



## **West Tisbury Board of Assessors**

**February 6, 2024**

### **The Residential Exemption**

#### **Residential Property Tax Relief**

Property tax payers in New York, Florida, California and many other states enjoy reduced taxes on their principal residence. In fact, according to the Lincoln Institute, all but three states offer property tax relief for residents in the form of a homestead exemption or property tax credits.

In Massachusetts, local select boards have the yearly option of granting a residential exemption at the Classification Hearing (generally in November). West Tisbury has never offered its residents this exemption. On Island, Tisbury and Oak Bluffs currently provide this exemption. Nantucket was an early adopter, and several Cape towns have recently adopted the exemption for the first time.

#### **How does the residential exemption work?**

The residential exemption in Massachusetts reduces the taxable value of all real estate parcels that are the primary residence (domicile) of the owner. Under Massachusetts law, a person may have many residences but they may have only one domicile. Assessors determine who qualifies under the domicile criteria before granting residential exemptions.

Under a residential exemption, nearly all qualified homeowners receive a reduction in their property taxes, while non-qualified residential property owners see an increase.

Residential property tax exemptions in Massachusetts reduce the taxable value of a qualified property from full and fair cash value by the exemption amount set by their select board.

As an example, if you own a qualified home assessed at \$1,000,000, and the select board grants a \$100,000 residential exemption, you will only be taxed on \$900,000 in value. Other residential property owners who do not qualify will be assessed at full and fair cash value. In this example, that would be \$1,000,000.

## **Who pays for the residential exemption?**

Under Massachusetts law, any reduction in taxes brought about by the residential exemption must be made up for by all owners of residential property. In order to bring in the same tax revenues, the assessors increase the residential property tax rate. Commercial, Industrial and Personal Property tax payers are not taxed at a higher rate.

This new residential rate is applied to all residential properties, including qualified properties that receive the exemption. The vast majority of qualified property owners end up paying less than if there were not an exemption. Owners of vacant land, rental properties (including year-round rentals), and second homes all pay more. Properties held in LLCs and in trusts where the resident is not both a trustee and beneficiary also cannot qualify.

## **Does every qualified property owner get the same benefit?**

No. Lower valued qualified properties benefit the most, and the benefit decreases until a breakeven is reached, at which point qualified properties actually pay more than they would have without the exemption. A likely breakeven in West Tisbury would be around \$4,000,000 in assessed value.

It is important to remember that the residential exemption is the same dollar amount for all qualified properties. It can be confusing, because people often speak of the exemption in percent terms.

The residential exemption allows select boards to choose a dollar figure between zero and 35% of the average value of all residential property in their town. In West Tisbury in Fiscal Year 2024, that meant an exemption from zero to \$634,580.

## **Roles of the Select Board and Assessors**

While the Select Board is charged with the decision to grant a residential exemption, the Board of Assessors and their staff are responsible for implementing that decision.

Assessors must do a great deal of work qualifying property owners before the Select Board decides to grant the exemption, or the town faces potentially serious legal and financial consequences.

## **The Importance of Pre-Qualification**

The residential exemption requires the completion of a standardized Department of Revenue application form and documentation in the form of tax returns (for address only, income and social security numbers should be redacted). Additional documentation such as a driver's license is also frequently required.

By "pre-qualifying" applicants the assessor can be ready to act on a residential exemption immediately.

If a residential exemption is declared without pre-qualification, the assessors cannot adjust the tax rate, and instead, all exemptions are funded from the overlay. This can easily be a seven-figure problem.

### **How might a pre-qualification work in West Tisbury?**

The decision to pre-qualify properties for a residential exemption is the first step in deciding to grant a residential exemption.

It should be very clear to taxpayers that a pre-qualification does not guarantee a future decision in favor of the residential exemption, and that at least one public hearing will be held to receive input from all property owners. Ideally, a series of hearings works best.

If the decision is made to pre-qualify taxpayers in West Tisbury, we would send a mailing in the Spring with a cover letter explaining the effort and the application form, and begin collecting completed applications right away, with a goal of being prepared for a November classification hearing at which the Select Board will decide whether to grant the exemption.

### **Staffing Requirements**

Pre-qualification would be a major undertaking requiring at least one half-time staff member for a period of about a year. That staff person would need to review all the applications, likely numbering in the high hundreds, and follow up on applications that are incomplete. In many cases, applicants will need photo copying of supporting documentation done as well. Filing and data input also take up time.

Once the initial pre-qualification work is done, and after the conclusion of the first full year, the demands will be far lower on the department. Since applicants only apply once, unless circumstances change, upkeep would amount to less than 100 properties a year.

### **Conclusion**

The laws and regulations for residential exemptions in Massachusetts are not without their flaws. The entire process runs the risk of putting the cart before the horse. Select boards are challenged each year with the decision of whether or not to grant an exemption, but often the assessors aren't prepared to act equitably if an exemption is granted. Even if the Select Board has no current interest in granting an exemption, it might well be prudent for the Town to be prepared, in case conditions or opinions change.

