



Informational Guideline Release

Property Tax Bureau
Informational Guideline Release (IGR) No. 04-206
March 2004

OPTIONAL COST OF LIVING ADJUSTMENT
FOR
FISCAL YEAR 2005 EXEMPTIONS

(G.L. Ch. 59 §5(17), (17C), (17C½), (17D), (17E), (41), (41B), (41C) and (41D))

This Informational Guideline Release (IGR) informs assessors of the cost of living adjustment to be used in Fiscal Year 2005 by communities that have adopted certain local options for annually increasing the:

- Exemption amount granted to senior citizens and surviving spouses and minors under Clauses 17, 17C, 17C½ or 17D.
- Asset limits for determining if senior citizens and surviving spouses and minors qualify for exemption under Clauses 17, 17C, 17C½ or 17D.
- Income and asset limits for determining if senior citizens qualify for exemption under Clauses 41, 41B or 41C.

Topical Index Key:

Exemptions

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OPTIONAL COST OF LIVING ADJUSTMENT
FOR
FISCAL YEAR 2005 EXEMPTIONS

(G.L. Ch. 59 §5(17), (17C), (17C½), (17D), (17E), (41), (41B), (41C) and (41D))

SUMMARY:

The Commissioner of Revenue has determined the cost of living adjustment to be used in Fiscal Year 2005 by communities that have adopted certain local options. Those options allow communities to increase annually the:

- Exemption amount granted to senior citizens and surviving spouses and minors under Clauses 17, 17C, 17C½ or 17D.
- Asset limits for determining if senior citizens and surviving spouses and minors qualify for exemption under Clauses 17, 17C, 17C½ or 17D.
- Income and asset limits for determining if senior citizens qualify for exemption under Clauses 41, 41B or 41C.

The cost of living adjustment (COLA) is measured by the increase in the United States Department of Labor, Bureau of Labor Statistics Consumer Price Index for Urban Consumers (CPI-U) during the previous calendar year.

The cost of living adjustment for FY05 exemption purposes is **3.8%**.

GUIDELINES:

I. ADJUSTED EXEMPTION AMOUNT FOR CLAUSE 17s

Communities have the option of increasing each year the amount of the exemption granted to certain senior citizens and surviving spouses and minors under G.L. Ch. 59 §5, Clauses 17, 17C, 17C½ or 17D by any percentage up to the COLA determined by the Commissioner of Revenue. G.L. Ch. 59 §5 provision added by Ch. 181 of the Acts of 1995.

A. Local Adoption

1. Acceptance

The COLA increases the exemption amount only in those communities that accept a G.L. Ch. 59 §5 provision added by Ch. 181 of the Acts of 1995. Acceptance is by a vote of town meeting, town council or city council with the mayor's approval where required.

2. Annual Percentage Increase

The percentage by which the exemption amount is increased each year must also be established by vote of town meeting, town council or city council with the mayor's approval where required. The annual increase cannot exceed the actual COLA for any year. There are several ways in which a community may establish the annual increase including, for example, the use of:

- A percentage of the prior year's COLA (*e.g.*, The annual increase will be 100% (or 75%, 50%, etc.) of the COLA).
- A capped increase (*e.g.*, The annual increase will be 2.5%, or the COLA, whichever is less).

Annual increases established in this manner apply automatically each year until a new vote is taken establishing a different increase.

Alternatively, an annual vote may be taken to establish the specific percentage increase for that particular year once the Commissioner of Revenue has determined the actual COLA for the preceding year.

B. Annual Exemption Amount

The increases resulting from acceptance of this provision operate cumulatively. Each year's exemption amount, after application of the voted percentage increase, becomes the base to which the next year's increase applies.

Example

A community **first** adopts the local option provision for FY04 and votes to increase the exemption annually by 100% of the COLA. In FY04, the **base** \$175 exemption increased by 3.58% and eligible taxpayers received an exemption of \$181.27 ($\175×1.0358). The FY05 exemption amount is now calculated by applying the FY05 COLA to \$181.27. That results in a FY05 exemption amount of \$188.16 ($\181.27×1.038).

