Owners of New York pied-à-terres could soon face additional taxes

By Sarah Ramirez

Absentee property owners in New York may face new taxes. Image credit: Redfin

In an attempt to help offset the costs of repairing New York's public transportation systems, state lawmakers are exploring a tax on wealthy non-residents who own luxury city apartments.

According to Robert Mujica, budget director for New York Governor Andrew Cuomo, a "pied-à-terre tax" on non-resident owners could bring in as much as $9 billion over a decade. This is not the first time state and city officials have discussed such taxes, despite longtime opposition from the real estate industry.

"New York should cautiously look at other international cities that have taxed foreign purchasers in an attempt to quell rising real estate prices," said Mihal Gartenberg, agent at Warburg Realty., New York. "It did not turn out as expected.

"Further, if New York City is facing a deficit, perhaps it would be wise to begin by looking at spending and ways to balance the budget before raising taxes on any particular item"

City living

The Metropolitan Transit Authority is a public benefit corporation responsible for public transportation throughout the state of New York. The price tag for the MTA's next capital plan is projected at $40 billion.

A luxury apartment tax is one potential solution towards helping fund the transit system improvements, along with congestion pricing, a cannabis tax and an Internet sales tax. Projected revenues would amount to half of what the MTA's improvements will cost.

Sotheby's Realty listing on New York's Upper East Side. Image credit: Sotheby's Realty

Under a pied-à-terre tax, part-time New Yorkers would likely be required to pay surcharges on residential properties valued at more than $5 million.

In 2014, research group the Fiscal Policy Institute suggested that a so-called “luxury apartment tax” could raise $665 million each year.

Absentee owners do not pay city or state income taxes, leaving millions in tax revenue on the table annually. Many foreign owners also purchase properties in cash, bypassing the city's mortgage-recording tax.

Speaking at an event hosted by Crain’s, State Assembly Speaker Carl Heastie shared his support for a tax on luxury second homes. Previously, the legislative body has supported proposals of an annual surcharge, ranging from 0.5 to 4 percent, on non-residents’ properties valued at $5 million or more.

Amazon's HQ2 flirtation with New York drew a lot of scrutiny. Image credit: Douglas Elliman

New York Mayor Bill de Blasio has long supported a millionaires’ income tax on city residents, but the proposed legislation has failed to gain much traction among lawmakers.

With Mr. Cuomo backed by a Democratic majority in the State Senate in addition to Mr. de Blasio, this latest attempt on a luxury property tax may have a stronger chance of succeeding than earlier efforts.

Market insights
While officials are exploring additional taxes on part-time properties, New York's Manhattan borough high-end real estate market has seen a cooldown for some time.

Luxury real estate sales in the borough saw a 25 percent drop off in the fourth quarter of 2018 from their high in the fourth quarter of 2015, according to residential brokerage firm Stribling & Associates.

Reviewing measures including sales, contracts and inventory levels, Manhattan experienced its worst fourth quarter since 2012 when a "fiscal cliff" was dominating economic news.

Manhattan saw a 10 percent drop in recorded sales from the fourth quarter of 2017 to the same period of 2018, with a total of 1,906 sales. Nonetheless, the total sales volume in the fourth quarter of 2018 was $4.07 billion, up 1.6 percent year-over-year from $4.01 billion (see story).

New York is one of the most desirable American cities for foreigners making real estate investments.

With the economies and political climates of a number of countries in flux, more wealthy consumers are now using property for the opportunities afforded to them through their purchase, seeking citizenship or financial security outside of their home nation.

Most ultra-high-net-worth consumers make investments in residential real estate, with 79 percent owning at least two homes, but for those in emerging markets, these property purchases are often for more than pleasure, according to a report from Wealth-X and Sotheby's International Realty (see story).