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A Herculean Effort

By Ana Champeny

Should a homeowner have the same tax burden, regardless of whether he or she owns a house, a co-op, or a condo? Should homeowner burdens be similar from one neighborhood to the next? Should landlords and tenants, whose rent pays much of their landlord's property tax, have the same tax burden as homeowners?

While "yes" may seem the logical answer to all of these questions, in New York City the answer to all three is a resounding "no." So it is welcome news that Governor Spitzer has put property tax issues on the state agenda with the announcement of a new commission.

The commission will largely focus on school district property taxes, which will not directly affect the city because our property tax is not dedicated solely to schools. But the governor may have opened a window for a separate discussion about the long-term problems with the city's property tax system.

The city's largest and most stable source of revenue, the property tax is expected to raise about $13 billion this year from residents and businesses. But many find the system overly complex and fundamentally unfair, a viewpoint sewn by the property tax system's quilt of rules: property is divided into four different classes with regulations about how much of the total tax collected can come from each class as well as differing standards for valuation, assessments, and caps or phase-ins of assessment increases for the different property classes.

The overarching disparities in this system can be seen in the tentative assessments of property recently released by the Bloomberg administration for fiscal year 2009. One- to three-family homes (class 1 in property-tax speak), accounts for 52% of market value in the city, but represents 14% of the property tax expected to be billed in 2009. Conversely, multifamily apartment buildings (class 2) represent 23% of market value of city real estate, but shoulder 37% of the total to be billed.

As a result, owners of rental apartment buildings bear a tax of $3.95 per $100 of market value, more than seven times the $0.51 per $100 paid by class 1 homeowners. The city's burden on commercial property is one of the highest among large American cities at $3.48 per $100 of market value, seven times the burden on small homes.

These unequal tax burdens may benefit city homeowners, but can have broader consequences for the city. Commercial owners can pass much of property tax increases onto the firms leasing the spaces. High taxes on commercial property can be a disincentive to economic development and spur businesses to relocate to less costly jurisdictions. Some of the high taxes on landlords are passed on to tenants who generally have lower incomes than homeowners.

Disparities also exist within classes. To protect class 1 owners from large increases in market values, state law limits increases in assessed value to 6% in one year and to no more than 20% over five years even if market values are growing faster. Because taxes are based on the assessment rather than the market value, this holds down the tax burden if values grow faster than the cap. As a result, homeowners in rapidly appreciating neighborhoods where market value growth exceeds the cap tend to have lower tax burdens than those in more slowly appreciating neighborhoods. For example, in Park Slope, which has experienced rapid appreciation, class 1 taxes are $0.26 per $100 of market value, less than one-half the $0.60 burden in Canarsie, where appreciation has been much slower.

Some of this difference could be remedied by changing another 6% rule, which sets a goal, or "target" of assessing homes at 6% of their market value. Lowering the target would help narrow the difference in tax burdens within class 1, but it would result in less revenue for the city even as some homeowners whose assessments were still below the new target would face tax increases.

Another source of intra-class disparities is the requirement under state law that co-operative and condominium units be assessed like rental buildings rather than based on sales price, leading to significant underassessment of many co-op and condo units. Citywide, the Independent Budget Office estimates that co-op and condo owners paid 47% less in 2007 than if assessments had been based on sales prices. Moreover, the lowest tax burdens were enjoyed by apartment owners in the neighborhoods east and west of Central Park while apartment owners in the Bronx and Queens had the least savings due to their co-ops being assessed like rental buildings.

A retooling of the city's property tax would create winners and losers, and making fundamental changes would require a Herculean effort. Vulnerable homeowners, such as those on fixed incomes, will need to be protected. But by the governor putting systemic changes in the property tax on the state agenda, it may provide a lever to help lift that political weight and enable a discussion about fixing the city's property tax system.

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