November 9, 2018

To: The Board of Selectmen

Re: Response to Mr. Caplin's information provided to the Selectman dated 11/4/18 suggesting the implementation of a split tax rate

From: Janice Dangelo, Director of Assessing
Eric Henderson, Assistant Assessor

In response to a concerned taxpayer, we would like to point out a few items regarding the effect of a split tax rate. The goal of the Board of Assessors is to present information so that the Board of Selectmen can make an educated decision.

The Town has reviewed classification options in the past.

A "Tax Classification Study Report" was done in 2001. Comparable communities highlighted in that report have continued to be provided within classification documents and presentations. Annually split rate options and impact scenarios are presented at the classification hearing.

Splitting the tax rate, <u>does not</u> affect the amount of taxes the Town can collect.

Classifying property <u>does</u> affect the proportions of who pays the levy, residential or commercial taxpayers.

The proportions of our tax base (levy allocation) has a large factor on the corresponding tax rates when a shift is utilized.

Based on the proportions of our tax base, for every 1% reduction in residential taxes; there is a corresponding 4% increase on commercial taxes.

While utilizing a split tax rate does affect new growth, it does <u>not</u> necessarily increase or decrease growth.

A split tax rate increases the tax rate on CIP property while lowering the tax rate on Residential property. A split tax rate only increases new growth in years where the percentage of new growth from the CIP class exceeds the CIP percentage share of the levy. In years where this is not the case, because of a decreased residential tax rate, new growth is actually lessened.

A split rate will increase growth in years with major commercial development. However, it will decrease growth in years with major residential development.

Classification is based on Use

Large apartment complexes are residential and would benefit from the split tax rate; they would pay less in taxes. Note that 5 out of our 10 top taxpayers are apartment properties.

Real estate taxes paid has an effect on the value of a commercial property
The primary approach to value for commercial and industrial property is the income approach. This is the approach favored and relied on by the Appellate Tax Board. In simple terms, the income approach applies a capitalization rate to annual net income to estimate market value. As taxes increase and net income decreases, the net effect lowers the value of the property.

If a shift is chosen, it would be prudent to phase it in

Implementing a 150% shift in tax burden on CIP property in one year would cause a significant increase in abatement filings; jeopardizing our overlay, along with costly litigation.