

Vermont

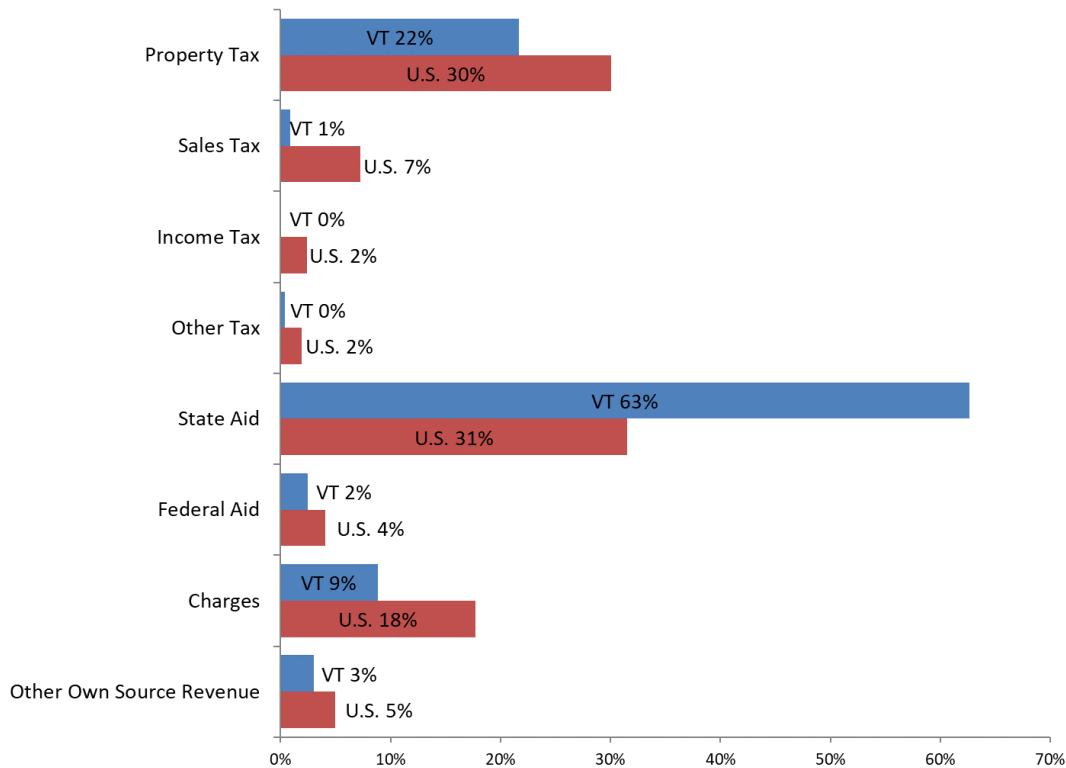
Highlights

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 twice the national average; but the majority of state aid originates from the statewide property tax, which is transferred 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 provisions 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., 2017



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

Property Tax Reliance

In 2017, Vermont had the second highest property tax burden in the nation as measured by percentage of personal income. Property taxes accounted for more than 23 percent of all state and local revenue, a rate that places Vermont seventh 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, 2017¹

	Vermont	U.S. Average	Rank (of 51) <i>1 is highest</i>
Per capita property tax	\$2,671	\$1,618	6
Property tax percentage of personal income	5.1%	3.1%	2
Total property tax as percentage of state-local revenue	23.6%	16.2%	7
Median owner-occupied home value ²	\$223,700	\$222,041	19
Median real estate taxes paid for owner-occupied home ²	\$4,206	\$2,412	7
Effective tax rate, median owner-occupied home ³	1.9%	1.1%	6

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

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

² 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 2014-2018.

³ 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 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 if owners enter a multiyear commitment. Agricultural land and farmland are eligible as well and can also qualify for full or partial property tax exemptions.

The state also has a variety of property tax-related economic development programs. A tax increment financing (TIF) program has been 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, 2018

Feature	Vermont	Count for 50 states plus DC
Statewide classification of real property	No	25
Assessment of property primarily by county	No	31
Limits on property tax rates or levies	No	45
Limits on the rate of growth of assessed value	No	19
Circuit breaker property tax relief program	Yes	34

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 (Saas 2007; Downes 2004). 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. According to the report, these mergers, along with 206 districts that merged voluntarily, would lead to a total reduction of 156 school districts since 2010 (Vermont State Board of Education 2018).

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. In the 2017-2018 school year, 68 percent of school districts had enrollment below 300 and a quarter of all school districts had fewer than 100 students (Vermont Agency of Education 2018). Currently, Vermont has the fifth highest average per-pupil expenditures in the country, at \$17,873 (U.S. Census 2016).

Property tax bills were expected to increase by 6 percent to fund an estimated \$71.5 million increase in education spending for the 2021 fiscal year (Bakuli 2019). Vermont currently ranks fourth highest among states for per-pupil expenditure and enrollment is declining. About 40 percent of the increase in education spending is expected to go toward health care premium increases (Bakuli 2019).

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).

Resources

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