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**INCOME INEQUALITY  
IN NEW YORK CITY**



NEW YORK CITY COMPTROLLER  
JOHN C. LIU

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# INCOME INEQUALITY IN NEW YORK CITY

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## About the New York City Comptroller's Office

The New York City Comptroller, an independently elected official, is the Chief Financial Officer of the City of New York. The mission of the office is to ensure the financial health of New York City by advising the Mayor, the City Council, and the public of the City's financial condition. The Comptroller also makes recommendations on City programs and operations, fiscal policies, and financial transactions. In addition, the Comptroller manages the assets of the five New York City Pension Funds, performs budgetary analysis, keeps the City's accounts, audits City agencies, and registers proposed contracts. His office employs a workforce of more than 700 professional staff members. These employees include accountants, attorneys, computer analysts, economists, engineers, budget, financial and investment analysts, claim specialists, and researchers in addition to clerical and administrative support staff.

## Introduction

Since the financial crisis and recession of 2008-2009, the unequal distribution of income has become a controversial topic nationwide. Although most Americans agree that some variation in income among individuals and households is natural and desirable, the growing disparity between the highest income earners and the rest of the population since 1980 has stirred increasing concern that the process of income polarization has gone too far.

A number of studies have shown that America's income distribution has been growing more unequal in recent decades<sup>1</sup> and that the United States now has one of the most unequal income distributions in the industrialized world.<sup>2</sup> Obviously, a high degree of income inequality raises questions about economic and social equity. Furthermore, economists have argued that excessive income inequality is harmful to economic growth,<sup>3</sup> and can contribute to high levels of public and private indebtedness leading to financial crises.<sup>4</sup> Recently, some economists have also been exploring a possible negative relationship between the degree of income inequality and opportunities for economic mobility.<sup>5</sup> Scholars have even argued that America's increasing income inequality "saps the strength of its democracy."<sup>6</sup>

A polarized income distribution can also have adverse consequences at the municipal level. Growing income disparities can diminish or destabilize the local tax base, can intensify patterns of class and racial segregation, and can undermine the social cohesion that makes urban neighborhoods interesting and comfortable places to live and work.

The purpose of this report is to look at how income distribution in New York City compares to that of the nation as a whole, and how it has been changing in recent years.

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**The United States  
now has one of the  
most unequal income  
distributions in the  
industrialized world.**

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1 Congressional Budget Office. *Trends in the Distribution of Household Income Between 1979 and 2007*. October 2011.

2 OECD. *Growing Unequal? Income Distribution and Poverty in OECD Countries*. October 2008.

3 Andrew Berg and Johnathan Ostry: *Inequality and Unsustainable Growth: Two Sides of the Same Coin?* International Monetary Fund, April 2011.

4 Michael Kumhof and Romain Ranciere: *Inequality, Leverage, and Crises*. International Monetary Fund, November 2010.

5 Miles Corak, ed.: *Generational Income Mobility in the United States and Europe*. Cambridge University Press, 2004.

6 George Packer: "The Broken Contract." *Foreign Affairs*, November/December 2011.



## National Trends in Income Distribution

Regional and local income distribution is determined by several factors, among them trends in national income distribution, the particular mix of industries and jobs that comprise the regional economy, and how households sort among jurisdictions according to their residential preferences.

National income trends exert a very large influence on local income in the modern American economy. The U.S. economy is highly integrated regionally. Large national and multi-national firms operate similar facilities in various states and cities, non-profit institutions such as hospitals and universities compete nationally for research and philanthropic funding, and state and local governments provide a fairly standardized mix of services to their residents. All of these factors, aided by the high degree of capital and labor mobility, contribute to an integrated national labor market that promotes a convergence in earnings among the various states and cities. At the same time, national economic factors, such as levels of unemployment, corporate profits and dividends, stock and bond prices, and interest rates, tend to cause the fortunes of different income classes to rise and fall similarly throughout the country.

It is well-established that the income distribution of the nation has become more unequal over the past several decades. There are various ways to measure income inequality, however, they all tell much the same story. Table 1 shows the long-term trend in federal Adjusted Gross Income (AGI) by filer percentile, as reported on federal tax forms.

The table shows that the income share of the top 50 percent of tax filers changed only slightly between 1990 and 2009, with the top half of tax filers increasing their share from 85 to 87 percent. However, the table also shows that an increasing share of the national income was captured by the higher income percentiles. The top 25 percent of filers increased their share from 62 percent to 66 percent, while the top 5 percent of filers increased their share from 28 percent to 32 percent. Even more dramatically, the share of national income going to the top 1 percent of filers increased from 14.0 percent in 1990 to 22.8 percent in 2007, before dropping back to 16.9 percent in 2009.

**TABLE 1: U.S. Percentile Shares of Total Adjusted Gross Income**

| Filer Percentile | 1990                      | 2000 | 2007 | 2008 | 2009 |
|------------------|---------------------------|------|------|------|------|
|                  | (percent of total income) |      |      |      |      |
| Top 50%          | 85.0                      | 87.0 | 87.7 | 87.3 | 87.3 |
| Top 25%          | 62.1                      | 67.2 | 68.7 | 67.4 | 65.8 |
| Top 10%          | 38.8                      | 46.0 | 48.1 | 45.8 | 43.2 |
| Top 5%           | 27.6                      | 35.3 | 37.4 | 34.7 | 31.7 |
| Top 1%           | 14.0                      | 20.8 | 22.8 | 20.0 | 16.9 |
| Top 0.1 %        | NA                        | NA   | 11.9 | 10.0 | 7.8  |

Sources: US Internal Revenue Service; NYC Comptroller's Office



The share of income going to the most affluent groups peaked in 2007. As the table shows, the 2008-2009 recession was a powerful leveler of incomes, causing the share of the top 1 percent to decline by nearly 6 percentage points. This was primarily because investment income, which is disproportionately received by the wealthiest filers, declined much more dramatically than wage and salary income. For example, from 2008 to 2009 total interest income declined by 20.4 percent, dividend income (ordinary and qualified) declined by 24.1 percent, and taxable capital gains income declined by 46.9 percent.<sup>7</sup> Salaries and wages, in contrast, declined only 4.1 percent. It is likely that the share of income realized by the highest-income filers recovered significantly in 2010 and 2011, as dividend income rebounded and stocks have regained much of the value they lost during the recession, implying greater capital gains income. With the low interest rate environment that has prevailed, however, indications are that interest income continued to decline through 2011.<sup>8</sup>

