

Karen Lafayette, Legislative Liaison, VLIAC, Testimony, House Ways and Means  
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**Karen Lafayette** – I am testifying not only as an advocate for low and moderate-income Vermonters but as a taxpayer in the City of Burlington. I also represented the City of Burlington for many years as a lobbyist and am a former representative that served on the Ways and Means Committee when we passed the Equal Education Opportunity Act ( Act 60).

I testified last session on the education restructuring legislation that you passed as Act 73. At the time, I and others were advocating to move towards an income-based education financing system, and to update the current income sensitivity in the interim to provide immediate relief for low- and moderate-income Vermonters who have been paying a burdensome increasing percentage of their income for property taxes.

Today I will comment on briefly on the changes made to income sensitivity Act 73, with the replacement of the property tax credit with the homestead exemption for the education tax, and the current burden on homeowners (and renters) without an update to income sensitivity in the current system, especially for those seniors on fixed income and for families with low and moderate incomes that happen to live in high value property towns with high municipal taxes as well, using taxes in the City of Burlington as an example.

**Low- and moderate-income Vermonters are paying a higher percentage of their income in property taxes than wealthier taxpayers, and the income sensitivity system created under Act 60 has not kept pace with current conditions.** Key parts of the system have not been updated to reflect sharply rising property values, especially the \$400,000 cap on house value eligible for income sensitivity, the \$47,000 income threshold for the municipal property tax credit, and the caps on credits of \$5,600 for education taxes and \$2,400 for municipal taxes. **As a result, many seniors on fixed incomes and low- and moderate-income households in high property value, high-tax communities have been paying more than the intended share of income for both education and municipal taxes, and will continue to do so without an update to current law and changes to Act 73 when implemented.**

## **Act 73 as passed**

Act 73 has some dramatic changes and number of ongoing issues that still need to be worked on with respect to redistricting and consolidation, specific funding formula, excess spending, and mandates, each tremendously important changes in education policy, but the changes made to the income sensitivity will have a profound effect on taxpayer equity and folks' ability to pay.

## **Act 60 was about equity**

Act 60 was about equity for schools and taxpayers - equal access to education funds for schools across the state and equal tax "burdens" for equal per pupil spending. Three fourths of Vermonters could choose to pay their property taxes based on their income and not the value of their home, and towns could raise the same amount of funds per one cent of taxation whether they were a property rich or property poor town.

It remains to be seen with the return to the foundation formula and /or spending mandates or caps will continue to provide equal access to education financing and opportunity, but the Act 60 promise of equal taxes for equal spending and basing your taxes on your ability to pay, and not the value of your property, will not be true for many Vermont taxpayers.

## **Vermont has had Income Sensitivity for 56 years**

Even before Act 60, Vermont provided income sensitivity for both municipal and education taxes for seniors and for low-income households – If you were below a certain amount of income, you could pay your property taxes based on your income and not the value of your property. The "break" on municipal taxes continued under Act 60, called the "super circuit breaker" for seniors and low-income Vermonters (under \$47,000 of household income).

The "circuit breaker" that was implemented in 1970 first for Seniors over 65 and then expanded a few years later to include to low-income folks as well as seniors was delivered as credit against income tax liability for amount by which property taxes (education and municipal) exceed 7% of household income or 30% of allowable rent, up to maximum credit of \$300 and an income cap of \$4,286.

Over the years, up until the passage of Act 60 the qualifying income limits changed (increasing for the most part) and the income percentages were adjusted for different income levels, but still somewhere under a combined 7% of income for both education and municipal taxes. There were caps on the maximum rebate amount that increased but may have been prorated according to age or reduced for certain incomes above a certain amount.

Property tax relief was delivered in different ways (reduction of income tax liability, a rebate to the homeowner, and a direct payment to the town). **In 1995 Household income cap raised to \$47,000; maximum rebate increased to \$1,500.**

### **Income sensitivity expanded under Act 60**

Act 60 that passed in 1997 (implemented in 1999) created a statewide property tax and expanded income sensitivity to those homeowners above \$47,000 and under \$75,000 of household income. This allowed more Vermonters to pay for their education taxes based on their income. Across the state - equal per pupil expenditure, locally voted on, meant an equal tax rate against your property value, or equal income tax rate. The legislation created a “prebate” system for homeowners under \$75,000 for education property tax relief and maintained the existing rebate system for property owners and renters with household income under \$47,000. The caps on the amount of rebate or tax credits have been increased and/or removed at times during the progression of property tax relief.

