

# Adjusting the Property Tax Credit Modeling and Considerations

Income Based Education Tax Study Committee  
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**JFO**

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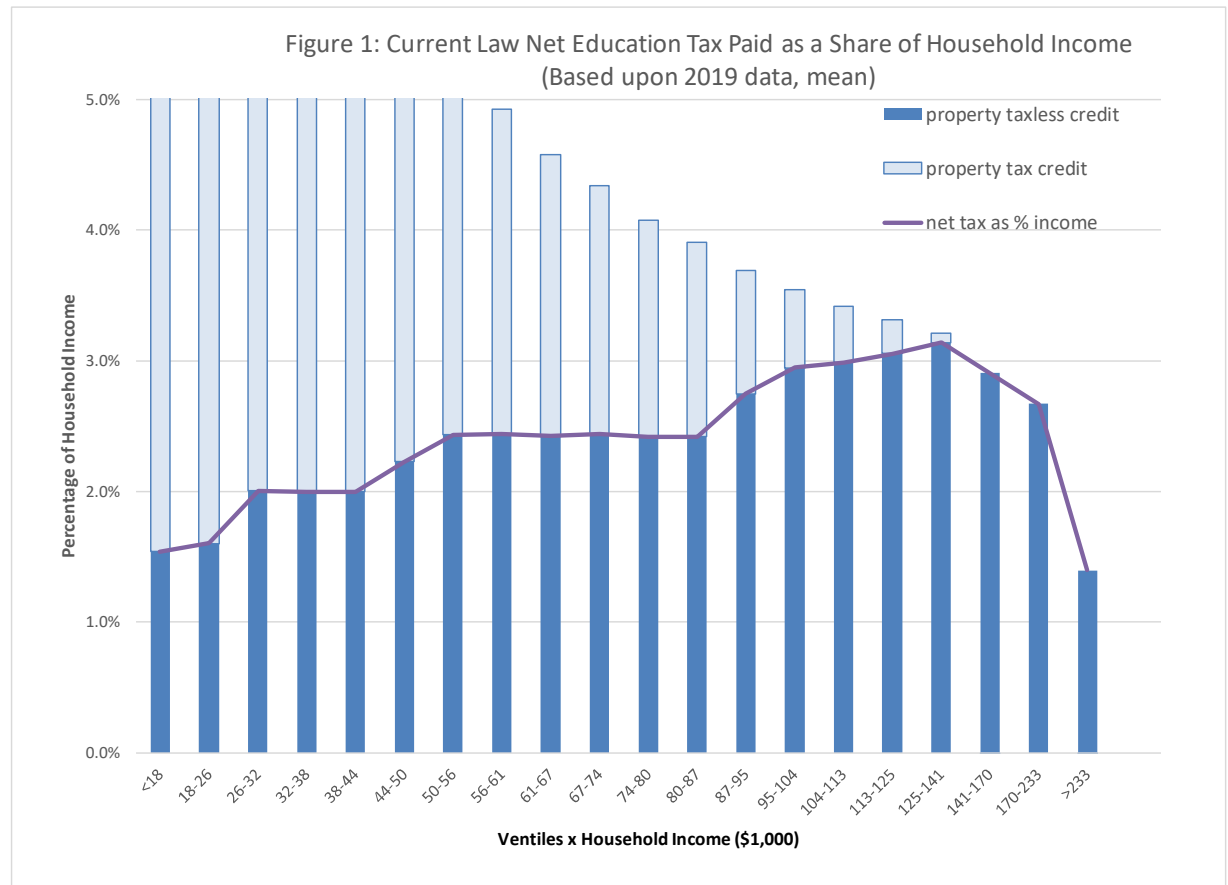
# Before we begin...

- Modeling completed by Deb Brighton using 2019 data
- Results of this modeling should be used as approximate, but not exact.
- Scenarios were modeled based upon the guidance provided by the committee at the October 12 meeting:
  - Smooth the relatively high effective tax rates for upper middle-income taxpayers.
  - Lift effective tax rates for very high-income taxpayers
  - Shield low- and middle-income taxpayers from effective tax rate increases
- The general conclusions from this modeling exercise apply across multiple sets of thresholds/cutoffs for income/housesite.



