REAL ESTATE BOARD OF NEW YORK

PRESIDENT'S ADVISORY
PANEL
ON FEDERAL TAX REFORM

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STATEMENT TO THE PRESIDENT'S ADVISORY COMMITTEE

ON TAX REFORM

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The Real Estate Board of New York is the industry's leading trade association in New York. The Board represents over 9,000 owners, builders, brokers, managers, real estate investment trusts, and related real estate professionals. The Board speaks for the industry before government bodies and in the arena of public opinion. It conducts various professional education programs, carries out a wide variety of research projects, maintains the largest collection of real-estate-related information of any city trade association and serves as a vital force in civic and philanthropic affairs.

STATEMENT TO THE PRESIDENT'S ADVISORY COMMITTE ON TAX REFORM

The Real Estate Board of New York, representing over 9000 real property owners, brokers, managers, lenders and real estate professionals in New York City, offers the following comments on potential tax reform proposals to the President's Advisory Committee on Tax Reform Tax simplification is an admirable goal which, on its face, everyone can support However, there are pitfalls along the way to simplification that must be avoided. The impacts of any tax reform proposals on state tax policies and economic needs must be understood in advance. Additionally, we urge you to give a high priority to the exponential growth of the number of taxpayers subject to the Alternative Minimum Tax.

STATE AND LOCAL TAX DEDUCTIBILITY

State and local taxes have been permitted to be deducted from federal taxable income since the inception of a federal income tax in 1913. The rationale for this is simple – it would be a tax on a tax This double taxation was expressly rejected and should continue to be rejected Unlike other federal tax deductions, taxpayers have no choice but to pay state and local taxes every year. Removing the deduction would increase the individual's overall tax rate.

When the country undertook major tax reform in 1986, eliminating the deductibility of state and local taxes by individuals was considered and very nearly passed. Fortunately lawmakers came to realize that it would be grossly inequitable; it would undermine our federalist system in which the states have substantial responsibilities which they must fund; and that it would impact various states disproportionately.

In 1985, there were seventeen states with a combined state and local tax burden of 10% of income or more. Today, twenty-nine states have combined state and local taxes averaging 10% of income or more, and another seventeen states are above 9 percent. There has been substantial growth in state and local revenue needs which many more states are meeting by taxing personal income. In fact, as of 2002, only seven states did not have an income tax. Deductibility of these taxes preserves the states' and localities' ability to deliver services.

Although the number of "high tax" states has increased in the last twenty years, the impact of eliminating state and local deductibility would fall disproportionately on them. Within that group, the impact would be most pronounced on high income states such as New York, New Jersey, Connecticut and California. Their competitiveness as a business location would be seriously and disproportionately hurt, putting them under enormous pressure to reduce taxes. Countering that pressure, however, is the multiplicity of demands for services, to say nothing of federal mandates. Local governments are the first line of interaction that citizens have with government. They provide fire and police protection, schools, health services, roads and much more. They would be faced with an impossible choice. As their citizens' effective tax rates increase, there will be demands to reduce taxes, while those revenues are essential to their ability to provide those services.

ALTERNATIVE MINIMUM TAX (AMT)

The AMT will affect 4 million taxpayers this year and 20 million next year. Some studies indicate that 50 million taxpayers or 45% will by subject to it by 2015. Initially enacted to target a small group of high income individuals in order to ensure they paid some minimum tax, the AMT has become a parallel tax system. The Treasury Dept. estimates that, at today's tax rates, the revenue collected from the AMT will grow from $28 billion to $177 billion in 2014.

The AMT violates the most fundamental concepts of fairness. It increasingly impacts families and middle class taxpayers.

If allowed to grow at this rate, it will have a devastating impact on the economy and our competitive position globally. Consumer spending will decline in proportion to the growth in the AMT with predictable results. Once again, the most negative impacts of this will be borne by high income states, as they will have the highest numbers of taxpayers subject to it. Whether we address the problem by indexing it to inflation or by some other means, we cannot afford the exponential growth in taxpayers subject to the AMT.