



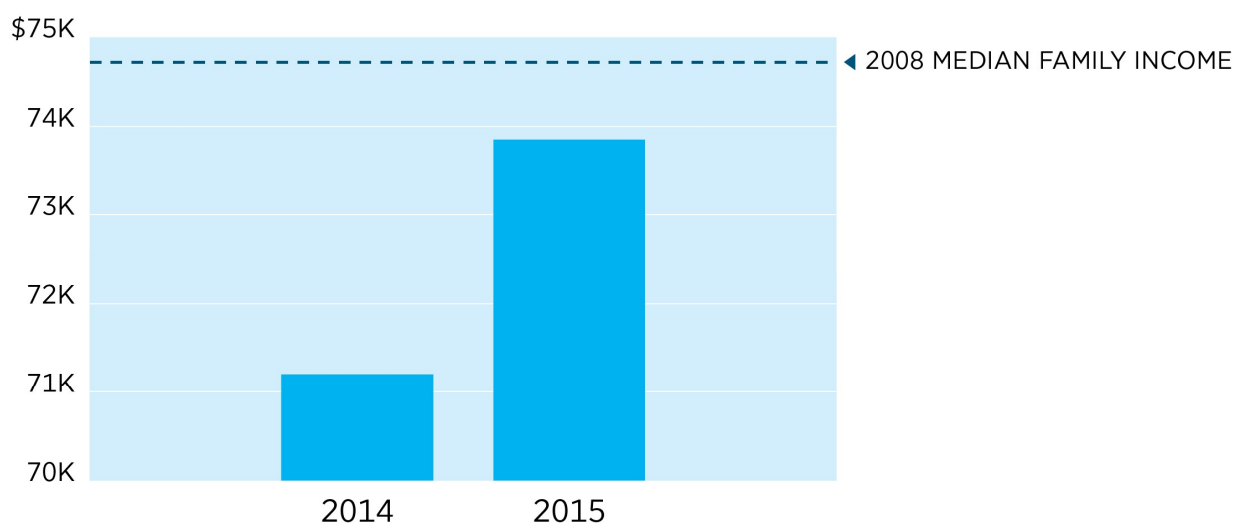
# Policy Brief

## *New York's Pronounced Income Inequality*

February 2017

Since 2013, wage growth for the average worker in New York has started to pick up after languishing in the early recovery years. Total wages increased 6.4 percent in 2014 and 4.4 percent in 2015.<sup>1</sup> Low-wage workers are benefiting from the state's minimum wage increases; two increases for workers at fast-food chain restaurants have lifted the hourly wage floor from \$9.00 to \$10.75 (\$12.00 in New York City), and the first increase on the way to \$15 for all workers statewide took effect December 31, 2016. When the \$15 minimum wage is fully phased in, more than a third of all New York workers will see wage gains.

Fig 1. NYS median family income rose 3.7 percent in 2015 but still lagged the 2008 level



Source: American Community Survey data, 2008, 2014 and 2015. Incomes expressed in 2015 constant dollars.

Several years of recovery and declining unemployment finally generated a solid increase in family incomes in 2015. Inflation-adjusted median family incomes rose in New York by 3.7 percent in 2015. However, this increase

