



THE COUNCIL OF THE CITY OF NEW YORK PROGRESSIVE CAUCUS

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Proposal for Temporary New York Surcharge on Bush-Era Tax Cuts for the Wealthiest Households (December 2010)

Summary

The New York City Council Progressive Caucus proposes an income tax surcharge on household income over \$250,000. The surcharge would be set at the same amount as the additional income tax break the wealthiest households will receive under the tax cut plan agreed to this month by Congress and President Obama. The Caucus plan would generate approximately \$8.1 billion statewide, and use this revenue to restore vital services now proposed for deep cuts, address severe deficits facing New York City and State, and stimulate the New York economy.

Bush Era Tax Cuts Extension Primarily Favors the Wealthiest Households

As has been extensively documented, the extension of the Bush-era tax income tax cuts primarily benefits the wealthiest households:

- A married couple with two kids earning \$50,000 will receive about \$2,000 in tax relief.
- The top 1% of New York households, with an average annual income of \$2.3 million, would receive an average of about \$120,000 in tax relief.

City and State Face Severe Service Cuts and Deficits

Meanwhile, New York City and State are in dire straits. Mayor Bloomberg has recently proposed:

- Closing 20 fire companies at night, eliminating shelter beds for runaway homeless youth, and cutting essential case management services for homebound seniors.
- For next year, laying off over 4,000 public school teachers, reducing the NYPD and FDNY forces by attrition, closing dozens of child care centers, eliminating thousands of summer youth jobs, and cuts that could close many neighborhood libraries.
- 20% cuts to all capital spending, including roads, bridges, schools, and affordable housing.
- Ridiculous fees, like billing New Yorkers over \$400 when a fire truck responds to an accident, or charging not-for-profit hospitals for dispatching ambulances.

Even with these proposed cuts and new fees, the City still faces a \$2.4 billion deficit for next year (Fiscal Year 2012). And that number could rise substantially based on the problems New York State is facing.

New York State is facing a sizable budget deficit. This is likely to mean massive cuts to services provided by the State (e.g. health care, state parks, etc), as well as deep cuts in the level of revenue that is shared with localities to pay for education, social services, etc.

Progressive Caucus Proposal

The New York City Council Progressive Caucus is therefore proposing that a temporary income tax surcharge be put in place on household income over \$250,000 – to recapture the windfall between the recent tax deal, and what the wealthiest households would have paid under President Obama and Congressional Democrats' original plan to allow the cuts to expire for the wealthiest 2% of households. Here's how it would work:

- The 97.5% of New Yorkers earning under \$250,000 will still receive the full tax relief. A married couple with two kids earning \$50,000 will continue to receive about \$2,000 in tax relief.
- Households earning over \$250,000 (or \$200,000) for an individual would continue to receive full tax relief on income up to \$250,000 (approximately \$7,000).
- A temporary income surcharge would be placed on income over \$250,000 (or \$200,000 for an individual), set at the difference between the federal income tax rates of the Bush-era tax cuts, and the rates that would have gone into effect on January 1, 2011, under the proposal originally put forward by President Obama and Congressional Democrats. (Estimate provided by James Parrott, Fiscal Policy Institute.)
- With these changes, a married couple with no kids, earning half-a-million dollars per year, would still receive \$7,000 in tax relief, but would no longer receive the extra \$3,000 provided by the federal extension. The top 1% of New York households, with an average annual income of \$2.3 million, would still receive about \$40,000 in tax relief under the Obama plan, but would no longer receive the \$80,000 windfall secured for them by Congressional Republicans (calculations by Citizens for Tax Justice).
- The proposed temporary windfall tax cut surcharge would not replace the three-year temporary New York State personal income tax surcharge enacted in 2009 and in effect for 2009, 2010 and 2011.
- The new surcharge would automatically sunset if and when Congress and the President end the Bush tax cuts for the wealthiest and restore some tax fairness to the federal tax system.
- This proposal would raise approximately \$8.1 billion annually (nearly half of which is paid by residents of New York City).

