Opinion on Property Tax Classification, by Dan Tanner

The following is my own opinion, and not part of the report of the Property Tax Classification Committee, Ad hoc, on which I recently served. All data herein is publicly available and obtained from publications or the Chief Assessor, and is accurate to the best of my knowledge. This opinion references Appendices to the approved and publicly released report of the Property Tax Classification Committee, Ad hoc, which are attached, all of which were provided in their entirety by the Chief Assessor, plus copies from local newspapers.

I favor DUAL-RATE commercial/residential classification property tax classification, for these reasons:

- DUAL-RATE is the only method available that shifts some of the property tax levy from residential owners to commercial property owners. The RESIDENTIAL EXEMPTION, in contrast only shift the total residential levy among residential owners. Under RESIDENTIAL EXEMPTION, it is possible that elderly, impoverished, and/or fixed-income renters would see substantial rental or lease rate increases.

- DUAL-RATE inherently provides residential property tax relief to all town resident businesspersons. It those people happen to operate their business from an in-town commercial property that they own, their residential property tax decrease may offset (it will at least mitigate) any increased tax on their commercial property.

- DUAL-RATE recognizes that businesses benefit from town services, often disproportionately to the property tax they pay. The published police log shows this, with shoplifting arrests, as the published news shows frequent fire alarm responses (often to false alarms) at places of business. Businesses also receive additional protective police services and fire department inspections. Some businesses use a very great share of the town’s water supply and waste-treatment capacity. Because Westborough has such a fine school system, businesses enjoy a relatively higher-income clientele, are able to draw upon a relatively better-educated workforce, and can more easily attract well-educated employees to relocate here.

- Many businesses in town are outside investor-owned, foreign-owned, or franchises that have located here to take advantage of our superior location and town services, driving locally owned businesses out. The town should reap a benefit for what it gives these businesses.

- DUAL-RATE is not "anti-business". DUAL-RATE merely recognizes that location has value and businesses are willing to pay some addition cost of doing business in prime locations.
- Businesses have major tax advantages over homeowners. Businesses can legally keep two sets of books, one that shows profits for stockholders and another that shows losses for income tax purposes. Wage-owning homeowners can't, as businesses can and do, disguise income to avoid taxes. Also, commercial property owners can depreciate for tax purposes property that is earning money, even increasingly.
- Without DUAL-RATE, homeowners who have reached what should be their "golden years" and have paid off their mortgages are caught in a double-whammy. They also pay higher income taxes, because with no mortgage income deduction, it does not pay them to itemize on their income taxes. Not itemizing, they pay their property tax and state income tax at 100 cents on the dollar. Businesses always itemize, and thus always pay their taxes (income and property) at discounted rates. No tax policy exists in a vacuum, and property tax policy has an effect on income taxes and retirement income. According to the Advisory Finance Committee Chairman, *"the actual impact of the dual rate is partially offset by a resulting decrease in Commercial Property Value due to the burden of the increased tax rate"*.
- Single-rate property tax classification will not, I believe, drive businesses out of town. Several nearby towns have dual-rate classification and are experiencing major business growth, new mall and office/industrial complex construction, etc. I do not think that Worcester's business problems stem from a dual-rate system; Worcester has many other underlying fundamental problems. Boston has a dual-rate system and is thriving. Citing one example and ignoring counter-examples in order to make a case is illogical and invalid.
- It would appear that co-op homeowners would suffer under the residential exemption no matter what. Co-ops are currently taxed as rental units and it would take town meeting action to change that. But as a residence, a co-op has "one" owner – the co-op itself, and so would come in as one extremely high-valued property. The only thing fair to co-op owners is a dual-rate system.

I own (with my wife) only our residence in Westborough. Neither I, nor she, nor us together, own, or have owned, or plan to own any other property in Westborough, in whole or in part. Our property is below the town's median assessed real estate value, so we would benefit from lowered property taxes under either the RESIDENTIAL EXEMPTION or a DUAL-RATE (we have not calculated those potential benefits, which are variable). Neither my wife nor I have any relatives that own property in town. Neither I nor my wife nor any of our family members own any business in town. I believe that I have no conflict of interest.

In contrast, I believe that, as the figures from published records below show, large businesses and the local Chamber of Commerce believe that they are strongly motivated to advocate a single tax rate.

