

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

AN ANALYSIS OF FY18 TAX DATA

NOVEMBER 23, 2020

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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:

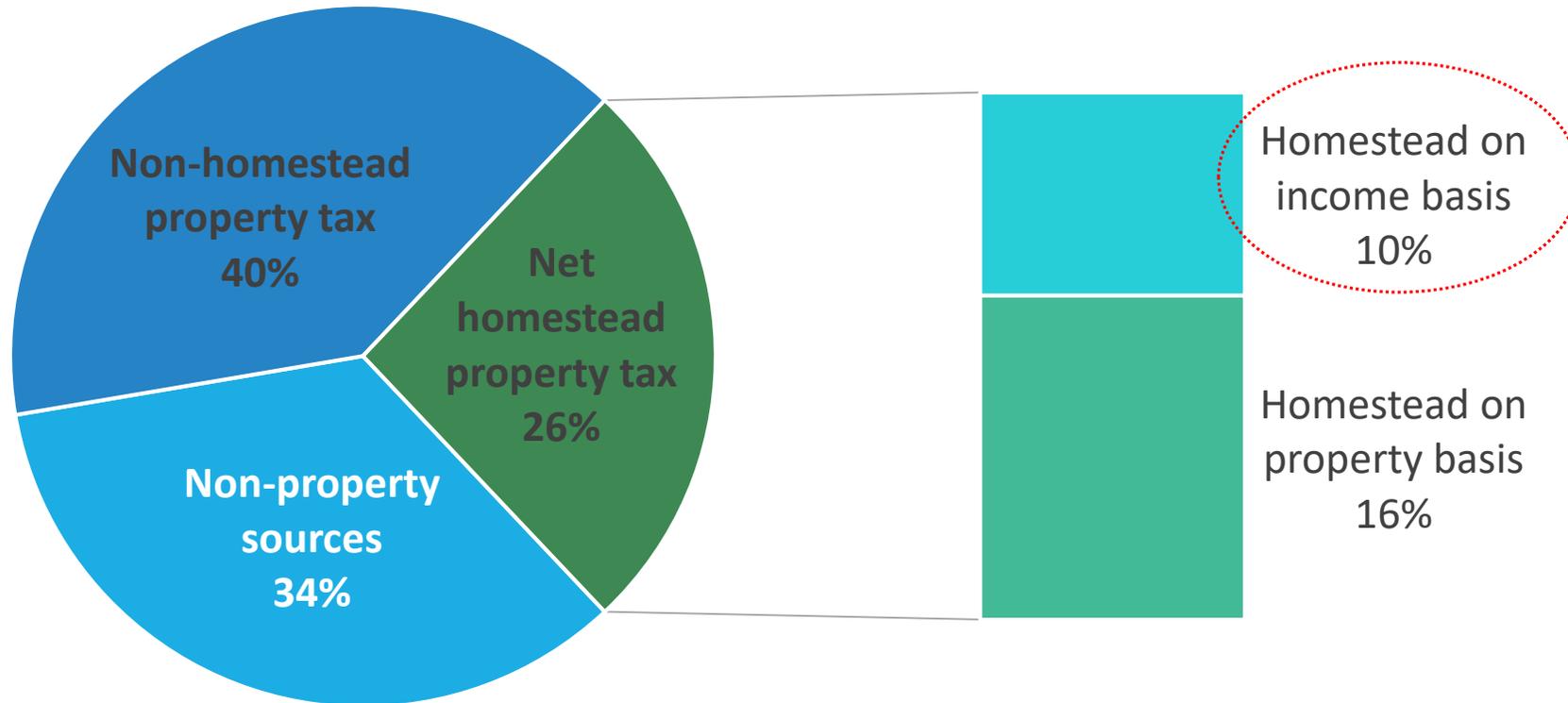
3. What proportion of filers are income-eligible for income sensitivity/property tax credits?
4. What proportion of filers are immune from local spending decisions? (or “how many people have ‘no skin in the game’?”)
5. What is the housesite exclusion value (HEV)?
6. What proportion of homestead filers receive property tax credits?

Q1: What proportion of education tax revenue is paid on income?

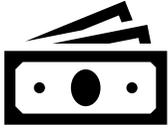
THE ANSWER IS IMPACTED BY ONE'S DEFINITION OF "EDUCATION TAX REVENUE"



