

Department of Taxes Initial Analysis of Homestead Exemption for Vermont Tax Structure Commission

The Vermont Tax Structure Commission asked the Department of Taxes to 1) analyze what level of homestead exemption could be paid for by the current Property Tax Credit system, and 2) what would be the breakdown of winners and losers by income and property value of such a homestead exemption relative to the current system.

The following analysis from the Dept. of Taxes shows the impact on education property taxpayers of a basic homestead exemption. Funneling the entire \$165.8M of education property tax income sensitivity (the regular property tax credit plus the education part of the circuit breaker) would allow for either a \$65,000 homestead exemption for all homesteads or, alternatively, for a \$60,000 exemption for everyone plus \$10,000 per senior (up to two).

While a property tax with a basic homestead exemption, but no circuit breaker, would be more progressive than a pure property tax – and more progressive than many states – it would be less progressive (with respect to income) than current law. If the goal is to make it more progressive, a circuit breaker could be added. There are at least three broad ways to do so:

- 1) Pay for a circuit breaker by reducing the exemption value - Depending on levels and caps, this would lower the tax burden for income-qualifying taxpayers and slightly increase it for everyone else, but high-income taxpayers would still be better off than in current system.
- 2) Pay for a circuit breaker by phasing out the exemption at a certain income level – This would lower the tax burden for income-qualifying taxpayers and increase it for everyone above the phase-out level, with non-qualifying high-income taxpayers having the same tax burden as those in the current system who don't qualify for Property Tax Credits.
- 3) Pay for a circuit breaker with an income tax increase – This would lower the tax burden for income-qualifying taxpayers and increase it for taxpayers with income levels that are subjected to the income tax. It would also serve to shift the overall tax structure away from property taxes and more heavily toward income taxes.

Future analyses could explore any of these options. At a high level, it can be expected that either the second or third approach could be used to essentially neutralize any differences in progressivity with respect to income. The most significant difference would be that people with modest homestead values would tend to fare better with a homestead exemption, while owners of high-value homesteads would tend to fare better in our current system. The extent of such differences would depend on the details of any proposal.

Average Change to FY20 Net Education Property Tax Due With \$65,000 Homestead Exemption

Household Income Bracket	Homestead Property Value Bracket					
	0 to \$100,000	\$100,000 to \$200,000	\$200,000 to \$300,000	\$300,000 to \$400,000	\$400,000 to \$500,000	\$500,000 and over
0 to \$50,000	\$ (283)	\$ 491	\$ 1,645	\$ 2,727	\$ 3,332	\$ 3,319
count	10,663	25,536	10,974	2,724	752	485
\$50,000 to \$100,000	\$ (831)	\$ (429)	\$ 565	\$ 1,493	\$ 2,142	\$ 2,366
count	3,952	26,234	20,940	6,156	1,671	934
\$100,000 to \$150,000	\$ (912)	\$ (943)	\$ (626)	\$ (603)	\$ (620)	\$ (672)
count	428	6,005	10,096	4,749	1,448	883
\$150,000 and over	\$ (905)	\$ (991)	\$ (1,006)	\$ (1,013)	\$ (1,019)	\$ (1,025)
count	29	393	1,003	837	416	403
Not Reported	\$ (724)	\$ (985)	\$ (1,015)	\$ (1,024)	\$ (1,027)	\$ (1,032)
count	1,840	6,557	8,524	6,794	3,841	4,366
"count" rows are the number of households that fall within the particular income and homestead property value bracket combination						
green indicates that the households are likely to be winners based on the average change above and red indicates likely losers						
households with income not reported did not complete the household income form, usually because their income is above the limit						
grouping is based on 2018 household income and 2019 homestead grand list value						
current law liability is based on FY20 gross homestead education property taxes reduced by credit applied in FY20 (based on FY19 taxes and TY18 income)						

Note: When JFO and Tax look at a household's education property tax liability, the analyses usually apply the credit the household receives in the following year against the tax liability of the year being analyzed. This is because of the "lag" in the system. The credit a household gets in one year is actually based on the taxes paid in the prior property tax year (and their income from the prior calendar year). In other words, that credit sets their prior year liability to what it "should" be based on income sensitivity and the law. This analysis deviates from that practice for three reasons:

- Taxpayers respond to their net taxes due in any given year.
- If the state transitioned to an exemption, the relevant question would be: how do taxpayers' new liabilities compare to current law?
- The adjustment file for FY21 (which is what we would normally apply to FY20) is currently incomplete.

