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Residential Tax Exemption Policies: Trends, Impacts and Future Options for Boston

Joseph S. Slavet
Boston Urban Observatory

Raymond G. Torto
University of Massachusetts Boston

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The
John W. McCormack
Institute of
Public Affairs

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Joseph S. Slavet
Boston Urban Observatory

Raymond G. Torto
University of Massachusetts at Boston

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at Boston

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Joseph S. Slavet

and

Raymond G. Torto

Submitted to:

Thaddeus Jankowski
Commissioner
Assessing Department
City of Boston

by:

John W. McCormack Institute of Public Affairs
University of Massachusetts at Boston
Harbor Campus
Dorchester, MA 02125

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EXECUTIVE SUMMARY

This is an extensive report on residential tax exemption issues in the City of Boston with an evaluation of recently proposed revisions in current policies.

Background

Clause exemptions in Massachusetts mainly target homeowners who are veterans, widows/widowers, orphans, blind persons and elderly persons. For homeowners 70 years of age or older qualifying for the highest benefits, participation is restrained by rather strict conditions of residency, income and net worth. Moreover, the statewide number of homeowners granted exemptions has declined sharply as has the total annual dollar amount of exemptions. Statewide participation in the separate exemption program for elderly homeowners is far below estimates of the numbers who would qualify by virtue of their income and assets status.

Benefits in many cities and towns have been reduced to statutory allowances that are lower in dollar amount than they were prior to mandated assessment of property at full and fair cash value. As residential assessments are kept abreast of escalating market values, clause exemption benefits represent lower proportions of property tax bills than in prior years, especially in cities and towns where residential tax rates are not significantly below the tax rates of nonresidential classes of property.

Periodic modifications in eligibility restrictions and benefits applicable to clause exemptions have not been designed as major reforms, but rather as updated revisions of basic statutory provisions to reflect higher retirement income and higher net worth of retirees and to cushion the impacts of revaluation. Of particular importance is the 1986 legislation authorizing cities and towns to increase clause exemptions up to 100 percent, subject to certain limitations. The only significant policy addition has been the optional tax deferral program for elderly homeowners, but tax deferral has not turned out to be a popular substitute for tax forgiveness.

Property taxes throughout Massachusetts as percentages of income are higher for those of lower income than those of higher income (ranging from over 10 percent for poorer households under $5,000 in income to under 2 percent for those with over $50,000 in income). In municipalities such as Boston, the percentages of Boston homeowners and renters in lower income brackets are much greater than for the state as a whole. About 15 percent of homeowners in Boston were earning below $10,000 a year (1984 data) as compared with only 8 percent of homeowners in all of Massachusetts (1986 data). The gap between proportions of low-income renters in Boston and Massachusetts is even higher than for homeowners -- 38 percent of all renters in Boston earn less than $10,000 a year; for Massachusetts as a whole, 26 percent of the state's renters earn less than $10,000 a year.

Policy Issues

From one perspective, the Massachusetts system of property tax exemptions for selective groups of homeowners and the state income tax deductions for renters of their primary residences compare unfavorably with more universal strategies of property tax relief in states with progressive homestead exemption and/or circuit-breaker programs.

From another perspective, however, the Massachusetts program of homestead exemptions must be examined within a broader context of property tax relief that considers (a) property tax limitation, which imposes ceilings on how much cities and towns can raise and by how much they can annually increase property taxes; (b) property tax classification, which authorizes cities and towns to tax different classes of property at different rates, and to grant residential tax exemptions to owner-occupants of primary residences; (c) legal strictures on state mandating of new or increased local tax exemptions without state reimbursements; and (d) municipal implementation of local options for granting larger homestead exemptions to taxpayers eligible for clause exemptions and for expanding the number of participants in the elderly exemption program.

Although available strategies for property tax relief do not efficiently target all property taxpayers bearing the largest tax burdens as measured by income and net worth, in cities such as Boston, which have taken maximum advantage of every legislative option to minimize the property tax liabilities of owner-occupants, the net tax bills of clause exemption beneficiaries for the 1987 fiscal year, particularly of elderly homeowners, are one-half to two-thirds of what they would be without clause exemptions and residential exemptions.

Proposals for new and/or modified strategies of providing property tax relief through exemptions in Massachusetts must strike a balance between the need of lower-income taxpayers of limited net worth for reductions in their tax burdens and the limited tax-raising capacities of municipal governments. Consideration must also be given to the political and/or economic advantages of increments to current programs versus outright replacement of the present system with a more universal and progressive arrangement.

Some Facts

In Boston clause exemptions have declined from a peak of 16,000 in 1970 to just under 10,000 in 1986, a reduction of about 37 percent. Tax dollars abated have declined from a peak of $9.7 million to $3.9 million for 1986, a reduction of about 60 percent.

An estimated 30-40 percent of elderly homeowners eligible for clause exemptions throughout Massachusetts take advantage of these opportunities, while in Boston the participation rate of elderly homeonwers exceeds 70 percent.

The Commonwealth reimburses cities and towns for property tax losses on account of clause exemptions, but reimbursement for the elderly category containing the largest number of recipients is subject to annual appropriation by the Legislature. In fiscal 1986, state reimbursements totalled $14.6 million, equivalent to about 37 percent of the tax dollars abated.

The impact on municipal finances of clause exemptions has subsided considerably over the past decade because of reductions in the average number of beneficiaries and in total tax dollars abated, and because of stabilized state reimbursements to cover tax losses. Between 1968 and 1985, clause exemptions as proportions of property tax levies had declined from 3.7 percent to 1.2 percent.

Since 1983, average clause exemptions granted to the largest number of beneficiaries (veterans and elderly) in Massachusetts have become smaller, mainly because of legally-mandated revaluation. To cushion the adverse impact of revaluation on tax bills under optional legislation of 1986, cities and towns are authorized to grant additional exemptions up to 100 percent of statutory amounts for FY 1986 and subsequent years provided that the net tax bill is not lower than that of the prior year.

The City of Boston has taken full advantage of available options to establish multiple tax rates, including the so-called minimum residential factor, and to adopt the uniform residential exemption (homestead allowance) for principal residences of homeowners under the property tax classification law, thereby minimizing the tax burden on residential property in general and on owner-occupied housing in particular.

Lower residential tax rates, higher residential exemptions and local initiatives in raising clause exemption benefits above statutory allowances have averted substantial increases in property tax bills for most beneficiaries of clause exemptions in Boston.

- For elderly, single-family homowners granted Clause 41B exemptions, the average net tax bill for FY 1986 was 35 percent of the average gross tax compared to 41 percent in 1981.

- For elderly owners of two- and three-family homes granted Clause 41B exemptions, the net tax results for FY 1986 were almost as beneficial as for elderly owning single-family homes.

- In wards where elderly homeowners are typically of low or moderate income, the average net tax bills for FY 1986 were below those for the pre-Proposition 2 1/2 year of 1981.

Statewide participation in the elderly tax deferral exemption program over the past decade in Massachusetts has proved to be very disappointing with a grand total of 724 tax deferral agreements in FY 1985 amounting to just over $1 million in deferred taxes. Boston's experience has been equally poor with only four agreements for FY 1986.

Major Recommendations

1. The more rational and equitable alternative would be to substitute a new state-financed, state-administered circuit-breaker program benefitting lower-income tax burdened homeowners and renters for the present patchwork of homestead exemptions and rental exemptions. These now cost the Commonwealth about $20 million a year in reimbursements of municipal treasuries for clause exemptions and about $60 million a year in state income tax deductions. Clause exemptions for fiscal 1987 will cost cities and towns a net of about $20 million. Thus the total state-local cost of all exemptions is about $100 million. A circuit-breaker program targeted at the 600,000 homeowners and renters in Massachusetts irrespective of age and with under $15,000 a year in total money income would cost an estimated $150 million a year if average annual benefits per taxpayer were $250. (An average benefit of $250 would have covered 52 percent of the average property tax liability of $481 for residents with total money income below $5,000 for FY 1984 and would have declined to 39 percent of the average property tax liability of $641 for residents with total income in the $10,000-$15,000 income range for this same year.)* Since this circuit-breaker would be

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* Data on average property tax liability by money income class from Table 13, Who Pays Massachusetts Taxes?, The Residential Property Tax, A. Rechovsky, p. 45. Underlying these estimates of property tax liability is the assumption that 100 percent of the property tax burden on rental housing is borne by tenants.

state-financed, it would cost the Commonwealth $70 million more than it now incurs in expenses for clause exemptions and losses of state income taxes. If the average benefit were increased to $500, the current statutory level for elderly exemptions, it would cost the Commonwealth a net addition of $220 million over present net state costs.

2. An alternative to a broad-based, state-financed, state-administered circuit-breaker program would target property tax relief to homeowners of lower income and net worth by selective modification and more effective utilization of existing clause exemptions under the following options while retaining without change the rental deduction from the state income tax:

a. Adding a new tax deferral/recovery exemption applicable to nonelderly homeowners similar to the tax deferrable provisions in the bill filed by Senator Olver, but with added provisions authorizing cities and towns to borrow for purposes of offsetting tax losses under tax deferral, thereby avoiding local cash flow problems emanating from large-scale participation in this program.

b. Using educational, outreach and other techniques of public information to inform homeowners of the availability and advantages of tax deferral. In January 1987, for the first time in Boston's history, the Assessing Department distributed multi-language materials describing all available residential exemptions.

c. Amending the current provisions of Clause 18 (the "hardship" clause) so that local assessors may grant tax relief under this clause to any homeowner who is elderly, inform <u>or</u> poor, and authorizing state reimbursement for Clause 18 exemptions. Under current interpretation, local assessors must determine that all three conditions are met for an applicant to qualify. This amendment, excluding state reimbursement, is part of Senator Olver's property tax relief proposal.

d. Authorizing state reimbursement covering 100 percent of property tax losses due to clause exemptions, legislation that would cost only about $20 million more per year in state appropriations.

If nonelderly homeowners became eligible for tax deferral, the estimated temporary loss of property taxes in Boston would range between $1 million and $2 million a year. This is based on assumptions that (1) one-third of the owner-occupants in the City, or about 20,000 persons, would meet the income and net worth requirements, (2) that 5-10 percent of this total or 1,000-2,000 homeowners would actually participate, and (3) that the average annual tax bill to be deferred is $1,000.

The proposed changes in tax deferral policies would increase the City's annual net cost of clause exemptions by an estimated $1-$2 million. However, 100 percent state reimbursement for all clause exemptions, as recommended, would completely offset the loss of property taxes due to an expanded tax deferral program.

I. INTRODUCTION

The Commonwealth of Massachusetts has authorized cities and towns to grant property tax exemptions to homeowners identified as less able to bear their normal shares of public expenditures than other classes of residents since 1821; to homeowner widows, orphans and persons over 70 years of age since 1858; and to groups of homeowning veterans as rewards for wartime service whose income capacity may have been impaired by disabilities attributable to such service as far back as 1894. Over the past quarter-century, there have been frequent changes in the eligibility criteria for applicants[1] and amounts of homestead exemption benefits as the Legislature has adapted and modified its exemption policies to meet changing conditions and needs.

Below is a summary of the major types of homeowning individuals whose personal situations currently entitle them under Massachusetts law to tax exemptions under Section 5, Chapter 59 of the General Laws.

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1 Requirements dealing with duration of occupancy or ownership, duration of residence or domicile in Massachusetts, maximum estate and/or domicile values, and maximum income.

1. A person judged by local assessors as unable to contribute "fully" to so-called public charges by reason of age, infirmity and poverty. (Clause 18)[2]

2. A surviving spouse, a minor child of a deceased parent, a person 70 years of age or older. (Clauses 17, 17C and 17D)

3. Specific categories of veterans, including disabled veterans, wounded veterans, surviving spouses of certain wounded or deceased veterans and surviving parents of certain deceased veterans. (Clause 22 - 22E)

4. A blind person. (Clauses 37 and 37A)

5. A person of 70 years or older within defined limits on gross income and value of the total estate. (Clauses 41, 41B and 41C)

6. A person 65 years of age or older and surviving spouse under a tax deferral and recovery agreement. (Clause 41A)

7. A surviving spouse of police officer or firefighter killed in the line of duty. (Clause 42)

8. A surviving minor child of police officer or firefighter killed in the line of duty. (Clause 43)

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[2] A recent letter from the State Department of Revenue to Boston's Commissioner of Assessing defines the degree of discretion available to local assessors in granting Clause 18 ("hardship") exemptions. It emphasizes that the burden of proof for statutory relief under this exemption as with any exemption rested with the applicant's demonstration that he (she) fully met all requirements as to age, infirmity and poverty. "It is our view in any case", the letter points out, "that this mechanism is not to be utilized in a broad or blanket fashion...but rather to be applied on a case by case basis after ascertaining all relevant facts." City of Boston guidelines for determining Clause 18 exemption eligibility and instructions to applicants for Clause 18 exemptions adopted in 1985 (see Appendix A) closely conform to this recent ruling by the Commonwealth. (Letter of March 31, 1986, from Edward J. Collins, Jr., Deputy Commissioner to William B. Coughlin, Commissioner of Assessing, City of Boston.)

In addition to so-called Clause 5 exemptions, the Commonwealth authorizes cities and towns to adopt a uniform residential exemption (under Section 5C, Ch. 59, G.L.) applicable to owner-occupied residences used as principal residences which exempts from property taxes up to 10 percent of the average value of all residential property in the municipality.

Any analysis of homeowner exemptions should not overlook the rent deduction in the state's income tax adopted as part of the Proposition 2 1/2 legislation. This is available to persons who pay rent for their principal places of residence located within the Commonwealth and is equal to 50 percent of such rent, provided that the deduction does not exceed $2,500 for a single person or household. (Under Section 3B (a)(9), Ch. 62, G.L.)

II. TRENDS IN ELIGIBILITY REQUIREMENTS AND BENEFITS

Major Statutory Modifications, 1955-80

Perhaps the most significant homestead exemption legislation adopted by Massachusetts over the past quarter-century came in 1963 with enactment of a new and separate abatement cagetory (Clause 41) for senior citizens, effective in 1964.[3] Massachusetts was following the lead of New Jersey which had developed the first homestead program benefitting elderly homeowners only. Although Massachusetts had granted property tax exemptions to a broad group of widows, orphans and elderly persons in legislation (Clause 17) dating back to the 1850s, the 1963 legislation was designed exclusively for qualified residents 70 years of age or older. It doubled the exemption benefit available under the broader Clause 17, and incorporated $14,000 as the maximum assessed valuation of all owned real property, but added a new limit on net income - $4,000 for a single person or $5,000 for a married person. (Clause 17 had not imposed such limits on income.)

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[2] Ch. 808, Acts of 1963.

To achieve uniformity in the assets standard as between the newer Clause 41 benefitting elderly persons and the older Clause 17 benefitting mainly the elderly and widows, the Legislature in 1966 increased the restriction on the maximum value of the whole estate under Clause 17 from $8,000 to $14,000.[4] (It had been raised from $2,000 to $8,000 in 1954 by Chapter 351.)

In recognition of the increasing number of municipalities, particularly homogeneous residential communities that were reassessing their real estate to reflect higher market values, thereby reducing the tax dollar benefit of elderly homestead exemptions, and to ease the exclusionary effects of more realistic assessed valuations on eligibility for Clause 41 exemptions, the 1966 Legislature added an optional exemption of $350 in actual taxes to the original exemption of $4,000 of assessed valuations in order to maintain the dollar levels of exemption benefits in those cities and towns which had complied with the law by revaluing their properties.[5] This legislation also raised the maximum restriction on assessed valuations of all property owned by a Clause 41 applicant from the prior $14,000 to $20,000, thereby

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[4] Ch. 371, Acts of 1966.

[5] Ch. 728, Acts of 1966.

incorporating a more realistic maximum figure on the value of elderly-owned property. Legislation enacted earlier in 1966 had relaxed the income restriction for Clause 41 abatements by excluding from the computation of net income any payments received under the Federal Social Security law.[6]

Legislative modifications of 1970 were designed to keep Clause 41 limits on income and assets consistent with rising levels of retirement income and higher values of whole estates. In making extensive revisions of clause exemptions applicable to the elderly, the 1970 legislation changed the income standard from one based on net income after excluding Federal Social Security payments to one based on gross receipts from all sources. The new limits on gross receipts were $6,000 for single persons and $7,000 for married persons. The maximum on the value of the whole estate was refined to differentiate between single and married persons, and the estate limit was raised by 50-75 percent; from the former level of $20,000 for single persons to $30,000, and to $35,000 for married persons. Finally, the 1970 amendments expanded eligibility for Clause 41 tax exemptions to surviving spouses who inherited such property, who occupied such property or other real property in the state as their primary residences for five years and otherwise qualified for Clause 41 exemptions.[7]

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[6] Ch. 419, Acts of 1966.

[7] Ch. 456, Acts of 1970.

By 1971, the Legislature deemed the time appropriate to extend to present and future beneficiaries of Clauses 17 and 22 (veterans) the more realistic exemption alternatives measured in terms of actual taxes due (first adopted under Clause 41) rather than in terms of assessed valuations. It amended the exemption provisions of the clauses applicable to widows, orphans and certain elderly (Clause 17) and to older veterans of earlier wars and wounded and/or disabled veterans of later wars by authorizing an abatement of $175 in actual taxes as an option to the $2,000 exemption of assessed valuations, whichever would result in the greater amount of tax exemptions. It also authorized tax dollar exemption equivalents as options applicable to other groups of more seriously disabled veterans, blind persons, and surviving spouses and minor children of police officers and firefighters killed in the line of duty.[8]

Earlier in 1971, sensitive to continuing increases in residential property values due mainly to inflation, the Legislature had further relaxed the assets restriction of Clause 41 by raising the value of the whole estate from $30,000 ($35,000) to $40,000 ($45,000).[9]

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[8] Ch. 1110, Acts of 1971.

[9] Ch.1069, Acts of 1971.

Although the Legislature had displayed continuing concern over the need for updating the income and assets limits applicable to Clause 41, the fastest growing clause exemption in terms of numbers of participating beneficiaries, it tended to lag in raising the restrictions under the older Clause 17. Not until 1973, for example, was the maximum value of the whole estate under Clause 17 increased from $14,000 to $20,000.[10]

To relieve elderly taxpayers from the growing hardships imposed on them by inflation, which was eroding their relatively fixed income and increasing their property tax assessments and tax bills to levels that were often beyond their ability to pay even with Clause 41 exemption assistance, the Legislature in 1974 adopted a tax deferral and recovery program under a new Clause 41A. This added the concept of tax deferral to tax forgiveness as a property tax relief strategy for homeowners 65 years of age or older and/or for surviving spouses inheriting such property. Clause 41A includes an income limit of $20,000 based on gross receipts from all sources.

Municipal boards of assessors are authorized on behalf of their city or town to enter into tax deferral and recovery agreements that permit deferral of property tax liabilities and interest to an accumulated total not exceeding half the assessed value of

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[10] Ch. 696, Acts of 1973.

the property. When the owner dies or when the property is sold, the back taxes plus interest at 8 percent must be paid from the sale proceeds or directly by the heirs.[11]

During the seventies, the Legislature not only continued to update the restrictions and benefit levels of clause exemption provisions, but significantly expanded state reimbursement of cities and towns for mounting property tax losses due to higher numbers of exemption beneficiaries and more liberal exemption benefit levels. One clarifying modification of Clause 17 in 1974, for example, broadened its eligibility provisions to include surviving spouses, thereby making widowers as well as widows eligible for benefits.[12] As for Clause 41, legislation of 1977 made a number of significant revisions in benefit levels, asset limits and state reimbursement of property tax losses:

1. Increased the alternative exemption of $350 in taxes due to $500, but in the computation of any applicant's gross receipts deducted from the total an amount equivalent to the minimum payment under Federal Social Security or public retirement systems;

2. Added an optional limit to the existing restriction of $40,000 ($45,000) on the value of the whole estate. Under the new limit of $17,000 for single persons and $20,000 for married persons, the value of the occupied principal residence was excluded in determining the value of the estate. The calculation option based on the value of the whole estate was retained, however.

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[11] Ch. 287, Acts of 1974.

[12] Ch. 889, Acts of 1977.

3. Required the Commonwealth, beginning with the 1979 fiscal year, to appropriate up to $6 million a year for reimbursements to cities and towns of their pro rata shares of Clause 41 exemptions, thereby offsetting property tax base erosion due to the increase in Clause 41 exemptions from $350 to $500 and to the higher cost of elderly exemptions in those cities and towns experiencing large annual tax rate increases while assessing residential properties at low ratios to market value.

Major Statutory Modifications, 1981-86

By 1981 the Legislature had decided that it was preferable to make needed adjustments in eligibility restrictions and benefit levels by authorizing their acceptance by individual cities and towns rather than imposing such changes on all municipalities. This shift in policy was in fact dictated by provisions of Proposition 2 1/2, the property tax limit approved by the voters in 1980, that required the Commonwealth to appropriate for payment to each city and town any loss of taxes resulting from any law enacted after January 1, 1981 that granted or increased exemptions from local taxation.[13] However, it had also become evident that the number and proportion of clause exemption recipients and eligibles varied widely among cities and towns as did the impacts of tax losses on individual municipalities.

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[13] Section 27C (b), Ch. 29, G.L., inserted by Section 2, Ch. 580, Acts of 1980.

Under the initial implementation of this change in policy direction, the Legislature adopted a new Clause 17C in 1981 that further eased the limit on assets subject to their acceptance by cities and towns.[14] Under this modification, driven by the fact that the assessed values of residential property were escalating as local assessors adjusted assessments to appreciating market values and that inflation was also generating unprecedented increases in the values of the real and personal property of homeowners, the value limit on the whole estate of surviving spouses or minors and certain elderly persons applying for Clause 17 exemptions was doubled (from $20,000 to $40,000). Moreover, and even of more significance, was the exclusion from the calculation of such limit of the first $60,000 in value of the property occupied as the owner's principal residence. It should also be noted, however, that while the Commonwealth had been reimbursing cities and towns for Clause 17 exemptions in which the whole estate of the recipient exceeded $8,000 in value (excluding the value of mortgage interest), cities and towns accepting the provisions of Clause 17 C would not be reimbursed for exemptions granted thereunder.

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[14] Ch. 743, Acts of 1981.

By 1982 pressure on the Legislature for additional relief to clause exemption beneficiaries had reached a climax because of higher property tax bills caused by revaluation. Since property tax limits under Proposition 2 1/2 were to be calculated on the basis of full market value, cities and towns were forced to comply with the law requiring assessment of property at full market value in order to moderate serious losses of tax revenue. In such cities and towns, assessments increased by as much as ten-fold while the tax rates declined commensurately. Owners of residential properties that had been assessed at artificially low levels not only faced higher gross tax bills because of revaluation, but owners qualifying for clause exemptions were faced with higher net tax bills. For example, a Clause 41 exemption based on $4,000 of assessed valuations and a $250 tax rate was equivalent to a reduction of $1,000 from the recipient's tax bill. Under revaluation, however, the exemption was cut in half to the statutory tax dollar maximum of $500.

To provide temporary relief to clause exemption recipients from the impact of revaluation, the Legislature in 1982 continued the prior policy authorizing cities and towns by local approval to adopt larger exemption benefits and to ease income/assets restrictions.[15] Under these legislative modifications, a new Clause 17C was established for surviving

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[15] Ch. 653, Acts of 1982.

spouses or minors and certain elderly persons that excluded the entire value of the domicile in calculating the value of an owner's total estate, not only the occupied residential unit itself, but up to two income-producing rental units of the affected property. A new Clause 41B for homeowners 70 years older or older increased the gross receipts limit by upwards of two-thirds, from $6,000 (single persons) and $7,000 (married persons) to $10,000 ($12,000) and raised the limit on the value of the whole estate applicable to the option under which the value of the domicile (except for income-producing components) is excluded from $17,000 (single person) and $20,000 (married person) to $20,000 ($23,000),

In addition, for the 1983 and 1984 fiscal years, this optional legislation authorized cities and towns voting acceptance to provide additional exemptions up to 60 percent of established exemption allowances for applicants qualifying under the existing Clauses 17 and 41 and under two new Clauses 17C and 41B; under the existing Clause 37 and under a new Clause 37A applicable to blind persons; under Clauses 22-22E applicable to veterans; and under Clauses 42 and 43 applicable to spouses and/or minors of police officers and firefighters killed in the line of duty. But several conditions were placed on the granting of such additional exemptions: (1) the additional exemption could not exceed $350; (2) the additional exemption could not result in the benefitting taxpayer paying less in taxes than paid in the preceding year, except for so-called hardship cases under Clause 18 and for paraplegic veterans and/or their surviving spouses; and (3) the state would not reimburse cities and towns for taxes lost through the additional exemptions.

Finally, mainly through the initiative and advocacy of City of Boston officials, but supported by officials of other cities and towns facing similar problems, the Legislature in 1986 gave cities and towns the option of granting additional real estate exemptions to property taxpayers already meeting the eligibility requirements under the various clauses and of liberalizing the restrictions on income and assets of applicants.[16] These changes take effect by vote of the selectmen or town council in a town and in a city by initiative of the mayor with the approval of the city council. The intent of the most recent option is similar to the optional legislation of 1982 - to mitigate the negative impact of anticipated higher property tax bills on clause exemption recipients. In housing markets such as metropolitan Boston, where annual increases in values of residential properties had exceeded 25 percent on average between 1982 and 1985, the mandatory three-year revaluation had led to substantial increases in assessments.

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[16] Ch. 73, Acts of 1986.

