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Income Tax
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Recent Income Tax Changes Taking Effect in Tax Years 1999 and Thereafter

In 1998 and in prior years, Governor George E. Pataki signed several pieces of legislation which reduce tax rates, expand tax credits and provide new and increased deductions to taxpayers. The city of Yonkers also recently adopted legislation reducing tax rates for Yonkers residents. This memorandum contains brief summaries of some of the legislative changes affecting the New York State, New York City and city of Yonkers personal income taxes for tax years beginning on and after January 1, 1999.

Withholding, Wage Reporting and Unemployment Insurance Reporting will be Combined

Chapter 477 of the Laws of 1998 amended the Tax Law and the Administrative Code of the City of New York to consolidate employer unemployment insurance, withholding and wage reporting filing and payment responsibilities. Starting with the tax return covering the first calendar quarter of 1999, due April 30, 1999, the majority of employers will have to complete only one report for both the New York State Department of Labor and the New York State Department of Taxation and Finance to report unemployment insurance, income tax withholding, and wage reporting information. In addition, only one check will be required to pay the combined amount of unemployment insurance contributions and withholding taxes due with the quarterly return.

The new law also clarifies and better organizes the penalties associated with the new quarterly returns and the requirements to provide the annual employee withholding reconciliation information by clearly dividing the section 685 (v) penalties into those relating to failures to file, late filing and failures to provide complete and correct information.

For more detailed information see publication NYS-50, *Employer's Guide to Unemployment Insurance, Wage Reporting and Withholding Tax.*

(See Tax Law, sections 9(a)(6), 171-a(8), 658(d)(2), 674, 685(v), 697(e), 697(l), 698, and the Administrative Code of the City of New York, sections 11-1774(a)(2) and 11-1774(a)(4).)

New York City Tax Rate Reduction

Beginning with tax year 1999, the New York City resident income tax rates are reduced over a three-year period. In addition, the New York City Safe City, Safe Streets surcharge, which had been in effect since 1990, expired at the end of 1998.

(See Tax Law, sections 1301(a), 1304, and 1310(e), and the Administrative Code of the City of New York, sections 11-1701(a), 11-1710(b) and 11-1706(c).)

Reduction of the City of Yonkers Income Tax Surcharge

For tax years beginning on and after January 1, 1999, the amount of the city of Yonkers income tax surcharge is reduced from 15% to 10% of the net state tax. As a result, new withholding tables and methods for City of Yonkers resident taxes have been issued and are effective January 1, 1999.

(Enacted by Special Ordinance No. 30-1998 of the City of Yonkers.)

Estimated Income Tax Threshold for the Imposition of Penalty

For tax years beginning on and after January 1, 1999, the penalty for the underpayment of estimated income tax will not be imposed for taxpayers who have a tax due shown on their return (that is, tax reduced by any withholding and any other credits) of less than $300 per jurisdiction (New York State, city of New York and city of Yonkers). The threshold for tax years beginning before January 1, 1999, remains at $100.

(See Tax Law, section 685(d)(1), and the Administrative Code of the City of New York, section 11-1785(d)(1).)

Farmers' School Tax Credit

For tax years which began prior to January 1, 1999, for purposes of determining which property taxes would qualify for the farmers' school tax credit, only real property taxes levied by a school district on qualified agricultural property **owned** by the taxpayer qualified. For tax years beginning on and after January 1, 1999, in the case of the sale of qualified agricultural property under a *land sales contract*, the buyer will be treated as the owner of the property if the following conditions are met:

– the buyer must be obligated under the land sales contract to pay the school district property taxes on the purchased property, and

– the buyer must be entitled to deduct those taxes as a tax expense for federal income tax purposes.

A buyer who meets these conditions will be considered the owner even if legal title to property (that is, the deed) has not been transferred to the buyer. Accordingly, the buyer, if an eligible farmer, will be entitled to claim the credit (subject to the credit limitation based on income).

Note: If the buyer is treated as the owner under these provisions, the seller may not claim the credit for that property.

A *land sales contract*, commonly referred to as an "installment land contract, " is an agreement to transfer land ownership in exchange for a series of principal and interest payments. The seller does not transfer formal title to the property to the buyer until all or a certain number of payments are made. In addition to "installment land contract,"a land sales contract may also be referred to as "contract for deed," "bond for deed," "conditional sale of real estate," "contract for sale of land," and "land contract." An arrangement for a "lease with an option to purchase" is not a land sales contract.

(See Tax Law, section 606(n).)

Repeal of Modification for Different New York and Federal Bases in Property that is Acquired from a Decedent Dying On and After February 1, 2000

For personal income tax purposes, a taxpayer who sells or otherwise disposes of property acquired from a decedent must adjust the amount of gain or loss if there is a difference between the federal and New York bases of the property. This difference occurs if the estate was not required to file a federal estate tax return but was required to file a New York estate tax return, and used alternate or special valuation on that return. This adjustment will no longer be required for property acquired from decedents who die on or after February 1, 2000.

(See Tax Law, section 612(r).)