Overview of the Income-Based Education Tax Study Committee and Considerations of Changing the Property Tax Credit

Joint Hearing of House Committee on Ways and Means and Senate Committee on Finance
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A Few Notes

- This presentation provides a review of the work, findings, and report of the Income-Based Education Tax Study Committee
  - This presentation does not outline all information, recommendations, and considerations included in the report. For a full overview, please reference the Report from the Income-Based Education Tax Study

- This presentation provides neither policy recommendations nor evaluations from the Joint Fiscal Office

- All numbers and figures in this presentation are examples and don't reflect actual data

Outline

- Overview of Income-Based Education Tax Study Committee
- Committee's review of principles of a high-quality tax system
- Considerations for changing the property tax credit
- Overview of recommended structure for an income-based education tax

Income-Based Education Tax Study Committee

- In the summer and fall of 2022, the *"Income-Based Education Tax Study Committee"* met six times
  - The Committee was charged with studying and making recommendations on the creation and implementation of an income-based education tax to replace the homestead property tax
- The Committee decided not to prioritize the policy question of whether an education income tax should be adopted
- The Committee decided to concentrate on this question: *if* an education income tax were to be adopted, *how* should it be structured?

Income-Based Education Tax Study Committee Report Table of Contents

Principles of a High-Quality Tax System

Section III of the Income-Based Education Tax Study Committee Report

Income-Based Education Tax Study Committee Reviewed Principles of a High-Quality Tax System

- The *NCSL Tax Policy Handbook for State Legislator*s identifies "six pillars of a high-quality tax system"*
  - While the principles are distinct, they are inherently linked
  - No tax system adheres to all the principles exactly.
- Committee discussions frequently focused on the tension between the pillars of simplicity and fairness
- The Committee asked the question of: *if* an education income tax *were* to be adopted, how should it be structured?
- The Committee decided to leave the question *if* an education income tax should be *adopted* to the discretion of the General Assembly

** Note: the six pillars are sustainability and reliability, economic competitiveness, tax neutrality, accountability, fairness, and simplicity.*

Considering Adjustments to the Property Tax Credit

Section IV of the Income-Based Education Tax Study Committee Report

Review of the Property Tax Credit

- The homestead property tax has a credit based on income
- The credit is applied to the following year's tax bills
- Calculation of each household's property tax credit is based on household income and the housesite value
- The property tax credit is a tax expenditure to the Education Fund

Table 1: Overview of the Property Tax Credit in Fiscal Year 2025

Household Income (FY25)	Property Tax Credit Parameters
Less than or equal to $47,000	• Property tax credit may be used on the first $400,000 of the housesite value • Additional tax relief based on household income is available
$47,001 - $90,000	Property tax credit may be used on the first $400,000 of the housesite value
$90,001 - $115,000*	Property tax credit may be used on the first $225,000 of the housesite value
Greater than $115,000*	Household will not qualify for a property tax credit

** Note: this amount is not set in statute. It is determined as mathematical exercise after the yields have been set.*

Income-Based Education Tax Study Committee Examined Changing the Property Tax Credit

- The Committee's report stated:
  - *"Solving one issue creates new issues elsewhere in the distribution of tax paid as a percentage of income, and it is difficult to achieve the desired effects in a targeted way…"*
  - *"Given this analysis and the Committee's desire to simplify the property tax system, the Committee decided not to recommend any adjustments to the property tax credit…"*
- These conclusions were in response to modeling that revealed two primary lessons
  1. "Pushing on the balloon"
  2. "The sledgehammer"

Lesson 1: “Pushing on the Balloon”

Solving one issue using the property tax credit system creates new issues elsewhere in the income and housesite value distribution

- Because the property tax credit is a tax expenditure, increasing eligibility and/or size of the credit also increases the cost
- Recall that the Education Fund is “self-balancing”
- All else equal, expanding the property tax credit would require increasing property tax rates
  - Many would not see an increased credit to offset the increased property tax rates

Expanding property tax credit → Increased cost of property tax credit → Increase tax rates to raise sufficient funds for property tax credit

