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Tax Policy Brief: Fiscal Stability and Progressivity in the Personal Income Tax

Key Findings

- The Personal Income Tax is the State's most important revenue source, accounting for around 2/3 of total tax receipts; it is also a fiscally stable source of revenue due to the State's large population of high-income earners.
- Taxpayers earning over $1 million per year collectively earn 35 percent of all income earned in the State and pay 44 percent of all Personal Income Tax liability.
- The Personal Income Tax is relatively flat for about 99 percent of taxpayers. A married couple earning $350,000 pays the same tax rate as a married couple earning $2 million.
- Sound options for reforming the bracket structure and increasing the progressivity of the Personal Income Tax would raise between $2 and $20 billion in new annual revenue.

Introduction

New York State often faces calls for higher tax revenue, whether due to concerns over revenue shortfalls or a desire to increase public spending. This brief assesses the soundness of raising revenue through the Personal Income Tax, examining the fiscal stability of such revenue, fundamental fairness considerations, and responses to common arguments against raising the state income tax.

The Personal Income Tax (the PIT) is the State's largest source of revenue, as it draws on the largest and broadest tax base of all of the State's taxes. The PIT is also a moderately progressive tax, imposing higher tax rates on the highest income earners. As such, the PIT is typically a sound option for tax increases, as small changes to the tax structure can yield significant revenue; moreover, PIT revenues tend to be relatively stable as they track overall economic growth.

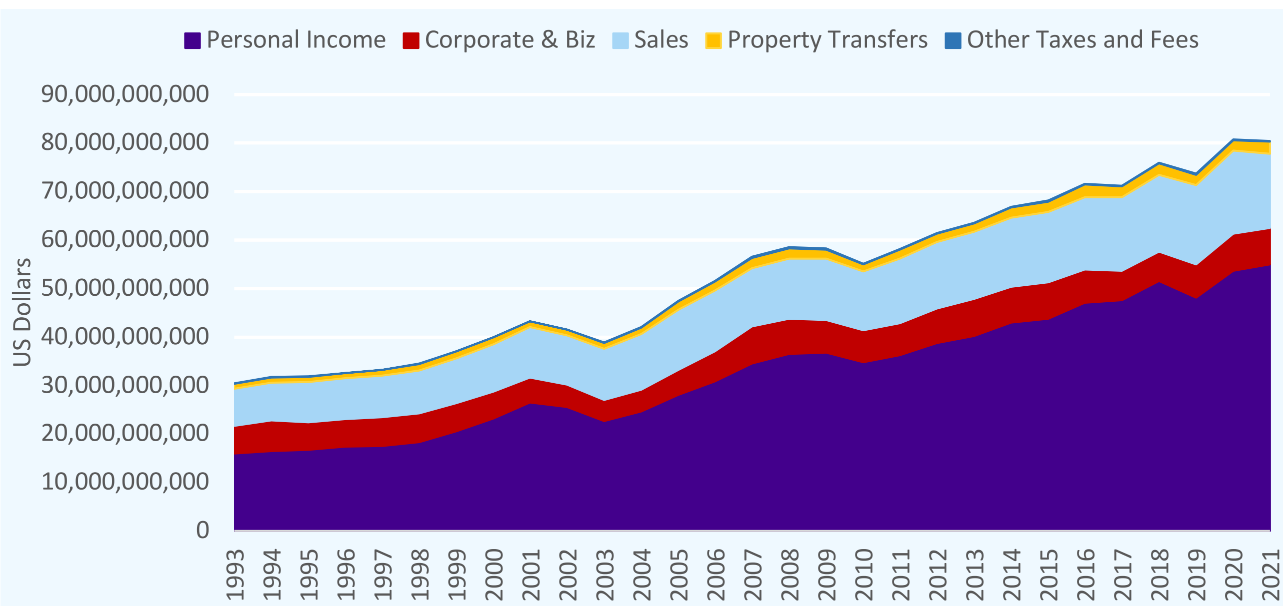
Opponents of PIT increases typically claim that the State already overburdens the highest earners, and that further tax increases will bring about fiscal instability by causing some high earners to move out of state. Further, opponents argue that relying on the top earners for a large share of state tax revenues is inherently unstable. This brief shows that these criticisms of PIT increases are unsound.

