

Local Income Tax Study Group

**Interim Report to Tompkins County
Budget and Capital Committee**

February 8, 2005

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Local Income Tax Study Group

Larry Baum
Noel Desch
David Dornbusch
Michael Hall
Patricia Johnson
Debbie Jordan

William Myers
Andy Sciarabba

Tim Joseph
Brad Edmondson
Wendy Skinner

Charge to the Local Income Tax Study Group

In the last few years NY State has balanced its budget, in large part, by reducing its contribution to county governments. These contributions are mainly partial reimbursement for programs that counties are required to carry out on behalf of the state. The state contribution has been reduced without any reduction in the size or scope of the programs. This has resulted in dramatic increases in property tax and an overall shift in the tax structure in the state. The shift from state to local funding has produced a decreased reliance on income tax, which puts the heaviest burden on those most able to pay, and an increased reliance on property tax, which is unrelated to ability to pay. The best solution to this problem is to return to the state the responsibility for funding the programs it designs and mandates counties to carry out. Since this doesn't appear likely to happen, it seems reasonable to consider a local income tax as another way of returning to a balanced tax structure.

Counties do not currently have the authority to impose an income tax. State legislation would be required to implement such a tax. The simplest and most likely approach would be to follow the model currently used for New York City and Yonkers for the collection of a city income tax in those two communities. The state would collect the local income tax, along with state income tax, using a special section on the state income tax form. The county would set the tax rate within the limits imposed by the state (currently a 19.25% surcharge on the state tax liability for residents, and 0.5% of wages earned for nonresidents). The purpose of a local income tax would be to reduce reliance on property tax and is intended as a full or partial substitute for property tax, not an addition to it. The income tax rate could be set to reduce county property tax or to eliminate it entirely. It could even be set high enough to allow the county redistribute some of its sales tax revenues to school districts, thus providing additional property tax relief. One of the advantages of a local income tax is that it would include the substantial number of people who work in Tompkins County but reside elsewhere. These individuals pay no property tax in the county but do impose some burden on county services.

The Local Income Tax Study Committee is charged to study the feasibility and desirability of imposing such a tax. The committee will examine how such a tax would shift the tax burden and how such a shift would affect both equity and economic development. The committee may also examine any other issues that it finds relevant to the feasibility and desirability of an income tax.

The equity goal of an income tax is to put the tax burden on those who can afford to pay it, but there may also be unintended consequences. Renters, both business and individual, will see no gain from reduced property taxes unless rents are reduced in tandem with the taxes. Is this reasonable to expect? Some people with substantial incomes currently pay little income tax because of various tax avoidance strategies. Those people currently do contribute through property tax. The largest beneficiaries of a major reduction in property tax would be corporate owners of large and valuable properties, including Cornell University.

It is unclear how the existence of a local income tax, in combination with the lowest property tax in the region, would impact businesses. Since the income tax applies to individuals and not businesses, it could make Tompkins County an attractive place to locate. However, the business owner and their employees would be subject to the income tax. This could affect our ability to attract individual business owners, or their ability to attract employees. On the other hand, high property tax is often cited as a barrier to attracting businesses or employees, and those coming from other states may fully expect to be paying local income tax.

It will be the function of the committee to examine all these issues and make a recommendation.

– Tim Joseph, Chair of the Legislature

Executive Summary

The Local Income Tax Study Group is made up of citizens who have brought financial, economic development, and tax law expertise to the discussion. The original purpose of the study was to investigate the context, feasibility, and consequences of a local income tax as a substitute for a portion of County property tax.

The reason for this investigation is a recent increase in real property tax, which falls unevenly on high- and low-income households. The study was intended to predict and analyze the ways in which a local income tax would redistribute the tax burden.

The group added another primary goal: to expand the tax base, and in particular to include non-residents who work in Tompkins County and college students who live in tax-exempt housing. It also looked at various other local taxes, including a tax on prepared meals, and a commuter tax. A real estate transfer tax (not a mortgage tax) has also been mentioned but has not been studied in detail.

Talks with state representatives indicate their willingness to sponsor enabling legislation for a County income tax, if enough local support can be demonstrated. Assemblywoman Barbara Lifton told the group that she believes the Assembly would be open to a local income tax if it is tied to property tax reduction and especially if a public referendum is required.

The preliminary conclusion of the group is that imposition of a local income tax, a payroll tax, and/or a meals tax would result in a substantial reduction in the property tax. The group has not reached consensus on a recommendation for any new tax.

The study group will continue to meet and, before making a recommendation, will respond to any Budget Committee comments and will explore questions of fairness and consequences – including impacts on resident homeowners, resident renters, out-of-county workers, and existing and prospective businesses.

