NEW YORKERS FOR FISCAL FAIRNESS

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Governor Needs to Look at Balanced Approach to State's Fiscal Woes

New Yorkers for Fiscal Fairness is disappointed that the Governor, in his address to New Yorkers, believes that cutting state services and state jobs is his answer to the state's fiscal woes. We fail to see how the Governor thinks that a Property Tax Cap will help the state's fiscal problems and solve the looming deficit.

Large deficits are not new to New York State. In 2003, the state faced an $11.5 billion deficit and took a balanced approach to closing the gap. The Legislature enacted some cuts to services but also enacted a temporary, 3 year income tax surcharge on upper income wage earners. Governor Pataki vetoed the measure and predicted that millionaires would leave the state and it would hurt the economy. The Legislature overrode the Governors veto and quite the opposite proved to be true. In fact, people with incomes over $200,000 per year saw their incomes increase 105% between 2003-2008(during which time they were paying more in taxes) and the number of high income filers (those with incomes over $200,000) also grew at a fast pace.

On Monday, the Governor met with Joseph Stiglitz, Nobel Prize winning economist, to get a better understanding of what fiscal policies and procedures the state should put in place to deal with deficits and the slowing economy. It would seem the Governor did not listen to Mr. Stiglitz. Mr. Stiglitz, in a letter to the Governor from June 2008, pointed out that high end temporary income tax surcharges would have the least harmful impact on the economy, while cuts in services or state jobs would take dollar for dollar out of the local economy (See attached letter from Stiglitz).

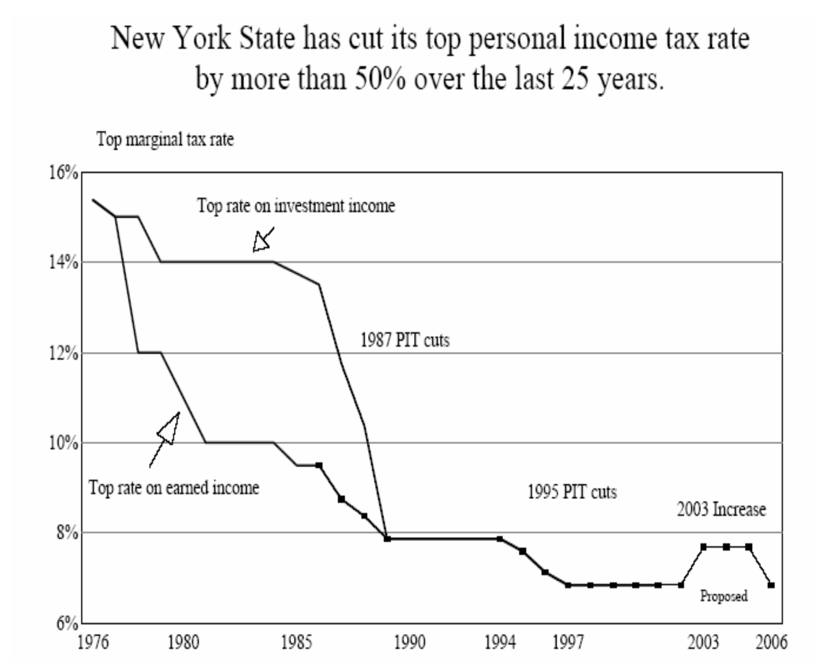
The Governor needs to look at balanced approached to solving the state's fiscal problems. First, he should rethink the huge subsidies the state is providing to projects like AMD, Albany NanoTech, IBM, BeechNut, and countless other businesses around the state. Is it worth paying AMD $1.2 billion for the creation of 1200 jobs when the governor is talking about laying off thousands of state workers? He should also be looking at ending such failed programs as Empire Zones, Industrial Development Agencies, and the Brownfield Clean Up programs which cost the state billions and have very questionable results.

The Governor should also take this as an opportunity to help average working New Yorkers who always seem to get pinched with budget cuts while the wealthiest New Yorkers continue to pay less than their fair share. The tax cuts enacted at the tail end of the Cuomo administration and the start of the Pataki Administration, now fully phased in, have resulted in NYS collecting $16 billion less in revenue on an annualized basis than it would have had we not enacted these tax cuts. New York State has also reneged on its revenue sharing commitments with municipalities across the state, providing them with far less funding that they should receive under NYS Law.

