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From: Bob Lowry <boblowry@nyscoss.org>
Date: 12/10/2013 01:09 PM
Subject: NYSCOSS Members Only Listserv: Governor's Tax Commission Proposes Property Tax Freeze, Other Actions

Governor Cuomo's Tax Relief Commission just issued its final report.

Here are the central recommendations which would affect schools:

> "The Commission recommends that the State provide a two-year program to freeze residential property taxes only for homeowners in jurisdictions that abide by the 2 percent real property tax cap.
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> "In the first year, eligible homeowners would see a tax rebate equal to the amount of the increase in a homeowner's tax bill.
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> "In the second year, homeowners in jurisdictions that abide by the property tax cap would receive a rebate of their tax increase only if they reside in jurisdictions that take meaningful concrete steps toward finding permanent structural savings by sharing services with other jurisdictions or consolidating governments in their entirety.
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> "In addition, while programs that cap and freeze real property taxes can keep the burden of real property taxes from increasing, there is a need to provide relief to taxpayers who are already over-burdened by the current level of property taxation. Accordingly, the Commission further recommends that the State develop a program that would target real property tax relief based on an individual homeowner's ability to pay, and do so in a manner that is fair to families across the State."

There are additional recommendations for business tax relief and other tax changes.

The complete report is available here – there is not much more detail about the school-related proposals than what I have copied above: http://www.governor.ny.gov/press/12102013-tax-relief-commission-final-report

Here is the Governor's news release: http://www.governor.ny.gov/press/12102013-tax-relief-commission-final-report

The recommendations would be funded from what is described as a $2 billion state budget surplus. However, the Governor's Budget Division has projected that the state faces a structural budget deficit of $1.7 billion in its General Fund for the coming year.

Presumably the Commission's recommendation will be incorporated in some fashion into the Governor's State of the State message on January 8, and his Executive Budget proposal, due on January 21.

Some observations:

- School districts have already worked hard to hold down local tax increases. The increases proposed to voters over the past five years have averaged 2.8 percent, despite two years of state aid cuts, one year in which most state aid was frozen, and surging costs for pensions and health insurance. Over the prior five years, the average proposed increase was 6.1 percent. Proposed increases in spending over the past five years have averaged 2.0 percent.

- Although state aid has been increased in the last two state budgets, over 70 percent districts are still receiving less state aid than in 2008-09, five years in the past. Excluding Building Aid, over 90 percent of districts are receiving less state help than in 2008-09.

- Schools have held down taxes and spending despite no significant near-term help on mandate relief which was promised when the tax cap was proposed and enacted. Tier VI pension reform will significantly reduce pension costs. But only over the long-term.

- This year, only 28 districts attempted to over-ride the cap (and only 25 percent succeeded). However, for the coming year the school tax cap is projected to be exceptionally low – 1.66 percent.

- Trends from the first two years with the tax cap indicate that high need districts, and especially high need rural districts, are least likely to attempt tax cap over-rides. In this way, the cap is likely to reinforce inequities in school funding and learning opportunities.

- The tax cap is already exceptionally tight. If a district is unable to gain voter approval, whether 60 percent for an over-ride or a simple majority if its proposed increase is within the cap, it may not increase its tax levy at all. In effect, there is a zero percent cap if a district is unable to gain voter approval for its budget. In contrast, in Massachusetts, communities may increase their tax levy by up to 2.5 percent without seeking or gaining voter approval.

- The proposal would pit schools and voters against each other by further compounding pressures to stay within the cap. District leaders would face a choice – deny resident tax relief or forego revenues needed to preserve programs and services.

- With the budget challenges of the past five years, districts have already made significant efforts to share services and restructure operations. Many would have a difficult time constructing further actions.

- A concern is that to the extent the state dedicates or defers revenue to provide tax relief, it could diminish its capacity to fund School Aid, which districts rely on to hold down taxes and preserve services.

Contact Information:
Governor's Press Office
NYC Press Office: 212.681.4640
Albany Press Office: 518.474.8418
mailto:%20press.office@exec.ny.gov

Andrew M. Cuomo -
Governor

Governor Cuomo Accepts Final Report of the New York State Tax Relief Commission

Printer-friendly version

Albany, NY (December 10, 2013)

Governor Andrew M. Cuomo today accepted the final report of the Tax Relief Commission from its co-chairs, former Governor George Pataki and Chairman of the State University of New York Board of Trustees and former State Comptroller H. Carl McCall. Enabled by three years of fiscal integrity and responsible budgeting, Governor Cuomo charged the Commission to identify way to reduce the State's property and business taxes to provide relief to New York's homeowners and businesses.

