Revenue policy options for Great Barrington

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Affordability: property taxes in relation to incomes

Taxes in Great Barrington are among the highest in Berkshire County. The average household tax bill here in FY2015 was $5138. Only Williamstown's $5552 was higher. Taxes in nearly all of the towns that are comparable to Great Barrington, in size and in range and quality of town services, are higher than the county-wide average. In the larger towns nearby the average bill is somewhat lower than ours, while in the small towns that provide few services it is much lower.

Municipality	Average Single Family Tax Bill FY2014	Average Single Family Tax Bill FY2015	Percent increase 2014-2015
Williamstown	$5,294	$5,552	4.9%
Great Barrington	$4,871	$5,138	5.5%
West Stockbridge	$4,562	$4,873	6.8%
Lenox	$4,540	$4,588	1.1%
Sheffield	$4,194	$4,420	5.4%
Stockbridge	$4,026	$4,334	7.7%
Dalton	$3,736	$3,922	5.0%
New Marlborough	$3,534	$3,614	2.3%
Lee	$3,470	$3,542	2.1%
Tyringham	$3,298	$3,316	0.5%
Egremont	$3,099	$3,313	6.9%
Monterey	$3,245	$3,153	-2.8%
Alford	$3,069	$3,074	0.2%
Adams	$2,690	$2,887	7.3%
Berkshire County	$3,123	$3,288	5.3%
Massachusetts	$5,020	$5,525	10.1%

Source: Massachusetts DOR

Affordability is the challenge. In relation to income, property taxes in Great Barrington are also higher than elsewhere in Berkshire County. Incomes in Great Barrington appear to be in the mid-range among its Berkshire County peers and neighbors, about equal to the state average and above the Berkshire County average, when measured by per-capita income. But comparison based on household and family incomes reveals sharper differences. Household incomes in Great Barrington, although equal to the county average, are below nearly all of the comparable towns, while

Housatonic village, considered separately, is at the bottom of the ranking for the entire county. Family incomes are somewhat above the county average and nearly as high here as in Lenox and Sheffield, but they fall far short of Williamstown and West Stockbridge. By this measure too Housatonic village ranks lowest in the county. (In the following table, which ranks towns in descending order of median household income, the "CDP" entries are for the towns' central neighborhoods).

Town		Per capita income	Median household income	Median family income	Population
Tyringham	Town	$55,836	$94,375	$126,875	358
Alford	Town	$49,272	$85,833	$102,750	501
West Stockbridge	Town	$35,092	$75,543	$97,784	1,573
Williamstown	Town	$39,451	$72,743	$97,060	7,828
New Marlborough	Town	$32,451	$67,528	$68,750	1,499
Lenox	Town	$33,405	$54,622	$74,844	5,013
Stockbridge	Town	$31,821	$53,698	$69,038	1,755
Dalton	Town	$26,854	$52,285	$61,739	6,753
Sheffield	Town	$36,640	$52,181	$75,000	3,255
Lee	Town	$28,270	$51,835	$67,407	5,932
Egremont	Town	$39,236	$50,848	$66,500	1,043
Great Barrington	**Town**	**$34,585**	**$48,561**	**$73,369**	**7,131**
Monterey	Town	$32,404	$42,083	$46,021	793
Adams	Town	$24,423	$39,080	$46,021	8,494
Lenox	CDP	$37,192	$48,158	$62,569	1,349
Williamstown	CDP	$31,808	$46,622	$100,833	3,652
Lee	CDP	$27,549	$43,750	$70,417	1,843
Great Barrington	**CDP**	**$28,282**	**$40,393**	**$66,500**	**2,464**
Adams	CDP	$25,096	$38,256	$46,554	5,367
Housatonic	**CDP**	**$33,281**	**$28,837**	**$27,448**	**1,024**
Berkshire County		$29,294	$48,450	$65,216	130,545
Massachusetts		$35,763	$66,866	$84,900	6,512,227
United States		$28,155	$53,046	$64,719	306,603,772

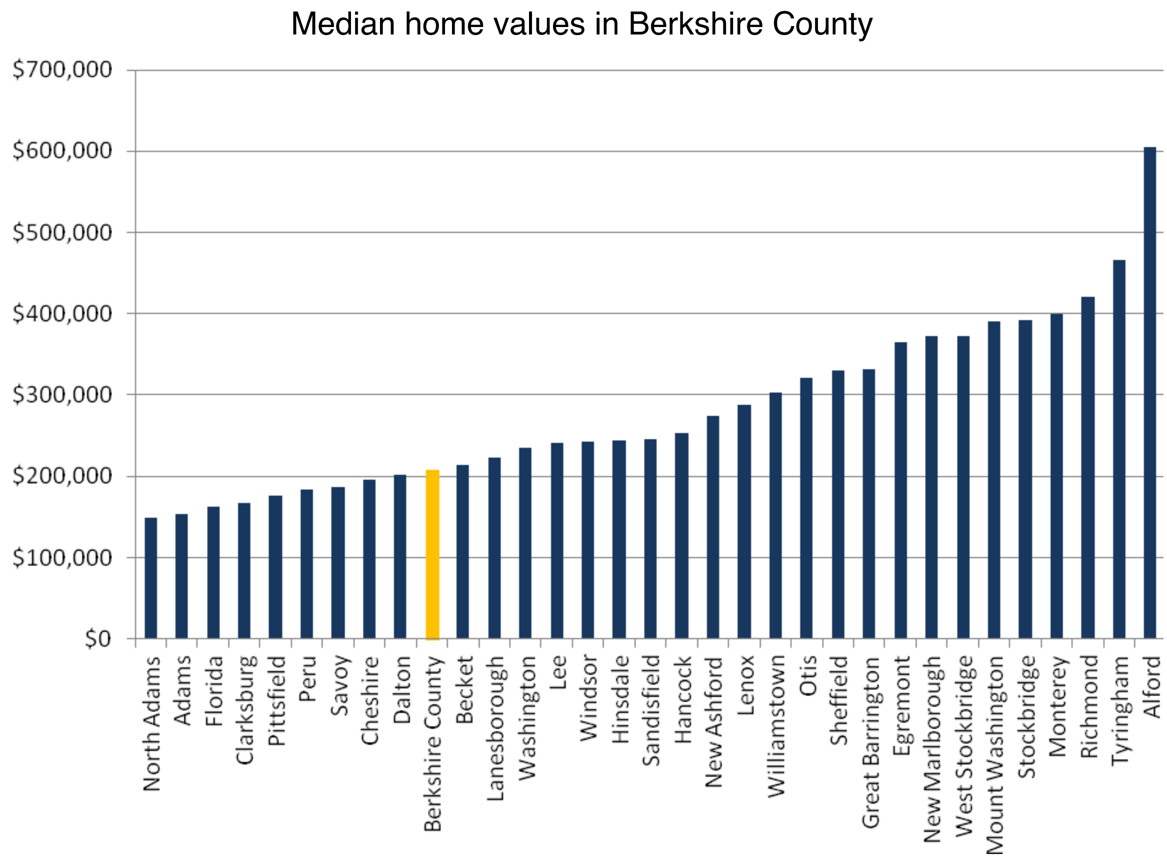
Source: U.S. Census, 2009-2013 American Community Survey 5-Year Estimates

The most direct measure of the tax affordability would be the relationship between property tax bills and incomes. When average household tax bills are compared to median family incomes, Great Barrington leads in Berkshire County. Nearly all of the comparable towns, as well as two of our smaller neighbors, are also above the county-wide norm. This comparison is an imperfect measure, because average taxes are significantly higher than median taxes in Great Barrington, and that might be true in other towns too. Comparing an estimate of median tax bills to median family incomes finds that Great Barrington still ranks highest. These estimates are summarized on the following table. The median tax bill was computed by applying each town's tax rate to an estimate of its median home value, using 2009 data. Median incomes and average tax bills are from 2011. Because of the age and inconsistency of the data sources, the particularly percentages on this table are unlikely to be an accurate measure of current conditions. Nonetheless, the ranking of the towns is probably still essentially accurate, and it supports the conclusion that, in relation to income, property taxes in Great Barrington are higher than elsewhere in Berkshire County.

