

Vermont Legislative Joint Fiscal Office

One Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • Fax: (802) 828-2483

FISCAL NOTE

Date: September 17, 2020

Prepared by: Chloe Wexler

Act 160 (H.934) Renter Rebate Reform Proposal – as passed by the General Assembly

<https://legislature.vermont.gov/Documents/2020/Docs/ACTS/ACT160/ACT160%20As%20Enacted.pdf> >

Prior to the outbreak of Covid-19 the Administration proposed changes to the renter rebate program effective Jan. 1, 2020. They continue to support the reform proposal with a delay in effective date to Jan. 1, 2021. The request for delay is based on the Department of Taxes ability to get the program operational.

- The FY21 governor recommended appropriation for the renter rebate program is \$9.5 million. The reform proposal maintains the fiscal bounds of the current program. It is not necessary to adjust the FY21 appropriation.
- The cost of the renter rebate program may be subject to increase due to the Covid-19 pandemic and an anticipated need for increased support for lower income renters. It is assumed that both the current law program and reform proposal will be subject to a similar financial increase if implemented in either fiscal year FY21 or FY22.
- The Administration states that the reform proposal was identified to make the program more accessible to renter filers:
 - The Department of Taxes estimates a 14% increase in the number of filers receiving the benefit.
 - Even though the overall number of recipients increases there will be individual filers that experience a change (increase, decrease or loss) of their individual benefit level.

The House Ways and Means Committee has reviewed and studied the proposal. The proposal discussed in this fiscal note represents the language described in H.934 as introduced which reflects the language as passed out of Ways and Means. Currently, in September, the House Ways and Means Committee continues to support the proposal.

Senate Finance amended the Ways and Means proposal with the effective date change requested by the Department of Taxes.

Current Law

Eligibility for the current renter rebate proposal is based on household income. Renter households are eligible if household income is less than or equal to \$47,000. Rental households under this threshold are eligible for a credit if their allocable rent exceeds a set percentage of

income. Allocable rent is 21% of yearly rent paid. The income percentages are highlighted in Table 1 below.

Table 1. Maximum Share of Income Paid for Allocable Rent by Household Income Amount for Current Law Rebate Calculation

Household Income	Percentage of Income
\$0 - \$9,999	2%
\$10,000 - \$24,999	4.5%
\$25,000 - \$47,000	5%

In order to file a renter rebate claim, the claimant must fill out forms PR-141 and HI-144: Household Income and ensure that their landlord provides a LC-142: Landlord Certificate. The filer must:

- Be domiciled in Vermont for the entire calendar year
- Not be the dependent of another tax filer
- Have rented for all 12 months of the year.

Only one claim is allowed per rental unit. The maximum credit per claim is \$3,000. More information on the specifics of the current program are available on the Tax Department website¹.

Proposal

The proposed restructuring is meant to address the aspects of current law that make it difficult for rental households to file and for the Tax Department to administer.

Currently the error rate for renter rebate claims is 66%. The higher error rate and demand for relief from filers makes the current program time-consuming and expensive for the tax department to administer. The current program, which provides \$8.5M in benefits, costs \$0.5M to administer annually, approximately the same cost as the property tax credit and municipal circuit breaker program which provides \$186 million dollars in benefits. The Tax Department anticipates repurposing administrative savings from the rental rebate program for other Tax Department work efforts such as increasing compliance and other revenue raising activities.

1. The proposal eliminates the requirement that a renter must have paid rent for all 12 months of the year. The renter still must:
 - a. Be domiciled in Vermont for all 12 months
 - b. Not be the dependent of another tax filer
 - c. Have paid rent for at least 6 months of the year (not necessarily consecutive).

¹ <https://tax.vermont.gov/sites/tax/files/documents/FS-1037.pdf>

Part-year renters are eligible for a credit pro-rated on the number of months rented.

2. Multiple claims can be filed per rental unit. This assists unrelated adults or families that are sharing a rental unit. Unrelated individuals/filing units will no longer have to share income information and effectively share the one claim allotted to the rental unit.
3. The use of household income as the income measure is replaced with a simplified metric removing the requirement to fill out the household income form, HI-144.
 - a. Income is defined as federal total income with three additions: nontaxable interest, 75% of nontaxable Social Security benefits and business losses.
 - b. The add back of Social Security benefits is discounted by 25% to increase the assistance to renters who are primarily reliant on Social Security.
 - c. Income eligibility is tiered on household size. This is accomplished by using US Department of Housing and Urban Development (HUD) income data. The HUD data provides median income as a function of family size and location (county). Because HUD values are updated annually, income limits will adjust as local economic and demographic changes occur.
4. The proposal eliminates the need for renters to get a landlord certificate from their landlord, and a claim will not be withheld if the certificate is missing. The landlord will file a simplified certificate (based on property, not renter) for Tax Department verification purposes. Landlord certificates will be uniquely required only for claimants that are renting mobile home lots or received a subsidized rental rate, in which case the amount of subsidy must be verified by the landlord. The Tax Department indicates that approximately 25% of current claims are subsidized.

Cost Estimate

In December the Tax Department estimated the cost for the renter rebate proposal and the reform proposal. It is noted that these estimates are subject to change/increase due to the Covid-19 pandemic and an anticipated need for increased support for lower income renters.

The estimates are provided to be demonstrative of the type of changes that are anticipated in the program and the estimation methodology. The December estimate of the FY21 cost of the reform proposal was **\$9.3 million dollars** and was estimated to provide credits to **13,616 low-income renters**. It was estimated that the reform proposal will increase the number of program recipients by 14%.

Table 2: Estimated Program Cost and Recipients for Reform Proposal, January 2020
(\$ Millions)

	Appropriation	Cost	Recipients
Current Law	\$9.50	\$8.53	11,919
Proposal	\$9.50	\$9.30	13,616

One of the primary reasons for the reform was to increase program utilization by simplifying the claim process. To account for this increase in utilization, the Tax Department has assumed a 14% increase in the number of credits awarded. Additional filers are anticipated in three areas:

- a 5% increase associated with simplifying the filing process
- a 2% increase for part year renters who are now eligible for the program (this assists claimants who may experience temporary homelessness)
- and a 7% increase for claims filed by unrelated adults/families who are sharing housing and were previously ineligible due to the requirement that the income threshold was based on the income of all members of the rental unit.

When a new program is initiated, there is always a question of how the program will evolve and grow in the out-years. The Tax Department has indicated that they anticipate the normal cost of program growth will be approximately 2% per year to account for inflationary increases. For the first several years an additional 2% growth is assumed to account for continued increases in utilization as the program becomes established and low-income renters recognize the reduced filing barriers. In conversations with the Tax Department, the 2% growth in utilization was analyzed and assumed to be sufficient for two primary reasons:

- significant utilization was added to the year 1 cost estimate (14%)
- programmatic changes which tier the income threshold by family size reduces the population of renters eligible for rebates. Tiering the income limits by family size recognizes that families and individuals have different financial responsibilities and earning power. This is consistent with the goal of the program to specifically target assistance to those who require the most support.