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What Are ‘Mansion Taxes’ and Why Do Real-Estate Pros Hate Them So Much?

A look at what’s behind the transfer taxes, and how they actually affect local housing markets

By Candace Taylor
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After years of saving for a down payment, Hamza Sheikh was ready in 2022 to buy his first home—a one-bedroom apartment in Manhattan.

Sheikh, who is in his early 30s and works in technology, was “dead set” on paying less than $1 million, according to his real-estate agent, Phillip Salem of Compass. That’s because New York charges a so-called mansion tax for properties of $1 million or more, meaning he would have to pay an additional 1%, or at least $10,000, in cash at closing.

“It wouldn’t have been a total deal breaker,” says Sheikh, who likely would have borrowed the extra cash from his family. But avoiding the tax “made the whole process a lot more feasible.”

They focused on apartments priced around $1.1 million, seeking sellers who might be willing to go below $1 million, Salem said. Eventually, they found a Chelsea condo asking $1 million; Salem negotiated the price down to $995,000, and they made a deal.

Mansion taxes—shorthand for taxes on high-end real-estate sales, usually in the form of a one-time payment at closing—are becoming more common as cash-strapped local governments look for new funding sources. In New York, buyers typically pay the mansion tax; in other markets, like Los Angeles and San Francisco, sellers are usually on the hook to pay such fees. Often popular with voters, these taxes face vehement opposition from the real-estate industry and business groups, who say such measures will cripple the residential real-estate market.

The impact is often much more nuanced.

The data show that new mansion taxes tend to have a significant but short-term impact on the number of home sales, creating a rush of deals before the tax goes into effect and suppressing transactions for several months afterward. Then, the market begins to normalize.

Take Los Angeles, for instance. Since its new mansion tax, called Measure ULA, went into effect in April 2023 to raise money for affordable housing and homelessness prevention, the controversial law has been widely blamed for tanking the city's high-end housing market. ULA required the sellers of residential and commercial properties above $5 million to pay a 4% tax, while the sellers of properties of $10 million and up paid 5.5%. (The thresholds are adjusted for inflation each year.)

"In L.A., the luxury home market hit a wall," said California spec-home developer Simon James. "A lot if it had to do with ULA."

The first month the law was in effect, the number of L.A. property sales over $5 million plummeted to four from 90 the previous month, according to data compiled by real-estate appraiser Jonathan Miller. What happened, he said, is that sellers rushed to close deals before ULA took effect. "There was a heightened frenzy in the buildup to that tax being implemented," he said.

The number of high-end sales stayed low for several months as many owners delayed putting their homes on the market in hopes that ULA would be repealed or altered, local agents said.

That was the case for entrepreneur David Alexanderian, who completed a six-bedroom spec house in L.A.'s Bird Streets in 2023. "I waited for six or seven months" to put it on the market, he said. Eventually he gave up on the law being repealed and listed the home for $24.5 million.

When the roughly 11,000-square-foot house, which has a massage room and putting green, sold in August for $21 million, Alexanderian had to pay a total of about $1.25 million for the mansion tax and transfer tax, significantly cutting into his profit, he said. "This is a very unfair tax," he said, vowing not to do any future projects in L.A.

Gradually, the number of high-end sales in L.A. has crept back up. In July 2024, the city saw 25 home sales over $5 million, more than double the number in July 2023 and down slightly from July 2022.

"Initially, people didn't know what to do—it was so jarring," L.A. Compass real-estate agent Tomer Fridman said of ULA. These days, the tax is more likely to play a role in negotiations, with buyers and sellers sometimes splitting the tax. "Now, it's a conversation to be had."

L.A.'s high-end market is still contending with high interest rates, spiraling fire-insurance costs and a general slowdown in housing sales across the country.

The lasting impact of mansion taxes tends to be with deals right around the price thresholds for when the taxes kick in. Some buyers, like Sheikh in New York, take pains to minimize or avoid paying such fees. In New York, that means plenty of $995,000 or $998,000 price tags, said real-estate agent Leslie Hirsch of Christie's International Real Estate Group.

