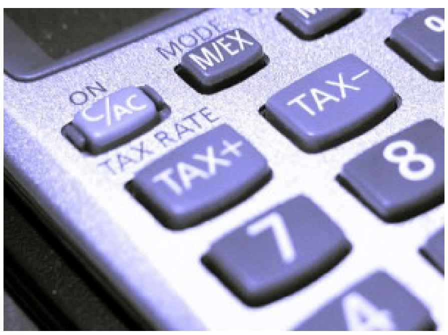
BUSINESS / CITY GOVERNMENT / NEWS

Instead of homestead? Study looks at impacts of dual tax rate

by JESSE J. SMITH *on* Feb 17, 2014 • 1:36 pm 1 Comment



A draft copy of a report on Kingston's dual tax system has found that varying tax rates on commercial and residential properties likely have some negative impact on economic development in the city, but not ruinous consequences. But the proportional burden paid by businesses in Kingston appears greater than in most other jurisdictions with a homestead non-homestead taxing system.

The study, funded by a $10,000 grant from the Dyson Foundation, was commissioned by the city last year. It was carried out by SUNY New Paltz's Center for Research, Regional Education and Outreach. The advisory council reviewing the findings, appointed by Mayor Shayne Gallo, included a number of prominent local brokers and commercial property owners including Robert Ryan, Bill Berardi, Joe Deegan, Mike Piazza, onetime mayoral candidate Andi Turco-Levin, and Jon Hoyt, a broker and attorney who has been a vocal critic of the split tax-rate system. Government officials on the panel included City Assessor Dan Baker, city economic development director Gregg Swanzey and Common Council Majority Leader Matt Dunn.

The 40-page draft report obtained by *Kingston Times* covers the history of the homestead/non-homestead system, trends in tax rates, and how other communities have dealt with wide variances in commercial and residential property tax rates. The study also posits potential impacts of the system based on academic studies, and offers a range of options for reform.

The homestead tax-rate system was adopted by Kingston in 1989. The dual tax rate was enabled by state legislation passed in 1981 that was intended to shift a greater proportional share of communities' tax burden to non-owner-occupied properties. Since that time, the share of the total tax burden borne by the commercial sector in

Kingston has risen. It is significantly higher than the commercial tax burden in other Hudson Valley communities using the dual-tax system, including Poughkeepsie, Newburgh, Beacon and Port Jervis.

Between 1992 and 2013, the total value of homestead properties in the city rose by 26.6 percent while non-homestead sector saw a slight decline. That means that a greater proportional share of the Kingston's total tax burden now falls on a smaller commercial sector than existed when the system was adopted.

Commercial property owners have long lamented the dual-tax rate system, saying that it increases the cost of doing business in the city and drives economic development to neighboring communities. However, attempts over the years to reform, or eliminate the homestead tax system have failed in the face of a prospective sharp increase in taxes on homeowners.

The study found that just two New York municipalities, Colonie and Schenectady, have abandoned the homestead system after adopting it. In both cases, the change generated little controversy because the two tax rates were virtually the same or, in the case of Colonie, residential properties bore the greater burden.

The study found a mixed picture when it came the actual impact of higher commercial tax rates. One academic study cited found no statistical evidence that higher commercial property-tax rates (relative to residential rates) influence where businesses decide to locate.

"In sum, these facts do not establish that the tax system used in Kingston is the single cause of the weakness in its commercial real estate market," the study concludes.

Instead, the study cited "specific negative developments" like the departure of IBM in the 1990s and reduction in hospital employment as contributing to the lack of economic development. The study also cited poverty, social problems and crime as contributing factors. The study also disputed the homestead-tax opponents' contention that businesses will choose to move outside city limits rather than put up with higher taxes.

The study notes that areas just outside of the city that compete most directly for business are still within the Kingston school district. Since properties in the district are subject to the same homestead/non-homestead system, and school taxes make up the greatest share of the property-tax burden, there is less incentive for businesses to seek tax shelter a few hundred yards outside of city limits.

The study did note that, according to another academic study, the gap between homestead and non-homestead property taxes was likely to continue to widen to the disadvantage of commercial parcels if left unaddressed.

The study concludes with five policy options for addressing the imbalance. One calls for the adoption of a single tax rate on all properties in the city. Based on 2014 data, the sudden elimination of the homestead tax system would result in a 19.4 percent increase in school and city taxes for residential property owners.

Another option outlined in the study would call for state legislation to allow the city to cap the homestead tax rate at no more than 25 percent of what it would be if the city used a single-tax-rate system. That would result in a 13.6 percent increase in residential city taxes and a 15.7 percent decrease in commercial property rates. School taxes would be unaffected.

With Albany's approval, the city also could level out the imbalance by phasing in increases in the residential share of the tax levy over a period of years until a specified goal is reached. Such a plan would avoid a sudden spike in residential rates. For example, the study said, a commercial tax rate 25 percent higher than the residential rate could be attained in ten years with annual increases of 1.35 percent in the non-homestead tax rate.

A related proposals calls for statewide legislation to mandate and enforce a commercial tax rate capped no more than 25 percent higher than the residential rate.

Finally, the study reads, the city could request state aid to soften the blow to local governments to opt out of the homestead tax system. In Kingston, for example, a ten-year phase-out of the system would require the allocation of $1.12 million in state funds during the first year to ensure no negative impact on homeowners. That amount would be reduced by ten percent in each subsequent year until parity between homestead and non-homestead properties was attained.

Most of these options are regarded as unlikely. The comments of the members of the city-appointed advisory committee to the study should be eagerly anticipated.

Tags: homestead/non-homestead, Kingston tax rates

Previous post
Kingston After Dark: Love will free us

Next post
Hugh Reynolds: They like Mike

1 comment

GERALD BERKE says:
Feb 17, 2014

Reply

Kudos all around, to the city, the mayor and all the players, and the Kingston Times for the thorough coverage. Special thanks to Mayor Gallo and his team for his prompt and thorough consideration and seeking to understand the full scope and options we have and the open and public findings.
Well done.

Notify me of new posts by email.

An Ulster Publishing newspaper