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Everything you need to know about New York City's mansion tax — and what it means for the luxury market

After the revised mansion tax was passed in April, Manhattan's luxury real-estate market was sent into a frenzy as wealthy clients rushed to close deals before the new tax rates went into effect on July 1, The Wall Street Journal reported.

The revision of the mansion tax was bittersweet for New York City's luxury market. While the market dodged a costly and long-debated tax on expensive second homes, wealthy buyers didn't get off scot-free.

The progressive mansion tax is expected to raise $365 million a year. The money will, according to the New York State Division of the Budget, be used to improve the city's subway system.

Specifically, the revenue, as the New York State Division of the Budget details, will be used to support up to $5 billion in financing for MTA projects.

Business Insider spoke with industry leaders about the history of the mansion tax and the impacts its new rates will have on New York City's luxury market.

What is the mansion tax?
In 1989, former Governor of New York Mario Cuomo issued the mansion tax mandating a 1% tax on statewide home sales of $1 million or more.

Over the next 30 years, the number of homes — priced at $1 million and more — sold in New York City, in particular, grew astronomically. With home sales regularly in the multimillions, the suggestion of higher taxes on expensive real estate in the city became a pressing topic of conversation.

And in March of 2019, billionaire Ken Griffin purchased a $238 million Manhattan apartment— the most expensive home ever sold in the US. Less than a month after Griffin's purchase was made public, lawmakers passed two new sales taxes on multimillion-dollar homes in New York City.

First, the progressive mansion tax was implemented, which taxes home sales of $2 million or more upwards at 1%, capping at a 3.9% tax on home sales of $25 million or more.
Second, a .25% transfer tax was put into place. That is now an additional tax on top of the already-existing, statewide .4% transfer tax.

Homes outside of New York City that sell for $1 million or more will not be affected by the progressive mansion tax or the new transfer tax.

What does the new mansion tax mean for luxury real estate in Manhattan?
As **Barbara Fox**, founder and president of the real-estate brokerage **Fox Residential**, told Business Insider, "It's the newness of [the new progressive mansion tax] that's causing the issues."

New York's luxury housing market has taken a hit over the past year, seeing price cuts and an influx of inventory. Now, with the new mansion tax in effect, there is a lingering worry among industry professionals that it will continue to slow down the already-slow market.

Forbes' contributing writer Frederick Peters, the CEO of the real-estate firm Warburg Realty, wrote that over time, the progressive mansion tax will become a normal factor in transactional negotiations between buyers and sellers.

While Fox told Business Insider that she is confident the market will continue to climb in 2019, she predicts the progressive mansion tax will make it move slower. For the ultra-wealthy, an extra tax during closing isn't going to be a deal-breaker, Fox explained.

"The market will still climb, but it will climb more slowly in the balance of this year than it may have otherwise," Fox told Business insider.

What happened to the luxury market in June?
According to Douglas Elliman's Q2 Manhattan market report, for the first time in six quarters, year-over-year sales increased in June as buyers rushed to save thousands, and in some cases, millions of dollars in mansion taxes.

Jamie Heiberger, president and founder of Heiberger & Associates, PC, told Business Insider she closed more deals this past June than usual because buyers wanted to avoid the progressive mansion tax.

"So many deals that may have not closed until later got moved up because they wanted to get in before the deadline [July 1]," Heiberger told Business Insider.

How are people reacting to the new mansion tax — and why are some New Yorkers celebrating it?
Before revising the mansion tax rates, lawmakers proposed a pied-à-terre tax that would mandate an annual tax on second homes worth $5 million or more. Industry leaders feared it would push buyers and developers away from New York.

"That [proposed pied-à-terre tax] will dramatically affect prices, which will dramatically affect the appetite for developers to keep developing, which affects the employment of tens of thousands," David Juracich, principal of JDS Development Group, told digital-media company Bisnow in March of 2019.

According to Mansion Global, a home worth $25 million would come with a $370,000 annual pied-à-terre tax. So, when lawmakers instead passed the progressive mansion tax, industry leaders were relieved.

"We probably dodged a bullet here," Steven James CEO of Douglas Elliman's New York City division, told Bloomberg in an interview.