The attached chart shows the FY05 exemption amount for communities that have increased the exemption amount by 100% of the COLA every year since this optional provision first became available in FY97.

If an additional optional exemption is granted for FY05 under Chapter 73, Section 4, of the Acts of 1986, the additional amount is based on the adjusted exemption amount. In the example above, any optional exemption granted for FY05 is based on \$188.16, rather than \$175.

C. State Reimbursements

Cities and towns will not receive additional state reimbursement for any increase in the exemption amount granted under this provision.

II. ADJUSTED ASSET LIMIT FOR CLAUSE 17s

Communities have the option of automatically increasing each year the amount of **assets** certain senior citizens and surviving spouses and minors may have and qualify for an exemption under G.L. Ch. 59 §5(17), (17C), (17C½) or (17D) **by** the COLA determined by the Commissioner of Revenue. G.L. Ch. 59 §5(17E).

A. Local Adoption

The COLA increases the asset limit **only** in those communities that have accepted G.L. Ch. 59 §5(17E). Acceptance is by a vote of town meeting, town council or city council with the mayor's approval where required.

B. Annual Exemption Amount

The asset limit increases resulting from adoption of this provision operate cumulatively. Each year's new limit, as increased by the COLA, becomes the base to which the next year's COLA is applied.

Example

A community that operates under Clause 17D first adopts the local option provision for FY04. In FY04, the base asset limit of \$40,000 was increased by 3.58% and taxpayers qualified for the exemption with assets up to \$41,432 (\$40,000 x 1.0358). The FY05 asset limit is now calculated by applying the FY05 COLA to \$41,432. That results in a FY05 asset limit of \$43,007 (\$41,432 x 1.038).

The attached chart shows the FY05 asset limits for Clause 17, 17C, 17C½ and 17D exemptions in communities that have applied the COLA adjustment every year since this optional provision first became available in FY02.

C. State Reimbursements

Subject to appropriation, cities and towns operating under Clause 17 will be reimbursed at the rate of \$175 for each exemption granted. Reimbursements for cities and towns operating under Clauses 17C, 17C½ and 17D, however, are fixed at the amount received in the last year Clause 17 was used and no adjustment will be made if additional exemptions are granted as a result of accepting this provision.

III. ADJUSTED INCOME AND ASSET LIMITS FOR CLAUSE 41s

Communities have the option of automatically increasing each year the amount of the income and assets certain senior citizens may have to qualify for an exemption under G.L. Ch. 59 §5(41), (41B) and (41C) by the COLA determined by the Commissioner of Revenue. G.L. Ch. 59 §5(41D).

A. Local Adoption

The COLA increases the income and asset limits only in those communities that have accepted G.L. Ch. 59 §5(41D). Acceptance is by a vote of town meeting, town council or city council with the mayor's approval where required.

B. Annual Exemption Amount

The income and asset limit increases resulting from adoption of this provision operate cumulatively. Each year's new limit, as increased by the COLA, becomes the base to which the next year's COLA is applied.

Example

A community that operates under Clause 41C first adopts the local option provision for FY04.

In FY04, the base income limits of \$13,000 for single taxpayers and \$15,000 for married taxpayers were increased by 3.58% and taxpayers qualified for the exemption with income of up to \$13,465 ($\$13,000 \times 1.0358$) if single and \$15,537 ($\$15,000 \times 1.0358$) if married. The FY05 income limits are now calculated by applying the FY05 COLA to \$13,465 and \$15,537. That results in FY05 income limits of \$13,977 ($\$13,465 \times 1.038$) and \$16,127 ($\$15,537 \times 1.038$).

