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Analysis of 1995 Personal Income Tax Returns

Profile of Income, Deductions, Credits and Tax from Taxable Returns

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Tax year 1995 represents the first year of a three-year tax reduction program enacted in 1995.

Tax year 1995 represents the first year of a three-year tax reduction program enacted in 1995. By 1997, taxpayers will save approximately $4 billion per year, an overall 20 percent cut from 1994. Most taxpayers will save at least 25 percent. For 1995, the top tax rate decreased, standard deduction amounts increased, and the earned income credit increased.

Some highlights from tax year 1995 personal income tax returns include:

- Total federal adjusted gross income (FAGI) of resident taxpayers for 1995 equaled approximately $287 billion, a $17 billion (6 percent) increase from 1994. New York adjusted gross income (NYAGI) totaled $275 billion, compared to $260 billion in 1994.

- Total State income tax liability of residents, nonresidents, and part-year residents equaled just under $16.1 billion, an increase of 5.2 percent from 1994. Resident taxpayers accounted for just over $14 billion, or over 87 percent of total tax.

- Average tax liability per taxable resident return equaled $2,640, compared to $2,503 in 1994. Average tax for full-year nonresidents and part-year residents equaled $3,537, up 5 percent from 1994.

- Total resident income tax liability, as a percentage of NYAGI, declined slightly from 5.15 percent in 1994 to 5.11 percent in 1995. This reflects the tax cut effective for tax year 1995.

- The number of tax returns filed with the Department of Taxation and Finance in 1995 totaled approximately 7.9 million, approximately the same as in 1994. About 2 million were nontaxable returns, an increase of 200,000 from 1994, reflecting tax cut provisions benefitting lower-income taxpayers. The number of taxable returns declined from 6.1 million in 1994 to 5.9 million, with resident returns accounting for 90 percent of this total.

Introduction and Background

This publication contains findings from a study of 1995 personal income tax returns filed during 1996. To aid the reader in interpreting the contents of this report, several key definitions and descriptions appear in Appendix A. It is particularly important to note that the term "taxpayer" means an individual, or married couple filing jointly, who files a return indicating a positive tax liability. By this definition, the terms "taxpayers" and "taxable returns" are interchangeable.

This study contains statistics based on a stratified sample of approximately 92,000 personal income tax returns selected from a total filing population of just under 8 million returns. Both taxable and nontaxable returns were sampled. However, this report primarily provides statistics on 5.9 million resident, part-year resident, and nonresident returns with a New York personal income tax liability. Appendix B details the specific sampling techniques employed in developing this study.

The study compiles tax liability, not tax collection, information provided by taxpayers on timely filed returns for the 1995 tax year. The information reflects corrections for computational or minor errors. However, it does not account for subsequent audits or amendments that may occur after initial processing. Therefore, the data contained in the report do not reflect final 1995 liability for all returns. Actual tax collections during the State fiscal year (April 1 through March 31) depend upon several factors, including withholding and estimated payments, the timing of final payments, refunds, audits, and payments from delinquent accounts. Personal income tax collection data are presented in the annual *New York State Tax Collections* statistical report prepared by the Office of Tax Policy Analysis (OTPA).

This report describes the prominent features of New York's personal income tax, with particular emphasis on the 1995 tax year. It also includes taxpayer profiles consisting of number of taxable returns, sources of income, federal adjustments, New York modifications, deductions, dependent exemptions, tax liability and credits by NYAGI class, filing status and return type. In addition, it includes separate sections on income and itemized deduction amounts, exemptions, available credits and information on refunds. Finally, it compares statistics for 1995 with those from the prior year for most of these items. Appendix C includes the major tax forms which taxpayers filed for tax year 1995.

The statistical tables accompanying this report cover resident, part-year resident, and nonresident returns. The "Statistical Summary" section focuses on resident returns because the data for nonresidents and part-year residents are not comparable to data from resident returns. Amounts of income, deductions, and credits reported on nonresident and part-year resident returns are not comparable to those on resident returns, because they represent gross amounts before allocation of the base tax to reflect the New York-source portion of total federal gross income. The report also includes a description and statistical information from returns filed by fiduciaries.

Comparison with Other OTPA Reports

The aggregate statistics reported in this publication do not completely coincide with data presented in the *New York Adjusted Gross Income and Tax Liability, Analysis of 1995 State Personal Income Tax Returns by Place of Residence* (POR) publication also prepared by OTPA. The data provided in this report are based on a statistically valid sample of approximately 92,000 personal income tax returns selected from a population of nearly 8 million returns. OTPA staff reviewed taxpayer entries, inserted missing data, corrected data and recomputed subtotals. (See Appendix B for a more complete description of the sample.) Using either the number of tax returns, adjusted gross income, or tax liability data for each sample cell, the sample was inflated to represent all timely filed 1995 State personal income tax returns.

In comparison, the *POR* publication tabulates information from all 1995 tax year returns filed with the Department of Taxation and Finance (the Department) during 1996. The *POR* report represents the compilation of records on the Department's master file on a particular day. The data variables represent amounts accepted by the Department's tax return processing system within system tolerances. Analysts compiled the data and reported the statistics with minimal review.

This report covers only some of the information contained on New York State income tax returns. The Office of Tax Policy Analysis also publishes annual studies with county-specific income and tax liability data. In addition, the Office produces annual studies on the earned income tax credit and real property tax credit.

Prominent Features

New York automatically conforms to most federal definitions of income and itemized deductions. Therefore, some of the tables contained in this study refer to federal components of income and federal components of deductions, the starting point for State computations. New York was one of 29 states conforming to the federal Internal Revenue Code in this way in 1995. However, like most of these states, New York modifies federal adjusted gross income for various reasons. These modifications include exemptions for certain pensions and social security, and interest on federal obligations (which federal law precludes states from taxing). Table 1 highlights some major provisions of New York's 1995 personal income tax law.

Table 1: Selected Provisions of New York State Personal Income Tax Structure — 1995 Tax Year

Social Security Benefits	Fully Exempt
Pension Income	New York State and local and federal pensions fully exempt; others eligible for up to $20,000 exclusion ($20,000 each spouse for married couples).
Married Standard Deduction	$10,800
Head of Household Standard Deduction	$8,150
Single Standard Deduction	$6,600
Dependent Filer Standard Deduction	$2,800
Itemized Deductions	Federal amount (after limitation*) minus deduction for state and local income tax. Upper-income taxpayers must further reduce itemized deductions by up to 50 percent.
Dependent Exemption Amount	$1,000
Tax Treatment of Married Taxpayers	Joint rate schedule with full income splitting.
Minimum Tax	Add-on tax equal to 6 percent of certain federal tax preference items, minus deductions of $5,000 and regular tax.

