

VERMONT DEPARTMENT OF TAXES

2024 TAXPAYER ADVOCATE ANNUAL REPORT

SUBMITTED TO

House Committee on Ways and Means
Senate Committee on Finance

SUBMITTED BY

Office of the Commissioner
Vermont Department of Taxes

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To The Honorable Members of:
House Committee on Ways and Means
Senate Committee on Finance

In accordance with Title 32 V.S.A. §3205(c), I submit the Vermont Taxpayer Advocate's Annual Report for activity in calendar year 2023. The Vermont Taxpayer Advocate Annual Report is required to identify problems encountered by taxpayers interacting with the Vermont Department of Taxes as well recommend administrative and legislative actions to resolve those problems. The report shall also identify problems that affect an entire class of taxpayer or specific industry and present solutions.

The reporting period of this year's report contains activity from December 1, 2022, to December 1, 2023. During this period, the Taxpayer Advocate fielded over 500 phone calls. The majority of issues brought to the Department through these calls were able to be resolved with minimal intervention by the Taxpayer Advocate working with the Taxpayer Services division of the Department of Taxes.

Approximately 60 cases were reviewed for potential Extraordinary Relief with relief being granted in 49 of those cases. Of those 45 cases, 84% involved Property Tax Credits, 7% involved Renter Credit, 7% involved Personal Income Tax, and 2% involved Corporate Income Tax.

Respectfully submitted,

Jeffrey M. Dooley

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I. INTRODUCTION

The Vermont Commissioner of Taxes created the Taxpayer Advocate in 2001. [Title 32 V.S.A § 3205](#)¹ requires the Vermont Department of Taxes to maintain a Taxpayer Advocate. The duties of that position include:

1. Identifying subject areas where taxpayers have difficulties interacting with the Department of Taxes
2. Identifying classes of taxpayers or specific business sectors who have common problems related to the Department of Taxes
3. Proposing solutions, including administrative changes to practices and procedures of the Department of Taxes
4. Recommending legislative action as may be appropriate to resolve problems encountered by taxpayers
5. Educating taxpayers concerning their rights and responsibilities under Vermont's tax laws
6. Educating tax professionals concerning the Department of Taxes' regulations and interpretations by issuing bulletins and other written materials, and
7. Assisting individual taxpayers in resolving disputes with the Department of Taxes.

The legislation serves to codify the longstanding role and functions performed by the Taxpayer Advocate and highlights the Taxpayer Advocate's position to improve taxpayer services.

The legislation also requires the Taxpayer Advocate to report annually to the House Committee on Ways and Means and the Senate Committee on Finance. 32 V.S.A. § 3205(c). The Legislature prescribed the following information for the report:

- Actions taken by the Taxpayer Advocate to improve taxpayer services and responsiveness of the Department of Taxes
- Identification of problems encountered by taxpayers in interacting with the Department of Taxes, including specific recommendations for administrative and legislative actions to resolve the identified problems
- Identification of any problems that span an entire class of taxpayer or specific industry, proposing class or industry-wide solutions.

1 <https://legislature.vermont.gov/statutes/section/32/103/03205>

II. NEW ADMINISTRATIVE INITIATIVES

Flood Response

Issue

Due to flooding in Montpelier in early July 2023, the Department of Taxes was displaced from its primary workspace at 133 State Street in Montpelier from early July until early December. This resulted in significant challenges in accepting and processing returns and payments. The Department of Taxes did establish a temporary workspace at National Life Complex in Montpelier during that time.

Administrative Resolution

The Department was able to continue to process returns and assist Vermont taxpayers with minimal disruption despite the challenges that this displacement presented. Most Department employees worked remotely during this time, going into the alternative location when necessary to perform their daily function. This displayed a flexibility, resilience, and commitment to service that went above and beyond expectations.

