



# TAX WATCH '04

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## Some key facts to consider:

- Nine states have no broad-based tax on personal income: Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington and Wyoming. Job growth in most of them outstrips New York's.
- New York State's personal-income tax is highly "progressive."
- A two-parent family of four pays no state income tax until income reaches \$24,900, one of the highest tax-free levels of income in the country.
- But once that family moves up and earns income of \$50,000, its effective tax rate is much higher here than in Pennsylvania, Vermont, Connecticut or New Jersey, according to the Department of Taxation and Finance.
- Taxpayers with income of \$100,000 and over earn 39 percent of income in the state, but pay 51 percent of the state's personal income tax collections.

## PERSONAL INCOME TAX: THE BIGGEST HIT ON NEW YORK'S WORKERS AND THE ECONOMY

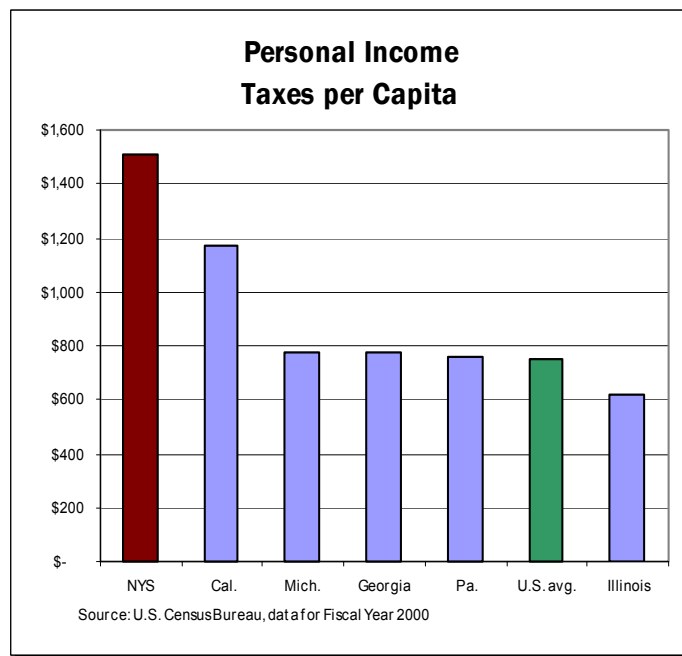
Taxes in New York State are too high. And the biggest single hit is personal income taxes imposed within the state.

In fiscal 2002, the state government and two municipalities — New York City and Yonkers — collected a total of \$31 billion in income taxes. That was about \$3 billion more than our next-heaviest tax, the property tax.

Any way you compare New York to other states, our personal income taxes are uncompetitively high.

Our top rate, 7.7 percent, is much higher than those in most neighboring and competing states. The top rate in New Jersey is 6.4 percent; in Massachusetts, 5.3 percent; Connecticut, 4.5 percent; Michigan, 4 percent; Pennsylvania, 2.8 percent. In New York City, including the city's income tax, the combined state and local tax rate reaches above 12 percent. Because many small businesses pay taxes through their owners' income tax, the "personal" income tax is also a business tax.

The huge tax increases the Legislature enacted this year



included the first hike in New York State's personal-income tax rates since Nelson Rockefeller was governor. For nearly three decades, starting under Governors Wilson and Carey in the mid-1970s, state leaders recognized the damage caused by heavy taxes on personal income and worked to

reduce that burden.

Assuming the Legislature leaves current law in place, our top personal tax rate will drop back to 6.85 percent in 2006. As the above comparisons show, even that level will leave more work to be done if we're truly to make our taxes competitive.

## TAX CUTS LED TO JOBS. WHAT WILL TAX INCREASES DO?

In 1995, Governor Pataki and the Legislature enacted \$4 billion in tax reductions, mostly to the personal income tax. Along with business tax cuts, more sensible regulation and other reforms, the income tax reductions helped turn New York around. After lagging far behind other states, our job

growth relative to the nation improved steadily. In 1999 and 2000, the Empire State's employment growth actually outperformed the rest of the country.

The Legislature's 2003 tax increases total more than \$2 billion. It's too early to assess the impact, but history sug-

gests it will not be positive.

With the national economy recovering, there's a good chance this year's state tax revenues will come in higher than projected. State leaders should consider using the new-found dollars to roll back the tax hikes ahead of schedule.