

# **The Residential Exemption**

**prepared by**

**Jay E. Closser  
Town Appraiser**

**for the**

**Town of Concord  
Board of Assessors**

**on**

**November 25, 1998**

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## **Introduction**

This paper discusses the mechanics of the residential exemption as it appears in the General Laws of Massachusetts, see addendum. Those groups of taxpayers who will benefit and those who will lose from the exemption are identified. There is a discussion of the long term effects of the exemption and a review of current policies affecting housing in Concord.

### **I. What is the Residential Exemption?**

The residential exemption is a taxation option available to municipalities throughout the Commonwealth of Massachusetts that allows for a shift in taxes from homes valued below the average Class One value to those valued above the average.

Currently eleven municipalities in Massachusetts use the residential exemption: Boston, Brookline, Cambridge, Chelsea, Marlboro, Nantucket, Somerset, Somerville, Tisbury, Waltham, and Watertown. In Boston, Brookline, Cambridge, Chelsea, Marlboro, Somerville, Waltham, and Watertown large apartment populations exist who are paying for the residential exemption. In Nantucket and Tisbury, there is a large second home population. In Somerset 60% of the tax base comes from two large power plants which removes the taxation burden from residences.

### **II. Mechanics of the residential exemption. How does it work?**

#### **A. Finding the average value**

In order to find the average value we need: the total value and the total number of all Class One properties. Class One parcels include all single family residences, two and three family houses, apartment buildings, and vacant land. As shown on the Assessor's LA-2 form, the total Class One value for Fiscal 1999 is \$2,040,009,415 and the total number of Class One parcels is 5,439. Therefore, the average Class One parcel value is \$375,070.

#### **B. Determining the exemption amount (up to 20%)**

The law allows the exemption to be up to 20% of the average Class One parcel. A 10% exemption would be \$37,507; a 20% exemption would be \$75,014.

#### **C. Establishing the number of primary residences**

As the law states, only primary residences, as used for income tax purposes, are eligible for the exemption. This excludes apartments, rental housing, vacant land, and non-primary residences. According to Assessing records there are approximately 5,066 primary residences in Concord (to get the precise number would require an extensive review of census, voting, and utility, as well as, assessing records. Further, the number would be constantly changing).

D. Calculating the tax rate with the exemption

With the adoption of a residential exemption the residential tax rate goes up. Last Year, in Fiscal Year 1998, the Class One total value was \$2,039,361,195. The tax levy to be raised by Class One was \$27,041,939. Therefore, the tax rate for FY 1998 is the quotient of (A) - the Class One tax levy, and (B) - the Class One total value, or .01326

which equals \$13.26 per thousand.

If a residential exemption of 10% had been enacted in FY 1998, the Class One total would have been reduced by the product of (A) - the number of primary residences (including condos), and (B) - the 10% exemption of the average Class One value, or, 5,070 x \$40,224, which equals \$203,935,680. Therefore, under a 10% residential exemption the 1998 residential tax rate would have been \$27,041,939/\$1,835,426,235 or \$14.70 per thousand.

At 20%, the residential exemption would have caused the tax rate to go up to \$16.60 per thousand.

E. Determining the tax with the exemption

As shown in the preceding section, at 10%, in 1998, the residential exemption would have resulted in a Class One tax rate of \$14.70; a 20% exemption would have resulted in a rate of \$16.60. In order to determine the tax under the exemption, it is necessary to subtract the exemption amount (at 10% = \$40,224; at 20% = \$80,443) from an eligible property's assessment and then multiply by the applicable tax rate. For example an eligible property assessed at \$225,000, and one at \$600,000 would be taxed at the following amounts, given: 1) no exemption; 2) 10% exemption; 3) 20% exemption:

<u>Assessment</u>	<u>Exemption</u>	<u>Assessment After exemption</u>	<u>Tax Rate</u>	<u>Tax</u>
(1) \$225,000	0%	\$225,000	\$13.26	\$2,983
	10%	\$184,776	\$14.70	\$2,716
	20%	\$144,557	\$16.60	\$2,399
(2) \$600,000	0%	\$600,000	\$13.26	\$7,956
	10%	\$559,776	\$14.70	\$8,228
	20%	\$519,557	\$16.60	\$8,624

Under the residential exemption, apartments, vacant land, and non-primary residences would be taxed at the higher tax rate without the reduced assessment.

