

# Vermont

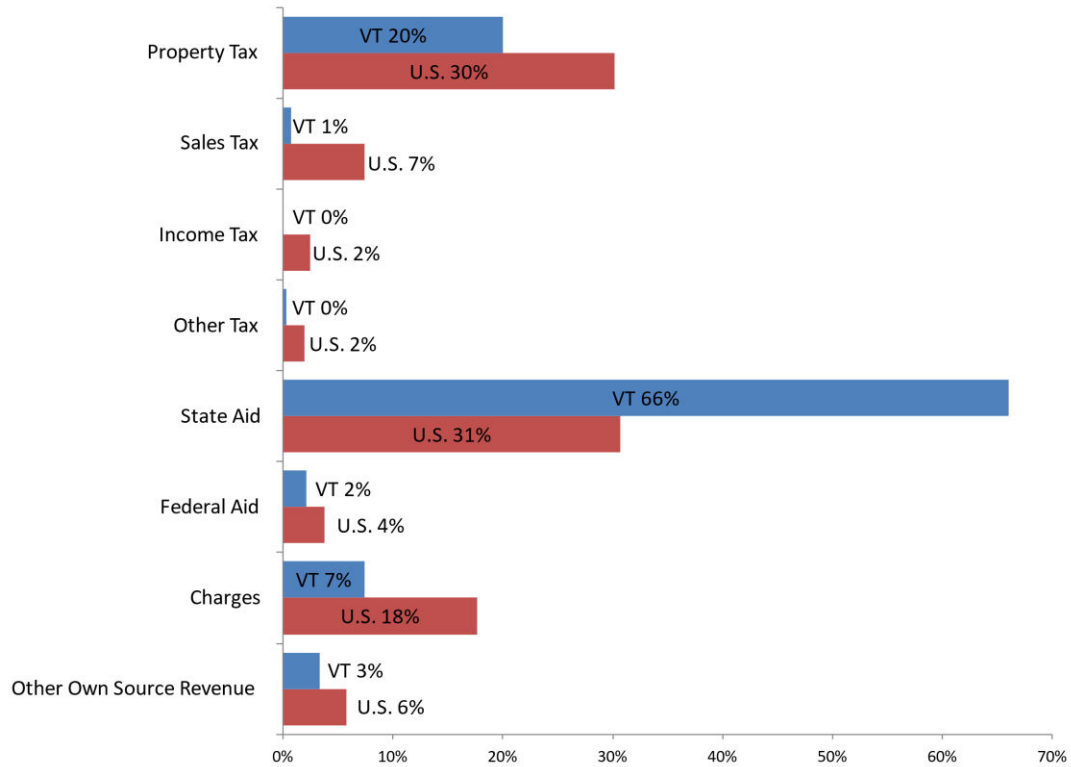
## Highlights

Understanding policies and practices around property taxation in Vermont requires substantial attention to the state's educational finance system. Almost all school budget expenses are funded by the state, with the state property tax, which is locally billed and collected, comprising the largest source of state funding (Vermont League of Cities and Towns 2014). It is important to note that state aid in Vermont appears to be more than twice the national average; but the majority of state aid originates from the statewide property tax, which is transferred from local jurisdictions to the state before redistribution (figure VT-1).

Vermont is unique in the degree to which its systemic property tax relief provisions in effect convert the property tax for some low- and moderate-income households into an income tax. One such provision, known as income sensitivity, is one of several that make Vermont's property tax system one of the most complex systems in the United States.

Vermont is one of only four states with no state-imposed limitation on property tax rates, levies, or assessments (Paquin 2015).

**Figure VT-1**  
**Sources of Local General Revenue, Vermont and U.S., 2019**



Source: U.S. Census via Significant Features of the Property Tax

### Property Tax Reliance

In 2019, Vermont had the second highest property tax burden in the nation as measured by percentage of personal income. Property taxes accounted for about 24 percent of all state and local revenue, a rate that places Vermont sixth from the top among all states in terms of total property taxation as a percentage of state and local revenue (table VT-1).

