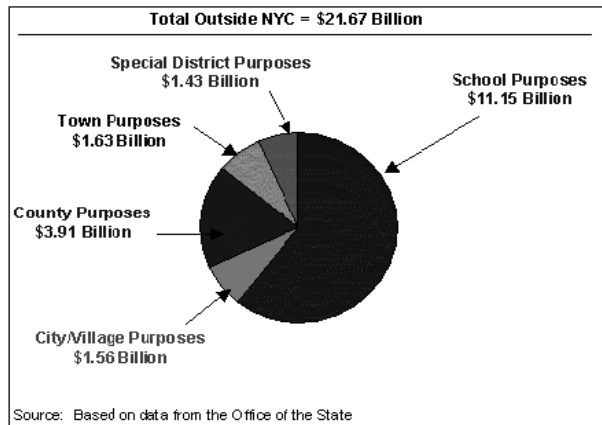


will certainly reduce municipal tax rates if levies don't increase, the significance of this savings is minor compared to the relative impact of expanding the school district's tax base.

Where the property tax goes



Tax Policy

There are several options available to municipal officials in regard to tax policy, and many of those options will have an influence on the tax base. In general, lower tax rates will tend to have less of an influence on economic behavior. As tax rates increase, decisions regarding development and other economic outcomes will increasingly reflect the tax consequences rather than the underlying economic benefit only. In either case, it is recommended that policy makers bear in mind that the primary purpose of a tax is to raise revenue; other purposes, such as influencing economic development or social behaviors – though they must be considered - should be secondary.

The effect of local-option Senior Citizens' and Veterans' exemptions cited above is an example of social policy influencing the tax base. Another local-option exemption involves taxing commercial properties at a higher rate than residential

properties. Known as the "homestead" option, because "homestead" properties are charged a lower tax rate than "non-homestead" (commercial, industrial and utility) properties, this option has the potential to negatively influence commercial development, and as a result create a demand to expand the residential base. Furthermore, in communities employing the homestead option, businesses may seek to rent, rather than own property, which can also have unintended and long-term impacts.

Effects of New Development

Just as local tax policy may have some unintended consequences on the tax base, new construction comes with its costs and impacts. The type of development – e.g., residential, commercial, industrial, etc. - can have varying implications for local government services and infrastructure. Changes in traffic patterns, school enrollment, and other public services resulting from new development may have adverse impacts on the values of existing properties. Land use planning and zoning are the primary local tools for guiding development to help minimize unintended consequences of new construction.

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The Municipal Tax Base

A guide for local officials

**“A good tax is one
with a low rate and a broad base.”**

*A publication of the
New York State Office of Real Property Services*

Fundamental to local long-range planning is an understanding of the factors *affecting* local tax bases and how changes to a tax base will result in a range of fiscal impacts upon different local taxing jurisdictions. The purpose of this pamphlet is to clarify various issues surrounding local tax bases and to discuss some of the related considerations that may face local officials.

The municipal tax base is defined as the aggregate value of a municipality's taxable real property. However, in each community, there are also school and county tax bases. While the municipal tax base is defined by the boundaries of the municipality, all county and most school tax bases are spread over several municipalities.

The common assumption is that an expanding tax base benefits existing taxpayers. However, the ultimate impact on taxpayers will vary depending on which tax bases are affected. For instance, due to the relative magnitude of the tax rates, taxpayers will likely experience a more profound tax impact from changes to a county or school tax base, rather than changes to a municipal tax base.

Tax bases consist of various types of property, including: residential, commercial, agricultural, industrial, and utility. The factors affecting the aggregate value of a tax base are innumerable, and will likely include: new construction and its impact on the mix of property types, changes in the market value of real property and the ability to account for these changes, as well as non-taxable and tax-exempt real property.

New Construction

It goes without saying that new development will expand a tax base (assuming that such construction is taxable, of course). However, it is crucial to consider the often unforeseen impacts of new construction. Such impacts are discussed later in greater detail under *Tax Base Considerations*.

Changes in market value

Although real property market values are generally less subject to volatility than the stock market or the economy, the value of real estate is by no means static. Increases or decreases in the market values of existing properties will affect a municipal tax base, especially when such value changes affect significant portions of the existing base.

Exemptions

Property tax exemptions are intended to provide a direct savings to certain groups of taxpayers. For instance, the Senior Citizens' and Veterans' exemptions provide a benefit to these taxpayer groups. However, aside from New York State's STAR Exemptions, all exemptions reduce the property tax base, thereby shifting the property tax burden onto those property owners who have no exemptions. (Because STAR is directly reimbursed by the state, the property tax burden is not redistributed to those without the exemption.)

HOW THE TAX BASE IMPACTS TAX RATES

Tax rates are calculated by dividing the tax levy (the amount of the budget to be collected via taxes) by the total taxable value of the taxing jurisdiction. In general, if the levy remains the same and the tax base increases from one year to the next, tax rates should go down. Conversely, if the tax base decreases, tax rates would go up, even if the levy remained static.

In New York State, the method for ensuring that the tax base is accurately tracked and reported each year takes place primarily at the municipal level via the assessment roll. Municipal assessors should use building permits to track new construction, and use recent property sales and other methods to track changes in market value of existing property.

Changes should be reflected on the assessment roll annually. Subsequently, the municipality, school districts, county, and special districts levy taxes based on the property assessments within their boundaries. In cases where the taxing jurisdiction crosses over the boundary of the assessing unit (as is the case with most school districts and all but two counties), equalization rates, determined by the State Office of Real Property Services (ORPS), are used to account for differing levels of assessment among municipalities.

To help municipalities and county assessing units ensure that their tax bases are fully and accurately tracked each year, ORPS offers an Annual Aid program of \$5 per parcel to municipalities committed to keeping assessments at market value for six consecutive years.

TAX BASE CONSIDERATIONS

Relative Magnitude of Tax Rates

In 2003, the most recent year for which statistics were available, over 4,000 taxing jurisdictions in New York State levied approximately \$31.5 billion in real property taxes. As the chart on the next page shows, school districts collect the most property taxes, collecting 2.85 times more than the next largest user – the counties.

The implication of the relative magnitude of tax rates in relation to the municipal tax base is significant but often overlooked. It is not unusual for local officials to compete to site potential businesses in their municipalities – often referring to the benefit to existing taxpayers of having an expanded tax base.

However, based on the fact that schools collect 6.84 times more taxes than towns in New York State, the benefits of growing the school tax base are much more significant than increasing the municipal tax base. While an expanded tax base