FACT SHEET

Tax Freeze Credit

Fact Sheet No. 14-12 April 2014

Introduction

The tax freeze credit provides a personal income tax credit to eligible homeowners in the 2014 and 2015 tax years who reside in school districts and municipalities that do not exceed their tax levy limit and meet other requirements of the statute. The provisions of this credit do not apply to New York City.

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There are qualification requirements for both the taxing jurisdiction and for the taxpayer in order for a homeowner to qualify for the tax freeze credit. A homeowner's property must qualify for the state STAR exemption program which requires homeowners to earn less than $500,000 and it must be their primary residence. School districts and municipalities must meet various criterions for their taxpayers to qualify for the tax credit. Eligible homeowners who reside in school districts and municipalities which adopt a "freeze-compliant budget" in 2014 shall receive the tax freeze credit. A "freeze-compliant budget" is defined as a budget of a taxing jurisdiction that has enacted a budget which contained a tax levy that stayed within their tax levy limit. In order for their eligible taxpayers to qualify for the tax credit in 2015, school districts and municipalities will be required to have "freeze-compliant budgets" and they must have efficiency plans approved by the state.

Calculation of the Tax Credit

There are a series of calculations to determine the credit value dependent upon the type of taxing jurisdiction. For explanatory purposes, this fact sheet will describe the options for fiscally independent school districts. Fiscally independent school districts comprise all school districts in the state except for the "Big 5" city school districts (Buffalo, Rochester, Syracuse, Yonkers, and New York City). These are the districts which are subject to the school property tax cap.

If a fiscally independent school district has a “freeze-compliant budget” for 2014-15, the tax credit for an eligible taxpayer is the greater of the amount by which the real property taxes levied on a qualified property exceeds the property tax liability in 2013-14, or the product of 1.46 percent multiplied by the 2013 tax liability. A homeowner with a $4,000 school tax bill whose levy increases by 2 percent will receive a tax credit in 2014 of $80, whereas a homeowner with a $10,000 school tax bill in that same school district will receive a $200 tax credit.

If a fiscally independent school district has a “freeze-compliant budget” in both 2014-15 and 2015-16 -- a 2015 tax credit shall be granted in the amount of the 2014 tax credit plus the greater of amount by which the tax liability on the property increased in 2015-16 above 2014-15 levels or the levy credit factor. If the district was not “freeze-compliant” in 2014-15 but is “freeze-compliant” in 2015-16 then the value of the 2015 credit shall be the greater of the increase in tax liability in 2015-16 above 2014-15 levels or the levy credit factor. The levy credit factor is calculated as the lesser of 2 percent or the increase in the average annual consumer price index change for the twelve month period which ends in the January which precedes the start of the school year, compared to the average annual consumer price index from the proceeding twelve months.

It should also be noted that the tax freeze program does not provide a tax credit for various changes in valuation which may occur such as a physical change in the structure, an increase in value associated with a reassessment to the extent the property value increases more than the overall assessing jurisdiction due to the reassessment, or the loss of an exemption.

State Certification of School District Qualification

In 2014-15, a fiscally independent school district must certify to the state comptroller that the school budget did not increase the tax levy in excess of the school district’s tax levy limit in order for taxpayers to be eligible for the tax freeze credit. Taxpayers who reside in a school district which exceeds their tax levy limit by obtaining at least 60 percent voter approval are ineligible for the tax freeze credit.

In 2015-16 there are additional requirements on school districts in order for their qualified homeowners to be eligible for the tax freeze credit. First, a fiscally independent school district must not increase their levy in excess of their tax levy limit, and second, have a state approved government efficiency plan which demonstrates three year savings and efficiencies of at least one percent per year on their tax levy from shared services, cooperation agreements and/or mergers or efficiencies. These school district government efficiency plans must be submitted to the director of the budget by June first, two thousand fifteen.

Impact of Property Tax Freeze Credit

The impact of this credit is to further exacerbate the funding gaps between low and high wealth school districts. High wealth school districts in general are more dependent on local property tax and therefore face a higher total dollar tax liability. Low wealth districts by contrast are highly reliant on state aid to support their budget and the local tax levy may be less than 20 percent of the total revenue for the school district. These low wealth districts therefore face relatively low total tax liabilities compared to high wealth communities. The effect of fully reimbursing qualified taxpayers for their increased tax liability on eligible properties is a highly regressive distribution of state funds.

The tax freeze credit is only available to residents of those school districts which approve budgets within the tax levy limit. The Education Law requires that 60 percent of voters approve any district budget which exceeds the tax levy limit. However, even if the voters of a school district approve a budget which includes a levy increase that exceeds the tax levy limit by the required 60 percent approval rate, the residents of the district are ineligible for the tax freeze credit. Therefore, this tax credit provides a direct financial incentive to the residents of a school district to vote against any proposal to exceed the district's tax levy limit. As a result it is reasonable to assume that very few districts will attempt to exceed their tax levy limit, and even fewer will be approved by voters since they will not be eligible for the tax freeze credit if they exceed their tax levy limit.

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