



Impact of Federal Tax Reform on New York City

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New York City Department of Finance
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Federal Tax Reform Proposals

Introduction

Personal Income Tax Proposals

- Estimation Methodology
- NYC Personal Income Tax Profile
- Selected Provisions/Major Issues
 - State/Local Tax Deduction
 - Mortgage Interest Deduction
 - Alternative Minimum Tax
 - Investment Income/Carried Interest/Pass-through Income
- Full Plans – Preliminary Estimates

Corporate Income Tax Proposals

- Summary
 - Current Law, White House, and GOP/Ryan Plans
- Estimation Methodology

Next Steps

Introduction

- All the plans are expensive, with tax cuts skewed towards business taxes and high-income taxpayers.

Based upon the Tax Policy Center's Analysis

	White House Plan ¹	GOP Plan ²
Total plan cost over first decade	\$3.5 trillion	\$3.1 trillion
Average tax cut for top 0.1 percent of households	\$938k, or 9 percent	\$1.3m, or 11 percent
Average tax cut for lowest fifth of households	\$40, or 0.3 percent	\$50, or 0.4 percent

Sources:

1. <http://www.taxpolicycenter.org/publications/implications-what-we-know-and-dont-know-about-president-trumps-tax-plan/full>

2. <http://www.taxpolicycenter.org/sites/default/files/alfresco/publication-pdfs/2000923-An-Analysis-of-the-House-GOP-Tax-Plan.pdf>

Personal Income Tax Proposals

Estimation Methodology

Goal: Estimate the impact of various reform proposals on

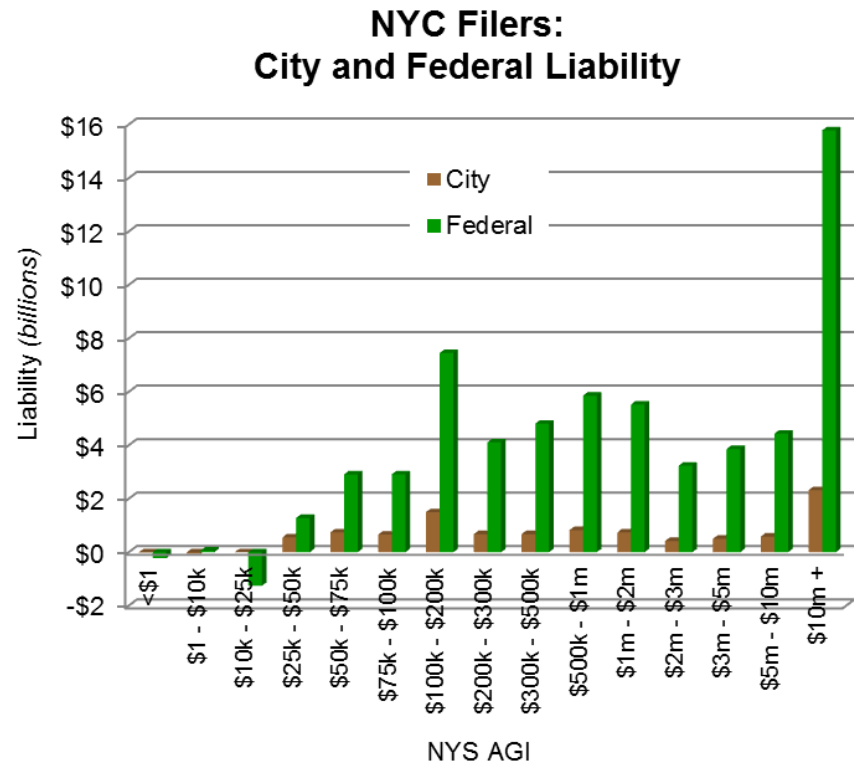
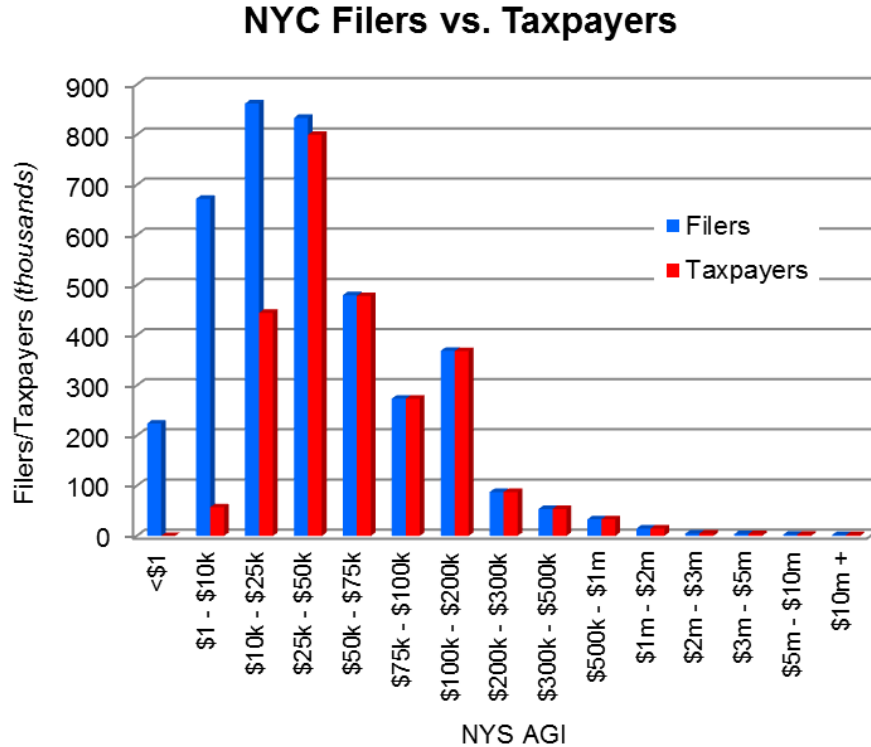
- Federal tax liability of NYC personal income tax filers
- NYC personal income tax liability driven by Federal tax law changes

