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Vermont Education Property Tax Credit Reform

Austin Davis, Director of Government Affairs,
Lake Champlain Chamber



Introduction to the Lake Champlain Chamber

1. Seeking economic opportunity for all.
2. Celebrating business ownership and entrepreneurship.
3. Promoting a robust, diversified visitor economy.
4. Cultivating community leadership.
5. Nurturing emerging talent.

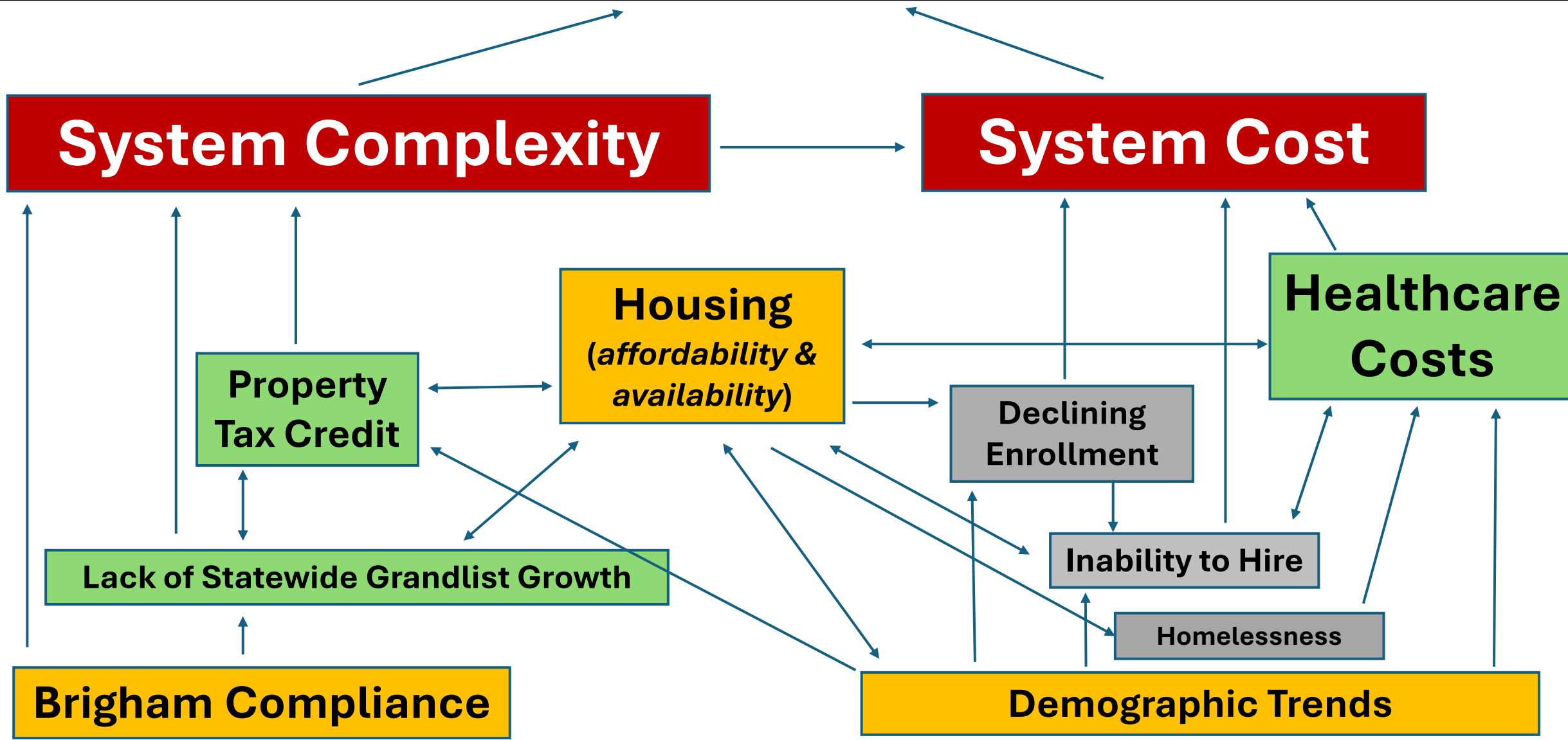




Expertise We Tapped in Our Membership

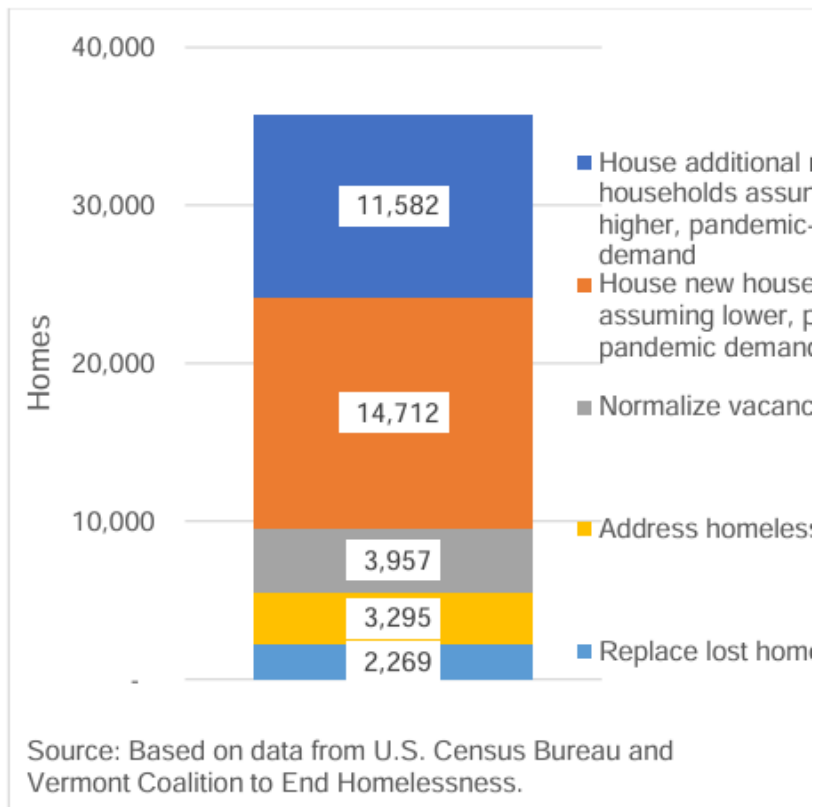
- Longtime Vermont residents with deep ties to their communities.
