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Legislative panel will review tax-exempt buildings

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MONTPELIER — On the heels of the largest annual increase in the statewide property tax rate in more than a decade, lawmakers this fall will begin to examine the merits of the exemptions partly responsible for ballooning tax bills.

A property tax exemption study committee convenes its first meeting Wednesday in Montpelier, where a group of lawmakers, administration officials and municipal leaders will examine policies that now insulate thousands of properties from annual tax bills that would otherwise generate millions of dollars.

“There is no doubt that exemptions for some property owners means higher taxes for others,” said Sen. Kevin Mullin, a Rutland County Republican who sits on the Senate Finance Committee. “And the exemption issue I think is a matter of fairness, and making sure there are justifiable reasons we have as many exempt properties as we do.”

A report published this year by the Legislature’s Joint Fiscal Office estimated that the state forgoes \$277 million in revenue annually due to property tax exemptions — about a quarter of the overall property tax revenue that flows into the education fund every year.

Exemptions include the Current Use program that discounts tax bills for farms and forestland and the income sensitivity provision for low- and middle-income homeowners. But the new seven-person study committee will limit its review to the more than 3,000 buildings that qualify for tax-exempt status under a section of law that gives special treatment to “public, pious or charitable” institutions.

In 2014 alone, according to the Joint Fiscal Office report, exemptions for 145 buildings owned by the University of Vermont will alone cost the state \$10 million in forgone revenue.

Steve Jeffrey, executive director of the Vermont League of Cities and Towns, said his organization isn’t looking to target specific exempt entities. But he said every church, hospital building and municipal building added to the growing list

of exempt buildings necessarily results in higher taxes for everyone else.

"We're looking to really question why these properties are exempt from having to pay to have fire services available to them, police services available to them, and really take a hard look at what it is they are providing that entitles them to not have to pay for those services that everybody else in town has to," Jeffrey said.

He said the Vermont League of Cities and Towns wants to see the Legislature cede more authority to municipalities when it comes to deciding whether specific entities should be eligible for exemptions. Policies approved in Montpelier, Jeffrey said, can have significant fiscal impacts locally. Decisions about which buildings in town should be paying property taxes, according to Jeffrey, is often best left to the town.

"We would like to move a lot of the property tax exemptions into a voted-on category at the town level, as opposed to the Legislature exempting them," Jeffrey said.

Bill Johnson, director of property valuation and review at the Vermont Department of Taxes, will represent the administration on the committee. He said the department doesn't come to the table with any preconceived notions about which exemptions, if any, should be jettisoned.

But he said the tax code is in need of a review.

"Some of (the exemptions) are fairly archaic, antiquated perhaps, and could use a look to see whether they're still pertinent in today's society," Johnson said.

It isn't the first time lawmakers have taken a look at property tax exemptions, though Jeffrey said the 5-cent increase in the statewide property tax rate during the last legislative session likely lent some urgency to the issue. "The Legislature is saying, 'Wow, we should really be looking at this, because if we were to broaden the base of the property tax and avoid a nickel tax rate increase, it would be in our best interest,'" Jeffrey said.

Granting exemptions, however, tends to be an easier task than revoking them. And attempts to remove institutions from the list of exempt properties are generally met with a formidable defense, often mounted by hired lobbyists.

"My goal on the committee is to make sure these exemptions get a full vetting," Mullin said. "Maybe in the end they're all justifiable."

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