The 1986 legislation, applicable to all fiscal years beginning on or after July 1, 1985, authorizes accepting cities and towns to grant additional real estate tax exemptions not exceeding 100 percent to qualifying taxpayers under the several clauses, including newly established Clauses 17D and 41C. The additional exemptions must be uniform, although they need not be equal for all exemption categories. They must be based on a uniform percentage of the exemption for which the taxpayer qualifies. But the additional exemption may not result in the net tax liability of an applicant being reduced below the net tax liability on the property in the preceding year, except where a hardship (Clause 18) exemption or a paraplegic exemption is involved. Moreover, the additional exemption may not result in a reduction of the taxable valuation of the property to less than 10 percent of its full and fair valuation, except where hardship or paraplegic exemptions are concerned, thereby retaining the intent in the classification act of a minimum tax liability of 10 percent.

The 1986 legislation also establishes a new Clause 17D and a new Clause 41C, additional clauses that make the requirements for eligibility less restrictive. The ownership and occupancy requirements of exemption applicants under 17D (surviving spouses, minors of deceased parents and persons age 70 and over) are reduced from the ten preceding years to the five preceding years, thereby making this restriction consistent with the ownership and occupancy standard applicable to elderly exemption applicants under Clauses 41 and 41B. Moreover, the legislation excludes from the calculation of an owner's total estate the entire value of an applicant's principal residence, including up to two dwelling units that produce income. The prior standard on assets had limited the domicile exclusion to the first $60,000 of value.

The following provisions on eligibility requirements applicable to certain elderly over 70 and incorporated into a new Clause 41C are even more liberal than those included in Clause 17D:

1. The restrictions on gross receipts are increased to $13,000 (single person) and $15,000 (married person) from the $10,000 ($12,000) limits of Clause 41B, or by 25-30 percent.

2. The restriction on the value of the whole estate, where the value of the domocile is excluded, is increased to $28,000 ($30,000) or by 7 1/2 percent, and included in the exclusion is the value of up to two dwelling units producing income. The prior limits, which deducted from the domicile value any income-producing values, had been $20,000 ($23,000).

Although the 1986 modifications of the clause exemption statutes specifically indicate that state reimbursements for loss of taxes shall not apply to the additional exemptions that cities and towns may approve, the Commonwealth's 1986 deficiency budget act includes a $5 million increase (from prior annual appropriations of $10 million) in reimbursements to cities and towns for property tax exemptions under Clause 41, the first such increase since state reimbursements for elderly exemptions were initiated in the 1979 fiscal year.[17] Its justification is based on the expectation that the relaxed eligibility restrictions in Chapter 73 of the Acts of 1986 will expand the number of exemption applicants.

Current Statutory Provisions (Applicable to City of Boston)

Table 1 identifies eligibility for major categories of clause exemptions and summarizes current restrictions concerning age, ownership and occupancy, domicile (principal residence), income (gross receipts), and assets (value of whole estate excluding the value of the domicile). It should be noted that since the City of Boston accepted the provisions of Chapter 73, Acts of 1986, Clause 17D and 41C are in effect and earlier versions of these clauses are inapplicable.

City/Town Adoption of Optional Provisions

According to records of the Property Tax Bureau, State Department of Revenue, 234 cities and towns including Boston have accepted Chapter 743 of the Acts of 1981, thereby substituting Clause 17C with its less restrictive limits on assets for the original Clause 17.[18]

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[17] Ch. 279, Acts of 1986.

[18] As of November 1, 1986.

Table 1

STATUTORY PROVISIONS APPLICABLE TO CLAUSE EXEMPTIONS IN CITY OF BOSTON*

CLAUSE	DESCRIPTION OF BENEFICIARIES	AMOUNT OF EXEMPTION**	OWNERSHIP AND OCCUPANCY CRITERIA	LEGAL RESIDENCE AND DOMICILE CRITERIA	GROSS RECEIPTS CRITERIA	VALUE OF WHOLE ESTATE CRITERIA
17D	Surviving spouses, minors of deceased parents, or persons over 70 years of age.	$175 of tax[a]	Persons of 70 or over must have owned and occupied premises for 5 preceding years.			Real and personal property cannot exceed $40,000 excluding household mortgages and value of domicile, except for that of domicile producing income and exceeding 2 units.
18	Property owners unable to contribute fully to share of public charges by reason of age, informity or financial condition (hardship).	Amount determined by Board of Assessors	Where application is based on physical disability, detailed letter from personal physician required.		All sources of income of all members of household must be documented, including tax returns, payroll stubs, pension statements, bank statements.	
22	Defined veterans whose last discharge or release from armed forces was under other than dishonorable condition, and surviving spouses of soldier or sailor who remained unmarried; disability of veteran must have been the result of designated wartime service and in line of duty as certified by U.S. Veterans Administration. (a) Veterans with 10% disability rating. (b) Veterans of Spanish War, Philippine Insurrection or Chinese Relief Expedition. (c) Veterans awarded purple heart. (d) Spouses and surviving spouses under Clauses 22, 22A, 22B, 22C and 22E. (e) Surviving fathers and mothers of soldiers or sailors who died in wartime service. (f) Surviving spouses of World War I veterans who have resided in Massachusetts for past 5 consecutive years and whose total estate does not exceed $20,000.	$175 of tax[a]		Legal resident of MA; domiciled in MA for at least 6 months prior to entering miliary, or resided in MA for last 5 consecutive years.		

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(Table 1 continued)

CLAUSE	DESCRIPTION OF BENEFICIARIES	AMOUNT OF EXEMPTION**	OWNERSHIP AND OCCUPANCY CRITERIA	LEGAL RESIDENCE AND DOMICILE CRITERIA	GROSS RECEIPTS CRITERIA	VALUE OF WHOLE ESTATE CRITERI.
22A	Qualifying veterans with loss or permanent loss of use of one limb or loss or loss of sight in one eye, or have received Congressional Medal of Honor, SDSC, Navy Cross or Air Force Cross.	$350 of taxb (Exemption prorated where only a portion of milti-family dwellings is occupied by veteran.)				
22B	Qualifying veterans with loss or permanent loss of two limbs or loss of sight of both eyes.	$700 of taxc (Exemption prorated where only a portion of milti-family dwelling is occupied by veteran.)				
22C	Qualifying veterans with permenent loss and total disability requiring "specially adapted housing".	$875 of taxd (Exemption prorated where only a portion of multi-family dwelling is occupied by veteran.)				
22D	Surviving spouses of soldiers or sailors who died in combat at Quemoy or Matsu.	$175 of taxa		Domiciled in MA for at least 5 consecutive years.		
22E	Qualifying veterans with 100% disability and unable to work.	$525 of taxe (Exemption prorated where only a portion multi-family dwelling is occupied by veteran.)				
37A	Legally blind persons.	$500 of tax	Owned and occupied premises as domicile separately, jointly or as tenant in common.	Legal resident of MA.		
41A	Qualifying persons over 65 years of age and their surviving spouses.	Deferral of all or part of tax until accumulated unpaid taxes plus interest at 8% reach one-half of full and fair cash value of property. (Deferral until sale or transfer of property or demist of owner.)	Owned and occupied premises of such home or other real property as domicile in MA for at least 5 years.	Legal resident of MA for preceding 10 years.	Not exceeding $20,000 during preceding year.	

(continued on next page)

(Table 1 continued)

AUSE	DESCRIPTION OF BENEFICIARIES	AMOUNT OF EXEMPTION**	OWNERSHIP AND OCCUPANCY CRITERIA	LEGAL RESIDENCE AND DOMICILE CRITERIA	GROSS RECEIPTS CRITERIA	VALUE OF WHOLE ESTATE CRITERIA
.C	Elderly persons 70 years of age or older or surviving spouse who has inherited the property.	$500 of taxf (Exemption prorated where property is owned jointly or as a tenant in common with a non-spouse.	Owned and occupied premises in MA for 5 years	Lived in MA during preceding 10 years.	Gross receipts in preceding year cannot have exceeded $13,000 (for single persons) or $15,000 (for married persons) excluding ordinary business expenses and minimum payable Federal Social Security payment.	Real and personal property cannot exceed $28,000 (for single persons) or $30,000 (for married persons) excluding household furnishings and value of domicile except for that part of domicile exceeding 2 units, and producing income.
:	Surviving spouses of police officers and fire-fighters who died in line of duty and who remain unmarried.	100% of tax.	Where property is owner-occupied as principal residence.			
)	Surviving minor children (including adopted children) of	100% of tax.	Where property is owner-occupied as principal residence.			
:c. 8 id 8A, 1. 58, .L.	Paraplegic veteran or surviving spouse.	Amount determined by Board of Assessors and authorized by State Commissioner of Revenue.				

NOTE: Premises of all applicants must be owned and occupied as domicile (principal residence on July 1).

* For 1987 fiscal year.

** City of Boston, having accepted Ch. 73, Acts of 1986, can grant additional exemptions up to 100% of tax dollar amounts provided that the additional exemption does not reduce the tax liability below the amount of tax owed in preceding year and provided that the taxable valuation, after all applicable exemptions including the residential exemption, is not reduced below 10% of full and fair cash valuation.

a. Or $2,000 of taxable valuations, whichever would result in greater abatement.
b. Or $4,000 of taxable valuations, whichever would result in greater abatement.
c. Or $8,000 of taxable valuations, whichever would result in greater abatement.
d. Or $10,000 of taxable valuations, whichever would result in greater abatement.
e. Or $6,000 of taxable valuations, whichever would result in greater abatement.
f. Or $4,000 of taxable valuations, whichever would result in greater abatement.

As for Chapter 653 of the Acts of 1982, adding more liberal exemption provisions for the blind (under a new Clause 37A) and for the elderly (under a new Clause 41B) but subject to adoption by individual municipalities, 151 cities and towns including Boston had accepted Clause 37A and 214 cities and towns had accepted Clause 41B. Thus, 60 percent or more of municipalities in the state have taken advantage of optional legislation providing more attractive benefits for elderly and blind recipients of clause exemptions.

Since the 1986 legislative modifications, adding a new Clause 17D and a new Clause 41C, did not take effect until June 9, 1986, as of early December, 1986 only 23 municipalities including Boston had acted to accept the new clause 17D while 20 cities and towns including Boston had accepted the new Clause 41C. Most of the additional acceptances will likely be acted upon at regular town meetings to be held during the spring of 1987.

The City of Boston acted expeditiously in June 1986 in order to increase clause exemption assistance up to 100 percent of qualifying exemptions as authorized in the new legislation, thereby reducing the tax liability of beneficiaries by another $86-$90. With the added incentive of greater state reimbursement to cover tax losses in the 1987 fiscal year, due to a greater number of elderly recipients of clause exemption assistance, the number of cities and towns accepting the provisions of Chapter 73 of the Acts of 1986 is likely to parallel the acceptance experience with prior legislative options.

III. TRENDS IN NUMBERS AND AMOUNTS OF RESIDENTIAL EXEMPTIONS, MASSACHUSETTS AND CITY OF BOSTON

Statewide Trends

Clause exemptions granted by all cities and towns in Massachusetts for the 1985 fiscal year totaled 128,506 and covered tax dollar abatements amounting to $38.8 million. About half the total number of clause beneficiaries were in veteran categories, which accounted for one-third of the total dollars abated. Elderly beneficiaries in Clauses 17, 17C, 41 and 41B received over 54 percent of the total dollars abated.

Between 1968 and the mid-seventies, there was a gradual increase in both the total number of exemptions granted and the total amount of taxes abated. The annual peak in number of exemptions granted came in 1974 with a total of 174,391. Not until 1977, however, was the $75.8 million record reached in total tax dollars abated. Most of the upward spiral in clause exemptions during this period was due to maintaining the total number of veterans' exemptions at the 70,000-odd level, with eligible veterans of the Vietnam War replacing deceased veterans of prior wars; and to the steady increase in the number of elderly persons qualifying for Clause 41 exemptions, which reached an all-time high of over 82,000 recipients in 1968 and then declined gradually to over 73,000 in 1974. That the total amount of tax dollar abatements continued to rise between 1974 and 1977 in the face of a gradual decline in the number of exemptions was due to periodic liberalization of exemption benefits and the easing of eligibility income and assets criteria.

Since climbing to these record totals during the mid-seventies, however, the total number of clause exemptions and the total amount of taxes abated have been steadily declining, reaching lows in 1984, but with slight reversals of the downward trends in 1985. For the state as a whole, the total number of clause exemptions declined by over 28 percent during the 1974-84 decade. Between the peak year of tax dollars abated in 1977 and the low point in 1985, total tax abatements declined by almost 49 percent.

These overall declines paralleled sharp drops in the major categories of clause beneficiaries - veterans and elderly. The total number of veterans' exemptions had fallen to just over 58,000 during the 1974-84 period, a decrease of almost 20 percent while the total number of Clause 41 elderly exemptions had fallen even more sharply, from over 73,000 in 1974 to under 35,000 in 1984, a loss of over 52 percent. Smaller numbers of veterans' exemptions were attributable mainly to natural causes. Higher annual retirement income and wealth of retirees during this period that was greater than that of their predecessor eligibles, which made them ineligible for elderly exemptions, explained the spectacular downward trend in numbers of elderly exemptions. (See Table 2 for data on number of beneficiaries and exemptions by clause in Massachusetts and Boston for the 1981 and 1985 fiscal years.)

Table 2

NUMBER OF BENEFICIARIES AND AMOUNTS OF ABATEMENTS FOR CLAUSE EXEMPTIONS, 1981 AND 1985 FY MASSACHUSETTS & BOSTON

1981 FY

MASSACHUSETTS

CLAUSE	EXEMPTIONS GRANTED	% OF TOTAL	TAX DOLLARS ABATED	% OF TOTAL
17	$18,447	11.8%	$6,399,483	9.5%
17C				
18	$ 5,246	3.3%	$2,553,392	3.8%
22a-f,22D	$67,099	42.8%	$17,715,044	26.3
22A	$ 995	.6%	$ 465,731	.7%
22B	$ 132	.08%	$ 112,381	.2%
22C	$ 103	.07%	$ 106,982	.2%
22E	$ 3,252	2.1%	$2,214,564	3.3%
Paraplegics	$ 296	.2%	$ 604,703	.9%
37	$ 3,942	2.5%	$2,196,400	3.3%
37A				
41	$56,586	36.1%	$33,363,360	50.3%
41A	$ 602	.4%	$ 887,413	1.3%
42&43	$ 165	.1%	$ 158,863	.2%
TOTAL	$156,865	100.0%	$67,278,318	100.0%

1981 FY

BOSTON

CLAUSE	EXEMPTIONS GRANTED	% OF TOTAL	TAX DOLLARS ABATED	% OF TOTAL
17	$ 2,439	19.4%	$1,308,851	13.5%
17C				
18	$ 262	2.1%	$ 223,482	2.3%
22a-f,22D	$ 4,384	34.9%	$2,382,280	24.6%
22A	$ 43	0.3%	$ 40,932	0.4%
22B	$ 6	0.05%	$ 9,708	0.01%
22C	$ 2	0.02%	$ 3,327	0.003%
22E	$ 178	1.4%	$ 216,633	2.2%
Paraplegics	$ 9	0.07%	$ 35,778	0.4%
37	$ 278	2.2%	$ 347,338	3.6%
37A				
41	$ 4,924	39.2%	$ 5,066,193	52.4%
41A				
42&43	$ 24	0.2%	$ 38,042	0.4%
TOTAL	$ 12,549	100.0%	$ 9,672,564	100.0%

1985 FY

MASSACHUSETTS

CLAUSE	EXEMPTIONS GRANTED	% OF TOTAL	TAX DOLLARS ABATED	% OF TOTAL
17	$ 2,597	2.0%	$ 693,677	1.8%
17C	$18,906	14.7%	$3,276,277	8.4%
18	$ 2,670	2.1%	$1,179,954	3.0%
22a-f,22D	$59,931	46.6%	$10,667,356	27.5%
22A	$ 865	0.7%	$ 304,765	0.8%
22B	$ 120	0.09%	$ 82,328	0.2%
22C	$ 103	0.08%	$ 84,144	0.2%
22E	$ 2,868	2.2%	$1,447,189	3.7%
Paraplegics	$ 319	0.2%	$ 712,922	1.8%
37	$ 2,159	1.7%	$ 984,387	2.5%
37A	$ 2,250	1.7%	$1,108,202	2.8%
41	$11,805	9.2%	$ 5,942,165	15.3%
41B	$23,021	17.9%	$11,204,064	28.9%
41A	$ 724	0.6%	$1,109,383	2.6%
42&43	$ 168	0.1%	$ 115,414	0.3%
TOTAL	$128,506	100.0%	$38,822,227	100.0%

1985 FY

BOSTON

CLAUSE	EXEMPTIONS GRANTED	% OF TOTAL	TAX DOLLARS ABATED	% OF TOTAL
17				
17C	$ 2,138	20.6%	$ 373,420	11.5%
18	$ 188	1.8%	$ 113,438	3.5%
22a-f,22D	$ 3,739	36.1%	$ 654,524	20.2%
22A	$ 26	0.3%	$ 49,100	0.03%
22B	$ 6	0.06%	$ 4,393	0.01%
22C	$ 2	0.02%	$ 1,689	0.005%
22E	$ 141	1.4%	$ 63,867	2.0%
Paraplegics	$ 9	0.09%	$ 18,315	0.06%
37				
37A	$ 285	2.7%	$ 139,322	4.3%
41	$ 3,809	36.7%	$ 1,844,719	56.9%
41A	$ 1	0.01%	$ 2,101	0.006%
42&43	$ 22	0.2%	$ 15,253	0.05%
TOTAL	$10,366	100.0%	$3,240,141	100.0%

Residential (homestead) exemptions under Section 5C, Chapter 59 of the General Laws are granted only by cities and towns accepting this provision and apply to all owners of residential properties occupied by them as principal residences. To date three cities - Boston, Cambridge and Waltham - and five towns - Brookline, Nantucket, Somerset, Watertown and Weymouth - have adopted residential exemptions. The total estimated number of residential taxpayers benefitting from the residential exemption throughout Massachusetts is about 113,000. They range from a low of under 1,400 taxpayers in Nantucket to a high of almost 61,000 taxpayers in Boston. Total residential taxes exempted under Section 5C in these eight municipalities are estimated at about $19 million for fiscal year 1987, or less than one percent of the total statewide tax levy on residential property.

The lowest residential exemption valuation is $5,900 in Weymouth; the highest is $14,000 in Brookline. In tax dollar terms, the residential exemption ranges from a low of $82 in Nantucket to a high of $357 in Brookline. It should be noted, however, that residential tax rates and average assessed valuation differentials shape the residential exemption assessed valuation and tax exemption figures.

City of Boston Trends

In Boston the total number of clause exemptions granted have also declined over the past 15 years, from a high of about

16,000 for 1970 to just over 12,200 for 1981, down to about 10,300 for 1985. By 1986 the total had dropped to just below 10,000, indicating a reduction of about 37 percent since the 1970 peak.

Prior to 1983, although the number of clause exemptions in Boston had been declining roughly in accordance with the statewide downward trend, the tax dollar amounts of clause abatements had been gradually increasing, reaching a peak of $9.7 million for 1981. Relatively stable low assessments on owner-occupied residential properties combined with escalating tax rates in Boston had generated higher clause exemptions per recipient and larger aggregate amounts of annual exemptions granted. Whereas clause beneficiaries in municipalities that were complying with legal requirements by assessing real estate at full and fair cash value were receiving exemptions based on specific statutory amounts, in Boston and similar municipalities clause exemption beneficiaries were enjoying exemptions that were double the statutory dollar allowances, exemptions that reduced the tax bills of most Clause 41 elderly taxpayers, for example, to one-third or less of their gross tax liabilities.

With the advent of revaluation, which took effect in the 1983 fiscal year, the total annual amount of tax dollars abated for clause exemptions finally began to decline in Boston. Had the City of Boston <u>not</u> accepted Chapter 743 of the Acts of 1981, authorizing cities and towns to increase clause exemptions by up to 60 percent subject to certain restrictions as to the net tax bill and minimum assessed valuation, its total amount of tax dollars abated for the 1983 fiscal year would have declined to $3.9 million. In implementing the 60 percent option, the City supplemented regular clause exemptions with $871,000 in additional exemptions, thereby increasing the total to $4.7 million. By the 1985 fiscal year, total tax dollars abated on account of clause exemptions in Boston had fallen to $3.2 million, a decline of 67 percent over the 1981 high. The total rose to $3.9 million for 1986, mainly because the City of Boston promptly accepted the provisions of Chapter 73 of the Acts of 1986 authorizing cities and towns to increase clause exemptions by up to 100 percent under conditions similar to those incorporated in the 1981 legislation.

Table 3

NUMBER OF BENEFICIARIES AND AMOUNTS OF ABATEMENTS
FOR CLAUSE EXEMPTIONS, CITY OF BOSTON
1981-86 FISCAL YEARS

FY	No. of Exemptions Granted	Annual % Change	Tax Dollars Abated on Exemptions (in millions)	Annual % Change
1981	12,549	--	$9.7	--
1982	12,225	-2.6%	8.4	-14.4%
1983	11,846	-3.1	4.7	-44.0
1984	10,881	-8.1	3.4	-27.7
1985	10,366	-4.7	3.2	- 5.9
1986	9,991	-3.6	3.9	+21.9

Source: Assessing Department, City of Boston.

Boston's homestead exemptions under Section 5C applies to all owners of residential properties occupied by them as principal residences. For the 1987 fiscal year, an estimated total of 60,859 property owners will be granted residential exemptions in Boston as compared with actual total exemptions of 59,404 in the prior fiscal year. As indicated in Table 4, the annual number of beneficiaries under Section 5C increased by about 22 percent between the 1984 and 1987 fiscal years, stimulated mainly by the conversion of rental units to owner-occupied condominiums and by the construction of owner-occupied condominiums.

Accompanying this upward trend in the number of eligibles for Section 5C exemptions over the past five years have been steady annual increases in the total assessed valuations of properties qualifying for such exemptions, increases in the average assessed valuation of all properties exempted as residential (this is used as a base for calculating the residential exemption), increases in the tax dollar benefit of the exemption and increases in the total amount of residential taxes exempted under Section 5C, as shown in Table 4. The total assessed valuation of residential exemptions reached $706 million in fiscal year 1987, more than double the total of 1984. The average assessed valuation of all residential property in Boston has risen by 81 percent since 1984 and is now $116,000. Since the 1984 fiscal year, the total amount of residential taxes exempted

Table 4

ESTIMATED NUMBER OF BENEFICIARIES AND AMOUNTS OF TAXES EXEMPTED UNDER SECTION 5C, CITY OF BOSTON

Fiscal Year	Total Residential Valuation (millions)	Residential Tax Rate (Per $1,000 A.V.)	Total Valuation Of Residential Exemptions (millions)	No. Of Section 5C Beneficiaries	Average Residential Exemption Valuation	Residential Tax Dollar Exemption	Total Residential Tax Exempted (millions)
1984	$6,169.20	$17.10	$306.70	47,720	$6,427	$109.90	$5.20
1985	7,121.10	16.42	372.60**	51,312**	7,287	119.65	6.10
1986	9,773.10	13.46	578.10**	59,404**	9,753	131.27	7.80
1987	12,131.70	12.02	706.10	60,859	11,603	139.47	8.50

Note: Although 1983 fiscal year was the first in which classification and Section 5C exemptions were implemented, 1983 data are not included because the procedure used in identifying taxpayers eligible for Section 5C exemptions was faulty.

* Gross Valuations.
** Actual.

under Section 5C has increased by 63 percent and currently amounts to $8.5 million. It should be emphasized, however, that total residential tax exemptions represent a shift of the residential tax burden away from owners occupying their homes as principal residences to other residential property and the relative tax benefits of such exemptions are higher for less expensive than for more expensive owner-occupied residential properties.

Participation Rates

A recent study estimated that 50 percent of all homeowners over age 65 in Massachusetts in 1984 met the age, income and assets requirements in at least one of the state's clause exemption programs targeting the elderly (Clauses 17, 17C 41 and 41B). The study concluded that an estimated 180,000 homeowners in Massachusetts were eligible for such property tax relief as compared with the 55,000-odd taxpayers benefitting from such abatements.[19] Thus, the study estimated that only 30-40 percent of elderly homeowners in Massachusetts who were eligible for clause exemptions were taking advantage thereof. It should be noted, however, that this estimate excluded the significant proportion of World War II veterans qualifying for Clause 22 exemptions who had reached 70 years of age. The Reschovsky study identified several major reasons for the relatively low participation rate:

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[19] Andrew Reschovsky, Who Pays Massachusetts' Taxes? The Residential Property Tax, December 1986, A report submitted to the Special Commission on Tax Reform, Commonwealth of Massachusetts, p. 60-64.

1. Eligibles are not aware of the exemption programs and the qualifying criteria. Extensive publicity concerning the availability of such property tax relief is rare, while limited use of the English language and illiteracy may hinder the distribution of such information.

2. Applications for exemption must be filled out at the local assessor's office. Difficulties in getting to the office and the requirements concerning evidence of income and assets may instill fears that impede such initiatives.[20]

An estimated 18 percent of all owner-occupants of residential housing in Boston are 70 years of age or older, equivalent to about 11,000 of the City's 61,000 owner-occupants of residential properties containing one to six dwelling units. Of this total, almost 5,700 are receiving exemptions under Clauses 17C and 41B while another estimated 2,300 are qualifying elderly veterans receiving exemptions under Clause 22 (an estimated 65 percent of veteran recipients of clause exemptions are World War II veterans who are 70 years of age or older), for a grand total of 8,000 elderly. Thus over 72 percent of Boston's elderly homeowners are participating in current clause exemption programs, a much better participation rate than that of the state as a whole.

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[20] Andrew Reschovsky, Who Pays Massachusetts' Taxes? The Residential Property Tax, op. cit., p. 66.

