Robert F. Mujica, Jr.
New York State Budget Director
For the seventh year in a row, we held increases in state spending to less than 2%.
LOWEST STATE SPENDING INCREASES IN HISTORY

Rockefeller/Wilson 1959 - 16 YEARS
Carey 1975 - 8 YEARS
M. Cuomo 1983 - 12 YEARS
Pataki 1995 - 12 YEARS
A. Cuomo 2011 - 7 YEARS

11.1% ANNUAL INCREASE
7.9%
6.9%
5.2%
1.4% INFLATION
Because we controlled spending, we were able to lower taxes.
Today every New Yorker pays a lower tax rate than they did seven years ago.

- Corporate tax rates lowest since 1968
- Manufacturing tax rates lowest since 1917
- Lowest middle class tax rate since 1947
HIGHEST NUMBER OF JOBS IN HISTORY:

8.1 MILLION
PRIVATE SECTOR JOBS
Our statewide unemployment is down from 8.3% 7 years ago to **4.7% today.**
UNEMPLOYMENT DOWN ACROSS THE STATE
State debt declined for 5 consecutive years and is still below when the Governor took office.
Debt Burden is Steadily Declining, At Lowest Level Since the 1960s

State debt as percent of NYS personal income

Projected
The main issue for this January is not the budget, it is to fight the devastating impact of SALT.
Washington wants to dictate New York budget policy
Even if you supported the federal plan’s rate cuts – there is no way as a New Yorker anyone should support the New York penalty on SALT.
The federal rationale is FALSE—“New York is a high tax state.”
New York’s taxes are high
We are against high taxes
So we will increase your taxes more!

RATIONALE RIDICULOUS…
FACTS

“New York State taxes/spends to much?”

WRONG

Bad old days 7%, 8%, 10% increases are gone – 1999, 2001, 2004, 2006, 2007 are over
7 years ago, New York State was #12 in the nation for taxes –
Now, we are #20.
Over the past 7 years, New York State’s spending increase has been 25% lower than all other states.
THERE RATIONALE IS FALSE...

We do have high property taxes but we capped them at 2% while other states continued to increase – curve is flattened out.

Average property tax increase in other states is 3.7%.
Real truth is that NY Contributes more to the Federal Government than any other state - $48B
We are #1 donor state
Give us back $48 billion and we will reduce all taxes.
GIVE US BACK OUR MONEY

FEDERAL TAX FUNDING NEVER RETURNED: $48 BILLION

TOTAL PROPERTY TAX + SCHOOLS $58 BILLION

PER YEAR
The Federal rationale is FALSE

“SALT is a Subsidy to High Tax States”

• Reality –
  • NY is High Per Capita Income, GDP;
  • Highest Personal Income
• The Subsidy Goes in the Opposite Direction
• States With the Highest State and Local Tax Burden Are the Largest Donor States.
• States with Low State and Local Taxes Typically Get the Largest Inflows from the Federal Government
TRUTH IS
Federal government needed money.
Statewide New York’s combined state/local tax burden is already higher than the national average because of property taxes...

New Yorkers can’t afford for it to go up another 25 percent under SALT. Tax Migration is Real
How bad is it for New York?

The numbers:

• 3.3 million currently deduct SALT – 1/3 of all taxpayers

• #1 Average SALT deduction in Nation $22K

• Total value of loss of SALT alone is $14.3B

• Impacted New Yorkers will pay 25% more in property/income taxes
Impact of SALT

• Most concentrated downstate

• NYC, Nassau, Suffolk and Westchester pay 79% of all resident personal income taxes

• Hurts New York’s competitiveness

• Impacts our ability to fund education, healthcare, and human services statewide
Elimination of SALT is not a Fair Trade

- The new Federal middle class bracket is 24%
- The new State middle class bracket is 5.5%
- Federal taxes are nearly 5X as high
- Dollar for dollar, the State’s middle class tax cut is larger!
- $250 this year, $698 when fully effective
SALT costs New York another $14 billion.
State and Local Tax Deductibility IS NOT A LOOPHOLE / SUBSIDY
Origin of SALT dates back to the “Revenue Act of 1862”

Abraham Lincoln enacted a Federal income tax to finance the Civil War
1862 Revenue Act Requirement: Specifically Stated

“Federal tax liability was to be calculated AFTER State and local taxes were deducted”
SALT was Enshrined in the Revenue Act of 1913, establishing the modern Federal income tax

Sponsored by Rep. Oscar Underwood of Alabama

Signed by President Woodrow Wilson
New York and many other states built tax codes around 1913’s foundational premise of SALT.
The Federal code encouraged local governments to use deductible taxes in place of non-deductible taxes to provide local services – education/health care.

One room schoolhouse,
Upstate New York
We’ve been here before...

