YOUR FAMILY IS MY FIGHT

FY2026 NYS EXECUTIVE BUDGET
ECONOMIC AND REVENUE OUTLOOK

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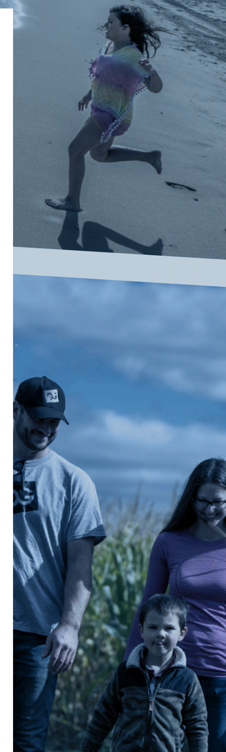

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INTRODUCTION

Introduction

The development of the Executive Budget requires numerous assumptions about future revenue streams which are ultimately dependent on the health of the U.S. and State economies. The Division of the Budget (DOB or The Division) has developed extensive economic analysis and forecasts to inform the receipts projections underlying the Executive Budget. This Economic and Revenue Outlook is a volume designed to enhance the presentation and transparency of the FY 2026 Executive Budget by providing detailed information on the economic and receipt projections. The analysis and forecasts presented in this volume are also used in the development of the expenditure projections where spending trends are impacted by economic conditions.

Executive Budget Financial Plan receipts include a variety of taxes, fees and assessments, charges for State-provided services, Federal grants, and other miscellaneous receipts. The Economic and Revenue Outlook includes receipts information required by Article VII of the State Constitution and Section 22 of the State Finance Law and provides information to supplement extensive reporting enhancements undertaken in recent years. The Division believes the information will aid the Legislature and the public in fully understanding and evaluating the economic assumptions and receipts estimates informing the FY 2026 Executive Budget.

The receipts estimates are prepared by DOB with the assistance of the Department of Taxation and Finance (DTF) and other agencies which collect State receipts and are predicated on economic analysis and forecasts. To the extent they are material, sources of receipts not referenced in this volume are discussed in the presentations of the agencies primarily responsible for executing the programs financed by such receipts.

The Economic and Revenue Outlook is presented in two parts:

- **Economic Overview:** Provides a detailed description of DOB's forecast of key economic indicators for the national and New York State (NYS) economies and the economic forces that will impact the New York State's financial health in FY 2026 and coming years.
- **Receipts Overview:** Provides a detailed summary for each tax source describing historical receipts and projections for the current and upcoming budget years, the administration, liability, and history of the tax, including significant law changes in the past decade.

In addition to the FY 2026 Executive Budget publications, the following publications provide further detail, history, or context to the various intricacies of the State's tax infrastructure.

- The ***Economic, Revenue, and Spending Methodologies***[1] provide a comprehensive review of the methods used by DOB in determining the economic and tax receipt projections.

[1] Division of the Budget, *Economic, Revenue and Spending Methodologies Reports,* various years. Available at: https://www.budget.ny.gov/pubs/supporting/methodology.html Last Accessed: January 14, 2025.

- The ***Annual Information Statement and Financial Disclosure***[2] is the State's principal means for disclosing the financial information required to meet its legal obligations under federal securities law. To that end, the Statement provides: the Enacted Budget Financial Plan; actual operating results for the prior three fiscal years; economic and demographic data; debt and other capital financing information; State government organization, workforce, pension systems, and financial procedures; certain public authorities and localities for which the State has a significant oversight or financial role; and material litigation against the State.

- Published in conjunction with DTF, the annual report on ***New York State Tax Expenditures***[3] provides descriptions, cost estimates, and effective dates of State tax expenditures, including those contained within the FY 2025 Executive Budget.

[2] Division of the Budget, *Annual Information Statement,* current. AIS Access and Use Agreement. Available at: https://www.budget.ny.gov/investor/ais/ALTaccessAgree2.html Last Accessed: January 14, 2025.
[3] Department of Taxation and Finance and Division of the Budget, *Our New York, Our Future, Fiscal Year 2025 Annual Report on New York State Tax Expenditures.* Available at: https://www.budget.ny.gov/pubs/archive/fy25/index.html#ter Last Accessed: January 15, 2025.

Economic Overview

Understanding the fundamentals of the national and State economies are critical to building the Division of the Budget's Financial Plan. This volume presents DOB's forecasts and a discussion of economic fundamentals that will have immediate and longer-term impacts for the State's economy and Financial Plan.

- Economic Outlook – an overview of DOB's forecasts across multiple economic indicators and discussion of risks to the economy.

- Economic Policy Environment – a discussion of monetary and fiscal policy developments over the last year, likely actions in coming years, and the potential impact they will have on the State.

- Labor Market Outlook – an overview of the condition of the national and State labor markets, a key indicator of economic health.

- Personal Income and Consumer Spending Outlooks – Personal income and subsequent consumer spending are key drivers for tax receipts in New York. These sections present forecasts for these important indicators.

- Business Investment Outlook – Investment is a driver for economic growth and employment in the near term and an important contributor to long term economic health. In these sections, trends, forecasts, and risks are presented.

- Long-term Economic Growth and Productivity – Earlier sections discuss trends in national and New York State labor force and capital investments as important drivers of economic growth. This section addresses additional primary drivers of economic growth, namely productivity and innovation.

- Housing and Commercial Real Estate Outlooks – Investment in residential and nonresidential structures is a driver for economic growth and employment in the near term and has important linkages across sectors throughout the economy. In these sections, trends, forecasts, and risks are presented. Both residential and commercial real estate trends are covered.

The following tables present the key economic indicator assumptions. The first table includes indicators on a calendar year basis. The second table presents values on a State fiscal year basis. The third table compares the DOB forecast values with peer Blue Chip indicators.

SELECTED ECONOMIC INDICATORS (Calendar Year)						
	2023 (actual[5])	2024 (estimate)	2025 (forecast)	2023 (forecast)	2027 (forecast)	2028 (forecast)
U.S. Indicators[6]						
Gross Domestic Product (current dollars)	6.6	5.3	4.7	4.3	4.2	4.2
Gross Domestic Product	2.9	2.7	2.1	2.0	2.0	2.0
Consumption	2.5	2.7	2.4	1.8	2.0	2.1
Residential Fixed Investment	(8.3)	3.8	0.3	2.0	2.3	2.0
Nonresidential Fixed Investment	6.0	3.7	3.0	5.3	3.8	3.4
Change in Inventories (dollars)	33.1	51.5	67.3	63.5	65.5	65.6
Exports	2.8	2.8	2.1	3.0	3.2	3.3
Imports	(1.2)	5.1	3.7	2.9	2.9	2.8
Government Spending	3.9	3.3	1.7	0.6	0.5	0.4
Corporate Profits[7]	6.9	6.1	2.5	4.8	4.3	4.3
Personal Income	5.9	5.5	4.3	4.1	4.0	3.9
Wages	5.4	5.9	4.3	3.8	3.7	3.6
Nonfarm Employment	2.3	1.6	1.0	0.5	0.6	0.5
Unemployment Rate (percent)	3.6	4.0	4.3	4.3	4.1	4.0
S&P 500 Stock Price Index	4.5	26.7	12.4	1.3	0.8	1.6
Federal Funds Rate	5.0	5.1	3.9	3.2	3.4	3.8
10-year Treasury Yield	4.0	4.2	4.2	4.1	4.3	4.6
Consumer Price Index	4.1	3.0	2.7	2.7	2.4	2.3
New York State Indicators						
Personal Income[8]	5.4	5.3	4.4	4.0	4.0	4.0
Wages and Salaries[8]						
Total	4.3	5.2	4.4	3.6	3.7	3.7
Without Bonus[9]	6.5	4.5	3.6	3.4	3.4	3.4
Bonus[9]	(9.4)	10.0	10.0	5.4	5.5	5.4
Finance and Insurance Bonuses[9]	(8.8)	9.0	13.1	6.0	6.1	6.1
Wage Per Employee	2.0	3.6	3.6	3.1	3.1	3.1
Property Income	11.7	3.9	3.7	4.4	4.4	4.4
Proprietors' Income	6.5	5.0	3.9	4.9	5.0	5.1
Transfer Income	3.9	7.4	5.2	4.7	4.5	4.5
Nonfarm Employment[6]						
Total	2.2	1.5	0.8	0.6	0.6	0.6
Private	2.3	1.5	0.8	0.6	0.6	0.6
Unemployment Rate (percent)	4.2	4.3	4.3	4.2	4.2	4.1
Composite CPI of New York State[9]	3.9	3.5	3.3	2.7	2.4	2.4
New York State Adjusted Gross Income						
Capital Gains	(19.6)	13.5	23.4	6.3	4.2	5.7
Partnership/ S Corporation Gains	(1.4)	12.4	7.8	1.9	4.6	5.4
Business and Farm Income	(1.7)	5.3	5.0	4.6	4.2	3.6
Interest Income	121.1	(18.7)	(1.7)	(0.6)	2.0	2.4
Dividends	25.6	(10.4)	8.6	(20.5)	0.6	4.8
Total NYSAGI	**1.4**	**4.8**	**6.2**	**2.7**	**3.5**	**3.8**

Source: Haver Analytics; Moody's Analytics; NYS DOL; NYS DTF; DOB staff estimates.

[4] For NYSAGI variables, 2023 is preliminary.
[5] All indicators are percent changes except change in inventories, the unemployment rate, and interest rates; all GDP components refer to chained 2017 dollars, unless otherwise noted.
[6] Includes inventory valuation and capital consumption adjustments.
[7] Nonfarm employment, wage, and personal income numbers are based on QCEW data.
[8] Series created by DOB.

SELECTED ECONOMIC INDICATORS (State Fiscal Year)	FY 2024 (actual)	FY 2025 (estimate)	FY 2026 (forecast)	FY 2027 (forecast)	FY 2028 (forecast)	FY 2029 (forecast)
U.S. Indicators[10]						
Gross Domestic Product (current dollars)	6.0	5.1	4.5	4.3	4.2	4.2
Gross Domestic Product	3.0	2.6	2.0	2.0	2.0	2.0
Consumption	2.4	2.8	2.2	1.8	2.1	2.1
Residential Fixed Investment	(2.4)	1.6	1.1	2.1	2.2	1.9
Nonresidential Fixed Investment	5.6	3.0	3.9	5.0	3.6	3.4
Change in Inventories (dollars)	32.3	64.6	64.9	64.7	65.5	65.6
Exports	1.6	2.8	2.4	3.1	3.2	3.3
Imports	(0.1)	5.6	3.3	2.8	2.9	2.8
Government Spending	4.1	3.2	1.2	0.6	0.5	0.4
Corporate Profits[11]	6.8	4.7	3.3	4.5	4.4	4.2
Personal Income	5.8	5.0	4.2	4.1	4.0	3.9
Wages	5.7	5.3	4.2	3.8	3.6	3.6
Nonfarm Employment	2.1	1.4	0.8	0.5	0.6	0.5
Unemployment Rate (percent)	3.7	4.2	4.3	4.2	4.1	4.0
S&P 500 Stock Price Index	13.7	25.7	7.3	1.2	0.8	1.8
Federal Funds Rate	5.2	4.9	3.7	3.2	3.5	3.8
10-year Treasury Yield	4.1	4.2	4.2	4.1	4.4	4.6
Consumer Price Index	3.5	2.7	2.8	2.6	2.4	2.3
New York State Indicators						
Personal Income[12]	5.3	5.2	4.1	4.0	4.0	4.0
Wages and Salaries[12]						
Total	4.2	5.4	3.7	3.7	3.7	3.7
Without Bonus[13]	5.0	4.3	3.5	3.4	3.4	3.4
Bonus[13]	(0.9)	13.8	5.4	5.5	5.5	5.5
Finance and Insurance Bonuses[13]	3.8	16.4	5.9	6.1	6.1	6.1
Wage Per Employee	2.4	4.1	3.1	3.1	3.1	3.1
Property Income	9.6	3.0	4.2	4.4	4.4	4.4
Proprietors' Income	6.1	4.9	4.1	4.9	5.1	5.0
Transfer Income	5.0	6.6	5.0	4.7	4.5	4.5
Nonfarm Employment[12]						
Total	1.8	1.3	0.7	0.6	0.6	0.6
Private	1.8	1.3	0.7	0.6	0.6	0.6
Unemployment Rate (percent)	4.2	4.3	4.3	4.2	4.2	4.1
Composite CPI of New York[13]	3.3	3.6	3.1	2.6	2.4	2.4

Source: Haver Analytics; Moody's Analytics; NYS DOL; DOB staff estimates.

[9] All indicators are percent changes except change in inventories, the unemployment rate, and interest rates; all GDP components refer to chained 2017 dollars, unless otherwise noted.
[10] Includes inventory valuation and capital consumption adjustments.
[11] Nonfarm employment, wage, and personal income numbers are based on QCEW data.
[12] Series created by DOB.

U.S. ECONOMIC FORECAST COMPARISON			
	2024	**2025**	**2026**
Real Gross Domestic Product (GDP)			
(chained percent change)			
DOB	2.7	2.1	2.0
Blue Chip Consensus	2.7	2.1	na
CBO	2.6	2.1	1.8
FED	2.5	2.1	2.0
Consumer Price Index (CPI)			
(percent change)			
DOB	3.0	2.7	2.7
Blue Chip Consensus	2.9	2.4	na
CBO	3.2	2.4	2.2
FED*	2.8	2.5	2.2
Unemployment Rate			
(percent of the labor force)			
DOB	4.0	4.3	4.3
Blue Chip Consensus	4.0	4.3	na
CBO	3.9	4.0	4.2
FED	4.2	4.3	4.3

Note: * Measured by Core PCE inflation instead of CPI inflation.

Source: NYS DOB, December 2024; Blue Chip Economic Indicators, December 2024; Congressional Budget Office (CBO), June 2024; Federal Reserve Board (FED), December 2024.

Receipts Overview

The Receipts Explanation part of this volume is presented in smaller sections that group receipts source chapters together by receipts category.

- Personal Income Tax – the largest receipts source.

- Consumption/Use Taxes – includes chapters on the alcoholic beverage taxes, auto rental tax, cigarette and tobacco tax, highway use tax, cannabis taxes, motor fuel tax, opioid excise tax, sales and use tax, and vapor products tax.

