New York City Independent Budget Office

Big City, Big Bucks: NYC's Changing Income Distribution

Changes in the distribution of income over time among Americans in general and New Yorkers in particular have been of great interest in recent years. Studies at the state level suggest that the disparity in income between rich and poor households has widened and is greater in New York than in other states. However, detailed information at the city level—particularly for high-income residents—has not generally been available.

The distribution of income is of particular interest to IBO and others who forecast New York City tax revenues because so much of the personal income tax (PIT) comes from the city's wealthiest taxpayers—a small minority of city filers. Drawing on a sample of New York State income tax returns, this fiscal brief traces changes in the share of adjusted gross income (AGI) received by New Yorkers in different income groups, adjusted for inflation. Our principal findings include:

- The share of AGI received by New York City's most affluent filers generally increased from 1987 to 1997, particularly after 1994. By 1997, the 4.2 percent of city filers with annual incomes above $125,000 received 40.6 percent of the total AGI of all city residents, up from 28.2 percent in 1987.

- The share of city AGI received by residents with incomes above $1 million increased from 9.9 percent to 20.1 percent over the 1987-1997 period. Much of the increase in this group's income share was fueled by a 162 percent surge in income from capital gains from 1994 to 1997.

- The combined income share of city filers with annual incomes between $20,000 and $125,000 declined from 63.6 percent of total AGI in 1987 to 50.8 percent in 1997. Over this period, the percent of all filers who fell within this broad middle range declined almost continuously—from 63.0 percent of all filers in 1987 to 55.6 percent in 1997.

- Following these changes in the distribution of income, high-income taxpayers have come to account for an increasingly large share of city PIT liability. In 1997, filers with incomes above $125,000 accounted for 53.6 percent of total PIT liability, with millionaires accounting for 26.8 percent of the total.

- A little over half of the $1.17 billion surge in PIT liability from 1994 to 1997 is attributable to the 0.3 percent of filers with incomes of $1 million or more. In contrast, only a fifth of the growth in PIT liability came from the 95.8 percent of filers with incomes below $125,000.

- Similar to the case for New York City, income inequality has also increased across the rest of New York State. But compared with city filers, middle- and upper-middle-income filers elsewhere in the state enjoy a larger share of total income than their city counterparts.

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This brief begins with a description of our primary source of data, the PIT sample file, including a review of the data's advantages and limitations and a discussion of methodological concerns that result from using the data. The brief then turns to IBO's empirical results, with the bulk of presentation concerning changes over time in the shares of total New York City resident income received by different income groups. The analysis of city income distribution specifically considers the influences of income from capital gains and wages, and it concludes with a look at the distribution of PIT liability among income groups. Finally, the income distribution among city residents is contrasted with the corresponding distribution among all other New York State residents, followed by a brief conclusion.

The PIT Sample File

The data that IBO has probed to shed light on changes in the distribution of income—annual samples of New York PIT returns compiled by the state government—offers several advantages over the census data that most researchers use.[1] For each calendar year, the Office of Tax Policy Analysis of the New York State Department of Taxation and Finance assembles a sample of state PIT returns for use by government analysts. The sample includes returns filed by New York State residents to determine their state and (for New York City and Yonkers residents and commuters) city income tax liabilities, plus returns filed by out-of-state commuters. Different tax filers are sampled each year, and almost all of the information from the returns is reported, except for names, social security numbers, and addresses. Although addresses are suppressed, each return is identified as being from one of three geographic areas—New York City, New York State other than New York City, and other than New York State.

One of a very limited number of local agencies with access to the data, IBO has sample files for tax years 1987 through 1997.[2] The size of the most recent sample is 118,000 returns, with New York City residents accounting for about 35 percent of sample, other New York State residents accounting for about 57 percent, and out-of-state filers accounting for the remainder. Each sampled return is assigned a frequency weight so that for any year's sample, the sum of all the returns times their weights yields a number of returns whose size, income, and other characteristics replicate the universe of New York State returns actually filed that year.[3] The weighted sample of city resident returns also closely matches the known characteristics of the population of city tax filers.