In FY04, the base asset limits of \$28,000 for single taxpayers and \$30,000 for married taxpayers were increased by 3.58% and taxpayers qualified for the exemption with assets of up to \$29,002 ($\$28,000 \times 1.0358$) if single and \$31,074 ($\$30,000 \times 1.0358$) if married. The FY05 asset limits are now calculated by applying the FY05 COLA to \$29,002 and \$31,074. That results in FY05 asset limits of \$30,104 ($\$29,002 \times 1.038$) and \$32,255 ($\$31,074 \times 1.038$).

The attached chart shows the FY05 income and asset limits for Clause 41, 41B and 41C exemptions in communities that have applied the COLA adjustment every year since this optional provision first became available in FY02.

If a community that uses Clause 41C votes to increase its income or asset limits under that clause, the COLA will apply to the new higher limits. See Property Tax Bureau Informational Guideline Release No. 02-209, *Clause 41C Exemption Options* (September). For example, a community votes to increase the gross receipts limits for FY05 to the new maximum limits of \$20,000 and \$30,000 for single and married taxpayers respectively. If Clause 41D is also in effect for FY05, the FY05 COLA of 3.8% would be applied to \$20,000 and \$30,000, which would result in FY05 income limits of \$20,760 if single and \$31,140 if married. Those amounts would then become the base to which the FY06 COLA would be applied.

C. State Reimbursements

Subject to appropriation, cities and towns operating under Clause 41 will be reimbursed at the rate of \$500 for each exemption granted. Reimbursements for cities and towns operating under Clauses 41B and 41C, however, are capped at the number of exemptions granted the last year Clause 41 was used. Therefore, communities operating under Clause 41B or 41C will be reimbursed for any additional exemptions granted as a result of accepting this provision only to the extent that the total number of exemptions granted do not exceed that cap.

COST OF LIVING ADJUSTMENTS

Clause 17, 17C, 17C^{1/2} and 17D Exemption Amount **Assumes 100% Cost of Living Adjustment Adopted Beginning in FY97**

| FISCAL YEAR | MAXIMUM COLA% | EXEMPTION AMOUNT | REFER TO IGR |
|--------------------|----------------------|-------------------------|---------------------|
| 1996 | | \$175.00 | |
| 1997 | 2.39% | \$179.18 | 96-205 |
| 1998 | 3.00% | \$184.56 | 97-204 |
| 1999 | 2.80% | \$189.73 | 98-205 |
| 2000 | 2.30% | \$194.09 | 99-205 |
| 2001 | 3.50% | \$200.88 | 00-206 |
| 2002 | 4.90% | \$210.72 | 01-205 |
| 2003 | 4.30% | \$219.78 | 02-205 |
| 2004 | 3.58% | \$227.65 | 03-205 |
| 2005 | 3.80% | \$236.30 | 04-206 |

COST OF LIVING ADJUSTMENTS

Clause 17, 17C, 17C^{1/2} and 17D Asset Limits
Assumes Cost of Living Adjustment Adopted Beginning in FY02
(Rounded to nearest whole dollar)

| FISCAL YEAR | ANNUAL COLA % | CL. 17 | CL. 17C | CL. 17C ^{1/2} | CL. 17D | REFER TO IGR |
|-------------|---------------|----------|----------|------------------------|----------|--------------|
| 2001 | | \$20,000 | \$40,000 | \$40,000 | \$40,000 | |
| 2002 | 4.90% | \$20,980 | \$41,960 | \$41,960 | \$41,960 | 01-205 |
| 2003 | 4.30% | \$21,882 | \$43,764 | \$43,764 | \$43,764 | 02-205 |
| 2004 | 3.58% | \$22,665 | \$45,331 | \$45,331 | \$45,331 | 03-205 |
| 2005 | 3.80% | \$23,527 | \$47,054 | \$47,054 | \$47,054 | 04-206 |

