3. Tax Recapitulation Process

3.1 Description of What the Tax Rate Represents

For most communities the property tax is the single largest source of local revenue. Consequently, the tax rate has a tremendous impact on the amount of revenue a community can generate from the assessment of property taxes. However, as we discussed previously, under the constraints of Proposition 2½, a municipality is limited in the amount it may increase its property tax levy annually.

Calculating and setting a community's tax rate is a component of a larger process we call the tax recapitulation process. At the end of this yearlong activity a community completes the *tax recapitulation sheet.* A municipality's entire budget plan for the fiscal year is laid out on this sheet. It lists all appropriations made by the legislative body since the previous year's tax rate was set. Anticipated and actual sources of revenue other than property taxes, such as Cherry Sheet aid and estimated local receipts, are also identified. The difference between the appropriations and revenue from these sources must be raised through property taxes. This difference is called the *tax levy.* The tax levy must be within the limits set by Proposition 2½.

The tax levy is distributed or allocated among taxpayers based on the assessed value of their properties. By law, assessed valuation is based on "fair cash value," which is defined as the amount a willing buyer would pay a willing seller for the property on the open market. This valuation standard ensures each taxpayer's constitutional right to pay a fair and proportional share of property taxes. Assessors estimate the fair cash valuation of properties by analyzing the real estate market to determine what buyers are paying for similar properties in the community.

DOR reviews a community's values once every three years, checking that appropriate appraisal methods have been used and uniformly applied. This process is called triennial certification. A community's values must be certified as representing current full and fair cash value, or market value, before the tax rate can be set in that third year. Although the state only reviews the values triennially, assessors must analyze the real estate market annually in order to determine if there has been a change in market conditions, and make interim year adjustments when warranted.

Municipalities have several options in setting the tax rate and distributing the tax levy. Under property tax classification, property is classified as one of four classes of real property: residential, open space, commercial or industrial, or as personal property. Some communities choose to have a single tax rate for all classes of property. A single tax rate allocates the tax levy proportionately. This means taxpayers individually and within each class pay the same percentage share of the tax levy that the fair cash valuation of their property or class bears to the total assessed valuation of the community for that year.

Others communities choose to use multiple tax rates for the different classes of property. Multiple rates shift some of the taxes that would be paid by certain classes of taxpayers under a single tax rate onto other taxpayers. The total tax levy remains the same. The shifts must be within parameters set by law, and are calculated by DOR. The allowable shift varies from community to community and from year to year because it is based on the assessed valuation of the different classes of property in the community.

The four options when setting a multiple tax rate are:

- a *tax shift* from residential and open space to business property owners.
- an *open space discount* that shifts taxes from open space to residential property owners.
- a *residential exemption* that shifts taxes on lower valued owner-occupied residential property to other residential property owners.
- a *small commercial exemption* that shifts taxes on small business property to other commercial and industrial property owners.

The decision whether to tax the property classes at the same or varied rates is made by the board of selectmen, or city council with the mayor's approval, annually after a public hearing. Officials should also be aware that the community may either send tax bills semi-annually or institute a quarterly property tax billing cycle by local option as voted by town meeting or city council.

The tax recapitulation process is an essential part of the municipality's financial activity and budgeting. Moreover, setting the tax rate and completing the entire tax recapitulation process are not the responsibility of any one local official. Rather, these procedures require teamwork and cooperation among many of the community's local officials to ensure accurate, successful financial management.

3.2 Key Dates for Timely Tax Rate Setting

Setting the tax rate and mailing tax bills in a timely manner are key to successful financial operations. Late tax billing jeopardizes the municipality's cash flow. It results in the added expense of borrowing in anticipation of revenue and the loss of investment income on property tax collections. It also disrupts regularly performed financial activities, particularly for the assessors and collector, and often creates delays in next year's schedule of activities.

A realistic plan and timetable for completing the tax rate process should be developed and reviewed periodically by municipal officials involved in the process. A community completing a revaluation and undergoing triennial certification of its assessments must also incorporate adequate time in the plan for completing the certification process. The following are target dates for submitting accurate and complete key data to DOR:

Regular Semi-Annual Tax Billing[i]

Certification Target Dates	
Preliminary Certification	June 15
Public Disclosure	July 15
Final Certification	August 5
Tax Rate Target Dates	
Submit New Growth	August 15
Submit Tax Recap	September 1
Mail Tax Bills	September 30

Annual Preliminary Billing[ii]
(Semi-annual or Quarterly)

Certification Target Dates	
Preliminary Certification	September 15
Public Disclosure	October 15
Final Certification	November 5
Tax Rate Target Dates	
Submit New Growth	November 15
Submit Tax Recap	December 1
Mail Tax Bills	December 31

Communities unable to submit final tax rate data by these dates because of revaluation delays should plan on using preliminary bills to ensure adequate cash flow. Communities using a regular semi-annual payment system may issue a preliminary bill in the fall, and those using a quarterly payment system may issue a third quarter preliminary bill, with the approval of DOR. This option allows all communities, whether billing semi-annually or quarterly, to plan realistic timetables for recertification and tax rate setting.

Tax rate setting requires the written approval of DOR and tax bills cannot be mailed until DOR has signed the tax rate recap.

3.3 The Tax Rate Setting Process

The formulation of the tax rate is an essential part of the budgeting process. The tax levy is the largest source of revenue for many Massachusetts municipalities and is an integral part of a municipality's overall financial picture. The tax rate setting process relies on the efforts and contributions of many municipal officials. The following section contains a basic outline of the procedures and individuals involved in this process.

