Community Service Society | Fighting Poverty Strengthening New York

HOW TAX REFORMS CAN ADDRESS HISTORIC INEQUALITY AND SAVE OUR STATE

CSS POLICY BRIEF
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The Community Service Society of New York (CSS) is an informed, independent, and unwavering voice for positive action representing low-income New Yorkers. CSS addresses the root causes of economic disparity through research, advocacy, litigation, and innovative program models that strengthen and benefit all New Yorkers. **www.cssny.org**

Executive Summary

As New Yorkers continue to suffer from the economic fallout of COVID-19, the governor and state legislature will face difficult policy choices to keep the government running, with a state budget deficit of $14.9 billion (est.) in FY 2021, and its projected expansion to $39 billion by FY 2024.[1]

New York State has already lost approximately one million jobs since the pandemic began, with over a half million lost in New York City alone.[2] Such job losses have been disproportionately concentrated in low-wage sectors and communities of color. As most New Yorkers face economic hardships during the pandemic, another group has continued to prosper in a gilded bubble—New York's wealthiest residents. Wealth inequality has been on the rise in New York and across the country for decades. Since 1989, the share of all wealth owned by the top 10 percent of households has increased from 61 percent to 69 percent, while the share of wealth owned by the bottom half fell by 50 percent, from 4 percent to 2 percent. In 2019, the richest 400 Americans had more cumulative wealth, $2.9 trillion, than the total wealth held by over half of the population, $1.9 trillion. Since the onset of the pandemic, the wealth of these individuals has grown by over $1 trillion. In New York, the most unequal state in the nation, such wealth disparities have been especially perverse. During the pandemic, our 118 billionaires increased their net worth by an estimated $77 billion from March to July 2020 alone.

"Wealth inequality has been on the rise in New York and across the country for decades. In 2019, the richest 400 Americans had more cumulative wealth, $2.9 trillion, than the total wealth held by over half of the population, $1.9 trillion."

Much of this rise in inequality is due to ongoing preferential tax treatment for high earners, the wealthy, and financial corporations, coupled with the lack of political will by the government to address this growing concentration of wealth.

The governor and legislature must focus on reforming the inequities inherent in the tax system to acquire new sources of revenue while addressing the continued rise in inequality. A just recovery that avoids catastrophic cuts to services for vulnerable New Yorkers—from health care to education—is within reach. Several legislators and coalition groups have proposed tax reforms that can put the state on a path towards an equitable recovery. This report provides an analysis of select tax reform areas—personal income, wealth, and financial sector transactions—and how such reforms would reduce inequality while raising urgently needed revenue for the state.

The proposed areas of tax reform fall into three categories:

1. **Personal Income:** New York is the most unequal state in the country, with the state's millionaire filers earning 45 percent of the state's taxable income in tax year 2018.[3] We expect inequality to worsen further, as the ongoing economic recession due to the COVID-19 pandemic has been especially devastating for the state's (and nation's) low-income families.[4] Raising income tax rates on high earners, specifically those earning $5 million or more, would yield up to $2.5 billion in additional revenue while reducing post-tax inequality.

2. **Accrued Wealth:** Much of the wealth gained by New York's highest earners is treated preferentially or escapes the tax system entirely, including, to an extent, wealth accrued over time and wealth gained in the form of large inheritances. Tax reforms that capture the accrual of capital gains, whether realized or not, and address inheritance and estate wealth, also a form of accrued generational wealth, can collectively raise significant revenue for the state. For example, a proposal on taxing accrued wealth circulating in the legislature, known as the 'mark to market tax,' has the potential to raise from $5.5 billion to $23.2 billion in its first year by taxing the annual accrual of capital gains.

3. **Financial Transactions:** In a year when corporate profits reached a historic high of $2 trillion dollars, the government must not shy away from requiring financial corporations to pay their fair share to support the economy's recovery. For example, New York is currently rebating financial transaction taxes on stocks that collectively could raise upwards of $5–$13 billion in revenue for the state.

While we recognize that some wealthy residents could migrate out of the state as a response to increased personal income or wealth-related taxes, we believe that the possibility of such migration is small enough to not outweigh the urgently needed revenue gains from those who will inevitably stay. Furthermore, research analyzing previous instances of similar tax increases on wealthy residents in other states have debunked the migratory millionaire hypothesis, in favor of evidence indicating that the wealthy are often socially and economically

> **"We believe that preferential tax policies for income, wealth, and financial corporations is a primary driver of inequality in the state's and the nation's economies."**

rooted in their states. Critics of taxing the financial sector argue that financial corporations and stock trading could leave the state entirely if new taxes are imposed, which could result in the shrinking of the financial sector and the associated tax base. But as corporations continue to profit despite the pandemic, while benefitting from residing in the financial capital of the world, the government would be remiss if it did not require them to help support the state's recovery. The Stock Transfer Tax, for example, is a small tax already levied by most other stock exchanges, one that New York State currently rebates, and is simple to administer.

We are choosing to focus on the above areas, instead of focusing on other potential tax categories (real estate taxes or business income taxes), because we believe that preferential tax policies for income, wealth, and financial corporations are a primary driver of inequality in the state's and the nation's economies. High earners make most of their income in the form of capital gains and investment income. Capital gains, taxed at lower rates at the federal level or not taxed at all until they are realized, contribute to the concentration of wealth. Additionally, both capital gains and investment incomes largely accrue in the financial sector, which benefits from reduced corporate tax rates and other preferential policies, ultimately contributing to widening the wealth gap.

> **"Requiring the wealthy to pay their fair share in taxes is not only a matter of economic justice, but also a strategy for growth in a state that desperately needs to recover from crisis."**

The current health crisis and resulting economic recession has exacerbated inequality and threatened New York's ability to achieve an equitable post-pandemic recovery. In addition to addressing inequality, the increased revenue from these tax reforms, when invested in education, infrastructure, public health, and affordable housing, is expected to boost sustained economic growth and consequently, generate higher incomes across the board.

Invest in Our New York, a coalition of which CSS is a member, has proposed a broad set of tax reform proposals that seek to thwart rising inequality while raising revenue.[5] Requiring the wealthy to pay their fair share in taxes is not only a matter of economic justice, but also a strategy for growth in a state that desperately needs to recover from crisis.

Introduction

> "Among low-income New Yorkers who lost employment income since the pandemic, 67 percent were twice as likely as those who did not lose income to experience three or more hardships, such as falling behind on their rent and struggling to pay for their health care and prescriptions."