Methodology

- Create a flexible PIT microsimulation model (2016 law) using 2014 New York State statistical sample, augmented with IRS capital gains and itemizer data, grown with forecasted growth rates
 - Compute Federal tax, since it is not on the State file
 - Verify calculated Federal tax against IRS data
 - Benchmark results against Tax Policy Center estimates
 - Report on affected taxpayers, change in tax (dollar, percent, median, mean) by AGI range, filing status, etc.

NYC Personal Income Tax Filers

- About 3.9m NYC filers incurred \$10.1b in NYC PIT liability.
- This group incurred \$60.8b in Federal PIT liability.



NYC Personal Income Taxpayers

- The top one percent of taxpayers pay 44 percent of NYC PIT.
- The top 250 taxpayers pay about 12 percent of NYC PIT, or \$1.2b.



Selected Provisions White House and GOP Plans

Tax Items	White House Plan	GOP/Ryan
Net investment income tax at 3.8%	Repeal	Repeal
Alternative minimum tax (AMT)	Repeal	Repeal
Personal and dependent exemptions at \$4,050, phased out starting at AGI above \$31,800	Repeal for taxpayers & dependents	Repeal for taxpayers & dependents
Estate tax	Repeal	Repeal
Six tax rates ranging from 10% to 39.6%; for top bracket starts at 466,950 for married filing jointly	Collapse to three rates: 10, 25, 35; top bracket starts at \$112,500 single, \$225k married	Collapse to three rates: 12, 25, 33; top bracket starts at \$190,150/\$231,450/\$210,800
Standard deduction - \$12,700 for married filing jointly	Increase to \$12,600 for singles, \$25,200 for married	Increase to \$12k for singles, \$24k for married
Head-of-household filing status (lower tax rates for single parents)	Repeal head of household status	No change
Child care provisions	Provide above-the-line deductions for childcare expenses, capped at the state average for a child's age, and a deduction of up to \$5000 for eldercare	Repeals the child and dependent care credit while increasing the child tax credit from a maximum of \$1,000 to \$1,500 per child.
Itemized deductions (many are subject to phaseout of up to 80% starting at AGI above \$313,800)	Repeal all itemized deductions except mortgage interest & charitable contribution	Repeal all itemized deductions except mortgage interest & charitable contribution
Earned income tax credit (EITC)	Expand the EITC for childcare expenses for those who would not benefit from a new child care deduction	Creates a new non-refundable credit of \$500 for dependents other than children
Business income earned by pass-through entities - currently taxed at personal income rate	Establish flat 15% rate on pass-through income	Establish top rate of 25% on active business income
Interest, dividends, and capital gains income/carried interest - top rate is 20%	Tax carried interest as business income (15% rate, below the current top rate of 23.8%)	Provides a 50% exclusion for capital gains, dividend, and interest income

