CHAPTER 4
PROPERTY TAX CLASSIFICATION MODULE
TOPICS AND OBJECTIVES

A. TOPICS

1. State Property Type Classification Codes.
2. Use of state codes to classify taxable and exempt property.
3. Classification tax policy choices and considerations.
4. Computation of minimum residential factor to determine the allowable shift of the tax levy among property classes.

B. OBJECTIVES

1. Participants will understand the purpose of the Property Type Classification Codes.
2. Participants will be able to identify the classification of real and personal property using the codes.
3. Participants will understand the issues related to using the classification tax policy options.
4. Participants will understand how to calculate the minimum residential factor and determine the allowable shift of the tax levy among property classes.

CHAPTER 4
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1.0 OVERVIEW

1.1 Property Classification

Assessors must classify all real property according to use as of each January 1 into one of four classes: Residential, Open Space, Commercial or Industrial.[1]

1.2 Tax Levy Allocation

Municipalities decide annually within limits established by statute and the Department of Revenue (DOR) the percentage of the tax levy that will be paid by each class of real property owners and personal property owners.[2] The decision is made after a public hearing.

1.3 Assessors' Qualification

DOR must certify that the current board of assessors is qualified to classify property before a municipality may allocate its tax levy.[3] The board is qualified if a majority of the current board has completed Module 4, Property Tax Classification, of the online assessors training Course 101, *Introduction to Assessment Administration* and passed the Module 4 Learning Assessment. If not so qualified, the member or members needed to constitute a majority must complete the training in order for the Board to be qualified.[4]

Classification training focuses on the assessors' responsibility to (1) classify property using the statutory definitions and DOR classification coding system, and (2) present the impact of classification tax policy options during the annual public hearing.

2.0 PROPERTY CLASSIFICATION

2.1 Property Classes

Assessors must classify all real property according to use as of each January 1 into one of four classes: Residential, Open Space, Commercial or Industrial.[5] Personal property is a separate category and is treated as a class for purposes of allocating the tax levy.

2.2 Classification Codes

Assessors must use DOR classification codes to identify the use of real estate parcels and personal property accounts. Those codes are explained in *Property Type Classification Codes* (April 2019). The coding system has a three-digit level of detail.

2.2.1 First Digit

The first digit identifies a property's major classification as follows:

0	Multiple Use
1	Residential
2	Open Space
3	Commercial
4	Industrial
5	Personal Property
6	Classified Forest (61)
7	Classified Agricultural/Horticultural (61A)
8	Classified Recreational (61B)
9	Tax Exempt

2.2.2 Second Digit

The second digit identifies a major category of uses within the major classification.

Example

A "1" as the first digit of a property's code identifies its use as residential.
A second digit of "0" categorizes it as a general residence.
A second digit of "1" categorizes it as an apartment building.
A second digit of "2" categorizes it as a group living facility.

2.2.3 Third Digit

The third digit identifies a subdivision within the major category.

Example

A "1" as the first digit of a property's code identifies its use as residential.

A second digit of "0" categorizes it as a general residence.

A third digit of "1" designates it as a single family home.

A third digit of "2" designates it as a residential condominium.

A third digit of "4" designates it as a two-family home.

2.2.4. Local Option Codes

DOR has not established a code for every possible use and there are unassigned codes within each major category. Assessors may use any undesignated number for classifying properties that do not fall within an established code. In developing a local option code, assessors should maintain the overall pattern of the coding system.

2.3 Personal Property

Personal property is coded based on the legal entity of the assessed owner, *i.e.*, individual, partnership or corporation type, not use. The reason is that the taxable status of personal property is primarily dependent on the type of ownership entity.

Example
Office furniture owned by a registered business corporation is exempt from local taxation while identical property owned by an individual or a partnership is taxable.

2.4 Real Property

Assessors must classify real property based on its use. The zoning or valuation approach is disregarded.

Example
A residential dwelling located within an industrial park is classified as residential property even though the property is zoned for industrial use and the market indicates that its highest and best use is as an industrial property.

2.4.1 Childcare Facilities

Property operated as a childcare facility is classified as residential property. [6] To qualify as a childcare facility for classification purposes, a property must satisfy the statutory definition of a "day care center" or a "school age childcare program."[7]

2.4.2 Residential Land

Vacant land is classified as residential if it is (1) located in a residential zone or (2) accessory to a residential parcel.[8] Parcels are coded based on their development potential.

130	Designates buildable parcels.
131	Designates potentially buildable lots. Assessors must develop specific criteria for applying this code. **Example** **Assessors might use code 131 to designate lots in a subdivision that has been approved by the planning board but which is not yet recorded. Other assessors will code those lots as 130.**
132	Designates unbuildable parcels because of zoning, size, location, physical characteristic or other factor.

2.4.3 Multiple Use Properties

In coding a property used for more than one purpose, assessors must determine the property's primary or predominant use. They must also allocate the value of the property to the different classes.

The first digit of a multiple use property is "0." The second digit should be assigned to the predominant class and the third digit to the lesser use.

