



THE CITY OF NEW YORK
INDEPENDENT BUDGET OFFICE
 110 WILLIAM STREET, 14TH FLOOR
 NEW YORK, NEW YORK 10038

February 1, 2012

David Saltonstall
 Director of Policy and Research
 Office of Borough President Scott Stringer
 One Centre Street, 19th Floor
 New York, NY 10007

Dear Mr. Saltonstall:

I am writing in response to your recent request for IBO's help in developing a more progressive structure for the New York City personal income tax (PIT) that meets the following goals identified by the Borough President's Office: lower tax liabilities for single filers with annual incomes below \$200,000 and joint filers with annual incomes below \$300,000; no tax increases for filers with an annual incomes of less than \$1 million, and make the change revenue neutral. In order to meet these goals we added three tax brackets to the current five, including new brackets above \$1,000,000 with higher rates. Additionally, the current relationship between the various filing types—in which the bracket amounts for joint filers and heads of household are generally 180 percent and 120 percent, respectively, of the amounts for the single filer brackets—was maintained for all but the highest brackets. The restructured PIT brackets and rates shown below meet your criteria.

Under current law, the PIT tax brackets and marginal tax rates are as follows:

| <u>Bracket</u> | <u>Rate</u> | <u>Taxable income ranges</u> | | |
|----------------|-------------|------------------------------|----------------------|---------------------------|
| | | <u>Single filers</u> | <u>Joint filers</u> | <u>Heads of household</u> |
| 1 | 2.9070% | \$12,000 or less | \$21,600 or less | \$14,400 or less |
| 2 | 3.5340% | \$12,000 - \$25,000 | \$21,600 - \$45,000 | \$14,400 - \$30,000 |
| 3 | 3.5910% | \$25,000 - \$50,000 | \$45,000 - \$90,000 | \$30,000 - \$60,000 |
| 4 | 3.6480% | \$50,000 - \$500,000 | \$90,000 - \$500,000 | \$60,000 - \$500,000 |
| 5 | 3.8760% | Above \$500,000 | Above \$500,000 | Above \$500,000 |

Note: The marginal rates presented incorporate the effects of the 14-percent surcharge.

A more progressive structure of PIT brackets and rates would be:

| <u>Bracket</u> | <u>Rate</u> | <u>Taxable income ranges</u> | | |
|----------------|-------------|------------------------------|---------------------------|---------------------------|
| | | <u>Single filers</u> | <u>Joint filers</u> | <u>Heads of household</u> |
| 1 | 2.4710% | \$12,000 or less | \$21,600 or less | \$14,400 or less |
| 2 | 3.0039% | \$12,000 - \$25,000 | \$21,600 - \$45,000 | \$14,400 - \$30,000 |
| 3 | 3.4120% | \$25,000 - \$50,000 | \$45,000 - \$90,000 | \$30,000 - \$60,000 |
| 4 | 3.5910% | \$50,000 - \$83,300 | \$90,000 - \$150,000 | \$60,000 - \$100,000 |
| 5 | 3.6480% | \$83,300 - \$500,000 | \$150,000 - \$500,000 | \$100,000 - \$500,000 |
| 6 | 3.8760% | \$500,000 - \$1,000,000 | \$500,000 - \$1,000,000 | \$500,000 - \$1,000,000 |
| 7 | 4.2180% | \$1,000,000 - \$2,000,000 | \$1,000,000 - \$2,000,000 | \$1,000,000 - \$2,000,000 |
| 8 | 4.3320% | Above \$2,000,000 | Above \$2,000,000 | Above \$2,000,000 |

Note: The marginal rates presented incorporate the effects of the 14-percent surcharge.

The taxable income levels for the first three brackets are as in current law, but the marginal rates in these brackets would be reduced by up to 15 percent. The income levels for the fourth bracket would change, ranging from \$50,000 to \$83,000 for individual filers and \$90,000 to \$150,000 for joint filers instead of the previous \$50,000 to \$500,000 and \$90,000 to \$500,000, respectively. The marginal rate in what would now be the fifth bracket (the fourth bracket under the current system) would be unchanged from current law. The current top bracket, over \$500,000 of income for all filers, would be replaced by three brackets for all filers, with marginal rates on the top two brackets increasing by 8.8 percent and 11.7 percent respectively.

This plan also includes a recapture provision, which eliminates the effect of the tax cut on the lower brackets for individual filers earning more than \$200,000 annually and joint filers earning more than \$300,000 annually. The recapture provision is modeled on a similar provision in the New York State tax law and is similar to a provision that was in effect for New York City from 2003 to 2005.

The bracket and rate changes to the current PIT generally meet the desired progressive goals you gave us. Those receiving a tax cut would be single filers with taxable incomes below \$200,000, joint filers with incomes below \$300,000, and head of household filers with incomes below \$230,000. Maximum tax cuts would be: \$185 for single filers, received by those filers with taxable incomes from \$83,300 to \$150,000; \$333 for joint filers, received by those with incomes from \$150,000 to \$250,000; and \$222 for heads of household, received by those with incomes from \$100,000 to \$180,000. Note that the maximum tax cuts *in percentage terms* accrue to filers in the lowest income brackets. As estimated for tax (calendar) year 2012, the restructured PIT would generate \$23.0 million less in revenue than the current PIT.

The estimate is based on IBO's simulation model which utilizes a sample of tax returns from a prior year, with income and deductions adjusted to simulate the 2012 liability year, and it is subject to change as income projections are revised. Given the number of assumptions in these estimates and the overall size of the PIT (we forecast over \$8 billion in PIT collections in the current fiscal year), a \$23.0 million difference is effectively revenue neutral.

Please contact me (michaelj@ibo.nyc.ny.us or 212-442-0597) if you have any further questions or concerns regarding this analysis.

Sincerely,

Michael Jacobs
Supervising Analyst
Tax and Economics Team