Major Issues

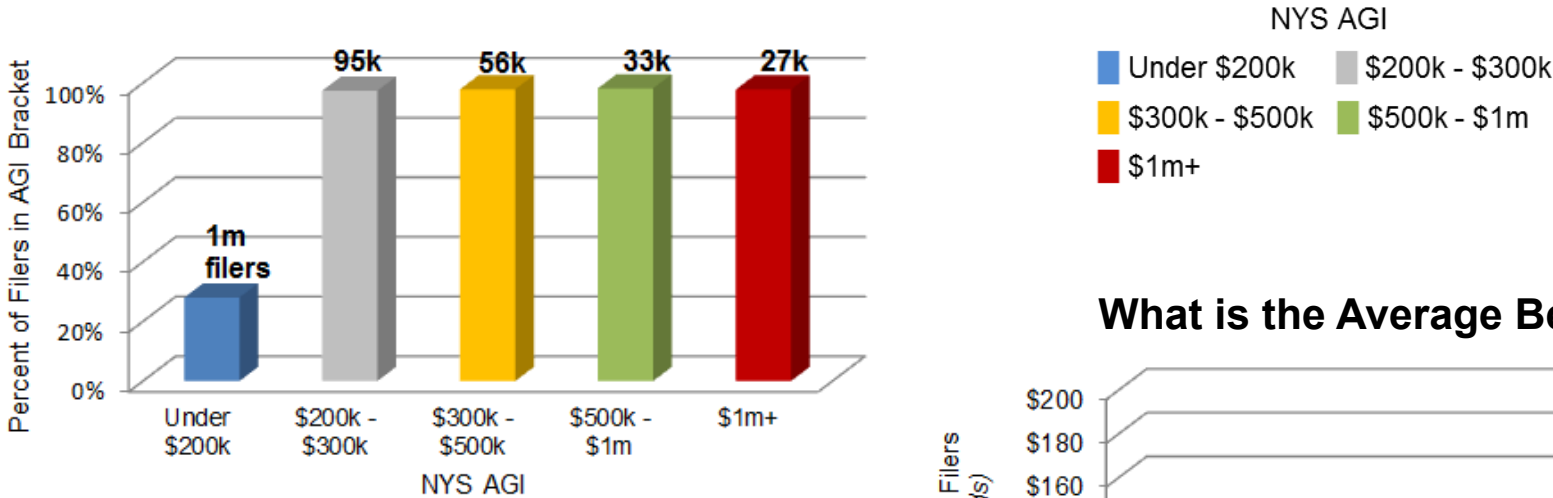
- State/Local Tax Deduction (SALT)
- Mortgage Interest Deduction
- Alternative Minimum Tax (AMT)
- Investment Income/Carried Interest/Pass-through Income

State and Local Tax Deduction for NYC Taxpayers

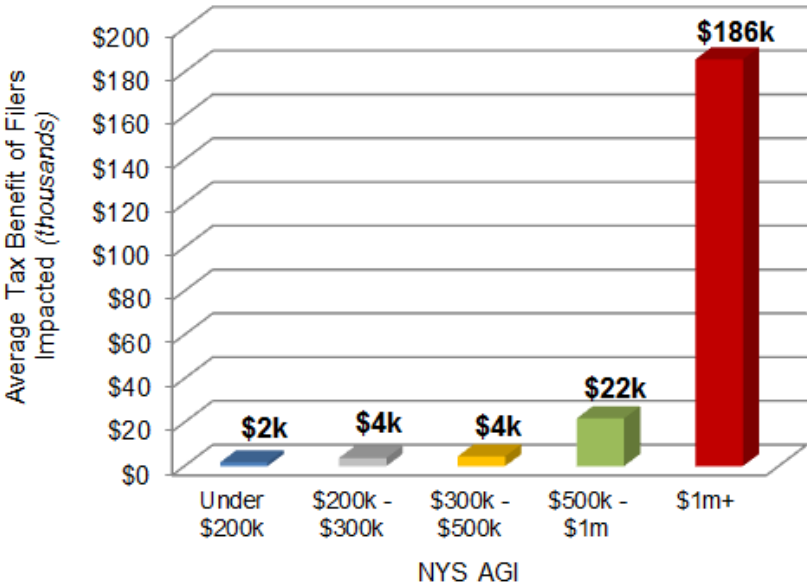
- Among the 3.9 million federal income tax returns filed by NYC residents, 1.2 million claimed \$36b in itemized deductions for state and local taxes (income, real estate, and personal property).
- The tax value of the deduction was \$7.7b, after netting out the alternative minimum tax (AMT) paid by NYC residents.
- The average tax benefit of the deduction was \$6,600 for taxpayers who were impacted.
- About 53 percent of returns claiming this deduction have AGI less than \$100K, while 88 percent of filers with AGI above \$100K benefit from the deduction.
- About 80 percent of the tax benefit accrues to taxpayers with AGI above \$200K.
- Taxpayers with AGI above \$2m (top .4 percent) account for just over half of the aggregate tax impact, with an average benefit of \$338K.

State and Local Tax Deduction for NYC Taxpayers

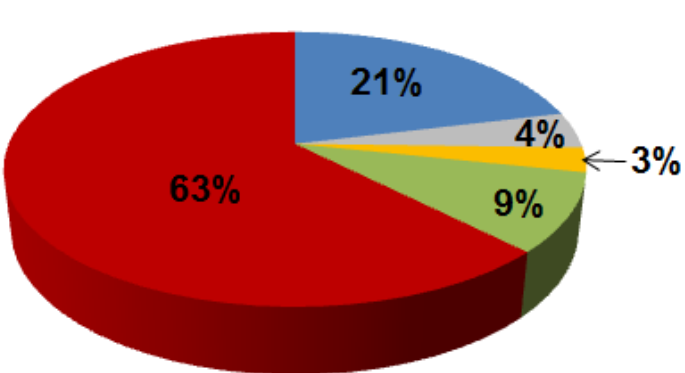
Who Takes the Deduction?



