



Comparison of the Executive, Assembly and Senate 2014-2015 Budget's Tax Proposals

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This tax brief updates the Fiscal Policy Institute's *New York State Economic and Fiscal Outlook 2014-2015* to take into account the New York State Senate and Assembly's responses to the Executive Budget with respect to major tax proposals. This brief contains two parts. First, an analysis of five major tax initiatives and the legislature's response and second, a side-by-side description of the 2014-2015 Executive Budget's tax proposals and the legislatures response, including significant one-house tax cut proposals.

The five areas covered in more detail are:

- Section A: Corporate Tax Reform
- Section K and L: Homeowner and Renter Circuit Breaker
- Section R: 20 percent Manufacturing Property tax Credit
- Section X: Reform of the Estate Tax
- Section FF: Property Tax Freeze and Freeze Plus

The 2014-2015 Executive Budget tax cut proposals total \$486 million in FY 2015 and a four year cumulative total of \$6.3 billion for 2015-2018. To accommodate the proposed tax cuts the executive's 2015-2018 financial plan proposes a total of \$19 billion in spending cuts.

The proposed Executive Budget continues the austerity budget cuts of the past 6 years through 2018 for a "decade of austerity" in order to give tax breaks to the wealthiest New Yorkers and large corporations, instead of restoring funding to education, social services and municipalities.

The tax freeze is ill-conceived and will send more money to wealthier localities, the circuit breaker and the renter's credit are ineffectively targeted, the bank tax repeal is a windfall for large banks, and New York simply can't afford costly estate tax cuts. (in millions)

	2014-15	2015-16	2016-17	2017-18	Cumulative
Personal Income Tax	\$ (325)	\$ (735)	\$ (1,248)	\$ (1,658)	\$ (3,966)
Close the Resident Trust Loophole	75	225	150	150	600
Establish the Real Property Tax Freeze Personal Income Tax Credit	(400)	(976)	(475)	-	(1,851)
Establish the Residential Real Property Personal Income Tax Credit	-	(200)	(525)	(1,000)	(1,725)
Establish a Renter's Personal Income Tax Credit	-	(200)	(400)	(400)	(1,000)
Other	-	416	2	(408)	10
Business Taxes	\$ 67	\$ (118)	\$ (271)	\$ (267)	\$ (589)
Streamline Corporate Audit Procedures (Administrative)*	-	172	172	172	516
Reform the Investment Tax Credit	65	65	65	65	260
Repeal the Financial Services Investment Tax Credit	30	30	30	30	120
Subtotal Total Business Tax Increases	95	267	267	267	896
Corporate Tax Reform	-	(205)	(346)	(346)	(897)
Establish a 20 Percent Real Property Tax Credit For Manufacturers	-	(136)	(136)	(136)	(408)
Eliminate the Net Income Tax On Upstate Manufacturers	(24)	(24)	(25)	(25)	(98)
Subtotal Other Business Tax Decreases	(24)	(365)	(507)	(507)	(1,403)
Other Business Tax Cuts	(4)	(20)	(31)	(27)	(82)
Other Actions	\$ (40)	\$ (183)	\$ (375)	\$ (612)	\$ (1,210)
Reform the Estate Tax**	(33)	(175)	(371)	(612)	(1,191)
Other	(7)	(8)	(4)	-	(19)
Total All Funds Legislation Change	\$ (298)	\$ (1,036)	\$ (1,894)	\$ (2,537)	\$ (5,765)
* After 2018, the streamline audit saving will sunset and not reoccur.					
** Estate Taxes continue to rise in the out years, in 2019 these cuts will be \$757 million.					
Source: 2014-15 Executive Briefing Book (p. 67) and FPI calculations.					

- **Section A: Corporate Tax Reform**

The Executive Budget proposes to merge the bank tax with the corporate tax and lower the rate on all corporations from 7.1% to 6.5%.

