Five Things to Consider Regarding a Second Residence in the Big Apple

New York can be a magical city, and many people dream of making the Big Apple their forever home. Yet for those that want to enjoy the city on a part-time basis, there are a number of things to consider to make sure the decision is appropriate. This piece highlights five.

Understand Your Residency Status. Residents of New York State who also maintain a pied-a-terre in New York City, may still be subject to city income taxes. It is important for households that maintain a second residence in New York City to pay close attention to how much time is spent in New York state and city to determine how their taxes will be affected. Generally, to be considered a New York resident, one must spend all or a portion of 184 days in the state, and this same rule applies to New York City. It is important to note that a person does not have to spend time in their New York City residence for it to count as a day. Having a business lunch in the city (or any of its five boroughs) before returning to the primary residence, for example, counts as a day spent in the city. For record-keeping purposes, it is crucial to keep travel records as well as proof of travel for tax records and support. There are several other factors that could impact tax residency, so depending on the circumstances, it is important to consult your tax advisor on the do's and don'ts.

Understand How the New Tax Bill Affects Second Residences. Homeowners in hot real estate markets -- such as New York City -- will want to pay close attention to how their taxes will be affected by their real estate choices in light of the new tax bill President Trump signed in December. The deductibility of property taxes and state and local income taxes is now capped at $10,000, which likely means a higher tax bill for New York City property owners. Meanwhile, mortgage interest deductibility for second homes is also potentially impacted under the new bill. The mortgage interest deduction has been lowered to a loan of $750,000 from $1 million for new mortgages. The new tax law also changes to how the interest on a home equity line of credit is treated, so before incurring this type of facility, the overall deductibility should be considered. With many high net worth households likely exceeding this threshold with their primary residence, compounded with New York real estate being so expensive, it is unlikely that households will be able to deduct mortgage interest on their second home.

Location, Location, Location. Anyone who has spent considerable time in New York City quickly realizes that the neighborhood where one conducts their social life may not always be the neighborhood where they want to live -- especially when it comes to convenience. When choosing a city residence, households should also consider the amenities the neighborhood -- and building -- offers. Parking in downtown neighborhoods, for instance, could be a time-draining as well as costly nuisance for families that like to make quick weekend trips. A lack of amenities in an area could necessitate having to hire additional household help, which could prove to be a significant and unexpected financial drain.

Having the Right Help. Especially in instances when families leave their New York City residence unattended for long stretches of time, having the right support system is important. A small apartment in a doorman building may only need to have someone checking in occasionally. But a larger residence, such as a townhouse, may require a full-time staff to maintain the property.

Insurance. Second residences sometimes face higher insurance costs because of the inherent risks that the home is likely vacant more often then a primary location. If the second residence will also have a staff, it is crucial to make sure there are no gaps in personal liability and employment coverages as well.

Discussing benefits, risks, planning opportunities and compliance in coordination with a trusted advisor can help ensure that all details are carefully considered. For more information, contact your Anchin Relationship Partner or Sharon Ackerman, a Tax Director in Anchin's Tax Controversy Services Group, at 212.840.3456 or info@anchin.com.

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