Tax classification committee appointed

By Catie Foertsch
Community Reporter

WESTBOROUGH - In November 2003, the Board of Selectmen voted to form a committee to study tax classification, or whether the town ought to maintain its single tax rate or adopt a dual rate, which would charge businesses a higher rate than homeowners. Other classification options could be studied, such as a residential exemption that would shift taxes from those who own homes valued under $400,000, to those owning more expensive homes. Changing the tax classification would shift the tax burden, but would not result in more tax revenue. At their Jan. 13 meeting, the selectmen appointed the committee's six members: Selectman John Minardi, Assessor Linda Landry, Finance Committee member Ronn Moody, Westborough Bank President Joseph MacDonough, and residents Thomas McCabe and Daniel Tanner.

At the November 2003 tax classification hearing, at which the selectmen set the town's single tax rate, Tanner argued for a dual rate, asking the selectmen for relief for those on fixed incomes. Though the town has programs that offer relief to seniors, Tanner said, "there's no relief unless you're well below the poverty level."

McCabe has operated businesses in town from 1970 to his retirement in 1999. MacDonough is president of the Corridor Nine Chamber of Commerce, which opposes a dual tax rate.

Selectman Denzil Drewry asked Town Coordinator Henry Danis for a mission statement, to define whether the committee would present an overview of the options or make recommendations. Danis said he would have a draft within two weeks, and Minardi promised the committee would meet soon after.

Figure 1: Article from a local newspaper, spring 2004.

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Community Advocate 10/8/04

community news

'Open for Business' presents tax classification discussion

By Catie Foertsch
Community Reporter

REGION - The October edition of "Open for Business," the Corridor Nine Area Chamber of Commerce cable TV show, will feature a discussion of the issue of tax classification. Guests are Steve Liberty, general manager of AstraZeneca's Westborough facility; Mark Donahue, an attorney with Fletcher Tilton and Whipple; and Michael O'Regan, Village Lumber partner and Mulligan's Taverne owner. The Open for Business host is Corridor Nine's Executive Director Barbara Clifford.

Each autumn, the boards of selectmen in the four Corridor Nine towns set their towns' tax rates, and vote on whether to adopt a single or dual tax rate. A single tax rate charges the same rate to both businesses and residents, while a dual tax rate shifts more of the tax burden onto businesses.

All four of the Corridor Nine towns - Westborough, Northborough, Southborough and Shrewsbury - currently have single tax rates.

During the Open for Business October show, Clifford and her guests discuss the negative impacts a dual rate has on businesses, and the contributions businesses make to the quality of life in their communities. Clifford characterized the relationship between businesses and communities as a mutually beneficial partnership.

Open for Business is produced at the Westborough TV studio and broadcast in Westborough, Northborough, Shrewsbury, Grafton and Worcester.

Figure 2: Article from The Community Advocate, Oct. 8, 2004.

APPENDIX B is the most revealing. It compares "apples to apples", excluding vacant land from both residential and commercial property data. Considering the likely impact on smaller (lowest and 3rd quartile) businesses and homes only, we see the following:

- *At 10% shift:* A lowest quartile business owner living in a lowest quartile home would see a net annual tax increase of only $97. **The same business owner living in a 3rd quartile home would see an annual tax increase of only $33.** A 3rd quartile business owner and homeowner would see an annual increase of $525.
- *At 20% shift:* A lowest quartile business owner living in a lowest quartile home would see a net annual tax increase of only $192. **The same business owner living in a 3rd quartile home would see an annual tax increase of only $64.** A 3rd quartile business owner and homeowner would see an annual increase of $1044.
- *At 50% shift:* A lowest quartile business owner living in a lowest quartile home would see a net annual tax increase of $479. The same business owner living in a 3rd quartile home would see an annual tax increase of only $159. A 3rd quartile business owner and homeowner would see an annual increase of $2611.

According to Time Magazine (April 19, 2004 p. 23) 60% of all US companies, and 70% of foreign-owned companies in the US paid no federal income taxes from 1996 to 2000. Should the huge, often foreign-owned companies pay less property tax too?

Our Fire Department Chief recently stated that he would oppose allowing a gas station on the Speedway Plaza Stop & Shop, “no matter what” because “large businesses are driving small locally-owned business out”. Stop & Shop is foreign-owned. According to newspapers, the parent company in Europe has an accounting scandal.

The “outlying” commercial property cited in the appendices is also a foreign-owned company. Does it employ contract-labor shift workers? Do those workers receive benefits? It has been in the news lately for allegedly obscuring potential dangers (including death) to patients from its anti-cholesterol drug. It was recently given permission to expand to nearly double its size, although it presently uses a large share of the town’s water supply. Does it not also use special police and fire protection because of its controlled substances? How have big drug companies have managed to keep prices in the USA high, and make it illegal to buy the same medicines from Canada, where prices are much lower? (I take medicines provided by the Veterans Administration, which my VA doctor told me the VA buys from Canada!) Prominently mentioned in its press releases are the property taxes it pays, but the press release buried its revenue figures near the end. Those figures show what a miniscule portion of them its property taxes represent. Can this company afford to pay more property tax? According to the Boston Globe (September 5, 2004), the large drug companies spend twice as much on marketing as on research. Perhaps it can pay more property tax by cutting its marketing budget.

