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Res. No. 1270-A

Resolution rejecting the proposals of the President's Advisory Panel on Federal Tax Reform to eliminate the deductibility of state and local taxes and replace the deduction for mortgage interest and calling upon the President and Congress to reject these proposals as well and to index the alternative minimum tax (AMT) for inflation.

By Council Members Weprin, Rivera, The Speaker (Council Member Miller), Barron, Brewer, Fidler, Gennaro, Gentile, James, Liu, Seabrook, Katz, and The Public Advocate (Ms. Gotbaum)

Whereas, New York City currently has a balance of payments deficit with the federal government of approximately $13 billion annually, which represents the excess in tax revenue which City residents and businesses send to Washington each year over the value of aid and services the City receives from the federal government; and

Whereas, The President's Advisory Panel on Federal Tax Reform issued its report in November 2005 which proposes to eliminate the deductibility of state and local taxes for individuals and corporations, and to replace the current deductibility of home mortgage interest with a limited credit equal to 15 percent of interest paid on mortgages of taxpayers' primary residences (with a further limitation based on the average home value in the area); and

Whereas, Because both New York City and New York State impose income taxes on their residents and business taxes on their businesses to fund critical services for a vastly diverse population, most of which are more expensive to provide in this high-cost area than in other parts of the country and others of which, such as anti-terrorism and security services, are over-funded by the federal government in other parts of the country and grossly under-funded in New York; and

Whereas, A prime and costly example of the relative under-funding in the City of a federal responsibility is found in Medicaid, where New York State receives the lowest Medicaid match from the federal government pushing up our costs for the program and therefore our State and local taxes; and

Whereas, The deductibility of these state and local taxes from federal personal and corporate income tax currently keeps $8.5 billion in the hands of New York City businesses and residents each year that would otherwise exacerbate our balance of payments deficit with Washington; and

Whereas, The elimination of the deductibility of residential mortgage interest up to $1.1 million will further exacerbate this situation, leading to another $2.2 billion in revenue being sent from City taxpayers to Washington; and

Whereas, This proposed replacement of the deductibility of residential mortgage interest with a limited credit, while offsetting some of the $2.2 billion increase in City taxpayers' federal tax bills, would have a disproportionately negative effect on New York City homeowners and the New York City real estate market because, it will reduce the value of the tax benefit to most taxpayers currently using it; and

Whereas, Limiting the proposed mortgage interest credit to that portion of a mortgage currently under $411,704 would disproportionately impact homeowners in the City - where the average home price in many City neighborhoods exceeds this level - and could lead to the displacement of New Yorkers from their homes and a decline in New York City's real estate market; and

Whereas, Although the combined effect of these two proposals would be mitigated by proposed reductions in marginal tax rates and in the taxation of investment income, these two proposals alone would significantly worsen the already enormous balance of payments deficit, which could have a devastating impact on the City's fiscal picture as (1) it becomes harder to raise tax revenue at the state and local level to fund such services as schools, public safety and public health because so much of our taxpayers' earnings would be redistributed to fund services going to other jurisdictions throughout the country and (2) property-related taxes which have been a driving force behind City revenues in recent years, declined due to a weakening of the real estate market caused by the proposed change in mortgage interest treatment; and

Whereas, Many of the same issues exist under Alternative Minimum Tax (AMT) provisions of the current tax laws, which replace the bottom line tax owed after deductions such as those for state and local taxes with a higher minimum tax; and

Whereas, Due to a failure to index the AMT for inflation, an alternative tax designed to prevent the nation's wealthiest taxpayers from zeroing out their tax liability through the use of deductions is now more frequently applying to upper-middle income New Yorkers; and

Whereas, If this trend is not reversed through an indexing of the AMT for inflation, by 2010, over 750,000 City taxpayers - including middle income taxpayers with incomes as low as $60,000 -- will be subjected to the AMT, sending an additional $3.4 billion to the federal government and having a similar effect on the City's taxpayers and fiscal condition as the elimination of the deductions for state and local taxes; and

Whereas, The AMT as originally designed served a valid purpose- to prevent the very highest income taxpayer's from zeroing out their tax liabilities - which purpose could be preserved through an indexing of the AMT for inflation; now, therefore, be it

Resolved, That the Council of the City of New York rejects the proposals of the President's Advisory Panel on Federal Tax Reform to eliminate the deductibility of State and local taxes and replace the deduction for mortgage interest and calls upon the President and Congress to reject these proposals as well and to index the alternative minimum tax (AMT) for inflation.