

# WHERE IS THE PROPERTY TAX RELIEF FOR STRUGGLING RENTERS?

## Policy Report

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### **SHORTED RENTERS: Circuit Breaker Property Tax Relief for Low-Income Renters**

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January 2009

## SHORTED RENTERS: Circuit Breaker Property Tax Relief for Low-Income Renters

By Victor Bach & Tom Waters, Community Service Society

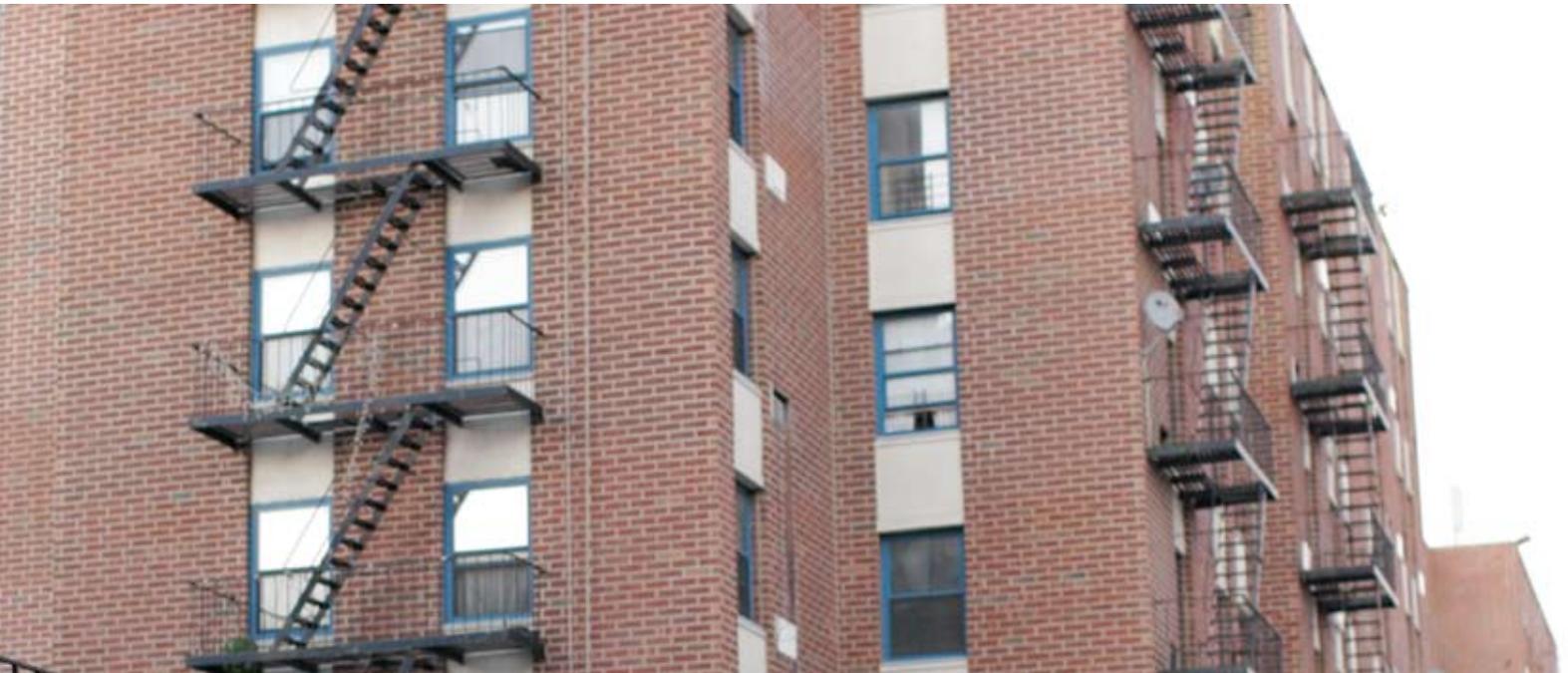


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The Community Service Society of New York (CSS) is an informed, independent, and unwavering voice for positive action that serves the needs of our constituents: the 2 in 5 New Yorkers who live on poverty's front line. CSS draws on a 160-year history of excellence in using research, advocacy, litigation, and innovative program models to shape actionable policy solutions that strengthen and benefit all New Yorkers.

**David R. Jones**, President & CEO

**Steven L. Krause**, Executive Vice President & COO

**Victor Bach** has been senior housing policy analyst at the Community Service Society since 1983. He was a Research Associate at the Brookings Institution and on the faculty of the New School for Social Research and the LBJ School of Public Affairs.

**Tom Waters** is Housing Policy Analyst at the Community Service Society. Prior to joining CSS, Mr. Waters was organizer, editor, development director, and interim executive director at New York State Tenants & Neighbors, an organization that works to preserve and improve the state's existing stock of affordable housing.

This report represents a shift of attention from "direct" housing policy concerns to the income and cash transfer side of the rent affordability crisis. Encouragement came from former CSS colleagues, Nancy Rankin and Mark Levitan, and from Chris Molnar, director, CSS Public Policy Department, who moved the work forward. Frank Mauro, at the Fiscal Policy Institute, was an invaluable source of intelligence on Albany fiscal issues.

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Victor Bach & Tom Waters, Community Service Society

## Introduction

### New York State Property Tax Relief in Flux

New York, like many other states, continues to grapple with the problem of rapidly rising local property taxes. While property tax levies are often a primary support for local school districts, they also contribute to the inflation of housing costs and to the ire of taxpayers. For households of limited income, property tax increases help drive up housing costs to unaffordable levels that can threaten their ability to keep their homes. To relieve these pressures, many states have intervened and enacted various forms of property tax relief.

Major reforms are now under active consideration in New York's approach to property tax relief. Its principal program to date is the constellation of STAR Tax Relief Programs for homeowners.<sup>1</sup> Existing STAR programs now cost the state about \$5 billion annually and are projected to rise rapidly in future years.

In January 2008, Governor Eliot Spitzer appointed the State Commission on Property Tax Relief, chaired by Thomas R. Suozzi, the Nassau County Executive, to look into a cap on local property tax increases and reexamine the state's approach to relief. The purpose of the cap is to moderate local tax levies, thereby lessening the burden on taxpayers and the costs of tax relief to the state.

The commission's initial report, released in June 2008, recommended both a cap on local property tax increases and a reshaping of the STAR relief programs as a "circuit breaker." A "circuit breaker" is an income-based approach to property tax relief—it provides relief when property tax burdens exceed a household's ability to pay, with benefits that are scaled to household income. At present, STAR benefits all homeowners, largely without regard to income.

The commission's initial proposals have generated controversy both in Albany and at the local level. Several new, competing initiatives have been introduced—independently by the governor and by the Assembly—that represent major shifts in the way the state responds to the property tax surge. As New

York prepares for fiscal belt-tightening, the impetus for reform has intensified.