1985: President Reagan tried (and failed) to fund tax cuts by eliminating the SALT deduction.
“There are areas of government that must not be invaded by other governments”

-Senator Daniel Patrick Moynihan (1985)
FIGHT BACK AGAINST THE FEDERAL PLAN

1. LAWSUIT
2. ADVOCATE PLAN’S REPEAL
3. RESTRUCTURE OUR TAX CODE
FIGHT BACK AGAINST THE FEDERAL PLAN

3

RESTRUCTURE OUR TAX CODE
TWO SEPARATE PROBLEMS

LOSS OF

INCOME TAX DEDUCTIBILITY

PROPERTY TAX DEDUCTIBILITY
PROPOSE NEW YORK STATE TAXPAYER PROTECTION ACT
RESTRUCTURE NEW YORK TAX CODE

STATE INCOME TAX
• Department of Tax and Finance issued a preliminary report exploring restructuring options

• We will work with tax experts and legislature to draft legislation
The New York State Tax Department released a preliminary report with four key goals:

- Promote fairness for New York’s taxpayers.
- Protect tax progressivity and state services.
- Protect and enhance economic competitiveness.
- Maintain the short- and long-term revenue base.
• Part I: Outlines a potential proposal for creating additional opportunities for charitable contributions to benefit New Yorkers
Many States currently incentivize Charitable contributions by providing a tax credit for all or some portion of certain charitable contributions in support of public purposes.

Examples – Public Schools/Colleges –

- Tax credits range from 10% to 100% of the gift
Contributions offer federal deduction and an offsetting state tax credit.
Local charitable organizations could also be established to fund local services.

**EXAMPLE:**

Federal deduction and local tax credit for property taxes.
Part II: Presents a number of options for reducing income taxes and shifting instead to a Statewide Employer Compensation Expense Tax
NEW YORK STATE TAXPAYER PROTECTION ACT

1. Federal change attacks our state income tax
   1. PIT = $47.6B ---- $37.5 withholding from wages
2. Law limits deductions for individuals – employer side taxes on payroll remain deductible.
3. Shift from employee paid system to employer paid system – All states have payroll taxes
4. Rather than tax on income received by employee, tax wages paid by employers
NEW YORK TAXPAYER PROTECTION ACT

- Depending on the Design This Could Generate Billions of Dollars Annually in Federal Tax Payer Savings.
- Employers pay an Employer Compensation Expense Tax - equal to the employees’ current income tax
- Payment by employer is federally deductible
- Employee has no state income tax liability on those wages
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<th>PREVIOUS LAW 2017</th>
<th>NEW LAW 2018</th>
<th>PROPOSED ALTERNATIVE</th>
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<td><strong>INDIVIDUAL</strong></td>
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<td>Employee Wages</td>
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<td>Employer Cost</td>
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Costs business nothing – Employee held harmless from 25% federal tax increase from loss of deductibility.
NEW YORK STATE TAXPAYER PROTECTION ACT

1. Statewide Employer Compensation Tax
   a. Use current income tax withholding tables
   b. Replace and Eliminate the PIT on Wages
   c. Fixed Tax Schedule - Wage Credit to Employees

2. Flat Employer Compensation Tax – Maintaining Progressive Income Tax System
   a. At or below lowest marginal rate w/ credits and or tax reductions
   b. Higher Rate w/ Refundable tax credits
NEW YORK STATE TAXPAYER PROTECTION ACT

3. Target Employer Compensation Expense Tax Above Specified Wage Threshold – Ex. $200K

4. Tax Surcharge on Supplemental Wages

Tax code would define eligible corporations.
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<td>- Form of income tax relief</td>
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<td>- Cash Flow for Employees</td>
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<td>- Cash Flow to the State</td>
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<td>- Federal Employees</td>
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<td>- Impact on Labor Costs</td>
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<td>- Impact on Local Governments</td>
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<td>- Treatment of Low Income Workers</td>
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<td>- Tax Credit Benefit Eligibility</td>
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<td>- Residency Issues</td>
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May actually reduce employees’ federal tax liability as income level would be reduced
Income Tax reform could also apply to New York City and Yonkers, which have separate income tax
• Part III: Outlines options to shift non-deductible individual income taxes on “pass-through” income to a new deductible unincorporated business tax
For higher income – non-wage earners, adopt a UBT (Unincorporated Business Tax), to provide additional federal deductibility.
Part IV: Discusses the Other Federal Conformity impacts of the Act on New York’s tax system and potential responses
Federal Conformity Issues - PIT

- Standard Deduction Increase Impact
- Eliminating Personal Exemptions
- Enhanced Child Tax Credit – CTC
- Limitation on Itemized Deductions
- Mortgage Interest Deduction
- State and Local Tax Deductions at the State Level
Still exploring all options to protect New Yorkers

Tax and Finance working with other states, experts and the Legislature
It is hard. Restructuring tax code is complicated. But essential to protect New York and all New Yorkers.
Robert F. Mujica, Jr.
New York State Budget Director
We must unify to fight this attack on all New Yorkers.
NEW YORK STATE TAXPAYER PROTECTION ACT

1. Promote Fairness to New York's Taxpayers in light of the loss of SALT
2. Protect the Progressivity of New York's Tax System
3. Protect and Enhance the Competitiveness of New York's Economy.
• Raises income and property taxes @ 25%
• Tax migration is real – we experienced it
Problem is statewide
New York City – Downstate suburbs
Worse Upstate