

Separating Fact from Fear-Mongering Fiction In the Union-Backed Tax-Hike Campaign

By E.J. McMahon
Director, Empire Center

Spearheaded by the state's major public employee unions, the "New Yorkers for Fiscal Fairness" (NYFF) coalition is pushing for an increase in income taxes on households earning more than \$1 million a year. In support of this proposal, the coalition has released a radio commercial that makes a series of misleading and inaccurate claims about tax and budget policy. Here's a response:

CLAIM:

"The rich are getting richer. And with George Bush giving massive tax cuts for the rich, the wealthiest New Yorkers just aren't paying their fair share."

FACT:

- As of 2005, New York taxpayers with adjusted gross incomes of \$1 million or more represented just 0.4 percent of all filers but generated 33.5 percent of state income tax liability (on 23.7 percent of total income).¹
- The sharp decline in tax receipts growth in 2008-09 is due primarily to a decline in asset values and profits, the immediate impact of which is concentrated among wealthy individuals and investment firms; state finances are now more stressed because many of the rich are *no longer* getting richer at the same pace as they were before the credit crisis.
- Bush's tax cuts, especially the 2003 round, provided a shot in the arm to New York's economy and promoted stronger growth in New York's state income tax base.²

CLAIM:

"Some Albany leaders want to cut money for hospitals and nursing homes and reduce money for schools and colleges."

FACT:

- No Albany "leader" has expressed a desire to "cut" or "reduce" health care or education. Quite the contrary: the 2008-09 Executive Budget would increase school aid by \$1.5 billion, or 7 percent, on top of last year's record increase – and leaders in both houses of the Legislature only want to spend more. General fund support for higher education would rise by 3 percent under the Spitzer budget – and more if the legislative leaders had their way. And even if the governor's proposed changes in hospital and nursing home reimbursement formulas were adopted without change, total state-funded Medicaid spending would also rise by 7 percent.³
- The income tax increase is not being proposed as an alternative to dire "budget cuts" but as a way of increasing spending even faster. The

Assembly Democrats' budget, which includes the tax hike, calls for a state funds spending increase of 7.14 percent.⁴

CLAIM:

"Taxing millionaires or cutting schools and health care - that's an easy choice."

FACT:

Taxing millionaires or cutting schools and health care are not the only choice. The choices for reducing and restraining spending are as numerous as the line items in the \$124 billion proposed budget. For example, more than a quarter-billion dollars in savings could be achieved merely by reducing the rate of school aid growth to 5 percent. More money could also be saved by taking advantage of natural attrition to reverse planned growth in the state payroll – and by seeking to reopen and modify generous new pay deals with state unions. Other savings could be generated for state and local taxpayers by, for example, reforming the Taylor Law and repealing the Wicks Law – to name just two of many cost-saving reforms that have been strenuously resisted by some of NYFF's sponsors.

BOTTOM LINE:

The State Funds budget grew by 34 percent during former Governor George Pataki's final four years in office, and by a projected 7 percent during former Governor Eliot Spitzer's truncated first term, largely on the strength of income taxes generated by high-income individuals and corporations. In the face of a potential recession, the state needs to restrain the out-of-control spending habits developed over the past four years. Higher marginal income tax rates will discourage the targeted individuals from living, working and investing in New York – the very last step the state ought to be considering a troubled economic climate.

¹ State of New York, 2008-09 Executive Budget, Economic and Revenue Outlook, p. 248.

² McMahon, Edmund, *The \$36 Billion Bonus: New York's Gains from Federal Tax Cuts*, Manhattan Institute Civic Report 43, August 2004; and *Taxes and Consequences: The Gotham STAMP 2006 Computable General Equilibrium Model*, Empire Center Special Report, December 2005.

³ State of New York, 2008-09 Executive Budget, Five-Year Financial Plan.

⁴ New York State Senate Finance Committee, Staff Report on the SFY 2008-09 Senate Budget, p. 1-A.