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CITIZENS BUDGET COMMISSION RECOMMENDS STRATEGIES TO MITIGATE FEDERAL TAX LAW THREAT TO NEW YORK'S COMPETITIVENESS AND NEW YORKERS' WALLETS

New York, NY - March 19, 2018 - The Citizens Budget Commission (CBC) today released [*Practical Policy in Challenging Circumstances: How New York State and New York City Should Respond to the Tax Cuts and Jobs Act*](#), a comprehensive report detailing the massive impacts the Tax Cuts and Jobs Act (TCJA) will have on the residents and revenues of New York State, as well as the steps needed to address these problems.

CBC found TCJA's cap on state and local tax deductions (SALT cap) will cost New Yorkers an estimated \$9.5 to \$15.3 billion in additional federal taxes. It will widen the tax cost differential between living in New York and competing jurisdictions, particularly for the highest income New Yorkers who pay half of the State's and the City's income tax revenue. The widening differential is so significant that it may encourage New Yorkers to change their legal residences and discourage potential newcomers, reducing tax revenue and business activity. Losing even 2 percent of State taxpayers earning more than \$500,000 would reduce annual State income tax revenues \$421 million annually.

In addition, absent State action TCJA will drive a \$1 billion State tax increase on New Yorkers and a \$109 million tax increase on New York's businesses, due to New York's conformity to federal tax definitions.

"The State needs to blunt the effect of the SALT cap so that the competitiveness of New York as a place to live and work is not jeopardized," said Citizens Budget Commission President Carol Kellermann. "The Tax Cuts and Jobs Act puts New York in a very difficult position. We need to respond with practical solutions to send a clear signal that New York will defend its economy by protecting its taxpayers and businesses."

"New York's leaders should not allow counterproductive federal tax policy to drive unsound State and local tax policy," said Andrew Rein, Director of CBC's Special Committee on Federal Tax Reform. "They should move quickly with solutions to address immediate problems, allow time for deeper analysis and experience for complex issues, monitor the impacts, and leverage this opportunity to consider further reforms of State and City taxes."

CBC makes the following recommendations.

Blunt the SALT cap by:

- Adopting an optional Employer Compensation Expense Tax covering wages of high-salary employees. For example, this tax may cover wages in excess of \$200,000 and phase up to a 6.65 percent rate. Time should be taken to design a thoughtful plan for midyear adoption, after the budget process is completed;
- Creating charitable public education and health funds, for which taxpayers can receive partial State and local income and property tax credits for their contributions, and including a mechanism to ensure those funds are treated in a transparent and accountable manner; and
- Designing an Unincorporated Business Tax to preserve deductibility for pass-through entities.

Mitigate the unplanned tax increases by:

- Decoupling from the personal exemption, enhanced child tax credit, and the SALT cap, which would prevent \$740 million of the unplanned tax increase;
- Conforming for 2018 to the federal tax system's standard deduction, miscellaneous deductions, medical expense deduction, and alimony changes since conformity simplifies individuals' tax preparation and the State's administration. The State should evaluate whether or not reforms could eliminate the unplanned tax increases while remaining conformed to the federal code; and
- Adopting a technical business tax change clarifying that corporations may not reflect partial federal deduction on foreign income deemed repatriated on their State tax return.

To analyze the TCJA and identify and evaluate options for appropriate State and local government action, in December 2017 CBC convened a Special Committee consisting of CBC trustees, business and civic leaders, and policy experts. The Committee oversaw the work of CBC staff and consultants and provided the guidance that shaped the recommendations in this report.

For the full report *Practical Policy in Challenging Circumstances: How New York State and New York City Should Respond to the Tax Cuts and Jobs Act*, visit www.cbcny.org/research.

About Citizens Budget Commission

The Citizens Budget Commission (CBC) is a nonpartisan, nonprofit civic organization whose mission is to achieve constructive change in the finances and services of New York City and New York State government. CBC's mission is rooted in serving the citizenry at large, rather than narrow special interests; preserving public resources, whether financial or human; and focusing on the well-being of future New Yorkers, the most underrepresented group in city and state government.