Clarifying the Income-based Portion of Vermont’s Education Property Tax

AN ANALYSIS OF FY18 TAX DATA

NOVEMBER 23, 2020

SEÁN SHEEHAN, TAX STRUCTURE COMMISSION
CHLOE WEXLER, LEGISLATIVE JOINT FISCAL OFFICE
Understanding How Vermonters Pay Education Property Tax

Commissioner Kleppner asked:

1. What proportion of education tax revenue is paid on income?

2. What proportion of households paying that tax pay entirely or partially based on income?

Related Questions:

3. What proportion of filers are income-eligible for income sensitivity/property tax credits?

4. What proportion of filers are immune from local spending decisions? (or “how many people have ‘no skin in the game’”?)

5. What is the housesite exclusion value (HEV)?

6. What proportion of homestead filers receive property tax credits?
Q1: What proportion of education tax revenue is paid on income?

The answer is impacted by one’s definition of “education tax revenue”
At a high level, $162M was paid based on income in FY18. This represented one-tenth of Education Fund sources.

Pie graph calculated from Consensus Education Fund Outlook’s FY18 actuals and subtracting FY18 property tax credits paid in FY19 from FY18 gross homestead tax revenue. While the source of non-property revenue changed in FY19, the large pie would look similar: 41%, 26%, and 33%. Net homestead basis bar from JFO analysis explained in later sections of this deck.
Looking at just education property taxes, the amount paid based on income is 15% of the total.

Non-homestead property tax: 61%

Net homestead property tax: 39%

Homestead on income basis: 15%

Homestead on property basis: 24%
... Or as 39% of Net Homestead Education Property Tax

- Homestead on income basis: 39%
- Homestead on property basis: 61%
Q2: What proportion of households pay entirely or partially based on income?

Homestead income payers as a proportion of both homestead filers and all Vermont households
Definitions

Homestead Property: a filer’s primary residence (homestead parcel), inhabited for more than half the year

Homestead Parcel: the housesite as well as all contiguous property

Housesite: the home and up to two acres

Eligible Housesite: For a housesite with a value up to $400K (if income is <$90K) or $225K (if income>$90K), owners pay the lesser of the income-based tax or the property-based tax. For excess housesite value and for additional homestead acres, owners pay the property tax rate.
In FY18, roughly 1/3 of Vermont’s nearly 170,000 homestead filers paid purely based on property, 1/3 paid purely on income, and 1/3 paid on both bases (they paid for their eligible housesite based on income and then paid on a property basis for excess value and/or acreage).
## The Numbers behind the Homestead Pie Chart

<table>
<thead>
<tr>
<th>FY18 Homestead Filers</th>
<th>Pay only housesite tax</th>
<th>Also pay on excess housesite value and/or acres</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay housesite tax based on income</td>
<td>57,128 (34%)</td>
<td>54,512 (32%)</td>
<td>111,640 (66%)</td>
</tr>
<tr>
<td>Pay housesite tax based on property</td>
<td>23,739 (14%)</td>
<td>34,509 (20%)</td>
<td>58,248 (34%)</td>
</tr>
<tr>
<td>Total</td>
<td>80,867 (48%)</td>
<td>89,021 (52%)</td>
<td>169,888</td>
</tr>
</tbody>
</table>

- 34% paid purely on income
- 32% paid for an eligible housesite based on income and for excess housesite value and/or homestead acreage based on property
- 34% paid purely on property

11/23/2020

VERMONT TAX STRUCTURE COMMISSION
Or, considering nearly three in ten Vermont households rent (and the landlords pay the property-based non-homestead tax), the proportion of resident households that pay partially and entirely based on income is each just under one in four.

Note: ~29.2% of Vermont households rent, per U.S. Census 2018 Five-year American Community Survey
The related questions

WHAT PROPORTION OF FILERS ARE INCOME-ELIGIBLE FOR INCOME SENSITIVITY?

HOW MANY PEOPLE HAVE ‘SKIN IN THE GAME’?

WHAT IS THE HOUSESITE EXCLUSION VALUE?

WHAT PROPORTION OF HOMESTEAD FILERS RECEIVE PROPERTY TAX CREDITS?
Q3. What proportion of filers are income-eligible for income sensitivity?

A. 78% of homestead filers are income-eligible to pay based on income... though because taxpayers are liable for the lesser of their property-based and income-based liabilities, some will ultimately pay on a property basis.
Q4. What proportion of filers are immune from local spending decisions?
(i.e. How many people have ‘no skin in the game’?)

