

# Tax Exemption Administration

## In the Towns of Babylon, Brookhaven, Huntington, Islip and Smithtown

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OFFICE OF THE NEW YORK STATE COMPTROLLER  
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# Report Highlights

## Tax Exemption Administration

### Audit Objective

Determine whether town assessors in Suffolk County are properly administering select real property tax exemptions.

### Key Findings

- Assessors incorrectly calculated exemptions granted, some of which included Town-wide errors.
- Assessors granted exemptions that lacked applications or supporting documentation.
- Assessors misclassified or failed to grant supported exemptions.

### Key Recommendations

- Properly apply State equalization rate or other uniform rate of assessment to all properties listed on the Town's assessment roll.
- Ensure all applicants provide adequate supporting documentation before granting exemptions.
- Annually verify income to support Senior Citizen exemptions.

### Background

Assessors are responsible for granting and tracking real property tax exemptions within the local government's boundaries. Assessors determine the assessed values of properties for the assessment roll, which is then used to create the tax bills for the following year's tax rolls. Assessors must retain documentation that properties are eligible for exemptions.

We audited the administration of Alternative Veterans, Persons 65 Years of Age or Older (Senior Citizens) and Volunteer Firefighters and Ambulance Workers (Firefighters) exemptions in the Towns of Babylon, Brookhaven, Huntington, Islip and Smithtown. This global report summarizes the significant issues at all of the towns audited. See Appendix A for additional background information.

#### Quick Facts

Town	Total Population of Selected Exemptions	Total Exempted Assessed Value of Select Exemptions <sup>a</sup>
Babylon	11,352	\$718.6 million
Brookhaven	21,724	\$1.7 billion
Huntington	8,055	\$580.5 million
Islip	12,616	\$1.2 billion
Smithtown	6,211	\$497 million

a Adjusted for the Towns' equalization rates

### Audit Period

December 1, 2017 – November 30, 2018

# Tax Exemption Administration

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All real property in New York is subject to taxation unless specific legal provisions grant it exempt status. Real property tax exemptions are granted on the basis of many different criteria, including the use to which the property is put, the owner's ability to pay taxes, the desire of the State and local governments to encourage certain economic or social activities and other such considerations. Certain exemptions provide full relief from taxation (wholly exempt property), while others reduce the taxes by varying degrees (partially exempt property). Some exemptions apply to taxes levied for county, city, town, village, special district and school purposes, whereas others pertain only to some of these. Lastly, while some exemptions are mandated by State law, others are subject to local option and/or local determination of eligibility criteria. These reductions in property taxes are paid for by increases in property taxes on other taxpayers with the exception of the School Tax Relief (STAR) exemption, which is funded directly by the State. The assessment rolls accuracy is essential for fair and equitable property taxation.

## How Do Assessors Properly Administer Exemptions?

To properly administer real property tax exemptions, assessors need to:

- Maintain supporting documentation (i.e., local law, ordinance or resolution) for any exemptions granted that require authorization by local option.
- Ensure property owners submit completed applications with proper supporting documentation and meet eligibility requirements.<sup>1</sup>
- Verify that exemption codes are properly selected and exemption amounts are properly calculated in the Real Property Tax System (RPS).
- Annually certify the assessment roll as accurate and complete for all exemptions.
- Periodically verify that those granted exemptions continue to qualify for them.
- Retain supporting documentation for granted exemptions and consult with the New York State Office of Real Property Tax Services<sup>2</sup> (ORPTS) or the Suffolk County Real Property Tax Services Office, as necessary, for technical assistance.

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<sup>1</sup> See Appendix A for eligibility requirements for the Alternative Veterans, Senior Citizens and Firefighters exemptions.

<sup>2</sup> A division within the New York State Department of Taxation and Finance

## Exceptions Averaged 11 Percent

We audited five Suffolk County town assessors' administration of the Alternative Veterans,<sup>3</sup> Persons of 65 Years of Age or Older (Senior Citizens)<sup>4</sup> and Volunteer Firefighters and Ambulance Workers (Firefighters)<sup>5</sup> exemptions and identified an average error rate of 11.4 percent for the 871 exemptions reviewed. However, when we exclude the Town of Huntington, the remaining four towns had an average error rate of 3.7 percent. The error rates and total exempted value of exceptions were the lowest for the Towns of Smithtown, Babylon and Brookhaven. Figure 1 summarizes the rate of exceptions (which include any randomly tested exemption that had at least one finding [e.g., lack of support, incorrectly calculated, misclassified, etc.]) and the exempted assessed value<sup>6</sup> of these exceptions found at each Town.<sup>7</sup> Some properties included more than one exception.

