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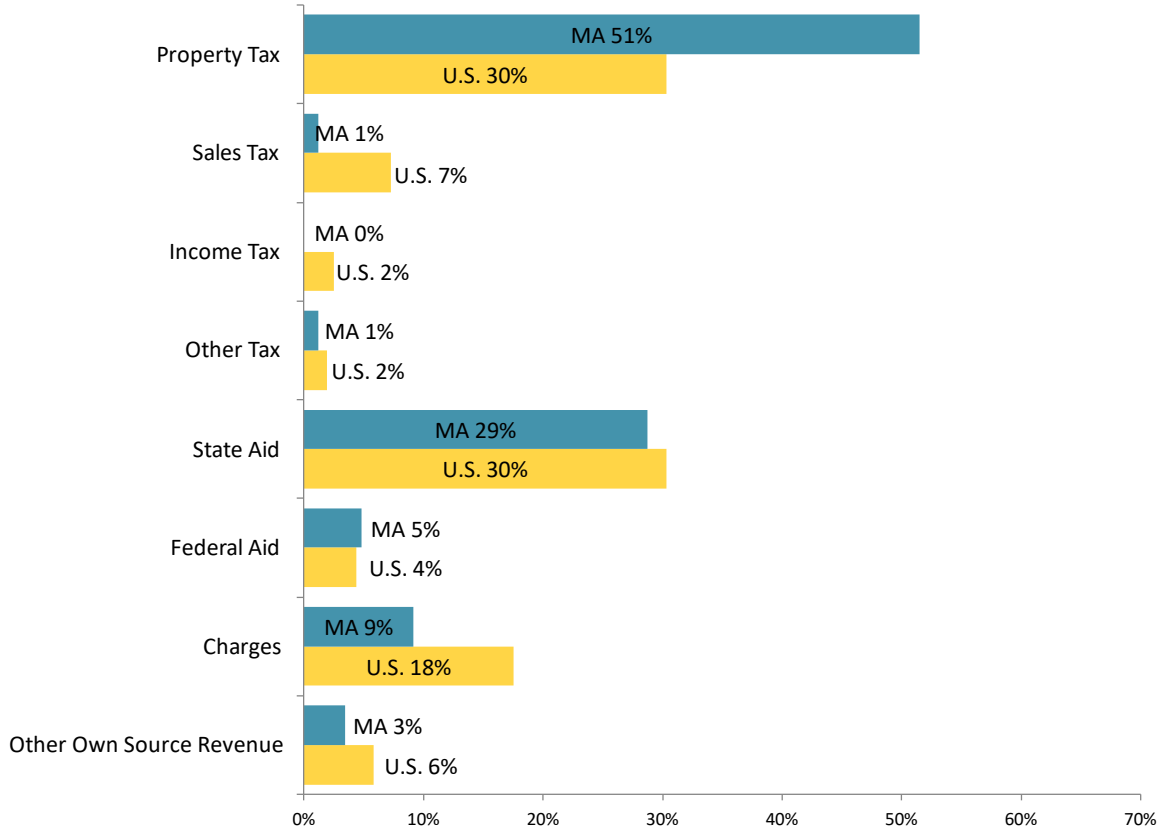
Massachusetts

Highlights

Property taxes are the primary source of revenue for funding local government services and schools in Massachusetts's 351 cities and towns (figure MA-1).

Massachusetts voters adopted a tax limitation, known as Proposition 2 ½, in November 1980 by a citizens' initiative petition. In addition to limiting the tax levy to 2 ½ percent of a municipality's total assessed value and annual increases of the levy to 2 ½ percent, the initiative abolished fiscal autonomy of school committees, curtailed state mandates on local governments, reduced the maximum rate for automobile excise taxes, eliminated binding arbitration for local police and firefighters' contracts, and allowed renters a deduction on their state income tax. Later amendments increased local flexibility for levy increases and ballot overrides.

