

Tax Structure Commission – Education Finance

June 24, 2019

## Homestead Property Tax Calculation

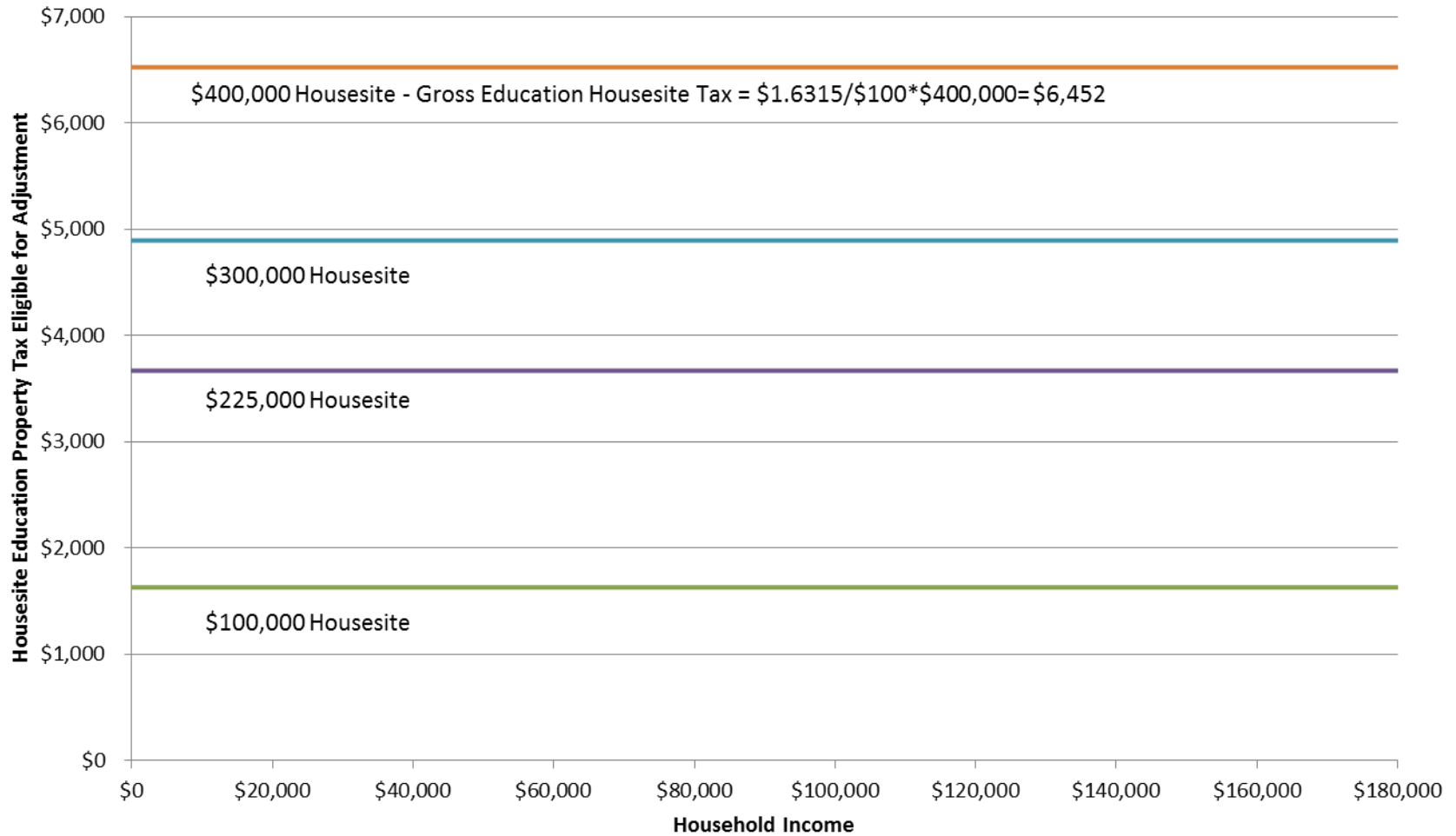
- Taxable parcels are segmented in homestead and non-homestead (previously Non-residential)
- Homestead property is defined as a filer's primary residence, inhabited for more than half the year.
  - Homestead parcel is identified on form HS-122 which is filed annually.
  - Homestead parcel includes the housesite, the home and two acres, as well as all contiguous property.
  - Approximately 40% of homestead parcels have additional contiguous acreage above the two acre housesite.
- The property tax adjustment is limited to the housesite (home and two acres). The full homestead property tax rate is owed on additional contiguous acreage.
  - Homestead filers that are eligible for a property tax adjustment will submit HI-144, the household income form
- In calendar year 2018, ~170,000 parcels submitted homestead declarations.
  - 69%, ~117,000 homesteads received a property tax adjustment
  - 83%, ~141,000 homesteads submitted a household income form
- Throughout this analysis equalized homestead/housesite values are used. List values are adjusted by the local CLA (common level of appraisal) to fair market or equalized education value.
- Note – the net homestead property tax represents 26% of the revenue in the Education Fund. 41% is allocated to Non-homestead property tax and the remaining 33% comes from non-property tax sources such as the Sales and Use Tax.

## Available Data

- The Tax department/JFO maintains a database of the homestead declarations and household income (where available – higher income filers have no incentive to report)
- This data is used to approximate future year property tax adjustments and model potential changes to the statewide program.
- The most recent data available are the property tax adjustments that were sent out in the Fall of 2018. These are the property tax adjustments for filers' FY2018 (prior year) education taxes. Adjustments were applied to filers' FY19 tax liability.
- These adjustments were calculated using 2017 household income (as filed in April of 2018)
- For homesteads that did not file a household income form, the tax department has matched SSNs associated with their declaration to their income tax filings. Household AGI is used as a proxy for household income for these filers.

