

STATE BUDGET

Back to the future for tax fairness

By FRANK MAURO

New York State has made some good changes in its personal income tax over the last 30 years, such as creating tax brackets for married couples that are double the single brackets, thus eliminating the bulk of the so-called “marriage penalty.”

But two changes have taken us in the wrong direction: the flattening of the state’s graduated rate structure, and the virtual gutting of the personal exemption. These shifts have reduced taxes on incomes at the top – by billions – while increasing taxes for those in the middle and below.

LESS TAXES

If those two changes had not been made, and rates and exemptions had been adjusted for inflation, New York State today would have almost \$8 billion more in revenue – and 19 of 20 New Yorkers would be paying less in taxes.

In 1972, New York State had a personal income tax with 14 brackets, ranging from a low of 2% to a high of 15%. Since then, the state government has moved the income tax much closer to a flat tax.

The lowest rate in the old structure was 2%, but that rate and the 3% rate have now been eliminated. At the other end of the spectrum, even more rates and brackets have been eliminated. The 15%, 14%, 13%, 12%, 11%, 10%, 9%, 8%, and 7% brackets are all gone.

Instead of 14 brackets, New York now has five – but all five of these rates are between 4%, the current lowest rate, and 6.85%, the current highest rate. (Two temporary brackets of 7.25% and 7.7% were enacted in 2003 but they were set to expire at the end of 2005.)

The current bracket structure could be described as one that “soaks the working class.” A single person reaches the top 6.85% rate with taxable income of \$20,000. A married couple is in the top bracket when its taxable income is \$40,000 or more.



NYS OCS photo

The State Legislature must act to provide New York with new revenues – and more equity.

To address the impact of eliminating the bottom two brackets, New York has adopted a state earned income tax credit. This helps the lowest-income working families, which is good. But it does not address the impact of the bracket squeeze of the last 30 years on moderate-income families.

Middle-class and lower-income taxpayers have also been hurt by the virtual gutting of the value of New York’s personal exemption.

In 1972, New York’s personal exemption for all taxpayers (including both members of married couples) and each of their dependents was \$625. In 2005 dollars, that \$625 figure would be \$3,000.

VIRTUAL GUTTING

But Albany chose to go in a very different direction. In fact, New York no longer has a personal exemption for taxpayers – and the exemption for dependents has been stuck at \$1,000 since 1988.

Over this same period, the federal

government’s personal exemption has increased from \$1,950 to \$3,200. That means that a married couple with two children gets exemptions of \$12,800 when calculating their federal income tax but only \$2,000 when calculating their state income tax.

Add tax brackets for top incomes

Instead of shifting taxes from the rich to the middle class, New York could have kept its old tax structure but stretched out the brackets each year to reflect the effect of changes in the cost of living and done the same with the personal exemption.

Under this alternative approach, 95% of New Yorkers would be paying less in state income taxes than they do now and the state would be collecting an estimated \$7.7 billion more in tax revenue each year.

That sounds impossible, but it’s true – because incomes have grown so much at the top end and so little in the middle and below.

A family of four with income of \$50,000 is now paying about \$1,000 more in state income taxes each

year than it would be paying if New York State had indexed its tax brackets and its personal exemption for inflation rather than doing what it did. The biggest losers are families earning about \$150,000, who are paying about \$2,500 more.

At the other end of the spectrum are the big winners. A family earning \$500,000 is now paying \$22,000 a year less than it would be paying if New York had indexed its tax brackets and its personal exemption for inflation, rather than cutting brackets from the top and bottom. Those with incomes of \$2 million save about \$145,000.

UNFAIR

Not only is New York’s current tax system unfair – it also can’t get the job done. For years, New York State has underfunded important public needs like higher education, and those services have deteriorated as a result. In 2006, Albany faces an additional challenge: finding a legitimate statewide solution to the NYS

Court of Appeals decision in the Campaign for Fiscal Equity case. The court held that the state constitution requires that all elementary and secondary schools have the resources necessary to provide all of their children with a sound basic education.

Improving educational opportunities so that they meet this standard is essential to the future of the state’s economy and to New Yorkers’ quality of life, but doing so will require billions of dollars in new spending. Some state leaders say that this money can come from “natural growth” in state revenues as the state’s economy grows. While there is such natural growth, it basically covers the increasing cost of current services, including the current level of educational services. This is not enough.

INSUFFICIENT

So how can we meet this challenge without putting higher education and other important state priorities in jeopardy? As a start, the governor can stop recommending additional tax cuts. He can also dedicate all the revenue from his gambling initiatives to education, not just the revenue from the video lottery terminals (VLTs); and he can work to close more of the state’s corporate loopholes. But those steps will only get us part way to a balanced budget.

And New York needs a budget that is balanced economically and socially, not just fiscally. By moving in the direction of a tax system based on the 1972 rates, brackets, and personal exemptions – adjusted for changes in the cost of living – the Governor and the Legislature can do the rest of the job while making New York’s tax system much fairer.

Frank Mauro is executive director of the Fiscal Policy Institute, which focuses on budget and related public policy issues in New York State. The New York State United Teachers supports the FPI’s proposal to restore the 1972 tax brackets at rates adjusted for inflation.

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Contract updates

This January, check in often at www.psc-cuny.org. Contract news or contract actions – such as faxing Chancellor Goldstein, calling the Governor’s officer, or e-mailing the Mayor – will be posted as soon as possible. The website is a great way to stay in touch and participate in the contract

campaign even if you’re off-campus.

Also on the PSC website is the union’s Katrina Fund. The PSC is asking members to support Dillard University, a historically black institution that was particularly hard-hit by the storm. Go to www.psc-cuny.org/DillardFund.htm.