Findings

INCOME TAX

A 10 percent surcharge on the state income tax would raise about \$7 million from Tompkins County residents, for a reduction of property tax of about 21 percent. A 52 percent surcharge would be needed to completely zero out County property tax. Because the state income tax is graduated, a local surcharge would also be tiered according to income.

Example: An individual in the \$30,000 - \$40,000 income range would pay approximately \$112.00 in local income tax annually.

State enabling legislation would be required. No other county in New York State has a local income tax. New York City and Yonkers each have a local income tax, but those taxes arose not from perceived tax inequities but from unique political/fiscal pressures not present in Tompkins County. A few states, including Maryland, Pennsylvania, and Indiana, allow local income taxes.

Pennsylvania has had local income taxes since 1965. In 95 percent of jurisdictions, the tax is 1 percent of earned income and net profits. The non-graduated tax is the same for residents and non-residents. The ratio of property to local income tax is about 50/50 except in areas with a high percentage of renters. A private firm administers Pennsylvania's local income tax in many jurisdictions.

A rollback of property tax, if replaced by a local income tax, would result in significant tax savings to the largest property taxpayers in the County. About 15 percent of Tompkins County's assessed value is owned by 39 large commercial entities.

The County would still need an Assessment Department to maintain equitable property assessments.

PAYROLL TAX

A 1 percent payroll tax, which would apply to wage earners and the self-employed who receive earned income in Tompkins County, would raise about \$17.7 million in tax revenue (based on the County's approximately 57,000 jobs times \$31,100 of average income, excluding students). Payroll tax is deducted from earned income and does not include investments or retirement income.

Example: An individual earning \$30,000 - \$40,000 would pay \$300 to \$400 in local payroll tax annually.

MEALS TAX

No municipality in New York State has a meals tax but two towns retain for themselves the sales tax collected on prepared food. Rhode Island has a 1 percent tax on prepared foods and beverages purchased at restaurants. The revenues go to the municipality where the tax is collected. The tax was imposed at the state government level; towns don't need to opt in and automatically receive the revenue. A 1 percent meals tax in Tompkins County could potentially raise \$1 million a year, based on an inflation-adjusted estimate of \$86.7 million in county sales for food and drink establishments in 1997. State legislation would be required. Assemblywoman

Barbara Lifton has indicated that a meals tax would have very little support at the state level but that she would be willing to introduce it if there were a strong push for it at the local level.

NON-RESIDENTS & RENTERS

David Dornbusch, a retired mechanical engineer with expertise in database management, compiled a detailed report for the group using 2000 Census data and microdata extracts. The report's findings are based on census data for Tompkins County and a census area that is made up of Seneca and Tompkins counties:

- ❑ About 13,713 people travel from outside Tompkins County to work here.
- ❑ About 24 percent of the 57,032 jobs here are held by people living outside the county.
- ❑ Most of the in-commuters live in adjacent counties, the highest numbers coming from Tioga and Cortland counties.
- ❑ The median income for those who work in Seneca-Tompkins but live in an adjacent county is \$29,980.
- ❑ The median income for those who both work and live in Seneca-Tompkins, excluding students, is \$27,000.

The aggregate reported income of Tompkins County residents is approximately \$1.9 billion. This figure would increase by \$476 million, or 25.1 percent, if non-resident incomes were added.

If non-residents were taxed at the same level as County residents, about 25 percent more tax revenue could be generated from a local income tax.

Assemblywoman Barbara Lifton reported to the group that including non-residents in possible enabling legislation is problematic. She thought it unlikely that home rule legislation specific to Tompkins County would be approved, but that it might be more possible if counties collectively asked for a local option to tax income of both residents and non-resident workers. Lifton said she is not keen on sponsoring such legislation since part of her assembly district includes in-commuters to Tompkins County.

Dornbusch also compiled data showing that renter incomes in Tompkins County are distributed more heavily in lower brackets than homeowner incomes.

PROPERTY TAX EXEMPTIONS

The total assessed value for the County (as reported by the Assessment Department in November 2004) is \$8.2 billion, minus \$3.4 billion in wholly tax-exempt properties, for a total of \$4.6 billion in taxable properties.

The total of partial exemptions allowed to seniors, agricultural use, veterans, and other classifications is \$174.7 million in assessed value. The STAR exemptions from school tax amount to a total of \$691 million.

