

## **What is Proposition 2 ½?**

Proposition 2 ½ is the title given to an initiative petition adopted by voters in Massachusetts in 1980.

The basic aim of Proposition 2 ½ is to limit the amount of money a town can raise through property taxes (called the Property Tax Levy, or levy). The levy is comprised of the property tax levy and other sources of revenue such as state aid, local receipts, and so on, which are used to support local spending for schools, public safety and other public services.

The property tax levy ceiling (the amount raised) can never exceed 2 ½% of the full cash value of all taxable property in the city or town. A single (straight) tax rate cannot be higher than \$25.00 per \$1,000 of valuation.

The property tax levy limit cannot be increased more than the 2 ½ % over the prior year's levy limit unless voters approve of an override to the limit.

The levy limit affects the total amount of taxes to be raised by the town. It does not apply to the individual tax bill.

The tax rate will change from year to year depending on the levy decided upon by the town, and whether property values appreciate, depreciate or remain constant.

The levy limit is increased from year to year as long as it remains below the levy ceiling. The levy limit can be:

- increased by 2 ½ % over the previous year's levy limit
- increased by 'new growth' which are increases in valuation due to new construction, new developments, additions, condominium conversions, exempt property returned to the tax rolls, new personal property
- overrides, which permanently increase the town's levy limit

Once the levy limit is increased in any of these ways, the increased levy limit becomes the base upon which levy limits are calculated for future years.

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

A levy limit is a restriction on the amount of property taxes a community can levy. The levy ceiling is the maximum the levy limit can be. The levy limit will always be below, or at most, equal to the levy ceiling.

### **What is an override?**

An override is a provision of Proposition 2 ½ which allows a community to assess taxes in excess of the automatic annual 2 ½ percent increase and any increase due to new growth. An override cannot increase a community's levy limit above the level of the community's levy ceiling.

### **What is an under-ride?**

An under-ride is a provision of Proposition 2 ½ which allows a community to reduce its levy limit. The under-ride results in a permanent decrease in the levy limit of a community because it reduces the base upon which levy limits are calculated for future years.

An under-ride question must be placed on a ballot, must state a dollar amount and requires a majority vote of approval by the electorate.

### **What is a Debt Exclusion?**

A debt exclusion is used to obtain voter approval to increase the levy to pay for capital projects financed by borrowing. Major capital items, such as the construction of a new school or installation of a sewer system, are usually financed by borrowing and repaying that loan over a fixed number of years. Approval of a single debt exclusion question creates a temporary increase in the amount the community can levy in order to cover its annual debt service costs on the borrowing. Each year while the debt is being repaid, the amount of that year's debt service payment is added to the levy limit to determine how much the community can levy. Once the debt is retired, the exclusion ends.