

## BOSTON HOMEOWNER TAX BENEFIT

Average single-family tax bill is one of the lowest in the area

Boston homeowners enjoy a very favorable property tax situation due primarily to the City's 35% residential exemption and its shifting of the property tax burden to business property through its maximum application of classification. In fiscal 2018, Boston businesses paid 61.4% of Boston's property tax bill. The business tax base and new development provide other important benefits to the Boston neighborhoods. These issues will be explained covering the five years from fiscal 2013 to fiscal 2018. Fiscal 2019 tax data will be analyzed in a follow-up report.

### Report Objectives

Our report provides information and insights on:

- The property tax benefits for Boston homeowners who occupy their property
- Tax benefits from the use of classification and the 35% residential exemption
- Trends in single-family homeowner's tax bill and average property values
- The extent that business subsidize services to city neighborhoods
- How large commercial and residential development benefits Boston residents
- How Boston's average single-family tax bill compares

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## Background

Homeowners in Boston who occupy their property as their principal residence benefit from a significant property tax advantage. Business property consists of commercial, industrial and personal property (CIP). Based on the City's application of the classification of property, business properties generate a disproportionate share of the total tax levy. Also, businesses contribute more to the city through commercial and housing development exactions that require funding for affordable housing and job training as well as other mitigation requirements. Further, Boston business properties impose less of a cost burden for city services such as schools, public works and parks. In addition, business property also pays approximately 62% of the total Community Preservation Act property tax surcharge that supports affordable housing, historic preservation and open space. This report focuses on the average single-family tax bill, but all other residential properties enjoy similar tax benefits.

## Findings

Boston homeowners enjoy a very favorable property tax situation due primarily to the City's 35% residential exemption and its shifting of the property tax burden to business property through its maximum application of classification. In fiscal 2018, business property represents 35.1% of the total taxable value, but will pay 61.4% of the tax levy. Indeed, property taxes from commercial properties, especially in the downtown core, subsidize city services provided to the neighborhoods. Of the total taxable business value of \$54.0 billion in fiscal 2018, \$45.7 billion or 84.6% is located in Downtown Boston (Ward 3), Back Bay (Wards 4+5) and the Seaport District of South Boston (Ward 6). Business property located in these four Wards also generated 52.0% of the City's total property tax levy.

### Single-Family Homeowners FY18 Total Tax Break: \$2,193 + \$2,538 = \$4,731

Single-family homeowners in Boston who occupy their property as their principal residence paid on average a fiscal 2018 property tax bill that was less than half of what it would have been without the application of classification and the residential exemption. As shown in this [table](#), Boston's average gross single-family tax bill without classification and the residential exemption would have been \$8,055 in fiscal 2018. However, the tax savings from classification of \$2,193 and from the residential

### *Tax Savings from Classification in FY18*

Type	Average Savings
Single-family home	\$2,193
Residential condo	\$2,518
Two-family home	\$2,393
Three-family home	\$2,729

exemption of \$2,538 totaled \$4,731, which reduced the average single-family tax bill to \$3,324. The average tax bill represented a reduction of the average gross single-family tax bill by 58.7%. The residential exemption of \$2,538 is equivalent to decreasing a home’s taxable value by \$242,220.

The tax and value trends over the five years from fiscal 2013 to fiscal 2018 also demonstrate the tax benefit for the homeowner. During those five years, the average single-family tax bill actually decreased by \$157 from \$3,481 to \$3,327 or 4.5%, despite substantial property value increases for the average single-family home. In each of those years, the residential tax rate decreased from the prior year to prevent the base tax levy from increasing above 2.5% as required by Proposition 2½. Over the five years, the average value for single-family homes increased by \$163,306 or 41.2%.

### Average Single-Family Property Snapshot

Fiscal Year	Average Tax Bill	Property Values	Residential Tax Rate
2013	\$3,481	\$396,088	\$13.14
2014	\$3,417	\$411,868	\$12.58
2015	\$3,520	\$445,847	\$12.11
2016	\$3,530	\$499,251	\$11.00
2017	\$3,231	\$530,156	\$10.59
2018	\$3,327	\$559,394	\$10.48
Variance	(\$154)	\$163,306	(\$2.66)
%	-4.4%	41.2%	-20.2%

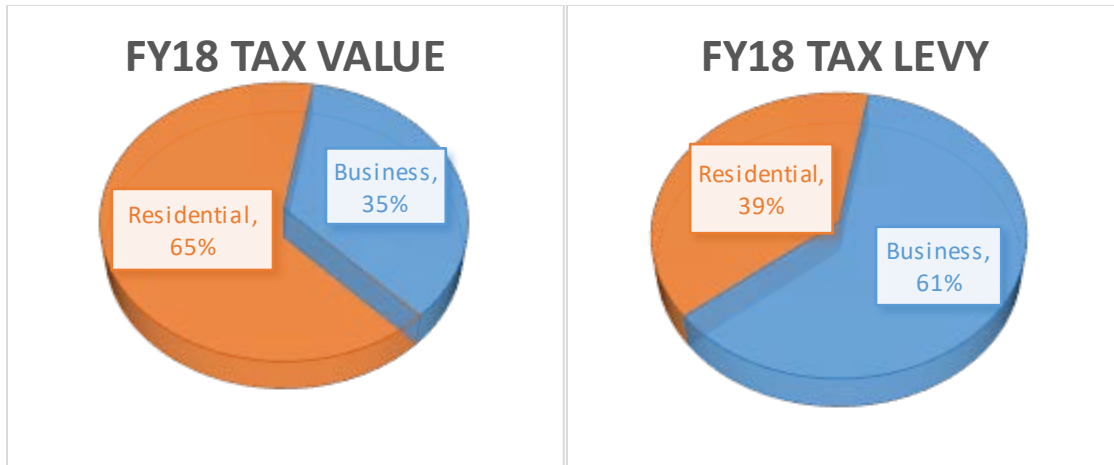
### Classification Details: FY18 Savings \$2,193