* Taxpayers with federal AGI of $114,700 or more ($57,350 for married filing separately) must reduce their itemized deductions by 3 percent of the amount by which their AGI exceeds $114,700 ($57,350 for married filing separately). The reduction does not apply to deductions for medical expenses, casualty and gambling losses, and investment interest expense, and it cannot reduce deductions subject to the limitation by more than 80 percent.

Because tax rates rise as taxable income increases, New York has a graduated tax rate structure. Table 2 shows the 1995 tax rate schedule. Also, the supplemental tax described in Table 2 causes certain upper-income taxpayers to lose the value of tax rates below the top rate. This effectively means these taxpayers pay a flat tax on all of their taxable income. Credits which decline in value as income rises also help make the tax progressive. On the other hand, New York permits most federal itemized deductions, which tend to diminish progressivity. Federal and State limitations on itemized deductions reduce some of this effect.

Table 2: 1995 Tax Rates

Married Joint and Surviving Spouse		
If taxable income is:		
Over	But not over	
$ 0	$13,000	4.55% of taxable income
13,000	19,000	$592 plus 5.55% of amount over $13,000
19,000	25,000	$925 plus 6.55% of amount over $19,000
$25,000		$1,318 plus 7.59375% of amount over $25,000
Single, Married Separate and Estates and Trusts		
If taxable income is:		
Over	But not over	
$ 0	$ 6,500	4.55% of taxable income
6,500	9,500	$296 plus 5.55% of amount over $6,500
9,500	12,500	$462 plus 6.55% of amount over $9,500
$12,500		$659 plus 7.59375% of amount over $12,500
Head of Household		
If taxable income is:		
Over	But not over	
$ 0	$ 9,000	4.55% of taxable income
9,000	14,000	$410 plus 5.55% of amount over $9,000
14,000	19,000	$687 plus 6.55% of amount over $14,000
$19,000		$1,015 plus 7.59375% of amount over $19,000

Supplemental Tax: A supplemental income tax for the purpose of recapturing the benefits conferred to taxpayers through tax brackets with rates lower than the maximum rate applies to all taxpayers with NYAGI over $100,000. The benefit of the lower brackets begins to be recaptured at $100,000 of New York adjusted gross income and is totally recaptured at $150,000. Once taxpayers' New York adjusted gross income exceeds $150,000, all of their taxable income becomes effectively subject to a flat 7.59375 percent tax rate. Maximum supplemental tax amounts equal $580 for married taxpayers, $428 for heads of households, and $290 for single taxpayers.

Nonresidents and part-year residents first compute a base tax as if they were residents. This means that they start with their total federal adjusted gross income (FAGI) and take the full amounts of modifications, deductions, exemptions, and credits to compute a base tax. However, to ensure that they do not pay tax on non-New York income, they must then multiply this base tax by an income percentage. This is the ratio of "New York-source" New York adjusted gross income (NYAGI) to total ("sourced" plus "unsourced") NYAGI. For nonresidents, New York-source income generally consists of:

1) wages earned in New York;
2) income derived from business carried on in New York; and
3) gain from the sale of New York real property and business property.

New York-source income for part-year residents consists of these income sources for their nonresident period, plus income from all sources for their resident period.

1995 Tax Reduction Legislation

In 1995 Governor Pataki proposed a multi-year personal income tax reduction program which the Legislature adopted in a modified form. Over the 1995-1997 tax years, the tax reduction legislation reduced annual tax liabilities by approximately $4 billion compared to 1994 law, providing average tax cuts of 20 percent. The majority of taxpayers received cuts of at least 25 percent. The program also eliminated tax for approximately 400,000 taxpayers.

Finally, the legislation retained the household credit in full for taxpayers who do not use the earned income tax credit. This benefits over one million low and moderate-income taxpayers who would have lost this important credit beginning in 1996.

The table below summarizes the main elements of the tax reduction legislation:

Table 3: Major Provisions of 1995 Personal Income Tax Reduction Program

Provision/Year	1994	1995	1996	1997
Top Rate	7.875%	7.59375%	7.125%	6.85%
Top Bracket:				
Married Joint	$26,000	$25,000	$26,000	$40,000
Single	$13,000	$12,500	$13,000	$20,000
Standard Deduction:				
Married	$ 9,500	$10,800	$12,350	$13,000
Head of Household	$ 7,000	$ 8,150	$10,000	$10,500
Single	$ 6,000	$ 6,600	$ 7,400	$ 7,500
Earned Income Tax Credit (% of Federal)	7.5%	10%	20%	20%

Statistical Summary

The personal income tax accounts for more than half of New York State tax collections. Slightly under 7.3 million returns were timely filed by residents for tax year 1995. Approximately 1.95 million of these returns had no tax liability. These returns generally entailed requests for refunds of taxes withheld by employers. The remaining 5.32 million taxable returns reported a total tax liability of $14.03 billion. In addition, approximately 590,000 nonresidents and part-year residents had liability of slightly over $2.08 billion and another 79,000 filed nontaxable returns.

Table 4 summarizes and compares information from taxable returns filed by residents in 1994 and 1995. In 1995, total New York adjusted gross income (NYAGI) equaled $275 billion, compared with $287 billion in total federal adjusted gross income (FAGI). The $12 billion difference resulted from the excess of State subtraction modifications to federal adjusted gross income over addition modifications to FAGI. Major New York subtraction modifications include certain pension and annuity income, interest income derived from federal bonds, federally taxable refunds of State and local income taxes, and the portion of social security benefits subject to federal income tax. The major New York addition modification is interest from obligations of states other than New York. Appendix A provides more detailed income definitions.

Table 4 shows that while total NYAGI increased by 5.8 percent, total tax liability increased at a lesser rate of 4.9 percent. This reflects the impact of the 1995 tax reduction legislation, which provided for an average overall tax reduction of about 3 percent. Absent such statutory tax cuts, tax liability usually increases at a higher percentage than income, reflecting provisions such as graduated tax rates and tax benefits that decline as income increases.

Table 4 also shows that the number of taxable returns declined, while the number of nontaxable returns increased by over 6 percent. This reflects substantial increases in standard deduction and earned income tax credit amounts.