IV. STATE REIMBURSEMENT OF CLAUSE EXEMPTIONS

State Reimbursement Provisions

The Commonwealth of Massachusetts reimburses cities and towns for varying shares of property tax losses on account of clause exemptions. Table 5 shows the specific proportions and amounts of reimbursements, the reimbursement conditions applicable to particular clauses, and the formulae for calculating reimbursements to individual municipalities where the statute either requires the Commonwealth to appropriate annually up to a maximum or a lump sum for coverage of certain exemptions.

For tax exemption of surviving spouses, minors of deceased parents and certain elderly qualifying under Clauses 17 and 17C, the Commonwealth's reimbursements in the 1986 fiscal year amounted to 59 percent of the total outlays made by all cities and towns for such exemptions in the prior year. For tax exemptions to elderly homeowners qualifying under Clauses 41 and 41B, the state's reimbursements to cities and towns in fiscal year 1986 represented 58 percent of total exemptions awarded during the prior year for this category. As for tax exemptions to veterans, the Legislature periodically enacted separate exemption clauses with higher benefits to select groups of severely disabled veterans and authorized state reimbursements to cities and towns ranging from 50 percent of the total exemption for amputees up to 100 percent for paraplegics or their

Table 5

STATE REIMBURSEMENT PROVISIONS AND REIMBURSEMENTS TO ALL CITIES AND TOWNS WITH SPECIAL REFERENCE TO CITY OF BOSTON

Clause	State Reimbursement Provisions	Estimated State Reimbursements to all Cities and Towns, 1986 FY	% of Total Tax Dollars Abated	Estimated State Reimbursements to City of Boston, 1986 FY	% of Total Tax Dollars Abated
17 & 17C	Covers entire exemption of $175 or $2,000 of A.V. whichever is greater where total value of recipient's estate exceeds $8,000.	$2,342,652	59.0%	$264,150	70.7%
17D (accepted by City of Boston)	Same reimbursement as received by city or town under Clause 17 for last year in which Clause 17 exemptions were granted.*				
18	None.				
22	None.				
22A	50% of $350 in actual taxes of $4,000 A.V.				
22B	75% of $700 in actual taxes of $8,000 A.V.				
22C	80% of $875 in actual taxes of $8,000 A.V.				
22D	100% of $175 in actual taxes of $2,000 A.V.				
22E	66 2/3% of $525 in actual taxes or $6,000 A.V.				
Paraplegics	Total Exemption	$1,827,752 (22A-22E)	69.5%	$67,951	69.8%
37	$87.50 of $437.50 of actual taxes or $4,000 A.V.				
37A (accepted by City of Boston)	$87.50 of $500 of actual taxes	$379,877 (37 & 37A)	18.2%	$25,463	18.3%
41A	None.				
41 & 41B	Amount appropriated by Legislature divided by total number of both Clause 41 and 41B exemptions to determine reimbursement per exemption. In making this computation, number of Clause 41B exemptions to be counted for a city or town may not exceed number of Clause 41 exemptions reimbursed in last year for which such reimbursement was granted.	$10,000,000	58.3%	$1,100,932	59.7%
41C (accepted by City of Boston)	Amount appropriated by Legislature divided by total number of Clause 41, 41B and 41C exemptions to determine reimbursement per exemption. In making this computation, number of Clause 41C exemptions to be counted for a city or town may not exceed number of Clause 41 exemptions reimbursed in last year for which such reimbursement was granted.	$15,000,000*			
42 & 43	None.				

surviving spouses. State funds cover the supplementary grants in excess of the $175 basic tax exemption granted to veterans. (The state provides no reimbursement for tax exemptions under Clause 22.) For exemptions to special categories of veterans under Clauses 22A-22E, the Commonwealth's contribution in fiscal year 1986 amounted to 69 percent of the total outlay.

Recent Reimbursement Experience

In fiscal year 1986, state reimbursements for all exemptions granted in the prior fiscal year totalled $14.6 million, equivalent to 37.5 percent of the $38.8 million in total tax dollars abated in fiscal year 1985. As the number and total amounts of clause exemptions have declined substantially in recent years and total state reimbursements have stabilized at the $14-15 million level, the Commonwealth's relative share of the total has increased, mainly because of the $10 million annual appropriation for reimbursement of Clause 41 exemptions initiated in fiscal year 1979, which continued through the 1986 fiscal year. In fiscal year 1982, by contrast, the state's total reimbursement of $15.2 million for clause exemptions granted during the prior year had offset only 22.6 percent of the $67.3 million in total tax dollars abated by cities and towns under all exemption categories.

State reimbursements to the City of Boston for clause exemptions represent somewhat larger percentages of local outlays for these purposes than for cities and towns as a whole. This is due to the fact that although the amounts of tax dollars abated have declined sharply, by over two-thirds between the 1981 and 1985 fiscal years, state reimbursements to Boston have averaged about $1.4 million a year. Thus, in fiscal year 1986, state reimbursements of just over $1.4 million to Boston covered 45 percent of the City's clause exemptions in the prior fiscal year, a higher state proportion than the 37 percent for all cities and towns.

For the 1987 fiscal year, the Commonwealth estimates total reimbursements to cities and towns for clause exemptions at $14.3 million, including the regular $10 million for Clause 41 exemptions. With the $5 million increase in reimbursements for the elderly enacted by the Legislature as part of the 1986 deficiency budget and applicable to fiscal year 1987 in anticipation of larger numbers of qualified applicants under Clause 41C of Chapter 73 of the Acts of 1986, the Commonwealth's total reimbursement will reach $20 million and the state's share of clause exemption abatements will probably climb to 50 percent of the total.

V. FISCAL IMPACT ON MUNICIPALITIES OF CLAUSE EXEMPTIONS

Overview

The impact on municipal finances of mandated clause exemptions has subsided considerably over the past decade as the average number of beneficiaries has declined, the total amount of tax dollars abated has fallen and the annual amounts of state reimbursement have stabilized. For the 1985 fiscal year the statewide total of clause exemptions ($38.8 million) was equivalent to only 1.2 percent of the total property tax levies for that year. State reimbursements reduced the impact further to a net of eight-tenths of one percent. In 1968, by contrast, total clause exemptions had been 3.7 percent of total property tax levies. By fiscal year 1981, the impact had eased to 2.0 percent.

Impact on Individual Municipalities

As indicated in Table 6, the downward trends in numbers of exemption recipients and in tax dollars abated have varied among cities and towns over the past five years while local property tax levies have not increased at uniform rates. Consequently, the relative impacts of clause exemptions on the tax resources of individual municipalities have also varied widely.

Table 6

IMPACT OF CLAUSE EXEMPTIONS ON MUNICIPAL FINANCES
1981 AND 1985 FISCAL YEARS*

	FY 1981				FY 1985					
	No. of Clause Exemptions Granted	Property Tax Levy**	Tax Dollars Abated For Clause Exemp.	Clause Abatements as % of Tax Levy	No. of Clause Exemptions Granted	Property Tax Levy**	Tax Dollars Abated For Clause Exemp.	Clause Abatements as % of Tax Levy	% Change in No. of Clause Exemptions Granted	% Change in Tax Dollars Abated for Clause Exemptions
Billerica	1,097	$ 21,004	$ 844,584	4.0	709	$ 21,292	$ 202,687	1.0	-35.4	-76.0
Boston	12,549	518,675,400	9,676,564	1.9	10,366	363,222,216	3,240,141	0.9	-17.4	-66.5
Cambridge	1,302	79,961	878,190	1.1	755	72,370	195,091	0.3	-42.0	-77.8
Carver	199	3,249	113,045	3.5	172	3,608	48,027	1.3	-13.6	-57.5
Chelsea	813	14,507	541,236	3.7	621	8,883	141,667	1.6	-23.6	-73.8
Chicopee	2,410	21,997	1,294,977	5.9	2,098	20,463	612,375	3.0	-12.9	-52.7
Clinton	599	5,242	408,453	7.8	470	4,160	131,154	3.2	-21.5	-67.9
Dracut	1,130	8,262	653,667	7.9	977	9,909	306,988	3.1	-13.3	-53.0
Everett	1,163	30,083	437,105	1.5	1,042	27,537	250,712	0.9	-10.4	-42.6
Fairhaven	719	6,368	398,114	6.3	605	6,864a	6,864[a]	2.7	-15.9	-53.2
Fall River	2,144	30,012	1,037,989	3.5	1,849	21,872	21,872	2.2	-13.8	-54.1
Haverhill	1,333	19,234	661,785	3.4	1,148	19,009	19,009	1.7	-13.9	-51.8
Lawrence	1,538	21,823	769,279	3.5	1,323	18,356	18,356	1.9	-14.0	-54.7
Lowell	2,927	30,492	1,349,691	4.4	2,484	34,482	34,482	1.8	-15.1	-52.9
Lynn	3,494	52,188	1,688,950	3.2	2,141	36,846	36,846	1.6	-38.7	-64.0
Malden	2,067	27,736	1,278,112	4.6	1,613	23,536	23,536	1.6	-22.0	-70.7
Marlborough	844	16,215	515,386	3.2	659	20,091	20,091	0.9	-21.9	-65.1
Methuen	1,638	15,667	1,006,509	6.4	1,463	17,777	17,777	2.3	-10.7	-58.6
Milton	1,130	16,505	628,470	3.8	888	16,307	16,307	1.4	-21.4	-63.0
New Bedford	3,314	34,791	1,520,213	4.4	2,726	27,642[a]	27,642[a]	3.6	-17.7	-35.4
Newton	2,215	73,480	1,130,149	1.5	1,766	79,877	79,877	0.7	-20.3	-47.5
Quincy	3,553	66,984	2,375,133	3.5	2,795	47,068	47,068	1.7	-21.3	-66.5
Revere	2,342	27,123	1,740,174	6.4	1,564	19,198	19,198	2.3	-33.2	-74.2
Salem	1,290	24,994	700,905	2.8	1,103	23,446	23,446	1.3	-14.5	-57.5
Shirley	195	1,373	106,698	7.8	149	1,256	1,256	3.1	-23.6	-63.3
Somerville	2,971	39,784	2,581,736	6.5	2,240	29,412[a]	29,412[a]	4.3	-24.6	-50.7
Cambridge	327	3,333	196,324	5.9	245	3,228	3,228	2.1	-25.1	-65.4
Wakefield	1,022	15,752	563,516	3.6	897	16,981	16,981	1.7	-12.2	-50.0
Ware	302	2,877	137,375	4.8	293	3,146	3,146	2.5	- 3.0	-43.3
Worcester	4,851	84,479	2,512,580	3.0	3,541	63,959	63,959	1.5	-27.0	-61.2

Source: Property Tax Bureau, Division of Local Services, State Department of Revenue.

* Cities and towns in which number and total abatements of clause 5 exemptions have been significantly reduced by revaluation.

** In thousands of dollars.

a Cities and towns not certified as assessing at 100% of full-value.

For example, between the 1981 and 1985 fiscal years, the declines in number of clause exemptions granted ranged from a low of three percent in the town of Ware to a high of 42 percent in the City of Cambridge. As for total amounts of tax dollars abated, the declines were more uniform, from a low of 35 percent in New Bedford, which had not yet been certified by the state as assessing at 100 percent to full value and thereby was temporarily able to maintain average clause exemptions at pre-revaluation levels, to a high of 78 percent in Cambridge, where revaluation had triggered sharp reductions in the numbers and amounts of clause exemptions.

According to the data in Table 6, clause exemptions as proportions of municipal property tax levies in fiscal year 1985 ranged from a low of three-tenths of one percent in Cambridge to a high of 4.3 percent in Somerville. State reimbursements further reduced the fiscal impacts - to under two-tenths of one percent in Cambridge and to 2.5 percent in Somerville.

In Boston, clause exemptions for fiscal year 1985 were equivalent to nine-tenths of one percent of the City's property tax levy. State reimbursements reduced the impact to one-half of one percent. For fiscal 1986, clause exemptions in Boston of $3.8 million, including over $800,000 in additional exemptions granted under provisions of Chapter 73 of the Acts of 1986, remained at nine-tenths of one percent of the City's property tax levy. Assessing officials allocated some of Boston's growth in its tax base to offset part of the increase in residential property tax bills sent to clause exemption beneficiaries. State reimbursements of $1.4 million to Boston in fiscal year 1987, covering about 37 percent of prior year clause exemptions, reduced the fiscal impact on the City in fiscal year 1986 to six-tenths of one percent of its property tax levy.

From another perspective, however, even the slightest erosion of the municipal property tax base becomes significant because of the restrictions on tax base expansion and tax levy increases incorporated in the property tax limitation statute (Proposition 2 1/2).[21] This fundamental bundle of legislation converted the property tax from its former status as the major open-ended local tax source that used to account for upwards of 60 percent of municipal revenues to a revenue source containing specific limitations on current tax yield and future tax increases. By the 1983 fiscal year, when most cities and towns in Massachusetts had complied with the requirements of the property classification/ assessment law and had implemented revaluation, Proposition 2 1/2 had reduced statewide property tax levies by about 12 percent below

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[21] Ch. 580, Acts of 1980 (Sections 21 and 21D, C, 59, G.L.), approved by vote of the people on November 4, 1981, as most recently amended by ch. 571, Acts of 1985.

the peak of $3.3 billion in fiscal year 1981. This overall reduction of $388 million in property tax revenue of cities and towns was in addition to the reduction in the annual yield of the motor vehicle excise (caused by application of the 2 1/2 percent limit to this tax) of about $145 million, for a total reduction of $533 million. Offsetting this erosion, however, was the substantial increase in local aid from the Commonwealth totalling over $700 million between the 1981 and 1983 fiscal years.

In Boston, Proposition 2 1/2 lowered property taxes from an all-time high of $519 million in fiscal year 1981 to $333 million in fiscal year 1984, a reduction of $186 million or 36 percent. Boston's share of higher local aid also offset these property tax losses.

Between the 1981 and 1987 fiscal years, local aid to Boston increased by about $240 million (from a total of $199 million in fiscal year 1981 to $439 million in fiscal year 1987). This ostensible improvement of 121 percent is less impressive when the local and figures are calculated in constant dollars, however. In constant dollars, the gain is only 63 percent.

Because of new construction and the adjustment of property assessments to full and fair market value as required by law, the City's property tax levy has climbed back to a total of $422 million in fiscal year 1987. If the 40 percent increase in inflation between the 1981 and 1987 fiscal years is factored in, the property tax levy for 1987 in constant dollars, is actually lower than the 1981 property tax levy measured in terms of constant dollars.

It should be noted, moreover, that the percentage increase in local aid distributions for the 1988 fiscal year will be below annual percentage increases over the past six years. State tax collections have been rising at half the rates of recent years. As a result, local aid must compete with other state demands and new state initiatives for a smaller aggregate amount of state revenues.

This recent experience indicates that while mandated clause exemptions are not as corrosive of municipal revenue resources as they used to be, cities and towns including Boston currently operate under severe restrictions in raising local revenues and projections of local aid for future years are no longer optimistic. Thus, any proposals that would dip into limited local tax resources must meet tests of municipal fiscal capacity in addition to tests of taxpayer equity and ability to pay.

VI. TRENDS IN RESIDENTIAL EXEMPTION BENEFITS TO OWNER-OCCUPANTS

Clause Exemption Average Benefits: Statewide Trends

Since 1983, average abatements granted under clause exemption categories containing the largest number of beneficiaries have become smaller throughout Massachusetts, mainly because of revaluation. As property assessments have been adjusted to 100 percent of market values, lower fixed tax dollar exemptions have replaced exemptions that had been larger because they were based on artifically low assessments and high tax rates. Thus, the average exemption to surviving spouses and certain elderly under Clauses 17 and 17C for the entire state was $185 in 1985, reasonably close to the statutory tax dollar maximum of $175 for this clause; the average exemption for veterans under Clause 22 had declined to $178, also close to the statutory maximum of $175; and the average exemption for elderly homeowners under clauses 41 and 41B was a shade below the statutory maximum of $500 by the 1985 fiscal year. (See Table 7.)

The larger differences in amount as between the actual averages and statutory maximum allowances after fiscal 1982 were due to the fact that not all cities and towns had been certified as assessing property at 100 percent of full value and clause exemptions in these municipalities were still being calculated on the basis of below-market value assessments and triple-digit tax rates.

Table 7

AVERAGE EXEMPTION BY CLAUSE IN MASSACHUSETTS,
FISCAL YEAR 1968 AND FISCAL YEAR 1977-85

Fiscal Year	Clauses 17 & 17C (surviving spouses minors, elderly)	Clause 22 (disabled & wounded vets.)	Clauses 41 & 41B (certain elderly)
1968	$189	$172	$352
1977	328	267	568
1978	332	272	504
1979	331	279	607
1980	319	271	596
1981	347	264	598
1982	324	220	565
1983	219	198	505
1984	199	183	505
1985	185	178	492

Source: Property Tax Bureau, Division of Local Services, State Department of Revenue.

Clause Exemption Benefits: City of Boston Trends

As shown in Table 8, until 1983 average annual exemptions by major clauses in Boston were substantially higher than the statewide averages for each clause. In 1983, as a stop-gap measure to avert drastic increases in the net tax bills of clause exemption beneficiaries because of revaluation, the City accepted optional state legislation enacted the prior year authorizing additional exemptions up to 60 percent of statutory amounts under all clauses provided that the net tax bill was not less than the net bill for the prior year.

In the 1984 and 1985 fiscal years, average clause exemptions in Boston declined to statutory tax dollar levels. For 1986, however, average clause exemptions in Boston incorporated additional abatements (up to 100 percent of statutory amounts). These were authorized in 1986 optional legislation and accepted by the City in June 1986. Moreover, unlike the optional legislation of 1982, cities and towns can adopt such additional exemptions in every subsequent year subject to restrictions that the net tax bill resulting from exemptions not amount to less than that of the prior year. These supplementary exemptions, averaging $73 to $85 in Boston above maximum statutory allowances, are also designed to cushion higher tax bills in 1986-87 for clause exemption beneficiaries caused by the most recent three-year revaluation.

Table 8

AVERAGE EXEMPTION BY CLAUSE IN BOSTON, FY 1979-86

Fiscal Year	Clauses 17 & 17C (surviving spouses minors, elderly)	Clause 22 (disabled & wounded vets.)	Clauses 41 & 41B (certain elderly)
1979	$492	$489	$809
1980	493	493	934
1981	537	543	1029
1982	562	456	870
1983	175*	175*	500*
1984	175	175	484
1985	175	175	489
1986	258**	248**	585**

Source: Assessing Department, City of Boston.

* Excluding additional exemptions up to 60% of normal statutory exemptions.

** Including additional exemptions up to 100% of normal statutory exemptions.

Local Options to Lower Residential Taxes

Not only has the Legislature amended the clause exemption statutes authorizing cities and towns options to increase the amounts of clause exemptions within certain limits, mainly to cushion the tax escalation effects of periodic revaluations, but the state's classification statute includes provisions that are available to cities and towns for curbing increases in residential taxes, including the tax obligations of homeowners eligible for clause exemptions. These provisions are (1) the minimum residential factor, the selection of which insures the lowest possible residential tax rate; and (2) the residential exemption, a homestead allowance for the principal residences of homeowners equal up to 10 percent of the average value of all residential property. Moreover, the acceptance of such provisions by a city or town does not reduce the amounts of clause exemptions due to beneficiaries. The City of Boston has taken full advantage of both property tax distribution options in order to minimize the tax load on owner-occupied housing.

Under classification, cities and towns must decide whether to tax the five different categories of property at the same or different rates. Thus, municipalities certified as assessing property tax at full and fair cash value may, within certain legal limits, elect to shift the tax burden among the major clauses of property by adopting different tax rates for different classes. To make certain that the shift away from the residential class is not so great as to create disproportionate burdens for the other classes, however, residential tax rates cannot be lowered by more than 35 percent. Classification does not change the total property tax levy. The decision of a city or town to adopt multiple tax rates merely determines the proportion of the tax levy to be borne by each class of property.

Shifting the tax burden is implemented by adopting the minimum residential factor established by the state Commissioner of Revenue, or a higher factor if desired, through vote of the local legislative and executive branches. Cities and towns may also apply a 25 percent discount to the open space class, thereby shifting some of the tax burden from open space to the residential class by increasing the residential rate.

Boston is one of 79 cities and towns, of 339 municipalities certified by the State Department of Revenue as assessing at full and fair cash value in fiscal year 1985, that have adopted multiple tax rates, including residential tax rates that are lower than those applicable to commercial, industrial and personal property. (See Appendix B) The widest gaps between the residential and non-residential classes are in the six cities and towns with minimum residential factors of 65 percent, the lowest limit allowed for shifting the property tax burden from the residential to other classes.

In adopting the minimum residential factor of 65 percent in each year since 1983, the City of Boston has consistently reduced the proportion of the annual property tax levy borne by residential property and open space to less than one-third of the total. Thus, as shown below, Boston's residential tax rates between 1983 and 1987 have been almost one-half the tax rates applied to other classes of property.

Fiscal Year	Residential/Open Space Tax Rate	Comm./Ind./Personal Prop. Tax Rate
1983	$21.47	$40.30
1984	17.10	32.54
1985	16.42	31.36
1986	13.46	25.85
1987	12.02	23.55

Of the 17 cities and towns in Massachusetts legally entitled to apply the minimum residential factor of 65 percent, only four cities (including Boston) and three towns have taken full advantage of this opportunity to maximize the shift of the property tax burden in these municipalities to other classes of property.

Even fewer cities and towns (Boston and seven other municipalities) have exercised their available option to further lighten the burden of property taxes on owners of residential property by adopting so-called residential exemptions. (See details in Table 9.) The amount of this exemption, calculated annually, may be up to 10 percent of the average assessed valuations of <u>all</u> residential properties. However, only the owners of

Table 9

RESIDENTIAL EXEMPTION DATA, FY 1985-87

City/Town	Fiscal Year	(A.V.) Residential Exemption	Residential Tax Rate ($1,000 of A.V.)	Residential Exemption in Tax Dollars	Est. No. of Residential Exemptions	Total Est. Taxes of Residential Exemptions
Boston	1985	$ 7,287	$16.42	$119.65	51,321*	$6,140,558*
	1986	9,753	13.46	131.27	59,404	7,797,963
	1987	11,603	12.02	139.47	60,859	8,488,005
Brookline	1985	16,000	22.88	366.08	8,778	3,213,450
	1986	15,100	23.52	355.15	9,157	3,231,398
	1987	14,900	23.97	357.15	8,930	3,189,350
Cambridge	1986	14,571	14.29	208.22	9,200	1,915,624
	1987	**	**	**	**	**
Nantucket	1985	12,004	7.17	86.07	1,150	98,980
	1986	20,363	4.03	82.06	1,367	112,176
	1987	**	**	**	**	**
Somerset	1985	5,400	18.00	97.20	5,200	505,440
	1986	6,300	16.40	103.32	5,250	542,430
	1987	7,300	14.95	109.13	5,300	578,389
Waltham	1986	11,500	12.71	146.16	8,800	1,286,208
	1987	11,400	12.90	147.06	8,800	1,294,128
Watertown	1985	8,000	22.00	176.00	6,378	1,122,528
	1986	14,500	14.86	215.47	6,370	1,372,544
	1987	14,500	14.66	212.57	6,367	1,353,433
Weymouth	1985	5,800	24.97	144.83	12,666	1,834,417
	1986	5,900	25.48	150.33	12,772	1,920,015
	1987	**	**	**	**	**

Source: City and town assessors.

* Actual numbers.

** Tax rates not yet certified by State Commissioner of Revenue; revaluations incomplete.

principal residences qualify for such exemptions. Recipients of clause exemptions are also entitled to residential exemptions. The reluctance of cities and towns to adopt the residential exemption option is due to the fact that it would shift the residential tax burden from lower-valued housing to more expensive housing and from housing used as primary residences to rental housing and to second homes used for seasonal or investment purposes.

In granting residential exemptions of $139.47 per taxpayer to an estimated 60,859 eligible owners in fiscal year 1987, the City of Boston shifted about $8.5 million in property taxes. These exemptions are being reallocated from owners of primary residences to all other owners of residential property. Thus, an estimated 70 percent of owner-occupied residential properties containing one to six dwelling units are benefitting.

For an eligible taxpayer in Boston whose principal residence was assessed at $40,000 in fiscal year 1987, the tax bill is $480.80. This year's residential exemption of $139.47 reduces the bill to $341.33. Thus, the residential exemption means an effective tax reduction for this owner of 29 percent. For the taxpayer whose home was assessed at $200,000 and whose tax bill is $2,404, however, the residential exemption is worth less than six percent of the tax bill. It should also be noted that the residential exemption in Boston has been gradually increasing at the same time that the effective residential tax rate has been declining. These favorable parallel trends have blunted to some extent the impact on residential tax bills of higher assessed valuations.

<u>Impacts of Proposition 2 1/2, Classification and Residential/Clause Exemption Benefits on Residential Tax Bills in Boston</u>

Since fiscal year 1983, the state Department of Revenue has certified that City of Boston assessors have been assessing at 100 percent of full and fair cash value, as required by law. Certification has made possible the adoption by the City Council and the Mayor of the minimum residential factor of 65 percent, thereby guaranteeing the maximum shift of property taxes away from residential taxpayers to other classes of property and of the maximum residential exemption of 10 percent under Section 5C, thereby granting to less expensive homes homestead exemptions that are higher percentages of their assessments than more expensive homes. Moreover, the City Council and Mayor also accepted optional legislation in 1982 and 1986 to liberalize the statutory amount of clause exemptions available to homeowners qualifying as surviving spouses, veterans, blind persons and elderly taxpayers 70 years of age or older. For residential taxpayers (1) tax limitation at 2 1/2 percent of market value, (2) a classified residential tax rate of $12.02 per $1,000 of A.V. for FY1987, almost half of the effective tax rate applicable to commercial and industrial property, and (3) a residential exemption of $11,603 for FY1987, equal to 10 percent of the average value of all residential property in the city, have been particularly beneficial for owner-occupants of primary residences that are of modest value. As shown in Table 10, these policies have offset some of the adverse tax effects of periodic revaluations at full market value and have lessened the concerns of elderly lower-income homeowners eligible for clause exemptions. Clause exemption beneficiaries in Boston had seen their taxes reduced in 1981 by as much as two-thirds. For over 1,400 taxpayers receiving clause exemptions, mainly elderly under Clause 41, clause exemptions had, in fact, reduced their tax bills in that year to "zero net".

