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Testimony of
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Before the

Senate Finance and Assembly Ways and Means Committees

Joint Public Hearing on
Taxes

February 10, 2014

Thank you for inviting me to testify today on the tax proposals in the 2014-15 Executive Budget and Financial Plan. My name is Frederick Floss and I am the Executive Director of the Fiscal Policy Institute.

This year's Executive Budget has proposed a number of complex changes to the New York State tax system which will have a major impact on the fairness and stability of the state's economy. After years of austerity budgets starting with the "Great Recession" in 2008 and continuing through at least 2018, the final year of this financial plan, there have been or are being proposed cuts in real terms from the expenditures side of the budget. For example Social Welfare programs, starting with the Governor's first year in office, will be cut by 12 percent through the last year of this financial plan. If these policies are enacted as proposed we will have **THE DECADE OF AUSTERITY**.

The governor's proposals are based on a number of misguided assumptions about New York and its governments.

First, the governor (or, the Executive Budget) assumes that government at all levels is too big, and concludes that future growth at both the state and local levels should be limited to two percent per year, which is forecasted to be below the rate of inflation

Second, the governor assumes that there are too many governments and that consolidating them would result in economic efficiencies.

Third, the governor assumes that continued cutting of taxes in all categories will stimulate economic growth. In FPI's New York State Economic and Fiscal Outlook 2014-2015, February 2014, we examine the data behind these assumptions and comment on how these assumptions lead to a budget proposal which will increase inequality without stimulating the economy as a whole.

- In his budget presentation, Governor Cuomo stated that, from 1962 to 2010, state spending grew at an average of 6.8 percent per year while total New York personal income rose by 6.2 percent per year (inflation averaged 4.1 percent per year over that period.) He emphasized that it is not sustainable for spending to grow faster than personal income and he implied that this pattern prevailed over the entirety of this 48-year period.

  But a closer look shows there were two very different periods of growth. From 1962 to 1972 taxes grew faster than personal income. For the last 39 years, however, personal income has grown at 6.1 percent while taxes grew at 5.7 percent, a difference of almost half a percentage points per year. State and local employment shows the same trend where up until 1973 employment grew as, Medicaid was implemented and SUNY expanded, but since then state and local employment as a percentage of total employment has dropped and is the same percentage as the rest of the United States.

- New York needs to pull out of austerity mode. A 2 percent spending limit ignores heightened need and restrains our recovery. At a time when, over the next four years, personal income is projected to grow by 5 percent per year, adjusted gross income by 5.3 percent, and tax collections are forecast to rise by 4.3 percent, there is little basis for 2 percent austerity state budgets, particularly when the New York State Division of the Budget is predicting inflation to be higher than 2 percent.[1]

- The budget relies on the number of 10,500 governments in New York State, but a closer look reveals there are: 1,607 General Local Governments, 1,811 Special Purpose Governments, and 1,302 Other Entities for a total of 4,720 non-paper governments. The budget estimate includes 5,780 additional special tax districts to get to the 10,500 number; these are nothing more than accounting entries that allow communities to tax certain areas of a town or county for services they receive, such as lighting. There is no government and there are no employees so no potential savings would result from these consolidations.

  There is good reason to believe that efficiencies can be found without consolidation of local governments. To a large extent it is the contraction of state spending which has put these governments into financial stress. Ironically, this lower level of resources may mean more inefficiency, since it strips local governments of resources that could be used for better planning.

- Boyd and Rubin in New York State Business Tax Credits: Analysis and Evaluation, November 2013, emphasize that despite the sharp rise in the cost of New York's business tax credits, "there is no conclusive evidence from research studies conducted since the mid-1950s to show that business tax incentives have an impact on net economic gains to the states above and beyond the level that would have been attained absent the incentives." Further, Corporate taxes as a share of total taxes has consistently dropped over the last 30 years with little or no improvement in economic growth.

[1] FY 2015 NYS Executive Budget Financial Plan, Multi-Year Plan Projects, pp. 55-112.

Public policy analysts evaluate a tax system, like New York State's on the following properties: fairness, neutrality, adequacy and stability, simplicity, transparency and competitiveness.[2]

- A progressive tax system is considered to be fair based on the concept of "ability to pay", or those with a higher income should pay a higher percentage of their incomes in taxes. New York's tax system when looked at in total is regressive. It is composed of a progressive income tax and regressive property and sales taxes. As the analysis from ITEP shows, those in the top 1 percent pay a substantially lower rate than those the middle class.[3]

- A neutral tax minimizes distortions to economic decisions by New York's producers and consumers. This will occur when "economic rents - profits above the market rate" - are taxed away, a non-price distorting tax is used, or taxes on negative externalities (like pollution) are applied.

  In particular estate taxes are considered a neutral tax which correct an imperfect tax system by taxing individuals who get around other yearly provisions of the tax law- thereby not paying their fair share of taxes on a yearly basis.

- New York's tax system if not designed to meet the basic needs of its citizens or is not adequate over time, will not be stable. Fiscal policy is a balance of both expenditures and revenue. A study by the Pew Center on the States, Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth, notes that New York State "did not review all major tax incentives or use data to inform policy choices."[4] Without clearly looking at the costs and benefits, increasing cuts to the system will make the economy unstable over time.

- New York's tax system needs to be simple and transparent. This will make it easier and cheaper for individuals and business to comply with the tax system. It also makes it harder to avoid taxes.

- Competitiveness does not mean lowering taxes as low as possible, but sets the benefits of the services of government equal to the taxes paid. Just like any other good in a market system.

Not only the direction but the level of impact from a tax or expenditure change must be considered.

Many of the Executive Budget's arguments are made on theoretical basis, with little information on the size of the change contemplated. In this year's budget a circuit breaker is proposed, which when evaluated gives small amounts of relief to many individuals and is likely to have a small

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[2] Musgrave, R.A. and P.B. Musgrave. Public Finance in Theory and Practice,4th edition. McGraw-Hill. 1984. Chapter 10. Sets out what is a good tax system.

[3] ITEP. Who Pays? A Distributional Analysis of the Tax System in All 50 States, 4th edition. January 2013.

[4] Pew Center for the States. Evidence Counts: Evaluation of State Tax Incentives for Jobs and Growth. April 2012.

impact on the economy. A more targeted proposal can be far more effective. Proposals such as (S3226/A5884 and S1002/A1941), have higher thresholds and pay a larger proportion of a needy homeowner's property taxes, this helps stem foreclosures, stabilizes poor local communities and have a greater impact. The same is true of corporate tax cuts. Tax cuts given to smaller companies, companies which only reside in New York, have all of their labor force in the state, and export their products outside of the state, have a much greater impact on the state's economy than multi-state firms that take the tax cuts as profits and ship the revenues from the cuts to other states.

