

New York Mulls Taxing Pot, Ultrarich Among Budget Solutions

By Keshia Clukey 2020-12-08T04:46:28000-05:00

- ‘Everything’ on the table to plug \$61 billion multiyear hole
- Proposals include taxing pieds-à-terre, stock transfers

Imposing a stock transfer fee, pausing scheduled middle-class tax cuts, and legalizing and taxing adult-use marijuana are just a few proposals on the table as New York state looks for revenue to fill its ever-growing budget gap.

Budget discussions already have begun, with about \$16 billion in red ink projected for fiscal 2022, which begins April 1, and \$14.9 billion for the current fiscal year.

New York was one of the states hardest hit by the coronavirus pandemic in the spring, in both the toll from thousands of new cases per day and an economy ravaged by shutdowns and crowd limits on shopping and entertainment. The prolonged impact of Covid-19, with cases on the rise again, means many of the budget proposals are multiyear revenue raisers to fill a projected \$61 billion decline in revenue through fiscal 2024.

“Everything” is being looked at, according to the state Senate and Assembly fiscal committee chairs. That includes reducing or eliminating tax breaks—such as those for film production and the petroleum industry—as well as hiking select taxes.

“It’s really time for us to take a look at our entire tax system,” said state Sen. Liz Krueger (D), who chairs the Senate Finance Committee. The state should consider looking at different tax options post-pandemic, given changes in the economy, because “we aren’t coming back the same,” she said.

State leaders have been lobbying for more federal stimulus funds to help fill the budget gap and rebound more quickly. But there’s no guarantee anything will be worked out before President-elect Joe Biden takes office on Jan. 20, and if so, whether it would be substantial.

“Unlike the federal government, the state cannot print money and, in the absence of federal aid, we will have to make permanent spending reductions to bring the budget in balance,” New York state budget spokesman Freeman Klopott said.

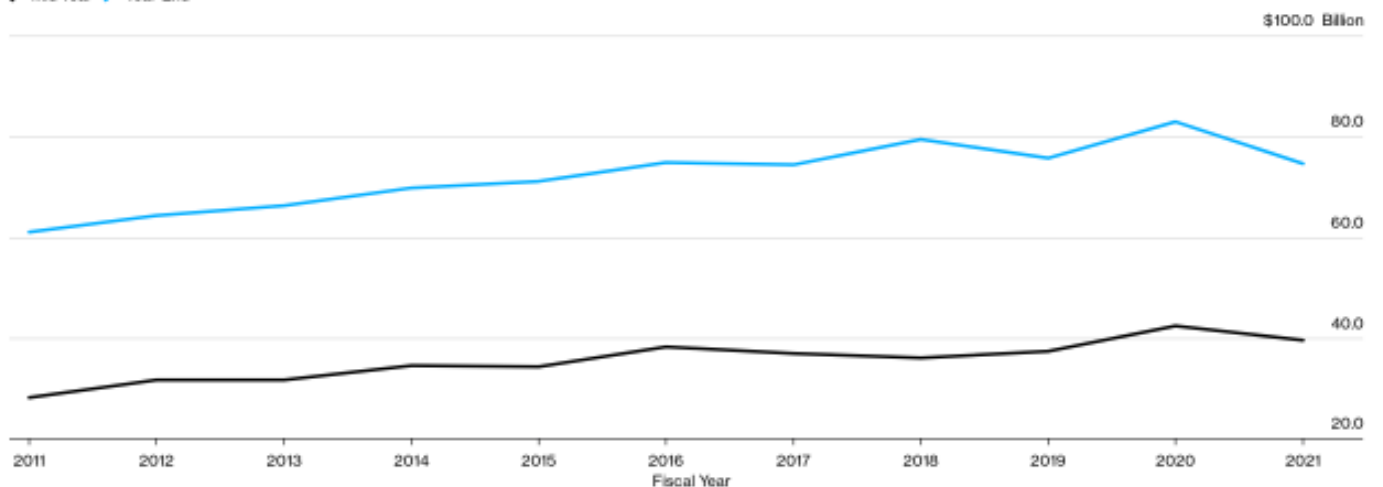
Controversial proposals, like taxing the ultrawealthy, may have new life with Democrats picking up enough Senate seats in November to hold a [supermajority](#). Together with the supermajority in the Assembly, it would now be easier to override vetoes from Gov. Andrew Cuomo if he opposed certain legislation.

It's a "delicate balance" for state lawmakers, because some types of tax increases are risky, said Jennifer Boll, a partner at Bond, Schoeneck & King, and lecturer for the state University at Albany's tax and accounting program.

New York State Tax Revenues

Tax receipts, which are seldom lower than they were in the previous year, are expected to be down this year by \$8.4 billion compared to fiscal 2020.

Mid-Year / Year-End



Source: Office of the New York State Comptroller

*The year-end revenues for 2021 are projected, as the fiscal year ends on March 31.

