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New York City and State Should Eliminate Their Sales Taxes

To the Editor:

The imminent approval of a new Federal income-tax code that no longer provides for deduction of state and local sales taxes requires that we re-examine the efficacy of these taxes in New York State.

In spring 1985, I strongly advocated the elimination of sales taxes on articles of clothing costing less than \$50, a proposal to benefit lower- and middle-income families. The decision not to retain deductibility of state and local sales taxes offers an opportunity to go further and benefit all New Yorkers.

The proposed Federal income-tax changes would result in a windfall to the state and city unless they lower their rates. Federal tax-code changes - such as eliminating the sales-tax deduction, limiting individual retirement accounts, repealing the two-earner deduction for married couples and increasing the deductible for medical expenses from 5 percent to 7.5 percent - will result in higher taxable incomes for state and city as well as Federal purposes.

Indeed, as the state and city codes are linked to the Federal, Federal law revisions will automatically increase city and state taxable income. Even if state and city income-tax rates are lowered to offset this increase, too many New Yorkers will still pay increased Federal income taxes.

While state and local income taxes ought to be reduced, the state and city could help lower-, middle- and upper-income taxpayers by repealing their sales taxes. Families who are less well-to-do and not likely to have benefited from itemized deductions, such as the sales tax, would have more money for necessities, whether food or clothing. Merchants would have greater income, as consumers would have more money to spend. The many New Yorkers who have deducted sales taxes would not be at a disadvantage compared with residents of other non-sales-tax states.

If the state and city do not eliminate their sales taxes, they ought to decrease them. Lost state sales-tax collections can be recouped through the increased income-tax revenue anticipated through Federal changes. The city, if it were to eliminate its sales tax, would likely have to increase its income-tax rates. Those who lose the sales-tax deduction will, in effect, retain it through deducting the increased state and city income taxes resulting under Federal changes.

In anticipation of Federal tax changes, a subcommittee of the Governor's Council on Fiscal and Economic Priorities will be reviewing changes in the state's tax code. City officials are also considering options, including a cut in the sales tax.

The fairest alternative remains repeal of the sales tax and setting state income-tax rates, which ought to be lowered as a result of the impending new Federal code, and city income-tax rates at levels that will bring in the same revenue as is now collected through current sales and income taxes.

COREY B. BEARAK

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The writer is counsel and chief of staff to City Councilman Sheldon S. Leffler.