



Testimony
Joint Legislative Budget Hearing
Taxes
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The Fiscal Policy Institute would like to thank the chairs and members of the respective committees for the opportunity to testify on the 2019-20 New York State Executive Budget. The Fiscal Policy Institute is an independent, nonpartisan, nonprofit research and education organization committed to improving public policies and private practices to better the economic and social conditions of all New Yorkers. Founded in 1991, FPI works to create a strong economy in which prosperity is broadly shared. FPI's Immigration Research Initiative looks at immigration in New York, and across the country.

Financial Plan and Fiscal Outlook

New York is a wealthy state with a growing economy and solid economic indicators. Yet, New York also has a backlog of unmet needs in education, health care, human services, infrastructure, and more. Despite some of New York's advantages and leadership on several economic and policy issues, the state falls far short of meeting the needs of New Yorkers. We can, and should, do better.

Below are several proposals for how to set the state onto a better course. We examine where the governor's Executive Budget makes good progress, and where it falls short. The Fiscal Policy Institute's top three recommendations as the legislature and governor begin to debate these issues are:

1. Abandon the Artificial Two Percent State Spending Cap

Over the years, the two-percent cap has become Governor Cuomo's trademark budget policy principle, meant to signify his strict adherence to fiscal discipline. However, unforced austerity does not represent good governance at a time when so many needs are going unmet. An arbitrary two percent cap at a time when health and education spending is rightly growing means not just a cap but often a reduction in spending in many other areas where it is needed, and where the state could well afford it. The governor's evident lack of interest in growing the rainy-day fund during an economic expansion also hardly reflects sound fiscal management.

It is difficult to assess true spending growth precisely, as the Executive Budget continues the past practices of using reclassifications, prepayments, and other budgetary maneuvers that mask actual expenditure. One thing that is clear is that overall spending is being unnecessarily constrained. The lack of transparency, however, may suggest that behind the budget curtain the governor is also finding a rigid cap to be problematic.

2. Enhance the Millionaires Tax and Make it Permanent

The Executive Budget proposes to extend the existing “millionaires’ tax” for five more years, but it remains temporary. And, the Executive Budget does not expand the tax to include additional brackets at the \$5 million, \$10 million and \$100 million levels. The millionaires tax needs to be revised and improved with a view to ensuring sufficient state revenues and a progressive structure in the state’s tax system.

Prior to the enactment of New York State’s Personal Income Tax reforms in 2012, the highest tax rate was 8.97 percent. It was levied on all taxpayers, irrespective of tax filing status, if their annual incomes exceeded \$500,000. Under current law, the top bracket of 8.82 percent begins at \$1,077,550 for single filers, \$1,616,450 for head of household filers, and \$2,155,350 for married taxpayers filing jointly. This rate structure is set to expire at the end of 2019. Once expired, the top tax bracket would begin, for married taxpayers filing jointly, at \$323,200 and the tax rate would be 6.85 percent. The governor proposed a 5-year extension in this year’s Executive Budget.

In 2017, the New York State Assembly majority proposed making the personal income tax code permanently more progressive by creating additional brackets for taxpayers earning more than a million dollars annually. The top rate of 8.82 percent would begin at one million in annual revenue. This rate would increase by half a percentage point for those earning more than \$5 million, it would increase another half a percentage point for those earning more than \$10 million, and the top rate would be 10.32 percent for those earning more than \$100 million annually.

If this same proposal were enacted for tax year 2020, the state could anticipate an additional \$2 billion in revenue, in addition to the revenue expected from the governor’s temporary extension of current law, from high income taxpayers. The Fiscal Policy Institute estimates that \$330 million of this amount would be from people living out-of-state, but earning money in New York State, like commuters from New Jersey and Connecticut. The Department of Taxation and Finance does not provide tax data on those earning more than \$100 million annually, but using a Pareto distribution of personal income, FPI estimates that \$236 million in additional revenue would be raised from taxpayers in the highest proposed tax bracket.

Figure 1. The Enhanced Millionaires’ Tax Can Generate \$2 Billion in Additional Revenue for FY 2020

Proposed Personal Income Tax Brackets for all Filing Statuses	Current Law Tax Rates	Proposed Tax Rates	Additional Revenue from State Residents	Additional Revenue from Non-Residents	Total Additional Revenue
\$1 million to \$5 million	6.85%/8.82%*	8.82%	\$ 727,320,779	\$ 195,591,384	\$ 922,912,164
\$5 million to \$10 million	8.82%	9.32%	\$ 137,563,815	\$ 24,908,276	\$ 162,472,091
\$10 million to \$100 million	8.82%	9.82%	\$ 620,823,723	\$ 97,671,229	\$ 718,494,952
Above \$100 million	8.82%	10.32%	\$ 224,877,219	\$ 11,243,861	\$ 236,121,080
Total			\$ 1,710,585,536	\$ 329,414,750	\$ 2,040,000,286

Source: New York State Department of Taxation and Finance: Personal Income Tax Filers Summary Datasets through tax year 2016, Table 3; New York State Division of the Budget: FY 2020 Economic and Revenue, February 2019. Note: under current law, the top bracket of 8.82 percent begins at \$1,077,550 for single filers, \$1,616,450 for head of household filers, and \$2,155,350 for married taxpayers filing jointly. The tax rate for the second-highest bracket under current law is 6.85 percent.

3. Fix Property Taxes by Increasing the State Share of Spending and Creating a Middle-Class Circuit Breaker, not Through a Rigid Tax Cap

One of the biggest complaints about taxes in New York State is that property taxes are too high. Residents are beginning to understand however, that the prime reason lies not in local government but in Albany. As the state reduces its share of funding in areas of joint responsibility between the state and its localities, local governments raise property taxes to pick up the burden where the state has fallen short. The state's answer has not been to increase its share of funding, but to put a state-imposed cap on property taxes. The result is localities that are forced to cut services or look to other, even less attractive, sources of revenues such as fees and fines. The Executive Budget proposes to make the property tax permanent. That would be a move in exactly the wrong direction.

If the legislature is not yet ready to fully repeal the property tax cap, steps can be taken to loosen the fiscal straightjacket at least a bit. Making it a cap of inflation or two percent, whichever is *higher*, would be better than the current formula that is whichever is *lower*. And numerous areas should be exempted, especially if they are out of the control of the local government.