Municipality	Median tax/ median income	Average tax/ median income
Great Barrington	7.7%	9.7%
Sheffield	7.7%	7.6%
Adams	5.9%	5.8%
Dalton	5.7%	6.7%
Lee	5.6%	6.4%
Pittsfield	5.5%	6.3%
Monterey	5.0%	6.6%
Stockbridge	4.9%	7.0%
Lanesborough	4.8%	5.5%
Lenox	4.8%	7.7%
Williamstown	4.7%	6.8%
Savoy	4.7%	4.4%
West Stockbridge	4.5%	6.0%
North Adams	4.5%	5.2%
Egremont	4.4%	5.7%
Hinsdale	4.3%	4.1%
Washington	4.3%	3.8%
Richmond	4.2%	4.5%
Becket	4.0%	5.2%
New Marlborough	4.0%	4.6%
Peru	3.8%	4.1%
Sandisfield	3.6%	4.4%
Windsor	3.3%	3.2%
Mount Washington	3.2%	3.3%
Otis	3.2%	3.4%
Clarksburg	3.2%	3.5%
Cheshire	3.0%	3.5%
Alford	3.0%	3.3%
New Ashford	2.9%	3.0%
Tyringham	2.8%	3.2%
Florida	2.4%	2.7%
Hancock	0.9%	1.0%

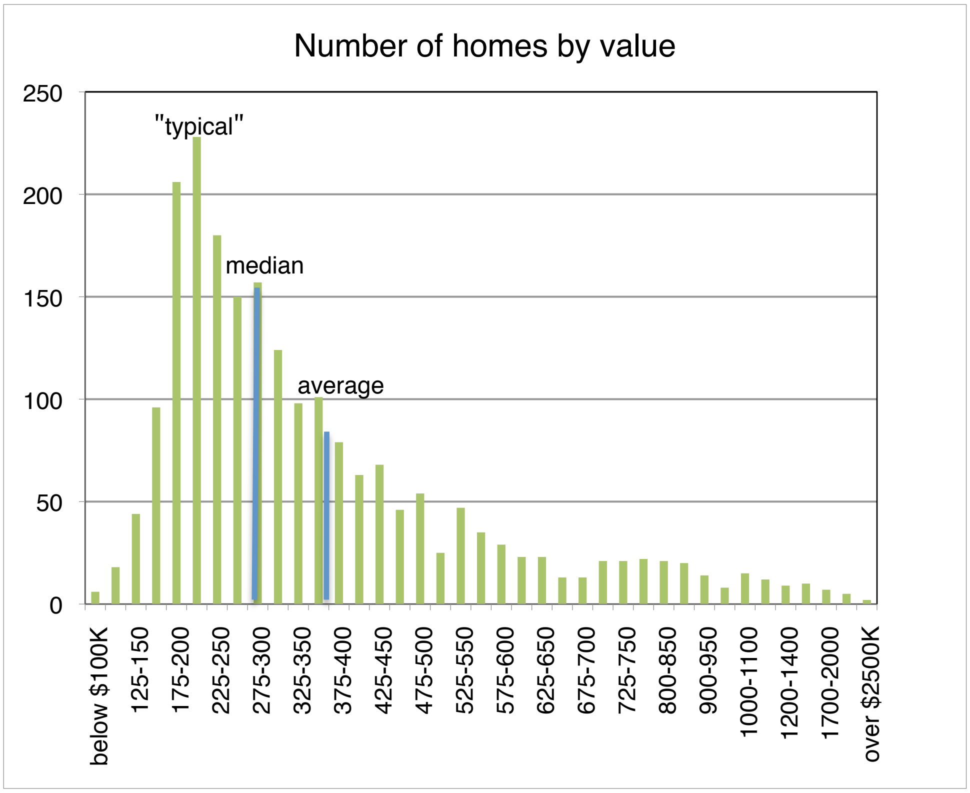
Property values are also relatively high here. The value of the average single family home is now slightly higher than the statewide average. It was well below the statewide average until 2008. Similarly, the average single family home tax bill here has risen since 2008 to slightly above the statewide average.

Compared to Berkshire county, the median home value in Great Barrington is about 50 percent higher than the county-wide value. Indeed, the median value here is higher than in the county's other large towns, although values in Williamstown and Lenox are nearly as high. Yet in some smaller towns around Great Barrington the median value is even higher, probably because they have a much higher proportion of expensive second homes and estates. Data about median values in the chart below is from 2009. Prices dropped somewhat since then because of the financial crisis, but the relative positions of the towns are probably still roughly accurate.



Source: Sustainable Berkshires, housing chapter, Figure 10: median value of owner-occupied home, 2009

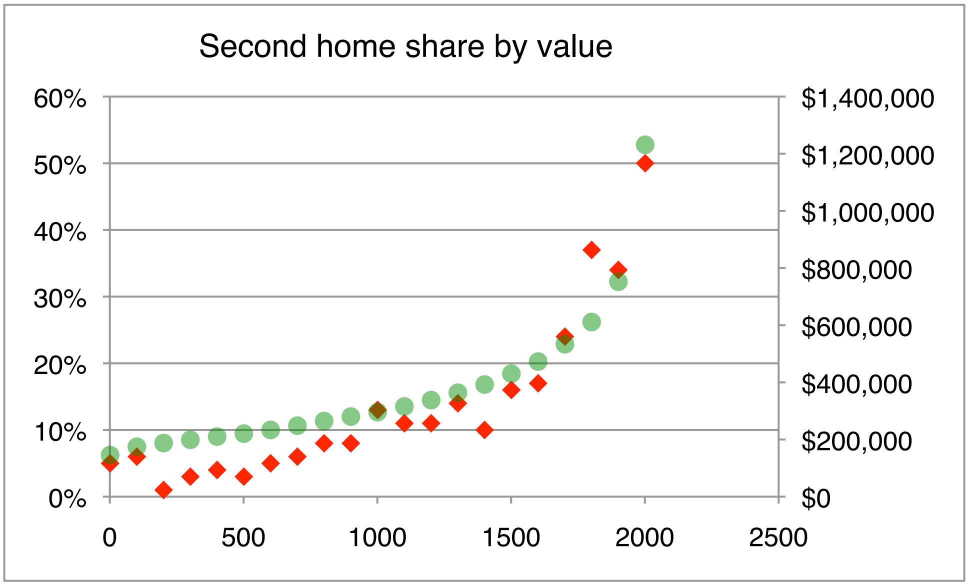
Within Great Barrington, values vary widely. The average home value is much higher than the median value, and even that is well above the value of the typical home. In FY2015, two-thirds of the single family homes were assessed below the arithmetic average value of $374,000. The median value was 22 percent lower: half of the single family homes in Great Barrington were assessed at or below $294,400.



Yet even that figure is much higher than the value of the "typical" home, which was assessed at approximately $200,000-$225,000. The chart above shows the number of homes in different categories of value. The bottom scale is divided into increments of $25,000 in assessed value. The left scale shows the number of single family homes in each segment. The peak is at the segment $200,000-225,000, in which there are about 230 homes; there are more homes in Great Barrington in that value range than in any other. About one-quarter of the 2,113 single family homes in Great Barrington are valued between $175,000 and $250,000. These relatively modest-valued homes are concentrated in Housatonic village and Risingdale. In those neighborhoods, the average assessed value is $230,000 and the median value is $213,000. (At the high end, above $800,000, the horizontal scale of this chart is compressed; otherwise, it would be three times wider and run way off the page to the right).

The property tax impact on most homeowners is lower than the average figure that is commonly reported. At the FY2015 tax rate of $13.72, the tax bill on the average single family home was about $5,140. The bill for the median value home was about $4,050, and for the "typical" value home, about $2,930.