**Figure 1: Fiscal Year 2018 Real Property Rate of Exceptions**

Town	Total Reviewed	Exceptions	Rate of Exceptions	Total Exempted Value of Exceptions <sup>a</sup>
Islip	185	10	5.41%	\$908,787
Huntington	116	71	61.21%	\$1,754,999
Brookhaven	305	6	1.97%	\$455,334
Babylon	155	6	3.87%	\$335,714
Smithtown	110	5	4.55%	\$266,641
<b>Total</b>	<b>871</b>	<b>98</b>	<b>11.25%</b>	<b>\$3,721,475</b>

a Adjusted for Towns' equalization rates.

## Town-Wide Errors Occurred in the Town of Huntington

The Town of Huntington had town-wide errors because the Assessor routinely overrides the equalization rate<sup>8</sup> for all veterans exemptions in the RPS. Instead of the State equalization rate of 0.84 percent, a rate of 0.90 percent is applied to veterans, resulting in all veterans residing in the Town receiving higher exemptions. While the Town may use a different uniform percentage of value

3 New York State Real Property Tax Law (RPTL) Section 458-a

4 RPTL Section 467

5 RPTL Section 466-c

6 The amount by which an exemption reduces the total taxable assessed value of a property.

7 See individual Town audit reports for detailed results.

8 An equalization rate is the State's measure of a municipality's level of assessment, equal to the ratio of total assessed value to the municipality's market value.

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than the ORPTS-assigned equalization rate, it must apply the same rate to every parcel. However, the Assessor does not apply this rate to other exemption categories. For the 56 exemptions that we reviewed in the Town, the effect of using the higher equalization rate is that, in total, the 56 veterans incorrectly received an additional \$188,095 in County, Town and School tax reductions for fiscal year 2018.

The Town's 5,640 Alternative Veterans, therefore, incorrectly received more than \$18.8 million in exempted assessed value for fiscal year 2018. Furthermore, the Assessor stated that he overrides the equalization rate for all veterans' exemptions. Therefore, these errors also extend to the more than 3,700 exemptions granted under other veteran categories, representing a potentially significant tax inequity.

### **Exemptions Lacked Applications and Supporting Documentation**

Of 871 granted exemptions, 28 (3.2 percent) lacked one or more pieces of supporting documentation to verify eligibility of the exemptions. For example, exemptions granted may have lacked the original application, ownership proof, income support, proof of age or current affidavits. Each of the five towns had supporting documentation exemptions within one or more of the exemptions examined. The breakdown is as follows:

- Four exemptions were not able to be located by the assessor's office.
- One exemption did not have ownership proof on file as the property deed was too old to be in electronic records.
- Five property owners in the Towns of Islip and Smithtown either lacked current proof of income eligibility or the original application was missing. For one property, proof of income was last obtained in 2013 and another property, proof of monetary contributions from other household occupants was last obtained in 2011.
- Three exemptions in the Town of Huntington required that the veteran have an expeditionary medal with an honorable discharge to receive any exemption. However, the files did not contain any documentation attesting to these.
- Three applications for the Senior Citizen exemption in the Town of Islip contained no proof of age on file. Assessor's office staff stated that they reviewed proof of age documentation (e.g. driver's license, birth certificate) for these exemptions; however, no copies were retained on file.
- In the Town of Brookhaven, assessor's office personnel could not locate the 2017-18 affidavits or renewal forms for two properties. As a result, we

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could not verify whether these properties continued to meet the eligibility requirements to receive Senior Citizen exemptions.

- Seven exemptions that were renewed via affidavits in the Town of Huntington were not accompanied by current proof of Social Security or any indication that they viewed documentation to determine that the applicants' income was within the income threshold for the exemption given.
- In the Town of Islip, assessor's office personnel had not obtained documentation that three widows of firefighters with more than 20 years of active service had not remarried and, therefore, were still eligible for the exemption.

