



## Tax Wall Street to Close the Deficit & Provide Property Tax Relief for Main Street

### **For New Yorkers, times are tougher than they've been in over a generation.**

Nearly a million New Yorkers are out of work. Massive cuts to education, health care, and other essential public services are looming. High property taxes are more unaffordable than ever to homeowners and renters alike – forcing many New Yorkers from their homes. Every day, more households make devastating decisions about their priorities: paying their electric bill or buying their groceries; paying the mortgage or sending their kids to college.

### **Meanwhile, Wall Street is living it up.**

Just one year after the crash that Wall Street created, the financial industry has raked in a record-busting \$61.4 billion in profits. That's nearly *triple* the previous record. And it's all courtesy of cash bailouts, subsidies, and virtually free loans –underwritten by *3 trillion* taxpayer dollars – and counting. While taxpayers gave up trillions, a select few on Wall Street took in over \$20 billion in bonuses. That's an average cash *bonus* of almost \$125,000 – more than double the average *salary* in New York!

### **Main Street bailed out Wall Street. And Wall Street cashed in.**

#### **It's time for Wall Street to pay New Yorkers back.**

Along with soaring unemployment, waves of foreclosures, and spiking food stamp applications, the economic collapse wrought by the financial industry has punched a \$9 billion hole in the state's budget. Those who got mega-rich while creating the financial crisis, and are now benefiting from the bailout, should make sure we can pay for education, healthcare and property tax relief.

It's the least they can do.

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### **How The Bonus Recapture Tax Works:**

A temporary **Bonus Recapture** would tax bonuses worth at least \$50,000 that are part of a total compensation package higher than \$250,000 at a graduated rate of 25%, reaching 50% when total compensation passes \$500,000 -- generating between \$4.7 and \$6.9 billion

Bonuses awarded as “deferred compensation,” such as time-vested stock and options, will bring in revenues over time that will likely double the revenues from cash bonuses.

Generated revenue should be used to close the deficit and fund property tax relief for the most burdened households. A third of New York households with income up to \$250,000 would benefit from “circuit-breaker” property tax relief, which would cap property taxes at a reasonable percentage of household income. Meanwhile, less than 1.5% of New Yorkers will receive bonuses big enough to be subject to this tax.

# Bonus Recapture Tax Plan

Bonuses are typically paid out both in year-end cash and in time-vested stock options realized in subsequent years. As a temporary measure to recapture Wall Street windfalls for Main Street, a Bonus Recapture Tax should apply to all bonus compensation – both cash awards and deferred awards.

<p><b>What is taxed:</b> Bonuses higher than \$50,000 that are awarded to individuals who receive more than \$250,000 in total compensation.</p>	<p>Total compensation accounts for both salary and bonuses received. The tax itself is only levied on the bonus, not the salary portion of total compensation.</p> <ul style="list-style-type: none"> <li>• Bonuses over \$50,000 awarded to employees who received \$250,000 or more in total compensation would be taxed using a graduated rate from 25%, reaching to 50% of bonus when total compensation passes \$500,000.</li> <li>• Deferred compensation would be taxed at the same rates (but the \$50,000 threshold would not apply if it was already applied to the year-end cash bonus).</li> </ul>
<p><b>How it is collected:</b> As a payroll tax</p>	<p>The tax would be collected as a payroll tax from the firms awarding the bonuses. As a payroll tax, it would be collected at the institutional level, not at the individual level. Firms can choose whether to absorb the cost of the tax or pass the cost onto employees through reduced awards. The remainder of a given bonus would be received by the employee and taxed as regular income.</p>
<p><b>Time period:</b> Temporary tax, for a maximum of two calendar years.</p>	<p>The tax would be temporary and cover at least an entire bonus season (which overlap calendar years) to ensure bonus payouts are not simply pushed forward past the measure’s sunset. A retroactive component for the 2009-10 bonus season is important to recover taxpayer monies resulting in 2009’s record profit year.</p>
<p><b>Preliminary Estimates of Net Revenue:</b>  <b>\$4.7b - \$6.9b<sup>1</sup></b> from cash bonuses.            Eventual revenues from deferred compensation will likely match or be greater than cash bonus revenues.</p>	

## To fund essential state expenditures and make Main Street property tax relief permanent, additional tax reform measures should be adopted.<sup>2</sup>

- Make current state income tax brackets permanent. Recently adopted brackets for income over \$300,000 are expected to yield an average of \$4.16 billion per year for 2009, 2010, and 2011. Adding a bracket for millionaires would increase those revenues further.
- Updating the state’s financial industry tax rules – which have fallen behind as the finance industry’s business practices have evolved – would add \$300 million to annual state revenues from high-earning businesses like banks and hedge funds.

<sup>1</sup> Bonus estimate sources reflect the 2009-10 bonus season and include the NYS Office of the State Comptroller, NYS Division of the Budget, Johnson Associates, Inc., and the Options Group. Bonus pool estimates and individual payouts vary and help account for the range in estimated revenues.

<sup>2</sup> Proposed reforms are detailed in a forthcoming brief by the Center for Working Families and the Fiscal Policy Institute.