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## CUTTING SALES TAXES AFTER A WINDFALL

Since returning New York State's income tax windfall as a result of Federal tax reform ought to be a priority of the newly elected State Legislature, I am encouraged that Assembly Ways and Means Committee Chairman Arthur J. Kremer [ "New York Needs Tax Reform, Too," Opinion Page, Nov. 9 ] included a sales tax rate reduction among the options to return the windfall.

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

The Federal income tax changes will result in a \$2.5 billion windfall to the state and a \$300 million windfall to New York City, according to the most liberal estimates, 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 to 7.5 percent - will result in higher taxable income 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 taxes are lowered to offset this increase, too many New Yorkers will still pay increased Federal taxes. In other words, while one's aggregate tax bill - Federal, state and city - would decrease, it would not decrease as much as it could if an alternative method were employed by the state and city.

While state and city income taxes ought to be reduced, the state and city could better help lower-, middle- and upper-income taxpayers by repealing, to the extent a tax windfall exists, their sales taxes. Families who are less well-to-do and not likely to have benefitted from itemized deductions, such as the sales tax, would have more money for necessities.

Merchants would have greater income, as consumers would have more to spend. Merchants will also be able, to the extent that the sales tax rates are reduced, to better compete with street vendors, flea markets and out-of-state businesses. The many New Yorkers who have deducted sales taxes would not be at a disadvantage compared with residents of other non-sales-tax states.

Lost sales tax collections can be recouped through the increased income tax revenue anticipated through Federal changes. The city, if it were to eliminate rather than reduce to the extent of its windfall, its sales tax, would likely have to increase its income tax rates. Those who would lose the sales tax deductions will, in effect, retain it through the increased state and city income taxes resulting under Federal reform.

State Assembly member Ivan Lafayette, who also supports a cut in the sales tax, is looking into the viability of passing such a measure. His data suggests that, for every 1 percent reduction in the state sales tax rate, sales tax revenues collected would decrease by \$1.15 billion. This does not include sales taxes charged consumers but not reported to the state. Some 12 percent do not pay the sales taxes they collect to the state.

Decreasing income taxes, even tying state and local income taxes to Federal taxable income, will not encourage upscale New Yorkers to remain here. More likely considerations include such quality-of-life issues as quality education for their young, the availability of a wide variety of cultural opportunities and a working system of transportation, as well as crime and the lack thereof.

If our aim is to equalize tax burdens, diminishing if not eliminating the state and city sales taxes remains the fairest alternative.

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