Basic Features of the Personal Income Tax

The New York State Personal Income Tax (the "PIT") is the State's largest source of tax receipts. Like the U.S. federal income tax, the Personal Income Tax base includes wages and salaries, capital gains, dividends and interest, business profits, rents and royalties, and estate and trust income, among other sources of income. New York taxpayers calculate their PIT liability by starting with their federal adjusted gross income, making certain modifications to arrive at their New York adjusted gross income (based on many provisions of state tax law that add new deductions or remove deductions permitted by federal law), taking any "below-the-line" deductions to which the taxpayer is entitled, and applying the applicable tax rate.

The stability and revenue yield of the PIT is due to the broad base of the tax, as well as sustained economic growth at the state level. Total personal income in New York is currently well over $1 trillion annually and has risen by nearly 15 percent since immediately prior to the pandemic. In contrast to the state's sales taxes (which raised $21.9 billion in fiscal year 2024) and corporate and business taxes (which raised $13.3 billion in fiscal year 2024), the PIT raised $66.1 billion.[1]

Figure 1. State tax receipts by source



[1] In FY24, recorded business tax receipts are inflated to $27.2 billion and PIT receipts are depressed to $52.2 billion by the pass-through entity tax (PTET), which allows taxpayers to avoid the federal limitation on the deduction for State and Local Taxes by electing to pay a business tax on pass-through income and reducing their PIT payments by the same amount. In FY24, PTET receipts totaled $13.9 billion. Here we account for PTET receipts in the personal income tax, as they are fundamentally PIT receipts that have been temporarily shifted into business tax receipts.

The PIT is also moderately progressive in structure, where progressivity is understood to mean that higher tax rates are imposed on higher incomes. The justification for a progressive income tax is typically understood as a matter of fairly distributing the tax burden across different income groups.

Under a flat income tax of 10 percent, for instance, a high earner would pay more tax than a lower earner (e.g., a taxpayer would owe $5,000 on $50,000 of income, but $50,000 on $500,000 of income). The flat tax is generally thought not to be a fair structure, however, because the 10 percent income tax imposes a greater burden on the lower earning taxpayer than the higher earning taxpayer. The taxes paid by a working-class taxpayer usually come out of daily living expenses such as food and rent; conversely, the taxes paid by high-earning taxpayers usually come out of savings and discretionary or luxury purchases.

The current PIT structure is progressive overall, while reflecting certain policy decisions that undermine its fairness and fiscal stability. In particular, the relative flatness of the PIT for most taxpayers undermines its overall progressivity, as does the skewed bracket structure for the highest earners.

Table 1. Current New York State Personal Income Tax Rates and Brackets

Current Schedule			
Single Filer		Joint Filer	
Income	Tax Rate	Income	Tax Rate
$0	4%	$0	4%
$8,500	4.5%	$17,150	4.5%
$11,700	5.25%	$23,600	5.25%
$13,900	5.5%	$27,900	5.5%
$80,650	6%	$161,500	6%
$215,400	6.85%	$323,200	6.85%
$1.08M	9.65%	$2.15M	9.65%
$5M	10.3%	$5M	10.3%
$25M	10.9%	$25M	10.9%

Notably, the three highest tax rates are scheduled to expire in tax year 2027, losing the State approximately $4 billion in annual revenue. There is no sound fiscal policy rationale for temporary top rates of this nature, as these taxes are used to fund ordinary recurring expenses. The expiration of top rates will create unnecessary fiscal strain and for the State to either cut down core spending obligations, extend the rates or make them permanent, or find other sources of revenue.

How High is the Top Tax Rate?

Some participants in state policy debates argue that New York has the highest tax rate in the country. In fact, the top PIT rate is in line with other states that have progressive state income taxes. Notably, however, the top PIT rate is imposed at the unusual income bracket of $25 million of annual income. Other states that have comparable top rates impose such rates around the $1 million income threshold, or, in the case of Hawaii, the $200,000 threshold.

Table 2. Top state tax rates for married filers

State	Top Tax Bracket	Top Tax Rate
New York	$ 25M	10.9%
California	$ 1.4M	13.3%
New Jersey	$ 1M	10.75%
Hawaii	$ 200,000	11.0%

Critics who argue that the top PIT rate is the highest in the country misleadingly combine the top PIT rate with the highest New York City income tax rate of 3.876 percent. If combined, the total state and local income tax rate is 14.8 percent, higher than any other state's income tax rate.

