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Massachusetts Budget and Policy Center

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FACTS AT A GLANCE

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# MA Property Taxes: Who Pays?

## Recommendations for More Progressive Policies

*By Phineas Baxandall*

Cities and towns in Massachusetts provide the chief source of support for K-12 education, libraries, local parks, police, firefighters and many other public services and infrastructure that are crucial to communities' quality of life. Property taxes, which are collected at the local level in Massachusetts, represent the biggest source of funding for cities and towns.

The way property taxes are raised greatly affects who contributes a larger or smaller share of their income to taxes in the Commonwealth. Moreover, property taxes affect rents. Once the indirect effects on rents are considered, low-income households pay the highest share of their income in property taxes. Property taxes are a major reason why overall state and local taxes are regressive in Massachusetts. [1]

**Households with the highest 1 percent of incomes on average pay less than 3 percent of their income in residential and commercial property taxes, the smallest share of any group. Those with the lowest incomes tend to pay over 5 percent of their incomes in these taxes.**

Cities and towns collect property taxes according to state rules in order to collect a "levy" amount approved in their municipal budget. Communities may adopt different rules for how they set the tax rates they apply to the value of properties, including for different classes of property: residential property, commercial and industrial property, open space, or personal property.[2] A little under a quarter of 2019 property taxes collected across Massachusetts are levied on commercial or industrial property[3] and are paid mostly by business owners who tend to have higher incomes.[4] If one property owner is asked to contribute less in property taxes, then other properties in that municipality will be asked to pay more.

**Snapshot of findings**

- Cities and towns rely on property taxes as their chief source of revenue to provide vital public services and infrastructure.
- Low- and moderate-income households tend to pay a larger portion of income in property taxes than those with high incomes, especially considering how some taxes get passed on from owners to renters.
- Property taxes on commercial and industrial property are borne more by higher-income households.
- Several current state and local policies mitigate property tax costs for lower-income households, some more effectively than others.
- The paper describes seven policy changes that would lead those with the most means to pay a greater portion of property taxes. Some of these reforms are aimed at directly or indirectly protecting renters or lower-income owners; or owners living in lower-value homes.

This paper describes several policies that currently help low-income residents with their property tax bill or support municipalities with less wealth to collect less property tax. These policies generally have not kept up with the rapidly rising cost of housing and some have become increasingly inadequate.

The final section of this paper outlines seven kinds of state or municipal policies that would reduce the share of property taxes paid by low- and moderate-income residents. The Commonwealth could expand tax credits to households that spend a large part of their low- and moderate incomes on modest housing. Likewise, the Commonwealth can increase state aid to low-wealth communities, reducing the pressure on these low-resource municipalities to raise higher taxes in order to fund public functions. Other policies could redirect responsibility for property taxes more toward those with the greatest ability to pay by adopting residential tax exemptions that also extend to properties with full-time renters. Cities and towns can also establish lower tax rates for low-income rental property; reduce residential property taxes by requiring commercial and industrial property owners to pay a greater share; limit and increase scrutiny of special tax deals granted to large businesses; and overhaul state programs enabling the "house rich and income poor" to defer tax payments.

*A glossary of property tax terms appears at the end of the main text of the paper.*

## The Importance of Property Taxes for Local Communities in Massachusetts

Property taxes represent the largest source of revenue for Massachusetts' 351 municipal governments, fully 63.4 percent of these cities' and towns' total receipts in Fiscal Year 2019.[5] Property taxes totaled $17.33 billion in fiscal year 2019, more than any other tax collected at the state or local level.[6]

Local governments in New England generally rely more on the property tax compared to states in other regions. Elsewhere in the country, local governments – especially counties – often collect more of their own local sales taxes, fuel taxes, income taxes, or other local fees. This is typically not allowed in Massachusetts, except in special circumstances.

- Looking only at local governments own sources of income, in 2012 Massachusetts property taxes represented three-quarters of local government revenue, compared to just under half for local governments in the United States as a whole, according to the U.S. Census of Governments.[7]
- In Massachusetts, elementary and secondary school systems in 2017 relied on local sources for a greater portion of their funding than in 46 other states. Local governments are under extraordinary pressure to raise the revenue for schools, with property taxes the chief source.[8]
- A Lincoln Institute of Land Policy comparison of America's 150 largest cities, which further adjusts fiscal data to account for the budgets of overlapping jurisdictions and differences in services they provide, found that Boston, Springfield, and Worcester were all in the top seven cities in America for greatest reliance on the property tax.[9]

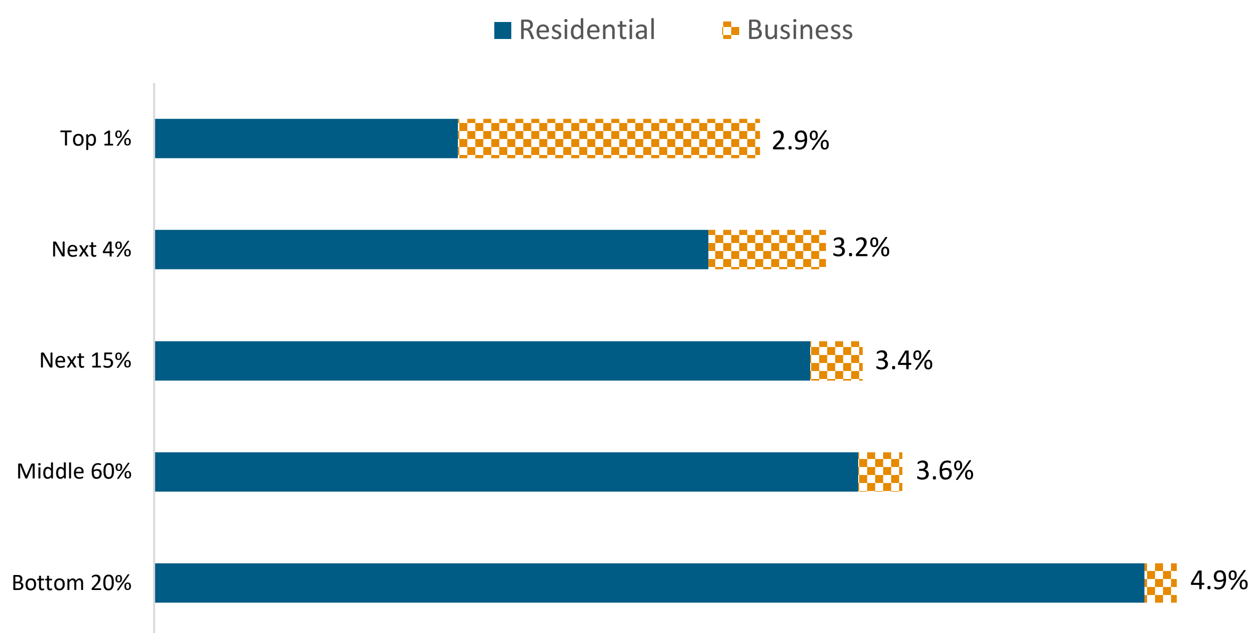
Property taxes in Massachusetts can often create ongoing barriers to opportunity for people of color or others in communities that have been blocked from building wealth. Cities and towns with less housing wealth are less able to generate the municipal revenues to support high-quality local services and infrastructure in their community. Rules imposed by Proposition 2 ½ may further constrain the ability to raise public resources in low wealth communities (see box on page 9).

## Highest-Income Households Pay Lowest Percent of their Income in Property Taxes

The best established analysis of the incidence of state and local taxes for different income groups is conducted by the Institute on Taxation and Economic Policy (ITEP). Their analysis examines on a state-by-state basis both residential and business property taxes, as well as the impact of residential property taxes passed on to renters and commercial and industrial property taxes passed on to consumers.[10] Looking at all these together, ITEP finds the highest-income 1 percent of tax filers in Massachusetts in 2019 paid less than 3 percent of their income in property taxes – the lowest percent of any income group. Meanwhile, those in the middle 60 percent of incomes, the broad middle class, contributed an average of 3.6 percent of their income. And while tax filers in the bottom 20 percent of the income spectrum typically do not own real estate, they nonetheless contributed the most of any group, 4.9 percent of their income, largely in the form of higher rents.[11]

### Households with higher incomes pay smaller percentage of income on property taxes

Percent of income contributed to residential and business property taxes by income group (proj. 2019)




Source: Institute on Taxation and Economic Policy, 2019

The impact of property taxes for income groups is different when we examine taxes on businesses, as opposed to residents. The chart above shows that direct property taxes on businesses (the checkered orange part of the bars) are highly progressive. Households with high incomes tend to hold a disproportionately large share of ownership in businesses and therefore on average pay a larger share of their income in property taxes on commercial and industrial property.[12]

By contrast, ITEP finds that residential property taxes, which includes taxes passed on by landlords to renters and business owners to consumers, are regressive. The residential property taxes are represented by the solid blue part of the bars in the chart above. The highest-income 1 percent of households pay about 1.5 percent of their income in these residential tax costs, while the middle 60 percent of the income spectrum pays 3.4 percent of their income; and those in the bottom 20 percent of incomes pay an average of almost 4.8 percent of their income.

**Regressive and Progressive Taxes**

A tax is progressive if the percent of income people pay for that tax tends to increase as their income rises. Progressive taxes shift taxes away from those with the least ability to pay, and onto people with more income. The federal income tax and most state income taxes are progressive: the higher someone's income, the higher effective tax rate they pay. The estate tax is also highly progressive.

A tax is ***regressive*** if the share of income paid for that tax tends to increase as income decreases. Regressive taxes ask those with the least to contribute the most as a share of income. State taxes on consumption, such as the sales, gas and cigarette taxes, are all regressive. Other user fees such as tolls, transit fares, and drivers' license fees are also regressive forms of revenue collection.

According to the Commonwealth of Massachusetts' 2014 Tax Fairness Commission report, "the overall Massachusetts tax system is regressive, meaning low-income taxpayers pay a larger share of their income in taxes than high-income taxpayers. The regressivity in the overall system is largely associated with factors relating to the property tax and the sales tax."[13]

## Why are Property Taxes Regressive?

It might seem counter-intuitive that property taxes would fall harder on those with lesser means. After all, people with higher incomes are more likely to own real estate and tend to live in more expensive homes. Housing is also a major form of wealth – and wealth is closely linked to income and even more unequally distributed among income groups. [14] Families and individuals with low wealth may struggle to overcome interruptions to income and find themselves locked out of opportunity and economic security.

Differences in wealth fall strongly along racial lines. Due to a longstanding history of institutionalized racism – including barriers to homeownership, good jobs, and education – differences in wealth between whites and people of color are far greater than differences in income.[15] For instance, "redlining" practices explicitly denied federal home loans and mortgages to neighborhoods based on race and ethnicity;[16] and important wealth-building veterans' benefits after World War II were not available to African-American veterans.[17] Tax subsidies for homeowners have further cemented inequalities. The portion of federal mortgage deductions that go to Black and Latinx households are roughly half as much as if these groups received these benefits in proportion to their share of the population.[18] Examining the Greater Boston area, the Federal Reserve Bank of Boston reports that, "Overall, a typical black household earns roughly 60 percent of the typical white household but has only 5–10 percent of its wealth."[19] Racial wealth differences are particularly large in the Greater Boston area. Median white net wealth is almost 75 percent greater than the national white median.

Meanwhile, Black and Hispanic net wealth is substantially lower than the national median for these groups.[20] Racial wealth inequalities have grown over time.

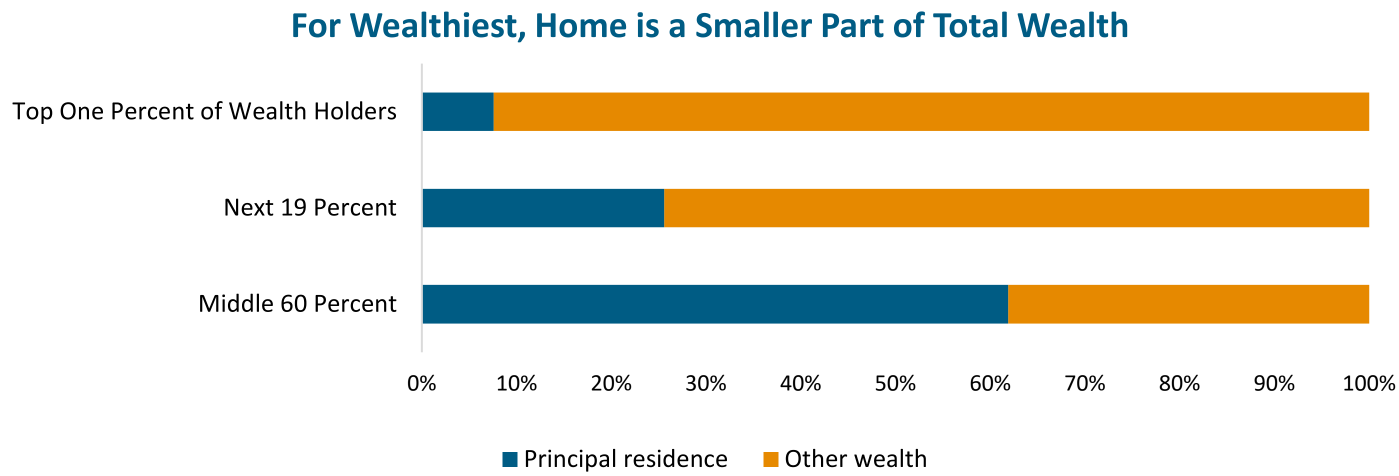
As the only significant tax on wealth other than the estate tax,[21] it might seem that property taxes would fall heavier on higher-income or wealthier households than those with less means.[22] But six factors undermine the potential progressivity of local property taxes:

1) The percent of wealth held in residential housing tapers off at higher levels of wealth;
2) Some portion of property taxes tend to get passed on to renters, and a larger percent of low-income people rent rather than own;
3) Lower-income households spend a far greater share of their income on where they live;
4) Property taxes can reinforce differences between wealthy and poor communities;
5) Expensive homes tend to get assessed by tax authorities at less than their market price – and to greater extent than less expensive homes in the same jurisdiction;
6) "Business incentives" can reduce the share of property taxes paid by commercial and industrial owners.

## 1. The percent of wealth held in residential housing tapers off at higher levels of wealth

While those with greater wealth are more likely to own a home and tend to own more valuable homes,[23] housing nonetheless represents a much smaller percentage of total wealth for those at the top. A few data snapshots make this clear:

- While housing is the most important form of wealth for median wealth holders of all races, Black and Latinx households tend to hold a larger percent of their wealth in their home. For the median wealth white person, owner-occupied housing represents 30.8 percent of their wealth. Meanwhile, for Blacks and Hispanics, owner-occupied housing represents 54.0 percent, and 52.5 percent of their wealth respectively.[24]
- For a typical household in the top 1 percent of wealth holders (those holding net assets of a minimum of $10.3 million or more nationally), 94 percent of their net worth is held in financial resources, mostly unaffected by the property tax.[25]
- For the top 1 percent of wealth holders, their primary residences represent 7.6 percent of their gross wealth, compared to 25.6 percent for the next 19 percent of wealth holders, and 61.9 percent for the middle 60 percent of wealth holders.[26]




**2. Property owners pass on property taxes to their renters**

Renters don't pay property taxes directly, but they do bear the costs to the extent that landlords pass on property tax costs in the form of higher rents. Landlords will pass on different amounts of the property tax bill to tenants depending on the circumstances, but research suggestions the amount is significant [27] (the ITEP analysis uses a model with a 50 percent transfer of property taxes to renters). The impact of owners passing on even a fraction of property taxes will tend to have an outsized impact on renters because renters' incomes tend to be lower than owners' incomes. In Massachusetts, the income of households that own their home is almost two and a half times that of households who rent.[28] If a property owner were to pass on half the cost of a $4,000 property tax bill to their renter, the resulting $2,000 cost represents 2 percent of a median owners' income and 5 percent of a median renter's income.[29]

Some research suggests that a larger percent of property taxes will get passed on to renters in tighter rental markets.[30] Landlords may be more able to pass on cost increases in tighter rental markets, especially in places where zoning laws place greater restrictions on creating new rental housing. When landlords have little pressure from new rental units, they may be less likely to shoulder more of the costs from property taxes. These characteristics generally describe Massachusetts,[31] especially in the Metropolitan Boston region where a majority of the population resides. As a recent report described the region's housing market,

> When supply of new housing does not keep pace with the growing demand created by new workers and young adults forming new households, there is more competition for the existing units. Low rental vacancy rates (just above half of normal) and low for-sale inventory (just above a third of normal) make it a landlord and sellers' market, allowing them to charge top dollar to the highest bidder.[32]

Insofar as this characterizes the Massachusetts housing market, landlords will tend to pass on their property tax costs to renters. If rents are set outside the market by public housing rules or rent control, then tax costs can not be passed on to renters.