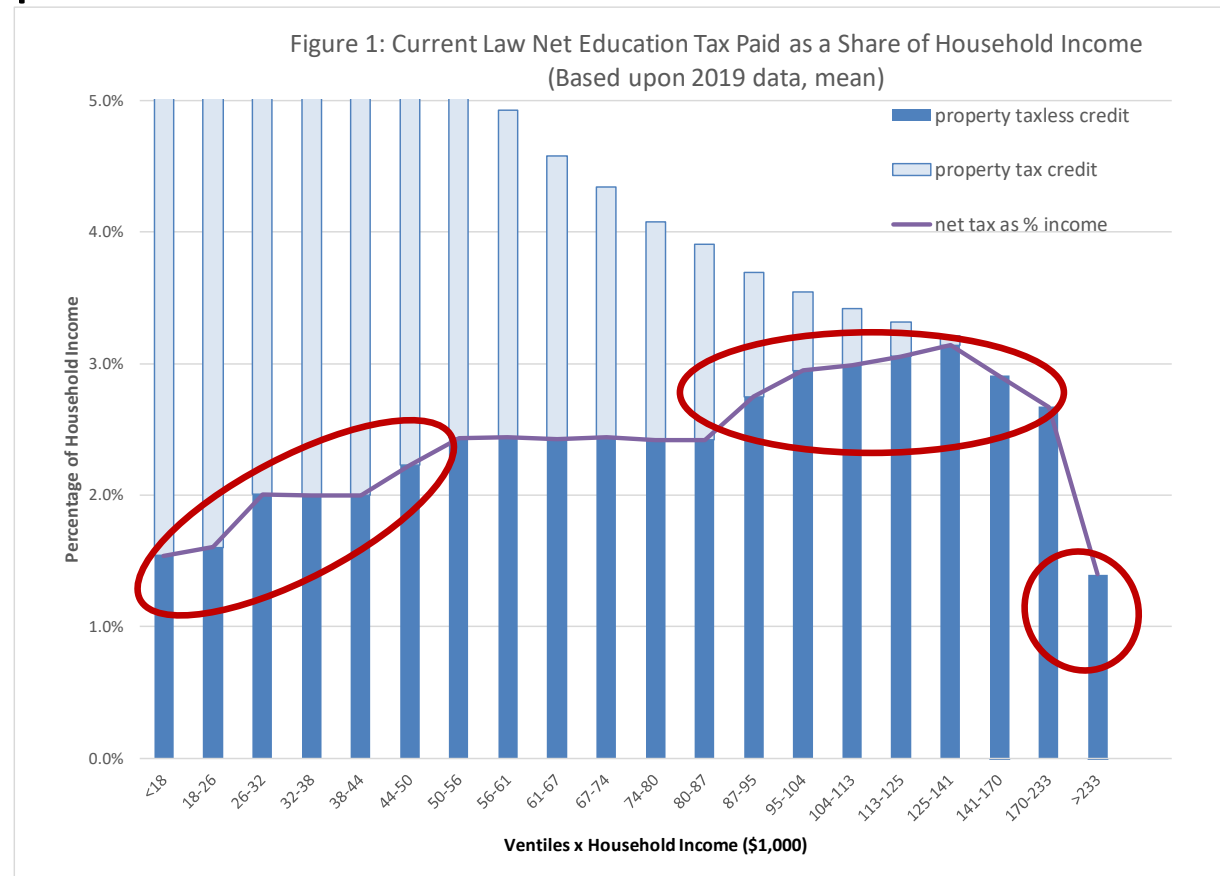
# Before we begin...

- Results of this modeling are presented as changes to the effective tax rate curve (purple line)
  - Net tax paid as a share of household income
- Dark blue bars indicate total property tax paid after the property tax credit
- Ventiles mean equal population in all 20 groups.
  - 5% of the population is in each ventile
  - Ex: \$233k+ is top 5% of taxpayers

