

**TESTIMONY OF
JESSICA WISNESKI, LEGISLATIVE DIRECTOR
BOB COHEN, POLICY DIRECTOR
CITIZEN ACTION OF NEW YORK**

**TO THE SELECT COMMITTEE ON BUDGET AND TAX REFORM
ON EXPLORING PROGRESSIVE CHANGES TO NEW YORK
STATE'S PERSONAL INCOME TAX SYSTEM**

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For more information, contact:

Bob Cohen, Esq., Policy Director
Citizen Action of New York
94 Central Avenue
Albany, NY 12206
(518) 465-4600 (ext. 104)
bcohen@citizenactionny.org
www.citizenactionny.org or

Jessica Wisneski, Legislative Director
Citizen Action of New York
(845) 901-0264
jwisneski@citizenactionny.org

Chairperson Liz Krueger and other members of the Senate Select Committee on Budget and Tax Reform: my name is Jessica Wisneski. I am the Legislative Director of Citizen Action of New York, a statewide membership organization that fights for social, racial, economic and environmental justice with affiliates in seven communities throughout New York State. Citizen Action is a member of two large coalitions that are fighting against unreasonable cuts to state services: the Better Choice Budget Campaign and the One New York: Fighting for Fairness Coalition. With me here today is Bob Cohen, Citizen Action Policy Director. Thank you for inviting us to testify today on the critical subject of adopting progressive changes to New York State's personal income tax system.

Citizen Action strongly supports S.2021, legislation sponsored by Senator Eric Schneiderman, to raise personal income taxes on those making over \$250,000 annually and believes that this legislation should be included in the final state budget agreement. A reasonable contribution from those who have benefited most from the previously booming state and national economy is absolutely critical to maintaining a vast array of state services -- from education, to health care, to human services -- that countless New Yorkers depend on in these hard times: in many cases, for their economic survival. (We also support its companion bill in the Assembly, A.5912, lead-sponsored by Assemblyman Darryl Towns.) We would like to briefly outline why we believe passage of this proposal is critical for all residents of New York, as well as people of color and the most vulnerable New Yorkers in particular. As others testifying today will outline in more detail, raising taxes on high-income individuals is good for the overall state economy as well in that it is the best alternative available in the current severe economic downturn.

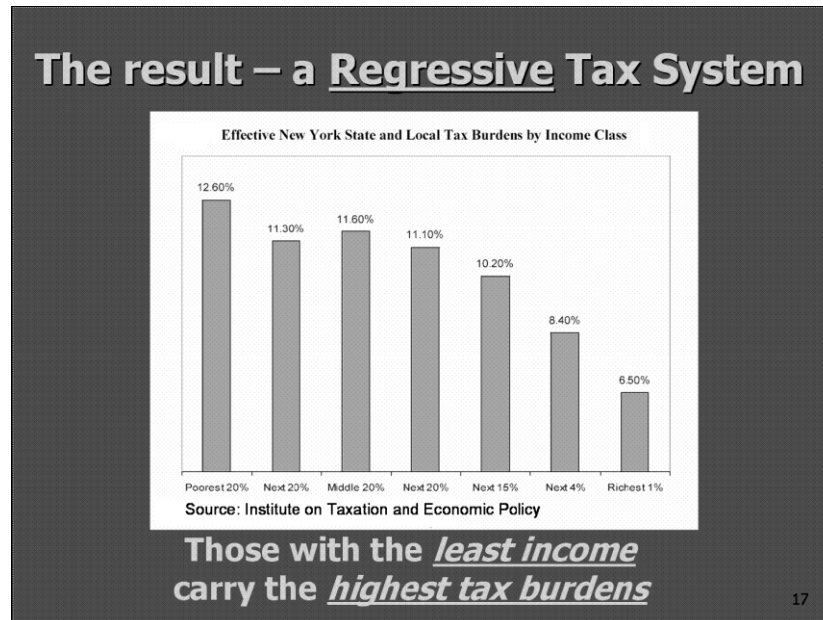
As you know, S.2021 would raise personal income taxes for New Yorkers earning over \$250,000 annually in taxable income (roughly \$300,000). Currently, the highest tax rate in New York State is 6.85 percent for those earning at least \$40,000 annually. The proposal would increase marginal income taxes for \$250,000 annual income earners to 8.25 percent, and for those earning over \$500,000 to 8.79 percent. For those earning over \$1,000,000 annually, the marginal rate would increase to 10.30 percent.