Table 4: Selected Tax Filing, Structure and Taxpayer Statistics for Resident Taxpayers in 1994 and 1995

Major Items				
			Change	
	1994	1995	Amount	Percent
Total Number of Returns* (000)	7,189	7,270	81	1.1
Number of Taxable Returns (000)	5,346	5,315	(31)	(0.6)
Number of Nontaxable Returns (000)	1,843	1,955	112	6.1
Millions of Dollars				
Total Federal Adjusted Gross Income	269,827	286,586	16,759	6.2
Total NY Adjusted Gross Income	259,699	274,712	15,013	5.8
Total Deductions Used	51,137	55,417	4,280	8.4
Total Value of Exemptions Used	3,829	3,721	(108)	(2.8)
Total Taxable Balance	204,733	215,574	10,841	5.3
Total Tax Liability	13,379	14,030	651	4.9
Dollars				
Average Tax Liability	2,503	2,640	137	5.5

* Includes nontaxable resident returns. Remainder of table pertains only to taxable returns.

Distribution of Taxpayer Income and Tax Liability

Table 5 compares the distribution of taxpayers, income, and tax liability in 1994 and 1995. It shows that in 1995 taxpayers with incomes above $100,000 comprised a larger share of all taxpayers and total income, but also paid a higher share of total tax liability, than in 1994. Figure 1 depicts the distribution of these items in tax year 1995.

Table 5: Percentage of Total Resident Taxpayers, Adjusted Gross Income, and Tax Liability by New York Adjusted Gross Income Class in 1994 and 1995

	Taxpayers		Adjusted Gross Income		Tax Liability	
NYAGI Class	1994	1995	1994	1995	1994	1995
Less than $10,000	7.6	7.3	1.1	1.0	0.2	0.2
$ 10,000 - 19,999	20.2	18.6	6.3	5.5	2.3	2.0
20,000 - 29,999	19.8	19.7	10.1	9.5	6.4	5.8
30,000 - 49,999	24.5	24.8	19.6	18.6	16.9	15.7
50,000 - 99,999	21.4	22.2	29.9	29.2	30.8	29.8
$100,000 and over	6.5	7.4	33.0	36.2	43.4	46.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

Figure 1: Percent of Resident Taxpayers, NYAGI and Tax Liability by NYAGI in 1995

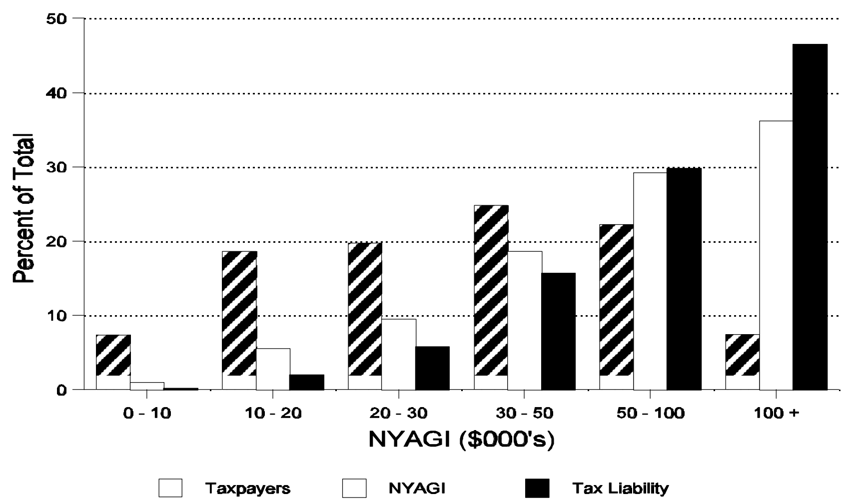


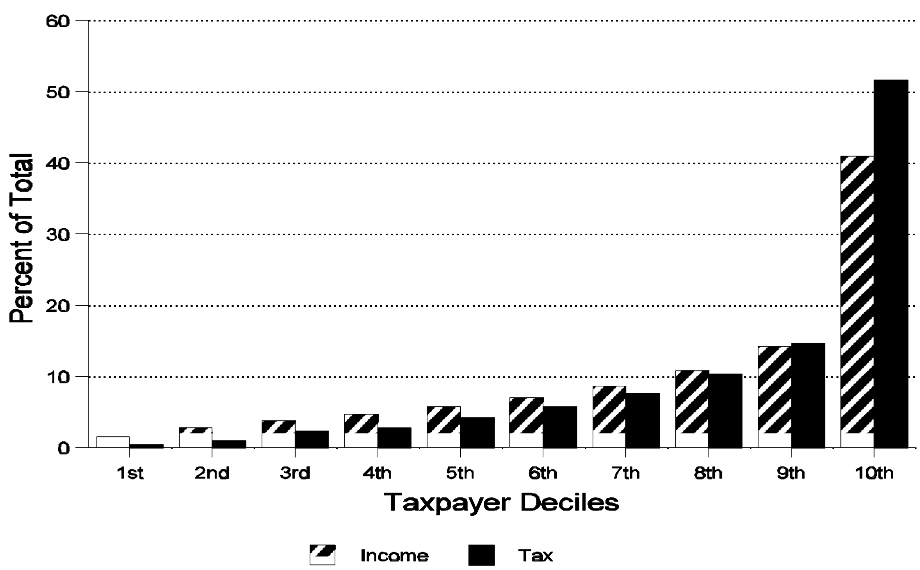
Table 6 and Figure 2 provide distributional analysis based on deciles of taxpayers. They indicate that the 10 percent of taxpayers with the lowest incomes had 1.5 percent of all income and paid 0.4 percent of all tax. In contrast, the 10 percent of taxpayers with the highest incomes had 40.9 percent of all income and paid 51.6 percent of all tax. The increasing effective tax rate, especially for the top decile, illustrates the progressive structure of the tax. The median income for taxpayers equaled $32,644. Taxpayers below the median had 18.5 percent of total NYAGI and paid 10 percent of total tax, while those above the median bore 90 percent of the tax burden.