The Massachusetts property tax classification law allows the City to shift the property tax burden to business (commercial, industrial and personal) property up to 175% of what its share would be without classification as long as the residential share is not less than 50% of its full value share. The City of Boston does shift the tax burden to business property at the maximum allowed. That shift provides a tax benefit to all residential property owners irrespective of whether they live in or rent their property. The broader tax benefit of classification for homeowners in Boston is demonstrated by the fact that if a single tax rate were applied to the same fiscal 2018 values instead of a separate tax rate for business property and residential property, \$583.7 million of tax burden would shift from business property to residential property.

#### FY18 Tax Rates

	Tax Rate
Residential	\$10.48
Business	\$25.20

\*Per \$1,000 of assessed value



### Residential Exemption Details: FY18 Savings \$2,538

The residential exemption is a reduction in real estate taxes for all those homeowners who occupy their property as their principal residence. In Boston, the residential exemption amount is equivalent to 35% of the average assessed value of all single-family residential properties. In fiscal 2018, the residential exemption tax savings was \$2,538 for eligible residential properties. That amount is equivalent to a property value reduction of \$242,220. The fiscal 2018 residential exemption for domiciled residential properties totals \$18.3 billion in property value. The total tax exemption of \$192.1 million does not reduce the residential share of the tax levy. Rather, the total tax reduction is offset by an increase in the residential tax rate that shifts the tax differential to higher valued homes, apartment buildings and non-domiciled housing properties. Approximately 85% of single-family homeowners in Boston utilize the residential exemption and the utilization percent for two-family properties is 64% and 52% for condominium properties.

### How Boston Compares

Boston's single-family tax bill is low by comparison with other neighboring communities because of a large business tax base, the application of classification to shift as much tax burden onto business property as legally allowed and the use of a 35% residential exemption. In a comparison of the average property taxes on a single-family home in Boston and 21 greater Boston communities, Boston's average single-family property tax bill was the second lowest at \$3,324. Only Chelsea's average single-family tax bill of \$2,641 was lower than Boston's tax bill. Boston's average single-family tax bill in fiscal 2018 is 45.3% below the statewide average of \$5,831. The average single-family tax bill in a few neighboring communities in fiscal 2018 include \$4,981 in Somerville, \$4,658 in Everett, \$5,735 in Quincy, \$7,204 in Cambridge and \$9,103 in Milton.

## Boston's Neighbors Single Family Tax Bill FY18

	Community	Average Tax
1	Brookline	\$14,963
2	Wellesley	\$14,839
3	Wayland	\$12,906
4	Belmont	\$12,196
5	New ton	\$11,830
6	Westw ood	\$11,026
7	Needham	\$10,749
8	Milton	\$9,103
9	Arlington	\$7,957
10	Cambridge *	\$7,204
11	Dedham	\$6,894
12	Melrose	\$6,096
13	Winthrop	\$5,946
14	Watertow n	\$5,860
15	Quincy	\$5,735
16	Medford	\$5,204
17	Somerville	\$4,981
18	Norw ood	\$4,828
19	Everett	\$4,658
20	Revere	\$4,452
<b>21</b>	<b>Boston</b>	<b>\$3,324</b>
22	Chelsea	\$2,641

\*FY2017

Source: Boston Assessing Department Facts & Figures FY18 Report

### 2017 Federal Tax Bill

Boston single-family homeowners who live in their home are able to deduct more of their state income tax because of the tax savings from their local property taxes, an important consideration with the passage of the new federal tax law.

Prior to the passage of the 2017 federal tax bill, property owners were able to deduct state and local taxes from taxable income for federal taxes. Under the new tax law, the federal tax deduction for all state income and sales taxes and local property taxes is limited to \$10,000.

Using the example of a homeowner paying the average single-family tax bill of \$3,324 in fiscal 2018, the remaining amount able to be deducted from the owner's state income taxes would be \$6,676. The state income tax deduction would have been restricted to \$1,945 if not for the \$4,731 savings from classification and the residential exemption.

## Conclusion

Boston's average single-family tax bill is an average with some homeowners paying more and some paying less, but overall Boston homeowners who occupy their property as their principal residence enjoy a very favorable tax position. The combination of extraordinary growth in residential value due to value appreciation and new construction has resulted in a decrease in the residential tax rate in each of the past five years. The significant shift of the property tax burden to business property through the application of classification and the 35% residential exemption have produced over the past five years a decrease in the average single-family tax bill by 4.5% while the property value of the average single-family home has increased by 41%. In fiscal 2018, Boston's single-family tax bill increased by 2.9% while the average value increased by 5.5%. This favorable tax position for Boston homeowners is notably apparent when compared with the average single-family tax bill of its surrounding neighbors.