Testimony of Jason Angell
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To the NYS Select Committee on Budget and Tax Reform

On Exploring Progressive Changes to New York State's Personal Income Tax System

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Good afternoon Chairwoman Krueger and members of the Committee. My name is Jason Angell and I am Director of the Center for Working Families. The Center is a policy and advocacy organization that works on promoting workable, innovative policy solutions that address the problems of New York's working and middle-class families.

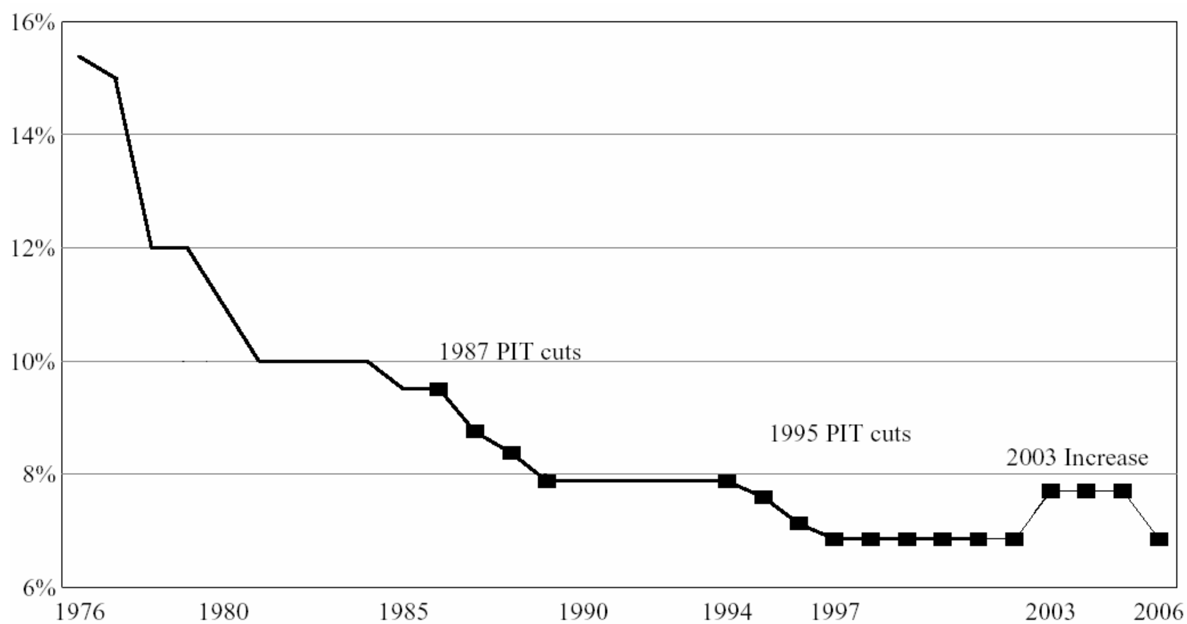
Today I am here to discuss the need for progressive tax reform in New York and voice support for Senator Schneiderman's Fair Share Tax Reform (FSTR) Act (S. 2021).

In my remarks I would like to show that this Act will: (1) restore needed income tax progressivity in New York, (2) raise $6bn of revenue to blunt the human and economic harm of public program cuts, and (3) help us move towards a permanent fix for our overall tax system, which currently places the greatest tax burden on lower- and middle-income tax filers.

Finally, I will address why progressive income tax reform will not have the negative economic impacts that some claim.

How We Got Here

The current fiscal crisis has roots in reckless taxation policy at both the federal and state levels over the past 30 years. Since 1975, New York has cut its rate on top earners in half, from 15.375% to 6.85% today.