Example

A property used for residential and commercial uses is classified "013," if the primary use is residential. It is classified as "031," if the primary use is commercial.

2.4.4 Open Space

Open space is one of the four major classes of real property. It includes land maintained in an open or natural condition that contributes to the benefit and enjoyment of the public.[9] Open space does not include land taxable under a permanent conservation restriction, or used to produce income. In addition, it does not include land classified under Chapters 61, 61A or 61B, unless the city or town has accepted a local option provision in those chapters.

Assessors have some discretion in defining the characteristics and criteria to be used to determine if land provides a public benefit and should be classified as open space. The specific policies and criteria they will use must be specified in writing.

3.0 CLASSIFICATION HEARING

3.1 Annual Hearing

Before the tax rate can be set, the selectboard, town council or city council must hold a public hearing each year to consider the tax rate options available to the municipality under property tax classification.[10] The hearing is held after the assessors have determined final values and classified all properties and reported this information to DOR. These values set the parameters for the options the municipality may adopt.

3.2 Hearing Notice

The assessors should notify the selectboard or council when the values have been finalized so the hearing can be called. Notice of the hearing must comply with the Open Meeting Law[11] and any local charter, by-law or ordinance provisions. See IGR 20-8, Section IV, for more information regarding requirements for the public hearing.

3.3 Officials' Roles

3.3.1 Selectboard or Council

The selectboard, town council or city council conduct the classification hearing and vote on the available tax rate options. The vote may be taken at the hearing or a later meeting.

3.3.2 Assessors

The assessors provide the selectboard or council with the information necessary to make classifications decisions. This information should show the impact on the tax rate of the available tax policy options. The assessors are not required to make recommendations, although they may choose to do so if asked.

4.0 TAX POLICY DECISIONS

4.1 Tax Policy Options

Municipalities have several options in distributing the tax levy among taxpayers under property tax classification. Use of these options results in multiple tax rates for different property classes because they change the components used to calculate the rate, *i.e*., the amount of the tax levy being paid by, or the assessed valuation of, the class. The total tax levy remains the same.

4.1.1 Single or Split Tax Rate

Municipalities must decide whether (1) to tax all classes of property at their full and fair cash valuation share of the tax levy, which results in a single tax rate, or (2) to reduce the share of the tax levy paid by the residential and open space property owners and shift those taxes to commercial, industrial and personal property taxpayers, which results in a split tax rate.

4.1.2 Classification Exemption Options

Municipalities may also consider whether to allow (1) an open space discount, (2) a residential exemption, and (3) a small commercial exemption.

4.2 Levy Allocation

The selectboard or council, with the mayor's approval, must decide the percentages of the tax levy that each class of real property and personal property will bear. To do so, a residential factor is adopted. The residential factor governs the percentage of the tax levy to be paid by Class One, Residential and Class Two, Open Space (RO) properties. The difference is shifted to Class Three, Commercial, Class Four, Industrial and Personal properties (CIP).

The adopted factor cannot be less than the minimum residential factor (MRF) calculated by DOR, which is now done through use of DLS Gateway. The MRF represents the maximum shift allowed in the tax levy for the year and establishes the parameters for local decision-making.

4.2.1 <u>Single Tax Rate</u>

A residential factor of "1" results in the taxation of all property at the same rate. Each property class pays its full and fair cash valuation share of the tax levy, *e.g.*, if the value of all residential properties make up 80 percent of the total assessed valuation, residential taxpayers will pay 80 percent of the tax levy.

4.2.2 <u>Split Tax Rate</u>

A residential factor of less than “1” reduces the share of the tax levy paid by the RO classes and increases the share paid by the CIP classes. The result is two tax rates: one for RO properties and a second, higher rate for CIP properties. A factor greater than “1” may be adopted, which would have the opposite effect.

The maximum shift in the tax levy allowed for the year is determined as follows:[12]

<u>Step 1</u>	**<u>Basic MRF Parameters</u>** • CIP taxpayers cannot pay more than 150% of their full and fair cash value (FFCV) share of the tax levy (single rate share). • RO taxpayers must pay at least 65% of their FFCV share of the levy.
<u>Step 2</u>	**<u>Chapter 200[13] Expanded MRF Parameters</u>** If adopting the MRF determined in Step 1 would result in residential taxpayers paying a higher share of the tax levy than last year, then the MRF is calculated using these parameters:

	• CIP taxpayers cannot pay more than 175% of their FFCV share of the tax levy. • RO taxpayers must pay the greater of (1) 50% of their FFCV share of the levy, or (2) the lowest percentage share of the levy they have paid since classification began.

Example

The RO classes equal 80% of the community's assessed value. A residential factor of 1.000 results in RO classes paying 80% of the tax levy and CIP classes paying 20%.

CIP classes can pay a maximum of 30% of the tax levy (.20 x 1.5). RO would then have to pay the remaining 70% of the levy, or 87.5% of their FFCV share (70% ÷ 80%). This is higher than the minimum share of the levy of 65% the RO classes must pay.

