

Local Option Tax Primer

Senate Committee on Finance
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Local Option Taxes

- Authority for local option taxes found in 24 V.S.A § 138
- Towns can place a 1% local option on any combination of the below taxes
 - Sales
 - Meals and alcoholic beverages
 - Rooms
- Originally created as a mechanism to help municipalities transition to the new statewide education property tax created by Act 60 of 1997
 - However, must be used for municipal services only, not for education expenditure
- Before Act 144 of 2024, most municipalities needed a charter change to implement a local option tax
 - Now, LOTs can be adopted by a majority of voters in the municipality
 - The Commissioner of Taxes can limit the number of new municipalities with local option taxes to 5 per year to manage administrative burden



LOT Administration and Allocations

- LOTs are collected and administered by the Department of Taxes
- State law apportions revenue 75% to the town that levies the LOT, 25% to the PILOT Special Fund
 - The Department of Taxes collects a \$5.96 per return fee that is paid for 75%/25% from amounts that would otherwise go to the municipality/PILOT Special Fund, respectively
 - Return fees allocated to administering LOTs and the State appraisal and litigation program
 - A return is filed when a business reports monthly or quarterly sales or meals and rooms taxes
 - Revenue allocations changed from 70%/30% to the current 75%/25% by Act 57 of 2025, effective October 1, 2025.



Local Option Taxes – Aviation Fuels

- The LOT on jet fuel sales is dedicated 70/30 to the town/Transportation Fund for aviation-related uses – does not incur return fees
 - Per federal law, local taxes on aviation fuel must also be used for aviation-related purposes
- Two municipalities generate local option sales taxes on jet fuel: South Burlington and Berlin
- LOT on jet fuel generated approx. \$86,000 to the T-Fund in FY 2025

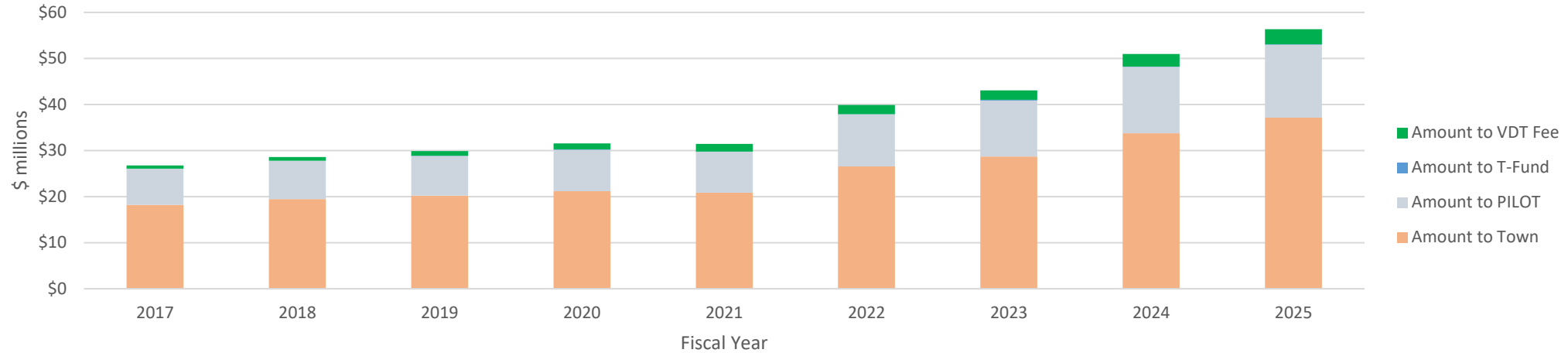


Other Taxes Imposed by VT Municipalities

- Burlington and Rutland City have different versions of local option taxes in their town charters
 - These taxes are collected at the municipal level, rather than by the Department of Taxes
 - Accordingly, these municipalities retain 100% of the revenue generated
- Burlington: Gross Receipts Tax
 - Admissions, Alcoholic Beverages, Amusements, Meals: 2.5%
 - Hotels/Motels: 4%
 - Short-term rentals: 9%
- Rutland City: Rooms, Meals, and Entertainment Tax
 - 1% on the gross receipts of specified business activity



