

As seen in...

REAL ESTATE WEEKLY

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REBNY Watch

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New York State got an “F” grade from a nationwide survey, The Best and Worst of Property Tax Administration, conducted by the Council on State Taxation.

New York was ranked last in the survey with the only “F”, just ahead of Delaware, Illinois and Pennsylvania, who all received a D- grade. The survey’s Top 5 Ranked states were Maryland, A-; Florida, B+; Georgia, B+; Kentucky B+; and Oregon, B+.

The Council on State Taxation is a not for profit organization comprised of major corporations that conduct business in states throughout the country.

According to the survey, New York has the nation’s most inefficient, confusing, unfair and generally unworkable system for collection and administering property taxes.

For some time now, the Real Estate Board of New York has continued to publicly complain that property taxes in New York City are unfair and too high. This study reaffirms our concerns and more importantly highlights how bad the real property tax system is in New York.

The survey’s scorecard evaluated the three general characteristics of state and local property tax systems that in the Council on State Taxation’s view represent fair property tax administration on a state by state basis:

- Standardized filing, remittance and appeal procedures.
- Appeal process for property tax disputes must be before an independent tribunal, in a de novo hearing, without a pay-to-play requirement for disputed property taxes.
- Property tax burden fairly balanced between business and residential taxpayers.

Some problems in New York highlighted in the survey are:

Localities can set their own assessment rather than adhering to a uniform statewide standard. That means one town’s taxes may be based on out of date assessments while a neighboring municipality is current.

There are also variations in how over-paid taxes are refunded and payment deadlines. Forms aren’t even standardized.

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The process for contesting tax assessment and collecting money, if there is a refund, is cumbersome.

New York doesn't require that properties be assessed at 100 percent of their value.

According to the survey, however, outdated assessments are a major problem in New York State with some property assessments not updated for 10 years.

Outdated assessments result in an unfair tax burden on all properties. Based on the outdated assessment, properties whose values have been declining are paying higher taxes while properties whose values are rising are paying lower taxes.

New York City, in this regard, is an exception since it assesses real property annually. However, New York City has assessment caps on Class 1 properties, which contain one-three family homes of 6 percent a year and 20 percent over 5 years. These caps create inequity among these properties, even though they may be assessed annually.

For instance, there are two homes, A and B, each has an assessed valued today of \$500,000. Over the next five years, A's value increases an average 20 percent a year, effectively doubling in value. B's house however, over the same five years, has increased in value only 4 percent a year, effectively increasing its value 20 percent.

As a result of the assessment cap, these two houses will still be paying the identical amount in property taxes at the end of 5 years. In effect, the assessment cap reduced the tax burden for property A whose property doubled in value. Property B is paying the same tax as property A even though it is worth significantly less than A. In this way, assessment caps create unfairness.

The survey also found that throughout New York State, with a few exceptions, municipalities tax commercial and residential properties the same way. However, in New York City this is not the case. Rather, there is a glaring inequity between the taxation of commercial and residential properties.

For instance, Class 4 properties which includes the major business properties, such as office buildings, hotels, and industrial property, represents 23 percent of the value of real estate in the city and the Class pays 40 percent of the real property tax levy. In contrast, Class 1 properties, which includes one-three family homes, represents 50 percent of the value of real estate citywide and this Class pays 15 percent of the real property tax levy.

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The New York State Department of Taxation and Finance has acknowledged the problems in the real property tax system throughout the state and has pledged to begin to improve the process.

We need to see the survey as a wake-up call for New York State and City to begin the process of creating a fair, equitable and transparent real property tax system.