

# FISCAL POLICY INSTITUTE

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Testimony  
of  
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before the

**Assembly Standing Committee on Real Property Taxation's**

**Real Property Tax Budget Implementation Hearing  
Focusing on the 2007 Middle Class STAR rebate**

December 5, 2007

The Middle Class STAR rebate program is better targeted than the original STAR program in that it takes income into consideration. But it is still not adequately targeted to be an effective and efficient property tax relief mechanism since it does not take the size of a homeowner's property tax bill into consideration and it is still based on county and school district average of important variables.

A circuit breaker like the Galef/Little proposal (A.1575/S.1053) would address both of these shortcomings. Among the main improvements that this bill needs is a broader definition of income - something like the definition of income in the state's current circuit breaker law. As currently written, the bill takes some types of income into consideration but not other types, despite the fact that all types of income are available to pay property taxes.

A.1575/S.1053 applies to homeowners who have lived in their current homes for at least 10 years and who have incomes of below \$200,000. The credit under this proposal is 70% of the amount by which a household's property taxes on its primary, owner-occupied residence exceeds 6% of their income if their income is below \$100,000; 7% of their income if their income is between \$100,000 and \$150,000; or 8% of their income if their income is between \$150,000 and \$200,000. The results for this plan are summarized in Table 1. We estimated that in 2006 there about 1.9 million households that met the basic criteria (i.e., incomes of \$200,000 or less and 10 years at the same location), and that of those households, about seven hundred thousand would qualify for about \$1.23 billion of tax credits.

We next estimated what would happen if the 10 year residency requirement was dropped and kept all of the other parameters the same. The results for this modification are summarized in Table 2. We estimated that with this modification, the number of beneficiaries would double to about 1.4 million households and that the cost would double to about \$2.46 billion.

Our next step was to estimate what would happen if (a) the circuit breaker credit was 100% rather than 70% of the amount by which a household's property taxes on its primary, owner-occupied residence exceeds 6% of their income if their income is below \$100,000; 7% of their income if their income is between \$100,000 and \$150,000; or 8% of their income if their income is between \$150,000 and \$200,000; and (b) households with income above \$200,000 could qualify if we extended the graduated rates included in the Galef/Little proposal to include households with incomes between \$200,000 and \$250,000 if their property taxes exceeded 9% of their income, and to include households with incomes above \$250,000 if their property taxes exceeded 10% of their income. The results for this modification are summarized in Table 3. As this table shows, we estimate that with this modification, the number of beneficiaries would remain at the same 1.4 million level as but the cost would increase to \$3.5 billion.

Finally we estimated the impact of a modification similar to that which is summarized in Table 3 but under which the circuit breaker credit would apply only to the property taxes on the first \$500,000 of the value of a household's home. (In other words, if the full value of a home was \$750,000, the circuit breaker credit would apply to 2/3rds, i.e., \$500,000 divided by \$750,000, of the property taxes on that home.) This modification (Table 4) reduces the number of beneficiaries from the 1.4 million households to 1.29 million households, and it reduces the cost to \$2.68 billion.

While the parameters in the modifications summarized in Tables 3 and 4 allowed households with incomes above \$200,000 to qualify for credits, no households in the sample had property taxes of such a magnitude (relative to their income) that they qualified for credits.

One of the most striking things about these estimates is the magnitude of the credits for which some households would qualify. Under the current A.1575/S.1053, for example, the estimate of the maximum credit in the below \$50,000 to \$75,000 income range was about nine thousand dollars. These numbers (and the differences between the mean and the median credits) indicate that many households have very large property tax bills relative to their incomes. The STAR program is providing aid to many households for whom property taxes are a very reasonable percentage of income, while the aid being provided is not sufficient to assist those who are truly overburdened by property taxes and who in the words of Governors Pataki and Spitzer are literally being forced out of their homes. The middle class STAR program is a step in the right direction by taking household incomes into consideration, but unless the size of households property tax bills are also taken into consideration, more aid will still go to households with reasonable property tax burdens relative to their income, and not enough aid will go to those who are truly overburdened.

In addition to the property tax relief that a circuit breaker credit can give to homeowners, it can also address the impact of property taxes on renters. New York State's current circuit breaker program, which applies only to very low income households (those with incomes below \$18,000), allows tenants to count 25% of their rent as their "property tax equivalent" and then use the same formula to determine if they are eligible for a credit. The Galef/Little bill does not provide any coverage for renters. While the percent of rent that is counted as a tenant's "property tax equivalent" should probably decline as income increases (particularly in the income ranges covered by the Galef/Little bill), it does not seem defensible to exclude renters entirely.