Even if FY21 credits were to be used, the result would be nearly identical to the above.

**Average Change to FY20 Net Education Property Tax Due With \$60,000 Base Homestead Exemption Plus \$10,000
Per Senior (Up to Two)**

Household Income Bracket	Homestead Property Value Bracket					
	0 to \$100,000	\$100,000 to \$200,000	\$200,000 to \$300,000	\$300,000 to \$400,000	\$400,000 to \$500,000	\$500,000 and over
0 to \$50,000	\$ (280)	\$ 481	\$ 1,624	\$ 2,703	\$ 3,305	\$ 3,286
count	10,663	25,536	10,974	2,724	752	485
\$50,000 to \$100,000	\$ (818)	\$ (427)	\$ 552	\$ 1,460	\$ 2,096	\$ 2,301
count	3,952	26,234	20,940	6,156	1,671	934
\$100,000 to \$150,000	\$ (888)	\$ (928)	\$ (617)	\$ (609)	\$ (646)	\$ (730)
count	428	6,005	10,096	4,749	1,448	883
\$150,000 and over	\$ (897)	\$ (984)	\$ (999)	\$ (1,014)	\$ (1,023)	\$ (1,054)
count	29	393	1,003	837	416	403
Not Reported	\$ (705)	\$ (956)	\$ (999)	\$ (1,017)	\$ (1,026)	\$ (1,054)
count	1,840	6,557	8,524	6,794	3,841	4,366

"count" rows are the number of households that fall within the particular income and homestead property value bracket combination
green indicates that the households are likely to be winners based on the average change above and red indicates likely losers
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Current Law Aggregate Burdens Versus \$65K Flat Exemption and \$60K Exemption Plus \$10 Per Senior

Household Income Bracket	Homestead Property Value Bracket						Totals
	0 to \$100,000	\$100,000 to \$200,000	\$200,000 to \$300,000	\$300,000 to \$400,000	\$400,000 to \$500,000	\$500,000 and over	
0 to \$50,000	\$ 4,739,556	\$ 20,111,816	\$ 11,727,878	\$ 4,189,742	\$ 1,892,677	\$ 3,207,757	\$ 45,869,427
	\$ 1,724,135	\$ 32,640,751	\$ 29,778,834	\$ 11,617,054	\$ 4,398,212	\$ 4,817,453	\$ 84,976,440
	\$ 1,755,106	\$ 32,403,244	\$ 29,555,099	\$ 11,552,028	\$ 4,378,079	\$ 4,801,503	\$ 84,445,059
count	10,663	25,536	10,974	2,724	752	485	51,134
\$50,000 to \$100,000	\$ 4,098,073	\$ 47,689,297	\$ 45,908,990	\$ 17,053,599	\$ 6,220,524	\$ 6,156,248	\$ 127,126,730
	\$ 815,761	\$ 36,429,500	\$ 57,735,338	\$ 26,244,656	\$ 9,800,531	\$ 8,366,285	\$ 139,392,071
	\$ 864,878	\$ 36,475,385	\$ 57,477,109	\$ 26,042,099	\$ 9,723,116	\$ 8,305,055	\$ 138,887,641
count	3,952	26,234	20,940	6,156	1,671	934	59,887
\$100,000 to \$150,000	\$ 502,298	\$ 14,565,605	\$ 35,129,280	\$ 23,368,143	\$ 9,404,308	\$ 8,660,272	\$ 91,629,906
	\$ 112,115	\$ 8,905,556	\$ 28,812,596	\$ 20,504,707	\$ 8,506,179	\$ 8,067,046	\$ 74,908,198
	\$ 122,026	\$ 8,992,802	\$ 28,899,684	\$ 20,474,631	\$ 8,468,828	\$ 8,016,010	\$ 74,973,982
count	428	6,005	10,096	4,749	1,448	883	23,609
\$150,000 and over	\$ 32,918	\$ 978,999	\$ 3,907,915	\$ 4,525,845	\$ 2,888,376	\$ 4,371,304	\$ 16,705,357
	\$ 6,675	\$ 589,518	\$ 2,898,789	\$ 3,678,134	\$ 2,464,587	\$ 3,958,264	\$ 13,595,966
	\$ 6,913	\$ 592,221	\$ 2,905,672	\$ 3,677,534	\$ 2,462,964	\$ 3,946,550	\$ 13,591,854
count	29	393	1,003	837	416	403	3,081
Not Reported	\$ 1,616,754	\$ 15,473,818	\$ 33,381,080	\$ 37,148,560	\$ 27,021,738	\$ 50,617,388	\$ 165,259,339
	\$ 284,174	\$ 9,014,117	\$ 24,731,252	\$ 30,189,804	\$ 23,075,336	\$ 46,111,698	\$ 133,406,380
	\$ 320,391	\$ 9,202,799	\$ 24,865,864	\$ 30,236,919	\$ 23,079,128	\$ 46,016,509	\$ 133,721,611
count	1,840	6,557	8,524	6,794	3,841	4,366	31,922
Totals	\$ 10,989,599	\$ 98,819,535	\$ 130,055,144	\$ 86,285,890	\$ 47,427,623	\$ 73,012,969	\$ 446,590,760
	\$ 2,942,860	\$ 87,579,441	\$ 143,956,809	\$ 92,234,355	\$ 48,244,845	\$ 71,320,745	\$ 446,279,055
	\$ 3,069,315	\$ 87,666,451	\$ 143,703,427	\$ 91,983,211	\$ 48,112,115	\$ 71,085,627	\$ 445,620,147
	16,912	64,725	51,537	21,260	8,128	7,071	169,633
Current Law							
\$65K Flat Exemption							
\$60K Exemption + \$10K per Senior							