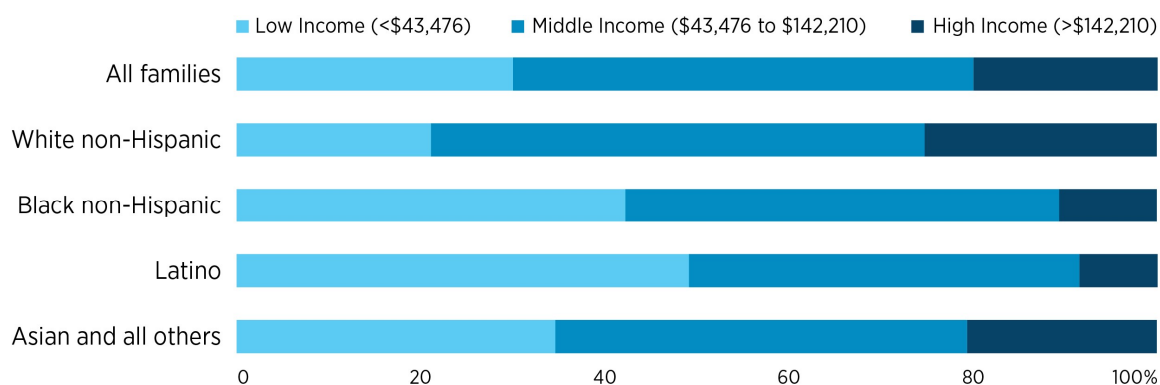
<sup>1</sup> Growth in total wages for workers in all industries from the NYS Department of Labor's Quarterly Census of Employment and Wage series (2015 is the latest full year of wage data).

still does not make up for the erosion that took place after 2008. Census Bureau data show greater income inequality in New York than in any of the fifty states, as well as a statistically significant increase since Governor Cuomo was first elected in 2010.<sup>2</sup> Income gains recorded since the recovery began in 2009 have been highly concentrated at the top of the income distribution. Nearly half (48 percent) of the total increase in incomes in New York from 2009 to 2015 accrued to the wealthiest 1 percent.<sup>3</sup>

There is also a significant racial dimension to income inequality in New York. The average income for white, non-Hispanic families in New York State was \$122,200 during the 2014-15 period, 77 percent greater than the average family income for blacks (\$69,100), 93 percent greater than the average for Latino families (\$63,500), and 19 percent greater than for Asian families.<sup>4</sup>

Families with a black head of household were twice as likely as a family headed by a white person to be low-income, according to data from the American Community Survey.<sup>5</sup> For Latino-headed families, the likelihood of being low-income was nearly two-and-a-half times that for a family headed by a white person. At the other end of the income spectrum, families headed by a white person were two-and-a-half to three times as likely to have incomes in the top 20 percent as black- or Latino-headed families. See the following chart.

Fig 2. New York's Black and Latino Families Much More Likely To Have Low Incomes



Source: FPI analysis of 2014-2015 American Community Survey microdata. Income analysis done using 2015 constant dollars.

<sup>2</sup> As measured by the Gini index, a widely-used measure of income inequality. U.S. Census Bureau, American Community Survey data, 2010 and 2015.

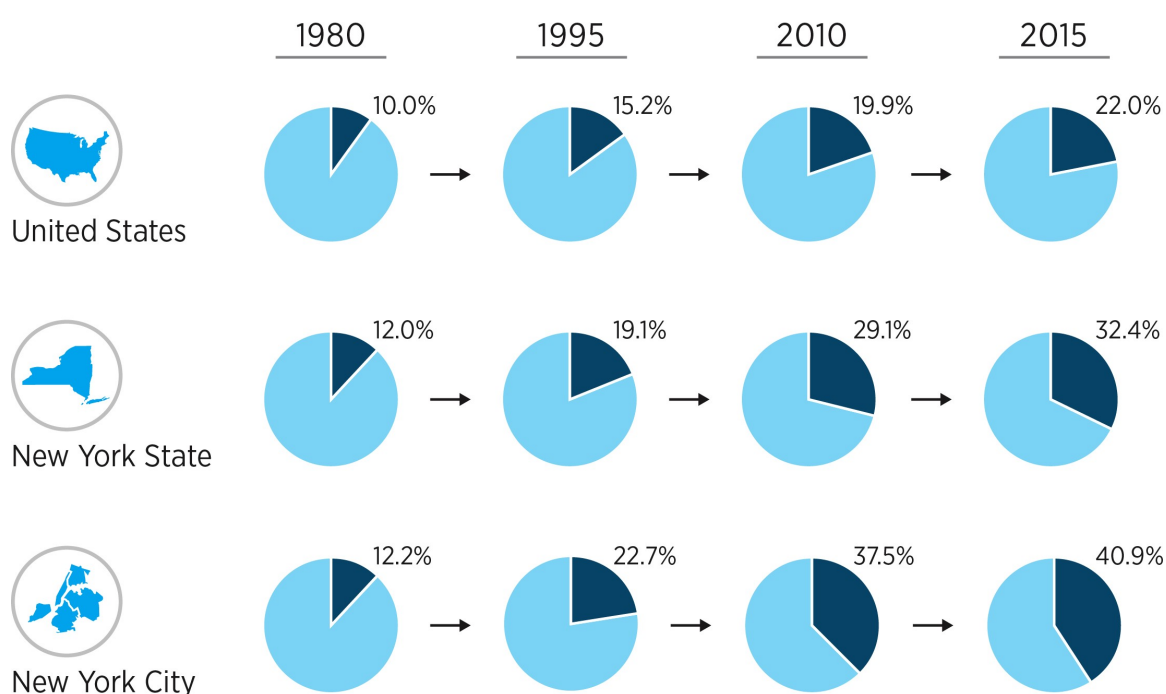
<sup>3</sup> Fiscal Policy Institute estimates.

