Federal Tax Reform?

What's at Stake for New Yorkers

OFFICE OF THE NEW YORK STATE COMPTROLLER

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Message from the Comptroller

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The President and leading members of Congress are pushing to enact major changes in our federal tax code. Before any such measures become law, we need to make sure that taxpayers and policy makers understand the implications for New Yorkers.

The President issued a broad, one-page outline of a tax plan in April which contained few details, and renewed his call for major changes when releasing his proposed budget in May. With regard to the federal personal income tax, the White House proposals would affect taxpayers in a variety of ways, and the bottom line for individual New Yorkers remains uncertain. The President has also called for revising federal business taxes and other taxes but, as with the personal income tax, the Administration has offered few specific proposals that would permit a clear assessment of potential impacts.

Still, some facets of the Administration's strategy are troublingly clear. One is the plan to eliminate the federal deductibility of state and local taxes. New Yorkers reported more than $67 billion in such itemized deductions on their federal tax returns in 2014. Aside from the impact on individuals, there are other arguments in favor of preserving the state and local tax deduction. This provision has been part of the federal tax code for more than a century, and some research suggests eliminating it could make it more difficult for states and localities to provide resources for education and other essential services.

Some of the President's proposals – such as doubling the federal standard deduction and repealing the Alternative Minimum Tax – would benefit New Yorkers at a range of income levels. Other aspects of the plan, such as reducing the top tax rate, would deliver savings to the wealthiest taxpayers.

Albert Einstein's tax accountant quoted the brilliant scientist as saying the hardest thing in the world to understand is income taxes. Efforts to revise the federal tax code are complicated, too. This report is intended to help inform New Yorkers about potential implications, particularly with regard to the White House proposals. As this debate moves forward, the President and Congress must put the interests of working and middle-class taxpayers at the top of the agenda.

Thomas P. DiNapoli
State Comptroller

I. Executive Summary

The President and the Congress are considering major changes to the federal tax code that would have significant implications for New York. How such changes would ultimately affect taxpayers and the State will depend on key details which have yet to be decided. This report is intended to inform New Yorkers about the stakes involved, based on currently available information, as the debate over federal tax revision evolves.

Reflecting the State's comparatively higher incomes, New York generates a disproportionate amount of federal income taxes, the U.S. government's largest revenue source. As of tax year 2014, New Yorkers paid 9.1 percent of the total, compared to the State's 6.1 percent share of the national population.

The President issued a broad outline of proposals for tax revision in late April 2017 and then reinforced the call for change as part of his budget proposal in May. While laying out goals such as economic growth and simplification of the tax code, the Administration provided only limited details regarding its plan. These include: reducing the number of income tax brackets from seven to three and cutting the top rate from 39.6 percent to 35 percent; doubling the standard deduction; and repealing the Alternative Minimum Tax (AMT) and the estate tax.

The White House has also set a goal of eliminating itemized deductions other than those related to charitable contributions and homeownership. As of 2014, the average amount of itemized deductions for New Yorkers who claimed them was just less than $36,000, more than any other state and nearly a third higher than the national average. A larger proportion of New York taxpayers itemized deductions than those in most other states.

Among the deductions targeted by the Administration are those for state and local taxes. New Yorkers reported a total of more than $67 billion in such deductions, including $47.3 billion for income taxes and $20.2 billion for property taxes. New York's total was 13.5 percent of all state and local tax deductions nationwide.

The President's proposal to reduce the top tax rate would deliver large savings to upper-income New Yorkers as the State is home to almost 10 percent of taxpayers in the top bracket nationwide. More than 480,000 taxpayers in the State paid nearly $4.4 billion under the AMT in 2014, an amount second only to California, and could benefit from its repeal. The increase in the standard deduction could reduce taxes for millions of lower- and middle-income taxpayers in the State.

Yet these proposals – some of which would benefit taxpayers, while others would increase their liability – would interact in ways that are difficult to predict. Impacts on taxpayers at different income levels may vary. Changes could affect federal, State and local government budgets as well as individual New Yorkers. The bottom line will not be clear until a more detailed plan emerges from the White House and Congress.

II. Introduction

On April 26, the President released several broadly stated proposals for changes to the federal tax code, under the rubric of "2017 Tax Reform for Economic Growth and American Jobs." The federal taxes affected by the proposals include the personal income tax, corporate income tax and estate tax. However, few details surrounding the proposals were released. The Administration provided a limited amount of additional information in the President's budget, issued in late May, and has indicated it will work with the House of Representatives and the Senate to develop more detailed proposals. Meanwhile, some leaders in both the House and Senate have been considering potential tax proposals as well.

Federal tax changes can have major impacts on both individual New York taxpayers and revenues for the State and certain local governments. The last broad reforms to the federal tax code, enacted in 1986, sparked intense debate in part because of such impacts. This report provides an overview of how certain elements of the President's plan could affect New York taxpayers. A number of other tax proposals which have been the subject of discussion are not addressed by the Administration's proposals, but may arise as the tax reform debate in Washington goes forward. One example, the federal tax exemption for interest on municipal bonds, is also discussed briefly in this report.

The President's proposals would affect New York taxpayers and the State as a whole in a variety of ways. New York's share of federal income tax liability in 2014 represented 9.1 percent of the total, compared to the State's 6.1 percent share of U.S. population. Whether the Administration's plan would change that proportion, or increase or decrease federal taxes for individual New Yorkers, will depend on the overall interaction of any provisions ultimately enacted. Such changes could also affect State tax revenues, as State tax law uses federal definitions of income and deductions for the purposes of calculating tax liability.

