

Karen Lafayette, Legislative Liaison, VLIAC, Testimony, Senate Finance, Wednesday
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Karen Lafayette – I am testifying not only as an advocate for low- and moderate-income Vermonters but as a taxpayer in the City of Burlington. I also represented the City of Burlington for many years as a lobbyist and am a former representative that served on the Ways and Means Committee when we passed the Equal Education Opportunity Act (Act 60).

I testified last session on the education restructuring legislation that you passed as Act 73. At the time, I and others were advocating to move towards an income-based education financing system, and to update the current income sensitivity to provide immediate relief for low- and moderate-income Vermonters who have been paying a burdensome increasing percentage of their income for property taxes.

Currently, Low- and moderate-Income Vermonters pay a higher percentage of their income in property taxes than wealthier Vermonters

The current income sensitivity passed in Act 60 has not been updated to reflect the dramatic growth in property values (\$400K cap on the property value that is income sensitized) ,the income qualifications to be eligible for municipal tax credits (under \$47,000), and the caps on education and municipal property tax credits (\$5,600 for education and \$2,400 for municipal)

Act 73 as passed

Act 73 has some dramatic changes and number of ongoing issues that still need to be worked on with respect to redistricting and consolidation, specific funding formula and mandates, each tremendously important changes in education policy, but the changes made to the income sensitivity will have a profound effect on taxpayer equity and folks ability to pay.

Property taxes and ability to pay

Today I want to focus on the changes made in Act 73 that relate to income sensitivity, the addition of a homestead exemption, and the municipal tax credit. I also want to talk about the current situation for low- and moderate-income Vermonters, and the effect of Act 73 on those taxpayers.

Act 60 was about equity

Act 60 was about equity for schools and taxpayers - equal access to education funds for schools across the state and equal tax “burdens” for equal per pupil spending. Three fourths of Vermonters could choose to pay their property taxes based on their income and not the

value of their home, and towns could raise the same amount of funds per one cent of taxation whether they were a property rich or poor town.

It remains to be seen with the return to the foundation formula and /or spending mandates or caps will continue to provide equal access to education financing and opportunity, but the Act 60 promise of equal taxes for equal spending and basing your taxes on your ability to pay and not the value of your property will not be true for many Vermont taxpayers.

Vermont has had Income Sensitivity for 55 years

Even before Act 60 Vermont provided income sensitivity for both municipal and education taxes for seniors and for low-income households – If you were below a certain amount of income, you could pay your property taxes based on your income and not the value of your property. The “break” on municipal taxes continued under Act 60, called the “super circuit breaker” for seniors and low-income Vermonters (under \$47,000 of household income).

Income sensitivity expanded under Act 60

Act 60 passed in 1997 also allowed for moderate income Vermonters to pay for their education taxes based on their income. Across the state - equal per pupil expenditure, locally voted on, meant an equal tax rate against your property value, or equal income tax rate. It not only allowed people to pay their education taxes based on their ability to pay, but it also allowed higher earning households to pay on the value of their property if that was lower.

Act 73 replaces income sensitivity with a homestead exemption

Act 73, as passed, moves from income sensitivity for education taxes to a homestead exemption. Although the exemptions are calculated based on household income brackets and would exclude certain portion of the home value from taxes, it is not the same as income sensitivity. These changes will be implemented even before we know the effect on spending and tax rates and whether or not any savings will be achieved through the restructuring.

Act 73 maintains the municipal tax credit

The act does maintain the municipal tax credit for incomes of \$47,000 and under, set at 3% of income that a household is expected to pay, but there was no adjustment to increase the qualifying income, and it maintains a \$2,400 cap, which does nothing to address the soaring increase in property values or rising municipal cost in many areas of the state.

Low- and moderate-income taxpayers who live in towns with high property values and high municipal taxes will *continue* to pay a higher percentage of their income for property taxes as they do now.

Moving away from income sensitivity to a homestead exemption, and doing nothing to update the current income sensitivity, will leave many low- and moderate-income taxpayers who live in towns with high property values and high municipal taxes continuing to pay a much larger percentage of their income than intended for state education and local municipal taxes. This will be especially burdensome to those on fixed incomes, with no control over changing real

estate values, and no opportunity to create more income. Also, homeowners with the same income but different house values, in districts with the same per-pupil funding, would not pay the same taxes as intended in the original law.

