Understanding The Residential Exemption

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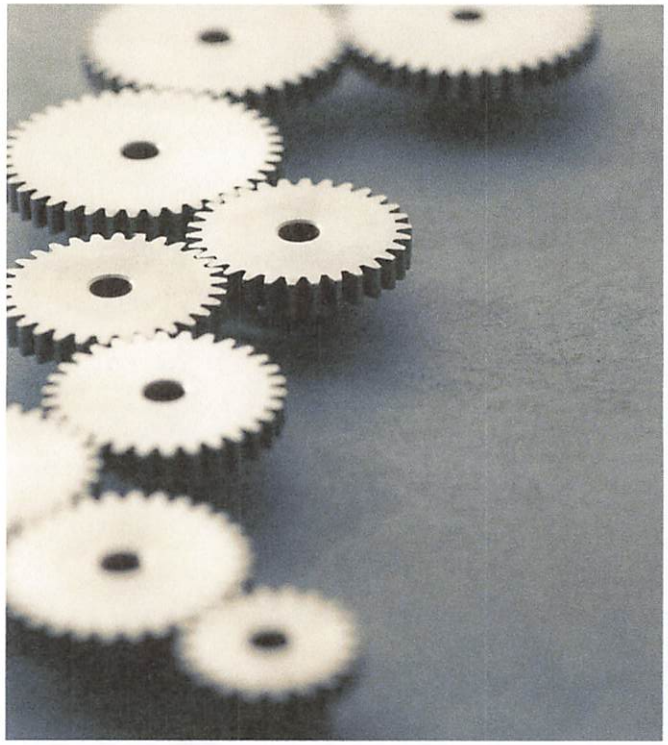
MGL c.59, sec. 5C

What Is It?

Enacted in 1979, the residential tax exemption is an option under property tax classification MGL c.59, sec. 5C that shifts the tax burden within the residential class from owners of moderately valued residential properties to the owners of vacation homes, higher valued homes and residential properties not occupied by the owner, including apartments and vacant land.



How Does It Work?

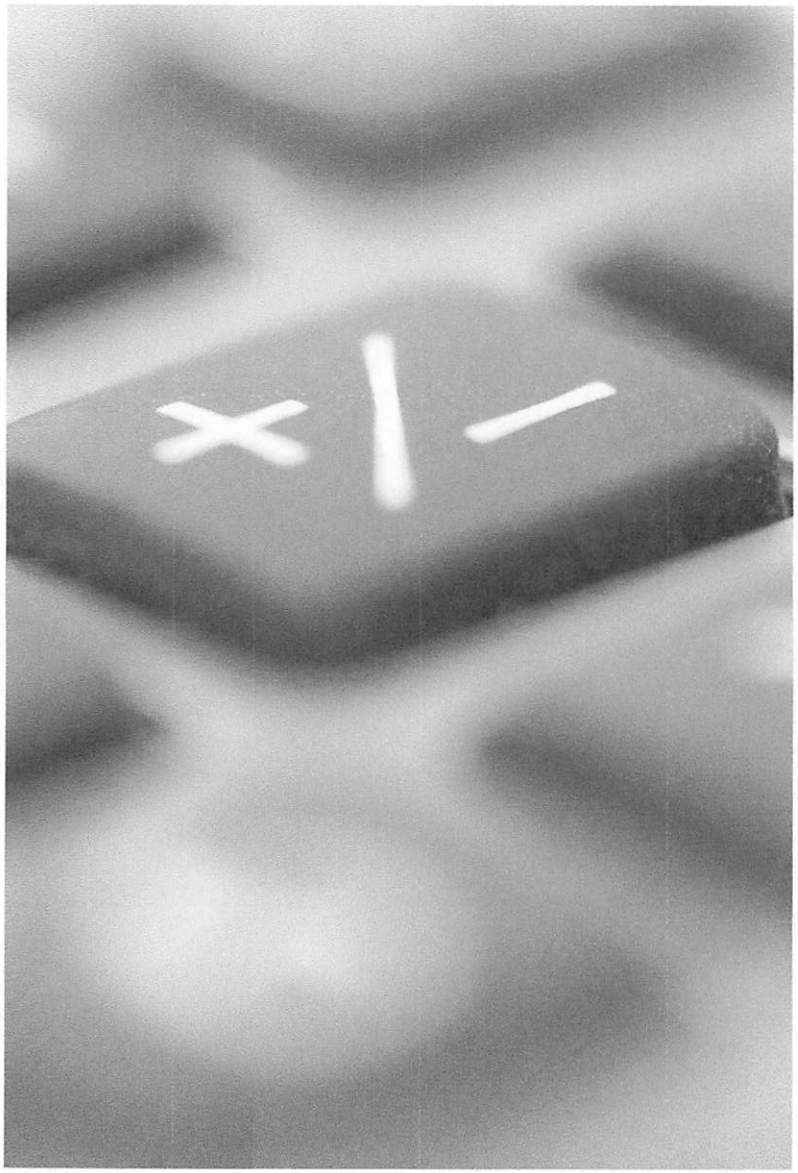
Communities may authorize a residential exemption to all Class One, Residential properties that are principal residences of taxpayers.

