

# **Back on Track:**

Why Progressive Tax Reform is an  
Essential Part of New York's Budget Solution



March 2009

## Acknowledgements

*Back on Track: Why Progressive Tax Reform is an Essential Part of New York's Budget Solution* was prepared and written under the direction of Jason Angell, Director of the Center for Working Families, James Parrott, FPI's Chief Economist and Deputy Director, and Frank Mauro, Executive Director of FPI. Altaf Rahamatulla, Policy Researcher at the Center for Working Families, contributed research, data analysis and writing essential to the completion of this report.

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## Executive Summary

New York faces one of the largest budget deficits in the country for the coming year at \$14.2 billion. The State's 2009-10 fiscal year begins April 1, 2009. Two responses to addressing the crisis have dominated the policy debate. While both acknowledge the detrimental impact Wall Street revenue declines have had on the State's fiscal condition, they diverge in significant ways.

One response frames the deficit as a matter of excessive public spending and calls for massive cuts to public programs and services. The other finds that, following thirty years of personal income tax (PIT) cuts for the wealthiest New Yorkers, the State's overall tax system is highly regressive and incapable of supporting essential service needs. This view warns of the economic damage that would result from large state budget cuts and calls for restructuring the PIT as a necessary step towards fiscal stability in this troubled economic climate.

In the context of a deepening recession, which is the most sensible path to take? This policy brief reviews arguments, analysis and data pertinent to deciding whether progressive tax reform should be part of the solution. We find that:

- **A deficit-reduction plan that relies too heavily on cuts will intensify the economic slump** by reducing consumer spending, counteracting the federal economic stimulus effort, and devastating working and middle class families reliant on public services.
- Economic theory—articulated by such eminent economists as President Obama's budget director, Peter Orszag, and Nobel laureate Joseph Stiglitz—suggests that during a recession, steep state budget cuts hurt the economy much more than a high end income tax increase.
- **High-end income tax increases have not had the negative economic consequences that opponents predicted.** Progressive tax reform in a number of states has not led to the movement of wealthy families out of their states or correlated job loss.
- Other states have successfully restructured high-end PIT rates without resulting economic harm:
  - From 2004 to 2006, following California's implementation of a new national top rate of 10.3 percent on income over \$1,000,000, there was a 38 percent increase in the number of millionaires in the State.
  - The number of half-millionaires in New Jersey has grown by 70 percent since increasing their highest rate from 6.37 percent to 8.97 percent in 2002, from 26,000 in 2002 to 44,000 in 2006. (Gov. Corzine recently proposed a one-year increase to 9.75 percent.)

- New York experienced a comparable increase in high-income returns after temporarily raising PIT rates, from 250,000 in 2003 to over 325,000 in 2005, representing a 30 percent growth.
- States with higher top PIT rates than New York have experienced positive private sector job growth over the past decade. Additionally, during the last temporary PIT increase, New York gained 127,000 jobs.
- Marginal income tax increases will not have a significant impact on small business owners. For example, 98.6 percent of all small business owners make less than \$250,000 a year.
- **Current fiscal pressures largely stem from excessive tax cuts made over the last three decades.** New York has cut the top PIT rate on wealthiest residents in half even as growing polarization has left New York with the widest income gap between the top and bottom in the nation. Today a single person with an income of \$30,000 pays the same marginal tax rate as a person with an income of \$30 million.
- The reality of the claim that state spending is “out of control” is that aside from new commitments involving education aid, healthcare, property tax relief and transportation, state spending from 2004 to 2008 grew at less than 2.9 percent a year, barely the pace of consumer inflation. The state, however, made these important new commitments without identifying how to sustainably pay for them.
- High-end PIT cuts have led to a massive tax shift. To compensate for lost state revenue, New York has increased the burden on local governments to pay for essential services through increased property and sales taxes. The tax burden now falls heaviest on those with the least ability to pay.
- **New York should consider reforming its top PIT rates** to help close the remaining 2009-10 budget gap, ensure fiscal stability, protect services, and restore sustainability and fairness to the overall tax structure.
- Even after all available federal stimulus funds that can go towards the deficit are utilized, New York would still be left with a \$7.5 to \$8 billion gap for the coming fiscal year.
- A high-end income tax increase will help blunt the impact of state-wide program cuts while affecting relatively few New Yorkers. For example, raising PIT rates above \$250,000 would affect only 2.5 percent of all taxpayers statewide and only one percent of upstate taxpayers.
- Permanent PIT reform would provide the financing necessary to phase in substantial property tax reform once the economy recovers.

# 1. Current Fiscal Climate

The current economic downturn will soon be the longest recession since the 1930s and its severity might make it the sharpest contraction since the Great Depression. Forty-seven states face budget deficits that amount to more than \$350 billion nationally.<sup>1</sup> New York confronts one of the largest shortfalls in the country – most recently estimated at \$14.2 billion for the upcoming fiscal year.<sup>2</sup> As a share of general funds under state control, New York’s projected gap for the 2009-2010 fiscal year is fourth highest among all states (only Nevada, Arizona, and California are higher).

The Wall Street downturn has greatly contributed to the overall economic decline. New York has increasingly become dependent on Wall Street to the point that the financial industry accounts for almost 20 percent of tax revenue in the State.<sup>3</sup> The explosive growth in Wall Street earnings in the middle part of this decade helped mask deep structural problems in the State’s revenue system.

Over the last six months, New York has lost about 130,000 private sector jobs.<sup>4</sup> The state’s unemployment rate rose to seven percent in January, 2009, 2.3 percentage points higher than a year earlier, making it the largest one-year increase in the state’s unemployment rate on record (data goes back to 1976).<sup>5</sup> As of late February, initial unemployment claims in New York State were running about 60 percent above levels from the previous year, indicating that the unemployment rate will almost certainly continue to rise for the next several months. The severity of this crisis merits a response that will put the State on the path to fiscal stability and ensure protection of the New Yorkers whose economic lives are being devastated by the recession.

The meltdown of the financial sector, the resulting credit squeeze, the plummeting of consumer confidence and consumer spending, and the spiking of unemployment are causing precipitous and unexpected declines in state and local government revenue throughout the nation. Elected officials and commentators across the ideological spectrum recognize that the downward economic spiral of the past year is the proximate cause of the budget gaps facing New York and the other states.

But some of those observers argue that the real problem is excessive state government spending; that the fact that the state government is now facing such a large gap between its projected revenues and its projected expenditures is proof that the rate of spending growth in recent years was excessive and unsustainable. This “excessive spending” explanation of New York’s current problem is analyzed in the remainder of this chapter. An alternate perspective – that New York’s current budget gap is, in large part, attributable to the successive rounds of multi-year, back-loaded tax cut packages that were adopted between 1994 and 2000, and which are now reducing state revenues by about \$20 billion annually – is analyzed in the next chapter of this report.

## Governor Paterson's Approach

Governor Paterson was among the first elected officials in the nation to sound the alarm regarding the unprecedented nature of the current economic crisis, and to warn of the dire implications of this crisis for state government finances. While recognizing that the global financial crisis has caused a dramatic decline in the state's projected revenues, the Governor has repeatedly argued that excessive spending has also contributed to the state's large, projected budget gaps. And, for the past year, the Governor has focused the overwhelming majority of his budget balancing initiatives on the expenditure side of the state budget.

During 2008, Governor Paterson unilaterally ordered two rounds of across-the-board cuts in state operations spending. Shortly after the 2008-09 budget was adopted, the Governor ordered all state agencies to cut their state operations spending by 3.35 percent; and on July 30 he called for an additional round of 7 percent across-the-board cuts in state operations spending.

