

Exploring NY's top-heavy PIT base

Nearly two-thirds of New York State's tax receipts are now generated by the personal income tax, or PIT. As a result, the state is very heavily reliant on highest-earning 1 percent of New York taxpayers—whose effective income tax rates have increased sharply under the new federal tax law capping state and local tax (SALT) deductions.

In light of the SALT cap and of proposals to extend or further increase the state's so-called "millionaire tax," this paper presents charts and tables highlighting notable trends in state PIT data. Key points with a bearing on the income tax debate include the following:

- New York's fastest-growing group of high-income taxpayers consists of nonresidents, who have minimal exposure to the millionaire tax.
- The percentage of New York residents and New York source income among all the U.S. income millionaires declined in the first six years after the state millionaire tax was first imposed in 2009.
- The capital gains share of New York's taxable income has rebounded to pre-recession levels, boosting the state's reliance on the most volatile portion of the PIT base.
- The SALT deduction cap enacted as part of the federal Tax Cuts and Jobs Act will result in a higher Marginal Effective Tax Rate for the highest-earning residents of New York City.

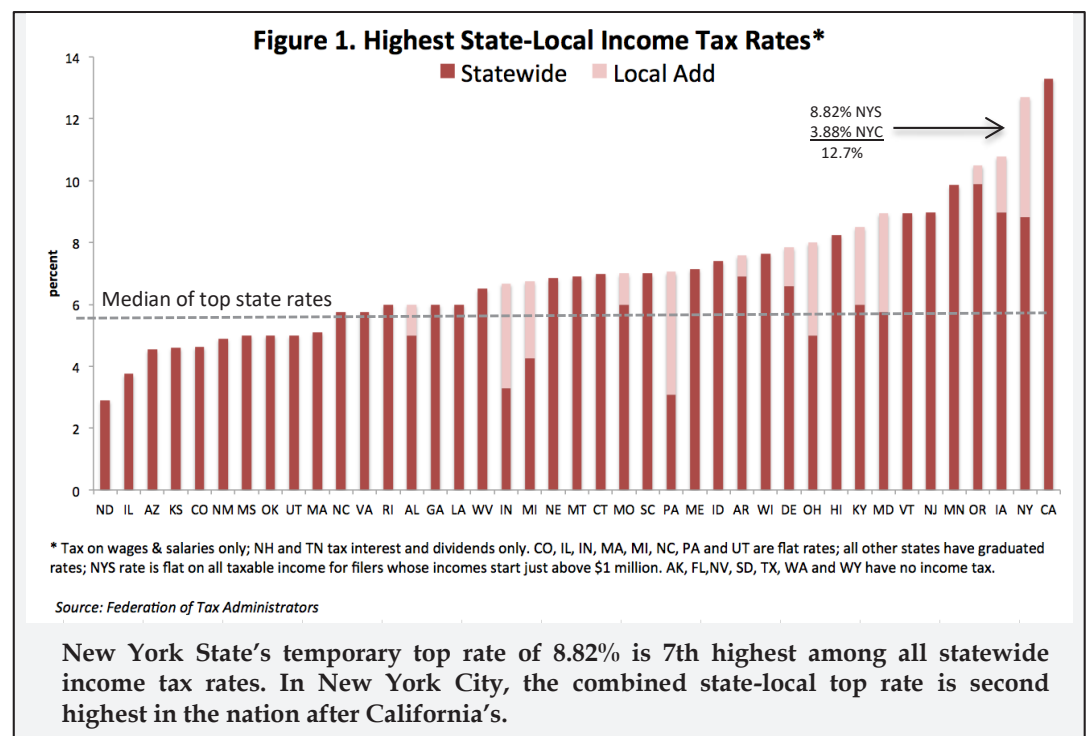


Table 1. The Coming “Middle Class Tax Cut”

