

Land Use Change Tax Streamline

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Land Use Change Tax (32 V.S.A. § 3757)

- When land enrolled in the Current Use program (also known as the Use Value Appraisal Program) is removed from the program, a Land Use Change Tax liability is established.
- Currently the liability is 10% of the value of the enrolled land, and in the case of a portion of the parcel, the liability is 10% of the value of the portion *valued as a separate parcel* (See 32 V.S.A. § 3757(a)).
- The policy purpose of the tax is to discourage development, particularly the creation of smaller parcels of land in areas which are currently used for agriculture or forestry.

Current Process Ramifications

- In 2015, the calculation change introduced significant complexities in the case of withdrawals of partial parcels (the majority of withdrawals).
- The impact that this has had on taxpayers, and the related administrative burden on town officials, have led to confusion, frustration, delays, and unpredictability in tax liability that have undermined the policy goals of the 2015 changes.
- Landowners cannot make an informed decision about what to do with a portion. Pre 2015 we could tell every landowner exactly what their liability would be. Pre 2015 – very easy and straightforward to understand and make decisions.
- The value of the withdrawn portion as a standalone parcel becomes stale quickly – land can stay withdrawn but not developed indefinitely, yet that LUCT liability is from a point in time in the past.

Current Process Ramifications, cont'd

- Only about 1/3 of the calculated LUCT liabilities are actually paid (lien removed). Two-thirds remain undeveloped with the lien remaining, or eventually get reenrolled.
- Calculating the tax base for a partial parcel withdrawal currently requires a unique assessment from town assessing officials outside the norms of standard valuation practice and schedule.
- The resulting tax liability (when compared to a simple proration of withdrawn acreage) is equivalent to applying effective tax rates between 1%-200% (with outlier cases reaching as high as an 800%) on the withdrawn land – raising equity concerns.

Equivalent Land Use Change Tax Rates

2018-2021

Equivalent Tax Rate	
Bin	Number of Returns
0% - 10%	150
11% - 20%	225
21% - 30%	148
31% - 40%	90
41% - 50%	61
51% - 60%	57
61% - 70%	39
71% - 80%	34
81% - 90%	39
91% - 100%	21
101% - 200%	128
201% - 300%	60
Over 300%	26

LUCT Current Law

Distribution of Current Land Use Change Tax by Acres Withdrawn

Acres Withdrawn	Min Current Tax	Average Current Tax	Max Current Tax
2 or Fewer	14	2,362	12,494
2.01 to 25	124	5,873	31,061
25.01 to 90	2,684	12,590	44,357
90.01 or More	15,099	32,241	55,466

Current Process Ramifications, cont'd

- There is no evidence that the 2015 reform has changed behavior

Table 14: Withdrawals of Enrolled Land and Buildings and Land Use Change Tax (LUCT)

Calendar Year	LUCT Assessed on Developed Acres	LUCT passed on to Municipality	Acres Developed and/or Lien Removal Requested	Acres Withdrawn (LUCT Not Due)	Number of Farm Buildings With-drawn	Number of Completed Withdrawals
2022	\$1,725,911	\$556,911	2,013	23,516	260	778
2021	\$1,289,306	\$407,463	1,466	18,259	90	511
2020	\$516,061	\$229,261	889	20,362	106	451
2019	\$761,257	\$274,904	1,196	17,452	133	492
2018	\$714,088	\$311,085	1,028	19,844	295	592
2017	\$753,392	\$210,935	1,502	9,865	-	399
2016	\$432,534	-	1,487	9,792	-	344
2015	\$398,881	-	1,483	5,119	-	358
2014	\$418,604	-	1,826	10,863	-	453
2013	\$575,675	-	2,350	8,331	-	457
2012	\$528,492	-	3,005	8,792	-	432
2011	\$539,781	-	2,865	10,271	-	412
2010	\$528,710	-	1,807	5,484	-	341

Delay caused by current system

LUC Cases Days from “Request Value from Town” to “Waiting for Payment” stages

Created Year	Average Days	Maximum Days	Minimum Days
2020	60	634	0
2021	64	646	0
2022	52	272	0

LUC Cases Request Values from Town Reminders:

Created Year	Request Value 1 st Reminder	Request Value 2 nd Reminder
2020	224 Cases	143 Cases
2021	170 Cases	115 Cases
2022	162 Cases	87 Cases

Timeline for Land Use Change Tax

- Current Process: typically takes 30-90 days. Average is 60 days
- Proposed Process: instant and predictable prior to withdrawal and development

Proposal

The Department proposes a simplification of the LUCT calculation of a partial parcel withdrawal that would maintain the higher tax rate for withdrawing only a portion of a parcel from the program, but standardize its application across municipalities, ensuring equity transparency, and predictability.