In August 2008, Governor David A. Paterson called a special legislative session to forward a program bill to cap local property tax levy increases at 4 percent, which was passed by the Senate (S. 8736). At the same time, the Assembly passed a bill (A. 11838) that included a new circuit breaker for both renters and homeowners. The Assembly initiative represents a new layer of property tax relief added to the existing programs.

The commission's final report, released in December 2008, continued to recommend a property tax cap, along with a new circuit breaker approach to STAR, which was contingent on the passage of the tax cap. At this point, it is unclear whether and how the legislature and the governor will unite on the issues.

**“Low-income renters across the country face a mounting affordability crisis. Increasing pressures on the property tax, passed along in the rent they pay, contribute to that picture.”**

### Where Do Renters Fit In?

Current discussions of rising property tax pressures and their impact on New Yorkers focus nearly exclusively on homeowners. Relatively little attention is paid to renters who must also absorb property tax increases through their rents. Tax increases drive up rental operating costs that, in turn, owners attempt to pass along to tenants in the rents they charge. Even in New York City, where more than a million apartments are rent-stabilized, the Rent Guidelines Board takes into account operating cost trends, including property tax increases, in its deliberations and decisions on annual rent increase guidelines.

There is growing national recognition that low-income renters across the country face a serious, mounting rent affordability

crisis.<sup>2</sup> Increasing pressures on the property tax contribute substantially to that picture. As a rule of thumb, it is estimated that property taxes represent from 20 to 25 percent of rent payments. The property tax, which is relatively steep in many New York localities, is one of the reasons that, as this analysis shows, low-income households across the state bear high rent burdens.

However, the constituencies that dominate the “tax revolt” in New York, and in other states, are largely homeowners. Mounting property tax levies, including those of school tax districts, are a visible feature of their rising housing bills. As a result, homeowners tend to be more numerous and more vocal than tenants on tax issues, particularly in suburban localities where high taxes pay for costly school systems.

Nevertheless, it needs to be recognized that renters also bear the burden of property tax increases, particularly low-income renters for whom rents are surging to increasingly unaffordable levels. Yet, apart from Assembly bill A.11838, there is little acknowledgment in recent Albany discussions that renters are also impacted by the property tax surge and merit serious consideration as the state goes about reforming its tax relief system.

### **The New York State Real Estate Property Tax Credit (Circuit Breaker)**

The relative silence about property tax pressures on renters is surprising, because since 1978, during the early property tax revolt, New York has offered tax relief to low-income households, both renters and homeowners. The Real Estate Property Tax Credit, known as the “Circuit Breaker,” was designed to enable hard-pressed New Yorkers to keep their homes as property taxes escalated to levels considered unaffordable.<sup>3</sup> Overshadowed by the more generous STAR Programs for homeowners, first enacted nearly 20 years later, in 1997, the Circuit Breaker still provides a refundable tax credit that can be claimed in the annual income tax return, even if the claimant pays no state income tax.

In that sense, renter tax credits are not new to New York—the “old” Circuit Breaker is a clear precedent for providing parallel relief to renters whose incomes are considered too low to afford the property tax portion of their rent. But, as

this report shows, the existing Circuit Breaker is of limited value and in serious need of modernization and reform if it is to offer reasonable relief to its intended constituency of low-income renters.

### **Purposes of the Report**

The report confirms that unaffordable rents are a problem for a wide range of low-income households across the state. It includes a statewide analysis of gross rent burdens among low-income New Yorkers—defined as households with incomes up to twice the federal poverty level, roughly \$33,000 for a family of three as of 2005, the year the data used in this analysis was drawn from the 2005 American Community Survey conducted by the U.S. Bureau of the Census.

The report also assesses the effectiveness of the existing Real Property Circuit Breaker Tax Credit and the new Assembly circuit breaker in reaching and providing needed relief to low-income renters. Finally, it puts forward several recommendations for consideration as the state deliberates reforms to its property tax relief programs.

### **The Renter-Owner Divide: Who Rents? Who Owns?**

In 2005, the majority of New Yorkers (56%) owned their homes or apartments, but a substantial portion (44%)—nearly half of state households—rented their homes. Although New York City accounts for most (64%) of the 3.2 million renter households in the state, a substantial proportion of renters—more than a million households—live in cities and localities across the rest of the state. Both forms of housing tenure—rental and ownership—are widespread across New York.

It needs to be recognized that there are marked differences between homeowners and renters in New York, in terms of income and racial/ethnic characteristics. A “renter-owner divide” exists, which divides low-income and minority New Yorkers, who are primarily renters, from higher-income, white New Yorkers who are predominantly homeowners. Any system of property tax relief, if it is to be fair and equitable, needs to be assessed against these differences.

The vast majority of the state’s poor households (81%) rent their homes, as do the majority of near-poor New Yorkers (62%) with incomes between 100 and 200 percent of poverty. (See Chart 1.)<sup>4</sup> As a whole, about 70 percent of low-income New Yorkers—poor and near-poor—rent rather than own. The reverse is the case for higher income households, among whom about two-thirds (66%) are homeowners. Homeownership is the dominant form of housing tenure for upper income households, while lower income families are predominantly renters.

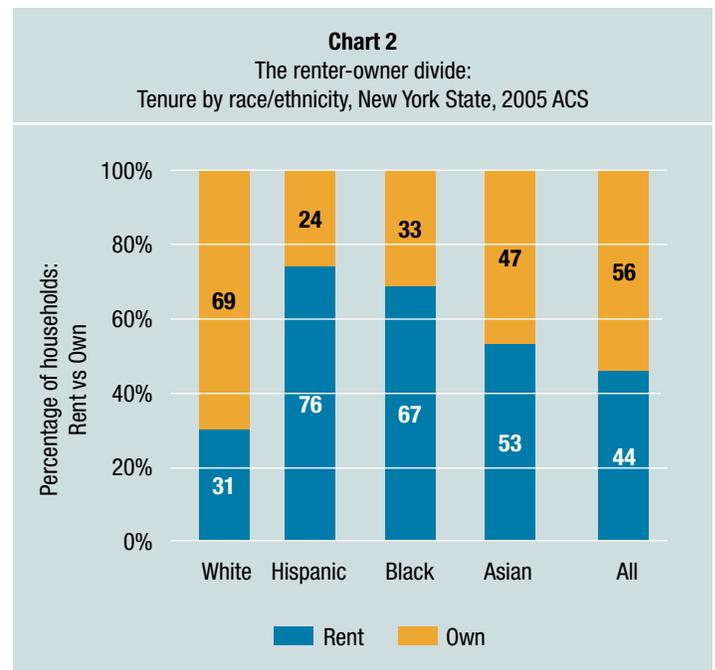
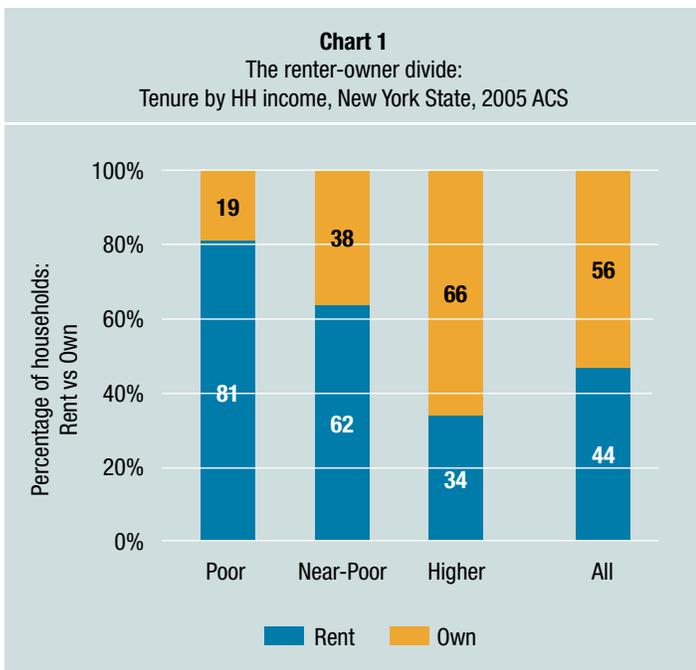
Homeownership is also unevenly distributed by racial/ethnic group. The renter-owner divide distinguishes between white, non-minority households, most of whom (69%) own their homes or apartments, and minority households, for whom the reverse is true—67 percent are renters. (See Chart 2.) Within each racial/ethnic group, owner-renter patterns also differ: In New York, a quarter of Latino households (24%) and a third of black households (33%) are homeowners. Among Asian households the rate of homeownership is high (47%) compared to blacks and Latinos, but far lower than for whites.