As New Yorkers continue to suffer from the ongoing economic fallout of the COVID-19 pandemic and resulting recession—including record levels of unemployment and hardship—government leaders, advocacy groups, and elected officials are examining how best to keep the government afloat amid a looming budget deficit and potential cuts to essential public services. The toll of the pandemic on the state's economy has been enormous. The unemployment rate in New York City was 11.0 percent in December of 2020, more than triple the rate from pre-pandemic February.[6] According to data from the Community Service Society's 2020 *Unheard Third* survey,[7] more than two-thirds (67 percent) of low-income New Yorkers who lost employment income since the pandemic—either individually or within their household—were twice as likely as those who did not lose income to experience three or more hardships, such as falling behind on their rent and struggling to pay for their health care and prescriptions. As New Yorkers continue to suffer major financial blows, large corporations and uber-wealthy individuals have, in several cases, profited during the pandemic. U.S. billionaires gained $1 trillion in wealth since the onset of the pandemic in March 2020.[8]

In this context, the governor and the state legislature must make critical decisions in the coming weeks and months to address an expanding state budget deficit, while avoiding cuts to essential public services that support the most vulnerable New Yorkers. The long-awaited second-round federal stimulus package is about half the size ($9 billion) of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and while it provides relief in various forms—from supplemental unemployment insurance, income assistance, and funding for the Metropolitan Transit Authority (MTA)—it does not include any direct relief for city and state governments. Governor Cuomo recognized in previous statements that even with potential federal relief, taxes in New York will have to be raised in some manner to address the state's budget deficit.[9] Even if Washington were to provide some level of relief for states this year, we highly doubt it will be sufficient to cover all of the state's critical needs and it is uncertain when such aid would arrive. With a projected deficit for the current fiscal year (FY2021) of $14.9 billion that is expected to grow to $39 billion by FY 2024, there is no time to waste.[10] Several elected officials and coalitions have put forward proposals aimed at raising revenue by taxing the state's wealthy residents, as well as financial corporations.[11] This report provides an overview of select areas where the state can make tax reforms that can raise significant revenue while addressing the growing inequities facing low-income New Yorkers, which has been laid bare by the pandemic. For the purposes of this analysis, we group the areas into three categories: Personal Income, Accrued Wealth, and Financial Transactions.

- **Personal Income: Raising marginal tax rates at the top of the income scale would have the dual impact of generating significant revenue and reducing income inequality in the long run.** We are supportive of taxing richer residents of the state for two reasons: First, New York is the most unequal state in the country; and the state's millionaire filers (approximately 122,000 filers, representing 1.1 percent of all New York State tax filers) earned 45 percent of the state's taxable income in tax year 2018.[12] Second, the economic recession due to the COVID-19 pandemic has been especially devastating for the state and the nation's low-income families.[13] The pandemic not only revealed the fault lines drawn by inequality, but it has also exacerbated the chasm by accelerating the very forces that were widening the wealth gap. These include automation of production and increasing market concentration, as small enterprises have been swallowed by large corporations at a swifter pace. All the while, federal, state, and local governments played a much weaker role in redistribution.
- **Accrued Wealth: Taxing the annual increases in the value of net assets owned by billionaires will generate significant revenue while reducing the wealth gap.** Wealth inequality has been on the rise in New York and across the country for decades. Since 1989, the share of all wealth owned by the top 10 percent of households has increased by almost 9 percentage points (from 60.7 percent to 69 percent), while the share of wealth owned by households in the bottom half fell by 50 percent, from 4 to 2 percent. In this context of an ever-widening gap between the rich and poor, taxing wealth—whether it be accrued in the form of capital gains or inherited in the form of large intergenerational transfers—can be an effective tool to address wealth inequality while generating significant revenue. One proposal, the Billionaire's Mark to Market Tax, is estimated to raise from $5.5 billion to $23.2 billion in new state revenue in its first year. Several other proposals are circulating that also address wealth across the board, from taxing large inheritances[14] to treating capital gains as wages in the New York state tax system.[15]
- **Financial Sector Transactions: Corporate profits reached a historic high of $2 trillion during the pandemic, while low-wage workers plunged deeper into an economic abyss. Taxing miniscule amounts of the financial sector through a financial transaction tax can generate significant revenue with little economic disruption, while also addressing inequality.** The government should not shy away from requiring financial corporations to pay their fair share to support the state's recovery as their corporate profits continue to balloon even during a pandemic. For instance, the Stock Transfer Tax (STT)—a small tax on sales of stocks that New York state currently collects but rebates—can be a first step in this direction.[16] Since most major stock exchanges already levy some kind of financial transaction tax, eliminating the rebate for STT would not affect the competitiveness of New York as the global financial capital. The STT has the potential to generate from $5–$13 billion in state revenue.

AREAS OF TAX REFORM

Personal Income

New York continues to be the most unequal state in the nation.[17] A tax on the state's highest earners—the "ultra-millionaires"—that progressively raises the marginal tax rate (MTR) for filers earning $1 million or more can raise significant revenue for the state with minimal impact on most state residents.[18] Analysis of personal income tax data available from the New York State's Department of Taxation and Finance shows the unequal sharing of incomes and tax liabilities by the state's residents. Table 1 shows numbers, proportions of filers, New York State adjusted gross income, taxable income, and tax liability by income groups at the top end of the spectrum. The 1.1 percent of filers who earned upwards of a million dollars in 2018 earned more than a quarter (27.3 percent) of all New York adjusted gross income and shared 40 percent of total tax liability. In other words, only 120,000 thousand of all filers are earning more than a quarter of the 'income pie' while the non-millionaire filers (more than 10 million) share the remainder.

It is well documented that most of the income accruing to the ultra-millionaires is in the form of investment income and capital gains. Figure 1 shows the stark differences in the distribution of different sources of incomes. While those who make less than $500,000 (97.4 percent of all filers) contributed to almost 80 percent of total wage income, the remaining top 2.6 percent of high-income filers owned 82 percent of all income from capital gains. Capital gains on assets held longer than a year are taxed at a much lower rate, with the highest bracket taxing at only 20 percent at the federal level. On the other hand, the marginal tax rates for incomes are 10 percent, 12 percent, 22 percent, 24 percent, 32 percent, 35 percent, and 37 percent. Differential treatment of income earned from capital gains versus other sources (e.g., wages), violates notions of "horizontal equity." Although New York State taxes capital gains at the same rate as income, an increase in the top marginal tax rates would bring them a step closer to paying their fair share. For instance, bills

Table 1: Distribution of Filers, Incomes and Tax Liability by Top Income Groups

NY Adjusted Gross Income Range	Number or Returns	Share of Filers	NY Adjusted Gross Income	Taxable Income	Tax Liability
Below $500,000	10,453,002	97.4%	64.6%	46.2%	51.0%
$500,000–$1 million	153,421	1.4%	8.1%	8.6%	9.4%
Over $1 million	**121,985**	**1.1%**	**27.3%**	**45.3%**	**39.6%**
$1million–$2 million	66,704	0.6%	6.2%	7.5%	7.5%
$2million–$5 million	35,535	0.3%	6.4%	8.6%	9.5%
$5million–$10million	11,149	0.1%	3.9%	6.0%	5.9%
Over $10million	8,597	0.1%	10.8%	23.2%	16.6%

Source: Authors' calculations of data from New York State Department of Taxation and Finance, Personal Income Tax Summary Dataset 3.

introduced by, Senator Mayer, and Senator Sanders in the current 2021–2022 session seek to raise taxes on New Yorkers reporting incomes of $1 million or more.[19] Table 2 provides the details of the proposed tax structures and expected revenue based on these bills. In addition to these proposals, Senator Jackson and Assemblymember Meeks have also introduced a bill that seeks to impose a truly progressive income tax structures by (1) raising the marginal tax rates on those earning $450,000 or more and (2) increasing the number of income tax brackets facing distinct marginal rates. The bill is estimated to generate $12-$15 billion in additional annual personal income tax revenue.[20]

