Thanks to U.S. Law, Residents May See State Tax Burden Rise

By VIVIAN WANG

ALBANY — If Gov. Andrew M. Cuomo’s warnings about the apocalyptic impact of the new federal tax plan had not succeeded in alarming New Yorkers, state lawmakers last week gave it their best shot.

They described a fresh financial catastrophe to accompany the rewrite from Washington — but this one, they said, would come from within.

The issue is something called conformity, or the widespread linkage between state and federal tax codes. Conformity is designed to make filing easier for taxpayers and enforcement easier for revenue agencies, said Robert Zahradnik, who studies state fiscal policy at the Pew Charitable Trusts.

Of the 41 states that levy a personal income tax, nearly all of them structure at least parts of their tax codes around the federal one, Mr. Zahradnik said.

But conformity — under normal circumstances an administrative balm — becomes a headache under the new federal tax plan, which enacts the most sweeping changes to the tax code in decades, Mr. Zahradnik said. Those changes are forcing states to reassess longstanding practices of intertwining their tax codes with Washington’s.

Officials say that unless New York changes its tax code, state taxpayers could see their tax burden increase by $1.5 billion — potentially worsening the pain to New Yorkers already dealing with the curbing of state and local tax deductibility.

In particular, New York’s legislators are worried about a stipulation in the state’s tax code that requires any taxpayer who takes the federal standard deduction also to take the state one. New York is one of at least nine states with a similar requirement, said John Hicks, executive director of the National Association of State Budget Officers.

That rule could pose a problem under the new federal tax plan, which nearly doubled the federal standard deduction. New York’s standard deduction, meanwhile, has not changed. Officials worry that many New Yorkers would opt to take the newly generous federal standard deduction, but would therefore also be roped into taking New York’s now comparatively stingy one, leaving them on the hook for thousands of dollars more in taxable income. A report from the state’s department of taxation and finance estimated that the requirement alone could generate $44 million in additional revenue for the state.

Another state stipulation links some New Yorkers’ eligibility for the standard deduction to their federal personal exemptions — exemptions that the new federal law has eliminated. That could increase New Yorkers’ state tax liability by more than $800 million, the report said.

“You know where that money comes from? The same people the governor talked about the federal government throwing missiles at: our residents,” said Senator John A. DeFrancisco, a Republican from near Syracuse who is the deputy Senate majority leader, while voting for a bill to decouple the state’s tax code from the federal one. Senator John J. Flanagan, the Republican majority leader from Long Island, has said the bill is a better way to protect New Yorkers than the proposed payroll tax swap.

Assemblywoman Amy Paulin, a Democrat from Westchester County who has introduced similar legislation in her chamber, said continued conformity would create a “windfall off the backs of taxpayers, inappropriately.”

The move to extricate the state and the federal tax codes has generated unusual consensus among the notoriously divided State Legislature. The Senate bill passed the chamber unanimously. But it has also again laid bare the evergreen political fissions in Albany.

While Democratic senators took the floor to cast the bill as yet another rebuttal to an unfair tax plan from conservatives in Washington, Republicans suggested that Mr. Cuomo, a Democrat, had deliberately neglected to propose any decoupling in his budget address, as a stealthy way of raising revenue.

The governor’s aides have flatly rejected that accusation. In a statement, Mr. Cuomo said he was continuing to discover new ways the federal tax bill would hurt New Yorkers, and that he would propose legislation to address the effect of the coupled tax system.

Other states with coupled tax codes
have moved to disentangle as well. Idaho, Michigan and Nebraska have all begun to separate their tax codes from the federal one in some way, Mr. Hicks said.

But tax experts said the variation among individual states’ tax codes, and their individual financial situations, makes it impossible to predict if all states will follow suit. Some states that see increased revenue may choose to keep the extra funds, to plug other fiscal holes, said Kirk Stark, a taxation law professor at the University of California at Los Angeles. (New York is facing down a $4.4 billion budget shortfall.) Other states might actually see a decrease in revenue, depending on where and how their tax codes conform to the federal one.

However states decide to respond, Mr. Zahradnik said, it is clear the federal tax rewrite is forcing them to examine their own policies to an extent not seen in decades.

“Major tax reform hasn’t happened in so long that there hasn’t necessarily been a motivation for states to change their approach,” he said.

“It’s only when the federal government does something, then states are forced to react and make some decisions,” he continued. “This is the biggest example of that in some time.”

A stipulation that intertwines New York’s code with Washington’s.

Gov. Andrew M. Cuomo said he was continuing to discover new ways the tax law would hurt New Yorkers, who could see their taxes increase by $1.5 billion.