- Business Taxes – includes chapters on corporation franchise taxes, corporation and utilities taxes, insurance taxes, the pass-through entity tax, and the petroleum business tax.

- Gaming and Other Taxes – includes chapters on authorized combative sports tax, employer compensation expense program, estate tax, gaming receipts, pari-mutuel tax and real estate transfer tax.

Revenue Actions

All receipts forecasts in this volume are inclusive of any associated actions listed in the *Revenue Actions* section of the *Executive Budget Briefing Book.* The accompanying table summarizes those actions organized by receipt category, rather than by type of action. The incremental All Funds revenue gain or loss from the proposed action is included (millions of dollars) and represents gross revenue adds and reductions without any adjustments for associated spending changes, movements across funds, or General Fund spending offsets. For more detailed explanations of these actions, please refer to the *Executive Budget Briefing Book*.

ALL FUNDS LEGISLATION
(millions of dollars)

	FY 2026	FY 2027	FY 2028	FY 2029
Personal Income Tax	**(4,009)**	**(1,950)**	**(878)**	**2,542**
Enact a One-Time Inflation Refund	(3,080)	-	-	-
Provide a Middle-Class Tax Cut and Extend the Temporary PIT High Income Surcharge for Five Years	(458)	(1,115)	(35)	2,560
Enhance the Empire State Child Credit for Three Years	(471)	(825)	(825)	-
Establish the CATALIST NY Program	-	-	-	-
Establish a Tax Credit for Organ Donation	-	(1)	(1)	(1)
Simplify the STAR Income Definition	-	(9)	(9)	(9)
Reporting of Federal Partnership Adjustments	-	-	-	-
Extend the Clean Heating Fuel Credit for Three Years	-	-	(5)	(5)
Extend the Alternative Fuels and Electric Vehicle Recharging Property Credit for Three Years	-	-	(3)	(3)
Extend the Financial Institution Data Match System for Five Years	-	-	-	-
Consumption/Use Taxes	**(8)**	**(2)**	**-**	**-**
Eliminate Duplicative IDA SUT Exemption Reporting	-	-	-	-
Extend the Sales Tax Vending Machine Exemption for One Year	(8)	(2)	-	-
Business Taxes	**(3,129)**	**(266)**	**(216)**	**(246)**
Extend and Amend the Excelsior Jobs Program	-	-	-	-
Extend and Amend the Film Tax Credit	-	(111)	(115)	(115)
Expand the Credit for the Employment of Persons with Disabilities	-	(2)	(2)	(2)
Amend the State Historic Property Tax Credits	-	-	-	-
Extend and Double the Low Income Housing Credits	-	(15)	(45)	(75)
Impose Waiting Period Restriction and Limit Deductions on Institutional Real Estate Investors	-	6	6	6
Enact PTET Flexibility	(3,045)	-	-	-
Increase the Article 9A Estimated Payment Threshold	(84)	(144)	-	-
Amend the Digital Gaming Media Production Credit Program	-	-	-	-
Make a Technical Change to the Newspaper and Broadcast Media Jobs Program	-	-	-	-
Extend the Musical and Theatrical Production Credit for Four Years	-	-	(8)	(8)
Extend the Workers with Disabilities Tax Credit for Three Years	-	-	(1)	(1)
Extend the Hire A Vet Credit for Three Years	-	-	(1)	(1)
Extend the New York City Musical and Theatrical Production Tax Credit For Two Years	-	-	(50)	(50)

	FY 2026	FY 2027	FY 2028	FY 2029
Other Actions	**3**	**(43)**	**(43)**	**(9)**
Make Permanent the Estate Tax Three Year Gift Addback Rule	-	-	-	-
Conduct a Study of Thoroughbred Fetlock Joint Injury Detection Through Advanced Imaging	3	6	6	3
Temporarily Extend the Lowered Casino Slot Tax Rates	-	(49)	(49)	(12)
Amend and Simplify the Pari-Mutuel Tax Rate Structure	-	-	-	-
Extend Authorized Use of Capital Funds by a Certain Off-Track Betting Corporation for One Year	-	-	-	-
Improve the Tax Warrant Process	-	-	-	-
Clarify Taxpayer Notification and Protest Rights	-	-	-	-
TOTAL ALL FUNDS LEGISLATION	**(7,143)**	**(2,261)**	**(1,137)**	**2,287**

ECONOMIC ENVIRONMENT

Economic Outlook

The U.S. economy marked another year of resilience in 2024 as inflation continued falling without a significant rise in labor market weakness. As a result, the DOB economic outlook has been revised up over the course of the past year. Similarly, the Blue Chip consensus forecast for U.S. real Gross Domestic Product (GDP) growth for 2024 rose steadily from 1.6 percent in January 2024 to 2.7 percent in December 2024. National employment growth has slowed as expected but remains at a healthy pace. The U.S. unemployment rate has ticked up almost half of a percentage point since January 2024 to 4.1 percent as of December. Price inflation has moderated markedly towards the Federal Reserve's 2.0 percent target. Together these readings are consistent with an economy settling into a balanced growth path without either accelerating inflation or rising unemployment. Meanwhile, the Federal Reserve has shifted toward a less restrictive monetary policy with the objective of preventing further labor market weakness.

While the 2024 economy exhibited robust economic growth with lower inflation and still low unemployment, the 2025 economic outlook is shaping up to be weaker. Significant policy changes proposed by the new administration will have a meaningful impact on various aspects of the economy, including labor markets, international trade, and business investment. DOB's baseline forecast partially reflects expected Federal policy changes. However, the size and timing of the policy changes and their implementation remain highly uncertain. DOB's baseline economic outlook assumes a full extension of the tax cuts in the 2017 Tax Cuts and Jobs Act, a tariff hike and corresponding retaliation by trading partners that will push up goods prices and weigh on imports and exports. The forecast also reflects a more restrictive immigration policy that will reduce the growth of labor supply. Meanwhile, DOB expects business investment, particularly productivity-enhancing tech investment, will be bolstered by the extension of corporate tax cuts that increase the after-tax return to investment and business-friendly deregulation policies.

On balance, U.S. real GDP growth is forecast to slow from an estimated average pace of 2.7 percent in 2024 to 2.1 percent in 2025 and 2.0 percent in 2026.[13] Thus, this forecast is consistent with the U.S. economy returning to growth rates closer to its long-term potential over the next two years. However, reaching the Federal Reserve's target inflation rate is expected to take longer in light of the expected tariff hikes and tax cuts. Monetary policy is likely to continue easing over the next two years, but future rate cuts are anticipated to be more gradual than the pace in 2024. Long-term interest rates are expected to remain elevated. This would curb consumer spending, residential and business investment, as well as employment and income gains.

In line with a cooling national labor market, New York State's employment growth slowed to an estimated 1.5 percent in 2024. Job growth is projected to decelerate further to 0.8 percent in 2025 primarily due to the State's labor shortages and weaker global and national economic conditions.

State personal income is projected to grow by 4.1 percent in FY 2026, a deceleration from an estimated growth of 5.2 percent in FY 2025, primarily due to weaker wage growth. Despite a

[13] DOB's U.S. economic forecast incorporates the second estimate of 2024 third-quarter GDP, the October 2024 personal income and outlays estimates, the October 2024 CPI report, and the initial estimate of November 2024 employment. DOB's New York State forecast incorporates the second quarter of 2024 personal income by state data and the first half of 2024 QCEW data.

slowdown in job growth, State wages are estimated to be growing a solid 5.4 percent in FY 2025 due to robust estimated growth in finance and insurance sector bonuses. Strong performance in equity markets, and ongoing Federal Reserve rate cuts are expected to drive finance and insurance sector bonuses to a 16.4 percent increase in FY 2025. However, the continued slowing of State employment growth and a moderating outlook for finance and insurance sector bonuses suggest wage growth will slow to 3.7 percent in FY 2026.

MAJOR ECONOMIC INDICATORS

	Calendar Year Growth (%)		
	CY 2023 Actual	CY 2024 Estimated**	CY 2025 Forecast**
Real U.S. Gross Domestic Product (GDP)	2.9	2.7	2.1
Nonfarm Employment			
U.S.	2.3	1.6	1.0
New York State	2.2	1.5	0.8
U.S. Wages	5.4	5.9	4.3
U.S. Personal Income	5.9	5.5	4.3
U.S. Consumer Price Index (CPI)	4.1	3.0	2.7
U.S. Civilian Unemployment Rate			
U.S.	3.6	4.0	4.3
New York State	4.2	4.3	4.3
	State Fiscal Year Growth (%)		
	FY 2024 Actual	**FY 2025 Estimated****	**FY 2026 Forecast****
Personal Income			
U.S.	5.8	5.0	4.2
New York State*	5.3	5.2	4.1
Wages			
U.S.	5.7	5.3	4.2
New York State	4.2	5.4	3.7
Nonfarm Employment			
U.S.	2.1	1.4	0.8
New York State	1.8	1.3	0.7

Note: * New York State personal income is constructed by using QCEW wages and BEA non-wage income.
** Estimated and forecast values are based on the DOB forecast as of January 9th, 2025.

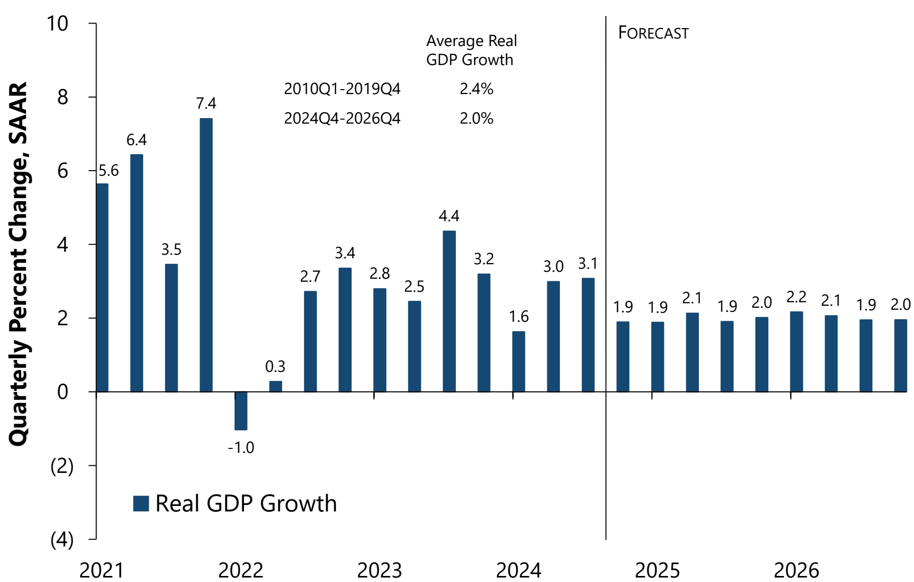
Source: Haver Analytics; Moody's Analytics; New York State Department of Labor; DOB staff estimates.

Real Output Growth

The U.S. economy had greater resilience than expected in the face of tight monetary policy and high interest rates in 2024. Real GDP posted a 3.1 percent gain in the third quarter of 2024 following 3.0 percent growth at an annualized rate in the second quarter. For two consecutive quarters, GDP demonstrated notably stronger growth than the 2.4 percent average between 2010 and 2019. The continued strength in the U.S. economy was mainly driven by robust consumer spending supported by solid income growth and wealth effects. In addition, residential investment rebounded after mortgage rates slowly trended down, making a positive contribution to real GDP growth. Moreover, Federal funding from the Bipartisan Infrastructure Law (BIL)/Infrastructure Investment and Jobs Act (IIJA), the Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act, and the Inflation Reduction Act (IRA) fueled productivity-enhancing business investment and government spending. Real GDP grew by an estimated 2.7 percent in 2024, nearly matching the 2.9 percent growth in 2023.

Looking ahead, DOB forecasts real GDP growth to decelerate to 2.1 percent in 2025 and 2.0 percent in 2026 as labor markets and consumer spending moderate, the trade deficit widens, and government spending shrinks. To consider these economic growth projections in perspective, note that the Congressional Budget Office (CBO) estimates the long-run potential real GDP growth rate of the U.S. economy to be 2.1 percent over the next two years. Thus, DOB's forecast implies that the U.S. economy will moderate to its long-run potential growth in 2025 and 2026. DOB's forecast reflects some of the policy changes proposed by the new U.S. administration and assumes these changes will not immediately derail the economic expansion. However, uncertainties about these policy changes make the long-run forecasts highly variable.

The Economy Will Moderate to Its Long-Run Potential Growth



Source: Haver Analytics/BEA; DOB staff estimates.

Inflation Pressures

Various inflation measures have been ticking up since September 2024, suggesting the disinflation trend that started in mid-2022 may have stalled. Considering that multiple policies proposed by the new administration (tax cuts, tariff hikes, and restrictive immigration policy) will generate additional inflationary pressures in 2025 and 2026, DOB expects CPI inflation will drop only slightly to 2.7 percent in 2025 from 3.0 percent in 2024, and remain at 2.7 percent in 2026. Consumer price inflation has fallen substantially from its peak in 2022 and came close to the Federal Reserve's 2.0 percent inflation target at the end of the third quarter of 2024. However, further progress could take longer than initially expected. Despite potentially renewed inflationary pressures over 2025 and 2026, DOB expects that consumer price inflation is still on track to moderate close to the Fed's 2.0 percent target after 2026 if current trends continue in 2025. The section on Monetary Policy Outlook below discusses the underlying factors of the expected inflation trajectory in 2025 and beyond, as well as the risks to the inflation outlook.

National Employment

The U.S. labor market has cooled gradually throughout 2024. Monthly job gains slowed from 267 thousand per month in the first quarter to 170 thousand on average in the fourth quarter. There had been concerns over whether the employment growth slowed too fast, especially when nonfarm payrolls grew less than 100 thousand jobs per month in August and October. However, the slow growth proved to be temporary, mainly resulting from labor disputes and hurricanes. In general, U.S. employment growth remained positive and healthy in 2024, reducing concerns about an economic downturn.

DOB expects payroll gains to moderate to 100 thousand per month on average in the first half of 2025 as labor demand and supply come into better balance. Total nonfarm employment is projected to grow by 1.0 percent in 2025 following 1.6 percent growth in 2024, before slowing further to a 0.5 percent growth rate in 2026. The unemployment rate is projected to rise to 4.3 percent in 2025 from 4.0 percent on average in 2024. This projection for 2025 reflects expected immigration restrictions. The Labor Market Outlook section below delves into the factors that buttressed labor markets in 2024 and are driving future labor market trends.

