STATE OF

NEW YORK

Impact on New Yorkers of Federal Tax Proposals

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Review of Tax Proposals Impacting State and Local Taxpayers

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Executive Summary

Debate in Washington over the federal deficit has led to consideration of several tax proposals that have dire consequences for taxpayers in New York and across the country. Under the guise of raising revenue without changing tax rates, these proposals would eliminate the federal deduction for state and local taxes paid and for interest earned from state and municipal bonds, or artificially limit the value of these and other itemized deductions to a given percent of taxpayer income. Each would cost American taxpayers billions of dollars in higher taxes, and would do so through an unfair double taxation scheme that dissolves more than 150 years of our nation's history.

This action could further weaken our economic recovery.

Allowing taxpayers to deduct their state and local taxes from their federal taxable income is a fundamental statement of the long-standing historical right of state and local governments to raise revenues and taxpayers not to be double taxed. It has been the law of the land since the Revenue Act of 1862, the country's first income tax, was enacted to finance the Union effort in the Civil War, and confirmed in the modern income tax, following the ratification of the Sixteenth Amendment to the Constitution in 1913. Setting all this aside would not be equivalent to 'closing a loophole' as some have described that action; it would double tax the taxpayer, undermining states' rights and federal partnerships with state and local governments that further the national interest.

In addition to being the most-established, the deduction for state and local taxes paid is also the most widely used benefit in the tax code. For corporations and business filers, taxes paid to state and local governments are regarded as a cost of doing business and reduced from income. And virtually all among the approximately 47 million individuals filing itemized returns nationally claimed a deduction for state and local taxes paid.

Five states had 40 percent or more of their taxpayers claim a deduction from federal taxable income for state and local taxes paid: Maryland highest at nearly half, followed by Connecticut, New Jersey, Virginia and Massachusetts. A next group of eleven states and the District of Columbia have between 35 and 40 percent of their taxpayers claiming this deduction (including in descending order): Minnesota, the District of Columbia, Utah, Oregon, Colorado, Wisconsin, Rhode Island, California, New York [14th overall], New Hampshire, Delaware and Washington.[1]

Elimination of the federal deduction for state and local taxes paid would result in a significant tax increase for many taxpayers, including those in New York. It would take $14.8 billion in additional federal tax liability from New York families, for an increase of more than 30 percent—over $4,500 —per taxpayer.

[1] A third tier of 17 states have from 30 to 35 percent of their taxpayers claiming this deduction, followed by six between 25 and 30 percent and eleven below 25 percent. Source: State and Local Taxes Paid Deduction, by State, Tax Year 2010. From IRS, Statistics of Income Division, Individual Master File System, December 2011, and Tax Policy Center calculations, January 23, 2013.

Elimination of the federal deduction for state and local taxes paid would result in a significant tax increase for many taxpayers, including those in New York. It would take $14.8 billion in additional federal tax liability from New York families, for an increase of more than 30 percent—over $4,500 —per taxpayer.

The proposed repeal would impact taxpayers in every region of New York. The estimated impact ranges from an increase of $2,300 in the Mohawk region to nearly $5,500 for taxpayers in New York City.

An increase in federal taxes as a result of the elimination of the federal deduction will have other negative effects that would further harm New York including thousands of lost jobs and multibillion dollar loss in gross state product, economic activity and personal income—losses at a time when the state and nation are in a still fragile economic recovery after the Great Recession.

The alternative proposals to cap, but not eliminate the deduction will also result in significantly higher taxes for many New Yorkers, like taxpayers all across the country. Proposals to limit the value of itemized deductions claimed on a taxpayer's federal return to no more than 28 percent of the total amount claimed would result in a $3.8 billion tax increase for approximately 207,000 taxpayers in New York. Taxpayers across all regions of the State would experience a considerable tax increase, estimated to range from over $8,000 in the North Country to nearly $20,000 in the New York City region.

Additionally, proposals to impose a new federal tax on interest income from state and local government debt obligations would cripple the $3 trillion municipal bond market and increase borrowing costs for state and local governments. Tax-exempt interest income earned on state and local borrowing has existed for more than 200 years; it is the key feature which enables state and local governments to access necessary private investments for critical infrastructure projects. It is estimated that the spike in borrowing costs could be anywhere from 51-166 basis points depending upon the proposal. The result would lead to an increase in local taxes, a reduction in infrastructure spending nationwide, and a significant unsettling of the bond market with ripple effects in the economy.

In New York, the resulting increases in borrowing costs would be considerable. Higher costs for borrowing now included in the State's Five Year Capital Plan are estimated at $15.9 billion, based on a bond life of 30 years.

Federal taxation of interest income on state and municipal debt would cost New York taxpayers approximately $1.7 billion in additional federal income tax. As a result, taxpayers in New York would see their federal tax bill increase by over $3,200 on average.

Introduction—the Tax Threat to New York

> ***"Since the federal government needs money, here is a quick way to pick up about $70 billion -- eliminate the deduction for state and local taxes…"***
>
> ***--David Brunori, Professor George Washington University and Deputy Publisher for the Tax Analysts (non-profit tax analysis group)***

Through the Civil War, the Great Depression, two World Wars and countless lesser challenges to the Nation, a fundamental principle of tax fairness and American federalism has stood inviolate: income used to pay for state and local government should not be double taxed by the federal government. But the challenges met by ten generations of our ancestors who built the peace, opened the West, brought electricity, freeways, sustenance, new technology and untold opportunities where none existed—these challenges pale, apparently, in comparison to the now-greater burden that requires the federal government to tax again the income that taxpayers have already used to pay for their own state and local government.

However, growth of the federal deficit and debate over which steps are needed to reduce it have led to a search for ways in which the income tax base can be broadened to produce additional revenue without new taxes. The elimination of the federal tax deduction for state and local taxes paid and interest on state and municipal bonds have become part of the policy conversation as a tax 'loophole.'

The threat of the elimination of the federal tax deduction is very real and would have significant consequences on New York taxpayers.

Recent federal tax reform commissions, including the President's 2010 National Commission on Fiscal Responsibility and Reform (Bowles-Simpson Commission), have advanced tax reform proposals that would eliminate various deductions in exchange for lower tax rates. One of the deductions often targeted is the deduction for state and local taxes.

The President's previous four proposed budgets, and his "fiscal cliff" aversion plan, included a 28 percent cap on itemized deductions for individuals that itemize their federal tax return.

In December 2012, House Republican leadership – Speaker Boehner (R-OH), Majority Leader Eric Cantor (R-VA), Majority Whip Kevin McCarthy (R-CA), Ways & Means Committee Chairman Dave Camp (R-MI), and Budget Committee Chairman Paul Ryan (R-WI) – proposed a $2.2 trillion plan to avert the "fiscal cliff" which included $800 million in new revenue by closing tax loopholes and limiting itemized tax deductions. Following the plan's release, Speaker Boehner refused to support any tax rate increase but supported new revenues through deduction caps, saying "…You can cap. There are a lot of different ways but you can cap deductions at a percent of income." The House Republican plan was not adopted.