Data Advantages And Limitations

As a source of data for analyzing income distribution, the PIT sample file has several important advantages over the most commonly used data, the Census Bureau's monthly Current Population Survey (CPS) of about 50,000 households nationwide.

Because New York City's many high-income households account for a very large share of total income in the city and state, it is important to have an accurate measure of their incomes to analyze the distribution of income. A major shortcoming of the CPS is that income for households with annual incomes above $250,000 is "top-coded"; rather than reporting the actual amount of income, income is reported as falling into an above-$250,000 category. The PIT sample file, on the other hand, both provides the actual income level per filer and samples high-income filers relatively frequently.[4]

Moreover, because the data is obtained from tax returns, the PIT sample provides information on income from realized capital gains—profits made from selling assets such as stocks, bonds, and real estate at prices higher than original purchase prices. In contrast, the CPS does not include capital gains in its definition of household income. Because capital gains income is both concentrated among the very wealthiest households and accounts for a large share of income received by these households, using a data source such as the PIT sample, which includes information on capital gains, more accurately measures income distribution and has the potential for providing greater insight into the source of changes in income distribution.

In contrast, certain types of income, such as transfer payments, tax-free bond interest, and non-taxable retirement benefits, are not reported on income tax returns yet are included in the census definition of income. Moreover, the PIT sample file does not provide information on low-income New Yorkers too poor to file income tax returns.[5] The implications of this limitation on how changes in income distribution should be measured over time are discussed in the next section.

Other Methodological Concerns

Our analysis of changes in income distribution over time focuses on income received by filers in different income brackets rather than on the more commonly used percentile and decile groups.[6] This is because the specific income levels that define percentiles and deciles—especially those at the upper end of the income distribution—are very sensitive to changes in the share of low-income households filing tax returns. The incentive for low-income households to file tax returns—particularly those with incomes too low to incur tax liabilities—has increased greatly in recent years with the 1994 establishment and subsequent enrichment of the state's earned income tax credit (EITC).[7] The number of New York filers claiming either the federal or state EITC increased substantially after 1993, though existing data does not indicate how many of the new claimants were also filing tax returns for the first time.[8] Given these difficulties, we instead look at the income received by filers in different income brackets, adjusted for New York-area inflation.[9]

In contrast, the changing composition of tax filers causes methodological difficulties that cannot be avoided. Joint returns report the combined income of two married adults, while other returns (single, head of households, married filing separately, and widowed) reflect only one adult's income. Not surprisingly, high-income returns are much more likely to be joint filers: 65.5 percent of returns in the highest income decile were made by joint filers in 1997, compared with 12.2 percent of returns in the lowest decile. For the sample as a whole, the share of returns made by joint filers declined gradually from 33.4 percent in 1987 to 29.5 percent in 1997, but the decline was greater for higher-income filers. Holding other factors constant, the comparatively greater decline in the representation of joint filers among the more affluent has lowered this group's income relative to lower-income groups.

Income Shares Of City Residents

The overall increase in the share of income being received by high-income filers and the decrease in the share being received by the broad middle, particularly since 1994, provide strong evidence of increasing income inequality in New York City. Table 1 reports the percent shares of total income for 1987 to 1997 received by different groups of New York City resident filers, where the groups are defined by inflation-adjusted income brackets (1997 dollars) and income is measured by the federal definition of adjusted gross income (AGI).[10]

The table indicates that income in New York City has become increasingly concentrated in a small group of filers, particularly in recent years. The share of income received by all taxpayers with annual incomes above $125,000 swelled from 28.2 percent to 40.6 percent over the 1987-1997 period, though this increase was not continuous. As shown in Table 2, this group accounted for no more than 4.2 percent of all tax returns filed in any year. Most of the group's increased income share is explained by the enhanced fortunes of those with annual incomes above $1 million, who in any year accounted for 0.2 percent to 0.3 percent of all filers. The AGI share of these most affluent filers grew from 9.9 percent to 20.1 percent over the 1987-1997 period, though as with the larger group of upper-income filers, the increase was not continuous.