COST OF LIVING ADJUSTMENTS

Clause 41, 41B and 41C Income and Asset Limits

Assumes Cost of Living Adjustment Adopted Beginning in FY02 AND Clause 41C Base Limits Not Increased
(Rounded to nearest whole dollar)

| FISCAL YEAR | ANNUAL COLA % | CL. 41 | CL. 41B | CL. 41C | REFER TO IGR |
|-------------|---------------|--|--|--|--------------|
| 2001 | | <u>Single</u> <ul style="list-style-type: none"> Income \$6,000 Assets \$17,000 or \$40,000 (with home alternate) <u>Married</u> <ul style="list-style-type: none"> Income \$7,000 Assets \$20,000 or \$45,000 (with home alternate) | <u>Single</u> <ul style="list-style-type: none"> Income \$10,000 Assets \$20,000 <u>Married</u> <ul style="list-style-type: none"> Income \$12,000 Assets \$23,000 | <u>Single</u> <ul style="list-style-type: none"> Income \$13,000 Assets \$28,000 • <u>Married</u> <ul style="list-style-type: none"> Income \$15,000 Assets \$30,000 | |
| 2002 | 4.90% | <u>Single</u> <ul style="list-style-type: none"> Income \$6,294 Assets \$17,833 or \$41,960 (with home alternate) <u>Married</u> <ul style="list-style-type: none"> Income \$7,343 Assets \$20,980 or \$47,205 (with home alternate) | <u>Single</u> <ul style="list-style-type: none"> Income \$10,490 Assets \$20,980 <u>Married</u> <ul style="list-style-type: none"> Income \$12,588 Assets \$24,127 | <u>Single</u> <ul style="list-style-type: none"> Income \$13,637 Assets \$29,372 • <u>Married</u> <ul style="list-style-type: none"> Income \$15,735 Assets \$31,470 | 01-205 |
| 2003 | 4.30% | <u>Single</u> <ul style="list-style-type: none"> Income \$6,565 Assets \$18,600 or \$43,764 (with home alternate) <u>Married</u> <ul style="list-style-type: none"> Income \$7,659 Assets \$21,882 or \$49,235 (with home alternate) | <u>Single</u> <ul style="list-style-type: none"> Income \$10,941 Assets \$21,882 <u>Married</u> <ul style="list-style-type: none"> Income \$13,129 Assets \$25,164 | <u>Single</u> <ul style="list-style-type: none"> Income \$14,223 Assets \$30,635 • <u>Married</u> <ul style="list-style-type: none"> Income \$16,412 Assets \$32,823 | 02-205 |

(over)

| FISCAL YEAR | ANNUAL COLA % | CL. 41 | CL. 41B | CL. 41C | REFER TO IGR |
|-------------|---------------|--|--|--|--------------|
| 2004 | 3.58% | <u>Single</u> <ul style="list-style-type: none"> • Income \$6,800 • Assets \$19,266 or \$45,331 (with home alternate) <u>Married</u> <ul style="list-style-type: none"> • Income \$7,933 • Assets \$22,665 or \$50,998 (with home alternate) | <u>Single</u> <ul style="list-style-type: none"> • Income \$11,333 • Assets \$22,665 <u>Married</u> <ul style="list-style-type: none"> • Income \$13,599 • Assets \$26,065 | <u>Single</u> <ul style="list-style-type: none"> • Income \$14,732 • Assets \$31,732 • <u>Married</u> • Income \$17,000 • Assets \$33,998 | 03-205 |
| 2005 | 3.80% | <u>Single</u> <ul style="list-style-type: none"> • Income \$7,059 • Assets \$19,998 or \$47,054 (with home alternate) <u>Married</u> <ul style="list-style-type: none"> • Income \$8,234 • Assets \$23,526 or \$52,936 (with home alternate) | <u>Single</u> <ul style="list-style-type: none"> • Income \$11,764 • Assets \$23,526 <u>Married</u> <ul style="list-style-type: none"> • Income \$14,116 Assets \$27,055 | <u>Single</u> <ul style="list-style-type: none"> • Income \$15,292 • Assets \$32,938 • <u>Married</u> • Income \$17,646 • Assets \$35,290 | 04-206 |