### **Assessors Incorrectly Calculated or Failed to Grant Eligible Exemptions**

We found that 23 granted exemptions (2.6 percent) were incorrectly calculated or eligible exemptions were not granted in all of the towns except the Town of Islip.

Senior Citizen Exemption – The Senior Citizens exemption requires the property be used exclusively for residential purposes and that all owners be 65 or older (with some familial exceptions), with varying income limits determined by each municipality.<sup>9</sup> Generally, residents receiving the Senior Citizens exemption are required to file a renewal form each year, along with supporting documentation to show their income is below the threshold.

- The Town of Huntington improperly used \$29,000 as the income threshold for a 50 percent exemption for all properties in the Town, regardless of what threshold each property's school district had adopted. As a result, 14 properties incorrectly received \$10,732 in County, Town and School exempted assessed value for tax year 2018.
- Two properties in the Town of Babylon, used an incorrect income basis. In one case, a \$7,061 IRA distribution caused a material difference, for the other application, the Assessor's Office mistakenly did not deduct eligible unreimbursed medical expenses from the income basis calculation. In both cases, had the income basis reflected a more accurate income, the senior citizens would have been entitled to the maximum exemption (50 percent).
- For two exemptions in the Town of Smithtown, the Assessor's Office used the correct income basis, but mistakenly input the wrong exemption percentage into the assessment software program (RPS).

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<sup>9</sup> Senior Citizens exemptions require property owners to have income above or below certain levels as established by State law or local legislation.

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- In the Town of Brookhaven, two properties were incorrectly calculated by not excluding the income of a spouse that had died during the year. Had the Assessor's Office excluded the deceased spouse's income from each of these calculations, it appears that these two properties would have qualified for a 50 percent exemption in their respective school districts, instead of the 20 percent and 45 percent actually granted.

Alternate Veterans Exemption – Requirements related to Alternative Veterans exemptions typically include that the primary residence is of a veteran (or a qualifying family member) of the United States Armed Services who actively served during certain eligible time frames or received an expeditionary medal and was honorably discharged. Towns may pass local laws that establish these exemptions, as well as raise or lower the maximum amount from which a single property may be exempt. Furthermore, disabled veterans may receive an additional exemption based on supporting documentation. We found three exemptions that did not receive the additional 10 percent combat exemption in the Town of Huntington, even though the veterans had submitted documentation that met the combat eligibility requirements.

### **Assessors Granted Ineligible Exemptions**

We found that six granted exemptions (0.69 percent) were either misclassified or the property owner was ineligible to receive the exemption.

- There were five instances in the Towns of Huntington and Babylon where a veteran received an exemption for a period of war or combat exemption when they were not entitled to it. There was no proof of required expeditionary medals and/or honorable discharge on supporting documentation.
- One unremarried widow of a deceased firefighter received school exemptions in the Town of Brookhaven, while the school district had not adopted a Board resolution to allow such an exemption. The assessor's office stated that, despite numerous requests, none of the school districts had provided an updated resolution to allow exemptions for unremarried widows of volunteer firefighters.

### **Reasons These Exceptions Occurred**

Overall, we found that exceptions were due to:

- Assessors and their staff lacking training on properly administering real property tax exemptions.
- Assessors and their staff lacking the understanding to properly review the military records and correctly classify the exemption.

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- Assessors did not always review exemptions and ensure that exemptions granted by a prior assessor had the necessary supporting documentation. However, assessors must annually certify the assessment roll as accurate and complete for all exemptions regardless of which assessor originally granted them.

Granted exemptions reduce the taxable assessed value of a property and, therefore, the owner's tax payment. To ensure a tax levy is fair and equitable, it is important that an assessor determine every exemption is legitimate. The five towns we reviewed granted a total of 59,958 of these exemptions on the 2018 assessment roll, collectively reducing the taxable assessed value by almost \$3 billion. Of the 871 properties we reviewed, the 99 exempted properties with exceptions had their total taxable assessed value reduced by almost \$4 million.

