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Testimony of Sarah Parker, Senior Research and Strategy Officer,  
on Behalf of the New York City Independent Budget Office  
Before the City Council Committees on Housing and Buildings and Finance

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On behalf of the Independent Budget Office (IBO), thank you for the opportunity to testify today on New York City’s housing tax incentives. I am Sarah Parker, Senior Research and Strategy Officer. IBO is a nonpartisan, independent government agency created to enhance public understanding of New York City’s budget, public policy, and economy through independent analysis.

Housing tax incentives—a form of spending through the tax code to encourage specific behaviors—are a central tool the City uses to financially support new housing production, preservation, and affordability. Examples include exemptions, deductions, special credits, preferential tax rates, abatements, and deferrals of tax liability, referred to as “tax expenditures.”

Although tax expenditures do not appear as planned spending in the City’s budget, they represent an intentional foregoing of revenue, making them a form of government spending. Because of this, the use of these tax code-based tools merits the same level of scrutiny as direct spending in terms of what each dollar yields in terms of housing outcomes. IBO conducts studies on the efficacy and efficiency of tax break programs under [Local Law 18 of 2017](#), most recently conducting a study on the impact of the [Industrial and Commercial Abatement Program \(ICAP\)](#). In my testimony today, I will provide an overview of IBO’s recent work on the important topic of housing tax incentives.

## **Types of Housing Tax Incentives**

### **As-Of-Right versus Discretionary**

Many property tax breaks are structured to be “as-of-right” programs. Any development that applies and meets the program’s criteria on location, project type, and the amount of set-aside affordable housing (if applicable) is entitled to receive the tax break. There is no limit to the number of developments that can participate or how much the City forgoes in tax revenue. This adds a level of unpredictability and volatility to the size of the tax expenditure in any given year.



As-of-right tax breaks contrast with discretionary tax breaks, which developments can only obtain with the approval of an agency or board that reviews the details of the proposed project. Often discretionary tax breaks are evaluated and granted as part of broader economic development priorities. A central way the City grants discretionary property tax breaks is through the negotiation of [payments in lieu of taxes \(PILOT\)](#) arrangements. Another discretionary option that is often granted by the City is the waiver of the Mortgage Recording Tax. For example, the City granted such a waiver for housing development planned at [Willets Point](#).

## Abatement Versus Exemption

The two main ways to reduce property taxes is through granting an abatement or an exemption. Property tax exemptions reduce the taxable value of the property to which the tax rate is then applied, lowering the tax liability—like a deduction on income taxes. Abatements leave unchanged the taxable assessed values but then lower the tax bill—like a tax credit on income taxes. Although a full property tax exemption and a full property tax abatement both result in a \$0 tax liability for the benefiting property, the difference in [the discount structure has ramifications for other property tax bills citywide](#). This is because State law assigns each of the four tax classes—based on types of properties—to represent a set percent of the total amount of tax liability for a fiscal year prior to applying abatements.

## Housing Development Versus Individual

Among housing tax incentives, some tax breaks benefit housing developments, while others benefit individuals. Tax incentives for housing development include the 485-x, J-51, 420-c, and the Division of Alternative Management (DAMP) programs. Development-level tax benefits help reduce the operating costs of buildings and are often granted to help finance income-restricted affordable units in the property. Many of the City's housing programs—[including inclusionary housing](#)—are predicated on the assumption that the property will have discounted or no tax liability for a period of time that generally matches the length of the regulatory agreement. Tax incentive benefits at the individual level include the Coop/Condo Partial Tax Abatement, Senior Citizen and Disabled Homeowner Exemptions (SCRIE/DRIE), and Veterans and Clergy exemptions. These provide tax breaks tied to a specific apartment or house for people in specific demographics. Some tax incentives for individuals require the beneficiary household to income-test while others do not.



## Largest Housing Tax Incentives in Terms of Forgone Revenue

In fiscal year 2025, the City collected \$34.6 billion in Real Property Taxes. That year, the City provided \$8.1 billion in property tax discounts, according to the Department of Finance's [Annual Report on Tax Expenditures](#). While some of these property tax breaks benefit commercial and industrial properties, almost \$4 billion in forgone tax revenue are tied to just four specific housing tax break programs created under State law. I will now outline these four housing tax incentives, all of which are as-of-right programs.

### 421-a/485-x

The 421-a program, [recently rebranded as 485-x](#), is the largest of the City's tax expenditure, totaling nearly \$2.0 billion in forgone revenue in 2025. This program provides full property tax exemptions for newly constructed residential housing for up to 40 years. In 2025, the program provided exemptions to 40,803 residential properties totaling 215,747 units. It has evolved over time to include requirements that a share of units be income-restricted affordable housing. Program outcomes depend on which choices from a menu of options are made by developers. According to application data for the new 485-x program from June 2024 through April 2025, no developer has yet selected into the 485-x option with the most rental units and deepest affordability requirements (Option A).

### New York City Public Housing

The New York City Housing Authority (NYCHA) is exempt from direct taxation, valued at \$775 million annually. The NYCHA tax exemption is codified in State law in perpetuity, although the City can ask for a nominal PILOT, which it did prior to fiscal year 2014. NYCHA's property tax exemption lowers the operating costs for NYCHA. IBO has reported on NYCHA's budgetary challenges in recent years and [new pressures from the Trump administration](#).

### Class 2 Coop/Condo Partial Tax Abatement

The Class 2 Coop/Condo Tax Abatement provides a partial property tax break for owners, totaling \$695 million in reduced property taxes in 2025. This tax break is intended to reduce the disparity in taxation between Class 1 homeowners of one- to three-unit houses compared with Class 2 homeowners of coop and condo units. The abatement is not tied to any affordability requirements or income restrictions and does not have a time limit.



## 420-c Low-Income Housing Exemption

The 420-c Low-Income Housing program provides a full property tax exemption for low-income affordable housing developments financed through federal low income housing tax credits. The property must be owned by a charitable or social welfare organization to qualify and operate under a Department of Housing Preservation and Development regulatory agreement; the exemption ends upon the expiration or termination of this agreement. In 2025, 420-c provided \$479 million in tax breaks for 2,555 properties totaling 96,662 units.

### Conclusion

The City's housing tax incentives are a complex constellation of programs that apply both to developments and individuals, new construction and preservation, renters and owners, and market rate and income-restricted housing. Many of these programs were initially crafted decades ago and have evolved over time to meet changing housing conditions and markets. IBO monitors tax expenditure programs on an ongoing basis, focusing on the local impacts of new housing production, preservation, and affordability through a lens of fiscal responsibility. Thank you for the opportunity to testify today and I am happy to answer questions.