First, it’s important to note that nobody is immune from spending decisions in the short-term. Due to the lag – receiving property tax credits the year after the tax is paid – a rate increase will result in a tax increase for everyone in Year 1.

Second, paying housesite tax on an income-basis means three different things, depending on income cohort.

- **≤$47K**
  - Education tax on first $400K of equalized housesite value capped* by “super circuit breaker” at 2% of income (or 1.5% if <$25K, or 0.5% if < $10K), regardless of local education spending

- **>$47-90K**
  - First $400K of equalized housesite value subject to income-based cap*, a % of income determined by 1) statewide income yield and 2) local education spending

- **>$90K-$136,500**
  - First $225K of equalized housesite value subject to income-based cap*, a % of income determined by 1) statewide income yield and 2) local education spending

- **>$136,500 (and income not reported and/or errored applications)**
  - Not eligible to pay based on income

Members of the first group are immune (i.e. made whole in the long-term) from local spending only IF they:
- a) actually pay based on income and
- b) have no more than $400,000 in housesite value and no more than two acres.

*In practice, “paying by income” means receiving a property tax credit for the difference between the property-based tax and the income-based tax. Current law limits the credit to a maximum of $5,600 (on the education side). If a household receives the maximum property tax credit, their tax liability could exceed the income-based cap.
Q4. What proportion of filers are immune from local spending decisions?

<table>
<thead>
<tr>
<th>Income</th>
<th>Property</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligible Housesite</td>
<td>Eligible Housesite</td>
</tr>
<tr>
<td>≤$47K</td>
<td>43,683</td>
</tr>
<tr>
<td>&gt;$47K-$90K</td>
<td>47,563</td>
</tr>
<tr>
<td>&gt;$90K-$136,500</td>
<td>20,394</td>
</tr>
<tr>
<td>&gt;$136,500 (and income not reported and/or errored applications)</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>111,640</strong></td>
</tr>
</tbody>
</table>

26% (43,683 / 169,888) of homestead filers are immune from local education spending decisions when it comes to taxes they pay on their eligible housesite.

However, some of these taxpayers have skin in the game in terms of paying the property-based rate on excess value and/or acres.

Part A: Breaking out who actually pays eligible housesite tax based on income.
Q4. What proportion of filers are immune from local spending decisions?

### Part B: Breaking out who has excess value and/or acres.

#### A. 15% (26,248* / 169,888) of homestead filers are completely immune from local education spending decisions.

- **Total Filers:** 111,640
- **Filers paying on eligible housesite:** 169,888
- **Filers paying on excess value and/or additional acres:** 43,683
  - **43,683 (40%)** of the 43,683 also pay tax on excess housesite value and/or additional acres.
  - The other 26,248 only pay on the eligible housesite.

*In addition, filers who receive the maximum allowable property tax credit, even though they have no excess value or acres, would be exposed to local spending decisions. However, fewer than 20 filers are in this position.*
Q5. What is the Housesite Exclusion Value?

A. Based on the ratio of housesite value to income, it would be more expensive for more than 5,000 super circuit breaker households to pay based on income. Instead, they pay based on property and receive a $15,000 property value exemption, known as the housesite exclusion value (HEV). The HEV is presented as a property tax credit.
Q6. What proportion of homestead filers receive property tax credits?

A. 69% (116,972/169,888) of homestead filers received property tax credits in FY19 for FY18.*

*The number of Vermonters who receive property tax credits can swing by a few percent from year-to-year, as does the $136,500 income cap (the point at which it’s more affordable for all filers to pay based on property). Typically, just over two-thirds of homestead filers receive credits.
The ~16,000 income-eligible households that do not receive property tax credits (i.e. they pay entirely based on property) tend to own homesteads valued below the statewide mean of ~$230,000. Within the $47,000-$90,000 cohort, filers in lower value homesteads are four times more likely to pay based on property than filers in higher value homesteads. For these filers it would be more expensive to pay the education tax based on income.