Example of “Pushing on the Balloon”

- For example, assume the housesite cap for households under $90,000 increases from $400,000 to $550,000
  - All else equal, results in the following impacts:

Table 2: Anticipated Change in Tax Liability for Households with Different Income and Housesite Values

Household income	Housesite value	Change in property tax credit	Change in property tax liability
$47,000 - $90,000	<$400,000	No change	Increase
<$90,000	>$400,000	Increase	Generally decrease, individuals may vary
>$90,000	All	No change	Increase

- All else equal, reducing someone’s property taxes requires increasing someone else’s property taxes

Lesson 2: "The Sledgehammer"

It is difficult to achieve desired effects in a targeted way using the property tax credit system

- Because the calculation of the property tax credit is a function of both housesite value and household income, adjusting one factor will increase tax liability for some homeowners and decrease tax liability for others
- Varied impacts of increased tax liability and decreased tax liability would occur *within* income groups

Example of “The Sledgehammer”

It is difficult to achieve desired effects in a targeted way using the property tax credit system

- For example:
  - Assume the housesite cap for households under $90,000 increases from $400,000 to $550,000
  - Assume two households in the same town with the same income but different housesite values

Table 3: Anticipated Change in Tax Liability for Four Example Households

	Household A	**Household B**	**Household C**	**Household D**
Income	$50,000	$50,000	$80,000	$80,000
Housesite value	$300,000	$500,000	$300,000	$500,000
Anticipated change in tax liability from housesite cap change	Increase	Decrease	Increase	Decrease

Recommended Structure for an Income-Based Education Tax

Section V of the Income-Based Education Tax Study Committee Report

Income-Based Education Tax Study Committee
Recommended Income-based Education Tax Structure

- The Committee prioritized how an education income tax ought to be structured and administered to achieve maximum progressivity and simplicity
- The Committee recommended creating an education tax structured with:
  - Progressive, marginal tax rates and income brackets on the adjusted gross income of all Vermont taxpayers; and
  - Rates that would apply by school district and be increased or decreased according to locally-voted education spending decisions as compared to the prior-year statewide average education spending

Conclusion from Report

Section VI of the Income-Based Education Tax Study Committee Report

Income-Based Education Tax Study Committee
Conclusion

- The Committee studied and made recommendations* on how an education income tax should be structured, if such a tax were created to replace the homestead property tax
  - Recommendations included references to the general structure and timing of the education tax, connection to locally voted education spending, credits, withholding, nonhomestead property tax, cash flow, and municipal involvement.
- The Committee recommended that, in structuring an education income tax, the General Assembly further consider and analyze several outstanding policy decisions*
  - Outstanding policy decisions referenced in the report included education tax rates and income brackets, cap on the amount of AGI subject to an education income tax, administration, renter credit against the new education tax, nonhomestead property classification, the Stabilization Reserve, a transition, and other areas.

** Note: This does not outline all recommendations and considerations included in the report. For a full list, please reference the Report from the Income-Based Education Tax Study.*

Questions?

Resources

- Review of Education Finance in Vermont:
  - https://ljfo.vermont.gov/assets/Subjects/Subject-Tutorials101s/WJulia-RichterEducation-Finance-in-Vermont1-10-2025.pdf
- Report from the Income-Based Education Tax Study Committee:
  - https://ljfo.vermont.gov/assets/Uploads/86035e89d4/GENERAL-364974-v6-EIT_committee_report.pdf
- Income-Based Education Tax Study Committee Page:
  - https://ljfo.vermont.gov/committees-and-studies/income-based-education-tax-study-committee
- Review of the Property Tax Credit:
  - https://legislature.vermont.gov/Documents/2026/Workgroups/House%20Ways%20and%20Means/101s/W~Julia%20Richter~Review%20of%20the%20Property%20Tax%20Credit~1-17-2025.pdf
- Department of Tax, Property Tax Credit Statistics:
  - https://tax.vermont.gov/data-and-statistics/ptc