

## Cap Personal Income Tax Credit at \$10,000 for Payers of the Unincorporated Business Tax

Revenue: \$75 million annually

In 1966, New York City established the Unincorporated Business Tax (UBT) to tax business income from unincorporated sole proprietorships and partnerships. Since fiscal year 1997, New York City residents with positive UBT liability have been able to claim a credit against their city personal income tax (PIT) liability for some or all of the UBT they pay. The credit was created to minimize double taxation of the same income to the same individual. This option would cap the credit at \$10,000 and would require state legislation.

The current PIT credit for UBT paid is designed to be progressive. New York City residents with taxable personal income of \$42,000 or less receive a credit equal to 100 percent of their UBT liability. This percentage decreases gradually for taxpayers with higher incomes until it reaches 23 percent for taxpayers with incomes of \$142,000 or more. Data on the UBT credits from the city's Department of Finance by income groups shows that for tax year 2019, a total of \$144 million in credits was provided to over 24,000 city resident tax filers. Of those recipients, more than 7,500 with federal adjusted gross income (AGI) of \$1 million and above received an average credit of approximately \$14,421. Capping the UBT credit at \$10,000 would increase PIT revenue by an estimated \$75 million annually. This option would not affect commuters, as they do not pay city personal income tax. Since the elimination of the commuter PIT in 1999, the UBT has been the only city tax on commuters' unincorporated business incomes earned in the city.

---

**Proponents might argue** that the progressive scale of the PIT credit for UBT paid is not sufficiently steep, especially at higher income levels, and that capping the credit is a good way to control the cost of the credit to the city. They might also argue that the cap would only affect a relatively small number of taxpayers (12 percent of all UBT credit recipients), with 79 percent of those with incomes more than \$2 million in New York AGI, who would be able to afford the tax increase. There would be no reduction in the personal income tax credit provided to the other unincorporated business owners.

**Opponents might argue** that the progressive scale of the PIT credit for UBT paid means that resident taxpayers with taxable incomes over \$42,000 already face some double taxation of the same income, and that double taxation would increase under the proposal. They might also argue that a better alternative would be to increase the rate on the UBT while simultaneously increasing the PIT credit for city residents' UBT liability, thereby having more of the tax increase fall on nonresidents who are not subject to double taxation on the same income by the city. As with any option to increase the effective tax on city businesses, there is some risk that proprietors and partners will move their businesses out of the city in response to the credit cap.

## Commuter Tax Restoration

Revenue: \$880 million annually

One option to increase city revenue would be to restore the nonresident earnings component of the personal income tax (PIT), known more commonly as the commuter tax. From the time it was established in 1971, the tax had equaled 0.45 percent of wages and salaries earned in the city by commuters and 0.65 percent of income from self-employment. Sixteen years ago the New York State Legislature repealed the tax, effective July 1, 1999. If the Legislature were to restore the commuter tax at its former rates effective on July 1, 2019, estimates that the city's PIT collections would increase by \$880 million in 2020.

---

Proponents might argue that people who work in the city, whether residents or not, rely on police, fire, sanitation, transportation, and other city services and thus should assume some of the cost of providing these services. If New York City were to tax commuters, it would hardly be unusual: New York State and many other states, including New Jersey and Connecticut, tax nonresidents who earn income within their borders. Moreover, with tax rates between roughly a fourth and an eighth of PIT rates facing residents, it would not unduly burden most commuters. Census Bureau data for 2017 indicate that among those working full-time in the city, the median earnings of commuters was \$86,000, compared with \$50,000 for city residents. Also, by lessening the disparity of the respective income tax burdens facing residents and nonresidents, reestablishing the commuter tax would reduce the incentive for current residents working in the city to move to surrounding jurisdictions. Finally, some might argue for reinstating the commuter tax on the grounds that the political process which led to its elimination was inherently unfair despite court rulings upholding the legality of the elimination. By repealing the tax without input from or approval of either the City Council or then-Mayor Giuliani, the State Legislature unilaterally eliminated a significant source of city revenue.

Opponents might argue that reinstating the commuter tax would adversely affect business location decisions because the city would become a less competitive place to work and do business both within the region and with respect to other regions. By creating disincentives to work in the city, the commuter tax would cause more nonresidents to prefer holding jobs outside of the city. If, in turn, businesses that find it difficult to attract the best employees for city-based jobs or self-employed commuters (including those holding lucrative financial, legal, and other partnerships) are induced to leave the city, the employment base and number of businesses would shrink. The tax would also make the New York region a relatively less attractive place for businesses to locate, thus constraining growth of the city's economy and tax base. Another argument against the commuter tax is that the companies that commuters work for already pay relatively high business income and commercial property taxes, which should provide the city enough revenue to pay for the services that commuters use. Finally, with the advent of the mobility payroll tax to support the Metropolitan Transportation Authority, suburban legislators could argue that suburban households (and firms) are already helping to finance the city's transportation infrastructure.

## Personal Income Tax Increase for High-Income Residents

Revenue: \$543 million in 2023, growing annually in the following years

Under this option the marginal personal income tax (PIT) rates of high-income New Yorkers would be increased. With the state STAR program no longer providing city residents PIT credits and rate reductions, the city personal income tax now has four tax brackets. The top bracket begins at \$50,000 of taxable income for single filers, \$90,000 of taxable income for joint filers and \$60,000 for heads of households, and its effective marginal tax rate is 3.876 percent (the 3.4 percent base rate plus a 14 percent surcharge).

