

## SUDBURY'S SENIOR TAX DEFERRAL PROGRAM DETAILS

### PROGRAM REVIEW FOR FISCAL YEAR 2010

#### TIMELINE FOR SENIOR TAX DEFERRAL PROGRAM

Governances – M.G.L. Chapter 59, Section 5 (Clause 41A) and all updates relative thereto from Legal Acts, general or special.

**1993** Sudbury's **first long-term tax deferral** is granted. Program administered under regular State criteria; mandated interest rate of 8%.

**1998** Sudbury's long-term tax deferrals increases to **two**. Program administered under regular State criteria; mandated interest rate of 8%.

**2002** Town successfully submitted special legislation to expand the existing eligibility parameters for Senior Tax Deferrals (*see appendix 1 & 2*). Allows Board of Selectmen to set the deferral rate at their discretion annually, not to exceed statutory 8%. Sudbury has **5 tax deferrals**.

**2003** Town lowers interest rate from 8% to 4%. Participation in program doubles again from **5 to 10 deferrals**.

**2005** Town sets interest rate at 2.5% primarily based on 1-year Constant Maturity Treasury Bill rates. Participation in program continues to increase; **quadruples to 20** since passing special act 2002.

**2006** State allows all communities to lower interest rate based on Town Meeting vote to anything between 8% and zero. This does not affect the Town's program under special act 2002. **49 tax deferrals**.

**2008** State allows all communities to further increase qualifying gross receipts limitation by a fixed amount or as a percentage of circuit breaker level to increase annually. This does not affect the Town's program under special act 2002. **65 tax deferrals**.

**2010** Town maintains 2.5% interest rate based on longer-term 5-15 year Constant Maturity Treasury rates. Longer horizon for rate setting chosen to bypass volatility of short-term economic markets and realize a reasonable rate of return for receivable payoff horizon of 10-20 years. **77 active tax deferrals. Total of 92 parcels in deferral, total receivable increases to \$1.74M.**

#### LOCAL OPTIONS, LOCAL IMPACTS

In September 2005, the State's Division of Local Mandates (*see appendix 3*) completed its latest review on the local financial impacts of certain state laws providing property tax relief for lower-income, senior homeowners. The report concluded that the "patchwork of local option laws to

provide tax relief has resulted in widespread inconsistencies and inequities for seniors and in state assistance for cities and towns”. The State reimburses only a small fraction of the tens of thousands of dollars in tax relief provided locally each year (*see appendix 7 for current reimbursement schedule*). The budget and policy priorities of the State are not expected to change in the future. Therefore, local communities may expect to shoulder more of the financial challenges of providing tax relief to its growing senior population within the limited resources provided primarily by the very tax levies they look to reduce for some of its citizens and not others (see appendix 8 for a Federal perspective on the challenges facing State and local governments). Although the most recent property tax relief program authorized by the State (1999) – the Senior Tax Work-Off Abatement program provides for a significant property tax relief to seniors, it has become yet another example of unreimbursed *local options* that we have come to expect and endure. Since the advent of Proposition 2 ½ and the Local Mandate Law during the 1980’s, the State must be mindful of any local financial impact of rulemaking.

“In general terms, the **Local Mandate Law** provides that new laws and regulations that impose costs on cities and towns will not be effective unless fully funded by the state. Specifically relative to regulations, G. L. c. 29, s. 27C (c)”

Given the financial priorities and budgetary constraints at the State-level, very little has been done since for senior tax relief legislation except to shift unfunded options (along with the financial consequences) to local municipalities. Recent Circuit-Breaker legislation is the one exception that benefits seniors by offering a real estate credit that the State essentially pays for.

How does property tax relief administered at the local level impact Sudbury as a whole? From strictly a revenue perspective, senior tax relief programs a) reduce taxes collected (exemptions) or, b) defers collection of taxes (senior and temporary hardship deferrals) for years beyond the time such taxes are appropriated against and spent.

Unfunded local options remain our *best* means of providing senior tax relief. At the same time, local options put us in the difficult position of trying to absorb the increasing financial consequences of providing exemptions and deferrals. Exemptions eliminate tax revenues. Deferrals effectively do the same thing for an extended period. As either type of tax relief program grows, so does the gap between what we budget for revenues and having enough available funds to pay for appropriations on an ongoing basis. We need to develop a strategy for providing senior tax relief that a) shifts the burden onto other taxpayers, b) mitigates the effects of eliminating or deferring increasing levels of taxes once they are levied, or c) effectively reduce overall appropriations/spending each year to accommodate a decline in available funds. Otherwise, we may eventually find ourselves in the untenable position of negative cash flow, continual revenue shortfalls and no reserves. What level of exemptions and deferrals could be the tipping point for our overall financial stability is yet to be determined. The following sections and exhibits are meant to provide us with a sense of where we are and where we might be headed.

## RECENT USAGE OF SUDBURY SENIOR EXEMPTIONS AND DEFERRALS

Sudbury has embraced many local options over the years that have expanded the tax relief opportunities for its seniors. These options include lowering age and income requirements in

addition to maximizing the dollar amount of exemptions granted by local option. Also with respect to the Senior Tax Deferrals, Sudbury has precipitously dropped the Program’s interest rate from the State mandate of 8%, to as low as 2%. In most ways, we have surpassed most communities throughout the State in our efforts to provide as much senior tax relief as possible.

Sudbury’s senior tax relief options as of 2010 (relating strictly to age and income factors) are as follows:

1. Clause 41C. Elderly person over age 64. Exemption of \$1,000.
2. Clause 17E. Elderly person over age 70 or surviving spouse. Exemption of \$273.56
3. CPF Surcharge Exemption. Exemption up to 100% of surcharge. (Automatic 100% exemption for Senior Deferral program participants).
4. Clause 41A. Senior Tax Deferral. Deferral allowance up to 100% of tax. 2.5% simple interest. Payback only at sale or transfer of property.
5. Clause 18. Hardship Exemption. Exemption amount given at discretion of Board of Assessors.
6. Clause 18A Deferral. Temporary Hardship Deferral. Deferral allowance up to 100% of tax for 3 years. 8% statutory interest. 2 year grace period before payback.
7. Tax Work-Off Program. Relief of \$750 property tax per year. May be combined with other program benefits.

(see appendix 4 for the COA’s Tax Relief Guide for Seniors)

**Table 1. Sudbury’s Three-Year History of Age/Income Restricted Exemptions and Deferrals**

The following table provides a three-year history of all age-based tax relief options provided. Exemptions are applied against the Town’s Tax Overlay account. Like abatements, these exemptions represent a write-off of taxes levied. Consequently, they represent tax dollars that we commit but will not receive.

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>3-YR TOT</u>	<u>3-YR AVG</u>
<u>Exemptions:</u>					
41C	60,026	53,264	56,833	170,123	56,708
17E	7,401	4,758	4,572	16,731	5,577
CPF	23,643	35,033	38,195	96,871	32,290
18	20,895	15,500	16,752	53,147	17,716
Work-Off	36,094	33,343	36,236	105,673	35,224
	<b>148,059</b>	<b>141,898</b>	<b>152,588</b>	<b>442,545</b>	<b>147,515</b>
<u>Deferrals:</u>					
Temp Hardship Deferral	19,589	33,427	12,870	65,886	21,962
Senior Deferral	322,677	343,617	435,354	1,101,648	367,216
	<b>342,266</b>	<b>377,044</b>	<b>448,224</b>	<b>1,167,534</b>	<b>389,178</b>

The exemption process eliminates taxes rather than shifts them to other taxpayers. This is unlike other tax strategies such as a **Residential Exemption** or a **Split Tax Rate**, where taxes levied are shifted from one group or segment of taxpayers to another. At present, no such *shifting* mechanism exists which

directly reduces the amount of taxes to be paid strictly based on *age requirements*, to other property owners. Adoption of a residential exemption may also benefit seniors if their property qualifies for a shift based on lower-valued home assessment. However, this may not always be the case, which raises the issue that we could end up increasing the taxes on existing Senior Deferral Program participants, as well as all other taxpayers above a certain residential property value.

Residential Exemption is “An option that allows a community to grant an exemption to owner occupied residential properties of up to 20 percent. The exemption shifts a portion of the tax burden, within the residential class, away from lower valued, single-family homes to multi-family properties, apartment buildings and non-resident property owners”.

To a certain extent, the Town can estimate tax exemptions and abatements each year. We are able to budget to receive less than the taxes levied; thereby reduce appropriations elsewhere. As overlay usage grows the amount of taxes we collect declines. Deferrals affect our budgeting process differently. While uncollected property taxes do not create revenue deficits (requiring us to raise such balances on subsequent tax levies), they do create revenue shortfalls. Simply put, we are required by current regulations to budget one level of taxes, even though we will not receive those funds until several years from now. The mechanics of the municipal budgeting process aside, we end up having less available funds (revenues) to invest, to pay for all appropriations and to reserve for future use.

In downward revenue cycles, the more uncollected taxes we carry, the more we are at risk of depleting our reserves completely. Deferred tax revenues are eventually paid to the Town. However, until they are paid they have a negative impact on available cash flow and reserves. Why? Because the Town is spends more in appropriations each year than the monies, it receives.

**STATISTICS FOR SUDBURY’S SENIOR TAX DEFERRAL PROGRAM**

**Table 2a Senior Tax Deferral Receivable Balance Information as of June 2010.**

Row Label	Values Count of PROPERTY ID	Sum of DEF TAX BAL	Average of DEF TAX BAL2	Max of DEF TAX BAL2
1993	1	\$ 3,165.12	\$ 3,165.12	\$ 3,165.12
1994	1	\$ 3,189.05	\$ 3,189.05	\$ 3,189.05
1995	1	\$ 3,261.63	\$ 3,261.63	\$ 3,261.63
1996	1	\$ 3,494.86	\$ 3,494.86	\$ 3,494.86
1997	1	\$ 3,644.74	\$ 3,644.74	\$ 3,644.74
1998	2	\$ 5,411.64	\$ 2,705.82	\$ 3,644.74
1999	2	\$ 8,060.68	\$ 4,030.34	\$ 4,766.12
2000	3	\$ 10,852.85	\$ 3,617.62	\$ 5,311.21
2001	3	\$ 12,896.23	\$ 4,298.74	\$ 5,828.78
2002	5	\$ 18,410.72	\$ 3,682.14	\$ 6,401.91
2003	10	\$ 41,253.81	\$ 4,125.38	\$ 6,915.04
2004	15	\$ 66,424.31	\$ 4,428.29	\$ 6,809.41
2005	20	\$ 90,533.99	\$ 4,526.70	\$ 7,222.64
2006	40	\$ 179,026.55	\$ 4,475.66	\$ 7,825.13
2007	55	\$ 257,617.25	\$ 4,683.95	\$ 9,700.93
2008	59	\$ 290,535.24	\$ 4,924.33	\$ 10,210.19
2009	62	\$ 311,390.99	\$ 5,022.44	\$ 9,176.27
2010	76	\$ 433,211.39	\$ 5,700.15	\$ 15,980.30
<b>Grand Total</b>	<b>357</b>	<b>\$ 1,742,381.05</b>	<b>\$ 4,880.62</b>	<b>\$ 15,980.30</b>

(Above from left to right – Fiscal Year added, receivable balance, average balance, and maximum deferral balance outstanding.)

The Town currently has deferral receivables dating back to 1993. In FY10, 77 new and ongoing Senior Deferrals were created, totaling yet another record-breaking increase to the program of \$435,354. The majority of this activity consisted of full tax deferral, meaning that the program participants chose to defer 100% of their tax liability for the year. It stands to reason that that the Town will eventually reach a maximum number of participants. We are not certain at this time, what a maximum count would be. However, we certainly are not there yet (see appendix 5 for program level estimates issued in 2007). A previous local study suggests that with greater community outreach, further relaxation of the age and income requirements and perhaps eliminating interest altogether, we could level off at between 100 and 200 families deferring each year. However, the question remains, can we afford program growth in that magnitude and/or at what pace?

**Table 2b Senior Tax Deferral Receivable Balance Information as of June 2010.**

FY10 STATS	FY10	FY10	Accumulated
	Assessed Values	Taxes Deferred	Taxes Deferred
Min Bal	\$ 240,900	\$ 1,562	\$ 972
Median Bal	\$ 335,286	\$ 5,286	\$ 14,924
Avg Bal	n/a	\$ 5,700	\$ 37,471
Max Bal	\$ 993,800	\$ 15,980	\$ 80,078

*Note: Temporary Hardship Deferrals are also posted to the same deferral account in the general ledger. These items have been backed out for purposes of these analyses.*

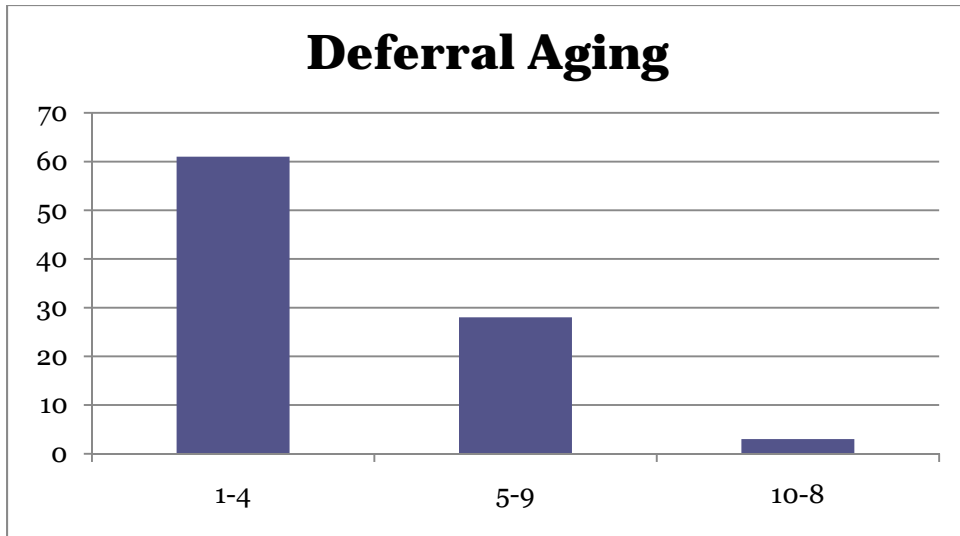
It is highly unlikely that we may reach a point where the monies paid back in a given year matches or exceeds the amount of new deferral dollars, even once the participation levels off. The total amount someone is allowed to defer along with the length on can defer (even well beyond the time someone is prohibited from added new tax to their deferral account) present great challenges to ever leveling off our receivable even after leveling off participation.

Currently, additions to the receivable far exceed payoffs. In FY10 a total of 3 deferrals were paid off. One of these deferrals had just been added in FY10 and therefore accounted for less than \$2,500. The other two were prior year deferrals but also relatively new and small in value. Given our current level of receivable and the anticipated average length for each deferral to extend between 10-18 years, it will be quite some time before payoffs come anywhere close to the rate at which we are adding new receivable each year.

~ The net impact of deferral activity in FY10 resulted in an increase of \$413,389 ~

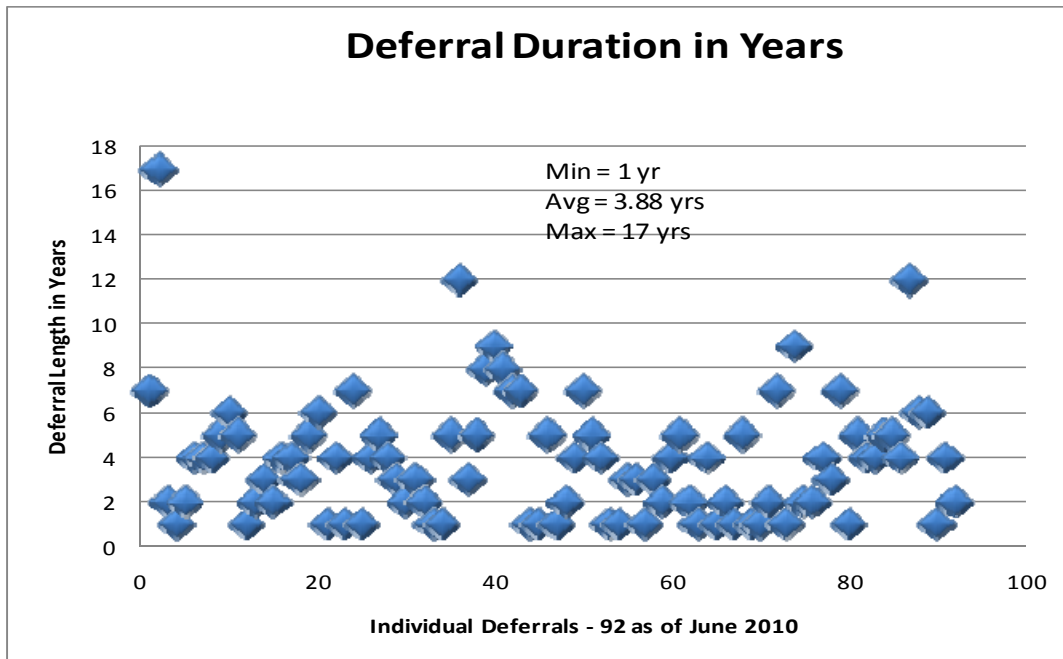
**Chart 1 Senior Tax Deferral Receivable Aging of June 2010.**

Not only has the number of new deferrals increased significantly in the past five years, but the data also shows that once a participant enters the program they are inclined to continue for an extended period. Sudbury currently has senior tax deferral receivable balances for **92 different parcels**.



**Chart 2 Deferral Duration Trend as of June 2010.**

Here you can see that the length of most deferrals is growing. Based on various assumptions relating to property values, tax rate increases and interest, we have calculated that the likely maximum range for a deferral could be 18 -22 years. (Maximum deferred = total deferral account, including interest not to exceed 50% of the applicant’s pro rata full and fair cash value of the property). Actual payoff may occur several years after the maximum is reached.



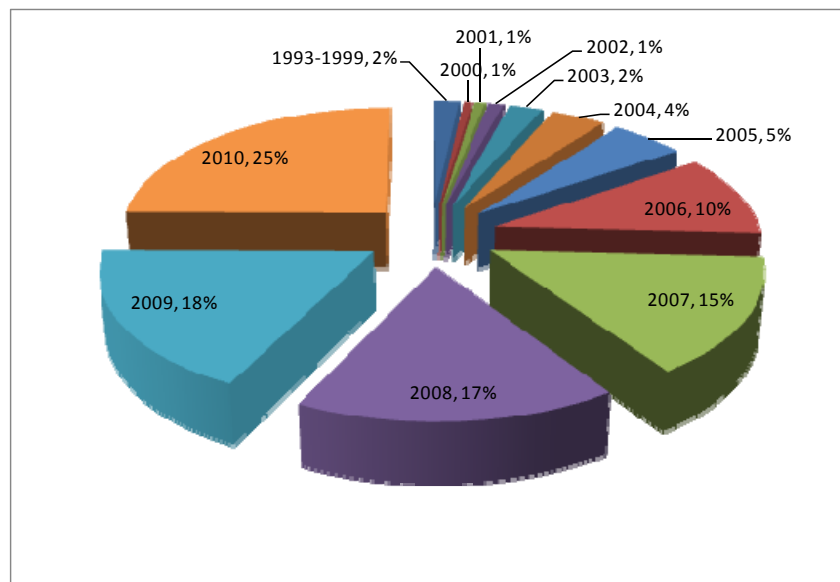
Lowering the age restriction from 65 to 60 (also accomplished by the Special Act of 2002), may result in some property owners reaching their maximum sooner than they would like. However, since deferral balance not have to be paid off when the maximum is reached, they may still maintain their deferral account almost indefinitely even while paying for any new taxes outside the program parameters.

Payment on a Senior Tax Deferral is only required when the property is sold or transferred. What is Sudbury’s longest deferral so far? **17 years and counting.**

Deferrals are still a relatively new concept for Massachusetts residents. Our own experience shows that deferrals did not really start catching on until earlier this decade. However, until the evidence proves out otherwise, we need to assume that this type of receivable will a) continue to grow significantly each year, b) consist of long-term participation ranging from of 10-20 years, and c) likely carry balances before final payoff by many program users even beyond reaching the maximum deferral equity threshold.

**Chart 3 Deferral Receivable Balance Information as of June 2010.**

The Town has experienced a growth in deferral receivables of **329%** since 2005. Sudbury was one of the first and still considered one of the biggest programs in the State especially for communities of similar size and taxpayer demographics. The net increase of \$413 thousand in deferrals in FY10 represents **.69%** of the FY10 total residential tax levy. The total accumulated deferral receivable balance of \$1.74 million as of June 2010 represents **3.14%** of the FY10 total residential tax levy.



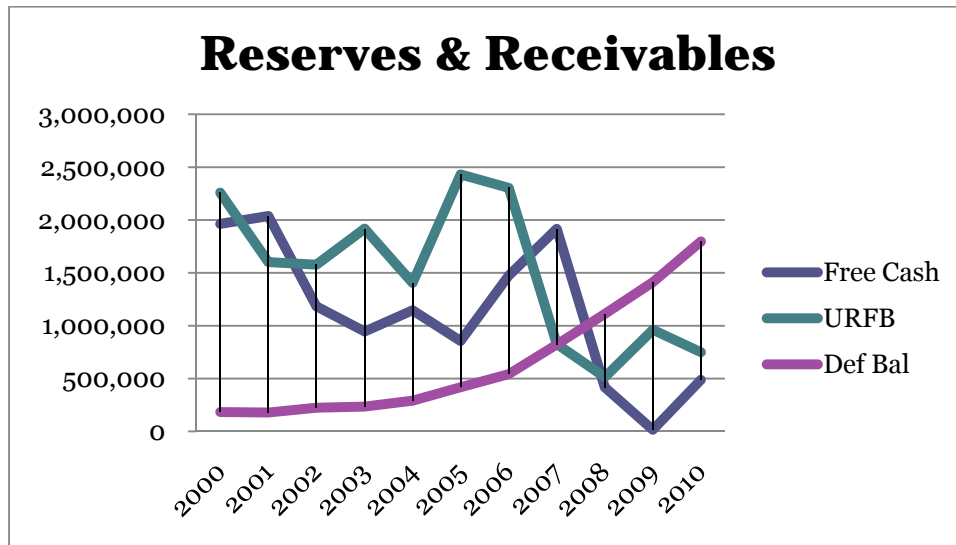
As you can see above, the largest segments of receivable are more recent, being added since the popularity of the program increased significantly (since 2002). In comparison to other sources of revenue for the Town, our current deferral receivable level is equivalent:

- **1-year addition \$413 thousand** = **License & Permit revenues for a year**
- **Current balance \$1.74 million** = **SBAB Debt reimbursement for a year**
- **Low projected balance 5 years** = **Chapter 70 revenue for a year**
- **High projected balance 5 years** = **All Cherry Sheet revenues for a year**

#### Chart 4 Reserves & Receivables

Growth in deferral receivable produces a negative impact on the Town's Unrestricted Reserves (also known as Unrestricted Fund Balance) and the cumulative effect from all operations known as 'Free Cash'. The Department of Revenue defines Free Cash as "remaining, unrestricted funds from operations of the previous fiscal year including unexpended free cash from the previous year, actual receipts in excess of revenue estimates shown on the tax recapitulation sheet, and unspent amounts in budget line-items. Unpaid property taxes and certain deficits reduce the amount that can be certified as free cash". Simply put, Free Cash is a community's adjusted unrestricted available funds that may be use to support supplemental appropriations during the year or at Annual Town Meeting to fund the next year's budget.

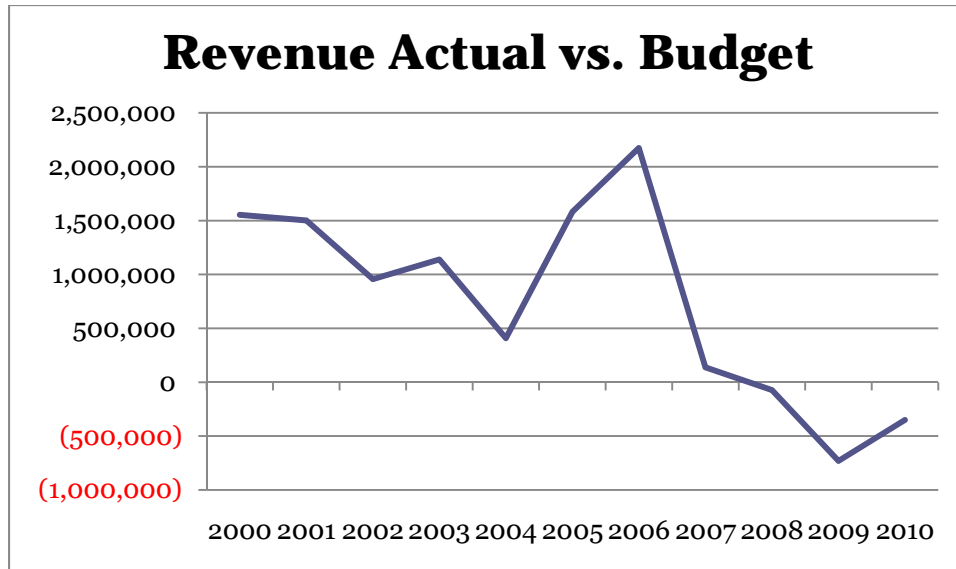
While by no means the only determining factor for the Town's ability to generate Free Cash (see appendix 6 for Free Cash Primer) and build or protect reserves, deferrals certainly represent a financial obstacle for us especially in recent years where other sources of additional revenues or savings have dried up. In order to maintain or increase the level of deferrals being added each year, the Town needs to explore ways to mitigate the effects deferrals have on our bottom-line, or at least be clear on any financial strain that may persist for years to come when appropriations continually exceed actual receipts (on hand) to pay for everything.



#### Chart 5 Historical Revenues Actual verses Budget

Sudbury peaked in terms of revenue surpluses back in 2006. We remain conservative in our approach to forecasting revenues. Even so, as the chart below shows, we are experiencing a downward trend in actual-to-budget receipts.