Proposal

We propose changing the calculation for the portion of the parcel as it was prior to 2015.

The rate can be a higher but predictable percentage (tiered) of the prorated acreage, to replicate the legislative intent of the current system.

The benefits of this change are significant.

Two Elements to the Proposal

Element 1: Revert to pro-ration as was practice prior to 2015 changes.

Element 2: If Legislature desires to keep the policy implications of 2015 reform, use tiered tax rate depending on size of parcel and size of withdrawn portion.

Land Use Change Tax Streamline

Taxpayers will be able to make informed decisions about their parcels as they will be able to estimate tax liability prior to withdrawal from the program or the purchase of enrolled land;

Towns will be freed from these standalone valuations which take significant time between valuation and appeals;

Towns will no longer have to utilize use state software to input value calculations, as these calculations would happen automatically and be managed by the Tax Department;

Revenue generated by the Land Use Change Tax will be substantially equal to the current practice, while eliminating subjectivity, hours of lister time, unpredictability and most importantly keeping the policy goals of the Legislature in place.

Land Use Change Tax Streamline

A higher rate applied to partial withdrawals will uphold the intent of discouraging fragmentation, while providing administrative relief to towns/Department and transparency to taxpayers.

- The proposed rate structure was designed to mirror the impact of the existing policy

Policy Implications

- This proposal is not driven by policy.
- The proposed tax rates represent the same policy impact as the current varied process, in a predictable and transparent manner.

Fiscal implications

- This proposal was designed to be revenue neutral.
- It is not driven by financial implications, beyond the expected time savings for taxpayers, municipalities, and the department.

Additional Benefits:

- Helping Vermont's taxpayers understand their tax liabilities (the LUCT in this case) is the keystone to Department activity – it's part of our mission statement, it's key to the core Department goal of being a model for service-oriented tax administration.
- The proposed change will allow taxpayers to understand and predict their LUCT liability for the first time since 2015, helping taxpayers make informed and timely decisions regarding the withdrawal of their property from the Current Use program.
- This proposed change also contributes to the Administration's goal to improve efficiency in government by significantly reducing administrative hurdles for the Department and municipalities. These hurdles create a barrier to removing CU liens and may delay or impede completion of a property sale.

Additional Benefits:

- Landowners enrolled in Current Use who choose (or are considering) to withdraw a portion of a parcel from the CU program are exposed to a concerning level of inequity and lack of transparency under current law compared to their counterparts who withdraw entire parcels from the program. This issue impacting this population has been flagged for the Department by stakeholders throughout the CU system, including the Current Use Advisory Board.

Constituents Consulted

- Vermont League of Cities and Towns (VLCT)
- Vermont Association of Listers and Assessors (VALA)
- Vermont Farm Bureau
- Vermont Woodlands Association
- Vermont Natural Resources Council
- Vermont Municipal Clerks and Treasurers Association
- Department of Forests, Parks and Recreation
- Agency of Agriculture
- Current Use Advisory Board

LUCT Proposal: Nuts and bolts

Proposed Revenue-Neutral Tax Rates

	25 or Fewer Acres Withdrawn	25.01 to 90 Acres Withdrawn	More than 90 Acres Withdrawn
25 or Fewer Acres Enrolled	35%		
25.01 to 90 Acres Enrolled	40%	20%	
More than 90 Acres Enrolled	60%	30%	15%

LUCT Proposal: Nuts and bolts

Calculated Average Equivalent Tax Rates for Current LUCT Tax Charged

	2 or Fewer Acres Withdrawn	2.01 to 25 Acres Withdrawn	25.01 to 90 Acres Withdrawn	More than 90 Acres Withdrawn
25 or Fewer Acres Enrolled	27%	35%		
25.01 to 90 Acres Enrolled	84%	40%	15%	
More than 90 Acres Enrolled	142%	68%	23%	13%

Current vs. Proposal – Average Tax

Average Current Land Use Change Tax Charged by Parcel Size

	2 or Fewer Acres Withdrawn	2.01 to 25 Acres Withdrawn	25.01 to 90 Acres Withdrawn	More than 90 Acres Withdrawn
25 or Fewer Acres Enrolled	809	6,214		
25.01 to 90 Acres Enrolled	2,313	5,898	10,406	
More than 90 Acres Enrolled	2,532	5,812	14,183	32,241

Average Proposed Land Use Change Tax by Parcel Size

	2 or Fewer Acres Withdrawn	2.01 to 25 Acres Withdrawn	25.01 to 90 Acres Withdrawn	More than 90 Acres Withdrawn
25 or Fewer Acres Enrolled	1,560	5,792		
25.01 to 90 Acres Enrolled	1,189	7,770	12,590	
More than 90 Acres Enrolled	1,138	7,422	18,091	33,273

Thank you!