No update of income sensitivity

We have not updated income sensitivity in many years, and we have reduced equity among taxpayers. At a time when property values have soared and affordable housing options are scarce we have reduced the value of the house that is income sensitized from \$500K (at one time) to \$400K, we increased the qualifying income of those who could benefit from income sensitivity over the years, but did not increase the qualifying income for those who could receive a property tax credit for a municipal tax credit. That has remained at \$47K for four decades now and there is an \$8,000 cap on the current total property tax credit (\$5,600 credit cap on education and \$2,400 cap on the municipal tax credit. There has been a buy down in the property tax rate for the past few years but that is an across the board reduction and not targeted at those who need the most relief.

Effect of the caps on house value and property tax credits

The effect of these “caps” on certain groups of people, especially lower income persons living in higher value properties (over \$400K), is that even though their town’s income rate for education financing might be 2.5 % of their income and 3% of their income for municipal taxes, they are often paying double that percentage for their property taxes because of cap on the value of the house that is income sensitized, and/or the amount of a credit allowed. Moderate and lower-income Vermonters will continue to pay a higher percentage of their income than those with the most ability to pay.

Many seniors are aging in place

This is especially hard for many seniors who need to age in place as there are no affordable, or available downsizing options. The market values of homes in many areas do not reflect the senior’s ability to pay and their equity is in the value of the house, not in an accessible bank account.

Property Values in City of Burlington, Chittenden County, and other parts of the State

A typical home in the south end of Burlington has increased in value from under \$300K to over \$500K. Even though they have been adjusted for the CLA before the 2021 reappraisal, there was a dramatic shift from commercial to residential and from some neighborhoods to others, so the current cap on income sensitivity only on the first \$400K became problematic for many homeowners who saw their property values increase fairly dramatically, with no corresponding increase in income. This problem is even more pronounced with the less sensitive homestead exemption in Act 73 with a reduction only on the first \$425K of value. This creates more inequities from town to town and has the same effect of not updating income sensitivity.

Using a couple of taxpayers in the City of Burlington as an example:

The property tax calculation examples below are based on the City of Burlington rates of the past few years with no lag year taken into consideration and no statewide buy down of the tax rate. The summaries include the education and municipal tax combined to provide the total percentage of income some Vermonters are paying.:

Current Law— First \$400K of value income sensitized - \$8,000 cap on PTC (\$5,600 Education and \$2,400 Municipal) - Must be under \$47,000 to qualify for the municipal tax credit.

- Example: \$525,000 (House Value)
- Municipal Tax Rate: \$.86 cents (tax credit for under \$47,000) - Expected to pay 3% of household income.
- Education Tax Rate: \$1.62 (Adjusted for CLA) - Household Income Rate on Education: HIP 2.5% (on first \$400,000 of house value)
- Taxes on \$525,000 House Value
- Education: $(5250 \times 1.62) = \$8,505$
- Municipal $(.86 \times 5250) = \$4,515$
- Total Tax \$13,020

Examples of households with \$40,000 and \$60,000 Income (\$41K and \$61K) receiving property tax credits

Current Law for low and moderate-income households in a house site value over \$400K

Property taxes on a house of \$525,000 in the city of Burlington with the above rates would be \$13,020 (\$8,505 for education taxes, and \$4,515 for municipal taxes). A person with an income of \$40K in the city of Burlington living in this \$525K house is going to pay 2.5 % (the HIP) of income on the first \$400K (\$1,000) of value and the assigned property tax rate (\$1.62) against the remaining \$125K of assessed value (\$2,025). The total education tax is \$3,025 which comes under the state cap on the PTC (lower incomes would exceed the state cap of \$5,600). On the municipal taxes, which this person also qualifies for, they would be expected to pay \$1,200 (3% of income) but will pay a total of \$2,115 because there is a cap on the property tax credit of \$2,400 (\$4515-\$2,400) . Even if they qualify for more of a reduction, they will always pay at least \$5,020 in combined taxes because of the \$8,000 cap on the PTC (\$2,400 cap for municipal taxes and \$5,600 for Education taxes)

\$40,000 Income: Pays 5.28% of income (\$2,115) on Municipal and 7.56% (\$3,025) on Education.

Total Municipal and Education Taxes: \$5,140 (12.85% of income)

With \$60K of household income the total taxes (municipal and education) would be \$4,515 on municipal (they do not qualify for the municipal tax credit) and pay \$3,525 on education taxes. The total combined tax is \$8,040 (13.4% of income).