New York State Labor Market

Consistent with the broader trend of a cooling national labor market, New York State's employment growth has been decelerating in 2024. According to Current Employment Statistics (CES) data, New York added an average of 19,500 new jobs per month in the first half of 2024. However, that rate significantly declined to an average of 3,600 jobs per month from July to November. Elevated interest rates and weakening national and global economic conditions are expected to continue negatively impacting both national and State employment growth. Additionally, out-migration rates, driven by remote work opportunities and high housing costs, have exacerbated the State's labor shortages. Potential restrictions on immigration under the new U.S. administration could further dampen State employment growth. As a result, New York's employment is projected to grow by just 0.8 percent in 2025, following estimated growth of 1.5 percent in 2024.

New York's unemployment rate is estimated to be 4.3 percent in 2024, higher than the national rate of 4.0 percent. Since the second half of 2023, the State's unemployment rate has remained around 4.3 percent, consistently above the national average. This trend has been driven primarily by New York City, where the unemployment rate in November 2024 was 5.4 percent, compared to 3.6 percent in the rest of the State, as New York City has a larger and more diverse labor force, including many recent immigrants and young workers. New York City's labor market experiences a higher level of turnover as new residents come seeking employment. This frictional unemployment occurs as prospective workers match with appropriate opportunities. With the expected deceleration in population growth due to stricter immigration policies, the State's unemployment rate is forecast to remain at 4.3 percent in 2025, matching the national rate.

U.S. and New York State Personal Income Growth

National Income Trends

The 2024 benchmark revision to the Bureau of Economic Analysis's (BEA's) National Income and Product Accounts (NIPAs) revealed that U.S. personal income had been at a much higher level since 2021 than previously estimated. The personal saving rate has also remained steady since 2023. U.S. personal income growth is projected to moderate to 5.5 percent in CY 2024 following 5.9 percent growth in CY 2023, and slow further to 4.3 percent in CY 2025. This income outlook suggests that consumer spending is likely to soften going forward but should remain strong enough to keep the U.S. economy in expansion.

Wages grew by 10.3 percent at an annualized rate in the first quarter of 2024. Since then, U.S. quarterly wage growth has slowed significantly due to cooling job gains and decelerating hourly earnings growth. Despite the gradual cooling quarter over quarter, the annual average wage growth for CY 2024 is estimated at 5.9 percent, higher than the 5.4 percent growth in CY 2023. However, with job gains and hourly earnings expected to continue cooling, U.S. wage growth is projected to fall to 4.3 percent in CY 2025 and 3.8 percent in CY 2026.

Growth in the non-wage components of U.S. personal income is estimated to have moderated in CY 2024 from the remarkable growth exhibited in CY 2023. In particular, interest income and rental income slowed from its double-digit growth in CY 2023 as interest rates and housing prices stabilized in CY 2024. Transfer income growth also normalized with the waning of pandemic-related government transfers. This moderating trend is expected to continue. Taken together, the near-term trajectory of wages and non-wage income suggests moderate personal income growth is likely to continue into CY 2025 and CY 2026.

New York State Income Trends

New York State is projected to experience slower personal income and wage growth in 2024 compared to the nation. New York's personal income growth is forecasted at 5.3 percent, primarily due to weaker State wage growth. Looking at the growth rates on a state fiscal year frequency, total wage growth in New York is anticipated to accelerate from 4.2 percent in FY 2024 to 5.4 percent in FY 2025, driven by a strong rebound in total bonuses, which are expected to shift from a 0.9 percent decline in FY 2024 to a robust 13.8 percent increase in FY 2025. Due to this improvement, New York's wage growth will be slightly higher than the national rate of 5.3 percent in FY 2025. Consequently, State personal income is projected to grow by 5.2 percent in FY 2025, slightly higher than the national rate of 5.0 percent.

Looking ahead, as the national economy slows, labor markets are expected to soften resulting in a deceleration of personal income and wage growth. National wages are projected to grow by 4.2 percent in FY 2026, with New York's wages expected to grow at a pace of 3.7 percent. State personal income growth is also expected to follow a similar trend, slowing to 4.1 percent in FY 2026, just below the national growth rate of 4.2 percent.

Interest Rates, Stock Prices, and Financial Sector Bonuses

The Federal Reserve has shifted to an easing monetary policy since September 2024. The target range for the Federal Funds rate is 100 basis points below its most recent peak of 5.25 – 5.50 percent. Inflation increased slightly in the final months of 2024 and may take longer to reach the 2.0 percent inflation target. The fiscal policy changes of the new administration could further stall progress. DOB anticipates future rate cuts to be more gradual. The Monetary Policy Outlook section has more discussion. While short-term interest rates are expected to follow the Federal Funds rate cuts downward in 2025 and 2026, long-term interest rates from Treasury bond yields to mortgage rates and corporate bond yields are expected to remain elevated, mainly due to an uptick in inflation expectations and prospects for bigger budget deficits. Elevated long-term rates are expected to become a significant drag on durable goods consumption, as well as residential and business investment in 2025.

The stock market performed well throughout 2024. After the election outcome, the S&P 500 index jumped another 200 points and has remained near 6,000 since. The index averaged 5,911 in the fourth quarter of 2024, representing 32.2 percent growth from a year ago. The deregulation of financial services proposed by the new administration is expected to support the stock market in 2025. DOB expects stock prices to soften in 2026, providing less support for household spending through the wealth effect.

Economic growth, interest rates, and financial conditions have a direct impact on the finance and insurance sector. This sector plays a significant role in New York State's economy, accounting for 17.4 percent of total state wages in FY 2024, with this share expected to increase to 17.9 percent in FY 2025 due to estimated strong growth for the current fiscal year. After a modest 3.8 percent increase in FY 2024, finance and insurance sector bonuses are forecast to grow by 16.4 percent in FY 2025, driven by a more favorable economic outlook, a booming equity market, and the easing of the Federal Reserve's monetary policy. Lower borrowing costs, growing interest in advanced technologies, and potential relaxation of antitrust regulations are expected to continue to drive growth in financial activities in CY 2025. However, weakening global and national economic conditions and geopolitical uncertainties are expected to have a dampening effect, leading to more modest growth in bank revenues. As a result, finance and insurance sector bonus growth is projected to moderate to 5.9 percent in FY 2026.

Several economic risks on the horizon could create a downside for the baseline economic outlook presented here. The section below on Economic Risks presents a brief discussion of these and how they might impact the outlook.

Economic Risks

The United States economy faces significant risks in 2025, largely driven by uncertainties surrounding economic policy under the new administration. Extending the provisions of the 2017 Tax Cut and Jobs Act (TCJA) could widen Federal budget deficits and increase inflationary pressure. Turnovers of international government leaders and geopolitical risks, such as political and military tensions in Asia and the Middle East, may drive energy prices higher and disrupt global supply chains. A more restrictive immigration policy would reduce employment growth, while deregulation in key sectors might undermine economic stability and consumer protections in a range of markets, particularly financial markets. Additionally, climate-related shocks threaten to disrupt supply chains and physical infrastructure. These risks and uncertainties, along with some policy changes, could slow GDP growth, elevate inflation, and weaken the labor market even more than what's already reflected in DOB's forecast and present significant challenges to the U.S. economic outlook.

The following table summarizes the impact of major economic policy changes proposed by the new administration. These economic policies can influence GDP growth, employment growth, and inflation in varying ways, depending on implementation details and broader economic conditions. Although the eventual outcome is uncertain, this table combines insights from different sources to indicate the likely direction of the economic indicators. The precise combination of implemented policies and their sequence would determine the ultimate results of these policies.

POLICY IMPACT ON KEY ECONOMIC INDICATORS

	Real GDP Growth	Employment Growth	Inflation
Tax Cuts	+	+	+
Tariffs	-	-	+
Immigration Restrictions	-	-	+
Deregulation	+	+	+
All Policies	down 0.2-1.6 pp	down 0.1-1.5 pp	up 0.2-1.3 pp

Note: "+" indicates the policy will increase the value of the economic indicator, whereas "-" indicates the policy will decrease the value of the economic indicator, pp stands for percentage points.

Federal Tax Policy

Multiple provisions of the TCJA will expire at the end of 2025. Extending the TCJA without reducing current Federal government spending levels will widen the gap between revenues and outlays, exacerbating the U.S. structural budget deficit, which is already the largest among the G7 nations. The Committee for a Responsible Federal Budget (CRFB) estimates that extending the TCJA would result in modest impact on long-run economic growth ranging from a 0.5 percent reduction to a 1.1 percent increase.[14] With elevated interest rates and a full employment economy, the deficit-

[14] "Tax Cut Extension Would Only Pay for 1% to 14% of Itself," *The Committee for a Responsible Federal Budget (CRFB)* report, June 6, 2024. Available at: https://www.crfb.org/blogs/tax-cut-extension-only-pays-1-14-itself. Last Accessed: January 15, 2025.

financed tax cuts will add further inflationary pressure. If the TCJA is not fully extended, the negative impact on inflation might be less than anticipated.

Global Trade Disruptions

The risk from new tariffs depends on how widely they are applied and which industries they affect. The new administration's proposal to implement 10-20 percent tariffs on all imports and 60 percent tariffs on imports from China would raise consumer prices, disrupt supply chains, and provoke retaliatory measures from other global economies. These responses could harm U.S. exporters, stoke inflation, and reduce GDP. If the tariffs focus on specific industries, the negative impact could be more limited. DOB's baseline forecast assumes partial implementation of tariffs under the new administration.

Labor Disputes

The U.S. economy faces significant labor market risks stemming from employer-employee disputes. There have been some major strikes in important industries in the recent past, such as the dockworker strike along the East and Gulf Coast, the Boeing workers' strike, and the Screen Actors Guild strike. Potential and ongoing labor strikes could disrupt domestic and global supply chains, reducing productivity, revenues, and economic stability.

Immigration Policies

According to estimations from Peterson Institute for International Economics (PIIE), the scenario of deporting 1.3 or 8.3 million undocumented immigrants could reduce the U.S. labor supply by 0.8 percent or 5.1 percent, respectively.[15] A reduced labor force would strain industries reliant on immigrant workers and decrease their output. However, a labor supply reduction may encourage businesses to invest in labor-saving technologies, thus improving productivity in the long term. The overall impact of the policies on the economic outlook remains uncertain; however, a reduced labor force, to levels below what is already expected, is likely to slow GDP growth further in the near term. Slower economic growth would increase challenges for businesses and policymakers. On the other hand, if these policies or their implementation are less restrictive than assumed, the negative impact on the forecast would lessen.

Deregulation

The potential impact of deregulation presents both opportunities and risks for the U.S. economy. By reducing regulatory burdens, businesses could face lower compliance costs, enabling increased investment and expansion, which would support GDP and employment growth. The combined effect of deregulation policies, further tax cuts, and lower interest rates can further amplify economic growth. Despite its potential for fostering investment and short-term growth, deregulation introduces new uncertainties to the U.S. economic outlook. Some of these

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[15] Warwick J. McKibbin, Megan Hogan and Marcus Noland, "The International Economic Implications of A Second Trump Presidency," *Peterson Institute for International Economics (PIIE)* Working Papers 24-20, September 2024. Available at: https://www.piie.com/publications/working-papers/2024/international-economic-implications-second-trump-presidency Last Accessed: January 9, 2025.

uncertainties could even lead businesses to hold back on spending and investment plans. Deregulation may also increase vulnerabilities in the economy. For example, reduced oversight in financial markets could increase the risk of asset bubbles and financial instability. Additionally, weaker standards might lead to further consequences such as environmental degradation and undermining worker protections, intensifying income inequality.

Global Geopolitical and Economic Risks

In addition to heightened degree of geopolitical uncertainties, several countries, including Canada and Germany, will hold elections and install new governments in 2025. The attitude of these new governments to international relations, including diplomacy and trade, will help determine the global economic landscape. For example, escalating tensions in the Middle East could drive oil prices higher, adding inflationary pressures and limiting the Federal Reserve's ability to lower interest rates as planned. Developments around the Russian invasion of Ukraine or the global presence of China could wreak havoc beyond energy markets or global supply chains. Meanwhile, extreme volatility in China's stock market and weakness in the Euro Area economy, together with uncertainties from the tariff hikes and retaliations amplify risks to international trade, dollar exchange rates, and global financial stability.

Climate Change

Climate change poses significant risks to the U.S. economy. Rising temperatures and intensifying natural disasters, such as hurricanes, droughts, wildfires, and floods, could cause GDP in the future to be lower than in scenarios with stable temperatures and climate conditions. Coastal property losses from sea level rises could range from $250 billion to $930 billion annually, straining insurance markets and Federal relief programs. Natural disasters such as hurricanes disrupt supply chains, reduce revenues, and increase repair costs, while long-term costs, such as higher mortality rates, and ecosystem damage exacerbate economic and social inequalities, creating lasting economic instability.

Risks to New York State Forecast

The forecast for New York's economy shares many of the same risks as the national outlook but also faces additional challenges due to the state's unique economic structure. As the financial capital of the world, New York is particularly vulnerable to shifts in monetary policy and fluctuations in financial markets.

