

Chevy to the Levy

What is a levy?

The property tax levy is the revenue a community can raise through real and personal property taxes.

Fun Fact: The property tax levy is the largest source of revenue for most cities and towns. (other sources would be state aid and local receipts)

Proposition 2 1/2

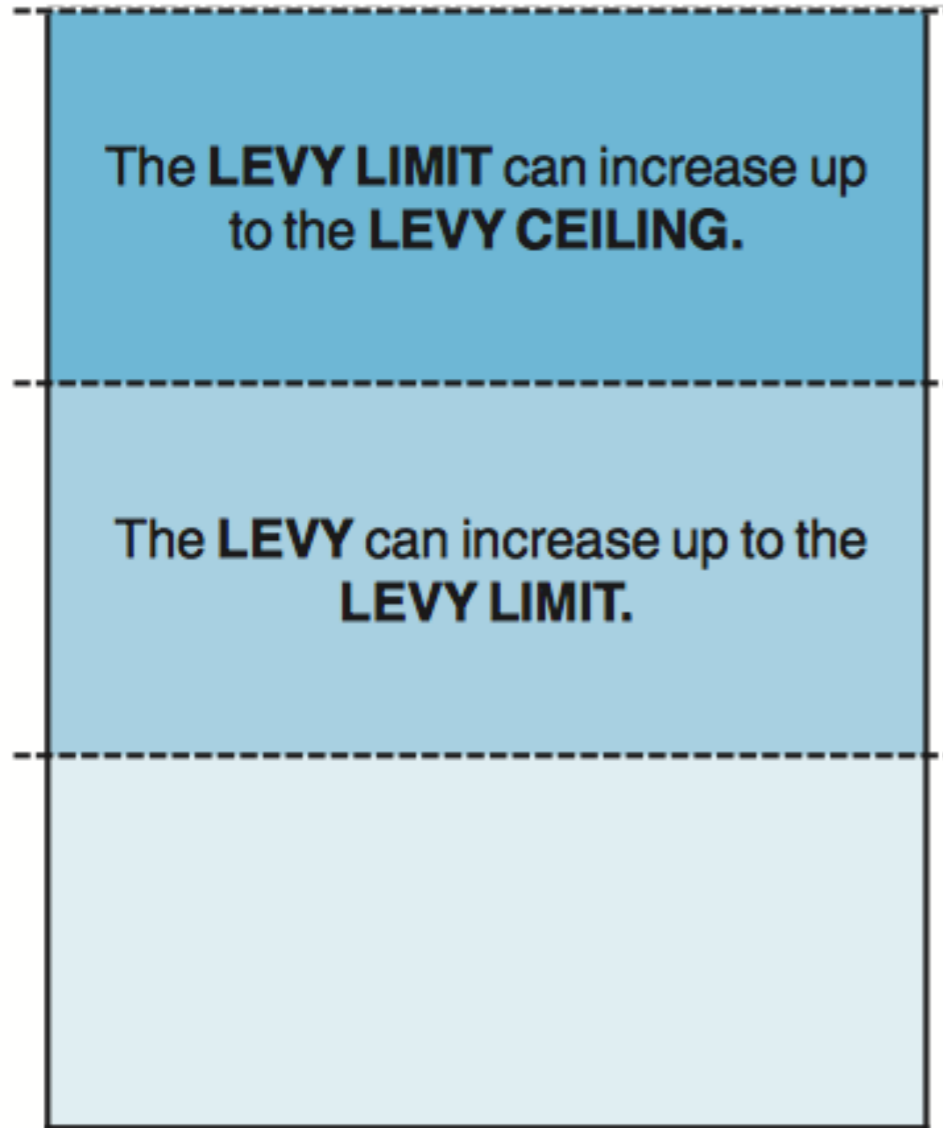
Proposition 2¹/₂ was enacted in 1980.

Proposition 2¹/₂ revolutionized property tax administration and is a fundamental feature of the Massachusetts municipal fiscal landscape.

Proposition 2¹/₂ places constraints on the amount of the levy raised by a city or town and on how much the levy can be increased from year to year. It does this by creating two levy limits:

1. Levy Limit
2. Levy Ceiling

Definitions



LEVY CEILING: The maximum the levy limit can be. The ceiling equals 2.5 percent of the community's full and fair cash value.

LEVY LIMIT: The maximum the levy can be in a given year. The limit is based on the previous year's limit plus certain allowable increases.

LEVY: The amount the community can raise through the property tax. The levy can be any amount up to the levy limit.

