

# What is the NYC Mansion Tax?

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The New York City mansion tax is one of the largest **closing costs** for buyers of condos, co-ops, as well as single and multifamily homes in NYC. In this article, we introduce the NYC mansion tax and explain how you can avoid paying the mansion tax by **requesting a NYC buyer agent commission rebate** on your purchase.

## What is the NYC mansion tax?

The NYC mansion tax is a 1% tax on the purchase price of residential real property valued above \$1 million in New York City which is customarily paid by the buyer (also known as grantee). It applies to all residential real property or interest in residential real property which includes condos, co-ops as well as one to three family houses. Under section 1402-a of the Tax Law, the mansion tax must be paid within 15 days of closing along with the standard New York State and New York City transfer taxes which are customarily paid by the seller.

The New York mansion tax was originally imposed in 1989 by then Governor Mario Cuomo. The tax has not been adjusted for real estate inflation since it was written into law.

As a result of the steady appreciation in NYC real estate prices, the mansion tax has become increasingly applicable to the purchases of smaller properties in NYC which are most certainly not considered to be 'mansions' under the original letter and intent of the law.

Fortunately, there is an easy method for avoiding the mansion tax in NYC. As a buyer, you can **request a broker commission rebate** on your purchase which will fully offset the mansion tax payable on your purchase. We discuss this in greater depth further down in our post.

If we adjust for inflation, the mansion tax imposed in 1989 would only apply to the purchase of residential property valued above approximately \$2 million. With this in mind, it's easy to understand why the mansion tax is one of the most controversial real estate taxes in New York.

## Offset your Mansion Tax Bill by Requesting a NYC Buyer Broker Commission Rebate

Automatically save thousands on your purchase and avoid paying mansion tax by requesting a rebate

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## How much is the New York City mansion tax?

The New York City mansion tax is 1% of the purchase price of real property or interest in real

The New York City mansion tax is 1% of the purchase price of real property or interest in real property. Here is an example of how the New York mansion tax is computed:

**Purchase Price: \$2,500,000**

**Mansion Tax (1%): \$25,000**

Since it has not been adjusted for inflation in nearly 30 years, the mansion tax now applies to significantly more transactions per year than it did during the year of its inception. The mansion tax generates approximately \$300 million per year for the State of New York.

*Does the New York State mansion tax apply to furniture and personal possessions?*

No. The mansion tax is not applicable to portion of the purchase price associated with any personal property such as furniture, fixtures and art. However, if your purchase includes furniture or other property then you would be required to pay sales tax on this and itemize it on your New York State income tax return.

**Who pays the NYC mansion tax?**

The New York mansion tax is typically paid by the purchaser in a transaction. However, keep in mind that just about everything is negotiable in a New York City real estate deal. It's not uncommon for buyers to ask the seller to cover the mansion tax, however the reality is that sellers rarely agree to do this.

One of the main reasons why is because the mansion tax paid on behalf of a purchaser is not tax deductible and therefore won't allow the seller to reduce his or her capital gains taxes payable on the sale.

Here are some scenarios under which the seller may agree to pay the mansion tax:

- The **co-op apartment you are looking to buy** has been on the market for 6 or more months and the seller is highly motivated
- It's difficult to obtain financing for the building, so the seller has fewer buyers to choose from
- The apartment requires a tricky, gut-renovation or has some other unique feature which makes it much harder to sell

**How can I avoid paying the mansion tax in New York City?**

The easiest way to avoid the mansion tax when buying a property in NYC is to **request a buyer broker commission rebate** from your **buyer's agent**. The typical buyer agent commission rebate on a purchase in NYC can save you \$20,000 or more on your purchase, which can fully offset the mansion tax bill which is payable on your purchase.

**Requesting a buyer agent commission rebate in NYC** is an automatic way to save money on your purchase. Real estate commission rebates work in New York City because sellers usually pay the same total commission regardless of whether or not a NYC buyer's agent is involved in the deal. As a result, the cost of a buyer's agent is already built into the sales price even if you don't elect to have a buyer's broker represent you on the purchase.

By representing you on the purchase, a buyer's agent is able to collect half of the total 6% **average NYC real estate commission** which would otherwise go to the listing agent. Your buyer's agent is then able to share a portion of this commission with you at closing in the form of a NYC buyer broker commission rebate.

## Request a NYC Broker Commission Rebate

Offset your mansion tax bill by receiving an automatic discount on your purchase

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Aside from helping you cover the mansion tax through a commission rebate, a seasoned buyer's agent will also add value to your deal by helping you negotiate effectively, preparing and submitting a **NYC board application**, and ensuring your deal has a smooth journey to closing. A buyer's agent can also help you learn about building policies (such as the **sublet policy**) and advise you as to whether or not it makes sense to **waive your mortgage contingency** when buying a property in NYC in order to more effectively compete against other bidders.

## Does the mansion tax apply to the purchase of new construction?

Yes. If a buyer agrees to pay any of the real estate closing costs traditionally covered by the seller (grantor), then those additional expenses will be added to the purchase price for the purposes of calculating the mansion tax payable on the purchase.

This is a particularly important consideration if you are buying new construction. Because the city and state transfer taxes for new construction are typically paid by the buyer, this means that your purchase price will include these closing costs for the purposes of calculating your mansion tax. If you agree to pay the seller's (sponsor's) legal fees, you may also need to add those to the purchase price when computing the mansion tax.

