

# Policy Recommendations to Mitigate Vermont's Unsustainable Property Tax Growth

The purpose of this document is to outline potential tax levers to mitigate the dramatic increases in Vermont's property taxes while advancing the goals of 1) having voters feel more directly their education system choices, 2) consolidating schools where possible to gain efficiencies and cost savings, 3) acknowledging that whether we like it or not, education property tax decisions are indeed housing policy decisions because they affect the decisions of actors within the market.

These suggestions should be considered supplemental to those laid out in the Vermont Joint Fiscal Office Report, [Levers in Vermont's Education Fund](#), which recommended;

- Adjusting staffing ratios
- encouraging or mandating more mergers
- consolidating administrative services
- reinstating and/or adjusting the excess spending threshold
- implementing education spending caps
- moving education spending decisions to a statewide level

**Beyond those policy recommendations, the Vermont legislature should consider the following. (The House Committee on Education received these recommendations [here](#).)**

- **Tie communities' decisions more closely to their tax rates:** Lowering the state-wide yield makes outliers feel their decisions more acutely as the ratio of local dollars spent to draw down a state-wide dollar gets closer to one-to-one. This would incentivize communities to be closer to the statewide average.
- **Prevent buy-down of tax rates with sparsity or small school weights** created under Act 127 that are working in the opposite direction of school consolidation attempted by Act 153 (2010), Act 156 (2012), and Act 46 (2015).
  - Unlike English Language Learner (ELL) weights, which have not been used to buy down rates, or Economically Deprived Background weights, which reflect the community's ability to pay, these weights might be best transitioned to a form of categorical aid for spending that indeed is higher for these districts due to their rural or small nature, such as transportation.
- **Tighten the usage of the Homestead Declaration and Property Tax Credit (PTC) Claim (income sensitivity):** Vermont is rapidly aging and will likely see the usage of this program expand, and higher property taxes may possibly induce demand. Vermont should make some long-overdue fixes to the \$160 million program that two-thirds of Vermonters use to limit the loss of revenue to the state and foster movement in our stagnated housing market.
  - **Net asset attestation:** add a box to the property tax credit on Form HS-122 Section B: Property Tax Credit Claim with language to the effect that it indicates, "I attest I do not have assets [with definition] exceeding \$X million dollars," which, if not checked, renders the individual ineligible for the PTC.

- Income ≠ wealth and some individuals, especially some of our older Vermont residents, have the ability to modulate their income.
- **Do taxes truly reflect people, not houses?** Further change Form HS-122 Section B to reflect the situation of earners in a household rather than the “household.”
  - Vermont is one of the most overhoused states in the nation, and this subsidizes and can possibly trap individuals into staying in their homes even if they no longer suit their needs. Meanwhile, individuals who live more densely in identical homes can see a higher property tax bill by virtue of multiple individuals earning income.
  - Household Income for the purposes of the PTC includes all taxable and nontaxable income of everyone who lived at home at any time during the tax year, including children and non-related individuals.
  - Vermont law currently has [some exceptions](#), including allowing people over 62 who have left their homes to live in an assisted living facility to not be counted in the calculation for household income.
  - The Vermont Renter Credit, the renter equivalent to the PTC, [reflects spouses and dependents](#) with a higher credit amount.
  - Reworking the definition of household income could generate more revenue, both when some individuals pay more to stay in their current homes or when this tax serves as an economic price signal to right-size their homes.
- **Transition the PTC to a loan?** Adopting a tax deferral program such as Maine or Minnesota’s could allow Vermonters to age in place and pay taxes.
  - With a population older than Vermont’s, Maine’s [State Property Tax Deferral Program](#) allows Mainers ages 65+ or permanently disabled to defer taxes as a loan, which is repaid once the property is sold or becomes part of an estate.
- **Help those “stuck” in their homes with a “sellers’ credit:”** Nationally, we see homeowners more reluctant to sell a paid-off home, even when their current homes no longer fit their household needs. This is especially true in Vermont, where, as discussed above, the PTC subsidizes property taxes for individuals whose wealth is not reflected in income. *This could be an opportunity to use one tax credit to remedy another.*
  - [As part of his State of the Union, President Biden](#) called on Congress to provide a one-year tax credit of up to \$10,000 to middle-class families who sell their to another owner-occupant.
  - Vermont could aim to create a similar credit for those who are currently utilizing the PTC and could benefit from downsizing their home in which they can claim the same PTC for a set period of time after exiting with it phasing out at their new homestead or domicile that might not otherwise be ineligible for or receive a smaller PTC.
- **Build More Housing:** Vermont has stifled its economic growth by not keeping up with its housing needs. The housing crisis has, in turn, stifled the state's revenues.
  - If we had 11,023 new homes, which we acutely need and cost the median price of about \$400,000, paying an anticipated state education tax bill of at least \$5,250, we’d have about \$58 million more revenue in the education fund this year.
    - Additionally, such housing availability would have an economic multiplier effect seen in sales & use, rooms & meals, personal income, and corporate tax.