

Local Option Tax Primer

Senate Committee on Transportation

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JFO

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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

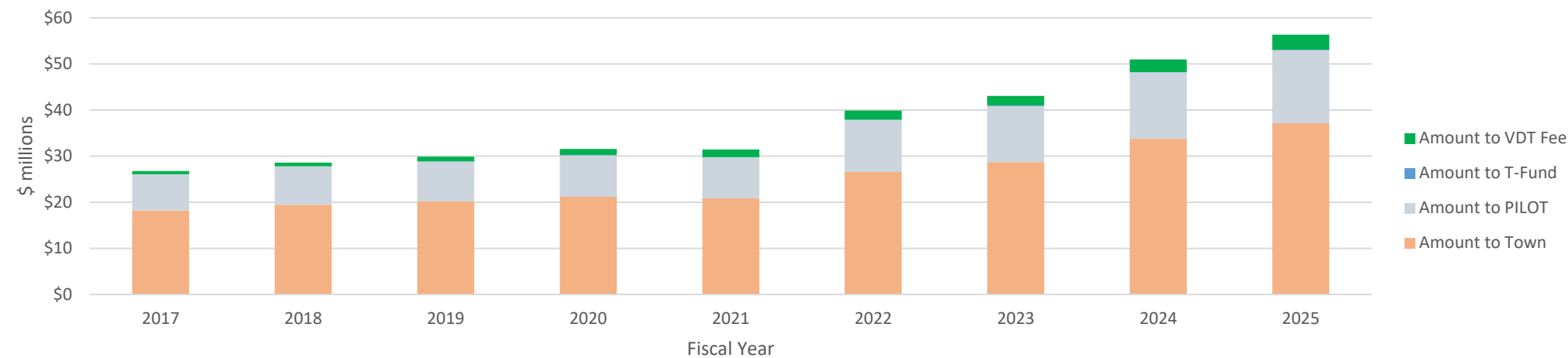


Other Taxes Imposed by VT Municipalities

- 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 ^u	\$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 \times CLA \times .01 = state owned additions to grand list*
 2. *total municipal property tax revenue raised \div adjusted municipal grand list = adjusted municipal tax rate*
 3. *state owned additions to grand list \times adjusted municipal tax rate = PILOT Payment*

Town of Johnson FY 2026 PILOT Payment Calculation

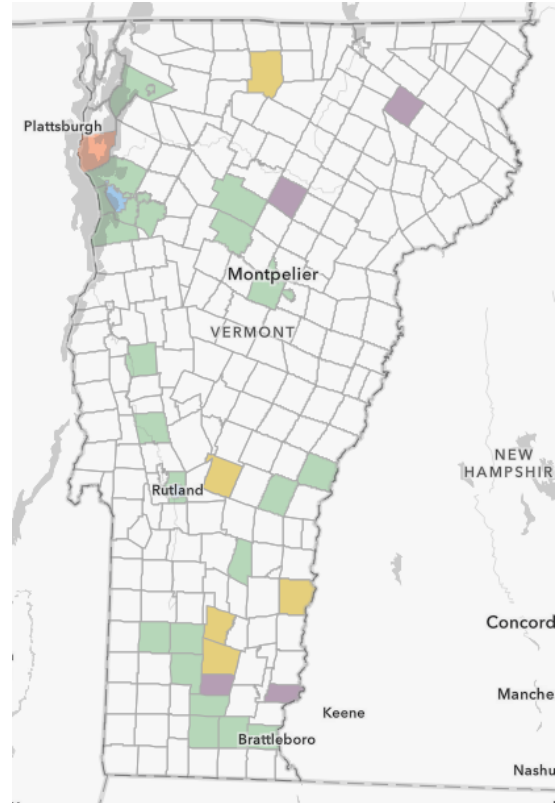
1. $\$88,186,193 \times 68.77 \times .01 = \$606,461$
2. $\$2,195,032 \div \$3,038,360 = \$0.7224$
3. $\$606,461 \times \$0.7224 = \$438,108$