Opponents of raising personal income taxes on high earners argue that New York is already one of the most heavily taxed jurisdictions in the country,[21] and since the state depends—albeit precariously—on such tax revenues from the top earners, it could find itself in a bind if wealthy New Yorkers respond to such a tax by moving out of the state and depriving the state of expected revenue.[22] Notably, studies have shown that the "transitory millionaire hypothesis" is a misperception, as high-income earners have not shown a strong willingness to move across state lines for tax advantages. A comprehensive study by the Center on Poverty and Inequality at Stanford University draws on 25 years of administrative data on high taxpayers from the state of California, spanning three waves of tax reforms, and finds negligible migration response to changes in top tax rates.[23] Similarly, examinations of the migration response of those earning $500,000 or more[24] and on the millionaires who were taxed at higher rates in the state of New Jersey show almost no migration responses.[25] Additionally, millionaire migration flows represented a very small share of top income-earners and had little impact on the millionaire tax base in states that have tried similar policies, including California and New Jersey.[26] These studies, in conjunction with a vast

Table 2. Current and Proposed Marginal Tax Rates for Incomes Starting at $5 Million and Above[27]

<table>
<tr><th rowspan="2">Income Ranges</th><th rowspan="2">Current Marginal Tax Rates</th><th colspan="3">Proposed Marginal Tax Rates*</th></tr>
<tr><th>SEN. MAY</th><th>SEN. SANDERS</th><th>SEN. MAYER</th></tr>
<tr><td>$1 million–$5 million</td><td rowspan="4">8.82%</td><td>NO CHANGE</td><td>9.62%</td><td>NO CHANGE</td></tr>
<tr><td>$5 million–$10 million</td><td>9.32%</td><td>10.32%</td><td rowspan="3">10.90%</td></tr>
<tr><td>$10 million–$100 million</td><td>9.82%</td><td>11.32%</td></tr>
<tr><td>$100 million or more</td><td>10.32%</td><td>11.82%</td></tr>
<tr><td>Expected Revenue</td><td></td><td>$2.2 BILLION</td><td>$4.5 BILLION</td><td>$2.5 BILLION</td></tr>
</table>

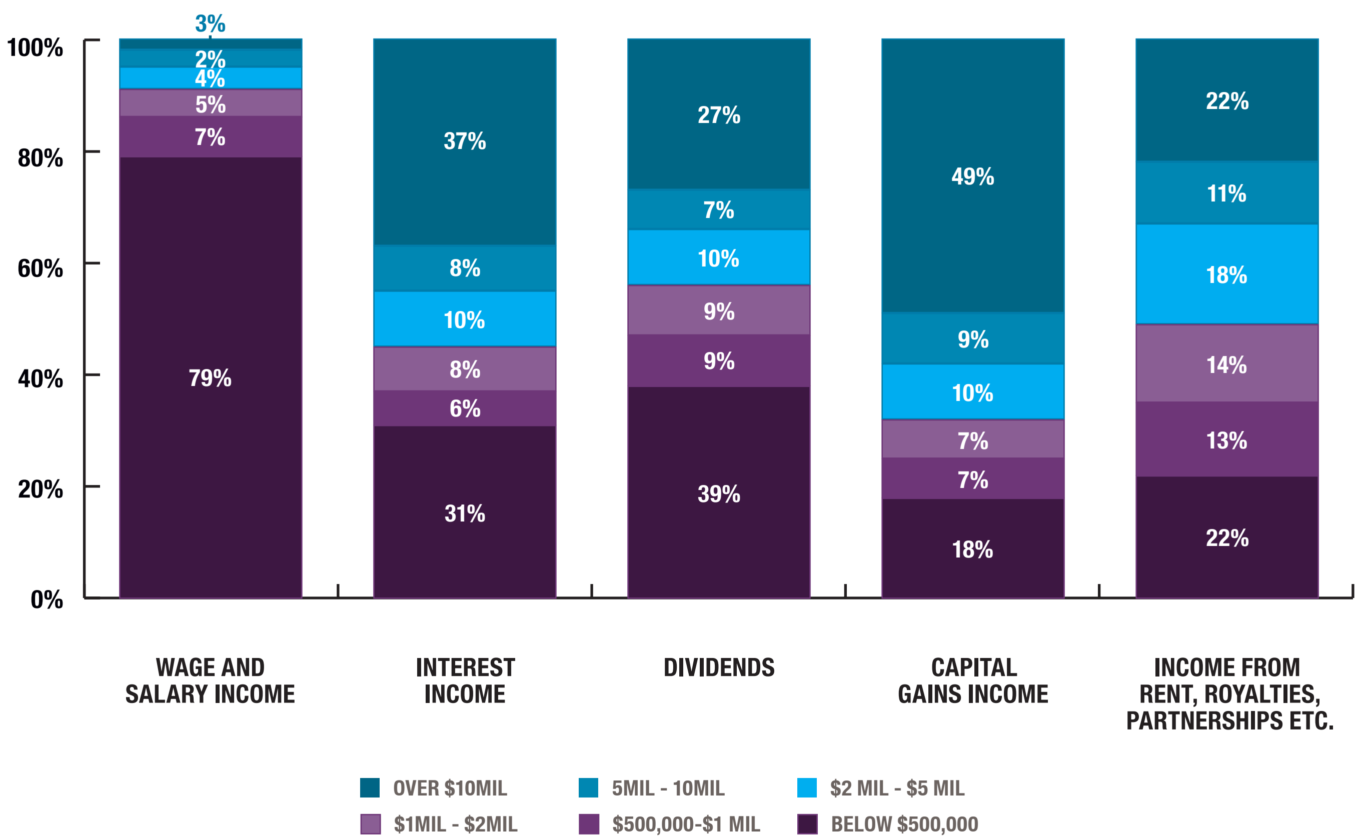
*Senator Jackson's bill for a progressive income tax structure proposes a different set of income brackets than the three bills listed in Table 2, starting at $450,000, with progressive tax increases for higher incomes. Please see the text for a discussion of his tax proposal.

Source: Authors' calculations of data from New York State Department of Taxation and Finance, Personal Income Tax Summary Dataset 3.

literature on how people base residency decisions on several factors other than income tax rates, such as quality of public services, job prospects, climate, and proximity to family and community, confirm the notion that most millionaires continue to be rooted in places ("embedded elites") where they have invested themselves.[28]

Nonetheless, we expect critics of a tax on higher income residents to continue expressing concern about behavioral responses to tax rate increases, even though previous instances of tax hikes in the state of New York have not caused a millionaire flight.[29] Additionally, the incoming Biden-Harris administration might reinstate the full deductibility of state and local taxes for calculation of federal tax liabilities. This action, via the repeal of the 2017 Tax Cut and Jobs Act, would ease the tax burden on most residents, including millionaires.[30] In addition to addressing equity, the increased revenue from this tax reform, when invested in education, infrastructure, public health, affordable housing, and in combating the climate crisis, has been shown to generate sustained economic growth and consequently, higher incomes across the board.[31]

Figure 1: Decomposing Total Income from Various Sources by Top Income Groups



Source: Authors' calculations of data from New York State Department of Taxation and Finance, Personal Income Tax Summary Dataset 3.

Taxing wealth has the potential to address the rapidly widening gap between the rich and poor—a gap vividly demonstrated and exacerbated by the COVID-19 pandemic.