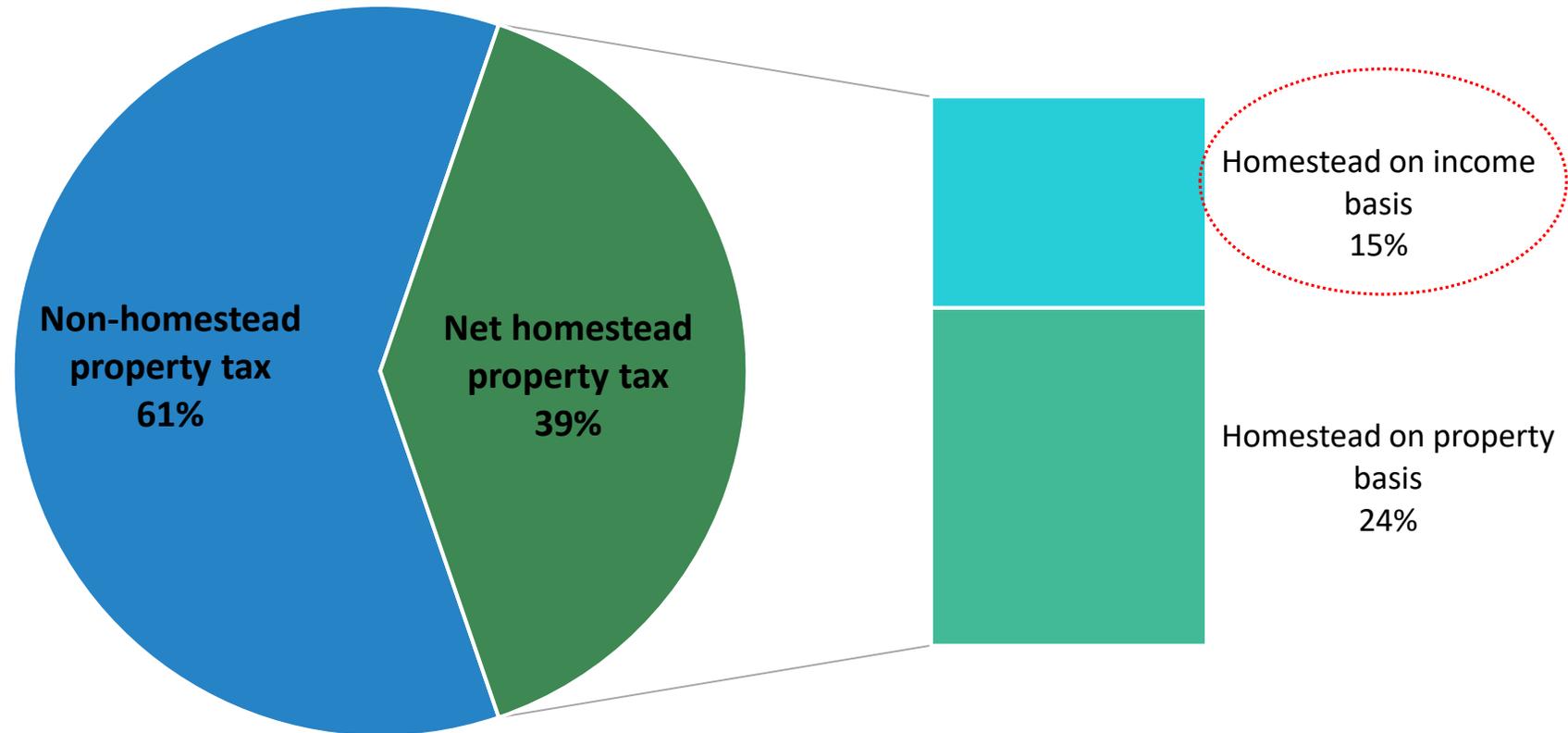
At a high level, \$162M was paid based on income in FY18. This represented one-tenth of Education Fund sources.



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.

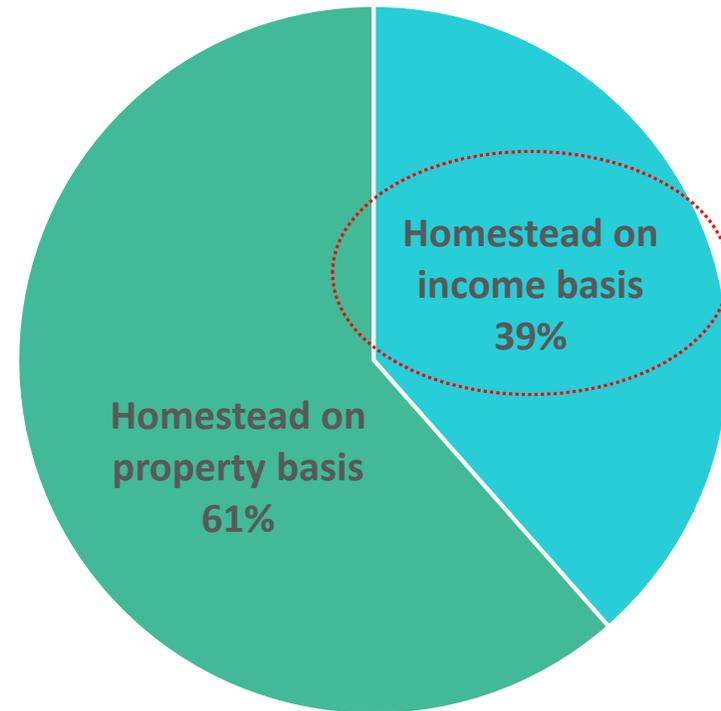


Looking at just education property taxes, the amount paid based on income is 15% of the total.