 - Former and current school board members, district administrators, and legislators with hands-on experience in education policy and budgeting.
 - Professionals with backgrounds and expertise in public and private sector financial management, business operations, and law in sectors spanning from financial services to manufacturing and technology.
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Statewide Education System Funding Crisis

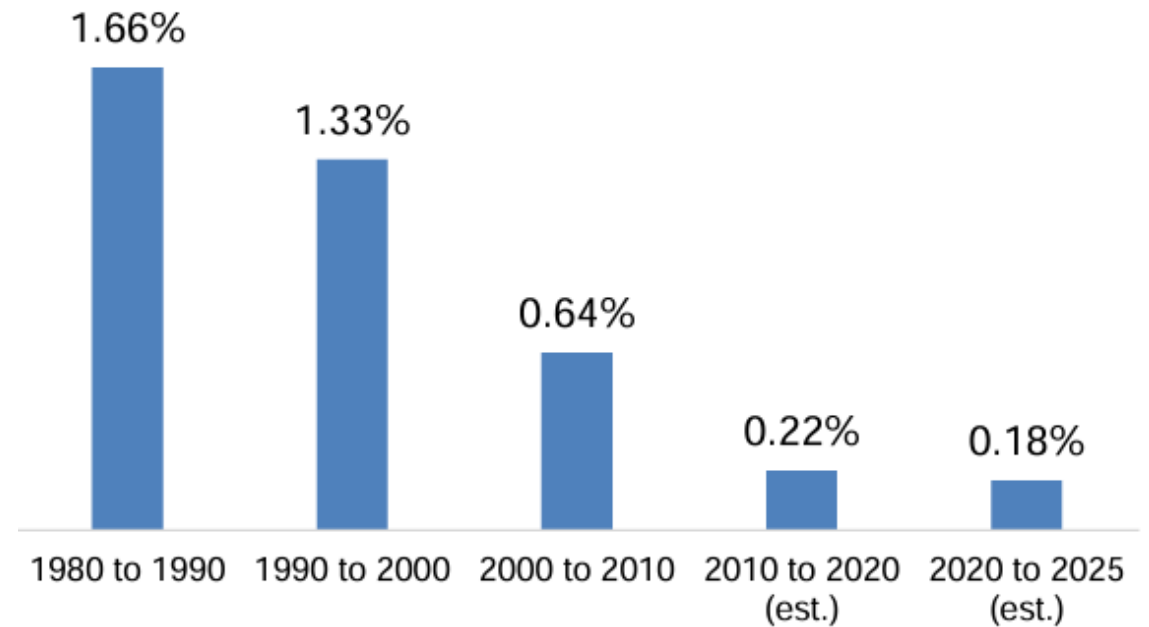


A lack of housing is at the root of all problems. Housing *abundance* is our ticket out...

