



CITIZENS BUDGET COMMISSION

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The Citizens Budget Commission Review of Circuit Breakers

The Citizens Budget Commission recently looked at the option of expanding New York's existing circuit breaker program to provide targeted relief to the neediest taxpayers as background for a forum on local tax relief convened on December 6, 2007. The full background paper for the forum, *Local Taxes in New York: Easing the Burden*, is available at www.cbcny.org. Based on that review of options the following points can be highlighted:

- 1. Circuit Breakers Are Common** - Currently, 18 states – including New York – offer some form of circuit breaker program. During a strong housing market, home values may increase much more rapidly than one's salary and wages. Thus, property taxes may consume a growing share of income. Circuit breakers are advantageous because they can specifically target assistance to taxpayers whose property taxes are burdensome relative to current income. The typical function of these programs is to “shut off” an individual's or household's property tax liability when it exceeds a predetermined share of income. The excess property tax liability is refunded to the taxpayer through a credit on the state income tax or the local property tax.
- 2. New York's Circuit Breaker Needs Reform** - With an income ceiling of \$18,000, and maximum home and rent values of \$85,000 and \$450 set in 1985 and unmodified since, New York's program is eroding and provides relief to fewer and fewer residents each year. In 2006, for example, the median household income in New York was \$51,384, the median home value was \$303,400, and median rent was \$875.
- 3. The Poorly Crafted School Tax Relief Program (STAR) Would Work Better as a Circuit Breaker** - An improved circuit breaker would work more effectively than the STAR homestead exemption program, which is fraught with problems. One possible model showed that in total the dollars that are being planned for STAR would reach 5.1 million owners and renters by refunding property taxes above 5 percent of income for homeowners earning less than \$20,000 and above 7 percent for all others, and in excess of 6 percent of income for renters.

These points are described and documented in greater detail with comparative information and full source notes in the short summary of findings that is attached.

Circuit Breakers Are Common

A popular form of property tax relief is the circuit breaker. A circuit breaker “shuts off” an individual’s or household’s property tax liability when it exceeds a predetermined share of income. The excess property tax liability is refunded to the taxpayer through a credit on the state income tax or the local property tax. Currently, 18 states – including New York – offer some form of circuit breaker program.¹

As shown in Table 1, circuit breaker programs vary in terms of income eligibility and magnitude of the credit. Income ceilings range from \$10,000 for an individual in Oregon to \$200,000 in New Jersey. Only six of the states that offer circuit breakers have income ceilings above \$45,000; New York has an income ceiling of \$18,000. Maximum benefits range from \$200 in Oklahoma to \$2,000 in Maine. In New York, senior citizens can be paid up to \$375 while residents under 65 years old receive a credit up to only \$75.

States also differ in how they administer the programs. Nine states offer their circuit breaker through a separate tax rebate; the other nine administer the program through the personal income tax. In general, using a separate rebate leads to lower participation rates, yet using the personal income tax weakens the connection between the credit and property tax relief. Rebates may also add to a household’s taxable income and be offset by a slight increase in personal income tax liability, yet personal income tax credits often provide relief to taxpayers many months after the payment of property taxes.

As a consequence of the varying criteria, states expend a varying share of resources on their circuit breaker programs. For instance, in Oklahoma, Oregon and New York, lost revenue from the circuit breaker credits equals less than 0.1 percent of all property tax collections. However, Michigan, Minnesota, and Vermont allocate over 6 percent of property tax collections to their circuit breaker programs.

¹ Karen Lyons, Sarah Farkas and Nicholas Johnson (Center of Budget and Policy Priorities), *The Property Tax Circuit Breaker: An Introduction and Survey of Current Programs*, March 2007.

Table 1
Property Tax Circuit Breakers in New York and Other States

Eligibility and Benefits					
State	Senior Citizens		Homeowners and Renters	Income Ceiling (single filer)	Maximum Benefit
	or Disabled Only	Homeowners Only			
District of Columbia			X	\$20,000	\$750
Illinois	X		X	\$21,218	\$700
Maine			X	\$77,000	\$2,000
Maryland			X ⁽¹⁾	⁽²⁾	
Michigan	X		X	\$45,000	\$840
				\$87,780	\$1,640
				(homeowner);	(homeowner);
Minnesota			X	\$47,350 (renter)	\$1,350 (renter)
Missouri	X		X	\$25,000	\$750
Montana	X		X	\$45,000	\$1,000
				\$200,000	\$1,200
				(homeowner);	(homeowner);
New Jersey	⁽³⁾		X	\$100,000 (renter)	\$825 (renter)
New Mexico	X		X	\$16,000	\$250
					\$375 (\$75 if
New York			X	\$18,000	under age 65)
Oklahoma	X	X		\$12,000	\$200
Oregon	X		⁽⁴⁾	\$10,000	\$2,100
Pennsylvania	X		X	\$15,000	\$500
Rhode Island			X	\$30,000	\$250
South Dakota			X	\$30,000	\$250
Vermont ⁽⁵⁾			X	\$47,000	None
Wisconsin			X	\$24,500	\$1,160

(1) Renters under age 60 must have at least one dependent under 18 living with them.

(2) Income ceiling equals net worth excluding home. Ceiling is \$60,000 for homeowners; \$38,659 for renters under 60; and \$30,000 for renters over 60.