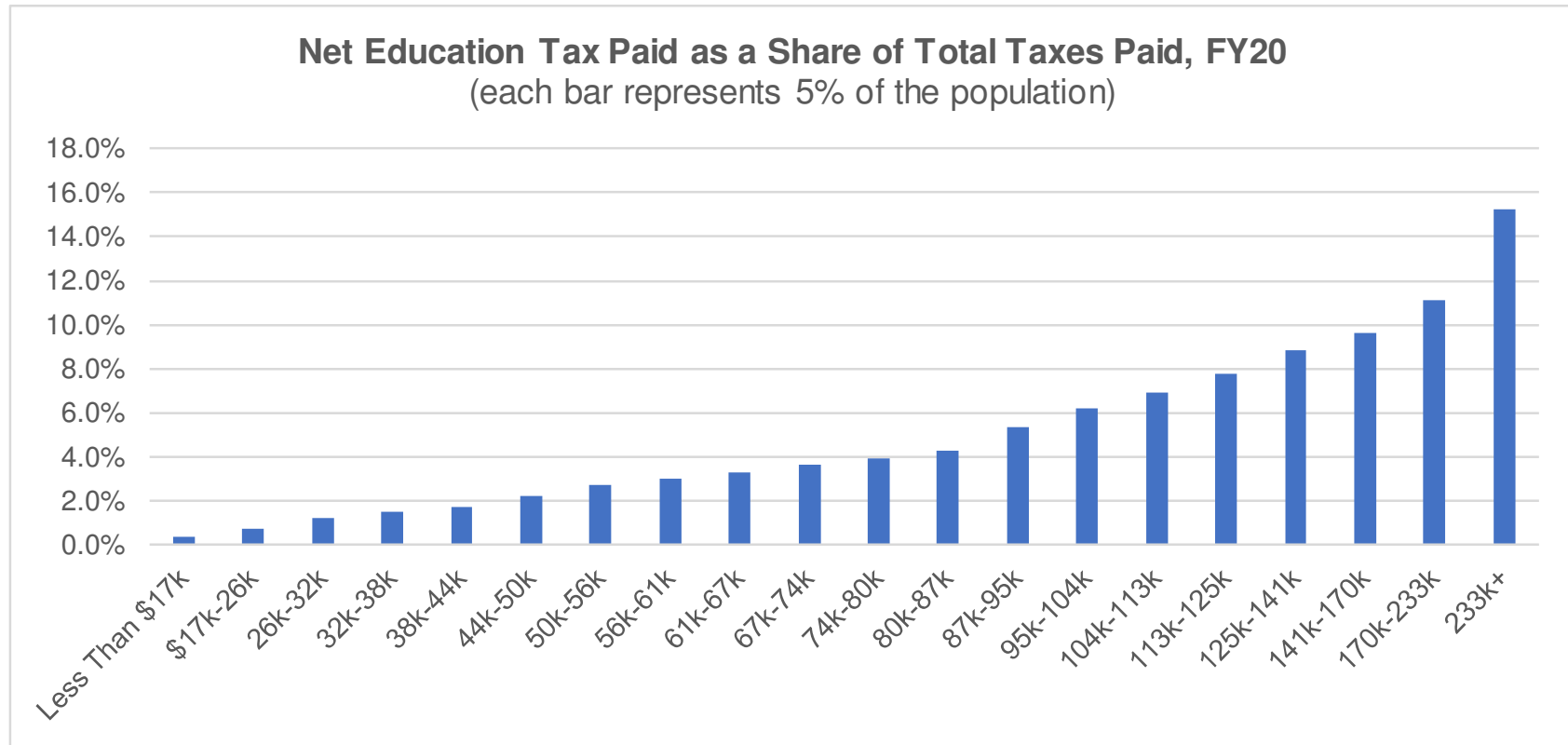


# The current situation

- Roughly 70% of taxpayers get a credit
- Three problem areas:
  - Cliffs/bumps for lower income people around the circuit breaker
  - The “hump” after \$90,000
  - Highest income taxpayers pay a very low effective tax rate

