



VERMONT LEGISLATIVE  
**Joint Fiscal Office**

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## Fiscal Note

Date: February 24, 2023

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### **S.69 – An act relating to a surcharge on nonprimary dwellings**

#### As introduced<sup>1</sup>

#### **Bill Summary**

This bill creates a property tax surcharge rate of \$0.25 per \$100 of equalized property value on nonhomestead properties that are dwellings weatherized for year-round use, that are not long term rental units, and that are not rented or occupied by a resident. Revenue from the surcharge would be allocated to the Vermont Housing and Conservation Board (VHCB) and dedicated to the construction of affordable housing.

#### **Fiscal Impact**

JFO estimates the bill would raise between \$9 and \$21 million in fiscal year 2024. This estimate is based on significant assumptions because the existing grand list data does not align with the tax base definitions in the bill. Because of the data limitations, JFO cannot provide a more exact estimate on the amount of revenue raised from the surcharge.

#### **Background and Details**

The following sections have a fiscal impact.

##### **Section 2 – Establishment of the Nonprimary Dwelling Surcharge**

Section 2 outlines the “nonprimary dwelling” surcharge. Any properties that fit the bill’s definition of a nonprimary dwelling will be subject to a \$0.25 tax per \$100 of equalized property value, in addition to the municipal and nonhomestead property taxes owed.

This section also outlines the administrative process for collecting the surcharge. Like other property taxes, the surcharge will be collected by municipalities and remitted to the State.

Section 2 directs the revenue from the non-primary surcharge to the Vermont Housing and Conservation Trust Fund. The bill specifies that VHCB shall use the funds for the purposes outlined in 10 VSA Chapter 15, including the construction of affordable housing.

##### **Section 3 – Amendment to the Vermont Housing and Conservation Trust Fund Language**

Section 3 modifies the language governing the Vermont Housing and Conservation Trust Fund to include

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<sup>1</sup> <https://legislature.vermont.gov/Documents/2024/Docs/BILLS/S-0069/S-0069%20As%20Introduced.pdf>

all revenue from the nonprimary dwelling surcharge.

**Section 4 – Exclusion of Nonprimary Dwelling Surcharge from Education Fund Revenue**

Section 4 amends the language that outlines revenue deposited in the Education Fund to exclude the nonprimary dwelling surcharge from Education Fund revenues.

**Section 5 – Effective Dates**

The bill goes into effect on July 1, 2024 and applies to grand lists set on and after April 1, 2024.

**Considerations**

**Data Limitations**

The grand list data, as currently submitted to the Department of Taxes, does not align with the definitions outlined in the bill. The bill defines a nonprimary dwelling that would be subject to the surcharge as “weatherized with basic amenities or utilities required for year-round occupancy or use, including a permanent heating system, insulation, or year-round usable plumbing.” The bill also specifies that this does not include rental properties or other properties that are rented or occupied by an individual as their domicile.<sup>2</sup>

The following table includes the grand list categories that are currently used by the Department of Taxes. As shown in the table, nonprimary dwellings as defined in the bill may fall into multiple existing categories; no current category aligns exactly with the properties subject to the tax outlined in the bill. Further, there is no information on the weatherization status or the amenities in a dwelling.

**Table 1: Current Grand List Residential Categories<sup>3</sup>**

Residential Categories on the Grand List	Description
Residential 1	Dwelling with fewer than 6 acres
Residential 2	Dwelling with more than 6 acres
Mobile Home Landed	Landed mobile home
Mobile Home Unlanded	Unlanded mobile home
Seasonal 1	Seasonal dwelling with fewer than 6 acres
Seasonal 2	Seasonal dwelling with more than 6 acres
Commercial Apartments	Multiple unit dwelling with six or more units
Farms	Can be subjective
Other	Variation across municipalities – could be condos, lakefront property, boat slips, airplane hangars, timeshares, or other properties

**Administrative Considerations**

To ensure the surcharge on nonprimary dwellings is collected correctly, the Department of Taxes will need to develop and issue guidance to towns. Municipal assessors and listers will need to complete an examination of properties in a given town and determine which are subject to the surcharge before the publication of the grand list on April 1, 2024. This timeline may be a challenge for both the Department of Taxes and local listers.

<sup>2</sup> Domicile is defined in 32 V.S.A. § 5401(14)

<sup>3</sup> This information is presented in the Vermont Department of Taxes report on Secondary Residences per 2021 Acts and Resolves No. 73. <https://legislature.vermont.gov/assets/Legislative-Reports/RP-1310-v2.pdf>

## Appendix: Tax Rate Impacts

As part of this analysis, JFO examined the total change in property tax liability for example property values with the nonprimary dwelling surcharge. The table below provides example changes in tax bills for different property values assuming the 2022 nonhomestead tax rate, the average 2022 municipal tax rate and the surcharge presented in the bill. Based on these assumptions, the average property owner subject to a \$0.25 nonprimary dwelling surcharge would see a 12.4% increase in their property tax bill.

	Property 1	Property 2	Property 3
Property Value	\$350,000	\$600,000	\$1,000,000
Nonhomestead Rate	\$1.466	\$1.466	\$1.466
Average Municipal Rate	\$0.543	\$0.543	\$0.543
Current Property Taxes	\$7,032	\$12,054	\$20,090
Nonprimary Dwelling Surcharge \$0.25	\$875	\$1,500	\$2,500
Total Taxes	\$7,907	\$13,554	\$22,590
Percent Change in Property Taxes	12.4%	12.4%	12.4%

JFO also examined the magnitude of the change in property tax rate across Vermont if a \$0.25 nonprimary dwelling surcharge was implemented.

- The equalized nonhomestead rate is the same across all properties in the state. In fiscal year 2022 the nonhomestead rate was \$1.466 per \$100 of equalized property value.
- Municipal property tax rate varies significantly across towns. The table below (Table 3) summarizes the range of municipal tax rates.
  - The nonprimary dwelling surcharge is greater than the municipal property tax rate in 23 Vermont towns.

Minimum	\$0.026
Maximum	\$1.811
Average	\$0.543
Average Municipal Tax Rate in the Lowest 10 towns (with a non-zero rate)	\$0.132
Average Municipal Tax Rate in the Highest 10 towns	\$1.372

Table 4 below shows the percent change in tax rates for properties in example towns with high, average, and low municipal tax rates. The table shows tax rate changes for nonprimary dwelling property owners may range from 8.8% to 15.6%.

	High-tax Town	Average	Low-tax Town
Municipal Rate Tax	1.372	0.5	0.132
Plus, Nonhomestead Rate	1.466	1.466	1.466
Total Tax Rate	2.838	1.966	1.598
Plus, Nonprimary Dwelling Surcharge	0.25	0.25	0.25
New Total Rate	3.088	2.216	1.848
% Increase	8.81%	12.72%	15.64%

## Additional Resources

- Vermont Department of Taxes Secondary Residents Report per 2021 Acts and Resolves No. 73: <https://legislature.vermont.gov/assets/Legislative-Reports/RP-1310-v2.pdf>
- Vermont Property Valuation and Review 2023 Annual Report: <https://tax.vermont.gov/sites/tax/files/documents/RP-1295-2023.pdf>