

Living with the Residential Exemption

Randall Gilbert – DLS Summer Fellow

Tony Rassias – Bureau of Accounts Deputy Director

What is the Residential Exemption?

Enacted 1979, the residential 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 lands.

How It Works

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.

Adopting a residential exemption increases the residential tax 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 with moderately valued properties. Those taxes are then paid by owners of rental properties, vacation homes and higher valued homes.

Residential Exemption Calculation

The following steps can be used by a community to calculate the residential exemption and its impacts.

A = Total Residential Value

B = Total Residential Parcel Count

C = Average Residential Value

D = Selected Residential Exemption %

E = Residential Exemption

F = Number of Eligible Residential Parcels

G = Total Residential Exemption Value

H = Total Residential Value minus Exemption

The Total Residential Value (A) is divided by the Total Residential Parcel Count (B) to reach the Average Residential Value (C).

$$A / B = C$$

The Average Residential Value (C) is then multiplied by the Selected Residential Exemption % (D) to get the Residential Exemption (E).

$$C * D = E$$

The Residential Exemption (E) is then multiplied by the Number of Eligible Residential Parcels (F) resulting in the Total Residential Exemption Value (G).

$$E * F = G$$

The Total Residential Value (A) is then reduced by the Total Residential Exemption Value (G) to determine the Total Residential Value minus Exemption (H).

$$A - G = H$$

This value (H) is used to calculate the residential class tax rate. Because of the Total Residential Exemption Value (G), the residential class tax rate increases. The total tax levy for the residential class will remain the same and the property tax burden shifts.

The Division of Local Services provides an online calculator that allows communities to estimate the impacts of adopting the residential exemption. To view this resource, please [click here](#).

The Break-Even Point & the Tax Bill

The break-even point is the point at which the assessed valuation of a parcel without any exemption is benefit neutral. In effect, a residential property at this valuation point would pay the same amount regardless of the community's adoption of the exemption.

The Break-Even Point (I) is calculated as the Total Residential Value (A), divided by the Number of Eligible Residential Parcels (F).

$$A / F = I$$

Once the DLS Bureau of Accounts certifies the tax rate, the exemption is applied to all eligible residential parcels. Municipalities are required to display the exemption amount on all tax bills and indicate the abatement application deadline. If a taxpayer does not receive a residential exemption, an abatement application can be submitted to the Board of Assessors within three months of the date the tax bill was mailed.

For an example of how the residential exemption impacts various properties, please see below.

<u>Without the Residential Exemption</u>				
	Property #1	Property #2	Property #3	Property #4
Assessed Value	\$600,000	\$746,733	\$800,000	\$700,000
Tax Rate	\$11.32	\$11.32	\$11.32	\$11.32
Tax Bill	\$6,792	\$8,453	\$9,056	\$7,924
<u>With the Residential Exemption</u>				
	Property #1 (below break-even)	Property #2 (break-even)	Property #3 (above break-even)	Property #4 (nonresident)
Assessed Value	\$600,000	\$746,733	\$800,000	\$700,000
Exemption	\$99,740	\$99,740	\$99,740	\$0
Net Value	\$500,260	\$646,993	\$700,260	\$700,000
Tax Rate	\$13.06	\$13.06	\$13.06	\$13.06
Tax Bill	\$6,533	\$8,450	\$9,145	\$9,142
Savings with the Exemption	\$259	\$3		
Cost with the Exemption			\$89	\$1,218

Residential Exemption Communities

Residential exemptions are voted annually. Communities that choose to adopt the exemption often have the following characteristics:

- Large cities or towns with many nonowner-occupied properties like apartment buildings
- Resort communities with many seasonal residents

Below is a list of municipalities with the residential exemption and the dollar impact of the exemption.

Community	Residential Exemption Percentage	Exemption \$		Community	Residential Exemption Percentage	Exemption \$	
		Amount Based on FY19 Avg. Assessed Value	Community			Amount Based on FY19 Avg. Assessed Value	Community
Barnstable	20%	\$934	Provincetown	25%	\$1,147		
Boston	35%	\$2,719	Somerset	10%	\$508		
Brookline	21%	\$2,593	Somerville	35%	\$3,105		
Cambridge	30%	\$2,232	Tisbury	18%	\$1,511		
Chelsea	30%	\$1,897	Truro	20%	\$952		
Everett	25%	\$1,468	Waltham	35%	\$2,384		
Malden	30%	\$2,158	Watertown	23%	\$1,907		
Nantucket	25%	\$1,741	Wellfleet	20%	\$833		

Many municipalities provide additional information regarding their reasons for adopting the exemption on their websites.

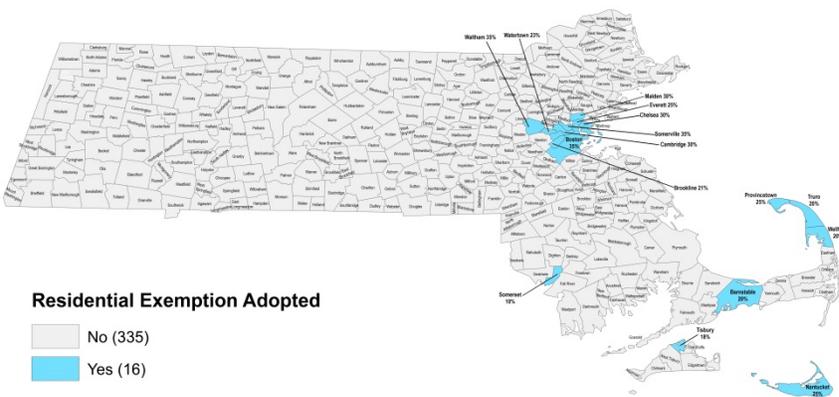
- Boston – *The residential exemption reduces your tax bill by excluding a portion of your residential property's value from taxation. Last fiscal year, the residential exemption saved qualified Boston homeowners up to*

\$2,719.09 on their tax bill.

- Brookline – *The intent of the exemption is to promote owner occupancy and is designed to provide a proportionately greater benefit to lower valued homes.*
- Cambridge – *The residential exemption serves to reduce the effective tax rate on lower valued properties while raising it on higher valued properties. Since the same amount is deducted from every value, its impact is greatest on the lower valued properties.*
- Malden – *The Malden City Council and the Office of the Mayor adopted the Residential Exemption which is intended to lessen the tax burden on eligible homeowners. The Residential Exemption establishes a "graduated tax", reducing the taxes of lower valued properties while increasing the taxes of higher valued properties and non-owner-occupied residential properties.*
- Tisbury – *The purpose of the residential exemption is to reduce property taxes for year-round residents, particularly those with modest homes.*
- Truro – *The purpose of the residential exemption is to reduce property taxes for year-round residents.*

The below map includes each municipality's residential exemption percentage and the dollar impact of the exemption on each communities FY2019 average assessed value.

Residential Exemption as of FY2019



To view a larger version of this map, please [click here](#).

More information on the residential exemption can be found in the Ask *DLS* section of the [September 1st, 2016 edition of City & Town](#)