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Fundamental fairness

The stresses and strains affecting the state's property taxes are real, but as state policymakers address them, they must keep in mind the fundamental tenets of Act 60, the law that reshaped education finance in 1997.

A story in Sunday's Herald explored the system confronting the state's new tax commissioner, Richard Westman, as he begins his new job. One of the principal problems has been that as special breaks on property taxes are incorporated into the system, those who enjoy no breaks are left with a greater share of the property tax burden.

Tax exemptions have proliferated in recent years as legislators have sought to use the tax system for policy purposes. Thus, the state's current use tax program extends lower property tax rates to farm and forest land that the owner promises to keep in production. Downtown districts enjoy special breaks to encourage downtown development. Nonprofit institutions such as colleges remain exempt from property taxes.

Each exemption has its constituency. Preserving open land has been a goal of state policy for decades, but the property taxes not paid by farmers must be made up by someone else.

One of the benefits built into Act 60 from the outset was its provision linking tax payments to the income of a residential property owner. For years, Vermonters had complained that the property tax was unfair because it was not based on the taxpayer's ability to pay. So when the Legislature passed Act 60, it guaranteed that most taxpayers would pay their property taxes as a percentage of their income. Thus, a middle-income taxpayer may see his or her property tax bill reduced by as much as a third because of income-sensitivity payments by the state.

The system is designed to protect homeowners from the burden of property taxes, both through income-sensitivity and the two-tiered system that taxes second homes and commercial property at a higher rate than primary homes. There are sound reasons for these policy choices, but if the disparities grow too great, they could have an adverse effect on diverse sectors of the economy.

These are the pressures Westman is weighing. Each segment of the economy sees a benefit from the tax break it enjoys. But if one segment begins to bear a disproportionate burden, the credibility of the system could be put in jeopardy.

It is important to maintain the system's credibility because at its heart it is one of the fairest systems in the nation. It guarantees that poor communities have resources equivalent to rich communities for education. Thus, a child living in a property-poor town is not punished because her school is unable to raise sufficient revenue for schools.

Voices are raised from time to time to shift the burden of education finance away from property taxes and toward the income tax, which is based on one's ability to pay. But for

many taxpayers income-sensitivity has already transformed the property tax into what is essentially an income tax — without the disadvantage of driving up the income tax rate even further. Income-sensitivity remains a key component of the system.

A sizable portion of the Education Fund derives its revenue from the state's General Fund, which is supported largely by the income and sales taxes. But the percentage of the Education Fund supported by the General Fund has been decreasing in recent years, and the economic crisis has added to the burdens of the General Fund. So more money from the General Fund to offset property taxes is not likely to arrive soon.

It will not be easy to scale back property tax exemptions unless legislators are able to come up with a comprehensive package that is broadly beneficial. In the meantime, property values have been falling, which will probably require a rare increase in the state property tax rate.

These adjustments are not likely to make Westman a popular person, though if he helps to preserve the essential fairness at the heart of Acts 60 and 68, he will have served Vermont's school children and taxpayers well.