# Property Tax Adjustment Visual

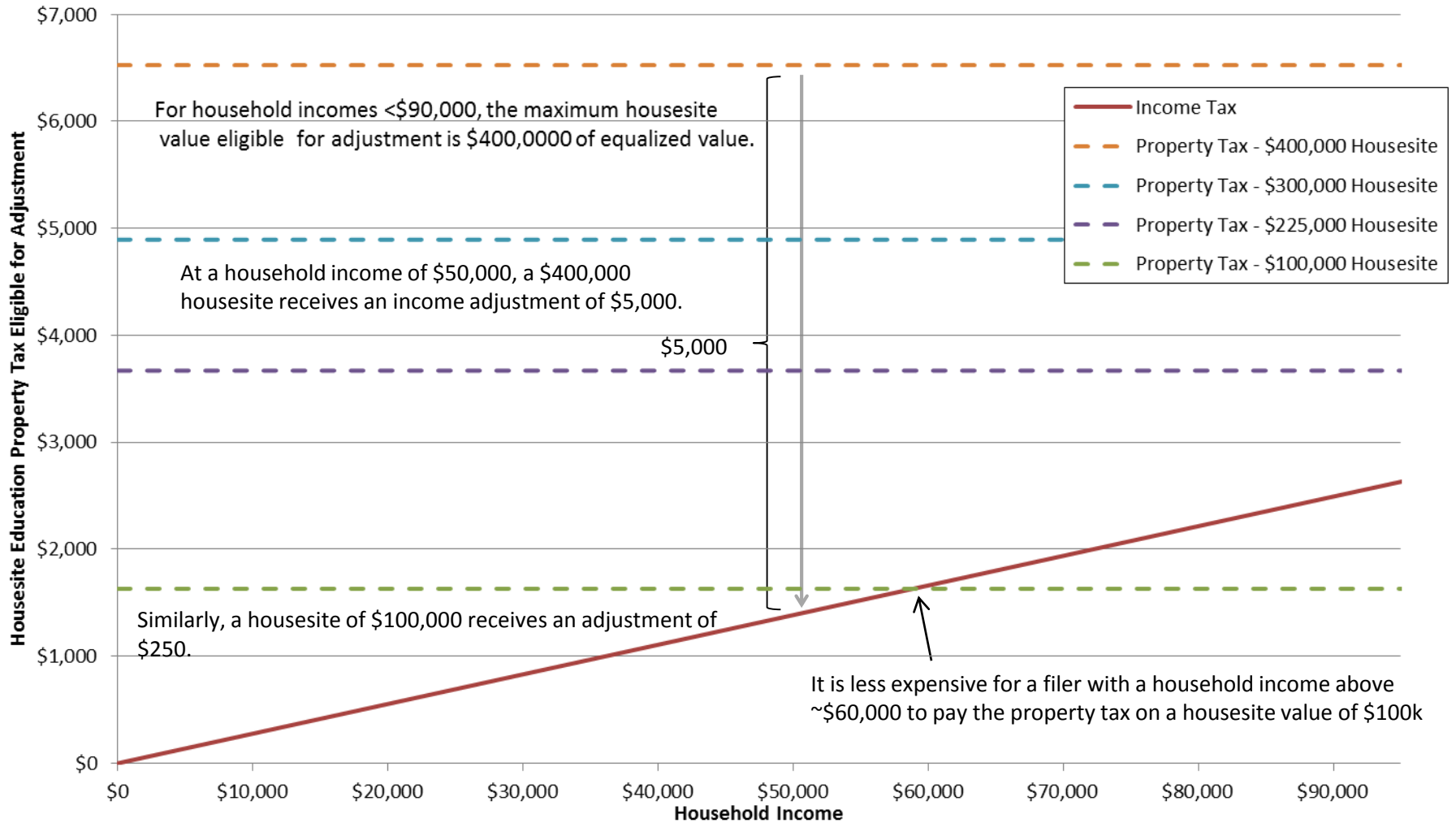
## Education Property Tax on Housesite Value Prior to Adjustment



\*Analysis is based on a homestead tax rate of \$1.6315 and an income rate of 2.77%