In early 2013, Chairman Dave Camp (R-MI) committed the Ways & Means Committee to passing a comprehensive tax reform bill this year. In addition to 20 tax reform hearings held in 2011 and 2012, the Chairman has convened several tax reform hearings this year and established 11 separate Tax Reform Working Groups to research and analyze all aspects of the current tax code. On March 19, Chairman Camp held a hearing that focused on tax provisions that affect state and local governments. During the hearing, Chairman Camp was highly critical of the state and local income tax deduction because of its high utilization in only three states: California, New York, and New Jersey. Chairman Camp states, "Those findings, and many more that have been uncovered over the years, raise significant concerns about whether the current tax code is being used to pick winners and losers."[2]

There are other organizations, experts and stakeholders that defend this long-standing ability for taxpayers to deduct their state and local taxes. For example, the National Governor's Association *Guiding Principles for Federal Tax Reform* notes five areas that must govern Congress' approach to tax reform. Primary among them is state sovereignty. No federal law or regulation should preempt or interfere with the statutory right of states to develop and operate their revenue systems.[3]

"The deduction for State and local taxes has been such a long-standing and accepted part of our Federal income tax…"

--John Buckley, Georgetown University Law School Graduate Tax Program Testimony before the House Ways & Means Committee, March 19, 2013

In addition, Ways and Means Committee Ranking Member Sander Levin (D-MI), has argued against eliminating the deduction stating

"The deduction for state and local taxes was established so that taxpayers would avoid double taxation. The key question is what else Republicans support eliminating in their quest to dramatically lower tax rates for the very highest earners. The proposal to eliminate the deductibility of property taxes is particularly reckless as we emerge from a housing-led recession. Because the value of the deduction is generally understood to be capitalized into the price of housing, eliminating the deduction risks a widespread drop in housing prices, further damaging fragile markets."[4]

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[2] Opening Statement of Committee on Ways and Means Chair Dave Camp: Hearing on Tax Reform and Tax Provisions Affecting State and Local Governments, Tuesday, March 19, 2013. http://camp.house.gov/news/documentsingle.aspx?DocumentID=324618

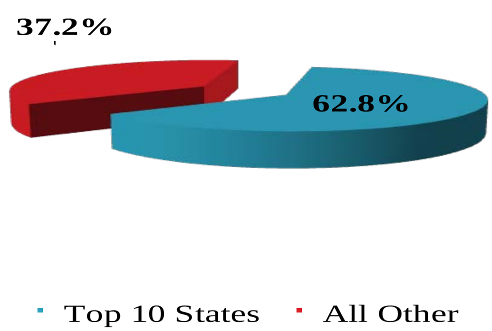
[3] Statement of David Parkhurst, Director, Economic Development and Commerce Committee of the National Governor's Association, to the House Ways and Means Committee; March 19,2013.

[4] *See* Rep. Levin Press Release at http://democrats.waysandmeans.house.gov/press-release/levin-statement-deduction-state-and-local-taxes.

However, the congressional threat to state and local taxpayers is fueled by outside advocacy groups that have been more explicit about the underlying politics of eliminating the federal tax deduction. Testifying before Congress, the Tax Foundation's Scott Hodge asserted—contrary to fact—that "The highest-income states—such as New York, New Jersey, Connecticut, Massachusetts, and Virginia— all have among the highest percentage of filers claiming the deduction of all 50 states."[5] New York actually ranks 14th, below such states as Virginia, Wisconsin and Utah. Hodge went on to editorialize in Forbes that, "The states with the largest amount of 'taxes-paid' deductions currently spend nearly $2,800 more per person on average than states with lower amounts of deductions."[6]

Share of Tax Increase by State

Share of Tax Increase



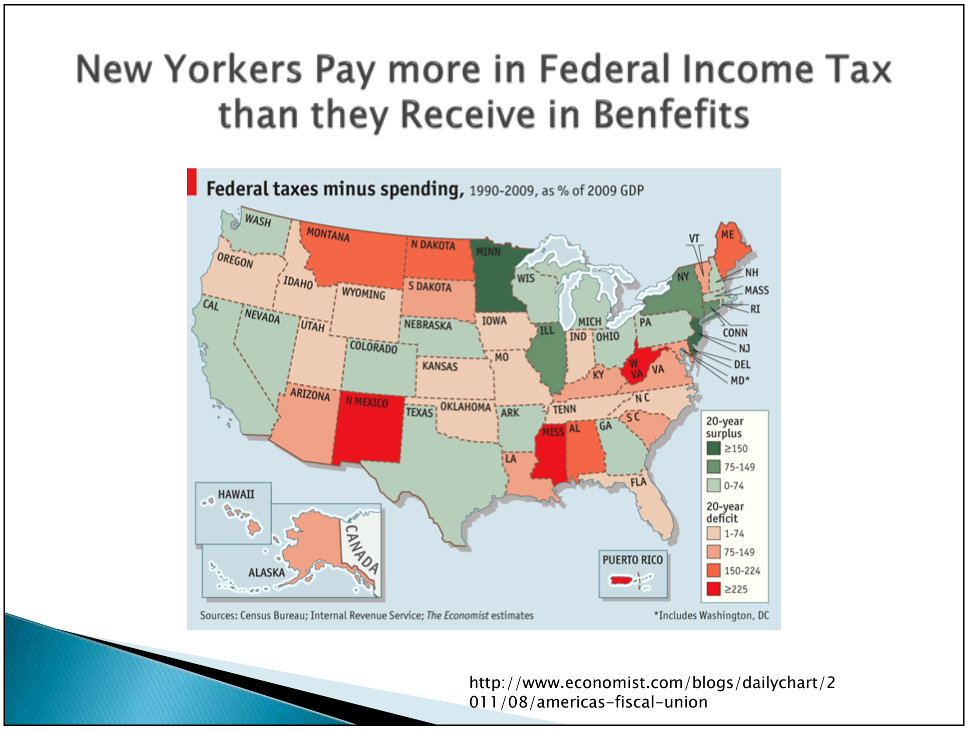
California	18.5%
New York	14.8%
New Jersey	6.7%
Illinois	4.0%
Pennsylvania	3.7%
Massachusetts	3.6%
Maryland	3.2%
Virginia	3.1%
Ohio	3.0%
Michigan	2.2%
Total:	**62.8%**

It has been well documented that New York is a net creditor to the federal government – its citizens pay more in federal taxes than they receive in federal assistance; in fact, more so than any other state. Over the last two decades (from 1990 to 2009) New Yorkers have paid in more than $3 trillion in taxes to the Federal Government, yet received only $2.3 trillion in federal benefits. Or put another way, New Yorkers have paid over a trillion dollars more in taxes than they received from the federal government over the last two decades (1990-2009). The

[5] Scott A. Hodge, President, Tax Foundation. Testimony before the House Ways & Means Committee, March 19, 2013.

[6] Hodge Op-Ed. *For the Sake of Tax Reform, The Muni Bond Exemption (and State Tax Deduction) Must Go*. Forbes. March 21, 2013 http://www.forbes.com/sites/realspin/2013/03/21/for-the-sake-of-tax-reform-the-muni-bond-and-state-tax-exemptions-must-be-abolished/.

difference equates to nearly 87 percent of the State's total GDP in 2009.[7] One of the ways in which this imbalance of payments has been mitigated is through the deduction from federal taxes for state and local taxes paid and through the income exclusion applied to interest from state and local bonds.



It helps to remember how we came to be here. State and local governments supply a number of services that have nationwide benefits and may be thought of as principally federal in nature, and the national government—having a vested interest in ensuring these services are provided—properly assists those governments financially, either through direct grants or subsidies. The deductibility of state and local taxes must be seen in this fuller context: not in comparison to a federal tax expenditure meant to encourage individual investors and American companies to invest overseas—and one may well ask why we do that—but in comparison to other ways in which the federal government works in partnership with state and local governments through direct grants and subsidies to further the national interest.