... Or as 39% of Net Homestead Education Property Tax



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

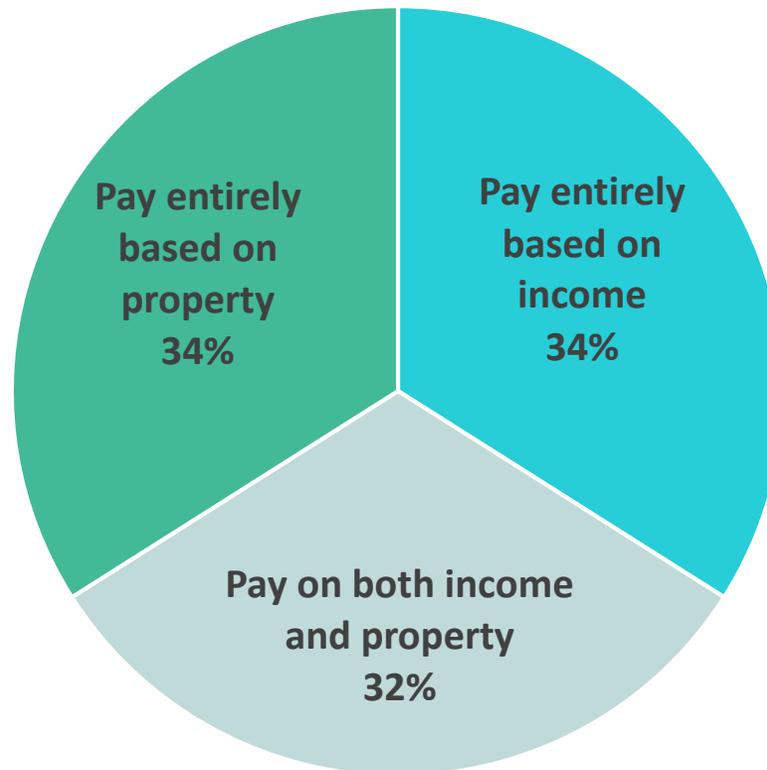
Homestead Parcel: the *housesite* as well as all contiguous property

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.

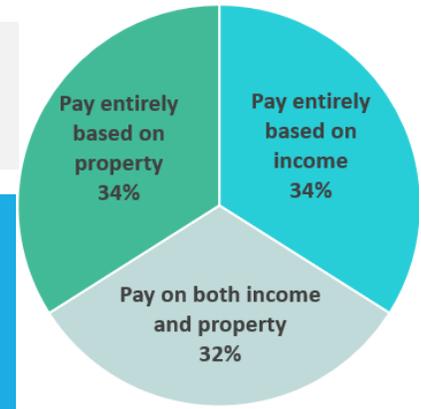


In FY18, roughly 1/3 of Vermont's nearly 170,000 homestead filers paid purely based on property, 1/3 paid purely on income, and 1/3 paid on both bases (they paid for their eligible housesite based on income and then paid on a property basis for excess value and/or acreage)





The Numbers behind the Homestead Pie Chart

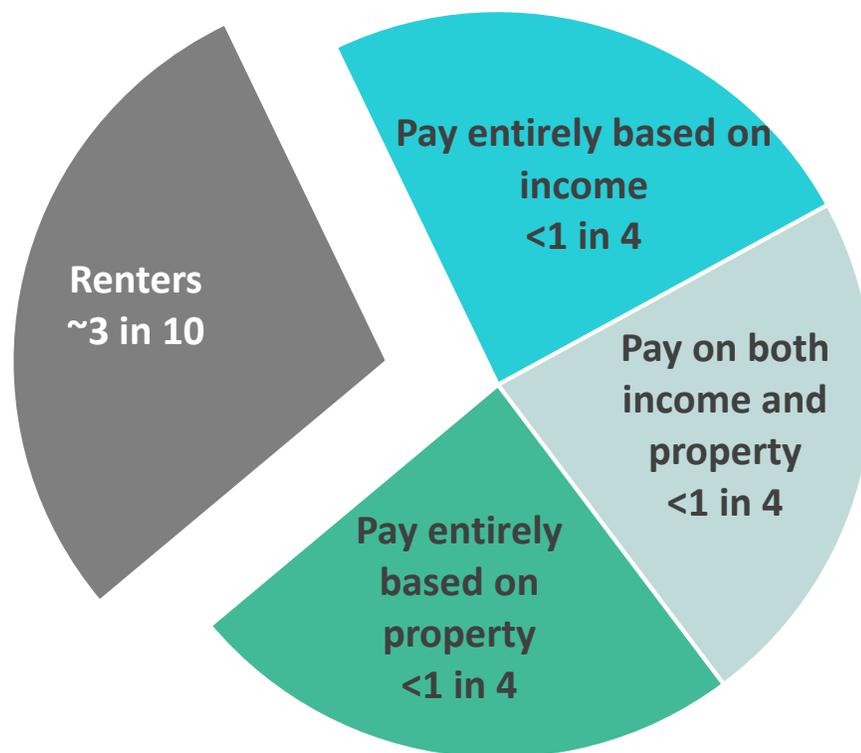


FY18 Homestead Filers	Pay only housesite tax	Also pay on excess housesite value and/or acres	Total
Pay housesite tax based on income	57,128 (34%)	54,512 (32%)	111,640 (66%)
Pay housesite tax based on property	23,739 (14%)	34,509 (20%)	58,248 (34%)
Total	80,867 (48%)	89,021 (52%)	169,888

- 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



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?