Policymakers should look for a tax system that will encourage the creation and retention of jobs, and broadly shared prosperity. This is easier said than done. Just because a policymaker's heart is in the right place doesn't mean that the policies that he or she advances will work as intended. Just think of the legacy costs that New York was left with even after it moved to correct and then to end failed programs like the Job Incentive Board or the Empire Zones.[5]

Hopefully, we have learned from these experiences and will be careful before launching new programs that can incur significant obligations with little to show for it. We are on the verge of doing that right now unless we take a deep breath and rethink the Start-up New York program before proposal are accepted.[6] The same goes for the minimum wage reimbursement credit that was enacted as part of the 2013-14 budget agreement and which is scheduled to take effect in January 2014.[7]

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[5] The Urban Job Incentive Board Program (JIB) was created in 1968 and terminated in 1983. The Empire Zones program was created as the Economic Development Zones (EDZ) program in 1986. In 2000, the program was greatly enriched and renamed as the Empire Zones program. Both the Urban Job Incentive Program (which became the Job Incentive Program) and the Economic Development Zones (which became the Empire Zones) started out as geographically targeted programs. But as the benefits became richer there emerged both (1) unstoppable pressure to expand the geographic coverage of these programs and (2) the application of great amounts of creativity on the part of many businesses and their lawyers to figure out ways to get into those programs. In retrospect, it is shocking that the EDZ program was created in 1986 only three years after the JIB was closed to new entrants; and that a new tax-free zones program was created, in a rush, at the end of the regular session of the 2013 legislature only three years after the Empire Zones program was closed to new entrants.

[6] See Fiscal Policy Institute, *"Tax-Free NY" is now "Start-Up NY" – Still Bad Tax Policy, Still Bad Economic Development Policy*, July 9, 2013, http://fiscalpolicy.org/tax-free-ny-is-now-start-up-ny-still-bad-tax-policy-still-bad-economic-development-policy

[7] See Fiscal Policy Institute, *Wal-Mart and other large, low-wage employers will benefit financially from New York's new Minimum Wage Reimbursement Credit*, April 5, 2013, http://fiscalpolicy.org/walmart-and-other-large-low-wage-employers-will-benefit-financially-from-new-york%E2%80%99s-new-minimum-wage-reimbursement-credit, and Fiscal Policy Institute, *The Many Problems with New York's Proposed Minimum Wage Reimbursement Credit*, March 25, 2013, http://fiscalpolicy.org/the-many-problems-with-new-york%E2%80%99s-proposed-minimum-wage-reimbursement-credit

A Decade of Austerity has eaten away at the foundations of state and local budgets, making the economy more susceptible to economy downturns.

Since the 2008 recession and the subsequent drop in revenues, the state has significantly underinvested in its children, families or infrastructure. The federal government through its sequestration program has cut federal programs like SNAP at the same time the state is also making cuts, hitting the economy with a double whammy. This has created an atmosphere of stagnation as 70,000 state and local government employees have lost their positions, further pushing the economy into decline.

The governor is proposing an austerity budget for 2014-2015 along with a multi-year plan of steep spending cuts that will extend the austerity measures for three more years. Coming on the heels of six years of austerity budgets beginning in 2008, this will give New York an "Austerity Decade," despite moderate actual or projected state personal income growth over most of the years in that period.

On top of $1.7 billion in spending cuts for 2014-2015, the budget proposal calls for further cuts of $4.4 billion in 2015-16, $5.6 billion in 2016-17, and $7.1 billion in 2017-18. This includes an average of $2.7 billion in unspecified cuts in future years to justify multi-year tax cuts that grow to more than $2.5 billion annually. The budget plans are presented to show an apparent "surplus" in future years, a surplus called into being by severe budget cuts.

ANALYSIS OF 2014-2015 EXECUTIVE BUDGET TAX PROPOSALS

The governor proposes a number of important tax changes. To close the budget gap, the proposed 2014-2015 Executive Budget cuts spending by $2 billion while cutting taxes by $500 million.

• The October mid-year budget update pegged the 2014-2015 budget gap at $1.7 billion. By December 31, 2013, a shortfall in expected bank and insurance taxes was largely offset by settlement payments from two foreign-owned banks for violating international sanctions. The net effect of receipt and expenses changes by the end of December, however, left the gap amount basically unchanged.

• Part of the $1.7 billion gap for 2014-2015 results from the $410 million Family Tax Credit that was enacted last spring and is scheduled to be sent to taxpayers.

• To close the gap, and to fund about $150M in new initiatives, including a $100M increase for Pre-K, the proposed 2014-2015 Executive Budget cuts agency spending by $360M, and reduces local assistance by $1.6B, for a total of nearly $2B in new cuts in the coming budget year. New spending cuts exceed the sum of the gap and new initiatives by roughly $150M ($2B cuts -$1.7B gap + $150M new initiatives). This amount is added to a projected $310M surplus from the current 2013-2014 year (along with some smaller items) and results in a projected $486M surplus for 2014-2015.

• The Executive Budget takes the projected surplus of $486M, and proposes a set of new multi-year tax cuts. The 2014-2015 cost of these tax cuts is also $486M.

Personal Income Tax Changes

- **The property tax freeze provides the greatest relief to the richest districts that hold to the property tax cap, making an already regressive system worse.**

  The 2-year property tax "freeze" costs $1.8 billion over the next three fiscal years. It adds a perverse incentive to the pressure already created by the statewide 2 percent property tax cap enacted 3 years ago. This pressure already has forced drastic cuts in schools and other important public services partly because inflation is above 2 percent. Under the new proposal, a homeowner only gets an income tax credit in the first year for taxes levied by jurisdictions that stay within the 2 percent property tax cap. In the second year, local governments or school districts must continue to stay within the cap and must develop a plan for sharing or consolidating services to achieve savings for their taxpayers to receive "freeze" rebates from the state government.

  Because the property tax cap is instituted as a percentage limit on the growth of a locality's tax levy, the property tax increases possible under the cap are greater for wealthy school districts than for needy school districts. Thus, under the freeze proposal, benefits will be concentrated in wealthier districts. Poor and rural governments will receive less because they have greater needs, smaller tax bases and fewer opportunities for consolidation.

  Bob Lowry of the NYS Council of Schools Superintendants points out that the poorest 10 percent of school districts will receive $91 per pupil in credits to cover the freeze, while theses in richest 10 percent of districts will receive $794 per pupil.[8] The freeze will have similar impacts on the rest of local government, making the freeze a regressive shifting of funds from the state to localities and this at a time when general Aid and Incentives for Municipalities (AIM) funding has been flat for a number of years and has decreased by 80 percent since 1989 adjusted for inflation.

- **The "Circuit Breaker" credit proposed in the Executive Budget is not effectively targeted.**

  Despite its high price tag ($1 billion a year when fully implemented), the "Circuit Breaker" credit proposed as part of the Executive Budget will not provide meaningful relief to those long time residents who are faced with property tax bills that represent an inordinate portion of their income.