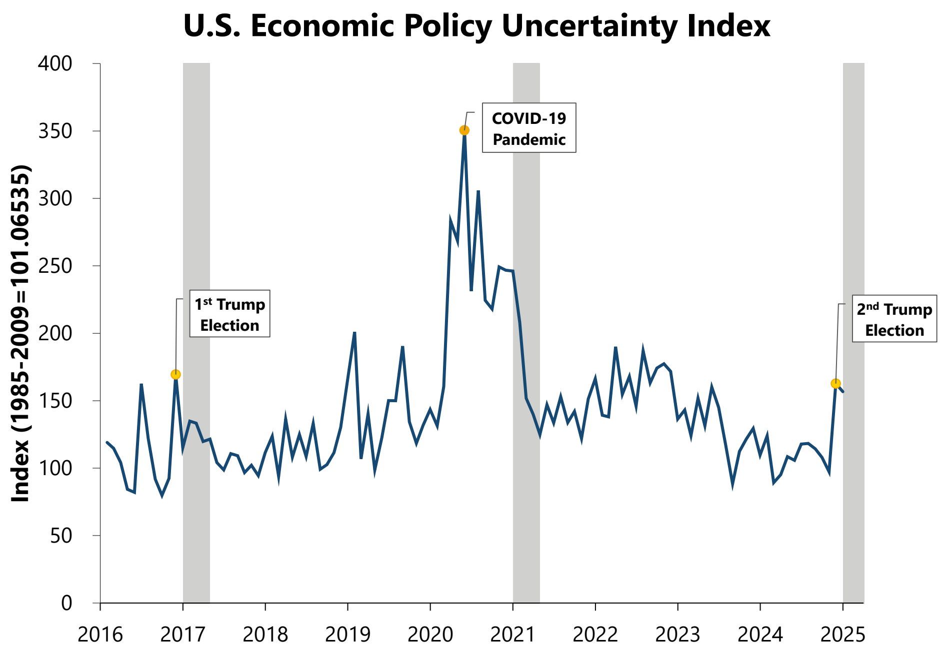
Remote work has enabled people to move to more affordable areas. The New York City metro area's high cost of living has contributed to a population decline in the region. The potential deportation of undocumented immigrants could further exacerbate the State's population loss and labor shortages. A long-term decline in population remains a significant downside risk to both wages and employment. However, if New York City's population loss is less than anticipated and immigration policy isn't as restrictive as expected, the City and State economy might benefit.

The combination of elevated interest rates and high office vacancy rates driven by remote work also presents an ongoing risk to commercial real estate property values. Increased delinquencies on commercial real estate loans could create new challenges for the banking industry.
However, if economic growth does not decelerate as much as forecast, New York's economy could fare better than anticipated. A more substantial return to in-office work, particularly in densely populated urban areas like New York City, would likely benefit industries that cater to commuters, including business support services, office administration, food services, and other consumer-facing sectors. Additionally, stronger-than-expected global economic growth could boost tourism spending in the state, driving stronger performance in the leisure, hospitality, and tourism-related industries than is currently projected. However, if the U.S. dollar remains historically strong, job growth in sectors dependent on tourism, particularly in NYC, and exports could fall short of expectations.

There are also potential upside risks specific to New York. Recent State policy initiatives aimed at expanding housing supply, as well as investments in next-generation semiconductor research and production, and sectors using artificial intelligence, could have a lasting positive impact on the State's economy. The Long-term Economic Growth and Productivity section delves deeper into the impact of innovation efforts have on the State's economic health.

Economic Policy Environment

In the aftermath of the global pandemic-induced recession of 2020, economic policies implemented by governments and central banks took a large role in shaping the recovery and subsequent economic expansion. Almost five years after the pandemic, the impact of these policies on the U.S. and New York economic outlook are dissipating while economic policy uncertainty is on the rise. Monetary policies have entered a new regime as the Federal Reserve started monetary easing in September 2024; fiscal policies are poised to change meaningfully after the new administration takes office in January 2025. As indicated by the U.S. Economic Policy Uncertainty Index constructed by PolicyUncertainty.com, the overall economic policy uncertainty surged by 67 percent from October 2024 to November 2024.[16] The increase seen after the recent election mirrors the spike seen at the onset of Trump's first election. Going forward, both the nation and New York State are facing new opportunities, as well as challenges and risks.



Note: Shaded areas represent the first 3 months of a new U.S. administration.
Source: Haver Analytics/PolicyUncertainty.com.

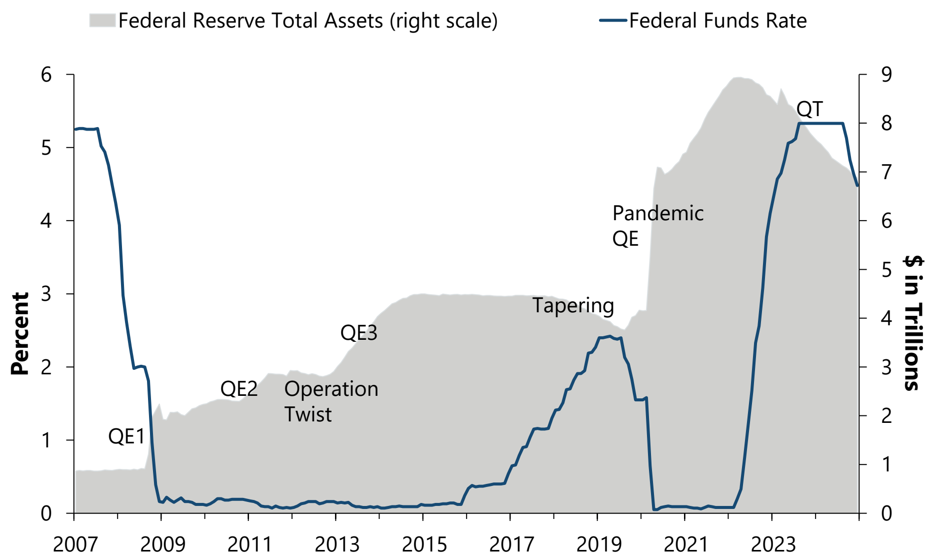
Monetary Policy Outlook

The Federal Reserve has been cautiously evaluating the U.S. economy to promote its dual goal of maximum employment and stable prices. It decided to leave the Federal Funds rate unchanged at 5.25 – 5.50 percent for most of 2024 after raising the rate rapidly for a total of 525 basis points between March 2022 and July 2023. As inflation moved toward the 2.0 percent target and labor markets were cooled, the Federal Open Market Committee (FOMC) shifted from monetary

[16] This index comprises variables directly influenced by U.S. monetary policy and fiscal policy actions, using weights of 1/2 on the broad news-based policy uncertainty index and 1/6 on each of the other three measures (the tax expirations index, the CPI forecast disagreement measure, and the federal/state/local purchases disagreement measure).

tightening designed to combat high inflation to monetary easing focused on supporting maximum employment. The target range for the Federal Funds rate was lowered by 50 basis points in September 2024 and another 25 basis points each in November and December. As of this writing, the Federal Funds rate is at 4.25 – 4.50 percent, 100 basis points below its peak. However, the pace of future rate cuts has become uncertain.

Federal Reserve Policy Rate and Balance Sheet



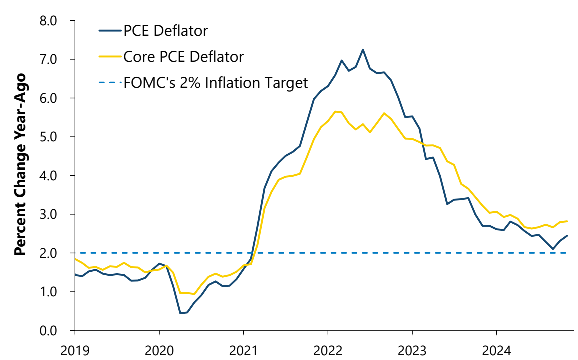
Source: Haver Analytics/Federal Reserve Board/U.S. Treasury.

The primary focus for the Federal Reserve since March 2022 has been to slow the increasing price levels. Inflation generally trended down in 2024 but the inflation outlook has become less optimistic. Inflation measures released in the final months of 2024 have ticked up, suggesting progress in combating price increases may have stalled. Multiple policies proposed by the new administration will generate additional inflationary pressures: tax cuts will increase money available for consumer and business spending; a restrictive immigration policy may limit the supply of labor and push up wages; tariff hikes will increase the prices of imported consumer goods and the costs of raw materials and intermediate goods used in domestic production, putting additional upward pressure on consumer price inflation in 2025 and 2026.

DOB's inflation forecast partially reflected the recent pause in disinflation and the potential impact of fiscal policy changes. CPI inflation is projected to moderate slightly from 3.0 percent in 2024 to 2.7 percent in 2025 and remain at 2.7 percent in 2026. This forecast is consistent with the recognition that the return to the Federal Reserve's 2.0 percent inflation target may take longer. Some inflation measures have reversed their decline after dropping close to 2.0 percent. The personal consumption expenditure (PCE) deflator increased only 2.1 percent on a year-over-year basis in September 2024 but picked up to 2.4 percent in November 2024. Similarly, the 12-month change of CPI excluding volatile food and energy prices and more sticky shelter prices went below 2.0 percent in the middle of 2024 and then ticked up above 2.0 percent as of December 2024.

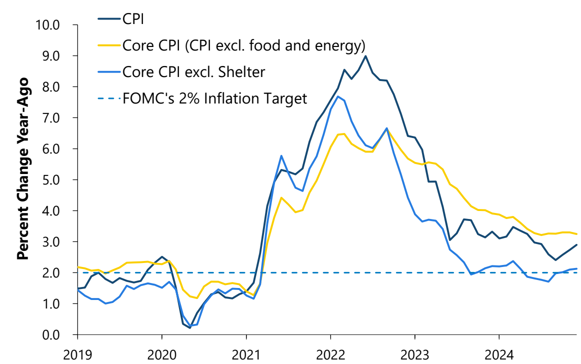
Despite upward inflationary pressures in the next couple of years, DOB expects consumer price inflation is still on track to moderate toward the Federal Reserve's 2.0 percent target because the stickiest part of the inflation, i.e. shelter price index, is expected to return to its pre-pandemic level by the end of 2026. Shelter inflation peaked in early 2023, 15-18 months after rent growth in new leases peaked at the end of 2021. Rent growth slowed after the "housing boom" driven by remote work, retirement, and low mortgage rates ended since mortgage rates surged in 2022 (please refer to the Housing Market Outlook section for details). Considering this lagged impact of rent moderation on shelter inflation and a significant weight (over 35 percent) of shelter among the CPI basket, DOB projects CPI inflation to moderate notably after 2026.

Personal Consumption Expenditure (PCE) Deflator



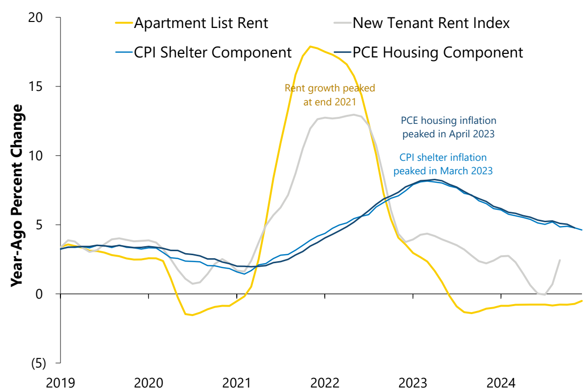
Source: Haver Analytics/BEA.

Consumer Price Index (CPI)



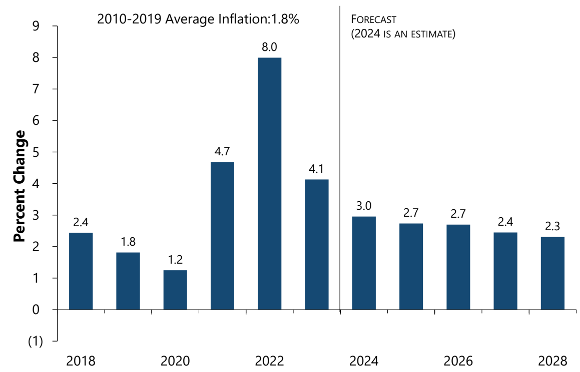
Source: Haver Analytics/BLS.

Rent Moderation Points to Further Disinflation



Source: Haver Analytics/BLS, Apartment List.

Consumer Price Inflation Will Trend Down, but Likely to Remain Higher than Historical Trends

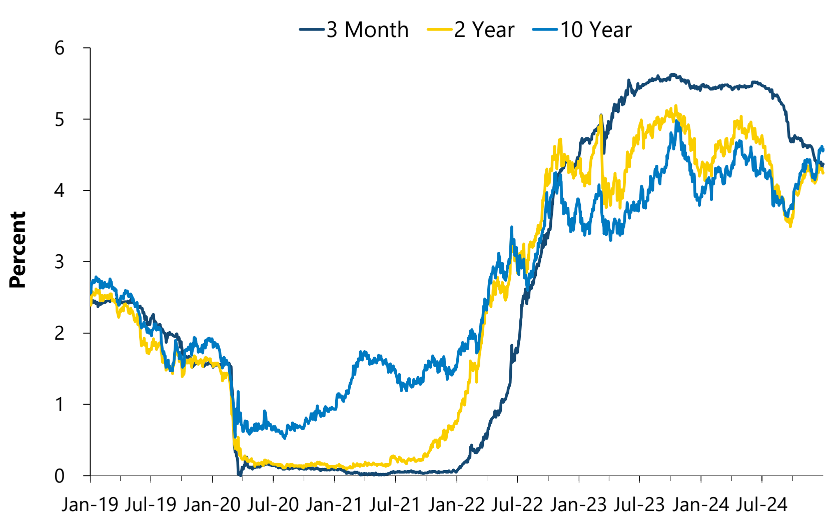


Source: Haver Analytics/BLS; DOB staff estimates.

At the December 2024 meeting, the FOMC left the door open for more rate cuts in the future. Consistent with the above inflation outlook and economic forecast, DOB assumes three 25-basis-point rate cuts in 2025 and two more 25-basis-point cuts in 2026. The effective Federal Funds rate is thus projected to decline from 5.1 percent in 2024 to 3.9 percent in 2025 and 3.2 percent in 2026. In the meantime, the FOMC is expected to pause the reduction in its holdings of Treasury securities, agency debt, and agency mortgage-backed securities, the so-called "quantitative tightening" or QT because its effects work against the intended goal of interest rate cuts. As of December 2024, the Federal Reserve's balance sheet shrank by around $2 trillion from its peak of almost $9 trillion at the beginning of 2022.

While short-term interest rates will follow the Federal Funds rate downward in 2025 and 2026, long-term interest rates are expected to remain elevated, mainly due to an uptick of inflation expectations and prospects for bigger budget deficits. The long-term interest rate is partly driven by the average of the current and expected future short-term rates. With short-term rates expected to go down, long-term rates should decline accordingly. However, an unobservable factor called term premium also determines long-term yields. The term premium is the added compensation investors expect for the uncertainty associated with holding longer-term securities. Since heightened concerns over the pace of monetary easing and the size of the U.S. government debt issuance will increase uncertainty around holding long-term bonds, long-term rates are not projected to decline as quickly as short-term rates. The benchmark 10-year Treasury yield rose around 80 basis points between mid-September and mid-November 2024 as markets factored in the expectation of fewer rate cuts and higher uncertainty. It ended 2024 at an even higher rate of 4.6 percent and turned the spread between 3-month and 10-year rates positive. DOB expects the 10-year Treasury yield to remain elevated at 4.2 percent in 2025 and decline modestly during 2026 by just 10 basis points.