<sup>4</sup> Fiscal Policy Institute analysis of American Community Survey data for 2014 and 2015. Race/ethnicity for families based on the race/ethnicity of the "householder."

<sup>5</sup> According to American Community Survey data for 2014 and 2015, the family income threshold for the lowest income 30 percent of New York families was \$43,476.

Income inequality, as indicated by the wealthiest 1 percent's share of total income, has grown substantially since 1980 in New York as well as nationally. As the chart below demonstrates, in the United States overall, the richest 1 percent claimed 22 percent of all income in 2015, more than twice the 10 percent share received in 1980. In New York State, the top 1 percent received 32 percent of all income, up from 29 percent in 2010, and 12 percent in 1980. And, in New York City, the top share was nearly 41 percent in 2015. As the chart below shows, income concentration at the very top has grown much faster since 1980 in New York State and City than in the country as a whole.<sup>6</sup>

Fig 3. A Bigger Slice of the Pie  
The Growing Share of All Income Going to the Top 1 Percent



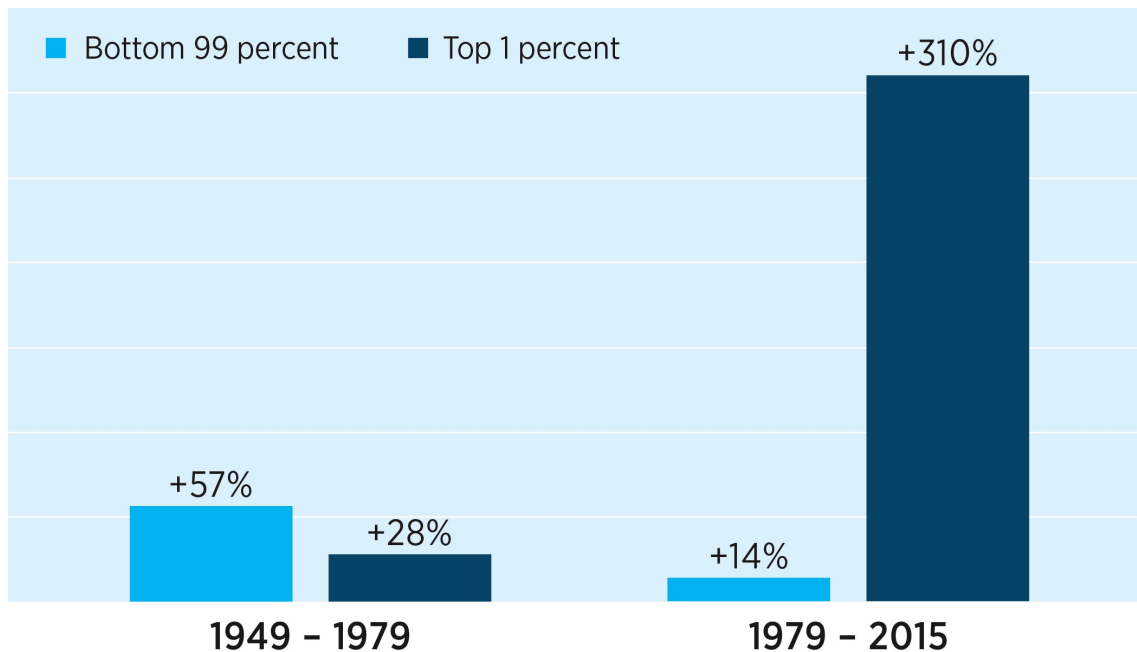
Source: Emmanuel Saez, U.S. data updated June 2016; Estelle Sommeiller, Mark Price, and Ellis Waezeter, *Income inequality in the U.S. by state, metropolitan area, and county*, Economic Policy Institute, June 16, 2016, New York state data; Independent Budget Office data for New York City; and FPI estimates based on IRS 2014 data for New York State.