S.2021 of course only closes a portion of the projected \$14 billion state deficit. To address the rest of the deficit, additional fee and tax increases will be necessary, and **we must use the overwhelming majority of new federal stimulus dollars to save state services.** New York is expected to receive \$24.6 billion for the next two years from the economic stimulus bill; the Better Choice Budget Campaign estimates that the stimulus dollars can close roughly \$6 billion of the \$14 billion deficit in Fiscal Year 2009-10. And yes, we also need to make a few judicious cuts in state programs, particularly where state dollars can be used more effectively at a lower cost. (For example, Citizen Action supports closure of underutilized prison camp and annexes, as well as juvenile justice facilities.)¹

The economic deficit we face this year and next year is not just the result of the national and state economic downturn, as critical as that factor is. **New York has a long-term structural deficit due to tax changes that have lowered the revenue available for vital state services while vastly reducing the equity of the tax code: we reduced the relative tax burden on high income people, and increased the burden on middle and low income people.** The large multi-year tax cuts enacted between 1994 and 2005 reduced revenue in New York by \$20 billion in Fiscal Year 2008-09. Over the past 30 years, the state has reduced tax rates on the wealthiest New Yorkers by more than 50 percent -- from a top rate of 15.375 percent to 6.85 percent today, forcing middle income families to pay a greater share in the form of property and other regressive taxes. Families making \$40,000 annually now pay the same marginal tax rate as wealthy families making \$4,000,000. As a result, New Yorkers with the least income now carry the highest tax burden. As shown by the figure reproduced in this testimony, when all taxes are added together, the richest 1 percent of New Yorkers pay only 6.5 percent of their incomes in taxes while the bottom 20 percent pay 12.6 percent. Comparable federal tax changes have contributed to New York's current status as the state with the highest income gap in the nation between the rich and the poor, and between the rich and the middle 20 percent of the income distribution. **Therefore, the Schneiderman proposal deserves passage not just because additional revenues are needed -- this year, and on an ongoing**

¹ These Executive Budget proposals are outlined at: Citizen Action of New York, *Race Matters: Impact of the 2009-10 Executive Proposal* (March 2009), at 24-28, <http://www.citizenactionny.org/latestnews/RaceMatters-CitizenAction20090303e.pdf> (hereinafter, "*Race Matters Report*").

basis -- to critically needed state services that stimulate the state economy -- but as a matter of basic fairness.²



We would like to address several issues that have been advanced by business interests that oppose increases in the income tax and their retained lobbyists. First is the assumption that the deficit is due to excessive spending, and therefore should be addressed primarily by spending restraint. As we've already pointed out, a deficit as large as \$14 billion does require some commonsense spending reductions. **However, we unapologetically argue today that maintaining and where feasible strengthening programs in education, higher education, health care, human services and other critical areas is in the interests of the most vulnerable New Yorkers and the state as a whole. As others will testify to today, cutting at the core of state services is particularly inappropriate in the bad economic climate we face today.**

As our "*Race Matters*" report, released last week details, the Executive Budget proposal will not only harm services that the vast majority of New Yorkers depend on, but also continue or compound racial and ethnic disparities in the state, particularly in education, higher education, human services and juvenile justice. We'd like to briefly

² These arguments are developed further on pages 35 and 36 of our *Race Matters Report*.

provide examples of cuts in the Executive Budget with a racially disparate impact: they are far from the only programs that should be restored:

- **In education**, the \$2.5 billion cut in school aid falls disproportionately on students of color and undermines the goals of the landmark 2007 school aid reform law; the analysis in our *Race Matters* report shows that school districts with greater numbers of students of color and students with limited English proficiency will receive larger per-pupil cuts than other districts.
- **In higher education**, cuts to CUNY and SUNY, combined with tuition increases, are threatening to restrict access to the public higher education institutions that have traditionally served as a means for low and moderate income students of color to enter the middle class.
- **In health care**, increased premiums for Child Health Plus, a highly successful program aimed at providing comprehensive low-cost health coverage for children, will increase racial disparities in health coverage.
- **In criminal defense**, the lack of funding for criminal defense will have a serious impact on low income people of color, given the already large racial inequities in the criminal justice system.
- **In human services**, the cuts to civil legal services to the poor and to nutrition advocacy programs will vastly undermine the ability of low-income people of color to obtain public benefits, and potentially exacerbate existing racial inequities. Small but effective programs that assist immigrants, three-fourths of who are people of color, have also been cut.

