

Town of Smithtown

Tax Exemption Administration

SEPTEMBER 2019



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Town of Smithtown

Audit Objective

To determine whether the Town Assessor properly administered select real property tax exemptions.

Key Findings

- The Assessor generally properly administered select real property tax exemptions.
- The Assessor did not maintain supporting documentation for granted exemptions and continued eligibility for some exempted individuals.

Key Recommendations

- Ensure all applicants provide adequate supporting documentation before granting exemptions.
- Maintain eligibility documentation for all exemptions granted.
- Annually verify income to support Senior Citizens exemptions.

Town officials agreed with our recommendations and indicated they are in the process of implementing corrective action.

Background

The Town of Smithtown (Town), located in Suffolk County, includes the Villages of Branch, Head of the Harbor and Nissequogue, and all or part of eight hamlets.

The Town is governed by a five-member Town Council (Council). The Town Supervisor (Supervisor) is a Council member and serves as the chief executive and chief fiscal officer.

The Town Assessor (Assessor) is responsible for granting and tracking real property tax exemptions within the Town's boundaries, including County and school district exemptions. The Assessor was appointed in October 2010 and works 140 hours per month at the Town.

Quick Facts

2018 Expenditures	\$122.5 million
Area	54 Square Miles
Residents	118,000
Parcels of Land	43,377
Taxable Assessed Value^a	\$2.7 billion

^a Adjusted for the Town's equalization rate

Audit Period

December 1, 2017 – November 30, 2018

Tax Exemption Administration

All real property in New York State (State) 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 roll's 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.¹
- Verify that exemption codes are properly selected and amounts are properly calculated in the Real Property Tax System (RPS), which is used to track assessment information and generate the annual assessment and tax rolls.
- 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 Services² (ORPTS) or the Suffolk County Real Property Tax Services Office, as necessary, for technical assistance.

The Assessor Properly Administered Most Real Property Tax Exemptions

Within the scope of this audit, we examined exemptions for Alternative Veterans,³ Persons of 65 Years of Age or Older (Senior Citizens)⁴ and Volunteer Firefighters and Ambulance Workers

¹ See Appendix A for eligibility requirements for the alternative veterans, senior citizens and firefighters exemptions.

² A division within the New York State Department of Taxation and Finance

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

⁴ RPTL Section 467

(Firefighters).⁵ The Town granted a total of 6,211 of these selected exemptions on the 2018 roll, collectively reducing the taxable assessed value among all taxing jurisdictions⁶ by more than \$497 million.⁷ Except for minor exceptions (five of the 110 [4.6 percent]), the Assessor generally properly administered select real property tax exemptions. These properties with exceptions had their total taxable assessed value incorrectly adjusted by more than \$266,000.

Figure 1: Fiscal Year 2018 Real Property Exemptions and Exceptions^a

Exemption Type	Total Parcels With Exemptions	Total Exempted Assessed Value for Taxes ^b	Total Number of Exemptions Tested	Exceptions Identified From Records	Rate of Exception	Total Exempted Assessed Value of Exceptions ^b
Alternative Veterans	3,724	\$184,064,046	40	3	7.50%	\$215,725
Senior Citizens	2,078	\$296,319,313	45	2	4.44%	\$50,916
Firefighters	409	\$16,646,794	25	0	0.00%	\$0
Totals	6,211	\$497,030,153	110	5	4.55%	\$266,641

^a Adjusted for the Town’s equalization rate

^b Total exempted assessed value includes all taxing jurisdictions that provided the exemption (e.g., county, town, village, school, special district).

What Are the Requirements for Granting Alternative Veterans Exemptions?

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 and veterans with combat service may receive an additional exemption based on supporting documentation.

Some Documentation Was Not on File

The Town granted 3,724 Alternative Veterans exemptions totaling \$184,064,046 in County, Town and School exempted assessed value. We reviewed 40 of these exemptions (1 percent) totaling \$2,479,237 of exempted assessed value and found that the Assessor generally administers these exemptions properly. However, three of the 40 exemptions lacked either an original application or proof of eligibility for an additional combat exemption. As a result, we could not verify whether these property owners met the eligibility requirements to receive exemptions totaling \$215,725 in assessed value.

⁵ RPTL Section 466-c [Suffolk]

⁶ The taxing jurisdictions allowing exemptions are County, Town, and School District.

⁷ All assessment and exemption amounts in this report have been adjusted for the Town’s equalization rate. 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.

What Are the Requirements for Granting Senior Citizens Exemptions?

The Senior Citizens exemption requires the property be used exclusively for residential purposes and that all owners be 65 or older (with certain exceptions), with varying income limits determined 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.

Town code section 256-5 eliminates the annual renewal requirement for residents who have received the exemption on five completed assessment rolls.⁸ Instead, the exemption for these residents is granted automatically each year as long as the resident submits a sworn affidavit with their tax payment stating that the resident is still eligible for this exemption, there have been no changes in ownership of the property or marital status, income is still within the specified threshold and there are no school-aged children residing at the property. Current proof of Social Security or, if paying in person, a valid photo identification must accompany the affidavit.

