

Land Conservation and Property Taxes in Vermont



By Deb Brighton, Tax Policy Consultant

Introduction

What is the impact on local property taxes when someone permanently conserves their land? Do taxes increase, decrease, or stay the same? Does it matter if the land is conserved by a conservation easement or if it is purchased by a government entity?

In response to these and other questions from landowners, members, town officials, and assessors, the Vermont Land Trust (VLT) asked Deb Brighton, VLT Board of Trustees member and legislative tax policy consultant, to analyze the short- and long-term impacts of land conservation on Vermont property taxes.

The study concluded that more development tends to lead to higher taxes, and on average, tax bills are lower—not higher—in the towns with the most conserved land. The research below will offer more insight into this result.

Short-term tax consequences of land conservation

In general, the permanent conservation of land—either through acquisition by an organization or government agency, or by a private landowner using a conservation easement—does not affect the school taxes in town, but may raise the municipal taxes.

The **school** tax rate in the town is not affected by removing property value from the tax base.¹ However, when land is acquired by the US Forest Service (USFS), the federal government makes a per-acre payment to the school district; this reduces the amount to be raised from the homestead school property tax, so the school tax rate on homestead property decreases slightly.

The effect on the **municipal** tax rate depends on the value that is removed from the Grand List, if any, and the payments in lieu of taxes that may be paid to the town, if any.

Conservation Method	Municipal Taxes		School Taxes
	Value removed from Grand List	Payment in lieu of taxes to Town	
Acquisition by VT ANR	Total value	1% of value—equivalent to tax rate of \$1	No change
Acquisition by USFS	Total value	Per-acre payment to town. \$2.34 in 2009—set annually	Per-acre payment to school district \$1.07 in 2009. Reduces school homestead tax rate
Acquisition of easement	Partial value, as determined by listers		No change

¹ School taxes are now paid to the state Education Fund. When value is removed from the Grand List, the Education Fund receives less. The difference is made up by adjusting the tax rate on all property in the state.

Because most towns have a municipal rate that is lower than \$1 per \$100, the payment in lieu of taxes for land acquired by the Vermont Agency of Natural Resources (**ANR**) is often more than the taxes lost—meaning taxpayers would see their municipal tax rate go down rather than up.

For land acquired by the **USFS**, the federal government makes two payments: one to the school district and one to the town. The payment the **USFS** makes to the *town* may be more than the taxes lost when the parcel's value is low and the town's tax rate is low; however, the payment is likely to be less than the taxes lost as the parcel's value and the town's tax rate increase.

The municipal tax loss that results when an **easement** is acquired depends on the resulting difference in assessed value, as determined by the listers. In some towns, the listers lower the assessed value because they can document that the easement has reduced the value; in other towns, the listers do not perceive a difference in value and there is no effect on the tax rate.

Long-term tax consequences of land conservation

People are often concerned about the long-term tax implications of conserving land. The question is whether land conservation—by preventing development that pays more in property taxes than conserved land—leads to a smaller tax base and therefore higher tax bills in town.

We looked at what has actually been happening in Vermont. In the charts below, we document the relationship between the municipal tax bill on the typical (median-value) house in each town and compare this number to various measures of conservation or development. While it is clear that developed land pays more in taxes than conserved land does, it also requires more in municipal services.