What is the Average Benefit?



How is the Benefit Distributed by AGI?

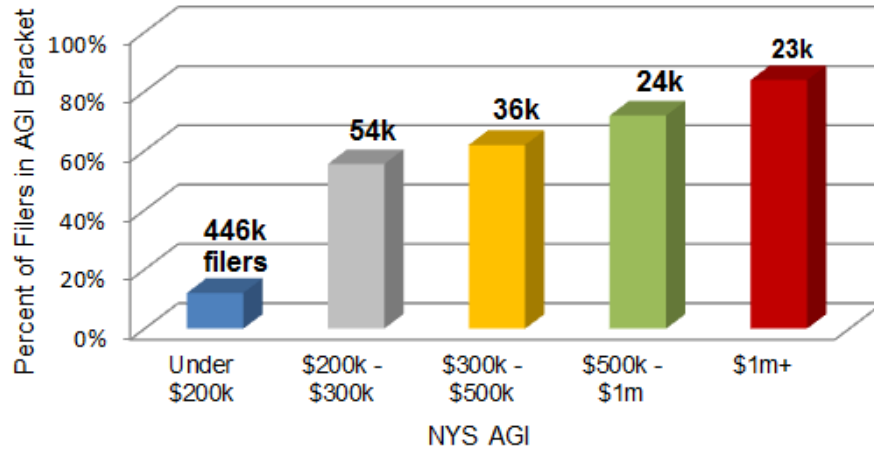


Mortgage Interest Deduction for NYC Taxpayers

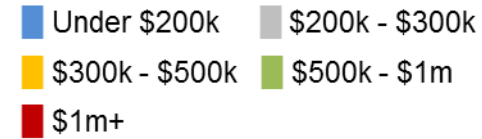
- Among the 3.9m Federal PIT returns filed by NYC resident, 583K claimed itemized deductions for mortgage interest totaling \$6.4b.
- The aggregate tax value of the deduction was \$1.5b.
- The average tax benefit of the deduction was \$2,820 for taxpayers who were impacted.
- Only 7 percent of filers with AGI under \$100K claim this deduction.
- Almost 70 percent of filers with AGI over \$100K claim this deduction, with the percentage increasing with AGI.
- Taxpayers with AGI above \$2m (top .4 percent) account for 22 percent of the aggregate tax impact, with an average benefit of almost \$32K.

Mortgage Interest Deduction for NYC Taxpayers

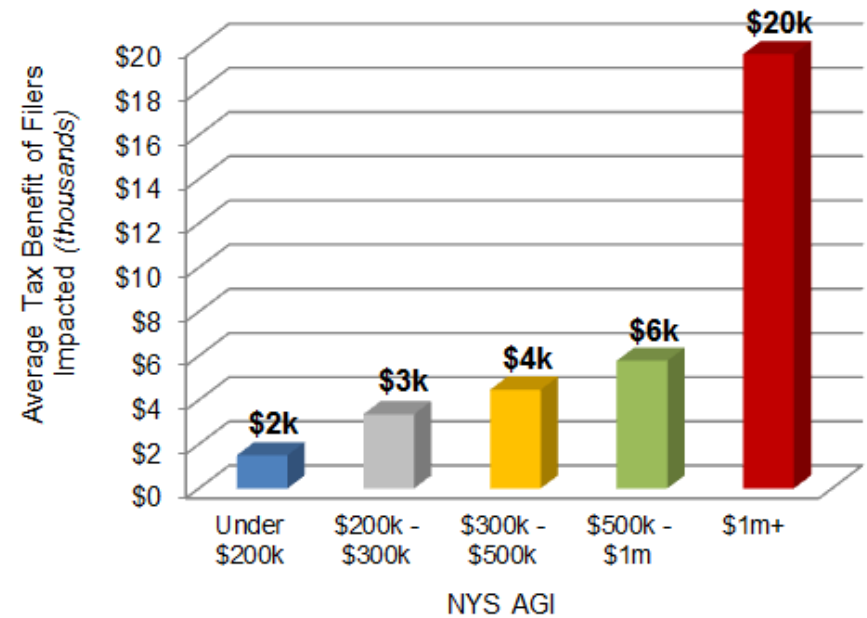
Who Takes the Deduction?



NYS AGI

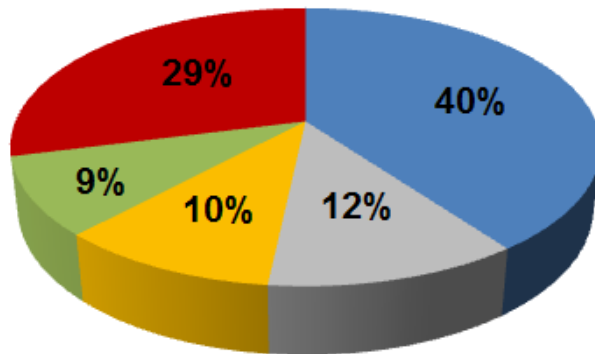


What is the Average Benefit?