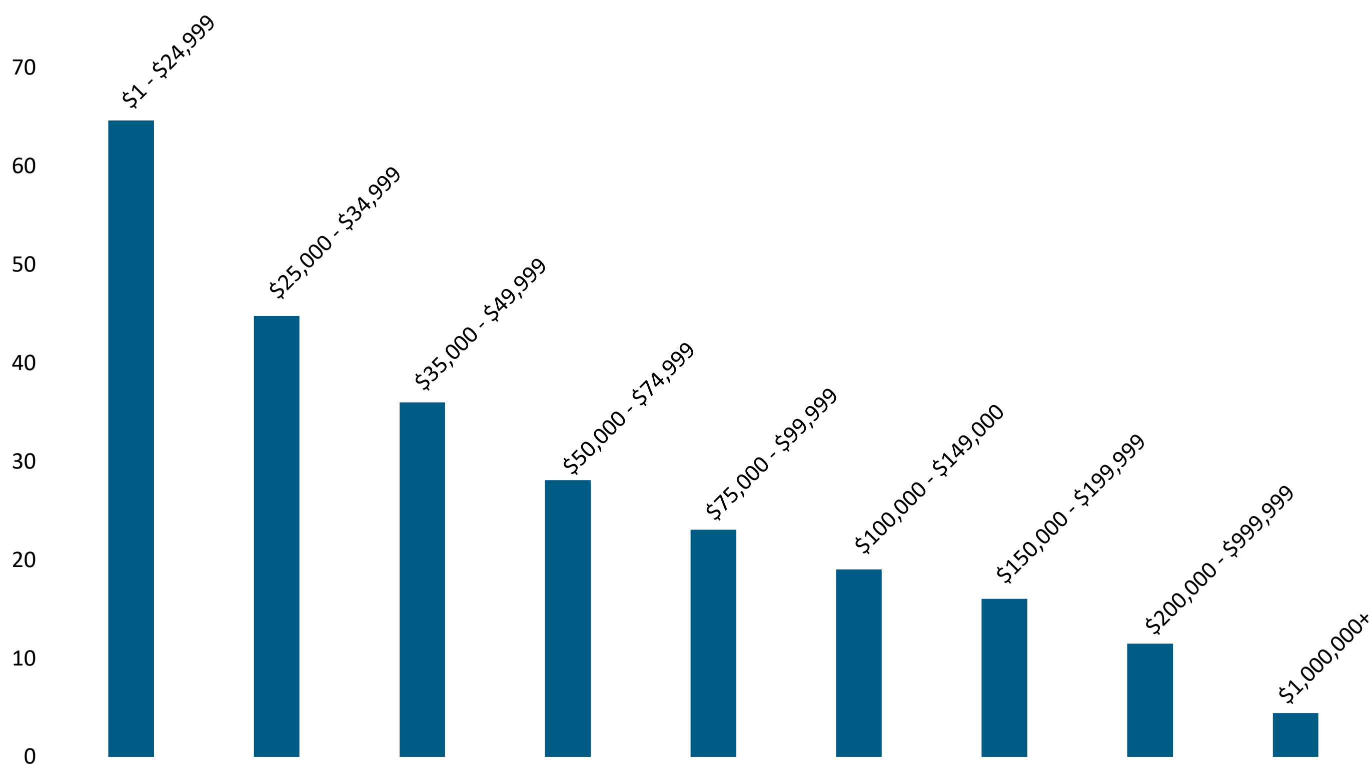
Insofar as renters bear a considerable share of the property taxes paid on their residence, the property tax may also widen racial inequality in Massachusetts. Almost 70 percent of white households in Massachusetts own the unit they live in, compared to a little over half of Asian households, about a third of Black households, and about a quarter of Hispanic or Latinx households.[33]

### 3. Lower-income households spend a far greater share of their income on where they live

To the extent that property taxes get reflected in housing costs, the impact may be proportionally larger for lower-income people simply because a larger portion of their income goes to keeping a roof over their heads. The average share of income spent on housing falls steadily with higher incomes. The chart below examines the combination of rent and owners' costs, including property taxes, for different Massachusetts income groups. Those groups, with incomes below $50,000 spend at least a third of their income on housing, on average. Income groups above $100,000 spend on average less than 20 percent of income on housing. Meanwhile, those with incomes over $200,000 spent less than 12 percent on housing; and those with income over $1 million per year spend less than 5 percent of their income on housing.[34]

**Housing Costs, Including Taxes, are a Smaller Share of Higher Incomes**

Percent of MA household income spent on rent and ownership costs by income group, 2017

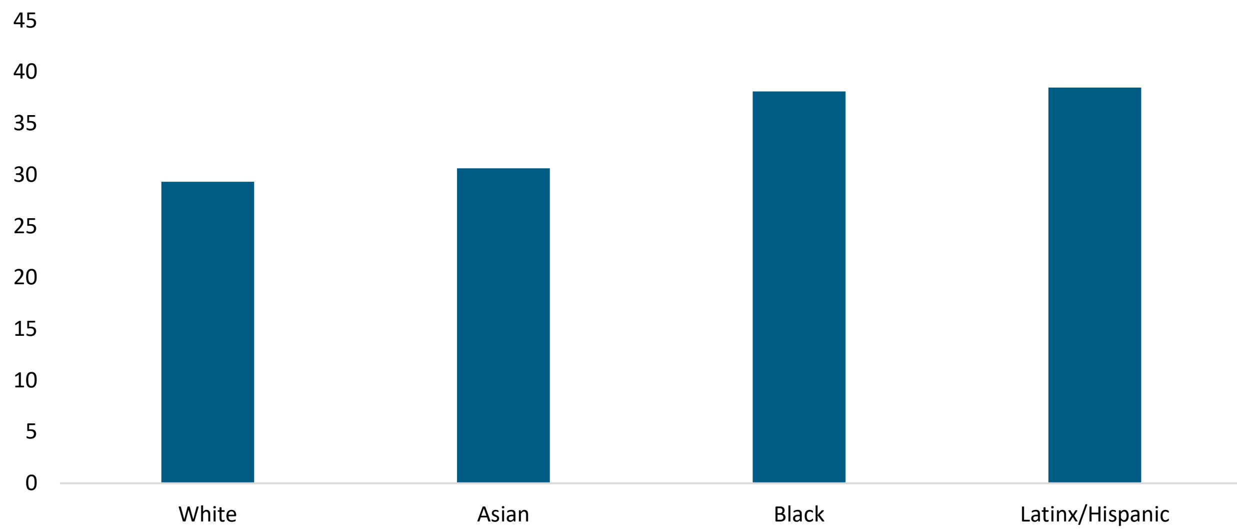



These differences appear to be growing over time. A national study found that between 2008 and 2017 housing costs grew fastest for those with lower incomes.[35] Meanwhile, households with higher incomes in all 100 of the largest metro regions saw their mortgages and rents rise at slower rates. In metro Boston, households with incomes below the national median saw housing costs increase 10 percent during this time, while those with incomes above the national median saw housing costs increase 4 percent.[36]

Different racial and ethnic groups also spend disparate amounts of their income on housing costs. White-headed households in Massachusetts spend on average 29 percent of their income on housing, compared to 38 percent of income for households headed by non-Whites. Asian-headed households spend 31 percent of their income on housing. Black-headed households as well as Latinx/Hispanic-headed households (including Hispanic whites) both spend an average of 38 percent on housing.[37]

**Housing as Percent of Income Differs by Race**

Percent of MA household income spent on rent and ownership costs by race, 2013-2017




### 4. Property taxes can reinforce differences between wealthy and poor communities

Differences between communities in their property wealth are reflected in stark differences in the local property tax revenue available to support public programs and infrastructure in those communities. For instance, the average home value in Newton is over $1 million, while an average home in Springfield is about $170,000.[38] These differences in property wealth largely determine how much property tax revenue is available to support a community's schools, libraries, public safety, and other local programs. These public goods shape residents' access to opportunity. Well-crafted local policies to make property taxes more progressive can reduce economic differences *within* communities. But without additional statewide policies, property tax systems can recreate and even expand economic disparities *between* communities.[39]

Consider, a community with high property values (which often corresponds to residents with high incomes and fewer people of color) that can raise more money at a given property tax rate than can a community with lower property assessments. In order for the two communities to raise comparable amounts of revenue or provide comparable services, the high property value community can adopt a significantly lower tax rate than could the low property value community.[40] In that case, a house in the low-income community would be taxed at a higher rate than a house in the high-income community.[41] Alternately, if the low-income community does not increase its tax rate, then it will collect less revenue to support local services, leading to lower quality public programs and outcomes. Proposition 2 ½ rules may steer some low-income communities toward this route (see box below).[42]

State aid to communities can counteract the extent to which lower-wealth communities are forced to tax themselves more or invest less in locally-supported programs. Local aid refers to funds that flow from the state's budget to city and town budgets, helping them fund vital local services such as police and fire protection, parks, libraries, and public works. Separate state programs provide support for K-12 school districts. State education aid can be an especially important source of funding for schools in high-poverty areas, which disproportionately educate children of color.

**Proposition 2 ½**

In 1980, Massachusetts voters approved an initiative called Proposition 2½. This law constrains both the total amount that a jurisdiction may collect each year through the property tax, and limits the *growth rate* of property tax levies for all towns and school districts throughout the Commonwealth. The law's major features are:

- The "levy ceiling," which restricts the total tax levy (the amount collected) to no more than 2.5 percent of the total "full and fair cash value" of all taxable property. A town's levy ceiling can't be increased through a voter-approved override.
- The "levy limit," which is different than the "levy ceiling," also limits the maximum amount of property tax that a jurisdiction can collect in a given year. The levy limit is equal to the previous year's limit with 2.5 percent added, plus an adjustment for new buildings and improvements and any voter-approved overrides. The levy limit always must be no higher than the levy ceiling.
- Voter-approved "general overrides," which allow residents to increase the levy limit. General overrides of the limit permanently increase the levy limit and increase the base from which future years' limits are calculated.
- Voter-approved "debt exclusions," which *temporarily* increase the levy over the levy limit (or even over the levy ceiling) for certain capital projects and specified debt service costs.

Over time, the funding for state local aid programs has not kept up with inflation. Major cuts to income taxes enacted between 1998 to 2002 greatly reduced the state revenue available for local aid.[43] As the Massachusetts Taxpayers Foundation notes, based on analysis of combined educational and other local aid, "Over a 20-year period, (from FY 1999 to FY 2018), local aid has gone from 28 percent of municipal revenues to 19 percent."[44] This is a major change in how municipalities must raise resources for their community.

Since local education aid formulas provide more support for communities with less ability to raise their own resources, reductions in the value of these aid programs disproportionately hurt lower-income communities. In the years following major state tax cuts of 1998-2002, the state program to help local schools became outdated and fell behind. Because it failed to update funding for the costs of school programs such as special education, health care benefits, and teaching English language learners, the formula for providing state support to cover costs fell behind the actual costs of providing education.[45] As a result, municipalities with less property wealth have often been providing less school funding per pupil – despite the fact that students in less wealthy local school districts generally have greater needs for special programs than in wealthier districts. Even with state education aid, the wealthiest 20 percent of local school districts have spent $5,000 more per pupil than districts in the least wealthy 20 percent of districts.[46] Legislation adopted in late 2019 and set to take effect in FY 2021 will mitigate these disparities by providing additional funding that is largely directed to communities with less property tax wealth and that disproportionately serve low-income youth and kids of color.[47] With passage of this landmark legislation, communities with more wealth may continue to invest additional local dollars beyond those that are available in lower-wealth communities, leaving inequalities in school funding.

Other kinds of state aid to localities can also address the obstacles faced by low-wealth communities to support local public functions. Municipalities also receive non-education state aid, chiefly in the form of Unrestricted General Government Aid (UGGA). It is allocated based on historical levels with increases in the nominal amount distributed according to population and favoring municipalities with lower per-capita property values.[48] But adjusting for inflation, the value of this general local aid across a changing array of programs has been reduced 40 percent from Fiscal Year (FY) 2001 to FY 2019. Further adjusting for population growth during this time, the value of general local aid fell from $287 to $159 per person.[49] Separate state programs supporting local libraries have similarly been cut by 46 percent between FY 2001 and FY 2019, after adjusting for inflation.[50]

### 5. Expensive homes tend to get assessed by tax authorities at less than their market price – and to greater extent than less expensive homes in the same jurisdiction

When tax authorities consider a property to be worth less than it would sell for on the market, the owner pays lower property taxes than if the tax rate had been applied to the full market value. Despite the efforts of assessors to create unbiased assessment systems, there is a well-documented gap between the actual market (sale) prices of homes and lower valuations that tend to be assigned to homes by tax assessors. In studies across the United States and separately in Massachusetts, the size of this gap tends to be relatively larger for more expensive homes. As a result of relatively larger gaps in assessed valuation for higher-value homes, owners of these homes tend to pay lower effective property tax rates. Given that people with higher incomes (or greater wealth) tend to own higher-value homes, this is another factor that makes property taxes regressive.[51]

These differences also appear to vary by race. A national study compared the ratio of assessed values to actual realized market sales for different racial groups. It finds that within the same jurisdiction the ratio averages 10 percent higher for a black or Hispanic resident and 13 percent higher for black residents alone compared to a white resident. Thus, when people of color face the same tax rate as whites and own equally valuable property, they tend to pay higher taxes. The authors suggest two reasons for these differences. First, people of color may tend to reside in neighborhoods within a jurisdiction that are less valued in the real estate market but are not recognized as lower market value in assessors' metrics. Second, the authors find that a significant part of the difference is due to assessment appeals. People of color are less likely to appeal their assessment and see less assessment reductions when they do so.[52]

### 6. "Business incentives" can reduce the share paid by commercial and industrial property owners

When a municipality gives a business a property tax exemption or removes land from the tax rolls, property taxes typically must increase for other residents. Since property taxes on businesses tend to be progressive and property taxes on residents tend to be regressive, public deals that shift property taxes from businesses onto residents tend to be regressive.[53]

Municipalities offer a variety of special property tax breaks to businesses by state law under the rationale that they provide incentives to locate, expand, or remain in a particular city or town.[54] With a state approval process, municipalities in Massachusetts can grant exemptions to a particular property through Special Tax Assessment abatements, Tax Increment Financing (TIF) exemptions, and District Improvement Financing, which dedicates all or part of future increments in property taxes in a particular district or zone toward certain services or improvements there.[55]

A 2012 Lincoln Institute of Land Policy report found that, "while there is little evidence that these tax incentives are an effective instrument to promote economic development," they have grown increasingly costly to local governments in recent decades.[56] It can be very difficult to verify when property tax incentives really do tip decisions for a company to locate somewhere. According to a Federal Reserve Bank of Boston study, "businesses have a clear motivation to exaggerate the importance of tax incentives since they are unlikely to receive tax breaks unless policymakers believe the incentives will sway their location decision."[57] Lower-income communities may find themselves under particular pressure to make these special deals as a way to supplement or protect their meager tax base.

In theory, property tax incentives can help a community entice investment and employment opportunities. But businesses typically make decisions about where to locate based on other factors, such as access to skilled labor, supply chains, and markets. Property taxes rarely determine location decisions because they amount to less than half of one percent of costs for a typical manufacturing facility.[58] If the loss of revenue from property tax breaks results in worse public services in a locality, businesses might even be less inclined to locate there.[59] Municipalities that provide financial sweeteners may be providing incentives to businesses that would have located there anyway.[60] The state tracked the 11 companies that applied in Fiscal Year 2018 for grants from the Economic Development Incentive Program, a program lacking clear assessment metrics or mechanisms to ensure accountability for results.[61] Five expanded their Massachusetts operations and convinced municipalities to grant them Special Tax Assessments (STA) or Tax Increment Financing (TIF) to avoid property taxes; one company was a startup that didn't go forward because it lacked a business plan or financing; and the other five companies received no incentives but "expanded regardless."[62]

In addition to the problem of excessive tax breaks to businesses, property taxes can also get shifted onto other local taxpayers when land is removed from the property tax rolls because it is owned by nonprofit organizations. This tax shift is particularly pronounced in the Greater Boston metropolitan area, which has the highest concentration of nonprofits of any large city in the nation.[63] Nonprofit organizations in a community may bring jobs, consumer spending, and other economic and social benefits. When nonprofits are established or expand by acquiring new land, it may bring more people to a municipality but with less of a property base to provide services. Unless a nonprofit organization leases the property to someone else, the land is effectively removed from the tax base. This deprives the municipality of revenue and shifts the burden to other taxpayers. As discussed in the final section of this paper, a handful of municipalities have established agreements to receive payment in lieu of taxes (PILOTs) from large nonprofits, though these agreements are purely voluntary and often not fully fulfilled.