This analysis is misleading for multiple reasons. The New York City income tax is only paid by City residents; high earners who live in the suburbs and work in New York City pay no City income tax. Thus, not only does the top PIT rate only apply to a very small number of taxpayers who make over $25 million per year, but an even smaller subset of such taxpayers who choose to live in New York City are subject to the higher 14.8 percent combined income tax rate.

In this respect the New York City income tax is different from the State's PIT, which is imposed on all income earned within the state, even by non-residents. A Connecticut resident who works in New York City will owe the *State* PIT on their income from working within the state, but they will not owe *City* income tax because they are not a resident of New York City.

The New York City income tax is relatively easy to avoid, as a taxpayer can make their primary residence in a different part of the state; the PIT on the other hand is relatively hard to avoid, as high earners who do business in the state are unlikely to find comparably lucrative opportunities outside of New York.

Consequently, in tax policy terms, it is misleading to treat the State's top income tax rate as the combined total tax State and City tax rate.

Fiscal Stability of the Current PIT Structure

Critics of the current PIT structure sometimes argue that it relies disproportionately on the highest earners, leading to two concerns: first, that high earners will move out of the state in search of lower taxes, and second, that it is unfair and unstable for a significant share of state tax receipts to come from a small segment of the population.

The Fiscal Policy Institute has separately studied the issue of taxpayer migration out of New York State from 2015 through 2022.[2] FPI's study concluded that the top 1 percent of income earners typically move out of the state at ¼ the rate of all other income groups, and that the top 1 percent does *not* move in response to income tax increases. Moreover, FPI's study found that when the top 1 percent does move out of New York State, they typically move to other states with very similar tax structures, especially

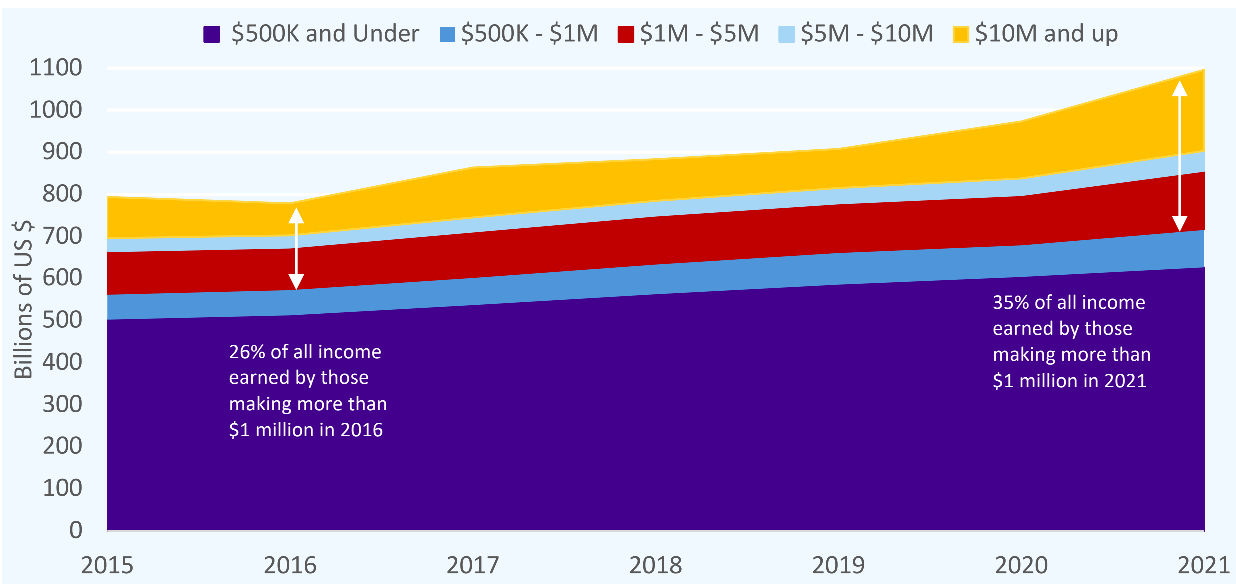
[2] FPI's analysis, and a two-page summary of its analysis, are available at http://fiscalpolicy.org/migration.

New Jersey, California, and Connecticut. Thus the empirical evidence does not support the argument that New York's PIT rates cause high earners to move out of the state.