- Banks will then be subject to a single sales tax factor, instead of the three factor method they current must use. They will also be able to use a “fix percentage method” of 8% to apportion income from certain financial investments. Since the New York State financial sector is approximately 40% of the national financial sector, banks will receive a windfall because of the much lower apportionment rate.
 - Corporate taxes as a percentage of total state tax revenue have dropped substantially from 16% in 1980 to 10% in 2013. With these cuts corporate taxes will make up only 8% of total tax revenues. The drop in corporate taxes over the last 30 years has not had the intended effect of increasing the number of businesses coming to New York.
 - Boyd and Rubin in a report for the Solomon-McCall Commission found that business tax credits jumped from \$600 million in 2005 to \$1.8 billion in 2013 with little or no economic impact.
- **Assembly:** Accepts the merger of the corporate and bank tax but keeps the corporate tax rate at 7.1%.
 - **Senate:** The resolution modifies the proposal but the bill language accepts the governor’s proposal, they also call for the bank proposal to be revenue neutral.

- Sections K & L: **Homeowner and Renter Circuit Breaker**

The design of the Executive Budget's homeowner proposal has "affordability thresholds" of 3%, 4%, and 5%, credit percentages of 20%, 15% and 10%, and a maximum credit of \$500 in 2015 rising to \$1,000 in year 3. The renter's credit would use federal adjusted gross income and the number of dependents to determine the size of the credit and does not depend on the amount of rent paid relative to income.

- The Executive Budget's proposal costs about \$1 billion, but does not give meaningful relief to those in greatest need because of the low thresholds, credit percentages and maximum credit.
- Both the Senate and the Assembly have proposals (S3266/A5884 and S1002/A1941) with credit percentages of 70% and higher affordability thresholds. These proposals give a much larger benefit to those who are truly overburdened.
- The Executive Budget's renter's proposal would not take the amount of rent paid by the household into consideration in any way, let alone by a comparison to the household's income. The amount of a taxpayer's credit is based on his or her age and number of dependents for federal income tax purposes. Taxpayers younger than 65 are not eligible unless they have more than one dependent. It therefore cannot take into account the rent burden on a family.

- **Assembly:** The Assembly modifies the proposal to allow New York City and Yonkers to include local income taxes in the calculations for the credit and removes the requirement that localities must adhere to the property tax cap to receive the credit. The Assembly also modifies the renter's credit to provide more meaningful relief by increasing the threshold.
- **Senate:** The Senate denies both credits.

- Section R: **20 percent Manufacturing Property tax Credit**

Manufacturers statewide would receive a refundable 20% real property tax credit. Along with the property tax reform the Executive Budget proposes to drop the corporate income tax on upstate manufacturing to zero.

- The Governor's Tax Reform and Fairness Commission, chaired by investment banker Peter Solomon and former Comptroller H. Carl McCall, closely examined the burgeoning array of New York's business tax incentives. An in-depth analysis prepared for the Commission by economists Don Boyd and Marilyn Rubin documented the explosion in credits from 33 in 2005 to 50 in 2013, with the annual cost of business tax credits rocketing from \$600M in 2005 to nearly three times that, \$1.8B, in 2013. [see "New York State Business Tax Credits: Analysis and Evaluation," November 2013, at www.pjsolomon.com/news/media/2013-11-13-Tax_Incentive_Study_Final.pdf]
- Many economic reports including Boyd and Rubin have found that these credits have had little if any economic impact on the economy or in attracting new businesses or jobs.
- **Assembly:** The Assembly rejects the 20% manufacturing property tax credit but accepts the elimination of the corporate income tax on upstate manufacturers. They add four additional counties to the upstate region: Dutchess, Ulster, Sullivan and Orange.
- **Senate:** The Senate amends the 20% property tax credit and amends the elimination of the upstate manufacturing income tax to include the entire state.