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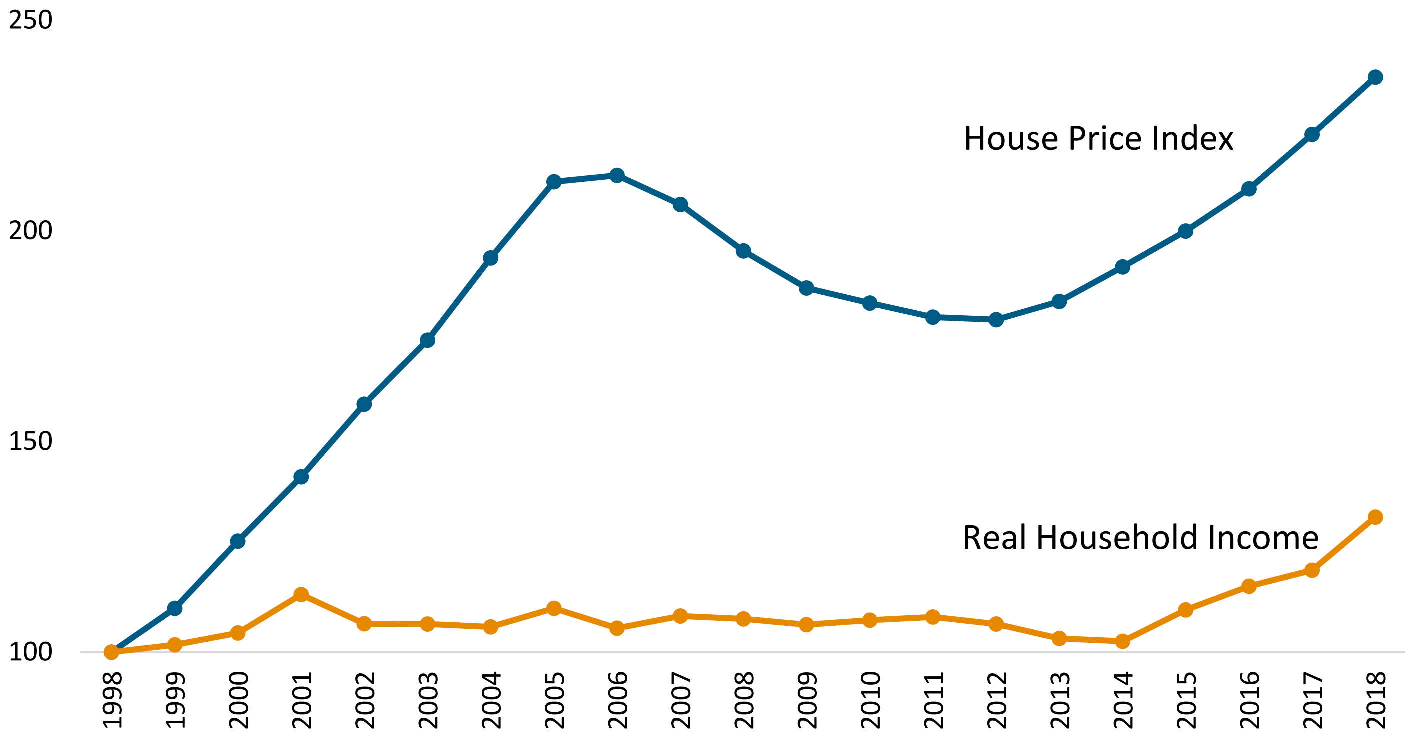
## Growing Need for Housing Affordability

The need for effective policies to mitigate property tax costs for low- and moderate-income households has grown as the price of housing in Massachusetts has risen significantly faster than typical incomes. Housing prices in Massachusetts have grown more than four times as fast as median incomes over the last 20 years. While median incomes increased just under 32 percent between 1998 and 2018 after adjusting for inflation, the price index for housing sales in Massachusetts increased 136 percent.[64]

### House Prices Have Outpaced Income Growth

House price index for Massachusetts and MA inflation-adjusted household income (1998=100)




Looking at the subset of households who are renters in Massachusetts, median incomes have stagnated in recent decades, but their rents have not. Among renters, median household income since 2001 has declined 3 percent, after adjusting for inflation. Meanwhile the inflation-adjusted cost of renting an apartment rose 17 percent.[65]

Overall in the northeastern United States, household expenditures on housing exceed spending on food and health care *combined*.[66] Given how housing costs have grown faster than incomes in the past two decades, funding for policies aimed at helping those with less means to pay their property taxes and other housing costs would have to grow briskly to address the gap.

Upward pressure on rents from property taxes may also be more acutely felt because changes in state and federal policy have done little to help rental affordability in the face of rising housing prices. One of the Commonwealth's largest long-term housing assistance programs is the Massachusetts Rental Voucher Program (MVRP) which provides permanent housing assistance to very low-income renters, including to homeless families moving out of shelters. Funding for such programs has inched up in recent years but, after adjusting for inflation, still remain below FY 1993 levels and the number of MRVP vouchers available to renters has declined considerably since its peak in the 1990s.[67] In 1993 the program funded 15,000 vouchers: the FY 2019 budget for MRVP supports slightly more than half that amount – 8,400 vouchers.[68] Meanwhile, funding for federal rental subsidies fell 6 percent after adjusting for inflation between 2004 to 2015, leaving families with children particularly hard hit.[69]

# Massachusetts Policies that Make Property Taxes Less Regressive

This section reviews existing programs in the Commonwealth that help lower- and middle-income households with the direct and indirect costs of property taxes. Some programs are administered entirely by the state. Some are administered by municipalities without state support. And some are municipal programs that complement those at the state, or which are reimbursed at least in part by the Commonwealth.

## Different Property Tax Rates for Different Types of Property

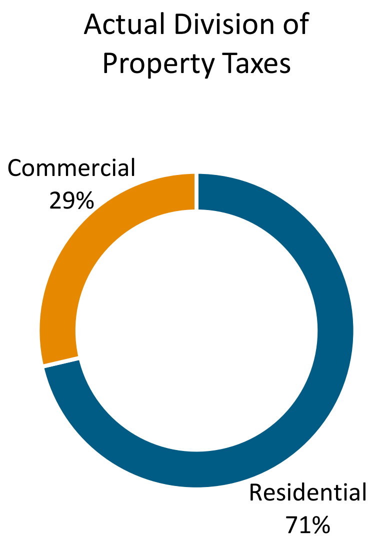
Municipalities in Massachusetts choose each year whether to establish different property tax rates for different classes of property, "splitting" the commercial and industrial property tax rate from the rate paid on residential property.[70] Many municipalities apply a higher tax rate to property classified as commercial and industrial property. Doing so enables a municipality to apply a lower rate to property classified as residential. By shifting the property tax levy more toward commercial and industrial property, municipalities shift more toward a progressive component of the property tax, and their overall property taxes are likely to become less regressive.

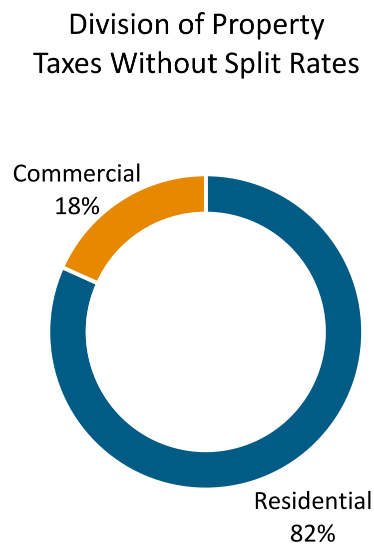
Across Massachusetts, 109 municipalities have chosen to introduce lower rates for residential real estate than for commercial and industrial real estate.[71] Thirty one of these towns and cities use a rate for residential property that is less than half of the rate used for commercial and industrial property. Municipalities of all sizes have reduced residential property tax rates this way, and most of the Commonwealth's large cities and largest towns have done so. As a result, almost two-thirds of the total property taxes levied in the Commonwealth are in municipalities that have lower residential rates than commercial/industrial rates. Looking at the Commonwealth as a whole, eighty-six percent of the tax levy on commercial and industrial real estate comes from municipalities where it is taxed at a higher rate than residential property.

When a municipality sets higher rates on commercial and industrial property, this allows the municipality to set a lower rate on residential property. In doing so a municipality will rely more on taxes from commercial properties, whose value can be more volatile than residential property. In an economic downturn, the commercial properties may be more likely to reduce in value and a municipality may need to adjust more to prevent a revenue deficit.

According to a study published by Massachusetts' Division of Local Services, residential property taxes in FY 2016 amounted to about 70 percent of the total property tax levy, compared to about 30 percent for commercial and industrial property. If towns had not created different tax rates for different classes of property, about 80 percent of the levy would have been from residential property tax and 20 percent from commercial/industrial.[72]

**Higher Tax Rates for Commercial Property Reduce the Portion Paid by Residents**




State law restricts the extent to which the total levy of a property class can increase or decrease as a result of the split rates. Most municipalities that shift rates do so at or near the maximum allowable extent.[73]

### Senior Circuit Breaker

Low- and moderate-income homeowners and renters who are over 65 can struggle to pay their property taxes or rent. Older residents may rely on Social Security and modest pensions and savings that have not kept pace with the rapid increase in rents and housing prices. Seniors in Massachusetts spend on average a slightly smaller share of their income on housing than younger households spend.[74] But according to a measure of financial insecurity of seniors calculated by the Gerontology Institute comparing state living expenses for elder residents to annual income, Massachusetts has some of the highest rates of potential insecurity among elders of any state in the nation due largely to the high cost of housing.[75]

These issues are likely to become more prominent because the portion of the Massachusetts population over 65 years of age is projected to increase sharply over the next two decades.[76] If existing policies have not risen to meet the growing needs created by higher housing prices, such programs may prove even less adequate in the face of rapidly greying demographics.

The "circuit breaker" provides refundable income tax credits for people whose property taxes or rent consume a disproportionately large share of their income. Unlike tax deductions, and similar to the Earned Income Tax Credit (EITC), the senior circuit breaker credit is refundable, which means it provides support even if other exemptions and deductions bring somebody's tax bill to zero. If the credit exceeds the total amount a tax filer owes in taxes, the Commonwealth will send a check for the difference. The circuit breaker is the most important and most progressive statewide program to help people pay property tax or rent, despite being limited to people over age 65.

The circuit breaker credit is available to seniors whose income does not exceed a certain threshold and whose property tax payments on a primary residence (or 25 percent of their rent) exceeds 10 percent of their "total income."[77] Qualifying seniors, receive a tax credit for the amount over 10 percent –- with an annually adjusted cap on this credit that is adjusted by a cost-of-housing index. In tax year 2019, the maximum amount a filer could receive was capped at $1,130.[78]

To be eligible, the taxpayer cannot be a dependent or receive federal or state rental assistance, and they must file Massachusetts personal income taxes.[79] For 2019, an eligible tax filers' total income also could not exceed $60,000 for a single individual who is not the head of a household, $75,000 for a head of household, and $90,000 for married couples filing a joint return. A homeowner's principal residence could not exceed an assessed value of $808,000 after abatements. The thresholds are adjusted annually according to inflation and housing costs.[80] Applicants must fill out a brief, separate tax form to apply for the Circuit Breaker.[81]

The total amount of tax credits claimed have increased since the circuit breaker first went into effect in the tax year starting January 2001. Total circuit breaker credits are anticipated to be $89.1 million in FY 2020 more than doubling over the last decade and a half, after adjusting for inflation. [82] This does not mean that the credit has fully kept pace with fast-rising housing costs or that it is adequate to relieve the housing burdens faced by seniors; but the average inflation-adjusted credit claimed by eligible senior income tax filers has risen somewhat over time. Moreover, the percent of the senior population receiving credits has increased over time (though it is down slightly from an earlier inflation-adjusted peak). On the other hand, the average size of the credit claimed is close in value (83 percent) of the maximum allowable credit, indicating that a large fraction of claimants are using the maximum credit and would likely need a larger credit to fully bring their property tax or rent costs below the target percent of income. There is participation in virtually every community across the state, and those municipalities with the largest number of Circuit Breaker claimants are those with some of the largest numbers of seniors in the state.[83]

For municipalities, building on the state Circuit Breaker can be an important way to support elderly, long-time homeowners who struggle with property taxes, perhaps because they have become "house rich and income poor." About a dozen municipalities have successfully petitioned the state to initiate their own municipal programs to augment the state Senior Circuit Breaker at the town's expense. These are not necessarily the municipalities with the greatest concentrations of housing cost-burdened seniors. The town of Wayland was the first to create its own supplementary program in 2001, adopting a match of up to 100 percent of the state benefit to residents who receive the state circuit breaker but whose property taxes (net of the state circuit breaker) still exceed 10 percent of their income. The cost of this program was

**Senior Circuit Breaker Examples**

Amy is a 67-year old renter with annual income of $32,000 from a pension, some Social Security benefits, and a part-time job. Since her income total is under the $60,000 single-filer threshold and she is neither a dependent nor receives state or federal housing assistance, she is eligible for the Senior Circuit Breaker. Ten percent of her income is $3,200. She pays $1,500 per month in rent for a one-room apartment ($18,000 per year). One quarter of this amount is $4,500 which exceeds the $3,200 amount that represents 10 percent or her income. The gap is $1,300 – which exceeds the cap of $1,130. When she files her income taxes, she can collect the maximum $1,130 credit toward closing this gap.

Richard and Jo are 64 and 68 years of age and own a detached home assessed at $600,000, which is below the $808,000 maximum threshold. Richard works at a restaurant and Jo collects a pension and drives Lyft part-time. Their combined taxable income is $40,000, which is below the $90,000 threshold for eligible married couples jointly filing a tax return. They pay $4,500 in property taxes. They also pay $1,000 in annual sewer and water payments to the municipality, enabling them to add half of that sum – $500 – to the property tax amount, for a total of $5,000. Ten percent of their income equals $4,000. Since they pay $1,000 more than this amount in property taxes (plus half of sewer/water), they receive a $1,000 credit on their income taxes – under the $1,130 maximum.

supported with a general increase in the property tax rate.[84] In 2012, Sudbury adopted a new local program aimed at making up the difference for homeowners for whom the state circuit breaker credit (currently limited to $1,130) is insufficient to bring their net property tax bill down to 10 percent of their income. The program redistributes these property tax obligations to other residential property owners who do not qualify for the program.[85] Only homeowners who have lived in Sudbury for at least ten consecutive years are eligible. In FY 2018, 113 applicants for the exemption were approved, with an average benefit of $3,664.[86] The towns of Andover, Concord, Reading, Hopkinton, and Harvard subsequently adopted a similar measure. The municipalities of Arlington, Brookline, Hingham, Salem, Wakefield, and Westfield also successfully petitioned the Legislature for permission to create a similar policy.

Municipal circuit breaker programs remain seriously limited in terms of who they can help. Unlike the state program, the local programs have not been written to help renters, who are more likely to have low incomes in the first place. Typically, residents are not eligible unless they that have lived in a community for a decade or more. The municipalities that have initiated these programs, moreover, tend to be places with relatively high incomes.[87] By focusing these programs in communities with relatively less need, supplementary circuit breaker programs are less effective at helping those who need it most.

## Patchwork of Local Exemptions and Deferrals Have Declined Over Time

A handful of other municipal programs provide property tax reductions, mostly for seniors, veterans, and military families, or for households with blindness or the death of a police officer or fire fighter. Unlike the state circuit breaker, most of these programs have long been in decline as fewer tax filers utilize them and their value has eroded with inflation. These programs appear to be most active in higher-income communities that have voted to expand access to the programs and improve the value of benefits at the municipality's own expense. The programs do not appear to be used most in communities with the greatest economic hardships.

According to a State Auditor's study in 2005, the declining use of targeted local programs to support the payment of property taxes has its roots in the decline of state reimbursement to municipalities for these programs in the 1980's.

> "Up until voter approval of Proposition 2 ½ and the Local Mandate Law in 1980, most laws providing property tax relief for seniors were mandatory and uniform across communities, with full state reimbursement. Under pressure from a decline in state and local revenues in the early 1980s and with the new requirement that state-mandated programs would be fully funded by the Commonwealth, state policy makers adopted a new approach to senior tax relief.
>
> "This new approach led to a series of local option laws whereby cities and towns could vote to expand the eligibility criteria for and/or increase the value of property tax exemptions for seniors – with no additional assistance from the state."[88]

Never large to begin with, the decline of these programs has continued since the State Auditor's report. Between Fiscal Year 2009 and Fiscal Year 2019 the number of exemptions and deferrals granted by municipalities fell from almost 72,000 to below 60,000. The only programs that haven't declined are those for veterans, which increased 2 percent and has become the majority of exemptions granted and dollars spent. Excluding those for veterans and their families, the number of other local exemptions and deferrals declined by a third during this period.

## Local Need-Based Property Tax Exemptions and Deferrals

| | FY 2009 | FY 2019 | Percent Change |
|---|---|---|---|
| Senior "17" exemptions | 10,929 | 6,948 | -36% |
| Hardship | 460 | 327 | -29% |
| Veterans | 34,181 | 34,956 | 2% |
| Blind | 4,867 | 3,362 | -31% |
| Senior "41" exemptions | 19,623 | 13,045 | -34% |
| Senior "41A" deferrals | 1,187 | 838 | -29% |
| Other | 522 | 392 | -25% |
| **TOTAL** | **71,769** | **59,868** | **-17%** |
| **Total Without Veterans** | **37,588** | **24,912** | **-34%** |

For seniors, the largest sets of these local programs are relatively modest tax exemptions known by their location in state statute[89] as "Clause 17,"[90] and "Clause 41," which reduces property taxes somewhat more but is far more restrictive.[91] Municipalities can decide to make eligibility for these programs easier or to increase the amount that they reduce property tax bills. [92] The state will not cover the additional costs incurred from expansions to these programs.

