



# Regional Plan Association

... a research and planning agency supported by voluntary membership to promote the coordinated development of the New York-New Jersey-Connecticut Metropolitan Region.

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## NEWS RELEASE

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Regional Plan Association to New York Legislature:

LET CORPORATE FRANCHISE TAX SURCHARGE EXPIRE;  
USE MOTORIST-RELATED CHARGES TO FUND MTA

Regional Plan Association today urged the New York State Legislature to let the Corporate Franchise Tax Surcharge expire, as scheduled, early next year.

The resulting \$300 million gap in the Metropolitan Transportation Authority's (MTA) budget should be filled with motorist-based charges, according to the Association's report.

The Legislature will take up this issue in the Special Session beginning December 3rd.

The report cited two main reasons why the Corporate Franchise Tax surcharge should be allowed to expire:

1. With the 17 percent surcharge, general and financial corporations in New York City pay 21 and 28 percent of their net incomes, respectively, in State and local taxes--and even more in the case of utilities, high enough to keep new facilities from locating in the City. New York State's corporate income taxes are the highest in the nation.

2. Because the surcharge is basically a tax on sales, payroll and capital plant, it is both regressive and unrelated to any benefits received from public transit. Fully one-third of the burden of the

surcharge falls on utility customers.

"The easiest way to fill the \$300 million gap in the MTA's budget would be to increase the Petroleum Gross Receipts Tax and dedicate the entire tax for transportation purposes. At present, only about a quarter of the tax is dedicated to transit," said Regional Plan President Dr. John P. Keith. "You would have to increase the tax from 2.75 percent to about 3.25 percent. If you wanted to limit the increase to the counties in which the MTA operates, it would have to go up to about 5.75 percent -- which is about three cents a gallon."

The Association's statement was based on a recent report published by Transit on Track, a joint project conducted by Regional Plan and another nonprofit civic group, New York Citizens for Balanced Transportation. The project is monitoring the progress of the MTA's current five-year capital program and thinking ahead to future capital programs, the Association said. A copy of the Association's summary statement is attached. The full version is available by calling Susan Buffington at (212) 398-1140.

Regional Plan Association is a nonprofit research and advocacy organization which has been planning for the coordinated development of the New Jersey/New York/Connecticut metropolitan Region since the 1920s.

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# The Region's Agenda

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## TRANSIT ON TRACK URGES NEW YORK STATE LEGISLATURE TO REPLACE THE CORPORATE FRANCHISE TAX SURCHARGE WITH MOTORIST-BASED REVENUES

*Transit on Track* is a joint project of Regional Plan Association and New York Citizens for Balanced Transportation. This *Agenda* is based on the project's third research paper, an examination of the history of transit deficits and an analysis of some of the short-term funding options currently facing the New York State Legislature. A copy of the full paper is available upon request. The long-term operating and capital funding needs of the transit system (and other important issues affecting public transportation) will be considered in later *Transit on Track* papers.

The Corporate Franchise Tax surcharge, one of the dedicated taxes enacted in 1981-82 to fund the Metropolitan Transportation Authority's (MTA) operating deficit, will expire in early 1985, leaving a gap of some \$300 million in the MTA budget. Regional Plan Association believes the surcharge **should** expire for two reasons:

1. With the 17 percent surcharge, general and financial corporations in New York City pay 21 and 28 percent of their net incomes, respectively, in State and local income taxes—high enough to keep new facilities from locating in the City. Corporate income taxes in New York State are the highest in the nation.

2. Because the surcharge is basically a tax on sales, payroll and capital plant, it is both regressive and unrelated to any benefits received from public transit. About one-third of the burden falls on utility customers.

### BACKGROUND

The New York City Transit Authority (TA) was meant to be self-sustaining when it was formed in 1953, but the last time it turned a profit was in 1957. Subsidies of various kinds began two years later and had grown to about 50 percent of operating expenses by 1975. They have stayed at approximately that level ever since. Commuter rail subsidies began in 1965 and also grew to about half of operating expenses. But the sources of these subsidies have changed substantially since 1980. As the following

table indicates, public transit relies much less on direct federal and State assistance and much more on a variety of dedicated taxes, raised mostly within the Region.

Metropolitan Transportation Authority (MTA) Revenue Sources for Subways (TA) and Commuter Rail, 1980 and 1984

	(TA)		(MTA)	
	1980	1984	1980	1984
Local govt. subsidies (mostly NYC)	22.0%	22.0%	7.6%	9.4%
Triborough Bridge & Tunnel tolls	4.9%	5.3%	9.7%	11.8%
NY State assistance	10.3%	2.7%	13.8%	3.2%
Federal assistance	10.6%	3.2%	13.0%	2.4%
Dedicated taxes	---	17.9%	3.4%	20.5%
CT State assistance	---	---	3.3%	4.2%
Total Subsidies	47.8%	51.1%	50.8%	51.5%
Fares & User Fees	52.2%	48.9%	49.2%	48.5%

Between 1980 and 1983, the New York State Legislature passed a complex series of new taxes and tax increases and dedicated the revenues to public transit:

—A statewide Gross Receipts Tax on petroleum products other than home heating oil of 2.75 percent, of which only the .75 percent part was dedicated for transit;

—A "Long Lines Tax" on the interstate activities of telecommunications and transportation businesses in New York State (other than airlines, shippers and railroads);

—A .25 percent sales tax surcharge in the 12-County MTA district;

—A Corporate Franchise Tax surcharge, also limited to the MTA district. Nominally a tax on business profits, it tends to be a tax on sales, payroll and plant because those are the factors used to apportion a corporation's profits among in-state and out-of-state locations. The surcharge is scheduled to expire in 1985.