New York State Personal Income Tax Schedule for Married-Filing Jointly

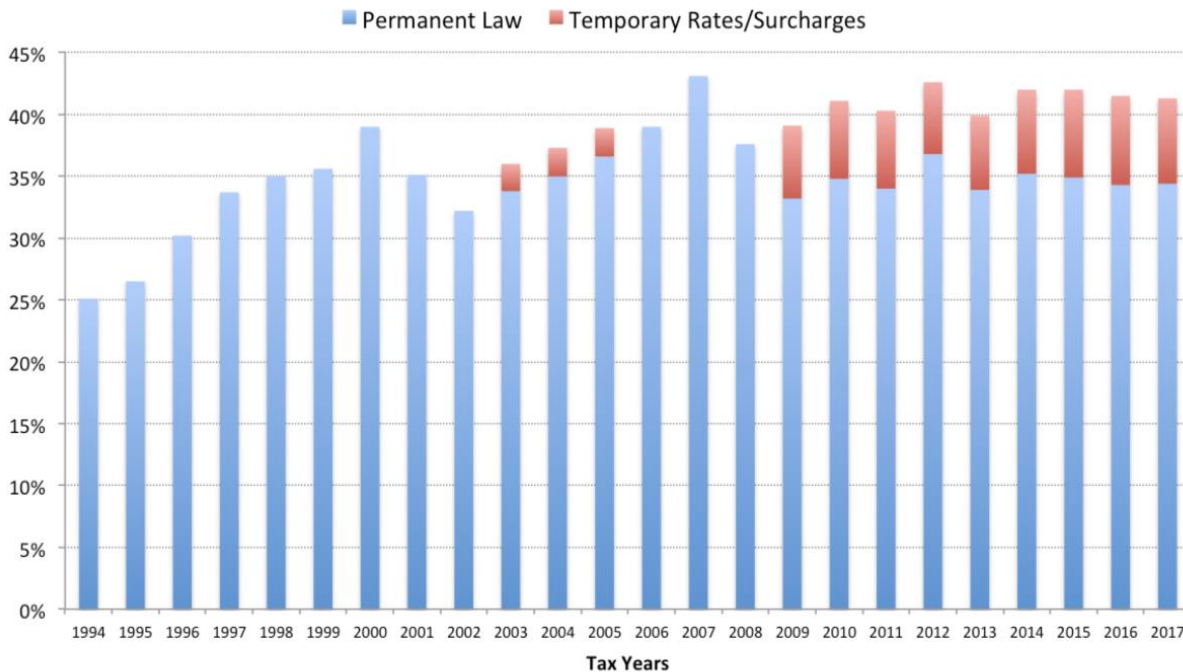
Tax Brackets ¹	1997	2011	Current Law - Tax Years							
	Law	Law ²	2018	2019	2020	2021	2022	2023	2024	2025
0 - 17,050	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
17,050 - 23,600	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
23,600 - 27,900	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%
27,900 – 43,000	5.90%	5.90%	5.90%	5.90%	5.90%	5.90%	5.85%	5.73%	5.61%	5.50%
43,000 – 161,550	6.85%	6.45%	6.33%	6.21%	6.09%	5.97%				
161,550 – 323,200		6.65%	6.57%	6.49%	6.41%	6.33%	6.25%	6.17%	6.09%	6.00%
323,200 - 2,155,350		6.85%	6.85%	6.85%	6.85%	6.85%	6.85%	6.85%	6.85%	6.85%
2,155,350 and over	8.82%	8.82%	8.82%							

¹ Applies to taxable income after exemptions, deductions; taxable income brackets as of 2017

² Highest bracket scheduled to expire after 2019 tax year

Scheduled multi-year cuts in personal income tax rates will affect three brackets, ranging from taxable income of \$27,900 to \$323,200 (or about half as much for single filers), as shown above. Two brackets now subject to rates of 6.45 percent and 6.65% as of 2017 will be collapsed into a single 5.5% tax bracket by 2025. The fully implemented changes, assuming no extension of the millionaire tax, will leave the state with six PIT brackets and a top rate of 6.85%.

