HOW ASSESSMENTS AND TAX BILLS ARE DETERMINED

This article is intended to shed some light on the confusing relationship between a property’s assessment for a given fiscal year and its fair market value at the time when the property owner first sees his new assessment. Despite the Assessor’s annual warning that current assessed values represent a historic value, not the current value of a property, each year when the new assessments are released, taxpayers call to report that their house is not worth what it is now being assessed for. In some cases, particularly when the property was not inspected recently, a review of the property record card will reveal an error. More often, however, the property record card is correct and the difference between the current value and the assessed value is explained by the fact that assessed values are values as of a specific date, January 1 of the year prior to the Fiscal Year and are based on sales that took place as much as a full year even before that date. In other words, when a property owner first sees his FY 2017 assessment, sometime late in 2016 or early 2017, it is based on sales that could be two years old. In this age of volatility in the real estate market, there can be very dramatic value shifts within a two year period. Since the real estate market collapse nearly two decades ago, the roller-coaster market has seen values rise to a peak in calendar year 2005, then in some cases collapse again by huge percentages in states such as Nevada, Florida, and California. In other states, meanwhile, the decline has been more gradual or on rare occasions, there was no decline at all. Even within a single state like Massachusetts, the rate of the value increases and declines is different in virtually every town. Melrose, during this period, had some short-term up and down jerky movements, but in general has held up very well and median single-family sale prices are currently within a few percentage points of the high established in 2005.

Recognizing that current market values can be lower or higher than assessed values is the first step in understanding how the complex tax system works. It is equally as important to understand that so-called “under-assessments” and “over-assessments” both actually produce exactly the same tax bill for property owners in any given tax year. The reason for that is that everyone’s assessment, not just one homeowner’s assessment or one neighborhood’s assessments, for a given fiscal year are based on sales from the same calendar year. The field is level for everyone. The following illustration shows how tax bills are generated.

Imagine that the City of Melrose is a large corporation and property owners all have shares in the corporation. The number of shares each person owns can be thought of as the total assessment of his/her real estate owned in the city. The Assessor’s job is to calculate that total each year and compute a tax rate that, multiplied by the shares everyone owns, will cover that part of the cost of running the corporation that is the responsibility of real estate owners (the tax levy). Real estate taxes comprise about 55%
of the city’s budget while the other 45% of the budget comes from other sources such as state contributions, excise taxes, lottery shares, grants, etc.

A city’s tax levy, or amount that can be taken from real estate taxes in any given year, is set by the Department of Revenue at 2 ½% higher from one year to the next. Only new growth (new construction) and overrides or debt exclusions voted by the citizenry can be added to the 2 ½%. We do currently have a debt exclusion for the new middle school that will add to the tax levy until it is fully paid off at which time it disappears entirely. There is no other way a city can raise its tax levy. Any municipality trying to take even a single penny over the amount allowed will have their tax rate rejected by the Department of Revenue. A new, lower tax rate would need to be set before any tax bill could be sent out by that municipality.

The procedure, then, is that the Assessor calculates the number of shares each property owner has (the assessment), adds all the shares together to get the total number of shares outstanding, and divides that sum by the tax levy the Department of Revenue allows. The result is the tax rate. Since the allowable tax levy is fixed and cannot change by law no matter how badly a municipality needs or wants more money, the two variables in the equation can only be the number of shares outstanding (the total of the assessments) and the tax rate. When values go up, the tax rate comes down and when values come down, the tax rate goes up. Either way everyone’s tax bill will be exactly the same in any given year.

As of January 1, 2016, the value of all taxable properties in Melrose was calculated at $4,548,442,105. This is the number of shares in the corporation that the assessor must use to determine the tax rate for FY 2017. The tax levy allowed by the Department of Revenue for fiscal year 2017 is $55,285,517. In order to cover the tax levy from the $4,548,442,105 outstanding shares in the corporation, the formula is $55,285,517 divided by $4,548,442,105 or .01216. For every share owned in the corporation, the owners will pay .01216 cents in taxes, the so-called millage. In Massachusetts we move the decimal three places to the right so the number is more easily understood, so we say the tax rate is $12.16 per thousand of assessed value. If we didn’t have a split tax rate where commercial properties pay more than residential properties, the tax rate for everyone for fiscal year 2016 would be $12.16. At that rate, the average single family dwelling in Melrose, assessed at $500,800 would be taxed for the year at $6,090.

I should mention one final confusing procedure. Assessments and tax rates for any given fiscal year are never set by July 1 when the fiscal year begins. Spring, summer and fall are used for processing building permit changes to the property record cards, analyzing sales, submitting data to the Department of Revenue for review and approval, and having a new tax rate set by the Aldermen. The first “actual” tax bill is the third quarter bill that arrives in your mailbox about the first of January. You have, however, already paid two tax bills for the fiscal year. Those bills are “estimated bills” and are calculated from the previous fiscal year’s assessment and the previous year’s tax rate. The new assessment, the new tax rate and the actual new fiscal year’s tax total are all on the third quarter (January) bill. The Tax Collector subtracts the amount you paid on the first two
estimated bills, divides the balance by two and charges you equally on the third and fourth quarter bills. That is the reason the first and second quarter bills are different from the third and fourth quarter bills even though all four quarters are in the same fiscal year.

As always, if you feel your property assessment is higher than its actual value on January 1, of the previous year, you may come to the Assessor’s Office during the month of January (or until the date the third quarter bill is due, if later) to file an appeal. We will have a booklet with all the sales that took place in arms-length transactions during the year upon which that year’s assessments are based. You may also submit as evidence an appraisal on your property done by an independent appraiser with an effective appraisal date of the first of the previous year (not a current appraisal). If you appeal yourself, you will be asked to justify your claim that you are overvalued by looking through the booklet of sales and finding properties similar in style and size that support your contention. You will also be asked to complete a form describing your house so it can be compared to the data on your property record card which was actually used to compute your assessment. If you find good sales of comparable homes in comparable locations at lower prices or if there are data errors, the Board of Assessors will review your assessment and make whatever corrections are needed. Please remember that property assessments are data driven and the value of a property does not decrease because of an owner’s age, financial condition, the number of years he has been living in Melrose or anything that does not relate to the actual property value. Those living on fixed incomes as taxes rise can, of course, experience difficulty paying their tax bill. Those who fall into this category should check to find out if they might qualify for one of the existing exemption programs. Senior exemptions, for example, are available to those with very limited assets and income. This does not reduce your assessment in any way but is a tax credit that can be applied to your tax bill. Tax deferrals are also available for needy seniors. Under this program, all or a portion of one’s taxes can be deferred until the time the property actually changes hands in the future. The taxes owed would then be paid from the proceeds of the property sale, whenever that takes place.

You should also check to see if you qualify for the circuit breaker income tax credit. This is not done at the Assessor’s Office since it is a state program that must be done on your income tax form but it can be a significant help to those who are paying a large percentage of their annual income for real estate taxes. You can get details of this program from the Council on Aging.

We hope that this article is helpful in clarifying the very confusing tax system. If you have additional questions or need information on the tax exemption programs available, please call the Assessor’s Office at 781-979-4104.