Total LOT Revenues Since FY 2017



Total LOT Revenue* (\$ millions)

| Fiscal Year | Total LOT | Amount to Town | Amount to PILOT | Amount to T-Fund | Amount to VDT Fee |
|-------------|-----------|----------------|-----------------|------------------|-------------------|
| 2017 | \$26.76 | \$18.23 | \$7.81 | \$0.00 | \$0.71 |
| 2018 | \$28.60 | \$19.46 | \$8.34 | \$0.00 | \$0.79 |
| 2019 | \$29.88 | \$20.21 | \$8.65 | \$0.01 | \$1.01 |
| 2020 | \$31.56 | \$21.17 | \$9.01 | \$0.07 | \$1.31 |
| 2021 | \$31.46 | \$20.86 | \$8.92 | \$0.02 | \$1.67 |
| 2022 | \$39.91 | \$26.55 | \$11.31 | \$0.07 | \$1.98 |
| 2023 | \$43.05 | \$28.70 | \$12.19 | \$0.11 | \$2.05 |
| 2024 | \$50.95 | \$33.78 | \$14.39 | \$0.08 | \$2.69 |
| 2025 | \$56.33 | \$37.14 | \$15.83 | \$0.09 | \$3.27 |

- Although more municipalities have local option taxes on meals and rooms, local option sales tax revenues generated \$42.23 million or about 75% of overall LOT revenue in FY 2025
- Since FY 2017, total LOT revenues have increased by 110%

Source: Vermont Department of Taxes LOT Disbursement Report

*The change in LOT allocations in Act 57 of 2025 did not become effective until October 1, 2025.

These data reflect the 70%/30% split in LOT revenues between municipalities and the PILOT Special Fund.



Two sources of LOT Revenue Strength

1. Pandemic-era changes in spending habit
 - Increased spending on goods
 - Vermont was a popular destination for post-pandemic travel

SOURCE G-FUND

revenues are prior to all E-Fund allocations and other out-transfers; used for analytic and comparative purposes only

| | FY2021 (Actual) | % Change | FY2022 (Actual) | % Change | FY2023 (Actual) | % Change | FY2024 (Actual) | % Change |
|------------------------------|--------------------|-------------|--------------------|-------------|--------------------|-------------|--------------------|-------------|
| REVENUE SOURCE | | | | | | | | |
| Personal Income | \$1069.8 | 15.5% | \$1267.8 | 18.5% | \$1210.0 | -4.6% | \$1243.1 | 2.7% |
| Sales and Use ¹ | \$507.6 | 17.4% | \$545.2 | 7.4% | \$584.0 | 7.1% | \$595.2 | 1.9% |
| Corporate | \$133.4 | -9.8% | \$223.3 | 67.3% | \$281.4 | 26.0% | \$238.8 | -15.1% |
| Meals and Rooms ² | \$143.8 | -12.1% | \$216.8 | 50.8% | \$237.7 | 9.6% | \$246.2 | 3.5% |

2. Increases in the number of municipalities with LOTs

Number of Municipalities Collecting Local Option Tax

| Tax Type | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|----------------------|------|------|------|------|------|------|------|------|------|
| Meals and Rooms Tax* | 17 | 18 | 19 | 20 | 21 | 22 | 24 | 28 | 32 |
| Sales Tax | 14 | 14 | 14 | 16 | 16 | 17 | 20 | 22 | 25 |
| SUT - Jet Fuel** | | | 1 | 1 | 1 | 1 | 1 | 1 | 2 |

*The number of municipalities with a LOT in this tax type includes municipalities that assess LOTs on any combination of meals, rooms, and alcohol taxes.

**Jet fuel local option taxes flow to the Transportation Fund rather than the PILOT Fund



What is the PILOT program?

- The General PILOT program compensates municipalities for the assessed value of State-owned buildings, prisons, and UVM buildings (capped under statute at \$750K)
 - Examples (FY 2026 Building Inventory):
 - 115 State Street-Annex: \$34,120,826
 - AOT District 6 Office (Berlin): \$1,187,400
 - Alburg Welcome Center: \$164,000
- Funded through 25% of local option tax revenue minus \$5.96 return fees
- In fiscal year 2026, General PILOT payments totaled approximately \$11.39 million*
 - *Does not include supplemental facility payments to Newport and Springfield, which are determined by contracts between the State and those two municipalities
 - Payments were fully funded for the first time in fiscal year 2024. Payments had been prorated in prior years



