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## **REPORT ANALYZES NEW YORK TAX STRUCTURE IN RESPONSE TO CFE CASE**

*Institute on Taxation and Economic Policy Analysis  
Finds that Changes Can be Made  
to Achieve Tax Fairness and Raise the Revenue  
Required to Adequately Fund Education and Other Services*

**ALBANY, NY – April 13, 2005** - A report released today by the Institute on Taxation and Economic Policy (ITEP) analyzes New York's tax system and its ability to raise the additional revenue required to adequately fund education and other important public services.

The report, "Achieving Adequacy: Tax Options for New York in the Wake of the *CFE* Case" suggests that the current tax system fails to achieve the basic goals of a sound tax system - including fairness, the ability to raise enough revenue for crucial public services such as education, and promoting economic development. It concludes that the state has options available that would help achieve these goals.

The report was prompted by the New York Court of Appeals decision in the *Campaign for Fiscal Equity (CFE) v. State of New York* case, which found that the current school funding system violates the state constitution's guarantee of a "sound basic education" to New York City students. New York has appealed the most recent order, by State Supreme Court Judge Leland DeGrasse, that the state must put an additional \$5.63 billion a year into New York City public schools.

"The CFE decision signaled that the state's historical reliance on local taxes is not a sufficient mechanism to fund education. The state will now have to devote substantial resources to fill that funding gap," said Matthew Gardner, State Tax Policy Director at ITEP and an author of the report. "The court's decision also provides policymakers with an important opportunity to reexamine the tax system in a way that makes New York taxes fairer to all of its citizens and more conducive to economic development in the long run."

The report highlights a wide variety of targeted tax breaks in the state's income, sales, property and corporate taxes that offer lawmakers a broad menu of choices for structural tax reform. The report also analyzes 26 specific options, or "building blocks," for tax reform, estimating each option's impact on state and local revenues in 2006 and how they would affect the tax structure in the state. It also combines these building blocks into larger revenue raising plans. The offsetting impact of these options on federal taxes is projected as well.

Some of the revenue options analyzed in the report include:

- Making the personal income tax more progressive, helping to offset the regressivity of New York's state and local sales and property taxes.
- Making up for declining corporate tax revenues - - which contribute only half as much to the state's economy as they did twenty-five years ago - - by broadening New York's corporate income tax base.
- Modernizing New York's regressive sales and excise tax system by broadening it to include more goods and services and providing tax credits to low-income taxpayers.
- Restructuring New York's regressive property tax, which hits low and middle income taxpayers most heavily, as they are based on home values rather than income levels. .

The analysis concludes that revenue and state spending increases, when considered together, could have a stimulative effect on the state economy. While structural changes would bring in revenue to fund all public services, the report points out that the economic benefits of public spending are especially pronounced when focused on education. The report notes, for example, that nearly all public spending on education goes to in-state activities, including salaries for teachers and school construction.

"We found that New York needs to consider tax reform solutions to bring in additional revenue," said Gardner of ITEP. "Revenue discussions are not easy, and we hope that this report will help foster a clearer understanding of the pros and cons of revenue options available to fund education and other important services."

For a full copy of the report (in pdf format) go to <http://www.itepnet.org/newyork.htm>.

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