



Policy Brief: Property Tax Relief for Low- and Middle-Income Property New Yorkers Must Remain a Priority

May 27, 2015

Of the two competing property tax relief plans the Legislature is expected to consider this spring, by far the fairest and most effective is one closely tied to the share of someone's income that goes toward property taxes.

It's called a "circuit breaker"—after the term for an automatic switch that protects an electrical circuit from damage caused by overload or short circuit. This plan, proposed by the governor and endorsed by the Assembly, would do a better job of helping low- and middle-income New Yorkers than the flawed STAR (School Tax Relief) that the State Senate wants to revive especially if the circuit breaker was available to all taxpayers, not just those in cap-compliant places. STAR provides a property tax exemption for a share of home value without regard to income. (See below for summaries of the two proposals.¹)

Both programs would provide some property tax relief but the circuit breaker is superior to the STAR rebates in many ways. For example:

- Circuit breakers would address a serious shortcoming of the property tax—that payments are not linked to the taxpayers' ability to pay. STAR rebates are the same regardless of income and home value.
- STAR rebates would apply only to homeowners. A circuit breaker would also help renters, recognizing that they pay the landlord's property taxes indirectly through rent payments. More low-income New Yorkers rent than own their homes and renters would not be eligible.
- Because it is pegged to income, the circuit breaker would provide meaningful property tax relief to those homeowners and renters who need it most. The STAR rebate, in contrast, would provide tax cuts to more homeowners but they would be considerably smaller.
 - Some 40 percent of low-income taxpayers—those making below \$19,000 a year (the poorest fifth of New Yorkers)—would receive a circuit breaker refund, according to an analysis of the governor's proposal by the Institute on Taxation and Economic Policy. Only 13 percent of taxpayers in this income bracket would receive a STAR rebate check.

¹ The Fiscal Policy Institute also provided more detail about the proposed circuit breaker including suggested improvements in *Policy Brief: Property Tax relief: Circuit Breaker*, March 5, 2015. Available at <http://fiscalfpolicy.org/policy-brief-property-tax-relief-circuit-breaker>.

- The situation is reversed for taxpayers at the top of the income scale. Three out of four taxpayers making above \$230,000 (the wealthiest five percent of New Yorkers) would receive a STAR rebate compared to 4 percent that would be eligible for the proposed circuit breaker.

Why a circuit breaker is needed.

Local governments in New York and elsewhere rely on property taxes to pay for such important services as education, transportation, and health care. Funding local services with the property tax carries some advantages. For example, it is a relatively stable revenue source that generally grows as needs grow, when population and the local economy expand. In addition, the property tax gives residents local control over funding and service levels.

But years of austerity budgets at the state level have eroded the state's role as a reliable partner to localities in shouldering the cost of education, healthcare, transportation, and other services. This failure is one of the major reasons for higher-than-average property taxes in New York.

This has exacerbated the major equity problems of property tax. Because low-wealth areas of the state have a harder time raising revenue through the property tax than high-wealth places schools and other local services suffer. Only additional state assistance can resolve this problem.