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[8] Robert Lowry Deputy Director New York State Council of School Superintendents.
Assessing the Governor's 2014-15 Executive Budget Proposals for Schools Campaign for Educational Equity. January 23, 2014

The design of the Executive Budget's Circuit Breaker allows many households that are not overburdened by property taxes to receive Circuit Breaker credits but many households that are truly overburdened will not receive a sufficiently large credit to ameliorate their situation. The Executive Budget proposal has this effect by simultaneously setting a low "affordability threshold" of 3, 4 and 5 percent, and a low credit share (20, 15 and 10 percent when fully implemented, and even lower during the proposal's first two years of operation). In addition, a low maximum credit of $500 in Year 1, $750 in Year 2, and $1,000 in Year 3.

The most widely supported legislative circuit breaker bills (S3266/A5884 and S1002/A1941) have credit percentages of 70 percent and higher affordability thresholds than those being proposed by the governor. For example, S3266/A5884, when fully phased in, would have affordability thresholds of 6, 7 and 8.5 percent compared to the Executive Budget proposal of 3, 4 and 5 percent. On a technical matter, S3266/A5384 uses a graduated rate structure to avoid cliff or notch effects but the Executive Budget proposal does not. For example, under the governor's proposal, a household with a property tax bill of $6,000 would receive a credit of $480 if its income is $119,999 but its credit would only be $180 if its income was $120,001, a mere two dollars more in income.

An analysis by FPI and the Institute on Taxation and Economic Policy (ITEP) of the governor's proposal shows that the share of the homeowner's credit going to the lowest 20 percent of the income scale was just 5 percent, the second 20 percent received 10 percent and the third 20 percent (or those making under $58,000) received 22 percent, or a total of 38 percent of the credits are going to the bottom 60 percent of homeowners. The top 40 percent on the income scale receives 62 percent of the benefits from the program, making what is meant to help those most in distress a regressive program with little going to help the poorest households.

- **An analysis of the "Renter's Credit" proposed in the Executive Budget shows the credit is even more poorly targeted.**

Rather than including renters in the proposed circuit breaker credit through the establishment of a "property tax equivalent" similar to the one included in New York State's decades-old low-income Circuit Breaker credit (see the New York State tax form IT-214 and the accompanying instructions), the Executive Budget proposes a stand-alone renter's credit. In Circuit Breaker statutes, the property tax equivalent for renters is usually established as a percentage of a household's rent.

While the Executive Budget calls its proposal a "Renter's Credit," the determination of a household's credit under this proposal would not take the amount of rent paid by the household into consideration in any way. An effectively targeted circuit breaker would look at the amount of rent paid compared to the household's income. By contrast, the proposal in the Executive Budget is to base the amount of a taxpayer's credit on his or her age, federal adjusted gross income and number of dependents for federal income tax purposes. Taxpayers younger than 65 are not eligible unless they have more than one dependent.

By using Federal Adjusted Gross Income as the measure of income for determining eligibility for this credit, rather than a broader definition of income as in the circuit breaker proposal, this Executive Budget leaves open the possibility that high income households with income that is not included in FAGI will benefit.

Victor Bach, Senior Housing Policy Analyst for the Community Service Society, in testimony prepared for the joint legislative budget hearings, characterized the renter's credit as "an arbitrary 'scattershot' approach to rent relief that is unrelated to household need—something nearly for everyone, like STAR, a squandering of scarce state resources on an unidentified problem."

Based on this and numerous other technical policy and technical shortcomings, Bach recommends a "circuit breaker" approach to rent relief which scales the benefit in proportion to need and that integrates rent relief into a comprehensive circuit breaker approach that includes homeowner relief. And we agree.

Business Tax Changes

- **The Executive Budget claims that "corporate tax reform" component of the governor's multi-year tax cut package will cost roughly $400M a year when fully phased in.**

  Even before this new round of business tax cuts is implemented, total state business tax collections have fallen dramatically as a share of total state taxes. Current tax forecasts, assuming the implementation of the proposed cuts, will reduce the business share of state taxes from 10 percent in 2013 to 8 percent in 2017, a level about half of the average that prevailed during most of the 1980s and through mid-1990s.

  Projected corporate and bank tax collections for 2014-2015 are forecast to decline by several hundred million dollars because of the "payback" of business tax credits that were deferred during the years 2010-2012 to provide the state with temporary budget relief.

- **Is it justifiable to further reduce New York's corporate income taxes?**

  The governor's Tax Reform and Fairness Commission, chaired by investment banker Peter Solomon and former Comptroller H. Carl McCall, closely examined the burgeoning array of New York's business tax incentives. An in-depth analysis prepared for the Commission by economists Don Boyd and Marilyn Rubin documented the explosion in credits from 33 in 2005 to 50 in 2013, with the annual cost of business tax credits rocketing from $600M in 2005 to nearly three times that, $1.7B, in 2013.

  Among other findings of the Boyd-Rubin report: Business tax credits adjusted for inflation were 9 times larger in 2013 than 20 years earlier in 1994; Benefits are highly concentrated among a small number of firms—only 1 percent of general corporation tax filers are credit users.

The study noted,“ Lower taxes for some businesses mean higher effective tax rates for the vast majority of taxpayers; despite the high and growing cost, New York’s tax credits are “rarely evaluated rigorously and independently against their goals;” Refundable credits accounted for 92 percent of all credits in 2013. Under a refundable tax credit, if the benefit exceeds the business’ tax liability, the state writes a check to the business for the difference. The state has been busy writing more and more such checks.

- Boyd and Rubin also emphasize that despite the sharp rise in the cost of New York’s business tax credits, “there is no conclusive evidence from research studies conducted since the mid-1950s to show that business tax incentives have an impact on net economic gains to the states above and beyond the level that would have been attained absent the incentives.” It is no surprise that the Solomon-McCall Tax Reform and Fairness Commission recommended that New York curtail the use of business tax credits.

- **Bank tax reform provides an unnecessary windfall to the largest banks based in New York**

  The rationale behind repealing the bank tax is that financial de-regulation has eliminated most distinctions between commercial bank and investment banks, and entities historically subject to the bank tax are at a disadvantage since New York adopted single sales factor apportionment (SSF) as the formula for apportioning business profits for state tax purposes. Banks are currently subject to a 3-factor apportionment basis that includes payroll, deposits and receipts. If the bank tax is repealed and banks then file under the Corporate Franchise Tax, they would be able to use SSF (receipts only) to apportion net income to New York for tax purposes. In effect, extending SSF to banks that have a large presence and payroll in New York allows them the potential to reduce substantially their tax liability.

