BRIEF LOOK

The Pied-à-Terre Tax: An International Review and Evaluation for New York

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A PIED-À-TERRE TAX IS A TAX ON HIGH-VALUE LUXURY RESIDENTIAL PROPERTY that is not used by its owners as a primary residence. This type of tax has become increasingly common around the world as a way to ensure that wealthy non-residents pay their fair share of local taxes, and as a way to re-orient the local real estate market around housing for full-time residents.

In New York, pied-à-terre owners who do not live primarily in New York State do not pay New York City or New York State income taxes, and as a result participate minimally in the funding of public services from which they benefit. Fire and police protection, sanitation, the courts, transportation systems, and the parks—all contribute considerably to property values and they rightly deserve adequate financial support from non-resident property owners.

At the same time, a significant portion of the New York real estate market caters to these very high-end second- or third-home purchasers, and in effect removes these properties from the market for full-time residents who might otherwise live there. Having full-time residents in these homes benefits New York in a number of ways: besides paying income tax, full-time residents shop in local stores, go to local restaurants, and participate in local civic culture.

A pied-à-terre tax could bring New York revenues of $490 to $650 million.

New York should pass and implement a rational pied-à-terre tax in order to generate revenue that New York needs to fund its public services, with a fair share coming from those who own properties but do not live there throughout the year. The proposed tax is a modest one, so we do not anticipate a major shift in the market as a result. But, in a small way, the tax can be expected to lower the price of top-end real estate, encourage more efficient use of housing resources, and tilt the market slightly more toward full-time rather than part-time residents. These market reactions, to the extent that they occur, are added benefits of the tax.

The new pied-à-terre tax, structured as FPI originally proposed in 2014[1] (see Figure 1), can be expected to yield approximately $560 million in new revenue. This is roughly in line with other recent projections. Additionally, granted that the caveats and concerns dealing with the state of the market with the evident softness and occasional volatility at the top must be considered, it is prudent to supplement the revenue estimate by allowing the price median in sample to vary by 15 percent up and down due to the historical order of price volatility in the segment. Thus, a projected revenue band is obtainable around the $560 million with $490 million at the lower end and $650 million at the upper end.

The extent to which the supply will in fact reorient away from the luxury market as a result of this tax is not clear, nor can it be established how much it would move toward full-time residency or a rental market, but it is reasonable to expect some minor movement in these directions.

Analysis

In order to estimate the revenues that would be generated by a pied-à-terre tax, we have to know how many properties are owned by non-residents, and we have to know the distribution of properties valued at over $5 million.

For the number of properties owned by non-residents, one can look to the Housing and Vacancy Survey. The U.S. Census Bureau conducts it every three years. The report

Proposed Pied-à-Terre Marginal Tax Rates

If the Market Value of the Property is:	The Tax will be:
Over $5,000,000 but not over $6,000,000	$0 plus 0.5% of excess over $5,000,000
Over $6,000,000 but not over $10,000,000	$5,000 plus 1% of excess over $6,000,000
Over $10,000,000 but not over $15,000,000	$45,000 plus 1.5% of excess over $10,000,000
Over $15,000,000 but not over $20,000,000	$120,000 plus 2% of excess over $15,000,000
Over $20,000,000 but not over $25,000,000	$220,000 plus 3% of excess over $20,000,000
Over $25,000,000	$370,000 plus 4% of excess over $25,000,000

FIG. 1 Source: Fiscal Policy Institute proposal.

quantifies a broad array of information about housing in New York: the percentage of units in each borough that are rent controlled, the quality of the housing stock, and the number of people living in each room.

Most important for this brief, the Census Bureau estimates the number of housing units that are owned and "held for occasional, seasonal, or recreational use." In 2017, the number of such properties in NYC stood at 75,000. This number varies by as much as 15 percent in a three-year period for New York City, so pied-à-terre tax collections might be occasionally volatile, but not as variable as, for instance, tax revenue from capital gains. In 1999, only 17,000 units were pied-à-terre units, but that number grew significantly in the dot-com-boom and totaled 42,902 in 2002. Non-residents reduced their holdings in New York City as the broader economy reallocated assets into productive sectors. The number of housing units held as investments in the city increased following the end of the Great Moderation, reaching 65,000 units in 2011. However, the number dropped to 55,000 by 2014, and then rose again to a remarkable 75,000 by 2017.[2]

To estimate the values of the apartments owned by these non-residents, we can look to the data collected by the New York City Department of Finance about sales of residences. It is very likely that that the recreational, seasonal and occasional use properties held by those wealthy enough to own multiple residences are more valuable on average than those owned by the entire population, and thus the percentage of units worth more than $5 million is certainly higher in the pied-à-terre segment as compared to the rest of the market.

