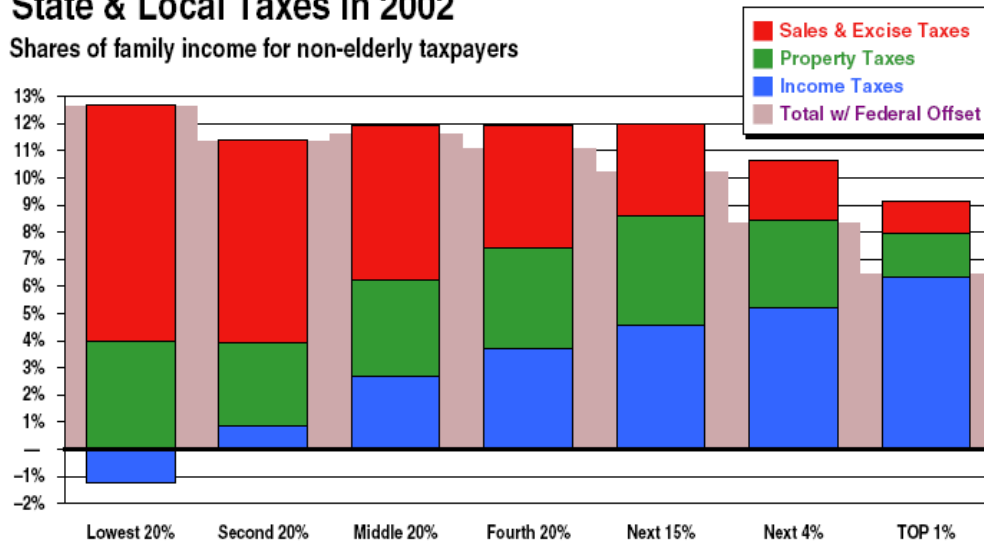


# New York

## State & Local Taxes in 2002

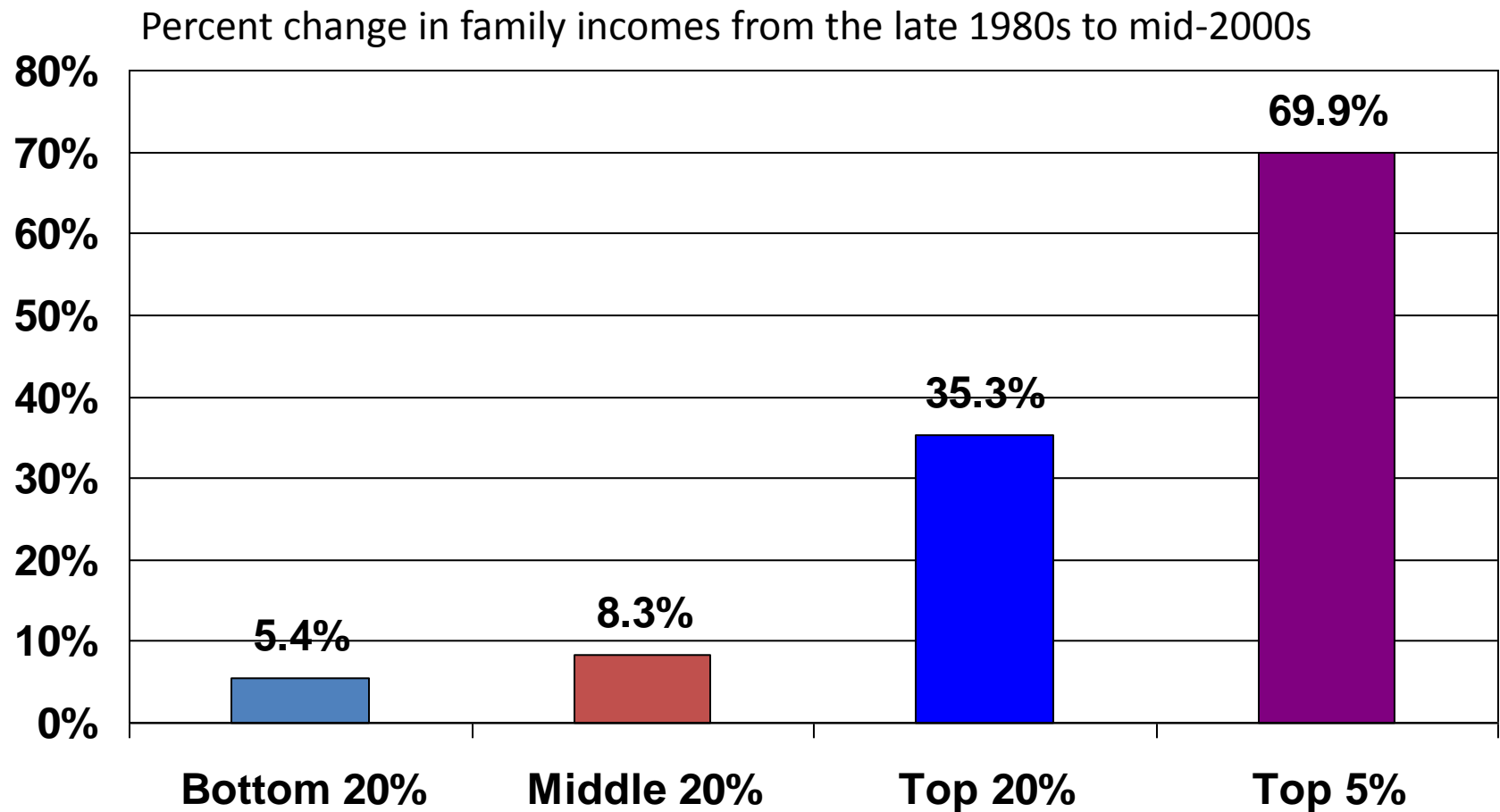
Shares of family income for non-elderly taxpayers