Figure MA-1
Sources of Local General Revenue, Massachusetts and U.S., 2020



Source: U.S. Census via Significant Features of the Property Tax

Certification of assessed values by the commissioner of revenue allows local officials the option, after a public hearing, to set different local tax rates for residential, open space, commercial, and industrial property. Approximately one-third of the 352 municipalities have adopted classified tax rates; the remainder set a single rate for all property (Division of Local Services 2023). A residential factor determined by the commissioner ensures that the residential property class will contribute at least 50 percent of its full value share of the tax levy and that the commercial and industrial classes will pay no more than 175 percent of their full value share.

Property Tax Reliance

Massachusetts's property tax burden is high relative to other states as measured per capita or as a percentage of personal income (table MA-1).

Table MA-1
Selected Massachusetts Property Tax Statistics, 2020[1]

	Massachusetts	U.S. Average	Rank (of 51) *1 is highest*
Per capita property tax	$2,638	$1,810	*8*
Property tax percentage of personal income	3.4%	3.1%	*14*
Total property tax as percentage of state-local revenue	20.7%	16.6%	*7*
Median owner-occupied home value[2]	$398,800	$229,800	*4*
Median real estate taxes paid for owner-occupied home[2]	$4,836	$2,551	*5*
Effective tax rate, median owner-occupied home[3]	1.2%	1.1%	*18*

Sources: U.S. Census via Significant Features of the Property Tax, American Community Survey

[1] All revenue numbers in this table include the state government as well as local governments.

[2] The statistics for median owner-occupied home value and median real estate taxes paid for owner-occupied home are five-year average statistics for years 2016–2020.

[3] Calculated as the median real estate tax paid on owner-occupied homes as a percent of the median owner-occupied home value.

Administration and Assessment

Local officials in each city and town assess, levy, and collect property taxes for all real and personal properties subject to taxation within their municipalities.

Property is assessed at its full market value, with special provisions for agricultural, forest, and recreational land. Property valuations determined by local assessors are reviewed and certified every year by the commissioner of revenue.

Limits on Property Taxation

The amount raised by property taxes is governed by two limits: a limit on the annual increase in property tax revenue (2 ½ percent plus an amount for new construction) and an overall limit on the amount collected in a given year (2 ½ percent of total assessed value). Voters may override these limits at local elections (Massachusetts Division of Local Services; Significant Features of the Property Tax).

Although 2 ½ percent is high rate limit, it can be binding on low-growth communities with declining property values or rising costs of government services rises. For example, the western Massachusetts City of Pittsfield was unable to increase its property tax revenues by 2 ½ percent per year between 2016 and 2020 because its rate was capped at 2 ½ percent of taxable value and values were decreasing. In 2017, the city's property tax revenues could grow by only 0.51 percent. In the city of Springfield, the rate limit similarly restricted collections for fiscal years 2011 to 2016, with allowable revenue actually falling in 2012 and 2013 (Langley and Youngman 2021, 27).

Property Tax Relief and Incentives

Massachusetts property tax relief includes special exemptions for veterans; surviving spouses; the blind, deaf, and disabled; and the elderly, including tax deferrals and a local option senior property tax work-off abatement. The state does offer and fund a circuit breaker program limited to senior homeowners and renters whose property taxes exceed 10 percent of income (table MA-2). The maximum benefit paid in 2021 was $1,150 (Significant Features of the Property Tax).

Massachusetts permits communities to authorize an exemption for principal residences of up to 35 percent of the average assessed valuation of all residential parcels. However, this exemption does not cause a tax shift to nonresidential properties. Instead, the residential rate must rise to raise the same amount of revenue from the lower residential base, introducing an element of progressivity (Significant Features of the Property Tax).

Massachusetts offers several property tax incentives for economic development. The state's Economic Development Incentive Program includes two local incentives: the tax increment financing (TIF) exemption program and the special tax assessment abatement. Unlike other states, Massachusetts defines TIF as a property tax exemption. A separate program, called district improvement financing (DIF), is a conventional tax increment finance program that allows use of tax increments and debt instruments for public improvements within the designated area.

