

# Proposition 2 1/2 Questions and Answers

## What is Proposition 2 1/2?

Proposition 2 1/2 is a title given to an initiative petition adopted by voters of the Commonwealth of Massachusetts in 1980.

Its principal features are related to the total amount of property taxes which a city or town can raise each year. Other parts of the initiative, however, limited state agency assessments on cities and towns, prohibited unfunded state mandates, and repealed school committee and binding arbitration for certain public employees.

In addition, it reduced the motor vehicle excise tax and allowed renters a deduction on their state income tax.

## Doesn't Proposition 2 1/2 mean that my taxes cannot increase more than 2 1/2% per year?

No. Proposition 2 1/2 sets a limit on the entire tax levy for a jurisdiction. While there is a limit to the overall increase in property taxes, the revaluation program may result in increases or decreases in property taxes. Proposition 2 1/2 established a limit on the revenue a municipality can raise from property taxes. **Proposition 2 1/2 does not limit the amount by which an individual tax bill may change from year to year.**

The revenue that is collected from the property tax is called the *property tax* levy.

The levy is limited as follows:

- Limit 1 – Levy Ceiling
  - The property tax levy cannot exceed 2 1/2% of the total assessed value of the municipality. For example, if a municipality is valued at \$100 million, it could only raise 2.5 million from property taxes.
- Limit 2 – Levy Increase Limit
  - If the actual levy is less than the levy limit, the levy may only increase by 2 1/2% above the prior year's levy after making an adjustment for new growth.

## How does Proposition 2 limit property taxes?

Proposition 2 1/2 contains two limitations on the amount of property taxes the town can raise:

- The property tax levy ceiling (the amount raised) can never exceed 2 1/2% of the full cash value of all taxable property in the town. A tax rate cannot be higher than \$25.00 per \$1,000 of valuation.
- The property tax levy limit cannot be increased more than 2 1/2% over the prior years' levy limit, with certain exceptions for new growth: or through overrides and exclusions as adopted by the voters.

### **How does Proposition 2 1/2 affect my individual tax bill?**

The levy limit provisions of Proposition 2 1/2 affect the total amount of taxes to be raised by the town. It **does not** apply to an individual tax bill.

### **What is Classification? How does it work with Proposition 2 1/2?**

The Classification Amendment to the Massachusetts Constitution was adopted by the voters in 1978. It allowed the town to categorize real estate into four classes and to distribute the tax burden among these classes.

Proposition 2 1/2 affects the total amount of tax that can be raised. Classification affects which classes of taxpayers will pay what specific share of the total amount of the tax.

### **Does Proposition 2 1/2 allow increases in the tax levy?**

Yes, Proposition 2 1/2 contains several provisions for an increase in the tax levy limit:

- The levy limit can be increased by 2 1/2% each year. This percentage increase is less than the annual rate of inflation for each year since the adoption of Proposition 2 1/2.
- The levy can be increased by the value of the new construction and newly taxable parcels. This provision ensures that the town can recover additional service costs resulting from new taxable projects.
- The levy can be increased by the adoption of an override. An override provision allows the voters of the town to raise additional revenues (or to reduce the levy) by the specific amount. This can be accomplished by placing an override question on the ballot in a general or special election and approving the measure by a simple majority of voters. The increase approved

by the voters then becomes part of the base for calculation future years' levy limits.

It is important to consider, however, that Proposition 2 1/2 also mandates the property tax levy limit for any given year can never exceed the property tax levy ceiling (which is again, 2 1/2% of the assessed value of all taxable properties within the town.) An override of the Proposition 2 1/2 levy limit does not allow the levy to exceed the levy ceiling.

- The levy can also be increased by the adoption of debt exclusion. The exclusion provision allows the voters of the town to exclude bonds or debt issued for municipal capital improvements for a specified period of time.

### **What are the relationship of property values and the tax rate?**

Proposition 2 1/2 sets the maximum amount of property taxes (the levy) that the town can raise.

Once the amount to be raised is determined, a tax rate is calculated by dividing the amount to be raised by the total valuation of the town.

Whether the tax rate for the community will increase or decrease from the prior year will depend upon the levy decided upon by the community: it also depends on whether property values appreciate, depreciate, or remain steady in the community.

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