Exceptions

Proposition 2½ does provide communities with some flexibility. It is possible for a community to levy above its levy limit or its levy ceiling on a temporary basis, as well as to increase its levy limit on a permanent basis.

Figure 1

Levy Ceiling

The maximum the levy limit can be. The ceiling equals 2.5 percent of the community's full and fair cash value.

How is a Levy Ceiling Changed?

The total full and fair cash value of taxable real and personal property in a community usually changes each year as properties are added or removed from the tax roll and market values increase or decrease. This also changes the levy ceiling. See *Figure 2*.

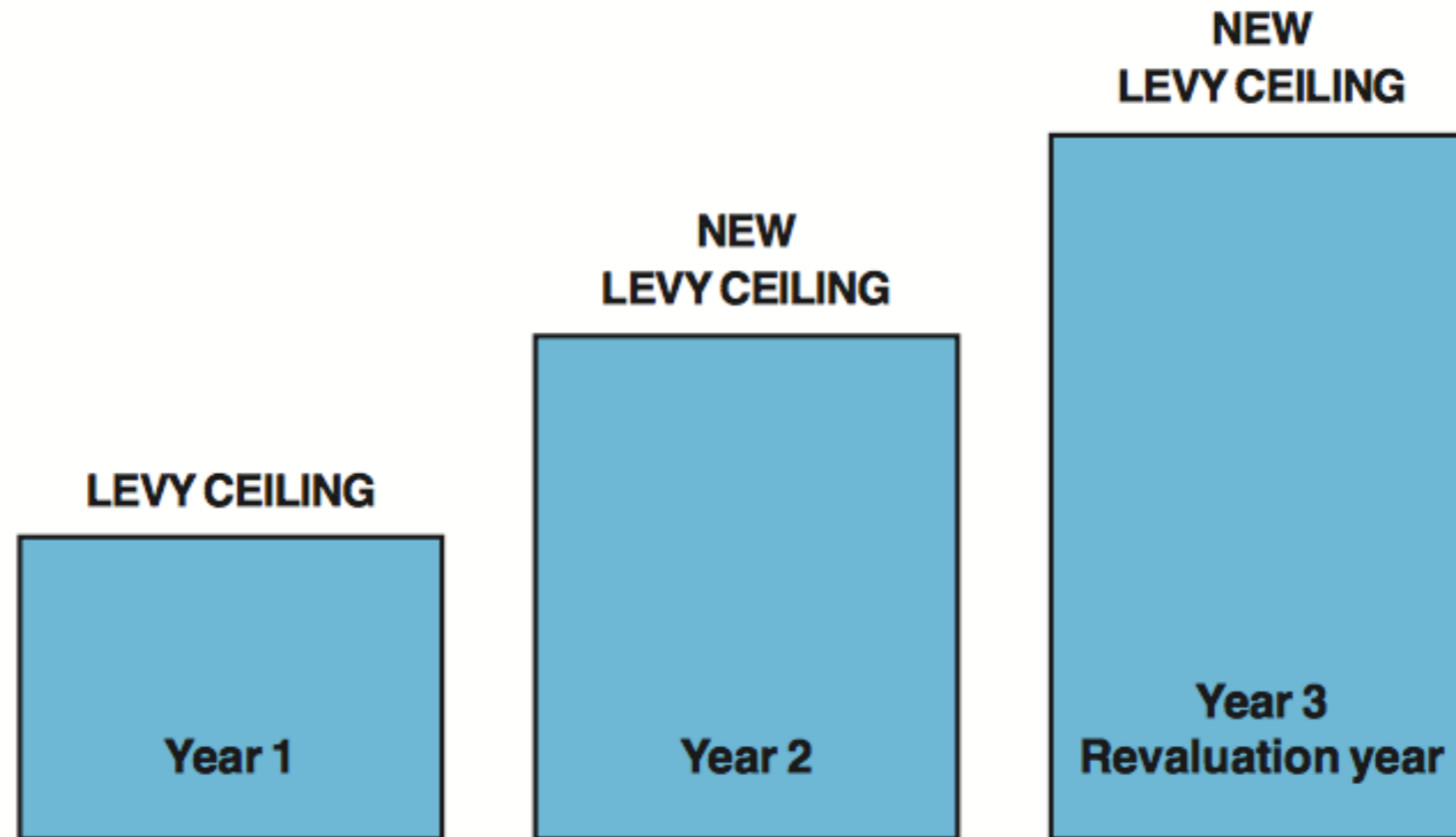
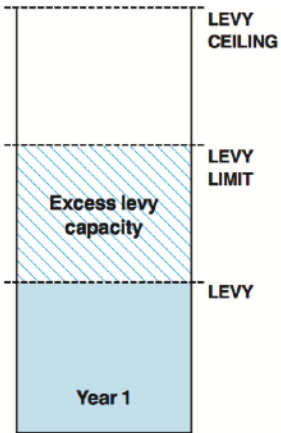


