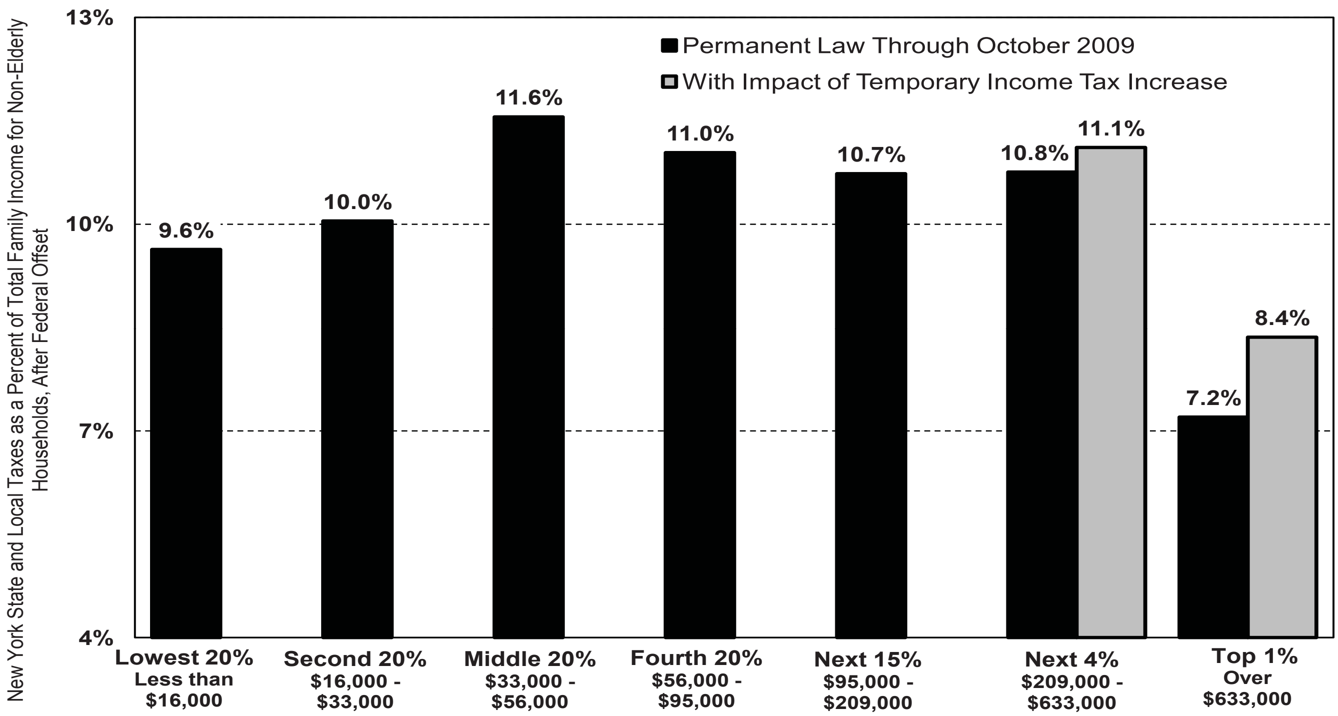
NYS Tax Reform and Fairness Commission: Promises Made But Not Yet Kept

The Governor has called for the creation of a Tax Reform and Fairness Commission to develop recommendations on how we might modify our current tax structure so that is fair to all New Yew Yorkers.

The current tax system in the State of New York tends to put more of the state and local tax burden on lower and middle-income families than it does upper-income wage earners. According to research from the Institute on Taxation and Economic Policy (as evidenced from the following charts) many wealthy New Yorkers pay far less of their overall income in state and local taxes than do middle income families.

6. Overall, the wealthiest 1% of households pay a much smaller share of their income in state and local taxes than do all other New Yorkers, even with the temporary income tax increase.



