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MARKETS | PERSONAL FINANCE

# Tax Hikes for High Earners Are on the Table in Some States

Governors in New York, Minnesota and elsewhere urge higher income and capital-gains taxes to fortify pandemic-weakened budgets



New York Gov. Andrew Cuomo, here in Brooklyn this week, has proposed raising taxes for state residents who report more than \$5 million in income.

PHOTO: SETH WENIG/AGENCE FRANCE-PRESSE/GETTY IMAGES

By [Karen Langley](#)

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State officials across the U.S. have grappled for months with the budgetary effects of [the coronavirus pandemic](#). Now, some governors are proposing tax increases.

Prominent proposals include calls to raise billions of dollars across several states through taxes on the income and capital gains of higher earners.

Unlike the federal government, states generally can't borrow to plug budget holes. After accounting for existing federal aid, states might need to come up with about \$56 billion in spending cuts or revenue increases to balance their budgets through the fiscal year that ends in most states in June 2022, according to an estimate from Moody's Analytics.

[Budgetary pressures vary greatly among states](#), despite calls for more federal aid in general and tax hikes in some locales. In New York, state revenue collected from April through December 2020 was 4.1% lower than in the year-earlier period, according to data from the Urban Institute think tank.

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In New Jersey, the drop was 2.4%. With tax revenue outperforming earlier projections, Gov. Phil Murphy on Tuesday [proposed making a full payment to the state's pension system for the first time since 1996](#). California has done even better, with revenue

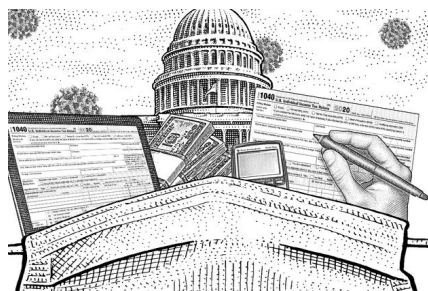
collections growing 1.2%, boosted by strong earnings for high-income taxpayers and a rallying stock market.

While a governor can call on lawmakers to raise taxes, the odds of success for the various proposals depend partly on which parties control state legislative chambers. Additionally, Democrats in Congress have pushed to include money for cities and states in an economic-recovery package, which could shift the equation.

Here is what is at issue for taxpayers in a handful of states in the coming months as state governors and legislators deliver their next budgets.

#### Top New York and Minnesota earners could face higher tax rates.

New York Gov. Andrew Cuomo has proposed raising taxes for New Yorkers who report more than \$5 million in income as part of a plan to cover a projected budget deficit. Currently, the state's top income-tax rate is 8.82%. The governor's proposal would add surcharges for three years to five new tax brackets for top earners.



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At the highest level, taxpayers reporting more than \$100 million in income would see a rate of 10.82%. Add in New York City's top rate of 3.88% and some residents could face a combined state and city income tax of 14.7%— the highest combined local tax rate in the U.S.

Taxpayers reporting more than \$5 million but not more than \$10 million would see their state rate increase 0.5 percentage point, to 9.32%. Those reporting more than \$10 million but not more than \$25 million would see an increase of 1 percentage point, to 9.82%.

Taxpayers reporting more than \$25 million but not more than \$50 million would see an increase of 1.5 percentage points, to 10.32%. And those reporting more than \$50 million but not more than \$100 million would see an increase of 1.75 percentage points, to 10.57%.

Lawmakers in New York state are also considering revenue proposals such as a [mark-to-market tax on billionaires](#), which would require them to pay capital-gains taxes as assets appreciate, even if they don't sell.



Minnesota Gov. Tim Walz at a vaccination site in the state last month. His proposed income-tax hikes would take effect for the 2021 tax year.

PHOTO: ANTHONY SOUFFLE/ASSOCIATED PRESS

In Minnesota, Gov. Tim Walz has called for creating a new top income-tax rate of 10.85% for income above \$1 million for married couples filing jointly and above \$500,000 for single filers. Currently, the state's highest income-tax rate is 9.85%. Mr. Walz also has proposed adding a tax at a 1.5% rate on long-term capital gains and qualified dividends between \$500,000 and \$1 million and at a 4% rate for such income of more than \$1 million.

#### **Pennsylvania and Washington state also have tax hikes in the mix.**

In Washington state, which doesn't have an income tax, Gov. Jay Inslee has called for a new 9% tax on long-term capital gains above \$25,000 for individuals or \$50,000 for taxpayers filing joint returns.

And in Pennsylvania, Gov. Tom Wolf asked legislators to raise the 3.07% personal income-tax rate to 4.49% while expanding a tax-forgiveness credit. His administration says this combination would result in higher payments for the top one-third of taxpayers. The Pennsylvania proposal would raise taxes further down the income spectrum than would the plans in some other states: A single taxpayer without dependents who earns \$49,001 or higher would pay more under the plan.

#### **State legislatures' political balance could sway the fates of tax hikes.**

In New York, Democratic legislative leaders have said they were open to raising taxes to cover the budget deficit, though Mr. Cuomo has expressed concern that the income-tax hike could prompt high earners to leave the state.

In Washington state, where Democrats also control both legislative chambers, a Senate committee last week approved legislation that would tax capital gains in excess of \$250,000 at a 7% rate.

The proposals could face steeper climbs in Minnesota, where Republicans control the Senate, and Pennsylvania, which has Republican majorities in both legislative chambers. GOP legislative leaders in both states have objected to the tax-hike plans.

#### **Watch the legislative process—and the effective dates.**

Residents might want to think about realizing capital gains before a tax increase hits the books.

## ‘I know that taxes aren’t going down either at the federal level or the state level.’

— Mark Klein, chairman of law firm Hodgson Russ

“I would seriously consider selling some of my stocks right now, enjoying my gains,” said Mark Klein, chairman of the law firm Hodgson Russ and a specialist in multistate taxation issues. “I know the market is high and I know that taxes aren’t going down either at the federal level or the state level.”

Jamie Yesnowitz, a state and local tax specialist in accounting firm Grant Thornton’s national office, said that while monitoring potential tax changes is important, it shouldn’t replace the other parts of an investor’s decision-making process.

Tax increases could hit at different times in different states. In New York and Minnesota, the income-tax increases are proposed to take effect for the 2021 tax year, while Mr. Inslee has proposed the Washington state capital-gains tax would take effect at the start of 2022. In Pennsylvania, Mr. Wolf has proposed raising the personal income-tax rate effective July 1, while his changes to the state’s tax-forgiveness program would apply to all of 2021.

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