In addition, the Governor convened two special legislative sessions –in August and November - to make cuts in local assistance spending, acknowledging that he could not cut that part of the state budget without legislative approval. In preparing for that first special session, he declared that “[i]t is time for New York and other governments to cut up our credit cards.”<sup>6</sup> At the August session, the Legislature agreed to cut over \$1 billion from the budget, by enacting cuts to Medicaid and other local assistance spending. At the call of the Governor, the Legislature reconvened for another special session on November 18, two weeks after State elections, to consider further cuts to the budget. The Governor argued for additional cuts of \$2 billion in state expenditures, but he failed to reach an agreement with the Legislature.<sup>7</sup>

On December 16, 2008, Governor Paterson released his Executive Budget for the 2009-10 fiscal year and he again recommended that the State do the vast majority of its budget balancing on the expenditure side of the ledger. He proposed to close a projected General Fund budget gap of \$13.7 billion with \$9.2 billion in “spending restraint,” \$3.1 billion in revenue actions, and \$1.1 billion in nonrecurring resources. The Governor's proposed “spending restraint” included \$1.87 billion in cuts to school aid and almost \$2.6 billion in Medicaid and other healthcare reductions. Some of the General Fund health care savings were premised on proposed increases in non-General Fund revenues through various healthcare-related assessments, fees and taxes, including a proposed 18 percent tax on sugary soft drinks. Other proposed spending reductions included postponing scheduled pay increases for state workers and workers in nonprofit organizations providing human services under contract to the state, and reducing the state workforce.

The Governor's \$3.1 billion in proposed General Fund revenue increases came primarily from a host of largely regressive tax and fee increases, including increases in the taxes on alcoholic beverages and gasoline, extending the sales tax



to cable television and entertainment spending, and eliminating the state's sales tax exemption for items of clothing and footwear costing less than \$110. Other proposed revenue raisers included applying the state's personal income tax (PIT) to the earnings of non-resident hedge fund general partners, limiting the PIT deductions of taxpayers with taxable income of over \$1 million, and tightening the requirements for the state's much-abused and criticized Empire Zones Program.

At the same time that the Governor proposed his 2009-10 Executive Budget, he also submitted a \$1.7 billion Deficit Reduction Plan (DRP) for the remainder of the 2008-09 fiscal year. In February 2009, the Governor and Legislature reached an agreement on a modified version of the Governor's proposed DRP that would eliminate the remaining \$1.6 billion deficit for 2008-09 and reduce the projected deficit for 2009-10 from \$13.7 billion to \$13 billion. (In late February, at the time of the Consensus Revenue Forecasting process, the Governor and legislative leaders agreed that revenues would be \$1 billion less than previously projected and the 2009-10 gap increased to \$14.2 billion).

The adopted DRP relied on one-time revenue generating measures, transfers, and cuts to higher education, local government, the state workforce, healthcare, and other areas (see Appendix A for a list of the budget cuts, transfers, and revenue actions that have been implemented since the adoption of the 2008-09 budget in early April 2008). Some of the major initiatives included in the \$1.6 billion DRP were increasing SUNY undergraduate tuition, changing the timing of the New York City School Tax Relief (STAR) payment from December 2008 to June 2009, almost \$800 million in healthcare cuts and fees in the next two years, a \$50 million Environmental Protection Fund (EPF) cut, reducing arts grants spending, and numerous agency spending cuts.<sup>8</sup>

Reflecting on the cuts his administration has proposed, the Governor stated, "[t]he education cuts are draconian. The health care cuts are prohibitive. The taxes being levied on New York's citizens are not fair. But when you add it all up, we think we delivered the pain pretty evenly."<sup>9</sup>

### **Inherent Flaws of the Governor's Approach: Cuts and Regressive Tax Increases Hit the Middle Class and the Most Vulnerable the Hardest**

The Governor's approach to "delivering pain evenly" does not acknowledge that spending cuts overwhelmingly impose hardship on the middle class and the most vulnerable. As the Center on Budget and Policy Priorities (CBPP) points out, "[w]hen the economy weakens, state and local revenues decline but the need for public programs increases, as residents lose jobs, income, and health insurance."<sup>10</sup> As a result, a deficit reduction plan that relies too heavily on service cuts is bound to demand the most of New Yorkers with the greatest need.

The revenue actions the Governor proposed in December generally would have increased the regressivity of the State's tax system. For instance, raising or imposing sales taxes on clothing, non-diet soft drinks, cable television, personal services and entertainment services would hit the lower and middle income New Yorkers the hardest since consumer expenditures represent a much larger portion of their disposable income compared to wealthier New Yorkers. Bowing to pressure, the Governor and legislative leaders agreed on March 11 to drop \$1.3 billion of the Governor's proposed tax increases, including several of the most regressive of his revenue proposals.<sup>11</sup>

The Governor's various proposals and statements have framed the deficit as a matter of out-of-control public spending on healthcare, schools, and higher education. Accordingly, he has advocated for massive cuts in essential public programs as a means to close the deficit.

This view fails to recognize the investments New York State has made in recent years in important programs, which enjoy broad public support. These initiatives largely account for the growth in state spending and would not have increased pressure on the budget had state leaders, including Governor Paterson when he was the Senate Minority Leader, identified likely recurring tax revenues to pay for them.

Among the initiatives that have driven the growth in State spending, are:

- *Increased and more equitable school aid:* The Pataki administration repeatedly refused to address the need to resolve the Campaign for Fiscal Equity (CFE) lawsuit. Soon after Governor Spitzer took office in 2007, the state committed to a four-year phased-in settlement that substantially increased state aid to local school districts. By 2010-11, foundation aid was to have increased by \$5.5 billion and overall school aid, including foundation aid, by \$7.7 billion.
- *Medicaid and other health care costs:* By increasing the number of people receiving Medicaid and introducing Child Health Plus and Family Health Plus, New York was the only state to significantly reduce the percent of its nonelderly population without health insurance between 2000 and 2005. In addition to the overall increase in Medicaid expenditures, the State increased its healthcare spending significantly by taking over the local share of the cost of Family Health Plus and capping the growth in local governments' Medicaid expenses at three percent a year. These actions are providing substantial budget relief to New York City and the surrounding counties, and property tax relief to county residents, but they are estimated to increase state expenses by \$2.5 billion a year by 2010-11.
- *Increased STAR aid:* The State also steadily increased the STAR program,<sup>12</sup> with expenditures growing from nothing in 1997-98 to \$2.5 billion in 2001-02 to a projected \$6 billion in 2010-11.

While STAR, including its Middle Class Rebate Check component, has many flaws, few New Yorkers would argue that property tax relief is not an important objective. In fact, it should be a high priority of the state government to use the resources devoted to property tax relief in a much more efficient, effective and targeted manner.

The substantial new commitments made in recent years account for the increases in state spending that some critics cite as a cause of the state's current fiscal problems. Aside from the areas of education, healthcare, and transportation, in which the State has made important new investments (some of which we would have configured in different ways and many of which the 2009-10 Executive Budget proposes to backtrack on), state spending from 2004 to 2008 grew at less than 2.9 percent a year, barely the pace of consumer inflation.<sup>13</sup>

The State took on these important new commitments without paying for them. So, in effect, state policymakers were gambling that the revenues from the state's current tax system would not only grow enough to cover the ordinary inflationary increases in the cost of existing programs but that those revenues would grow so strongly that they would also be able to cover the cost of these new commitments. Moreover, as the next chapter discusses, state policymakers had also been on a tax-cutting "binge" in the mid- and late-1990s that deprived New York State of billions of dollars in revenues that could have been used to fund these new commitments.

## 2. New York: Regressive Taxation and Extreme Income Inequality

The current fiscal crisis has its roots in the reckless tax policy that has been pursued over the past 30 years. In addition to reducing state revenues substantially through a series of multi-year, back-loaded tax cut packages, the state's tax policy choices have resulted in a monumental tax shift—cutting taxes for the wealthy and subsequently *shifting* the burden on to localities to pay for public services through more regressive sales and property taxes. New Yorkers with the least income have the highest tax burden in the State. In addition, New York has the unenviable distinction of having the largest gap between the rich and the poor in the nation

### Federal Tax Policy

Taxes at the federal level have become dramatically less *progressive* since the 1970s. (A progressive tax structure is a graduated system that has higher effective rates at higher income levels.) In their 2007 study of the U.S. federal tax structure, economists Thomas Piketty and Emmanuel Saez found a remarkable drop in progressivity as high-income earners saw vast reductions in federal tax rates, while those in the middle and lower class experienced increases. At the same time, income inequality in the country soared. Since the 1980s, high-income households have realized tax cuts and great income growth, while middle and lower income families experienced minimal increases in income and higher taxes.<sup>14</sup>

Federal tax policy—most notably during Ronald Reagan's administration in the 1980s and the earlier part of this decade with the Bush tax cuts<sup>15</sup>—has resulted in income polarization and a significant shift in tax burden. Income gaps also have widened due to changes in executive compensation practices and structural economic factors.