Table 6: Distributions of New York Adjusted Gross Income and Tax Liability of Resident Taxpayers by Decile in 1995 1/

	Income		Tax		
Income of Decile 2/	Amount ($ Millions)	Percent of Total	Amount ($ Millions)	Percent of Total	Effective Tax Rate 3/
Less than $11,656	$ 4,200.1	1.5	$ 54.6	0.4	1.3%
$11,656 to 17,197	7,733.5	2.8	137.0	1.0	1.8%
17,198 to 21,954	10,409.7	3.8	242.8	1.7	2.3%
21,955 to 26,795	12,937.9	4.7	396.8	2.8	3.1%
26,796 to 32,643	15,764.1	5.7	582.3	4.2	3.7%
32,644 to 39,981	19,227.9	7.0	800.7	5.7	4.2%
39,982 to 49,471	23,628.3	8.6	1,071.1	7.6	4.5%
49,472 to 62,663	29,620.0	10.8	1,447.3	10.3	4.9%
62,664 to 87,421	38,952.8	14.2	2,061.5	14.7	5.3%
$84,422 and Over	112,237.9	40.9	7,235.6	51.6	6.4%
Total	$274,712.2	100.0	$14,029.7	100.0	5.1%

1/ Positive tax liability
2/ NYAGI
3/ Tax liability as a percentage of NYAGI

Figure 2: Percent of NYAGI and Tax Liability by Deciles for Resident Taxpayers in 1995



Income Sources

Table 7 identifies the sources of New York taxpayers' federal gross income (before adjustments), and their changes from 1994.

Table 7: New York State Personal Income Tax: Components of Federal Gross Income for Resident Taxpayers in 1994 and 1995 1/ (Dollar Data in Millions)

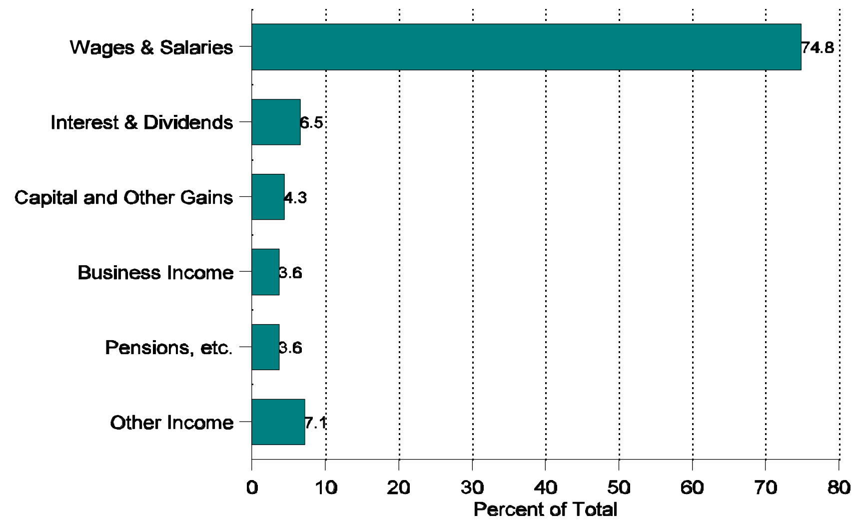
			Change	
Components of Income	1994	1995	Amount	Percent
Wages and Salaries	$209,159	$216,565	$ 7,406	3.5
Interest and Dividends	14,751	18,726	3,975	26.9
Capital & Other Gains (Net)	10,062	12,574	2,512	25.0
Pensions, Annuities, IRAs	9,421	10,519	1,098	11.7
Business Income (Net)	10,406	10,326	(80)	(0.8)
Other Income 2/	18,740	20,665	1,925	10.3
Total	$272,540	$289,375	$16,835	6.2

1/ Before adjustments, such as alimony paid, contributions to IRAs, and 50 percent of self-employment tax paid.
2/ Includes rents, royalties, estates and trusts, unemployment benefits, taxable social security, alimony, refunds of State and local income taxes and other income.

The 6.2 percent growth in total federal gross income in 1995 followed low rates of growth in both 1994 and 1993. This reflects a strengthening economy, and the absence of behavioral changes like those which accompanied the 1993 federal tax increase legislation. The particularly strong growth in investment income (interest, dividends, capital gains) reflects the strong stock and bond markets.

Wages and salaries comprised the largest single income component, nearly 75 percent of federal gross income. This represents a decline from nearly 77 percent in 1994. Interest and dividends constituted the second largest single source of income, its 6.5 percent share increasing from 5.4 percent in 1994. Figure 3 depicts the overall distribution of components of federal gross income.

Figure 3: Distribution of Federal Gross Income by Source for Resident Taxpayers in 1995



Standard and Itemized Deductions

Reflecting the increase in statutory amounts, 74 percent of resident taxpayers used the standard deduction in 1995, up from 73 percent in 1994. Slightly under 1.4 million taxpayers claimed itemized deductions worth $23.7 billion, compared to $23.0 billion in the previous year. Absent increases in standard deduction amounts, the share of taxpayers who itemize, and itemized deduction amounts, usually increase from year to year due to income and cost increases.

Table 8 and Figure 4 show that the deduction for taxes paid was the most often claimed New York State itemized deduction, followed closely by deductions for charitable contributions and interest paid.

Table 8: Number of Resident Taxpayers Who Claimed Itemized Deductions by Type of Deduction in 1995

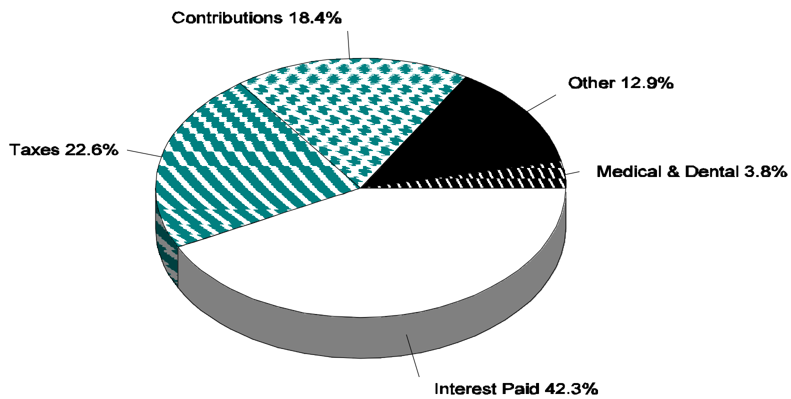
Deduction	Number of Taxpayers Claiming	Amount of Deductions (000)	Average Amount
Taxes Paid 1/	1,380,903	$ 6,081,642	$ 4,404
Charitable Contributions	1,330,949	4,943,212	3,714
Interest Paid	1,151,569	11,401,842	9,901
Medical and Dental	238,778	1,011,685	4,237
Other 2/	702,776	3,484,834	4,959
Total After Limitations 3/	1,384,073	$23,725,573	$17,142

1/ Primarily includes real property taxes. Federal deductions for New York State and local income taxes (except a portion of New York City's commuter earnings tax) and certain other federal deductions (e.g., interest expense relating to items exempt from tax in New York) totaling $9.7 billion are not allowed on State returns.
2/ Includes deductions for miscellaneous expenses, casualty and theft losses.
3/ Limitations are the federal limitation to which New York conforms, and the New York itemized deduction adjustment. Therefore, the data items refer to taxpayers who actually itemized deductions, after limitations and adjustments. Note also that columns are not additive, because of the limitations and because most taxpayers used more than one deduction.