The second concern of critics — that there is something inherently unfair or unstable about a small part of the population paying a large share of income tax revenues — is also mistaken. As shown below, those earning over $1 million annually earn about 35 percent of *all* income earned in the state; this same population pays 44 percent of all PIT liability paid by New York taxpayers. Top earners pay a roughly proportionate share of total tax revenues, adjusting for the modest progressivity of the PIT.

The concentration of income at the top of the income distribution is a long-standing feature of New York's economy. Between 2015 and 2020 (the extent of data available from the State's Department of Tax and Finance), millionaire earners took in between 25 and 30 percent of total income before rising to 35 percent in 2021. The state's income inequality is consistently among the highest in the U.S.[3] This feature of the state's economic is driven by the concentration of extremely high-income jobs in New York City.[4]

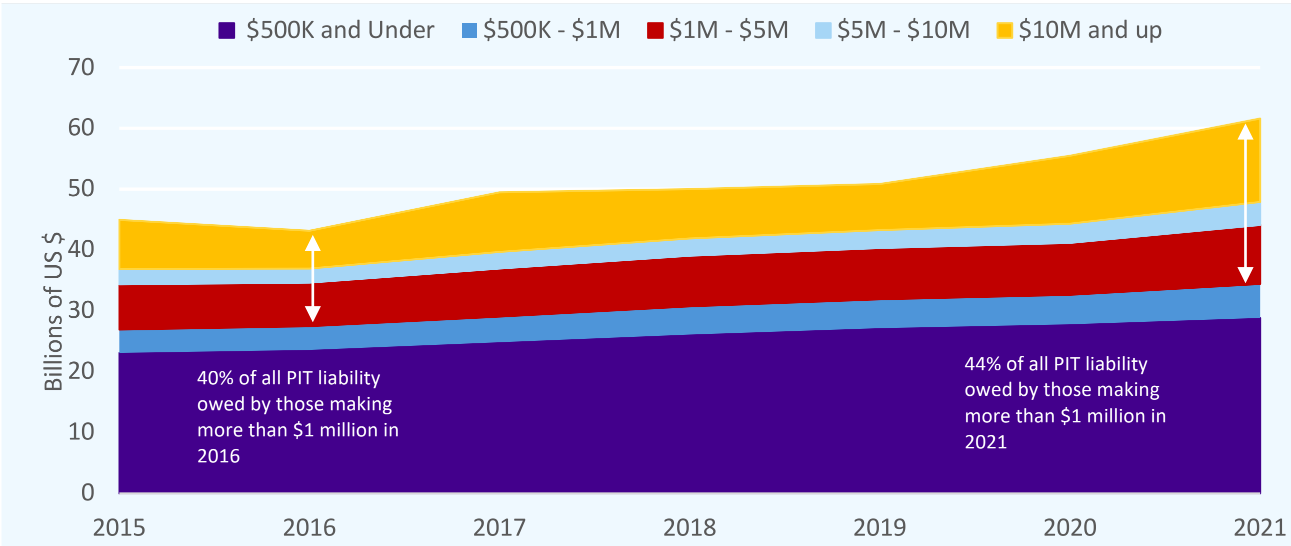
Figure 2. Share of New York personal income earned by each income group, 2015 - 2021



[3] U.S. Census Bureau, Table B19083, data.census.gov.
[4] Estelle Sommeiller and Mark Price, "The new gilded age: Income inequality in the U.S. by state, metropolitan area, and county," *Economic Policy Institute* (July 2018), https://www.epi.org/publication/the-new-gilded-age-income-inequality-in-the-u-s-by-state-metropolitan-area-and-county/.

In 2021, 169,000 filers, including non-residents, reported income of more than $1 million. These filers earners accounted for 1.6 percent of all tax filings. In prior years, this share has been between 1.0 and 1.2 percent.

