Proposed Property Tax Classifications

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The Vermont Chamber of Commerce represents businesses of all sizes, from every industry, across every region of Vermont. We understand what it takes to help businesses grow and thrive to build strong, vibrant communities, and businesses have trusted us to lead in advancing the Vermont economy. We appreciate the opportunity to weigh in on the proposed changes to property tax classifications.

From taxes to housing, and healthcare, businesses and residents are grappling mounting pressures. The message is clear: Vermont must address its most significant issues with bold, comprehensive reforms in order to remain competitive and economically resilient. Meaningful reforms will require all stakeholders to engage in difficult conversations and embrace compromise. There must be a path toward sustainability and predictability that supports Vermont's economic drivers. In the Vermont Chamber's recent Business Climate Survey, 86% of businesses expected last year's property tax increases to impact their businesses financial health. The Vermont Chamber is keenly interested in ensuring that any changes remain equitable, transparent, and supportive of economic growth. Our feedback and suggested changes to the proposed property tax classifications are outlined below:

Complexity and Clarity

The proposed system expands property classifications into nine distinct categories. Although this could enable a more nuanced tax framework, we are currently concerned about the feasibility of implementation. Modification to the current property tax classification and the addition of complexity through multiple classifications will need to be managed at the state and local levels to avoid unintended consequences.

Resort Classification

Currently, the proposal includes a separate category for resorts, which applies to lodging establishments associated with amenities such as ski facilities or water parks. We recommend that resorts and other lodging establishments be consolidated within the Commercial classification. This change simplifies the system, reduces segmentation, and ensures a consistent tax framework.

Establishing a Regular Review Mechanism

We propose establishing a regular review mechanism for property tax classifications, including weights and/or multipliers, to assess its impact and make necessary adjustments based on key metrics. Alternatively, this responsibility could be incorporated into the mandate of the proposed Education Fund Advisory Committee.

Mixed Use Apportionment Considerations

- **Develop a Formula for Apportionment Based on Usage**: Establish a clear formula to determine the percentage of tax responsibility based on the proportion of each use (residential, commercial, industrial) on a mixed-use property. This ensures that property owners are taxed fairly based on the actual usage of their property.

- **Use of Square Footage or Functional Area for Apportionment**: For properties with different uses within the same physical space (e.g., a residential apartment above a retail store), apportion the tax based on the square footage of each function. This method is easily measurable and provides a clear, objective standard for apportionment.
- **Adress Hybrid Uses**: For properties that serve dual roles (e.g., a property that is partly residential and partly commercial but where neither use clearly dominates), it should be addressed with a distinct, predefined method of apportionment. This system would allow properties that don't neatly fall into traditional categories to be taxed in a manner that reflects their unique nature, ensuring fairness for both businesses and residents.
- **Implementation of a Sliding Scale for Mixed-Use Properties**: Develop a sliding scale that adjusts tax rates depending on the percentage of the property used for different purposes. For instance, if a property is predominantly residential with a smaller retail or office component, the tax rate for the commercial portion might be adjusted to reflect its lesser impact on the overall property. This provides flexibility and fairness, ensuring that properties with minimal commercial or industrial activity aren't unfairly burdened.
- **Allow for Adjustments Based on Changing Use**: Provide flexibility in the tax classification for mixed-use properties by allowing for periodic adjustments based on changes in usage. For example, if a business adds a new residential component or transitions to more commercial use, the property's tax classification could be updated accordingly.

Tax Weights and/or Multipliers

The Vermont Chamber encourages the adoption of a balanced approach to setting weights and multipliers that recognize the significant tax environment businesses face, support ongoing investment and growth, and ensure that Vermont remains competitive in attracting business investment.

- **Significance of Property Taxes to Businesses:** Businesses own a substantial amount of real property, and tax rates on commercial properties are often higher than those for residential properties. Notably, in fiscal year 2021, taxes on real, personal, and utility property comprised nearly 39% of all taxes paid by businesses to state and local governments, as reported by the Council on State Taxation. This statistic underscores the critical role that property taxes play in the overall tax responsibility for businesses.
- **Investment and Economic Competitiveness:** A primary concern is avoiding disincentives for business investment. When tax multipliers are set too high on properties used for productive activities, they can inadvertently steer businesses toward decisions based solely on tax savings rather than sound economic or operational reasoning. States that maintain competitive real property tax rates are better positioned to attract and retain business investments, thereby fostering broader economic growth.
- **Avoiding Distortive Effects:** It is essential that the weightings do not create a scenario where business owners feel compelled to make choices or even alter their operational structure simply to mitigate tax liabilities. Tax policy should support, not distort, investment decisions. Furthermore, a balanced approach to weights and multipliers will help ensure that businesses are not unfairly penalized for owning tangible personal property, intangible property, or engaging in asset transfers—all of which can be pivotal for growth and innovation.
- **Recommendations:**

- **Equity and Competitiveness:** Calibrate multipliers to reflect the intrinsic differences in property use without penalizing business-critical activities.
- **Consistency Across Categories:** Ensure that the multipliers promote a level playing field, particularly for commercial properties, so that businesses can plan and invest with confidence.
- **Benchmarking and Flexibility:** Consider national benchmarks and regional market conditions to set multipliers that are both competitive and flexible, allowing adjustments as market dynamics evolve.

Thank you for your time and consideration. We appreciate the Committee's attention to this issue and look forward to remaining a resource.