As Table 8 shows, interest payments of over $11.4 billion represented the largest component of itemized deductions in dollar terms. Deductions for interest paid were about 85 percent greater than that of the second largest deduction, taxes (nearly all property tax) paid.

As described in Table 1 on page 7, the federal limitation, to which New York conforms, requires upper-income taxpayers to reduce their itemized deductions. Because this reduction applies against all deductions subject to it, its effect on particular deductions cannot be computed. However, it reduced 226,000 taxpayers' total itemized deductions by about $1.2 billion. In addition, the New York itemized deduction adjustment, applicable to approximately 97,000 upper-income taxpayers, effectively reduced itemized deductions by an additional $2 billion. The combined effect of the federal limitation and New York itemized deduction adjustment reduced total itemized deductions to slightly over $23.7 billion. Like the federal limitation, the New York adjustment applies to aggregate itemized deductions, so its effect on any particular deduction cannot be calculated. Figure 4 shows the distribution of itemized deductions prior to the limitations.

Figure 4: Percent of Gross Itemized Deductions* by Type for Resident Taxpayers in 1995



*Itemized Deductions (Before Limitations)

Dependent Exemptions

The value of dependent exemptions claimed by resident taxpayers in 1995 totaled slightly over $3.7 billion, about $100 million less than in 1994. The decline is attributable to a decrease in the number of taxable returns, as many taxpayers with dependent children became nontaxable due to the enhancements in the standard deduction and earned income credit. About 2 million taxpayers claimed at least one dependent exemption.

Credits

The income tax contains a number of credits which reduce the total tax due dollar for dollar. Collectively, these credits reduced liability on taxable returns by $515 million for tax year 1995. About 2.8 million resident taxpayers claimed at least one credit on their tax returns. These credits include:

- Household Credit
- Earned Income Tax Credit
- Special Additional Mortgage Recording Tax Credit
- Real Property Tax Credit
- Accumulation Distribution Tax Credit
- Investment Credit
- Resident Credit (Taxes Paid to Other Jurisdictions)
- Child and Dependent Care Credit
- Economic Development Zone Credits
- Excess Deductions Credit

Table 9 summarizes the credits claimed by resident taxpayers in 1995.

Table 9: Summary of Credits Claimed by Resident Taxpayers in 1995

Credit	Amount ($ 000)
Resident	270,000
Household	98,970
Child Care	32,889
Excess Deductions	30,367
Earned Income	21,653*
Real Property Tax	1,729*
All Other	59,509
Total	515,387

* Taxable returns only. Additional credit claimed as refunds on nontaxable returns.

Household Credit

All nondependent taxpayers with FAGI below $28,000 (single) or $32,000 (all others) may take the household credit. The credit ranges between $20 and $75 for single filers, with similar amounts for other filers and additional amounts for dependents. In 1995, slightly more than 2 million resident taxpayers claimed the household credit, effectively reducing their tax liability by nearly $99 million. The average household credit claimed was $49. Table 10 details the distribution of this credit by NYAGI.

Table 10: Resident Taxpayers Claiming Household Credit by NYAGI Class in 1995

NYAGI Class	Number Claiming Credit	Percent of Total	Amount (000)	Percent of Total	Average Credit
Under $ 5,000	1,039	0.0	$ 69	0.0	$66
$ 5,000 - 9,999	162,854	8.1	7,114	7.2	44
10,000 - 14,999	387,355	19.2	19,019	19.2	49
15,000 - 19,999	492,918	24.5	29,181	29.5	59
20,000 - 24,999	511,029	25.4	28,232	28.5	55
$25,000 and over	459,951	22.8	15,355	15.6	33
Total	2,015,146	100.0	$98,970	100.0	$49

Earned Income Tax Credit

For tax year 1995, certain taxpayers can claim an earned income tax credit (EITC) equal to 10 percent of the federal credit. (The credit rate was 7.5 percent of the federal credit in 1994, and increased to 20 percent after 1995.) The EITC is refundable to residents and nonrefundable to nonresidents. (For more information on the credit, see Office of Tax Policy Analysis, *Earned Income Tax Credit: Analysis of Credit Claims for 1995*.)

Table 11 shows that in tax year 1995, nearly 1.1 million New York residents claimed $135 million of earned income tax credit. Nearly 85 percent of total credit claims were made on nontaxable returns, and thus constituted refunds, sometimes termed “negative taxes.” The amount of EITC claimed on taxable returns totaled approximately $22 million. Under the current EITC structure, the credit increases as earned income reaches about $8,000 (for claimants with children); it remains flat through income level of $11,290, and phases out afterward. As a result, the highest average credit amounts for 1995 occurred in the $8,000-$12,000 and $12,000-$16,000 earned income classes.

Table 11: Residents' Use of Earned Income Credit by Earned Income Class in 1995*

Earned Income Class	Number Claiming Credit	Percent of Total	Amount (000)	Percent of Total	Average Credit
$ 0 - $ 4,000	173,057	16.1	$ 11,341	8.4	$ 66
4,001 - 8,000	312,462	29.0	33,311	24.6	107
8,001 - 12,000	227,946	21.2	37,022	27.4	162
12,001 - 16,000	142,760	13.3	23,501	17.4	165
16,001 - 20,000	110.055	10.2	16,212	12.0	147
20,001 - 24,000	86,877	8.1	11,159	8.2	128
$24,001 - 28,000	22,256	2.1	2,756	2.0	124
Total	1,075,413	100.0	$135,302	100.0	$126

* Table includes taxable returns and nontaxable returns with a refund.

Other major credits include the resident credit and the child and dependent care credit. The resident credit for taxes paid to other jurisdictions totaled approximately $270 million. The child and dependent care credit, claimed by 322,000 taxpayers, equaled approximately $33 million. In 1995, this credit equaled 20 percent of the corresponding federal credit.