**III. Who benefits from the residential exemption?**

A. How many residences will be affected and how much will the savings be?

Anyone whose primary residence is assessed at less than \$372,160 would receive a lower tax bill under the residential exemption. According to the Assessors records about 2,700 primary residences (see histogram in addenda), out of a total of 5,439 Class One parcels, would receive reductions in their tax bills up to \$200 if a 10% residential exemption were adopted. If a 20% exemption were enacted the tax savings would be as much as \$400.

B. Who comprises this group?

It is very difficult to determine the financial health of this group, but it can be stated that the 2,700 primary residences valued under \$372,160 in Concord contain a broad spectrum of people comprised of:

- 1) **People of limited means** - People of limited means could be people with low fixed incomes, handicapped persons, or people who don't earn very much money for whatever reason. This group would be helped by the residential exemption.
- 2) **First time home buyers** - First time home buyers are often paying between \$1,200 and \$2,000 per month in mortgage payments (a \$200,000 mortgage at 8% for 30 years costs \$1,467 per month not including taxes and insurance). A tax cut of \$200 to \$400 per year (\$16.67 to \$33.33 per month) would help first time buyers, but by far the mortgage payment is the most insurmountable barrier to ownership of entry level homes.
- 3) **People of ample means** - Sometimes the value of a person's home does not reflect overall financial worth, and some people of ample means may choose to live in smaller homes. These people would also benefit from the residential exemption.

C. What neighborhoods will benefit?

The majority of homes that would benefit from a residential exemption are located in eight identifiable neighborhoods:

- 1) **Neighborhoods 4 & 5** - around Nine Acre Corner and White Pond, with 206 homes valued below the average value;
- 2) **Neighborhood 8** - Thoreau Hills, with 99 homes below the average value;

- 3) **Neighborhood 11** - West Concord, with 472 homes below the average value;
- 4) **Neighborhood 12** - between the Depot and Route 2, with 301 homes below the average;
- 5) **Neighborhood 13** - Main Street outside of Concord Center, with 507 homes below the average;
- 6) **Neighborhood 15** - Old Bedford Road, Ash Street, Nancy Road, to the Bedford line, with 472 homes below the average value;
- 7) **Neighborhood 18** - Lawsbrook Road to the Acton line, with 169 homes below the average.

For more neighborhood information see addendum.

#### **IV. Who pays?**

According to the assessor's records there are about 2,739 properties that would face increased taxes if the residential exemption were adopted. These properties consist of:

##### **A. Home with values above the average**

People whose homes are valued higher than the average value home, or greater than \$372,160, would see tax increases if the residential exemption were adopted. According to the Assessors records there are 2,739 residences above the average in Concord.

##### **1. Who comprises this group?**

There are five broad categories of people who own higher priced homes:

1) **People with increasing incomes.** These people who are moving to more expensive homes as their incomes increase, Presumably, they can afford their acquisitions.

2) **Elderly persons who own large homes** and may or may not be wealthy. In some cases this group is feeling pressure from higher real estate taxes.

3) **People raising families** seeking larger homes with more bedrooms.

This group is often forced to move away from Concord in search of less expensive 3 and 4 bedroom houses. In Concord houses tend to sell for about \$150,000 per bedroom. People with a third or fourth child on the way are often forced to

buy larger homes whether they can afford them or not. Higher real estate taxes would hurt this group.

- 4) **Family farms.** In nearly all cases family farms would receive higher tax bills if the residential exemption were adopted.
- 5) **Wealthy individuals.** Many expensive homes are owned by wealthy individuals who can certainly afford higher real estate taxes, although they may feel they are being taxed enough already.

2. How much will the tax increase be?

The range of tax increases for those above the average value would be from \$1 to \$2,500 with a 10% residential exemption; and from \$2 to \$5,000 with a 20% exemption. At 10%, about 1,400 households would receive tax increases up to \$200; at 20%, that same number would receive increases up to \$400. Owners of residences valued above the average value are currently paying taxes ranging from \$4,600 to \$50,000. Those valued under the average pay taxes ranging from \$600 to \$4,600.

