

DRAFT Comments on
Barre Business Personal Property Tax

Prepared by

Central Vermont Chamber of Commerce

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Chamber Mission statement:

Responsibly improve the climate for doing business in Central Vermont.

The Central Vermont Chamber of Commerce is a private, not-for-profit corporation committed to preserving and enhancing the business environment in 23 cities and towns in Washington and Orange counties. It is funded by the investments of approximately 450 member businesses, organizations, agencies and municipalities in and around its service area. More than 100 of these members have a physical presence in Barre City.

NOTE on this DRAFT – Council very recently set public hearing dates and did not offer specific language. Time to again analyze the tax has been limited. Please bring any questions or potential inaccuracies to the Chamber’s attention via email:

cvchamber@aol.com or by calling 229-5711
Our goal is 100 percent accuracy.

Comments are based on previous language for the Modified Business Personal Property Tax as follows:

Modified Personal Property Tax.

The modified business personal property tax assessment shall be based upon the book value of taxable business personal property using the internal revenue code. In cases where an asset has been depreciated to a balance of zero, the assessment shall be based upon 10% of the applicable assets original cost. The maximum assessment may be established by city council. The initial maximum assessment is recommended at \$250,000.00.

General Opposition to Local Option Taxes

The Central Vermont Chamber of Commerce has long opposed local option taxes. There are numerous reasons for such opposition. A few of them include:

- Taxing someone else is much easier than taxing oneself. Taxing “them” rather than “us” often leads to less efficient spending. M&E options tax “them.”
- Taxing the minority differently than the majority is often divisive.
- Local Option Taxes lead to uncertainty, hated by business management.
- Raising future rates on “them” is easier than raising taxes on “us.”

The Business Personal Property Tax (also known as the Machinery & Equipment Tax) embodies all of the above negatives.

- M & E Taxes are levied only on non-residential taxpayers, a small minority.
- A number of those who will pay the tax cannot vote.

The Business Personal Property tax is difficult to administer, both for filers and the city. Some people would err calculating the tax. Others might intentionally mis-calculate. Either way, identifying errors in M&E filings isn’t cost-effective.

Barre City’s Business Personal Property Tax

Historical perspective

- 1) When Barre eliminated the Machinery & Equipment Tax in the late-1990’s, Vermont was under the old school-funding formula. The state provided aid to supplement local taxes. Homeowners and commercial property owners had the same – identical - tax rates. Act 60 and Act 68 have split the grand list into residential and non-residential segments. The state now sets a base homestead rate and non-residential rate for education. Local homestead rates are adjusted for local spending. With Vermont’s declining student enrollment, significant education surpluses have resulted, and the state has repeatedly tilted rate reductions in favor of homeowners. **The state’s base homestead education rate is now \$0.87 while the non-residential rate is \$1.36 – some 50 percent higher.**
- 2) After adjusting for Barre’s school spending and common level of appraisal, Barre City now **taxes non-residential property at \$1.418 for education, a 37 percent premium over the homestead rate** of \$1.034.
- 3) Residential property continues to increase in market value more rapidly than non-residential property. Despite the recent market slowdown, **residential property has a much larger pool of prospective buyers, and homeowners have much easier access to their equity through sale or refinancing.** (The Northfield

Savings Bank reports the average life of a home mortgage is less than eight years.) Commercial value is less accessible and appeals to a much smaller market.

- 4) For more than a decade, the percentage of the region's employers located in Barre City has been in sharp decline. The number of employers has dropped by more than 100 – some 20 percent. **Imposing a tax specific to business owners makes Barre less attractive to current employers and prospective newcomers.**
- 5) Many yearn for more manufacturing employment – good pay and benefits – and often expensive equipment. **Manufacturing, printing and industrial processing will be among the hardest hit by a machinery and equipment tax.**
- 6) If Barre City wants its employers to make continued investments in machinery and equipment, **it ought to avoid punishing those who do so.**
- 7) The property tax system is imperfect. It is rife with inequities that can be infuriating. **However, countering the foibles of the property tax by adding another chaotic tax scheme to the mix is not the solution.**
- 8) The State of Vermont provides a safety net for residential taxpayers with average incomes. Property taxes have a degree of income sensitivity. If the property taxes of residents exceed five percent of income, the State of Vermont pays a portion. Owners of non-residential property enjoy no such protection. **Some Barre City businesses with expensive equipment operate on the thinnest margins.**
- 9) Possible caps on the assessment of the Business Personal Property Tax are well intended, and such gestures are appreciated. However, a cap might not hold up to legal challenge. **Voters would hardly agree to taxing homeowners only on the first \$250,000 of assessed home value, and some might successfully question a cap on M&E values.**
- 10) Perhaps even more importantly, caps as proposed would be at the whim of Council. In neighboring communities, a very few, very equipment-intensive businesses pay an outlandish share of the burden of this tax.

The Central Vermont Chamber urges City Council to continue seeking efficiencies through regionalization (i.e., law enforcement and others), and to rely solely on the property tax where voters choose to tax themselves and the State of Vermont provides some refuge.

With industrial and commercial property at the low end of the appreciation spectrum, the Chamber urges Council to maintain vigorous support for industrial and downtown development. This can not only provide needed employment, but also to enhance the market value of Barre's commercial and industrial grand list.

Personal Property Tax receipts (with a \$500 cap) could be generated by:

- ❖ One and one-half cents additional tax on the grand list, or
- ❖ One new 50,000 sf commercial building, or
- ❖ One percent appreciation of Barre's current real estate values.

Historic Tax Rates - Barre City

1996 Effective

Barre Tax Rates	Homestead (Homeowner)	Non-Res (Com-Ind)	Difference (Com/Home)
Municipal Tax*	1.29	1.29	0%
Education Tax	1.59	1.59	0%
Total Tax Rate	2.88	2.88	0%

2005-2006

Barre Tax Rates	Homestead (Homeowner)	Non-Res (Com-Ind)	Difference (Com/Home)
Municipal Tax*	1.6267	1.6267	0%
Education Tax	1.2218	1.6581	36%
Total Tax Rate	2.8485	3.2848	15%

2006-2007

Barre Tax Rates	Homestead (Homeowner)	Non-Res (Com-Ind)	Difference (Com/Home)
Municipal Tax*	1.2483	1.2483	0%
Education Tax	0.9339	1.2710	36%
Total Tax Rate	2.1822	2.5193	15%

2008-2009

Barre Tax Rates	Homestead (Homeowner)	Non-Res (Com-Ind)	Difference (Com/Home)
Municipal Tax*	1.4055	1.4055	0%
Education Tax	1.0341	1.4180	37%
Total Tax Rate	2.4396	2.8235	16%

*Municipal rate includes stabilization contracts amount if any.

Since the introduction of Act 60 and Act 68, non-residential taxpayers in Barre City have paid a significantly higher educational tax rate than homeowners. In 2008, non-residential taxpayers are paying 37% more for education per \$100 of assessed value than homeowners.

Data subject to final verification
 CV Chamber 229-5711 8/19/08