

**Current law on municipal retention**

There have traditionally been two tracks for municipalities to pay statewide education property tax revenues collected from taxpayers.

1. “Sending” towns

- Towns that pay education property tax collections to the State Treasurer for deposit into the Education Fund. 32 V.S.A. § 5402(c). These towns have historically been referred to as “sending” towns.
- The payments from these towns to the State are due in two installments, first on December 1 and the other on June 1. *Id.*
- Under that payment track, a municipality is already allowed to retain 0.225% / 0.00225 of the total education tax collected, but only if the municipality makes timely payments to the State. *Id.*
- To note, if these towns do not make their payments to the State on time, they face a penalty of 8% of the amount due. 32 V.S.A. § 5409(1). State aid can be withheld from towns if their payments are more than 90 days overdue. *Id.*
- The Dept. of Taxes’ website stated that there are almost no sending towns in Vermont that can pay for their education spending through the revenue generated from their homestead grand list alone. Practically all towns depend on the other sources of revenue to the education fund to pay for the school budgets they approve. See, <https://tax.vermont.gov/property/education-property-tax-rates/faqs> (under FAQ titled: “Is my town a “sending” town or a “receiving” town?”).

2. “Receiving” towns

- Most Vermont towns do not raise enough education property tax revenues to fully fund their education spending, so they make payments directly to their school districts. 16 V.S.A. § 426(a).
- The State then makes adjusted education payments from the Education Fund to the school districts to meet the full amount of locally voted education spending, on April 30, Sept. 10, and Dec. 10 every year. 16 V.S.A. § 4028. These towns have historically been referred to as “receiving” towns.
- The town treasurer is generally required to deposit education property taxes into the school district account within 20 days after the date the property taxes become due, although there are some exceptions. 16 V.S.A. § 426(a).
- If taxes become delinquent, the treasurer is required to deposit the balance of the property tax collections into the school district account within 120 days after the date on which the taxes became delinquent, but in no event later than the end of the school year. 16 V.S.A. § 426(b). Even if delinquent taxes haven’t been collected, towns still have to pay.

## **S.261, AN ACT RELATING TO MUNICIPAL RETENTION OF PROPERTY TAX COLLECTIONS, AS INTRODUCED**

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- Vermont law does not allow these “receiving” towns to retain any percentage of the education taxes collected when they pay the school district, even if taxpayers are delinquent.
- However, Vermont statute does not appear to impose a penalty for late payments to school districts, either.

### Other relevant provisions

#### 1. Penalties and interest

- To note, penalty and interest provisions already exist under Vermont statute that allow towns, if approved by voters, to charge taxpayers for late or non-payment of property taxes. See, e.g., 32 V.S.A. §§ 1674(2), 4843, 4873, and 5136.
- There are also penalties (some at the discretion of town voters to charge; others are required) for nonfilers or late or fraudulent filings of the homestead declaration and claims for the property tax credit. See, 32 V.S.A. § 5410(g).

#### 2. State funding to towns to administer property tax

- Administration of the statewide education property tax, including towns’ responsibilities to reappraise and maintain the grand list, is funded by both the General Fund and Education Fund.
- Towns receive annually:
  1. \$8.50 per parcel for reappraisal and maintaining grand list (paid from the Education Fund). 32 V.S.A. § 4041a(a).
  2. \$1 per parcel for equalization (paid from the General Fund). 32 V.S.A. § 5405(f).
  3. 0.225% of education tax revenue collected, but it is limited to when a homestead owner files a new or corrected declaration or rescinds an erroneous declaration, on or before September 1 of the property tax year, that is not reflected in the first Education Fund payment or in a municipality's first payment to the Education Fund (paid from the Education Fund). 32 V.S.A. § 5410(h).

### **S.261 changes to law on municipal retention**

Creates new timely payment retention and imposes new penalty for late payments

- Towns that pay education tax to the school district will be allowed to retain 0.225% / 0.00225 of total tax collections when payments to school districts are made on time (the same as currently allowed for towns that pay education tax collected to the State Treasurer for deposit in the Education Fund).
- Towns that pay education tax to the school district will be subject to an 8% interest rate for an amount due, when payments to school districts are late (the same as currently imposed on towns that pay education tax collected to the State Treasurer for deposit in the Education Fund).
  - If a payment to a school district is more than 90 days overdue, State funds will be withheld from the town.

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