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Demystifying New York's property tax rates: Location, location, location

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How can a building on the South Shore of Nassau County have a tax burden of $450,000 annually, while a building of identical size in a similar area on the North Shore have a $350,000 bill? Yet, if that same building were located just across the Suffolk County border, the tax burden would only be $250,000. Even village tax burdens can range from a small percentage of the total bill to as much as 30% of a property's total taxes. The old adage of location, location, location is just as critical for property tax rates as it is for any other factor when buying property. What the rate will be, however, can vary wildly depending on where certain district lines fall and where the property lands within them.

While Nassau County taxes are typically higher than Suffolk County, it is the school district taxes within each county that is responsible for 60% to 70% of the property tax burden. The school district tax bill is a product of that district's budget each year. Districts with large numbers of students, multiple schools, and specialized programs must pay large amounts each year to operate these schools. Those schools must also pay teachers, administrative and maintenance staff, benefits, and other typical school costs. While Long Island taxes are one of the top complaints of residents, there is at least some solace taken by the fact that Long Island boasts some of the finest schools in the nation. However, taxpayers expect their high tax bills to translate into high quality education if they are going to pay exorbitant taxes for their schools.

The location of commercial properties within a school district's lines can be incredibly significant. If a particular school district has a large mall or a number of large office complexes within its boundaries, the district's home and business owners have the benefit of larger taxpayers to help shoulder the tax burden. The big dollar amounts, paid by these large commercial properties, often translate into a lower tax rate for smaller property owners.

The school district rate is the most significant rate, but all local rates should be considered. When reviewing a potential acquisition, a buyer should ask their counsel to analyze not only the current tax rate, but historical rates to see if they have been consistent. There are unique factors that may be particular to certain jurisdictions as well. There have been instances where a previously sizeable taxpayer, such as a power plant, has become functionally obsolete. That taxpayer may be in line for a reduction in their assessment that is so severe that the reduction in dollars from this property alone will leave a budget shortfall. The tax rate will then need to be increased in order achieve the same total amount required to make up the shortfall. This increase will be spread amongst all those in the district and it is an increase that is likely to be felt immediately and in the future.

Some jurisdictions may have properties off their tax roll entirely due to their tax-exempt status. While an area with development would appear to have a large tax base to spread the tax burden, if those properties are exempt, they may not contribute anything in taxes. Churches and other nonprofits that qualify for tax-exempt status under the real property tax law are those properties most often associated with tax exemptions, but other properties such as hospitals and buildings associated with their use can remove a large portion of a tax base as well.

The best solution to reducing tax rates is to encourage improvement and redevelopment of current properties and the development of new projects. Eliminating actual and perceived barriers to development will provide for new projects and additional taxpayers to contribute to the county's coffers. Many jurisdictions on Long Island have encouraged development by offering property tax breaks as an inducement by way of an Industrial Development Agency (IDA). Some of the IDA agreements have been criticized for their minimal or reduced payments in regards to the tax burden. However, municipalities have argued that the long-term positive impact, beyond more jobs, economic growth, improved quality of life, etc., also includes significant contributions to the tax base when those properties become fully taxable.

The ideal project is one whose impact is immediate. Municipalities should work with developers to allow new projects and eliminate as much red tape as possible. This, in turn, will lessen the tax rate and make that area more attractive to new developers and residents, while not increasing and potentially even lowering the tax rates.

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