



VERMONT LEGISLATIVE  
**Joint Fiscal Office**

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## Fiscal Note

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### **H.887 – An act relating to homestead property tax yields, nonhomestead rates, and policy changes to education finance and taxation**

**As recommended by the House Committee on Appropriations<sup>1</sup>**

#### **Bill Summary**

**T**his bill sets the property dollar and income dollar equivalent yields for the purpose of setting homestead tax rates. It also sets the nonhomestead property tax rate. The bill expands revenues to the Education Fund by repealing the sales tax exemption for prewritten software accessed remotely. It also imposes a 1.5% surcharge on short-term rentals, with all revenues dedicated to the Education Fund. The bill establishes several working groups and commissions, including the “Commission on the Future of Public Education in Vermont,” the “Educational Opportunity Payment Task Force,” and the “Education Fund Advisory Committee.”

#### **Fiscal Impact**

The Joint Fiscal Office (JFO) cannot estimate the overall impact of the bill on the Education Fund in future fiscal years. The following sections may have a fiscal impact on the Education Fund:

- Section 2 sets the property dollar equivalent yield, income dollar equivalent yield, and nonhomestead property tax rate for fiscal year 2025. JFO estimates that these yields and rates would correspond to an average increase of approximately 14.97% for homestead property tax bills and income education tax bills, and an average increase of 17.99% for nonhomestead property tax bills. The section also includes a one-time increase of 14.97% to each claimant’s property tax credit for fiscal year 2025.
- Sections 3 and 4 repeal the sales tax exemption for prewritten software accessed remotely. JFO estimates this change would generate \$20.4 million in additional revenue for the Education Fund in fiscal year 2025.
- Section 5 imposes a 1.5% surcharge on short-term rentals and dedicates the revenue to the Education Fund. JFO estimates this surcharge would generate \$6.5 million for the Education Fund in fiscal year 2025.
- Sections 10 and 11 repeal the suspension of the school budget ballot language requirement and amend the language. JFO can neither estimate the impact of this on voter behavior nor the corresponding fiscal impact.
- Section 11 creates an “Education Fund Advisory Committee” to monitor Vermont’s education

<sup>1</sup> The full text of the bill can be found at the following link:

<https://legislature.vermont.gov/Documents/2024/Docs/BILLS/H-0887/H-0887%20As%20Introduced.pdf>

finance system, conduct analyses, and make recommendations for the Education Fund.

- Sections 13 through 17 adjust calculations regarding the application of the local common level of appraisal (CLA). JFO estimates this will have no impact on property tax rates after the application of the CLA, so long as a district's per pupil spending is greater than the property yield. JFO cannot estimate if this section will impact voter decisions or district budgeting.
- Section 18 establishes an excess spending threshold for per pupil education spending in fiscal years 2026 and 2027 to be included in tax rate calculations. JFO cannot estimate the fiscal impact of this section on the Education Fund because total education spending is ultimately determined by local votes.

The bill also expands the use for a fiscal year 2024 General Fund appropriation and includes intent language for the appropriation of \$125,000 from the General Fund to the Agency of Education (AOE) in fiscal year 2025.

- Section 1 establishes the “Commission on the Future of Public Education in Vermont. To fund the costs associated with the Commission, the bill expands the allowable uses of a \$200,000 General Fund appropriation to the Agency of Education in fiscal year 2024.
- Section 8 states that, to the extent possible, \$125,000 would be appropriated from the General Fund to AOE in fiscal year 2025 for a new education finance data analyst position.

## **Background and Details**

### **Section 1: The Commission on the Future of Public Education in Vermont**

Section 1 creates a “Commission on the Future of Public Education in Vermont” to study and make recommendations for a statewide vision for Vermont’s public education system.

The Commission will be comprised of 23 members. Members of the Commission not employed by the State are entitled to per diem compensation and reimbursement of expenses under 32 V.S.A § 1010 for a maximum of 30 meetings. The Commission will cease to exist on December 31, 2025. It shall have the support of AOE, which is charged with contracting with an independent consultant to provide technical and legal assistance to the Commission.

To fund costs associated with Commission, the bill expands the allowable uses of a \$200,000 General Fund appropriation to the Agency of Education in fiscal year 2024. Additional appropriations may be required in fiscal year 2026 to continue to support the work of the commission.

### **Section 2: Yields, Property Tax Rates, and Property Tax Credits for Fiscal Year 2025**

Section 2 sets the property dollar equivalent yield at \$9,846, income dollar equivalent yield at \$10,060, and the nonhomestead property tax rate at \$1.442 for fiscal year 2025.

JFO estimates that these yields and rates will correspond with an average increase of approximately 14.97% for homestead property tax bills and income education tax bills, and an average increase of 17.99% for nonhomestead property tax bills. These yields and rates are set at a level estimated to be sufficient to fully fund the Education Fund.

This section also includes a one-time increase of 14.97% to each claimant’s property tax credit for bills issued for fiscal year 2025. JFO estimates this will cost the Education Fund \$23.7 million in fiscal year 2025.

### **Sections 3 and 4: Sales and Use Tax on Prewritten Computer Software Accessed Remotely**

Under current law the retail sale of tangible personal property, including prewritten software, is subject to the sales and use tax. However, Act 51 (2015) created an exemption for prewritten software accessed

remotely. This exemption currently applies to three types of cloud-based services: Software as a Service (SaaS); Platform as a Service (PaaS); and Infrastructure as a Service (IaaS). Examples are provided below.