  The Budget Division has not indicated how much of the projected tax loss resulting from corporate tax reform is due to the repeal of the bank tax versus reducing the corporate tax rate from 7.1 to 6.5 percent. It could be that the tax loss associated with bank tax repeal is much greater than the net future-year tax $364M loss because other corporate taxpayers might end up paying more as a result of other changes in the corporate franchise tax.

  A provision of the tax reform legislation submitted by the governor allows financial institutions to use a “fixed percentage method” in lieu of identifying the address of all their customers under a traditional SSF approach. The legislation specifies the “fixed percentage method” number as 8 percent, apparently determined by New York’s share of GDP. However, given the fact that New York has such a concentration of financial activities and that many transactions are between financial institutions, 8 percent seems like a low figure to use as a proxy for the share of financial business transacted in New York. A more appropriate proxy might be New York State’s share of the total securities business nationally—in 2011, that was 39 percent.

- **Ernst and Young has done a significantly flawed analysis of the business tax changes for the Business Council an advocacy group representing business interests.**[9]

  The primary reason for the analysis showing gains from cutting more than $2 billion in business taxes is they do not use a balanced budget approach. In other words they are assuming New York received a gift of over $2 billion and it will have no cost. This would be true if a corporation was coming into the state and brings all of the financing from outside of New York. But this is not the case; these cuts will come out of already existing programs which have their own multipliers and impacts. The net impact is highly overstated and in some scenarios may even be negative.

  The model also assumes there will be no leakage, that all money will stay within New York and that companies will not take profits elsewhere. Given many of those receiving these credits will be multi-state entities, these are dubious assumptions.

  The Boyd Rubin study cited above directly calls these results into question and makes clear that past state tax policy changes do not bear out Ernst and Young report's results.

Proposed estate tax reductions will cost $800M or more when phased in.

- There are three main elements in the estate tax proposal: raising the exemption from estate taxation from the current $1 million to $5.25M, the current federal exemption level; reducing the top rate in stages from 16 to 10 percent; and requiring the value of gifts to be added back to the estate tax (New York State eliminated its gift tax years ago).

- The estate tax has been generating $800M to $1.2B a year in revenue for New York so a proposal that rises in costs to $612M in 2017-18 and $757M in 2018-19 will seriously erode the estate tax as a significant revenue source for the state. Because of increasing income concentration at the top, in the absence of the proposed reductions in the estate tax, the estate tax would be the fastest growing source of tax revenue for New York State. Before the tax cuts, the estate tax is estimated to double between 2013 and 2019, to $2 billion. The tax cuts will reduce that amount by roughly 40 percent.

  Because the estate exemption is being raised, all estates paying taxes will pay less. The reduction in the top tax rate from 16 to 10 percent will be heavily concentrated among a relatively small number (150-200) of very large estates (greater than $10 million.) These large estates likely will see an average tax reduction of $1.5 million or more.

  While the Executive Budget states that "the state's current estate tax policy encourages elderly New Yorkers to leave …," in a report prepared for the Solomon-McCall Tax Commission, the state's own tax policy experts concluded: "Migration studies regarding the impact of taxes such as the estate tax have shown that taxes generally are not a major factor in the decision of where to live or retire. … These papers generally show that taxes have very little impact on cross-state migration and estate tax revenues."

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[9] Ernst and Young. Analysis of economic impacts of New York corporate income tax reform: Prepared for the Public Policy Institute of the Business Council of New York State. January 2014

> Federal tax data clearly indicate the number of millionaires and the total incomes of millionaires are rising much faster in New York than in the U.S. overall. Thus, it appears that New York's estate and personal income tax policies are not having a negative effect on the number of millionaires living in New York or on their incomes.

Policy recommendation on the executive budget's tax proposals

FPI suggests several budget, tax and economic policy ideas that New York's leaders should consider to address heightened economic insecurity and growing income polarization among New York State residents. Four more years of budget austerity will only serve to further exacerbate economic insecurities. As a start toward reversing these trends, FPI proposes:

- accelerate the increase in the minimum wage while including tipped and other excluded workers;
- repeal the minimum wage reimbursement tax credit, which gives employers rebates for hiring minimum wage workers which they would already hire;
- establish a paid family leave insurance system (like California and New Jersey),
- raising the state's Earned Income Tax Credit;
- establish a progressive circuit breaker proposal for homeowners and renters which relieve financial stress for those in need, like (S3226/A5884 and S1002/A1941);
- fully fund the Campaign for Fiscal Equity court decision, so that schools around the state will have the resources to invest in children;
- increase funding for Aid and Incentives for Municipalities (AIM), to allow localities to invest in their communities and residents and lower their property taxes;
- raise the maximum award for students in institutions of higher education under the State's Tuition Assistance Program;
- raise the wages of low-wage workers in non-profit social and health service agencies working under state contracts.

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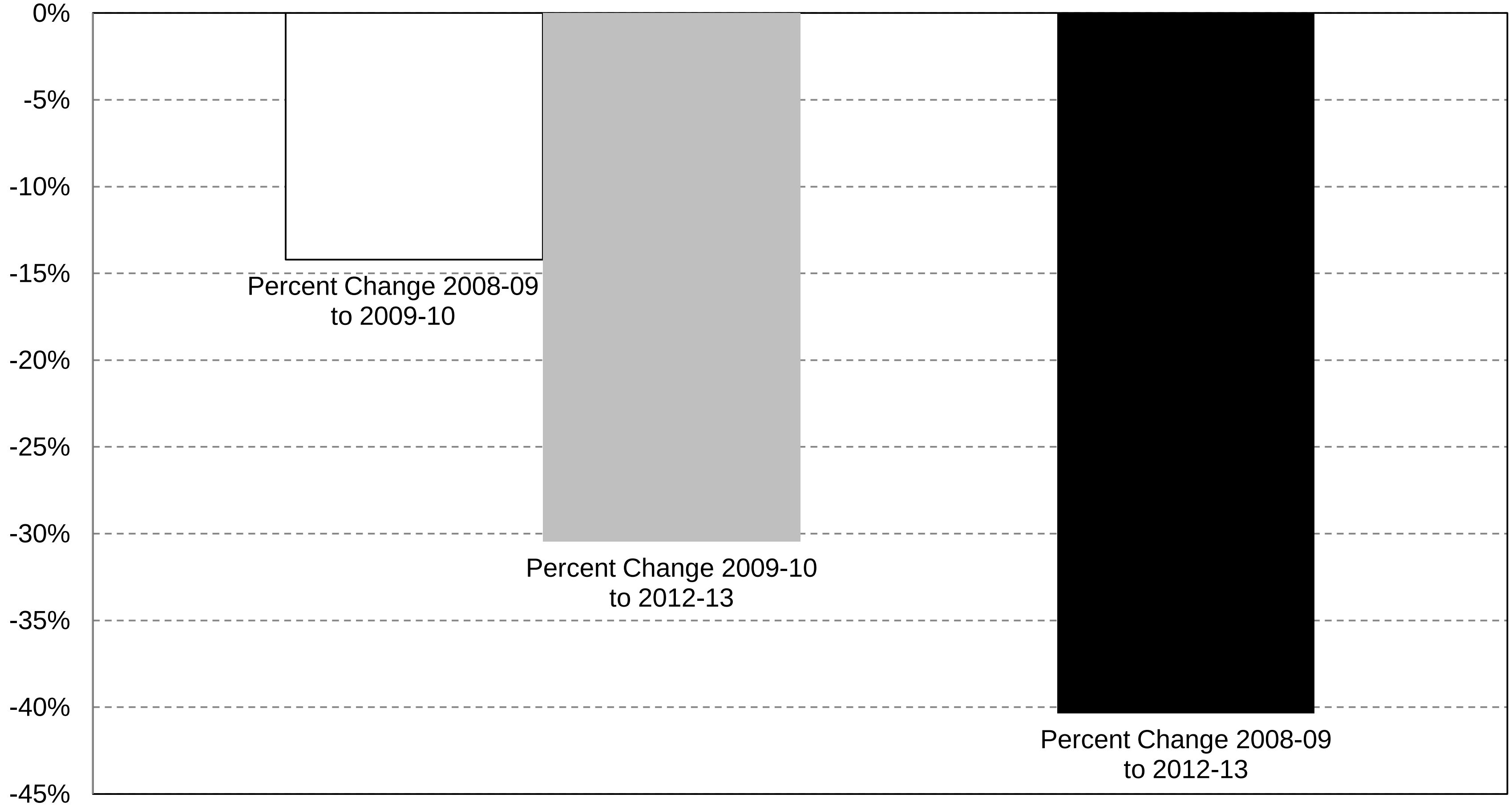
The Fiscal Policy Institute (www.fiscalpolicy.org) is an independent, nonpartisan, nonprofit research and education organization committed to improving public policies and private practices to better the economic and social conditions of all New Yorkers.

