CITY COUNCIL
CITY OF NEW YORK

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TRANSCRIPT OF THE MINUTES

Of the

COMMITTEE ON FINANCE

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B E F O R E: DANIEL DROMM
Chairperson

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A P P E A R A N C E S (CONTINUED)

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Professor, Emeritus from Hunter College

Rachel Bird
New York City Staff Person for the Public Utility Law Project

[gavel]

CHAIRPERSON DROMM: Good afternoon and welcome to today’s Finance Committee meeting. My name is Council Member Danny Dromm and I’m the Chair of this committee. We’ve been joined today by Council Members Cohen, Council Member Gibson, Council Member Powers, Council Member Moya, Council Member Matteo, and Council Member Grodenchik. Today’s hearing will examine the impact of the city… on the city of the federal tax cut and jobs act with TCJA signed into law by the President in December of last year. This legislation, the largest tax overhaul in 30 years sharply cut taxes for businesses and high-income individuals while reducing revenues by 1.5 trillion dollars over the next decade. The law made noteworthy changes to important deductions including eliminating personal exemptions, establishing a new pass through deduction, reducing eligibility for the mortgage interest deduction and of particular importance to the city, capping the state and local tax or SALT deduction. I wanted to first echo the concerns of both Governor Cuomo and Mayor De Blasio that this law disproportionately harmed New York and its residents perhaps the most significant example of this in the limited… limitation placed on the SALT deduction prior to the new act. New York has had the option to fully deduct state and local individual income taxes as well as property taxes off of their federal taxes. This reduced the effective cost of the state and local taxes however the TCJA now places a limit of 10,000 dollars on the deduction. The Governor has expressed concern that this may result in greater tax migration, an issue I hope to explore further with our experts today. As I noted the act is also projected to reduce federal revenues by 1.5 trillion dollars over the next ten years increasing the federal deficit. Based on the priorities of the President and the republican congress the burden of future deficit reduction will likely fall on the backs of our most vulnerable citizens. As these tax cuts increase, the wealth of this city, it's wealthiest individuals these cuts should not be payed for by reduced funding for the programs relied on by low and middle-income families. At this time of massive inequality this is the wrong direction for our country. There are a variety of measures and legal changes that could be implemented in order to blunt the impact of the TCJA on New York State and

New York City and their residents. Many have already been outlined by Governor Cuomo and both the Department of Taxation and Finance's preliminary report on the act and the subsequent 30-day amendments to the 2018-19 state budget legislation. The proposals in the report include the creation of charitable funds to, to receive tax payer contributions, the establishment of a statewide employer compensation expense tax and the decoupling of the state's tax law from various federal provisions. I would note that the 30-day amendments included most but not all of the decoupling proposals offered in the department's report. These proposed changes effect New York City's personal income tax, businesses taxes and real property tax as well as the New York State equivalence. Today the committee looks forward to discussing these potential reforms with the administration and the experts from business, academia and other areas. As the state considers its responses to the law it is vital that the council be an informed voice to advocate effectively on behalf of the people of the city of New York. We'll begin with testimony from Michael Hyman, the first Deputy Commissioner of the Department of Finance, Deputy

Commissioner Hyman is joined by Francesco Brindisi, Deputy Director at the Mayor’s Office of Management and Budget and Joshua Goldstein, Assistant Director at OMB and maybe I missed one person… is Zal Kumar from the Department of Finance as well. Okay and with that I’m going to ask Counsel to swear in the witnesses.

COMMITTEE CLERK: Do you affirm that your testimony will be truthful to the best of your knowledge, information, and belief?

MICHAEL HYMAN: Yes.

CHAIRPERSON DROMM: Okay.

MICHAEL HYMAN: Good afternoon Chair Dromm and members of the Committee on Finance. As you said I am Michael Hyman, First Deputy Commissioner of the New York City Department of Finance and I’m joined today by my colleagues Zal Kumar, Director of Business Tax Services and Sheelah Feinberg, Director of Intergovernmental Affairs. Also, at the table is Francesco Brintisi, Deputy Director for the city’s Office of Management and Budget. Thank you for the opportunity to testify on the local fiscal impact of the recently enacted Federal Tax Act. In December Congress passed and the President signed the tax cuts and jobs act which made the most significant changes to the US tax code since the 1980’s. The new Federal Tax Act affects both individual filers and corporations. As others have noted the new law hurts many states and local municipalities and New York City is no exception. With its major changes to the federal corporate tax and the state tax the new Federal Tax Act in particular benefits businesses and high-income households which own the largest estates and receive the bulk of income from passive investments like real estate, stocks and bonds. It’s important to note that the corporate tax law changes are permanent while the personal income tax benefits expire in 2025. The increases in federal standard deduction amounts and reductions in the federal tax rate structure will help some New Yorkers but the overall average benefit is small. The fact is that many New York City tax payers receive little or no benefit from the income tax provision to the federal tax act. My testimony will highlight the large effects on individuals, businesses and the revenues collected by New York City and state. I will also describe proposed actions at the state level to counter the most harmful flow through aspects of the law. DOF and the OMB have prepared an initial fiscal analysis to the impact of the federal tax act, first the law’s impacts on individuals and families. Our models fed by federal, state and city data estimates that about 25 percent of the state filers will receive no federal personal income tax cut, ten percent will receive an increase and 37 percent will receive a cut of less than 20 dollars per week. The new law limits the state and local tax deduction to 10,000 dollars, it eliminates personal exemptions, lowers federal tax rates including the rate for the highest income filers and favoring pass through income over earned income, stretches brackets, increases the standard deduction, restricts or eliminates certain itemized deductions, expands child and family tax credits and eliminates the alternative minimum tax for most tax payers. DOF and OMB predict that the combined impact of the revisions I have cited will increase federal taxes an average of eight percent on hundreds of thousands of New York City residents, the majority of whom have income below 100,000 dollars. A primary reason for this increase in the tenth… is the 10,000-dollar limit on the SALT deduction. IRS data shows that Manhattan is the top county nationwide in terms of SALT deductions with an average deduction of almost 24,000 dollars well above the new limit and New York ranks 2nd in SALT deductions claimed among all states. This coupled with other limitations on itemized deductions and an increase in the standard deduction means that about 68 percent of current itemizes will no longer do so. Indeed, among those New Yorkers who we predict will see the increase federal liability almost all currently itemize. In general, the federal deductibility in state and local taxes dates back to the beginning of the federal income tax system and has been a fundamental component of fiscal federalism in the nation's history. The Federal Tax Act undermines this important component of public fiscal policy. In addition to the impact on federal liability of city residents, we also studied the impact on New York City and New York State liability. Similar to most states and localities New York's tax system piggy backs on the federal system for tax administration reasons because our tax calculations start with federal taxable income, when the federal definition is changed the city and state revenue is impacted, our models found that combination of federal tax changes would increase New York City personal income tax revenue for 1.8 million city tax payers by 320 million dollars. This group would also pay an additional 550 million dollars in New York State taxes. These increases are primarily due to the flow through impact of federal law changes that reduced the New York standard deduction available to single filers. City tax payers would also see local increases due to their lost ability to itemize on the federal return. Currently state law allows tax payers to itemize only if they do so on their federal return. The administration is concerned about these impacts and as I will discuss supports measures to protect city residents. Fewer than one percent of New York City tax payers receive a reduction in city liability from the flow through of federal provisions, these tax payers benefit from the more generous treatment of medical expenses for 2017 and 2018 only and the repeal of existing limits on itemized deductions for certain high-income tax payers. The federal act also makes changes to the federal estate tax, the estate tax exemption is now doubled from 5.6 million dollars to 11.2 million dollars reducing the state tax revenues by approximately 40 percent. We estimate that the reduction of the amount of federal estate tax paid annually by wealthier New York City tax payers will total approximately 400 million dollars. Now let's look at how the law will affect businesses based or operating in New York. the Federal Tax Act changes many aspects of business taxes including lowering the corporate tax rate from 35 to 21 percent, lowering the tax rate on pass through income, tax at the individual level, establishing a new system for the tax treatment of multinational corporations, modifying net operating loss treatment and repealing the corporate alternative minimum tax. DOF and OMB have evaluated each provision to determine whether it will impact the city's business income tax revenue. As with the individual tax only changes to taxable income can flow to, to the city, federal rate and credit changes will not directly impact our corporate tax revenue. While we are still determining the revenue impact on city business income taxes we have… I have identified several highly significant provisions. The deemed repatriation income provision from the federal tax act will require corporations to report additional income at the federal level but this income is generally not included in New York's tax base. However certain deductions related to the income may be included resulting in a potential revenue loss. In contrast certain interest expenses related to repatriation income may be allocated in such a way as to reduce the expenses against business income thereby increasing our tax base and revenue. There are also a host of less significant provisions which may flow through some of which may increase and some of which may reduce business income revenue. The analysis is complicated by the fact that the city imposes entity level taxes and flow through businesses such as S corporations and partnerships while the federal government taxes all through… all flow through income only at the individual level. We will be further… we will further explore this impact on the city's business income taxes and are committed to closing loopholes that create a risk of revenue loss. Now let's look at the effects of the tax cut in the president's proposed fiscal… fiscal year '19 budget on city residents and the New York City budget. The Federal Tax Act also has a direct and negative impact on the city budget, for example the act eliminated tax exempt advance refunding bonds which may cost up to 425 million dollars in savings over the next four years and increased the cost of repairing roads, bridges and other critical infrastructure indirectly lowering the cap… corporate tax rate to 21 percent, devalues low income housing tax credits which could impact our affordable housing plan by some 200 million dollars annually. New Yorkers will be directly harmed as well, the bill repealed the Affordable Care Act individual mandate, a key component of the ACA which helps keep health insurance coverage available and affordable for 4.2 million New Yorkers who benefit from subsidized insurance coverage. The tax bill is projected to cause large federal budget deficits, as a response we can expect to see proposals that cut the federal budget to close the deficit. Just this month President Trump released his proposed Fiscal… Fiscal Year… Federal Fiscal Year ’19 budget which cuts hundreds of millions of dollars from programs that help some of the most vulnerable New Yorkers including drastic cuts to Medicaid, a program that cares for 3.5 million New Yorkers; the Supplemental Nutrition Assistance Program that helps 1.64 million low income New Yorkers; education assistance that supports universal Pre-K and other programs; community development block grants which are designed to help low and moderate income New Yorkers; the Public Housing Capital Fund which NYCHA uses to modernize it's developments and Section 8 vouchers which supports low income New Yorkers in public housing. We are working with our partners in Washington to fight cuts to services which benefit some of our most vulnerable residents. Now let's look at the state response, on February 15th the Governor released his 30-day amendments to help address some of the concerns for personal income tax filers and for New York State's economy. The 30-day amendments introduced proposals to prevent certain provisions of the federal act… tax act from flowing through to New York's tax system including allow residents to itemize their New York returns whether or not they itemize on federal returns, continue the calculation of New York deductions as before the Federal Tax Act, restore the New York single filer standard deduction. The personal income tax provisions also effect the city's personal income tax and the city supports preventing the flow through of federal personal income tax provisions that would increase the personal income taxes of New York City residents. In the 30-day amendments the Governor also included a New York payroll tax proposal and a proposal to expand the ability of New Yorkers to make charitable contributions. As it's well known both of these proposals are intended to mitigate the impact of the severe restriction of the federal SALT already highlighted in my testimony. We do not have any comments on the proposal at this time as they are very complex and require a bunch more analysis to both tax and non-taxed related issues. We are committed to exploring these options with the state and the city council to provide relief to tax payers and also to ensure that there are no unintended consequences for the city's tax base. In closing New York City has historically contributed more to the federal government than it has received. According to the State Comptroller for Federal Fiscal Year 2016 New York State provided 40.9 billion dollars more in taxes to the federal government than it received back. For every dollar… if… federal taxes New York State sends to Washington, New York State gets back 84 cents. We are concerned the SALT deduction limitation could worsen the gap. Thank you for the opportunity to testify today, I'm happy to take any questions the committee may have.

CHAIRPERSON DROMM: Okay, thank you very much for your testimony and we do have numerous questions. Let me just start off by talking a little bit about the 30-day amendments to the 2018-19 state budget legislation and I think in your testimony you said you don't have much to comment on it at this point, I assume that's because of the complexity of that situation?

MICHAEL HYMAN: That's true, we… we applaud the effort to try to address some of the issues to mitigate the federal tax impacts but as I'm sure you are aware, and your staff are aware they're very complex issues so we're, we're in the process of studying and getting feedback from various stakeholders.