We propose the following revenue-sharing formula:

- One-third of the revenue would be used by New York State to address its own spending and state-level deficit.
- One-third would be shared with New York City
- One-third would be shared with other municipalities and school districts around the state

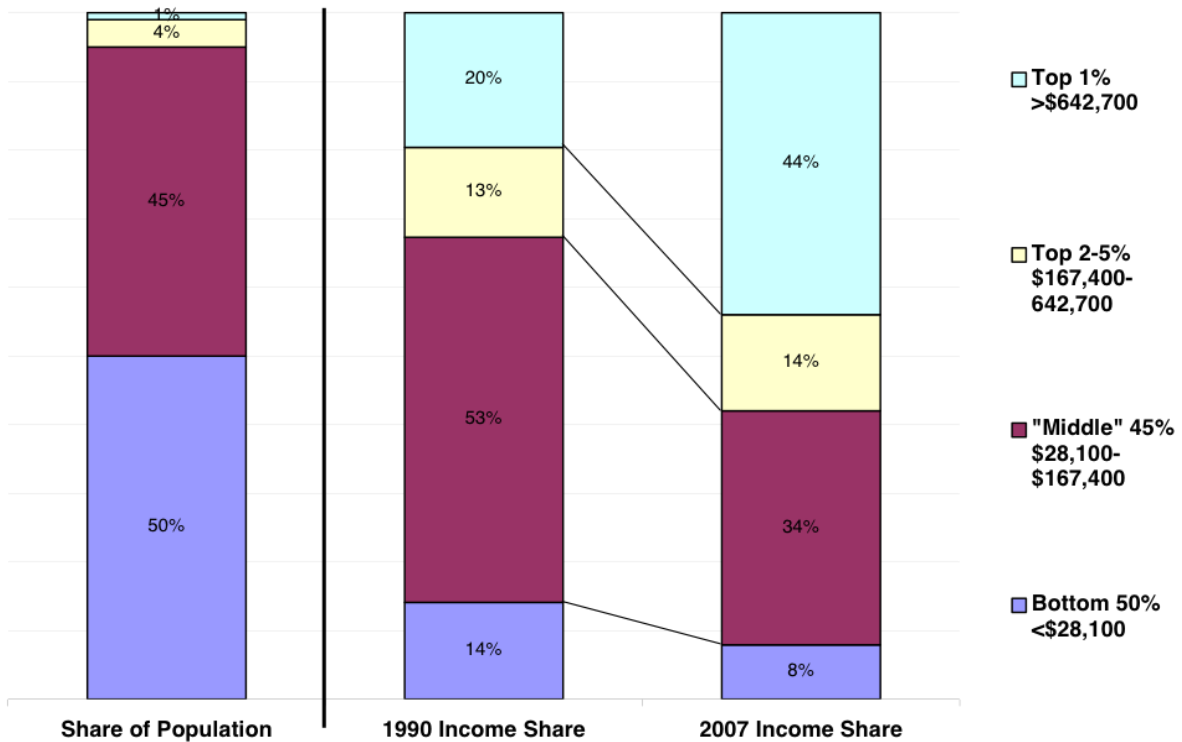
The surcharge would need to be enacted by the New York State Legislature.

Growing Income Concentration

This proposal comes at the same time as new data on growing income concentration in New York is available. A Fiscal Policy Institute analysis shows that from 1990 to 2007, the **top 1% of households' share of total income more than doubled**, from 20% to 44%.