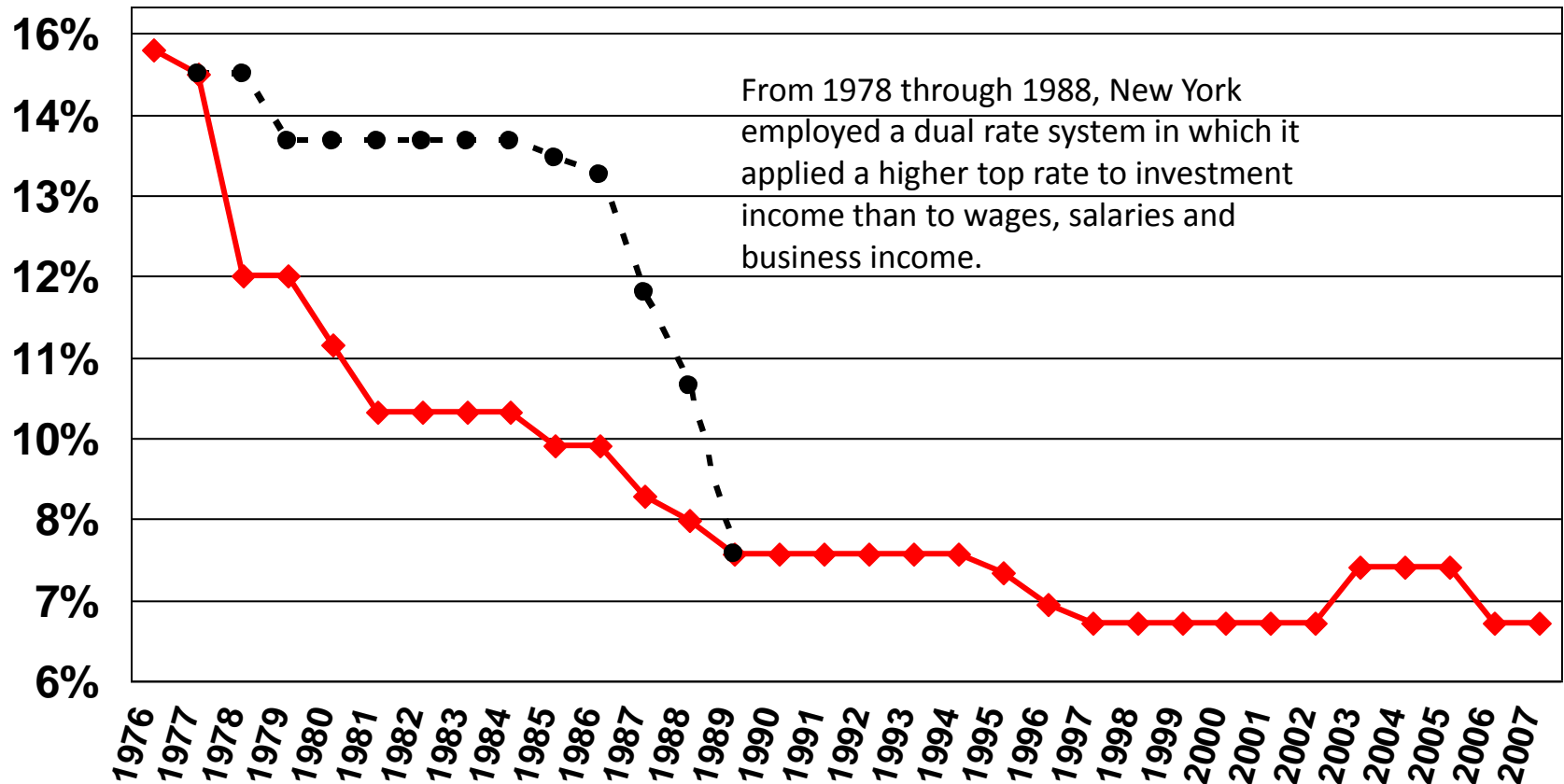
| Income Group                    | Lowest 20%         | Second 20%          | Middle 20%          | Fourth 20%          | Top 20%              |                       |                   |
|---------------------------------|--------------------|---------------------|---------------------|---------------------|----------------------|-----------------------|-------------------|
|                                 |                    |                     |                     |                     | Next 15%             | Next 4%               | TOP 1%            |
| Income Range                    | Less than \$15,000 | \$15,000 – \$27,000 | \$27,000 – \$44,000 | \$44,000 – \$74,000 | \$74,000 – \$160,000 | \$160,000 – \$634,000 | \$634,000 or more |
| Average Income in Group         | \$8,700            | \$20,700            | \$34,900            | \$56,800            | \$102,000            | \$250,000             | \$1,663,000       |
| <b>Sales &amp; Excise Taxes</b> | <b>9.5%</b>        | <b>7.5%</b>         | <b>5.7%</b>         | <b>4.5%</b>         | <b>3.4%</b>          | <b>2.2%</b>           | <b>1.2%</b>       |
| General Sales—Individuals       | 3.9%               | 3.6%                | 2.9%                | 2.5%                | 1.9%                 | 1.3%                  | 0.7%              |
| Other Sales & Excise—Ind.       | 2.7%               | 1.6%                | 1.1%                | 0.7%                | 0.5%                 | 0.3%                  | 0.1%              |
| Sales & Excise on Business      | 2.9%               | 2.3%                | 1.7%                | 1.3%                | 0.9%                 | 0.6%                  | 0.4%              |
| <b>Property Taxes</b>           | <b>4.4%</b>        | <b>3.0%</b>         | <b>3.5%</b>         | <b>3.7%</b>         | <b>4.1%</b>          | <b>3.2%</b>           | <b>1.6%</b>       |
| Property Taxes on Families      | 3.9%               | 2.7%                | 3.1%                | 3.2%                | 3.5%                 | 2.7%                  | 0.7%              |
| Other Property Taxes            | 0.5%               | 0.4%                | 0.4%                | 0.5%                | 0.5%                 | 0.6%                  | 0.9%              |
| <b>Income Taxes</b>             | <b>-1.2%</b>       | <b>0.8%</b>         | <b>2.7%</b>         | <b>3.7%</b>         | <b>4.6%</b>          | <b>5.2%</b>           | <b>6.3%</b>       |
| Personal Income Tax             | -1.3%              | 0.8%                | 2.6%                | 3.7%                | 4.5%                 | 5.1%                  | 6.0%              |
| Corporate Income Tax            | 0.0%               | 0.0%                | 0.1%                | 0.0%                | 0.0%                 | 0.1%                  | 0.3%              |
| <b>TOTAL TAXES</b>              | <b>12.7%</b>       | <b>11.4%</b>        | <b>11.9%</b>        | <b>11.9%</b>        | <b>12.0%</b>         | <b>10.6%</b>          | <b>9.1%</b>       |
| Federal Deduction Offset        | -0.0%              | -0.1%               | -0.3%               | -0.8%               | -1.8%                | -2.3%                 | -2.7%             |
| <b>TOTAL AFTER OFFSET</b>       | <b>12.6%</b>       | <b>11.3%</b>        | <b>11.6%</b>        | <b>11.1%</b>        | <b>10.2%</b>         | <b>8.4%</b>           | <b>6.5%</b>       |

