

Tax Reform, Revenue Actions, and STAR

Overview

The Executive Budget contains proposals to continue improving New York's business climate and provide tax relief for over-burdened families. These reforms will provide more than \$2 billion in tax cuts by 2016-17.

These proposals build upon three years of tax relief accomplishments, including the enactment of a property tax cap, the lowest middle class tax rate in 60 years, elimination of the MTA payroll tax for more than 700,000 small businesses and the self-employed, creation of a new family tax relief credit, tax cuts for small businesses and manufacturers, reforms to unemployment insurance and workers compensation insurance, and new START-UP NY tax free zones.

The combination of effective budget management and adherence to the 2 percent spending limit will further improve the State's fiscal position and allow for surpluses that can be used for tax relief.

The proposals put forth in the Executive Budget are informed by the work of two commissions created and appointed by Governor Cuomo. The Tax Reform and Fairness Commission, co-chaired by former State Comptroller H. Carl McCall and Peter J. Solomon, conducted a comprehensive and objective review of the State's tax structure, including its corporate, sales, estate and personal income taxes. The Commission was charged with developing revenue neutral policy options to modernize the current tax system with the goals of increasing its simplicity, fairness, economic competitiveness and affordability.

The Tax Relief Commission, co-chaired by Mr. McCall and former Governor George Pataki, was charged with identifying ways to reduce the State's property and business taxes to provide much needed relief to New York's homeowners and businesses. Many of the proposals put forth by these two commissions are included in the Executive Budget.

Tax Reform Actions

The Executive Budget presents a set of tax reform proposals valued at \$2 billion within three years. These actions will simplify the tax code and reduce taxes and assessments by almost \$500 million in 2014-15 and \$1.6 billion in 2015-16 on an All Funds basis.

- **Business Tax Relief.** Lower taxes lead to private sector investment and more job opportunities. The Executive Budget puts forth several proposals to improve our economic climate.
 - **Corporate Tax Reform.** New York's corporate franchise tax is outdated, and its archaic provisions result in unnecessarily lengthy and complex audit processes that take businesses years to resolve.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.

- **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.
- **Eliminate the Net Income Tax on Upstate Manufacturers.** To encourage the growth of manufacturing Upstate, the Executive Budget lowers the tax rate on income for Upstate manufacturers from the current 5.9 percent to zero in 2014 and thereafter.
- **Eliminate 18-a Temporary Assessment for Industrial Customers, Accelerate Phase Out for All Others.** New Yorkers pay some of the highest energy bills in the nation. The temporary utility assessment (18-a) exacerbates this burden on struggling businesses and families. The temporary assessment on utilities is scheduled to be eliminated by March 2017, but the Executive Budget immediately eliminates the assessment on industrial customers and accelerates the phase-out for all other customers. The phase-out will save businesses and residents \$600 million over the next three years.
- **Provide Relief from New York's Most Burdensome Tax: the Property Tax.** By almost any measure, New York's real property taxes are the highest in the nation with an average residential bill of \$5,040. The following actions will provide taxpayer relief while helping to encourage structural change through local government administrative consolidation or shared services.
 - **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 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.

- **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.
- **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.
- **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.
- **Simplify the Tax Code.** The Executive Budget eliminates nuisance provisions, which are costly to enforce, provide little revenue and complicate doing business in New York.
 - **Increase Personal Income Tax Filing Income Threshold.** The income threshold at which persons must file returns is raised from \$4,000 to the amount of the taxpayer's standard deduction. This threshold was last increased in 1987. The increase will eliminate the need to file a return for about 270,000 current filers.
 - **Repeal the Personal Income Tax Add-On Minimum Tax.** The add-on minimum tax which is imposed on 200 taxpayers and which generates only \$200,000 annually is eliminated.

- **Repeal the Boxing and Wrestling Exhibitions Tax.** The Boxing and Wrestling Exhibitions tax which is imposed on few taxpayers, requires both the State and taxpayers to expend time and resources on compliance, and generates only \$400,000, is eliminated. The State and local sales tax will instead be imposed on these events.
- **Repeal the Franchise Tax on Agricultural Cooperatives.** The franchise tax on Agricultural Cooperatives, which is imposed on very few taxpayers and generates almost no revenue, is also eliminated.
- **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 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.
- **Modify Signature Requirements on e-Filed Returns Prepared by Tax Professionals.** The current burdensome requirement that a tax professional obtain a signed signature document from his or her client prior to transmitting a return through the Federal/State program is eliminated and replaced with an electronic certification which states the taxpayer has authorized the preparer to file the return and the preparer has provided a copy of the filed return to the taxpayer.
- **Align Mobility and Personal Income Tax Filings for the Self-Employed.** Self-employed persons will be allowed to file and pay their MTA mobility tax when they file and pay their State personal income tax, simplifying compliance for about 39,000 self-employed taxpayers.
- **Other tax reforms.**
 - **Streamline Corporate Audit Procedures.** This proposal implements various initiatives which will increase audit efficiency and improve voluntary compliance.
 - **Reform the Investment Tax Credit.** New York offers a tax credit to businesses for investments in buildings and tangible personal property including assets acquired by purchase, with a useful life of four years or more and used in production. This proposal will tighten eligibility criteria to more effectively target the State's investment toward originally intended and more productive uses. For example, a credit will no longer be allowed for assets acquired by purchase when a former owner has claimed the ITC for investments in those assets.
 - **Repeal the Financial Services Investment Tax Credit.** This complex credit used by a narrow segment of the financial services industry is eliminated. For the last year for which data is available only 28 filers availed themselves of this credit. This change is being done in conjunction with consolidation of Article 32 and 9-a sections of corporate tax law.
 - **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 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.