In addition, a targeted, middle-class circuit-breaker would make sense to immediately relieve the burden of high property taxes to people who truly cannot afford them. An extensive discussion of this issue can be found in the Local Government section of this Budget Briefing Book.

A Few Good Proposals in the Executive Budget

Congestion Pricing

The Executive Budget's proposal for congestion pricing is an effective way to meet two goals at the same time: raise much-needed funds for the subway system that is in dire need of improvement; and reduce the intense and worsening traffic in the central business district of Manhattan. The Executive Budget mandates that the system finance a minimum of \$15 billion in capital funding. That would imply a revenue stream of roughly \$1 billion per year, at current interest rates.

In recent years, the need to fund major improvements in the Metropolitan Transit Authority has moved from an urgent priority to a real crisis. People who live in New York City or commute there face long delays and crushing overcrowding daily. But people who don't live in the region should also be looking at the situation with heightened concern. If the public transportation system does not improve quickly, business growth is likely to slow down because the infrastructure simply cannot sustain further stress. If economic growth slows in the state's largest business center, state tax revenues will be directly affected.

The MTA's operating and capital budgets have multiple sources of funding, from fares paid by riders to the mortgage recording tax paid in the 12-county region served by the MTA. While adding \$1 billion per year to the capital budget will not close the gap in what is needed to meet the MTA's capital needs, it would be a significant increase.

There is no painless way to raise \$1 billion per year, but the congestion pricing plan can be fair, and it will help reduce traffic.

The burden of the fee would fall on commuters and other drivers who currently do not pay a toll to cross into the central business district. The fee would be paid by people driving into Manhattan from other parts of the city, as well as those living in New Jersey, Connecticut, and Long Island, along with other people driving to the city, and by people with cars in the boroughs of New York City. People who live in Manhattan and own cars would also pay the fee, but that represents an even smaller portion of Manhattanites than other city residents. To rectify that imbalance, the congestion fee on taxis and other for-hire vehicles that began in January of this year was initially intended as part of a package to ensure that Manhattan residents were also contributing to the fees raised by the congestion chart. The two congestion pricing plans should never have been separated; passing the general fee would be a way to restore the imbalance that now has Manhattanites paying far more than others.ⁱ

At the same time, New York State and New York City must recognize that there are enormous problems within the for-hire vehicle industry, with Uber and Lyft largely playing by a different set of rules than taxis. There is an urgent need to address those problems, which are severe enough that they have led to a rash of suicides by medallion-owning drivers. Congestion pricing is not the primary way to fix these problems, but it should be designed to improve the situation for taxi drivers rather than to make it worse.

The other goal of congestion pricing is: reducing congestion. Putting a higher price on driving into the central business district will reduce the number of cars that come in. Fewer cars on the street will improve conditions for other drivers, bicycle riders and pedestrians, and will also reduce carbon emissions and concentrated airborne pollutants. There has been some concern raised about the burden it may put on people who have to drive into Manhattan and don't have other good options. This is a legitimate concern, but as a study by the Community Service Society suggests, far more people would benefit from the public transit system working better than would be hurt by congestion pricing. Just four percent of outer-borough residents drive to Manhattan for work, and a congestion fee would affect just two percent of the working poor.ⁱⁱ

Congestion pricing is not a standalone or complete answer and must be used as an important element in a package of measures to raise the needed funds, improve MTA's operation, ease traffic and help reduce pollution in the city. The inadequate condition of our public transportation system is a compelling reason to support this proposal.

Closing the Carried Interest Loophole at the State Level

Billionaire real estate investors got a special loophole in the new federal tax law. Hedge funds and private equity funds are using the loophole too – many pay lower tax rates than teachers and truck drivers. The Executive Budget suggests that this loophole be closed, as FPI also supports. The Executive Budget, however, envisions zero dollars from the action, because it envisions a multi-state compact to close the Carried Interest loophole simultaneously in New York and the surrounding states. A multi-state compact would be desirable, but New York could also act on its own if such a compact is not readily achieved. The estimated annual revenue from this single measure is \$3.5 billion.

“Internet Tax Advantage” Elimination (\$119 million)

This proposal mandates that sales taxes are collected by online marketplaces for third party sellers, as well as out-of-state merchants. It would extend the state’s current statutes that ensure New York’s brick and mortar stores are competing on a level playing field with e-commerce businesses. This measure was proposed but not enacted last year.

Energy Services Sales Tax Exemption Discontinuation (\$90 million)

This measure eliminates the sales tax exemption on the non-residential transmission and distribution of gas and electricity for commercial customers. After bringing \$90 million in FY 2020, the measure is projected to yield \$120 million in the subsequent year. This measure was also proposed but not enacted last year.

All Other Revenue Actions (\$31 million)

Among them: additional tax shelter preparer penalty expected to generate \$14 million as the tax shelter reporting requirement is extended, increased tax return audits yielding \$12 million in additional funds, and other minor fee actions.

Other Good Proposals Not in the Executive Budget

Because the plans presented by the governor in his Executive Budget fall short of generating the level of revenue that New York needs to remain competitive in the future, we suggest considering the following list of additional pro-revenue fair share proposals that could raise billions in estimated new revenue.

Pied-à-Terre Tax

The state of New York can generate additional revenue and address its housing crisis by taxing luxury homeowners’ residential property which they do not use as a primary residence. This tax will also improve housing market resource allocation function by discouraging the inefficient utilization of housing that takes place when homes are left unused. Recent data from the New York City Housing and Vacancy Survey shows the number of residences held vacant by their owners has increased by 37 percent in the last three years reported. In 2017, almost 75,000 units were held vacant for occasional, seasonal, or recreational use. This represents 2.2% of the total number of housing units in New York City, and the combined market value of these homes is many millions of dollars and, therefore, a potential source of revenue that has gone ignored by the state.

