

Review of the Property Tax Credit and Its Timing

House Committee on Ways and Means

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Outline of Talk

- Review of the property tax credit (PTC) and lag
- Example PTC calculation for an income-sensitized homestead



Property Tax Credit (PTC) *Overview*

- The homestead property tax has a credit based on income
- About two-thirds of Vermont households receive the PTC
- The credit is applied to the following tax year's bill

Household income

PTC parameters

Less than or equal to
\$47,000

- PTC may be used on the first \$400,000 of the housesite value
- Additional tax relief based on household income is available

\$47,001 - \$90,000

- PTC may be used on the first \$400,000 of the housesite value

\$90,001 - \$128,000

- PTC may be used on the first \$225,000 of the housesite value

Greater than \$128,000

- Household does not qualify for a PTC
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Review of PTC Calculation

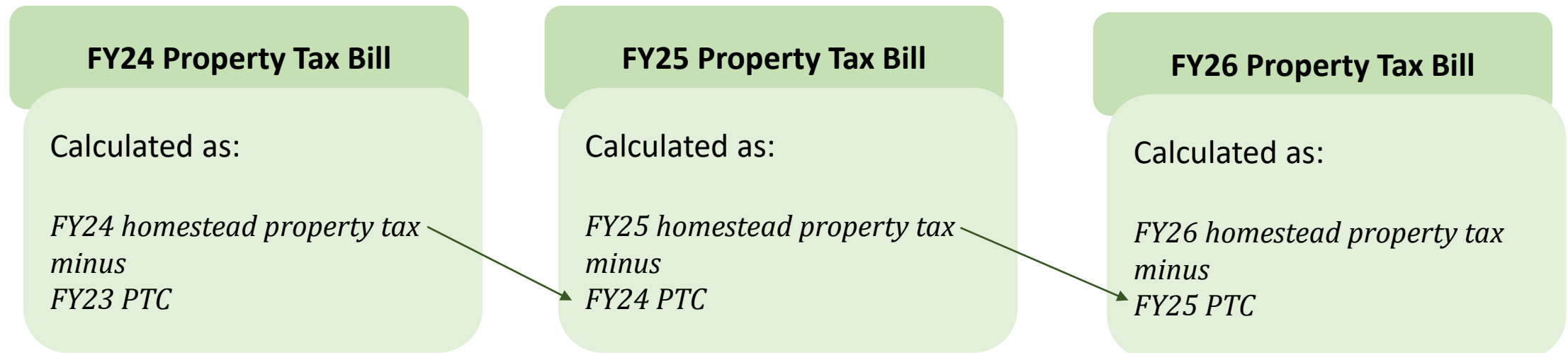
Household income	Housesite (HS) value	Calculation of amount that would be paid under income	Calculation of the PTC
			<i>The PTC is the amount paid for property taxes minus...</i>
≤ \$47,000	< \$400,000	<i>income * income rate</i>	...The lesser of:
	≥ \$400,000	$(income * income rate) + \left(\frac{HS\ value - \$400,000}{100} \right) * HS\ rate$	<ul style="list-style-type: none"> The amount that would be paid based on income OR <ul style="list-style-type: none"> The statewide education tax rate multiplied by the equalized value of the housesite, reduced by \$15,000, in the taxable year
\$47,001 - \$90,000	< \$400,000	<i>income * income rate</i>	...The amount that would be paid based on income
	≥ \$400,000	$(income * income rate) + \left(\frac{HS\ value - \$400,000}{100} \right) * HS\ rate$	
≥ \$90,000	< \$225,000	<i>income * income rate</i>	...The amount that would be paid based on income
	≥ \$225,000	$(income * income rate) + \left(\frac{HS\ value - \$225,000}{100} \right) * HS\ rate$	
>\$128,000*	<i>Households above this income will never qualify for a property tax credit, and will always pay solely based on property value</i>		

*Note: This amount is not set in statute, but is determined as a mathematical exercise after the yields have been set



Understanding the PTC Lag

- The PTC is “on a lag”
- Property tax bills for income-sensitized taxpayers reflect the current year’s homestead property tax minus the prior year’s PTC



