

# Local Option Tax Primer

House and Senate Committees on Transportation

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# Local Option Taxes

- Authority for local option taxes found in 24 V.S.A § 138
- Towns can place a 1% local option on any combination of the below taxes
  - Sales
  - Meals and alcoholic beverages
  - Rooms
- Originally created as a mechanism to help municipalities transition to the new statewide education property tax created by Act 60 of 1997
  - However, must be used for municipal services only, not for education expenditure
- Before Act 144 of 2024, most municipalities needed a charter change to implement a local option tax
  - Now, LOTs can be adopted by a majority of voters in the municipality
  - The Commissioner of Taxes can limit the number of new municipalities with local option taxes to 5 per year to manage administrative burden



# LOT Administration and Allocations

- LOTs are collected and administered by the Department of Taxes
- State law apportions revenue 75% to the town that levies the LOT, 25% to the PILOT Special Fund
  - The Department of Taxes collects a \$5.96 per return fee that is paid for 75%/25% from amounts that would otherwise go to the municipality/PILOT Special Fund, respectively
    - Return fees allocated to administering LOTs and the State appraisal and litigation program
    - A return is filed when a business reports monthly or quarterly sales or meals and rooms taxes
  - Revenue allocations changed from 70%/30% to the current 75%/25% by Act 57 of 2025, effective October 1, 2025.



# Local Option Taxes – Aviation Fuels

- The LOT on jet fuel sales is dedicated 70/30 to the town/Transportation Fund for aviation-related uses – does not incur return fees
  - Per federal law, local taxes on aviation fuel must also be used for aviation-related purposes
- Two municipalities generate local option sales taxes on jet fuel: South Burlington and Berlin
- LOT on jet fuel generated approx. \$86,000 to the T-Fund in FY 2025

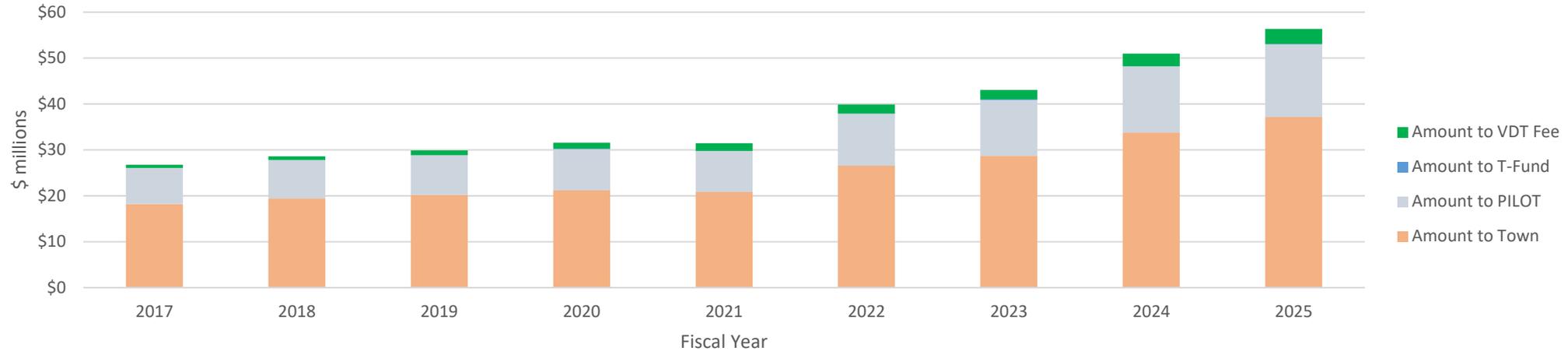


# Other Taxes Imposed by VT Municipalities

- Burlington and Rutland City have different versions of local option taxes in their town charters
  - These taxes are collected at the municipal level, rather than by the Department of Taxes
  - Accordingly, these municipalities retain 100% of the revenue generated
- Burlington: Gross Receipts Tax
  - Admissions, Alcoholic Beverages, Amusements, Meals: 2.5%
  - Hotels/Motels: 4%
  - Short-term rentals: 9%
- Rutland City: Rooms, Meals, and Entertainment Tax
  - 1% on the gross receipts of specified business activity



