



Understanding the 485-b tax exemption when planning construction or improvements - by Julia Lee

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Commercial property owners often need to invest in building improvements to attract and maintain tenants. This cost is exacerbated by the inevitable increase in taxes due to physical change. Fortunately, the State of New York offers a significant business investment exemption for owners who construct or improve their buildings for the purpose of commercial or industrial activity.

Section 485-b of the New York State Real Property Tax Law grants a ten-year exemption for an increase in a property's assessed value based on new construction or improvement. Under 485-b, qualifying property can be exempt for up to 50% of the increase for the first year. The exemption will decrease by 5% for each additional year for the following nine years. This allows the full increase to be "phased in" over a 10-year period. For example, if a property's assessed value increases by \$10,000 due to renovations, the 485-b exemption would lower that increase by \$5,000 in the first year. The increase would gradually "phase in" by \$500 each year until the end of the ten-year period, ultimately reducing the assessed value by a combined \$27,500 over the course of a decade. Once the ten-year exemption is exhausted, the full \$10,000 increase would then be applied to the taxpayer.

For commercial property owners planning new construction or improvement, it is beneficial to understand a property's eligibility for the 485-b exemption. To qualify for the exemption, the construction or improvement must (1) exceed \$10,000; and (2) have a Certificate of Occupancy issued within one year of the exemption application. A property may also be subject to local municipality laws which could limit or opt out of 485-b altogether. It is highly recommended to discuss your property's 485-b eligibility with a tax certiorari professional and become cognizant of the extent of the benefit and when to file the application to optimize relief.

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