Local Option Tax

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Adopting a Local Option Tax (LOT) creates a dedicated local revenue source that can reduce pressure on property taxes and help fund local priorities. For many communities this can help balance the financial responsibility for maintaining its municipal infrastructure and amenities without placing added property tax burden on its residents. In Vermont, municipalities can adopt local option taxes on sales, meals, alcohol, and rooms (hotel/lodging), but only after voter approval. The information that follows will help you understand what Local Option Tax is and if it is something you want to adopt for your municipality.

Background:

For many years, Vermont municipalities needed both voter approval and special authorization from the Legislature (often through charter changes) to adopt local option tax(es). This made adoption burdensome, slow, and inconsistent throughout the state. Most commonly, it was the communities with strong tourism economies, and typically more staff capacity, that pursued local option taxes – nonresidents and visitors would be the major contributors to this revenue source.

During the 2024 legislative session, VLCT advanced a long-held municipal priority: authorizing all municipalities to adopt a local option tax (of one percent (1%) on sales, rooms, and/or meals) through a vote at an annual or special town meeting. Municipalities can now choose to approve all three, none, or any combination of local option taxes to address municipal revenue needs – they choose, not the legislature. The authorization includes a relief valve that allows the Vermont Tax Commissioner to reject or delay implementation of any more than five (5) new municipal local option taxes in a calendar year.

What is Local Option Tax?

Local Option Tax (LOT) is a way for municipalities in Vermont to raise additional revenue. A municipality may vote to levy the following 1% Local Option Taxes in

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addition to state business taxes:

- 1% local option tax on sales, in addition to the State's 6% sales tax rate
- 1% local option tax on meals and alcoholic beverages, in addition to the State's 9% meals tax and 10% alcoholic beverage tax rates. If adopted, both meals and alcoholic beverages must be subject to LOT. A municipality wishing to adopt a LOT on meals must also adopt the LOT on alcoholic beverages, and vice versa.
- 1% local option tax on rooms in addition to the State's 9% rooms tax rate
- Local Option Tax does not apply to the sale or rental of motor vehicles which are subject to the motor vehicle purchase and use tax.
- LOT on sales applies only to sales of items that are subject to the Vermont sales tax.

Why Adopt Local Option Tax(es)?

Since the 2024 legislative change, there has been a noticeable increase in towns considering local option taxes. Communities cite several reasons:

- Rising infrastructure costs
- Flood recovery and climate resilience needs
- Public safety and capital projects
- Desire to reduce pressure on property taxes
- Less federal and state grant programs available to fund local priorities
- Ability to collect revenue from tourists and visitors
- Keeps revenue local
- Provides budget flexibility

LOT Frequently Asked Questions

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Has my town or my neighbors adopted one or more local option taxes?

Maybe! Find out by using the Local Option Tax Finder.

How could my community adopt a Local Option Tax?

The Vermont Dept. of Taxes has a handy, easy to use "How To" guide.

How can I estimate LOT revenue?

- DIY: Use our sales, meals, rooms statistical reports
  - Taxable sales by town – apply 1% on any tax base
  - Stats page: tax.vermont.gov/data-and-statistics
  - Guide to Meals and Rooms Tax and Sales and Use Tax Statistical Data
- The Tax Department can help!
  - Tax data request form
  - Or contact them: tax.business@vermont.gov, (802) 828-2551
  - Including support for towns without reportable data

Is there another Vermont town that I can look to as an example?

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A standout member example: Local Option Tax | Morristown, VT

Is there model language for a town meeting article if we decide to put LOT before our voters?

Yes! VLCT's Municipal Assistance Center has developed several model articles to help municipalities draft their town meeting warnings, among them is one for local option tax(es). It can be found on our Model Town Meeting Articles Resource page. Scroll down to the "Budget Articles" section to find it.

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