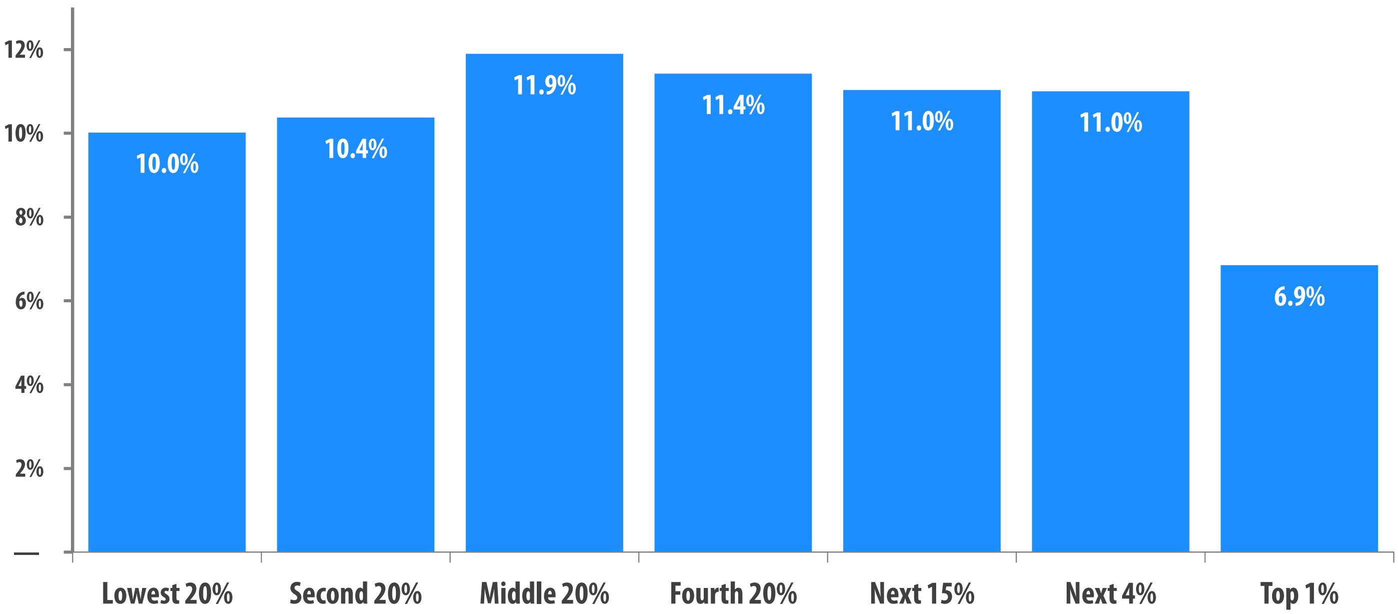
In real terms, state aid to SUNY decreased over 40 percent from the start of the Great Recession through 2012-2013. Moreover, on average, state aid has decreased each year more than 12 percent since 2008-2009.

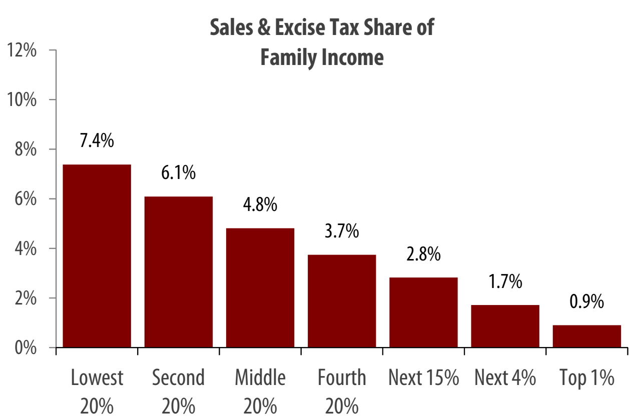


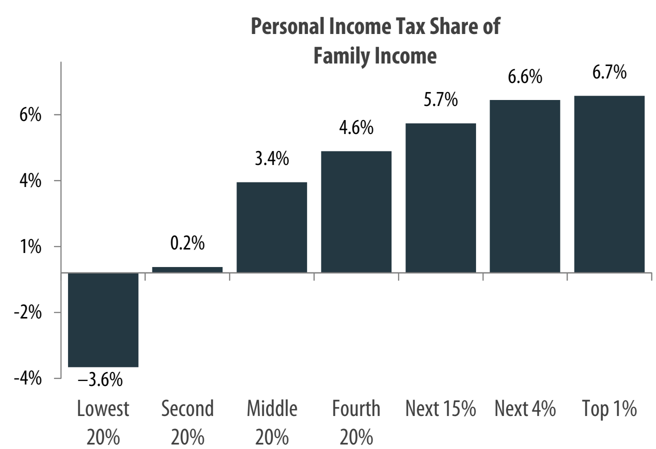
Note: In 2013 dollars.
Source: State University of New York and New York State United Teachers.

