

First things first: Vermonters need property tax relief

Policymakers need to focus on the urgent school funding priority: providing our kids with a quality education while delivering property tax relief to middle-class Vermont homeowners. These taxpayers were hit hard this year, experiencing abrupt school tax increases. In three steps, the Legislature can make the system much fairer and simpler for taxpayers, providing needed property tax relief for next year—fiscal 2026—and addressing the longer-term issues of school costs and tax fairness in subsequent years.

1. Fiscal 2026 property tax relief. Under the current system, many homeowners hit tax “cliffs” when their income or home value hit certain thresholds.

- At these thresholds, an additional dollar of income or a jump in property value can dramatically increase a homeowner’s school taxes.
- The thresholds have not been adjusted for inflation in years, so more Vermonters hit these cliffs.
- Fixing the tax cliffs will require approximately \$50 million* in non-property tax revenue to protect low- and middle-income Vermont households from these jumps in school tax bills in fiscal 2026.

2. Rebalance the Education Fund. Policymakers need to work with public education stakeholders through 2025 to evaluate Education Fund appropriations and revenues to cover the cost to keep the fiscal 2026 fix in place and to permanently address the undue burden that currently exists for certain residential taxpayer groups. There are three assessment categories:

- Assess the expenditures from the Education Fund and determine if they are closely tied to public education and should continue to be paid from that fund.
- Assess the revenue mix and determine whether increases or use of other sources is required.
- Assess what should be counted as education spending that affects town tax rates and what should be “above the line” costs that do not affect town rates.

3. Eliminate the residential property tax and move to income-based school taxes. The biggest challenges and most confusion around school taxes come from the residential property tax. The Legislature can permanently eliminate the cliffs and make the funding system much simpler and fairer for taxpayers by basing residential school taxes on income for all Vermonters.

- Rates in each town would be determined as they are now, by the amount local voters choose to spend per pupil, and towns that spend the same amount per student would have the same tax rates.
- For over 50 years, Vermont has recognized that income is the best measure of ability to pay and instituted policies to make property taxes behave like income taxes.
- Income sensitivity is the most recent—and most complicated—system for basing school taxes on a homeowner’s income.
- With property values growing faster than incomes and tax credits limited in recent years, school funding has become more reliant on property taxes and less connected to Vermonters’ ability to pay.

* This estimate is based on an analysis using Census income and home value data from the American Community Survey 2022 5-yr. estimates and average Vermont homestead tax rates for fiscal 2025. It is intended to provide a rough estimate. A more accurate calculation requires access to confidential tax information collected by the Vermont Tax Department.

Proposal background

Fiscal 2026 property tax relief

Many Vermonters who qualify for income sensitivity also pay a property tax on their housesite. This can create a big jump in a homeowner’s tax bill with just a dollar more in income.

To fix these cliffs:

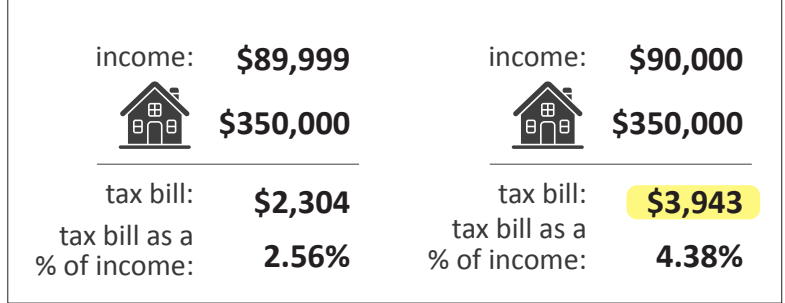
- Add another bracket to the \$47,000 income threshold (circuit breaker): Up to \$60,000, cap school taxes at 2.5% of income or the town income rate, whichever is lower
- Adjust the \$90,000 income threshold for inflation to \$130,000
- Eliminate the \$225,000 property threshold
- Adjust the \$400,000 property threshold to \$1million for all homeowners under \$130,000 income

How school taxes are calculated on housesites

Household income	School taxes on:	
\$0 - \$47,000	Capped at .5 to 2% of income	+ Property value over \$400,000
\$47,001-\$89,999	HH income (FY25 rates 2.0%-3.3%)	+ Property value over \$400,000
\$90,000+	The lower of:	
	HH income + property value over \$225,000	OR Entire property value

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\$1 more in income nearly doubles tax bill on a \$350,000 house



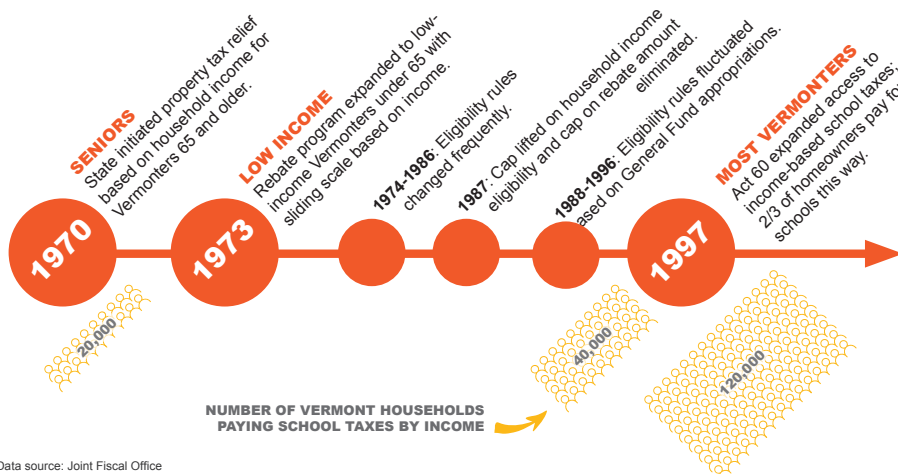
These changes would protect 28,000 Vermont households from the cliffs and expand income sensitivity to over 23,000 households.

Rebalance the Education Fund

- Consider moving pension funding out of Education Fund (\$55 million)
- Consider moving mental health expenditures out of Education Fund or out of education spending
- Consider instituting additional taxes on second homes
- Consider moving additional meals and rooms revenue into the Education Fund

Eliminate the residential property tax and complete the transition to income-based school taxes.

Vermont has been moving toward income-based school taxes for 50 years



Data source: Joint Fiscal Office ©2024 Public Assets Institute