According to the data in Table 11, the average <u>net</u> tax of elderly single-family homeowners in Boston granted clause 41B exemptions in fiscal year 1986 was $313 below the average <u>net</u> tax in the 1981 fiscal year, despite the deep reductions in clause abatement allowances because of revaluations effective in 1983 and 1986. The average <u>net</u> tax in 1986 was 35 percent of the average gross tax compared with 41 percent of the tax in 1981.

For elderly owners of two-family and three-family homes enjoying elderly exemptions, the results were almost as beneficial as for single-family homeowners. Such owners of two-family homes paid an average <u>net</u> tax bill for the 1986 fiscal year that was $124 less than for the 1981 fiscal year. The average <u>net</u> tax for this group in fiscal year 1986 was 40 percent of the average gross tax compared with 37 percent in fiscal year 1981. Elderly owners of three-family houses paid an average <u>net</u> tax bill for the 1986

Table 10

AVERAGE NET TAX OF ELDERLY EXEMPTION RECIPIENTS (CLAUSE 41) IN CITY OF BOSTON BY WARD, FY 1981, 1985 AND 1986

Ward	Average Net Tax FY 1981	Average Net Tax FY 1985*	Average Net Tax FY 1986**
1	$ 309.96	$ 220.46	$ 204.09
2	137.76	518.59	481.74
3	1,211.96	875.93	990.84
4	877.48	1,214.92	1,913.80
5	1,469.71	1,080.34	1,620.09
6	261.14	257.18	229.67
7	291.42	233.45	244.01
8	79.85	23.55	79.02
9	565.17	360.25	618.61
10	495.08	172.92	210.66
11	398.71	219.30	215.42
12	387.33	93.16	107.44
13	340.00	189.69	167.02
14	503.42	73.46	55.61
15	405.36	94.19	132.54
16	503.42	370.23	309.21
17	510.80	273.59	226.34
18	311.09	272.83	237.53
19	661.82	553.87	512.26
20	584.06	586.91	520.84
21	1,079.68	876.67	857.34
22	731.60	750.44	699.56
City	$ 487.27	$ 401.00	$ 509.18

Source: Assessing Department, City of Boston.

* After deduction of $119.65 for residential exemption under Section 5C.

** After deduction of $131.27 for residential exemption under Section 5C. Clause 5 abatements for FY 1986 include increased exemptions up to 100% of statutory amounts but subject to limitations that taxes after all exemptions not be below those of prior year and that taxes after all exemptions do not reduce amount below 10% of assessed valuation.

fiscal year that was $223 less than for the 1981 fiscal year. For this latter group, the average <u>net</u> tax in fiscal 1986 was 34 percent of the average gross tax compared with 36 percent in fiscal 1981. Moreover, under the provisions of Chapter 73 of the Acts of 1986, surviving spouses and certain elderly owners of two- and three-family homes may still qualify for clause exemption benefits under a new clause 17D while owners 70 years of age and over may still qualify under a new Clause 41C even if the values of up to two income-producing rental units brings the gross value of their estates above the $40,000 legal maximum.

That lower residential tax rates and residential exemptions after Proposition 2 1/2 have succeeded in averting substantial increases in property tax bills in the face of reduced clause exemptions and much higher assessed valuations is verified by the ward-by-ward analysis of average net taxes paid by elderly property owners receiving Clause 41 exemptions. (Table 11) What is particularly striking is that in those wards where elderly homeowners are typically of low or moderate income, the average tax bills for fiscal 1986, after deducting residential exemptions and clause exemptions, were below the average tax bills in the pre-Proposition 2 1/2 year of 1981. In only three wards (wards 2, 4 and 5) were the average net tax bills for 1986 higher than those of 1981, and these were wards where revaluation dramatically raised assessed valuations.

Table 11

AVERAGE NET TAX PAID BY ELDERLY HOMEOWNERS
QUALIFYING FOR CLAUSE 41B EXEMPTIONS,
FISCAL YEARS 1981, 1985 & 1986

		R1*				R2			
Fiscal Year	Residential Tax Rate (per $1,000 of A.V)	Average Gross Tax	Residential Exemption	Average Clause 41B Exemption	Average Net Tax	Average Gross Tax	Residential Exemption	Average Clause 41B Exemption	Average Net Tax
1981	$272.70**	$1,733	-	$1,029	$704	$1,636	-	$1,029	$607
1985	$ 16.42	$1,038	120	$ 489	$609	$1,100	120	$ 489	$491
1986	$ 13.46	$1,107	131	$ 585	$391	$1,199	131	$ 585	$483

R3

Fiscal Year	Residential Tax Rate (per $1,000 of A.V)	Average Gross Tax	Residential Exemption	Average Clause 41B Exemption	Average Net Tax
1981	$272.70**	$1,686	-	$1,029	$607
1985	$ 16.42	$ 935	120	$ 489	$326
1986	$ 13.46	$1,090	131	$ 585	$374

Source: Boston Assessing Department.

Note: For 1985 the residential exemption deduction was $119.65; for 1986 it was $131.27.

* Excluding condomimiums.
** Full-value tax rate estimated at $99.

R1 = One-family
R2 = Two-family
R3 = Three-family

As for the 1987 fiscal year, the increase of 8.6 percent in the average gross tax of single-family homes (from $1,107 to $1,202), the increase of 10.3 percent in the average gross tax of two-family homes (from $1,119 to $1,323), and the increase of 11.0 percent (from $1,090 to $1,210) in the average gross tax of three-family homes will be somewhat offset by a higher residential exemption tax allowance and by higher clause exemptions. Since City assessors are authorized under 1986 optional legislation to increase all clause exemptions by up to 100 percent (as long as the net taxes are not less than in the preceding year and as long as such increases do not reduce the taxable valuations below 10 percent of full cash value), clause exemptions granted for fiscal year 1987 are likely to be higher on average than in 1986. This should assure eligible widows and widowers, blind persons, disabled veterans and the elderly of greater offsets against higher tax bills caused by the most recent revaluation. In June through September 1986 City assessors granted $811,000 in additional clause exemptions.

A special analysis of Boston's residential tax bills for the 1986 and 1987 fiscal years shows that a lower residential tax rate, a slightly higher residential exemption and higher clause exemptions for 1987 have counteracted to a considerable extent increased assessments and higher tax bills due to revaluation for houses of low to moderate value. For over 50 percent of all residential properties containing one to six dwelling units in Boston, the net tax bill (after deduction of residential exemptions and clause exemptions) was under $1,000. In the prior fiscal year, the net tax bill for over 60 percent of such properties had been under $1,000. Table 12 compares the percentage of properties with net tax bills under $1,000 in 1986 and 1987 for each class of residential properties excluding condominiums, apartment houses and mixed-use parcels.

Table 12

PERCENT OF RESIDENTIAL PROPERTIES WITH NET TAX BILLS UNDER $1,000* IN BOSTON BY CLASS, FY 1986 AND FY 1987

Residential Class	FY 1986	FY 1987
R1	67.5%	59.5%
R2	54.5%	42.4%
R3	65.0%	53.4%
R4	8.4%	5.6%
Total	60.2%	50.5%

Source: Assessing Department, City of Boston.

* After deducting residential exemptions and clause exemptions.

According to the ward-by-ward breakdown of net tax bills under $1,000 (after deducting clause exemptions and residential exemptions),in two-thirds of Boston's wards, 80 percent or more of the net tax bills on single-family houses for FY 1987 are under $1,000, indicating little change over the prior year. For residential properties with two dwelling units or three- to six-dwelling units, revaluation has reduced the percentages of net tax bills under $1,000 for FY 1987 as compared with the prior year, reflecting higher market appeciation rates for income-producing structures. Nevertheless, in 12 of the City's 22 wards, 50 percent or more of the net tax bills of two-family houses are under $1,000. In half of the City's wards, 40 percent or more of the net tax bills of properties with three- to six-dwelling units are under $1,000. (See Appendices C and D for data and percentages of residential property with net tax bills under $1,000 by ward and clause for the current and prior fiscal years.)

Finally, the number of clause exemption beneficiaries is likely to increase in Boston in fiscal year 1987 because of less restrictive eligibility requirements, income limits and limits on the value of the whole estate applicable to the new Clauses 17D and 41C. Furthermore, the Legislature authorized an increase from $10 million to $15 million in reimbursements for exemptions to elderly homeowners to cover an anticipated higher number of qualifying eligibles.

VII. TAX DEFERRAL PROGRAM

Property Tax Deferral in Massachusetts: An Optional Approach to Tax Forgiveness

In recognition of the fact that some elderly persons might prefer to lighten their property tax burdens in their twilight years by deferring tax payments until their homes are transferred by bequest, gift or sale, the Massachusetts Legislature has authorized assessors of cities and towns since 1974 to enter into tax deferral and recovery agreements with persons of age 65 and over and their surviving spouses who comply with the following restrictions: residence in Massachusetts for the preceding ten years; ownership and occupancy of such home or other real property as domicile in the state for at least five years, and gross receipts not in excess of $20,000 during the preceding year.

Under this option, payment of taxes may be deferred every year through approval by local assessors of applications for exemption for all or part of the taxes on such property. Each tax deferral and recovery agreement must be recorded at the County Registry of Deeds and creates a lien on the real estate.

Taxes may be deferred until accumulated unpaid taxes plus interest (annual interest of 8 percent) reach one-half the full and fair cash value of the property. At that point, tax deferral ceases and the unpaid taxes plus accrued interest may remain unpaid until the taxpayer's death. At that time, the tax deferral agreement may be continued by the surviving spouse or the taxes may be paid by the heir of the estate. Deferred taxes under this arrangement may be repayed at any time; if the property is sold before the death of the taxpayer, the deferred taxes must be paid from the proceeds of the sale in order to release the lien. A person is entitled to participate in this tax arrangement and receive other clause exemptions.

Tax Deferral Program Participation

Despite the conclusion of a noted economist that tax deferral eases the hardships imposed on the elderly more fully than the circuit-breaker because it provides complete relief of tax liability[22] and the hope that this innovative approach to exemption would encourage widespread participation, the 10-year record of tax deferral in Massachusetts has been disappointing. From a beginning of 164 agreements involving $195,000 in taxes in the 1975 fiscal year, tax deferral was accepted by only 724 qualifying taxpayers throughout the Commonwealth in fiscal 1985. Almost three-fourths of the total of $1,019,000 in deferred taxes have been granted in towns, mainly suburban communities of Boston. The City of Boston concluded only four tax deferral agreements totalling $5,280 in the 1986 fiscal year, for an average annual postponement of $1,320 in taxes.

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[22] Henry J. Aaron, Who Pays the Property Taxes? A New View, 1975, Brookings Institution, Washington, DC, p. 77.

Tax Deferral Experience in the States

Sixteen states, including Massachusetts, plus the District of Columbia, were authorizing property tax deferral programs in 1985 for homeowner taxpayers. Except for Washington, DC, Florida and Iowa, participation is restricted to the elderly. Seven of the tax deferral programs are either authorized by the states as local options or are local programs initiated under the authorization of state law.

Income eligibility for tax deferral programs vary considerably. In six of the 17 states, participation is not limited by income. It should be noted, however, that in three of these states, tax deferral is locally-financed. Maximum limits range from a low of $8,000 (for married persons) in Utah to a high of $34,000 in California (for participants who first deferred taxes prior to 1984). With few exceptions, the income limits do not exceed $20,000.

Most states with deferral programs charge below-market interest rates on the amount of tax deferred. Interest rates range from zero percent in Alaska and Michigan to market rates in California, the District of Columbia and Florida. The most common interest rate is 6 percent.

Of the 17 tax deferral states, 10 impose limits on the amount of tax deferrables. In some cases, the limits are percentages of assessed value. In other cases, as in Massachusetts, the limits are percentages of appraised value or owner's equity. In the District of Columbia, deferrable taxes may not exceed 100 percent of the previous year's tax bill. Only in Florida, where deferrable taxes may not exceed 5 percent of an applicant's household income, is a circuit-breaker applied as the maximum amount of deferred taxes.

Of the 17 residential tax deferral programs, only six (Alaska, California, Colorado, Illinois, Oregon and Washington) are state financed. State financing provides protection against increases in local property tax rates because of revenue losses due to deferral. When participation in tax deferral is low, there is little concern over such losses. As participation increases, however, the loss of tax revenue becomes a more urgent issue. (See Table 13 for a state-by-state summary of tax deferral programs.)

According to a recent study, relatively low participation in current tax deferral programs is due to several factors.

1. Elderly homeowners are reluctant to have liens placed on their homes.

2. There has been inadequate publicization of program availability.

3. Income restrictions and relatively high interest rates discourage applications.

4. The threshhold of property taxes is not high enough to encourage large-scale participation.

This same study noted, however, that even in Oregon where property taxes were high, where there were no income restrictions prior to 1984 and where the interest rates were

Table 13

MAJOR FEATURES OF PROPERTY TAX DEFERRAL PROGRAMS: 1985[a]

State	Minimum Age	Maximum Income	Amount of Tax Deferrable	Interest Rate
Alaska[b]	65	None	All special assessments	0%
California[c]	62	$34,000/$24,000	All	Yield of state investments over Comparable time period
Colorado	65	None	All	8%
District of Columbia	No	$20,000	Taxes in excess of 110 percent of previous year's tax bill	Average U.S. T-bill rate in previous year
Florida	No	None	Portion of tax that exceeds 5 percent of applicant's household income. Local program	Average yield on Florida state pension fund
Georgia[d]	62	$15,000	Taxes levied on first $50,000 of homestead's assessed value	Locally determined
Illinois	65	$10,000	Up to 80 pecent of taxpayer's equity interest in property	6%
Iowa[e]	No	None	All. Local program.	6%
Massachusetts	65	$20,000	Up to 50 percent of owner's proportional share of full cash value. Local program.	8%
Michigan	65	$10,000	Summer property taxes may be deferred until February 15 of the following year without penalty	0%
New Hampshire	65	None	Up to 85 percent of assessed value. Local program	5%
Oregon[f]	62	$17,500	All	6%
Tennessee	65	$12,000	Taxes on first $60,000 of appraised value, or on first $50,000 of appraised value in excess of 1979 value. Local option	10%
Texas	65	None	All	6% plus one-time 8% penalty
Utah	65	$7,500 (single) $8,000 (married)	All	6%
Virginia	65	$18,000/$22,000	All. Local option	Locally determined
Washington	61	$15,000	Up to 80 percent of owner's equity	8%

Notes:

[a] Kentucky and Maryland have property tax deferral programs that are not included in this table because these programs are based on land-zoning changes. This table highlights only those programs designed to help people for whom property taxes represent a substantial burden. Generally, these programs are limited to senior citizens. In addition to the programs listed, Wisconsin passed legislation in 1981 authorizing a deferral option for senior citizens but never implemented a program because the state was unable to receive bond funds to finance one.

[b] Alaska: Senior citizens do not pay any property taxes in Alaska. They are responsible for special assessments but may defer them.

[c] California: Persons with incomes up to $24,000 may defer property taxes, if first participating in 1984. Persons who deferred property taxes prior to 1984 still may defer taxes if their incomes do not exceed $34,000.

[d] Georgia: The deferral amount is arranged locally with a lending institution. The lending institution determines the rate of interest on the deferred amount.

[e] Iowa: This is a local program. Counties are mandated to allow all recipients of Supplemental Security Income to defer property taxes. At their option, counties also may allow the aged or infirm to defer taxes.

[f] Oregon: Prior to 1984, there was no maximum income limitation for deferral participation. Persons deferring property taxes prior to 1984 have been "grandfathered in" under the new provision and are not required to have incomes under $17,500 to be eligible.

Source: National Conference of State Legislatures, State Tax Policy & Senior Citizen: A Legislator's Guide, Denver, CO, 1985.

relatively low, only an estimated six percent of the eligible population elected this option in 1983.[23]

Tax Deferral Program Design Issues

The following issues have been identified as critical in designing a tax deferral program:

1. The interest rate to be charged on the amount of tax deferral.

2. The inclusion of income limits to restrict participation to taxpayers in need of such assistance.

3. Whether the state should participate in financing the lost tax revenues and state attitudes toward increased costs as participation rises.

4. The inclusion of a maximum on the amount of taxes that may be deferred in relation to amount of taxpayer equity.

In summary, tax deferral benefits the elderly in easing their constant worry over rising property taxes and benefits the municipality or state (whichever finances the program) since there will be eventual reimbursement of the tax relief. Any analysis of the real costs of the tax deferral option, however, must include administrative expenses and the subsidy on the interest rate charged to the taxpayer.[24]

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[23] Mitchell A. Zahn and Steven D. Gold, State Tax Policy and Senior Citizens: A Legislator's Guide, April 1985, Nat. Conf. of State Legislatures, Denver, CO, p. 94-101.

[24] From Zahn and Gold, State Tax Policy and Senior Citizens, op. cit.

Local Proposals

There seems to be growing interest among some City of Boston officials and certain members of the Massachusetts Legislature in encouraging greater use of tax deferral as a strategy for providing property tax relief. For example, a comprehensive housing plan recently floated by City Councilor David Scondras (District 8 of Boston) includes a "homeowner protection" component with tax deferral for all low-income taxpayers as its centerpiece. The brief summary of this homeowner tax relief program describes it as authorizing taxpayers with $10,000 or less in income to defer their property taxes if their taxes are 10 percent or more of income. It is not clear whether the Scondas proposal is to be drafted as an amendment of Clause 41A, to be available as an option by cities and towns with continuing application of all provisions in Clause 41A except for the new age, income and tax incidence criteria and tax recovery provisions, or if the proposal is to be a home rule petition entirely separate from Clause 41A, and applicable only to the City of Boston.

If the Legislature authorized an amendment of Clause 41A program based on essentials of the Scondras proposal, an estimated 10 percent of the 61,000 residential taxpayers occupying their homes as primary residences would be eligible for participation. Assuming an optimistic participation rate of 20 percent, (see Table 14 for data on owner-occupied housing in

Table 14

OWNER-OCCUPIED HOUSING BY INCOME CLASS*
IN BOSTON, 1985

<u>No. of Owner-Occupied Households in Sample</u>

Income	Single-Family	2-4 Units	5+ Units	Condos	Total	
$5,000	4	6	-	-	10	2.9%
$5,000-$7,999	14	10	-	1	25	7.2%
$8,000-$9,999	5	12	-	-	17	4.9%
$10,000-$14,999	14	13	-	2	29	8.4%
$15,000-$19,999	12	13	1	4	30	8.7%
$20,000+	124	61	17	33	235	67.9%
TOTALS	173	115	18	40	346	100.0%

Source: 1985 Household Survey conducted by Center for Survey Research, University of Massachusetts at Boston for BRA and NDEA (now PFD). Total number of owner and rented households in sample was 1,385, including 1,039 renters and 346 owners.

* Income data for 1984.

Boston by income class)[25], far above the best state participation experience, and an average property tax bill of $1,000 for the 1,200 participating eligibles, the estimated cost to Boston would be about $1.2 million.

A second local proposal for tax deferral, initiated by City Council President Bruce Bolling as a home rule petition, is one element of a two-part property tax relief program that includes an expanded homestead exemption program. Unlike Clause 41A, which limits participation to persons 65 years old or older and their surviving spouses, there are no age criteria in the Bolling proposal. Maximum gross receipts of $20,000 for applicants under Clause 41A is increased to $25,000 for married taxpayers. Although the proposal includes City recovery as part of the deferral agreement, unlike Clause 41A, it omits the lien on property and the recording thereof with the County Register of Deeds as mechanisms to insure recovery.

The Bolling proposal raises other substantive questions:

1. Clause 41A applies only to elderly, thereby assuming reasonable time limits on deferral participation, but this proposal is open-ended as to the maximum period of deferral.

2. Unlike the provisions of Clause 41A, which requires five years of owner-occupancy and domicile in the state, this proposal omits similar restrictions as to residence eligibility.

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25 The 10% estimate is based on data in Table 14 indicating that 15% of all homeowners in Boston have incomes of $10,000 or less. The reduction from 15 percent to 10 percent is based on the assumption that two-thirds of the homeowners in the former percentage have property taxes that are below 10 percent of their income.

3. This proposal is open-ended as to the total amount of deferrable taxes plus interest that can be accumulated as compared with Clause 41A which limits the amount to 50% or less of the owner's cash value equity, and which extends this limitation to the agreement with surviving spouses.

4. This proposal incorporates a fixed rate of 8 percent, similar to that of Clause 41A, which makes little sense in light of current interest rates and fluctuating interest trends.

According to most recent data on homeowner income in Boston (for 1984), about 32 percent of all homeowners in this city earned under $20,000. Thus, at least one-third of the 61,000 taxpayers occupying their homes as primary residences or a potential universe of 20,000 taxpayers would be eligible for tax deferral under the Bolling proposal. (This is a minimum estimate since the proposal increases the maximum income limit to $25,000 in the case of married applicants.) Since no lien is included in the provisions of the proposal, a more optimistic estimate of one-third participation is used, equivalent to some 6,000 taxpayers, higher than the estimate in the Scondras proposal. Based on an average property tax bill of $1,000 for participating eligibles, this proposal could mean tax losses of about $6 million a year. It should be noted that the Bolling proposal is much more expensive than the Scondras proposal because its income limit is more than double the Scondras limit and because the Bolling petition does not base tax deferral eligibility on the relationship between tax bills and income.

Finally, the Chairman of the Senate Committee on Taxation, John W. Olver, has submitted a property tax relief bill consisting of three components for consideration by the Legislature in 1987, one of which is a local option provision extending eligibility in tax deferral under Clause 41A to all lower-income owner-occupants of residential property.[26]

Except for liberalization of the eligibility criterion on income, increasing gross receipts for married applicants to $25,000 and eliminating the residency/domicile requirements for owners and surviving spouses, the Olver proposal retains the carefully-crafted language of Clause 41A on applicant procedure and terms of the tax deferral agreements required of local assessors, including limits on the total amount of deferrable taxes and lien requirements.

Since the tax deferral provisions in the Olver proposal include the lien language, participation is not likely to be as heavy as under the Bolling proposal. Thus, if an estimated 10-20 percent of the 20,000 or more eligibles applied for tax deferral relief, the cost of the City of Boston in accepting this option would range between $2 million and $4 million a year. No estimate can be made of the cumulative cost of this tax deferral proposal because of the uncertainties of how long individual taxpayers would take advantage of it under the 50 percent equity of value limitation on amount of deferred taxes and interest.

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[26] This bill is a redraft of S.1542 filed during the 1986 session.

VIII. COMPARATIVE ANALYSIS OF STATE HOMESTEAD EXEMPTIONS AND CIRCUIT-BREAKERS

Property Tax Relief: A Growing Issue

As complaints about escalating residential property taxes mounted during the seventies and eighties, state legislatures responded with varying measures of property tax relief, many of which emphasized easing the tax burden of the elderly. The property tax had long been a source of taxpayer dissatisfation, major criticisms dwelling on regressivity, a weak correlation to ability to pay and a poor record of administration, mainly in valuation procedures. More traditional complaints have taken on new urgency with the dramatic increases in the market values of residential property over the past decade.

Broad measures by states to provide property tax relief have generally been carried out through major programs of tax reform, programs that have included limits on local taxes or spending, increases in state aid to local governments, and local revenue diversification through authorization of local nonproperty taxes and user charges. These comprehensive property tax relief initiatives have also included among other components new or modified homestead exemption and circuit-breaker programs, renter credits and deductions and tax deferral arrangements. Table 15 provides a state-by-state overview of such property tax relief mechanisms.

Table 15

PROPERTY TAX RELIEF MECHANISMS EMPLOYED BY STATES: 1985

State	Homestead Exemption or Credit		Circuit-breaker	Renter Credit	Deferral
	All Ages	Seniors Only			
New England					
Connecticut			S		
Maine			S		
Massachusetts	X	X		A	S
New Hampshire		X			S
Rhode Island			S		
Vermont			A		
Mid Atlantic					
Delaware		X			
District of Columbia	X		A		A
Maryland			A		
New Jersey	X	X		A[a]	
New York		X	A		
Pennsylvania			S		
Great Lakes					
Illinois	X	X	S		S
Indiana	X	X		A	
Michigan			A		S
Ohio	X		S		
Wisconsin[b]	X		A	A	
Plains					
Iowa	X		S		A
Kansas			A		
Minnesota	X		A		
Missouri			S		
Nebraska[c]	X	X	S		
North Dakota			S		
South Dakota			S		
Southeast					
Alabama	X	X			
Arkansas			S		
Florida	X	X			A
Georgia	X	X			S
Kentucky		X			
Louisiana	X				
Mississippi	X	X			
North Carolina		X			
South Carolina		X			
Tennessee		X			S
Virginia		X			S
West Virginia		X	S		
Southwest					
Arizona	X		S	A	
New Mexico	X		S		
Oklahoma	X		S		
Texas	X	X			S
Rocky Mountain					
Colorado		X	S		S
Idaho	X		S		
Montana		X	S		
Utah		X	S		S
Wyoming	X	X			
Far West					
Alaska	X	X		S	S[d]
California	X		S	A	S
Hawaii	X	X		A	
Nevada			S		
Oregon	X		A	A	S
Washington		X			S

Source: Surveyed by National Conference of State Legislatures (NCSL); Table IV.1, NCSL, State Tax Policy and Senior Citizens, April 1985, p. 73-74.