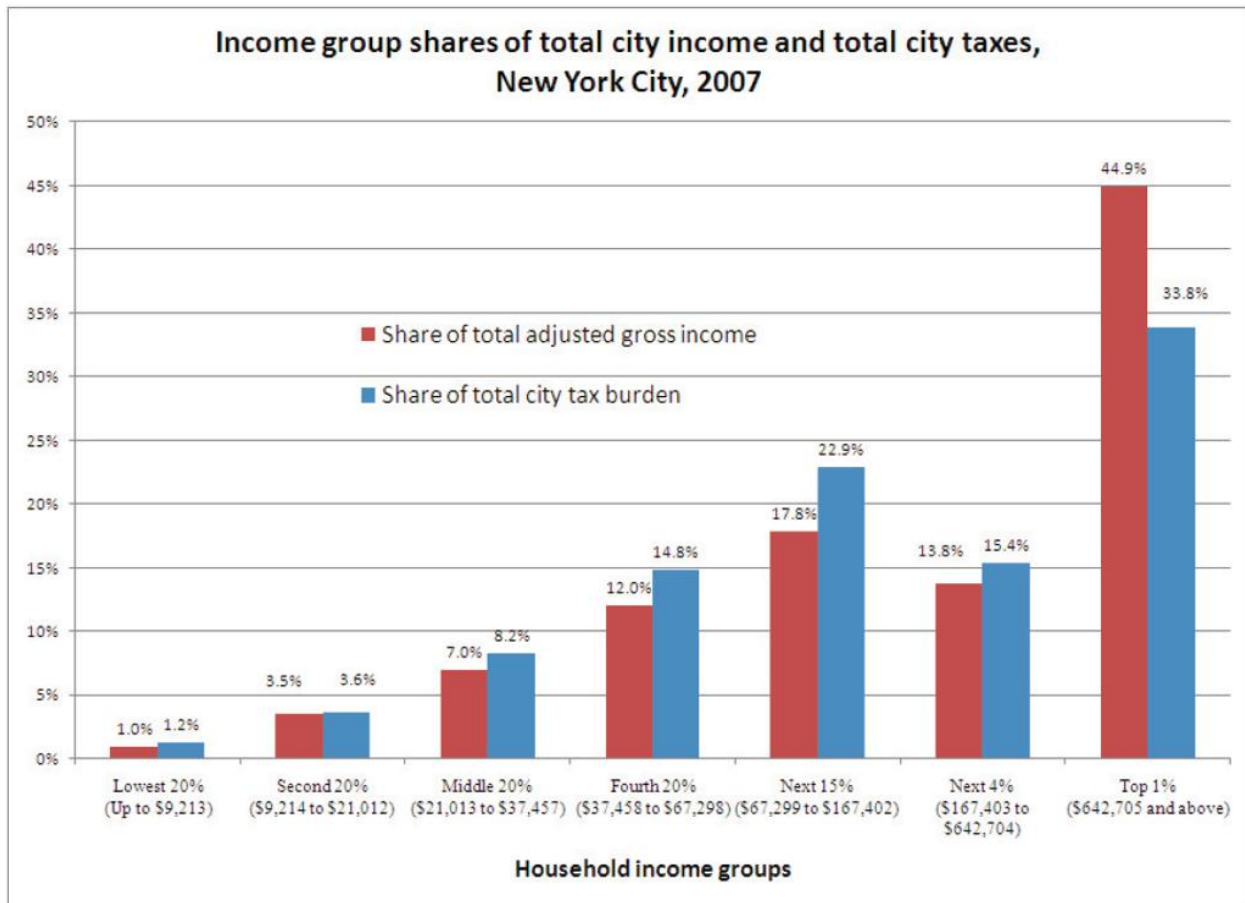
*Source: Fiscal Policy Institute Analysis of NYS Dept of Taxation & Finance Personal Income Tax Data.
Income measure used is taxable income (adjusted gross income)*

The Top 1%'s Share of Income in NYC Has Dramatically Grown Since 1990



Wealthiest 1% of New Yorkers Do Not Currently Pay Their Fair Share

Mayor Bloomberg frequently says the rich bear the brunt of the local tax burden. However, new data shows that when all City taxes primarily borne by residents (e.g. property tax, sales tax, and income tax) are taken into account, **the top 1% of households pay a much lower share of their income than any other group:**



Source: Fiscal Policy Institute "Grow Together or Pull Further Apart? Income Concentration Trends in New York", 12/13/10
http://www.fiscalpolicy.org/FPI_GrowTogetherOrPullFurtherApart_20101213.pdf

Conclusion

Even with this surcharge, we will still have very hard choices to make. The additional revenue would not fill the entire gap in State and City budgets, and deficits are projected to grow in coming years. So we will still need to come up with more spending cuts. That is no simple task when we have already cancelled police recruitment classes, raised school class size, and eliminated thousands of back-to-work and summer youth jobs. But we will have to do it, nonetheless.

While this proposal will not end the difficult choices, we will face fewer disastrous consequences – rising crime, night-time fires, or kids who miss out on early childhood education that is essential to healthy brain development. We can avoid laying off thousands of school teachers, preserve essential public safety levels, and maintain shelter beds in place for homeless teens who are sleeping on the street. We will prevent massive layoffs, and maintain job creation programs, thus reducing the risk of a double-dip recession. We could still reduce the City and State budget deficits. And we'll get a very modestly fairer tax system to boot.