"count" rows are the number of households that fall within the particular income and homestead property value bracket combination
households with income not reported did not complete the household income form, usually because their income is above the limit
grouping is based on 2018 household income and 2019 homestead grand list value
current law liability is based on FY20 gross homestead education property taxes reduced by credit applied in FY20 (based on FY19 taxes and TY18 income)

Follow-up Analysis:

Breakout of Winners and Losers by Income/Homestead Value Bracket and Number of Seniors in Household

The following three tables are subsets of the table on Page 3 which 1) show the number of winners and losers in each cell and 2) breaks out the households by the number of seniors in each household (0,1,2+).

Average Change to FY20 Net Education Property Tax Due With \$60,000 Base Homestead Exemption Plus \$10,000 Per Senior (Up to Two): Households with No Seniors						
Household Income Bracket	Homestead Property Value Bracket					
	0 to \$100,000	\$100,000 to \$200,000	\$200,000 to \$300,000	\$300,000 to \$400,000	\$400,000 to \$500,000	\$500,000 and over
0 to \$50,000	\$ (255)	\$ 521	\$ 1,692	\$ 2,822	\$ 3,388	\$ 3,486
winner count	5,260	2,489	182	48	15	19
loser count	879	11,192	5,183	1,250	330	179
\$50,000 to \$100,000	\$ (780)	\$ (376)	\$ 593	\$ 1,493	\$ 2,156	\$ 2,375
winner count	2,763	13,706	2,190	248	62	23
loser count	*	3,718	10,625	3,007	726	313
\$100,000 to \$150,000	\$ (842)	\$ (864)	\$ (547)	\$ (529)	\$ (557)	\$ (623)
winner count	330	4,380	7,146	3,094	830	382
loser count			28	21	*	*
\$150,000 and over	\$ (776)	\$ (922)	\$ (929)	\$ (933)	\$ (937)	\$ (953)
winner count	19	264	699	557	280	222
loser count						
Not Reported	\$ (691)	\$ (912)	\$ (933)	\$ (942)	\$ (947)	\$ (951)
winner count	1,412	5,085	6,275	4,817	2,635	2,629
loser count	*	*	*			

* indicates fewer than 10 households and data is suppressed for confidentiality

"count" rows are the number of households that fall within the particular income and homestead property value bracket combination

median household for the income bracket will fall in bold box

households with income not reported did not complete the household income form, usually because their income is above the limit

grouping is based on 2018 household income and 2019 homestead grand list value

current law liability is based on FY20 gross homestead education property taxes reduced by credit applied in FY20 (based on FY19 taxes and TY18 income)