# Total LOT Revenues Since FY 2017



## Total LOT Revenue\* (\$ millions)

Fiscal Year	Total LOT	Amount to Town	Amount to PILOT	Amount to T-Fund	Amount to VDT Fee
2017	\$26.76	\$18.23	\$7.81	\$0.00	\$0.71
2018	\$28.60	\$19.46	\$8.34	\$0.00	\$0.79
2019	\$29.88	\$20.21	\$8.65	\$0.01	\$1.01
2020	\$31.56	\$21.17	\$9.01	\$0.07	\$1.31
2021	\$31.46	\$20.86	\$8.92	\$0.02	\$1.67
2022	\$39.91	\$26.55	\$11.31	\$0.07	\$1.98
2023	\$43.05	\$28.70	\$12.19	\$0.11	\$2.05
2024	\$50.95	\$33.78	\$14.39	\$0.08	\$2.69
2025	\$56.33	\$37.14	\$15.83	\$0.09	\$3.27

- Although more municipalities have local option taxes on meals and rooms, local option sales tax revenues generated \$42.23 million or about 75% of overall LOT revenue in FY 2025
- Since FY 2017, total LOT revenues have increased by 110%

Source: Vermont Department of Taxes LOT Disbursement Report

\*The change in LOT allocations in Act 57 of 2025 did not become effective until October 1, 2025.

These data reflect the 70%/30% split in LOT revenues between municipalities and the PILOT Special Fund.



# Two sources of LOT Revenue Strength

1. Pandemic-era changes in spending habit
  - Increased spending on goods
  - Vermont was a popular destination for post-pandemic travel

## SOURCE G-FUND

revenues are prior to all E-Fund allocations and other out-transfers; used for analytic and comparative purposes only

	FY2021 (Actual)	% Change	FY2022 (Actual)	% Change	FY2023 (Actual)	% Change	FY2024 (Actual)	% Change
<b>REVENUE SOURCE</b>								
Personal Income	\$1069.8	15.5%	\$1267.8	18.5%	\$1210.0	-4.6%	\$1243.1	2.7%
Sales and Use <sup>1</sup>	\$507.6	17.4%	\$545.2	7.4%	\$584.0	7.1%	\$595.2	1.9%
Corporate	\$133.4	-9.8%	\$223.3	67.3%	\$281.4	26.0%	\$238.8	-15.1%
Meals and Rooms <sup>2</sup>	\$143.8	-12.1%	\$216.8	50.8%	\$237.7	9.6%	\$246.2	3.5%

2. Increases in the number of municipalities with LOTs

## Number of Municipalities Collecting Local Option Tax

Tax Type	2017	2018	2019	2020	2021	2022	2023	2024	2025
Meals and Rooms Tax*	17	18	19	20	21	22	24	28	32
Sales Tax	14	14	14	16	16	17	20	22	25
SUT - Jet Fuel**			1	1	1	1	1	1	2

\*The number of municipalities with a LOT in this tax type includes municipalities that assess LOTs on any combination of meals, rooms, and alcohol taxes.

\*\*Jet fuel local option taxes flow to the Transportation Fund rather than the PILOT Fund