III. STATUTORY PROPOSALS

Homestead Declaration and Property Tax Credit

Issue

In 2023, the Vermont Legislature passed an amendment to the property tax credit statute that allowed Vermonters that filed a homestead declaration to file property tax credit after the October 15 deadline but before March 15 of the following year, with a \$150 penalty. As of January 11, 2024, over 130 Vermont households have taken advantage of this extended deadline. In an average year, 50-60 households contact the Taxpayer Advocate for extraordinary relief for PTC. Those that filed a homestead declaration timely are subset of those household that account for approximately 10-15 of those extraordinary relief claims.

Legislative Effect

Because of this legislative change more than 100 lower income Vermont households received a property tax credit that they were legally entitled to but otherwise would not have received. This legislative action eased the financial burden and improved the lives of hundreds of Vermonters in 2023 and will continue to do so for years to come.

IV. LONG TERM CONSIDERATION

Simplify and Remove Tight Time Restrictions from Property Tax Credit Program

By far, the amount of time and resources spent on assisting taxpayers with property tax credit issues outweighs time and resources spent on any other tax type.

There are several reasons for this:

- a. Those receiving property tax credits tend to be lower income taxpayers that are less sophisticated in dealing with paperwork and do not have the resources to hire a preparer or accountant.
- b. The forms and the overall process are some of the most complicated forms and processes that the Department administers.
- c. The deadlines are the strictest and have the harshest penalties for missing them, compared to other tax types.
- d. The amount of a property tax credit tends to be significant relative to taxpayers' income so the consequences of not receiving it are often significant.

Some of the factors listed above cannot be helped given the nature of the program. Some of the factors should be looked at and consideration should be given to whether there is a better way to administer this program. The two factors that should be looked at are the complexity of the program and the strict nature of the deadlines.

As mentioned above, the property tax credit forms are among the most complicated forms that the Department of Taxes administers. It requires the filing of two separate forms that are two pages each with a total over 100 fields that potentially must be completed by the taxpayer. Both forms have several fields that if not filled in, or if accidentally filled in incorrectly, will result in denial of the taxpayer property tax credit entirely. This leads to many taxpayers making mistakes or omissions on their forms that result in a reduced or denied property tax credit. The Department sends letters to the majority of taxpayers that made a mistake or missed a required field but, even then, most taxpayers do not understand what went wrong or how to correct it.

A possible solution to this issue is to simplify the property tax credit program. This can be done by moving away from the concept of household income that is used for the program and towards a concept similar to MAGI that is used at the federal level for health care purposes.

The strict nature of the deadlines is also a major problem for many taxpayers. For most tax types, taxpayers have three years to amend their returns. A three-year period for property tax credit claims is unworkable for several reasons but the current October 15 deadline is also problematic. It gives taxpayers that filed on extension very little time to work with the Department to correct a problem with a property tax credit claim. In addition, a taxpayer that is notified of a problem well before October 15 may misunderstand the letter they receive or the consequences of the issue because of the complexity discussed above. These taxpayers may not realize that there is a problem until they receive their property tax bills in late September or early October and then will only have a week or two to correct the issue. Further, in some towns, the first property tax payment is not due until November 15. This means that some taxpayers never discover that something is wrong until they go to make their first payment, a month after they no longer have any remedy.

Another problem affects taxpayers whose mortgage company makes the property tax payments on the taxpayers' behalf. These taxpayers often do not find out what has happened until their bank contacts them because they do not have enough in escrow to cover their higher mortgage payment. One possible solution to this specific issue would be the graduated penalty structure recommended above.

V. TAXPAYER CLASS OR INDUSTRY CLASS ISSUES

Class or Industry	Issue	Recommendation
Businesses in new Local Option Tax Towns	As more and more Vermont towns institute Local Option Taxes, it has become increasingly difficult for Vermont businesses to figure if and/or when they should be charging Local Option Tax on transactions. These issues are exacerbated in situations where towns that have instituted a Local Option Tax share a zip code with towns that have not instituted such a tax.	The Department has been working towns and businesses in those towns to ensure the correct tax is charged and will continue to do so.