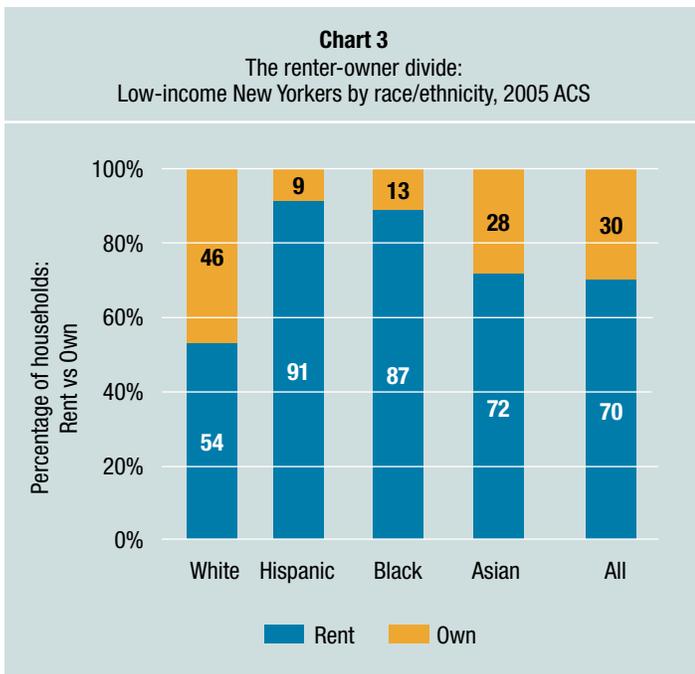
Among low-income New Yorkers, there is also a marked renter-owner divide by race/ethnicity. Close to half (46%) of low-

income white, non-minority households own their homes, while nearly all minority, low-income households (86%) are renters. (See Chart 3.)

**“There is a renter-owner divide in New York... Property tax relief policies, like STAR, that benefit homeowners, without corresponding relief for renters, in effect largely assist white, higher-income homeowners, while they overlook the affordability pressures—due in part to property taxes—faced by low-income, minority households who are predominantly renters.”**

State property tax relief policies that primarily benefit homeowners without corresponding relief for renters inevitably skew benefits to largely upper income, white homeowners, while they overlook the affordability pressures—due in part to rising property taxes—that face low-income, minority households who are predominantly renters. The dominance





of the STAR relief programs for homeowners, in their cost and reach, compared to the more modest existing Circuit Breaker tax credit that serves low-income renters (and homeowners), dramatically manifests that kind of imbalance. The state approach to property tax relief calls for reform measures that are also sensitive to rising tax pressures on low-income renters, many from racial/ethnic minorities, who face escalating, unaffordable housing costs.

### Rent Burdens Among Low-Income New Yorkers

Despite widespread recognition that a growing affordability crisis affects low-income renters across the nation, there is a prevailing view in New York State that high rent burdens are primarily a New York City problem. Given the city’s tight, high-cost rental market compared to other localities in the state and its high proportion of renters (67%), the assumption would appear to have some plausibility. However, low-income renters across the state face a serious affordability crisis, in which they carry very high rent burdens in relation to income. Wherever low-income New Yorkers live, their income gains tend to lag behind market rent trends, and affordability pressures intensify as property taxes drive up rents.

Statewide, low-income renters carried a median gross rent burden of 57 percent of household income in 2005. (See Table 1.) Most (58%) paid at least half of their income toward housing-related costs. Poor renters—roughly half of the low-income group—face a disastrous affordability crisis, with a statewide median gross rent burden of 89 percent of income.<sup>5</sup>

**“The rent affordability problem is statewide, not just New York City. The median gross rent burden for low-income New Yorkers is 57 percent of household income. In 28 of the state’s 62 counties the median burden is at least 50 percent, including Erie, Monroe, Albany, New York, Nassau, and Suffolk Counties.”**

These figures tend to underestimate the problem facing the majority of renters who live in the private rental market. The household data, on which these estimates are based, include those living in government-assisted units—such as public housing, Mitchell-Lama and/or federally subsidized rentals—where rents are based on income and standards of affordability and rent burdens are consequently lower. Burdens in the private rental market are severe enough to produce high median burdens for the combined group, even when subsidized rentals are included.

Three out of five (62%) of the state’s 1.3 million low-income renters are located in the five counties/boroughs of New York City. Nevertheless, two out of five (38%) are located across the rest of the state, and many face very high rent burdens.

In nearly half the state’s counties—28 of the 62 counties—the 2005 median gross rent burden for low-income households was over 50 percent. (See Table 1 and Chart 4.) Counties with high-rent burdens ranged from

Erie County (median burden of 51 percent) to Suffolk County (with an extremely high median burden of 91 percent). New York City’s 59 percent gross rent burden

**“Poor New York renters have, on average, a residual income, once housing costs are paid, of less than \$4 a day per household member to cover other basic needs, like food, clothing, transportation, and medical costs.”**

fell between the extremes. The high burden counties tend to include the state’s major urban areas, such as Buffalo, Rochester, the Albany Capital area, as well as the New York City metropolx. Across the state, low-income renters struggle with unaffordable rent burdens that make it difficult to make ends meet on limited income. Since ris-

ing property taxes contribute substantially to the problem, these New Yorkers have a valid claim to equitable property tax relief.

