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Written Testimony of the Fiscal Policy Institute For the Joint Legislative Budget Hearing on Taxes

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This year's state budget process raises an acute need for new revenue measures. By FPI's estimate, the federal "One Big Beautiful Bill Act" (OBBBA) will lead to \$15 billion in cuts to Medicaid and SNAP by 2030. The childcare plan jointly announced by Governor Hochul and Mayor Mamdani will require additional revenue – at least \$6 billion – to be sustainable in the long-term and to be fully realized as a universal program. And the city now faces serious budgetary challenges from the accumulation of past policy commitments that remain underfunded and underbudgeted, as well as the need to fund the affordability agenda on which the new mayor was elected, which will require \$5-10 billion in new funding through a combination of state aid and authorized city tax increases.

Fortunately, the state and city are both in *economically* sound positions to impose tax increases. In this respect we are far from the days of the New York City fiscal crisis – sometimes invoked in these debates – when the city's tax base was inadequate to finance its social spending commitments. Today, the state and city both have robust economies with large populations of ultra-high earners who can sustainably support a higher level of social spending.

The OBBBA

The OBBBA cut federal tax revenues by about \$4 trillion over the next ten years. While the act was claimed by its Republican supporters as a middle class tax cut, the reality is that the act overwhelmingly benefits the top earners. While an average middle class household earning about \$100,000 will see a tax cut of about \$1000 per year, a wealthy household earning \$1 million will see a tax cut on the order of \$100,000 per year. The "middle class tax cut" narrative essentially serves to hide the fact that the act is really a tax cut for the rich, and it comes at the cost of millions of Americans losing their health insurance and facing hunger. In New York alone, FPI estimates that the value of these federal tax cuts for millionaire-income earners will be \$12 billion. The cost of that tax cut to social programs will be up to 1 million New Yorkers losing their health insurance (that they receive through Medicaid) and up to 350,000 New Yorkers facing hunger due to the loss of SNAP benefits.

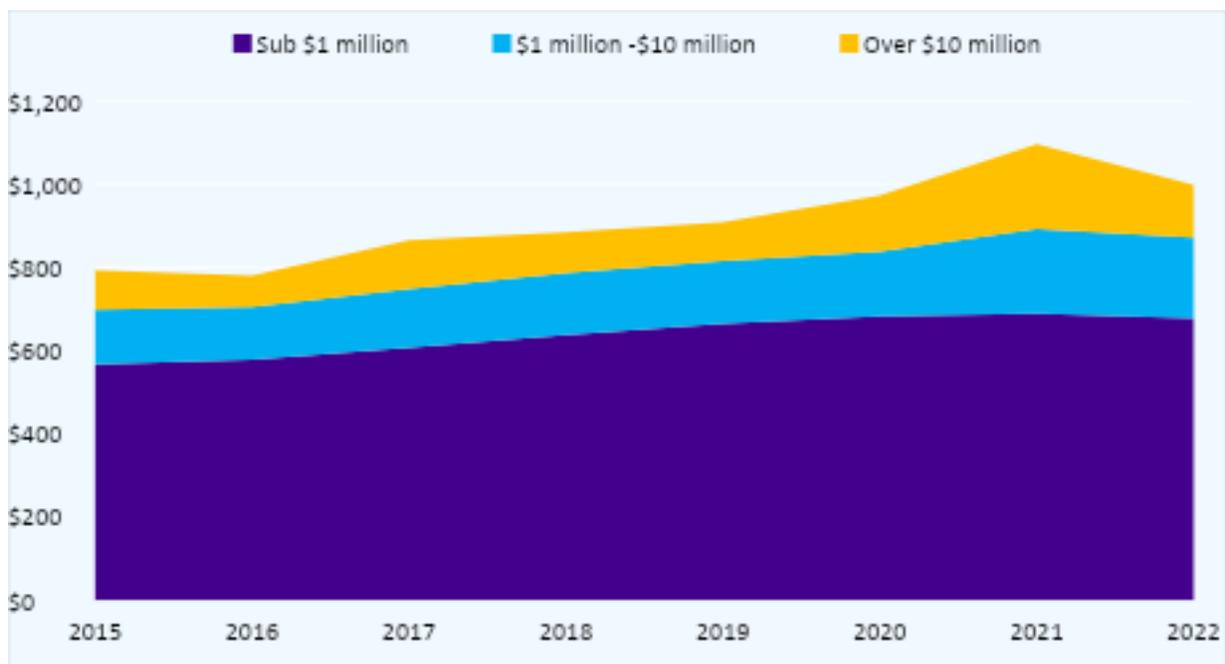
As FPI has shown [in detail](#), these cuts to services are not inevitable; the state government must simply step in and take over the federal government's role in funding these programs. Some will argue that this is impossible because the federal government has a far greater capacity to finance public services than the state government – but this belief is mistaken. New York's gross state product is over \$2.3 trillion, and a small increase in the overall tax burden can easily yield revenue of \$10-15 billion