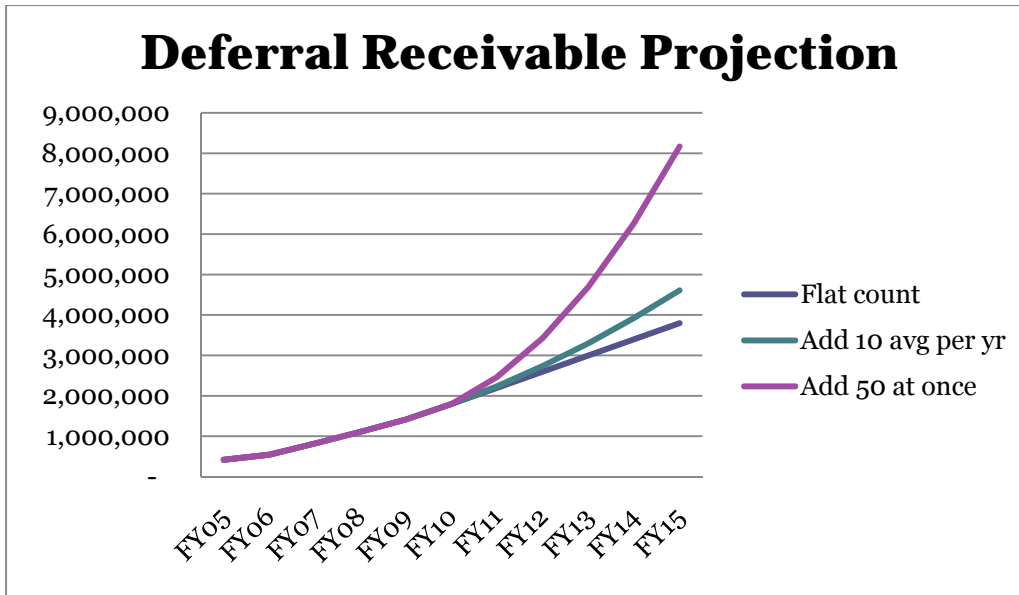


Property taxes are not only our biggest source of revenue but also our steadiest stream of recurring, inelastic income. In periods when all other revenues slow or are on the decline, removing large amounts of property taxes from the revenue equation (through the deferral process) makes it more challenging to prevent revenue deficits, budgetary shortfalls and protect reserves.

Our only other recourse is to (drastically) reduce expenditures below what has been budgeted in the current year. Making such midyear reductions in appropriations is never easy and may cause an unintentional, unwanted decay in the programs and services called upon to react swiftly during midstream.

#### **Chart 6 Deferral Receivable Projection through FY2015**

As mentioned, it is difficult to predict where our deferral program will go from here. The Sudbury Senior Deferral Committee (*back in 2007, see appendix 5*) gathered data on Sudbury’s senior population and income levels. They concluded that of the likely eligible senior taxpayers in town (possibly as high as 490 families), we could likely reach a maximum level of between 100-200 active deferrals each year. Based on this and other current deferral data, we can therefore project what our receivable balance may look like over the next five years. The following chart provides three scenarios (*low, medium, high*) through FY2015. The low range projects adding to receivables at the same rate as we are now. The medium range projects adding 10 new participants each year. The high range projects adding 50 new participants immediately and continuing at that level through FY2015. Each scenario gets us to within the range suggested by the Committee, but at varying speeds.



We are already having financial difficulty at the current rate of additions (flat or low range). To achieve a greater velocity or trajectory for the program would require developing a strategy to maintain available funds, or dramatically reduce appropriations in relation to receivables – additions and/or accumulated, depending on other factors that have not materialized or been explored yet.

### WHERE DO WE GO FROM HERE?

Sudbury’s Senior Tax Deferral Committee (2007) suggested that participation in the program rose as the interest rate dropped below market mortgage rates (happening with the program for the first time in 2003). The table below provides a comparison of our rates to the average 15-yr fixed mortgage rate (FMR) during the last 8 years. While we have kept our interest rate steady for the last several years, you can see that the market mortgage rate has fluctuated somewhat over the same time but always remains well above what we charge deferral participants. The big drop in the deferral rate seems to be a key factor in the program’s popularity.

This echoes statements made in the DLM’s report that “a number of observers have concluded that the high, fixed statutory rate of interest charged on deferred property tax is a major reason for the under-utilization of this option for seniors”. However, lower than market interest rates is not the *only* contributing factor.

**Table 4 Deferral and Market Rate History.**

Participation Year	Deferral Rate	15-yr FMR*	New or Ongoing Deferrers
2002	8.0%	6.86	14
2003	4.0%	6.21%	23
2004	2.0%	4.84%	26
2005	2.5%	5.81%	33
2006	2.5%	5.35%	49
2007	2.5%	6.35%	62
2008	2.5%	6.41%	65
2009	2.5%	6.38%	66
2010	2.5%	5.41%	77

\*Source: HSH Associates Financial Publishers

The increase in participation is believed to be caused by a combination of factors:

1. Relaxed program qualifications (achieved locally in 2002)
2. Consistently, much lower than market lending rates (same low rate since 2005)
3. Increased awareness of program benefits by the State and local level (2007 and continuing)

What is not clear at this point is whether lowering the rate even more on its own would substantially encourage *more* taxpayers to use the program. Marshfield reported that their program participation quintupled from 7 to 35 when they dropping the interest rate from 8% to 0%. However, since we already have a much larger program than Marshfield, it is hard to say what might happen in Sudbury case. Perhaps it would achieve hitting are target of 200 or more immediately. The question then becomes, could we handle that? Even if we could, do we want to be in the position of offering interest-free loans. This presents financial and policy issues for Town moving forward.

What the data does seem to bear out is that keeping the rate relatively constant and below market, has helped our program grow in both popularity and size. Senior Tax Deferral is considered more a financing option than actual tax relief, but it seems to be achieving what we have set out to do – that is to help maintain our seniors in their homes for an extended period. Interest rates aside, the deferral program presents an easy, safer financing alternative to mortgage, reverse mortgage or other consumer credit options.

## OTHER COMMUNITIES

According to the DLM's report (2005), there were only 146 out of 353 communities in Massachusetts with senior tax deferral activities. Their study indicated that the number of active deferrals ranged from only 1 to a Statewide high of 82, with the average participation being 8 even in the Commonwealth's largest communities. Sudbury at that time had 26 active deferrals ranking us 8<sup>th</sup> in the State, only behind much

larger communities such as Newton, Quincy, Hingham and Lynn. An update to these statewide statistics is not yet available. However, independent research has provided us with a listing of what many other communities are using for interest rates lately.

It is important to note that most communities must vote deferral rates at Town Meeting, which makes it more difficult to make changes on a regular basis. Sudbury on the other hand benefits by operating under special legislation that allows the Board of Selectmen to vote annually on the interest rate. This added flexibility has worked out well.

I suggest that an interest rate of some percent is always appropriate in long-term lending situations. Furthermore, controlling the interest rate is now our only means of effectively managing the level of participation in the future.

**Table5            What other Communities are Doing**

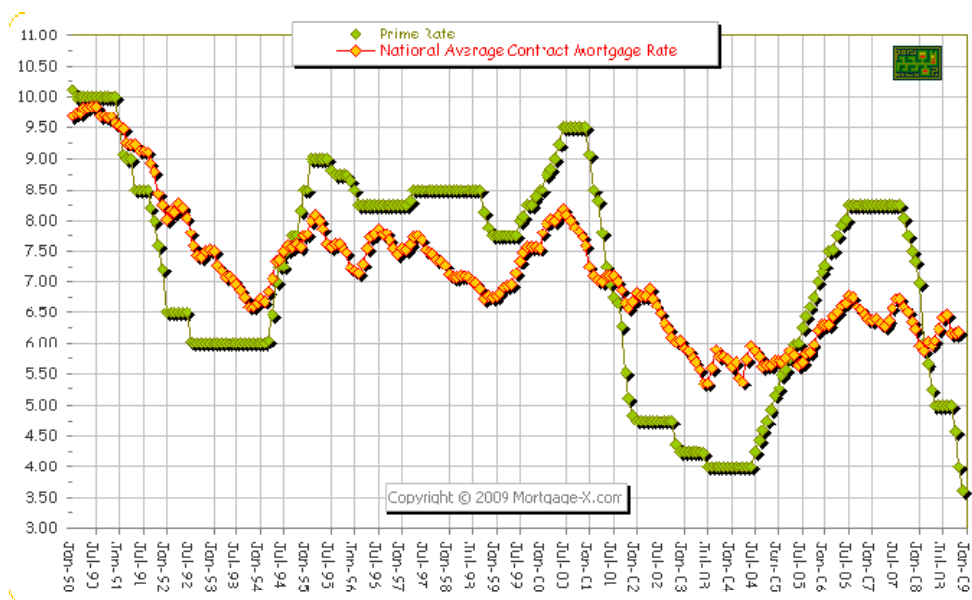
<b>Municipality</b>	<b>FY2010</b>
<b>Acton</b>	.50%
<b>Lexington</b>	.68%
<b>Natick</b>	4.5%
<b>Wayland</b>	3.5%
<b>Wellesley</b>	1.05%
<b>Worcester</b>	8.%
<b>Concord</b>	4%
<b>Westborough</b>	0%
<b>Marshfield</b>	0%

Back in 2005, when the State revised the statutory interest rate provision under M.G.L. Ch 59, S. 5(41a), to allow municipalities through local option acceptance, to be anything from 8% to 0%, several communities felt compelled to lower their rates. However, to date, only two communities opted to go from the statutory 8% all the way down to 0%. Both cases involved Town Meeting vote and appear to have been based solely on the opinion that offering interest free loans would be a nice thing to do for seniors. Further analysis may not have been warranted given both programs were and still are very small compared to Sudbury. However, for a community like Sudbury with such a popular deferral program, it would be prudent to analyze the effects of significantly lowering (or eliminating) the interest rate for all of the financial reasons previously mentioned.

## CURRENT INTEREST RATES

**Table 6** Current Market Rates

Rate Type	Current	1 Year Ago
<b>MMDT</b>	.33%	.75%
<b>6 mo. CD's</b>	.74%	.87%
<b>State &amp; Local Bonds</b>	4.40%	4.81%
<b>Bank Prime</b>	3.25%	3.25%
<b>1 yr CMT</b>	.30%	.50%
<b>5 yr CMT</b>	2.06%	2.76%
<b>10 yr CMT</b>	3.17%	3.63%
<b>15 yr CMT</b>	3.26%	3.75%
<b>15 yr FRM</b>	4.66%	5.41%
<b>30 yr FRM</b>	5.25%	5.92%



**CMT ( Constant Maturity Treasury)** rate is also commonly referred to as the Treasury Yield Rate. The CMT rate indexes are interpolated by the Treasury from the daily yield curve. The curve itself, which relates the yield on a security to its time to maturity, is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market. CMT Rate indexes are a theoretical

interpretation of what has happened in the Treasury markets up to the time of rate publication. While CMT does not predict returns in the future, it does reflect the state of the economy, and responds quickly to economic changes. Relatively speaking, these indexes react more slowly than the CD (Certificate of Deposit) index, but more quickly than the COFI (Federal Cost of Funds) index or the MTA (12-Month Treasury Maturity) index. CMT's are most often used when determining ARM's (Adjustable Mortgage Rate).

Current projected COFI Index 2026 = 4.6-5.7% Current MTA Index = 4.4-5.4%

## FOR FURTHER CONSIDERATION AND STUDY

How big of a long-term receivable balance can the town afford to carry now and in the future?

- Before experiencing significant cash flow problems,
- Before needing to borrow monies to support operating expenses, or
- Before experiencing the negative financial and credit rating effects of no cash flow and low reserves?

Can the town afford to offer very low rate or no interest on deferrals?

- What if any equity issues would this present given that all other taxpayers are required to pay their taxes each year regardless of financial circumstances or face paying a statutory 16% interest, not to mention suffer the costs and turmoil of pending foreclosure cases?

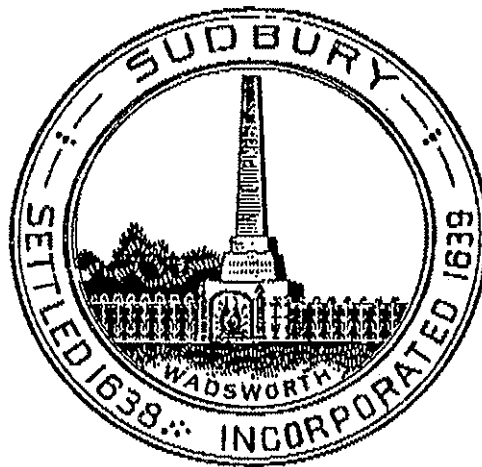
How can we quantify the cost savings or financial benefit associated with different taxpayer groups?

- Assuming we are able to quantify, how may we best use that information? To justify mitigating financial strategies, reallocate resources or otherwise maintain adequate cash flow when our financial resources from particular taxpayers do not meet or exceed the financial obligations as a whole.
- To what extent can we shift tax burden based on actual/theoretical programs and services delivered?
- What are the financial and statutory considerations?



# PROCEEDINGS

ANNUAL TOWN ELECTION, MARCH 25, 2002  
ANNUAL TOWN MEETING, APRIL 1, 2002  
ADJOURNED ANNUAL TOWN MEETING  
APRIL 2, 2002  
STATE PRIMARY. SEPTEMBER 17, 2002  
STATE ELECTION, NOVEMBER 5, 2002



TOWN OF SUDBURY,  
MASSACHUSETTS  
2002



**ARTICLE 26. REAL ESTATE EXEMPTION** (Consent Calendar)

To see if the Town will vote pursuant to Chapter 73, Section 4, of the Acts of 1986, as amended by Chapter 126 of the Acts of 1988, to allow for an increase of up to 100% of the current exemption amounts under Clauses 41C, 37A, 22 and 17D of Chapter 59, Section 5, for fiscal year 2003; or act on anything relative thereto.

Submitted by the Board of Assessors. (Majority vote required)

Move in the words of the Article.

The motion under Article 26 was **UNANIMOUSLY VOTED.** (Consent Calendar)

**ARTICLE 27. ACCEPT CHAPTER 59, SECTION 5, CL. 17E & 41D – (Consent Calendar)**  
**OPTIONAL COST-OF-LIVING ADJUSTMENT FOR**  
**DETERMINING REAL ESTATE TAX EXEMPTIONS**

To see if the Town will accept Section 5 of Chapter 59 of the General Laws, Clauses 17E and 41D, to allow cost-of-living adjustments for income and assets based on the Cost Of Living Adjustment (COLA) determined by the Commissioner of Revenue; or act on anything relative thereto.

Submitted by the Board of Assessors. (Majority vote required)

Move in the words of the Article.

The motion under Article 27 was **UNANIMOUSLY VOTED.** (Consent Calendar)

**ARTICLE 28. SPECIAL ACT – APPLICATION OF CHAPTER 59, SECTION 5, CL. 41A –**  
**PROPERTY TAX DEFERMENT**

To see if the Town will vote to petition the General Court of the Commonwealth of Massachusetts to enact special legislation to provide that the Assessors of the Town of Sudbury when applying the provisions of Massachusetts General Laws, Chapter 59, Section 5, Clause 41A shall apply the following criteria with regard to the deferment of property tax payments:

that 60 years be the minimum age at which a property owner may be considered a senior for the purpose of deferred payment of property taxes;

that \$60,000 be the maximum income which singles or couples may have to be eligible to defer their payment of property taxes;

that the annual interest rate to be paid on the deferred taxes be 4% in the first year and set annually thereafter by the Board of Selectmen, provided that in no event shall the rate exceed 8%;

that there are no restrictions on the number of years a property owner who wishes to defer payment of property taxes must:

- a) be domiciled in the Commonwealth;
- b) own and occupy as his domicile such real property;

said legislation to take effect without further submission to Town Meeting; or act on anything relative thereto.

Submitted by the Council on Aging.

(Majority vote required)

Arletta Cioffari, 95 Willow Road, Chair for the Council on Aging moved in the words of the Article.

The motion received a second.

Arletta Cioffari said the Council functions as the Board of Directors for the Fairbank Senior Center. It also serves as an advocate for senior citizens. The members of the council asked her to present and describe Warrant Article 28. It is in the Town's best interest to keep seniors in their Sudbury homes. It is in the best interest of everyone, not just seniors themselves, but everyone. Every person who pays taxes in Sudbury has a vested interest in keeping our seniors here. When seniors leave Sudbury they inevitably sell to younger families. Every time a new family moves into town, along with those 2.3 children that the demographers refer to, our costs go up. On average, a young family costs the Town approximately \$8,000 more per year, than a family where the adults are 60 and over.

A few weeks ago the Boston Globe had a front-page article about senior housing. One quote from that article stands out. It's a simple calculation. "A family with two children moving into a town often does not pay enough in taxes to cover the costs of the expanded educational services the family requires." The expenses don't end with just the direct cost. Whenever we reach a critical mass of new families with children in town, we face staggering expenses for new schools, cost for land acquisition, cost for construction, and cost for servicing new bond issues. She went on to say that it's in our collective best interest to keep seniors in their Sudbury homes. Unfortunately, many seniors today are feeling the need to relocate because of the dual effects of rising costs and fixed income. Often it is the continued rising property tax that is the last straw that drives the senior out of Town. If we can help seniors mitigate their cash flow problems, it may make the difference between staying and leaving. Tax deferral provides a no cost way for us to keep our seniors here. Simply put, we agree to make a loan to seniors with interest for any part or all of their tax assessment. The loan is secured by the equity of the home and the loan is repaid when the home is sold. This concept is so sound that some years ago it was written into our State law. Tonight's Warrant Article does not break new ground; it simply modifies the existing tax deferral statute. It does not obligate anyone to utilize it, as with the current statute, it merely provides an option for each senior to consider in doing his or her own financial planning. The Warrant Article changes the age, income, and residency requirements so that more seniors will be able to take advantage of these benefits, and it reduces the interest rate charged to bring it more in line with today's economy.

She gave an overview of the existing law compared with the new proposal by showing a slide.

- We recommend that the minimum age to apply for this benefit be reduced from 65 to 60 years old. The ages between 60 and 65 are when many people retire. Therefore, these are prime times for considering relocation. The intent is to reduce the age requirements to correspond with the ages at which many seniors consider leaving Sudbury.
- We recommend that the maximum income to be eligible for tax deferral be increased from \$40,000 to \$60,000. This figure is not out of line with the economic realities of today. The State defines moderate income as \$52,500, that's the statewide average. There may be some younger people here tonight saying "but I make less than that, why should seniors be eligible when I am not?" She went on to explain that if you are 40 years old and make, \$50,000 a year, you can look forward to cost of living increases; and you also have the potential raises, promotions, and job changes. These factors can make your income rise in the future. It is a virtual certainty that if you are making \$50,000 a year now, you will be making more 10 to 20 years from now. This is not the case with seniors. If they live on \$50,000 now, that number is likely to remain relatively static in the coming years. Yet, their cost for medical care and medicine will likely continue to rise. Furthermore, inflation will reduce the buying power of whatever they bring in. So, money management for a senior is a very different matter than for a younger person. A common worry among seniors is that they don't want to outlive their money. \$60,000 is not an unreasonable cap on income in order for a senior to be eligible for tax deferral.
- The third item is the interest rate charged. In recent years interest rates have come down considerably. The Article gives the Board of Selectmen authority to change the interest rate in the future.
- Finally, they recommend that the residency requirements be eliminated. The reason for this is, if it is in our best interest to keep seniors here, it follows that it's also in our best interest to have seniors move here. Furthermore, the parents of current residents are often interested in moving to Sudbury. Let's make it desirable for them to do so. It is in our best interest to keep seniors in their Sudbury homes.

What they're purposing is a no cost way to keep seniors in Sudbury. She urged everyone to vote yes on Warrant Article 28.

**THE FINANCE COMMITTEE:** Supports this Article.

**THE BOARD OF SELECTMEN:** Supports this Article.

Ms. Roopenian said The Board of Selectmen consistently maintained that generational diversity in Sudbury is a priority. In the past several years the Board has supported many initiatives aimed at keeping seniors in town. Examples would be Frost Farm, shared initiative between the seniors and the Town that has resulted in an opportunity to use town resources to allow affordable homes for seniors. The circuit breaker legislation and other uses of Clause 18, which allow relief and Sudbury senior work-off programs, are some examples. The Board feels that seniors have supported the community in the past for its needs relative to schools, open space, and infrastructure and now we have the opportunity to support the seniors in yet another positive program. Sudbury needs to continue to understand the impact of losing our senior population due to rising taxes and fixed income, which seem to drive them out. We must continue to try to find creative ways to keep them in their homes, help them decide whether these types of programs would keep them here. This Article allows eligible seniors to take advantage of a tax deferral program while reducing the interest rate previously charged for these deferrals. This program will more than likely become a model for other towns after it is submitted to the Legislature. We urge your support.

The Moderator recognized Mr. Tyler, who said he was in favor of this Article but he didn't think it went far enough for what needs to be done for seniors. Deferral is not a major inducement or incentive for someone to stay in Sudbury because they are accumulating all that debt. Lower interest rate is nice, but if they're looking at 10-15 years of longevity maybe \$7,000 a year in average taxes, your starting to talk about \$100,000 or more that's put on to their house, it limits options to get money out of their house if they need it to live on. So the real answer to solving some of the problems and keeping seniors, and for all the reasons that the Council on Aging said, we want to keep seniors in town. He went on to say that the real answer is to go to the Legislator with a second petition. A petition asking them to allow us to exempt seniors from their taxation.

An amendment to this Motion was put forth by Mr. Tyler. He proceeded by showing a slide.

Seniors 60 and over without school age children would get a 50% real estate tax exemption, a maximum of \$3500 a year, the idea here being that if they lived in an average valued home or less, it would be 50% of what they pay. Somebody that lives in a million and a half dollar home, all they would get is \$3500 (10% of his real estate taxes).

Before Mr. Tyler continued the Moderator took a few minutes to read the Amendment. The Moderator said, it was his understanding, the motion being made is to amend by striking the motion and substituting these sections 1-4.

Mr. Tyler replied *NO*. He addressed the Moderator and told him, it's to address the second petition to the Legislature so everything that the Council on Aging is doing remains, but adds a second petition to provide this exemption. So it takes nothing away from what's being proposed by the Council on Aging, but it adds another option. That is, if the Legislator goes along with it. Then the seniors in this community will really understand that we want them to stay, and that we've done something meaningful and tangible.

The Moderator told Mr. Tyler that before he made any rulings, he has to understand what's before him. He went on to say that what you've given me is a piece of paper that says amend and you've put that slide up. You and I both know that is not a motion that's just sort of a speech. Now, after that I have Move to Amend. But that does not amend the motion; it adds something called a second petition. Now, I assume sections 1-4 are the second petition? Mr. Tyler answered, that's right.

The Moderator asked, if the motion is to *amend by adding to the motion before the House, these sections 1-4*, and then, I take it; what this means, is argument in support? Mr. Tyler answered YES and the Moderator said he understood now.

Mr. Blacker, wanted to know if it was within the four corners?

After concurring with Town Council, the Moderator addressed Mr. Blacker's question, saying provided Mr. Tyler changes his wording, by saying that he is *not adding a second petition*, because we can only have one, but rather *just add these four sections as part of the petition* that is on the floor now. I think that it is fairly within the four corners of the Article. That will be the chair ruling.

Mr. Tyler accepted that amendment to his amendment.

The Motion received a second.

The Moderator recognized that there was a question from the proponent of the Motion. She wanted to know: if his amendment is accepted, then both proposals go together, and they both pass together or get defeated together? He replied once it got to the Legislator's, they could pass part of it, all of it, or none of it. She was worried if what they were purposing would be in jeopardy if this amendment were passed.

The Moderator stated that he wasn't going to get into a debate. You heard some people over here, who maybe want to speak later say that it does jeopardize it and that's probably part of the debate that we're going to have on whether to allow the amendment. Mr. Tyler will give us a position on that and you can debate that out and people can think about it as they vote. He went on to say that he wasn't going to make any ruling as to whether anything jeopardizes anything.

The Moderator recognized Mr. Tyler in support of his Amendment, since it did receive a second, that he now understands to be Move to Amend the motion on the floor by adding to it these sections 1-4, that he takes will be put on the view graph and doesn't see any reason for him to read them verbatim unless anybody objects.

Mr. Tyler said he would talk about the features of them and accepts his amendment and wanted to talk to the question. He said it was his understanding that when the Selectmen put these petitions up to the Legislature that they can word them in any way they want and send supporting information any way that they want, so they can position it as, this is one that we critically want, the one that comes from the Council on Aging and this is another one that we think is important and we like too, but we don't want to jeopardize anything that they're doing, so with that said, lets go and see what I'm trying to do here.

The Moderator added in 5 minutes or less.

The purpose we heard from the Council on Aging, Mr. Tyler said, is it's very important to do something significant and meaningful for seniors.

Anyone in town 60 years old that doesn't have children qualifies. If you're a millionaire and you live in a 3 million dollar home, you still could get \$3500 in real estate taxes, that would be a very small portion of your taxes, but it's the town saying that they want you to stay. It would be something that they would be doing for everyone. The most important thing with this position is that there are many people who will refuse to come to their neighbors and say, I can't afford to stay here, they would not lose their dignity that way, they would rather move out of Town.

The Moderator broke in to say, if he understands what he's saying is; that the purpose of his amendment is to give a tax break to a millionaire, because the problem he has with that is the way it was printed in the Warrant there was going to be a \$60,000 limitation on this, once you go above that I have trouble on the question of whether we're within the four corners. Because people could reasonably deem from this Article that all that was going before the Town was a possible exemption for people with \$60,000 or less. If it's your intention to go over that amount then your objection isn't well taken.

Mr. Tyler replied that if you force me to put that amendment in I'd do it to keep it active on the floor. The Moderator told Mr. Tyler that it had to be \$60,000 or less as given the way this Article was worded. Mr. Tyler replied if that's the way it has to be to stay on the floor.

This is just some technical language here, they would have to certify that they don't have children in their house every quarter, so it's a meaningful declaration that's qualified every quarter for this exemption. Mr. Tyler then moved along to the next slide, so then the idea here is 50% of the real estate tax due, or a maximum of \$3500, which means that's about half the taxes for an average valued house in Sudbury. If you have a smaller house, you're limited to a smaller tax bill than \$7,000, you're limited to 50%. If you have a higher one, then this is all you get, so the percentage goes down.