Prepare Budget
Estimate available revenues for the upcoming fiscal year.

- **DOR** notifies cities and towns of preliminary levy limits and Cherry Sheet estimates for the upcoming year.
- **Assessors** estimate new growth.
- **Finance Committee and Board of Selectmen, Mayor or Manager:**
  1. Project levy limit for next fiscal year.
  2. Consider if override/exclusion appropriate.
  3. Estimate total revenues.

---

[i] G.L. c. 59, § 57. Regular schedule with bill issued by October 1 and first half installment due November 1 (or 30 days after billing if later) and second half installment due May 1. If community is unable to issue actual bills on time due to revaluation delays, it may issue a preliminary bill in the fall with DOR approval. G.L. c. 59, § 23D. Preliminary bill based on prior year tax is due November 1 (or 30 days after billing if later). Actual bill for balance is issued in spring and is due May 1 (or 30 days after billing if later).

[ii] G.L. c. 59, § 57C. Local option requiring acceptance by legislative body. If accepted, preliminary bill issued by July 1 and actual bill issued by December 31. Bills may be payable on semi-annual or quarterly system.

Prepare budget plan.

- **Department of Education** notifies communities of net school spending requirements for upcoming year.
- **Finance Committee and the Board of Selectmen, Mayor or Manager:**
  1. Review department budget requests.
  2. Prepare budget plan for the upcoming fiscal year.
- **Departments** work to achieve a balanced budget.

Adopt the Budget

Present proposed budget for the upcoming year to the appropriating body.

- **Selectmen** call annual town meeting prior to June 30.
- **City Council/Town meeting** adopt budget for upcoming fiscal year.

Implement Budget

Monitor the current year's expenditures.

- **Clerk** certifies appropriations and sources of funding made at town or city council meetings.
- **Accountant/Auditor** sets up departmental appropriations from town meeting or city council report to monitor expenditures.

Review prior year's operation (after the close of the current fiscal year).

- **Accountant/Auditor** closes books.
  1. Certifies and documents actual local receipts for the year.
  2. Identifies deficits from prior year.
  3. Submits balance sheet to DOR for certification of free cash.

Determine assessed valuations.

- **Assessors** determine final valuations for all taxable property and submit information to DOR.
  1. Report total values by class and parcel count (form LA-4).
  2. Submit allowable tax base levy growth (form LA-13), and/or amended tax base levy growth for omitted and revised assessments (form LA-13A).
  3. Submit adjustment of valuations between certification and request for authorization to issue preliminary tax bills (communities with semiannual bills) if necessary.
- **DOR** certifies growth and tax classification options.

Decide tax policy.

- **Board of Selectmen/City Council** holds a public hearing on property tax classification.
  1. Decide various tax policy options under classification law.
  2. Acknowledge excess levy capacity.
- **Assessors** submit classification hearing and excess levy capacity (form LA-5), minimum residential factor computation (form LA-7) to DOR.

Prepare tax rate.

- **Assessors** oversee the completion of the tax recap sheet, including supporting documents and forms, and determine the amount to be raised through the property tax levy.
- **Clerk** certifies all appropriations since the last tax rate was set.
- **Accountant/Auditor** checks town meeting/city council documentation for accuracy.
  1. Checks for other expenditures that must be funded (deficits, court judgments, etc.).
  2. Checks for any debt service for the current fiscal year that has not been appropriated at town/city council meeting and must be raised in the tax rate.
  3. Certifies last year's actual receipts.
  4. Documents other available funds used, such as free cash, enterprise revenues etc. and prepares the free cash certification and appropriation (form B-1) and available funds sources/uses (form B-2).
  5. Assists the assessors in the preparation of state forms: offset receipts use and appropriation (form A-1), enterprise fund receipts/appropriations (form A-2), revolving fund use (form A-3), community preservation fund receipts/appropriations (form A-4).
- **Accountant/Auditor** and the **Assessors:**
  1. Estimate amount raised to fund expected abatements and exemptions (overlay) and prepare overlay analysis form (form OL-1).
  2. Review total revenues and make sure tax recapitulation balances
- **Treasurer** prepares the debt exclusion report (form DE-1).
- **Assessors** submit tax recap to DOR with completed forms, documentation and analyses.

Approve tax rate.

- **DOR** calculates actual levy limit.
- **DOR** certifies the tax rate(s).

Assess and collect property taxes.

- **Assessors** prepare a list of all property taxpayers, called the commitment, which lists the assessed value of their property and the amount of tax owed.
- **Tax collector**:
  1. Receives the commitment, sends out bills, and collects property taxes.
  2. Submits an affidavit to DOR as to time of sending tax bills (State Tax Form 214).
- **Taxpayers** pay bills as due.

Administer property tax abatements/exemptions.

- **Taxpayers** submit timely applications for abatements or exemptions following mailing of tax bills.
- **Assessors:**
  1. Act on applications for abatements and exemptions.
  2. Certify any balance in overlay accounts as overlay surplus, which may then be appropriated for any lawful purpose.
  3. Submit request to DOR for state reimbursements of current fiscal year property tax exemptions.

For further information on the forms required and dates that they are due please see the *Municipal Calendar* available on our website www.mass.gov/dls, under Publications and Forms.

More detailed information on the tax rate recapitulation process may be obtained from the *Tax Rate Recap, Pro Forma Recap & Supporting Forms* booklet published annually by DLS and available on our website www.mass.gov/dls, under Bureau of Accounts (or Accountant Information), then Automated Programs, then Recap.