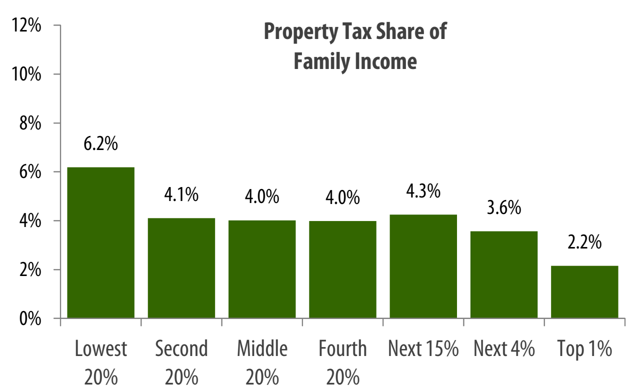
New York State & Local Taxes

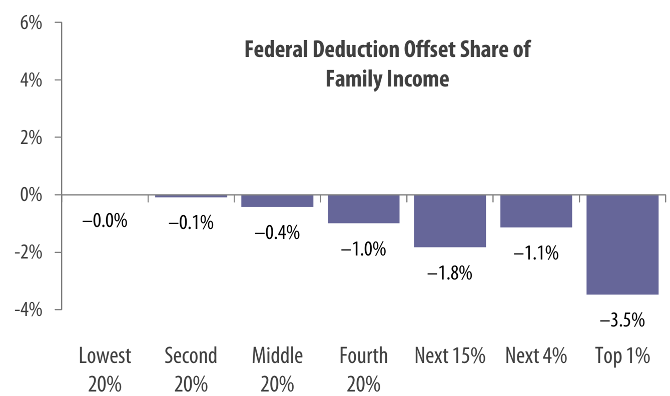
Shares of family income for non-elderly taxpayers











Note: Figures show permanent law in New York enacted through January 2, 2013 at 2010 income levels. Temporary changes to the personal income tax in place through 2014 are not reflected in this data. Local income taxes are included in totals. Top figure represents total state and local taxes as a share of income, post-federal offset.

New York State & Local Taxes

Details, Tax Code Features, & Recent Developments

Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than $17,000	$17,000 – $34,000	$34,000 – $56,000	$56,000 – $95,000	$95,000 – $201,000	$201,000 – $547,000	$547,000 or more
Average Income in Group	$10,000	$25,400	$44,700	$73,300	$130,800	$311,900	$2,235,300
Sales & Excise Taxes	**7.4%**	**6.1%**	**4.8%**	**3.7%**	**2.8%**	**1.7%**	**0.9%**
General Sales—Individuals	3.7%	3.4%	2.8%	2.3%	1.8%	1.1%	0.6%
Other Sales & Excise—Ind.	1.5%	0.9%	0.6%	0.4%	0.3%	0.1%	0.0%
Sales & Excise on Business	2.2%	1.8%	1.4%	1.0%	0.7%	0.4%	0.3%
Property Taxes	**6.2%**	**4.1%**	**4.0%**	**4.0%**	**4.3%**	**3.6%**	**2.2%**
Property Taxes on Families	5.6%	3.6%	3.5%	3.5%	3.7%	2.8%	0.8%
Other Property Taxes	0.5%	0.5%	0.5%	0.5%	0.5%	0.8%	1.3%
Income Taxes	**-3.5%**	**0.3%**	**3.5%**	**4.7%**	**5.8%**	**6.9%**	**7.3%**
Personal Income Tax (State and Local)	–3.6%	0.2%	3.4%	4.6%	5.7%	6.6%	6.7%
Corporate Income Tax	0.0%	0.0%	0.1%	0.1%	0.1%	0.3%	0.6%
Total Taxes	**10.0%**	**10.5%**	**12.3%**	**12.4%**	**12.9%**	**12.1%**	**10.3%**
Federal Deduction Offset	0.0%	-0.1%	-0.4%	-1.0%	-1.8%	-1.1%	-3.5%
OVERALL TOTAL	**10.0%**	**10.4%**	**11.9%**	**11.4%**	**11.0%**	**11.0%**	**6.9%**

Note: Table shows detailed breakout of data on previous page.

Progressive Features

✓ Income tax uses a graduated rate structure

✓ Provides a refundable earned income tax credit (EITC)

✓Provides a child tax credit

Regressive Features

✘ Comparatively high combined state and local sales tax rates

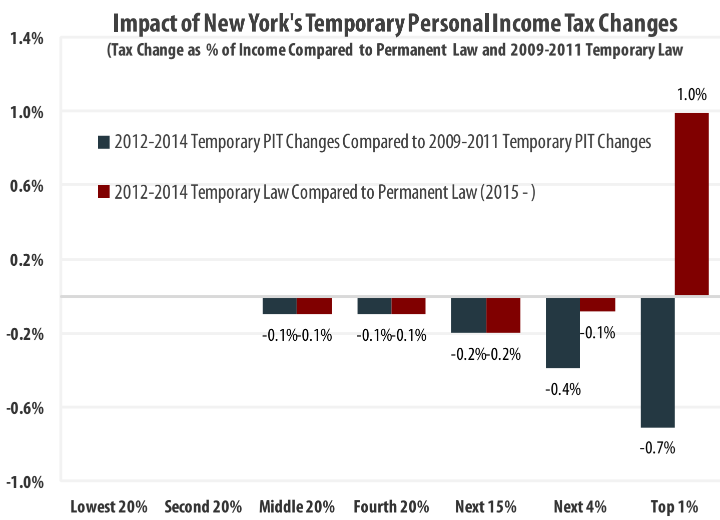
Recent Developments

▲ Added new top income tax brackets on a temporary basis for 2009-2011 and 2012-2014

▲ Income tax brackets adjusted for inflation for 2013 and 2014

▲ Limited charitable contribution deductions for upper-income taxpayers on a temporary basis

▲ Growth in real property tax levies capped at lesser of 2 percent or rate of inflation



New York State Personal Income Tax Rate Details
(For Married Couples Filing Joint Returns)

Taxable Income Range			2006-2008 & 2015- Law (Permanent)	2009-2011 Law	2012-2014 Law *
Up to		$16,000	4.00%	4.00%	4.00%
$16,000	to	$22,000	4.50%	4.50%	4.50%
$22,000	to	$26,000	5.25%	5.25%	5.25%
$26,000	to	$40,000	5.90%	5.90%	5.90%
$40,000	to	$150,000	6.85%	6.85%	6.45%
$150,000	to	$300,000	6.85%	6.85%	6.65%
$300,000	to	$500,000	6.85%	7.85%	6.85%
$500,000	to	$2,000,000	6.85%	8.97%	6.85%
$2,000,000	and above		6.85%	8.97%	8.82%

* In 2013 and 2014, these brackets will be adjusted based on changes in the Consumer Price Index

The tax freeze is ill-conceived and will send more money to wealthier localities, the circuit breaker and the renter's credit are ineffectively targeted, the bank tax repeal is a windfall for large banks, and New York simply can't afford costly estate tax cuts.