In a June 2005 article, entitled *Richest are Leaving Even the Rich Far Behind*, David Cay Johnston of The New York Times writes, “[t]he people at the top of America's money pyramid have so prospered in recent years that they have pulled far ahead of the rest of the population...[t]hey have even left behind people making hundreds of thousands of dollars a year.”<sup>16</sup> The article notes that as a consequence of the Bush tax cuts, taxpayers with the highest incomes paid income, Medicare, and Social Security taxes at the same rate as those making \$50,000 to \$75,000.

The Bush tax cuts of 2001 and 2003 overwhelmingly benefited the wealthiest New Yorkers. Citizens for Tax Justice indicate that in New York, from 2001 to 2010, the wealthiest 1 percent of residents will absorb 48.3 percent of the cuts, while the poorest 60 percent will receive less than 14 percent.<sup>17</sup>

## Tax Policy in New York State

Trends in New York State's PIT structure mirror the regressive transition at the federal level. Over the last several decades, New York has cut the top PIT rate in half. Beginning in the late 1970s, New York reformed its income tax structure from 14 brackets, with the highest rate reaching 15.375 percent, to the current system in place.<sup>18</sup> Today, New York has a five-bracket system that reaches its top rate at 6.85 percent at surprisingly low levels of taxable income. To get a sense of how flat the State tax system has become, a single filer who earns an annual salary of about \$30,000 pays the same marginal tax rate as a single filer who makes \$30,000,000 per year. With a gross salary of \$30,000 a single taxpayer would have a taxable income of \$22,500 after taking the standard deduction of \$7,500. As Figure 1 below indicates, New York's top rate for single filers starts at taxable incomes of \$20,000. For a married couple filing a joint return, that top tax rate applies to their taxable income over \$40,000 a year.

**Figure 1: Current New York State PIT Rates for Single Filers**

Income Bracket	Rate for Single Filers
\$8,000 or less	4%
\$8,000-\$11,000	\$320 plus 4.5% of the excess over \$8,000
\$11,000-\$13,000	\$455 plus 5.25% of the excess over \$11,000
\$13,000-\$20,000	\$560 plus 5.9% of the excess over \$13,000
\$20,000 and above	\$973 plus 6.85% of the excess over \$20,000

Source: New York State Department of Taxation and Finance

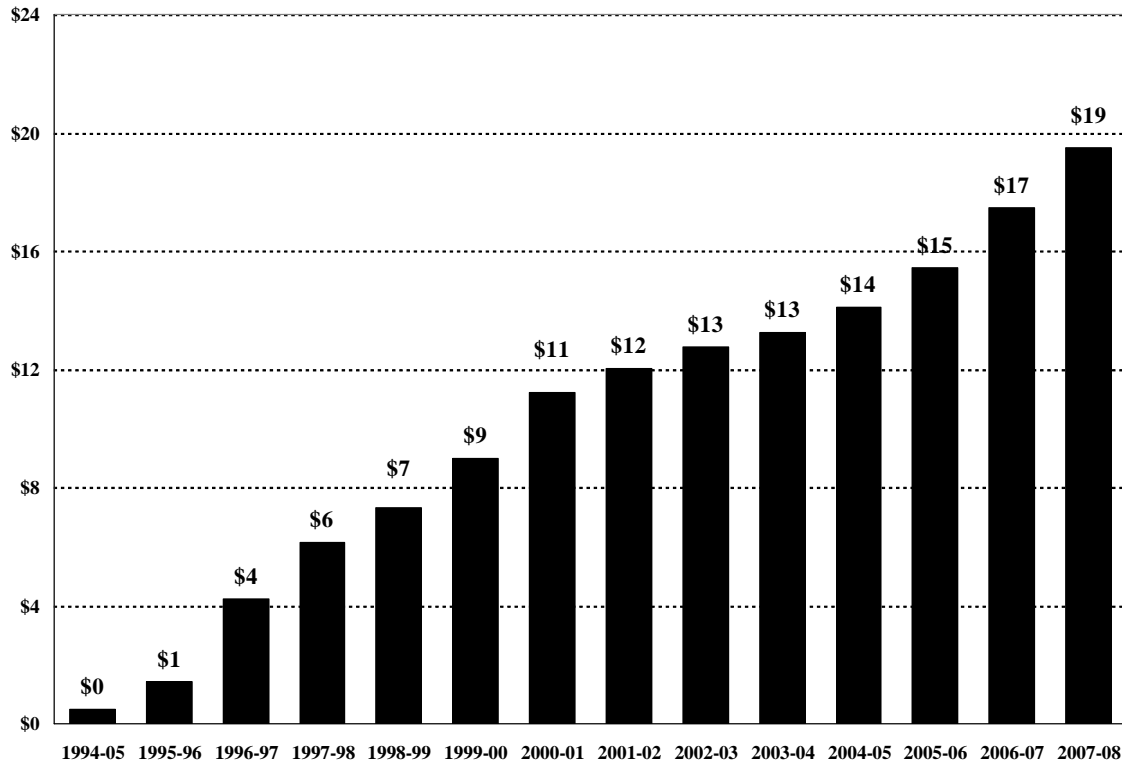
See Appendix B for top New York PIT rates from 1975 to the present.

If the State had indexed its income tax brackets and personal exemption for inflation instead of eliminating brackets from the top and the bottom of the rate structure and eliminating the personal exemption for taxpayers, the overwhelming majority of New York families would be paying a smaller amount in income taxes each year but the state would be collecting billions more in revenue each year.<sup>19</sup> This is because the state's tax system has moved in one direction while the income distribution in the state has moved in the opposite direction.

Furthermore, much of the State's current budget crisis might have been averted had the state reversed even part of the tax-cutting spree carried out from 1994 through 2000. All tolled, these cuts now reduce the state's revenues by about \$20 billion a year (see Figure 2), an amount that would erase the state's huge projected budget gaps while allowing for the funding of a rainy day fund that would be appropriate to the economic uncertainty that now faces our state and nation.

**Figure 2: New York's Tax-Cutting Binge from 1994-2000 Has A Lot to do with the Current Fiscal Crisis**

**Revenue impact, in billions, of tax cuts enacted since 1994**

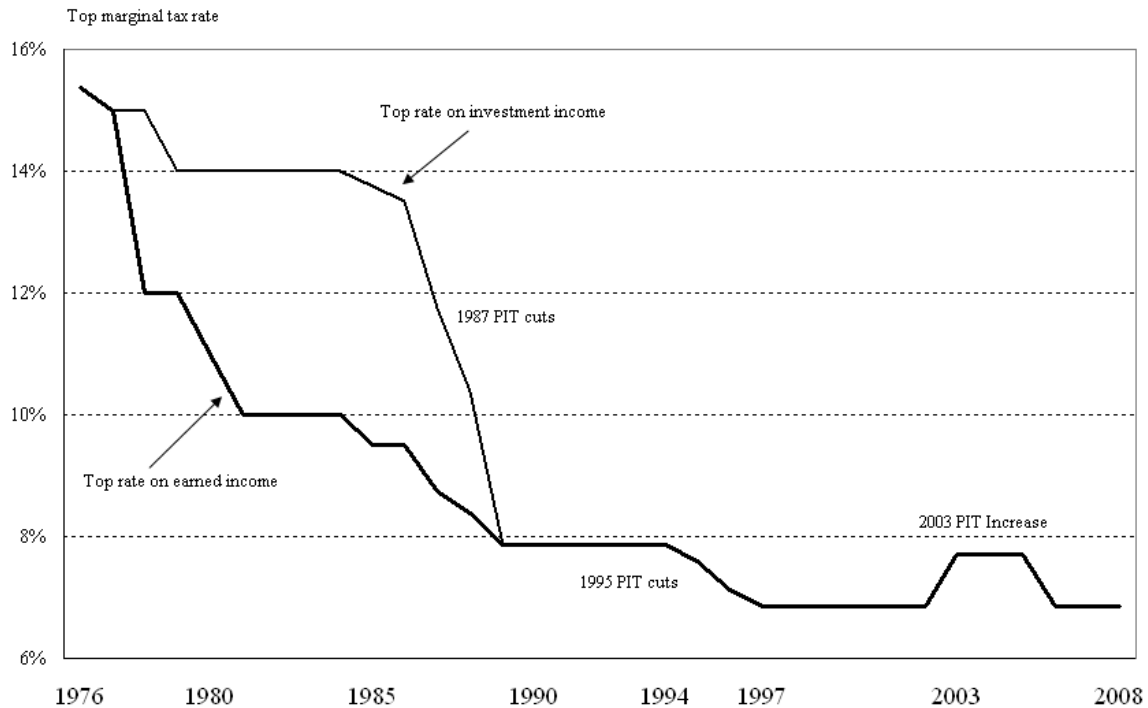


Source: Fiscal Policy Institute

One of the most significant PIT cuts occurred in 1995, when Governor George Pataki increased standard deductions and reduced most high-end tax rates. Sixty-five percent of the benefit went to the wealthiest 20 percent of the State. On average, the wealthiest 1 percent of the State received an \$11,028 cut, while the poorest 20 percent of New Yorkers realized an \$8 reduction in their tax burden.<sup>20</sup>