CHAIRPERSON DROMM: Would you know at this point what the incentive would be for an employer to sign onto this option and since it's deductibility merely reduces the extra tax but does not fully offset it?

MICHAEL HYMAN: Well in theory, I mean this is the problem, its theory, we have to see how it’s going to work out in practicality. The, the theory is that the employer would be held harmless, that to the extent that there’s a payroll tax the wages that they pay their employees would be reduced, the employees would get a PIT credit to keep them whole but they would be able to gain the federal deductibility but I think part of the process now is to talk this issue through with various stakeholders to see their perspective on the issue.

CHAIRPERSON DROMM: So, would it be better to impose the tax on all businesses instead of it making it optional for them?

MICHAEL HYMAN: Well they… you know these are policy discussions but given how brand new the concept would be and how kind of such a major shift in policy the opt in approach does have the advantage that you’re doing… you’re kind of incrementally implementing a major change in tax policy and you would give employers some discretion and to be honest we could learn from the process if it’s done in an incremental fashion.

CHAIRPERSON DROMM: Would you at this point hand it… have any idea about how many employers and what type of employers might choose to opt into this proposal?

MICHAEL HYMAN: We don’t at this time, that’s partially why we want to get a stake… you know responses from stakeholders, from employer groups.

CHAIRPERSON DROMM: What might be some of the unintended consequences from such a proposal?

MICHAEL HYMAN: From the payroll tax proposal?

CHAIRPERSON DROMM: Yes.

MICHAEL HYMAN: Well I guess we’re, we’re still trying to figure out how or… one the, you know academics as well as policy people are trying to look at what would be the implication as far as how employers would gauge their wages, if wages go down, there could be non-tax impacts on payroll taxes that are for social insurance programs, employee pension programs are linked to wages, there’s also issues with collective bargaining agreements so again part of the process is to vet this with stakeholders to get feedback on all the various non-tax as well tax issues.

CHAIRPERSON DROMM: What about municipalities, how would it work for municipalities, I know that they're probably contractual issues with opting into that as well, do you have any idea how that might work for municipalities?

MICHAEL HYMAN: Well that's another issue that has to be studied, how governments would flow through the benefit to their employees and, and some of the civil service rules and collective bargaining agreements are something that needs to be studied but at this point we think everything should be on the table to be studied and I, I don't… you know I am saying that we need to study it but I think we endorse the idea of trying to be creative to come up with mechanisms to recoup some of the loss federal deductibility.

CHAIRPERSON DROMM: So, the 30-day amendment does not give the city authority to set up its own employer compensation expense tax that would shift the burden of the city personal income tax onto businesses in the city, how would you envision seeing that happen in the city?

MICHAEL HYMAN: Well it's just something that… also again I keep saying we need to study but the idea would be if you had a payroll tax in the city we would have to look at it if the mechanism to the extent possible could be… I mean there's tax administration concerns about having constructs at the state and city level that are coordinated and then it would be somewhat a synonymous type of structure that you would provide a payroll tax, the employer in theory would reduce the wages to the employee so it still raises those issues about the impacts of reduced wages and then there would be a local PIT credit in construct but you know part of this is kind of talking through with different interest groups how it would play out.

CHAIRPERSON DROMM: Is the city now considering something, a proposal similar to that?

MICHAEL HYMAN: I think we're thinking everything's on the table, so we think it is worth looking at and studying and seeing if it's viable but at this point we don't have, you know a policy decision to make.

CHAIRPERSON DROMM: Would we need state approval to do such a thing?

MICHAEL HYMAN: We would need state approval, I think they've shown openness to being creative at the local level as well as the state level but yes, it would require a, a… state approval.

CHAIRPERSON DROMM: You know before being Chair of the… of the… of this committee I was Chair of the Education Committee, it’s obviously an, an issue of major importance to me, I’m concerned how would dollars flow if there was a educational charity fund set up, have you any idea how that… how it would affect the other end like how would the Department of Education for example receive funding?

MICHAEL HYMAN: Well the law does specify the mechanism of, you know where the charities go into, what the funding would be for, there are… you know there are still a lot of issues with understanding exactly how they would work, I mean there is concern about IRS scrutiny of them, I think people are basing the idea of having local charitable funds on precedent in states that do have these type of funds but the idea would be people would be contributing into the designated funds which have specified services that they would fund.

CHAIRPERSON DROMM: Is there any concern that contributions to those funds would not be used for the purposes for which they’re intended, is there a way that they would be able to shift funding out of one area and into another as we move through the year?

MICHAEL HYMAN: I think the funds have pretty specified purposes to which they could be used.

CHAIRPERSON DROMM: The 30-day amendment gives New York City and all the localities the option to set up their own funds to receive donations from homeowners to support education as I was saying, the city would then give homeowners a 95 percent credit to reduce their property tax liabilities, in your view what are some of the potential administrative challenges if any in establishing and operating such funds?

MICHAEL HYMAN: Well again it is a… you know even though some localities throughout the country have them it is a new construct so we'd want to fully understand all the implications not only in setting up the funds and make… as you said making sure the, the receipts went to the proper place but also in the city's perspective cash flow issues about how the money would come in, you know there, there has been discussion about if the city were interested in doing this kind of fund whether or not it would be better to have a personal income tax credit at the local level which tenants could benefit from not just a property owner credit and with all these proposals the other thing we’re very concerned with is making sure that the city’s revenue base is protected, that, you know contributions that lead to deductions so that the city can recoup and have a revenue neutral basis for what’s… protect our citizens and be revenue neutral to the city.

CHAIRPERSON DROMM: How long would it take to study this and, and get back to us on this?

MICHAEL HYMAN: Well we’re hoping you’re going to be our partners, we can study it together. I think the, the… over the next month a lot of issues will be fleshed out as the state legislate… the Governor released his 30 day amendments two weeks ago so it’s going to be debated at the state level, I think the… you know through coordination with finance staff, we should discuss what we see as the pros and cons of the issues and get feedback from stakeholders. So, it’s not like a definitive time line, these are major changes to the tax system, but I think a lot will happen in upcoming months and part of it is having communication on the issues.

CHAIRPERSON DROMM: Have you begun looking at any other jurisdictions and how they're dealing it… dealing with it and, and implementing it?

MICHAEL HYMAN: I'm, I'm sorry, say that again?

CHAIRPERSON DROMM: Have you dealt with… have you begun to reach out to other jurisdictions to see what other cities may be doing in terms… [cross-talk]

MICHAEL HYMAN: We are… [cross-talk]

CHAIRPERSON DROMM: …of… [cross-talk]

MICHAEL HYMAN: …aware of what other jurisdictions are up to, we haven't had that many direct contact discussions which may be worth doing but I think the construct that the state has proposed is similar to what other states are thinking of.

CHAIRPERSON DROMM: So, regarding the charitable funds option that authorizes the city to create it's own charitable funds and to provide a property tax credit equaling 95 percent of any donation, in a report by the Division of Budget the state expressed an openness to authorizing a tax credit against the New York City… against New York City's personal income tax, would it be beneficial for the city to pursue this authorization and have you had any conversations with the state on this matter as of now?

MICHAEL HYMAN: I think as you said the state is open to flexibility to what works best and as I mentioned before we do think from a policy perspective there are advantages as doing it a personal income tax credit from the fact that, you know a lot of… you know city residents do not own property so tenants would also be able to take advantage of any mechanism that’s created.

CHAIRPERSON DROMM: In your testimony also, I noticed that you said that the tax cuts and jobs act will cause 1.5 trillion over ten years, let me just go back to the question I had in regard to that. I think it was on page nine, you talked about the supplemental nutrition program or SNAP Program, food stamps what is the cost of that that they… has been proposed… the cuts to that over the ten years?

MICHAEL HYMAN: Going to ask… [cross-talk]

CHAIRPERSON DROMM: …about 131 million?

MICHAEL HYMAN: Sorry… well I’m asking Francesco… [cross-talk]

CHAIRPERSON DROMM: …billion… [cross-talk]

MICHAEL HYMAN: …our OMB person to comment.

FRANCESCO BRINDISI: So, there are two things that the federal budget proposed, one to decrease the amount of money that goes into SNAP and then to substitute that, that amount of money with actual food delivered to families that receive a, a benefit above a certain threshold so… and that's part of the… of the proposal that, that the White House has put on the table.

CHAIRPERSON DROMM: So, do you have a number on that?

FRANCESCO BRINDISI: Not with me but I will come back to that.

CHAIRPERSON DROMM: It's of major concern to us and to the Speaker as well obviously, one of the things that we want to do as we move forward through the negotiation process is to protect that social safety net and that is one of the large ones. I'm sure that there's probably a concern for the administration as well so we do look forward to further discussion on all of the, the issues that you raised on page nine; community development, block grants, public housing capital funds, etcetera. So, alright… so for me that's about it at this point, I want to announce that we've been joined by Council Member Adams and Cumbo and there are questions from Council Member Powers.

COUNCIL MEMBER POWERS: Thank you, thank you Chairman and as the… as the Council Member representing the President of the United States of America I feel a certain amount of responsibility for, for these so apologies from the floor. I… the first question I had was total impact in FY '19, I didn't see if you guys had an estimate on total cost to the city of New York this year and understanding I think some of these are for future years if there's an estimate on impact for '19, '20, '21, and the years beyond that, like an… a total number estimate?

MICHAEL HYMAN: You know we can get back to you with, with the estimates we do have.

COUNCIL MEMBER POWERS: Sure, any ball park on… [cross-talk]

MICHAEL HYMAN: Well we're giving you what we think is the annual full year impact in the first year, I think a lot of the programs, you know once they go into effect which is current tax year will have full impacts until provisions start to expire so I think, you know there'll be growth in them but I think we can… I think the ball park we have in the testimony is pretty much going to tell you what it's going to be in our out years.

COUNCIL MEMBER POWERS: For the out years, okay. And just on the tax… and you guys… and our… and our report talks a bit about tax migration out of New York State and some evidence that there's some type… you know the tax… impacts on taxes can in fact lead to the migration of some New Yorkers to other places, obviously understanding some of the things like deductions may be no matter where you live, what… is there expected migration out of New York City, New York State based on changes to this… to, to, to the tax law that could… would effect New York City relative to other areas, other cities or states and if so what is the expected if any migration?

MICHAEL HYMAN: Right, I don't think there's really any solid empirical study I think there's just general concern that when you have a change in a tax law that's been the same for 100 years that, you know you have the states and localities, taxes can be deducted at the federal level on the margins it creates, you know a less favorable environment. I think most migration studies generally show, you know tax increases in particular, circumstances aren't driving forces, they can be marginal forces depending on life situation of a household, but I think there's just general concern that we're in kind of unknown territory because of how large the federal tax changes are so it's a concern.

COUNCIL MEMBER POWERS: And are there any specific parts of this tax bill that effect… would affect a New… the SALT deduction affects you regardless of where you live I think, are there any parts of this that would affect a New Yorker uniquely versus somebody who lives in… Tennessee… [cross-talk]

MICHAEL HYMAN: I think it's really as we… as we deal with balance of payment situation it's really the disproportionate impact, I mean a lot of the provisions that effect New York City are provisions that are nationwide, but it just disproportionately hits the city… [cross-talk]

COUNCIL MEMBER POWERS: Yeah, right… [cross-talk]

MICHAEL HYMAN: …so it creates a… like more of a gap in our… you know balance of payment with the federal government.

COUNCIL MEMBER POWERS: Got it and, and there are no… I noted that… I think it's in your testimony there are… or, or… in one of the discussions about changes to the estate tax, I think doubling the estate tax have you guys done an estimate on how, how many New Yorkers pay the state tax, New York City residents?

MICHAEL HYMAN: It's very small, I mean probably a few thousand, they tend to… [cross-talk]

COUNCIL MEMBER POWERS: Thousand… [cross-talk]

MICHAEL HYMAN: …be very rich… [cross-talk]

COUNCIL MEMBER POWERS: Yep… [cross-talk]

MICHAEL HYMAN: …because the, the… you know the exemption's already pretty high, so we do view that… when you look holistically at the federal proposal that's one of the main items that primarily flows to the wealthy.

COUNCIL MEMBER POWERS: And do you have… I know, understood. And do you have numbers on how the change… what the number is after the change, estimate?

MICHAEL HYMAN: I'm sorry, say that… [cross-talk]

COUNCIL MEMBER POWERS: How many people would be paying it after?

