

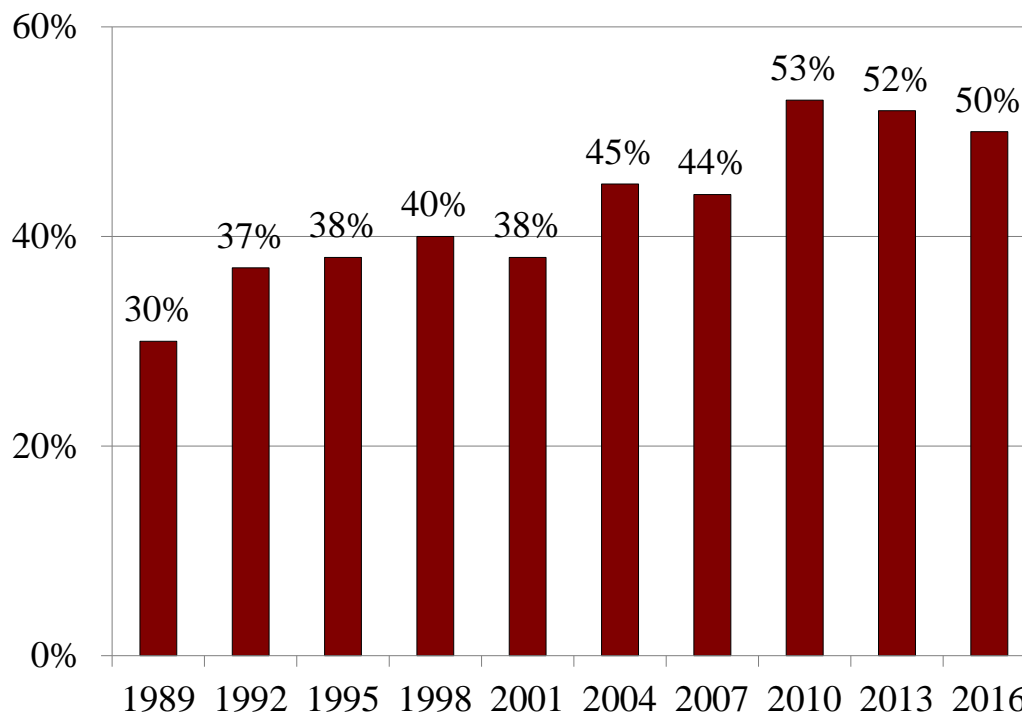
Property Tax Deferral: A Proposal to Help Massachusetts' Seniors

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Economic Perspectives on State and Local Taxes
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Why is property tax relief so important? Half of U.S. working families face a retirement shortfall.