# Property Tax Adjustment Visual

## Housesite Education Tax Eligible for Adjustment – Household Income $\leq$ \$90,000



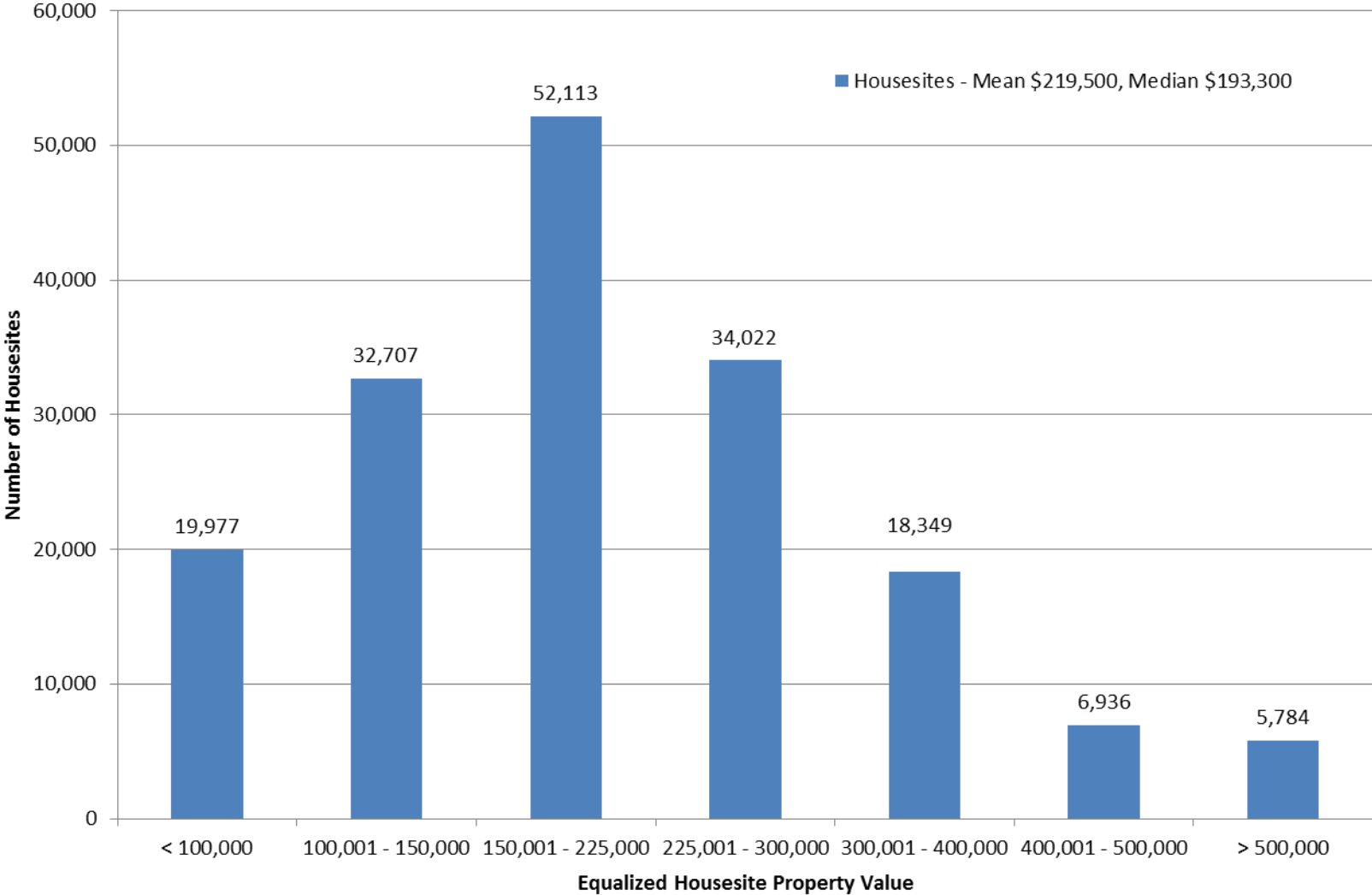
# Property Tax Adjustment Visual

## Housesite Education Tax for Household Income >\$90,000

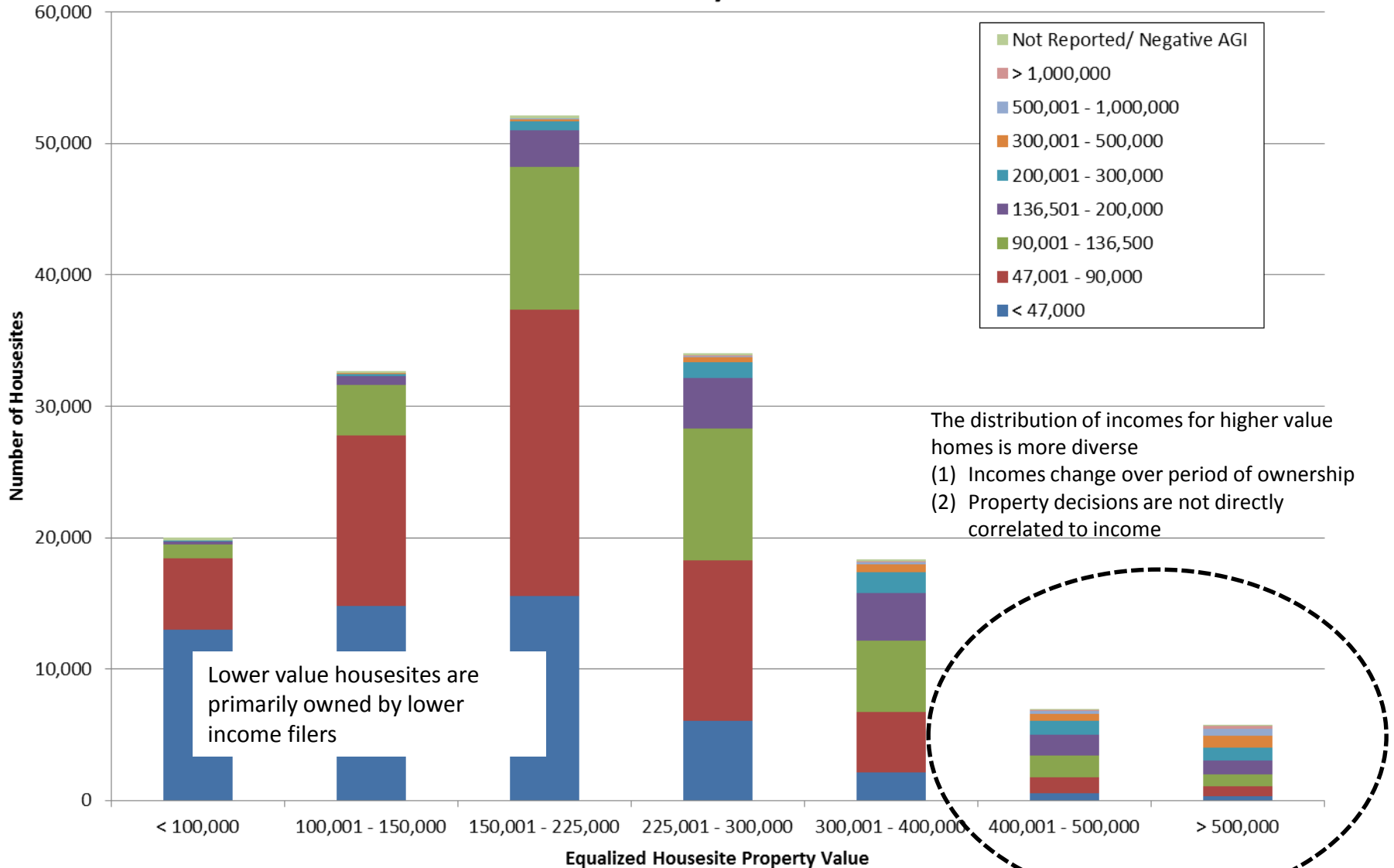


\*Analysis is based on a homestead tax rate of \$1.6315 and an income rate of 2.77%