The share of income going to high-income tax filers was driven largely by the share going to wealthiest filers among them. For example, the share of income going to filers in the 90th to the 99th percentiles increased from 24.8 percent in 1990 to 26.3 percent in 2009, while the share going to the top 1 percent increased from 14.0 percent to 16.9 percent. That indicates that about two-thirds of the income gains realized by the top 10 percent were captured by the top 1 percent. Researchers have shown that a similar divergence occurred even within the top 1 percent of filers, although the data set used here does not show the top 0.1 percent of filers separately until 2001. That group had increased its share from 8.1 percent in 2001 to 11.9 percent by 2007, falling to 7.8 percent in 2009, primarily because of the stock market slump.

Economists have offered a variety of explanations for the polarization of incomes. Among these explanations are globalization and immigration, the decline of labor unions, increasing demand for specialized skills and higher education, the rise of a “superstar” economy, and changes in executive compensation practices. Evaluating the evidence for and against each of those theories is beyond the scope of this research report.<sup>9</sup>

<sup>7</sup> U.S. Internal Revenue Service, *Statistics of Income, 2008 & 2009*. <http://www.irs.gov/taxstats/indtaxstats/article/0,,id=96981,00.html>.

<sup>8</sup> U.S. Bureau of Economic Analysis, *Personal Income and Its Disposition*. <http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1>, accessed March 21, 2012.

<sup>9</sup> A good discussion of various theories of income polarization can be found in: Robert J. Gordon and Ian Dew-Becker, *Controversies About the Rise of American Inequality: A Survey*, National Bureau of Economic Research (NBER) Working Paper No. 13982, April 2008. The seminal discussion of the superstar theory is found in: Sherwin Rosen, “The Economics of Superstars,” *American Economic Review* 71, No. 5: 845-58.



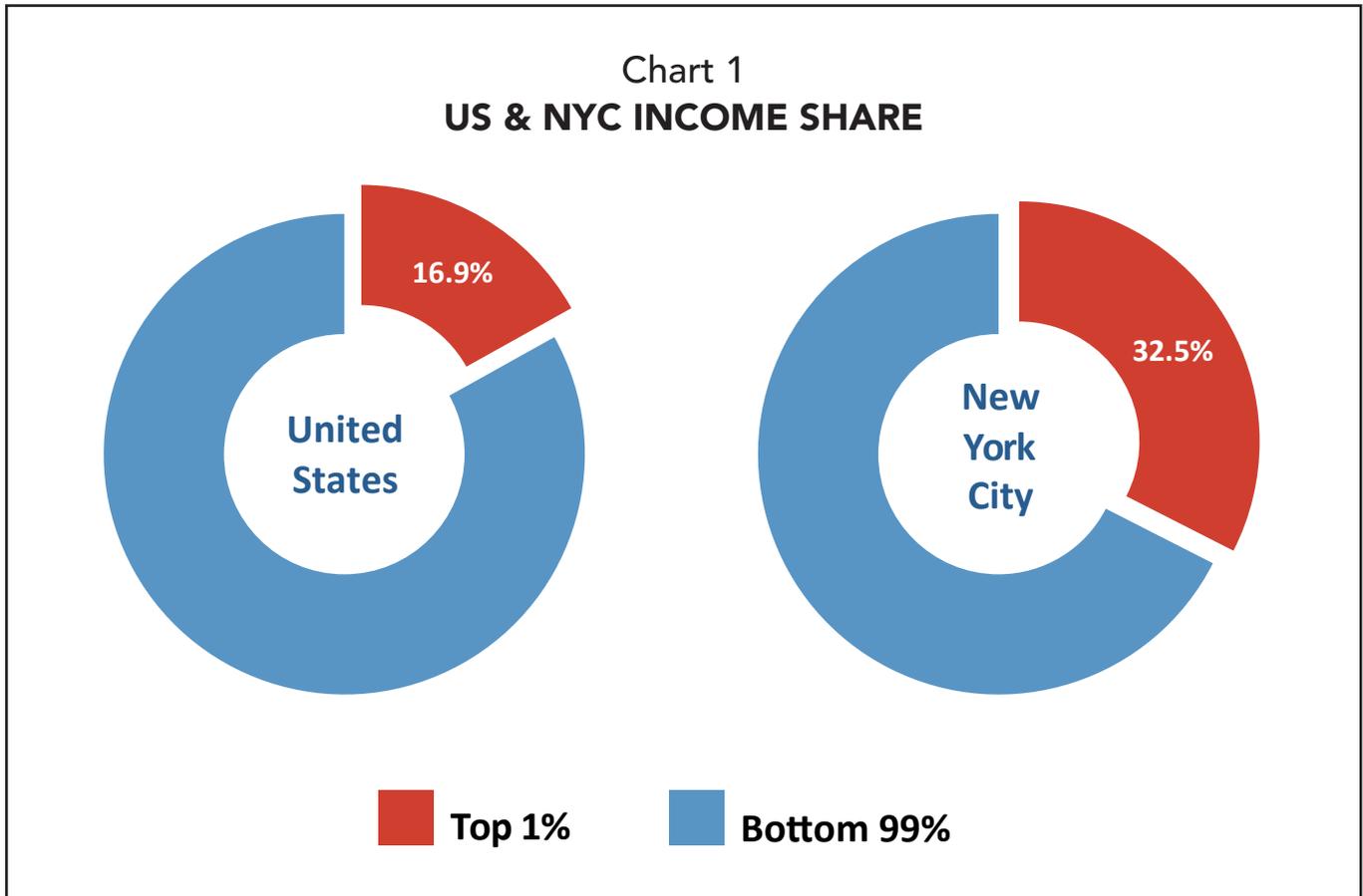


Table 2 shows how the percentage of filers in New York City falling into different income brackets differs from the national distribution. For this table, as well as for Table 3, we use U.S. Internal Revenue Service data to derive the national distribution and New York State Department of Taxation and Finance data to derive the New York City distribution. In both cases federal Adjusted Gross Income is used as the income measure, so the values are entirely comparable.