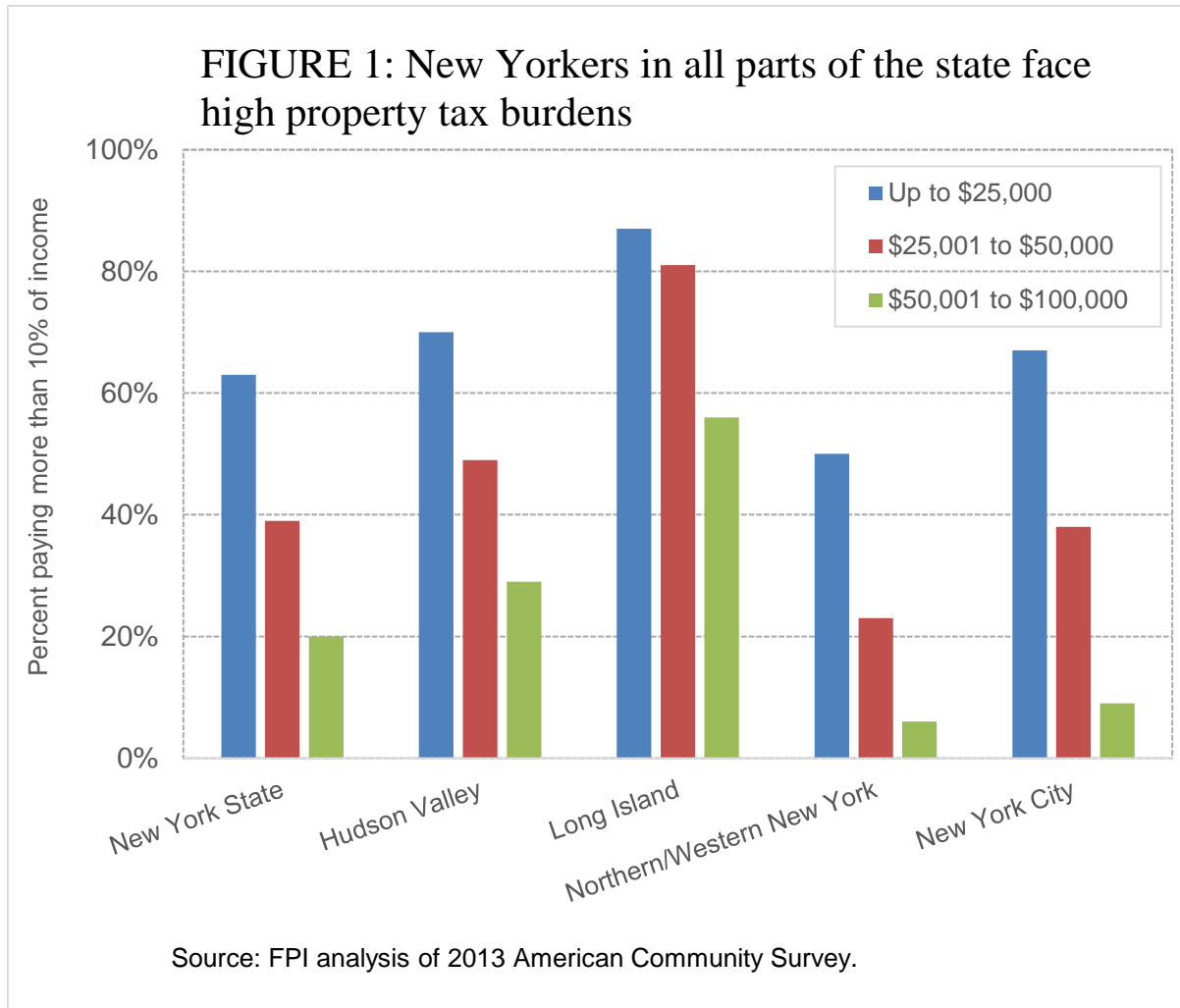
In addition, the property tax is based on the value of someone's home, which does not always correlate to their income and, therefore, their ability to pay. As a result, many New Yorkers pay an unsustainably large share of their income in property taxes.

One group of taxpayers for whom residential property taxes are often high relative to income are those with low and moderate incomes. This includes families living in areas where income has stagnated in recent decades while property taxes have risen, families who live in areas with high housing costs, and renters—who are more likely to have low incomes than the population as a whole – as landlords generally pass on a substantial share of their property taxes in the form of higher rent. In addition, senior citizens who have lived in the same home for decades may struggle to afford property taxes, as do homeowners whose property taxes may be high relative to income, at least temporarily, such as those facing a sudden decline in income if they lose their jobs.

More than 800,000 households in New York with yearly incomes below \$100,000 pay more than 10 percent of income in property taxes. This includes close to two-thirds of households making \$25,000 or less.² Over 290,000 households in New York with incomes below \$50,000 a year pay more than 20 percent of their income in property taxes.³ See Figure 1 and Table 1 in the Appendix.

² FPI analysis of 2013 American Community Survey data.

³ FPI analysis of 2013 American Community Survey data.



Property values, income, and tax rates vary dramatically across New York but this problem is not restricted to one part of the state. Many families in upstate counties where incomes are lower than the state average must devote a large share of their income to paying property taxes. And in the downstate areas of Long Island and New York City, there are low- and moderate-income families that have lived for many years in homes that have grown in value at a greater rate than their income. In Long Island, almost 9 out of 10 families with incomes below \$25,000 pay more than 10 percent of their income in property taxes.

How the proposals would work

The Governor proposed a circuit breaker in recognition of this problem as part of the budget to take effect April 1, 2016. The Senate, however, proposed a very different take on property tax relief.

Circuit breaker. Under the Executive Budget proposal for a property tax circuit breaker, homeowners with incomes under \$250,000 would receive a credit of up to 50 percent of the amount that property taxes exceed 6 percent of income. A family making \$50,000 per year and

paying \$6,000 in property taxes would get a \$1,500 annual credit—a 25 percent reduction in property taxes.

