H.454: Education Transformation, Property Tax Classifications
Senate Finance Committee
Amy Spear, President
April 25, 2025

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.

As passed by the House with four property tax classifications, we have serious concerns regarding the impact of this expansion on Vermont's business climate, affordability, and overall economic stability. We believe that any reform to Vermont's property tax system should prioritize simplicity, predictability, and fairness.

Context

- **Current Burden:** In 2023, Vermont ranked third nationally in total state taxes per capita ($6,948.15) and first in property taxes per capita ($1,870.04). Since 1999—when per-capita property tax was $650.27. 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.
- **Implication:** Such a disproportionate increase exacerbates affordability challenges for both residents and businesses and warrants careful consideration before adding complexity to the tax code.

Key Concerns with Expanding Classifications

- **Simplicity & Predictability**
  - **Revenue Volatility:** Multiple classifications make revenue forecasting less reliable.
  - **Administrative Burden:** Additional categories increase compliance costs and risk inconsistent assessments, costs likely passed on to taxpayers.
- **Equity & Fairness**
  - **Uneven Liabilities:** Reclassifying Nonhomestead properties is a paradigm shift that could unfairly shift costs.
  - **Base Fragmentation:** More segments erode the principle of similar treatment for similar properties, inviting punitive distinctions.
- **Transparency & Accountability**

- **Obscured Rules:** A complex scheme makes it harder for taxpayers to understand classification criteria, undermining trust and clear cost-containment measures.

- **Efficiency & Economic Impact**
  - **Distorted Investment Decisions:** Higher rates on business properties discourage expansion and new investment.
  - **Competitiveness Risk:** As shared during Manufacturing Day testimony, Vermont manufacturers already cite cost-of-doing-business disadvantages versus states like North Carolina, Michigan, and South Carolina. Continued tax growth driven by complexity could tip decisions toward relocation.
- **Stability & Cost Containment**
  - **Revenue Instability:** Reclassifications may force constant legislative or administrative fixes.
  - **Rising Administrative Costs:** Higher compliance burdens can drive up overall costs.

Support for Shifting to the Foundation Formula:
While we have concerns about the proposed property tax classification changes, we believe that shifting to the foundation formula for education funding would improve the fairness and equity of the system. The Chamber supports this shift for the following reasons:

- **From a Tax Perspective:**
  - **Uniform Tax Effort and Fairness:** A foundation formula ensures that taxes are levied uniformly, with every district reaching a minimum spending level per student. This narrows the gap between property-wealthy and property-poor areas and promotes a more equitable educational opportunity throughout the state.
  - **Transparency and Predictability:** The foundation formula provides more clarity and stability in both revenue collection and allocation, reducing volatility and making the system more predictable for taxpayers and businesses alike.
  - **Streamlined Administration:** This approach simplifies the administration of the tax system, making it easier for both tax administrators and taxpayers to understand and comply with.

- **From an Education Perspective:**
  - **Equity and Adequacy:** The foundation formula ensures that every district meets a minimum spending level, improving equity and narrowing disparities between districts.
  - **Targeted Support for Student Needs:** A foundation formula can incorporate targeted funding for students who require additional support, closing opportunity gaps and providing a more inclusive educational system.

    - **Predictability and Stability:** The foundation formula provides a stable revenue base for education funding, ensuring more consistent funding across years, which is critical for long-term planning.

Recommendations
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 delay adding new categories until a comprehensive, statewide review examines the full interplay between property taxes and cost containment. Meanwhile, retain the existing Homestead and Nonhomestead framework and explore modest adjustments that meet policy goals without added complexity.
    - **Rationale:** Introducing multiple new classes creates uncertainty in revenue projections and increases administrative burdens, which could exacerbate Vermont's already high per-capita property taxes. A stable, predictable system is essential to preserve the revenue base.

- **Consolidate Similar Categories**
    - **Recommendation:** Revise the classification language to merge Nonhomestead, Apartment and Nonhomestead, Nonresidential into a single Nonhomestead category.
    - **Rationale:**
        - **Market Consistency:** Both categories function as investment properties subject to market fluctuations; combining them better reflects their economic reality.
        - **Horizontal Equity:** Treating comparable investment assets the same prevents arbitrary distinctions and punitive rates.
        - **Administrative Efficiency:** A unified Nonhomestead category reduces complexity, making the system clearer for taxpayers and administrators.
        - **Equitable Reform:** With property taxes rising faster than inflation, consolidation avoids favoring one group over another and promotes uniform treatment across investment properties.
        - **Policy Alignment:** This change supports broader reform goals—addressing education costs and affordability—by maintaining a coherent, data-driven approach.

- **Institute a Mandatory Regular Review Mechanism**

- **Recommendation**: Require a periodic review (e.g., every 3–5 years) of property tax classifications and their impact on revenue stability and cost containment. The review should:
    - Assess fiscal and economic outcomes of the classification system.
    - Measure administrative costs, compliance burdens, and revenue fluctuations.
    - Allow adjustments to classification criteria and multipliers based on evolving data (including per-capita tax collections).
- **Rationale:** Regular, data-driven reviews enable the state to fine-tune classifications over time, ensuring competitiveness, supporting economic growth, and addressing long-term affordability challenges.

Conclusion

By adhering to the principles of simplicity, predictability, and fairness, Vermont can maintain a stable, equitable property tax system that supports long-term economic growth and addresses affordability challenges. We urge the committee to refine, rather than expand, the current classification structure. Thank you for your time and consideration, we look forward to continued dialogue on this important issue.