

Exploring reasons for

Cuomo cites Trump tax law; analysts eye other factors

BY MICHAEL GORMLEY

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ALBANY — When Gov. Andrew M. Cuomo saw a surprise \$2.8 billion drop in state income tax revenues in December alone, the Democrat blamed most of it on President Donald Trump's tax overhaul. The new law caps state and local tax deductions, or SALT, on federal income taxes. But fiscal analysts say there are other factors that could have played larger roles.

Wall Street bonuses, which traditionally contribute as much as 20 percent of state income tax revenue, are on track to be hundreds of millions of dollars less than a year ago, the analysts say. In addition, because of a 5 percent drop in the stock market at the end of the year, many investors took losses, reducing their tax liability. And they said other drivers likely included international trade turmoil, a weakening housing market and cooling economy, and even errors in the difficult task of forecasting income tax revenue.

"There are really too many different factors in play and it's really hard to say what is the impact of SALT deductions versus other factors," said Lucy Dayan, a senior research associate with the Urban-Brookings Tax Policy Center at the Urban Institute, a Washington, D.C.-based research group. "I think it's too early to come to any definite conclusions because we just don't have enough data."

"Determining the relative magnitude of these causes will take additional analysis and experience," said David Friedfel, director of state studies for the independent Citizens Budget Commission, in his analysis. "However, some of these causes also will likely drive lower personal income tax receipts in the future."

"That's why the state needs to work on its reserves, so it could absorb these kinds of shocks," Friedfel said. "If this is an indication of a slowdown, then one month could wipe out our rainy-day fund."

On Feb. 15, Cuomo addressed

BY THE NUMBERS

\$2.8B

Shortfall in income tax revenue in December from what was projected

\$900M

How much January's income tax revenue projections were off

\$3.8B

How much less the state's financial plan projects in income tax revenue for two fiscal years, ending in 2021

\$550M

Cuomo's proposed reduction to some Medicaid programs to address the concern

the shortfall and revealed a broader deficit in his 30-day amendments to the budget. Along with a \$2.8 billion shortfall in income tax revenue in December from what was projected, January's projections were off by another \$900 million, according to the state Division of the Budget.

In addition, the amount of wages that taxpayers approved for withholding by the state missed projections, too. In all, the state's financial plan projects \$3.8 billion less in income tax revenue for two fiscal years, ending in 2021.

Addressing shortfall

To address the concern, Cuomo proposes to close as many as three prisons, reduce some Medicaid programs by \$550 million, reconvene a task force to find further savings in Medicaid and carry over some deficits into future years to be dealt with then.

The state comptroller's office won't have its estimates of declines in state income tax and capital-gains tax revenue from lower Wall Street bonuses until March. Comptroller Thomas Di-

Napoli, however, is urging caution as Albany crafts the 2019-20 state budget.

Jared Walczak, a senior policy analyst at the fiscally conservative Tax Foundation think tank, said many investors took losses in December, and that would result in a substantial loss in New York income tax revenue because the state has so many big investors. Walczak and other fiscal analysts also said New York may have simply made an inaccurate forecast.

"States do miss on a fairly regular basis," he said. "Forecasting is very difficult."

Last year, stock market indexes dropped more than 5 percent, with the Dow Jones Industrial Average falling 9 percent in December alone. It was the worst December performance of the market since 1931, the early days of the Great Depression. That drop would prompt lower estimated income tax payments as well as filing for capital losses, all of which would have reduced state tax revenue in December, analysts said.

New York City Mayor Bill de Blasio said the city alone is expected to receive \$935 million less in income tax revenue after a tumultuous year on Wall Street, according to his preliminary budget released Feb. 7.

Cuomo is focused on Trump's 2017 tax law, which he said has possibly driven top earners out of state. "People are mobile," Cuomo said recently. "They will go to better tax environments. That is not a hypothesis. That is a fact. People act in their own economic interest. Businesses act in their own economic interest. If you set up two economic realities, and one is much more favorable than the other, and they are mobile, they will move."

Cuomo referred to the tax law adopted by Congress in December 2017. The then-Republican Congress passed the tax cut for corporations and most middle-class families. To pay for it, the law capped the amount taxpayers could deduct in state and local taxes from their federal income tax returns at \$10,000. That forced



The state Capitol in Albany. Analysts cite lower Wall St. bonuses,

a higher federal income tax bill for high-income, highly taxed New Yorkers on Long Island, New York City and its northern suburbs, who pay far more than \$10,000 in state income tax and local property taxes.

State Budget Director Robert Mujica said the cap on SALT hits 1.7 million out of 9 million taxpayers, mostly on Long Island, New York City and Westchester. As a result, that group will pay \$15 billion more in federal income taxes.

Some fiscal analysts, however, doubt there would be an exodus by the wealthy this

quickly, even as Cuomo went to the White House two weeks ago to press for repeal of the SALT provision.

"He's substantially overstating the effect," said Walczak of the Tax Foundation. "New York has high taxes and we have seen migration out of high-tax states to other states. Governor Cuomo often dismissed that effect. It would make sense that would increase."

Some paid early

To avoid some of the federal tax hit, many higher-income New Yorkers who pay quarterly

revenue bind

Nonprofits want state-cash boost

BY JOIE TYRRELL
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Officials say that bump was addressed in the 2019-20 budget proposed on Jan. 15. In that proposal, Cuomo estimated the state would receive less — \$6.2 billion — for the key month of December.