> ***It has been well documented that New York is a net creditor to the federal government – its citizens pay more in federal taxes than they receive by way of federal assistance; in fact, more so than any other state.***

Perhaps the late Senator Daniel Patrick Moynihan best

[7] *America's Fiscal Union, The Red and the Black: Where Federal Dollars are Raised and Spent*. The Economist. August 1, 2011. http://www.economist.com/blogs/dailychart/2011/08/americas-fiscal-union.

summed up the issue at hand. “On 1 July 1862, President Abraham Lincoln signed the Revenue Act of 1862, the first national income tax,” Senator Moynihan wrote. “It provided that all other national, state and local taxes . . . shall first be deducted to determine a taxpayer's liability for the income tax--and this under the most pressing emergency conditions ever faced by our country. In 1862, the chairman of the House Ways and Means Committee was Justin Smith Morrill. Chairman Morrill, reporting the tax bill, explained that, as a matter of simple logic, the deduction would be necessary both to avoid double taxation and to preserve a principle of federalism.”[8]

We turn next to the magnitude of the tax increase on New York residents that will result from elimination or limitation of the deductibility of state and local taxes paid from additional federal taxation, and explain why such provisions are vital to the interest of New Yorkers and Americans in general.

The Costs of the Elimination of the Federal Tax Deduction to New York

About 36 percent or 3.3 million taxpayers in New York itemized deductions on their federal return in 2010, and virtually all—99.6 percent of them—claimed a deduction for state and local taxes paid. These deductions totaled over $57 billion, compared to $23 billion for the home mortgage interest deduction and $15 billion for the individual charitable contributions deduction.

The Cost of Eliminating the Federal Deduction for State and Local Taxes Paid

The proposal to repeal this itemized deduction would result in a $14.8 billion federal tax increase for New York families, with an average increase of over $4,500 per taxpayer. This represents more than a 30 percent increase in the federal tax bill for affected New Yorkers.

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Table 1 reports the estimated impact of this proposed federal tax increase on New Yorkers, by adjusted gross income levels. The more than 1.2 million taxpayers with federally adjusted gross incomes of between $50,000 and $100,000 would pay more than $2.2 billion in higher federal taxes, at more than $1,800 each. New York filers with adjusted incomes of between $200,000 and $300,000 would pay more than $1 billion in higher federal taxes, at about $5,700 each.

[8] Daniel Patrick Moynihan. *Constitutional Dimensions of State and Local Tax Deductibility*. Publius, The Journal of Federalism. Vol. 16, No. 3, (Summer, 1986), pp.71-77.

Table 1: Federal Tax Increase on New Yorkers from Repeal of State and Local Tax Deduction – By Income

FedAGI Range	# of Taxpayers	% of Total	Tax Increase (in millions $)	% of Total	Average Tax Increase
LESS THAN $50,000	833,700	25.4%	$573	2.4%	$690
$50,000 TO $100,000	1,229,300	37.5%	$2,226	11.7%	$1,810
$100,000 TO $150,000	591,900	18.1%	$1,423	12.4%	$2,400
$150,00O TO $200,000	262,700	8.0%	$941	8.7%	$3,600
$200,000 TO $300,000	177,000	5.4%	$1,006	9.9%	$5,700
$300,000 TO $500,000	99,000	3.0%	$1,193	9.9%	$12,000
$500,000 TO $1 MILLION	47,700	1.5%	$1,406	10.3%	$29,500
$1 MILLION TO $2 MILLION	22,000	0.7%	$1,412	9.1%	$64,300
$2 MILLION TO $5 MILLION	10,000	0.3%	$1,449	8.7%	$145,000
GREATER THAN $5 MILLION	4,500	0.1%	$3,160	17.0%	$701,200
TOTAL	**3,277,800**		**$14,789**		**$4,500**

Source: New York State Department of Taxation and Finance analysis of 2010 Federal Statistics of Income (SOI)

For another perspective: Take an illustrative taxpaying New York City family of four with Federal adjusted gross income of $200,000. Under current tax law, this New York family would have a Federal personal exemption of $15,600, and deductions from federal income tax of $11,183 paid for New York State personal income tax, $6,449 paid for New York City personal income tax, and $3,777 paid for property taxes. The sum of these deductions for state and local taxes paid— $21,408—would lower the family's taxable income on the Federal income tax to $162,992, and the family would owe $33,103 in Federal tax liability.

However, this same family would be treated quite differently if the deductions for state and local taxes paid were eliminated. The Federal personal exemption of $15,600 would remain, and the family would have a standard deduction of $12,200. But they would lose $21,408 in deductions for state, local and property taxes they must pay, raising their taxable income to $172,200. They would owe an additional $2,578 in federal taxes for a total federal liability of $35,682—an increase of 8 percent. The benefit to the family from the recent reduction in New York State personal income tax rates to 6.65 percent from 6.85 percent—a savings of $365 in this example—would be swamped by the effects of the Federal elimination of state and local tax deductibility.[9]

[9] Another example: a taxpaying New York City family of four with Federal adjusted gross income of $150,000. Under current tax law, this New York family would have a Federal personal exemption of $15,600, and deductions from Federal income tax of $7,901 paid for New York State personal income tax, $4,625 paid for New York City personal income tax, and $3,052 paid for property taxes. The sum of these deductions for state and local taxes paid— $15,578—would lower the family's taxable income on the Federal income tax to $118,822, and the family would owe $20,736 in Federal tax liability. If the deductions for state and local taxes paid were eliminated, the Federal personal exemption of $15,600 would remain, and the family would have a standard deduction of $12,200. But they would lose $$15,578 in deductions for state, local and property taxes they must pay, raising their taxable income to $122,200. They would owe an additional $946 in federal taxes for a total Federal liability of $21,682—an increase of 5 percent. The benefit to the family from the recent reduction in New York State personal income tax rates to 6.45 percent from 6.85 percent -- a savings of $389 in this example – would be swamped by the effects of the Federal elimination of state and local tax deductibility. These illustrative taxpayers are assumed to be a resident filer, married and filing jointly, with two children and living in New York City; based on a sample of actual New York

	Current Federal law	Eliminated State and Local Deduction
Federal AGI	$200,000	$200,000
Federal personal exemption	$15,600	$15,600
Federal standard deduction	0	$12,200
Deduction for NYS PIT	$11,183	0
Deduction for NYC PIT	$6,449	0
Deduction for Property Tax	$3,777	0
Sum for State/Local Taxes Deduction	$21,408	0
Federal Taxable Income	$162,992	$172,200
Federal Tax	$33,103	$35,682
Increase in Federal Tax		$ 2,578 or 8 percent

The proposed repeal of the federal deduction for state and local taxes paid would impact taxpayers in every region of New York.

Table 2 reports the impact eliminating the deduction would have on taxpayers in each of New York's 10 Economic Development Regions. The average tax increase ranges from approximately $2,300 in increased liability for affected taxpayers in the Mohawk Valley region and $2,900 across much of upstate New York, to $4,300 on Long Island and more than $5,000 for taxpayers in the Mid-Hudson Valley and New York City.

