

Letter to the Income Based Tax Study Committee

September 28, 2022



*On September 28, 2022, **Public Policy & Advocacy Director Karen Horn testified before members of the Income Based Education Tax Study Committee.***

Her testimony is provided on this page. A PDF of it and two related documents are linked below.

Dear Members of the Committee:

Thank you for the opportunity to testify regarding taxes that comprise the Education Fund.

We testified to the Tax Structure Commission on several occasions as they worked and, in particular, commented on their draft report regarding the Education Fund. [Our testimony is available here.](#) I have also included the [history of VLCT actions related to education property taxes](#) since 1973.

Why is the Vermont League of Cities and Towns concerned?

For all municipalities except those who have been granted permission to enact local option taxes, the sole source of revenue to fund vital municipal services is the property tax.

(Nineteen towns have a local option sales tax in place; 23 have local option meals, rooms and alcohol tax; the Town of Elmore has just a local option rooms tax; Burlington and Rutland City have authority to adopt local option taxes through their city charters).

In 2020, according to the Joint Fiscal Office “Fiscal Facts”, Vermont ranked second in terms of total state tax burden per capita, and fifth in terms of state and local property tax burden per capita. Generally, the education property tax comprises the significant majority of a property tax bill, leaving little capacity or elasticity for a municipality to fund vital services.

As cities and towns across the state were painfully aware during 2020, property taxes must be provided to school districts and the state first, whether or not they have been collected at the local level. In addition to paying state education taxes regardless of whether a municipality collects them, municipalities are:

1. Charged a daily penalty at an annual rate of 8%. (32 VSA § 5409 (1); 16 V.S.A. § 426)
2. Subject to withholding of State funds due the Town for any purpose (32 VSA § 5409 (1)).

The way in which the Education Fund is structured, if there is a shortfall in Education Fund revenues, the education property tax makes up the difference unless the legislature appropriates other revenues to balance the property tax obligation. The legislature did that in the pandemic years. Education property taxes consistently make up two thirds of the Education Fund - \$1.2 billion in FY23.

We continue to endorse the recommendations of the Tax Structure Commission to move homestead tax payments entirely to the income tax, and address issues of equity on the revenue side of the ledger. We support creation of a transparent education finance system that also closely links voters’ actions in approving budgets to the taxes they pay to fund their school districts, which is not the case today. And we support the establishment of an Education Advisory Committee to monitor Vermont’s education finance system and conduct analyses of its affordability and equity over time.

As you have heard this morning, approximately 70 percent of homestead taxpayers, receive a property tax credit to their homestead property tax based on their household income as defined by Vermont statute. Thus, Vermont is already well along the path of basing homestead taxes on income.

We share the concerns expressed by the Vermont School Boards' Association and Vermont Superintendents' Association that a new tax system will assure greater fairness and equity, simplicity, transparency, and adequacy. It is also imperative that the legislature address the cost side of providing pre-K – 12 education. It is something of a misstatement to assert that each school district's education spending is determined at the local level, as Title 16 of Vermont statutes and federal law dictate much of what a school budget must fund.

We urge the legislature to move the homestead education property tax to an income tax, and to assure that the new tax system provide the fairness, equity, simplicity and transparency that the current system lacks.

Sincerely,

Karen Horn, Director

Public Policy & Advocacy

Attachments

[vlct-comment-ontsc-report-1-19-2021.pdf](#)

[history-vlct-initiatives-on-local-revenue-reform.pdf](#)

[education-property-tax-testimony-9-28-2022.pdf](#)