There is also a potentially promising, but largely unused programs that helps seniors who are "house rich, but income poor" by allowing eligible seniors to delay their tax payment until after the property owner and their surviving spouse has died or the property has been sold or otherwise conveyed. This Clause "41A" program is similar to a state-supported reverse mortgage. Seniors can essentially borrow against the value of their house to pay for their property taxes. Persons must be 70 years of age unless the municipality votes to reduce it to 65. Similarly, a claimant's income cannot exceed $20,000, though localities can vote to raise that limit up to the Circuit Breaker threshold.[93] Participation in a similar program in Chicago has been associated with a 60 percent lower probability of mortgage defaults among eligible seniors.[94] The Massachusetts program has declining use and has tended to be used even less in low-income communities. Property tax deferrals have declined from a Fiscal Year 1997 peak of over 1,300 granted to less than 850 granted statewide in FY 2019 for a total of $4.8 million in new deferred payments. Almost two-thirds of municipalities did not grant a single senior exemption in 2018.[95] One obstacle is that seniors face restrictions on mortgages and liens on a property and banks sometimes refuse to sign off on the arrangement.[96] According to a research team at the Boston College Center for Retirement Research, use of the program is hampered by limited eligibility, limited awareness of the program, and stigma some people associate with participating.[97] They observe moreover that "only wealthy communities tend to publicize their program."[98] Moreover, the program is designed so that municipalities accrue interest on deferred tax payments, and they charge a relatively high standard interest rate of 8 percent (though some towns have opted to charge lower interest rates).[99]

In addition, there are small programs that grant property tax abatements to individual homeowners who are blind, paraplegic, who are the surviving family of a police officer or firefighter, or subject to certain other cases of hardship. Exemptions granted for blindness fell 31 percent in the decade between 2009 and 2019.[100] Cities and towns can also vote to create a local program to give opportunities for people over age 60 to work volunteer hours in exchange for reduction in property taxes.[101]

Given the decline of other programs, the majority of recipients for locally-administered state programs in 2019 are provided to veterans, their spouses, and some surviving parents and spouses of active duty military personnel who died during or due to military service. There's also a local option for municipalities to create volunteer opportunities for veterans and their spouses to work off part of their property tax bill.[102] Participation in some of these programs can be very uneven across the state. For instance, there is a program where individuals facing hardship because they have been called up for active military duty can apply for property tax deferral along the lines available to seniors.[103] According to the Massachusetts Division of Local Services, only 24 such deferrals were granted across the entire state in 2018, for a total of $138,539. Half of all deferrals were granted in Wakefield.

### Residential Tax Exemptions

Municipalities may vote to exempt from taxation a certain sum of the assessed value of each owner-occupied residential property. This is called a Residential Tax Exemption (RTE).[104] The exemption amount is a percentage chosen each year by the municipality – up to 35 percent – of the average assessed values in the municipality.[105] The RTE shifts responsibility for property taxes among residential property tax payers within a community. It does not shift tax responsibility toward owners of commercial and industrial owners. Nor does it change the amount of property taxes collected by the municipality because the municipality increases the residential tax rate to bring in the same amount revenue on the reduced base of non-exempt property. As the state's Division of Local Services summarizes, "Granting the exemption raises the residential tax rate and shifts the residential tax burden from moderately valued homes, to apartments, summer homes and higher valued homes."[106] Among homeowners residing in a community, the Residential Tax Exemption makes property taxes more progressive, though the policy is likely to indirectly shift more taxes onto renters, who are typically lower income.

For example, the city of Everett voted to set the exemption at 25 percent of the average assessed value of all residential properties in FY 2019, an amount equal to about $120,000. The city must increase the residential property tax rate to offset the reduction in property value that is subject to the tax. The policy will affect different kinds of owners and renters differently:

- Someone who owns and resides in a modest home in Everett assessed at $320,000 pays property taxes only on $200,000 of the home value ($320,000 minus $120,000). The tax rate applied to the remaining $200,000 of property assessment will be somewhat higher, but like most owners residing in their home, they are likely to pay a smaller tax bill than they would without the RTE.
- An owner of a home worth $800,000 would pay property taxes on about $680,000 of the home value ($800,000 minus $120,000). Although a significant portion of the assessed value has been exempted from taxes, they may still pay a somewhat higher tax bill, depending on how much the rate is increased.
- An owner who does not primarily reside in their property will pay taxes on the entire full value of the property at the increased rate. Their tax bill will increase.
- If the non-residing owner rents the property to someone else, the owner may decide to charge higher rent if they are allowed to, effectively passing on part or all of the increased property tax bill.
- An apartment building with several rental units may end up charging higher rents if the owner passes on some portion of the higher property taxes to their renters. If the same building converted to condominiums,[107] then the owners of each unit would exempt the RTE from their assessed value if they reside there, applying separate exemptions to the value of each unit to reduce their tax. For a high-end condominium, the rate increase could increase their tax bill more than the exemption will reduce it.[108]

In a hypothetical municipality in which every residence is owner-occupied, an RTE would clearly make property taxes more progressive. In so far as wealthier, higher income people tend to live in relatively higher-value homes, the higher tax rate will be applied to a relative portion of their home value. They will pay a greater share of the municipality's property taxes as a result of the RTE.[109]

The RTE requires more tax from properties that owners just use or rent for vacations, or leave empty while waiting to sell it, or which is an owner's second (or third, etc.) home. These properties receive no exemption and the increased tax rate will be applied to the entire value of the property. On average, owners of second homes and vacation properties tend to be relatively wealthy.[110] Shifting responsibility for property taxes onto the owners of non-owner-occupied housing therefore also tends to make this aspect of the RTE progressive.[111]

But RTEs can be less progressive – or even regressive – to the extent that increased taxes on non-resident owners get passed on as higher rents. As discussed above, renters tend to have far lower incomes than those who own their home. [112] This might not be an issue for a property with restrictions limiting rents.[113] But in some communities the regressive impact on unrestricted rents could be greater than the progressive impact of the RTE among owners (Provincetown, as described below, extends the RTE to owners of full-time rental units, eliminating the potentially regressive side of RTEs where this is applied).

Sixteen municipalities in Massachusetts have voted to create an RTE. The communities, listed in the following table, with their current RTE exemption amounts and characteristics of the communities, are mainly a mix of towns where most housing is seasonal and unoccupied most of the year, or cities with a large percent of renters.[114] In each of these municipalities the median income of residents who own their home is substantially higher than the median income of renters – though in most cases the difference is relatively smaller than the state average.[115] Together these 16 municipalities contain 18.6 percent of the Massachusetts population.[116]

## 16 Municipalities with Residential Tax Exemptions

| | Residential Tax Exemption % | Rented Housing | Vacant Housing (including seasonally) |
|---|---|---|---|
| Barnstable | 20% | 25% | 29% |
| Boston | 35% | 65% | 8% |
| Brookline | 21% | 49% | 6% |
| Cambridge | 30% | 64% | 11% |
| Chelsea | 30% | 74% | 4% |
| Everett | 25% | 60% | 7% |
| Malden | 30% | 59% | 6% |
| Nantucket | 25% | 35% | 69% |
| Provincetown | 25% | 32% | 61% |
| Somerset | 10% | 18% | 4% |
| Somerville | 35% | 66% | 5% |
| Tisbury | 18% | 34% | 54% |
| Truro | 20% | 17% | 75% |
| Waltham | 35% | 49% | 7% |
| Watertown | 23% | 48% | 6% |
| Wellfleet | 20% | 17% | 66% |
| *Massachusetts average* | – | 38% | 10% |

In seasonal vacation communities with an RTE, it's likely that the most significant tax shift is not from lower-value to higher-value occupied properties, but from residential properties to non-residential properties. The seasonal desirability of these communities drives up housing prices. Full-year residents who own their homes may struggle to pay their property taxes, especially if earning opportunities are weak during the offseason. For a majority of properties in these towns, the owners are not full-time residents. The RTE may therefore act as an incentive to draw more full-time owners and thereby enlarge the community during the offseason, as well as to attract and retain teachers, fire fighters, and other municipal and private-sector employees who are important to the community.[117] A property tax reduction may also help full-time families with moderate incomes qualify for a mortgage. On the other hand, because the exemption also increases the property taxes on rental property, to the extent that non-resident landlords pass on the higher taxes as higher rent, it could become harder to retain these full-year renters in the town.

Addressing the important issue of how RTE can indirectly raise costs for rental units, the town of Provincetown successfully petitioned the state Legislature to extend its residential exemption to properties with full-time renters starting in 2019.[118] Under this "expanded residential tax exemption," a property owner can also claim the residential exemption if the property is occupied by a full-time renter, even if the owner does not live in town. Thus, in addition to progressively shifting taxes among residents who own their own home, the policy encourages property owners – especially of low and medium value properties[119] – to charge lower rents, which is also progressive. All else equal, the tax rate increase from an expanded RTE like Provincetown's will be greater than for an RTE that extends only to resident owners. Like other RTEs, the Provincetown exemption does not change the total amount of tax collected from residential properties. By extending the exemptions to more properties, the taxable base is further reduced, and a higher rate will be applied to generate the same budgeted revenue.

The policy in Provincetown may have an additional progressive impact because it provides an incentive for landlords to choose a *full-time* renter rather than renting through a short-term rental platform like AirBnB. This may have an indirect progressive effect because the proliferation of short-term rentals has been shown to increase housing costs for full-time renters by removing housing stock from the rental market.[120] If Provincetown's RTE shifts housing stock from the short-term AirBnB-type accommodations to long-term rentals, it will help with the affordability of long-term rentals.

Even with the Provincetown variant, the impact of an RTE on housing costs may not always be progressive. For properties with multiple units, the Provincetown variant of the RTE will less effectively extend benefits to renters because the exemption is diluted across the units. For example, consider a hypothetical property with 50 rental apartments assessed at a value of $10 million. Since Provincetown's $162,419 exemption in Fiscal Year 2019 extends to the entire parcel rather than separately to each apartment, less than 2 percent of the building's property value is exempted from the property tax.[121] Given that the RTE also results in an increase in the residential tax *rate*, the net effect of the RTE for this full-time rental property is likely to be an increase in the tax bill, despite the deduction.[122] The resulting increase in property taxes for multi-unit rental apartment buildings is less than under the structure of other municipalities' RTEs – because a deduction is granted – but under current practice the increased tax could still be passed on as higher rents for low-income renters.

# Seven Ways to Make the Impact of Property Taxes More Progressive

There are several policies at the state and municipal level that can rebalance the impact of property taxes so that they fall less heavily on low- and middle-income households while households with greater means pay more. Some options provide state support for low- and moderate-income individuals who spend a large portion of their income on modest housing, or for communities with little property wealth to generate revenue for local services. Some policies use exemptions to ensure less taxes are paid by residents with more modest homes, or provide property tax support for low-income rentals, or support low- and moderate-income taxpayers and communities who pay property taxes and rents. Other policies place lower tax rates on residences than businesses, or scrutinize and limit special tax breaks for large businesses. Finally, other policies would better enable homeowners to borrow against the equity in their housing. These policies help meet the gap between residents' incomes and rising cost of housing.[123]

1. Increase aid to low- and moderate-income households who spend a large part of their income on modest housing.
2. Increase state aid to communities where low wealth constrains their ability to generate property taxes.
3. Adopt residential tax exemptions that also extend to full-time rentals.
4. Establish lower tax rates for low-income rental properties.
5. Enable municipalities to reduce residential property taxes by increasing tax rates for commercial and industrial property.
6. Better scrutinize and limit special property tax deals granted to large businesses.
7. Improve state programs to defer property tax payments for residents who are "house rich and income poor."

## 1. Enhance the circuit breaker by increasing state benefits to match housing inflation, expanding eligibility to non-seniors, and simplifying the process for municipalities to enact their own supplement

The circuit breaker, as described earlier, limits the percent of income that low- and moderate-income seniors pay in property taxes or rent. It has reached a growing number of seniors and its top benefit level has kept pace with housing inflation, if not with the gap between fixed incomes and rising cost of housing.

There are several ways the Commonwealth could build on the success of the state's Senior Circuit Breaker and empower municipalities to do so further. First of all, the program could be extended to all low- and moderate-income households, including those who receive state or federal housing aid, and to younger families and individuals. Younger households are no less vulnerable to struggles covering housing costs, particularly for households with children. Vermont, Maine, and New Hampshire, along with many other states outside of New England, make the circuit breaker available to adults, regardless of age.

The benefit cap could also be increased and focused to provide more assistance to those whose incomes are particularly under strain from property taxes or rent. A Massachusetts State Auditor report in 2005 recommended increasing the limit on the credit to about half of the average property tax bill in the state.[124] Accomplishing that today would mean approximately doubling the current $1,100 cap.[125] Vermont has a property tax adjustment up to $8,000 to help people pay property taxes with incomes up to $136,500.[126]

Lastly, although municipal supplementary programs are no substitute for a stronger state circuit breaker, municipalities could be further encouraged to offer their own supplemental programs. The Commonwealth could empower communities to introduce these programs "as of right" rather than contending with an uncertain and drawn out process of requesting individualized special permission from the Legislature.

**2. Increase local aid to help communities with less housing wealth invest in their future**

State aid to low-wealth communities can make up for shortfalls in these municipalities' ability to invest in their own schools, libraries, parks, and other programs. With sufficient state aid, low-wealth municipalities could invest as much in these public systems as wealthy communities do. While state aid may not make property taxes less regressive, it can help build bridges to opportunity for people in low-wealth communities so that they can lead healthier lives, earn higher incomes, and build their own wealth in the future.

Increases to local aid can be targeted specifically to communities with less capacity to raise their own property tax revenues. As previously mentioned, over the past decades support for local K-12 education through the Commonwealth's Chapter 70 program has fallen substantially behind levels consistent with the actual costs that the program was intended to cover.[127] If fully implemented, newly-enacted legislation will significantly address these shortfalls, especially through funds focused on low-income school districts. New funding is unlikely to *fully* equalize support for students since communities with greater capacity will likely continue to invest additional local dollars in their schools beyond what would be possible in lower wealth communities. Outside of schools, there are additional ways that more robust state aid for municipalities could address disparities created by differences in the wealth of communities. Restoring Unrestricted General Government Aid (UGGA) to inflation-adjusted 2001 levels would require an additional $740.1 million annually.[128] Restoring library aid to FY 2001 levels would require an additional $20.9 million each year.[129]

**3. Adopt residential tax exemptions that extend to full-time rentals**

The residential tax exemption, as described earlier, is unambiguously progressive among homeowners. Those owning greater housing wealth will pay more property tax, and owners with less real estate wealth will pay less. As discussed, the progressivity of a traditional residential tax exemption is less clear when renters are added to the picture. To the extent that property owners respond to higher property taxes by increasing rents, and to the extent that renters tend to have lower incomes than property owners, then the traditional residential tax exemption will be less progressive or even regressive.

The "expanded residential tax exemption" enacted by the town of Provincetown extends the residential exemption also to owners with full-time renters. By doing so, it makes the exemption more progressive and perhaps encourages more investment in rental properties (which will tend to be home to people with lower incomes, on average). More municipalities could decide to petition the Legislature for an expanded residential tax exemption that extends to full-time renters, similar to Provincetown's – and could put limits on those rents to ensure that luxury rentals were not being subsidized.[130] The state could facilitate this process by allowing municipalities to choose these kinds of options without seeking special permission from the Legislature. Legislators could also rewrite statutes to enable municipalities the choice to apply the exemption separately to each rental unit that is a full-time primary residence at a property. Doing so would more fully extend the benefits to multi-unit rental housing.

**4. Establish lower tax rates for low-income rental property**

Property tax rules can be crafted to incentivize affordable housing to ease the housing costs for low-income rental households. This is true also for nonprofit organizations that own low-income housing because such nonprofits are not exempt from taxes on the properties they lease to individuals or non-charitable entities.

Owners of real estate that might consider renting at below-market rates to low-income renters ordinarily receive no property tax incentive to do so. [131]

The town of Provincetown successfully petitioned the state Legislature to allow the town to exempt owners from property tax for providing affordable housing to low-income tenants.[132] (This is separate from Provincetown's policies with residential tax exemptions discussed above). Like other property tax exemptions, the total levy raised by the municipality will not change. The tax rate must increase to make up for the reduction in the taxable base. Provincetown has adopted this policy since 2003. Low-income eligibility and affordable rent standards are defined by the federal Housing and Urban Development (HUD) at 80 percent of regional median income standards.[133]

Minnesota created a statewide version of similar tax incentives by introducing a new lower tax-rate class for low-income rentals.[134] Like a number of other states, Minnesota has a state-determined classification system that assesses different types of properties at different fractions of their true value, and local governments then levy property taxes against these assessed values. The state added low-income rentals as a new class of property that gets assessed at a lower value. As a result, real estate developers are encouraged to put low-income housing into the market, and landlords are under less pressure to pass property taxes onto low-income renters. Minnesota's Low Income Rental Classification (LIRC) applies only to the portion of a property used for low-income rental and only if at least 20 percent of the units on the property qualify. To qualify, they must meet any of the following criteria: project based Section 8; Low Income Housing Tax Credits; USDA's Rural Housing Service financing; or "Rent and income restrictions at or below 60 percent Area Median Income placed on units by state, federal, or local unit of government as evidenced by a document recorded against the property."[135] Like other tax rate reductions, decreasing the property tax rates on qualified low-income rental housing requires an increase of other property tax class rates in order to raise the same amount of revenue.