Table 2: Regional Impact of Proposed Repeal of State and Local Taxes Paid Deduction

Region	*# Taxpayers Impacted*	*Millions $*	*% of NYS Impact*	*Average Increase*
Western New York	139,101	$389	2.6%	$2,800
Finger Lakes	159,948	$469	3.2%	$2,900
Southern Tier	55,651	$156	1.1%	$2,800
Central New York	90,926	$262	1.8%	$2,900
Mohawk Valley	39,612	$93	0.6%	$2,300
North Country	27,191	$64	0.4%	$2,400
Capital Region	171,769	$499	3.4%	$2,900
Mid-Hudson	596,972	$2,984	20.2%	$5,000
New York City	1,081,217	$5,905	39.9%	$5,500
Long Island	915,437	$3,969	26.8%	$4,300
Total NYS:	**3,277,825**	**$14,789**	**100.0%**	**$4,500**

Source: NYS Department of Taxation and Finance analysis of 2010 Personal Income Tax Population File

State tax return data for 2010 and the Budget Division economic forecast, with liability estimates based on 2013 tax law.

The Cost of Capping the Value of Itemized Deductions at 28 Percent

Under current law, individual taxpayers may elect to itemize their deductions instead of claiming a standard deduction. The allowable portion of an individual taxpayer's itemized deductions reduces the amount of taxable income.[10] The Obama administration proposes to cap at a maximum of 28 percent the tax rate at which taxpayers can use itemized deductions and other tax preferences to reduce tax liability.[11]

This change would apply after the Pease limitation on itemized deductions, possibly reducing the value of itemized deductions even further.[12] In combination, this could limit the tax savings from itemized deductions to as little as 5.6 percent of covered expenses, a value at about one-seventh the tax savings that taxpayers would otherwise receive absent these changes.[13]

[10] The value of the tax savings is equal to the marginal tax rate multiplied by the size of the deduction. The value of the deduction increases as taxpayers' income moves them into higher tax brackets. For example, for a taxpayer in the 35 percent tax bracket, an itemized deduction of $1,000 reduces tax liability by $350 ($1,000 x 35 percent), while that same deduction would only provide a $100 reduction in liability for a taxpayer in the 10 percent tax bracket.

[11] Meaning that taxpayers in the top three individual income tax rate brackets of 33, 35, and 39.6 percent would have the value of deductions capped at 28 percent. The limit would apply to all itemized deductions, interest on tax-exempt bonds, employer-sponsored health insurance, deductions and income exclusions for employee retirement contributions, and certain above the line deductions. It should be noted that the 2014 proposal is broader than the administration's previous proposals, covering not only itemized deductions, but for the first time, including special exclusions from income, such as the value of employer sponsored health insurance benefits and interest on state and local municipal bonds in the calculation of the 28 percent limitation.

[12] The American Taxpayer Relief Act of 2012, passed on January 1, 2013 to avoid the "fiscal cliff", reintroduced the limitation on itemized deductions –known as the Pease Amendment--for families with incomes above $300,000 and single taxpayers with income above $250,000. The limitation is effective for taxable years beginning after December 31, 2012. The reduction reduces most itemized deductions by 3 percent of the amount by which AGI exceeds a specified threshold, up to a maximum reduction of 80 percent of itemized deductions. The reinstatement of the Pease itemized deduction limitation will result in an additional $1.6 billion in federal tax liability for approximately 185,000 New York taxpayers in 2013. Affected New York taxpayers will see an average increase of $8,700 in 2013. The average increase ranges from approximately $4,200 in the North Country region to $11,100 for New York City residents.

[13] An analysis done by the Tax Policy Center estimated that the administration's FY2013 proposal would limit the value of deductions and specific exclusions for about one-seventh of taxpayers in the top income quintile in 2013, raising their taxes by an average of more than $10,000, relative to current law. Nearly 85 percent of taxpayers in the top 1 percent would pay more tax, an average increase of about $24,000.Tax Policy Center Tax Topics, 2013 Budget Proposals - Limit the Value of Certain Tax Expenditures, http://www.taxpolicycenter.org/taxtopics/2013-Budget-Limit-the-Value-of-Itemized-Deductions.cfm.

Alternative proposals to cap, but not eliminate deductibility of state and local taxes will still result in significantly higher taxes for many New Yorkers.

The proposal to limit itemized deductions and special exclusions claimed on a taxpayer's federal return to no more than 28 percent of their total value would result in a $3.8 billion tax increase for approximately 207,000 taxpayers in New York.[14]

Alternative proposals to cap, but not eliminate deductibility of state and local taxes will still result in significantly higher taxes for many New Yorkers.

Table 3 reports the estimated impact of this proposed federal tax increase on New Yorkers, according to adjusted gross income levels. The 35,100 taxpayers with federally adjusted gross incomes of between $200,000 and $300,000 would pay more than $79 million in higher federal taxes, at more than an additional $2,200 each. The average increase in federal taxes of $18,240 per affected taxpayer in New York reflects the larger amounts borne by New Yorkers in higher income brackets.

Table 3: Increase in Federal Taxes From 28 Percent Limitation on Itemized Deductions

FedAGI Range	*# of Taxpayers*	*% of Total*	*Change in Tax Liability (in millions $)*	*% of Total Change in Lilability*	*Average Change in Liability*
LESS THAN $50,000	0	0.0%	$0	0.0%	$0
$50,000 TO $100,000	0	0.0%	$0	0.0%	$0
$100,000 TO $150,000	1,280	0.6%	0.8	0.0%	$730
$150,00O TO $200,000	2,130	1.0%	3.8	0.1%	$1,790
$200,000 TO $300,000	35,100	16.7%	79.1	2.1%	$2,260
$300,000 TO $500,000	85,700	41.4%	371.9	9.8%	$4,340
$500,000 TO $1 MILLION	47,100	22.7%	532.2	14.0%	$11,300
$1 MILLION TO $2 MILLION	22,000	10.6%	598.8	15.8%	$27,180
$2 MILLION TO $5 MILLION	10,000	4.8%	622.1.	16.4%	$62,430
GREATER THAN $5 MILLION	4,500	2.2%	1,403.0	43.5%	$312,200
TOTAL NYS	**207,800**		**$3,788**		**$18,240**

Source: New York State Department of Taxation and Finance analysis of 2010 Federal Statistics of Income (SOI)

The proposal to limit the value of itemized deductions claimed on a taxpayer's federal return to no more than 28 percent will affect taxpayers in every region of New York.

[14] However, this likely underestimates the true amount of the tax increase because many of the items included in the limitation are not included in the IRS' Statistics of Income data that was utilized to conduct the estimate. Of note, data at the micro level for the value of employer sponsored health care and employer contributions to 401(k) plans are not available and therefore the impact of their inclusion in the proposal is undetermined.

Table 4 reports the impact the 28 percent itemized deduction limitation would have on taxpayers in each of New York's 10 Economic Development Regions. The tax increase ranges from about $9,400 in the North Country to above $10,000 across much of upstate New York, to more than $15,000 on Long Island, nearly $17,500 for taxpayers in the Mid-Hudson Valley and over $22,000 in New York City.

Table 4: Regional Impact From 28% Limit on Value of Itemized Deductions

Region	*# Taxpayers Impacted*	*$ Millions*	*% of NYS Impact*	*Average Increase*
Western New York	6,200	$67	1.8%	$10,930
Finger Lakes	6,300	$70	1.8%	$11,050
Southern Tier	2,700	$28	0.7%	$10.390
Central New York	3,700	$39	1.0%	$10,420
Mohawk Valley	1,300	$13	0.3%	$9,740
North Country	1,000	$9	0.2%	$9,380
Capital Region	6,300	$72	1.9%	$11,350
Mid-Hudson	41,500	$724	19.1%	$17,430
New York City	90,600	$2,037	53.8%	$22,480
Long Island	48,200	$730	19.3%	$15,160
Total NYS	**207,800**	**$3,788**		**$18,240**

Source: NYS Department of Taxation and Finance analysis of 2010 Personal Income Tax Population File

Many of the criticisms of the proposal to eliminate the deductibility of state and local taxes paid are applicable to this proposal as well. Given that the taxes paid deduction is the largest item of deductibility, its benefits would be severely restricted under the 28 percent cap limitation as well.

