

GLOSSARY OF ASSESSING TERMS

Abatement: A notice on an approved form to the board of assessors that the taxpayer disagrees with the assessment on his/her real or personal property. This must be filed no later than the due date of the 3rd quarter bill, usually February 1st.

Abatement Process: The assessors have 90 days from the date the application was filed to act on an appeal. Filing an appeal does not put the tax payment on hold, so payments should be made on a timely basis to protect further appeal rights to the state. The Massachusetts Appellate Tax Board (ATB) requires no interest be incurred on the bill. Appeals can be continued to the ATB within three months of the assessors' decisions.

Actual Tax Bills: The **actual** tax bill is mailed in late December. This bill reflects the previous two payments made on the **preliminary** tax bills due August 1 and November 1. If trying to calculate the total annual tax, do not take the preliminary quarterly bill and multiply it by 4 as this may inflate the taxes for the fiscal year. Instead, take the assessed value and multiple by the tax rate (per \$1,000 of assessed value).

Ad Valorem Tax: A tax based upon the value of the property. Assessed values, in Massachusetts, are based on "full and fair cash value", or 100% of the fair market value.

Arms-Length Sale: A sale between a willing buyer and a willing seller with no unusual circumstances involved in the sale.

Appraisal: An estimate or opinion of value. The resulting opinion of value derived from the appraisal may be informal and transmitted orally or it may be formal and presented in written form. Usually it is a written statement setting forth an opinion of the value of an adequately described property as of a specified date, supported by an analysis of relevant data.

Appellate Tax Board: A quasi-judicial state board for taxpayer appeals after the board of assessors has made a decision regarding an abatement application. Application must be made within three months after the date of the decision by the assessors. Filing information is available at: Appellate Tax Board, 100 Cambridge Street, Boston, MA 02114. Phone number 617-727-3100. Web: www.Mass.gov/atb. A filing fee is required to file an appeal at this level.

Assessed Valuation: A dollar value assigned to a real estate parcel, or other property, by a government unit as the basis for levying taxes. In Massachusetts, assessed valuation is based on the amount a willing buyer would pay a willing seller on the open market (Full and Fair Cash Value).

Assessment Level: Is determined by calculating the assessment/sale ratio (ASR) of a property. The ASR is calculated by dividing the current assessed valuation of the property by the sale price. An ASR of 1.00 represents market value. An ASR below 1.00 indicates the property is assessed for less than its market value. An ASR above 1.00 indicates the property is assessed for more than its market value.

Assessment Uniformity: Is determined by calculating the coefficient of dispersion (COD) for the class or subclass being analyzed. The COD measures how sale prices for properties within the sample vary from the median assessment/sale ratio (ASR).

Capitalization: A mathematical procedure for converting the net income that a property is capable of producing into an indication of its current value. *See income approach.*

Chapter 59 – Assessment of Local Taxes: Portion of the Massachusetts General Laws (MGL) which defines how municipalities assess local taxes, the role and responsibilities of assessors, and methods for assessing property.

Classification (Real Property): Assessors are required to classify all real property according to use into one of four classes: Residential, Open Space, Commercial and Industrial. Having classified its real property, local officials are permitted to determine locally, within limits established by statute and the Commissioner of Revenue (DOR), what percentage of the tax burden is to be borne by each class of real property and by personal property owners.

CIP (Commercial, Industrial, Personal Property): A group of three property types used to describe the effect of multiple tax rates. A municipality can take a number of actions to shift the levy burden associated with a single tax rate from the Residential category to the CIP category.

Classification (Tax Rate): In accordance with Massachusetts General Laws, Chapter 40 (Powers and Duties of Cities and Towns (paragraph 56)), the selectmen or city council vote annually at a required classification hearing on a tax rate factor. Based on the residential factor adopted, a community may set different tax rates for residential property and open space; and commercial, industrial, and personal property (CIP).

Cost Approach: A method used to estimate the market value of an existing property by calculating the current cost to rebuild it and deducting depreciation – also called Replacement Cost New Less Depreciation (RCNLD). Land is valued separately and added to the depreciated replacement cost.