For scale and comparison, the number (75,000) of these second and third homes, rarely used by their owners, is greater than 63,500, the number of people who were homeless in December 2018, as reported by the Coalition for the Homeless.ⁱⁱⁱ A pied-à-terre tax would help provide Governor Cuomo with additional resources he needs to achieve his 2019 Justice Agenda goal of making housing in New York affordable. Depending on the structure of the tax, this could raise well over half a billion dollars.^{iv}

Real Estate Transfer Tax and Mortgage Recording Tax

There is an important way to make state and local taxes on real estate transactions more progressive and to raise more revenue: rely less, or perhaps not at all, on the Mortgage Recording Tax (MRT), and make the Real Estate Transfer Tax (RETT) more progressive.

The state's RETT (and, in parallel, a New York City Real Property Transfer Tax) liability increases together with the value of the property conveyed, but the top rate is reached at \$1 million. In 2018, the Assembly majority advanced a progressive RETT structure that would apply to all property conveyances, residential and commercial, in excess of \$5 million. It was estimated, the new RETT would raise over \$400 million for the state in 2019-20. A similarly structured city tax would generate additional revenue.

At the state level, the Mortgage Recording Tax is the same regardless of the size of the mortgage secured, while at the city level the tax is slightly higher for debt in excess of \$500,000. However, as a recent report by the New York City Comptroller points out, this tax is avoided entirely by anyone buying a property in cash. This turns out to be a very large number of people, at least in New York City. As the report shows, in Manhattan in the second half of 2018, 54 percent of property purchases were made with cash, as were almost 80 percent of apartment sales in excess of \$5 million.^v As a result, people with modest means end up paying close to double the taxes that people with enough assets to avoid incurring a mortgage pay. The MRT should be reconfigured or completely eliminated if the RETT is at the same time adjusted and made more progressive.

Recapture—Unincorporated Business Tax (UBT)

A state surtax on high-dollar pass-through entities (LLCs) could raise a substantial amount of revenue without negatively impacting small businesses or freelancers. At a time when many people will be looking to start such corporations to game the new tax law, this should be coupled with an increase in LLC filing fees both to raise revenue and discourage tax avoidance. Estimated annual revenue is over \$1 billion.

Claw Back the Federal Tax Cut for Large Corporations that Do Not Raise Pay or Create Jobs

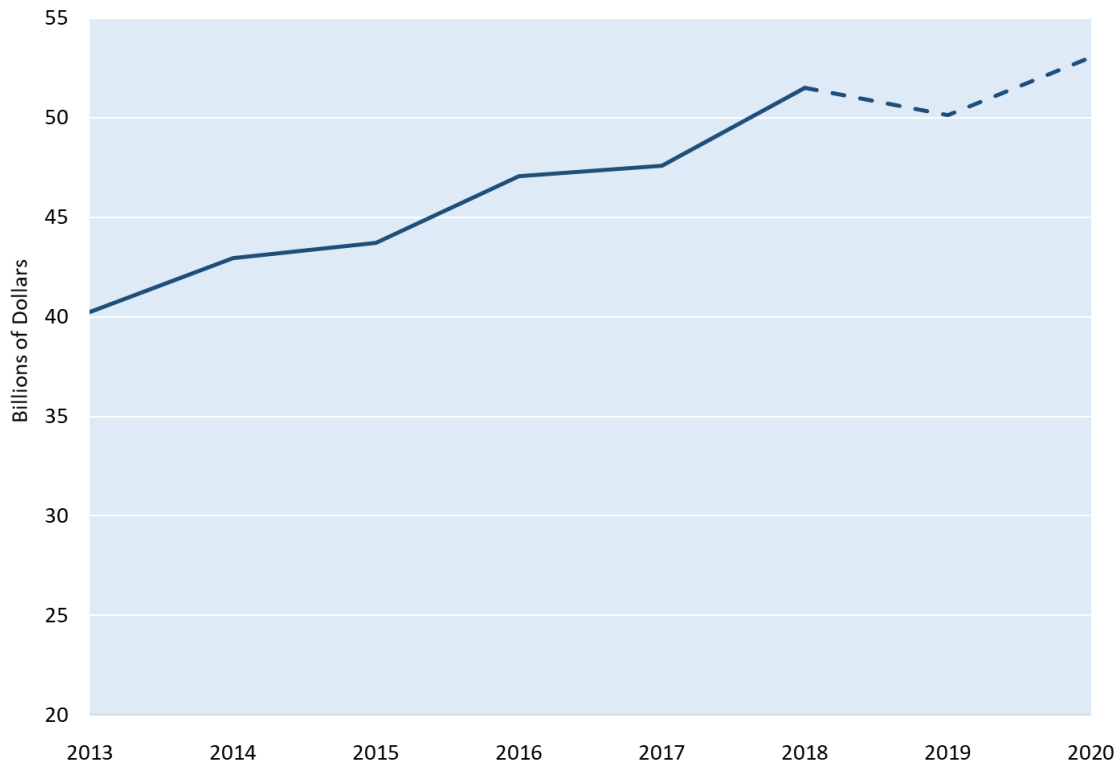
Multinational corporations are executing hundreds of billions of dollars in stock buybacks, providing returns to rich investors – not their workers. New York should impose a “claw-back tax” on publicly traded companies that received tax breaks but do not create jobs or raise pay of workers. The state should exempt small businesses or startups from this measure that could raise a billion per year and/or compel companies to do the right thing for New York's working families. Depending upon the structure of the mechanism and taxpayer behavior, this proposal could raise significant revenue for the state.

Fiscal Outlook

The midyear financial plan reported a budget gap of \$3.1 billion for FY 2019-20. The governor's Executive Budget introduces a series of proposals that would close this gap but increase spending by less than two percent, under the governor's self-imposed cap. In the Executive Budget proposal for FY 2020, total state operating funds spending is projected to increase by \$1.88 billion or 1.9 percent. The total of all government spending – which also includes capital

funds and federal aid—is expected to grow by \$3.52 billion or 2 percent. Better fiscal management would call for increasing revenues further, to meet past and current needs, and to build a reserve fund for the future.