Source: June 2019 Presentation on Education Finance by Chloe Wexler
### Income

<table>
<thead>
<tr>
<th>Income Level</th>
<th>Eligible Housesite</th>
<th>Housesite Value Over $400,000</th>
<th>Additional Acres in Homestead</th>
<th>Total Homestead Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>≤ $47K</td>
<td>43,683</td>
<td>689 (2%)</td>
<td>17,171 (39%)</td>
<td>111,640 (66%)</td>
</tr>
<tr>
<td>&gt;$47K-$90K</td>
<td>47,563</td>
<td>1,770 (4%)</td>
<td>19,028 (40%)</td>
<td>54,512 (49%)</td>
</tr>
<tr>
<td>&gt;$90K-$136,500</td>
<td>20,394</td>
<td>14,910 (73%)</td>
<td>8,968 (44%)</td>
<td>36,784</td>
</tr>
<tr>
<td>&gt;$136,500 (and income not reported and/or errored applications)</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

### Property

<table>
<thead>
<tr>
<th>Property Level</th>
<th>Eligible Housesite – w/HEV</th>
<th>Housesite Value Over $400,000</th>
<th>Additional Acres in Homestead</th>
<th>Total Homestead Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>≤ $47K</td>
<td>5,332</td>
<td>0 (0%)</td>
<td>1,026 (19%)</td>
<td>58,248</td>
</tr>
<tr>
<td>&gt;$47K-$90K</td>
<td>7,395</td>
<td>&lt;10 (0%)</td>
<td>2,035 (28%)</td>
<td>34,509 (59%)</td>
</tr>
<tr>
<td>&gt;$90K-$136,500</td>
<td>8,737</td>
<td>1,033 (12%)</td>
<td>3,196 (37%)</td>
<td>16,000</td>
</tr>
<tr>
<td>&gt;$136,500 (and income not reported and/or errored applications)</td>
<td>36,784</td>
<td>23,095 (63%)</td>
<td>16,000 (43%)</td>
<td></td>
</tr>
</tbody>
</table>

- **Breaking out who pays on an income basis, property basis, and both – for all income groups.**
- **The numbers that pay on excess value and those that pay on additional acres are not mutually exclusive.**
- **Across income-cohorts, roughly two out of five income-payers pay property tax on additional acres.**
- **Within each income cohort, income-payers are more likely to own additional acres than property-payers.**
Back to the first question

A DETAILED LOOK AT WHAT PROPORTION OF EDUCATION TAX REVENUE IS PAID ON INCOME
Recall the $162M paid based on income in FY18 represented 39% of Net Homestead Education Property Tax.
The $259M (61% of homestead revenue) paid on a property basis includes $42M (10%) paid by filers who paid their housesite tax based on income.
<table>
<thead>
<tr>
<th>Income</th>
<th>Total homestead tax</th>
<th>Eligible Housesite</th>
<th>Housesite Value Over $400,000</th>
<th>Additional Acres in Homestead</th>
</tr>
</thead>
<tbody>
<tr>
<td>≤$47K</td>
<td></td>
<td>43,683</td>
<td>689 (2%)</td>
<td>17,171 (39%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$26.0M</td>
<td>$7.1M</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$83.4</td>
<td></td>
</tr>
<tr>
<td>&gt;$47-90K</td>
<td></td>
<td>47,563</td>
<td>1,770 (4%)</td>
<td>19,028 (40%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$80.5M</td>
<td>$7.6M</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$70.8M</td>
<td></td>
</tr>
<tr>
<td>&gt;$90K-$136,500</td>
<td></td>
<td>20,394</td>
<td>14,910 (73%)</td>
<td>8,968 (44%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$55.7M</td>
<td>$3.8M</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$10.9M</td>
<td></td>
</tr>
<tr>
<td>&gt;$136,500 (and income not reported and/or errored applications)</td>
<td></td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>111,640</td>
<td>54,512 (49%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$162.3M</td>
<td>$42.4M</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$165.1M</td>
<td>$1.1M</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Property</th>
<th>Total homestead tax</th>
<th>Eligible Housesite</th>
<th>Housesite Value Over $400,000</th>
<th>Additional Acres in Homestead</th>
</tr>
</thead>
<tbody>
<tr>
<td>58,248 (34%)</td>
<td></td>
<td>5,332</td>
<td>0 (0%)</td>
<td>1,026 (19%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$2.2M</td>
<td>$0.6M</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$1.1M</td>
<td></td>
</tr>
<tr>
<td>58,248 (34%)</td>
<td></td>
<td>7,395</td>
<td>&lt;10 (0%)</td>
<td>3,196 (37%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$9.7M</td>
<td>$1.2M</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$0.6M</td>
<td></td>
</tr>
<tr>
<td>58,248 (34%)</td>
<td></td>
<td>8,737</td>
<td>1,033 (12%)</td>
<td>16,000 (43%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$20.0M</td>
<td>$1.5M</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$1.2M</td>
<td></td>
</tr>
<tr>
<td>58,248 (34%)</td>
<td></td>
<td>36,784</td>
<td>23,050 (63%)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$20.0M</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$10.9M</td>
<td></td>
</tr>
</tbody>
</table>

Within income cohorts, filers who pay based on income are more likely to pay additional tax on excess value. Those who pay based on property are more likely to have a low property value and thus not exceed housesite value eligibility caps.