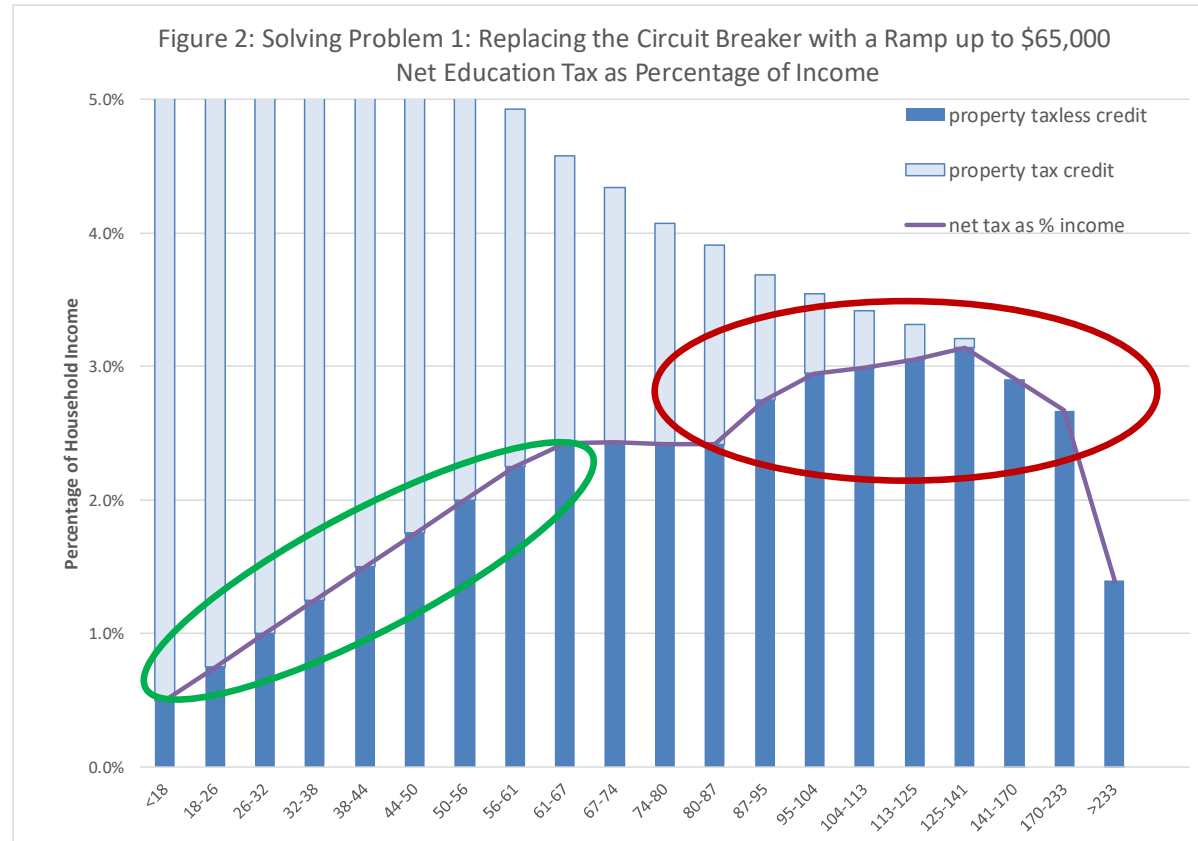


# The current situation



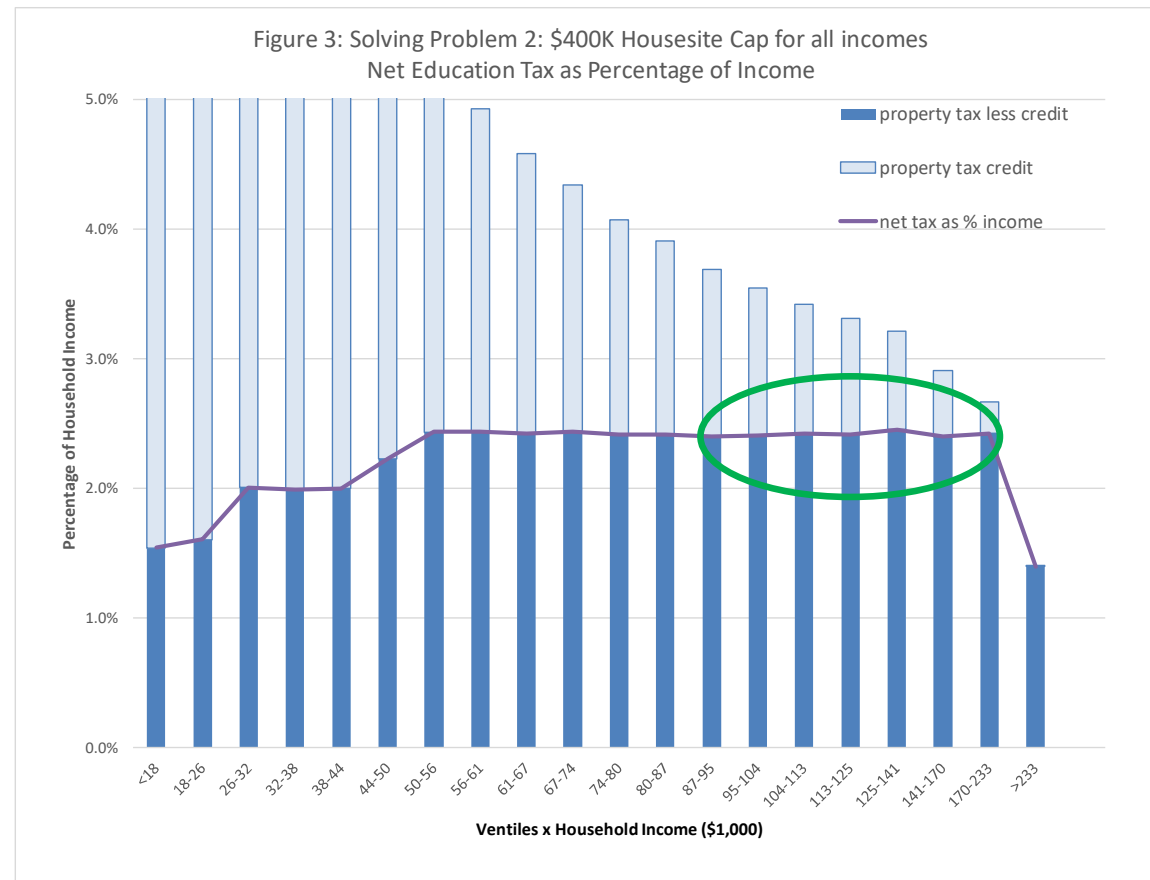
# Solving Problem 1: Smooth the low-income bumps

- **Solution: Rework the circuit breaker with a ramp:**
  - A taxpayer's liability is reduced by a set percentage as income rises
  - At \$10,000 in income, they are responsible for only 20%
  - At \$65,000, a taxpayer is responsible for 100% of the liability
- Increasing the current circuit breaker from \$47k to \$65k would shield a large number of households from school budgets
- Total cost: ~\$14 million
  - Assumed to be borne by the property tax: green circle pays less, red pays more