Note: Table shows 2002 tax law at 2000 income levels.

# ***The richest New York families have had the greatest income gains.***



***But, over the last 30 years, New York State has cut its top personal income tax rate by more than 50 percent, from 15.375% to 6.85%.***



## **New York's top state personal income tax rate is at an historical low relative to New Jersey and Connecticut.**

|             | <u>1976</u> | <u>1985</u> | <u>2003</u> | <u>2004</u> | <u>2006</u> |
|-------------|-------------|-------------|-------------|-------------|-------------|
| New York    | 15.375%     | 9.5%        | 7.7%        | 7.7%        | 6.85%       |
| New Jersey  | 2.5%        | 3.5%        | 6.37%       | 8.97%       | 8.97%       |
| Connecticut | 0           | 0           | 5.0%        | 5.0%        | 5.0%        |

Note: The tax rates shown above are for wages, salaries and business income. Prior to 1991, Connecticut taxed the interest, dividends and capital gains of high income residents but it did not tax business income, wages, salaries and other income. From 1978 through 1988, New York employed a dual rate system in which it applied a higher top rate to investment income than to wages, salaries and business income. For 1985, the top rate applicable to investment income was 13.5%.

# Lessons Learned from Past Recessions

- 1990s recession – relied on a strategy of only massive budget and service cuts.
- In January of 2003, New York State built up a combined deficit of \$11.5 billion for the upcoming 2003-04 fiscal year and the close-out of 2002-03; and Governor Pataki proposed closing that gap primarily through service cuts.

# Déjà Vu All Over Again

- In response to Governor Pataki's 2003-04 Budget, the State Legislature adopted, over the Governor's vetoes, a much more practical approach to balancing the state budget that included a temporary three-year income tax increase of less than one percent on taxpayers with taxable incomes above \$500,000, and a smaller increase on families with taxable incomes above \$150,000.

# Temporary Surcharge

- 2003, 2004, 2005 – tax years enacted

- Rate changes:

Income over **\$500,000 – 7.7% fixed for 3 yrs.**

Incomes over: **\$100,000 – single**

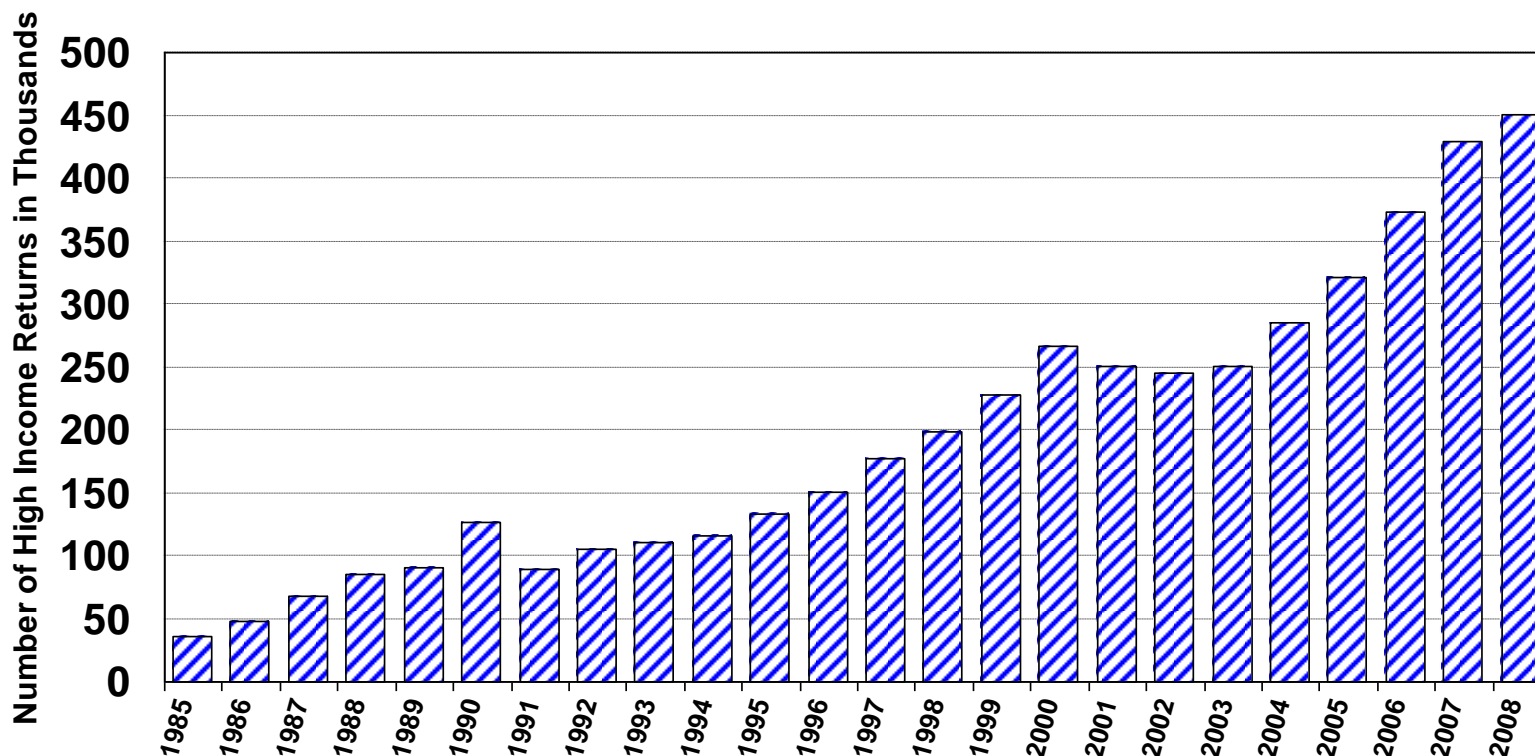
**\$125,000 – HOH**

**\$150,000 – Married**

Gradually reduced each of the 3 years:

**7.5%(2003) - 7.375% (2004) – 7.25% (2005)**

***Following the adoption, in 2003, of the 3-year temporary increase