Currently, the city of New York does not tax all properties based on their true market value, because of a state law that requires that the city determine the market values of co-ops and condominiums as if they were rental units, even though they are owned. The result is significantly lower market values—and thus property taxes, including a pied-à-terre tax—for co-op and condo owners. The most glaring example of this anachronistic and inequitable law is the $238 million apartment recently bought in Manhattan, which is assessed at $9.4 million, only 3.9 percent of its purchase price.[3]

It is not known precisely what types of properties are owned by non-residents. If the share of co-ops and condos is large, and the market values used to apply the pied-à-terre tax is as undervalued as the above example, then the revenue collected would be considerably less than the $560 million estimate. The revenue estimates were obtained under the assumption that pied-à-terre ownership is most strongly distributionally aligned with the top half of New York City condominium market which can be used as a proxy to gauge the distribution of property values for pied-a-terre owners. The distribution was extracted from the rolling sales

NYC Pied-à-Terre Tax Revenue Estimate for 2017, Based on Property Market Value

Market Value Over	But Not Over	Number of Units	Percent of Number of Units	Average Tax	Revenue in Each Market Value Bracket	Percent of Revenue in Bracket
$5 million	$6 million	1,840	25%	$3,000	$5,000,000	1%
$6 million	$10 million	3,510	48%	$20,000	$71,000,000	13%
$10 million	$15 million	1,150	16%	$75,000	$86,000,000	15%
$15 million	$20 million	410	6%	$159,000	$66,000,000	12%
$20 million	$25 million	140	2%	$298,000	$42,000,000	7%
$25 million	-	330	4%	$883,000	$293,000,000	52%
TOTAL		7,380	100%		$563,000,000	100%

FIG. 2 Source: Fiscal Policy Institute analysis of data from the New York City Department of Finance.

data collected by the New York City Department of Finance, as a representation for market property values within the pied-à-terre universe to produce counts in each market value range; then the respective tax rates were applied.

A quarter (25 percent) of the pied-à-terre residences that would be affected by the tax are in the five to six million dollar range, and about half (47 percent) are in the six to ten million dollar range. It is worth nothing that while just four percent are in excess of $25 million, the non-resident owners of these residences would contribute more than half of this tax's total projected revenue.

It is plausible to argue that some people will alter their purchasing patterns based on the pied-à-terre tax. However, this is the case where the "adverse" market impact of a tax aligns with the public interest of the city. Someone willing to spend over five million dollars on a second or third home will probably not be significantly put off by the moderate carrying cost increase, given the cultural, educational, and economic gravitas of New York City. However, if indeed such potential pied-à-terre purchasers decide not to buy a second home in New York, the residence will instead likely be occupied by a full-time resident. The purchase price, and property tax paid, may decline in the process; but the city and state will gain a resident who would pay income taxes. Since people who can afford a $5 million apartment are generally pay far more in income tax than in real estate tax, this is a likely to be a greater benefit to their treasuries. The neighborhood would also gain year-round residents with greater participation in the economic and cultural life of the community.

International Comparisons

A number of cities around the world have implemented a tax on second homes as a way not just to raise revenue but also to increase the supply of affordable housing. When space comes at a premium it is important to ensure the efficient allocation and use valuable of real estate resources while generating revenue to fund local government services. (See Figure 3.)

In their efforts to address issues with non-resident property owners, locales around the world, from Paris to Singapore, have instituted various tax measures that go much further than the proposal presently discussed in New York State legislature. Often, their primary aim is not to raise revenues, but to change the orientation of the local housing market.

By substantially increasing the surcharge on second homes recently, Paris sought "to encourage people who own a second home in Paris either to sell their properties or to rent to Parisians," according to Ian Brossat, a representative of the Mayor of Paris on housing issues. [4]

The city of Vancouver, in Canada, grappling with its own housing crisis and a growing number of non-resident homeowners, took action and passed a one-percent Empty Homes tax that is imposed on homes that are vacant for more than six months of the year. The objective of this vacancy tax is to return empty or under-used properties to more active use as long-term rental homes for people who live and work in Vancouver.[5] In addition, there is a 15-percent tax on the purchase of residential property within the Greater Horseshoe Region of Canada by individuals who are not citizens or permanent residents of Canada.[6]

The island city-state of Singapore taxes non-permanent residents 15 percent on any type of residential property, while its permanent residents must pay a seven percent tax on their first home and a 10 percent tax on each additional home they own.