# What is the PILOT program?

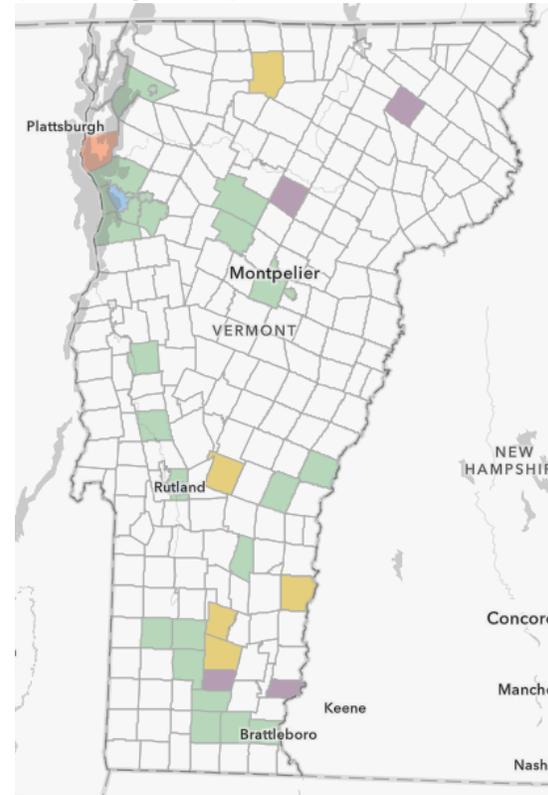
- The General PILOT program compensates municipalities for the assessed value of State-owned buildings, prisons, and UVM buildings (capped under statute at \$750K)
  - Examples (FY 2026 Building Inventory):
    - 115 State Street-Annex: \$34,120,826
    - AOT District 6 Office (Berlin): \$1,187,400
    - Alburg Welcome Center: \$164,000
- Funded through 25% of local option tax revenue minus \$5.96 return fees
- In fiscal year 2026, General PILOT payments totaled approximately \$11.39 million\*
  - \*Does not include supplemental facility payments to Newport and Springfield, which are determined by contracts between the State and those two municipalities
  - Payments were fully funded for the first time in fiscal year 2024. Payments had been prorated in prior years



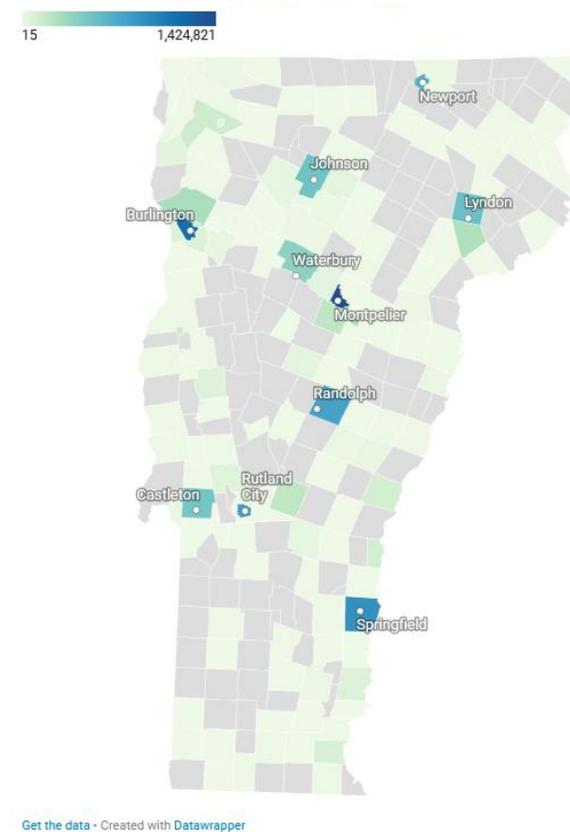
# PILOT Payments versus LOT towns

**Green** = All  
**Blue** = Sales  
**Yellow** = Meals,  
Rooms, and Alcohol  
**Red** = Meals and  
alcohol only  
**Purple** = Rooms

Local Option Tax Status by Town  
(January 2026)



