New York City Revenue and Cost Savings Options Spring 2011

James Parrott, Fiscal Policy Institute (212-721-5624, parrott@fiscalpolicy.org)

NYC should reform its <u>Personal Income Tax</u> (PIT) structure to add brackets to the top and to take low-income households off the income tax rolls.

- To avert damaging budget cuts, better fund ongoing needs, and lessen the regressivity of the city's tax structure, New York City should raise $1 billion through PIT reform.
    - For joint filers with incomes over $250,000, the marginal rate should be increased by 0.6 percent (from 3.648 to 4.248 percent), and for those with incomes over $500,000, the marginal rate should be raised by 1.2 percent (from 3.648 to 4.848 percent).
    - Given the overall regressivity of NYC taxes, those with taxable incomes less than $40,000 should not have to pay a NYC income tax. Such households now pay $150 million to $200 million annually. Increasing the City Earned Income Tax Credit and/or the Child Care Tax Credit would help offset the increased local sales tax rate imposed by NYC in 2009.

Other revenue options that should be considered:

- **<u>Close two Hedge Fund Loopholes</u>.**
    - Eliminate the carried interest exemption on the city's unincorporated business tax (UBT) for private equity and hedge funds. These forms of financial operations have grown dramatically. This IBO estimates this would generate $200 million annually.
    - Eliminate the UBT credit against the NYC income tax for those with incomes of $1 million or more. In 2008, 5,000 millionaires received $121 million under this loophole.
- **<u>Insurance Companies</u>**. Extend the General Corporation Tax to insurance company business income. Insurance companies are the only large category of businesses currently exempt from city business taxes. The IBO estimates this could generate $300M a year.
- **<u>Private Universities</u>**. Secure payments in lieu of property taxes from private colleges and universities. The IBO estimates that the city's private universities and colleges saved $348 million in 2011 from not having to pay property tax. About 25 percent of this total is for dormitories or other student and faculty housing. A PILOT at 25 percent of the total would yield $87 million annually
- **<u>Extend the Mortgage Recording Tax (MRT) to Coops.</u>** The MRT is levied on the amount of the mortgage used to finance the purchase of houses, condos and all commercial property. The State legislature could broaden the definition of financing subject to the MRT to include loans used to finance the purchase of shares in residential coops. This proposal, which the IBO estimates would generate $65 million in 2012 (and more in years when coop sales and refinancings recover), was included in Governor Paterson's January 2010 budget proposal, and it was included in Mayor Bloomberg's preliminary FY 2011 budget proposal.

Cost Saving Proposals:

- **<u>Contracting-In</u>.** The City now contracts out over $3 billion annually in professional, clerical, maintenance and other non-social services, some of which could be performed at reduced cost by City employees. (This total excludes the $2.2 billion for special education schools, and excludes contracts for waste export, legal aid and financing-related contracts.)
- **<u>Property Tax Assessments</u>.** The City could realize additional property tax collections by improving the quality and timeliness of assessments. In particular, the City should review all properties claiming tax exemptions and should revert to the previous method of assessing hotel properties.
- **<u>Permit civil suits against financial advisors</u>.** The state's securities law, the Martin Act, should be amended to permit public pension funds and other institutional investors to sue where fraudulent financial advice resulted in investment losses.