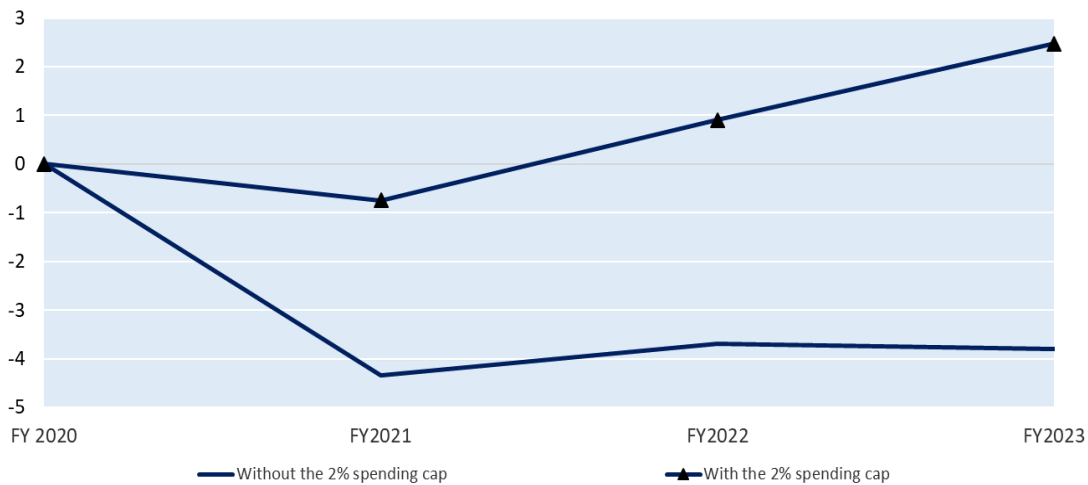
Figure 2. Personal Income Tax Revenues



Source: NYS FY2020 Executive Budget Financial Plan, January 2019.

While state operating funds expenditures are proposed to increase by only 1.9 percent, Medicaid spending is projected to increase the most among all spending categories, rising by \$1.29 billion or 6.3 percent (down from 6.5 percent last year), and school aid is up by \$956 million or 3.6 percent (more than last year's \$769 million or 3.0 percent but still far from sufficient meet the state commitment under the foundation aid formula). These increases are necessary, yet if some categories grow by more than two percent, the two percent cap forces other categories to be considerably less or even negative. On-budget transportation spending will again see the largest cut in spending, proportionately, dropping by 10.3 percent.

Figure 3. Projected Budget Gaps or Surpluses, With and Without the Two Percent State Spending Cap



Source: NY FY2020 Financial Plan, Executive Summary section

Source: NYS FY2020 Financial Plan, Executive Summary section, January 2019.

The state’s financial plan is built around adherence to the two-percent spending benchmark. The Executive Budget projects the budget gap to turn into a surplus by FY 2022 at \$904 million and to increase to \$2.5 billion by FY 2023. The proposed financial plan also features several revenue actions or resource changes that are projected to yield \$1.3 billion in FY 2020, followed by \$4.4, \$5.7 and \$6.3 billion in Fiscal Years 2021, 2022 and 2023. The projected 2023 surplus, it should be noted, is significantly dependent on the proposed revenue actions. If those are not enacted, even with the unforced austerity there will be no capacity for meaningful new spending in the short- to medium-run.

In anticipation of an eventual economic downturn, New York State should seek to increase revenues. Many economic analyses indicate that the country is in the late stages of the business cycle. The economic expansion will end sooner or later. Then New Yorkers will realize that their state government has failed to grow its reserves and is woefully unable to respond to the growing needs and decreased revenues associated with a recession.

Figure 4. As the Economy is Expected to Start Slowing down in 2019, the Forecast is for Modest Price, Wage, and Personal Income Growth in Out-Years



Source: NYS FY2020 Economic and Revenue Outlook, Economic Backdrop section, January 2019.

A better solution is to sustainably raise revenues, so they are adequate to meet the state’s current and future needs. New York has been operating under austerity budgets for many years now, which makes future cuts even more likely. Recessionary cuts could undermine essential operations and lower output quality.

New Tax Environment

The Federal Tax Cuts and Jobs Act (TCJA) of 2017 made sweeping reforms to the federal personal income, business and estate tax laws. It created multiple winners and losers across income distributions, industries, and geographies. The state of New York implemented, with varying degrees of success, several response measures to provide fiscal relief to some of its residents. The state response included: participating with three other states to file lawsuit against the federal government to strike down the cap on personal income tax deductions; the creation of public charitable organizations to accept taxes as charitable contributions; a

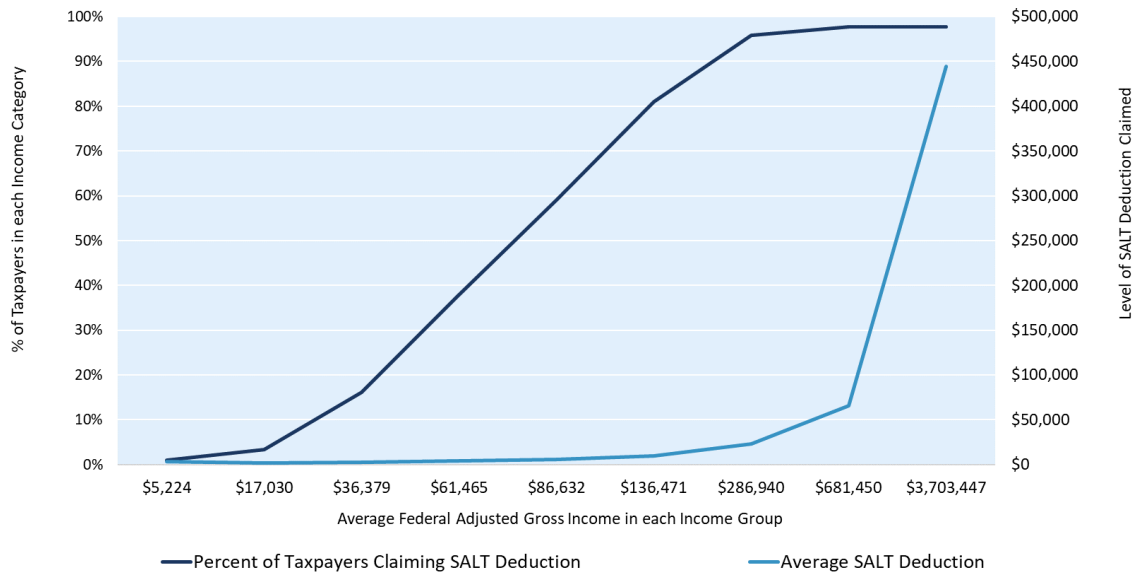
decoupling of the state tax code from many federal tax changes; and an opt-in mechanism for employers to elect to replace their employees' income taxes with payroll taxes. This new tax scheme benefits some taxpayers, but the vast majority of employers have not chosen to participate because of the multiple problems it creates for businesses and employees. The new federal tax law created its winners and losers and resulted in large changes in individual taxpayers' federal tax liabilities on a massive scale. The system keeps adjusting, and states have to react to offset undesirable changes.

