

Henry George News

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Property Tax Reform in New York City: An Insurmountable Opportunity?

New York City's property tax system, which brings in eight billion dollars of revenue each year, is a mess; there is general consensus about that. In 1993 a commission was appointed by Mayor Dinkins and the City Council to study the problem and recommend reforms. Its report, which was issued in December, discussed the problems in detail but offered no solutions. What makes property tax reform so difficult? That was the question addressed by two experts in a seminar at the New York HGS on January 29th. Martin Karp, the Chairman of the Action Committee for Reasonable Real Estate Taxes, explained the status quo, with all its political pitfalls.



Martin Karp

properties (residential, housing up to three families), are assessed at 8% of market value, yielding an effective tax rate of a mere .73%! Apartment buildings, on the other hand, are in class 2; they are assessed at 45%, and pay an effective rate of almost 3.5%. Co-ops and condominiums, also in class 2, lack the benefit of certain tax breaks for rental buildings and end up paying 4.15%. And if brownstones are a property tax bargain, then undeveloped land is a steal - for most of it is also included in Class 1.

Understandably, the most pressing political issue here is that of equitable distribution of property tax burdens. Demographics, however, is on the side of the small residential owners. They number approximately 1.3 million voters in New York City, while co-op and condo owners (a group that became a political factor only as late as the 80s) make up about 600,000. Mr. Karp stressed that real estate taxes, although they are "inherently regressive," must be made less so, because the revenue is needed, and voter restlessness is growing fast.

While acknowledging the practical difficulties that reformers like Mr. Karp face, Dr. Harriss suggested that it is misguided to focus exclusively on the burden of property taxes to the payers. "We should think seriously about whether we want local taxes to be progressive," he said. Progressive taxation works at the national level, because it is relatively hard to leave the country. Locally, though, businesses tend to flee. Mr. Karp and Dr. Harriss agreed that the "threshold of pain" for commercial real estate is the 4% mark. The tax on commercial properties is already over that; when the commercial rent tax is added in, effective rates climb to over 5%.

Mr. Karp admitted that the point about incentives is well-taken, but he stressed the importance of staying grounded in political reality. Thus, the Action Committee's recommendations aim to

Prof. C. Lowell Harriss, Emeritus Professor of Economics at Columbia University, discussed the economic effects of the property tax. The speakers proposed contrasting reforms, argued cogently for them, and left the audience with much to think about.

According to Martin Karp, "the world's biggest property tax break is in Manhattan brownstones." That is because in the city's four-class scheme, class 1

Governor Cuomo Affirms Merit of Amsterdam LVT Experiment

Last summer, Gov. Mario Cuomo signed into law a bill allowing the city of Amsterdam, New York to implement a two-rate property tax system. The following comments were in the text of his 1994 State of the State Report.

The inequities and limitations of the property tax are pushing some communities to call for replacing it altogether. As a State, the best role we can play is to allow localities room to experiment....

Common sense tells us that a single property tax policy might not work equally well in all parts of the State. Last year, City of Amsterdam officials approached us with a proposal to allow them to establish a "land value" system of taxation, and we agreed. The concept of land value taxation is based on the premise that taxing improvements at a lower level than land will spur economic development. We will monitor the Amsterdam experience carefully to see if it can guide us in rethinking local tax policy throughout the State.

simplify the current system and make it more accountable, but not to change its basic shape. It calls for four main points: 1) do away with all fractional assessments and assess all properties at full market value; 2) set the basis for assessment by law, not by appointed officials; 3) have only two classes of property - residential and commercial - rather than four; 4) have a simple rate structure, with commercial properties taxed at twice the rate of residential ones.

Dr. Harriss praised the move toward simplification and better accountability, but he took strong exception to the



Prof. C. Lowell Harriss

proposal's underlying economic assumptions. It is more important to consider the property tax's effect on economic activity than to focus on the payers' burdens - because the overall economic climate can affect those burdens far more profoundly than property tax rates. What is missing in the major studies so far, insisted Dr. Harriss, is the vital distinction between structures, which can be gainfully used or fall

into disrepair according to prevailing incentives, and land, which cannot go away.

Dr. Harriss does not suggest that the real estate tax system do away with different classes of property altogether. He calls for a classification based not on the use to which properties are put, but rather on the functions of the economic factors involved. Like Mr. Karp, he proposed two classes: not residential and commercial, but land and buildings. If New York City needs to raise \$8 billion in property taxes, he said, then by all means let's do so with a high tax rate on land, which cannot flee, and a lower rate on both residences and businesses, to keep them from leaving town. ❖