Another way of comparing the 62 counties is to group them by median gross rent burden. (See Chart 4 and Table 2.) The vast majority (87%) of low-income renters are located in counties with a median rent burden of at least 50 percent. Over a fifth (21%) lived in counties with median rent burdens of 60 percent or more. Both the poor and the near-poor are evenly divided within each of the county groupings. But poor renters in the same markets fare much worse than the near-poor. The poor have an extraordinary, unsustainable median gross rent burden of 89 percent of income, compared to near-poor New Yorkers with a median burden of 45 percent. Both income groups are experiencing a rent affordability problem that needs to be addressed.

From county to county, there are substantial differences in the incomes and rent levels of low-income households. In 2005, median incomes ranged from below \$12,000, largely in the

**Table 1**  
Rents and rent burdens, low-income renters, by county

County (PUMS)	Number of Households	Median HH Income	Median Monthly Rent	Median Gross Rent	Median Gross Rent Burden
Albany	18,294	\$ 13,430	\$ 550	\$ 670	52 %
Allegany-Cattaraugus	7,202	11,600	350	500	42 %
Bronx	196,272	12,000	640	750	56 %
Broome-Tioga	12,333	13,370	400	500	41 %
Cayuga-Madison-Onondaga	36,352	12,200	450	588	49 %
Chautauqua	10,124	11,800	380	520	46 %
Chemung-Schuyler	5,922	12,800	420	500	40 %
Chenango-Cortland	5,015	17,000	410	520	39 %
Clinton-Essex-Franklin-Hamilton	9,867	12,000	400	510	42 %
Columbia-Greene	5,284	17,300	480	620	43 %
Delaware-Otsego-Schoharie	7,004	13,200	450	587	47 %
Dutchess	9,949	15,200	740	850	60 %
Erie	65,955	11,600	400	570	51 %

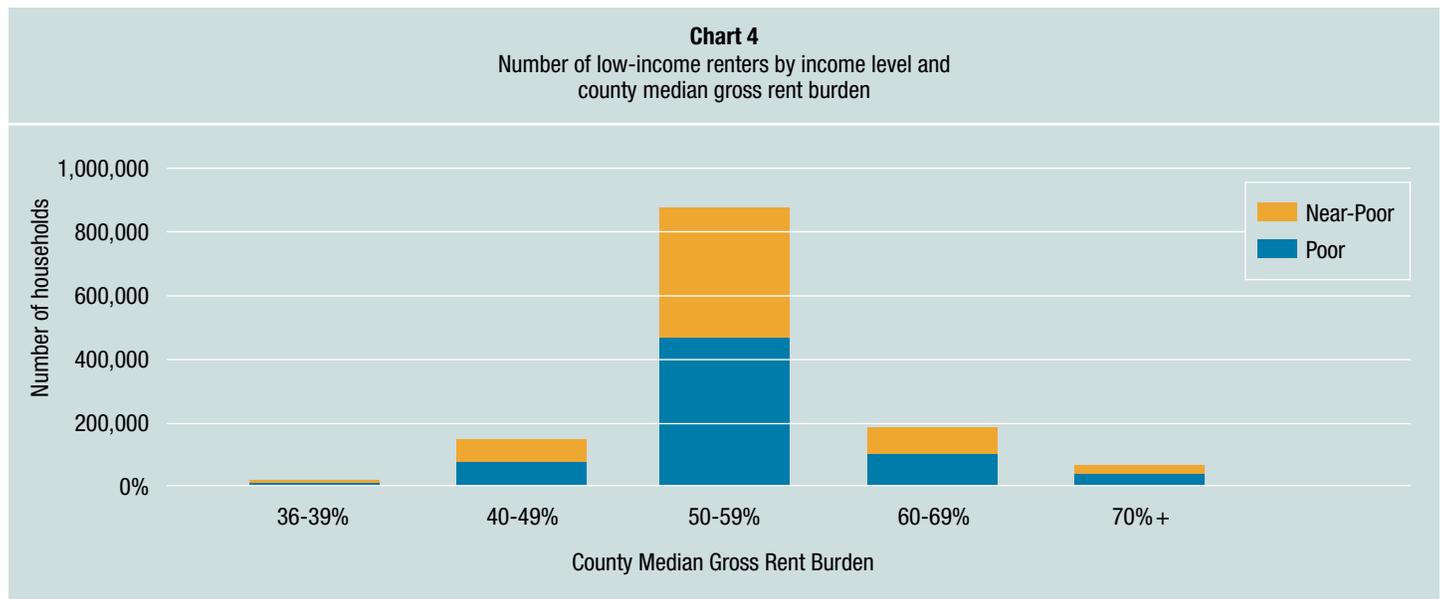
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<b>Table 1 (Cont.)</b>					
Rents and rent burdens, low-income renters, by county					
<b>County (PUMS)</b>	<b>Number of Households</b>	<b>Median HH Income</b>	<b>Median Monthly Rent</b>	<b>Median Gross Rent</b>	<b>Median Gross Rent Burden</b>
Fulton-Montgomery	6,572	14,000	400	590	44 %
Genesee-Orleans	4,639	11,500	400	648	49 %
Herkimer-Oneida	21,839	12,500	400	550	43 %
Jefferson-Lewis	8,531	12,700	400	530	38 %
Kings	278,393	11,800	670	760	59 %
Livingston-Wyoming	4,093	11,400	450	600	51 %
Monroe	46,322	11,400	550	660	58 %
Nassau	22,846	12,000	1,000	1,200	82 %
New York (Manh.)	174,671	11,200	540	620	55 %
Niagara	11,817	11,700	390	490	44 %
Ontario	4,393	10,800	510	600	53 %
Orange	14,204	14,400	700	877	57 %
Oswego	7,933	14,000	440	560	51 %
Putnam	2,001	12,000	950	990	82 %
Queens	141,678	14,200	860	960	67 %
Rensselaer	7,978	13,430	450	550	50 %
Richmond	21,023	12,000	730	840	61 %
Rockland	9,679	16,600	970	1,140	77 %
St. Lawrence	7,191	11,000	400	510	45 %
Saratoga	6,376	13,850	520	640	36 %
Schenectady	7,812	13,600	550	700	57 %
Seneca-Tompkins	9,010	14,700	600	700	66 %
Steuben-Yates	6,208	15,100	390	470	37 %
Suffolk	28,977	12,000	1,000	1,170	91 %
Sullivan-Ulster	12,273	12,900	650	800	61 %
Warren-Washington	7,412	13,700	460	650	52 %
Wayne	4,631	12,200	500	600	52 %
Westchester	36,369	14,900	700	877	59 %
<b>ALL COUNTIES</b>	<b>1,304,274</b>	<b>12,020</b>	<b>600</b>	<b>700</b>	<b>57 %</b>

Source: 2005 American Community Survey, U.S. Bureau of the Census. Some counties are combined under the Public Use Microdata (PUMS) area sampling. Estimates are subject to greater error in some counties with few cases in the sample: Putnam (41 cases), Wayne (92), Genesee-Orleans (95), Ontario (97)

western counties and two boroughs (Manhattan, Brooklyn) to the \$15,000 or above range in counties north of New York City (Rockland, Dutchess, Columbia-Greene, Westchester). Similarly, median gross rents varied from about \$500 monthly in the western counties (Erie, Niagara, Oneida, Broome) to over \$1,000 in downstate counties (such as Nassau, Suffolk, Rockland).