The Commission's recommendations focus on providing property tax relief for New York homeowners and businesses and enhancing the State's economic competitiveness. In addition to providing tax relief, the Commission recommends providing incentives to local governments to reduce the cost of operations. Further recommendations include lowering the corporate tax rate to its lowest level in 46 years; reducing the tax rate for manufacturers Upstate to its lowest level ever; and updating the Estate Tax to bring New York in line with other states. This report is enabled by three years of fiscal integrity and responsible budgeting that puts the state in a position to examine new ways to provide tax relief to New Yorkers. The final report can be accessed here: http://www.governor.ny.gov/assets/documents/commission_report.pdf.

"For far too long, property taxes have been a crushing burden on New York homeowners and businesses, hurting job growth and driving individuals and families from the state," Governor Cuomo said. "While we have made tremendous progress over the last three years in bringing down taxes for all New Yorkers, this Commission has taken the two billion dollar surplus that resulted from our responsible budgeting and fiscal reforms to propose even further reductions for New York taxpayers. I look forward to working together with the Legislature to review these recommendations and continue our efforts to reverse the state's reputation as a tax capital and make New York a friendlier state for families and businesses."

The Commission's recommendations for tax relief build off of three years of responsible budgeting, including holding state spending to 2%, ending automatic budget inflators in Medicaid and education spending, pension reform that will save taxpayers tens of billions of dollars, and a downsized state labor force.

Governor Pataki said, "Governor Cuomo asked us to focus on real property taxes and we did, delivering a robust program that will provide real relief to middle class taxpayers and especially those on fixed incomes. The Commission also recommends much needed reforms to estate, business and energy taxes and ensuring the PIT top rate phases out as planned. The Commission worked overtime to deliver our recommendations today and I'm proud of the package we've assembled."

Chairman H. Carl McCall said, "This report shows once again what is possible when partisan differences are put aside for the good of the people. The members of the panel embraced the Governor's charge and his cooperative approach to come up with bold recommendations made possible by three years of fiscally sound budgeting that has yielded a two billion dollar surplus. The old Albany would have spent this money, but under Governor Cuomo's leadership, we will be giving it back where it belongs – in the pocket of tax payers."

The key recommendations put forward by the Commission are based on the finding that the property tax remains the most burdensome tax facing individuals, families, and businesses in New York State, and a critical impediment to economic growth. New Yorkers continue to face some of the highest property tax bills in the nation, whether measured in absolute terms, or as a percentage of home value. The Commission recommends using $1 billion of the $2 billion revenue pool to further reduce the burden of the property tax on homeowners, and provide incentives for cost reduction at the local level.

The Commission recommends the creation of a program to freeze property taxes for two years. In year one of the freeze all eligible homeowners in taxing jurisdictions that adopt local budgets that remain within the property tax cap would receive a State credit equal to the growth in their property taxes. In Year 2, the freeze will continue for those homeowners living in jurisdictions that remain within the property tax cap and take measures to reduce costs, such as sharing services with other jurisdictions or consolidating.

In addition, while programs that cap and freeze real property taxes can keep the burden of real property taxes from increasing, there is a need to provide relief to taxpayers who are already over-burdened by the current level of property taxation. The Commission recommends that the State develop a program that would target real property tax relief based on an individual homeowner's ability to pay.

Lowering Tax Rates for Businesses to Make New York Competitive

To encourage New York's economic competitiveness, investment and further growth, the Commission recommends lower rates for businesses and a simplified tax structure. This includes the reform and simplification of the State's primary corporate income taxes coupled with a reduction in the corporate income tax rate to 6.5 percent, the lowest corporate rate since 1968. The rate for upstate manufacturers upstate would be reduced further, to 2.5 percent, the lowest rate ever. In addition, all manufacturers will benefit from a recommendation by the Commission to reduce property taxes on manufacturers by 20 percent through a State credit program.

To further encourage business expansion, the Commission recommends that the temporary utility assessment (18-a), scheduled to be eliminated in 2018, will be eliminated in 2014 for industrial customers and all other customers will see an accelerated phase out of the surcharge. Together, these proposals will tackle the remaining barriers to investment and job growth that exist in the current tax regime.

Estate Tax Reform

The Commission recognizes the need to update the estate tax. New York remains one of only 17 states with either an estate tax or an inheritance tax, and only two states currently have a lower exemption. Because estate tax thresholds have not kept pace with the rise in home values, more and more middle-income New Yorkers find themselves subject to the tax. The Commission is therefore recommending a major reform of the estate tax, increasing the State's threshold to $5.25 million, indexed to inflation, and lowering the tax rate.

Finally, the Commission endorses the majority of the Tax Reform and Fairness Commission proposals to simplify the structure of New York's tax system by eliminating nuisance taxes.