MICHAEL HYMAN: Pay… oh yes, well, well I think we basically… well we have a… well we have here an estimate of how, how much the revenues will reduce but we can give you an estimate about it, I don't [cross-talk]

COUNCIL MEMBER POWERS: Yeah… [cross-talk]

MICHAEL HYMAN: …have it at, at my… [cross-talk]

COUNCIL MEMBER POWERS: Just curious… [cross-talk]

MICHAEL HYMAN: …fingers… sure.

COUNCIL MEMBER POWERS: Thank you.

CHAIRPERSON DROMM: Thank you and isn't it true that about 1.5 percent of tax payers pay about 43 percent of taxes, personal income taxes here in the city?

MICHAEL HYMAN: That sounds familiar.

CHAIRPERSON DROMM: Right, so the issue of flight or leaving the city I think is one of major concern just not even in a district like Council Member Power’s district of course where many of those folks do live but to others as well because of the impact that it would have on the rest of the budget here. We also have questions now from Council Member Adams and Council Member Grodenchik.

COUNCIL MEMBER ADAMS: Thank you very much for your testimony here today, we really do appreciate it. In your closing statement it’s just very, very disturbing to me to always see and hear about the number, the disparity of the contribution that New York City and State contributes to the federal government, government compared to what it… what we show for it, what we get back. I’m just curious to know that we’ve got New York State, New Jersey and Connecticut involved in a lawsuit against the federal government, are you taking a look at perhaps joining that suit as well?

MICHAEL HYMAN: I think at this point all… everything's on the table, that… until we decide… decision may not have been made yet but we're looking for any creative solution that can tackle the federal problems.

COUNCIL MEMBER ADAMS: Uh-huh, are there any specific actions set up so far for the administration to further that effort?

MICHAEL HYMAN Well as I mentioned I know I keep using the word study but we are trying… we realize also that people want to act so we're trying to study and a lot of that is also just communication that we want to hear your feedback, your staff feedback and to be honest with some of the proposals like payroll taxes we want to hear what various stakeholders have to say, their employers finding a mechanism that they'll avail themselves off, the issue of… the theory of… in theory it's a… it's a nice concept you can get back the federal deductibility through a backhanded way, right, you just basically do a payroll tax and lower wages and lowering wages reduces your taxable income, on the other hand lowering wages is, is both emotionally and an empirical issue and it involves as I mentioned a lot of non-tax issues. So, it’s partially just getting feedback, communicating and looking through and thinking about all the kind of pros and cons because at the end of the day we want to make sure that this is going to be beneficial to employees and we want to make sure that it’s… you know administrable that we can do it in a way that works effectively and protects our citizens.

COUNCIL MEMBER ADAMS: Okay, so it sounds like there’s a lot of fact finding and information gathering going on right now, is there a time table that you have set up to get… to get your facts and information to, to gain a starting point for any of this?

MICHAEL HYMAN: Well you know again the, the… with this order of magnitude changes, they, they, they aren’t simple, we realize that people want to see… you know some findings and steps and the state I think did a first… good first step in its report it came out with but I think the key thing now is working with your staff and working with other stakeholders to talk through the issues and, and in some sense thinking about what are the toughest issues we need to tackle and where are areas that there, there's consensus that we may be able to move forward in certain… in certain provisions.

COUNCIL MEMBER ADAMS: Thank you.

CHAIRPERSON DROMM: Council Member Grodenchik.

COUNCIL MEMBER GRODENCHIK: Thank you Mr. Chairman. I, I, I just have a quick question for Commissioner Hyman, I added up the numbers, page three of the your testimony you indicated 25 percent of city filers will receive no personal federal income tax cut, ten percent will receive an increase and 37 percent will receive a cut of less than 20 dollars a week so that adds up to 72 percent, what happened to the other 28 percent of New Yorkers?

MICHAEL HYMAN: I'll have to get back to you, it could be there is a portion that receives greater than 20 dollars a week, I mean part of it… what we… maybe we need to get back with you is more of a holistic perspective because the personal income tax is only one part of the equation, when we look at the corporate tax cuts, the estate tax cuts and the personal income tax cuts how do we think this will flow through to New York City residents, this may be a perspective we can share with your staff and they can share with you.

COUNCIL MEMBER GRODENCHIK: Well I'd, I'd be curious Mr. Chair to find out, you know the… what the 100 percent leads to, as for the, the inheritance tax I'll let my son worry about that but I'm not planning on going anywhere yet so… I, I would appreciate knowing because it is important for us to have all the information. I think when most New Yorkers do think about how the new tax law will affect us they're thinking mostly about personal income tax and I think for the vast majority of New Yorkers most New Yorkers will never file for an inheritance, they may have to file in the state but they're not going to pay any of those taxes.

MICHAEL HYMAN: No, that's, that's a very good point, I just meant from the perspective on when you think about from income distribution who benefits from the whole federal program, I mean right, most people don't pay the estate tax but that benefit from the federal government is going to the wealthy whereas in the PIT it's a mixed bag, there's some… [cross-talk]

COUNCIL MEMBER GRODENCHIK: No, I under… I understand that and that's… but I think most of our constituents the vast majority, 90 something percent… 99 plus percent will never have to worry about the inheritance tax but I do realize the impact it has on New York because that's maybe one of the good things about this, it'll, it'll bring… leave some more money in the city but that's my question, I would appreciate it if, if somebody on your staff could get back to… hey this is my time… some, somebody on your staff could get back to Mr. Majewski, who I can always find. So, thank you very much.

CHAIRPERSON DROMM: Thank you, I didn't know you were planning on getting about, what 11.2 million in inheritance is… or leaving that amount of money… let me ask a couple of questions on affordable housing as well, the federal tax bill did not repeal the low income housing tax credit which encourages the investment of private equity in the development of affordable rentals for low income households, however reducing the corporate tax rate from 35 down to 21 percent will inherently reduce the value of the low income housing tax credit, can you talk about the city's current utilization of that credit and how the federal tax changes might effect its' use by the city?

FRANCESCO BRINDISI: So, the… nationally the low, low income housing tax credit is one of the main instruments for the development of affordable housing and nationally it's responsible for about 90,000 units each year and in the city in 2016 it was responsible both types of the tax credit and the tax exempts that go with it for about 10,000 units in 2016. The impact of the… of the tax cuts and jobs act is indirect because the tax rate on corporate has gone down, there's less tax liability so there is less demand, you know the, the, the analysis… the estimate made in 2016 before… you know before the passage of the… of the act was a potential impact of 200 million in terms of the amount of equity raised for the development of affordable housing now of course, you know there was an estimate before the fact now we'll need to actually see what, what the implications are as we go along… as we go further in time.

CHAIRPERSON DROMM: In the Commissioner's testimony now, he said something about 200 million… [cross-talk]

FRANCESCO BRINDISI: Yeah, 200 million… [cross-talk]

CHAIRPERSON DROMM: …loss potential… 200 million… [cross-talk]

FRANCESCO BRINDISI: Yeah… [cross-talk]

CHAIRPERSON DROMM: …loss.

FRANCESCO BRINDISI: Yes.

CHAIRPERSON DROMM: For that program.

FRANCESCO BRINDISI: Uh-huh. That was the estimate… [cross-talk]

CHAIRPERSON DROMM: And did you mention the number of affordable rental units that we could lose?

FRANCESCO BRINDISI: Well we, we, we don't have that estimate, we have… we know… we have the estimate that we did in 2016 about the potential impact on equity will… but we don't have an actual impact on what… [cross-talk]

CHAIRPERSON DROMM: Do we have plans of how we're going to deal with that?

FRANCESCO BRINDISI: Well I think it's too early to tell right now, you know there are… there are a number of things, there's legislation and… in, in the… in the federal legislator that, that would increase the housing tax rate that was sponsored by the Chairman of the Senate Committee and are in hatch which, which pass the, the tax cuts and jobs act so it’s bipartisan so that’s one thing that, you know if passed would, would actually compensate even more than more than compensate the impact, the potential impact of the tax cuts and jobs act so, you know all of these things are developing and, and that’s what we’re fighting for.

CHAIRPERSON DROMM: Uh-huh. Okay, I think we’re good, yes, Council Member Powers… [cross-talk]

COUNCIL MEMBER POWERS: Sorry, I, I just wanted to re-ask a question I asked at the beginning which is what is the estimated impact in the FY ’19 under this tax bill?

MICHAEL HYMAN: I’m sorry, the estimated impact on…

COUNCIL MEMBER POWERS: On New York City’s budget?

MICHAEL HYMAN: New York City budget, well I think we have estimates here on the impact on city residents, as far as… do you mean the impact on budget… [cross-talk]

COUNCIL MEMBER POWERS: Yeah, we have an… [cross-talk]

MICHAEL HYMAN: …programs… [cross-talk]

COUNCIL MEMBER POWERS: …88 billion dollar budget the Mayor proposed, we got briefed on and the question is what are we expecting in loss revenue as by virtue of the tax bill in ’19 and maybe ’20 and ’21 would be helpful too if those are… but let’s… we can ’19, I understand we’re not in the… [cross-talk]

FRANCESCO BRINDISI: Right, so the, the, the… there are a number of implications of the tax bill that we have been talking about there in… even at this hearing, you know I’ve heard about… you know the potential… you know the impact on high incomers and their mobility and then the housing tax credit and so on and so forth. The, the budget takes into account the micro, microeconomic impacts of the… of the tax cuts and jobs act… [cross-talk]

COUNCIL MEMBER POWERS: And it… [cross-talk]

FRANCESCO BRINDISI: …as, as it does… [cross-talk]

COUNCIL MEMBER POWERS: …this is… state that meeting, which… what, what's, what's… what… [cross-talk]

FRANCESCO BRINDISI: Well the, the, the tax cuts and jobs act is going to have a short term stimulating effect… [cross-talk]

COUNCIL MEMBER POWERS: Right… [cross-talk]

FRANCESCO BRINDISI: …on the economy so that's going to flow through also to the city… [cross-talk]

COUNCIL MEMBER POWERS: Right… [cross-talk]

FRANCESCO BRINDISI: …and that's, that, that's the main way in which the, the, the preliminary budget in it's economic and tax forecast takes into account the tax cuts and jobs act, with… that's… you know that's… I, I don't have a specific number for you but it's… you know we have an increase of 1.2, 1.3 percentage points in the next couple of years so that, that flows through in higher incomes and, and more economic activity.

COUNCIL MEMBER POWERS: So, you think there's an initial impact that's positive based on I guess more money immediately but… is there… I guess… I guess my, my… to state my question again is, I mean we do have an 88 point… [cross-talk]

FRANCESCO BRINDISI: Uh-huh… [cross-talk]

COUNCIL MEMBER POWERS: …six I think billion-dollar budget that is before us as it for discussion in the city and I'm, I'm just wondering if we've… if we are taking in account… I mean I think the answer… I know the answer's yes so, I'm not… I'm not here to criticize but I, I guess my question is what are we… what are we anticipating in lost revenue this year and do we have a number for next year in terms of money that won't be available to… I mean because… I guess the point is social net… social safety net programs, affordable housing, obviously personal incomes, all, all these… all these factors that we care and consider as, as… I know you do too, I guess we're… I'm trying to determine and I think many are here to… who are in the audience too is exactly immediately what are we looking at in terms of a hit to New York City and that helps us I think explore other options and certainly support our colleagues who are going to Albany to advocate for ways to be creative around the implementation of it but is there not a number available in terms of what we might or a ball park in terms of what we, we feel like the impact is today?