# Number of Housesites by Equalized Value



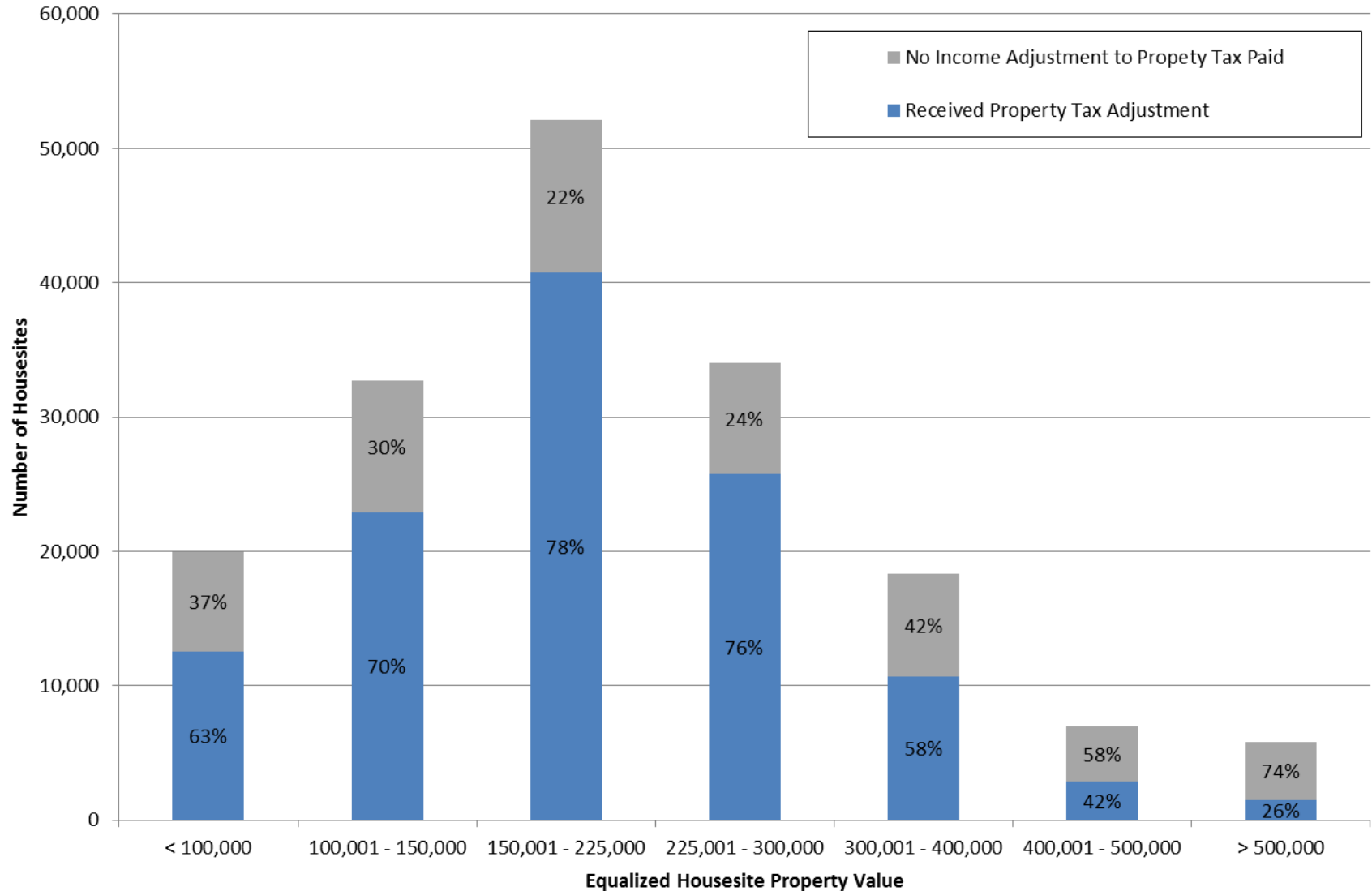
# Number of Housesite by Equalized Value and 2017 Household Income/AGI



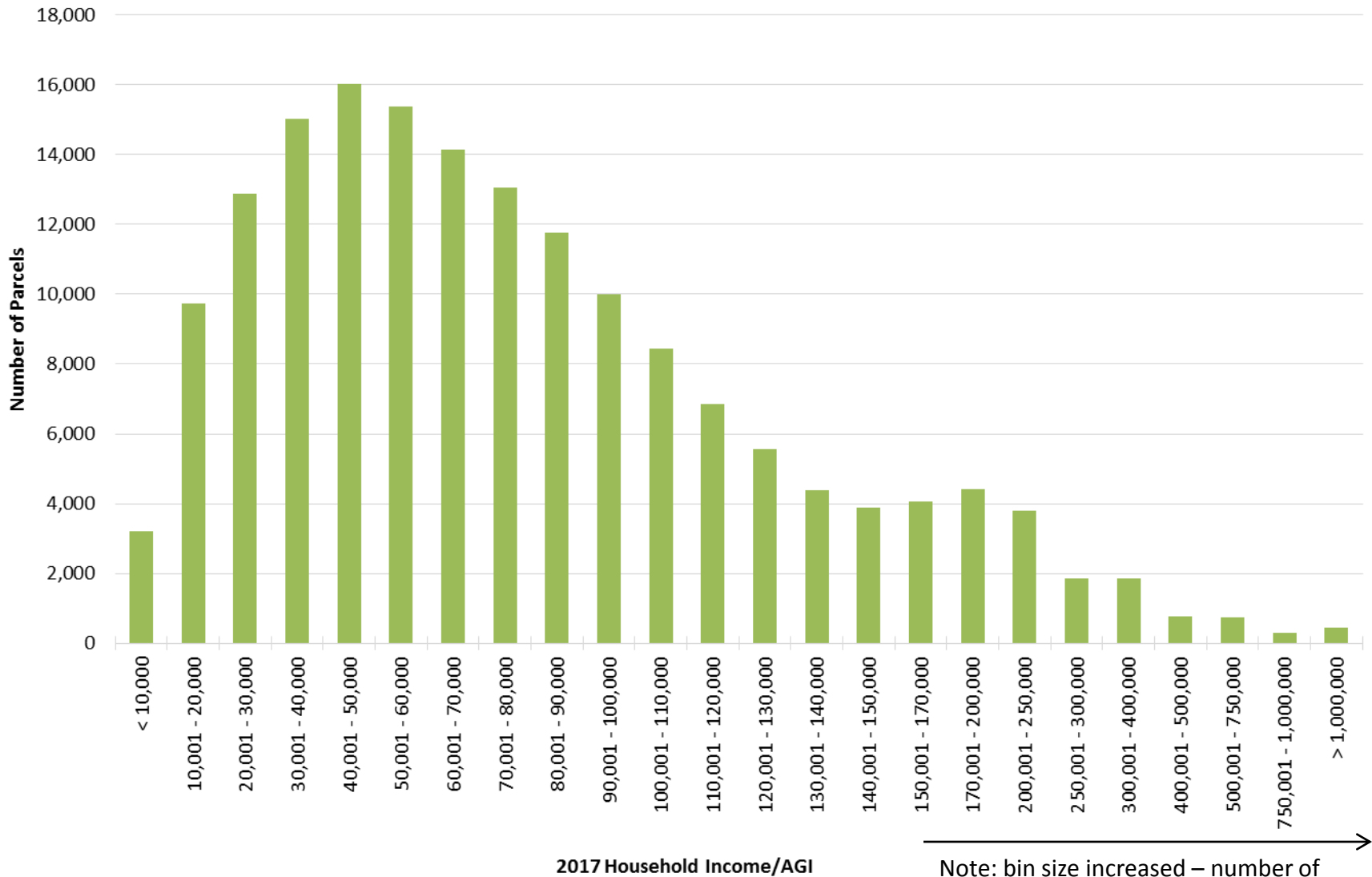
\*Income categories with less than 10 housesites are not displayed.



