New York City Independent Budget Office

Focus On:
The Executive Budget

May 2015

For What It's Worth: Estimating Revenue & Distribution Under the Mayor's Proposed Mansion Tax

The Mayor has proposed a so-called "mansion tax" in the form of a real property transfer tax (RPTT) surcharge on residences sold for more than $1.75 million. The proposal was not formally included in the Executive Budget for 2016, although it was discussed as a source of funding for the Mayor's affordable housing plan in the 10-year capital strategy that was released along with the budget. The city has now prepared draft legislation for introduction in the state Legislature to establish the tax.

The tax would have two rates: 1.0 percent on the first $5 million of the transaction, and 1.5 percent on any additional amount. This tax would be in addition to the existing city RPTT of 1.425 percent on residential sales valued over $500,000, plus New York State's own RPTT of 1.4 percent on residential sales over $1 million. In the draft legislation, the city would have the authority to assign the revenue from the new tax to the Housing Development Corporation, which could then issue bonds backed by the new revenue to help finance private affordable housing developments.

IBO has analyzed the likely impact of the proposed RPTT surcharge using data on real estate sales in 2014 and our forecast of sales for 2015. (Unless otherwise noted, years refer to city fiscal years.) IBO estimates that had the tax been in effect during those years, it would have raised $192 million and $196 million, respectively. These estimates are comparable to the de Blasio Administration's expectation that its proposal would generate around $200 million per year in revenue.

Background

Sales of residential property in New York City are currently subject to both a city and a New York State real property transfer tax. Properties valued at $500,000 or less are subject to a 1.0 percent city tax and a 0.4 percent state tax. Transfers with a sales price above $500,000 and up to and including $1 million are subject to a 1.425 percent city tax and the 0.4 percent state tax. Residential properties sold for more than $1 million pay a 1.425 percent city tax and a 1.4 percent state tax. In all cases the rates corresponding to a particular price range are applied to the entire value of the property. This means that there is an abrupt jump in the tax liability when the price of a property rises above $500,000, and again when it rises above $1 million.

The additional 1.0 percent state tax on residential sales valued over $1 million is popularly referred to as a mansion tax, reflecting the fact that when it was first imposed in 1989, only a small number of luxury properties were subject to the tax. Times have changed: Due to overall inflation and additional appreciation in property values, IBO estimates that by 2014, 17.2 percent of all taxable residential sales in New York City were subject to the state mansion tax, and these sales represented 54.6 percent of the total value of taxable residential property sold. In Manhattan, 39.9 percent of sales, representing 78.8 percent of sales value, exceeded the $1 million threshold in 2014.

The city's proposed mansion tax has a higher threshold than the state's tax—$1.75 million instead of $1 million. If the proposed tax had been in effect in 2014, just under half (48.5 percent) of the properties subject to the state mansion tax would also have been subject to the proposed city surcharge.

The new tax would consist of an RPTT surcharge of 1.0 percent on the first $5 million of residential transactions valued over $1.75 million, and 1.5 percent on any amount over $5 million. In other words, once the sales price of a residential property exceeded $1.75 million, the entire

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value would be subject to the new tax—but only the portion exceeding $5 million would pay the higher 1.5 percent rate.

Distribution of the Proposed Tax

Total Revenue and Breakdown by Tax Rate. IBO's analysis indicates that if the proposed RPTT surcharge had been in effect in 2014, it would have been imposed on 4,458 sales, about 8.3 percent of all taxable residential sales in New York City. Most of these sales (3,665, or 82.2 percent) would have been subject only to the lower surcharge of 1.0 percent. The 793 sales above $5 million would have been subject to the 1.0 percent rate on the first $5 million, for a total surcharge liability of $50,000, plus 1.5 percent on the value above $5 million. The average sales price of the residential properties that sold for over $5 million was almost $9.5 million, meaning that on average these transactions would have been subject to a surcharge of nearly $50,000 + (.015 * $4.5 million), or $117,500.

If the proposed RPTT surcharge had been in effect in 2014, IBO estimates that it would have generated roughly $192 million in revenue: $100 million from residences sold for between $1.75 million and $5.0 million, and $92 million from properties where the sales price was above $5 million. Based on sales thus far this year, as well as IBO's forecast of residential real estate sales during the remainder of 2015, if the surcharge had been in effect throughout 2015, it would have generated just over $196 million in revenue.

Breakdown by Borough. Not surprisingly, an RPTT surcharge on high-value residential transactions would fall primarily on Manhattan properties. Had the surcharge been in effect in 2014, 86.7 percent of the transactions subject to it would have involved Manhattan properties. Among properties valued over $1.75 million but not more than $5 million, 84.2 percent were in Manhattan, 14.4 percent in Brooklyn, and just 1.4 percent in the other boroughs. Virtually all (98.4 percent) of the residential transactions valued over $5 million were in Manhattan, with a handful in Brooklyn and one in Staten Island.