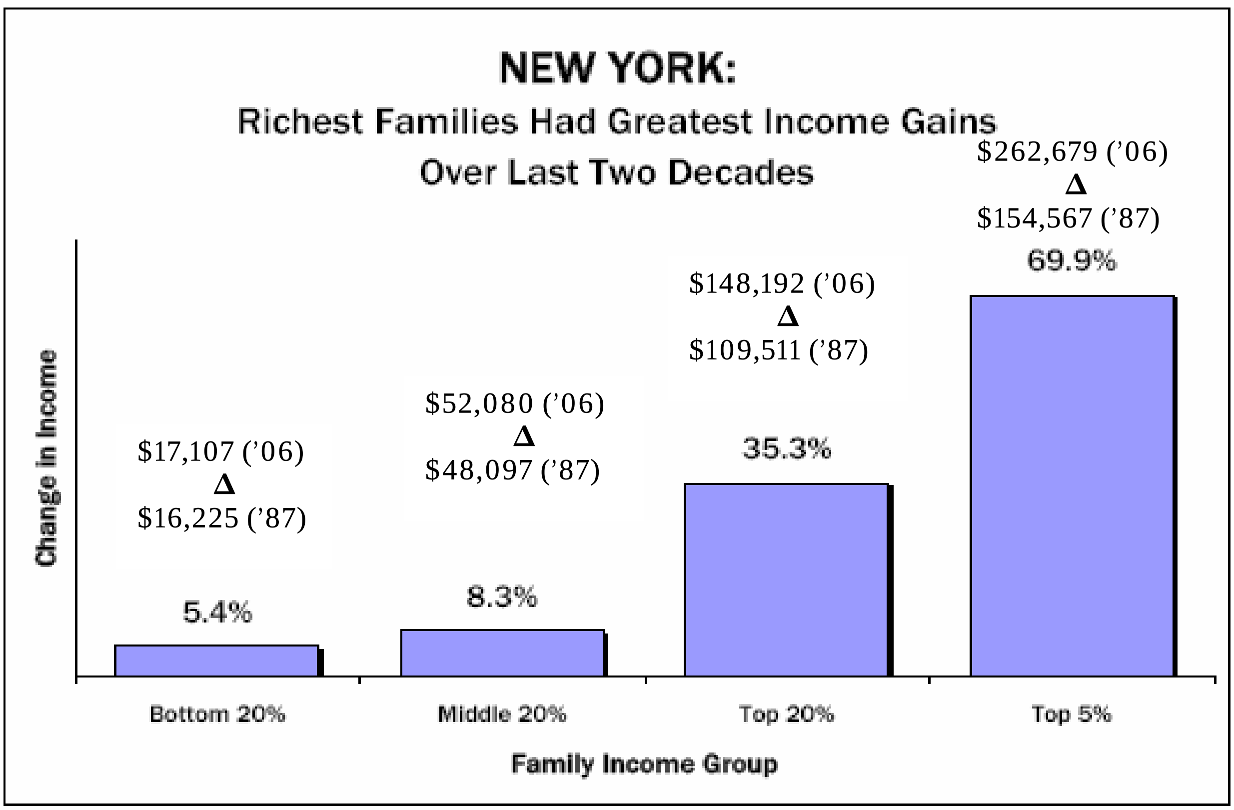
Source: Fiscal Policy Institute, 2007

We also made our tax system much less sensitive to how much money people actually earn, collapsing a structure that once had 14 different income brackets to one with only five today:

Income Brackets	Marginal Tax Rate
$16,000 or less	4%
$16,000-$22,000	4.5%
$22,000-$26,000	5.25%
$26,000-$40,000	5.9%
$40,000 and above	6.85%

Source: NYS Department of Taxation and Finance

At the same time that New York was collapsing its income brackets and cutting tax rates on the wealthiest earners, these families experienced a wealth explosion while the majority of New Yorkers saw modest income gains.



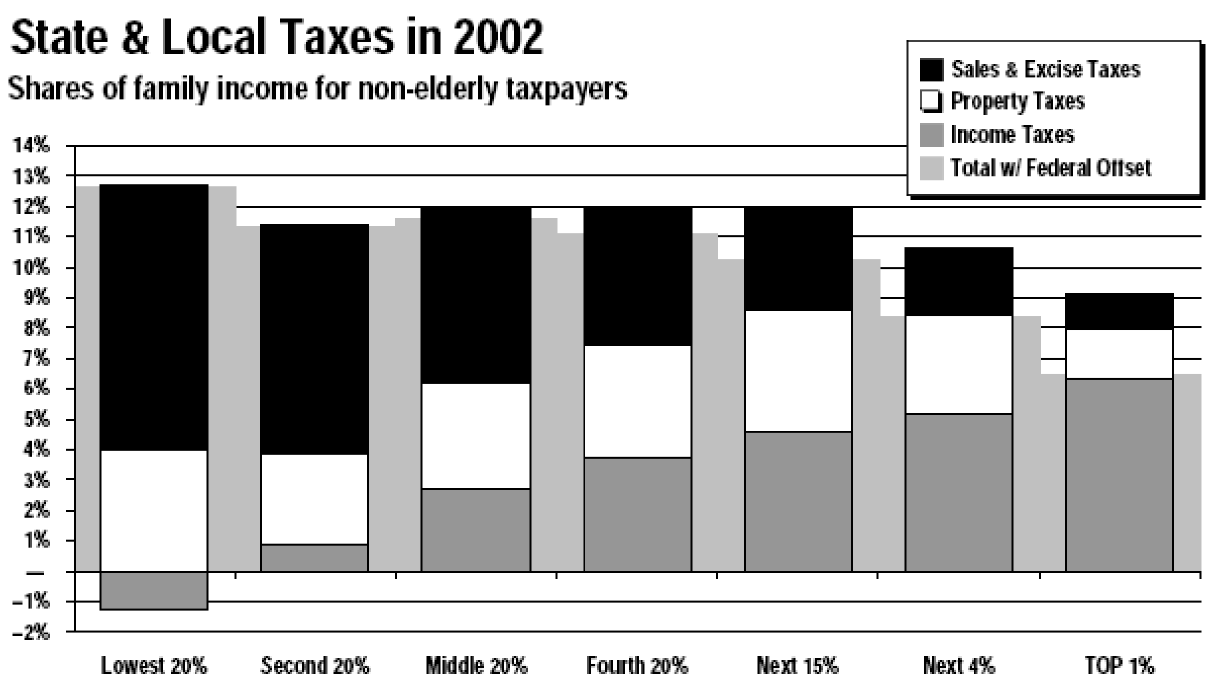
Source: Center on Budget and Policy Priorities, 2009