How is the Benefit Distributed by AGI?

\$1.5b

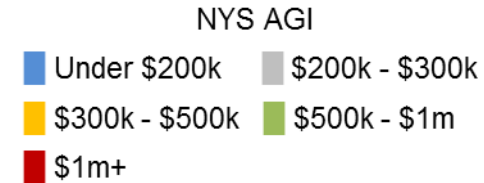
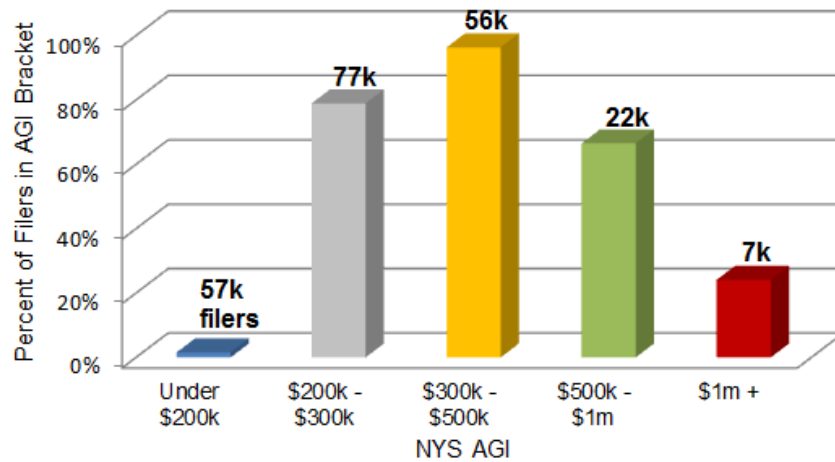


Federal Alternative Minimum Tax Paid by NYC Residents

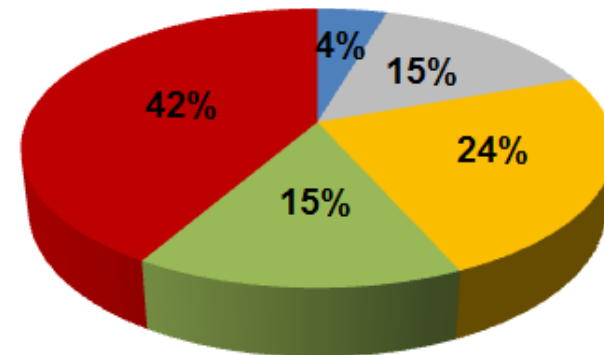
- Among the 3.9m Federal PIT returns filed by NYC residents for 2016, 219K, or 6 percent, were subject to the AMT. Aggregate AMT liability was \$2.5b.
- The average AMT liability for filers subject to the tax was \$12K.
- The AMT participation rate for filers with AGI between \$300K and \$500K was 96 percent.
- The AMT participation rate for those filers with AGI exceeding \$1m is only 24 percent.
- About 43 percent of the AMT is paid by taxpayers with AGI below \$500K.

Federal Alternative Minimum Tax Paid by NYC Residents

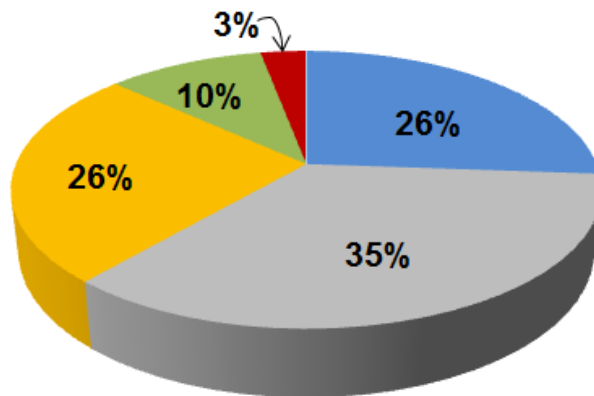
Who Pays the AMT?