annually without adverse economic consequences. In contrast, permitting a dual crisis of health insurance loss and hunger will have far *worse* consequences for the state economy.

New York’s Top Earners

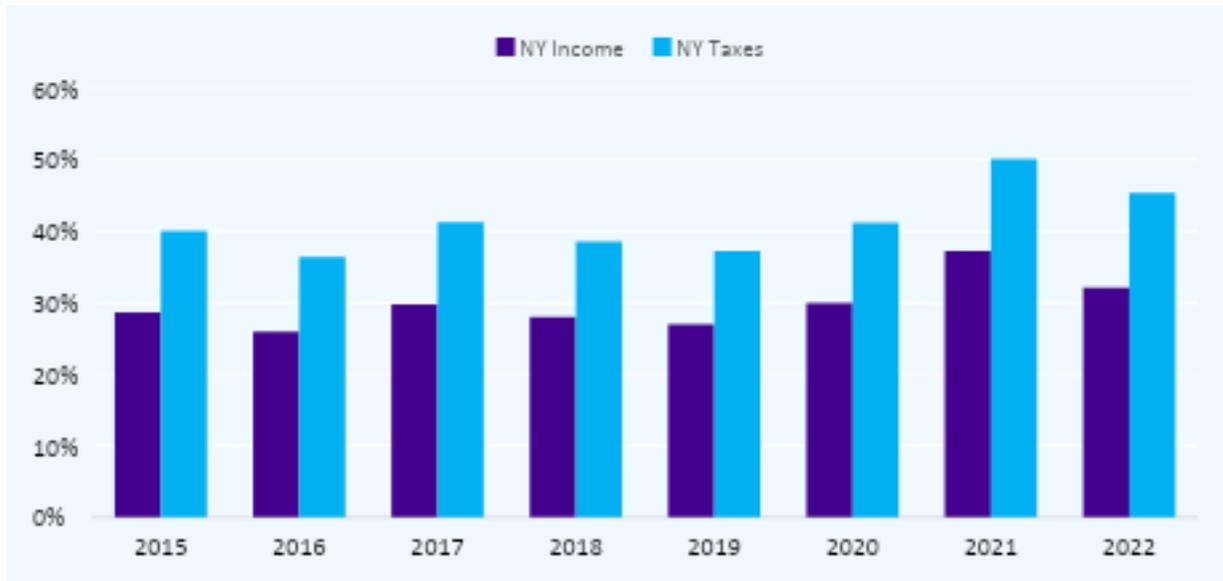
Earning power in New York State is highly concentrated in the hands of a small number of taxpayers. Out of a total population of about 10.7 million taxpayers, just 1.5 percent, or 165,000 taxpayers, earn over \$1 million each year (“millionaire taxpayers”). In 2022, the 1.5 percent of millionaire taxpayers earned 32 percent of *all income* earned in New York. That is, 1.5 percent of taxpayers earned \$320 billion of the \$1.1 trillion in total personal income earned in New York. The even smaller population of taxpayers earning over \$10 million in annual income, merely 11,600 taxpayers—just 0.1 percent—earned about 12 percent of all income earned in New York State in 2022.