Here is an example of how the NYC mansion tax would be calculated for the purchase of new construction:

***Sale Price: \$990,000***

***NYC RPTT (Real Property Transfer Tax of 1.425%, paid by buyer): \$14,107***

***NYS Transfer Tax (0.4%, paid by buyer): \$3,960***

***Sponsor (Seller) Legal Fees: \$3,000***

***Mansion Tax Sale Price: \$1,011,000***

***Mansion Tax Payable (1%): \$1,011***

As the example above demonstrates, the mansion tax still applies to this purchase even though the 'sale' price is below \$1 million. This same logic may also apply if you happen to be buying a foreclosure or a short sale.

If you agree to pay the seller's broker fee in order to reduce the purchase price, the listing agent commission must be added onto the purchase for the purposes of computing the mansion tax.

Here is an example of how this would be computed:

***Sale Price: \$980,000***

***Broker Commission: \$59,000***

***Mansion Tax Sale Price: \$1,039,000***

***Mansion Tax Payable (1%): \$10,390***

As per New York State Publication 577, the above logic applies "in any case in which the grantee agrees or is directed to pay a debt the grantor owes in connection with the conveyance of real property."

**What other closing costs are paid by the buyer in NYC?**

The mansion tax is one of the largest New York City closing costs for buyers, however there are other closing costs you should be aware of which we explain in [this article](#).

Here is a brief summary of the traditional closing costs for buyers of real estate in New York City:

- **Mansion Tax – 1%**
- **NYC/NYS Mortgage Tax (if financing) – 2.175%**
- **NYC/NYS Transfer Tax (if buying new construction) – 1.425%**
- **Mortgage Expenses (if financing) – \$3,000**

- Attorney Fees – \$2,500
- Miscellaneous Fees – \$3,000

As you can see, closing costs in NYC are the highest if you happen to be financing the purchase of a new construction unit.

Regardless of what you decide to buy, you can automatically save money on your purchase by [requesting a buyer agent commission rebate](#).

## Request a Buyer Agent Commission Rebate

Automatically save thousands on your purchase and offset your mansion tax by requesting a rebate

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## Is the NYC mansion tax deductible?

If you pay the mansion tax on your purchase, the expense will increase your tax basis and ultimately reduce the capital gains taxes payable when you decide to sell the property. In addition, the mansion tax does not generally apply when real estate is transferred via inheritance, gift or bequest.

Unlike property taxes however, the mansion tax paid at the time of purchase is not considered to be tax deductible on your Federal tax return.

## What is the future of the NYC mansion tax?

Because the mansion tax has not been adjusted for inflation or updated since its inception in 1989, it has been a popular political target over the past few years. There have been multiple efforts by New York City lawmakers over the past few years to increase the mansion tax.

In early 2017, New York City Mayor Bill de Blasio proposed an additional mansion tax of 2.5% on the sale of properties valued at or above \$2 million in order to fund senior affordable housing. His proposed 2.5% mansion tax on sales above \$2 million is estimated to raise over \$300 million which would be used to fund a “Section 8 voucher-like program” for 25,000 low-income seniors (under \$50,000 per year) which would help to keep their rent locked at no more than 30% of their total income.

Previously in 2015, the mayor proposed a 1% tax on sales above \$1.75 million and a 1.5% tax on sales above \$5 million. His proposals were rejected by lawmakers in Albany, who must approve all tax increases in New York State.

## Request a NYC Buyer Broker Commission Rebate

**Automatically save thousands on your purchase by requesting a NYC buyer's agent commission rebate**

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## **What is New York tax law article 1402-a?**

The specific language of the New York mansion tax may be found in Article 1402-a, which is reproduced below:

**(a) In addition to the tax imposed by section fourteen hundred two of this article, a tax is hereby imposed on each conveyance of residential real property or interest therein when the consideration for the entire conveyance is one million dollars or more. For purposes of this section, residential real property shall include any premises that is or may be used in whole or in part as a personal residence, and shall include a one, two, or three-family house, an individual condominium unit, or a cooperative apartment unit. The rate of such tax shall be one percent of the consideration or part thereof attributable to the residential real property. Such tax shall be paid at the same time and in the same manner as the tax imposed by section fourteen hundred two of this article.**

**(b) Notwithstanding the provisions of subdivision (a) of section fourteen hundred four of this article, the additional tax imposed by this section shall be paid by the grantee. If the grantee is exempt from such tax, the grantor shall have the duty to pay the tax.**

**(c) Except as otherwise provided in this section, all the provisions of this article relating to or applicable to the administration, collection, determination and distribution of the tax imposed by section fourteen hundred two of this article shall apply to the tax imposed under the authority of this section with such modifications as may be necessary to adapt such language to the tax so authorized. Such provisions shall apply with the same force and effect as if those provisions had been set forth in this section except to the extent that any provision is either inconsistent with a provision of this section or not relevant to the tax authorized by this section.**

## **Automatically Save Money on Your Purchase**

**Request a NYC buyer agent rebate to automatically save thousands on your purchase**

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***Please note: this article is not intended to serve as legal or tax advice. You should consult your lawyer and tax attorney for all aspects of your real estate transaction.***