Considerations of Changing Provisions of the Property Tax Credit

Senate Committee on Finance

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Outline of talk

- Review of property tax credit
- Considerations raised in the Income Based Education Tax Study Committee
- Additional Considerations

Overview of the Property Tax Credit

- The homestead property tax has a credit based on income
- In FY 2023, 64% of homesteads received a property tax credit
  - This was a total tax expenditure of ~$164 million
- The credit is applied to the following year’s tax bills
- Calculation of each household’s property tax credit is based on the household income, and the housesite value

Table 1: Overview of Property Tax Credit

Household income	Property tax credit parameters
Less than or equal to $47,000	• Property tax credit 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	Property tax credit may be used on the first $400,000 of the housesite value
$90,001 - $134,800	Property tax credit may be used on the first $225,000 of the housesite value
Greater than $134,800	Household will not qualify for a property tax credit

Income Based Education Tax Study Committee Examined Changing the Property Tax Credit

- The Income Based Education Tax Study Committee examined changing the property tax credit
- The Committee's report stated:
  - *"solving one issue creates new issues elsewhere in the distribution of tax paid as a percentage of income, and it is difficult to achieve the desired effects in a targeted way.*
  - *Given this analysis and the Committee's desire to simplify the property tax system, the Committee decided not to recommend any adjustments to the property tax credit…"*
- These conclusions were in response to modeling that revealed two primary lessons
  1. "Pushing on the balloon"
  2. "The sledgehammer"

Lesson 1: “Pushing on the balloon”

Solving one issue using the property tax credit system creates new issues elsewhere in the income and housesite value distribution

- Because the property tax credit is a tax expenditure, increasing eligibility and/or size of the credit will also increase the cost
- Recall that the Education Fund is “self-balancing”
- All else equal, expanding the property tax credit would require increasing property tax rates
  - Many would not see an increased credit to offset the increased property tax rates

Expanding property tax credit → Increased cost of property tax credit → Increase tax rates to raise sufficient funds for property tax credit

Example of "Pushing on the balloon"

- For example, assume the housesite cap for households under $90,000 increases from $400,000 to $550,000
  - All else equal, results in the following impacts:

Table 2: Anticipated Change in Tax Liability for Households with Different Income and Housesite Values

Household income	Housesite value	Change in property tax credit	Change in property tax liability
$47,000 - $90,000	<$400,000	No change	Increase
<$90,000	>$400,000	Increase	Generally decrease, individuals may vary
>$90,000	All	No change	Increase

- All else equal, because the Education Fund is self balancing, reducing someone's property taxes requires increasing someone else's property taxes

Lesson 2: “The Sledgehammer”

It is difficult to achieve the desired effects in a targeted way using the property tax credit system

- Because the calculation of the property tax credit is a function of both housesite value and household income, adjusting one factor will increase tax liability for some homeowners while decreasing tax liability for others
- Varied impacts of increased tax liability and decreased tax liability would occur *within* income groups

Example of “The Sledgehammer”

It is difficult to achieve the desired effects in a targeted way using the property tax credit system

- For example:
  - Assume the housesite cap for households under $90,000 increases from $400,000 to $550,000
  - Assume two households in the same town with the same income but different housesite values

Table 3: Anticipated Change in Tax Liability for Three Example Households

	Household A	**Household B**	**Household C**	**Household D**
Income	$50,000	$50,000	$80,000	$80,000
Housesite value	$300,000	$500,000	$300,000	$500,000
Anticipated change in tax liability from housesite cap change	Increase	Decrease	Increase	Decrease

Additional Considerations

- Because there is a lag for the property tax credit, any changes that are made to the credit in FY 2023 won’t take effect until FY 2025

- Changes to the housesite cap will impact the breakeven point at which households will no longer qualify for a property tax credit

Questions?

Resources

- Review of Education Finance in Vermont:
  - https://ljfo.vermont.gov/assets/Subjects/Education-Finance-101/f8ce800b5a/GENERAL-364387-v1-Ed_Finance_101_W+Ms.pdf
- Report from the Income-Based Education Tax Study Committee:
  - https://ljfo.vermont.gov/assets/Uploads/86035e89d4/GENERAL-364974-v6-EIT_committee_report.pdf
- Department of Tax, Property Tax Credit Statistics:
  - https://tax.vermont.gov/data-and-statistics/ptc