

Shifting The Burden from Property Tax to Income Tax in New York State

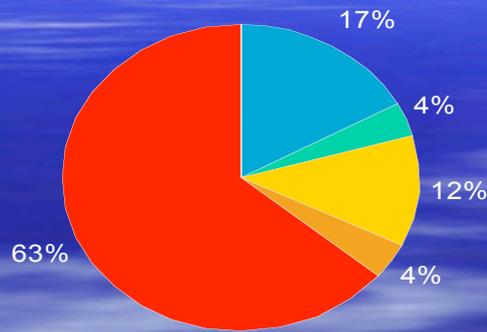
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New York State's Tax Burden

- New York's "Tax Mix" –
 - State taxes are largely comprised of personal income taxes (approx. 60 percent in 2005).
 - Local taxes are overwhelmingly comprised of real property taxes (excluding New York City).
- Statewide total real property taxes in 2005 were approx. \$38 Billion (Source: Office of the State Comptroller).
- Total real property taxes (excl. NYC) increased over 6 percent annually from 2000-2004 (Source: OSC).
- In 2005, New York's per capita real property taxes were approximately 56% above the national average and 33% per \$1,000 personal income (Source: Census Bureau).

Real Property Taxes, Excl. NYC, by Type of Government (2005)



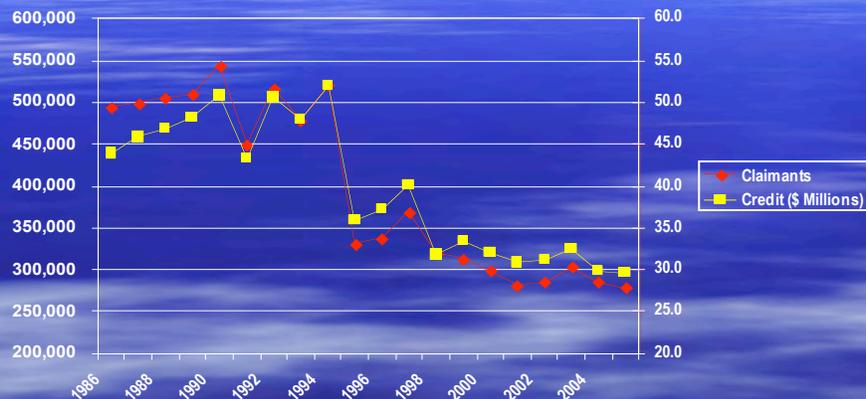
\$24.3 Billion in 2005

Counties Cities Towns Villages School districts

The 1978 Circuit Breaker

- Beginning in 1978, qualified homeowners and renters could claim a credit for “excess real property taxes” paid, calculated as 50 percent of tax exceeding a percentage of household income.
- Eligibility depends on household gross income (\$18,000 or less), and the value of the property (max. \$85,000) or the adjusted rent of a tenant. These parameters have never been indexed.
- The maximum credit is \$375 for taxpayers age 65 and over, \$75 for taxpayers under age 65, and decreases as household gross income increases.

Circuit Breaker Claimants and Credit Allowed: 1986-2005



The 1998 STAR Exemption

- Provided phased-in school real property tax exemptions on primary residences beginning in 1998. The “enhanced” STAR exemption rises to at least \$50,000 for seniors with incomes under \$60K and the “basic” STAR exemption is at least \$30,000. Counties with median sales prices above State median get higher exemptions.
- Because of lower property taxes, New York City homeowners get exemptions plus all taxpayers receive phased-in refundable STAR credits on NYC personal income tax (\$125 max. marrieds)
- New York State also pays for across-the-board STAR rate reduction under the New York City PIT. New York State reimburses New York City for this rate relief.
- STAR is paid for with New York State funds generated by the personal income tax.

The 1998 STAR Exemption (Cont'd)

- Critics Claim –
 - Absence of school district spending cap allowed school districts to hide large budget increases.
 - Unlike education aid, tax relief was provided in more affluent districts.
 - The exemptions provided no tax relief to businesses or renters (except in New York City).
 - Relief came at a high cost. The exemptions cost a total of \$3.2 Billion by SFY 2005-2006.
- Proponents Claim –
 - Reduced property taxes significantly for many taxpayers, particularly seniors, at least initially.

1998 STAR Amendments

- Accelerated the “enhanced” STAR for low-and moderate-income seniors so that the maximum \$50,000 exemption applied in the first year (originally scheduled for 2001-02).
- Changed the income definition to be FAGI minus income from individual retirement accounts and annuities.
- Accelerated the refundable NYC personal income tax credit to be \$125 (marrieds) / \$62.50 (others) in tax year 1998.

The 2006 STAR Amendments & Rebate Program

- Proposal creating a \$760 million Local Property Tax Rebate Program was originally vetoed. The Legislature very creatively managed to get around the veto.
- The enhanced STAR exemption base figure was increased by 13.6 percent.
- The NYC STAR credit was further increased from \$125 to \$230 (marrieds) and \$62.50 to \$115 (all others).
- DTF successfully mailed out a total of approximately 3.3 million rebates totaling \$675 million based on assessment roll information provided by local assessors. No application was necessary.

The 2006 STAR Amendments & Rebate Program (Cont'd)

- Program provides rebates to taxpayers who get the basic or enhanced STAR exemption.
- The rebate equals $\$9,000 \times$ product of the 2004 school district tax rate and the county sales price differential factor (if any). Senior citizens that qualify for the enhanced STAR exemption receive a rebate as computed above times 1.67.
- There is also an adjustment factor for qualified taxpayers whose residences are in the "fiscally dependent" Big 5 city school districts (New York City, Yonkers, Buffalo, Rochester, and Syracuse).

2007 “Middle Class” STAR Rebate

- Governor Spitzer proposed increased STAR rebates that, for the first time, would take into account homeowners’ ability to pay real property tax (based on their income).
- The final budget compromise contained the following:
 - In addition to existing STAR exemptions, more than 94 percent of all homeowners will receive an increased rebate over 2006 with 79 percent getting the maximum increase. No rebates for those with incomes above \$250,000.
 - “Enhanced” STAR recipients receive rebates not based on income and need not apply.
 - New York City taxpayers with incomes under \$250,000 will also receive increased refundable tax credits (\$230 for marrieds, \$145 for others) in 2007 that will subsequently increase to \$335/\$167.50 in 2009 and after.

2007 “Middle Class” STAR Rebate (Cont’d)

- The increased rebates are calculated by multiplying the basic STAR exemption amount for each taxing unit by the tax rate. The result is then multiplied by the following increase factors which vary by region and “affiliated” incomes (from tax year 2005):

Upstate		
\$90,000 or less: +60%	\$90,001-\$150,000: +45%	\$150,001 - \$250,000: +30%
Downstate		
\$120,000 or less: +60%	\$120,001-\$175,000: +45%	\$175,001 - \$250,000: +30%

Lessons Learned

- Administrative Issues:
 - Difficulty of mixing real property tax and income tax concepts and systems.
 - Potential for rebates to those who haven't paid their real property taxes.
 - Difficulty with other forms of ownership (e.g., coops, mobile homes).

Lessons Learned (Cont'd)

- Political/Other Issues:
 - Rebates are time sensitive. The point is to get most of them in the mailbox by late October-early November (*coincidentally* around election time).
 - Other people pay real property taxes (e.g., renters and businesses).
 - Applications require action by taxpayers, deadlines are missed. People will miss deadlines and legislators will respond by allowing retroactive relief.
 - The Federal and State tax impact is poorly understood by policymakers. For itemizers only, rebates reduce real property tax deduction.
 - In theory rebates may not encourage local spending.