FRANCESCO BRINDISI: We're very much working through those estimates as of now, so I don't have a number available… [cross-talk]

COUNCIL MEMBER POWERS: Okay… [cross-talk]

FRANCESCO BRINDISI: …for you… [cross-talk]

COUNCIL MEMBER POWERS: …when do you guys think you… get to a… I know… and I know partisan write, write the state budget so, April 1st the state does or does not act on… upon these few items, do you think… do you think it's after, after April 1st when you get a sense of… [cross-talk]

FRANCESCO BRINDISI: I'm sorry, on, on some of these items we'll have a much clearer idea after the… after the state budget, you… as, as… you, you, you might know the bill has been mentioned right, this, the subsides from the flow through of the taxes to the… [cross-talk]

COUNCIL MEMBER POWERS: Yeah… [cross-talk]

FRANCESCO BRINDISI: …city's budget was not included in the… in the… [cross-talk]

COUNCIL MEMBER POWERS: Right… [cross-talk]

FRANCESCO BRINDISI: …forecast, right… [cross-talk]

COUNCIL MEMBER POWERS: Right, right, right… [cross-talk]

FRANCESCO BRINDISI: …so there is no… and if the, the coupling actually goes through, right… [cross-talk]

COUNCIL MEMBER POWERS: Okay… [cross-talk]

FRANCESCO BRINDISI: …then that… we don't need to change our, our… [cross-talk]

COUNCIL MEMBER POWERS: Right, right, right… okay, okay… [cross-talk]

FRANCESCO BRINDISI: …yeah so that's one… that's going to be one area of, of clarity, clearly, you know we're siting all of the changes in the payroll tax potentially, right we're, we're exploring the, the visibility so, you know if those have fiscal consequences those will be included after, after the state budget… [cross-talk]

COUNCIL MEMBER POWERS: Anticipated, okay. So, we… is, is… we can follow up maybe after April 1st and talk more about impact, numbers, so forth?

FRANCESCO BRINDISI: Absolutely… [cross-talk]

COUNCIL MEMBER POWERS: We… I'm sure we will, thanks.

CHAIRPERSON DROMM: And actually, we're going to start some of that on March 5th with the budget hearings that are coming up, so we'll get… begin to get a general idea of what it, it looks like as… after those hearings begin.

MICHAEL HYMAN: Right…

CHAIRPERSON DROMM: Well we've been joined by Council Member Van Bramer, thank you very much and seeing no other questions I want to say thank you very much for coming and we will see you again soon, thank you.

MICHAEL HYMAN: Thank you.

FRANCESCA: Thank you…

CHAIRPERSON DROMM: Okay, up next is Preston, Preston Niblack from the Comptroller's Office.

COMMITTEE CLERK: Do you affirm that your testimony will be truthful to the best of your knowledge, information, and belief?

PRESTON NIBLACK: I do.

COMMITTEE CLERK: Thank you.

CHAIRPERSON DROMM: Okay, thank you, Preston would you like to start?

PRESTON NIBLACK: Thank you Chair Dromm and members of the Committee. I'm Preston Niblack, Deputy of the New York City Comptroller for Budget testifying today on behalf of City Comptroller Scott Stringer. I'm joined today by our Director of Revenue Estimations, Steve Giachetti and our Chief Economist Larry Mielnicki. The federal tax cuts and jobs act represents the biggest change in both personal and corporate federal income taxation in a generation since the Tax Reform Act of 1986. It could not however be more different in spirit and effect from that overhaul. The TCJA represents partisan policy making at its most petty. The ways in which it appears to deliberately target higher tax jurisdictions such as ours is unprecedented. In the long run it profoundly undermines our city's ability to continue to provide the robust, robust social safety net by eroding our economic competitiveness and revenues. So, there's a tremendous amount one could discuss today so in the interest of relative brevity at least I'm going to focus on three broad topics; the impacts on New York City individual tax payers, the impacts on the broader city economy and then the interaction between the new tax law and our state and city tax codes. And I'll conclude with a note of caution about many of the unknowns and uncertainties that have been raised by such a massive, massive yet hasty overhaul of the tax code. The Comptroller's analysis shows that nearly 475,000 largely middle-class New York City federal taxpayers would face higher tax liabilities under the TCJA. The capping of the state and local tax deduction at 10,000 dollars and the elimination of certain other deductions is the most common reason. We estimate that roughly half of taxpayers earning between 100,000 and 500,000 dollars in income are likely to face higher tax bills. At the highest end of the income spectrum, above a million dollars in our analysis, the picture is more complex and depends on various factors including primarily source of income. New York City has an unusually large proportion of high income tax payers whose income is largely derived from wages and bonuses, as opposed to business income, which, as you know is treated more favorably under the law. The cap on the SALT deduction obviously tends to raise their tax bills. Perhaps surprisingly, nearly 58 percent of such taxpayers could actually see increases. Those millionaires who will get tax cuts will get big ones, 337,000 dollars on average according to our analysis. They are primarily filers with pass through business income, which is eligible for a 20 percent deduction up to a cap against the filer's personal income taxes. Mere wage earners of course don't get this deduction and will thus be taxed at a higher rate on the same income violating a basic of tenet of tax equity. In addition to these distributional impacts, the tax bill raises a number of concerns for the long term economic competitiveness for… of high tax jurisdictions like ours. First, because of the cap on SALT deductions, the difference in top marginal tax rates between high tax and low tax states has widened. The ability to deduct state and local taxes on your federal return prior to this year meant that your effective state and local tax rate was lower than your nominal rate. That's now no longer the case, with state and local tax rates effectively a third higher than they were. The focus on this issue has often been on the very rich, perhaps for the obvious reasons that they both account for a disproportionate share of taxes paid as you noted and because they are perceived as more easily able to change their tax domicile than middle class working households. But it is not just a matter of departing millionaires. As I've noted, this also impacts plenty of middle class filers. Being able to attract and retain the middle class is important to the city's long run economic and fiscal health as well as our social fabric. The federal law undermines our ability to do so. Additionally, the loss of SALT deductibility also means that many more taxpayers will likely choose the expanded standard deduction rather than itemizing, which also has implications for charitable giving for example. Many middle-income households may be affected by this and while they are no doubt most often motivated by other concerns than just their tax liability it nonetheless eliminates an incentive for charitable giving that could potentially impact the fundraising of many non-profit social services agencies and other organizations, which are of course a critical part of our city's social services network. Even the treatment of pass through business income disfavors New York, because not all business income is treated the same under the law. While the bill provides benefits to real estate partnership, go figure, many professional services partnerships that are an important part of our economy like accountants, lawyers, and doctors won't be eligible for this deduction. The changes in federal tax law of course also impacts state and city income taxes, which take federal adjusted gross income and federal deductions as their starting points and this raises the question of de-coupling that is should we adjust our own tax codes, so we're not as closely and automatically tied to the federal code? Comptroller Stringer testified about the need to decouple at the local government hearing in Albany last month. Our analysis indicates that the combined impact on state and city personal income tax liabilities for New York City residents would be nearly 800 million dollars without decoupling. Governor Cuomo as was noted included legislative proposals to mitigate the impact of the federal tax bill in his 30-day budget amendments. These included an optional payroll tax and charitable contributions for certain public functions and decoupling certain aspects of the state PIT from the new federal law. Notably, the Governor included the decoupling of state and local tax deductions from the federal caps and eliminating the requirement to use the standard deduction on the state return if you do so on your federal return. The Governor has also proposed amending state law to remove a provision that would have lowered the standard state deduction for single filers which would cost single tax payers 840 million dollars on their state and city returns unless fixed, as a single tax payer I take particular exception to this item so… the legislature will need to make similar changes at the city level as well, which the Mayor’s Preliminary Budget assumes will happen. Without these changes city tax payers will face an increased local tax bill of some 365 million dollars by our estimate. I will conclude with some observations on corporate tax changes and on the tremendous uncertainties such a huge change in the tax code raises for the future. On the corporate side there are a very large number of unresolved implementation and legal issues and unknowns. The changes to corporate taxes and the treatment of foreign income are some of the most complex features of the plan. Implementation issues are typical of any tax reform but are compounded by the fact that this act was passed hastily in a matter of months, rather than the years it took to pass the 1986 reform. Technical guidance from the IRS and even amendments to the law will be needed on many provisions of the act. One thing that seems clear, however, is that, in the short run at least, many companies are using their corporate tax savings for one-time bonuses, stock buy backs, and shareholder dividend payouts, rather than on raising base pay for their workers, whose wages have been stagnant during most of the current economic expansion or making capital investments. This was an entirely predictable outcome of enacting tax cuts at a time when corporations are sitting on hundreds of billions of dollars in cash without passing any of it along to their workers in the form of higher pay. And finally, we still don’t know how many or what kinds of behavioral responses could be triggered by the TCJA and how those play out could have a large impact on city tax revenues. Take just two examples; it remains unclear how the impact repatriated profits will affect capital gains realizations and dividends. And the differential in tax rates between pass through entities and C-corps could cause some existing partnerships to restructure as C-corps. New York City's could be even more pronounced given the double taxation of pass through income at both the entity level with the UBT and that of the individual tax payer. There are plenty of reports of such restructurings already and due to the lower corporate rate, such restructurings could ultimately result in lower revenues at all levels of government including New York City because of its unincorporated business tax. That was perhaps the intent all along. Because the worsening of the federal deficit as a result of the tax bill's not sustainable in the long run, it is clear that cuts to social services, education, healthcare, and other programs that provide critical services to many New Yorkers are next up on the agenda in Washington. In sum, while we do know many of the impacts of the TCJA with a good degree of certainty for all the reasons outlined above we will not know the full extent for many years to come. But there are already many reasons to be concerned about how the tax bill will ultimately affect our economy, our revenues and our residents. Thank you, and we're happy to take any questions.

CHAIRPERSON DROMM: Thank you very much and I appreciate your testimony. So, the joint commission on taxation estimates that the tax cuts and jobs act will add a trillion dollars to the federal deficit over the next ten years, are there any particular programs that you are concerned about that are most at risk?

PRESTON NIBLACK: So, I, I feel slightly less anxious that I did this time last year, I think about federal tax cuts because of the two year budget agreement that was reached and the President's budget in some ways was so outrageous that it was hard to take seriously even in the absence of that agreement, it seems less threatening now that there is a budget agreement in place. We've, you know outlined where… we get about seven billion dollars a year worth of baseline federal aid and it… you know it's not much in the overall picture but its very important in particular areas and you know child welfare services, homeless shelters, housing especially code… housing code maintenance, etcetera a whole slew of areas that if there were cuts would blow holes in our budget and then there are the areas where if there were cuts the city would be under a lot of pressure I think to pick up the difference so, you know if there were cuts to NYCHAs operating or capital, if there were cuts to SNAP, you know I'm sure that there would be a, a lot of concern that somebody else pick up the slack.

CHAIRPERSON DROMM: The federal tax code has many flow, flow through effects on city and state taxes and the state is proposing to decouple from a number of federal tax changes, the limit on state and local tax deductions being only one of them, are there any federal tax changes under the tax… under the TCJA deductions, adjustments or other provisions that you believe are beneficial to the city and should be maintained?

PRESTON NIBLACK: This is… you know it's… right. The one decoupling provision that Governor Cuomo included in his original budget was decoupling from the Child Care Tax Credit, which… Child Care Credit which effectively doubled under the new law and that was significantly costly to the state, we don't have… we don't have a flow down… we don't have that here at the local level so it doesn’t effect us so much in terms of our budget but it might be part of the mix in the decoupling discussion in the discussion of sort of how the state responds to the federal tax bill.

CHAIRPERSON DROMM: Thank you, so New York City taxes pass through entities such as partnerships and S corporations through the unincorporated business in general corporation taxes which remain fully deductible, the city provides owners of these entities credits on their personal income tax to off set the business taxes that they pay, are there any options you think the city should consider such as increasing these taxes and off setting them with credits as an option for reducing the effects of the SALT deduction on owners of city businesses?

PRESTON NIBLACK: So, there’s… if, if we were to decouple as the Mayor has assumed and as the Governor has begun to propose then I think we… we’re going to have to walk through sort of the whole tax structure of how people source their income and pay their taxes. There’s obviously an incentive to find a way to make your income business income so that you could get the 20 percent deduction and if it's a partnership, you know with enough members to form a, a board… a corporate board, you know you might want to even go and incorporate as a C-corp because then you're taxed at 21 percent, boom. So, I… you, you know the sort of… as I noted at the end, you know the behavioral changes that could result from all this are going to take a little while to shake out and I… you know it's hard therefor to sort of get ahead of that without doing something unintended and I think nonetheless all these things have to be considered but it's a little bit of an intellectual exercise at the moment, you know that's causing Steve to stay up late a lot to try and sort through even existing provisions and how they interact with each other so…

CHAIRPERSON DROMM: Until we see it… what it all exactly means. Council Member Powers.

COUNCIL MEMBER POWERS: Yep, thank you. Two questions, one on, on two parts of your testimony, one on impact first being the charitable contribution effect which we hear… actually sometimes on the other side when we talk about raising taxes on, on high earners which is the impact on, on charitable giving and, and, and social services and things like that, is there any evidence so far to believe that we're seeing… I mean it's too early to see it on this but is there any reason to believe that they will have a, a real impact on charitable giving to organizations in the city?