Treasury Yields



Source: Haver Analytics/FRB.

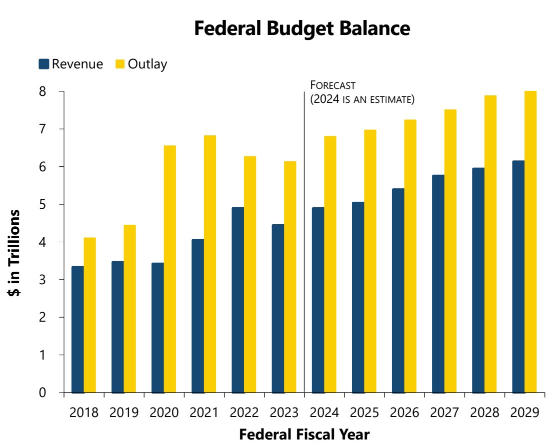
While the broader economy has withstood the impact of high interest rates and maintained a surprisingly strong pace of growth, some cracks have emerged. High interest rates have made purchasing big-ticket items on credit more expensive than consumers had been accustomed to. Elevated mortgage rates have made houses already at near-record prices even less affordable and weighed down on home sales. Such impacts from elevated interest rates will show up in the broader economy, transitioning the economy to a period of slower growth in the next couple of years, all else remaining the same. The policies proposed by the new administration may have an impact difficult to predict under such a high interest rate environment.

Fiscal Policy Outlook

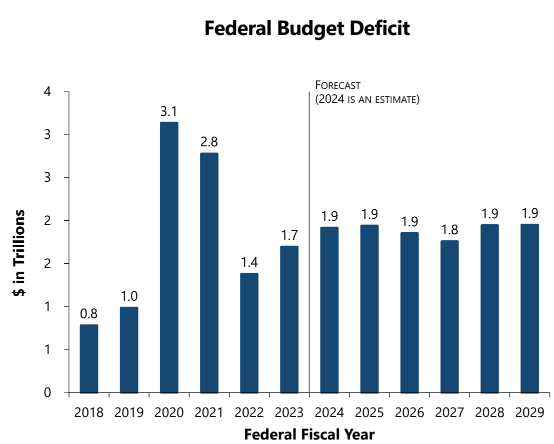
Fiscal policy is an important tool for stimulating aggregate demand in the short run, supporting sustainable long-term economic growth, and increasing living standards and competitiveness. Prior to 2007 and in the Great Recession's aftermath, government spending and taxation played a limited role in economic policy, particularly in mature economies including the U.S. and the Euro Area. In contrast, during the COVID-19 pandemic-induced recession and afterward, the U.S. and other governments around the world took a more active fiscal policy stance. The public health crisis and the economic shutdowns revealed the necessity for fiscal efforts to improve public health, build economic resiliency, and alleviate national security concerns against the ensuing global supply chain disruptions and trade disputes. However, as a result, fiscal deficits and government debt have reached new heights. Looming fiscal imbalances that contribute to deficits and increase public debt will require additional fiscal planning to address significant challenges to government budgets.

The Fiscal Deficit and National Debt

U.S. Federal spending grew by nearly 50 percent in 2020 in response to the COVID-19 pandemic. Total Federal spending reached $6.6 trillion in Federal Fiscal Year (FFY) 2020, while expenditures under COVID-19 relief programs totaled $4.6 trillion in Federal funding across the U.S. as of the end of FFY 2024. Since the end of COVID-19-era relief programs, Federal spending has shifted focus to inflation relief initiatives and securing supply chain vulnerabilities through stimulating investment in infrastructure and promoting competitiveness.



Source: Haver Analytics/CBO.



Source: Haver Analytics/CBO.

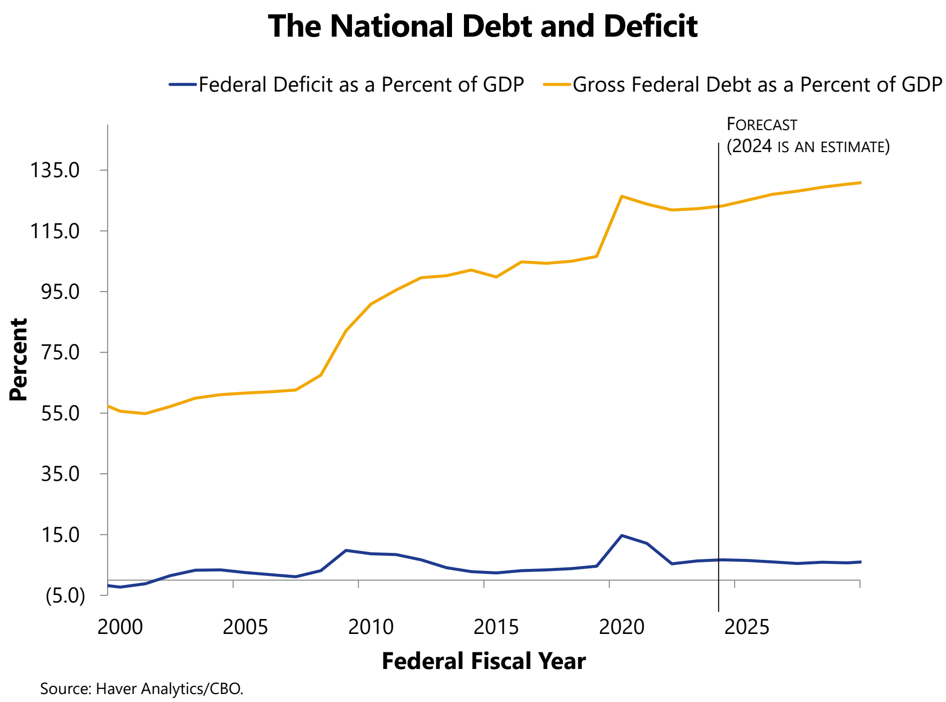
According to the Congressional Budget Office (CBO), as of FFY 2024, the Federal deficit stood at $1.9 trillion or 6.7 percent of GDP. The deficit as a percent of GDP will stay elevated near 6 percent of GDP for the remainder of the decade. Between FFYs 2019 and 2021, Federal outlays grew by $2.4 trillion in response to the COVID-19 pandemic totaling $6.8 trillion in FFY 2021. Spending receded in subsequent years reaching $6.1 trillion in FFY 2023. However, Federal spending increased in FFY 2024 to $6.8 trillion as a result of growing interest rate payments on debt and rising healthcare costs associated with an aging population. The demographic transition is also expected to trigger larger mandatory spending on Medicare and Social Security in the years to come. In FFY 2024, annual spending on Medicare and Social Security totaled over $2.2 trillion, accounting for 8 percent of GDP.[17]

A large and growing national debt can become a burden on economic growth by pushing interest rates up and increasing the size of interest payments. Interest obligations crowd out other budget priorities and increase the risk of a future fiscal crisis. Although other large economies also struggle with an increasing national debt, U.S. national debt growth leads by far. According to the IMF Fiscal Monitor, between 2024 and 2029, U.S. national debt is projected to grow by $11.4 trillion, in contrast to the Euro Area's debt growing by $3.6 trillion over the same period. Most notably, U.S. debt stands at $35.5 trillion or 123 percent of GDP as of FFY 2024.[18] This is a decline from its all-time high of 126 percent in FFY 2020, but the debt is expected to climb to 137 percent by 2034 under current fiscal policies.[19] The growth of the debt levels is currently outpacing the growth of the economy creating an unsustainable path.

[17] Committee for a Responsible Federal Budget. "Interest Costs Have Nearly Tripled Since 2020," *Committee for a Responsible Federal Budget*, November 20, 2024. Available at: https://www.crfb.org/blogs/interest-costs-have-nearly-tripled-2020#:~:text=The%20recent%20release%20of%20the,than%20national%20defense%20or%20Medicare Last Accessed: January 9, 2025

[18] "Fiscal Data Explains the National Debt," Available at: https://fiscaldata.treasury.gov/americas-finance-guide/national-debt/#the-growing-national-debt Last Accessed: January 9, 2025

[19] Congressional Budget Office. "The Long-Term Budget Outlook Under Alternative Scenarios for the Economy and the Budget," July 20, 2023. Available at: https://www.cbo.gov/publication/59233 Last Accessed: January 9, 2025



As the national debt continues to grow in an elevated interest rate environment, the annual cost of servicing the debt escalates. In FFY 2024, the U.S. government spent $882 billion on net interest payments to service the national debt or 3.1 percent of GDP. Debt obligations were the second largest spending category after Social Security overtaking Medicare and national defense spending.[20] The CBO projects that from 2024 to 2034, about two-thirds of the growth in net interest cost will be driven by higher interest rates and one-third will be driven by the higher levels of debt.[21] Interest payments on servicing the national debt are projected to become the largest spending category by 2051, surpassing Social Security.[22]

The large national debt could further contribute to elevated interest rates in the medium- to long-term. An increase in interest rates would pose significant challenges for the U.S. government's ability to service and repay its debt and hinder economic growth. Borrowing costs throughout the economy would rise sharply, crowding out private investment and stifling an important driver of economic growth. The start of the Federal Reserve's rate cut cycle in September 2024 has put some downward pressure on short-term U.S. Treasury yields. However, even as the Federal funds rate has come down, long-term U.S. Treasury yields have risen, reflecting expectations of further debt accumulation. Hence, rising interest rates are both the cause and effect of a large and growing national debt.

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[20] Committee for a Responsible Federal Budget. "Interest Costs Have Nearly Tripled Since 2020," *Committee for a Responsible Federal Budget*, November 20, 2024. Available at: https://www.crfb.org/blogs/interest-costs-have-nearly-tripled-2020#:~:text=The%20recent%20release%20of%20the,than%20national%20defense%20or%20Medicare. Last Accessed: January 9, 2025

[21] Congressional Budget Office. "An Update to the Budget and Economic Outlook: 2024 to 2034," June 1, 2024. Available at: https://www.cbo.gov/publication/60419#_idTextAnchor001. Last Accessed: January 9, 2025.

[22] Congressional Budget Office. "The Long-Term Budget Outlook: 2024 to 2054," March 20, 2024. Available at: https://www.cbo.gov/publication/59711. Last Accessed: January 9, 2025

Historically, investors have sustained a high level of trust in U.S. creditworthiness. U.S. national debt is regarded as a safe and highly desirable asset as U.S. Treasury bonds are the most traded securities in global financial markets and the U.S. dollar is the reserve currency of the world. However, rating agencies have raised concerns about the U.S.' ability to pay its debt in the long-term. Fitch Ratings downgraded its ratings on U.S. long-term credit in August 2023 from AAA to AA+, the second downgrade in the nation's history.[23] In November 2023, Moody's Investors Service lowered its outlook on the U.S. credit rating from "stable" to "negative."[24] So far, these downgrades have not posed a substantial effect on investors' positive sentiment toward U.S. debt, but as the U.S. faces more global competition, investors could curb their demand for U.S. debt, pushing interest rates up.

Major Federal Fiscal Policy Initiatives and Impact on New York

In FFY 2022, the Federal government passed three major spending bills which were then signed into law: the Infrastructure Investment and Jobs Act (IIJA) also known as the Bipartisan Infrastructure Law (BIL), the CHIPS and Science Act, and the Inflation Reduction Act (IRA). Together these three pieces of legislation approved over $2 trillion in funds over the next 10 years.[25] Though smaller than Federal spending in response to the COVID-19 pandemic, these long-term funds are expected to drive infrastructure and clean energy technologies investment, shore up private investment, and boost competitiveness in semiconductor-based industries. DOB is monitoring how New York will be impacted by these additional Federal investments going forward.

Infrastructure Investment

The White House has identified a total of $583 billion of IIJA/BIL and $97 billion of IRA funding awards across all states as of November 20, 2024, with approximately 5 percent of total funding directed to awardees in New York State.[26] Funding has been earmarked to support construction and infrastructure projects related to roads and bridges, passenger and freight rail, public transportation, and airports. In the coming years, the State should expect to see strong employment in construction, local government, and related sectors across the State.

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[23] "Fitch Downgrades the United States' Long-Term Ratings to 'AA+' from 'AAA'; Outlook Stable." August 1, 2023. Fitch Ratings: Credit Ratings & Analysis for Financial Markets. Available at: https://www.fitchratings.com/research/sovereigns/fitch-downgrades-united-states-long-term-ratings-to-aa-from-aaa-outlook-stable-01-08-2023#:~:text='%3B%20Outlook%20Stable-,Fitch%20Downgrades%20the%20United%20States'%20Long%2DTerm%20Ratings%20to%20',from%20'AAA'%3B%20Outlook%20Stable&text=Fitch%20Ratings%20%2D%20London%20%2D%2001%20Aug,AA%2B'%20from%20'AAA Last Accessed: January 9, 2025.

[24] "Moody's changes outlook on United States' ratings to negative, affirms Aaa ratings." November 10, 2023. Ratings.Moodys.com. Available at: https://ratings.moodys.com/ratings-news/411110. Last Accessed: January 9, 2025.

[25] Willian D. Eggers, John O'Leary, and Kevin Pollari. "Executing on the $2 Trillion Investment to Boost American Competitiveness." Deloitte Insights, September 27, 2023. Available at: https://www2.deloitte.com/us/en/insights/industry/public-sector/infrastructure-bill-projects-agency-execution.html. Last Accessed: January 17, 2025.

[26] The White House. "Investing in America," Available at: https://www.whitehouse.gov/invest/ . Last Accessed: January 9, 2025.

Industrial Competitiveness Investment

The CHIPS and Science Act was enacted in 2022 to improve the nation's global standing in the semiconductor industry and ensure that components that are critical to economic and national security are produced domestically. The legislation created manufacturing incentives, tax credits, and funding for R&D and workforce development to support the sector. Several states also followed suit in setting up their own incentive programs to attract manufacturing within their borders. Following the enactment of the Federal CHIPS Act, New York passed the Green CHIPS legislation that provides incentives for the development of semiconductor manufacturing and supply chain projects while maintaining high environmental protection standards.