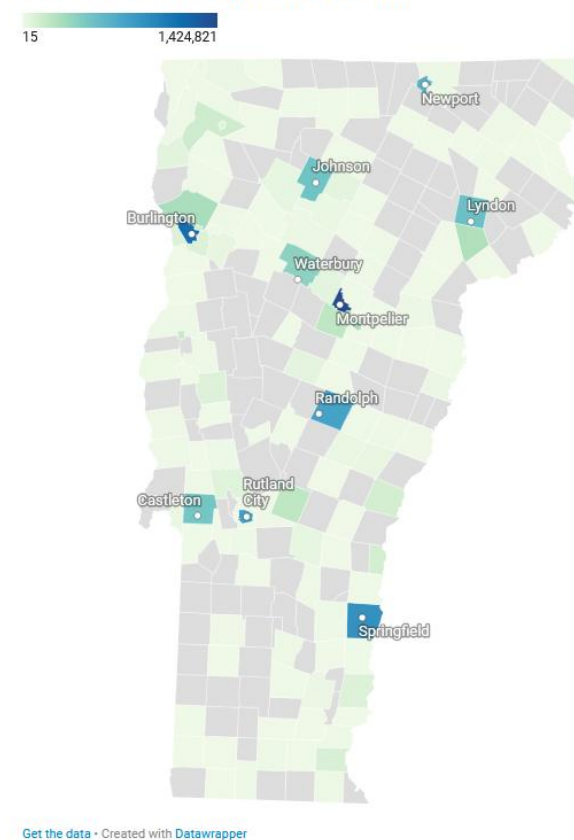
PILOT Payments versus LOT towns

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

Local Option Tax Status by Town
(January 2026)



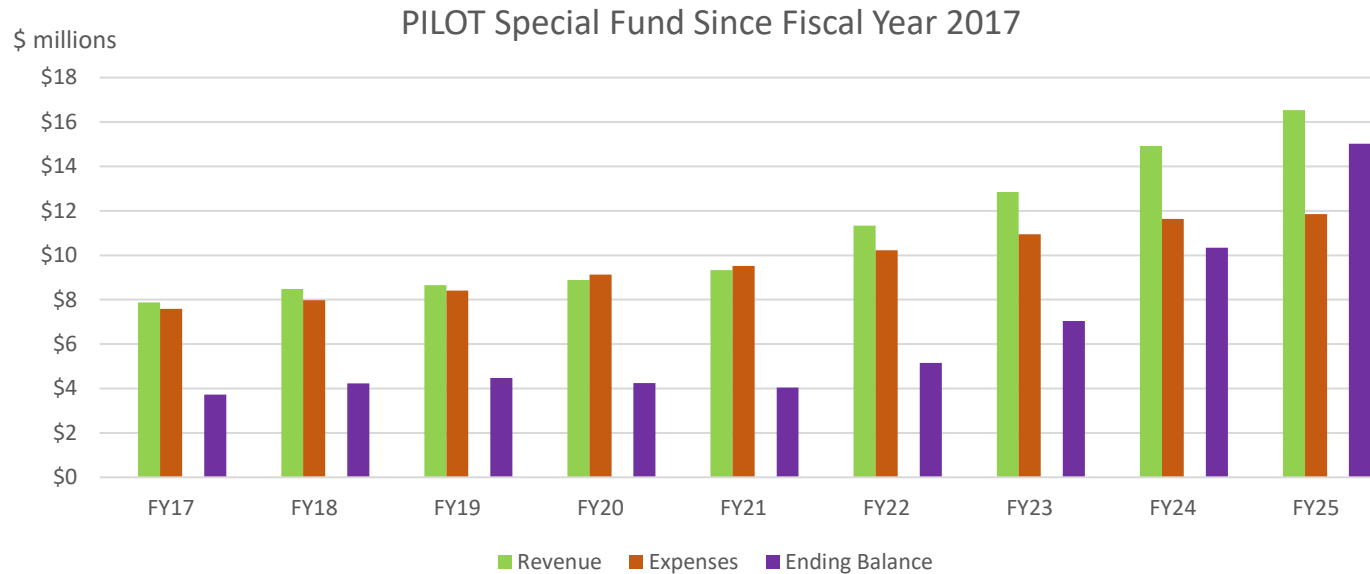
FY 2025 PILOT Payments by Town



- 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



FY 2026 PILOT Appropriations

Fiscal Year 2026 Appropriations from PILOT Special Fund in Act 27		
Appropriation		Amount (\$ millions)
B.142:	General PILOT Program	\$12.200
B.144, B.338:	Correctional Facilities PILOT	0.192
B.1100(c):	Municipal Grand List Stabilization Program (one-time)	1.000
B.917:	Town Highway Non-Federal Disasters	<u>1.150</u>
Total Appropriations in Act 27		\$14.542
Estimated FY 2026 PILOT Special Fund Revenue (25% allocation of LOT revenues effective October 1, 2025)		\$14.5 million

- In addition to General PILOT payments and PILOT payments for correctional facilities, Act 27 of 2025 (the Fy 2026 Budget) included two appropriations that brought the total appropriations from the PILOT Special Fund in fiscal year 2026 to approximately \$14.5 million
- H.790 - An act relating to fiscal year 2026 budget adjustments, included additional changes impacting the PILOT Special Fund:
 - \$500,000 appropriation from the PILOT Special Fund to the Division of Property Valuation and Review for “inventorying and creating a property valuation model for communications property.”
 - Funding for \$3.41 million for reappraisal and listing payments changed from the General Fund to the PILOT Special Fund



