Property Tax Deferrals:

Review of the National Landscape

Jake Feldman, Senior Fiscal Analyst

Office of the Commissioner

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Why Are We Talking About Deferrals?

- The Tax Department is proposing to change VT's income-based property tax relief program from an income-based credit to a homestead exemption tiered based on income

- The reason for the proposal is to improve transparency and make the education property tax more progressive with respect to property wealth. (See Act 183 report for full details)

- Households with high property value relative to their income would likely experience tax increases under the exemption and deferrals are a type of relief commonly offered in other states to assist households in that situation

Deferral Programs in Other States:

- 31 other states and D.C. offer deferral programs
- Only principal residences are eligible
- 27 states limit eligibility to seniors (usually 65+) and/or disabled
- 24 states have income limits (up to $100,000 but usually closer to $50,000)
- Many require a minimum number of years in the home before eligibility
- All programs charge interest and most or all put a lien on the property
- Taxes are due upon transfer, owner moves out, or owner/co-owner passes

Source: https://www.lincolninst.edu/data/significant-features-property-tax/access-database/residential-property-tax-relief-programs/

Maine's Deferral Program:

- For 65 and older or permanently disabled (as determined by a state or federal agency)
- Income under $80,000 and liquid assets less than $150,000 ($100,000 if single). Liquid assets are anything that can be converted to cash in 3 months or less
- Property owners apply to their municipalities between January 1st and April 1st. State reimburses the towns for deferred taxes
- Applicants must also be getting a homestead exemption and don't need to re-apply each year
- Established in 2022 and costs about $1.5M per year

Source: https://www.maine.gov/revenue/taxes/tax-relief-credits-programs/property-tax-relief-programs/deferral-program

Minnesota's Deferral Program:

- For 65 and older. If married, spouse must be at least 62
- Income under $96,000
- Must be a homestead for the past five years. Only the taxes on house and the surrounding 1 acre are eligible
- No reverse mortgages, life estate, or other state or federal liens on the property
- Owner pays up to 3% of prior year income on property taxes and can defer the rest. State reimburses towns
- The max that can be deferred is 75% of the estimated market value of the property minus the balance of any loans at the time of application
- Costs the state around $2M per year

Source: https://www.revenue.state.mn.us/property-tax-deferral-senior-citizens

Oregon's Deferral Program:

- Applicants must be 62+, disabled, or receive federal SSD benefits
- Household income from prior year can't be over $60,000
- Net worth must be less than $500K (excluding home and personal property)
- Homestead value can't exceed certain limits that vary based on county and years of residency
- State and local govt share the tax loss
- Created in 1963 and was net positive to the state's general fund by 2000

Source: https://www.oregon.gov/dor/programs/property/pages/senior-and-disabled-property-tax-deferral-program.aspx

Consideration for a Vermont Deferral Program:

- Would the deferral program be limited to only seniors?

- Participants should be able to elect to defer up to some amount (so that they are not deferring more tax than they actually owe)

- Maximum deferral amounts could be configured to complement the homestead exemption and strategically mitigate tax increases

Income	Theoretical Maximum Deferral
$0 to $25K	$2,000
$25K to $50K	$1,500
$50K to $75K	$1,000
$75K to $100K	$500

FY25 Household Counts and Average Impacts by Income and Property Value (Preliminary)

Inc↓ Prop→	0 to 100K	100K to 225K	225K to 300K	300K to 400K	Over 400K	Total
$0 to $10K	400	600	200	100	100	**1,500**
$10K to $25K	1,800	4,500	1,600	1,000	500	**9,400**
$25K to $47K	2,800	9,900	4,500	2,900	1,600	**21,800**
$47K to $90K	2,800	18,600	12,000	9,600	5,900	**49,000**
$90K to $115K	600	6,500	5,900	5,700	4,300	**23,000**
Total	**8,400**	**40,100**	**24,300**	**19,400**	**12,500**	**104,600**

Inc↓ Prop→	0 to 100K	100K to 225K	225K to 300K	300K to 400K	Over 400K	Total
$0 to $10K	$ 100	$ 700	$ 1,200	$ 1,700	$ 1,900	**$ 800**
$10K to $25K	$ -	$ 400	$ 900	$ 1,400	$ 1,600	**$ 600**
$25K to $47K	$ (300)	$ -	$ 400	$ 900	$ 1,200	**$ 200**
$47K to $90K	$ (400)	$ (500)	$ (100)	$ 400	$ 400	**$ (100)**
$90K to $115K	$ (100)	$ (200)	$ -	$ (100)	$ (300)	**$ (100)**
Total	**$ (200)**	**$ (200)**	**$ 100**	**$ 400**	**$ 300**	**$ -**

Follow-Ups from Testimony on February 4th:

- Deferrals are generally not compatible with reverse mortgages

- In Vermont, property in a trust cannot be a homestead except in certain situations: 32 V.S.A. § 6062(e). *No changes to ownership rules are being proposed in this proposal*

In FY25 3,070 trusts received education tax credits totaling $6.2M

In FY25 4,650 life estates received education tax credits totaling $8.6M

- Gains from the sale of a primary residence are not taxable at the federal level or in Vermont if they are less than $500,000 (MfJ) or $250,000 (Single). Gains over that amount *are* taxable and are not eligible for Vermont's Capital Gains Exclusion