



Fair Share Tax Reform: Solving New York's Budget Crisis through Real Shared Sacrifice

New York faces a projected budget deficit of \$15.4bn in 2009-2010. Clearly any solution will require shared sacrifice and cuts to popular programs, but working families shouldn't bear the burden alone. Real shared sacrifice will require not just cuts - but reform of New York's Personal Income Tax (PIT) system to raise sorely needed revenue.

Tax Cuts for the Wealthiest New Yorkers Have Moved the State Far Away From the Principle of Tax Progressivity

TODAY IN NEW YORK	
If your household taxable income is over...	your marginal tax rate is...
\$40,000	6.85%
\$400,000	6.85%
\$4,000,000	6.85%

Rates apply to portion of income above your tax bracket.

Over the last 30 years, New York has reduced income tax rates on the wealthiest New Yorkers by more than 50% and eliminated high income tax brackets so that working class families and the very rich pay the same tax rate.

How do we propose to reform New York's income tax system?

Today, New Yorkers who make over \$40,000 a year are subject to the same marginal tax rate as those who make \$400,000. We need to reform New York's income tax so that it is fairer and more progressive. To do that, we need to create new income brackets to better reflect the spectrum of income earners and ask wealthy New Yorkers to pay higher rates. The Fair Share Tax Reform Plan would introduce new brackets to make sure that all New Yorkers are paying their fair share.

FAIR SHARE TAX REFORM MODEL						
Income Brackets	# of NYS Taxfilers	% of NYS Taxfilers	Rate Increase	New Tax Rates	New Revenue (thousands)	% of New Revenue
Above \$250,000	189,256	2.0%	1.40%	8.25%	567,954	9.50%
Above \$500,000	73,649	0.8%	2.12%	8.97%	823,425	13.80%
Above \$1,000,000	57,162	0.6%	3.45%	10.30%	4,590,431	76.70%
TOTAL	320,067	3.5%	--	--	\$6.0 bn	100%

Source: Fiscal Policy Institute, New York State Department of Taxation and Finance

These new rates keep New York competitive with both neighboring states and states with comparable economies. New Jersey’s top rate is 8.97% above\$500,000 and California’s is 10.3% over \$1 million.

THE IMPACT OF FAIR SHARE TAX REFORM						
Example Income	Weekly Income	New Rate	Additional Taxes Annually	Annual Cost After Federal Deductions*	Weekly Cost of Increase	Weekly Cost After Federal Deductions
\$300,000	\$5,769	8.25%	\$4,597	\$3,678	\$88	\$71
\$550,000	\$10,577	8.97%	\$12,057	\$9,646	\$232	\$186
\$2,000,000	\$38,462	10.30%	\$69,397	\$55,518	\$1,335	\$1,068

* Institute on Taxation and Economic Policy (ITEP) estimates that federal deductions effectively reduce State PIT payments by 20%, a conservative estimate accounting for the affect of the Alternative Minimum Tax.

Federal Deductions Reduce the Impact of State PIT increases

State income taxes can be deducted from federal income tax payments. Economists estimate that federal deductions effectively reduce State PIT payments by 20%. For example, a New Yorker making \$300,000 who pays an additional \$4,600 in income taxes a year under the Fair Share Tax Reform model would save \$920 on their federal taxes.

High-Wage Income Tax Cuts Have Led to Increased Property and Sales Taxes

To compensate for lost revenue from income taxes, New York has *shifted* the burden to local governments to pay for essential services through increased property and sales taxes. As a result, New York now has the second highest proportion of local taxes in the nation behind Texas. The reliance on property and sales taxes has thrown the tax system out of whack. In 2002, the middle 20% of state tax filers paid 11.6% of their entire income in taxes. The wealthiest 1% paid only 6.5% of their income in taxes. This is the definition of regressivity.

Would the Fair Share Tax Reform Plan Hurt Small Businesses?

No. While small businesses are essential to the state’s economic vitality, the median annual income of most them is far below \$250,000. Most small business owners in New York will not be affected by the Fair Share Tax Reform plan, but will benefit from reduced pressure to raise property and sales taxes.

Do Tax Hikes Cause People to Move?

No. In September 2008, Princeton University’s Policy Research Institute for the Region released “Trends in New Jersey Migration: Housing, Employment, and Taxation” found that after New Jersey raised the tax rate on half-millionaires by 2.6% in 2004, the number of half-millionaires has grown by 70%, an extra \$1bn per year has been raised, and people have not left the state as a result.

Here in New York, lawmakers passed a temporary personal income tax increase in 2003 for taxpayers earning more than \$500,000 a year. The Fiscal Policy Institute examined the impact of the increase and found that the number of high-income returns grew by 30% while the surcharge was in effect and New York created 127,200 jobs.

As common sense suggests, people move for many reasons beyond taxes: affordable housing, employment opportunities, education, public safety, and access to healthcare.

Leading Economists Agree: Raising taxes on the wealthy is a better option than cutting spending during an economic downturn

According to Joseph Stiglitz, 2001 recipient of the Nobel Memorial Prize in Economics and Peter Orszag, Director of the Congressional Budget Office, “[r]eductions in government spending on goods and services...are likely to be more damaging to the economy in the short run than tax increases focused on higher-income families.”