

# Vermont Legislative Joint Fiscal Office

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## *FISCAL NOTE*

Date: February 24, 2020

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### **H.934 Renter Rebate Reform Proposal**

<https://legislature.vermont.gov/Documents/2020/Docs/BILLS/H-0934/H-0934%20As%20Introduced.pdf>

H.934 shifts the renter rebate program from a property tax rebate to a rental assistance credit for low-income renters. Rental assistance is based on county-level income thresholds and fair market rental rates as determined annually by the US Department of Housing and Urban Development.

Overall, the new program achieves the following:

- Reduces the complexity of the program for both renters and the Tax Department. This makes it easier for low-income renters to utilize and access the credits. Claims can be processed more rapidly, providing increased liquidity for low-income renters.
- Tiers the income threshold by size of renter household. This provides recognition that families and individuals have different financial responsibilities and earning power, targeting the assistance to low-income renters that are under the most financial pressure.
- Links the credit to fair market rents so that individual rental circumstances will no longer be factored into the calculation. Under the proposal, everyone with similar income and family size is eligible to receive the same credit, based on the average monthly cost of renting in each county. The maximum credit is \$2,500.
- Eliminates the requirement that the renter must have rented for all 12 months of the year. A renter must have been domiciled in Vermont and rented for at least 6 months. This assists low-income renters who may experience temporary homelessness or relocation.

Fiscal Impacts:

- Proposed changes will affect FY21 claims that will be filed and paid out with tax year 2020 income tax returns in April 2021.
- The FY21 governor recommended appropriation for the renter rebate program is \$9.5 million. The proposal fits within the fiscal bounds of the current appropriation.
- The **FY21 cost estimate** for the reform proposal is **\$9.3M**. The reform proposal is estimated to provide credits to **13,643 low-income renters**, a 14% increase over current-law recipients. The programmatic changes will affect individual renters differently depending on their personal circumstances. Renters who benefit, on average, are low-income families and unrelated renters that share housing. Renters who receive less include single renters with incomes between \$25,000 and \$47,000 and renters paying rental rates significantly above their county's fair market rent.
- Due to underutilization of the program over the past three fiscal years, the Tax Department estimates \$3M of carryforward. Because the fiscal timing of the program shifts with the reduced administrative burden, \$1.8M is required in FY21 to pay off the final payment of the old program; \$1.2M could be available for reversion.

## Cost Estimate

One of the primary drivers for the reform is to increase program utilization by simplifying the claim process. To account for this increased 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, and a 7% increase for claims filed by unrelated adults/families who are sharing housing.

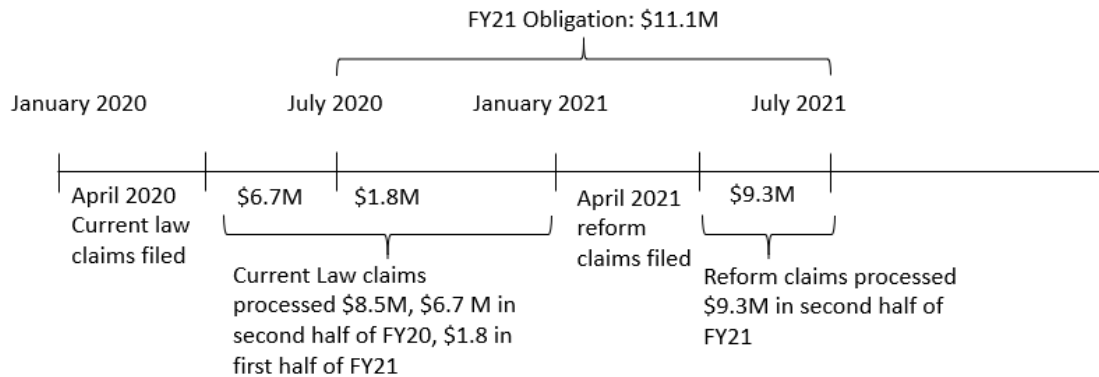
The Tax Department anticipates the normal growth of program costs will be approximately 2% per year to account for increases in the income thresholds and fair market rents. For the first several years, an additional 2% growth is assumed to account for continued increases in utilization as the program becomes established and low-income renters recognize the reduced filing barriers. Table 1 identifies the hypothetical program cost with annual increases of 4%.