Mansion taxes—some of which also apply to commercial transactions—have been present in some areas for years: New York state in 1989 started requiring buyers to pay a flat 1% tax on any home purchase of $1 million or more. That has remained the starting point for the mansion tax since then, leading New Yorkers to complain that the name is deceptive, given that $1 million buys only a small apartment in Manhattan. "Someone from another country, when you tell them about mansion taxes, they fall off their chair and say, 'Have you seen a mansion?' " said longtime New York real-estate agent Leonard Steinberg.

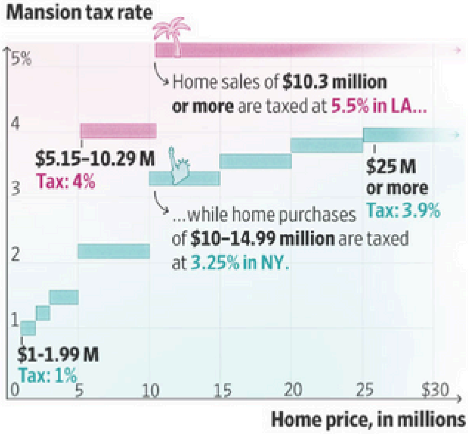
Recently, more mansion taxes have been proposed or expanded as cities seek new sources of funding amid falling commercial property values and a significant decline in state funding since the 1970s, often coupled with state laws restricting other types of taxes.

"Local leaders are going to be put under immense pressure with few options," said Richard Auxier, a state and local tax-policy expert at the Urban-Brookings Tax Policy Center. "You're out of money—what else are you going to do?"

New York City in 2019 added a supplemental tax on home purchases of $2 million or more, while **Los Angeles** in 2023 introduced a new tax for sellers of homes over $5 million.

How 'mansion taxes' work in New York City* and Los Angeles†

Mansion tax rate



*New York City data includes both the New York state 1% mansion tax and the city's supplemental tax for homes of $2 million or more.

†L.A. raised the threshold for when the mansion tax applies for transactions closing after June 30, 2024, to adjust for inflation. The levels were previously $5 million and $10 million.

Camille Bressange/WSJ

In 2019, New York City added a supplemental mansion tax for buyers of homes of $2 million or more, with increases at different price levels, up to 3.9% for homes of $25 million and up. In San Francisco, voters have approved four increases in transfer-tax rates since 2008; in 2020, they approved Proposition I, which doubled the tax rate for sales of at least $10 million, with the sellers of homes at $25 million or more now paying 6%. Not all have succeeded: Chicago's Bring Chicago Home referendum, which sought in part to raise the city's real-estate transfer tax on property purchases of $1 million and up, was defeated in March.

New York City's mansion tax helps fund public transit, with the Metropolitan Transportation Authority collecting $345.1 million from the tax in 2023 for capital projects, according to an MTA spokesperson. In August, the MTA announced it would start selling debt backed by mansion-tax revenues to help raise $2 billion for infrastructure upgrades.

But most of the new measures around the country aim to address the housing crisis. T he sharp jump in the homeless population, a shortage of affordable housing and increasing income inequality have helped sway public opinion in favor of mansion taxes in many places, said Peter Dreier, a professor of Urban & Environmental Policy at Occidental College who was involved in drafting Measure ULA.

Seven states, plus Washington, D.C., have a form of mansion tax, according to Kamolika Das, local tax policy director at the Institute on Taxation and Economic Policy.

"Taxing the people who have benefited the most from the real-estate boom—that's a pretty attractive way of addressing the housing crisis," Dreier said. After ULA passed, "we got a lot of calls asking, 'How did you do it? Can we do it here?' "

In San Francisco, funds from Prop. I go into the city's general fund but are intended for rent relief and affordable housing. Between January 2021 and March 2024, Prop. I raised $324 million, according to a June report by the city's Housing Stability Fund Oversight Board. Of that, more than $203 million had been spent to advance new affordable housing initiatives and provide emergency rent relief to San Franciscans, the report said, including acquiring five sites to build more than 550 units of new affordable housing.