in the top rate on New York State's Personal Income Tax, from 6.85% to 7.7%, the number of high-income returns and the amount of income reported on those returns both grew significantly.***

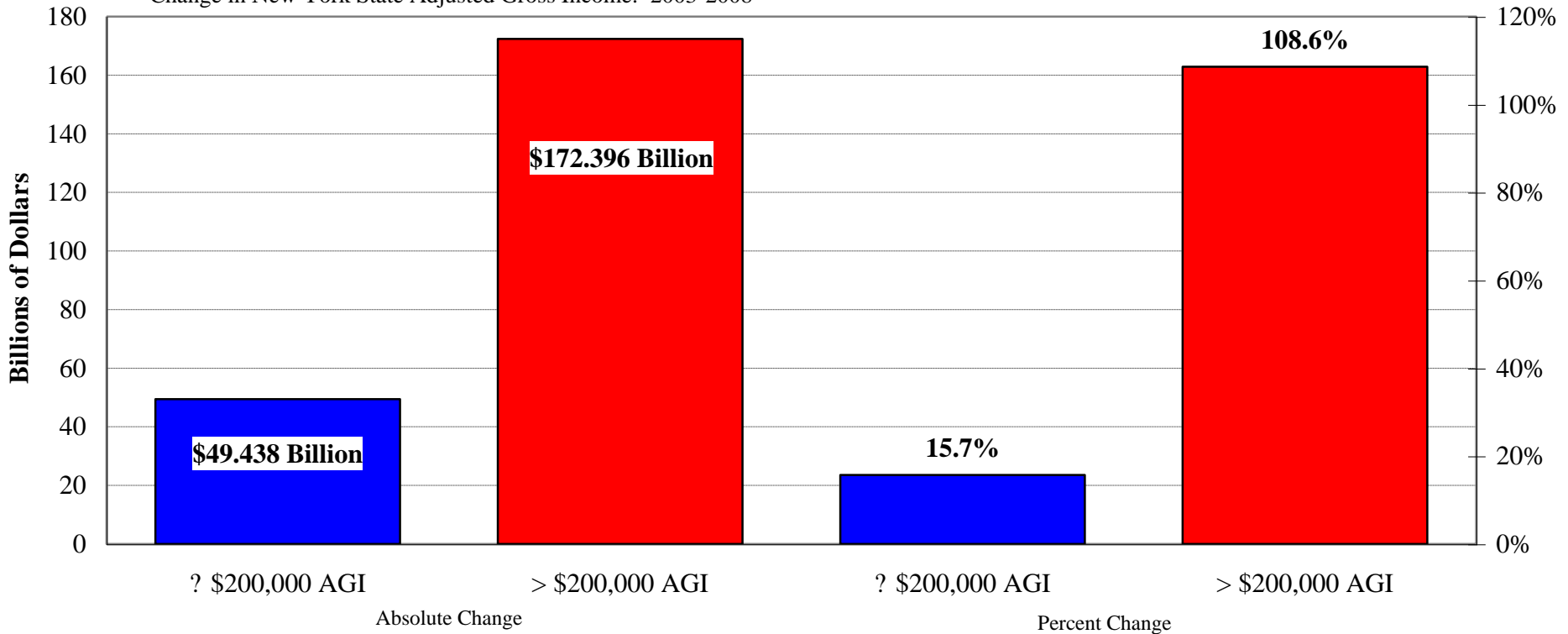


Source: New York State Executive Budget for 2008-09, Economic and Revenue Outlook, Figure 57



