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REBNY: Pied-a-Terre Tax Would Be A Big Faux Pas For Industry

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Last week The Fiscal Policy Institute and State Senator Brad Hoylman separately announced a proposal to tax non-primary resident owners of condo and co-op apartments and Class 1 properties (1-3 family homes) in New York City with a market value of $5 million or more.

REBNY is vigorously opposed to this proposal and will continue to express our serious concerns to the appropriate officials about the impact of this proposal on our industry and our city.

This proposal has had an immediate, direct, and negative impact on the residential sales market. In the few days since it was first proposed, we have received calls about sales have been put on hold and threatened not to close as a result of the announcement of this proposal.

Similarly, new developments currently in the pre-development stage are being delayed as builders weigh the impact of this proposal.

According to the Fiscal Policy Institute proposal, 445 coop and condo units valued at more than $25 million can expect an average annual tax on their unit of $1.2 million. This annual tax would be in addition to existing real estate taxes as well as other considerations such as maintenance costs.

REBNY estimates that the 1556 total affected units are paying almost $316 million a year in property taxes, an average of $200,000 per unit.

In comparison, Class 1 owners pay an average of $3,000 in property taxes. Given the high property taxes these non-resident owners are already paying, it is difficult to take seriously the argument that these properties are not paying their fair share of the city's services.

This proposal has already led to a great deal of uncertainty among buyers, and as long as this uncertainty regarding this proposal continues to exists, buyers will not close on their transactions.

Job creating, tax generating development projects will continue to remain on hold if this proposed annual tax continues to be discussed a possible source of tax revenue.

New York's pre-eminent fiscal watchdog has denounced the idea as bad tax policy. "I think the talk probably puts a lot of potential sales on hold because people aren't going to be able to predict what the tax impacts are," said Carol Kellermann, president of the Citizens Budget Commission. "Uncertainty is never a good thing."

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In the short term, City coffers will also take an immediate hit due to foregone revenue that would have been collected through the transaction taxes (NYC and NYS Transfer Taxes and the mansion Tax. In the last year, sales of more than $5 million have generated more than $200 million in such taxes.)

Equally importantly, a tax targeted at non-residents and talked about as a tax on foreigners will send a chilling message across the country and around the world that investing in residential real estate in New York City is available only if you are prepared to pay a significant premium for this opportunity and the larger the investment the steeper the price, since this tax proposal quickly moves from a 0.5 percent tax to a 4 percent tax for units above $25 million.

It is beyond question that this tax would dramatically reducing the spending of these non-residents and the related economic activity.

“This certainly does not help the reputation or future of our great city,” said Pamela Liebman, president of the Corcoran Group. “It seems blatantly unfair to treat our global citizens like this.”

If the value of high-end real estate drops, this will inevitably result in a snowball effect on the rest of the market below it. What message does this send to the rest of the world, who we’ve encouraged to come to our city, spend vacations, see our landmarks, and enjoy our nightlife?

These people who visit our city and buy expensive apartments do not do this simply to own property.

They want to enjoy our great City, dine in our restaurants, enjoy the theater and concerts, shop in our stores and hire local workers.

What about the high tech entrepreneurs who are headquartered elsewhere but are thinking about growing their companies’ right here in the five boroughs?

For these types of property owners, we are in a global competition. They can easily choose another city to invest in over New York City and take this spending, job creation, and economic activity with them.

We should extend a warm welcome to those who want to invest in New York City but this proposal sends the opposite message.