Figure 2. Share of PIT Paid by Highest-Earning 1%

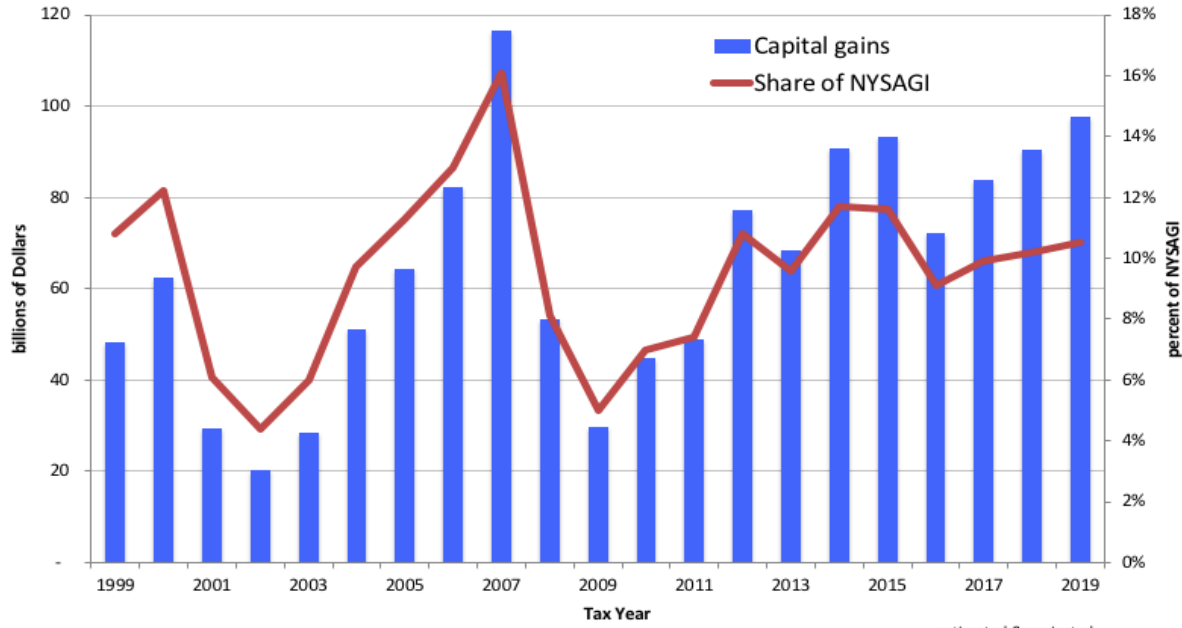


Source: NYS Executive Budget, Economic and Revenue Outlook, Fys 2005-2018

Including the temporary millionaire tax, the highest-earning 1% of New York State taxpayers generate more than 40% of state PIT receipts. But even without added rates on higher incomes, the top 1% share has averaged around 35% since the Tax Reform Act was fully effective in 1997—up from 25% Gov. Mario Cuomo left office.