# Percentage of Housesites that Receive a Property Tax Adjustment

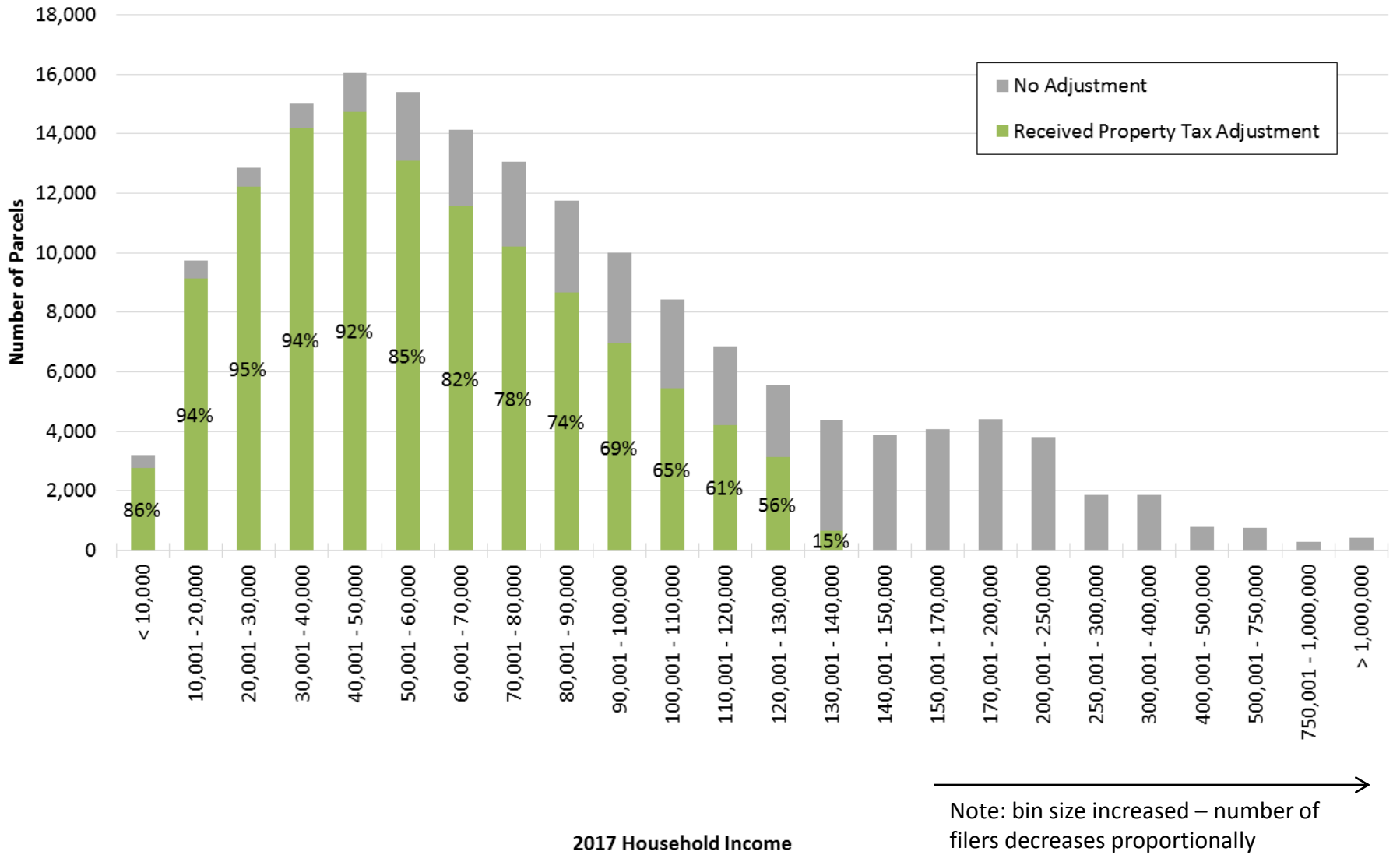


# Number of Homestead Properties by Household Income Calendar Year 2017

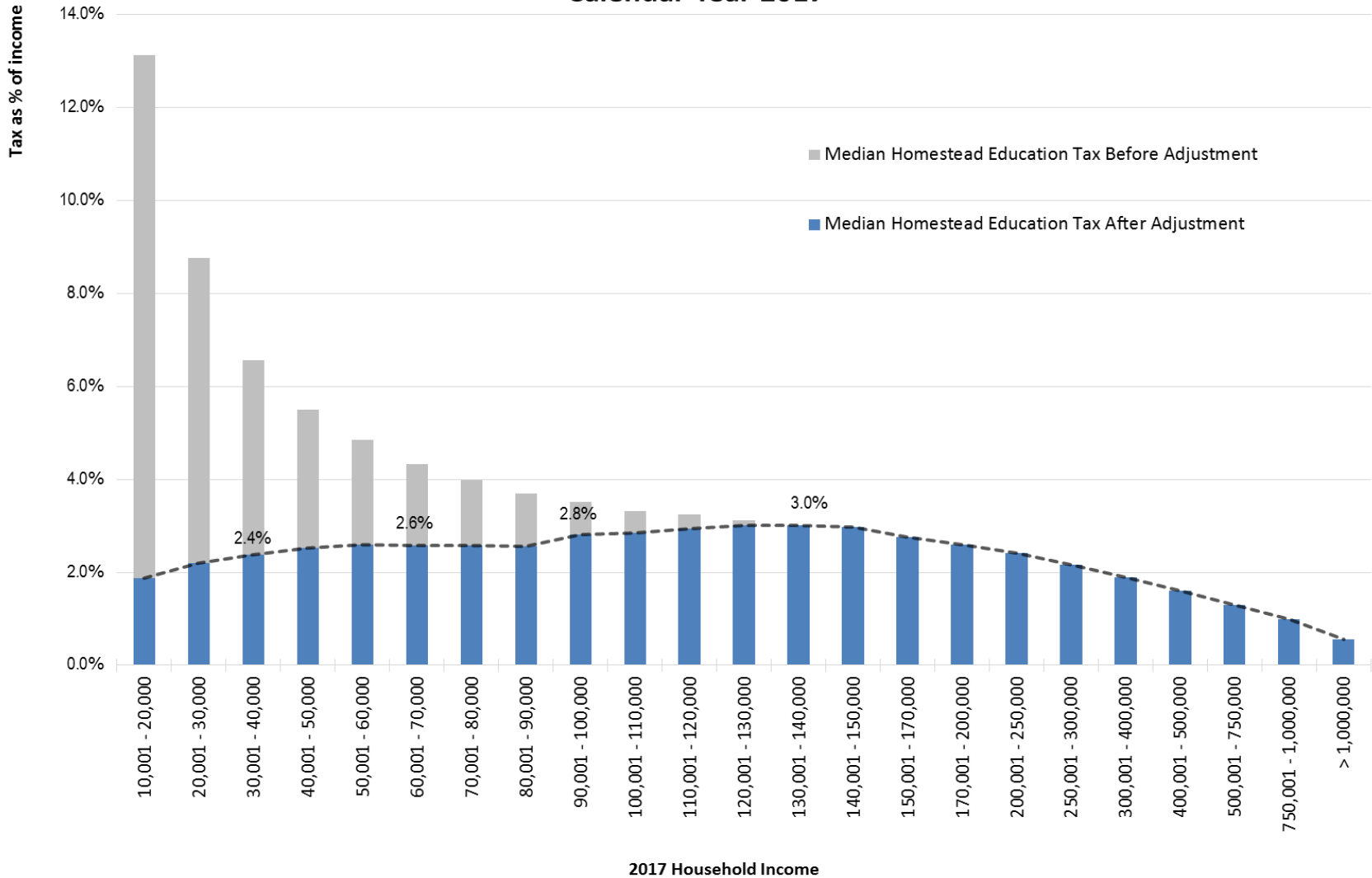


Note: bin size increased – number of filers decreases proportionally

## Number of Homestead Properties by Household Income Category - CY 2017



## Education Tax as Percentage of Household Income Calendar Year 2017



\*In this analysis the income adjustment is applied directly to the year in which it is calculated, when in practice the adjustment is provided in the following year.

## Distributions of Education Tax Paid

- 95% of total (gross) education tax is paid by housesites
- Property tax adjustments account for 27% of the gross homestead tax raised in FY18 adjustments were valued at \$165.3 M.
- If adjustments were applied directly to FY18 the net homestead tax raised was \$421.4 M.

## Shares of Net Education Tax Paid by Household Income/AGI Category

Household Income/AGI 2017	Percentage of Gross Homestead Tax	Percentage of Net Homestead Tax Paid*	Percentage of Homesteads
<47,000	22%	11%	31%
47,000 - 90,000	31%	27%	35%
90,000-136,500	22%	29%	20%
136,500 - 200,000	12%	16%	8%
>200,000	13%	18%	6%

