VERMONT DEPARTMENT OF TAXES
2025 TAXPAYER ADVOCATE ANNUAL REPORT

SUBMITTED TO
House Committee on Ways and Means
Senate Committee on Finance

SUBMITTED BY
Office of the Commissioner
Vermont Department of Taxes

PREPARED BY
Jeffrey M. Dooley, Taxpayer Advocate
Vermont Department of Taxes

DATE SUBMITTED
January 15, 2025
Publication RP-1296-2025

VERMONT
DEPARTMENT OF TAXES

Table of Contents

January 15, 2025

To The Honorable Members of:

House Committee on Ways and Means
Senate Committee on Finance

In accordance with Title 32 V.S.A. §3205(c), I submit the Vermont Taxpayer Advocate's Annual Report for activity in calendar year 2024. The Vermont Taxpayer Advocate Annual Report is required to identify problems encountered by taxpayers interacting with the Vermont Department of Taxes as well recommend administrative and legislative actions to resolve those problems. The report shall also identify problems that affect an entire class of taxpayer or specific industry and present solutions.

The reporting period of this year's report contains activity from December 1, 2023, to December 1, 2024. During this period, the Taxpayer Advocate fielded over 500 phone calls. The majority of issues brought to the Department through these calls were able to be resolved with minimal intervention by the Taxpayer Advocate working with the Taxpayer Services division of the Department of Taxes.

A total of 51 cases were reviewed for potential Extraordinary Relief with relief being granted in 42 of those cases. Of those 42 cases, 88% involved Property Tax Credits, 6% involved Renter Rebate, 6% involved Personal Income Tax, and 2% involved Corporate Income Tax.

Respectfully submitted,

Jeffrey M. Dooley

Description of the Vermont Taxpayer Advocate

The Vermont Commissioner of Taxes created the Taxpayer Advocate in 2001. Title 32 V.S.A § 3205 requires the Vermont Department of Taxes to maintain a Taxpayer Advocate. The duties of that position include:

1. Identifying subject areas where taxpayers have difficulties interacting with the Department of Taxes;
2. Identifying classes of taxpayers or specific business sectors who have common problems related to the Department of Taxes;
3. Proposing solutions, including administrative changes to practices and procedures of the Department of Taxes;
4. Recommending legislative action as may be appropriate to resolve problems encountered by taxpayers;
5. Educating taxpayers concerning their rights and responsibilities under Vermont's tax laws;
6. Educating tax professionals concerning the Department of Taxes' regulations and interpretations by issuing bulletins and other written materials; and
7. Assisting individual taxpayers in resolving disputes with the Department of Taxes.

The legislation serves to codify the longstanding role and functions performed by the Taxpayer Advocate and highlights the Taxpayer Advocate's position to improve taxpayer services.

The legislation also requires the Taxpayer Advocate to report annually to the House Committee on Ways and Means and the Senate Committee on Finance. 32 V.S.A. § 3205(c). The Legislature prescribed the following information for the report:

- Actions taken by the Taxpayer Advocate to improve taxpayer services and responsiveness of the Department of Taxes
- Identification of problems encountered by taxpayers in interacting with the Department of Taxes, including specific recommendations for administrative and legislative actions to resolve the identified problems
- Identification of any problems that span an entire class of taxpayer or specific industry, proposing class- or industry-wide solutions.

New Administrative Initiatives

Child Care Contribution

Issue

In 2023, the Vermont Legislature passed a bill that tasked the Department of Taxes with the implementation and administration of a new Child Care Contribution (CCC), composed of a 0.44% payroll tax on wages and a 0.11% self-employment income tax. This created a new reporting requirement for thousands of Vermont businesses and self-employed individuals. Collection of the Child Care Contribution began on July 1, 2024.

Administrative Resolution

Prior to the July 1 implementation date, the Department conducted a robust outreach effort surrounding this new responsibility for Vermonters. This outreach effort included webinars that business owners and self-employed individuals could attend remotely. It also included a page on the Department's website with videos of the webinars, additional videos targeting both businesses and self-employed individuals, and a Frequently Asked Questions section. In addition, the Department sent targeted mailings to businesses and self-employed individuals directing them to these resources. Finally, once reporting began, the Department reached out directly to taxpayers who seemed confused about their reporting requirements to get them to understand their new responsibilities.

Statutory Proposals

Homestead Declaration/Property Tax Credit

Issue

Under Vermont law, a taxpayer who has joint ownership of their household with their spouse and is separated from their spouse while in the process of obtaining a divorce is required to include their spouse's income in their household income and claim 50% ownership of the property on their property tax credit claim. This results in a significantly reduced property tax credit during the years the taxpayer finds themselves in this situation, often at the same time they are attempting to deal with the financial impact of going from a dual-income household to a single-income household.