Second homes, which tend to be more expensive, increase the average value. They only comprise about 15 percent of the residences in town, but their values tend to be much higher than those of the homes occupied by permanent residents. The average value of single-family parcels that are second homes is about $596,000, which is more than 75 percent higher than the average value of those that are not. The more expensive the home, the more likely it is to be a second or seasonal home. Of the 100 single family homes in town that are assessed at more than $850,000, half are second homes. Twenty-five second homes are valued over $1 million. In the chart below, each dot represents a group of 100 single-family homes, increasing in value from left to right. The circles show the average value of the parcels within each group (right scale). The diamonds show the percentage in each group that are second homes (left scale).



Data on second-homeownership comes from the records of the Great Barrington town assessor. Some of properties listed in those records are condominiums and mixed use properties, which are not shown on this chart. Of the approximately 185 condominiums in town, about 40 are second homes.

Potential solutions

This report discusses several ways provided under state law to deal with the impact of property taxes on affordability. The three principal topics are:

- Split rate: The tax burden can be shifted among different classes of property, which results in a higher tax rate for commercial and industrial properties than for residences and open space.
- Residential exemption: By exempting from tax some of the assessed value of principal residences, this measure has the effect of making the property tax somewhat progressive. It reduces the taxes paid by those who own and live in less valuable homes, while increasing the amount collected from homes that are more expensive or that are not primary residences.
- Tax relief programs: State law authorizes several ways to relieve the burden of high property taxes, through exemptions or refundable credits. Most of these are aimed to help seniors.

Local governments can decide which, if any, of these programs to adopt and how to implement them, subject to parameters and limits set out in state law. The decision-making authority for this purpose is the Selectboard. Every year around Labor Day, after the state Department of Revenue has signed off on the town's property evaluation data, the Selectboard holds a "classification hearing" at which it formally sets the tax structure and tax rate to collect the revenues needed to support the budget that was approved at town meeting. At that hearing, the Selectboard decides whether to use a split or flat rate, whether to authorize the residential exemption, and whether and how it will implement the other tax relief programs. The hearing this year is scheduled for August 24. To date, Great Barrington has not used either the split rate or the residential exemption, and it has used some, but not all, of the other tax relief programs.

Split rate

A split rate, charging different rates to different kinds of property, must be explicit. A town may not shift the tax burden by manipulating the assessed valuations while applying an ostensibly flat tax rate. The state monitors local assessment and taxation to ensure fair treatment. State law governs how much a town can shift the tax burden by reducing the percentage paid by residential property and correspondingly increasing the share paid by commercial and industrial property.[1]

The rules for applying the split rate use two technical terms, the "residential factor" and the "CIP shift". The "CIP shift" is the proportion by which the amount raised from commercial, industrial and personal property exceeds the flat-rate levy. The CIP shift usually cannot be greater than 1.5.[2] The "residential factor" is the revised percentage of the flat-rate levy that is to be raised from residential properties. When the rate is not "split" at all this factor is 1. The residential factor must normally be at least 65 percent. The residential factor that a town can adopt depends on how much CIP property is there. In a town with little CIP property, increasing the CIP share of the levy even by the maximum amount would not change the residential factor very much.

To illustrate the computation, suppose residential properties in a town accounted for 80 percent of the total assessed value, and commercial and industrial properties for the remaining 20 percent. (These are roughly the proportions for Great Barrington). Then the maximum that can be collected from commercial and industrial properties is 1.5 times that proportion, or 30 percent of the total. With 30 percent of the total collected from commercial and industrial properties, the levy on residential properties drops to 70 percent of the total. That figure is 87.5 percent of what would have been collected by the single rate, so 87.5 percent is the "residential factor". If CIP property is only four percent of the tax base, then even the maximum CIP shift of 1.5 would cut the residential levy by just over two percent, to 97.9 percent of the flat-rate level. But if CIP property is 40 percent of the tax base, then the maximum CIP shift corresponds to a near-minimum residential factor of 66.6 percent and thus a tax cut of about one-third for residential property.[3]

One hundred ten towns and cities in Massachusetts used a split rate in FY2015. That number has increased 10 percent over the last decade. Six towns and cities in Berkshire County used a split rate in FY2015:

Town	CIP % of total value	Residential factor	CIP shift	Residential tax rate	CIP tax rate
Adams	17.3	.97	1.15	21.37	25.38
Florida	51.8		1.46	9.03	26.36
Lenox	19.1	.96	1.18	12.33	15.18
New Ashford	18.9	.93	1.30	7.90	11.19
North Adams	23.0	.79	1.71	16.69	36.03
Pittsfield	21.6	.815	1.67	18.06	36.63

Source: DOR website

The following table shows the effect in Great Barrington of adopting a split rate in FY2015 at different degrees of CIP shift. Residential property and open space are 78.7 percent of assessed value here, and commercial, industrial and personal property are 21.3 percent. The median value of commercial and industrial parcels was $366,000, and the average value was $682,551. At the maximum CIP shift of 1.50, tax bills on residences would fall by 13.5 percent, but tax bills on CIP property would increase by 50.6 percent. At half of that level, or a CIP shift of 1.25, the tax rate on residences would fall by eight percent (from $13.72 to $12.79), and the average single family tax bill would drop from $5,138 to $4,790. At this rate, the "typical" single family home tax bill would drop from $2,950 to $2,750. The rate on CIP property would rise by 25 percent (from $13.72 to $17.15), and the average CIP tax bill would increase from $9,365 to $11,706.

CIP shift	Residential tax rate	CIP tax rate	Single family tax bill			CIP tax bill	
			Average	Median	"Typical"	Average	Median
1.00	13.72	13.72	$5,138	$4,047	$2,950	$9,365	$5,022
1.05	13.53	14.41	$5,067	$3,991	$2,909	$9,836	$5,274
1.10	13.35	15.39	$5,000	$3,938	$2,870	$10,504	$5,633
1.15	13.18	15.78	$4,936	$3,888	$2,834	$10,771	$5,775
1.20	12.98	16.46	$4,861	$3,829	$2,791	$11,235	$6,024
1.25	12.79	17.15	$4,790	$3,773	$2,750	$11,706	$6,277
1.30	12.61	17.84	$4,723	$3,720	$2,711	$12,177	$6,529
1.35	12.42	18.52	$4,652	$3,664	$2,670	$12,641	$6,778
1.40	12.24	19.21	$4,584	$3,611	$2,632	$13,112	$7,031
1.45	12.05	19.89	$4,513	$3,555	$2,591	$13,576	$7,280
1.50	11.86	20.58	$4,442	$3,499	$2,550	$14,047	$7,532

Source: Assessor's data for 2015

Implementation of the split rate would be straightforward. The town's property records already classify properties into these categories. Programming the billing software to assign the correct tax rates would be a simple step.

Trying to shift too much of the burden onto CIP property could backfire, though. Charging a higher rate makes the town appear unfriendly to business. Setting it too high could drive out jobs and even reduce tax revenue, if it became too expensive for businesses to stay in Great Barrington. A modest increase would not put Great Barrington out of line with its neighbors. Lenox is the nearest large town with a commercial center and a split rate. In FY2015, Lenox's CIP shift of 1.18 led to tax rate for commercial and industrial properties of $15.18, nearly 11 percent higher than our rate of $13.72, and an average bill of $15,600. The proportion of CIP property in Lenox (19.4 percent) is about the same as in Great Barrington (21.3 percent). In Lee, which does not use the split rate, the rate was $14.08, slightly higher than ours, and the average bill was $11,226. The proportion of CIP property in Lee is also higher, at 30.3 percent.

