

Background on the Residential Exemption:

The residential exemption is a local-option statute in Massachusetts General Law, Chapter 59, Section 5C, that, when accepted for **each tax year** by a municipality, exempts from taxation **up to** 20% of the average residential property value from each qualifying property.

There are 3 key issues here:

The first is that it must be voted on and accepted for each fiscal year by the local governing body and that vote is only good for that one year. It does not perpetuate.

The second is that the % of the average residential value used may be anywhere from .01% to 20%. It is up to the governing body to decide how much they want that to be once they accept the statute itself. Some municipalities have been given the authority to increase the upper limit to 30% by the state legislature. For the most recent fiscal year, 14 Massachusetts towns have accepted this exemption and the percentage ranges from a low of 5% in Marlborough to 30% in Boston, Cambridge and Somerville.

The third is that the starting figure for the percentage calculation is the sum of ALL residential property value in town, including vacant land, divided by the total number of parcels generating that value. So, since Barnstable's 20% residential exemption amount was \$100,964 for FY2009, the average residential value in Barnstable was \$504,820 in that fiscal year.

What this meant to a qualifying taxpayer is that, when qualified, their property in FY09 received a \$100,964 reduction in their taxable property value **before** the tax rate was applied. Given that we had 14,464 qualified properties in FY09, this also means that \$1,460,343,296 (14,464 times \$100,964) became untaxable and was removed from the residential tax rate calculation on page 1 of the tax recap. As a result, what would have been a \$6.12 residential tax rate became a \$6.90 residential tax rate, since there was \$1.46 billion dollars less in value to spread the residential tax levy over. For the qualified taxpayer, they receive the reduction in taxable value but also pay the higher tax rate. However, at around \$900,000 in value, the reduction in taxable value, which is the same for all qualified properties, is offset completely by the increase in the tax rate, giving no tax savings to the property owner. For non-resident property owners, they simply see the tax rate for their properties increase from \$6.12 to \$6.90 and receive no value adjustment.

This entire process does not change the amount of tax levy paid by the residential class. It does, however, shift the burden of the levy within the residential class. ***Please note that the exemption amount by itself represents the following town tax amount for FY2009: \$100,964 x \$6.90 per thousand = \$697, rounded up.*** The Fire District tax is not involved in the residential exemption and the CPA tax will compute off of the town tax amount so we will ignore those two taxes in calculating the impact of the exemption.

Examples:

Qualified property worth \$300,000

No exemption voted: town tax = $\$6.12 \times \$300,000 = \$1,836$

20% exemption: town tax = $\$6.90 \times (\$300,000 - \$100,964) = \$1,373$, tax savings of \$463.

Non-qualified Property worth \$300,000

No exemption voted: town tax = $\$6.12 \times \$300,000 = \$1,836$

20% exemption: town tax = $\$6.90 \times \$300,000 = \$2,070$, tax increase of \$234.

Qualified Property worth \$1,500,000

No exemption voted: town tax = $\$6.12 \times \$1,500,000 = \$9,180$

20% exemption: town tax = $\$6.90 \times (\$1,500,000 - \$100,964) = \$9,653$, tax increase of \$473.

Non-qualified Property worth \$1,500,000

No exemption voted: town tax = $\$6.12 \times \$1,500,000 = \$9,180$

20% exemption: town tax = $\$6.90 \times \$1,500,000 = \$10,350$, tax increase of \$1,170.

You'll notice that for each value level of property, the net tax difference is always the same. At \$300,000, the exempted property saves \$463 while the non-exempted pays an additional \$234 for a total difference between them of \$697 ($\$463 + \$234 = \697). The same is true for the \$1,500,000 property, with the exempted one paying \$473 more and the non-exempted one paying \$1,170 more, with a total difference between them of \$697 ($\$1,170 - \$473 = \697). In FY2009, the property with the residential exemption will always pay \$697 less in town taxes than another property of the exact same valuation that doesn't receive the exemption. This shows how the burden is being shifted within the residential class.

This law is structured to be a mechanism for progressive tax relief, giving the most relief to the lower valued properties owned by what are presumably the less affluent, full-time residents of the municipality. This benefit diminishes as property value increases. It is also structured to avoid the legal problems associated with unequal taxation, or having different tax rates for similar properties, by first removing the value from taxable status and then calculating a single tax rate from the remaining valuation total.