APPENDIX

Tompkins County, 2000, Full Year Resident Returns

ACTUAL 2000 TAX RETURNS							
<u>these amounts are in thousands of dollars</u>							
Income Range	Number of Returns	NYAGI*	Deductions	Dependent Exemptions	Taxable Income	Tax Before Credits	Tax Liability
Under \$ 5,000	4774	11,093	10,320	-	773	31	(123)
\$5,000 - 9,999	3572	26,418	21,824	78	4,515	181	(179)
10,000 - 19,999	6007	89,855	52,275	1,653	35,927	1,465	544
20,000 - 29,999	4799	118,372	45,858	2,249	70,265	3,156	2,710
30,000 - 39,999	3611	125,388	37,563	2,051	85,766	4,180	4,055
40,000 - 49,999	2638	117,991	29,977	1,799	86,214	4,395	4,290
50,000 - 59,999	2076	113,910	26,075	1,717	86,118	4,521	4,424
60,000 - 74,999	2442	163,427	32,141	2,332	128,954	7,104	6,993
75,000 - 99,999	2251	194,038	32,784	2,410	158,844	9,226	9,146
100,000 - 199,999	2185	289,886	38,546	2,259	249,081	16,327	16,050
200,000 and over	683	335,153	19,552	645	314,957	21,574	21,087
Total	35038	1,585,530	346,916	17,193	1,221,414	72,160	68,998
POSSIBLE LOCAL SURCHARGES							
<u>these amounts are in dollars</u>							
<u>total estimated revenue</u>					Average Tax Increase	Average Income in Income Range	Average Tax Increase as a % of Average Income
Income Range	surcharge on tax liability of:	surtax on AGI over \$100,000 of:	surtax on AGI over \$200,000 of:	Total			
	10.00%	1.00%	1.00%				
Under \$ 5,000						\$2,324	
\$5,000 - 9,999						\$7,396	
10,000 - 19,999	54,436			54,436	\$9.06	\$14,958	0.061%
20,000 - 29,999	271,007			271,007	\$56.47	\$24,666	0.229%
30,000 - 39,999	405,518			405,518	\$112.30	\$34,724	0.323%
40,000 - 49,999	428,980			428,980	\$162.62	\$44,727	0.364%
50,000 - 59,999	442,449			442,449	\$213.13	\$54,870	0.388%
60,000 - 74,999	699,284			699,284	\$286.36	\$66,923	0.428%
75,000 - 99,999	914,618			914,618	\$406.32	\$86,201	0.471%
100,000 - 199,999	1,605,033	713,861		2,318,894	\$1,061.28	\$132,671	0.800%
200,000 and over	2,108,705	2,668,531	1,985,531	6,762,767	\$9,901.56	\$490,707	2.018%
Total	6,930,031	3,382,392	1,985,531	12,297,954			

PARTIAL LIST OF PROPERTY TAX EXEMPTIONS AND AMOUNTS FOR TOMPKINS COUNTY, 2004

Source: Jay Franklin, Assessment Dept.

Exemption	City	Carollne	Danby	Dryden	Enfield	Groton	Ithaca	Lansing	Newfield	Ulysses	County Total
Veterans	56,300	10,100	39,000	96,550	12,750	62,600	156,210	50,850	21,900	40,118	546,378
War Vet	780,225	334,482	321,750	1,111,697	384,626	633,705	1,216,425	1,093,155	536,955	628,425	7,041,445
Combat Vet	2,139,875	577,838	698,475	2,118,879	693,813	1,049,471	2,469,875	1,950,700	1,014,850	1,139,375	13,853,151
Disability Vet	564,000	32,700	164,625	556,504	151,735	390,688	445,363	468,060	255,680	389,197	3,418,552
Paraplegic	0	81,100	0	0	114,400	0	265,000	0	0	0	460,500
Clergy	0	0	4,500	9,000	3,000	0	7,500	3,000	4,500	4,500	36,000
Ag Bldgs	0	404,300	85,000	286,900	678,200	693,300	88,400	590,600	247,800	67,000	3,141,500
Ag Ceiling	0	2,482,323	1,334,097	4,338,285	3,603,773	5,691,935	1,523,410	7,279,256	1,972,428	4,611,616	32,837,123
Senior All	10,339,606	2,653,780	2,065,502	5,396,817	1,523,508	2,266,858	9,445,553	7,641,883	1,665,221	5,154,104	48,152,832
Senior C/T	164,850	105,750	175,275	1,870,255	0	1,150,199	60,000	104,125	661,063	0	4,291,517
Senior C/T	34,000	0	0	449,515	77,170	1,914,088	6,630	0	1,012,600	0	3,494,003
Senior C/S	0	0	0	50,288	816,553	0	0	0	0	0	866,841
Lvg Qrts	21,400	0	20,000	41,400	0	0	0	0	0	0	82,800
Disability	470,150	164,800	162,960	429,300	0	0	391,500	119,150	80,500	300,900	2,119,260
Dis C/TD	0	31,000	8,000	73,250	0	0	0	12,625	16,000	77,000	217,875
Dis CTYD	0	0	0	132,390	70,000	257,450	0	0	146,525	0	606,365
Dis C/SD	0	0	0	0	279,994	41,500	0	0	0	0	321,494
Hist arc	304,400	0	0	0	0	0	0	0	0	0	304,400
Elder	0	0	0	0	30,000	0	2,773,900	0	0	0	2,803,900
Grain Bins	0	0	0	0	6,000	0	0	0	0	36,700	42,700
Temp Grmhse	0	0	0	0	0	0	5,000	0	0	0	5,000
Ag Labor	0	0	0	0	0	0	0	18,000	0	0	18,000
Forest	0	114,500	215,200	106,100	87,800	0	0	0	56,600	0	580,200
Air Polltn	0	0	0	0	0	0	0	48,621,300	0	0	48,621,300
Lnd Waste	0	0	0	0	0	0	0	878,700	0	0	878,700
TOTAL	14,874,806	6,992,673	5,294,384	17,067,130	8,533,322	14,151,794	18,854,766	68,831,404	7,692,622	12,448,935	174,741,836
Total Assessment		8,201,042,240								Total Assessment	8,201,042,240
Wholly Exemption		3,374,196,970								Wholly Exemption	3,374,196,970
Taxable Properties		4,826,845,270								Taxable Properties	4,826,845,270
'Normal' Partial		174,741,836								'Normal' Partial	174,741,836
Partial Exemptions		212,448,421								Partial Exemptions	212,448,421
Taxable Value		4,614,396,849								Taxable Value	4,614,396,849

