

BUILDING SUPPORT FOR TAX REFORM

This report has shown that lawmakers seeking to adequately fund education and other services have available an array of progressive structural tax reforms that will meet the state’s short-term needs and help ensure the long-term vitality of the tax system. In short, a variety of good options are available: but how can policymakers build public support for the difficult decisions that await them? This chapter explores tools and strategies for educating the public, the media and state policymakers on the real impact of tax reform.

The Importance of Tax Incidence Analysis

The primary goal of policymakers seeking to fund education and other services is achieving adequacy—that is, raising sufficient revenues to pay for needed services. But tax equity is an equally important goal. This report has presented a series of “tax incidence analyses”—estimates of how the New York tax system affects taxpayers at different income levels, and how proposed changes would affect tax fairness. These thumbnail sketches of the tax equity impact of tax reforms are an essential dimension on which to evaluate these reforms. However, like most states, New York does not regularly use such analyses to help lawmakers evaluate their tax system. Only three states—Maine, Minnesota, and Texas—have legal requirements mandating the regular use of tax incidence analyses.

This means that New York policy-makers are evaluating tax changes without knowing how their constituents are affected by these changes. This increases the likelihood that lawmakers will be persuaded by false claims about the fairness of various proposals—and also makes it less likely that tax equity will be a factor in tax policy decisions.

Six states—Alabama, Colorado, Minnesota, Missouri, Texas and Washington—have incidence models for all major state and local taxes. Five other states—Delaware, Maine, Michigan, Nebraska and New Hampshire—are currently developing such models. Another 23 states are able to estimate tax incidence for income tax options only.

By following in the footsteps of these states and introducing a regularly-used tax incidence model, New York can increase public understanding of tax policy issues—an important goal as the state struggles to fund education. But until a regular tax incidence

analysis capability is introduced, policymakers and the public will have no easily available basis for evaluating the fairness of important tax policy decisions.

Tax Expenditure Reports

Lawmakers seeking to raise revenues without hiking rates will be intensely interested in expanding the base of various taxes by eliminating tax loopholes. But this exercise can only be achieved effectively if lawmakers have available a “laundry list” of the many tax loopholes currently embedded in the code. In states that currently publish them, tax expenditure reports supply lawmakers—as well as advocates and the general public—with such a list. New York, like dozens of other states, now publishes an annual Tax Expenditure Report detailing all of the enacted tax breaks in the sales tax, personal income tax and corporate taxes. The report includes basic information on the history of each tax break and estimates the annual cost of continuing to provide these breaks. However, the report could be made more useful in several ways:

- For some tax breaks, the original intention of lawmakers is all but forgotten. A good tax expenditure report should describe the rationale for creating (and continuing) each of the tax breaks that reduce New York revenues.
- These reports should also assess whether each tax break is effective in achieving the public policy goals they are designed for—and whether these goals might be better achieved through other means.
- In any state that bases its income tax rules on federal law, certain tax breaks will be inherited automatically from the federal government. It is important to include these breaks in the list of state tax expenditure—since New York has the option of decoupling from most of these federally-imposed tax cuts.
- As shown in Chapter Six, the growing importance of untaxed personal services is the greatest threat to the future of the New York sales tax. But because the sales tax statutes exempt services unless specifically taxed, untaxed services are generally not viewed as New York tax expenditures. Other states with similar sales tax statutes now recognize the

importance of taxing services and include tax expenditure estimates for specific services in their annual reports. New York should do the same.

report is already a useful laundry list of potential base-broadening tax reforms, the report could be made even more useful by providing a more complete list of tax expenditures and providing basic evaluations of the effectiveness of each tax break.

The Role of Public Opinion

A crucial step in the process of state tax reform is explaining to voters why reforms are necessary. Lawmakers should present potential tax increases to voters in a way that makes clear both the costs and the benefits of enacting these changes.

Poll results show that survey respondents are more likely to support tax increases when they are tied to particular purposes. A March 2004 Zogby poll found that when respondents are explicitly asked to support or reject a state tax increase designed to provide state aid to schools in response to a court decision requiring adequate school funding, almost two-thirds of respondents supported such a hike—with only thirty percent opposing the plan. In other words, New Yorker voters supported tax hikes for education by more than a two to one margin.

Of course, when survey respondents are asked whether they support tax increases in general, they are far more likely to reject them outright. For this reason, it is essential to “connect the dots” by reinforcing the perceived linkage between the taxes that must be raised to adequately fund services and the additional public spending that will result from these tax hikes.

Conclusion

A prompt solution to New York’s school finance woes can only be found if policymakers are willing to explain the available options to the public in an effort to build public support for potential unpopular tax reform ideas. Polling data suggests that New Yorkers are opposed to tax increases in general, but that residents are much more likely to support tax increases when it is clear that any additional revenues will be targeted to achieving educational adequacy. Voter education is critical to building support for a package of spending and tax increases that will achieving adequacy in funding education and other critical public services.

It is also essential to increase the quality of the information available to lawmakers, the media and the public about the impact of various tax reform options on the public. Regular public disclosure of the tax incidence impact of the current tax system—and of proposals for change—will help achieve greater voter education. And while the state’s tax expenditure