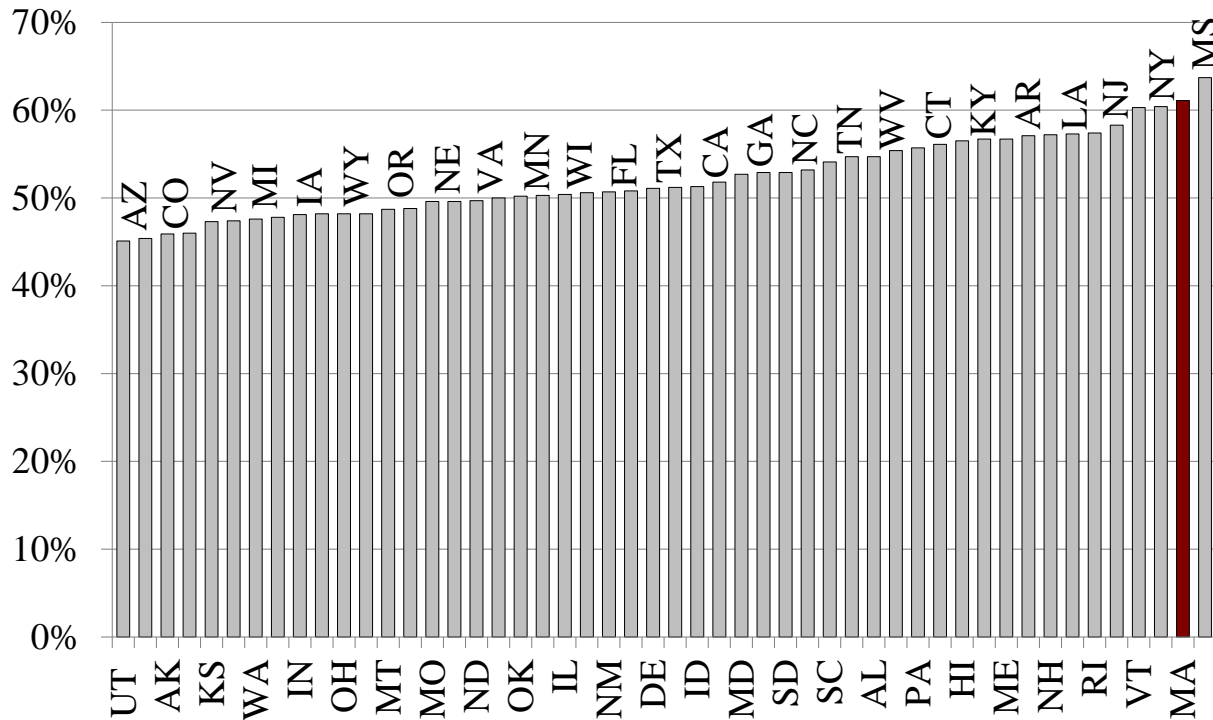
The National Retirement Risk Index, 1989-2016



Source: Alicia H. Munnell, Wenliang Hou, and Geoffrey T. Sanzenbacher. 2018. "National Retirement Risk Index Shows Modest Improvement in 2016." *Issue in Brief* 18-1. Center for Retirement Research at Boston College.

Retirees in MA are even more at risk, as high housing costs increase economic insecurity.

Elder Economic Insecurity Rate for Single Individuals by State, 2016



Source: Jan E. Mutchler, Yang Li, and Ping Xu. 2016. "Living Below the Line: Economic Insecurity and Older Americans Insecurity in the States 2016." Paper 13. Center for Social and Demographic Research on Aging.

MA has provisions for property tax relief, but eligibility is limited.

MA Property Tax Relief Provisions for Seniors, 2017

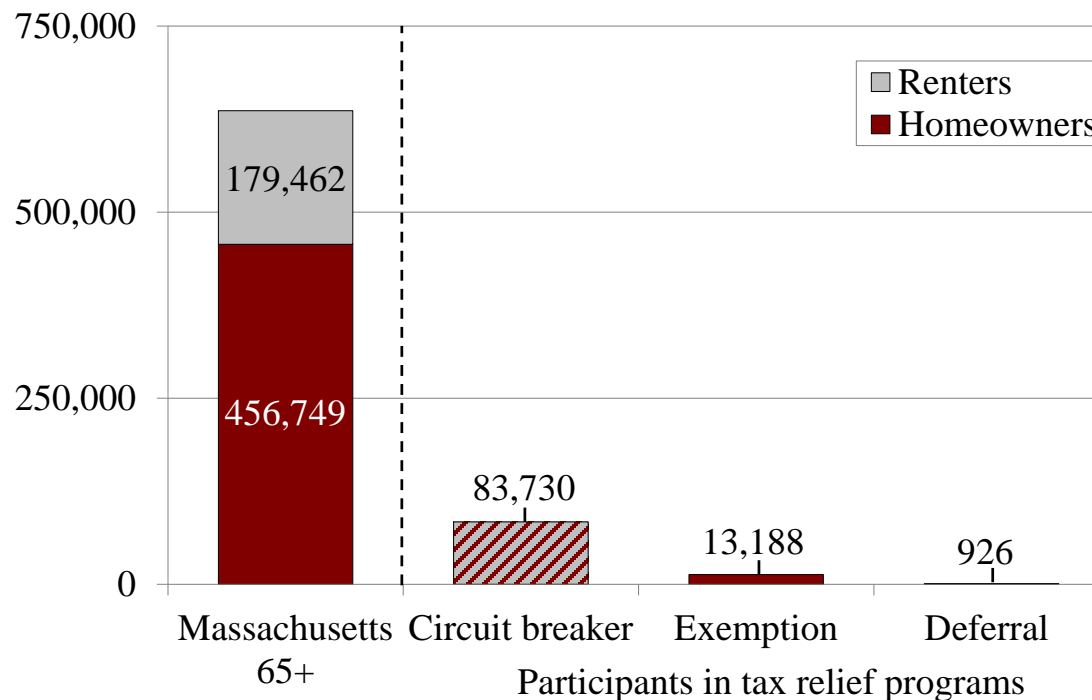
Parameter	Provision		
	Circuit Breaker	Exemptions	Deferral
Age	65+	70+*	65+
Income limit	\$57,000 single \$71,000 head of household \$86,000 joint filers	\$13,000 single \$15,000 married*	\$20,000 single or married*
Exemption	Tax credit up to \$1,070	\$500*	Deferral up to 50% of fair cash value*
Interest rate	N/A	N/A	8%*
Payment due	N/A	N/A	When property sold

