As Appeared in**: NY Post, July 6, 2007**

The Tax Cut That Wasn't

By George Sweeting

As New Yorkers got their property-tax bills over the last week or so, many must have wondered what happened to the 7 percent temporary tax cut announced last month by Mayor Bloomberg and the City Council. Most property owners saw little change from last year's bill.

What happened? Well, the city and state laws governing city property taxes are so complex that the "7 percent" cut worked out to wildly different figures, depending on the type of property. At the Independent Budget Office, we've estimated that the cut worked out like this:

- Tax bills for owners of one- to three-family homes shrank by $43 on average (less than 1 percent).
- Owners of office buildings, storefronts and other commercial property saw an average drop of 0.75 percent (4 pennies per square foot).
- Apartment-building owners saw an average drop of 1.1 percent ($18 per apartment).
- Condo owners (who also benefited from a change in assessment practices) got an average cut of 12 percent ($99).

The average co-op owner had virtually no reduction.

How did this come to be? Here's a (simplified) explanation.

First off, the cut wasn't to individuals' tax bills, but to the *overall* amount the city chose to levy from property taxes. Getting from that to individual tax bills is a complicated, multi-step process.

The first step in computing any year's bills is determining the total amount of property tax to levy.

Total assessments for 2008 were about 8 percent higher than in 2007, so the overall levy would have grown by 8 percent - but *that* is the figure that was cut by 7 percent.

In other words, the total property tax was cut by 7 percent - about $1 billion - from what *would* have resulted from applying last year's overall tax rate to this year's higher assessments. (Thus, the city's total property-tax take will still be slightly higher than it was last year.)

The second step in the process is dividing the total tax bill among the city's four different classifications of real estate. Under state law, each class bears a certain share of the total tax to be collected.

The system was designed to preserve favorable treatment for owners of one- to three-family homes. (Even though homeowners represent about 45 percent of the market value of city real estate, their share of this year's property tax is 15 percent.)

By law, the *exact* shares change slightly each year to gradually reflect shifts in the market value of property in each class. (For example, if the city saw a vast commercial-property boom, while other real-estate sectors remained flat, the share of the total tax levied on commercial owners would slowly rise.)

In recent years, the market value of one- to three-family homes has grown faster than the value of the other property classes, so homeowners' share of the tax levy was set to rise substantially. But the mayor and City Council got the state Legislature to suspend that part of the adjustment formula for this year. The rest of the formula *was* applied, however, resulting in a slight *shrinkage* in homeowners' share of the bill and a small rise in the share levied on apartment buildings.

The last step is to actually set the tax rate for each property class. This is done by dividing each class' portion of the levy by the total assessed value in the class.

Yet even *that* isn't relatively straightforward: A thicket of state laws constrains how property is assessed in each class and how much assessed value can change from year to year. (These constraints also lead to wide disparities in tax burdens between neighborhood, especially for homeowners and apartment owners.)

With assessed values changing at different rates for each of the property classes, property-tax rates wind up changing differently for each class.

Assessment increases are severely restricted for one- to three-family homes, so this year's property-tax rate is 4.2 percent below last year's for those homeowners. Conversely, commercial-property owners saw their rates fall *more* than 7 percent.

Of course, a drop in the tax rate doesn't necessarily mean a drop in the tax *bill*. For many owners, the increase in assessed value more than offset the lower tax rate. So, instead of a cut, they're looking at a higher bill - although not *as* high as it would've been if not for that "7 percent" cut.

With bills now in hand and memories of a promised tax cut still fresh, New Yorkers may be asking themselves why the city operates under such a cumbersome process, one that makes it virtually impossible for anyone to understand how he or she is taxed, let alone to compare tax burdens with a neighbor's.

Perhaps people's confusion over this year's "7 percent" tax cut will spur efforts for a clearer, more transparent process.

George Sweeting is a deputy director at the city Independent Budget Office.