

**COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF REVENUE  
DIVISION OF LOCAL SERVICES**

Bureau of Local Assessment  
Informational Guideline Release No. 93-402  
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**SMALL COMMERCIAL EXEMPTION**

Chapter 110, S.S. 112 and 187 of the Acts of 1993  
(Adding G.L. Ch. 59, S. 51 and Ch. 151A, S. 64)

**SUMMARY:**

This legislation adds a new option, -the small commercial exemption, to the property tax classification law. Under G.L. Ch. 59 §5I, a board of selectmen or mayor, with the approval of the city council, may now decide annually to exempt up to ten percent of the value of Class Three, Commercial, parcels that are occupied by businesses with an average annual employment of no more than ten people at all locations during the previous calendar year, as certified by the Commissioner of the Department of Employment and Training, and valuations of less than a million dollars. Like the residential exemption provided by G.L. Ch. 59 §5C, the small commercial exemption is a reduction in the taxable valuation of the property applied by the assessors before setting the tax rate. If adopted, it has the effect of reducing property taxes on properties occupied by small businesses and shifting those taxes onto other commercial and industrial properties.

**GUIDELINES:**

**A. Annual Adoption**

The board of selectmen or mayor, with the approval of the city council, may now decide before the tax rate is set whether or not to grant a small commercial exemption for the fiscal year. A small commercial exemption of any percentage of valuation up to ten may be adopted.

The option of granting a small commercial exemption is in addition to the other local tax policy options available under the classification law. It can be granted regardless of the residential factor selected and may be used with or without an open space discount or a residential exemption.

**B. Qualifications**

To be eligible for any small commercial exemption granted, a Class- Three, Commercial, parcel must (1) be occupied by a business with an average annual employment of no more than ten during the previous calendar year, as certified by the Commissioner of the Department of Employment and Training, -and (2) have a valuation of less than one million dollars.

**1. Occupancy**

The commercial parcel must be occupied by an eligible business as of January first. It does not have to be owned by the occupying business or any other eligible business.

If a parcel has multiple commercial occupants or tenants, all occupants must be eligible businesses. If a parcel is multiple use, such as a residential and commercial property, all occupants of the commercial portion must be eligible businesses.

## 2. Eligible Business

An eligible business is one that is certified by the Commissioner of the Department of Employment and Training (DET) as having had an average annual employment at all locations of ten or fewer people during the prior calendar year. The assessors are to rely exclusively on the Commissioner's certification in determining whether a business qualifies.

The Commissioner of DET will provide the assessors with a list of eligible businesses each year by July first. G.L. ch. 151A §64. The Commissioner will issue the first list by July 1, 1994. That list will include businesses with average employment of ten or less during calendar year 1993 and is to be used by the assessors in determining whether a parcel was occupied by an eligible business as of January 1, 1994 for fiscal year 1995 tax purposes.

The list of eligible businesses is not a public record. It may be used by the assessors and their staff only to administer the small commercial exemption. If any of the assessors or their staff uses the list for other purposes or disclosures any of the listed businesses to people outside the assessors' office, they may be fined one hundred dollars.

## 3. Valuation Limit

The parcel must have a valuation of less than one million dollars before the application of any small commercial exemption.

The exemption applies to a specific parcel occupied by an eligible business, not an eligible business. Therefore, if any particular eligible business occupies more than one parcel, each under one million dollars in value, each parcel would qualify for the exemption.

## C. Assessed Valuation and Tax Rate

The small commercial exemption is administered by the assessors in the same manner as the residential exemption, that is, without an application from the taxpayer. Unlike the residential exemption, however, the small commercial exemption is based on a percentage of an eligible parcel's valuation, rather than a taxed dollar amount.

The assessors value all Class Three, Commercial, properties at their full and fair cash value and then use the aggregate full and fair cash value of the commercial class to compute the minimum residential factor and determine the levy allocation under the classification law. If a small commercial exemption is granted, the assessors must determine the eligible parcels, reduce their valuation by the selected exemption percentage and set the tax rate using the reduced taxable value.