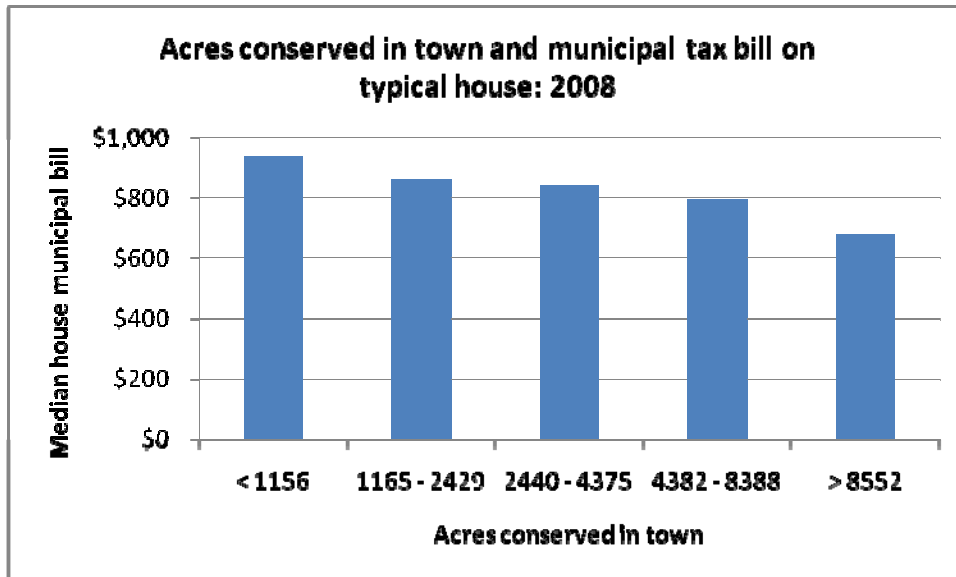
Because school taxes in Vermont are no longer a function of the town's Grand List, we looked at the municipal tax bill only. The charts below show only the relationships that are statistically significant—meaning it is unlikely that the relationship could have occurred by chance.

Land conservation and municipal tax bills

Finding: On average, tax bills are lower—not higher—in the towns with the most conserved land. This is not because the land has been conserved; it is because these towns tend to be more rural and therefore demand fewer municipal services.

Discussion and Data: The chart below illustrates the relationship between municipal tax bills and the acres of land that had been conserved either through outright acquisition of the land or through a conservation easement. All Vermont cities and towns were ranked according to acres conserved and divided into five groups, each with 20% of the towns. The municipal tax bill on the median-value house in each town was calculated, and averaged for each of the five groups.²

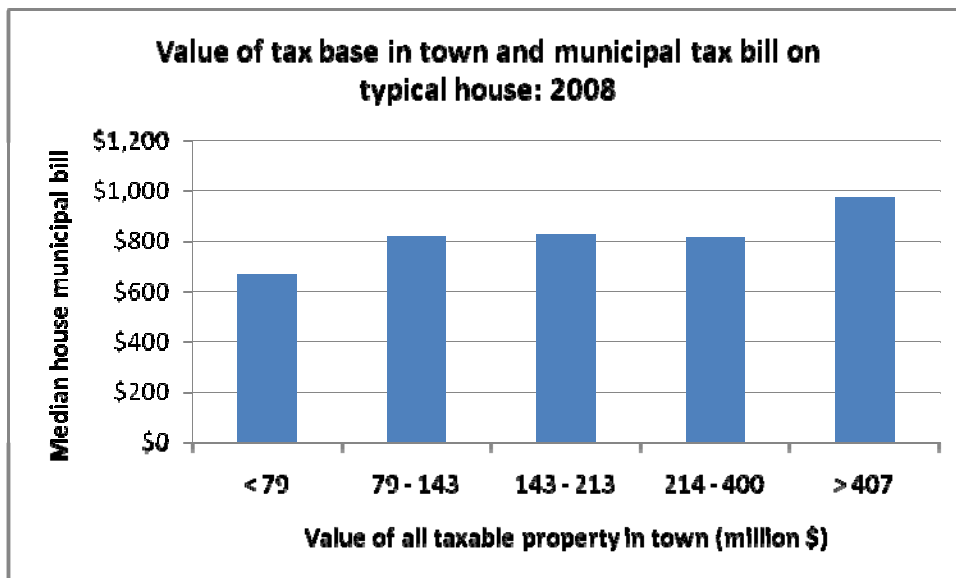
² Sources of data: Vermont Land Trust; Property Valuation and Review



Tax base and municipal tax bills

Finding: In general, the tax bill is higher in the towns that have the most taxable property, and lower in the towns with the least taxable property value.