How is AMT Liability Distributed by AGI? \$2.5b



How are AMT Payers Distributed by AGI? 219k

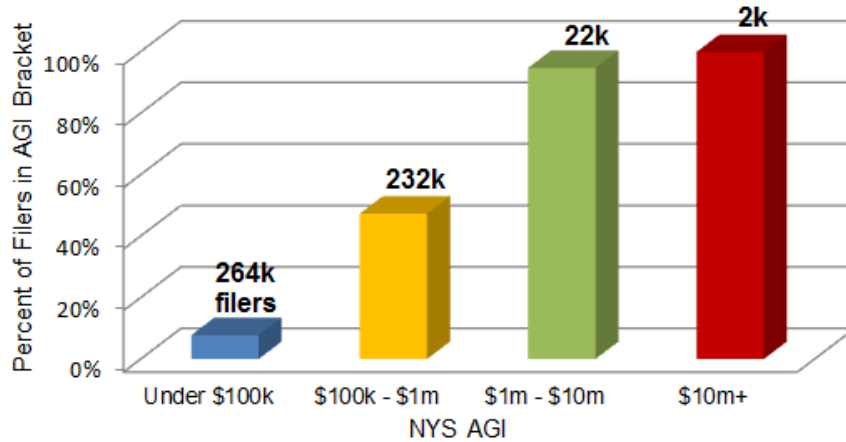


Impact of Exclusion of 50 Percent of Investment Income on NYC PIT Liability

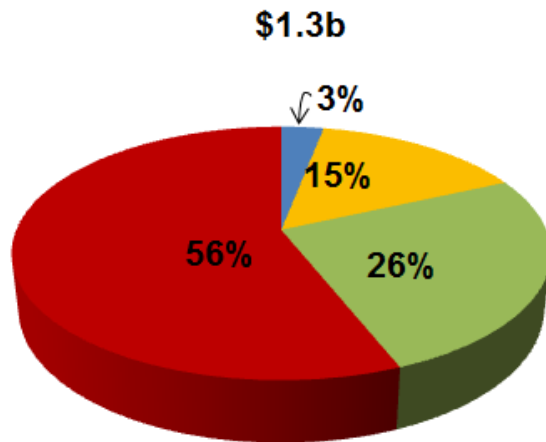
- Among the 3.9m Federal PIT returns filed by NYC residents, 1.1m had investment income (capital gains, dividends, and interest), totaling \$69b.
- Of the 1.1m returns with investment income, only 520K, or 46 percent, would be impacted. The rest had no liability or their investment income exclusion would reduce their liability by less than \$5.
- NYC does not offer a preferential rate for investment income.
- The cost to NYC of a 50 percent investment income exclusion would be approximately \$1.3b.
- About 56 percent of this benefit would accrue to taxpayers with over \$10m in AGI. Another 26 percent would accrue to taxpayers with AGI between \$1m and \$10m.
- The average NYC tax benefit of a 50 percent exclusion would be \$2,500 for taxpayers who are impacted.

Impact of Exclusion of 50 Percent of Investment Income on NYC PIT Liability

Who Would Benefit from the Investment Income Exclusion?



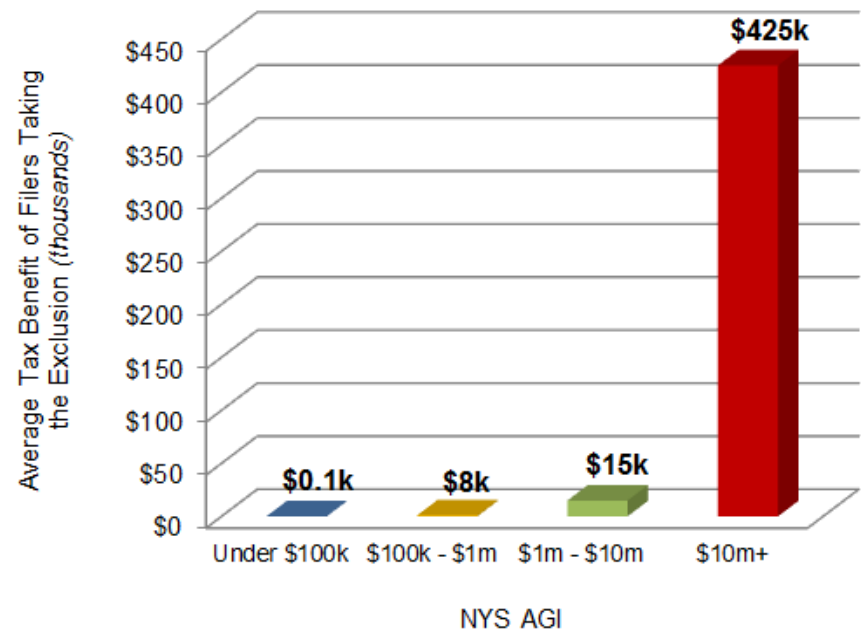
How Would the Benefit be Distributed by AGI?