Figure 1-1 36,000 Vermont primary homes needed in 2025



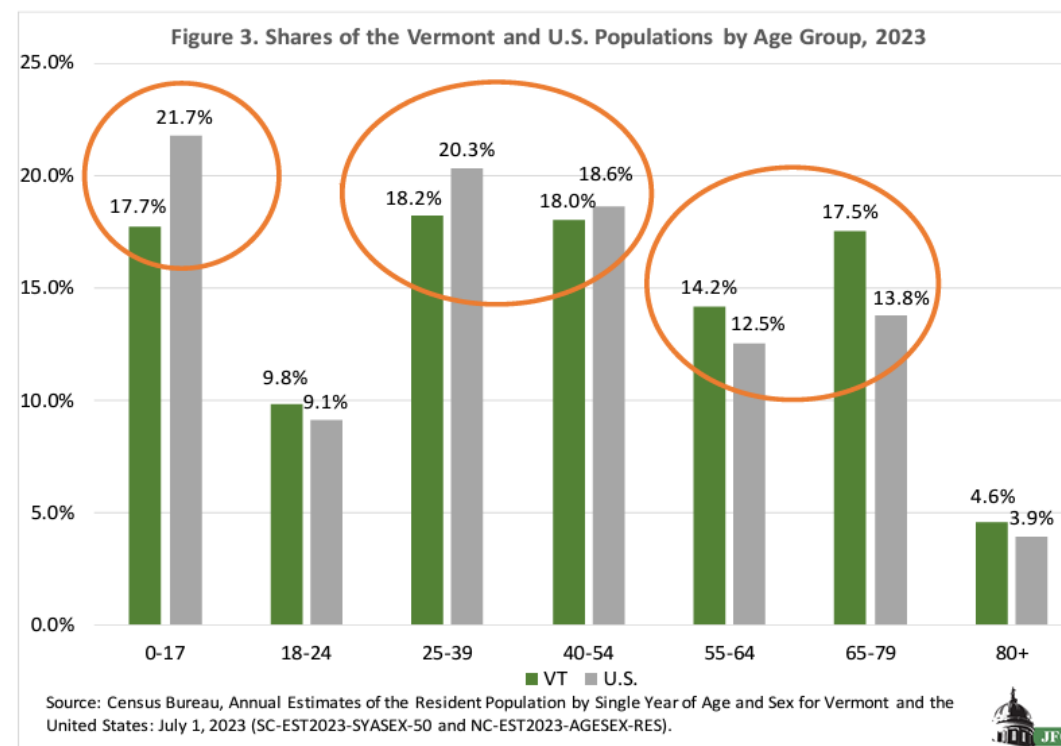
Average annual growth of Vermont's year-round housing stock



Source: U.S. Census Bureau from housingdata.org and Claritas.