Household Income



<\$136,500

>\$136,500 (and income not reported and/or errored applications)

Total Homestead Filers by Income



133,104



36,784

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.

133,104 (78%) of 169,888 homestead filers had income ≤\$136,500

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.

Household Income



≤\$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?

who pay tax on eligible housesite based on

Income

≤\$47K

>\$47-90K

>\$90K-\$136,500

>\$136,500 (and income not reported and/or errored applications)



Income

Eligible Housesite

43,683

47,563

20,394

N/A

Property

Eligible Housesite

5,332

7,395

8,737

36,784

Part A: Breaking out who actually pays eligible housesite tax based on income.

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.

Total

111,640



58,248



169,888

Q4. What proportion of filers are immune from local spending decisions?

who pay tax on eligible housesite based on

Income

≤\$47K

>\$47-90K

>\$90K-\$136,500

>\$136,500 (and income not reported and/or errored applications)



Income

Eligible Housesite	Housesite Value Over \$400,000	Additional Acres in Homestead
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43,683	689 (2%)	17,171 (39%)
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17,435 (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.

Property

Eligible Housesite

5,332

7,395

8,737

36,784

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

The number of filers who pay on excess value and those who pay on additional acres are not mutually exclusive.

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

*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.

Total



111,640



58,248



169,888

Q5. What is the Housesite Exclusion Value?

who pay tax on eligible housesite based on

Income

Income

Property

≤\$47K



Eligible Housesite

43,683

Eligible Housesite – w/HEV

5,332

Eligible Housesite – no credit

>\$47-90K



47,563

7,395

>\$90K-\$136,500



20,394

8,737

>\$136,500 (and income not reported and/or errored applications)