Source: Institute on Taxation and Economic Policy, 2009.
Note: 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

3. New York State & Local Taxes in 2007

Shares of family income for non-elderly taxpayers

Income group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income range	Less than $16,000	$16,000 - $33,000	$33,000 - $56,000	$56,000 - $95,000	$95,000 - $209,000	$209,000 - $633,000	$633,000 or more
Average income in group	**$9,600**	**$24,400**	**$43,800**	**$73,100**	**$133,000**	**$338,100**	**$3,065,800**
Sales & excise taxes	**7.3%**	**6.0%**	**4.7%**	**3.7%**	**2.8%**	**1.7%**	**0.9%**
General sales - iIndividuals	3.6%	3.3%	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%	0.2%
Property taxes	**5.8%**	**3.8%**	**3.9%**	**3.8%**	**4.1%**	**3.3%**	**1.5%**
Property taxes on families	5.3%	3.3%	3.4%	3.4%	3.6%	2.6%	0.6%
Other property taxes	0.5%	0.5%	0.5%	0.5%	0.5%	0.8%	0.9%
Income taxes	**-3.5%**	**0.3%**	**3.4%**	**4.7%**	**5.8%**	**6.8%**	**7.0%**
Personal Income Tax	-3.5%	0.3%	3.4%	4.6%	5.7%	6.6%	6.7%
Corporate Income Tax	0.0%	0.0%	0.0%	0.1%	0.1%	0.2%	0.4%
TOTAL TAXES	**9.6%**	**10.1%**	**12.0%**	**12.2%**	**12.7%**	**11.8%**	**9.4%**
Federal Deduction Offset	-0.0%	-0.1%	-0.5%	-1.1%	-1.9%	-1.1%	-2.2%
TOTAL AFTER OFFSET	**9.6%**	**10.0%**	**11.6%**	**11.0%**	**10.7%**	**10.8%**	**7.2%**

Note: Table shows 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

Tax Reform and Fairness Commission – A Chronological Look at Promises Made But Not Yet Kept

In a press release that was issued by the three leaders after the December 2011 tax law changes were enacted it was announced that they had agreed to the creation of a Tax Reform and Fairness Commission. The release stated that, "The Governor is also establishing a commission to examine a comprehensive overhaul of the state's entire tax code that will make it simpler and fairer for all taxpayers and to create economic growth in the state."

In a later section of that press release, which provides additional detail on the agreed-upon "Fair Tax Code Reform," it is noted that "Through an executive order, the Governor **has created** the New York State Tax Reform and Fairness Commission to address long term changes to the tax system and create economic growth. The commission will have thirteen members, including four recommended by the Senate and Assembly majority leaders and two recommended by the Senate and Assembly minority leaders. The Chair of the Commission will be appointed by the Governor. All members are required to have expertise in the tax field and will receive no compensation. The Commission will conduct a comprehensive and objective review of the State's taxation policy, including corporate, sales and personal income taxation and **make revenue-neutral policy recommendations** to improve the current tax system. In its review, the Commission will consider ways to eliminate tax loopholes, promote administration efficiency and enhance tax collection and enforcement."

In the press release on the State of the State message http://www.governor.ny.gov/press/sos2012 , the Governor's Office, in relation to the **Establish(ment of) a Tax Reform and Fairness Commission**, said that "Continuing efforts that began at the end of 2011 to reform the state tax code to boost job creation and improve fairness, Governor Cuomo announced the creation of the Tax Reform and Fairness Commission to propose additional, long-term changes to corporate, sales, and personal income tax systems, and to find ways to close tax loopholes, promote efficiency in administration, improve New York's business climate, and enhance collection as well as enforcement."
In the published version of the State of the State message the Governor, in relation to the **Establish(ment of) a Tax Reform and Fairness Commission**, said, "Our recent reforms to the state's tax code will boost job creation and restore fairness to the tax system. While these reforms were huge steps forward, there is more work to be done to create a complete fair tax plan. That is why I am creating a Tax Reform and Fairness Commission to propose additional, long-term changes to our corporate, sales, and personal income tax systems. We will find ways to close tax loopholes, promote efficiency in administration, enhance collection and enforcement, and simplify the tax code to improve New York's business climate, especially for small businesses."

Property Taxes Get Left Out?

Our Consortium strongy recommends that property taxes be included under the pervue of the Tax Reform and Fairness Commission. We believe we cannot continue to look at taxes in silos. No residents pay just sales or income taxes or property taxes. If we are to fairly examine our tax structure we must look at it in its entirety. All of the taxes levied in this state are drectly related to generating sufficient revenue for the functioning of our state.