Figure 2

This is determined by the town assessor using defined formulas and in the information is submitted to DLS yearly

Levy Limit

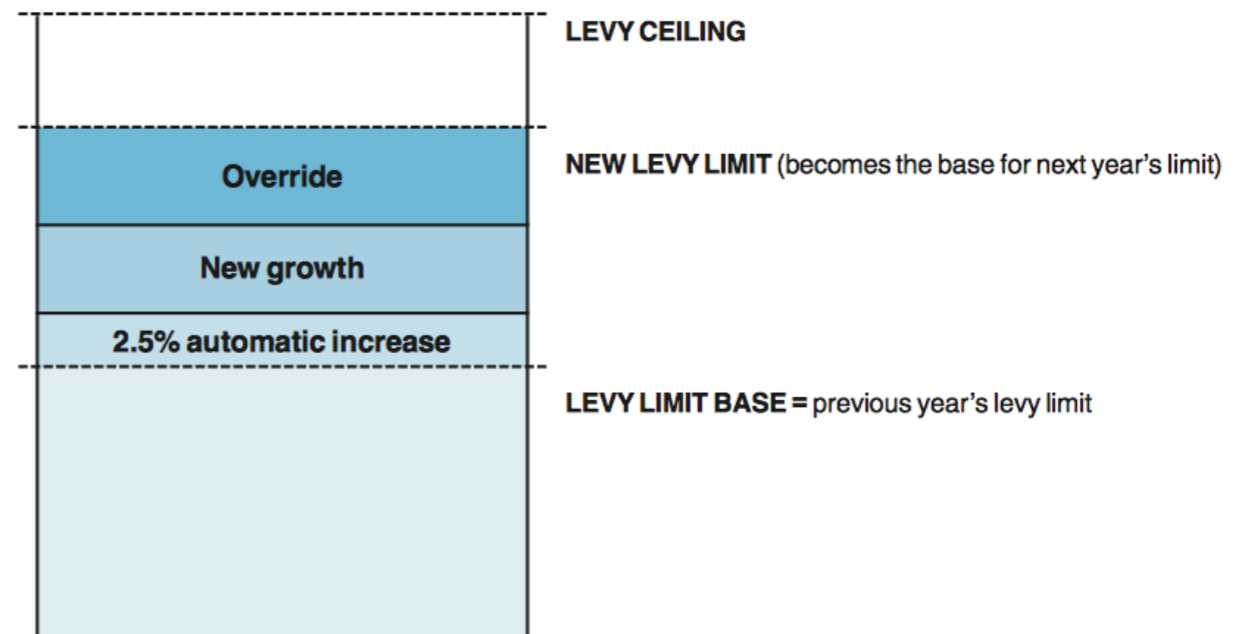


The maximum the levy can be in a given year. The limit is based on the previous year's limit plus certain allowable increases.

How is a Levy Limit Calculated?

A levy limit for each community is calculated annually by the Department of Revenue. It is important to note that a community's levy limit is based on the previous year's levy limit and not on the previous year's actual levy.

Taking the previous year's levy limit and increasing it by 2.5%:	
A. FY2007 Levy Limit	\$1,000,000
B. (A) x 2.5%	+ \$25,000
Adding to the levy limit amounts of certified new growth added to the community's property tax base:	
C. FY2008 New Growth	+ \$15,000
Adding to the levy limit amounts authorized by override votes:	
D. FY2008 Override	+ \$100,000
E. FY2008 Subtotal (A+B+C+D)	= \$1,140,000
Comparing the FY2008 levy limit to the FY2008 levy ceiling and applying the lesser number (compare E and F):	
F. FY2008 Levy Ceiling	\$2,500,000
\$1,140,000	
Applicable FY2008 Levy Limit	
(Lesser of E and F)	



How much of this amount the community actually wants to use — that is, the amount of the levy — is up to the discretion of local officials. The community can levy up to or at any level below the entire levy limit amount, regardless of what its levy was in the previous year.

New Growth

Proposition 2½ allows a community to increase its levy limit annually by an amount based on the increased value of new development and other growth in the tax base that is **not** the result of revaluation. The purpose of this provision is to recognize that new development results in additional municipal costs; for instance, the construction of a new housing development may result in increased school enrollment, public safety costs, and so on.