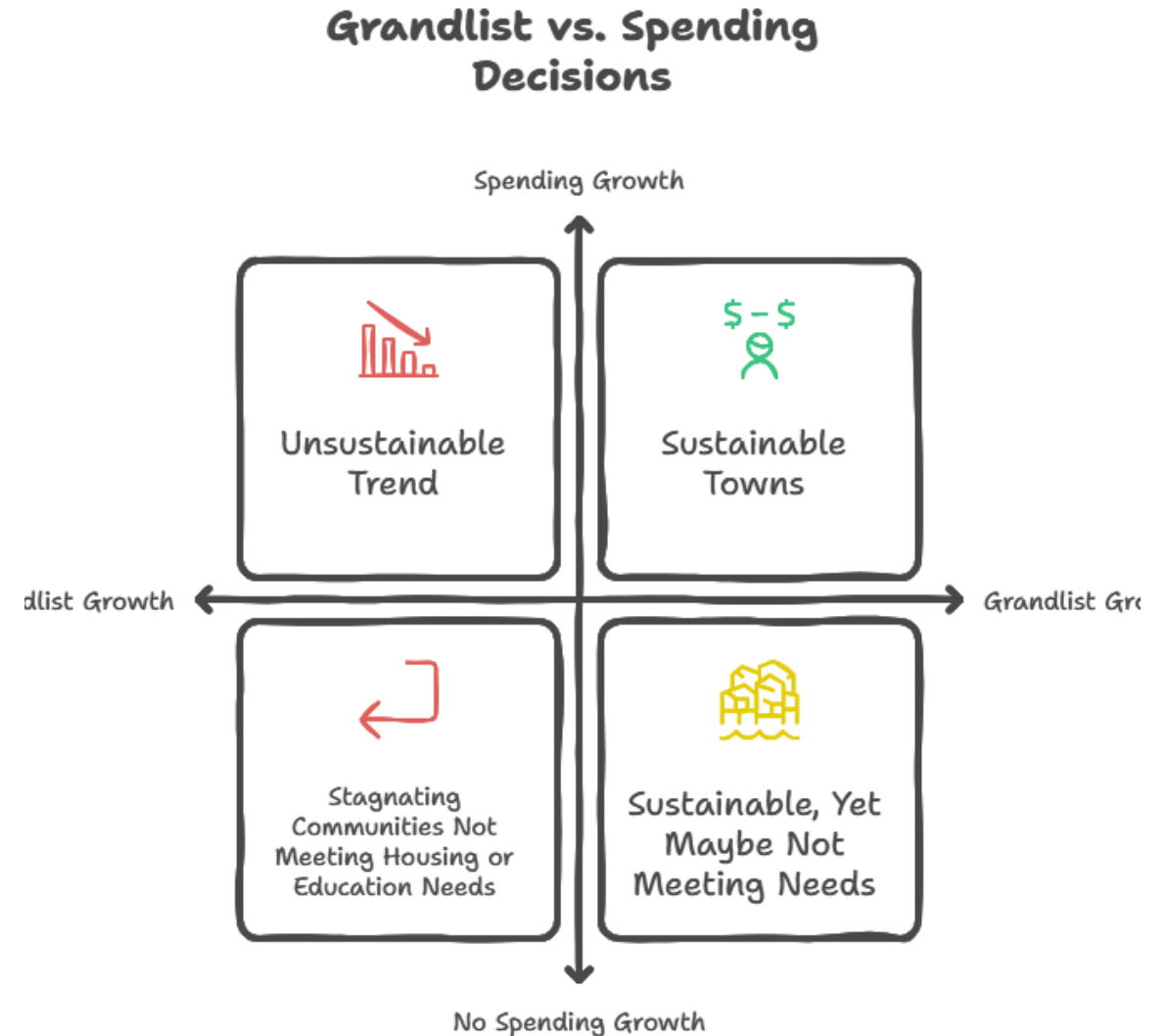
Our Aging Demographics

- **Who's going to do the work?** The aging population poses challenges for Vermont's labor force, now comprising just 50.4% of residents aged 25–64, down from 51.3% in 2020.
- The working age population is projected to decline by 13% by 2040.
- Individuals over 65 are projected to be 1-in-5 Vermonters by 2030 and to exceed 30% of the total population by 2040.
- **Massive implications for tax revenues**