3. What neighborhoods will be influenced?

There are eight distinct neighborhoods that would see tax increases under the residential exemption:

- 1) **Neighborhood 1** - Nashawtuc Hill - 102 homes above the average;
- 2) **Neighborhood 2** - Crescent Street, Hosmer, between Elm Street and Route 2 with 148 homes above the average;
- 3) **Neighborhood 6** - Williams Road, Seven Star Lane, etc., with 121 homes above the average;
- 4) **Neighborhood 7** - Deacon Haynes, Caterina Heights, Indian Pipe Lane - with 269 homes above the average;
- 5) **Neighborhood 14** - Liberty Ridge, Lexington Road - with 209 homes above the average;
- 6) **Neighborhood 16** - Monument Street, Ripley Hill, Great Meadows - with 352 homes above the average;
- 7) **Neighborhood 17** - Lowell Road, Indian Spring, Westford Road, Spencer Brook - with 192 homes above the average; and
- 8) **Neighborhood 19** - Annurnsnac Hill, College Road, Strawberry

Hill Road - with 222 homes above the average.

B. Apartment dwellers

1. How many apartment dwellers are there?

There are about 600 rental units in Concord; 277 are in apartment buildings and the rest are in single and multi-family homes.

2. Who comprises this group?

In the nine major apartment buildings there are about 131 people over 65 years of age. Many of this group are retired and on a fixed income. Apartment dwellers are most often the neediest housing group, unable to afford a house and unable to control costs as rents increase.

3. What effect will the residential exemption have on rents?

Since apartments are excluded from the residential exemption they would receive higher tax bills under the residential exemption. Since the owners would pass these costs on to tenants, rents would go up. At Wedgewood Common, for example, there are 69 rental units:

A) If a 10% residential exemption were enacted, rents could go up about \$100 per year;

B) At 20%, rents would go up \$220 per year.

At Wedgewood Common there are 22 people over the age of 65 years.

4. Will this increase pressure apartment owners to convert to condominiums?

As long as apartment owners can pass increased costs along to tenants and still make a profit they will remain in the rental business. When costs begin to outpace rents there is pressure to convert to condominiums.

In Weymouth, Massachusetts, the residential exemption was adopted in 1982. The plan was to shift taxes to apartments and second homes. From 1982 to 1985, due to a number of economic factors, many of the apartments were converted to condominiums. Weymouth came out of the residential exemption in 1986 in response to complaints of the many taxpayers who were receiving higher bills.

C. Vacant Land

1. How many vacant land parcels are there?

There are 170 Class One parcels of vacant land. Like apartments, vacant land would be excluded from the residential exemption.

2. How much will taxes go up?

A) At 10% Class One vacant land taxes would go up by 10.13%.

B) At 20%, the tax would go up by 22.8 %.

**V. What are the potential long term effects of the residential exemption?**

A. Those who benefit from the residential exemption will get about two year's reprieve from a tax increase.

From Fiscal 1998 to 1999 real estate taxes went up by 4.97%. If a 10% residential exemption had been granted, in Fiscal 1999, that same house would have received a \$225 reduction. If the tax levy were to continue to go up by 4.97% through Fy 99, and the 10% residential exemption were continued, taxes on the \$225,000 house would continue to go up. But the base for the increase would have been \$2,668 rather than \$2,893.

To illustrate:

	Fy '98	Fy '99	Fy '00
1) Tax without exemption	\$2,893	\$3,036	\$3,186
2) Tax with exemption	\$2,668	\$2,800	\$2,939

In this situation, the residential exemption would turn back time by about two years with respect to real estate taxes, i.e., the Fy 01 tax with the exemption is only \$60 less than the Fy 99 tax without the exemption.

In this scenario if the exemption were not granted in Fy00, the same house would see an 11.7% tax increase rather than 4.97% (assuming taxes were to go up by 4.97%). Once the residential exemption is granted, its removal would cause exorbitant tax increases to those who were eligible for it. Various political factors could lead to the exemptions rescission. In Concord, for example, the 2,739 taxpayers whose taxes would increase under the exemption might mount a successful campaign to remove it.