NYS AGI

- Under \$100k
- \$100k - \$1m
- \$1m - \$10m
- \$10m+

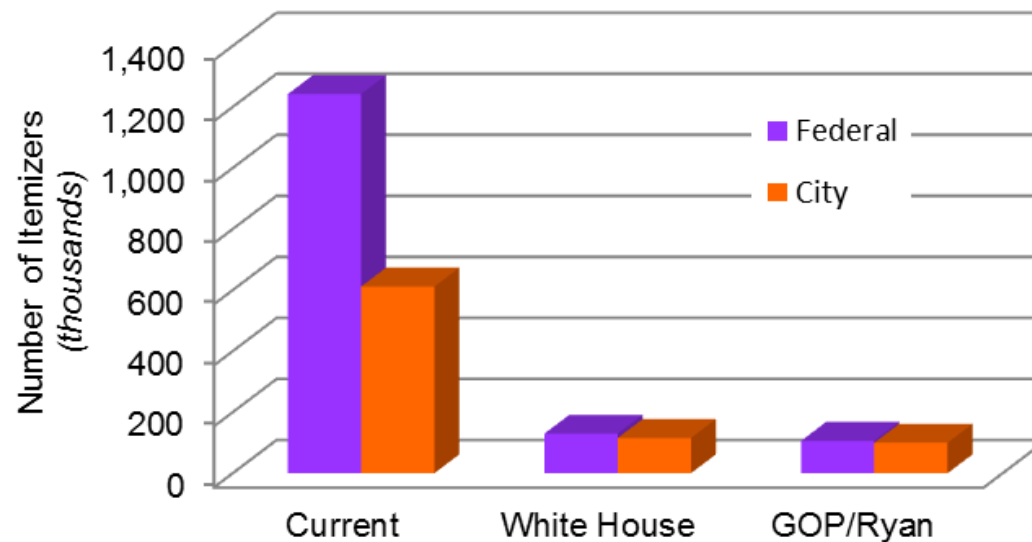
What Would be the Average NYC Tax Benefit?



Impact of the Full White House and GOP Plans on Itemizer Status

- All deductions except for mortgage interest and charity would be eliminated.
- The increase in the standard deduction would also reduce the number of itemizers.
- NYC liability would increase by about \$120 million solely due to the reduction in the number of itemizers.

Itemizers Before and After Federal Tax Reform



Impact of the White House Plan on NYC Full-Year Resident Federal Taxpayers

Provision	Description	Change in Tax (billions)	Winners		Losers		
			Filers	Mean Change	Filers	Mean Change	
A	Tax on Net Investment Income (3.8% of certain investment income)	Eliminate	-1.8	123,900	-\$14,200		
B	Alternative minimum tax (AMT)	Eliminate	-2.5	218,800	-\$11,500		
C	Personal exemptions	Eliminate	3.4			3,106,600	\$1,100
D	Tax Rates, Brackets, and Filing Status Changes (Including Capital Gains Brackets)	Three rates: 10, 25 and 35 percent. Top rate starts at \$112,500 single/\$225,000 married. Eliminate of head of household filing status	-4.0	1,785,100	-\$2,300	128,900	\$700
F	Business income earned by pass-through entities.	Establish a 15 percent rate on pass-through income.	-\$0.8	108,300	-\$7,100		
G	Standard Deductions	Increase to \$12,600 for single filers and \$25,200K for married filers	-\$1.6	1,946,900	-\$800		
H	Itemized Deductions	Only mortgage interest and charitable contributions allowed, no Pease Limit	\$7.9	300	-\$9,700	792,700	\$10,500
H1	State and Local Tax Deduction	Eliminate	\$7.7			1,167,400	\$6,600
I	Child care provisions	Provides deductions for childcare expenses, capped at the state average for child's age, and a deduction of up to \$5,000 for eldercare. Additional child care credit added to the EITC	-\$0.9	790,300	-\$1,100	15,000	\$500
J	Combined Plan (with Interactive Effects)		-\$6.7	2,168,200	-\$4,200	862,900	\$2,700

Impact of the GOP/Ryan Plan on NYC Full-Year Resident Federal Taxpayers

Provision	Description	Change in Tax (billions)	Winners		Losers		
			Filers	Mean Change	Filers	Mean Change	
A	Tax on Net Investment Income (3.8% of certain investment income)	Eliminate (same as White House plan)	-\$1.8	123,900	-\$14,200		
B	Alternative minimum tax (AMT)	Eliminate (same as White House plan)	-\$2.5	218,800	-\$11,500		
C	Personal exemptions	Eliminate (same as White House plan)	\$3.4			3,106,600	\$1,100
D	Tax Rates, Brackets, and Filing Status Changes (Including Capital Gains Brackets)	Three rates: 12, 25 and 33 percent. Top rate starts at \$190,150 single/\$231,450 married/\$210,800 head of household	-\$3.9	1,575,600	-\$2,600	907,200	\$100
E	Capital Gains Provisions	Provides a 50 percent exclusion for capital gains, dividends and interest income - so top rate would be 16.5 (v current 23.8).	-\$6.5	635,900	-\$10,300	175,500	\$300
F	Business income earned by pass-through entities.	Establishes a top rate of 25 percent on pass-through income.	-\$0.7	15,300	-\$45,200		
G	Standard Deductions	Increase to \$12k/\$24k	-\$1.7	1,972,700	-\$800		
H	Itemized Deductions	Only mortgage interest and charitable contributions allowed.	\$8.7			1,192,400	\$7,300
H1	State and Local Tax Deduction	Eliminate	\$7.7			1,167,400	\$6,600
I	Child care provisions	Eliminate the child and dependent care credit. Increasing the child tax credit from a maximum of \$1,000 to \$1,500 per child. Additionally, a new \$500 non-refundable credit for non-child dependents.	-\$0.1	641,000	-\$700	384,900	\$800
J	Combined Plan (with Interactive Effects)		-\$6.7	1,807,100	-\$4,900	1,212,200	\$1,700