\*In this analysis the income adjustment is applied directly to the year in which it is calculated, when in practice the adjustment is provided in the following year.

## Average Property Tax Paid and Adjustment Received by Income Category and Equalized Homestead Value

- The mean equalized homestead value of the FY18 data subset is ~230,000.
- Net Homestead Education Tax is calculated assuming adjustment is directly applied in FY18

Equalized Homestead Value <=\$230,000, 60% of homesteads,  
63% of adjustments by number, 46% of adjustments by value

2017 Household Income/AGI	Average Net Homestead Education Tax Paid	Average Education Adjustment Received	Number of Homesteads	Percent Receiving Adjustment
< 47,000	\$723	\$1,300	42,065	94%
47,001 - 90,000	\$1,678	\$844	39,184	74%
90,001 - 136,500	\$2,396	\$390	14,994	34%
136,501 - 200,000	\$2,622		3,436	
200,001 - 500,000	\$2,612		954	
500,001 - 1,000,000	\$2,434		67	
> 1,000,000	\$2,444		18	

Equalized Homestead Value > \$230,000

2017 Household Income/AGI	Average Net Homestead Education Tax Paid	Average Education Adjustment Received	Number of Homesteads	Percent Receiving Adjustment
< 47,000	\$1,542	\$3,497	10,345	92%
47,001 - 90,000	\$2,391	\$2,491	19,807	94%
90,001 - 136,500	\$4,501	\$581	18,772	81%
136,501 - 200,000	\$5,640		10,382	
200,001 - 500,000	\$6,986		7,356	
500,001 - 1,000,000	\$9,715		981	
> 1,000,000	\$12,412		416	