Prior to the Municipal Modernization Act, the exemption could not top 20% of the average assessed valuation of residential parcels. Now, exemptions cannot exceed 35% of the average assessed value of all Class One, Residential properties.

How Does It Work? (cont'd)

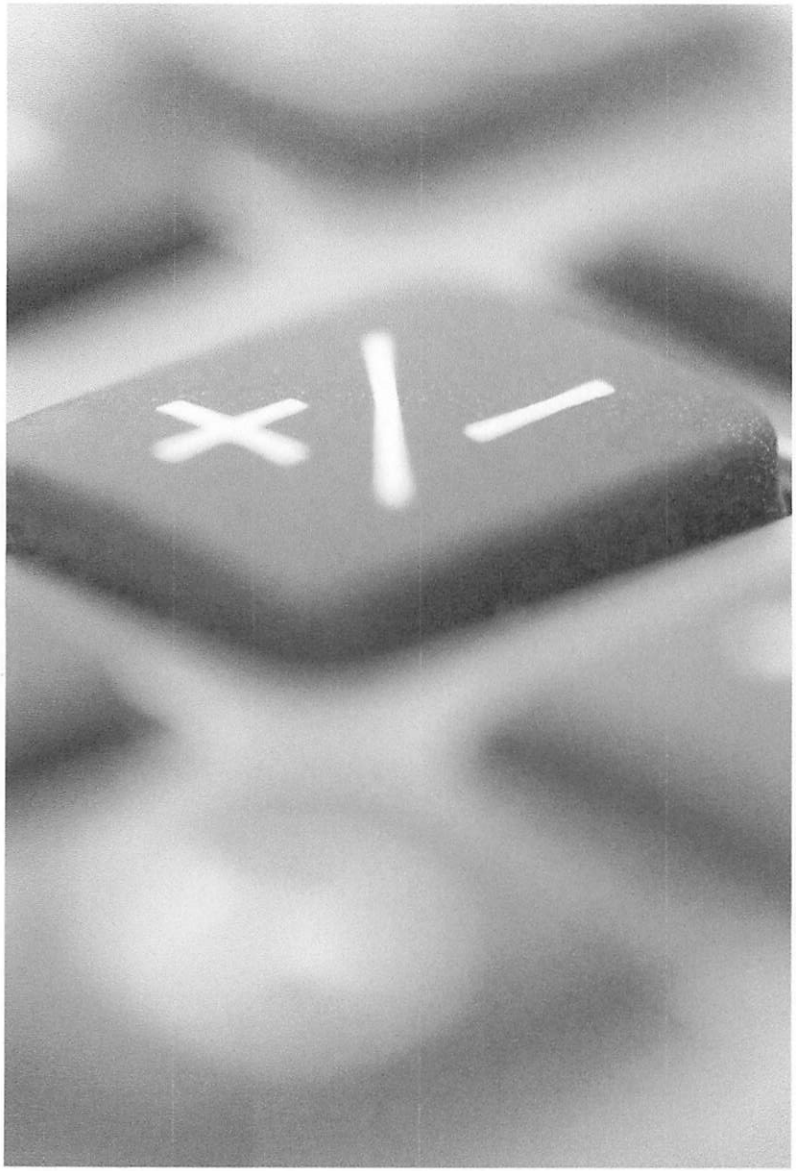
Adopting a residential tax exemption increases the residential rate. The amount of the tax levy paid by the residential class remains the same, but because of the exempted residential valuation, the levy is distributed over less assessed value.