An additional criticism of this proposal relates to its potential impact on charitable giving. Some studies have found that an increase in the tax price of charitable contributions reduces the overall level of giving. In 2010, over $170 billion was claimed as charitable itemized deductions in the US. Of this total, $110.5 billion, or approximately 65 percent, was claimed by taxpayers earning over $100,000 annually. In 2010, more than 2.8 million New Yorkers claimed a deduction for charitable contributions, deducting nearly $15 billion from their federal income.

The Cost of Imposing Federal Taxation of Interest on State and Municipal Bonds

The proposal to tax interest on state and municipal bonds would be doubly harmful to New Yorkers—adding both to the burden of federal taxes and to the cost of needed vital investments in public infrastructure and the economy.

New York residents claimed $8.3 billion in tax-exempt interest in 2010. Repealing this exemption would cost New York taxpayers approximately $1.7 billion in additional federal income tax. As a result, taxpayers in New York would see their federal tax bill increase by over $3,200 on average.

Table 5 reports the estimated impact of this proposed federal tax increase on New Yorkers, according to a range of adjusted gross income levels. It shows that approximately 80 percent of those claiming tax-exempt interest had adjusted incomes less than $250,000 and accounted for 44 percent of the total exclusion.

Table 5: Profile of Taxpayers Tax Exempt Interest on Municipal Bonds

FAGI Range	# of Taxpayers	% of Total	Tax Exempt Interest	% of Total
Less than $25,000	73,700	14.0%	$714,688,000	8.6%
$25,000 to $50,000	77,400	14.7%	$374,516,000	4.5%
$50,000 to $75,000	64,500	12.3%	$392,143,000	4.7%
$75,000 to $100,000	68,800	13.1%	$547,749,000	6.6%
$100,000 to $150,000	68,500	13.0%	$657,607,000	7.9%
$150,000 to $200,000	41,800	8.0%	571,649,000	6.9%
$200,000 to $250,000	28,000	5.3%	$417,475,000	5.0%
$250,000 to $300,000	17,600	3.4%	$306,174,000	3.7%
$300,000 to $500,000	36,900	7.0%	$810,027,000	9.7%
$500,000 to $750,000	14,400	2.7%	$461,454,000	5.5%
$750,000 to $1 million	9,800	1.9%	$364,317,000	4.4%
$1 million to $2 million	12,700	2.4%	$781,056,000	9.4%
$2 million to $5 million	7,200	1.4%	$819,921,000	9.8%
Greater than $ 5 million	3,600	0.7%	$1,124,474,000	13.5%
Total	**525,100**		**$8,343,251,000**	

Source: New York State Department of Taxation and Finance analysis of 2010 Federal Statistics of Income (SOI)

By 2014 and beyond, the interest cost associated with the loss of the municipal bond tax exemption would become quite burdensome to State taxpayers. The figure below shows the debt-service impact of losing the tax exemption over the State's five year capital plan. Higher costs for borrowing that is now included in the State's Five Year Capital Plan are estimated at $15.9 billion, based on a bond life of 30 years.[15]

[15] Based on a New York State Budget Division analysis, the annual debt service impact per $1 billion in proceeds is estimated at $14 million. Thus, the volume of new issuances and refundings listed would generate additional interest costs totaling $15.9 billion, assuming a bond life of 30 years.

STATE-SUPPORTED DEBT SERVICE IMPACT OF NO TAX-EXEMPTION
PROJECTIONS FY 2014 THROUGH FY 2018
(Dollars in thousands)

		FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	Life Total
New Money Issuances							
FY 2014	5,022,390	70,528	70,528	70,528	70,528	70,528	2,115,854
FY 2015	5,059,716	-	71,053	71,053	71,053	71,053	2,131,579
FY 2016	5,855,919	-	-	82,234	82,234	82,234	2,467,007
FY 2017	5,089,583	-	-		71,472	71,472	2,144,161
FY 2018	4,498,714	-	-			63,175	1,895,238
		70,528	**141,581**	**223,815**	**295,287**	**358,461**	**10,753,838**
Refunding Issuances		**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**Life Total**
FY 2014	2,000,000	28,086	28,086	28,086	28,086	28,086	859,197
FY 2015	2,000,000	-	28,086	28,086	28,086	28,086	859,197
FY 2016	2,000,000	-	-	28,086	28,086	28,086	859,197
FY 2017	2,000,000	-	-	-	28,086	28,086	859,197
FY 2018	2,000,000	-	-	-	-	28,086	859,197
		-	-	-	-	-	859,197
Total		**28,086**	**56,171**	**84,257**	**112,342**	**140,428**	**5,155,185**
Grand Total		**98,614**	**197,752**	**308,072**	**407,629**	**498,889**	**15,909,023**

1. Assumes 30 year level debt structure

2. Assumes taxable debt service is $14m higher annually per billion issued based on an analysis by the State's financial advisor.

The Historical and Fundamental Reasons Why Income Used to Pay State and Local Taxes Isn't Double Taxed

The provision of the federal income tax code that allows taxpayers to deduct their state and local tax payments from their federal taxable income is a fundamental statement of the historical right of state and local governments to raise revenues and of taxpayers not to be double-taxed.[16]

States' Rights and Protection from Double Taxation

The original rationale for the deduction of state and local taxes stems from two objectives: to ensure that the federal government and the state governments each possess adequate powers to raise revenues, and that individuals not be oppressed by double taxation. Some framers of the U.S. Constitution, in giving Congress the power to lay and collect taxes, expressly feared that "all the resources of taxation might by degrees become the subjects of federal monopoly, to the entire exclusion and destruction of the State government."[17]

The deduction for State and local taxes has been a long-standing and accepted part of our Federal income tax.

Their solution was one of complementarity, ensuring a partnership of dual sovereigns that would organize and align rather than overlap and doubly-burden the taxpayer: "As to the suggestion of double taxation, the answer is plain. The wants of the Union are to be supplied in one way or another; if to be done by the authority of the federal government, it will not be [sic] to be done by that of State government." State and local taxes, along with federal taxes, were the only deductions specified in the Revenue Act of 1862, the country's first income tax, enacted to finance the Union effort in the Civil War. At the time of its enactment, "the deduction of state and local taxes was seen by the chairman of the House Ways and Means Committee, Justin Smith Morrill, as a protection from encroachment on the states: "the General Government should not absorb all their taxable resources-that the accustomed objects of State taxation should, in some degree at least, go untouched. The orbits of the United States and the States must be different and not conflicting."[18]

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[16] Policy Statement of the Government Finance Officers Association on the Deductibility of State and Local Property, Sales and Income Taxation, adopted May 28, 1985, online at http://www.gfoa.org/index.php?option=com_content&task=view&id=2145.

[17] Alexander Hamilton, James Madison, and John Jay, *The Federalist Papers*, ed. E. M. Earle (New York: Modern Library, n.d.), no. 31, p. 191, and no.36 at p.221-222; as quoted in Sarah F. Liebschutz and Irene Lurie. *The Deductibility of State and Local Taxes*. Publius, The Journal of Federalism. Vol. 16, No. 3, (Summer, 1986). P.51-70.

[18] Congressional Globe, 12 March 1862, as quoted in Liebschutz and Lurie p.53.

