeted at taxing wealth.

Imagine a young surgeon earning a high income. This person will pay a meaningful amount of income tax, and rightly so, because they have a high income. But if most of their earnings are directed toward paying off their medical school loans, they will pay very little or nothing under a Wealth Proceeds Tax because they lack meaningful wealth.

A young person enjoying a life of leisure and living off a large trust fund their parents gave them, on the other hand, will pay a significant amount of Wealth Proceeds Tax because their income – unlike the surgeon’s – is passive income created by their wealth, not their work.

Even if these two have identical incomes, their Wealth Proceeds Tax bills will be very different because this levy is designed to tax the wealthy, and these two individuals hold very different levels of wealth.

Revenue Potential of State-Level Enhanced Wealth Proceeds Taxes (EWPT) in 2026 at Various Rates (figures in millions)

State	1% Rate	2% Rate	3% Rate	4% Rate	5% Rate	6% Rate	7% Rate	8% Rate	9% Rate	10% Rate
Alabama	\$102.8	\$202.3	\$298.5	\$391.8	\$482.0	\$569.4	\$654.0	\$735.9	\$815.3	\$892.1
Alaska	\$18.7	\$36.8	\$54.4	\$71.4	\$88.0	\$104.2	\$119.9	\$135.1	\$149.9	\$164.3
Arizona	\$283.3	\$556.9	\$821.2	\$1,076.6	\$1,323.2	\$1,561.5	\$1,791.7	\$2,014.0	\$2,228.8	\$2,436.4
Arkansas	\$119.0	\$235.3	\$348.9	\$459.9	\$568.4	\$674.5	\$778.3	\$879.9	\$979.3	\$1,076.6
California	\$1,978.6	\$3,893.4	\$5,746.5	\$7,540.2	\$9,276.7	\$10,958.0	\$12,586.2	\$14,163.3	\$15,691.0	\$17,171.3
Colorado	\$331.3	\$651.6	\$961.2	\$1,260.6	\$1,550.1	\$1,830.0	\$2,100.6	\$2,362.4	\$2,615.6	\$2,860.5
Connecticut	\$291.5	\$574.4	\$849.0	\$1,115.6	\$1,374.5	\$1,625.9	\$1,870.2	\$2,107.5	\$2,338.1	\$2,562.3
Delaware	\$25.1	\$49.5	\$73.1	\$96.1	\$118.4	\$140.0	\$161.0	\$181.4	\$201.2	\$220.5
D.C.	\$65.8	\$129.7	\$191.6	\$251.7	\$309.9	\$366.5	\$421.4	\$474.7	\$526.5	\$576.8
Florida	\$2,495.2	\$4,907.2	\$7,238.8	\$9,492.6	\$11,671.4	\$13,777.6	\$15,813.9	\$17,782.5	\$19,686.0	\$21,526.4
Georgia	\$328.8	\$646.6	\$953.8	\$1,250.7	\$1,537.8	\$1,815.3	\$2,083.7	\$2,343.2	\$2,594.1	\$2,836.7
Hawaii	\$59.7	\$118.1	\$175.2	\$231.0	\$285.6	\$339.0	\$391.3	\$442.5	\$492.7	\$541.8
Idaho	\$73.0	\$143.4	\$211.3	\$276.7	\$339.9	\$400.7	\$459.4	\$516.1	\$570.6	\$623.3
Illinois	\$508.7	\$1,001.2	\$1,477.9	\$1,939.5	\$2,386.4	\$2,819.2	\$3,238.4	\$3,644.4	\$4,037.7	\$4,418.8
Indiana	\$138.4	\$272.2	\$401.6	\$526.8	\$647.8	\$764.9	\$878.2	\$987.7	\$1,093.7	\$1,196.3
Iowa	\$75.2	\$148.0	\$218.3	\$286.4	\$352.2	\$415.9	\$477.6	\$537.2	\$595.0	\$650.8
Kansas	\$79.9	\$157.2	\$232.1	\$304.4	\$374.5	\$442.3	\$507.9	\$571.4	\$632.9	\$692.5
Kentucky	\$88.3	\$174.0	\$257.1	\$337.8	\$416.1	\$492.1	\$565.8	\$637.5	\$707.1	\$774.7
Louisiana	\$100.9	\$199.1	\$294.7	\$387.8	\$478.5	\$566.8	\$652.9	\$736.8	\$818.6	\$898.4
Maine	\$35.2	\$69.2	\$102.0	\$133.9	\$164.6	\$194.4	\$223.2	\$251.1	\$278.1	\$304.2
Maryland	\$174.5	\$343.7	\$507.9	\$667.4	\$822.1	\$972.3	\$1,118.2	\$1,259.9	\$1,397.6	\$1,531.4
Massachusetts	\$473.4	\$931.5	\$1,375.0	\$1,804.2	\$2,219.8	\$2,622.1	\$3,011.7	\$3,389.0	\$3,754.5	\$4,108.6
Michigan	\$236.0	\$465.0	\$687.4	\$903.2	\$1,112.7	\$1,316.2	\$1,513.9	\$1,705.9	\$1,892.4	\$2,073.8
Minnesota	\$73.6	\$211.0	\$344.5	\$474.2	\$600.2	\$722.6	\$841.7	\$957.4	\$1,070.0	\$1,179.5
