

The Mythtery of the 2% Tax Cap

Ever wonder why budgets are "up, up and away", despite the 2% cap?

Let's take the Village of Rhinebeck as our example:

The 2% cap is placed on the levy (the amount of taxes the Village must raise to meet its expenses after all revenues, other than property taxes, are included in the budget).

Wait! The Village's levy increased from \$1,843,937 in the 2023 - 24 budget to \$1,903,008 in the 2024 - 25 budget, which is an increase of 3.2%!!!! 3.2% is NOT 2%. What happened?

Here's how it really works

Every village is allowed a Tax Base Growth Factor by New York State. You can check it out yourself:

Village tax base growth factors for the 2024-25 budget

<https://www.tax.ny.gov/pdf/publications/orpts/tbtf/2024-tbtf-villages.pdf>

You can also check out how the State computes each village's Tax Base Growth Factor:

How tax base growth factor is determined

<https://www.osc.ny.gov/files/local-government/property-tax-cap/pdf/formula.pdf>

Notice that each village is assigned a different growth factor and that the growth factor for the Village of Rhinebeck is 1.0118. That means that we are allowed to increase our Village levy by 1.0118 BEFORE we apply the 2% cap.

So, we multiply \$1,843,937 (our 2023-24 levy) by 1.0118 = \$1,865,695.457, which is the number that is actually capped. That is to say, \$1,865,695.457, is the starting point that the State limits the Village from rising greater than 2%.

\$1,865,695.457, when multiplied by 1.02 = \$1,903,009, the amount of taxes we can raise without exceeding the 2% cap.

Notice that the Village's 2024-25 budget calls for a tax levy of \$1,903,008, precisely the "\$1.00 under the cap" we so proudly proclaim.

Bottom line, we are raising 3.2% more in taxes than last year because we were allowed to use an inflated value for the base rather than the actual value of the levy in the 2023 - 24 budget.

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