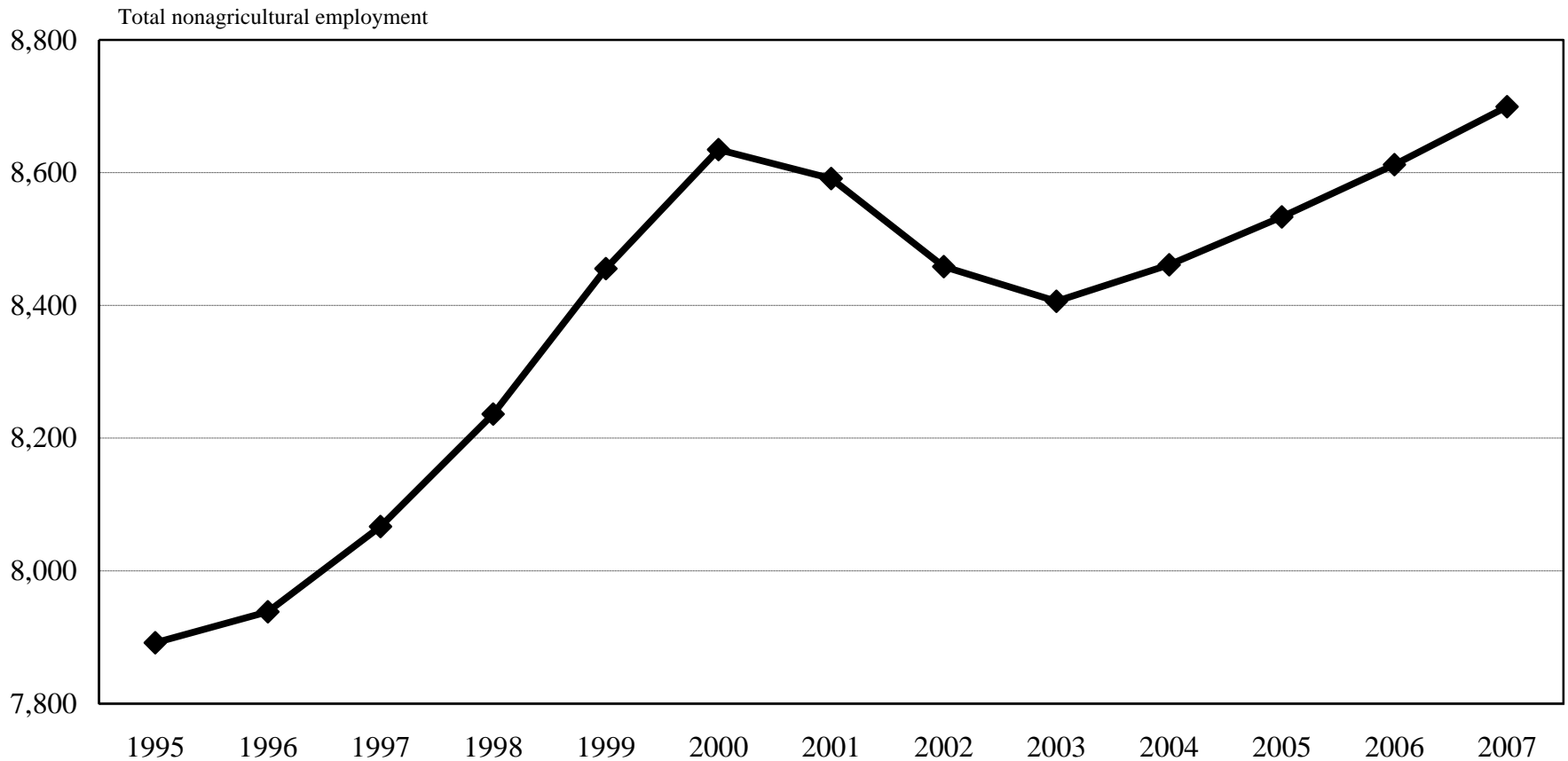
# New York's income growth since 2003 has been concentrated among the top five percent.

Change in New York State Adjusted Gross Income: 2003-2008



Source: New York State Division of the Budget.

## The 2003 tax increases did not have the negative economic effects that Governor Pataki predicted.



Source: US Department of Labor. 2007 annual employment level projected based on 11-month change.