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F. FY2008 Levy Ceiling	\$2,500,000
	\$1,140,000
Applicable FY2008 Levy Limit (Lesser of E and F)	

- Properties that have increased in assessed valuation since the prior year because of development or other changes.
- Exempt real property returned to the tax roll and new personal property.
- New subdivision parcels and condominium conversions.

New growth is calculated by multiplying the increase in the assessed valuation of qualifying property by the prior year's tax rate for the appropriate class of property. **Any increase in property valuation due to revaluation is not included in the calculation.**

Below we highlight how new growth is calculated:

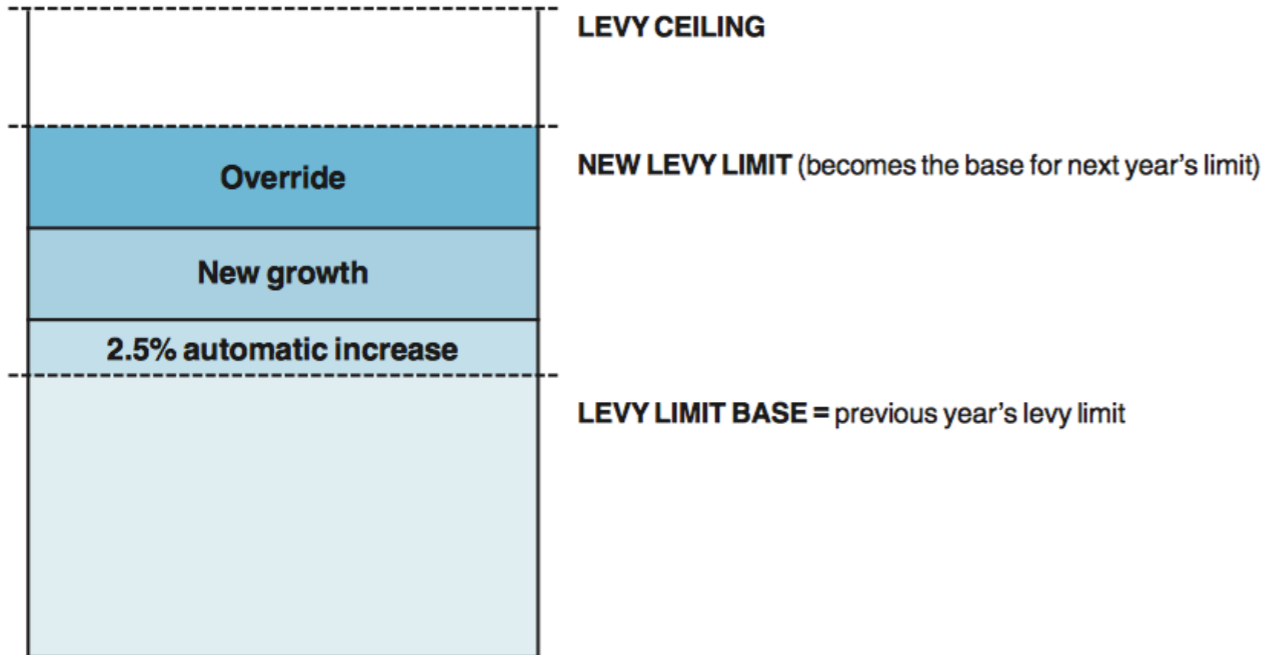
Increases in Assessed Valuation x Prior Year's Tax Rate for Particular Class of Property = New Growth Addition to Levy Limit

For example, for a community that applies the same tax rate to all classes of property:

**Increases in Assessed Valuation = \$1,000,000 Prior Year's Tax Rate = \$15.00/1000 \$1,000,000 x (\$15.00/1000) = \$15,000
New Growth Addition to Levy Limit = \$15,000**

Fun Fact: Assessors are required to submit information on growth in the tax base for approval by the Department of Revenue as part of the tax rate setting process.

Exceptions?



Overrides

A community can **permanently** increase its levy limit by successfully voting an override. The amount of the override becomes a permanent part of the levy limit base.