Right now, according to an analysis from the Fiscal Policy Institute, we know that over 675,000 New Yorkers, with incomes under $100,000 per year, are paying over 10% of their income in property taxes (see charts below). We also know that about a third of those same tax payers are paying more than 20% of their income in property taxes. To not include property taxes in the commissions purvue would be a disservice to the taxpayers of NYS.

The charts below clearly show how much many residents are paying high percentages of their income in property taxes. It illustrates the need to include all state and local taxes when trying to determine tax burdens and issues of fairness within our current tax structure.

Nearly half of New York households with incomes of $50,000 or less pay 10 percent or more of their income in property taxes.

Household income range	Estimated share of households whose property taxes paid in 2009 were: Less than 10% of income	10% to 19.99% of income	20% or more of income*	10% or more of income
$25,000 or less	36%	24%	40%	64%
Above $25,000 but not above $50,000	65%	24%	11%	35%
Above $50,000 but not above $100,000**	82%	N/A	N/A	18%
TOTAL: All $100,000 or less	68%	N/A	N/A	32%

Source: Fiscal Policy Institute analysis of microdata from the U.S. Census Bureau's 2009 American Community Survey. Estimates shown are for homeowning households that meet the 5-year residency requirement in the Galef/Little and Krueger/Engelbright Circuit Breaker bills.

Notes: * This column, for the $25,000 or less income category, includes 15,945 households with zero or negative income that paid property taxes in 2009.
** The subtotal of all households in this income range paying 10% or more of income in property taxes in 2009 includes (a) 103,075 households that paid between 10% and 19.99% of income in property taxes; and (b) 81,348 households that paid $10,000 or more in property taxes and who, because of top coding, cannot be apportioned between the "10% to 19.99% of income" property tax category and the "20% or more of income" property tax category.

More than 675,000 New York households pay 10 percent or more of their income in property taxes. A quarter million pay 20 percent or more.

Household income range	Estimated share of households whose property taxes paid in 2009 were: 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
$25,000 or less	150,496	101,851	170,472	272,323	422,819
Above $25,000 but not above $50,000	404,899	149,117	71,124	220,241	625,140
Above $50,000 but not above $100,000**	859,739	N/A	N/A	184,423	1,044,162
TOTAL: All $100,000 or less	1,415,134	354,043	241,596	676,987	2,092,121

Source: Fiscal Policy Institute analysis of microdata from the U.S. Census Bureau's 2009 American Community Survey. Estimates shown are for homeowning households that meet the 5-year residency requirement in the Galef/Little and Krueger/Engelbright Circuit Breaker bills.

