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Albany Agrees on a Plan to Raise Taxes on Top Earners

By [NICHOLAS CONFESSORE](#)

Gov. [David A. Paterson](#) and leaders of the Legislature have reached a deal to temporarily raise taxes on New York's highest earners in order to close the state's yawning budget deficit, lawmakers and officials involved in the talks said on Saturday.

The new plan, which would expire after three years, would represent the largest state income tax increase in recent history, significantly larger than the surcharges imposed from 2003 to 2005, when the state last faced a major recession.

The plan would raise \$4 billion a year by creating two new tax brackets, the highest one affecting those who earn \$500,000 or more. If approved by rank-and-file lawmakers in the Assembly and State Senate, the tax increases would be a major victory for unions and liberal advocacy groups and a signal of the new balance of power in Albany, where Democrats won control of both houses of the Legislature and the governor's office in last year's election.

Although the proposed tax has been called a "millionaires' tax," it would affect those with incomes starting at \$300,000, who would be taxed at a rate of 7.85 percent. The highest bracket would carry a tax rate of 8.97 percent — the same as New Jersey's current highest rate.

Officials said that Mr. Paterson, who has argued for months that new income taxes should be a last resort in balancing the budget, accepted the plan after winning significant spending cuts in areas like health care and education.

Mr. Paterson's willingness to accept the new taxes reflects, in part, how rapidly the state's finances are deteriorating. Since proposing his budget in December, projected tax revenues for the fiscal year beginning April 1 have dropped by \$3.2 billion, while rising [Medicaid](#) caseloads will cost \$750 million more than originally projected for this year and next year. That shift has left Mr. Paterson and lawmakers with little choice but to employ every possible mechanism to shrink budget gaps.

But the deal also reflects the leverage held by [Sheldon Silver](#), the powerful Assembly speaker, over both Mr. Paterson, whose public approval ratings are low, and [Malcolm A. Smith](#), the Senate leader, whose 32-to-30 Democratic majority has proved difficult to steer.

Mr. Smith's conference had hoped for a more radical overhaul of income taxes, one that would have created as many as nine brackets and raised as much as \$5 billion, some of which could have been used to offset property taxes for homeowners — a major concern for upstate and suburban voters in swing districts. Senate Democrats said Mr. Silver balked at the idea of using any income tax increase to offset property

taxes, and Assembly officials said the Senate's plan was not workable and its financial projections were inaccurate.

However, in a concession to Senate Democrats, Mr. Silver agreed to allow the new taxes to be phased out after three years, rather than the five years he had originally advocated — a time period that would have created enormous political pressure to maintain the increase indefinitely. In a concession to Mr. Paterson, who favored a simpler structure, the three-bracket rate favored by Mr. Silver was reduced to two.

“Raising the personal income tax is going to make it harder for New York to recover economically,” said Elizabeth Lynam, the deputy research director of the [Citizens Budget Commission](#).

Currently, New York's highest tax rate, 6.85 percent, kicks in for couples and joint filers making more than \$40,000.

“It's a profound breakthrough for tax fairness,” said Dan Cantor, executive director of the [Working Families Party](#). “The era of phony prosperity has ended, and a new era of real shared sacrifice must begin.”

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