Renters with incomes under \$150,000 would get a credit based on the property taxes built into their rent. The credit would be up to 50 percent of the amount of the property tax—estimated at 13.75 percent of rent—that exceeds 6 percent of income. Someone making \$40,000 a year and paying \$2,000 per month in rent would get a yearly credit of \$450. This equals 50 percent of the amount that \$3,300 (13.75 percent of annual rent of \$24,000) exceeds \$2,400 (6 percent of income). See “Summary of Executive Budget Proposal” after the “Conclusion” for more details.

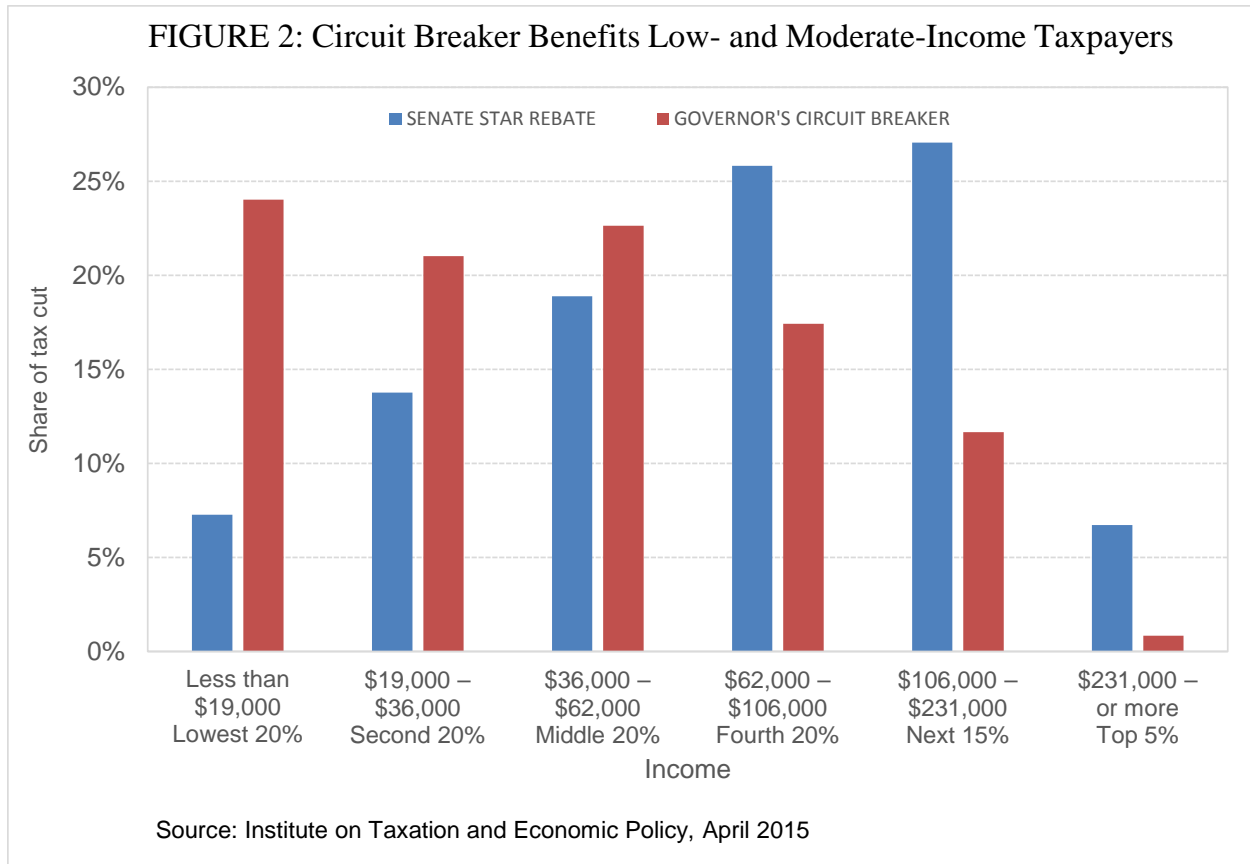
When fully phased in by 2018, more than 1.3 million New York homeowners would get circuit breaker credits that average \$950 a year. In addition, over 1 million renters would get an average credit of \$400. The program would reduce state income tax revenues by \$1.66 billion when fully phased in.⁴

STAR rebate. Under the STAR rebate proposed by the Senate, homeowners eligible for the STAR exemption would receive a rebate check equal to 55 percent of the value of the basic or enhanced STAR exemption when fully phased in.⁵ Renters would not receive STAR rebates.

