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

March 2019

SUMMARY

Read full brief here.

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. In a Fiscal Policy Institute report, Jonas Shaende argues that New York City should adopt a this tax to raise more tax revenue and to re-orient the local real estate market around housing for full-time residents. Homeowners who do not live primarily in the city do not pay its income taxes, and thus contribute minimally in funding public services from which they benefit, he says. Further, he notes that a significant portion of the New York real estate market caters to very high-end second- or third-home purchasers, which removes these properties from the market for full-time residents who might otherwise live there. This has adverse implications for communities, he says, as part-time residents are usually not able to shop in local stores, go to local restaurants, and participate in local civic culture to the same extent that full-time residents can.

Shaende proposes a graduated tax on secondary homes worth more than $5 million. Using the Housing and Vacancy Survey and data from the New York City Department of Finance, he estimates that the proposal would generate between $490 and $650 million in tax revenue. 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 more toward full-time rather than part-time residents, he says. The extent to which housing supply will reorient away from the luxury market due to the tax, and how much it would move toward full-time residency or a rental market is unclear. But because the proposed tax is modest—with marginal rates ranging from 0.5% to 4%—Shaende does not anticipate that it will cause major shifts in the market.

Shaende observes that the pied-à-terre tax has become increasingly common internationally, not just to raise revenue, but also to increase the supply of affordable housing. He highlights policies in Paris, Vancouver, and Singapore, among many other cities, and says that New York should join the list of international cities in using the pied-à-terre tax to combat the current housing crisis. Read full brief here.