Residential Property Tax and Property Assessment
Explainer

Prepared by the Lexington Town Meeting Members Association

Q: How does Proposition 2 ½ limit local property tax increases?

In concept, Proposition 2 ½ limits the total revenue that the Town may raise through property taxes to the same amount raised the previous year, plus 2½% *. It does not limit property tax increases on individual properties. The maximum amount of total property tax revenue that the Town may collect in any given year is called the Tax Levy Limit.

Funding a budget that is larger than the Tax Levy Limit requires town-wide voter approval of a property tax override. There are two types of overrides. Operational Overrides permanently raise the Tax Levy Limit and provide additional revenue to fund the town's operating budget. Debt Exclusions provide financing for specific capital projects such as a new municipal building or a road project. Debt Exclusions temporarily increase the Levy Limit until all principal and interest payments are made on the excluded project.

It is important to understand that Proposition 2 ½ is a limit on the TOTAL town tax levy. It does not limit how much your individual property tax bill can increase. It is likely that your tax bill will increase by more than 2 ½%. Your increase is affected by a number of factors. Your home could have changed in value relative to other homes due to normal real estate market fluctuations or improvements you've made to your property such as adding a bathroom or a swimming pool. There could be a drop in commercial property values which would shift more of the town-wide tax burden onto residential properties. Finally, in a year that experienced any overrides, your increase would likely be more than 2 ½%. While individual tax bills might increase by more than 2 ½%, under no circumstance will the total tax levy increase by more than 2 ½%*.

***** *plus an amount representing the property tax on new construction and any voter-approved overrides.***

Q. How does the Town determine property assessments?

The Town Assessors follow a chronology set by state law. Over the course of each year they apply their analysis of the previous calendar year's real estate sales to establish each property's assessment for the following Fiscal Year.

For example, the Assessors spend 2009 collecting, verifying, and analyzing the full body of market data from 2008 to determine each property's valuation as of January 1, 2009. That January 1, 2009 assessment is used by the Tax Collector to calculate each property's FY 2010 property tax. (Fiscal Year 2010 began on July 1 of 2009)

The property assessment shown on your January 1, 2010 tax bill is not intended to correlate with the actual market value of your house in 2010 or even in 2009. But the assessors assure us that, as required by state law and reviewed by the state's Department of Revenue, it correlates very closely to the home's true market value in calendar year 2008.

Assessments on Lexington's 12,000+ properties are revised every year using market data. Properties are reviewed at least every nine years on a rolling basis to verify the information that the Town maintains on the property.

Unlike residential assessments which are primarily determined by sales data, valuation of commercial properties is a function of area-wide occupancy rates and other data. The same state chronology with its substantial lag-time also applies to commercial assessments.

Q: If the value of my house declines, shouldn't my property taxes go down too?

Not necessarily. Generally speaking, your property tax will decrease only when the total Tax Levy decreases.

Here's how your property tax is determined: In simple terms, the year's Tax Rate is computed by adding together the assessments of all properties in Lexington (the Total Valuation) and dividing it by the amount of the year's Tax Levy.

Your individual property tax is then calculated by multiplying your property's assessment by the Tax Rate.

In this way, your property's assessed value determines your proportional share of the total Tax Levy relative to everyone else's.

If all property values in Lexington were to decline together at the same rate, your relative share of the total Tax Levy would stay exactly the same as it was before the decline. But each year the Tax Levy can increase by the amount allowed under Proposition 2 ½. So if the Tax Levy goes up, your same relative share of the Tax Levy will cost you more in the form of a higher tax bill. Your property tax will decrease only if the Tax Levy were to decrease.

In reality, there are variations in the rise and fall of property values by neighborhood and housing type and between residential and non-residential classifications. Because of this, individual property tax bills do not change by identical percentages each year.

But in no case does the total revenue collected by the Town increase by more than the allowed 2 ½ % *

***** *plus an amount representing the property tax on new construction and any voter-approved overrides.***

Q: Judging by home sales in my neighborhood, it looks like my house is worth less than my assessment. So how can my assessment be fair?

State law sets a chronology for doing real estate assessments that creates a significant lag between the data year used and the fiscal year it applies to. This time lag will appear to work to your advantage in a rising real estate market and to your disadvantage in a falling real estate market. But in reality, the lag is a neutral factor.

Because all assessments in town are set "as of January 1" of the given year, this lag affects all properties in Lexington equally. Since your assessment only determines your share of the tax levy, even this lagged assessment represents a fair number for taxation purposes.

Nonetheless any property owner who feels that their assessment is incorrect has the right to file for abatement. Contact the Assessor's office for deadlines and details.

Q. Why are my January and April tax bills bigger than my July and October tax bills?

Again, following the state-mandated chronology, Lexington sends out the first quarterly tax bill in July, but the tax rate isn't set until the following December. So your July and October tax bills are "preliminary" and each equals a quarter of your previous year's tax bill plus any increases allowed under Proposition 2 ½. The January and April bills are "actual" and are based on your most recent assessment and the new tax rate.

Your new assessment and new actual tax amount appear on your January bill. Comparing quarterly tax bills can give a false impression of the difference between one year and another. To correctly understand year-to-year differences, you must compare the actual annual tax amounts.

Q: Why is the commercial tax rate different from the residential tax rate?

Under state law, a municipality may choose to increase the share of the tax levy borne by commercial, industrial and personal property owners. Called "classification," this option results in two tax rates – one for residential property and one for commercial, industrial and personal property. It has been the practice of the Town of Lexington to classify its tax rate. In Fiscal Year 2009, this classification resulted in residential properties bearing 78% of the total tax levy even though residential values as a percentage of total values was actually 87%.