Payment Calculations

- Per 32 V.S.A. § 3703, the PILOT payment calculation is as follows:
 - *The amount of a grant to a municipality authorized by this subchapter shall be based on the **total assessed value** of any State-owned property located in the municipality, multiplied by the **common level of appraisal** for the municipality as determined by the Division of Property Valuation and Review, multiplied by one percent, and multiplied by the **adjusted municipal tax rate** for the municipality in which the property is located*
1. *total assessed value state buildings × CLA × .01 = state owned additions to grand list*
 2. *total municipal property tax revenue raised ÷ adjusted municipal grand list = adjusted municipal tax rate*
 3. *state owned additions to grand list × adjusted municipal tax rate = PILOT Payment*

Town of Johnson FY 2026 PILOT Payment Calculation

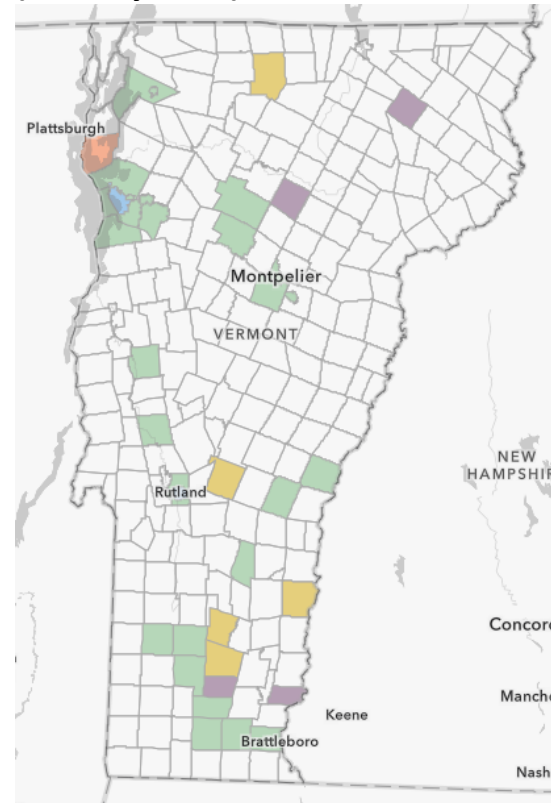
1. $\$88,186,193 \times 68.77 \times .01 = \$606,461$
2. $\$2,195,032 \div \$3,038,360 = \$0.7224$
3. $\$606,461 \times \$0.7224 = \$438,108$



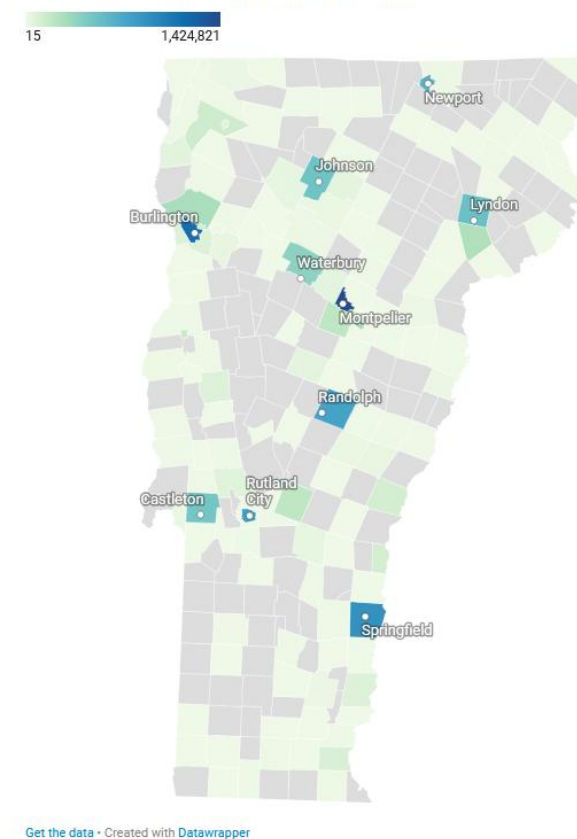
PILOT Payments versus LOT towns

Green = All
Blue = Sales
Yellow = Meals, Rooms, and Alcohol
Red = Meals and alcohol only
Purple = Rooms

Local Option Tax Status by Town
(January 2026)