Residential exemption

The residential exemption option was created in 1979 as part of a general legislative reform of property taxation and assessment practices.[4] In jurisdictions that have adopted it, the taxable value of an owner-occupied principal residence is determined by subtracting the fixed “residential exemption” from its assessed value. The amount of the exemption is the same for all, so the proportionate effect of the exemption is much greater for a less expensive home. The exemption reduces the taxable value of the town’s residential properties. To raise the same revenue from that class of property, the residential tax rate must be increased. The combined effects of reducing the taxable value and increasing the tax rate produce a “break-even” value where the tax bill is the same with or without the exemption. For homes above that value, using the residential exemption increases the tax bill. For homes below that value, the savings could be substantial.[5]

Second and seasonal homes do not get the exemption. The exemption could thus be seen as a way of raising more revenue from that aspect of the local “tourism” business. Rental houses and apartments also do not get the exemption. Condominiums and co-ops that are the principal residences of their taxpaying owners may get the exemption.

This local option has been adopted in fourteen towns and cities in the state. About one million people, or 15 percent of the state’s population, live in places where the residential exemption is used. Most of these are in the core of the Boston metro area inside Route 95: Boston, Brookline, Cambridge, Chelsea, Everett, Malden, Somerville, Waltham and Watertown. Due to special legislation, in Boston, Cambridge and Somerville the exemption is 30 percent of the average Class I value, rather than the 20 percent maximum that applies in the rest of the commonwealth. The residential exemption is also used on the Cape and the islands, in Barnstable, Nantucket and Tisbury, where it shifts property taxes toward expensive second and seasonal homes. Two towns, Marlborough and Somerset, that are neither in the core Boston area nor on the Cape also use it. Most jurisdictions that use the residential exemption adopted it shortly after the reform legislation 35 years ago. Towns that have considered it since then, or that are considering it now, include Concord, Hingham, Mashpee, Newton, Sudbury, and Weymouth.

In Great Barrington, the maximum exemption would be $63,492 (based on data from FY2015). That is 20 percent of the average assessed value of residential property, which for this purpose is $317,459. That average is based on residential property of all types, including condominiums, apartments, duplexes and triplexes, vacant residential land, multiple-home parcels and mixed use properties as well as single-family homes. There are 2,113 single-family residences in Great Barrington, with an average value of $374,519 and median value of $294,400, and 187 condominiums, with an average value of $265,131 and median value of $213,150. In addition, there are about 80 mixed-use parcels that are chiefly residences.[6] Second homes account for 293, or 13.9 percent, of the single-family homes. Most of the other 89 second homes in town are condominiums (42) or residences on multiple-home parcels (15) or mixed use properties (10).

The effect of the exemption depends on the proportion of property owners who are residents and claim the exemption. Predicting the effect thus requires knowing how many residences are rentals and second homes, which could not claim the exemption. The town maintains data about second home ownership, but not about which properties are rented. From the total of 3,399 parcels in town that are classified as residential, subtracting the parcels that are known to be second homes (and the vacant residential parcels) leaves 2,330 residential parcels that could be eligible to claim the exemption, unless they were occupied by renters.

Some idea about the number of rentals can be derived from Census data. According to the 2010 Census, 37.5 percent of 2,879 occupied housing "units" in Great Barrington were rented. Many of those would be apartments, but some would be houses, condominiums or parts of duplexes or triplexes. The Census found that 1,800 "units" were owner-occupied. Some of those would be units in duplexes and triplexes, for which the owner could claim the exemption. Second homes are treated as "vacant" under the Census definitions and thus would not be included in those figures. Although the Census definitions are not the same as the town's assessment classifications, nonetheless the 2010 Census figure of 1,800 owner-occupied units is roughly consistent with a current estimate based on the town's assessment data. Most of the 1,079 rented units would be in apartment buildings, accounting for about 300 units, and in duplexes and triplexes, accounting for another 464 units. Some would be single-family homes, condominiums, and homes on multi-home properties. If 20 percent of the 2,330 "eligible parcels" are occupied by renters, that would leave about 1,850 properties occupied by permanent residents.

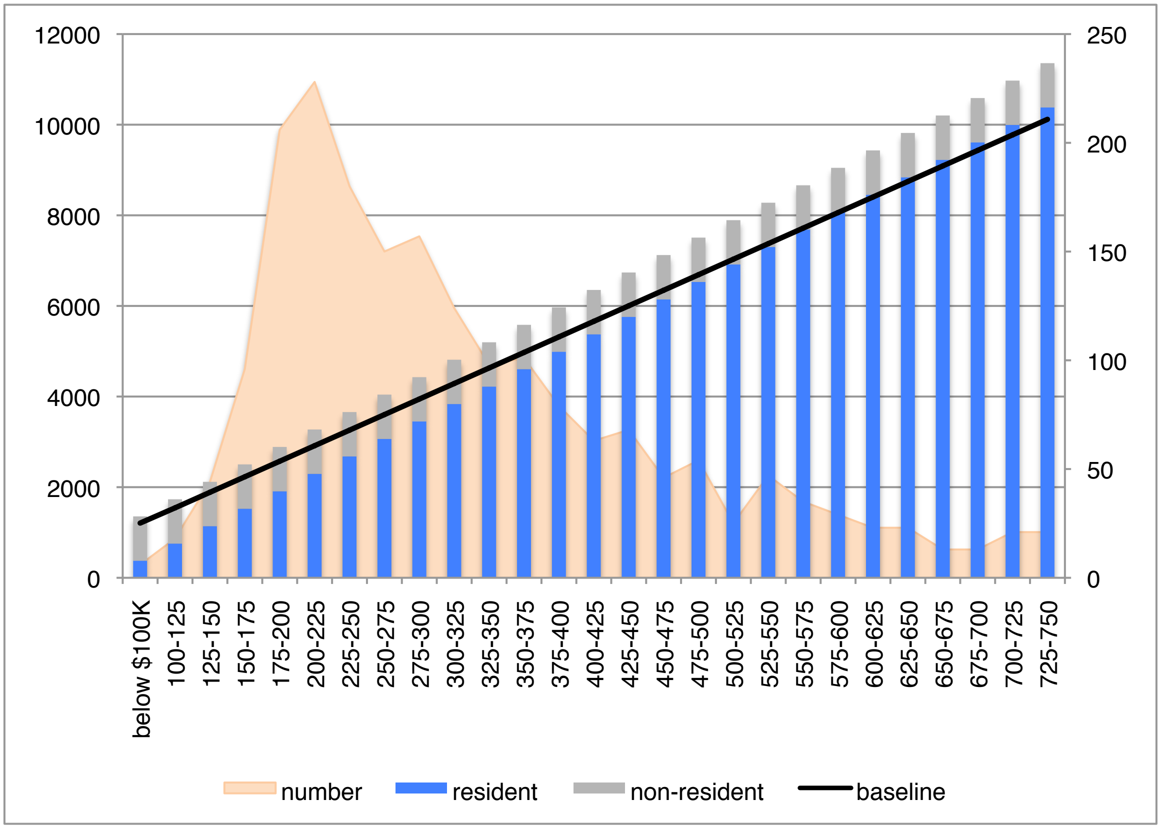
The following table shows how varying the assumptions about the rate of owner-occupancy would change the post-exemption tax rate and the break-even point. Reducing the proportion of owner-occupancy lowers the post-exemption rate and raises the break-even point. The table is based on the maximum 20 percent exemption. The first column shows the effect of the FY2015 tax rate without a residential exemption. The second shows the effect of the exemption if all eligible parcels claim it; that is, it excludes second homes but makes no provision about rentals. The last column shows the effect of the estimate derived above, based on the Census findings about rentals and owner-occupancy, that about 1850 owner-occupied parcels would claim the exemption. Varying the assumptions changes the post-exemption tax rate by about three percent, from $15.90 to $15,40, while increasing the break-even point by 38 percent, from $463,000 to $583,400.[1]