Finally, for tax year 1995 only, taxpayers whose itemized deductions exceeded the 1994 standard deduction amounts (even if they used the standard deduction in 1995) could claim an "excess deductions credit." The credit decreased as taxable income increased, phasing down to zero at $49,000 of taxable income (married joint) and $24,500 (single). The purpose of the credit was to offset tax increases that the 1995 tax rate schedule caused for certain taxpayers, when compared to the 1994 tax rate schedule. About 700,000 taxpayers claimed $30 million of this excess deductions credit.

Refunds

Of the approximately 5.3 million taxable resident returns, slightly under 3.6 million returns resulted in an average overpayment of State and City of New York/City of Yonkers taxes amounting to $639. Thus, for about two-thirds of taxpayers, withholding by employers or estimated tax payments exceeded total tax liability. About 3.4 million taxpayers received all of their overpayment as refunds averaging $491, while about 80,000 (mainly upper-income) taxpayers credited all of their overpayment, which averaged about $2,400, toward their 1996 tax. (Approximately 161,000 taxpayers requested both refunds and credits.)

Nonresidents and Part-Year Residents

Nonresidents and part-year residents typically account for between 10 and 15 percent of all taxpayers and tax liability. Table 12 provides a summary of nonresident and part-year resident returns filed in 1995.

Table 12: Selected Tax Filing, Structure and Taxpayer Statistics for Nonresident and Part-Year Resident Taxable Returns in 1995

Filer	Total Number of Returns	Total Number of Taxpayers	Base Tax Before Proration (000)	Total Tax After Proration (000)	Average Tax Liability
Full-Year Nonresidents	517,405	462,266	$4,517,327	$1,840,841	$3,982
Part-Year Residents	151,168	126,848	$ 541,642	$ 243,957	$1,923

For full-year nonresidents, the ratio of final tax to base tax equaled 41 percent ($1,841 million/$4,517 million). This means that, overall, 41 percent of nonresidents' New York adjusted gross income came from New York sources. For part-year residents, the corresponding figure equaled 45 percent ($244 million/$542 million), the higher percentage reflecting New York-source income earned during their resident period.

Selected Historical Trends

This section provides analysis of recent statistical trends in certain tax provisions. This includes provisions for which usage or amounts have undergone important changes due to legal or economic developments.

Income Sources

Table 13 shows the pattern of resident taxpayers' long-term capital gains and retirement income (pensions, annuities, IRA distributions) between 1989 and 1995. Capital gains income declined dramatically beginning after 1989, in large part due to the onset of a national economic recession. It rebounded beginning in 1993, as the economy and related financial markets began to recover. With the exception of a drop in 1992, retirement income has increased every year since 1989, reflecting the increasing share of New Yorkers who have some form of retirement income.

Table 13: Capital Gains & Retirement Income for Resident Taxable Returns from 1989 through 1995 (Millions of Dollars)

Tax Year	Net Long-Term Capital Gains	Pensions, Annuities, IRA Distributions
1989	$12,537	$ 6,680
1990	8,381	7,074
1991	7,520	8,035
1992	8,693	7,620
1993	11,664	8,819
1994	10,062	9,421
1995	$12,574	$10,519

Subtraction Modifications

Table 14 shows resident taxpayers' use of major New York subtraction modifications to federal adjusted gross income between 1989 and 1995. These include:

1) the full exemption of social security benefits subject to federal income tax;
2) the full exemption of interest on U.S. government obligations; and

3) the exclusion of up to $20,000 of pensions and annuities for individuals age 59 1/2 and over ($20,000 for qualifying married couples filing jointly).

The subtraction for federally taxable social security benefits rose markedly in 1994, reflecting the increase in the maximum amount of benefits subject to federal tax from 50 percent to 85 percent, effective in tax year 1994. Also, income from U.S. government bonds grew substantially through 1991, thereby increasing the related subtraction modification. This, in part, resulted from a 1986 State law change, effective April 1, 1987, which completely exempted income from federal obligations passing through mutual funds having a portfolio of at least 50 percent of U.S. obligations. However, interest rate reductions and the increased attractiveness of equity markets versus federal government bonds caused this modification to decline substantially after 1991, with strong growth again in 1995 as investors sought to take advantage of significant increases in interest rates.

Table 14: Major Subtraction Modifications for Resident Taxpayers from 1989 through 1995 (Millions of Dollars)

Tax Year	Social Security	U.S. Government Bond Interest	Pension and Annuity Exclusion
1989	$1,402	$2,337	$2,622
1990	1,409	2,635	2,774
1991	1,608	2,744	3,097
1992	1,414	2,256	2,412
1993	1,620	1,665	3,257
1994	2,714	1,641	3,093
1995	$3,158	$2,309	$3,320

Itemized Deductions

Table 15 shows taxpayers' average itemized deductions from 1989 through 1995. Absent major law changes, average itemized deductions generally increase from year to year due to increases in incomes (e.g., charitable giving usually rises with income) or due to the indirect effects of increasing costs (e.g., property taxes generally rise as the cost of schools and local government increases). Moreover, the increase in standard deduction amounts in 1995 had the effect of increasing average amounts of itemized deductions, as the distribution of returns with itemized deductions shifted upward.

However, the deduction for interest expense is also sensitive to interest rates, which have fallen since 1991. In addition, the sizable increase in the average deduction for contributions in 1993 reflected the decision by some taxpayers to defer 1992 giving into 1993, when a federal tax rate increase made the deduction more valuable for federal purposes.

Table 15: Average Major Itemized Deductions for Resident Taxpayers from 1989 through 1995

Tax	Taxes	Contributions	Interest	Medical
1989	$3,465	$2,956	$ 9,857	$4,406
1990	3,574	2,884	10,124	4,508
1991	3,667	2,958	10,483	4,184
1992	3,877	3,009	9,837	4,238
1993	3,942	3,528	9,163	4,189
1994	4,168	3,274	9,111	4,157
1995	$4,404	$3,714	$9,901	$4,237

Note: Amounts reflect deductions “claimed” not “allowed,” because limitations on itemized deductions reduced the overall value of deductions claimed.

Tables Accompanying This Report

The remainder of this publication contains two sections of statistical tables displaying significant features of New York State taxpayers for the 1995 tax year. Section 1 (tables 16 through 32) depicts distributions of resident, nonresident and part-year resident taxable returns classified by New York adjusted gross income or New York-source income. Summary information only is provided for nonresidents and part-year residents. Section 2 (tables 33 through 52) displays selected tax components by filing status for resident taxable returns.

Section I:
Resident, Nonresident and Part-Year Resident Taxable Returns Classified by New York Adjusted Gross Income or New York-Source Income
Tables 16 Through 32

Tables 16 through 32 go here.

