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MUNICIPAL
ASSISTANCE
CORPORATION
FOR THE CITY
OF NEW YORK

STATE OF NEW YORK

GOVERNOR'S COUNCIL ON THE ECONOMY
SPECIAL TASK FORCE ON TAXATION REPORT

MAY 26, 1976
SPECIAL TASK FORCE ON TAXATION

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SPECIAL TASK FORCE ON TAXATION

May 26, 1976

Honorable Hugh L. Carey,
Chairman
Council on the Economy
1350 Avenue of the Americas
New York, New York

Dear Governor Carey:

It is my pleasure, as Chairman of the Special Task Force on Taxation, to transmit to you our final report.

The Task Force was organized at your request on March 18, 1976 to prepare recommendations for the current legislative session on actions that could be taken to revise taxes currently in effect in New York City and New York State which create undue burdens of such a nature as to inhibit the revitalization of the economy or to discourage businesses from staying or locating in New York State and, particularly, in New York City.

We have met weekly since that date and examined the broad range of taxes imposed by the City and State. Our recommendations reflect those actions which we believe should be taken immediately in order to achieve the purposes for which the Task Force was organized. We recognize that our assignment was a limited one and our recommendations relating primarily to taxes on business and business management necessarily deal with only one aspect of State and City tax and fiscal problems. They constitute an essential but still only one element in wider programs necessary to improve the economic well-being of all New Yorkers, rich and poor.

We strongly urge immediate adoption of the tax relief program outlined in the report, and trust that our recommendations will meet with your approval.

We thank you for the opportunity to have been of service to New York City and New York State.

Sincerely,

Adrian W. DeWend
Chairman
Special Task Force on Taxation
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REPORT OF THE SPECIAL TASK FORCE ON TAXATION

Introduction

The Special Task Force on Taxation was organized on March 18, 1976 at the request of Governor Hugh L. Carey. It was instructed to identify and formulate recommendations with respect to those provisions of New York State and New York City tax laws which, because they impose burdens significantly greater than are imposed by other taxing jurisdictions, influence business and personal decisions either not to locate in or to depart from New York.

The scope of the Task Force's mandate -- and thus of this report -- is limited to suggesting reform of those tax provisions which are believed to have the greatest adverse impact on the retention and growth of business activity. A wider review encompassing the entire tax structure of New York State and City must await the efforts of other groups having greater resources of time and staff and a broader mandate.

1/ The Task Force was asked to focus its attention on New York City. But, because the economies and the taxing structures of the State and the City are substantially intertwined, the Task Force has been obliged to consider tax reforms on both levels of government.
But the relatively narrow compass in which this Task Force has functioned should not obscure the extraordinary importance of the objective. A tax system which encourages business to locate elsewhere proves doubly costly. The City and State are now caught in a vicious squeeze of shrinking revenue and growing needs, as the failure to attract and retain business reduces the tax base and swells the unemployment and welfare rolls. The paramount concern is employment -- the loss of existing jobs when business moves away and the loss of new jobs when business chooses not to move to New York. Healthy business activity generating new jobs is both the best source of tax revenue and the best welfare program.

In the past six years, New York City has lost over half a million jobs.\(^2\) Over 257,000 jobs were lost in the manufacturing sector. A loss of nearly 27,000 jobs resulted from the relocation from New York City of corporate headquarters and administrative offices. 36,000 jobs were lost in the securities industry. In 1975, unemployment averaged 11.2 percent while the job loss exceeded 100,000.\(^3\) Services and finance, insurance and real


\(^3\) Id., pp. 4, 16.
estate, sectors that supplied all of the 1950-1969 job gains, both registered job losses in 1975.\textsuperscript{4} Substantial additional losses are now threatened in the financial community.

High levels of taxation have been a major contributing factor in causing job loss. Headquarters company decision makers and middle management, responding to vastly lower levels of personal taxation elsewhere, have pressured their companies to relocate outside of New York. Manufacturing firms have exhibited a high degree of sensitivity to business taxes, the burdens of which may be significantly reduced by leaving New York.

Most of the executives and managers, and many of the skilled employees of corporate headquarters, follow their companies to new locations. Manufacturing firms can find ready pools of labor elsewhere. But the low-paid, unskilled and undereducated are left behind. Thus, ultimately, the loss of business is borne by those least able to pay.

There is evidence that the present tax structure is, in many respects, counterproductive, fostering as it has an exodus of business, industry and individuals, eroding

\textsuperscript{4} Id., p. 9.
the tax base, and shifting the burdens of taxation relentlessly down the income scale. Either New York reduces tax levels now, and preserves what remains of its once prosperous tax base, or New York, by inaction, will suffer an even greater revenue loss through further erosion of its tax base. It is very likely that such inaction will lead to increased tax burdens on lower and middle income families as wealthier and more mobile individuals leave New York and, in many cases, take their businesses with them.

I. The Nature of the Problem

A. High Cost

New York has become a very expensive place in which to live and to work. Taxes are a major contributing factor: 5/

-- New York City and State personal income taxes impose a combined rate of nearly 20 percent at the $25,000

5/ For more than a decade, New York has imposed the highest state and local taxes per capita in the United States. In 1974, the charge was $952.29 per person. This burden was 25 percent higher than the next two states, Hawaii and California, and 55 percent higher than the national average. In 1974, the Federal Advisory Commission on Intergovernmental Relations reported that New York was the only state with no unused tax capacity under each of the three methods used to determine that capacity. Source: Weinstein, B.L. and G. Keller, "The Startling Changes in New York's Economy," Search 2 (S.U.N.Y.), Winter 1975-76, p. 9 [hereinafter cited as "Weinstein and Keller"].
Connecticut and New Jersey impose no tax on earned income.

-- New York City and State corporate taxes now impose a combined rate of more than 20 percent. In Connecticut the rate is 10 percent. In New Jersey it is 7.5 percent.

-- New York City imposes a 4.0 percent unincorporated business income tax of general application, while New York State imposes a similar tax at 5.5 percent but currently excludes professionals from the tax. Connecticut imposes no unincorporated business tax. New Jersey imposes only a limited burden (after June 30, 1976, 0.25 percent of allocated gross receipts).

New York's taxes are high because New York's expenditures for public purposes -- and the debt carrying charges incurred to support these expenditures -- are high. New York City, whose budget is second in size only to the federal government, bears the greatest per capita public

6/ At $25,000 of taxable income, the City rate is 4.3 percent and the State rate, including the 2-1/2 percent surcharge, is 15.375 percent. Neither tax is deductible against the other.

7/ The City rate is 10.05 percent. The State rate, including the surcharge, is 12 percent. Allowing for the deductibility of the City corporate tax against the State corporate tax, the combined rate is 20.844 percent.
expenditure burden among all but one of the major metropolitan communities in the United States.\textsuperscript{8/}

Much of this public expenditure is redistributive in nature. New York City has assumed a greater range of responsibilities than any other local government in New York State and than any other large city in the country.\textsuperscript{9/} It has been estimated\textsuperscript{10/} that as much as one-third of the City's

\textsuperscript{8/} A study of revenues and expenditures of the 26 largest cities in the country shows that New York City spent $1,382 per person in 1974. This is more than $325 greater than the per capita expenditures of every major city except Washington, D.C. The 26-city average is $726 per capita of expenditures. Nassau County had the highest level of expenditures of the counties surrounding New York City, $1,052 per capita, or $330 per capita less than New York City. Not surprisingly, New York City also exceeded every other major city except Washington, D.C. in per capita tax revenues paid by citizens to local government: $566 per capita in 1974. The 26-city average is $336 per capita. Source: \textit{Local Government Finances in Selected Metropolitan Areas and Large Counties: 1973-74}, GF74, No. 6, U.S. Bureau of the Census, January 1976. With respect to Washington, D.C., one study concluded that expenditure and revenue comparisons with Washington were not relevant because Washington has no state government. Gayer, D., "The Burden of Local Government Taxes and Expenditures," (Community Service Society) March 1976, n.2 [hereinafter cited as "Gayer"].

\textsuperscript{9/} The City of New York Commission on State-City Relations, \textit{A Study of the Studies}, December 1971, p. 29.