In addition to these workarounds, the NYS Department of Taxation and Finance solicited public comment of the feasibility of instituting a state Unincorporated Business Income Tax, a measure that could help those who receive pass-through income. The governor doesn't seem to be following through on this initiative at the moment; it is notably absent from the Executive Budget.

State and Local Tax Deductions

An aspect of the TCJA that was particularly contentious in New York State was the capping of the State and Local Tax (SALT) deduction at \$10,000. Due to the high level of services residents of New York expect from their state and local governments, the capping of this deduction has more of an impact on the state of New York compared to other states.

Figure 5. NYS Taxpayers Claiming a SALT Deduction in 2016



Source: IRS Individual Income and Tax Data, by State and Size of AGI, 2016; Fiscal Policy Institute.

According to IRS income data from 2016, 30.5 percent of all New York State residents claimed the SALT deduction. For those taxpayers earning less than \$200,000, which is 94.4 percent of all state residents, their average SALT deduction was \$6,324. Only 26.6 percent of taxpayers in this

category claimed the SALT deduction. The average SALT deduction for those earning between \$200,000 and \$500,000 was \$23,200 in 2016. For New York residents earning more than one million dollars, the average SALT deduction was 12 percent of their income, or \$444,085. For these high-income earners, 97.7 percent claimed the SALT deduction. Prior to the enactment of the TCJA, 5.6 percent of the highest earning New Yorkers claimed 69.8 percent of this federal tax expenditure.

The Tax Cuts and Jobs Act will reduce federal tax collections by \$280 billion in 2019, according to the Joint Committee on Taxation. Over 6.2 million New Yorkers will have their federal taxes reduced either through smaller tax bills or larger tax refunds this filing season. While only 25.3 percent of state taxpayers in the bottom quintile of income will see positive tax benefits, 84.2 percent of taxpayers in the top quintile, whose average income is over \$270,000, will experience a tax cut from the TCJA.

Figure 6. Who Receives a *Tax Cut* from the TCJA in New York State?

	Expanded Cash Income Percentile	Average Income	Percent of Taxpayers in Quintile	Number of Taxpayers	Average Tax Cut
Quintiles	0-20	\$ (3,138)	25.3%	521,906	-\$190
	21-40	\$ 16,747	61.4%	1,266,602	-\$540
	41-60	\$ 35,459	80.0%	1,650,296	-\$1,050
	61-80	\$ 68,258	83.6%	1,724,559	-\$1,790
	81-100	\$ 277,961	84.2%	1,736,937	-\$8,010
Top Quintile Detail	81-90	\$ 127,524	83.4%	860,217	-\$2,720
	90-95	\$ 195,062	84.8%	437,328	-\$3,740
	95-99	\$ 345,022	89.9%	370,904	-\$11,760
	Top 1 Percent	\$ 2,090,537	70.5%	72,716	-\$52,350
	All	\$ 77,564	60.9%	6,281,439	-\$2,400

Source: The Urban Brookings Tax Policy Center, The New York State Department of Taxation and Finance, and the Fiscal Policy Institute. Income represents adjusted taxable income.

There are a few provisions besides the capping of the SALT deduction, as well as the elimination of multiple other deductions, that raise revenue for the federal government. The repeal of the deduction for personal exemptions is expected to generate \$1.2 trillion from 2019 through 2026, according to the Joint Committee on Taxation, and the treatment of deferred foreign income is expected to raise \$339 billion for the federal government.

It is expected that 850,000 New York taxpayers, 8.3 percent of the total, will face higher taxes because of all the changes in the Tax Cuts and Jobs Act. The majority of the taxpayers impacted will not face an overall tax increase as a result of capping the state and local tax deduction at \$10,000, because they don't itemize their deductions. For example, only 6.6 percent of taxpayers

in the bottom four quintiles will face a tax increase because of the SALT cap, while 11.4 percent of tax payers in the top quintile will. As seen in the IRS data above, as well as in the top quintile detail below, the top 1 percent of income earners will face the largest tax increases due to the SALT cap. In this elite group, 23.9 percent of taxpayers, or a quarter of one percent of all taxpayers, will face a tax increase from the TCJA because of the SALT cap. On average, and assuming there is no change in taxpayer behavior and holding everything else constant, slightly over 25,000 taxpayers in the top 1 percent will see their federal tax liability due to SALT increase an amount that is equivalent to 2.2 percent of their income. The corresponding tax increase, for taxpayers in other income groups with tax liabilities increasing as a result of the SALT cap, which account for 6.1 percent of all taxpayers, is 1 percent or less.

Figure 7. Who Receives a Tax Increase from the TCJA in New York State?