CPA –Community Preservation Act: A surcharge on the actual bill of 1% to 3% and applies to all real property. Wellesley enacted the CPA Surcharge in fiscal year 2002 with a \$100,000 value exemption and a surcharge rate of 1%. [(Assessed Value - \$100,000) x Tax Rate x 1%]

Debt Exclusion: A temporary additional taxing capacity over the levy limit. A community can assess taxes in excess of its levy limit by successfully voting a debt exclusion. The increase levy is not permanent and is only for the period of time to pay for the debt service costs.

Disproportional Assessment: The claim that a taxpayer's property was assessed at a proportion of fair cash value greater than the average proportion at which other properties were assessed in the same city/town.

Excess Levy Capacity: This is an amount of tax that is allowed under the restrictions of Proposition 2 ½ but is not actually levied. (Levy limit minus actual levy).

Economic Rent: The rent that a property can be expected to bring in the open market as opposed to contract rent or the rent the property is actually realizing at a given time.

Effective Age: An age assigned to a structure based upon its condition as of the effective valuation date; it may be greater or less than the structure's actual age.

Equity: In reference to property taxes, a condition in which the tax load is distributed fairly and impartially.

EQV (Equalized Valuations): An estimate of the FFCV (Full and Fair Cash Value) of all property in the Commonwealth as of a certain taxable date. EQV's have historically been used as a variable in distributing some state aid accounts and for determining county assessments and other costs. The Commissioner of Revenue, in accordance with MGL Ch. 58 (General Provisions Relative to Taxation) paragraph 10C, is responsible for determining an equalized valuation for each city and town in the Commonwealth biannually.

Exemption: A tax relief provision under Massachusetts Law for certain qualifying taxpayers: elderly persons, blind persons, disabled veterans, surviving spouse or orphaned minor child, widow or orphaned minor child of a police officer or firefighter, and extreme hardship. MGL. Ch 59, Section 5.

Fee Appraisal: Completed by a licensed appraiser in exchange for payment for their services. They appraise a single piece of property as of a certain date. *See Mass Appraisal.*

FFCV (Full and Fair Cash Value): Fair cash value has been defined by the Supreme Judicial Court as:

“fair market value, which is the price an owner willing but not under compulsion to sell ought to receive from one willing but not under compulsion to buy. It means the highest price that a normal purchaser not under peculiar compulsion will pay at the time, and cannot exceed the sum that the owner after reasonable effort could obtain for his property. A valuation limited to what the property is worth to the purchaser is not market value. The fair cash value is the value the property would have on January first of any taxable year in the hands of any owner, including the present owner” (Boston Gas Co. v Assessors of Boston, 334 Mass. 549, 566 (1956).

Fiscal Year: Since 1974, the Commonwealth and municipalities have operated on a budget cycle that begins July 1 and ends June 30. The designation of the fiscal year is that of the calendar year in which the fiscal year ends. For example: the 2012 fiscal year is July 1, 2011 to June 30, 2012 and is usually written as FY2012 or FY12. Since 1976, the federal government has had a fiscal year that begins October 1 and ends September 30.

Grade: The classification of an improvement based upon certain construction specifications, and quality of materials and workmanship.

Improper Classification: The use of the property at the beginning of the fiscal year, July 1, determines the class to which the property is assigned. An abatement may be warranted where there is an improper classification of use, or where property is used for several purposes and the percentage allocation of such use is in error.

Income Approach (Appraisal): A method of estimating the value of property by converting anticipated net income into an estimate of value. The income approach is used to value property that is normally bought and sold on the basis of its income producing capacity.

Income Property: A property primarily used to produce a monetary income (commercial buildings, apartments).

Industrial: Includes any property involved in manufacturing, processing or extraction. It includes utility property used for storage and general purposes.

Influence Factor: A factor serving to either devalue or enhance the value of a particular parcel of land relative to the norm for which the base unit values were established; generally expressed in terms of a percentage adjustment.

Lease: A written contract by which one party (lessor) gives to another party (lessee) the possession and use of a specified property for a specified time and under specified terms and conditions.