III. Personal Income Tax

Itemized Deductions

Itemized deductions allow taxpayers to reduce the amount of their income subject to tax for a variety of expenses as well as donations to charity. These expenses include, for example, state and local taxes (e.g., those on income and property), medical and dental expenses, mortgage interest, job-related expenses, and casualty and theft losses.

The Administration has indicated that its tax program would eliminate most itemized deductions, while retaining those for "home ownership" and charitable contributions.[1] Federal deductions related to home ownership include those for home mortgage interest and property taxes. While the outline released by the Administration was not specific on this point, officials have indicated in public comments that deductions for all state and local taxes, including property taxes, would be eliminated. In that case, mortgage interest would be the only major home-related tax deduction that would be retained.

Without any other change to the tax code, eliminating any itemized deductions would increase the federal tax burden on affected taxpayers. While taxpayers would still be allowed to claim the standard deduction, the increased tax burden would equal the tax on the difference between the eliminated deductions and the standard deduction. The Administration has also proposed increasing the standard deduction, as detailed below.

Figure 1

Ten States with the Highest Proportions of Taxpayers Claiming Itemized Deductions, 2014

	Percentage of Total Taxpayers
Maryland	45.2%
Connecticut	41.2%
New Jersey	41.1%
Virginia	37.2%
Massachusetts	36.8%
Oregon	36.0%
Utah	35.4%
Minnesota	35.0%
New York	34.2%
California	33.9%

Source: Internal Revenue Service, Statistics of Income

Of all federal personal income taxpayers, fewer than 30 percent itemize their deductions.[2] For New York, the share is higher, at slightly more than 34 percent. As shown in Figure 1, New York ranks 9th of all states in the nation for its share of itemizers.[3]

New York taxpayers claim the largest average amount of total itemized deductions, as shown in Figure 2. The average figure for New York taxpayers who itemized in 2014 was nearly $36,000, nearly one-third higher than the national average of just over $27,000.

[1] The Administration has also indicated that tax preferences for retirement savings would be protected. Such provisions are generally not in the form of itemized deductions and are not discussed in this report.
[2] For purposes of this report, a taxpayer is represented by filing status. For example, a couple that files a joint return is considered one taxpayer.
[3] Data for this report is drawn primarily from the Internal Revenue Service, Statistics of Income 2014, and supplemented by the New York State Department of Taxation and Finance, Analysis of 2014 Personal Income Tax Returns, and Internal Revenue Service, Estate Tax Returns Study, October 2016.

Figure 2

Ten States with the Highest Average Amounts of Itemized Deductions, 2014

	Average Deductions Per Taxpayer
New York	$35,997
California	$35,391
Connecticut	$33,011
Wyoming	$30,682
New Jersey	$30,386
Massachusetts	$29,148
Maryland	$27,817
Nevada	$27,115
Oklahoma	$26,734
Virginia	$26,547

Note: Averages are for taxpayers who itemize.
Source: Internal Revenue Service, Statistics of Income

On a regional basis, downstate taxpayers in New York are more likely to itemize their federal deductions than their upstate counterparts. As shown in Figure 3, the county with the most taxpayers itemizing their deductions is Putnam County, with over half of taxpayers itemizing.

In contrast, the counties with the lowest proportion of itemizers tend to be concentrated in the North Country and Western New York, with Franklin County having the smallest proportion at just over 16 percent. This disparity is due to higher average incomes in the downstate counties driving higher income tax deductions, as well as higher property tax bills. Among taxpayers who itemize in the State's 62 counties, those in New York County claim the highest average amount of deductions, at just over $85,000 per taxpayer.[4]

Figure 3

New York Counties with Largest and Smallest Proportions of Taxpayers Claiming Itemized Deductions, 2014

LARGEST			SMALLEST		
	Percentage of Total Returns	Average Deductions per Taxpayer		Percentage of Total Returns	Average Deductions per Taxpayer
Putnam County	50.6%	$30,979	Franklin County	16.5%	$19,977
Nassau County	50.3%	$41,483	Jefferson County	17.2%	$20,199
Suffolk County	46.3%	$31,251	Allegany County	17.3%	$19,413
Westchester County	46.2%	$49,155	Cattaraugus County	17.3%	$20,144
Rockland County	44.7%	$35,544	Chenango County	17.7%	$19,799
Richmond County	44.5%	$26,868	Chautauqua County	18.0%	$20,641
New York County	44.0%	$85,071	Herkimer County	18.0%	$19,530
Dutchess County	41.1%	$27,098	Lewis County	18.4%	$18,712
Orange County	39.3%	$27,354	St. Lawrence County	18.6%	$19,421
Saratoga County	37.2%	$31,097	Yates County	19.9%	$21,930

Source: Internal Revenue Service, Statistics of Income

Figure 4 ranks the top five types of itemized deductions reported by all taxpayers nationally and by those in New York. As shown, the largest amount both nationally and in the State

[4] See Appendix A for a listing all counties with information on both the proportion of taxpayers with itemized deductions and the average deductions per taxpayers.

is the deduction for state and local income taxes.[5] In New York, with over $47 billion reported, this deduction is more than twice the amount reported for the second largest category, real estate taxes. This deduction was also the highest average amount reported per taxpayer in three-quarters of all New York's counties. Real estate taxes rank fourth in total amount of deductions reported at the national level.

For every component except the state and local sales tax deduction, New York ranks second nationally (California is ranked first) for the amount of deductions reported. Because taxpayers are only authorized to deduct state and local income or sales taxes, most New Yorkers who itemize claim the deduction on state and local income taxes, since this provides a greater tax benefit.

