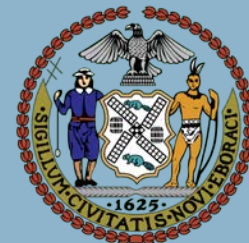


Levers to Reform the Property Tax

Presentation to the
NYC Advisory Commission on Property Tax Reform

September 4, 2018



New York City Council
Finance Division

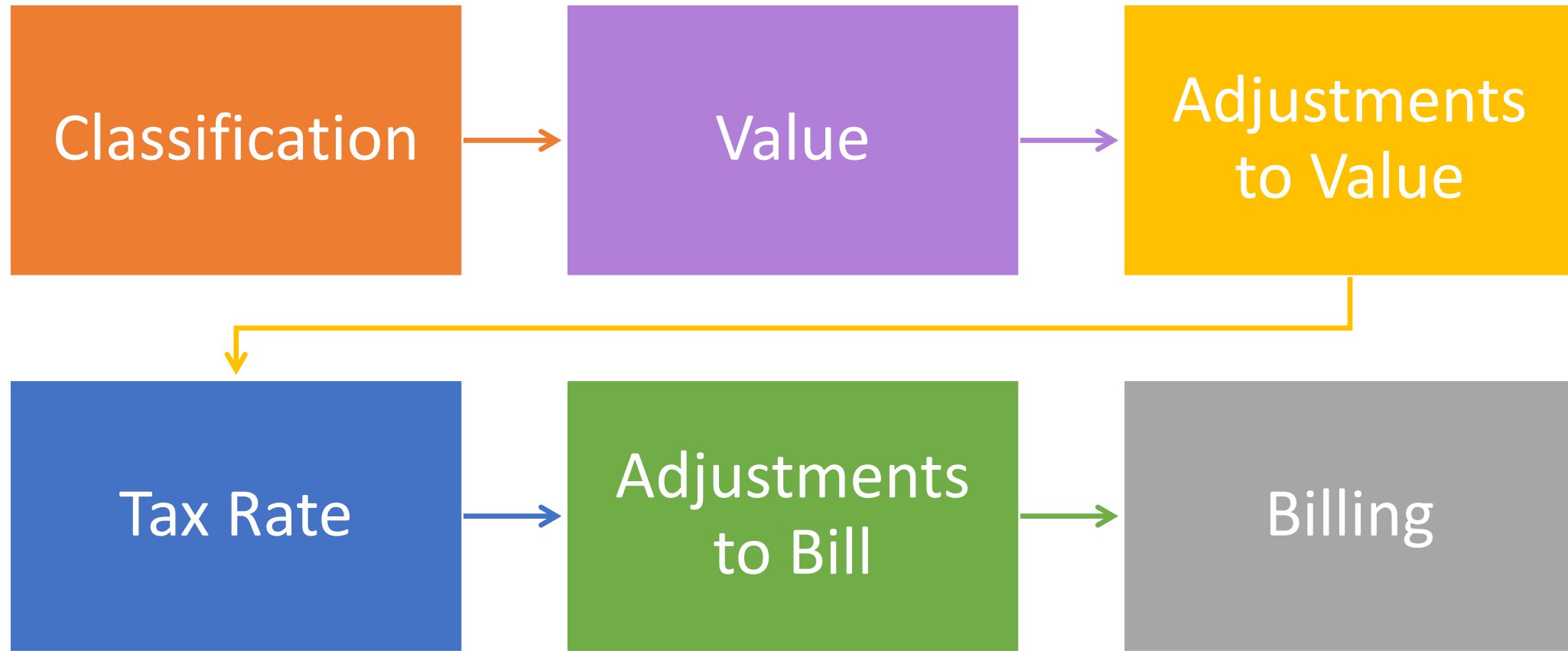
What Do We Mean by “Levers”?

$$\text{Tax} = \text{Base} \times \text{Rate}$$

Levers can shape and adjust that equation to achieve a goal:

- Transparency
- Fairness
- Simpler
- Revenue Neutrality

Levers Available at Every Step of the Process



Classification



- Property classification is an organizational lever
 - One way to allow for differing treatments of property
 - Relationship between Classes?
- NYC has 4 Classes based on use and/or size
 - Classes developed in late 1970s/ early 1980s
 - Different rates, assessment rules, valuation methodologies, etc
 - However, all classes are tightly tied together through class share/tax rate system

Value

- Define the Base
 - What are we taxing?
 - What do we mean by value?
- Value the Base
 - Methodology, data limits, legal restrictions
 - Minimize Inaccuracies
 - Improve methodology, data, etc
 - Reporting, monitoring, data analysis
 - Appeals Process



A decorative graphic at the top of the slide features a central yellow rectangle containing the title. To the left of the rectangle are two squares, one orange and one purple. To the right are three squares, one blue, one green, and one grey.

