

Pouring on the SALT wound

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EMPIRE  CENTER

The Tax Cuts and Jobs Act



The Tax Cuts and Jobs Act

- Corporate tax rate cut (35% to 21%), curtailment of loopholes and credits, shift from global to territorial system.
- 20% deduction and lower top rate (29.6%) for owners/partners of “pass-through entities,” with benefits phasing out for those with > \$315k of income

Individual Income Tax Rate Changes

Current tax rules

TAXABLE INCOME

Rate	Single	Married
10%	\$0 - \$9,525	\$0 - \$19,050
15%	\$9,526 - \$38,700	\$19,051 - \$77,400
25%	\$38,701 - \$93,700	\$77,401 - \$156,150
28%	\$93,701 - \$195,450	\$156,151 - \$237,950
33%	\$195,451 - \$424,950	\$237,951 - \$424,950
35%	\$424,951 - \$426,700	\$424,951 - \$480,050
39.6%	Over \$426,700	Over \$480,050

New tax rules

TAXABLE INCOME

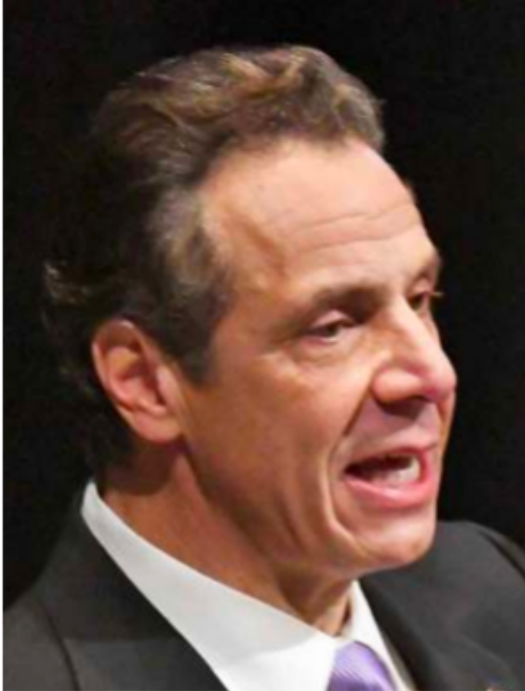
Rate	Single	Married
10%	\$0 - \$9,525	\$0 - \$19,050
12%	\$9,526 - \$38,700	\$19,051 - \$77,400
22%	\$38,701 - \$82,500	\$77,401 - \$165,000
24%	\$82,501 - \$157,500	\$165,001 - \$315,000
32%	\$157,501 - \$200,000	\$315,001 - \$400,000
35%	\$200,001 - \$500,000	\$400,001 - \$600,000
37%	Over \$500,000	Over \$600,000

Other key changes:

- ✓ SALT deduction capped at combined \$10,000.
- ✓ Dependent exemptions (\$4,050) eliminated
- ✓ Child Credit doubled (\$1,000 to \$2,000) and income phase-out raised to \$400k for married/joint filers; \$500 “family credit” per dependent aged >17
- ✓ Standard deduction nearly doubled, to \$12k for singles and \$24k for married filers
- ✓ AMT curtailed via increase in exemption levels
- ✓ Charitable deduction unchanged, mortgage capped at \$750k, medical expense temporarily increased, most other itemized deductions eliminated.

Governor Cuomo's Response

- ✓ Lawsuit, joined by NJ and CT, claiming SALT cap aimed at high-tax states, amounts to “double taxation”
- ✓ “Repeal and replace” lobbying effort
- ✓ “Aggressive state tax reform to thwart the federal tax legislation”



“We are developing a plan to restructure our tax code to reduce reliance on our current income tax system and adopt a statewide payroll tax system ...

“We’re also exploring creating additional charitable organizations so that contributions to those charitable organizations would be tax deductible.”