N/A

36,784

Total



111,640



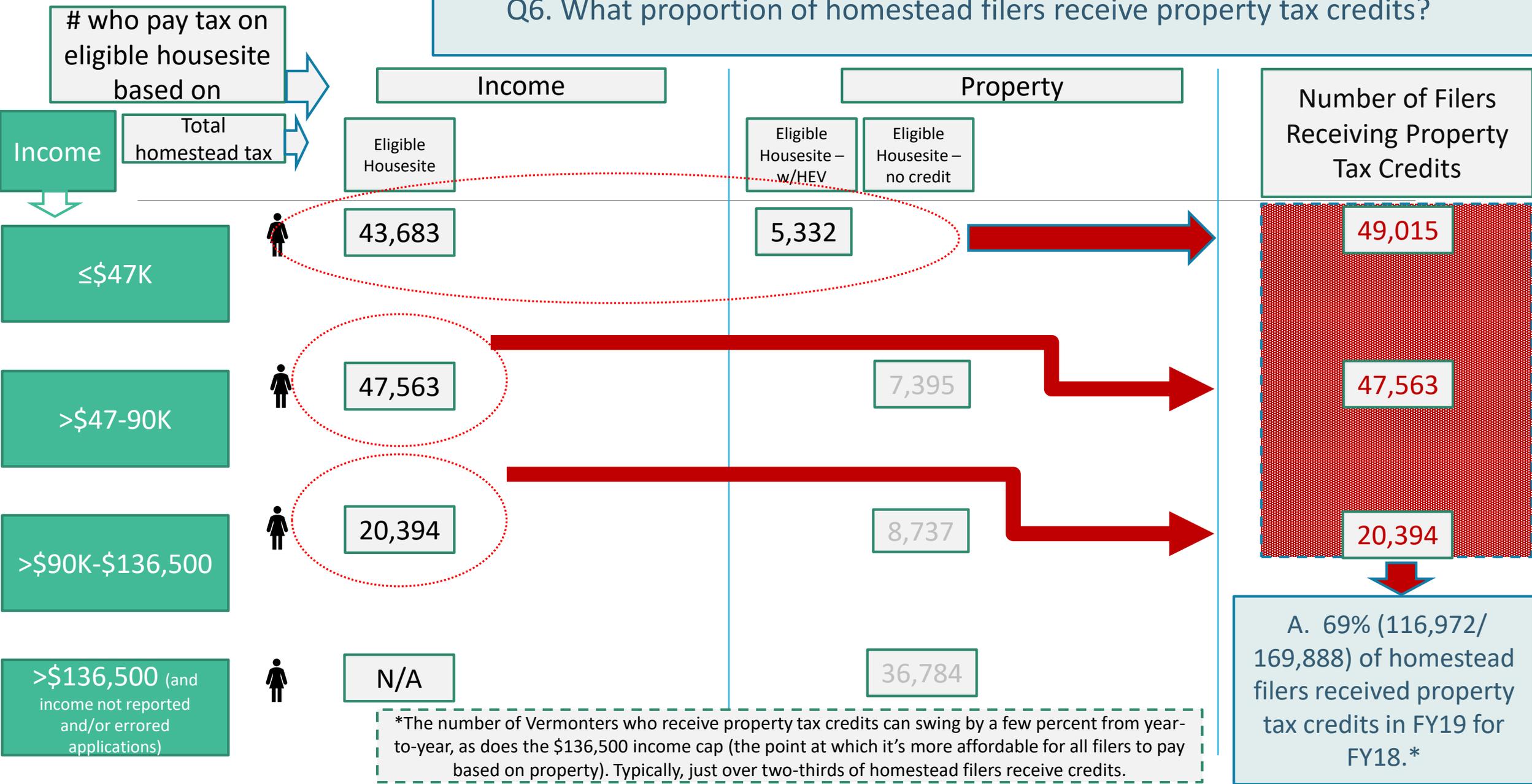
58,248



169,888

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?



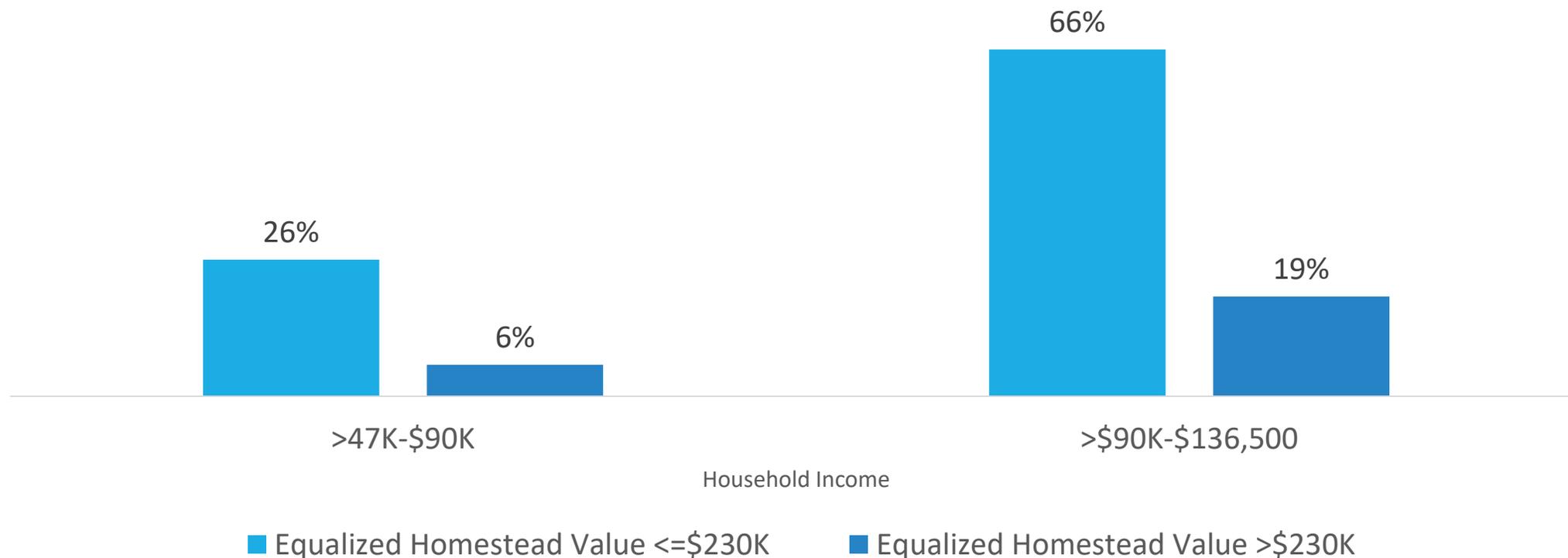
*The number of Vermonters who receive property tax credits can swing by a few percent from year-to-year, as does the \$136,500 income cap (the point at which it's more affordable for all filers to pay based on property). Typically, just over two-thirds of homestead filers receive credits.

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

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.



Proportion of Homestead Filers Paying Entirely on Property by Income Group and Homestead Value



who pay tax on eligible housesite based on

Income
111,640 (66%)

Property
58,248 (34%)

 # of homestead filers

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.

Income

Total homestead tax

Eligible Housesite
Housesite Value Over \$400,000
Additional Acres in Homestead

Eligible Housesite – w/HEV
Eligible Housesite – no credit
Housesite Value Over \$400,000
Additional Acres in Homestead

≤ \$47K



43,683
689 (2%)
17,171 (39%)

17,435 (40%) of the 43,683 also pay on a property basis for additional acres and/or housesite value

5,332
0 (0%)
1,026 (19%)

1,026 (19%) of the 5,332 also pay tax on additional acres

>\$47-90K



47,563
1,770 (4%)
19,028 (40%)

19,820 (42%) also pay on additional acres and/or housesite value

7,395
<10 (0%)
2,035 (28%)

2,036 (28%) also pay on additional acres and/or housesite value

>\$90K-\$136,500



\$225,000
20,394
14,910 (73%)
8,968 (44%)