My conclusion: Westboro should immediately go to a 50% split dual commercial/industrial – residential property tax system because it is equitable and would provide residential owners much-needed relief.

[End of opinion. Appendices follow. The remainder of this page is intentionally blank.]

Appendix A

RESIDENTIAL EXEMPTION WORKSHEET

3,702 owner-occupied single-family properties
$74,120 value reduction per property
$13.87 single tax rate; $16.51 rate

<u>With 20% residential exemption</u>

- Highest value quartile:
  Avg. value: $611,528 x $13.87 = $8,481.89
  $611,528 - $74,120 = $537,408 x $16.51 = $8,872.61
  Tax Increase: $390.72

- Second highest quartile:
  Avg. value: $415,365 x $13.87 = $5,761.11
  $415,365 - $74,120 = $341,245 x $16.51 = $5,633.95
  Tax Savings: $127.16

- Third highest quartile:
  Avg. value: $316,879 x $13.87 = $4,395.11
  $316,879 - $74,120 = $242,759 x $16.51 = $4,007.95
  Tax Savings: $387.16

- Lowest value quartile:
  Avg. value: $244,291 x $13.87 = $3,388.32
  $244,291 - $74,120 = $170,171 x $16.51 = $2,809.52
  Tax Savings: $578.80

*Outliers in value…
Highest single family value: $1,418,500 x $13.87 = $19,674.60
$1,418,500 - $74,120 = $1,344,380 x $16.51 = $22,195.72
Tax Increase: $2,521.12

Lowest single family value: $104,700 x $13.87 = $1,452.19
$104,700 - $74,120 = $30,580 x $16.51 = $504.88
Tax Savings: $947.31

<u>With 10% residential exemption</u>:
Tax rate: $14.98; $37,060 value reduction per property

- Highest value quartile:
  Avg. value: $611,528 x $13.87 = $8481.89
  $611,528 - $37,060 = $574,468 x $14.98 = $8,605.53
  Tax Increase: $123.64

- Second highest quartile:
  Avg. value: $415,365 x $13.87 = $5,761.11
  $415,365 - $37,060 = $378,305 x $14.98 = $5,667.00
  Tax Savings: $94.11

- Third highest quartile:
  Avg. value: $316,879 x $13.87 = $4,395.11
  $316,879 - $37,060 = $279,819 x $14.98 = $4,191.69
  Tax Savings: $203.42

- Lowest value quartile:
  Avg. value: $244,291 x $13.87 = $3,388.32
  $244,291 - $37,060 = $207,231 x $14.98 = $3,104.32
  Tax Savings: $284.00

*Outliers…

Highest single family value: $1,418,500 x $13.87 = $19,674.60
$1,418,500 - $37,060 = $1,381,440 x $14.98 = $20,699.97
Tax Increase: $1,025.37

Lowest single family value: $104,700 x $13.87 = $1,452.19
$104,700 - $37,060 = $67,640 x $14.98 = $1,013.25
Tax Savings: $438.94

[End of Appendix A. The remainder of this page is intentionally blank.]

Appendix B

COMMERCIAL/INDUSTRIAL RATE SHIFT WORKSHEET Vacant Land Excluded

With 10% shift: Residential rate: $12.99; C&I rate: $15.26

C&I impact by value quartile:

Highest avg. value: $8,852,121 x $13.87 = $122,778.91
$8,852,121 x $15.26 = $135,083.36
Tax Increase: $12,304.45

Second highest value: $1,577,360 x $13.87 = $21,877.98
$1,577,360 x $15.26 = $24,070.51
Tax Increase: $2,192.53

Third highest value: $578,339 x $13.87 = $8,021.56
$578,339 x $15.26 = $8,825.45
Tax Increase: $803.89

Lowest value: $224,574 x $13.87 = $3,114.84
$224,574 x $15.26 = $3,426.99
Tax Increase: $312.15

Single-family impact by value quartile:

Highest avg. value: $611,528 x $13.87 = $8,481.89
$611,528 x $12.99 = $7,943.75
Tax Savings: $538.14

Second highest value: $415,365 x $13.87 = $5,761.11
$415,365 x $12.99 = $5,395.59
Tax Savings: $365.52

Third highest value: $316,879 x $13.87 = $4,395.11
$316,879 x $12.99 = $4,116.26
Tax Savings: $278.85

Lowest avg. value: $244,291 x $13.87 = $3,388.32
$244,291 x $12.99 = $3173.34
Tax Savings: $214.98

*Outliers….