The tremendous growth in income inequality since 1979 represents a sharp reversal of the patterns of income growth that prevailed for more than three decades following World War II. From 1949 to 1979, incomes rose across the board, with the middle class expanding dramatically in number and experiencing fairly steady income gains. For the past 35 years, however, most income gains have flowed to the very top.

<sup>6</sup> 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 based on IRS 2014 data for New York State.

Fig 4. A Sharp Reversal: Shared Prosperity vs. Income Polarization in New York State

INCOME GROWTH IN NEW YORK STATE



Source: Sommeiller and Price, and FPI estimates.

### 1% Plan for New York Tax Fairness—Extending and Enhancing the Millionaires’ Tax

The best response to the regressive nature of New York’s overall state and local tax system is to make the personal income tax more progressive. To do that, New York should build on the governor’s proposed extension of the millionaires’ tax, currently set to expire at the end of 2017. The state should increase the number of brackets from eight to 12 and make the new structure permanent. This proposal, outlined in the chart below, would retain the phased-in middle class tax rates enacted last year, and increase tax rates slightly for the richest 1% of New York’s taxpayers (i.e., roughly those with incomes over \$665,000). FPI labels this the “1% Plan for New York Tax Fairness.”

The Fiscal Policy Institute estimates that the 1% plan would raise income tax revenues by approximately \$6.2 billion. FPI’s plan would raise about \$2.5 billion more than the governor’s proposed extension of the millionaires’ tax—under the governor’s proposal personal income tax receipts are forecast at \$56 billion for FY 2020. Approximately half of the taxpayers affected by the millionaires’ tax are non-residents, mainly from incomes earned in New York City’s finance and other highly-compensated businesses. Of New York State resident taxpayers subject to the millionaire’s tax, 97 percent reside downstate (NYC, Long Island, Westchester, Orange, and Rockland) and only 3 percent hail from upstate.

Fig 5. 1% Plan: Increase Personal Income Tax Rates Incrementally for Top 1%

Taxable Income Range	Exec. Budget proposal for 2018 rates*	2018 rates w/o Millionaires' Tax renewal	The 1% Plan	The 1% Plan vs. Executive Budget	The 1% Plan vs. 2018 rates w/o Millionaires' Tax
Up to \$17,150	4.00%			No change	No change
\$17,150 - \$23,600	4.50%				
\$23,600 - \$27,900	5.25%				
\$27,900 - \$43,000	5.90%				
\$43,000 - \$161,550	6.33%				
\$161,550 - \$323,200	6.57%				
\$323,200 - \$665,000	6.85%				
\$665,000 - \$1,000,000	6.85%		7.65%	+0.80%	+0.80%
\$1,000,000 - \$2,155,350	6.85%		8.82%	+1.97%	+1.97%
\$2,155,350 - \$10,000,000	8.82%	6.85%	9.35%	+0.53%	+2.50%
\$10,000,000 - \$100,000,000	8.82%	6.85%	9.85%	+1.03%	+3.00%
Above \$100,000,000	8.82%	6.85%	9.99%	+1.17%	+3.14%

\*Same as 2017 rates

Note: Brackets shown are for those married, filing jointly, and are different for singles and head of household filing statuses.