FY2015	Baseline	All eligible parcels		"Owner-occupied"	
Total exemptions	0	2330		1850	
Residential rate	13.72	15.90		15.40	
Break-even value		462996		583124	
Value of owner-occupied home	Tax	Tax	%	Tax	%
$100,000	$1,372	$580	-58%	$562	-59%
$150,000	$2,058	$1,376	-33%	$1,332	-35%
$200,000	$2,744	$2,171	-21%	$2,102	-23%
$250,000	$3,430	$2,966	-14%	$2,872	-16%
$300,000	$4,116	$3,761	-9%	$3,641	-12%
$350,000	$4,802	$4,556	-5%	$4,411	-8%
$400,000	$5,488	$5,351	-3%	$5,181	-6%
$450,000	$6,174	$6,146	0%	$5,951	-4%
$500,000	$6,860	$6,941	1%	$6,721	-2%
$600,000	$8,232	$8,531	4%	$8,260	0%
$700,000	$9,604	$10,121	5%	$9,800	2%
$800,000	$10,976	$11,711	7%	$11,340	3%
$1,000,000	$13,720	$14,891	9%	$14,419	5%
$1,200,000	$16,464	$18,071	10%	$17,498	6%
$1,500,000	$20,580	$22,841	11%	$22,117	7%
$2,000,000	$27,440	$30,791	12%	$29,815	9%

[1] The progressive effect of the residential exemption is demonstrated by assuming there were no second-homes or renters, so literally all residential parcels would claim the exemption. In that case the tax rate would be 16.33 and the break-even value would be about $400,000. (One town that apparently uses it with that effect is Somerset, where most housing units are single family homes, there are virtually no second homes, and the owner-occupancy rate is 82 percent.) The "resort" effect is demonstrated by assuming there were few permanent residents. If 60 percent of the residential parcels were second homes or renters, the tax rate would be 14.66 and the break-even value would be about $1 million; adding a split rate at a CIP shift of 1.2 would raise the break-even value to over $6 million, and no residences, not even second homes, would have a tax increase.

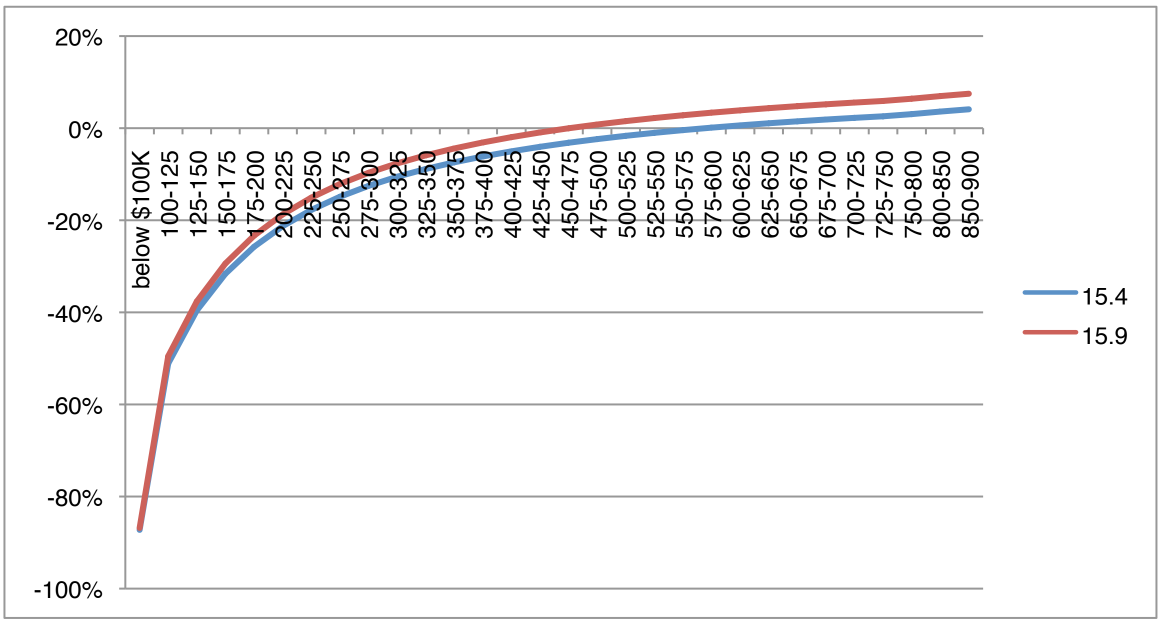
The following charts illustrates the potential impact of the residential exemption in Great Barrington, based on FY2015 data. The first shows the tax bills at different valuations for residents and non-residents, assuming a 20 percent exemption and the conservative "all eligible parcels" estimate. The shaded area behind the bars shows how many single family homes there are in each range of value (measured along the right axis). The darker part of each bar represents the tax bill for a resident who claims the exemption. The black line measures where the tax bill would be, for all, without adopting the residential exemption. The lower bars meet that line at the break-even point. The gray part at the top of each bar represents the value of the exemption, which in this estimate is $978. At the low range of value, the exemption is much larger in relation to the tax bill. The bars and the line increase uniformly, because the nominal tax rate would be the same for all; the difference in the effective rate at different value levels results from subtracting the fixed exemption from the taxable amount.

Effect of Residential Exemption on Tax Bills (Dollars)



The chart below shows how important the difference would be for homes of different values. The lines show the percentage change in the household tax bill for properties in different value ranges. The red upper line shows what would happen at the 15.90 rate, which would have applied if all eligible parcels claimed the exemption. (That is, it shows the gap between the dark bar and the line on the chart above, as a percentage of the dark bar.) The blue lower line shows the effect of the 15.40 rate, which would have applied if the number of exemptions corresponded to the Census findings about the number of owner-occupied homes.

Effect of Residential Exemption on Tax Bills (Percent)



The sharp drop at the left side of the chart shows the dramatic reduction for taxpayers with less expensive homes. On the conservative assumption that produces a tax rate of $15.90, the tax bill for the median home would drop by about nine percent, and for the "typical" home, by 19 percent. Assuming the level of owner-occupancy similar to the Census data, leading to a tax rate of $15.40, the tax bill for the median home would drop by about 12 percent, and for the "typical" home it would drop by 21 percent.

Around the break-even point is a mid-range where changes would be small.[7] For a post-exemption rate of about $15.65, that point would be about $515,000. Around that value is a range, from about $400,000 to about $675,000, within which the tax bill for residents would change three percent or less, up or down. In that range there are about 425 single family homes, plus about 30 condominiums and 50 mixed use and multiple residences, for which the tax bill would change three percent or less, up or down. At the high end, over $850,000, the bill would increase by five percent or more, and about ten percent for the handful valued over $2 million.

An exemption at a rate lower than 20 percent leads to a smaller benefit, but also to a smaller increase for those above the break-even point. For example, with a 10 percent exemption in FY2015, the tax bill for the typical residence would have dropped by nine or ten percent, while for a residence valued at $2 million it would have increased by about five percent.

Most residences in Great Barrington would benefit from implementing the exemption, because the median values are well below the break-even points under any of these scenarios. Under the "all eligible parcels" estimate, for over 70 percent of all residential parcels in town, and over 80 percent of the "eligible" parcels, the tax bill would be lower or unchanged. For over 40 percent of the eligible parcels, adopting a 20 percent residential exemption would cut the tax bill by 16 percent or more. Even more would benefit under the "owner-occupied" estimate.

Benefits would be substantial in Housatonic village and Risingdale. Each of Great Barrington's four precincts contains a mix of high-end and modest houses. But in Housatonic village and Risingdale, virtually all of the homes are valued below the break-even points of these estimates. The average ($230,000) and median ($213,000) values in these neighborhoods are approximately the "typical" value for the town as a whole, for which tax bills would drop by about 20 percent. The bill for the median home in these neighborhoods, which in FY15 would have been about $2,300, would be lower than the tax bills for the (similarly-valued) average households in Becket, Otis, Sandisfield or Pittsfield.[2]

Combination of split rate and residential exemption

All of the towns that use the residential exemption also use a split rate. The split rate by itself makes the rate paid by residences lower than the rate paid by businesses, while the residential exemption by itself makes the residential rate higher than the business rate. It is possible to set the split rate and the residential exemption independently, treating them as separate issues. But it is also possible to apply them together in a way that produces a virtually uniform nominal rate for both classes of property. Such a uniform rate could help overcome the concern that the split rate is disproportionately burdensome for businesses, while still providing a substantial benefit to residential taxpayers. On the other hand, keeping the CIP rate lower that the residential rate would provide some relief to second homeowners, by reducing the tax on their personal property.