This higher rate creates a shift within the class that reduces the taxes paid by homeowners of moderately valued properties. Those taxes are then paid by non-owner-occupied residential properties.



How Is It Calculated?

- A = Total Residential Value = $10,001,319,336
- B = Total Residential Parcel Count =12,654
- C = Average Residential Value = $790,368.21
- D = Selected Residential Exemption % = 30%
- E = Residential Exemption = $237,110.46
- F = Number of Eligible Residential Parcels = 8,400 (est)
- G = Total Residential Exemption Value = $1,991,727,890.53
- H = Total Residential Val. minus Exemption $8,009,591,445.47



How Is It Calculated? (cont'd)

- The total residential value (A) is divided by the total residential parcel count (B): A/B= C

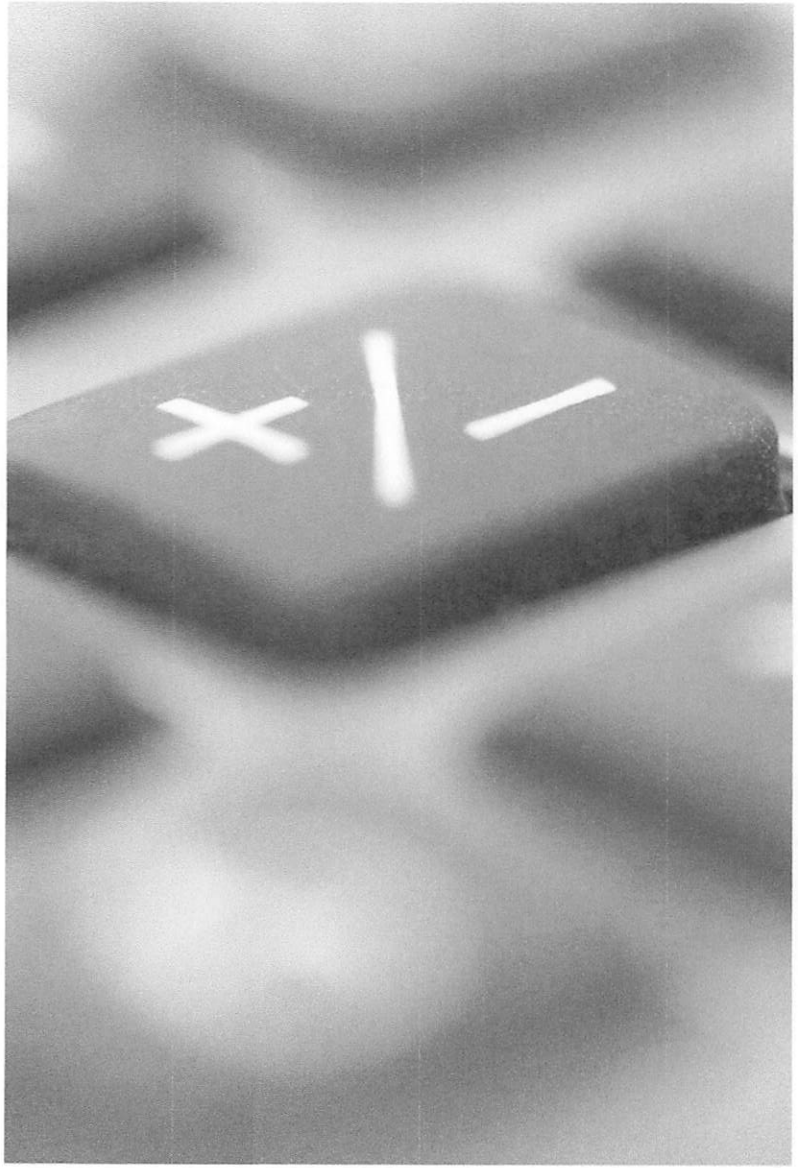
  $10,001,319,336.00 / 12,654 = $790,368.21

- The average residential value (C)is then multiplied by the selected residential exemption % (D) to get the residential exemption (E) : C*D = E

  $790,368.21 x .30 = $237,110.46

- The residential exemption (E) is them multiplied by the number of eligible parcels (F) resulting in the total residential exemption value (G): E*F= G

