

# **Tax Incentives for Housing Growth**

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# Tax Incentives for Housing Growth

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- **Property value freeze:** reduce property taxes by freezing the value of newly constructed or rehabilitated residential dwellings at their pre-improvement value for 5 years
- **Property transfer tax exemption:** exempt buyer from transfer tax when purchasing blighted property for rehabilitation within 3 years

# Property Value Freeze

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- Freeze the value on the Education Grand list for eligible new construction and rehabilitation
  - Towns may opt in to enact a freeze on the Municipal Grand List (subject to local vote)
- Targeted locations and types of properties
  - Designated downtowns, village centers, neighborhood development areas, and federal new market tax credit areas
  - Owner-occupied or long-term rental residences only
  - Requires mixed income / affordability for multifamily units
  - Rehabilitation for blighted properties only
  - Not allowed in TIF districts

# Property Value Freeze

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- Focused, time-limited costs to the Education Fund with long-term returns
  - Time limited to a 5-year exemption period
  - Program sunsets in 2027 (no new applications)
  - Jump starts grand list growth for the long-term
- Supplements existing Vermont property tax incentives and is modeled on other programs available around the country

# Property Value Freeze

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- Modeled on other states' property tax exemptions or abatements to stimulate housing growth
  - At least 11 other states have similar programs targeting construction and rehabilitation of property for residential use
    - CA, DC, IA, MO, NH, NJ, NY, OH, OR, PA, TX
    - Time-limited incentives
    - Require specific uses with certification and enforcement
    - Targeted, priority locations

# Property Value Freeze

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- Supplements existing Vermont property tax incentives
  - Locally voted property tax exemptions
    - Neighborhood housing improvement programs under 32 V.S.A. § 3847
      - 5-year exemption for value of improvements to affordable principal dwelling units with funds provided by certain nonprofits.
    - Blighted Properties under 32 V.S.A. § 3850
      - 5-year exemption for value of improvements to blighted property.
      - Property may either both owner-occupied principal residences and long-term rental units.
    - Exemption for Homes, Dwellings, and Farm Buildings under 32 V.S.A. § 3836
      - 3-year exemption for up to \$75,000 of appraised value of buildings used and occupied exclusively as homes, dwelling houses, or farm buildings whether for sale or rent, when recently constructed or in the process of constructed.
  - Tax stabilization agreements
    - Towns may approve property-specific contracts to reduce State and local property taxes for certain properties, including commercial rental properties. 32 V.S.A. § 5404a(a)(6) and 24 V.S.A. § 2741.

# Property Value Freeze: Examples

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- Land purchased for \$700,000 in Winooski with a \$2.5 million 39-unit commercial apartment complex
  - Annual savings: \$36,300
  - Five-year savings: \$182,000
- Land purchased for \$500,000 in Barre where a \$6.5 million 79-unit apartment complex is constructed
  - Annual savings: \$100,800
  - Five-year savings: \$504,000
- A blighted property in Craftsbury purchased for \$100,000 that is restored to a value of \$275,000 and utilized as a Homestead
  - Annual savings: \$1,400
  - Five-year savings: \$15,450

# Property Transfer Tax Exemption

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- Proposed property transfer tax incentive would exempt buyer from tax for the purchase of blighted property that buyer rehabilitates for primary residence within 3 years of purchase
- Buyer must show that rehabilitation of property has been completed and property is occupied as a principal residence within 3 years of purchase
- Occupancy as a principal residence may be as a homestead (owner-occupied) or as a rental, not a short-term rental
- Available statewide, not just in designated areas
- No sunset