The assembly recently proposed three additional top tax brackets to increase the progressivity of the personal income tax. Under the assembly proposal, taxpayers with incomes from \$1-\$5 million would pay the 8.82 percent rate, \$5-\$10 million a 9.32 percent rate, 9.82 percent for incomes \$10-\$100 million, and a 10.32 percent rate for incomes over \$100 million. The assembly indicates its proposal would generate \$5.6 billion more than the current tax law.

Contrary to the conservative insistence that progressive taxation will drive away the wealthiest taxpayers, recent research on “millionaire taxes” by Cristobal Young of Stanford University and colleagues shows the rich are generally so tied to local economic and social networks that they have largely not moved out of the states that have imposed higher income taxes.<sup>7</sup>

Former state tax commissioner James W. Wetzler, in an article on the millionaires’ tax for *State Tax Notes*, concluded, “There is little evidence to discourage New York from extending its millionaires’ tax.” From his examination of unpublished state tax data for 2006- 2013, Wetzler found “the impact of the millionaires’ tax appears to have been limited to out-migration of a few super-rich residents shortly after its enactment.”<sup>8</sup>

Since the tax’s 2009 enactment, the number of millionaires in New York has climbed and their incomes have grown much faster than that of non-millionaires. The number of resident millionaire returns grew by one third from 2010 to 2014—11 times the three percent growth in the number of non-millionaire returns. The total

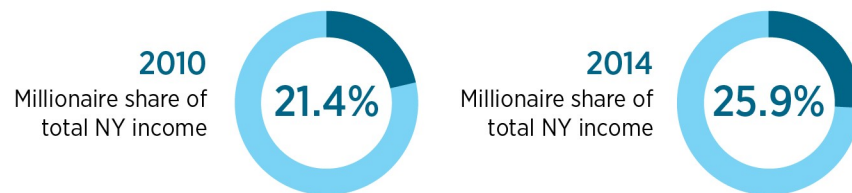
<sup>7</sup> Cristobal Young, Charles Varner, Ithai Z. Lurie, and Richard Prinsinzano, “Millionaire Migration and Taxation of the Elite: Evidence from Administrative Data,” *American Sociological Review*, 2016, vol. 81(3), pp. 421-446.

<sup>8</sup> James W. Wetzler, “Taxation of Millionaires in New York,” *State Tax Notes*, October 10, 2016.

income on millionaire returns grew by 45 percent, more than three times faster than all other New York tax returns.

Fig 6. Number of Millionaire Tax Returns Increased by One-Third from 2010 to 2014

	2010	→	2014	% Change
Number of millionaire tax returns	35,802	→	47,440	↑33%
Total income on millionaire returns	\$134.5 billion	→	\$195.4 billion	↑45%
Number of non-millionaire tax returns	9,236,260	→	9,476,400	↑3%
Total income on non-millionaire returns	\$493.9 billion	→	\$559.5 billion	↑13%
All NYS tax returns	9,272,062	→	9,523,840	↑3%
Total income on all returns	\$628.4 billion	→	\$754.9 billion	↑20%



Source: Internal Revenue Service, Statistics of Income data.

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The Fiscal Policy Institute ([www.fiscalspolicy.org](http://www.fiscalspolicy.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. Founded in 1991, FPI works to create a strong economy in which prosperity is broadly shared.