**Table VT-1**  
**Selected Vermont Property Tax Statistics, 2019<sup>1</sup>**

	Vermont	U.S. Average	Rank (of 51) <i>1 is highest</i>
Per capita property tax	\$2,938	\$1,758	6
Property tax percentage of personal income	5.3%	3.1%	2
Total property tax as percentage of state-local revenue	23.9%	16.6%	6
Median owner-occupied home value <sup>2</sup>	\$227,700	\$217,500	20
Median real estate taxes paid for owner-occupied home <sup>2</sup>	\$4,329	\$2,471	7
Effective tax rate, median owner-occupied home <sup>3</sup>	1.9%	1.1%	5

Sources: [U.S. Census via Significant Features of the Property Tax](#), American Community Survey

<sup>1</sup> All revenue numbers in this table include the state government as well as local governments.

<sup>2</sup> The statistics for [median owner-occupied home value](#) and [median real estate taxes paid for owner-occupied home](#) are five-year average statistics for years 2015-2019.

<sup>3</sup> Calculated as the median real estate tax paid on owner-occupied homes as a percent of the median owner-occupied home value.

## Administration and Assessment

The education property tax is a state tax, although it is levied and collected locally. Its most important provisions are explained below. Property taxes used to fund local services other than education are controlled by local governments and administered similarly to those in other New England states. Vermont is not considered to have statewide classification of real property, as classification is used only for the education property tax (table VT-2).

With respect to the education property tax, there are two classes of property: homestead and non-homestead, with non-homestead property taxed at a higher rate. Assessment is done annually at the town level. Since the state relies on local assessments, it uses a measurement called the common level of appraisal (CLA) to mitigate assessment or appraisal differences from town to town. The CLA measures how close local assessments are to fair market values. Specifically, the CLA is the percentage of a district's average fair market value embodied in its assessed value. If the assessed values are less than the fair market value (actual sales values), the CLA will be less than 100 percent. If the assessed values are more than the fair market values, the CLA will be over 100 percent. If a town's CLA drops below 80 percent (that is, if the average assessed value is only 80 percent or less of the fair market value), the state can withhold education and other funding (Vermont Children's Forum and Public Assets Institute 2006).

Non-homestead and homestead base tax rates for the education property tax are set annually by the legislature. Base spending levels in education, expressed as an average per-pupil spending level, are also

set annually by the legislature. However, a significant feature of the education finance system is an excessive-spending threshold that works through a progressive tax rate adjustment to curtail spending in districts. Districts may opt to spend higher than the base; but in cases where districts opt to spend 25 percent above the average state education spending per pupil, they are subject to an additional prescribed property tax rate.

## Limits on Property Taxation

There are no state limits on property taxation in Vermont.

## Property Tax Relief and Incentives

Vermont has two circuit breaker programs. The first is the education property tax adjustment program, also known as income sensitivity because property taxes are adjusted based on the income of household members. This property tax adjustment is solely for education taxes. There is a single threshold percentage for each school district, which starts at 2 percent of income and is higher for districts with higher per-pupil spending (up to  $\approx$  4 percent). The maximum home equalized assessed value (EAV) considered for calculating benefits varies based on income (Significant Features of the Property Tax).

The second circuit breaker program is the homestead and renter property tax rebate, in which homeowners with incomes of \$47,000 or less are eligible for additional property tax relief if the income-sensitized education property tax liabilities combined with municipal property taxes are greater than a defined percentage of household income. The maximum benefit from the property tax rebate and the education property tax adjustment combined is \$8,000, and the benefit is disbursed as a property tax credit (Significant Features of the Property Tax).

Vermont has preferential property tax programs for specific land uses. It offers current-use valuation on land that is used in timber production, conservation, or forest land. Land used for hotels and airports is eligible for full or partial property tax exemptions for up to five years. Agricultural land and farmland are eligible as well and can also qualify for full or partial property tax exemptions (Significant Features of the Property Tax).

