

THE CITY OF NEW YORK INDEPENDENT BUDGET OFFICE 110 WILLIA M STREET, 14TH FLOOR NEW YORK, NEW YORK 10038 (212) 442-0632 • FAX (212) 442-0350 •EMAIL: ibo@ibo.nyc.ny.us http://www.ibo.nyc.ny.us

FOR IMMEDIATE RELEASE December 5, 2006 Contact: Doug Turetsky 212-442-0692/cell: 917-513-7488

New IBO Report Finds Widening Disparities in City's Property Tax

The New York City Independent Budget Office today released a new report that finds 25 years after the state revamped the law governing property taxation many disparities in the system remain and some have worsened. The report, *Twenty-Five Years After S7000A: How Property Tax Burdens Have Shifted in New York City*, shows that homeowners still receive the most favorable treatment under the city's property tax, and that the favorable treatment has increased over time.

In 1975 the state's highest court ruled that New York's system of taxing homes and buildings was in violation of the law because similar houses in nearby neighborhoods often had very different tax burdens. In the city, homeowners in poorer neighborhoods generally shouldered a heavier tax burden than owners in wealthier neighborhoods.

Overall, homeowners paid taxes based on a far smaller share of the value of their property than owners of other types of property. It took the Legislature nearly six years to agree to a new property tax system that would address the court ruling while maintaining comparatively lower tax burdens for homeowners.

"With more than two decades of data we can see that under S7000A the burden of paying the property tax is not shared equally among owners of residential property and, in many cases, these disparities are widening," said IBO Director Ronnie Lowenstein.

This report takes a detailed look at the complex system implemented in the city under S7000A, and how features such as the creation of four property classes each taxed at different shares of market value and assessment caps for some classes, have influenced tax burdens. The report uses the "effective tax rate"—the tax paid on every \$100 of market value—to compare the shifting tax burdens for private homes, rental apartment buildings, coops and condos, and commercial properties. IBO also looks at how tax burdens have shifted for home and apartment owners in different neighborhoods. Among our key findings:

- Homeowners in low-income neighborhoods no longer have higher tax burdens than owners of similar properties in wealthier neighborhoods.
- The effective tax rate has fallen 65 percent for homeowners since 1984, but it has dropped only 18 percent for commercial properties and has risen slightly for apartment buildings with elevators.

- The coop and condo tax abatement added to property tax law in 1997 has lowered the effective tax rate for many apartment owners to below that of homeowners. IBO estimates that \$156 million—more than half of the city's expenditure on the abatement this year—goes to owners who were already below or only needed a partial abatement to reach the effective tax rate of homeowners.
- Much of this excess abatement spending went to owners on the Upper East Side and Upper West Side of Manhattan. Yet many Brooklyn and Queens coop and condo owners still have higher tax burdens than homeowners.
- The disparity in tax burdens has widened between rental buildings and coops. In 1997 the effective tax rate for rental apartment buildings was 1.8 times higher than coops. Now the effective tax rate for rental buildings is 5.5 times higher than coops.

The report also includes a comparison of commercial property taxes in New York with those in some other major cities and a review of household incomes by location and type of residence.

Twenty-Five Years After S7000A concludes with a presentation of several scenarios to reduce the disparities in tax burdens without increasing the total amount of property tax collected by the city. Each of the scenarios includes estimates of how the average tax bill would change for different types of properties, with some winners and some losers.

"These examples are not meant as recommendations," said Lowenstein. "We include them to show that because of the widening disparities the policy and political choices needed to reduce the disparities in tax burdens may be even harder to make than they were 25 years ago."

The property tax is the city's largest source of tax revenue. IBO estimates the city will collect more than \$13 billion from the property tax this fiscal year, roughly 40 percent of all local tax revenue.

The free, 61-page report is available on IBO's Web site at <u>www.ibo.nyc.ny.us</u>. Printed copies are also available by calling 212-442-0632.