

New York Assembly Democrats Considering Higher Income Tax on Wealthy

By John Buhl
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Facing slowing revenue growth, New York Assembly Democrats are considering raising the income tax rate on individuals earning at least \$1 million annually from 6.85 percent to 7.7 percent.

The proposal, however, will likely face staunch resistance from the Senate GOP Majority and Gov. Eliot Spitzer (D).

The rate change, expected to be introduced next week, would go into effect for the next five years and raise an estimated \$1.5 billion in additional tax revenue the first year, according to the Democrats' estimates cited in *The New York Times*.

All additional revenue would go into the general fund during the first year of the increase, according to the *Times*. The extra revenue would be divided between the general fund and transportation projects in the second year, and all additional revenue would go toward transportation projects in subsequent years.

The Working Families Party (WFP) – a left-leaning, labor-based organization – had proposed raising income tax rates by 1 percentage point for individuals earning at least \$250,000 per year, 2 percentage points for individuals earning at least \$500,000 per year, and 3 percentage points for individuals earning at least \$1 million per year.

The group says the state's tax system has become increasingly regressive in recent years – thanks in part to tax cuts enacted under then-Gov. George Pataki that substantially benefited the state's top 3 percent of wage earners. And according to Fiscal Policy Institute figures the WFP cites, the tax rate for New York's wealthiest earners in 2007 was less than half of the rate in 1976.

WFP spokesman Dan Levitan told Tax Analysts that the Democrats' plan was a positive step, but that the WFP's proposal would have been "more robust" by providing \$3 billion or more in revenue in the first year depending on the size of the increase – enough to cover "budget holes" and provide property tax relief.

"The Assembly took a modest step, but it's not enough," WFP Executive Director Dan Cantor said in a March 5 press release. "There is no property tax relief in this approach, and we need the Assembly, the Senate and the governor to cut working families a break on their property taxes."

James Parrott, deputy director and chief economist for the Fiscal Policy Institute, said that neither cutting spending nor raising taxes was desirable during an economic slowdown.

“It's a matter of which is less bad for the economy,” Parrott said.

Parrott referenced a 2001 Center on Budget and Policy Priorities report that says cuts to direct spending on goods and services generate more adverse economic consequences in the short term than tax increases or cuts to transfer program spending such as unemployment insurance.

Parrott also said a temporary tax increase in 2003 on wage earners of \$150,000 or more did not have the effect of driving wealthy individuals out of the state.

However, E.J. McMahon, director of the Empire Center for New York State Policy, responded that the additional revenue was being used to fund an increase in spending, not to avoid spending cuts.

“They're not doing this to plug a hole,” McMahon said. “They want to raise taxes so they can spend more.”

McMahon also said the 2003 tax increase was mitigated by federal tax cuts enacted at that time, and called the claims that New York's tax system had become more regressive “a myth.”

McMahon added that New York City residents already face the highest combined top income tax rate at 10.25 percent, and, in spite of the tax cuts, income tax receipts more than doubled during Pataki's term as governor.

Outlook Not Good for This Session

Parrott and McMahon both said the proposal will have a difficult time getting support from the Senate or the governor.

“Right now it just looks like the Assembly's one-house project,” McMahon said.

Meanwhile, Division of the Budget spokesman Matt Anderson reiterated Spitzer's current opposition to a tax increase.

“The governor has stated very clearly that now is not the right time to increase taxes,” Anderson said.