Table 1: Estimated Program Cost FY21 – FY23 (\$Millions)

	<b>FY21<sup>1</sup></b>	<b>FY22</b>	<b>FY23</b>
Proposal	\$9.3	\$9.7	\$10.1

By simplifying the application and administrative process, claims can be distributed quicker. Currently, due to the significant error rates associated with claims (66% error rate), the program expenditure straddles fiscal years. The Tax Department estimates that \$1.8M is required for FY21 to pay off the final payment of the old program, bringing the FY21 obligation to \$11.1M. Due to underutilization of the program over the past three fiscal years, the Tax Department estimates \$3M of carryforward in the fund, which can be used for the transition. The remainder will be reverted. A possible fiscal time line is displayed in Figure 1.

Figure 1: Estimated FY20 and FY21 Current Law and Reform Cash Flows



Additionally, simplifying the program will reduce the administrative burden on the Tax Department, freeing up approximately 3 FTEs. The Tax Department anticipates repurposing administrative savings from the renter rebate program for other Tax Department work efforts such as increasing compliance and other revenue raising activities.

<sup>1</sup> The FY21 appropriation is valued at \$9.5 million, which provides \$200,000 above the expected cost. This reserve acts as a buffer against the uncertainty in the number of additional filers who will apply for the reformed program.

### County Level Impacts

On a county level, the number of credits and the total amount of credits distributed are identified in Figure 2 and Figure 3, respectively, summarizing information provided by the Tax Department.

