RUTLAND REGIONAL PLANNING COMMISSION

How a 1% Local Option Tax (LOT) Benefits Towns

A local option tax gives towns another source of municipal revenue beyond the grand list. It can pay for services and capital needs that would otherwise require more municipal property tax revenue or municipal bonds. Visitors, commuters, shoppers, and residents all contribute when they make eligible purchases in the town.

Benefits for towns and property taxpayers

1. **Ease pressure on the grand list:** revenue used for existing services or planned investments can reduce the amount a town needs to raise through municipal property taxes for the same budget.
2. **Share costs with people from elsewhere:** tourists and customers who use local businesses and infrastructure contribute through eligible purchases, meals, and stays. Residents also pay the tax when they make eligible purchases.
3. **Fund local priorities and plan ahead:** towns can dedicate revenue to roads, public safety, sidewalks, facilities, flood resilience, or capital reserves. A predictable local source can help manage rising costs, support capital planning, provide grant matching funds and reduce reliance on occasional grants.
4. **Worth evaluating in smaller towns:** retail shops and resorts are not the only possible sources: eligible online sales delivered into town and short-term lodging may also generate revenue. Towns should estimate their own taxable activity before deciding.

How the tax works

With a selectboard recommendation and voter approval, a town may choose any combination of 1% taxes on sales, meals and alcoholic beverages, and rooms. Only transactions subject to the corresponding state tax are eligible. The state administers the tax and, since October 2025, returns 75% of collections to the town, less its share of administrative fees. Local receipts may fund municipal services, but not education expenditures. A LOT can hold down the municipal levy compared with funding the same spending entirely through property taxes; annual tax bills still depend on the budget and other factors.

What 1% Local Option Taxes Look like in the Rutland Region

TOWN	FY25 REVENUE	LOCAL DECISION ON REVENUE USE
Brandon	$310,986	Restricted to capital projects, supporting equipment and other long-term needs.
Rutland Town	$1,519,618	Supports the general budget, offsets police costs, and contributes to the capital improvement fund.

Brandon, Fair Haven, Killington, Mendon, Rutland City, and Rutland Town have adopted at least one LOT.

Next Steps

Estimate the revenue from local sales, meals, and lodging; show voters which costs the revenue could support and how that would affect the amount raised from the grand list; then decide which tax categories to propose. VLCT and the Department of Taxes provide guidance for the vote and implementation.

Helpful Resources

VLCT Local Option Tax guide

VLCT Do the Math First

VT Department of Taxes Local Option Tax

VT Department of Taxes How to Adopt a Local Option Tax