Figure 3 below depicts the trends in the top New York PIT rates in the last 30 years.<sup>21</sup>

**Figure 3: Trends in Top Marginal PIT Rate in New York State**



Source: Fiscal Policy Institute

New York has been criticized as having a burdensome income tax system but 13 states and the District of Columbia currently have higher top rates than New York as indicated in Figure 4 below. See Appendix C for top PIT rates in all states.

**Figure 4: 13 States and the District of Columbia Have Top PIT Rates above New York's 6.875 Percent**

State	Top Rate on Single Filers, 2008
California	10.3% > \$1,000,000
Vermont	9.5% > \$357,700
Oregon	9% > \$7,300
Iowa	8.98% > \$62,055
New Jersey	8.97% > \$500,000
Washington DC	8.7% > \$40,000
Maine	8.5% > \$19,450
Hawaii	8.25% > \$48,000
Minnesota	7.85% > \$71,591
Idaho	7.8% > \$24,763
North Carolina	7.75% > \$60,000
South Carolina	7% > \$13,350
Arkansas	7% > \$31,000
Montana	6.9% > \$14,900

Source: Tax Policy Center

## **New York's Tax System is "Out of Sync" with its Income Distribution**

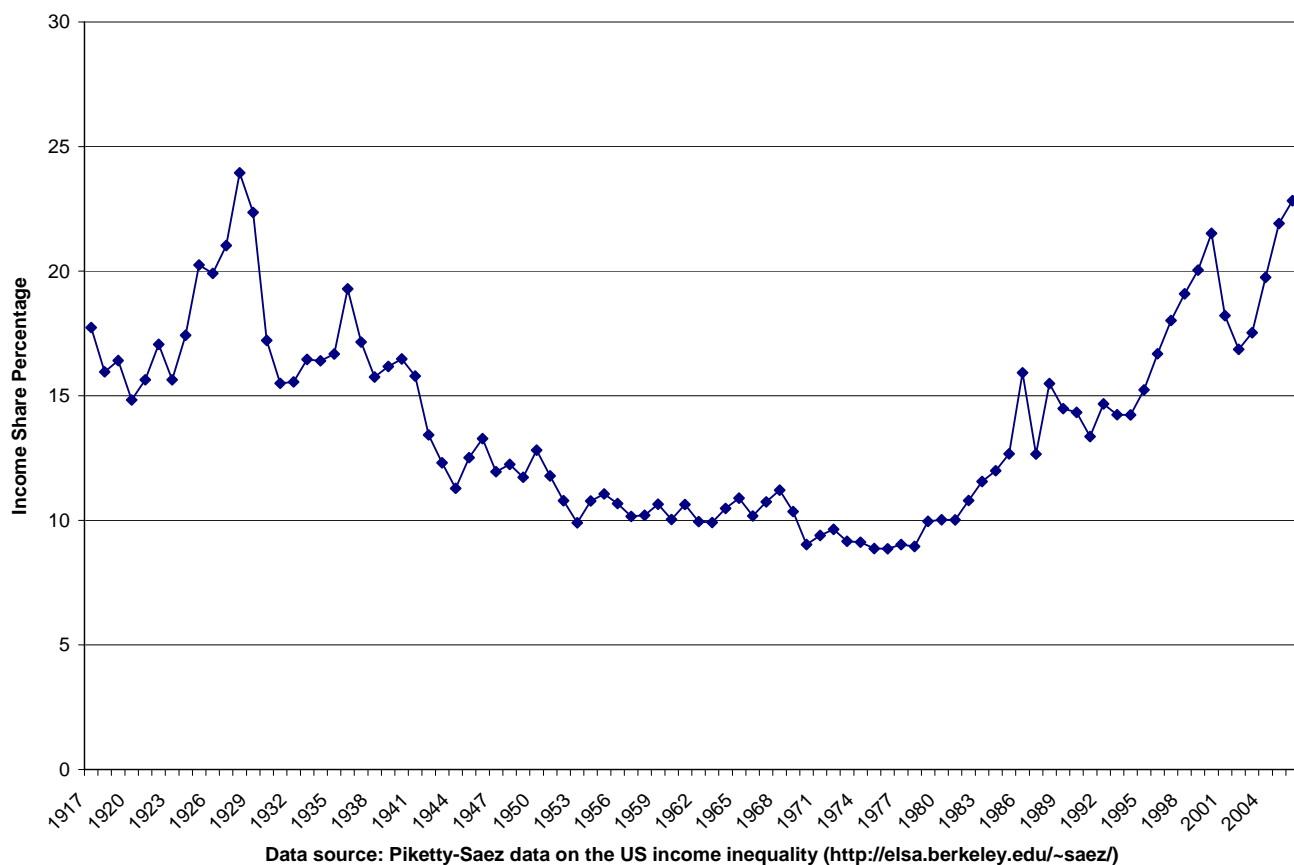
High-end PIT cuts have led to a monumental tax shift. To compensate for lost state revenue, New York has increased the burden on local governments to provide essential services through increased property and sales taxes. New York State, in fact, has the second highest proportion of local taxes in the entire nation. Nationally, the share of total general revenue contributed by localities is 40 percent, and states, 60 percent. In New York, that proportion is reversed—localities produce 54 percent of general revenues, and the State, 46 percent.<sup>22</sup>

Due to New York's heavy reliance on revenue from more regressive property and sales taxes, the overall tax burden falls most heavily on those with the least ability to pay. The most recent in-depth analysis of the distributional impact of tax systems in all 50 states finds, after taking the impact of federal deductibility into consideration, that the poorest fifth of New York's non-elderly families paid an average of 12.6 percent of their income in state and local taxes. Those families in the middle fifth of the income distribution paid an average of 11.34 percent, while the top 20 percent paid 9.65 percent of their income and the richest one percent pay only 6.5 percent.<sup>23</sup>

Moreover, the extreme income polarization in the State compounds the regressivity of New York's current tax structure. Nationally, since the early 1980s there has been a dramatic concentration of income among the wealthy. According to data from Piketty and Saez, the share of total income going to the top one percent of taxpayers peaked in 1928 at 24 percent, then gradually and steadily receded and stayed below 10 percent throughout most of the 1950s, 60s and 70s. The share going to the wealthiest one percent started to climb in the early 1980s and by 2006, was nearly back to the level it reached in 1928.<sup>24</sup> (See Figure 5)



