

Property Taxes and Local Sales Taxes

11.438 Economic Development Planning

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- Assuming a Package of Goods that Matches the Expectations of your Club, you need to pay for it.
- How to Raise Revenue?
- Review Basic Sources
- Tax Incidence: Progressive vs. Regressive
- Political and Legal Environment

Property Tax

- Generally unpopular, even among taxes
- Still a staple of local government revenue, even the “backbone.”
- Sometimes called the remainder tax- pays for the rest when all other sources are gone

They Tell You How Much It's Worth and How Much of It to Give

- A “stock variable” rather than a “flow variable.”
- The main tax where the government not only charges you a rate, but also determines the base on which the rate is taken
- In a way its one of the only taxes on wealth, although scholars seem to disagree.
- One problem is that the wealth may not be liquid- so how to do access money to pay the tax?

Use of Property Tax

- Rate of per capital cost of property tax varies by part of the country and state
- Generally lower in south
- Also almost entirely raised by local governments and (where applicable) school boards
- Raises lots of money

Is it Fair?

- “Benefit” principle – do you get what you pay for?
- “Ability to Pay” principle – do you pay what you can to get public goods?
- How does it score on these principles?

How does it work?

- A government entity decides to raise a certain amount of money with property tax – the *levy*
- Rate is in dollars per \$1,000 value- *mills* – sometimes different for different uses (“tax classification”)
- Property is all *assessed* by the government
- $Levy = Tax\ Rate\ (mills) \times Assessments$
- Minus *abatements, exclusions, and deductions*

Remainder Tax

- What pays the remainder of the revenue you need to balance your budget

Assessment

- Like appraising, but regulated heavily
- Three approaches- *cost, market, & income*
- Which approach dominates depends on locations and availability of data

Cost Approach

- What would it cost to build it today?
- Land values need to be determined separately
- Hard to figure for unusual buildings or ones with historic merit (priceless?)
- Old buildings have to be *depreciated*

Market Approach

- Looks at comparable sales (if any)
- Adjusts for neighborhood, size, features, etc.
- Bases the value on the best theoretical use that is allowed for the land

Income Approach

- Looks at how much the property is worth based on how much ongoing income the property could generate (ie rent.)
- If rented at a fair market value, what would the value of the property be
- Based on an accepted relationship between income and expected value of a property (capitalization rate)
- Generally used for commercial properties

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Property Database Search Results

84 Antrim St

Property Information:

Property Class: TWO-FAM-RES
 State Class Code: 104
 Zoning (Unofficial): C-1
 Map/Lot: 114A-54
 Land Area: 3,931

Property Value:

Year of Assessment: 2011
 Tax District: R3
 Residential Exemption: Yes
 Building Value: \$391,400
 Land Value: \$434,100
 Assessed Value: \$825,500
 Sale Price: \$1
 Book/Page: 30741/482
 Sale Date: October 01, 1999
 Previous Assessed Value: \$845,100

Owner Information:

Owner(s): WALSH JOHN J & MARGARET A WALSH
 84 ANTRIM STREET
 CAMBRIDGE, MA 02139-1102

Building Information:

Residential Building Number 1

EXTERIOR:

Style: QLD STYLE TWO FAM
 Occupancy: TWO-FAM-RES
 Number of Stories: 2.5
 Exterior Wall Type: Wood Shingle
 Roof Type: Gable
 Roof Material: Slate Clay

INTERIOR:

Living Area: 2,405
 Number of Units: 2
 Total Rooms: 10
 Bedrooms: 2
 Kitchens: 2
 Full Baths: 3
 Half Baths: 0



Click on Photo to view larger image.



Click on Sketch to view larger image.

Related Information:

- GIS Map of this Property
- Show PDF Map
- Taxes

Comparable Sales Search

This page contains much of the information used by the City of Cambridge to assess properties. The purpose of this information is to be used only for ad valorem taxation purposes and any other use is therefore not valid.

Fireplaces: 0

SYSTEMS:
 Heat Type: Hot Water
 Heat Fuel: Gas
 Central A/C

CONDITION & GRADE:

Year Built: 1897
 Interior Condition: Excellent
 Overall Condition: GOOD
 Overall Grade: Good

PARKING:

Open Parking: 2
 Covered Parking: 0

SUBAREAS:

Code	Description	Gross Area	Living Area
BAS	First Floor	1,126	1,126
FAT	Finished Attic	706	177
FEP	Porch, Enclosed	15	0
FUS	Upper Story, Finished	1,102	1,102
UBM	Basement	1,102	0
Total		4,051	2,405

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Search Again

One other reason planners like assessors – great data (first GIS use)
 Also look at 2020 Assessor's card!

Revaluation

- In most (but not all) cases, the base value has to be adjusted periodically.
- One sample is a three year cycle where the Assessor's office adjusts the value of 1/3 of the property in the municipality every year.
- The goal is to keep current with values, since people pay taxes on the value every year.

Abatements

- Challenging the assessment
- Common planning example- a property is downzoned and then can't be rented. Owner applies for an abatement based on the inability to rent. Municipality may respond that it is grandfathered and can still be used for assessed use.

Land Use Planning Implications

- Property tax methodology all generally determine land value through “highest and best use.”
- What does that mean? Highest use allowed under zoning.
- What happens if your land use doesn't match the most financially remunerative land use? What if you have the family farm?

Agricultural Uses and Other Planning Issues

- Farms have some of the ways to get out of this problem – agricultural exemptions
- What might be some other ways?
- What if the zoning is complicated? Requires special permits? What about zoning-exempt uses?

