



How to Balance the Budget, Save Jobs, Maintain State Programs and Eliminate Wasteful Spending

New York State has a projected \$14 billion (and possibly growing) budget deficit for the state fiscal year that begins on April 1, 2009. The Governor and the Legislature need to address this gap in a responsible fashion. They should close this gap in a way that does as little harm as possible to the state's economy. According to over 100 economists from throughout the state, that means limiting spending cuts and increasing revenue in a way that takes the fewest dollars out of the state's economy. That means maximizing the federal stimulus package, preserving as many jobs as possible, and not reducing services at a time when New Yorkers need them more than ever.

Federal stimulus dollars will preserve many programs and services and will help close the budget gap. We estimate that stimulus dollars will close approximately \$6.5 billion of the \$14 billion budget gap. That still leaves about \$7.5 billion in needed revenue to close the gap.

The Better Choice Budget Campaign urges the Legislature to consider the following scenarios to close the state budget gap.

Increase the top rates of the Personal Income Tax on wealthy New Yorkers:

The following chart presents the Fiscal Policy Institute's conservative estimates

Hypothetical Graduated Rate Options					
<u>\$200,000 to \$500,000</u>	<u>\$500,000 to \$1 million</u>	<u>\$1 million to \$5 million</u>	<u>\$5 million to \$10 million</u>	<u>Over \$10 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

of the revenue that could be raised annually by different rate increases on wealthy New Yorkers.

*Why not tax fairness,
particularly given heightened
income concentration at the top?*

- *Richest 1% of Americans now get nearly a quarter of all income—the highest share since 1928.*
- *NYS has widest gap between rich and poor and between the rich and the middle 20% of the income distribution.*
- *In NYS, top 1% got 29% of all income in 2006—more than two-and-a-half times combined income of the bottom half. In NYC, top 1% income share is 37%.*
- *While NYS's income tax is mildly progressive, the overall state local tax system is regressive because of the heavy local reliance on regressive sales and property taxes.*
- *14 states now have higher top income bracket than NYS.*
- *No evidence that moderate tax rate increases at the top induce outmigration*

NYS Top Income tax rate has been cut in half over the last 20 years

4 out of 5 New Yorkers support it

Richest New Yorkers pay far less of their income in taxes than do the bottom 80% of families in the state

Also to close the gap we recommend:

- **Tobacco tax enforcement:** Cigarette sold on or by Indian reservations to non-Indians are subject to the same taxes as other cigarette sales to non-Indians but those taxes are not being collected. This costs New York more than \$500 million annually. Taking the legal steps necessary to reclaim this revenue will also discourage youth from smoking and improve public health.
- **Pass the Bigger Better Bottle Bill and close the bottle bill loophole** so the state receives deposits from unreturned bottles rather than the industry keeping the money - about \$200 million a year is currently being lost to bottlers because of this loophole.
- Improve the effectiveness and accountability of the state's Industrial Development Agencies; **Apply the Brownfield Clean-Up Program reforms to "grandfathered" projects;** and **terminate the Empire Zones program (savings \$600 million)**
- **Eliminate the use of high priced consultants** for work that state employees can do at a much lower cost. In 2007, the state moved to hire more highway design engineers and to reduce the use of outside consultants for this work. But those gains are now being eroded as engineers retire and are not replaced. In addition, the state needs to move in the same direction for computer programming and other professional services. It is estimated that this could save **\$417 million this year.**

- **Eliminate the STAR Rebate checks program and phase in a Middle Class Circuit Breaker.** This will provide more relief to families that are truly over-burdened by property taxes while saving **\$1.4 billion in 2009-10** and lesser amounts in the two years after that.

The scenarios presented below show how different increases in the top Personal Income Tax rates could be combined with other cost saving measures to help close the state's budget gap.

Scenario 1:

Revenue/Cost Saving Measures	Amount:
Income Tax Increase on wealthiest New Yorkers (top rate 10.35% on income over \$1 million)	\$5.2 billion
Tobacco Tax Enforcement	\$500 million
Eliminate Empire Zone Program	\$600 million
Recoup Bottle Deposits and Expand Bottle Bill	\$200 million
Eliminate pricey private consultants doing state work	\$417 million
Eliminate STAR Rebate checks this fiscal year (phase in Circuit breaker next year)	\$1.4 billion
Tax and fee increases proposed by the Governor that do not negatively impact working families*	1.16 billion
Total	\$9.477 billion

Revenue/Cost Saving Measures	Amount:
Income Tax Increase on wealthiest New Yorkers (top rate of 9.85% on income over \$1 million)	\$4.3 billion
Tobacco Tax Enforcement	\$500 million
Eliminate Empire Zone Program	\$600 million
Recoup Bottle Deposits and Expand Bottle Bill	\$200 million
Eliminate pricey private consultants doing state work	\$417 million
Eliminate STAR Rebate checks this fiscal year (phase in Circuit breaker next year)	\$1.4 billion
Tax and fee increases proposed by the Governor that do not negatively impact working families*	\$1.16 billion
Total	\$8.577 billion

Scenario 2:

Scenario 3:

Revenue/Cost Saving Measures	Amount:
Income Tax Increase on wealthiest New Yorkers (top rate 10.85% on income over \$1 million)	\$5.5 billion
Tobacco Tax Enforcement	\$500 million
Eliminate Empire Zone Program	\$600 million
Recoup Bottle Deposits and Expand Bottle Bill	\$200 million
Eliminate pricey private consultants doing state work	\$417 million
Eliminate STAR Rebate checks this fiscal year (phase in Circuit breaker next year)	\$1.4 billion
Tax and fee increases proposed by the Governor that do not negatively impact working families*	\$1.16 billion
Total	\$9.777 billion

***Tax and fee proposals in the Governor's Budget that do not negatively impact working families**

Restructure the insurance tax	\$ 60 million
Increase sales Tax on Luxury Goods	\$ 12 million
Expand Tax on Nonresident Hedge Fund Income	\$ 60 million
Address Abusive Tax Avoidance	\$ 4 million
Disallow utility definition as Manufacturer	\$ 17 million
Change Filing Requirement for Overcapitalized Captive Insurance Corporations	\$ 30 million
Eliminate Exemption for Large Cooperative Insurance Companies	\$19 million
Increase Utility Assessment	\$650 million
Limit Itemized Deduction Limitation for Millionaires	\$140 million
Rainy day fund	\$175 million
Total	\$1.168 Billion