Those who call for cuts to the so-called “bloated” state budget ignore the fact that numerous programs vital to low-income people, from legal services, to criminal defense, to safety-net programs like welfare -- have not even been maintained at the inadequate funding levels of previous years.³ They also ignore the fact that the state budget has already been substantially cut this fiscal year, including 3.35 percent across-the-board reductions to state agency operating budgets and the recent mid-year cuts enacted by the Legislature.⁴ Throughout the state, vital programs are shutting down or not maintaining adequate service levels.

³ *Race Matters Report*, at 28, 30-31.

⁴ New Yorkers for Fiscal Fairness and Fiscal Policy Institute, *The Better Choice: Meeting New York State’s Economic Challenges with Fair Fiscal Policies: Testimony to the Assembly Ways and Means Committee* (PowerPoint Presentation), at slide 22 (hereinafter, “NYFF and FPI Testimony”).

And, it's a mistake to assume that temporary cuts to necessary state programs are acceptable in the short-term and don't have consequences -- social and fiscal -- in the long-term. Many proposed cuts are simply "penny wise and pound foolish." For example, cuts to civil legal services and nutrition advocacy programs will diminish the chances the poor have to access federal benefits they are entitled to like food stamps, thus reducing the simulative impact that these benefits would otherwise have in poor communities. And, given the studies finding that children enrolled in early childhood programs have higher achievement in school and lower arrest rates as adults, cutting early childhood in the state budget today will ultimately increase costs to taxpayers in the long run.⁵

Other arguments against Fair Share Tax Reform are equally without support. Many of the same dire predictions of the consequences of taxing high income New Yorkers were heard during the state's last economic crisis in 2003, when the Legislature wisely adopted a temporary three-year income tax increase on taxpayers with taxable incomes above \$500,000, and a smaller increase on families with taxable incomes above \$150,000 -- over Governor Pataki's vetoes.⁶

First, the Business Council and its allies argue that proposals to increase taxes on high-income individuals -- and we're quoting here: "would affect a wide range of New Yorkers, including small business owners ... and other highly productive taxpayers."⁷ Others suggest a negative impact on the so-called "middle class" due to tax increases on families earning over \$250,000. However, the Fiscal Policy Institute has estimated that only 3.5 percent of tax filers statewide and 1 percent upstate make over \$250,000 in taxable income -- certainly not our definition of "middle class." As to the impact on small

<http://www.abetterchoicefornyc.org/ways%20and%20means%20testimony.ppt#256,1>, The Better Choice: Meeting New York State's Economic Challenges with Fair Fiscal Policies Testimony to the Assembly Ways and Means Committee.

⁵ *Race Matters Report*, at 11.

⁶ See generally, NYFF and FPI Testimony, at slides 34-38.

⁷ The Business Council, *Testimony to Joint Legislative Hearing on the Executive Budget: Economic Development Issues, State Economic Climate, and Business Competitiveness* (February 3, 2009), at 9, <http://www.bcnys.org/inside/budget/2009/testimony-economic-climate020309.htm>.

business owners, as the non-partisan Tax Policy Center notes, 98 percent of all small business owners nationwide make less than \$250,000 per year.⁸

A second argument sometimes made is that increased income taxes, or any tax increases, will cause affected people or businesses to leave the state.⁹ Yet, a recent study of New Jersey's so-called "half-millionaire's" tax found that the tax increase did not explain the out-migration the state later experienced -- which was, after all, primarily due to out-migration of low-income individuals.¹⁰ California also raised taxes on high-income earners in 2004 with no credible evidence that it caused high-income taxpayers to leave the state.

A final false argument is that raising income taxes will lead to job losses. In fact, during the Clinton years, a 1993 federal income tax increase preceded one of the greatest sustained economic booms in American history. Many other states with high income tax rates have experienced persistent private sector job growth over the last eight years.

In summary, Citizen Action supports the Fair Share Tax Reform proposal -- both as a necessary measure to restore critical state services, and as a matter of restoring basic fairness to the tax code. The knee-jerk arguments made by business interests against this reasonable measure are without economic merit and simply refuted by examining the past experiences of New York and other states. We once again thank you for the opportunity to comment on behalf of Citizen Action. Of course, we would both be happy to answer any questions you might have.

⁸ Cited in Amy Schatz, "No Simple Answers for Small Business," WSJ.com, October 18, 2008, <http://online.wsj.com/article/SB122427027007145221.html>.

⁹ For the argument that "excessive reliance on increased taxes ... [will] provide greater incentives for residents and businesses to leave New York for lower cost locations," see Citizens Budget Commission, *Letter to Legislators on the State Budget* (letter untitled), (February 2, 2009), reproduced at: http://www.cbcny.org/Letter_to_the_Legislature_02022009.html.

¹⁰ NYFF and FPI Testimony, at slide 34.