Figure 4

Top Five Itemized Deduction Categories Reported, United States and New York, 2014

	United States	New York
	(Billions of $)	
State and Local Income Taxes	307.7	47.3
Mortgage Interest	279.1	18.6
Charitable Contributions	210.2	17.3
Real Estate Taxes	178.3	20.2
State and Local Sales Taxes	16.5	0.5

Source: Internal Revenue Service, Statistics of Income

As shown in Figure 5, New York and Westchester counties rank either first or second in the average amount of itemized deductions reported by taxpayers in each of the four largest categories.

Figure 5

Top Ten Counties for Average Amount of Itemized Deductions Reported by Category, 2014

State and Local Income Taxes	Real Estate Taxes	Mortgage Interest	Charitable Contributions
New York	Westchester	New York	New York
Westchester	New York	Westchester	Westchester
Nassau	Nassau	Nassau	Saratoga
Kings	Rockland	Kings	Rockland
Saratoga	Putnam	Richmond	Kings
Albany	Suffolk	Rockland	Nassau
Rockland	Orange	Suffolk	Tompkins
Richmond	Dutchess	Putnam	Albany
Suffolk	Tompkins	Queens	Columbia
Columbia	Ulster	Dutchess	Otsego

Source: Internal Revenue Service, Statistics of Income

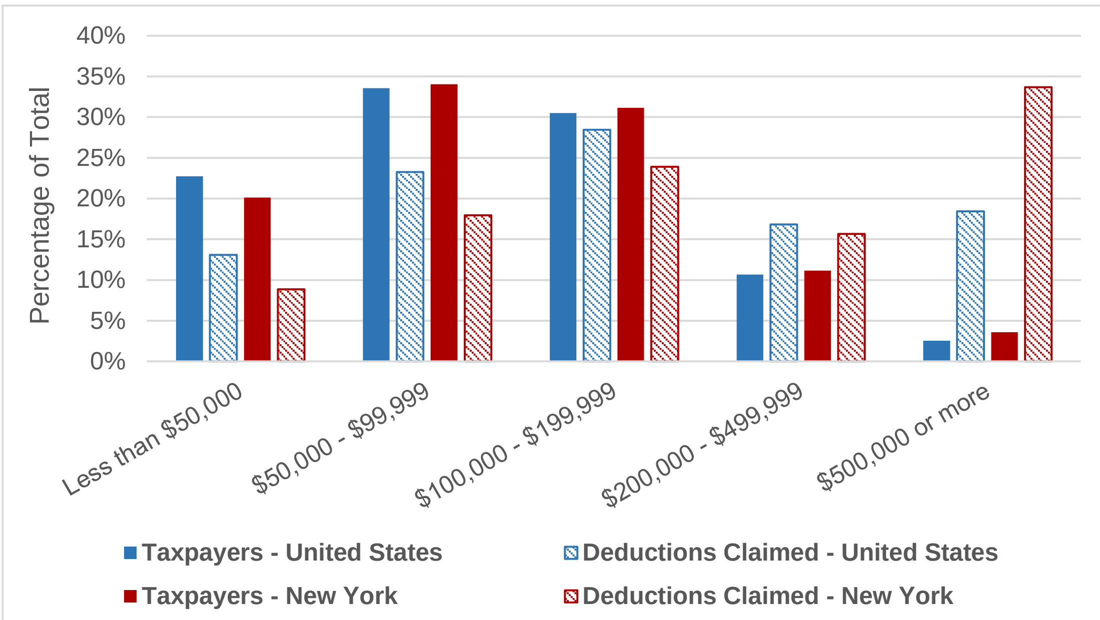
[5] The amount of the individual components reported does not necessarily equate to the total amount claimed since taxpayers at certain income thresholds are required to reduce the amount of the deductions by a percentage based on their income.

Among New York's counties, these two have higher average incomes per taxpayer, and some residents of each are subject to a separate, local personal income tax which drives up the average deduction in this category.[6]

Higher income taxpayers are more likely to itemize their deductions, with over 90 percent of taxpayers with incomes over $200,000 itemizing both nationally and in New York. As shown in Figure 6, these taxpayers also claim the largest proportion of total itemized deductions, although they are a minority of all itemizers. While such disparity exists nationwide, it is much higher in New York, with almost half of all itemized deductions being claimed by taxpayers with incomes over $200,000.

Figure 6

Distribution of Taxpayers who Itemize and Share of Itemized Deductions by Income, United States and New York, 2014



Source: Internal Revenue Service, Statistics of Income

Figure 7 shows the average amount reported by taxpayers in New York claiming itemized deductions for certain deduction categories by income level. As shown, taxpayers in the lower income brackets benefit most from the home ownership deductions (mortgage interest and real estate taxes). As income rises, the deduction for state and local income taxes become more beneficial.

[6] See Appendix B for information on the average deductions reported in major categories in each New York State county.

Figure 7

Average Amount of Itemized Deductions by Selected Category, New York, 2014

	Income Taxes	Real Estate Taxes	Mortgage Interest	Charitable Contributions
Less than $50,000	$2,213	$5,710	$6,425	$2,021
$50,000 - $99,999	$4,826	$6,080	$6,877	$2,499
$100,000 - $199,999	$9,075	$8,048	$8,748	$3,193
$200,000 - $499,999	$22,496	$12,654	$13,197	$6,076
$500,000 or more	$217,545	$28,962	$20,559	$94,143

Source: Internal Revenue Service, Statistics of Income

Deductibility of State and Local Taxes

One issue of particular concern for New York is the potential elimination of the federal deduction for state and local taxes.

