

## **Pied-a-Terre Tax: Appealing but Problematic**

Governor Andrew Cuomo, Mayor Bill de Blasio, members of the New York State Legislature have advocated instituting a pied-a-terre tax in New York City. Nonresident owners of New York City homes worth more than \$5 million would face an annual property tax surcharge starting at 0.5 percent of the value greater than \$5 million and gradually increasing to 4.0 percent of the value greater than \$25 million. The tax is projected to yield approximately \$650 million annually.

The pied-a-terre tax is appealing politically because it is levied on wealthy people with means to pay and nonresidents who do not vote. Nevertheless, it is problematic for several reasons.

First, the property tax should be levied based on the characteristics of the property, not its ownership. It is true many of the homes that would be subject to a pied-a-terre tax are undertaxed due to New York City's flawed property tax structure; however, the extensive disparities in that system should be addressed through comprehensive reform, not another piecemeal approach. A pied-a-terre tax is not a substitute for real property tax reform that increases equity.

Second, the pied-a-terre tax makes New York City less attractive to nonresident property owners who make important economic contributions that should not be overlooked; they bolster the State economy through purchases on food, entertainment, shopping, and services when in the city. They pay property, sales, and other taxes; and, they use fewer city services than people who live here.

Third, the proposed tax will have a negative impact on the luxury housing market. The significant progressivity and top rate would reduce demand for high-end homes by nonresidents and depress property values for residents and nonresidents alike, making the expected revenue from the tax overly optimistic. Lowering rates would reduce the impact.

Finally, the Governor and Senate majority support dedicating the tax partly or mostly to fund the Metropolitan Transportation Authority (MTA). With few exceptions, revenues should not be dedicated, but rather allocated through the budget process.

The MTA has significant financial needs. It is crucial for the Legislature to pass congestion pricing in order to raise revenue, decrease congestion, and improve service. However, congestion pricing is only the first step; additional spending restraint and operational efficiency, including renegotiation of the Transit Workers United (TWU) labor contract, are critical parts of the solution. The capital program should be more focused on state of good repair needs and capital projects executed with greater efficiency. Any additional revenue needed after these operational and capital reforms should come from motorists and broad-based taxes, as Citizens Budget Commission has long advocated.

In short, the State should not adopt a pied-a-terre tax without thoughtful deliberation about whether it is needed and revision of the proposal to mitigate the negative impacts. New York State and New York City already are high tax jurisdictions being negatively affected by the federal cap on state and local tax deductions, and the Adopted State Budget is likely to extend the “temporary” State millionaires personal income tax surcharge for five years. The Mayor and others have advocated for a city millionaires tax; this would be harmful to the city’s competitiveness. While the pied-a-terre tax is preferable to such a tax, lawmakers should seriously consider lower tax rates that will do less harm to the attractiveness of NYC.