



Summary of Selected Tax Provisions

Final FY 2015-2016 Budget

April 14, 2015

The Final FY 2015-2016 Budget is more notable for the tax proposals that were left out than for what is included. In the FY 2015-2016 Executive Budget, the governor proposed three major tax changes: a new property tax circuit breaker for low- and middle-income homeowners and renters, an education tax credit, and a modest reduction in taxes on small corporations. None of these changes were included in the final budget, however, property tax relief and the education tax credit are expected to be revisited later in the legislative session. The circuit breaker is a good idea, though linking it to a locality's compliance with the property tax cap is highly problematic. The education tax credit is a fundamentally misconceived giveaway.¹

The Final Budget did include a number of other smaller tax changes proposed by the governor including a new Urban Youth Jobs Credit, an employee training incentive program, and complete elimination of STAR income tax reductions for very high-income New York City residents. The budget also extended the limit on income tax deductions for charitable contributions by high-income taxpayers, the Brownfield clean-up program, and warrantless wage garnishment.

In addition, two problematic new exemptions from the sales tax that were not part of the Executive Budget were included in the Final Budget—one that caps the taxable value of yachts and other boats at \$230,000 and another that exempts purchases and leases of private aircraft.

¹ For analyses of the proposed property tax circuit breaker and education tax credit see *Proposed Tax Relief Will Assist Low- and Middle-Income Property Taxpayers, But Tweaks are Needed* available at <http://fiscalspolicy.org/wp-content/uploads/2015/03/Property-Tax-Circuit-Breaker-Brief-3-5-2015.pdf> and *Education Tax Credit* available at <http://fiscalspolicy.org/wp-content/uploads/2015/03/Education-Tax-Credit-Brief-3-2-15.pdf>.

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Finally, a number of smaller but important tax reforms proposed by the governor were not included in the Final Budget. These include the proposed conversion of the STAR program to an income tax credit and a cap on its growth as well as an expansion of sales tax collection to certain purchases from online merchants, reforms to the IDA program, and a set of enhanced tax enforcement measures.

The major tax provisions of the Executive Budget and the Final FY 2015-2016 budget agreement are summarized below.

Table 1: Selected Executive Budget Revenue Proposals Not Included in Final FY 2015-2016 Budget

Executive Budget	Final Budget	FY16	FY17	FY18	FY19	Notes	Tax/Part
Establish property tax circuit breaker	Not Included	\$0	-\$350	-\$850	-\$1,350	Cost of \$1.7 billion when fully phased in	income/G
Establish Education tax credit	Not Included	\$0	\$0	\$100	\$100		income/ELFA
Reduce net income tax on small businesses	Not Included	\$0	-\$26	na	na	-\$26 million in FY17	business/N
Cap STAR growth at zero percent	Not Included	\$54	\$54	na	na		property/A
Convert STAR to income tax credit	Not Included	\$0	-\$97	na	na	spending savings offset tax cost: FY16: \$97 million, FY17: \$197 million, (net temporary savings of \$100 M per year).	property/D
Expand sales tax collection requirements for marketplace providers	Not Included	-	\$56	na	na		sales/X
Reform IDA program	Not Included	\$4	\$9	na	na		business/W
Enact new enforcement initiatives (See Table 3.)	Not Included	\$20	\$30	na	na		various

na – not available

Property Tax Relief and Education Tax Credits to be Considered Later This Year

Two significant tax proposals that were not included in the final budget: a property tax relief program for low- and moderate-income taxpayers and an Education Tax Credit (a substantial tax credit for donations to private and public schools) are expected to be considered later in the legislative session.

Property Tax Circuit Breaker: The Executive Budget proposed a significant new property tax “circuit breaker” credit that would cost \$1.66 billion per year when fully phased in.

Homeowners would receive an income tax credit of up to 50 percent of the amount that property taxes exceeds 6 percent of income. The credits would not apply to property taxes levied by jurisdictions that exceed the 2 percent property tax cap.

- The credit percentage and maximum credit would decline as income increases.
- No credit for taxpayers with income over \$250,000.
- More than 1.3 million homeowners would be eligible for credits that average \$950 when fully implemented.