### **What Do We Recommend?**

The assessors should:

1. Properly apply State equalization rate or other uniform rate of assessment to all properties listed on the Town's assessment roll.
2. Ensure all applicants provide adequate supporting documentation before granting exemptions.
3. Maintain documentation to support eligibility for all exemptions.
4. Ensure previously granted exemptions are supported and continue to meet eligibility requirements.
5. Annually verify income to support Senior Citizen exemptions.
6. Correctly apply statutory provisions to granted exemptions and consult with ORPTS or Suffolk County Real Property Tax Services, as necessary, for any technical assistance.
7. Consult with ORPTS or Suffolk County Real Property Tax Services, as necessary, for any technical assistance.
8. Seek out available training on exemption requirements and calculations.

# Appendix A: Specific Exemption Criteria

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We audited the administration of Veterans, Persons 65 Years of Age or Older (Senior Citizens) and Volunteer Firefighters real property tax exemptions in the following five towns: Babylon, Brookhaven, Huntington, Islip and Smithtown.

All real property in New York is subject to taxation unless specific legal provisions grant it exempt status. Real property tax exemptions are granted on the basis of many different criteria, including the use to which the property is put, the owner's ability to pay taxes, the desire of the State and local governments to encourage certain economic or social activities and other such considerations. Certain exemptions provide full relief from taxation (wholly exempt property), while others reduce the taxes by varying degrees (partially exempt property). Some exemptions apply to taxes levied for county, city/town/village, special district and school purposes, whereas others pertain only to some of these. Lastly, while some exemptions are mandated by State law, others are subject to local option and/or local determination of eligibility criteria. The assessment roll's accuracy is essential for fair and equitable property taxation.

Alternative Veterans – Requirements related to Alternative Veterans typically include that the primary residence is of a veteran (or a qualifying family member) of the United States Armed Services who actively served during certain eligible time frames or received an expeditionary medal and was honorably discharged. Towns may pass local laws that establish these exemptions, as well as raise or lower the maximum amount from which a single property may be exempt. Furthermore, disabled veterans and veterans with combat service may receive an additional exemption based on supporting documentation.

Senior Citizens – The Senior Citizens exemption requires the property be used exclusively for residential purposes and that all owners be 65 years or older (with certain exceptions) for a consecutive 12 months (unless an exception applies) with varying income limits established by each municipality. Residents receiving the Senior Citizens exemption are required to file a renewal form each year, along with supporting documentation to show their income is below the threshold. RPTL Section 467 also allows income deductions, such as certain medical expenses, to be considered in calculating the exemption amount when adopted by local law. Furthermore, all owners or trustees of a property must meet the requirements to be eligible for the exemption, unless the property is retained for life use by a person otherwise eligible for the exemption. Corporations cannot meet requirements for the Senior Citizens exemption.

Firefighters – The Firefighters' exemption generally allows for 10 percent of the assessed value of real property owned by an enrolled member of an incorporated fire company, fire department or incorporated voluntary ambulance service, or such enrolled member and spouse, or such deceased enrolled member's unremarried spouse or otherwise eligible shareholders of a cooperative apartment corporation, be exempt from taxation provided that the applicant resides in the

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town which is served by such incorporated fire company, fire department or incorporated voluntary ambulance service, the property is the applicant's primary residence, the property is used exclusively for residential purposes and the applicant has been certified by the authority having jurisdiction for at least five years as an enrolled member. If a member accrues more than 20 years of active service and is certified by a jurisdiction, the exemption amount applies for the remainder of their life, so long as their primary residence is located within Suffolk County.

## Appendix B: Response From Town Officials

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We provided a draft copy of this report to all five towns we audited and requested a response from each. We received responses from all five towns.

Town officials generally agreed with our findings and recommendations. The following comments were excerpted from the responses received. Comments that were specific to findings at a particular town are not included here, but are instead addressed in the town's individual report. Each town's individual report includes the town's response to our audit of the town.

The Town of Islip officials said: "We understand if exemptions are not properly substantiated, there is a risk that exempted tax burden may improperly shift from exemption recipients to all other taxpayers. The audit process is a tremendous opportunity to fine tune our procedures to ensure that only qualified exemptions are granted."