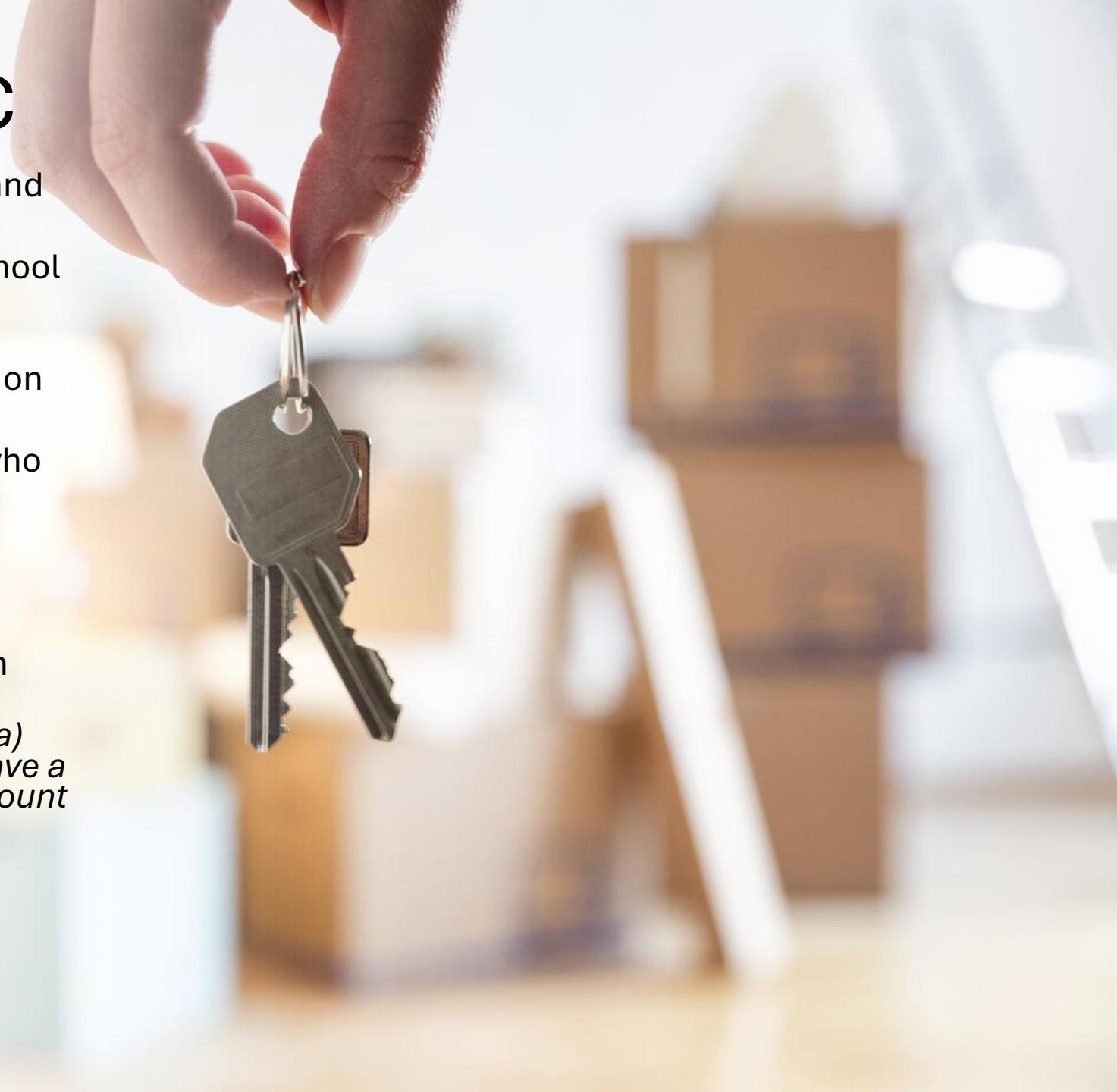
Grand List Growth

- **Our Education Fund is at the confluence of two forms of local control.**
- We often discuss our education funding issues as issues of “local control with statewide dollars”
 - We have a classic “tragedy of the commons” in which schools can draw from a statewide resource with no real consequences for drawing too much
- We don’t talk enough about the issue “local control of the development of statewide dollars.”
 - The statewide education fund is funded by the aggregate of grandlists across the state and incentives are diminished to help build that fund



Problems with the PTC

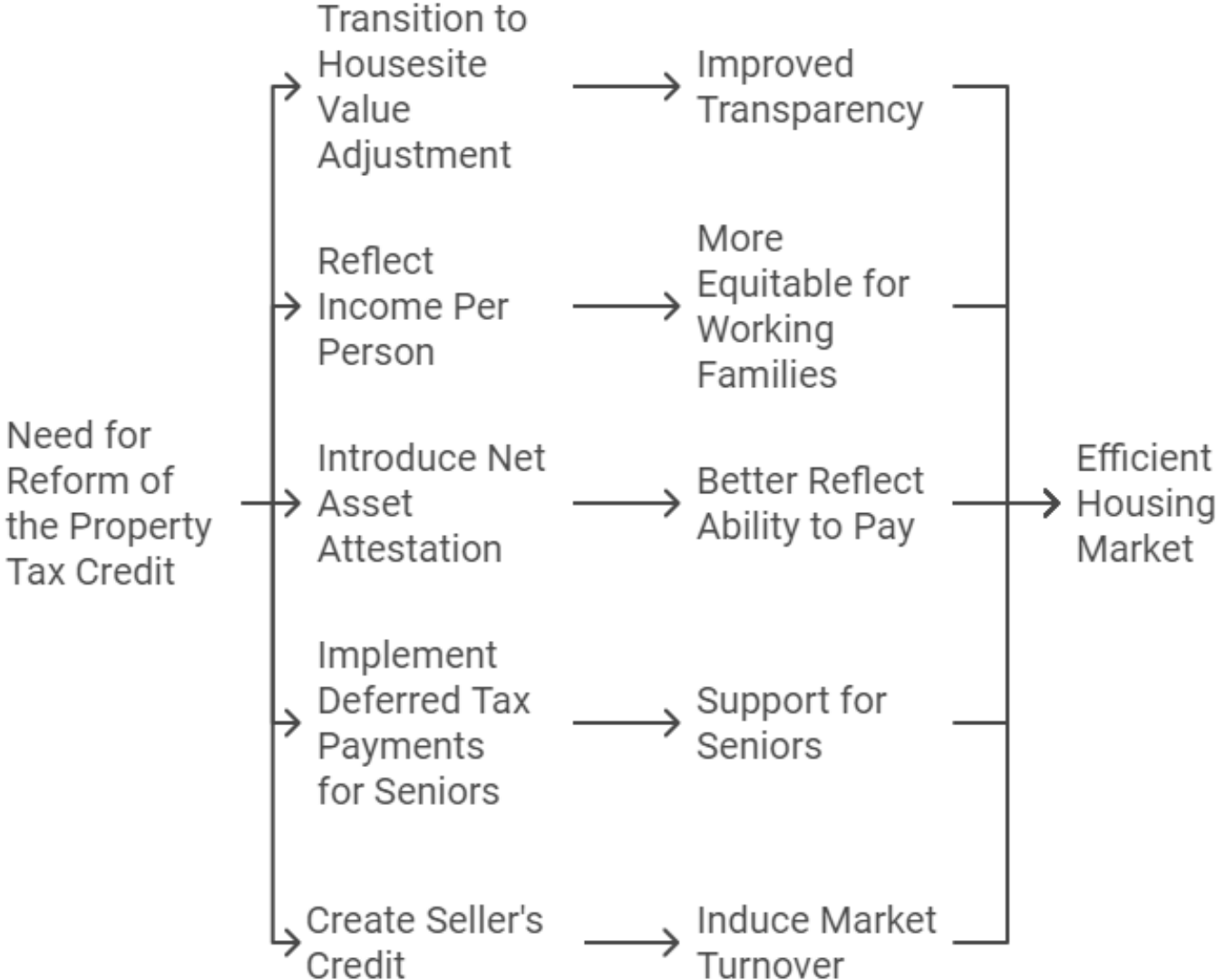
- Incredibly complex – myths, misinformation, and tax surprises were mentioned already.
- It distorts voters' perspective on what their school spending decisions mean
- *Creates a barrier to entry for first-time home buyers, young families, and those trying to get on the first rung of the housing ladder*
- *Distorts the housing market for incumbents, who might not be in their prime earning years, have significant illiquid assets, or are over-housed without the incentive to downsize.*
- **To qualify for a mortgage** on a median priced home in Vermont, without a more substantial down payment, a household needs to show an income that **disqualifies it from the PTC.**
 - *Therefore the PTC only serves those who a) already have a home and now afford to have a lower income or b) have a substantial amount of wealth for a down payment.*
- Doesn't account for regional differences in housing cost and income
- Lag time
- Much more...



