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.

While I recognize the need for reform in addressing affordability challenges and rising property tax rates, we have serious concerns about the current proposal and expansion of classifications and cannot support the current proposal as written. I also want to provide additional context to a statement made in my previous testimony – the property tax system is not currently working because we are not looking at the full scope of education and education financing systems which are inextricably tied together – cost containment and property taxes. Looking at state tax collections per capita according to the U.S. Census Bureau, in 2023, Vermont ranked third in total taxes per capita ($6,948.15), and ranked first for property taxes per capita ($1,870.04). This is a position we have held since 1999 when the Vermont property tax per capita was $650.27.

To put it in perspective, if we assume an average inflation multiplier of about 1.7 over this span, the 1999 figure would be roughly equivalent to $1,105 in 2023 dollars. In contrast, the current per capita property tax of $1,870.04 is about 70% higher than this inflation-adjusted amount. This suggests that property taxes have increased significantly more than the overall price level in the economy. Such a disproportionate increase indicates that, over time, the property tax obligation on Vermonters has grown much faster than what would be expected from inflation alone. This growing gap can exacerbate affordability issues for residents and businesses.

Expanding property tax classification beyond the current two (homestead and nonhomestead) could introduce several issues that run counter to the principles of a sound property tax system. A shift toward adding this volume of additional tax categories could undermine the core strengths of an effective property tax system.

- **Simplicity and Predictability**: Expanding to nine categories introduces unnecessary complexity. A system that is too segmented:
    - **Creates Uncertainty in Revenue Streams:** With multiple classifications, forecasting tax revenue becomes more volatile.
    - **Drives Up Compliance and Administrative Costs:** Increased complexity not only complicates administration but also adds layers that may lead to inconsistent assessments and higher costs—costs that could ultimately be passed on to taxpayers.

- **Equity and Fairness:** Equity is at the heart of any effective tax system. Introducing more categories risks:

- **Potential for Uneven Tax Liabilities:** If certain business properties—such as commercial, industrial, or resort as currently defined—are reclassified into categories with higher rates, this could unsustainably shift the tax liability onto businesses.
- **Fragmentation of the Tax Base:** Breaking the tax base into many segments can lead to arbitrary distinctions. This fragmentation undermines the principle that similar properties should be treated similarly, potentially imposing punitive rates on specific classifications and further complicating cost containment efforts.

- **Transparency and Accountability**: Transparency is essential for maintaining trust in our tax system. A more complex classification scheme:
  - **Obscures Decision-Making:** With increased segmentation, the rules and criteria for classification and taxation become less clear, creating openings for decision-making that may not align with clear cost containment measures that are needed.

- **Efficiency and Economic Impact**: The efficiency of a property tax system is measured by its ability to minimize economic distortions and support business growth. Overly complex categorization risks placing higher tax liabilities on business properties, which can discourage investment and growth.
  - **Minimized Economic Distortion:** Our current system is designed to reduce negative impacts on property use or market behavior. Overly complex categorization can lead to distortions.
  - **Increased Economic Distortions:** If business properties are placed in categories that impose higher taxes, it may discourage investment and growth. This forces business decisions to be driven by tax considerations rather than sound economic practices, ultimately harming Vermont's competitiveness.

  Highlighted during Manufacturing Day testimony yesterday, a manufacturer explained that the challenges extend beyond global competition—it's also about competing against states with significantly lower costs of doing business, such as Michigan, South Carolina, or Missouri. He noted that while affordability concerns affect families, they also hit manufacturers hard. In fact, he mentioned that in discussions with peers, the consensus was that relocating to a state like North Carolina might offer a more favorable business climate—though, for many, leaving Vermont has not been a palatable option due to deep personal and community ties, if state costs continue to increase exponentially, that choice will be harder to make

  This real-world insight underscores the broader economic impact: if business decisions are driven by tax considerations rather than sound economic practices, Vermont risks losing critical investment and the jobs that come with it.

- **Adequacy, Stability, and Cost Containment**: Addressing rising property taxes and affordability requires a stable and predictable revenue base:
  - **Risk of Revenue Instability:** A more segmented system can introduce volatility, making it harder to predict revenue reliably.

    - **Potential for Increased Fiscal Pressures:** Inconsistent assessments or the need for frequent revisions due to additional categories can increase administrative costs. These added costs may be passed on to taxpayers, further undermining affordability efforts.

Below are recommendations to the proposed language that address the concerns outlined above, along with detailed context to ensure that the property tax system remains simple, equitable, transparent, efficient, and stable:

- **Postpone or Scale Back the Expansion of Classifications**
    - **Recommendation:** Amend the bill to postpone the introduction of additional categories until a comprehensive, statewide review is conducted that examines the full interplay between property taxes and cost containment. In the interim, retain the current homestead and nonhomestead framework and study whether a more modest adjustment would achieve the intended goals without introducing undue complexity.
    - **Rationale:** Our analysis shows that a segmented system introduces uncertainty in revenue streams and administrative burdens that can exacerbate Vermont's already high property tax per capita. Given that Vermont has ranked first in property taxes per capita since 1999—with a dramatic increase from $650.27 to $1,870.04—maintaining a stable, predictable system is essential to avoid further destabilizing the revenue base.
- **Consolidate Similar Categories**
    - **Recommendation:** Revise the classification language to consolidate categories that serve similar purposes. For example, merge the "Resort" category into the broader "Commercial" classification.
    - **Rationale:** Consolidating categories will help maintain horizontal equity by ensuring that similar properties are taxed similarly. It also minimizes the potential for arbitrary distinctions and punitive rates that could single out businesses.
- **Institute a Mandatory Regular Review Mechanism**
    - **Recommendation**: Add a provision that mandates a periodic review (e.g., every three to five years) of the property tax classifications and their impact on revenue stability and cost containment. This review should:
        - Assess the actual fiscal and economic impact of the classification system.
        - Include metrics related to administrative costs, compliance burdens, and changes in property tax revenue.
        - Provide for adjustments to classification criteria and multipliers based on evolving economic conditions and data (including state tax collections per capita).
    - **Rationale**: A regular review mechanism will allow the state to adjust and fine-tune the system over time, ensuring that the framework remains both competitive and supportive of Vermont's economic growth while addressing long-term affordability challenges.

Based on the core principles of an effective property tax system—simplicity, transparency, equity, efficiency, and stability—the proposed expansion of tax categories poses significant risks. Rather than providing a more tailored or fair assessment framework, the added complexity risks creating unpredictability, obscuring accountability, and fostering administrative inefficiencies. In turn, these changes may inadvertently single out businesses by imposing higher rates or less favorable valuation standards, discouraging investment and growth, and ultimately deepening the affordability crisis.

I urge the Committee to consider these concerns and recommendations carefully. We must ensure that any reforms to our property tax system enhance, rather than undermine, the stability and fairness needed to address Vermont's affordability challenges and support economic growth.