Figure 3. NY's Capital Gains Roller Coaster

Net Capital Gains in Personal Income Tax Base, 1999-2019

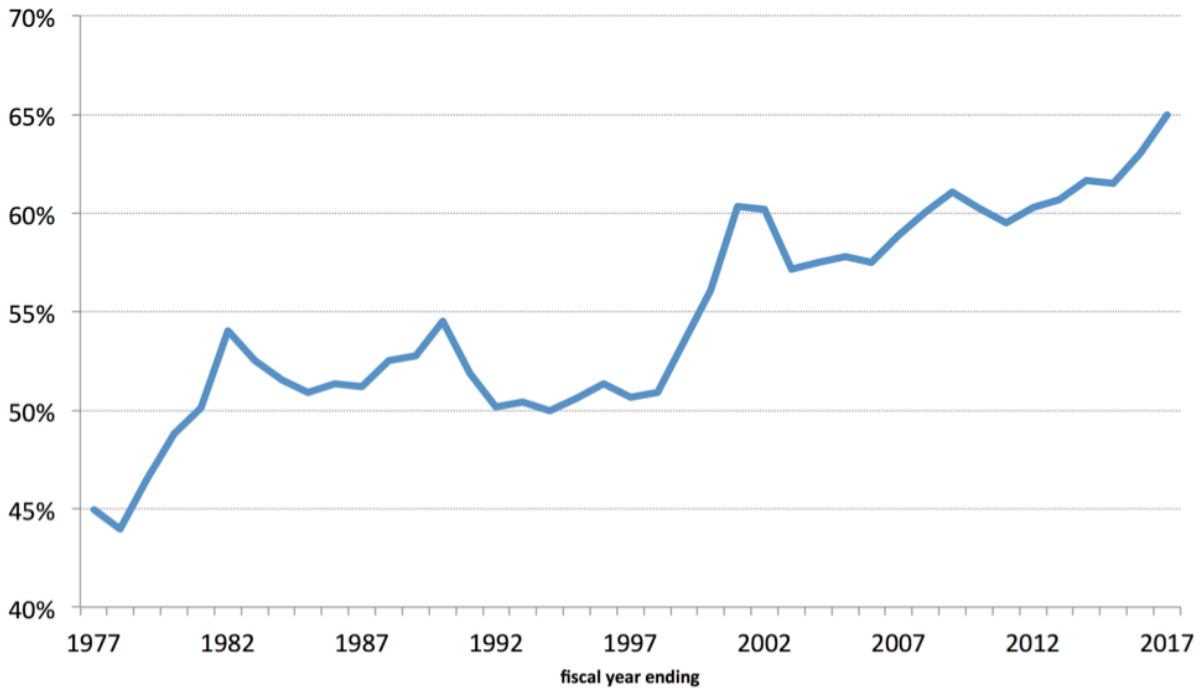


Source: Division of the Budget

--estimated & projected--

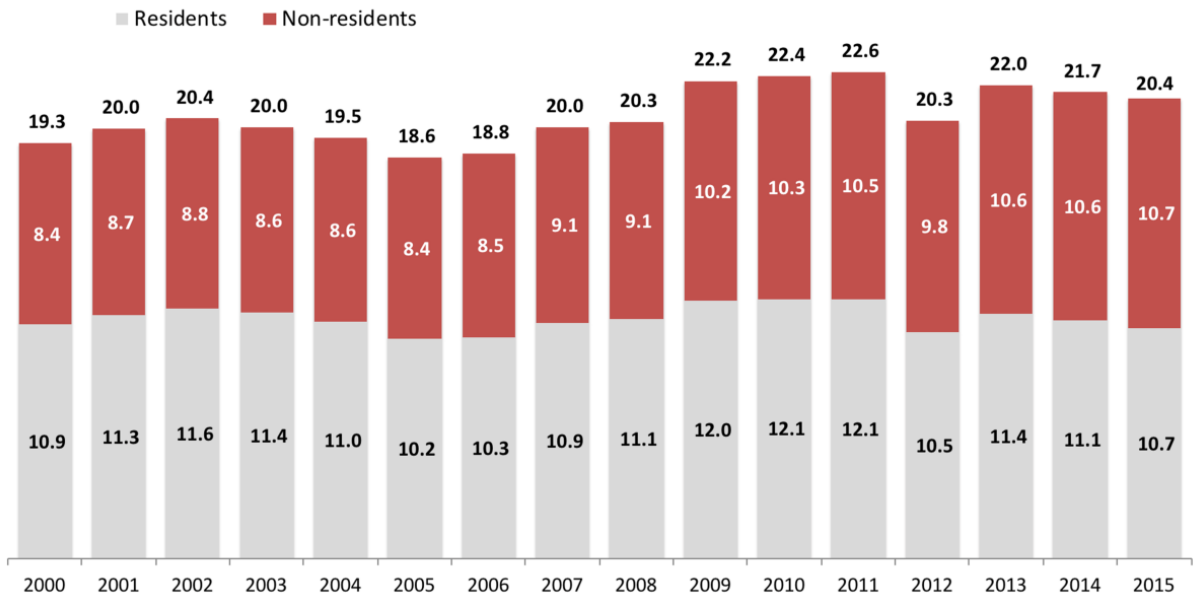
As shown in Figure 3, above, the share of New York personal income tax receipts attributed to net capital gains—strongly correlated to stock prices—has risen back to near record highs. But as the historic trend shows, capital gains are also highly volatile. They crashed by 75% during the Great Recession, just a few years after falling by 66% during the 2001-03 downturn.