Before he could go on to section four, a citizen spoke up for a Point of Order. "This is a procedural Issue", and said he didn't know what they were going to be voting on. He went on to say that he didn't know what that wording is and that the Moderator had the benefit of the wording of the Motion before him and they didn't.

The Moderator told him that he didn't have anything that wasn't shown on the graph of the slide. He told him that his point is very well taken, but he has to overrule his Point of Order because a person has a right to amend on the floor. He explained that he could persuasively argue to his fellow citizens that it's premature to vote on something of this complexity, and that argument may well be received, but that doesn't limit Mr. Tyler or any other citizen's right to make an amendment. The amendment can be made. The wisdom of passing it lies with the voters.

Mr. Tyler continued saying that if this gets passed at the Legislature, then 2/3's of this body could meet again and decide if they want to up the percentage or up the amount more than inflation or the Town could also decrease it at some time if they found it was being prohibitive. To decrease it, would require 2/3's vote of this Town Meeting separated by 10 days, so that the seniors could mobilize themselves and wouldn't get ambushed and then be reduced.

Moving on to the next slide, he said what we're talking about here is a meaningful symbolic act of marginal benefit, just accumulating debt for the privilege of staying in Sudbury isn't going to be a big motivator for people to stay in their homes. There is a reason to want to keep seniors in Sudbury; \$8,000 a year is the number the Council on Aging is talking about. Seniors could then afford to remain in Sudbury without accumulating this debt. Deferral doesn't meaningfully provide tax relief because they eventually have to be paid with interest and those numbers, with longevity being what it is, really adds over 15-20 years. The exemption basically means that higher valued property gets less than the 50%.

The Moderator addressed Mr. Tyler and stated that if he wants this motion to go to the floor, he wants it amended to take care of the problem he had raised with him, that is to say, that if you want a suggestion, he'll give him one, otherwise you just decide what you want to do with it. He went on to say that if you go to section 2, at the end of the second line, where the word and appears, he would insert the words; and the owners collectively do not have income in excess of \$60,000 per year. He said that he thought that would bring it within the four corners.

The Moderator asked Mr. Blacker if he still had an objection.

Mr. Blacker replied that he did and said that he thought it was a completely separate concept. It doesn't amend anything. He went on to say that the first one is a deferral changing some dollar amounts that are already State Legislation. This is trying to have an exemption. If you've read the two of them, he didn't know if they'd flow.

The Moderator said that he hears Mr. Blacker's arguments but the problem is, that the Article right, wrong, or indifferent is in here as a petition to the Legislature and the general subject is real estate taxation of senior citizens and it seems to him that an amendment that does that and stays within the parameters is proper and he thought that they were within the parameters with that amendment that he suggested if Mr. Tyler would adopt it.

So now, the Moderator said we have on the floor, the motion to amend as amended, and he assumes it has a second. He then asked if anyone wished to be heard on the *motion to amend*.

Judy Deutsch, 41 Concord Rd. said she appreciated very much the intent of Mr. Tyler. However, she thought it did a great disservice to the Town. It would do a great disservice to the Town to vote this in when there are only a few hundred people present. She said if all he wants to do is start a dialog, that's great, and if the Town of Sudbury wants to incur that kind of exemption which could lead to over a \$3,000,000 reduction in the revenues to the Town, that would be fine with her if the Town wants to do it, but when we see small print like that and no information has gone to all the citizenry, it would be very unfair. Therefore, she suggests strongly that we vote down this amendment.

The Moderator asked if there was anyone else that wished to be heard on the *motion to amend*.

Richard Payne, 15 Thoreau Way, stated that he wanted to take the opportunity to make one point that was just raised, and that is, Mr. Tyler's attempt to change the statement here over the income of people that are going to qualify. If we were really going to do this job correctly, we wouldn't be worried about people's income, or whether or not they should be paying taxes to support other people.

Robert Coe, 15 Churchill St, said that he sympathized with Mr. Tyler's position that what we're doing in this Article is sort of a drop in the bucket, but he thought that this amendment as a previous speaker said is dead on arrival. He went on to say that there were two things that really bothered him;

- One is how the limits get changed, these two Town Meetings 10 days apart, and 2/3's vote, is completely contrary to our bylaws governing debating and passing Articles.
- The definition of who has children and who doesn't. What we're skirting very close to is the idea we access the cost of the schools against those who have children rather than against the total revenues of the Town. His concern was that this amendment was for giving a tax break to residents that didn't have children in the school system.

He urged defeat of this amendment.

A resident had a question. He wanted to know if the amendment was approved would they get a 50% exemption, then a deferment on that 50% also.

Mr. Tyler replied that as the Council on Aging pointed out the deferment cost the Town nothing, it's a loan that fully covers the interest, so yes; a person could then defer taxes also. This is taking nothing away from the Council on Aging. In answer to Mr. Coe, the reason as to whether or not you have kids is that he figured it would be dead on arrival if someone said they were 63 years old and had 3 kids in high school, why should they get this break.

Mr. Tober addressed the hall and said that the only way you'd get anywhere is to do away with the property tax and replace it with a municipal income tax.

Steve Tripoli, 31 Marlboro Rd. said that it seemed to him there were several flaws to this approach. First of all it's his understanding that Town officials are looking at several methods to lower property taxes for senior citizens, which he strongly supports doing? He's not sure if this amendment to the amendment kills the above \$60,000 exemption, but whether it does or not, it seems like there should be an approach that has an income proponent to it. He also stated that he had reservation about the notion that it would be much harder to repeal this than it would be to raise the exemption, at least in the wording of the amendment. So, for those reasons and also the fact that it just seems like a late and very complex amendment, it doesn't seem like a very good idea.

The Moderator asked how many people were in favor of terminating debating on the motion to amend, and voting.

He said there seemed to be a clear two-thirds VOTE to terminate the debate.

He asked all those in favor of the motion to amend, to do so by raising their cards, all those opposed.

The Moderator announced that the motion to amendment is defeated and we're back to the Main Motion made by the Council on Aging.

The Moderator asked if anyone else wanted to be heard on that motion.

Richard Payne, 15 Thoreau Way who said he had an amendment on this that he had given the Moderator earlier this evening.

The Moderator asked him if he wanted to make the motion to amend. Mr. Dignan went on to say that the motion is to amend the motion on the floor by striking the words .....*"That the interest rate to be paid on the deferred taxes be 4% in the first year and set annually thereafter by the Board of Selectmen providing that in no event the rate exceed 8%"* and *"substituting therefore, words....That no interest shall be due on the deferred taxes for qualified home owners"*. Is that the motion to amend? Mr. Payne answered, yes indeed.

The motion received a second.

Mr. Payne went on to say that he didn't think we were really proposing to give seniors such a good deal with this. We're reducing that interest rate down to 4%. He said that he had bad feelings on principal about charging senior's interest on money they have to borrow to pay taxes and to pay for schools for other people. This is a modest proposal that he would hope to persuade the townspeople to support and the Council on Aging has really made the case saying all the things that he was going to say about the importance of keeping seniors here and how that is really a terrific deal and a way of saving money. He doesn't think any of these band-aids are really a solution to the problem but it needs a radical solution that he didn't think would happen in his lifetime, but it's one small thing we can do here tonight to convince people that we really are interested in doing something to reduce the burden of retirees who are in tough shape.

Mr. Blacker said that if you keep compounding interest for a long period of time you end up owing quite a bit of money. He relayed a story about trying to get something before the Legislature that was passed at Town Meeting; and that he thought was a no-brainer when he was a Selectman about 7 or 8 years ago, and it took him three years going before committees before it was finally approved. Unfortunately, if you pass the amendment so that there is no interest, there is no chance on this ever passing. With the lower interest and with the modification in interest there's a chance. So, for that reason and that reason alone, I ask you to defeat the amendment.

Susan Richman, 183 Willis Rd, said that she supports anything we can do to keep the seniors in Town and if this does it or helps, that's wonderful. She said she did have a question, just a point of information on this particular amendment and on the original. She wanted to know if we have identified what the cash flow impact is to the Town for the no interest and for the original proposal.

The Moderator asked Ms. Speidel if she could answer that question.

Kerry Speidel, Finance Director for the Town, said in regard to the question on the impact with no interest, she couldn't give an answer on tonight because that's not something they had looked at, but as far as the original proposal, the only way that there would be an impact to the Town, is that if the participation in this program is so great that there would be a cash flow impact to the Town. At this time, for the next couple of years we don't see that there would be a cash flow impact to the Town and that would be the only way that we would be able to borrow and that there would be additional cost incurred to the Town. She went on to say that they had done some calculations based on the information given to them by the Council on Aging. They felt there were probably 650 homes within the Town that would qualify for this program. If all of those homes qualified and if all of those homes were assessed at the average valuation, which we know is not the case, but that's the only thing we can go on. Then the potential cash flow impact to the Town would be 4.7 million dollars a year. Now we know that wouldn't happen, because all of those people would not apply. What we were estimating is that maybe 60-70 households would participate in this program, and if that were the case, then the impact to the Town would be about \$365,000-\$445,000 per year and that would not cause a cash flow impact to the Town and so we don't believe there would be any additional cost incurred.



Margaret Rose, 23 Willis Rd., said that she didn't see where this would be a big impact to the Town, because she didn't think that many people would avail themselves of it.

Maureen Valente, Town Manager, added that currently it has less of an impact because we tend to have people pay off the deferrals at fairly near the rate that they enter into them, sort of like the tax titles. People pay, and they pay with the interest, and new ones are taken out. She thought if they did some sort of shifting where the payments aren't coming in, in terms of the interest as well, it could eventually, and depending upon the participation, have some impact in terms of the receipt side of it. In terms of the expense side, we wouldn't see as much, but on the receipt side we would eventually see some impact.

Peter Glass, 523 Hudson Rd., said that he believed that tax deferral is an excellent financial option. He went on to say that no one had mentioned the fact that housing values, due to the wonderful things we do in this town tend to go up. That kind of offsets any interest they might be charged to this loan, in fact people may even find using tax deferral and then selling the house and moving somewhere for their own desires, that they go out with as much money as they started with.

Richard Payne, 15 Thoreau Way, addressed the last point that was made, yes, you get the benefit of the house and its going to appreciate in value so on and so forth. It doesn't help you if you move somewhere else and have to buy another house. It's not really a liquid asset that you're ever going to realize, and chances are your going to die and you're not going to have the money. In view of Mr. Blacker's remarks, which he was sure are to the point; if he could propose to change that amendment and suggest that we have zero interest rate in the first year and then at the discretion of the Selectmen in the years following that to reduce the impact and give it a better chance of getting through the Legislature.

The Moderator asked Mr. Payne if he wanted to *amend his amendment*.

Mr. Payne said that no interest should be due on deferred taxes in the first year, and at the discretion of the Selectmen in following years, and we hope the Selectmen will do the right thing.

The Moderator said if you wish to amend your motion to amend, which is a secondary amendment. We've got to vote on that.

The Moderator asked the hall if the secondary amendment motion received a second.

The Moderator announced that it does and asked if anyone wanted to be heard on that?

No one wanted to be heard, the Moderator asked all those in favor of the secondary motion to amend the motion to amend, please indicate by raising your card, all those opposed?

The Moderator announced that's the secondary motion to amend the motion to amend was DEFEATED.

The Moderator said we are now back to the motion to amend as it was originally made, that is, substituting the words that no interest shall be due on the deferred taxes for qualified home owners.

No one that wished to be heard, The Moderator asked all those in favor of the motion to amend, please indicate by raising your cards, any opposed?

That motion to amend was DEFEATED.

We are back to the original motion as made by the Council on Aging.

Not seeing anyone who wished to be heard, he said all those in favor of the motion made by the Council on Aging under Article 28 please indicate by raising your cards, any opposed?

The Moderator announced that the motion under Article 28 was VOTED.

**ARTICLE 29. SPECIAL ACT - FROST FARM HOUSING FUND**

To see if the Town will vote to establish a fund, to be used for the purpose of providing additional affordable housing in Sudbury and funded by rent, sale and any other income received from the Frost Farm Village Condominiums located on Route 117; said fund to be maintained as a separate account and expended by vote of Town Meeting; and to authorize the Board of Selectmen on behalf of the Town to petition the Great and General Court of the Commonwealth of Massachusetts for special legislation therefore, as necessary, said legislation to take effect without further submission to a Town Meeting and to be retroactive to the date of the signing of the Frost Farm lease; or act on anything relative thereto.

Submitted by the Board of Selectmen.

(Majority vote required)

The Moderator recognized Mr. O'Brien in support of the motion.

Larry O'Brien Moved in the words of the Article.

Mr. O'Brien, Board of Selectmen said that Article 29 sets out to accomplish two things this evening:

- First, is asking for you to approve the creation of an affordable housing fund that will be established to receive the proceeds of the Frost Farm Village Senior Housing Development.
- Second, for the Board of Selectmen to petition the Legislature for approval of this special fund.

He went on to say, to begin with he wanted to spend a few minutes reviewing some history that might help explain how this Article has come about for your consideration. Going back to 1996 and the creation by the Board of Selectmen at that time, of the Strategic Planning Committee, and that committee was charged with the responsibility of writing a new Master Plan for our community that would address the statutory requirements of the Mass. General Laws, Chapter 41. The Master Plan addresses issues of land use, economic development, natural resources, open space, historic resources, housing, transportation, community services, and facilities, many subjects we've talked about over the last two evenings. For those of you who attended last night you heard those topics come up in various forms during the discussion of various Articles. When the Strategic Committee was formed they started out with the task of defining what the character of Sudbury is. On page three of the Master Plan the character of Sudbury is defined in part with this statement that said the following: "Sudbury's people were one of its most valuable assets; promoting a social, economic environment that permits and encourages a diversity of ethnicity, religion, age, and income will perpetuate this important town value." Over 150 citizens participated in the process of crafting the character of Sudbury's statement, and at our 1998 Town Meeting, that statement was unanimously adopted in the form of a resolution. Within the Master Plan itself, the housing element identifies strategies to address the need to diversify the Town's housing stock, including the creation of a housing partnership committee.

APPENDIX 2 – SPECIAL ACT (2002)

## Chapter 320 of the Acts of 2002

### **AN ACT AUTHORIZING THE TOWN OF SUDBURY TO REGULATE CERTAIN PROPERTY TAX EXEMPTION ELIGIBILITY REQUIREMENTS FOR THE ELDERLY.**

*Be it enacted by the Senate and House of Representatives in General Court assembled, and by the authority of the same, as follows:*

**SECTION 1.** Notwithstanding clause Forty-first A of Section 5 of chapter 59 of the General Laws, or any other general or special law to the contrary, and subject to Sections 2 to 5, inclusive, of this act, the board of assessors of the town of Sudbury shall defer the real estate property tax payment for property of a person 60 years of age or older and occupied by him as his domicile, or a person who owns the same jointly with his spouse, either of whom is 60 years or older and occupied as their domicile, or of a person who owns the same jointly or is a tenant in common with a person not his spouse and occupied by him as his domicile, if the person claiming the exemption either alone or together with his spouse had combined income of \$60,000 or less during the preceding year. No restrictions shall be imposed based upon the number of years the property owner (a) has been domiciled in the commonwealth; or (b) owns and occupies as his domicile such real property.

**SECTION 2.** Any such person may, on or before December 15 of each year to which the tax relates or within 3 months after the date on which the bill or notice is first sent, whichever is later, apply to the board of assessors for an exemption of all or part of such real property from taxation during such year; provided, however, that in the case of real estate owned by a person jointly or as a tenant in common with a person not his spouse, the exemption shall not exceed that proportion of total valuation which the amount of his interest in such property bears to the whole tax due. The board of assessors shall grant such exemption provided that the owner or owners of such real property have entered into a tax deferral and recovery agreement with the board of assessors on behalf of the city or town. The said agreement shall provide:-

- (1) that no sale or transfer of such real property may be consummated unless the taxes which would otherwise have been assessed on such portion of the real property as is so exempt have been paid, with interest at the rate of 4 per cent per annum for the first year and at an annual rate set thereafter by the board of selectmen provided that the rate set by the selectmen shall never exceed 8 per cent per annum;
- (2) that the total amount of such taxes due, plus interest, for the current and prior years does not exceed 50 per cent of the owner's proportional share of the full and fair cash value of such real property;
- (3) that upon the demise of the owner of such real property, the heirs-at-law, assignees or devisees shall have first priority to the real property by paying in full the total taxes which would otherwise have been due, plus interest; provided, however, that if such heir-at-law, assignee or devisee is a surviving spouse who enters into a tax deferral and recovery agreement under this clause, payment of the taxes and interest due shall not be required during the life of such surviving spouse. Any additional taxes deferred, plus interest, on said real property under a tax deferral and recovery agreement signed by a surviving spouse shall be added to the taxes and interest which would otherwise have been due, and the payment of which has been postponed during the life of such surviving spouse, in determining the 50 per cent requirement of subparagraph (2);

(4) that if the taxes due, plus interest, are not paid by the heir-at-law, assignee or devisee or if payment is not postponed during the life of a surviving spouse, such taxes and interest shall be recovered from the estate of the owner; and

(5) that any joint owner or mortgagee holding a mortgage on such property has given written prior approval for such agreement, which written approval shall be made a part of such agreement.

**SECTION 3.** In the case of each tax deferral and recovery agreement entered into between the board of assessors and the owner or owners of such real property, the board of assessors shall forthwith cause to be recorded in the registry of deeds of the county or district in which the city or town is situated a statement of their action which shall constitute a lien upon the land covered by such agreement for such taxes as have been assessed under this act, plus interest as hereinafter provided. A lien filed pursuant to this act shall be subsequent to any liens securing a reverse mortgage, excepting shared appreciation instruments. The statement shall name the owner or owners and shall include a description of the land adequate for identification. Unless such a statement is recorded the lien shall not be effective with respect to a bona fide purchaser or other transferee without actual knowledge of such lien. The filing fee for such statement shall be paid by the city or town and shall be added to and become a part of the taxes due.

**SECTION 4.** In addition to the remedies provided by this act, the recorded statement of the assessors provided for in this act shall have the same force and effect as a valid taking for nonpayment of taxes under [section 53 of chapter 60](#) of the General Laws, except that: (1) interest shall accrue at the rate provided in this act until the conveyance of the property or the death of the person whose taxes have been deferred, after which time interest shall accrue at the rate provided in section 62 of said chapter 60; (2) no assignment of the municipality's interest under this act may be made pursuant to section 52 of said chapter 60; (3) no petition under section 65 of said chapter 60 to foreclose the lien may be filed before the expiration of 6 months from the conveyance of the property or the death of the person whose taxes have been deferred.

**SECTION 5.** This act shall take effect upon its passage.

Approved September 12, 2002.

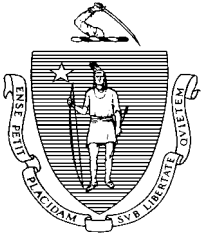
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APPENDIX 3 – STATE AUDITOR’S DIVISION OF LOCAL MANDATES REPORT  
(2004)



A. JOSEPH DeNUCCI  
AUDITOR

# *The Commonwealth of Massachusetts*

AUDITOR OF THE COMMONWEALTH

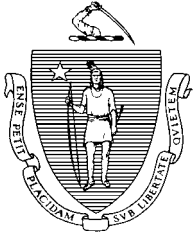
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## **The State Auditor's Report on the Local Financial Impact of Property Tax Exemptions for Senior Citizens**

*Pursuant to Massachusetts General Laws  
Chapter 11, Section 6B*

**September 2005**



# The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH  
STATE HOUSE, BOSTON 02133

A. JOSEPH DeNUCCI  
AUDITOR

TEL. (617) 727-2075

September 2005

His Excellency Mitt Romney, Governor  
The Honorable Robert E. Travaglini, President of the Senate  
The Honorable Salvatore F. DiMasi, Speaker of the House  
The Honorable Cynthia Stone Creem, Senate Chair, Committee on Revenue  
The Honorable John J. Binienda, House Chair, Committee on Revenue  
The Honorable Susan C. Tucker, Senate Chair, Committee on Elder Affairs  
The Honorable Robert Correia, House Chair, Committee on Elder Affairs  
Honorable Members of the General Court

I respectfully submit this review of the local financial impact of certain state laws providing property tax relief for lower-income, senior homeowners. This work was conducted pursuant to the State Auditor's authority to review any law having a significant financial impact on cities and towns. This report updates and expands upon our 1998 *Review of Property Tax Exemptions for the Elderly*.

This report profiles each municipality's approach to senior property tax relief, and demonstrates the disparate nature of benefits from one community to another. Secondly, it details the uneven distribution of state assistance to cities and towns for these programs, the unintended consequences of outdated reimbursement formulas. Finally, this report presents recommendations to address these inequities, as well as the serious erosion of the value of these benefits due to inflation and rising property taxes.

In this report, I recommend that the Commonwealth assume the fiscal and programmatic responsibilities for this necessary benefit through the existing senior property tax Circuit Breaker program. Such consolidation of the various local and state efforts would allow for one uniform, comprehensive mechanism to provide more meaningful and equitable relief to the elderly, as well as to the Commonwealth's cities and towns.

I hope the information in this report is useful in your ongoing efforts to address current issues in tax relief for senior homeowners. Please contact my office with questions or comments you may have. I look forward to continuing to work with you on this and other matters affecting the quality of state and local government, and the public services provided to the citizens of Massachusetts.

Sincerely,

A handwritten signature in black ink that reads "A. Joseph DeNucci". The signature is written in a cursive style with a large, stylized initial "A".

A. JOSEPH DeNUCCI  
Auditor of the Commonwealth



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Division of Local Mandates  
A. Joseph DeNucci, Auditor**

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*Pursuant to Massachusetts General Laws, Chapter 11, Section 6B*

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**THE STATE AUDITOR'S REPORT  
ON THE LOCAL FINANCIAL IMPACT OF  
PROPERTY TAX EXEMPTIONS FOR SENIOR CITIZENS**

**EXECUTIVE SUMMARY**

*Background and Purpose*

The Massachusetts General Court has a long record of demonstrated concern for the unique burden that property taxes place on lower-income senior citizens. This legislative history predates the 1930s and spans to enactments as recent as 2002. Up until voter approval of Proposition 21/2 and the Local Mandate Law in 1980, most laws providing property tax relief for seniors were mandatory and uniform across communities, with full state reimbursement. Under pressure from a decline in state and local revenues in the early 1980s and with the new requirement that state-mandated programs would be fully funded by the Commonwealth, state policy makers adopted a new approach to senior tax relief.

This new approach led to a series of local option laws whereby cities and towns could vote to expand the eligibility criteria for and/or increase the value of property tax exemptions for seniors – with no additional assistance from the state. Today, there are 16 local option provisions governing senior property tax relief, and one statewide, state-funded program, known as the Circuit Breaker. Depending upon which options have been adopted, local tax relief ranges from \$175 to \$1,000, and the average Circuit Breaker benefit was \$614 in 2003. In 2004, over 36,000 seniors received local exemptions, and over 38,000 received the state Circuit Breaker credit, for combined relief exceeding \$39 million. Factoring in amounts for the senior tax deferral and “work-off” programs, total relief exceeded \$44.6 million.

In 1998, the Office of the State Auditor’s Division of Local Mandates issued a report examining the major provisions for senior property tax relief in effect at that time. Illustrating the effects of inflation, that report documented a progressive decline in the relative value of local exemptions granted and the number of seniors qualifying for this relief. It also documented a progressive increase in the total amount of local exemptions provided without additional state assistance, over \$2 million in 1998. As a result, the Auditor recommended that applicable laws be amended to increase the value of local property tax exemptions for seniors, expand the eligibility criteria, and increase state reimbursements.

Subsequently, the Legislature amended the Massachusetts General Laws to provide cities and towns with as many as eight new local options to increase the value of senior property tax exemptions and/or eligibility standards. Even though the issue of local reimbursements has not been addressed directly, through the 1999 enactment of the Circuit Breaker tax credits, for the first time the Commonwealth is playing a direct role in assuming financial responsibility for additional tax relief for senior citizens.

There are several objectives of this report. One is to examine current trends in utilization of the various senior tax relief programs and options. Another is to evaluate the effectiveness of existing laws in achieving the dual objectives of fair and sensible property tax relief for seniors and reasonable state reimbursements to cities and towns. The final objective is to formulate and offer recommendations for more consistent and effective public policy in this field and to address the financial impact on cities and towns.

### *Major Findings*

**The overall finding of this work is that the patchwork of local option laws to provide property tax relief for seniors has resulted in widespread inconsistencies and inequities in benefits for seniors and in state assistance for cities and towns. The result is the lack of a uniform, efficient mechanism that can be indexed and adjusted; unnecessary tensions over this fiscal policy at the local level; and the failure to recognize and treat senior property tax relief as a statewide priority and obligation.** Specific findings include:

- Over 14,400 fewer seniors received the two primary local property tax exemptions in fiscal 2004 than did 10 years earlier.
- Utilization of the local property tax deferral program remains low, with only 1,135 deferrals amounting to \$3.5 million in 2004.
- Over 2,400 seniors worked off \$1.3 million in property taxes in 2004.
- There is a great disparity in the amount of local property tax relief available to seniors, depending upon the community in which they reside. For example, a 70-year-old might qualify for no local relief in one town, qualify for an exemption of 6% of the average property tax bill in another town, and combine benefits for up to 60% relief in still another community.
- The majority of seniors who receive a local tax exemption receive \$500, an amount that offsets about 17% of the 2004 state median property tax bill of \$2,891.
- To keep pace with the original legislative intent to offset 50% of the average tax bill, an exemption of \$1,446 would be required.
- The total dollar value of local exemptions provided without state assistance has grown from approximately \$2 million in 1998 to \$3.9 million in 2004.
- State reimbursement of \$12.1 million offsets approximately 76% of expenses for the two primary local exemptions. Over time, however, the reimbursement rules have led to unintended and inequitable results. For example, 73 communities collectively received approximately \$400,000 more than they spent for senior property tax exemptions.
- A total of 253 communities received approximately \$4.3 million less than they spent.
- For its so-called clause 17D exemptions, state reimbursement for one community is more than two times greater than its local expenditures, whereas an abutting municipality receives less than 1% of what it spends.
- Adding another layer of benefits to be provided at local option would only continue and enlarge these inequities.