Under this proposal more than 3.3 million homeowners would receive rebates that average \$468 when combined with existing property tax freeze checks. STAR rebates would total \$1.5 billion when fully phased in.

⁴ FY 2015-2016 Executive Budget and various press releases from the Office of the Governor.

⁵ For example, a non-elderly family making \$50,000 per year with a house worth \$150,000 that pays \$6,000 total annually in property taxes with \$4,000 for schools would get a \$440 annual credit a 7 percent reduction in total property taxes.

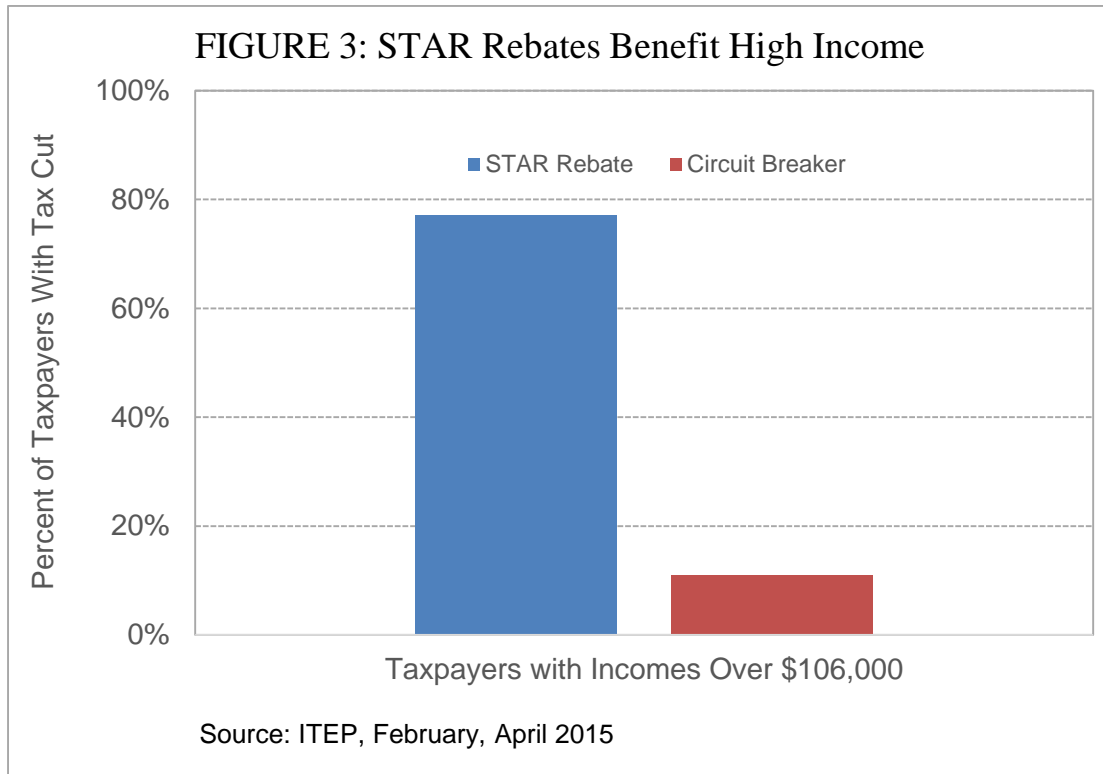


Low- and moderate-income taxpayers would get the most help from circuit breaker

Those making the least income relative to other New Yorkers would benefit more from the proposed circuit breaker than from a STAR rebate. Some 40 percent of taxpayers with incomes below \$19,000 (the poorest fifth of New Yorkers) would receive a circuit breaker refund, according to an analysis of the governor’s proposal by the Institute on Taxation and Economic Policy. Only 13 percent of taxpayers in this income bracket would receive a STAR rebate check. Taxpayers with incomes under \$19,000 would receive 24 percent of the circuit breaker tax credit payments but only 7 percent of the benefit of the STAR rebates.

The situation is reversed for taxpayers with the highest incomes. High-income taxpayers would receive a disproportionate share of STAR rebate dollars. Those with incomes over \$106,000 would receive 34 percent of STAR rebate dollars and 13 percent of the money from the proposed circuit breaker. See Figure 2 and the tables in the appendix for more details. Three out of four taxpayers with incomes above \$230,000 (the wealthiest five percent of New Yorkers) would receive a STAR rebate; 4 percent would be eligible for the proposed circuit breaker.⁶ See Figure 3 and Table 3 in the Appendix.

⁶ Institute on Taxation and Economic Policy analysis, February and April 2015.