A Quick Note

- When we discuss perverse incentives that affect housing, financial, or other decisions people make in the housing market, there is no judgment.
- People are rational and confronted with the market pressures, tax impacts, and other economic nudges they make a decision that is best for them.
- What we are discussing is how those decisions aggregate and affect our state.
- We want to limit negative impacts of changes while also giving people nudges.

A Menu of Solutions



Transition to House Value Deduction

- **Problem:** the current PTC system is confusing and doesn't lend itself to understanding the outcomes of local spending decisions
- **Example:** Getting ready for a school budget vote, neighbors speaking across the fence

“if property taxes go up 14% as proposed, that’s a lot of money. We need to cut back on retirement contributions.”

“I’m income sensitized, so I am not sure what it means...”

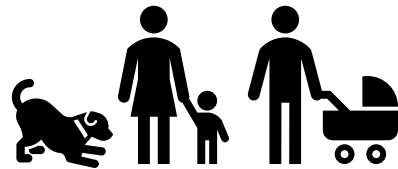


Reflect Income Per Person in Household

- **Problem:** overhoused individuals are treated as low income while adequately house individuals subsidize them
- **Simple Solution:** make it about income/person in household
- Example: Same house site value for a 3-bedroom home in South Burlington. All three adults have the same income.



- House of four people in a three-bedroom home
- Very **high marginal utility** for each bedroom
- Effective tax on each bedroom **creates a high marginal cost**



- one person in the three bedroom home.
- Very **low marginal utility**
- Each bedroom creates a **low marginal cost**

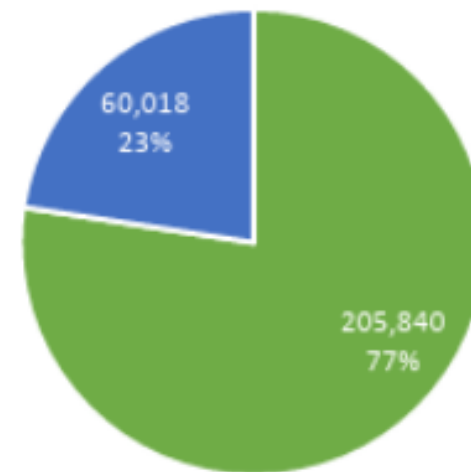


- *If the goal is progressive tax policy, who should have a higher marginal cost given the marginal utility?*

Reflect Income Per Person in Household

- According to the [2025 Housing Needs Assessment](#), we are a very over-housed state – or put another way our stock is underutilized, or under-occupied.
 - Over three-quarters of all Vermont homes contain more than 2 rooms for every household member
- The Legislature already adjusted the PTC in the past to reflect having certain qualified individuals in the household.
- Income/person changes are not dissimilar to what the state has done to renter credit

Figure 7-17 Vermont's under-occupied homes, 2022

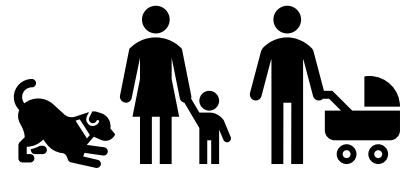


■ 0.5 or less occupants per room ■ over 0.5

Source: U.S. Census Bureau: American Community Survey 5-year estimates, 2018-2022 (Table B25014)

Require a Simple Net Asset Attestation in PTC Application

- Same house site value for a 3-bedroom home in South Burlington
- Still have the two teachers – now next door to a retiree living off a very healthy nest egg with paid off mortgage



- Negative net worth
- Pay full taxes for 10-years

- Net worth in millions
- Gets ~\$6,200 in PTC for 10-years (~\$62,000)



- ***Is it fair for this family to subsidize their neighbor and likely their estate which will be ~\$62,000 higher in value?***

Income Taxes Are Myopic

Just ask Jeff Bezos...

It does not account for the whole picture.

It is also;

- Volatile,
- What the General Fund relies on, and
- Going to be subjected to demographic pressures.