Employer Compensation Expensive Tax (ECET)

- ✓ For “C” corporations only
- ✓ Optional—i.e., at firm’s option
- ✓ 5% tax on annual payroll expenses > \$40,000 per worker
- ✓ Phased in over 3 years starting 1/1/2019
- ✓ opt-in deadline of 10/1/2018
- ✓ personal income tax (PIT) stays in place
- ✓ PIT credit for individual workers “corresponding in value to the ECET would cut the personal income tax on wages and ensure that State filers subject to the ECET would not experience a decline in take-home pay.”

Charitable Contribution vehicles (Ch. 59)

- ✓ Two new state-operated Charitable Contribution Funds—one for healthcare, one for education—to accept state- and federally deductible donations.
- ✓ Any taxpayer making a donation could also claim a State tax credit equal to 85% of the donation amount for the tax year after the donation is made.
- ✓ School districts and local governments authorized to create charitable funds, donations to which would be partially offset by credit equaling up to 95% of property taxes.

“It is well established that a voluntary contribution to state or local government can be deductible as a charitable contribution. The question is whether a payment to a state or local government that is creditable against a person’s tax liability is a ‘voluntary’ contribution within the meaning of [IRC Section 107].”

-- Peter L. Faber
McDermott Will & Emery LLP

ALBANY – “... Gov. Andrew Cuomo proclaimed that if the state does not act to address the federal tax plan, **‘Everybody’s taxes go up 25 percent’.**”

—Gannett News Service report, Feb. 10, 2018

“The average tax hike from the cap on SALT deductibility for impacted taxpayers in the downstate suburbs is **nearly \$6,400.**”

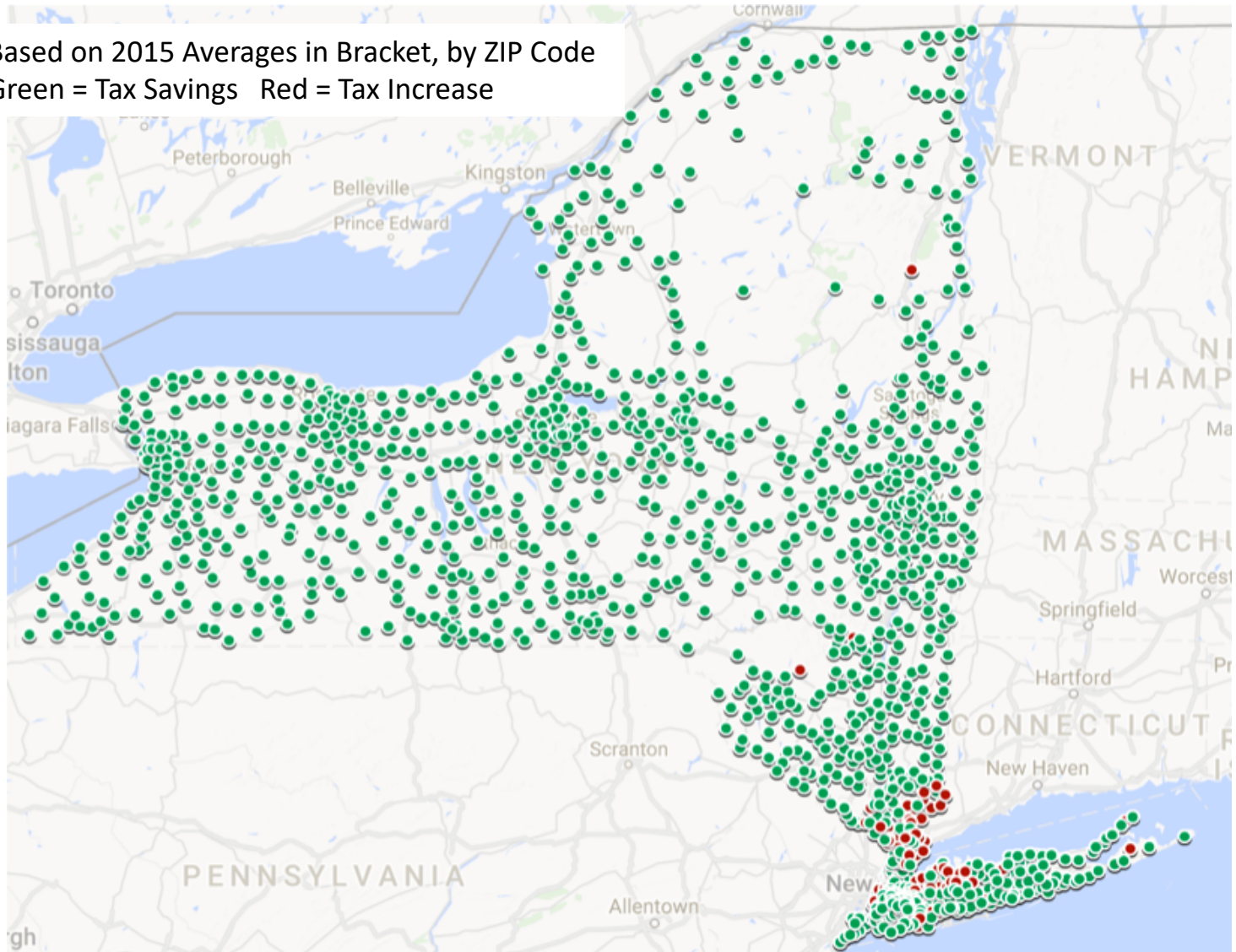
—Governor’s “Tax Fairness Campaign” website