But when the final figures came in, the state received just \$3.9 billion in December 2018. That's a \$2.3 billion difference, even after Cuomo tried to compensate for the bulge in payments to avoid impact from the Trump tax law.

'Robust' projections failed

Cuomo budget spokesman Morris Peters said the state made its revenue estimates based on "robust" projections for the economy and employment that predicted an increase in income tax revenue that never materialized.

"Most states did see a decline in revenues in December," said Laura Schultz, director of fiscal analysis and senior economist at the nonpartisan Rockefeller Institute of Government, a national think tank based in Albany. She said many taxpayers "shifted their tax burden" to avoid Trump's reduction in SALT deductibility.

New York, however, appears to have lost more than most states.

"It does look like they took (the bump in early payments) into consideration, but it was a bit of a surprise when it was lower than anticipated," Schultz said.

Most states hope to make up their December loss in quarterly income tax payments by the end of their fiscal year, although most states also have a later end to their fiscal years in which to do it. Asked if New York likely will see its \$2.3 billion loss recovered by the April 1 start of the fiscal year, Schultz said: "Probably not."

A December drop in New York was expected, agreed Lucy Dadayan, a senior research associate at the Urban-Brookings Tax Policy Center at the Urban Institute, but the magnitude wasn't.

"We might continue seeing weak growth in income tax revenues," she said. "I think it's too early to come to any definite conclusions."

a stock slump and poor projections as December revenue killers.

installments on their estimated state income tax paid ahead to make sure all their state payments were deducted from their federal tax bill before the federal law took effect. Like most states, that resulted in a surge of state income tax payments in the quarter beginning in December 2017, before the federal law took effect, and a corresponding drop in state income taxes in December 2018, when the payments made early would have normally been sent to the state.

But unlike most states, New York saw a much deeper hole

in December 2018 in the quarterly estimated payments of state income taxes that high earners often make throughout the year.

State records show that New York received \$8.6 billion in December 2017 in New Yorkers' estimated payments, which included a bump of \$3.5 billion from earners seeking to get ahead of the federal tax law. The Cuomo administration said the extra prepayments to avoid the Trump tax law were the largest factor in the \$3.5 billion increase, but it's not possible to isolate every factor.

Strong Nonprofits for a Better New York, a statewide coalition of more than 350 nonprofit human services providers.

Organizers said the nonprofit sector faces enormous financial difficulties. Government agencies hire nonprofits to provide services to people with disabilities and senior citizens, but rarely cover the full costs of programming, leading to funding gaps not easily filled, they said.

Advocates are asking for \$140 million to address delayed cost-of-living adjustments for social services workers and a \$100 million investment to improve nonprofit infrastructure. In addition, they are seeking \$25 million to pay for the increase in the minimum wage to \$15 per hour for those employees. State contracts, under which many nonprofits operate, have not been adjusted to reflect the increase in the minimum wage, they said.

Legislators pledging their support included State Sen. Anna Kaplan (D-North Hempstead) and Assembs. Michael Montesano (R-Glen Head), Charles Lavine (D-Glen Cove) and Edward P. Ra (R-Franklin Square).

Many of the social services programs are in older facilities that need improvements, such as repairs and upgrades to heating and cooling systems, Little said.

Patricia Daniels, program director at Westbrook, said the school would like to expand but needs funding to do so.

"We can't in this specific site because it is so cramped," she said. The school, with 18 residential students and four in a day program, can serve a maximum of 24 students, she said.

Leaders of local nonprofits called Friday for Gov. Andrew M. Cuomo to include more than \$265 million in the state budget to fund better wages for social services workers and infrastructure improvements, saying high employee turnover and dilapidated facilities hinder the ability to help New York's most vulnerable populations.

"In terms of the individuals we serve, they won't get the quality of care that they require," said Keith Little, executive director of SCO Family of Services, a Glen Cove-based nonprofit that serves 60,000 people a year on the Island and in New York City.

"A recurring investment in nonprofit infrastructure is crucial for the continued success of our programs and the individuals we serve," he said. "Sadly, New York State's human services workforce as a whole has not had a cost-of-living adjustment in nine years."

Little, with local legislators and other nonprofit leaders, spoke at a news conference at Westbrook Preparatory School in Westbury, a residential junior/senior high school for students with Asperger syndrome, high-functioning autism and related conditions. SCO Family of Services partnered with parents and residents to found the school, which opened in 2011.

Friday's event was one of several held across the state "as a way to recognize the importance of the role that nonprofit agencies play in a life," Little said. The effort is supported by



Nominations are open for Newsday's second annual Top Workplaces awards, honoring Long Island organizations where employees feel engaged, valued and empowered.

Newsday partners with research firm Energage to survey workers at nominated workplaces — private businesses, nonprofits and governments. Last year, based on more than 24,000 anonymous responses to the surveys, Newsday recognized 74 organizations as Top Workplaces at a gala at Woodbury Country Club.

Any organization with 50 or more employees in Nassau and Suffolk counties may be considered; there is no cost to participate.

Deadline for nominations is March 15; go to newsday.com/ nominate. For questions or to submit a nomination by phone, call 516-274-0621.

In October, Newsday will publish a special section featuring Long Island's 2019 Top Workplaces and hold a celebration dinner for companies that make the list.