Massachusetts does not have a state level property tax, as Minnesota does. There are three ways the Commonwealth could nonetheless pursue a version of Minnesota's approach. As discussed earlier, Massachusetts municipalities already can adopt different tax rates for different classes of property. An amendment to the state Constitution, that voters approved in 1978, enabled towns to set different rates for up to four different property classes.[136] The Legislature does not have the option of simply adding a fifth class of property for taxation, without amending the state Constitution. However, the Legislature could consolidate the current commercial and industrial classes into a single "Commercial/Industrial" class to make room for an additional "low income rental" class that municipalities could then decide to tax at a lower rate. Alternately, instead of introducing a new classification, the state could simply provide for special exemptions of a stated dollar amount or percentage of value for the qualifying properties. Similarly, the state could provide for abatements of a portion of taxes levied against qualifying properties.

### 5. Differentiate residential and business tax rates in more municipalities and enable larger differences

A majority of – mostly smaller – municipalities have not exercised their option to make property taxes more progressive by applying higher tax rates to commercial and industrial property to reduce rates for residential property. Municipalities decide whether to "split" their rates this way each year. While less than 14 percent of industrial and commercial property is located in municipalities that do not split their tax rates, more municipalities doing so would enable more revenue to be raised from a progressive component of the property tax while shifting somewhat away from a regressive component of the property tax.

For cities and towns that choose to place higher property tax rates on commercial and industrial property, current state law limits the extent to which their tax levy can increase or decrease as a result of the split rates.[137] Most municipalities that currently choose to split their tax rates appear to do so to the full extent or near the full extent allowed under law, indicating some demonstrated preference among cities and towns to further do so.

Municipalities concerned about potential adverse impact on small local businesses can, under current law, opt to provide a partial tax exemption of up to 10 percent of a small business' property's value. According to the Division of Local Services, "the option shifts the tax burden from parcels occupied by small businesses to those occupied by other commercial and industrial taxpayers.[138] Only 15 of the 351 municipalities currently do so.[139]

### 6. Better scrutinize and limit special property tax cuts to businesses and large nonprofits that shift property taxes onto residents

One way to reduce the share of property taxes paid by low- and middle-income homeowners and renters is to better scrutinize and limit the property tax breaks for businesses and other large institutions. The state can take steps to discourage unwarranted property tax abatements by denying them at the state level, requiring clear benchmarking of actual results to specific promised benefits, and requiring clawback policies that automatically reclaim abatements if companies do not deliver on promised benefits. Four examples:

- As a condition for accepting state tax subsidies, companies could be required to disclose publicly-posted data about their in-state investments, employment, sales, and profits benchmarked against pre-subsidy levels.

- Municipalities can improve decision making about property tax abatements for business location decisions by being fully transparent and prominently disclosing the amount of tax abatements and exemptions that they grant. Municipalities generally follow Generally Accepted Accounting Principles (GAAP) in disclosing their finances to the public and bondholders. Since 2017 governments adhering to these practices nationwide have been required to report on how much revenue is lost to corporate tax breaks as a result of economic development tax abatements.[140] An examination conducted by the nonprofit research organization Good Jobs First found that only 13 percent of Massachusetts municipalities in the sample had reported these disclosures for 2017, a portion that improved only to 17 percent of municipalities in 2018.[141] Municipalities would improve fiscal transparency and accountability by complying with these minimum standards, even more so if the reports were supplemented with company-specific reporting on tax abatements.

- The state may also be able to take measures to prevent bidding wars for companies with local tax breaks. Kansas and Missouri recently signed a formal truce not to use economic development subsidies for companies relocating across their border.[142] Arizona goes so far as to reduce state aid for localities in the Phoenix area offering such abatements.[143]

- Municipalities can also address erosion of its tax base when land is owned by large nonprofits by negotiating agreements with the largest nonprofit organizations for payments in lieu of taxes. Boston, Cambridge, Worcester, Northampton and a few other cities have a Payment in Lieu of Taxes (PILOT) program. These agreements, however, are almost entirely voluntary for the nonprofits, and a 2018 study found that the institutions were paying a declining percent of these requested payments, only about a quarter.[144]

### 7. Provide statewide support for expanded property tax deferral

For elderly homeowners with limited income facing property tax bills, the ability to tap into their home equity can be a promising option. But the current property tax deferral program has suffered long-term decline because it is overly complex for individuals and municipalities, and it forces seniors to pay high interest rates on their deferred tax. The current program offers low benefits and restrictive eligibility. Instead of relying on cities and towns to find additional resources to pay for more generous options, former Boston Federal Reserve Bank economist, and director of the Center for Retirement Research at Boston College, Alicia Munnell has proposed replacing it with a simplified state program financed by a revolving loan fund.[145]

Munnell's detailed proposal would still be limited to seniors, but would eliminate income eligibility limits, and would be fully supported by the state. Seniors would utilize the program simply by checking a box on their property tax bill. The state would then reimburse municipalities for the foregone income. Interest rates on deferred payments would be substantially lower because they would be set at the state's (relatively low) long-term borrowing cost, plus a small amount to cover administrative costs. Municipalities would be relieved of the cost of approving applicants and collecting deferred taxes. Locally-administered programs could then be phased out gradually. To minimize risk to the state, the combined value of the deferral, interest, and mortgage on a property could not exceed 60 percent of its value. The cost to the state of setting up a revolving loan fund would be highest in the first year because deferrals would be getting paid for but old deferrals would not yet be getting paid back.[146]

Another approach to supporting those who are house-rich and income-poor, recommended by the Special Senate Committee on Housing report (2014) is to enable deferred payment of property taxes in return for a municipal lien and negotiated right of first refusal to purchase the property before it can be sold to someone else when the owner dies or decides to sell the property.[147] In addition to helping people who struggle to pay their property tax bills, the policy could help municipalities with the challenge of finding land that can be used to create affordable housing amid rapid gentrification of low-income neighborhoods. Under this arrangement, a taxpayer seeking to defer their property taxes would negotiate the terms of first refusal, and the municipality could choose to exercise the right or assign it to a nonprofit developer for the creation of public housing.

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# Glossary

*This glossary is adapted from the "Municipal Finance Glossary" published May 2008 by the Division of Local Services at the Massachusetts Department of Revenue*

**Abatement** – A reduction or elimination of a real or personal property tax, motor vehicle excise, a fee, charge, or special assessment imposed by a governmental unit. Granted only on application of the person seeking the abatement and only by the committing governmental unit.

**Assessed Valuation** – A value assigned to real estate or other property by a government as the basis for levying taxes. In Massachusetts, assessed valuation is based on the property's "full and fair" cash value as set by the Assessors.

**Chapter 70 School Aid** – Chapter 70 refers to the school funding formula created under the Education Reform Act of 1993 by which state aid is distributed to help establish educational equity among municipal and regional school districts.

**Classification of Real Property** – Assessors are required to classify all real property according to use into one of four classes: Residential, Open Space, Commercial, and Industrial. Having classified its real property, local officials are permitted to determine locally, within limits established by statute and the Commissioner of Revenue, what percentage of the tax is to be borne by each class.

**Exemption** – A discharge, established by statute, from the obligation to pay all or a portion of a property tax. The exemption is available to particular categories of property or persons upon the timely submission and approval of an application to the assessors. Properties exempt from taxation include hospitals, schools, houses of worship, and cultural institutions. Persons who may qualify for exemptions include disabled veterans, blind individuals, surviving spouses, and seniors.

**Fiscal Year** (FY) – Since 1974, the Commonwealth and municipalities have operated on a budget cycle that begins July 1 and ends June 30. The designation of the fiscal year is that of the calendar year in which the fiscal year ends.

**Full and Fair Cash Value** (FFCV) – Fair cash value has been defined by the Massachusetts Supreme Judicial Court as "fair market value, which is the price an owner willing but not under compulsion to sell ought to receive from one willing but not under compulsion to buy. It means the highest price that a normal purchaser not under peculiar compulsion will pay at the time, and cannot exceed the sum that the owner after reasonable effort could obtain for his property. A valuation limited to what the property is worth to the purchaser is not market value. The fair cash value is the value the property would have on January first of any taxable year in the hands of any owner, including the present owner." (Boston Gas Co. v. Assessors of Boston, 334 Mass. 549, 566 (1956))

**Generally Accepted Accounting Principles** (GAAP) – Uniform minimum standards and guidelines for financial accounting and reporting that serve to achieve some level of standardization.

**Governmental Accounting Standards Board** (GASB) – The ultimate authoritative accounting and financial reporting standard-setting body for state and local governments.

**Levy** – The amount a community raises through the property tax. The levy can be any amount up to the levy limit, which is re-established every year in accordance with Proposition 2½ provisions.

**Levy Ceiling** – A levy ceiling is one of two types of levy (tax) restrictions imposed by MGL Ch. 59 §21C (Proposition 2½). It states that, in any year, the real and personal property taxes imposed may not exceed 2½ percent of the total full and fair cash value of all taxable property. Property taxes levied may exceed this limit only if the community passes a capital exclusion, a debt exclusion, or a special exclusion.

**Levy Limit** – A levy limit is one of two types of levy (tax) restrictions imposed by MGL Ch. 59 §21C (Proposition 2½). It states that the real and personal property taxes imposed by a city or town may only grow each year by 2½ percent of the prior year's levy limit, plus new growth and any overrides or exclusions. The levy limit can exceed the levy ceiling only if the community passes a capital expenditure exclusion, debt exclusion, or special exclusion.

**Local Aid** – Revenue allocated by the Commonwealth to cities, towns, and regional school districts.

**Local Receipts** – Locally generated revenues, other than real and personal property taxes.
Examples include motor vehicle excise, investment income, hotel/motel tax, fees, rentals, and charges.

**Minimum Residential Factor** (MRF) – Massachusetts' law allows for a shift of the tax responsibility from the residential and open space classes of property to the commercial, industrial and personal property classes (CIP). The MRF, established by the Commissioner of Revenue, is used to make certain that the shift of tax responsibility complies with the law. If the MRF would be less than .65, the community cannot make the maximum shift and must use a CIP factor less than 1.50. Chapter 200 of the Acts of 1988 allows certain communities to use a CIP of up to 1.75 percent with specified conditions.

**New Growth** – The additional tax revenue generated by new construction, renovations and other increases in the property tax base during a calendar year. It does not include value increases caused by normal market forces or by revaluations. New growth is calculated by multiplying the assessed value associated with new construction, renovations and other increases by the prior year tax rate. The additional tax revenue is then incorporated into the calculation of the next year's levy limit.

**Override** – A vote by a community at an election to permanently increase the levy limit. An override vote may increase the levy limit no higher than the levy ceiling. The override question on the election ballot must state a purpose for the override and the dollar amount.

**Override Capacity** – The difference between a community's levy ceiling and its levy limit. It is the maximum amount by which a community may override its levy limit.

**Payments in Lieu of Taxes** (PILOT) – An agreement between a municipality and an entity not subject to taxation, such as charitable or educational organizations, in which the payer agrees to make a voluntary payment to the municipality.

**Personal Property** – Movable items not permanently affixed to, or part of the real estate. It is assessed separately from real estate to certain businesses, public utilities, and owners of homes that are not their primary residences.

**Proposition 2½** – A state law enacted in 1980, Proposition 2½ regulates local property tax administration and limits the amount of revenue a city or town may raise from local property taxes each year to fund municipal operations.

**Real Property** – Land, buildings and the rights and benefits inherent in owning them.

**Receipts** – Money collected by and within the control of a community from any source and for any purpose.

**Residential Exemption** – A municipality can grant a residential exemption of a dollar amount that cannot exceed 30 percent of the average assessed value of all residential class properties. The exemption reduces, by the adopted percentage, the taxable valuation of each residential parcel that is a taxpayer's principal residence. Granting the exemption raises the residential tax rate and shifts the residential tax burden from moderately valued homes to apartments, summer homes and higher valued homes.

**Residential Factor** – Adopted by a community annually, this governs the percentage of the tax levy to be paid by property owners. A residential factor of "1" will result in the taxation of all property at the same rate (single tax rate). Choosing a factor of less than one results in increasing the share of the levy raised by commercial, industrial and personal property. Residential property owners will therefore pay a proportionately lower share of the total levy. (See Minimum Residential Factor)

**Revenues** – All monies received by a governmental unit from any source.

**Tax Increment Financing Exemption** (TIF) – In accordance with MGL Chapter 59 §5(51), a property tax exemption negotiated between a community and a private developer, typically implemented over a period up to 20 years, and intended to encourage industrial/commercial development. (See DOR IGR 94-201)

[1] MassBudget, "Who Pays? Low and Middle Earners in Massachusetts Pay Larger Share of their Incomes in Taxes" (Oct. 2018) at http://massbudget.org/report_window.php?loc=Who-Pays-Low-and-Middle-Earners-in-Massachusetts-Pay-Larger-Share-of-their-Incomes-in-Taxes.html
[2] Residential property, or "Class One" property, as defined by Massachusetts law includes, "property used or held for human habitation containing one or more dwelling units including rooming houses with facilities designed and used for living, sleeping, cooking and eating on a non-transient basis, including a bed and breakfast home with no more than three rooms for rent. Such property includes accessory land, buildings or improvements incidental to such habitation and used exclusively by the residents of the property or their guests. Such property shall include: (i) land that is situated in a residential zone and has been subdivided into residential lots; and (ii) land used for the purpose of a manufactured housing community," See https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIX/Chapter59/Section2a
[3] Based on an aggregation of the Division of Local Services data dashboard for all 351 municipalities, viewable at https://dlsgateway.dor.state.ma.us/reports/rdPage.aspx?rdReport=Dashboard.Cat_3_Reports.TaxlevyByClass351
[4] In Massachusetts, rental property is classified and taxed as "residential" regardless of whether it is owner-occupied. Some national studies of business tax measures cite a larger percent of property taxes paid by business, but those studies regard all taxes on rental property as a "business tax." A commonly cited Ernst & Young annual study identifies $8.3 billion in Massachusetts "business" property taxes in Fiscal Year 2017, whereas the Massachusetts Department of Revenue identifies $2.5 billion in corporate, insurance, and financial excise taxes. See "Total State and Local Business Taxes," Ernst & Young (November 2018), p. 5 at https://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-studies-articles-reports/FY17-State-And-Local-Business-Tax-Burden-Study.pdf and Massachusetts Department of Revenue, 2017 Annual Report, p. 10 at https://www.mass.gov/files/documents/2018/06/08/FY17AnnualReport.pdf
[5] Total receipts include local tax levies, fees, state aid, and all other sources. See Massachusetts Division of Local Services, Municipal Data Bank, "Revenues by Source" at https://dlsgateway.dor.state.ma.us/reports/rdPage.aspx?rdReport=RevenueBySource.RBS.RevbySourceMAIN
[6] See annual property tax totals at Massachusetts Division of Local Services, "Revenue by Source" at https://dlsgateway.dor.state.ma.us/reports/rdPage.aspx?rdReport=RevenueBySource.RBS.RevbySourceMAIN. At the state level, the tax that generated the most revenue in FY 2019 was the personal income tax, which netted $17.13 billion. See Department of Revenue, Blue Book June 2019 (Final), Table B, at https://www.mass.gov/doc/june-2019-blue-book-final/download.
[7] While Massachusetts' rate was the sixth highest rate among the fifty states, other New England states, except Vermont, collect an even greater portion of their revenue from property taxes. All six New England states are in the top ten states. U.S. Census of Governments, data for 2012, available at https://factfinder.census.gov/bkmk/table/1.0/en/COG/2012/00A1 and https://www.census.gov/data/tables/2012/econ/gov-finances/summary-tables.html
[8] U.S. Census, *2017 Annual Survey of School System Finances*, Table 5 at https://www.census.gov/data/tables/2017/econ/school-finances/secondary-education-finance.html. This data is summarized in Governing, "States that Spend the Most (and Least) on Education" (June 4, 2019) at https://www.governing.com/topics/education/gov-state-education-spending-revenue-data.html.
[9] "What Cities' Revenue-Raising Methods Say About Their Pension Funding" Governing (April 2019) available at https://www.governing.com/topics/finance/gov-city-revenue-structure-explain-unfunded-pensions.html. See also Lincoln Institute of Land Policy, Fiscally Standardized Cities Database at https://www.lincolninst.edu/research-data/data-toolkits/fiscally-standardized-cities/search-database.
[10] Institute on Taxation and Economic Policy (ITEP), by request from MassBudget, March 2019. Unlike some reporting of tax incidence by ITEP, these results are for all ages of tax filers. Unlike ITEP reporting of tax incidence in their "Who Pays" report, these results do not include property taxes on automobiles, or estate taxes. The description of ITEP's data sources and methodology can be read at https://itep.org/about-who-pays/.
[11] ITEP's analysis here is based on the same simulation model as used in its *Who Pays 6* model and the all-ages version published in MassBudget's paper, "Who Pays: Low and Middle Earners in Massachusetts Pay Larger Share of the Income in Taxes" at http://massbudget.org/reports/pdf/Who%20Pays%20in%20MA%202018%20FINAL.pdf. Unlike the property tax analysis in that paper, the analysis presented here includes seniors and does not include estate taxes, or auto

excise taxes. The ITEP analysis in Who Pays 6 that does include these taxes also finds that property taxes are regressive. The ITEP findings are consistent with 1987 estimates from the Massachusetts Special Commission on Tax Reform. Using a Massachusetts Property Tax Simulation Model, the Commission found the median property tax payment to be 3.6 percent of household income, whereas it was 10.1 percent for taxpayers with incomes less than $5,000 and 1.6 percent of income for households with income over $75,000 (in 1986 dollars). See the Commonwealth of Massachusetts, Ninth Interim Report of the Special Commission Relative to the Residential Property Tax Burden in the Development of a Tax Reform Program for the Commonwealth (House, no. 5149), January 1987 page 7 at https://student.nesl.edu/research/Legislative_Council/H5149_tax_reform.pdf.