(in millions)

	2014-15	2015-16	2016-17	2017-18	Cumulative
Personal Income Tax	**$ (325)**	**$ (735)**	**$ (1,248)**	**$ (1,658)**	**$ (3,966)**
Close the Resident Trust Loophole	75	225	150	150	600
Establish the Real Property Tax Freeze Personal Income Tax Credit	(400)	(976)	(475)	-	(1,851)
Establish the Residential Real Property Personal Income Tax Credit	-	(200)	(525)	(1,000)	(1,725)
Establish a Renter's Personal Income Tax Credit	-	(200)	(400)	(400)	(1,000)
Other	-	416	2	(408)	10
Business Taxes	**$ 67**	**$ (118)**	**$ (271)**	**$ (267)**	**$ (589)**
Streamline Corporate Audit Procedures (Administrative)*	-	172	172	172	516
Reform the Investment Tax Credit	65	65	65	65	260
Repeal the Financial Services Investment Tax Credit	30	30	30	30	120
Subtotal Total Business Tax Increases	95	267	267	267	896
Corporate Tax Reform	-	(205)	(346)	(346)	(897)
Establish a 20 Percent Real Property Tax Credit For Manufacturers	-	(136)	(136)	(136)	(408)
Eliminate the Net Income Tax On Upstate Manufacturers	(24)	(24)	(25)	(25)	(98)
Subtotal Other Business Tax Decreases	(24)	(365)	(507)	(507)	(1,403)
Other Business Tax Cuts	(4)	(20)	(31)	(27)	(82)
Other Actions	**$ (40)**	**$ (183)**	**$ (375)**	**$ (612)**	**$ (1,210)**
Reform the Estate Tax**	(33)	(175)	(371)	(612)	(1,191)
Other	(7)	(8)	(4)	-	(19)
Total All Funds Legislation Change	**$ (298)**	**$ (1,036)**	**$ (1,894)**	**$ (2,537)**	**$ (5,765)**

* After 2018, the streamline audit saving will sunset and not reoccur.

** Estate Taxes continue to rise in the outyears, in 2019 these cuts will be 757 million

Source: 2014-15 Executive Briefing Book (p. 67) and FPI calculations.

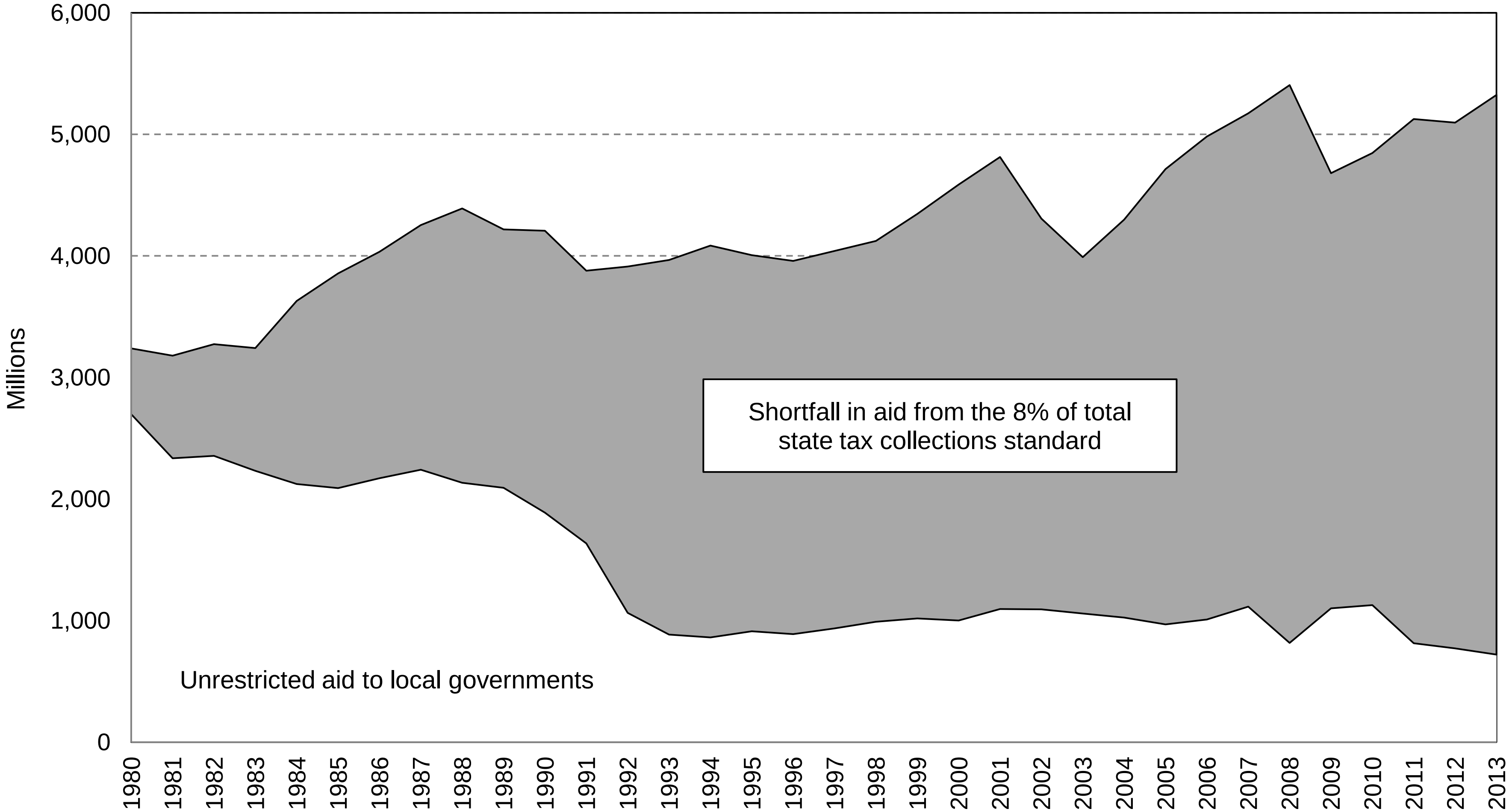
The proposed FY 2015 Gap Closing Plan cuts spending by $2 billion in 2015, and grows to $7 billion in 2018 in order to make room for substantial new tax cuts.