Figure 4. PIT Share of All New York State Tax Receipts



As shown in Figure 4, the personal income tax share of total New York State tax receipts has grown significantly over the past 40 years. In fiscal 2017, the state is more reliant than ever on the PIT, which is generating nearly two-thirds of total tax receipts—which, as shown in Figure 3, are in turn heavily influenced by stock market trends affecting net capital gains income.

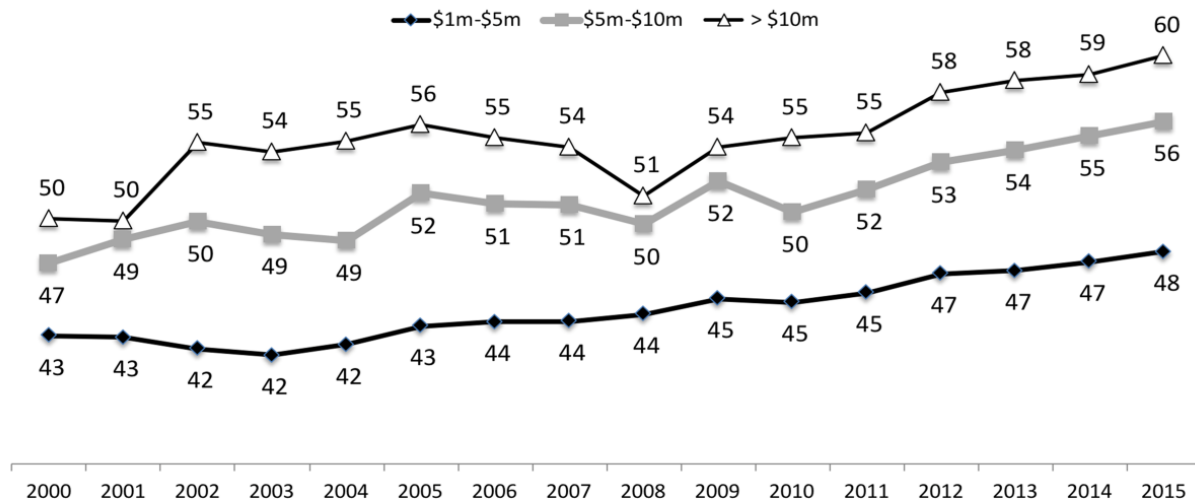
**Figure 5. NYS Resident and Nonresident Taxpayers With Incomes* > \$1 million
As Percent of All US taxpayers > \$1 million**



* Federal adjusted gross income, before NY allocation
Source: Empire Center analysis of NYS Department of Taxation & Finance data and Internal Revenue Service data

As of 2015, Figure 5 shows, New York State residents comprised about 10.7% of the U.S. income millionaire total— unchanged from the level of 2007, the year before the state’s temporary millionaire tax was first imposed. But nonresident income millionaires owing some taxes to New York have grown from 9.1% to 10.7% of the national total.

**Figure 6. Full-Year Nonresident Share of High-Income NYS taxpayers
percent of all NYS filers in federal adjusted gross income brackets**



Source: Empire Center analysis of New York State Department of Taxation and Finance data

Figure 6 shows how the nonresident share of income millionaires in New York’s PIT base has grown since the recession and initial enactment of the temporary millionaire tax. The greatest shift was in the highest income category—from 51% to 60% among earners of \$10 million or more from 2008 to 2015. This indicates more intensive efforts by high-income earners to minimize their exposure to taxes incurred when they either live or are paid for work in New York.