[12] As an indication of the concentration of business assets among households with high incomes, in Massachusetts, 80 percent of capital gains (the passive income derived by capital assets, including largely financial assets such as stocks and dividends) accrues to those in the top 1 percent of households by income. Ninety percent of all capital gains flow to the top 5 percent of Massachusetts households. (Analysis performed for MassBudget upon request by the Institute on Taxation and Economic Policy.)

[13] Commonwealth of Massachusetts, "Report of the Tax Fairness Commission" (2014), p. 9, available at https://malegislature.gov/content/documents/events/taxfairnessreport.pdf.

[14] Nationally, the highest-income 1 percent of households in 2016 claimed 24 percent of total income, with the bottom 90 percent of the population taking 50 percent. For wealth, the top 1 percent own 39 percent, and the bottom 90 own only 23 percent of all wealth. See Center on Budget and Policy Priorities, "A Guide to Statistics on Historical Trends in Income Inequality," (December 2018), Figure 4 at https://www.cbpp.org/research/poverty-and-inequality/a-guide-to-statistics-on-historical-trends-in-income-inequality.

[15] Federal Reserve, "Wealth Inequalities in Greater Boston: Do Race and Ethnicity Matter?" (page 2) at https://www.bostonfed.org/publications/community-development-discussion-paper/2016/wealth-inequalities-in-greater-boston-do-race-and-ethnicity-matter.aspx. As Dorothy Brown has described, racial wealth inequality is also enlarged by the interaction of tax subsidies for home ownership, racial biased housing markets. See "Home Ownership in Black and White: The Role of Tax Policy in Increasing Housing Inequity," *University of Memphis Law Review* (Fall 2018) at https://www.memphis.edu/law/documents/brown_final.pdf.

[16] Richard Rothstein, *The Color of Law*, Liveright Publishing Corporation, 2017, pp. 63-64.

[17] Sarah Turner and John Bound, "Closing the Gap or Widening the Divide: The Effects of the G.I. Bill and World War II on the Educational Outcomes of Black Americans," National Bureau of Economic Research, Working Paper 9044, July 2002, available at http://www.nber.org/papers/w9044.

[18] Institute on Assets and Social Policy and national Low Income Housing Coalition, "Misdirected Investments: How the Mortgage interest Deduction Drives Inequality and the Racial Wealth Gap," (2017), at https://heller.brandeis.edu/iasp/pdfs/racial-wealth-equity/racial-wealthgap/misdirected-investments.pdf.

[19] Federal Reserve, "Wealth Inequalities in Greater Boston: Do Race and Ethnicity Matter?" (page 2) at https://www.bostonfed.org/publications/community-development-discussion-paper/2016/wealth-inequalities-in-greater-boston-do-race-and-ethnicity-matter.aspx. Furthermore, "According to the latest available data from the U.S. Census Bureau, Black and Latinx households persistently have less household wealth than their white counterparts regardless of educational attainment. "See ITEP, "The Illusion of Race-Neutral Tax Policy," (2019).

[20] Federal Reserve Bank of Boston, Community Development Discussion Papers, "Wealth Inequalities in Greater Boston: Do Race and Ethnicity Matter?" (2016) page 13 available at https://www.bostonfed.org/publications/community-development-discussion-paper/2016/wealth-inequalities-in-greater-boston-do-race-and-ethnicity-matter.aspx.

[21] Unlike many forms of financial wealth, which may be more difficult to tax because they are highly mobile, intangible, or whose valuation is highly open to interpretation, real estate could serve as an easier basis for taxing wealth because it is not mobile and it is relatively easy to identify and value. Recent sales of similar real estate in the same neighborhood can be identified and information about property sales and property taxes is typically already public record.

[22] "Home values are easier to measure than other forms of wealth: recent sales of similar properties in the same locality can often be identified, and housing ownership is usually publicly available information. In contrast, the value of an ownership interest in a closely held business can be very difficult to estimate accurately. In addition, houses can't be easily moved across borders to avoid taxation, unlike other types of wealth such as stocks, bonds, or bank accounts." See Center on Budget and Policy Priorities (Oct. 2019) at https://www.cbpp.org/research/state-budget-and-tax/state-mansion-taxes-on-very-expensive-homes.

[23] Almost 95 percent of those in the top 20 percent of wealth holders own their homes nationally, compared to two-thirds of those in the middle 60 percent of wealth holders. Ownership of real estate that is not a primary residence – such as vacation homes and investment property – is even more unequally distributed. Three-quarters those in the top 1 percent of wealth holders own real estate other than their primary residence. Half of the remainder of the top 20 percent of wealth holders own such real estate, and merely 12 percent of those in the middle 60 percent do. See Edward N. Wolff, "Household Wealth Trends in the United States, 1962 to 2016: Has Middle Class Wealth Recovered?" NBER Working Paper No. 24085 (Nov. 2017), Table 6, available at https://www.nber.org/papers/w24085. For the middle 60 percent of wealth holders, their net wealth is slightly less than half (46 percent) the value of the wealth in their homes. This paper focuses on the gross value of housing wealth because that is the more relevant indicator for exposure to property taxation.
[24] Edward N. Wolff, "Household Wealth Trends in the United States, 1962 to 2016: Has Middle Class Wealth Recovered?" NBER Working Paper No. 24085 (Nov. 2017), available at https://www.nber.org/papers/w24085, page 58.
[25] Edward N. Wolff, "Household Wealth Trends in the United States, 1962 to 2016: Has Middle Class Wealth Recovered?" NBER Working Paper No. 24085 (Nov. 2017), available at https://www.nber.org/papers/w24085, page 46. Note that "financial resources" does include other housing that is not a primary residence, so this is likely subject to property taxes as well.
[26] The top 1 percent of wealth holders own 40 percent of the much smaller stock of real estate that is not a primary residence, such as vacation homes and rental property. They own 11 percent of the much larger value of all primary residences. Edward N. Wolff, "Household Wealth Trends in the United States, 1962 to 2016: Has Middle Class Wealth Recovered?" NBER Working Paper No. 24085 (Nov. 2017) available at https://www.nber.org/papers/w24085. Net asset thresholds on page 53.
[27] Economic studies differ on the extent to which property taxes get passed on to lower-income renters: sometimes assuming landlords pass it on entirely, or 75 percent, or 65 percent, or less for a more recent tax increase. Some economists focus on property taxes as a component of economy-wide taxes on investment capital, which is held disproportionately by wealthy and high-income households. Others view property taxes as a payment for municipal services which owners receive in the form of benefits (such as better schools, security, mobility, etc), and which also benefits owners because superior local amenities get capitalized in the form of higher property values.  Those living in government restricted apartments (such as public housing, and Section 8) have their rents set by the government, so property taxes do not impact their rents.
[28] Household median income in Massachusetts owner-occupied households was approximately $99,000 compared to $41,000 for renting households. See U.S. Census, American Community Survey, five year pooled 2013-2017, adjusted to 2017 dollars, available at https://data.census.gov/cedsci/table?q=S2503&hidePreview=true&tid=ACSST5Y2017.S2503&g=0400000US25. Only 14 percent of owner-occupied housing units have incomes below $35,000, compared to 45 percent of renter-occupied units. Using a standard measure that housing costs should not exceed 30 percent of income to be affordable, an analysis by the National Low Income Housing Coalition found that for the nearly one million renters in Massachusetts, their average hourly wages would need to be over $8 higher to affordably rent the average fair market two-bedroom housing.
[29] Owners may tend on average to live in property assessed at higher value; and owners with mortgages on average face higher property-related costs than Massachusetts renters. But even for owners paying a mortgage, the average cost differences in Massachusetts are smaller than the average income differences between owners and renters. Median select owner costs with mortgage are $2,102; median select owner costs without mortgage is $754; and median gross rent is $1,173. U.S. Census, American Community Survey, 2013-2017, at https://www.census.gov/quickfacts/fact/table/MA,US/HSG650217#HSG650217. Moreover, less than 24 percent of owners with a mortgage (and less than 16 percent of those without a mortgage) pay over 35 percent of their income on ownership costs compared to 40 percent of renters who pay 35 percent or more of their income in gross rent. See American Community Survey at https://data.census.gov/cedsci/table?q=S2502&g=0400000US25&hidePreview=true&tid=ACSST5Y2017.S2502.
[30] Howard Chernick and Andrew Reschovsky, "The Taxation of the Poor", *Journal of Human Resources* (1990), on pp. 725-726, available at https://www.jstor.org/stable/145673.
[31] Only in Hawaii and California is housing less affordable than in Massachusetts. See, National Low Income Housing Coalition, "Out of Reach 2019," at https://reports.nlihc.org/oor/. See also, The Boston Foundation, "Greater Boston Housing Report Card 2019: Supply, Demand, and the Challenges of Local Control" (June 2019), at https://www.tbf.org/news-and-insights/reports/2019/june/greater-boston-housing-report-card-2019.



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[32] Amy Dain, "Multi-Family Housing (June 2019) at https://ma-smartgrowth.org/wp-content/uploads/2019/06/03/FINAL_Multi-Family_Housing_Report.pdf.
[33] Analysis excludes housing units with two or more races. See U.S. Census Bureau, American Community Survey 2013-2017 5-Year Estimates, S2502 "Demographic Characteristics for Occupied Housing Units" at https://data.census.gov/cedsci/table?q=S2502&g=0400000US25&hidePreview=true&tid=ACSST5Y2017.S2502.
[34] American Community Survey, Census microdata (2013-2017) comparing the sum of monthly owner costs and gross rent as a percent of income for different income groups. Selected monthly owner costs are calculated from the sum of payment for mortgages, real estate taxes, various insurances, utilities, fuels, mobile home costs, and condominium fees. Gross rent is the contracted rent plus utilities and fuel.
[35] Igor Popov, "Housing Costs and Income Inequality," Rentanomics (April 2019) at https://www.apartmentlist.com/rentonomics/housing-markets-and-income-inequality/.
[36] Igor Popov, "Housing Costs and Income Inequality," Rentanomics (April 2019) at https://www.apartmentlist.com/rentonomics/housing-markets-and-income-inequality/.
[37] American Community Survey, Census microdata (2013-2017) comparing race and ethnicity with the sum of monthly owner costs and gross rent as a percent of income.
[38] Zillow home values, November 2019. See https://www.zillow.com/ma/home-values. The Massachusetts Division of Local Services measures the capacity of municipalities to raise property tax based on equalized valuations per capita (EQV). By this measure, there are eight municipalities in Massachusetts where property is valued at $1 million to $3.7 million per person, while on the other side of the spectrum, there are 14 municipalities where the average property was valued below $70,000 per person. By this measure, the communities with the highest property value per capita tend to be seasonal vacation towns and therefore have low official populations. But municipalities such as Weston, Dover, Wellesley, Brookline, and Cambridge, which are not seasonal vacation towns, still have property valuations exceeding $400,000 per person. See Division of Local Services, Massachusetts Department of Revenue, FY 2020 "Equalized Valuations" (Current as of Nov. 15, 2019), available at https://dlsgateway.dor.state.ma.us/reports/rdPage.aspx?rdReport=DOR_Income_EQV_Per_Capita.
[39] Proposition 2 ½ rules may compound this problem because research has shown that while a Proposition 2 ½ override tends to significantly improve the fiscal position of a municipality, low-wealth cities and towns are less likely to successfully pass an override. See Jeff Zabel and Bruce Wallin at https://www.lincolninst.edu/sites/default/files/pubfiles/1885_1200_wallin_zabel_wp11bw1.pdf.
[40] MassBudget, "Understanding Our Tax System: A Primer for Active Citizens" (2010), Chapter 3, available at http://massbudget.org/report_window.php?loc=Tax_Primer_83110.html.
[41] The extent to which tax rates can rise will be limited by Proposition 2 ½.
[42] In Fiscal Year 2016, six municipalities had hit their levy ceiling and had no option to increase property taxes even with a local override vote. See Department of Revenue, Division of Local Services, *City and Town* (October 2016) https://massdocs-digital-mass-gov.s3.amazonaws.com/s3fs-public/2018/16ctown-oct20.pdf?EX2wYVqcX2FtGtCEiNBjCIkOaaAd4Vbg Research has shown that voter-approved Proposition 2 ½ overrides tend to significantly improve the fiscal position of a municipality, but low-wealth cities and towns are less likely to successfully pass an override. See Jeff Zabel and Bruce Wallin, "Property Tax Limitations and Local Fiscal Conditions: The Impact of Proposition 2½ in Massachusetts," Lincoln Land Institute Working Papers (2010), at https://www.lincolninst.edu/sites/default/files/pubfiles/1885_1200_wallin_zabel_wp11bw1.pdf.
[43] MassBudget, "Income Tax Cuts Cost Massachusetts Over $4 Billion Annually, and Benefits Go Mostly to Highest Incomes" (March 2019) available at http://massbudget.org/report_window.php?loc=Income-Tax-Cuts-Cost-Massachusetts-Over-$4-Billion-Annually.html. See also, Mass Budget, "The Rise and Fall of Local Aid in Massachusetts" (Dec. 2012).
[44] Massachusetts Taxpayers Foundation, "Municipal Financial Data" 48th Edition (2019), page 3 at https://www.masstaxpayers.org/sites/default/files/MFD2019_48th.pdf.
[45] MassBudget, "Building an Education System that Works for Everyone: Funding Reforms to Help All Our Children Thrive," (July 2018) at http://massbudget.org/report_window.php?loc=Building-an-Education-System-that-Works-for-Everyone.html.
[46] MassBudget, "Building an Education System that Works for Everyone: Funding Reforms to Help All Our Children Thrive," (July 2018) at http://massbudget.org/report_window.php?loc=Building-an-Education-System-that-Works-for-Everyone.html.

[47] For a discussion of the early implementation of these measures, see MassBudget, "Opportunity Delayed: FY 2021 Governor's Budget for K-12 Funding Falls Short by $74M for Low-Income Kids" (Feb. 2020) at http://massbudget.org/report_window.php?loc=FY2021%20Governor%27s%20Budget%20SOA%20Highlights.html.
[48] MassBudget, "Demystifying General Local Aid in Massachusetts" (Jan. 2012) at http://www.massbudget.org/report_window.php?loc=demystifying_general_local_aid.html. See also Division of Local Services, Cherry Sheet Manual, pages 15-16, at https://www.mass.gov/files/documents/2016/08/tl/cherrysheetmanual.pdf.
[49] Before Fiscal Year 2010, funding for general local aid was through Lottery Aid and Additional Assistance. In Fiscal Year 2010, funding for general local aid was consolidated into Unrestricted General Government Local Aid. Figures here are expressed in Fiscal Year 2019 dollars. See MassBudget's Budget Monitor at http://massbudget.org/browser/line_item.php?id=1233235000. For annual population adjustments, see U.S. Census, Intercensal Estimates of the Resident Population for the United States, Regions, States, and Puerto Rico: April 1, 2000 to July 1, 2010 and National Population Totals: 2010-2018.
[50] See "Libraries" MassBudget's Budget Browser at http://massbudget.org/browser/subcat.php?c1=1&c2=19&id=Libraries&inflation=cpi&budgets=723b19b18b17b16b15b14b13b12b11b10b9b8b7b6b5b4b3b2b1#comparisons.
[51] For a literature review, see Danielle McMillen and Ruchi Singh, "Assessment, Regressivity, and Property Taxation," Journal of Real Estate Finance and Economics (July 2019), pp. 1-15 at https://rdcu.be/bLaAB. For a recent empirical study documenting this effect in Massachusetts, see Thomas Plahovinsak and Gustavo Vicentini, "Measuring Vertical Inequity in Property Assessment: A New Approach Using Data from Massachusetts" (Northeastern Economics working papers, 2016) at https://cssh.northeastern.edu/economics/wp-content/uploads/sites/11/2016/10/Measuring-Vertical-Inequity-in-Property-Assessment.pdf.
[52] Carlos Avenancio-Leon and Troup Howard, "The Assessment Gap: Racial Inequalities in Property Taxation" (Dec. 2019), available at https://www.dropbox.com/s/d66yj47ze9h0mg1/Troup%20Howard%20JMP%2C%20Current.pdf. The authors suggest that if assessors applied their models to smaller geographies, it may make the outcomes from their metrics more equitable.
[53] Daphne Kenyon, Adam Langley, and Bethany Paquin, "Rethinking Property Tax Incentives for Businesses," Lincoln Institute of Land Policy, Policy Focus Report (2012), p. 15 at https://www.lincolninst.edu/sites/default/files/pubfiles/rethinking-property-tax-incentives-for-business-full_0.pdf.
[54] See Massachusetts General Laws https://malegislature.gov/Laws/GeneralLaws/PartI/TitleII/Chapter23A/Section3E.
[55] Lincoln Institute of Land Policy, "Massachusetts" (February 2018) at https://www.lincolninst.edu/sites/default/files/ma_feb_2018.pdf.
[56] Lincoln Institute of Land Policy, "Rethinking Property Tax Incentives for Businesses," (2012), p. 2 at https://www.lincolninst.edu/sites/default/files/pubfiles/rethinking-property-tax-incentives-for-business-full_0.pdf.
[57] "The Effective Use of Property Tax Incentives for Economic Development" Federal Reserve Bank of Boston, Community Banking series 2013, at https://www.bostonfed.org/publications/communities-and-banking/2013/fall/the-effective-use-of-property-tax-incentives-for-economic-development.aspx. As Paul O'Neill, former chief executive at Alcoa and President George W. Bush's Treasury Secretary said: "I never made an investment decision based on the tax code…. If you are giving money away I will take it. If you want to give me inducements for something I am going to do anyway, I will take it. But good business people do not do things because of inducements." See Hearing before the Committee on Finance, United State Senate, 107th Congress, 1st Session, on the Anticipated Nomination of Paul O'Neill to Be Secretary of the Treasury, January 17, 2001, S. Hrg. 107-5.
[58] Daphne Kenyon, Adam Langley, and Bethany Paquin, "Rethinking Property Tax Incentives for Businesses," Lincoln Institute of Land Policy, Policy Focus Report (2012), p. 23, "Figure 3.1,"at https://www.lincolninst.edu/sites/default/files/pubfiles/rethinking-property-tax-incentives-for-business-full_0.pdf.
[59] Property taxes may have the biggest effect on firm location decisions once a company has already decided to locate in a particular metropolitan area, but the impact of tax breaks matter less in a context where several localities are offering them. Several studies have also found that tax incentives for company location correspond to greater fiscal stress for states. See Bruce McDonald, John Decker, Brad Johnson, and Michelle Allen, "You Don't Always Get What You Want: The Effect of Financial Incentives on State Fiscal Health" Social Science Research Network (April 2019), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3376991; Peter Fisher and Alan Peters. "The Failures of Economic Development Incentives," *Journal of the American Planning Association, Vol. 70 (Winter 2004)*, available at

https://www.mackinac.org/archives/2009/nr043009-petersfisher.pdf; National Association of State Development Agencies, W.E. Upjohn Institute for Employment Research and The Urban Center at Cleveland State University. Prepared for the U.S. Department of Commerce Economic Development Administration. (August 1999) available at http://www.goodjobsfirst.org/sites/default/files/docs/pdf/EDA_EvaluatingIncentives_1999.pdf. See also John K. Mullen, 1990. "Property tax exemption and local fiscal stress. National Tax Journal" vol. 43, pp. 467–479 viewable at https://www.ntanet.org/NTJ/43/4/ntj-v43n04p467-79-property-tax-exemptions-local.pdf.