17,257 (85%) also pay on additional acres and/or housesite value

\$225,000
8,737
1,033 (12%)
3,196 (37%)

3,753 (43%) also pay on additional acres and/or housesite value

>\$136,500 (and income not reported and/or errored applications)



N/A

36,784
23,095 (63%)
16,000 (43%)

27,694 (75%) also pay on additional acres and/or housesite value

Total

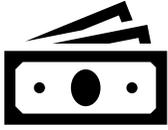


111,640
54,512 (49%)

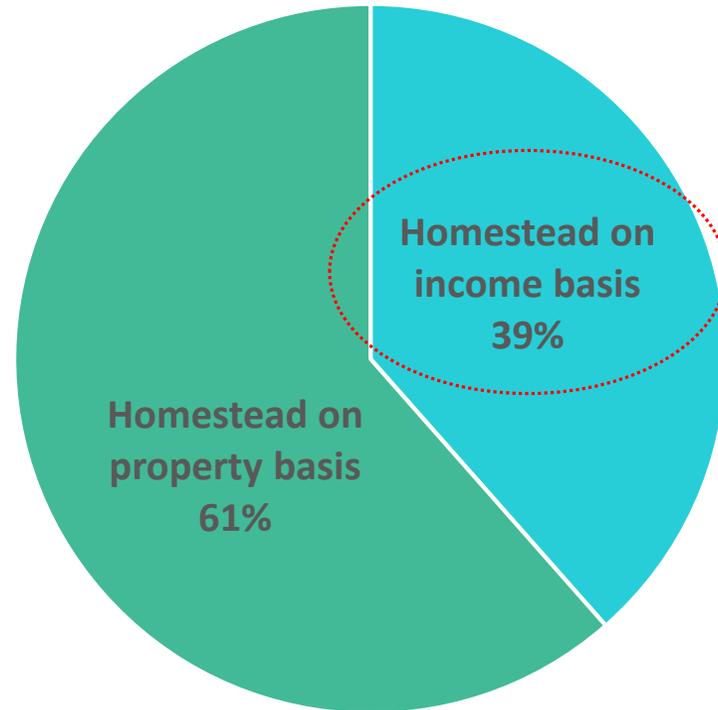
58,248
34,509 (59%)