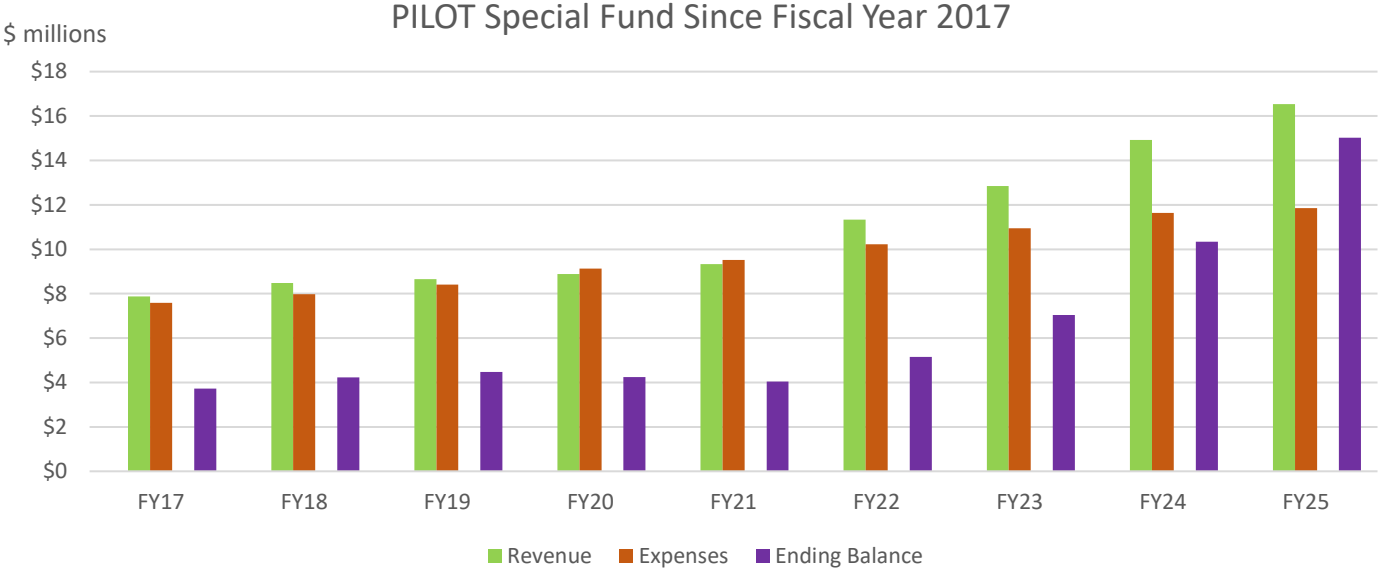
FY 2025 PILOT Payments by Town



- Towns with local option taxes are often near recreation areas, or in Chittenden County
- Municipalities receiving PILOT payments are spread throughout the state



Revenue and Appropriations Trajectory



- The PILOT Special Fund balance has increased substantially since FY 2021, driven by strong local option tax revenues
- Additional revenues have allowed for full funding of PILOT payments since FY 2024

| | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 |
|---|--------|--------|--------|--------|--------|--------|--------|---------|---------|---------|
| Prorated PILOT Payment (\$ millions) | 7.17 | 7.60 | 8.04 | 8.75 | 9.25 | 9.75 | 10.58 | 11.25 | 11.48 | 11.35 |
| Percentage of Full Payment | 74.69% | 75.62% | 76.35% | 81.09% | 81.14% | 85.83% | 94.89% | 100.00% | 100.00% | 100.00% |
| Full PILOT Payment (\$ millions) | 9.60 | 10.05 | 10.53 | 10.79 | 11.40 | 11.36 | 11.15 | 11.25 | 11.48 | 11.35 |
| Difference | 2.43 | 2.45 | 2.50 | 2.04 | 2.15 | 1.61 | 0.58 | 0.00 | 0.00 | 0.00 |

Sources: Department of Finance and Management Special Fund Reports; Vermont Department of Taxes



Other State Local Taxes – Massachusetts

- Many other states allow municipalities to charge differential rates for different tax types
- **Example 1: Massachusetts – Rooms Occupancy Tax and Short-term Rental Impact Fee**
 - The state has a room occupancy excise tax rate of 5.7%
 - Municipalities can levy up to an additional 6% on rooms and 3% on short-term rentals
 - 35% of revenue generated by the Short-Term Rental Impact Fee must be used for affordable housing
 - Of 352 municipalities in Massachusetts, 233 have a local occupancy rooms tax and 42 have a short-term rental impact fee
 - Collected by the Massachusetts Department of Revenue



Other State Local Taxes – New York

- Many other states allow municipalities to charge differential rates for different tax types
- **Example 2: New York State Sales Tax**
 - The state sales tax rate is 4%
 - Local jurisdictions (counties) can add up to 4.875%
 - Counties then share a negotiated percentage of their sales tax revenue with cities
 - Revenue collected by the New York Department of Taxation and Finance



