Kerchner Offers Tax Reform for New York City

George Kerchner, senior research associate for the Center for Local Tax Research, presented a tax reform proposal at the 1980 Joint Georgist Conference on Friday, August 29.

New York City can gain another quarter-billion dollars in revenue, the estimated 1982 budget gap, by raising all land assessments to half their estimated full value without any reassessment of current improvements. The study by the Center for Local Tax Research concluded that the additional revenue could be gained at a tax rate of $8.85 per $100, half the increase in rate projected by the Mayor's office for January 1, 1981, a rise from the present $8.75 to $8.95. The City's projection was based on increasing revenue by some $35 million within the current constitutional limitation.

Any further new revenue from the City's real property tax would require action by the New York State Board of Equalization and Assessment to report current property values more acurately in the city. The constitutional tax limit is based on the average of five years of full values of assessments in the City. This would mean raising the current full valuation of New York City property from $87.1 billion, based on a 1976 survey, to about $90 billion by updating the assessment percentages. Many city and state observers believe that a current and accurate survey of the City's real property market would justify such an increase.

The study goes on to note that increasing assessment on land to 50% of its estimated market value results in little more than the overall assessment percentage for all real property in the city which is calculated to be 46.3 for 1978/9. Thus this change only brings the estimated assessment rate for land closer to the city-wide average for all property. Assessments on improvements would not be raised at all, adding no further disincentives to maintenance and making the average tax payment increase small. An increase in land assessment could be accomplished without an expensive and burdensome revaluation of all individual parcels of property, through use of currently available computerized records.

The study demonstrates the impact of the increase on various types of real property. The highest percentage increase falls on office buildings. One-family homes would have initial increases of some $300 on the average and less than $200 after assessments reflect the new tax burdens. Should the City choose to forego some of the initial revenue, the increased taxes for homeowners could be kept lower.

The changes that the tax increases will have on the value of proerty are also reported in the study. A higher tax liability on a property makes it somewhat less desirable in the real estate market, causing its value to decline. This in turn reduces the original tax increase and so on until a steady state is reached. The reductions in value are determined by the capitalization rate for real property, which is a ratio of net income to market value. To illustrate the study, this was assumed to be 15%.

While the higher tax burden could reduce the total base, this could be offset by new development spurred by the proposed lower tax on improvements.

Raising land assessments would also be a major step in the direction of equalizing and reforming the New York City property tax rolls as mandated by state law. Fears of the effects of full value reassessment on all city property have given rise to legislative proposals to remove the full value standard or even maintain the status quo which study after study in city and state, including the annual series on effective tax rates by the Center for Local Tax Research, has demonstrated to be an inequitable hodge-podge. A firm basis for equitable assessment standards is laid under this proposal, without an undue burden on any one class of taxpayer.

Editor's note: The New York Times of Sunday, September 28, 1980 carried a lengthy article by Carter B. Horsley (page 6 of the Real Estate Section) based on Kerchner's paper.

CENTER FOR LOCAL TAX RESEARCH

Initial Impact and Steady State* Increases in Real Property Tax
From Increased Assessment of Land to 50% of Estimated Market Value†
And Current Assessed Value of Improvement
And Change in Tax Rate to .0885 from .0875

Building Class	Change			
	Initial Impact		Steady State	
	Percent	Average	Percent	Average
1 Family Dwelling	36.1	307	22.7	193
2 Family Dwelling	21.1	226	13.2	142
Walk-up Apartment	5.4	135	3.4	85
Elevator Apartment	1.1	661	0.7	416
Warehouse	1.4	184	0.9	115
Factory	1.9	209	1.2	132
Garage	3.4	149	2.1	94
Hotel	1.2	1,261	0.8	793
Theater	1.4	443	0.9	278
Store Building	1.4	154	0.9	97
Loft Building	1.1	282	0.7	177
Office Building	1.2	2,377	0.7	1,495
Condominium Apt.	16.2	139	10.2	87
Vacant Land	129.5	822	81.5	517
Other	10.1	357	6.4	224
Total City	9.	301	5.8	189

* At 15% Capitalization Rate. † Market value estimate of land component calculated from 1978/9 assessed values and Assessment/Sales Ratio calculated from valid sales reported in 1977/8 edited to remove extreme ratios. 1978/9 Land Assessment used if A/S is greater than .50. 1. Total increase for Ordinary Real Estate is $250,000,000. 2. Total increase for Ordinary Real Estate is $157,000,000.