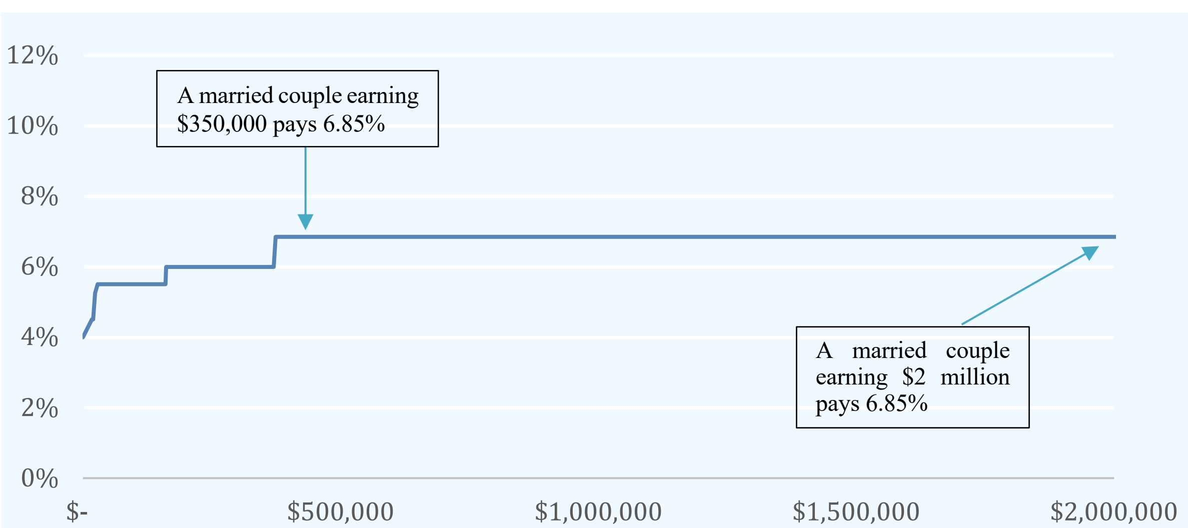
Figure 3. Share of PIT liability paid by each income group, 2015 - 2021



Progressivity of the PIT

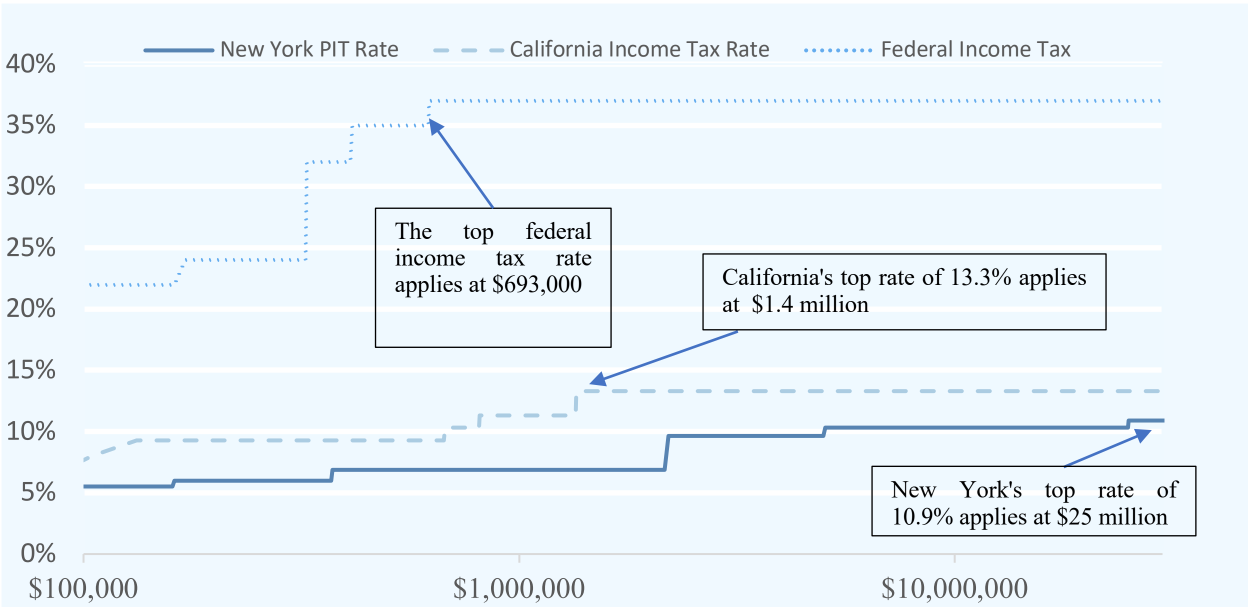
While the top PIT rates are not unusually high, they do reflect some progressivity at the top end of the income tax structure. This modest progressivity obscures the relative flatness of the income tax for the overwhelming majority of taxpayers in the State. The lowest-earning taxpayers typically pay little to no income tax and may receive positive net income in the form of poverty relief tax credits. Middle income taxpayers are subject to a 5.5 percent or 6 percent tax rate, and the next bracket applies a 6.85 percent tax rate to all taxpayers in a very wide income range, from $323,000 through $2.15 million for married filers.

