CHAPTER EIGHT

OTHER IMPORTANT REVENUE SOURCES

This study has focused on the major taxes currently levied by New York State, including personal income, corporate income, consumption and property taxes. But state policymakers are also likely to look at a variety of less important revenue sources to help meet the state's funding needs. This chapter discusses these options, with an eye toward evaluating their usefulness in restoring fiscal adequacy to New York.

Estate and Inheritance Taxes

Like most states, New York levies an inheritance tax that is closely linked to the federal estate tax. The federal estate tax has historically allowed a dollar-for-dollar tax credit against inheritance taxes levied by states, up to a certain maximum amount. Most states —including New York—have defined their estate taxes to be exactly equal to the amount of this credit, so that the New York estate tax will add exactly nothing to the total amount of estate taxes paid by New York decedents. This "pickup tax" amounts to a transfer of estate tax revenues from the federal government to the states, rather than a state tax hike.

Federal tax cuts enacted in 2001, however, are scheduled to repeal the estate tax over ten years—and, more critically for New York, phases out the federal credit allowed for state estate taxes between 2002 and 2005. The federal credit is scheduled to fall by 25 percent in 2002, 50 percent in 2003, 75 percent in 2004, and will cease to exist in 2005. However, the New York estate tax is linked to the federal tax in effect before 2002, which means that unless state lawmakers take additional action, the state's estate tax will not be repealed.

While the estate tax represents less than 2 percent of New York taxes, it plays an important role in the state's tax structure. Like personal and corporate income taxes, the estate tax helps to offset the regressivity of the other taxes levied by New York. Any effort to reduce or repeal the estate tax will shift state and local taxes from wealthy decedents to living workers and consumers—and from wealthier taxpayers to the low- and middle-income New Yorkers who are hit hardest by the current tax system.

State-Sponsored Gambling

Lotteries, and gambling revenues more generally, have been a popular revenue-raising choice for lawmakers in recent years. Lotteries are operated by non-profit agencies of the state government. No tax applies to lottery revenues; the government's revenue stream is derived from the amount wagered on tickets. However, substantial expenses are required to operate a lottery—such as prizes, marketing, administration, and auditing—and the net revenue received by states averages only 35 percent of the gross revenue. In fiscal year 2003, New York's state lottery brought in about $1.8 billion after these operating expenses in 2003.[22] New York also collects various taxes and fees associated with horse race gambling, which amounted to $38 million in 2003.[23]

As the scale of New York's fiscal crisis has widened, some policymakers have suggested expanding the state's reliance on various gambling revenues, including "video lottery terminals," as a way of shoring up the state's tax system. Despite providing New York with needed revenue, state-sponsored gambling presents an array of negative issues. In particular:

- State-sponsored gambling is a regressive revenue source. Low-income and poorly-educated taxpayers are far more likely to participate in lotteries and other forms of gambling than are wealthier, better-educated taxpayers.
- The revenue gains from gambling may be illusory. Instead of increasing state revenues, gambling may simply shift money from one tax to another with no net gain to New York. When consumers spend more money on gambling activities, they will spend less money on other items, such as travel, recreation and basic needs. If these purchases are subject to sales tax, increasing gambling revenue will mean a decrease in state sales tax revenue.
- Like other "sin" taxes, gambling is not a truly voluntary tax. Compulsive gambling has been recognized as an addictive disease. Relying on compulsive gamblers to fund public services amounts to taking advantage of these gamblers' addictions. And because state gambling administrators tend to downplay the poor odds of winning, gamblers are usually given incomplete information about these odds—which means that gamblers are being tricked into these "voluntary" spending decisions.

[22] Comprehensive Annual Report For Fiscal Year Ended March 31, 2002.

[23] Annual Statistical Report, January 2004

- Compulsive gambling introduces a variety of social costs, including increased crime rates, decreased private savings, and job losses. These social costs can reduce the quality of life for children living in families headed by gamblers, and can result in higher social welfare spending by state governments in the long run.

Perhaps the most problematic shortcoming of this revenue-raising solution is that the yield of gambling revenues seems likely to decline over time. As more and more states increase their reliance on gambling revenues, the attractiveness of traveling to New York to gamble will decline, and New Yorkers seeking to gamble may well do so in neighboring states that formerly did not allow gambling. In the long run, an increasing percentage of state gambling revenue will be paid by state residents rather than tourists.

Intangible Personal Property Tax

In the early twentieth century, many states levied property taxes not just on real property and tangible personal property but on intangible personal property such as stocks and bonds. Most states now exempt stocks and bonds, focusing instead on more easily taxed items such as homes and cars. However, in Florida, property taxes include intangible personal property. Florida imposes a $1 per $1000 value on intangible personal property with the first $250,000 of taxable assets exempt for individual filers, $500,000 for joint filers and $250,000 for corporations. The high exemptions are designed to ensure that the administrative burden of paying these taxes is minimized for low- and middle-income taxpayers whose intangible wealth is quite low. Even with this large exemption, Florida's intangible property tax raises close to $500 million annually.

The main argument for levying a tax on intangible personal property in addition to real property is that wealth is wealth regardless of its form. A New Yorker who keeps her wealth in real property (for example, a home) should not be taxed more heavily than someone who chooses to keep her wealth in stocks and other forms of investment income. Adding intangible property to New York's tax base could help restore fairness and adequacy to the state's tax system.

Stock Transfer Tax

In 1905, New York lawmakers enacted a "stock transfer tax." The tax applied to stock transactions taking place on Wall Street. Starting in 1966, revenues from the tax were given to New York City. Although the tax still legally exists (and is technically collected) today, it has essentially been repealed since 1981: while Wall Street brokers still collect the tax on each sale of stock and pay it to the state, the tax is immediately rebated back to these brokers in its entirety. At the time of repeal, the tax rate varied depending on the price of the stock being traded, ranging from a low of 1.25 cents per share (for shares worth under $5) to 5 cents per share for stocks valued over $20 per share. The tax on any transaction was capped at $350.

Re-introducing the stock transfer tax (by eliminating some fraction of the rebate that is currently granted) could help New York City (or New York State) deal with its current fiscal crisis. In 2003, New York collected—and immediately rebated—$9.5 billion in stock transfer tax revenues.[24] Because the existing rebate mechanism means the tax is still collected, the administrative burden of re-enacting the stock transfer tax would be minimal.

One frequently cited reason for repealing the tax was that the high rate and unique nature of the tax might encourage Wall Street traders to relocate outside the state to avoid it. However, reimposing the tax at a much lower rate could help New York to meet the state's funding needs with a minimal impact on Wall Street. Because a stock transfer tax would be paid by shareholders, the tax would be quite progressive (since stock shares are held disproportionately by wealthier taxpayers) and would be partially exported to residents of other states (since many shareholders trading in New York live in other states). Even at rates just one-tenth of the former 5 cent top rate, such a tax could raise close to a billion dollars annually to help fund education in New York.

Conclusion

This chapter has surveyed several revenue sources that could be used in combination with increases in major New York taxes to help fund education. These include revenue sources that New York currently levies and those they could consider. None of these sources can independently resolve the state's ongoing fiscal shortfalls—but each could contribute to funding adequacy in New York.

[24] New York City Independent Budget Office (2004), *Budget Options for New York City*, p.19.