## *Recommendations*

We offer two main recommendations to address the inequities documented in this report.

**1. The existing menu of local option benefits for seniors should be replaced with a single, standardized, state-funded program, with variables indexed to inflation.**

In keeping with the original legislative intent, the value of the average benefit should approximate 50% of the state average property tax bill: 50% of the 2004 state median property tax bill is \$1,446. Any reform should include a hold harmless provision to assure that no senior that presently receives a local benefit would receive less under the new program. We recommend an expansion of the existing mechanisms of the state Circuit Breaker program to accomplish this objective. To achieve an average level of relief at 50%, the net new cost to the Commonwealth would be approximately \$16 million. Page 20 of this report shows options and estimates for a phased-in achievement of the 50% objective.

This approach would provide numerous advantages over the current law, including:

- The benefit for each eligible senior homeowner would be determined by the same factors regardless of where they live.
- Eligibility criteria would be uniform across the state and easily indexed on a regular basis.
- Taxpayers would not be subject to the pressures of local option votes to increase benefits, which pit various local interests against one another.
- Nearly \$4 million in local revenue currently allocated to senior tax exemptions would become available for other purposes.
- The administrative burden would shift from 351 local assessors' offices and the Department of Revenue's Division of Local Services to management under the Department of Revenue's Income Tax Division, which oversees the current Circuit Breaker program.

**2. While we recommend that the local work-off and property tax deferral programs remain intact, we join others in recommending local flexibility in setting the interest rate charged in conjunction with the tax deferral program.**

A number of observers have concluded that the high, fixed statutory rate of interest charged on deferred property taxes is a major reason for under-utilization of this option for seniors. Allowing for a reasonable, but limited, interest rate would authorize adjustments to reflect market conditions. In addition, we recommend that state and local agencies work to increase seniors' awareness of the work-off and tax deferral programs.

## SECTION 1

### INTRODUCTION, OBJECTIVES, METHODOLOGY

This report presents the results of a follow-up study by the Office of the State Auditor, Division of Local Mandates (DLM), evaluating the financial impact of various forms of property tax relief on senior citizens and on the cities and towns of Massachusetts. This work was conducted pursuant to Section 6B of Chapter 11 of the General Laws, which authorizes the State Auditor to review any law having a significant impact on municipal finances, and to report resulting recommendations to the General Court.

In 1998, this office released a report on G. L. c. 59, s. 5, clause 41, which at that time, was the primary state law providing property tax relief for elderly homeowners. That report contained the following major findings:

- The amount of the major exemption from property taxes had not been increased in 20 years.
- The \$500 property tax break, which represented nearly half (48%) of the 1982 average tax bill, amounted to less than one-quarter of the 1998 average tax bill.
- Due to the inadequacy of the \$500 exemption, 26 communities had voted to offer greater exemptions, collectively providing \$1million per year without state reimbursement.
- A total of 117 communities provided nearly 2,400 exemptions without reimbursement due to a statutory cap on the number of state-reimbursed exemptions. These exemptions collectively cost communities \$1.2 million in 1998.
- To keep pace with inflation, the income cap for eligibility would need to be \$20,500, compared to the \$13,000 cap approved in 1986. The asset or “whole estate” limit to eligibility would need similar adjustment.

As a result of these findings, the 1998 report recommended that the Legislature amend applicable law to:

1. Increase the value of the elderly property tax exemption;
2. Increase the income and asset eligibility caps;
3. Increase state reimbursements to communities; and
4. Repeal the cap on state reimbursement.

Last year, DLM began a follow-up review of the 1998 report to determine:

1. The status of recommendations made in the 1998 report;
2. The effect of legislative action subsequent to the 1998 report; and
3. The overall effectiveness of the current state and local senior property tax relief efforts.

To facilitate our research, DLM conducted a statewide survey of programs offered by each city and town. In addition, information was gathered from the Massachusetts Department of Revenue (DOR), Division of Local Services, and use was made of DOR’s 2004 Tax

Classification Report.<sup>1</sup> As contrasted with the narrower focus of our 1998 work, for this report we reviewed each of the five local and state programs currently offered, including the various local option property tax exemptions, the tax deferral option, the “work-off” program, and the state’s Circuit Breaker program.

A brief description of each of these provisions follows, highlighting the legislative activity since our 1998 report.<sup>2</sup> The usage and effectiveness of each of these programs is reported and discussed in the subsequent sections of this report.

### ***Summary of Five Senior Property Tax Relief Programs and Legislative Activity Since 1998***

#### **Clause 17 Exemptions: G. L. c. 59, s. 5, clauses 17, 17C, 17C1/2, 17D, and 17E**

Dating back at least to the 1930s, the original Clause 17 is not subject to local acceptance. It is mandatory for all cities and towns, and provides for a minimum exemption of \$175 for qualifying seniors age 70 and over, and for certain surviving spouses and minor children. The qualifying asset ceiling is \$20,000, and there is no income limit. By voting to accept 17C, 17C1/2, or 17D,<sup>3</sup> communities may increase the qualifying asset ceiling to \$40,000 to expand eligibility. Another local option law allows communities to increase the exemption amount up to \$350,<sup>4</sup> while another allows a vote to apply an annual cost of living adjustment to the exemption amount.<sup>5</sup> In 2000, the Legislature added clause 17E to allow communities to vote to apply an annual inflation index to the asset limit.<sup>6</sup> *At times in this report we refer to this collective group as the “Clause 17s.”* Because there is no income eligibility limit, some seniors who would be ineligible for the greater Clause 41 exemptions do qualify for the smaller Clause 17 benefits.

#### **Clause 41 Exemptions: G. L. c. 59, s. 5, clauses 41, 41B, 41C, new 41C, and 41D**

Dating back to the early 1960s, the original Clause 41 is mandatory. It requires that all cities and towns provide qualifying seniors age 70 and over a minimum exemption of \$500, if income does not exceed \$6,000 for singles and \$7,000 for married couples; the asset limits are \$17,000/single and \$20,000/married.<sup>7</sup> By voting to accept Clause 41B or 41C, communities may increase the qualifying income and asset eligibility ceilings to expand eligibility.<sup>8</sup> In 2000, the Legislature added clause 41D to allow for cost of living adjustments to both eligibility limits, subject to local acceptance.<sup>9</sup>

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<sup>1</sup> Massachusetts Department of Revenue, Division of Local Services, *Tax Classification Report As Required by Chapter 3 of the Acts of 2004*, December 2004.

<sup>2</sup> For brevity, some qualifying details are not described here, including the length of domicile & home ownership requirements, and definitions of “income” and “assets” that vary across clauses and programs.

<sup>3</sup> The asset ceiling is \$40,000 for clauses 17C, 17C1/2, and 17D, but each defines “assets” differently.

<sup>4</sup> St. 1986, c. 73

<sup>5</sup> St. 1995, c. 181

<sup>6</sup> St. 2000, c. 380

<sup>7</sup> With specified caveats, asset ceiling may reach \$40,000/single and \$45,000/married.

<sup>8</sup> Clause 41B allows income ceilings of \$10,000/single and \$12,000/married; asset limits are \$20,000 and \$23,000.

41C allows income ceilings at \$13,000/single and \$15,000/married; asset limits are \$28,000 and \$30,000.

<sup>9</sup> St. 2000, c. 380

Subsequent to our last report, the Legislature amended Clause 41C to provide five additional local options to expand eligibility and increase the exemption amount.<sup>10</sup>

Pursuant to “new 41C,” communities may vote to provide one, more, or all of the following adjustments:

- Reduce the eligibility age from 70 to 65;
- Increase the \$500 exemption to any amount from \$501 to \$1,000;
- Increase the income ceilings to as much as \$20,000/single and \$30,000/married;
- Increase the asset limit to as much as \$40,000/single and \$55,000/married;
- Exclude the value of a home with as many as four units from determination of assets.

*At times in this report we refer to this collective group as the “Clause 41s.”*

**Clause 41A Deferral: G. L. c. 59, s. 5, clause 41A**

Clause 41A is not subject to local acceptance. It applies in every community, and allows qualified individuals age 65 and over to enter into tax deferral and recovery agreements to postpone payment of property taxes until the property is sold. The 41A income eligibility ceiling is \$20,000, unless the community votes to allow a ceiling up to \$40,000.<sup>11</sup> Interest is charged on deferred amounts at the rate of 8% per year.

**Work-Off Program: G. L. c. 59, s. 5K**

In 1999, the Legislature authorized cities and towns to vote to accept Section 5K to offer residents age 60 and over the opportunity to reduce their property tax obligation by as much as \$500 in exchange for community service.<sup>12</sup> A 2002 amendment authorized communities to increase the work-off limit by any amount up to \$750.<sup>13</sup> The hourly credit for this work may not exceed the state’s hourly minimum wage rate.

**Circuit Breaker Program, G. L. c. 62, s. 6(k)**

Also in 1999, the Legislature established the Circuit Breaker program to offer eligible homeowners and renters age 65 and over a state income tax credit, or refund if no taxes are owed. The eligibility criteria and the maximum allowed annual credits are indexed to inflation. For 2004, a maximum credit of \$820 is available, with income limits set at \$44,000/single and \$66,000/married; assessed value of the property may not exceed \$441,000. The benefit for a given individual is the amount by which property taxes plus one-half of water and sewer payments exceed 10% of the taxpayer’s income – up to the maximum annual allowance. Renters may qualify if 25% of rent payments exceed 10% of income – up to the maximum annual limit. As a state-level program, Circuit Breaker is available without regard to the city or town in which a taxpayer resides, and does not impact local revenues.

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<sup>10</sup> St. 2002, c.184, s. 51.

<sup>11</sup> St. 1991, c.138

<sup>12</sup> St. 1999, c. 127, s. 59

<sup>13</sup> St. 2002, c. 184, s. 52

### *Notes on Combining Benefits and State Reimbursement*

As a general rule, senior citizens are entitled to one property tax exemption and may not combine benefits from the various clauses.<sup>14</sup> Nonetheless, a qualifying senior may take advantage of whichever of the Clause 17s or Clause 41s is in effect in their community, and then defer the remainder under a Clause 41A agreement. The Section 5K work-off program is available in combination with any of these other tax breaks. For example, a qualifying senior might receive a Clause 41 \$500 exemption, work off an additional \$750 worth of taxes if the senior's community voted to provide the maximum Section 5K allowance, then defer the remainder under Clause 41A. Finally, a qualifying senior may access the state Circuit Breaker program (as much as \$820 in 2004) in addition to any of the local benefits, but the value of any tax relief supplied locally will not be counted as "taxes paid" in Circuit Breaker calculations. Combining the standard value of the local Clause 41 exemption, the maximum work-off benefit and the maximum state Circuit Breaker credit could result in total property tax relief of \$2,070 – more than 70% of the state median property tax bill for 2004.

The state fully reimburses communities for exemptions granted under the original, mandatory Clause 17 and Clause 41, but provides no additional assistance for the increased numbers or amounts of exemptions granted under the more inclusive and/or generous local option clauses. The reimbursement rules are discussed more fully later in this report.

Since our 1998 report, the Legislature has established two new programs, work-off and Circuit Breaker, and provided new options to communities to increase the value of senior tax exemptions and expand the eligibility limits to encompass more individuals. These enactments allow each city and town to choose to implement one or more of as many as 8 different adjustments to existing relief provided by the community. Combined with the 8 options that predate 1998, **cities and towns may now choose from as many as 16 local option provisions governing senior property tax relief.** Even though state reimbursement issues have not been addressed directly, enactment of the state Circuit Breaker program provides expanded eligibility criteria and greater relief to senior property taxpayers – with no adverse impact on local revenues. The next section of this report shows trends in utilization of the five senior property tax relief programs.

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<sup>14</sup> G. L. c. 59, s. 5 provides exceptions to this rule for Clause 18A deferrals (financial hardship), and Clause 45 exemptions (solar or wind powered energy systems.)

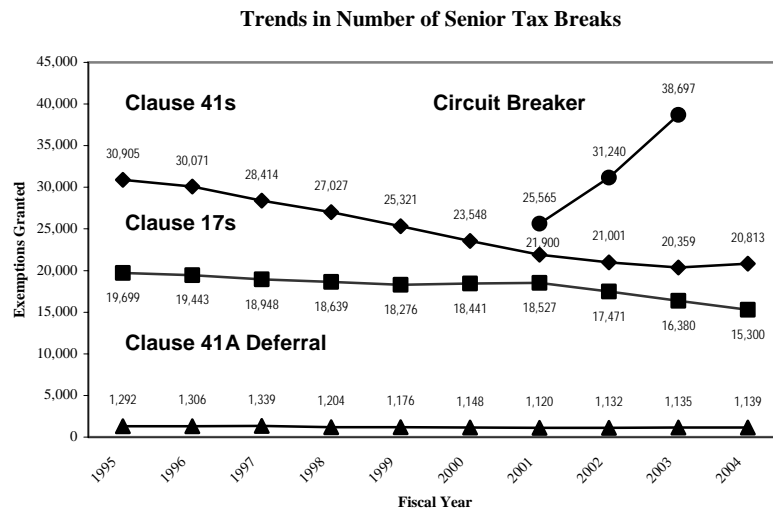


## SECTION 2

### STATEWIDE TRENDS

This section reports statewide trends in the number and dollar value of four of the five senior property tax relief programs. Only one year's worth of data is available for the volunteer work-off option, so there are no reportable trends, per se. DLM developed the one year of data on this program through a telephone survey of local assessors and councils on aging; in most cases, this data reflects fiscal 2004 experience, and is discussed at the end of this section. The Department of Revenue's (DOR) Division of Local Services provided data for the local exemption and deferral statutes, clauses 17, 17C, 17C1/2, 17D, 17E, 41, 41A, 41B, 41C, new 41C, and 41D covering the 10-year period from 1995 through 2004.<sup>15</sup> The DOR Office of Tax Policy Analysis provided the data for the state Circuit Breaker program covering tax years 2001 through 2003. **Figure 1** shows utilization trends derived from this data, and **Appendices 1 and 2** show the type, number, and value of exemptions granted in each community.

**Figure 1**



*While utilization of the senior property tax deferral program has remained relatively static over time, the traditional local option exemption statutes are serving fewer Massachusetts seniors each year, and Circuit Breaker credits have increased dramatically. A more detailed discussion of experience under each of these programs follows.*

<sup>15</sup> Database current through November 8, 2004, excluding 9 communities that had not filed complete reports with DOR as of that date, and excluding 11 municipalities that granted no exemptions in 2004.

***After Only Three Years' Experience, the State Circuit Breaker Program Provides More Property Tax Relief for More Seniors Than the Four Local Programs Combined.***

In contrast to the decline in the number of local property tax exemptions and a low, steady trend for deferrals, the number of seniors receiving the Circuit Breaker state income tax credit increased from 25,565 in its first year, 2001, to 38,697 in 2003, an increase of 51% over the period. In just three years the Circuit Breaker has become the largest of the five major programs. With \$23.8 million in total claims for tax year 2003, this program now provides greater tax relief to seniors than the \$20.9 million combined value of the Clause 17s, the Clause 41s, property tax deferrals, and volunteer work-off programs. The maximum allowed credit has grown from \$385 in 2001 to \$820 in 2004, an increase of 113%.

***10,000 Fewer Seniors Received Clause 41 Exemptions In 2004 Than In 1995.***

The sharpest decline is in the number of the various Clause 41 exemptions. Over the period, the number of these exemptions fell from 30,905 in 1995 to 20,813 in 2004, a decrease of 33%. The State Auditor, local officials, and the General Court have attributed the decline to income and asset ceilings that essentially had remained at 1986 levels<sup>16</sup> until significant numbers of municipalities voted to increase Clause 41C thresholds pursuant to legislative authorization in 2002<sup>17</sup>. Because qualifying criteria stayed at 1986 levels for so long, approximately 10,000 fewer Clause 41 exemptions were granted in 2004 than in 1995.

It is important to note that the downward trend begins to slow in 2003, after the Legislature authorized communities to vote to increase the qualifying criteria. In 2004, the number of exemptions under the Clause 41s increased by 454 (2%), the first increase in over 10 years. A major factor in this change in direction is that 119 cities and towns voted to adopt one or more of the several new options to expand eligibility and increase the value of the standard \$500 exemption.

Among this group, 110 increased the income eligibility limit, with 91 adopting the maximum allowed level of \$20,000 single/\$30,000 married. Of the same group, 97 voted to increase the asset limit, with 84 approving the maximum limit of \$40,000 single/\$55,000 married. Moreover, 74 of these cities and towns lowered the age of eligibility for the Clause 41C exemption from 70 to 65, further widening eligibility, thereby increasing current and future 41C applications.

The new Clause 41C also provides a local option to increase the exemption to any amount between \$501 and \$1,000. A total of 76 communities voted to raise the exemption amount, with 46 of them adopting the maximum of \$1,000. The average Clause 41C exemption for this group of municipalities is \$885. The acceptances to date have already had an impact on the statewide data. The average dollar amount for all Clause 41 exemptions statewide rose from \$543<sup>18</sup> per exemption in 2002 to \$601 in 2004. However, across all communities, the

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<sup>16</sup> Note that St. 2000, c. 380 added Clause 41D, allowing communities to vote to increase eligibility ceilings pursuant to the increase in the Consumer Price Index. Since only 20 municipalities voted to accept Clause 41D, this measure had little impact on participation rates.

<sup>17</sup> St. 2002, c. 184, s. 51 amending G.L. c. 59, s. 5, Clause 41C, known as "new 41C."

<sup>18</sup> As noted in our 1998 report, 26 cities and towns increased the Clause 41C exemption amount under a statute allowing municipalities to vote to increase all G.L. c. 59, s. 5 exemptions by up to 100%. See St. 1986, c. 73.

most frequently occurring Clause 41 exemption amount is still \$500, the mathematical mode. **Appendix 3** shows the details of new Clause 41C acceptance. Fiscal 2004 amounts granted under the various Clause 41s exceed \$12.5 million.

***Nearly 4,400 Fewer Individuals Received Clause 17 Exemptions in 2004 Than in 1995.***

Over the 1995 – 2004 period, the number of exemptions under the various Clause 17s declined by 22%, from a high of 19,699 in 1995 to 15,300 in 2004. Most of the decrease occurred in the final four years. This decline occurred despite approval of Clause 17E by the Legislature in 2000.<sup>19</sup> Clause 17E authorizes cities and towns to vote to expand eligibility by increasing the Clause 17 asset ceiling according to the Consumer Price Index annually. DOR data indicates that only 18 municipalities have voted to accept Clause 17E. Most communities (240) operate under Clause 17D that sets the asset eligibility ceiling at the flat rate of \$40,000, not including the value of a domicile with as many as three units.

Since authorized in 1986, 36 communities voted to increase the standard \$175 Clause 17 exemption by as much as 100%.<sup>20</sup> A 1995 act<sup>21</sup> allows for a vote to apply an annual cost of living adjustment to the standard amount, but the data does not identify which cities and towns may have accepted this provision. As a result, the average 2004 Clause 17 exemption is \$230, but the amount most commonly provided across the state remains at \$175, the mathematical mode. Fiscal 2004 amounts exempted under the various Clause 17s exceed \$3.5 million.

***Use of the Tax Deferral Program Has Remained Low over the Last 10 Years.***

Over the period, the number of Clause 41A property tax deferrals granted from year to year has not varied significantly, going from 1,292 deferrals in 1995 to 1,135 in 2004. Use of this program peaked in 1997, with 1,339 seniors deferring all or part of their property taxes until their home is sold. Utilization of this program remains low, despite the fact that it could provide the greatest immediate tax relief to fixed income seniors. Factors contributing to the low rate of usage include the reluctance of seniors to pass this debt onto heirs, and annual interest rates of 8% charged on deferred amounts. Nonetheless, seniors electing this option deferred over \$3.5 million in property taxes in 2004, averaging approximately \$3,100 per person.

***Over 2,400 Seniors Worked Off \$1.3 Million in Property Taxes in 2004.***

As noted earlier, DLM developed one year of data on experience under the senior work-off program through a survey of local assessors and councils on aging. This data shows that 153 communities have accepted the program and 129 communities had actually implemented the option as of the time of our calls. Respondents reported that a total of 2,443 individuals age 60 and over worked off \$1,310,784 of their property tax obligations, averaging \$537 per person.

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<sup>19</sup> St. 2000, c. 380.

<sup>20</sup> See footnote above regarding St. 1986, c. 73.

<sup>21</sup> St. 1995, c.181. Note: if a community had previously voted to increase the \$175 exemption per Chapter 73, the Chapter 181 increase would be applied to that higher amount.

***Senior Tax Relief under the Five Programs Exceeded \$44.6 Million in 2004.***

**Table 1** shows the amounts of property tax relief afforded senior citizens under each of the five programs in 2004. The state Circuit Breaker program provided over half of the combined total.

**Table 1**

**Amount of Senior Tax Relief  
Under Five Programs: 2004**

<b>Senior Tax Relief Programs</b>	<b>Tax Relief Amount</b>	<b>Percent of Total</b>
<b>Circuit Breaker</b>	<b>\$23,764,299</b>	<b>53%</b>
<b>Clause 41s</b>	<b>\$12,508,878</b>	<b>28%</b>
<b>Clause 17s</b>	<b>\$3,520,579</b>	<b>8%</b>
<b>Deferral</b>	<b>\$3,529,799</b>	<b>8%</b>
<b>Work Off</b>	<b>\$1,310,784</b>	<b>3%</b>
<b>Total</b>	<b><u>\$44,634,339</u></b>	<b>100%</b>

**The \$44.6 million in senior property tax relief amounts to less than 1% of the nearly \$6.4 billion in property taxes paid on residential properties in 2004.**

## SECTION 3

### BROAD DISPARITY IN LOCAL OPTION BENEFITS FOR SENIORS

As shown by the utilization trends, there is a wide disparity in the amount of property tax relief available to seniors, depending upon the community in which the senior resides. There are two statewide programs that function without regard to residence, the Circuit Breaker program, and the property tax deferral program. Beyond these, there is a complex and inconsistent menu of tax relief for seniors. *The benefit in any given community depends upon which combination of the 16 possible local option provisions is in effect.* Accordingly, seniors of identical age and financial condition residing in neighboring communities are likely to receive different benefits – or no benefit at all – depending upon the level of municipal acceptance.

#### ***The Minimum Abatements Relieved 6% (under Clause 17) or 17% (under Clause 41) of the 2004 Median Tax Bill.***

In cities and towns that have not voted to accept any of the more generous and/or inclusive statutory options, the minimum property tax break for qualifying individuals age 70 and over is either \$175 (Clause 17) or \$500 (Clause 41). With relatively low asset and income ceilings<sup>22</sup>, dwindling numbers of people qualify under these clauses. DOR data indicates that 3 towns in this group provided Clause 17 exemptions to 11 individuals in 2004, abating about 6% of the median property tax bill that year, \$2,891. The data also shows that 11 municipalities provided Clause 41 exemptions to 91 individuals, abating approximately 17% of the 2004 state median property tax bill. A total of 11 small communities provided no local abatements in 2004.<sup>23</sup>

#### ***The Maximum Relief Could Reduce the 2004 Median Tax Bill by 60%.***

A combination of local option votes would result in the greatest property tax relief for seniors at the municipal level. This combination would include acceptance of each of the five elements of the 2002 amendments to Clause 41C<sup>24</sup>. Primary among these is increasing the amount of the exemption to \$1,000. Chapter 73 of the Acts of 1986 also allows communities to increase the base exemption up to \$1,000, but only for persons age 70 and over. Additionally, a city or town may vote to allow those age 60 and over to work off as much as \$750 of their tax liability, by accepting G. L. c. 59, s. 5K. Combining section 5K with either “new 41C” or Chapter 73 of the Acts of 1986 would provide the maximum local option benefit, \$1,750, to relieve approximately 60% of the 2004 median property tax bill. The data indicate that 29 communities have voted to provide the maximum Clause 41 exemption and to provide the work-off opportunity.

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<sup>22</sup> Clause 17 has no income ceiling and a defined asset limit of \$20,000. The Clause 41 income ceiling is \$6,000/single, \$7,000/married, with asset limits of \$17,000/\$20,000.

<sup>23</sup> This would be because no one qualified or applied.

<sup>24</sup> “New” Clause 41C is more fully described on page 3.

**There Are 101 Different Tax Break Amounts under the Various Clause 17s and 41s.**

As explained above, tax breaks under the various Clause 17s and Clause 41s range from \$175 to \$1,000. In between these extremes, across all communities there are 54 different amounts granted under the various Clause 17 options, and 47 under the various Clause 41 options. The different values may be a function of the point back in time a given community may have voted to apply a percentage increase to an exemption; one may have chosen a 5% increase, and another a 100% increase. Differences also arise from accepting the option to apply cost of living increases to the exemption, and the compounded effect over different time periods<sup>25</sup>. **Table 2** shows the number of cities and towns providing tax breaks in various ranges of value. **Appendix 4** shows specific amounts for each city and town.

**Table 2**

**Number of Communities and Levels of Senior Tax Exemptions: 2004**

Clauses 41, 41B, 41C, and "New 41C" Average Tax Exemption		Clauses 17, 17C, 17C1/2, and 17D Average Tax Exemption	
Exemption Value Range	Number of Communities	Exemption Value Range	Number of Communities
\$1,000	43	\$500	2
\$900 - \$999	6	\$400 - \$499	6
\$800 - \$899	6	\$300 - \$399	24
\$700 - \$799	24	\$200 - \$299	55
\$600 - \$699	12	\$175 - \$199	184
\$500 - \$599	239		

Even though these wide variations exist, the minimum allowances under the Clause 17s and Clause 41s are the most common across communities, and therefore determine the value of local tax relief for the majority of seniors. Accordingly, most seniors who qualify under the Clause 17s have their property taxes reduced by 6% (\$175), and under the Clause 41s property taxes are reduced by 17% (\$500).