Changes in the share of income received by the most affluent New Yorkers over time in large part reflect the group's fortunes from realized capital gains. Capital gains account for an especially large portion of the total income received by those in the above-$1 million income group—25.0 percent on average for the 1987-1997 period, compared with 2.7 percent for all other filers. The share of AGI received by this most affluent group was relatively low in 1991 and 1994—years in which capital gains income declined.[11] The group of millionaires received over half of all capital gains income, so the 162 percent rise in capital gains realizations from 1994 to 1997 has resulted in the extremely high share of total AGI these filers now receive.

For the period as a whole and especially after 1994, the share of income received by filers in a wide range of moderate to middle incomes (between $20,000 and $125,000 annually) deteriorated markedly. Taken as a whole, the group of $20,000-$125,000 filers accounted for 50.8 percent of AGI in 1997, down from 63.6 percent in 1987. In large part the decrease in income share reflects an almost continuous decline in the proportion of all filers that fall into the moderate- and middle-income groups—from 63.0 percent of all filers in 1987 to 55.6 percent in 1997.[12] The decline of the middle group's income share was itself almost continuous, though the group's income share jumped up in 1991 and 1994, the years in which capital gains and the income shares of the most affluent suffered.

Table 1

Share of Income Received by NYC Residents By Income Groups, 1987 to 1997

Annual Income	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Under $10,001	1.8%	1.7%	1.8%	1.9%	2.1%	2.1%	2.0%	2.4%	2.3%	2.3%	2.2%
$10,001 to $20,000	6.5	5.9	6.0	6.5	7.0	6.8	5.6	7.3	6.9	6.6	6.4
$20,001 to $30,000	9.8	9.6	9.7	10.3	10.9	10.3	10.3	10.7	10.0	9.5	8.5
$30,001 to $50,000	20.0	18.7	18.3	19.0	20.1	18.9	18.9	18.9	18.2	16.9	16.1
$50,001 to $75,000	17.6	17.3	17.1	16.0	17.4	15.2	16.0	16.3	15.4	14.4	13.7
$75,000 to $100,000	10.4	9.5	9.4	9.1	8.8	9.2	8.8	8.8	8.6	8.1	7.8
$100,000 to $125,000	5.8	5.5	5.5	5.2	5.3	4.8	4.9	5.1	5.1	4.9	4.7
$125,001 to $250,000	9.0	8.3	8.8	8.8	8.7	8.2	8.6	8.9	9.1	9.3	9.0
$250,000 to $500,000	5.4	5.1	5.6	5.5	5.3	5.2	6.0	5.8	6.0	6.0	6.2
$500,000 to $1,000,000	3.8	4.0	4.3	4.3	4.0	4.5	4.8	4.4	4.6	5.2	5.3
Over $1,000,000	9.9	14.5	13.4	13.4	10.6	14.8	14.2	11.3	13.8	16.6	20.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Under $20,001	8.2%	7.6%	7.8%	8.4%	9.1%	8.9%	7.6%	9.7%	9.2%	9.0%	8.6%
$20,001 to $125,000	63.6	60.6	60.1	59.6	62.4	58.4	58.8	59.9	57.4	53.9	50.8
Over $125,000	28.2	31.9	32.1	32.0	28.5	32.7	33.6	30.4	33.4	37.1	40.6