Example Calculation for Income-Sensitized Homesteads



Example Calculation for an Income-Sensitized Homestead in Fiscal Year 2025

- In this example, let's assume a household with a:
 - Housesite value of \$400,000
 - Household income of \$80,000
- Let's assume this household lives in a district with:

	FY25 (Example)*
Equalized HS rate	\$1.376
Common Level of Appraisal (CLA)	0.78
Actual HS rate	\$1.764
Income rate	2.70%

**These figures are used solely for exemplary purposes and should not be interpreted as policy guidance or predictions. They correspond with example modeling presented on February 6, 2024.*



Example Calculation of the Fiscal Year 2025 PTC as Applied to the Fiscal Year 2026 Property Tax Bill

- Using these parameters:

	FY25 (Example)
HS value	\$400,000
Income	\$80,000
Actual HS rate	\$1.764
Income rate	2.70%

- Calculate the fiscal year 2025 property tax credit by calculating what the household would pay on property and on income

	FY25 (Example)
1 Homestead property tax	\$7,056
2 Income property tax	\$2,160
3 PTC (<i>Line 1- Line 2</i>)	\$4,896



Example Calculation of the Fiscal Year 2024 PTC as Applied to the Fiscal Year 2025 Property Tax Bill

- As seen on the previous slide, this household would receive a PTC of \$4,896 for its fiscal year 2025 liability
 - However, because of the lag, the household would receive this PTC on its fiscal year 2026 property tax bill
- To calculate the PTC for the fiscal year 2025 property tax bill, we must calculate the PTC from fiscal year 2024
 - In this example, assume all is equal *except* the household saw an increase of 20% on its homestead property tax and income property tax from fiscal year 2024 to fiscal year 2025

	FY24 (Example)
1 Homestead property tax	\$5,880
2 Income property tax	\$1,800
3 PTC (<i>Line 1- Line 2</i>)	\$4,080



Example Comparison of PTCs

- In this example, the household has a lower PTC calculated for fiscal year 2024 than fiscal year 2025

	FY24 (Example)	FY25 (Example)
1 Homestead property tax	\$5,880	\$7,056
2 Income property tax	\$1,800	\$2,160
3 PTC	\$4,080	\$4,896

- Because of the lag, this household's fiscal year 2025 property tax bill is calculated using the fiscal year 2024 PTC, not the fiscal year 2025 PTC
 - This means the household will not receive the PTC corresponding to the increase in tax liability until fiscal year 2026



Considerations for PTCs on Fiscal Year 2025 Property Tax Bills

- If the tax rates change a lot, the property substantially changes in value, or a household's income situation changes, the household will have to wait a year to get the property tax credit that reflects for those changes because the credit is based on the prior year
- Because of the lag, PTCs on fiscal year 2025 bills will not correspond to tax changes in fiscal year 2025.
 - This is true every year
 - The smaller the year to year changes, the smaller the impact
- The income yield for fiscal year 2025 will impact property tax bills in fiscal year 2026
 - Changing PTCs on fiscal year 2025 tax bills would require changes to PTCs calculated with the fiscal year 2024 income yield



General Considerations Within the Education Fund

- Because the PTC is on a lag, changes to the income yield in fiscal year 2025 will not impact property taxpayers until fiscal year 2026
 - Increasing the fiscal year 2025 income yield (and PTCs) will increase costs to the Education Fund in fiscal year 2026
- Changing PTCs on fiscal year 2025 tax bills would require changes to the fiscal year 2024 PTC calculation
 - Because the Education Fund is a self balancing system, increasing fiscal year 2024 PTCs would result in an increased expense to the FY25 Education Fund
 - Absent any other changes in policy, property taxes would need to cover this expense



Questions?



Resources

- Department of Taxes – Property Tax Credit:
 - <https://tax.vermont.gov/property/property-tax-credit>
- Department of Taxes – Frequently Asked Questions:
 - <https://tax.vermont.gov/property/education-property-tax-rates/faqs>
- JFO Education Finance:
 - <https://ljfo.vermont.gov/subjects/education>

