

Municipal Corner – Sales Tax

In Vermont, municipal corporations (such as the Town of Stowe) are sub-divisions of the State and all municipal authority is derived from the State. This includes what taxes municipalities can assess, which for most municipalities is limited to property tax. A small number of municipalities that were inordinately impacted by Act 60 have also been permitted by the State to assess a one percent local option tax on rooms, meals and alcohol, and a one percent local option tax on sales. To date, Stowe voters have approved taxing 1% on rooms, meals, alcohol but have not yet been asked to consider the adoption of a 1% local option sales tax. The Selectboard is going to ask you to consider adopting a local sales tax at this year's Annual Town Meeting to help support operational capacity and reduce the amount of property taxes that need to be raised. More on this in a bit, but first let's talk about the property tax.

In Vermont, property taxes go to support both municipalities and schools. With schools, the taxes raised not only funds the local schools but is shared statewide through the State Education Fund. For FY'22 the Town of Stowe collected \$51,234,036 in property taxes. Of that, \$30,965,404 went to support the State Education Fund for redistribution in support of schools statewide, \$10,287,322 went to support Stowe schools, and \$9,981,310 went to support Stowe municipal government.

The advantage of property tax is that is a stable tax source. The disadvantage is that it is considered a regressive tax. In other words, generally someone with a lower household income has to use a higher percentage of it to pay their property taxes. Also, due to the heavy reliance on the property tax to fund schools, municipal governments are constrained on using this revenue source to fund essential services and the desires of the local voters.

Both the Stowe Selectboard and the State are aware of the impact of property taxes. The Vermont League of Cities & Towns, a non-profit organization made up of all Vermont municipal governments, also recognizes this impact. Part of their mission is to track legislation in the Vermont Legislature to try to ensure local government's voice is heard during the crafting of legislation. VLCT's legislative platform this year states, in part, "in light of skyrocketing residential property values, taking measures to ensure the capacity of Vermonters to stay in their home."

In the Vermont Legislature, the State provides a rebate to income-eligible households to help offset their property taxes which provides some property tax relief for approximately 700 households in Stowe. However, there are caps on both the value of the property and the household income. Stowe, like many other communities, is going through a reappraisal which will increase the value of the homeowner's property. If these caps are not lifted it could significantly increase the property tax burden of these households. Accordingly, the Stowe Selectboard has asked the Governor and our Legislators to increase these caps.

As I noted earlier, the Selectboard is going to warn for voters' consideration raising a 1% local option tax on sales. The intent is to put this first on the warning, so that if approved, the voters during the vote on the FY'24 budget could use the anticipated revenue to reduce the amount to be raised in property taxes to support the municipal operation budget. It is anticipated that this 1% local option sales tax will raise \$700,000.

Due to inflation, growth in year-round residents and tourism, and the decline in the availability of emergency management volunteers, the proposed Town budget is likely to go up significantly. Putting the sales tax on this year's warning is an opportunity to create fiscal capacity to reduce the amount of property taxes that would otherwise need to be raised to support the proposed budget. Please follow the budget development process and future municipal corners for more information forthcoming on the proposed FY'24 General Fund Operating Budget.

More information on what the sales tax is applied to in Vermont can be found on Stowe's Homepage at www.townofstowevt.org. In brief, there are currently twenty Vermont municipalities that have a local sales tax. It is collected and administered by the State with 0.70% of the local 1% sales tax remitted back to the host municipality. According to the Vermont Department of Taxes, "Retail sales include goods you sell at your place of business as well as at other locations in Vermont. A seller must collect sales tax at the time and place of the sale. Sales tax is destination-based, meaning the tax is applied based on the location where the buyer takes possession of the item or where it is delivered. Business is responsible for collecting sales tax from their customers and then filing and remitting the tax to the state."

There are many exemptions to the Vermont Sales Tax, including clothing and footwear, food, medicines, as well as energy used for residential and domestic use. "Domestic use may include the heating of space or water, lighting, air conditioning, and the operation of appliances." A complete list of what is currently statutorily exempt can be found on our municipal website.