Informational Guideline Release

Bureau of Municipal Finance Law
Informational Guideline Release (IGR) No. 11-206
February 2011

OPTIONAL COST OF LIVING ADJUSTMENT FOR FISCAL YEAR 2012 EXEMPTIONS

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

This Informational Guideline Release (IGR) informs assessors of the cost of living adjustment (COLA) to be used in Fiscal Year 2012 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.

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Exemptions	Assessors

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OPTIONAL COST OF LIVING ADJUSTMENT FOR FISCAL YEAR 2011 EXEMPTIONS

(G.L. c. 59, § 5, Clauses 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 2012 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, Boston (CPI-U) for the previous calendar year.

The cost of living adjustment for FY12 exemption purposes is **1.65%.**

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. c. 59, § 5, Clauses 17, 17C, 17C½ or 17D by any percentage up to the COLA determined by the Commissioner of Revenue. G.L. c. 59, § 5 provision added by St. 1995, c. 181.

A. Local Adoption

1. Acceptance

The COLA increases the exemption amount only in those communities that accept a G.L. c. 59, § 5 provision added by St. 1995, c. 181. Acceptance is by vote of the community's legislative body, subject to charter. G.L. c. 4, § 4. The attached or similar language may be used for the vote.

2. Annual Percentage Increase

The percentage by which the exemption amount is increased each year must also be established by vote of the community's legislative body, subject to charter. 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 FY11 and votes to increase the exemption annually by 100% of the COLA. In FY11, the base $175 exemption increased by 0% and eligible taxpayers received an exemption of $175 ($175 x 1.0). The FY12 exemption amount is calculated by applying the FY12 COLA to $175. That results in a FY12 exemption amount of $178 ($175 x 1.0165).

If an optional additional exemption is granted under St. 1986, c. 73, § 4, the additional amount is based on the adjusted exemption amount. In the example above, any optional exemption granted for FY12 is based on $178, 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 (whole estate) certain senior citizens and surviving spouses and minors may have and qualify for an exemption under G.L. c. 59, § 5, Clause 17, 17C, 17C½ or 17D by the COLA determined by the Commissioner of Revenue. G.L. c. 59, § 5, Clause 17E.

A. Local Adoption

The COLA increases the asset limit only in those communities that have accepted G.L. c. 59, § 5, Clause 17E. Acceptance is by vote of the community's legislative body, subject to charter. G.L. c. 4, § 4. The attached or similar language may be used for the vote.

B. Annual Asset Limit

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 FY11. In FY11, the base asset limit of $40,000 was increased by 0% and taxpayers qualified for the exemption with assets up to $40,000 ($40,000 x 1.0). The FY12 asset limit is calculated by applying the FY12 COLA to $40,000. That results in a FY12 asset limit of $40,660 ($40,000 x 1.0165).

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 dollar 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 (gross receipts) and assets (whole estate) certain senior citizens may have to qualify for an exemption under G.L. c. 59, § 5, Clause 41, 41B and 41C by the COLA determined by the Commissioner of Revenue. G.L. c. 59, § 5, Clause 41D.

This option does not adjust the income (gross receipts) seniors may have to qualify for an exemption under G.L. c. 59, § 5, Clause 41C½. That income limit is tied to the income limits under the state "circuit breaker" income tax credit, which are automatically adjusted each year under another law. See Informational Guideline Release (IGR) 11-208, *Clause 41C½ Property Tax Exemptions for Seniors*.

A. Local Adoption

The COLA increases the income and asset limits only in those communities that have accepted G.L. c. 59, § 5, Clause 41D. Acceptance is by vote of the community's legislative body, subject to charter. G.L. c. 4, § 4. The attached or similar language may be used for the vote.

B. Annual Income and Asset Limits

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 FY11. In FY11, the base income limits of $13,000 for single taxpayers and $15,000 for married taxpayers were increased by 0% and taxpayers qualified for the exemption with income of up to $13,000 ($13,000 x 1.0) if single and $15,000 ($15,000 x 1.0) if married. The FY12 income limits are calculated by applying the FY12 COLA to $13,000 and $15,000. That results in FY12 income limits of $13,215 ($13,000 x 1.0165) and $15,248 ($15,000 x 1.0165).

> In FY11, the base asset limits of $28,000 for single taxpayers and $30,000 for married taxpayers were increased by 0% and taxpayers qualified for the exemption with assets of up to $28,000 ($28,000 x 1.0) if single and $30,000 ($30,000 x 1.0) if married. The FY12 asset limits are calculated by applying the FY12 COLA to $28,000 and $30,000. That results in FY12 asset limits of $28,462 ($28,000 x 1.0165) and $30,495 ($30,000 x 1.0165).

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 IGR No. 02-209, *Clause 41C Exemption Options*. For example, a community votes to increase the gross receipts limits for FY12 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 FY12, the FY12 COLA of 1.65% would be applied to $20,000 and $30,000, which would result in FY12 income limits of $20,330 if single and $30,495 if married. Those amounts would then become the base to which the FY13 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.

Example

> For FY10, a community operates under Clause 41 and grants 100 exemptions. It is reimbursed for 100 exemptions.
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> For FY11, the community adopts Clause 41C and grants 75 exemptions. It is reimbursed for 75 exemptions.
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> For FY12, the community adjusts its income and asset limits to the maximums permitted by Clause 41C and grants 125 exemptions. It is reimbursed for 100 exemptions, the number granted in the last year it operated under Clause 41.

SAMPLE ACCEPTANCE VOTES

(Consult with municipal counsel)

ADJUSTED EXEMPTION AMOUNT FOR CLAUSE 17s

VOTED: That the city/town accept the provision of General Laws Chapter 59, Section 5 added by Chapter 181 of the Acts of 1995, which authorizes an annual increase in the amount of the exemption granted to senior citizens, surviving spouses and surviving minors under General Laws Chapter 59, Section 5, Clause **[insert clause used in community, e.g., Clause 17D]**, by up to 100% of the percentage increase in the U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index (CPI) for the previous year as determined by the Commissioner of Revenue, and to fix that annual increase at **[insert method of fixing increase *e.g.*, 100% of CPI; 2.5% or 100% of the CPI, whichever is less]** to be effective for exemptions granted for any fiscal year beginning on or after July 1, _______.

ADJUSTED ASSET LIMIT FOR CLAUSE 17s

VOTED: That the city/town accept General Laws Chapter 59, Section 5, Clause 17E, which authorizes an annual increase in the asset (whole estate) limit for exemptions granted to senior citizens, surviving spouses and surviving minors under General Laws Chapter 59, Section 5, Clause **[insert clause used in community, *e.g.*, Clause 17D]**, by the percentage increase in the U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index for the previous year as determined by the Commissioner of Revenue, to be effective for exemptions granted for any fiscal year beginning on or after July 1, _______.

ADJUSTED INCOME AND ASSET LIMITS FOR CLAUSE 41s

VOTED: That the city/town accept General Laws Chapter 59, Section 5, Clause 41D, which authorizes an annual increase in the income (gross receipts) and asset (whole estate) limits for exemptions granted to senior citizens under General Laws Chapter 59, Section 5, **[insert clause used in community, *e.g.*, Clause 41C],** by the percentage increase in the U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index for the previous year as determined by the Commissioner of Revenue, to be effective for exemptions granted for any fiscal year beginning on or after July 1, _______.