\textsuperscript{10/} In 1972, of the ten largest cities in the U.S. New York City spent the greatest portion of its budget for public assistance, health, hospitals and housing: 38 percent. Baltimore was second with 33 percent. Source: Gayer, p. 11. In 1974, while the national average was 20 percent, 41 percent of New York City expenditures went for social services. Source: Weinstein and Keller, p. 17.
public expenditures are dedicated to social and public services and thus involve a transfer of wealth from those better off to those less well off. Among the principal beneficiaries of City services are persons on welfare, the working poor, and those whose wages place them only modestly above the poverty level. Because the number of beneficiaries is high and their needs substantial, the cost has been and remains great. The present problem is that the numbers and resources of the "benefactors" -- that is, the taxpayers -- may be shrinking to a danger level.\footnote{Since the 1970 census was taken, New York State has lost 400,000 people. From 1950 to 1975, New York declined from 9.8 percent of the U.S. population to 8.5 percent. New York City's population declined by 2.9 percent from 7,895,563 in 1970 to 7,664,400 in 1973. More striking than the population loss is its change in composition. New York State now has the largest number of old people in the country: 11 percent of the State's population and 9.5 percent of the nation's elderly. From 1970 to 1974, the number of families below the official poverty level declined in the U.S. by 2.3 percent; in New York State the number of such families increased by 6.6 percent and in New York City the increase was 8 percent. New York City's unemployment rate, which used to be well below the national average, is now always higher, the second highest in fact among the nation's 14 largest metropolitan centers. The City's median family income, which as late as 1959, was almost 9 percent above the national average, is now even, and its proportion of poor families, formerly two-thirds the national average, now exceeds the national average. From 1960 to 1970 the City's white population decreased by 8.9 percent (6,640,662 to 6,048,841), while the non-white population increased by 61.7 percent (1,141,322 to 1,846,021).}
Enormous and complex State and City taxing structures have been erected to support our high level of public spending. Particularly in comparison with the fiscal arrangements in other states, these systems are quite progressive in their rates and impact. Thus, while the full range of New York taxes may present a bewildering mosaic of special provisions enacted in piecemeal and often politically opportunistic fashion, most of the tax revenue is in fact derived from taxes on income from professions and from business (both corporate and unincorporated), sales and use tax (State and City), real estate taxes and progressive personal income taxes (State and City).  

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Percent of total tax revenues, 1974-75  

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>State</th>
<th>City</th>
</tr>
</thead>
<tbody>
<tr>
<td>personal income tax b/</td>
<td>44</td>
<td>12</td>
</tr>
<tr>
<td>business taxes c/</td>
<td>17</td>
<td>12</td>
</tr>
<tr>
<td>sales and use tax</td>
<td>23</td>
<td>16</td>
</tr>
<tr>
<td>real estate taxes</td>
<td>--</td>
<td>55</td>
</tr>
</tbody>
</table>

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b/ Includes New York City earnings tax on nonresidents.  
c/ New York City: Unincorporated business, general corporation, financial corporation, utilities, transportation corporation and insurance corporation taxes. New York State: Unincorporated business, corporation franchise, corporation and utilities, insurance and bank taxes.
In principle, reliance on these taxes as the major tax revenue sources is socially defensible and desirable. Nor do the many other taxes -- on transfers of property, on occupancy, on utilities, and others -- necessarily distort the system so much that it becomes unfair or inequitable.

The essential difficulty, however, is that the tax system cannot be viewed in the abstract. The raising of revenue -- how it is raised and from whom -- is an intensely practical matter. The tax burden currently imposed on personal and business incomes, particularly in New York City where State taxes are duplicated and extended by local levies, has risen to a level totally out of balance in comparison with the burdens imposed by our neighboring states, in the whole of the northeast region and, indeed, almost everywhere in the nation.\textsuperscript{13} The imbalance has grown steadily, and the complex structure of business, industry, finance and services which makes up our local economy is perceptibly cracking under the strain.

B. Inadequate Return

Fair, humane and socially conscious New York has been to an unusual degree. But realistic, efficient, and

\textsuperscript{13} See Exhibits I and II, attached hereto.
tightly organized and managed we have not been. The planning and development of the City's economy largely has been left to resolution by clash and ultimate compromise between competing interests. These interests have demonstrated more vigor and vitality than perspective, and the political process through which they function may be out of touch with economic reality.

A sizable and growing number of our more prosperous citizens perceive life in New York City as a deteriorating condition. Against this declining return on the country's highest tax cost they must weigh the substantially lower taxes and often substantially better school and community services afforded by neighboring and more remote states and localities. It is hardly surprising that New York no longer is a Mecca for rising young executives and that more and more of those who are already here shift their business or profession to other states if they are able to do so. This flight of our most productive citizens will continue unless and until the unfavorable balance of costs and benefits of living or working in New York is reversed.

The Task Force finds an urgent need to reduce the tax burden of doing business in New York. The need derives from the all too understandable concept of comparative
shopping. New York charges the highest tax prices in the country. For many, it no longer furnishes superior merchandise. It fails to attract new customers. It is losing old and valued customers who seek and find better merchandise at lower prices. To revitalize, New York must improve its products and lower its costs.

If the City were to deliver the best in education, good housing, adequate parks and recreation, efficient and clean transportation, and freedom from unnecessary water, air and noise pollution, the pressure to reduce taxes would be lessened substantially although it would not be eliminated. But New York today does not deliver most of these amenities as well as it could, and it is not likely to do so for years. It must, therefore, move to alleviate the disproportionate tax burden on those persons and businesses whose continued presence in New York City is peculiarly significant to its survival as a great metropolitan community. This will stimulate the economy, and thereby expand the potential revenue base in the future.

II. Principal Areas for Tax Adjustment.

In discharging its assignment, the Task Force has attempted to identify the principal providers of employment and sources of economic activity within New York City and New York State which both (a) regard themselves
as unduly burdened by taxation and (b) have the ability to alleviate that undue burden by the simple self-help remedy of moving out, thereby reducing the size of the New York economy. In addition, the Task Force has attempted to determine which areas of economic activity are most likely to provide jobs for New Yorkers in the near future and most sensitive to taxation as an element in the choice of a location for operation. The Task Force has identified four major broad groups which appear both willing and able to reduce their tax burden by departing the City and State, or likely to be deterred from expansion of their activities by the weight of their present tax burden. All four groups are important to the economic vitality of New York City and State.

1. Headquarters.

From 1956 to 1968, New York City was the home of as many as 140 of the 500 largest industrial concerns in the country. Today, the number is around 90. The recent erosion of headquarters companies and administrative offices has meant a loss of over 27,000 jobs.\(^{14/}\) In March of this year alone, five companies, including Union Carbide, Texasgulf and General Host, announced relocation plans involving

over 4000 jobs. Nevertheless, a substantial number of major national corporations still maintain their headquarters offices in New York City.

Headquarters companies employ anywhere from several dozen to several thousand people, depending, in part, on whether such companies are phasing out, or failing to add to their New York operations. Some of these employees are highly compensated, but many are rank-and-file. Headquarters companies are a substantial source of tax revenue and general economic activity for the City, as well as a major element in the City's prestige as a business center. There is significant potential for growth in this sector of the economy. Nevertheless, recent years have seen a growing move of headquarters out of New York City, and indeed out of New York State. The principal tax motivation for the moves is not the level of business taxation, but the personal income tax which makes working in New York unattractive both for the highest executives and for the middle level management which every large corporation seeks to recruit. The Task Force has been informed repeatedly

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14a/ On May 21, 1976, the Mobil Oil Corporation announced that it was moving its major domestic operating division, employing 800 people, out of New York City to the Washington, D.C. area. New York Times, May 22, 1976, p. 29.

that business school graduates aiming at management careers regard the location of a corporate headquarters in New York City as a drawback in evaluating alternatives among employers.

If -- as the Task Force believes -- the top rates of the personal income tax are a significant factor in driving corporate headquarters out of New York City, it is important that such rates be reduced. Such a reduction will admittedly directly benefit only those with relatively high incomes, but the indirect benefits of retaining corporate headquarters, which would otherwise move out, will be felt by the entire community. To take only one of many graphic examples, the recently announced move of Union Carbide from New York to Danbury, Connecticut, will deprive New York City of approximately 3,500 jobs. New York State and City will lose the taxes -- income taxes, sales taxes, property taxes and others -- which these working taxpayers have been paying. Moreover, although Union Carbide will no doubt offer to all its employees the opportunity to move to Connecticut, not all will be able to do so; those with the least skills and lowest compensation are inevitably left behind when the corporate headquarters moves. These are precisely the people -- many of them members of minority groups -- who will find it most difficult to obtain new
employment in the present New York City job market. Thus, not only will the City and State lose the revenues and the spending generated by thousands of taxpaying employees, but some of those taxpayers may well be converted into consumers of public assistance (by going on welfare). It would therefore be shortsighted to regard the benefits to be obtained from the retention of corporate headquarters in New York as limited to the highly paid whose taxes would be reduced. Any program which retains jobs that would otherwise leave New York has a beneficial impact which spreads throughout the economy.