A circuit breaker more effectively helps property tax payers who need it most, wherever they live.

For example, 25 percent of homeowners in upstate Washington County own homes valued between \$150,000 and \$200,000.⁷ Property taxes at a rate of \$30.50 per \$1,000 of assessed home value in the county on a \$200,000 home in Hartford are \$5,581.⁸

- This equals 15.9 percent of income for a family at half the county’s \$70,000 median annual income. The proposed circuit breaker would reduce property tax by \$1,739, a 31 percent tax cut.
- A family making \$70,000 would receive tax \$687, a 12 percent tax cut.
- A better-off family, making \$140,000 (twice the median), would not receive a tax cut under the circuit breaker because its property taxes are less than 6 percent of income.

The STAR rebates proposed by the Senate for the same families would be very different. For owners of a \$200,000 house in Hartford, the rebate amounts would be the same \$285 for each family⁹

⁷ U.S. Census Bureau, 2011-2013 3 year American Community Survey. Table S2506.

⁸ Calculated using the 2013 combined property tax rate for overlapping jurisdictions of \$30.50 per \$1,000 for Hartford according to ORTPS, net of basic STAR.

⁹ Fifty-five percent of the maximum basic STAR rebate for Hartford according to ORPTS, net of basic STAR.

- This is a 5.1 percent property tax cut for the low-income and moderate-income families described above. Both in absolute dollars and as a percentage of property taxes paid cuts would be considerably less than those provided by the proposed circuit breaker.
- The higher-income family, on the other hand, would also receive a rebate check.

In Nassau County on Long Island, incomes, property values, and property taxes are considerably higher than in Washington County. In this part of New York a circuit breaker would also direct property tax relief to where it is needed most, unlike a STAR-based rebate.

Some 51 percent of homeowners in Nassau County own homes valued between \$300,000 and \$500,000; 37 percent own homes of \$500,000 or more.¹⁰ Not all of these homeowners are wealthy. Nassau County is home to a number of low-income families who struggle to afford the property taxes on houses that have grown in value while their incomes have not. For example, more than 16,000 homeowners in Nassau County make below \$50,000 and own houses valued at over \$500,000, according to the most recent American Community Survey (the U.S. Census Bureau's annual survey of income, housing costs and other information).¹¹

For example, property taxes at a rate of \$30.36 per thousand in the county on a \$500,000 home in Glen Cove are \$13,765.¹²

- This equals 22 percent of income for a family at half the county's median income of \$124,012. The proposed circuit breaker would reduce property taxes by \$2,000—a 15 percent tax cut—for families at this income level.
- A family making the median income for the county would receive \$1,673, a 12 percent tax cut.
- A better-off family, in contrast, making \$250,000 (twice the median) would not be eligible for a tax cut under the circuit breaker. Moreover, property taxes make up less than 6 percent of income for this family.

The proposed STAR rebates for the same families would be very different. For owners of a \$500,000 house in Glen Cove, the rebate amounts would be the same \$779 for each family.¹³

- This is a 5.7 percent property tax cut for the low-income and moderate-income families described above. Both in absolute dollars and as a percentage of property taxes paid these cuts would be considerably less than the tax relief provided by the proposed circuit breaker.

¹⁰ U.S. Census Bureau, 2011-2013 3 year American Community Survey. Table S2506.

¹¹ U.S. Census Bureau, 2011-2013 3 year American Community Survey. Table B25121.

¹² Calculated using the 2013 combined property tax rate for overlapping jurisdictions of \$30.36 per \$1,000 for Glen Cove according to ORTPS, net of basic STAR.

