New York State Department of Taxation and Finance
Taxpayer Services Division
Technical Services Bureau

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Income Tax
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Summary of 1995 Income Tax Law Changes

New York State Changes

New York State Personal Income Tax Rates

The personal income tax rates will be reduced over a three-year period beginning with tax year 1995. When fully implemented in 1997, the highest rate of tax will be reduced from the 1994 rate of 7.875% to 6.85%.

In addition, the scheduled increases in the standard deduction amounts provided for by the Tax Reform and Reduction Act of 1987, which have been postponed since 1990, will now take effect. These increases will be fully implemented for tax years beginning after 1996.

Household Credit

The household credit has been made permanent at the amounts in effect for 1994. Under prior law, the full amount of the credit would have been allowed for 1995, one-half the credit would have been allowed for 1996, and no credit would have been allowed for tax years beginning after 1996.

Excess Deductions Credit

An excess deductions credit will be allowed for tax years beginning in 1995 only. Taxpayers will qualify for this credit if their 1995 New York State itemized deduction computes to more than what their 1994 standard deduction would have been using their 1995 filing status. (See *Exception* below.) Once they qualify for the credit, the amount of the credit is determined based upon the taxpayers' taxable incomes. The amount of the credit phases out as the amount of taxable income increases.

Exception: The credit is not allowed to a taxpayer whose filing status is single and who can be claimed as a dependent on another taxpayer's 1995 federal return, even if the above condition is met.

Taxpayers must itemize deductions on their federal income tax returns in order to qualify for this credit. However, they do not have to itemize on their state returns in order to qualify. For example, if a taxpayer's New York itemized deduction for 1995 computes to more than the 1994 standard deduction amount but less than the 1995 standard deduction amount, the taxpayer may claim the New York standard deduction for 1995 and still qualify for the credit.

This credit is not allowed against the minimum income tax and the separate tax on a lump-sum distribution. In addition, if the credit exceeds the taxpayer's regular tax for the year, the excess amount cannot be refunded.

Earned Income Credit

For tax years beginning after 1995, the earned income credit must be reduced by the amount of the household credit. Therefore, a taxpayer will not receive the benefit of both the earned income credit and the household credit.

For tax years beginning in 1995, the credit is allowed at the rate of 10% of the federal credit. In addition, the earned income credit will now be allowed at a rate of 20% of the federal credit for tax years beginning after 1995. Under prior law, 15% of the federal credit would have been allowed for 1996, and 20% of the federal credit would have been allowed for tax years beginning after 1996.

Base Tax for Nonresidents and Part-Year Residents

For tax years beginning in 1995 only, in computing the base tax (the amount of tax to which the income percentage is applied) for nonresidents and part-year residents, the tax computed as if the taxpayer were a resident for the entire year is reduced by the excess deductions credit.

Subtraction Modification for Long-Term Care Health Insurance Premiums

For tax years beginning after 1995, a taxpayer 55 years or older may subtract from federal adjusted gross income, in computing New York adjusted gross income, premiums paid for certain long-term care health insurance policies that cover the taxpayer. The policies must meet certain conditions specified by the New York State Insurance Department in order to qualify for the subtraction.

The subtraction is limited to the lesser of the amount of premiums paid during the year or (1) $750 for taxpayers who are at least 55 but not older than 60 (2) $2,000 for taxpayers older than 60 but not older than 70, and (3) $2,500 for taxpayers over 70. The age of the taxpayer is determined as of the last day of the tax year for which the subtraction will be taken. If a husband and wife are each covered by a qualified policy, they may both take the subtraction. However, one spouse may not claim the unused part of the other spouse's subtraction.

Note: At this time, we are not aware of any policies available that qualify for this subtraction modification. Accordingly, taxpayers who are interested in purchasing this type of policy should request that their insurance agent notify them when these policies become available. In addition, the New York

State Insurance Department is required to maintain a list of policies that qualify for the subtraction modification.

Refund Offsets for Overpayments of Public Assistance Benefits

A taxpayer's New York State, New York City or Yonkers income tax refund will now be applied against any overpayment of public assistance benefits that the taxpayer is required to repay to the Department of Social Services or a local social services district. The refund will be applied only if the taxpayer is in default in repaying the amount to the Department of Social Services or the local district.

Wage Reporting System Changes

Effective January 1, 1996, the requirements for reporting gross wages to the Tax Department under the wage reporting system will change. Under the new rules, the definitions applicable for New York State unemployment insurance purposes, such as the definitions of employer and gross wages, will now apply for wage reporting purposes.

Accordingly, only those employers subject to the provisions of the New York State Unemployment Insurance Law will be required to file a quarterly wage report with the Tax Department. All employers will be sent Publication 23, *Wage Reporting Changes,* which contains detailed information on the new requirements.

The new law applies only to the Tax Department **wage reporting** requirements. The New York State **withholding tax** requirements that were in effect for calendar year 1995 are unchanged for calendar year 1996.

Contributions to the United States Olympic Committee/Lake Placid Olympic Training Center Fund

Beginning in 1996, taxpayers may make a contribution to the United States Olympic Committee/Lake Placid Olympic Training Center Fund on their New York State personal income tax returns. The contribution can only be made in the amount of $2 per taxpayer, and the amount of the contribution will either reduce the taxpayer's refund or increase the amount of tax due. The money contributed to the fund will be used exclusively for the maintenance and operation of the Lake Placid Olympic training center.

Limited Liability Investment Companies

Effective August 8, 1995, certain investment companies, which are established and regulated under Article 12 of the New York State Banking Law, will now be able to organize themselves as limited liability investment companies (LLICs). The LLIC option is available only to Article 12 investment companies that serve as holding companies for foreign banking operations.

An LLIC that is treated as a partnership for federal income tax purposes will also be treated as a partnership for New York State income tax purposes. In addition, an LLIC that is treated as a partnership would be subject to the same annual filing fee that applies to limited liability companies. (See TSB-M-94-(6) Income Tax.)

New York City and Yonkers Changes

New York City Tax Rates

The New York City additional tax, which is equal to 14% of the sum of the regular city personal income tax and the New York City tax surcharge, has been extended through 1997. Under prior law, this additional tax expired for tax years beginning after 1995.

The new law also allows the city to continue to impose the minimum income tax at the rate of 2.85% through 1997. Under current law, the minimum tax would have expired for tax years beginning after 1995.

In addition, the new tax rate schedules that were to take effect as part of the New York City Tax Reduction Act of 1987, and which have been postponed since 1990, will now take effect. These tax rate schedule changes will be phased in over a three-year period, and will be fully implemented for tax years 1997 and thereafter.

City of Yonkers

The city of Yonkers has been **authorized** to extend the personal income tax surcharge and the nonresident earnings tax through 1997. However, the city must enact a local law to actually extend these taxes. As of this date, the city has enacted a local law, but that law extends the taxes only through 1996. Under prior law, the Yonkers taxes would have expired for tax years beginning after 1995.