This has left New York with an outdated income tax structure that does not reflect the huge variation between the amounts of money people make today – particularly in the State with the greatest income inequality between top and bottom earners in the nation.[1]

These income tax cuts at the high end have not come without a price, mainly for low- and middle-class New Yorkers and businesses:

- As the Fiscal Policy Institute points out, if New York had indexed its tax brackets and personal exemptions to inflation instead of cutting top rates and shrinking brackets, 90% of New York families would be paying lower taxes and the State would collect an additional $8bn of revenue per year.

- These income tax cuts have constituted an incredible *tax shift* towards using property and sales taxes to pay for essential services. While opponents ignore this by treating income and property and sales tax policy as disconnected, this shift has led to the shockingly **regressive overall tax system** we have today that places the greatest burden on those with the least income.



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than $15,000	$15,000 – $27,000	$27,000 – $44,000	$44,000 – $74,000	$74,000 – $160,000	$160,000 – $634,000	$634,000 or more

Source: Institute on Taxation and Economic Policy, 2003

[1] *Pulling Apart: A State-by-State Analysis of Income Trends*, Center on Budget and Policy Priorities and the Economic Policy Institute, April 2008, http://www.cbpp.org/states/4-9-08sfp-fact-ny.pdf.

If we do not enact permanent progressive income tax reform – to both meet this budget deficit and provide revenue for property and sales tax relief once the economy recovers – we will increase the burden our overall tax system puts on lower- and middle-class families across the state.

Key Elements of the FSTR Act

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

How much revenue would the FSTR Act raise?

The FSTR Act would raise approximately $6bn, with only 10% of new revenue coming from earners between $250,000-$500,000, 14% of new revenue coming from earners between $500,000-$1,000,000 and the remaining 76% coming from earners making over $1,000,000.[2]

How will this impact New Yorkers?

New tax rates under the FSTR Act would affect approximately 3.5 percent of State tax filers. By region, the Act will affect 7 percent of Manhattan tax filers, 4 percent of all Nassau, Suffolk, Westchester and Rockland County filers, 1 percent of all tax filers in the Bronx, Brooklyn, Queens, and Staten Island, and only 1 percent of all Upstate tax filers.[3]

Would the new rate fully kick-in at $250,000?

No. Tax rates implemented under the FSTR Act would be applied to taxable income—the remaining income after all federal and state tax deductions and credits have been subtracted. Taxable income is often substantially less than the adjusted gross income an individual or household makes each year. As a result, based on average federal and

[2] Based on analysis of 2005 Personal Income Tax Returns, New York State Department of Taxation and Finance

[3] Ibid.

state deductions, the first new rate will fully kick-in on New Yorkers making over $300,000 a year.

Answering Concerns over Negative Impact

Don't the rich already pay to great a share of taxes?

Conservative economists have argued that the wealthiest one percent of New Yorkers have been paying a rising share of income taxes. What they often leave out is that these increased shares are being driven by one-sided income growth – in 2007, the top 5% of New Yorkers captured almost half of all income earned.[4]

Based on data from the Institute on Taxation and Economic Policy, we know that effective tax burdens in New York are off-kilter: on average the bottom 20% of New Yorkers making under $15,000 a year pay almost twice a share of their available income to taxes compared to the top 1% of New Yorkers.

If we want a more fair tax system, the real question is not about the amount of income taxes paid by the wealthiest one percent but the share of taxes paid related to available income. Is a tax system fair if it places the greatest tax burden on those with the least money available to pay for basic necessities like housing, childcare, food, and healthcare?

Won't a new tax rate at $250,000 hurt the middle class?

The truth is there is bound to be resistance to tax increases no matter where you decide to start making the system more progressive. While $250,000 may sound like the type of money many New Yorkers make, it's far from the middle-class: only 3.5% of all NY individual and household tax filers made more than that in 2005 according to NYS Department of Taxation and Finance data.

