

# PROPOSITION 2 ½ EXPLAINED

## **What is a Levy?**

The property tax levy is the revenue a community can raise through real and personal property taxes. We will refer to the property tax levy simply as the levy. In Massachusetts, municipal revenues to support local spending for schools, public safety and other public services are raised through the property tax levy, state aid, local receipts and other sources. The property tax levy is the largest source of revenue for most cities and towns.

## **What is a Levy Ceiling? What is a Levy Limit?**

Proposition 2½ 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.

A levy limit is a restriction on the amount of property taxes a community can levy.

Proposition 2½ established two types of levy limits:

First, a community cannot levy more than 2.5 percent of the total full and fair cash value of all taxable real and personal property in the community.

Second, a community's levy is also constrained in that it can only increase by a certain amount from year to year.

The levy limit will always be below, or at most, equal to the levy ceiling. The levy limit may not exceed the levy ceiling.

## **How is a Levy Ceiling Calculated?**

The levy ceiling is determined by calculating 2.5 percent of the total full and fair cash value of taxable real and personal property in the community.

## **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.

## **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.

## **How is a Levy Limit Increased?**

The levy limit is increased from year to year as long as it remains below the levy ceiling. Permanent increases in the levy limit result from the following:

**Automatic 2.5 percent increase.** Each year, a community's levy limit automatically increases by 2.5 percent over the previous year's levy limit.

**This does not require any action on the part of local officials; the Department of Revenue calculates this increase automatically.**

**New Growth. A community is able to increase its levy limit each year to reflect new growth in the tax base. 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.**

**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.**

### **Levy Increases**

**Once a community's levy limit is established for a particular year, the community can determine what its levy will be. The community may set its levy at any amount up to the levy limit.**

**It is important to note that as long as a community levies no more than its levy limit, there is no restriction on the dollar increase or percentage increase in its levy from year to year. Proposition 2 1/2 restricts increases in the levy limit, not the levy. A community is permitted to tax up to its levy limit, even if it must raise its levy by a large percentage over the previous year's levy.**

### **Excess Levy Capacity**

**As discussed in the previous section, a community may choose to set its levy at any amount below or equal to its levy limit. When a community sets its levy below the limit, the difference between the levy and the levy limit is commonly referred to as excess levy capacity. This is an additional amount the community could, but chose not to, levy.**

**For FY 2018 Gardner's levy was only increased by 1.9%**

Prop. 2 ½ % refers to the maximum amount cities and towns can levy raised by taxation (real estate and personal property) can increase each year. This year the City of Gardner

Despite the tax rate going down, your tax bill may have increased due to an increase in your assessment. This increase in assessment may be due to improvements to your property and/or the increase in the real estate market. (MGL Ch. 59)

As with all other bills you pay (gas, groceries, oil, insurance, etc.), taxes never decrease. The City of Gardner has the same issue – the expenses of the city (gas, insurance, oil, etc.) never decrease.

Please note – Under the Levy Limit law the City Council and Mayor could have raised the tax rate .50 cents more to the maximum levy limit increasing the average tax bill \$90.00 more but they did not!