The Task Force believes that relatively small\textsuperscript{16}/ manufacturing and processing operations, of which the apparel and printing trades are notable examples, may constitute a promising area for expansion of employment in New York City. In no area of the City's economy has job loss been greater than in manufacturing: since 1969, New York City lost over 257,000 manufacturing jobs.\textsuperscript{17}/ From a post-

\textsuperscript{16}/ New York City's manufacturing enterprises are one-half the size of the national average. Thus, New York City manufacturing is characterized by a large number of small establishments: in 1965, employment averaged 27.3 persons per plant; in 1975, the average was 27.5

war high of over a million manufacturing jobs in 1947, the City total has dropped by 50 percent.\footnote{18} At present rates, a further decline of 200,000 jobs is expected by 1980.\footnote{19} Business taxes on income, sales and occupancy are major cost elements for these relatively small businesses. A businessman whose profit would be significantly lower in New York than in another location may find it difficult to justify remaining in New York or starting operations here. It appears, therefore, that small manufacturing and processing operations are particularly sensitive to the high level of business taxation in New York City and State.\footnote{20}

3. Financial Community.

The financial community has always been uniquely centered in New York City and has been a prime source of New York's commercial vitality. Although it is hoped that the bulk of the financial community will remain in New York

\footnote{18}{Id. p. 7.}
\footnote{19}{New York State Department of Labor.}
\footnote{20}{See Grieson, R.E., W. Hamovitch, A.M. Levenson and R.D. Morgenstern, "The Effect of Business Taxation on the Location of Industry" (March 1976). A study of manufacturers who left New York, published in November, 1974 by the Legislative Commission on Expenditure Review, found that the most frequent reason for relocating was New York's high taxes.}
City for some time to come, there have recently been disturbing signs that certain taxes aimed directly at financial activities are having the effect of forcing some transactions to be consummated outside the City to an unprecedented extent,21/ and causing firms and employees to be relocated outside New York.22/ These first steps toward fragmentation of New York's financial community and erosion of New York's traditional role as financial center pose real long-term dangers which should be recognized and rectified immediately.23/

Moreover, in the light of a loss of 36,000 jobs in the securities industry from 1969 to 1975,24/ these recent trends are very disturbing. Nevertheless, the securities industry is a major potential growth industry in New York City.25/

21/ See, for example, "The Effects of the Bond Transfer Tax," Interim Report to the Mayor by the Temporary Commission on City Finances, November, 1975.

22/ According to information supplied by the Securities Industry Association, over the past few months, 11 broker/dealer firms employing 503 people have relocated from New York City to New Jersey. In addition, 11 major block trading, market-making firms have recently made inquiries in New Jersey as to availability of space. See also Robert J. Cole, "Byrne Renewing Bid to Wall St.," New York Times, May 19, 1976, p. 59.

23/ A significant first step was the repeal of the ill-conceived bond transfer tax.


25/ Id. Employment in the securities industry is expected to grow from 102,300 in 1970 to 111,400 in 1980.
4. **Individuals with High Incomes.**

New York has traditionally attracted a large number of individual entrepreneurs, professionals, and other people of means who, for a wide variety of personal reasons rather than from economic compulsion, wish to live in New York and enjoy its services, amenities and cultural resources. However, the capacity or willingness of even these individuals to bear a disproportionately high tax burden cannot be without limit. Some are closely tied to the City economy but thousands are clearly the most mobile members of our society. They can and will move once they find the burden too unreasonable.26/

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In concluding this discussion it is appropriate once again to stress the overriding considerations articulated earlier in this report. The immediate and compelling concern of the Task Force has been with the preservation of New York's economy and the jobs it provides for its residents. Accordingly, we have focused our attention on those groups whose decisions

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26/ See, for example, "The Effects of the New York City Estate Tax," Interim Report to the Mayor by the Temporary Commission on City Finances, April, 1976, especially Appendix IV thereof. "New Yorkers, especially those in middle and high income brackets, are more heavily taxed than any other Americans, which helps to explain their growing flight from the city....Steep personal tax rates, which directly affect managerial and professional employees, are often cited as reasons for relocation." Twentieth Century Fund Staff Paper on New York City.
to locate in New York or elsewhere can have a significant impact on New York's economic well-being. The Task Force recognizes that other New Yorkers -- particularly in the lower income groups -- also feel overburdened by the combined load of federal, State and City taxes. There is, regretfully, little that the State and City can do to relieve or redistribute this burden. Recent history has demonstrated that New York State alone, to say nothing of New York City, is simply not a strong enough taxing entity to establish its own concepts of redistribution by imposing extraordinarily high taxes on its more affluent citizens. Those asked to pay far more than they receive will in due course move to a less onerous taxing climate, ultimately leaving New York with no way to finance its social programs.

III. Task Force Proposals.

The principal proposals of the Task Force are summarized below.

A. Personal Income Taxes.

Two of our neighboring states, Connecticut and New Jersey, currently impose no personal income tax on earned income. Other states, geographically more remote but close to or surpassing New York in viable and expanding business economy, currently impose no personal income tax. Texas is one such state. All of these jurisdictions are, thus, attractive to New Yorkers who have middle or high incomes and an ability to relocate.

The following table graphically compares the level
of taxable earned income needed in New York City as contrasted with that required in New Jersey and Connecticut to provide equal after-tax "take home pay."

<table>
<thead>
<tr>
<th>After-Tax &quot;Take Home Pay&quot;</th>
<th>New York City Resident</th>
<th>New Jersey or Connecticut Resident Working in New Jersey or Connecticut</th>
<th>Difference in Salary</th>
<th>Required Percentage Increase in Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 25,000</td>
<td>$ 33,676</td>
<td>$ 30,651</td>
<td>$ 3,025</td>
<td>9.87%</td>
</tr>
<tr>
<td>50,000</td>
<td>82,890</td>
<td>72,429</td>
<td>10,461</td>
<td>14.44%</td>
</tr>
<tr>
<td>100,000</td>
<td>188,502</td>
<td>161,714</td>
<td>26,788</td>
<td>16.57%</td>
</tr>
<tr>
<td>150,000</td>
<td>294,114</td>
<td>251,000</td>
<td>43,114</td>
<td>17.18%</td>
</tr>
</tbody>
</table>

Obviously, these taxes on income, standing alone, provide a compelling incentive to members of middle and upper level business management and to other large income earners to relocate business headquarters, or indeed entire business operations, in New Jersey or Connecticut.

And, of course, the executive whose corporation moves to New Jersey or Connecticut need not abandon the

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27/ Assumptions: Married taxpayer with two children; all taxable income derived from salary; itemized deductions other than state and local income taxes equal 12% of salary; federal maximum tax, New York State 2-1/2% surcharge and New York City 4.3% graduated rates all apply.
City's unique business, professional and cultural resources. Our system of interstate highways, bridges and tunnels operates to assure the expatriate business manager ready opportunity to enjoy the advantages he or she no longer supports through taxes.

It is clearly not possible for New York to match New Jersey and Connecticut's present posture of no personal income tax. Nor is it likely that these states will forever hold the line against an income tax. However, New York's top rates are now more than 50 percent higher than those of almost every other important industrial state. Unless they are reduced, there may be no credible perception that the imbalance with New Jersey and Connecticut will ever be corrected.

The Task Force recommends prompt enactment of legislation reducing the maximum State personal income rate to bring the State into line with comparable jurisdictions and to provide a tax incentive for higher bracket individuals to remain in the State. In view of the precarious financial condition of New York City, at this time we do not recommend reduction of the City personal income tax although we do recommend that the State shoulder a modest portion of the burden of that tax.
Specific Recommendations:

1. The State personal income tax should be revised to eliminate the 2-1/2 percent surtax -- effective in 1976 if feasible, but by 1977 in all events. Elimination of the surtax will reduce the personal income tax burden for all taxpayers, but the per capita dollar benefits will be largest for individuals in the upper income brackets. Anticipated revenue cost is approximately $8.3 million for each month prior to April, 1977 for which the surtax is eliminated.

2. Over a period of five years beginning in 1977, the maximum rate of the State personal income tax should be reduced, 1 percent each year, from the 15 percent rate currently applied to taxable incomes in excess of $25,000 to 10 percent on taxable incomes in excess of $15,000. It is estimated that the revenue raised currently by the personal income tax at rates in excess of 10 percent approximates $275 million per year, which the recommendation would eliminate in steps over five years.

28/ All revenue estimates are based upon current yields. Thus, these revenue estimates do not take into account the substantial loss of revenue that will be occasioned by the departure from the State of business and individual taxpayers if the taxing structure is not altered and the tax burden reduced. Stated another way, the Task Force has concluded there will be a substantial revenue loss whether or not the taxing structure is revised, and is seriously concerned that failure to reform the tax laws will result in a far greater cost to the State over the long term.
3. Under the rate reduction program recommended above, in each of the years 1976 (15 percent) through 1980 (11 percent) individuals whose taxable income exceeds $15,000 will pay State personal income tax at a marginal rate higher than 10 percent. It is recommended that the "excess" tax over 10 percent be allowed as a carryover credit against State personal income tax liability incurred in the first five years (1981-1985) in which the 10 percent maximum rate will apply, one-fifth of the total carryover credit to be allocated to each of the five years 1981 through 1985. An individual who no longer pays tax to New York State, other than by reason of death, will forfeit the tax benefit otherwise allowed through carryover credits earned but not yet utilized. It is estimated that carryover credits will reduce revenue $165 million per year over the five year period 1981 to 1985; this is less than three percent of the average projected revenues for such period.

\[ 29/ \] The Task Force recommends that carryover credits earned by a taxpayer prior to his death, and not to that date utilized against State income tax liability, be allowed as a credit against taxes otherwise owing to New York State by the decedent's estate.

\[ 29a/ \] A more detailed explanation of the credit proposal as well as a simplified example of the manner in which this credit would operate is provided in Appendix I attached to this report.
4. By reducing State taxes while leaving City taxes unaffected, the program outlined above will somewhat increase the proportionate personal income tax burden borne by New York City residents as compared with those New York State taxpayers who are not residents of New York City. To offset this differential in some part, personal income and unincorporated business taxes paid to New York City should be allowed as deductions in the computation of New York State personal income tax liability. It is estimated that allowing such deductions will reduce revenues by approximately $15 million annually.