Tax Enforcement Actions

- **Authorize a Professional and Business Tax Clearance.** In addition to the State's ongoing enforcement tools, the Executive Budget proposes a new program to create a professional and business license tax clearance process. Tax compliance will be increased by the State denying a professional or business license to an applicant who has outstanding tax liabilities. This action is conservatively estimated to produce \$3 million in additional tax revenue on an All Funds basis in 2015-16.

Other Revenue Actions

- **Expand the Low Income Housing Credit.** This program provides credits to builders who develop qualifying low income housing projects. The Executive Budget authorizes the Division of Housing and Community Renewal to allocate an additional \$8 million for the program in 2014-15, and an additional \$16 million in 2015-16. Credits are given in equal installments for a ten-year period. The total amount of credits to be awarded from this new authorization will be \$160 million over a multi-year period.
- **Enhance the Youth Works Tax Credit.** The NY Youth Works program seeks to provide permanent, unsubsidized employment for youth across New York State. The program allows thousands of young people to receive work readiness, occupational training and digital literacy training to build a foundation for future success. The Executive Budget proposes to extend and enhance the program, creating more full- and part-time job openings for young, at-risk New Yorkers. Employers will be eligible for an additional \$1,000 credit for every at-risk youth employed full-time for an additional year (\$500 for part-time status), and the annual credit allocation will increase from \$6 million to \$10 million. Additionally, the Tax Law will be conformed to a recent Labor Law change that reduces, from 20 to 10, the number of hours which full-time students must work in order to be eligible for the employer to claim the credit.
- **Modify Delivery of Family Tax Relief Credit After Tax Year 2014.** The law currently provides a \$350 credit to families with children under the age of 17, with planned credit prepayments in October of 2014, 2015, and 2016. This proposal will modify the prepayment component beginning with Tax Year 2015. Families will continue to get the full benefit of the credit. This provision will allow the Department of Taxation and Finance to determine credit eligibility when taxpayers file their returns instead of determining credit eligibility based on returns filed two years prior.

Tax Law Extenders

- **Extend the Alternative Fuels Tax Exemptions for Two Years.** Extends, from September 1, 2014 to September 1, 2016, the sales, petroleum business tax, and motor fuel tax exemptions on e85, CNG, or hydrogen when purchased for use in a motor vehicle engine. The 20 percent

exemption on purchases of B20 (i.e., diesel fuel that contains at least 20 percent biofuel) is also extended. If these provisions are not extended, consumers who use these “green” alternative fuels will pay taxes on them, making them less competitive.

- **Extend the Non-Custodial Earned Income Tax Credit (EITC) for Two Years.** The credit complements the regular EITC by allowing a lower credit for parents who pay child support for a qualifying child with whom they do not reside.
- **Extend the Commercial Production Tax Credit for Two Years.** This tax credit covers 20 percent of qualified commercial production costs in New York State that exceed the average of the three prior years’ costs, plus five percent of costs above \$500,000 in the Metropolitan Commuter Transportation District (MCTD), and above \$200,000 outside the MCTD.
- **Extend and Reform the Brownfields Clean-Up Program.** The Executive Budget includes legislation to extend the Brownfields Cleanup Program for ten years, with important reforms to protect taxpayers and promote brownfield redevelopment, particularly Upstate. Under the reformed program, remediation tax credits will only cover actual cleanup costs and redevelopment credits will be rationalized to only cover sites that have been vacant for over a decade, worth less than the cleanup costs, or are priority economic development projects.
- **Extend Monticello Video Lottery Terminal Rates for One Year.** The current distribution percentages for net machine income earned at the Monticello Video Lottery Terminal (VLT) facility are extended by one year.
- **Extend Certain Pari-Mutuel Tax Rates and Simulcast Provisions for One Year.** The pari-mutuel tax rate and other racing-related provisions are extended for one year.
- **Extend the Video Lottery Gaming Vendor's Capital Awards Program for One Year.** This proposal provides VLT operators an additional one year to earn qualifying capital awards, which encourage facility upgrades and improvements.
- **Extend Fees for the Establishment of Oil and Gas Unit of Production Values.** The Department of Taxation and Finance establishes unit of production values which local assessors must use when assessing oil and gas wells and related facilities. This bill will extend the program until 2018.

