

To All Interested Persons

We are considering changes to the school funding law that are intended to:

- reduce reliance on the residential property tax by moving to a tax that is more closely related to ability to pay
- more closely link decisions on school budgets to the actual homestead tax paid
- move to a simpler system by shifting from income sensitivity for the majority of taxpayers to a direct school income tax based on adjusted gross income
- provide for greater transparency by eliminating the general fund transfer and substituting 100% of the sales tax and 25% of the meals and rooms tax and by moving responsibility for 4 programs that do not go directly to K-12 education to the general fund
- provide for greater transparency by separating the municipal and education tax bills and by creating a separate municipal rebate program
- continue to assist low income residents and property owners by creating a homestead exemption, using a progressive tax structure for the school income tax, and retaining the renter rebate program
- consistent with the requirements set out by the Vermont Supreme Court in *State v. Brigham*, change the way homestead property tax rates are calculated to create a stronger connection between spending decisions and tax rates
- strengthen mechanisms for cost containment

**No decisions have been made and different committee members will likely emphasize different goals. Our hope is that we will be able to move to a system that is simpler, more transparent, fair to taxpayers and fair to students and that gives school leaders better tools for cost containment.**

**Your comments and suggestions are welcome and they will make a difference as we continue this work.**

Rep. Janet Ancel  
Chair, House Ways and Means Committee

*For information about the format of the public hearing or to submit written testimony, please contact Sorsha Anderson at [sanderson@leg.state.vt.us](mailto:sanderson@leg.state.vt.us)*

**House Committee on Ways and Means  
Summary of Working Education Finance Proposal for FY2019  
February 16, 2018**

**This proposal is being considered by the House Ways & Means Committee, but it has not been adopted.**

Estimates only

*Based on board-approved school budgets submitted to AOE to date*

*Subject to change:*

*Base homestead tax rate, base spending amount, and property yield*

*AGI brackets, income tax rates and cap*

*Homestead exemption and homestead value cap*

**1. Reduce the *average* homestead education property tax rate in FY2019 from \$1.554 to \$0.820 by:**

- a. Lowering the base homestead property tax rate to \$0.25
- b. Providing a base spending amount of \$12,253 per equalized pupil
- c. Raising the homestead property yield to \$5,600 (on above-base spending only)

*Homestead tax rates increase faster than under current law for every \$1 of additional above-base spending per-pupil*

**2. Maintain the nonresidential property tax rate at its current-law amount - \$1.591**

**3. Simplify administration and compliance with the education tax system by:**

- a. Replacing the property tax adjustment and income yield with a school income tax (*see item 4*)
- b. Replacing the homeowner rebate on the education property tax with a homeowner exemption (*see item 5*)
- c. Replacing the homeowner rebate on the municipal property tax (*see item 6*)

**4. Create a marginal school tax on adjusted gross income (AGI):**

- a. Tax brackets, tax rates, and AGI cap:

<b>AGI Bracket</b>	<b>Tax Rate</b>
\$0 to \$47,000	Exempt
\$47,001 to \$125,000	1.20%
\$125,000 to \$4,000,000	1.65%
Over \$4,000,000	Capped

- b. Resident renters and nonresidents with Vermont AGI would be subject to the AGI tax
- c. AGI is the measure of income closest to household income available
- d. AGI tax may be collected through wage withholding (*no penalty for underwithholding in CY2018*)

**5. Assist low-income homeowners with their education property bills by:**

- a. Providing a variable housesite exemption for homeowners with household income under \$47,000:

<b>Household Income Bracket</b>	<b>Housesite Value Exemption</b>
\$0 to \$10,000	93%
\$10,001 to \$20,000	82%
\$20,001 to \$30,000	61%
\$30,000 to \$40,000	40%
\$40,000 to \$47,000	22%

- b. Limiting the housesite exemption to the first \$400,000 of housesite value
- c. Applying the tax value of the education property tax exemption directly to education property tax bills
- Unlike under current law, all homeowners would have a stake in the growth of their school budgets*

**6. Create a municipal property tax rebate program:**

- a. Tax brackets, tax limits based on household income, and cap:

<b>Household Income Bracket</b>	<b>Household Income Limit</b>
\$0 to \$10,000	1.20%
\$10,001 to \$24,999	3.15%
\$25,000 to \$47,000	3.50%

- b. Limits maximum rebate on the municipal property tax to \$2,400 per homestead
- c. Applying the municipal property tax rebate directly to the municipal property tax bill

