Residential Exemption

To qualify for a Residential Exemption, a property must be, on January 1, the owner occupied, primary residence used by the taxpayer for income tax purposes.

M.G.L. Chapter 59 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 35 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. This exemption shall be in addition to any exemptions allowable under section five; provided, however, that in no instance shall the taxable valuation of such property after all applicable exemptions be reduced below ten per cent of its full and fair cash valuation, except through the applicability of clause Eighteenth of section five. Where, under the provisions of section five, the exemption is based upon an amount of tax rather than on valuation, the reduction of taxable valuation for purposes of the preceding sentence shall be computed by dividing the said amount of tax by the residential class tax rate of the city or town and multiplying the result by one thousand dollars. For purposes of this paragraph, “parcel” shall mean a unit of real property as defined by the assessors in accordance with the deed for such property and shall include a condominium unit.

The Residential Exemption is employed to alleviate the tax burden for lower valued, owner-occupied properties and shift to higher valued and rental properties in a community. The Residential Exemption burden shift operates within the residential class ONLY and provides no relief to the commercial tax base.

The burden on a residential exemption is shifted to the other residential property owners. There is a slight misconception that the Residential Exemption hits non-resident and rental properties exclusively. The reality of a Residential Exemption is that it shifts the tax burden to other residents in the community.

The burden of the Residential Exemption is shifted upward to higher valued property owners. In addition the tax rate increases.

The following chart demonstrates the impact the Residential Exemption would have on our community.
Based on an estimated 70% owner occupied. This is a fair representation for Rockport based on approximate calculations and not an exact accounting. This is a fair representation of where the split would occur.

As you can see, owners of properties with values above $959,224.06 would start to shoulder the burden of the taxes within the residential tax base.

Please note these numbers will change every Fiscal Year based on Assessed Values.
Living with the Residential Exemption

Randall Gilbert – DLS Summer Fellow
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What is the Residential Exemption?

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

How It Works

Communities may authorize a residential exemption to all Class One, Residential properties that are principal residences of taxpayers. Prior to the Municipal Modernization Act, the exemption could not top 20% of the average assessed valuation of residential parcels. Now, exemptions cannot exceed 35% of the average assessed value of all Class One, Residential properties.

Adopting a residential exemption increases the residential tax rate. The amount of the tax levy paid by the residential class remains the same, but because of the exempted residential valuation, the levy is distributed over less assessed value. This higher rate creates a shift within the class that reduces the taxes paid by homeowners with moderately valued properties. Those taxes are then paid by owners of rental properties, vacation homes and higher valued homes.

Residential Exemption Calculation

The following steps can be used by a community to calculate the residential exemption and its impacts.
A = Total Residential Value
B = Total Residential Parcel Count
C = Average Residential Value
D = Selected Residential Exemption %
E = Residential Exemption
F = Number of Eligible Residential Parcels
G = Total Residential Exemption Value
H = Total Residential Value minus Exemption

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

\[ \frac{A}{B} = C \]

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

\[ C \times D = E \]

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

\[ E \times F = G \]

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

\[ A - G = H \]

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

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

**The Break-Even Point & the Tax Bill**
The break-even point is the point at which the assessed valuation of a parcel without any exemption is benefit neutral. In effect, a residential property at this valuation point would pay the same amount regardless of the community’s adoption of the exemption.

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

\[
\frac{A}{F} = I
\]

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

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

### Residential Exemption Communities

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

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

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

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

• Boston – *The residential exemption reduces your tax bill by excluding a portion of your residential property’s value from taxation. Last fiscal year, the residential exemption saved qualified Boston homeowners up to $2,719.09 on their tax bill.*

• Brookline – *The intent of the exemption is to promote owner occupancy and is designed to provide a proportionately greater benefit to lower valued homes.*

• Cambridge – *The residential exemption serves to reduce the effective tax rate on lower valued properties while raising it on higher valued properties. Since the same amount is deducted from every value, its impact is greatest on the lower valued properties.*

• Malden – *The Malden City Council and the Office of the Mayor adopted the Residential Exemption which is intended to lessen the tax burden on eligible homeowners. The Residential Exemption establishes a “graduated tax”, reducing the taxes of lower valued properties while increasing the taxes of higher valued properties and non-owner-occupied residential properties.*
- Tisbury – *The purpose of the residential exemption is to reduce property taxes for year-round residents, particularly those with modest homes.*

- Truro – *The purpose of the residential exemption is to reduce property taxes for year-round residents.*

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

![Residential Exemption as of FY2019](image-url)