“On average, Westchester, Long Island - **\$6,400** more for the average taxpayer. **\$6,400** more.”

—Governor Cuomo, April 17, 2018

Federal Tax Change in 2018 for Filers With \$100,000-\$200,000 AGI

Based on 2015 Averages in Bracket, by ZIP Code
Green = Tax Savings Red = Tax Increase



Changes in Federal Income Tax for Middle-Class Itemizers

Averages for Selected Westchester County Zip Code, AGI \$100,000-\$200,000

(Assuming Married-Joint Filers, Two Dependents Under 17)

Zip Code	Place	Average 2015			Pre-Reform Income Tax	Post-Reform Change	Percent Change
		Itemizer Income*	SALT Deductions	Other Deductions			
10510	Briarcliff	146,686	24,104	14,529	14,021	733	5%
10514	Chappaqua	148,595	27,382	17,753	12,972	1,492	12%
10523	Elmsford	138,966	18,288	14,011	13,274	-105	-1%
10530	Hartsdale	141,623	18,095	12,008	14,638	-881	-6%
10536	Katonah	148,655	24,083	15,127	14,469	586	4%
10549	Mount Kisco	144,576	19,453	13,841	14,278	-322	-2%
10566	Peekskill	136,331	14,620	12,145	13,899	-1,307	-9%
10567	Cortlandt Manor	142,189	18,637	12,783	14,500	-619	-4%
10570	Pleasantville	144,209	22,701	13,757	13,845	480	3%
10589	Somers	143,475	16,153	12,981	15,443	-1,279	-8%
10591	Sleepy Hollow	141,473	19,743	12,747	14,003	-280	-2%
10598	Yorktown Heights	143,410	19,620	12,869	14,588	-439	-3%
10603	White Plains	139,736	16,699	13,433	14,058	-718	-5%
10707	Eastchester	143,470	19,234	13,190	14,619	-457	-3%
10801	New Rochelle	138,168	18,226	14,028	13,086	-96	-1%

Source: Internal Revenue Service data; www.taxplancalculator.com estimates of tax change

Changes in Federal Income Tax for Middle-Class Itemizers
Averages for 94th A.D. Zip Codes, AGI \$100,000-\$200,000
 (Assuming Married-Joint Filers, No Dependents)

Zip Code	Place	Average 2015			Pre-Reform Income Tax	Post-Reform Change	Percent Change
		Itemizer Income*	SALT Deductions	Other Deductions			
11725	Commack	143,484	19,846	12,568	18,166	1,251	7.4%
11749	Hauppauge	130,016	16,268	11,821	15,203	849	5.9%
11754	Kings Park	142,140	17,589	12,635	17,870	634	3.7%
11767	Nesconset	143,528	18,540	12,001	18,175	893	5.2%
11768	Northport	143,957	19,811	11,394	18,238	1,505	9.0%
11779	Ronkonkoma	136,686	15,833	12,981	16,670	158	1.0%
11780	Saint James	144,914	21,215	12,869	18,420	1,831	11.0%