**Figure 5: Income Share of the Top One Percent, U.S., 1917-2006**



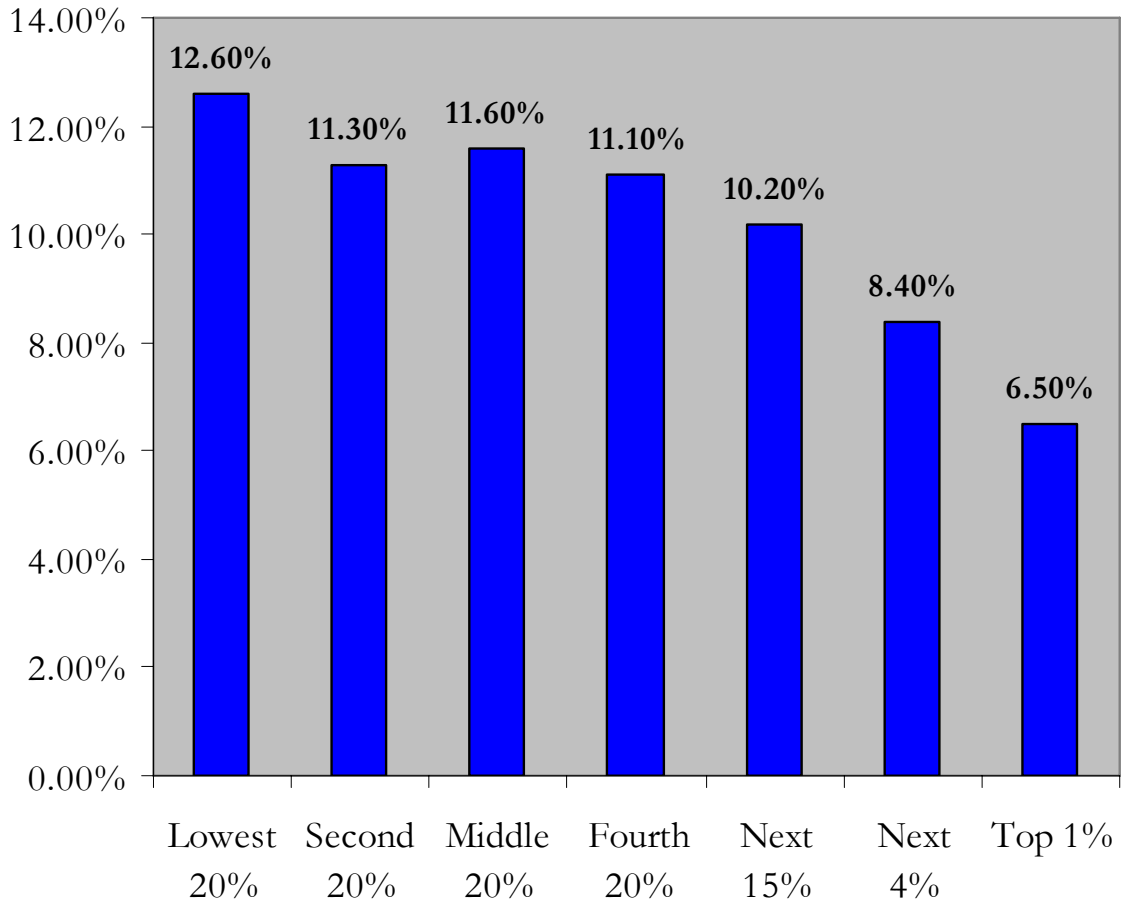
This intense concentration of income at the top over the past quarter century has operated to give New York an even greater gap between the rich and everyone else. In New York, the share of income going to the top one percent was 38 percent in 2006.<sup>25</sup> According to Census Bureau income data, the average income of the top 5 percent of families in the State is 15.4 times the average income of the poorest 20 percent.<sup>26</sup>

Income tax data, which is much more definitive as a measure of incomes than surveys conducted by the Census Bureau, indicates an even starker picture. Based on tax return data compiled by the State Department of Taxation and Finance, the state Division of the Budget projects that between 2002 and 2009, all of the income growth in the state went to the wealthiest five percent at the top. The other 95 percent of taxpayers are projected to receive roughly the same combined income in 2009 that they had in 2002, before adjusting for inflation, which has been about 20 percent over that period.<sup>27</sup>

As noted, at the same time that the top five percent of New York income earners realized the majority of wealth gains in the State, they also benefited from income tax policy that reduced high-end rates. This did not come without a cost, as the

State shifted the burden onto localities to pay for a majority of services and effectively created a regressive taxation system, demonstrated in Figure 6.<sup>28</sup>

**Figure 6: Effective New York State and Local Tax Burdens for Nonelderly Families by Income Class, 2002**



Source: Institute on Taxation and Economic Policy

Figure 7 indicates the proportion of income that various state and local taxes comprise for nonelderly families in different income categories.<sup>29</sup>

**Figure 7: Breakdown of the Tax Burden in New York State, 2002**

Type of Tax	Lowest 20%	Middle 20%	Top 1%
Sales & Excise	9.5%	5.7%	1.2%
Property	4.4%	3.5%	1.6%
Income	-1.2%	2.7%	6.3%
Federal Offset	-0.0%	-0.3%	-2.7%
<b>Total after Offset</b>	<b>12.6%</b>	<b>11.6%</b>	<b>6.5%</b>

Source: Institute on Taxation and Economic Policy

Sales, excise, and property taxes combined make up the greatest burden of taxes for 95 percent of New Yorkers. Although a high income resident may pay a larger gross amount in taxes, it does not represent a greater portion of their income. As a result, the greatest tax burdens in New York fall on those with the least ability to pay. Clearly, any plan that relies more on property or sales taxes to increase revenue provides the most benefit for the wealthy.

New York's income tax should be restructured through the addition of more income brackets at the high end of the income distribution to reflect the broad spectrum of income earners in the State. This would not only create a more progressive tax structure, but also provide much needed fiscal relief for low and middle class families.

### **3. Restructuring the Personal Income Tax: Recent Experiences in California, Maryland, New Jersey and New York**

As New York policymakers consider the possibility of enacting a high end income tax increase as part of this year's budget adoption process, it is important to note the recent experiences of New York and other states in restructuring their PIT systems, to eliminate projected deficits or to provide funding for either essential services or property tax relief.

#### **California**

In 2004, California voters approved a ballot initiative, Proposition 63, that established a one percent tax on the portion of taxpayers' incomes over one million dollars. Known as the Mental Health Services Act (MHSA), this initiative had the effect of creating a new top bracket of 10.3 percent for income above \$1 million. The revenue from this new tax was dedicated to the provision and improvement of mental health services, education, and early intervention programs.<sup>30</sup> The initiative enjoyed overwhelming public support and was approved by 53.8% of California voters.<sup>31</sup>

#### **Maryland**

In 2007, Governor Martin O'Malley proposed a series of tax increases to expand Maryland's revenue base, including significant changes to corporate and PIT rates, in response to an estimated deficit of \$1.7 billion.<sup>32</sup> During a special session, the Maryland Legislature responded by passing the Tax Reform Act of 2007. This \$1.3 billion package combined increases in the state's taxes on cigarettes, vehicle titling, sales, and corporations with the creation of three additional PIT brackets including a new top rate of 5.5 percent for incomes over \$500,000.<sup>33</sup> In 2008, Maryland created a temporary (for three years) new top rate of 6.25 percent for incomes over \$1,000,000.<sup>34</sup>

#### **New Jersey**

In June 2004, Governor Jim McGreevey signed the Fair and Immediate Relief, or FAIR, bill into law, which used PIT reform as a method of providing property tax relief. The plan called for the following: doubling direct property tax relief from \$670 million to \$1.5 billion; increasing the maximum Homestead Rebate check for senior citizens to \$1,200; allowing increases in relief for non-senior citizens whose income is less than \$125,000 to \$800; and doubling relief for earners between \$125,000 and \$250,000 to \$500. The Governor estimated that over two million New Jersey residents would benefit.<sup>35</sup> The program was funded by increasing the top rate from 6.37 to 8.97 percent on earners above \$500,000. While a step in the right direction, New Jersey still faces the highest property

taxes in the nation. Governor John Corzine has recently proposed a one-year increase in New Jersey's top income tax rate from 8.97 to 9.75 percent.

## **New York**

Following the economic downturn after September 11, the national recession, and the bursting of the dot-com bubble, the New York State Legislature, over Governor Pataki's veto, temporarily increased the state's top PIT rates for the 2003, 2004, and 2005 tax years.<sup>36</sup> The state's top income tax rate of 6.85 percent was increased, for all three years, to 7.7 percent for taxpayers with incomes above \$500,000, regardless of filing status. A second higher rate of 7.5 percent in 2003, 7.375 percent in 2004 and 7.25 percent in 2005, was established for single taxpayers with taxable incomes above \$100,000 and for married taxpayers filing joint returns with incomes above \$150,000.<sup>37</sup> The temporary top rates generated approximately \$3.8 billion during the time that they were in effect.<sup>38</sup>

## **4. Economic Impact of PIT Reform**

Since the beginning of his term, Governor Paterson has consistently called for spending cuts and agency reductions. The Governor's statements reflect a belief that the only way to approach the budget crisis is to slash government spending on health, education and human services. On the revenue side, his proposed policies are mostly regressive and would serve to harm the middle and lower class during this recession. (As noted earlier, however, on March 11 the Governor and legislative leaders agreed to drop \$1.3 billion in largely regressive revenue proposals advanced by the Governor in his December budget.)