“Income sensitivity” was determined on prior year income and the house equalized value flat 2% of income adjusted for the local spending over that 2% of the Household Income Percentage (HIP). The “circuit breaker” income percentage for those under \$47,000 was based on a sliding income percentage, not to exceed 5% (for total property taxes).

**The income eligibility for education taxes and the value of the house site that is income sensitized has changed since implementation and subsequent laws were passed with adjustments.**

**In 2010 the income eligibility was \$90,000 and the cap on the house value that could be income sensitized was \$500,000.** Those households above \$90,000 could see a reduction in education taxes, but only a reduced house site value.

**In 2018: The house site value eligible for adjustment was reduced to \$400,000,** and the homeowner rebate was split into education and municipal components, with a cap of \$2,400 for municipal, and \$5,600 for education taxes.

**Links to history of property tax relief and the municipal tax credit:**

[https://taxadmin.org/wp-content/uploads/resources/05rev\\_est/mesner.pdf](https://taxadmin.org/wp-content/uploads/resources/05rev_est/mesner.pdf)

<https://ljfo.vermont.gov/assets/Publications/2019-Fiscal-Facts-Booklet/4619ddd334/Revenue-History.pdf>

### **Act 73 replaces income sensitivity with a homestead exemption**

Act 73, as passed, moves from income sensitivity for education taxes to a homestead exemption. Although the exemptions are calculated based on household income brackets and would exclude certain portion of the home value from taxes, it is not the same as income sensitivity and creates new cliffs and inequities. These changes will be implemented even before we know the effect on spending, tax rates and whether or not any savings will be achieved through the restructuring.

### **Act 73 maintains the municipal tax credit**

The act does maintain the municipal tax credit for incomes of \$47,000 and under, set at 3% of income that a household is expected to pay, but there is no adjustment to increase the qualifying income, and it maintains a \$2,400 cap, which does nothing to address the soaring increase in property values, or rising municipal cost in many areas of the state. *(The municipal tax credits are paid for with general fund dollars, about seventeen million total.)*

### **Many seniors need to age in place**

**The rising municipal cost and the low value of the house site that is income sensitized is especially hard for many seniors who need to age in place as there are no affordable or available downsizing options.** The market values of homes in many areas do not reflect the senior's ability to pay and their equity is in the value of the house, not in an accessible bank account. Many are on fixed incomes.

### **Property Values in City of Burlington, Chittenden County, and other parts of the State have increased dramatically...**

A typical home in the south end of Burlington has increased in value from under \$300K to over \$500K. Even though the values have been adjusted for the CLA before the 2021 reappraisal, there was a significant shift from commercial to residential properties and from some neighborhoods to others. The current cap on income sensitivity, both on the value of the house (only on the first \$400K) and the cap on the property tax credits (\$5,600 for Education and \$2,400 for municipal) has become problematic for many homeowners who saw their property values increase considerable with no corresponding increase in income. **This problem is even more pronounced with the less sensitive homestead exemption in Act 73 with a reduction only on the first \$425K of value. This creates more inequities from town to town and has the same effect of not updating income sensitivity.**

## Examples for a couple of taxpayers in the City of Burlington:

*The property tax calculation examples below are based on the City of Burlington rates of the past few years with no lag year taken into consideration, and no statewide "buy down" of the tax rate. The summaries include the education and municipal tax combined to provide the total percentage of income some Vermonters are paying.:*

**Current Law– First \$400K of value income sensitized - \$8,000 cap on PTC (\$5,600 Education and \$2,400 Municipal) - Must be under \$47,000 to qualify for the municipal tax credit.**

- Example: \$525,000 (House Value)
- Municipal Tax Rate: \$ .86 cents (tax credit for under \$47,000) - Expected to pay 3% of household income.
- Education Tax Rate: \$1.62 (Adjusted for CLA) - Household Income Rate on Education: HIP 2.5% (on first \$400,000 of house value)
- Taxes on \$525,000 House Value
- Education:  $(5250 \times 1.62) = \$8,505$
- Municipal  $(.86 \times 5250) = \$4,515$
- Total Tax \$13,020

Examples of households with \$40,000 and \$60,000 Income (\$41K and \$61K) receiving property tax credits