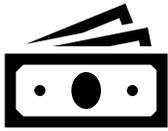
Back to the first question

A DETAILED LOOK AT WHAT PROPORTION OF EDUCATION TAX REVENUE IS PAID ON INCOME

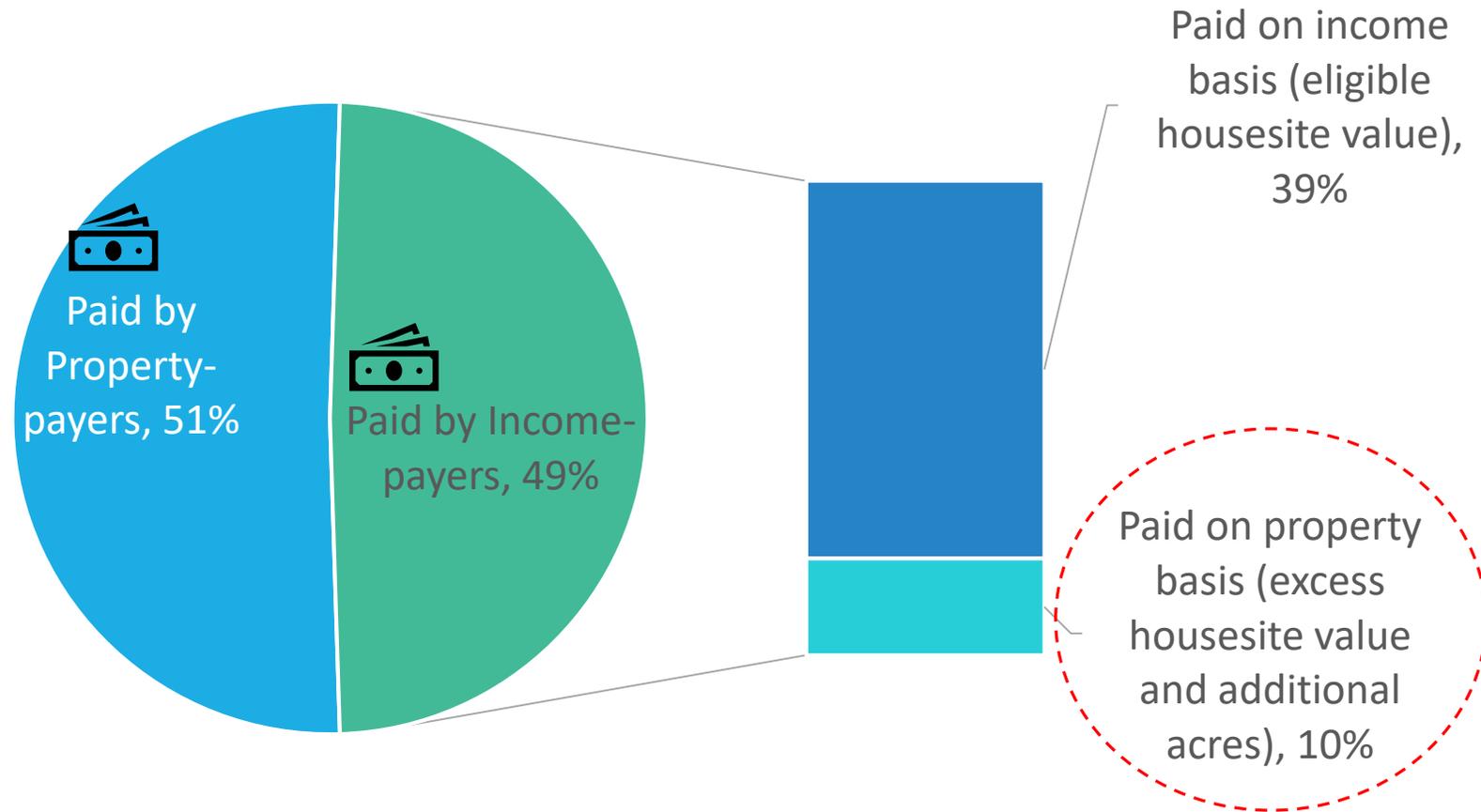


Recall the \$162M paid based on income in FY18 represented 39% of Net Homestead Education Property Tax





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



who pay tax on eligible housesite based on

Income
111,640 (66%) pay \$204.6M in net homestead tax

Property
58,248 (34%) pay \$216.6M in net homestead tax

 # of homestead filers
 Net tax paid by filers
 Property Tax Credit

Income
Total homestead tax

≤\$47K

>\$47-90K

>\$90K-\$136,500

>\$136,500 (and income not reported and/or errored applications)

Total













Eligible Housesite	Housesite Value Over \$400,000	Additional Acres in Homestead
43,683	689 (2%)	17,171 (39%)
\$26.0M	\$1.2M	\$7.1M
\$83.4		
47,563	1,770 (4%)	19,028 (40%)
\$80.5M	\$2.7M	\$7.6M
\$70.8M		
20,394	14,910 (73%)	8,968 (44%)
\$55.7M	\$20.0M	\$3.8M
\$10.9M		
N/A		
111,640	54,512 (49%)	
\$162.3M	\$42.4M	
\$165.1M		

Eligible Housesite – w/HEV	Eligible Housesite – no credit	Housesite Value Over \$400,000	Additional Acres in Homestead
5,332		0 (0%)	1,026 (19%)
\$2.2M			\$0.3M
\$1.1M			
7,395		<10 (0%)	2,035 (28%)
\$9.7M		\$0.6M	
8,737		1,033 (12%)	3,196 (37%)
\$20.0M		\$1.5M	\$1.2M
36,784		23,095 (63%)	16,000 (43%)
\$108.8M		\$62.8M	\$9.4M
58,248		34,509 (59%)	
\$140.7M		\$75.9M	
\$1.1M			

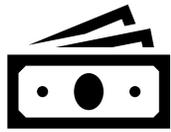
Nearly half (49%) of income-payers also have excess housesite value and/or acres on which they pay a collective \$42.4M on a property basis.

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

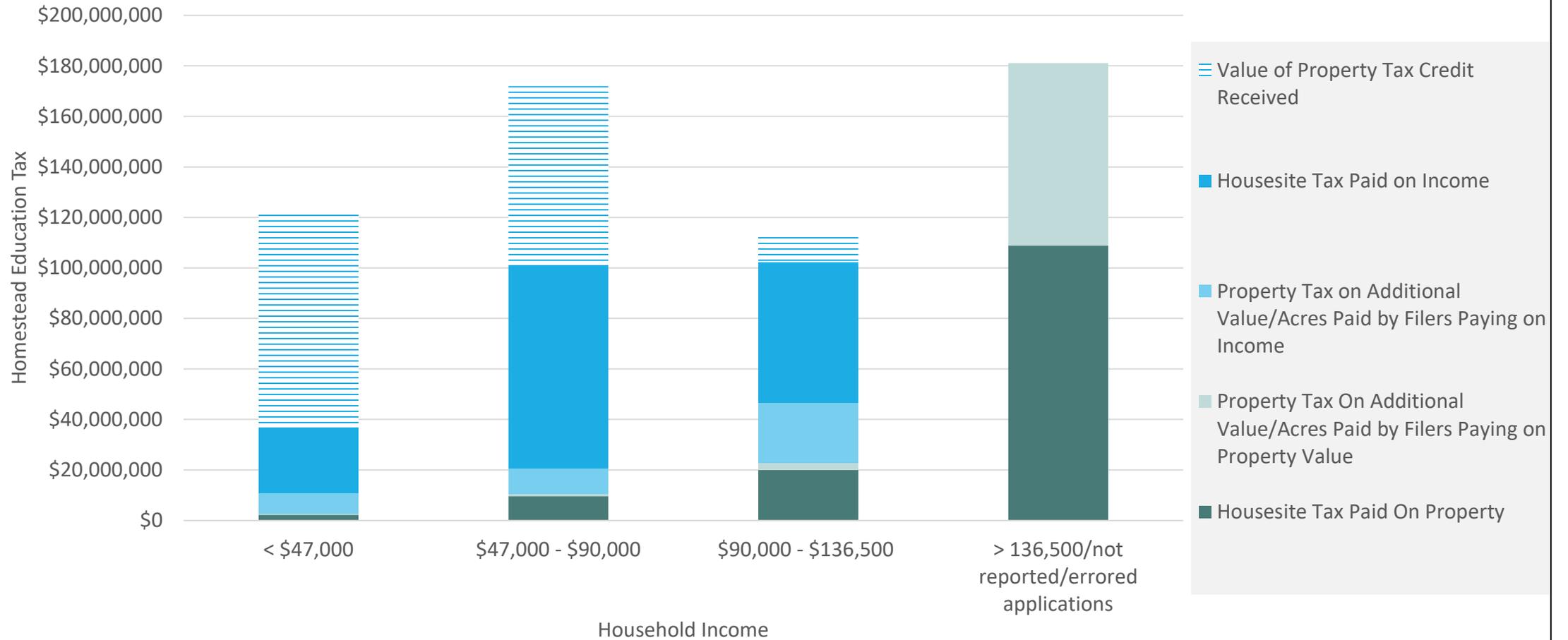
Within income cohorts, filers who pay based on income are more likely to pay additional tax on excess value. Those who pay based on property are more likely to have a low property value and thus not exceed housesite value eligibility caps.