Tax proposals that address wealth inequality should be considered in the context of a rapidly widening gap between the rich and the poor. A few stark facts revealed from the Federal Reserve's Survey of Consumer Finances help to elaborate this point.[32]

1. Wealth inequality has been on the rise in New York and across the country for decades. Since 1989, the share of all wealth owned by the top 10 percent of households has increased by almost 9 percentage points (from 60.7 percent to 69 percent), while the share of wealth owned by households in the bottom half fell by 50 percent, from 4 to 2 percent.

2. The top 1 percent of U.S. households have a combined net worth ($35 trillion, or 30.4 percent of all household wealth) that is almost 17 times as much as the wealth of the bottom 50 percent of households (combined net worth of $2.1 trillion, or 1.9 percent of all household wealth).

3. The net worth of U.S. billionaires reached new highs at the end of June 2020—a peak of $10.2 trillion—even as the pandemic raged on.[33] The net worth of 118 billionaires in New York State increased by $77 billion just from mid-March to mid-July.[34]

4. When ordered according to their net worth, half the families in the bottom 25 percent had a net worth of zero dollars. On the other extreme, the median family in the top 10 percent had a net worth of approximately $2.6 million. Figure 2 shows how the median net worth across wealth groups has evolved over time: households in the bottom have seen their net worth stay flat over the past 30 years while households in the top have experienced considerable growth in median net worth.

5. The disparity is even starker when stratified by race. A white family in the United States has a median net worth of $188,200—almost eight times the median net worth of a Black family at $24,100.[35]

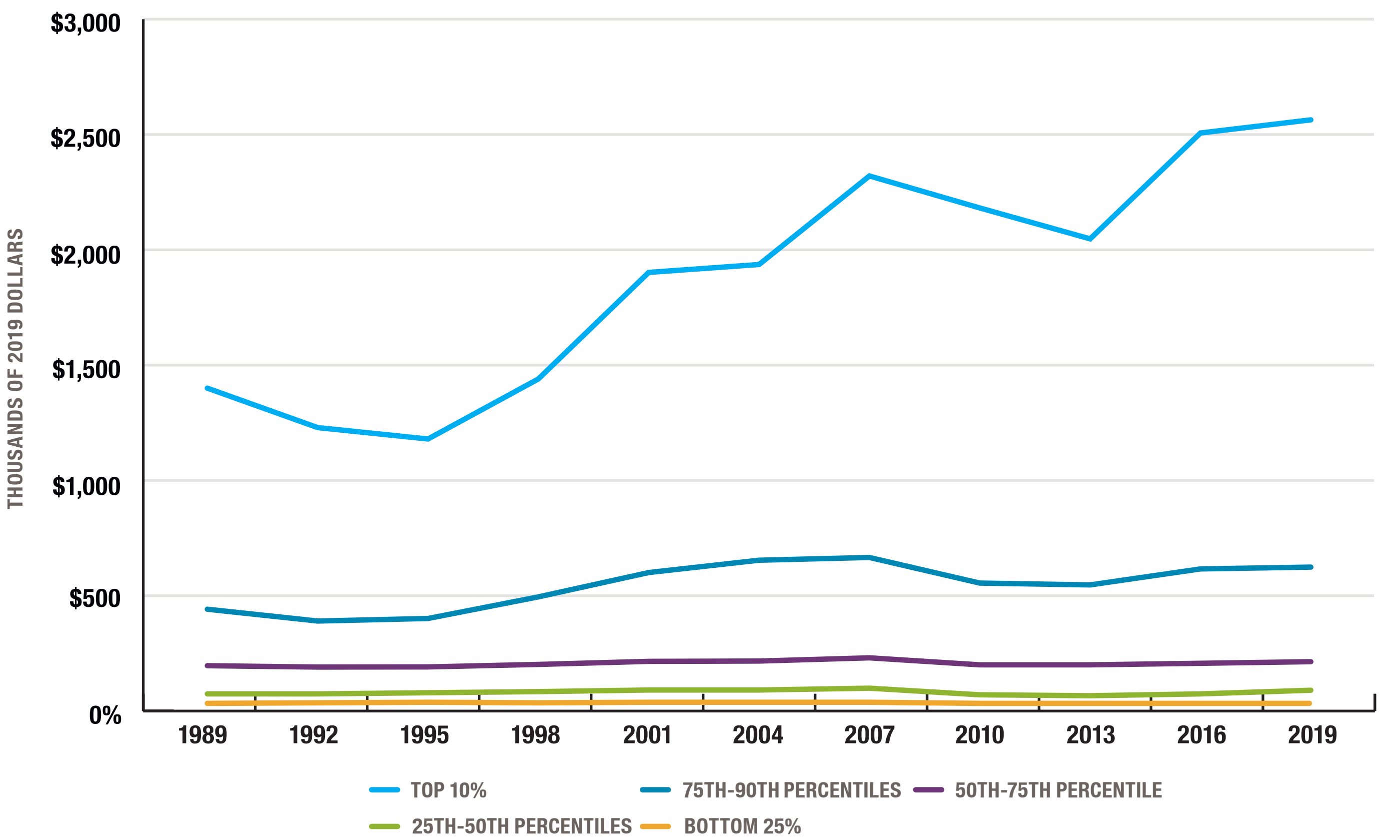
Given the extraordinary levels of wealth concentration in the United States and in New York, CSS supports policies, including tax reforms, that aim to make the distribution of wealth more equitable. Wealth concentration is not just a matter of inequality in the accumulation of assets and net worth, it perpetuates disparities in economic opportunities, especially along racial lines, with repercussions that last for generations. Wealth serves to cushion the blows during adverse economic and financial periods, from job losses to unexpected health events, and as collateral for access to credit for education and/or entrepreneurship. Persistent hyper-inequality and concentration of wealth in the hands of the few has also been shown to destabilize the democratic institutions that form the very foundation of a country.[36] Consequently, tax reforms targeting wealth should be judged not only by their revenue raising potential but also by their role in providing equitable access to opportunities for the residents of the state over a longer horizon.

Accrued Wealth

If income inequality in New York is among the starkest in the nation, the state's wealth inequality is worse. The state is home to over 100 billionaires and the total wealth of these billionaires has increased by $77 billion over the first quarter of the pandemic. With 733,200 people unemployed in the state (418,000 in New York City alone)[37] and the state budget facing a $14.9 billion deficit in FY 2021, a proposal to tax the increases in the values of net assets of the wealthy would address this gap.

The primary concern from critics about taxing wealth in New York state is the phenomenon of 'billionaire flight' if the tax is not imposed nationwide.[38] If billionaires were to move out of the state, New York could lose significant income tax revenue, in addition to not raising the projected wealth tax revenue. Personal income tax revenue collections, both in New York State and New York City, are heavily reliant on the taxes paid by those at the top sliver of the income distribution.[39] However,

Figure 2: Median Net Worth of Households by Percentiles of Wealth, 1989–2019



Source: Survey of Consumer Finances by the Federal Reserve.[40]

> “Notably, studies have shown that the “transitory millionaire hypothesis” is a misperception, as high-income earners have not shown a strong willingness to move across state lines for tax advantages.”

with several other states implementing a direct wealth tax (e.g., California) or raising taxes on capital gains (New Mexico, Vermont, Connecticut, Washington, and Wisconsin), the phenomenon might not be as serious as expected. Billionaires might also respond to the tax by resorting to evasion, and if that were to happen, the state should consider investing in administrative resources to ensure the full implementation of this tax.[41] While we recognize that some rich residents might migrate out of state as a response to increased taxes, we believe that the possibility of such migration is small enough to not outweigh the gains from the urgently needed additional revenue. Furthermore, research analyzing previous instances of tax increases has debunked the migratory millionaire hypothesis, in favor of evidence indicating that the wealthy are often socially and economically rooted in their states and move for reasons outside of tax rates.