Table 2 shows that the distribution of New York City’s tax filers by income class is similar to the nation’s but somewhat more dispersed. About 68.3 percent of New York City tax filers had a federal adjusted gross of less than \$50,000 in 2009, compared to 66.1 percent of filers nationally. In the city, there is a noticeably smaller number of filers in what might be considered the “middle class” income bands—between \$50,000 and \$200,000 AGI. In New York, that group contains only 28.2 percent of income tax filers, compared to 31.1 percent nationally. Conversely, a higher percentage of New York City residents report incomes above \$200,000—3.5 percent of filers in the city, compared to 2.8 percent nationwide. Moreover, about .16 percent of income tax filers in the nation reported adjusted gross incomes of \$1 million or more in 2009. In New York City, that proportion was .43 percent, nearly three times higher.



**TABLE 2: Number of Filers by Federal Adjusted Gross Income, 2009**

| NUMBER OF FILERS           | UNITED STATES      |              | NEW YORK CITY    |              |
|----------------------------|--------------------|--------------|------------------|--------------|
|                            | NUMBER             | %            | NUMBER           | %            |
| Under \$20,000             | 49,024,635         | 34.9         | 1,278,646        | 36.6         |
| \$20,000 to \$30,000       | 18,696,279         | 13.3         | 456,150          | 13.0         |
| \$30,000 to \$40,000       | 14,371,647         | 10.2         | 357,529          | 10.2         |
| \$40,000 to \$50,000       | 10,796,412         | 7.7          | 296,243          | 8.5          |
| \$50,000 to \$75,000       | 18,694,893         | 13.3         | 451,537          | 12.9         |
| \$75,000 to \$100,000      | 11,463,725         | 8.2          | 246,826          | 7.1          |
| \$100,000 to \$200,000     | 13,522,048         | 9.6          | 287,558          | 8.2          |
| \$200,000 to \$500,000     | 3,195,039          | 2.3          | 89,197           | 2.5          |
| \$500,000 to \$1,000,000   | 492,568            | 0.4          | 19,333           | 0.6          |
| \$1,000,000 to \$5,000,000 | 214,287            | 0.2          | 12,996           | 0.4          |
| \$5,000,000 or more        | 22,596             | 0.0          | 1,916            | 0.1          |
| <b>Total</b>               | <b>140,494,127</b> | <b>100.0</b> | <b>3,497,930</b> | <b>100.0</b> |

Sources: US Internal Revenue Service; NYC Comptroller's Office

It is important to note that the composition of filer households, as well as relative salaries and wages, affects the distribution of incomes in the nation and city. For example, single filers in the city had an average reported income of \$47,238 in 2009, while single filers in the entire United States had average AGIs of \$29,808 in that same year. Similarly, the average reported income of married New York City filers filing jointly was \$140,215, compared to an average income of \$92,671 for such filers in the country overall. In New York City, however, there are slightly more single filers (49 percent compared to 45 percent) but far fewer married couples filing jointly (25 percent compared to 38 percent). Most of the difference is accounted for by those filing as head of household, which account for 24 percent of New York City filers but only 15 percent of U.S. filers.

Table 3 shows the percentage of total income accounted for by each income group in 2009. While the number of filers in each income group is similar in the nation and city, the table shows that the share of income captured by filers in each category is dramatically different.



**TABLE 3: Amount of Total Income and Share of Income by Income Group, 2009**

| AMOUNT OF INCOME           | UNITED STATES        |              | NEW YORK CITY        |              |
|----------------------------|----------------------|--------------|----------------------|--------------|
|                            | INCOME<br>(millions) | %            | INCOME<br>(millions) | %            |
| Under \$20,000             | 275,151              | 3.6          | 12,098               | 5.0          |
| \$20,000 to \$30,000       | 463,162              | 6.1          | 11,356               | 4.7          |
| \$30,000 to \$40,000       | 499,880              | 6.6          | 12,466               | 5.2          |
| \$40,000 to \$50,000       | 483,089              | 6.3          | 13,279               | 5.5          |
| \$50,000 to \$75,000       | 1,149,069            | 15.1         | 27,650               | 11.5         |
| \$75,000 to \$100,000      | 990,338              | 13.0         | 21,275               | 8.8          |
| \$100,000 to \$200,000     | 1,801,447            | 23.6         | 38,728               | 16.1         |
| \$200,000 to \$500,000     | 905,347              | 11.9         | 26,165               | 10.9         |
| \$500,000 to \$1,000,000   | 332,037              | 4.4          | 13,271               | 5.5          |
| \$1,000,000 to \$5,000,000 | 389,284              | 5.1          | 25,363               | 10.5         |
| \$5,000,000 or more        | 337,627              | 4.4          | 39,119               | 16.2         |
| <b>Total</b>               | <b>7,626,431</b>     | <b>100.0</b> | <b>240,770</b>       | <b>100.0</b> |

Sources: US Internal Revenue Service; NYC Comptroller's Office

While the share of total income earned by filers reporting AGI from \$50,000 to \$200,000 is 52 percent nationally, in New York City that group's share is only 36 percent. However, while in the United States overall filers earning \$200,000 or more capture about 26 percent of income, in New York City such filers' share is 43 percent. Even more stark is the difference in the income share captured by filers reporting \$1million or more AGI. In the nation, that group realized 9.5 percent of total income in 2009, but in New York City their share was 26.7 percent. That large difference is generated primarily by the greater concentration of filers earning \$1 million or more in New York City, as well as the somewhat higher average incomes of those filers.



## Trends in New York City's Income Distribution

As in the nation, there appears to be a trend toward a greater inequality of income in New York City. However, as was the case with the national income distribution, the trend towards a greater concentration of income at the high end of the earnings distribution that was evident during the 2001-2008 economic expansion was somewhat reversed in the recessionary year of 2009.

