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Summary of Testimony Regarding H.541 §15 Land Gains Tax April 17, 2019

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I've long thought that the Land Gains tax should be completely abolished. It no longer serves its original policy of discouraging land speculation and is not a significant source of funds. Instead it imposes an administrative burden on the tax department and unnecessary costs on sellers of real estate.

The main argument in favor of retaining the tax is that it continues to discourage rampant speculation and wholesale subdividing of Vermont land. That type of activity doesn't seem to be taking place recently, but it's hard to know that its lack is due to the existence of the Land Gains tax. Instead, our comprehensive land use laws and development regulations are more likely to be responsible for preventing destructive development practices.

The proposed changes to the Land Gains Tax go a long way toward resolving the burdens created by the present system. The new definition of "land" subject to the tax is that purchased and subdivided within 6 years. This removes the time and expense of filing and perhaps paying the additional tax upon sales:

- by estates or heirs
- of camp or vacation properties
- of homes bought as "fixer-uppers"
- of condominiums
- of foreclosed properties

Excluding these and similar transactions from the tax will greatly lessen the costs to property sellers and do away with the administrative burden to the State of reviewing returns that generate little or no revenue.

Short of repealing the Land Gains tax altogether, the proposed bill is a reasonable approach. However, there is one change that is very concerning. This is the removal of the exclusion for property that is the seller's primary residence. Under the now-existing definition of "land", the sale of any property of less than 10 acres which has been the seller's home is not subject to the tax. The proposed bill omits that provision and creates a new class of property subject to the tax.

If a person buys a home and then divides the parcel to sell a portion of it, why should that sale be subject to Land Gains tax? That action is likely not land speculation, but instead allows a person to recover some of the expenses of the home purchase and reduce the property tax bill. There are many reasons a person may need to sell a portion of their primary residential property and no additional tax burden should be imposed on those circumstances.

The proposed bill continues to apply the tax to sales within a 6 year period from date of purchase. This timeframe for application of the tax should be reduced from 6 years to 3 years. The process of obtaining state and local permits is already a significant deterrent to a quick profit from subdivision. If Land Gains tax was originally intended to deter short-term, high profit transactions, that goal is met by the 3 year window.