This deduction has been part of the federal income tax since its inception in 1913. Congress enacted certain limitations on the deduction in 1964 and again in 1986. The latter actions included the elimination of deductibility for all sales taxes, although this deduction was partially restored in 2004 for taxpayers who do not deduct income taxes.

For taxpayers who itemize, the deduction reduces the effective cost of applicable state and local taxes, according to the Congressional Budget Office.[7] The impact of the deduction varies based on other factors, including whether the taxpayer is subject to the AMT or the limitation on total deductions for upper-income taxpayers.

Other research suggests that the elimination of the ability to deduct state and local income taxes could increase pressure on state and local governments to limit expenditures, with potential negative impacts on essential services.[8]

Impact on New York State Personal Income Tax Revenues

The categories of itemized deductions used at the federal level are also used for the New York State personal income tax. However, State Tax Law specifically disallows some of these deductions, such as state and local income taxes and certain interest expenses. Should the elimination of the itemized deductions occur at the federal level, they would be eliminated at the State level, potentially increasing taxpayers' State income tax burden, unless legislation is enacted to codify them in the State's Tax Law.

However, the elimination of these deductions at the State level would impact far fewer New York personal income taxpayers. While over a third of New York's taxpayers itemize their deductions on their federal returns, only 18 percent do so on their State returns. Real estate taxes comprise the largest amount of itemized deductions reported in New York (almost 30 percent of the total), with nearly all itemizers claiming this deduction.

[7] Congressional Budget Office, "The Deductibility of State and Local Taxes," February 2008.
[8] See, for example, Congressional Research Service, "Federal Deductibility of State and Local Taxes," September 28, 2015.

Standard Deduction

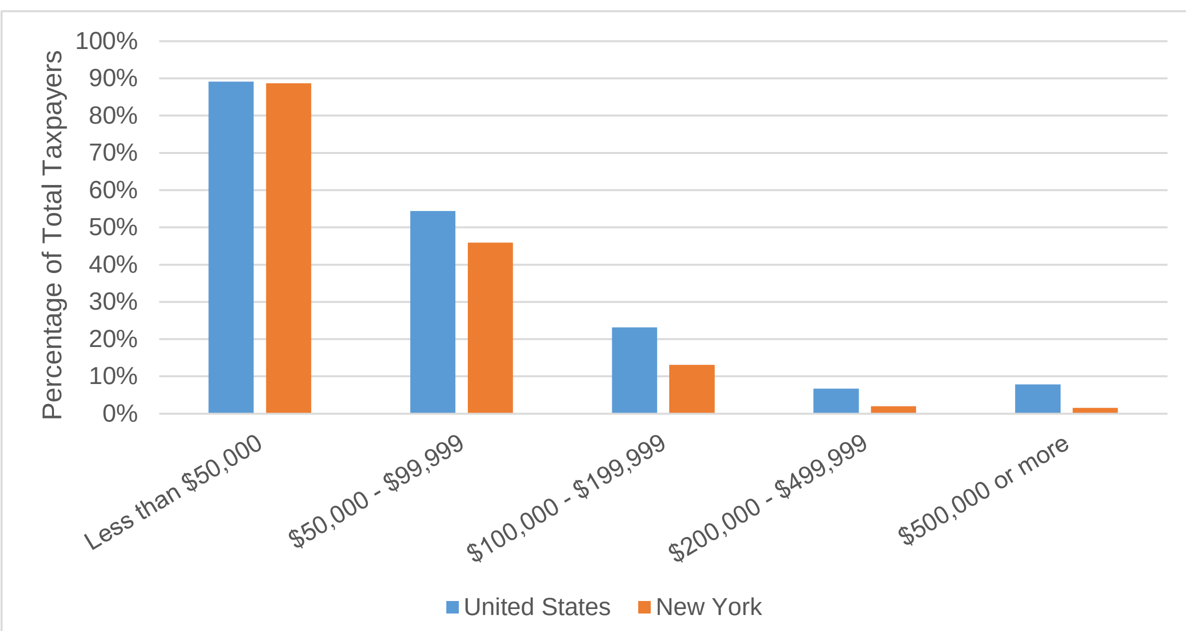
The federal standard deduction was first enacted in 1944 to simplify the calculation of the personal income tax for many taxpayers by eliminating the need to calculate itemized deductions. The deduction amount does not vary by income level but differs depending upon the taxpayer's filing status, with those figures adjusted annually for inflation. As of 2017, the standard deduction is currently $12,700 for married, joint filers; $9,350 for heads of households; and $6,350 for single filers. In its tax plan, the Administration has proposed to double the standard deduction.

Under the federal income tax, taxpayers are also allowed to claim a personal exemption, regardless of whether they claim the standard deduction or itemize deductions. The personal exemption is currently $4,050 per person (for example, a married couple filing jointly with no children would claim a personal exemption of $8,100), and is phased out at higher incomes. According to the information released by the Administration, there is no change to the personal exemption in the current plan.

Over two-thirds of taxpayers nationwide and nearly the same proportion in New York claim the standard deduction. As shown in Figure 8, these taxpayers primarily have lower incomes. As income increases, the proportion of taxpayers claiming the standard deduction decreases, with the proportion in New York less than the nation as a whole. With the proposed doubling of the standard deduction, these taxpayers would realize a reduction in their federal taxes.