Highest Comm. value: $293,337,340 x $13.87 = $4,068,588.91
$293,337,340 x $15.26 = $4,476,327.81
Tax Increase: $407,738.90

Highest single family: $1,418,500 x $13.87 = $19,674.60
$1,418,500 x $12.99 = $18,426.31
Tax Savings: $1,248.29

Lowest single family: $104,700 x $13.87 = $1,452.19
$104,700 x $12.99 = $1,360.05

Tax Savings: $92.14

With 20% shift: Residential rate: $12.11; C&I rate: $16.64

C&I impact by value quartile:

Highest avg. value:	$8,852,121 x $13.87 = $122,778.91
	$8,852,121 x $16.64 = $147,299.29
	Tax Increase: $24,520.38
Second highest value:	$1,577,360 x $13.87 = $21,877.98
	$1,577,360 x $16.64 = $26,247.27
	Tax Increase: $4,369.29
Third highest value:	$578,339 x $13.87 = $8,021.56
	$578,339 x $16.64 = $9,623.56
	Tax Increase: $1,602.00
Lowest value:	$224,574 x $13.87 = $3,114.84
	$224,574 x $16.64 = $3,736.91
	Tax Increase: $622.07

Single-family impact by value quartile:

Highest value:	$611,528 x $13.87 = $8,481.89
	$611,528 x $12.11 = $7,405.60
	Tax Savings: $1,076.29
Second highest:	$415,365 x $13.87 = $5,761.11
	$415,365 x $12.11 = $5,030.07
	Tax Savings: $731.04
Third highest:	$316,879 x $13.87 = $4,395.11
	$316,879 x $12.11 = $3,837.40
	Tax Savings: $557.71
Lowest:	$244,291 x $13.87 = $3,388.32
	$244,291 x $12.11 = $2,958.36
	Tax Savings: $429.96

*Outliers…

Highest Comm.Value:	$293,337,340 x $13.87 = $4,068,588.91
	$293,337,340 x $16.64 = $4,881,133.34
	Tax Increase: $812,544.43
Highest Sing. Fam.:	$1,418,500 x $13.87 = $19,674.60
	$1,418,500 x $12.11 = $17,178.04
	Tax Savings: $2,496.56
Lowest Sing. Fam.:	$104,700 x $13.87 = $1,452.19
	$104,700 x $12.11 - $1,267.92
	Tax Savings: $184.27

With 50% shift: Residential rate: $9.46; C&I rate: $20.80

C&I impact by value quartile:

Highest avg. value:	$8,852,121 x $13.87 = $122,778.91
	$8,852,121 x $20.80 = $184,124.11
	Tax Increase: $61,345.20
2nd highest:	$1,577,360 x $13.87 = $21,877.98
	$1,577,360 x $20.80 = $32,809.09
	Tax Increase: $10,931.11
3rd highest:	$578,339 x $13.87 = $8,021.56
	$578,339 x $20.80 = $12,029.45
	Tax Increase: $4,007.89
Lowest:	$224,574 x $13.87 = $3,114.84
	$224,574 x $20.80 = $4,671.14
	Tax Increase: $1,556.30

Single-family impact by value quartile:

Highest avg. value:	$611,528 x $13.87 = $8,481.89
	$611,528 x $9.46 = $5,785.05
	Tax Savings: $2,696.84
2nd highest:	$415,365 x $13.87 = $5,761.11
	$415,365 x $9.46 = $3,929.35
	Tax Savings: $1,831.76
3rd highest:	$316,879 x $13.87 = $4,395.11
	$316,879 x $9.46 = $2,997.67
	Tax Savings: $1,397.44
Lowest:	$244,291 x $13.87 = $3,388.32
	$244,291 x $9.46 = $2,310.99
	Tax Savings: $1,077.33

Outliers…

Highest Comm value:	$293,337,340 x $13.87 = $4,068,588.91
	$293,337,340 x $20.80 = $6,101,416.67
	Tax Increase: $2,032,827.76
Highest Sing. Fam.:	$1,418,500 x $13.87 = $19,674.60
	$1,418,500 x $9.46 = $13,419.01
	Tax Savings: $6,255.59
Lowest Sing. Fam:	$104,700 x $13.87 = $1,452.19
	$104,700 x $9.46 = $990.46
	Tax Savings: $461.73

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