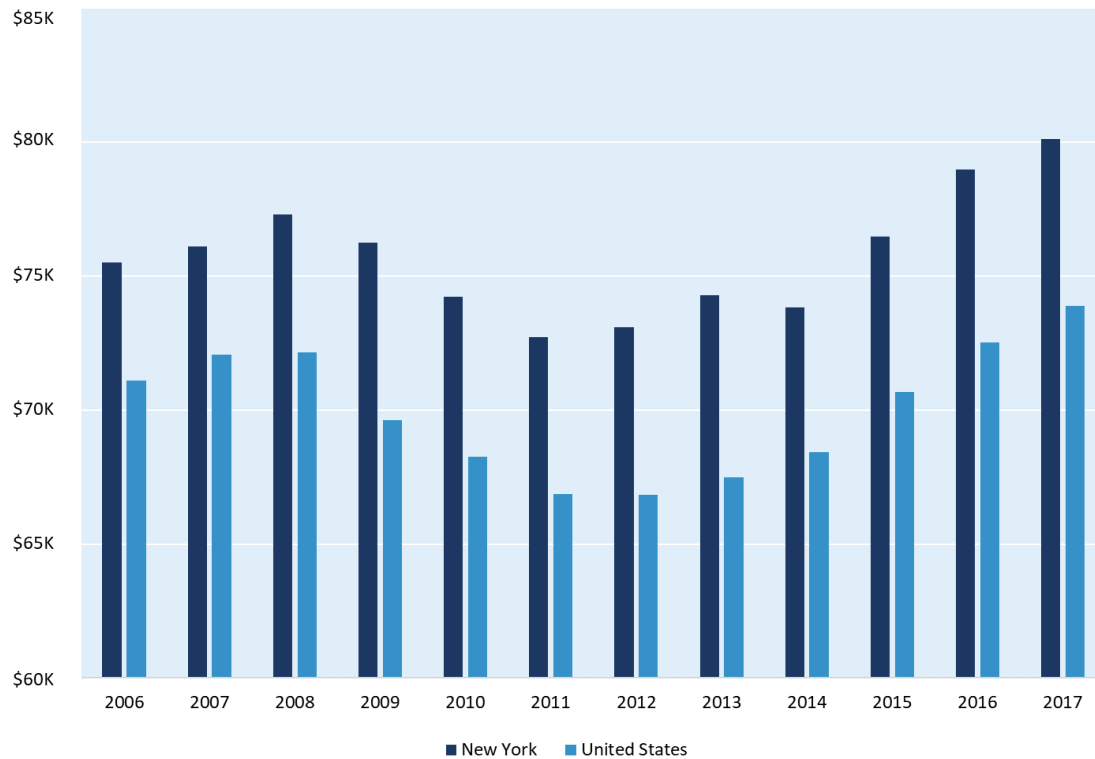
Expanded Cash Income Percentile	Average Income	Percent of Taxpayers in Quintile	Percent of Taxpayers Receiving a Tax Increase NOT due to SALT Cap	Percent of Taxpayers Receiving a Tax Increase due to SALT Cap	Change in Average Tax Increase as a Result of the SALT Cap	SALT Increase as a Percentage of Average Quintile Income
Quintiles	0-20	\$ (3,138)	1.2%	1.2%	\$ -	-
	21-40	\$ 16,747	5.6%	5.3%	\$ 60	0.4%
	41-60	\$ 35,459	11.0%	10.1%	\$ 280	0.8%
	61-80	\$ 68,258	15.3%	9.9%	\$ 690	1.0%
	81-100	\$ 277,961	15.5%	4.1%	\$ 7,400	2.7%
Top Quintile Detail	81-90	\$ 127,524	16.2%	6.0%	\$ 670	0.5%
	90-95	\$ 195,062	14.9%	2.8%	\$ 740	0.4%
	95-99	\$ 345,022	9.7%	1.2%	\$ 3,110	0.9%
Top 1 Percent	\$ 2,090,537	29.0%	5.1%	23.9%	\$ 46,300	2.2%
All	\$ 77,564	8.3%	5.6%	2.7%	\$ 2,460	3.2%

Source: The Urban Brookings Tax Policy Center, the New York State Department of Taxation and Finance, and the Fiscal Policy Institute. Income represents adjusted taxable income.

New York's Income Inequality

New York State has a pronounced income inequality that has been getting worse over the past four decades. The dimensions across which inequality manifests itself are both geographic and ethnic. New York City is a more dynamic economic environment than upstate. While household incomes recovered from the Great Recession, with median household incomes showing positive growth since 2008, if broken down by demographic categories the picture is mixed and uneven.

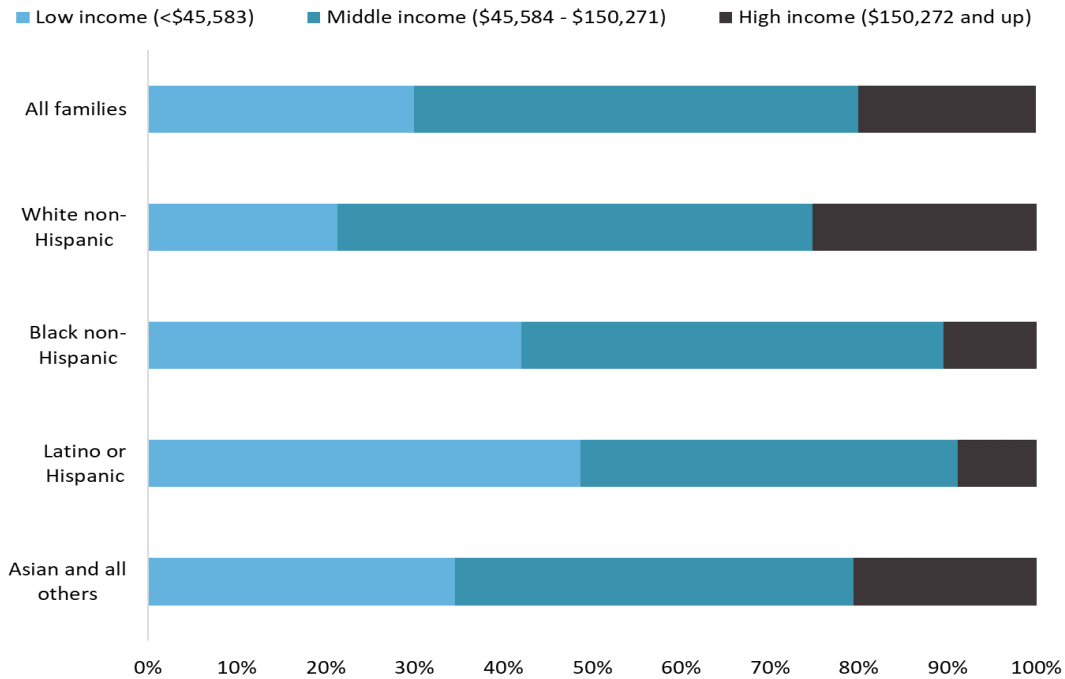
Figure 8. Median Real Family Incomes in NYS, 2006-2016



Source: Fiscal Policy Institute presentation of American Community Survey data. 2017 Dollars.