Table MA-2
Massachusetts Property Tax Features, 2021

Feature	Massachusetts	Count for 50 states plus DC
Statewide classification of real property	No	25
Assessment of property primarily by county	No	31
Limits on property tax rates or levies	Yes	45
Limits on the rate of growth of assessed value	No	17
Circuit breaker property tax relief program	Yes	31

Sources: Significant Features of the Property Tax

Key Property Tax History

Since 1980, local property taxation has undergone major changes as a result of judicial, legislative, and voter initiatives. Massachusetts local property taxes were among the highest in the nation and lacked equitable assessments both within and between municipalities. Legal challenges to inequitable assessments eventually culminated in the 1974 *Sudbury* decision by the Massachusetts Supreme Judicial Court, which demanded that local governments adhere to the "full and fair cash value."

Strong local resistance resulted in slow progress until a legislative amendment to the constitution reached the ballot and was adopted in 1978, allowing differential taxation for up to four classes of property. The enabling legislation, Chapter 797 of the Acts of 1979, established a comprehensive legal and administrative framework for taxation of property, with extensive authority placed in the Massachusetts commissioner of revenue.

Despite some progress toward compliance, local governments were reluctant to move quickly due to their taxpayers' concern about the cost and full effects of revaluation. In response to this concern, rising property taxes, and the adoption of Proposition 13 in California, the Massachusetts electorate in November 1980 endorsed the statewide tax limitation, known as Proposition 2 ½. By limiting the amount that a city or town could raise in taxes to 2 ½ percent of the total value of its taxable property, this new law provided the necessary incentive to establish full value assessments. In 1980, many municipalities were taxing above the limit and were required to reduce their levy by 15 percent per year until the limit was achieved. When Proposition 2 ½ went into effect in fiscal year 1982, new full value assessments dramatically decreased the number of communities required to reduce their taxes (Farmer 2021).

These combined judicial, legislative, and citizen initiatives produced major changes in the property tax system in Massachusetts. Cities and towns maintain full value assessments and have discretion in establishing uniform or classified tax rates as well as in adopting exemptions. Local decisions about spending must be made within the constraints of tax levy limits.

Recent Developments

In September 2021, the legislature overrode a gubernatorial veto to enact a pass-through entity (PTE) tax as a work around to the federal cap on the deductibility of state and local taxes. Since the enactment of the 2017 federal Tax Cuts and Jobs Act, the deductibility of individual state and local taxes, including property taxes, has been limited to $10,000 per year. The Massachusetts policy allows a qualifying member of a pass-through entities to pay an excise tax at the entity level and receive a 90 percent credit which may be claimed against the member's individual taxes, blunting the effect of the SALT limit. Because the credit is less than 100 percent, the PTE tax is revenue positive. Massachusetts (Chapter 69 of the Acts of 2021; Massachusetts Department of Revenue 2023; McLoon et al. 2021). As of May 2023, 33 states had enacted an entity level tax since the enactment of the cap on SALT deductions in 2017 (Association of International Certified Professional Accountants 2023).

Massachusetts and New Hampshire settled a case over property taxes on flood control facilities that are located in New Hampshire. Massachusetts agreed to pay New Hampshire communities $3.5 million to offset lost property tax revenue. Massachusetts had not made payments since 2014 (Associated Press 2022).

Massachusetts is one of a minority of states allowing governments to take absolute title to properties in tax foreclosure without refunding the excess sale proceeds to the taxpayer. The Pacific Legal Foundation represented Massachusetts taxpayer Deborah Foss in her case against the City of New Bedford on grounds that this constituted an uncompensated taking and an excessive fine under the U.S. Constitution and similar provisions in the Massachusetts Constitution. Although a negotiated settlement meant that these claims were never adjudicated, the Pacific Legal Foundation brought a similar action against Hennepin County, Minnesota and won a unanimous verdict on takings grounds in the U.S. Supreme Court in *Tyler v. Hennepin County* (2023).

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