The Town of Brookhaven officials said: "The review of this draft report has given us the opportunity to "Benchmark" the performance of the Town of Brookhaven in comparison with the performance of the Towns of Smithtown, Babylon, Huntington and Islip. This will help us to build on the performance which is reflected in the Global Report about the given towns...We are pleased that we achieved such good results but there is always room for improvement..."

The Town of Babylon Assessor said: "Babylon will be working on our retention problem which will make the applications readily available for inspection. I appreciate your visit which will help us administer the exemption properly."

The Town of Smithtown Assessor said: "On behalf of the Town of Smithtown, we appreciate your efforts of your office to provide a thorough review of the process in our Town. The administration of the N.Y. State Real Property Tax Law is a complex and challenging effort, but my office has attempted to adhere to the best practices available to ensure that the public has confidence in our ability to apply the law in an even-handed and fair manner."

The Town of Huntington officials said: "The Town acknowledged the existence of the deficiencies uncovered by OSC during the audit process...Chief among the corrections was insuring that the appropriate equalization rate was applied to the applicable veteran's exemption and obtaining all necessary school district approval resolutions, which now conform to the actual income thresholds and exemption percentages administered by the Assessor's Office during the audit period."

## Appendix C: Audit Methodology and Standards

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We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We reviewed Council minutes, monthly assessor reports and applicable local legislation to gain an understanding of the audit scope. We inquired with the current assessors and Town Supervisors about the real property exemption process and record keeping requirements.
- We randomly selected 411 properties with an Alternative Veterans exemption (1 percent from each town) totaling approximately \$24 million in equalized assessed value. We reviewed the record retained in the property folder to justify the exemption. We recalculated the exemption amount to verify the property received the appropriate exemption and calculated the tax dollar effect of any exceptions found.
- We randomly selected 290 properties with a Senior Citizens exemption (2 percent from each town) totaling \$46.6 million in equalized assessed value. We verified the age and ownership requirements, and that income reported meets the eligibility as established by each municipality or as reported in the County's RPS. We noted whether the Assessor retained any record of income or age. We then verified the exemption calculation and calculated the tax dollar effect of any exceptions found.
- We randomly selected 170 properties with a Firefighters exemption (the greater of 3 percent or 25 properties from each town) totaling \$6.2 million in equalized assessed value. We reviewed the original application to determine whether the applicants had submitted all required documentation, including but not limited to a fire district roster. We recalculated the exemption amount and calculated the tax dollar effect of any exceptions found.
- We reviewed the assessment rolls for any apparent irregularities in granting inappropriate exemptions.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

## Appendix D: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/localgov/regional\\_directory.pdf](http://www.osc.state.ny.us/localgov/regional_directory.pdf)

### **Cost-Saving Ideas** – Resources, advice and assistance on cost-saving ideas

[www.osc.state.ny.us/localgov/costsavings/index.htm](http://www.osc.state.ny.us/localgov/costsavings/index.htm)

### **Fiscal Stress Monitoring** – Resources for local government officials experiencing fiscal problems

[www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm](http://www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm)

### **Local Government Management Guides** – Series of publications that include technical information and suggested practices for local government management

[www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm](http://www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm)

### **Planning and Budgeting Guides** – Resources for developing multiyear financial, capital, strategic and other plans

[www.osc.state.ny.us/localgov/planbudget/index.htm](http://www.osc.state.ny.us/localgov/planbudget/index.htm)

### **Protecting Sensitive Data and Other Local Government Assets** – A non-technical cybersecurity guide for local government leaders

[www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf](http://www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf)

### **Required Reporting** – Information and resources for reports and forms that are filed with the Office of the State Comptroller

[www.osc.state.ny.us/localgov/finreporting/index.htm](http://www.osc.state.ny.us/localgov/finreporting/index.htm)

### **Research Reports/Publications** – Reports on major policy issues facing local governments and State policy-makers

[www.osc.state.ny.us/localgov/researchpubs/index.htm](http://www.osc.state.ny.us/localgov/researchpubs/index.htm)

### **Training** – Resources for local government officials on in-person and online training opportunities on a wide range of topics

[www.osc.state.ny.us/localgov/academy/index.htm](http://www.osc.state.ny.us/localgov/academy/index.htm)

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