New York retreats on wealth taxes

More than 667,000 millionaires call the tri-state area home, according to a recent report.

As the Empire State teetered on the brink of budgetary collapse, New York lawmakers decided they better hang onto as many tycoons as they can.

In finally pushing through a $136 billion budget in early August, Gov. David A. Paterson dropped a proposal to raise $50 million by taxing so-called carried interest on investments generated by managers in hedge funds and private equity companies based in New York, who live in Connecticut, New Jersey or another state.

Even as Connecticut Gov. M. Jodi Rell pounced on the proposal by inviting New York hedge fund managers to meet her in person about relocating there, conveniently left unspoken in her public pitch was a new “millionaire’s tax” enacted last fall by Democrats in the Connecticut General Assembly.

The Obama administration has drawn criticism from groups like the conservative Heritage Foundation in attempting to cut the federal deficit via a proposed millionaire’s tax, which opponents argue would also hit small businesses that file returns using individual forms.

Connecticut’s experience with such a tax has not run as expected, after creating a higher income tax bracket for couples making $1 million or individuals half that amount. Last spring, state Comptroller Nancy Wyman said collections were running a third below their expected levels, raising questions on whether wealthy residents were escaping the tax by designating their primary residence in Florida or other states considered relatively tax friendly.

One state unlikely to draw Connecticut’s wealthy elite – for tax reasons, anyway – is New York, which ranked at the bottom of the barrel in an American Legislative Exchange Council list of states with the biggest tax increases between 2008 and 2009.

In a study published last February by the Boston College Center for Wealth and Philanthropy, researchers determined that between 2004 and 2008 nearly 280,000 high net-worth households moved out of New York on a net basis, taking with them a stunning $123 billion in aggregate wealth and nearly $865 million in charitable capacity.

The philanthropy-minded, rich residents that remain are eyeballing one controversial component of the new budget – charitable deductions have been halved for those making at least $10 million annually.

Even as the debate on state taxes heats up, in a double-whammy for tax opponents Congress is considering allowing Bush-era tax cuts to expire, which the Washington, D.C.-based Tax Foundation says would increase taxes on the average family in New York’s 18th Congressional district – encompassing Westchester and Rockland counties – by $2,200, among the largest hits in the state of New York.
Households in the state’s 19th district including Putnam County and parts of Dutchess and Orange counties would suffer a $2,100 additional tax liability on average, according to the foundation.

Congress is weighing whether to extend the tax cuts; make them permanent; or adopt President Obama’s budget which includes a mix of expirations and extensions for specific taxes.

The Tax Foundation report examines the average family in the middle 20 percent of the income spectrum and compares its 2011 federal income tax liability if all the tax cuts expire with its tax bill if all the tax cuts are extended. The study does not address any impact on the federal budget that might occur by allowing the taxes to lapse.

“The more children a family has, the more its taxes will increase because the child tax credit will drop from $1,000 per dependent child to $500,” said Scott Hodge, president of the Tax Foundation, in a prepared statement. “Married families will be affected differently than single families due to the so-called marriage penalty provisions that are scheduled to return if the tax cuts are not extended.”

The report citing 667,000 millionaires in the region was produced by Capgemini, an international consulting and technology firm.
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