



The Homestead Tax Option

Real Property Tax Law, Article 19, § 1903

In a number of places in New York State, assessments of residential property frequently have been at a lower percentage of market (full) value than other types of property, such as commercial and industrial property. When a town or city with this situation decided to conduct a property revaluation to achieve correct and fair assessments, the residential properties, as a class, would bear a much larger share of the tax burden. This discouraged other municipalities with similar situations from conducting their own property revaluations. As a result of the concern for tax-burden shifts to homeowners, a state law was passed in 1981 establishing the Homestead Tax Option.

This local option prevents any large shift of the property tax burden to the residential class of property owners after a revaluation. In a revaluation, changes are made to individual property assessments so that they are correct and uniform -- as the law requires. These changes result in increases to some individual residential property owners whose properties were underassessed before the revaluation. However, the homestead tax option prevents any large shift to the residential class of properties.

Q. What is the homestead tax option?

A. It is a local option to establish two separate property tax rates: a lower tax rate for residential property owners (homestead tax), and a higher rate for all other property owners (non-homestead tax).

Q. Is this program mandated by New York State?

A. No. It is a local-option program

Q. Is the homestead tax option available everywhere in the state?

A. No. It is available only to qualifying cities, towns, villages, counties, and school districts. It is not available in New York City, or in Nassau County except for villages and, for certain purposes, the cities.

Q. How does a municipality qualify to use the homestead tax option?

A. A city, town, or village that is an assessing unit first must complete a property revaluation project that meets the state board's regulations. That entitles the assessing unit to be certified by the state board as an *approved assessing unit*. Then the local governing body of the assessing unit can adopt a local law stating its intent to use a homestead tax and a non-homestead tax.

Q. How does the homestead tax option work?

A. The homestead tax is based on the share of property taxes paid by the residential class of property owners in the year before the new assessments from the revaluation project are used.

For example, assume that residential properties paid 40 percent of all town taxes in the Town of Smith in 1989 (the year before the revaluation project). Now, in 1990, as a result of the revaluation, the residential class represents 50 percent of the town's total taxes. As an approved assessing unit that has opted to use the homestead tax option, the Town of Smith can freeze the residential class share of town taxes at the previous 40 percent. Thus, the town will have two tax rates: one for the residential class and another for all other property classes, such as commercial property and industrial property. The difference is that the tax rate for the residential class will be lower than the tax rate for all other property classes. For example, the town tax rate for the residential class might be \$25 for each \$1,000 of assessed valuation, while the tax rate for the nonresidential class might be \$30 for each \$1,000 of assessed valuation.

Q. Once the percentage shares are determined (in our example, 40 percent for residential property and 60 percent for non-residential property), do they remain that way forever?

A. No. They can change based on the following adjustments:

- Using the example for the Town of Smith, the town would have the option of adjusting the residential share at various points between 40 and 50 percent.
- The municipality must make annual adjustments based on property that is added to the assessment roll and property that is removed.
- The municipality must make annual adjustments for different rates of appreciation in the two classes of property based on the changes in the current market value of the classes, subject to a 5 percent cap.

Q. What type of property qualifies as residential class property under the homestead tax option?

A. One-, two-, and three-family residential units; farm homes; mobile homes that are owner-occupied and separately assessed, and condominiums that were built as condominiums and not converted from some other form, such as rental apartments, qualify as residential property.

Also qualifying for the residential class are vacant land parcels not larger than 10 acres that are located in zones that restrict residential use to one-, two-, or three-family residential dwellings.

Q. I understand how the homestead tax option could work in my town, but how would it work in my school district?

A. School districts that are wholly contained within the boundaries of a city or town that has the homestead tax must use the homestead tax unless they opt out of the program by passing a resolution.

There is a special requirement for school districts located in more than one city or town that want to use homestead and non homestead school tax rates. That requirement is that one-fifth or more of the properties in the school district must be located in cities or towns that use the homestead tax option.

In addition, for school districts that are in more than one city or town, the determination of class shares will be based on current market value, with adjustments at the discretion of the school district within limitations set by law.

Q. How many localities use the homestead tax option?

A. At the time this pamphlet was revised, 12 cities, 17 towns, 18 villages, and 37 school districts were using the homestead option. For more information, visit [Municipal Profiles](#) on our website.

Q. In addition to adopting the homestead tax option, can approved assessing units also phase-in the results of the revaluation?

A. Yes. By passing a local law, approved assessing units can phase in the new revaluation assessments over a five-year period.

This option sounds simple. In reality, however, most assessment officials believe it would be extremely difficult to administer. Maybe that is why no municipality to date has decided to use the transition-assessment option.

Q. Can a municipality that has adopted the homestead tax option revoke it later?

A. Yes, simply by adopting a local law, without referendum, to rescind it before the next levy of taxes.