**Table 1: Estimated Impact of A.1575/S.1503 on New York State Homeowners, by Income Ranges**

| <u>Income range</u>    | <u>Total Number of Households in Category</u> | <u>Total Number of Households Eligible for Credits</u> | <u>Percent of Households in Category Eligible for Credits</u> | <u>Cost</u>          | <u>Median Benefit</u> | <u>Mean Benefit</u> | <u>Maximum Benefit</u> |
|------------------------|---|--|---|----------------------|-----------------------|---------------------|------------------------|
| Less than \$25,000     | 262,188                                       | 194,201  | 74.1%   | 347,129,969          | 1,187                 | 1,787               | 11,143                 |
| \$25,000 to \$50,000   | 407,615                                       | 218,715  | 53.7%   | 370,943,534          | 1,042                 | 1,696               | 9,136                  |
| \$50,000 to \$75,000   | 391,352                                       | 139,471  | 35.6%   | 270,669,906          | 1,564                 | 1,941               | 8,976                  |
| \$75,000 to \$100,000  | 300,304                                       | 104,695  | 34.9%   | 177,932,349          | 1,386                 | 1,700               | 9,026                  |
| \$100,000 to \$150,000 | 315,260                                       | 48,757   | 15.5%   | 60,992,693           | 924                   | 1,251               | 12,546                 |
| \$150,000 to \$200,000 | 119,653                                       | 1,925  | 1.6%  | 2,200,185            | 805                   | 1,143               | 5,897                  |
| Over \$200,000         | 137,085                                       |  |   |                      |                       |                     |                        |
| <b>Total</b>           | <b>1,933,457</b>                              | <b>707,764</b>   | <b>36.6%</b>  | <b>1,229,868,636</b> | <b>1,254</b>          | <b>1,738</b>        | <b>12,546</b>          |

NOTE: Analysis is based on microdata from the American Community Survey for 2006, released in 2007. Analysis excludes an estimated twenty thousand homeowners who reported less than \$100 income for 2006.

**Table 2: Estimated Impact of A.1575/S.1503 on New York State Homeowners, by Income Ranges,  
WITHOUT the 10-Year Residency Requirement**

| <u>Income range</u>    | <u>Total Number of Households in Category</u> | <u>Total Number of Households Eligible for Credits</u> | <u>Percent of Households in Category Eligible for Credits</u> | <u>Cost</u>          | <u>Median Benefit</u> | <u>Mean Benefit</u> | <u>Maximum Benefit</u> |
|------------------------|---|--|---|----------------------|-----------------------|---------------------|------------------------|
| Less than \$25,000     | 524,766                                       | 387,733  | 73.9%   | 696,228,449          | 1,201                 | 1,796               | 11,492                 |
| \$25,000 to \$50,000   | 832,304                                       | 442,386  | 53.2%   | 752,033,969          | 1,043                 | 1,700               | 9,588                  |
| \$50,000 to \$75,000   | 780,763                                       | 275,647  | 35.3%   | 534,128,748          | 1,564                 | 1,938               | 8,976                  |
| \$75,000 to \$100,000  | 604,148                                       | 208,125  | 34.4%   | 344,373,224          | 1,316                 | 1,655               | 9,026                  |
| \$100,000 to \$150,000 | 640,752                                       | 99,969   | 15.6%   | 128,413,376          | 961                   | 1,285               | 12,546                 |
| \$150,000 to \$200,000 | 248,796                                       | 3,844  | 1.5%  | 3,657,384            | 722                   | 951                 | 5,897                  |
| Over \$200,000         | 281,920                                       |  |   |                      |                       |                     |                        |
| <b>Total</b>           | <b>3,913,449</b>                              | <b>1,417,704</b>                                       | <b>36.2%</b>  | <b>2,458,835,149</b> | <b>1,254</b>          | <b>1,734</b>        | <b>12,546</b>          |

NOTE: Analysis is based on microdata from the American Community Survey for 2006, released in 2007. Analysis excludes an estimated twenty thousand homeowners who reported less than \$100 income for 2006.

**Table 3: Estimated Impact of A.1575/S.1503 on New York State Homeowners by Income Ranges, WITHOUT the 10-Year Residency Requirement, WITHOUT the 70% Parameter, and WITHOUT the \$200,000 Income Limit**