Bloomberg Tax

"The state only has the power to tax either residents or income that's sourced in their state," she said. "If you become too aggressive, you end up having no high-income residents."

Squeezing the Wealthy

Leaders in both houses of the Legislature have advocated raising revenue from those who can afford it, as low-income workers bear the brunt of the Covid-19 pandemic.

There are a dozen different bills to tax the wealthy, all of which should be evaluated "both for fairness and equity," Krueger said.

Cuomo, a Democrat, has opposed raising state taxes for millionaires and billionaires, saying it should be done nationally so New York isn't put at a competitive disadvantage with other states. The top 2% of New York taxpayers account for nearly half of the state's income tax collections,

Cuomo has said. The top 5% of taxpayers make up 62% of collections, he said.

There are about 100 billionaires in the state, Cuomo said at a briefing in July. The state would have to tax them \$500 million each to fill its budget hole, he said. “Their numbers are too low.”

Even if the state does take up the measure, the full revenue benefit wouldn’t accrue until fiscal 2023 when people file their taxes for 2021, because of tax filing deadlines and the state’s fiscal calendar, which runs April 1 through March 31, said David Friedfel, director of state studies at the Citizens Budget Commission, a nonprofit budget watchdog group.

Lawmakers are also considering a proposal to reinstate the stock transfer tax, imposing a fee on financial transactions. The tax already is in place, but it’s fully rebatable.

“Reinstating the stock transfer tax is unlikely to produce the revenues advocates project, impact unintended taxpayers, and may incentivize the securities industry to divest from New York State, which would have negative implications for the State’s financial plan and overall economy,” Friedfel said.

New Jersey saw an enormous amount of pushback this year when it proposed a similar financial transaction tax. Some firms threatened to leave the state altogether, something New York lawmakers would want to avoid, said Assemblywoman Helene Weinstein, chair of the chamber’s Committee on Ways and Means.

A pied-à-terre tax, an annual levy on expensive second homes, is also on the table. The [latest proposal](#), targeted at New York city, would include all categories of homes. The tax is estimated to produce \$490 million to \$650 million in revenue, according to the Fiscal Policy Institute, a nonprofit education organization. State Sen. Brad Hoylman (D), a sponsor of the bill, estimated it would levy about \$390 million.

But it could deter people from buying another house and further depress real estate values, Boll said.

Targeted Taxes

All three proposals are “very targeted,” said Richard Auxier, senior policy associate at the Urban-Brookings Tax Policy Center. The more specific the targeted group, the easier it is to miss some of

the people you want to tax, and tax some you don't want to burden, he said.

The state's income tax already is based on how much a person earns, so the state could simply raise income tax rates rather than creating a new tax on unrealized capital gains or stock trades, Auxier said.

Some high-income earners might move out of the state as a result, but most wouldn't, he predicts. Significant targeted increases, however, could sway some to leave.

"If a person crosses the border from New York to New Jersey or Connecticut, they still pay income tax," Auxier said. "But if there's one targeted tax that only people of New York pay, now you're really flirting with the possibility of changing people's behavior."

Another option may be one-time taxes like transfer fees, which are generally more palatable, Boll said.

Pot Taxes, Petroleum Credits

State Senate Majority Leader Andrea Stewart-Cousins (D) last month said her conference would consider legalizing mobile sports betting and adult-use recreational marijuana.

Cuomo in November said he's confident the state will pass the marijuana legislation next year. He proposed a 20% state tax on marijuana earlier this year, but the measure fell out of budget talks in late March as coronavirus cases began to rise. The governor's office [estimated](#) the tax would bring in \$300 million annually once fully rolled out.

But the revenues won't be substantial for several years, Krueger said.

State lawmakers are trying to finding savings in existing programs. The state could reduce or sunset some credits and exemptions such as those on petroleum-related products for certain businesses, she said.

The film tax credit, which allows \$420 million per year to encourage companies to produce projects in the state, could also be reduced, Krueger said. "Every tax credit should be looked at."

In past recessions the state suspended a sales tax exemption on clothing costing less than \$110,

which it could look to do again, Friedfel said.

But Krueger said she isn't a fan of increasing sales tax, as it would likely hurt low-income residents.

The state could pause the annual phase-in of middle-class tax cuts made under 2016 legislation, which would save about \$80 million for the current fiscal year and about \$400 million next year, Friedfel said.

Krueger and Weinstein said they would likely look at the proposal, but it isn't high on the list. The goal would be to raise revenue without affecting middle-class taxpayers, Weinstein said.

Weinstein said she's also interested in offering a tax amnesty program allowing people to pay accumulated taxes without a penalty. The tax department didn't respond to a question about how much the state is currently owed, and how much such a program would bring in.

No matter what tax changes the state makes, federal aid will still be needed, Boll said. "I don't know if we can tax our way out of the budget shortfall, I really don't."

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