### **Current Law for low and moderate-income households in a house site value over \$400K**

Property taxes on a house of \$525,000 in the city of Burlington with the above rates would be \$13,020 (\$8,505 for education taxes, and \$4,515 for municipal taxes). A person with an income of \$40K in the city of Burlington living in this \$525K house is going to pay 2.5 % (the HIP) of income on the first \$400K (\$1,000) of value and the assigned property tax rate (\$1.62) against the remaining \$125K of assessed value (\$2,025). The total education tax is \$3,025 which comes under the state cap on the PTC (lower incomes would exceed the state cap of \$5,600). On the municipal taxes, which this person also qualifies for, they would be expected to pay \$1,200 (3% of income) but will pay a total of \$2,115 because there is a cap on the property tax credit of \$2,400 ( $\$4515 - \$2,400$ ) . Even if they qualify for more of a reduction, they will always pay at least \$5,020 in combined taxes because of the \$8,000 cap on the PTC (\$2,400 cap for municipal taxes and \$5,600 for Education taxes)

**\$40,000 Income: Pays 5.28% of income (\$2,115) on Municipal and 7.56% (\$3,025) on Education.**

**Total Municipal and Education Taxes: \$5,140 (12.85% of income)**

With \$60K of household income the total taxes (municipal and education) would be \$4,515 on municipal (they do not qualify for the municipal tax credit) and pay \$3,525 on education taxes. The total combined tax is \$8,040 (13.4% of income).

**\$60,000 of income: Pays 7.52% (\$4,515) of income on Municipal and 5.87% on Education**

**Total Municipal and Education Taxes: \$8,040 (13.39% of income)**

### **Act 73 as passed - Homestead Exemption**

Act 73 establishes a "Homestead Exemption" in place of a property tax credit for education taxes. Under previous law, most homestead property taxpayers were eligible for a property tax credit based on income and house site value. Act 73 repeals the property tax credit and established the homestead exemption. It exempts a certain portion of a claimant's house site value from the education property tax, but the exemption only applies to the first \$425,000 of the house site value. The homestead exemption is a tiered step based on household income, where households with lower incomes can exempt more of the value of the house. The cap on the property tax credit of \$5,600 goes away. The municipal tax credit stays the same at 3% of income with the property tax credit capped at \$2,400 (no change) , and no change in qualifying income (\$47,000)

### **At \$40K and \$41K under Act 73 as written**

Under Act 73, a homeowner with an income of \$40K living in a house in Burlington assessed at \$525K would be eligible for a homestead exemption for education on the first \$425K of value at the rate of 90% - a \$382,500 reduction in value, leaving \$142,500 that the education tax rate would be applied to ( $\$1.62 \times \$1,425 = \$2,308$  - 5.77% of income).The municipal property tax rate remains the same (\$2115)

**\$40,000 Income: Pays 5.28% of the municipal tax and 5.77% on the education tax.**

**Total Municipal and Education Taxes: \$4,423 (11.06% of income)**

*(This is a reduction from the current law, but only because we gave not updated income sensitivity)*

If you add an additional \$1,000 of income with an 80% reduction (\$525,000- \$340,000 = \$185,000) the taxes increase to \$2,997 for education.

**\$41,000 income: Pays \$2115 (5.28%) for municipal taxes and \$2,997 (7.3%) for education.**

**Total Municipal and Education tax is \$5,112 (12.45% of income)**

### **At \$60K and \$61K under Act 73 as written**

A person with a household income of \$60,000 living in the same \$525,000 house would be eligible for a 70% reduction ( $\$525,000 - \$297,500 = \$227,500$ )  $\$2,275 \times 1.62 = \$3,685$  (6.14%). This person does not qualify for the municipal tax credit, so they pay the full \$4515 (7.2% of income)

**\$60,000 income: Pays 7.52% of income on the municipal tax and 6.14 % on the education tax.**

### **Total Municipal and Education Taxes: \$8,200 (13.66% of income)**

Add \$1,000 of income (\$61K) with a 60% reduction on the first \$425K of value ( $\$525,000 - \$255,000 = \$270,000$ ) This household pays  $\$2,700 \times \$1.62 = \$4,374$