B. Tax Burden on Manufacturers.

Manufacturers and processors in many types of industry, as exemplified by the apparel and printing trades, are an important source of employment and business activity in New York City. The manufacturing element of the City's business community is severely and adversely affected by the current combination of City and State taxes now imposed upon these firms. Manufacturers have demonstrated great awareness of the cost saving and resulting competitive advantage that lie in withdrawal from New York State and City. Price competition from out-of-state concerns is an important

element in the continuing decline of City industry.

City and State business income taxes combine to inflict an aggregate burden of approximately 20 percent. If the business is sufficiently profitable and the marginal federal corporate income tax rate 48 percent, the net State and City tax burden of nearly 10 percent remains very high. But for a great many small businesses the applicable federal rate is in the area of 22 percent, and the net State and City tax burden is thus 15 percent or more. No neighboring taxing jurisdiction imposes so great a burden upon small manufacturers.

In addition to business income taxes, manufacturers in New York City are subject to an occupancy tax at rates up to 7.5 percent, the burden of which increases as rents rise. In significant part, New York City rents rise automatically under escalation clauses that key rent increases to increases in real estate taxes. The impact of this tax doubling is a unique and peculiarly onerous cost of doing business in New York City.

Moreover, the New York City sales tax, unlike the State sales tax, applies to machinery and equipment purchased for use, and to fuel and utilities used, in a manufacturing operation. It is not surprising that, in combination, the business income taxes and the City occupancy and
sales taxes too often increase the costs of a manufacturing concern to a level that forces it either to relocate or to go out of business.

Specific Recommendations:
To ameliorate the excessive burden now shouldered by manufacturing and processing businesses, the Task Force recommends the following:

1. Exempt manufacturing and processing facilities from the New York City occupancy tax, effective this year. It is estimated that the initial annual revenue cost will be approximately $45 million.

2. Allow a credit against State business taxes for the amount of City sales tax paid on manufacturing machinery and equipment, and fuel and utilities.\(^{31/}\) If the credit exceeds business taxes otherwise incurred, the excess should be "cashable," i.e., treated as a refundable overpayment of business tax. It is estimated that the credit for sales taxes will produce an annual revenue loss of approximately $45 million.

3. Reduce by 50 percent both State and City taxes

\(^{31/}\) The credit arrangement, rather than a simple exemption from sales tax, must be utilized because the City sales tax revenue is dedicated to MAC's obligations.
imposed on the first $50,000 of corporate income and unincorporated business income of manufacturing concerns. However, if taxable business income for the year exceeds $50,000, the benefit of the tax reduction will gradually phase out so that when taxable income reaches $100,000 or more, no reduction will occur. It is estimated that the initial annual revenue cost will be approximately $26 million. 31a/

C. Stock Transfer Tax.

The New York City financial community is particularly and adversely affected by one City tax, the stock transfer tax. On an increasing basis, this tax is driving certain types of transactions out of New York City and to neighboring communities in New Jersey. 32/ If the process of departure is not halted, the cost to New York City and State will be measured, not merely in direct stock transfer tax revenue lost, but more importantly in the loss of many jobs providing substantial tax revenues and economic benefits for the State and City. It would be extremely shortsighted to allow the migration of part of the securities industry to

31a/ A technical description of this recommendation is attached hereto as Appendix II.

continue and thus to fragment the New York financial community just as the time is coming when that community must face up to the challenge of the approaching national market system -- a development which may itself threaten New York's financial preeminence.

The focus of the problem is not the stock transfer tax in gross, but rather the application of that tax to market makers (dealers, specialists and "upstairs" traders) who buy and sell securities in the normal course of business. Because of the substantial volume and value of the non-investment transactions in which market makers must regularly engage, the stock transfer tax constitutes a particularly onerous burden for them. Out of the approximately $200 million of current annual revenues generated by the tax, some $45 million is paid by the relatively small market making group. The burden is onerous because the market maker may sell a large number of shares daily, incurring stock transfer tax per share of perhaps 6-1/4 cents (including surcharge) on the transaction. In market making transactions profits or losses of 1/8 of a point a share are common. The tax will often amount to 50 percent of the profit or loss. The tax over the period of a year will substantially exceed the dealer's net income from market making transactions in most cases.
Although the market making group is relatively small, among its members are a number of the nation's most important financial houses, employing thousands of men and women and engaged in every aspect of the securities industry. It should also be noted that market making activities will probably take on greater importance with the advent of the national market. Encouraging the emigration of one segment of this financial activity risks the departure of others. It is a risk New York is ill-advised to incur.

Specific Recommendations: 32a/
The Task Force recommends the following:

1. Extension of the 25 percent surcharge on the stock transfer tax, which at present is scheduled to expire July 31, 1976. Extension of the surcharge will preserve approximately $60 million of revenue for New York City.

2. Allow to market makers a credit, against State 33/ business taxes (corporate or unincorporated business tax, as may be applicable), for stock transfer tax paid on market

32a/ A technical description of these recommendations, including proposed legislation, is attached hereto as Appendix III.

33/ The Task Force recognizes that some sharing of this burden by the City may be required.
making transactions. If and to the extent the credit, in any year, exceeds the market maker's State business tax liability, the excess credit should be "cashable." It is anticipated that the net cost of the credit will be approximately $35 million in annual revenues. Again, this revenue cost is apparent rather than real. It is clear that the movement of financial enterprises to New Jersey will continue and accelerate if the stock transfer tax burden is not alleviated, and will result in elimination of the greatest part of the anticipated stock transfer tax revenue, as well as large revenues from other State and City taxes.

D. City Estate Tax.

In November, 1975 the New York State Legislature enacted a $200 million City tax package in order to satisfy a condition imposed by the federal government to its furnishing financial aid to New York. Part of the tax package

34/ To avoid furnishing an unintended double benefit to market makers, a statutory modification is in order so that the creditable stock transfer tax will not also be deductible in computing business income tax liability. A credit, rather than a stock transfer tax exemption, is required because stock transfer tax revenue is dedicated to MAC's obligations.
was the special New York City estate tax, the twice delayed effective date of which currently is specified as June 1, 1976.

Because the New York State estate tax fully absorbs the maximum credit allowed in computing federal estate tax liability, the City estate tax has a dramatic impact. Concretely, the City estate tax will reduce by 30 to 50 percent the after-tax inheritance flowing from a wealthy decedent to his or her children. \^35^/  

If the City estate tax is permitted to become effective, there is no doubt that it will force out of New York City, and in many cases out of New York State as well, a significant number of wealthy individuals whose investments expenditures and income currently generate employment and important tax revenues. The threat of the additional estate tax has already prompted departures. The actuality of the tax would greatly accelerate the trend. There is simply no reason for the wealthy, many of whom own second residences in Connecticut, Florida and other states, to allow family wealth to be so drastically impaired when the self help of withdrawal is so readily available.

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\^35^/ For a more detailed analysis, see "The Effects of the New York City Estate Tax," Interim Report to the Mayor by the Temporary Commission on City Finances, April 1976.
The New York City estate tax is the clearest possible example of a counterproductive tax measure. If it is not repealed, the tax will raise only limited revenue for the City. At the same time, it may well cost New York State more estate tax revenue than it raises for New York City: the flight of a wealthy individual from the State as well as the City will deprive New York State of twice as much estate tax revenue as New York City can hope to gain if that person should die resident in the City. No less important, the City and the State stand to lose jobs and current revenues as a result of the forced departure of the well-to-do. The New York City estate tax may prove beneficial to Connecticut and Florida, but it will not benefit New York.

**Specific Recommendation:**

The Task Force joins in the now virtually unanimous call for immediate repeal, prior to June 1, of the New York City estate tax. In addition, continuing consideration should be given to possible alternative sources of revenue to replace the apparent loss of revenue from the City estate tax.

E. **Other Measures.**

The Task Force has reviewed a wide variety of other measures that might be adopted to improve the climate
of New York City as a business situs. Those we have found most worthy of further development, but to which we have not assigned a first priority because further study is warranted or, as in the case of changes in tax administration, implementation necessarily will involve delay, are summarized below. We urge that each of them be reviewed over the next several months by agencies operating under a mandate and within a time frame less pressing than ours, with a view to developing properly supported specific recommendations for presentation to a future session of the Legislature:

1. **Investment Credit.** Extension of the New York State investment credit, which now is available only to manufacturers, to appropriate categories of investment by service businesses.

2. **Occupancy Tax.** A phasing out over a period of years, and ultimately the elimination, of the New York City occupancy tax.

