News from the

Fiscal Policy Institute

For immediate release

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New ITEP report: http://www.itep.org/whopays

New Analysis Confirms Low- and Middle-Income New York Taxpayers Pay Higher Tax Rate than the Richest New Yorkers

A new study just released by the Institute on Taxation and Economic Policy (ITEP) and the Fiscal Policy Institute (FPI) finds that the wealthiest New Yorkers are paying a smaller share of their income in state and local taxes than lower-income families that are struggling everyday to make ends meet. New York households with incomes under $100,000 pay higher effective state and local tax rates, ranging from 10.4% to 12%, than the richest 1% of households with incomes over $600,000, who pay 8.1%.

The study, *Who Pays?*, analyzes tax systems in all 50 states and factors in all major state and local taxes, including personal and corporate income taxes, property taxes, sales and other excise taxes, and New York City taxes.

"Our leaders in Albany must focus on how to make our tax system fairer to help the millions of struggling New York families that are hanging on by a thread. Helping them would do a lot more to strengthen our economy than another batch of corporate tax credit giveaways in the name of "economic development," said Ron Deutsch, FPI's Interim Executive Director.

New York's state and local tax system is unfair, or regressive, because the lower one's income, the higher one's tax rate. This is in part because most low- and middle-income New York families pay more in sales and property taxes than they do in income taxes. The Governor just announced an income based, property tax Circuit Breaker that should provide some relief to low and middle-income families most overburdened by property taxes. Regrettably, the Governor decided to link his property tax relief mechanism to local compliance with the tax cap. This could result in communities having to choose between tax relief and underfunded local services.

"Our state income tax is mildly progressive, but not enough to offset the effects of highly regressive sales and local property taxes," said James Parrott, FPI's Deputy Director and Chief

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Economist. “Compounding the problem,” Parrott added, “is the fact that since the state funds the third smallest share of combined state and local spending compared to other states, the state income tax doesn’t do as much as it could to make our taxes fair overall.”

In a comprehensive report on New York City taxes released earlier this week, FPI performed a similar tax burden analysis for New York City as the ITEP report did for each of the 50 states. FPI found a similar result with low- and middle-income New York City residents paying a much higher effective local tax rate than the richest 1%. In New York City, the 40% of the population with the lowest incomes paid more than twice the tax rate of the wealthiest 1% (10.5% and 11% for the two poorest fifths of the City population compared to 5.1% for the richest 1%). Other city families with incomes below $175,000 also paid a higher overall effective local tax rate than did the top 1%.

FPI’s Deutsch stated, “Considering the worst in the nation income inequality that exists in New York City and State, we need our leaders to think about how they can reform our tax system to make sure we adequately fund public services and essential education and infrastructure investments and to make the overall state and local tax system fairer to the average New York family. Fairness, it turns out, just happens to be smart economic policy.”

There’s also a more practical reason for New York and all states to be concerned about regressive tax structures, according to ITEP. If the nation fails to address its growing income inequality problem, states will have difficulty raising the revenue they need over time. The more income that goes to the wealthy (and the lower a state’s tax rate on the wealthy), the slower a state’s revenue grows over time.

“In recent years, multiple studies have revealed the growing chasm between the wealthy and everyone else,” said Matt Gardner, executive director of ITEP. “Upside down state tax systems didn’t cause the growing income divide, but they certainly exacerbate the problem. State policymakers shouldn’t wring their hands or ignore the problem. They should thoroughly explore and enact tax reform policies that will make their tax systems fairer.”

The Fiscal Policy Institute (www.fiscalpolicy.org) 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.

The Institute on Taxation and Economic Policy (www.itep.org) is a non-profit, non-partisan research organization that works on federal, state, and local tax policy issues. ITEP's work focuses particularly on issues of tax fairness and sustainability.

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