**TABLE 4: Percent of New York City Tax Filers by Federal AGI Category**  
Adjusted to 2009 Dollars

| AGI Category               | 2000         | 2001         | 2002         | 2003         | 2004         | 2005         | 2006         | 2007         | 2008         | 2009         |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                            |              |              |              |              | (percent)    |              |              |              |              |              |
| Under \$20,000             | 36.7         | 37.0         | 36.9         | 37.5         | 36.7         | 35.7         | 35.0         | 35.6         | 35.1         | 36.6         |
| \$20,000 to \$29,999       | 16.2         | 15.7         | 15.7         | 14.7         | 14.1         | 14.1         | 13.9         | 12.9         | 13.2         | 13.0         |
| \$30,000 to \$39,999       | 12.1         | 12.4         | 12.6         | 12.0         | 12.2         | 11.6         | 11.5         | 11.2         | 10.7         | 10.2         |
| \$40,000 to \$49,999       | 8.8          | 8.3          | 8.7          | 8.4          | 8.8          | 8.9          | 8.8          | 8.4          | 8.6          | 8.5          |
| \$50,000 to \$74,999       | 12.1         | 12.5         | 12.2         | 12.7         | 12.4         | 13.0         | 13.0         | 12.9         | 13.0         | 12.9         |
| \$75,000 to \$99,999       | 5.5          | 5.7          | 5.4          | 6.0          | 6.4          | 6.5          | 6.6          | 6.9          | 6.9          | 7.1          |
| \$100,000 to \$199,999     | 5.8          | 5.8          | 5.9          | 6.1          | 6.4          | 7.0          | 7.6          | 8.0          | 8.4          | 8.2          |
| \$200,000 to \$499,999     | 1.9          | 1.9          | 1.8          | 1.8          | 2.0          | 2.3          | 2.5          | 2.7          | 2.8          | 2.5          |
| \$500,000 to \$999,999     | 0.5          | 0.4          | 0.4          | 0.4          | 0.5          | 0.6          | 0.6          | 0.7          | 0.7          | 0.6          |
| \$1,000,000 to \$4,999,999 | 0.4          | 0.3          | 0.3          | 0.3          | 0.4          | 0.4          | 0.5          | 0.5          | 0.5          | 0.4          |
| \$5,000,000 or more        | 0.1          | 0.0          | 0.0          | 0.0          | 0.1          | 0.1          | 0.1          | 0.1          | 0.1          | 0.1          |
| <b>Total</b>               | <b>100.0</b> |

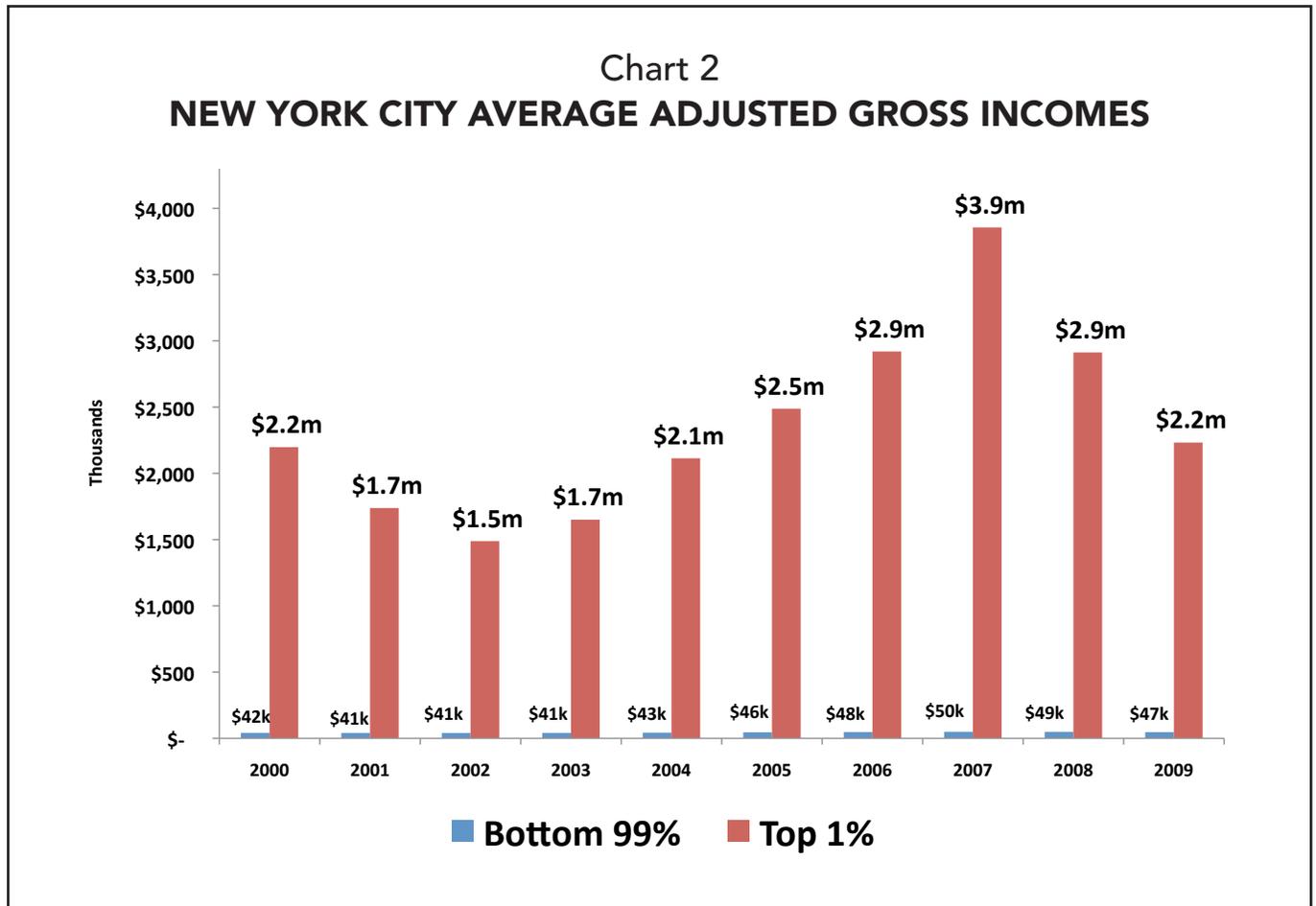
Source: NYC Comptroller from NYC Income Tax Files

Table 4 shows the distribution of New York City income tax filers by income category for 2000 through 2009. The adjusted gross incomes of filers were adjusted to 2009 dollar values using the Consumer Price Index, to eliminate “bracket creep” due solely to inflation.

