Circuit Breakers: A Safety Measure to Prevent a Dangerous Overload

Saving homeowners from overload caused by paying extraordinary amounts of their income in property taxes on their homes.

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Tri-County Committee
for Property Tax Relief

How a Circuit Breaker Works

• A circuit breaker provides a state income tax credit for property taxes that exceed a percentage of one’s income.
  − This is a credit, not a deduction.
  − Covers all ad valorem property taxes not just school property taxes.
  − Pay property taxes when due; Apply for credit with state income taxes.
  − Refundable credit.
  − Can cover renters.
• New York has had a circuit breaker since 1986, but it is set at a low threshold and provides little relief:
  − Seniors can receive a maximum of $375 and other taxpayers can get up to $75.
• Taxpayers wishing to claim the state’s current circuit breaker credit must meet all of the following eligibility requirements:
  − Household gross income cannot exceed $18,000 (gross income is broader than NY AGI ) and includes Social Security and public assistance cash benefit
  − Market value of home cannot exceed $85,000. Average monthly rent of renting taxpayer cannot exceed $450.

Overhauling the circuit breaker so that middle income taxpayers can be protected from extreme property tax burdens. Unsustainable property taxes are no longer just a lower income problem.

Advantages of a Middle Income Circuit Breaker:

• Ties relief to the relationship between one’s property tax bills and the income available to pay them (the most accurate measure of individual tax burden). Compare to STAR, where tax bill is not a factor.
• Provides relief to all property owners who are overburdened except for the very highest income earning households
• Effective in providing significant relief to the middle class
• Costs significantly less than a partial or state-wide takeover.
Two pieces of legislation that are currently being considered would establish Middle Class Circuit Breakers.

- A.5380 by Assemblywoman Teresa Sayward
- A.1575/S.1053 by Senator Elizabeth Little and Assemblywoman Sandra Galef. Has bipartisan sponsorship in both houses of the state legislature.

\[ \text{Example of How This Circuit Breaker Credit Would Work} \]

<table>
<thead>
<tr>
<th>Income</th>
<th>Property Taxes Paid</th>
<th>Circuit Breaker Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>$80,000</td>
<td>$4,000</td>
<td>$4,000</td>
</tr>
<tr>
<td>$120,000 to $175,000</td>
<td>$15,000</td>
<td>$11,000</td>
</tr>
<tr>
<td>$175,000 to $250,000</td>
<td>$20,000</td>
<td>$16,000</td>
</tr>
</tbody>
</table>

A.1575/S.1053 – Galef/Little

- Applies to homeowners who have lived in their residences for at least 5 years and have incomes below $250,000.
- Would replace the Middle Class STAR Rebate Check Program, but not the basic or enhanced Senior STAR, both of which would continue.
- Credit is for 70 percent of total property taxes that exceed the applicable percentage.

**Downstate Formula** (NYC, Nassau, Suffolk, Rockland, Westchester, Putnam, Orange, Dutchess)

- 6% of income if income is under $120,000
- 7% of income if income is $120,000 to $175,000
- 8% of income if income is $175,000 to $250,000

**Upstate Formula** (All Other Counties)

- 6% of income if income is under $90,000
- 7% of income if income is $90,000 to $150,000
- 8% of income if income is $150,000 to $250,000

**Example of How This Circuit Breaker Credit Would Work:**

<table>
<thead>
<tr>
<th>Income</th>
<th>Property Taxes Paid</th>
<th>Overage</th>
<th>Circuit Breaker Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>$80,000</td>
<td>$4,800</td>
<td>$3,200</td>
<td>$2,240</td>
</tr>
<tr>
<td>$120,000 to $175,000</td>
<td>$15,000</td>
<td>$11,000</td>
<td>$8,800</td>
</tr>
<tr>
<td>$175,000 to $250,000</td>
<td>$20,000</td>
<td>$16,000</td>
<td>$12,000</td>
</tr>
</tbody>
</table>

**Advantages of the Galef/Little Proposal:**

- Bipartisan
- Affordable

If you do not qualify this year, you may in a future year.
An analysis of the Galef/Little proposal yielded the following estimates:

- 2.5 million households meet the basic income criteria (income and residency) and 940,000 of those households would receive benefits at an estimated cost of $1.64 billion.
- This is roughly equivalent to the projected cost of the middle class STAR Rebate program.
- If the residency requirement was dropped, the number of beneficiaries would increase to 1.44 million households and the cost would increase to $2.5 billion.

The following table summarizes the estimated impact by income category.

### Estimated Impact of A.1575/S.1503 on New York State Homeowners by Income Range

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Households</th>
<th>Households Eligible for Credits</th>
<th>Percent Eligible for Credits</th>
<th>Cost Mean Benefit</th>
<th>Mean Benefit</th>
<th>Maximum Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $25,000</td>
<td>346,493</td>
<td>257,269</td>
<td>74.2%</td>
<td>499,798,313</td>
<td>1,187</td>
<td>11,143</td>
</tr>
<tr>
<td>$25,000 to $50,000</td>
<td>534,436</td>
<td>285,388</td>
<td>53.4%</td>
<td>481,693,721</td>
<td>1,019</td>
<td>9,136</td>
</tr>
<tr>
<td>$50,000 to $75,000</td>
<td>507,663</td>
<td>180,744</td>
<td>35.6%</td>
<td>357,058,030</td>
<td>1,572</td>
<td>8,976</td>
</tr>
<tr>
<td>$75,000 to $100,000</td>
<td>307,714</td>
<td>131,759</td>
<td>33.7%</td>
<td>224,688,417</td>
<td>1,422</td>
<td>8,326</td>
</tr>
<tr>
<td>$100,000 to $150,000</td>
<td>411,046</td>
<td>101,759</td>
<td>24.2%</td>
<td>114,628,580</td>
<td>1,061</td>
<td>12,546</td>
</tr>
<tr>
<td>$150,000 to $200,000</td>
<td>150,578</td>
<td>45,550</td>
<td>3.5%</td>
<td>6,123,777</td>
<td>805</td>
<td>3,897</td>
</tr>
<tr>
<td>$200,000 to $250,000</td>
<td>65,082</td>
<td>80</td>
<td>0.1%</td>
<td>11,948</td>
<td>149</td>
<td>149</td>
</tr>
<tr>
<td>Over $250,000</td>
<td>116,249</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2,530,976</td>
<td>939,529</td>
<td>37%</td>
<td>1,644,092,786</td>
<td>1,281</td>
<td>12,546</td>
</tr>
</tbody>
</table>

### Conclusions

- The fact that the mean benefit amount is the highest in the $25,000 to $75,000 income range indicates that many New Yorkers are paying extremely high percentages of their income just to pay their taxes on their home. And it is these homeowners who are most at risk of being forced from their homes.
- Circuit breakers are generally considered to be the fairest, most effective and most cost efficient way to provide individual homeowner relief from unreasonably burdensome levels of taxation.
- However, they do not address root causes of high property taxes. They make it possible for homeowners to remain in their homes while more fundamental reforms are debated, selected and implemented.

But they help promote a greater degree of tax fairness.