

How to Adopt a Local Option Tax in Your Community

Vermont law at [24 V.S.A. § 138 \(legislature.vermont.gov\)](#) allows municipalities to adopt one or more of three types of local option taxes (LOT). This guide explains what local option taxes are, how to adopt and repeal them, and the role of the Vermont Department of Taxes in administering them.

What Is a Local Option Tax?

A local option tax is a way for municipalities in Vermont to raise revenue by assessing a 1% tax in addition to certain State tax types. There are three types of LOT:

- 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
- 1% local option tax on rooms in addition to the State's 9% rooms tax rate

For example, a LOT on sales applies only to sales of items that are subject to the Vermont sales tax.

Note: LOT does not apply to the sale or rental of motor vehicles, as they are subject to Purchase and Use Tax.

Where to Begin

Each municipality's situation is unique. Municipal officials should consult residents and business owners to ascertain the benefits and consequences of adopting a LOT.

Prior to adopting a LOT, officials should consider speaking with legal or other tax professionals as well as other Vermont municipalities that have considered adopting LOTs.

The Vermont Department of Taxes does not provide legal or tax advice to individual municipalities about local option tax decisions.

How a Municipality Adopts a Local Option Tax

1. The legislative body of the municipality, such as a selectboard, must recommend the local option tax by majority vote. [24 V.S.A. § 138\(b\) \(legislature.vermont.gov\)](#).
2. At either an annual meeting or a special meeting called for this purpose, the majority of the municipality's voters who attend the meeting and vote must approve the local option tax. [24 V.S.A. § 138\(b\) \(legislature.vermont.gov\)](#).
3. The municipality must give the Department at least 90 days' notice before the quarter start-date of a newly effective local option tax. [24 V.S.A. § 138\(a\)\(2\) \(legislature.vermont.gov\)](#).

Example: A municipality votes 'yes' to a LOT on Town Meeting Day, March 4. The municipality notifies the Department of Taxes by March 31 (the last day of the first quarter) that they have chosen to start assessing LOT. The earliest effective date of the new LOT is the beginning of the third quarter (July 1).

Does a municipality still need to get legislative approval by the Vermont legislature?

No. [Act 144 of 2024 \(legislature.vermont.gov\)](#) changed the process by which municipalities may adopt a LOT. A local charter change and approval of the charter change by the Vermont legislature are no longer required.

Can a municipality adopt a LOT at any time?

Yes, as long as the three steps discussed above are followed. The Commissioner of Taxes may limit the number of municipalities adopting a LOT in any given calendar year. [See 24 V.S.A. § 138\(h\) \(legislature.vermont.gov\)](#).

Administration of Local Option Tax

When a municipality votes to implement a LOT, all businesses authorized to collect taxes in Vermont are required to collect from customers and pay to the Department all LOT for applicable sales that occur in or are delivered to the participating municipality. As part of the review process, the Department verifies that businesses have collected and paid LOT correctly.

The Department's costs of administration and collection are covered on a per-return basis. The fee is \$5.96 per return, per town, and is deducted from the LOT collected, with 70% of the fee coming from the municipality's LOT revenue and 30% coming from the State's Payment in Lieu of Taxes (PILOT) Fund. [See 24 V.S.A. § 138\(c\) \(legislature.vermont.gov\)](#).

After retaining the fee, the Department sends 70% of the LOT collected to the municipality on a quarterly basis. The remaining 30% is sent to the PILOT Fund. Money in the PILOT Fund is used to compensate municipalities for State property located in the municipality that is exempt from property taxes. [See 24 V.S.A. § 138\(d\)](#) and [32 V.S.A. § 3709 \(legislature.vermont.gov\)](#).

Effect on Businesses and Individuals

Local Option Tax is a destination-based tax, meaning it's based on the location where the purchaser takes possession. Once implemented, businesses must charge the LOT on taxable purchases completed within the municipality where a LOT is in effect or when a taxable item is delivered to a customer within a municipality with a LOT in effect.

Examples for LOT Applied to Retail Sales

1. A customer goes into a retail business in Williston (Williston has a LOT on sales), purchases a taxable item, and leaves the store with the item. The customer has taken possession of the item in Williston, so the LOT is due.
2. A customer in Newport (Newport does not have a LOT on sales) orders a taxable item from a retail business in Williston, and the retailer mails or delivers the item to the customer in Newport. The customer has not taken possession in Williston, so no LOT is due.
3. A customer in Williston orders a taxable item from a retail business in Newport and the retailer mails or delivers the item to the customer in Williston. The customer has taken possession in Williston, so LOT is due.

Examples for LOT Applied to Meals, Rooms, and Alcoholic Beverage Purchases

1. A customer dining in a restaurant in Waterbury (Waterbury has a LOT on meals and alcoholic beverage sales) buys a meal and an alcoholic beverage. The meal and the alcoholic beverage purchases are subject to the 1% LOT.
2. A visitor staying at a hotel or bed and breakfast in Waterbury must pay a 1% LOT because Waterbury has a LOT on rooms.
3. A business located within Waterbury that delivers a meal to a customer address in another town without a LOT should not collect Waterbury LOT on that meal. A business located outside Waterbury that delivers a taxable meal to a customer address within Waterbury must collect Waterbury LOT on that meal.

After a Municipality Elects to Adopt a Local Option Tax

As noted above, the municipality must give the Department at least 90 days' notice before the quarter start-date of a newly effective LOT. [24 V.S.A. § 138\(a\)\(2\) \(legislature.vermont.gov\)](#). Upon approval by the Department, businesses shall begin collecting the LOT on the first day of the quarter that begins after the required 90-day notice period has elapsed.

During this period, the Department sends a correspondence to every business taxpayer in the municipality with further instructions, including:

- How to determine when to charge a LOT
- Tools to help determine where LOT applies
- Electronic filing requirements

The Department also provides similar information and guidance to every business taxpayer in towns adjacent to the LOT municipality.

Repealing a Local Option Tax

The voters of a municipality may repeal a local option tax at an annual meeting or a special meeting warned for that purpose. To repeal a LOT, the vote must be by a majority of those present and voting. One of the following must occur to initiate a municipal vote to end a LOT:

1. A majority of the legislative body of the municipality makes a recommendation to repeal the LOT, or
2. A petition of 10% of the municipality's voters makes a recommendation to repeal the LOT.

Resources

- [Local Option Tax \(tax.vermont.gov/business/local-option-tax\)](http://tax.vermont.gov/business/local-option-tax)
- [GB-1230, Guide to Meals and Rooms and Sales and Use Tax Statistical Data \(tax.vermont.gov/sites/tax/files/documents/GB-1230.pdf\)](http://tax.vermont.gov/sites/tax/files/documents/GB-1230.pdf)

Questions? Contact the Vermont Department of Taxes at (802) 828-2551.