New York is well-positioned to benefit from the Federal investment in semiconductor competitiveness. As of November 20, 2024, $2.3 billion of CHIPS funding has been allocated to New York.[27] Following the CHIPS Act signing in 2022, Micron committed a $40 billion investment to build a microchip manufacturing facility in Central NY. As of July 2024, up to $6.14 billion has been allocated as direct CHIPS funding for Micron to build the first two (out of four planned) manufacturing facilities.[28] In addition, GlobalFoundries announced a $4.2 billion expansion of their facilities in the Capital Region. Most recently, on November 20, 2024, GlobalFoundries and the U.S. Department of Commerce announced up to $1.5 billion in CHIPS funding to support GlobalFoundries' facility expansion in the Capital Region.[29] In December 2023, a $10 billion public-private investment for Albany's New York Center for Research, Economic Advancement, Technology, Engineering, and Science (NY CREATES), a non-profit semiconductor R&D facility, was announced.[30] In October 2024, Governor Hochul and Senator Schumer revealed that NY CREATES' NanoTech Complex has been designated the nation's first National Semiconductor Technology Center facility, receiving $825 million in additional Federal funding.[31]

The significant Federal funding and matching private investment are expected to directly lead to growth in the construction of industrial facilities and capital investment in machinery in the State in the coming years. These investments would also spur complementary investments by firms in the semiconductor supply chain, higher education institutions, and workforce development organizations as they work together to build the labor and material infrastructure required to

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[27] The White House. "Investing in America," Available at: https://www.whitehouse.gov/invest/ . Last Accessed: January 9, 2025.

[28] National Institute of Standards and Technology. "Fact Sheet New York Semiconductor Industry." CHIPS for America Regional Fact Sheet, July 2024. Available at: https://www.nist.gov/system/files/documents/2024/07/18/07102024%20NY%20Fact%20Sheet.pdf. Last Accessed: January 9, 2025.

[29] "GlobalFoundries and U.S. Department of Commerce Announce Award Agreement on CHIPS Act Funding for Essential Chip Manufacturing" GlobalFoundries, November 20, 2024. Available at: https://gf.com/gf-press-release/globalfoundries-and-u-s-department-of-commerce-announce-award-agreement-on-chips-act-funding-for-essential-chip-manufacturing/ . Last Accessed: January 9, 2025.

[30] "Governor Hochul Announces $10 billion Partnership to Bring Next-Generation Research and Development Center to NY CREATES' Albany NanoTech Complex." NY CREATES, April 15, 2024. Available at: https://ny-creates.org/governor-hochul-announces-10-billion-partnership-to-bring-next-generation-research-and-development-center-to-ny-creates-albany-nanotech-complex/. Last Accessed: January 9, 2025.

[31] Governor's Press Office. "Governor Hochul Announces New York Has Landed the First National Semiconductor Technology Center Facility in the Nation," October 31, 2024. Available at: https://www.governor.ny.gov/news/governor-hochul-announces-new-york-has-landed-first-national-semiconductor-technology-center. Last Accessed: January 9, 2025.

support the industry (please refer to the Long-term Economic Growth and Productivity section for details).

The construction of facilities of this nature is a multi-step and complex process. It can take several years after an announcement to build manufacturing facilities and begin production. DOB does not expect to see a significant impact in the upcoming fiscal year but will be monitoring developments relevant to New York. This could include the construction of new manufacturing facilities and increased employment at existing facilities. In addition to the semiconductor manufacturing facilities, DOB will also be monitoring the development of industries in the supply chain necessary to support chip production.

Federal Fiscal Policy Implications for the State's Balance of Payments

Although New York State benefits from targeted Federal spending on infrastructure and industrial competitiveness, it is back to its historical trend of contributing more in Federal tax revenue than it receives in funding from the Federal government. Balance of payments estimates dating back to the 1970s have shown that New Yorkers have consistently sent more in tax revenue to the Federal government than they have received in the form of direct payments, grants, contracts, and wages.[32] COVID-19 temporarily upended this traditional relationship between the State and the Federal government as COVID-19 relief spending flowed to households and businesses. As a result of the extraordinary increase in Federal spending, New York experienced a positive balance of payments for those two years. However, as of FFY 2022, New York is back to having a net negative total dollar balance of payments, sending $19.4 billion more in Federal taxes than it received.[33] With the new administration and Congress taking office in early 2025 and the end of COVID-19 pandemic-era stimulus, it is likely that the balance of payments of the State will continue to tilt in the Federal government's favor.

Expected Fiscal Policy Environment

There is ongoing uncertainty surrounding the direction and scope of Federal fiscal policy under the new administration and Congress. Although there has been much interest in reducing Federal spending and lowering the debt and deficit, it will be no easy task. Mandatory spending programs make up about two-thirds of the Federal budget, leaving one-third for discretionary spending and further constraining policy choices for Congress and the White House.

Plans to extend the 2017 Tax Cuts and Jobs Act (TCJA) coupled with limited flexibility to cut spending could result in a continued deficit and further debt accumulation. This could lead to a persistently high interest rate environment as investors face higher uncertainty about the U.S.' ability to repay its obligations, which, in turn, would drive up interest paid on servicing the national debt. Given current fiscal and economic policies, the expected import tariffs will likely generate some revenue, but at the cost of additional inflationary pressures in the short-term. As a result, the FOMC might maintain higher interest rates for longer. Elevated interest rates would make

[32] Lynn Holland and Patrick Schumacher. "New York's Balance of Payments With the Federal Government (2024). July 1, 2024. Rockefeller Institute of Government," https://rockinst.org/issue-area/new-yorks-balance-of-payments-with-the-federal-government-2024/. Last Accessed: January 9, 2025.

[33] Ibid.

borrowing more expensive for businesses and consumers which may hamper business investment and consumer spending. Hence, fiscal policy will continue to play a central role in shaping the path for economic growth.

Labor Market Outlook

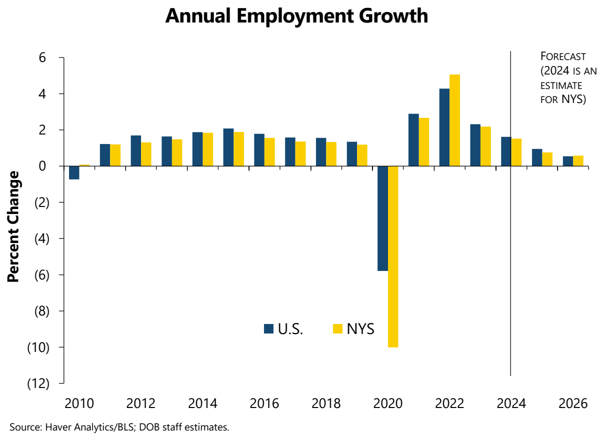
Employment Snapshot

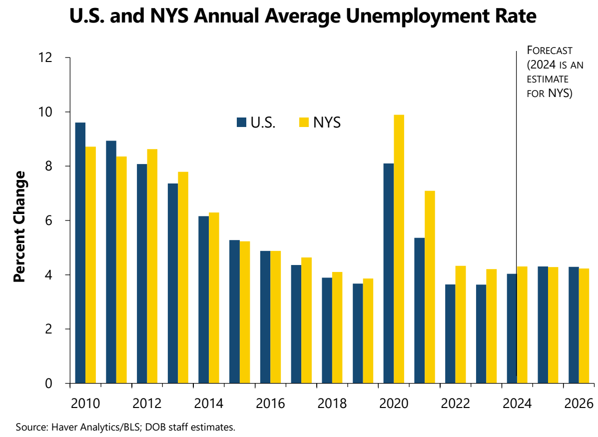
The economy performed better than expected in 2024, with strong consumer and investment spending. Nevertheless, the U.S. labor market started to moderate partly in response to the Federal Reserve's monetary policy tightening, with the unemployment rate rising from 3.6 percent in 2023 to 4.0 percent in 2024. U.S. employment grew robustly by 207,333 jobs per month in the first half of 2024; however, employment growth slowed in the second half of the year, adding on an average of 164,667 jobs per month. The slowing trend was further exacerbated by hurricanes and labor disputes in the fall of 2024. DOB expects U.S. employment growth to slow from 1.6 percent year-over-year in 2024 to 1.0 percent in 2025, and the outlook for 2026 is much weaker. A moderating economic growth momentum, a smaller inflow of immigrants, and continuing retirements due to an aging population are behind this slowing trend in employment growth.

The State's total employment is estimated to grow by 1.5 percent year-over-year in 2024, and this growth is projected to slow down in 2025 to a 0.8 percent rate. Employment in New York regained momentum in the first half of 2024, adding average job gains of 19,500 per month. However, in the latter half of 2024, job growth began to decline, adding only 3,600 jobs per month, due to sluggish hiring in interest-rate-sensitive sectors such as financial activities and information. This slowing trend and potential signs of labor market weakness have amplified concerns about the sustainability of the State's long-run employment trajectory.

Additional recent labor market indicators pointed to a cooling labor market in 2024, evidenced by declining job openings, hiring, and quitting rates. The unemployment rate rose notably from 3.6 percent in 2023 to 4.0 percent in 2024, which was still low compared to the historical average. DOB forecasts that the U.S. unemployment rate will increase from an annual 4.0 percent in 2024 to 4.3 percent in 2025 due to softening demand for workers and slowing labor supply. Meanwhile, State's unemployment rate is estimated to edge up to 4.3 percent in 2024 from 4.2 percent in 2023. The New York unemployment rate is projected to hold steady at 4.3 percent in 2025, influenced by an expected slowdown in the immigrant population which will dampen the number of new job seekers.

Initial weekly jobless claims, which provide near real-time information on employment trends, have remained at subdued levels for both the nation and the State throughout 2024. These trends suggested that labor markets for both the State and the nation may be cooling gradually due to less hiring, rather than deteriorating due to layoffs.





Labor Supply

After growing rapidly by 1.7 percent from 2022 to 2023, the labor force expanded again in 2024, contributing significantly to the transition from a tight labor market to a more balanced one. In 2024, the increase in the overall size of the national workforce was largely supported by the entry of prime working-age women and the recent wave of immigrants into the labor force.

Foreign-born workers accounted for a record high 19.2 percent of the U.S. labor force in 2024, surpassing the pre-pandemic peak level. The employment-to-population ratio for the prime working age group, defined as adults aged 25 to 54, has reached 80.7, the highest level in 20 years. The increase in the ratio for prime-aged women was more pronounced, reaching its all-time high of 75.6 in 2024.

Despite these recent gains, long-term demographic trends are likely to limit the expansion of the labor supply in the coming years. In contrast to the foreign-born labor force, the native-born labor force is still lower than its pre-pandemic level. The labor force participation rate in the U.S. is well below its pre-pandemic peak of 63.3 and appears to be stagnant.[34]

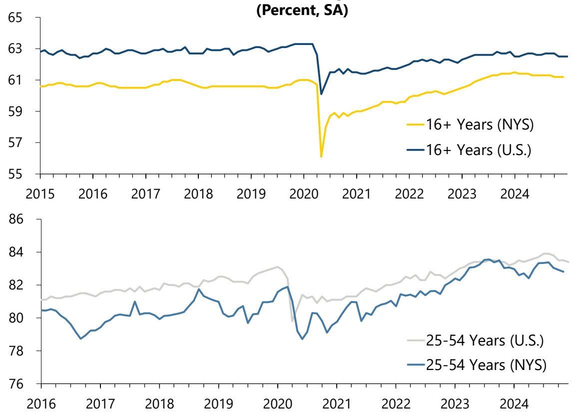
In contrast, New York's labor force participation rate has recovered to pre-pandemic levels partially due to the increase in the immigrant workforce. The 2019-2023 American Community Survey 5-year estimates indicate that 23 percent of New York's population was foreign-born, making it the third highest in the nation, after California and New Jersey. However, the State's labor force participation will experience a slowdown due to an expected decline in the population caused by demographic factors such as an aging population, low birth rates, and high domestic outmigration. The Cornell Jeb E. Brooks School of Public Policy's Program on Applied Demographics (PAD)

[34] Labor force participation rate is calculated as the ratio of people ages 16 and older who are employed or actively seeking employment to the total non-institutionalized, civilian working-age population. It includes a larger pool of potential workers than measures focusing on prime working age.

projects a potential decline of over 2 million people (a 13 percent decrease) in the next 25 years, including a decline in the prime-age population (ages 25 to 44).[35]

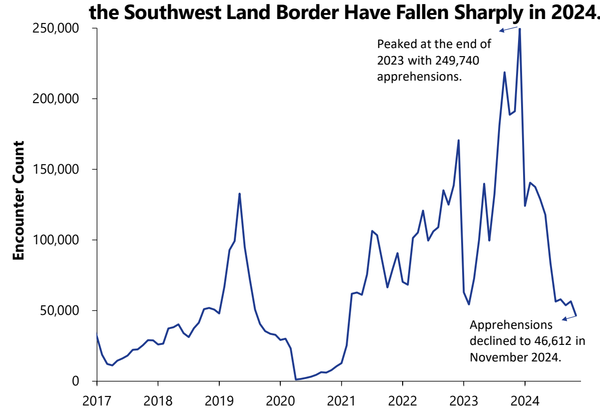
Immigration is expected to continue contributing to the labor supply of the nation and the State in 2025 but at a lower rate than it did in 2023 and 2024. The southwest border[36] apprehensions have declined sharply since they peaked at the end of 2023. The decline in encounters has come amid policy changes on both sides of the border; the number of migrants who cross into the U.S. without authorization declined to 46,612 encounters, a 77 percent decline since the peak in December 2023.[37] According to immigration court reports New York City remained the top destination for recently arrived migrants seeking asylum in the United States. However, the asylum grant rates have been edging downward since they peaked in September 2023.[38] These data indicate that the increase in labor supply stemming from more immigrants is likely to run its course. Looking ahead, a more restrictive immigration policy, which could include large-scale deportations and the removal of temporary work authorizations, could further reduce the already slowing immigrant labor supply. DOB forecasts that the U.S. labor force growth will slow from an annual pace of over 1.5 percent during the 2022 and 2023 period to around 0.5 percent in 2025 and 2026.

Labor Force Participation Rate
(Percent, SA)



Source: Haver Analytics/BLS and Current Population Survey Micro Data/DOB Staff calculations.