[60] A study last year at the Upjohn Institute for Employment Research that reviewed 30 studies on the use of economic development incentives found that between 75 percent and 98 percent of companies were planning to make the desired investment without the public subsidy anyway. See Timothy J. Bartik, ""But For" Percentages for Economic Development Incentives: What percentage estimates are plausible based on the research literature?" Upjohn Institute Working Paper 18-289. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research (2018). https://doi.org/10.17848/wp18-289.

[61] On EDIP, see MassBudget, "The Growing Cost of Special Business Tax Break Spending," (May 2017) at http://www.massbudget.org/report_window.php?loc=The-Growing-Cost-of-Special-Business-Tax-Break-Spending.html.

[62] Massachusetts Office of Business Development, "Economic Development Incentive Program, FY 2018 Report," page 12 at https://www.mass.gov/files/documents/2019/01/22/EDIP%20FY2018%20Annual%20Report.pdf.

[63] Based on Governing magazine analysis of 2018 IRS data on nonprofits in metropolitan areas over 1 million people, excluding nonprofits focused on national or international issues or general issues such as medical research. See Mike Maciag, "Where Nonprofits are Most Prevalent in America" (August 2019) at https://www.governing.com/topics/mgmt/gov-nonprofits.html.

[64] "All-Transactions House Price Index for Massachusetts" and "Real Median Household Income in Massachusetts," Federal Reserve Economic Data (FRED), Economic Research Division, Federal Reserve Bank of St. Louis at https://fred.stlouisfed.org.

[65] Center on Budget and Policy Priorities, "Massachusetts Federal Rental Assistance Fact Sheet" (December 2019), available at https://www.cbpp.org/sites/default/files/atoms/files/12-10-19hous-factsheet-ma.pdf.

[66] The Bureau of Labor Statistics provides this data from its survey of consumer expenditures, which is reported at the regional level for the Northeast region. See BLS, "Table 3310. Northeast region by housing tenure: Average annual expenditures and characteristics, Consumer Expenditure Survey, 2016-2017" at https://www.bls.gov/cex/2017/CrossTabs/regbyten/aregnne.PDF.

[67] On spending since FY 1993 for the MVRP and related and precursor programs, see "Shelter and Housing for Homeless Families: Historical Funding and the Governor's FY 2015 Budget Proposal," (MassBudget, April 2014) at http://www.massbudget.org/report_window.php?loc=Shelter%20and%20Housing%20for%20Homeless%20Families.html and "MVRP Budget Levels and Spending since Program Start: FY93 – FY12," (MassBudget) at http://massbudget.org/reports/pdf/mrvp_budget_costs_since_1992.pdf. For MVRP spending since FY 2001, see Massachusetts Rental Voucher Program spending, inflation-adjusted, FY 2001 to FY 2019 (MassBudget Budget Browser): http://www.massbudget.org/browser/line_item.php?c1=1&c2=19&id=7004902400&inflation=cpi&budgets=19b18b17b16b15b14b13b12b11b10b9b8b7b6b5b4b3b2b1.

[68] See "Housing" in "House Ways & Means Committee's Modest Budget Lacks Needed Investments in FY 2020," (MassBudget, April 2019) at http://massbudget.org/report_window.php?loc=Analyzing-the-House-Ways-and-Means-Budget-for-FY-2020.html#Housing.

[69] "Rental Assistance to Families with Children Lowest Point in Decade," (Center on Budget and Policy Priorities, 2016) at https://www.cbpp.org/research/housing/rental-assistance-to-families-with-children-at-lowest-point-in-decade.

[70] For a history and explanation of municipalities splitting rates, see Susan Whouley, "A Review of Multiple Tax Rates across Massachusetts," *City & Town* (published by the Division of Local Services), April 2016 at https://massdocs-digital-mass-gov.s3.amazonaws.com/s3fs-public/2018/16ctown-april7_0.pdf?VGQB5Qga3f6dPwjNcckYoXm3dmMxvbYJ.

[71] Based on analysis of Division of Local Services, "Tax Rates by Class" (2019) at https://dlsgateway.dor.state.ma.us/reports/rdPage.aspx?rdReport=PropertyTaxInformation.taxratesbyclass.taxratesbyclass_main. Municipalities with residential rates below the rate of commercial and industrial property include population centers such Boston, Cambridge, Springfield, Lawrence, and Lowell.

[72] See Table 5 at Susan Whouley, "A Review of Multiple Tax Rates across Massachusetts," City & Town (published by the Division of Local Services), April 2016 at https://massdocs-digital-mass-gov.s3.amazonaws.com/s3fs-public/2018/16ctown-april7_0.pdf?VGQB5Qga3f6dPwjNcckYoXm3dmMxvbYJ.

[73] See Table 3 at Susan Whouley, "A Review of Multiple Tax Rates across Massachusetts," City & Town (published by the Division of Local Services), April 2016 at https://massdocs-digital-mass-gov.s3.amazonaws.com/s3fs-public/2018/16ctown-april7_0.pdf?VGQB5Qga3f6dPwjNcckYoXm3dmMxvbYJ.

[74] American Community Survey microdata (2013-2017) comparing households headed by individuals 65 years and older to other households for combined selected costs of owners and gross rent as a percent of income for different income groups. Selected monthly owner costs are calculated from the sum of payment for mortgages, real estate taxes, various insurances, utilities, fuels, mobile home costs, and condominium fees. Gross rent is the contracted rent plus utilities and fuel. These costs average 30.7 percent of income for seniors and 32.5 percent of income for non-seniors.

[75] The Elder Economic Insecurity Standard Index compares the budget necessary for basic needs to available annual income without relying on benefit programs, loans, or gifts. Depending on the measure, New York, Vermont, and Massachusetts have the highest Elder Economic Insecurity rates. See Jan E. Mutchler, Yang Li, and Nidya Velasco Roldán, "Living Below the Line: Economic Insecurity and Older Americans Insecurity in the States 2019," Gerontology Institute, University of Massachusetts (Nov. 2019) at https://scholarworks.umb.edu/demographyofaging/40/.

[76] According to a University of Massachusetts projection prepared for the Secretary of the Commonwealth in 2015, the portion of the Massachusetts population over-65 will increase from about 15.8 percent of the total in 2015 to 23.0 percent in 2035. See Donahue Institute, "Long-Term Population Projections for Massachusetts Regions and Municipalities," Prepared for the Office of the Secretary of the Commonwealth (2015), p. 14.

[77] The "total income" is not identical to taxable income. It is (A) a taxpayer's adjusted gross income (AGI), then increased by various amounts that may have been excluded or subtracted when originally calculating the taxpayer's AGI minus (B) certain exemptions claimed by the taxpayer. See https://www.mass.gov/technical-information-release/tir-01-19-real-estate-tax-credit-for-certain-persons-age-65-and-older. Moreover, in calculating property tax costs, homeowners can count half of water and sewer payments to the municipality as an addition to their property taxes. There are limits to counting adjoining land: "If the taxpayer owns more than one acre of land, only the assessed value of the principal residence, together with the land that immediately surrounds and is associated with that residence, not to exceed one acre, should be used in determining the eligibility of the taxpayer for the credit." See Department of Revenue, Technical Information Release (October 2018), TIR-18-10 at https://www.mass.gov/technical-information-release/tir-18-10-annual-update-of-real-estate-tax-credit-for-certain-persons.

[78] Department of Revenue, "Senior Circuit Breaker" at https://www.mass.gov/service-details/senior-circuit-breaker-tax-credit. Revised information about eligibility is available at TIR 19-13, "Annual Update of Real Estate Tax Credit for Certain Persons Age 65 and Older," https://www.mass.gov/technical-information-release/tir-19-13-annual-update-of-real-estate-tax-credit-for-certain-persons.

[79] If a couple is married, they will not be eligible if they are filing separately.

[80] The income threshold is adjusted according to the previous year's inflation, whereas the maximum housing value limit is adjusted using a cost-of-housing adjustment that reflects the change in the average assessed value of single-family homes in Massachusetts from the previous calendar year. See Department of Revenue TIR 18-10 at https://www.mass.gov/technical-information-release/tir-18-10-annual-update-of-real-estate-tax-credit-for-certain-persons. The credit cap for each year is adjusted according to a cost of living adjustment.

[81] Schedule CB is available at https://www.mass.gov/files/documents/2019/01/29/dor-2018-inc-sch-cb.pdf.

[82] Department of Revenue projection in FY 2020 Tax Expenditure Budget, section 1.609 (p.96) at https://www.mass.gov/files/documents/2019/03/07/dor-fy-2020-tax-expenditure-budget.pdf.

[83] All five of the municipalities where residents receive the largest number of circuit breaker credits – Boston, Worcester, Springfield, New Bedford, and Quincy – are among the five municipalities with the largest number of householders over 65 years of age. Demographic data from U.S. Census, American Community Survey (2013-2017). Circuit Breaker data from the Massachusetts Division of Local Services at https://www.mass.gov/doc/senior-circuit-breaker-credit-usage-report-by-town-2001-2017/download.

[84] See Annual Reports of the Town of Wayland, July 1999 through June 2000, p. 107 at https://archives.lib.state.ma.us/handle/2452/755566.

[85] See Article 15, Town of Sudbury Official Warrant, Annual Town Meeting, May 7, 2018 at https://sudbury.ma.us/townmeeting/wp-content/uploads/sites/358/2018/04/Warrant-May-2018-ATM.pdf?version=d5891afb2262611d4dca89e66af02b3d.

[86] Patricia A Tabloski, "Cast a Ballot for Sudbury Seniors," *Sudbury Wicked Local*, April 26, 2018 at http://sudbury.wickedlocal.com/news/20180426/cast-ballot-for-sudbury-seniors.

[87] The Massachusetts 2017 median income was $74,167, according to the US Census, American Community Survey 5-year average. https://data.census.gov/cedsci/table?q=S1901&g=0400000US25&hidePreview=true&tid=ACSST5Y2017.S1901. The median incomes of the municipalities that enacted these measures in past years run from $114,00 in Reading to $171,000 in Sudbury. See https://data.census.gov/cedsci/table?q=B19013&g=0400000US25.060000&hidePreview=true&tid=ACSDT5Y2017.B19013 . Among newly approved petitions, Salem is the only municipality with a median income below the state average.

[88] The State Auditor's Report on the Local Financial Impact of Property Tax Exemptions for Senior Citizens, Pursuant to Massachusetts General Laws, Chapter 11, Section 6B (Sept. 2005), p. i at https://archives.lib.state.ma.us/bitstream/handle/2452/214463/ocn892973218.pdf.

[89] These correspond to their respective designations within PartI/TitleIX/Chapter59/Section5 of the state General Code. See Division of Local Services, Taxpayer's Guide to Local Property Tax Exemptions, "Seniors, Surviving Spouses, Minor Children (of Deceased Parent): Clauses 17, 17C, 17C½, 17D" at https://www.mass.gov/files/documents/2018/01/02/dor-proptax-guide-survivors-child-eld.pdf On state reimbursement rules, see Division of Local Services (2018), "State Reimbursement" on p. 3 and 4 at https://www.mass.gov/files/documents/2018/04/19/igr2018-6.pdf and Division of Local Services, Taxpayer's Guide to Local Property Tax Exemptions, "Seniors: Clauses 41, 41B, 41C, 41C½" at https://www.mass.gov/files/documents/2018/01/02/dor-proptax-guide-seniors.pdf.

[90] "Clause 17" refers to an abatement of $175 from the property taxes of elderly tax filers who have met eligibility rules for age (standard is over 70), minimum years of property ownership, and asset limits which can limit an applicant's whole estate to $20,000 or $40,000. Towns can vote to opt into easier senior eligibility for these programs or to adjust the benefit for inflation, though the state will not cover the additional costs incurred from those expansions to the program. Applicants seeking the exemption must provide the local assessor with a variety of documents, such as birth certificates, proof of ownership and occupancy, and bank or other statements. Going back to 1995, the use of the multiple variants of this exemption have declined from almost 20,000 to below 7,000 in 2019.

[91] "Clause 41" abatements are somewhat more generous than Clause 17 abatements because the amount is $500, although eligibility is more restricted and there is an income test. Claimants may not receive more than one exemption. Cities and towns can vote to increase the exemption up to $1,000. To be eligible, total gross income must be very low. Depending on whether a municipality has voted for more generous terms, a single tax filer may be limited (subtracting some minimum Social Security amount) to $6,000 in total gross income from the previous year to be eligible. Municipalities can vote for somewhat more generous and accessible terms, but state reimbursements will not cover the incremental spending. The number of exemptions granted through these programs fell from almost 31,000 in 1995 to about 13,000 in 2019.

[92] There are questions as to whether limiting benefits to people who have resided in a town for a minimum number of years is constitutional. Supreme Court decisions have struck down durational residency requirements for welfare payments, non-emergency hospital care because they were interpreted as infringing on the constitutionally protected right to free travel. See Keaton Norquist, "Local Preferences in Affordable Housing: Special Treatment for those who Live or Work in a Municipality?," *Boston College Environmental Affairs Law Review*, 36, 207 (2009).

[93] https://www.mass.gov/files/documents/2016/11/tl/proptaxdef.pdf. Moreover, "The total amount of property tax deferred and accrued interest cannot exceed 50 percent of the fair cash value of the property. Homeowners with a mortgage must get permission from their lenders to participate in the program." Statutory language in MA Acts of 2016.

[94] Joshua J. Miller, Silda Molak, and Jin Man Lee, "Reverse mortgages and senior property tax relief," *Journal of Housing Economics* (June 2019), pp. 26-34 at https://www.sciencedirect.com/science/article/abs/pii/S1051137718300949.

[95] Municipal data provided by email from the Division of Local Services, Department of Revenue, March 2019.

[96] "Often mortgage companies do not allow senior tax deferrals. …Massachusetts does not have legislation that would require banks or mortgage companies to accept or allow tax deferrals." See Town of Sudbury, "Sudbury Senior Tax Program Details" (2014) at https://sudbury.ma.us/treasurer/wp-content/uploads/sites/363/2014/08/DeferralreportFY14.pdf.

[97] Alicia H. Munnell, Anek Belbase, Wenliang Hou, and Abigail Walters, "Property Tax Deferral: A Proposal to Help Massachusetts' Seniors," Center for Retirement Studies (Nov. 2017) at http://crr.bc.edu/wp-content/uploads/2017/11/IB_17-19.pdf.

[98] Alicia H. Munnell, Anek Belbase, Wenliang Hou, and Abigail Walters, "Property Tax Deferral: A Proposal to Help Massachusetts' Seniors," Center for Retirement Studies (Nov. 2017) at http://crr.bc.edu/wp-content/uploads/2017/11/IB_17-19.pdf. A survey and examination of credit scores and property tax data by Francis

Wong at Berkeley suggests that homeowners may be uncomfortable with property tax deferment because they view it as going into debt that undermines their commitment to use their home equity as a savings commitment. See Francis Wong, "The Financial Burden of Property Taxes," University of California, Berkeley, viewable at https://www.dropbox.com/sh/55dcwuztmo8bwuv/AADfEOFVXZ8zVGzj0-Od5GCKa?dl=0&preview=fwong_JMP.pdf.