**7. Retain the existing renter rebate program**

**8. Eliminate the \$323 million GF transfer to the EF in a revenue-neutral fashion by a combination of:**

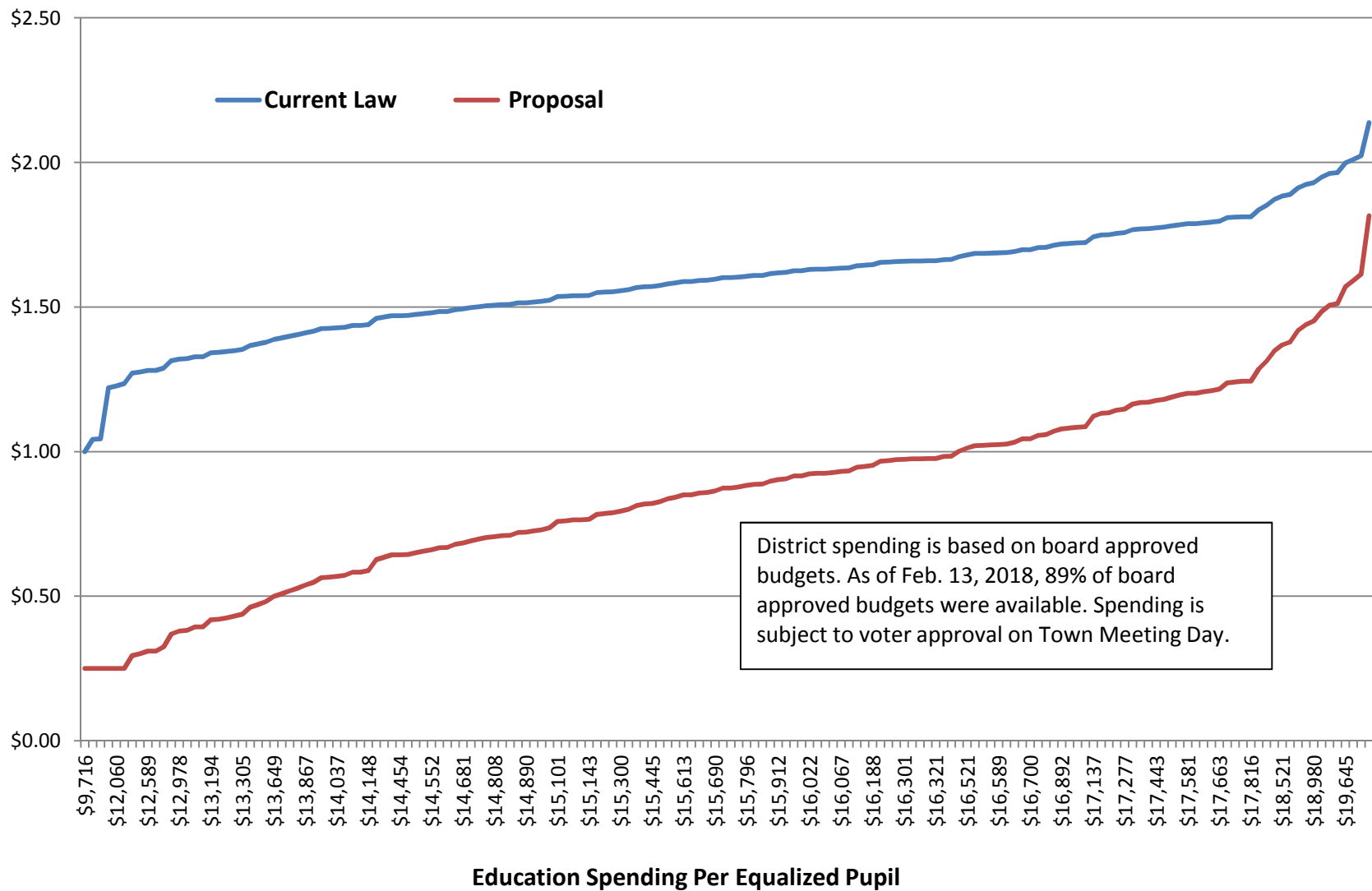
- a. Dedicating GF revenues to the EF in lieu of the GF transfer:
- \* 100% of the Sales & Use Tax
  - \* 25% of the Meals & Rooms Tax
- b. Transferring some EF uses that do not go directly to school districts to the GF:
- \* Adult Education and Literacy
  - \* Flexible Pathways
  - \* Community High School of Vermont
  - \* Renter Rebate

**9. Separate the school and the municipal property tax bills by:**

- a. Sending separate municipal and school property tax bills through the existing NEMRC system
- b. Using a portion of the existing fee paid to municipalities to cover administration costs
- This may give voters a better understanding of the factors that determine their total property tax bills*

## Estimated Homestead Property Tax Rates

### Current Law Compared to HWM Working Proposal as of February 16 FY2019



**Estimated Median Total Taxes on Homesteads  
Current Law Compared to HMW Working Proposal as of February 16  
FY2019**