  $237,110.46 x 8,400 = $1,991,727,890.53



How Is It Calculated? (cont'd)

- The total residential value (A) is then reduced by the total residential exemption value (G) to determine the total residential value minus exemption (H) : A-G= H

  $10,001,319,336.00 - $1,991,727,890.53 = $8,009,591,445.47

- This value (H) is used to calculate the residential class rate. Because of the total residential exemption value (G) the residential class tax rate increases.
- The total tax levy for the residential class stays the same, and the property tax burden shifts

The Break Even Point

- There is a point where the assessed valuation of a parcel without any exemption is benefit neutral.
- The break even point (I) is calculated as the total residential value (A), divided by the number of eligible parcels (F): A/F = I

$10,001,319,336.00 / 8,400 = $1,190,633.25

30% vs. 35%

For Owner-Occupied Properties:

With 30% Residential Exemption				
	Property #1	**Property #2**	**Property #3**	**Property #4**
	Below Break Even	**Average Value**	**Break Even**	**Above Break Even**
Assessed Value	$500,000.00	$1,000,000.00	$1,190,650.00	$1,500,000.00
Bill With No Exemption ($10.08)	$5,040.00	$10,080	$12,002	$15,120
Exemption Amount	$237,110.00	$237,110.00	$237,110.00	$237,110.00
Net Value	$262,890.00	$762,890.00	$953,540.00	$1,262,890.00
Tax Bill with 30% Exemption	**$3,007.00**	**$8,727.00**	**$10,909.00**	**$14,447.00**
Actual Savings with Exemption*	**$2,003.00**	**$1,353.00**		
Extra Cost of Exemption			**$1,619.00**	**$2,040.00**
With 35% Residential Exemption				
Assessed Value	$500,000.00	$1,000,000.00	$1,190,650.00	$1,500,000.00
Exemption Amount	$276,629.00	$276,629.00	$276,629	$276,629
Net Value	$223,371.00	$723,371.00	$1,190,650	$1,500,000.00
Tax Bill With 35% Exemption	**$2,598.00**	**$8,413.00**	**$13,839.00**	**$17,445.00**
Actual Savings with Exemption*	**$2,442.00**	**$1,667.00**		
Extra Cost of Exemption			**$1,837**	**$2,325.00**

**compares exemption % with no exemption at all*

30% vs. 35%

For Non-Owner-Occupied Properties:

With 30% Residential Exemption				
	Property #1	Property #2	Property #3	Property #4
	Below Break Even	Average Value	Break Even	Above Break Even
Assessed Value	$500,000.00	$1,000,000.00	$1,190,650.00	$1,500,000.00
Exemption Amount	$0.00	$0.00	$0.00	$0.00
Net Value	$500,000.00	$1,000,000.00	$1,190,650.00	$1,500,000.00
Tax Bill with 30% Exemption	**$5,720.00**	**$8,727.00**	**$13,621.00**	**$17,160.00**
Actual Savings with Exemption*				
Extra Cost of Exemption	$680.00	$1,353.00	$1,619.00	$2,040.00
With 35% Residential Exemption				
Assessed Value	$500,000.00	$1,000,000.00	$1,190,650.00	$1,500,000.00
Exemption Amount	$0.00	$0.00	$0.00	$0.00
Net Value	$500,000.00	$1,000,000.00	$1,190,650	$1,500,000.00
Tax Bill With 35% Exemption	**$5,815.00**	**$11,630.00**	**$13,847.00**	**$17,445.00**
Actual Savings with Exemption*				
Extra Cost of Exemption	$775.00	$1,550.00	$1,837	$2,325.00

**compares exemption % with no exemption at all*

Who Makes Up The Difference?

Some examples of how large apartment buildings are affected:

Non-Eligible Properties - With & Without Exemption Program			
	Property #1	Property #2	Property #3
Assessed Value	$25,000,000	$50,000,000.00	$100,000,000.00
Exemption Amount	$0.00	$0.00	$0.00
Net Value	$25,000,000.00	$50,000,000.00	$100,000,000.00
Tax Bill With No Program	$252,000.00	$504,000.00	$1,008,000.00
Tax Bill w/30%	$286,000.00	$572,000.00	$1,144,000.00
Tax Bill w/35%	$290,750.00	$581,500.00	$1,163,000.00

Questions?
Comments?

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