In refusing to consider a high-end PIT increase as part of the solution, the Governor has stated, “[w]hen you tax the wealthy in the downturn of an economy, you have an automatic link of a loss of job opportunities and then a loss of population.”<sup>39</sup> However, this position ignores economic facts and historical evidence. Moreover, his regressive tax and revenue policies proposals would have exacerbated the economic crisis.

A far better approach would be to make progressive tax reform an integral part of any solution to restore economic and fiscal stability in New York. Marginal income tax increases on the wealthy would help blunt the human and economic harm caused by steep spending cuts. Excessive state spending cuts would also counter federal stimulus efforts. Contrary to the claims made by the Governor and others, PIT reform has not led to out-migration of wealthy residents nor is it likely to damage the New York economy. Finally, a marginal income tax increase on wealthy New Yorkers would provide much needed revenue for essential services.

### **Spending Cuts vs. High-end PIT Increase**

States do not have the latitude that exists at the federal level to run large deficits in order to counter an economic downturn. New York, like almost every state, has a constitutional or statutory requirement to balance revenues and expenditures in the current year. However, economic theory suggests that during a recession spending cuts and reductions in transfer payments hurt the economy much more than a high end income tax increase.

In 2001, Peter Orszag, President Obama's Director of the Office of Management and Budget (OMB), and Joseph Stiglitz, Professor of Economics at Columbia University and one of the recipients of the 2001 Nobel Prize in Economics, wrote that spending cuts would hinder economic growth. They wrote:

[T]ax increases on higher-income families are the least damaging mechanism for closing state fiscal deficits in the short run. Reductions in government spending on goods and services, or reductions in transfer payments to lower-income families, are likely to be more damaging to the

economy in the short run than tax increases focused on higher-income families.<sup>40</sup>

A deficit-reduction plan that relies predominantly on cuts will cause severe damage to the economy—not only by reducing consumer spending, but also by exacerbating job losses.

The Center on Budget and Policy Priorities (CBPP) reports that providing assistance for struggling families by maintaining or expanding public programs is a more effective form of economic stimulus compared to other alternatives, including tax breaks for the wealthy. A drop in consumer demand is a major factor of this economic downturn. By helping out working families, who will readily spend money on basic living necessities, the government can quickly bolster demand and stimulate economic activity in the short run. The same argument holds for averting reductions in spending areas that mainly benefit low- and moderate-income families: such actions help maintain the overall level of economic activity rather than intensifying the forces of economic contraction.

Research done by Mark Zandi, chief economist at Moody's Economy.com, indicates that temporarily increasing food stamps would create \$1.73 in demand for each dollar of federal expenditure. Federal aid to state governments would generate \$1.36 in demand per dollar. On the other hand, Zandi notes that making the Bush tax cuts permanent would only generate \$0.29 in demand per dollar cost because a wealthy individual would likely save any extra money from tax cuts rather than readily spend on consumption in a way that would immediately boost the economy. Similarly, cutting the corporate tax rate would generate a mere \$0.30 in demand per dollar cost.<sup>41</sup> These economic principles are applicable at the state level as well.

New York cannot afford to further weaken the economy through deep spending cuts that would lessen income flows going into the economy and increase unemployment. Economic theory and empirical research suggest that during this economic downturn, the most appropriate state government response is to maintain funding for necessary public programs rather than pursuing disproportionate cuts.

### **PIT Increases Do Not Cause Economic Harm or Out-of-State Migration of Wealthy Residents**

Contrary to popular political rhetoric, PIT reform does not harm the economy. The federal government utilized PIT reform as a means to close a budget gap in 1993. Stiglitz and Orszag observe that the increases “preceded the strongest boom the U.S. economy has had in more than a generation. There is no evidence that these tax increases harmed the economy—and considerable evidence that the deficit reduction that they helped finance was beneficial.”<sup>42</sup>

States with higher top PIT rates than New York generally experienced positive job growth over the past decade.<sup>43</sup> As the data in Figure 8 reveal, there is no automatic link between income tax levels and increases on the one hand, and private sector job loss or creation on the other. (New York’s private sector job growth over this period was 1.6 percent.)

**Figure 8: Private Sector Job Growth in States with Higher PIT rates, 2000-2008**

<b>State</b>	<b>Top Rate on Single Filers, 2000</b>	<b>Top Rate on Single Filers, 2008</b>	<b>Private Sector Job Growth, 2000-2008</b>
California	9.30% > \$33,673	10.3% > \$1,000,000	3.2%
Vermont	25% of federal income tax liability	9.5% > \$357,700	2.1%
Oregon	9% > \$5,800	9% > \$7,300	7.0%
Iowa	8.98% > \$51,120	8.98% > \$62,055	2.7%
New Jersey	6.37% > \$75,000	8.97% > \$500,000	0.4%
Washington DC	9.5% > \$20,000	8.5% > \$40,000	9.6%
Maine	8.5% > \$16,500	8.5% > \$19,450	1.3%
Hawaii	8.75% > \$40,000	8.25% > \$48,000	13.9%
North Carolina	7.75% > \$60,000	7.75% > \$60,000	5.4%
Minnesota	8% > \$56,680	7.85% > \$71,591	3.4%
Idaho	8.2% > \$20,000	7.8% > \$24,376	18.0%
South Carolina	7% > \$11,550	7% > \$13,350	5.6%
Arkansas	7% > \$25,000	7% > \$31,000	2.7%
Montana	11% > \$70,400	6.9% > \$14,900	17.7%

Source: Tax Policy Center (Income Tax rates), American City Business Journals (Private Sector Job Growth),

Nevertheless, one of the principal arguments against raising PIT rates in New York is the migration of high-income residents to other states. However, several recent reports demonstrate that out-migration is not significantly influenced by a marginal income tax increase on wealthy individuals. Migration patterns are influenced by a variety of complex factors, including family, housing costs, employment opportunities, education, public safety, and access to healthcare.

As a recent New York Times article, aptly titled, “Taxes Not Seen as Making the Rich Flee New York,” indicates:

[T]here is surprisingly little evidence to support the proposition that rich New Yorkers would bolt if forced to pay higher income taxes. Though tracking the movement of wealthy taxpayers from state to state is difficult, experts on public finance and migration say they have yet to document a substantial “rich drain” in states that have raised income taxes in recent years.<sup>44</sup>



## **New Jersey**

The authors of *Trends in New Jersey Migration: Housing, Employment, and Taxation*, a report by Princeton University's Woodrow Wilson School of Public & International Affairs, conclude that New Jersey's passage of a higher top PIT rate "appears to be an effective and efficient revenue generation mechanism, having little effect on migration patterns among half-millionaire households."<sup>45</sup> The report additionally finds that the number of half-millionaires in New Jersey has grown by 70 percent since the inception of a higher top rate from 26,000 in 2002 to 44,000 in 2006. The new tax has generated more than \$1 billion per year.

While the report estimates that about 350 half-millionaire households left New Jersey from 2002 to 2006, the authors find this to be a negligible amount, considering the explosion in the number of half-millionaires during the same period and the substantial increase in State revenue each year.

