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Virginia Eyes Doubling Income Taxes on Millionaires, Taxing Investment Gains

By [Tracey Longo](#)

Newly empowered Virginia state Democrats are advancing proposals that would sharply raise taxes on millionaires and investment income, breaking with decades of flat-rate tax policy. The effort mirrors a broader push across Democratic-controlled states to tap high earners to fund expanded spending and close budget gaps.

One of the central proposals is a bill (House Bill 188) to create a new 10% income tax bracket on earnings above \$1 million. Virginia currently taxes all income above roughly \$17,000 at a flat 5.75%. If enacted, the change would more than double the marginal rate for the state's highest earners. Lawmakers backing the bill say the additional revenue would be split among public schools, child care subsidies and affordable housing programs.

“By having the millionaires pay their fair share of taxes, it will actually help Virginians be able to come out of this affordability crisis and kind of buffer us a little bit from what’s going on at the federal level,” Del. Kelly Convirs-Fowler, a Democrat who represents Virginia Beach, told the press.

A second proposal (House Bill 378) would layer on a state-level Net Investment Income Tax. Modeled after the federal NIIT, the levy would apply to dividends, interest, capital gains and rental income once a taxpayer’s modified adjusted gross income exceeds \$500,000. Combined with existing taxes, the measure could push Virginia’s effective top rate on investment income close to 9.6%, significantly raising the burden on affluent households with substantial passive income.

Supporters argue the measures promote fairness and align tax treatment of investment income with wages. But critics see different risks. They warn that higher taxes could make Virginia less competitive with neighboring states, discourage business investment and accelerate tax flight among high-income residents who have flexibility over where they live and work. Both bills remain under legislative review and would need approval from both chambers before reaching Gov. Abigail Spanberger, who has yet to comment on the proposal.

Virginia is not acting alone. Several Democratic-led states have already moved to enact higher taxes on the wealthy. Massachusetts implemented a 4% surtax on income above \$1

million in 2023. Minnesota raised its top marginal rate on investment income for millionaires. And Rhode Island and Washington state lawmakers are advancing new millionaire tax proposals to shore up strained budgets. Meanwhile, the Democratic-led states of New York, New Jersey and California already maintain some of the highest top income tax rates in the country.

New York City Mayor-elect Zohran Mamdani has repeatedly said he wants to raise taxes on high-income residents to help fund his affordability agenda, including free childcare and public transit. His proposal includes a roughly 2 % surcharge on income for residents earning over \$1 million, a plan he says is necessary to stabilize city finances and ask the wealthiest to “pay their fair share.” New York Gov. Kathy Hochul recently submitted a budget to the state legislature without any tax increases in it.

California remains the furthest out on the policy spectrum. Lawmakers and activists are debating a proposed wealth tax on billionaires that would apply to net worth rather than income. Critics say the initiative is poorly drafted and could force founders of major companies to sell controlling stakes to pay the tax. That, they argue, could rattle stock prices and harm retirement portfolios far beyond Silicon Valley executives.

Uchechi Kalu, founder of Greenlight Financial Planning in Los Angeles, said a lot of her clients are social justice-minded and don't mind higher taxes if policy initiatives align with their morals and values. “Many of my clients are okay with paying higher taxes, if they can clearly see that the taxes are being used to truly enrich the nation and solve issues like homelessness, healthcare and education.”

But policy analysts say the concerns are not theoretical. Cristina Enache, an economist at the Tax Foundation, said history offers repeated warnings. “Many developed countries have

repealed their wealth taxes because they raise little revenue, create high administrative costs, and induce an outflow of wealthy individuals and their money,” she said. She added that policymakers increasingly have concluded that heavy taxes on capital “damage economic growth.”

Chris Edwards, director of tax policy studies at the Cato Institute, raised similar concerns. He argued that calls to tax wealth are often framed around fairness but overlook economic consequences. Wealth taxes, he said, punish savings and capital formation, discourage entrepreneurship and reduce long-term productivity.

Meanwhile, low-tax states such as Florida, Texas, Tennessee and Nevada continue to market themselves aggressively to high earners and retirees seeking stability.