3. **Utilities.** A program to reduce the disproportionate tax burden now borne by utilities, a burden which contributes substantially to making New York City utilities the most expensive in the country. This program might include relief (through an appropriate credit mechanism) from sales tax on purchases of fuel by public utilities, reduction in the special taxes imposed on utilities, and reduction of disproportionately high property tax assessments.
on utility property.

4. **Commercial Banks.** A program to reduce the disproportionate tax burden borne by New York City commercial banks. The combined aggregate New York State and City tax rate on commercial banks currently is 27.266 percent and, assuming expiration of the 30 percent surcharge, will be 24.164 percent in 1977. The present rates are approximately twice the tax rates imposed on commercial banks by competing financial center states such as California and Massachusetts and approximately seven times the rate of tax imposed in Illinois.

5. **Conformity and Tax Administration.** Reforming and streamlining City and State tax rules and administrative procedures, with a view to (1) promoting the fairness of the system, (2) reducing the cost of the system to both the taxing authority and the taxpayer, and (3) fostering the prompt and fair disposition of tax disputes. A first step has been taken this year through assumption by the State of collection responsibility for certain City taxes, but much remains undone. The goal of comprehensive reform should be to expand the principle of conformity to allow computation of City taxes based directly upon corresponding State tax calculations, and determination of State taxes based upon appropriate federal counterparts, including revision of the New York minimum tax to accord with the federal minimum
tax, and elimination from New York tax law of the provision for allocation of deductions which has no counterpart in federal income tax law. Duplicative and burdensome audit procedures should be avoided; federal audits should have preeminent status, while State and City audits should be limited to those few questions of unique interest to the State and City. In all events, State and City audit standards should be consistent. Moreover, the system of adjudicating tax disputes in New York State should be radically reformed. The State Tax Commission, currently the adjudicator, is part of the very Department charged with responsibility for auditing returns and assessing deficiencies. The authority to adjudicate tax disputes should be vested in an independent tribunal. Reform of the system of tax dispute resolution is especially significant because the present system is widely regarded as an unfair and burdensome feature of New York's business environment.\textsuperscript{36/}

\textsuperscript{36/} The recently published Report of Governor Carey's Task Force on Court Reform, entitled "The Integration and Unification of the New York State Trial Courts," reached a similar conclusion, stating, "We therefore recommend that adjudicatory functions be withdrawn from the State Tax Commission." See also the detailed "Report on a New York State Tax Court Proposal," prepared by a Special Committee of the Tax Section, New York State Bar Association (March 11, 1975).
IV. Conclusion.

In formulating its recommendations, the Task Force has recognized that the burdensome taxes we have identified for urgent reform fall primarily on certain business enterprises and on high income individuals, and not upon the economically disadvantaged segment of our society. Our proposals may thus be regarded as sharply breaking with the historic tax policy of progressivity. The Task Force is not of this view. State and City tax reform can do little or nothing to improve directly the eroding economic condition of the City's less advantaged and less mobile population. Their best hope is reform that will improve the investment and business climate of New York City and, with it, the opportunity of gainful employment. Rates of taxation that progress far beyond any imposed in neighboring jurisdictions drive away business and jobs. The past trends are clear: (1) additional revenues are required to support the unemployed; (2) taxes rise further; (3) the trend of business departure accelerates; and (4) the process spirals downward. The recommendations of the Task Force seek to reverse this spiraling process.

The specific reforms espoused in this report -- reduction of the highest personal income tax rates, relief for manufacturers, relief from the stock transfer tax for
market makers, and repeal of the City's estate tax -- are urgently required to halt the precipitous decline in the City's economic base. The Task Force recognizes that the program outlined in this report will produce short term revenue reductions at a time when the State and the City strain for every dollar. But we are firmly convinced that failure to adopt a program of this sort inevitably must lead to far more drastic revenue deficiencies in future years as the tax base continues to erode.

The process of economic decline, as it gathers momentum, is not easily halted. It is substantially more difficult to create a new job than to retain an existing job. When a major corporate headquarters departs, it will rarely return and will not easily be replaced by some other corporate headquarters. Unlegislated assurances of improvement in the tax system at some uncertain future time are not persuasive. The business that is here today is far more likely to stay here if concrete tax relief is granted now, not if it is promised for legislative consideration years from now.

The Task Force therefore strongly urges immediate adoption of the tax relief program outlined in this
Mindful of the budgetary crisis, the Task Force carefully considered recommendations to increase a number of other taxes as an offset to the short-term revenue losses that its program entails. No tax increase proposal was found by the Task Force sufficiently attractive to warrant a specific favorable recommendation and thus none is given. We believe that every effort should be made to implement the tax relief program without any imposition of offsetting tax increases. If, however, after careful study the Legislature should determine that the anticipated short-term revenue loss to State or City is intolerable, the Task Force urges that, rather than postponing implementation of the relief program, consideration be given to increasing temporarily by three cents per gallon (from the current eight cents to eleven cents) the State gasoline tax, or to increasing temporarily such marginal excise taxes as those imposed on cigarettes and liquor. A temporary gasoline tax is suggested in significant part because a neighboring state (Connecticut) currently imposes gasoline tax at the eleven cents per gallon rate, and thus a New York increase to that level would meet rather than exceed a neighboring state impost. An increase of three cents per gallon will produce approximately $180 million of additional revenues.
<table>
<thead>
<tr>
<th></th>
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</tr>
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<tr>
<td>Idaho</td>
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<td>0%</td>
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<tr>
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<td>Nebraska</td>
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<tr>
<td>Hawaii</td>
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<td>0%</td>
<td>10%</td>
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<td>California</td>
<td>No</td>
<td>0%</td>
<td>10%</td>
</tr>
<tr>
<td>Missouri</td>
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<td>0%</td>
<td>10%</td>
</tr>
<tr>
<td>Rhode Island</td>
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<td>0%</td>
<td>10%</td>
</tr>
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<td>Montana</td>
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<td>10%</td>
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<td>Iowa</td>
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<td>0%</td>
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</tr>
<tr>
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<td>0%</td>
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</tr>
<tr>
<td>Minnesota</td>
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<td>0%</td>
<td>10%</td>
</tr>
<tr>
<td>New York</td>
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<td>0%</td>
<td>10%</td>
</tr>
<tr>
<td>Vermont</td>
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<td>0%</td>
<td>10%</td>
</tr>
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<td>Delaware</td>
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</table>

1976 Rates of Tax on Non-Resident Personal Income

Exhibit 1
<table>
<thead>
<tr>
<th>State</th>
<th>Federal Income Tax Deduction</th>
<th>exceptions and credits</th>
<th>Income Up to 4,000</th>
<th>Income Over 4,000</th>
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</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>0.0</td>
<td>0.0</td>
<td>6,500</td>
<td>3,5</td>
</tr>
<tr>
<td>Kentucky</td>
<td>0.0</td>
<td>0.0</td>
<td>7,500</td>
<td>0.5</td>
</tr>
<tr>
<td>Louisiana</td>
<td>0.0</td>
<td>0.0</td>
<td>7,000</td>
<td>0.5</td>
</tr>
<tr>
<td>Maryland</td>
<td>0.0</td>
<td>0.0</td>
<td>7,500</td>
<td>0.5</td>
</tr>
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<td>Ohio</td>
<td>0.0</td>
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<td>7,000</td>
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<tr>
<td>Oklahoma</td>
<td>0.0</td>
<td>0.0</td>
<td>7,500</td>
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RATES OF TAX ON RESIDENTLY TAXABLE PERSONAL INCOME

1976

BY STATE
### RATES OF TAX ON RESIDENT TAXABLE PERSONAL INCOME

**BY STATE**

1976

<table>
<thead>
<tr>
<th>State</th>
<th>FLAT RATES/OTHER</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rate(s) (%)</td>
</tr>
<tr>
<td><strong>On all income</strong></td>
<td></td>
</tr>
<tr>
<td>Massachusetts:</td>
<td></td>
</tr>
<tr>
<td>Investment income</td>
<td>10.75</td>
</tr>
<tr>
<td>All other</td>
<td>5.375</td>
</tr>
<tr>
<td>Michigan²/</td>
<td>4.6</td>
</tr>
<tr>
<td>Illinois</td>
<td>2.5</td>
</tr>
<tr>
<td>Indiana²/</td>
<td>2.0</td>
</tr>
<tr>
<td>Pennsylvania²/</td>
<td>2.0</td>
</tr>
<tr>
<td><strong>On unearned income</strong></td>
<td></td>
</tr>
<tr>
<td>New Jersey⁵/</td>
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<tr>
<td>Interest, dividends</td>
<td>0.75-4.0</td>
</tr>
<tr>
<td>Other</td>
<td>1.5-8.0</td>
</tr>
<tr>
<td>Connecticut⁶/</td>
<td></td>
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<tr>
<td>Capital gains, dividends</td>
<td>7.0</td>
</tr>
<tr>
<td>Tennessee</td>
<td></td>
</tr>
<tr>
<td>Dividends, bond interest from:</td>
<td></td>
</tr>
<tr>
<td>Tenn-taxed corps.</td>
<td>4.0</td>
</tr>
<tr>
<td>Other corps.</td>
<td>6.0</td>
</tr>
<tr>
<td>New Hampshire</td>
<td></td>
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<tr>
<td>Interest, dividends</td>
<td>4.25</td>
</tr>
<tr>
<td><strong>No tax on personal income</strong></td>
<td></td>
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<tr>
<td>Florida</td>
<td>---</td>
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<tr>
<td>Nevada</td>
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<tr>
<td>South Dakota</td>
<td>---</td>
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<tr>
<td>Texas</td>
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<tr>
<td>Washington</td>
<td>---</td>
</tr>
<tr>
<td>Wyoming</td>
<td>---</td>
</tr>
</tbody>
</table>