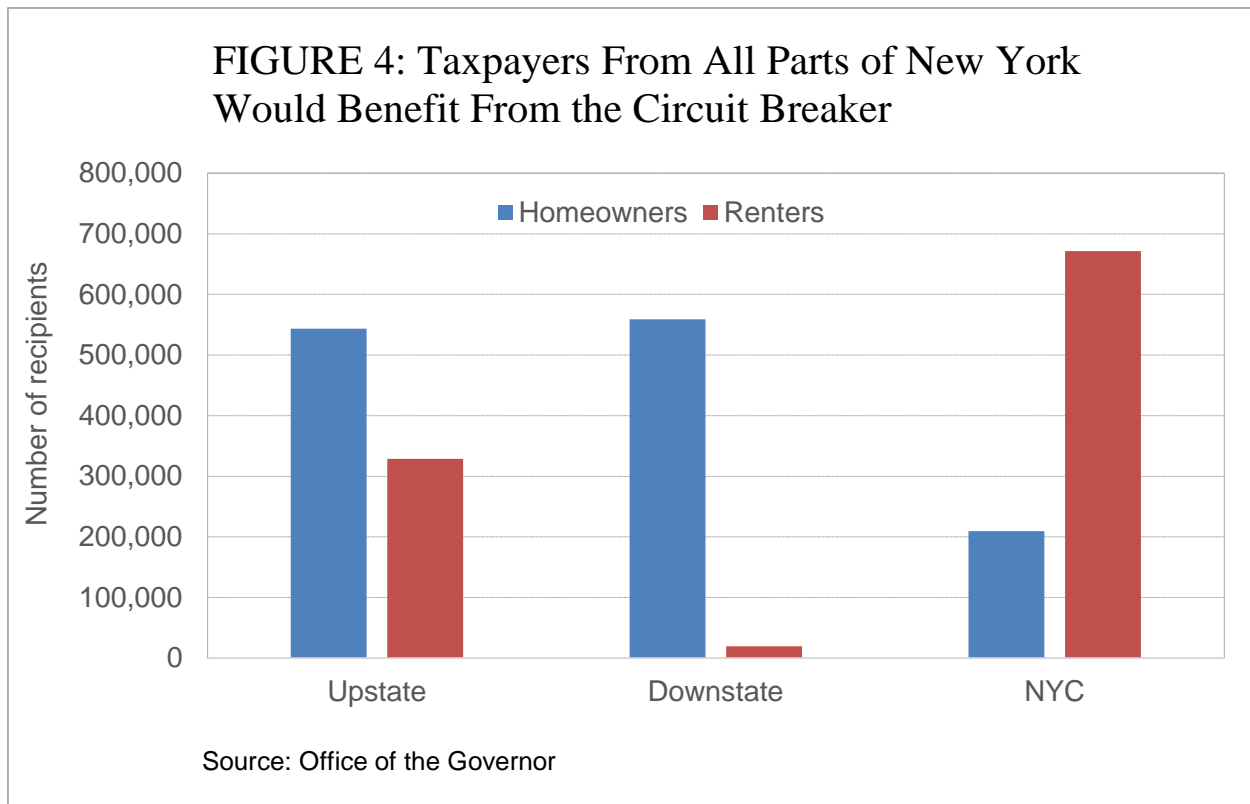
¹³ Fifty-five percent of the maximum basic STAR rebate for Hartford.

- The higher-income family would also receive a STAR rebate check, unlike under the circuit breaker.

Whatever part of New York they live in, the circuit breaker would generally provide a bigger tax cut—both in dollars and as a percentage of property taxes paid—to the low- and median income taxpayers who must devote a larger share of their income to housing costs. The STAR rebates of a few hundred dollars would be too small to have significant impacts on the budgets of families with incomes in the hundreds of thousands of dollars. And the cost of paying rebates to high-income families based on STAR would reduce the funds available to provide meaningful tax relief to the homeowners and renters struggling hardest to make ends meet.

Property tax payers across New York would benefit from a circuit breaker.

Low- and middle-income homeowners and renters in all parts of the state would benefit from a circuit breaker credit. Figure 4 shows the number of homeowners who would benefit by region based on data from the Office of the Governor.¹⁴ The average credits would be largest for those downstate because property taxes there are higher, relative to income. For example, more than 330,000 homeowners in the two Long Island counties of Nassau and Suffolk would receive credits averaging \$1,186, 25 percent higher than the statewide average.



¹⁴ Property Tax Relief for Middle Class Families, Office of the Governor, January 14, 2015.

More is needed

Property tax payers would be better served by adoption of the circuit breaker rather than the STAR program. But there are a number of ways that the Governor's circuit breaker proposal could be improved. Most importantly, it should be available to all taxpayers not just those that live in cap-compliant places. In addition, the cost of this property tax relief should be paid through the reform or elimination of unnecessary tax breaks for businesses and high-income individuals, rather than through an arbitrary limit on state spending that harms New York's economy.¹⁵

Further steps are required to solve the fundamental problem that causes high property taxes in New York and makes a circuit breaker necessary: the state's failure to be a reliable partner to localities in shouldering the cost of education, healthcare, transportation, and other services. This failure is one of the major reasons for higher-than-average property taxes in New York.

Until this long-term problem is addressed, enacting the property tax circuit breaker (with or without the suggested improvements) would provide much needed assistance to those who struggle the hardest to afford property taxes.