The table shows that, throughout the past decade, New Yorkers overall became more prosperous. The proportion of the city’s income tax filers reporting adjusted gross incomes of less than \$50,000 fell from 73.7 percent in 2000 to 67.7 percent in 2008. Even in 2009, when unemployment, underemployment, and investment losses were biting most deeply into household incomes, the percent of filers earning less than \$50,000 rose only to 68.3 percent, still well below the proportion of earlier in the decade. It should be noted, however, that because of population and labor force participation growth, the absolute number of tax filers earning less than \$50,000 increased by about 89,000, or 4 percent.



The largest growth in an absolute sense was in the middle-income ranges. Filers reporting incomes from \$50,000 to \$199,999 increased in number by over 254,000, rising from 23.5 percent of all filers in 2000 to 28.2 percent in 2009.



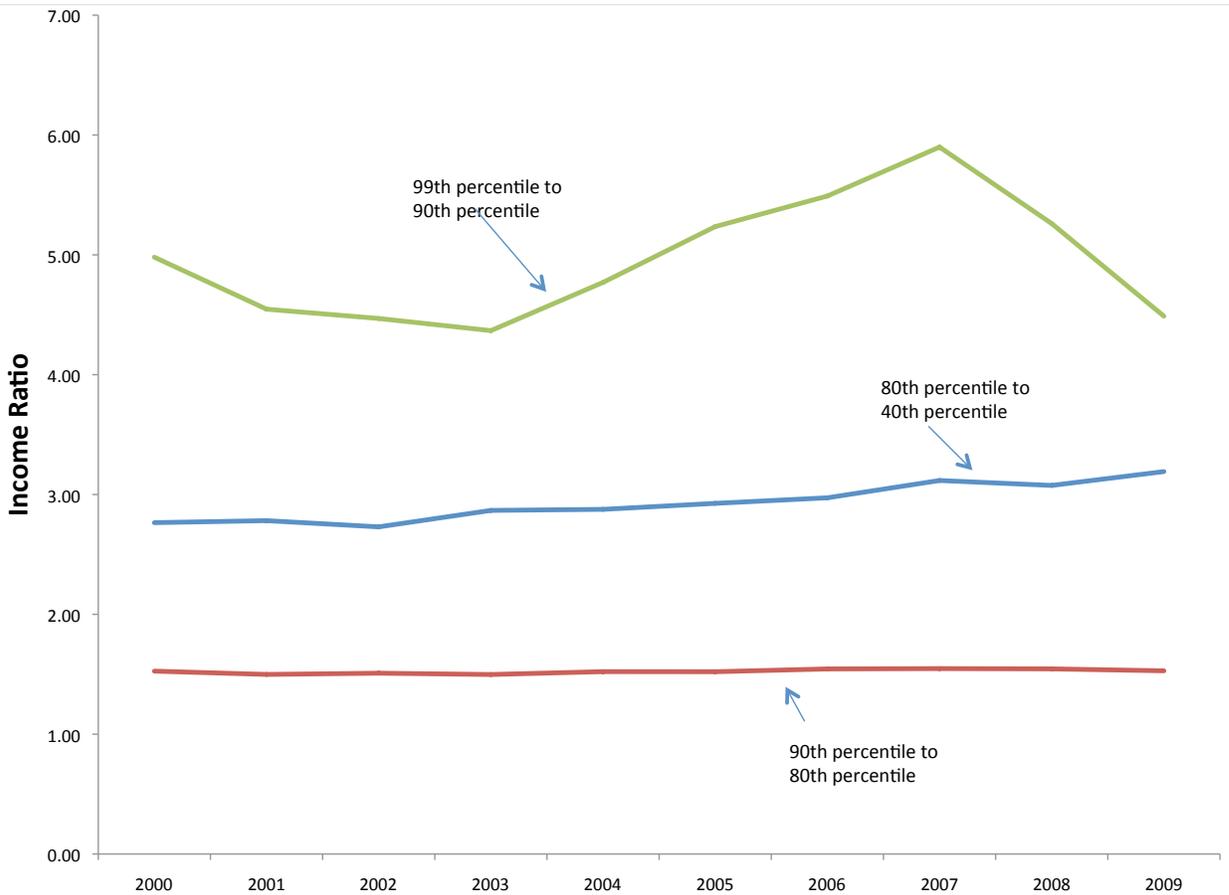
The fastest growth was among filers earning \$200,000 or more, a group which grew by 40 percent during the decade. However, it remained a relatively small proportion of all New York City tax filers, growing from 2.8 percent in 2000 to 3.5 percent in 2009. The number of filers earning more than \$200,000 was also highly sensitive to economic conditions, growing from 79,000 in 2002 to 140,000 in 2007, and then declining to 123,000 in 2009.

The number of New York City tax filers reporting adjusted gross incomes of \$1 million or more also swelled during the mid-decade boom but declined during the recession. The number of filers with incomes in excess of \$1 million more than doubled from 2002 to 2007, to 22,460, but fell to 14,912 in 2009. The average income of those filers also declined, from \$5.7 million in 2007 to \$4.3 million in 2009 (in 2009 dollars).

One method of measuring income inequality is to look at the ratio of the earnings of members of one percentile relative to another. Chart 3 looks at three such ratios: that between filers at the 80th and 40th income percentiles, between filers at the 90th and 80th percentiles, and between filers at the 99th and 90th percentiles.



Chart 3  
**PERCENTILE INCOME RATIOS FOR NEW YORK CITY**  
 Tax Filers, 2000-2009



In 2000, a New York City tax filer at the 40th income percentile had an income of \$21,812, while a filer at the 80th income percentile had an income of \$60,311, yielding an income ratio of 2.77. During the decade that ratio increased slowly and steadily, reaching 3.19 by 2009. The ratio increased through the 2001-2003 recession and the 2008-2009 recession, as well as during the expansion in between. Such a small but consistent increase suggests that a structural economic factor was at work, perhaps relating to a greater demand for skilled and educated workers and higher market compensation for those skills.