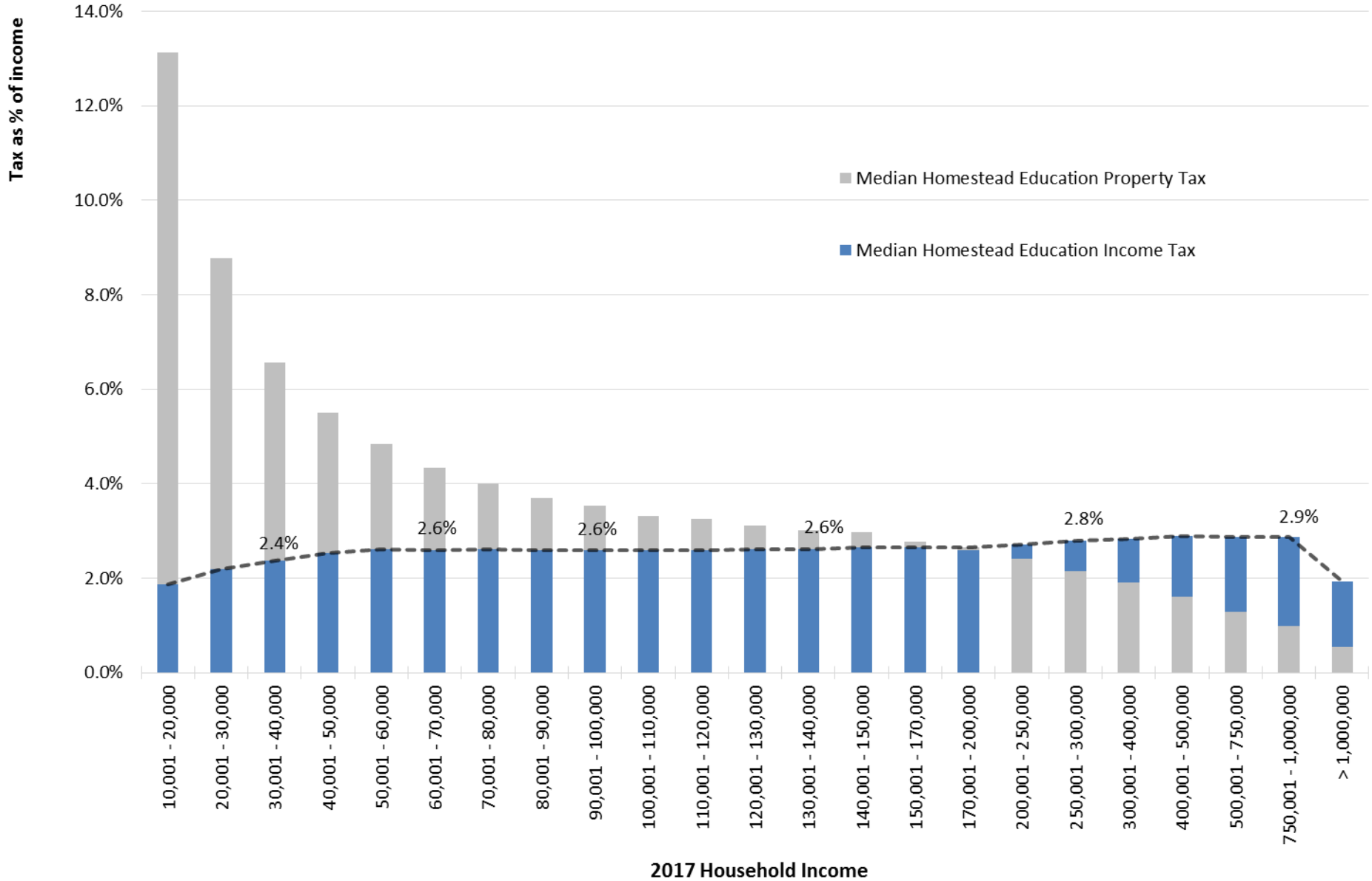
# Education Income Tax Example

## Education Income Tax Example – How is was Modeled/Constructed

- The education income tax percentage, adjusted for local spending, is applied to all homestead filers, capped at \$1,000,000.
- If the equalized housesite value is more than \$400,000 (current law for filers with household income under \$90,000), owners also pay the applicable homestead property tax rate on the additional value and homestead acreage.
- For this preliminary example – no change was made to filers with incomes under \$47,000 who are subject to the super circuit breaker program and the household value exemption (HEV) program (for approximately 5,300 households it is more beneficial to receive a \$15,000 property value exemption in lieu of the income tax)



# Education Tax as Percentage of Household Income - CY 2017



## Average Income Tax Paid by Upper Income Filers for Comparison

### Vermont – Tax Year 2017, Paid Calendar Year 2018

<b>AGI Income Bracket</b>	<b>Total Number of Returns (In State)</b>	<b>Average Vermont Tax Paid (Net of Adjustments and Credits)</b>	<b>Average Effective Tax Rate (Total Vermont Net Tax Paid/Total Vermont AGI)</b>
\$100,000 - \$124,999	19,511	\$3,680	3.4%
\$125,000 - \$149,999	10,893	\$5,104	3.8%
\$150,000 - \$199,999	10,638	\$7,135	4.3%
\$200,000 - \$299,999	6,663	\$11,421	4.9%
\$300,000 - \$499,999	3,154	\$21,582	6.0%
\$500,000 - \$999,999	1,313	\$43,279	6.8%
\$1,000,000 +	581	\$181,188	6.5%

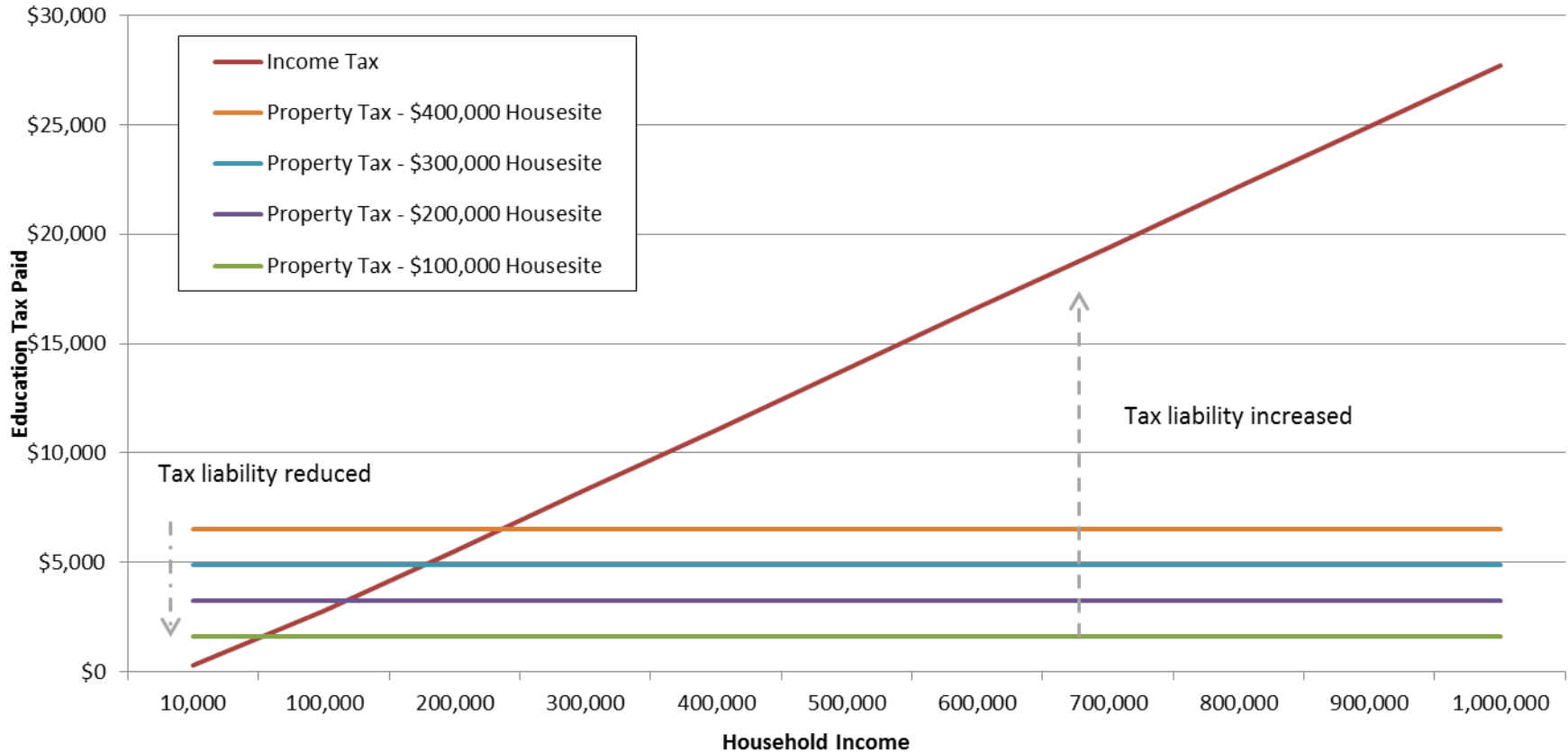
### Federal – Tax Year 2016, Paid Calendar Year 2017 (most recent data release)