Figure 1. Total taxable income earned in New York State, by household income (billions)



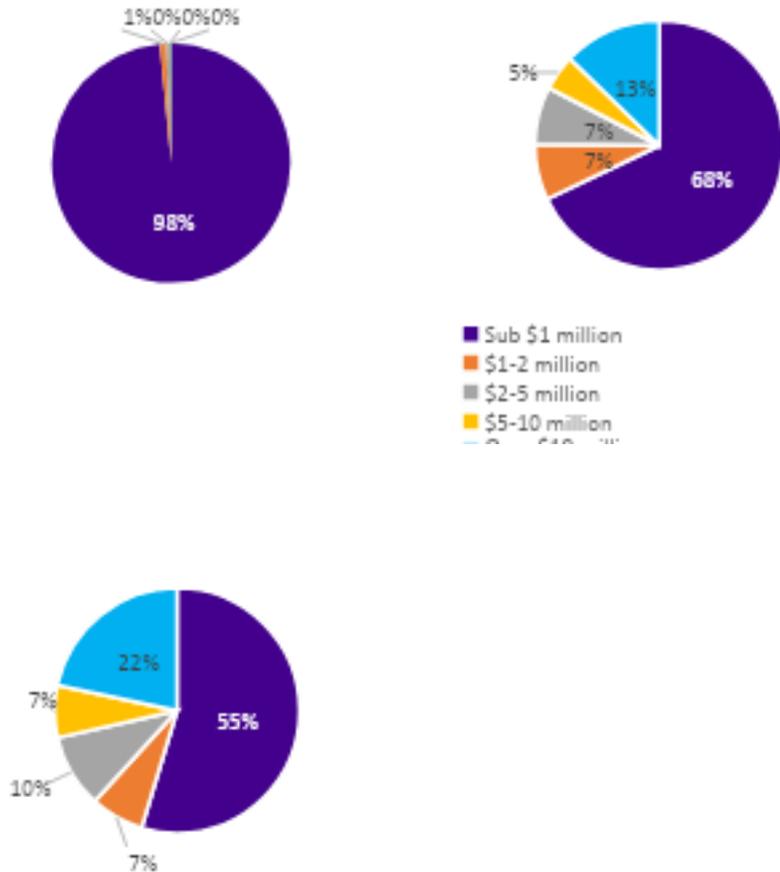
In the 2021 the State raised Personal Income Tax rates on the highest earners, leading to a slightly more progressive distribution of the tax burden, but one that is still basically proportional to the tremendous share of income earned by this group. We see that millionaire taxpayers generally earn about one-third all income earned in New York State and now pay about 45 percent of all tax liability.

Figure 2. Share of income earned and taxes paid by tax filers earning over \$1 million per year



When we examine tax liability share by income group, we see that the 98.5 percent of sub-millionaire taxpayers pay 55 percent of all tax liability—slightly lower than their share of all income at 68 percent. Again, this reflects modest progressivity in the income tax.

