

# There's Still a Better Choice!

## Alternatives to Reducing Funding for Education, Health Care and Other Services New Yorkers Depend On!

### **1. Close loopholes that allow multi-state corporations to avoid paying their fair share of state taxes and require corporate tax disclosure by publicly-traded corporations - savings \$1 billion.**

**Adopt "Combined Reporting."** 17 states including California, Colorado, Illinois, New Hampshire and Vermont require multi-state corporations to file a combined return for their entire "corporate family" rather than being able to use inter-subsidiary transactions to move income to countries or states where that income is not taxable. Under combined reporting, a corporate family files a single tax return covering the income of all of its subsidiaries, with that income then apportioned among the states based on the location of its property, payroll and sales.

**Crack down on schemes that create "Nowhere Income."** Multi-state corporations pay no taxes on profits attributable to sales made in states in which they do not have a physical presence. To address this situation, 28 of the 45 states with corporate income taxes, including California, Texas and Utah have enacted "throw-back" or "throw-out" rules to limit this drain on state revenues.

**Reform New York's Corporate Alternate Minimum Tax (AMT).** Several significant loopholes that favor multi-state corporations were added to New York's Corporate AMT beginning in 1994 and the AMT rate was cut from 3.5% to 2.5% in 1999. These changes should be repealed or the AMT should be replaced with a variation of the Alternative Minimum Assessment (AMA) adopted by New Jersey in 2002. To ensure that such an assessment would *not* hurt small business, it should only be applied to businesses with annual gross profits of \$5 million or more.

**2. Stop sweetheart deals with private consultants - savings \$250 million or more per year.** New York State wastes hundreds of millions of dollars each year by contracting out work that could be done by state employees at a significantly lower cost. Consultants are frequently paid up to four times the salary and benefits of state employees doing the same work. Massachusetts and Maine have already adopted legislation restricting wasteful contracting out and New York should do the same. A cost/benefit analysis should be completed before any personal services contract is executed to determine if those services could be performed at a lower cost by state employees. Timely advance disclosure of all proposed personal service contracts should also be required.

**3. Use New York's purchasing power to get lower prescription drug prices - savings \$1 billion or more per year.** New York State and its local governments could greatly reduce their expenditures on prescription drugs by combining their purchasing power to get lower prices. The Health Reform Program at Boston University's School of Public Health has estimated that New

Yorkers would have saved \$4.6 billion in 2004 if they had been able to purchase brand name prescription drugs at federal supply schedule prices.

**4. End the abuse of the Empire Zones program and other economic development programs, and reform the operations of the state's public authorities - savings \$290 million per year.**

- Reform the Empire Zones program.
- Eliminate the abuse of "point-of-service" sales tax exemptions.
- Limit the ability of Industrial Development Agencies to abate state taxes.
- Recover subsidies from firms that don't live up to their job creation pledges.
- Relate firms' Investment Tax Credit benefits to job creation and retention.
- Reform the operations of New York's public authorities.

According to the State Comptroller, public authorities could reduce procurement costs by 10% to 37% with competitive bidding. With only a 1% savings, the Comptroller estimates savings of \$39 million a year from just nine large authorities.

**5. Give back the nickels. Expand New York's "bottle bill" to cover a broader range of beverages and make the beverage bottling industry return unclaimed bottle deposits - generating \$179 million.**

**6. Make polluters pay for Governor Pataki's plan to cap greenhouse gas emissions - generating up to \$500 million.**

Ensure that the tradable emission permits under Governor Pataki's proposed regional carbon cap are auctioned rather than given away with the proceeds used to mitigate negative distributional effects on low and moderate income households and to serve other economically and socially important purposes.

**7. Create a fair and equitable personal income tax structure - generating \$2 to \$7.7 billion per year depending on the plan adopted.**

New York policymakers should adopt and implement a legitimate statewide solution to the *Campaign for Fiscal Equity* school funding decision by the NYS Court of Appeals. If such a solution is adopted, additional revenues above and beyond those available from the actions described above will be necessary. The most economically sensible way to raise such revenues would involve reforming the NYS personal income tax structure in a way that ensures that the wealthiest New Yorkers pay their fair share in state and local taxes. Options include (a) continuing New York's current surcharges on the portions of a family's taxable income above \$150,000 (7.25%) and above \$500,000 (7.7%), (b) adopting the top brackets from New Jersey (8.97% on income above \$500,000) or North Carolina (8.25% on income above \$200,000); and (c) replacing New York's current bracket structure with its 1972 brackets (2% through 15%) adjusted to reflect the changes in the cost of living over the past 30 years. This latter option, under which 95% of New Yorkers would pay less than under current law while the state would collect \$7.7 billion more in revenue, indicates how much and in what direction New York's tax system has changed over the past 30 years.