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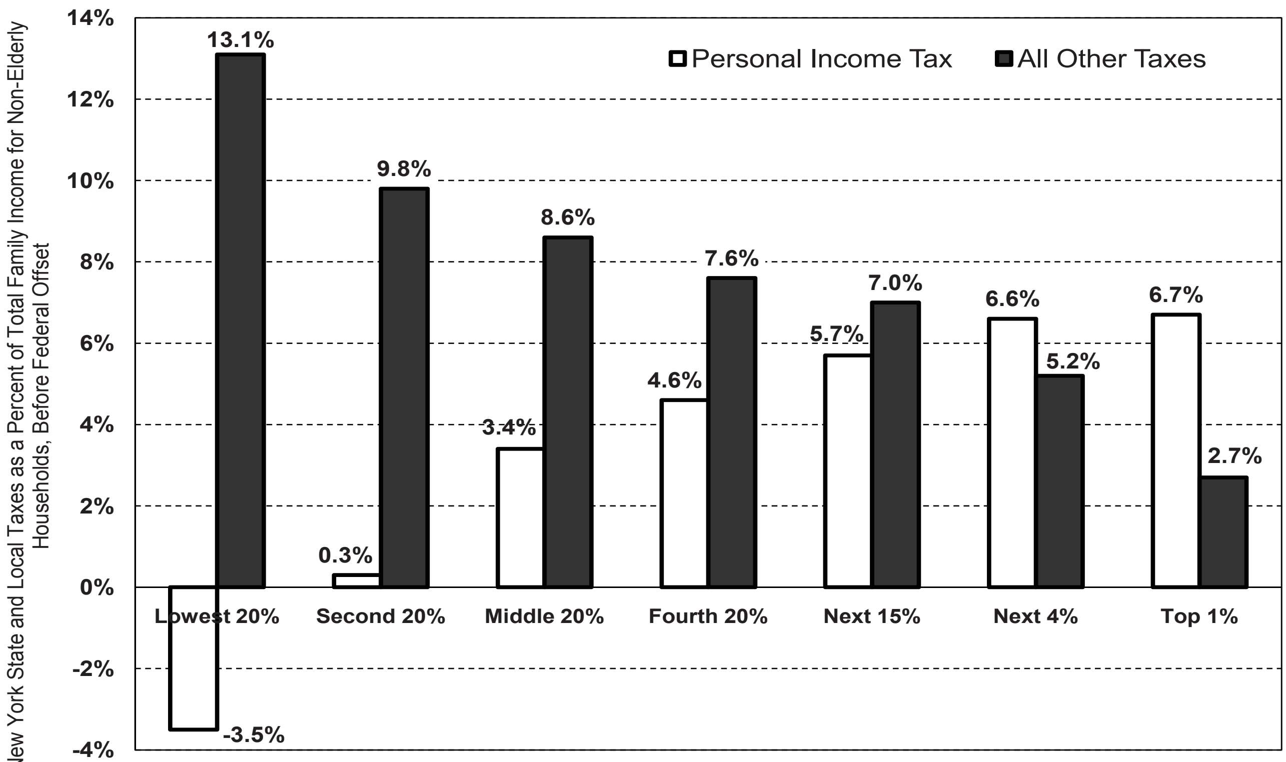
Figure 4 (below) also shows that New York's income tax is progressive but not progressive enough at the top end of the income distribution to move the overall tax system to proportionality. For the lowest income 20 percent of non-elderly households, the income tax is estimated to be, on average, a negative 3.5 percent. That means that enough of the people in this quintile are working families with children to qualify for enough in refundable Earned Income Tax Credits (EITCs) to equal 3.5 percent of the income of all the households in this category including those who do not qualify for refundable EITCs. The impact of this negative 3.5 percent income tax figure is to reduce the overall tax burden for this quintile to 9.6 percent of income. This may be more than such low income families should be paying in state and local taxes but only the top one percent of households, those with incomes above $633,000, paid less of their income, on average (9.4 percent), in state and local taxes. And, as Figure 6 shows, the top one percent of households benefited significantly from the federal deductibility of state and local income and property taxes that reduced their overall effective state and local tax rate from 9.4 percent to 7.2 percent.

Furthermore, we would recommend that the Commission not be bound to make "revenue neutral" decisions. If the Commission is to operate properly it should not be bound by politically motivated and predetermined outcomes.

4. New York's income tax is progressive, but not progressive enough to balance out the regressivity of the rest of the state-local tax system.



Source: Institute on Taxation and Economic Policy, 2009. Note: 2007 tax law updated to reflect permanent changes in law enacted through October 2009.

How Should the Commission be Structured

We believe the Commission should:

- be comprised of economists and affected parties
- include all state and local taxes
- hold at least 10-15 hearings at geographically diverse regions around the state
- allow for testimony to be submitted electronically and be publically available on the Commission's website
- not have set or preordained outcomes (such as "revenue neutrality")
- consult with additional outside experts as needed
- develop a thoughtful, deliberative plan to make the tax system fair and equitable for all state residents

The commission should have as its goal a tax system that provides sustainability, appropriateness, and equity. For guidance, the commission should use the Principles of a High-Quality State Revenue System as prepared by the National Conference of State Legislatures as of June 2007. A high-quality revenue system:

(1) Comprises elements that are complementary, including the finances of both state and local governments.

(2) Produces revenue in a reliable manner. Reliability involves stability, certainty, and sufficiency.

(3) Relies on a balanced variety of revenue sources.

(4) Treats individuals equitably. Minimum requirements of an equitable system are that it imposes similar tax burdens on people in similar circumstances, it minimizes regressivity, and it minimizes taxes on low-income individuals.

(5) Facilitates taxpayer compliance. It is easy to understand and minimizes compliance costs.

(6) Promotes fair, efficient, and effective administration. It is as simple as possible to administer, raises revenue efficiently, is administered professionally, and is applied uniformly.

(7) Is responsive to interstate and international economic competition.

(8) Minimizes its involvement in spending decisions and makes any such involvement explicit.

(9) Is accountable to taxpayers.