### HOW TO REPLACE THE SURCHARGE REVENUES

If the Corporate Franchise Tax surcharge is allowed to expire, Regional Plan believes the \$300 million gap in the MTA budget should be filled with

motorist-related charges. That amount could be raised by dedicating the entire Petroleum Gross Receipts tax to transit and increasing it from 2.75 percent to about 3.25 percent statewide. If the increase were limited to the MTA district, it would require about 5.75 percent, or about three cents a gallon. This would not be a serious burden on low-income workers in the MTA district because 80 percent of them do not use cars. For those who do, the added cost would be about \$21 a year.

If the current climate of tax cuts means that such an increase is politically unacceptable, the existing gas tax could be augmented by dedicating the capital gains tax on major real estate transactions to transit. This tax raises about \$200 million a year, and insofar as it is a land-value increment tax, it is related to transit benefits.

Income, payroll and sales tax should not be increased to close the MTA's budget gap, because they are unrelated to transit and because New York State is already overtaxed, compared to other states, in all of these categories. In fact, motor fuel taxes are the only major State taxes that are below the national average; New York State ranks 38th in revenue per gallon sold.

#### WHY SHOULD THE MOTORIST SUBSIDIZE TRANSIT?

Unlike such other areas of public spending as education and safety, transportation is not an end in itself, and there is no benefit to be derived from encouraging people to travel more. In principle, therefore, transportation as a whole should not be subsidized. But there are numerous reasons why cross-subsidies make sense within the transportation sector:

Motorists are **direct beneficiaries** of public transit. As the transit strikes of 1966 and 1980 illustrated, auto traffic would be totally unmanageable without it. To replace just the Long Island Rail Road service into Manhattan would require 26 new lanes across the East River, 600 lane-miles of freeway in Queens and Nassau County and about 18 city blocks of 60-story parking garages in Manhattan.

—Subways and commuter railroads have large fixed costs that must be paid no matter how many riders there are, so the **marginal cost** of each extra passenger is only about half the average cost. But the marginal cost of each extra automobile on a congested highway, especially at rush hour, is much higher than the average cost. Consequently, cross-subsidies from motorists to subway and rail passengers would improve efficiency.

—If taxes on motorists are high enough, auto travel will decrease and some of it will shift to public transit. A 10 percent increase in gasoline prices, for example, tends to reduce auto travel by about one percent, increase subway travel by 0.15 percent, and increase

commuter rail travel by 0.5 percent. Tolls and parking fees are more potent: a \$1 toll or parking fee on a typical Manhattan-bound trip amounts to about 10¢ a mile, while a 10 percent increase in the price of gasoline amounts to less than a penny a mile and is not targeted to specific trips.

—Motorists in the suburban counties and throughout the State benefit from New York City's high density, which is supported by public transit. If New York City's population were settled at suburban densities, it would require two million more automobiles, with all the attendant infrastructure.

Taxes on motorists are **much less regressive** in the New York metropolitan area than elsewhere because fewer low- and middle-income households own automobiles. Gas taxes are relatively proportional to income here, while **ad valorem** taxes on automobiles fall more heavily on the well-to-do.

—Taxes on motorists tend to reduce the competitive advantage of auto-oriented locations, encouraging compact and transit-oriented settlement patterns, which are more efficient.

—Since New York State is dependent on petroleum imports, taxing gasoline consumption makes sense from a balance-of-payments perspective.

Even the broader public benefits of public transit—improved safety, a cleaner environment, conservation of land and energy, and greater mobility for people without cars—would not be needed if the alternative to public transit were, say, walking instead of driving. This suggests that these benefits are actually reductions in the external or social costs of the automobile. Asking the public to pay for them is like asking the public to pay for toxic waste cleanups: the public certainly benefits, but toxic wastes are produced by the chemical industry, and the law correctly requires that industry pay for cleanups. In the same sense, motorists should pay for the social costs caused by the automobile. At present, only 15 percent of the MTA's subsidy comes from the motorist.

#### CONCLUSIONS

The New York State Legislature will have to act quickly either to extend the Corporate Franchise Tax surcharge or to replace it with another source of revenue for the MTA. Regional Plan urges the Legislature to let the surcharge expire and to replace it with motorist-based revenues. The easiest way to do that would be to increase the Petroleum Gross Receipts Tax and dedicate the revenues from the entire tax to public transit.

If you would like to register your own views on this subject, contact your State Senator or Assemblyman. The Legislature is likely to make a decision late in 1984 or early in 1985.