

# **HOW TAXES ARE DETERMINED**

# Tax Rate Setting

- The tax rate is determined by the following equation in every single city & town in Massachusetts:

Numerator: Total Taxes Approved by Public

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Denominator: Total Town Valuation / 1,000

# Tax Rate Setting - Numerator

- Total taxes approved by public =
  - All votes from General Fund approved at Town Meeting
  - Previously approved exclusions outside of Proposition 2.5
  - Cape Cod Commission assessment
- The amount of taxes are limited to a 2.5% increase over the prior year's allowed Tax Levy + any New Growth that has occurred in town
  - New Growth = new construction & additions
  - New Growth has NOTHING to do with how property values in an area may have changed
  - There is no windfall or shortfall if the total valuation goes up or down

# Tax Rate Setting - Numerator

- Only increase above 2.5% + New Growth = voter approved override or exclusion
- **Override = permanent increase in tax levy**
  - Usually approved for operating budget needs and long-term capital needs that won't go away
- **Exclusion = temporary increase in tax levy**
  - Usually approved for issuance of debt for larger scale capital projects
  - Once debt paid off, ability to raise taxes for this purpose goes away
  - Can also approve a capital outlay expenditure exclusion which is a one-year increase in taxes, usually for smaller capital projects

# Tax Rate Setting - Denominator

- Total valuation of all town properties
  - Determined by actual sales in town through the previous January 1
  - Town broken up into dozens of neighborhoods to reflect similar property characteristics & sale differences throughout the community
  - Neighborhoods, sales, & proposed values are analyzed & certified by State annually as a check & balance prior to setting the tax rate
- If the total town valuation increases, the tax rate decreases
- If the total town valuation decreases, the tax rate increases

# Tax Rate Setting - Denominator

- Valuation process is governed by MA law & results are subject to state review & approval prior to tax rate being certified
- Every city & town follows exact same processes, with a formal appeal processes for property owners seeking further review

# Tax Rate Setting - Denominator

- Not a single dollar is raised or lost by the town through taxes based on the total town's valuation or an individual's property valuation
- The value of an individual property determines the portion of the total taxes that property pays
  - If an individual's property value increased more than the town-wide average, that person's taxes will be proportionately higher
  - If an individual's property value decreased more than the town-wide average, that person's taxes will be proportionately lower
- Again, not a single dollar is raised or lost based on valuation

# Taxes – Pie Analogy





# Taxes – Pie Analogy

- The size of the pie is determined by the total taxes being raised as approved by the voters for that year
  - The size of the total pie does not change if the town's valuation changes up or down
  - The size of the total pie does not change if the number of properties in town increase or decrease
  - Not a single dollar is raised or lost if values go up or down
  - There is no windfall or shortfall if values change – the amount being raised is constant once voted
  - The total value of the town or individual property values has no bearing on the size of the pie
- The size of the pie is the NUMERATOR in the tax rate equation

# Taxes – Pie Analogy

- How large a slice of the pie you get is determined by the value of your property as compared with the value of all other properties in town
  - Sandwich has more than 11,250 taxable parcels, or slices, in its pie
  - If your value changes more than the town average, the proportionate size of your slice increases
  - If your value changes less than the town average, the proportionate size of your slice decreases
  - This is true if values are increasing or decreasing
- How large a slice of pie you get is your proportion of the DENOMINATOR in the tax rate equation

# Tax Rate Setting Equation

- The tax rate is determined by the following equation in every single city & town in Massachusetts:

Numerator: Total Taxes Approved by Public

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Denominator: Total Town Valuation / 1,000

# Tax Rate Setting – FY'22

Numerator: \$69,563,422

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Denominator: \$5,285,974,399/1,000

Resulting Tax Rate = \$13.16 per thousand of valuation

Average Assessed Home = \$497,500

Average Tax Bill = \$6,547