($ millions)	FY 2015	FY 2016	FY 2017	FY 2018	Cumulative 2015-2018
Mid-Year Budget Gap Estimate	**-$1,742**	**-$2,889**	**-$2,948**	**-$3,887**	**-$11,466**
Tax and Other Resource Changes	$286	$31	-$153	-$129	
Surplus Available from FY 2014	$310				
Total Specified Spending Cuts	**-$1,982**	**-$2,684**	**-$3,257**	**-$3,446**	**-$11,369**
Agency Operations spending cuts	-$358	-$708	-$990	-$1,342	
Local Assistance spending cuts	-$1,624	-$1,976	-$2,267	-$2,104	
Savings on Capital Projects & Debt Management	-$116	-$110	-$118	-$158	**-$502**
Initiatives (new spending proposals)	$156	$232	$394	$499	**$1,281**
Adherence to 2% State Operating Funds Spending Benchmark * [resulting in substantial uspecified spending cuts beyond that needed to close the budget gap]		**-$1,685**	**-$2,367**	**-$3,618**	**-$7,670**
TOTAL SPENDING CUTS (specified plus unspecified)	**-$1,982**	**-$4,369**	**-$5,624**	**-$7,064**	**-$19,039**
SURPLUS BEFORE NEW TAX CUT PROPOSALS Mid-year budget gap + tax and other resource changes + spending cuts + savings on capital - new initiatives	$486	$1,389	$2,247	$2,707	**$6,829**
NEW TAX CUT PROPOSALS	**-$486**	**-$1,234**	**-$2,082**	**-$2,534**	**-$6,336**
SURPLUS AFTER NEW TAX CUT PROPOSALS	$0	$155	$165	$173	**$493**

* FY 2015 Executive Budget: "Savings estimated from limiting annual spending growth in future years to 2 percent. The Governor is expected to propose, and negotiatiate with the Legislature to enact budgets that hold State Operating Funds spending growth to 2 percent. Assumes all savings from holding spending growth are made available to the General Fund."

Source: FPI analysis based on NYS Division of the Budget, *FY 2015 Executive Budget Financial Plan* , p. 23.

As a percentage of total state tax collections, unrestricted aid to local governments, now AIM, has decreased by more than 80 percent since 1989. Cumulative funded aid since that time represents only one-third of what cumulative aid would have been if New York met the former 8 percent of total state tax collections 'standard'.



Note: Adjusted for inflation, 2013 dollars. New York City last received this aid in state fiscal year 2010.

More than 700,000 New York lower- and middle-income households* pay 10 percent or more of their income in property taxes. A quarter million pay 20 percent or more.

	Estimated number of households whose property taxes paid in 2011 were:				
Household income range	Less than 10% of income	10% to 19.99% of income	20% or more of income**	10% or more of income	Total number of households in income range
$50,000 or less	539,479	250,948	237,677	488,625	1,028,104
$25,000 or less	152,513	101,865	153,013	254,878	407,391
Above $25,000 but not above $50,000	386,966	149,083	84,664	233,747	620,713
Above $50,000 but not above $100,000***	832,026	N/A	N/A	213,667	1,045,693
TOTAL: All $100,000 or less	1,371,505	N/A	N/A	702,292	2,073,797

Notes: *Estimates are for homeowning households with income of $100,000 or less and who meet the 5-year residency requirement in the Galef/Little and Krueger/Engelbright Circuit Breaker proposals. **This column, for the $25,000 or less income category, includes households with zero or negative income that paid property taxes in 2011. *** The subtotal of all households in this income range paying 10% or more of income in property taxes in 2011 includes (a) households that paid between 10% and 19.99% of income in property taxes; and (b) households that paid $10,000 or more in property taxes and who, because of top coding, can not be apportioned between the "10% to 19.99% of income" category and the "20% or more of income" category.

Source: Fiscal Policy Institute analysis of microdata from the U.S. Census Bureau's 2011 American Community Survey.

The Executive Budget's proposed Circuit Breaker is not effectively targeted.

Comparison of Parameters of Executive Budget Circuit Breaker and Composite of Most Widely Supported Legislative Proposals (S3266, A5834, S1002, A1941), When Fully Phased-In							
		Executive Budget Proposal			Brackets From S3266/A5834 and Maximum Credit From S1002/A1941		
		Affordability Threshold	Credit Percentage	Maximum Credit	Affordability Threshold	Credit Percentage	Maximum Credit
Income Brackets	$0 - $100,000	3%	20%	$1,000	6%	70%	$5,000
	$100,000 - $120,000	3%	20%	$1,000	7%	70%	$5,000
	$120,000 - $150,000	4%	15%	$1,000	7%	70%	$5,000
	$150,000 - $200,000	5%	10%	$1,000	8.5%	70%	$5,000
	$200,000 - $250,000	-	-	-	8.5%	70%	$5,000
	$250,000 and above	-	-	-	-	-	-

The Executive Budget's proposed Circuit Breaker provides relief to many households that are not overburdened while providing insufficient relief to many who are.

Comparison of Impact of Executive Budget Circuit Breaker and Composite of Most Widely Supported Legislative Proposals (S3266, A5834, S1002, A1941), When Fully Phased In						
			Executive Budget Proposal (Maximum Credit When Fully Phased In = $1,000)		Brackets From S3266/A5834 and Maximum Credit of $5,000 From S1002/A1941	
Income	Tax Bill	Tax Before Credit as a Percent of Income	Credit	Tax After Credit as a Percent of Income	Credit	Tax After Credit as a Percent of Income
$50,000	**$2,500**	**5.0%**	$200	4.6%	$0	5.0%
$50,000	**$5,000**	**10.0%**	$700	8.6%	$1,400	7.2%
$50,000	**$7,500**	**15.0%**	$1,000	13.0%	$3,150	8.7%
$50,000	**$10,000**	**20.0%**	$1,000	18.0%	$4,900	10.2%
$95,000	**$2,500**	**2.6%**	$0	2.6%	$0	2.6%
$95,000	**$5,000**	**5.3%**	$430	4.8%	$0	5.3%
$95,000	**$7,500**	**7.9%**	$930	6.9%	$1,260	6.6%
$95,000	**$10,000**	**10.5%**	$1,000	9.5%	$3,010	7.4%

Even though New York's share of U.S. population declined slightly from 2000 to 2011, New York's share of millionaires rose, and the total income of millionaires rose much faster in New York than in the U.S.

	2000	2011	2000 to 2011
New York State			
Total population	18,976,457	19,465,197	2.6%
Number of tax returns with AGI of $1 millon and over	25,780	38,240	48.3%
Total income on returns of $1 millon and over	$85,466,363,000	$139,387,527,000	63.1%
United States			
Total population	281,421,906	311,591,917	10.7%
Number of tax returns with AGI of $1 millon and over	241,068	304,118	26.2%
Total income on returns of $1 millon and over	$760,954,547,000	$947,002,288,000	24.4%
New York State share of United States			
Total population	6.7%	6.2%	
Number of tax returns with AGI of $1 millon and over	10.7%	12.6%	
Total income on returns of $1 millon and over	11.2%	14.7%	

Note: AGI = Adjusted Gross Income
Source: Tax data from Internal Revenue Service, population from the U.S. Census Bureau.