* Locality may modify the parameter.

Source: Alicia H. Munnell, Anek Belbase, Wenliang Hou, and Abigail Walters. 2017. "Property Tax Deferral: A Proposal to Help Massachusetts Seniors." *Issue in Brief* 17-19. Center for Retirement Research at Boston College.

Currently, less than a thousand homeowners use the MA property tax deferral program.

MA Property Taxpayers 65+ and Participants in Senior Tax Relief Programs, 2016



Note: Circuit breaker data are for 2014 participants.

Sources: U.S. Census Bureau *American Community Survey* (2015); and MA Department of Revenue Division of Local Services *Municipal Databank* (2016).

Three factors explain why uptake is so low.

- Most homeowners are not eligible.
- Eligible homeowners are not aware of the program.
- Those who are aware often:
 - do not know how to apply;
 - are concerned about stigma; or
 - hesitate to place a lien on their home.

Under our proposal, the program would be open to *all* households ages 65+.

- Lower-income homeowners are not the only ones facing a retirement shortfall.
- Universal eligibility eliminates any stigma to participation.
- Getting rid of income limits makes the program easier to administer.
- “Programs for poor people are poor programs.”

The program would allow more households access to home equity and protect localities.


- Households could defer taxes until deferred taxes, interest, and any outstanding mortgage equal 60 percent of property value.
- The interest rate on deferrals would be the State's borrowing cost plus a buffer for administrative costs and defaults.
- The State would reimburse the locality for foregone taxes.
- The State would have a lien on the house for deferred taxes and would be repaid when the homeowner dies or sells the house.

Sign-up would be simple: just check a box.

Sample Property Tax Bill

This form approved by Commission of Revenue

COMMONWEALTH OF MASSACHUSETTS
CITY OF BOSTON
OFFICE OF THE COLLECTOR-TREASURER
ONE CITY HALL SQUARE, BOSTON, MA 02201



FY 2017
CITY OF BOSTON
REAL ESTATE TAX

Office of the Assessor 617-635-4287
Office of the Collector 617-635-4131
Office Hours: Monday - Friday 9:00 AM – 5:00 PM

DOE JANE
123 MAIN STREET
BOSTON MA 02201

PAYMENTS CAN BE MADE ONLINE AT:
www.boston.gov/taxpayments
credit/debit card payments are subject to fees

If you are using a payment service to pay this bill, you MUST indicate the **TAXYEAR** and **BILL NUMBER** on the check

TAXPAYER'S COPY
4TH QUARTER

MAKE CHECKS PAYABLE TO:
THE CITY OF BOSTON

MAIL CHECKS TO:
BOX 55808
BOSTON, MA 02205

Do not send cash

WARD	PARCEL NO.	BILL NUMBER	BANK NO.
1	12345-123	123456	123

LOCATION	AREA
123 MAIN STREET	

Tax Rate	RESIDENTIAL	OPEN SPACE	COMMERCIAL	INDUSTRIAL
Per \$1,000	10.00	10.00	25.00	25.00

CLASS	DESCRIPTION	ASSESSED OWNER
CD	Building	DOE JANE

IMPORTANT: SEE REVERSE SIDE FOR IMPORTANT INFORMATION

You are probably eligible to defer your tax payment

You are eligible to defer paying your property taxes if you are over the age of 65, own your home, and owe less than 60 percent of your home's assessed value in mortgages or deferred taxes and interest.