X = Denotes homestead exemption or credit program.

S = Program is for senior citizens only

A = Program includes persons of all ages.

[a] New Jersey: Senior citizens receive a greater renter credit benefit than do persons under age 65

[b] Wisconsin: The Wisconsin circuitbreaker is known as the "Homestead Exemption" program. The property tax renter credit, which reimburses taxpayers 10 percent of property taxes paid (or the property tax equivalent for renters) is the state's homestead and renter credit program. In addition, Wisconsin passed legislation in 1981 authorizing a property tax deferral program for senior citizens, but never implemented it because revenue bond financing was not feasible.

[c] Nebraska: All homeowners in Nebraska receive a homestead exemption. In addition, senior citizens receive an additional exemption that varies according to income, much like a circuitbreaker.

[d] Alaska: Senior citizens may defer special assessments. They are exempt from all property taxes.

State Homestead Exemption Programs

Homestead exemptions, mechanisms that reduce a homeowner's property tax bill by reducing the taxable property value and thereby result in a tax on a lesser property value, and homestead credits, mechanisms that directly reduce a tax bill by a certain amount, are currently available in 37 states and the District of Columbia. As indicated in Table 16, participation is restricted to the elderly in 13 states; 13 states grant higher benefits to the elderly than to other recipients; 11 states and the District of Columbia do not impose any age limits. Table 16 provides brief descriptions of each state's homestead exemption program and identifies the financing jurisdiction. (Excluded are states with exemptions restricted to special groups such as veterans and the disabled.)

Homesteader eligibility requirements, exemption benefits, revenue losses and state reimbursements where homestead programs are financed locally vary considerably among the states. Moreover, because of wide differences in the ratios of property tax assessment to market value, effective residential tax rates, eligibility criteria and restrictions on age, income, assets and liability, it is virtually impossible to compare state benefits and costs. Moreover, in many states, homestead exemption programs are reserved for limited taxpayer groups, such as the elderly, widows, veterans and the disabled.

Circuit-breaker programs are of wider scope and provide varying

Table 16

HOMESTEAD EXEMPTION & CREDIT PROGRAMS: 1985

State	Description	Financing
No age restrictions (11 states and the District of Columbia)		
Arizona	Credit for 56 percent of school property taxes.	State
California	Credit for tax on $7,000 of assessed valuation.	State
District of Columbia	$9,000 exemption.	Local
Idaho	Exemption of $50,000 or half of assessed valuation, whichever is lower.	Local
Iowa	Credit for tax on $4,850 of assessed valuation.	State
Louisiana	Credit for tax on $7,500 of assessed valuation (equivalent to $75,000).	Mostly State
Minnesota	54 percent credit for tax on first $67,000 of market value up to $65,000 maximum.	State
New Mexico	$200 exemption (equivalent to $600).	Local
Ohio	Credit for 2 1/2 percent of tax.	State
Oklahoma	$1,000 exemption (equivalent to $8,333); additional exemption if income under $8,500.	Mostly Local
Oregon	Credit for 30 percent of tax (maximum $170 in 1984, higher in previous years).	State
Wisconsin	Credit for 10 percent of tax.	State
Senior citizens receive a larger exemption or credit than others (13 states).		
Alabama[1]	**All households:** exemptions of varying amounts by different categories of local government.	Local
	Seniors: complete exemption from state tax and additional exemption if income under $12,000.	Local
Alaska	**All households:** varying amounts, at option of municipality.	Local
	Seniors: complete exemption.	State
Florida	**All households:** $25,000 exemption.	Local
	Seniors: additional $10,000 exemption from taxes levied by counties, cities and special districts.	Local

(continued on next page)

State	Description	Financing
Georgia	All households: $2,000 exemption (equivalent to $5,000).	Local
	Seniors: $4,000 exemption (equivalent to $10,000) for general property taxes and $10,000 exemption (equivalent to $25,000) for school taxes if income under $8,000.	Local
Hawaii	All households: $20,000 exemption.	Local
	Seniors: $40,000 exemption if age 60 to 70; $50,000 if age 70 or older.	Local
Illinois	All households: exemption up to $3,500 (equivalent to $21,000 in Cook County and $10,500 in other counties) for increase in assessed valuation since 1977.	Local
Indiana	All households: credit for 4 percent of property tax liability (effective in 1986)	State
	Seniors: $1,000 exemption (equivalent to $3,000) if income under $10,000 and assessed valuation under $11,000.	Local
Massachusetts	All households: Local option exemption up to 10 percent of average assessed value in locality.	Local
	Seniors: $175 or $500 exemption of taxes due varying according to household circumstances.	Mainly Local
Mississippi[1]	All households: varying exemption amounts based on value of property.	State
	Seniors: additional $7,500 exemption (equivalent to $50,000) effective in 1986.	State
Nebraska	All households: $3,000 exemption.	State
	Seniors: additional $7,000 to $35,000 exemption if income is less than $10,400 (formula similar to a circuitbreaker).	State
New Jersey[1]	All households: credit depending on assess valuation and tax rate.	State
	Seniors: additional $50 credit. In addition, another $250 credit is given to elderly households with incomes under $10,000.	State

(continued on next page)

State	Description	Financing
Texas[1]	**All households:** local option exemption up to 30 percent of market value.	Local
	Seniors: $10,000 exemption for school taxes and local option additional.	Local
Wyoming	**All households:** credit depending on assessed valuation and tax rate.	State
	Seniors: additional refund for low-income senior citizens that varies. Payment also represents a portion of sales tax paid and a rebate of home utility costs.	State
Only for senior citizens (13 states)		
Colorado[1]	Total exemption for seniors with incomes within 150 percent of limits prescribed for occupants of nearby low-rent public housing.	Local
Delaware	$5,000 exemption if income under $3,000.	Local
Kentucky[1]	Exemption of $7,500 in 1972 dollar, amount increased annually for inflation (1984 exemption was $15,000).	Local
Montana[1]	Varying amount based on income (but different than the state's circuitbreaker program).	Local
New Hampshire	$5,000 exemption if income under $5,000 and assets under $35,000; additional local option exemptions.	Local
New York	Local option to exempt up to 50 percent of assessed value if low-income senior citizen.	Local
North Carolina[1]	$8,500 exemption if income under $9,000.	Mostly Local

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State	Description	Financing
South Carolina[1]	$20,000 exemption.	State
Tennessee[1]	$12,000 exemption if income under $8,500.	State
Utah[1]	Local option to abate up to the lesser of 50 percent of taxes assessed or $300 for senior citizens with incomes under $7,500 if single or $8,000 if married.	Local
Virginia[1]	Local option to totally exempt property of senior citizens with incomes up to $18,000.	Local
Washington[1]	Exemption from all special levies if income under $15,000; $20,000 exemption or 30 percent of value of residence up to $40,000, whichever is greater, from regular levies of income under $12,000; $25,000 exemption or 50 percent of value of residence, whichever is greater, if income is below $9,000.	Local
West Virginia[1]	$2,000 exemption.	Local

Source: NCSL survey; and ACIR, Significant Features of Fiscal Federalism, 1983-84 Edition; Table IV. 2, NCSL, State Tax Policy and Senior Citizens, April 1985, p. 77-81.

This table does not include programs restricted to special groups, such as widows and veterans. Most states have programs for veterans.

In states where assessments are set by law at less than full market value, the amount of market value exempted is shown in parentheses. Property often is assessed at less than the level prescribed by law, however, and the actual value of exemptions may be understated.

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[1] Disabled persons are given the same benefits as senior citizens.

degrees of tax relief based on income and with an emphasis on relief for lower-income residents, including renters as well as owners. The table in Appendix E, incorporating most recent data for 1985 gathered by the U.S. Advisory Commission on Intergovernmental Relations (ACIR) and more complete data for Massachusetts, summarizes homestead exemption program information for each state.

Of the states with homestead exemption or credit programs which are either state-financed or locally-financed (including those restricted to special groups), 12 state governments reimburse their local governments in full for the property tax losses due to such exemptions. Another seven states, including Massachusetts, provide partial reimbursements, while 20 states make no reimbursements whatsoever for coverage of local revenue losses.

In 1985, state reimbursements for homestead exemption programs ranged from an aggregate low of $5 million in Wyoming to an aggregate high of $529 million in Minnesota. (State reimbursements in Massachusetts were just over $14 million.) On a per capita basis, reimbursements of $139 per capita in Minnesota were four times higher than in Iowa and ten times greater than in California. The lowest state reimbursement per capita was $2 in Kentucky. The comparative figure for Massachusetts was $2.50.[27] (See Table 17.)

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[27] See Appendix E. Data on state reimbursements for seven states operating homestead exemption programs were unavailable.

Table 17

SUMMARY STATISTICS FOR STATE-FINANCED HOMESTEAD EXEMPTION AND CREDIT PROGRAMS: 1983 AND 1985

State	Income Limit	Average Benefit	Per Capita Cost
No age restrictions			
Arizona	No	$110	$30.64
California	No	78	13.51
Iowa	No	91	32.46
Louisiana	No	96	20.66
Minnesota	No	487	121.53
Ohio	No	n.a.	n.a.
Oregon	No	167	37.79
Wisconsin	No	96	26.30
Senior citizens receive a larger exemption or credit than others			
Alasaka	No	$428	$ 4.77
Indianab	No/$10,000	n.a.	n.a.
Mississippic	No	110	29.31
Nebraska	No	n.a.	n.a.
New Jerseyb,c	No/$10,000	196	38.81
Wyomingb	No/$8,000	76	14.82
Only for senior citizens			
South Carolinac	No	$107	$ 4.68
Tennesseec	8,500	93	1.05

Source: NCSL survey; ACIR, Significant Features of Fiscal Federalism, 1982-83 Edition (population figures); Table IV. 3 NCSL, State Tax Policy and Senior Citizens, April 1985, p. 82-83.

n.a. = not available

The income limitation data are for 1985. The average benefit and per capita cost data are for fiscal year 1983. This table is only for state-financed programs. The benefits and costs of locally-financed programs are not available.

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[a] Alaska: There is a local-option homestead exemption program for the general population. In addition, senior citizens aged 65 and older receive a total homestead exemption on their property taxes. Municipalities are reimbursed the total amount of revenue lost due to the senior citizen exemption. Benefit statistics are only for the senior exemption.

[b] There is no income limit for the general credit; limit applies to at least part of the extra credit for senior citizens.

[c] Disabled are given the same benefits as senior citizens.

Since homestead exemption programs in Massachusetts are limited to certain groups, they cannot match the broad scope of homestead exemption programs in states such as Minnesota and New Jersey. However, it should be noted that the residential exemption allowance in Massachusetts is available as a local option, but only eight cities and towns have adopted this homestead program.

As for the relative standing of exemption benefits, the elderly exemption of $500 in taxes in Massachusetts, which may be increased by up to 100 percent at local option, compares very favorably with elderly exemptions in other states. In cities and towns of Massachusetts where residential tax rates are almost half those of tax rates on commercial and industrial property and where the residential exemption has been adopted, e.g., Boston and Cambridge, elderly owner-occupants earning below $15,000 per year with homes assessed below $100,000 and with assets limited to $40,000 exclusive of the value of their homes are paying tax bills that are reduced by 60 percent or more because of elderly exemptions under Clause 41.

<u>State Circuit-Breaker Programs</u>

Circuit-breaker mechanisms differ from homestead exemption or credit mechanisms by linking the amount of property tax relief to both income and the property tax bill. Thus they are an improvement over older systems of homestead exemptions since they consider income in calculating benefits and thereby overcome the dilemma that the relationship between household expenditures and normal income is hardly perfect. When property taxes climb above a specified proportion of income, the circuit-breaker shuts off the excess of residential property tax liabilities and returns such excess to the taxpayer, usually in the form of a state income tax refund or tax credit or through state payment to the local government that lost the tax revenue. In states that make renters eligible for circuit-breakers, the property tax liabilities are presumed to equal some proportion of rent.

State circuit-breakers vary widely in income limits and definitions, benefit formulas and benefit ceilings. In some states, only elderly homeowners are eligible for circuit-breakers while others grant such benefits to all homeowners regardless of age. Some states extend circuit-breakers to renters as well as owners. As for the targeting objectives of state circuit-breaker plans, those plans that do not incorporate household income limits exceeding the state or area median or that do not impose limits on net worth are clearly designed to confer benefits on broader groups of taxpayers than the very poor or elderly.

Well-designed circuit-breakers channel property tax relief to taxpayers bearing the heaviest burdens in order to reduce the regressivity of property taxes. By contrast, homestead exemptions grant identical amounts of tax relief, relief that is not related to the size of property tax bills and that is only roughly related to taxpayer income or net worth.

States use two primary types of circuit-breakers: (1) sliding scale and (2) threshold. Under the sliding scale approach, as in the state of Iowa, a percentage of the total property tax bill is rebated, the proportion declining as income increases. In Iowa, taxpayers with income below $12,000 are eligible for a circuit-breaker; the percentage of the tax bill that is rebated varies between 25 percent and 100 percent depending upon income within this range.

Under the threshold approach, as in Vermont, thresholds of taxes as percentages of income are established as tax burden indices. When property taxes exceed these specified thresholds, the circuit-breaker provides complete relief from the excessive burden. In Vermont, the threshold rises with increases in taxpayer income. The threshold is 4 percent of income for taxpayers with incomes below $4,000 and increases to 7 percent of income for persons with incomes between $20,000 and $25,000.

In both Iowa and Vermont, renters are eligible for circuit-breakers: taxpayer liability is calculated as 20 percent of rent in Iowa and as 25 percent of rent in Vermont. In Iowa the maximum property tax subject to the circuit-breaker is $1,000; in Vermont the maximum tax rebate is $500.

Proponents of circuit-breakers usually mention one or more of the following objectives of circuit-breakers:

1. To reduce the overall regressiveness of the property tax, particularly if they are restricted to low-income persons.

2. To protect low-income taxpayers who have unusually large tax liabilities or temporarily depressed incomes.

3. To enable elderly taxpayers, particularly those with paid-off mortgages and with housing costs limited to maintenance and property taxes, stay in homes they might otherwise have to give up and to excuse non-elderly with temporarily depressed incomes from the current burden of property tax payments.

4. To operate as an indirect kind of state-local revenue sharing mechanism where tax losses due to circuit-breakers are financed by the state since circuit-breakers enable communities with large concentrations of low-income residents to shift part of the cost of property taxes to non-residents.

5. To redistribute income since circuit-breakers largely benefit lower-income households.

Another View of Circuit-Breakers

A critical evaluation of circuit-breakers claims that some of the arguments cited for circuit breakers are based on misconceptions while other cited objectives could be better achieved by alternative policies. This evaluation emphasizes that tax relief through circuit-breakers really represents an income maintenance system with circuit-breakers operating as housing allowances, allowances that tend to inflate rents and encourage landlord-tenant collusion in overstating rents. Moreover, this evaluation contends that households whose incomes are temporarily depressed and whose housing expenditures are based on normally higher incomes would qualify for more tax relief than would households with normally low incomes and housing expenditures based on such levels. Since circuit-breakers generally use annual rather than normal income and omit limits on net worth, they provide the largest tax benefits within each income bracket to taxpayers with the greatest net worth. Thus, the evaluation concludes, circuit-breakers subsidize (1) persons within each income bracket who consume unusually large amounts of housing or whose ratios of property to income are unusually large, and (2) persons with fluctuating incomes.

In a point-by-point rebuttal of stated objectives for circuit-breakers, this evaluation (1) disputes the traditional view that the residential property tax is regressive, arguing that it is a levy borne predominantly by owners of capital; (2) prefers tax deferral to tax foregiveness as the solution for the tax problems of the elderly or for nonelderly households with temporary lapses of income, thereby resisting the temptation to subsidize fluctuating incomes at the expense of stable incomes, allowing nonelderly taxpayers to defer tax payments over a limited period, but permitting the elderly to defer payments indefinitely with ultimate recovery when the property is transferred by bequest, gift or sale; (3) questions the use of circuit-breakers as proxies for intrastate revenue sharing and supports more traditional general and special revenue sharing devices; and (4) points to the relative inefficiency of circuit-breakers as substitutes for income maintenance mechanisms since many state circuit-breakers have income limits that do not efficiently target needy households.

The author of the above evaluation, Henry Aaron, proposes the following guidelines for a circuit-breaker that would serve only as an interim strategy providing income relief for the poor, a strategy that consists of two major features: (1) a simple system of grants to households related negatively to income and net worth, and (2) tax deferral, temporarily for the nonelderly and until death for the elderly. Under these guidelines, the grants would be established to equal some proportion of the expenditure deemed necessary to purchase adequate housing, with expenditures varying by family size. If property taxes minus these grants exceeded a percentage of income, homeowners would be allowed to defer tax payments regardless of current income. These guidelines would define income as the total receipts of all household members and would include intrafamily transfers. Finally, a proportion of net assets would be included as an eligibility ceiling.

Among the advantages of Aaron's proposed circuit-breaker plan components compared with conventional circuit-breakers are (1) benefits do not rise with wealth, (2) benefits do not rise with actual housing expenditures, and (3) the special problems of declines in current income below normal income are handled through "averaging" rather than through grants.[28]

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[28] From Aaron, Who Pays the Property Tax?, op. cit., p. 72-79.

Circuit-Breaker Experience

The first circuit breaker was adopted by the state of Wisconsin in 1964. There are now 32 states and the District of Columbia with state-financed circuit-breaker programs, 26 of which include renters. In Hawaii, the circuit-breaker is exclusively for renters.[29] In circuit-breaker states that include renters as eligibles, a proportion of annual rental payments, from a minimum of 5 percent in Utah to a maximum of 30 percent in Illinois, is calculated as going toward property tax payments; rent payers whose proportions for taxes are above these percentages are eligible for property tax relief. Michigan, Minnesota and the District of Columbia have separate benefit schedule programs applicable to the elderly and non-elderly. In seven states, circuit-breakers are available to all homeowners and renters irrespective of age.

Average benefits per recipient in states with circuit-breakers are generally between $100 and $250. Benefits vary widely among the states as proportions of average tax bills -- from a low of 2.6 percent of the tax bill on a single-family home with a market value of $100,000 in New York and West Virginia to a high of 32.8 percent for similar homeowner properties in Maryland. (See data in Appendix F.)

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[29] Delaware has a circuit-breaker program at the local level. The state of Washington has a program that is also locally-financed but is an amalgam of a circuit-breaker and a homestead exemption. It grants more liberal valuation exemption benefits of 50% to elderly and disabled homeowners under $9,000 income, and less liberal valuation exemption benefits of 30% up to a maximum exemption of $40,000 to all others.

In all but four states - Michigan, Minnesota, Vermont and Wisconsin - the costs of circuit-breaker programs are less than $10 per capita. When measured against per capita property taxes, the per capita cost of circuit-breakers rarely exceeds 2 percent.

As shown in Table 18, 18 states and the District of Columbia operate both a homestead exemption program and a circuit-breaker program. This table also indicates that every state without a homestead program has a circuit-breaker program. However, states which have circuit-breakers are less likely to have homestead exemptions or credits. Moreover, in those states which do not have circuit-breaker programs, it is more likely that the homestead exemption programs are only for elderly or give to the elderly greater benefits than to other eligibles. Similarly, most circuit-breakers also tend to favor the elderly by either restricting their benefits to senior citizens or by granting the elderly more liberal benefit provisions.

<u>Circuit-Breaker for Massachusetts: Revival of an Issue</u>

Circuit-breaker bills have been filed in Massachusetts for the past two decades, but with no success. A recent comprehensive analysis of the distributional consequences of residential property taxes in this state, prepared for the Special Commission on Tax Reform, has provided an updated

Table 18

RELATION OF HOMESTEAD PROGRAMS TO CIRCUIT-BREAKERS: 1985

Homestead Program's Treatment of Age Groups	States with Circuit-Breakers	States Without Circuit-Breakers
All ages equal	Arizona, California DC*, Idaho, Iowa Maryland**, Minnesota*, New Mexico, Ohio Oklahoma, Oregon Wisconsin, Wyoming	Louisiana
Elderly receive preferential treatment, but nonelderly receive some benefits	Illinois, Nebraska	Alabama, Alaska, Florida, Georgia, Hawaii, Indiana, Massachusetts, Mississippi, New Jersey, Texas, Wyoming
Only elderly receive benefits	Colorado, Montana, New York, Tennessee*** Utah, West Virginia	Delaware, Kentucky, New Hampshire, North Carolina, South Carolina, Tennessee, Virginia, Washington
No homestead program	Arkansas, Connecticut, Kansas, Maine, Michigan,** Missouri, Nevada, North Dakota, Pennsylvania, Rhode Island, South Dakota, Vermont	

Source: Tables 71 and 72, Significant Features of Fiscal Federalism, 1985-86 Edition, ACIR, Dec., 1985.

* Seniors receive extra benefits under circuit-breaker formula.

** Maryland: All homeowners eligible, but only elderly renters.

*** Tennessee: Includes disabled.

source of documentation and support for adoption of the circuit-breaker concept.[30] According to the findings of this report, although the property tax burden of the average family in Massachusetts was 3.6 percent in 1986, taxpayers with incomes less than $5,000 paid over 10 percent of their incomes in property taxes while taxpayers with incomes over $50,000 paid under 2 percent of their incomes for property taxes.

Conceding that property tax limitation and revaluations have substantially reduced property tax regressivity over the past four years, the Reschovsky report concludes that the property tax is still tainted by regressivity and points out that the primary cause of existing property tax regressivity is that rent and housing values represent much larger proportions of income for lower-income residents than for residents of higher income. Current programs of property tax relief, the report emphasizes, are limited mainly to elderly homeowners and are subject to relatively stringent restrictions as to residence, income and assets. Although most tenants with incomes between $15,000 and $75,000 benefit from a state income tax reduction of 15-20 percent under the reduction provisions of the state income tax law, for renters of lower incomes, whose income generally exempts them from paying any state income taxes, the rent reduction credits provide no property tax relief.

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[30] Reschovsky, Who Pays Massachusetts Taxes?, op. cit.

Two recent initiatives have surfaced as responses to the Special Commission's findings on residential property taxes and the implications in its report for some kind of circuit-breaker: (1) that part of Senator Olver's bill for a new property tax exemption program based on income and subject to acceptance by a city or town; and (2) that part of Councilor Bolling's home rule petition for an additional property tax exemption program for Boston. Both proposals would allow these new exemptions to be granted in addition to other exemptions to which an applicant would be entitled.

Under Senator Olver's proposal, owner-occupants of residential property used as primary residences whose income does not exceed 80 percent of the median income for the area as determined by HUD, and whose assets other than the exempted property do not exceed $10,000 would qualify for this exemption. (Since the current HUD median for the Boston area is $34,000, the maximum income would be $27,200.)

The Olver bill also provides that the exemption be based on the circuit-breaker concept so that the amounts of property value exempted would increase as total income of the property owner decreased. Local assessors in cities and towns accepting these provisions would be required to establish a circuit-breaker schedule each year subject to local approval and to transmit such approved schedule to the state Commissioner of Revenue. The only prescribed limit on the schedule is that taxable valuations of property qualifying for this and other exemptions may not be reduced below 10 percent of the full cash value, except for exemptions to paraplegics and to those qualifying as hardship cases.

The tax exemption component of Councilor Bolling's home rule petition includes the same income limit provisions as Senator Olver's bill, but omits any restriction on assets. The Bolling proposal merely exempts from taxation that portion of taxable property value exceeding 7 percent of total income.

Among the issues that are likely to be raised concerning the Olver and Bolling circuit-breaker proposals are:

1. With only few exceptions, circuit-breakers are state-financed; locally-financed circuit-breakers would seriously erode the local tax base and exacerbate existing limits on revenue capacity and growth.

2. A local option approach places undue political pressure on local elected officials who must balance these added benefits against revenue losses and against alternative approaches for extending property tax relief.

3. If the objective is to provide relief to homeowners of very low income, an income ceiling of $27,200 in the Boston area and the omission of any limit on net worth (as in the Bolling petition) would be subject to criticism that persons with the lowest income and net worth characteristics are not being targeted and that this income ceiling is higher than that of 29 of the 32 states with circuit-breakers. (Only Michigan, Minnesota and Vermont have higher income ceilings.)

4. The circuit-breaker in the Bolling proposal is overly simplistic, failing to incorporate a sliding scale of exemptions negatively correlated with income and net worth that would target exemptions to the neediest households and grant the largest exemptions to those with the lowest incomes. Thus, under the Vermont circuit-breaker schedule, a person with $4,000 in income and $1,000 tax bill receives an exemption of $840. The rebate is equal to the property tax in excess of 4 percent of income. By contrast, a person with $15,000 in income and $1,000 tax bill receives an exemption of only $175. The rebate is equal to the property tax in excess of 5 1/2 percent of income. Moreover, since the Bolling proposal does not include any net worth limit, it does not insure that exemption benefits would not increase with wealth.

5. Both proposals, moreover, fail to incorporate (a) a requirement that the exemptions bear a realistic relationship to amounts necessary to purchase adequate housing, including differentials based on household size, thereby acknowledging that although household expenditures are strongly correlated with normal income, the relationship is far from perfect, e.g., not all owner-occupants of inexpensive housing have low incomes and vice versa; and (b) that average income rather than current income should be used since income declines may be temporary.

IX. CONCLUSIONS AND RECOMMENDATIONS

Summary of Findings

Property tax exemptions are granted to homeowners by cities and towns in Massachusetts through two broad authorizations of legislation under Chapter 59 of the General Laws:

1. So-called Clause 5 exemptions for selected groups of homeowners whose taxpaying capacity is deemed limited or curtailed because of age, physical handicap and income: elderly widows/widowers, orphans, blind persons, veterans/ surviving spouses and parents, and surviving spouses/minor children of firefighters and police officers killed in the line of duty. Clause exemption legislation enacted before 1981 was mandatory for implementation by cities and towns; since 1981, legislative modifications are optional, subject to city/town acceptance.

