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THE LEAGUE OF WOMEN VOTERS *of New York State*

JOINT LEGISLATIVE PUBLIC HEARING ON 2014-2015 EXECUTIVE BUDGET PROPOSAL: TAXES
TESTIMONY SUBMITTED TO THE ASSEMBLY WAYS AND MEANS, SENATE FINANCE
FEBRUARY 10, 2014

Good afternoon. I am Barbara Bartoletti, Legislative Director of the League of Women Voters of New York State. I have served pro bono in this capacity since 1988, and have been a League member since 1978. The League is a nonpartisan political organization devoted to promoting active and informed involvement of individuals in government.[1] While you are no doubt aware of our strong advocacy for campaign finance and election reform, we also have long been active in advocating that New York State fulfill its constitutional responsibility to educate its children pre-kindergarten-12. As part of this we believe that the state's system of financing education should be progressive and therefore the League's State Finances position is informed by our advocacy in Pre K-12 education finance policy. Personal income tax comprises $40 billion, or nearly two-thirds of our state's $64 billion in revenues.[2] Because we want to use it to reduce local property taxes, a primary support for education, we have a special interest in safeguarding personal income tax revenues. We recognize there are other very important sources

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[1] *See LWVNYS Impact on Issues for League positions on Election Law, Government, Health Care, Judicial, Natural Resources, Social Policy, State Finances and Women's Issues, http://lwvny.org/advocacy/impact.*

[2] *New York State Department of Taxation and Finance, Office of Tax Policy Analysis, Annual Statistical Report, November 2013, "2012-2013 New York State Tax Collections: Statistical Summaries and Historical Tables.*

of state revenue including $11 billion in sales taxes, but we do not hold positions on the sales or estate tax, or even the lottery.

Use Progressive Taxes for Education; Be Cautious about Granting Tax Credits. The League believes New York should continue to rely on a progressive state income tax which raises revenue required to fulfill its public education obligations. The resulting revenues vary depending upon the economy's strength, and thus should be stabilized by creating a substantial reserve. Horizontal equity for income taxation should be maintained: similar groups of taxpayers should be treated equally. Granting personal income tax credits to taxpayers living in the school districts which stay within a poorly designed spending cap violates the principle of horizontal equity. We therefore oppose such tax credits, which we believe will flow largely to taxpayers in wealthier districts that can typically belt-tighten much more easily than poorer districts.

Normally our testimony would concern only items included in the Governor's budget. However, in light of its substantial number of sponsors, coupled with special interests groups' requests for its inclusion in this year's budget, we feel it is essential to make our rationale clear for our opposition to two similar bills which propose a means of encouraging donations for education tuition scholarships (S4099A/A1826A), using up to $250 million for tax credits against either the personal income or corporate franchise tax. Beyond the $250 million, an unlimited amount[3] is provided for school supplies and home schooling expenses (in the Senate version).

If enacted, this initiative will result in certain taxpayers receiving an income tax credit whereas the great majority of taxpayers who, either through cash, volunteer, or in kind donations, continue to support both private and public education would either receive no tax relief at all, or simply a charitable donation deduction. The bills provide that 5% of $125 million (half of the $250 million to be split between private and public schools) or $6.25 million could be granted as a tax credit to reduce personal income tax liability, or a single corporation or S corporation to

[3] The bills are not identical—Senate distinguishes home schooling at $100 and classroom at $75 while Assembly provides $100.

reduce corporate franchise tax liability. The Assembly version provides that if donations to an education foundation connected to a school "shall be disregarded for the purposes of all apportionments, computations, and determinations of state aid." As a first-come, first-serve program, the bill has the potential not only to skew the donations to locales without consideration of district wealth (as measured by the State Education Department), but to export the related tax credit benefits to those who are sufficiently well versed on the proposed program to apply for the necessary "certificates" indicating intent to donate funds within a short window in the beginning of January. While this, in and of itself, may benefit both public and private education, the balance of costs and benefits is skewed too much to the donors rather than the recipients, since the program directly (dollar for dollar) reduces available personal income tax revenues statewide that might otherwise be applied to educate students attended publicly-supported schools.

Phase Out STAR; Implement Circuit Breakers.

We are pleased that the Governor's budget includes an initiative that we have long recommended. Real property tax relief should be granted to individuals, not school districts, through a circuit breaker approach, adjusted for changes in the cost of living. Since shortly after STAR was implemented in the late 1990s, the League has recommended substituting a comprehensive property tax circuit breaker. STAR comprises 17% of school aid, substantially skewing the concept of equitable distribution of aid according to need. A taxpayer can still earn $500,000 and receive this tax relief. According to the Governor's budget, the estimated cost of this $3.4 billion 2013-14 program, will continue to grow to $3.6 billion in 2018.[4] Given the high proportion of this aid that goes to low needs districts, if the legislature does not choose to eliminate this program altogether, the League continues to urge that it implement even stronger limitations on STAR expenditures than those that have been passed so far, based on individual taxpayers' ability to pay. STAR had the unintended consequence of allowing most school districts to increase spending with few taxpayer complaints, exacerbating differences in spending

[4] *P. 58, Executive Budget Financial Plan.*

between the wealthiest and poorest districts due to poor formula design, while still failing to address intra-district inequities in tax burdens. It is no accident that policymakers were forced to the conclusion that a cap was the only way to stop districts from increasing their spending; STAR made school tax increases far too easy. A circuit breaker, properly designed, would neither have these inefficiencies nor produce such unintended consequences because it would only target relief to individual taxpayers with demonstrated needs. We note that the income limitation proposed for the circuit breaker is $200,000, perhaps a more reasonable limit but now inconsistent with STAR's $500,000 threshold. The circuit breaker proposal needs refinement, and we welcome the opportunity to discuss this process with you.

Implement Property Tax Assessment and Collection Reforms. As an important corollary to the League's property tax circuit breaker recommendation, the League urges the legislature to consider instituting accountability measures for the 30% of the State's taxing jurisdictions which have not yet reformed and modernized their real property tax assessment and collection methods. The efficiency and reform recommendations[5] included in the Governor's New York State Tax Reform and Fairness Commission report are highly consistent with our long-standing position.

Reverse Unintended Negative Consequences of Tax Levy Cap. Notwithstanding our agreement that management efficiencies and consolidation of services to schools should be strongly encouraged, the League opposes the "levy percentage" property tax cap, and notes that predictable harm has come to poorer school districts.[6] A percentage cap is affected by the size of the levy, which varies considerably among districts. According to the Regents' calculations last year, the wealthiest districts would be allowed a levy increase approximately nine times greater than the poorest districts. The property tax cap as designed, while intended to encourage fiscal

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[5] *See specifically pp. 29-30. While 70% of the state's 983 local government assessment units were found to have equitable assessment policies, nearly 300 of them do not—this problem is concentrated on Long Island and should be aggressively addressed. This caused property tax cap inequities to be even worse in some school districts. See local Long Island newspaper stories summer 2013 for detailed examples.*

[6] *See NYSUT's property tax lawsuit currently in the Albany State Supreme Court for specific examples.*

discipline, will highly likely encourage cap evasion behavior, exacerbating the difference in total resources available to students in wealthier vs. poorer districts. The League predicts further growth of private efforts, be they through local education tax-exempt foundations or through ad hoc organizations. Public schools located where the adjusted gross income of its residents is high may amass sizeable amounts, with the added benefit of a federal and state tax charitable deduction. That is far less likely to happen in poorer districts.

Thank you for your time today.