B. Rents will increase. As a consequence some renters may be forced to leave town.

C. The potential for divisiveness at town meeting. Who will be bearing the burden for large expenditure items such as the purchase of open space or school projects?

## **VI. Other possibilities for helping the affordable housing situation**

### **A. Statutory exemptions currently available**

At present there are 13 statutory exemptions available to Massachusetts taxpayers. These exemptions cover hardship cases, poverty, infirmity, blindness, disability, age, and tax deferral. The exemption amounts range from \$175 to \$2,000. In FY 1998 there were 169 statutory exemptions granted for a total of \$78,399 in exemptions. All applications are confidential. Deliberations on these exemptions are handled by the Board of Assessors in executive session.

The Assessors have made substantial efforts to make people aware of these exemptions. It is believed more can be done by working through various town organizations, such as the Council on Aging, or the Housing Authority. Such an effort could help to spread the word and ensure people of the confidentiality of the process so that they will feel more comfortable about applying when the need exists.

### **B. Housing Authority**

Current law requires that every town in the Commonwealth have at least 10% of its housing stock available for low to moderate income people. If this requirement is not met developers can apply to the state for a comprehensive zoning permit which bypasses the local process in an effort to expedite the building of such housing. Concord should have about 490 low to moderate income units. At present there are about 125. A major increase in this housing stock would help mitigate the current affordable housing problem.

### **C. Zoning initiatives**

Additional effort could be made to insure that zoning bylaws are designed to accommodate affordable housing. In addition to inclusionary requirements (as currently exist with PRDs), perhaps options could be made available to developers that would make the construction of affordable housing more profitable.

The Town of Amherst has provided density bonuses for affordable housing, so that developers can build more units on less land. In order to control the process, however, the town has designed guidelines that developers must adhere to in return for the density bonuses.

### **D. Examples of new legislation that could be sponsored by the Town**

1) In the state of Maryland property owners can deduct from their state income tax that portion of their real estate taxes that exceeds 10% of their gross income.

2) In Vermont people on fixed incomes get a break on their school tax, the assumption being that after a certain point enough of a contribution has been made.

3) Low to moderate income housing should be protected in perpetuity rather than on a term basis.

E. Public and private initiatives

1) In Duxbury the "Open space/Recreation planning committee" and the "Task force on affordable housing" joined forces to convince town meeting voters to vote in favor of a project to be built on public lands that provided for 20 housing units of which seven were for low to moderate income persons. The town decided that a mix of market and low to moderate units was preferable because it would counter the stigmatization associated with low to moderate income housing. Open space needs were also served by preserving 70% of the site in perpetuity as open land.

2) The Town of Lincoln renovated a house that it owned and turned it over to the Housing Authority to be rented as affordable housing. The town agreed to pay the utilities, while the renting family will pay 25% of its income. The remainder of the rent will be provided by the Housing Authority.

3) On Martha's Vineyard a private non-profit organization, the Vineyard Open Land Foundation, develops land with the primary aim of preserving open space and providing affordable housing.

## **Conclusion**

The residential exemption, if enacted in Concord this year, would provide some relief to 2,700 homeowners whose primary residences are valued below \$372,000. About half of the Class One parcels would receive tax reductions up to \$200 with a 10% exemption; up to \$400 with a 20% exemption. On the other hand about 2,739 parcels (including primary residences, apartments, vacant land, and non-primary residences) would see increases in their tax bills of as much as \$2,500 at 10%; as much as \$5,000 at 20%. All of the 600 rental units would most likely face rent increases. It is estimated that about 35% of people who live in apartments are over 65 years of age. Those who benefit and those who lose under the exemption can be clearly defined by the neighborhoods they live in.

In the long term the residential exemption will turn back the clock on real estate taxes by about two years for those who benefit. If taxes continue to go up the savings will be eroded by further increases. If the residential exemption were enacted, its rescission would cause exorbitant tax increases to those who had benefited from it.

The residential exemption could cause some apartments to be converted to condominiums. It could also speed the development of vacant land.

