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City tax system is out of whack

By George Sweeting

Mayor Bloomberg's new tax plan involves more than a set of hikes and cuts—it is a major overhaul of the tax system. Assuming the Legislature, like the City Council, gives him most of what he wants, the city's tax base will become more like that of other localities around the country—more dependent on property tax, less dependent on the personal income tax.

While this change may make sense, it fails to address one critical factor: New York's property tax system is fundamentally flawed. It is riddled with inequities that force a disproportionate share of the burden onto apartment buildings and commercial properties.

Consider this: One-, two- and three-family homes make up 48% of the market value of city properties, yet the owners will pay 14% of the property tax billed this year. Conversely, commercial properties make up 27% of the market value, yet they will pay 44%.

The result: some of the highest property tax burdens in the nation. Since much of the tax on office and retail space is passed on to tenants, that undermine the city's ability to attract and retain jobs.

The property tax is especially burdensome for apartment renters, who pay a hefty portion of it as part of their rent. Despite the fact that, on average, renters have lower incomes than homeowners, rental properties are taxed at a higher rate than private homes. And unlike homeowners, renters cannot deduct their share of property tax from state and federal taxes.

The system gets really convoluted with co-ops and condos. They are valued and taxed as if they were rental units, meaning that most apartment owners get hit harder than homeowners. Ironically, a partial fix designed to address this inequity has left owners of some of Manhattan's most valuable apartments with tax burdens smaller than those of private homeowners while co-op and condo owners in other neighborhoods still pay more.

There are other inequities. In 1981, as part of the last major overhaul of the system, the Legislature limited increases on assessment for one-, two- and three-family homes to no more than 6% a year, or 20% over five years. Similar rules apply to buildings with fewer than 10 units. The caps protect owners from tax increases driven by rapid rises in market values. Some protection is warranted, but the limits are probably lower than necessary and create disparities in tax burdens across neighborhoods.

The current system also leads to lost revenue. Twenty five years ago, the property tax totaled 51% of the city tax revenue. With the Wall Street boom, it totaled 38% last year.

If the city is going to rely more heavily on the property tax, it makes sense to fix its flaws. Otherwise, the city will have a tax that is inequitable, hurts its ability to compete for jobs and generates less revenue than it could.

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