If Great Barrington adopted a split rate with a CIP shift of about 1.1 along with the maximum residential exemption of 20 percent, the result would be virtually identical residential and CIP rates of $15.38. Business properties would pay about ten percent more than under a flat rate. For residences, the break-even point would be about

[2] Most homes there appear to be owner-occupied and thus would be eligible for the exemption. For about 90 percent of the residential parcels in Housatonic village and Risingdale (296 out of 332), the owner named on the town's property records is also on the town's voting rolls at that address. There are 248 single family parcels in these neighborhoods for which the same name appears on the property records and the voter registration records. Their average assessed value is $236,671, and the median is $216,700. Only two of these are assessed above $500,000. There are 33 such multi-family parcels, for which the average assessed value is $267,173, the median is $260,000, and the maximum is $421,400. There are six such condominium units, for which the average assessed value is $156,267 and the median is $146,700. There are nine such multi-use or multi-dwelling parcels, for which the average value is $368,256, and the median is $386,600.

$585,000. Using the Census-based estimate of owner-occupancy would produce lower, equal rates of 15.01 and a break-even value of $744,000. If the residential exemption were set at 10 percent, equal rates of about 14.50 would be achieved through a CIP shift of 1.06, for which the break-even value would be about $590,000 (or, using the Census-based owner-occupancy estimate, a rate of 14.33 and CIP shift 1.05, with a break-even value of $742,000).

Implementation and other issues

Changing tax rules requires preparation and would encounter transition complications. This would be particularly true for the residential exemption. Taxpayers would need to show that they own the property and that it is their principal residence. For this purpose, some towns and cities require the application for the exemption to include a copy of the first page of the Massachusetts income tax return, showing the filing address.

Technical issues will come up in some cases. The Department of Revenue has issued guidance about questions involving trust ownership, which are relevant to claims for several kinds of property tax exemptions.[8] Whether a property that is in a trust qualifies for exemption can depend upon details of the underlying legal documents. The taxpayer must retain sufficient beneficial interest and a record legal interest, in order to get a personal exemption or the residential exemption. For a personal exemption, the owner must have status both as beneficiary and as trustee. For an income-based qualification, all trustees have to meet the income test. The trust need not name the owner-beneficiary, as long as the beneficial effect is clear. A tenant holding under a life estate, having conveyed title to a trustee with other beneficiaries, is entitled to the residential exemption.

Most situations would be straightforward. Nonetheless, processing two thousand applications would inevitably require staff time and attention, particularly at first. Some towns report that when the residential exemption was first adopted, the telephone and foot traffic in the office more than doubled. The assessor's office would need additional resources to process inquiries and applications. Additional time and administrative expense could amount to about $30,000 for the first year.[3] But after the inventory of qualified properties has been set, annual upkeep would be simpler.

More abatement applications could be expected. Although most taxpayers would benefit from the residential exemption, for some taxes would increase, and they might be more inclined to challenge their valuations or the assessor's determination about whether they qualify for the exemption. Adopting the split rate would probably spur businesses to seek relief, too. There would thus be more work for the Board of Assessors. The budget allowance for abatements and exemptions should be increased, and there should be a provision for legal and consulting advice, to deal with these controversies.[4]

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[3] The town assessor has estimated that these costs would be $24,400 in salary for a part-time employee and additional hours for the clerk, plus $4,000 for postage, materials, document storage and similar administrative items.

[4] The town assessor has estimated that the allowance should be increased by 20 percent, or $31,400, and that legal and consulting help could cost another $15,000 .

Towns that have adopted the residential exemption advise maintaining some budget flexibility. In preparing the town budget and setting the tax rate, the effect of the residential exemption will necessarily be an estimate. Applications for exemption can be filed up to 90 days after tax bills are sent. If the actual number of exemptions turns out to differ very much from the estimate used to set the tax rate, the town's budget balance would change.

Because of the additional work and the complications involved in getting started, the towns that have already done this advise allowing a year of lead time for implementation. This practical advice could be difficult to follow. The Selectboard decides about the tax rates one year at a time, and it could not formally set the rate and classification to take effect in the following budget year. But it could announce an intention to change the policy. The annual classification hearing happens shortly before the start of the next year's budget process. If the Selectboard decides at the outset to base the next year's budget on changes in the tax structure, that would allow for nearly a year of lead time before tax bills would incorporate the changes. An election would have intervened by then, so the members who announced the intention to change the policy might not be the same ones who have to make the actual decision to do it.

Changing rules and rates could affect residential and commercial real estate markets. The split rate, by raising business taxes, would tend to encourage businesses to locate elsewhere. Great Barrington is the local commercial center and an attractive market, so it is unlikely that a small increase would drive many away. But a large increase would. Thus if the split rate is adopted, it should be at a modest level that keeps Great Barrington competitive. Setting a split rate to accompany the residential exemption and make the rates equal, which Great Barrington could do with a CIP shift of about 1.1, would keep the CIP rate similar to rates in neighboring towns.

The residential exemption would spread some ripples through the housing market. Lower taxes and thus lower monthly payments could inspire sellers to try to raise their asking prices. In the Boston area, where the residential exemption has been standard for thirty years, real estate advertisements often detail the effect of the exemption. It is hard to predict whether this tendency would increase housing prices significantly for homes below the break-even point. Perhaps the best way to test the real-world effect would be to examine patterns and trends of housing prices elsewhere in the state, in towns with and without the residential exemption but whose housing markets are in other respects similar.

At the high end of the market, the higher tax rate will make the town a less attractive place for second-home mansions and estates. Taxes on a $1 million second-home are now $13,720, and implementing a 20 percent residential exemption could increase that by from $1,676 to $2,180. (Second homeowners also pay tax on personal property, which adds a few percent.) It is hard to predict how much this tendency would discourage buyers. In the demand for expensive properties, relatively small variations in effective price are probably less important factors than they would be at the lower end of the market. Someone who is looking for a weekend place in the country is already looking in Alford or New Marlborough if taxes are a principal worry. Those who want to be closer to the "urban" center of south county will be looking in Great Barrington.

Because rental properties cannot take the exemption, landlords might try to pass through their higher tax payments to apartment dwellers, so rents might increase. Applying a rule of thumb that property taxes account for 25 percent of rent,[9] an increase in the nominal tax rate of from 12 to 16 percent could increase rents by three to four percent. Not all rental units would be affected. More than half of rental apartments are parts of duplexes or triplexes, and some rentals are homes on multi-home parcels. For most of those, the owner is also an occupant and could claim the exemption. According to Census surveys, about a third of the people who are residents of Great Barrington live in rental units, so the overall effect on rents must be considered carefully.

Change is unsettling. Although most taxpayers would benefit from the residential exemption, if the town decided later to stop using it those beneficiaries would then face an unpleasant tax increase. Perhaps because that after-shock would be unacceptable, only one town has adopted the residential exemption and then dropped it later: Weymouth, which used the exemption from 1982 to 1986. (Tisbury recently reduced the amount of the exemption, while keeping the program in place.)

