FPI
Fiscal Policy Institute

Policy Brief
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Expand the Millionaires' Tax and Address New York's Worst-in-the-Nation Income Inequality

The millionaires' tax is New York's fiscal Swiss Army knife, a tool that addresses many different needs. It helps fund important priorities, balance the New York State budget, respond to heightened income inequality, and lessen the overall regressive state and local tax structure. And it is very much needed in New York today.

The proposed extension of the millionaires' tax will help New York continue to support statewide priorities from education to health care. It will restore some of the revenues lost from tax cuts enacted between FY 2013-15 and from the middle-class tax cuts enacted in 2016. The income gap, which is greater in New York State than in any other state, will narrow. The tax will help offset the regressive nature of New York's overall state and local tax burden, particularly when paired with enhanced low-income tax credits and additional high-end tax brackets.

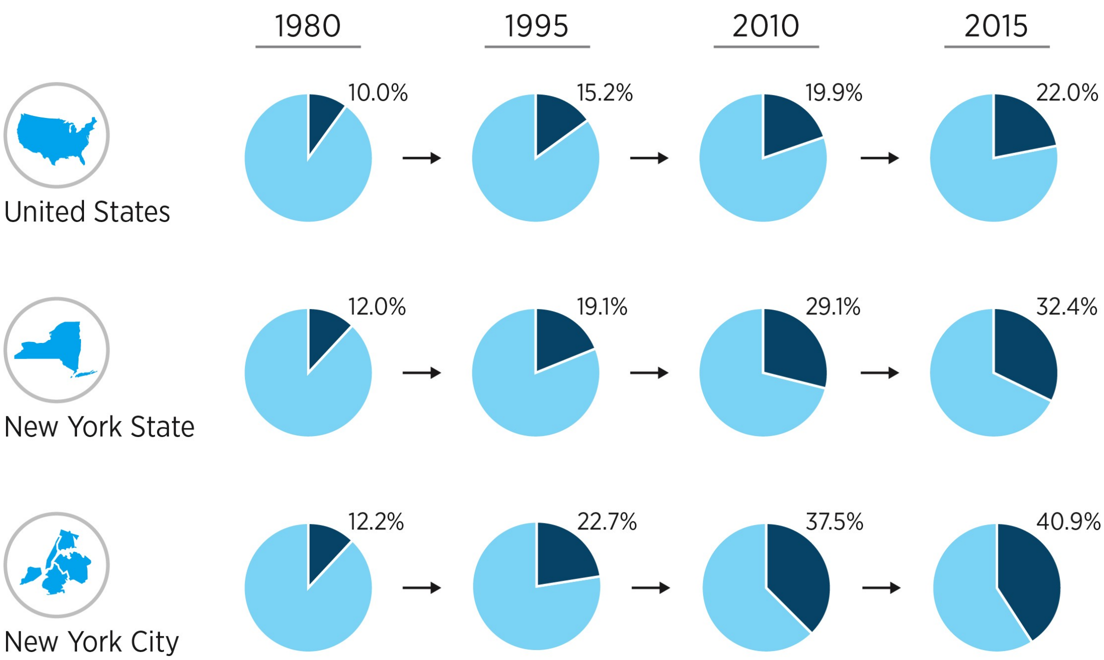
Census Bureau data show greater income inequality in New York than in any of the fifty states, as well as a statistically significant increase since Governor Cuomo was first elected in 2010.[1] Income gains recorded since the recovery began in 2009 have been highly concentrated at the top of the income distribution. Nearly half (48 percent) of the total increase in incomes in New York from 2009 to 2015 accrued to the wealthiest 1 percent.[2]

Income inequality, as indicated by the richest 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.[3]

[1] As measured by the Gini index, a widely-used measure of income inequality. U.S. Census Bureau, American Community Survey data, 2010 and 2015.
[2] Fiscal Policy Institute estimates.
[3] 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. 1. A Bigger Slice of the Pie

THE GROWING SHARE OF ALL INCOME GOING TO THE TOP 1 PERCENT

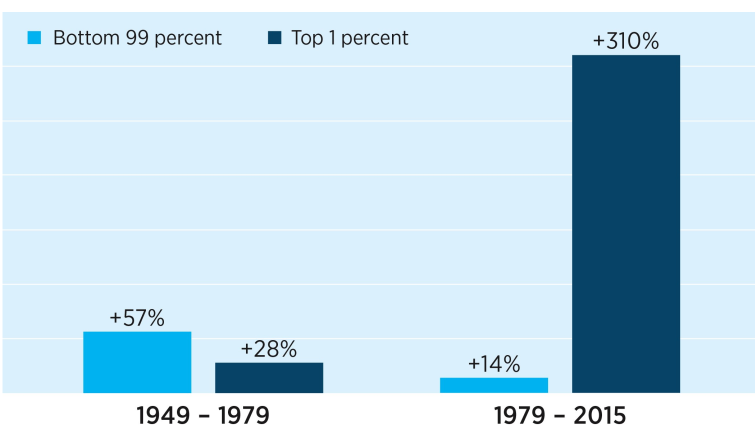


Source: Emmanuel Saez, U.S. data updated June 2016; Estelle Sommeiller, Mark Price, and Ellis Waezeter, Income inequality in the U.S. by state, metropolitan area, and county, Economic Policy Institute, June 16, 2016, New York state data; Independent Budget Office data for New York City; and FPI estimates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

Fig. 2. 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.