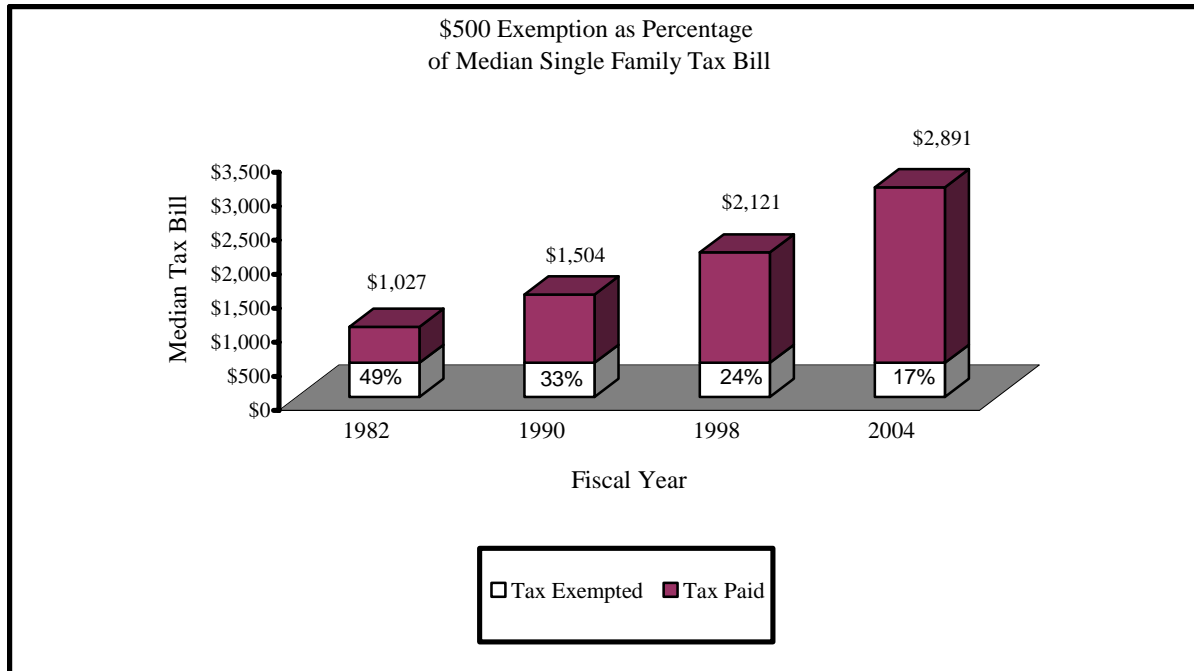
***Present Day Seniors Bear a Greater Tax Burden Than Prior Generations Under Local Programs.***

Although the average value of senior tax relief at the local level has remained fairly static since the 1970s, average property tax bills have multiplied, so that today's seniors bear a greater tax burden than predecessors. In 1977, the Legislature increased the Clause 41 exemption from \$350 to \$500, so that on average, seniors were relieved of about 50% of their

<sup>25</sup> St. 1986, c. 73 allows communities to increase the base exemption under any of the Clause 17s and/or Clause 41s by up to 100%. St. 1995, c. 181 allows an annual cost of living adjustment to the clause 17s. If a community had previously increased the base \$175 Clause 17 exemption per Chapter 73, any Chapter 181 increase would be applied to that higher amount.

property taxes. Since 1982, the \$500 exemption has abated a diminishing proportion. See **Figure 2**.

**Figure 2**



**An average exemption of approximately \$1,446 would be required to provide present day seniors a comparable rate of property tax relief that cities and towns provided prior generations.**

***Eligibility Criteria Vary Widely.***

Just as the value of property tax relief varies from community to community, the standards for qualifying for the tax breaks vary – again, depending upon which clauses a community may have voted to accept. There are five different “17s”: 17, 17C, 17C1/2, 17D, and 17E, each with a distinct qualifying asset limit. These range from \$20,000 to \$40,000, with additional caveats. For example, most (241) communities have accepted Clause 17D, specifying that the \$40,000 asset limit does not include the value of the domicile when it is a one-, two-, or three family home. By illustration, a 70-year-old with assets of \$35,000 with a three-family home qualifies if his home is in Town A, which has accepted Clause 17D. But his 70-year-old friend with the same assets and a three-family home in Town B does not qualify, because Town B operates under Clause 17C.

Similarly, cities and towns may choose among five different Clause 41s: 41, 41B, 41C, new 41C, and 41D, each with distinct qualifying income and asset limits. The income ceilings range from \$6,000 to \$20,000 for single individuals, and asset limits span from \$40,000 to \$55,000. Most (301) communities have voted to accept one of the Clause 41Cs, but the data

do not distinguish between those using the “old” (income limit at \$13,000/single) and the “new” (income limit at \$20,000/single) 41C.

Another factor of inconsistent eligibility standards is the qualifying age limit. The data show that just over 20% of the cities and towns have voted to accept the new Clause 41C standard age of 65. **All other factors being equal, individuals in these 74 communities qualify five years earlier than peers who live in towns that have not accepted this element of the new Clause 41C.**<sup>26</sup>

***Eligibility Standards Have Not Kept Pace with Inflation.***

Income eligibility limits for the state Circuit Breaker program are indexed to inflation and set at \$44,000 (single) and \$66,000 (married) for tax year 2004. Measured against this standard, even the most inclusive eligibility ceilings for local property tax exemptions lag far behind, so that more seniors become ineligible over time. In 2000, the Legislature added clauses 17E and 41D<sup>27</sup>, allowing communities to vote to apply a cost of living factor to the eligibility standards. The 2004 database shows that 18 communities accepted Clause 17E, and 20 adopted Clause 41D<sup>28</sup>, so that the vast majority of cities and towns have no provision to adjust these standards relative to inflation.

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<sup>26</sup> **Appendix 3** shows which cities and towns have accepted each of the five elements of new Clause 41C.

<sup>27</sup> St. 2000, c. 380

<sup>28</sup> **Appendix 1** shows which communities have accepted clauses 17E and 41D.



## SECTION 4

### BROAD DISPARITY IN STATE REIMBURSEMENTS TO CITIES AND TOWNS

At one time 100% funded by the Commonwealth, the overall rate of present-day reimbursement for local exemptions granted under the various Clause 17s and Clause 41s has declined. State aid of approximately \$12.1 million offsets approximately 76% of the \$16 million in tax relief cities and towns granted to senior citizens under these clauses in fiscal 2004. This shortfall is the result of statutory aid restrictions that limit reimbursement for communities that vote to provide the more generous local option tax breaks.<sup>29</sup> Although many communities receive less than their local expenditures, **these restrictions also result in some cities and towns receiving more state aid than they actually grant in senior tax exemptions.** Municipalities that are negatively impacted share a combined \$3.9 million shortfall, whereas others receive collectively just over \$424,000 more than they spend. This section describes these statutory restrictions and illustrates their inequitable impact on cities and towns. First, we show the local financial impacts for the Clause 17s and Clause 41s, separately, and then conclude this section showing the combined impact.

#### *The Reimbursement Limits*

The reimbursement limits for the vast majority of communities reach back to factors derived from the point in time when the only available senior property tax breaks were the basic, mandatory clauses 17 and 41 that were subject to full state reimbursement. The series of enactments beginning in the early 1980s that allowed communities to vote to offer more inclusive and/or generous benefits included language to limit the state's reimbursement obligations to pre-local acceptance levels. After widespread acceptance of the various local options, reimbursement for most cities and towns has been capped for over 20 years. As demographic and economic changes occurred over the last two decades, the longstanding reimbursement caps led to inequities across communities.

The reimbursement methodologies for the various Clause 17s and Clause 41s differ in one important aspect. While reimbursement for the optional Clause 41s is "capped" at pre-local acceptance levels, state aid for the optional Clause 17s is "frozen." A municipality that has accepted one of the local option Clause 41s will never receive more reimbursement than it received in the year prior to local acceptance, but reimbursement will decline in any year that fewer exemptions are granted. Reimbursement for the optional Clause 17s works differently. A municipality that has accepted a local option version of Clause 17 will never receive more or less reimbursement than it received in the year prior to local acceptance. Even if the community grants fewer exemptions in a given year, the amount of reimbursement does not change; it is in effect "frozen" regardless of exemption activity. DOR explains that the only exception to this rule is that in any year in which a municipality grants no Clause 17 exemptions, there is no

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<sup>29</sup>Relevant text at the end of G. L. c. 59, s. 5, local option clauses 17C, 17C1/2 and 17D provides that state reimbursement shall equal the amount of aid the community received in the last year it operated under the mandatory clause 17. Text at the end of clauses 17E and 41D states: "Acceptance of this clause by any city or town shall not increase its reimbursement by the commonwealth under this section." Text at the end of Clause 41 provides that the number of exemptions to be used for aid computations in cities and towns that voted to adopt more inclusive local option eligibility standards shall not exceed the number the community granted in the last year it operated under mandatory Clause 41. St. 1986, c. 73, s. 4 provides that the amount of reimbursement per exemption shall not exceed the amount otherwise payable under the basic Clause 17 or Clause 41.

“reimbursement.” If even one exemption were granted in a subsequent year, state reimbursement would be restored to the amount allotted prior to local acceptance. These rules have led to unintended and inequitable results.

### *The Clause 17s*

#### **A Total of 47 Cities and Towns Collectively Receive \$500,000 More in State Reimbursement Than They Grant in the Various Clause 17 Exemptions.**

The 2004 data shows that 271<sup>30</sup> municipalities granted approximately \$3.5 million in senior tax relief under clauses 17, 17C, 17C1/2, 17D and 17E, and received approximately \$2.4 million in state reimbursement. On these exemptions, the overall reimbursement rate is approximately 68%. For eight communities, state reimbursement equals the precise amount of local expenditures, consistent with historical practice. The remaining communities fall into three groups: 47 that receive more than 100%, 197 that receive some assistance but less than 100%, and 19 that receive no assistance.

Because they grant fewer exemptions today than in their last year of participation under the original, mandatory Clause 17, 47 communities receive more than they spend. This group grants 3,283 exemptions under the various optional Clause 17s, providing almost \$700,000 in senior tax relief. Yet the state distributes almost \$1.2 million to this group, approximately \$500,000 more than they actually spend. Overpayments range from minor amounts, i.e. \$50, to more significant amounts, i.e. \$92,437, and average \$10,663 across the group. The majority, 32 of this group, gets 150% or more of what they spend.

#### **A Total of 197 Communities Receive Approximately \$1.6 Million Less in State Reimbursement Than They Grant in the Various Clause 17 Exemptions.**

This group receives less than they spend because they grant more exemptions under one of the various local option versions of Clause 17 than they did under the original, mandatory Clause 17. This group grants 11,691 exemptions under the Clause 17s, providing approximately \$2.8 million in senior tax relief against reimbursement approaching \$1.2 million. Consequently, this group shares a \$1.6 million reimbursement deficiency. The overall rate of reimbursement for this group is approximately 43%. Shortfalls range from minor amounts (e.g., \$13) to significant amounts (e.g., \$419,414) and average about \$8,000. The Commonwealth reimburses the vast majority, 140 of these communities, less than 50% of their expenditures.

#### **A Total of 19 Small Towns Receive No State Assistance for Nearly 300 Exemptions.**

Regardless of the number of exemptions they might grant under any of the optional Clause 17s, this group will never be eligible for state assistance, because they granted no exemptions in their last year under the mandatory Clause 17.<sup>31</sup> Any state reimbursement is frozen at the amount allotted pre-local acceptance, which in these cases was zero. This group granted 279 exemptions in 2004, providing senior tax relief exceeding \$55,000. In most cases the present impact is negligible, less than \$1,000. For three of this group, the shortfall exceeds \$10,000.

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<sup>30</sup> This number is fewer than 351, the total number of cities and towns, because it includes only those that granted exemptions under the Clause 17s in 2004 and excludes others to reconcile to our November 2004 database.

<sup>31</sup> This is likely because no one met the eligibility standards or applied at that time.

### **Illustration of Disparity for Two Cities: One Gets 220%, the Other Less Than 1%.**

A comparison of the data for two similar cities illustrates the disparities caused by the reimbursement freeze. These are contiguous communities with similar demographics, and both offer a \$175 exemption under Clause 17D. Yet one is reimbursed 220% of its exemption costs, whereas its neighbor receives less than 1%. **Table 3** displays the relevant data.

**Table 3**

#### **2004 Clause 17D Reimbursement Inequity for Two Selected Cities**

City	cl.17D Cap	cl.17D Exemptions Granted	cl.17D Cost	cl.17D Reimbursement	cl.17D Reimbursement %
X	486	221	\$ 38,675	\$ 85,120	220%
Y	2	348	\$ 60,900	\$ 350	1%

The City of “X” granted 221 clause 17D exemptions in 2004. At \$175 per exemption, City X’s seniors received \$38,675 in property tax relief. However, City X was “reimbursed” \$85,120, or \$385 per exemption. In contrast, the City of “Y” granted more exemptions, 348, amounting to \$60,900 in tax relief yet received less reimbursement, only \$350, or about \$1 per exemption.

This inequitable situation results from the statutory restriction on reimbursement calculations that freeze state aid for exemptions under the clause 17s at the pre-local acceptance levels. Regardless of actual activity, aid for the City of X is based upon 486 exemptions. This is the number of exemptions granted in City X under the original, mandatory clause 17 in 1982, the year prior to adoption of a more inclusive local option. Similarly, aid for the City of Y is based upon two exemptions, the number granted in that community before it voted to adopt a more inclusive local option provision in 1983.<sup>32</sup>

#### ***The Clause 41s***

### **Just Over Half of the Municipalities Receive 100% Reimbursement, While the Others Average 57%.**

Much like the Clause 17s, many communities granting exemptions under the Clause 41s receive less than full reimbursement, and others are fully reimbursed. However, unlike the Clause 17s, “over-reimbursement” on the Clause 41s is not an issue due to differences in the statutory reimbursement language.<sup>33</sup>

The 2004 data shows that 330 municipalities granted approximately \$12.5 million in senior tax relief under clauses 41, 41B, 41C, new 41C, and 41D, and received approximately \$9.8 million in state reimbursement. For these exemptions, the overall reimbursement rate is 78%.

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<sup>32</sup> As noted above, the exception to this rule is if any community grants zero Clause 17 exemptions in a given year, it will receive no aid in that year.

<sup>33</sup> See footnote 29.

Of these communities, 180 receive 100% reimbursement, while the remaining group of 150 average 57%. The fully reimbursed group granted over 12,000 exemptions under the various Clause 41s, providing approximately \$6 million in senior tax relief. The average tax relief per exemption for this group is \$500, the minimum legal amount; the average reimbursement per exemption is \$502.<sup>34</sup> Total local expenditures, and hence reimbursements, for this group range from \$502 to about \$360,000.

The 150 cities and towns that receive less than full reimbursement share a combined deficiency of approximately \$2.8 million. As documented in our 1998 report, a community operating under any of the local option Clause 41s will have a reimbursement deficiency if it: (1) grants a number of exemptions exceeding the reimbursement cap, and/or (2) grants exemptions above the \$500 statutory minimum. This group grants approximately 8,700 exemptions worth approximately \$6.5 million and receives about \$3.7 million in state assistance, for a reimbursement rate of 57%. Averaging about \$750 per exemption, these communities provide a greater tax relief benefit per exemption than the fully reimbursed group, yet receive about the same reimbursement per exemption, \$502.

***The Combined Impact***

As noted at the beginning of this section, the overall rate of state reimbursement combined for the various exemptions under the Clause 17s and Clause 41s has declined from 100% in the early 1980s to approximately 76% today. **Table 4** shows the total value of these exemptions and state reimbursements for 2004, with the deficiency in state reimbursements approaching \$3.9 million. **Appendix 5** shows these amounts for each city and town.

**Table 4**

**Total Exemptions Granted and Reimbursement  
2004**

	Clause 17s	Clause 41s	Total
<b>Exemptions Granted</b>	\$ 3,520,579	\$ 12,508,878	\$ 16,029,457
<b>Exemption Reimbursements</b>	\$ 2,364,099	\$ 9,775,956	\$ 12,140,055
<b>Unreimbursed Amount</b>	\$ (1,156,480)	\$ (2,732,922)	\$ (3,889,402)
<b>Reimbursement Percent</b>	76%		

Under all of the Clause 17s and Clause 41s, communities granted over 36,000 exemptions, at an average of \$443. The average reimbursement per exemption was \$335.

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<sup>34</sup> Reimbursement for the Clause 41s includes an extra \$2 per exemption to help offset administrative expenses.

### **Combined Reimbursement Rates Range from 382% to Less Than 1%.**

Even excluding the upper and lower extremes from this range, the disparity in the combined rates of state reimbursement remains wide, from almost 170% to about 9%. As a result of the statutory freeze on state aid for the Clause 17s, a group of 73 cities and towns receives \$424,000 more than they spend for senior property tax relief. The average rate of overpayment for this group is 113%, with one city receiving over \$71,500 more than its expenditures.

Whereas five communities receive precisely 100% of their expenditures, a group of 253 receive less than 100%. The greatest shortfall for a single community approaches \$700,000, and exceeds \$4.3 million for this group. The average rate of under-reimbursement is 66%.

The combined reimbursement rate in approximately one-third of the cities and towns clusters within the 90% to 110% range, whereas the rates for two thirds of communities reach greater extremes. **Table 5** shows the number of municipalities receiving various levels of state reimbursement for exemptions granted under the various Clause 17s and Clause 41s.

**Table 5**

**2004 Reimbursement Rates  
Clauses 17, 17C, 17C1/2, 17D, 17E, 41, 41B, 41C, New 41C, and 41D**

<b>Reimbursement Percent Range</b>	<b>Number of Municipalities</b>
<b>100% - 382%</b>	<b>78</b>
<b>80% - 99%</b>	<b>86</b>
<b>60% - 79%</b>	<b>72</b>
<b>40% - 59%</b>	<b>58</b>
<b>20% - 39%</b>	<b>30</b>
<b>&lt;1% - 19%</b>	<b>7</b>

The next and final section of this report offers recommendations to address these inequities.

## SECTION 5

### RECOMMENDATIONS

#### 1. CONSOLIDATION OF CURRENT PROGRAMS

As this report demonstrates, the evolving patchwork of laws to provide property tax relief for seniors has resulted in widespread inconsistencies and inequities in two distinct areas. One is the broad disparity in tax relief offered to seniors from one community to the next, and the erosion of the value of these benefits over time. The other is the broad disparity in state reimbursements to cities and towns, and the burden on other property taxpayers. Adding another layer of benefits to be provided at local option would only enlarge these inequities.

The local option approach creates, by its very nature, an unbalanced system. Prior to the creation of the Circuit Breaker program, the state placed the burden of any additional benefits on cities and towns. This cap on state reimbursements has served as a disincentive to local adoption of more inclusive eligibility standards and increased exemption amounts for seniors. Any expansion of local relief for seniors resulted in a shift of property tax burdens to other taxpayers. This approach creates significant conflict between seniors and other property owners when addressing the competing interests of senior property tax relief and funding for local services.

Accordingly, **we recommend that the existing menu of local option benefits for seniors be replaced with a single, standardized, state-funded program, with variables indexed to inflation.** This menu includes G. L. c. 59, s. 5, clauses 17, 17C, 17C1/2, 17D, 17E, 41, 41B, 41C, new 41C, and 41D. In keeping with the original legislative intent, the value of the average benefit should approximate 50% of the state average property tax bill: 50% of the fiscal 2004 median bill of \$2,891 is \$1,446. Any reform should also include a hold harmless provision to assure that no senior that presently receives a local property tax benefit would receive less under the new program.

A ready means to implement such a program would be to expand upon the existing mechanisms of the state Circuit Breaker Law at G. L. c. 62, s. 6(k). As described earlier, this program provides either a credit against state income taxes due or a direct state payment to eligible persons age 65 and over if the assessed value of their home does not exceed an established ceiling, \$441,000 for calendar year 2004. Current eligibility criteria include income limits for single filers at \$44,000 and for married filers at \$66,000. Because the law provides for annual inflation adjustments for these and other related factors, the Circuit Breaker income eligibility criteria would encompass every senior that presently meets the income eligibility criteria under any of the current local option laws their community may have adopted. Proposals currently under discussion to increase the eligibility ceiling for home value would ensure that very few seniors who already receive a local tax break would be ineligible under Circuit Breaker standards.

As explained earlier, the Circuit Breaker Law provides that qualifying seniors may receive a tax break equal to the *lesser* amount of either A or B. A equals \$820 in 2004. B equals the amount by which their property tax bill plus one half of their water/sewer bill exceeds 10% of their income. To reflect the historical legislative position to relieve a fixed percentage of the average property tax bill, it would be necessary to amend the calculation of the Circuit Breaker credit.

For qualifying seniors, the tax break could be allowed for 50% of their local property tax bill, with an annual cap set at 50% of the state average property tax bill. Clearly, such a change would impact state obligations to the program.

**Table 6** shows experience in the number of Circuit Breaker filers, amount of credits, and cost to the Commonwealth for the first three years of the program under current law.

**Table 6**

**Historical Circuit Breaker Data**

Year	Number of Filers	Average Claim	Maximum Credit	Amount Claimed
2001	22,605	\$ 332	\$ 385	\$ 7,504,860
2002	27,599	\$ 589	\$ 790	\$ 16,255,811
2003	34,566	\$ 614	\$ 810	\$ 21,223,524

Source: Massachusetts Department of Revenue,  
 Statistics of Income, February 2005.

Note: Data Adjusted to Exclude Renters.

Based upon the most recent utilization data (tax year 2003), allowing a maximum Circuit Breaker credit of 50% of the state median property tax bill (\$1,446) would have increased the cost of the Circuit Breaker program by an estimated 87%, that is \$18.5 million. Yet the 11.9 million state dollars currently dedicated to local reimbursements could be reallocated to offset a portion of this increase, for a net new cost to the state of approximately \$6.6 million. This estimate assumes that even though the maximum credit would be \$1,446, not every filer would qualify for the maximum, resulting in an average credit of \$1,149.<sup>35</sup> Providing an average \$1,149 credit to the 34,566<sup>36</sup> seniors who filed for tax year 2003 yields the \$18.5 million.

Note that in its present form, there is significant annual growth in the number of Circuit Breaker filers, and hence, growth in cost to the Commonwealth. With no change in law, rough projections for 2004 are approaching 44,000 filers, at a cost to the state of as much as \$27.4 million.<sup>37</sup> To provide these filers a credit of 50% of their fiscal 2005 local property tax bill (capped at 50% of the state median) would require an estimated average of \$1,264<sup>38</sup> per filer, resulting in an additional cost to the state of \$28.2 million. The \$11.9 million currently dedicated to local reimbursements could be reallocated to offset a portion of this increase, for a net new cost to the state of \$16.3 million.

Forty-four thousand filers represent about 5% of the 860,000 individuals age 65 and over in Massachusetts. Even recognizing that large numbers of seniors are ineligible due to income and home value limits<sup>39</sup>, it is reasonable to expect that the Circuit Breaker participation rate will

<sup>35</sup> \$1,149 is the median of ½ of the value of fiscal 2004 single-family tax bills below ½ of the statewide median.

<sup>36</sup> This number is less than the 38,697 filers shown in Figure 1, because it only includes homeowners. It does not include the estimated percentage (12%) that are renters filing for Circuit Breaker credits, because this recommendation would not effect current law as it pertains to benefits for renters.

<sup>37</sup> Factors discounted to exclude estimated 12% of filers who are renters.

<sup>38</sup> \$1,264 is the median of ½ of the value of fiscal 2005 single-family tax bills below ½ of the statewide median, \$1,539.

<sup>39</sup> Additionally, many seniors live with their families or in subsidized housing.

continue to grow, even with no change in law. There is presently no means to measure the impact that this proposal may have on the participation rate, because it is not known how many of the approximately 36,000 seniors receiving local property tax exemptions are already taking advantage of the Circuit Breaker program, as well. Moreover, as property values grow, so will average property tax bills and the financial obligation of the Commonwealth under this proposal.

This report is being released at a point in time when there is widespread support among the Commonwealth's political leaders for increased senior property tax relief. However, in balancing other budgetary requirements, the Commonwealth might choose a phased-in approach to the 50% goal, or set a lower level of relief and reevaluate its position as a more precise financial impact is learned. **Table 7** shows the simulated cost to the state to implement this proposal at various levels of relief, based upon the 2004 projected rate of participation.

**Table 7**

**Net New Cost to the State  
Various Levels of Senior Property Tax Relief  
Applying 2004 Estimated Variables**

Estimated Variables	Percent Relief		
	Thirty	Forty	Fifty
<b>Expected Average Credit</b>	\$ 863	\$ 1,099	\$ 1,264
<b>Projected 2004 Participation</b>	44,000	44,000	44,000
<b>Cost of Proposal</b>	<u>\$ 37,972,000</u>	<u>\$ 48,356,000</u>	<u>\$ 55,616,000</u>
<b>Less: Estimated Obligation (If No Change in Law)</b>	\$ (27,400,000)	\$ (27,400,000)	\$ (27,400,000)
<b>Less: State Aid Offset</b>	<u>\$ (11,938,422)</u>	<u>\$ (11,938,422)</u>	<u>\$ (11,938,422)</u>
<b>Net New Cost to State</b>	<u>\$ (1,366,422)</u>	<u>\$ 9,017,578</u>	<u>\$ 16,277,578</u>

This simulation shows the estimated cost to the Commonwealth of providing credits equal to 30%, 40%, or 50% of the taxpayer's actual property tax bill, in each case with a maximum benefit cap equal to \$1,539, that is, 50% of the state average property tax bill for 2004 Circuit Breaker calculations.<sup>40</sup> Again, since every filer would not qualify for the capped, or maximum amount, expected average credits are used to determine the cost of the proposal at each level of relief. To isolate the incremental, new cost to the Commonwealth, the estimated 2004 state obligation to the Circuit Breaker program in its current form is subtracted. Finally, state dollars currently allocated to partial reimbursement for local tax relief programs, \$11.9 million, are used to offset part of the incremental cost. Due to this offset, even though the expected average credit under the proposal is greater than the average credit under the Circuit Breaker program in its current form, at the 30% level, the simulation shows the Commonwealth actually saving over \$1 million. However, such a result would not hold as the number of filers grows over time.