Source: Internal Revenue Service data; www.taxfoundation.com estimates of tax change

Changes in Federal Income Tax for Middle-Class Itemizers

Averages for Five Most Affluent Upstate NY Zip Codes, AGI \$100,000-\$200,000

(Assuming Married-Joint Filers, Two Dependents Under 17)

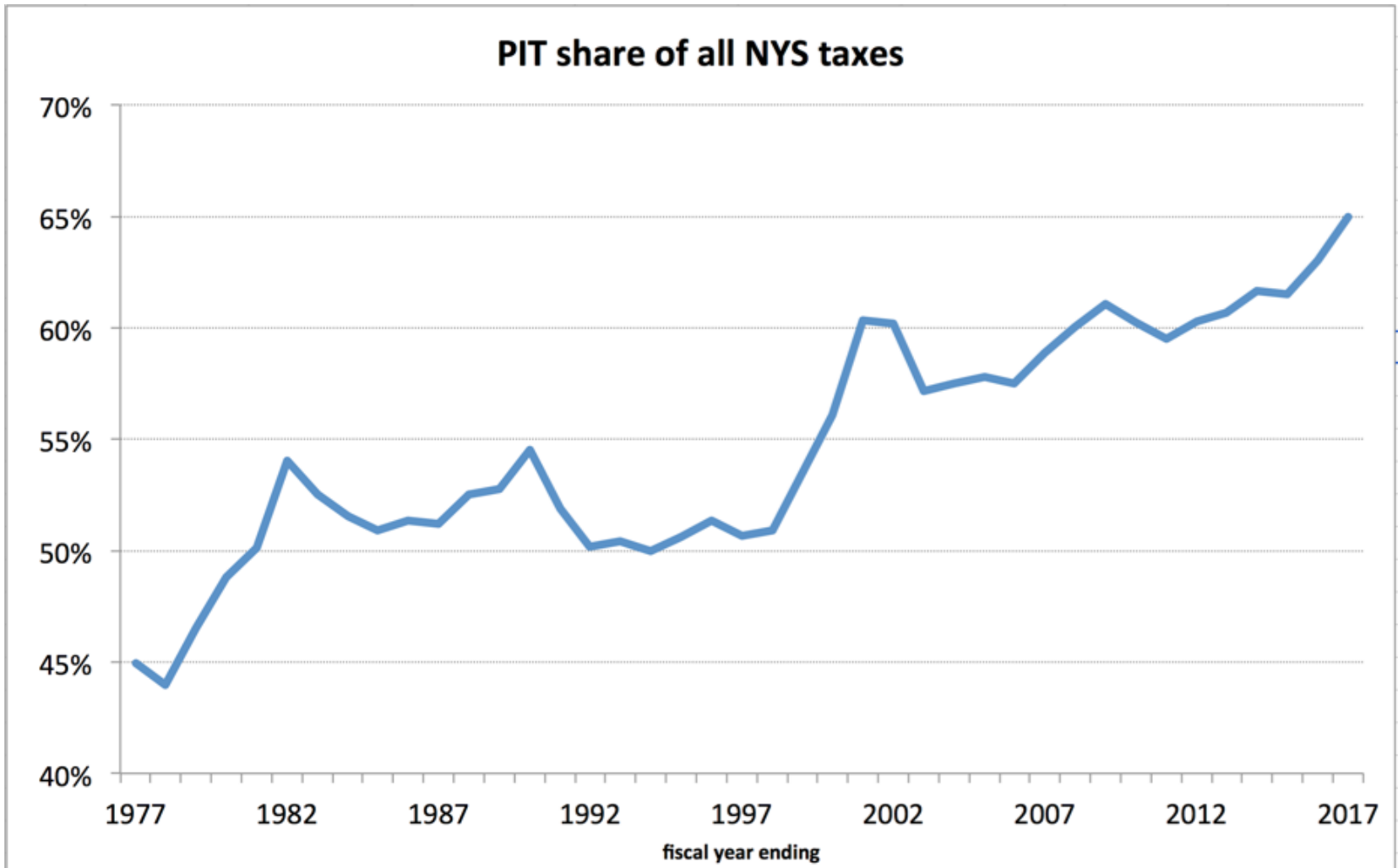
Zip Code	Place	Average 2015			Pre-Reform Income Tax	Post-Reform Change	Percent Change
		Itemizer Income*	SALT Deductions	Other Deductions			
12065	Clifton Park	140,142	13,832	10,211	14,827	(1,397)	-9%
12309	Niskayuna	139,377	15,626	9,743	15,160	(1,898)	-13%
13152	Skaneateles	141,177	15,838	10,542	15,547	(1,799)	-12%
14506	Mendon	141,229	16,039	9,396	15,706	(2,037)	-13%
14534	Pittsford	141,765	16,881	9,902	15,503	(1,715)	-11%