Leasehold Improvement: Additions, renovations and similar improvements made to a leased property by the lessee.

Legal Description: A description of a parcel of land that serves to identify the parcel in a manner sanctioned by law. All deeds must have a legal description and there must be no question of what is being transferred. In Massachusetts, deeds are recorded at the appropriate County Registry of Deeds.

Levy: The amount a municipality raises each year through the property tax. The levy can be any amount up to the levy limit defined by Prop 2 ½ (MGL Ch. 59 – Assessment of Local Taxes, paragraph 21C).

Levy Ceiling: The maximum levy assessed on real and personal property may not exceed 2 ½ percent of the total full and fair cash value of all taxable property (MGL Ch 59 – Assessment of Local Taxes, paragraph 21C). For example, if a municipality is valued at \$100 million, it could only raise \$2.5 million from property taxes. This would equate to a \$25 tax rate. (Wellesley's tax rate is about 1%.) Property taxes levied may exceed this limit only if the municipality passes a debt exclusion, or an override.

Levy Limit: The maximum amount a community can levy in a given year. In the absence of special voted exceptions, the levy limit must be at or below the levy ceiling. The levy limit can grow each year by 2 ½ percent of the prior year's levy limit plus new growth and any overrides. (MGL Ch 59 – Assessment of Local Taxes, paragraph 21C (f & g)).

Market Area: An area or section of the town in which a property is located. It is the means whereby the assessed value of a property reflects the effect of its location within the town.

Market Value: The most probable price in cash that a property would bring in a competitive and open market, assuming that the buyer and seller are acting knowledgeably, sufficient time is allowed for the sale and price is not affected by special influences.

Mass Appraisal: Appraisal of property on a wholesale scale, such as an entire community generally for ad valorem tax purposes. Uses standardized appraisal techniques and procedures to affect uniform equitable valuations with a minimum of detail, within a limited time period and at a limited cost. Statistical tests are performed to ensure uniformity and equity in assessed values. In contrast to a *fee appraisal* that is generally used to value a single property.

Mean: Equal to the sum of the values divided by the number; average.

Median: A measure equal to that point in the distribution above which 50% of the values fall and below which 50% of the values fall; the middle number.

MGL: Massachusetts General Law.

Minimum Residential Factor (MRF): Massachusetts law allows shifting the tax burden from the Residential and Open Space classes of property to the Commercial, Industrial and Personal Property (CIP) classes. The MRF, established by the Commissioner of Revenue, is used to test a proposed shift of the tax burden to see if the shift complies with the law. The LA-7 form in the Tax Recap process shows how the MRF is developed for any given municipality. If the MRF would be less than .65, the community cannot make the maximum shift and must use a CIP factor less than 1.50. MGL Chapter 200 allows certain communities to use a CIP of up to 1.75 percent with specified conditions.

New Growth: A calculation of the net increase in municipal property values because of new construction/subdivision or return of exempt property to the tax rolls. New growth can be added to a municipality's levy limit as defined by Proposition 2 ½ and thereby increases taxing capacity. New growth is calculated by multiplying all increases in value, which are not the result of revaluation, by the prior year tax rate. Assessors must submit documentation of new growth to the Bureau of Local Assessment (BLA) annually before setting the tax rate. Documentation is retained for five years to satisfy any BLA audit.

Override: A permanent increase to a levy limit that is successfully voted by the taxpayers.

Overvaluation: Involves the claim that the assessment exceeds the fair cash value of the property on the assessment date.

Personal Property: Tangible property which is not permanently affixed to and a part of the real estate. Encompasses all taxable personal property of individuals, partnerships, associations and certain corporations. A large portion of this class is owned by public utilities. Massachusetts does not tax intangible property such as patents and stocks.

Preliminary Tax Bill: The first two tax payments for the fiscal year. They are due August 1st and November 1st. The bill is based on the previous year's bill, adjusted to reflect an estimate of the current year's tax levy.

