FPI Fiscal Policy Institute

NEWS from the Fiscal Policy Institute

For immediate release, August 5, 2008

Contact: Frank Mauro, 518-786-3156

Latest IRS Data Reveal Fundamental Mismatch Between New York's Income Distribution and Its Tax System

Statement by FPI Executive Director Frank Mauro:

New data from the Internal Revenue Service bolster the case for a high-end income tax surcharge in New York State. With the state facing a budget deficit and political leaders seeking a way to pay for effective and immediate property tax relief, this is especially timely news.

The Fiscal Policy Institute has regularly reported on Census data showing that New York has the most unequal income distribution of all the states. Now an analysis by the Institute on Taxation and Economic Policy in Washington, DC, of new data from the IRS (http://www.itepnet.org/2006soistatemismatches.pdf) underscores this reality, but also reveals a shocking statistic: **In 2006, the Adjusted Gross Income (AGI) of the richest one percent of New York taxpayers was over two-and-a-half times as great as the AGI of the entire bottom half of New York taxpayers**. New York, in fact, has the greatest disparity between its top one percent and its bottom half of all the states.

While income is increasingly concentrated at the top in New York, the state's tax system has been moving in the opposite direction (see attached "New York Tax Facts"). Restoring some of the New York tax system's lost progressivity should be part of the state's effort to **balance its budget** and part of its effort to **balance its tax system** by reducing the pressure that state fiscal policies place on the local property tax.

In the short run, New York should adopt a fair and equitable circuit breaker to target relief to those households for whom property taxes are an unacceptably high percentage of their incomes. In the long run, New York must implement a multi-year strategy for reducing the pressure on the local property tax while simultaneously reducing the significant fiscal disparities that exist within this large and diverse state.[1]

Attachments:
1. New York Tax Facts
2. Institute on Taxation and Economic Policy, *Latest IRS Data Reveal Fundamental Mismatches in the States*

[1] For more detail on the elements of such a multi-year strategy, see *Property Taxes in New York: A State Problem Calling for a State Solution* (fiscalpolicy.org/publications2008/FPI_PropertyTax_Feb08.pdf).

New York Tax Facts

- The top one percent of New York taxpayers (those with incomes of more than $517,800) accounted for 28.7 percent of all the income of all New York taxpayers. This is the second highest concentration of income at the top of all 50 states, second only to Wyoming. (Institute on Taxation and Economic Policy, *Latest IRS Data Reveal Fundamental Mismatches in the States*, http://www.itepnet.org/2006soistatemismatches.pdf)

- At the same time, the bottom half of New York taxpayers (those with incomes of less than $33,000) accounted for only 10.7 percent of all income, second lowest to Connecticut where the bottom half of taxpayers had 10.6 percent of all income. (new ITEP report)

- The result is that New York had the greatest disparity (2.68 to 1) between the top one percent and the bottom 50 percent of all 50 states. The only states with disparities similar in magnitude were Connecticut (2.66) and Wyoming (2.64). And only two other states in the entire country (Florida and Nevada) and the District Columbia had disparities that were above 2 to 1. (new ITEP report)

- While income is increasingly concentrated at the top in New York State, the state's tax system has been moving in the opposite direction. Over the last 30 years, New York State has reduced its top income tax rate by more than 50 percent, from 15.375 percent to 6.85 percent. While New York State currently has a five-bracket income tax structure, those five brackets are all in a very narrow range (from 4 percent to 6.85 percent), and the top marginal rate of 6.85 percent applies to all of the taxable income of married couples above $40,000 a year.

- In 2003, the legislature, over Governor Pataki's veto, adopted two temporary brackets: 7.7 percent for all taxpayers with taxable incomes above $500,000 a year, regardless of filing status; and a rate that declined from 7.5 percent to 7.25 percent for married couples with incomes above $150,000 and individuals with incomes above $100,000.