- Section X: **Reform of the Estate Tax**

There are three main elements in the estate tax proposal:

1. Raising the exemption from estate taxation from the current \$1 million to \$5.25M, the current federal exemption level;
 2. Reducing the top rate in stages from 16 to 10%; and
 3. Requiring the value of gifts to be added back to the estate tax (New York State eliminated its gift tax years ago).
- The estate tax has been generating \$800M to \$1.2B a year in revenue for New York so a proposal that rises in costs to \$612M in 2017-2018 and \$757M in 2018-2019 will seriously erode the estate tax as a significant revenue source for the state. Because of increasing income concentration at the top, in the absence of the proposed reductions in the estate tax, the estate tax would be the fastest growing source of tax revenue for New York State. Before the tax cuts, the estate tax is estimated to double between 2013 and 2019, to \$2 billion. The tax cuts will reduce that amount by roughly 40%.
 - Because the estate exemption is being raised, all estates paying taxes will pay less. The reduction in the top tax rate from 16 to 10% will be heavily concentrated among a relatively small number (150-200) of very large estates (greater than \$10 million.) These large estates likely will see an average 50% tax reduction.
 - While the Executive Budget states that “the state’s current estate tax policy encourages elderly New Yorkers to leave ...,” in a report prepared for the Solomon-McCall Tax Commission, the state’s own tax policy experts concluded: “Migration studies regarding the impact of taxes such as the estate tax have shown that taxes generally are not a major factor in the decision of where to live or retire. ... These papers generally show that taxes have very little impact on cross-state migration and estate tax revenues.”
- **Assembly:** The Assembly modifies the proposal to increase the threshold to \$3 million instead of the \$5.25 million the Executive Budget proposal and does not reduce the top tax rate, keeping it at 16%.
 - **Senate:** The Senate accepts the Executive Budget proposal but eliminates the add-back provision of federally taxable gifts.

- Section FF: **Property Tax Freeze and Freeze Plus**

The Executive Budget proposes to give a personal income tax credit to individuals whose local districts stay within the 2% property tax cap in the first year and stay within the cap while making meaningful consolidations in the second year. This credit would be available for those with incomes less than \$500,000.

- The 2-year property tax “freeze” costs \$1.8 billion over the next three fiscal years. It adds a perverse incentive to the pressure already created by the statewide 2% property tax cap enacted 3 years ago. This pressure already has forced drastic cuts in schools and other important public services. Under the new proposal, a homeowner only gets an income tax credit in the first year for taxes levied by jurisdictions that stay within the 2 percent property tax cap. In the second year, local governments or school districts must continue to stay within the cap and must develop a plan for sharing or consolidating services to achieve savings.
 - Because the property tax cap is instituted as a percentage limit on the growth of a locality’s tax levy, the property tax increases possible under the cap are greater for wealthy school districts than for needy school districts. Under the freeze proposal benefits likely will be concentrated in wealthier districts. Poor and rural governments will receive less because they have greater needs, smaller tax bases and fewer opportunities for consolidation.
- **Assembly:** The Assembly rejects this proposal.
 - **Senate:** The Senate creates a freeze plus proposal which freezes property taxes for two years and gives relief to the local districts. They require governments to stay within the cap and work towards consolidation.

Side by Side descriptions of the tax changes in the Executive Budget and the two legislative proposals.

Section	Governor's Budget Topic	Assembly	Senate
A	Corporate Tax Reform. New York's corporate franchise tax is outdated, and its archaic provisions result in unnecessarily lengthy and complex audit processes that take businesses years to resolve. The Executive Budget combines the corporate franchise and bank taxes to provide tax simplification and relief, and improve voluntary compliance. Further, the tax rate on net income is reduced from 7.1 percent to 6.5 percent, the lowest rate since 1968.	The Assembly accepts the Executive's proposal to merge the Corporate and Bank taxes and reform the underlying calculation of liability; however, the Assembly keeps the tax rate on entire net income at 7.1 percent, as opposed to the Executive's recommended 6.5 percent.	The Senate modifies the Executive proposal to merge the bank tax and the corporate franchise tax. In addition, the Senate takes the position that corporate tax reform for the financial industry should be revenue neutral to taxpayers and the State.
F	Eliminate the Income Threshold Inflation Adjustment for Enhanced STAR Benefits. In order to qualify for an enhanced benefit, homeowners must meet an age (65 and above) and income requirement. The income requirement has been annually increased since 2003-2004 by a cost-of-living-adjustment (COLA). This proposal will maintain the eligible income threshold at the 2014-2015 level of \$81,900, but eliminate the COLA thereafter.	The Assembly rejects the Executive's proposal to eliminate the annual inflation adjustment made to the income standard for enhanced STAR eligibility beginning with the 2015-2016 school year.	The Senate denies the Executive proposal to eliminate the income threshold inflation adjustment for enhanced STAR benefits.
I	Close the Resident Trust Loophole. In general, a trust is a legal agreement that represents a place where assets from an estate are held. The trust provides certain tax and legal benefits not available if the assets are not placed in trust. Currently, New York conforms to Federal law, which results in New York personal income tax	The Assembly accepts the Executive's proposal to amend the Tax Law and tax certain income earned by non-resident, exempt resident and incomplete gift trusts.	The Senate modifies the Executive proposal to close the resident trust loophole.