Table 2. New York City's High-Earner Tax Hike

Marginal Effective Tax Rates in New York City		
Federal-state-local tax on added dollar of earned income in highest bracket		
	Current Law	Tax bill
Top state-local rate net of deductibility	7.67%	12.70%
Impact of Pease deduction limit	1.18%	0.00%
Regular federal income tax rate on labor income	39.60%	37.0%
Combined top rate on salary, wages, bonus income	48.45%	49.70%
<i>For self-employment income in highest bracket, add</i>		
MTA mobility tax	0.34%	0.34%
Net Medicare tax on self-employed	3.23%	3.23%
Combined top rate on self-employment income	52.02%	53.27%

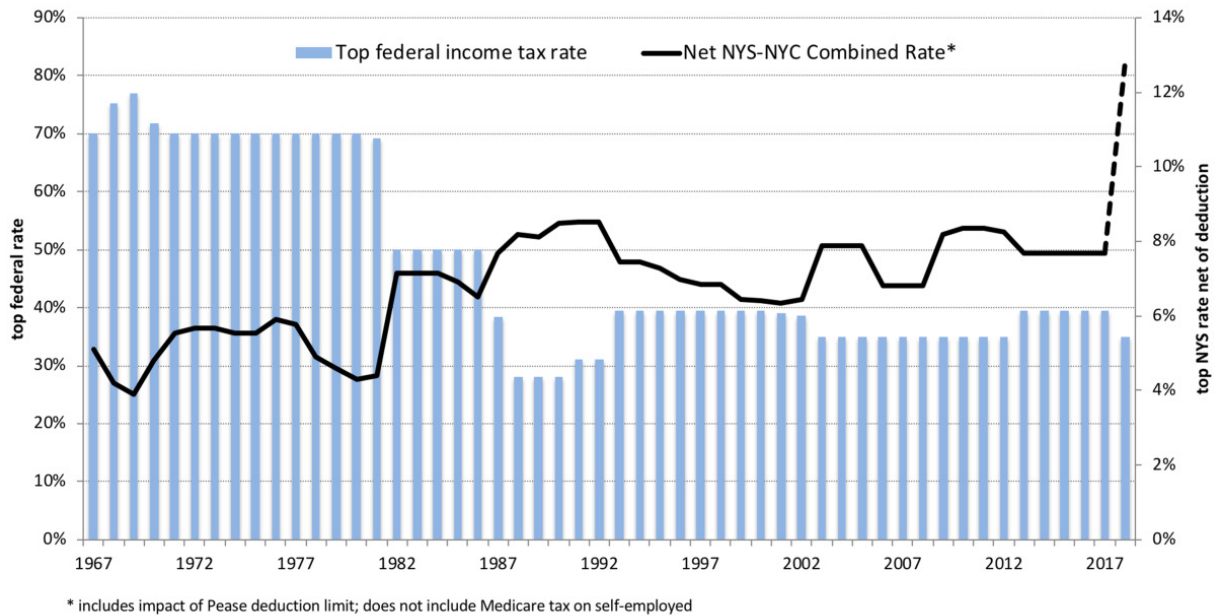
Although the top federal rate has been reduced from 39.6% to 37%, the net result of the federal Tax Cuts and Jobs Act will be an increase in the Marginal Effective Tax Rate on taxpayers with incomes in the highest federal, state and city brackets. The rate will be just under 50% on income from salaries, wages and bonuses, and more than 53% on self-employment income.