| <u>Income range</u>    | <u>Total Number of Households in Category</u> | <u>Total Number of Households Eligible for Credits</u> | <u>Percent of Households in Category Eligible for Credits</u> | <u>Cost</u>          | <u>Median Benefit</u> | <u>Mean Benefit</u> | <u>Maximum Benefit</u> |
|------------------------|---|--|---|----------------------|-----------------------|---------------------|------------------------|
| Less than \$25,000     | 524,766                                       | 387,733  | 73.9%   | 994,612,070          | 1,716                 | 2,565               | 16,417                 |
| \$25,000 to \$50,000   | 832,304                                       | 442,386  | 53.2%   | 1,074,334,242        | 1,490                 | 2,428               | 13,697                 |
| \$50,000 to \$75,000   | 780,763                                       | 275,647  | 35.3%   | 763,041,068          | 2,234                 | 2,768               | 12,823                 |
| \$75,000 to \$100,000  | 604,148                                       | 208,125  | 34.4%   | 491,961,748          | 1,880                 | 2,364               | 12,894                 |
| \$100,000 to \$150,000 | 640,752                                       | 99,969   | 15.6%   | 183,447,680          | 1,373                 | 1,835               | 17,923                 |
| \$150,000 to \$200,000 | 248,796                                       | 3,844  | 1.5%  | 5,224,834            | 1,031                 | 1,359               | 8,424                  |
| Over \$200,000         | 281,920                                       |  |   |                      |                       |                     |                        |
| <b>Total</b>           | <b>3,913,449</b>                              | <b>1,417,704</b>                                       | <b>36.2%</b>  | <b>3,512,621,642</b> | <b>1,792</b>          | <b>2,478</b>        | <b>17,923</b>          |

NOTE: Analysis is based on microdata from the American Community Survey for 2006, released in 2007. Analysis excludes an estimated twenty thousand homeowners who reported less than \$100 income for 2006. Assumes the addition of brackets of 9% for households with incomes between \$200,000 and \$250,000, and 10% for households with incomes above \$250,000, to the current 6%, 7% and 8% brackets in A.1575/S.1053

**Table 4: Estimated Impact of A.1575/S.1503 on New York State Homeowners by Income Ranges, WITHOUT the 10-Year Residency Requirement, WITHOUT the 70% Parameter, and WITHOUT the \$200,000 Income Limit, BUT with credit based on the lesser of \$500,000 or actual home value**

| <u>Income range</u>    | <u>Total Number of Households in Category</u> | <u>Total Number of Households Eligible for Credits</u> | <u>Percent of Households in Category Eligible for Credits</u> | <u>Cost</u>          | <u>Median Benefit</u> | <u>Mean Benefit</u> | <u>Maximum Benefit</u> |
|------------------------|---|--|---|----------------------|-----------------------|---------------------|------------------------|
| Less than \$25,000     | 524,766                                       | 385,510  | 73.5%   | 868,928,395          | 1,590                 | 2,254               | 11,569                 |
| \$25,000 to \$50,000   | 832,304                                       | 424,751  | 51.0%   | 875,478,838          | 1,358                 | 2,061               | 11,035                 |
| \$50,000 to \$75,000   | 780,763                                       | 257,377  | 33.0%   | 581,733,104          | 2,060                 | 2,260               | 8,171                  |
| \$75,000 to \$100,000  | 604,148                                       | 185,955  | 30.8%   | 314,350,890          | 1,472                 | 1,690               | 7,890                  |
| \$100,000 to \$150,000 | 640,752                                       | 40,052   | 6.3%  | 39,656,002           | 750                   | 990                 | 5,358                  |
| \$150,000 to \$200,000 | 248,796                                       | 23   | 0.0%  | 13,284               | 578                   | 578                 | 578                    |
| Over \$200,000         | 281,920                                       |  |   |                      |                       |                     |                        |
| <b>Total</b>           | <b>3,913,449</b>                              | <b>1,293,668</b>                                       | <b>33.1%</b>  | <b>2,680,160,512</b> | <b>1,578</b>          | <b>2,072</b>        | <b>11,569</b>          |

NOTE: Analysis is based on microdata from the American Community Survey for 2006, released in 2007. Analysis excludes an estimated twenty thousand homeowners who reported less than \$100 income for 2006. Assumes the addition of brackets of 9% for households with incomes between \$200,000 and \$250,000, and 10% for households with incomes above \$250,000, to the current 6%, 7% and 8% brackets in A.1575/S.1053

**Table 5: Estimated Impact of Enhanced Circuit Breaker for Renters Based on Brackets for Homeowners in A.1575/S.1503, by Income Ranges WITHOUT 70% Parameter**