Interestingly, New Jersey experiences an out-migration of 70,000 people annually. However, the report finds that this is mostly attributable to lower-income individuals and families leaving the State as a result of high cost of living and increasing property taxes.<sup>46</sup>

## **New York**

New York also experienced an increase in the number of high-income returns after temporarily raising PIT rates during the 2003-to-2005 period. The number of high-income returns grew from 250,000 in 2003, to over 325,000 in 2005, representing a 30% growth.<sup>47</sup> In addition, from 2002 to 2006, income for the top one percent of New Yorkers increased by 136 percent. The top five percent enjoyed a 112 percent increase, while the bottom 95 percent actually experienced an 8.3 percent decrease.<sup>48</sup> During this period, 127,000 jobs were added in the state and overall economic performance improved, contrary to Governor Pataki's predictions.<sup>49</sup>

## **California**

A similar growth in millionaire households occurred in California after the passage of a higher PIT rate in the early 1990s and once again in 2004. The California Tax Reform Association concludes that, "[t]here is no credible...data which demonstrates...any loss to the General Fund resulting from changes in behavior...among high-income taxpayers with regard to location...(due to) increases in marginal tax rates at the upper end."<sup>50</sup>

From 1991 to 1995, when California temporarily instituted new rates of 10 percent on income over \$200,000 and 11 percent on earners making over \$400,000, the number of California millionaires increased by 51.3 percent from 7,657 to

11,585.<sup>51</sup> Moreover, there was a 37.8 percent increase in the number of millionaires in the State from 2004 to 2006.<sup>52</sup>

Separate reports by the Iowa Policy Project and Policy Matters Ohio confirm this conclusion—taxes have little to no effect on net migration out of a particular area. States should consider that families likely are far more concerned with essential services such as education and the provision of public safety and a healthful environment rather than tax structures when deciding on potential home locations. If lawmakers are concerned about migration, finding methods to reduce housing costs and soaring property taxes should be a much larger part of the overall policy discussion.

## **Small Business**

Concerns have also been raised in some quarters about the effects of a high-end income tax increase on small business owners since many forms of small business income flow through to and are taxed on PIT returns. Yet, according to the respected Tax Policy Center, a joint project between the Urban Institute and the Brookings Institution, 98.6 percent of all small business owners nationally make less than \$250,000 a year.<sup>53</sup> (Some of the proposals for progressive PIT reform in New York would add one or more tax brackets at income levels of \$250,000 or more.) As a result, the overwhelming majority of small business owners would not see their income taxes rise under progressive PIT reform. In fact, if revenue from a permanent PIT increase is dedicated to reducing property tax after the economy recovers, it would prove to be beneficial for tens of thousands of small businesses in New York.

Furthermore, a progressive restructuring of the income tax code may also benefit the business environment in the State. Business location decisions are driven by several factors. In the 2008 Area Development Annual Corporate Survey, the primary factors that influence a business' location decision include transportation infrastructure, the cost and quality of labor, and the cost of occupancy and construction. Interestingly, the survey noted that for industries that are dependent on a highly-educated workforce, quality of life issues are extremely significant. For instance, the survey finds that some of the most important quality of life issues include public schools, low crime rates, access to healthcare, and affordable housing.<sup>54</sup>

Budget cuts threaten adequate funding for services and public goods that affect business location decisions. As a result, New York can enhance its business climate and the productivity of business operating here by directing revenue from progressive income tax reform to making specific infrastructure and quality of life investments.

## **Progressive PIT Reform Affects Only a Few New Yorkers**

Adding brackets at the top of the income structure in New York would affect a relatively small number of taxpayers. For example, only 2.5 percent of New York residents had annual incomes above \$250,000 in 2006, the latest year for which data are available. In most parts of the state – in all 52 upstate counties and in the four New York City boroughs outside of Manhattan—less than two percent of taxpayers have incomes above this level. In the suburban New York City counties, the range is from 2.7 percent in Suffolk to 7.9 percent in Westchester.

Manhattan's 8.1 percent is the highest. Looked at another way, 85 percent of high earners live in the 10 downstate counties, and 15 percent live in the 52 upstate counties.<sup>55</sup>

## **5. The Impact of the Federal Stimulus on New York**

### **American Recovery and Reinvestment Act**

To confront the ongoing recession, President Barack Obama signed the \$798 billion recovery package, or the American Recovery and Reinvestment Act (ARRA), on February 17, 2009. The plan is comprised of several well-targeted components that will contribute to pulling the economy out of a steep slump, including: state fiscal relief; increased aid to the unemployed, and those on food stamps or supplemental security income; infrastructure spending; investments in green jobs, alternative energy development, research and development; and revenue directed towards a range of education program areas from early childhood through higher education. The ARRA also includes several tax cut initiatives, notably tax relief to working families.

The state fiscal relief components that can be used to reduce New York's budget deficit include a temporary increase in the federal share of Medicaid, education funding restorations, and general revenue sharing funds.

### **Impact on New York**

Governor Paterson's office estimates that the State will be receiving \$24.6 billion in the next two years. The funding will prove crucial during this crisis. To manage and direct the funds, the Governor created the New York State Economic Recovery and Reinvestment Cabinet, headed by Timothy J. Gilchrist, the Governor's Senior Infrastructure and Transportation Advisor.

The stimulus will temporarily increase the federal government's share of Medicaid costs from 50 to 57 percent, providing New York with \$1.9 billion for fiscal year 2008-09, \$5 billion for 2009-10, and \$4.2 billion in 2010-11. The State will receive \$2.5 billion to prevent any more reductions to public education. Additionally, the Act will provide New York with \$1.25 billion for mass transit and \$1.1 billion for highways and bridges.<sup>56</sup>

### **Considerations**

The stimulus package will likely spur a dramatic reevaluation of taxation and revenue policy in the coming weeks. New York should consider the stimulus before advocating for any more drastic measures to relieve fiscal imbalances. As Paul Krugman indicates in a recent *New York Times* column, "even as Washington tries to rescue the economy, the nation will be reeling from...state governors who are slashing spending in a time of recession, often at the expense both of their most vulnerable constituents and of the nation's economic future."<sup>57</sup>

By enacting program cuts, states would be inhibiting economic activity and consumer spending, which would counteract federal stimulus efforts and weaken recovery actions.

In response to the passage of the Act, Governor Paterson emphasized the current budget deficit and his administration's steadfast support of spending restraint, "this federal stimulus legislation does not in any way diminish the need to reevaluate our operations and produce a smarter, less costly, more efficient government."<sup>58</sup> However, on the same day President Obama signed the Act into law, the Governor called for the restoration of \$1.1 billion of local highway funding in the Executive Budget, citing that that many small villages and towns may not be eligible for federal stimulus aid.<sup>59</sup>

Although federal funds will help alleviate some of the impacts of the current crisis in the short term, the stimulus alone cannot balance New York's budget. The maximum it will provide towards fiscal stabilization is \$6.5 billion this fiscal year.<sup>60</sup> As a result, utilizing all available stimulus funds that can go towards the deficit, New York would still be left with a \$7.5 to \$8 billion gap. Permanent reform is necessary to repair the broken taxation and revenue structure in the State. To truly ensure long-term fiscal stability, provide services, ensure future property tax relief, and reduce the excessive burden on the middle and working class, the State must consider restructuring its PIT system.

## **6. Recommendations for New York: Progressive Tax Reform**

The federal stimulus package will provide approximately \$6 billion that can be used to help narrow New York State's projected \$14.2 billion budget gap for the 2009-10 fiscal year. The federal stimulus also will provide roughly \$5 billion in funding that will help close the state budget gap for the following year.

To help close the remaining \$8 billion 2009-10 budget gap, ensure fiscal stability, protect services, and restore sustainability and fairness to the tax structure, New York should reform its PIT by restoring some of this tax's lost progressivity. From an economic standpoint, such reform is much more prudent than relying primarily on service cuts during a recession.

Progressive income tax reform will also help to reduce the overall regressivity of New York's state and local tax structure under which low- and middle-income taxpayers pay a significantly greater portion of their incomes in state and local taxes than do the highest income New Yorkers. A progressive income tax increase that adds one or more brackets at the top also will help redress changes in New York's PIT structure since the 1970s that have reduced sharply the number of tax brackets and lowered the threshold for the top rate to \$20,000 for single taxpayers and \$40,000 for joint filers.

State government should additionally pursue various cost savings measures that do less damage to working families than cuts to essential public services and safety net programs. For instance, New York can make greater use of its considerable purchasing power to reduce spending on prescription drugs purchased under Medicaid, the State's EPIC program, or by public employee health programs. The State also would save by hiring state workers instead of expensive private contractors for such tasks as engineering and computer services, reforming the much-abused and questionable Empire Zones program, closing the loophole in the State's bottle bill that allows bottlers to retain over a hundred million dollars in unclaimed deposits each year, and closing corporate loopholes. These actions alone could save the State roughly \$1 billion.

