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A Surplus of Ideas for a Budget Deficit

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Since neither the state nor federal government seems ready to ride to the city's fiscal rescue, a combination of spending cuts and tax increases is likely. While spending cuts can be harmful, raising taxes in a high-tax city like New York can also have negative repercussions.

At least two principles should guide our consideration of potential tax increases: fairness and long term competitiveness. The tax increase that comes closest to meeting both these criteria is restoration of the commuter tax, which would bring in more than \$400 million a year. A commuter tax reduces the incentive for individuals who work in the city to live in the suburbs, and it is also equitable, both because commuters have higher average incomes than city residents do and because it seems fair to have individuals who work here and use local services bear some of the costs.

Increasing the city's tax on personal income is another option. Either increasing the base rate for high-income filers from 3.2 percent to 4.2 percent or adding a 10 percent surcharge for all filers would each raise about \$550 million annually. The advantage to raising income taxes is that the increases fall most heavily on high-income residents who are best able to pay. At the same time, however, many of the New York's highest income residents are particularly mobile, and could continue to work in the city but avoid city personal income taxes by residing elsewhere.

The city could also consider raising the property tax rate by 10 percent while loosening limits on property tax assessment increases that have pushed a disproportionate share of the burden onto owners of apartment and office buildings. The rate hike would increase tax revenues by roughly \$1 billion a year, and loosening the assessment limits would over time make the property tax fairer. The city also needs to examine the structure of its business income taxes, which have not kept pace with long-term growth in corporate profits.

There is certainly no question that taxes matter. But so do services. Dirtier streets, rising crime and dilapidated parks can be as much a disincentive to living or working here as rising taxes. Higher taxes may be necessary to keep an adequate level of services. Carefully choosing among possible tax increases can minimize the damage to the city's economy.