# How “circuit breaker” credits work and why they make sense

A property tax Circuit Breaker is a targeted form of property tax relief. The name “Circuit Breaker” is used to describe this type of tax credit since it is designed to prevent households from being overburdened by property taxes just as electrical circuit breakers interrupt the flow of electrical current when a circuit becomes overloaded.

A property tax Circuit Breaker has several key elements. The legislation establishing a Circuit Breaker:

1. Sets an “affordability threshold” as a percentage (such as 9%) of household income.
2. Provides for the calculation of a household’s property tax “overload” as the portion of the property taxes on the household’s primary residence in excess of that “threshold” percentage of the household’s income.
3. Sets a “benefit” percentage (such as 70%). A household’s Circuit Breaker credit is calculated by multiplying the household’s “overload” by the benefit percentage.

The following table shows how a Circuit Breaker with an “affordability threshold” of 9% of household income and a benefit percentage of 70% would affect households with different incomes and different property tax bills on their primary residences.

**Calculation of Property Tax Relief Under a Circuit Breaker with a 9% Affordability Threshold and a 70% Benefit Percentage, for Households at Different Income Levels**

| Total Household Income | Property Tax Bill on Household's Primary Residence | Affordability Threshold Percentage | "Overload" = Portion of Tax Bill Above Threshold Percentage of Income | Benefit Percentage | Circuit Breaker Benefit = "Overload" X Benefit Percentage |
|---|---|---|---|---|---|
| $35,000 | $6,000 | 9% | $2,850 | 70% | $1,995 |
| $35,000 | $8,000 | 9% | $4,850 | 70% | $3,395 |
| $55,000 | $6,000 | 9% | $1,050 | 70% | $735 |
| $55,000 | $8,000 | 9% | $3,050 | 70% | $2,135 |
| $75,000 | $6,000 | 9% | $0 | 70% | $0 |
| $75,000 | $8,000 | 9% | $1,250 | 70% | $875 |

**MULTIPLE THRESHOLDS: Increases targeting but can create notch effects**

- Multiple thresholds can be used to better target the tax relief being provided.
- If multiple thresholds are used, they should apply incrementally to each block of a household’s income in order to avoid notch or cliff effects. For example, the threshold could be 10% of the first $100,000 of income PLUS 11% of the next $50,000 of income PLUS 12% of income above $150,000; NOT 10% for households with income of $100,000 or less, AND 11% of income for households with income above $100,000, etc.

**COVERAGE: A Circuit Breaker**

- **Should cover both homeowners and renters;**
- **Should not have different parameters (such as benefit levels or different affordability thresholds) for different age groups or different geographic areas; and**
- **Should include all the income of all the members of a household in calculating the household's eligibility and household's Circuit Breaker benefit.**

- Economists generally agree that renters pay a portion of the residential property tax indirectly through their rental payments. For this reason, renters as well as homeowners should be covered by a Circuit Breaker. For renters, a percentage of their rent should count as their "real property tax equivalent." For example, the Krueger-Englebright Circuit Breaker bill (S.3266/A.5834) sets this percentage at 15% initially and increases it to 20% over the course of several years.
- Non-elderly households are much more likely to have a mortgage than the elderly, and the two age groups devote similar shares of their income to total housing costs.
- In determining income used to gauge property tax burdens, all income including Social Security benefits and pension income should be included while paper losses should be excluded. Using a broad definition of income avoids providing different tax relief to households with similar property tax burdens in relation to their ability to pay but with different types of income.

**UNINTENDED CONSEQUENCES: To avoid unintended consequences, a Circuit Breaker should include a Co-Payment Requirement and a Residency Requirement.**

- A co-payment requirement sets a household's Circuit Breaker credit as a portion (i.e., the benefit percentage) rather than all of the household's property tax bill in excess of the affordability threshold.
- Without a "co-payment" of this type, taxpayers whose property tax bills exceed the threshold would be completely insulated from any property tax increase. This would theoretically cause some beneficiaries to support excessive spending.
- To ensure that the availability of a "middle class" circuit breaker credit does not encourage people to buy homes, or rent apartments, for which the carrying charges are beyond their "ability to pay," eligibility for the Circuit Breaker should be limited to households that have lived in their current residences for a reasonable number of years. For example, both the Krueger-Engelbright Circuit Breaker bill (S.3266/A.5834) and the Galef-Little Circuit Breaker bill (A.1941/S.1002) include a 5-year residency requirement.
- An exception to this residency requirement should be considered for long time residents who move to a lower cost home or apartment to reduce their residential property tax bill.

**PROVIDE MEANINGFUL RELIEF: Avoid low income ceilings and low benefit levels**

- A recent Lincoln Institute study found that 25 states have income ceilings for their Circuit Breaker programs that are below their median household income levels. This leaves out many middle class families that are truly overburdened.
- Capping benefits at a low level can allow the state government to provide a small credit to many households but not enough to those households that are truly overburdened through no fault of their own. Consideration should be given to a more realistic benefit limit of between $5,000 and $10,000. The Galef-Little Circuit Breaker bill (A.1941/S.1002), for example, has a benefit limit of $5,000.

**ADVANTAGES: Circuit Breakers "Do More With Less"**

- Circuit Breakers target property tax relief more precisely than other forms of property tax relief. Each household's relief under a Circuit Breaker is based on the household's own income and its own property tax bill and the relationship between those two factors rather than on county and/or school district averages.
- Targeting tax relief to those who are most overburdened reduces the overall cost of the relief mechanism and can, within overall cost constraints, provide a meaningful amount of relief to those families that are truly overburdened. Through no fault of their own.
- STAR, for example, costs about $3.5 billion a year but because it gives some relief to all home-owning households, it is unable (despite its substantial overall price tag) to provide meaningful relief to those who are truly overburdened. A positive step was taken in recent years to limit STAR relief to households with incomes of $500,000 or less.

New York State needs a middle class circuit breaker. In 2011, an estimated one-third of all households in New York State with incomes of $100,000 or less paid 10% or more of their income in property taxes. Over half (52%) of households with incomes of $50,000 or less had a property tax burden of 10% or more of their income.[1]

[1] These estimates are based on an analysis of microdata from the U.S. Census Bureau's 2011 American Community Survey for New York households that meet the 5-year residency requirement in the Galef-Little and Krueger-Engelbright Circuit Breaker bills.