

Vermont Legislative Joint Fiscal Office

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Fiscal Note

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H.272 – Use Value Appraisal

House Bill No. 272 would amend the land use change tax (LUCT), but allow owners of land currently taxed at its use value to withdraw from use value appraisal between July 1 and October 1, 2015. Partial withdrawals would be subject to the LUCT under current law; full withdrawals would be entirely exempt from the first \$50,000 of LUCT. H.272 would affect (1) the education and municipal property taxes, (2) the municipal reimbursement for enrolled land, and (3) the LUCT as follows:

Education and municipal property taxes

Owners of land taxed at its use value as of July 1, 2015 would be allowed to withdraw all or a portion of their enrolled land before October 1, 2015. Withdrawn land would be appraised and listed at its appraised value on both the education and municipal grand lists beginning in FY2016. No owner electing to discontinue enrollment under H.272 would be allowed to re-enroll less than the entire withdrawn parcel in the succeeding five years.

Assuming that 5% of currently enrolled parcels would be affected by partial withdrawals and 3% of currently enrolled parcels would be withdrawn entirely, the education and municipal property taxes on withdrawn land would be about \$1.4 million in FY2016. Of this amount, about \$0.9 million would be education property taxes and the remainder, about \$0.5 million, would be municipal property taxes.

Municipal reimbursement for enrolled land

The FY2016 increase in municipal property tax revenue would also result in a \$0.5 million reduction in the municipal reimbursement that is paid from the state's general fund in FY2017. The reimbursement is equal to the difference between the municipal property tax based on appraised value and the municipal property tax based on use value and paid to towns in the following fiscal year.

Current-law land use change tax on withdrawn land

Owners who choose to withdraw enrolled land by October 1, 2015 would be subject to the LUCT under current law. Under current law, the taxable value of withdrawn land would be its pro-rated fair market value at the time of withdrawal. The LUCT rate would be 10%. Assuming that only 5% of currently enrolled parcels are affected by partial withdrawals, the estimated increase in LUCT in FY2015 is very small.

Under the “easy out” provision, owners who choose to withdraw their entire parcel from use value appraisal by October 1, 2015 would be subject to the LUCT under current law; however, owners who withdraw their entire parcel would be relieved of the first \$50,000 of LUCT otherwise due. Assuming that no withdrawn parcel is large enough to trigger the LUCT under the easy out provision, full withdrawals would not affect LUCT revenue in FY2016.

LUCT on land taxed at its use value after October 2015

After October 1, 2015, land withdrawn from use value appraisal would be subject the LUCT as modified in the bill. The taxable value of withdrawn land would be its fair market value at the time of withdrawal (or earlier if the owner wanted to discharge the tax lien).

After an initial decline in receipts due to accelerated withdrawals from use value appraisal, the modified LUCT would yield an estimated \$2.6 to \$3 million annually. The new LUCT would be about three times the current-law LUCT.

H.272 would also provide that a change in ownership triggers a new holding period; however, changes in the form of ownership and transfers to family members would not interrupt the holding period.

Under the proposal, any LUCT assessed on land withdrawn from use value appraisal after October 1, 2015 would be shared between the municipality in which the enrolled land is located and the state’s general fund. The municipality would receive the lower of 50% of the LUCT or \$2,000 per parcel. As current law, all LUCT revenue by the state is dedicated to the general fund.