Table 3. The Rest-of-New York Impact

Marginal Effective Tax Rates in New York Outside New York City		
Federal-state-local tax on added dollar of earned income in highest bracket		
	Current Law	Tax bill
Top state-local rate net of deductibility	5.33%	8.82%
Impact of Pease deduction limit	1.18%	0.00%
Regular federal income tax rate on labor income	39.60%	37.0%
Combined top rate on salary, wages, bonus income	46.11%	45.82%
<i>Yonkers residents</i>	<i>47.00%</i>	<i>47.30%</i>
<i>For self-employment income in highest bracket, add</i>		
Net Medicare tax on self-employed	3.23%	3.23%
Combined top rate on self-employment income	49.34%	49.05%
<i>Yonkers residents</i>	<i>50.23%</i>	<i>50.53%</i>

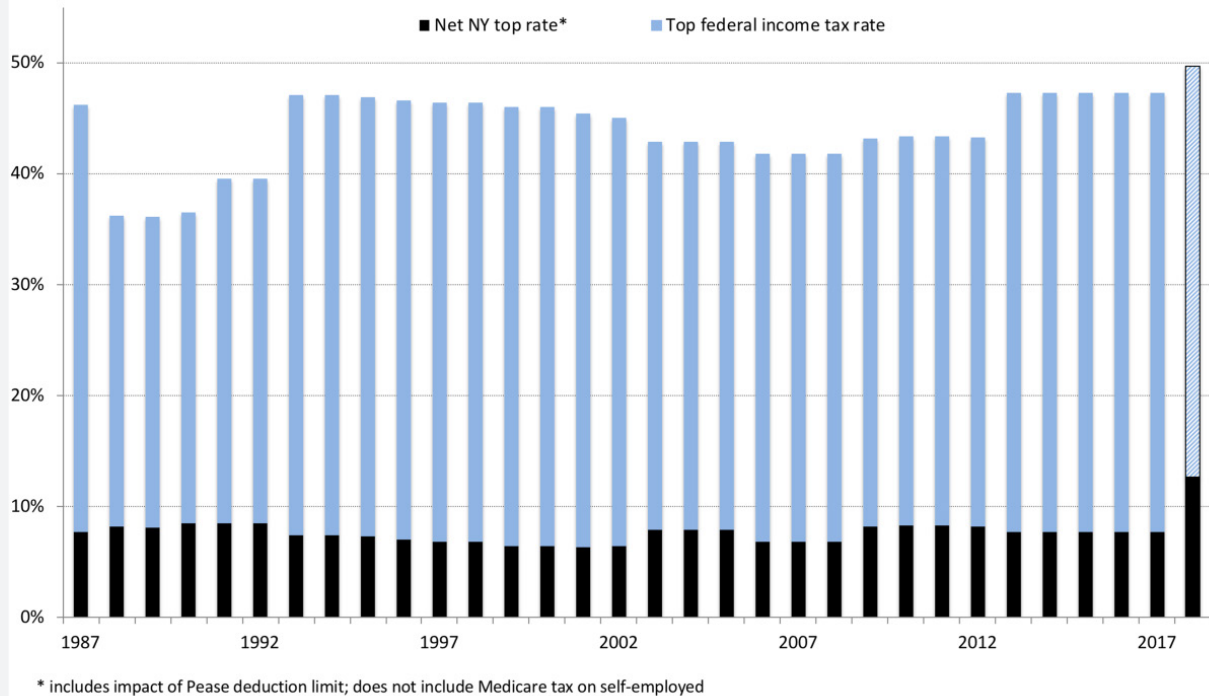
For New York's top resident earners living in the state outside New York City, the combined Marginal Effective Tax Rate will dip by just 0.29 percentage points – except in Yonkers, the only city other than New York to impose its own local income tax.

Figure 7. Top Federal and NYS-NYC Income Tax Rates on Earned Income
 Net NYS-NYC Rate = After Federal Deduction*



After fluctuating in a relatively narrow band between 6.4% and 8.8% over the last 30 years, the net combined state and city tax rate on top incomes of New York City residents will rise to its highest level ever – nearly 13% – without a full SALT deduction, as shown in Figure 7.

Figure 8. Combined Federal-State-Local Tax on Earned Income of Top-Bracket NYC Residents



The loss of full SALT deductions also means the combined federal, state and city marginal tax rate on the highest incomes of New York City residents will rise to the highest level since 1987, despite a reduction in the top federal rate alone.