The deduction for State and local taxes was also incorporated into the modern income tax, following the ratification of the Sixteenth Amendment to the Constitution in 1913. When first enacted, all taxes (including federal, state, and local taxes not directly tied to a benefit) were deductible against federal income.

The deduction for State and local taxes has been such a long-standing and accepted part of our Federal income tax that there was no official legislative history justifying its existence until 1964. The legislative history accompanying the Revenue Act of 1964, for the first time, set forth the Congressional rationale for the deduction:

> In the case of State and local income taxes, continued deductibility represents an important means of accommodation where both the State and local governments on one hand, and the Federal government on the other hand, tap this same revenue source, in some cases to an important degree. A failure to provide deductions in this case, could mean that the combined burden of State, local and Federal income taxes might be extremely heavy – Ways and Means Committee Report, 1963.[19]

The State and local tax deduction protects against the tax-pyramiding effect of taxes being imposed on the same income by different jurisdictions. Put another way, the income used to pay taxes for state and local governments is not also available to pay taxes to the federal government; it is mandatory spending that reduces an individual's disposable income, and therefore, that income is not really available to the individual for consumption.

"It's just not fair for Texans to pay additional taxes on the very money they used to pay their state tax… (Taxpayers) should be allowed to keep their hard-earned money, not be punished with an additional tax,"

--Senators Hutchinson and Cornyn (R-Texas)

This very point was articulated in a joint statement by US Senators Hutchinson and Cornyn of Texas and Alexander and Corker of Tennessee, when arguing for enacting equivalent and permanent deductibility of state and local sales taxes paid when calculating federal taxation. Taxpayers "have their purchases taxed by the state government, and then are taxed by the federal government on the income they use to pay the sales tax," Sen. Hutchison said. "It's just not fair for Texans to pay additional taxes on the very money they used to pay their state tax." Taxpayers "should be allowed to keep their hard-earned money, not be punished with an additional tax," Senator Cornyn said. "Making the state sales tax deduction permanent keeps more money in the pockets of hard-working families and it's the right thing to do, added Senator Corker."[20]

[19] John Buckley, Testimony Before the House Ways and Means Committee, Hearing on Tax Reform and Tax Provisions Affecting State and Local Governments, March 19, 2013.

[20] *See Cornyn, Hutchinson Call on Senate to Pass State Sales Tax Deduction Bill*, October 25, 2007. Office of Senator John Cornyn Press release at

The federal tax code includes another provision to prevent double taxation – the foreign tax credit. This credit provides a dollar for dollar reduction in federal tax liability for taxes paid to foreign countries. "That credit has never been attacked as a subsidy for foreign governments. It is designed to avoid double taxation. Similarly, the deduction for state and local income taxes is an accommodation for taxes imposed by state and local governments, a far less generous accommodation than is accorded to income taxes imposed by foreign countries."[21]

"The rationale for the deduction for state and local taxes is closely related to the rationales for fiscal federalism—the systematic division of responsibilities among the federal, state, and local governments in terms of the services they provide to taxpayers. As a general principle, a number of public services are provided at the state and local—not at the federal—level. [S]maller governmental units may perform many services more efficiently than larger units because they are better acquainted with the local circumstances in which those services are provided."[22] The states are partners with the federal government in effectuating many national goals for which they are only partly compensated. States are a major partner in administering the Medicaid program, which has grown to be the largest item in state budgets, and yet they are generally only reimbursed for half the expense.

The Economic Consequences of Repealing the Deduction

In 2010, approximately 33 percent of all filers, about 47 million, chose to itemize deductions on their federal return. Nearly all of them claimed a deduction for state and local taxes paid, reducing taxable income by $450 billion. The itemized deduction for taxes paid is the largest of the deductions allowed, compared, for example, with the home mortgage interest deduction of $390 billion and $170 billion for the individual charitable contributions deduction.

Taxpayers who itemize deductions can elect to deduct state and local sales taxes in lieu of deducting state and local income taxes. About 72 percent of itemizers deducted income taxes in 2010, while 25 percent, mostly in states without a general state income tax, chose to deduct sales taxes. About 78 percent of itemizers deducted real estate taxes.

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http://www.cornyn.senate.gov/public/index.cfm?p=NewsReleases&ContentRecord_id=d7ec0bcb-802a-23ad-4e17-0b53f95b9af4&ContentType_id=b94acc28-404a-4fc6-b143-a9e15bf92da4&Group_id=24eb5606-e2db-4d7f-bf6c-efc5df80b676&MonthDisplay=10&YearDisplay=2007.

[21] John Buckley Testimony, *Op Cit*.

[22] Congressional Budget Office, The Deductibility of State and Local Taxes, February 2008, at www.cbo.gov.

Table 6: Major Federal Itemized Deductions

Itemized Deductions	*# of Filers*	*Total Deducted*
Total itemized deductions:	**47,248,012**	**1,232,542,146**
State and local income taxes:	33,920,778	248,596,330
State and local general sales tax:	11,498,887	17,648,856
Real estate taxes:	41,095,824	172,423,697
Total taxes paid:	**46,869,178**	**449,595,016**
Mortgage interest paid:	36,722,531	390,779,203
Contributions:	38,392,024	170,230,385

Source: 2010 Federal Statistics of Income (SOI)

The proposed repeal would impose a dramatic federal tax increase on over 30 percent of all taxpayers nationwide, and would be particularly burdensome for a handful of states. The top five states that pay the largest share of federal taxes, about 36 percent, would bear 45 percent of the federal tax increase.

An increase in the tax burden of this magnitude, estimated at $71 billion nationwide[23] would no doubt be a jolt to the economic recovery. The level of the tax increase is more than half of the total value of the budget cuts mandated by the sequester, which will cut federal discretionary spending by $85 billion in 2013 and an additional $109 billion in 2014. Many economists contend the cuts mandated by the sequester threaten to push the US back into a recession. Imposing a massive tax increase on middle-class taxpayers would further threaten the economic recovery.

Much like the home mortgage deduction, the deduction for real property taxes serves as an incentive to encourage homeownership. Denial of the deduction would result in a shift of the Federal tax burden between home owners and non-home owners, a shift that the Congress was unwilling to entertain in 1964.[24] Economists have long argued that the cost of real property taxes are capitalized into the value of the home. Withdrawal of those benefits could threaten the slow recovery that we are now experiencing in home values. Indeed, some studies suggest that it would result in a further real decline in home values.[25]

The proposed repeal of the state and local taxes paid itemized deduction under the income tax would result in an non-level playing field for small businesses structured as sole proprietorships or as pass-through entities versus those organized as C-corporations. The deduction for corporate taxes paid is also a feature of the federal corporate income tax. In New York State, it is estimated that 14 percent of the PIT is paid by small businesses (sole proprietors, partnership and S-corporation shareholders and members of LLC's).

[23] Joint Committee on Taxation Estimate Of Federal Tax Expenditures For Fiscal Years 2012-2017,

[24] John Buckley Testimony, *Op Cit*.

[25] *Ibid*.

What makes proposals to repeal the current deduction all the more questionable is that the stated rationale belies the proponents' true underlying goal—to shrink the size of state and local government. The Tax Foundation, in its testimony before the House Ways and Means Committee in March of 2013 stated that the deduction "leads to greater reliance on tax-deductible taxes – such as progressive income taxes…- and ultimately leads to increases in state and local spending of own-source revenue"[26]

There is no doubt that the resulting tax increase would put pressure on state and local governments to reduce the local tax burden to offset the increase. At the very time that significant spending reductions are being implemented at the federal level – via the sequester – pressure would mount on states to follow suit, endangering the health, safety and public welfare of our residents.

