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New Restrictions on Itemized Deductions for New York Income Tax Purposes

On April 7, 2009, New York State Governor Paterson signed into law the Fiscal Year 2009-2010 Revenue Bill (the “2009 Bill”). The 2009 Bill generally increases the income tax rate for wealthy individuals, makes certain modifications to the Empire Zone program, increases certain excise taxes and increases the interest rate on late tax payments.

Perhaps the most surprising change made under the 2009 Revenue Bill has to do with the ability of individuals to claim itemized deductions for purposes of computing their New York State personal income taxes.

Background on New York Itemized Deductions

Under prior law, New York State residents who claimed itemized deductions on their federal income tax returns were allowed to elect to itemize deductions for New York State income tax purposes or claim the standard deduction. The starting point for itemized deductions for New York State income tax purposes is the taxpayer’s itemized deductions for federal income tax purposes. Certain modifications are then required. The most notable modification is the requirement that New York State and local income taxes are to be subtracted from the amount of itemized deductions for federal purposes.

Higher income New York taxpayers were only allowed to claim a percentage of their federal itemized deductions (as modified). Specifically, married individuals filing jointly had to reduce their otherwise allowable itemized deductions by the following amounts:

- (1) 25% of a fraction, the numerator of which is the lesser of \$50,000 or the excess of New York adjusted gross income over \$200,000 and the denominator of which is \$50,000; and
- (2) 25% of a fraction, the numerator of which is the lesser of \$50,000 or the excess of New York adjusted gross income over \$475,000 and the denominator of which is \$50,000.

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In other words, at a New York adjusted gross income level of \$525,000, a married New York couple would lose 50% of their itemized deductions.

2009 Bill

The 2009 Bill adds a further reduction to the itemized deductions higher income taxpayers may claim for New York State income tax purposes. Under the new law, individuals with New York State adjusted gross incomes over \$1 million may not claim *any* itemized deductions except for 50% of their charitable deductions claimed for federal income tax purposes.

The new law applies for taxable years beginning after 2008 and has the potential to significantly increase a taxpayer's New York State income taxes. The new law may also require taxpayers to adjust their estimated New York State tax payments beginning in 2009. ■

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