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**Testimony of George Sweeting**  
**Deputy Director, New York City Independent Budget Office**  
**To the New York City Council Finance Committee**  
**On Covid-Related Property Tax Deferrals**

**June 10, 2020**

Good morning Chairman Dromm and members of the Committee. I am George Sweeting, deputy director of the New York City Independent Budget Office. Thank you for the opportunity to appear before you today. I will be addressing the two property tax deferral Intros.

Covid-19 has already taken a tremendous toll on New York City and it is far from over. Aside from the devastating health impacts, the need to shutter the economy has left the U.S. and the city in recession, with job losses not seen since the Great Depression. Many New York homeowners are facing lost or much-diminished incomes and are worried about their ability to pay their property taxes, which are due in a few weeks. Many commercial property owners report that they, too, may have trouble paying their property taxes because some of their tenants—of apartments and/or commercial space—are unable to pay their rent, leaving landlords with insufficient income to pay all of their bills.

The two Intros under discussion attempt to address these problems. Moreover, it is the city's most stable tax. Over the next 18 months, while the city's other major tax sources are forecast to decline or slow sharply, IBO expects revenue from the property tax to increase—taking at least some of the pressure off the rest of the city's tax base in the tough times ahead. Without advocating for or against these particular proposals, IBO suggests trading carefully lest the city undermine its most important revenue source, particularly when it remains uncertain whether the federal government will provide additional fiscal relief to the city.

There are three issues that merit particularly close attention. First is to ensure that enough taxpayers continue paying on the regular schedule to avoid disrupting the city's cash position. Early summer is the time when the city traditionally relies on July 1 property tax payments to meet its obligations. Given the deferral of income tax payments from April to July, there may be some leeway this year, but there is also greater uncertainty regarding all our taxes. Second is to make sure we are providing the relief that is necessary but not offering a break to owners who still have the ability to pay on schedule. At a time when the city is facing huge revenue shortfalls, it cannot afford to be inefficient in targeting relief. Third is to be realistic about the administrative effort that will be necessary to implement a deferral program, particularly on such short notice.

These proposals offer property owners the option of deferring taxes due on July 1. The first would apply to owners whose primary residence has an assessed value below \$250,000 (the vast majority of one-, two-, and three-family houses, coops, and condos qualify under this test) and whose household income is below \$200,000 (according to census data, only about 10 percent of homeowners in the city would be excluded by the this criterion). Owners who meet these criteria and who faced some health or economic hardship due to Covid-19 can apply for the right to defer their July 1 tax payment until October 1 without incurring penalty or interest. IBO does not have the access to homeowner income data or

information on individual and household impacts of Covid-19 that would allow us to offer a robust estimate of how much revenue would be deferred. A rough estimate using property values, census income data, and zip code health statistics suggests about \$500 million in collections could be shifted from July to October, which is about one-third of what small property owners usually pay on July 1. It is notable that when looking at the zip code level, areas hardest hit by Covid-19 have low homeownership rates. Homeownership and property values are generally higher in zip codes with relatively low Covid-19 infection rates.

The second proposal would also offer owners of commercial properties with assessed value over \$250,000 the chance to defer property taxes due July 1, but on different terms. Property owners would have to pay a quarter of their deferred payment by October 1, 2020 and pay the remainder by May 1, 2021 with interest accruing at a rate of 9 percent. Owners with either commercial or residential tenants would be required to offer rent forbearance during the deferral period. Properties affected by the Covid-19 public health orders or occupied by tenants who were impacted would be eligible. Many properties would be eligible under this proposal and these properties are responsible for a much greater share of baseline property taxes than small property owners. However, the accrual of interest and the requirement to offer rental forbearance during the deferral period will likely discourage many from participating. IBO does not have an estimate of the amount of revenue that would be deferred.

Both of these proposals would take effect on July 1. They both require individual deferral agreements between property owners and the Department of Finance to be worked out quickly enough so that owners can benefit when the need is greatest. The finance department would also be required to promulgate rules and applications for owners to submit their documentation of Covid-19 and/or economic impacts that would qualify the owner for a deferral. A major concern is that the administrative burden on both applicants and the finance department will be high and pressure will grow to approve applications with little review. This could result in granting deferrals that might not be justified—undermining the collection of property tax revenue the city is counting on.

Thank you again for the opportunity to testify today and I am happy to answer any questions you may have.