1/ Listed from high to low on highest rate.
2/ One or more municipalities in the state also tax income.
3/ Effective rate for state tax based on a percentage of Federal tax liability.
4/ Investment income over $5,000 is subject to a 2% surtax.
5/ The lowest rate applies to the first $1,000, the highest to that over $25,000.
6/ Payable if Federal adjusted gross income equals or is over $20,000.
7/ Deductions limited in Delaware, Kansas and Kentucky. In South Carolina, deduction limited to $500. Oklahoma, the deduction is limited to $1,700. The deduction is limited to 5,000 in Oregon for tax years beginning on or after January 1, 1975.
8/ Personal exemptions are deductible from the 2% bracket only.
9/ No personal exemptions are provided since the tax is a percentage of the taxpayer's adjusted federal income tax liability and federal personal exemptions were deducted in computing that liability.
10/ Only unearned income is taxable and only when Federal adjusted gross income exceeds $7,500 (15,000 for a husband and wife). Commuters from New York and Pennsylvania are subject to income taxes comparable to those in effect in their resident states.

Source: Commerce Clearing House, Inc.
EXHIBIT II

RATES OF STATE TAXES ON CORPORATE INCOME
SELECTED STATES
1976

<table>
<thead>
<tr>
<th>State</th>
<th>Flat Rate</th>
<th>Range of Rates</th>
<th>Highest Rate Applies to Taxable Income</th>
<th>Income Tax Deductible</th>
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</thead>
<tbody>
<tr>
<td>Minnesota</td>
<td>12.0%</td>
<td>---</td>
<td>All</td>
<td>No</td>
</tr>
<tr>
<td>Arizona</td>
<td>10.0%</td>
<td>10.5% 2.5%</td>
<td>All</td>
<td>Yes</td>
</tr>
<tr>
<td>Connecticut</td>
<td>10.0%</td>
<td>---</td>
<td>All</td>
<td>Yes2/</td>
</tr>
<tr>
<td>Iowa</td>
<td>9.0%</td>
<td>10.0% 6.0%</td>
<td>All</td>
<td>No</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>9.5%</td>
<td>---</td>
<td>All</td>
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</tr>
<tr>
<td>Massachusetts1/</td>
<td>9.4962%</td>
<td>---</td>
<td>All</td>
<td>No</td>
</tr>
<tr>
<td>California</td>
<td>9.0%</td>
<td>---</td>
<td>All</td>
<td>No</td>
</tr>
</tbody>
</table>

Other competitive industrial states:
Ohio                     | ---       | 8.0% 4.0%      | All                                    | No                    |
Wisconsin                | ---       | 7.9% 2.3%      | All                                    | Yes2/                 |
Michigan3/               | 2.35%     | ---            | All                                    | No                    |
North Carolina           | 6.0%      | ---            | All                                    | No                    |
New Jersey               | 7.5%      | ---            | All                                    | No                    |
Indiana1/                | 5.625%    | ---            | All                                    | No                    |
Illinois                 | 4.0%      | ---            | All                                    | No                    |

---: Not applicable.
1/: Effective rate of tax plus surtax.
2/: Limited deduction.
3/: The tax base is value added rather than income.

SOURCE: Commerce Clearing House, Inc.

APPENDIX I

Income Tax Credit Proposal

Since the rate reduction program will take five years to be fully implemented, the business community must be persuaded to accept the fact that subsequent legislatures will not change this rate reduction program. As a means of committing to the business community that this program will be completed, we further recommend that, during the five-year period of rate reduction, taxpayers in New York be permitted a credit against future tax liability for the income taxes imposed by New York at rates in excess of 10 percent. This credit will be available to New York taxpayers during the sixth through tenth year following the adoption of this program. A simplified example of the manner in which this credit would operate is demonstrated on the table at the end of this appendix.

Basically, the tax attributable to the rates in excess of 10 percent for each of the next five years will then be allocated one-fifth to each of the years six through ten and be permitted as a direct credit against New York tax liability in those years. The credit will not be transferable and will be available only as a credit against New York State income taxes to be paid by the taxpayer, or his estate.
This credit will serve several purposes. First, it will be a convincing demonstration of the commitment of the New York State government to the reduction of its income tax rates. Once adopted, businesses can reasonably expect that the maximum rates will be reduced to 10 percent. Second, it will induce businesses and individuals presently located within the State to remain here to gain the benefits of the credits in later years. Furthermore, individuals who remain New York taxpayers will be assured that their tax liability for the years during the reduction period will be ultimately no greater than 10 percent. A minor technical benefit is also available to New York taxpayers in that the tax actually paid during the period of reduction will be deductible in calculating Federal taxable income even though a credit will be available in later years.
<table>
<thead>
<tr>
<th>Year</th>
<th>After Credit</th>
<th>Applicable</th>
<th>Exceeding 10%</th>
<th>During Year</th>
<th>Bracket Maximum NYS VNS Tax On</th>
<th>NYS Income Credit Due</th>
<th>10% Future Xs.</th>
<th>10% Future Xs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>2,465</td>
<td>2,100</td>
<td>1,125</td>
<td>1,925</td>
<td>1987</td>
<td>1987</td>
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<tr>
<td>1988</td>
<td>2,490</td>
<td>1,400</td>
<td>1,125</td>
<td>1,925</td>
<td>1988</td>
<td>1988</td>
<td>1988</td>
<td>1988</td>
</tr>
<tr>
<td>1989</td>
<td>2,515</td>
<td>1,225</td>
<td>1,125</td>
<td>1,925</td>
<td>1989</td>
<td>1989</td>
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<tr>
<td>1990</td>
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<td>1,050</td>
<td>1,125</td>
<td>1,925</td>
<td>1990</td>
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<tr>
<td>1993</td>
<td>2,615</td>
<td>575</td>
<td>1,125</td>
<td>1,925</td>
<td>1993</td>
<td>1993</td>
<td>1993</td>
<td>1993</td>
</tr>
<tr>
<td>1996</td>
<td>2,690</td>
<td>125</td>
<td>1,125</td>
<td>1,925</td>
<td>1996</td>
<td>1996</td>
<td>1996</td>
<td>1996</td>
</tr>
</tbody>
</table>

2. Taxpayer with $75,000 New York State income and $710,000 in deductions and exemptions.

For each of the next ten years.

1. Example of the credit for tax reduction.
APPENDIX II

Reduction in Business Taxes for Small Manufacturers

Relief from Franchise and Corporation Tax

New York State imposes a franchise tax equal to the greatest of the amounts under column A, and New York City imposes a corporation income tax equal to the greatest of the amounts under column B:

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>State Franchise*</td>
<td>City Income</td>
</tr>
<tr>
<td>(i) Allocable net income</td>
<td>10%</td>
<td>10.05%</td>
</tr>
<tr>
<td>(ii) Allocable business and investment capital</td>
<td>.178%</td>
<td>.15%</td>
</tr>
<tr>
<td>(iii) 30 percent of the amount by which income plus salaries paid to shareholders exceeds $15,000</td>
<td>10%</td>
<td>10.05%</td>
</tr>
<tr>
<td>(iv) Minimum tax amount</td>
<td>$250</td>
<td>$125</td>
</tr>
</tbody>
</table>

Thus, if the tax is based on allocable net income, a small business in New York State is subject to a franchise tax rate of ten percent even if it has less than $50,000 of income; and a small business in New York City is subject to a combined franchise and income tax rate approaching 20

* This does not reflect a temporary 20 percent surcharge.
percent.* Small business thus pays tax at the same rate as multinational corporations. By contrast, federal income tax law subjects the first $50,000 of a corporation's income to a rate of tax (22 percent) which is less than one-half the rate imposed on income in excess of $50,000.

In order to provide similar relief for small manufacturing businesses at the State and City levels, credits are proposed which are designed to halve the effective tax rate on corporations whose income is less than $50,000.** The advantage of the proposed credits would be proportionately lost as income increased from $50,000 to $100,000. To illustrate, a corporation which earned $60,000 would lose one-fifth of the relief, a corporation which earned $70,000 would lose two-fifths of the relief, and so on.