School Tax Relief (STAR) Program Action

- **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 2003-04 by a cost-of-living-adjustment (COLA). This proposal will maintain the eligible income threshold at the 2014-15 level of \$81,900, but eliminate the COLA thereafter.

Technical Corrections

- **START-UP NY Technical Amendment.** This amendment creates a new refundable credit equal to the amount of telecommunications excise tax paid by businesses in START-UP NY areas.

- **Simplify the Distribution of Motor Vehicle Fee Receipts.** To simplify an unnecessarily confusing process, a General Fund transfer sourced from specific receipts is replaced by a generic General Fund transfer of an identical amount.
- **Make Technical Amendments to the Commercial Gaming Statute.** These amendments will allow commercial gaming receipts to be distributed for education in the year received (versus the following year) and will clarify the statute to provide that payments of regional county aid equals 10 percent of exclusivity payments received by the State.

Fees

- **Require Racing Regulatory Fee to Cover Cost of Regulation.** By changing the existing surcharge on handle from 0.5 percent to 0.6 percent the State will ensure that regulation of this industry becomes self-supporting. Fees have not fully covered regulatory costs in recent years.

Tax Reform, Revenue Actions, and STAR

Tax Reform, Revenue Actions, and STAR (millions of dollars)				
	General Fund		All Funds	
	2014-15	2015-16	2014-15	2015-16
Tax Reform Actions				
Corporate Tax Reform	-	(205)	-	(205)
Establish a 20 Percent Real Property Tax Credit For Manufacturers	-	(136)	-	(136)
Eliminate the Net Income Tax On Upstate Manufacturers	(24)	(24)	(24)	(24)
Eliminate 18-a Temporary Assessment For Industrial Customers, Accelerate Phase Out For All Others	(200)	(200)	(200)	(200)
Establish the Real Property Tax Freeze Personal Income Tax Credit	(400)	(976)	(400)	(976)
Establish the Residential Real Property Personal Income Tax Credit	-	(200)	-	(200)
Establish a Renter's Personal Income Tax Credit	-	(200)	-	(200)
Reform The Estate Tax	(33)	(175)	(33)	(175)
Increase Personal Income Tax Filing Income Threshold	-	-	-	-
Repeal the Personal Income Tax Add-On Minimum Tax	-	-	-	-
Repeal the Boxing and Wrestling Exhibitions Tax	-	-	-	-
Repeal the Franchise Tax On Agricultural Cooperatives	-	-	-	-
Repeal Article 12 of the Tax Law	-	-	-	-
Modify Signature Requirements on e-Filed Returns Prepared by Tax Professionals	-	-	-	-
Align Mobility and Personal Income Tax Filings For the Self-Employed	-	-	-	-
Streamline Corporate Audit Procedures (Administrative)	-	150	-	172
Reform The Investment Tax Credit	65	65	65	65
Repeal the Financial Services Investment Tax Credit	30	30	30	30
Close the Resident Trust Loophole	75	225	75	225
Total	(487)	(1,646)	(487)	(1,624)
Tax Enforcement Actions				
Authorize a Professional and Business License Tax Clearance	-	3	-	3
Other Revenue Actions				
Expand the Low Income Housing Credit	-	(8)	-	(8)
Enhance the Youth Works Tax Credit	-	(4)	-	(4)
Modify Delivery of Family Tax Relief Credit After Tax Year 2014	-	410	-	410
Total	-	398	-	398
Tax Law Extenders				
Extend the Alternative Fuels Tax Exemptions For Two Years	(2)	(4)	(8)	(16)
Extend the Non-Custodial EITC For Two Years	-	-	-	-
Extend the Commercial Production Tax Credit For Two Years	-	-	-	-
Extend and Reform the Brownfield Clean-Up Program	-	-	-	-
Extend Monticello Video Lottery Terminal Rates For One Year	-	-	(3)	-
Extend Certain Pari-Mutuel Tax Rates and Simulcast Provisions For One Year	-	-	-	-
Extend the Video Lottery Gaming Vendor's Capital Awards Program For One Year	-	-	-	-
Extend Fees For the Establishment of Oil and Gas Unit of Production Value	-	-	-	-
Total	(2)	(4)	(11)	(16)
School Tax Relief (STAR) Program Actions				
Eliminate the Income Threshold Inflation Adjustment For Enhanced STAR Benefits	-	-	-	3
Technical Corrections				
START-UP NY Technical Amendment	-	-	-	-
Simplify the Distribution of Motor Vehicle Fee Receipts	-	-	-	-
Make Technical Amendments to the Commercial Gaming Statute	-	-	-	-
Fees				
Require Regulatory Racing Fee to Cover Cost of Regulation	-	-	2	2
TOTAL REVENUE ACTIONS	(489)	(1,249)	(496)	(1,234)