FISCAL REALITY

Practical options for New York’s budget

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th the slow recovery from the Great Recession of 2008-2009, New York State’s budget problems continue. Despite a slow improvement, the state’s overall fiscal situation remains precarious.

The recession was clearly the result of Wall Street’s excesses, yet conservatives have succeeded in deflecting the focus of public animosity to government. Republicans rode the tsunami wave of economic anxiety and insecurity to victory at the polls, even though they lack any realistic strategy to boost the recovery and reduce unemployment. Now they claim a mandate to reduce government, at all levels, at all cost. Cutting government will exacerbate unemploy-ment and retard the recovery — but for Republican leaders that doesn’t matter. They would rather have a government that does not exist than a government that works.

In an April 2010 report (available at www.fiscalpolicy.org), the Fiscal Policy Institute (FPI) advanced several proposals for how Wall Street could help the state’s finances recovers from the financial-sector-induced Great Recession. Options include a temporary windfall profits tax, a bonus recapture tax, updating the taxation of financial firms (especially hedge funds), and a reduction in the stock transfer tax rebate.

New York’s corporate community benefits from several corporate tax loopholes and from excessively generous business tax breaks, also known as "tax expenditures," that were enacted with the hope of promoting economic and job growth. FPI recently estimated that the state’s "spend" $5 billion annually on a wide variety of business tax expenditures that lack accountability, transparency and effectiveness. Such programs should be closely examined for possible savings.

The job of closing New York’s growing budget gap over the last two years has been aided considerably by a temporary increase in personal income tax on high income earners. However, the temporary income tax increase is due to expire at the end of 2011. The surcharge — which raised the state’s top tax rate for married couples from 6.86% to 7.85% for income above $300,000, and from 8.97% above $500,000 — generates $4-5 billion a year. It should be extended at least until state tax revenue recovers from the recession.

Most of this surcharge is paid by the richest 1% of taxpayers, who have annual incomes of over $650,000. A recent FPI report documented that the top one percent increased their share of total income in New York from 10% in 1988 to 35% in 2007, a level of inequality far above the national average. Not surpris-ingly, New York has the most polarized income of all states. New York City is the most polarized among the largest 25 cities. (For more details, see www.fiscalpolicy.org.)

The real issue with New York’s tax burden is its regressivity, not that its magnitude is constraining New York’s economic recovery. The state personal income tax is mildly regressive. Yet the highly regressive effects of the sales tax and local property tax mean that New York’s overall combined state-local fiscal tax burden is very regressive. Thus, low- and mid-income families pay a higher share of their incomes in state and local taxes than the wealthiest families do. Even with the temporary surcharge, the wealthiest 1% of New York’s taxpayers paid 8.4% of their income in state and local taxes while the middle in-

come quintile or one-fifth of taxpayers paid 11.6% in state and local taxes and the poor-est-fifth paid 14.1%.

To address this regressivity, and to deal with the growing concerns about burden-some local property taxes, New York State needs to reform its tax structure and re-vamp the fiscal relations between the state and local governments. Several steps are needed.

REAL TAX RELIEF

New York should significantly enhance the property tax circuit-breaker adminis-tered through the personal income tax to provide meaningful property tax relief to those households, including renters, truly burdened by high property tax relative to their incomes. The state should aid communities with low property wealth and proportionately high Medicaid usage by increasing the state share of Medicaid costs in a way that takes a locality’s "ability to pay" into account.

REVENUE SHARING

The state should also establish a reason-able schedule for phasing in the additional funding needed by high-need/low-wealth school districts under the 2007 settlement of the Campaign for Fiscal Equity lawsuit; and it should restore the state’s commitment to revenue-sharing with municipalities with significant service needs relative to their revenue generated. Medicaid revenue sharing and revenue sharing steps will lessen pressure on the property tax in those communities that have limited property tax bases relative to their service responsibilities.

The STAR program, which currently pro-vides property tax relief to homeowners but which does so in a very ineffective manner, should be reduced to help fund the expanded circuit-breaker and provide Medicaid relief to poorer communities.

New York State should make its personal income tax structure more progressive through higher rates at the top. Before the enactment of the 2009-2011 tax surcharge, New York families with $50,000 in taxable income paid the same marginal tax rate as families with $500,000 in income.

Wall Street should contribute to address-ing the state’s financial problems that were exacerbated by the finance-induced recession — for example through a windfall profits or bonus recapture tax, or by taxing the hedge fund profits of non-residents.

LOOPHOLES

Finally, the state should seek to close cor-porate tax loopholes and excessive growth in the credit on business tax expenditures. A balanced approach to balancing the state budget includes identifying additional revenues, and not relying on cutting critical services, and that means thinking beyond a list of budget cuts.

Time to consider these practical options.

This is a corrected version of the article in the print edition.

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