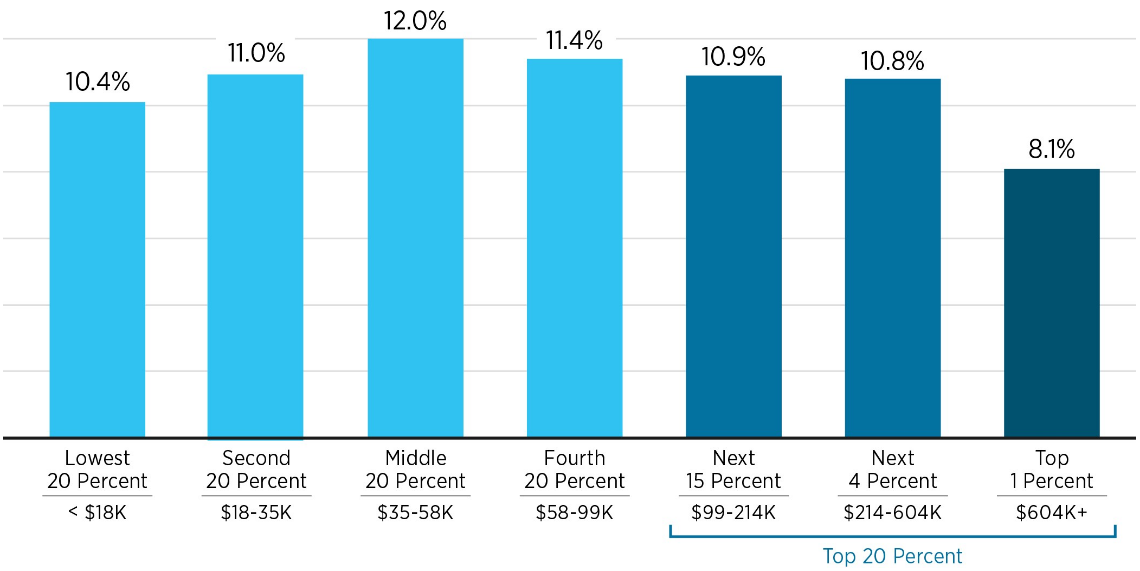
New York's Tax Structure Further Benefits the Wealthy

Those in the wealthiest 1 percent are taking home the lion's share of income gains, yet they pay a smaller share of their income in combined state and local taxes than lower and middle-income families—even with the millionaires' tax in effect. New York households with incomes under $100,000 pay higher effective state and local tax rates (ranging from 10.4 percent to 12 percent) than the wealthiest 1 percent of households (who pay 8.1 percent).

One reason the combined impact of state and local taxes is regressive is that most low- and middle-income families in New York pay a greater percentage of their income in sales and property taxes than they do in income taxes. New York State's income tax is mildly progressive, but not progressive enough to offset the effects of highly regressive sales and local property taxes.

Fig. 3. New York State's Regressive State and Local Tax System

PERCENT OF STATE AND LOCAL TAX BURDEN BY INCOME GROUP



Note: Shares of family income for non-elderly taxpayers. Source: Institute on Taxation and Economic Policy, January 2015.

Extending the Millionaires' Tax and Other Revenue Proposals in the Executive Budget

Millionaires' Tax Extension

The extension of the millionaires' tax is needed to make up for the various tax cuts enacted over the past four years that will reduce FY 2020 tax receipts by nearly $4 billion. The governor appropriately links last-year's enactment of substantial middle class tax cuts to the extension of the millionaires' tax. Middle class tax rate reductions—though it is a bit of a misnomer to refer to families with incomes up to $320,000 as "middle class"—beginning in 2012 were part of an earlier extension of the millionaires' tax. The fully-phased in value of the greater reductions passed in 2016 is quite substantial at $4.2 billion, roughly the equivalent of revenue generated by the millionaires' tax. Corporate, bank and estate tax cuts, enacted in 2014, are likely costing nearly $2 billion in lost revenue annually, considering the continued growth in corporate profits and in the number of large estates.

While the governor did not propose to make the extension of the millionaires' tax permanent—as he should have—his Executive Budget does make permanent the existing charitable contribution deduction limit of 25 percent for state and New York City taxpayers with adjusted gross incomes over $10 million. The limit on deductions translates into $140 million per year in revenue. The Executive Budget notes the limitation has not had a noticeable impact on charitable giving.