Figure 8

Taxpayers Claiming the Standard Deduction by Income, United States and New York, 2014



Source: Internal Revenue Service, Statistics of Income

This proposal could also provide a tax benefit for taxpayers who currently itemize their deductions. The extent to which taxpayers may switch to using the standard deduction rather than itemizing would depend on their filing status and the differential between the amount of their potential itemized deductions and the new standard deduction.
In New York, over half of taxpayers who itemize their deductions at the federal level do not itemize their deductions at the State level. This difference is not only due to the exclusion of state and local income taxes and certain income expenses under the State tax, but also because New York's standard deduction is higher than the federal standard deduction.

Figure 9 compares the proposed new standard deduction with the average federal itemized deductions claimed by New York taxpayers who currently itemize their deductions at the State level by income level and filing status. As shown, for lower income taxpayers who itemize their deductions, the doubling of the standard deduction could either lower their federal taxes or be tax neutral.

Figure 9

Comparison of Proposed Standard Deductions with 2014 New York Itemized Deductions

	Single		Married, Joint		Married, Separate		Head of Household	
	Average Itemized Deductions	Proposed Standard Deduction	Average Itemized Deductions	Proposed Standard Deduction	Average Itemized Deductions	Proposed Standard Deduction	Average Itemized Deductions	Proposed Standard Deduction
Less than $25,000	$12,459	$12,700	$19,901	$25,400	$9,086	$12,700	$16,287	$18,700
$25,000 - $50,000	$16,435	$12,700	$24,568	$25,400	$16,154	$12,700	$18,603	$18,700
$50,000 - $100,000	$20,787	$12,700	$28,618	$25,400	$19,471	$12,700	$23,815	$18,700
$100,000 - $500,000	$40,819	$12,700	$43,992	$25,400	$37,250	$12,700	$37,904	$18,700
Over $500,000	$579,867	$12,700	$441,565	$25,400	$948,195	$12,700	$343,859	$18,700

Source: New York State Department of Taxation and Finance, Analysis of 2014 Personal Income Tax Returns

As stated previously, the largest proportions of itemizers as well as the highest average amounts of itemized deductions claimed are primarily found among those taxpayers residing downstate. In comparison to these taxpayers' average deductions (excluding any impact from proposed elimination of itemized deductions), an increase in the standard deduction would not provide any tax benefit to these taxpayers. However, taxpayers in over three-quarters of the counties in New York have total itemized deductions, on average, less than the proposed standard deduction, so that taxpayers in these counties could benefit from the proposed increase. Counties with the highest proportions of taxpayers who could benefit include Orleans, Lewis, Oswego, Wyoming, Montgomery and Genesee.

Tax Rates and Income Brackets

Currently, there are seven tax brackets for the purposes of the federal personal income tax with rates that increase from a low of 10 percent to the top rate of 39.6 percent. The income brackets to which the tax rates apply are annually indexed to inflation. Figure 10 shows the current income brackets and tax rates for each filing status.

Figure 10

Federal Income Tax Rates and Income Brackets by Filing Status, 2017

	INCOME THRESHOLD		
Tax Rate	**Single**	**Head of Household**	**Married**
10 Percent	< $9,325	< $13,350	< $18,650
15 Percent	$9,325 - $37,950	$13,350 - $50,800	$18,650 - $75,900
25 Percent	$37,950 - $91,900	$50,800 - $131,200	$75,900 - $153,100
28 Percent	$91,900 - $191,650	$131,200 - $212,500	$153,100 - $233,350
33 Percent	$191,650 - $416,700	$212,500 - $416,700	$233,350 - $416,700
35 Percent	$416,700 - $418,400	$416,700 - $444,550	$416,700 - $470,700
39.6 Percent	>$418,400	> $444,550	> $470,700

Source: Internal Revenue Service, Revenue Procedure 2016-55

The Administration proposes to reduce the number of tax brackets to three, with tax rates of 10 percent, 25 percent, and 35 percent. New York is home to a comparatively high number of taxpayers in the top tax bracket, accounting for almost 10 percent of the nationwide total in 2014. The impact on taxpayers in the other tax brackets is unclear, as the Administration's plan does not detail the income thresholds where these new brackets would apply.

Alternative Minimum Tax

The Alternative Minimum Tax (AMT) is a supplemental income tax on certain taxpayers who otherwise benefit from tax exclusions and deductions to ensure that these taxpayers pay a minimum amount of tax. The AMT requires that such taxpayers recalculate their taxable income by adding back all itemized deductions and certain income exemptions (e.g., interest on private activity bonds, certain business and investment losses, and depreciation). The tax is then calculated on this new taxable income, less an exemption (similar to the standard deduction) that is based upon the taxpayer's taxable income and filing status.

The Administration's tax proposal would repeal the AMT, impacting 4.2 million taxpayers nationally and over 480,000 in New York. While a repeal of the AMT alone would result in a federal tax cut for these taxpayers, it remains unclear how this proposal would interact with the proposed elimination of most itemized deductions and other potential tax changes, leaving the overall impact on taxpayers uncertain.

California and New York have the largest numbers of taxpayers subject to the AMT, as well as the fifth and third highest shares, respectively. As shown in Figure 11, both New Jersey and Connecticut have a higher proportion of taxpayers subject to the AMT. However, New York taxpayers pay nearly $4.4 billion in the AMT, over 15 percent of total collections.