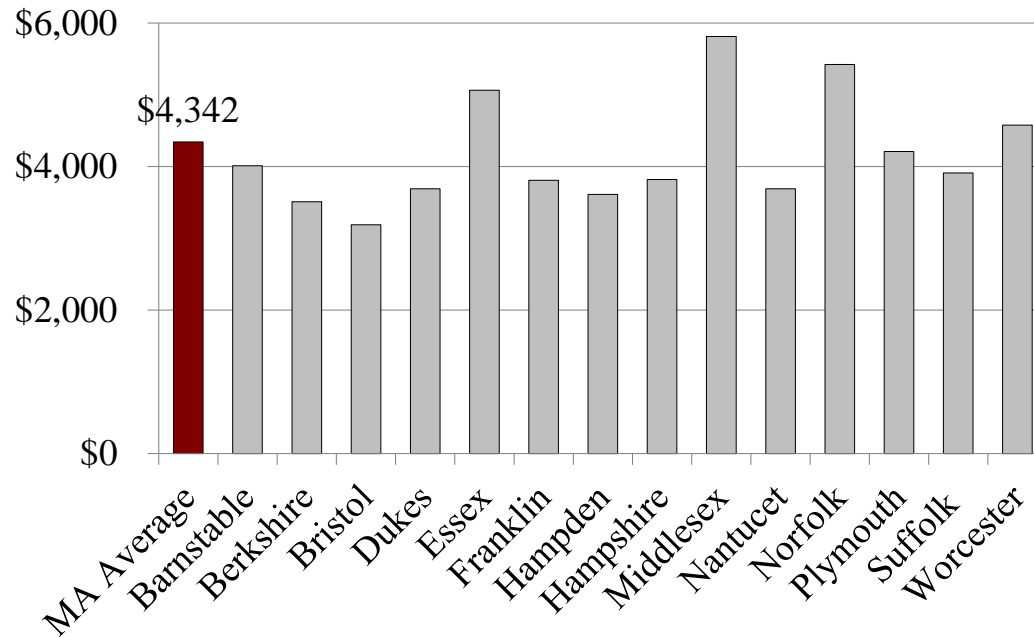
If you defer paying your property taxes, deferred taxes will accrue 5 percent interest each year. But you will not have to pay back the taxes or interest until you sell your home or you and your spouse pass away and leave the house to an heir.

To defer your taxes this year, check one of the boxes under your total due.

TOTAL FULL VALUATION	275,000
RESIDENTIAL EXEMPTION	0,000
TOTAL TAXABLE VALUATION	275,000
PRELIMINARY OVERDUE	00
SPECIAL ASSESSMENTS	00
CODE VIOLATIONS	00
TOTAL TAX & SPEC. ASSMNT. DUE	300.00
PERSONAL EXEMPTIONS	00
PAYMENTS TO DATE/CREDITS	300.00
NET TAX & SPEC. ASSMNT. DUE	00
TAX PAYMENTS DUE BY 05/01/2017	2,500.00
TAXES DEFERRED	00
FEES	00
INTEREST	00
TOTAL DUE	\$2,500.00
Pay by 05/01/2017	➔
OR defer paying this amount by checking <u>one</u> of the following boxes:	
I wish to defer my taxes this year and certify that I do not have any outstanding mortgages or home loans on my property.	<input type="checkbox"/>
I wish to defer my taxes this year and certify that my outstanding mortgages, home loans, and taxes do not exceed 60 percent of the value of my house.	<input type="checkbox"/>

On average, households would be able to defer more than \$4,000 per year in taxes.