**\$61,000 income: Pays a municipal tax of \$4,515 (7.40%) and an education tax of \$4,374 (7.17%)**

### **Total Municipal and Education tax is \$8,889 (14.57% of income)**

## **Summary - Taxpayer Equity – Comments on H.949 (Yield Bill)**

**Without updates to current income sensitivity and adjustments to Act 73, taxpayer equity is weakened across towns and among households with the same income.** The Burlington examples show that currently homeowners in a \$525,000 house can pay well above the intended percentage of income for education and municipal taxes because of **three outdated features: the municipal and educational property tax credit caps (\$2,400 PTC for municipal and \$5,600 for education), the eligible income to qualify for a municipal tax credit (\$47,000 income threshold), and the value of the house that is income sensitized (\$400,000) under current law.** These inequities still exist under act 73 as passed. Although Act 73 removes the education credit cap by replacing the credit with a homestead exemption, it is still less income-sensitive and applies only to the first \$425,000 of value. The parameters of the super circuit breaker (the municipal tax credit) remain unchanged with the same restrictions and eligibility. There is no update to current law even though these changes in Act 73 may not be implemented until 2029.

## **Target property tax relief**

In the meantime, relief should be targeted to those least able to pay by increasing or eliminating outdated caps, raising the municipal credit income threshold, increasing the house value eligible for relief, and considering regional property value differences. **Any near-term tax relief should focus on the combined burden of education and municipal taxes as a percentage of income, especially for seniors on fixed incomes and low- and moderate-income households in high-value communities.**

## **Affordability and Fairness**

- 1. Increase or eliminate the caps on the property tax credits to reflect more closely the “intended” percentage of income that is called for in statute (3% for municipal), or the income percentage voted on in a town (for education) to reflect the increased cost and growth of property values.** (In Act 73, the cap on the education property taxes no longer exists because it is a straight exemption off the value of the property on the first \$425K of value, based on your income)
- 2. Increase the income qualifying amount for the municipal PTC. The \$47,000 income qualifier has been the same for three decades.** (Act 73 calls for looking at the upper income limit for the education tax but not at the lower income levels or the municipal tax credit income limit.)
- 3. Increase the value of the house for the education tax calculation that is income sensitized under current law, or for which the homestead exemption would be applied to under Act 73 to reflect the growth in property values and/or adjust the values regionally to reflect the difference in areas of the state.**

Although an update of the income sensitivity for both education and municipal taxes is more equitable and preferable than the “exemption” system in Act 73, hopefully the Legislature will re-examine the changes in Act 73 on taxpayer equity and adjust as necessary to make it fairer.

## **Comments on H.949 as passed by the Senate and additions.**

In the Yield Bill (H.949) as passed by the Senate, the legislation uses a portion of the “buy down” funds to update the renter rebate, by increasing the cap on the tax credit from \$2,500 to \$3,250. This change is a needed update for renters seeking property tax relief. Although only for one year one year as proposed, it will yield valuable information going forward on how many people need the relief.

**A similar “update” adjustment for Low- and moderate-income homeowners who live in high (municipal) property tax towns, would be equitable, as would an increase in the qualifying income.**

**Please consider increasing the property tax credit cap for municipal taxes to \$3,400 instead of \$2,400 out of the general fund “buy down” monies to more fairly reflect the fair percentage of income and ability to pay at least on the municipal side. The qualifying income for the municipal tax credit has not been adjusted since the passage of ACT 60 (\$47,000 in current law). The Legislature should consider a modest increase, as well.**

**Other updates in the interim should include:**

The education property tax credit should also be increased from \$5,600 to something higher (\$6,600), and the house value that is income sensitized needs to be increased as well, to more fairly reflect the increase in residential house value in the past number of years. The income sensitized property tax credit used to be applied to a house value of at least \$500K or more (under current law, this “value” was reduced to \$400K a number of years ago even though assessed values were increasing.)

**Future considerations under Act 73**

Under Act 73 the property tax credit is replaced with a flat homestead exemption (only on the first \$425K of house value), based on income, but there is still no update (planned) to income sensitivity on the municipal tax credit in terms of income eligibility, or the PTC cap of \$2,500. Additionally, the exemption does not go into effect until 2029 with no update to the PTC for the education tax, or the value of the house that it applies to in the interim.

**At the very least, the surplus monies this year should be used to provide relief to the most vulnerable Vermonters as they continue to pay a higher (and inequitable) percentage of their income, compared to other taxpayers.**

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