| <u>Income range</u>    | <u>Total Number of Households in Category</u> | <u>Total Number of Households Eligible for Credits</u> | <u>Percent of Households in Category Eligible for Credits</u> | <u>Cost</u>          | <u>Median Benefit</u> | <u>Mean Benefit</u> | <u>Maximum Benefit</u> |
|------------------------|---|--|---|----------------------|-----------------------|---------------------|------------------------|
| Less than \$25,000     | 1,236,989                                     | 1,016,726  | 82.2%   | 1,302,384,486        | 1,038                 | 1,281               | 11,040                 |
| \$25,000 to \$50,000   | 866,259                                       | 409,425  | 47.3%   | 431,708,222          | 756                   | 1,054               | 8,472                  |
| \$50,000 to \$75,000   | 464,403                                       | 89,408   | 19.3%   | 96,842,163           | 684                   | 1,083               | 7,566                  |
| \$75,000 to \$100,000  | 236,385                                       | 23,446   | 9.9%  | 30,335,273           | 948                   | 1,294               | 5,112                  |
| \$100,000 to \$150,000 | 166,432                                       | 3,829  | 2.3%  | 4,244,131            | 1,294                 | 1,108               | 2,733                  |
| \$150,000 to \$200,000 | 60,566  |  |   |                      |                       |                     |                        |
| Over \$200,000         | 60,512  |  |   |                      |                       |                     |                        |
| <b>Total</b>           | <b>3,091,546</b>                              | <b>1,542,834</b>                                       | <b>49.9%</b>  | <b>1,865,514,275</b> | <b>930</b>            | <b>1,209</b>        | <b>11,040</b>          |

Note: Analysis is based on microdata from the American Community Survey for 2006, released in 2007. Analysis excludes an estimated sixty-three thousand renters who reported less than \$100 income for 2006. Assumes the addition of brackets of 9% for households with incomes between \$200,000 and \$250,000, and 10% for households with incomes above \$250,000, to the current 6%, 7% and 8% brackets in A.1575/S.1053 The enhanced circuit breaker for renters would use a sliding scale to determine the percent of rent assumed to be attributable to property taxes. The percentages would be (1) incomes less than \$18,000 - 25%; (2) incomes between \$18,000 and \$54,000 - 24%; (3) incomes between \$54,000 and \$90,000 - 23%; (4) incomes between \$90,000 and \$126,000 - 22%; (5) incomes between \$126,000 and \$144,000 - 21% (6) incomes above \$144,000 - 20%.

**Table 6: Estimated Impact of Enhanced Circuit Breaker for Renters Based on Brackets for Homeowners in A.1575/S.1503, by Income Ranges WITH 70% Parameter**

| <u>Income range</u>    | <u>Total Number of Households in Category</u> | <u>Total Number of Households Eligible for Credits</u> | <u>Percent of Households in Category Eligible for Credits</u> | <u>Cost</u>          | <u>Median Benefit</u> | <u>Mean Benefit</u> | <u>Maximum Benefit</u> |
|------------------------|---|--|---|----------------------|-----------------------|---------------------|------------------------|
| Less than \$25,000     | 1,236,989                                     | 1,016,726  | 82.2%   | 911,669,140          | 727                   | 897                 | 7,728                  |
| \$25,000 to \$50,000   | 866,259                                       | 409,425  | 47.3%   | 302,195,755          | 529                   | 738                 | 5,930                  |
| \$50,000 to \$75,000   | 464,403                                       | 89,408   | 19.3%   | 67,789,514           | 479                   | 758                 | 5,296                  |
| \$75,000 to \$100,000  | 236,385                                       | 23,446   | 9.9%  | 21,234,691           | 664                   | 906                 | 3,578                  |
| \$100,000 to \$150,000 | 166,432                                       | 3,829  | 2.3%  | 2,970,892            | 906                   | 776                 | 1,913                  |
| \$150,000 to \$200,000 | 60,566  |  |   |                      |                       |                     |                        |
| Over \$200,000         | 60,512  |  |   |                      |                       |                     |                        |
| <b>Total</b>           | <b>3,091,546</b>                              | <b>1,542,834</b>                                       | <b>1,542,834</b>  | <b>1,305,859,992</b> | <b>651</b>            | <b>846</b>          | <b>7,728</b>           |

Note: Analysis is based on microdata from the American Community Survey for 2006, released in 2007. Analysis excludes an estimated sixty-three thousand renters who reported less than \$100 income for 2006. Assumes the addition of brackets of 9% for households with incomes between \$200,000 and \$250,000, and 10% for households with incomes above \$250,000, to the current 6%, 7% and 8% brackets in A.1575/S.1053 The enhanced circuit breaker for renters would use a sliding scale to determine the percent of rent assumed to be attributable to property taxes. The percentages would be (1) incomes less than \$18,000 - 25%; (2) incomes between \$18,000 and \$54,000 - 24%; (3) incomes between \$54,000 and \$90,000 - 23%; (4) incomes between \$90,000 and \$126,000 - 22%; (5) incomes between \$126,000 and \$144,000 - 21% (6) incomes above \$144,000 - 20%.



# Number of school districts within different basic exemption amount ranges, by year (since the program became fully phased in):