¹⁵ For additional ways to improve the proposed circuit breaker, see *Policy Brief: Property Tax relief: Circuit Breaker*, Fiscal Policy Institute, March 5, 2015. Available at <http://fiscalspolicy.org/policy-brief-property-tax-relief-circuit-breaker>.

Summary of Executive Budget Proposal

Homeowners

Homeowners with incomes under \$250,000 receive a credit of up to 50% of the amount that property taxes exceed 6% of income, when fully phased-in. Only taxes levied by jurisdictions (except New York City) that stay under the property tax cap are eligible for the credit. Residents of New York (those who have lived in the state for at least 6 months) are eligible.

Income	Credit amount: % of tax that exceeds 6% of income	Maximum credit
Less than \$75,000	50 percent	\$2,000
\$75,000 to \$150,000	40 to 50 percent*	\$1,500 to \$2,000 **
\$150,000 to \$250,000	15 to 40 percent*	\$1,000 to \$1,500 **
Over \$250,000	0	\$0

Renters

Renters with incomes under \$150,000 receive a credit of up to 50% of the amount that 13.75% of rent (property tax equivalent) exceeds 6% of income.

Income	Credit amount: % of tax that exceeds 6% of income	Maximum credit	
		Downstate	Upstate
Less than \$75,000	50 percent	\$750	\$500
\$75,000 to \$150,000	40 to 50 percent*	\$750	\$500
Over \$150,000	0	\$0	\$0

Notes:

* Credit percentage declines as income increases

** Maximum declines as income increases

For renters, property tax equivalent equals 13.75 percent of rent.

Downstate: NYC, Nassau, Suffolk, Rockland, Putnam, Orange, and Dutchess

Source: Property Tax Relief for Middle Class Families, Office of the Governor, January 14, 2015

The Fiscal Policy Institute (www.fiscalpolicy.org) is an independent, nonpartisan, nonprofit research and education organization committed to improving public policies and private practices to better the economic and social conditions of all New Yorkers. Founded in 1991, FPI works to create a strong economy in which prosperity is broadly shared.

APPENDIX

TABLE 1: New York State property tax as a share of household income

Household income range	Estimated number of households whose property taxes paid in 2013 were:				Total households in income range
	20% or more income*		10% or more of income		
	Number	Percent of Households	Number	Percent of Households	
New York State					
\$25,000 or less	188,184	41%	289,006	63%	459,526
Above \$25,000 but not above \$50,000	105,298	15%	281,708	39%	718,089
Above \$50,000 but not above \$100,000**	N.A.	N.A.	243,619	20%	1,236,122
TOTAL: ALL \$100,000 or less	293,482	N.A.	814,333	34%	2,413,737
Hudson Valley					
\$25,000 or less	38,894	48%	56,753	70%	81,478
Above \$25,000 but not above \$50,000	27,883	22%	62,424	49%	127,134
Above \$50,000 but not above \$100,000**	N.A.	N.A.	71,788	29%	251,095
TOTAL: ALL \$100,000 or less	66,777	N.A.	190,965	42%	459,707
Long Island					
\$25,000 or less	45,332	74%	53,055	87%	60,974
Above \$25,000 but not above \$50,000	47,359	48%	79,649	81%	97,909
Above \$50,000 but not above \$100,000**	N.A.	N.A.	115,884	56%	205,621
TOTAL: ALL \$100,000 or less	92,691	N.A.	248,588	68%	364,504
Northern/Western New York					
\$25,000 or less	49,476	25%	99,994	50%	198,324
Above \$25,000 but not above \$50,000	12,568	4%	76,115	23%	326,462
Above \$50,000 but not above \$100,000**	N.A.	N.A.	28,737	6%	490,202
TOTAL: ALL \$100,000 or less	62,044	N.A.	204,846	20%	1,014,988
New York City					
\$25,000 or less	54,482	46%	79,204	67%	118,750
Above \$25,000 but not above \$50,000	17,488	10%	63,520	38%	166,584
Above \$50,000 but not above \$100,000**	N.A.	N.A.	27,210	9%	289,204
TOTAL: ALL \$100,000 or less	71,970	N.A.	169,934	30%	574,538

Notes: * This column, for the \$25,000 or less income category, includes households with zero or negative income that paid property taxes in 2013.
 ** The subtotal of all households in this income range paying 10% or more of income in property taxes in 2013 includes (a) households that paid between 10% and 19.99% of income in property taxes; and (b) households that paid \$10,000 or more in property taxes and who, because of top coding, cannot be apportioned between the "10% to 19.99% of income" property tax category and the "20% or more of income" property tax category.

