

School Tax Relief Program

Basic STAR
Enhanced STAR
New York City PIT STAR

I. Overview

The School Tax Relief Program (STAR) program consists of three separate initiatives designed to provide local property tax relief:

- **Basic STAR** provides savings to residential homeowners by exempting from school taxes at least the first \$30,000 of the full assessed value of their primary residence. This benefit will reduce the tax bills of more than 2.8 million homeowners by an average of \$681 in 2011-12.
- **Enhanced STAR** provides a larger benefit to residential homeowners age 65 years and older with incomes below \$79,050 by exempting the first \$60,100 of the assessed value of their primary residence from school taxes. Nearly 630,000 senior homeowners will be eligible to receive this enhanced property tax exemption in 2011-12, with an average benefit estimated at \$1,253.
- **New York City STAR** supports tax relief for more than 3 million New York City residents. Under the program, eligible City residents receive a flat refundable credit of \$125 for a married couple filing jointly and half of that amount (\$62.50) for single taxpayers, as well as a 6 percent City tax rate reduction.

II. History/Context

STAR was enacted in 1997 to offset rising property taxes for homeowners and to provide additional targeted property tax relief to senior citizens. Over time, the scope of the program was expanded by raising the Enhanced STAR income eligibility threshold, and by increasing the size of the Enhanced STAR exemption. These enhancements have contributed to increases in the current and projected cost of STAR.

STAR spending is projected to total \$3.3 billion in 2011-12, a 32 percent increase from 2001-02 when the STAR phase-in was completed. From 2001-02 through 2010-11, local school property taxes increased by more than 70 percent.

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Despite this program's intent and cost, local property taxes have increased dramatically, making New York's local property tax burden among the highest in the nation. Outside of New York City, school property taxes grew by an average of 6 percent per year from 2001-02 to 2009-10. This rate of school property tax growth was twice the rate of inflation and twice the average growth in wages. For 2010-11, school districts outside the Big Five cities (New York City, Buffalo, Rochester, Syracuse and Yonkers) proposed budgets with average property tax increases of 3.2 percent.

III. Proposed 2011-12 Budget Actions

By continuing to provide critical property tax relief while controlling spending growth, the Executive Budget proposes to cap the overall annual increase in the STAR exemption benefits to 2 percent per year. After the recommended actions, the school tax relief program would total \$3.3 billion in 2011-12, a \$65 million increase from 2010-11.

IV. Summary of Spending

| Category | 2010-11 (\$ in millions) | 2011-12 (\$ in millions) | Change | |
|----------------------------|-----------------------------|-----------------------------|-------------------------|---------|
| | | | Dollar (in millions) | Percent |
| STAR Spending (commitment) | 3,237 | 3,302 | 65 | 2.0 |

| Category | 2010-11 (\$ in millions) | 2011-12 (\$ in millions) | Change | |
|---------------|-----------------------------|-----------------------------|-------------------------|---------|
| | | | Dollar (in millions) | Percent |
| Basic STAR | 1,896 | 1,933 | 37 | 2.0 |
| Enhanced STAR | 775 | 790 | 15 | 1.9 |
| NYC PIT STAR | 566 | 579 | 13 | 2.3 |

V. Major Initiatives

Gap-closing Actions

| Proposal | 2011-12 (\$ in millions) | 2012-13 (\$ in millions) |
|---|-----------------------------|-----------------------------|
| Adjust STAR Exemption Benefit | 125.0 | 212.0 |
| Audit STAR Recipients to Discover and Eliminate Fraud | 0.0 | 50.0 |
| Recoup Ineligible Payments | 0.1 | 0.1 |
| Total | 125.1 | 262.1 |

- **Adjust STAR Exemption Benefit.** When the STAR program was created, it included a mechanism to prevent large drops in benefits resulting from rising property values. However, no similar mechanism was created to prevent significant benefit increases driven by declines in property values. As a result, STAR spending increased significantly in areas where property values declined dramatically, but the increases were unrelated to property tax burdens. To control spending growth, the Executive Budget limits growth in exemption benefits to two percent annually. *(2011-12 Value: \$125 million; 2012-13 Value: \$212 million)*
- **Audit STAR Recipients to Discover and Eliminate Fraud.** The Tax Department will use its in-house database management systems to identify those homeowners who do not qualify for the benefit, then send a list to local assessors to verify. *(2011-12 Value: \$0 million; 2012-13 Value: \$50 million)*
- **Recoup Ineligible Payments.** The Executive Budget proposes to create a mechanism to recoup payments from STAR recipients (with interest and a \$500 processing fee) for STAR exemptions received that they acknowledge they were not entitled to. *(2011-12 Value: \$100,000; 2012-13 Value: \$100,000)*