The proposed repeal would impose a dramatic federal tax increase on over 30 percent of all taxpayers nationwide, and would be particularly burdensome of a handful of states. The top 5 states that pay the largest share of federal taxes, about 36 percent, will bear 45 percent of the federal tax increase.

Repealing the deduction for state and local taxes paid reflects an ideological judgment by its advocates about the appropriate level of taxation and services provided by the states. In short, such a decision discriminates against states that rely on the income tax as their primary revenue source, in favor of states that are resource rich and that can effectively export those taxes outside of their boundaries.

In the early 1980's, the Reagan administration originally argued for repeal of the deduction on ideological grounds. The 1984 Treasury Tax Reform Report explained "the current deduction for state and local taxes in effect provides a Federal subsidy for public services provided by state and local governments, such as public education, road construction and repair, and sanitary services."[27] Of course the argument made on ideological grounds is the exact rationale for maintaining the exemption on federalism grounds.

Some have also argued that the deduction is necessary to maintain the willing support of upper income taxpayers for the provision of government services that benefit lower income households. From this perspective, the level of taxes is viewed as being commensurate with the level of public benefits received, rather than as received privately by the taxpayer. In areas with mixed income levels, if it is assumed that higher income taxpayers pay more in taxes than they receive in benefits, then federal deductibility can help to equalize these differences.

[26] Scott A. Hodge,President of the Tax Foundation, Written Testimony Before the House Ways and Means Committee, March 19,2013. See Buckley above.

[27] *Tax Reform for Fairness, Simplicity, and Economic Growth*, 1984, as cited in.John Buckley Testimony, *Op Cit*.

Furthermore, the level of taxes can be assumed to reflect the increased costs associated with providing services in high-cost jurisdictions. Since federal tax rates do not account for such regional differences, it can be argued that the higher taxes (and incomes) across different geographic areas reflect differences in the cost of living; deductibility can help offset some of those price differences. [28]

Some fear that without this deduction in place, there will be a race to the bottom as the wealthiest taxpayers consider relocating to lower tax states.

Preserving the Important Role of State and Municipal Bond Investment

The federal tax-exemption on municipal bond interest has been in place since the income tax was enacted in 1913, and helps to form one of the country's most important sources of financing for infrastructure investment. The tax-exempt nature of these bonds allows state and local governments to save, on average, as much as two percentage points on their borrowing to finance investment in critical public infrastructure. Municipal bonds represent a partnership among the federal government, state and local governments and private investors in contributing to public infrastructure.[29]

Tax-exempt municipal bonds are an important financing tool used to meet public infrastructure needs – including highways, bridges, local streets, public transit, airports, water and sewer, general acute-care hospitals, primary and secondary schools, public universities, as well as court facilities and county jails. They have generated trillions of investment dollars in critical public infrastructure that literally helps build the economy, at reduced rates that have saved state and local taxpayers hundreds of billions in interest costs.

Interest earned from municipal bonds is tax-exempt at the federal level and, in New York, issuances from New York State and its municipalities are not subject to State income taxes. This tax-exempt status makes municipal bonds attractive to both the investor, who is willing to accept lower yields, and to state and local governments, who can borrow at lower cost.

Federal law requires that a similar exclusion be part of all state and local income tax laws for interest on obligations of the Federal government.[30] According to data compiled by the JCT staff, the total issuance of tax exempt obligations averaged $400 billion over the period 2001-2010. Of this amount $340 billion reflected long-term financing and was issued for either infrastructure spending or refinancing. As of the close of 2011,there were $3 trillion in outstanding tax-exempt obligations.[31]

[28] Kim Rueben,*The Impact of Repealing State and Local Tax Deductibility*, Tax Analysts, August 15, 2005.

[29] Testimony of Paul T. Williams, Jr., President, Dormitory Authority of New York (DASNY), before The Committee on Ways and Means, US Congress, Washington, DC. April 2, 2013.

[30] John Buckley Testimony, *Op Cit*; See section 3124, title 31, USC.

[31] John Buckley, *Ibid*.

The taxing of interest income on state and local government debt obligations would result in an increased cost of borrowing for state and local government. It is estimated that the increase could be anywhere from 51-166 basis points[32] according to a study conducted by the American Public Power Association.

The result would lead to an increase in local taxes and a reduction in infrastructure spending nationwide. The nation's infrastructure is already in serious need of funding. According to the American Society of Civil Engineers, it would take an influx of $3.6 trillion over the next seven years to adequately address our infrastructure needs. Raising the cost of borrowing would only exacerbate this problem and could result in the loss of jobs in the construction industry.

The elimination of the tax exclusion could have a chilling impact on the current municipal bond market and on the nearly $400 billion in new bonds estimated to be issued by state and local governments in fiscal year 2014.

The elimination of the tax exclusion could have a chilling impact on the current municipal bond market and on the nearly $400 billion in new bonds issuances estimated to be made by state and local governments in fiscal year 2014.[33] Eliminating the exclusion on existing issuances would change the contractual terms of those outstanding bonds. But the billions of dollars of outstanding debt have been priced with the existing tax exemption taken into account. As a result, current investors in municipal bonds would see the value of their holdings severely diminished.

Some argue that the benefits of the municipal bond exclusion would benefit upper income taxpayers. This assumes that the benefits of such a deduction flow to the bondholder. This analysis misses the fact that the lower yields provided by municipal bonds constitute an implicit tax on the bondholder. The real impact of a repeal of the exclusion would be borne by the state and local governments and their taxpayers.[34]

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[32] Glazier, Kyle, The Bond Buyer, *APPA Opposes Taxes on Munis, Including Direct-Pay Bonds*, Tuesday, March 12, 2013, http://www.bondbuyer.com/issues/122_49/american-power-association-reports-changes-to-tax-code-would-increase-costs-1049583-1.html?ET=bondbuyer:e7351:2223284a:&st=email.

[33] Statement of David Parkhurst, Director, Economic Development and Commerce Committee of the National Governor's Association, to the House Ways and Means Committee; March 19,2013.

[34] John Buckley Testimony, *Op Cit*.