Along similar lines, the three states along the east coast of Australia have all adopted a version of an absentee land tax that applies to all dwellings owned by non-permanent residents or Australian citizens and left vacant for more than six months of the year. In the state of New South Wales, this "ghost tax" was increased from 0.75 percent to two percent in January 2018.[7] The states of Victoria and Queensland have set the rate of this tax at 1.5 percent. This tax was adopted to specifically address foreign and/or non-resident property owners who do not occupy or make their residential property available for rent. Out of the six states in Australia, each has a stamp duty surcharge between three percent and eight percent on the purchase of residential property for foreign buyers. This tax is levied in addition to the absentee land tax. Closer to home, in the United States other states also encourage residentship among property owners. For example, Florida's homestead tax exemption lowers property tax bill for homeowners who reside in the state full-time.[8]

Some Pied-à-Terre and Related Tax Policies Around the World

Country	Policy
Australia	The State of Victoria has an absentee-owner surcharge that applies to all dwellings owned by non-permanent residents or Australian citizens and left vacant for more than six months of the year. In January 2017, this surcharge was increased from 0.5 percent to 1.5 percent.[9] As established by its foreign investment framework, all non-residents are required to apply for approval in order to purchase residential real estate in Australia. These applications are submitted to the Foreign Investment Review Board (FIRB), a non-statutory advisory board of the Treasury.
Canada, British Colombia	Vancouver's Empty Homes Tax equals to one percent of property's assessed taxable value. Each year, every owner of residential property has to make a property status declaration. This determines whether the property is subject to the Empty Homes Tax, also known as the Vacancy Tax. The tax applies if the home is not used as a primary residence and remains empty for more than six months of the year. Additionally, the province of British Columbia also has a Speculation and Vacancy Tax. Those who own residential property in Vancouver, may have to pay both taxes.[10]
China	Non-permanent residents are charged a Buyer's Stamp Duty of 15 percent on the stated consideration or the market value of a property (whichever is higher). On top of the Buyer's Stamp Duty, foreigners are subject to an Ad Valorem Stamp Duty (AVD) on residential purchases that, as of November 2016, is an extra 15 percent. In addition, to prevent the flipping of properties, a Special Stamp Duty of 10–20 percent is levied on anyone that sells a property fewer than three years after purchasing. Non-local residents in Shanghai are required to prove that they have been employed by a local firm for at least five years—up from the previous two-year period—and a 70 percent down payment is also required of foreigners seeking to buy a second home larger than 1,550 square feet or costing more than $646,000 (RMB 4.5 million).[11]
France, Paris	In 2018, the tax on secondary homes/pied-à-terre increased from the extra 20 percent paid in addition to regular property taxes to 60 percent. The estimates suggest that if all current second homes in the city remain as they are today, the revenue due to this tax will increase by over €40 million (from €20 million to €63 million).[12]
Singapore	Permanent residents are subjected to pay a 7 percent Additional Buyer's Stamp Duty on their second home. This rate rises to 10 percent for each additional property.[13] Non-residents are subject to a 15 percent Additional Buyer's Stamp Duty when purchasing any type of residential property as well as a Sellers Stamp Duty on residential properties sold in fewer than four years.
United Kingdom	Increase on Stamp duty tax of 3% for people who already own residential property.[14]

FIG. 3 Source: Fiscal Policy Institute survey.