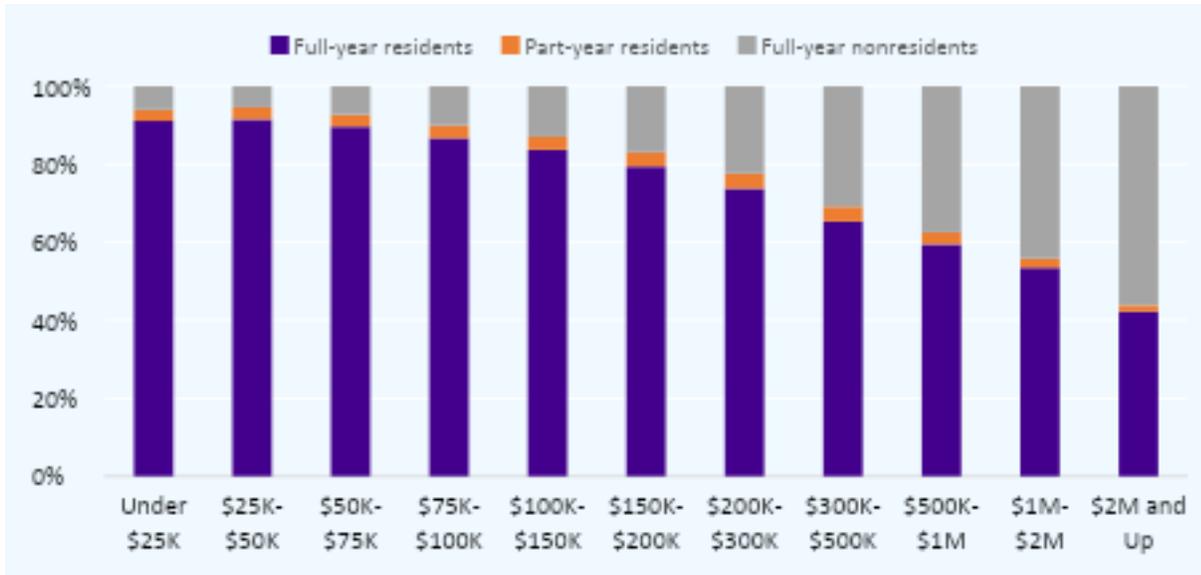
Figure 3. Share of population, share of total income, and share of tax payments by household income



One important fact about state tax policy is that nonresidents *still pay income tax* on their earnings from working in New York. Many of the highest earners live outside of the state but continue to work in New York City, as the City is one of a small number of global cities that can serve as a hub for elite firms.

As shown below, over 60 percent of millionaire taxpayers live in other states (principally New Jersey and Connecticut) but continue to pay New York State tax.

Figure 4. Share of tax filers in each residency group, by and income level

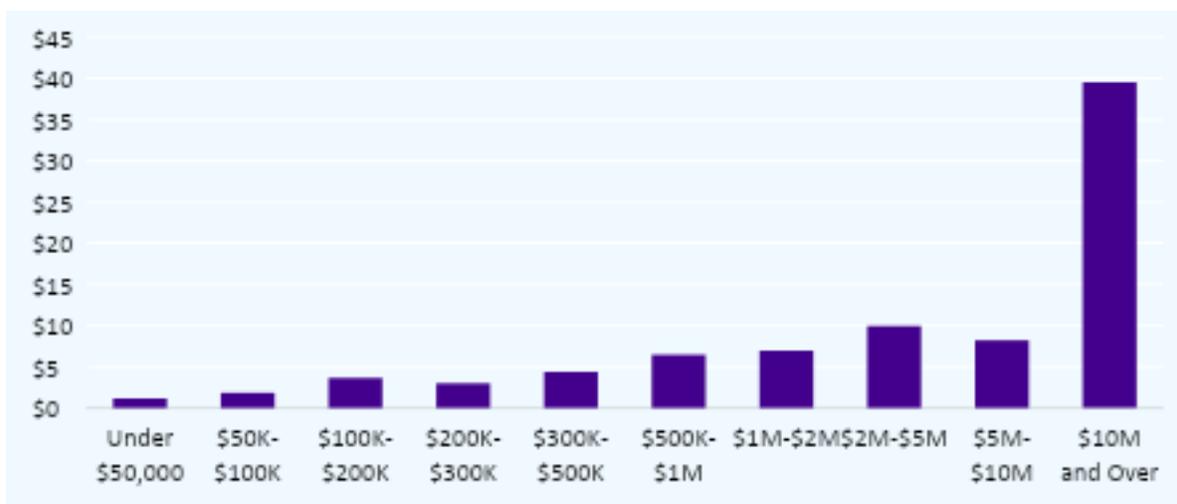


Part of the explanation for the earning power of millionaire taxpayers is that they generally make their income from investing and owning businesses rather than wages and salaries. Many of these taxpayers are owners of investment firms, law firms, consulting firms, or real estate investors. As shown below, the millionaire taxpayer population predominantly earns business profits and investment income, not wages, and they also take home most of the investment income and business profits earned in the state.