Monthly Migrant Encounters by U.S. Border Patrol at the Southwest Land Border Have Fallen Sharply in 2024.



Source: Haver Analytics/ Custom and Border Protection.

[35] See Cornell University Program on Applied Demographics, 2024. *New York State Projections*, Cornell University, Cornell, NY. Available at: https://news.cornell.edu/stories/2024/11/stark-population-decline-projected-nys#:~:text=New%20York%20state%27s%20population%20could,according%20to%20a%20new%20report. Last Accessed: January 16, 2025.

[37] The Northern Land Border, which is the other national border and receives about less than 6 percent of the national encounters, saw 198,929 encounters in FY2024, a 5 percent increase from FY2023 and an 82% increase from FY2022. The encounters at the border significantly declined at the beginning of FY2025. Available at: https://www.cbp.gov/newsroom/stats/nationwide-encounters

[37] John Gramlich, "Migrant encounters at U.S.-Mexico border have fallen sharply in 2024." *Pew Research Center*, Short Reads, October 1, 2024, Available at: https://www.pewresearch.org/short-reads/2024/10/01/migrant-encounters-at-u-s-mexico-border-have-fallen-sharply-in-2024/. Last Accessed: January 16, 2025.

[38] See Transactional Records Access Clearing House (TRAC), 2024, Immigration Judge Reports, Syracuse, NY: Syracuse University.

Labor Demand

Labor demand continued to soften nationally in 2024 which can be observed in forward looking and current data. A survey of small businesses conducted monthly found the number of firms intending to hire in the next three months fell to its lowest levels in 2024 since May 2020.[39] The monthly Job Openings and Labor Turnover Survey (JOLTS) measures hiring, layoffs, and quits as a percentage of employment. The U.S. hiring rate, new hires as a share of total employment, was below the average rate in 2019. This was partially driven by the low levels of quits that would necessitate hiring replacement workers.

U.S. quit rates continued to level off and were below pre-pandemic levels in 2024. Workers have increasingly chosen to stay in their current positions. New York State continued to have lower quit rates than the national average, often placing in the lowest third among all states. One contributing factor is that the State has not fully recovered jobs in the lower-wage service sectors, where quit rates tend to be the highest.

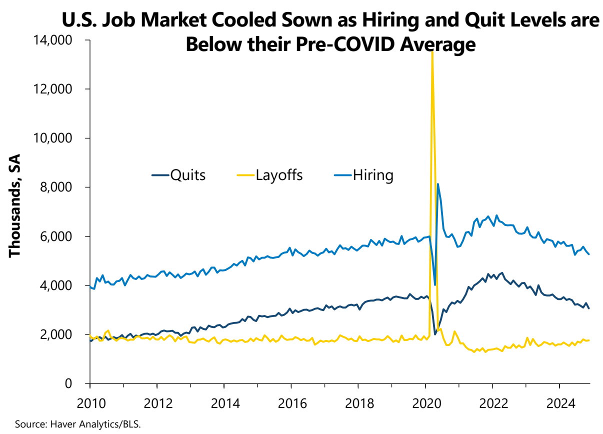
U.S. layoffs remained well below their pre-pandemic levels throughout 2024. However, the Construction, Professional and Business Services, and Arts, Entertainment, and Recreation sectors showed higher layoff rates compared to other industries. The NY State Worker Adjustment and Retraining Notification (WARN) notices, which are required filings by larger employers for anticipated layoffs of more than one-third of employees at a given site (or any layoff of 250 or more employees), increased due to the layoffs in the Finance and Information sectors at the beginning of 2024. However, this number quickly dropped to its lowest levels observed in 2022, for the rest of the year.

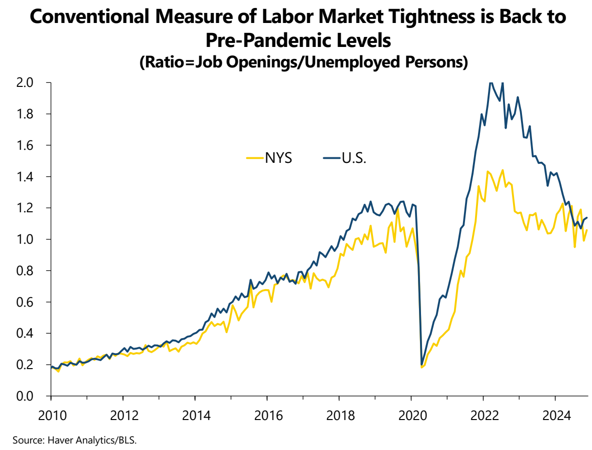
Other measures of labor demand, such as job openings, continued to soften in 2024, indicating that the labor market came into better balance. U.S. job openings have declined since late 2022 and returned to levels seen before the pandemic, suggesting similar labor market conditions to 2019. The State job openings rate (as a share of total employment) has been lower than the national average since the end of pandemic, partly due to tighter financial conditions as defined by higher borrowing costs and difficulty in accessing credit. For example, a Federal Reserve Bank study finds that the decline in job postings has been larger in states with tighter financial conditions as indicated by a state-level financing costs metric.[40] The State's job opening rates approached the national average after briefly increasing in early 2024.

The ratio of job openings to unemployed people is a measure of labor market tightness tracked closely by the Federal Reserve. When the ratio is above one, labor markets are considered very tight. In tight labor markets, employers compete for a limited pool of job seekers, often resulting in higher wages and benefits for employees. The ratio has returned to its pre-pandemic level of 1.1 for both the nation and the State by the end of 2024. This indicates that on average there is slightly more than one open position for each job seeker.

[39] See William C Dunkelberg and Holly Wade "NFIB Small Business Economic Trends" International Council for Small Business (ICSB), September 2024, Available at: https://icsb.org/wp-content/uploads/2024/10/SBET-Sept-2024.pdf Last Accessed: January 16, 2025.

[40] Bailey, Adiah, and Victor Hernandez Martinez. September 2023. "The Effect of Higher Financing Costs on Job Openings and Online Job Postings." *Federal Reserve Bank of Cleveland, Economic Commentary*, 2023-09. Available at: https://doi.org/10.26509/frbc-ec-202309. Last Accessed: January 16, 2025.





Unemployment

The rise in the U.S. unemployment rate stemmed from several labor supply factors, such as increased immigration from the southern border and higher labor force participation among prime-age workers, particularly women, which meant that more workers were looking for jobs and were counted as unemployed. On the demand side, despite the decline in hiring activities, firms remain reluctant to lay workers off, which kept the unemployment rate at 4.0 percent in 2024. However, increases in the number of permanent layoffs compared to temporary layoffs towards the end of 2024 will impact unemployment. As a result, DOB forecasts that the U.S. unemployment rate will increase from 4.0 percent in 2024 to 4.3 percent in 2025 as workforce growth and labor demand slow.

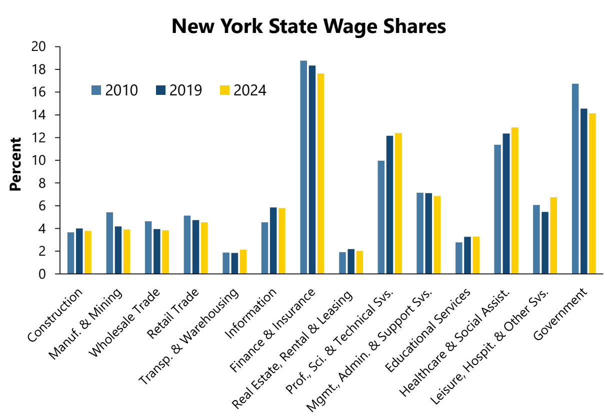
The State's unemployment rate hovered around 4.3 percent in 2024, slightly higher than the national rate. Since the start of the recovery from the pandemic, the State's unemployment rate was driven upwards by the higher rate in New York City, which posted a rate of 5.4 percent in November 2024. The City's unemployment rate increased as more workers joined the labor force in search of jobs. The slowing immigrant population growth is expected to curb the number of people looking for jobs and will hold the New York unemployment rate stable at 4.3 percent in 2025.

Wages

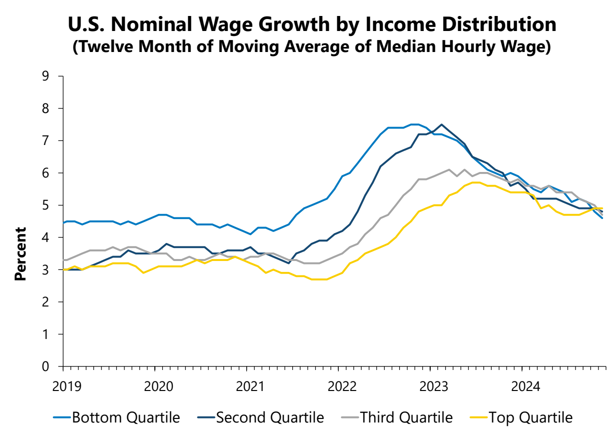
As a result of the subdued hiring activity, the wage premium that supported higher wage growth relative to inflation began to diminish in 2024. DOB expects the nationwide cooling labor demand will curb the U.S. wage growth from 5.9 percent in 2024 to percent in 4.3 percent in 2025 and 3.8 percent in 2026. Tight labor market conditions over the past few years have benefited workers, but in 2024, the labor market continued to stabilize, and upward wage pressures lessened. A proxy for workers' bargaining power to garner higher wages, the Labor Leverage Ratio is the number of quits initiated by workers over the discharges initiated by employers, reached record-high levels of 3.4 in 2022. Since then, the ratio has been declining, and it declined to 1.7 in late 2024, lower than the pre-pandemic average of 1.9. The ratio's declining trend was most pronounced in low-wage sectors.[41]

Various other wage-related measures have started to indicate that wage pressures are waning. The Atlanta Fed's wage tracker, which is a measure of the nominal wage growth of individuals, shows wage growth increased across all income levels since 2019, with low-paid workers seeing the greatest percentage growth in earnings.[42] The data indicates that wage growth for workers in all quartiles continued to slow down in 2024, with a greater deceleration observed in lower-wage workers. Additionally, the year-over-year change in the Employment Cost Index, which is perhaps the most reliable measure of labor compensation costs, indicates that wage growth has been gradually slowing since the second half of 2022. However, the index remains higher than its pre-pandemic levels.

The mean annual wage per worker in the U.S. was $72,608 in 2023. In comparison, New York State's mean annual wages per worker across all industries reached $92,037, ranking the third highest in the country. During that year, the wage growth in the State's leisure and hospitality — typically known as a lower paying sector and health care and social assistance sectors outpaced wage growth across all other sectors. Additionally, these two sectors saw a notable increase in their wage share of total wages from 2019 to 2024. While the finance and insurance sector has the largest wage share among total industry wages, its wage share declined considerably during the same period. In 2024, higher bonus payments contributed to strong wage growth in this sector, even though non-bonus wages moderated due to a slight decline in employment. DOB expects wage growth to moderate in the State due to a broad-based decline in hiring during 2025 and 2026; all industry wage growth will decline from 5.2 percent in 2024 to 4.4 percent in 2025 and further to 3.6 percent in 2026.



Note: Shares for 2024 are based on two-quarters of actual data and two-quarters of forecast; the share of the utilities sector is less than one percent, therefore excluded.
Source: NYS Department of Labor; DOB staff estimates.



Source: Wage Growth Tracker, Federal Reserve Bank of Atlanta, Current Population Survey, Bureau of Labor Statistics.

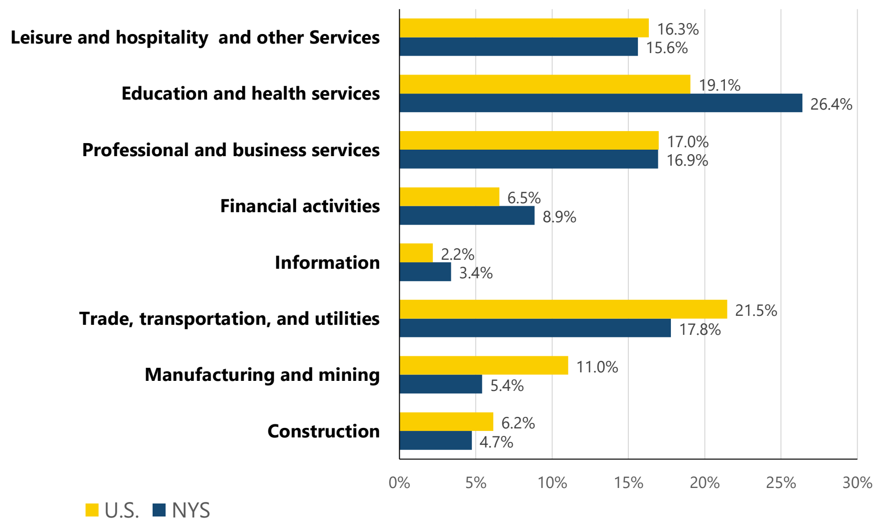
[41] See Aaron Sojourner, Labor Leverage Ratio, W.E. Upjohn Institute for Employment Research, Kalamazoo, MI. Available at: https://www.upjohn.org/labor-leverage-ratio#:~:text=The%20Labor%20Leverage%20Ratio%20is,and%20discharges%20initiated%20by%20employers. Last Accessed: January 15, 2025.

[42] This increase was partially due to the recent hikes in minimum wages. While in 2010 there were only three cities with their own minimum wages exceeding the state or federal standard, by 2024 there were 63 localities that have adopted minimum wages above their state minimum wage.

Employment in Selected Industries in New York State

New York's share of employment in the Education and Health Care, Financial Activities, and Information sectors is higher than the national average.

