Vermont's Property Tax Relief Program: A Study in An Overloaded Circuit Breaker

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History of Program

- **1970**  
  Program enacted for residents age 65+; refundable credit against income tax for amount by which property taxes exceed 7% of household income or 30% of rent paid; maximum credit $300

- **1973**  
  Credit provisionally extended to those under age 65; income percentage changed to sliding scale (4-6%); maximum rebate $500
History of Program cont’d

- **1982** Household income capped at $25,000; property taxes paid or 20% of rent paid must exceed percentage of income; number of brackets raised from five to six (4-7%)

- **1985** Income cap raised to $32,000; number of brackets increased to eight (3.5-7%); maximum rebate $750

History of Program cont’d

- **1987** Income cap and rebate cap eliminated; rent percentage increased to 24%

- **1990** Household income capped at $60,000; rebates capped at $2,000

- **1991** Household income capped at $45,000; rebates capped at $1,350; rent percentage lowered to 20%
History of Program . . . again

- **1995**  Household income cap raised to $47,000; maximum rebate $1,500, but reduced by 50 cents for each dollar of income over $44,000
- **1999**  Enactment of new benefit program for households with income between $47,000-75,000 as part of education reform package

“Income Sensitivity” vs. Circuit Breaker

- Legislation passed in 1997 creating a statewide property tax (Act 60) expanded tax relief benefits and provided for a dual system--a “prebate” payment to eligible homeowners intended to “income sensitize” their property tax bills, and the existing rebate system for property owners and renters with household income ≤ $47,000
Public Policy with Competing Goals

- Provide equal educational opportunity by taxing all property the same
- Provide state education block grant to all towns but retain local control over school spending decisions
- Provide property tax relief through income-based system
- Tie local spending decisions to tax relief mechanism

Mechanics of Benefits

- “Income sensitivity” payments (prebate) are calculated based on prior year income and equalized housesite value using a flat rate of 2% (adjusted for local spending)
- “Circuit breaker” payments (rebate) are calculated based on “look back”--household income and total property taxes in same year--using a sliding income percentage
Simplified Prebate Calculation
(Fall 2005)

- Equalized housesite value
- Education tax rate (state + local)

\[ X = \text{Housesite school property tax} \]

- Household income in 2004
- Household income percentage

\[ = \frac{\text{Income sensitized school property tax}}{\text{Amount of prebate}} \]

Prebate/Rebate Interaction

- Prebate check mailed between July-December (30 days prior to first property tax payment)
- Rebate application filed in subsequent tax year based on prior year housesite value, income, and taxes
- Amount of rebate reduced by prebate amount from previous tax year
Growth in Program

- In 1987, the total cost of the program was $13 million; average rebate = $403
- In 1997, the cost of the program had increased nearly three-fold, to $35M
- In FY 2005, the three programs totaled $104 million; statewide property tax receipts for the fiscal year were $732 million

Estimation Timeline

- A technical working group meets in September to outline a schedule for model inputs (identification of problems in the model are addressed prior to this)
- Mid-October--all inputs are “finalized”
- Early November--initial estimates available
- Dec. 1--recommendation of tax rates for the coming year
Estimation Inputs for FY07

- CPI estimates
- Income regression equation
- Population projections
- State/local government inflation
- Tax data for prebates for FY06
- Education inputs
- 2005 equalized grand list by town
- Growth rates for homestead grand list
- Growth rates for nonresidential grand list
- Rebate file for tax year 2005

Problems Encountered

- Program changes (e.g., household income definitions, prebate/rebate eligibility and parameters, split grand list)
- Rapid but uneven growth in property values
- Prebate and rebate calculated on same property tax year but different income years (i.e., calculation of benefit differs according to filing behavior)
The “Phantom Population” Problem

- Since inception of program, policy makers and administrators of program have assumed a “phantom population” that was unaware of program
- Assumption based, in part, on Department statistic indicating three-quarters of households have income less than $75,000, based on returns with MJ or HH status

Where Have All the Households Gone?

- Department advertised programs, contacted advocacy groups, and did special mailings—mailing in Fall 2004 had poor return (5%)
- Turned to the PUMS for verification—approximately 100,000 households with household income under $75K had property taxes exceeding 3% or more of their income
- PUMS closely matched number of prebates
FY05 Estimate Low by +10%

- Significant movement in and out of rebate program
- Of households getting rebate, 13,000 had incomes lower this year than last; 10,000 had incomes higher last year; 7,000--no income information
- New applicants had lower incomes than estimated

Household Income Analysis

- Relative weight of income components for two groups of beneficiaries differs
- Deferred income more important for under $47K; fastest growing income category 2001-04
Falling Incomes--Real . . .?

Low-Moderate Income Trends by Filing Status

- Demographic effects, e.g., retirement; grown children (finally) moving out
- Manipulation of unearned income
- “Loans” and non-governmental gifts not included in household income
- Large offsetting adjustments to total household income

. . . Or Artifact?
Two-Year Income Effect

- Act 60 required “true-up” in second year; benefit re-computed with income and property tax data from same year and balance paid to or refunded from State
- “True-up” eliminated in 2002. Homeowners with rising incomes keep benefit and those with falling income (under $47,000) calculate benefit on lower income in second year

Possible Remedies

- Changes to household income definition
- Include asset test (complicated)
- Cap the payment (political resistance)
- Combine programs into one system (Tax Dept. favorite)
Estimation Challenges

- Refine income regression equations to account for falling incomes at lower end
- Estimate new applicant pool resulting from increase in income eligibility cap
- Resort to wild guess on number of eligible rebaters who have received prebate but not applied for “second bite” in the past but will do so in coming year
- Use of grand list for estimation purposes that is based on incompletely verified sales sample data