\$60,000 of income: Pays 7.52% (\$4,515) of income on Municipal and 5.87% on Education

Total Municipal and Education Taxes: \$8,040 (13.39% of income)

Act 73 as passed - Homestead Exemption

Act 73 establishes a "Homestead Exemption" in place of a property tax credit for education taxes. Under previous law, most homestead property taxpayers were eligible for a property tax credit based on income and house site value. Act 73 repeals the property tax credit and established the homestead exemption. It exempts a certain portion of a claimant's house site value from the education property tax, but the exemption only applies to the first \$425,000 of the house site value. The homestead exemption is a tiered step based on household income, where households with lower incomes can exempt more of the value of the house. The cap on the property tax credit of \$5,600 goes away. The municipal tax credit stays the same at 3% of income with the property tax credit capped at \$2,400 (no change), and no change in qualifying income (\$47,000)

At \$40K and \$41K under Act 73 as written

Under Act 73, a homeowner with an income of \$40K living in a house in Burlington assessed at \$525K would be eligible for a homestead exemption for education on the first \$425K of value at the rate of 90% - a \$382,500 reduction in value, leaving \$142,500 that the education tax rate would be applied to ($\$1.62 \times \$1,425 = \$2,308$ - 5.77% of income). The municipal property tax rate remains the same (\$2115)

\$40,000 Income: Pays 5.28% of the municipal tax and 5.77% on the education tax.

Total Municipal and Education Taxes: \$4,423 (11.06% of income)

(This is a reduction from the current law, but only because we gave not updated income sensitivity)

If you add an additional \$1,000 of income with an 80% reduction ($\$525,000 - \$340,000 = \$185,000$) the taxes increase to \$2,997 for education.

\$41,000 income: Pays \$2115 (5.28%) for municipal taxes and \$2,997 (7.3%) for education.

Total Municipal and Education tax is \$5,112 (12.45% of income)

At \$60K and \$61K under Act 73 as written

A person with a household income of \$60,000 living in the same \$525,000 house would be eligible for a 70% reduction ($\$525,000 - \$297,500 = \$227,500$) $\$2,275 \times 1.62 = \$3,685$ (6.14%). This person does not qualify for the municipal tax credit, so they pay the full \$4515 (7.2% of income)

\$60,000 income: Pays 7.52% of income on the municipal tax and 6.14 % on the education tax.

Total Municipal and Education Taxes: \$8,200 (13.66% of income)

Add \$1,000 of income (\$61K) with a 60% reduction on the first \$425K of value ($\$525,000 - \$255,000 = \$270,000$) This household pays $\$2,700 \times 1.62 = \$4,374$

\$61,000 income: Pays a municipal tax of \$4,515 (7.40%) and an education tax of \$4,374 (7.17%) Total Municipal and Education tax is \$8,889 (14.57% of income)

Taxpayer equity

Without an update in the income sensitivity in current law and without adjustment in ACT 73 as written true taxpayer equity no longer exists not only from town to town but even within town.

In each of the above scenarios the people that live in that \$525K house are paying more than the intended income percentage on the books (3% of income if you qualify for the municipal tax credit) and 2.5% of income (in this town) for education spending, because of the caps, because of the low income qualification on the municipal credit and because of the lower ceiling of the house value that the credit or the homestead exemption would apply to.

Affordability and Fairness

All the lower and moderate-income homeowners would benefit from lower taxes by updating income sensitivity in three ways, whether under income sensitivity for both municipal and education, or under the new homestead exemption system for education:

- 1. Increasing or eliminating the caps on the property tax credits to more closely reflect the “intended” percentage of income in called for in statute (3% for municipal), or voted on in a town (for education) to reflect the increased cost and growth of property values (if under the homestead exemption, the cap on the education property taxes no longer exist.)**
- 2. Increase the income qualifying amount for the municipal PTC. The \$47,000 income qualifier has been the same for four decades.**
- 3. Increase the value of the house for education the education tax calculation that is income sensitized or which the homestead exemption is applied, to reflect the growth more fairly in property values or adjust the values regionally to reflect the difference in areas of the state.**

Although an update of the income sensitivity for both education and municipal taxes is more equitable and preferable, hopefully the Legislature will re-examine the changes in Act 73 on taxpayer equity and the homestead exemption and adjust as necessary to make them fairer. In the interim income sensitivity should be updated. Instead of an across the board buy down of the tax rate, target the reduction in taxes for those least able to pay the increases. It is critical to look at the effect of the combined education and municipal tax on low- and moderate-income taxpayers, as a percentage of income.