# Vermont

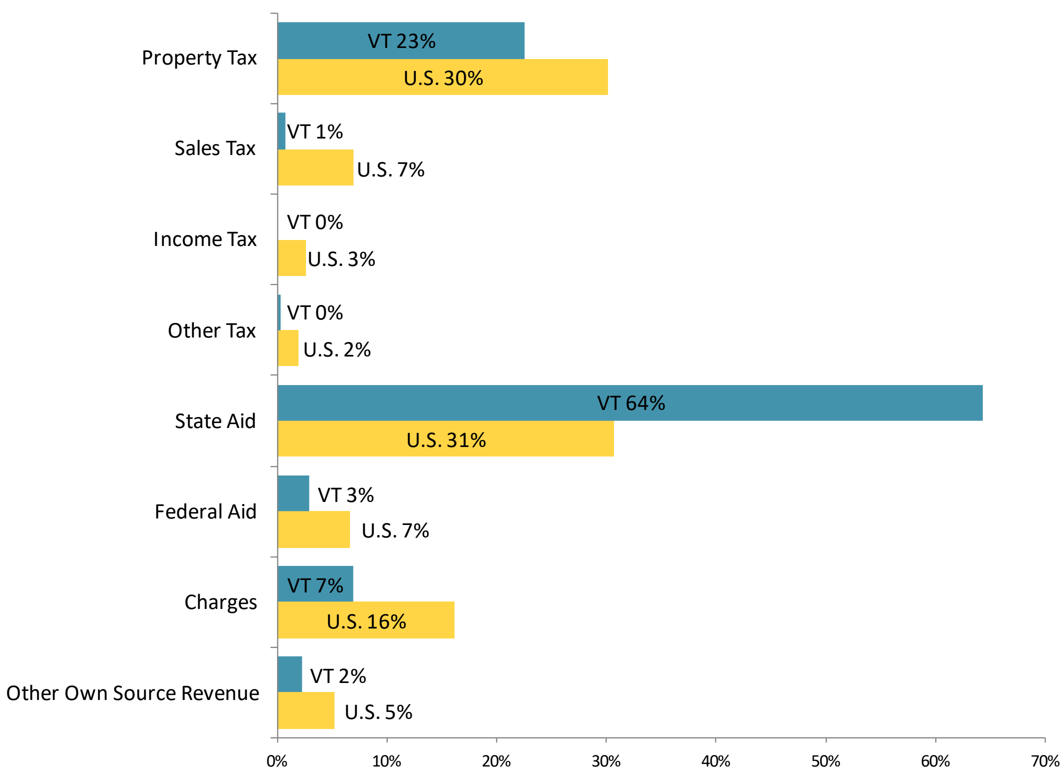
## Highlights

Understanding policies and practices around property taxation in Vermont requires substantial attention to the state's education 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 (Richter 2023). 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., 2021**




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

## Property Tax Reliance

In 2021, Vermont had the second highest property tax burden in the nation as measured by percentage of personal income. Property taxes accounted for about 21.5 percent of all state and local revenue, a rate that places Vermont fifth 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, 2021[1]**

| | Vermont | U.S. Average | Rank (of 51) *1 is highest* |
|---|---|---|---|
| Per capita property tax | $2,992 | $1,898 | *6* |
| Property tax percentage of personal income | 5.0% | 3.1% | *2* |
| Total property tax as percentage of state-local revenue | 21.5% | 15.5% | *5* |
| Median owner-occupied home value[2] | $240,600 | $244,900 | *24* |
| Median real estate taxes paid for owner-occupied home[2] | $4,570 | $2,690 | *7* |
| Effective tax rate, median owner-occupied home[3] | 1.9% | 1.1% | *5* |

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 2017–2021.

[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). Until 2023, municipalities were responsible for reappraisals with no requirement for regular reappraisals. Under the new law, full reappraisals are required at least every six years, with statistical reappraisals annually (House Bill 480 of 2023).

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). When a town's CLA is lower than 85 percent or higher than 115 percent, or when the coefficient of dispersion (COD), which measures assessment uniformity, is above 20, the state mandates a townwide reappraisal (Vermont Department of Taxes 2022).

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

Vermont imposes no state limits on property taxation.

## 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 ≈ 4 percent). The maximum home equalized assessed value (EAV) considered for calculating benefits varies based on income. The maximum benefit is $5,600 (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).

Disabled veterans, their spouses and children, and surviving spouses and children of veterans who are receiving veteran disability or death benefits are eligible for a $10,000 property tax exemption (Significant Feature 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 10 municipalities currently having TIF districts. 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; Significant Features of the Property Tax).

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, 2022**

| 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 | 18 |
| Circuit breaker property tax relief program | 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 refused 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

The 2022 legislature formed the Income-Based Education Tax Study Committee to explore an income for property tax swap. The committee did not examine the pros and cons of an income-based education tax but instead made recommendations for how to design such a tax and provided sample legislation. Among the committee's recommendations were repealing the homestead property tax for education but retaining the non-homestead property tax and expanding its base to include homestead land over two acres. The recommendations include repealing the Education Property Tax Adjustment (income sensitivity) program but keeping the homestead and renter property tax rebate (Income-Based Education Tax Study Committee 2022).

Governor Phil Scott signed legislation (S. 287 of 2022) to adjust the state's school funding formula while expressing concerns about how the increased costs would be funded and warning the changes would not ensure better outcomes. The new formula adjusted student weights to target more funding to schools with students in very small schools, schools with a high share of students living in poverty, and schools with English language learners. Noting Vermont's already high spending on education, the governor expressed concern over the impact of the formula changes and how other education policy changes might increase the burden on taxpayers (Scott 2022).

In May 2023, the legislature reached an agreement to use most of the state's fiscal year 2023 $103 million surplus to lower property tax rates. But even this infusion will likely not be enough to keep homestead and non-homestead education property taxes from rising in fiscal year 2024. The average homestead and non-homestead rates dropped about 5 percent; however, the average property tax bill is expected to rise 4.06 percent (D'Auria 2023). Property values are up, plus actual tax rates (rate after adjusting for the town level of appraisal) for homestead and non-homestead property are expected to be higher, especially in towns with low CLA. The biggest reason for higher taxes is the projected 8.5 percent growth in total education spending in fiscal year 2023–2024, compared to an average education spending growth rate of 3.2 percent over the previous six years (Bolio 2023). Dedicated revenues from the state education tax significantly exceeded the state education budget in fiscal year 2023, and followed a record $90 million surplus in fiscal year 2022, and an unexpected $18.6 million surplus in fiscal year 2021 when the state had projected a $60 million shortfall amid the start of the pandemic (D'Auria 2022).

Large swings in property values contributed to abnormally low CLA rates in 2022, triggering mandatory municipality-wide reappraisals for a majority of Vermont towns and cities in 2023. The state's 2022 equalization study calculated CLA rates below 85 percent for 137 of 256 municipalities in the state (Vermont Agency of Administration). A state tax official has warned there are not enough appraisers to meet the demand. In recent years, Vermont has mandated 16 reappraisals each year on average (Weinstein 2023).

The legislature passed appraisal reform in the 2023 session. House Bill 480 transferred responsibility for reappraisals from municipalities to the Vermont Department of Taxes. The new law required full revaluation at least every six years, with annual statistical reappraisals. Prior to the law's implementation, reappraisals were only required when triggered by low CLA rates. Municipalities were responsible for revaluation and the average time since last full reappraisal was nine years (House Bill 546 of 2023).

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## Publication Date

October 2023, data updated March 2024