The community's MRF is 87.5%.

4.3 Open Space Discount

The selectboard or council may allow for a discount for all Class Two, Open Space properties.[14]

4.3.1 Amount

The discount may reduce the amount of the tax levy paid by the open space class to no less than 75 percent of its full and fair cash share of the levy, *i.e.*, may allow a discount of up to 25 percent.

4.3.2 Tax Rate Impact

Adopting an open space discount lowers the open space tax rate because the amount of the levy paid by the class is reduced. Those taxes are shifted to the residential class alone, which means a higher residential tax rate.

4.4 Residential Exemption

The selectboard or mayor, with the approval of the council, may grant a residential exemption to all Class One, Residential properties that are the principal residence of the taxpayer on January 1.[15]

4.4.1 Amount

The exemption may not exceed 35 percent of the average assessed value of all Class One, Residential properties.[16] To calculate the exemption, the assessors first determine the average assessed value of all residential parcels. The adopted percentage is applied to this amount. The assessed valuation of each residential parcel that is the domicile of the taxpayer is then reduced by that amount.

4.4.2 Tax Rate Impact

Adopting a residential exemption increases the residential tax rate. The amount of the tax levy paid by the class remains the same, but because of the exempted valuation, it is distributed over less assessed value. This higher rate creates a shift within the class that reduces the taxes paid by homeowners with moderately valued properties. Those taxes are then paid by owners of rental properties, vacation homes and higher valued homes.

4.5 Small Commercial Exemption

The selectboard or mayor, with the approval of the council, may grant a small commercial exemption to all Class Three, Commercial properties that are occupied by businesses with an average annual employment of no more than 10 people and an assessed valuation of less than $1,000,000.[17]

4.5.1 Amount

The exemption may not exceed 10 percent of the assessed value of each eligible Class Three, Commercial property.

4.5.2 Eligible Business

For a business to qualify, the Director of the Department of Workforce Development must certify that it had an average annual employment of 10 or fewer people at all locations during the preceding calendar year. By July 1 of each year, the Director provides assessors with a list of businesses that met that employment criterion.[18] If a sole proprietorship or partnership does not appear on the certified list, the assessors may determine whether it met the employment criterion for the preceding calendar year.

4.5.3 Tax Rate Impact

Adopting a small commercial exemption increases the commercial and industrial tax rates. The amount of the tax levy paid by those two classes remains the same, but because of the exempted valuation, it is distributed over less assessed value. This higher rate creates a shift that reduces the taxes paid by owners of properties occupied by small businesses and shifts them to larger commercial and industrial taxpayers.

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[1] G.L. c. 59, § 2A(b).
[2] G.L. c. 40, § 56; G.L. c. 58, § 1A.
[3] G.L. c. 59, § 2A(c).
[4] The online Property Tax Classification Module of Course 101 can be accessed in the "Assessor Management" section of the "Directory Tab" in Gateway Online..
[5] G.L. c. 59, § 2A(b).
[6] G.L. c. 59, § 3F.
[7] G.L. c. 40A, § 9C; G.L. c. 28A, § 9.
[8] G.L. c. 59, § 2A(b).
[9] G.L. c. 59, § 2A(b).

[10] G.L. c. 40, § 56.
[11] G.L. c. 30A, § 20(b). Except for emergencies, the minimum notice period under the Open Meeting Law is 48 hours.
[12] G.L. c. 58, § 1A.
[13] St. 1988, c. 200, which amended G.L. c. 58, § 1A.
[14] G.L. c. 40, § 56.
[15] G.L. c. 59, § 5C.
[16] G.L. c. 59, § 5C¾, which allows cities and towns with special acts setting maximum exemption amounts at less than 35% to adopt an exemption under G.L. c. 59, § 5C.
[17] G.L. c. 59, § 5I.
[18] G.L. c. 151A, § 64A.

PROPERTY TAX CLASSIFICATION
ADDITIONAL RESOURCES

The following are additional resources on Property Tax Classification produced by DLS that are available on our website: **www.mass.gov/dls**.

- ***DLSLAW Library*** – A searchable data base of current DLS Informational Guideline Releases (IGRs), Local Finance Opinions (LFOs) and Bulletins that is accessed by clicking the "Search DLSLAW Library" link appearing under "Public Reports and Databases" on the **DLS Gateway** login page.

- ***Informational Guideline Releases (IGRs)* –** Specific IGRs that explain policies and procedures regarding tax rates include:
  - 16-405 Small Commercial Exemption (November 2016)

- ***Guidelines for Annual Assessment and Allocation of Tax Levy*** – Annual Informational Guideline Release (IGR) 2022-12 that details standards and procedures for annually determining property tax assessments, including triennial certification, classifying property according to use and allocating the tax levy among the property classes.

- ***Classification Workshop Manual*** – A comprehensive manual with detailed explanations and examples of the different options for shifting the tax burden under property tax classification.

- ***Property Type Classification Codes (April 2019)*** – Guidelines that establish coding system assessors must use in designating usage classification of property. **Supplements the course handbook.**