

## **Proposal to Require All Homeowners to Pay the Education Tax Based on Household Income**

### Homestead Property

- All homeowners are required to file a homestead declaration and a household income form with the tax department annually
- Homeowners with household income under \$47,000:
  - Pay the household income tax; the option of paying the property tax if lower is no longer available
  - The \$15,000 exemption is repealed
  - However, these homeowners continue to be eligible for the homeowner rebate
- Homeowners with household income between \$47,000 and \$90,000:
  - Pay the household income tax; the option of paying the property tax if lower is no longer available
  - The \$500,000 housesite value limit for the property tax adjustment is repealed
- Homeowners with household income over \$90,000:
  - Pay the household income tax instead of the property tax
  - The option of paying the household income tax plus the property tax on housesite value in excess of \$250,000 (the “slope”) is repealed

### Property Tax Adjustment

- The property tax adjustment is based on the difference between the property tax and the household income tax on the homestead:
  - If the property tax on your homestead is higher than the income tax on your homestead, the difference is subtracted from your property tax bill the next year
  - If the property tax on your homestead is lower than the income tax on your homestead, the difference is *added* to your property tax bill the next year
- The tax department notifies the towns of the amount to subtract from *or add to* each homeowner’s property tax bill annually
- The definition of “housesite” – home plus 2 contiguous acres - is repealed

FY2017 is a transition year; FY2018 is the first year of implementation

#### Advantages:

- Maintains privacy for homeowners (to the extent that it exists now)
- Towns continue to collect the education tax (delinquent fines and collection fees stay with town; town and local bank relations not disrupted)
- No need to repeal property tax adjustment lag immediately
- No need to convince tax department to collect education tax
- No renters problem (double tax or exemption – maintains renters rebate (a very blunt tool if used to offset double tax))
- Eliminates some of the cliffs that exist under current law
- No longer need to value housesite and homestead separately – no – “housesite”
- No need to modify homeowner rebate
- Arguably makes education tax burden more equitable - all taxpayers pay education tax on same basis
- Brings in additional revenue – lowers taxes for most homeowners in bottom 2/3rds of household income, but raises more revenue from homeowners in top 1/3 of household income
- Some simplification of the property tax adjustment – no slope; no \$500k housesite value limit
- Homestead available for lien if homeowner fails to pay education tax
- Although an income tax, this tax is based on household income rather than AGI and would not increase Vermont state income tax rate schedule (perception issue)
- No significant transition or cash flow issues

#### Disadvantages:

- Generally, a less efficient way to collect an income tax
- Tax department must continue to conduct that equalization study annually
- Towns continue to administer and collect education taxes (which may create the perception that education tax revenue “belongs” to town)
- All taxpayers must file household income forms; more work for tax department
- No opportunity to implement education tax withholding since household income remains the education tax base (although this would be complicated if enacted)
- Although privacy is maintained to the extent it exists under current law, high income taxpayers may raise it as a concern (option to use withholding for education taxes would continue)
- Household income tax may be more volatile than the property tax
- May encourage excess consumption of housing