The residential exemption tends to make the property tax progressive. If owners of less expensive homes also have lower incomes, and owners of more expensive homes have higher incomes, then it succeeds. Owners of less expensive homes with comfortable incomes will also benefit, although they would not need the tax break. But for taxpayers living in expensive homes on low incomes, the residential exemption creates a problem. For some, the mismatch is a signal that they should move. For seniors on reduced, fixed incomes trying to stay in their homes, though, that looks unfair. Implementation of the residential exemption depends on making sure that this problem is addressed. To measure the extent of this problem accurately in Great Barrington could require a formal survey or census, which would be time-consuming and expensive. Information about the use of tax relief programs already in place gives some indication of how many seniors here could be in that situation.

Tax relief programs

Several programs under state law provide property tax relief for people with limited incomes, mostly for seniors to help them remain in their homes.

- Income tax "circuit breaker" relief:

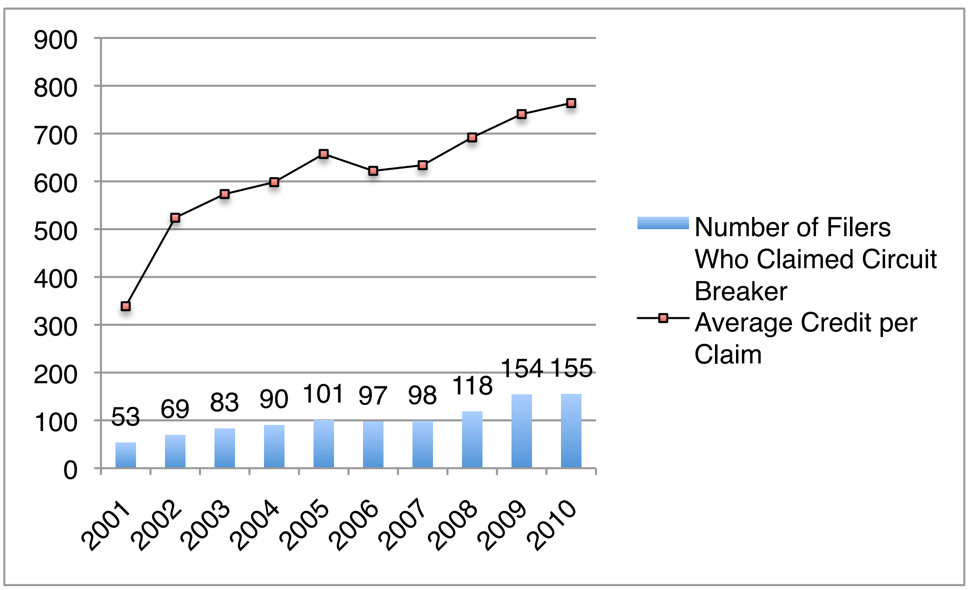
Seniors facing high property taxes may be able to take a refundable credit against their state income tax liability.[10] People over 65 for whom the property tax on their principal residence exceeds 10 percent of income can get a credit for the excess over 10 percent.[11] Moreover, if this amount exceeds the income tax that is due, it can received as a refund. Thus, a senior who owes no state income tax could still benefit from this help with property taxes. (Renters can also use the senior circuit breaker credit. The law assumes that 25 percent of rent goes toward property tax, so if 25 percent of rent exceeds 10 percent of income, the excess is the credit.) The maximum credit (or refund) is now $1,050. Eligibility criteria are based on income and the value of the home. The annual income limits are $56,000 for an individual, $70,000 for a head of household, and

$84,000 for a couple filing jointly.[12] The valuation limit for the principal residence is $691,000. These limits and the maximum credit are adjusted annually for inflation.

Thus a senior couple in Great Barrington whose income was at the maximum level, $84,000, living in a home valued at $688,775, with a tax bill of $9,450, would get the maximum credit (or refund) of $1,050. At the other end of the economic scale, a senior on a fixed income of $19,000 living in a "typical" Great Barrington home, valued at $215,000 with a tax bill of $2,950, would also get the maximum credit, which would most likely be paid as a refund, of $1,050.

The home-value limit to qualify for the credit is much higher than the average home value in Great Barrington. Only about eight percent of the single family homes (plus three condominiums and 17 mixed-use residential properties) exceed the cutoff value. The income limits are also well above average incomes here. If seniors' incomes and property values are similar to, or below, the community averages, then most should be able to take advantage of this relief if they need it.

Seniors in Great Barrington are already doing so. For 2010, which is the latest year for which a town-by-town report is available from the Department of Revenue, 155 tax returns from Great Barrington claimed the circuit breaker, receiving an average tax cut or refund of $764. According to the Census that year, there were 1,297 people here over the age of 65, so about 15-20 percent of them were in a position to use this credit.



For some seniors with homes above the break-even value, the circuit breaker could dampen or eliminate the effect of adopting the residential exemption. This could happen where the change causes the tax bill for a property that is valued above the break-even point to cross the 10 percent threshold, or where the taxpayer was not already getting the maximum circuit breaker relief. For example, a couple with total income of $84,000 and a home valued at $600,000 now has a tax bill of $8,232, which is below their circuit-breaker threshold of $8,400. Implementing the residential exemption at a rate of 15.90 would increase the tax bill to $9,540, which is $1,140 over the threshold. The circuit breaker credit would thus pay all of the increase. For those whose homes are below the break-even value, the residential exemption would reduce the tax bill, not increase it. There are about 200 homes in Great Barrington whose values fall between the break-even point of the "all eligible parcels" estimate and the maximum home value for the circuit-breaker credit. In the absence of a tabulation correlating age, income and home value, it is not possible to specify how many are occupied by senior taxpayers who would be in a comparable position.

- Property tax deferral:

State law authorizes towns to permit seniors to defer paying their property taxes.[13] This is done through an agreement between the taxpayer and the town. The deferred taxes will come due and be paid, with interest, when the property is sold or the taxpayer dies. To qualify, the taxpayer must be over 65, have lived in the property (or other property in Massachusetts) as principal residence for at least five years, and have lived in Massachusetts for at least ten consecutive years. The taxpayer may be the owner of the property, the holder of a life estate or a trustee with sufficient beneficial interest. The property must be the taxpayer's domicile, that is, the principal residence. Eligibility for this program does not depend on the property's value, but there is an income cutoff. The income limit in the statute is low ($20,000), but the town meeting can vote to raise the limit, up to the maximum for the circuit breaker provision for a single taxpayer, $56,000. (This limit applies to "gross receipts," which includes some items that are not treated as income for purposes of income taxation.) The amount of deferred taxes that can accrue is capped at half of the property's value. Interest accrues at 8 percent, unless the town meeting votes to apply a lower rate.

Dozens of cities and towns elsewhere in the state have adopted this program. It has not been used yet anywhere in Berkshire County, though. Because deferral creates a lien on the property, the town could compensate for the loss of revenue by borrowing in anticipation of eventual payment. There could nonetheless be some risk of non-payment. And there would be some administrative costs, in setting up and recording the agreements and processing annual reapplications.

- State-reimbursable exemptions for the elderly:

Under state law, towns can offer some relief from property taxes to seniors of limited means.[14] To benefit, the taxpayer must meet residency requirements (generally ten years in the state and five years in the property at issue) and criteria based on income or gross receipts and upon assets or estate value. The state reimburses the town for some of the revenue that the town loses by granting this relief. Local jurisdictions can tailor these exemptions by changing the eligibility requirements, within limits.

"Clause 41" is the basic provision, which applies unless a jurisdiction has elected one of the alternatives in Clauses 41B, 41C and 41C½. Clause 41 makes available a $500 reduction in taxes (or an exemption from the amount subject to tax, whichever leads to the greater relief), to a taxpayer over the age of 70. The age limit can be reduced as low as 65. The residency and domicile requirements are similar to the requirements for tax deferral. Great Barrington has adopted Clause 41C. Last year Great Barrington increased the limits and terms, but not to the most generous levels permitted by this section of the law. The potential tax reduction can be as high as $1,000, and the eligibility can be as high as gross receipts of $20,000 ($30,000 for a couple) and estate value (other than the property subject to tax) of $40,000 ($55,000 for a couple). Those caps rise with inflation. The state will only reimburse Great Barrington for $500 each for up to 39 of these exemptions, that number being based upon how many were reimbursed before the town elected the newer program. Annual reimbursements have totaled about $17,000. In FY 2014, Great Barrington granted 27 exemptions under Clause 41C. The town could expand eligibility further and thus grant additional exemptions, but the town would bear the cost of them itself.