Some Income Was Not Annually Verified

The Town granted 2,078 Senior Citizens exemptions totaling \$296,319,313 in County, Town and School exempted assessed value. We reviewed 45 of these exemptions (2 percent) totaling \$10,526,412 in exempted assessed value. Five of the 45 exemptions had been renewed using affidavit forms that indicated “same” or “same as last year” in the income verification section instead of the senior citizens’ income. In two of the 45 exemptions, the Assessor’s Office used the correct income basis, but mistakenly input the wrong exemption percentage into the assessment software program (RPS). Specifically, the Assessor’s Office entered 5 percent for one property owner, instead of 10 percent, resulting in a County, Town and School assessed value that should have been reduced by an additional \$35,496. For the second property owner, the Assessor’s Office entered a 40 percent exemption, instead of 35 percent, resulting in this property owner incorrectly receiving \$15,420 in County, Town and School exempted assessed value for the tax year ended 2018.

What Are the Requirements for Granting Firefighters Exemptions?

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. This is provided that the applicant resides in the 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.

⁸ As authorized by RPTL section 467

All Eligibility Documentation Was on File

The Town granted 409 Firefighter exemptions totaling \$16,646,794 in County, Town and School exempted assessed value. We reviewed 25 of these exemptions (3 percent) totaling \$1,209,389 in exempted assessed value and found no exceptions.

While the Assessor generally administered select real property tax exemptions properly, the failure to maintain all necessary records, and to verify and review information annually increases the risk that individuals could receive exemptions to which they are not entitled on future tax rolls. If exemptions were not properly granted, it could result in higher property tax bills for other property owners.

What Do We Recommend?

The Assessor should:

1. Ensure all applicants provide adequate supporting documentation before granting exemptions.
2. Retain documentation to support eligibility for all exemptions.
3. Annually verify income to support Senior Citizen Exemptions.
4. Consult with ORPTS or Suffolk County Real Property Tax Services, as necessary, for any technical assistance.

Appendix A: Specific Exemption Criteria

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. The 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 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

TOWN OF SMITHTOWN

SUPERVISOR
EDWARD R. WEHRHEIM

TOWN COUNCIL
THOMAS J. McCARTHY
LYNNE C. NOWICK
LISA M. INZERILLO
THOMAS W. LOHMANN



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August 12, 2019

Office of the New York State Comptroller
Att: Ira McCracken, Chief Examiner
Division of Local Government and School Accountability
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533

RE: Draft Audit Findings/Town of Smithtown Real Property Tax Exemption Administration

Dear Mr. McCracken,

On behalf of the Town of Smithtown, I want to thank you for your correspondence of July 15, 2019, together with the draft audit report and findings regarding Real Property Tax Administration in our Town.

First, I would like to express our appreciation for the efforts made by your office to conduct a thorough and professional review of the process administered by our Assessor's Office. As you know, the complex laws and rules involved in fairly and equitably implementing the property tax system can often make for a daunting task. However, as I am sure you discovered, our Assessor and his staff are exceptionally dedicated and responsible public servants.

Indeed, the protocols and procedures applied in Smithtown are designed to insure that all our residents are treated fairly and that property tax exemptions are applied in an even-handed manner, according to the law. Nonetheless, given the volume of exemption matters processed each year, the data processing steps involved, and the limitation of resources, there may be occasions when perfection is not attained.

With regard to the minor problems you cite in your report, be advised that steps have already been taken to re-double our efforts to increase staff cross-training and improve record keeping/record retention.

Tel: (631) 360-7600 email: Supervisor@tosgov.com
www.smithtownny.gov

Office of the New York State Comptroller
Att: Ira McCracken, Chief Examiner
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Again we thank you for your review and efforts herein.

Very truly yours,

Edward R. Wehrheim
Supervisor

ERW:jb

Appendix C: Audit Methodology and Standards

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 and applicable local legislation to gain an understanding of the audit scope. We inquired with the Assessor about the real property exemption process and record keeping requirements.
- We randomly selected 40 Alternative Veterans exemptions (1 percent) totaling \$2,479,237 in County, Town and School exempted assessed value for further testing. We reviewed the record retained in the property folder to determine whether the exemption was justified. We recalculated the exemption amount to determine whether the property received the appropriate exemption and calculated the tax dollar effect of any exceptions found.
- We randomly selected 45 Senior Citizens exemptions (2 percent) totaling \$10,526,412 in County, Town and School exempted assessed value for further testing. We compared the age and ownership requirements, and determined whether income reported meets the eligibility as established by each municipality or as reported in the County's real property tax system. We noted whether the Assessor retained any record of income or age. We then reviewed the exemption calculation and calculated the tax dollar effect of any exceptions found.
- We randomly selected 25 Firefighters exemptions (3 percent) totaling \$1,209,389 in County, Town and School exempted assessed value for further testing. 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 roll 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.

A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law. For more information on preparing and filing your CAP, please refer to

our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make the CAP available for public review in the Town Clerk's office.

Appendix D: Resources and Services

Regional Office Directory

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

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

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#lmg

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

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

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

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

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

Contact

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