Average Property Tax for Massachusetts Households 65+, by County



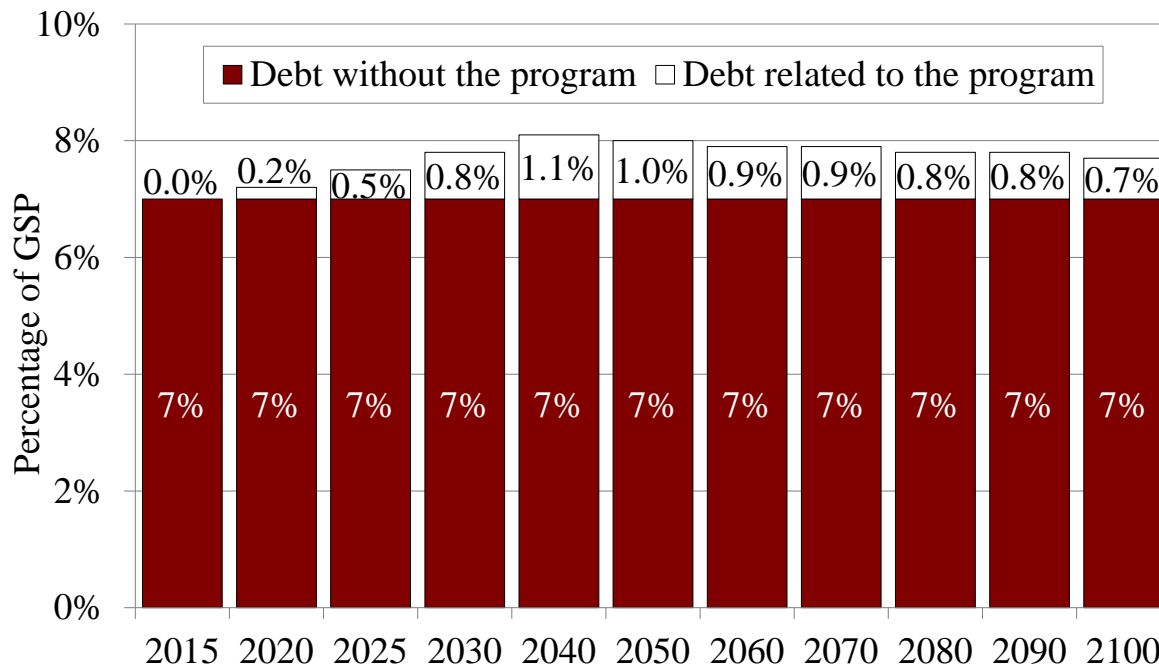
Source: Alicia H. Munnell, Anek Belbase, Wenliang Hou, and Abigail Walters. 2017. "Property Tax Deferral: A Proposal to Help Massachusetts Seniors." *Issue in Brief* 17-19. Center for Retirement Research at Boston College.

To finance the program, the State would set up a revolving loan fund.

- The size of the loan fund would depend on program participation.
- While program participation nationwide is generally low, the new program would be well-publicized and easily accessed.
- Participation would be driven by income, property tax bills, interest rates, and a low bequest motive.

With 20-percent participation, the program would raise state borrowing by about 1 percent of GSP.

MA Debt Relative to Gross State Product with and without the Program, 2015-2100



Note: These projections are preliminary and do not take into account the type of debt issued and the financing of interest payments.

Source: Alicia H. Munnell, Anek Belbase, Wenliang Hou, and Abigail Walters. 2017. "Property Tax Deferral: A Proposal to Help Massachusetts Seniors." *Issue in Brief* 17-19. Center for Retirement Research at Boston College.

But more information is needed: a pilot program will help answer key questions.

- How many people are likely to participate?
- How do you address resistance to placing a lien on the home?
- How will people use the program – continuously to cover everyday expenditures or sporadically to cover major outlays?
- Is 60 percent a reasonable loan-to-value ratio?
- How big a revolving loan fund will be necessary and what would that mean for the state?

Conclusion

- Many retirees are not going to have enough to maintain their pre-retirement living standard without tapping home equity.
- Compared to downsizing or taking a reverse mortgage, a statewide property tax deferral program has great potential.
- Keys to success include offering access to all older homeowners, making it easy to sign up, minimizing the burden on localities, and ensuring a fiscally sound program.