PRESTON NIBLACK: Right, there's not… you know so there's sort of… there's two groups of people who give charitable donations, high income and low income, middle income tax payers actually don't give that much of their income, low income people tend to give it to local social services organizations and churches, you know high income people not to be a caricature, you know buy buildings with their names on them. So, in some ways though they're all motivated by reasons that have nothing to do with your tax liability, right, so the… there's a real open question that has… there's no real empirical evidence on about how it would be… what the impact would be. It does concern me that there's a group of people who are particularly disfavored in the city under this tax law who probably do a fair amount of charitable giving but who will now opt to go with the standard deduction and thus, you know through lose that charitable giving itemization. Steve do you want to…

STEVE GIACHETTI: And then the other consideration is the raising of the estate tax threshold, so you would also lose your… the incentive to deduct on that additional six million dollars from five to 11 million so that exemption would also lower the incentive for, for very rich individuals to make charitable deductions. Again, it's, it's the incentive, if they donate for other purposes they would still donate.

PRESTON NIBLACK: I… you know every social services or museum or any non-profit organization that I've talked to these days I ask about this and I think everybody's also still trying to figure out… you know and some people saw a big rush at the end of this year and… you know and they're wondering about what does that mean for next year and then in the longer run I think it just is a little unclear still.

COUNCIL MEMBER POWERS: Some… so you said saw a rush this year because of… so, potentially a, a fear of the… okay, okay, got it. Second thing is on the, the companies using the corporate tax save, savings for one-time bonuses or, or not increasing wages but for other, other… I think you guys say stock buy backs, one-time bonuses, dividend payouts, any, anything you guys can tell us anecdotally about that happening and what we might expect on that because I, I think it's… I think it is, you know concerning that the money's not going, you know and, and not unaffected but any, any other examples… [cross-talk]

PRESTON NIBLACK: I mean I just… I'll just… as preface say that, you know the two… companies have been very profitable for a long time now, right and they have not… you know and then the lagging growth of productivity investments has really been a concern so there's lots of cash sitting out there, it's not the worst thing in the world that some of that cash will get repatriated and can be used for investments and… here but in the time being, you know people are not… you know and especially at a time when the labor market is very tight and you would start to expect to see wages going up, it's just we're not seeing it yet. So, I… you know we… there are lots of, you know big companies that have given thousand dollar bonuses, there are some that have begun to raise their minimum wage I think which is separate from the tax code, I think it was just the 15 dollar minimum wage movement, there's lots of stock buybacks, you know going on and people increasing their shareholding, you're not really seeing a whole lot of people who are just generally raising their wage levels at this point.

COUNCIL MEMBER POWERS: Or feeling mandated… [cross-talk]

PRESTON NIBLACK: Right… [cross-talk]

COUNCIL MEMBER POWERS: …about it… [cross-talk]

PRESTON NIBLACK: Exactly, or feeling pressure to… [cross-talk]

COUNCIL MEMBER POWERS: Absolutely, thank you.

CHAIRPERSON DROMM: Council Member Rosenthal.

COUNCIL MEMBER ROSENTHAL: Council Member Dromm, good to see you. Have you guys done an estimate for the net… not… bottom line impact on the city's budget revenues?

PRESTON NIBLACK: No.

COUNCIL MEMBER ROSENTHAL: Up and down…

PRESTON NIBLACK: Short answer, no. It's… you know it, it is very complicated and at the moment I think the big question will be what we… where we end up as far as decoupling goes without decoupling tax payer… we'd actually get an infusion of money into the budget of about 365 million dollars… [cross-talk]

COUNCIL MEMBER ROSENTHAL: Yeah… [cross-talk]

PRESTON NIBLACK: …by our estimate, you know I don't… [cross-talk]

COUNCIL MEMBER ROSENTHAL: And you would also be losing the side of… from businesses, I mean it…

PRESTON NIBLACK: Not… yeah, it… and it's just we're… you know we're, we're still working through all of this and trying to understand it and I don't know that we have a solid enough handle on all of these dynamics of this yet to really be able to… [cross-talk]

COUNCIL MEMBER ROSENTHAL: I think it would be interesting to be able to do an analysis where you… [cross-talk]

PRESTON NIBLACK: Could be… [cross-talk]

COUNCIL MEMBER ROSENTHAL: …looked at different scenarios of what the state could do to help New Yorkers and what the impact would be on the bottom line of the city's budget, I think that would be helpful.

PRESTON NIBLACK: Steve will get right on that.

COUNCIL MEMBER ROSENTHAL: Nothing else to do, right, I mean I… [cross-talk]

PRESTON NIBLACK: When did you want that, tomorrow? Tic toc.

COUNCIL MEMBER ROSENTHAL: No, I think it would be really helpful for everyone, I don't… I don't… [cross-talk]

PRESTON NIBLACK: Yep… [cross-talk]

COUNCIL MEMBER ROSENTHAL: …know how you can sort of operate without it but that's another story.

PRESTON NIBLACK: Well that's part of the challenge here, we're really in unknown territory and sort of getting, getting our bearings as it were is a challenge and so you know it is difficult to make policy in the absence of any sort of clear sense of where you're going to end up with no change and I think that's a little bit of the problem right now for everybody.

COUNCIL MEMBER ROSENTHAL: Is there any data that you're missing in order to do the analysis something that the Department of Finance could be… I mean I just think that you could model this out in a fairly straightforward way, but I am not an economist.

PRESTON NIBLACK: Funny you should ask, so we have good… we have pretty good data on personal and individual income tax data, it's not… you know there's not enough detail to get super into the weeds about stuff but it's enough to be able to do kind of distributional impacts and to look at what we think might be the impacts on the city's side. On the corporation's side we've been going back and forth with the Department of Finance, they have confidentiality concerns about that data, I think we've… you know tried to say that we would be more than happy to sign whatever they needed in blood, we haven't gotten an agreement yet.

COUNCIL MEMBER ROSENTHAL: So, let's flip it to the administration, does the… does OMB have enough information to model that out?

PRESTON NIBLACK: I, I think that they have enough information to be able to do reasonable estimates, yes, I mean given… you know given the uncertainties, yes.

COUNCIL MEMBER ROSENTHAL: Well… but that's why it's a model, okay. I think that'd be incredibly helpful. I don't know if anyone from the administration is still here but thank you for that. Thank you.

CHAIRPERSON DROMM: Council Member Powers.

COUNCIL MEMBER POWERS: Yes, sorry I'm just picking up where, where Council Member Rosenthal left off, what was the… you said something… a number, was it 365 million dollars if we didn't decouple that would be added to the city budget… [cross-talk]

PRESTON NIBLACK: Right… [cross-talk]

COUNCIL MEMBER POWERS: …because people would be paying more money, is that essentially what is… [cross-talk]

PRESTON NIBLACK: Yes… [cross-talk]

COUNCIL MEMBER POWERS: Thank… okay, so that gives… second, are… based on what you just said about not having the information but DOF having the information are you then surprised that they are here not able to tell us what expected revenue or loss of revenue is expected to New York City but you just gave a number that seemed to be at ease and, and, and obviously an estimate but are you surprised that they are not able to give us a, a projection of impact on the city budget?

PRESTON NIBLACK: I think they gave… [cross-talk]

STEVE GIACHETTI: They did give you a number… [cross-talk]

PRESTON NIBLACK: And it was similar… [cross-talk]

STEVE GIACHETTI: Relating to that specific number, they came up I think with 300… [cross-talk]

PRESTON NIBLACK: 330… [cross-talk]

COUNCIL MEMBER POWERS: Oh, oh, oh… [cross-talk]

STEVE GIACHETTI: 320… [cross-talk]

COUNCIL MEMBER POWERS: Right, right, right… [cross-talk]

STEVE GIACHETTI: They have 320… this is with regards to individual income… [cross-talk]

COUNCIL MEMBER POWERS: Right… [cross-talk]

STEVE GIACHETTI: …taxes where we're completely in the dark is on the corporate… [cross-talk]

COUNCIL MEMBER POWERS: On corporate… [cross-talk]

STEVE GIACHETTI: …side.

COUNCIL MEMBER POWERS: And they have that data but are… [cross-talk]

STEVE GIACHETTI: They, they have both the corporate and the UB and also, they, they're able to model the pass-through aspect because they have the UB information they can model that much better than we can… [cross-talk]

COUNCIL MEMBER POWERS: Right… [cross-talk]

STEVE GIACHETTI: …on, on the individual side.

PRESTON NIBLACK: Correct.

COUNCIL MEMBER ROSENTHAL: Council Member.

COUNCIL MEMBER POWERS: Of course.

COUNCIL MEMBER ROSENTHAL: Why thank you. So, I think what would be helpful if we could ask… I don’t know if you guys do this or if the city council can just ask the administration to do that and then model out what the impact of, you know Governor… what the state could do and what impact that would have as well. I think that a reason we would… we would want to know that is so we could have that information as we think about any changes to property taxes which is the only thing that we have to play with obviously and you know sort of weigh… what I would… what I personally would not want to see happen is for the city as… is… city’s bottom line revenues to benefit from this and its revenue base to grow and therefor we fill that in with expenses, my inclination is just me personally would be to give that back to our citizens in the form of a property tax rebate of some sort so we’d want to know the range of what we’re dealing with… [cross-talk]

PRESTON NIBLACK: But I think the… what the Mayor is assuming in the preliminary budget is that we will decouple so that there would not be that little windfall from the personal income tax, you know at some point obviously as you noted the legislature has to act in order to decouple the city's tax code from the federal tax code and that I would assume is going to require a concrete proposal sooner rather than later that I would certainly hope they were discussing with the council.

CHAIRPERSON DROMM: Okay, thank you very much and I think that's it for this panel, thank you again.

STEVE GIACHETTI: Thank you.

CHAIRPERSON DROMM: Next, we're asking George Sweeting to come up from the Independent Budget Office please.

COUNCIL MEMBER ROSENTHAL: Thank you.

CHAIRPERSON DROMM: Okay I'm going to ask our counsel to swear you in.

COMMITTEE CLERK: Do you affirm that your testimony will be truthful to the best of your knowledge, information, and belief?