Comparison to Tax Policy Center Estimates

Provision		Change in Tax (billions)	Tax Policy Center Estimate (2017) (billions)	Estimated NYC Cost as % of Tax Policy Center Estimate
COMMON TO BOTH PLANS				
A	Eliminate tax on Net Investment Income	-\$1.8	-\$23.1	8%
B	Eliminate alternative minimum tax (AMT)	-\$2.5	-\$24.1	10%
C	Eliminate personal exemptions	\$3.4	\$132.9	3%
WHITE HOUSE PLAN				
D	Change tax brackets and rates, eliminate head-of-household filing status	-\$4.0	-\$113.8	4%
F	Establish a 15% rate on pass-through income	-\$0.8	-91.7	1%
G	Increase standard deductions	-\$1.6	-\$51.0	3%
H	Allow itemized deductions for mortgage interest and charitable contributions only, eliminate PEASE limit	\$7.9	\$86.0	9%
H1	Eliminate state and local tax deduction	\$7.7	\$96.0	8%
I	Create new deductions for child care expenses, add child care credit to EITC	-\$0.9	-\$6.8	13%
Combined WH Plan (with Interactive Effects)		-\$6.7	-\$91.6	7%
GOP/RYAN PLAN				
D	Change tax brackets and rates	-\$3.9	-\$92.6	4%
E	Exclude 50 percent of capital gains, dividends and interest income	-\$6.5	-\$22.8	29%
F	Establish a top rate of 25 percent on pass-through income	-\$0.7	-\$22.7	3%
G	Increase standard deduction	-\$1.7	-\$93.5	2%
H1	Allow itemized deductions for mortgage interest and charitable contributions only	\$8.7	\$106.6	8%
I	Eliminate child and dependent care credit, increase child tax credit, add new non-refundable credit for non-child dependents	-\$0.1	-\$22.6	0%
Combined GOP Plan (with Interactive Effects)		-\$6.7	-\$61.9	11%

Corporate Income Tax Proposals

Selected Provisions White House and GOP Plans

Tax Items	White House Plan	GOP/Ryan
Alternative minimum tax - current flat rate of 20 percent.	Repeal	Repeal
Tax rate - varies from 15 to 38 percent, income over \$18,333,333 taxed at 35 percent.	Reduce the rate to 15 percent.	Reduce the rate to 20 percent.
Repatriated profits from foreign-source income are taxed.	Repatriated profits no longer taxed. Transition tax on cash and cash-equivalent repatriated profits at 10 percent, and other profits at 4 percent, payable over 10 years.	Repatriated profits no longer taxed. Transition tax on cash and cash-equivalent repatriated profits at 8.75 percent, and other profits at 3.5 percent, payable over 8 years.
Investments depreciated, net interest expense deductible.	Firms engaged in manufacturing in the U.S. may elect to expense capital investment and lose the deductibility of corporate interest expense. An election once made can only be revoked within the first 3 years of election.	Allows the cost of capital investment to be fully and immediately deductible. Eliminates the deductibility of net interest expense.
Net operating losses - currently cannot exceed net taxable income before special deductions. Can be carried forward 20 years and back 2 years.		Allows net operating losses to be carried forward indefinitely, and increased by a factor reflecting inflation and the real return to capital. Does not allow net operating losses to be carried back and restricts the deduction for net operating losses to 90 percent of net taxable income.

Estimation Methodology

Goal: Estimate the impact of reform proposals on NYC tax liability of business income tax filers (including S corporations and partnerships, where applicable)

- Driven by changes to the definition of Federal taxable income, the starting point for our tax liability

Methodology

- Corporate microsimulation model (2012 grown to 2014) using Tax Policy's statistical sample.
- Benchmark results by sharing down Tax Policy Center estimates using various ratios: NYC allocated corporate net income to Federal corporate net income, NYC to Federal corp tax liability
- Report number of affected taxpayers, change in tax (\$, percent, median, mean) by industry, allocation status, etc.

Next Steps

- Created clean PIT baseline from 2015 data, need to grow to 2017.
- Model new provisions that can be estimated, separately and together.
- Test PIT model for sensitivity to assumptions (example: ratio of long-term capital gains to total capital gains).
- Make PIT model as parameter-driven and transparent as possible.
- Develop model to evaluate impact on NYC entity-level taxes paid by pass-throughs.
- Develop estimation methodology for corporate tax filers.