

Paterson's proposed taxes, fees criticized on all sides

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NEW YORK STATE — Nobody likes the \$1 billion in new taxes and fees Gov. David Paterson is proposing — not even Paterson.

“Taxes are regrettable,” Paterson said last week on WGY-AM (810) in Albany. “Certainly we don’t want to increase them at this particular time, but a combination of a few taxes and some rather severe cuts to services is the best, I think, solution.”

The governor’s proposals have created some strange bedfellows, with both liberal and conservative groups criticizing key pieces of Paterson’s proposals.

But they disagree on what should be done to close the state’s \$9.2 billion deficit, with left-leaning groups supporting increasing taxes on the wealthy and more conservative organizations saying it’s time for the state to get serious about cutting spending.

Last week, the state Legislature agreed to raise the tax on cigarettes by \$1.60 a pack to \$4.35, which brings the average price of a pack of cigarettes to \$9.20. Also under consideration is a proposal to temporarily limit the state’s 4 percent sales tax exemption on clothing purchases less than \$110 to a few times a year; the exemption would be restored next year, but only on purchases of \$55 or less. And a proposal long considered dead, a tax on sugary beverages, the so-called soda tax, is once again under discussion.

Ron Deutsch, executive director of the left-leaning New Yorkers for Fiscal Fairness, said he doesn’t like the governor’s approach to balancing the budget.

The clothing tax, Deutsch said, would adversely affect low-income residents.

“What bothers me is that everything the governor is considering is a regressive tax,” he said.

But while the cigarette tax and soda tax are also regressive, Deutsch is less critical of them because those taxes have public health benefits.

“The cigarette tax will stop some people from smoking,” he said. “It will deter some people. I find it pretty reasonable. But clothing is not a choice.”

Instead of new taxes and fees, Deutsch said the state should consider creating a 1 percent bracket for taxpayers with incomes of more than \$1 million for 2010 and 2011.

Call for equal taxing

William Ahern, director of policy and communications for the Tax Foundation, a Washington-based think tank that researches tax policies at the state and federal level, doesn’t like the governor’s approach to the budget, either. He said raising fees and taxes on specific products is a way for the state to avoid raising broad-based taxes such as the income tax. But what New York should really consider doing is cutting spending and eliminating its numerous tax credits and exemptions, he said.

“Most deductions and credits are merely the legislature caving in to special interests,” Ahern said. “Our view is that there should be no exemptions — everything should be taxed. Instead of taxing smokers, the state should look at the unjust giveaways in the tax code and get rid of them.”

Ahern said he doesn’t support exempting clothing from the sales tax.

“There’s a lot of frivolous clothing out there,” he said.

Unlike the tax on clothing, the cigarette tax and proposed soda tax are both considered “sin taxes.” Sin taxes share two goals: raising revenue and reducing a behavior or activity deemed harmful by making it more expensive. Ahern said that raising cigarette taxes is “the first resort” for states in need of revenue. But he said he doesn’t support sin taxes.

“They’re just unfair,” Ahern said. He said that smokers are more likely to be low-income people and a cigarette tax will hit them especially hard and create a black market for cigarettes. “The whole tenor of the discussion would be different if smokers were mostly higher-income,” he said.

He acknowledged that reducing smoking is one of the goals of the cigarette tax but said he views it as “nannies micromanaging behavior.” All products, he said, should be taxed at the same rate.

Business credits eyed

Paterson has proposed deferring 50 percent of business tax credits for 2010, 2011 and 2012.

But the business community is opposed to this proposal, saying that it would amount to a tax increase.

Michael Moran, a spokesman for the Business Council of New York State, said many businesses have already earned the tax credits that Paterson seeks to cut.

“These companies have made the decision to invest in New York, and after the fact the state is saying no, it’s not going to pay them. Going forward, why would any company ever trust another economic development incentive the state offers?” he asked. “[This proposal] damages the state’s credibility. We think it will lead to fewer jobs and less investment.”

Moran noted that last year the state raised taxes by more than \$8 billion to close its budget gap, but it is now faced with another huge deficit.

“At some point, we have to cut spending,” he said.

Frank Mauro, executive director of the left-leaning Fiscal Policy Institute in Latham, said that most of the state’s tax break programs are not particularly well designed, but he’d rather see the state impose broad taxes on corporations than defer all tax credits, some of which are beneficial.

Taking from the rich

Mauro said that neither budget cuts nor tax increases are desirable during a recession. Spending cuts result in lost jobs and reduced economic activity, while tax increases make people less likely to spend.

“States don’t face good choices in recessions,” he said. “The things the state has to do to balance the budget all hurt.”

But he said that not all budget cuts and tax increases are the same in terms of impact and that taxes on consumption, such as cigarette and soda taxes, are less damaging than spending cuts. A better strategy, Mauro said, would be making the wealthy pay more in taxes.

Last year, the state added more than \$7 billion in new fees and taxes—including taxes on higher incomes—to close an \$18 billion budget deficit.

Earlier this year, a coalition of liberal organizations that includes New Yorkers for Fiscal Fairness asked the state to place a temporary payroll tax on Wall Street bonuses to plug the budget gap. Deutsch and Mauro both still support that idea, which failed to gain traction. They argue that cutting spending would pull money out of the economy and slow the economic recovery, while raising income taxes on high earners would target money that wasn’t going to be spent anyway.

But conservative organizations have argued that a state bonus tax would drive wealthy New Yorkers to

nearby states.

Moran said that taxing the wealthy takes money out of the economy and makes the private sector less likely to invest and hire.

Paterson has said that between 10 percent to 13 percent of the deficit will be closed with new taxes and has vowed to force lawmakers Monday to either adopt his spending plan or shut down state government. The budget, which was due April 1, is now almost three months late.

Paterson's emergency spending bill also includes a cap on school and local government property taxes and would allow wine to be sold in grocery stores. New Yorkers who earn more than \$10 million a year would lose their state tax break for charitable donations, and hedge fund managers who live outside the state but work in New York would pay the same tax as hedge fund managers who live in New York.

The Tax Foundation ranks New York as having the highest state and local tax burden in the country.