GEORGE SWEETING: Yes, I do. Good afternoon Chair Dromm and members of the committee. I'm George Sweeting, Deputy Director of the Independent Budget Office and I thank you for the opportunity to testify before you today. The tax cuts and jobs act will affect most New York City taxpayers in diverse ways, some positive and some negative. It also brings significant economic and fiscal risks for New York City and New York State. Some of these problems are readily addressed by straight changes to the personal and business income tax laws of the city and state. Others could require more significant changes to our tax system that could benefit from careful vetting and analysis before proceeding particularly because many of the tax payers who are negatively affected are benefiting from other provisions of the act. The single largest federal tax cut in the act accrues to businesses thanks to the sharp reduction in the federal rate from 35 percent to 21 percent. That change has no direct effect on state and local business taxes, but other changes will particularly the treatment of foreign income earned by U.S. businesses. The Governor’s 30-day amendments to the executive budget legislation addresses one consequence of the business tax changes; the deduction for repatriated foreign dividends for state tax purposes. The city may also need to address business tax changes at the city level and considering its own decoupling. I’ll skip over the points on what the, the act does on the business… on, on the personal side we've had a lot of discussion about them. It's the deduction changes that have understandably drawn the most attention. The Governor's 30-day amendments proposed changes to the state and city standard deductions in order to sidestep what would otherwise have been a large windfall… excuse me, would… which would have otherwise have been large city and state tax increases for many taxpayers. Enacting these changes means forgoing tax windfalls for the city and state budgets and it seems likely that they will be adopted. Deductibility of state and local taxes, or SALT, has been part of the structure of the federal income tax system since its inception over 100 years ago, based on the premise that income should not be taxed twice. However, the deduction also has the effect of shifting the federal tax burden from states with high taxes, which tend to have taxpayers with higher incomes to states with lower taxes, which tend to have taxpayers with lower incomes. Although regressive, SALT deductibility is also deeply embedded in our country's structure of fiscal federalism and it is not easily altered without compensating adjustments elsewhere. Unfortunately, the TJ… TCJA offers little evidence of concern for the many states and localities that will be profoundly affected by this shift. Capping SALT deductions at 10,000 dollars poses long term threats to the city and state economies and will, will also have immediate consequences for many city tax payers. But the number of taxpayers effected may be less than frequently discussed. Virtually all city taxpayers with adjusted gross income below about 75,000 dollars who account for two thirds of all city tax payers and one half of city taxpayers claiming SALT deduction will get a tax cut at least until 2016 thanks to the lower standard… to the larger standard deduction and lower rates. For those with AGI between 75,000 and about 125,000, the average SALT deductions were about 12,000 dollars. Most of these taxpayers too, will come out ahead thanks to the larger standard deduction and lower rates. Among taxpayers with AGI between 125,000 and about 500,000 the story is somewhat different. Many, if not most, have already lost their SALT deduction because they were… they had become subject to the federal alternative minimum tax thus there's no change due to the TG… TCJA but because the burden of the AMT then begins to fall for households as you move above 500,000 dollars in income, those taxpayers will see a, a… an increase as a result of, of the loss of SALT, it's, it's only about 56,000 taxpayers but they pay two points… those… that's 2.6 percent of all city taxpayers but they account for 53 percent of city income tax revenue. And while this change will increase their federal taxes, it's important to remember that other changes in the… in the act such as the 20 percent deduction for pass through income, the corporate rate deduction and higher thresholds for the AMT, all of which disproportionately benefit households in this income range would… should result in offsetting some or all of the loss of the SALT deduction. Our office is working to develop a more comprehensive estimate of these changes. The Governor's 30-day amendments include two proposals for limiting the effect of the SALT change for the federal tax liability of New York residents. One would create trusts to receive donations from state and local taxpayers of payments for various public purposes. Taxpayers would then receive a new state tax credit equal to 85 percent of the donations made to such trusts. Because charitable deductions… charitable contributions remain deductible for federal tax purposes, taxpayers would regain much of the benefit they had previously received through the SALT deduction. It remains to be seen whether the Internal Revenue Service would be willing to treat such donations, donations as legitimate charitable donations. The second proposal by the Governor would create a new optional employer payroll tax in the state. The tax would be five percent on the wages of employees who earn over four… 40,000 and the employees would then receive a credit for the tax paid by their employers to be used against their state personal income tax. Because payroll taxes remain deductible for federal business taxes, employers in theory at least would be held harmless. There are several potential complications that could undermine how well such a system works, not to mention the question of whether the federal government would allow it to stand. Let me conclude with some observations about the broader effects of these changes. First, while some economic forecasters have raised their forecast for economic growth somewhat for the next few quarters, few outside of the Trump Administration are projecting a major long-term boost to growth attributable to the act. With the economy near full employment there is little reason to expect that the tax cuts can stimulate much new growth, particularly with the tax cuts tilted towards high income households who have a greater propensity to save than households with lower incomes. And despite headlines about firms paying bonuses and hiking wages, more careful analysis suggests that so far more of the save… tax savings are going into stock buybacks and dividends. Second, although the act has officially cost the federal government 1.5 in the… I apologize, it says billion, it should say trillion, I'm used to the city budget not the federal budget, the true cost is more likely to be 2.5 trillion assuming that the personal income tax changes are not allowed to expire as scheduled after 2026. Most of this cost will be borrowed thereby adding to the national debt and prompting alarmed calls from congressional leaders about the need to cut spending. Proposed targets include Medicaid, food stamps and other safety net programs that primarily benefit lower income households, the households that receive the smallest benefits under the job… of the tax act. The nonpartisan Tax Policy Center in Washington has analyzed the district effects of some possible spending reduction plans and found that when combined with the effects of the act and the potential savings of reductions range… the potential… and potential savings reductions the impact ranges from regressive to extremely regressive. If such federal, federal spending reductions are enacted demands to replace the federal dollars would present very difficult choices for both New York City and State. So, thank you again for the opportunity to testify and I'd be happy to answer any questions.

CHAIRPERSON DROMM: Okay, thank you very much for coming and giving some testimony. As has… as has been mentioned throughout the hearing the tax cuts and jobs act severely limit the state and local tax deduction and it also reduces the mortgage interest deduction and eliminates the deduction on home equity loans, all three deductions encourage home ownership by making it more affordable. Because of these tax changes, analytics, forecasts a ten percent drop in Manhattan home values. In your opinion to what extent are housing values likely to suffer due to these three tax changes?

GEORGE SWEETING: I, I would… I, I would agree that it's likely that there will be lower property values as a result of this whether it's the ten percent number for Manhattan and Manhattan is a… you know that's a pretty small slice of the residential market in New York City so whatever, whatever effects are in Manhattan it's more likely to be lower as you move away from Manhattan but certainly, you know capping the, the interest deduction. We looked at recent sales transactions over the last two years and they're probably somewhere in the order of about nine to 9,500… 9,000 to 9,500 sales that occur each year that are now going to be subject to the cap. The cap there… the cap used to be one million dollars and it was lower… it's been lowered to 70… 750,000, our estimate is that there's about nine… 9,500 sales in that… in that new gap that are also going to be subject and that, that will put downward pressure on, on prices. I think all… I think in many… in many ways the, the, the biggest effect will be the, the, the fact that more people are going to be using the standard deduction rather than the itemized deduction, once you go to the standard deduction you're losing the…

you know the… what, whatever you would get… you would have gotten from the, the itemized mortgage interest deduction. So, yes there… you know I, I think it's… there, there, there will be affects there. It's worth remembering as we, you know talk about this that if you're lowering prices you're actually increasing affordability at the lower end and so that there will be households that previously could not afford to buy will now if prices adjust, you know by, by a, you know relatively large amount you, you could actually bring more people into the housing… in home ownership than you previously had. So, it's important… you know… you know that doesn't mean that it's not a problem but it's also… you know there are some benefits from this.

CHAIRPERSON DROMM: While the state has already identified some federal corporate provisions to decouple from are there any federal corporate divisions that would be antitragus for the city to decouple from and if so what are they?

GEORGE SWEETING: Well I think one of the… you know and if the, the interaction between the, the federal law and the city law is… it's not quite as tight as with the personal income tax but there, there certainly are pieces that flow through into our tax base. It looks… you know I'm not a tax lawyer but my reading of the, the, the current city code suggests that the, the treatment of the deduction that firms get against their repatriated income and this is… this is something the Governor is addressing for state purposes, I believe that… it's, it's my, my sense that that, that's also an issue for the city tax and so I think that's one issue that the city is going to want… you know and, and we did not… the, the Governor did not include the city in his 30-day amendment dealing with that issue and so that might be something that I think the city… the city does need to take a look at and there are probably some other… you know the, the Governor's not proposed any other corporate changes but there, there may very well be some corporate changes that the, the city has to take an independent look. On the income… on the personal income tax the city and the state have to move pretty much in lock step on things like deductions and the basic definition of income because it, it, it's just too complicated to have two different systems, you know since the state administers the income… the personal income tax for us. We have greater differences between the business… on the business side between the city and the state and so whatever the states doing, you know there's no guarantee that that works to our benefit without us also taking the… our own positive steps to, to make some changes. So, I, I think there's a… there are probably a number of things the, the city needs to, to carefully consider on the business side.

CHAIRPERSON DROMM: Yep, Council Member Powers.

COUNCIL MEMBER POWERS: Yes, quick, thank you for the testimony. One quick question, on the federal tax you had a, a, a… it's a quick thing in there I wanted to just ask about which is the question whether the federal government will allow a… anything the Governor's going to do around reconfiguring the state and, and thereby the city tax system or charitable contributions, what are the threats, is it… is it… well define that for me?

GEORGE SWEETING: Okay, I think… on the… on the charitable contributions the issue is your… if you're making a charitable contribution and then getting a tax deduction for it, it's supposed to be something that doesn't directly benefit you and so there's at least a, a threshold question I think that will have to be… you know the IRS will have to consider does this… you know if you're… if you're making this charitable contribution really to pay your taxes aren't you really getting a benefit and therefor does it qualify for the charitable deduction. On the other hand, you know the, the people who, who came up with this suggestion it's grounded in structures that the IRS has accepted in states where there are education trusts and you can make a contribution to the education trust and you will get… that's been accepted as a… as a, a charitable deduction at least in, in many states. So, it may be that there's something to build on there but I think on either the charitable deduction front or the payroll tax cut… tax work around, I think the other question, you know if there was real hostility by the federal government against places like New York City when they wrote this bill and I think… you know there, there's, there's at least reason to be concerned that they could come back and write another… you know write a change to the… to the, the basic tax, tax code that said… that explicitly says if you're using this to pay your general taxes we're not going to accept it or… and even a payroll tax, you know it's well established that payroll taxes are deductible but I'm not… you know this is a payroll tax that's not going for unemployment insurance, not going for social security or Medicaid, the, the, the more typical things that payroll taxes are going for, you know there's a… there's a, a reasonable chance that the, the people who wrote this bill knowing what… and they knew what they were doing won't come back and say you know what we're going to change the law and payroll taxes can't… you, you don't have deductibility of payroll taxes if they're just the general government tax.

COUNCIL MEMBER POWERS: Thank you.

CHAIRPERSON DROMM: A, a concern to be aware of, thank you very much and with that we're going to call our next witness, thank you.

GEORGE SWEETING: Thank you.

CHAIRPERSON DROMM: Okay. I'd like to call Kathryn Wylde from the Partnership for New York City, James Parrott for the Center for New York City Affairs, Howard Chernick from… or Professor, Emeritus from Hunter College and Rachel Bird from the Public

Utility Law Project of New York. Mr. Parrot would you like to begin?

JAMES PARROTT: Good afternoon Mr. Chairman and members of the Finance Committee. My name is James Parrott, Director of Economic and Fiscal Policies at the Center for New York City Affairs at the New School. Thank you for the opportunity to testify on the impact of the recently enacted federal tax law on New York City. Make no mistake, the Tax Cut and Jobs Act that was rushed through congress in the waning days of 2017 was not tax reform, it was intended to be an unprecedented tax cut geared to benefit the largest corporations and super rich political donors. While the tax bill provides some degree of tax cut for many New Yorkers, in looking at the combined effects of all its aspects, it is clear that it provides the over, overwhelming bulk of tax reduction to the wealthiest five percent. Mainly as a result of the limit on deductibility of state and local taxes, approximately one in eight New Yorkers will pay more federal tax in 2019, with the incidents of that highly concentrated in the upper middle-income range. Taxpayers in the top five percent who have average incomes of, of nearly one million dollars on net their average tax cut will be about 17,000 dollars, 43 times the average, 390-dollar reduction going to those in the bottom 60 percent of the income distribution who have average incomes of around 33,000 dollars. I've attached figure one which has more detail on that. This extremely top-heavy tax cut comes in the context of the pronounced income polarization of recent years, and against a back drop of a regressive overall New York State and local tax structure and a highly regressive New York City local tax structure. In figures two and three at the… attached to my testimony show this regressivity of their overall state and local tax structure. I think it's important to point out a lot of people are used to referring to the fact that a, a very small percent of very high income New York… New York City residents pay a, a very large share of the city income tax, that's true but when you look at all of the taxes that households directly bear in New York City, the residential tax, the sales tax and the New York City income tax we have a very highly regressive income tax structure so we should keep that in mind. There's no clear-cut answer to the question, what the overall economic impact is of the tax bill, so I could say more about that. The… there is very… you know there's a lot of concern that this federal tax bill was explicitly intended among other things to harm states like New York and California that have long and deeply rooted traditions of caring for the poor, providing expansive public services and better health care access. As others had said this limit on state local deductibility goes against a century old tenet of fiscal federalism. Most public services and infrastructure investments are provided in this country by state and local governments, this tax bill comes down squarely on the side of a heavy handed federal government discouraging states and localities from serving the needs of their citizens and making needed investments in our economic infrastructure. We… others have talked about the impact on New York City taxes and it's too early to, to, to tell exactly how that's going to work out, we're assuming that the state will decouple from the deductibility provisions at the federal level to sort of maintain the deductibility on the state and local tax side so that will moderate any net impact on New York City in the short term. I also want to underscore the potential impact on services in New York City, if the dramatically higher federal deficit resulting from the tax bill is another argument to steeply cut federal aid and to the extent that there are harmful federal budget cuts affecting New Yorkers, the state and the city should consider a targeted federal tax cut windfall recapture tax to provide additional state and city revenues to offset some of the federal cuts that would be targeted to the people who receive the bulk of the windfall in the federal tax cuts. Keep in mind that overall in New York State a net… there will be a net tax reduction of 15 billion dollars and about half of that will be received by the top five percent and a lot of that is through the reduction and the corporate taxes and the reduction in taxes related to a pass-through business income. I too am very skeptical about some of the work, work arounds that the Governor's proposed, I think they're well intended, it's laudable, it would be nice if New York State and city could do something to push back against the, the disadvantaged treatment of New York in the federal tax law however these are very complicated approaches and if it's subject to opt in by corporations I'm not sure that they're going to be a lot of companies that are… that are eager to embark on that. Keep in mind that these work arounds are intended to offset the, the, the increased taxes that upper middle-income people generally will pay as a result of the limits on deductibility. People in this income range have benefited from state tax reductions in recent years in New York, I'm thinking of the state budget's pass for Fiscal 2012 and Fiscal 2017 which reduced the state personal income burden on people in this range. I'd like to close by, by underscoring what, what I think is the most important tax reform priority for New York City and, and again I, I call your attention to my figure three which shows the overall regressivity of the city's tax structure, a lot of that regress, regressivity is a result of the property tax and the way that it, you know imposes a very much higher effective property tax rate on, on rental properties and is very unevenly distributed in terms of its' economic impact across the city. Property tax reform is the number one… should be the number one priority for New York City but you could only seriously embark upon a, a comprehensive property tax reform if Albany said we're going to defer to New York City on this, step back, not impose our own will on this, let New York City leaders appointed by the Mayor and the City Council, you know undertake the very politically challenging tradeoffs that are necessary to do that so… you know there's been a lot of talk about that and I expect there'll be further consideration along these lines, I would like to see that come to pass but again it could only happen if Albany stays out of the way. Thank you.