This option would add three higher income brackets with higher rates. A fifth bracket with a marginal tax rate of 4.0 percent would be levied on taxable incomes ranging from: \$250,000 to \$500,000 for single filers; \$350,000 to \$700,000 for joint filers; and \$300,000 to \$600,000 for heads of household. A sixth bracket would tax incomes up to \$1 million, \$1.5 million, and \$1.25 million for single, joint, and head of household filers, respectively, at a marginal rate of 4.128 percent. A top marginal rate of 4.264 percent would be levied on incomes greater than \$1 million. The proposed top rate is 10 percent higher than the current top rate, although lower than 4.45 percent marginal rate for New Yorkers with incomes over \$500,000 that was in effect from 2003 through 2005. Unlike the state's personal income tax, there would be no "recapture provisions" under which some or all of taxable income not in the highest brackets were taxed at the highest marginal rates.

If this option were in effect for fiscal year 2023, PIT revenue would have increased by \$543 million. This tax change would require approval by the State Legislature.

---

**Proponents might argue** that PIT increase for high-income households would provide a substantial boost to city revenues without affecting the vast majority of city residents. Had this option been in place for the entire calendar year 2022, only 4.4 percent of all city resident taxpayers would have paid more tax, all of whom with adjusted gross incomes above \$250,000. Almost all of the additional tax burden (89 percent) would be borne by the roughly 38,000 taxpayers whose incomes are above \$1 million. Finally, they could claim that there is no evidence that many affluent New Yorkers left the city in response to the 2003-2005 tax increase, even with a larger state income tax increase also enacted at the same time.

**Opponents might argue** that New Yorkers are already among the most heavily taxed in the nation and a further increase in their tax burden is now more likely to induce relocation out of the city. Tax increases only exacerbate the city's competitive disadvantage with respect to other areas of the country. Because of the \$10,000 cap on state and local tax (SALT) deductions that was imposed in 2017, taxpayers affected by the proposed increase would not be able to claim the entire amount of their SALT as an itemized deduction from their federal tax, so the burden of city tax increase is greater than it would have been in the past. Even if less burdensome than the 2003-2005 increase, city residents earning more than \$5 million would pay, on average, an additional \$62,950 in income taxes for calendar year 2022, accounting for 23 percent of total PIT liability. If 5 percent of them were to leave the city in response to higher taxes, this option would yield \$186 million less PIT revenue per year (assuming those moving had average tax liabilities for the group).

## Restructure Personal Income Tax Rates to Create a More Progressive Tax

Revenue: \$186 million in 2023, growing annually in the following years

This option would create a more progressive rate structure for the city's personal income tax (PIT) by reducing marginal rates in the bottom income brackets and raising marginal rates for high-income filers. This option would provide tax cuts to most resident tax filers and a lasting boost to city tax collections.

Seven tax brackets would replace the current four brackets, with the following effective marginal rates (including the 14 percent surcharge). The income ranges of the three lowest brackets would remain the same but their marginal rates would be reduced—from 3.078 percent, 3.762 percent, and 3.819 percent to, respectively, 2.907 percent, 3.306 percent, and 3.648 percent. The marginal rate of the fourth bracket would remain the same (3.876 percent), but would end at taxable income levels of \$250,000, \$350,000, and \$300,000, respectively, for single, joint, and head of household filers. A fifth bracket with a marginal tax rate of 4.000 percent would be levied on taxable incomes from \$250,000 to \$500,000 for single filers; \$350,000 to \$700,000 for joint filers; and \$300,000 to \$600,000 for heads of household. A sixth bracket would tax incomes up to \$1 million, \$1.5 million, and \$1.25 million for single, joint, and head of household filers, respectively, at a marginal rate of 4.128 percent. Finally, a top marginal rate of 4.264 percent would be levied on incomes above the top of the sixth bracket. This option, which requires state approval, does not include "recapture provisions," so taxpayers in the top brackets would continue to benefit from the marginal rates in the lower brackets of the tax table. If the new rates were in effect for all of calendar year 2022, the city would have received an additional \$186 million in PIT revenue in fiscal year 2023.

**Proponents might argue** that progressive restructuring of PIT base rates would simultaneously achieve several desirable outcomes: a lasting increase in city tax revenue, a tax cut for the majority of filers, and a more progressive tax rate structure. Under this restructuring option, about 81.0 percent of all city resident tax filers would receive a tax cut in calendar year 2022. Only 2.6 percent of all city resident taxpayers in calendar year 2022 would pay more under this proposal, all with adjusted gross incomes above \$350,000. Restructuring would significantly heighten the progressivity of the PIT. Under this option, the difference between the highest and lowest marginal rates increases from 0.8 percentage points to 1.4 percentage points.

**Opponents might argue** that if the principal goal of altering the PIT is to raise revenue, this option is inefficient. For 2023, the reductions in marginal rates in the bottom three tax brackets would decrease the revenue-raising potential of PIT by about \$205 million. Filers with incomes above \$1 million would see their PIT liabilities rise on average by an estimated \$12,500 in calendar year 2022, and might be spurred to move to a lower tax state, particularly given the cap on federal deductibility of state and local taxes. If 1 percent of "average" millionaires (382 filers) were to leave town, this option would yield \$61 million less in PIT revenue per year, and over time this revenue loss would be further compounded by reductions in other city tax sources.