New York State Sales Tax Rates by County

| County or other locality | Tax rate % | Reporting code | County or other locality | Tax rate % | Reporting code | County or other locality | Tax rate % | Reporting code |
|--------------------------------------|------------|----------------|--|------------|----------------|---|------------|----------------|
| New York State only | 4 | 0021 | Herkimer | 8¼ | 2121 | St. Lawrence – except | 8 | 4091 |
| Albany | 8 | 0181 | Jefferson | 8 | 2221 | Ogdensburg (city) | 8 | 4012 |
| Allegany | 8½ | 0221 | *Kings (Brooklyn) – see <i>New York City</i> | | | Saratoga – except | 7 | 4111 |
| *Bronx – see <i>New York City</i> | | | Lewis | 8 | 2321 | Saratoga Springs (city) | 7 | 4131 |
| *Brooklyn – see <i>New York City</i> | | | Livingston | 8 | 2411 | Schenectady | 8 | 4241 |
| Broome | 8 | 0321 | Madison – except | 8 | 2511 | Schoharie | 8 | 4321 |
| Cattaraugus – except | 8 | 0481 | Oneida (city) | 8 | 2541 | Schuyler | 8 | 4411 |
| Olean (city) | 8 | 0441 | *Manhattan – see <i>New York City</i> | | | Seneca | 8 | 4511 |
| Salamanca (city) | 8 | 0431 | Monroe | 8 | 2611 | *Staten Island – see <i>New York City</i> | | |
| Cayuga – except | 8 | 0511 | Montgomery | 8 | 2781 | Steuben | 8 | 4691 |
| Auburn (city) | 8 | 0561 | *Nassau | 8½ | 2811 | *Suffolk | 8¾ | 4711 |
| Chautauqua | 8 | 0651 | *New York (Manhattan) – see <i>New York City</i> | | | Sullivan | 8 | 4821 |
| Chemung | 8 | 0711 | *New York City | 8¾ | 8081 | Tioga | 8 | 4921 |
| Chenango – except | 8 | 0861 | Niagara | 8 | 2911 | Tompkins – except | 8 | 5081 |
| Norwich (city) | 8 | 0831 | Oneida – except | 8¾ | 3010 | Ithaca (city) | 8 | 5021 |
| Clinton | 8 | 0921 | Rome (city) | 8¾ | 3015 | Ulster | 8 | 5111 |
| Columbia | 8 | 1021 | Utica (city) | 8¾ | 3018 | Warren – except | 7 | 5281 |
| Cortland | 8 | 1131 | Onondaga | 8 | 3121 | Glens Falls (city) | 7 | 5211 |
| Delaware | 8 | 1221 | Ontario | 7½ | 3211 | Washington | 7 | 5311 |
| *Dutchess | 8½ | 1311 | *Orange | 8½ | 3321 | Wayne | 8 | 5421 |
| Erie | 8¾ | 1451 | Orleans | 8 | 3481 | *Westchester – except | 8% | 5581 |
| Essex | 8 | 1521 | Oswego – except | 8 | 3501 | *Mount Vernon (city) | 8% | 5521 |
| Franklin | 8 | 1621 | Oswego (city) | 8 | 3561 | *New Rochelle (city) | 8% | 6861 |
| Fulton – except | 8 | 1791 | Otsego | 8 | 3621 | *White Plains (city) | 8% | 6513 |
| Gloversville (city) | 8 | 1741 | *Putnam | 8% | 3731 | *Yonkers (city) | 8% | 6511 |
| Johnstown (city) | 8 | 1751 | *Queens – see <i>New York City</i> | | | Wyoming | 8 | 5621 |
| Genesee | 8 | 1811 | Rensselaer | 8 | 3881 | Yates | 8 | 5721 |
| Greene | 8 | 1911 | *Richmond (Staten Island) – see <i>New York City</i> | | | | | |
| Hamilton | 8 | 2011 | *Rockland | 8¾ | 3921 | | | |

*Rates in these jurisdictions include ¾% imposed for the benefit of the Metropolitan Commuter Transportation District.