IN SAN FRANCISCO, VOTERS HAVE APPROVED FOUR INCREASES IN TRANSFER TAX RATES SINCE 2008

In Los Angeles, ULA revenues go into the House LA Fund, with roughly 70% going to affordable housing programs and 30% to homelessness prevention. As of April, $54.7 million in ULA funds had been proposed to expedite the building of 795 affordable housing units, and an estimated 11,000 people had been approved for ULA-funded emergency rent assistance, according to a report by Dreier and others. Between June and August, more than 1,500 people received legal services in eviction cases, Dreier said.

Governments often fail to anticipate the initial ups and downs when forecasting how much money mansion taxes will bring in, Miller said. For example, Measure ULA was projected to raise nearly $1 billion a year. Instead, from the time it went into effect to early October, it had generated only about $403 million from 623 transactions.

Dreier acknowledged that after ULA was introduced "for the first couple of months, the tax numbers were nowhere close to what we had anticipated." He attributed this largely to the real-estate industry going "on strike, basically, against the measure. It worked for a while, but eventually people had to sell their properties."

When New York City increased its mansion tax in 2019, it saw a similar pattern. In June 2019, the month before the increase took effect, the number of Manhattan sales of $2 million or more jumped to 661 from 355 the previous month, then plummeted to 164 in July 2019, Miller's data shows.

"There was a sharp drop-off in transaction volume after a bit of a frenzy just before the enactment," recalled Steinberg. By December, the number of sales had returned to normal and even surpassed the number in December 2018.

Now, New York buyers are accustomed to the tax. "It's become the norm," said real-estate attorney Shaun Pappas with Starr Associates.

When North Carolina oncologist Dr. Sean Wang started looking for a Manhattan pied-à-terre, he didn't realize that New York has a mansion tax.

In August, he paid $985,050 for a one-bedroom in Midtown. While he said he feels "lucky" to have avoided the tax, his choice had little to do with that—mostly, he liked that the south-facing condo has an extra half bathroom, unlike many of the apartments he looked at. For the right apartment, "I was prepared to pay more than $1 million," said Wang, 55. The mansion tax was "a minor contributing factor."

Like Wang, most buyers are more focused on finding the right home than avoiding mansion taxes, agents said.

"I don't think a buyer is going to lose out on their dream property because of a 1% payment," said Salem of Compass, who works in both New York and Los Angeles.

In San Francisco, real-estate agent Nina Hatvany of Compass said the tax only factors in a bit. "No one has said to me, 'I'm not buying an expensive house because when I sell I'll have this big tax,'" she said. There are some situations when it comes into play, she said; for example, if a homeowner is renovating their home and considering buying a house to live in temporarily, the high cost of selling may be a deterrent.

In Washington state, which expanded its excise tax in 2020, sellers also pay little attention to it, in part because home values have steadily increased for years. "It has been a nonissue, other than that people do not enjoy paying it," said real-estate agent Jen Cameron of the Agency Seattle.

Buyers and sellers try various tactics to avoid paying mansion taxes, especially for homes on the cusp of a price threshold where the tax kicks in or increases. Hirsch and her colleague Howard Morrel, who listed the New York home that Wang eventually purchased, purposefully priced it just below $1 million to help lure buyers. "If they can avoid the tax, it sets our listing apart," Hirsch said.

For communities considering measures like a mansion tax, Shane Phillips of the UCLA Lewis Center for Regional Policy Studies advises governments to implement marginal taxes, where the effective rate increases gradually with every dollar spent, rather than all-or-nothing thresholds. That would avoid "these weird threshold effects that occur," he said, calling them "inefficient and wasteful."

Another challenge with the politics of mansion taxes is how the funds are allocated, according to Auxier, the tax policy expert. The money collected fluctuates with the real-estate market, making it difficult to predictably fund specific programs.

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