Table 2

Share of NYC Resident Filers By Income Groups, 1987 to 1997

Annual Income	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Under $10,001	13.4%	13.3%	14.4%	14.9%	15.7%	16.3%	17.6%	17.8%	17.8%	18.5%	18.3%
$10,001 to $20,000	20.0	19.1	19.4	20.1	20.4	20.8	17.5	21.0	21.0	21.1	21.8
$20,001 to $30,000	18.1	18.7	18.7	19.2	19.0	18.8	19.1	18.5	18.1	18.0	17.0
$30,001 to $50,000	23.7	23.5	22.6	22.8	22.7	22.3	22.9	21.1	21.3	20.6	20.8
$50,001 to $75,000	13.3	13.9	13.5	12.2	12.5	11.4	12.3	11.6	11.5	11.2	11.2
$75,000 to $100,000	5.6	5.4	5.3	4.9	4.5	4.9	4.8	4.5	4.5	4.4	4.5
$100,000 to $125,000	2.4	2.4	2.4	2.2	2.1	2.0	2.1	2.0	2.1	2.1	2.1
$125,001 to $250,000	2.5	2.4	2.5	2.5	2.3	2.3	2.4	2.3	2.5	2.6	2.7
$250,000 to $500,000	0.7	0.7	0.8	0.7	0.7	0.7	0.8	0.7	0.8	0.8	0.9
$500,000 to $1,000,000	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4
Over $1,000,000	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Under $20,001	33.4%	32.4%	33.7%	35.0%	36.0%	37.1%	35.1%	38.8%	38.8%	39.6%	40.1%
$20,001 to $125,000	63.0	64.0	62.4	61.3	60.6	59.5	61.1	57.7	57.5	56.4	55.6
Over $125,000	3.6	3.7	3.8	3.7	3.3	3.5	3.7	3.5	3.8	4.0	4.2

SOURCE: IBO.

NOTE: Income is measured by federal adjusted gross income per tax return in 1997 dollars.

Since 1994, the income share of those with annual incomes of $20,000 or less has also deteriorated continuously. But unlike the share going to the broad middle, it was a bit higher at the end of the period than at the start—8.6 percent in 1997, compared with 8.2 percent in 1987. The percentage of all returns that were in this low-income group increased substantially over time, from 33.4 percent in 1987 to 40.1 percent in 1997, with the increasingly generous EITC providing an incentive for low-income households to file.

The distribution of income from wages and salaries alone reveals that variations over time in the income shares of the different groups are not simply a reflection of the ups and downs of capital gains. Wages and salaries constituted on average 72.1 percent of all city AGI from 1987 to 1997 and accounted for the majority of income for all groups except those with incomes over $1 million. Changes in the different groups' shares of wage and salary income from 1987 to 1997 were similar to those for income shares as a whole. The share of total wage and salary income received by those with incomes above $125,000 ranged from 19.3 percent to 22.6 percent from 1987 to 1991 before rising to 28.6 percent by 1997. In contrast, the share received by filers with incomes from $20,000 to $125,000 ranged from 69.0 percent to 72.6 percent in the 1987-1991 period, before falling to 62.0 percent by 1997; the loss of income share occurred for every income bracket within this broad middle range. The share of total wage income received by filers with incomes of $20,000 or less rose only slightly—from 8.1 percent of the total in 1987 to 9.5 percent in 1997—in spite of the increase in the number of low-income filers.

The Distribution Of PIT Liability

In recent years, high-income taxpayers have come to account for an especially large and rising share of city PIT liability (see Table 3). From 1987 to 1997, the share of PIT liability paid by taxpayers with incomes above $125,000 grew from 42.0 percent to 53.6 percent, while the share paid by the broad middle group declined from 56.5 percent to 44.9 percent. Following the dramatic increases in capital gains income in recent years, the liability of those with incomes above $1 million has grown especially fast; in 1997 this group accounted for 26.8 percent of the PIT, up from 16.7 percent in 1994.

As a result, nearly 80 percent the surge in city PIT revenues in recent years results from an increase in the tax liability of upper-income city residents. From 1994 to 1997, PIT liability increased by $1.17 billion to reach $3.99 billion. Filers with incomes over $1 million accounted for $601 million, or 51.2 percent of the total increase in PIT liability from 1994 to 1997. Residents with incomes between $125,000 and $1 million accounted for an additional $334 million, or 28.6 percent. Only 20.2 percent of the increase in liability was incurred by the 95.8 percent (1997) of all filers whose annual incomes did not exceed $125,000.

