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## **Split rates: taxing residential and commercial properties at different rates in relation to market value**

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The new commercial and industrial valuations released by Worcester's assessing department have caused a stir. The media and local residents immediately began to question why approximately 2,000 commercial and industrial properties were undervalued, hinting there may have been something illegal that happened in the past in the assessor's office. Fortunately, on May 15, city manager O'Brien put an end to the rumors and insisted that any downward adjustments that were made in the past were all within legal guidelines.

There is a larger issue here and now is the time for the city council to discuss it. It is the split tax rate. This technique of taxation consists of taxing residential and commercial properties at different rates in relation to their market values. Currently, Worcester's residents pay \$16.06 per thousand, while commercial pays \$34.65 per thousand.

The obvious benefit to this taxation structure is to reduce the burden on homeowners. As a result, the practice can be politically popular since residents, and not business owners, make up the voting majority. The theoretical logic to shift the burden to commercial is based on the idea that businesses can pass the burden on to others through the products and services it provides. Homeowners do not enjoy that option. While true, there is a threshold. The question in Worcester today is are they about to exceed that threshold.

The problem with the split tax rate is the burden it places on owners and tenants of commercial and industrial properties. Ninety percent of the businesses that are located in the city of Worcester are small to mid-sized companies. They are not large conglomerates. They are very sensitive to changes in overhead. Occupancy costs are one of their greatest expenses. If they continue to increase, these businesses may be forced relocate to another community, or worse, close their doors.

The split tax rate also provides opportunity for government officials to exploit the commercial and industrial base by generating revenues through them but providing the benefits derived from those revenues to the residential base. More importantly though, it opens the door for commercial industrial property owners to consider moving to other communities and it could stall future developments. Government officials have used TIFFs and other programs to partially offset this problem and encourage growth. This is yet another controversial subject in Worcester and many other communities, but best left for a future discussion.

The split tax rate has been a source of discussion for many years in the city of Worcester. It will never be eliminated. It would place a huge burden on the residential base and would be politically devastating for any city councilor voting in favor of elimination. However, the gap could be closed considerably. In addition to taking some pressure away from commercial and industrial owners, who are paying some of the highest real estate taxes in central Massachusetts, it would reduce the

friction between commercial and residential. Reducing the disparity may bring the two groups together, forcing local government to be more careful about raising revenues and making determinations regarding how to appropriate those funds. It may also spur future growth in the commercial and industrial sector in the city, something that would have obvious benefits for the community.

Maureen Ruane is executive director with Glickman Kovago & Co., Worcester, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540