- Governor Pataki said that this tax increase would result in an exodus of high income New Yorkers from the state. This did not prove to be the case. In each of the three years in which the temporary rates were in effect, the number of high-income returns (defined by the NYS Division of the Budget as those with AGI above $200,000) increased substantially, as did the amount of income reported on those returns and the taxes paid by those taxpayers. Between 2002 (the last year before the surcharge took effect) and 2005 (the last year of the surcharge), the number of such high-income returns increased by 31 percent, from 245,000 to 321,000, and the taxes paid on those returns increased by 77 percent, from $9.2 billion to $14.6 billion.

The Fiscal Policy Institute (FPI) is a nonpartisan research and education organization that focuses on the tax, budget, and economic public policy issues that affect the quality of life and the economic well being of New York State residents. All FPI reports are available at http://www.fiscalpolicy.org.

####

Institute on Taxation and Economic Policy
1616 P Street, NW • Washington, DC 20036 • www.itepnet.org
CONTACT: Jeff McLynch 202.299.1066 x29

Latest IRS Data Reveal Fundamental Mismatches in the States

Most Unequal States Either Don't Have a Personal Income Tax or Have One in Need of Improvement

Data released late last week by the Internal Revenue Service (IRS) indicate that 10 states have greater concentrations of reported income among their very wealthiest residents than the country as a whole. Unfortunately, the tax systems in those ten states generally ignore that very important reality. Of those ten states:

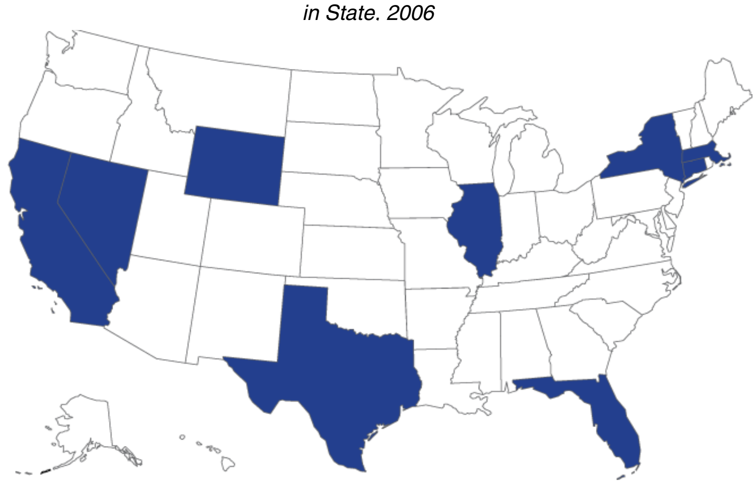
- four lack a broad-based personal income tax;
- three either impose a single, flat rate personal income tax or have a rate structure that all but functions in that manner; and
- three use a graduated rate structure, but two have cut income taxes for their most affluent residents substantially over the past two decades and are now struggling to close multi-billion dollar budget gaps.

The failure to use sufficiently progressive personal income taxes — or to levy any personal income tax at all — results in an overall tax system that is unsustainable, inadequate, and unfair over the long-run. Indeed, of these ten states, over half face severe or chronic budget shortfalls. Reforms to improve the personal income tax — or simply to institute one — should be on the agenda in each of these states.

What the IRS Data Show

On July 31, the IRS released data for 2006 (the most recent year for which such information is available) on the distribution of reported income for federal income tax filers on a state by state basis. These data indicate that, for the country as a whole, the richest 1 percent of taxpayers reported over one-fifth — 21.1 percent — of total adjusted gross income (AGI). Ten states, as shown in the figure at right, exceeded that mark, meaning that they have income distributions that particularly favor the wealthy few. In those states, the richest 1 percent of federal taxpayers received as much as 25 percent of AGI — or even 30 percent in the case of Wyoming.