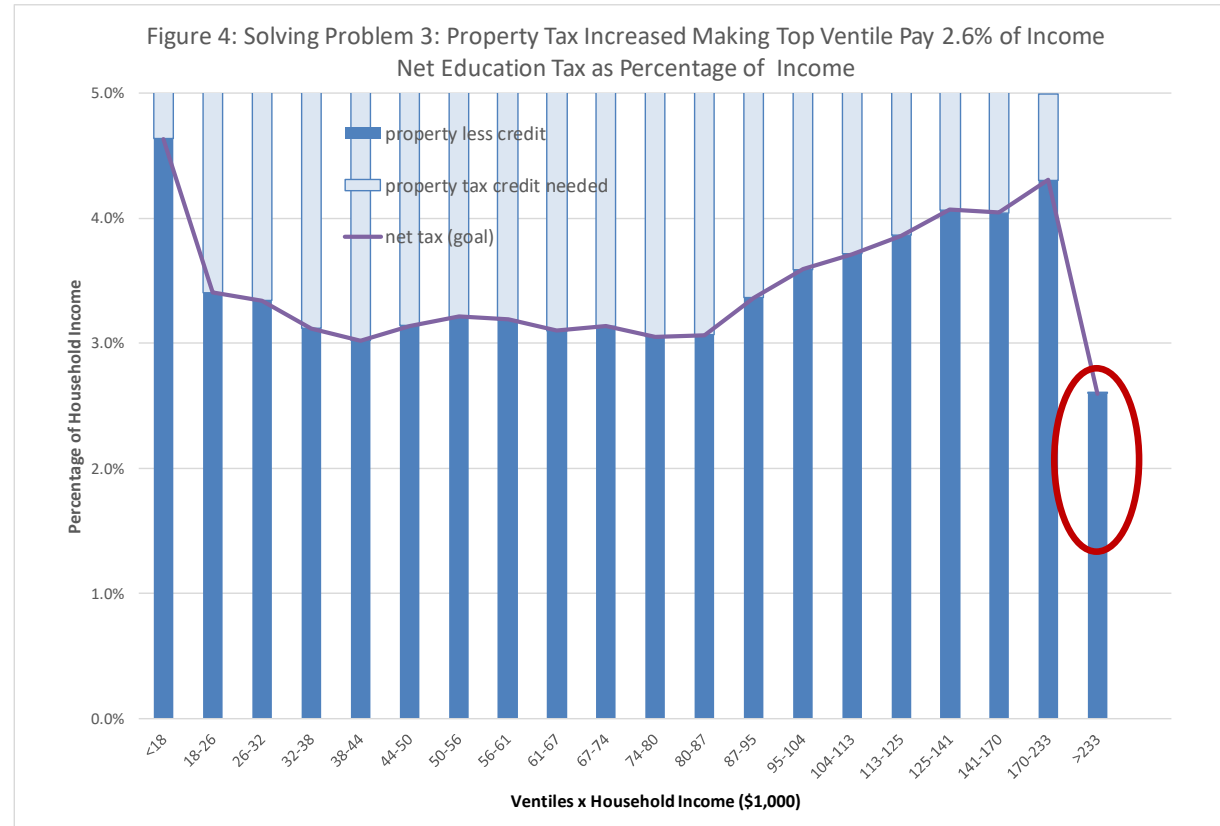
# Solving Problem 2: Smooth the upper-middle hump

- **Solution: Make the housesite cap \$400,000 for everyone**
  - Current law: Maximum housesite for PTC is \$225,000 for those with over \$90,000
    - Means maximum income for PTC is ~\$138,000
- 80% of households would get a credit (up from ~70%)
- Costs ~\$37 million
  - Assumed to be carried by the property tax



# Solving Problem 3: High Income Taxpayers' Effective Tax Rates

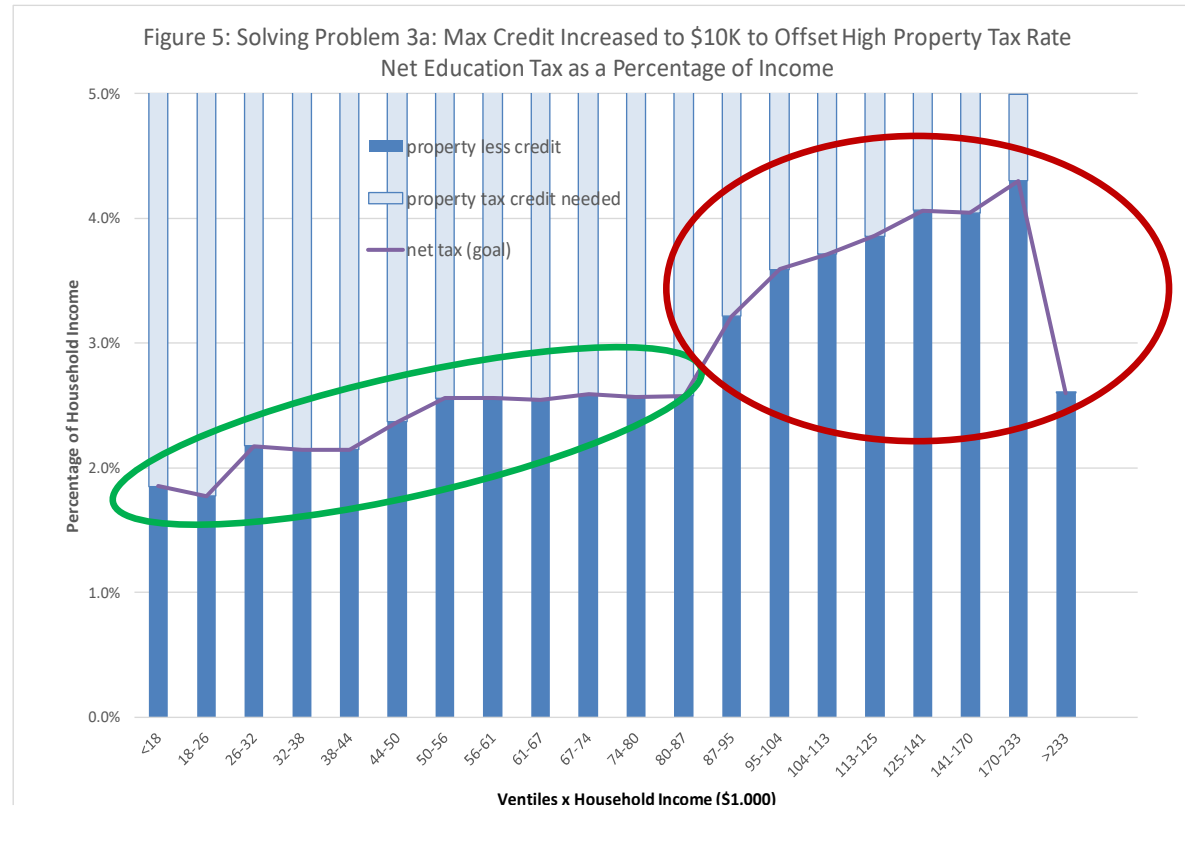
- Solution: Force highest ventile (\$233,000+) to pay 2.6% of income by setting yields lower
- This causes low- and middle-income taxpayers to hit the maximum PTC cap.
  - Almost 21,000 households under \$90,000 hit the maximum credit cap





