



STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

November 8, 2016

Nonie Manion
Acting Commissioner
Department of Taxation and Finance
William A. Harriman State Campus
Building 9
Albany, NY 12227

Re: 2015 Property Tax Freeze Credit
Report

Dear Acting Commissioner Manion:

This letter summarizes the findings and recommendations resulting from our Office's examination¹ of Department of Taxation and Finance (Department) payments to taxpayers for the tax year 2015 Property Tax Freeze Credit (PTF Credit). For tax year 2015, the Department approved nearly 2.1 million PTF Credit payments totaling \$600.7 million. The objective of our examination was to determine whether these credits were appropriate and complied with New York State Tax Law.

A. Results of Examination

We identified and returned to the Department 31,924 questionable PTF Credit payments totaling almost \$8 million for follow-up evaluation and appropriate action. In addition, we worked with the Department to identify and return an additional 12,786 PTF Credit payments totaling \$2.55 million that were incorrect due to improper data formatting.

We shared a draft report with Department officials and considered their comments (Attachment A) in preparing this final report. Department officials generally agreed with our recommendations and stated that they will continue to work to ensure the accuracy of future PTF Credit payments.

B. Background and Methodology

The PTF Credit is intended to reimburse qualified New York State homeowners for increases in school and municipal taxes on their primary residences. To receive the PTF Credit for tax year

¹We performed our examination in accordance with the State Comptroller's authority set forth in Article V, Section 1 of the State Constitution, as well as Article II, Section 8, and Article VII, Section 111 of the State Finance Law.

2015, homeowners must receive the STAR property tax exemption (i.e., the property must be the homeowner's primary residence and the total household income must be \$500,000 or less) and the taxing jurisdictions where the homeowner's primary residence is located must comply with the New York State Property Tax Cap. In addition to complying with the Property Tax Cap, the homeowner's school district must also have a State-approved efficiency plan that will achieve savings for taxpayers.

The Department calculated the amount of PTF Credit based upon local assessment rolls, local tax bill files and Department records. The Department received data in various formats from local governments and converted the data into a standardized format to ensure PTF Credit calculations were correct. For tax year 2015, the Department approved nearly 2.1 million PTF Credit payments totaling \$600.7 million. We used data analytics to select for examination 138,962 individual, high-risk PTF Credit payments totaling more than \$75.9 million.

C. Details of Findings

As indicated above, we identified and returned to the Department 31,924 questionable payments totaling almost \$8 million for follow-up evaluation and appropriate action. Specifically, we returned:

- 25,567 payments totaling \$5,480,752 due to calculation errors.
- 3,998 payments totaling \$1,621,590 where either the homeowner or property was not eligible for the STAR property tax exemption. This includes out-of-state residents, household incomes that exceeded the eligibility limit, secondary residences or business properties.
- 2,052 payments totaling \$818,766 to deceased homeowners.
- 246 duplicate payments totaling \$43,504.
- 61 payments totaling \$8,722 due to other issues.

Although the Department maintains the necessary data to identify out-of-state residents, household incomes that exceed eligibility limits, secondary residences, business properties and deceased homeowners, it did not always review that data prior to submitting payments to our Office for approval.

In addition to the payments noted above, we worked with the Department to identify an additional 12,786 PTF Credit payments totaling \$2.55 million that were incorrect due to improper data formatting. These were returned to the Department for correction and reprocessing.

The cooperation between the Department and our Office for the 2015 tax year PTF Credit examination resulted in improved communications and a more streamlined process to pay taxpayers. We look forward to continued cooperation and improvements for the 2016 tax year. We will continue working with the Department to audit any additional PTF Credit payments and to resolve all returned payments. We appreciate the Department's prompt review of questionable payments identified by our Office.

Recommendations

- 1) *Ensure PTF Credit payment amounts are correct prior to submitting those payments for approval.*
- 2) *Continue working with the local assessor offices to ensure data provided is standardized, complete, and accurate.*
- 3) *For the 2016 tax year, use relevant Department data to ensure only eligible taxpayers receive the PTF credit.*

We thank the management and staff of the Department of Taxation and Finance for the courtesies and cooperation extended to our auditors. Since your response to the draft report is in agreement with this report, there is no need for a further response unless you feel otherwise. If you choose to provide a response, we would appreciate receiving it by December 7, 2016.

Sincerely,

Bernard J. McHugh
Director of State Expenditures

Enc: Attachment A

cc: Edward Chaszczewski, Deputy Commissioner
James Brunt, Director of Internal Audit
Tim Maher, Director of Real Property Tax Services



OFFICE OF REAL PROPERTY
TAX SERVICES

October 25, 2016

Mr. Bernard J. McHugh
Director State Expenditures
Office of the State Comptroller
110 State Street
Albany, New York 12236

Re: 2015 Property Tax Freeze Credit Draft Report

Dear Mr. McHugh:

The Office of the State Comptroller (OSC) examined the 2015 Property Tax Freeze Credit checks (Freeze Checks) processed by the Department of Taxation and Finance (Department). This letter responds to the draft report summarizing the OSC findings for the 2015 Freeze Check cycle and recommendations for the 2016 cycle. Thank you for the opportunity to comment on the draft report.

Recommendation #1: Ensure Freeze Check payment amounts are correct prior to submitting payments for approval.

The Department issued over two million 2015 Freeze Checks with a total value of over \$600 million. OSC approved 99% of the 2015 Freeze Checks without any changes. For the remaining checks, the Department moved quickly to correct any data errors by heightened communications with local assessor offices, and implementing new processes. The Department will continue to work throughout the year to ensure the accuracy of the Freeze Checks and other payments processed by the Department.

Recommendation #2: Continue working with the local assessor offices to ensure data provided is standardized, complete, and accurate.

As OSC correctly notes, the Department has, and will continue to, work with the local assessor offices to ensure data is accurate and complete. As OSC is aware, however, there are challenges to that goal. In order to calculate the amount of each credit, the Department must first determine which taxing jurisdictions qualified for inclusion in the program. Then, the Department must match taxpayers to property records and perform calculations for each qualifying jurisdiction, based upon local assessment rolls, local tax bill files and Department records. Unlike the 2014 program, which covered 678 school districts, for 2015 the Department

needed data from more than 3,775 jurisdictions, including counties, cities, towns, school districts, villages, library districts, fire districts, and other special districts. To add further complexity, there are no mandatory State standards for local tax data and little uniformity exists across taxing jurisdictions, particularly regarding local tax bill data. The Department engaged early and often with these taxing jurisdictions to facilitate the collection of needed data in standardized formats. While the Department received accurate data from many jurisdictions, the Department still encountered difficulties in obtaining accurate data from the many very small jurisdictions that are minimally staffed. To ensure the Department is provided with accurate information, the Department will continue its communication efforts with local assessor offices to ensure it receives accurate information.

Recommendation #3: For the 2016 Tax Year, utilize relevant Department data to ensure only eligible taxpayers receive the Freeze Check credit.

The Department is currently processing Freeze Checks for the final 2016 program cycle, while also implementing two advanced credit check programs that are new for 2016. The Department strives to ensure accuracy in these and our other programs and uses internal and external data sources to that end.

We thank you and the OSC staff that assist us throughout the year to ensure the integrity of all of our payment processing programs. The professional relationship between our two agencies continues to be highly productive as we work collaboratively to ensure the accuracy of the Freeze Checks and other payments processed by the Department.

Sincerely,

Edward Chaszczewski
Deputy Commissioner