Won't raising income taxes cause wealthy New Yorkers to leave the State?

Research on whether or not people leave states after income taxes are increased proves otherwise:

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[4] *The State of Working New York, 2007.* Fiscal Policy Institute, September 2007 http://www.fiscalpolicy.org/SOWNY2007.html.

In 2004, **New Jersey** increased their top tax rate on earners above $500,000 from 6.37% to 8.97% -- a bigger rate increase than the FSTR Act recommends at that income level. A 2008 Princeton University report[5] found:

- Most NJ out-migrants were low-income, moved to states with higher income tax rates, and left because they were seeking job or lower costs of living (particularly due to high property taxes).

- The tax increase was "an effective and efficient revenue generation mechanism, having little effect on migration patterns among half-millionaire households."

- The number of half-millionaires jumped from 26,000 in 2002 to 44,000 in 2006 and the new tax generated $1bn in annual revenue.

In 2004, **California** created a new top rate of 10.3% on income earners over $1,000,000:

- The California Tax Reform Association found no credible data to suggest high-income taxpayers moved due to tax increases.[6]

- The California Budget Project found that since the increase the number of millionaires increased 37.8%.[7]

From 2003-2005, when **New York** enacted two new rates of 7.25% over $100K and 7.7% over $500K, The Fiscal Policy Institute found the number of millionaires grew by 30% during that time period.

Will PIT increases hurt small businesses?

As noted, according to the Wall Street Journal, 98% of small business owners in America make less than $250,000 a year. As a result, not only will they not be affected by this plan, they will largely benefit from increased state revenue that helps reduce pressure to increase property and sales taxes in the long run.

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[5] Young, Cristobal, Varner, Charles, Massey, Douglas S., *Trends in new Jersey Migration: Housing, Employment and Taxation*, The Woodrow Wilson School of Public and International Affairs at Princeton University, September 2008, http://www.princeton.edu/prior/PRIOReconomy-Final-(2).pdf.

[6] Goldberg, Lenny, *Top Brackets*, California Tax Reform Association, 2006.

[7] *California Budget Project Analysis*, California Budget Project, 2008

Will PIT increases cause job losses?

Those who automatically link PIT reform to economic stagnation ignore history and evidence. At the federal level the Clinton administration increased income taxes in 1993, which preceded the strongest economic boom in over a generation, creating 14 times the number of jobs than were created in the Bush Administration tax cut years.[8]

Evidence at the State level also suggests there is no direct correlation between income tax increases and job loss. The last time that New York temporarily increased income taxes, 127,000 jobs were created. In fact, many other states that have higher tax rates in place then New York's have experienced sustained job growth in the last decade:

State	Top Rate on Single Filers	Total Private Sector Job Growth, 2000-2008
California	10.3% > $1,000,000	3.16%
Iowa	8.98% > $60,435	2.68%
New Jersey	8.97% > $500,000	0.38%
Washington DC	8.7% > $40,000	9.61%
Hawaii	8.25% > $48,000	13.86%
North Carolina	7.75% > $60,000	5.41%
Idaho	7.8% > $23,963	18.02%
South Carolina	7% > $13,150	5.60%

Source: American City Business Journals, 2009

Will PIT increases make New York a less competitive business environment?

Like families, businesses also choose to make location decisions based on many factors. In the 2008 Area Development Annual Corporate Survey, a leading source on business site planning, the leading drivers of business relocation were: (1) transportation infrastructure, (2) the cost of labor, and (3) the cost of occupancy and construction. The survey also found that leading quality-of-life factors that drove decisions about locating a business were: (1) low crime rates, (2) healthcare, and (3) housing costs.[9]

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[8] Bureau of Labor Statistics (BLS), Current Employment Statistics, http://data.bls.gov/cgi-bin/surveymost?ce

[9] Gambale, Geraldine., *23rd Annual Corporate Survey and 5th Annual Consultants Survey*, Area Development and Site Facility Planning, January 2009.

It is important to note that almost all of these issues are connected to the topic we are discussing here today: maintaining and expanding transportation infrastructure, keeping streets safe, and improving healthcare, working to drive down the cost of housing and commercial rents through reduced property taxes are all government responsibilities that requires adequate state revenue

If the State fails to enact FSTR and proceeds with severe budget cuts, all of these things will suffer and make New York less competitive to attracting businesses.

Summary

We are at a pivotal moment in our State's history, with a critical decision to make about what role the government should play in steering us out of this economic crisis towards shared prosperity.

The FSTR Act is the best way forward: it will raise needed revenue to avoid the most harmful cuts, it will share the burden of meeting these tough times with those who can most afford it, and it will put us on the path to making our overall tax system more fair. Thank you and I welcome any questions.