New York City Comptroller
Scott M. Stringer
NEWS
PRESS RELEASE

FOR IMMEDIATE RELEASE PR16-02-023
February 22, 2016
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COMPTROLLER STRINGER AUDIT FINDS CITY WILL MISS OUT ON $2 MILLION IN POTENTIAL TAX REVENUE IF IT DOESN'T CORRECT ITS RECORDS

Department of Finance misclassified 197 mixed-use buildings in Brooklyn

(**New York, NY**) – New York City will miss out on $2.09 million of potential tax revenue if the Department of Finance (DOF) does not correctly classify nearly 200 buildings in Brooklyn as residential when they are actually being used for commercial purposes, according to an audit released today by New York City Comptroller Scott M. Stringer. This audit follows a similar report in late January that found that the DOF mistakenly gave away $10 million in Co-Op/Condo Tax Abatements to corporations.

"The Department of Finance mixed up its mixed use properties which could cost the City $2 million if not corrected," Comptroller Stringer said. "Instead of collecting the proper taxes that help pay for affordable housing and children's education, nearly 200 property owners were incorrectly taxed at a lower rate. It's time for the DOF to correct the tax rolls and collect these funds going forward."

Properties in New York City are given one of four tax classes. This audit examined whether Class 1, Class 2a, and Class 2b buildings in Brooklyn (Class 1 are 1 to 3 unit buildings, Class 2a are 4 to 6 unit rental buildings and Class 2b are 7 to 10 unit buildings primarily used for residential purposes) were properly assessed and taxed by the Department of Finance as of May 2015.

Auditors identified 197 buildings that were misclassified as either Class 1, 2a, or 2b mixed-use buildings that should have been classified as Class 4 buildings. Of this group, 191 properties should be taxed at 45 percent of market value, instead of the residential rate of six percent, and six should be taxed at a lower rate because market values were adjusted. In total, the Comptroller's office estimates that the City will miss out on $2.09 million in taxes over the next five years if the classifications are not corrected.

The audit includes four examples of misclassified buildings:

- One two-story building was listed on tax rolls as "Primarily Two-Family with One Store or Office" (Tax Class 1). In FY16, DOF assessed the owner of the property $6,535. Auditors, however, identified offices on both floors of the building – meaning it should have been classified as Class 4, and the owner should have been taxed $16,208.
- A second two-story building was listed as "Primarily One-Family with One Store or Office" (Tax Class 1). The owner was assessed $3,625 by DOF for FY16. Upon inspection, auditors found one business on the first floor and two businesses on the second floor – indicating that the building should be Class 4, and the tax assessment should have been $12,717.
- Auditors also investigated a three story building, which was listed on assessment rolls as "Primarily Residential Property with Stores of Offices" (Tax Class 2b). In FY16, the building owner was assessed $24,020 by DOF. Auditors identified a store on the first floor, and multiple offices throughout the building. They determined that it should be a Class 4 building, and that DOF should have assessed it for $32,690.
- A third two story building was listed as "One Story – Permanent Living Quarter" (Class 1), and DOF taxed the owner $3,865 in FY16. Inspection by auditors, however, found a business on the first floor and offices on the second floor. This means the building should be Class 4, and the owner should have been assessed $9,974.

The Department of Finance agreed with all four of the audit's recommendations, including that it should:

- Inspect all 197 properties identified as misclassified in the audit and determine whether they should be reclassified.
- Make necessary adjustments to the assessment rolls for any of the 197 properties that DOF determines were misclassified.
- Retrain assessors on what to look for while inspecting these types of properties.
- Enhance its oversight and quality assurance, to ensure proper assessment of properties.

"Commercial buildings should pay commercial taxes and it's up to the DOF to make sure that everyone is paying its fair share," Stringer said.

To view the audit, click here.