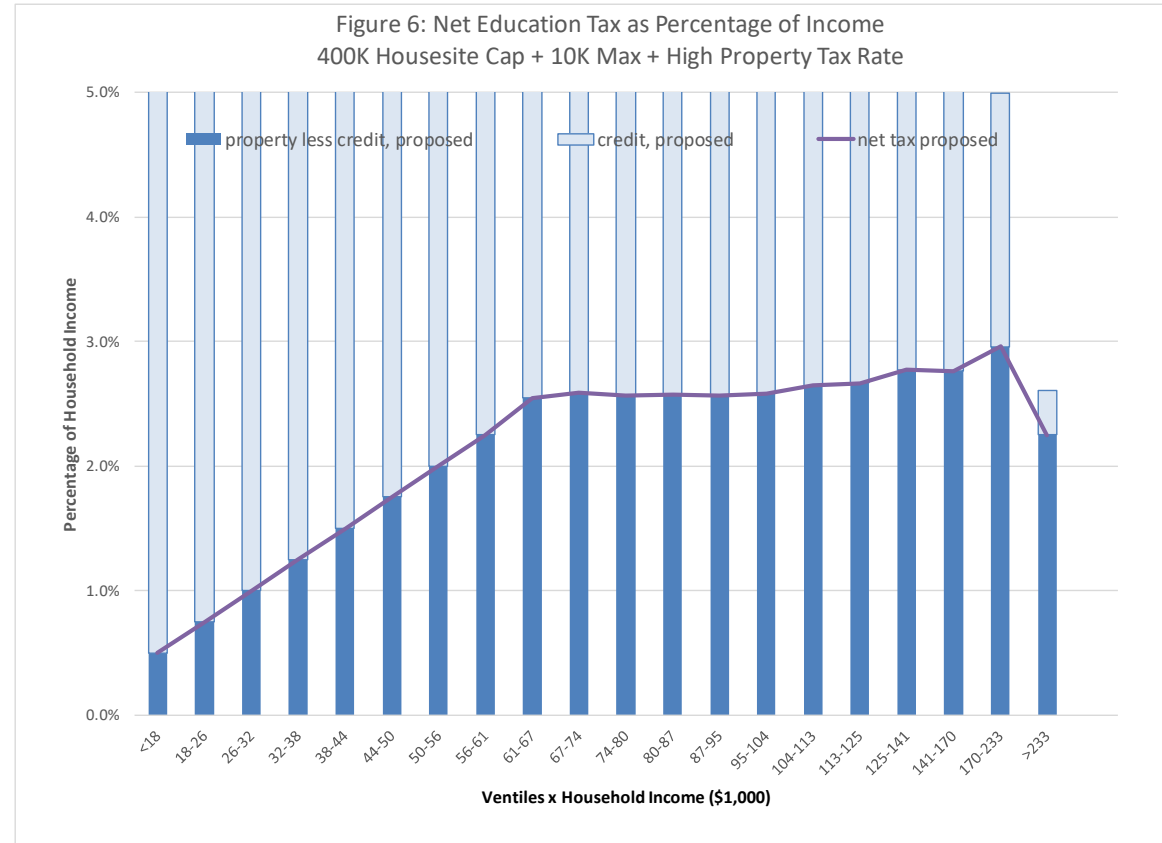
# Solving Problem 3a: Higher EFT for High Income Taxpayers

- **Solution:** Force highest ventile (\$233,000+) to pay 2.6% of income by setting a low yield
  - THEN: Change max credit to \$10,000
- **Issue:** the cost of the \$10,000 cap increase gets borne heavily by middle-income taxpayers
  - \$130+ million in tax increases, \$80 million from upper middle taxpayers
  - Taxpayers under \$90K in aggregate are shielded by the increase in the maximum credit



