

Taxes in New York State: Restoring Fairness and Equity to the Personal Income Tax to Reverse Decades of Reliance on the Property Tax – Short and Long Term Solutions

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The recently created Property Tax Commission is supposed to examine the root causes of high property taxes in NYS. It is undeniable that property taxes have been increasing dramatically over the last two decades. We must acknowledge however, that property tax increases do not occur in a vacuum but rather have a direct relationship to many tax and non-tax variables.

The Pataki tax cuts of 1994, 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.

The State has also, over a period of time reduced the overall percentage it pays as a portion of education aid, leaving local tax payers to make up the difference.

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%.

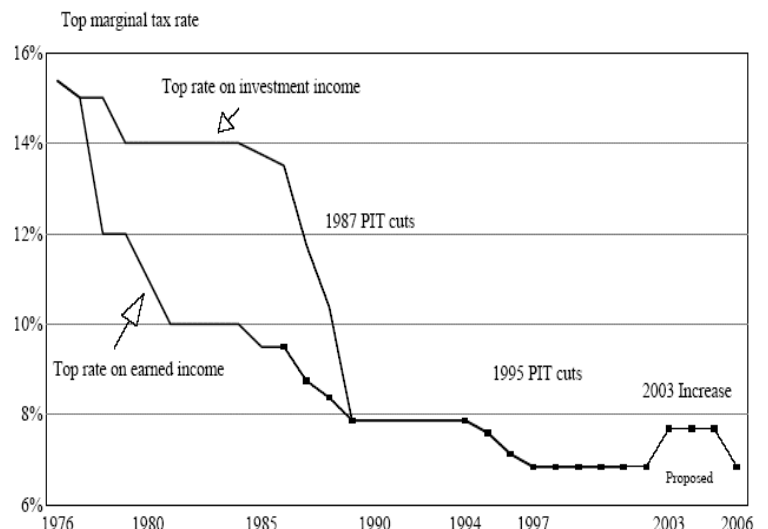
Since the state began reducing the top marginal rate on the personal income tax (PIT), tax regressivity has actually increased. Approximately 40% of the PIT cuts went to the top 5% of New York wage earners. While the introduction of a state earned income tax credit has helped, much of that benefit has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

New York State has cut its top personal income tax rate by more than 50% over the last 25 years.



In order to reverse the trends of the last two decades we must take both long and short changes to our tax system.

Long Term Solutions:

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 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 close the budget deficit we are currently facing in NYS.

Hypothetical Graduated Rate Options					
<u>\$200.000</u> <u>to</u> <u>\$500.000</u>	<u>\$500,000</u> <u>to \$1</u> <u>million</u>	<u>\$1 million</u> <u>to \$5</u> <u>million</u>	<u>\$5 million</u> <u>to \$10</u> <u>million</u>	<u>Over \$10</u> <u>million</u>	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 will gradually reduce the property tax burden as the state should use this revenue stream to support such policies as revenue sharing, gradual takeover of Medicaid, and picking up a larger percentage of overall education aid.

Short Term Solutions: The Circuit Breaker

A STAR Rebate check for a few hundred dollars is little comfort to a middle-income family with a property tax bill over \$5,000. We should instead be linking property tax relief to income in a more targeted fashion. One proposal that is currently gaining support in the legislature 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 it 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.

The Fiscal Policy Institute estimated that in 2006 there about 2 million households that met the basic criteria (i.e., incomes of \$200,000 or less and 5 years at the same location), and that of those households, about seven hundred thousand would qualify for about \$1.6 billion of tax credits.