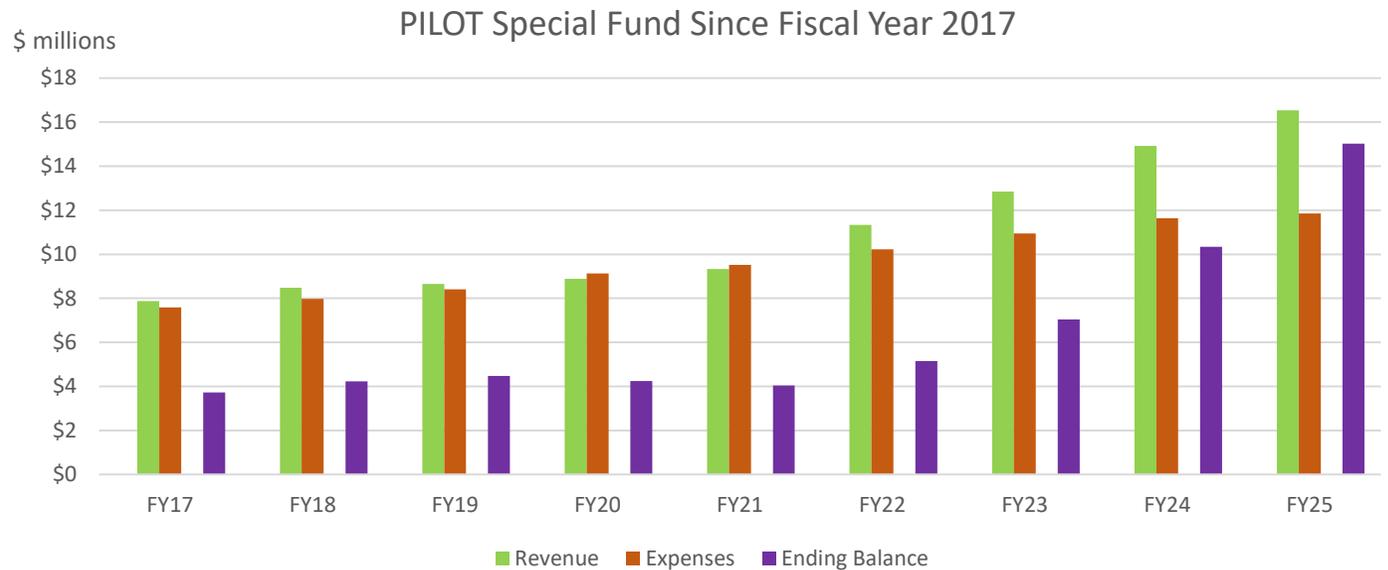
FY 2025 PILOT Payments by Town



- Towns with local option taxes are often near recreation areas, or in Chittenden County
- Municipalities receiving PILOT payments are spread throughout the state



# Revenue and Appropriations Trajectory



- The PILOT Special Fund balance has increased substantially since FY 2021, driven by strong local option tax revenues
- Additional revenues have allowed for full funding of PILOT payments since FY 2024

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
<b>Prorated PILOT Payment (\$ millions)</b>	7.17	7.60	8.04	8.75	9.25	9.75	10.58	11.25	11.48	11.35
<b>Percentage of Full Payment</b>	74.69%	75.62%	76.35%	81.09%	81.14%	85.83%	94.89%	100.00%	100.00%	100.00%
<b>Full PILOT Payment (\$ millions)</b>	9.60	10.05	10.53	10.79	11.40	11.36	11.15	11.25	11.48	11.35
<b>Difference</b>	2.43	2.45	2.50	2.04	2.15	1.61	0.58	0.00	0.00	0.00

Sources: Department of Finance and Management Special Fund Reports; Vermont Department of Taxes



# Other State Local Taxes – Massachusetts

- Many other states allow municipalities to charge differential rates for different tax types
- **Example 1:** Massachusetts – Rooms Occupancy Tax and Short-term Rental Impact Fee
  - The state has a room occupancy excise tax rate of 5.7%
  - Municipalities can levy up to an additional 6% on rooms and 3% on short-term rentals
  - 35% of revenue generated by the Short-Term Rental Impact Fee must be used for affordable housing
  - Of 352 municipalities in Massachusetts, 233 have a local occupancy rooms tax and 42 have a short-term rental impact fee
  - Collected by the Massachusetts Department of Revenue



# Other State Local Taxes – New York

- Many other states allow municipalities to charge differential rates for different tax types
- **Example 2: New York State Sales Tax**
  - The state sales tax rate is 4%
  - Local jurisdictions (counties) can add up to 4.875%
  - Counties then share a negotiated percentage of their sales tax revenue with cities
  - Revenue collected by the New York Department of Taxation and Finance