Opinion: On Claiming The Child Tax Credit

JUNE 12, 2021 · 6:29 AM ET

HEARD ON WEEKEND EDITION SATURDAY



 2-Minute Listen

+ PLAYLIST



The phrase, "Poor Jeff Bezos..." is probably not much uttered. I won't try to say it now without irony.

But when ProPublica [reported](#) this week that Jeff Bezos, Michael Bloomberg, Warren Buffett, Bill Gates, Rupert Murdoch, Elon Musk, George Soros and Mark Zuckerberg were among billionaires who paid little or no income tax in recent years, Bezos took most of the social media vitriol. The founder of Amazon had a net worth of about \$18 billion in 2011, but reportedly paid no taxes. And he got \$4,000 in child tax credits.

Bezos paid no taxes because most of his wealth came from company stock, which isn't taxed until it's sold. He has four children with his then-wife MacKenzie Scott, which entitled them to a \$1,000 tax credit for each child.



Amazon Founder and CEO Jeff Bezos came under fire after a ProPublica investigation showed that he received \$4,000 in child tax credits in recent years. Bezos is seen here in 2018.

Andrew Harrer/Bloomberg via Getty Images

Net Asset Attestation

- Let's not overcomplicate things!
- Below is what is found on Child Care Financial Assistance Program application form
- Suggest adding this to the Property Tax Credit form, HI-144



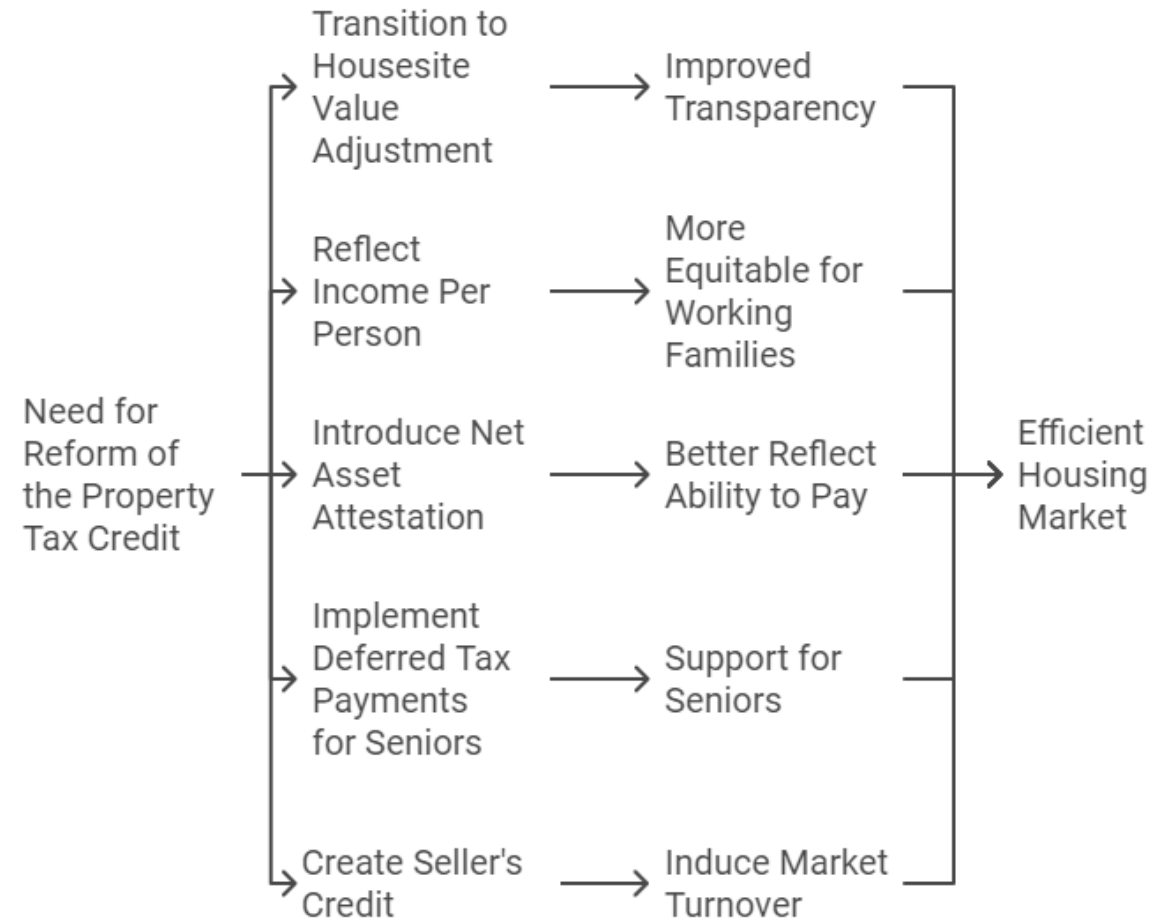
Application for Child Care Financial Assistance

Do you have a million dollars or more in assets?