In 2000, a New York City tax filer at the 90th income percentile had an income of \$92,034, about 1.53 times that of an 80th percentile earner. The ratio stayed remarkably stable throughout the decade, fluctuating very little and ending the decade at the same 1.53 ratio. This stability suggests that similar economic factors were affecting the earnings of all workers in the upper middle-income deciles in similar ways.

The relative incomes of the top 1 percent of New Yorkers performed very differently throughout the decade. In 2000, an adjusted gross income of \$458,381 placed a filer in the top one percent (99th percentile) of the income distribution, representing an income ratio of 4.98 compared to a filer at the 90th percentile. By 2007, a filer needed an income of \$660,532 to place in the top 1 percent, giving them an income 5.9 times greater than someone at the 90th percentile. However, the 99th percentile cut-off plunged to \$492,422 by 2009, and the ratio to the 90th percentile fell to 4.49, the lowest since 2003. The volatility of incomes among the top 1 percent of earners again shows their sensitivity to general economic conditions, and more specifically, to stock market values and Wall Street profits.

**TABLE 5: NYC Income Percentile Thresholds**

| YEAR | ANNUAL INCOME NEEDED TO BE IN TOP |          |          |           |           |
|------|-----------------------------------|----------|----------|-----------|-----------|
|      | 80%                               | 60%      | 20%      | 10%       | 1%        |
| 2000 | \$11,177                          | \$21,812 | \$60,311 | \$92,034  | \$458,381 |
| 2001 | \$11,117                          | \$21,878 | \$60,861 | \$91,200  | \$414,651 |
| 2002 | \$11,072                          | \$22,046 | \$60,185 | \$90,814  | \$405,839 |
| 2003 | \$10,712                          | \$21,526 | \$61,721 | \$92,448  | \$403,767 |
| 2004 | \$10,966                          | \$22,245 | \$63,979 | \$97,367  | \$464,448 |
| 2005 | \$11,345                          | \$22,869 | \$66,917 | \$101,788 | \$532,914 |
| 2006 | \$11,353                          | \$23,490 | \$69,825 | \$107,839 | \$592,121 |
| 2007 | \$10,849                          | \$23,218 | \$72,370 | \$111,968 | \$660,532 |
| 2008 | \$10,628                          | \$23,803 | \$73,213 | \$113,103 | \$595,029 |
| 2009 | \$10,400                          | \$22,489 | \$71,769 | \$109,711 | \$492,422 |

Source: NYC Comptroller from NYC Income Tax Files

Using decile cut-offs to quantify the relationship between income classes is a useful way of analyzing the income distribution, but it also tends to understate the degree of income disparity between those at the top and everyone else. Chart 2 shows the average adjusted gross income of the city’s top 1 percent of filers, and the average of the bottom 99 percent, expressed in dollars.

During the decade, the average income of the top earners fluctuated between about \$1.5 million and \$3.9 million, while the average of the bottom 99 percent fluctuated between \$41,700 and \$49,500.



Another common way of evaluating income inequality is to look at the share of total income that is captured by different income deciles. For example, in 2009 the top 10 percent of federal income tax filers captured 43.2 percent of all adjusted gross income in the nation, while the bottom 5 deciles together realized only 13.5 percent of total income. Table 6 shows the share of total adjusted gross income realized by the corresponding income deciles of New York City tax filers.

**TABLE 6: Percentile Shares of Total Adjusted Gross Income**  
New York City Tax Filers, 2000-2009

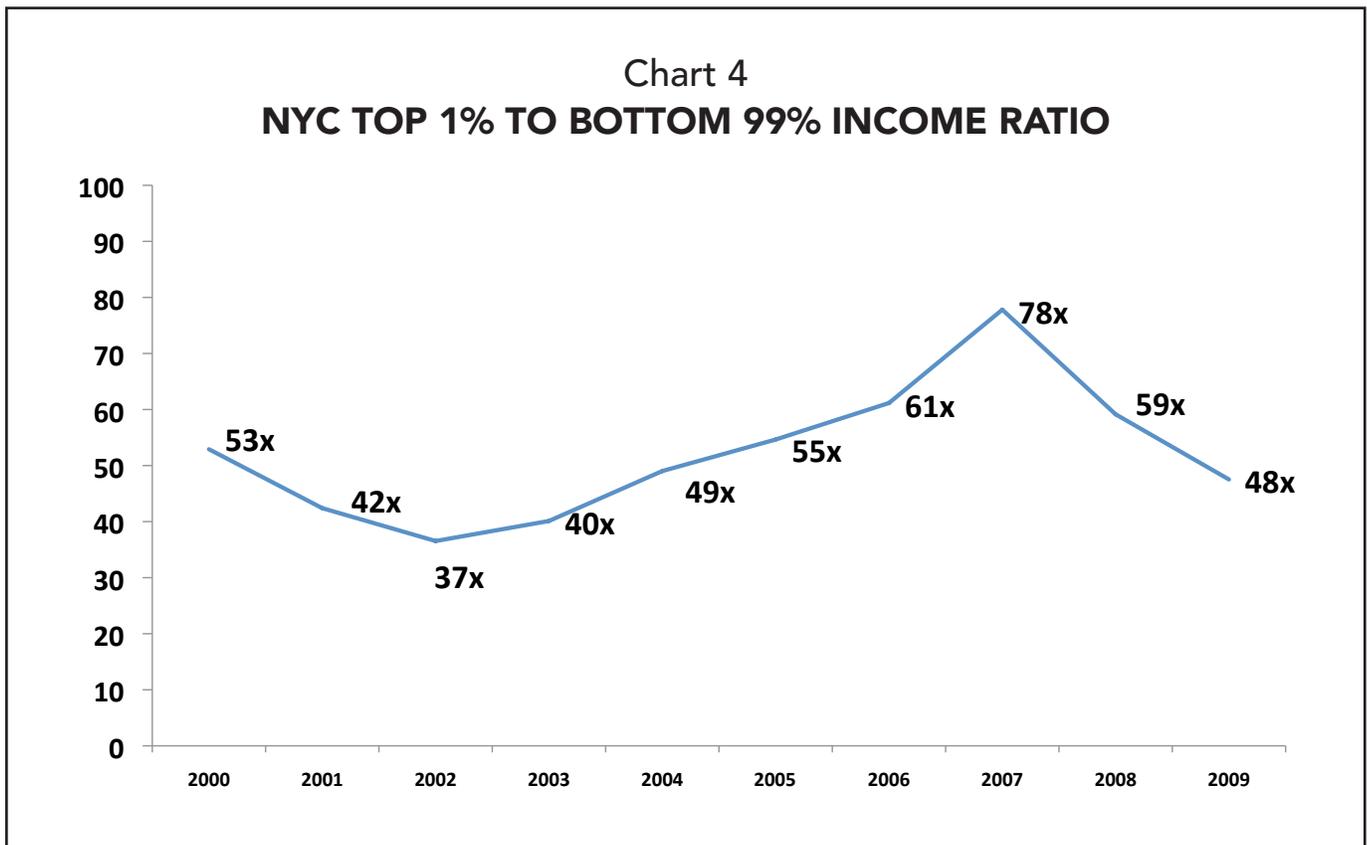
| Filer Percentile | 2000                      | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |  |
|------------------|---------------------------|------|------|------|------|------|------|------|------|------|--|
|                  | (percent of total income) |      |      |      |      |      |      |      |      |      |  |
| Top 50%          | 88.8                      | 87.9 | 87.2 | 88.0 | 89.0 | 89.7 | 90.4 | 91.9 | 91.0 | 90.1 |  |
| Top 25%          | 73.6                      | 71.3 | 69.8 | 70.9 | 73.2 | 74.7 | 76.3 | 79.3 | 76.6 | 74.2 |  |
| Top 10%          | 57.5                      | 53.7 | 51.6 | 52.8 | 56.3 | 58.6 | 60.9 | 65.4 | 60.7 | 56.6 |  |
| Top 5%           | 48.8                      | 44.3 | 41.8 | 43.3 | 47.3 | 49.8 | 52.4 | 57.5 | 51.9 | 47.0 |  |
| Top 1%           | 34.8                      | 30.0 | 27.0 | 28.8 | 33.1 | 35.6 | 38.2 | 44.0 | 37.4 | 32.5 |  |
| Top 0.1 %        | 20.3                      | 16.2 | 13.4 | 15.4 | 18.6 | 20.0 | 22.0 | 27.8 | 22.4 | 18.9 |  |