Figure 11

Top Ten States by Highest Proportion of Taxpayers Subject to the AMT and Total AMT Liability, 2014

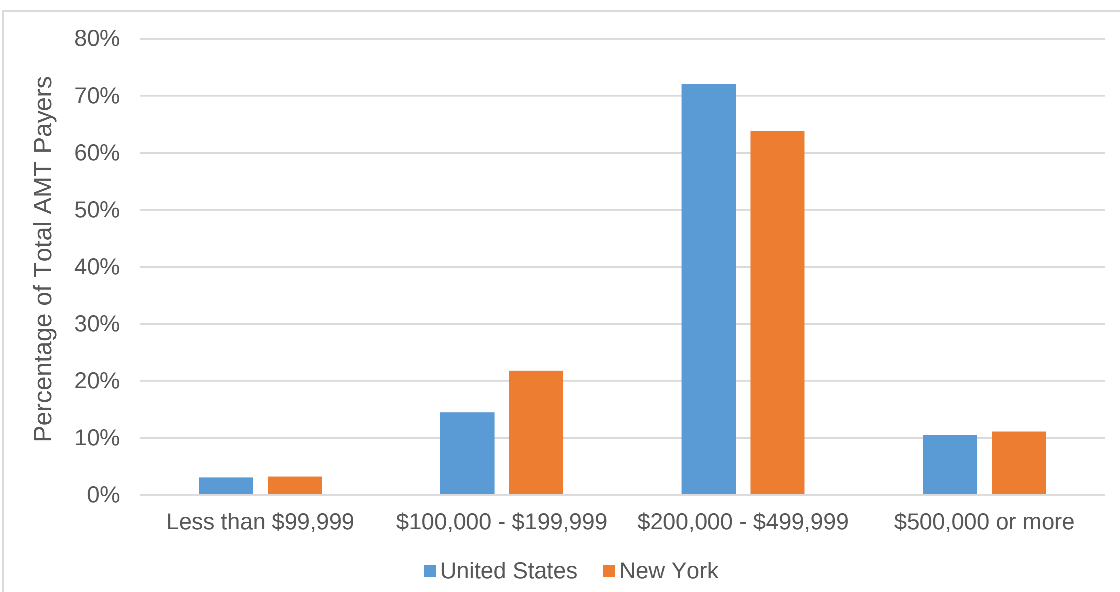
Percentage of Total Taxpayers		Total AMT (Millions of $)	
New Jersey	6.2%	California	7,389.1
Connecticut	5.7%	New York	4,394.6
New York	5.1%	New Jersey	1,694.5
Massachusetts	4.9%	Illinois	1,187.8
California	4.7%	Florida	1,151.0
Maryland	4.6%	Massachusetts	1,081.2
Virginia	3.7%	Texas	1,049.3
Illinois	3.4%	Pennsylvania	814.2
Minnesota	3.3%	Maryland	786.7
Oregon	2.9%	Connecticut	720.1

Source: Internal Revenue Service, Statistics of Income

While the AMT impacts taxpayers at all income levels, it primarily affects those with incomes ranging from $200,000 to $500,000, as shown in Figure 12. Also, as shown, at most income levels, the share of taxpayers paying the AMT is similar at both the State and national levels, with approximately 86 percent of the AMT taxpayers being those with incomes between $100,000 and $500,000. However, while the AMT impacts a larger share of New York taxpayers with incomes between $100,000 and $200,000, it affects a larger share of taxpayers nationwide than in New York among those with incomes between $200,000 and $500,000.

Figure 12

Alternative Minimum Taxpayers by Income Level, United States and New York, 2014



Source: Internal Revenue Service, Statistics of Income

On a regional basis in New York, both the largest number of taxpayers subject to the AMT and the largest proportion of such taxpayers are concentrated in the downstate counties, similar to the distribution of itemized deductions, with the top three counties being New York, Westchester and Nassau. However, while New York County still ranks first in terms of average AMT liability per taxpayer, less than half of the remaining top ten counties are downstate, as shown in Figure 13.

Figure 13

Top Ten Counties by Proportion of AMT Payers and Average Liability, 2014

Percentage of Total Taxpayers		Average AMT Liability	
New York County	13.0%	New York County	$16,343
Westchester County	11.9%	Saratoga County	$10,708
Nassau County	10.1%	Westchester County	$9,591
Rockland County	9.0%	Columbia County	$8,417
Putnam County	8.4%	Nassau County	$7,506
Suffolk County	6.9%	Albany County	$7,078
Richmond County	4.9%	Steuben County	$6,892
Orange County	4.8%	Kings County	$6,821
Dutchess County	4.7%	Essex County	$6,756
Tompkins County	4.2%	Tompkins County	$6,667

Source: Internal Revenue Service, Statistics of Income

Child and Dependent Care Credit

In its one-page outline, the Administration indicated its intention to provide additional tax relief for child and dependent care expenses. However, there was no information given as to what this tax relief would entail. There is currently a federal tax credit for child and dependent care expenses, which varies depending on income level and number of children. Tax relief could come through increasing the percentage of expenses that can be taken as a credit, or increasing the maximum amount of expenses that are eligible for the credit. In 2014, 425,000 New York taxpayers benefitted from the child and dependent care credit, with an average credit of $595 per taxpayer.

Besides reducing their federal tax burden, these taxpayers would also realize a reduction in their New York personal income tax burden since the State credit for child and dependent care expenses is equal to a percentage of the federal credit.

Additional Medicare Taxes

As part of the Affordable Care Act (ACA), additional Medicare taxes were imposed on married taxpayers with incomes over $250,000 and all other taxpayers with incomes over $200,000. These additional taxes included a tax of 0.9 percent on wages, self-employment income, and Railroad Retirement Act compensation as well as a 3.8 percent tax on net investment income. Both of these taxes are reported and collected through the filing of annual income tax returns.

According to its outline, the Administration proposes to repeal only the 3.8 percent tax on net investment income. Repeal of this tax would affect over 306,000 New York taxpayers, reducing their federal taxes by over $3 billion, for an average benefit of nearly $10,000.