State assumption of the cost of senior property tax relief presently provided by cities and towns would result in a significant redistribution of both local and state spending. **Nearly \$4 million in**

<sup>40</sup> There are a number of cases where 30% or 40% of a property tax bill in a given town would exceed the target goal of providing relief equal to 50% of the state average property tax bill, hence the need for a cap.



**local revenues currently allocated for senior tax exemptions<sup>41</sup> would become available for other purposes.** For the first time in decades, cities and towns would not have their local property tax revenues offset by senior tax benefits, allowing for more accurate budget planning. Additionally, approximately \$12 million in state money currently spent for partial reimbursement for these local exemptions may be redistributed to help offset the increased cost of a revised Circuit Breaker program.

## **2. IMPROVING THE PROPERTY TAX DEFERRAL PROGRAM AND PUBLIC AWARENESS**

Under c. 59, s. 5., clause 41A,<sup>42</sup> qualifying seniors age 65 and over may enter into an agreement with local assessors to defer payment of property taxes until the property is sold. Currently, the law requires that interest be charged on deferred amounts at the rate of 8% per year, and deferred amounts may not exceed 50% of the property value. This benefit may be utilized in conjunction with other benefits.

Earlier in this report, we demonstrated that utilization of this program has remained low over the last 10 years, with 1,135 individuals participating statewide in 2004. It is widely recognized by legislators, administrative officials, and advocates that this program is significantly under-utilized in part due to the high statutory rate of interest. In its report entitled *Tax Classification Report as Required by Chapter 3 of the Acts of 2004*, the Department of Revenue recommended, among other things, that the law be amended to allow communities to charge a lower interest rate as they may see fit. We join the Department of Revenue and others in recommending local flexibility in setting the interest rate charged in conjunction with the property tax deferral program. In addition, we recommend that state and local agencies work to increase seniors' awareness of this program, as well as the property tax work-off program. This could be accomplished through mailings, websites, and coordination with local councils on aging and other senior advocacy groups.

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<sup>41</sup> This is the approximate amount that cities and towns spent that was not reimbursed by the state in 2004.

<sup>42</sup> Recall that Clause 41A is mandatory for all communities, not subject to local acceptance. There is, however, a local option provision to increase the mandatory income eligibility ceiling from \$20,000 to \$40,000.





## 2010 TAX RELIEF GUIDE FOR SENIORS

*Are you eligible?*

**Y**ou could be saving hundreds or even thousands of tax dollars each year, but you may not be not aware of the many breaks available. This publication, prepared by the **Sudbury Council on Aging**, can help you determine if you are eligible. This guide is for all homeowners aged 60 and older living in Sudbury. You can read it on line, or print it out as you choose.

### Available Local Exemptions

If you are a senior resident of Sudbury, you may qualify for one of the following local tax exemptions. However, since only one of these exemptions is permitted in any fiscal year, study them carefully, and choose the one that provides the maximum benefit to you.

- **Elderly person over age 65:** Exemption of **\$1,000**. [Click here](#) for details, or go to page 2.
- **Elderly person over age 70** or surviving spouse. Exemption of **\$273.56**. [Click here](#) for details or go to page 3.
- **Blind persons:** An exemption of **\$500**. [Click here](#) for details or go to page 3.
- **Disabled veterans:** Exemption from between **\$400** and a total exemption. [Click here](#) for more details or go to page 4.
- **Surviving spouse** of a police officer or fire fighter.

*In addition to any ONE of the exemptions listed above, eligible residents may add either or both of the following:*

- **Exemption** from the 3% surcharge for the Community Preservation Fund. [Click here](#) for more details or go to page 4.
- **Tax deferral.** [Click here](#) for more details or go to page 5.

*If you are eligible, the following additional local options may be considered:*

- An exemption of up to \$750 through the **Sudbury Senior Community Work Program.** [Click here](#) for more details or go to page 6.
- **Hardship exemption:** persons who are facing an unforeseen financial hardship and medical condition in a given year may request tax relief in the form of a *Clause 18 exemption*. The decision to grant this exemption is made solely at the discretion of the Assessor's Office.

Applications for all of the above local exemptions, with the exception of the Sudbury Senior Community Work Program, must be filed with the Assessor's Office between January 1 and May 3, 2010. Applications for the Community Work Program should be filed at the Senior Center before November 15 in order to apply for the following year.

### **Available State Exemption**

The *Senior Circuit Breaker Tax Credit* is administered by the Commonwealth of Massachusetts and can provide up to \$960 (in 2010). [Click here](#) for more details or go to page 6.

### **Elderly Person over 65**

An exemption of \$1,000 can be claimed from your property tax bill if you meet all of the following criteria:

- You are age 65 or older;
- Your gross receipts (2008 income) is not more than \$28,765 if single or \$43,148 if married.
- Your assets (things you own other than the home in which you live) are valued at less than \$49,215 if you are single or \$67,671 if you are married;

- You have lived in your Sudbury home for the past five years or more, and in Massachusetts for the past ten years or more.

In order to receive this exemption, called **Clause 41C**, you should complete an application and file it with the Assessor's office.

### **Elderly Person over 70**

An exemption of **\$273.56** can be claimed from your property tax bill if you meet all of the following criteria (there is no income eligibility requirement):

- You are age 70 or older or the surviving spouse of someone 70 or older;
- You have owned and occupied your Sudbury home for at least the last five years;
- Your assets (things you own other than the home in which you live) are valued at not more than \$52,706.

In order to receive this exemption, called **Clause 17E**, you should complete an application and file it with the Assessor's office.

### **Blind Persons**

Persons who are legally blind may receive an exemption of **\$500** from your property tax bill if you meet all of the following criteria (there are no income or whole estate restrictions):

- ☀ Annually, you must provide a *Certificate of Blindness* from the Massachusetts Commission on Blindness.
- ☀ You must own and occupy the property as your primary residence.

In order to receive this exemption, called **Clause 37A**, you should complete an application and file it with the Assessor's office.

## Disabled Veterans

Exemptions vary from **\$400** up to a **full exemption**. There are no income or asset restrictions. The parent of a serviceperson who lost his or her life during wartime is also eligible.

The eligibility requirements are:

- You must be a veteran or spouse, or a surviving spouse of a veteran.
- The veteran must have had a service-connected disability of at least ten percent (as verified by the Veteran's Administration) or must have been awarded the Purple Heart.
- The veteran must have lived in Massachusetts for at least the past five years or must have lived in Massachusetts for at least six months prior to entering the service.

In order to receive this exemption, called **Clause 22**, you should complete an application and file it with the Assessor's office.

## Community Preservation Fund (CPF) Surcharge Exemption

The Community Preservation Act provides funding for the purpose of preserving open space, historical preservation, and community housing projects and purchases. It is financed by a surcharge on property taxes with matching funds from the state.

For senior citizens, the eligibility requirements for full CPF exemption are as follows:

- ✿ You must be at least 60 years of age as of July 1 of the tax year.
- ✿ Your 2008 income must not have exceeded \$63,140 for single person households, \$72,160 for two-member households, and up to \$119,064 for an eight member household.

In order to receive this exemption you must complete an application and file it with the Assessor's office.

## Tax Deferral

Any or all of the property taxes assessed may be deferred (not exempted), with interest, until such time as the property is sold or transferred, or until the death of the owner, at which point the taxes and interest must be paid. The cumulative total of the taxes deferred cannot exceed 50% of the applicant's share of the assessed value of the property. For the year 2010, the interest rate is 2.5%, and it is simple, (not compounded) interest. There are no asset restrictions.

Eligibility requirements:

- You must be at least 60 years of age as of July 1 of the tax year.
- Your gross receipts (income) from all sources in the previous year cannot be more than \$74,000.

### *Why is this an attractive option?*

This deferral is, in effect, a low-cost alternative to a reverse mortgage, but without the high costs imposed by financial institutions. It enables you to take some of the equity out of your home and enjoy it now. Some important features are:

- The current interest rate is only 2.5%. While in future years this rate may change, the interest on any deferral you make now will remain at 2.5%.
- The interest is simple – not compound – interest. This means there is no “interest on the interest”. The savings from this can be significant over time.
- Real estate values in Sudbury have risen in most past years. While there is no guarantee that they will continue to rise, it is likely that the value of your estate will increase over time, even if you defer some or all of your taxes.





In order to receive a deferral, called **Clause 41A**, you should complete an application and file it with the Assessor's office.

## **Tax Work-Off Program (Sudbury Senior Community Work Program)**

This popular service program provides up to **\$750** of property tax relief to qualified people age 60 and older by placing them in a variety of jobs that support Town Departments.

Placements may occur in schools, library, the Senior Center, the Town Hall or Offices, the Department of Public Works, and other participating departments. Possible jobs include accepting and filing permits, word processing, data entry, general clerical work, organizing files, receptionist, collating and envelope stuffing, drafting, building maintenance (such as painting or repair), and technology jobs such as software installation, networking, and writing training manuals and procedures.

To be eligible you must meet the following criteria:

-  Own and live in a Sudbury home for which taxes are due;
-  Be age 60 or older;
-  Be willing to commit to 100 hours of service a year;
-  Have appropriate skills to work successfully in a Town department.

Applicants who meet eligibility requirements and have appropriate skills and qualifications will have a final interview with the department heads that will make the choice of applicants. *All qualities being equal, preference is given to those in greatest financial need.*

Applications should be filled out and returned to the Senior Center no later than November 15, for work to begin the next calendar year. Call the Senior Center at 978-443-3055 for more information. This program is administered through the Council on Aging.

## **Senior “Circuit Breaker” Tax Credit from the Commonwealth of Massachusetts**

If your property taxes plus 50% of your water charges are taking more than 10% of your gross income, you may be eligible for up to a \$960 credit from the state. There are no asset restrictions.



Eligibility criteria for 2008 are listed below (they will probably change for tax year 2009):

- You must be 65 years of age or older.
- The assessed value of your residence in 2007 is less than \$793,000.
- Your total income is less than \$49,000 for a single individual, \$62,000 for a head of household, or \$74,000 if married and filing jointly.
- The sum of your property taxes plus 50% of your water charges is greater than 10% of your gross income.

*How it works:*

As an example, if your gross income as a single person is \$35,000 per year, then 10% of that figure would be \$3,500. If the sum of your tax bill plus your water charge is higher than that, the state will reimburse you anything over \$3,500 – up to a maximum of \$930.

*How do you claim your reimbursement?*

Taxpayers who are eligible for the tax credit should claim the credit when they file their state income tax return. If you are eligible but do not normally file a state income tax return, you may obtain the refund by filing a return and claiming the exemption.

The Sudbury Senior Center has volunteer tax preparers who will help you with the process from mid-February through April 15 each year.

Please note that this exemption is not administered through the Town of Sudbury. It is a state program administered by the Commonwealth of Massachusetts.

For more information, contact the Commonwealth of Massachusetts Department of Revenue at 617-877-MDOR or at 1-800-392-6089.

You can also access the department's website at: [www.dor.state.ma.us](http://www.dor.state.ma.us)

**NOTE:** The information in this publication is provided by the **Sudbury Council on Aging** as an informal summary of applicable laws regarding tax exemption. We believe all the information to be correct as of March 2009, but it is subject to change.



*For more information contact the Sudbury Senior Center at:*

## SUDBURY SENIOR CENTER

40 Fairbank Road

Sudbury, Massachusetts 01776-1681

978-443-3055

FAX 978-443-6009

e-mail: [senior@sudbury.ma.us](mailto:senior@sudbury.ma.us)

APPENDIX 5 – SUDBURY’S SENIOR TAX DEFERRAL COMMITTEE REPORT

December 17, 2007

To: Maureen Valente, Town Manager  
From: Senior Tax Deferral Study Committee

SUMMARY

The Deferral Program is a very valuable asset to the Town. Over sixty senior taxpayers are enrolled, benefiting both town and citizens.

We recommend the Selectmen prepare an article for the 2008 Town Meeting to take advantage of what has been learned since our last Home Rule Petition five years ago. Specifically, we recommend changing the income eligibility for tax deferral so that it is equal to and tied to the income eligibility for the Circuit-Breaker Credit. This will result in “indexing” the income eligibility.

Our other recommendations, which do not require Town Meeting approval, are:

1. Improve communication. We feel the program could benefit many more seniors than are currently enrolled.
2. Help with Counseling. The Assessor’s office does a fine job of counseling, but has to tread very carefully because of privacy concerns. The Senior Center should be able to pitch in, providing general counseling without necessarily dealing with individual personal data.
3. Further Data Collection. The Selectmen will be faced with annual decisions regarding interest rates on deferrals. Additional data to help them assess the costs and benefits to the town and the taxpayers will be very valuable.
4. Interest-leveling. We ask the Selectmen to adopt a public policy stating that any interest-rate increases will be very gradual, not more than 1% per year.

The Senior Tax Deferral Committee first met informally on November 7<sup>th</sup>, so the members could meet each other and become familiar with the Deferral Program. Since all the members had a general knowledge of the program, very little time was needed to bring people up to speed. We benefited from having the Town Assessor and Town Housing Specialist as working members, making access to Town Data almost immediate.

We learned, from the Treasurer's 2007 report to the Selectmen (attached), and from the Assessors Office, that:

The current (FY2007) deferrers (62) had income ranges of

0-\$40,000	41
\$40-60,000	21

Sixteen of the deferrers live in condominiums (Frost Farm) and the balance in private homes. Five deferrers are under 65, and the balance are 65 or older. The average tax deferred is in the neighborhood of 50% of the average residential tax bill. The interest rate for deferrers is the most critical variable. When the rate was 8% statewide, the total number of deferrers statewide (1995-2005) ranged from only 1,339-1,120. In 2004 Sudbury's 26 deferrals put us in the top 10 in the Commonwealth, despite our relatively low population. Sudbury's participation rose as the interest rate dropped below "mortgage" rates.

<u>Year</u>	<u>Interest Rate</u>	<u>Deferrers</u>
2002	8%	14
2003	4%	23
2004	2%	26
2005	2.5%	33
2006	2.5%	49
2007	2.5%	62

At our Second meeting we were joined by the Treasurer and learned more about the costs of the program. Up to this date the Town has been able to 'carry' the deferred tax amounts within its normal operating parameters. At some point the deferrers will all have to repay the taxes due and the town will recover the funds. At some point the demand for funds should level out, and there should be a continuing stream of sales, resulting in taxes being paid at about the same rate as they are being deferred.

However that may not be the case for some time. At present the taxes deferred amount to just over \$1,000,000, and will probably increase by \$300,000-400,000 next year.

For this reason we discussed borrowing with the Treasurer. If we assume the Town will have to borrow money to support the deferral program, it will be important to know, each year, the rate at which the Town can borrow. We asked the Treasurer to provide us with any information she can about the cost of borrowing. We were told that the least expensive way of borrowing, TAN's (Tax anticipation Notes), are probably not appropriate since the borrowing will probably be for a longer period, perhaps several years. We decided that, for the purposes of this study, we would estimate that the Town would/could borrow funds at a 4.5% rate.

### **Costs and Benefits**

It is important for a Town to have a diverse population. The older families in Town can contribute more time as volunteers, and enrich the Community by their presence. Financially, if we level out with, say 100-150 families remaining in their homes after their children have been educated; it is certainly reasonable to assume that our school costs will be lower.

Against this is an expense for administration, which so far has been moderate, and a potential interest-rate cost.

If we look at a possible scenario where the Town is carrying \$1,000,000 in deferred taxes, charging 2.5% interest, and paying 4.5% interest (arbitrary assumptions) then the town would have two interest-costs to absorb:

1.  $\$1,000,000 \times 2.5\%$  (net) or \$20,000 per year
2. The 'carrying costs' of the other \$25,000 until it is repaid  
 $\$25,000 \times 4.5\% = \$1,125 \times (5\text{years?}) = \$5,625$

The Selectmen would have to balance a theoretical interest rate cost of about \$25,000 against the school-savings of having fifty-or-so houses stay in the hands of senior citizens

For the families, the costs and benefits are clear. The taxpayers who are deferring appear to have homes valued at under \$500,000, (average \$419,500)

which leaves them with few options for moving without leaving the Metro-West area. Houses and condominiums in the nearby towns cost about as much as these taxpayers are likely to receive from a sale, so their only benefit will be a lower tax rate (in general). Deferring may cost more in the long run...deferral isn't abatement...but it does allow a family to age in place, a very valuable benefit.

The cost is also clear, and, we believe, unfair. Taxpayers who defer are currently ineligible for the Commonwealth's Circuit-breaker tax credit. Even though they sign a "tax deferral and recovery agreement" (read mortgage), they lose the credit that can be as much as \$900 in 2007. A similarly situated taxpayer, who takes out a reverse mortgage, or a home equity loan to pay his/her taxes, is eligible for the credit.

### **Eligibility**

We struggled mightily to determine how many families were likely to take advantage of the Deferral Program. Eligibility depends on income, and income is defined, for the purpose of the program, as total cash income of the occupant and spouse.

That's hard to estimate. From the work some of us had done on PTERC, we were familiar with the issue and were able to gather useful information from the Department of Revenue and from the Census Bureau.

The Department of Revenue provided invaluable information, which is included here as an attachment. The single most important table (Table II-3, is sorted to eliminate renters and include everyone age 65 or older, showed that there were a total of 970 tax returns filed in Sudbury.

We started with that number (970) and then reduced it by 100 to reflect the families that live in Sudbury in Subsidized rental housing (the DOR couldn't eliminate them since they didn't qualify for the rental deduction), ending with 870 families over the age of 65. That matches the number in the Sudbury housing plan (873 families with someone 65 or older).

Estimating income is the hard part, since the DOR data doesn't include Social Security. After looking at the "Income of the Aged Chartbook for 2002", we felt more comfortable. The Chartbook identifies the highest quintile of the aged as having incomes of \$40,982 or higher, and states that they receive 20% of

their income from Social Security. We thought this was a suitable estimate for us to use.

If we assume that, then a person earning \$60,000, the limit for Deferral in Sudbury, would be estimated to earn 20% 12,000 from Social Security. So, if their Massachusetts income (Net AGI on Table II-3) was 48,000 or less, they would be eligible to defer. That would reduce our 873 families to about 490, since 374 of our 873 families earned \$50,000 or more plus Social Security.

Are there 490 families eligible? Not likely. We haven't taken into account other forms of income (non-taxable. Table II-3 Circuit-breaker filers shows that in 2004 there were 155 families in Sudbury claiming the circuit-breaker (and 132 of them has Mass income under \$25,000).

We expect that with good communication the number of deferrers will grow steadily, possible leveling off between 100 and 200 families.

### **Communication**

There are two extreme points of view about the Deferral Program. One is that it is a "Good Deal" for the retiree. The low interest rate Sudbury is charging allows a prudent taxpayer to leave his/her money in a higher-yielding Certificate of Deposit, and defer taxes. If the rates ever reverse, he/she always has the option of paying off the deferred taxes, and/or discontinuing the practice of deferring. Meanwhile, he/she can continue to enjoy the family home, continue to participate in the increased (not this year) in property value, and avoid the expenses and disruption of moving.

The "Bad Deal" point of view holds that this is the way to lose your home, or, if not that, have nothing left to leave your children. Particularly among this generation, many of whom remember the Depression very well, the idea of taking out a mortgage in old age is anathema.

The Committee holds with the "Good Deal" point of view, and believes that a good communication program can help. The Council on Aging agrees, and has already started a publicity program. We further hope the Board of Selectmen will do what they can publicly to assure the Seniors that there won't be a surprise jump in interest rates. We believe that convincing Seniors that there will be no surprises and that interest rates will rise, if at all, very gradually, will do a lot to make the program more acceptable.



## **Indexing Eligibility**

In 2002 when Sudbury adopted its new Deferral Rules, it seemed generous to raise the income limit from \$40,000 (the state maximum at the time) to \$60,000. Time has proved this to be true. 21 of the present 62 deferrers would not have been eligible under the old limits.

However time will make the \$60,000 limit more and more confining..

We recommend changing the income eligibility to match that for the Circuit-Breaker, which is indexed. This may take a year or two, since it will require approval by the legislature.

Eligibility in Sudbury does not depend on marital status, or tax-filing status, since these do not affect property tax rates. We recommend that this continue to be the practice in Sudbury, and that the local rate be indexed to the rate for married-couples-filing-jointly. This is currently \$72,000, which is an appropriate adjustment to the \$60,000 limit Sudbury adopted in 2003.

### **Data**

We found ourselves asking for more and more information about the taxpayers who are deferring, and we recommend such data be kept in searchable form in the future. It seems to us that it will be valuable, and not too much work, to keep a running tab on all the deferrals so that when the Selectmen have to make their annual decisions about interest rates they will have every possible bit of useful information available.

### **Sunset Provision**

We considered the need for a Sunset Provision, and/or for some guards against abuse, and decided none were necessary.

We have no reason to suspect abuse. The town benefits from periodic independent audits of its finances, and we assume these will include this program.

If, in the future, the Selectmen decide the program has costs that are not acceptable, they will have the option of limiting the program through changes in the interest rate charged. We do not anticipate that this will happen, and if it should we urge that the changes be gradual.

Submitted by:

Senior Tax Deferral Study Committee

Maureen Hafner, Director of Assessing

Dave Levington, Council on Aging (Chair)

Bill Maloney, PTERC

Pat Mullen, Council on Aging

Beth Rust, Community Housing Specialist

Andrew Schwarz, PTERC

## Attachments

1. Chapter 320 of the Acts of 2002 (Sudbury's Home Rule Petition establishing eligibility for the Deferral Program)
2. Treasurer's 2007 report of Sudbury Deferral Statistics
3. Department of Revenue's Circuit-Breaker Guidelines 2004-2007
4. State Auditor's 2004 Report, Appendix I, showing deferrals by Town
5. Relevant Information concerning Senior Citizens in Sudbury, (PTERC, 2003)
6. Sources of Income of the Aged, 2002 (Income of the Aged Chartbook)
7. Income Tax Statistics, 2004, for Sudbury (from Dep't of Revenue)
8. Letter from DOR regarding eligibility for Circuit-Breaker for taxpayers deferring taxes under #41A.
9. FY2008 forms used by the Assessors for Deferral Program

## APPENDIX 6 – PRIMER ON FREE CASH

## *Where does free cash come from?*

<b>START WITH:</b>	Undesignated/Unreserved Fund Balance
<b>MINUS:</b>	Account Receivables
<b>PLUS:</b>	Credit balances in Deferred Revenue
<b>MINUS:</b>	Debit balances in other funds
<b>MINUS:</b>	Overspent appropriations
<b>MINUS:</b>	Prepaid Items
<b>MINUS:</b>	Amounts appropriated from free cash
<b>PLUS:</b>	60 day collections from date of mailing, net refunds, if tax bills issued after May 1st
<b>PLUS:</b>	Late payments

## *In other words...*

<b>START WITH:</b>	Last year's free cash
<b>MINUS:</b>	Appropriations from free cash
<b>PLUS:</b>	Excess revenue (or minus for deficit)
<b>PLUS:</b>	Budget turn-backs (or minus overspending X2)

**APPENDIX 7 – STATE REIMBURSEMENT AND OTHER EXEMPTION RESOURCES**

**TABLE 6. Exempt Persons – State Reimbursements<sup>1</sup>**

Type	Clause	Exemption Amount	Reimbursement Amount
<b>BLIND</b>	37	\$437.50	\$87.50 per exemption
	37A	\$500	\$87.50 per exemption
<b>HARDSHIP</b>	18	Any	None
<b>SENIOR, SURVIVING SPOUSE, SURVIVING MINOR CHILDREN</b>	17	\$175	\$175 per exemption
	17C, 17C½, 17D	\$175	Total amount reimbursed in last year Clause 17 used
<b>SENIOR</b>	41	\$500	\$500 per exemption
	41B, 41C	\$500	\$500 per exemption, up to the number of exemptions granted in the last year Clause 41 used
	41C½	5% of average assessed valuation of residential property <sup>2</sup>	Amount granted up to \$500 per exemption, up to the number of exemptions granted in the last year Clause 41 used
<b>SURVIVING SPOUSE, SURVIVING MINOR CHILDREN OF FIREFIGHTERS AND POLICE OFFICERS</b>	42, 43	Full	None
<b>VETERAN<sup>3</sup></b>	22	\$400	\$225 per exemption
	22A	\$750	\$575 per exemption
	22B	\$1250	\$1075 per exemption
	22C	\$1500	\$1325 per exemption
	22D	Full – 1 <sup>st</sup> five years  Up to \$2500 thereafter	Exemption granted
	22E	\$1000	\$825 per exemption
	Paraplegics	Full	All but \$175 of exemption granted

<sup>1</sup> Subject to annual appropriation.

<sup>2</sup> May be increased up to 20% by legislative body of municipality.

<sup>3</sup> If Clause 22A, 22B, 22C and 22E granted on multi-family property, reimbursement is limited to amount over \$225 granted to applicant.

## ADDITIONAL RESOURCES PROPERTY TAX EXEMPTIONS

The following are additional resources on Property Tax Exemptions produced by DLS that are available on our website: [www.mass.gov/dls](http://www.mass.gov/dls).

- ***Informational Guideline Releases (IGRs)*** – Guidelines that explain the policies and procedures regarding specific exemptions or deferrals include:
  - 88-233 Processing Exemptions for Hardship Exemption (Clause 18) (October)
  - 89-207 Optional Additional Real Estate Exemptions (January)
  - 91-209 Exemption Eligibility of Property Held in Trust (July)
  - 02-209 Clause 41C Exemption Options (September)
  - 04-209 Temporary Financial Hardship Property Tax Deferral (Clause 18A) (April)
  - 08-208 Property Tax Deferral for Seniors (Clause 41A) (September)
- ***Social Security Deduction (Clauses 41, 41B and 41C)*** – Annual IGR notifying assessors of amount to be deducted from gross receipts for certain applicants.
- ***Optional Cost of Living Adjustment (Clauses 17, 17C, 17C½, 17D, 17E, 41, 41B, 41C and 41D)*** – Annual IGR notifying assessors of cost of living adjustment to be used in municipalities adopting certain local options that allow adjustments in exemption amount, gross receipts or whole estate.
- ***Request for Reimbursement Forms*** – Forms used by assessors to obtain any state reimbursement for personal exemptions they grant. (Submitted through DLS Gateway).