One example of a proposal to tax accrued wealth has been introduced by Senator Jessica Ramos. The bill considered a ‘mark to market tax’ that sets out to tax the increases in the value of net assets of state residents whose net worth exceeds a billion dollars.[42] The bill treats increases in values of their assets, even if unrealized, as regular income and taxes them at the current highest marginal income tax rate.

Conceptually, the proposal assigns a “market value” to the asset, even if it is not on the market, and taxes the increments in the value, regardless of whether it has been sold. This goes further than eliminating the preferential treatment of realized capital gains, specifically by (1) treating unrealized capital gains annually and (2) by treating them on par with income from interest, rent, profit, etc. Currently, realized capital gains are treated preferentially by the federal tax system. This proposal is expected to raise from $5.5 billion to $23.2 billion in the first year by taxing the annual accrual of unrealized capital gains and $1.2 billion annually afterwards.[43]

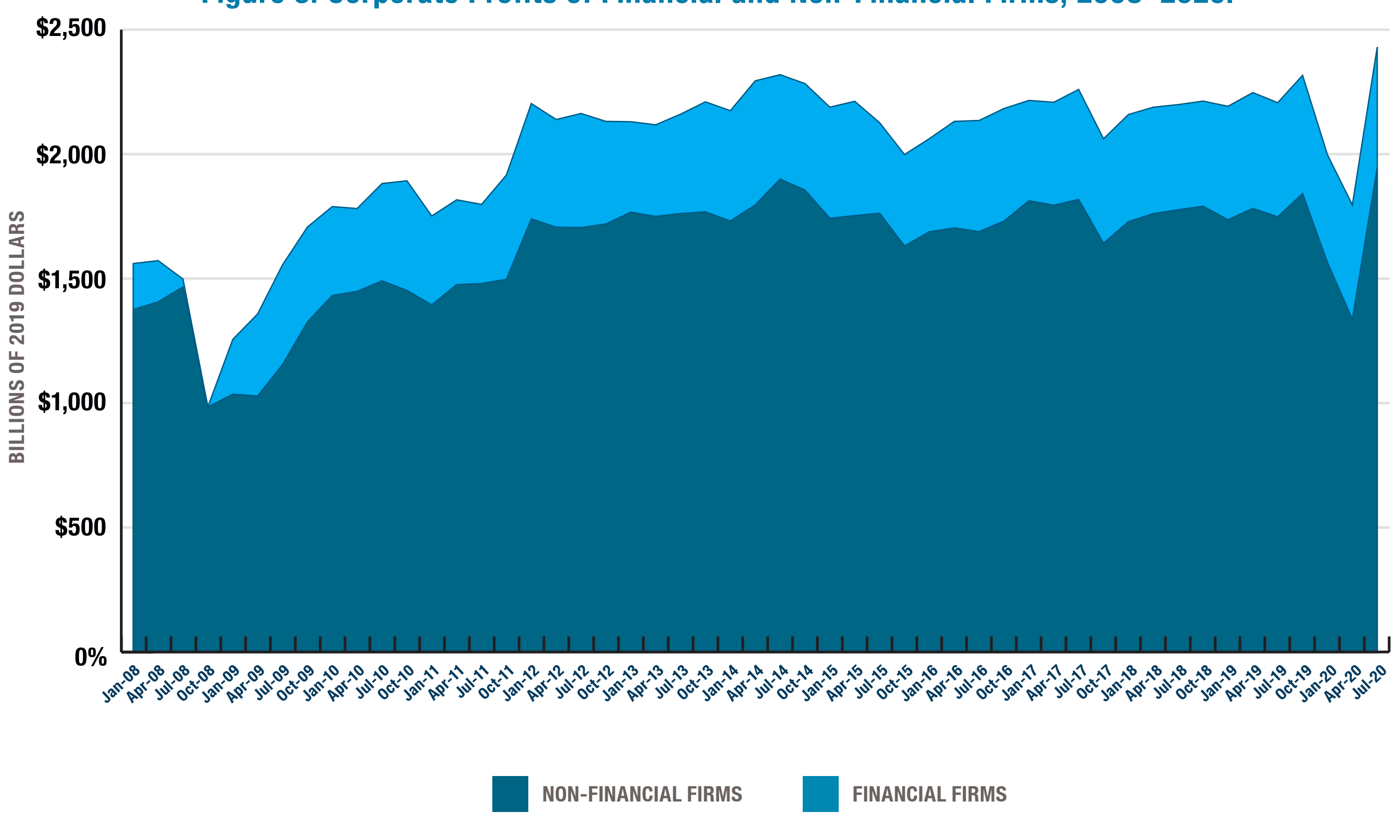
Critics often point out that assigning accurate market values to assets might be a difficult endeavor. However, economists Emmanuel Saez and Gabriel Zucman describe that 80 percent of the wealth owned by the top 0.1 percent of the Americans is in the form of “equities, bonds, shares in collective investment funds, real estate and other assets with easily accessible market values.”[44] Of note, tax proposals focused on wealth could face legal challenges in New York State per its constitutional requirements, specifically with respect to taxes on intangible property. Legal experts point out that although a tax on intangible property, such as stocks, bonds, and the ownership of companies may not be allowed, there are no obstacles in taxing unrealized capital gains on those properties. This view is shared and supported by over fifty legal scholars and economists who recently urged Governor Cuomo to consider a tax of this nature.[45] They assess that the mark-to-market methodology—assigning a monetary amount to the appreciation of the values of the intangibles—would not face legal challenges.

It is clear that the favorable tax treatment of capital gains has directly contributed to accumulated wealth for the richest individuals and families by reducing their overall tax liability, and indirectly by allowing their assets to serve as collateral for ventures, which has further contributed to their growth in wealth. A tax on annual increases in net asset values, would not only address this preferential treatment, but it would also achieve a notable degree of 'horizontal equity,' or the notion that all incomes should be treated in the same way for tax purposes.

Financial Sector Transactions

Even as the pandemic and the related recession ripped through the lives and livelihoods of millions of people, the stock market continued to do well. The S&P, the Dow Jones Industrial Average, and Nasdaq indices are all approaching record highs.[46] Corporate profits are at a historic high of $2.4 trillion, with profits from financial corporations making up one-fifth of it. Figure 3 plots corporate profits from financial and non-financial firms since the Great Recession of 2008. Corporations have been enjoying reduced corporate tax rates since the passage of Tax Cut and Jobs Act in 2017, which lowered the tax rate from 35 percent to 21 percent.[49]

Figure 3: Corporate Profits of Financial and Non-Financial Firms, 2008–2020.[47,48]



Unfortunately, the euphoria in the stock market does not translate to improved financial security for most Americans. Over half of American households do not own any stocks and the top 10 percent of the wealthiest households controls over 84 percent of total value of shares. The inequality is starker along racial lines, as only a third of households of color have retirement accounts and might benefit from inflated stock values, while 60 percent of white households own such an account.[50] In 2019, Goldman Sachs reported that the top 1 percent of wealthy Americans held 56 percent of all equities worth $21.4 trillion.[51] Given this extremely unequal distribution of stock ownership, it is of little surprise that the stock market has become almost unmoored from the real economy—it continues to rise buoyed by low interest rates while actual production, consumption, and investment are faltering.