# All solutions together

- To meet the guidance set out by the committee:
  - 1) Circuit breaker ramp ending at \$65,000
  - 2) Maximum Housesite value set at \$400,000 for everyone
  - 3) Set yields low so that highest ventile pays 2.6% on average
  - 4) Maximum credit increased to \$10,000
- Raises about \$10m above current law
- 90% of households would get a credit with significant variation in credit size



# Lesson 1: Pushing on the balloon

**Solving one issue using the property tax credit system creates new issues elsewhere in the income distribution.**

- In order to achieve the guidance of the Committee from October 12, it would require *at least* four distinct, major changes to the current credit.
- Doing any single solution leads to undesirable outcomes:
  - Increasing the maximum credit to \$10,000 leads to tax increases to middle and upper middle-income taxpayers.
  - Increasing the tax paid for highest income households raises too much money that the system cannot absorb without making two major other changes.



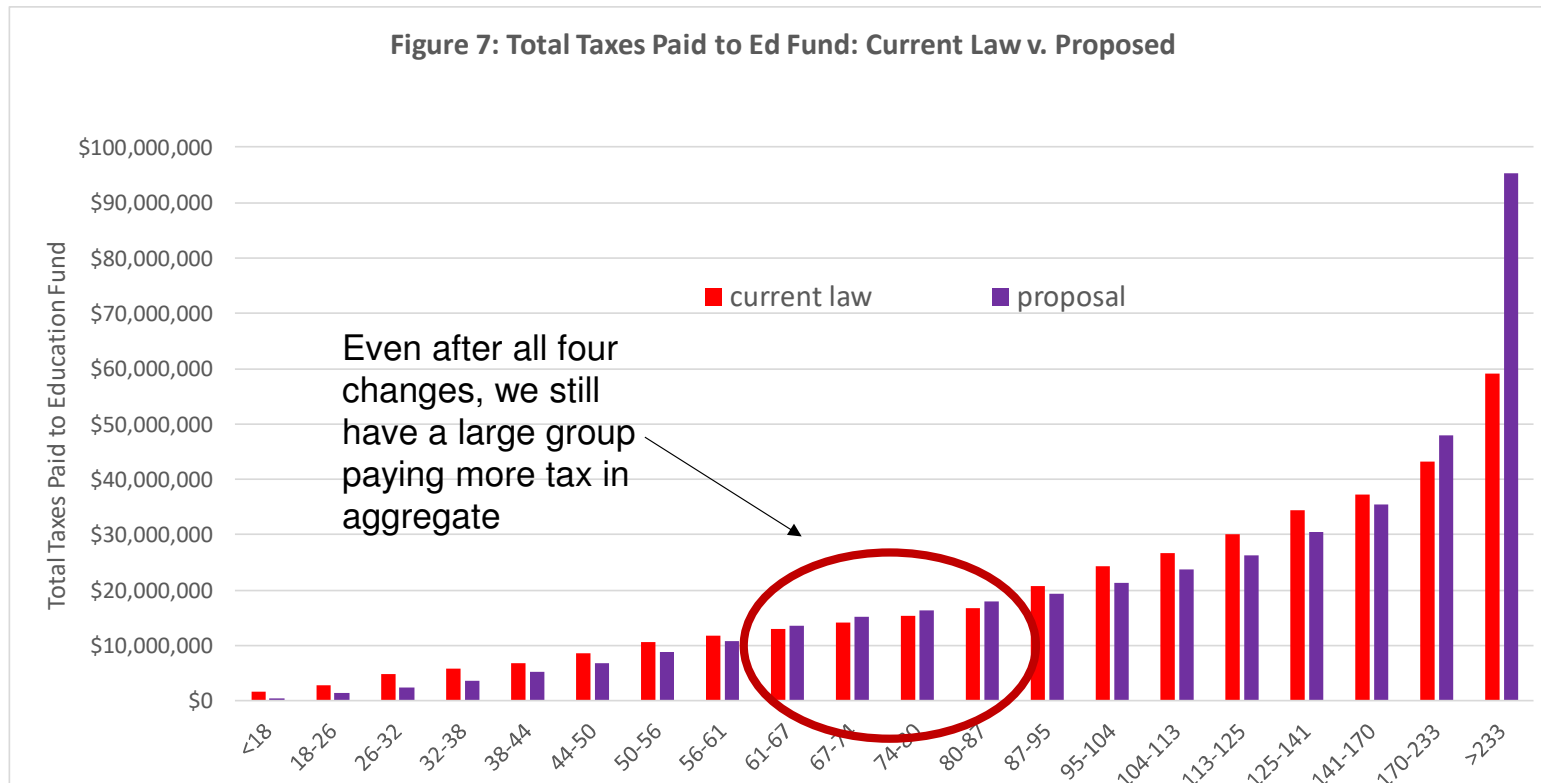
# Lesson 1: Pushing on the balloon

## Consider the tradeoffs with respect to sound tax principles in order to smooth the curve

- Doing all four of these changes achieves vertical progressivity on an aggregate level.
  - Tax liabilities will still vary significantly depending upon housesite value and income.
- However, consider the increase in complexities for taxpayers.
  - Will taxpayers under \$65,000 better understand their bill when it would be subject to a) the ramped down circuit breaker, b) the maximum credit?
    - Note this would be in addition to the basic calculation of the credit based upon the income yield.
  - Many taxpayers who currently pay purely on property will be eligible for the credit, clouding their understanding of what they will pay
- **This tradeoff is present no matter what adjustments to the system are made**