Renters would receive an income tax credit of up to 50 percent of the amount that the property tax equivalent (13.75 percent of rent) exceeds 6 percent of income.

- The credit percentage and maximum credit would decline as income increases.
- No credit for taxpayers with income over \$150,000.
- More than 1 million renters would be eligible for credits that average \$400 when fully implemented.

The proposed circuit breaker was not included in the Final Budget but is expected to be considered later in the legislative session. The property tax circuit breaker proposed by the governor and the Assembly ties property tax relief to taxpayers’ income. This targets tax relief to those who need it most. The Assembly would have improved the governor’s proposal by removing the link to the misguided property tax cap.

Education Tax Credit: The Executive Budget would have established an Education Tax Credit that would provide individuals and businesses with a substantial credit against income taxes owed for donations to private and public schools.

- The Executive Budget proposed a 75 percent credit rate, with individual credit amounts capped at \$1 million. Any unused credit could be carried over to a subsequent year but would not be refundable. Both businesses and individuals would be eligible to receive the credit on personal or corporate income tax returns.

- Total credits would be capped at \$100 million per year.
- Half of the credits must go to public schools (excluding charters), school improvement districts, and local education funds. Half could go to education scholarship organizations that award 50 percent of scholarships to students with income below 150 percent of the income cap for the free and reduced price lunch program. Scholarships are restricted to students in households with adjusted gross income below \$250,000 (plus \$10,000 per additional child, to a maximum of \$300,000).

The proposed Education Tax Credit was not included in the Final Budget. The Senate passed a separate bill with a more generous version of the Education Tax Credit that would allow a 90 percent credit rate and higher total credits per year totaling \$675 million over the next three years. In addition, donations to charter schools would be eligible and the income limit for a student's household would be higher—\$500,000 (plus \$10,000 per additional child, up to a maximum of \$550,000).

The governor's and the Senate's proposals to divert hundreds of millions of dollars to privately determined educational uses raise serious questions. With this tax credit the state is essentially delegating its spending authority to private individuals. Because of the size of the tax reduction, it also has the potential to reduce charitable contributions for a wide range of worthy purposes. The allocation method and high donation limit would allow wealthy individuals and corporations to potentially exhaust the pool of funds, freezing out smaller contributors.

Other Executive Budget Revenue Proposals *Not* Included in the Final Budget

Reduce Net Income Tax on Small Businesses: The Executive Budget proposed reducing the net corporate income tax rate for businesses with fewer than 100 employees and net annual income below \$390,000. The tax rate on these small businesses would be reduced over three years from 6.5 percent to 2.5 percent. The proposed small business tax cut would have reduced state tax collections but was unlikely to affect the actions of any individual businesses.

Changes to STAR Exemption: The Executive Budget proposed two major changes to the STAR school property tax exemption: freezing growth in the maximum credit and converting the exemption to a personal income tax credit for new recipients. In addition,

the Executive budget proposed changes to STAR enforcement and administrative procedures which are described later. The Executive Budget would have:

- Frozen growth in the maximum value of the STAR exemption at the prior year's maximum starting in FY 2015-2016. Under current law exemption can grow by 2 percent per year
- Converted STAR into a refundable personal income tax credit for **new** homeowners

STAR is a flawed property tax relief program that reinforces existing inequities in property wealth in New York. Limiting the growth in STAR would have freed up resources that could be used to expand programs that are targeted to high need/low wealth communities. Converting the exemption to a personal income tax credit would have been a step in the right direction that could have made it easier to target STAR payments by income in the future.

Expand Sales Tax Collections for Online Sellers: In response to the continued growth in online sales through marketplace providers like Amazon and eBay, the Executive Budget proposed that such providers be required to collect New York sales tax when they facilitate a sale between an out-of-state seller and a New York consumer. This was expected to yield nearly \$60 million per year in increased sales tax collections. Expanding sales tax collections for online sellers would level the playing field between brick and mortar businesses and online sellers.

