

Syracuse University

SURFACE at Syracuse University

Center for Policy Research

Maxwell School of Citizenship and Public
Affairs

2-2008

Property Tax Relief in New York State

John Yinger

The Maxwell School, Syracuse University, joyinger@syr.edu

Follow this and additional works at: <https://surface.syr.edu/cpr>



Part of the [Economic Policy Commons](#), [Economics Commons](#), [Education Policy Commons](#), and the [Public Policy Commons](#)

Recommended Citation

J. Yinger, 2008. "Property Tax Relief in New York State," *It's Elementary*, February.

This Policy Comment is brought to you for free and open access by the Maxwell School of Citizenship and Public Affairs at SURFACE at Syracuse University. It has been accepted for inclusion in Center for Policy Research by an authorized administrator of SURFACE at Syracuse University. For more information, please contact surface@syr.edu.

It's Elementary

A Monthly Column by EFAP Director John Yinger
February 2008

Property Tax Relief in New York State

The charge of the New York State Commission on Property Tax Relief includes examining the causes of high property taxes in New York State, exploring ways to reduce property taxes while preserving quality education, investigating the potential roles of state aid and property tax caps in providing property tax relief, and determining which types of relief are the most effective ways to help different classes of taxpayers. This column presents my views on each of these issues.

The main causes of New York's high property tax burden are (1) the high demand for public services in the state, (2) the high costs of providing services in the state, (3) the relatively low share of the tax burden picked up by the state government, and (4) the STAR program.

Property tax levels in New York are set by voters and the public officials they elect. The selected property tax rates reflect not only voter demand for public services, but also the assignment of responsibilities to various levels of government and the extent to which the state government provides financial aid to local governments. New York is a relatively high cost state, and voters in New York prefer relatively high levels of public services. The result is a relatively high level of state and local spending. Moreover, the State of New York provides a relatively low share of the financing for these services, which leaves a high burden on local property taxes. In 2004-05, for example, which is the latest year for which national figures are available, New York State provided 47.3 percent of the state and local revenue for education in the state, compared to an average state share of 52.1 percent in the rest of nation. Compared to localities in other states, localities in New York also are expected to take on a relatively high share of the spending on welfare, hospitals, and health, without receiving a relatively high contribution from state intergovernmental aid.

The fourth cause of the state's high property taxes, the STAR Program, was passed as a tax relief measure, but ironically it has led to a large increase in school property tax rates. As discussed in several

previous columns, this impact arises because STAR is internally inconsistent. It establishes and provides state-funding for a homestead exemption, which lowers the burden of property taxes, but at the same time gives voters a strong incentive to raise school property tax rates, which eliminates a large share of the original savings. This incentive arises because the state picks up the tab for part of any increase in the local property tax rate, and is therefore equivalent to a decrease in the price of education. Voters respond to this decrease in price like they would to any other, namely, by increasing their spending on education.

Because businesses do not receive the STAR exemptions, the second feature of STAR also results in a sharp increase in business property taxes. Elected officials often decry the high taxes imposed on businesses in New York State, but the truth is that one of their favorite programs, STAR, is a key cause of these high rates.

William Duncombe and I estimate that the property tax rate increases induced by the original STAR program offset about 40 percent of the initial STAR tax savings and raised taxes on businesses by about 25 percent. The Middle-Class STAR program has the same contradiction, so its initial tax savings are likely to be largely offset, as well. Moreover, because Middle-Class STAR more than doubles the original STAR exemptions for most taxpayers, it may eventually increase local property tax rates by more than 50 percent.

STAR also is inconsistent with the goals of the state's education finance system, of which it is a part. STAR gives more money to school districts with few renters and with higher property values, which are precisely the districts that need help the least.

The contradictions in STAR could easily be fixed. If STAR exemptions were based on the average tax rate in the state instead of on the tax rate in each district, voters could not increase their exemption by increasing their local tax rate. This design would therefore eliminate the price incentive in the current STAR program. Indeed, switching to this design would boost the price of education throughout the state, would give voters an incentive to lower their local property tax rates, and would therefore be a source of property tax relief.

Another effective way to lower the property tax burden in New York State would be to increase the State's share of financing either by shifting some spending responsibilities, such as Medicaid, from local to state government or by increasing state aid to local governments. Many studies have found, for

example, that increases in state lump-sum aid for education aid lead to an increase in local spending on education, but not by the full amount of the aid. In other words, voters translate increases in state aid into both better school quality and property tax relief. Indeed, some research suggests that state aid is one of the most effective ways to provide property tax relief. In my view, therefore, increases in state aid should be a major component of any program to provide property tax relief in New York.

Another great advantage of using state aid as a tool for property tax relief is that, unlike other forms of property tax relief, it can reflect the objectives of the education finance system. In the case of New York, an expanded education aid formula can, in the spirit of the CFE decision, provide more funding to the districts with high concentrations of needy students, while at the same time providing property tax relief across the board.

New York State already has constitutional property tax limits on counties and municipalities. Some people have called for extending these limits to school districts. I believe this would be a huge mistake. First, a property tax limit would freeze in place the enormous disparities in education finance that currently exist in New York. With a strict property tax limit, many needy school districts would be unable to raise the funds they need to meet the student-performance standards set by the state.

Second, a school property tax limit that was strict enough to actually lower property taxes would undoubtedly undermine the quality of public education in New York. Several scholars have found, for example, that Proposition 13, one of the nation's strictest property tax limits, bears a significant share of the responsibility for a dramatic decline in student performance in California that took place after this tax limit was enacted.

New York's main property tax relief program, STAR, is not fair across taxpayers. STAR gives no relief at all to renters and provides larger exemptions in high-wealth counties. The income conditioning in the Middle-Class STAR program is an important step toward fairness, but STAR will continue to be fundamentally unfair so long as it ignores renters and contains the Sales Price Adjustment Factor. These sources of unfairness obviously could—and should—be removed.

New York State also has a circuit-breaker program, which provides an income tax rebate to low-income taxpayers whose property tax liabilities exceed a certain share of their income. This program, which applies to owners and renters, adds to the fairness of the property tax system, because it provides tax relief to households with very low incomes (below \$18,000 for a single filer). An expansion of the

circuit-breaker to taxpayers with somewhat higher incomes would, in my view, also contribute to the fairness of this system. The circuit breaker should not be expanded too far, however, because, like STAR, it gives voters an incentive to increase local tax rates. This incentive is not a problem so long as the circuit breaker only applies to households at the bottom of the income distribution, but a circuit breaker that applied to the median household in the state would be very troublesome. Because they give tax relief through the income tax, circuit breaker programs sometimes do not successfully reach households with no income-tax liability. Careful procedures and publicity are needed to avoid this type of participation problem.

Overall, the best program for providing property tax relief would combine reforms to STAR; increases in state aid to local governments, particularly for education; state takeover of selected local spending responsibilities; and a modest expansion of the state's existing circuit breaker.