78 percent of all capital gain (income from the sale of investment assets) is earned by millionaire taxpayers, and 53 percent of all capital gain is earned by taxpayers making over \$10 million.

Figure 5. Aggregate capital gains income for New York taxpayers in 2022, by household income

Billions of Dollars (\$)



Similarly, income from business profits is also highly concentrated among the millionaire taxpayer population. This category generally captures income from owning an interest in a partnership, LLC, or S corporation, as well as ownership of real estate (rents) or intellectual property (royalties). 71 percent of non-corporate business profits are earned by millionaire taxpayers.

While many lawmakers mistakenly believe that businesses organized as LLCs, partnerships, and S corporations are all “small businesses,” state tax data show that in fact a large majority of the income earned by these businesses flows to the richest 1.5 of taxpayers.

Figure 6. Aggregate income from rents, royalties, partnerships, estates, and trusts for New York taxpayers in 2022, by household income

Billions of Dollars (\$)



Conversely, millionaire taxpayers early a relatively small share of all wage and salary income earned in New York. It is overwhelmingly middle income earners who are compensated in wages and salaries.

Figure 7. Total aggregate wage and salary income for New York tax filers in 2022, by household income



The Personal Income Tax

The Personal Income Tax (PIT) is the most important source of revenue for the State, accounting for nearly \$80 billion of tax collections. And in light of the wealth of New York’s millionaire taxpayer population, there is plenty of room to continue increasing progressive tax rates on the highest earners.

The conventional objection to further increasing top tax rates is that they will motivate tax flight, or “tax migration,” by top earners searching for lower state income tax rates. Prior FPI research has refuted these arguments (see [here](#) and [here](#)), showing that the top 1 percent of income earners generally move at much lower rates than all other income groups, that they do not move in response to tax increases, and that when they do move out of state they most often move to other states with similar tax profiles.

The Top Tax Rate

The current top PIT rates, which apply to single filers making over \$1.08 million and joint filers making over \$2.16 million, were enacted in 2021 and are set to expire in calendar year 2032. New York’s top rates are imposed on an unusual and peculiar bracket structure. Unlike peer states New Jersey and California, which impose their top tax rate on a general million-dollar bracket, New York State created a \$5 million and \$25 million tax bracket. There is no particular reason of either fairness or fiscal stability for distinguishing among taxpayers who make millions of dollars per year, and the State would be wise to consolidate these top brackets.

Table 1. Top state tax rates for married filers

State	Top Tax Bracket	Top Tax Rate
New York	\$ 25M	10.9%
California	\$ 1.4M	13.3%
New Jersey	\$ 1M	10.75%
Hawaii	\$ 200,000	11.0%

Simply consolidating the top brackets into a single millionaire bracket with the current top rate would raise over \$2 billion annually.

Table 2. Combine millionaire tax brackets

Additional Revenue: \$2.1 billion

Current Schedule				Proposed Schedule			
Single Filer		Joint Filer		Single Filer		Joint Filer	
Income	Tax Rate	Income	Tax Rate	Income	Tax Rate	Income	Tax Rate
\$1.08M	9.65%	\$2.15M	9.65%	\$1.08M	10.9%	\$2.15M	10.9%

\$5M	10.3%	\$5M	10.3%	\$5M	10.9%	\$5M	10.9%
\$25M	10.9%	\$25M	10.9%	\$25M	10.9%	\$25M	10.9%

Tax increases should not necessarily be *limited* to the millionaire taxpayer population. While it has become something of a taboo in state policy discourse to propose tax increases on anyone making under \$1 million, it must be recognized that many sub-millionaire households are still in the economic elite.