[99] Once the owner dies, the interest rate doubles to 16 percent and the treasurer can begin foreclosure if all interest isn't paid in six months. See Division of Local Services, MA Department of Revenue, "Taxpayers Guide to Property Tax Deferral: Seniors, Clause 41A" (Nov. 2016) at https://www.mass.gov/files/documents/2016/11/tl/proptaxdef.pdf. The Town of Lexington, which has adopted most local-option tax exemption programs enabled by state legislation and has expanded all program benefits to the maximum extent allowable by statute, has brought the interest rate it charges to seniors down below 2 percent. See Town of Lexington, The Select Board's Residential Exemption Policy Study Committee," Local Residential Exemptions" (Lexington March 2019), p. 33, 34 at https://www.lexingtonma.gov/sites/lexingtonma/files/pages/aggregated_2019_residential_exemption_report_0.95.pdf.

[100] Municipalities can vote whether to grant the standard state exemption or a more generous exemption that will not be fully reimbursed by the state.

[101] People physically unable to do such work can receive such reductions through the work of a representative. See https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIX/Chapter59/Section5K. Connecticut enables municipalities to recognize service by providing volunteer firefighters and other emergency personnel either (1) an abatement of up to $1,000 of taxes due in any year or (2) an exemption of assessed value up to an amount equal to $1 million divided by the mill rate. The offer may be extended to retired volunteers with 25 years or more of service. See Conn. Gen. Stat. §12-81w (in effect for 2018) Local Option Property Tax Relief Programs https://www.cga.ct.gov/2012/rpt/2012-R-0236.htm.

[102] https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIX/Chapter59/Section5N.

[103] https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIX/Chapter59/Section5.

[104] This applies to Class 1 residential property, which also includes apartments, vacant land on residentially zoned parcels, and rooming houses and certain childcare facilities. See "Property Type Classification Codes," Division of Local Services (April 2019) at https://www.mass.gov/files/documents/2019/04/26/propertytypecodes_0.pdf?_ga=2.6815088.350654577.1563392155-1092742140.1560194869.

[105] The Residential Tax Exemption can be combined with other tax exemptions, though the combination of exemptions can not reduce the taxable valuation below ten percent of its full and fair cash valuation. See https://malegislature.gov/Laws/GeneralLaws/PartI/TitleIX/Chapter59/Section5C.

[106] https://www.mass.gov/files/documents/2016/08/wd/loaddinfo.pdf.

[107] An RTE increases property taxes on large rental apartment buildings. Meanwhile, an RTE creates tax advantages for owner-occupied condominiums. All else equal, the RTE will increase the desirability of condominiums relative to rental units. Insofar as this occurs, it may incentivize owners of rental housing to convert their units to condominiums. This may make it harder for families without access to substantial wealth (especially Black and Latinx households) to find affordable rental housing. While higher-income neighborhoods tend to have more condominiums and therefore be associated with gentrification, some research indicates that this may be because of other factors that both increase condominiums in a neighborhood and tend to attract those with high incomes, rather than condominium development itself being associated with higher incomes or fewer people of color. For a discussion, see Leah Platt Boustan, Robert A. Margo, Matthew M. Miller, James M. Reeves, Justin P. Steil, "Does Condominium Development Lead to Gentrification?" National Bureau of Economic Research, NBER working paper 26170 (August 2019) at https://www.nber.org/papers/w26170.

[108] The RTE will shift taxes onto condominium owners of residential properties who do *not* reside there, and more so for luxury condos that owners do not live in full time. The practice of empty luxury condominiums has especially been observed in Boston. A study of 12 luxury housing developments in Boston comprising 1,805 units constructed over the last decade found an average condominium price over $3 million. Owners claimed the residential exemption for only 36 percent of these units, indicating that others are not a primary residence and may have been held purely as a passive investment. The authors of the study speculate that that purchases of these units may represent a form of international money laundering. They note that significant portions of the units have been purchased with cash or are owned by limited liability corporations that cannot clearly be traced to individuals or active businesses. See Institute for Policy

Studies, "Towering Excess: The Perils of the Luxury Real Estate Boom for Bostonians," (Sept. 2018) at https://inequality.org/wp-content/uploads/2018/09/Towering-Excess-Report-Final.pdf.

[109] As suggested in the second bullet point above, for properties with a high assessed value, an RTE will increase their tax bill even if they do receive a residential exemption – because only a small portion of their assessed value will be exempted and a higher rate will be applied as a result of the RTE. Different municipalities have different thresholds at which a property will pay higher taxes, even if it is eligible for the RTE. According to 2019 analysis by economist Jim Campen, the threshold is about $2.0 million in Cambridge; $3.75 million in Provincetown; $1.5 million in Somerville; and $2.6 million in Wellfleet.

[110] The top 10 percent of wealth holders own 82 percent of the value of all non-owner-occupied real estate nationwide, though this figure includes non-residential real estate, such as commercial and industrial property which the residential exemption does not apply to. The top 1 percent of wealth holders own 40 percent of all real estate that is not the primary residence of the owner. Edward N. Wolff, "Household Wealth Trends in the United States, 1962 to 2016, Has Middle Class Wealth Recovered?" NBER Working Paper No. 24085 (Nov. 2017), Table 610, available at https://www.nber.org/papers/w24085.

[111] It may not be controversial to presume that people with multiple homes on average have relatively high incomes, though data from Cape Cod also support this presumption. "During the five-year period ending in 2016, only 27 percent of the approved mortgages in Truro were for year-round homes. The median income of those mortgage applicants was $93,000. The median income of the applicants for second-home mortgages was $234,000. This means that families seeking to buy a house for year-round use are competing with out-of-town buyers who, on the average, make two and a half times as much money. Cape Cod Commission figures for Provincetown and Wellfleet tell much the same story." See "Why the Residential Tax Exemption Makes Sense," *Wicked Local Provincetown*, September 20, 2018. See https://provincetown.wickedlocal.com/news/20180920/why-residential-exemption-makes-sense. Note also that the disparate income of those buying second homes may actually be substantially greater if the highest income home buyers aren't fully included in these statistics because they don't typically bother with mortgages.

[112] Some municipalities may be less focused on helping renters than homeowners because renters may be viewed as less "invested" in the community and more likely to leave. In a survey of residents, the town of Lexington reported that approximately half of renters said they anticipated leaving the town over the next ten years, compared to approximately a third of those who owned their home. Town of Lexington (2019), p. 24 at https://www.lexingtonma.gov/sites/lexingtonma/files/pages/aggregated_2019_residential_exemption_report_0.95.pdf.

[113] For instance, some properties have rent restrictions because rules prescribe that a certain number of units must be "affordable." If a municipality had broader forms of "rent control," it would also limit how much property tax increases on landlords could be passed on in the form of higher rents.

[114] There is a not a strict profile for the municipalities that have opted for RTEs. Most are primarily residential; but Boston, Cambridge, and Waltham all have commercial property levies that are near or exceeding their residential levy. All but Brookline and Everett opt to extend the residential tax exemption for the purposes of the Community Preservation Act (CPA) property tax levy and to adopt a separate $100,000 CPA exemption for low and moderate income seniors who file an application. An up-to-date list of municipalities with an RTE is maintained at https://dlsgateway.dor.state.ma.us/reports/rdPage.aspx?rdReport=LocalOptions.localoptions.

[115] Among these 16 municipalities, only in Boston and Wellfleet is the ratio of renter median incomes to owner median incomes lower than the statewide ratio. Based on analysis of U.S. Census, American Community Survey (2013-2017) microdata.

[116] Based on the 2018 Census population estimates.

[117] On the problem of Cape Cod communities losing young people and school enrollment dropping, see, "Loss of School Age Kids Threatens Cape Cod Economy," *Boston Globe*, March 25, 2019 at. https://www.bostonglobe.com/business/2019/03/25/loss-school-age-kids-threatens-cape-cod-economy/dzCJ0MfXQ8KuvzRnhrE2SO/story.html?p1=Article_Recommended_ReadMore_Pos2.

[118] The petition was approved in February 2018. See https://malegislature.gov/Laws/SessionLaws/Acts/2018/Chapter25.

[119] More expensive properties under these rules could still benefit from the tax exemption, but the higher tax rate would increase their tax more than the exemption would reduce it.

[120] On the effect of AirBnB for reducing rental housing stock, see Economic Policy Institute, "The Economic Costs and Benefits of AirBnB" (January 2019) at https://www.epi.org/publication/the-economic-costs-and-benefits-of-airbnb-no-reason-for-local-policymakers-to-let-airbnb-bypass-tax-or-regulatory-obligations/.
[121] According to the state law, "For the purposes of this paragraph, "parcel" shall mean a unit of real property as defined by the board of assessors of the town of Provincetown in accordance with the deed for the property and shall include a condominium unit." It is unclear whether this language enables the town to potentially decide to interpret "parcel" for apartment buildings in a way that extends the tax exemption to each rental unit. See https://malegislature.gov/Laws/SessionLaws/Acts/2018/Chapter25.
[122] As explained in the final section of this paper, Provincetown also has a policy which is unique in Massachusetts to wholly exempt qualified low-income rental property from property taxes. To the extent that other units are not taxed, then there is less dilution of the exemption across multiple units and less tax would likely be passed on to those rental units which are still subject to tax.
[123] There are other policy changes that could use tax policy to bridge the gap between residents' incomes and rising cost of housing. For instance, the state's personal income tax deduction for rent has not increased since 2001. Doing so would entail a loss in revenue, but that loss could be reduced by limiting the rental deduction to those tax filers whose income does not exceed a certain inflation-adjusted threshold. The threshold could be set at double the Senior Circuit Breaker eligibility limits, for instance, as a way to also adjust for family type. Another way to ensure that the tax benefit would reach those with low incomes is to convert the tax deduction to a refundable credit. Tax filers whose incomes were too low to benefit from a deduction could then nonetheless receive the same credit as a filer with higher taxable income. Another way to use tax policy to address vast differences in housing wealth is by creating a tax on the sale of the most expensive houses, as exists in some other states. See for instance, Center on Budget and Policy Priorities, "State 'Mansion Taxes' on Very Expensive Homes,"(Oct. 2019) at https://www.cbpp.org/research/state-budget-and-tax/state-mansion-taxes-on-very-expensive-homes and see Option 9 in MassBudget, "14 Options for Raising Progressive Revenue" (Jan. 2019) at http://massbudget.org/report_window.php?loc=14-Options-for-Raising-Progressive-Revenue.html.
[124] The State Auditor's Report on the Local Financial Impact of Property Tax Exemptions for Senior Citizens, Pursuant to Massachusetts General Laws, Chapter 11, Section 6B (Sept. 2005) stated that "the value of the average benefit should approximate 50% of the state average property tax bill" (p. iii) at https://archives.lib.state.ma.us/bitstream/handle/2452/214463/ocn892973218.pdf.
[125] According to an analysis by the financial website WalletHub, the effective property tax rate for the state applied to the state median value home for 2019 is $4,309. While the average is higher than the median, half of the latter amount is $2,155. See WalletHub, "2019's Property Taxes by State" at https://wallethub.com/edu/states-with-the-highest-and-lowest-property-taxes/11585/.
[126] Up to $5,600 for the statewide education property tax portion and up to $2,400 for the municipal property tax portion. See https://tax.vermont.gov/sites/tax/files/documents/PropertyTaxAdjustmentFS.pdf.
[127] MassBudget, "Building an Education System that Works for Everyone: Funding Reforms to Help All Our Children Thrive," (July 2018) at http://massbudget.org/report_window.php?loc=Building-an-Education-System-that-Works-for-Everyone.html.
[128] See "Unrestricted General Government Aid" at MassBudget's Budget Browser, available at http://massbudget.org/browser/line_item.php?c1=1&c2=19&id=1233235000&inflation=cpi&budgets=723b19b18b17b16b15b14b13b12b11b10b9b8b7b6b5b4b3b2b1#comparisons.
[129] See "Libraries" at MassBudget's Budget Browser, available at http://massbudget.org/browser/subcat.php?c1=1&c2=19&id=Libraries&inflation=cpi&budgets=723b19b18b17b16b15b14b13b12b11b10b9b8b7b6b5b4b3b2b1#comparisons.
[130] The neighboring town of Truro has already voted to petition the Legislature for permission to do so. See *Provincetown Banner*, "Voters Buy Walsh Land at Truro Annual Town Meeting," May 2, 2019 at https://provincetown.wickedlocal.com/news/20190502/voters-buy-walsh-land-at-truro-annual-town-meeting.
[131] Some towns opt to temporarily allow nonprofits that have acquired property through foreclosure to exempt this property from tax while they prepare it as community property for sale or rental.
[132] https://malegislature.gov/Laws/SessionLaws/Acts/2002/Chapter408.
[133] For Fiscal Year 2019, low-income eligibility was $48,300 for one person, $55,000 for two people, adjusted upwards up to $80,000 for six or more people. See "FY 2019 Affordable Housing Property Tax Exemption for Owners of Affordable Year-

round Rental Housing," Town of Provincetown, https://www.provincetown-ma.gov/597/Affordable-Housing-Rental-Exemption.
[134] Minnesota Housing, "Low Income Rental Classification (LIRC)" at http://www.mnhousing.gov/sites/Satellite?c=Page&cid=1364120490987&d=Touch&pagename=External%2FPage%2FEXTStandardLayout.
[135] Minnesota Housing, "Low Income Rental Classification (LIRC)"at http://www.mnhousing.gov/sites/Satellite?c=Page&cid=1364120490987&d=Touch&pagename=External%2FPage%2FEXTStandardLayout. The program is also known as the 4d program.
[136] Article CXII of the Constitution amends Article IV of Chapter 1 or the Second Part of the Massachusetts Constitution states that, "the general court may classify real property according to its use in no more than four classes and to assess, rate and tax such property differently in the classes so established, but proportionately in the same class, and except that reasonable exemptions may be granted."
[137] For property classified as residential or open space, the change due to splitting must not reduce their tax to less than 65 percent of the full and fair cash value (FFCV) of the municipality's property tax levy. For commercial, industrial, and personal property (CIP), their share of the levy cannot exceed 150 percent of what the FFCV value would be without the tax split. Additional rules mitigate the extent to which these limits might result in residential taxpayers paying a higher share of the tax levy than the previous year, enabling CIP taxpayers to pay up to 175 percent. Other rules also apply. See *City & Town* (published by the Division of Local Services), October 2017, pages 4-5, available at https://www.mass.gov/files/documents/2017/10/13/17ctown-oct5.pdf.
[138] Municipalities can choose to apply the Small Commercial Exemption of up to 10 percent for parcels with business property valued under $1 million. See Division of Local Services, as of November 8, 2019 at https://dlsgateway.dor.state.ma.us/reports/rdPage.aspx?rdReport=LocalOptions.localoptions.
[139] Division of Local Services at https://dlsgateway.dor.state.ma.us/reports/rdPage.aspx?rdReport=LocalOptions.localoptions.
[140] Good Jobs First, "GASB Statement 77" at https://www.goodjobsfirst.org/gasb-statement-no-77.
[141] Email communication from Good Jobs First, July 29, 2019.
[142] Hutchinson Times, "Kansas, Missouri Governors Agree to Cease Fire in Business Incentive Border War," August 2, 2019 at https://www.hutchnews.com/news/20190802/kansas-missouri-governors-agree-to-cease-fire-in-business-incentive-border-war/1.
[143] Daphne Kenyon, Adam Langley, and Bethany Paquin, "Rethinking Property Tax Incentives for Businesses," Lincoln Institute of Land Policy, Policy Focus Report (2012), pp. 52-53 at https://www.lincolninst.edu/sites/default/files/pubfiles/rethinking-property-tax-incentives-for-business-full_0.pdf.
[144] Enid Eckstein, "Boston's Payment in Lieu of Taxes (PILOT) Program: A Fair Deal for Boston Residents?" (PILOT Action Group, August, 2018) at https://pilotaction.weebly.com/report.html. The report states that these large nonprofits pay only a fraction of their requested PILOTs an amount that had fallen to a quarter in 2018, according to a Fiscal Year 2018 supplement. Reportedly, more localities are pushing for PILOTs. See *Lowell Sun*, "More Mass Cities and Towns Seek Payment Deals with Tax-Exempt Entities" (August 21, 2016) at http://www.lowellsun.com/todaysheadlines/ci_30272989/more-mass-cities-towns-seek-payment-deals-tax.
[145] Alicia H. Munnell, Anek Belbase, Wenliang Hou, and Abigail Walters, "Property Tax Deferral: A Proposal to Help Massachusetts Seniors," Center for Retirement Studies at Boston College (Nov. 2017) at https://crr.bc.edu/wp-content/uploads/2017/11/IB_17-19.pdf.
[146] This would not be a budgetary expenditure for the state because the state would be borrowing to cover these obligations, and would ultimately recover most all of them.
[147] Special Senate Committee on Housing, "Facing Massachusetts' Housing Crisis" (March 2016), p. 11, at https://archives.lib.state.ma.us/bitstream/handle/2452/390237/ocn944136211.pdf.