Regardless of these differences, median gross rent burdens—the proportion of income extracted by housing costs—were consistently high across the state—over 40 percent of household income in all but seven counties, over 50 percent in 28 counties. Even in the least burdened counties, median rent burdens were above the 30 percent federal affordability standard.



**Table 2.**  
County grouping by median gross rent burdens for low-income renters\*

36 to 39%	40 to 49%	50 to 59%	60 to 69%	70% or more
Chenango-Cortland	Allegany-Cattaraugus	Albany	Dutchess	Nassau
Jefferson-Lewis	Broome-Tioga	Bronx	Queens	Putnam
Saratoga	Cayuga-Madison-Onondaga	Erie	Richmond	Rockland
Steuben-Yates	Chautauqua	Kings	Seneca-Tompkins	Suffolk
	Chemung-Schuyler	Livingston-Wyoming	Sullivan-Ulster	
	Clinton-Franklin-Essex-Hamilton	Monroe		
	Columbia-Greene	New York		
	Delaware-Otsego-Schoharie	Ontario		
	Fulton-Montgomery	Orange		
	Genesee-Orleans	Oswego		
	Herkimer-Oneida	Rensselaer		
	Niagara	Schenectady		
	St. Lawrence	Warren-Washington		
		Wayne		
		Westchester		

\*Dashes indicate counties grouped under the PUMS area sampling.

## **How Effective Is the Existing Circuit Breaker Property Tax Credit?**

The existing Circuit Breaker is intended to help stabilize households who, because of unaffordable property tax burdens, may be at risk of losing their homes. To what degree does it reach renters who face high rent burdens due in part to high property taxes? Does it provide a significant measure of relief?

When the Circuit Breaker was originally enacted in 1978, eligibility for benefits was limited to households with incomes up to \$12,000 and rents (excluding heat and utilities) of no more than \$300 monthly. In 1987, the eligibility parameters were increased to a maximum income of \$18,000 and a maximum rent of \$450. They have remained unchanged since.

As of 2008, the \$18,000 limit on household income corresponds roughly to the current federal poverty threshold for a family of three. In 1987, when the \$18,000 income limit was set, the poverty threshold was just less than \$9,000. In effect, tax credits were being extended more generously to both poor and near-poor renters. Over time, the income and rent maximums have remained static and, consequently, the range of renters eligible for benefits has narrowed.

### **How Many Low-Income Renters Are Eligible?**

It is striking that in 2005 over two-thirds of the state's low-income renters (68%) were ineligible for circuit breaker benefits because they fell outside either the rent or the income limit.<sup>6</sup> High rent, over the \$450 monthly maximum, was the major obstacle to eligibility. About 64 percent of low-income renters paid lease rents above the maximum, while only 25 percent had incomes that exceeded the maximum. By 2005, the median lease rent for low-income New Yorkers had risen to \$600 a month. It is not surprising that most were excluded from circuit breaker benefits.

Even the state's poor renters, who carry extremely high rent burdens, are largely excluded from benefits. In 2005, about 58 percent were ineligible because they fell outside the rent or income limits. Again, the maximum rent limit was the major barrier: 54 percent of poor renters paid too much rent to be eligible for the tax credit, while only 4 percent were above the \$18,000 income limit. A circuit breaker that so widely excludes the poor, who carry extraordinarily high rent/tax bur-

dens in relation to income, is vastly ineffective at providing the benefits the state intended. The eligibility limits clearly need to be reconsidered and expanded to include renters who have a valid claim to property tax relief.

The exclusion of low-income renters from tax relief benefits is not concentrated in a few regions or counties. It is a statewide problem. In New York City, 72 percent of low-income renters were excluded from circuit breaker benefits; 69 percent paid rents over the \$450 limit. Similar results were observed, for instance, in Monroe County and in the Albany Capital Area (consisting of Albany, Schenectady, Rensselaer and Saratoga Counties). In Monroe County, 67 percent of low-income renters could not access circuit breaker tax credits, largely because, ironically, 65 percent of them paid rents that were too high. In the Capital Area, 70 percent were excluded from benefits—again, mostly because 67 percent paid rents exceeding the maximum.

Exclusion was less severe in the lower-rent counties. Nevertheless, in the Erie-Niagara county cluster, nearly half (47%) of low-income renters and over a third of poor renters (35%) were excluded, primarily because they paid lease rents over \$450. Ironically, the counties with the highest rents and rent burdens exhibited the highest rates of exclusion from circuit breaker benefits. In Nassau and Suffolk Counties combined, 84 percent of low-income renters and 78 percent of poor renters were ineligible for circuit breaker tax credits—with few exceptions it was because their rents were higher than the \$450 maximum.

If the intended property tax relief is to be made available to New York's low-income renters exposed to the growing affordability crisis, then the income and rent parameters for eligibility need to be reconsidered. Maximum rent and income limits clearly need to be adjusted upward or eliminated.

### **Does the Existing Circuit Breaker Provide Significant Relief?**

Low-income households carry high rent burdens (median 57%). Most (58%) pay at least half their incomes toward gross rent. If a household in fact manages to qualify for Circuit Breaker tax credits, the benefits are meager, particularly for non-seniors. The maximum benefit for non-seniors is \$75, against a \$375 maximum for seniors 65 or older.

The adequacy of these benefits can be measured against the residual income a low-income household has left over, once gross rent costs are paid, to meet other non-housing needs. For low-income renters within the \$18,000 maximum income limit, the median residual income is \$110 monthly per household member, or less than 4 dollars a day per member to cover food, transportation, clothing, medical, and other basic necessities. Within that picture, the \$75 annual benefit for non-seniors, largely families with children, comes off as a token gesture. While the \$375 maximum benefit for senior renters is more generous, it pales in comparison with STAR relief for homeowners, which remain largely untargeted with regard to income. In the FY 2009 enacted budget, the STAR programs are expected to cost \$4.7 billion, an average benefit of \$1,342 per exemption.<sup>7</sup>

#### **Overall Performance of the Existing Circuit Breaker**

In 2005, the existing Circuit Breaker provided an average tax credit of \$106 to about 279,000 New York households.<sup>8</sup> Of the state's 1.3 million households with incomes up to the \$18,000 maximum—homeowners and renters—only 22 percent received tax credits.<sup>9</sup> Among those who benefited, renters constituted the lion's share (91%), but only 27 percent of renters received a credit. Homeowners were vastly underrepresented among the claimants—only 8 percent of 338,000 income-eligible homeowners applied for and received the tax credit.