The income of a typical (median) white family is almost double that of a typical black family. Black families are in fact twice as likely to be low-income. The state of New York has increased its minimum wage to boost the incomes at the low end of the income structure, but it needs to do more. Most directly it should make the overall tax code progressive, instead of the regressive structure it now utilizes. According to the Institute for Taxation and Economic Policy's 2018 publication 'Who Pays: A Distributional Analysis of the Tax Systems in all 50 States', taxpayers in New York's top quintile with incomes ranging from \$107,600 to \$780,000 or percentiles 80 to 99, pay less of their total income in taxes than those in the fourth quintile or those earning between \$60,900 and \$107,600.

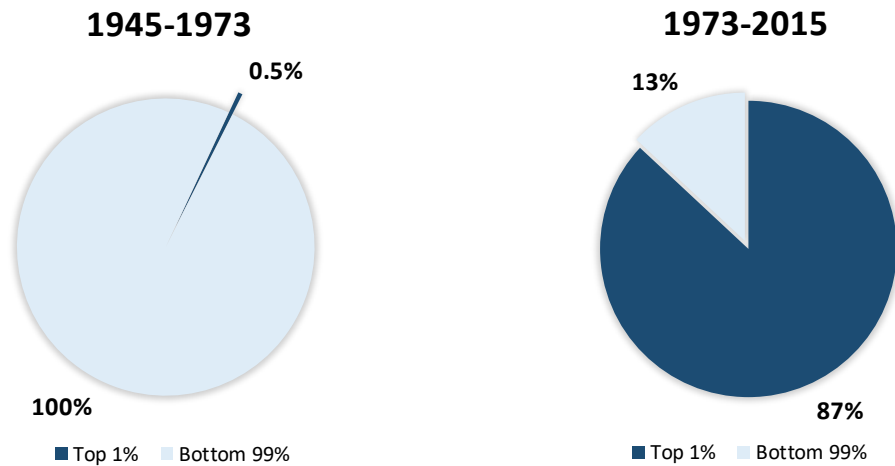
Figure 9. New York's Black and Latino Families Are Much More Likely to Have Low Incomes



Source: Fiscal Policy Institute analysis of 2013-2017 American Community Survey microdata. All in 2017 dollars.

As the state economy grew in the post-World War II period, from 1945 to 1973, the share of growth that went to the top 1 percent was not unduly high: the top 1 percent captured a half a percent of the income growth over that period. This does not mean the growth was evenly distributed among New Yorkers – there were still large racial and gender disparities. But the concentration at the top was in retrospect not particularly pronounced. Compare that, however, the period from 1973 to 2015: the top 1 percent took 87 percent of all income growth over those four decades, while everyone else – the other 99 percent – took just 13 percent of the income gains.

Figure 10. New York's Top One Percent Have Captured Nearly 87 Percent of All Income Since 1973



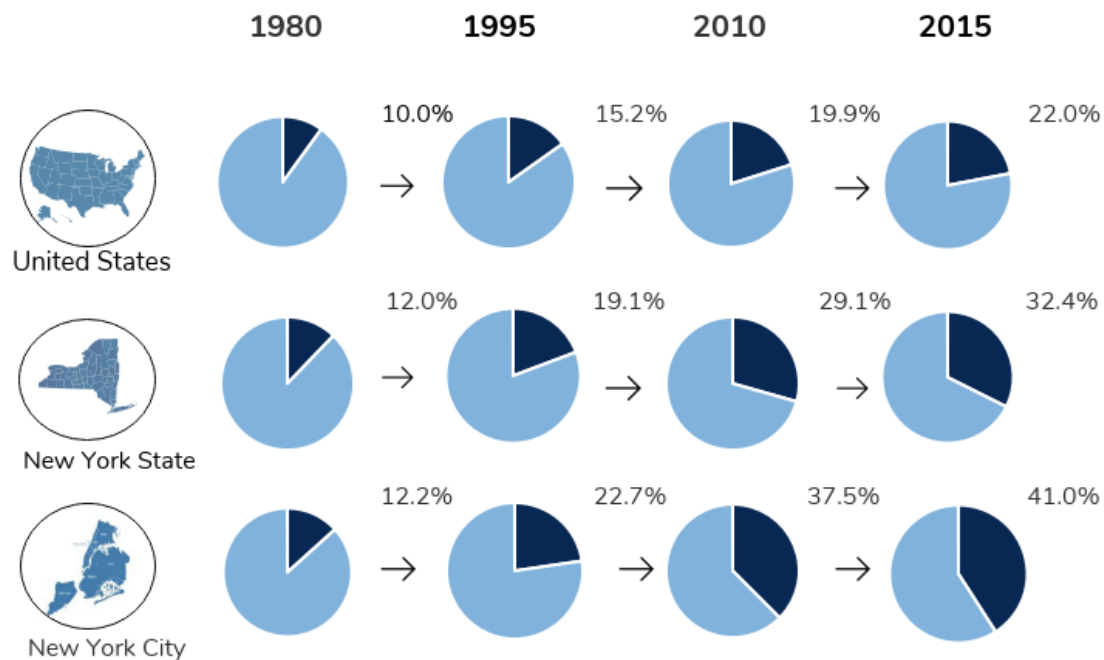
Source: Sommeiller, Estelle, and Mark Price. 2018. *The New Gilded Age: Income Inequality in the U.S. by State, Metropolitan Area, and County*. Economic Policy Institute, July 2018.

Figure 11 shows the trend as a series of snapshots in time. For the United States, New York State, and New York City, the figure shows the top one percent share of income in a given year. In 1980, in New York State the top one percent received 12.0 percent of all income, while in 2015 that rose to 32.4 percent. In New York City, the top one percent's share went from 12.2 percent to 41 percent.

The upper end of the state's income distribution has benefitted greatly and disproportionately from the state's economic success. It has become a long-term trend that will require a systemic adjustment to correct. New York has steadily grown more unequal over the years at an accelerated rate as compared to the rest of the country. The top one percent takes a higher share of all income in New York City than in New York State while it takes a higher share of all income in New York State than in the US. The pie of our economy is growing, but for the top one percent it is growing faster than for the rest and faster than before.

