Easing federal tax hit

- **Cuomo proposals focus** on middle-class impact
- **Options include payroll tax,** state charitable fund

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ALBANY — The Cuomo administration on Wednesday detailed several proposals that could allow some higher-income, middle-class New Yorkers to avoid paying more federal taxes under the tax overhaul law passed in Washington last month.

The proposals would test loopholes in the federal tax code to mitigate a provision of the new law that saves the federal government money by capping at $10,000 the amount of state and local taxes a resident can deduct from his or her federal taxes. The cap will result in higher federal taxes for some New Yorkers, particularly on Long Island, who itemize on their federal tax return and pay high property taxes.

One proposal released Wednesday by Cuomo's tax department would create one or more state-operated charitable funds to receive taxpayers' contributions for health care and public schools. Taxpayers would receive a tax credit to lower their state income tax liability and also would be able to deduct the amount from their federal taxes. Local governments also could be authorized to trade tax credits for charitable donations as a substitute for some local property tax payments.

The tax department also proposed creating a new a payroll tax. The proposal would shift some or all of the state income tax liability of employees for whom federal deductibility of state and local taxes is capped to a payroll tax.

An employee and an employer would have to agree to lower an employee's annual wage by the amount that employee would normally pay in state income tax. Take-home pay would stay the same. Employees would benefit by paying less federal tax because they would drop to a lower tax bracket. Employers would get a state tax credit to match the payroll tax and would be able to deduct the tax from their federal returns.

Variations of the payroll tax could include restricting it to certain higher-income earners or limiting it to only "supplemental income," such as the big bonuses paid on Wall Street.

Another proposal would allow operators of certain businesses, such as a law firm or other professional operation, to pass through their personal income taxes — as a cost of operations — to the federal business taxes they pay.

Without any state action, Cuomo said taxpayers, primarily from Westchester through Long Island, would pay $14.3 billion more in federal taxes. The measure would also reduce property values in those areas and hurt the state's competitiveness with other states for employers, the report stated.

Legislators and business leaders said they will require days to analyze the proposals and many question whether the Internal Revenue Service, Congress or the White House would allow the effort to avoid the provision of the new federal tax law.

"The various alternative tax options all highlight how complicated and difficult to implement they would be," said E.J. McMahon of the fiscally conservative Empire Center think tank. He said it's a "real bill drafter's nightmare, except for the charitable foundation dodge, which is also most likely to be promptly rejected by the IRS."

The Senate's Republican majority continues to have concerns about overhauling the tax code, which would likely need to be done by the time the state budget is due April 1.

"It's very much undefined and sounds confusing," said Senate Finance Committee Chairwoman Catharine Young (R-Olean). "Payroll taxes have historically been very unpopular . . . and we can't afford to repeat the mistakes of the past."

"There is no way our conference will agree to any kind of tax hike," she said in an interview Wednesday. "It's very difficult for employers to tell employees their wages are being cut."

She also questioned whether businesses would opt into the complex program.

Assembly Speaker Carl Heastie (D-Bronx) said his Democrat-led chamber will try to make a proposal work.

"We're going to try over the next couple months to educate people as to why this is a better choice," Heastie said Wednesday. "Overall, if your [take-home] salary is either going to stay the same or perhaps go up, I think most people will be interested . . . this is just trying to make people in the state whole."

Kathryn S. Wylde, president and CEO of the Partnership for New York City business group, said the effort while complex is worthwhile. The group will analyze the report over the next several days.

"There are 1 million taxpayers out of 9 million filers that are going to be substantially hurt" by the federal tax law, Wilde said in an interview.

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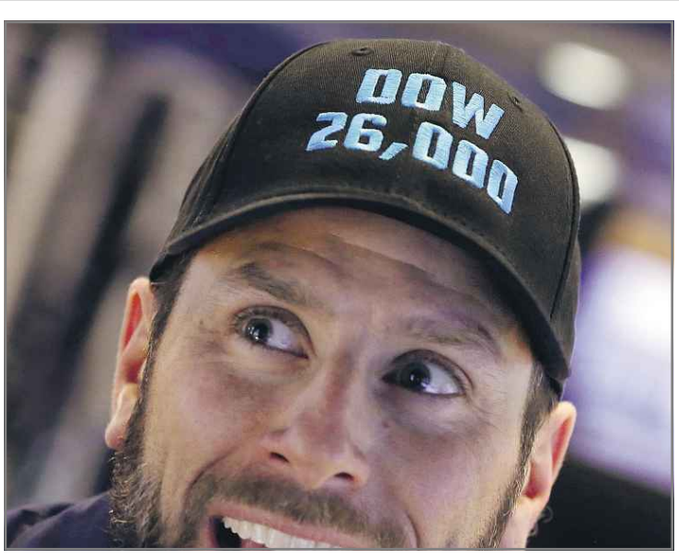

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