CHAIRPERSON DROMM: Thank you and let's just go across the panel and then we'll have questions, Miss Wylde.

KATHRYN WYLDE: Thanks, I'm Kathy Wylde, President and CEO of the Partnership for New York City and delighted to be here with Chairman Dromm and the Finance Committee today focused on revenues for a change. I won't repeat either… a lot of what was… a lot of the statistics that have been covered but I do have a very different take on the situation than, then is generally described with… I think James has contemplated the corporate tax and individual tax treatment and, and I just want to clarify that for the committee because I think it's important in terms of your policy deliberations going forward to keep that straight. So, the corporate tax changes, the tax reductions and the repatriation at a lower tax rate will end up being good for the New York City economy because it will make our companies more globally competitive on a tax basis, it brings our taxes in this country of U.S. based corporations in line with, with our competitors in developed nations developing nations around the world. So, that's… so that's the positive but the… not all businesses are receiving equal benefits and I think it's important to point out as has… as was noted in the Comptroller's testimony that some of the most important employers in the city; the law firms, the accounting firms, professional service firms are not getting the pass through advantages that will run to real estate and some of the boutique financial operations. So, I do think that when we think about the implications particularly with regard to the unincorporated business tax and how that will be treated that those are going to be important things for the city council to focus on in the… in the coming months. Although the… no one really understands the detailed implications of the federal tax law yet, everyone's still struggling with it so we're all kind of guessing at this. Obviously, the loss of state and local deductibility is the focus of most concern. Residents of New York and nine other states are, are in a situation where the loss of deductibility is a particular burden and it's a… and it's a burden not really on lower and what most people think of as middle-class households almost all of whom will be paying less overall in taxes because of rate reductions, child tax credits and the increase in the standard deduction. So, the burden falls on a relatively small number of people that should not be confused with those who are benefiting as a… corporations that are benefiting are pass through businesses that may be benefiting which are a relatively select, select group on the corporate business side but rather to the individuals that are going to be paying more. So, there are about 60,000 tax filers in New York State who earn over a million dollars in marginal income rates between… about half of those in New York City, most of them in down state, we pay about 90 percent of the state's millionaires tax just to… in the down… in New York City in the down state areas. So, that's… this is… these are burdens falling squarely on New York City and its surrounding metro region. Those taxpayers are going to be paying 52 to, to… in New York City 57 percent of their income in state, federal and local taxes post the PIT coming through and this is… this is a significant impact on people thinking about what they're… what they're situation is. The top one percent of tax filers are city residents who earn more than 700,000 dollars account for about half of the city's income tax revenues, these are about 37,200 households that account for half our tax revenues and they are seriously going to be impacted and their decisions are being impacted for anyone who doubts that talk to the realtors in Florida. The, the competitiveness issue is what really is going to… what is going to hurt us more than the impact on the vast majority of tax payers of this bill because it, it, it will be mostly neutral and positive. So, what's going to hurt us is the fact that a family of four that earns 175,000, probably a two-income family will pay 25 percent of their income in taxes in New York but only 14 percent if they reside in Florida, so this is where the inequities come in. A family earning 750,000 dollars will pay 40 percent of their income on taxes in New York versus 30 percent in

Florida. So, these are… these are substantial enough differences and Florida is multiplied by 40 other states that have… will have substantially no or lower tax rates. So, there will be an impact on employers, they will have to make decisions about paying their high earners… paying people, talent they want to attract from around the world more or relocating jobs to lower tax locations which include London, Paris, Germany, etcetera; lower tax locations. That will be… that will be a decision and that effects our competitive position as a city. Governor Cuomo's proposals that I know you've talked about today, we've been looking at them for a couple of months in trying to help with thinking through what are the possibilities calling on experts to do that, very difficult. One is you really don't know what the IRS is going to contest or not and so it's speculative and it's… and it's also difficult because the, you know employers have to make a business decision about how to respond and they haven't… they really haven't seen enough details yet to respond to these proposals. So, I don't have an answer but what's important is the message the Governor is sending that we know this matters, we care about this, we can't afford to not be competitive for top talent, we can't afford the potential loss of people and jobs that could happen if we do nothing. So, I think similarly to your hearing today, the important thing is for our elective officials to send the message, they understand this is a serious competitive issue for New York, for jobs and for people and to take that issue seriously and to try and reach out as you are doing to business and to others trying to figure what do we have to do about this and to deal with this not as a political or ideological issue but as an economic issue and the… in the interest of New York City and state we really have to work together to get this right. Thanks.

CHAIRPERSON DROMM: Thank you, Professor.

HOWARD CHERNICK: Thank you, thank you for inviting me here to testify… let's see if I… okay, so what I'm going to do today is a little different is to review some of the research that tries to estimate what effects of the elimination or the reduction deductibility might be. A lot of this is research I've done over many years but… so, putting aside the federalist legal questions about deductibility I see there are two main reasons to have open ended deductibility of state and local taxes. First, the cost of public services differs across cities and regions of the country, one estimate and it’s probably low is that the costs are 20 percent higher in New York than elsewhere. Now someone in Washington might say well why are the costs higher, they’re just spending too much paying their public employees more, the costs are higher because New York we… there’s an enormous benefit from clustering economic activity together and what our gruesome sounding phrase from economics is a glomeration economies which leads to higher output, higher rates of innovation, higher rates of economic growth but it raises land prices and housing prices so it’s more expensive to be close together and I have a map here which unfortunately you can’t read which shows this point vividly, you can’t see it here but… it… this map from the Commerce Department divides the economic activity of the United States it’s impossible to see so I just… it just doesn’t come out, into two parts, 50/50 and 50 percent of the output of the United States and this is about 200… 2013 is produced in, in a… about one fiftieth of the area of the country in a small number of metropolitan areas of which New York is an important one. So… and when you put this on the screen it's very striking so this is cities in the metro areas are crucial to the productivity of a country and this shows up in the tax system, it's often reported how, how much more we pay in taxes than other places and just some recent numbers I took from the 2015 federal data, the average tax paid per return in New York State was 18,600 versus 14,500 for the U.S. as a whole, 29 percent greater per return in New York State and that's with deductibility. So, where does that extra money come from, it's from that productivity of all these talented people clustered together doing the things that make New York City and the New York Metropolitan area work. Higher cost of living in large cities are also reflected in the differential cost of public services, to pay the basic services of government, you have to pay workers more, it just cost more and… so deductibility of state and local, local taxes is a way of taking into account these regional differences in the cost of public services. Now you might say maybe what we should do is since a dollar doesn't go as far in New York as in… as in Kansas we should have a… adjust the federal rates to reflect that, there’s no way to do that so deductibility is a kind of second best way of taking account of differences in the cost of living. The second reason and this has been emphasized by almost all the speakers today is that an important part of what New York does, and California does is provide a relatively robust safety net. So, the federal government through deductibility is in effect purchasing more redistribution through it’s tax code and I would argue it’s a very efficient way to do it, the only… you want the local level of government to provide homeless services, to decide what’s the best type of services for low income elderly and deductibility is a… is a kind of fiscal incentive to do that just as a little… a little example, I just got a post from the Independent Budget Office, George has left, it shows that New York is now spending in 2017 almost one billion of its own money to provide shelter services for families and single adults, one billion now the budget’s 88 billion as you said, it’s a lot of money and some would say well that’s what New York wants to do and let them do it but we don’t care, I don’t think our values as a country really agree with that so that’s the… that’s the second reason. Now on the tax side is where I've done a lot of work, deductibility is widely viewed… if you look at the numbers they say oh well the high income people get the biggest benefit from deductibility, they're much more likely to itemize and they have higher marginal tax rates but what I've done in my economics research is to say how do state tax systems adjust to the availability of the potential of deductibility and what I found and some other studies support this is that states respond to the, the incentives from deductibility by making their tax systems more progressive. So, James has complained that New York's system… tax system is regressive, another way of looking at it is that there are more progressive than they would be because of this deductibility incentive. So, again to put it in the kind of federal language, the federal government is buying, is subsidizing progressivity through its tax system and the effects are substantial as well. Now over time every time there's a federal tax reform in the era the first thing they go after is let's get that deductibility of state and local taxes and we beat it back in 86, we didn't this time but the main thing that has chipped away at it has of course been the, the growth of the alternative minimum tax rate and alternative minimum tax system which hits New York of over eight percent of filers are subject to that here versus four percent nationwide and among people, I think as, as Kathryn said… well someone else said, among people in the 200,000 to 550 or so range almost everyone is subject to that AMT and the AMT is of course is important because it treats state and local taxes as an expense item so it takes away that incentive. Now… so you might say well then it means deductibility doesn't matter very much so here I think a finding in, in the simulations I've been working on the past few days if you take all the filers in, in New York State and then what, what is the effect on the what we call… sort of the technical term, the marginal tax price for tax file… tax payers in New York and what that means is how much does it cost tax payers for an additional dollar of state and local taxes? One means you pay the full freight, point five means half the cost gets shifted somewhere else, if you do this on… in terms of number of people that number is .95 and that says that the reduction in the tax price is very small, only five cents on the dollar but and here's what I was astounded at that it reflects how concentrated income is if you weigh it by the income, the AGI of people in New York State that tax price goes down from .95 to .75 and so what that means is that for every dollar of taxes that we raise the deductibility even with that AMT that is… that's a deliberate political strategy to go at New York again but even with that because there's so much income at the top deductibility is still very important. So, under the new bill which caps deductibility at ten… at 10,000 the tax price will go from .75 up to one and that's going to be… so here's where economists… some say well it doesn't matter, some say it does, my own view is that in the longer run… in the short run what matters is did my taxes go up or down that's what I make my decision but in the longer run that marginal tax price I think matters a lot. An example would be what happened in the… in the great recession, in 2008 Governor Cuomo along with Governors in a couple of progressive states raised the income tax and that's what kept the… kept the services flowing, prevented sharp drops in state aid to cities which many cities experienced and he was able to do that, he didn't say it but it was easier to do because in effect the federal government was sharing in the cost of that increase and that's exactly what you want from a macro point of view because they can run deficits, in fact that’s what Kane says they should do and we cannot at state levels, we’re subject to a balance budget constraint. So, I’ve probably taken more time, my, my bottom line is, is with all the people here, this is very… it’s very deleterious in New York’s fiscal system, it puts us at risk in many ways and just I find I get puzzled by the proposed work arounds but I would say that a bunch of the very top tax… they’re tax lawyers in the country are now… have been working on the charitable, charitable deduction work around and a recent paper found that… they… what they call full deductibility is not a foreign concept in the U.S. tax system. Now of course it’s possible George Sweeting he’s not here anymore but he was a political economist and said ah-ha they’re going to strike back if we try this, I don’t know but it seems to me reasonable for now until we can repeal and replace this tax bill to try and think very carefully about that charitable contribution avenue. Thank you very much.

CHAIRPERSON DROMM: Thank you also and next please.