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December 2013

New York State Tax Relief Commission Final Report

Co-Chairs:

George Pataki, *former Governor of New York State*

H. Carl McCall, *Chairman of the SUNY Board of Trustees and former State Comptroller*

Members:

Dall W. Forsythe, *former New York State Budget Director*

James W. Wetzler, *Director, Deloite Tax LLP and former New York State Tax Commissioner*

Heather Briccetti, *President and CEO of New York State Business Council*

William C. "Bill" Rudin, *CEO and Vice Chairman of Rudin Management Company and Chairman of the Association for a Better New York*

John F. "Jack" Quinn, *President of Erie Community College*

Executive Summary

On October 2, 2013, Governor Andrew M. Cuomo announced the formation of the Tax Relief Commission. The Governor charged this Commission with devising a series of targeted tax relief proposals – valued at $2 billion within three years – that would be focused on alleviating the crushing burden on individuals, families and businesses of New York's most onerous taxes, with an emphasis on local and school property taxes. Implementing the Commission's recommendations would not only provide New Yorkers with much needed relief from the nation's highest property taxes, but at the same time enhance New York's economic competitiveness by reducing the cost of doing business in the State.

The Commission commends Governor Cuomo for his decision to focus on providing targeted tax relief, and for charging this bi-partisan Commission with determining the best manner in which to do so.

The top income tax rate is scheduled to reset back to 6.85 percent in 2018 and the Commission recommends this reset take place as scheduled in order to further strengthen New York's economic climate. Some Commission members favor setting aside any future surplus to help ensure the 6.85 rate is restored in 2018.

As a result of the property tax cap enacted by the Governor and the Legislature, property taxes are no longer growing at exorbitant rates.

Property Tax Relief

Despite progress made under the property tax cap, New Yorkers continue to face some of the highest property tax bills in the nation, whether measured in absolute terms, or as a percentage of home value, and the Commission believes that it is essential to use $1 billion of the $2 billion revenue pool to further reduce the burden of the property tax on homeowners. The remaining $1 billion should be used to provide additional tax relief to businesses, families and individuals.

The Commission recommends that the State provide a two-year program to freeze residential property taxes only for homeowners in jurisdictions that abide by the 2 percent real property tax cap. In the first year, eligible homeowners would see a tax rebate equal to the amount of the increase in a homeowner's tax bill. In the second year, homeowners in jurisdictions that abide by the property tax cap would receive a rebate of their tax increase *only if they reside in jurisdictions that take meaningful concrete steps toward finding permanent structural savings by sharing services with other jurisdictions or consolidating governments in their entirety.* Only through such bold steps can New York hope to achieve a long-term reduction in real property taxes.

In addition, while programs that cap and freeze real property taxes can keep the burden of real property taxes from increasing, there is a need to provide relief to taxpayers who are already over-burdened by the current level of property taxation. Accordingly, the Commission further recommends that the State develop a program that would target real property tax relief based on an individual homeowner's ability to pay, and do so in a manner that is fair to families across the State.

The Importance of Local Government Consolidation and Service Sharing

The State has taken laudatory steps to consolidate and streamline operations, and local governments should follow suit. The State is consolidating its back office operations in a single Business Service Center. It has brought all of its information technology resources together in one single Office of Information Technology Services, consolidated office space and reformed the procurement process, all of which will save the State hundreds of millions of dollars in future years. Based on this experience, the State should work with local governments to replicate this model.

Business Tax Reductions

This Commission also recognizes the need to make significant improvements to the State's business tax structure. The Tax Relief Commission's recommendations are informed by the work and the proposals of the Tax Reform and Fairness Commission. In November 2013 Governor Cuomo's Tax Reform and Fairness Commission, co-chaired by Carl McCall and Peter Solomon, released a report calling for fundamental changes in the State's tax code to make it more equitable and to increase New York's economic competitiveness. That report endorsed property tax relief, changes to estate and corporate taxes and acceleration of the phase out of the temporary utility 18-a assessment, among other tax relief measures.

The Commission recommends:

Reduce Property Tax on Manufacturers: Of the $49 billion in real property taxes levied in 2012, $15 billion, or 30.8 percent was paid by commercial/industrial parcels. Property taxes represent the largest tax businesses face in the State, more than three times what is paid under the corporate franchise tax. To help manufacturers survive and to attract new manufacturers to the State, the Commission is recommending a corporate and income tax credit equal to 20 percent of the amount of real property taxes paid by this industry, but would like to see the credit increased for upstate manufacturers if possible.

Lower Corporate Tax Rates and Simplify Structure: The Commission recognizes more needs to be done to spur economic growth statewide. This requires lower rates and a simplified tax structure. We propose additional tax relief for businesses in New York, including the reform and simplification of the State's primary corporate income taxes coupled with a reduction in the corporate income tax rate to 6.5 percent, the lowest corporate rate since 1968.