An across the board rate increase of 1 percentage point for all households in the top 8 percent of taxpayers—those making over \$323,300 for a married couple (or \$215,400 for a single filer) would raise \$5.4 billion.

Table 3. Increase rates by 1 percentage points on the top 8 percent of households

Revenue: \$5.4 billion

Current Schedule				Proposed Schedule			
Single Filer		Joint Filer		Single Filer		Joint Filer	
Income	Tax Rate	Income	Tax Rate	Income	Tax Rate	Income	Tax Rate
\$215,400	6.85%	\$323,200	6.85%	\$215,400	7.85%	\$323,200	7.85%
\$1.08M	9.65%	\$2.15M	9.65%	\$1.08M	10.65%	\$2.15M	10.65%
\$5M	10.3%	\$5M	10.3%	\$5M	11.3%	\$5M	11.3%
\$25M	10.9%	\$25M	10.9%	\$25M	11.9%	\$25M	11.9%

Finally, we estimate the revenue from the legislative package supported by the “Invest in Our New York” coalition, which has numerous supporters in the Assembly and Senate, at \$21.1 billion per year.

Extending the Sales Tax to Services

The sales tax is almost exclusively imposed upon consumer purchases of goods. As shown below, services are a much larger component of total consumer expenditures in New York. Many countries impose a sales tax (in the form of a Value Added Tax) on both goods and services, as this broader tax base can finance expansive social spending programs. A truly broad-based sales tax on services could raise \$7-8 billion for each percentage point of tax.

Figure 11. Consumer expenditures in New York (Billions of dollars)



Source: U.S. Bureau of Economic Analysis, Personal Consumption Expenditures

Taxing Business Profits

Taxing business profits generally must take the form of either a tax on corporate income or a tax on the income of non-corporate businesses such as partnerships, LLCs, and S corporations (“pass-through businesses”). As shown above (Figure 6), most of the profits earned by owners of pass-through businesses goes to millionaire taxpayers, not small businesses as is often believed. Extending the current corporate tax to all pass-through businesses could raise \$8-9 billion annually.

The State already imposes a tax on corporate profits—the Corporate Franchise Tax (CFT). As with all state corporate income taxes, the tax is “apportioned” based on the share of the corporation’s profits that are attributable to their business activities in the state. That is, a corporation doing business in both New York and New Jersey is not subject to tax by both states on *all* of its profits. Instead, each state is only entitled to tax its fair share of the corporation’s profits, determined under a scheme that approximates the profit attributable to business activities within that state. In New York, the formula is based exclusively on a corporation’s sales into the state. This is known as the single sales factor apportionment. Before 2015 the formula included other factors, but was changed to ensure that corporations would have no incentive to move their offices or operations for tax reasons. Moreover, this change to the corporate tax shifts more of the burden to out-of-state corporations.

In other words, contrary to the common belief that corporations are taxed based on the location of their headquarters, the location of a corporation’s offices or employees *does not matter* and the CFT rate creates *no incentive* for corporations to relocate. In order to reduce its CFT liability, a corporation would have to decrease its sales in New York State and therefore reduce its profits by more than it would save on taxes.

Corporate profits have risen dramatically since prior to the pandemic, as shown below.

Figure 12. Corporate profits pre-tax in the U.S. (*Billions of dollars*)



Source: U.S. Bureau of Economic Analysis, *National income: Corporate profits before tax (without IVA and CCAdj)*

The current top CFT rate is 7.25 percent, imposed only on corporations with over \$5 million in profits. Further increases, shown below, could yield substantial additional revenue.

Table 7. Revenue raised under various corporate tax scenarios (*Millions of dollars*)

Tax Rate	Revenue Raised
10.0%	+ \$ 3.5 bn
11.5%	+ \$5 bn