

CHAPTER TWELVE

CONCLUSION

The decade-long saga of the *Campaign for Fiscal Equity* case has concluded with a clear statement that policy makers must retool the state's school finance system to adequately fund education in New York City. There is a growing consensus that the state's response to the *CFE* decision must achieve adequacy not just for New York City, but for students everywhere in New York State—and that adequacy should be a goal for all of the public services provided by the state of New York.

The *CFE* decision tells us not only that New York does not currently provide an adequate education for its children, but that this educational failure can be linked to shortcomings in the state and local tax structure. By combining true tax reform with the effort to raise sufficient funds for education, New York can help ensure the long term viability of the state's fiscal structure—and avoid crises of school funding adequacy in the future.

Fortunately, this study's detailed analysis of the New York tax system has shown that sensible tax reform options are available to policymakers—and that revenue-raising tax reform can be achieved through reforms that also make the tax system fairer and that make New York a more attractive place for businesses and individuals. In other words, the goals of tax adequacy, equity and economic development do not necessarily conflict with each other.

This study has argued that achieving adequate public revenues will require a transformation of the state's fiscal structure. The study has identified a variety of tax reforms that could be enacted as a means of enabling educational adequacy, including base-broadening, rate increases, introducing entirely new revenue sources—and reintroducing old ones.

This study does not recommend any particular revenue-raising solution to the state's current fiscal crisis. The study does provide detailed analyses of many options which could be part of the state's approach to funding public services, including:

- **Repealing personal income tax loopholes.** Personal income tax breaks for pension and Social Security benefits reduce the yield—and the perceived fairness—of the income tax. Making the income tax base broader will help fund education and other essential government services in the long run. (Chapter Four)

- **Restoring the progressivity of the personal income tax.** In the past quarter century, the top income tax rates have been reduced dramatically—making the New York tax system much less fair overall. Restoring the higher top marginal tax rates formerly used would help raise needed revenues and would restore the former progressivity of the income tax. (Chapter Four)
- **Restoring the New York City commuter tax.** Before being repealed in 1999, this tax helped ensure that non-residents working in New York City paid their fair share to support the provision of public services. Re-enacting the tax would be an important step towards adequately funding city schools—and, if the new tax includes a graduated rate structure, would represent a step towards tax fairness in New York. (Chapter Four)
- **Eliminating corporate income tax loopholes.** The New York corporate income tax is under siege. A host of creative accounting loopholes have reduced the yield of the corporate tax in recent years—but loophole-closing measures could be enacted to restore the tax. (Chapter Five)
- **Strengthening the corporate minimum tax.** New York has taken the first step toward eliminating the specter of “zero-tax corporations” by enacting a corporate minimum tax—but tax changes enacted in the past decade have weakened the minimum tax dramatically. Broadening the tax base and increasing the rate will be essential to ensuring that all companies doing business in New York pay their fair share. (Chapter Five)
- **Broadening the sales tax base to include more goods and/or services.** Like most states, New York excludes many personal and professional services from its sales tax base. These services are a growing part of the economy—which means that the long-term vitality of the sales tax depends on including these services in the tax base. The state could also eliminate expensive, poorly targeted exemptions for various goods such as groceries, clothing and utilities. While these changes might increase the perceived fairness of the sales tax, the net impact of this change would still be regressive—so any further sales tax expansion would exacer-

bate the current regressivity of the New York tax structure. (Chapter Six)

- **Increasing excise taxes on cigarettes, gasoline or alcohol.** These options have recently become increasingly popular in other states—but are naturally declining revenue sources and will be insufficient to fund education in the long run. These options are also quite regressive. (Chapter Six)
- **Retooling the New York property tax.** Even after the full implementation of the STAR property tax exemptions, New York’s property tax remains especially burdensome for low- and middle-income taxpayers—and the unequal distribution of property wealth between districts makes it much harder for low-wealth districts to fund services using the property tax. Options for improving the fairness of the property tax include means-testing the STAR exemption to make it available only to those for whom property taxes represent a heavy burden, repealing STAR in favor of a more targeted approach to property tax relief, and a statewide property tax. (Chapter Seven)
- **Offsetting regressive tax hikes with low-income protection.** An increasing number of states now routinely consider introducing and expanding low-income credits to accompany any major regressive tax hike. These credits include the Earned Income Tax Credit, sales tax credits, and property tax “circuit breakers.” New York could expand its EITC and circuit breaker provisions, or enact a sales tax credit, to mitigate the impact of regressive tax hikes on low-income New Yorkers—at a minimal cost to the state. (Chapters Four, Six, and Seven)
- **Preserving the estate tax.** Estate and inheritance taxes are one of the few truly progressive revenue sources available to New York policymakers. Recent legislation repealing the federal tax will add pressure on New York lawmakers to follow suit. Because the New York estate tax is “decoupled” from the federal tax, this important source of tax fairness will continue to be levied in New York unless lawmakers take active steps to repeal it. (Chapter Eight)
- **Taxing intangible property.** Most states have moved away from taxing all forms of real and personal property in recent decades—but a modest tax on intangible wealth such as stocks and bonds could help restore adequacy and

fairness to the New York tax system. (Chapter Eight)

- **Re-introducing the stock transfer tax.** Before being repealed in 1981, the stock transfer tax offered advantages that are rare among taxes levied at the state level: its progressivity and its exportability meant that it added to the fairness of the New York tax system at a minimal cost to in-state residents. Re-enacting the tax, even at a much lower rate than the former 5-cent-per-share tax, could help diversify and solidify the New York tax system. (Chapter Eight)
- **Increasing the use of gambling revenues.** New York was among the first states in the nation to use revenue from state lotteries and other gambling sources to help fund public services. As more states have introduced lotteries, the promise of gambling revenues as a long-term funding source has faded. The potential revenues from this approach are uncertain in the short run, and likely to decline in the long run—and gambling revenues are among the most regressive revenue-raising options available. (Chapter Eight)

The study also suggests that providing more detailed information on the impact of the current New York tax system (and of the impact of proposed reforms) could help pave the way for successful tax reform. In particular, increased disclosure of corporate tax liability information (Chapter Five), a regularly tax incidence report and a more detailed tax expenditure report (Chapter Eleven) would help the public, the media and lawmakers to understand why base-broadening and reducing regressivity are both important goals of structural tax reform.

None of these options would be easy to enact: as we have seen, public skepticism toward tax increases is a substantial hurdle to overcome—and some policymakers remain leery of the potential economic impact of major tax changes. But, as this report has shown, structural tax reform is a goal worth achieving for New York policymakers not just because loophole-closing tax reforms will ensure the short-term and long-run adequacy of the fiscal system, but also because educational adequacy can have a positive impact on the state’s economy as well. New York policymakers face formidable political hurdles as they seek to achieve adequacy in compliance with the state constitution—but the economic and fiscal rewards for surpassing these hurdles will be enjoyed for decades to come.