Adjustments to Value

- Value Can be Adjusted to Meet a Policy Goal
- Assessment Rules
 - Endemic to property, no owner action required
 - Fractional Assessments
 - Assessment Growth Limits
 - Caps for Small Residential Property
 - Phase-ins for All Others except Utility Property
 - No limits on physical improvements
- Exemptions
 - Require action by owner & must meet a set of criteria
 - Often to provide relief, encourage development, or address policy failure

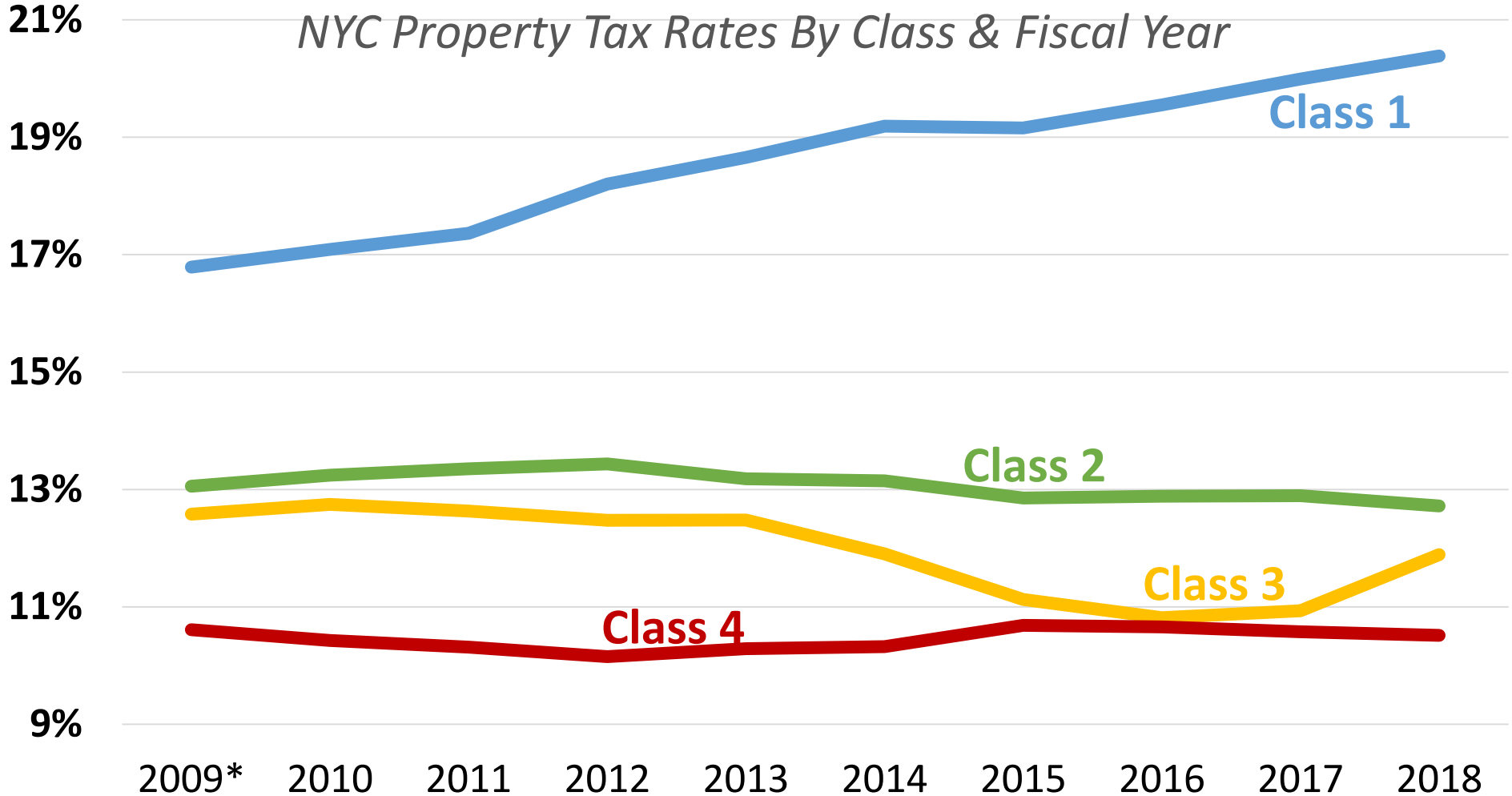


Tax Rate

- Should Properties Be Taxed at the Same Rate?
 - Variations by types of property?
 - Variations to meet a policy goal?
- How Are Rates Determined?
- Current System
 - City can adjust overall levy; currently at $12.283\% \times$ taxable value
 - Different, inter-related rates for each of 4 classes based on formula
 - Each class pays a specified share of the levy, regardless of exemptions or assessment limits

Tax Rate

Current System



The overall rate has been unchanged through this period.

**Rate for second half of Fiscal 2009*

Tax Rate

Current System: Rate Determination

$$\text{Class Rate} = \text{Total Levy} \times \text{Class Share} / \text{Class Taxable Value}$$

↓
Revenue neutral
so no change

↓
LEVER

↓
In assessment rules &
exemptions, so no change

Tax Rate

Current System: Class Shares Determination

- Each Class's Share is Based on Share Paid in Fiscal 1991
- Shares Are Updated to Reflect Market Value Changes Since Then
- Shares Cannot Increase By More than 5% Over the Prior Year*
 - That limit is often lowered by the State at request of the City
 - Limit applies only to changes due to market forces

Tax Rate

Current System: Illustrative Case Study

- City & State enact a new tax program to encourage owners to add a second story to 1 story, single family homes
- Provides a tax exemption equal to increase in assessment caused by construction
- So market value increases, but taxable assessed value will not change
- Assume all other changes have been incorporated in tax rate system: what's the impact of this program?