2. So-called residential exemptions under Section 5C are uniform homestead exemptions applicable since the 1983 fiscal year to owner-occupied properties used as principal residences, but granted only in cities and towns accepting this legislative option.

3. Over the past quarter-century, there have been periodic changes in the eligibility criteria and amounts of exemption benefits as the Legislature has adopted and modified clause exemption policies to meet changing conditions

and needs, mainly to reflect rising levels of retirement income, higher values of estates and higher assessments due to revaluation.

4. Modifications in eligibility criteria and benefit levels enacted since 1981 have been made subject to acceptance by individual cities and towns because of provisions in Proposition 2 1/2 tax limit legislation requiring the Commonwealth to provide state reimbursement for loss of local taxes because of granted or increased exemptions.

5. For the 1985 fiscal year, clause exemptions granted by all cities and towns totaled 128,506 with tax dollar abatements amounting to $38.8 million. Elderly beneficiaries received over 54 percent of the total dollars abated.

6. There has been a gradual decrease in the total number of exemptions granted since the 1974 peak of over 174,000 (a decline of over 28 percent between 1974 and 1984) and in the total tax dollars abated since the 1977 peak of $75.8 million (a decline of almost 49 percent between 1977 and 1985).

7. Only three cities including Boston and five towns have adopted Section 5C residential exemptions. The total number of homeowners benefitting from these exemptions throughout Massachsuetts totals about 113,000, with Boston accounting for over one-half of the total. Residential taxes exempted total $19 million, or less than one percent of the statwide tax levy on residential property.

8. In Boston, clause exemptions have declined from a peak of about 16,000 for 1970 to just under 10,000 for 1986, a reduction of about 37 percent. Tax dollars abated for clause exemptions in Boston have declined from a peak of $9.7 million for 1981 to $3.9 million for 1986, a reduction of about 60 percent.

9. Although only an estimated 30-40 percent of elderly homeowners eligible for clause exemptions throughout Massachusetts take advantage of clause exemption opportunities, in Boston the participation rate of elderly homeowners exceeds 70 percent.

10. The Commonwealth of Massachusetts reimburses cities and towns for varying shares of property tax losses on account of clause exemptions. In fiscal 1986, state reimbursements for all clause exemptions granted in the prior year totalled $14.6 million, equivalent to about 37 percent of the tax dollars abated. Because of the stable $10 million annual state reimbursement for elderly exemptions since 1979 (increasing to $15 million for FY 1987), the Commonwealth's proportionate coverage of tax losses due to clause exemptions has been improving and will reach 50 percent of the total during the current fiscal year. It should be noted, however, that state reimbursement for the largest category of clause exemptions (elderly) is subject to annual appropriation by the Legislature.

11. The impact on municipal finances of clause exemptions has subsided considerably over the past decade because of reductions in the average number of beneficiaries and in total tax dollars abated, and because of stabilized state reimbursements to cover tax losses. Between 1968 and 1985, clause exemptions as proportions of property tax levies had declined from 3.7% to 1.2%.

12. The trends in relative impacts of clause exemptions on local tax resources have varied widely among individual cities and towns because of variations in numbers of recipients, tax dollar abatements and local property tax levies. In FY 1985 clause exemptions ranged from a high of 4.3 percent of property tax levies in Somerville to a low of 3/10 percent in Cambridge. In Boston, clause exemptions for FY 1986 were 9/10 percent of the property tax levy. State reimbursements further reduced this impact to 6/10 percent.

13. While mandated clause exemptions are not as corrosive of municipal revenue resources as they used to be, cities and towns operate under severe restrictions in raising local taxes while projections of local aid for future years are no longer optimistic as the state's economy experiences more normal growth.

14. Since 1983, average clause exemptions granted to the largest number of beneficiaries (veterans and elderly) in Massachusetts have become smaller, mainly because of legally-mandated revaluation. To cushion the adverse impact of revaluation on tax bills under optional legislation of 1986, cities and towns are authorized to grant additional exemptions up to 100 percent of statutory amounts for FY 1986 and subsequent years provided that the net tax bill is not lower than that of the prior year. As a result, the average exemption under Clause 17C was increased from the statutory allowance of $175 to $258, under Clause 22 from $175 to $248, and under Clause 41B from $500 to $585.

15. The City of Boston has taken full advantage of available options to establish multiple tax rates, including the so-called minimum residential factor, and to adopt the uniform residential exemption (homestead allowance) for principal residences of homeowners under the property tax classification law, thereby minimizing the tax burden on residential property in general and on owner-occupied housing in particular. Boston is one of 79 cities and towns with multiple tax rates (as of June 30, 1985), including residential tax rates that are lower than those applicable to commercial, industrial and personal property. Boston's residential tax rate of just over $12 per $1,000 of assessed valuations is almost one-half that of the tax rate on non-residential properties.

16. Lower residential tax rates, higher residential exemptions and local initiatives in raising clause exemption benefits above statutory allowances have averted substantial increases in property tax bills for most beneficiaries of clause exemptions in Boston. For elderly single-family homeowners granted Clause 41B exemptions, the average net tax bill for FY 1986 was $313 below that of FY 1981 and was equivalent to 35 percent of the average gross tax compared with 41 percent in 1981. For elderly owners of two- and three-family homes granted Clause 41B exemptions, the net tax results for FY 1986 were almost as beneficial as for elderly owning single-family homes. In wards where elderly homeowners are typically of low or moderate income, the average net tax bills for FY 1986 were below those for the pre-Proposition 2 1/2 year of 1981.

17. Over 50 percent of all owners of residential properties containing one- to six-dwelling units in Boston granted both clause exemptions and residential exemptions received net tax bills for FY 1987 that were under $1,000, compared with 60 percent in FY 1986. In two-thirds of Boston's wards (14 of 22 wards), 80 percent or more of the net tax bills on single-family homes for FY 1987 (after deducting clause exemptions and residential exemptions) were under $1,000, indicating little change over the prior year. For residential properties with two dwelling units or three- to six-dwelling

units, the recent revaluation has reduced the proportion of owners with net tax bills under $1,000 in FY 1987 below that of the prior year, reflecting higher market appreciation rates for income-producing structures. Nevertheless, in 12 of the City's 22 wards, 50 percent or more of the net tax bills on two-family homes for FY 1987 are under $1,000.

18. Statewide participation in the elderly tax deferral exemption program over the past decade in Massachusetts has proved to be very disappointing with a grand total of 724 tax deferral agreements in FY 1985 amounting to just over $1 million in deferred taxes. Boston's experience has been equally poor with only four agreements for FY 1986.

19. There has been relatively low participation in the 16 states and the District of Columbia authorizing tax deferral programs. Poor participation is due to the following factors:

a. Elderly homeowners are reluctant to have liens placed on their homes.

b. There has been inadequate publicization of program availability.

c. Income restrictions and relatively high interest rates discourage applications.

d. The threshhold of property taxes is not high enough to encourage large-scale participation.

20. Three proposals to reactivate the tax deferral program with no limits on age have surfaced:

a. The proposal offered by Councilor Scondras authorizing homeowners with $10,000 or less of annual income to defer property taxes if taxes are 10 percent or more of income. Some 10 percent of owner-occupants in Boston or 6,000 homeowners are estimated as eligible for such tax deferral. If a participation rate of 20 percent is assumed along with an average property tax bill of $1,000 for 1,200 participating eligibles, the estimated cost to Boston would be almost $1.2 million.

b. The tax deferral proposal offered by Councilor Bolling restricts participation in tax deferral to homeowners with maximum gross receipts of $25,000, includes tax recovery but omits the current legal procedures requiring a lien on the property and the recording thereof, is open-ended as to the maximum period of tax deferral, omits any eligibility requirements as to owner-occupancy or domicile, places no limits on total amount of deferrable taxes, and includes an 8 percent interest rate provision. If one-third of the owner-occupants in Boston or 20,000 homeowners are estimated as eligible for this tax deferral program and if a participation rate of one-third is assumed (because no lien is required) along with an average property tax bill of $1,000, this proposal could mean tax losses in Boston of about $6 million a year.

c. The local option tax deferral proposal offered by Senator Olver, Chairman of the Senate Committee on Taxation, would extend eligibility in tax deferral under Clause 41A to all homeowners regardless of age but liberalizes the gross receipts maximum for married persons to $25,000 while eliminating the residency/domicile requirements of Clause 41A and retaining its limits on the total amount of deferrable taxes allowed and the lien provisions. The cost to the City of Boston in accepting the provisions of this proposed legislation is estimated at $2-$4 million a year based on an assumption that 10-20 percent of the 20,000 or more eligibles would participate.

21. Homestead exemptions and/or credits are currently available in 37 states and the District of Columbia. In 13 states, participation is restricted to the elderly; 13 states grant higher benefits to the elderly than to other recipients; 11 states and Washington, DC do not impose any age limits on eligibility. It is virtually impossible to compare state benefits and costs because of wide differences in eligibility criteria, ratios of property tax assessment to market value and effective residential tax rates. Of the states with homestead exemption or tax credit programs which are either state-financed or locally-financed and for which data are available, 12 reimburse their local governments in full for such property tax losses, seven including Massachusetts provide partial reimbursements, while 20 make no reimbursements at all. State reimbursements ranged from a high of $139 per capita in Minnesota to a low of $2 in Kentucky compared with $2.50 per capita in Massachusetts.

22. Since homestead exemption programs in Massachusetts are limited to certain groups, they cannot match the broad scope of homestead exemption programs as in Minnesota and New Jersey. However, the elderly exemption in Massachusetts of $500 in taxes, which may be increased by up to 100 percent at local option, compares very favorably with elderly exemptions in other states. In such municipalities as Boston and Cambridge, where residential tax rates are almost half those of rates on non-residential property and where the residential exemption has been adopted, elderly owner-occupants with gross receipts below $15,000 per year and assets limited to $40,000 exclusive of the value of their homes are paying tax bills on homes assessed below $100,000 that are reduced by 60 percent or more because of elderly homestead exemptions.

23. Unlike homestead exemptions, which extend indentical amounts of property tax relief, well-designed circuit-breakers channel relief to homeowners and/or rent payers bearing the heaviest tax burdens as measured by the relationship of tax liability to income.

24. Proponents of circuit-breakers identify one or more of the following objectives for this tax relief strategy:

a. To reduce the regressiveness of the property tax.

b. To protect low-income taxpayers with unusually large tax liabilities or temporarily depressed incomes.

c. To enable elderly taxpayers stay in houses they might otherwise have to give up and to excuse others with temporarily depressed incomes from current burdens of property tax payments.

d. To provide an indirect state/local revenue sharing mechanism under which tax losses due to circuit-breakers are financed by the state.

e. To redistribute income since circuit-breakers largely benefit low income households.

25. A point-by-point rebuttal of these claims by a noted economist:

a. disputes the traditional view that the residential property tax is regressive, arguing that it is a levy borne predominantly by owners of capital;

b. prefers tax deferral to tax foregiveness as the solution for the tax problems of the elderly or for nonelderly households with temporary lapses of income;

c. questions the use of circuit-breakers as proxies for intrastate revenue sharing and supports more traditional revenue-sharing mechanisms;

d. points to the relative inefficiency of circuit-breakers as substitutes for income maintenance programs since many state circuit-breakers do not efficiently target needy households.

26. Thirty-two (32) states and the District of Columbia have state-financed circuit-breaker programs, 26 of which also apply to renters. In circuit-breaker states where renters are eligible, a proportion of annual rental payments ranging from a minimum of 5 percent in Utah to a maximum of 30 percent in

Illinois is established as going toward property tax payments. A number of state circuit-breakers tend to favor the elderly by either restricting their benefits to senior citizens (in 6 states) or by granting them more liberal benefits (in 2 states). In seven states, circuit-breakers are available to all homeowners and renters irrespective of age. Average benefits per circuit-breaker recipient are generally between $100 and $250. Benefits vary widely among the states as proportions of average tax bills -- from a low of 2.6 percent of the tax bill on a single-family home with a market value of $100,000 in New York state to a high of 32.8 percent of the tax bill for a similar residential property in the state of Maryland. In all but four states, costs of circuit-breaker programs are less than $10 per capita. When measured against per capita property taxes, the per capita cost of circuit-breakers rarely exceeds 2 percent.

27. Although circuit-breaker bills have been filed in Massachusetts for the past two decades with no success, two legislative initiatives have been proposed which draw on conclusions in a recent report on the residential property tax in Massachusetts that (a) property taxes are still tainted by regressivity, (b) the primary cause of such regressivity is that rent and housing values represent much larger proportions for lower-income residents than for residents of higher income, and (c) current programs of property tax relief are limited

mainly to elderly homeowners and are subject to relatively stringent restrictions as to residence, income and assets.

28. Under Senator Olver's proposal, which is subject to local acceptance, local assessors would be required to establish an annual circuit-breaker schedule in which property tax exemptions would increase as total income of the property owner decreased. In order to qualify for the local circuit-breaker, the income of owner-occupants of primary residences would not exceed 80 percent of the median income for the area as determined by HUD, e.g., maximum income for the Boston area in 1986 would be $27,200, and the taxpayer's assets could not exceed $10,000.

29. The income standard in Councillor Bolling's home rule petition is similar to that in Senator Olver's bill, but omits any restriction on assets and exempts from taxation that portion of taxable property value exceeding 7 percent of total income.

30. The following issues are likely to be raised concerning the Olver and Bolling circuit-breaker proposals:

a. With very few exceptions; circuit-breakers are state-financed and state administered; locally-financed circuit-breakers covering homeowners regardless of age would seriously erode the local tax base and exacerbate existing limits on local revenue capacity and growth.

b. Income information, necessary for the implementation of a circuit-breaker program, is currently not available to local assessors, and any attempt to do so would require State Department of Revenue cooperation.

c. The State Department of Revenue already has the capacity to administer a circuit-breaker program through the state income tax, thereby making a state-administered program a more rational alternative.

d. A local option approach places undue political pressure on local elected officials who must balance these added benefits against revenue losses and against alternative approaches for extending property tax relief.

e. The proposed income ceiling, e.g., $27,200 for the Boston area, is higher than that of 29 of the 32 states with circuit-breakers and would generate criticism, particularly if an asset restriction is not applied, that persons of the lowest income and net worth are not being targeted.

f. The Bolling proposal fails to incorporate a sliding scale of exemptions negatively correlated with income and net worth, thereby failing to meet the basic standards of a sound circuit-breaker plan.

Major Conclusions

1. From one perspective, the Massachusetts system of property tax exemptions for selective groups of homeowners and the state income tax deductions for renters of their primary residences compare unfavorably with more universal strategies of property tax relief in states with progressive homestead exemption and/or circuit-breaker programs.

Clause exemptions in Massachusetts mainly target physically-handicapped and elderly homeowners. For homeowners 70 years of age or older qualifying for the highest benefits, participation is restrained by rather strict conditions of residency, income and net worth. Moreover, the statewide number of homeowners granted abatements has declined sharply as has the total annual amount of exemptions, and statewide participation in the separate exemption program for elderly homeowners is far below estimates of numbers who would qualify by virtue of their income and assets status.

Individual exemption benefits in many cities and towns of Massachusetts have been reduced to statutory allowances that are lower in dollar amounts than they were prior to mandated assessment of property at full and fair cash value. As residential assessments are kept abreast of escalating market values, clause exemption benefits represent lower proportions of property tax bills than in prior years, especially in cities and towns where residential tax rates are not significantly below the tax rates of nonresidential classes of property.

Periodic modifications in eligibility restrictions and benefits applicable to clause exemptions have not been designed as major reforms but rather as updated revisions of basic statutory provisions to reflect higher retirement income and higher net worth of retirees and to cushion the impacts of revaluation. Of particular importance is the 1986 legislation authorizing cities and towns to increase clause exemptions up to 100 percent subject to certain limitations, an authorization that imposes no time limits as to implementation. The only significant policy addition has been the optional tax deferral program for elderly homeowners, but tax deferral has not turned out to be a popular substitute for tax forgiveness.

As for the state income tax deduction for renters, which is limited to $2,500 per year, poorer tenants exempt from paying income taxes are not likely to benefit from such property tax relief.

Almost one-half of homestead exemption programs throughout the nation are either fully or partially reimbursed by state governments. Clause exemptions in Massachusetts for 1987 will be equally financed by state and municipal governments. Circuit-breaker programs, by contrast, are almost entirely financed by state governments.

Property taxes throughout Massachusetts as percentages of income are higher for those of lower income than those of higher income (ranging from over 10 percent for poorer households under $5,000 in income to under 2 percent for those with over $50,000 in income). Moreover, current homestead exemptions and income tax deductions make only a small dent in the tax burdens of lower-income households. In municipalities such as Boston where clause exemption participation is more

Table 19

PERCENTAGES OF HOMEOWNERS AND RENTERS BY
INCOME CLASS: MASSACHUSETTS AND BOSTON

	Homeowners		Renters	
Money Income	Mass. % of Total	Boston % of Total	Mass. % of Total	Boston % of Total
$5,000	1.8%	2.9%	6.2%	17.9%
$5,000-$9,999	6.5%	12.1%	20.1%	20.9%
$10,000-$14,999	6.5%	8.4%	11.5%	17.3%
$15,000-$19,999	5.5%	8.7%	9.3%	12.1%
$20,000+	79.6%	67.9%	52.9%	31.8%

* Data for 1986 from Reschovsky, Who Pays Massachusetts Taxes?, op. cit., Table 1, p. 16.

** Data for 1984 from Center for Survey Research, University of Massachusetts at Boston.

extensive and where local decisions to apply options that restrain residential property taxes have been quite helpful, the percentages of Boston homeowners and renters in lower-income brackets are much greater than for the state as a whole. According to Table 19, 15 percent of homeowners in Boston were earning below $10,000 a year (1984 data) as compared with only 8 percent of homeowners in all of Massachusetts (1986 data). The gap between proportions of low-income renters in Boston and Massachusetts is even higher than for homeowners -- 38 percent of all renters in Boston earn less than $10,000 a year; for Massachusetts as a whole, 26 percent of the state's renters earn less than $10,000 a year.

Finally, losses of property tax revenues because of clause exemptions to homeowners have subsided considerably since the pre-Proposition 2 1/2 period as the numbers and total amounts of clause exemptions have declined and as state reimbursements have stabilized to represent larger shares of the total cost of local exemptions. Moreover, optional residential exemptions are not local tax losses but redistribution of property taxes under Section 5C within the residential class of each city and town. Property tax relief to renters through deductions of income taxes is financed by the Commonwealth.

2. From another perspective, however, the Massachusetts program of homestead exemptions must be examined within a broader context of property tax relief that considers (a)

property tax limitation, which imposes ceilings on how much cities and towns can raise and by how much they can annually increase property taxes; (b) property tax classification, which authorizes cities and towns to tax different classes of property at different rates, including local options to establish residential tax rates at levels almost one-half those of nonresidential classes of property and to grant residential tax exemptions to owner-occupants of primary residences; (c) large annual increases in local aid to cities and towns by the Commonwealth offsetting some of the required reductions in property tax levies but with limited fiscal impact because of pervasive inflation; (d) legal strictures on state mandating of new or increased local tax exemptions without state reimbursements; and (e) municipal implementation of local options for granting larger homestead exemptions to taxpayers eligible for clause exemptions and for expanding the number of participants in the elderly exemption program. Although these available state strategies for property tax relief do not efficiently target all property taxpayers bearing the largest tax burdens as measured by income and net worth, in cities such as Boston, which have taken maximum advantage of every legislative option to minimize the property tax liabilities of owner-occupants, the net tax bills of clause exemption beneficiaries for the 1987 fiscal year, particularly of elderly homeowners, are one-half to two-thirds of what they would be without clause abatements and residential exemptions.

3. Proposals for new and/or modified strategies of providing property tax relief through exemptions in Massachusetts must strike a balance between the need of lower-income taxpayers of limited net worth for reductions in their tax burdens and the limited tax-raising capacities of municipal governments. Consideration must also be given to the political and/or economic advantages of increments to current programs versus outright replacement of the present system with a more universal and progressive arrangement.

Major Recommendations

1. The more rational and equitable alternative would be to substitute a new state-financed, state-administered circuit-breaker program benefitting lower-income tax-burdened homeowners and renters for the present patchwork of homestead exemptions and rental exemptions. These now cost the Commonwealth about $20 million a year in reimbursements of municipal treasuries for clause exemptions and about $60 million a year in state income tax deductions. Clause exemptions for fiscal 1987 will cost cities and towns a net of about $20 million. Thus the total state-local cost of all exemptions is about $100 million. A circuit-breaker program targeted at the 600,000 homeowners and renters in Massachusetts irrespective of age and with under $15,000 a year

in total money income would cost an estimated $150 million a year if average annual benefits per taxpayer were $250. (An average benefit of $250 would have covered about 52 percent of the average property tax liability of $481 for residents with total money income below $5,000 for FY1984 and would have declined to 39 percent of the average property tax liability of $641 for residents with total income in the $10,000-$15,000 income range for this same year.)[31] Since this circuit-breaker would be state-financed, it would cost the Commonwealth $70 million more than it now incurs in expenses for clause exemptions and losses of state income taxes. If the average benefit were increased to $500, the current statutory level for elderly exemptions, it would cost the Commonwealth a net addition of $220 million over present net state costs.

2. An alternative to a broad-based, state-financed, state-administered circuit-breaker program would target property tax relief to homeowners of lower income and net worth by selective modification and more effective utilization of existing clause exemptions under the following options while retaining without change the rental deduction from the state income tax:

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[31] Data on average property tax liability by money income class from Table 13, Reschovsky, Who Pays Massachusetts Taxes?, op. cit., p. 45. Underlying these estimates of property tax liability is the assumption that 100 percent of the property tax burden on rental housing is borne by tenants.

a. Adding a new tax deferral/recovery exemption applicable to nonelderly homeowners similar to the tax deferrable provisions in the bill filed by Senator Olver and containing the following components:

   (1) a gross receipts limitation of $20,000 ($25,000 if married) as in the Olver bill;

   (2) a net worth restriction of $28,000 ($30,000 if married), as in Clause 41C for the elderly (the Olver bill omits any net worth limit);

   (3) a flexible interest charge based on prevalent US Treasury bill rates (the Olver bill applies the 8 percent interest rate in Clause 41A);

   (4) a limit, e.g., 5 years, on how long a tax deferral/recovery program for nonelderly may last (no such limit in the Olver bill);

   (5) retaining all other provisions in Clause 41A, particularly those covering the lien/recording requirements;

   (6) authorizing cities and towns to borrow for purposes of offsetting tax losses under tax deferral, thereby avoiding local cash flow problems emanating from large-scale participation in this program. (This is similar to the provisions of Section 2, Chapter 287 of the Acts of 1974 establishing the original tax deferral/recovery mechanism.)

b. Using educational, outreach and other techniques of public information to inform homeowners of the availability and advantages of tax deferral. In January 1987, for the first time in Boston's history, the Assessing Department distributed multi-language materials describing all existing residential exemptions.

c. Amending the current provisions of Clause 18 (the "hardship" clause) so that local assessors may grant tax relief under this clause to any homeowner who is elderly, inform <u>or</u> poor, and authorizing state reimbursement for Clause 18 exemptions. Under current interpretation, local assessors must determine that <u>all three</u> conditions are met in order for an applicant to qualify. This amendment, excluding state reimbursement, is part of Senator Olver's property tax relief proposal.

d. Authorizing state reimbursement covering 100 percent of property tax losses due to clause exemptions, legislation that would cost only about $20 million more per year in state appropriations.

If nonelderly homeowners became eligible for tax deferral, the estimated temporary loss of property taxes to Boston would range between $1 million and $2 million a year. This is based on assumptions that (1) one-third of the owner-occupants in the City, or about 20,000 persons, would meet the income and net worth requirements, (2) that 5-10 percent of this total or 1,000-2,000 homeowners would actually participate, and (3) that the average annual tax bill to be deferred is $1,000.

The proposed changes in tax deferral policies would increase the City's annual net cost of clause exemptions by an estimated $1-$1 million. However, 100 percent state reimbursement for all clause exemptions, as recommended, would completely offset the loss of property taxes due to an expanded tax deferral program.

Appendix A

GUIDELINES FOR DETERMINATION OF HARDSHIP (CLAUSE 18) EXEMPTIONS AND INSTRUCTIONS TO CLAUSE 18 APPLICANTS CITY OF BOSTON

Guidelines

An applicant's income will not be (and has not been) the only determining factor in granting a clause 18 exemption, but it is the best point for the Board of Review to begin screening applications. For example, the Board may use Estimated Poverty thresholds for different houeshold sizes. (See Exhibit A) In establishing an applicant's income level, documentation should be required that substantiates the person's income from each source. This will include tax returns, paystubs, social security benefit statements, statements of pension distributions and bank statements. The income sources of both spouses should be verified and reviewed. Where a multi-family or mixed-use dwelling is involved, rental income must be established and considered. While net rental income must be established because it is a source of the total income of the applicant. In determining the person's net income, the impact of unusually large and unavoidable expenses must be considered, such as medical and utility bills. Discretionary expenses, such a private school tuition, cannot be considered unavoidable.

Earned income alone will not establish a person's ability to pay. An applicant may have other assets that could be used. The assessors must consider such things as the applicant's interest in any other real estate, personal property and automobiles. Some limits should be placed on such assets in order to qualify for an exemption in the range of $10,000 to $20,000, which is similar to the limits of the other clause exemptions.

In addition, verification of a person's physical condition should be supplied where an applicant asserts that a serious medical condition prevents him from working. Such verification should be specified statements from the applicant's personal physician describing his medical problem, its duration, and general prognosis.