	immunity for the trust grantor and the trust beneficiary. This proposal will decouple New York from Federal treatment of trusts and impose the personal income tax on the trust grantor.		
K	Establish the Residential Real Property Personal Income Tax Credit. To further alleviate the impact of property taxes on low- and middle-income New Yorkers, the Executive Budget creates a refundable tax credit against the personal income tax to provide targeted real property tax relief based on an individual homeowner's ability to pay. This relief program is progressively structured to provide a greater proportion of benefits to those with the highest property tax burdens as a share of their income. The credit is available statewide, but in areas outside of New York City, only residents of jurisdictions that adhere to the property tax cap will qualify. When fully phased in, the program, valued at almost \$1 billion, will benefit over 1.9 million homeowners yielding an average benefit of \$500.	The Assembly modifies the Executive's proposal by allowing taxpayers living in New York City or Yonkers to include in the calculation of their credit the local income taxes paid. Including local income taxes paid by resident of New York City and Yonkers, the Assembly recognizes that such taxes are primarily dedicated to education and help alleviate the overall property and income tax burden and allows for more NYC residents to benefit from the Circuit Breaker credit. In addition, the Assembly removes the requirement that taxpayers would receive the credit subject to the local taxing jurisdiction's adherence to the property tax cap.	The Senate denies the Executive proposal to create an enhanced real property tax circuit breaker credit.

L	<p>Establish a Renter's Personal Income Tax Credit. There are 3.3 million renter households across the state. Over 829,000 low-income renter households spend more than 50 percent of their monthly cash income on housing costs and thousands of moderate-income renters face similar burdens. To help defray the impact of escalating rental housing costs, especially for families, the Executive Budget creates a refundable credit for renters. This tax relief is composed of a base credit that declines with qualifying incomes up to \$100,000 for married taxpayers who are filing jointly and have related dependents, taxpayers filing as head of household, and married seniors filing jointly. Single seniors with incomes up to \$50,000 would also qualify. The base credit will be supplemented with an additional credit per federal exemption, where the value of the supplement also declines with income. When fully phased in the program will save \$400 million for approximately 1.3 million households. The average benefit for a family of four in New York City with income of less than \$50,000 would be about \$410.</p>	<p>The Assembly modifies and expands the Executive's proposal to provide a renter's credit by increasing the income threshold, changing the structure of the credit provided, as well as allowing local income taxes paid by residents of New York City and Yonkers to be included in the calculation of the credit. The credit is available statewide and is designed to provide meaningful relief to overburdened renters.</p>	<p>The Senate denies the Executive proposal to establish a renter's personal income tax credit.</p>
R	<p>Establish a 20 Percent Real Property Tax Credit for Manufacturers. Lowering the cost of doing business for manufacturers will make New York a more attractive place for firms to locate and create jobs. The Executive Budget provides a statewide refundable credit equal to 20 percent of property taxes paid by manufacturers who own property.</p>	<p>The Assembly accepts the elimination of the income tax on upstate manufacturers. The Assembly also modifies that part by adding four counties in the definition of upstate manufacturer:</p>	<p>The Senate modifies the Executive proposal to: establish a 20 percent real property tax credit for manufacturers; amend the elimination of the net income tax on upstate manufacturers to apply statewide; reform</p>