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. 4. FPI's 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	
$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 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. We support both our plan and the Assembly plan and would suggest that either plan would generate sufficient revenue to address many glaring unmet needs in New York State. Below is a chart outlining the assembly's proposal:

Fig. 5. NYS Assembly Proposal 2017

Taxable Income Range	New Rate
$1 - $5 million	8.82%
$5 million - $10 million	9.32%
$10 million - $100 million	9.82%
Over $100 million	10.32%

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.[4]

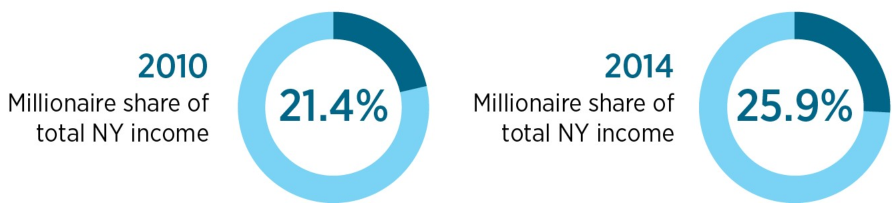
Former state tax commissioner James W. Wetzler, in an article on the millionaires' tax for *State Tax Notes*, concluded, "There is little evidence to discourage New York from extending its millionaires' tax." From his examination of unpublished state tax data for 2006- 2013, Wetzler found "the impact of the millionaires' tax appears to have been limited to out-migration of a few super-rich residents shortly after its enactment."[5]

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

[4] Cristobal Young, Charles Varner, Ithai Z. Lurie, and Richard Prisinzano, "Millionaire Migration and Taxation of the Elite: Evidence from Administrative Data," *American Sociological Review*, 2016, vol. 81(3), pp. 421-446.
[5] James W. Wetzler, "Taxation of Millionaires in New York," *State Tax Notes*, October 10, 2016.

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.

Enhancing the Child and Dependent Care Tax Credit for "Middle Class" Families

New York allows households that qualify for the Federal Child and Dependent Care Credit to claim a percentage of the federal credit on their state income taxes. The credit is refundable for residents. The Executive Budget increases the benefit by an average of 123 percent for middle income tax filers with New York adjusted gross income between $50,000 and $150,000. The average increase under this proposal, which is effective with the 2018 tax year, would be $208, benefiting an estimated 200,000 households. The credit enhancement would provide a total of $42 million in additional benefits.

The child and dependent care tax credit is long overdue for enhancement. The state last adjusted the credit percentages in FY 2000, and the maximum benefit in 2003, even though child and dependent care costs have soared over the past decade and a half. Today, child care is often the largest component of household expenses, greater than housing or food costs.

Among families with children, in 88 percent of cases, all parents in the household are working and the family must rely on outside caregivers. Even though child care teachers and aides are woefully underpaid, the cost of licensed and accredited child care for an infant and a preschooler averaged $1,755 per month in 2014, or over $21,000 annually, according to the state's Office of Children and Family Services. This amount can represent 25 percent or more of a typical bare-bones family budget.[6]

The median hourly pay for child care workers in New York State was $12.63 in 2015, according to Bureau of Labor Statistics data. Since almost all child care aides and more than half of preschool

[6] United Way of New York State, ALICE, Asset Limited, Income Constrained, Employed; Study of Financial Hardship, Fall 2016.

teachers in child care centers are paid less than $15 an hour, the phased-in statewide $15 minimum wage will very likely lead to higher child care costs over the next few years.

New York's low- and moderate-income families with incomes under $50,000 should also receive enhanced child and dependent care benefits. The Executive Budget proposes increasing the average credit for middle income families by 123 percent, but provides no adjustment for families with incomes below $50,000. Doubling the credits (a 100 percent increase) would benefit nearly 200,000 struggling families with incomes below $50,000 at a cost of approximately $142 million. Such an adjustment would disproportionately benefit black and Latino households who are heavily concentrated among the state's low-income families, as noted earlier in this chapter. The child and dependent care tax benefit enhancements should be effective this tax year (2017) to begin providing immediate relief to New York's working families.

New York should also raise its Earned Income Tax Credit (EITC) from 30 percent to 40 percent of the federal benefit. The EITC is widely seen as an essential means of improving the well-being of children and low-income families working yet struggling to make ends meet. More than 1.6 million New York families benefit from the EITC. Raising the credit to 40 percent of the federal benefit would cost roughly $300 million, with almost all the benefit accruing to families with incomes under $32,000. State EITC benefits should also be expanded and increased to aid workers not raising children in the home, and include those workers ages 21-24 and 65-66.

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. Founded in 1991, FPI works to create a strong economy in which prosperity is broadly shared.