Over half of the Manhattan residential sales valued over $5 million in 2014 were located in seven zip codes. In descending order, the zip codes with the largest share of high-value transactions were 10021 (Upper East Side), 10065 (Upper East Side), 10019 (Midtown West/Clinton), 10075 (Upper East Side), 10023 (Upper West Side), 10013 (Tribeca/Soho), and 10011 (Chelsea/Clinton/Greenwich Village).

Type of Housing Subject to the Tax. Because the highest-value residential properties in New York City are concentrated in Manhattan, they are overwhelmingly apartments. IBO estimates that had the RPTT surcharge been in effect in 2014, only about 12 percent of the properties affected would have been 1- to 3-family

Estimated Revenue from Proposed Surcharge on Residential Property Sales Over $1.75 million
Dollars in millions

	Based on FY 2014 Actual Sales	Based on IBO's Forecast of FY 2015 Sales
Properties Valued Above $1.75 million & Less Than or Equal to $5.0 million	$100.3	$92.6
Properties Valued Above $5.0 million	91.9	103.7
Total	**$192.2**	**$196.3**

SOURCE: IBO analysis of data from the Department of Finance
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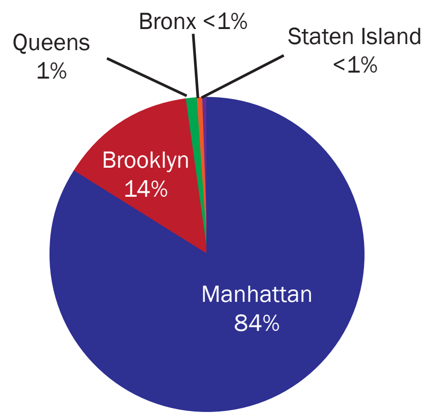
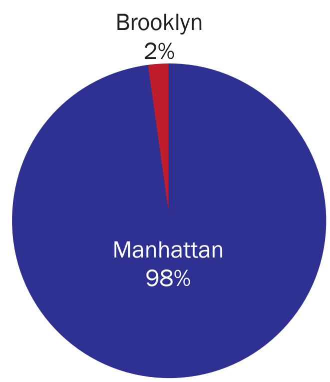
In 2014, Residential Sales Between $1.75 Million and $5 Million Were Overwhelmingly in Manhattan, but 14 Percent Were in Brooklyn



...While Virtually All Residential Sales Valued Over $5 Million Were in Manhattan



SOURCE: IBO analysis of Department of Finance data
NOTE: One sale over $5 million was located in Staten Island (not shown in graph).
New York City Independent Budget Office

homes, while around 31 percent would have been coop apartments, and 57 percent condominiums.

Impact of the Tax on Buyer and Seller Behavior. IBO's estimates of the revenue from the proposed RPTT surcharge assume no change in the behavior of buyers and sellers in response to the new tax. However, in cases in which the sales price would be just over $1.75 million in the absence of the additional tax, the parties to a transaction have a strong incentive to agree to a lower price. This is because the proposed surcharge would be imposed on the entire value of the property, not just the amount over $1.75 million.

Under the city's proposal, a residential property selling for more than $1 million and up to $1.75 million would be subject to a 1.4 percent state tax and a 1.425 percent city tax, for a total tax rate of 2.825 percent. Once the price exceeded $1.75 million, however, the entire value of the property would be subject to the 1.4 percent state tax and a 2.425 percent city tax, for a total tax rate of 3.825 percent. A property sold for $1.75 million would pay $49,437.50 in taxes, while a property sold for $1.76 million would pay $67,320. In this case, a $10,000 increase in price leads to an increase of $17,882 in the tax.

In this hypothetical example there is clearly an incentive for both the buyer and the seller to negotiate the lower price. While technically the RPTT is paid by the seller, economic theory suggests that the burden of the tax will be shared (not necessarily equally) by buyer and seller.

In our example, there is a potential for both the buyer to pay less, and the seller to receive more, if the price is set just below the point that triggers the proposed RPTT surcharge. However, the number of transactions in which a lower price would be advantageous to both parties is relatively small. Based on 2014 data, IBO estimates that in only 43 residential sales would buyers and sellers both have benefitted from lowering the price to $1.75 million, the threshold above which the surcharge would take effect.

Properties priced just above $5 million would not be similarly affected, since the higher 1.5 percent rate that kicks in at that price level is a marginal rate that only applies to the amount above $5 million. This means, for example, that raising the price of a property from $5.00 million to $5.01 million would provide the seller with $10,000 in additional revenue, at the cost of just $432.50 ($10,000 * .04325) in additional taxes.

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