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* The tax is slightly less than the sum of the State and City rates, since the City tax is deductible for purposes of the franchise tax. Including the surcharge, however, the present combined rate approaches 21 percent.

** Because of the low 22 percent federal tax rate against which franchise and income tax on the first $50,000 are deductible, 78 percent of any relief will go directly to the intended beneficiary.
A credit system has been chosen because income is only one -- and part of a second -- of the bases on which State franchise and City income tax are imposed. It therefore becomes complex to grant this relief by adjusting tax rates. To illustrate, reducing the franchise rate from ten to five percent on the first $50,000 of income and correspondingly increasing it to 15 percent on income in excess of $50,000 does not affect the corporation whose tax is computed with reference to shareholder salaries.

The proposed credits, to be enacted at both the State and City levels, would operate as follows:

If a corporation's tax were $5,000 or less, the credit would be one-half the tax; if a corporation's tax were between $5,000 and $10,000, the credit would be the excess of $5,000 over one-half of the tax; and if the tax were over $10,000, the credit would be zero.

The effect can be seen by first assuming that a corporation earns $50,000 and is currently subject to a 10 percent State franchise tax of $5,000. The corporation would receive a credit of $2,500. If it earned $70,000, its credit would be $1,500, the excess of $5,000 over $3,500 (one-half of the $7,000 tax). Thus, $1,000, or 40
percent of the $2,500 credit, has been lost as the corporation's income has gone 40 percent of the way from $50,000 to $100,000.

As indicated by the above example, the credit has been calculated as if the corporation always paid tax on the basis of its net income. In fact, it might pay $10,000 tax on the basis of shareholder salaries or capital but have less than $50,000 of income. In that case, it would not receive any credit. The assumption is that liability for a franchise tax equal to that imposed on a certain level of income should entitle the corporation to the same treatment -- no better and no worse -- than if it had actually earned that amount of income.*

Restrictions on the Credit

Three types of restrictions on the proposed small business relief are appropriate: (i) to ensure that it goes to active businesses; (ii) to encourage certain industries; and (iii) to prevent abuse.

(i) To ensure that the relief is limited to active

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* A $5,000 State franchise tax liability is reached when income plus shareholder salaries equal about $180,000, or when business capital is about $2.8 million.
businesses, there should be incorporated the limitation on federal tax relief to small business that not more than 20 percent of the corporation's gross receipts consist of passive income such as rents, royalties, dividends, or interest.

(ii) If particular industries are to be specified as eligible for relief, this may be done by restricting relief to "eligible businesses". This is the technique used by Puerto Rico to restrict tax exemptions to industries which it feels are of most immediate benefit to its economy. Possible eligible businesses are those engaged in manufacturing, those engaged in certain kinds of manufacturing, and/or certain service industries.

(iii) In order to prevent individuals from abusing the relief by setting up multiple corporations, there should be only one credit permitted to commonly-controlled companies.

Relief from Unincorporated Business Tax

Both New York State and New York City impose on partnerships and proprietorships an unincorporated business tax analogous but not identical to the tax on corporations. The State rate is 5-1/2 percent; the City rate, 4 percent.*

* Both State and City unincorporated business taxes are imposed solely on the basis of net income.
If credits are provided against franchise and corporation income taxes, the present credits under the unincorporated business tax should also be increased.

The State at present provides a maximum credit of $110. The credit is phased out at a tax liability of $550, which amount is imposed on $10,000 of earnings. It is suggested that the present credits against unincorporated business tax be increased by using as a model the partnership earning $50,000. At the State level, for example, a 5-1/2 percent tax on $50,000 is $2,750. The credit would therefore be one-half of tax up to $2,750; and if the tax were between $2,750 and $5,500, the credit would be the excess of $2,750 over one-half the tax. Again, the credit would have the effect of proportionately eliminating relief as income increased from $50,000 to $100,000.

Similar credits applicable to the City rate of 4 percent would require a credit of one-half the tax up to $2,000; and if the tax were between $2,000 and $4,000, the credit would be the excess of $2,000 over one-half the tax.
APPENDIX III

Stock Transfer Tax

Enactment of a stock transfer tax exemption for any market making transactions may well constitute an event of default under the MAC General Bond Resolutions (although such an exemption from only the surcharge would not be an event of default). Accordingly, the Task Force has concluded that relief from the tax should be achieved by permitting corporate market makers to claim their stock transfer tax payments as a credit against their State franchise tax liability and by permitting non-corporate market makers to claim these payments as a credit against the State unincorporated business tax. The credit would be available only for stock transfer tax paid in market making transactions by market makers (dealers registered with the SEC under section 15(b) of the Securities Exchange Act of 1934, as amended). The definition of market making transactions would encompass sales of stock held as a dealer, including sales as an underwriter or distributor, and sales by a stock exchange "specialist" from his inventory. Market making transactions would also include sales of stock in arbitrage and hedge transactions and sales to offset transactions made in error. There would be no credit for tax incurred on ordinary investment transactions by a market maker.
The credit would be applied on a dollar for dollar basis against the market maker's State franchise tax or unincorporated business tax liability. If the amount of the credit exceeded the market maker's State franchise tax or unincorporated business tax liability, the excess would be treated as an overpayment of the State tax against which it had been credited and would be refundable by the State in cash under the provisions applicable to overpayments. (The statutory amendments contain appropriate provisions to prevent stock transfer tax claimed as a credit from also being a deduction in computing State and City business tax liabilities.) These provisions concerning overpayments and deductions are required in order to achieve, in effect, the tax consequences of allowing a more direct, but MAC-prohibited, exemption from stock transfer tax. State franchise and unincorporated business tax revenue estimates indicate that any refunds of overpayments of such taxes on account of this legislation will be quite small in comparison with the total amount of market maker stock transfer tax credits.

The effect of this proposed credit would be, in essence, to eliminate the stock transfer tax burden on market making transactions.

Under the Task Force's proposal the burden of the credit, in terms of lost revenue, would be borne by the State.
The Task Force recognizes, however, that some sharing of this burden by the City may be required.

Extension of Surcharge. In view of the City's need for revenues, the Task Force concluded that the 25 percent stock transfer tax surcharge should be extended for one year. All of the revenues from this tax are applied for the benefit of the City and it is now estimated that the surcharge will produce annual revenues of approximately $60 million.

Although market makers could be exempted from the surcharge without thereby causing a default under the terms of the MAC bonds, the Task Force concluded that eliminating the burden of the surcharge from market making transactions could best be accomplished by including the surcharge under the credit provisions described above. Doing so causes the revenue loss to be borne by the State rather than by the City and avoids the administrative burden on market makers of satisfying an exemption procedure for the surcharge (at the same time that they are paying the basic tax to be recouped via the credit).
AN ACT to amend the tax law, in relation to providing a credit for taxes imposed by article twelve of the tax law.

THE PEOPLE OF THE STATE OF NEW YORK, REPRESENTED IN SENATE AND ASSEMBLY, DO ENACT AS FOLLOWS:

Section 1. Section 210 of the tax law is hereby amended by adding thereto a new subdivision to be subdivision fourteen and to read as follows:

14. (a) A dealer, as defined in paragraph (b) of this subdivision, shall be allowed a credit, to be computed as hereinafter provided, against the tax imposed by this article after allowance of any other credits permitted under this article. The amount of the credit for any taxable year shall be the amount of the tax liability paid by the dealer in such year under article twelve of this chapter in respect of market-making transactions, as defined in paragraph (c) of this subdivision.

(b) For purposes of this subdivision, the term "dealer" shall mean any person, firm, corporation, company or other entity registered with the Securities and Exchange Commission in accordance with subsection (b) of section fifteen of the Securities Exchange Act of 1934, as amended.

(c) For purposes of this subdivision, the term "market-making transaction" shall mean:

(1) any transaction involving the sale (including short sale) of property by a dealer as stock in trade or inventory or as property held primarily for sale (including
a distribution) in the ordinary course of such dealer's trade or business,

(2) any transaction involving the sale (including short sale) of property by a dealer in (i) a bona fide arbitrage transaction, (ii) a bona fide hedge transaction involving a long or short position in any equity security and a long or short position in a security entitling the holder to acquire or sell such equity security, or (iii) a risk arbitrage transaction in connection with a merger, acquisition, tender offer, recapitalization, reorganization, or similar transaction, and

(3) any transaction involving the sale of property by a dealer to offset a transaction made in error.

(d) If the amount of credit allowable under this subdivision for any taxable year exceeds the taxpayer's tax liability for such year, computed without regard to such credit, the excess shall be treated as an overpayment of tax by the taxpayer to be refunded in accordance with the provisions of section 1086 of this chapter.

§ 2. Paragraph (b) of subdivision nine of section 208 of the tax law is hereby amended by adding thereto a new clause, to be clause (8) and to read as follows:

(8) taxes paid under article twelve of this chapter to the extent that such taxes are allowed as a credit under paragraph (a) of subdivision fourteen of section 210
of the tax law (the amount of such credit being determined without regard to whether such credit exceeds the taxpayer's tax liability under this article, computed without regard to such credit).