Tax Exemption for Interest on Municipal Bonds

The Administration's tax plan does not address the current federal tax exemption for interest on municipal bonds. However, certain previous efforts to reform the federal tax code have included proposals to limit the exemption, and some members of Congress have pushed for changes.

Any steps to limit the tax exemption for interest on municipal bonds could result in higher interest costs for New York State, public authorities, local governments and school districts, and may result in reduced investments in infrastructure. Without knowing the specifics of any potential changes, it is difficult to assess potentially undesirable impacts in the municipal bond marketplace and on infrastructure investment.

IV. Other Taxes

Business Taxes

The individual proposals impacting businesses included in the President's tax revision outline were more vague than those impacting individual taxpayers. The proposals include: reducing the corporate tax rate; creating a territorial tax system by requiring U.S. companies to pay tax on all profits, regardless of where the profits are earned; providing a reduced tax rate for the repatriation of income held by companies overseas; and eliminating tax breaks for "special interests." Subsequent reports from the Administration have not provided any additional detail on most of these proposals.

The only proposal that included some level of detail is the reduction in the business tax rate. Similar to the personal income tax, the corporate tax rate varies depending upon the taxable income of a business, with a top tax rate of 35 percent. The Administration proposes to decrease the top rate to 15 percent. However, the proposal is unclear as to whether it will continue with a graduated rate schedule or simply impose one rate of 15 percent on all businesses. If a flat tax is imposed, those businesses currently paying the top rate will realize the greatest benefit.

News reports subsequent to the release of the Administration's tax program stated that the reduction in the business tax rate would also include pass-through entities. These are businesses such as S-corporations, partnerships, and limited liability companies that allocate business income to their members, who then pay the personal income tax on such income. However, it is unclear whether this reduced rate would apply to the business income of sole proprietors, who also pay tax on such income through the personal income tax.

Depending on the specifics of changes affecting all types of business taxpayers, some businesses may find it advantageous to change their corporate structure to take advantage of any new disparity in rates. For example, pass-through entities could realize a large federal tax reduction from a decrease in their top rate from the current individual tax rate of 39.6 percent to 15 percent by converting from pass-through status to corporate taxpayer status.

The proposed reduction in the corporate tax rate would impact over 260,000 businesses in New York. Should the tax reduction include pass-through entities, nearly 591,000 New York taxpayers under the personal income tax would also be impacted; with an additional 601,000 affected if the reduction were extended to sole proprietorships.

Estate Tax

The President's tax plan would also repeal the federal estate tax. Currently, estates valued at over $5.49 million are subject to the estate tax. The impact of this repeal would be dependent upon the number of estates subject to the federal estate tax, as well as the size of those estates in any particular year. For example, in 2015, there were 431 estates in New York that filed estate tax returns with a total tax impact of over $1.6 billion. In 2014, a higher number of taxable estates in New York, 457, produced a total tax liability of $1.5 billion.[9]

Although New York's estate tax is based on provisions in the Internal Revenue Code for the federal estate tax, these provisions are pegged to the Internal Revenue Code in effect before January 1, 2014. As a result, the estate tax in New York would not be affected by repeal of the federal tax.

[9] Since the due date for the filing of estate tax returns is nine months after the death of the decedent, most of the estate tax remitted in any given year is for deaths that occurred in the prior year.

VI. Appendices

Appendix A - Percentage of Taxpayers Who Itemize and Average Deductions Per Taxpayer By County

	Taxpayers Who Itemize Deductions		Itemized Deductions Claimed	
	Percentage of Total Taxpayers	State Ranking	Average Amount	State Ranking
Albany County	33.2%	14	$27,548	9
Allegany County	17.3%	60	$19,413	52
Bronx County	21.1%	47	$19,969	42
Broome County	23.4%	35	$20,902	32
Cattaraugus County	17.3%	59	$20,144	39
Cayuga County	23.6%	32	$19,481	49
Chautauqua County	18.0%	57	$20,641	35
Chemung County	22.3%	41	$21,460	30
Chenango County	17.7%	58	$19,799	43
Clinton County	22.8%	38	$19,475	50
Columbia County	31.7%	16	$27,437	10
Cortland County	23.4%	34	$19,619	47
Delaware County	20.8%	49	$20,418	37
Dutchess County	41.1%	8	$27,098	12
Erie County	28.1%	23	$22,396	24
Essex County	21.7%	44	$23,531	19
Franklin County	16.5%	62	$19,977	41
Fulton County	20.6%	51	$19,383	53
Genesee County	23.8%	31	$18,962	57
Greene County	28.8%	22	$20,651	34
Hamilton County	22.6%	39	$21,802	28
Herkimer County	18.0%	56	$19,530	48
Jefferson County	17.2%	61	$20,199	38
Kings County	26.9%	27	$27,803	8
Lewis County	18.4%	55	$18,712	61
Livingston County	27.3%	25	$19,980	40
Madison County	27.3%	26	$22,267	25
Monroe County	33.3%	13	$23,025	20
Montgomery County	21.7%	43	$18,826	58
Nassau County	50.3%	2	$41,483	3
New York County	44.0%	7	$85,071	1
Niagara County	25.1%	29	$19,719	45
Oneida County	22.4%	40	$20,708	33
Onondaga County	31.7%	17	$22,648	23
Ontario County	30.5%	20	$24,860	15
Orange County	39.3%	9	$27,354	11
Orleans County	21.0%	48	$17,644	62
Oswego County	23.3%	36	$18,752	60
Otsego County	21.2%	45	$24,439	16
Putnam County	50.6%	1	$30,979	7
Queens County	29.7%	21	$22,724	22
Rensselaer County	32.2%	15	$21,036	31
Richmond County	44.5%	6	$26,868	13
Rockland County	44.7%	5	$35,544	4
Saratoga County	37.2%	10	$31,097	6
Schenectady County	34.1%	12	$21,784	29
Schoharie County	25.1%	30	$19,772	44
Schuyler County	20.4%	52	$19,332	54
Seneca County	20.8%	50	$19,656	46
St. Lawrence County	18.6%	54	$19,421	51
Steuben County	21.1%	46	$22,855	21
Suffolk County	46.3%	3	$31,251	5
Sullivan County	31.1%	18	$22,249	26
Tioga County	23.2%	37	$20,519	36
Tompkins County	31.0%	19	$25,761	14
Ulster County	34.8%	11	$23,923	17
Warren County	28.0%	24	$23,888	18
Washington County	23.6%	33	$19,060	55
Wayne County	26.8%	28	$19,035	56
Westchester County	46.2%	4	$49,155	2
Wyoming County	21.9%	42	$18,760	59
Yates County	19.9%	53	$21,930	27
New York State	34.2%		$35,997	