RACHEL BIRD: First thank you Chairman for allowing the Public Utility Law Project to testify. I believe this may be our first time doing this. My name is Rachel Bird, I’m the New York City Staff Person for the Public Utility Law Project, I’m here speaking on behalf of our Executive Director Richard Berkley, he was unfortunately able to make it, I believe there’s a hearing on cybersecurity in the power grid in Albany today, something important enough to keep him there. Clearly most of the testimony that you’re hearing today has to do with the problems and the awful impacts of this tax cut for the one percent, I’d like to spend a few moments on the unanticipated positive effects of the tax cut upon the city’s utility rate payers. I say unanticipated by the way since no doubt the windfall of this legislation was intended to create took into account that utilities unlike other corporations pay their federal tax pay… taxes with rate payer funds. Therefor when the utilities tax rate is lowered the presumption is to, if you let me mention our hashtag here, gives rate payers their money back. When the regulated utilities want a rate increase they must apply to the New York State Public Service Commission or the PSC to… at… to explain what the funds… what the rate increase is for. PULP signs up as a party because of the inevitable over charge that they want to pass on to rate payers and to challenge the size of their rate increase. Any utility in an active rate case such as Niagara Mohawk which is national grid upstate also… which was in a rate case until January 26th had to figure out the financial impact of lowering its federal tax rate from 35 percent to 20 percent and some… with some additional positive and negative adjustments for accounting treatment and depreciation changes. In the case of Niagara Mohawk which originally requested an increase to customer rates of more than 300 million dollars the company saved more than 75 million dollars in federal taxes that it had built into it’s new rates and it removed that amount from it’s tax rate… from it’s rate increase. In the case of Central Hudson, a utility serving eight counties in the Central Hudson Valley a similar reduction in it’s rate case will come into effect when settlement talks are done that’s fairly close. And finally, in Orange and Rockland Utilities which is a division of Con Edison, it reduced its proposed rate increase before it filed for new rates this year. Those were all active rate cases and it was relatively simple to do the math to figure out how to give rate payers their money back. Companies in the middle of multiyear rate plans such as Con Ed and National Grid New York City are undergoing a less transparent and somewhat more difficult process. The reason for that is the following, first there's a question of whether the utility should issue what's called a sur credit during the rate plan or second if the utility should be allowed to retain the credit until the next rate case which for Con Ed and National Grid should begin sometime in mid to late 2019. In addition, utilities also collect monies to pay taxes far into the future which are called deferred taxes. So, most important for rate payers the PSC began a proceeding on December 29th, 2017 that is focused on dealing with how do the… how the utilities should give rate payers their money back based on the upfront tax cut. Thank you. This proceeding… [clears throat] excuse me… this proceeding, 17-M-0815 will determine how to handle both the up front federal tax reduction issue and how to treat the deferred taxes which could amount to billions of dollars in New York State that could either be returned to rate payers or invested in a manner that benefits rate payers and that is where the action will be. PULP is a party to that proceeding and we’ll be fighting… [clears throat] excuse me… to make sure that rate payers get their money back. The Governor and the PSC put out a press release in early January stating that the state’s policy would be to return net benefits to rate payers. The big challenge will be in defining what net benefits are, are and should be. As part of the proceeding the PSC staff will issue a white paper that addresses this issue. The definition of net benefits both in the paper and in party’s comments on it will strongly affect the commission’s decision on the most equitable way to deal with this money. For example, should the money be returned to rate payers over the next ten to 20 years creating a strong pressure to hold rates down into the foreseeable future, should the utilities return the deferred tax collections to rate payers in a big sur credit or would it be prudent to use a small yet vital percentage of those monies on expenditures on safety or resiliency measures aimed at lowering the impact of the next superstorm Sandy or hurricanes Irene or

Lee or the potential uses for these monies are many and it will be a significant focus of these PSC proceedings. PULP will be in that proceeding representing the city's and the state's most vulnerable rate payers and will be happy to report back to the council or the committee and or the committee or answer any questions as this issue moves along. Again, thank you for the chance to testify here.

CHAIRPERSON DROMM: Thank you very much and I thank you all for coming in. let me just start off with a question on out migration of high skilled persons, Mr. Parrott in your estimation is there significant concern for New York City?

JAMES PARROTT: So, in, in looking at the best research which I was pleased to see was cited in the council's… in the council's briefing paper on this, it, it appears that other factors trump, sorry to use that term, trump state and local taxes effect are in determining location so people's connection to local business and social networks are, are very important, more important than, than differential taxes but I'm not sure how relevant those studies are to the situation we're in now because it is… I think it is significantly different so we, we do need to be mindful of that and monitor that, I don’t take it for granted that the, the lack of sort of net… out migration because of higher state and local taxes in New York has not been a determining factor in the past, it’s not going to… it’s not going to prevail going, going forward but I guess we also need to keep in mind that, that many of the high income people who may be paying a high marginal rate in New York higher than in other, other places are not necessarily seeing their taxes go up as a result of the federal tax cuts, some of them might have been beneficiaries of significant tax reductions so, so how in an environment where maybe there are marginal taxes or, or more out of line than what they were before but they’re also… their after tax income is greater than it was before so… Kathy might be, you know… you know well positioned to speak to that so, so it, it’s something I think that we need to keep an eye on and the past research which is important to keep in mind, you, you know may not apply as well as we would like it to going forward.

CHAIRPERSON DROMM: So, I think what I heard you say was that businesses might be more negatively… excuse me, that personal income tax would be more negatively impacted than the business taxes.

JAMES PARROTT: Well certainly, I mean there's pretty significant reductions in the… in the corporate tax and there's… I don't think there's a great state difference in how the corporate tax is playing out. On… but it… but it is a factor on the personal income tax side although again it's in the context of many people at the very top receiving net federal tax reductions…

KATHRYN WYLDE: Who are those?

JAMES PARROTT: Well many people who are… some people… real estate investors, other investors who are able to take advantage of the pass-through credit, people who own a lot of corporate shares, we're seeing a lot of corporate buybacks and an increase in dividends, I'm sure we'll see a lot of increased dividend payouts as a result of the corporate tax cut and so on. So, so the modeling from say the institute on taxation and economic policy that I referenced in, in my attached figure one indicates that, you know many people in the top one percent and the top five percent will receive significant net tax breaks as a result of the tax cut and jobs act.

CHAIRPERSON DROMM: Miss Wylde?

KATHRYN WYLDE: I just… I think many does not mean substantial numbers or most, we're talking about a pool of people that includes scientists, doctors, entertainers, Wall Street Corporate Executives so we're talking about a pool of people that are not… I, I couldn't agree with James more, real estate investors made out like fat rats on this thing but, but in terms of people who earn a wage, who represent a huge amount of economic activity in our city and are really the nuts and bolts of what makes our city a magnet for global talent almost all will be both getting an increase in their taxes as a result of this and will be seeing a huge differential between if they live or work in New York, New Jersey, Connecticut as New Jersey and Connecticut are kind of on a par with us or very close or if they're in Texas or Florida or London which has greatly reduced their rates or other European capitals so… and the problem is not wealthy people leaving because there is a entrenches until they get to the point of a state taxes and retire but it is attracting and as our economy is shifted from top down corporate to increasingly entrepreneurial bottom up with the tech economy you're talking about we have to attract the entrepreneurs and the employees this talent base here, we have a… we have 130,000 job openings at the city on any given day these days and these are the high tech engineering, high skilled jobs and that's where it gets really concerning because there's a momentum to establishing ourselves, I mean in the 90's up to 2002 we were a joke as a tech capital, today it's the fastest growing part of our economy, we can't jeopardize that and I don't think any of us understands what the implications are for venture capital funded businesses in terms of the implications of this act and so that… I just think there are a lot of dynamics here that we have to take very seriously, I don't think there's any easy answers and I don't think history provides us with a lesson because our economy has changed so much as a… as well as this dramatic anti-New York, anti-blue state bias in the federal tax law that we're in the new territory and you're right to be holding a hearing on it.

CHAIRPERSON DROMM: I think the number that was thrown about… of about 60,000 in high income tax earner… of income earners of those 60,000 how many would be in the real estate in pass through category and how many would be in the entertainment, you know tracked wage earners?

KATHRYN WYLDE: I think… I don’t… I don’t know and I don’t think anybody knows right now what the answer to that question is but just if you take in New York City we have 300,000 people working on Wall Street, about half of them would be in that category and the most effected are not the employees of public corporations but the employees of boutique in… smaller investment firms because we’ve had a reduction in large banks, we’ve got many more smaller financial activities going on so we’ve got… we’ve got this dramatic change in our economy and I would… I think the distinction here as James did make in, in his clarification is that yes, we have a wealthy population that are not wage earners, they’re not the doctors, they’re not the scientists, they’re… that, that are earning money off investment and wealth or real estate, they are served well by this, that’s very true. That’s not what’s building the… I mean the real estate industry benefits by the creation of a life science industry in town or the tech industry but they're the beneficiaries of it they're not creating it and I think we have to look at the people that are creating the next generation of economic activity and jobs and see what's happening to them and that's who we're focused on.

CHAIRPERSON DROMM: Thank you, Professor Chernick you had mentioned I think in your testimony also why wouldn't… you said this, I think it was you who said some companies wouldn't want to opt into the payroll deduction option, was it… was that you who said that? Was it Kathy?

KATHRYN WYLDE: I… it, it depends what the details are and what a company will do is look at is it better for me to increase the compensation that I'm offering the people I'm trying to recruit or should I opt into neutralize the tax bill, the truth is that the proposal is set forward where companies would have to take the responsibility for everybody earning 40,000 and up that's an attempt to make this kind of a middle class deal, it's not a middle class deal, I mean unless you consider 500,000 middle class, this is an upper class deal problem and companies will be spending their own money to make up for… really it's, it's so they can attract this top tier talent that's going to be hurt by the tax bill and that's the negotiation that's going on and, and that's… but if you say all your employees who earn 40,000 and up that's going to be… that's a lot of people that aren't being hurt by the tax bill that the company will be having to take tax responsibility for so I don't think that's likely to happen but politically to say we're going to do this for millionaires is also not very attractive.

CHAIRPERSON DROMM: Let me just ask because we have to be out of the room in about three, three minutes, what about the impact on home values, care to comment on that Professor Chernick?

HOWARD CHERNICK: I, I've seen the… yeah, I've seen the ten percent estimate and a friend of mine, economist at University of Chicago, Illinois has produced a similar back of the hand estimate and that, that sounds… that sounds plausible. I think the, the, the… again it's the concentration or… it's relatively small number of very high valued homes or apartments or condominiums in Manhattan, Brooklyn I have to say that would fall… be subject to this and one would… one would expect a, a reaction there. I, I don't think that really increases… I guess I beg to defer… someone maybe it was James, with affordability because people and how much they're willing to pay they take account of the, the purchase price, the mortgage, the monthly so what this is doing would be if they can't deduct anything above say 775,000 I believe is the limit now that increases the monthly cost to buy a 1.5 million dollar apartment if you're not financing it and so people… so the price may fall but the net cost I don't think changes.

KATHRYN WYLDE: Its far less than the values went up with the construction of the Second Avenue Subway on the East side, so you know take your… pick your poison.

HOWARD CHERNICK: If, if I could just say the, the, the problem here what we're all confronting is the… is, is, is this… that this is unchartered territory both statistically and even in our way of thinking about it. just to use my number, the marginal tax price usually, you know it might change by two or three percent… two or three points but to go up by that much we, we just don't know what they're… very… one reaction might be that, that the politics of New York changes and the current tax system is no longer supported by a majority of people or by the people who don’t… we, we don’t know, other reactions are on the, the people moving in that Kathryn talked about, about people moving out and again the evidence on that has been that New York despite it’s high taxes and progressive tax system has been extraordinarily successful economically. In my own research states that have more progressive tax systems and more generous public benefit systems have not been hurt at all in their economic growth over time but that’s with small changes so we, we just don’t know here.

CHAIRPERSON DROMM: Okay, so we have a lot more to learn as we move forward, I want to thank you all for coming in… [cross-talk]

HOWARD CHERNICK: Thank you very much… [cross-talk]

CHAIRPERSON DROMM: …and for providing testimony and with that this meeting is adjourned at four… excuse me, at 3:56.

HOWARD CHERNICK: Thank you.

[gavel]

C E R T I F I C A T E

World Wide Dictation certifies that the foregoing transcript is a true and accurate record of the proceedings. We further certify that there is no relation to any of the parties to this action by blood or marriage, and that there is interest in the outcome of this matter.

Date March 4, 2018