APPENDIX 8 – FEDERAL REPORT BY CENTER ON BUDGET AND POLICY  
PRIORITIES

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March 6, 2006

## REVISITING STATE TAX PREFERENCES FOR SENIORS

By Elizabeth C. McNichol

### Summary

By the year 2030 one in five Americans will be over the age of 65 according to Census Bureau projections. Increasingly, state budgets will be stretched thin by the healthcare and other needs of the nation's elderly. For example, states provide on average 47 percent of the funding for the Medicaid program, which pays for the vast majority of long-term care in this country and bears a portion of the prescription drug costs for low-income elderly people. States must finance pensions and health care for what will be a growing cadre of retired state employees. Elderly-related costs borne by state and local governments for a range of other programs ranging from special transportation to social services will also be increasing.

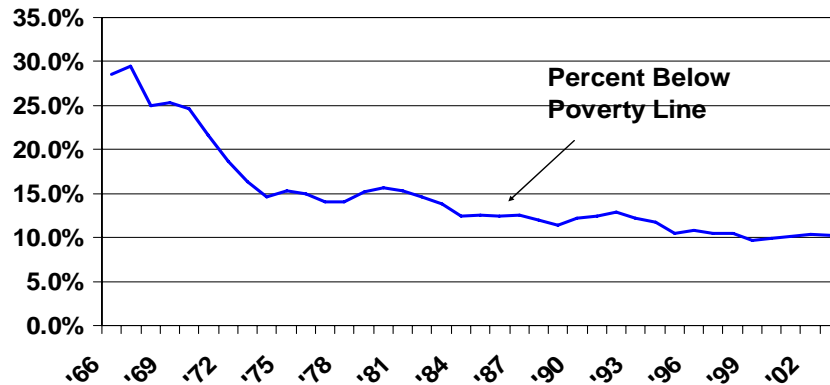
While these government costs will be rising, the revenue collections needed to cover the costs will be depressed in many states as the proportion of elderly in the population increases. This is because states provide a wide variety of income and property tax breaks to all elderly residents — regardless of their income. The cost of these special tax preferences will rise along with the increase in the elderly population. These preferences are widespread.

- Some 28 states completely exempt social security income from the income tax.
- Pension income is fully or partially exempt from taxation in 33 states.
- Nine out of ten states offer added income tax exemptions, standard deductions, or credits based on age.
- In addition, many states assist local governments with the costs of age-based property tax reduction programs. Some 26 states offer homestead exemptions or credits targeted to the elderly.

Data on the cost of at least some of these preferences is available for 22 states. Currently, the cost exceeds three percent of the state's general fund budget in nearly one-third of these states (Illinois,

FIGURE 1

## Percent of Elderly in Poverty Has Declined Significantly



Source: U.S. Census Bureau, Current Population Survey

Kentucky, Michigan, Mississippi, New York, North Carolina, and Pennsylvania). By 2030, the cost will grow to exceed three percent of the budget in three-fifths of these states. (The additional six states are Delaware, Idaho, Iowa, Missouri, Oklahoma, and Oregon.)<sup>1</sup> In four of the 22 states, the costs would exceed seven percent of the budget.

Decades ago, when many of these preferences were first established, elder poverty was much more widespread in the United States than today. In 1970, some 25 percent of the over-65 population had below-poverty income. It seemed reasonable at that time for states to attempt to relieve the tax burden on the elderly. Today, however, only 10 percent of the elderly are poor. (See Figure 1.) As a result, many state tax preferences for seniors that have long been in state tax codes now benefit taxpayers who have similar or better ability to pay taxes as other segments of the population. This raises questions about whether these tax preferences for the elderly make sense in the current context.

Moreover, in many states the special tax preferences do not help the lowest-income seniors. In states that generally do not tax people with incomes below or slightly above the poverty line, most of the special tax preferences for seniors are used only by somewhat higher income taxpayers. In states that levy their income tax with multiple rates that increase with income, it is the highest income seniors who benefit most from the preferences.

By better targeting income and property tax reductions on low-income seniors, states can free resources to pay for the growing needs of senior citizens while still assisting poor elder residents.

<sup>1</sup> There is little information collected on a regular basis on the cost of senior tax preferences to states. These estimates in are based on the costs of *income tax* preferences using information from state tax expenditure reports.

## **AARP's Policy Director Addresses Issue of Non-targeted Breaks for Seniors**

John Rother, AARP's Director of Policy and Strategy, made the following statement, "While surveys reveal many Americans feel they are overtaxed, US tax burdens are lower today than their average for the past several decades, and significantly lower than those in most developed countries. Tax relief is warranted for people who confront difficulties in meeting living expenses, but it is difficult to justify preferential treatment on age grounds alone or on the basis of receiving pension income. Property taxes are the least popular form of tax, especially in light of their recent escalation, and can pose significant problems for older persons wishing to remain in their homes.

"With the population aging and more people needing services, younger people, many of whom are struggling financially, will not be able to fill the revenue gap. Older Americans, who are the beneficiaries of so much of what government provides, understand this and the need to do their part."

AARP is a nonprofit, nonpartisan membership organization of over 35 million people age 50 and older.

- More states could tax a portion of social security benefits when the recipient's total income exceeds a specified amount — as the federal government does — rather than completely exempting social security income from taxation. Currently 12 states use the same income limits as the federal government for determining whether to tax social security benefits.
- States that offer exemptions for public or private pensions could phase them out at a specific income level or only offer them to taxpayers with incomes below a certain level. For example, as a part of a large tax package adopted in 2004, Virginia scaled back its preferential treatment of pension income by allowing the exemption to phase out for taxpayers at higher income levels.
- States could convert their age-based additional personal exemptions to a higher standard deduction, comparable to the one the federal government offers. This would target these preferences more to lower and middle income taxpayers.
- Additional states could rely more on means-tested property tax credits rather than homestead exemptions or credits. For example, under the provisions of credits known as "circuit-breakers" taxpayers receive a credit if their income is below a defined level and their property taxes exceed a specified percentage of their income. Currently, 34 states offer property tax circuit breaker programs; many of these are very limited programs, however, and some of the same states also offer homestead exemptions or credits that are not means-tested.
- States could raise the eligibility age for their age-based credits and exemptions in order to target them on the seniors who have less ability to pay. The percent of people 75 years old and older in poverty is higher than the percent of those between 65 and 75 in poverty (although the rates are still considerably below senior poverty rates of the past).

As states prepare for the spending challenges that the aging of the population will bring they should consider the revenue challenges as well. The time for states to reconsider their senior tax preferences is now, before the baby boom generation retires and the cost of the preferences begins to rise rapidly and it therefore becomes even more politically difficult to modify them.

## Designing Change to Improve Chances of Adoption

A key question is whether it is politically possible to modify senior preferences in ways suggested in this report. Policymakers are aware that older Americans vote in disproportionate numbers, and that they are vocal in making their needs known. Nevertheless, it will become increasingly difficult for states to meet those needs if some of the preferences described here are not modified before the bulge of the baby boomers becomes qualified to take advantage of them. The following are some suggestions of ways to improve the political chances of enacting the needed changes.

- Include the changes in senior preferences in a larger tax reform package that may include other changes that seniors view favorably. Such offsetting changes might include taking the sales tax off food and/or pharmaceuticals or enacting an income-targeted credit to offset the sales tax on those items, or increasing another tax to fund specific services important to seniors. In addition, if the tax preferences for some other groups are also being changed, seniors may feel less singled out. The recent change in senior tax preferences in Virginia was made in the context of a larger tax reform.
- It may be possible to sit down with organizations representing seniors in the state and discuss their priorities. They may have priorities they consider more important than preferences for higher-income seniors, and may be open to using the revenue from curtailing the preferences or other revenue to fulfill those priorities.
- When proposing a change from a non-targeted preference to a targeted preference for seniors, it may be possible to set the income ceiling for the preference at a level that will encompass between a third and a half of all seniors in the state. This could help deflect opposition.
- It might be possible to make the preference more generous than it currently is for the lowest-income seniors, while eliminating it for seniors at higher incomes. This could garner support for the change.
- Many people at age 65 today do not consider themselves “old,” and few are poor. Poverty is higher at age 75 and higher still at age 85. It may be possible to re-target the senior preferences on an older cohort, rather than using age 65 as the qualifying age. Perhaps in combination with some of the other strategies above, this could improve the chances of support for the change.
- Retaining the tax preference for those already receiving it — grandfathering — could make the changes more acceptable because no one would lose a benefit that they are already receiving. In addition, phasing in the change rather than eliminating a benefit all at once could make it more palatable.

## Background

The last four decades saw a significant improvement in the financial well-being of senior citizens. The next three decades will bring substantial growth in the senior population.

The population of the United States is aging as a result of medical advances that have increased life expectancy as well as because of the movement of the baby boomers through middle age. Nationally, the proportion of the population that is age 65 and older is projected to grow from 12.4 percent in 2000 to 19.7 percent by 2030. In 2005, residents age 65 and over made up more than 17 percent of the total population in only one state (Florida); by 2030, 45 states plus DC will be in this category. (See Table 1 and Figure 2.)

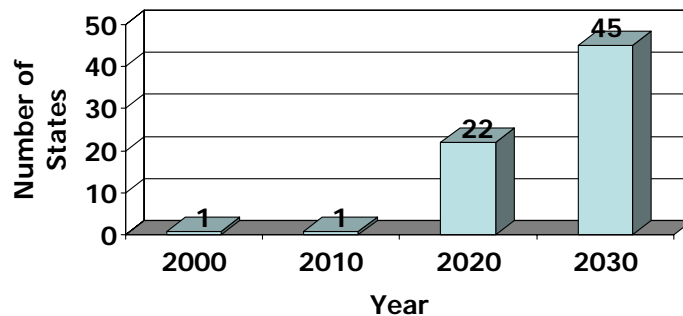
<b>TABLE 1: PERCENT OF POPULATION 65 AND OLDER: 2005 AND 2030</b>		
	<b>2005 Percent of Population 65 and Older</b>	<b>2030 Percent of Population 65 and Older</b>
Alabama	13.3%	21.3
Alaska	6.7%	14.7
Arizona	13.0%	22.1
Arkansas	13.8%	20.3
California	10.8%	17.8
Colorado	9.9%	16.5
Connecticut	13.7%	21.5
Delaware	13.2%	23.5
District of Columbia	11.6%	13.4
Florida	17.2%	27.1
Georgia	9.6%	15.9
Hawaii	13.3%	22.3
Idaho	11.3%	18.3
Illinois	12.0%	18.0
Indiana	12.3%	18.1
Iowa	14.7%	22.4
Kansas	13.0%	20.2
Kentucky	12.5%	19.8
Louisiana	11.9%	19.7
Maine	14.6%	26.5
Maryland	11.5%	17.6
Massachusetts	13.2%	20.9
Michigan	12.2%	19.5
Minnesota	11.9%	18.9
Mississippi	12.2%	20.5
Missouri	13.4%	20.2
Montana	13.9%	25.8
Nebraska	13.4%	20.6
Nevada	11.3%	18.6
New Hampshire	12.0%	21.4
New Jersey	13.1%	20.0
New Mexico	12.6%	26.4
New York	13.0%	20.1
North Carolina	11.9%	17.8
North Dakota	14.7%	25.1
Ohio	13.3%	20.4
Oklahoma	13.2%	19.4
Oregon	12.5%	18.2
Pennsylvania	15.3%	22.6
Rhode Island	13.9%	21.4
South Carolina	12.5%	22.0
South Dakota	14.2%	23.1
Tennessee	12.5%	19.2
Texas	10.0%	15.6
Utah	8.6%	13.2
Vermont	13.0%	24.4
Virginia	11.5%	18.8
Washington	11.3%	18.1
West Virginia	15.4%	24.8
Wisconsin	13.0%	21.3
Wyoming	12.5%	26.5
<b>United States</b>	<b>12.4%</b>	<b>19.7</b>

Source: U.S. Census Bureau, Population Division, Interim State Population Projections, 2005.  
Internet Release Date: April 21, 2005

FIGURE 2

## An Aging Population Will Increase Costs of Senior Tax Breaks

States where seniors are more than 17 percent of population



Source: Census Bureau projections

In the 1960s and 1970s when many states adopted tax preferences for seniors, elder poverty was a considerably larger problem than it is today. In 1970, one out of four Americans over the age of 65 had below-poverty incomes. Currently, less than ten percent of elderly Americans are poor. Because age is no longer so strongly correlated with poverty, it is more important to target tax relief by income.

It also makes sense to consider targeting senior tax preferences by age. Within the 65 and older age group, poverty increases with age. Some 9.4 percent of Americans aged 65 to 74 are poor while the poverty rate for the oldest residents — those over 85 — is 12.6 percent. Older Americans are healthier and more active than in the past and 65 is not as old as it may have seemed in the past.

### Existing Senior Tax Preferences

States provide tax reductions for seniors through full or partial exemption of social security income and pension income from the income tax; added income tax exemptions, standard deductions or credits based on age; and age-based property tax reduction programs.

**Social Security Income** – Social security payments receive some form of special treatment in every state with a personal income tax. Some 28 states fully exempt social security payments from their income tax regardless of the income of the taxpayer. (See Table 2.)

**TABLE 2: TREATMENT OF SOCIAL SECURITY INCOME**

	<b>Exemption</b>
Alabama	Full
Alaska	NA
Arizona	Full
Arkansas	Full
California	Full
Colorado	Partial (see note)
Connecticut	Full if income below \$50,000/\$60,000
Delaware	Full
District of Columbia	Full
Florida	NA
Georgia	Full
Hawaii	Full
Idaho	Full
Illinois	Full
Indiana	Full
Iowa	Partial (Same as federal except that only 50% is taxable at all income levels)
Kansas	Same as federal
Kentucky	Full
Louisiana	Full
Maine	Full
Maryland	Full
Massachusetts	Full
Michigan	Full
Minnesota	Partial (Same as federal)
Mississippi	Full
Missouri	Partial (Same as federal)
Montana	Partial (Same as federal)
Nebraska	Partial (Same as federal)
Nevada	NA
New Hampshire	NA
New Jersey	Full
New Mexico	Partial (Same as federal)
New York	Full
North Carolina	Full
North Dakota	Partial (Same as federal)
Ohio	Full
Oklahoma	Full
Oregon	Full
Pennsylvania	Full
Rhode Island	Partial (Same as federal)
South Carolina	Full
South Dakota	NA
Tennessee	NA
Texas	NA
Utah	Partial (Same as federal)
Vermont	Partial (Same as federal)
Virginia	Full
Washington	NA
West Virginia	Partial (Same as federal)
Wisconsin	Partial (Same as federal except that only 50% is taxable at all income levels)
Wyoming	NA

Source: David Baer, "State Handbook of Economic, Demographic & Fiscal Indicators," AARP Public Policy Institute, 2003. Updated 2005 by CBPP.

Notes: Colorado: Pension exemption applies to all pensions combined including social security. Wisconsin: Will be full starting in 2008.



This special treatment of social security income has a long history. Until the mid 1980s, social security payments were exempt from both federal and state income taxes. As part of a major initiative to restore the finances of the social security system, the federal government began to tax a portion of the social security benefits of recipients above a specified income level. This change also reflected the improved economic status of many senior citizens. Under current federal law, social security payments are fully exempt from federal income tax only for single taxpayers with incomes below \$25,000 and for married taxpayers with incomes below \$32,000. (For this purpose, “provisional” income is used which consists of adjusted gross income plus one-half of social security benefits plus some additional income.)<sup>2</sup> A portion of the social security benefits of taxpayers with higher incomes are subject to federal income tax depending on how much other income the taxpayer receives. The federal government taxes 50 percent of the social security benefits of individuals with incomes between \$25,000 and \$34,000 and couples with incomes between \$32,000 and \$44,000. It taxes 85 percent of the benefits for individuals with incomes over \$34,000 and couples with incomes over \$44,000.

Most states failed to change their treatment of Social Security income when the federal government did so, and maintained their full exemption. Only twelve states – Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Rhode Island, Utah, Vermont, and West Virginia – follow the federal provisions for determining whether to tax social security income. A thirteenth state, Connecticut, fully exempts social security income only for taxpayers with income under \$50,000 (single) or \$60,000 (married). The other states with income taxes fully exempt Social Security income. (Wisconsin which currently follows the federal provisions will fully exempt social security beginning in 2008.)

**Pension Income** – As people near and pass retirement age, their income sources change significantly. For those aged 55 to 65 wages and salaries make up three-fourths of their income. For those aged 65 and above wage and salary income declines to 25 percent and Social Security and pensions make up three-fifths of their income.

There are two major types of employment-based pension plans – defined benefit plans and defined contribution plans.

Under defined benefit plans, employers promise a specific regular payment to the employee in retirement. The employer contributes the amount necessary over the work life of the employee to pay the benefits after retirement. These contributions are tax deductible for the employer at the time they are made. For federal tax purposes, the pension payments employees receive in retirement are taxable.

Under defined contribution plans, the employee has access to a savings account that is funded through employee contributions and in some cases also through contributions by an employer. The contributions to the plans are made with pre-tax dollars; neither the employee nor the employer pays tax on the funds contributed. The income earned by the plan also is not taxable while it remains in the plan. Withdrawals from defined contributions are fully taxable for federal tax purposes. Traditional IRA’s that allow tax-free deposits operate in the same manner as defined-contribution

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<sup>2</sup> Provisional income consists of federal adjusted gross income plus one-half of social security benefits, tax-exempt interest and certain foreign-source income.

pension plans, as do various plans for self employed individuals.<sup>3</sup> These types of plans are called tax-deferred, because the tax on the contributions and earnings is not payable until they are withdrawn. The tax deferral provides a benefit because the employee can accumulate more funds in the account than if the contributions and earnings were taxed annually. In addition, most people have lower income after retirement than they did while they were working and may be in a lower federal tax bracket at the time they withdraw the funds and thus pay less tax on the funds when they are withdrawn.

The federal tax treatment of pension contributions provides a significant benefit to taxpayers and is intended as an incentive to encourage retirement savings. It makes little sense for states to provide still more generous treatment of retirement income, on top of the federal benefits, but a number of states do so. In a number of states, some or all of pension income is never taxed; it is tax exempt when deposited *and* tax exempt when it is withdrawn.

All except ten states with an income tax exempt some or all public pension income from their tax.<sup>4</sup> Some argument could be made in favor of exempting some public pension income, since it is the state or localities themselves that pay the pension. But a number of states extend the preferential treatment to private pensions.

Four states — Illinois, Mississippi, Pennsylvania and Tennessee exclude *all private and public* pension income from taxable income. Other states only partially tax private pensions. (See Table 3.) In states with partial exemptions, the amount exempted varies widely but is substantial. Sixteen states — Arkansas, Colorado, Delaware, Georgia, Iowa, Kentucky, Louisiana, Maine, Maryland, Michigan, Missouri, New Jersey, New York, Oklahoma, South Carolina, and Utah — exempt more than \$5,000 of public and/or private pension income. In most states these exemptions are available to taxpayers without regard to ability to pay. Only five states — Missouri, Montana, Oklahoma, Oregon and Utah — limit these exemptions to taxpayers with income below specified levels.

**Other Income Tax Preferences** – Another common form of special tax treatment for seniors is the provision of additional personal exemptions or a higher standard deduction based on age. Of the states with an income tax, only five do *not* offer an expanded exemption or credit based on age. (See Table 4.) The most common forms are an additional personal exemption or credit or a higher standard deduction for those taxpayers over 65 years old. The amounts of the added exemptions average approximately \$1,200 for one taxpayer and \$2,500 for two taxpayers. These are not generally limited to low-income taxpayers. Most of the states that offer higher standard deductions for those over 65 use the federal definition of taxable income that includes a standard deduction that is \$1,200 higher for one taxpayer over 65 and \$1,900 for joint returns. Because the standard deduction does not benefit those who itemize their deductions — generally higher-income taxpayers — the higher standard deduction is more targeted to lower and middle income taxpayers than the additional personal exemptions. Other states offer credits ranging in size from \$15 to \$220 to seniors. Some states also offer credits that equal a portion of the federal elderly tax credit, which is means tested.<sup>5</sup>

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<sup>3</sup> There also are Roth IRAs and Roth defined contribution plans in which after tax dollars are deposited. The withdrawals from those accounts, including withdrawals of earnings on those accounts, are not taxed.

<sup>4</sup> These counts do not include states that exempt only military pensions.

<sup>5</sup> The federal elderly credit is up to \$5,000 for single filers and up to \$7,500 for joint filers. It is available to low-income taxpayers who receive little or no income from social security.

**TABLE 3: INCOME TAX TREATMENT OF PENSION INCOME**

	<b>Private Pension Exemption</b>	<b>Public Pension Exemption</b>
Alabama	Full (Defined Benefit only)	Full (Defined Benefit only for state and local)
Alaska	N/A	N/A
Arizona	None	\$2,500
Arkansas	\$6,000	\$6,000
California	None	None
Colorado <sup>a</sup>	\$24,000/48,000 combined (65+) or \$20,000/\$40,000 (55-64)	
Connecticut <sup>b</sup>	None	None
Delaware	\$12,500 (60+) or \$2,000 (under 60) combined	
District of Columbia	None	\$3,000 (62+)
Florida	N/A	N/A
Georgia	\$15,000/\$30,000 exemption on all retirement income	
Hawaii	Portion from employer contributions only	Full
Idaho	None	\$21,900/32,850 minus Social Security (65+)
Illinois	Full	Full
Indiana	None	\$2,000/\$4,000 minus Social Security for federal retirees (62+), or \$2,000 for military retirees (60+)
Iowa	\$6,000/\$12,000 combined (55+)	
Kansas	None	Full
Kentucky	\$40,200	\$40,200 (Full for taxpayers retiring before 1998)
Louisiana	\$6,000 (65+)	Full
Maine	\$6,000 minus Social Security	\$6,000 minus Social Security (\$6,000 for military pensions)
Maryland	\$20,700 minus Social Security (65+)	\$20,700/\$41,400 minus Social Security (65+)
Massachusetts	None	Full
Michigan	\$38,550/ \$77,100	Full
Minnesota	None	None
Mississippi	Full	Full
Missouri	\$6,000/\$12,000 (phased out between \$25,000/\$32,000 and \$31,000/\$44,000)	\$6,000/\$12,000 (phased out between \$25,000/\$32,000 and \$31,000/\$44,000)
Montana	Up to \$3,600/\$7,200 (depending on income, phased out above \$31,800/ \$33,600)	Up to \$3,600/\$7,200 (depending on income, phased out above \$31,800/ \$33,600)
Nebraska	None	None
Nevada	N/A	N/A
New Hampshire	Full	Full
New Jersey	\$15,000/\$20,000 (62+)	\$15,000/\$20,000 (62+)
New Mexico	None	None
New York	\$20,000 (59.5+)	Full
North Carolina	\$2,000/\$4,000	\$4,000/\$8,000 (Full if worked five years before 8/89)
North Dakota	None	\$5,000 minus Social Security
Ohio	Tax credit of up to \$200	Tax credit of up to \$200
Oklahoma (*)	\$5,500/\$11,000 (65+) if income under \$25,000/\$50,000	\$5,500/\$11,000
Oregon	Tax credit of up to 9 percent (62+) and income under \$22,500/\$45,000 and under \$7,500/\$15,000 in Social Security)	Tax credit of up to 9 percent (62+) and income under \$22,500/\$45,000 and under \$7,500/\$15,000 in Social Security)
Pennsylvania	Full	Full
Rhode Island	None	None
South Carolina	\$10,000/\$20,000 (65+) / \$3,000/\$6,000 (under 65) any pension public or private	
South Dakota	N/A	N/A
Tennessee	Full	Full
Texas	N/A	N/A
Utah	\$4,800/\$9,600 (under 65) \$7,500/\$15,000 (65+) phases out between \$25,000/\$32,000	\$4,800/\$9,600 (under 65) \$7,500/\$15,000 (65+) phases out between \$25,000/\$32,000
Vermont	None	None
Virginia	None	None
Washington	N/A	N/A
West Virginia	None	\$2,000; full for police and fire; \$20,000 military retirees
Wisconsin	None	Military pensions plus retirees before 1964 from federal government, Milwaukee, or teaching
Wyoming	N/A	N/A

Notes: Where there are 2 income numbers, the first is for single taxpayer/the second is for joint filers. (a) Colorado: Only social security income included in federal AGI is included in calculation to determine in any social security or pension income is taxable. (b) Connecticut: For taxpayers with income above the cut-offs, up to 25% of social security income is subject to tax. (c) Oklahoma: Pension exemption was increased in 2005 to greater of 50% or \$10,000 for retirees with income under \$37,500/\$75,000.

Source: David Baer, "State Handbook of Economic, Demographic & Fiscal Indicators," AARP Public Policy Institute, 2003. Updated by CBPP to 2004 provisions.

