

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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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.

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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.

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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 bi-partisan sponsorship in both houses of the state legislature.

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A.5380 – Sayward

For New York residents who have lived in their homes for at least five years, and whose household incomes are \$200,000 or less, this Circuit Breaker would provide for a 100 percent credit of all property taxes that exceed certain percentages of household income. Cost: about \$3.2 billion per year.

If Household Gross Income is:	Then the Cap on Real Property Taxes would be:
\$50,000 or less	3% of Household Gross Income
\$50,000 to \$100,000	5% of Household Gross Income
\$100,000 to \$150,000	6% of Household Gross Income
\$150,000 to \$200,000	7% of Household Gross Income
Over \$200,000	No Cap

Example of How This Circuit Breaker Credit Would Work

Income	\$80,000
5% of Income	\$4,000
Property Taxes Paid	\$8,000
Circuit Breaker Credit	\$4,000

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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 %	\$120,000 to \$175,000
8 %	\$175,000 to \$250,000

Upstate Formula (*All Other Counties*)

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

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A.1575/ S.1053 - Galef/Little

Example of How This Circuit Breaker Credit Would Work:

Income	\$80,000
6% of Income	\$4,800
Property Taxes Paid	\$8,000
Overage	\$3,200
Circuit Breaker Credit (70% of Overage)	\$2,240

Advantages of the Galef/Little Proposal:

- Bipartisan
- Affordable

If you do not qualify this year, you may in a future year.

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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 impact by income category.

Note: The highest benefit in real dollar and percentage terms would be awarded to those making between \$25,000 and \$75,000 in income in both upstate and downstate.

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

Income range	Households	Households Eligible for Credits	Percent Eligible for Credits	Cost	Median Benefit	Mean Benefit	Maximum Benefit
Less than \$25,000	346,493	257,269	74.2%	459,798,313	1,187	1,787	11,143
\$25,000 to \$50,000	534,436	285,388	53.4%	481,693,721	1,019	1,688	9,136
\$50,000 to \$75,000	507,663	180,744	35.6%	357,058,030	1,572	1,975	8,976
\$75,000 to \$100,000	390,714	131,759	33.7%	224,688,417	1,422	1,705	8,326
\$100,000 to \$150,000	411,046	78,739	19.2%	114,628,580	1,061	1,456	12,546
\$150,000 to \$200,000	158,387	5,550	3.5%	6,123,777	805	1,103	5,897
\$200,000 to \$250,000	65,082	80	0.1%	11,948	149	149	149
Over \$250,000	116,249						
Total	2,530,070	939,529	37%	1,644,002,786	1,281	1,750	12,546

NOTE: Analysis is based on microdata from the American Community Survey for 2006, released in 2007.

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.

- Circuit breakers do not prevent the taxpayer from having to make the initial payment up-front, but they will be reimbursed after they file their return.
- Since the taxpayer pays his full tax up front before applying for the income tax credit, circuit breakers do not impact the revenue stream for schools or municipalities.
- For the same reason, the taxpayer knows what his full tax is and will logically remain interested in spending levels
- Circuit breakers can target relief much more accurately than the current middle Class Star program by creating a direct relationship between the tax bill and the individual's income.
- Special Advantage: It can be financed almost entirely with funds that are already projected to be spent on Middle Class STAR rebates.