Source: Fiscal Policy Institute analysis of microdata from the U.S. Census Bureau's 2013 American Community Survey.

Table 2: Impact of Governor Cuomo's Proposed Homeowner and Renter Circuit Breaker Credit Versus Senate STAR Rebate

All New Yorkers, 2014 Income Levels

	Circuit Breaker	STAR Rebate
Share of Homeowners whose taxes are cut:		
Percent of all Homeowners with tax cut	30%	97%
Percent with incomes below \$106,000 with tax cut	39%	99%
Percent of Homeowners with incomes above \$106,000 with tax cut	14%	91%
Share of tax cut that goes to Homeowners with incomes below \$106,000	83%	68%
Share of tax cut that goes to Homeowners with incomes above \$106,000	17%	34%
Average tax cut for Homeowners with tax cut	\$950	\$468*
Share of Renters whose taxes are cut:		
Percent of all Renters with tax cut	20%	0%
Percent of Renters with incomes below \$106,000 with tax cut	21%	0%
Percent of Renters with incomes above \$106,000 with tax cut	1%	0%
Share of tax cut that goes to Renters with incomes below \$106,000	99%	0%
Share of tax cut that goes to Renters with incomes above \$106,000	1%	0%
Average tax cut for Renters with tax cut	\$400	\$0

Source: Institute on Taxation and Economic Policy, February, April 2015; average tax cut figures from the Office of the Governor.

Notes: * includes existing property tax freeze credit.

Baseline is temporary law - proposed credit is refundable, so rates, etc. should have no impact.

**Table 3: Comparison of Governor's Circuit Breaker to Senate's STAR Rebate
All New Yorkers, 2014 Income Levels**

2014 Income Level	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Top 5%
Income Range	Less than \$19,000	\$19,000 – \$36,000	\$36,000 – \$62,000	\$62,000 – \$106,000	\$106,000 – \$231,000	\$231,000 – or more
Average Income in Group	\$12,000	\$27,000	\$49,000	\$82,000	\$147,000	\$810,000
SENATE STAR REBATE						
Tax Change as % of Income	-0.5%	-0.4%	-0.3%	-0.3%	-0.2%	-0.1%
Average Tax Change	-60	-112	-154	-211	-295	-274
% with Tax Cut	+13%	+25%	+38%	+56%	+78%	+73%
Average Tax Cut for Those w/ Cut	-446	-446	-406	-376	-376	-376
Share of Tax Cut	+7%	+14%	+19%	+26%	+27%	+7%
GOVERNOR'S CIRCUIT BREAKER						
Tax Change as % of Income	-2.0%	-0.8%	-0.5%	-0.2%	-0.1%	-0.0%
Average Tax Change	-234	-205	-222	-171	-153	-41
% with Tax Cut	+40%	+31%	+22%	+15%	+14%	+3%
Average Tax Cut for Those w/ Cut	-586	-670	-1,021	-1,137	-1,063	-1,004
Share of Tax Cut	+24%	+21%	+23%	+17%	+12%	+1%

Source: Institute on Taxation and Economic Policy, February, April 2015.

TABLE 4: Impact of Governor Cuomo's Proposed Homeowner and Renter Circuit Breaker Credit
All New Yorkers, 2014 Income Levels

2014 Income Level	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Top 5%
Income Range	Less than \$19,000	\$19,000 – \$36,000	\$36,000 – \$62,000	\$62,000 – \$106,000	\$106,000 – \$231,000	\$231,000 – or more
Average Income in Group	\$12,000	\$27,000	\$49,000	\$82,000	\$147,000	\$810,000
Homeowners Only						
Percent with Tax Cut	62%	52%	43%	25%	18%	4%
Average Tax Cut for those with Cuts	-1,057	-969	-1,218	-1,163	-1,068	-1,035
Renters Only						
Percent with Tax Cut	37%	23%	8%	1%	1%	2%
Average Tax Cut for those with Cuts	-464	-442	-376	-288	-495	-588
All Taxpayers						
Percent with Tax Cut	40%	31%	22%	15%	14%	3%
Average Tax Cut for those with Cuts	-586	-670	-1,021	-1,137	-1,063	-1,004

Notes:

Homeowners with adjusted gross income (AGI) above \$250,000 and renters with AGI above \$150,000 are not eligible for the credit.

The definition of income ITEP uses to categorize taxpayers includes income that is not in AGI.

Baseline is temporary law - proposed credit is refundable, so rates, etc. should have no impact.

Source: Institute on Taxation and Economic Policy, February 2015.