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Albany's anti-recovery budget just doesn't add up

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After a four month delay, the New York State Budget was recently approved, but still continues the same problems as last year, namely increasing our spending while our revenue declines.

The budget is basically a continuation of previous budgets which have put the state in its current economic mess.

It may look like a better budget than last year since there was no significant rate increase in our major taxes, personal income or corporate or sales. Yet, all of the bad budget practices that have been criticized over the years have been used to balance the budget.

We continue to balance the budget on unsustainable practices. Some day in the near future we are going to find that we don't have the revenue to do what we need to do, because we've continued to ignore the need to control our spending and fundamentally reform our budget practices.

The total state budget for the fiscal year 2010-2011 is \$136.5 billion, which is up 2.4% from the \$133.2 billion the year before, according to New York State's budget documents.

Albany has enacted an anti-recovery budget. You can't impose new taxes and fees on businesses, cut economic development programs, renege on promised investment incentives and then hope that businesses will turn around and create jobs. To business owners this budget is a confidence killer.

Business tax credits are an incentive for people to make capital investments to create jobs and generate new tax revenue. The state's deferral of a billion dollars in tax credits to balance the budget is effectively a mandatory loan to the state by these companies.

So if you cleaned up Brownfields or built low-income housing which are actions that provide social, environmental or economic benefits to receive the tax credits, you are now being compelled to lend the tax benefit to the state.

These deferrals of tax credits could impose serious financial problems and present troublesome legal issue for individual businesses.

By temporarily suspending the sales tax exemption on clothing and footwear under \$110, small businesses in New York are going to lose retail sales to New Jersey.

If you are driving through New Jersey, why wouldn't people stop there since they have zero taxes on clothing.

Next year is a critical year. We will have a new governor and we assume the new governor will have some clout.

We can also assume that the new governor is going to want to get reelected. The only way he will is if he confronts the budget and spending issues and confronts them early and forcibly.

A truly balanced budget will require that we keep spending within our means and to address those areas of spending that are exceeding our recurring revenues.

Budget Highlights:

Sales tax on clothing and footwear under \$110: The sales tax exemption on clothing and footwear under \$110 would be temporarily suspended from October 1, 2010 through March 31, 2011. Beginning April 1, 2011, the exemption would be reinstated at \$55 until March 31, 2012. The exemption would revert back to \$110 on April 1, 2012. Local governments would be given the option to maintain their current exemp-

tions, or opt into the exemption schedule spelled out in this part. This provision will increase revenue by \$330 million in the current fiscal year.

Business tax credit deferral: For tax years 2010, 2011 and 2012, taxpayers with more than \$2 million in aggregated business tax credits would be required to defer the amounts above \$2 million until 2013. The total amount of credits deferred under this proposal would be paid back to taxpayers over tax years 2013, 2014 and 2015. This provision would raise \$100 million this year and \$970 million in the 2011-12 fiscal year.

Reducing itemized deductions for those with New York Adjusted Gross Income (NYAGI) above \$10 million: The bill reduces the amount of charitable contributions allowed as a New York Itemized Deduction from 50 percent to 25 percent for taxpayers with a NYAGI above \$10 million. New York City would have the option of adopting the charitable deduction limitation for the City Personal Income Tax. This provision would be in effect for taxable years beginning on or after 2010 and would sunset for taxable years after 2012. The limitation is expected to raise \$100 million in the current fiscal year and \$135 million in 2011-12.

Restructure the New York City personal income tax rate

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reduction for the New York State School Tax Relief Program (STAR): The bill would alter the STAR property tax exemption program to limit the benefit of the personal income tax rate reduction in New York City to the first \$500,000 in income. Beginning in 2011-12, homeowners statewide with incomes above \$500,000 annually would no longer be eligible for a STAR exemption. These provisions are estimated to generate \$120 million in savings in the 2010-11 fiscal year and \$210 million in 2011-12 and thereafter. The Executive's proposal to increase the STAR “floor” adjustment was denied.

Empire State film production credit: This bill would provide an additional \$420 million annually over tax years 2010 through 2014. Up to seven million of the annual allocation would be available for a separate post-production tax credit for those film companies that do not qualify for the Empire State Film Tax Credit. These provisions would not impact revenue in 2010-11.

Federal Medical Assistance Percentages (FMAP) Contingency Plan: The prospects for federal Medicaid assistance of \$1 billion have improved but the budget includes a contingency plan against the potential loss of these funds with spending cuts. Starting September 16 and continuing through the end of the fiscal year, payments from aid to localities in the General Fund and the State special revenue fund would be reduced by a uniform percentage until the FMAP saving of \$1.085 billion

is realized.

Sales Tax on Hotel Rooms: Travel sites like Expedia buy hotel rooms and pay the 4 percent state sales tax.

When the consumers book these rooms at a higher price the sites will be required to collect a sales tax on the difference between the amount they paid and the price they charged. It is expected to collect \$10 million.

Hedge Fund Tax: The plan to tax hedge fund managers at higher rates than they currently pay which would have raised \$50 million was not included in the final budget.

Pension Funding Scheme: Rather than pay the full amount required, the state would stretch out the payments needed by capping the annual contribution with the unpaid amount to be repaid over 10 years at a rate of return equivalent to the return on a fixed rate investment portfolio.

Sale of Wine in Liquor Stores: This proposal would have raised \$300 million in additional revenue

In other REBNY news:

REBNY's Residential Brokerage Division came together and donated needed items for the School Supply Donation Drive. More than 22 large boxes filled with digital cameras, reading books, composition books, spiral notebooks, writing paper, tissues, construction paper, crayons, sharpies, pens, pencils and loads of other requested items were recently delivered to Central Park East II School on East 103rd Street.

Principal Naomi Smith, a parent coordinator, students, parents and a school volunteer all greeted Ruth McCoy, Cornelia Netter, Jeanne Oliver-Taylor and Michael P. Slattery with enthusiastic faces and were overjoyed in their words of thanks. This drive is a great example of REBNY members' continued commitment to giving back to the community.

Golf and tennis enthusiasts are wanted. Don't miss the upcoming REBNY Fall Golf & Tennis Outing on Monday, September 13 at the Metropolis Country Club in White Plains. Sponsorships opportunities are still available. Contact Kathleen Gibbs at kgibbs@rebny.com or 212-616-5246 for more information.

The 2010 Residential Deal of the Year submission applications are now being accepted. Submission Deadline for the 2010 Deal of the Year Awards is 5 p.m. Friday, September 10.

Please review your sales and rental transactions, including transactions in new developments, which have closed or will close between September 14, 2009 and September 10th, 2010 and submit your deal for the 2010 Deal of the Year Contest.

We are also accepting nominations for: The Most Promising Residential Rookie Salesperson of the Year and The Henry Forster Award.

For further details and applications, visit www.rebny.com and select the quick line, 2010 DOY Applications or email Jeanne Oliver-Taylor at jtaylor@rebny.com