Yes No

Check-In

- These policies so far have changed the calculations in a way that will create some cost pressures in some filers.
- We need to address these pressures to not cause undue harm.
- This brings us to the last two proposals...
- These help folks who are “property rich – cash poor” or with “golden handcuffs.”





In the Context of Other Proposals

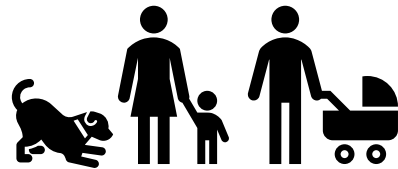
The Governor proposed
to you yesterday
increasing the
exemption for social
security income

Deferral of Property Tax

- Now that the property tax credit has decreased for or second household, they are looking for options and there is a policy already used in other state, such as Maine and Minnesota that they can use.



- Negative net worth
- Pay full taxes for 10-years



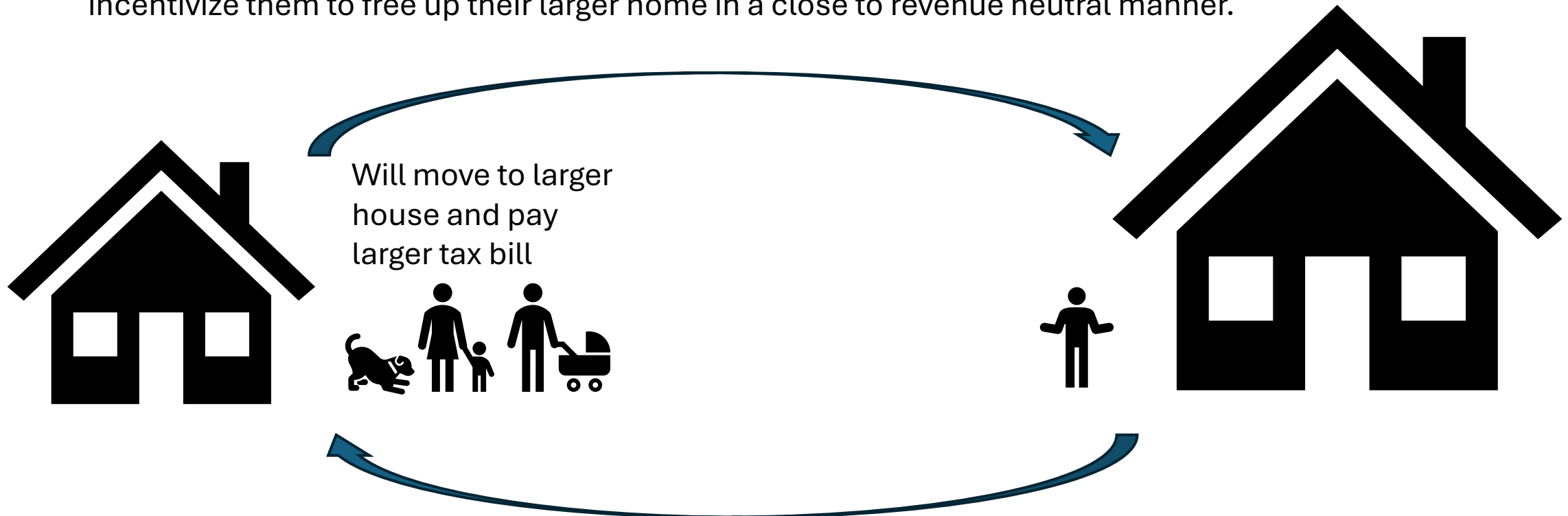
- Net worth in millions
- Gets to **defer** ~\$6,200 in PTC for 10-years (~\$62,000)
- **When the estate is sold or settled that amount goes to the Tax Dept.**

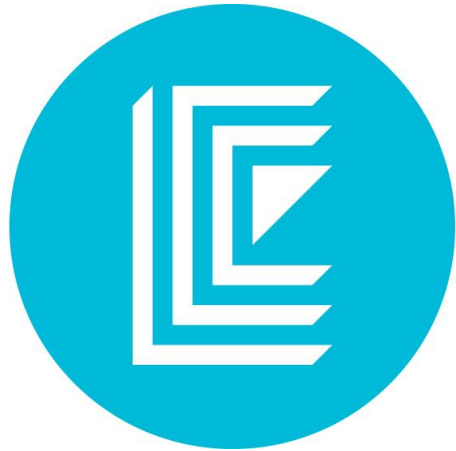


Allow senior homeowner to retain their home by tapping into the equity in their home.

Create a Sellers' Credit

- It's likely that unlike our previous examples the first household is actually in a smaller house (under-housed) while our second house is in a larger house (over-housed)
- A sellers' credit could solve this mismatch
- There are many good financial reasons our over-house person won't want to leave, and one of them might be the PTC...
- If we let them take the PTC with them to the smaller home for a defined period, we can incentivize them to free up their larger home in a close to revenue neutral manner.





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Questions?

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