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Tuesday, March 31, 2009

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INCOME TAX HIKE WILL CUT PRIVATE JOBS IN NY, ANALYSIS FINDS

New York's \$4 billion "temporary" personal income tax increase will cost the state at least 15,500 private sector jobs, according to an economic model created for the Empire Center for New York State Policy by the Boston-based Beacon Hill Institute at Suffolk University.

The model's job loss forecast is based on budget bill provisions that would raise the current tax rate of 6.85 percent to 8.97 percent for households with incomes of \$500,000 or more, and to 7.85 percent for single filers with incomes above \$200,000, heads of households with incomes above \$250,000, and married joint filers with incomes above \$300,000. The model indicates that while the tax hike will drain 15,500 jobs from the private sector, it will also sustain or create about 18,000 public sector jobs.

"There should be no surprise that this tax increase will cost private-sector jobs," said David Tuerck, executive director of the Beacon Hill Institute. He continued:

"Workers who find themselves burdened by the higher tax will move to states with lower taxes. Likewise, employers will shift operations to the low-tax states in order to protect their own salaries and those of their workers from the higher taxes. Some second-earners in two-earner households will decide that it's no longer worth going to work. Employers who want to keep their employees on the job will have to raise salaries. The result will be higher labor costs combined with fewer jobs - a result borne out by decades of research on tax policy issues. And all this will happen for the sake of creating or protecting public sector jobs that represent a permanent burden on the shrinking private sector."

The employment impact of the proposed tax hike was estimated using a New York version of the Beacon Hill Institute's State Tax Analysis Modeling Program (STAMP). "Empire STAMP" is a computable general equilibrium model that uses thousands of statistical variables to estimate the impact of tax rate changes on revenues and employment.

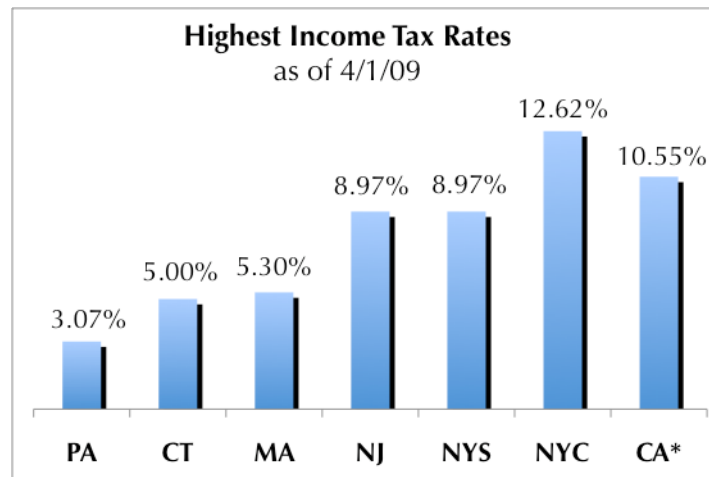
The technical documentation for the Empire STAMP CGE model can be downloaded at [http://www.empirecenter.org/files/Empire STAMP 2008.pdf](http://www.empirecenter.org/files/Empire%20STAMP%202008.pdf)

More information on the personal income tax hike is on the back of this page.

KEY POINTS ON THE PERSONAL INCOME TAX HIKE from the Empire Center for New York State Policy

- The changes in the 2009-10 budget translate into a 31 percent tax increase for filers in the new highest bracket, which starts at \$500,000, and a 15 percent tax increase for filers in the new second-highest bracket, which begins as low as \$200,000.
- Unlike the New Jersey income tax rate it is supposedly designed to match, New York State's temporary new top rate is not just a "marginal" increase applying to income above the bracket threshold. That's because the budget includes "benefit recapture" provisions that convert both of the top two new rates into flat rates applied to all taxable income. As a result, most affected filers will pay significantly more in New York than the comparable state income tax burden in New Jersey under current law.

- Neighboring Connecticut, Pennsylvania and Massachusetts already impose much lower rates than New York. The tax increase in the budget will widen the competitive gap between New York and these states (see chart).



* Highest state rate as of 3/30/09
Source: Federation of Tax Administrators

- The tax hike will result in a loss of at least 15,500 private-sector jobs in New York, according to the Empire STAMP CGE model, prepared by the Beacon Hill Institute.

- Small business proprietors, partners and shareholders -- most of whom pay taxes through the personal income tax -- will be hit particularly hard. Roughly half the income targeted by the tax hikes will be small business income -- effectively tapping a primary pool of working capital for thousands of firms.
- The tax rate increase is the biggest jump in New York State income taxes since 1961, when then-Governor Nelson Rockefeller was just beginning a massive escalation of state income taxes that would take two decades to reverse under Governors Hugh Carey, Mario Cuomo and George Pataki.
- The combined state and local income tax rate for residents of New York City will rise to 12.62 percent -- easily the highest level in the nation (California currently imposes the highest rate, at 10.55 percent).
- Statewide and New York City income tax rates will both be at their highest levels in more than 20 years -- applying to a broader base of income than they did before federal tax reform in the late 1980s.
- The impact of the state personal income tax increases will be compounded by planned federal income tax hikes in 2011 -- which, under President Obama's current proposal, will more tightly restrict the ability of New York filers to deduct their state and local taxes, thus further increasing New York's net tax "price."