The affordable housing problem in Concord can be assuaged by increased Town efforts to build more low to moderate income units. Further utilization of the statutory exemptions currently available would be helpful for specific needs. Inclusionary zoning and development options could be expanded as in Amherst. New legislation could be sponsored by the town, such as tax credits for real estate taxes, or a cut-off point for contributions to school taxes. Finally, public and private efforts could be further encouraged to build affordable housing. Such initiatives have taken place in Duxbury, Lincoln, and Martha's Vineyard.

## **ADDENDUM**

## **The Residential Exemption**

As defined by chapter 59 section 5C of Massachusetts General Laws: "With respect to each parcel of real property classified as Class One, residential,.....at the option of the board of selectmen....., there shall be an exemption equal to no more than (20%) of the average assessed value of all Class One, residential, parcels.....; provided, however, that such an exemption shall be applied only to the principal residence of a taxpayer as used by the taxpayer for income tax purposes. This exemption will be in addition to any exemptions allowable under section 5; provided.....that in no instance shall the taxable valuation of such property.... be reduced below ten percent of its full and fair cash valuation, except through the applicability of section eight A of chapter fifty-eight and of clause Eighteenth of section five..... For purposes of this paragraph, "parcel" shall mean a unit of real property as defined by the assessors in accordance with the deed for such property and shall include a condominium unit."

The adoption of a residential exemption now requires a majority vote by town meeting voters (Chapter 126, signed July 14, 1988).

## **Residential Exemption**

**Chelsea - Why did they adopt it?** - To give the homeowners who actually live in the properties a tax break.

**Advantages** - It helps the apartment owners who also live in the apartment buildings. It gives a tax break to owners of homes valued at less than \$100,000. The homeowners have responded favorable to it.

**Disadvantages** - While it gives a tax break to the homeowners on the lower end of the scale, it gives a tax increase to those on the higher end of the scale. Those valued below \$100,000 get a tax break, while those valued at \$300,000 etc. get a tax increase.

**Marlboro - Why did they adopt it?** - To give the homeowners whose homes are valued at \$100,000 or less a tax break.

**Disadvantages** - Penalizes those with the higher priced homes by giving them a tax increase, while those with the lower priced homes get a tax decrease. The tax increase starts to add up for those with the higher priced homes.

**Somerville - Why did they adopt it?** - Adopted by the Board of Alderman and has been in effect for the past 6 or 7 years.

**Advantages** - Helps those who need it, with the homes valued at less than \$100,000. Ends up being about a \$274 savings per year per property. They don't think it penalizes those with the higher priced homes.

## Neighborhood key

- N1 - Nashawtuc Hill: Musketaquid, Musterfield, Nashawtuc, Simon Willard, Squaw Sachem, Willard Common
- N2 - Crescent, Hosmer, Nashoba, Park Lane, Wood, etc.
- N3 - Conantum: Heath's Bridge, Holdenwood, Garfield, Martha's Point, The Valley, etc.
- N4 - Nine Acre Corner:
- N5 - White Pond: Dover, Shore, White, etc.
- N6 - Williams Road, Old Road to Nine Acre Corner, Seven Star Lane, etc.
- N7 - Caterina Heights, Deacon Haynes, Stone Root Lane, Indian Pipe Lane, etc.
- N8 - Thoreau Hills
- N9 - Ministerial Drive, Tarbell Spring Road, Lapham Road, Loring Road
- N10 - Nimrod Road, Adams Road, Coburn Hill Road, Assabet Road, Commerford Road
- N11 - West Concord
- N12 - Between Depot and Route 2: Southfield, Whittemore, Belknap, etc.
- N13 - Concord Center
- N14 - Liberty Ridge, Sandy Pond Road, Hawthorne Lane, etc.
- N15 - Old Bedford Road, Ash Street, Nancy Road, Meriam Road, Dalton Road, etc.
- N16 - Monument Street, Ripley Hill, Great Meadows, etc.
- N17 - Lowell Road, Indian Spring, Hugh Cargill, etc.
- N18 - Buckmaster, Hill Street
- N19 - Annursnac Hill, College, Crowell Farm, Isaac Davis, Strawberry Hill, Temple, etc.