**Average Change to FY20 Net Education Property Tax Due With \$60,000 Base Homestead Exemption Plus \$10,000
Per Senior (Up to Two): Households with One Senior**

Household Income Bracket	Homestead Property Value Bracket					
	0 to \$100,000	\$100,000 to \$200,000	\$200,000 to \$300,000	\$300,000 to \$400,000	\$400,000 to \$500,000	\$500,000 and over
0 to \$50,000	\$ (275)	\$ 511	\$ 1,655	\$ 2,716	\$ 3,449	\$ 3,660
winner count	3,404	1,519	99	22	*	*
loser count	387	7,709	4,111	1,017	290	170
\$50,000 to \$100,000	\$ (874)	\$ (453)	\$ 607	\$ 1,572	\$ 2,313	\$ 2,403
winner count	668	3,839	907	206	56	42
loser count		844	3,161	1,175	352	254
\$100,000 to \$150,000	\$ (1,023)	\$ (1,025)	\$ (704)	\$ (677)	\$ (681)	\$ (741)
winner count	58	784	1,350	699	266	224
loser count			*	*		
\$150,000 and over	\$ (1,092)	\$ (1,051)	\$ (1,089)	\$ (1,109)	\$ (1,110)	\$ (1,090)
winner count	*	72	146	136	54	82
loser count						
Not Reported	\$ (759)	\$ (1,058)	\$ (1,102)	\$ (1,118)	\$ (1,116)	\$ (1,109)
winner count	266	810	1,057	838	495	674
loser count		*	*			

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"count" rows are the number of households that fall within the particular income and homestead property value bracket combination

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households with income not reported did not complete the household income form, usually because their income is above the limit

grouping is based on 2018 household income and 2019 homestead grand list value

current law liability is based on FY20 gross homestead education property taxes reduced by credit applied in FY20 (based on FY19 taxes and TY18 income)

**Average Change to FY20 Net Education Property Tax Due With \$60,000 Base Homestead Exemption Plus \$10,000
Per Senior (Up to Two): Households with Two Seniors**

Household Income Bracket	Homestead Property Value Bracket					
	0 to \$100,000	\$100,000 to \$200,000	\$200,000 to \$300,000	\$300,000 to \$400,000	\$400,000 to \$500,000	\$500,000 and over
0 to \$50,000	\$ (519)	\$ 180	\$ 1,326	\$ 2,383	\$ 2,832	\$ 3,342
winner count	709	974	28	10	*	*
loser count	*	1,584	1,311	358	96	72
\$50,000 to \$100,000	\$ (957)	\$ (618)	\$ 378	\$ 1,320	\$ 1,906	\$ 2,363
winner count	501	3,666	1,292	331	106	50
loser count	*	410	2,717	1,158	347	223
\$100,000 to \$150,000	\$ (1,086)	\$ (1,177)	\$ (864)	\$ (828)	\$ (832)	\$ (872)
winner count	38	825	1,555	924	345	266
loser count						
\$150,000 and over	\$ (1,162)	\$ (1,196)	\$ (1,232)	\$ (1,238)	\$ (1,260)	\$ (1,254)
winner count	*	55	154	143	81	98
loser count						
Not Reported	\$ (750)	\$ (1,195)	\$ (1,264)	\$ (1,267)	\$ (1,266)	\$ (1,276)
winner count	151	609	1,149	1,114	697	1,041
loser count		*				

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 median household for the income bracket will fall in bold box
 households with income not reported did not complete the household income form, usually because their income is above the limit
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Notes relevant to last three tables:

- 1) There seems to be two main reasons for variance within cells. The first reason is generally because of the broad range of incomes and property values within each bucket (and the fact that the first row crosses the current law \$47K cliff and the second row crosses the current law \$90K cliff) and also the fairly broad range of tax rates across Vermont towns. The second reason is that there are currently households whose property tax credit claim is denied for one reason or another. This latter reason explains the cells where there are winners where it would seem to be impossible.
- 2) The total number of households shown in the last three tables do not sum to the total on page 3 as ~630 households were excluded because they have multiple households on the same SPAN (one reason would be co-housing) and would require a more complex analysis.