

Study Details Benefits of Two-Rate Tax Shift in New York City

Barry Elias, an advanced student at the New York HGS, has been applying himself as a volunteer research assistant in the quest for real-world numbers on property tax reform. He has completed a study showing the rates, revenues and probable effects of a revenue-neutral shift to a two-rate property tax system in New York City.

His analysis (summarized in the table on page three) is as interesting for the changes it does not consider as for those it does. Barry envisions a two-rate shift, within New York City's convoluted and inequitable existing system. There is no provision in Barry's study for such messy matters as assessment reform, or changing the inequities that result from the four-class property tax scheme itself.

While their lack does not compromise the usefulness of Barry's report, those reforms are needed in New York City. Currently, Class 1 properties - three-family homes and under - are charged a property

tax rate that is 5.35 times less than larger residential properties in Class 2! (See article on tax reform in the Jan. - Feb. HGN). Furthermore, land assessments often bear little resemblance to actual market values. In many cases, the assessed "market value" of land is determined by a more-or-less arbitrary assignment from the total real estate value. There are some indications that the City Assessors, perhaps recognizing, on some level, the wisdom of higher taxes on land values, have been quietly bumping up the assessed value of land parcels for some time. If so, however, they have done it in an unpredictable and inconsistent way that has further distorted the city's economy. Clearly a fair and comprehensible property tax system requires assessments that are as accurate as possible, but in this city, assessments have gotten less accurate.

Nevertheless, the two-rate system that Barry Elias envisions does not require such deep reforms for its effectiveness. He shows how a revenue-neutral shift would relieve taxes on improvements by some \$500 million (and increase the public collection of land rent by the same amount). (continued on page three)

NYC Property Tax Study (continued from front page)

What economic effects could we expect from the shift? Here in brief is what Barry foresees: because of the shifted incentives caused by the new property tax structure, the propensity to invest in new construction should increase by about 0.8%. Assuming that each dollar invested in new construction will bring about another dollar's worth of related spending (a conservative multiplier of 2), gross city product would improve by 1.6%, or an annual increase of \$5.9 billion in economic growth. This would translate into nearly 54,000 more jobs - and an unemployment rate of 7.9% instead of the current 9.5%. Increased economic activity would also bring in an increase in revenue from income tax to the tune of \$356 million. All this, without a dime in new taxes, but with a significant relief in tax penalties for building!

The methods used in this study are those which have been implemented with such success in sixteen Pennsylvania cities. While they don't get us all the way to the Single Tax, they do provide a proven, fair and politically palatable way for municipal governments to start collecting more land rent - and less of our hard-earned wages and interest.

Current New York City Property Tax Structure

class	av/mv	rate	effective rate	LAND		IMPROVEMENTS	
				market value	revenue	market value	revenue
1	8%	10.900%	0.872%	53,424,319,238	465,860,064	53,092,314,713	462,964,984
2	45%	10.369%	4.666%	25,539,021,798	1,191,663,527	28,789,726,638	1,343,343,040
3	50%	7.404%	3.702%	-0-	-0-	12,619,538,552	467,175,317
4	45%	10.724%	4.826%	44,720,715,400	2,158,132,284	44,206,990,213	2,133,340,934
TOTALS				123,684,056,436	3,815,655,875	138,708,570,116	4,406,824,275

Proposed New York City Property Tax Structure

LAND				IMPROVEMENTS			
class	proposed rate	effective rate	revenue	class	proposed rate	effective rate	revenue
1	13.608%	1.089%	581,598,550	1	8.175%	0.654%	347,223,738
2	13.291%	5.981%	1,527,476,124	2	7.777%	3.500%	1,007,539,668
3	-	-	-0-	3	5.553%	2.777%	350,381,488
4	13.374%	6.018%	2,691,426,815	4	8.043%	3.619%	1,600,005,700
TOTALS			4,800,501,489				3,305,150,594