Source: NYC Comptroller from NYC Income Tax Files

In New York City, the top 10 percent of earners account for a much higher percentage of total income—56.6 percent in 2009—than they do in the nation. That figure reached an astounding 65 percent in 2007, before subsiding again due to the financial crisis and recession.

The higher income share of the top 10 percent of earners in New York City is entirely due to the higher share of the top 1 percent of earners. Filers in the 90th through the 99th percentiles actually earned a smaller share of total income in the city than they earned in the nation throughout the past decade. However, in New York City the share of the top 1 percent ranged from a low of 27 percent in 2002 to a high of 44 percent in 2007, averaging about 34 percent for the decade. New York City’s top 1 percent earns, on average, significantly more than the nation’s top 1 percent (in 2009, \$2,223,987 compared to \$959,959), and they did relatively better than their counterparts nationwide during the decade. From 2000 to 2007, the average income of the nation’s top 1 percent grew by 50 percent, whereas the average income of New York City’s top 1 percent soared by 76 percent. Due to the recession and other financial conditions, the average income of the nation’s top 1 percent in 2009 plunged to a level slightly below that of 2000, while the average income of New York City’s top 1 percent remained modestly above the levels realized nine years earlier.





## Income Trends, Volatility, and Sorting

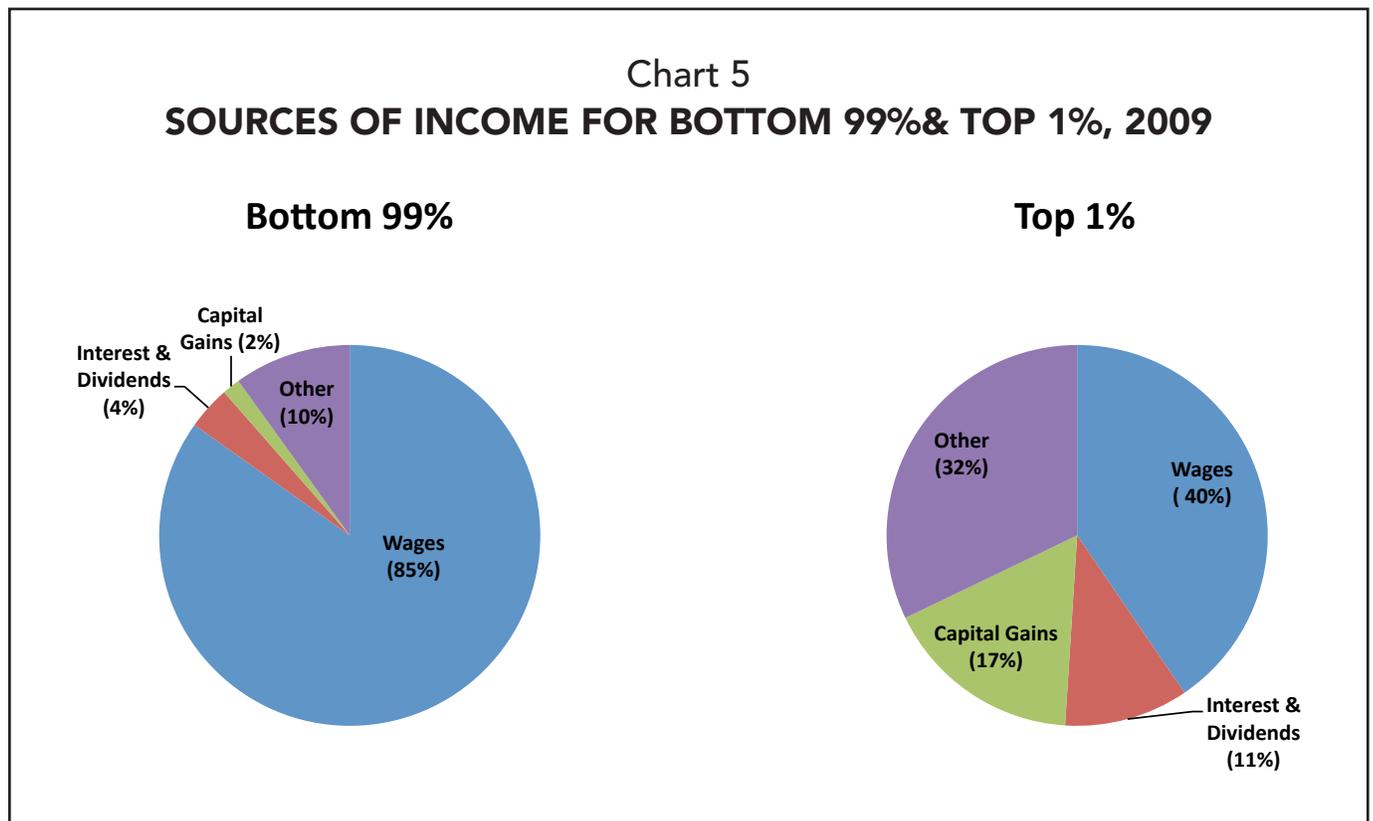
The data presented in this brief shows that New York City’s income distribution is significantly more skewed than the nation’s. In 2009, the top 1 percent of national filers realized 16.9 percent of the nation’s adjusted gross income, whereas New York City’s top 1 percent realized 32.3 percent of the city’s total personal income. Conversely, the nation’s bottom 50 percent of filers realized 13.5 percent of the nation’s total personal income, while the bottom 50 percent in New York City realized only 9.9 percent of the city’s.