Mississippi	\$47.5	\$93.5	\$138.0	\$181.2	\$223.0	\$263.5	\$302.8	\$340.9	\$377.8	\$413.6
Missouri	\$168.4	\$332.2	\$491.7	\$646.9	\$798.1	\$945.3	\$1,088.8	\$1,228.5	\$1,364.8	\$1,497.6
Montana	\$78.8	\$154.9	\$228.3	\$299.1	\$367.4	\$433.3	\$496.9	\$558.2	\$617.4	\$674.5
Nebraska	\$58.5	\$115.3	\$170.3	\$223.7	\$275.4	\$325.6	\$374.3	\$421.5	\$467.4	\$511.9
Nevada	\$264.0	\$519.1	\$765.4	\$1,003.2	\$1,233.0	\$1,454.8	\$1,669.1	\$1,876.1	\$2,076.0	\$2,269.1
New Hampshire	\$91.8	\$180.3	\$265.6	\$347.9	\$427.1	\$503.5	\$577.2	\$648.1	\$716.5	\$782.4
New Jersey	\$356.5	\$702.6	\$1,038.6	\$1,364.9	\$1,681.9	\$1,989.8	\$2,289.1	\$2,580.0	\$2,862.9	\$3,137.9
New Mexico	\$41.0	\$80.8	\$119.4	\$157.0	\$193.4	\$228.8	\$263.2	\$296.6	\$329.1	\$360.7
New York	\$1,226.7	\$2,416.4	\$3,570.5	\$4,690.2	\$5,776.7	\$6,831.4	\$7,855.2	\$8,849.5	\$9,815.1	\$10,753.3
North Carolina	\$309.7	\$609.2	\$898.9	\$1,179.0	\$1,450.0	\$1,712.0	\$1,965.6	\$2,210.8	\$2,448.1	\$2,677.7
North Dakota	\$29.3	\$58.0	\$86.1	\$113.6	\$140.6	\$167.0	\$192.9	\$218.3	\$243.2	\$267.6
Ohio	\$261.9	\$515.8	\$762.0	\$1,000.9	\$1,232.6	\$1,457.4	\$1,675.6	\$1,887.3	\$2,092.8	\$2,292.4
Oklahoma	\$95.3	\$188.0	\$278.2	\$365.9	\$451.2	\$534.2	\$614.9	\$693.6	\$770.2	\$844.8
Oregon	\$119.8	\$235.7	\$348.0	\$456.6	\$561.8	\$663.7	\$762.4	\$858.0	\$950.6	\$1,040.4
Pennsylvania	\$399.3	\$786.3	\$1,161.5	\$1,525.3	\$1,878.0	\$2,220.1	\$2,551.9	\$2,873.8	\$3,186.1	\$3,489.1
Rhode Island	\$38.0	\$74.7	\$110.1	\$144.4	\$177.6	\$209.7	\$240.7	\$270.7	\$299.8	\$327.8
South Carolina	\$147.6	\$290.3	\$428.4	\$562.0	\$691.3	\$816.4	\$937.4	\$1,054.6	\$1,167.9	\$1,277.7
South Dakota	\$40.4	\$79.7	\$117.7	\$154.6	\$190.3	\$225.1	\$258.7	\$291.4	\$323.1	\$353.9
Tennessee	\$279.1	\$548.5	\$808.6	\$1,059.7	\$1,302.1	\$1,536.1	\$1,762.0	\$1,980.1	\$2,190.6	\$2,393.7
Texas	\$1,618.5	\$3,187.2	\$4,707.7	\$6,181.8	\$7,611.0	\$8,996.8	\$10,340.7	\$11,644.2	\$12,908.7	\$14,135.5
Utah	\$153.7	\$301.9	\$444.6	\$582.3	\$714.9	\$842.7	\$965.8	\$1,084.5	\$1,198.8	\$1,309.0
Vermont	\$19.7	\$38.9	\$57.5	\$75.6	\$93.2	\$110.3	\$126.9	\$143.1	\$158.9	\$174.2
Virginia	\$328.1	\$645.6	\$953.0	\$1,250.5	\$1,538.5	\$1,817.4	\$2,087.4	\$2,349.0	\$2,602.3	\$2,847.7
Washington	\$417.5	\$822.3	\$1,215.0	\$1,595.9	\$1,965.4	\$2,324.1	\$2,672.2	\$3,010.2	\$3,338.3	\$3,657.1
West Virginia	\$20.6	\$40.7	\$60.3	\$79.4	\$98.0	\$116.1	\$133.8	\$151.1	\$167.9	\$184.4
Wisconsin	\$140.8	\$277.6	\$410.3	\$539.3	\$664.5	\$786.3	\$904.5	\$1,019.5	\$1,131.3	\$1,240.0
Wyoming	\$91.0	\$179.2	\$264.7	\$347.8	\$428.3	\$506.5	\$582.4	\$656.0	\$727.5	\$797.0
TOTAL, ALL STATES	\$15,000.3	\$29,591.6	\$43,722.4	\$57,408.7	\$70,666.1	\$83,509.5	\$95,953.6	\$108,012.5	\$119,699.9	\$131,029.0

Note: The Enhanced Wealth Proceeds Tax is distinguished from the basic Wealth Proceeds Tax by its use of a more comprehensive definition of capital gains that includes all gains currently subject to the federal individual income tax. Minnesota figures are net of the \$68 million we expect will be raised in 2026 by the state's existing 1 percent tax on most passive wealth proceeds over \$1 million.

Source: Institute on Taxation and Economic Policy (ITEP) analysis of data from the Internal Revenue Service (IRS), Congressional Budget Office (CBO), and state tax departments.