Proposed Change

32 V.S.A. § 6062(c) is amended to read:

(c) When a homestead is owned by two or more persons as joint tenants, tenants by the entirety, or tenants in common and one or more of these persons are not members of the claimant's household, the property tax is the same proportion of the property tax levied on that homestead as the proportion of ownership of the homestead by the claimant and members of the claimant's household; provided, however, that:

* * *

> (3) the property tax of a claimant who is a joint tenant with a former spouse and who has possession of the homestead pursuant to the joint owners' final divorce decree is the property tax for which the claimant is responsible under the joint owners' final divorce decree or any modifying orders; ~~and~~
>
> (4) if the homestead is a portion of a duplex and all owners of the duplex occupy some portion of the building as their principal residence, the property tax of the claimant shall be that percentage of the total property tax equal to the ratio of the claimant's principal residence value to the total duplex building value; <u>and</u>
>
> <u>(5) if a claimant has possession of the homestead and is a joint tenant or tenant by the entirety with the claimant's spouse who is not a member of the household, and a divorce or separation proceeding for the spouses is pending in a court of law, the property tax of the claimant shall be the proportion of the property tax equal to the proportion of ownership of both spouses combined.</u>

Long-Term Consideration

Simplify and Remove Tight Time Restrictions from Property Tax Credit Program

By far, the amount of time and resources spent on assisting taxpayers with property tax credit issues outweighs time and resources spent on any other tax type. There are several reasons for this:

a. Those receiving property tax credits tend to be lower-income taxpayers who are less sophisticated in dealing with paperwork and do not have the resources to hire a preparer or accountant.
b. The forms and the overall process are some of the most complicated forms and processes that the Department administers.
c. The deadlines are the strictest and have the harshest penalties for missing them, compared to other tax types.
d. The amount of a property tax credit tends to be significant relative to taxpayers' income so the consequences of not receiving it are often significant.

Some of the factors listed above cannot be helped given the nature of the program. Some of the factors should be looked at and consideration should be given to whether there is a better way to administer this program. The two factors that should be looked at are the complexity of the program and the strict nature of the deadlines.

As mentioned above, the property tax credit forms are among the most complicated forms that the Department of Taxes administers. It requires the filing of two separate forms that are two pages each with a total of over 100 fields that potentially must be completed by the taxpayer. Both forms have several fields that, if not filled in, or if accidentally filled in incorrectly, will result in denial of the taxpayer property tax credit entirely. This leads to many taxpayers making mistakes or omissions on their forms that result in a reduced or denied property tax credit. The Department sends letters to the majority of taxpayers that made a mistake or missed a required field but, even then, most taxpayers do not understand what went wrong or how to correct it.

A possible solution to this issue is to simplify the property tax credit program. This can be done by moving away from the concept of household income that is used for the program and towards a concept similar to MAGI, which is used at the federal level for health care purposes.

The strict nature of the deadlines is also a major problem for many taxpayers. For most tax types, taxpayers have three years to amend their returns. A three-year period for property tax credit claims is unworkable for several reasons, but the current October 15 deadline is also problematic. It gives taxpayers who filed on extension very little time to work with the Department to correct a problem with a property tax credit claim. In addition, a taxpayer who is notified of a problem well before October 15 may misunderstand the letter they receive or the consequences of the issue because of the complexity discussed above. These taxpayers may not realize that there is a problem until they receive their property tax bills in late September or early October and then will only have a week or two to correct the issue. Further, in some towns, the first property tax payment is not due until November 15. This means that some taxpayers never discover that something is wrong until they go to make their first payment, a month after they no longer have any remedy.

Another problem affects taxpayers whose mortgage company makes the property tax payments on the taxpayers' behalf. These taxpayers often do not find out what has happened until their bank contacts them because they do not have enough in escrow to cover their higher mortgage payment. One possible solution to this specific issue would be the graduated penalty structure recommended above.

Taxpayer Class or Industry Tax Issues

Class or Industry	Issue	Recommendation
Local Option Tax	In recent years, a number of towns have instituted a local option tax on sales tax, meals tax, rooms tax, or some combination of those taxes. In addition, other towns are considering instituting a local option tax in the future.	The Department has been working with towns to ensure they have the information necessary when deciding whether or not to implement a local option tax. Additionally, once a local option tax is implemented, the Department should continue to work with town and businesses within those towns to ensure the correct tax is charged.