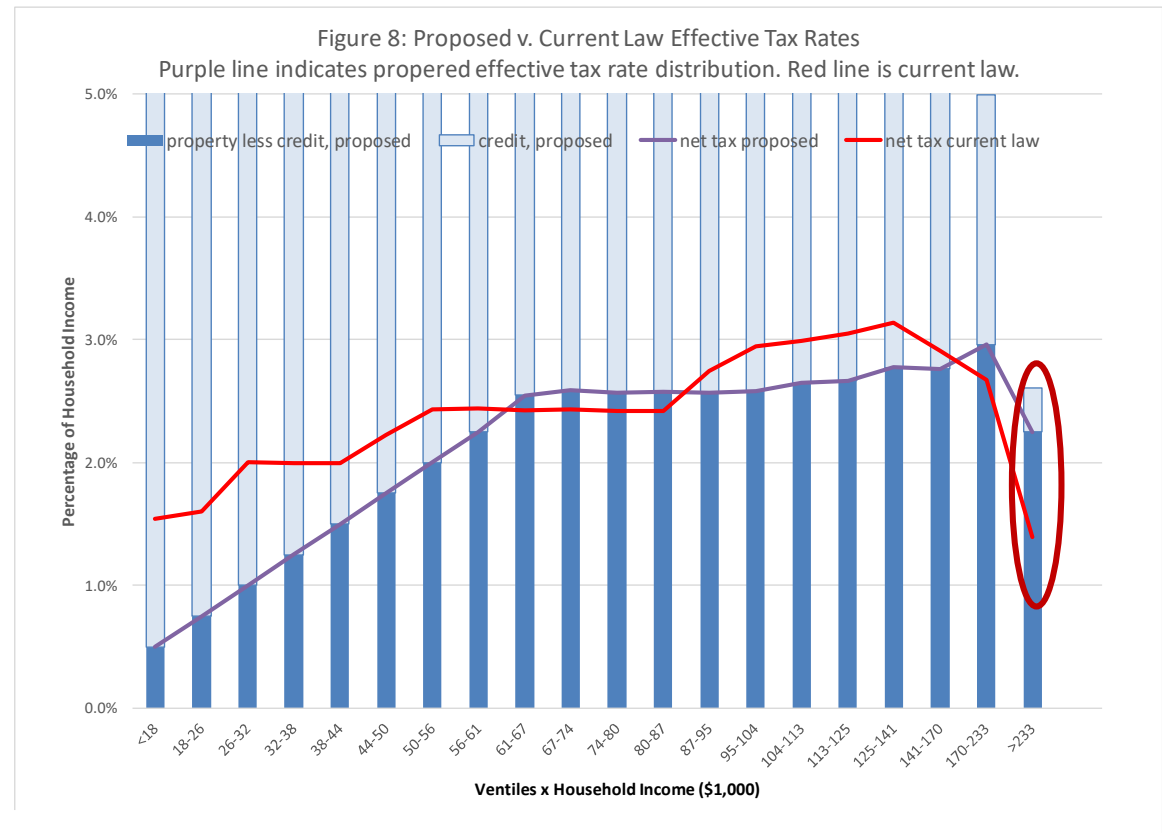
# Lesson 2: The Sledgehammer



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**It is difficult to achieve the desired effects in a targeted way using the property tax credit system**

- Even if it is possible to “smooth the curve” across the entire distribution, the relationship between housesite value and income means there may be as many households paying more tax as less even within income groups
  - In this proposal, 42% of households end up paying more in net property tax
- A policy to make the highest income groups pay a state-average effective tax rate is difficult to do without a specific surcharge/minimum tax.



## Lesson 2: The Sledgehammer

- The moving target: impacts of the policy will change as incomes and housesite values change.
  - Example: fewer and fewer people will receive credits as income rises without a statutory change to the thresholds.
- Asymmetrical impact across different parts of Vermont
  - Because housesite is part of the calculation of the credit, total tax liability will never solely be matched with ability to pay.
  - A taxpayer in Burlington with \$75,000 in income could receive a larger property tax credit than someone making \$75,000 in Barre for the equivalent house because values are higher in Burlington.



# Conclusions

- Results of the modeling suggest you can achieve (imperfect) progressivity in the system by adjusting the property tax credit
- But:
  - Solving one issue creates new issues elsewhere in the income distribution.
  - It is difficult to achieve the desired effects in a targeted way
- Consider the principles and trade-offs:
  - The main goal of this exercise is fairness, especially vertical equity. This can be achieved.
  - The cost to simplicity to achieve greater fairness is high.
- In thinking about what needs addressing in the current system, consider how these proposals solve those issues and create new ones.

