

ECONOMIC ANALYSIS

At the Helmsley Building, the Little People Pay the Taxes

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Leona Helmsley was the billionaire real estate baroness New Yorkers loved to hate. She was famous for humiliating her household help and hotel staff. When it came to home improvement, she routinely charged it as a business expense or simply left her contractors unpaid. Her greed eventually led to prosecution in 1988 by then-New York District Attorney Rudy Giuliani. Helmsley received a four-year sentence for fraud and tax evasion. She served 18 months. When she died in 2007, the Queen of Mean left her relatives in the cold and the bulk of her fortune to charity. Trouble Helmsley, Leona's Maltese, got a \$12 million trust fund, took up residence at the Helmsley Sandcastle Hotel, and by all reports was indifferent to the *New York Post* headline calling her a "rich bitch."

The infamous Helmsley is probably most remembered for her quote revealed during her trial. Helmsley's former maid quoted her boss as saying, "We don't pay taxes. The little people do." Not since Marie Antoinette told starving Parisians to eat cake has callous royalty done so much to stir up populist fervor. Luckily for Helmsley, the little people on the jury did not have the guillotine as a sentencing option.

Included in the Helmsley real estate empire was the former New York General Building built in 1928 by Cornelius Vanderbilt. Before he died, Leona's husband, Harry, purchased the 35-story art deco landmark that straddles Park Avenue between 45th and 46th streets. Leona renamed it the Helmsley Building. In 1998 she sold it for \$250 million. In 2007 Goldman Sachs purchased it for over \$1 billion.

The average adjusted gross income per Helmsley Building tax return is \$1.17 million.

Like many other high-profile Manhattan skyscrapers, the Helmsley Building has its own ZIP code. The IRS tabulates individual tax return data by ZIP code, so we can see how much income tax

was reported on individual tax returns that were filed from the Helmsley Building. In 2007 there were 130 returns using the building's ZIP code. The IRS data do not reveal whether these returns were filed by individuals using the building as a primary residence, a secondary residence, or a business address. In any case, these are not your typical strap hangers. The average adjusted gross income per tax return is \$1.17 million.

But it is not just lofty levels of income that separate the Helmsley residents from regular folks. It's their tax rate. In the table below, we compare the total income and estimated payroll tax liability of a typical filer from the Helmsley Building with the income tax and payroll liability of janitors and security guards earning average salaries for those professions in the New York area. The Helmsley Building no doubt employs dozens of janitors and security guards, many of whom earn salaries comparable to these government-reported averages.

Table 1. Janitors and Security Guards Have Higher Tax Rates Than Residents at the Helmsley Building

	NYC Janitor	NYC Security Guard	Average Filer in Helmsley Building
AGI	\$33,080	\$27,640	\$1,167,708
Income tax	\$3,168	\$2,350	\$159,515
Employee payroll tax	\$2,531	\$2,114	\$5,918
Employer payroll tax	\$2,531	\$2,114	\$5,918
Total tax	\$8,229	\$6,579	\$171,352
Effective tax rate	24.9%	23.8%	14.7%

The data directly from tax returns show that total average income tax liability for individuals filing from the Helmsley Building was only 13.7 percent of AGI.

As is true for most rich people, payroll taxes are small relative to income taxes. In 2007 the Social Security portion of payroll taxes (12.4 percent rate) was imposed on no more than \$97,500 of wage and self-employment income. The Medicare portion (2.9 percent rate) had no limit. For Helmsley filers, estimated payroll taxes added only 1 percentage point to their effective tax rate. Combined income

Table 2. 20 ZIP Codes With Highest Average AGI in 2007

Location	ZIP Code	Number of Returns	AGI Per Return (in thousands)	Effective Tax Rate
Seagram Building, Manhattan	10152	19	\$13,892.21	19%
GM Building, Manhattan	10153	31	\$9,925.84	24%
Bowling Green, Manhattan	10274	548	\$5,493.77	22%
Fisher Island, Fla.	33109	253	\$2,580.45	23%
888 Fashion Avenue, Manhattan	10106	163	\$2,574.94	16%
Bear Stearns, Manhattan	10179	13	\$2,173.77	20%
International Building, Manhattan	10111	472	\$2,087.93	18%
GE Building, Manhattan ("30 Rock")	10112	285	\$2,021.75	24%
West Vaco Building, Manhattan	10171	31	\$1,748.03	12%
Northbrook Village, Ill.	60065	133	\$1,336.34	31%
Oklahoma City	73126	28	\$1,265.93	21%
Atherton, Calif.	94027	3,505	\$1,227.79	21%
Helmsley Building, Manhattan	10169	130	\$1,167.71	14%
Park Avenue Plaza, Manhattan	10055	39	\$1,164.72	25%
Wall Street, Manhattan	10005	4,150	\$1,109.43	25%
Rochester, Mich.	48308	302	\$1,107.06	17%
Mill Neck, N.Y.	11765	380	\$1,092.35	18%
Sea Island, Ga.	31561	198	\$1,028.61	21%
South Palm Beach, Fla.	33480	5,967	\$971.51	19%
Purchase, N.Y.	10577	1,888	\$939.15	22%

and payroll tax liability for this privileged group was only 14.7 percent of AGI.

Working people have an entirely different tax profile than the elite. The biggest difference is that for workers, payroll taxes impose a larger burden than the income tax. Data from the Department of Labor indicate that the average annual salaries for janitors and security guards in the New York City area were \$33,080 and \$27,640, respectively. Using the 2007 version of the Form 1040EZ, the income tax liability of a typical New York janitor is \$3,168. Payroll taxes total \$5,062. Combined income and payroll tax liability tax for the typical janitor is 24.9 percent of AGI.

Combined income and payroll tax liability for Helmsley filers was only 14.7 percent of AGI.

The New York tabloids don't have Leona Helmsley to kick around anymore. But IRS data on the Park Avenue structure bearing her name show that

her spirit lives on. Superrich New Yorkers don't pay high taxes. The little people do.

Data Appendix

When they compile individual tax returns by ZIP code, the economists at the Statistics of Income division of the IRS take several steps to preserve confidentiality. For example, no ZIP codes with fewer than 10 filers are included. And if any one return dominates a data entry, that return is either dropped or merged into another total. Still, we are left with a fascinating and unique view of America's tax geography.

As you can see from Table 2, the superrich in these ZIP codes typically pay federal tax equal to about 20 percent of their AGI. On these returns, deductions for state and local taxes (8 percent of AGI) and charitable contributions (5 percent of AGI) help keep taxes low. But the dominant factor accounting for their low tax rates is the 15 percent tax rate on capital gains and dividends. On these returns, capital gains and dividends account for a whopping 64 percent of total income. ■