Reforms to IDA program: The Executive Budget proposed a number of improvements to the IDA program including a requirement that IDA provide information at the time of application for state approval on job creation and investment targets. If these targets were not met, the IDA would be required to pay back state tax benefits. In addition, applications would not be approved if the project operator had state tax debt of more than \$500. The proposed IDA reforms are much needed to improve the effectiveness of the program.

Tax Enforcement Initiatives: The Executive Budget proposed a package of tax enforcement initiatives that would have generated an estimated \$20 million in collections in FY 2016 and \$30 million in FY 2017. The proposed tax enforcement initiatives would have increased the fairness and efficiency of existing taxes. The proposals are listed in Table 3 in the Appendix.

Summary of Tax Provisions in Final FY 2015-2016 Budget

Table 2: Selected Revenue Provisions in Final FY 2015-2016 Budget

Executive Budget	Final Budget	General Fund Revenue Change (millions; from Financial Plan)				Notes	Tax/Part
		FY16	FY17	FY18	FY19		
Completely eliminate NYC STAR PIT reduction for taxpayers with incomes > \$500,000; Increases NYC income tax collections which reduces state STAR subsidy to city	Unchanged	\$41	\$51	na	na	Amount shown is cut in state GF spending	NYC income/B
Implement NYC corporate tax reform	Included with minor changes - no nexus and slightly higher bank tax top rate	-	-	na	na	Revenue neutral according to city	business/QQ
Make limitation on charitable contributions for high income taxpayers permanent	Extend for 2 years	\$0	\$70	na	na		income/H
Renames the Youth Works Tax Credit Program as the Urban Youth Jobs Program Tax Credit, and targets an additional allocation of \$10 million in credits per year to high unemployment and high youth poverty areas	Added \$10 million in credits but without the targeting change	-	-\$10	na	na	in ELFA	business/M
Continue Brownfield cleanup program for 10 years with reforms including better targeting	Included with reforms limited to New York City	-	-	na	na	In ELFA	business/R
Not Included	Exempt from sales tax value over \$230,000 of vessels (yachts and other boats or ships) purchased or leased	na	na	na	na		sales/SS
Not Included	Exempt from sales tax purchase of noncommercial aircraft	na	na	na	na		sales/TT
Excelsior: create employee training incentive program (ETIP) tax credit. Funding capped at \$5 million using excelsior tax credit funds	Add intern programs for advanced tech companies (\$250K to \$1 million of the \$5 million goes for advanced tech interns)	\$0	\$0	\$0	\$0	No increase to excelsior tax credit funding	business/O
Excelsior Jobs Program: create employee training incentive program (ETIP) tax credit. Funding capped at \$5 million using excelsior tax credit funds	Included with changes	\$0	\$0	\$0	\$0	No increase to excelsior tax credit funding	business/K
Make warrantless wage garnishment permanent	Extend for 2 years	\$15	\$15	na	na		income/DD

na – not available

Selected Revenue Provisions in the Final FY 2015-16 Budget

The Final Budget did include a number of other tax changes proposed by the governor including a new Urban Youth Jobs Credit, a limit on STAR income tax reductions for very high-income New York City residents, reforms to the New York City corporate tax reform. In addition, two problematic new exemptions from the sales tax that were not part of the Executive Budget were included in the Final Budget—one that caps the taxable value of yachts and other boats at \$230,000 and another that exempts the purchase or lease of non-commercial aircraft.

New York City taxes: The Final Budget included two significant changes to New York City taxes:

- STAR personal income tax rate reduction. New York City taxpayers with incomes over \$500,000 currently receive a partial benefit from the six percent STAR personal income tax rate reduction. Under current law, taxpayers with incomes over \$500,000 receive the six percent rate reduction on their first \$500,000 of income. This will be eliminated. The state reimburses New York City for the cost of the STAR exemption. This change will increase New York City tax collections which will, in turn, reduce state General Fund spending on the subsidy. Eliminating the partial STAR income tax rate reduction for New York City taxpayers with incomes over \$500,000 is consistent with the income limit on STAR property tax exemptions for non-city taxpayers and frees up resources which can be used for other state purposes.
- New York City corporate tax reform. The Final Budget will implement New York City corporate tax reform to include many changes made to the state corporate income taxes last year. One exception is that New York City will retain its alternative tax on capital and increase the cap to \$10 million whereas the state is phasing out its alternative tax on capital. Another difference is that the New York City legislation does not reduce its corporate tax rate and increases slightly the rate for financial corporations. While the state's corporate tax reform has economic nexus provisions, such provisions for New York City were dropped from the enacted bill. (New York City does have a nexus provision for credit card banks.)