Discussion and Data: Because the tax rate is the ratio of municipal budget to tax base, the obvious approach to keeping taxes low is to increase the tax base. Unfortunately, this usually results in increasing the budget, too. The chart below illustrates the relationship between municipal tax bills and the value of all taxable property in the town. All Vermont cities and towns were ranked according to the fair market value of their tax base and divided into five groups, each with 20% of the towns. The municipal tax bill on the median-value house in each town was calculated, and averaged for each of the five groups.³

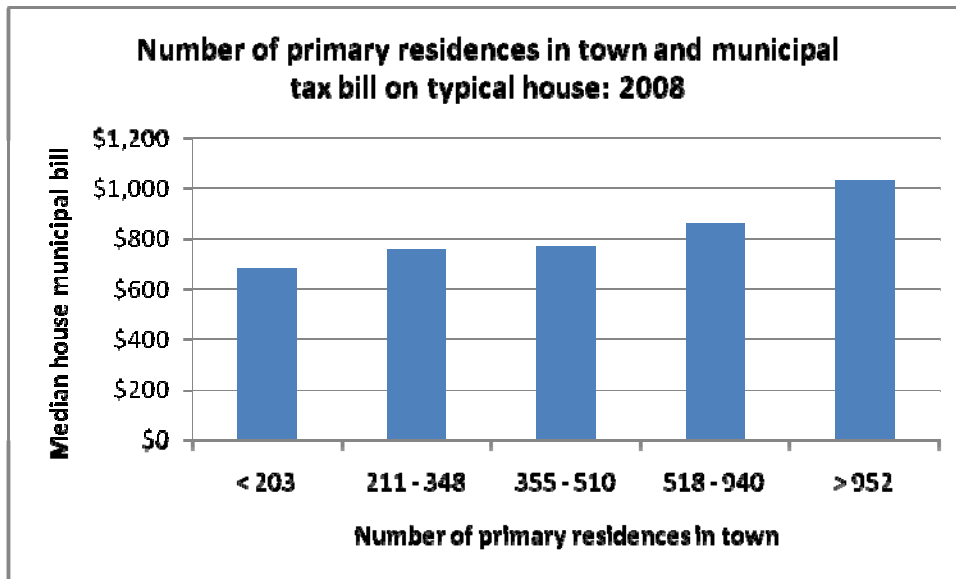


³ Sources of data: Property Valuation and Review

Residences and municipal tax bills

Finding: In general, the more year-round residences in town, the higher the municipal tax bill.

Discussion and Data: Perhaps the most likely type of development to occur in a town is residential. The chart below illustrates the relationship between municipal tax bills and the number of year-round dwellings in the town. All Vermont cities and towns were ranked according to the number of homesteads and divided into five groups, each with 20% of the towns. The municipal tax bill on the median-value house in each town was calculated, and averaged for each of the five groups.⁴



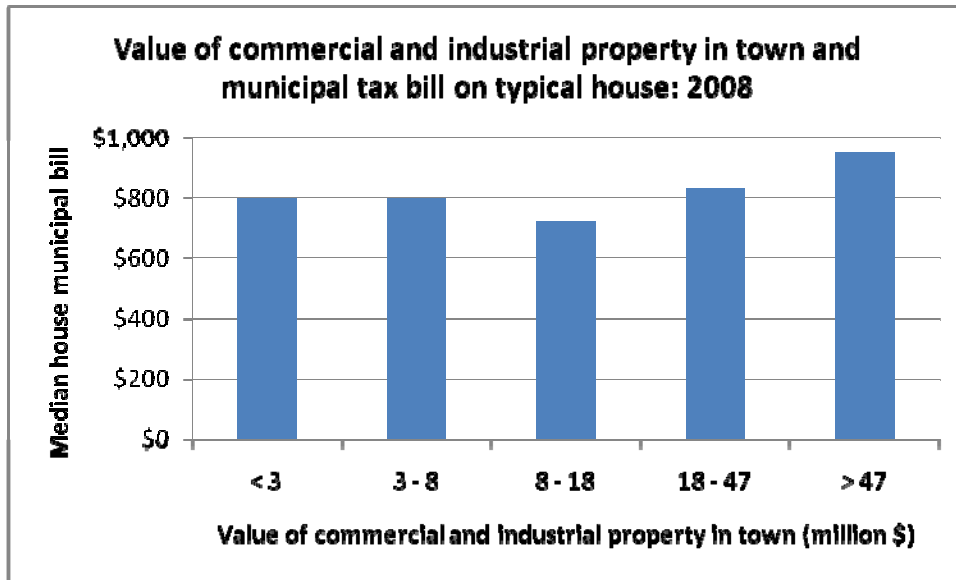
Commercial and industrial property and municipal tax bills

Finding: In general, the towns with the most commercial and industrial taxable property value have higher, rather than lower, tax bills. This does not necessarily indicate that the commercial and industrial properties themselves are “tax negative.” Where there are jobs, there are residents, and the chart shows the result of the combination.