§ 3. Section 701 of the tax law is hereby amended by adding thereto a new subsection, to be subsection (e) and to read as follows:

(e) Credit relating to stock transfer tax.--

(1) A dealer, as defined in paragraph (2) of this subsection, shall be allowed a credit, to be computed as hereinafter provided, against the tax imposed by this article after allowance of any other credits permitted under this article. The amount of the credit for any taxable year shall be the amount of the tax liability paid by the dealer in such year under article twelve of this chapter in respect of market making transactions, as defined in paragraph (3) of this subsection.

(2) For purposes of this subsection, the term "dealer" shall mean any person, firm, corporation, company or other entity registered with the Securities and Exchange Commission in accordance with subsection (b) of section fifteen of the Securities Exchange Act of 1934, as amended.

(3) For purposes of this subsection, the term "market-making transaction" shall mean:

(A) any transaction involving the sale (including short sale) of property by a dealer as stock in trade or
inventory or as property held primarily for sale (including a distribution) in the ordinary course of such dealer's trade or business,

(B) any transaction involving the sale (including short sale) of property by a dealer in (i) a bona fide arbitrage transaction, (ii) a bona fide hedge transaction involving a long or short position in an equity security and a long or short position in a security entitling the holder to acquire or sell such equity security, or (iii) a risk arbitrage transaction in connection with a merger, acquisition, tender offer, recapitalization, reorganization, or similar transaction, and

(C) any transaction involving the sale of property by a dealer to offset a transaction made in error.

(4) If the amount of credit allowable under this subsection for any taxable year exceeds the taxpayer's tax liability for such year, computed without regard to such credit, the excess shall be treated as an overpayment of tax by the taxpayer to be refunded in accordance with the provisions of section 686 of this chapter.

§ 4. Subsection (b) of section 705 of the tax law is hereby amended by adding thereto a new paragraph, to be paragraph (4) and to read as follows:

(4) Taxes paid under article twelve of this chapter, to the extent that such taxes are allowed as a credit under
subsection (e) of section 701 of the tax law (the amount of such credit being determined without regard to whether such credit exceeds the taxpayer's tax liability under this article, computed without regard to such credit).

§ 5. The first sentence of subdivision one of section two hundred seventy - d of article twelve of the tax law is amended to delete therefore the phrase "nineteen hundred seventy-six" and to substitute therefor the phrase "nineteen hundred seventy-seven".

§ 6. Sections one through four of this act shall be effective for taxable years ending after July 31, 1976, provided however, that for the first taxable year of a taxpayer ending after July 31, 1976, no credit shall be allowed hereunder for any tax liability incurred under article twelve of chapter sixty that was paid prior to August 1, 1976. Section five hereof shall be effective on the day after this act shall have become a law.
AN ACT to amend a chapter of the laws of nineteen hundred sixty-six, entitled "An act to enable any city having a population of one million or more to raise tax revenue by authorizing the imposition of taxes on general, financial, insurance and transportation corporations and on unincorporated businesses to provide for the administration and review of such new taxes, to provide for the suspension of any tax on gross income of conduit companies imposed by such city and for the suspension and repeal of any general business and financial tax imposed by any such city, to amend the tax law in relation to authorizing an increase in the rates of tax which such city may impose on utilities and vendors of utility services, and to repeal article two-B of the general city law, authorizing the imposition of a general business and financial tax by such city", in relation to the New York City general corporation tax and the New York City unincorporated business income tax, to prevent the deduction of any New York State stock transfer tax payments allowed as a credit in computing tax liability under the New York State franchise tax on business corporations or the New York State unincorporated business income tax.

THE PEOPLE OF THE STATE OF NEW YORK, REPRESENTED IN SENATE AND ASSEMBLY, DO ENACT AS FOLLOWS:

Section 1. Paragraph (b) of subdivision eight of subsection two of section one of a chapter of the laws of nineteen hundred sixty-six, entitled "An act to enable any city having a population of one million or more to raise tax revenue by authorizing the imposition of taxes on general, financial, insurance and transportation corporations and on unincorporated businesses to provide for the administration and review of such new taxes, to provide for the suspension of any tax on gross income of conduit companies imposed by such city and for the suspension and repeal of any general business and financial tax imposed by any such city, to amend the tax law in relation to authorizing an increase in the rates of tax which such city may impose on utilities and vendors of utility services, and to repeal article two-B of the general city law, authorizing the imposition of a general business and financial tax by such city", is hereby amended by adding thereto a new subparagraph, to be subparagraph (8), to read as follows:
(8) Taxes paid to the state under article twelve of the tax law, to the extent that such taxes are allowed as a credit under paragraph (a) of subdivision fourteen of section 210 of the tax law (the amount of such credit being determined without regard to whether such credit exceeds the taxpayer's tax liability, computed without regard to such credit, under article nine-a of the tax law).

§ 2. Subdivision (b) of subsection one hundred five of section two of such chapter is hereby amended by adding thereto a new paragraph, to be paragraph (4), to read as follows:

(4) Taxes paid to the state under article twelve of the tax law, to the extent that such taxes are allowed as a credit under paragraph (a) of subdivision fourteen of section 210 of the tax law (the amount of such credit being determined without regard to whether such credit exceeds the taxpayer's tax liability computed without regard to such credit, under article nine-a of the tax law).

§ 3. This act shall be effective for taxable years ending after July 31, 1976.
A LOCAL LAW

To amend the administrative code of the city of New York, in relation to the City General Corporation Tax and the City Unincorporated Business Income Tax, to prevent the deduction of any New York State Stock Transfer Tax payments allowed as a credit in computing tax liability under the New York State Franchise Tax on Business Corporations or the New York State Unincorporated Business Income Tax.

Be it enacted by the Council as follows:

Section 1. Paragraph (b) of subdivision eight of section R46-2.0 of the administrative code of the city of New York is hereby amended by adding thereto a new sub-paragraph, to be subparagraph (8), to read as follows:

(8) taxes paid to the state under article twelve of the tax law, to the extent that such taxes are allowed as a credit under paragraph (a) of subdivision fourteen of section 210 of the tax law (the amount of such credit being determined without regard to whether such credit exceeds the taxpayer's tax liability, computed without regard to such credit, under article nine-a of the tax law).

§ 2. Paragraph (b) of section S46-5.0 of the administrative code of the City of New York is hereby amended by adding thereto a new subparagraph, to be subparagraph (4), to read as follows:

(4) Taxes paid to the state under article twelve of the tax law, to the extent that such taxes are allowed as a credit under paragraph (a) of subdivision fourteen of section 210 of the tax law (the amount of such credit being determined without regard to whether such credit exceeds the
taxpayer's tax liability computed without regard to such
credit, under article nine-a of the tax law).

§ 3. This local law shall be effective for taxable
years ending after July 31, 1976.
<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue Cost of Minimum Task Force Recommendations</th>
<th>Percent of Total Revenues</th>
<th>Net Cost/</th>
<th>Percent of Total Revenues</th>
<th>Net Cost/</th>
<th>Percent of Total Revenues</th>
<th>Net Cost/</th>
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</table>
a/ Since, by its terms, the surtax expires on March 31, 1977, the failure to extend the surtax past this date has no revenue cost.

b/ Assumes sales tax and stock transfer tax credits are allowable solely against State business taxes. To the extent the credit might be allowed against both State and City business taxes, the revenue burdens would shift accordingly (see footnotes d, e and f, below). The second line under these items indicates the revenue gained by elimination of corresponding deductions.

c/ Source: "The Effects of the New York City Estate Tax," Interim Report to the Mayor by the Temporary Commission on City Finances, April 1976, p. 16.

d/ Assumes stock transfer tax credit shared equally by City and State; sales tax credit allowed solely against State business taxes.

e/ Assumes sales tax and stock transfer tax credits shared equally by City and State.

f/ Assumes sales tax credit allowed solely against City business taxes; stock transfer tax credit shared equally by City and State.
APPENDIX V

Supplementary Statement Submitted By Messrs. Bigel, Eisenpreis, Marrero, McGivern and Tatum

The Special Task Force on Taxation has focused attention on the impact of taxes on the City's economic development.

We support several of the report's recommendations, specifically those relating to the elimination of the estate tax and the adjustment of the stock transfer tax.

The State Legislature has already voted to repeal the estate tax. We concur in this action. However, it is essential that a substitute revenue measure, such as an increase in the commuter tax, be enacted promptly. Mandating revenue reductions, or cost increases, without providing substitute funds undercuts the City's financial plan and can only result in further serious service cutbacks. Such cutbacks would be counterproductive and work against our economic development goals.

We also concur that relief from the effects of the stock transfer tax should be accorded in the manner outlined in the Task Force's report by providing offsetting tax credits against State business taxes given to exchange specialists and other market makers.
We concur too that counterproductive taxation of business requires attention and the Task Force addressed itself to that problem in its other proposals. However, in our view these other recommendations require further analysis and must be tested against the principles of achieving equity and maintaining the required balance between protecting and upgrading the quality of life and promoting economic development.