The state also has a variety of property tax-related economic development programs. A tax increment financing (TIF) program is in place, with nine municipalities currently having TIF districts; but in 2013, the state halted creation of new TIF districts, and rules adopted in 2017 limited the number of TIF districts per county to two and also allowed a new local TIF that is financed only with municipal property tax revenue (McCullum 2017).

Additionally, state law allows for extensive property tax stabilization agreements for property that is tied to increasing jobs, wages, or municipal redevelopments.

**Table VT-2**  
**Property Tax Features of State Governments, United States, 2020**

Feature	Vermont	Count for 50 states plus DC
<a href="#">Statewide classification of real property</a>	No	25
<a href="#">Assessment of property primarily by county</a>	No	31
<a href="#">Limits on property tax rates or levies</a>	No	45
<a href="#">Limits on the rate of growth of assessed value</a>	No	18
<a href="#">Circuit breaker property tax relief program</a>	Yes	31

Sources: Significant Features of the Property Tax

## Key Property Tax History

Vermont's property tax reforms since the 1990s have revolved around key changes in how education is financed. *Brigham v. State*, initiated by the Vermont ACLU, claimed that the existing education funding system was unconstitutional because it created large disparities in education funding from town to town. Act 60, passed in 1997 in response to that school finance litigation, allowed the state to collect and equalize property tax revenues across school districts. Under this law, Vermont distributed education funding statewide in an attempt to mitigate funding inequities (Saas 2007). Act 60 has narrowed those disparities (Downes 2004; Saas 2007). In 2003, Act 68 changed provisions of the Equal Education Opportunity Act regarding operations of the property tax while maintaining the key equalization features of that law (Schmidt and Scott 2006).

Over the past decade, the Vermont Legislature attempted a variety of school consolidation initiatives in response to declining enrollments and the perception that inefficient school district organizations had led to excess spending and property tax burdens (Vermont Legislative Workshop 2007). In 2015, the legislature passed Act 46, which gave tax breaks to districts that consolidated but used spending caps to penalize districts that refuse to consolidate by 2019 (Burnette 2016). In 2018, the Vermont State Board of Education released its final report of decisions on school district mergers, which called for the involuntary merger of 42 districts into 11 union school districts. In fiscal year 2013 (prior to consolidation legislation), Vermont had 276 districts; by fiscal year 2020, that number had declined to 120 for a net reduction of 156 districts. About 78 percent of these reductions came as a result of voter-approved mergers, while the remaining 22 percent of reductions were ordered after districts failed to merge voluntarily (Vermont Agency of Education 2019).

## Recent Developments

In recent years, demographic pressures have amplified growing public concern that Vermont's school district organizations are too numerous, often too small, and a leading contributor to excessive spending in education. Currently, Vermont has the fifth highest average per-pupil expenditures in the country, at \$17,873 (U.S. Census 2018).

In 2018, Vermont Democrats pushed for a tax swap in which the statewide property tax would be slashed in half and replaced with a new graduated income tax for education and additional sales tax revenue (House Bill 911). The legislature failed to override a veto by Governor Phil Scott and the final budget did not include the income tax surcharge for education (House Bill 16). The Vermont Tax Structure Commission issued a draft report in January 2021 calling for reforms, including overhauling the Homestead Education Tax, broadening the sales tax base, expanding the income tax base, and property tax administration reforms (Brighton, Trenholm, and Kleppner 2021).

Late in 2020, Vermont Tax Commissioner Craig Bolio warned the education property tax bill could jump by as much as 9 percent for fiscal year 2022 as a result of demographic challenges, rising education costs, and the Covid-19 pandemic. About 40 percent of the forecasted rate increase was attributable to downgraded projections for non-property tax revenue as a result of the coronavirus downturn; about 35 percent of the projected rate increase is attributable to a jump in teacher retirements. Although public school enrollment ticked down due to the pandemic, the legislature moved to freeze student counts at fiscal year 2020 levels when calculating funding (Sabataso 2020).

In 2021, the Vermont Tax Department launched an education property tax estimator tool to help voters understand their education property tax bill and the effect of local spending decisions (McCright 2021).

## Resources

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## **Publication Date**

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