Tax Rate

*Current System:
Illustrative Case Study, cont'd.*

$$\text{Class Rate} = \text{Total Levy} \times \text{Class Share} / \text{Class Taxable Value}$$

1. No change in class taxable value, since we exempted it
2. No change in total levy, since there's no change in taxable value
3. Class 1 share goes up, due to an increase market value
4. Therefore, Class 1 rate goes up
5. Class share in other classes falls (since Class 1 is a greater share)
6. Therefore, rates in other classes fall



Adjustments to Bill

- Abatements are very similar to exemptions:
 - Abatements reduce final bill, rather than taxable value
 - Difference may be useful in clarity and targeting
- But, exist outside of tax rate structure & does not impact them

$$\text{Class Rate} = \text{Total Levy} \times \text{Class Share} / \text{Class Taxable Value}$$

No Impact from Abatements

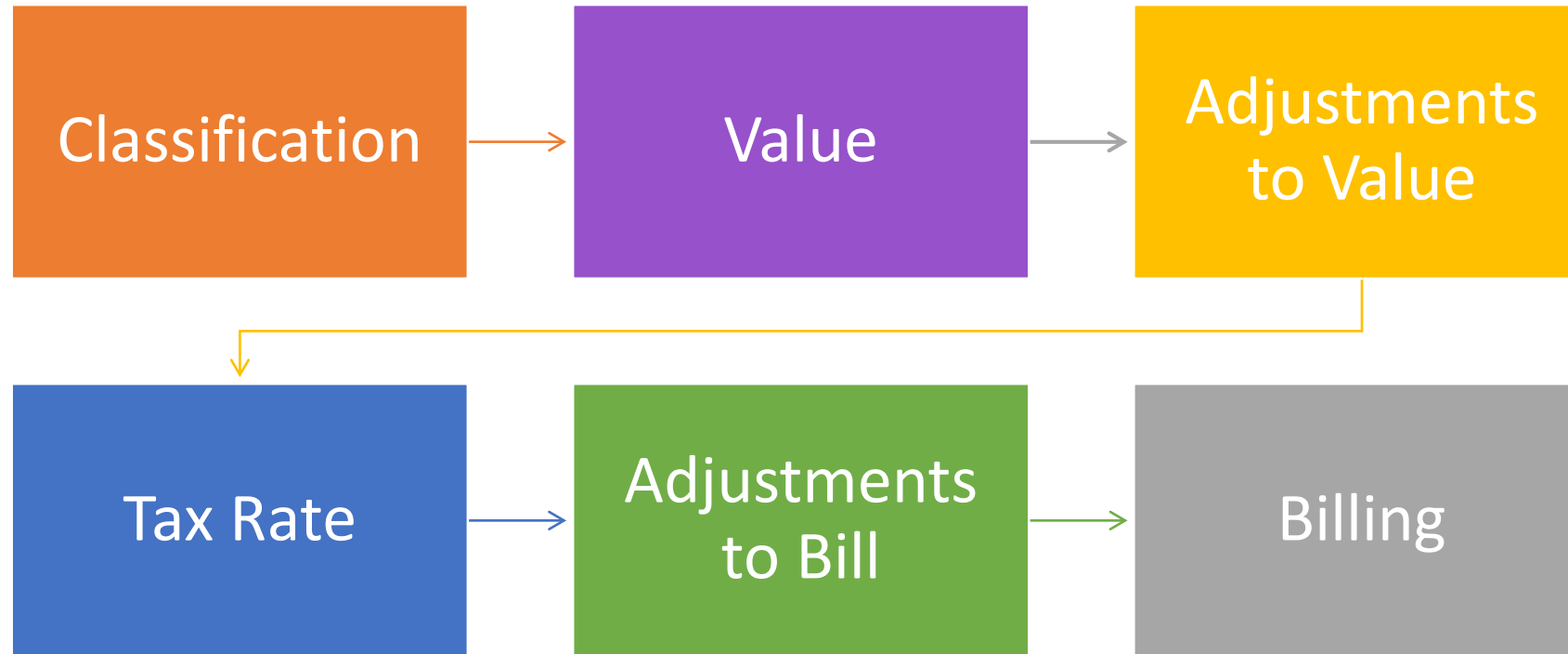




Billing

- **Communication**
 - Notice of Property Values & Appeals Process
 - How Much Information is Too Much?
- **Collections**
 - Tax Bills & Timing
 - Structure of Payments

Considerations in Using a Lever



- Interaction with Other Levers
- Clarity of Purpose & Measurability
- Targeting vs Transparency
- Legal vs Economic Incidence
- Equity: Horizontal vs Vertical vs Transitional
- Other Taxes

Questions?