The increasing PIT shares of the wealthy and very wealthy for the most part reflect these groups' growing share of income as opposed to changes in tax policy. By design, changes in tax policy over the 1987 to 1997 period have had little impact on the progressivity of the city's tax on personal income.[13] The two income tax surcharges instituted in the early 1990s had little effect on the distribution of PIT liability by income groups. Similarly, the elimination of the 12.5 percent surcharge in 1999 and the continuing phase-in of the School Tax Relief (STaR) program's across-the-board rate cuts have not significantly influenced the distribution of the PIT. In contrast, however, STaR's per household PIT credit—$125 for joint and widowed filers and $62.50 for all others by 2001—has recently begun to provide relatively greater tax cuts for lower-income filers.

Other NYS Residents

As was the case for New York City, income inequality has also increased across the rest of New York State. But compared with city filers, middle- and upper-middle-income filers elsewhere in the state enjoy a larger share of total income than their city counterparts.[14]

Table 4 details the shares of total AGI received by different income groups of non-NYC state residents from 1987 to 1997. Trends in the distribution of income elsewhere in the state are generally similar to trends for New York City. The share of income received by filers outside the city with annual incomes above $125,000 grew from 24.9 percent to 33.2 percent over the period. In contrast, outside of the city the income share of the broad middle—those with annual incomes from $20,000 to $125,000—fell from 68.0 percent in 1987 to 60.1 percent in 1997. The income share of low-income (under $20,000) filers varied little over

Table 3
Share of PIT Liability of NYC Residents By Income Groups, 1987 to 1997

Annual Income	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Under $10,001	0.1%	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%
$10,001 to $20,000	1.5	1.4	1.4	1.5	2.3	1.4	1.7	1.9	1.6	1.5	1.5
$20,001 to $30,000	5.3	5.2	5.7	5.9	6.8	6.0	6.3	6.8	6.2	5.7	5.0
$30,001 to $50,000	16.0	14.9	15.3	16.0	17.6	16.1	15.8	16.6	15.6	14.4	13.5
$50,001 to $75,000	17.1	16.5	16.6	15.8	17.5	15.2	15.5	16.3	15.3	14.1	13.1
$75,000 to $100,000	11.2	10.1	10.0	10.0	9.7	9.9	9.5	9.8	9.2	8.5	8.1
$100,000 to $125,000	6.9	6.2	6.3	6.1	6.2	5.6	5.6	5.9	5.8	5.4	5.1
$125,001 to $250,000	12.0	10.2	11.0	11.1	11.0	10.1	10.4	11.2	11.4	11.4	11.0
$250,000 to $500,000	8.3	7.2	7.7	7.7	7.5	7.3	8.2	8.3	8.3	8.2	8.3
$500,000 to $1,000,000	6.2	6.0	6.1	6.3	5.9	6.6	6.9	6.6	6.6	7.2	7.4
Over $1,000,000	15.5	22.2	19.8	19.6	15.3	21.7	20.1	16.7	19.9	23.5	26.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Under $20,001	1.5%	1.4%	1.4%	1.5%	2.4%	1.5%	1.8%	2.0%	1.7%	1.5%	1.6%
$20,001 to $125,000	56.5	53.0	53.9	53.8	57.9	52.8	52.6	55.3	52.0	48.1	44.9
Over $125,000	42.0	45.6	44.6	44.7	39.7	45.7	45.6	42.7	46.2	50.3	53.6

Table 4
Share of Income Received by NYS Residents Outside of NYC By Income Groups, 1987 to 1997