PILOT Provisions in the FY 2027 Governor's Recommended Budget

- General PILOT Appropriation of \$12.2 million in fiscal year 2027
- \$192,000 in payments to towns with state correctional facilities
- The FY 2027 Governor's Recommended Budget estimates approximately \$3.4 million in additional costs per year to the PILOT Fund from the following changes:
 - Changes current funding for education of assessment professionals from the Education Fund to the PILOT Special Fund (\$100,000)
 - Changes per parcel payments to municipalities for reappraisal and maintenance of municipal grand lists from the General Fund to the PILOT Special Fund
- Will need to see which municipalities adopt local option taxes in March before finalizing an estimate for FY27 PILOT Special Fund Revenue



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	8½	5581
Essex	8	1521	Oswego – except	8	3501	*Mount Vernon (city)	8½	5521
Franklin	8	1621	Oswego (city)	8	3561	*New Rochelle (city)	8½	6861
Fulton – except	8	1791	Otsego	8	3621	*White Plains (city)	8½	6513
Gloversville (city)	8	1741	*Putnam	8½	3731	*Yonkers (city)	8½	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.

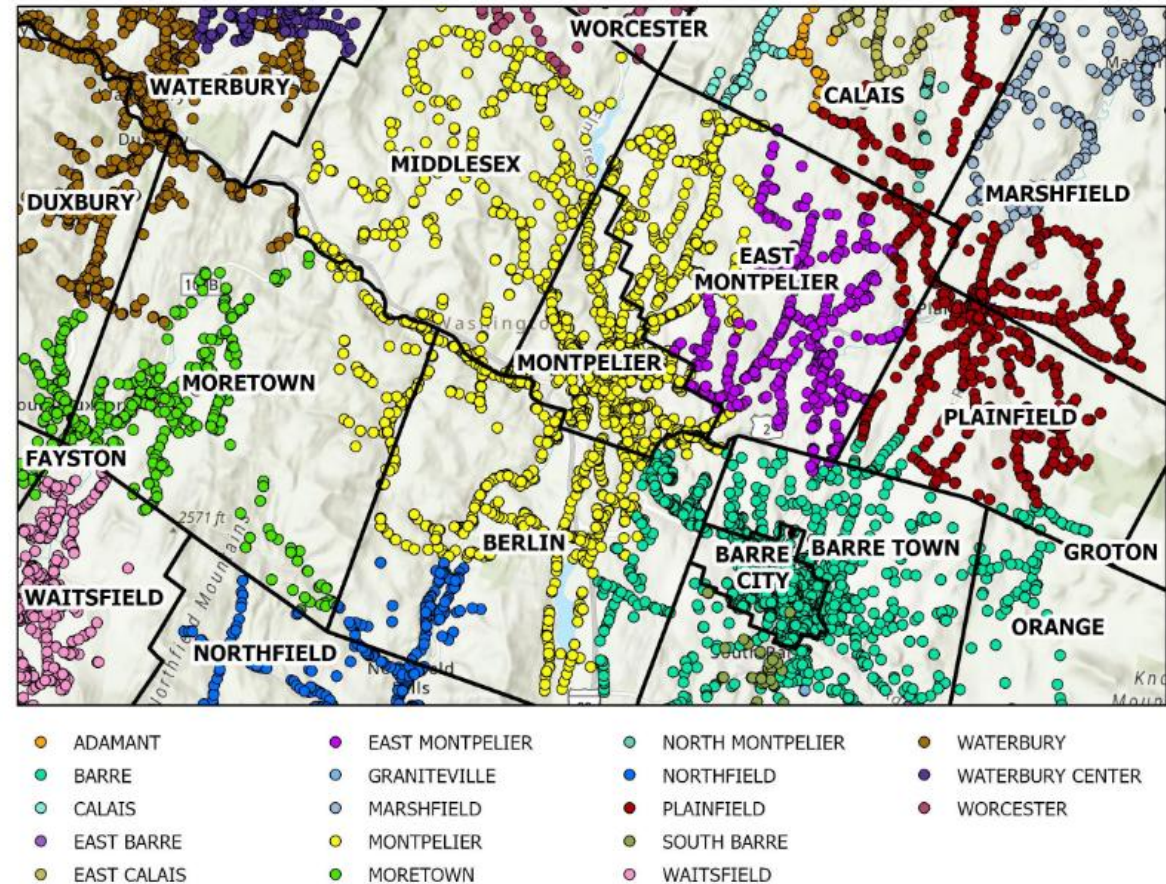
Source: New York State Department of Taxation and Finance



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?