Property Class: The assessors in each Massachusetts municipality must classify property use as one of the following classes:

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| 0 – Multiple-Use | 5 – Personal Property |
| 1 – Residential | 6 – Forest |
| 2 – Open Space | 7 – Agriculture/Horticulture |
| 3 – Commercial | 8 – Recreational |
| 4 – Industrial | 9 – Exempt Property |

Within each class, property can be assigned to any of several **property types**. Each type is assigned a three-digit type code consisting of the class number plus two digits that identify the specific type within a class.

Property Record Card (PRC): A document specially designed to record and process specified property data.

Proposition 2 ½: State law enacted in 1980 that regulates local property tax administration. Major provisions of this legislation are located in MGL chapter 59 – Assessment of Local Taxes, paragraph 21C and relate to the determination of a levy limit and levy ceiling for each town. Very simply – the tax rate cannot be greater than \$25 and the tax levy can increase by 2 ½ % each year.

Quarterly Tax Bill: The property tax bill in the Town of Wellesley is issued four times a year. The normal due dates are as follows: the first quarter bill of the fiscal year (preliminary) is due on August 1st, the second (preliminary) on November 1st; the third (actual) is due on February 1st and the fourth (actual) on May 1st. The third quarter tax bill is the first one to be based on the actual assessment and tax rate for any given fiscal year. From the total tax due is a deduction of the first two preliminary tax payments. The remaining tax due is divided by two to represent the third and fourth quarter tax payments.

Ratio: A fixed relationship between two similar things expressed in terms of the number of times the first contains the second; generally expressed as a fraction.

Real Estate: The physical land and all that is affixed to it.

Residential: Includes all property containing one or more units used for human habitation. The class includes accessory land and buildings such as swimming pools, tennis courts, garages and sheds. Single-family homes are in this class, as are large apartment buildings. Hotels and motels are not included in this class.

Residential Exemption: A municipality can grant a residential exemption of a dollar amount that cannot exceed 20 percent of the average assessed value of all residential class properties. The exemption reduces, by the adopted percentage, the taxable valuation of each residential parcel that is a taxpayer's principal residence. Granting the exemption raises the residential tax rate and shifts the residential tax burden from moderately valued homes to apartments, summer homes and higher valued homes. A residential exemption is one way resort areas (e.g., Cape Cod and the Berkshires) can provide some tax relief for permanent residents.

Residential Factor: A property tax option that can be used to change the percent of tax levy paid by owners of different property types. Specifics of the residential factor must be adopted by a

community annually. A residential factor of “1” will result in the taxation of all property at the same rate (single tax rate). Choosing a factor of less than one results in increasing the share of the levy raised by Commercial, Industrial and Personal property (CIP) and reducing the share paid by Residential property owners.

Sales Ratio Study: Ratio studies are used to analyze existing assessments by (1) assessment level and (2) assessment uniformity. Assessment level measures the degree to which the assessments approximate current market value. Assessment uniformity measures the degree to which properties in the same class or subclass are assessed at the same percentage of current market value.

Small Commercial Exemption: As part of the classification process, a municipality can create a small commercial exemption. This exemption is for commercial parcels (property class 3) occupied by businesses with average annual employment of no more than 10 people during the previous calendar year and values of less than one million dollars. Selectmen can choose an exemption that reduces the taxable valuation of each eligible parcel by a percentage of up to 10 percent. Qualifying small businesses are certified to the assessors annually by the Department of Employment and Training. The exempted taxes are shifted to other commercial and industrial taxpayers through an increase in their tax rates.

Taxation: The right of a government body to tax the property owner for the cost of running the government.

Tax Bill: A statement showing the amount of taxes owed for a certain property described.

Tax Levy: The amount of money to be raised by the property tax. Each year the amount that can be raised must be determined in accordance with Proposition 2 ½.

Tax Rate: The amount (in dollars) a taxpayer pays for each one thousand dollars of assessed value. The assessors calculate the tax rate by dividing the tax levy by the total assessed value of the town. The Board of Selectmen vote to determine if all classes of property should pay the same tax rate.

Total Assessed: The total assessed value of the town is the sum of assessed values of all taxable property in town.