Discussion and Data: Towns often look for commercial and industrial property to help keep the tax rate down. The chart below illustrates the relationship between municipal bills and the commercial and industrial property in the town. All Vermont cities and towns were ranked according to the fair market value of all taxable commercial and industrial property and divided into five groups, each with 20% of the towns. The municipal tax bill on the median-value house in each town was calculated, and averaged for each of the five groups.⁵

⁴ Sources of data: Homestead declaration from VT Department of Taxes; Property Valuation and Review

⁵ Source of data: Property Valuation and Review



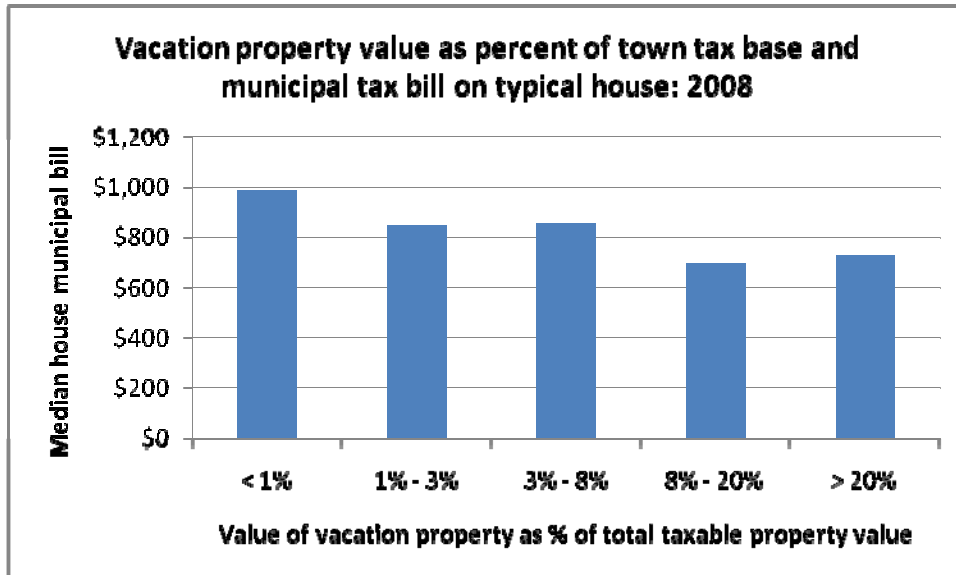
Vacation property and municipal tax bills

Finding: If there is a silver (or gold) bullet, it has always been vacation property. The towns that used to be called “gold” towns had the lowest school tax rates in the state and a disproportionate endowment of vacation property. Although Act 60 changed this for school taxes, vacation property is still a tax advantage for municipal taxes. We found that the endorsement of vacation property as the silver bullet must be qualified. The towns that had the *most* vacation property (as measured by taxable value) did not have low tax bills; the towns that had the highest *proportion* of vacation property did. In other words, the towns that had the lowest tax bills were those that had vacation property and were still fairly rural.

Discussion and Data: The chart below illustrates the relationship between municipal bills and the percentage of the grand list that is made up of vacation property. All Vermont cities and towns were ranked according to the ratio of vacation property value to the fair market value of all taxable property, and divided into five groups, each with 20% of the towns. The municipal tax bill on the median-value house in each town was calculated, and averaged for each of the five groups.⁶

(Graph on next page)

⁶ Source of data: Property Valuation and Review



Conclusions

The conventional wisdom is that more development means lower taxes and more conservation means higher taxes. Except in communities that have a high percentage of vacation homes, the reality is often just the opposite.

Open space tends to require few public services. More people tend to require more public services, resulting in higher taxes.

The purpose of this research is not to suggest that conservation is always good or that development is always bad. Each town must decide what it wants and what it needs to be a great community and make choices about conservation and development based upon those goals. If this research has shed some light on the associations between land use and taxes, so that local officials can make better decisions, then the author's objective has been accomplished.