Figure 4. PIT rates for over 99 percent of taxpayers filing jointly



By contrast, both the U.S. federal income tax and the California income tax impose far more progressivity at income levels well below $1 million.

Figure 5. U.S. federal, California, and New York income tax rates for married filers



Reforming the PIT

The simplest change to the current PIT structure would be to consolidate the millionaire tax brackets, bringing New York's tax structure in line with other states that have progressive income taxes. The top rate of 10.9 percent could be applied to anyone earning over $1.08 million (or $2.15 million for married filers) as below:

Table 3. Apply current top rate to all million-dollar earners

Additional Revenue: $2.2 billion

Current Schedule				Proposed Schedule			
Single Filer		Joint Filer		Single Filer		Joint Filer	
Income	Tax Rate	Income	Tax Rate	Income	Tax Rate	Income	Tax Rate
$1.08M	9.65%	$2.15M	9.65%	$1.08M	10.9%	$2.15M	10.9%
$5M	10.3%	$5M	10.3%	$5M	10.9%	$5M	10.9%
$25M	10.9%	$25M	10.9%	$25M	10.9%	$25M	10.9%

Beyond consolidating the millionaire tax brackets, the State's tax structure should aim for a higher degree of progressivity among taxpayers in the wide bracket that covers upper-middle income earners as well as many taxpayers in the top 1 percent of earners. In particular, the PIT should be more progressive with respect to married couples earning between $750,000 and $2 million – a population within the top 1 percent of income earners, but subject to the same tax rates as middle income families.

Table 4. Apply the current top rate to all million-dollar earners & increase progressivity in middle of income distribution

Revenue: $3.9 billion

Current Schedule				Proposed Schedule			
Single Filer		Joint Filer		Single Filer		Joint Filer	
Income	Tax Rate	Income	Tax Rate	Income	Tax Rate	Income	Tax Rate
$215,400	6.85%	$323,200	6.85%	$215,400	6.85%	$323,200	6.85%
				$500,000	8.85%	$750,000	8.85%
$1.08M	9.65%	$2.15M	9.65%	$1.08M	10.9%	$2.15M	10.9%
$5M	10.3%	$5M	10.3%	$5M	10.9%	$5M	10.9%
$25M	10.9%	$25M	10.9%	$25M	10.9%	$25M	10.9%

The changes above would modestly improve the fairness of the overall State tax structure while yielding enough additional revenue to address current concerns about projected future budget gaps.

The brackets below build on the changes described in Tables 3 and 4, but they maintain the top brackets for the ultra-high earns and impose moderately higher tax rates in support of higher revenue and greater progressivity.

Table 5. Increase overall progressivity and raise rates on top brackets

Revenue: $12.3 billion

Current Schedule				Proposed Schedule			
Single Filer		Joint Filer		Single Filer		Joint Filer	
Income	Tax Rate	Income	Tax Rate	Income	Tax Rate	Income	Tax Rate
$215,400	6.85%	$323,200	6.85%	$215,400	6.85%	$323,200	6.85%
				$500,000	8.85%	$750,000	8.85%
$1.08M	9.65%	$2.15M	9.65%	$1.08M	11%	$1.5M	11%
				$2M	12.0%	$3M	12.0%
$5M	10.3%	$5M	10.3%	$5M	13.0%	$5M	13.0%
$25M	10.9%	$25M	10.9%	$25M	14.0%	$25M	14.0%

Finally, the State could construct numerous new brackets at regular increments to create a much more progressive tax structure that aims to fully and fairly distribute the tax burden among high earners. Moreover, as modeled below, the State could reform the PIT to impose much higher tax rates on the ultra-millionaire income earners, yielding over $20 billion in new annual revenue.

Table 6. Raise top tax rates & increase progressivity throughout income distribution

Revenue: $20.4 billion

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<tr><th colspan="4">Current Schedule</th><th colspan="4">Proposed Schedule</th></tr>
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