

05-4 June 23, 2005

FINANCE MEMORANDUM

**Finance Policy Relating to Real Property Tax
Interest and Billing Legislation Enacted June 6, 2005**

On June 6, 2005, Local Law 62 of 2005 was enacted changing how Finance bills property taxes and imposes interest on unpaid charges. This memorandum outlines the law’s major provisions.

Before this legislation was enacted, different rules applied to determine when payments are required quarterly vs. semi-annually; when payment of unpaid real property taxes is untimely; and whether unpaid property taxes accrue interest at 9% or 18%. As a result, owners had difficulty knowing which rules applied to their property. This legislation simplified the rules by creating a single standard for each billing component based on a property’s assessed value (“AV”) as of the final roll, making our billing processes more transparent and easier to administer.

The following is a summary chart:

Billing Issue:	\$80,000 AV or Less	Over \$80,000
Semi-Annual or Quarterly Taxpayer?	Quarterly	Semi-annual
When must taxes be paid to avoid interest?	Within 15 days of the due date	On the due date
Interest rate on delinquent property taxes?	9%	18%

Do I pay Quarterly or Semi-Annually?

- **Quarterly (\$80,000 AV or less):** Taxes for property with an assessed value of \$80,000 or less are due in four equal installments: July 1, October 1, January 1 and April 1. Charter §1519-a(2). This includes almost all 1, 2 and 3-family homes, and most co-op and condominium owners.
- **Semi-Annual (Over \$80,000 AV):** Taxes for property with an assessed value of over \$80,000 are due in two equal installments, July 1 and January 1. Charter §1519-a(3).

Previously, Charter §1519 set an AV threshold for quarterly payments for class 3 (utility) and 4 (commercial) of just \$40,000. The new uniform standard of \$80,000 AV threshold for all classes will allow more owners of commercial properties to pay quarterly.

When must I pay to avoid interest charges?

- **\$80,000 AV or less:** For properties with an AV of \$80,000 or less, payment must be received within 15 days of the due date to avoid interest (July 15, October 15, January 15 and April 15). N.Y.C. Administrative Code §11-224.1(a).
- **Over \$80,000 AV:** For properties with an AV of over \$80,000, payment must be received by the due date (July 1 and January 1) to avoid interest. Ad. Code §11-221.1(b)

Previously, the threshold for determining which properties could pay by the 15th without interest was \$80,000 for residential property owners, but only \$40,000 for commercial property owners. The new law gives more owners the chance to pay by the fifteenth of the month.

If I am required to pay electronically, when must my payments be made?

The same rules apply whether or not payments are required to be made by electronic funds transfer (“EFT”) under Ad. Code §11-128. The legislation conformed the EFT statute to ensure that this 15-day benefit applies to all properties with an AV of \$80,000 or less.

How do I get a discount on my property taxes?

Starting July 1, 2005, Charter §1519-a provides a 1.5 percent discount if an owner pays all property taxes due for the year in July. ***Examples:***

- For a property with an **AV of \$80,000 or less** to receive a discount for the July 1 installment, the July 1 installment as well as the October 1, January 1 and April 1 installments must all be fully paid by July 15. The discount would apply to the total paid by July 15.
- For a property with an AV of **over \$80,000** to receive a discount for the July 1 installment, both the July 1 and the January 1 installments must be fully paid by July 1. The discount would be applied to the total paid by July 1.

How much will I save from the discount?

By May 25th each year, the Banking Commission may recommend, and the Council may adopt, a discount rate. If no rate is adopted before the July Statement of Account is prepared, a default rate of 1.5% applies. Finance will apply the full rate or a portion of the rate, depending on how early the payment is made. Payment must be made in full. To be eligible for a discount, you must pay the full amounts due including any delinquent real property tax installments that may be outstanding. (Charter §1519-a).

For example, if the discount rate is 1.5% and taxes due for the year are \$5,000,

Quarterly taxpayers (\$80,000 or lower AV):

- Paying in full all four \$1,250 quarterly installments by July 15th, will save 1.5% of \$5,000 or \$75 for the year on the July statement of account;
- Paying in full their October 1st installment, together with their January 1 and April 1 installments, by October 15 will save 1% or \$37.50 on these three installments;

- Paying in full their January 1 installment, together with the installment due April 1, by January 15 will save .5% or \$12.50 on these last two installments paid.