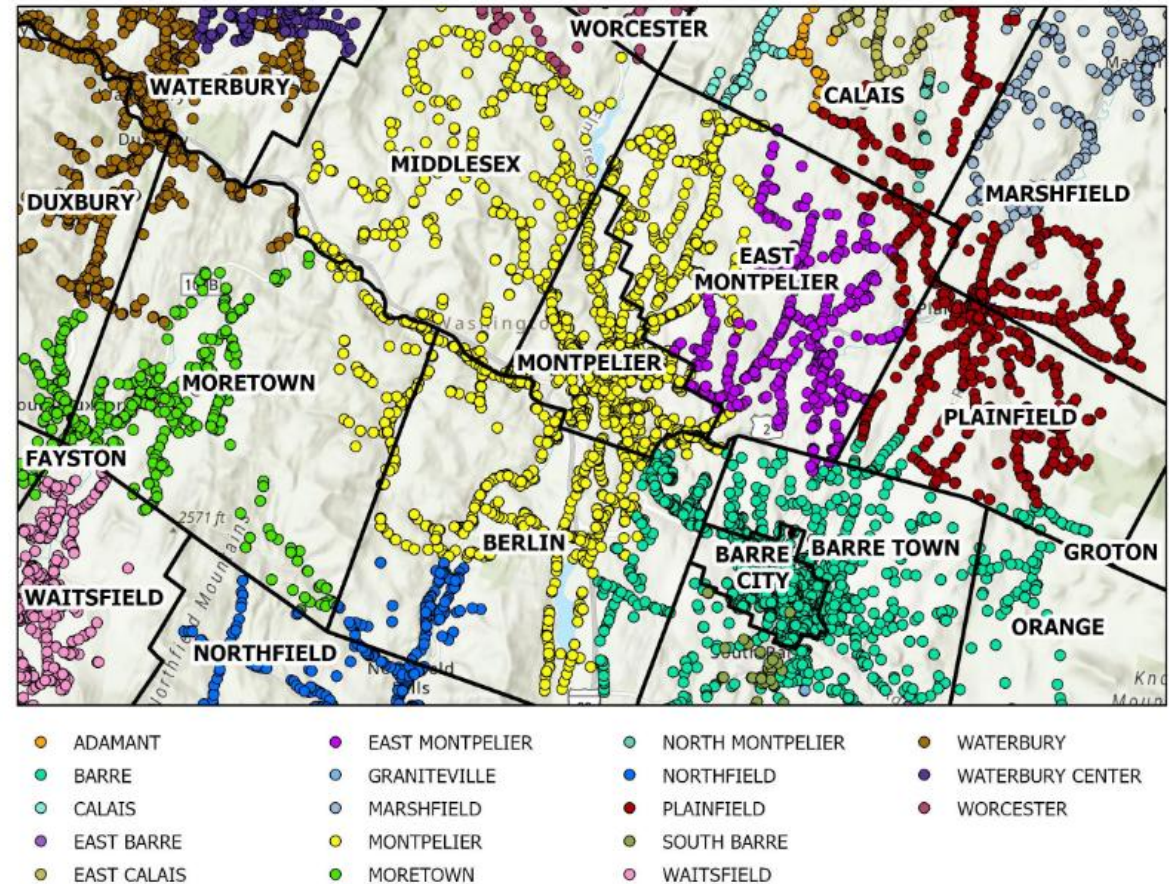
Source: New York State Department of Taxation and Finance



Considerations – Complexity

- Local Option Tax administration is currently complicated
- Town boundaries don't neatly map to USPS residential addresses or zip codes

Points colored by USPS-provided town (and corresponding with 5-digit Zip):



Dept of Taxes testimony to Sen Fin 3-01-23. Map provided by the Vermont Center for Geographic Information (VCGI)



Considerations – Equity

- Who pays local option taxes?
- Local option taxes raise revenues where commercial activity occurs – towns with a large tourism or retail presence benefit the most regardless of population
 - Many towns would not see much revenue if they implemented a LOT
- Local option taxes impact Vermonters differently depending on the tax type
 - The rooms tax is largely paid by out-of-state visitors
 - Sales, meals and alcohol taxes borne by both residents and out-of-state visitors
- Sales taxes are regressive
 - Younger and lower-income individuals spend a larger percentage of their income on goods



Considerations – Competitiveness

- Increases in local option rates can reduce economic competitiveness
 - *Sales:* New York is the only neighboring state with a local sales tax – other New England states have a sales tax rate of between 5.5% and 7%
 - *Meals:* Vermont has the highest meals tax among neighboring states
 - *Lodging:* Wide variation in local tax rates and surcharges makes comparisons challenging
- Increases in local option taxes could move certain Vermont jurisdictions further above comparable locations in other states



Questions?