**TABLE 4: OTHER INCOME TAX PREFERENCES**

	<b>Added Exemption</b>	<b>Higher Standard Deduction [65+]</b>	<b>Other</b>
Alabama			
Alaska	NA	NA	NA
Arizona	\$2,100/\$4,200		
Arkansas			\$20/\$40 credit
California			Credit of \$85/\$170 (65+)
Colorado		\$1,200/\$1,900	
Connecticut			
Delaware		\$2,500/\$5,000	Personal credit (60+) \$110/\$220
District of Columbia	\$1,370/\$2,740		
Florida	NA	NA	NA
Georgia		\$1,300/\$2,600	
Hawaii	\$1,040/\$2,080		
Idaho		\$1,200/\$1,900	Additional \$15 grocery credit per person 65+
Illinois	\$1,000/\$2,000		
Indiana	\$1,500/\$3,000 if income is under \$40,000; \$1,000/\$2,000 if income is more than \$40,000		Credit of up to \$100/ \$140 (65+, income under \$10,000)
Iowa			Credit of \$20/\$40 (65+)
Kansas		\$850/\$1,400	
Kentucky			Credit of \$20/\$40 (65+)
Louisiana	\$1,000/\$2,000		
Maine		\$1,200/\$1,900	
Maryland	\$1,000/\$2,000		
Massachusetts	\$700/\$1,400		
Michigan	\$2,000/\$4,000		Exemption of \$8,595/\$17,190 in interest, dividends, and capital gains; can also deduct amount of federal elderly tax credit
Minnesota		\$1,200/\$1,900	Exemption of \$9,600/\$12,000 of any income minus Social Security (phases out between \$14,500/18,000 and \$33,700/\$42,000)
Mississippi	\$1,500/\$3,000		
Missouri		\$1,200/\$1,900	
Montana	\$1,840/\$3,680		
Nebraska		\$1,180/\$1,960	
Nevada	NA	NA	NA
New Hampshire	\$1,200		
New Jersey	\$1,000/\$2,000		Exemption of \$15,000/\$17,500 covers all income if earned income is under \$3,000/\$6,000 or not covered by Social Security (62+)
New Mexico		\$1,200/\$1,900	Exemption of \$8,000 of any income (65+) and income is under \$28,500/\$51,000
New York			
North Carolina		\$750/\$1,200	
North Dakota		\$1,200/\$1,900	
Ohio			Credit of \$50 (65+)
Oklahoma	\$1,000/\$2,000		
Oregon		\$1,200/\$2,000	
Pennsylvania			
Rhode Island		\$1,190/\$1,890	
South Carolina		\$1,200/\$1,900	Exemption of \$15,000/\$30,000 less retirement income
South Dakota	NA	NA	NA
Tennessee			Exemption of \$16,200/\$27,000 (65+)
Texas	NA	NA	NA
Utah		\$1,200/\$1,900	
Vermont		\$1,200/\$1,900	
Virginia	\$800/\$1,600		Exemption of \$6,000 (62-64) or \$12,000 (65+) from any income source
Washington	NA	NA	NA
West Virginia			Exemption of \$8,000/\$16,000 (65+) from any income source
Wisconsin	\$250		
Wyoming	NA	NA	NA

Source: David Baer, "State Handbook of Economic, Demographic & Fiscal Indicators," AARP Public Policy Institute, 2003. Updated by CBPP to 2004 provisions.

In addition, a few states offer substantial exemptions of certain types of income to seniors. For example, Michigan exempts \$8,595 (for single filers) and \$17,190 (for joint filers) in interest, dividends and capital gains income received by seniors. Virginia exempts \$12,000 of income from any source for taxpayers who are 65 years and older. Virginia's exemption phases out above a specified income level. Similarly, West Virginia exempts up to \$8,000 in income for taxpayers who are 65 years and older without any income limit on who can use the exemption.

**Property Tax Preferences** – Property tax reductions for seniors often take the form of homestead exemptions or credits that reduce the amount of property taxes owed. While the property tax is primarily a local tax, homestead exemptions can have a significant impact on state budgets. In some cases, states provide aid payments to local governments to compensate for the costs of the property tax exemptions. Even in states without specific property tax replacement aid programs, the erosion of the local property tax base puts pressure on state governments to fill in the gap and assist localities in funding schools and other important local services.

All but ten states offer some form of homestead exemption or credit program. (See Table 5.) Of these, 26 offer programs targeted specifically to seniors. Of the 26, half have senior-only programs while the other half offer additional more generous homestead exemptions or credits to seniors. Some of these programs are limited to taxpayers with incomes below a specific level but more often they are open to all taxpayers regardless of income.

An alternative way of providing help with property taxes that is more targeted to those in need is to offer a property tax circuit-breaker credit. These are discussed in more detail in the box on page 13 and in the section titled Alternatives later in this report.

## **Trends Over Time**

Since the late 1970s the number and type of senior tax preferences offered by states have changed. A recent paper by Karen Conway, professor of economics at the University of New Hampshire, and Jonathan Rork, professor of economics at Vassar College, found that there is a trend towards reduced preferences at the federal level but not at the state level on average.

Conway determines the amount that the effective income tax rate for seniors is below the rate for the non-elderly for both federal and state taxes. The effective rate is the amount of taxes paid as a percentage of total income. At the federal level, this tax advantage for seniors has been declining over the past few decades for two main reasons. In the 1980s, the federal government began to tax a portion of social security benefits for taxpayers with incomes above a certain level. In addition, the value of the higher standard deduction for seniors has remained relatively constant while the exemptions and standard deduction available to all taxpayers were expanded in the 1980s. This reduced the relative value of the senior exemptions. Moreover, unlike the states, the federal government has not moved to exempt pension income from the income tax base.

The trends at the state level are more mixed. As noted, only 14 states have followed the federal government's lead and begun to tax some Social Security benefits; the others maintained their full exemptions. Many states adopted or expanded exemptions for public and private pensions, which increased the tax advantage for seniors at the state level. Conway found that while a number of

<b>TABLE 5: STATE HOMESTEAD EXEMPTION AND CREDIT PROGRAMS</b>				
	<b>All</b>		<b>Elderly</b>	
	<b>Flat Amt.</b>	<b>% of value</b>	<b>Flat Amt.</b>	<b>% of value</b>
Alabama	X		X	
Alaska	X		X	
Arizona	X			
Arkansas	X			
California	X			
Colorado				X
Connecticut			X	
Delaware				X
District of Columbia	X			X
Florida	X		X	
Georgia	X		X	
Hawaii	X		X	
Idaho		X		
Illinois	X		X	
Indiana	X			
Iowa	X			
Kansas	X			
Kentucky			X	
Louisiana	X			
Maine	X			
Maryland				
Massachusetts			X	
Michigan				
Minnesota	X			
Mississippi	X		X	
Missouri				
Montana				
Nebraska			X	
Nevada				
New Hampshire			X	
New Jersey	X		X	
New Mexico	X			
New York	X		X	
North Carolina				X
North Dakota			X	
Ohio		X	X	
Oklahoma	X			
Oregon				
Pennsylvania	X			
Rhode Island				
South Carolina	X		X	
South Dakota				
Tennessee	X		X	
Texas	X			
Utah				X
Vermont				
Virginia			X	
Washington			X	
West Virginia			X	
Wisconsin	X			
Wyoming				
<b>Count</b>	<b>26</b>	<b>2</b>	<b>21</b>	<b>5</b>

Source: State Programs and Practices for Reducing Residential Property Taxes, David Baer, AARP May 2003.

Notes: Excludes programs available only to veterans and disabled. Texas: Both are a local option.

## Types of Property Tax Credits and Exemptions

The two most common types of property tax reduction programs that are often targeted to senior taxpayers are homestead exemptions or credits and circuit breaker type credits. These are described below.

**The property tax calculation** — in order to understand property tax reduction methods it is useful to review the property tax calculation. For the purposes of this example, we will assume the taxpayer owns a home with an assessed value of \$150,000 and a property tax rate of 2% (that is, 20 mills or \$20.00 per one thousand dollars of value.) The amount of tax owed equals the property tax rate times the assessed value.

With no exemptions or credits the property tax owed on this property would equal \$3,000:

$$.02 \text{ (rate)} \times \$150,000 \text{ (value)} = \$3,000 \text{ (tax)}$$

**Homestead Exemptions or Credits** – Homestead exemptions reduce property taxes by exempting a specific amount of a house’s value from the property tax calculation. The amount can either be a flat dollar amount or a percentage of the assessed value of the home. Using the example above, a homestead exemption equal to \$20,000 would reduce taxes owed by \$400 to \$2,600.

$$.02 \text{ (rate)} \times [\$150,000 \text{ (value)} - \$20,000 \text{ (exemption)}] =$$

$$.02 \text{ (rate)} \times [\$130,000 \text{ (value after exemption)}] = \$2,600$$

A homestead exemption that is equal to a percentage of the value would operate similarly except that the amount of the exemption would vary depending on the value of the home. For example, a 10% homestead exemption would equal \$15,000 in value in the example above. This would reduce the taxable value of the house to \$125,000 (\$150,000 minus \$15,000). Taxes would, thus, be reduced by \$300 to \$2,700.

Some states offer homestead credits rather than exemptions. A homestead credit is a reduction in taxes owed as opposed to a reduction in the taxable value. A \$400 homestead credit would reduce the taxes owed on the house in the example to \$2,600 (\$3,000 minus the \$400 credit).

**Property Tax Circuit Breaker Credit** – Property tax circuit-breakers are designed to prevent low-income and elderly taxpayers from being “overloaded” by their property tax bill. Typically, the state establishes a maximum percentage of income that a family that qualifies for the circuit-breaker can be expected to pay in property taxes; if this limit is exceeded, the state provides a credit against taxes owed or a rebate to the taxpayer.

For example, a circuit breaker may limit property taxes owed to no more than 3.5 percent of income. If the owner of the home in the example above had an income of \$50,000, the \$3,000 in property taxes owed would equal 6 percent of income. The taxpayer would receive a credit or rebate equal to the amount needed to bring this percentage down to 3.5 percent. In this example that would equal \$1,250.

$$\$3,000 \text{ (tax owed)} \text{ minus } [\$50,000 \text{ (income)} \times .035 \text{ (maximum share of income allowed)}]$$

$$\$3,000 \text{ minus } \$1,750 = \$1,250$$

(Most state circuit breaker programs are available only to taxpayers with income below a specified level and include a maximum allowable payment.)

states greatly expanded elder tax preferences over this period, there were some states that reduced them. (Conway's paper shows the trend in each state.) On average, state tax preferences for the elderly have remained fairly constant over the last two decades while federal preferences have been declining.

Another set of researchers, Sally Wallace, professor of economics at the University of Georgia and Barbara Edwards of the Congressional Budget Office, attempted to quantify the relative level of senior preferences by state in a 2004 paper. Table 6 and Figure 3 show the results of their analysis of the differences in effective state income tax rates for the elderly versus the non-elderly for each state. The states with the highest differentials – that is the largest senior bonus – are Michigan, Kentucky, Georgia, South Carolina, Hawaii, Indiana, Idaho, Oregon, Wisconsin, Arkansas, Connecticut, Illinois and Pennsylvania.<sup>6</sup>

### **Are Existing Senior Preferences Reaching Their Intended Targets?**

The main arguments advanced for tax preferences for seniors are income-related. Supporters of these tax breaks argue that they are needed because seniors must live on fixed incomes while their costs, especially for health care and housing, continue to grow. Many senior tax preferences were enacted decades ago when the senior poverty level was much higher. In addition, in the past, it was much more common for taxpayers with below-poverty incomes at any age to be subject to state income taxes.

Because being a senior citizen is no longer synonymous with being poor and many states have adopted tax relief for low-income taxpayers of all ages, a significant share of the dollars states spend on senior tax preferences is being directed to high-income taxpayers with the means to pay taxes.

For example, added exemptions for seniors benefit taxpayers regardless of their income. The value of an added exemption depends on the tax rate that the taxpayer pays on each additional dollar of income. In states with graduated rate structures — ones where the tax rate increases as income increases — added exemptions provided a greater benefit to higher income taxpayers because their marginal tax rates are higher. Thus, the added exemption reduces taxes for high-income taxpayers who have the means to pay taxes. In addition, many states have adopted measures that exempt their lowest-income taxpayers from the income tax so they do not benefit at all from increased exemptions.

It is important to note that providing a higher standard deduction rather than a higher personal exemption eliminates some of this problem because most high income taxpayers itemize their deductions and, thus, do not benefit from an increase in the standard deduction. (Only 9 percent of taxpayers with incomes over \$100,000 used the standard deduction according to IRS data from 2003.)

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<sup>6</sup> At the time the Wallace-Edwards study was prepared Virginia had one of the highest differentials, but has since scaled back its senior preferences. Thus we have not included them in this list.

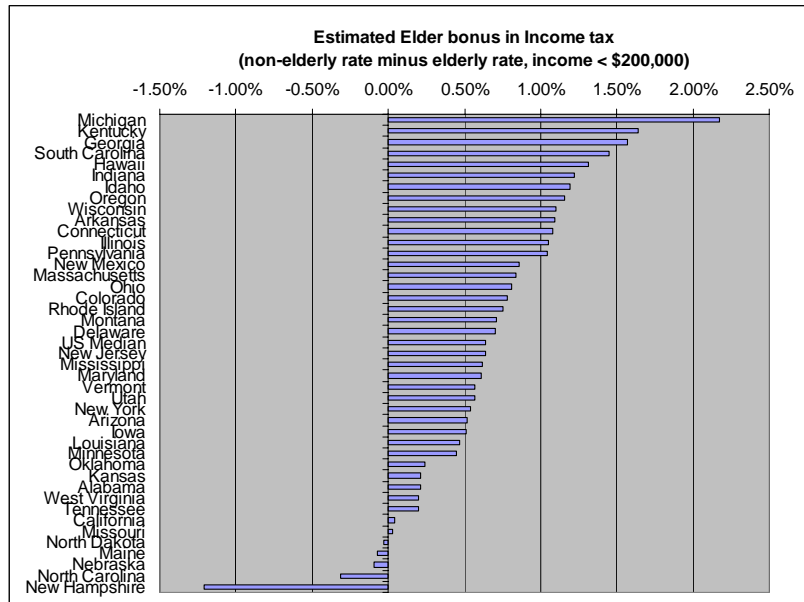


**TABLE 6: EFFECTIVE RATE OF INCOME TAX FOR THE ELDERLY**

	Difference in effective income tax rate for elderly vs others (income <\$200K) (elderly rate minus others)
Alabama	-0.21%
Alaska	No Income Tax
Arizona	-0.52%
Arkansas	-1.09%
California	-0.04%
Colorado	-0.78%
Connecticut	-1.08%
Delaware	-0.70%
District of Columbia	NA
Florida	No Income Tax
Georgia	-1.57%
Hawaii	-1.31%
Idaho	-1.19%
Illinois	-1.05%
Indiana	-1.22%
Iowa	-0.51%
Kansas	-0.21%
Kentucky	-1.64%
Louisiana	-0.47%
Maine	0.07%
Maryland	-0.61%
Massachusetts	-0.84%
Michigan	-2.17%
Minnesota	-0.45%
Mississippi	-0.62%
Missouri	-0.03%
Montana	-0.71%
Nebraska	0.09%
Nevada	No Income Tax
New Hampshire	1.21%
New Jersey	-0.64%
New Mexico	-0.86%
New York	-0.54%
North Carolina	0.31%
North Dakota	0.03%
Ohio	-0.81%
Oklahoma	-0.24%
Oregon	-1.16%
Pennsylvania	-1.04%
Rhode Island	-0.75%
South Carolina	-1.45%
South Dakota	No Income Tax
Tennessee	-0.20%
Texas	No Income Tax
Utah	-0.57%
Vermont	-0.57%
Virginia	-1.70%
Washington	No Income Tax
West Virginia	-0.20%
Wisconsin	-1.10%
Wyoming	No Income Tax
US Median	-0.64%

Source: Wallace, Edwards, How Much Preference: Effective Personal Income Tax Rates for the Elderly, April 2002.

**FIGURE 3**



Source: Barbara Edwards and Sally Wallace, *How Much Preference: Effective Personal Income Tax Rates for the Elderly*, April 2002

The impact of pension exemptions also varies by income. The amount of retirement income received — Social Security and private and government pensions — increases as total family income increases, so the dollar value of the tax reduction provided by full pension exclusions is higher for higher income families. In addition, the fact that many states exempt low-income taxpayers from the income tax means that those most in need do not receive any benefit from these provisions. For example, Colorado exempts married couples with no children from its income tax if their income is below 121 percent of poverty; as a result, no elderly couples with below poverty income benefit from the state’s generous pension exemption. The same high-income seniors who receive the largest dollar benefit from pension exemptions depend the least on pensions and social security for their income. According to the consumer expenditure survey, pensions and social security make up only 32 percent of income for the elderly with incomes of \$70,000 and above compared to approximately 90 percent for those with incomes below \$20,000.

The design of social security exemptions determines who benefits from these provisions. Most states fully exempt social security payments but a dozen states follow the practice of the federal government and only exempt social security income for those below a specified income level. The retirees who are subject to the federal tax are often people of substantial means who have built up assets over time.

<b>TABLE 7: ESTIMATED POTENTIAL REVENUE LOSS IN MINNESOTA AS A PERCENT OF INCOME TAX REVENUE</b>		
	<b>2002</b>	<b>2030</b>
Fully exempt social security benefits	-2.3%	- 5.0%
Exempt all pension payments	-6.4%	-12.6%
Exempt both social security and pension income	-8.1%	-15.8%

Source: State Income Tax Revenue in 2002 and 2003: *The Impact of the Retirement of the Baby Boom*, State Tax Notes, January 23, 2006.

## **How Much Do These Preferences Cost the States?**

Little information has been collected on the costs of these preferences to the states. A recent report prepared by researchers with the Minnesota House of Representatives and Department of Revenue sheds some light on the amount of revenue lost as a result of these preferences. Using the current Minnesota tax system as a base, these researchers estimated the amount that typical types of preferences would cost if Minnesota adopted them. Currently, Minnesota follows the federal treatment of Social Security benefits and does not exempt pension income. The Minnesota study found that the costs of these exemptions are significant and will grow substantially in the future. The analysis showed that fully exempting social security benefits would have reduced state income tax revenue by 2.3 percent (\$107 million) in 2002. This cost would more than double to 5.0 percent by 2030. The cost of fully exempting pensions or of exempting both pensions and all social security benefits follows a similar pattern. If Minnesota had fully exempted social security and pension income in 2002 income tax revenue would have been reduced by 8.1 percent. The cost is projected to double by 2030. (See Table 7.) The Minnesota analysis gives some information about the potential cost of the types of preferences are incurring, but the results are not directly transferable to other states because they are determined in part by the make-up of Minnesota's population and its income tax structure.

In order to get more information on the costs to individual states, the Center reviewed tax expenditure budgets in selected states to determine how much revenue is being forgone as a result of senior tax preferences. Table 8 contains the data we were able to locate in those states that publish tax expenditure budgets.

- The cost of senior tax preferences in a state such as Kentucky that fully exempts social security income from taxation, and offers pension exemptions as well as added personal exemptions based on age currently equals approximately 4.3 percent of the state's general fund.
- In contrast, the cost of senior preferences in a state that offers few preferences or targets them by income such as Louisiana or Connecticut is relatively small – 0.5 percent or less of the general fund.
- In a state with a moderate level of preferences, such as Delaware or Missouri, the cost is currently about 2.0 percent of the general fund.

**TABLE 8: EXAMPLES OF COSTS OF INCOME TAX PREFERENCES**

	Pension/Retirement income preferences	Annual cost (millions)	Social Security Income preferences	Annual cost (millions) (1)	Other preferences	Annual cost (millions)	Total of available estimates	Year of estimate	Percent of General Fund Revenues
California			Full exemption of SS income	\$655.0	Additional exemption	\$97.0	\$752.0	2004	1.0%
Connecticut			Full exemption of SS income (income below \$50,000/\$60,000)	\$35.0			\$35.0	2004	0.3%
Delaware	Pension and Retirement income (partial)	\$31.5	Full exemption of SS income	\$16.0	Additional personal credit (\$110)	\$5.5	\$53.0	2004	1.9%
Idaho	Pension and Retirement income (public only)	\$4.2	Full exemption of SS income	\$25.7			\$29.9	2004	1.4%
Illinois	Pension and retirement income (cost included with SS income est.)		Full exemption of SS income & full exemption of pension income	\$757.7	Additional exemption	\$31.2	\$788.9	2004	3.4%
Iowa	Pension, private & govt (partial)	\$75.0	Up to half exempt	\$25.0	Additional credit	\$2.9	\$102.9	2004	2.2%
Kentucky (1)	Pension, private & govt (partial)	\$235.1	Full exemption of SS income (1)	\$71.6			\$306.7	2004	4.3%
Louisiana	Pension and Retirement income (partial)	\$12.6					\$12.6	2004	0.2%
Massachusetts (1)			Full exemption of SS income (1)	\$127.3	Additional exemption (\$700)	\$20.3	\$147.6	2004	0.6%
Michigan	Pension and Retirement income	\$510.0	Full exemption of SS income	\$140.0	Additional exemption	\$38.2	\$688.2	2004	3.7%
Minnesota					Subtraction of income of elderly or disabled	\$1.2	\$1.2	2004	0.0%
Mississippi	Pension and Retirement (cost included with SS income est.)		Full exemption of SS income and pension exemption	\$203.3	Additional Exemption	na	\$203.3	2005	5.2%
Missouri	Pension, private & govt partial	\$153.7					\$153.7	2004	2.2%
Montana	Pension, private & govt partial	\$4.6			Additional exemption	\$6.1	\$10.7	2004	0.8%
New York	Pension, public (full) & private (partial)	\$1,016.0	Full Exemption of SS income	\$452.0			\$1,468.0	2005	3.4%
North Carolina	Pension, private & govt partial	\$314.8	Full exemption of SS income	\$179.2	Higher standard deduction		\$494.0	2004	3.4%
Ohio	Public Private pension credit (partial)	\$87.9	Full exemption of SS income	\$173.7	Additional credit	\$20.3	\$281.9	2004	1.2%
Oklahoma	Public Private pension credit (partial)	\$38.7	Full exemption of SS income	\$63.5	Additional exemption	\$0.8	\$103.0	2004	2.0%
Oregon	Pension, private & govt (partial)	\$1.3	Full exemption of SS income	\$106.6			\$107.9	2004	2.2%
Pennsylvania (1)	Pension, private & govt	\$978.1	Full exemption of SS income(1)	\$140.1			\$1,118.2	2004	5.1%
West Virginia	Public pensions (partial)	11.9			All income exclusion up to \$8,000/\$16,000	\$34.7	\$46.6	2004	1.5%
Wisconsin	Public pensions (limited)	\$51.5	Up to half exempt	\$40.0	Additional exemption	na	\$91.5	2004	0.8%

Source: Various state tax expenditure reports. Percent of general fund spending is CBPP calculation using NASBO data.

(1) The cost of the social security exemption is the cost of exempting amounts that are taxed federally. For Kentucky, Massachusetts and Pennsylvania this cost was estimated using data on taxable social security benefits from the IRS and the states' tax rate.

**TABLE 9: EXAMPLES OF COST OF SENIOR PREFERENCES  
CURRENTLY AND PROJECTED TO 2030**

	Total of available estimates		Cost in 2004 for number of seniors projected for 2030	
	Amount (millions)	Percent of General Fund	Amount (millions)	Percent of General Fund
California	752.0	1.0%	1,630.3	2.2%
Connecticut	35.0	0.3%	58.7	0.5%
Delaware	53.0	1.9%	115.7	4.2%
Idaho	29.9	1.4%	68.0	3.2%
Illinois	788.9	3.4%	1,251.4	5.4%
Iowa	102.9	2.2%	157.6	3.4%
Kentucky	306.7	4.3%	533.6	7.5%
Louisiana	12.6	0.2%	22.5	0.3%
Massachusetts	147.6	0.6%	252.8	1.1%
Michigan	688.2	3.7%	1,148.7	6.2%
Minnesota	1.2	0.0%	2.3	0.0%
Mississippi	203.3	5.2%	365.3	9.3%
Missouri	153.7	2.2%	261.3	3.8%
Montana	10.7	0.8%	22.8	1.6%
New York	1,468.0	3.4%	2,306.6	5.3%
North Carolina	494.0	3.4%	1,040.0	7.1%
Ohio	281.9	1.2%	435.7	1.8%
Oklahoma	103.0	2.0%	168.0	3.3%
Oregon	107.9	2.2%	206.9	4.2%
Pennsylvania	1,118.2	5.1%	1,704.0	7.8%
West Virginia	46.6	1.5%	71.4	2.3%
Wisconsin	91.5	0.8%	167.8	1.6%

Source: CBPP calculations of data from various state tax expenditure reports. Census projections and NASBO

Methodology: First, cost per senior in 2004 was estimated. This was multiplied by projected number of seniors for 2030. Result was divided by 2004 General Fund revenues to get percent of GF figure.

By combining this information with Census projections of the growth in the number of elderly by state, we were able to estimate the growth in the cost of these preferences.<sup>7</sup> Table 9 shows the current and projected costs for the states that had data available. These projections show that the cost will almost double in most states and will equal approximately four percent of the General Fund in a state with an average amount of preferences and 7 percent or more in a state with a large number of preferences. This represents a serious drain on state treasuries at a time when states will be facing pressures on the spending side of the budget from the aging of the population.

## Alternatives

There are a number of ways that states can address this growing revenue loss while still providing assistance to those seniors in need. In general, this requires updating these programs in light of the fact that being elderly is no longer synonymous with being poor. This can be done by including

<sup>7</sup> In order to estimate the future cost of these preferences we used the following methodology. First, the cost per senior in 2004 was calculated using the tax expenditure data and Census data. We then multiplied that cost by the number of seniors projected by Census for the state and then compared that to 2004 General Fund Revenues. This results in an estimate of the cost in dollars and as a share of the General Fund of these preferences in 2004 if the number of seniors were equal to what is projected for 2030.

income limits or tests as a part of existing tax reduction programs for seniors, or making sure that these are part of any new senior tax preferences.

For example:

- More states could use the federal provisions for taxation of social security rather than completely exempting social security income from taxation. Currently 12 states follow federal policy for taxation of social security benefits – Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Rhode Island, Utah, Vermont, and West Virginia. Alternatively, states could limit the exemption of social security income to taxpayers below a certain income level, as Connecticut does.
- States that offer exemptions for public or private pensions could phase them out at a specific income level, only offer them to taxpayers with incomes below a certain level or establish a cap or lower an existing cap on the amount of pension exempted. For example, as a part of a large tax package adopted in 2004, Virginia scaled back its preferential treatment of pension income by phasing out the exemption for starting at \$75,000 for joint filers and \$50,000 for single filers.
- States could convert their age-based additional personal exemption to a higher standard deduction – such as the deduction from federal taxes – would target these preferences more to lower and middle income taxpayers. Only states that include standard deductions in their income tax could make this change.
- Additional states could offer property tax circuit breakers rather than homestead exemptions or credits. Under the provisions of a circuit-breaker, taxpayers receive a credit if their income is below a defined level and their property taxes exceed a specified percentage of their income. Currently, some 34 states offer property tax circuit breaker programs. The size of the benefit and eligibility for these programs vary widely and they often exist in addition to homestead exemption or credit programs that are not tied to income. States could expand circuit breaker programs and cut back on non-means tested property tax reduction programs in order to target tax relief to those most in need of it.
- State could raise the eligibility age for their age based credits and exemptions in order to target them to the seniors who have the least ability to pay. The percent of people 75 years old and older in poverty is higher than the percent of those between 65 and 75.