Limit on charitable contributions by high income taxpayers: The current limitation on charitable deductions for taxpayers with income above \$1 million is extended for two years. Under current law, which expires at the end of 2015, the itemized deduction for charitable contributions is limited to 50 percent of the federal deduction for individuals with income between \$1 million and \$10

million and to 25 percent for individuals with income above \$10 million. The limit on the charitable contributions deduction for high income taxpayers is a progressive policy that should be made permanent.

Urban Youth Jobs Credit: The budget renames the New York Youth Works Program tax credit to the Urban Youth Jobs Program tax credit, and doubles the annual credit allocation to \$10 million. The Urban Youth Jobs Program tax credit addresses a serious problem but it should be targeted to cities with high youth unemployment in order to be most effective. The program has an annual reporting requirement under which the name and address of participating employers and the amounts they receive are published—this reporting requirement should be extended to all tax credit programs.

Brownfield cleanup: Continue Brownfield cleanup program for 10 years with reforms including better targeting for projects in New York City. Brownfield clean-up reforms are needed. The reforms included in the budget that apply only to New York City should be extended to the whole state. Close monitoring of the program is necessary.

Sales tax exemptions for purchases of vessels and for private airplanes. Tax treatment of these purchases was unchanged in the Executive Budget. The Final Budget created two new sales tax exemptions for:

- The value over \$230,000 of vessels (yachts or other boats or ships) purchased or leased.
- The purchase or lease of private aircraft.

Sales tax exemptions for people buying luxury yachts and private airplanes reflect misplaced priorities especially when the tax credits for low- and middle-income taxpayers advanced by the governor did not make it into the final budget.

Excelsior Jobs Program: The program was modified to:

- Create an employee training incentive program (ETIP) tax credit. Funding for the EITP credit is capped at \$5 million using excelsior tax credit funds. Some \$250,000 to \$1 million of the \$5 million is designated for intern programs for advanced technology companies.
- Extend the excelsior tax credit to entertainment companies with no increase in Excelsior Jobs Program funding. Expanding the Excelsior Jobs Program tax credits to entertainment companies is a costly and ineffective way to promote job growth in the state, particularly since many such companies are already eligible for the film tax credit.

Warrantless Wage Garnishment: The authority for the state to garnish wages for collection of back taxes will be extended for two years.

Appendix

Table 3: Enforcement measures proposed in Executive Budget

Executive Budget	Final Budget	FY16	FY17	Tax/Part
Convert STAR to tax clearance program	Not Included	\$1	\$1	property/C
Close certain sales and use tax avoidance strategies	Not Included	\$5	\$10	sales/Y
Enhance motor fuel tax enforcement	Not Included	\$1	\$2	motor fuel/CC
Lower tax debt threshold to suspend driving license	Not Included	\$9	\$3	various/EE
Require practitioners to be compliant with tax obligations to be eligible for Excess Medical Malpractice coverage	Not Included	\$1	\$2	various/FF
Require grantees to be compliant with tax obligations before receiving grants	Not Included	\$1	\$2	various/GG
Authorize NY to enter reciprocal tax collection agreements with other states	Not Included	\$1	\$3	various/HH
Authorize multi-agency information sharing to enhance enforcement	Not Included	–	–	various/II
Authorize professional and license fee tax clearance	Not Included	–	\$3	various/JJ
Require new state employees to comply with state tax obligations	Not Included	\$1	\$2	various/KK
Allow OCFS to share child care data with Office of Taxation	Not Included	–	\$2	income/LL

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