(3) Available to renters over 65.

(4) Renters only.

(5) Vermont has a separate school property tax circuit breaker available to homeowners with income less than \$110,000.

Source: Karen Lyons, Sarah Farkas, and Nicholas Johnson. The Property Tax Circuit Breaker: An Introduction and Survey of Current Programs, Center on Budget and Policy Priorities, March 2007.

New York's Circuit Breaker Needs Reform

Because the income and wealth criteria for New York's circuit breaker program have not been modified since 1985, the program continues to shrink and to provide relief to fewer residents. In 2006, the median household income in New York was \$51,384, far above the circuit breaker's income ceiling of \$18,000.² Similarly, the median home value and median rent in the State were

² 2006 American Community Survey, U.S. Census Bureau.

\$303,400 and \$875, respectively, also well above the program's value and rent ceilings of \$85,000 and \$450, respectively.

The underlying logic behind levying property taxes is property wealth contributes to an individual's overall ability to pay taxes. However, although property wealth is an important dimension of one's economic standing, home values often increase at different rates than personal income. During a strong housing market, home values may increase much more rapidly than one's salary and wages. Thus, property taxes may consume a growing share of income. Similarly, senior citizens or others on fixed incomes may have growing property tax bills and zero income growth. Although a home may be sold and converted into cash, the expense and inconvenience of relocating may make this option unfeasible or undesirable for lower-income households. Thus, circuit breakers provide assistance to taxpayers whose property taxes are burdensome relative to current income.

Circuit breakers target property tax relief to lower-income individuals, who tend to spend a greater share of income on housing. Median monthly housing costs for homeowners and renters with incomes below the federal poverty line amount to 45 percent of income; the national median for all homeowners and renters is 22 percent.³ Nationally, property taxes represent about 14 percent of housing costs for the median homeowner.⁴ However, in New York, property taxes contribute closer to 22 percent of median owner housing costs. In New York the poorest 20 percent of households lose 4 percent of income to property taxes, while the richest 1 percent pays only 0.7 percent of their income to property taxes.⁵

The Poorly Crafted School Tax Relief Program (STAR) Would Work Better as a Circuit Breaker

An improved circuit breaker would work more effectively than the STAR homestead exemption program, which is fraught with problems.⁶ As shown in Table 2 below, a circuit breaker that refunded property taxes above 5 percent of New York Adjusted Gross Income (NYAGI) for homeowners earning less than \$20,000 and above 7 percent of NYAGI for all others would cost \$2.6 billion. A circuit breaker program for renters that refunded property taxes in excess of 6 percent of NYAGI would cost \$2.7 billion.⁷ The combined cost of the program for owners and renters is about equal to the projected annual cost of the STAR program. In total the dollars that are being planned for STAR would reach 5.1 million owners and renters.

³ 2005 American Household Survey, U.S. Census Bureau, Housing and Household Economic Statistics Division.

⁴ 2006 American Community Survey, U.S. Census Bureau.

⁵ Institute on Taxation and Economic Policy, *New York Taxes Hit Poor and Middle Class Far Harder than the Wealthy*, January 2003.

⁶ "For more information see the Citizens Budget Commission report, *Local Taxes in New York State: Easing the Burden*, Available at <http://cbcny.org/CBC%20%20Local%20Taxes%20in%20NY%20%20FINAL1.pdf>."

⁷ It is assumed that 20 percent of annual rent equals total property taxes paid. Consequently, refunding property taxes over 6 percent of income is equivalent to refunding annual rent exceeding 30 percent of income (if $\text{rent}/\text{income} = 0.3$, then $0.2 * \text{rent} = 0.06 * \text{income}$).

Table 2
Impact of Expanded Circuit Breaker Program
(dollars in millions)

Income Class	Owners				Renters			Total	
	Receiving Credit	Number		Cost	Receiving Credit	Average		Receiving Credit	Cost
		Average	Credit			Credit	Cost		
Under \$5,000	218,487	3,640	795	951,937	1,278	1217	1,170,424	2,012	
\$5,000 - 9,999	155,305	1,117	174	668,063	948	633	823,368	807	
10,000 - 19,999	446,578	1,774	792	817,545	754	617	1,264,123	1,409	
20,000 - 29,999	488,377	984	481	501,847	459	230	990,224	711	
30,000 - 39,999	470,910	657	309	-	-	-	470,910	309	
40,000 - 49,999	405,725	240	97	-	-	-	405,725	97	
50,000 - 59,999	-	-	-	-	-	-	-	-	
60,000 - 74,999	-	-	-	-	-	-	-	-	
75,000 - 99,999	-	-	-	-	-	-	-	-	
100,000 - 199,999	-	-	-	-	-	-	-	-	
200,000 and over	-	-	-	-	-	-	-	-	
Total	2,185,381	\$635	\$2,648	2,939,392	\$693	\$2,697	5,124,773	\$5,345	

Note: Credit equals property taxes exceeding 5 percent of New York Adjusted Gross Income for owners with less than \$20,000; 7 percent of New York Adjusted Gross Income for owners above \$20,000; and 6 percent of New York Adjusted Gross Income for renters. See Appendix II for methodology.

Sources: New York State Department of Taxation and Finance, *Analysis of 2004 Personal Income Tax Returns*; U.S. Bureau of the Census; CBC Staff Calculations.