# New York State Sales Tax Rates by County

County or other locality	Tax rate %	Reporting code	County or other locality	Tax rate %	Reporting code	County or other locality	Tax rate %	Reporting code
New York State only	4	0021	Herkimer	8¼	2121	St. Lawrence – except	8	4091
Albany	8	0181	Jefferson	8	2221	Ogdensburg (city)	8	4012
Allegany	8½	0221	*Kings (Brooklyn) – see <i>New York City</i>			Saratoga – except	7	4111
*Bronx – see <i>New York City</i>			Lewis	8	2321	Saratoga Springs (city)	7	4131
*Brooklyn – see <i>New York City</i>			Livingston	8	2411	Schenectady	8	4241
Broome	8	0321	Madison – except	8	2511	Schoharie	8	4321
Cattaraugus – except	8	0481	Oneida (city)	8	2541	Schuyler	8	4411
Olean (city)	8	0441	*Manhattan – see <i>New York City</i>			Seneca	8	4511
Salamanca (city)	8	0431	Monroe	8	2611	*Staten Island – see <i>New York City</i>		
Cayuga – except	8	0511	Montgomery	8	2781	Steuben	8	4691
Auburn (city)	8	0561	*Nassau	8½	2811	<b>*Suffolk</b>	<b>8¾</b>	<b>4711</b>
Chautauqua	8	0651	*New York (Manhattan) – see <i>New York City</i>			Sullivan	8	4821
Chemung	8	0711	*New York City	8¾	8081	Tioga	8	4921
Chenango – except	8	0861	Niagara	8	2911	Tompkins – except	8	5081
Norwich (city)	8	0831	Oneida – except	8¾	3010	Ithaca (city)	8	5021
Clinton	8	0921	Rome (city)	8¾	3015	Ulster	8	5111
Columbia	8	1021	Utica (city)	8¾	3018	Warren – except	7	5281
Cortland	8	1131	Onondaga	8	3121	Glens Falls (city)	7	5211
Delaware	8	1221	Ontario	7½	3211	Washington	7	5311
*Dutchess	8½	1311	*Orange	8½	3321	Wayne	8	5421
Erie	8¾	1451	Orleans	8	3481	*Westchester – except	8%	5581
Essex	8	1521	Oswego – except	8	3501	*Mount Vernon (city)	8%	5521
Franklin	8	1621	Oswego (city)	8	3561	*New Rochelle (city)	8%	6861
Fulton – except	8	1791	Otsego	8	3621	*White Plains (city)	8%	6513
Gloversville (city)	8	1741	*Putnam	8%	3731	*Yonkers (city)	8%	6511
Johnstown (city)	8	1751	*Queens – see <i>New York City</i>			Wyoming	8	5621
Genesee	8	1811	Rensselaer	8	3881	Yates	8	5721
Greene	8	1911	*Richmond (Staten Island) – see <i>New York City</i>					
Hamilton	8	2011	*Rockland	8¾	3921			

\*Rates in these jurisdictions include ¾% imposed for the benefit of the Metropolitan Commuter Transportation District.