States of Inequity
Highest Concentrations of Federal AGI among Wealthiest 1% of Taxpayers in State. 2006



Source: IRS Statistics of Income, 2006

Distribution of Federal AGI Within the States, 2006			
	Share of Federal AGI Reported by State Residents, 2006		
	Top 1%	*Bottom 50%*	***Ratio***
Wyoming	30.7%	11.6%	*2.64*
New York	28.7%	10.7%	*2.68*
Nevada	28.6%	13.2%	*2.16*
Connecticut	28.1%	10.6%	*2.66*
Florida	27.3%	11.7%	*2.33*
District of Columbia	25.5%	11.9%	*2.13*
California	23.1%	12.2%	*1.89*
Massachusetts	22.9%	12.0%	*1.92*
Texas	22.7%	12.1%	*1.88*
Illinois	21.4%	12.3%	*1.74*
United States	***21.1%***	***12.7%***	***1.66***
Arizona	20.5%	14.1%	*1.46*
Colorado	20.5%	13.2%	*1.55*
Oklahoma	20.4%	13.6%	*1.50*
New Jersey	19.9%	11.9%	*1.67*
Louisiana	19.5%	12.9%	*1.51*
Washington	19.1%	13.9%	*1.38*
Georgia	19.1%	12.8%	*1.49*
Idaho	19.0%	14.2%	*1.34*
Tennessee	19.0%	13.7%	*1.39*
South Dakota	18.9%	13.9%	*1.36*
Utah	18.6%	14.1%	*1.32*
New Hampshire	18.3%	13.5%	*1.35*
Alabama	18.2%	13.7%	*1.32*
Delaware	18.1%	14.0%	*1.30*
Pennsylvanisa	18.1%	13.1%	*1.38*
Maryland	18.1%	13.5%	*1.33*
Nebraska	17.7%	14.3%	*1.24*
Virginia	17.5%	13.3%	*1.31*
Minnesota	17.4%	13.7%	*1.27*
Kansas	17.2%	13.6%	*1.26*
Rhode Island	17.2%	13.6%	*1.26*
North Carolina	17.0%	14.0%	*1.22*
Missouri	16.9%	13.9%	*1.22*
Vermont	16.9%	13.8%	*1.22*
South Carolina	16.8%	14.1%	*1.19*
Wisconsin	16.5%	14.3%	*1.15*
Oregon	16.3%	14.2%	*1.15*
Montana	16.3%	13.6%	*1.19*
Hawaii	16.1%	14.7%	*1.09*
Mississippi	15.9%	14.7%	*1.09*
New Mexico	15.6%	13.8%	*1.12*
Ohio	15.5%	14.9%	*1.04*
Arkansas	15.4%	14.7%	*1.05*
Indiana	15.2%	14.2%	*1.07*
Kentucky	15.0%	14.5%	*1.04*
Michigan	15.0%	13.4%	*1.12*
North Dakota	14.9%	14.8%	*1.01*
Maine	14.9%	15.0%	*0.99*
Iowa	14.0%	15.5%	*0.91*
Alaska	14.0%	13.2%	*1.06*
West Virginia	12.1%	15.2%	*0.79*

Source: IRS Statistics of Income, 2006

To be sure, the distribution of reported income in any state could hardly be characterized as equal. According to the IRS data, the poorest half of the income distribution had as a large a share of total AGI as the richest 1 percent in only three states in 2006. Yet, in the 10 least equal states, such inequities were especially pronounced. In six of the ten, the top 1 percent accumulated ***twice*** as large a share of total AGI as the bottom half of taxpayers; in the other four, they received at least one and a half times as much.

"In light of these realities, it is essential for states to levy a personal income tax that employs a graduated rate structure," said Jeff McLynch, ITEP's Northeast Regional Director. "Such an approach not only promotes the long-term sustainability of states' tax systems, since they would better reflect the distribution of economic gains, but also provides states with opportunities to mitigate unfair economic outcomes."

Nearly all of the 10 most unequal states come up short in this regard, however. Wyoming, Nevada, Florida, and Texas completely lack a personal income tax. Massachusetts and Illinois have personal income taxes but impose a single, flat rate, while Connecticut nearly does. (It has two rates — 3 percent and 5 percent — but roughly three out of five taxpayers face the higher 5 percent rate.) Both New York and California have weakened the progressivity of their income taxes since the 1990s, providing enormous tax cuts to the very wealthy and leaving a lasting legacy of structural budget deficits. In this context, then, these states should strive to create an income tax or to build a more progressive one.