**Cloud-based product types**

Software as a Service (SaaS)	Turbotax and Quickbooks Microsoft Office Online Dropbox Mail Chimp Toast and Square
Platform as a Service (PaaS)	Google App Engine
Infrastructure as a Service (IaaS)	Microsoft Azure Rackspace

Sections 3 and 4 would repeal the exemption and subject sales of these programs to the 6% Vermont sales and use tax. The repeal of the exemption would not apply to custom software or IT services. JFO estimates this would generate \$20.4 million in additional revenue in fiscal year 2025 and \$22.3 million annualized, beginning in fiscal year 2026. Revenue may increase year over year due to the strong projected growth in the cloud-based services market.

**Section 5: Short-Term Rental Surcharge**

Section 5 imposes a 1.5% surcharge on short-term rentals, which are defined as a “furnished house, condominium, or other dwelling room or self-contained dwelling unit rented to the transient, traveling, or vacationing public for a period of fewer than 30 consecutive days and for more than 14 days per calendar year.” This includes both entire units and single rooms if the rental is for less than 30 consecutive days. Currently, these rentals are subject to the 9% rooms tax (10% in towns with a local option tax), which is allocated to the General Fund (69%), Education Fund (25%), and the Clean Water Fund (6%).<sup>2</sup> The rooms tax allocation would remain the same but the entirety of the surcharge would go to the Education Fund.

**Tax Rates on Short Term Rentals in Vermont**

	State Rooms Tax	State Rooms Tax with Local Option
Current Law	9%	10%
With 1.5% Surcharge	10.5%	11.5%

AirDNA data from the Vermont Housing Finance Agency (VHFA) website, which aggregates information from major booking platforms like AirBNB and VRBO, showed that during fiscal year 2023 the monthly number of entire units available as short-term rentals ranged between 9,378 and 10,358. Average monthly revenue was approximately \$4,000. In the same period, 1,400 rooms were available and had an average monthly revenue of approximately 25% of that for entire units.

JFO estimates that 1.5% of overall revenue from these rentals will generate \$6.5 million for the Education Fund in fiscal year 2025 and \$7.4 million annualized, beginning in fiscal year 2026.

An important consideration is the extent to which the surcharge leads to fewer bookings due to price increases or changes in the dynamic pricing model used by major platforms to account for changes in demand. However, a surcharge of 1.5% is quite low and therefore unlikely to substantially change behavior in many cases. For example, on a \$700 rental, the surcharge would be \$10.50.

**Section 6: Technical Clarifications to Education Fund Statute**

Section 6 puts all revenue sources to the Education Fund in the same place in statute. It does not change revenue sources to the Education Fund.

<sup>2</sup> In Burlington, short-term rentals also charge a 9% gross receipts tax.

**Section 7: District Quality Standards for Maximum Reserve Fund Accounts**

Section 7 requires AOE to undertake rulemaking to update District Quality Standards rules to include recommended reserve fund account standards. Any fiscal impact of this section would depend on the rules established.

**Section 8: Creation and Funding of One Position of Education Finance Data Analyst**

Section 8 establishes a new permanent classified education finance data analyst position at AOE.

Section 8 states that, to the extent possible, \$125,000 would be appropriated from the General Fund to AOE in fiscal year 2025 for a new education finance data analyst position.

**Section 9 and 10: School Budget Ballot Language**

Sections 9 and 10 amend the school budget ballot language requirement and repeal its suspension. JFO can neither estimate the impact of the ballot language on voter behavior nor its corresponding fiscal impact.

**Section 11 and 12: Education Fund Advisory Committee**

Section 11 creates an “Education Fund Advisory Committee” to monitor Vermont’s education finance system, conduct analyses, and make recommendations on multiple considerations of Vermont’s Education Fund.

The Committee is composed of 12 members. Members not employed by the State are entitled to per diem compensation and reimbursement of expenses under 32 V.S.A. § 1010 for a maximum of four meetings per year. The Committee will cease to exist on July 1, 2034. It will have the support of the Department of Taxes and AOE.

**Section 13 – Section 17: Common Level of Appraisal**

Sections 13 through 17 adjust calculations regarding the application of the local common level of appraisal (CLA). These changes will have a de minimis impact on the revenue raised by districts and will solely reduce the difference between the tax rates pre- and post- application of the CLA.

JFO estimates this will have no impact on property tax rates after the application of the CLA, so long as a district’s per pupil spending is greater than the property yield. JFO cannot estimate if this section will impact voter decisions or district budgeting.

**Section 18 – Section 20: Excess Education Spending**

The excess spending threshold is a provision that adjusts tax rates so that districts spending above it are taxed a second time on the excess spending amount. Section 18 amends the excess spending threshold so that it is calculated as the statewide average per pupil spending in fiscal year 2025, increased for inflation, multiplied by 120%.

This section repeals all exclusions in current law for the calculation of excess spending threshold. The section adds an exclusion for increases in voter-approved bond payments year over year.

Districts with education spending above the threshold see a more significant increase in their local tax rate. However, JFO cannot estimate the fiscal impact of this section on the Education Fund because total education spending is ultimately determined by local votes.

Act 127(2022) suspended the excess spending threshold through fiscal year 2029. Section 19 repeals that suspension and makes the threshold effective as of July 1, 2025, meaning that it will be used for the calculation of tax rates starting in fiscal year 2026.

**Section 21: Report on Property Tax Credit Claims and Asset Declarations**

Section 21 requires that the Commissioner of Taxes recommend improvements for property tax credit claims, including the use of an asset declaration, in a report to the House Committee on Ways and Means and the Senate Committee on Finance on or before December 15, 2025.

This section is not estimated to have a fiscal impact.

**Sections 22 and Section 24: Act 127 Conforming Amendments**

Sections 22 through 24 amend statute to align it with Act 127 and will not have a fiscal impact.