Charts and Tables

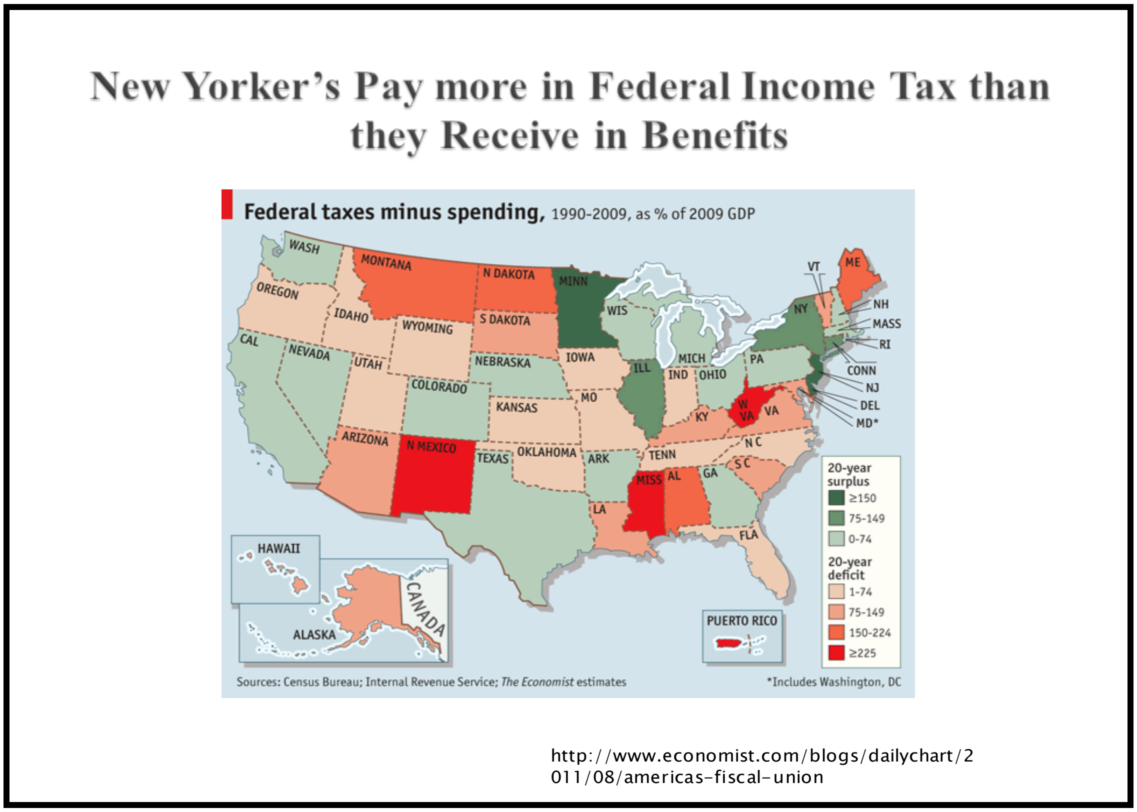

Table 1: Federal Tax Increase on New Yorkers from Repeal of State and Local Tax Deduction – By Income

FedAGI Range	# of Taxpayers	% of Total	Tax Increase (in millions $)	% of Total	Average Tax Increase
LESS THAN $50,000	833,700	25.4%	$573	2.4%	$690
$50,000 TO $100,000	1,229,300	37.5%	$2,226	11.7%	$1,810
$100,000 TO $150,000	591,900	18.1%	$1,423	12.4%	$2,400
$150,00O TO $200,000	262,700	8.0%	$941	8.7%	$3,600
$200,000 TO $300,000	177,000	5.4%	$1,006	9.9%	$5,700
$300,000 TO $500,000	99,000	3.0%	$1,193	9.9%	$12,000
$500,000 TO $1 MILLION	47,700	1.5%	$1,406	10.3%	$29,500
$1 MILLION TO $2 MILLION	22,000	0.7%	$1,412	9.1%	$64,300
$2 MILLION TO $5 MILLION	10,000	0.3%	$1,449	8.7%	$145,000
GREATER THAN $5 MILLION	4,500	0.1%	$3,160	17.0%	$701,200
TOTAL	**3,277,800**		**$14,789**		**$4,500**

Source: New York State Department of Taxation and Finance analysis of 2010 Federal Statistics of Income (SOI)

Table 2: Regional Impact of Proposed Repeal of State and Local Taxes Paid Deduction

Region	# Taxpayers Impacted	Millions $	% of NYS Impact	Average Increase
Western New York	139,101	$389	2.6%	$2,800
Finger Lakes	159,948	$469	3.2%	$2,900
Southern Tier	55,651	$156	1.1%	$2,800
Central New York	90,926	$262	1.8%	$2,900
Mohawk Valley	39,612	$93	0.6%	$2,300
North Country	27,191	$64	0.4%	$2,400
Capital Region	171,769	$499	3.4%	$2,900
Mid-Hudson	596,972	$2,984	20.2%	$5,000
New York City	1,081,217	$5,905	39.9%	$5,500
Long Island	915,437	$3,969	26.8%	$4,300
Total NYS:	**3,277,825**	**$14,789**	**100.0%**	**$3,400**

Source: New York State Department of Taxation and Finance analysis of 2010 Personal Income Tax Population File

Table 3: Increase in Federal Taxes From 28 Percent Limitation on Itemized Deductions

FedAGI Range	# of Taxpayers	% of Total	Change in Tax Liability (in millions $)	% of Total Change in Lilability	Average Change in Liability
LESS THAN $50,000	0	0.0%	$0	0.0%	$0
$50,000 TO $100,000	0	0.0%	$0	0.0%	$0
$100,000 TO $150,000	1,280	0.6%	0.8	0.0%	$730
$150,00O TO $200,000	2,130	1.0%	3.8	0.1%	$1,790
$200,000 TO $300,000	35,100	16.7%	79.1	2.1%	$2,260
$300,000 TO $500,000	85,700	41.4%	371.9	9.8%	$4,340
$500,000 TO $1 MILLION	47,100	22.7%	532.2	14.0%	$11,300
$1 MILLION TO $2 MILLION	22,000	10.6%	598.8	15.8%	$27,180
$2 MILLION TO $5 MILLION	10,000	4.8%	622.1.	16.4%	$62,430
GREATER THAN $5 MILLION	4,500	2.2%	1,403.0	43.5%	$312,200
TOTAL NYS	**207,800**		**$3,788**		**$18,240**

Source: New York State Department of Taxation and Finance analysis of 2010 Federal Statistics of Income (SOI)

Table 4: Regional Impact From 28% Limit on Value of Itemized Deductions

Region	# Taxpayers Impacted	$ Millions	% of NYS Impact	Average Increase
Western New York	6,200	$67	1.8%	$10,930
Finger Lakes	6,300	$70	1.8%	$11,050
Southern Tier	2,700	$28	0.7%	$10.390
Central New York	3,700	$39	1.0%	$10,420
Mohawk Valley	1,300	$13	0.3%	$9,740
North Country	1,000	$9	0.2%	$9,380
Capital Region	6,300	$72	1.9%	$11,350
Mid-Hudson	41,500	$724	19.1%	$17,430
New York City	90,600	$2,037	53.8%	$22,480
Long Island	48,200	$730	19.3%	$15,160
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FY 2018	4,498,714	-	-			63,175	1,895,238
		70,528	**141,581**	**223,815**	**295,287**	**358,461**	**10,753,838**
Refunding Issuances		**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**Life Total**
FY 2014	2,000,000	28,086	28,086	28,086	28,086	28,086	859,197
FY 2015	2,000,000	-	28,086	28,086	28,086	28,086	859,197
FY 2016	2,000,000	-	-	28,086	28,086	28,086	859,197
FY 2017	2,000,000	-	-	-	28,086	28,086	859,197
FY 2018	2,000,000	-	-	-	-	28,086	859,197
		-	-	-	-	-	859,197
Total		**28,086**	**56,171**	**84,257**	**112,342**	**140,428**	**5,155,185**
Grand Total		**98,614**	**197,752**	**308,072**	**407,629**	**498,889**	**15,909,023**

1. Assumes 30 year level debt structure

2. Assumes taxable debt service is $14m higher annually per billion issued based on an analysis by the State's financial advisor.

Table 6: Major Federal Itemized Deductions

Itemized Deductions	*# of Filers*	*Total Deducted*
Total itemized deductions:	**47,248,012**	**1,232,542,146**
State and local income taxes:	33,920,778	248,596,330
State and local general sales tax:	11,498,887	17,648,856
Real estate taxes:	41,095,824	172,423,697
Total taxes paid:	**46,869,178**	**449,595,016**
Mortgage interest paid:	36,722,531	390,779,203
Contributions:	38,392,024	170,230,385

Source: 2010 Federal Statistics of Income (SOI)