Numbers of NYC Homeless and Pied-à-Terre Units Rose Since 2000

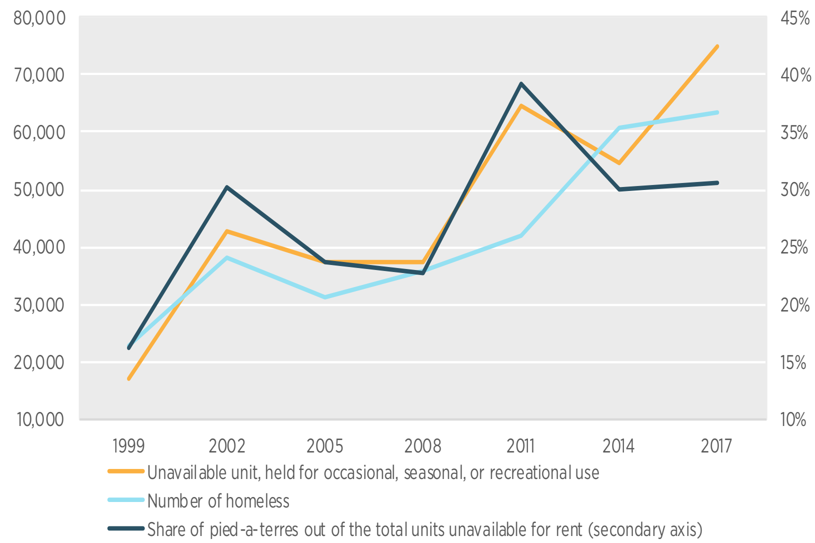

FIG. 4 Source: Fiscal Policy Institute analysis of data from the Coalition for the Homeless and the New York City Housing and Vacancy Survey, Census Bureau, 2017.

It is worth noting that the pied-à-terre tax discussion is taking place against the backdrop of a growing and largely unaddressed homelessness crisis (see Figure 4). While the homeless population and pied-a-terre counts may not be directly linked in a causal relationship, the strong and obvious correlation between the two historical trends starkly underscores New York's unsustainably rising housing and economic inequity.

FPI does not expect a tectonic shift in the real estate market based on a modest pied-à-terre tax. To the extent that the market does shift, however, this would not be expected to have a negative impact on city or state revenues, since any reduction in property tax collections would likely be more than offset by an increase in income tax collections. At the same time, any reorientation of the real estate market away from the luxury segment would be beneficial to lower- and middle-income New Yorkers.

New York City should join the growing list of international cities that are using this market correcting tool as a way to combat the current housing crisis and raise much needed revenue to support affordable housing initiatives and fund public services.

Recommendations

- Adopt a luxury pied-à-terre tax based on the actual market value of residences. This will stimulate housing utilization efficiency while raising revenue. FPI estimates that the proposed pied-à-terre tax would generate $490 to $650 million in revenue, if significant reforms to the city's real property tax system are undertaken.
- Reform NYC property tax system by phasing in realistic property market values and assessment ratios for residential properties.
- Evaluate the economic and social impacts of progressive property tax rates.
- Evaluate the economic and societal impacts of additional progressivity for the pied-à-terre tax.
- Study and publish detailed information about occasional, seasonal and recreational use properties in the state and the city. Evaluate factors such as location, size, market value, assessed value, and effective property tax rate. Examine the geographical ownership of these properties, and, where possible, evaluate the state and city personal income taxes paid by these owners.

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The Fiscal Policy Institute is an independent, nonpartisan, nonprofit research and education organization committed to improving public policies and private practices to better the economic and social conditions of all New Yorkers. FPI's Immigration Research Initiative looks at immigration issues in New York State, and around the country.

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[2] US Census, New York City Housing and Vacancy Survey, https://www.census.gov/data/datasets/2017/demo/nychvs.html, and Series IIB - Table 76, https://www.census.gov/data/tables/time-series/demo/nychvs/series-2b.html , also see: Table 8, p. 17, of the report sent to the City Council of New York, https://legistar.council.nyc.gov/LegislationDetail.aspx?ID=3344850&GUID=0390C514-10CC-4626-9D67-39EC6018243C&Options=ID%7cText%7c&Search

[3] "How a $238 Million Penthouse Turned a Long-Shot Tax on the Rich Into Reality", Jesse McKinley and Jeffery C. Mays, The New York Times, March 13, 2019, https://www.nytimes.com/2019/03/13/nyregion/mta-subways-pied-a-terre-tax.html

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[6] Non-Resident Speculation Tax, Ministry of Finance Ontario, Canada, https://www.fin.gov.on.ca/en/bulletins/nrst/

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[11] Non-resident Property Ownership Around the World, 2018, The Real Estate Institute of BC, https://www.reibc.org/_Library/Input_Magazine/input-spring-2018.pdf

[12] In Paris the surtax on second homes will go from 20% to 60%, January 25,2017, LeMonde, https://www.lemonde.fr/argent/article/2017/01/25/a-paris-la-surtaxe-sur-les-residences-secondaires-va-passer-de-20-a-60_5068843_1657007.html

[13] Non-resident Property Ownership Around the World, 2018, The Real Estate Institute of BC, https://www.reibc.org/_Library/Input_Magazine/input-spring-2018.pdf

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