Exhibit A

ESTIMATED WEIGHTED POVERTY THRESHOLDS IN 1985*

Size of Family Unit		Estimated Threshold
1 Person (median)		$5,544
Under 65 years		5,670
65 years and older		5,229
2 Persons (median)		$7,098
Householder under 65 years		7,329
Householder 65 years and over		6,594
3 Persons	$ 8,694	
4 Persons	11,140	
5 Persons	13,188	
6 Persons	14,982	
7 Persons	16,968	
8 Persons	18,795	
9 Persons or more		$22,229

* U.S. Census Bureau

Exhibit B

INSTRUCTIONS TO CLAUSE 18 EXEMPTION APPLICANTS

Applications must be completely filled out. If a category does not apply to you put N.A. (not applicable) or where a dollar amount is required, -0-.

If your application is based on a physical disability condition, you must submit a detailed letter from your personal physician describing the duration of the illness and the type of illness. Medical bills must also be submitted.

All sources of income must be documented. Income includes all income in your household, i.e., that of your spouse and other persons and relatives in the household. The documentation may consist of:

- tax returns
- pay stubs
- social security benefit statements
- statement of pension distributions
- bank statements for past year

All assets must be fully described and valued. Please keep in mind that having some assets will not automatically disqualify you from receiving this exemption. Each application is reviewed individually with attention given to the circumstances of that case.

If the assessors determine that an inspection of the premises is required, you must make the real estate available for such inspection. Refusal of an inspection will be grounds for denial of the application. All buildings which are multi-family or mixed-use will have inspections.

Appendix B

CITIES AND TOWNS WITH MULTIPLE PROPERTY TAX RATES IN MASSACHUSETTS, FY 1985

	Minimum Residential Factor	Residential Factor Selected	Tax Rates Residential	Tax Rates Open Space	Com./Ind./ Personal
Acushnet	92.4280	92.4280	$19.00	$19.00	$30.83
Andover	78.4388	93.5301	16.64	16.64	20.47
Attleboro	81.5949	85.4233	21.35	21.35	34.89
Ayer	74.8536	75.7686	11.88	8.91	23.53
Bedford	65.0000	85.1719	16.51	12.38	22.29
Beverly	88.4099	94.2049	23.17	23.17	30.75
Billerica	71.5775	86.9085	17.16	17.61	25.00
Boston	65.0000	65.0000	16.42	16.42	31.36
Boxborough	85.2754	92.6377	11.79	11.79	15.91
Brockton	82.3955	92.9582	22.90	22.90	29.57
Brookline	92.4403	93.9523	22.88	22.88	31.52
Burlington	65.0000	78.2496	14.30	14.30	22.00
Cambridge	65.0000	65.0000	15.26	15.26	34.69
Canton	74.7622	97.4762	18.68	18.68	20.12
Carver	85.8894	91.0000	18.11	18.11	26.25
Chelsea	65.0000	65.0000	15.59	15.59	33.91
Chicopee	83.9182	85.5264	19.41	19.41	32.92
Clinton	79.9027	79.9027	16.54	16.54	31.05
Concord	90.3782	97.9589	19.13	16.26	22.00
Dedham	83.1685	87.7093	19.23	19.23	29.93
Dighton	81.3749	81.3749	20.42	17.24	37.38
Erving	65.0000	65.0000	7.50	7.50	12.31
Everett	65.0000	65.0000	13.02	13.02	25.40
Fall River	73.0762	83.8457	20.96	20.96	32.50
Fitchburg	76.7822	88.3910	22.10	22.10	31.25
Florida	65.0000	65.0000	8.88	8.88	15.26
Framingham	78.8890	89.4444	18.20	18.20	25.45
Freetown	84.6371	84.6371	19.31	19.31	34.22
Haverhill	83.2935	88.3054	19.61	19.61	29.97
Holbrook	85.1384	96.4988	24.67	18.50	29.29
Holyoke	66.9532	80.8328	20.20	20.20	32.25
Hopedale	89.2341	93.0000	19.81	19.81	28.23
Hudson	87.0810	87.0810	20.92	20.92	36.04
Lawrence	71.7187	84.0729	18.00	18.00	27.44
Lexington	85..89	90.3849	20.46	20.46	29.90
Lowell	80.6879	80.6879	19.60	19.60	36.18
Lynn	83.2534	83.2534	20.15	20.15	36.31
Malden	87.3066	91.1147	21.97	21.97	32.55
Marlborough	68.7193	80.9877	17.00	17.00	27.37
Maynard	83.6692	90.0800	21.41	21.41	30.98
Medford	90.7357	90.7357	22.68	22.68	37.50
Melrose	94.8256	99.0000	23.00	23.00	25.47

(continued on next page)

	Minimum Residential Factor	Residential Factor Selected	Residential	Tax Rates Open Space	Com./Ind./ Personal
Middleborough	83.5958	93.4357	$19.32	$19.32	$24.81
Milford	87.3663	87.3663	20.09	20.09	34.50
Montague	70.4009	91.1200	21.88	21.88	28.98
Nantucket	92.8813	92.8813	7.17	7.02	11.34
New Ashford	65.0000	68.2516	3.40	.3.40	6.51
Newton	89.3910	98.3910	20.34	20.34	34.12
North Andover	76.4106	90.9564	22.73	22.73	29.79
Norton	90.5460	90.564	23.82	17.48	23.30
Norwood	72.2826	96.4641	18.00	18.00	19.85
Peabody	80.3018	96.8830	21.91	21.91	24.41
Pittsfield	77.4273	90.7158	21.32	21.32	28.34
Quincy	80.9768	88.5860	21.03	21.03	30.86
Randolph	85.8741	98.0000	23.96	23.96	26.18
Revere	84.2712	84.2717	17.98	17.98	32.01
Salem	65.0000	77.7983	16.82	16.82	26.27
Saugus	79.8080	83.8464	16.92	19.92	28.25
Seekonk	93.6087	93.6087	17.11	17.11	21.36
Somerset	65.0000	81.5962	18.00	16.00	22.15
Springfield	81.3000	81.3000	20.25	20.25	32.36
Stoughton	84.6258	96.0000	22.18	22.18	26.12
Sudbury	93.0912	93.3675	23.06	23.06	36.56
Swampscott	95.2561	96.2050	21.70	21.70	31.58
Swansea	87.4393	95.7178	20.95	20.95	25.61
Taunton	85.6638	85.6638	21.10	21.10	36.94
Tewksbury	79.8846	90.9110	20.00	20.00	26.97
Wakefield	85.5620	92.7619	22.14	22.14	29.85
Waltham	66.4545	74.4989	16.55	16.55	30.66
Warren	84.3972	85.0000	18.35	18.35	31.97
Watertown	83.5693	83.5693	22.00	22.00	36.60
Webster	85.9991	92.4359	14.49	14.49	19.91
W. Springfield	69.7401	86.6805	20.40	20.40	28.72
Westfield	84.8138	91.5000	21.17	21.17	29.61
Westwood	78.9448	89.7226	16.97	16.97	23.53
Weymouth	90.2725	95.1363	24.97	24.97	29.54
Wilmington	65.0000	87.9160	19.09	19.09	24.68
Woburn	65.0000	70.0000	13.06	13.06	26.09
Worcester	74.2725	84.0571	20.00	20.00	31.16

Source: Bureau of Local Assessment, State Dept. of Revenue, Fiscal 1985 Final Certification/Classification Report (undated).

Appendix C

PERCENT OF RESIDENTIAL PROPERTY WITH NET TAX BILLS UNDER $1,000 IN BOSTON BY WARD AND CLASS, FY86

	R_1			R_2		
Ward	Total No. of Parcels	No. with Net Tax Bills Under $1,000*	% with Net Tax Bills Under $1,000	Total No. of Parcels	No. with Net Tax Bills Under $1,000*	% with Net Tax Bills Under $1,000
1	992	849	85.6%	1253	1036	82.7%
2	950	471	49.6	503	82	16.3
3	112	7	6.3	88	1	1.1
4	246	5	2.0	193	0	-
5	473	2	0.4	147	0	-
6	876	741	84.6	550	361	65.6
7	793	686	86.5	706	505	71.5
8	170	159	93.5	141	132	93.6
9	183	148	80.9	105	79	75.2
10	250	229	91.6	277	197	71.1
11	543	491	90.4	511	375	73.4
12	372	363	97.6	543	515	94.8
13	525	458	87.2	554	478	86.3
14	508	507	99.8	1078	1063	98.6
15	442	437	98.9	548	536	97.8
16	1808	1630	90.2	1389	872	62.8
17	1662	1534	92.3	1356	1119	82.5
18	6946	6480	93.3	2887	2140	74.1
19	1996	1000	50.1	1237	456	3.7
20	7559	2945	39.0	1903	102	5.4
21	332	55	16.6	552	11	2.0
22	1339	433	32.3	2079	70	3.4
Totals	29077	19630	67.5%	18600	10130	54.4%

	R_3			R_4		
Ward	Total No. of Parcels	No. with Net Tax Bills Under $1,000*	% with Net Tax Bills Under $1,000	Total No. of Parcels	No. with Net Tax Bills Under $1,000*	% with Net Tax Bills Under $1,000
1	2162	1874	86.7%	210	22	10.5%
2	457	32	7.0	80	1	1.2
3	220	4	1.8	488	11	2.3
4	188	0	-	183	1	0.3
5	123	0	-	372	2	0.5
6	868	506	58.3	122	12	9.8
7	1218	761	62.5	60	6	10.0
8	302	274	90.7	145	20	13.8
9	159	97	61.0	270	29	10.7
10	694	412	59.4	88	21	23.9
11	897	581	64.8	122	25	20.5
12	579	549	94.8	138	42	30.4
13	1035	930	89.8	53	14	26.4
14	1424	1414	99.3	162	41	25.3
15	1142	1102	96.5	64	6	9.4
16	987	441	44.7	69	7	10.0
17	921	787	85.5	94	14	14.9
18	623	398	63.9	128	10	7.8
19	718	183	25.5	136	12	8.8
20	356	11	3.1	57	0	-
21	295	0	-	168	1	0.6
22	560	3	0.5	167	2	1.2
Totals	15928	10359	65.0	3576	299	8.4

Source: Assessing Department, City of Boston.

R_1 = One-dwelling unit.
R_2 = Two-dwelling units.
R_3 = Three-dwelling units.
R_4 = Four- to six-dwelling units.

* After deducting residential exemption and clause abatement.

Appendix D

PRECENT OF RESIDENTIAL PROPERTY WITH NET TAX BILLS UNDER $1000 IN BOSTON BY WARD AND CLASS, FY 87

R_1

Ward	Total No. of Parcels	No. with Net Tax Bills Under $1,000*	% with Net Tax Bills Under $1,000
1	998	806	80.8%
2	949	392	41.3
3	108	4	3.7
4	219	0	-
5	471	0	-
6	858	709	82.6
7	794	650	81.9
8	168	158	94.0
9	176	140	79.5
10	249	216	86.7
11	542	455	83.9
12	368	356	96.7
13	426	442	94.0
14	501	499	99.6
15	442	435	98.4
16	1824	1535	84.2
17	1686	1446	85.8
18	6952	6081	87.5
19	1998	909	45.5
20	7573	1750	23.1
21	332	29	8.7
22	1343	300	22.3
Totals	29077	17312	59.5

R_2

Ward	Total No. of Parcels	No. with Net Tax Bills Under $1,000*	% with Net Tax Bills Under $1,000
1	1266	932	73.6%
2	494	34	6.9
3	91	1	1.1
4	189	0	-
5	148	0	-
6	556	267	48.0
7	706	382	54.1
8	441	130	32.2
9	537	79	13.8
10	279	148	53.2
11	506	343	67.8
12	541	432	80.3
13	553	403	72.9
14	1076	1028	95.5
15	549	503	91.6
16	1330	438	34.7
17	1356	870	64.2
18	2893	1496	51.7
19	1241	211	17.0
20	1905	33	1.7
21	550	8	1.5
22	2075	46	2.2
Totals	18611	[illegible]889	12.4%

R_3

Ward	Total No. of Parcels	No. with Net Tax Bills Under $1,000*	% with Net Tax Bills Under $1,000
1	2158	1610	74.6%
2	442	11	2.5
3	212	2	0.9
4	182	0	-
5	116	0	-
6	877	429	48.9
7	1211	578	47.7
8	302	273	90.4
9	157	94	59.9
10	692	256	37.0
11	896	427	47.7
12	584	524	89.7
13	1033	776	75.1
14	1424	1385	97.3
15	1145	928	81.0
16	985	190	19.3
17	923	655	71.0
18	1273	245	19.3
19	714	93	13.0
20	356	7	2.0
21	292	0	-
22	565	7	1.2
Totals	15989	8490	53.4

R_4

Ward	Total No. of Parcels	No. with Net Tax Bills Under $1,000*	% with Net Tax Bills Under $1,000
1	206	14	6.8%
2	74	1	1.4
3	480	13	2.7
4	355	1	0.3
5	351	1	0.3
6	121	6	5.0
7	62	1	0.2
8	134	11	8.2
9	256	26	10.2
10	82	8	9.8
11	118	15	12.7
12	137	29	21.2
13	52	9	17.3
14	162	34	21.0
15	65	3	4.6
16	69	5	7.2
17	93	5	5.4
18	128	4	3.1
19	133	7	5.3
20	57	0	-
21	150	0	-
22	166	2	1.2
Totals	3461	195	5.6%

Source: Assessing Department, City of Boston.

R_1 = One-dwelling unit.
R_2 = Two-dwelling units.
R_3 = Three-dwelling units.
R_4 = Four- to six-dwelling units.

* After deducting residential exemption and clause abatement.

STATE PROPERTY TAX HOMESTEAD EXEMPTIONS, 1985

State (Ratio to Assessed Value to Market Value)	Eligible Homesteaders and (Number Receiving Exemption)	Maximum Value of Exemption and (Average Benefit)	Total Revenue Loss from Program	State Reimbursement of Local Government and (Cost)
Alabama* (7.3)	All Elderly, blind, and disabled w/AGI<$12,000	$4,000 AV on state taxes, 2,000 AV on county taxes Total exemption from state taxes, $5,000 AV on local taxes		None.
Alaska* (76.9)	All Elderly	$27,000 Total exemption if owner-occupied		Only for exemption to elderly.
Arizona (5.7)	None*			None.
Arkansas (9.0) [1983]	Disabled veterans and dependents (N/A)	Total exemption from state property taxes (N/A)	(N/A)	None.
California (57.1)	All (4,262,000) Disabled veterans and dependents	$7,000 of full cash value if owner-occupied principal residence $100,000 AV (effective 1/1/85)	$333 million $1.7 million	Full ($334 million). Full ($1.7 million).
Colorado* (9.6)	Low-income elderly and disabled	Total exemption		N/A
Connecticut (39.7)	Elderly* Disabled (15,000) Disabled veterans and dependents	$1,000 AV $1,500 - $10,000 depending on disability	$29.2 million	Full reimbursement for credits to disabled and elderly ($29.2 million).
Delaware (25.4)	Elderly owner-occupants with income<$3,000	Total exemption		N/A
Dist. of Col. (78.5)	All owner-occupants with not more than 5 dwelling units	$9,000 estimated market value	$10 million	N/A
Florida (67.5)	All Disabled, blind, and widows	$25,000 AV Up to value of $500. Total exempt. for some disabled		None.
Georgia (28.1)	All Elderly with income less than $8,000 Disabled veterans and dependents	$2,000 AV $4,000 AV, $10,000 AV on local education assessment $32,500 AV		None.
Hawaii (41.6)	All Elderly Blind, disabled, and Hansen's disease sufferer Disabled veterans and dependents	$20,000 AV on owner-occupied principal home Aged 60-70: $40,000 AV Aged 70+: $50,000 AV $25,000 Total exemption if owner-occupied		None. (Local option)
Idaho* (77.2)	All Owner-Occupied Improvements	$50,000 AV or 50% AV, whichever is less	None	None.
Illinois (27.1)	All Elderly owner-occupants Disabled veterans with specially adapted housing Total (2,900,000)	$3,500 AV $2,000 AV $30,000 AV	$616.2 million	None.

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State (Ratio to Assessed Value to Market Value)	Eligible Homesteaders and (Number Receiving Exemption)	Maximum Value of Exemption and (Average Benefit)	Total Revenue Loss from Program	State Reimbursement of Local Government and (Cost)
Indiana (17.1)	All (principal residence and 1 acre surrounding) Mortgage or contract buyers Elderly with AGI less than $1,000 and real property AV less than $11,000 Blind or disabled with taxable gross income less than $8,500 Veterans	Credit of 2% of property tax liability in 1984 and 1985, 4% thereafter Lesser of 1) balance of mortgage or contract indebtedness, 2) 1/2 total AV, or 3) $1,000 $1,000 AV $2,000 AV $1,000 - 3,000 AV		For Homestead Credit ($20,842,000 in 1982).
Iowa (64.3)	All Disabled veterans with income less than $10,000	$4,580 of actual value; minimum credit of $62.50 Full exemption	$93.4 million	Full ($93.4 million).
Kentucky (80.0)	Elderly and disabled	$16,100 AV*	$7 million	Full ($7 million)
Louisiana* (6.2)	All homesteads not exceeding 160 acres (939,060)	$7,500 AV	$274.2 million (1984)	Parish to parish formula based 80% on population, 20% on number of homesteads ($90.1 million).
Maine (70.3)	Aged or disabled veterans and their dependents	$4,000 AV ($40,000 for paraplegics)	$422,952	50% of property tax revenue loss ($211,476).
Maryland (34.0)	Blind 100% permanently disabled veterans	$6,000 AV Total exemption		Partial.
Massachusetts (51.8)	All Elderly (over age 70) owner-occupants with home value less than $20,000 ($40,000 for exemptions by cities and towns) and surviving spouses and minors Disabled veterans and dependents Blind Surviving spouses and minors of a policeman or firefighter killed in the line of duty	With city or town approval, 10% of average AV deducted on principal residence $2,000 in value or $175 in taxes, whichever is greater* $2,000 - 10,000 or $175 - 875 in taxes, whichever is greater (depending on disability) $5,000 in value or $437.50 ($500 if locally approved) in taxes, whichever is greater $8,000 in value or $700 in taxes, whichever is greater	None (exemption financed through redistribution) $38.8 million. Full state reimbursement where total value of estate exceeds $8,000. ($2 mil.) Partial state reimbursement for tax exemptions over $2,000 or $175 in taxes ($2 mil) 20% of tax ($380,000) None.	None.
Michigan (43.4)	Disabled veterans with specially adapted housing	Total exemption		None.
Minnesota* (17.4)	All (1,040,899)	Homestead credit of 54% of gross tax up to $650 ($508.26)	$529 million	Full ($529 million).
Mississippi (6.7)	All	$7,500 AV	$60.3 million	Full ($60.3 million).
Montana* (3.6)	Totally disabled with AGI less than $15,000 ($18,000 if married)	Total exemption	$90,000	None.

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STATE PROPERTY TAX HOMESTEAD EXEMPTIONS, 1985
(continued)

State (Ratio of Assessed Vale to Market Value)	Eligible Homesteaders and (Number Receiving Exemption)	Maximum Value of Exemption and (Average Benefit)	Total Revenue Loss from Program	State Reimbursement of Local Government and (Cost)
Nebraska (70.4)	All (beginning tax year 1985) Elderly Disabled Totally disabled veterans All categories (55,080)	$3,000 actual value $7,000 - 35,000 actual value, depending on income $35,000 actual value 90 - 100% of actual value All categories ($462)	$25.5 million (1983)	Full ($25.5 million).
Nevada (21.5)	Widows, orphans, veterans Blind Disabled veterans	$1,000 AV $3,000 AV $10,000 AV		N/A
New Hampshire (61.3)	Elderly (68 or over) with net assets less than $35,000 and net income less than $5,000 ($6,000 if married)* Blind Disabled veterans and dependents	$5,000 AV $15,000 in value $50 - 700 in taxes; total exemption for specially adapted homesteads		None.
New Jersey* (58.6)	All Elderly, disabled, and surviving spouse All above categories (1,533,435) 100% permanently disabled veteran	Rebate up to 50% of net property tax otherwise due* Additional $50 rebate Total exemption	$300 million	Full ($300 million). None.
New Mexico (12.4)	All heads of household (209,580) Veterans and unmarried surviving spouse (47,306)	$200 AV ($6.71) $2,000 AV ($67.17)	$1.4 million $3.2 million	None.
New York (22.3)	None*			N/A
North Carolina (58.0)	Elderly and disabled owner-occupants with disposable income not exceeding $9,000 Disabled veterans and dependents All categories (179,000)	$8,500 AV $34,000 AV All categories ($68.00)	$12.2 million (1983)	15% of revenue loss ($1.8 million)
North Dakota (5.7)	Elderly and disabled with income $10,000 or less and assets (excl. homestead) of $50,000 or less (8,200) Other disabled*	Up to $2,000 taxable value depending on income ($215.61) $5,000 - 10,000 taxable value		For low-income elderly and disabled: Full ($1.8 million)
Oklahoma (7.4)	All Heads of household w/gross income $5,000 or less	$1,000 AV ($80) over $1,000 AV ($58)	$56.9 million	For low income homeowners ($686,160)
Oregon (76.4)	Disabled veterans or widows of veterans of Civil and Spanish-American Wars	$10,000 - $2,000 taxable value		None.

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State (Ratio of Assessed Value to Market Value)	Eligible Homesteaders and (Number Receiving Exemption)	Maximum Value of Exemption and (Average Benefit)	Total Revenue Loss from Program	State Reimbursement of Local Government and (Cost)
Pennsylvania (14.2)	Paraplegic, blind, amputee, or disabled veterans	Total exemption (N/A)	N/A (19)	None.
Rhode Island* (40.0)	Disabled veterans occupying specially adapted housing	$10,000 AV		None.
South Carolina (2.2)	Elderly, blind, and disabled Paraplegics and disabled veterans All categories (152,635)	$20,000 fair market value Total exemption of dwelling house and lot (not to exceed 1 acre) All categories ($100.35)	$20.3 million	Full ($20.3 million).
Texas (39.7)	All, elderly, and disabled	30% of appraised value, minimum of $5,000 market value* $10,000 market value for school district purposes* minimum $3,000 appraised value exempted by local governments on local-option basis.	School districts lost $780 million	None.
Utah (11.3)	Blind	$2,000 in value		N/A
Vermont (56.3)	Veterans and their widows of Civil and Spanish-American Wars Veterans with at least 50% disability and their dependents	Total exemption of owner-occupied dwellings $10,000 value of owner-occupied real and personal property	$1 million (1983)	None.
Virginia (79.8)	Elderly or disabled owner-occupants with income less than $18,000 and combined net worth (excl. the value of the dwelling and 1 acre of land) less than $65,000 (37,339)	Counties, cities, and towns are authorized to provide deferrals or exemptions of realty taxes ($209)	$7.8 million (1983)	None. (Local option)
Washington (74.1)	Elderly (62 and over) and disabled with income restrictions (87,216)	Special levies: 100% exemption for households with income of $15,000 or less Regular levies: Income up to $9,000 - 1st $25,000 of AV or 50% of total AV is exempt, whichever is more. Income $9,001-$12,000 - 1st $20,000 of AV or 30% of total AV up to max. of $40,000 is exempt ($274)	$23.9 million	None.
West Virginia (20.5)	Elderly and disabled owner-occupants	First $20,000 AV		None.
Wisconsin (65.0)	None*			N/A
Wyoming* (6.2)	All homesteads with AV less than $5,850 but more than $3,900 AV under $3,900	Credit of up to $590 Credit up to $1,400	$5 million	Full ($5 million).

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NOTES TO HOMESTEAD EXEMPTION TABLE

This table records the exemptions from property tax provided to homesteaders, homeowners, and owners of residential property. Although variations exist, homestead exemptions generally operate by reducing by a certain amount (sometimes all) the assessed valuation of a homestead to which the property tax is applied. The exemption may be restricted, e.g., to certain classes of beneficiaries, owner-occupants, or those with income below specified limits. Tax deferral programs and exemptions for new construction or rehabilitation have not been included in the table.

Elderly = 65 and over unless otherwise noted
Disabled = permanently and totally disabled unless otherwise noted
AV = assessed value
AGI = adjusted gross income

*NOTES:

AL: Exemptions allowed only on homesteads 160 acres or less. If AGI less than $7,500, total exemption from county ad valorem tax.

AK: Residents 65 or older who rent their homes are eligible for tax equivalent payments calculated by applying a property tax equivalent percentage for each home rule or general law municipality levying a general property tax at the rate of 1% per mill to the annual rent charged.

AZ: Exemptions up to $1,800 on all property of veterans depend on total assessment; exemptions up to $1,800 for widows, widowers and disabled are allowed if household income is less than $8,400 ($12,000 with dependents).

CO: Low income is less than 150% of the limit prescribed for similar households who occupy nearby low-rent public housing operated by a local housing authority. Elderly is 62 and over.

CT: State program providing annual tax relief to elderly homeowners and renters per a schedule based on income. Municipalities may grant elderly additional tax relief if total (state and municipal) tax relief does not exceed 75% of the tax otherwise due. Municipalities may also allow veterans an additional exemption if income meets prescribed limits.

ID: Low-income residents and homestead owners who are elderly, disabled, disabled veterans, blind, widows or widowers, POWs, and fatherless children under 18 receive a property tax reduction.

KY: Amount is adjusted every two years for inflation.

LA: Homestead exemption does not apply to municipal taxes except in Orleans Parish and to municipal taxes levied for school purposes.

MA: With gross income less than $6,000 ($7,000 if married) and whole estate excluding realty less than $17,000 ($20,000 if married): $4,000 in valuation or $500 in taxes, whichever is greater. Income limits for cities and towns are $10,000 ($12,000) and $20,000 ($23,000).

