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Annual school tax rate adjustments stabilize revenues

Property taxes are viewed as stable because the revenue stream typically doesn't vary much from year to year. But property taxes generate predictable revenue because tax rates are adjusted each year to produce the required resources. School (and municipal) budgets are approved first, and taxes are set to meet the budget requirements. Revenues may be steady, but the tax rates are volatile.
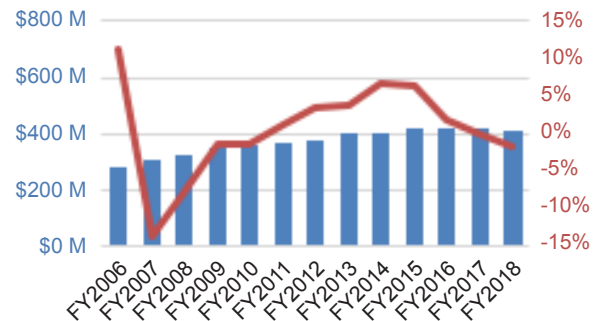
Fixed tax rates leave revenues to economy's whims

When Vermont had a single income tax rate—a percentage of a taxpayer's federal liability—the rate was adjusted frequently, often annually. After Vermont began to set its own tax brackets and tax rates, in the early 2000s, rate changes became rare. Consequently, income tax revenues are driven by the economy and rise and fall with Vermonters' incomes.

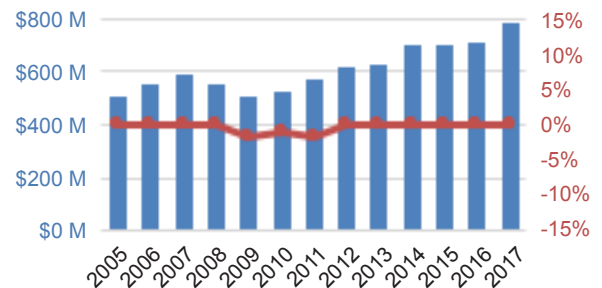## School tax rates—property or income—need annual adjustment

Whether Vermonters pay school taxes based on property value or income, tax rates will have to be set annually. When they approve their local school budgets, voters are also agreeing to the tax rates required to generate the money. Between 2006 and 2018, if all homestead taxes had been collected as a percentage of Vermonters' adjusted gross income, the tax rates would have been less volatile than the actual homestead property rates during the same period.

Homestead taxes were steady, but rates fluctuated Homestead taxes and annual change in average tax rate, 2006-2018
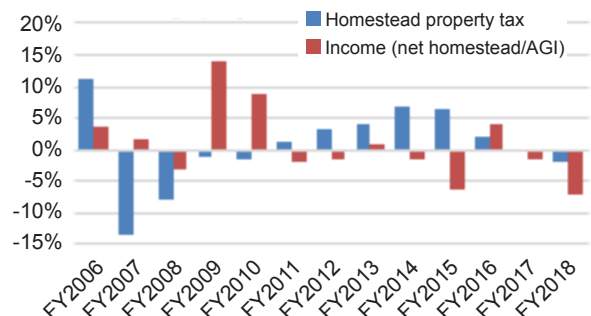

Data sources: Joint Fiscal Office, Vermont Tax Department
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Income tax revenue varied with virtually no rate changes State income taxes and annual average change in tax rates, 2005-2017

Data sources: Joint Fiscal Office, Vermont Tax Department, Tax Foundation
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Income tax would have been less volatile Change in average homestead and income rates raising the same revenue, 2006-2018

Data sources: Joint Fiscal Office, Vermont Tax Department
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