In order to attain fiscal stability without negatively affecting the state economy, New York should implement a permanent progressive tax reform. The State's short term needs are obvious. In the long term, the revenues involved can be used to protect the State's important educational, healthcare commitments while addressing the pressing need for property tax relief and reform, without squeezing other parts of the state budget.

The political rhetoric stating that increased income taxes would be harmful ignores data that consistently show that high-end PIT increases do not result in the out migration of wealthy households. Nor is there any

credible evidence that progressive income tax increases undertaken by various states in recent years have impeded job growth.

Adding income tax brackets at the top also will amount to a belated recognition of the intense concentration of income growth in recent years among the top 5 percent of taxpayers in New York. New York has the widest gap between the rich and the poor of any of the 50 states and the State budget office projects that all of the income growth occurring in the State from 2002 to 2009 is going to the wealthiest 5 percent of households.

Rather than increase the burden on the middle class, the State should take this opportunity to restore progressivity to its tax structure. The State must fulfill its commitment to educational equity, maintain vital services, and forego any further cuts that would threaten the middle and lower class.

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## Appendix A: New York State FY 2008-09 Budget Cuts

In order to close the deficit, Governor David Paterson has carried out several rounds of budget cuts since assuming office last year. In responding to the fiscal crisis, Governor Paterson has implemented several revenue generation actions, cuts, and transfers amounting to over \$2 billion in savings for the 2008-09 fiscal year approximately \$1.5 billion for fiscal year 2009-10.

Time	Action	FY 2008-2009 Amount (in millions)	FY 2009-2010 Amount (in millions)
<b>April 2008</b>	3.35% Agency Spending Reduction	\$500	\$0
	<b>Total</b>	<b>\$500 million</b>	
<b>August 18, 2008</b>	Hiring Freeze and Current Year Agency Spending Reduction	\$630	\$0
	Reduce local assistance spending by 6%	\$97	\$160
	Cut new and enhanced executive and legislative programs by 50% and 6% respectively	\$34	\$21
	General Fund Transfers	\$50	\$20
	Reduce Executive and Legislative Item Funding	\$50	
	Reduce CUNY's budget	\$51	\$51
	Cuts to Medicaid	\$127	\$374
	<b>Total</b>	<b>\$1.03 billion</b>	<b>\$606 million</b>
<b>February 3, 2009</b>	Increase SUNY Tuition	\$53	\$97
	Change Timing of NYC STAR payment	\$93	\$20
	Scale Back Local Government Efficiency Grant Programs	\$1	\$9
	Reduce Office of Alcoholism and Substance Abuse Prevention Funding	\$3	\$3
	Delay Implementation of Bridges to Health Program	\$1	\$15
	Rescind 2008-09 Vacation Exchange Program	\$5	\$0
	Reduce Legislative Programs and Eliminate Member Items Transfer	\$56	\$5
	Reduce funding for economic development programs	\$6	\$6
	Reduce arts grants spending	\$7	\$7
	Environmental Protection Fund (EPF) cuts	\$50	\$0

Statewide spending cuts	\$135	\$50
Delay nursing home rebasing	\$22	\$0
Eliminate retroactive Medicaid readjustment of 2008	\$0	\$70
Increased covered lives assessment	\$120	\$120
Reduce public hospitals retention and recruitment grants	\$9	\$12
Reduce non-public hospital grants	\$11	\$7
Change HMO direct pay financing	\$40	\$40
Reduce funding to Adirondack Cancer Center	\$5	\$0
Reduce public nursing home retention and recruitment grants	\$4	\$0
Change Health NY Financing	\$137	\$137
Recoup Early Intervention Overpayment	\$11	\$0
Manhattan DA Settlements	\$82	\$25
New York Power Authority Transfers	\$306	\$170
Department of Law's Litigation Settlement Account	\$91	\$5
EPF Capital Financing	\$25	\$0
Existing Fund Balances.	\$100	\$0
Other General Fund Transfers	\$116.5	\$5
Finance Certain Housing Programs with Bonding	\$25	\$0
Statewide Wireless Network	\$75	\$0
Use Accumulated Fund Balance to Support Volunteer Recruitment Scholarship Costs	\$2	\$0
<b>Total</b>	<b>\$1.59 billion</b>	<b>\$803 million</b>

Source: New York State Division of the Budget, <http://www.budget.state.ny.us/index.html>

## Appendix B: Top New York PIT Rates, 1975-2008

Year	Top Rate	Income Above
1975	15.375%	\$25,000
1976	15.375%	\$25,000
1977	15%	\$30,000
1978	12%	\$21,000
1979	12%	\$21,000
1980	11%	\$19,000
1981	10%	\$17,000
1982	10%	\$17,000
1983	10%	\$17,000
1984	10%	\$17,000
1985	9.5%	\$15,000
1986	9.5%	\$16,000
1987	8.75%	\$14,000
1988	8.38%	\$17,000
1989	7.875%	\$13,000
1990	7.875%	\$13,000
1991	7.875%	\$13,000
1992	7.875%	\$13,000
1993	7.875%	\$13,000
1994	7.875%	\$13,000
1995	7.59375%	\$12,500
1996	7.125%	\$13,000
1997	6.85%	\$20,000
1998	6.85%	\$20,000
1999	6.85%	\$20,000
2000	6.85%	\$20,000
2001	6.85%	\$20,000
2002	6.85%	\$20,000
2003	7.70%	\$500,000
2004	7.70%	\$500,000
2005	7.70%	\$500,000
2006	6.85%	\$20,000
2007	6.85%	\$20,000
2008	6.85%	\$20,000

Source: NYS Department of Taxation and Finance, Office of Tax Policy Analysis, [http://www.tax.state.ny.us/pdf/stats/policy\\_special/electronic\\_sourcebook/tables/current/pdf/table\\_30\\_2008.pdf](http://www.tax.state.ny.us/pdf/stats/policy_special/electronic_sourcebook/tables/current/pdf/table_30_2008.pdf)

## Appendix C: Top PIT Rates, by State, 2008

State	Top Rates and Tax Brackets for Single Filers
Alabama	5% > \$3,000
Alaska	No PIT
Arizona	4.54% > \$150,000
Arkansas	7% > \$31,000
California	10.3% > \$1,000,000
Colorado	4.63% flat rate
Connecticut	5.0% > \$10,000
Delaware	5.95% > \$60,000
Florida	No PIT
Georgia	6% > \$7,000
Hawaii	8.25% > \$48,000
Idaho	7.8% > \$24,736
Illinois	3% flat rate
Indiana	3.4% flat rate
Iowa	8.98% > \$62,055
Kansas	6.45% > \$30,000
Kentucky	6% > \$75,000
Louisiana	6% > \$25,000
Maine	8.5% > \$19,450
Maryland	5.5% > \$500,000
Massachusetts	5.3% flat rate
Michigan	4.35% flat rate
Minnesota	7.85% > \$71,591
Mississippi	5% > \$10,000
Missouri	6% > \$9,000
Montana	6.9% > \$14,900
Nebraska	6.84% > \$27,001
Nevada	No PIT
New Hampshire	PIT is limited to Dividends and Interest Income Only
New Jersey	8.97% > \$500,000
New Mexico	5.3% > \$16,000
New York	6.85% > \$20,000
North Carolina	7.75% > \$60,000
North Dakota	5.54% > \$359,701
Ohio	6.24% > \$200,000
Oklahoma	5.5% > \$8,701
Oregon	9% > \$7,300
Pennsylvania	3.07% flat rate
Rhode Island	25% of federal tax
South Carolina	7% > \$13,350

South Dakota	No PIT
Tennessee	PIT is limited to Dividends and Interest Income Only
Texas	No PIT
Utah	5% flat rate
Vermont	9.5% > \$357,700
Virginia	5.75% > \$17,000
Washington	No PIT
West Virginia	6.5% > \$60,000
Wisconsin	6.75% > \$145,460
Wyoming	No PIT
D.C.	8.5% > \$40,000

Source: Tax Policy Center,

<http://www.taxpolicycenter.org/taxfacts/displayafact.cfm?DocID=406&Topic2id=90&Topic3id=91>.