MN: Agricultural and non-agricultural homesteads and homesteads of the blind, disabled, or paraplegic vets also receive preferential classification ratios. For five-year resident veterans with a Congressional Medal of Honor, the first $2,000 of their property tax is paid by the Commissioner of Revenue. The maximum amount of market value subject to the homestead credit is $67,000 for residential homestead property. Farm homestead property is not subject to market value maximum.

MT: The retired, disabled, or widowed with not more than $8,000 in total income ($10,000 if married) receive preferential classification on the first $35,000 of market value of any improvement on real property and appurtenant land not exceeding 5 acres owned or under contract for deed and actually occupied for at least 10 months a year as the primary residential dwelling. It is taxed at 8.55% of its market value multiplied by a percentage figure (0 - 90%) based on income. Total revenue loss in 1983 from this program was $805,000.

NH: Municipalities may adopt homestead exemptions as follows:

		Plan I	Plan II
Age:	65-75	$ 5,000	$10,000
	75-80	10,000	15,000
	80+	20,000	20,000
Income Limit:		7,000 ($9,000 if married)	10,000 ($12,000 if married)
Assets Limit:		50,000	30,000 (excluding homestead and land)

NJ: Rebate of $1.50 per $100 to $10,000 of equalized value, or two-thirds of equalized value, whichever is less. Plus 12.5% of the effective tax rate in the municipality wherein the rebate is claimed, multiplied by $10,000 of equalized value or 2/3 of equalized value whichever is less, up to 50% of net property tax otherwise due. Elderly, disabled, and surviving spouses with income less than $10,000 also receive $250 deduction from all real property taxes. Veterans, spouses of veterans, and spouses of servicemen receive $50 deduction on real or personal property. Both of these programs are funded by the State at a total cost of $66,493,770.

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NOTES TO HOMESTEAD EXEMPTION TABLE
(continued)

NY: Municipalities may grant exemptions to elderly up to 50% of AV on residential realty, and to veterans (beginning in 1985) of 15% of AV for those who served during wartime, 25% for those who served in a combat zone, and up to 50% for disabled veterans (the non-disabled exemption applies only for 10 years).

ND: Disabled in wheelchair, blind owner-occupants, and owner-occupant disabled veterans with 50% disability or more and income $10,000 or less: $5,000 taxable value. Owner-occupant paraplegics with income $10,000 or less or those awarded specially adapted housing: $10,000 taxable value.

PA: Information not maintained at state level; each county assessment office keeps information on the amount of property qualifying for the disabled veterans exemption.

RI: $6,000 of all property of blind persons, $1,000 of property of veterans, and $2,000 of property of some disabled veterans is exempt. In addition, cities or towns may freeze the tax rate and valuation on real estate of a totally disabled person and of low-income persons age 65 and over.

TX: Percentage decreases to 30% in 1985-1987, and 20% in 1988 on. All homesteaders also recieve a $3,000 exemption from market value for county farm-to-market roads/flood control tax purposes and $5,000 for school district purposes. Disabled veterans are allowed exemptions of from $1,500 - 3,000 in market value which may be applied to the homestead. School districts must freeze taxes on residential homesteads of those 65 and over.

WI: Every property taxpayer of a municipality receives a tax credit from the total amount of tax relief distributed to the municipality from the state in proportion that the value of property assessed to that taxpayer bears to the total assessed value of the municipality.

WY: Veterans receive a $2,000 AV exemption on all property up to tax benefit to $800. Disabled veterans receive an additional exemption from AV up to $2,000 depending on degree of disability.

Source: Table 72, Significant Features of Fiscal Federalism, 1985-86 Edition, ACIR, Dec. 1985, p. 117-122. Data for Massachusetts more fully documented by authors of this report.

Appendix F

KEY FEATURES OF STATE CIRCUIT-BREAKER PROPERTY TAX RELIEF PROGRAMS, 1985

State	Date of Adoption	Description of Beneficiaries (Number of Beneficiaries)	Income Ceiling	Description of Program	Form of Relief	Average Benefit (Per Capita Cost) [Total Cost ($1,000)]
Arizona*	1973 Revised: 1977, 1981, 1984	Homeowners and renters 65 and over, and disabled (259,775)	$3,750/ single $5,550/ married (Excludes SS income)	Maximum tax credit is $413 (indexed annually) for single taxpayers earning less than $1,750 and married taxpayers earning less than $2,500. Minimum tax credit is $46 with an income ceiling of $3,750 for single and $5,500 for married taxpayers. Social Security payments are exempted from income limits.	State income tax credit or rebate	$111.40 ($9.42) [$28,940]
Arkansas (1984)	1973 Revised: 1975, 1983	Homeowners 65 and over, widows 62 and over (36,439)	$12,000 (WWI vets & widows exclude all SS & retirement income)	Relief based on amount that property taxes exceed various percentages of household income, based on income size. Maximum relief ranges from $250 if income is $7,000 or less to $50 if income is between $11,000 and $12,000.	State income tax credit or rebate	$ 91.20 ($1.35) [$3,323]
California	1967 Revised: 1971, 1973, 1977, 1978, 1979	Homeowners and renters 62 and over, totally disabled Homeowners (85,000) Renters (244,000)	$20,000 gross household income; $12,000 net household income	Homeowner relief ranges from 96% of tax payment on first 34,000 of full value if net household income is not over $3,000 to 4% of tax payment if net household income is not over $12,000. Renter relief is based on household income and a statutory property tax equivalent of $250. Relief also ranges from 96% of the property tax equivalent to 4% of property tax equivalent for same income brackets as homeowners.	State rebate	Homeowners $ 92.00 ($ .36) [$8,100] Renters $134.00 ($1.41) [$33,530]
Colorado (1983)	1971 Revised: 1972, 1973, 1974, 1975, 1977, 1978, 1980	Homeowners and renters 65 and over, disabled or surviving spouse 58 and over (55,468)	$7,500/ single $11,200/ married	Relief cannot exceed $500 and is equal to $500 reduced by 10% of income over $5,000 for individuals and 20% of income over $8,700 for married couples (20% of rent equals tax equivalent).	State income tax credit or rebate	$270.80 ($4.98) [$15,021]
Connecticut*	1974 Revised: 1980, 1981, 1984, 1985	Homeowners and renters 65 and over or surviving spouse 50 & over Homeowners (24,137) Renters (20,951)	$12,900/ single $15,500/ married	Homeowners: Provides for a property tax reduction based upon a graduated percentage of the real property tax, with a maximum benefit of $1,250 for a married couple, $1,000 for an unmarried individual. Renters: Taxes exceeding 5% of income. Maximum benefit ranges up to $900 for a married couple and $700 for an unmarried individual. (22% of rent and utilities equals tax equivalent)	Reduction in tax bill or state rebate	$289.83
Dist. of Col.	1974 Revised: 1977	Non-elderly homeowners and renters (19,843)	$20,000	Relief takes the form of a variable credit ranging from 95% of tax in excess of 1.5% of income for incomes less than $3,000 to 75% of tax in excess of 4% of incomes for incomes between $15,000 and $20,000. Maximum credit $750. (15% of rent equals tax equivalent.)	Income tax credit	$216.22 ($7.44) [$4,669]

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KEY FEATURES OF STATE CIRCUIT-BREAKER PROPERTY TAX RELIEF PROGRAMS, 1985
(continued)

State	Date of Adoption	Description of Beneficiaries (Number of Beneficiaries)	Income Ceiling	Description of Program	Form of Relief	Average Benefit (Per Capita Cost) [Total Cost ($1,000)]
Dist. of Col. (continued)	1974 Revised: 1977	Elderly, blind or disabled homeowners and renters (16,293)	$20,000	Credit is based on amount of property tax paid in excess of various percentages of household gross income. Credit ranges from taxes paid in excess of 1% of gross household income if income is under $5,000 to taxes paid in excess of 2.5% of income for incomes between $15,000 and $20,000. Maximum credit is $750. (15% of rent equals tax equivalent.)	Income tax credit	$352.85 ($9.16) [$5,749]
Hawaii (1983)	1977 Revised: 1981	All renters (44,480)	$20,000	Taxpayers with AGI under $20,000 who have paid more than $1,000 in rent qualify for a tax credit or refund of $50 per qualified exemption. Taxpayers 65 and over may claim double tax credits.	Income tax credit	$ 99.96 ($4.34) [$4,446]
Idaho	1974 Revised: 1976, 1978, 1980, 1982	Homeowners age 65 and over, widows, blind disabled veterans, fatherless children under 18, POWS, disabled (17,417)	$11,900 (Exclude capital gains income)	Relief ranges from lesser of $400 or actual taxes for those with incomes $4,780 less to lesser of $50 or taxes for those with incomes between 11,701 and 11,900. Brackets adjusted annually with COLA based on Social Security increase.	Reduction of tax bill	$181.00 ($3.16) [$3,160]
Illinois	1972 Revised: 1974 1975, 1977, 1981, 1982, 1984	Homeowners and renters 65 and over or disabled (315,000)	$14,000	Relief based on amount by which property tax (or rent equivalent) exceeds 3.5% of household income. Relief limit is $700 less 4.5% of household income (30% of rent equals tax equivalent). An additional grant is provided regardless of the amount of property tax or rent payments. The additional grant is $80.	State rebate	$250.00 ($6.99) [80,000]
Iowa	1973 Revised: 1975 1977-81, 1983	Homeowners and renters 65 and over, surviving spouse 55 or older, and totally disabled (53,000)	$12,000	Relief ranges from 100% of property tax for incomes below $5,000 to 25% for incomes $9,000 to $12,000. Property taxes are limited to $1,000 for calculating relief. (In addition, all homeowners receive a state financed homestead tax exemption of $4,850. However, homestead assistance must be deducted from elderly credit program.) (25% of rent equals tax equivalent.)	State funded local credit	$200.50 ($3.66) [$10,627]

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KEY FEATURES OF STATE CIRCUIT-BREAKER PROPERTY TAX RELIEF PROGRAMS, 1985
(continued)

State	Date of Adoption	Description of Beneficiaries (Number of Beneficiaries)	Income Ceiling	Description of Program	Form of Relief	Average Benefit (Per Capita Cost) [Total Cost ($1,000)]
Kansas	1970 Revised, 1972 1973, 1975 1978, 1979 1983	Homeowners and renters 55 and over, disabled, blind or having a dependent child under 18. (52,994)	$13,000 (Effective ceiling is $12,800. No refunds of $5.00 or less.)	Relief is dependent upon income level with various percentages of income subtracted from property tax to determine refund. Ranges from 0% for incomes below $3,000 to 4.5% for incomes above $7,000. Property taxes are limited to $400 for calculating relief. (15% of rent equals tax equivalent.)	State rebate	$157.51 ($3.46) [$8,347]
Maine (1984)	1971 Revised: 1973 1974, 1977, 1981	Homeowners and renters 62 and over disabled surviving spouse 55 and over (20,137)	$6,200/ single $7,400/ married (Gift, inheritance & life ins. exempt)	Relief equal to amount of tax up to $400 (25% of rent equals tax equivalent.)	State rebate	$278.00 ($4.67) [$5,614]
Maryland	1975 Revised: 1977 1981	All homeowners (98,583) Renters age 60 and over or disabled (8,977)	none (net worth $200,000)	Homeowners relief, not to exceed $1,200, equals property tax exceeding sum of graduated percentage of income ranging from 3/4% of first $4,000 of household income to 9% of income over $16,000. Renters' relief, not to exceed $450, equals the amount by which 15% of the individual rent exceeds the same graduated percentage of income as homeowners relief.	Homeowners: Credit against property tax bill Renters: direct payment	$413.22 ($8.22) [$40,736] $212.44 ($ .42) [$1,907]
Michigan	1973 Revised: 1975 1982	All homeowners and renters (1,523,100)	$79,950	Credit equals 60% of property taxes in excess of 3.5% of income (100% of a lower percentage of income for elderly). Maximum relief is $1,200 (17% of rent equals tax equivalent). The credit is reduced 10% for each $1,000 of household income above $70,950.	State income tax credit or rebate	$396.77 ($65.33) [$602,801]
Minnesota	1967 Revised: 1973 1975-1983	All homeowners and renters (630,000)	$40,000 (Some types of income excluded)	Tax exceeding various percentages of income is refunded up to a $1,125 maximum. Senior citizens and disabled persons are allowed $2,000 income exclusion per household. The refund is reduced by the amount of homestead credit.	State refund	Homeowners: $238.00 Renters: $320.00 ($45.00) [$185,400]
	1981 Revised: 1982 1984	Homeowners (40,000)	$50,000 (Some types of income excluded)	For 1985, 50% of a tax increase of over 12.5% is refunded up to $400 maximum.	State refund	$100.00 (1.00) [4,000]

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KEY FEATURES OF STATE CIRCUIT-BREAKER PROPERTY TAX RELIEF PROGRAMS, 1985
(continued)

State	Date of Adoption	Description of Beneficiaries (Number of Beneficiaries)	Income Ceiling	Description of Program	Form of Relief	Average Benefit (Per Capita Cost) [Total Cost ($1,000)]
Minnesota (continued)	1983 Revised: 1984	Homeowners	None (Some types of income excluded)	Requires a net tax increase of more than 10% and a ratio of property taxes paid to estimated market value greater than 2.25%. Refund is 50% of the net tax increase over 10%.	State refund	N/A
Missouri	1973 Revised: 1975 1977, 1979, 1983, 1985	Homeowners and renters 65 and over (44,565)	$11,500--single $12,000--married	For incomes not over $3,700 the credit is equal to actual property tax or rent equivalent paid up to $700. For incomes between $3,700 and $11,500, tax exceeding various percentages range from 1/2% accumulative per $200 from 0% to 2%; 1/4% accumulative per $200 from 2% to 4%. Maximum relief, $700 (20% of rent equals tax equivalent.) The $3,700 minimum base will be increased 5% annually or by the cost-of-living increase received by state employees.	State income tax credit or rebate	$138.17 ($1.24) [$6,157]
Montana (1982)	1981 Revised: 1983	Homeowners and renters 62 and over (15,428)	none	Credit is based on a percentage ranging from .006 to .05 multiplied by household income and then subtracted from property tax liability or rent equivalent (15% of rent paid). Household income means $0 or the amount obtained by subtracting $4,000 from gross household income. Maximum credit is $400.	Income tax credit	$194.45 ($3.74) [$3,000]
Nevada	1973 Revised: 1975 1977, 1979, 1981, 1983	Homeowners and renters 62 and over (10,639)	$14,000* (Excludes income of certain gifts & up to $5,000 of life ins.)	Relief ranges from 90% of property tax for incomes less than $4,500 to 10% for incomes between $12,000 and $14,000. Maximum relief is $500 (17% of rent equals tax equivalent).	State rebate	$168.00 ($2.03) [$1,788]
New Mexico	1977 Revised: 1981	Homeowners and renters 65 and over (22,100)	$16,000	The amount of credit allowed is based on a table provided indicating for various modified gross income classes. The credit is the difference between actual property tax liability and this maximum amount, not to exceed $250. The maximum liability ranges from $20 for MGI of $1,000 or less to $180 for MGI of $15,000 to $16,000.	State income tax rebate	$100.44 ($1.56) [$2,219]

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KEY FEATURES OF STATE CIRCUIT-BREAKER PROPERTY TAX RELIEF PROGRAMS, 198?
(Continued)

State	Date of Adoption	Description of Beneficiaries (Number of Beneficiaries)	Income Ceiling	Description of Program	Form of Relief	Average Benefit (Per Capita Cost) [Total Cost ($1,000)]
New York	1978, Revised: 1981 1982	All homeowners and renters (296,878)	$18,000	Relief is equal to 50% of the difference between real property tax and a certain percent of income. The percent of income ranges from 3.5% for taxpayers 65 and over with $3,000 or less to 6.5% for taxpayers (all ages) with income over $14,000 but not over $18,000. The maximum credit ranges from $375 for taxpayers 65 and over with income of $1,000 or less to $41 for taxpayers under 65 with income over $17,000 but not over $18,000. (25% of rent equals tax equivalent.)	State income tax credit or rebate	$ 73.20 ($1.25) [$21,731]
North Dakota*	1969 Revised: 1973 1975, 1977 1979, 1981 1983	Homeowners age 65 and over or disabled (8,206)	$10,000	For persons with income under $5,500 the taxable value of the homestead is reduced 100% (maximum reduction, $2,000). For persons with income between $5,500 and $10,000 the reduction in taxable value varies. Relief ranges from an 80% reduction for incomes between $5,500 and $6,500 with a maximum reduction of $1,600 to a 20% reduction for incomes between $8,500 and $10,000 with a maximum reduction of $400.	Reduction of tax bill	$215.61 ($2.71) [$1,769]
		Renters 65 and over or disabled (3,059)	$10,000	Property tax in excess of 4% of income is refunded. Maximum relief is $190 (20% of rent equals tax equivalent).	State rebate	$169.55 ($ .79) [$516]
Ohio	1971 Revised: 1972 1973, 1975 1977, 1979	Homeowners 65 and over or disabled (353,842)	$15,000 (Excludes income from military disability & some social security)	Benefits range from reduction of 75% or $5,000 assessed value (whichever is less) for incomes below $5,000 to 25% or $1,000 for incomes between $10,000 and $15,000.	Reduction of tax bill	$134.44 ($4.27) [$45,828]
Oklahoma	1974 Revised: 1979, 1980, 1984	Homeowners age 65 and over or disabled (1,979)	$7,200	Relief equal to property taxes due in excess of 1% of household income, not to exceed $200. In addition, homeowners with household income of $5,000 or less receive a double homestead exemption ($2,000).	State income tax credit or rebate	$ 89.41 ($0.05) [$177]
Oregon	1971 Revised: 1973 1977, 1979, 1985	All homeowners and renters (HARRP- 343,052; all PTR programs- 447,213)	$17,500 (Excludes income listed on lines 25-29 on Form 1040 & Home Medical Care Benefits)	Homeowners & Renters Relief Program (HARRP) Refund of all property taxes up to various maximums that depend on income. For homeowners, these maximums range from $750 if household income is under $500, to $18 if household income is $17,000 to $17,499, for renters, maximums range from $375 if household income is under $500 to $18 if household income is $17,000 to $17,499. (17% of rent equals tax equivalent.)*	State rebate	HARRP $232.00 [$79,682] PTR N/A [$114,511]

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KEY FEATURES OF STATE CIRCUIT-BREAKER PROPERTY TAX RELIEF PROGRAMS, 1985
(continued)

State	Date of Adoption	Description of Beneficiaries (Number of Beneficiaries)	Income Ceiling	Description of Program	Form of Relief	Average Benefit (Per Capita Cost) [Total Cost ($1,000)]
Pennsylvania (1983)	1971 Revised: 1973 1979, 1981, 1985	Homeowners and renters 65 and over or disabled 18 and over, widows and widowers 50 and over (441,637)	$15,000 for 1985 (Excludes income from some gifts & life ins. death benefits under $5,000)	Relief ranges from 100% of tax for incomes less than $5,000 (maximum relief, $500) to 10% of tax for incomes greater than $9,000 (20% of rent equals tax equivalent). Eligible recipients also receive an inflation dividend ranging from $125 for claimants with household income less than $5,000 to $30,000 for those with household income in excess of $9,000.	State rebate	$222.66 ($8.26) [$98,334] $ 80.81 ($2.99) [$35,543]
Rhode Island	1977	Homeowners and renters 65 and over (2,039)	$12,500	The credit equals the amount by which property taxes paid exceed various percentages of household income. A table is provided based on income and household size. The credit ranges from taxes paid in excess of 3% of household income for taxpayers with income of $1,000 or less to taxes paid in excess of 7% of household income for two or more person households with income between $11,001 and $12,500. The maximum credit or rebate is $200. (20% of rent equals tax equivalent.)	State income tax credit or rebate	$176.80 ($0.33) [$360]
South Dakota*	1976 Revised: 1978 1982	Homeowners 65 and over or disabled (5,877)	$4,625 (single member household) $7,375 (multiple member household)	Refund is based on a percentage of real estate tax according to income. For single-member households, the percentage refunded ranges from 35% of tax if household income is less than $2,750 to 19% if income is between $4,501 and $4,625. For multi-member households, refunds range from 55% of tax if income is less than $5,500 to 25% if income is between $7,251 and $7,375.	State rebate	$110.75 ($1.04) [$718]
Tennessee	1973 Revised: 1974, 1976, 1978, 1979, 1980 1981, 1983, 1984, 1985	Low income elderly and disabled homeowners; certain disabled veteran homeowners and their surviving spouses. (70,000)	Elderly and disabled $8,500; disabled veterans and their surviving spouses N/A.	Eligible elderly and disabled homeowners are reimbursed for taxes paid on the first $12,000 of full market value. Eligible disabled veterans and their surviving spouses are reimbursed for taxes paid on the first $120,000 of full market value.	State rebate	$ 87.11 ($1.29) [$6,908]
Utah	1977	Homeowners and renters 65 and over and those that are widowed. (14,523)	$10,000	The rebate ranges from $300 for incomes under $3,000 to $25 for incomes between $9,000 to $10,000. Maximum credit is applied first; remaining tax liability can be reduced by indigent abatement of one-half of remaining tax up to $300. Income limit on abatement is $8,000 for married and $7,500 for single taxpayers.	State rebate	$113.22 ($1.09) [$1,644]
Vermont	1969 Revised: 1971 1973, 1983, 1985	All homeowners and renters (full-year residents) (21,622)	$31,999	Refund of taxes exceeding variable percent of income ranging from 3.5% for incomes less than $4,000 to 7% for incomes up to $31,999. Maximum relief is $750 (20% of rent equals tax equivalent).	State rebate (or income tax credit for elderly)	$259.48 ($10.95) [$5,600]

(continued on next page)

KEY FEATURES OF STATE CIRCUIT-BREAKER PROPERTY TAX RELIEF PROGRAMS, 1985
(continued)

State	Date of Adoption	Description of Beneficiaries (Number of Beneficiaries)	Income Ceiling	Description of Program	Form of Relief	Average Benefit (Per Capita Cost) [Total Cost ($1,000)]
West Virginia	1972	Homeowners and renters age 65 and over (106)	$5,000	Relief ranges from 30% to 75% of taxes exceeding a given percentage of income. These percents range from .5% to 4.5% with graduated income brackets ranging from 0-$499 to $4,950-$5,000, including Social Security benefits. (12% of rent equals tax equivalent; not more than $125 considered for relief).	State rebate	$ 17.72 (n.a.) [2]
Wisconsin	1964 Revised: 1971 1973, 1977 1979, 1981 1983, 1984	All homeowners and renters (284,000)	$16,500	If household income was more than $7,400, excess taxes are taxes above 13.187% of income exceeding $7,400. Tax credit equals 80% of excess taxes. If household income was $7,400 or less, credit equals 80% of total tax. In all cases aidable property taxes cannot exceed $1,200. (25% of rent equals tax equivalent.)	State income tax credit or rebate	$370.00 ($21.58) [$105,135]
Wyoming	1975 Revised: 1977, 1978, 1979, 1980, 1981, 1982, 1985	All taxpayers over 65 & totally disabled	$10,000--single $14,000--married	Rebate for sales & property taxes. Rebate based on income level with $630 maximum for singles & $723 maximum for married.	State rebate	

1/ The number of beneficiaries and cost data are for FY 84 unless otherwise indicated in parenthesis.

AZ: In addition, there is a renters income tax credit program with no age or income restrictions which subsidizes 10% of rent paid up to a maximum of $132. There are 256,654 recipients with a total program cost of $30.7 million.

CT: There also is a property tax freeze program that is currently being phased out with a total cost of $17.5 million for FY 83.

DE: There is a circuit-breaker program at the local level.

IN: In 1980, the circuit-breaker was revised to the Unified Tax Credit for the Elderly which enables all senior citizens, regardless of whether they are homeowners to qualify for the credit if their income is below $10,000. The state also offers a renters program for senior citizen renters which provides for a maximum $1,500 deduction on state income taxes.

NV: Claimants may not own Nevada realty, other than their own home, assessed at over $30,000.

OR: Low-income senior citizens (age 58 and over with income under $5,000) are provided optional rental & utility assistance.

ND: State has separate program which lowers the taxable value of low-income elderly homeowners by as much as $2,000. In determining a person's income for eligibility, the amount of medical expenses incurred and not compensated for shall be deducted.

SD: The number of beneficiaries, average benefits, and cost data are for property or sales tax refunds to the elderly or disabled. Age and income requirements are the same for both programs. Applicants can receive either a property or a sales tax refund. The Department of Revenue processes the claims for both programs and refunds whichever is to the applicant's advantage.

NOTE: Circuit-breaker property tax relief programs for homeowners and renters are generally defined as state-funded programs that target property tax relief to selected income groups or senior citizens and take the form of a state income tax credit, a direct payment to qualified individuals, or a state payment to the local government that lost tax revenue. Homestead exemptions can be state or locally financed and operate by subtracting a given dollar amount from assessed valuation before computing the tax liability and are often available to all homeowners (or just senior citizen homeowners) regardless of income levels. A hybrid cross between circuit-breakers and homestead exemptions is used by the state of Washington which in 1985 will allow senior citizens and disabled homeowners with incomes less than $9,000 to receive a valuation exemption of $25,000 or 50%, whichever is more. Taxpayers with incomes between $9,000 to $12,000 receive an exemption of $20,000 or 30% of total value of residence up to a maximum of $40,000 exempted. All special excess property tax levies are also exempted. Unlike the typical state circuit-breaker programs this program is locally financed.

Source: Table 71, Significant Features of Fiscal Federalism, 1985-86 Edition, ACIR, Dec. 1985, p. 110-116.