<b>AGI Income Bracket</b>	<b>Total Number of Returns</b>	<b>Average Federal Tax Paid (Net of Adjustments and Credits)</b>	<b>Average Effective Tax Rate (Total Federal Net Tax Paid/Total Federal AGI)</b>
\$100,000 - \$200,000	38750	\$17,195	12.9%
\$200,000 - \$500,000	9050	\$55,116	19.6%
\$500,000 - \$1,000,000	1210	\$169,018	25.2%
\$1,000,000 +	520	\$648,373	25.4%

## Visualization of Education Income Tax Adjustment

- Based on a property tax of \$1.6315 and income rate of 2.77%, for four equalized housesite values across household incomes ranging from \$10,000– \$1,000,000

### Income Tax Adjustment

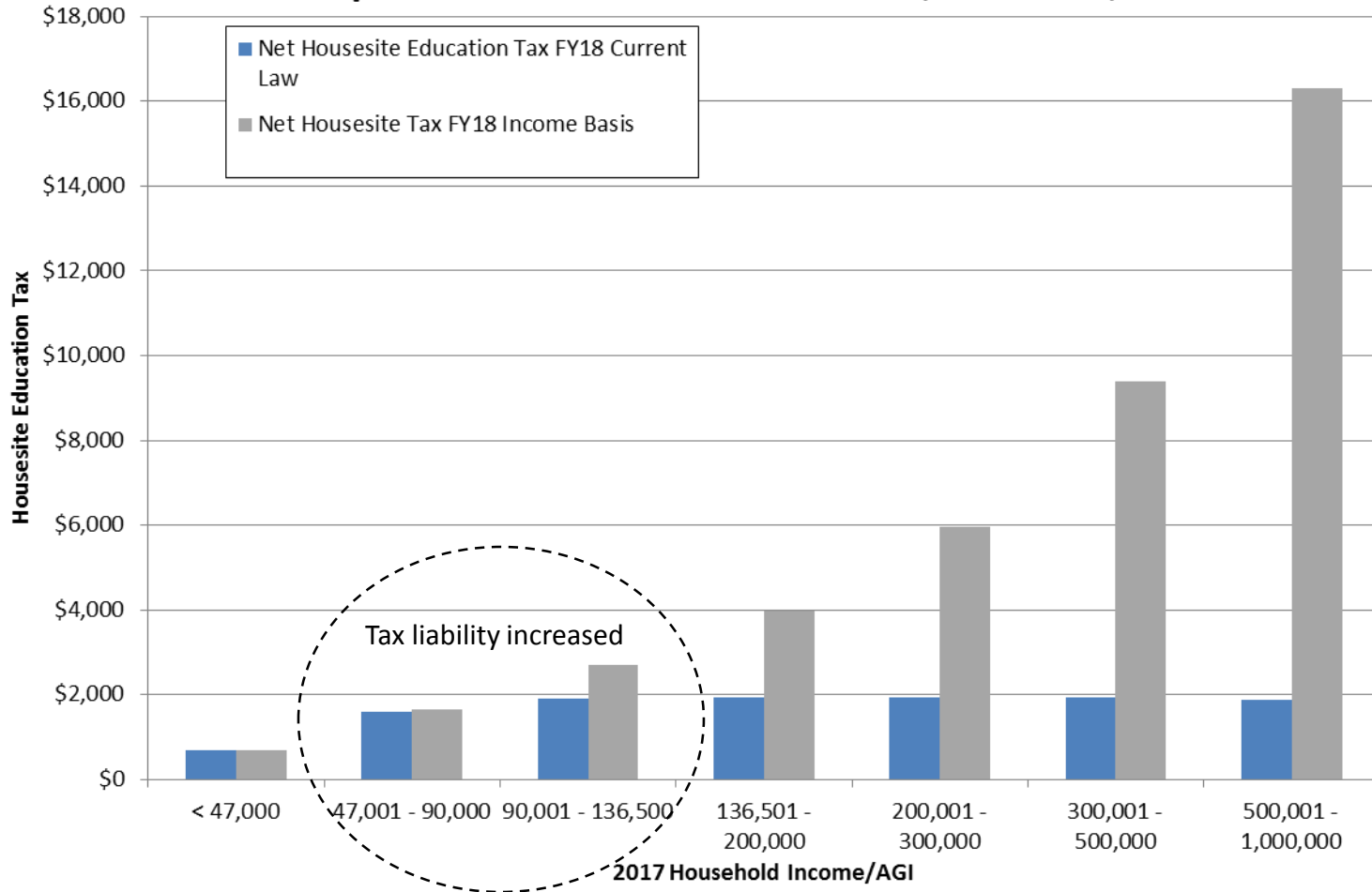


- Filers with a housesite value of \$100,000 will have a reduced tax liability for incomes up to ~\$60,000 after which they will be eligible to pay more based on their income. A filer with a housesite value of \$400,000 will have a reduced tax liability for incomes up to ~\$235,000 after which they will be eligible to pay the income tax.

## Comparison of FY18 Current Law Tax Liability to Tax Liability on an Income Basis

- Lower value housesites are eligible to pay a greater tax liability under the income proposal. A filer in a \$100,000 housesite will be subject to an increased tax liability at housesite income of ~\$60,000.

### Equalized Housesite Values \$100,000-\$150,000



## Comparison of FY18 Current Law Tax Liability to Tax Liability on an Income Basis

- Higher value housesites are eligible to pay a lower tax liability under the income proposal for household incomes up to \$230,000.