Eligible New Yorkers may fail to apply for the Circuit Breaker simply because they are unaware of it. For homeowners, the \$85,000 asset limit may be a growing barrier, particularly as values escalated over the past two decades. Most income-eligible renters were disqualified (56%) because rents were over the \$450 monthly maximum. The Circuit Breaker has not reached the vast majority whose low incomes spell high rent/tax burdens. It is not surprising that the Circuit Breaker has a declining constituency over time, as rising rents and home values disqualify households in need.

In 2005, over a third of beneficiaries (38%) were seniors. Of the 1.3 million households with incomes up to \$18,000, about 490,000 households had senior members, most of them exclusively senior households. Only 20 percent of these households received the tax credit. Whether the seniors were property owners or prime leaseholders qualified to file for the tax credit is not known. But the figures suggest that many income-eligible

seniors, despite the high benefits they can receive, were also bypassed. The current Circuit Breaker is not performing well in reaching its intended constituency, regardless of age.

Nor does New York's Circuit Breaker compare well with those provided by other states. Eighteen states currently provide property tax circuit breakers to assist households who face excessive property tax burdens given their limited income.<sup>10</sup> In 17 states, including New York, renters as well as homeowners qualify for benefits, another acknowledgement that they pay property taxes indirectly through their rents.

**“The existing renter circuit breaker tax credit is an embarrassment to New York. 58 percent of low-income renters, and a startling 54 percent of poor renters, are not eligible, largely because their rent is more than \$450 a month. And the \$75 maximum benefit for non-senior households, mostly families with children, is meager.”**

In total, all of the state circuit breakers are estimated to deliver about \$3 billion annually in benefits. However, in 2005, New York's benefits totaled only \$30 million, one percent of the outlays across the 18 states. New York is ranked among the states at the lower rungs of the benefit ladder, with one of the lowest maximum benefits and one of the narrowest income ranges for eligibility.

As it stands, the existing New York Circuit Breaker serves a dwindling constituency of low-income homeowners and renters at a time when housing costs and local property taxes, let alone other living costs, are rising to unprecedented levels and the need for relief from the affordability crisis is peaking. Moreover, the benefits for non-seniors are ridiculously low. Outdated rent and income maximums, and very low benefits for non-seniors, make real tax relief for low-income renters increasingly remote and elusive. As a mechanism for renter tax relief, the existing Circuit Breaker badly needs to be resuscitated. It needs to be reformed or replaced if it is to serve the intended constituency of low-income renters who, like homeowners, need relief from rising property taxes that inflate their housing cost burdens.

### The Assembly’s New Circuit Breaker

In August 2008, the Assembly introduced a new circuit breaker as Part A of a two-part bill (A.11838). It proposes a new layer of property tax relief for both owners and renters in addition to benefits now provided under the existing STAR programs and the current Circuit Breaker. For renters, its major features are:

- i. Benefits are based on the extent to which the imputed property tax payment—set at 20 percent of the lease rent—exceeds a prescribed maximum tax

burden at a given household income level. For renters with incomes up to \$90,000, the maximum tax burden is set at 5 percent of household income, 6 percent for incomes between \$90,000 and \$125,000, and 7 percent for incomes between \$125,000 and \$250,000. Higher income households are excluded from benefits. The tax credit benefit is calculated at 25 percent of the difference between the imputed tax payment (20 percent of lease rent) and the prescribed maximum tax payment (5, 6, or 7 percent of income). For instance, a household earning

**Table 3**  
Assembly circuit breaker (a.11838): Distribution of benefits, renters & owners, by income level & county

County (PUMS)	RENTERS			OWNERS		
	No. HHs	% Low-Income	Mean Benefit	No. HHs	% Low-Income	Mean Benefit
Albany	21,990	67 %	\$ 183	26,582	20 %	\$ 386
Allegany-Cattaraugus	4,172	99 %	\$ 125	13,528	52 %	\$ 274
Bronx	205,288	79 %	\$ 234	25,869	41 %	\$ 370
Broome-Tioga	10,288	85 %	\$ 128	23,125	39 %	\$ 301
Cayuga-Madison-Onondaga	33,302	85 %	\$ 167	69,077	32 %	\$ 383
Chautauqua	6,910	97 %	\$ 123	12,402	38 %	\$ 304
Chemung-Schuyler	5,837	80 %	\$ 93	8,239	54 %	\$ 275
Chenango-Cortland	3,082	93 %	\$ 104	9,234	39 %	\$ 346
Clinton-Essex-Franklin-Hamilton	7,794	86 %	\$ 134	13,413	42 %	\$ 345
Columbia-Greene	4,152	77 %	\$ 118	12,692	26 %	\$ 438
Delaware-Otsego-Schoharie	6,018	91 %	\$ 145	12,742	35 %	\$ 402
Dutchess	14,319	65 %	\$ 227	32,409	17 %	\$ 609
Erie	57,934	85 %	\$ 157	104,174	27 %	\$ 358
Fulton-Montgomery	4,481	98 %	\$ 98	13,443	45 %	\$ 358
Genesee-Orleans	3,253	88 %	\$ 155	12,906	30 %	\$ 385
Herkimer-Oneida	16,659	88 %	\$ 133	27,229	37 %	\$ 301
Jefferson-Lewis	6,440	78 %	\$ 116	8,952	49 %	\$ 306
Kings	333,320	72 %	\$ 247	93,248	43 %	\$ 458

Table 3 Continues onto page 13

**Table 3 (Cont.)**  
 Assembly circuit breaker (a.11838): Distribution of benefits, renters & owners, by income level & county

County (PUMS)	RENTERS			OWNERS		
	No. HHs	% Low-Income	Mean Benefit	No. HHs	% Low-Income	Mean Benefit
Livingston-Wyoming	2,980	93 %	\$ 189	12,196	37 %	\$ 396
Monroe	49,793	82 %	\$ 182	92,429	26 %	\$ 433
Nassau	41,278	50 %	\$ 401	217,621	14 %	\$ 971
New York (Manh.)	265,308	55 %	\$ 321	37,227	24 %	\$ 926
Niagara	9,389	92 %	\$ 111	27,188	28 %	\$ 323
Ontario	4,722	85 %	\$ 218	11,973	22 %	\$ 384
Orange	19,565	65 %	\$ 230	46,782	16 %	\$ 698
Oswego	6,623	97 %	\$ 100	8,850	43 %	\$ 336
Putnam	3,621	55 %	\$ 282	18,686	10 %	\$ 746
Queens	228,844	58 %	\$ 284	120,645	39 %	\$ 419
Rensselaer	7,318	88 %	\$ 146	14,039	24 %	\$ 438
Richmond	27,051	69 %	\$ 239	31,284	36 %	\$ 362
Rockland	13,835	63 %	\$ 320	36,975	14 %	\$ 923
St. Lawrence	4,912	91 %	\$ 143	8,154	40 %	\$ 276
Saratoga	7,184	60 %	\$ 163	17,474	31 %	\$ 412
Schenectady	8,491	81 %	\$ 147	16,795	26 %	\$ 503
Seneca-Tompkins	11,389	67 %	\$ 264	9,990	25 %	\$ 442
Steuben-Yates	4,564	97 %	\$ 87	12,277	40 %	\$ 364
Suffolk	54,950	48 %	\$ 369	239,758	15 %	\$ 821
Sullivan-Ulster	15,395	68 %	\$ 198	35,136	26 %	\$ 552
Warren-Washington	6,035	86 %	\$ 160	12,709	31 %	\$ 329
Wayne	3,598	92 %	\$ 166	13,510	27 %	\$ 410
Westchester	61,935	50 %	\$ 274	96,801	16 %	\$ 979
<b>ALL COUNTIES</b>	<b>1,604,019</b>	<b>68 %</b>	<b>\$ 254</b>	<b>1,657,763</b>	<b>26 %</b>	<b>\$ 606</b>