National income tax data show definitively that the nation’s income distribution has been getting more unequal for at least the past three decades, with the top 1 percent capturing more of the national income and the rest, and especially the bottom 50 percent, less. There seems to be a similar long-term trend in New York City.



The Comptroller’s Office analyzed the Personal Income Tax (PIT) files for the tax years 2000 through 2009. However, a previous study by the NYC Independent Budget Office (IBO) shows that the trend toward a concentration of income among the city’s highest-income filers goes back at least to the 1980s.<sup>10</sup> In 1997, according to the IBO, filers with incomes over \$1 million received 20.1 percent of all resident filer income, compared to 9.9 percent in 1987.

One difficulty in drawing definitive conclusions about underlying trends in the local distribution of income is caused by the volatility of incomes, especially at the higher end of the income distribution. The increasing concentration of the city’s income among the top 1 percent of tax filers from 2000 to 2007 was rapid, but the financial crisis and recession caused the city’s income distribution to revert back much to what it looked like at the beginning of the decade. The volatility of income at the upper-most income levels is primarily due to the sources of income of high-earners. For the bottom 90 percent of earners, wages, salaries and pension income accounted for 88.8 percent of all adjusted gross income in 2009, while for the top 10 percent of earners, those sources represented just 59 percent of income. Investment income is even more important to the top 1 percent of city earners, who derived just 41 percent of their total income from wages, salaries, and pensions in 2009. A correspondingly larger share of their income is derived from volatile sources, such as business income, capital gains, and dividends.



<sup>10</sup> *Big City, Big Bucks: NYC’s Changing Income Distribution*. New York City Independent Budget Office, June 2000.



Consequently, in a “normal” year, it is unlikely that the share of the city’s income realized by the top 1 percent of earners would be as high as it was during the credit and Wall Street boom years of 2005-2007. On the other hand, it is unlikely to be as low as in the recession year of 2009. Although averaging the shares across a full business cycle can be useful, “normalizing” in that way obscures the underlying trends that may also be occurring.

In shifting the analysis of income distribution from the national to the local level, additional considerations are introduced. Although about 35 million Americans changed their residence in 2011, relatively few left the country entirely. As a result, the national income distribution is relatively unaffected by patterns of residential choice. However, the residential sorting of people who work in the same metropolitan labor market can exert a significant impact on a local area’s income distribution. This is especially true in the New York metropolitan area, where residents of more than 30 counties and four states participate in a common labor market.

In the New York metropolitan area there are well-known patterns of residential sorting by wealth, race, family size, and other characteristics. However, those patterns tend to be deeply established in the region’s labor market configuration, housing markets, and transportation infrastructure, and are not subject to rapid change. For example, our analysis of state income tax data for New York, New Jersey, and Connecticut indicates that the relative number of filers earning \$1 million or more was quite stable during the 2004-2009 period, with New York State home to about 59 percent of the tri-state “millionaires,” of which a little over half lived within New York City. Consequently, we conclude that the basic trends in the city’s income distribution detailed in this brief were primarily driven by economic conditions and not caused by the movement of households among residential locations.

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***The city’s income distribution...is undergoing a long-term trend toward greater inequality.***

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## Conclusion

This report looked at how the pre-tax income distribution in New York City compares to the income distribution of the nation as a whole and at how it is changing. The essential finding is that the city’s income distribution looks much like the nation’s and is undergoing a similar long-term trend toward greater inequality. There are some differences, however, that intensify characteristics of the national income trends. These differences include:

- 1) New York City has slightly more taxpayers at the lower end (below \$20,000) and the higher end (\$1 million and above) of the income distribution than does the nation;
- 2) Relatively small differences in the share of taxpayers at the extremes of the income distribution translate into large differences in the share of total income captured by the top 1percent of filers;
- 3) The incomes of the top 1 percent of the nation’s filers are extremely volatile and those of the city’ top 1 percent appear to be even more volatile.

Although the national trend toward greater income inequality appears to be some three decades old, only in the past few years has it become a major topic of national political discussion. Among the questions posed by this growing debate is whether increased inequality is a product of competitive market forces and hence can only be mitigated by more progressive tax policies, or whether those market outcomes are a result of governmental actions or inactions that have tilted the playing field in favor of the wealthy and can be mitigated by new regulatory frameworks. In either case, the increased polarization of the income distribution has both national and local ramifications and will probably remain a topic of intense policy debate.



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