Annual Income	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Under $10,001	1.4%	1.3%	1.4%	1.6%	1.6%	1.7%	2.0%	1.7%	1.6%	1.5%	1.5%
$10,001 to $20,000	5.7	5.2	5.3	5.6	6.1	6.0	6.8	6.1	6.0	5.7	5.2
$20,001 to $30,000	7.9	7.4	7.7	8.0	8.2	8.0	8.3	8.0	7.8	7.2	6.8
$30,001 to $50,000	17.5	16.3	17.1	17.5	18.0	17.5	17.7	17.3	16.6	15.7	15.2
$50,001 to $75,000	20.8	19.7	20.4	20.7	21.3	20.7	20.0	20.4	19.6	18.9	18.2
$75,000 to $100,000	14.3	13.6	13.5	13.6	13.1	12.7	12.5	12.9	13.0	12.4	12.8
$100,000 to $125,000	7.5	7.3	7.4	7.3	7.5	7.0	7.1	7.3	7.5	7.2	7.2
$125,001 to $250,000	10.8	10.7	11.0	10.4	10.4	10.6	10.7	11.3	11.5	11.9	12.3
$250,000 to $500,000	5.3	5.8	5.6	5.4	5.3	5.5	5.4	5.6	6.2	6.3	6.4
$500,000 to $1,000,000	3.3	4.0	3.7	3.6	3.3	3.7	3.4	3.4	3.8	4.0	4.5
Over $1,000,000	5.5	8.8	6.8	6.4	5.2	6.7	6.1	6.0	6.5	9.1	10.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Under $20,001	7.1%	6.5%	6.7%	7.2%	7.7%	7.7%	8.8%	7.8%	7.6%	7.2%	6.7%
$20,001 to $125,000	68.0	64.3	66.2	67.1	68.1	65.9	65.6	65.9	64.4	61.4	60.1
Over $125,000	24.9	29.2	27.1	25.7	24.2	26.5	25.6	26.3	28.0	31.3	33.2

SOURCE: IBO.
NOTE: Income is measured by federal adjusted gross income per tax return in 1997 dollars.

the period—from a low of 6.5 percent in 1988 to a high of 8.8 percent in 1993.

In general, these trends in the distribution of income common to all New Yorkers are less pronounced for non-city filers. From 1987 to 1997, the share of total income received by city filers with incomes above $125,000 increased by 12.4 percentage points, compared with an increase of only 8.3 percentage points in the income share of comparable non-city filers. Moreover, the decline in the share of income received by filers with incomes from $20,000 to $125,000 was greater among city filers (a 12.8 percentage point decline) than among filers elsewhere in the state (a 7.9 percentage point decline).

While the rise in the income share for the above-$125,000 income group and the decline in the share for filers with incomes ranging from $20,000 to $125,000 are trends common to filers across the state, the differences between the distribution of income in New York City and elsewhere in the state are sharpest when other income ranges are considered. A comparison of Tables 1 and 4 reveals that in every year from 1987 to 1997, groups of non-city filers with incomes between $50,000 and $250,000 received higher shares of total AGI outside of the city than did comparable city residents. On average for the 1987-1997 period, filers with incomes from $50,000 to $250,000 received 51.6 percent of total AGI outside the city, compared with 39.0 percent of total AGI for city residents. To a great extent, the higher income share outside the city simply reflects the fact that these filers make up a much larger proportion of all filers than in the city: 30.2 percent of non-city filers, compared with 21.7 percent of city filers on average from 1987 to 1997.

In contrast, the share of all income going to those filers with incomes of $50,000 or less is relatively smaller outside the city—32.1 percent on average, compared with 37.1 percent for city filers. This difference is primarily due to the larger proportion of city filers who fall into this income group: on average for 1987 to 1997, these low- and moderate-income filers accounted for 68.6 percent of returns filed by state residents outside of New York City, compared with 77.1 percent of city returns.

The income share going to the wealthiest filers elsewhere in New York State is also smaller than in the city. While filers with AGIs above $250,000 accounted for an average of 24.0 percent of city resident income from 1987 to 1997, they received only 16.4 percent of non-city resident income on average. The most important factor explaining this difference is that wealthy city residents generally have much higher incomes than wealthy people residing elsewhere in New York State; the average AGI of city filers with incomes over $1 million was almost a third higher than the average for non-city filers in 1997.