Any small commercial exemption granted is borne by other Class Three, Commercial, and Class Four, Industrial, property, but not by personal property. The tax levy to be raised from commercial and industrial properties remains the same, but use of the reduced valuation in setting the tax rate will

result in a higher rate for the commercial and industrial classes than for personal property. The attachment, "Impact of Small Commercial Exemption," shows how adoption of the exemption affects the calculation of the tax rate.

#### D. Other Exemptions

The small commercial exemption may be applied to parcels that qualify for other property tax exemptions under G.L. Ch. 59 §5. There is no minimum taxable valuation as is the case with the residential exemption.

## IMPACT OF SMALL COMMERCIAL EXEMPTION

Tax Levy	\$5,000,000		
Full and Fair Cash Valuation			
Residential	\$150,000,000	75%	
Open Space	10,000,000	5%	80%
Commercial	20,000,000	10%	
Industrial	10,000,000	5%	20%
Personal	10,000,000	5%	
TOTAL	200,000,000	100%	

Eligible Class Three Parcels	
Full and Fair Cash Value	\$5,000,000
Exemption Percentage	10%
Exempt Valuation	500,000
Assessed Valuation	4,500,000

### EXAMPLE 1 TOWN ADOPTS A RESIDENTIAL FACTOR OF 1

#### Tax Rate Computation **Without** a Small Commercial Exemption

Class	Levy %	Levy	Tax Rate	
R & 0	80%	\$4,000,000	\$25.00	(\$4,000,000÷160,000,000)
CIP	20%	\$1,000,000	\$25.00	(\$1,000,000÷ 40,000,000)

#### Tax Rate Computation **With** A Small Commercial Exemptions

Class	Levy %	Levy	Tax Rate	
R & 0	80%	\$4,000,000	\$25.00	(\$4,000,000÷160,000,000)
C & I	15%	750,000	\$25.42	( 750,000÷ 29,500,000)
P	5%	250,000	25.00	( 250,000÷ 10,000,000)

#### Tax Impact on Eligible and Non-eligible Parcel Full and Fair Cash Valuation \$500,000

	Without Exemption	With Exemptions
Eligible	\$12,500 (\$500,000 x 25/1000)	\$11,439 (\$450,000 x 25.42/1000)
Non-eligible	\$12,500 (\$500,000 x 25/1000)	\$12,710 (\$500,000 x 25.42/1000)

**EXAMPLE 2**  
**TOWN TAKE SHIFT OF 150% ON CIP**  
**ADOPTS A RESIDENTIAL FACTOR OF .85**

Tax Rate Computation **Without** a Small Commercial Exemption

Class	Levy %	Levy	Tax Rate	
R & 0	70%	\$3,500,000	\$21.87	(\$3,500,000÷160,000,000)
CIP	30%	\$1,500,000	\$37.50	(\$1,500,000÷ 40,000,000)

Tax Rate Computation **With** A Small Commercial Exemptions

Class	Levy %	Levy	Tax Rate	
R & 0	70%	\$3,500,000	\$21.87	(\$3,500,000÷160,000,000)
C & I	22.5%	\$1,125,000	38.14	(\$1,125,000÷ 29,500,000)
P	7.5%	375,000	37.50	( 375,000÷ 10,000,000)

Tax Impact on Eligible and Non-eligible Parcel  
Full and Fair Cash Valuation \$500,000

	Without Exemption	With Exemptions
Eligible	\$18,750 ( $\$500,000 \times 37.50 / 1000$ )	\$17,163 ( $\$450,000 \times 38.14 / 1000$ )
Non-eligible	\$18,750 ( $\$500,000 \times 37.50 / 1000$ )	\$19,070 ( $\$500,000 \times 38.14 / 1000$ )

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The Division of Local Services is responsible for oversight of and assistance to cities and towns in achieving equitable property taxation and efficient fiscal management.

The Division regularly publishes IGRs (informational Guideline Releases detailing legal and administrative procedures) and the BULLETIN (announcements and useful information) for local officials and others interested in municipal finance.

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