Figure 2: Number of Expected Renter Rebate Claims Distributed by County

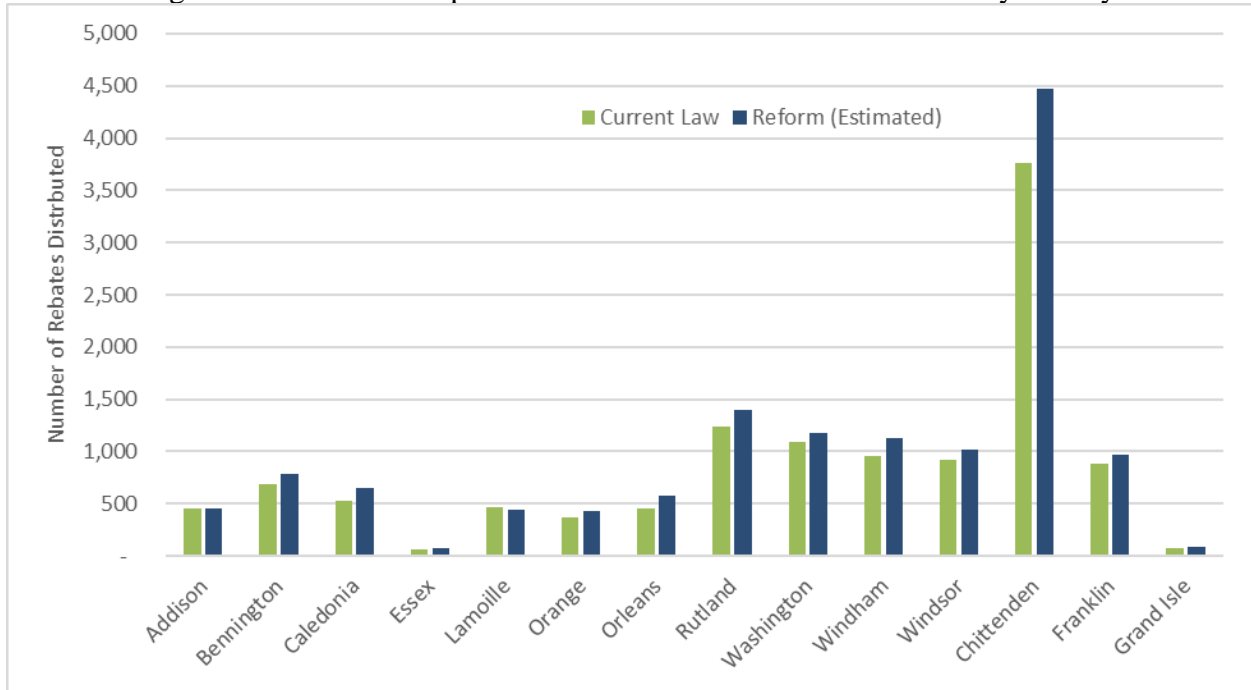
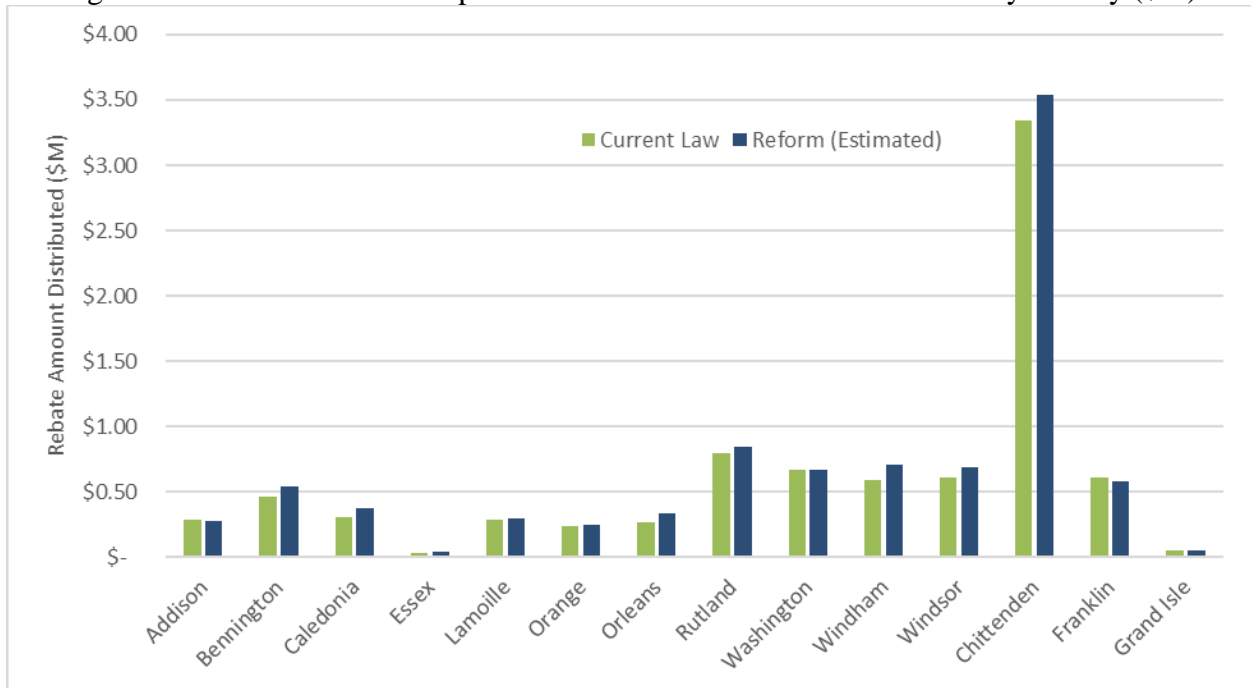


Figure 3: Dollar Amount of Expected Renter Rebate Claims Distributed by County (\$M)



### Current Law

Eligibility for the current renter rebate proposal is based on household income. Rental 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 an 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 website.<sup>2</sup>

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<sup>2</sup> <https://tax.vermont.gov/sites/tax/files/documents/FS-1037.pdf>