It is important to note that New York State tax filers residing outside of New York City include both upstate New Yorkers and downstate residents from the city's suburbs and Long Island. These two groups live in regions whose economic climates have differed greatly in recent years. The downstate suburbs have shared in the sustained economic growth of the city and many of their residents are high-income commuters who receive a significant share of their income from capital gains. Upstate New York's economy, however, languished over much of this period, and fewer residents are employed in such high-wage industries as securities or legal services. Sharper contrasts between the income distribution of city residents and others would most likely emerge if the income distributions of downstate and upstate New Yorkers could be determined separately.

Conclusion

The PIT sample file provides evidence of two corresponding trends from 1987 to 1997: an increase in the share of income being received by a small minority of New York City filers with annual incomes above $125,000 and an almost equal decline in the share being received by those with incomes from $20,000 to $125,000—the majority of all filers. These changes, which have been particularly pronounced with the surge in capital gains income since 1994, indicate that the distribution of income in New York City has become increasingly unequal and increasingly concentrated at the top in recent years. As a result, upper-income filers now account for the bulk of the city's revenue from the personal income tax, with millionaires accounting for over a fifth of PIT liability. The distribution of income among state residents outside of the city has followed similar trends, though a larger share of income is received by middle- and upper-middle-income filers.

Endnotes

[1] For a recent example of research using census data, see *Pulling Apart: A State-by-State Analysis of Income Trends* (January 2000), a joint study by the Center for Budget and Policy Priorities and the Economic Policy Institute, which finds that among the 50 states, the disparity of income between the richest and poorest households is greatest in New York.

[2] The New York City Comptroller's Office presents information on city income distribution, also drawn from state income tax returns, in "Economic Notes" (May 2000).

[3] Frequency weights vary by income level, type of return (long or short form), and whether deductions are itemized.

[4] For example, when IT-201 (resident long form) filers who itemized deductions are considered, the 1996 sample includes one out of every 96 returns with $50,000 to $60,000 New York adjusted gross income, one out of every five returns with incomes between $500,000 and $1 million, and each return that reports an income greater than $5 million.

[5] Because they are likely to be minors, IBO has chosen also to exclude from the sample returns in which the filer is claimed as a dependent by another filer.

[6] The first percentile (decile) group refers to the one (10) percent of households with the lowest incomes, and so on.

[7] Like the federal EITC, the state credit is "refundable," meaning that if a tax filer's eligible credit exceeds pre-credit liability (as is often the case), the excess credit is received by the tax filer as a lump-sum payment.

[8] The data also fails to provide indirect evidence that the EITC spurred low-income households to file tax returns. Although the number of low-income NYS returns increased after 1993, the number of returns claiming the state EITC increased even more sharply.

[9] Data on the distribution of income by deciles and percentile groups is available from IBO upon request.

[10] Federal AGI is the starting point in the process of determining both state and city tax liabilities in New York. AGI is a pre-tax measure, so neither taxes paid nor income from refundable tax credits such as the EITC are taken into account.

[11] Capital gains income declined from 1988 to 1991 by a total of 44 percent, in part due to the national recession of the early 1990s; over these years, the percent of residents' AGI received by filers with above-$1 million incomes fell from 14.5 percent to 10.6 percent. While the AGI share of this highest income group grew to over 14 percent in 1992 and 1993, it fell to 11.3 percent in 1994, when capital gains income for all filers decreased by 20 percent due to bond market losses that followed an unanticipated rise of interest rates.

[12] The New York City Council's Finance Division has documented a similar finding: a decline over time in the number of "middle class" households with incomes near the median (1988, *New York City's Middle Class: The Need for a New Urban Agenda*).

[13] The progressivity of an income tax system refers to the degree to which higher income tax payers incur liability at higher rates. Changes in income tax brackets and marginal rates from 1987 to 1997 have generally offset the effects on tax progressivity of increases in standard deductions.

[14] Because state filers outside of New York City are less likely to have low incomes, their *median* AGI is substantially higher than that for city residents—$32,770, compared with $25,495 in 1997. But these filers, who are more likely than city residents to be joint filers, have slightly lower *mean* incomes than do city residents—$46,292, compared with $49,680 in 1997.

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