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IBO Report: Structure of Proposed New 421-a Program Has Implications for All Property Tax Bills

March 26, 2024, – Since the expiration of the 421-a program in June 2022, some local and state officials have been advocating to reinstate an updated version of the program. The expired program provided tax breaks for up to 35 years to incentivize new multifamily residential construction with some level of affordable housing. The program is named after the section of the State Real Property Tax Law the program is created under. Although the program has expired, meaning new buildings cannot participate in the program, the tax breaks given under earlier versions of the program [continue to benefit properties](#). In fiscal year 2023, the City provided \$1.8 billion in tax breaks to 421-a properties.

Under prior iterations of 421-a, tax benefits were provided through a property tax *exemption*, which reduces the assessed value of the property to which the tax rate is then applied, in turn reducing the property tax bill. An exemption is similar to a deduction for personal income taxes. The Governor's *State of the State* report called for enacting its replacement program (now proposed to be called 485-x) as an *abatement*. An abatement reduces the final dollar amount billed to a property owner, similar to a credit against personal income taxes.

Although often used interchangeably, should Albany seek to renew 421-a, the choice to structure benefits as an exemption or abatement has implications for *all* property tax bills. This is due to State rules around how properties are assessed and taxed in New York City. IBO's research aims to provide policymakers with insights into the tax liability implications when determining whether to structure tax benefits as exemptions or abatements in any new program.

IBO's report can be found [here](#).

Main takeaways from the report:

- Using 2023 data, IBO simulated what the tax implications would have been if the 421-a program, which offered a tax exemption, had instead offered tax abatements. IBO found that taxes for one-, two-, and three-unit houses and commercial properties would have been higher if 421-a had instead provided the same amount of tax breaks in the form of an abatement to apartment buildings. On the other hand, taxes for apartment buildings not receiving 421-a benefit would have been lower.

- In relative terms, the share of the total tax burden borne by residential apartment buildings (including condominium and cooperative apartments), which was 38.3% in 2023, would have been 35.5% had 421-a been an abatement program. In contrast, the share of the tax burden borne by one-, two-, and three-unit houses would have been higher under an abatement program—15.5% of total taxes, compared with 14.8% under the exemption program in effect in 2023. Similarly, going from the exemption program to one based on abatements, the share borne by commercial properties would have increased from 39.2% to 41.0%.
- In per-unit terms, had 421-a been an abatement in 2023, then on average, apartments would have owed approximately \$441 less in property tax per residential unit, while one-, two-, and three-unit houses would have owed approximately \$222 more per unit. (Commercial properties would have also paid more.)

IBO's model is intended for illustrative purposes and is not an exhaustive review of all aspects of how the property tax system would be altered under an exemption or abatement version of 421-a. This structural distinction—exemption versus abatement—of the proposed revival of 421-a is part of two broader policy discussions: when and where the City foregoes collecting tax revenues to incentivize residential development and more broadly how different properties are assessed and taxed in the City.



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