Section II:
Selected Tax Components by Filing Status for Resident Taxable Returns
Tables 33 Through 52

Tables 33 through 52 go here.

1995 Fiduciary Returns

In addition to tax returns filed by individual taxpayers, fiduciaries of estates and trusts are also required to file returns and pay the personal income tax. "Fiduciaries" are persons responsible for paying the tax of either the estates of deceased taxpayers, or of trusts. The latter consists of entities, such as charitable foundations, with income subject to tax.

The tax rates for estates and trusts are the same as for single individuals. Like the regular income tax, the base is generally based on federal amounts, before certain modifications and adjustments. Fiduciaries file on Form IT-205.

Table 53 shows that approximately 61,000 resident estates and trusts had 1995 tax liability of approximately $115 million. A small number of nonresident estates and trusts also had a small amount of tax liability. In total, Table 54 shows that 61,814 fiduciary returns had total tax liability after credits of $115.2 million.

The data in Tables 53 and 54 are based on all fiduciary returns received for the 1995 tax year. This differs from data in the remainder of this report, which come from a sample of regular tax returns.

Tables 53 and 54 go here.

Appendix A: Glossary of Terms

Federal Adjusted Gross Income (FAGI)

The amount of income earned or received during the income year after certain exclusions and adjustments. Major exclusions *from* gross income include many government transfer payments, employer-provided pension contributions and fringe benefits, and certain capital gains. Major adjustments *to* gross income include deductions for individual retirement arrangements, alimony paid, moving expenses, and one-half of self-employment tax paid.

New York Adjusted Gross Income (NYAGI)

The amount of federal adjusted gross income earned or received during the income year after certain modifications and before the subtraction of either the standard or itemized deductions, and dependent exemptions. For example, New York State income tax refunds, included in FAGI, are subtracted in determining NYAGI. Also, certain pension and annuity income is subtracted from FAGI in arriving at NYAGI, as is interest on U.S. government bonds. On the other hand, taxpayers must add to FAGI interest income from other states' debt obligations when determining their NYAGI.

New York-source NYAGI, which is used to classify nonresident taxpayers into income groups, represents that portion of NYAGI from New York sources. Generally, this is limited to wages and other income from performing services or conducting a trade or business in New York, and gains from the sale of real property located in New York. Also, New York-source modifications include those modifications which relate to income from New York sources. The ratio of New York-source NYAGI to total NYAGI is used to allocate nonresident and part-year resident tax liability. For tax years 1988-1993, this report classified these taxpayers into income groups based on the ratio of New York-source FAGI to total FAGI, because this ratio was used to allocate tax for those tax years.

Some major differences exist between income defined for tax purposes and the personal income series for New York published by the U.S.

Department of Commerce's Bureau of Economic Analysis. Personal income is more comprehensive in that it includes most federal exclusions from income, such as:

a) tax-exempt interest;
b) workers compensation benefits;
c) payments in kind;
d) public assistance transfer payments;
e) social security benefits; and
f) imputed income (e.g., the estimated rental value of owner-occupied housing).

On the other hand, personal income is limited to New York State residents and does not include capital gains. Income defined for tax purposes includes both certain income earned by nonresident taxpayers and capital gains.

Forms

Short Forms: IT-100 and IT-200, used by taxpayers who have limited income sources, use the standard deduction, and make limited use of credits.

Long Forms: IT-201 and IT-203, used by taxpayers reporting income from several sources, making adjustments to income, claiming itemized deductions, and/or using several credits. Nonresidents and most part-year residents use the long form IT-203, which is similar to the IT-201 used by resident taxpayers.

Nontaxable Return

A return with no tax liability.

Nonresident Return

A taxpayer who is not a resident for the entire tax year.

Part-Year Resident

A taxpayer who changes from a resident to a nonresident, or from a nonresident to a resident, during the tax year.

Return

Income tax forms IT-100, IT-200, IT-201, and IT-203. A husband and wife filing a joint return are considered to be one taxpayer.

Taxable Return

A return with any amount of tax liability.

Taxable Year

The annual period for which the taxpayer computes income earned or received. This study includes tax returns filed for the calendar year 1995 and fiscal years ending before February 1, 1996.

Tax Liability

For residents, the amount of tax is based on New York taxable income. The tax is computed by subtracting allowable deductions and exemptions from New York adjusted gross income, and multiplying the remainder by the appropriate New York State tax rate schedule. The result, minus the amount of allowable credits, equals tax liability.

The computation for full-year nonresidents and part-year residents is different. They first compute their base tax through the applicable tax rate schedule and subtraction of the household and dependent care credits. They then multiply this after-credit liability by the ratio of New York-source NYAGI to total NYAGI to arrive at a prorated tax. After subtracting other credits, final New York tax liability results.

Taxpayer

An individual or married couple who files a return with some amount of tax liability. When married couples file separate returns, each spouse constitutes a taxpayer.

Appendix B: Description of the Sample

The study does not fully account for total tax liability as shown in collection data. It is based on timely filed returns for the current year and does not include late or delinquent returns, or those delayed by audit or processing factors. Also excluded are fiduciaries on form IT-205. Table 52 in the previous section summarizes data from these returns.

Data in this report are based on a sample of approximately 92,000 personal income tax returns of all types, selected from a total of nearly 8.8 million returns. The sample includes both taxable and nontaxable returns, but data in this report primarily relate to those with some State income tax liability. The sample is based on New York adjusted gross income (New York-source federal adjusted gross income for nonresident taxpayers) and drawn according to the ratios shown in Table B-1. The sampling ratio is defined as the selection of one out of every "nth" return. For example, the following table shows that for IT-100 returns with incomes between $75,000 and $100,000, 1 out of every 5 returns is selected.