Nearly half (49%) of income-payers also have excess housesite value and/or acres on which they pay a collective $42.4M on a property basis.

$259.0M (61%) of $421.3M net homestead tax was paid on property basis, leaving 39% paid on income.
Even more numbers

THE ANALYSIS
Homestead Education Tax Paid by Household Income Cohorts

- **Value of Property Tax Credit Received**
- **Housesite Tax Paid on Income**
- **Property Tax on Additional Value/Acres Paid by Filers Paying on Income**
- **Property Tax On Additional Value/Acres Paid by Filers Paying on Property Value**
- **Housesite Tax Paid On Property**

Household Income:
- < $47,000
- $47,000 - $90,000
- $90,000 - $136,500
- > $136,500/not reported/errored applications

Values:
- $0
- $20,000,000
- $40,000,000
- $60,000,000
- $80,000,000
- $100,000,000
- $120,000,000
- $140,000,000
- $160,000,000
- $180,000,000
- $200,000,000

Date: 11/23/2020

VERMONT TAX STRUCTURE COMMISSION
Homestead filers with incomes > $136,500 account for just over one in five (22%) homesteads and two in five (43%) net homestead tax dollars.
Summary

SIX QUESTIONS, SIX ANSWERS, ONE PAGE
Summary of FY18 Analysis

Q1. What proportion of education tax revenue is paid on income?
   > In FY18, $162M was paid based on income. This represented:
     • 39% of Net Homestead Education Property Tax;
     • 15% of Education Property Tax revenue;
     • 10% of Education Fund sources.

Q2. What proportion of households pay entirely or partially based on income?
   > In FY18, 57,128 homestead filers paid entirely on income (their entire homestead consisted of an eligible housesite), and an additional 54,512 paid on both income and property (eligible housesite plus excess value and/or additional acres). These figures account for:
     • Each roughly one-third of ~170,000 homestead filers;
     • Each under one-quarter of resident households - considering nearly three in ten Vermont households rent (and landlords pay the statewide property-based non-homestead education tax).

Q3. What proportion of filers are income-eligible for income sensitivity?
   > 78% had household incomes <$136,500.

Q4. What proportion of filers are immune from local spending decisions?
   > In the short-term, no filers are immune from local spending decisions. Due to the lag – receiving property tax credits the year after the tax is paid – a rate increase results in a tax increase for everyone in Year 1. In the long-term, over a quarter of homestead filers are immune from tax increases on their eligible housesite value. Nearly half of those filers own excess value or acreage, which presents some degree of exposure to locally voted school budgets. The remaining 15% are ultimately fully made whole, regardless of local spending, although the bill in the first year after a rate increase can still be a shock.

Q5. What is the Housesite Exclusion Value?
   > A $15,000 homestead exemption for super circuit breaker-eligible households who pay based on property.

Q6. What proportion of homestead filers received property tax credits?
   > Typically, just over two-thirds of homestead filers receive credits. 69% of homestead filers received property tax credits in FY19 for FY18.
Additional Information and Data

RESOURCES FOR UNDERSTANDING EDUCATION FINANCE IN VERMONT AND THE HOMESTEAD EDUCATION TAX
From Department of Taxes:

The Education Fund and Education Finance (October 2020)

The Herculean Task of Understanding Vermont's Education Property Taxes (February 2020)

Comparing Vermont Property Taxes to Peer States (Not dated)

From Legislative Joint Fiscal Office:

Introduction to Vermont’s Education Finance System (January 2019)

Presentation on Education Finance (June 2019)

Consensus Education Fund Outlook for FY2020 (December 2018)

Preliminary Education Fund Outlook for FY2021 (September 2020)

Other Tax Structure Commission Resources:

Property Tax Breaker Considerations (August 2020)