Figure 11. A Bigger Slice of the Pie

THE GROWING SHARE OF ALL INCOME GOING TO THE TOP 1 PERCENT



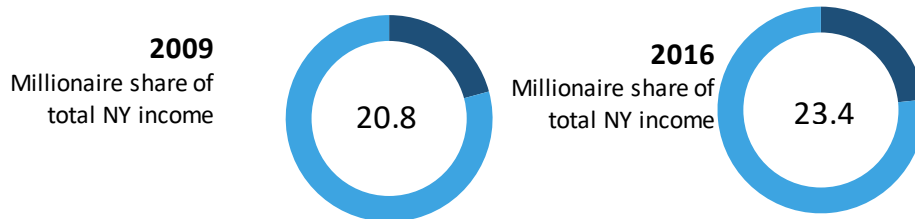
Source: Emmanuel Saez, U.S. data updated June 2016; Estelle Sommeiller, Mark Price, and Ellis Waezeter, *Income inequality in the U.S. by state, metropolitan area, and county*, Economic Policy Institute, June 16, 2016, New York state data; Independent Budget Office data for New York City; and FPI estimates updated by Dr. James Parrott.

Income inequality is a serious problem. As the state seeks to create opportunities for shared prosperity and equitable growth, it must also pursue meaningful measures aimed at enhancing the progressivity of its tax regime. The federal TCJA raises taxes on less than ten percent of New Yorkers, but the majority of the revenue raised is from the top 1 percent of all income earners. The state needs to avoid forcing austerity on essential services provided by the state by depriving them of resources in order to avoid any increased progressivity in the tax code. An enhanced millionaire's tax and other progressive taxes should be enacted to fund essential services and make progress in addressing income inequality issues.

Since the enactment of the millionaire's tax in 2009, the number of millionaires in New York has climbed, and their incomes have grown much faster than that of non-millionaires. When the millionaire's tax was first implemented, critics claimed millionaires would flee the state. However, the number of resident millionaire tax returns grew by 72 percent from 2009 to 2016. The total income on millionaire returns grew by 54 percent, nearly three times faster than all other New York tax returns. Perhaps the number of millionaires would have grown even faster without a tax, but a more likely explanation is that millionaires like living in New York and are willing to pay a little more for it.

Figure 12. The Number of Millionaire Tax Returns Increased by 72 Percent from 2009 to 2016

	2009	→	2016	% change
Number of millionaire tax returns	28,314	→	48,570	72%
Total income on millionaire returns	\$104.2 billion	→	\$179.9 billion	54%
Number of non-millionaire tax returns	5,583,311	→	9,540,840	71%
Total income on non-millionaire returns	\$396.9 billion	→	\$589.8 billion	33%
All NYS tax returns	5,611,626	→	9,589,410	71%
Total income on all returns	\$501.1 billion	→	\$769.6 billion	37%



Source: From New York State tax tables, Adjusted Gross Incomes, not adjusted for inflation. Full-year resident returns. (1) Fiscal Policy Institute estimates, using Pareto distribution. (2) CPI-U adjustment: each 2009 dollar is worth 1.11872 in 2016 dollars.

Almost one fifth of New York’s personal income tax filers earned more than \$100,000 in 2016. This group earned almost 70 percent of the income in the state. Tax filers earning more than \$1 million in 2016, less than one percent of all tax filers, earned over one quarter of all reported income. Among those with over \$10 million in income – 6,495 tax filers or 0.06 percent of the total – the average income was \$11,522,920, and they collected 9.4 percent of all income earned in the state.

Figure 13. Income Shares in New York's Top Quintile in 2016

	Percent of Total Personal Income Tax Filers	Share of Total Adjusted Gross Income
More than \$100,000	19.32%	69.6%
More than \$200,000	7.31%	49.6%
More than \$500,000	2.19%	33.4%
More than \$1,000,000	0.95%	25.4%
More than \$5,000,000	0.15%	13.0%
More than \$10,000,000	0.06%	9.4%

Source: The New York State Department of Taxation and Finance's Personal Income Tax Filers Summary Datasets Through 2016, Table 3; Fiscal Policy Institute.

Expand the State Earned Income Tax Credit (EITC) and State Child Tax Credit (CTC) To Bring Relief to Families

Working family refundable tax credits are one important means of building family economic security and independence and pulling families and children out of poverty. New York's EITC should be improved by increasing the percentage of the federal credit paid by families from 30 percent to 40 percent, and by expanding the credit to include young adults without children (under age 25).^{vi} Childless young adults ages 18-24 are excluded from the federal and state EITC at exactly the period in their lives when they are struggling to gain their footing in the workforce and build a nest egg for a future family. The poverty rate for young New York adults is 20 percent, far exceeding the 14 percent poverty rate for New York overall.^{vii} New York's CTC should be expanded to cover children under age four and doubling the credit for young children. Inexplicably, this credit – designed to offset the high costs of raising a child – does not cover children under age four, precisely when children are most apt to living in poverty and are most vulnerable to its devastating effects.^{viii}

ⁱ An analysis by Charles Komanoff of the Fix NYC plan, which included both congestion pricing as it is now proposed and the for-hire fare that primarily affects people living in Manhattan, showed that 33 percent of funds generated by that plan would be paid by people living in Manhattan (mostly by the for-hire charge), 37 percent would be from all other boroughs of the city combined (mostly from Brooklyn and Queen, also from the Bronx and some from Staten Island), 16 percent from the New York City suburbs in New York State, and 14 percent from New Jersey and Connecticut. Analysis available from a database regularly updated by Charles Komanoff.

ⁱⁱ "Congestion Pricing: A CSS Analysis," October 25, 2017.

ⁱⁱⁱ New York City Homelessness: The Basic Facts, The Coalition for the Homeless, <http://www.coalitionforthehomeless.org/basic-facts-about-homelessness-new-york-city/>

^{iv} James Parrott, 2014, FPI proposes a new tax on the most expensive pied-à-terre residential units, <http://fiscalpolicy.org/fpi-proposes-tax-on-most-expensive-nyc-pied-a-terre-residential-units>

^v Office of the New York City Comptroller, "NYC For All: The Housing We Need," November 29, 2018.

^{vi} Schuyler Center for Analysis and Advocacy, "2019-2020 Legislative Priority," January 2019.

^{vii} Ibid.

^{viii} Ibid.