For Clause 41C½, which Great Barrington has not adopted, the income limit is higher – the same cutoff as for circuit-breaker relief for an individual, $56,000 – and there is no limit based on the total value of the estate. This clause does not provide for a fixed sum reduction, but instead works like the residential exemption, by subtracting from the assessed value the amount of this senior exemption. This senior exemption, like the residential exemption, is computed as a percentage (up to 20 percent) of the average assessed value of residential property in the town. This senior exemption could be tacked onto the residential exemption. So far, only one town, Ashland, has adopted this newest alternative.

Clause 17 of this section of the law, which is also an option that a town can choose to make available, provides relief for surviving spouses, minor children with deceased parents, and senior taxpayers. The amounts are smaller than under Clause 41, but the eligibility requirements are less strict. The basic exemption is $175, and the state reimburses the town for this.

A miscellany of other provisions in Section 5 also could grant some property tax relief. Clause 18, authorizing short-term hardship relief, permits exemptions for those called to military duty or to older persons with disabilities. Clause 18 exemptions are at the discretion of the Board of Assessors. Clause 22 permits an exemption of $400, reimbursed by the state, for certain veterans and their parents and surviving spouses. Clause 42 and 43 exempt survivors of public safety officials killed in the line of duty; the state does not reimburse. And Clause 52 could provide some relief to seniors whose sewer and water bills have the same impact as higher property taxes.

- Voluntary local fund:

The town can also pass the hat to help seniors pay their taxes. That is, the town can set up a way for people paying their taxes to add something for a fund that helps pay the property taxes of the low income elderly and disabled.[15] Jurisdictions that have set up such funds include Barnstable and Chicopee.

- Personal property exemption:

Non-residents and businesses pay property tax on personal property. Towns have the option to exempt property valued up to $10,000 from this tax.[16] One reason to do so is to avoid small-scale "nuisance" filings for the equipment used by small businesses. The exemption could also provide a small measure of relief from the tax increase on non-residents that would result from adopting the residential exemption. Twelve towns in Berkshire County have adopted this exemption, seven of them at the maximum level of $10,000.[17]

[1] MGL, Chapter 40, Section 56:

> The selectmen … shall annually first determine the percentages of the local tax levy to be borne by each class of real property, as defined in section two A of chapter fifty-nine, and personal property for the next fiscal year … . In determining such percentages, the selectmen … shall first adopt a residential factor … . Said factor shall be an amount not less than the minimum residential factor determined by the commissioner of revenue in accordance with the provisions of section one A of chapter fifty-eight … .

MGL, Chapter 58, Section 1A:

> In each city and town which [the commissioner] has determined to be assessing at full and fair cash valuation, he shall determine a minimum residential factor for each city and town which shall be sixty-five per cent subject to such adjustment upward as may be required to provide that the percentage of the total tax levy imposed on any class of real or personal property shall not exceed one hundred fifty per cent of the full and fair cash valuation of the taxable property in said class divided by the full and fair cash valuation of all taxable real and personal property in the city or town.

[2] The Commissioner of Revenue sets the maximum permitted shift for each community annually.

[3] There is a spreadsheet calculator on the DOR website which might be used to explore how these factors interact. The site's input data are not current, however. www.mass.gov/dor/local-officials/municipal-data-and-financial-management/financial-mgt-assistance/calcandforms.html.

[4] The statutory authority for the residential exemption is Chapter 59, Section 5C of the Massachusetts General Laws. The basic provision is:

> Section 5C. With respect to each parcel of real property classified as Class One, residential, in each city or town certified by the commissioner to be assessing all property at its full and fair cash valuation, and at the option of the board of selectmen or mayor, with the approval of the city council, as the case may be, there shall be an exemption equal to not more than twenty per cent of the average assessed value of all Class One, residential, parcels within such city or town; provided, however, that such an exemption shall be applied only to the principal residence of a taxpayer as used by the taxpayer for income tax purposes.

The section also regulates the cumulative effect of this exemption along with others, provides for a process of appeal to local assessors in case of dispute over eligibility, and prescribes how to apply the exemption to co-operatives and mobile home lots.

[5] For simplicity, this report usually refers generally to residential properties or homes. The technically accurate term under the state law governing assessment and taxation is Class I properties or parcels, which includes single-family residences, apartments, multi-family units, condominiums, parcels with several homes, and vacant land.

[6] There are 80 mixed-use parcels that are classified as principally residential (codes 013-018), and 64 parcels with more than one home (code 109). The total number of residential parcels also includes 199 duplexes and 19 triplexes, as well as 27 apartment complexes with from four to eight units, two larger apartment complexes (Beech Tree and Christian Hill) and a dormitory (Eagleton).

[7] The break-even point is $E\left(\frac{r_E}{r_E - r_0}\right)$, where E is the amount of the exemption, r_0 is the tax rate that would apply if the town did not adopt the exemption, and r_E is the tax rate under the exemption.

[8] Information Guideline Release No. 91-209, Exemption Eligibility of Property Held in Trust, Department of Revenue, Division of Local Services, Property Tax Bureau (July 1991).

[9] This is the figure used for applying the senior income tax "circuit breaker", described below.

[10] MGL, Chapter 62, Section 6(k)(3).

[11] For this purpose, the amount of the tax payment is reduced by the amount of other exemptions that might be granted, which are described below. But the amount includes payments for town water and sewer service, even if those are not included in the tax bill.

[12] For computing the circuit breaker credit, the reference income is the adjusted gross income on the Massachusetts tax return, plus some items of income that are not included in that figure (such as interest on U.S. and Massachusetts obligations, government pension payments, and certain cash benefits), minus the personal-income dependent, over-65 and blindness exemptions.

[13] MGL, Chapter 59, Section 5, Clause 41A.

[14] MGL, Chapter 59, Section 5, Clauses 17, 41, 41B, 41C, and 41C½.

[15] MGL, Chapter 60, Section 3D:

> A city or town which accepts the provisions of this section is hereby authorized, subject to the approval of the commissioner, to design and designate a place on its municipal tax bills, or the motor vehicle excise tax bills, or to mail with such tax bills a separate form, whereby the taxpayers of said city or town may voluntarily check off, donate and pledge an amount not less than $1 or such other designated amount which shall increase the amount otherwise due, and to establish a city or town aid to the elderly and disabled taxation fund for the purpose of defraying the real estate taxes of elderly and disabled persons of low income.
>
> Any amounts donated to said fund shall be deposited into a special account in the general treasury and shall be in the custody of the treasurer. The treasurer shall invest said funds at the direction of the officer, board, commission, committee or other agency of the city or town who or which is otherwise authorized and required to invest trust funds of the city or town and subject to the same limitations applicable to trust fund investments, except as otherwise specified herein. The fund, together with the interest earned thereon shall be used for the purpose specified in this section without further appropriation.
>
> In any city or town establishing an aid to the elderly and disabled taxation fund, there shall be a taxation aid committee to consist of the chairman of the board of assessors, the city or town treasurer and three residents of the city or town to be appointed by the mayor or board of selectmen as the case may be. Said board shall adopt rules and regulations to carry out the provisions of this section and to identify the recipients of such aid.

[16] MGL, Chapter 59, Section 5(54).

[17] In Cheshire, Monterey, New Marlborough, Tyringham, Washington, Williamstown and Windsor the personal property tax exemption is $10,000; in Lenox, it is $5,000; Lee, $3,000; Sheffield, $1,000. See Department of Revenue Databank Reports (DOR website), Local Options Related to Tax Billing.