In this context of the stock market's role in worsening inequality while also raising much needed revenue, the government should pursue financial transaction taxes. For example, the elimination of the rebate on the Stock Transfer Tax (STT), a kind of financial transaction tax, would be a simple and effective measure. Since 1981, the state has collected and rebated the entire amount back to the financial firms who pay it. Complete reinstatement of the tax, as proposed by Senator Sanders and Assembly Member Steck, can generate up to $13 billion annually without much disruption to economic activities.[52] Table 3 describes the structure and the rates of the STT, which imposes a miniscule fee as a sales tax when stocks are bought and sold.

The New York State Department of Taxation and Finance collected $5.8 billion in STT revenue in 2018, which was later rebated back to firms.[53] Despite the small amount of the STT tax relative to prices of stocks, it has the potential to raise billions in revenue for the state, without causing much disruption to ongoing economic activities. More importantly, the state is already collecting the tax and it would require no additional administrative expenses to keep the revenue instead of rebating it back to firms.

Table 3. Stock Transfer Tax—Structure and Rates

Selling Price of a Share	Rate of Tax (cents per share)	Tax Liability as a Percentage of Share Price Calculated at the Minimum Price of the Range
Less than $5	1.25	1.25%
$5-$10	2.5	0.5%
$10-$20	3.75	0.4%
More than $20	5	0.3%
Transfers of stock of certificates of interest other than by sale	2.5	--

Critics suggest that any financial transaction tax would negatively affect the volume of transactions on the stock exchange, but 85 percent of present-day trading is algorithmic in nature, aimed at profiting off tiny changes in stock prices. Therefore, it is unlikely that internalizing a miniscule tax like STT would have any discernible impact on volume of sales. In fact, if the tax does end up dampening some of the frenzy associated with high frequency algorithmic trading, it might be a net positive for the long-term health of the financial sector.

Critics of financial transaction taxes, including the STT, argue that such taxes might disincentivize financial companies from using the New York Stock Exchange (NYSE) for trading.[54] However, most other large stock exchanges already impose some sort of financial transaction tax, including Hong Kong, Nikkei, London Stock Exchange, and other markets, and those cities keep the tax in their city or state coffers. Opponents of the tax also argue that financial corporations might relocate to neighboring states, or abroad, or even to the cloud entirely, to avoid paying the tax. In New York State, taxes are applicable if transactions take place in the state. Thus, unless the NYSE also moves out of the state, most transactions conducted on its platform would still satisfy the conditions that make them liable for the payment of the STT to the state.[55]

Conclusion

Reforming New York's preferential tax treatment through a lens of equity would raise significant and much needed revenue to support vital public services, while addressing long-standing wealth and income inequality in New York. The Community Service Society's mission to address the root causes of poverty and develop policy solutions that support upward mobility for low-income New Yorkers aligns with the tax reform goals analyzed in this report.

We strongly recommend devoting new funds generated from tax reform measures to support workforce development, public education, affordable housing, transit infrastructure, and workers excluded from COVID-19 relief programs and the social safety net. It should be no surprise that low-wage workers have kept our economy afloat throughout the pandemic, from delivery drivers and construction workers to childcare providers and restaurant staff. At the same time, the ongoing low-wage job losses and related systemic changes in the labor market, such as automation and remote work, could very likely shut many low-wage workers out of active work for years to come if policy interventions are not staged now, which could result is acute rises in poverty in the near term. In light of this, city and state officials must make it a top priority to publicly fund programs to support workers in their current trades, while also preparing for a post-pandemic and ever-evolving job market in which such workers could transition.

Regarding education needs, school closures and remote learning curricula—instituted as measures to control the spread of the pandemic—are expected to severely disadvantage children across New York, especially communities of color in low-income neighborhoods. The shortage of funds to support our public higher education system has resulted in faculty lay-offs, cuts to academic programming, and innovative research coming to a halt. The ongoing housing crisis—now exacerbated by the pandemic—has a real potential to snowball into a full-scale economic and humanitarian disaster for thousands of New Yorkers. And while the MTA is expected to receive up to $4 billion in federal aid, the support is more of a lifeline to avoid extreme service cuts, lay-offs, and fare hikes. The MTA still faces an insurmountable $12 billion budget deficit. As an engine for an economy of $1.5 trillion and serving over 20 million people, the financial crisis facing the MTA will have debilitating consequences if left unaddressed. Finally, cuts to public sector employment disproportionately hurt women and people of color, further destabilizing households and communities, in addition to reducing the quality and efficiency of public service provision.[56]

Given this bleak outlook, it is no surprise that dozens of organizations across the state are urging the legislature and the governor to consider implementing revenue-raising measures.[57] The areas of tax reform analyzed in this report, combined with bold proposals offered by the Invest in Our New York coalition, including: raising taxes on New Yorkers earning $400,000 or more; taxing realized capital gains at the same rate as income; amending the Constitution to allow for the taxation of wealth; creating an inheritance tax; expanding the sales tax on stock transfers to cover bonds and derivatives trading; and raising the state corporate tax rate to offset the reduction in the rate achieved through the 2017 Tax Cut and Jobs Act, would raise the revenue urgently needed to support New Yorkers most in need.[58] Without additional revenue, the state will have to resort to cutting spending on public services to avoid a deeper fiscal crisis. But time and time again, we have seen that the costs of austerity policies are immeasurably high and the pain they induce lasts for generations. Low-income New Yorkers—who have already shouldered enough of the burden of the pandemic—should not be asked to sacrifice more when a sizeable revenue base exists that has yet to be fully drawn on.

> **“We strongly recommend devoting new funds generated from tax reform measures to support workforce development public education, affordable housing, transit infrastructure, and workers excluded from COVID-19 relief programs and the social safety net. It should be no surprise that low-wage workers have kept our economy afloat throughout the panedemic.”**