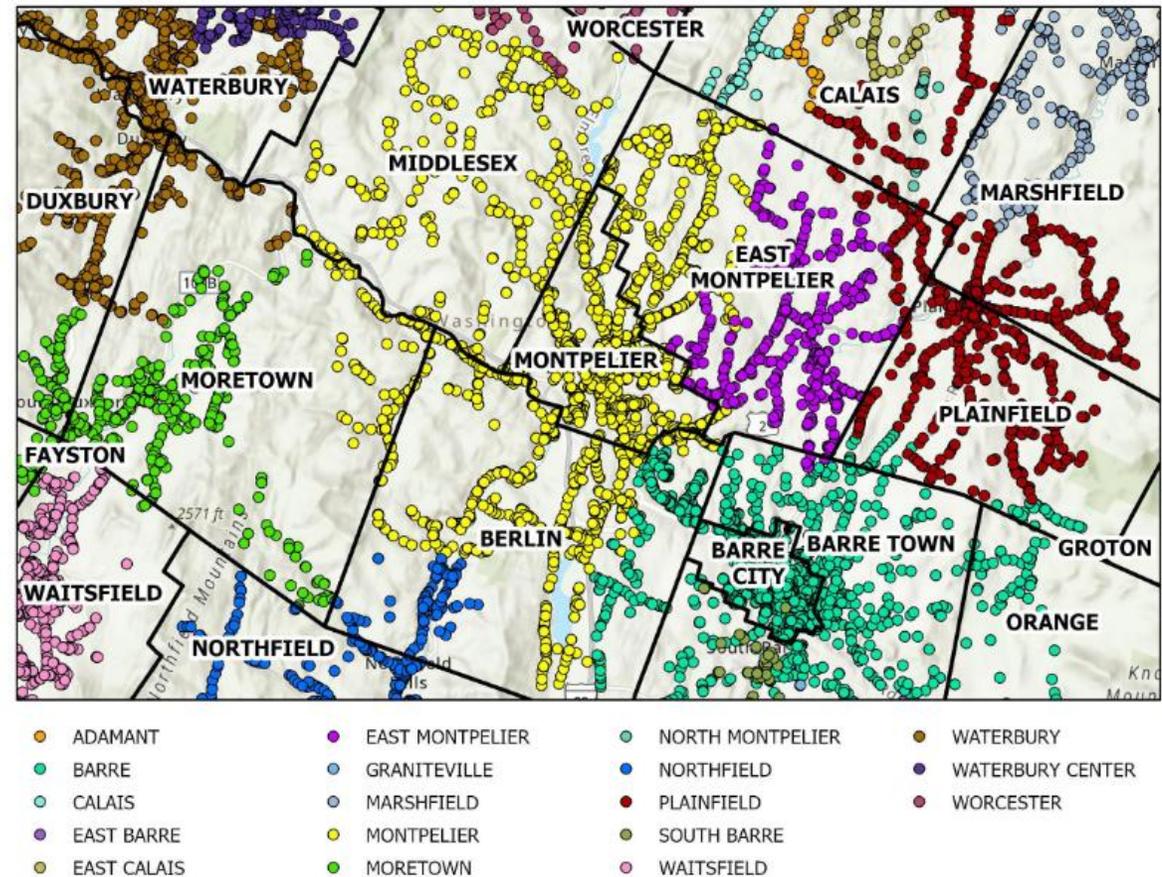
Source: New York State Department of Taxation and Finance



# Considerations – Complexity

- Local Option Tax administration is currently complicated
- Town boundaries don't neatly map to USPS residential addresses or zip codes

Points colored by USPS-provided town (and corresponding with 5-digit Zip):



Dept of Taxes testimony to Sen Fin 3-01-23. Map provided by the Vermont Center for Geographic Information (VCGI)



# Considerations – Equity

- Who pays local option taxes?
- Local option taxes raise revenues where commercial activity occurs – towns with a large tourism or retail presence benefit the most regardless of population
  - Many towns would not see much revenue if they implemented a LOT
- Local option taxes impact Vermonters differently depending on the tax type
  - The rooms tax is largely paid by out-of-state visitors
  - Sales, meals and alcohol taxes borne by both residents and out-of-state visitors
- Sales taxes are regressive
  - Younger and lower-income individuals spend a larger percentage of their income on goods



# Considerations – Competitiveness

- Increases in local option rates can reduce economic competitiveness
  - *Sales:* New York is the only neighboring state with a local sales tax – other New England states have a sales tax rate of between 5.5% and 7%
  - *Meals:* Vermont has the highest meals tax among neighboring states
  - *Lodging:* Wide variation in local tax rates and surcharges makes comparisons challenging
- Increases in local option taxes could move certain Vermont jurisdictions further above comparable locations in other states



# Questions?