Source: Internal Revenue Service data and Office of the State Comptroller calculations

Appendix B – Selected Average Itemized Deductions Reported Per Taxpayer by County

	State and Local Income Taxes	Real Estate Taxes	Mortgage Interest	Charitable Contributions
Albany County	$10,881	$6,846	$6,535	$5,290
Allegany County	$5,702	$5,030	$3,790	$3,679
Bronx County	$6,896	$3,365	$7,709	$3,552
Broome County	$6,821	$5,688	$4,685	$3,488
Cattaraugus County	$6,310	$4,879	$4,404	$3,779
Cayuga County	$6,148	$5,148	$4,884	$2,719
Chautauqua County	$6,880	$4,861	$4,636	$3,541
Chemung County	$7,160	$5,148	$4,866	$4,299
Chenango County	$5,742	$4,821	$4,827	$2,858
Clinton County	$5,892	$5,291	$5,444	$2,482
Columbia County	$9,847	$6,773	$7,106	$5,261
Cortland County	$5,768	$5,813	$4,401	$3,088
Delaware County	$6,329	$4,913	$5,815	$3,000
Dutchess County	$8,369	$7,828	$8,528	$3,390
Erie County	$8,235	$5,591	$5,227	$3,590
Essex County	$7,939	$5,731	$6,149	$3,956
Franklin County	$6,275	$4,774	$5,170	$2,925
Fulton County	$5,411	$4,758	$5,371	$2,964
Genesee County	$5,698	$4,821	$4,471	$3,305
Greene County	$6,244	$5,481	$6,324	$2,627
Hamilton County	$5,420	$5,405	$6,511	$3,776
Herkimer County	$5,777	$4,446	$4,839	$2,827
Jefferson County	$6,366	$4,308	$5,992	$3,422
Kings County	$13,211	$4,423	$10,694	$5,959
Lewis County	$5,234	$4,013	$4,951	$3,633
Livingston County	$6,015	$5,611	$4,837	$3,201
Madison County	$7,645	$6,133	$5,403	$3,364
Monroe County	$7,546	$6,672	$5,047	$3,835
Montgomery County	$5,261	$4,894	$4,661	$2,813
Nassau County	$15,009	$12,385	$10,855	$5,473
New York County	$54,569	$13,805	$12,570	$25,320
Niagara County	$6,250	$5,170	$4,731	$2,963
Oneida County	$6,716	$5,122	$5,028	$3,149
Onondaga County	$7,694	$6,523	$5,139	$3,605
Ontario County	$8,775	$6,153	$5,966	$4,150
Orange County	$7,662	$8,532	$8,370	$3,523
Orleans County	$4,846	$4,852	$4,152	$2,949
Oswego County	$5,733	$5,087	$4,639	$2,487
Otsego County	$7,706	$5,060	$6,015	$4,779
Putnam County	$9,455	$10,282	$9,581	$3,235
Queens County	$8,888	$4,443	$9,038	$3,149
Rensselaer County	$6,248	$6,227	$6,021	$2,595
Richmond County	$10,528	$4,809	$10,381	$2,962
Rockland County	$10,727	$12,031	$10,022	$6,418
St. Lawrence County	$12,277	$6,114	$7,518	$6,817
Saratoga County	$6,467	$6,707	$5,794	$3,041
Schenectady County	$5,486	$5,477	$5,510	$2,686
Schoharie County	$5,806	$5,149	$4,920	$3,299
Schuyler County	$5,932	$5,092	$4,629	$3,283
Seneca County	$6,223	$4,784	$4,441	$3,167
Steuben County	$7,921	$5,757	$4,783	$4,482
Suffolk County	$10,367	$10,093	$9,846	$3,458
Sullivan County	$6,030	$6,817	$6,232	$2,871
Tioga County	$6,418	$5,241	$4,802	$3,512
Tompkins County	$8,353	$7,531	$5,693	$5,351
Ulster County	$7,134	$7,386	$7,010	$2,745
Warren County	$8,186	$5,668	$6,846	$3,645
Washington County	$5,180	$5,035	$5,696	$2,479
Wayne County	$5,444	$5,383	$4,750	$2,745
Westchester County	$23,432	$14,654	$11,916	$7,365
Wyoming County	$5,653	$4,428	$4,458	$2,892
Yates County	$6,367	$5,922	$5,583	$3,406
New York State	$16,657	$8,485	$8,815	$6,767

Source: Internal Revenue Service data and Office of the State Comptroller calculation

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