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Wrong Time For A Commuter Tax

NEW York City's severe post-9/11 fiscal crunch has prompted fresh calls in some quarters for reinstating the city's commuter tax, which could generate as much as $500 million, to help close a projected budget gap of $3.5 billion.

Roughly a million workers from the suburbs pour into jobs in the city every day. Proponents of an added tax on nonresidents — like the one in effect for three decades until 1999 — claim it's a simple matter of fairness: Otherwise, says the Citizens Budget Commission, "residents must pay for services to commuters."



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The notion that commuters are a bunch of well-paid freeloaders has long been popular in financially strapped U.S. cities. But it's a fallacy.

Think about it for a moment: Many of the middle- and upper-echelon jobs in corporate offices, brokerage houses and law firms in lower Manhattan are held by people who live in the suburbs. If these commuters are so costly to New York, why is the city so concerned about losing them to New Jersey?

The answer, of course, is that everyone who works in New York contributes to the city treasury — directly, through sales taxes on purchases in the city, and indirectly, through a broad array of city taxes paid by the firms that employ commuters and profit from their productivity.

"Commuters already pay a tax premium to work here: New York state income tax."

Yes, workers who live in the city pay more in taxes, but they also consume more services (education, policing, etc.).

Commuters getting off cheap? Workers who travel to jobs in the city from neighboring states already pay a tax premium to be here — they're subject to the New York state income tax.

In recent years, New Jersey and Connecticut residents who work in New York have generated nearly 10 percent of this state's total income tax collections, equal to $2.5 billion this year. At least a third of that money (plus a similar share of state taxes on business income attributable to their labor) flows back to the city in the form of state aid or direct spending.

The city commuter tax was last set at 0.45 percent of wages and 0.65 percent of self-employment income. Unlike the regular income tax (with its graduated rate schedule for different income brackets), the commuter tax was a flat rate applied to a worker's entire city income. This meant it hit commuters as hard as a 7 to 10 percent add-on to their state income tax.

Many supporters of reinstatement would still assert that the commuter-tax rates are too small to affect the number of jobs created or retained in the city. But this overlooks what might be called the final-straw factor — especially post-9/11.

Suppose you're an investment adviser with a Manhattan-based securities firm, earning $100,000 a year. Married, with two kids and a house in Hoboken, you're already paying a $2,000 commuter tax — the difference between what you'd owe on the same salary in New York and New Jersey state income tax. Assuming your employer won't make up the difference, a commuter tax would cost you another $450 a year.

That $450 might not look like much. But combined with other factors — such as commutes two to four times as long as before 9/11, and general anxiety about returning to an area stigmatized by death and destruction — a few hundred more dollars in taxes per commuting employee certainly won't strengthen the case for staying in New York.

Especially now, when many firms are pondering relocation decisions.

To be sure, the 1999 repeal of the commuter tax wasn't Albany's finest hour. By all accounts, it had nothing to do with the substance of tax policy and everything to do with the politics of a hotly contested special state Senate election in Rockland County, with leaders of both parties eager to pose as champions of suburban interests.

When he signed the bill (at a Long Island train station), Gov. Pataki proclaimed: "This is a positive thing for the suburbs, but I think it's also positive for the city." Say what you will about his motives, but Pataki was absolutely right. On the whole, commuters are a good deal for New York.

In this shaky economy, the city desperately needs to attract and retain more commuters — a goal that will not be served by slapping them with what amounts to a wage toll.

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