Notes

1. See: https://www.budget.ny.gov/pubs/archive/fy22/ex/book/briefingbook.pdf
2. Source: New York State Department of Labor
3. New York State Department of Taxation and Finance, Personal Income Tax Filers, Summary Dataset 3 (https://data.ny.gov/Government-Finance/Personal-Income-Tax-Filers-Summary-Dataset-3-State/rt8x-r6c8/data).
4. Analysis of jobs data from the Bureau of Labor Statistics by John Friedman et. al. at Opportunity Insights (tracktherecovery.org) reveal that the recession is over for high-income workers (those with more than $60,000 in annual wages) but employment among low-income workers (those with less than $27,000 in annual wages) is still depressed by 20 percent.
5. See: https://investinourny.org/
6. Source: New York State Department of Labor.
7. The 2020 Unheard Third is a scientific telephone survey of 1,632 New York City residents reached by cell phones and landlines from July 7 through August 4, 2020. It was designed by Community Service Society in collaboration with Lake Research Partners, who administered it using Random Digit Dialing and professional interviewers. The sample included 1,002 low-income residents (up to 200% of federal poverty standards, or FPL), and 630 moderate- and higher-income residents (above 200% FPL). Interviews were conducted in English, Spanish, and Chinese. The margin of error for the entire survey is +/- 2.42%, for the low-income component is +/- 3.09%, and for the higher income component is +/- 3.9%, all at the 95% confidence interval.
8. See: https://inequality.org/great-divide/u-s-billionaire-wealth-surges-past-1-trillion-since-beginning-of-pandemic/
9. See: https://www.wamc.org/post/capitol-connection-2050-new-york-governor-andrew-cuomo
10. See: https://www.budget.ny.gov/pubs/archive/fy22/ex/book/briefingbook.pdf
11. Sen. Sanders has proposed the Millionaire's Tax and Economic Equity Act of 2020 (https://www.nysenate.gov/legislation/bills/2021/S1513), Sen. May has proposed progressively raising the top state income tax rate (https://www.nysenate.gov/legislation/bills/2021/s91), Sen. Mayer has proposed raising the state top income tax rates on those $5 million or more (https://www.nysenate.gov/legislation/bills/2021/S3215), Assemblymember Epstein has proposed raising the taxes on millionaires and direct the funds towards public housing (https://www.nysenate.gov/legislation/bills/2021/a3152), and Sen. Jackson has proposed raising marginal tax rates for those earning $450,000 and above and establishing a more progressive tax structure by adding more tax brackets (https://www.nysenate.gov/legislation/bills/2021/s2622). Sen. Ramos has proposed establishing a mark-to-market tax on billionaires (https://www.nysenate.gov/legislation/bills/2021/s4482), Sen. Brisport has proposed establishing separate taxes on inheritance income and on gift income (https://www.nysenate.gov/legislation/bills/2021/S3462), and Sen. Rivera and Assembly member Kim have proposed taxing enhancing the taxes on investment income (https://www.nysenate.gov/legislation/bills/2021/s2522). Sen Sanders and Assemblymember Steck have proposed completely eliminating the rebate of the Stock Transfer Tax (https://www.nysenate.gov/legislation/bills/2021/s1406), while Sen. Myrie has proposed a partial elimination of the same (https://www.nysenate.gov/legislation/bills/2021/S270). Sen. Salazar and Assemblymember Niou have proposed imposing a financial transaction tax that is broader in scope than the stock transfer tax (https://www.nysenate.gov/legislation/bills/2021/s3980). Additionally, Assemblymember Niou has proposed a tax on stock buybacks (https://nyassembly.gov/leg/?bn=A02422&term=2021), Sen. Jackson and Assembly member Rosenthal have proposed taxing vacant commercial spaces (https://www.nysenate.gov/legislation/bills/2021/S2005), Sen. Krueger has proposed amending the rule for taking deductions for stock options (https://www.nysenate.gov/legislation/bills/2021/s1476), and Sen. Hoylman has proposed additional tax on business incomes to offset the reduction of the corporate tax rates enacted as part of the 2017 Tax Cut and Jobs Act (https://www.nysenate.gov/legislation/bills/2021/s2833).
12. New York State Department of Taxation and Finance, Personal Income Tax Filers, Summary Dataset 3. https://data.ny.gov/Government-Finance/Personal-Income-Tax-Filers-Summary-Dataset-3-State/rt8x-r6c8/data
13. Analysis of jobs data from the Bureau of Labor Statistics by John Friedman et. al. at Opportunity Insights (tracktherecovery.org) reveal that the recession is over for high-income workers (those with more than $60,000 in annual wages) but employment among low-income workers (those with less than $27,000 in annual wages) is still depressed by 20 percent.
14. See https://www.nysenate.gov/legislation/bills/2021/S3462
15. See https://www.nysenate.gov/legislation/bills/2021/s2522
16. Sen. Salazar and Assemblymember Niou have proposed financial transaction tax on transfers of stocks, bonds,

and derivatives. See https://www.nysenate.gov/legislation/bills/2021/s3980

17. In 2019, the Gini co-efficient, a widely used metric of inequality, was estimated to be 0.5149 for New York state—the highest among all states. Source: https://data.census.gov/cedsci/table?q=Gini&g=0400000US36&tid=ACSDT1Y2019.B19083&hidePreview=true

18. The neighboring state of New Jersey recently approved a tax increase on those earning a $1 million or more. https://taxfoundation.org/new-jersey-millionaires-tax-fy-2021/

19. Senator May's bill (https://www.nysenate.gov/legislation/bills/2021/s917) and Senator Sanders' bill (https://legislation.nysenate.gov/pdf/bills/2019/S7677).

20. Senator Jackson's bill (https://www.nysenate.gov/legislation/bills/2021/s2622). Estimates of revenue are from Invest in Our New York's report (https://investinourny.org/media/pages/home/f6fc1d0d92-1610116749/ionyfullreport_1.2_2021launch.pdf).

21. The Tax Foundation estimates a total per capita tax burden of 12.7 percent for New York State, the highest in the nation (https://taxfoundation.org/facts-and-figures-2020/).

22. There are several studies examining the migration of the rich in response to an increase in marginal tax rates. Agrawal and Foremny (2019) (https://www.mitpressjournals.org/doi/abs/10.1162/rest_a_00764) use administrative data from Spain to estimate the response in the number of top taxpayers with respect to changes in the marginal tax rates. Kleven et. al. (2014) (https://www.nber.org/papers/w18885) observe large behavioral responses of preferential tax treatment on location decisions of high earning foreigners in Denmark. Moretti and Wilson (2017) (https://www.aeaweb.org/articles?id=10.1257/aer.20150508) estimate the effect of state personal and business income taxes on location choices of super innovative individuals ("star-scientists") and conclude that the reduction in the top tax rate in NY from 7.5 percent to 6.85 percent in 2006 increased the net inflow of such individuals to the state by 3 percent, which, over a long-run implied a considerable increase in state income tax revenue. Most recently, Rauh and Shyu (2020) (https://www.nber.org/system/files/working_papers/w26349/w26349.pdf), estimate the impact of California increasing the marginal tax rates on top income households in 2012 and find that out-migration and behavioral responses eroded 45 percent of expected additional revenue in the first year.

23. Varner et. al. (2016): "Millionaire Migration in California: Administrative Data for Three Waves of Tax Reform," (https://inequality.stanford.edu/sites/default/files/millionaire-migration-california-impact-top-tax-rates.pdf).

24. Young, C. and Charles Varner (2011): "Millionaire Migration and State Taxation of Top Incomes: Evidence from a Natural Experiment," (https://sociology.stanford.edu/publications/millionaire-migration-and-state-taxation-top-incomes-evidence-natural-experiment).

25. Young et. al. (2016): "Millionaire Migration and the Taxation of the Elite: Evidence from Administrative Data," (http://cristobalyoung.com/development/wp-content/uploads/2018/11/Millionaire_migration_Jun16ASRFeature.pdf) in a most ambitious project spanning 13 years and 45 million tax records, finds a very small magnitude of migration response among millionaires.

26. Estimations of expected revenue are courtesy of Fiscal Policy Institute (https://fiscalpolicy.org/wp-content/uploads/2020/05/Crisis-Economics-Policy-Paper_20200527-1.pdf).