Source: Internal Revenue Service data; www.taxplancalculator.com estimates of tax change

Despite SALT cap, families of four in upstate New York's most affluent communities can expect a federal tax cut.

Andrew M. Cuomo

<i>Residence:</i>	Mt. Kisco P.O. Town of New Castle Chappaqua SD
<i>Adjusted gross income:</i>	\$212,776
<i>2017 NYS income tax:</i>	\$14,336
<i>2017 Federal Tax:</i>	\$41,765 (including AMT of \$7,555)
<i>2018 Federal Tax:</i>	\$31,830 (no AMT)
<i>Change:</i>	- \$9,935



By the state's own budgetary measures, the personal income tax has grown to a record 65% share of all state taxes in 2017—up from 45% in 1977, 51% in 1987, and 58% in 2007. The PIT share grew sharply after the Pataki tax cut was fully phased in, from 1995-97.

Share of New York State PIT Paid by Highest-Earning 1%

■ Permanent Law ■ Temporary Rates/Surcharges



Source: NYS Executive Budget, Economic and Revenue Outlook, Fys 2005-2018

The highest-earning 1% of New York taxpayers generate nearly 42% of the state's total income tax, more than any state except California.

For top earners living in New York City, the marginal effective tax rate — combining federal, state and local rates — will now increase:

