How to make school taxes fairer this year and beyond

*The two most pressing problems in public education are the **unfairness in who pays** school taxes and the **cost drivers out of schools' control**. Current proposals in Montpelier won't solve either of these problems. We can provide immediate tax relief to thousands of Vermonters by updating income sensitivity and ultimately moving to income-based taxes. And we can address the cost drivers without slashing school budgets, forcing consolidation, or taking away Vermonters' say in their schools.*

1. Income sensitivity thresholds have not been updated for decades.

More and more Vermonters pay a combination of income and property taxes. When their incomes or house values pass certain thresholds their tax bills can jump even when school spending doesn't change. Updating the thresholds would ensure low- and middle-income Vermonters benefit from income sensitivity.

2. Income is the best measure of ability to pay according to the Vermont Tax Structure Commission.[1]

When we first started our public education system, property—land, cows, sheep—was the best measure of Vermonters' ability to pay. But now most Vermonters have income from jobs, and they don't sell a cow to pay their school taxes—they pay taxes out of their income.

3. The value of the primary residence is not a good measure of wealth.

For low- and middle-income Vermonters with mortgages, the value of the primary home overstates their ability to pay because their home equity is less than the home value. And many taxpayers have other debt so may even have a negative net worth. And at the high end, the primary residence is a small share of their wealth and understates their ability to pay.

4. The Vermonters with the most income don't pay school taxes based on income.

Vermonters can pay their school taxes either based on income or on property value. For most Vermonters, paying by income is the better deal. But for higher-income Vermonters, paying by property is cheaper. While Vermonters with incomes above about $125,000 represent just 30 percent of households, they hold 60% of the total income tax base—more than $13 billion.

How school taxes are calculated on housesites now

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
	The lower of:		
$90,000+	HH income + property value over $225,000	OR	Entire property value

*Note: The income and homestead property tax rates vary by town based on per-pupil spending.

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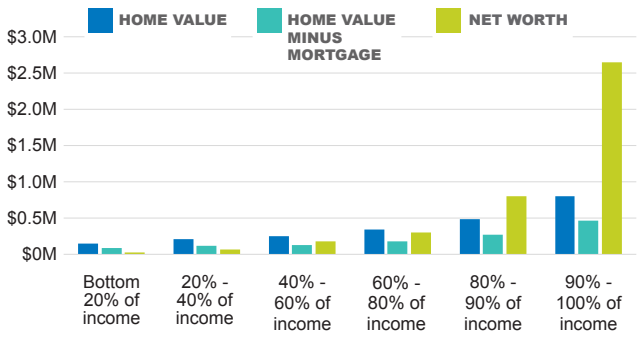
Primary home value overstates wealth for lower-income households, and understates it for the wealthy Median home value, median home equity and median net worth, by income percentile, 2022



Data source: Board of Governors of the Federal Reserve, Survey of Consumer Finances, 2022

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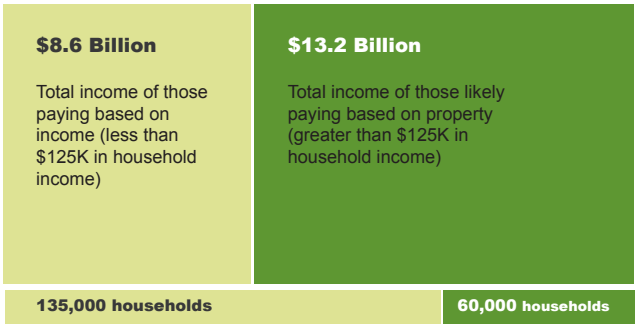
The Vermonters with the most income pay school taxes based on property rather than income Share of adjusted gross income for homeowners above and below $125,000 in household income, 2023



Data source: IPUMS-USA, University of Minnesota, www.ipums.org, ACS 2023 5-yr estimates

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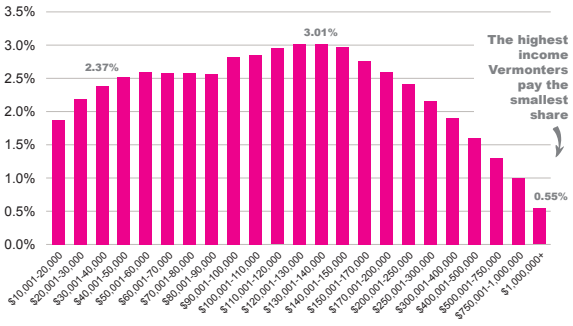
1 The Vermont Tax Structure Commission delivered its final report in February 2021.