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		<p>Dutchess, Ulster, Sullivan, and Orange.</p> <p>The Assembly rejects the 20 percent real property tax credit, the reform of the investment tax credit, and the repeal of the financial services investment tax credit.</p>	<p>the investment tax credit by repealing the financial services investment tax credit; deny the change in definition of manufacturer and retain the current definition.</p>
X	<p>Reform the Estate Tax. New York is one of only 15 states that impose an estate tax. The State's exemption levels are among the lowest and the rates are among the highest. While the Federal government exempts from taxation the first \$5.25 million of an individual's estate, New York only exempts estates valued below \$1 million. The State's current estate tax policy encourages elderly New Yorkers to leave and places a special burden on small family owned businesses. To address these problems, the Executive Budget increases the exclusion threshold of the estate tax from \$1 million to eventual conformity with the Federal exemption amount, and reduces the top rate from 16 to 10 percent over four years. These actions will be coupled with proposals that will require the value of gifts to be added back to the estate and will close loopholes that allow certain trusts to avoid paying State taxes.</p>	<p>The Assembly modifies the Executive's proposal by limiting the increase of the exclusion threshold to \$3.0 million in two years and keeping the top rate at 16 percent.</p>	<p>The Senate modifies the Executive proposal to do comprehensive estate tax reform to eliminate the add-back of federally taxable gifts.</p>
CC	<p>Repeal Article 12 of the Tax Law. Tax collections on stock sales transfers from financial service companies are currently not retained by the State, but instead are fully and immediately</p>	<p>Intentionally omitted. The Assembly rejects the Executive's proposal to repeal the stock transfer tax</p>	<p>The Senate concurs with the Executive proposal to repeal the stock transfer tax.</p>

	<p>rebated. This tax has been maintained in statute as an alternative source to repay New York City Municipal Assistance Corporation Bonds, which were retired in 2008. This tax creates unnecessary administrative work for the financial services industry as well as for the Department of Taxation and Finance.</p>	<p>provisions of law.</p>	
S FF	<p>Establish the Real Property Tax Freeze as a Personal Income Tax Credit. This initiative addresses two problems -- New York's high property taxes and one of the primary drivers of those taxes -- the inefficiency of overlapping local governments. New York State has nearly 10,500 local government units, many of which provide duplicative services. New York is one of only 10 states where a resident can live in three local governmental jurisdictions at the same time (e.g. village, town, county). To help address these problems, the Executive Budget freezes property taxes for two years, subject to two conditions. In year one (2014-15), the State will provide tax rebates to homeowners with qualifying incomes of \$500,000 or less who live in a jurisdiction that stays within the 2 percent property tax cap. In order for their homeowners to get the tax credit in the second year, school districts and local governments must continue to stay within the tax cap and must develop a plan for sharing or consolidating services and eliminating duplication and overlap. For local governments and dependent school districts, this plan will be coordinated by the county. For independent school districts, it will be coordinated by the</p>	<p>Intentionally omitted. The Assembly rejects the Executive's proposal.</p>	<p>The Senate modifies the Executive proposal to create a \$1.4 billion Freeze Plus program that freezes property taxes for two years by making the property tax relief permanent. Schools will be eligible for this program in SFY 2014-15 while counties, cities, towns and villages will be eligible in SFY 2015-16. This makes all municipalities and schools eligible in their next fiscal year. Schools will receive \$400 million in the first year, growing to \$800 million thereafter. Municipalities will receive \$200 million in their first year, and \$400 million thereafter. In order for homeowners in their jurisdiction to receive the property tax relief in year two of the plan, school districts and local</p>