If we want to help lower and middle class families make ends meet in NYS we cannot ignore the disparities in our tax system any longer. Low and middle-income families in New York pay a far higher share of their income in state and local taxes than the richest New Yorkers. The richest 1% - those with an average income of $1.6 million – pay only 9.1% of their income in state and local taxes; after the federal offset, the effective tax rate is only 6.5%. The tax rate on families in the middle-of-the-income distribution ($27,000 and $44,000) is 11.9%; 11.6% after the federal offset. The poorest New Yorkers – those below $15,000 – pay at the highest tax rate, 12.6%.

Since the state began reducing the top marginal rate on the personal income tax (PIT), tax regressivity has actually increased. Approximately 40% of the PIT cuts went to the top 5% of New York wage earners. While the introduction of a state earned income tax credit has helped, much of that benefit has been eaten up by increased sales and property taxes.

Overall, state and local taxes average 12.0% of income (2nd highest nationally), compared to a national average of 10.10% (Maine is highest at 13.0% ((Source: Tax Foundation)). New York has particularly high property taxes, which negatively impact low and middle income families, since they spend a high percentage of their income on housing. However, in recent decades New York has primarily cut the personal income tax instead, which mainly benefits higher income households.



New York has substantially reduced its top personal income tax rates over the last two and a half decades. New York State's top personal income tax rate was 15.375% in the early and mid-1970s. At that time, New York had the 3rd highest income tax rate of all the states with income taxes. The current rate of 6.85% places New York about 14th among the 42 states with personal income taxes.

It is also important to realize that the states with which New York has the most direct economic competition, Connecticut and New Jersey, have moved in the opposite direction. New Jersey's top rate is now 8.97%, more than three and a half times higher than its mid-1970s rate and, since 1991, Connecticut has had a broad-based personal income tax, the top rate of which was increased from 4.5% to 5% in 2003.

NYS should focus on shifting the burden from the property tax (regressive) to the income tax (progressive). This can be done by increasing the top marginal rates on the wealthiest wage earners. The state's PIT top tax rate of 6.85% is paid by single individuals earning over $20,000 per year and for families earning over $40,000 per year. It is unfair that a family making $45,000 pays the same top tax rate as a family making $4.5 million.

This chart indicates how we might look at changing the top marginal rates of the PIT for incomes over $200,000, over $500,000 and so on. If we were to increase the top marginal rates as suggested in line one of the chart we could raise some $4.3 billion in revenue. This alone would help close the budget deficit we are currently facing in NYS.

Hypothetical Graduated Rate Options

$200,000 to $500.000	$500,000 to $1 million	$1 million to $5 million	$5 million to $10 million	Over $10 million	Estimated Annual Revenue
1.00%	2.00%	3.00%	3.00%	3.00%	$4.3 Billion
1.50%	2.50%	3.50%	3.50%	3.50%	$5.2 Billion
1.00%	2.50%	4.00%	4.00%	4.00%	$5.5 Billion
1.00%	2.00%	3.00%	4.00%	5.00%	$5.1 Billion
1.50%	2.50%	3.50%	4.50%	5.50%	$6 Billion

This approach should be phased in over a period of time and could gradually reduce the pressure on the property tax as the state should use this revenue stream to support such policies as revenue sharing, gradual State takeover of Medicaid, and picking up a larger percentage of overall education aid.

A STAR Rebate check for a few hundred dollars is little comfort to a middle-income family with a property tax bill over $8,000. Furthermore a tax cap will do nothing to help families that are struggling to pay their bills now in New York. We fail to see how the governor thinks a tax cap will help families in the short term deal with their own fiscal problems. We should instead be linking property tax relief to income in a more targeted fashion. One proposal that is currently gaining support is for a Property Tax Circuit Breaker.

It is important to acknowledge that the Middle Class STAR rebate program is better targeted than the original STAR exemption program in that in takes income into consideration. Yet it is still not adequately targeted to be an effective and efficient property tax relief mechanism since it does not take the size of a homeowner's property tax bill into consideration and it is still based on county and school district average of important variables.

A circuit breaker like the one proposed by Assemblywoman Sandra Galef and Senator Elizabeth Little (A.1575/S.1053) would address these shortcomings. A.1575/S.1053 applies to homeowners who have lived in their current homes for at least 5 years and who have incomes of below $200,000. The credit under this proposal is 70% of the amount by which a household's property taxes on its primary, owner-occupied residence exceeds 6% of their income if their income is below $100,000; 7% of their income if their income is between $100,000 and $150,000; or 8% of their income if their income is between $150,000 and $200,000.

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