STAR Summary

Name	City	Carollne	Danby	Dryden	Enfield	Groton	Ithaca	Lansing	Newfield	Ulysses	
Enhanced STAR	29,544,630	8,487,960	7,562,990	32,265,130	8,705,600	17,356,790	26,552,080	22,416,920	13,221,630	15,343,620	181,457,350
Basic STAR	70,280,880	22,955,640	26,099,800	90,579,370	23,497,890	41,343,560	93,460,140	67,456,210	34,764,350	38,959,390	509,397,230
Basic STAR MHP0		32,640	0	0	65,280	0	32,640	0	32,640	32,640	195,840
	99,825,510	31,476,240	33,662,790	122,844,500	32,268,770	58,700,350	120,044,860	89,873,130	48,018,620	54,335,650	691,050,420

Tompkins County Top Property Taxpayers, 2004 Assessments

AES EASTERN ENERGY LP	\$142,000,000
N Y S ELECTRIC & GAS CORP	\$116,961,684
PYRAMID MALL OF ITHACA	\$59,125,000
CORNELL UNIVERSITY	\$52,771,925
DOMINION RESOURCES	\$38,129,445
KENDAL AT ITHACA, INC	\$32,500,000
VERIZON NEW YORK INC	\$27,097,796
BUFFALO-ITHACA ASSOCIATES	\$22,206,000
FANE, JASON	\$15,550,000
LUCENTE, ROCCO P	\$13,672,400
WEGMANS ENTERPRISES INC	\$13,100,000
312 COLLEGE AVE ASSOC LLC	\$12,420,000
NORTHWOOD ASC	\$10,740,000
NEW PLAN REALTY TRUST	\$8,800,000
HOME PROPERTIES FAIRVIEW	\$7,805,000
LANSING WEST APTS	\$7,200,000
ECOVILLAGE	\$7,182,140
TRIPHAMMER DEV CO INC	\$6,982,000
STATE STREET ASC	\$6,960,000
WIDEWATERS ROUTE 13 II CO	\$6,640,000
EDDYGATE PARK ASSOCIATES	\$6,600,000
CARGILL INC	\$6,193,700
PENNSYLVANIA LINES LLC	\$6,114,735
VALENTINE PARK LLC	\$5,800,000
DOWNING, WILLIAM S	\$5,700,000
TSD ASSOCIATES	\$5,700,000
REHOLD LANSING LLC	\$5,600,000
WILBAC	\$5,103,000
EPG ASSOCIATES	\$5,054,000
JANIVAR INC	\$5,007,000
STUDENT AGENCIES PROP	\$4,855,000
WILCOX PRESS INC	\$4,700,000
AHC EXCHANGE CORPORATION	\$4,555,000
VISNYEI, GEORGE O	\$4,500,000
AMERICAN TV & COMM CORP	\$4,461,793
CORNERS COMMUNITY CENTER	\$4,410,000
LENROC, L P	\$4,370,000
AXIOHM IBP INC	\$4,200,000
THE MEADOWS LLC	\$4,150,000
total	\$704,917,618

Renter - Owner Income Distribution

Work & Live in PUMA 01700, No Students

Based on PUMA data that was weight adjusted to reflect the total population.

■ Renter %
 ■ Owner %

No. of Rental Units	No. of Homeowner Units
Tompkins: 17,658	Tompkins: 19,892
Seneca: 3,736	Seneca: 9,539
From Census Bureau County Profiles	