Exemptions

- Commonly, certain uses are exempt from property taxation
- Schools, universities, government entities, religious institutions
- “Educational mission” can often be defined broadly
- Municipalities can also challenge exemptions if part of a building, for example, is used commercially
- PILOTS often address exempt properties

Exemptions

- The services required by the exempt uses don't go away
- Therefore the levy generally stays the same when a property goes off the tax rolls
- Using your High School algebra, what then happens to other peoples' taxes?
- What is the public policy goal behind this anyway?
- Planners also find the assessor's data on exempt properties is poor – why is that?

Deductions

- “Homestead relief” and residential exemptions- if you live there you get a deduction from your normal tax bill
- Class-based deductions- elderly, veteran, blind, etc.
- Goals are based in public policy, not fiscal impact

Circuit Breaker Programs

- When a property tax burden exceeds a certain level of a family's income, a portion of it is refunded.
- Seen as a fairness issue, but also a way to counter anti-property tax movements.

Property Tax Limits

- California did it first with Proposition 13 in 1976.
- Massachusetts passed Proposition 2 ½ in 1980 (went into effect in 1982)
- Many more followed and continue to follow
- Limit *levy*, rate (*mills*) increase, and/or *expenditures*

Proposition 2 1/2

- Limits total levy increase to 2.5% a year
- Also limits increase in rate to +2.5 mills/year
- Exceptions: voter override; “new growth”
- In practice, background growth in government spending goes up more than 2.5% a year
- What are the planning implications of this?

Property Tax: Is it fair?

- Is it progressive (amount paid increases as income/wealth increases) or regressive (amount paid decreases as income/wealth increases)
- What do you think?

Other Planning Implications

- New development helps increase the overall set of properties that have to support a levy
- In tax-cap states this is even more useful because it is an end-run around the cap (“new growth”)
- Land Development often does not go on the tax levy for years- after infrastructure needs may already be included in the levy
- State equalization programs often help soften the blow of having a small property tax base

Example of New Growth

- City has \$100,000,000 in property value, single tax classification, rate of 15 mills
- Property tax collected?
- New fiscal year – need for property tax goes up 6%. Property reassessed up 3% this year. What happens to the rate?
- Now what if there is also new growth of \$5,000,000 this year?
- Finally, what happens in a tax-cap state with a 2.5% cap?

Property Tax:What Do You Think?

- How does it relate to the idea of public goods?
- How is it different from fee-for-service or an income tax?
- How about a sales tax?

Local Sales Tax

- Not universal, 10% of local governments. Some states (Illinois, California) seem to rely on it as a staple.
- New York City and some other big cities rely on it big time (NYC's is larger than many states' sales tax).
- What is the biggest basic problem with a local sales tax and why might it not matter if (a) all cities charge one or (b) you are New York City?

Sales Taxes

- Standard (general) sales taxes apply to all changes in ownership- intended as a consumption tax
- Selective sales taxes include gas taxes, sin taxes, meals* taxes – in this case partially to reduce consumption
- Sales taxes – regressive or progressive?
- Sales tax exemptions- food, clothing, services
- Seen as less unpopular than other taxes

Do Sales Taxes work?

- How comprehensive are they? Not very
- Estimate (a little old) that 50% of sales don't pay a sales tax.
- And that was before the internet.
- Even without evasion, do they work? Do you get \$1 for each \$1 you levy on sales taxes?
- On one hand, yes because administration is done by vendors
- On the other hand, demand and prices may respond, lowering your revenue

How Fair is the Sales Tax?

- Consumption tends to go down as a percentage of income/wealth
- In addition, ability to evade taxes tends to increase
- On the other hand, sales tax exemptions can provide help

Local Impacts

- Generally, local sales taxes work where (1) enabled by the state and (2) everyone is doing them or (3) you are providing a unique item that cannot be obtained in the next city over
- Is it appropriate as a local level tax? Think of service areas, ability to avoid, elasticity.

Nordlinger v. Hahn

- Proposition 13 also affected property reassessments by limiting assessment increases to 2% annually until resale

"In the older areas of California (basically anywhere but the Central Valley and Inland Empire), there are hundreds of thousands of absentee landlords, because the state has made owning property long-term to be a very, very cheap way to store wealth. This has also distorted the rent/own equation so that there's a ridiculously large premium on owning a home, because housing turnover is so low.

I've got a friend of mine who rents a house in Marin County for \$2200 a month, so that he can send his kids to the public schools there. The house would easily sell for a million or more, but it's not really anything special - just under 2000 square feet, a cookie cutter 60's suburban ranch home. The property tax base on the property is \$45,000, because it's been owned by the same owner for 30+ years, so property taxes on the house are just over \$500 a year. The owner easily covers his holding costs (property taxes, insurance, upkeep, etc) with the rent from my friend, and he's sitting on an asset that has generally appreciated faster than stock market returns. The owner's even taken out multiple \$250K+ home equity lines at times.

For comparison, if this house were to sell for say, \$1 million, the annual property tax paid on it would be about \$15,000, for the exact same house. All of the individual players here are making the right choice - the owner is making money primarily off of the appreciation of the property, capital which can be accessed at any time through home equity loans, and the renter is renting in a neighborhood that he could not afford to buy in. The owner can hold the property indefinitely and pass it on to his son at the same property tax base (\$45,000) - selling it would mean a large chunk of capital gains tax, so he's better off just borrowing against it, unless there's some kind of catastrophic drop in property values."

Nordlinger v. Hahn

- Nordlinger was paying higher taxes than neighbors on comparable property
- This was because of Proposition 13
- In brief, court said that the difference was not unconstitutional because it furthered a legitimate public purposes (tax cap and tax liability certainty)

Nordlinger v. Hahn

- She bought in 1988, said she paid 5x what someone paid who bought in 1975
- This was because the assessment could “reset” when non-applicable sales occurred (arms length transactions)

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