Semi-annual taxpayers (Over \$80,000 AV):

- Paying in full both their \$2500 installments by July 1st will save 1.5% or \$75 of the amount billed for the year on the July statement of account.

Previously, the savings or discount rate was an annualized rate and not a true discount percentage so that while the rate was 2%, the actual savings could be as little as .75%. The amount actually saved varied by the exact day the payment was made.

If my property tax payment is late, what rate of interest will I be required to pay?

- **\$80,000 or less:** Starting July 1, 2005, delinquent tax charges will accrue interest at 9%.
- **Over \$80,000:** Starting July 1, 2005, delinquent tax charges will accrue interest at 18%.

How is the interest rate determined?

By May 25th each year, the Banking Commission may recommend an interest rate of at least prime for properties with an AV of \$80,000 or less and a rate of at least prime plus 6% for properties with an AV of over \$80,000. The Council may adopt interest rates by resolution. If no rate is adopted, the default interest rates will be 7% and 15% respectively. Ad. Code §11-224.1.

Previously, Ad. Code §11-224 provided that the lower rate (9%) applied to properties with an annual tax of up to \$2,750 (other than vacant land), where taxes are not paid by escrow. For all other properties, the higher rate interest rate (18%) applied. The \$2,750 threshold was enacted in 1979. Because \$2,750 now represents a relatively much smaller amount than when enacted, properties that originally paid the lower rate were increasingly paying the higher rate.

How does Finance determine whether a property's assessed value is \$80,000?

In upcoming tax years, we will use your property's billable assessed value as listed on the final roll, which is published on or around May 25th each year. Billable assessed value is the lower of:

- a) the property's actual assessed value minus any applicable exemptions; or
- b) the property's transitional assessed value minus any applicable exemptions

For example, an apartment building has an actual assessed value of \$140,000 and a 421-a exemption of \$50,000 for a taxable assessment of \$90,000. The transitional assessed value is \$100,000 and the 421-a exemption transition is \$30,000 for a taxable assessment of \$70,000. The billable assessment is \$70,000, which is the lower of the actual and the transitional. Since the billable assessed value is below \$80,000, the taxpayer will pay quarterly, have 15 extra days to pay without interest, and be charged a 9% interest rate if payments are late.

What is the interest rate on the other property-related charges billed by Finance?

Finance bills property related charges for other agencies. The City's Administrative Code, however, contains various interest rate provisions for different charges. This new legislation conformed certain interest provisions to the interest rate on real property taxes as follows:

- §17-151 relating to work performed by the Department of Health and Mental Hygiene;
- §24-317 relating to the repair of leaking tap or service pipes;
- §26-128 relating to Department of Buildings inspections and other DOB services; and

- §27-4029.1 relating to Fire Department inspection fees.

What if my property taxes are paid through escrow?

All the interest, discount and payment rules are determined by the assessed value of the property. There is no distinction based on whether taxes on a property are paid through an escrow agent.

If a payment is incorrectly credited to my property's account, when the error is discovered and corrected, will I have to pay interest charges even though I didn't know about the error?

Given the number of payments Finance processes each year, sometimes payments are incorrectly credited to the wrong property's account. This happens for a variety of reasons including taxpayer or Finance's processing error. Since we credited the wrong account, the owner that incorrectly benefited from the credit may not know that amounts remain due until the error is brought to our attention. Often the owner who made the payment points out the mistake. When we discover the error, we move the payment to the right account. In the past when we corrected the error, we had to charge interest from the original due date and not the date when we learned about and fixed the error.

We did not believe that it was fair for owners to be billed for interest charges under these circumstances. New Code §11-302.1 resolves this by providing that where a charge erroneously shows as paid on our records and is reopened, Finance must send a bill allowing an owner to pay before interest accrues. If the owner does not pay the bill, interest will accrue from the time of billing, not the original due date. This will not apply to charges showing as paid due to a dishonored payment, fraud or other criminal conduct.

For example, John paid his \$5,000 property tax bill on July 2003 but we mistakenly credited the payment to Jane's account. In the past, if we discovered the error in July 2004, we would have charged Jane 9%, or more than \$450 in interest, in addition to requiring that she immediately repay the \$5,000. Under the new law, when the error is discovered, Jane would get a bill for \$5,000, but the interest would not start to accrue until July 2004 if she doesn't pay the billed amount when due, not a year earlier.