Marginal Effective Tax Rates in New York City

Federal-state-local tax on added dollar of earned income in highest bracket

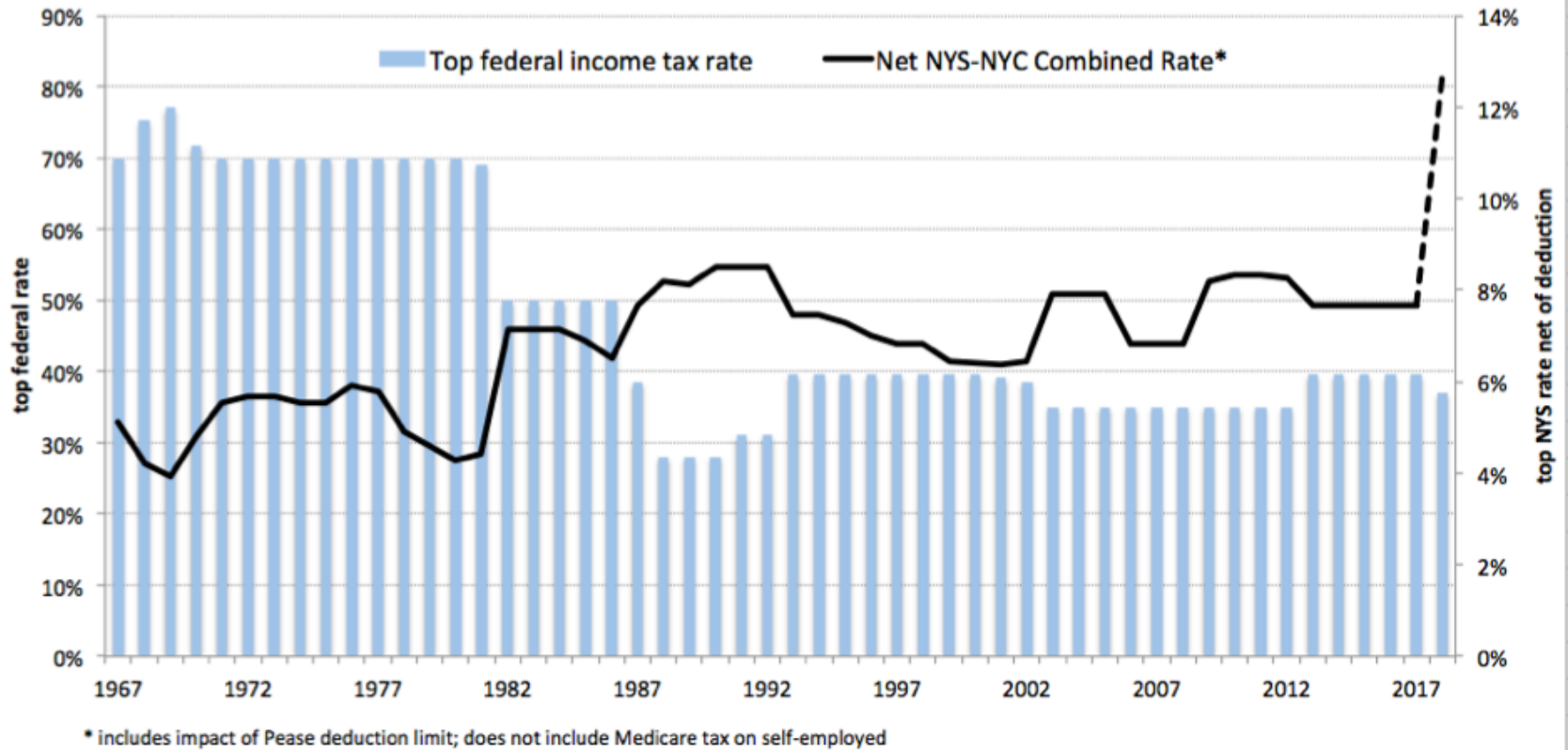
	Current Law	Tax bill
Top state-local rate net of deductibility	7.67%	12.70%
Impact of Pease deduction limit	1.18%	0.00%
Regular federal income tax rate on labor income	39.60%	37.0%
Combined top rate on salary, wages, bonus income	48.45%	49.70%
<i>For self-employment income in highest bracket, add</i>		
MTA mobility tax	0.34%	0.34%
Net Medicare tax on self-employed	3.23%	3.23%
Combined top rate on self-employment income	52.02%	53.27%

For top earners living outside New York City, the marginal effective tax rate will drop by less than 1% —except in Yonkers, where it will increase slightly:

Marginal Effective Tax Rates in New York Outside New York City		
Federal-state-local tax on added dollar of earned income in highest bracket		
	Current Law	Tax bill
Top state-local rate net of deductibility	5.33%	8.82%
Impact of Pease deduction limit	1.18%	0.00%
Regular federal income tax rate on labor income	39.60%	37.0%
Combined top rate on salary, wages, bonus income	46.11%	45.82%
<i>Yonkers residents</i>	47.00%	47.30%
<i>For self-employment income in highest bracket, add</i>		
Net Medicare tax on self-employed	3.23%	3.23%
Combined top rate on self-employment income	49.34%	49.05%
<i>Yonkers residents</i>	50.23%	50.53%

Top Federal and NYS-NYC Income Tax Rates on Earned Income

Net NYS-NYC Rate = After Federal Deduction*



With SALT capped, the net marginal rate for the highest-earning residents of New York City will reach an all-time high of 12.7%.

<https://www.empirecenter.org/NYSCMA>