	<p>school district with the largest enrollment in the BOCES district. Each plan must achieve savings, in the aggregate, in an amount of at least one percent of participating entities' levy in the year following the second year of the credit. This percentage increases to two percent and three percent in subsequent years. These savings must be applied to tax reduction. Failure to achieve planned savings could result in recapture of State aid to the local government or school district. When fully implemented, local governments and school districts could provide property tax relief of up to \$1 billion. New York City is not subject to the cap.</p>		<p>governments must continue to stay within the tax cap and must work towards continuing efficiencies previously adopted with new efficiency plans that may include consolidation and shared services. Municipalities and school districts will develop and implement structural budgetary efficiency plans for sharing or consolidating services that, when implemented, will achieve real savings for taxpayers. Local Governments with 50 employees or less will also be authorized to join municipal cooperative health benefit plans as a tool to achieve savings.</p>
GG	<p>Relating to the extension of various credits and tax abatement programs provided by the City of New York, is added to:</p> <ul style="list-style-type: none"> • Extend the Sales and Use Tax Exemptions for qualifying leases in certain areas; Commercial Revitalization Program property tax abatement; Industrial and Commercial Abatement Program; Relocation and Employment Assistance Program; Energy Cost Savings Program; Commercial rent tax reduction; and the Commercial Expansion Program. 	<p>The Assembly accepts the Executive's proposal to extend certain tax credits and abatements for Lower Manhattan and New York City.</p>	<p>The Senate modifies the Executive proposal concerning the extension of various credits and tax abatement programs provided by the City of New York.</p>

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S HH	Freedom Fund		The Senate advances language to enact a two percent spending cap with the resulting surplus revenues deposited into a tax freedom fund to be used for tax reductions.
A HH	Film Credit	The Assembly proposes to expand eligibility for the 10 percent upstate film credit bump to include the counties located within the Capital region and within the Mid-Hudson region: Albany, Columbia, Dutchess, Greene, Orange, Putnam, Rensselaer, Rockland, Saratoga, Schenectady, Sullivan, Ulster, Warren, and Washington counties.	
A JJ	Minimum Wage	The Assembly proposes the repeal of the minimum wage credit enacted with the 2013-14 Budget.	
S JJ	Standard Deduction Indexing		The Senate advances language to permanently index the income brackets and standard deductions to inflation.

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A 00	Universal pre-K income tax surcharge in New York City.	The Assembly proposes an income tax surcharge for New York City residents of 0.534 percent on incomes over \$500,000 for the funding of pre-K and after school programs in NYC.	
MM/TT	Broadway Tax Credit	The Assembly proposes a tax credit for pre- and post-Broadway theatrical and musical productions outside of New York City.	The Senate advances language to create a Musical & Theatrical Production Tax Credit.
S XX	Private Aircraft Tax Credit		The Senate advances language to exempt the sale of private aircraft from sales tax. In addition, the Senate supports advancement of a proposal to maintain the vitality of New York's recreational boating industry by adjusting the sales taxes imposed on an individual or company looking to purchase and register a vessel in New York.

FPI's position on other proposed tax changes

Executive's Part GG—Extend various NYC business tax breaks.

The major program included in this package of extenders is for the Industrial and Commercial Abatement Program, which does not expire until June 2015. Given the growing concern regarding the efficacy of such tax breaks, and the fact that the major component of this package does not expire this year, no action is needed this year. Mayor de Blasio has expressed his interest in evaluating the business tax breaks before extending them.

Senate Part HH—Annual Spending Growth Cap and Tax Freedom Fund

This proposal caps spending growth at 2% and would use surplus tax collections to fund future tax cuts. FPI opposes this proposal since it unduly restricts state spending regardless of economic need, and would make it impossible for the state to meet constitutional requirements in education spending and care for the needy.

Assembly Part JJ—Repeal of the Minimum Wage Reimbursement Tax Credit

FPI supports the repeal of this ill-conceived tax credit that will discourage the employment of adults in favor of student teenagers for certain jobs, limit the pay of such student teenagers to exactly the minimum wage, and likely provide the greatest financial benefit to large employers of low-wage workers such as Wal-Mart and fast-food chains.

Assembly Part OO—UPK NYC Personal Income Tax Surcharge

FPI supports this proposal for dedicated funding to ensure the timely expansion of high-quality UPK and after-school programs. The tax rate increase is modest and 95% will be paid by taxpayers with incomes of \$1 million or more. This measure will make NYC's local tax structure slightly less regressive.