Even more numbers

THE ANALYSIS



Homestead Education Tax Paid by Household Income Cohorts

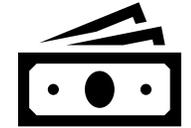
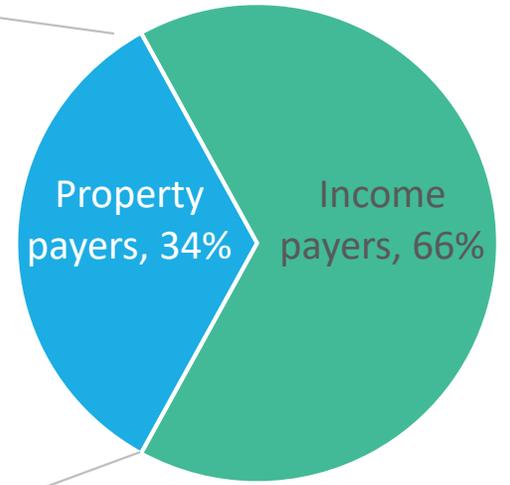
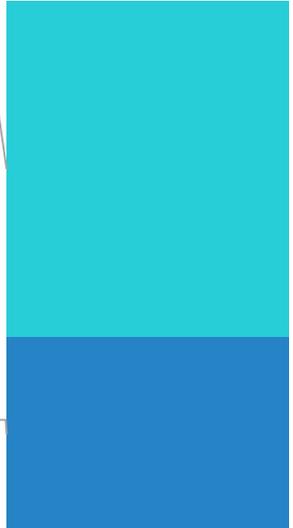


Homestead filers with incomes > \$136,500 account for just over one in five (22%) homesteads and two in five (43%) net homestead tax dollars.



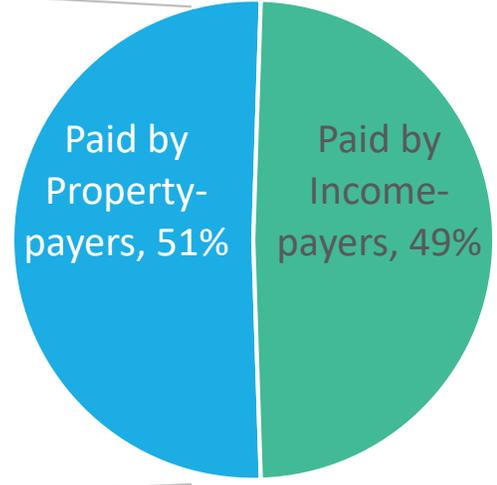
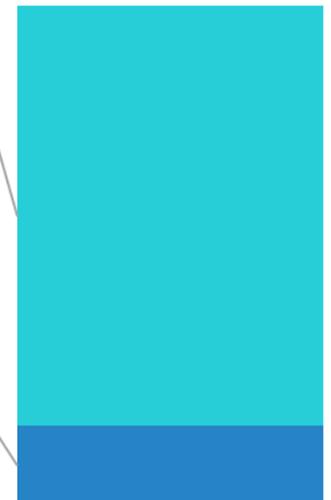
Income-eligible property payers (income <\$136,500), 13%

Income-ineligible property payers (income >\$136,500 or unknown or errored), 22%



Income-eligible property payers (income <\$136,500), 8%

Income-ineligible property payers (income >\$136,500 or unknown or errored), 43%



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)

Other Tax Structure Commission Resources:

[Property Tax Breaker Considerations](#) (August 2020)

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)