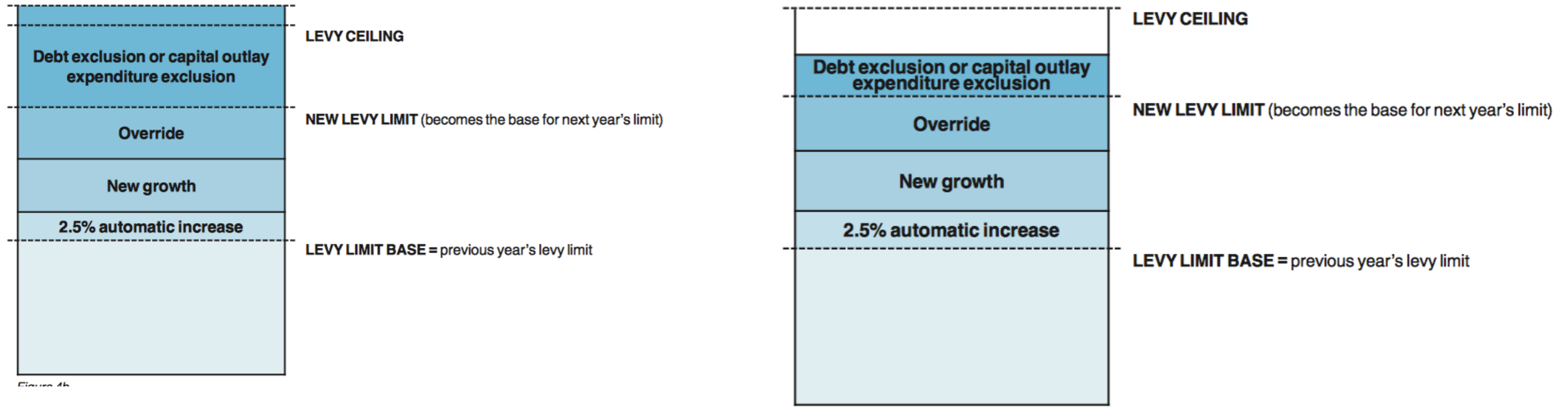
A community may take this action as long as it is below its levy ceiling.

An override cannot increase a community's levy limit above the level of the community's levy ceiling.

How are they passed?

A majority vote of a community's selectmen allows an override question to be placed on the ballot. Override questions must be presented in dollar terms and must specify the purpose of the override. Overrides require a majority vote of approval by the electorate.

Exceptions?



Debt Exclusion: An exclusion for the purpose of raising funds for debt service costs

Capital Outlay Expenditure Exclusion: an exclusion for the purpose of raising funds for capital project costs

A community can **temporarily** assess taxes in excess of its levy limit or levy ceiling by successfully voting a debt exclusion or capital outlay expenditure exclusion.

The amount of the exclusion does not become a permanent part of the levy limit base, but allows a community to assess taxes for a certain period of time in excess of its levy limit or levy ceiling for the payment of certain debt service costs or for the payment of certain capital outlay expenditures

How are they passed

A 2/3 vote of a community's selectmen allows an override question to be placed on the ballot. Questions presented to exclude a debt obligation must state the purpose or purposes for which the monies from the debt issue will be used. Questions presented to exclude a capital outlay expenditure exclusion must state the amounts and purposes of the expenditures. Overrides require a majority vote of approval by the electorate.

Exceptions?

Taking the previous year's levy limit and increasing it by 2.5%:

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B. (A) x 2.5%	+ \$25,000

Adding to the levy limit amounts of certified new growth added to the community's property tax base:

C. FY2008 New Growth	+ \$15,000
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Adding to the levy limit amounts authorized by override votes:

D. FY2008 Override	+ \$100,000
E. FY2008 Subtotal (A+B+C+D)	= \$1,140,000

Comparing the FY2008 levy limit to the FY2008 levy ceiling and applying the lesser number (compare E and F):

F. FY2008 Levy Ceiling	\$2,500,000
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\$1,140,000
Applicable FY2008 Levy Limit
(Lesser of E and F)

Calculating FY2008 levy limit with debt exclusion or capital outlay expenditure exclusion:

H. FY2008 Levy Limit	\$ 1,140,000
I. Add FY2008 Debt Exclusion or Capital Outlay Expenditure Exclusion	+ \$50,000

\$1,190,000 - Overrides
Applicable FY2008 Levy Limit with Debt Exclusion or Capital Outlay Expenditure Exclusion

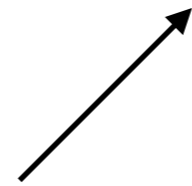
Underrides

Can be placed on ballot with majority vote by selectmen or by local initiative

Requires majority vote of town.

Override questions must state a dollar amount

Become permanent part of levy limit for following years calculations





Source: [http://www.mass.gov/dor/docs/dls/publ/
misc/levylimits.pdf](http://www.mass.gov/dor/docs/dls/publ/misc/levylimits.pdf)