5. Low- and middle-income Vermonters are subsidizing higher-income taxpayers. School taxes are currently regressive: Higher-income Vermonters pay a smaller share of their income to support schools than lower-income taxpayers. High-income Vermonters pay school taxes based on property because it's cheaper for them than paying based on income like everyone else.

6. The hybrid funding system maximizes complexity and the property tax causes most of the confusion and frustration with school taxes. Most of the complexity and frustration with school taxes comes from the property tax side—the Common Level of Appraisal, the lag, the town-to-town variations in property value growth. This leads to a disconnect between what voters approve for school funding and what happens to their tax bills. An income-based school tax would be more straightforward, easier to understand, and help reconnect local voters to their school budgets.

Low- and middle-income Vermonters pay more of their income in school taxes than the richest Vermonters
Education tax as a percentage of household income, 2017



Data source:Vermont Joint Fiscal Office
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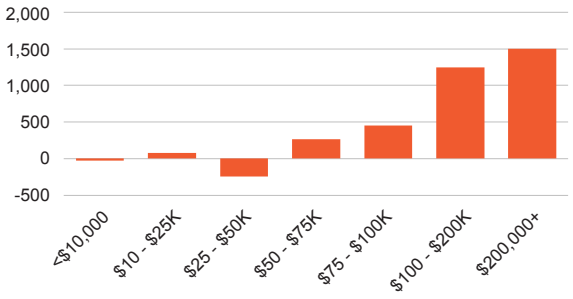
Common questions about moving to income-based school taxes

• Is income more volatile than property value?
Often what people mean by volatility is that state revenue from income taxes fluctuate more with the economy than that from property. But that doesn't matter with school taxes because school tax rates are adjusted each year to meet schools' needs. And on a personal level, you want your school tax bill to track your income. If you lose your job, you want your school tax bill to come down. You shouldn't be held to a higher property-based bill when you can't afford to pay it.

Recent population growth from migration is mostly from high-income families
Net migration of tax filers to Vermont, by income, 2019-2022



Data source: IRS Statistics of Income
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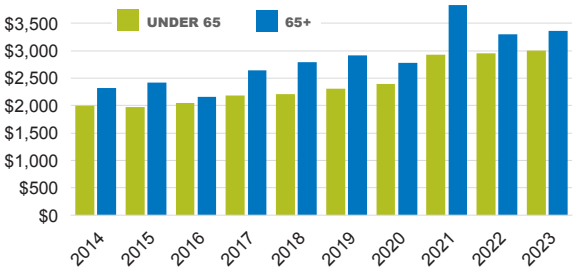
• Will rich people leave the state if taxes are more progressive? All of the research on state and local taxes does not support this argument. Very few people tend to move in any given year, and state taxes tend to be a small part of that decision. In fact, in our most recent migration report, IRS data showed that Vermont has gained high-income taxpayers since the pandemic began.

• As more Vermonters age into retirement, will the income tax base shrink and the state get less revenue? Two-thirds of Vermont's baby boomers—people born between 1946 and 1964—were 65 or older as of 2024, meaning they were eligible for Medicare and retirement benefits from Social Security. But more Vermonters aging out of the workforce has not led to less income tax revenue for the state. Vermonters 65 and over have more taxable income on average than those under 65 and pay more taxes per return than younger filers.

Per return Vermont seniors tend to have more income and pay more in taxes Personal income taxes paid, per return, by age group, 2014-2023



Data source: Vermont Department of Taxes
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• Can rich Vermonters hide their income to avoid school taxes? If rich Vermonters are hiding income, they're avoiding the state's personal income tax too, which is a bigger bill than school taxes. If they're doing so illegally, it's an enforcement problem. What's not hidden is the incomes of those Vermonters paying school taxes based on property now: They have 60% of the income in Vermont, over $13 billion. But the current system allows them to pay based on property, which is cheaper for them and means that they're paying a smaller share of their income in school taxes than low- and moderate-income Vermonters.