ASSUMPTIONS: From Assembly Bill A.11838: 1) For renters, 20 percent of lease rent is imputed as property tax payment. 2) Excess property tax is tax payment over a percent of household income (5% for incomes up to \$90,000, 6% for incomes up to \$125,000, 7% for incomes up to \$250,000). 3) The benefit is a percent of excess property tax, 25%, 20%, 15%, respectively, for the three income groups. 4) Households with income over \$250,000 are not eligible for benefits. For 8 percent of homeowners, for whom ACS annual property tax data specified only that payment was over \$10,000, the analysis assumed a payment of \$11,000.

SOURCE: 2005 American Community Survey (ACS) for New York State, U.S. Bureau of the Census. Benefits may have increased and expanded due to rising local property taxes. Some counties are combined under the Public Use Microdata (PUMS) area sampling for the ACS. Renter estimates may be subject to more error in some counties with fewer cases in the sample: Putnam (41 cases), Wayne (92), Genesee-Orleans (95), Ontario (97).

\$30,000 would be expected to pay at most \$1,500 toward property tax. At a rent of \$1,000 monthly, the imputed tax payment would be \$2,400. The benefit would be 25 percent of the \$900 difference, or \$225.

In effect, the formula is based on rent burden. At a given income level, the benefit increases with rent; at a given rent level, the benefit decreases as income rises.

- ii. The new circuit breaker imposes a maximum income limit on eligibility. The property tax credit is not extended to households with incomes above \$250,000.
- iii. Seniors and non-seniors receive the same tax credit benefit, depending only on their household incomes and rents (rent burden).

Fiscal experts estimate the overall cost of the Assembly circuit breaker at about \$ 1.6 billion.<sup>11</sup> Our analysis, based on 2005 ACS data, presumably with lower rent and property tax levels, estimates that about \$1 billion in tax relief would go to homeowners and \$400 million to renters. About 1.6 million renters stand to benefit, with a mean of \$254 in annual tax credits. (See Table 3.) Renter benefits are highest in the high-cost, high-burden counties, such as Nassau (\$401), Suffolk (\$369), followed by Manhattan (\$321) and Rockland (\$320). In lower-rent market counties, the renter tax credit is correspondingly lower; for instance, in Erie (\$157) and Monroe (\$182).

About 1.1 million of the 1.6 million renters who stand to benefit, roughly two-thirds of the households, would be low-income New Yorkers. For low-income renters, the mean benefit level is estimated at \$271 annually, a bit higher than the overall mean renter benefit of \$254. Of the \$400 million provided in total renter tax credits, about \$300 million would go to low-income renters and \$100 million to renters with incomes above 200 percent of poverty. Interestingly, in the lower-rent, lower-burden counties, a higher share of the credits are allocated to low-income recipients, 85 percent in Erie County, 82 percent in Monroe County. In the higher-cost, higher-burden counties, a wider income band of renters would receive tax relief—in Nassau and Suffolk Counties

about half of the renters benefitting would be low-income New Yorkers.

The Assembly Circuit breaker would add a new layer of tax relief to the already existing \$5 billion STAR programs for homeowners and the existing \$30 million Circuit Breaker program now providing marginal benefits largely to poor renters and homeowners. From the perspective of low-income renters, the Assembly initiative represents a substantial lift in providing more equitable, parallel relief to renters in New York's costly constellation of property tax relief programs, which at present primarily benefit homeowners.

## Conclusions

It is clear from the analysis that low-income renters across the state are facing a growing affordability crisis, fueled in part by escalating property taxes. They have good reason to demand their share of New York's property tax relief programs.

The existing Real Property Circuit Breaker tax credit—the only tax relief now available to renters—falls far short of meeting needs and requires serious reform or replacement. The STAR tax relief programs provide more generous relief, but they are exclusively directed to homeowners, largely without regard to income.<sup>12</sup>

To the Assembly's credit, the new circuit breaker includes renters as well as homeowners, those with incomes up to \$250,000 provided they meet the test of carrying excessive tax burdens in relation to household income. The proposed circuit breaker has the virtue of allocating benefits in relation to tax burden (based on the ability to pay). For homeowners, it represents an expansion of the STAR tax relief programs to keep pace with surging property taxes. For renters, particularly low-income renters, the Assembly bill is a major leap forward. It provides a significant level of relief compared to the existing Circuit Breaker. Moreover, it extends benefits to the majority of low-income renters now excluded from property tax relief because of outdated limits on rents and incomes in the exiting Circuit Breaker, which no longer reflect reality.

The benefit calculation in the Assembly circuit breaker, based on standards of tax affordability, produces a reasonable distribution of benefits by region, allocating higher levels of relief where they are most needed, in the higher-burden, higher-cost counties. Households in high cost areas, where rents extract a higher proportion of incomes, receive higher mean benefit levels.

Unlike the existing Circuit Breaker, the Assembly initiative does not differentiate by age of the recipient. Circuit breakers originally evolved in many states as a form of “homestead protection” for senior homeowners whose property taxes were reaching levels that threatened their ability to keep their homes. New York, like a number of other states, also extended circuit breaker tax relief to non-seniors and to renters facing unaffordable rent/tax burdens.

The existing New York Circuit Breaker sharply differentiates by age—the maximum benefit is \$375 for seniors and only \$75 for non-seniors. In 2005, seniors received an average Circuit Breaker tax credit of \$202, compared to \$56 for non-seniors. Given their greater incentives, seniors tend to be overrepresented among beneficiaries—they were 35 percent of tax credit recipients, although they constituted less than 31 percent of the state’s low-income households.

Paradoxically, the bias toward seniors is not reinforced by an analysis of actual rent burdens in themselves. Our analysis indicates that among low-income renters, New York’s senior households have a median gross rent burden of 50 percent of income, compared to 60 percent for non-senior households.

