Payroll Tax Opposed

It is Viewed as Discriminatory in Exempting Investment Income

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To the Editor of The New York Times:

Shall New York City both increase the transit fare and impose a payroll tax?

Transit revenues should be increased, in our opinion, but not by going to a flat fare of 15 cents. The fare should vary with the distance and the time of day (higher during rush hours, in rush directions). It will then accord more directly with the cost caused to the system by each particular rider; and it will take some of the pressure off the rush hours, so that construction of costly new subway facilities, with all that it promises in the way of further financial difficulties for the city, may be deferred or restricted.

Under a schedule we have elsewhere elaborated the 5-cent fare would be restored and would apply to about one-fifth the total number of rides. A top fare of 25 cents for trips of over five miles through the congested areas in rush directions would apply to about one-tenth of total rides. The lowest-income subway patrons are not the rush-hour riders; they are, instead, the charwomen, night watchmen, workers with irregular hours and others, who would benefit from the 5-cent or 10-cent fares (compared with a flat 15-cent fare). Even a family whose breadwinner must travel in rush hours will benefit from the 5-cent and 10-cent fares on week-end trips and shopping trips, for example.

Detailed plans for overcoming the mechanical problem of collecting a zone-time fare—plans which in our considered judgment deserve more serious attention than they have received—are given in our report (The Financial Problem of the City of New York, June 1952), and in a monograph by William S. Vickrey, "The Revision of the Rapid Transit Fare Structure of the City of New York" (both available at the office of the Director of the Budget, Municipal Building). Even so, an increase in the subway fare will have a substantial impact on some of those in the low-income levels.

Personal Tax

What, then, shall we think of a payroll tax as an additional revenue measure? Such a tax is, in effect, a personal income tax with an exemption for investment income. Salaries and wages would be taxed, but interest, dividends, rentals and profits of unincorporated enterprises would be exempt. Corporate profits as such would not be taxed.

The only possible defense for such discrimination is that it would be required in order to prevent a serious loss of business or residential population, or that administrative problems would be insuperable.

In our opinion the danger of migration tends to be exaggerated; the tax rate in question need not be more than 4 per cent in the highest bracket (more likely, not higher than 3 per cent), and —this is the important point often overlooked—the city income tax would be deductible in computing one's income subject to federal tax. Thus for a taxpayer whose last dollar of income is now being taxed at a 50 per cent rate by the Federal Government, a 4 per cent city tax is only a 2 per cent net tax on that last dollar.

Our study of the administrative problems convinces us that they are not serious enough to warrant a special exemption for investment income. New York City could impose its income tax as a percentage of the New York State tax, or as a percentage of the income declared on the state return; or the tax could be a percentage of the income declared on' the federal return (adjusted gross Income). For further details we refer to Chapter VI of our report.

Report Quoted

What if the city did not wish to link its income tax with that of the state or Federal Government? We quote from our report:

“The city, administering its own personal income tax without reference to the federal or state tax, might nevertheless break with the pattern established by the other cities named above [Philadelphia, Scranton, Toledo, and certain other cities] and include all forms of income within the scope of the tax, while granting personal exemptions and allowances for dependents. We favor this procedure if an independent city tax is adopted. An income tax restricted largely to payrolls, especially if without personal exemptions or allowances for dependents, is no improvement over the present retail sales tax, as far as equity in distribution' of the tax burden is concerned. New York State’s Constitution 'does not restrict the municipalities to the degree that obtains in Pennsylvania and Ohio, where the state Constitutions have been held to prohibit inclusion of dividends and interest in the municipal tax base."

Surely the largest and richest city in the world need not be driven to imposing a tax that exempts investment income and makes no allowances for number of dependents, when it already has a retail sales tax and is facing an increase in the transit fare.