

## **New York City and Philadelphia Income Taxes**

By: John Rappa, Chief Analyst  
December 6, 2017 | 2017-R-0237

### **Issue**

Do New York City and Philadelphia levy personal income taxes, and can Connecticut municipalities do the same?

### **New York City and Philadelphia Personal Income Taxes**

New York City and Philadelphia tax different sources of income. New York City taxes the compensation, investment, and other income of city resident individuals, trusts, and estates. (It also taxes the income of certain city employees, regardless of where they live.) Philadelphia taxes the (1) compensation paid to individuals and (2) net profits generated by certain entities, including proprietorships, trusts, and estates. Specifically, it taxes:

1. wages, salaries, commissions, and other forms of compensation paid to city residents, regardless of where they work, and nonresidents who work in the city and
2. net profits of entities that are located in Philadelphia, regardless of where they do business and those located outside the city, but doing business there.

New York City and Philadelphia derive their taxing authority from different types of statutes. New York State statute specifically authorizes New York City to impose a city income tax and requires the tax it imposes to conform to parameters (e.g., the tax base, income brackets, and tax rates) set by the state in statute. Pennsylvania law grants Philadelphia broad home rule powers, including taxation. Table 1 compares components of the income taxes New York and Philadelphia levy.

**Table 1: Comparison of New York City and Philadelphia Income Taxes**

<b>Question</b>	<b>New York City</b>	<b>Philadelphia</b>
What is taxed?	Compensation, investment, and other income of: <ul style="list-style-type: none"> <li>city residents, trusts, and estates and</li> <li>certain city employees, regardless of residence</li> </ul>	Wages, salaries, commissions, and other compensation paid to: <ul style="list-style-type: none"> <li>city residents, regardless of where they work and</li> <li>nonresidents working in Philadelphia</li> </ul> Net profits of sole proprietorships, partnerships, associations, limited liability companies, and estates or trusts located in Philadelphia or doing business there
When did the city adopt the tax?	1966	1939
What is the tax rate?	Rates vary based on income and filing status  Five income brackets, with rates ranging from 2.907% to 3.876% <sup>[1]</sup>	Flat rate: <ul style="list-style-type: none"> <li>Residents: 3.8907%</li> <li>Nonresidents: 3.4654%<sup>[2]</sup></li> </ul>
How is the tax administered?	State collects the tax and remits it to the city	City collects the tax
How much revenue does the tax generate?	FY 17 actual: \$11.3 billion (13.6% of total revenue) <sup>[3]</sup>	FY 17 estimate \$1.5 billion (37% of total tax revenue) <sup>[4]</sup>
Where is the tax authorized?	<ul style="list-style-type: none"> <li><a href="#">N.Y. Tax §§ 1300-1313</a></li> <li><a href="#">New York City Administrative Code, § 11-1701(a) and (b)</a></li> </ul>	<a href="#">Philadelphia Code Chapter 19-1500, Wage and Net Profit Tax</a>

(As discussed in this 2013 [OLR Report](#), at least 13 states, including New York and Pennsylvania allow counties, cities, and other local jurisdictions to levy income taxes.)

## **Ability of Connecticut Municipalities to Levy Income Taxes**

State law allows municipalities to levy a property tax and several narrower taxes, which they must do as the statutes prescribe. It does not explicitly allow them to levy other types of taxes, including income taxes, and Connecticut courts have long held that a municipality has “only the powers which are expressly conferred upon it by the general statutes or by some special act of the General Assembly and those which are fairly to be implied as necessary to carry into effect” (*Old Colony Gardens, Inc. v. Stamford*, 147 Conn. 60 (1959)).

<sup>[1]</sup> New York State Department of Taxation and Finance, [New York City Tax Rate Schedule](#)

<sup>[2]</sup> City of Philadelphia, Payments, [Assistance, and Taxes](#)

<sup>[3]</sup> [The City of New York: Comprehensive Annual Financial Report of the Comptroller for Fiscal Year Ended June 30, 2017](#) (undated), p. 48.

<sup>[4]</sup> [City of Philadelphia, The Mayor’s Operating Budget in Brief for Fiscal Year 2018](#), March 2017, p. 9

With regard to municipal taxing power, the Connecticut Supreme Court ruled in 1976:

A municipality, as a creation of the state, has no power of its own nor does it have any powers of taxation except those expressly granted to it by the legislature. For these reasons, a municipality's powers of taxation can be lawfully exercised only in strict conformity to the terms in which they were given and statutes conferring authority to tax must be strictly observed" (*Joseph W. Pepin et. al. v. City of Danbury et. al.*, 171 Conn. 74 (1976)).

JR:bs