Table B-1: 1995 Personal Income Tax Study Sampling Ratios

	Sampling Ratios by Return Type, Residency and Deduction Status							
			IT-201		(Non-Resident) IT-203		(Part-Year)	
Income Class*	IT-100	IT-200	Itemized	Standard	Itemized	Standard	Itemized	Standard
$ 0 or Less	1/43	1/108	N/A	1/82	N/A	1/156	N/A	1/96
1 - $ 4,999	1/838	1/769	1/39	1/544	1/426	1/702	1/627	1/652
5,000 - 9,999	1/853	1/531	1/157	1/301	1/321	1/372	1/102	1/400
10,000 - 14,999	1/691	1/500	1/130	1/185	1/104	1/239	1/122	1/385
15,000 - 19,999	1/650	1/421	1/113	1/152	1/147	1/210	1/156	1/414
20,000 - 24,999	1/906	1/560	1/94	1/137	1/120	1/212	1/145	1/180
25,000 - 29,999	1/603	1/425	1/91	1/127	1/85	1/142	1/106	1/419
30,000 - 34,999	1/416	1/697	1/91	1/131	1/97	1/211	1/112	1/104
35,000 - 39,999	1/356	1/530	1/85	1/113	1/85	1/239	1/111	1/107
40,000 - 44,999	1/142	1/672	1/81	1/112	1/82	1/117	1/86	1/83
45,000 - 49,999	1/93	1/633	1/79	1/104	1/84	1/125	1/48	1/74
50,000 - 54,999	1/41	1/398	1/65	1/104	1/73	1/71	1/85	1/85
55,000 - 59,999	1/25	1/420	1/74	1/73	1/65	1/85	1/68	1/57
60,000 - 64,999	1/11	1/383	1/81	1/84	1/58	1/62	1/52	1/68
65,000 - 74,999	1/8	1/353	1/66	1/70	1/68	1/42	1/68	1/52
75,000 - 99,999	1/5	1/328	1/50	1/52	1/46	1/61	1/40	1/59
100,000 - 149,999	All	1/50	1/28	1/27	1/34	1/30	1/25	1/36
150,000 - 199,999	All	1/2	1/19	1/17	1/23	1/26	1/21	1/17
200,000 - 499,999	All	1/2	1/9	1/9	1/10	1/9	1/9	1/8
500,000 - 999,999	All	All	1/4	1/4	1/4	1/4	1/4	1/5
1,000,000 - 1,999,999	All	All	1/2	1/3	1/5	1/4	1/5	1/4
2,000,000 - 4,999,999	All	All	All	1/2	1/2	1/3	1/2	1/3
$5,000,000 or More	All	All	All	All	All	All	All	All

* The income classifier for IT-100, IT-200 and IT-201 returns is New York Adjusted Gross Income
The income classifier for IT-203 returns is New York amount of New York Adjusted Gross Income

A sample is conducted to eliminate the need to tabulate components of income and deductions from all of the approximately 8 million tax returns. However, a sample produces the undesirable effect of a sampling error. This error can be reduced by stratifying the sample. As in past years, the sample was stratified by income class and return type for resident and nonresident returns. The long-form returns IT-201 and IT-203 were additionally stratified by deduction status: standard or itemized. The IT-203 returns were further stratified by full-year nonresidents and part-year residents. However, the IT-203 sampling ratios do not differ between full-year nonresident and part-year resident returns, only among income classes and between deduction status. Also, the income classifier for IT-203 returns is New York-source FAGI from

NYAGI. The sampling error depends not only on the sample size, but also on the allocation of the sample to the different strata of income classes and return types. For the 1995 study, the allocation of the sample was computed according to statistical principles which minimized the sample size while maintaining or improving the precision of estimation of total income, tax liability and six of the most important federal components of income.

The sampling errors for the statistics published here vary by item and classification. The actual sampling errors associated with a particular sample are unknown. What can be estimated are the typical errors to be expected in repeated sampling with a given sampling plan. Table B-2 shows estimated standard sampling errors for all the statistics in Table 11 of the "Statistical Tables" section, with the exception of the ratio of tax to NYAGI. The errors are expressed as a percentage of the corresponding statistic, and can be used to form confidence interval estimates. The statistics from the four highest income classes have no sampling error, while those from the lowest class are estimated with comparatively low precision. Examining the errors by item reveals that, with the exception of the "Credits" statistics, the precision of the estimates are generally reliable. The relatively low reliability of the "Credits" estimates is due in part to the smaller fraction of taxpayers using credits as opposed to other items.

Table B-2: Estimated Standard Sampling Errors (Percent) With a Confidence Interval of One Standard Deviation

Income Class	Taxpayers	NYAGI	NY Deductions	Dependent Exemptions	Taxable Income	Tax Before Credits	Credits	Tax After Credits
Less than $ 5,000	6.51	6.66	6.61	0.00	7.89	7.92	40.74	7.96
$ 5,000 - 10,000	3.03	3.10	3.30	59.81	3.58	3.58	4.56	4.24
10,000 - 15,000	1.53	1.56	1.60	9.38	1.84	1.87	2.37	2.14
15,000 - 20,000	0.68	0.70	0.82	4.15	0.88	0.97	1.99	1.29
20,000 - 25,000	0.20	0.24	0.53	3.64	0.51	0.69	2.07	0.92
25,000 - 30,000	0.14	0.18	0.55	3.07	0.39	0.57	3.11	0.67
30,000 - 35,000	0.12	0.16	0.68	3.66	0.38	0.59	6.68	0.65
35,000 - 40,000	0.08	0.12	0.70	3.13	0.33	0.51	8.90	0.55
40,000 - 45,000	0.11	0.14	0.77	3.72	0.34	0.52	10.55	0.55
45,000 - 50,000	0.12	0.14	0.80	3.00	0.31	0.45	10.87	0.49
50,000 - 55,000	0.09	0.11	0.82	2.57	0.29	0.39	10.19	0.43
55,000 - 60,000	0.09	0.11	0.81	2.55	0.26	0.34	10.35	0.38
60,000 - 65,000	0.11	0.12	0.92	2.77	0.28	0.35	11.78	0.40
65,000 - 75,000	0.05	0.09	0.69	1.96	0.19	0.24	8.71	0.28
75,000 - 100,000	0.03	0.10	0.57	1.28	0.17	0.19	5.69	0.22
100,000 - 150,000	0.05	0.14	0.66	1.20	0.19	0.22	4.84	0.25
150,000 - 200,000	0.09	0.16	1.16	1.88	0.24	0.24	6.40	0.30
200,000 - 500,000	0.03	0.27	0.93	1.18	0.29	0.29	3.86	0.32
500,000 - 1,000,000	0.05	0.27	1.78	1.63	0.28	0.28	4.21	0.34
1,000,000 - 2,000,000	0.08	0.33	2.85	2.00	0.36	0.36	4.86	0.43
2,000,000 - 5,000,000	0.05	0.43	2.78	2.00	0.45	0.45	4.36	0.50
$5,000,000 and over	0.01	0.52	1.98	0.39	0.46	0.46	0.84	0.48
All Taxable Returns	0.25	0.07	0.21	0.79	0.08	0.09	1.08	0.10

For more information concerning the data provided in this publication, please contact:

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