Under the Assembly circuit breaker, benefits are based solely on rent/tax burden for a household of a given income, not on age. As a result, the proposed circuit breaker tends to allocate lesser benefits to seniors. Low-income senior renters would receive an estimated median benefit of \$218, compared to \$287 for non-seniors. The median gross rent burden for both groups is well above the 30 percent federal affordability standard—50 percent for seniors and 60 percent for non-senior renters. But the comparatively high burden on non-senior households, largely families with children, suggests that, purely from a housing perspective, there may be some merit to making circuit breaker benefits more blind to age.<sup>13</sup>

On other hand, there may be good reason for special consideration to seniors in a program intended to relieve housing affordability pressures. Seniors are less likely to be working, more likely to live on fixed incomes, and to have higher medical bills. They are less mobile and likely to suffer greater personal costs if pressed to move. The Assembly formula could be easily revised to augment benefits for seniors, either by lowering their prescribed maximum tax burden as a portion of income or increasing the percent of excess property tax that is rebated. Or it could simply augment the credit by a fixed amount; say \$100 in addition to the calculated benefit.

In the current press to reform state property tax relief policies, an expanded renter tax credit needs to be enacted to give low-income renters seniors and non-seniors the corresponding relief they need and rightly deserve. Given the toll taken by rising rent burdens, simultaneous increases in housing hardship and homelessness, renter relief measures should be enacted immediately, in parallel with reforms to restructure relief to homeowners. To reform or expand homeowner relief without comparable provisions for renters would consign the state’s low-income, minority households, most of which rent, to the limbo of marginal aid, while better-off homeowners continue to reap substantial benefits from the state.

## Major Recommendations

1. New York must provide fairer and more adequate property tax relief to overburdened low-income renters across the state in order to counter the effect of rising taxes on rents and relieve the affordability crisis they face.
2. The Assembly Circuit Breaker—Part A of Assembly Bill A.11838—is a major step forward in providing reasonable tax relief to hard-pressed low-income renters across New York. Based on a household’s ability to bear tax burdens at a given income level, it is a significant contribution to proposed tax relief reforms for both renters and homeowners. It should be enacted as soon as possible.
3. Some provisions of the Assembly Circuit Breaker and its allocation of benefits are worth further consideration: a) a possible increase in benefit levels, b) enhanced benefits for

seniors, and c) exclusion of benefits to renters in government-assisted housing, where rents are income-based at affordable levels. (Of the state's 1.3 million low-income renters, an estimated 400,000 households live in government-subsidized housing or receive Section 8 housing choice vouchers, where rents are based on income and set at affordable levels. They are relatively insulated from the affordability pressures faced by other low-income renters. Costs saved by excluding them could be used to increase benefit levels.)

4. State decision-makers should make every attempt to consolidate the over-complicated, multi-layered property tax relief system—the variations in STAR, the existing Circuit Breaker, and the Assembly Circuit Breaker—into a single circuit breaker approach to tax relief that approximates the model put forward by the Assembly in A.11838. The circuit breaker model has key advantages: By basing tax relief on the ability to pay, it targets relief to overburdened households in proportion to need. The income-targeting mechanism reduces fiscal costs to the state—compared, for instance, to universal tax relief to homeowners—and the resulting, unnecessary revenue losses under the current STAR programs.

5. Under current fiscal pressures, it may be difficult to move a new circuit breaker like the Assembly initiative through the budget and legislative process in the coming session. At the least, the existing Circuit Breaker needs to be resuscitated, modernized, and reformed if low-income renters, now largely excluded from benefits, are to access tax relief as intended. The maximum rent level should be eliminated or increased to \$1,000, indexed for inflation, so that most low-income New Yorkers can access tax credits. The maximum income level should be doubled to reflect the original income-targeting of the Circuit Breaker to low-income renters up to twice the federal poverty level. And benefit levels should be increased to provide significant relief, particularly for non-senior renters, who are largely low-income New Yorkers with children in the household.

ENDNOTES

1. A Preliminary Report of Findings and Recommendations to Governor David A. Paterson, New York State Commission on Property Tax Relief, June 3, 2008, pp. 55-58, and Final Report, December 1, 2008, pp. 62-65. [www.cptr.state.ny.us](http://www.cptr.state.ny.us).
2. See: America's Rental Housing: The Key to a Balanced National Policy, "Affordability Challenges," pp 15-18, Joint Center for Housing Studies, 2008; Revisiting Rental Housing, Nicolas P. Retsinas & Eric S. Belsky, editors, The Brookings Institution, 2008; America's Rental Housing, Homes for a Diverse Nation, Joint Center for Housing Studies, 2006; and Out of Reach 2007-2008, National Low Income Housing Coalition, 2008, [www.nlihc.org](http://www.nlihc.org).
3. Originally enacted as Article 22, Section 606(e) in New York State Tax Law, in 1978 as the "real property tax circuit breaker credit." For a recent report on the credit program, see: Real Property Circuit Breaker Tax Credit, 2005 Credit Use by County, New York State Department of Taxation and Finance, July, 2007.
4. In this analysis, the income ranges under consideration are "low-income" households, those with incomes up to twice the federal poverty threshold as of 2005 when the ACS survey was conducted. Low-income households include poor households, with incomes up to \$16,500 for a family of three, and "near-poor" households with incomes between \$16,500 and \$33,000 for a family of three.
5. Gross rent includes all housing-related costs—such as heat and electricity—which may or may not be included in the monthly contract/lease rent. Gross rent was used for the purpose of consistency among renters across the state. In some localities, it is common for heating to be included in the contract rent; in others it may usually be an additional housing cost. Gross rents and gross rent burdens are consistently reported in the ACS data from the Bureau of the Census.
6. The monthly lease rent—not the gross rent—determines eligibility for the Circuit Breaker. This analysis uses the monthly lease rent in the 2005 ACS data to determine whether a household falls within the maximum rent limit of \$450.
7. New York State Commission on Property Tax Relief, 2008, already cited. See pp. 56-58. In the FY2007 Executive Budget Four Year Financial Plan, STAR was estimated to cost \$2.7 billion, with an average benefit of \$1,050 per senior household and \$680 for other households.
8. Real Property Circuit Breaker Tax Credit, New York State Department of Taxation and Finance, Office of Tax Policy Analysis, July 2007, page 2.
9. Figures on the statewide constituency are derived from the 2005 ACS.
10. Karen Lyons, Sarah Farkas, and Nicholas Johnson, "The Property Tax Circuit Breaker: An Introduction and Survey of Current Programs," Center for Budget and Policy Priorities, March 21, 2007.
11. Working estimates supplied by the Fiscal Policy Institute.
12. The Middle Class STAR program enacted in 2007 limits benefits to homeowners with incomes up to \$250,000.
13. For this analysis, senior households are those with at least one member 65 years or older. In 2005, there were 333,000 senior low-income renter households—70 percent lived alone and another 21 percent lived in two-person households.