27. This report by the Center for Budget and Policy Priorities provides a good summary of the literature on residency and migration decisions in response to tax hikes (https://www.cbpp.org/research/state-budget-and-tax/tax-flight-is-a-myth).

28. From 2003–2005, New York imposed a temporary tax hike on its highest-income residents. During the years that surcharge was in place the state saw a 30 percent growth in high-income tax returns. The current income tax surcharge on the highest-paid people in New York was adopted in 2009. In the year after these high-end tax rates went into effect, the number of high-net-worth households in the state grew by more than 10 percent. (https://www.federalreserve.gov/econres/scfindex.htm)

29. The 2017 Tax Cut and Jobs Act removed the deductibility of income taxes paid to State and Local governments and capped the deductibility of property taxes at $10,000. Thus, residents in high tax states, like New York, were paying federal taxes on what they were paying as state and local income taxes. Re-instating the full deductibility would reduce the tax burden and thus provide state and local governments with more room to increase marginal tax rates.

30. A comparative study of nine high tax rate states and nine states with no broad-based personal income taxes found that the former group experienced higher median incomes, lower unemployment rates, and higher rates of growth in

GDP per capita (https://itep.org/another-reason-to-tax-the-rich-states-with-high-top-tax-rates-doing-as-well-if-not-better-than-states-without-income-taxes/).

31. See: https://www.federalreserve.gov/releases/z1/dataviz/dfa/distribute/
32. See: https://www.pwc.ch/en/publications/2020/UBS-PwC-Billionaires-Report-2020.pdf
33. See: https://americansfortaxfairness.org/issue/billionaires-pandemic-wealth-gains-burst-700b/
34. See: https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-20200928.htm
35. The Occupy Wall Street Movement is a recent example of an anti-inequality protest movement.
36. Unemployment statistics are for the month of December 2020, the latest available from New York State Department of Labor (https://labor.ny.gov/stats/LSLAUS.shtm).
37. When France imposed a wealth tax, 420,000 rich French citizens all left the country, thereby hurting not only the prospects of raising revenue through the wealth tax but also affecting income tax collections. The tax was repealed in 2017 by President Macron. See: https://www.bloomberg.com/opinion/articles/2019-11-14/france-s-wealth-tax-should-be-a-warning-for-warren-and-sanders
38. The top 1 percent are liable for 40 percent of New York State's and 47 percent of New York City's personal income tax revenues, as per data provided by the NYS Department of Taxation and Finance.
39. See: https://www.federalreserve.gov/econres/scf/dataviz/scf/chart/#series:Net_
40. Alstadsæter et.al. (2018) (http://gabriel-zucman.eu/files/AJZ2017.pdf) and Guyton et. al. (2020) (https://www.lse.ac.uk/International-Inequalities/Assets/Documents/Daniel-Reck-paper.pdf) are two recent studies that attempt to measure the extent of tax evasion by the wealthy. The first paper uses leaked data on offshore accounts for the wealthy based in Scandinavia to estimate that the top 0.01% households evade about 25 percent of their taxes. The second paper estimates tax avoidance in United States and finds similar results.
41. See: https://www.nysenate.gov/legislation/bills/2019/s8277/amendment/b
42. The analysis has been done by David Gamage (Indiana University-Bloomington), Emmanuel Saez (UC Berkeley) and Darien Shanske (UC Davis). The researchers used data from the Forbes billionaire list to estimate the revenue impact. As of July 29, 2020, the aggregate wealth of the 120 billionaires in NY State was $530 billion. They assumed 50 percent of the wealth was from unrealized capital gains and applied a marginal tax rate of 8.82 percent to arrive at the $23.2 billion, after adjusting for a relief provision. For the following years, they assume that wealth (i.e., value of assets net of liabilities) grows at 5 percent and the state continues to be able to tax 50 percent of that, generating an annual revenue flow of $1.2 billion.
43. Weber, Matthias, Emmanuel Saez and Gabriel Zucman, The Triumph of Injustice: How the Rich Dodge Taxes and How to Make Them Pay (June 5, 2020). See: https://ssrn.com/abstract=3620060
44. See: https://www.politico.com/states/new-york/albany/story/2020/12/11/economists-urge-new-york-to-hikes-taxes-on-billionaires-1345117
45. See: https://www.nytimes.com/2020/12/26/business/investors-bull-market-pandemic.html
46. See: https://www.congress.gov/115/bills/hr1/BILLS-115hr1enr.pdf
47. Source for Corporate Profits of all firms: U.S. Bureau of Economic Analysis, Corporate Profits After Tax (without IVA and CCAdj) [CP], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CP
48. Source for Corporate Profits of Domestic Financial Firms: Board of Governors of the Federal Reserve System (US), Domestic Financial Sectors; Corporate Profits Before Tax Including IVA and CCAdj, Flow [BOGZ1FA796060035Q], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/BOGZ1FA796060035Q
49. Federal Reserve Board of Governors Report on Survey of Consumer Finances (https://www.federalreserve.gov/econres/notes/feds-notes/recent-trends-in-wealth-holding-by-race-and-ethnicity-evidence-from-the-survey-of-consumer-finances-20170927.htm).
50. See: https://financialpost.com/investing/how-americas-1-came-to-dominate-stock-ownership
51. While Senator Sanders' bill (https://www.nysenate.gov/legislation/bills/2021/s1406) recommends complete elimination of the rebate, other elected officials had also proposed partial elimination of the rebate in the 2019–2020 legislative session. S3315 (proposed by Senator Zellnor Myrie; see: https://www.nysenate.gov/legislation/bills/2021/S270) and A7086 (proposed by Assembly

Member Erik Dilan) intended to reduce the rebate enjoyed by the financial firms by 60 and 80 percent, respectively.

52. In 2017, the collections were even higher at $13 billion. Since the STT is entirely dependent on the volume of transactions in stocks, the unpredictability of the stock market will affect the revenue base for this tax, creating big swings from year to year.
53. Among European countries, Sweden, France, and Germany, each had imposed and then repealed financial transaction taxes following declines in trading volumes at their exchanges.
54. Conditions determining whether a business is liable for paying taxes to any state are collectively described as "economic nexus." To say that a business satisfies economic nexus is to indicate that it has significant economic presence in the state, even though it might not have any physical presence (based on the 2018 Supreme Court ruling in South Dakota v. Wayfair Inc.). Economic presence is typically defined as revenue or sales grossing over a certain threshold. In New York, any business that has revenue over $500,000 and engages in sales transactions in at least hundred distinct instances over the past four quarters is said to have fulfilled the conditions of economic nexus. For qualified financial instruments (like stocks), the law requires that the corporations have an economic nexus with the place where transactions are conducted, which in this case is the NYSE, and consequently the state and the city of New York. However, we recognize that given technological advancements in areas of financial trading, discerning whether a transaction is located in NY might be a challenge.
55. See: http://fiscalpolicy.org/wp-content/uploads/2020/12/Public-sector-employment-Dec-2020.pdf
56. See: http://fiscalpolicy.org/wp-content/uploads/2020/05/Crisis-Economics-Policy-Paper_20200527-1.pdf
57. Please see note 11 for a list of bills that cover several of the proposals listed here

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