Compared to the Nation, New York had a Greater Employment Share in Education and Health Services, Financial Activities, and Information Sectors.
(Share of employment in 2024)

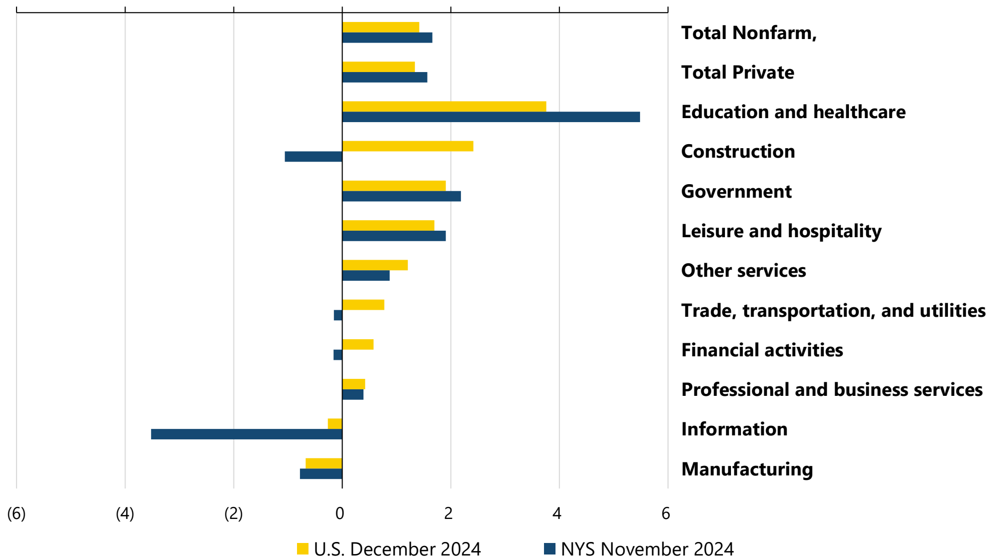


Source: Quarterly Census of Employment and Wages, Second Quarter 2024 data release/BLS.

New York State regained the number of jobs lost after the pandemic in April 2024. The State's job growth in the education and healthcare sector, along with leisure and hospitality and other service sectors, outpaced national rates since the pandemic and this trend continued in 2024. However, the State's employment growth in high-paying sectors, including the information and financial services sectors, has flattened or fallen in 2024. Meanwhile, the employment gains in the health care and social assistance sector kept State employment rising in the second half of 2024.

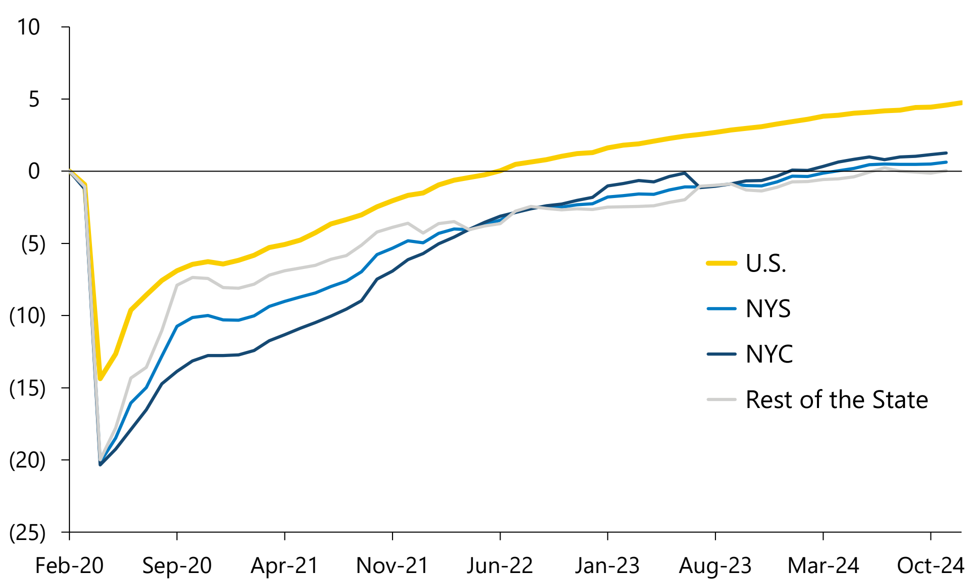
Compared to the Nation, NYS Job Growth Concentrated More Heavily in Education and Healthcare, Leisure and Hospitality, and Public Sectors.

(Year over Year Percent Change – Sectors ranked by U.S. December 2024 growth rate)



Source: Moody's Analytics/BLS, NYS DOL.

Tracking Employment Recovery
(Percent Change from February 2020, Seasonally Adjusted)



Source: Moody's Analytics; NYS Department of Labor.

The State's employment gains will be led by service-providing sectors, including leisure and hospitality, healthcare and social assistance, educational services, and as well as the public sector in 2025. Key sectoral trends of note include:

- The State's employment recovery in the **healthcare and social assistance** sector outpaced national trends. Employment in the **home health and personal care** occupation significantly increased since 2016; by 2023, home health care services employment reached 330,129, nearly doubling from 2016 levels. The share of New York employment in the sector was 3.3 times the nation. Along with the healthcare sector, growth in the State's social assistance sector employment was strong, surpassing its pre-pandemic growth trend. The State's health care and social assistance sector employment is expected to continue to grow and lead the State's job growth, albeit at a slower pace starting in 2025.

- Tourism and business travel is nearly back to pre-pandemic levels and is expected to exceed those levels by 2025. The employment in the **leisure, hospitality, and other services** sector was one of the largest contributors to the State's employment gains in 2024. Much of the employment growth in New York State's sectoral employment was driven by the Food Services and Drinking Places subsector which accounted for 60 percent of the job gains in this sector since the pandemic. Within the leisure, hospitality, and other services sector, employment recovery of most of the subsectors is at or near the pre-pandemic peaks except for Accommodation and Amusement, Gambling, and Recreation Industries. The sector's employment growth is projected to increase by 1.0 percent in 2025 and 1.1 percent in 2026, slightly slower than the 1.2 percent growth rate in 2024.

- The State's employment in the **information** sector surpassed its pre-pandemic peak in 2022 after strong growth. Since then, following a national trend, the State's employment in the sector slipped by 14,000 jobs (4.8 percent loss) from 2022 to 2023. In 2024, while the data processing and web search portal subsectors experienced positive employment growth while statewide layoffs in publishing, motion pictures, and broadcasting resulted in an estimated loss of 6,900 jobs across the entire industry. The job losses in this sector are expected to slow down from -1.3 percent in 2025 to -0.7 percent in 2026.

- The **financial and insurance** industry accounts for 6.5 percent of New York state private employment, significantly above the nation's employment share (4.7 percent). However, employment growth in the sector was slower than the national levels in 2024. The State's employment share in finance and insurance employment has been dropping as some of the firms relocated their businesses to other states which have lower cost of living and less tax burden.[43] State's employment growth of the top three subsectors, Investment Banking and Securities Intermediation, Commercial Banking, Portfolio Management, and Investment Advice, flattened in 2024. DOB expects a weaker growth in the employment of the sector

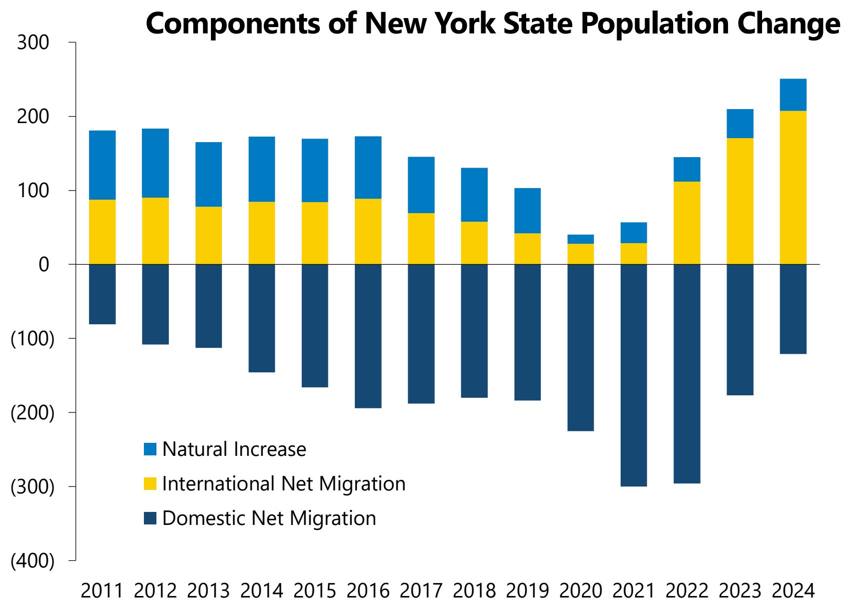
[43] Elizabeth Findell, "Welcome to Y'all Street, Texas' Burgeoning Financial Hub," *Wall Street Journal*, August 10, 2024. Available at: https://www.wsj.com/finance/welcome-to-yall-street-texas-burgeoning-financial-hub-29b712f4 Last Accessed: January 16, 2025.

in 2025 and 2026 due to softening economy and technological changes. Please refer to the Personal Income Outlook section for more information.

- **Manufacturing** employment decreased in the first quarter of 2024 nationally and statewide. While the State has a relatively lower share of employment in the manufacturing sector (5.4 percent vs 11 percent nationally), its employment has been increasing over the second half of 2024, contrasting with the national trend. According to the latest available data from Quarterly Census of Employment and Wages through the second quarter of 2024, New York State's manufacturing sector employment is still well below its pre-pandemic levels. The Capital Region and Western New York were the only regions in the State to surpass its pre-pandemic employment level for this sector. Investments in semiconductor production, driven by the CHIPS and Science Act, are expected to have a positive impact on employment in the sector.

Potential risks to labor markets stem from anticipated immigration policy changes and interest rate cuts which could drive a surge in hiring in the interest rate-sensitive sectors.

As of July 2024, New York State had a population of 19,867,248 residents, continuing to rank as the fourth most populous state in the nation. While the State saw significant growth from 2010 to 2020 according to decennial Census data, with a 4.2 percent cumulative increase, the pandemic period was marked by a population decline, losing almost half a million residents between April 2020 and July 2022. This downward trend may have stalled recently. New York's population grew by 0.7 percent from 2023 to 2024, while the national change was 1.0 percent during the same period. Net international migration, which refers to any change of residence across U.S. borders, was the main demographic component of change driving growth in the State's and nation's population. State's workforce, directly impacted by the population growth, grew by 0.1 percent between 2023 and 2024, mainly due to more unemployed people joining the labor force.



Source: Moody's Analytics/Census Bureau.

Stricter immigration rules pose challenges to balancing the labor market. Greater enforcement will create worker shortages and put upward pressure on wages in affected sectors. Immigrants are a key component of the workforce in New York State. Foreign-born workers represented 18 percent of the U.S. workforce and 27 percent of the New York workforce. While not tracked through traditional employment statistics, undocumented immigrants are estimated to account for 15 percent of the total immigrant workforce of the State. The Center for Migration Services estimated a total of 470,100 undocumented workers in New York State, and most of them work as construction workers, maids/housekeepers, cooks, home and personal care aides, janitors, and delivery drivers, among other occupations.[44] If workers are forced to leave their jobs, employment in these industries will be significantly disrupted.

New York State's population gain in 2024 may be temporary due to a declining immigrant population, an aging demographic, and increasing outmigration caused by the high cost of living and remote work opportunities. These factors could hinder the State's employment growth. The trend, which began with a few of Wall Street's largest banks investing in less expensive states[45], may escalate as rising costs encourage more companies to relocate their operations to more affordable areas.

On the other hand, more aggressive interest cuts than anticipated may serve as an upside risk in hiring in the finance and Insurance sector. As mentioned, tighter financial conditions, such as high

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[44] Lisiecki, Matthew," High-Growth Occupations Reliant on Undocumented Immigrant Workers in New York State", Center for Migration Studies, July 15, 2024. Available at: https://cmsny.org/high-growth-occupations-reliant-undocumented-immigrant-workers-nys/. Last Accessed: January 16, 2025.

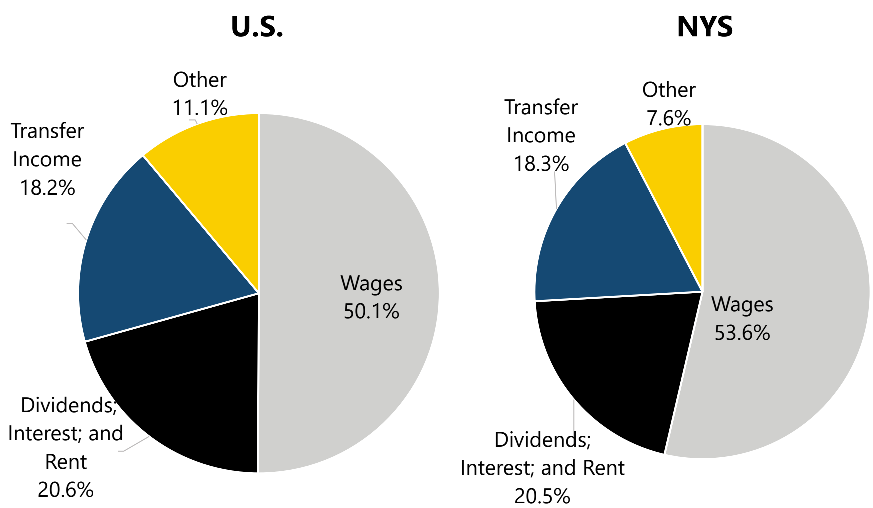
[45] Linly Lin and Tom Maloney, New York and California Each Lost $1 Trillion When Financial Firms Moved South, *Bloomberg*, August 21, 2023. Available at: https://www.bloomberg.com/graphics/2023-asset-management-relocation-wall-street-south/?srnd=premium&in_source=embedded-checkout-banner#xj4y7vzkg Last Accessed: January 16, 2025.

borrowing costs, have taken a toll on the employment growth of these sectors. An improvement in the financial conditions due to the Federal Reserve's further interest rate cuts would lead to a surge in hiring in these sectors.

Personal Income Outlook

Personal income is a key economic indicator, directly impacting household budgets and thus the taxing capacity of Federal, state, and local governments. Estimates of personal income significantly influence the forecasts of both income and consumption-based taxes, the two largest categories of State revenues. Higher personal income leads to increased tax revenues, enabling the State to fund and sustain programs and essential services. Wages and salaries comprise the largest component of both national and New York State personal income – accounting for over 50 percent of the total in 2023, the most recent year for which complete data are available. As a result, any major shift in labor market trends affecting wage growth would have a significant impact on personal income, consumer spending, and revenue collections.[46]

Shares of Major Components in U.S. and NYS Personal Income in 2023



Source: Bureau of Economic Analysis (BEA); NYS Department of Labor.

The non-wage components of personal income include property income – defined as the combined sum of dividends, interest, and rental income – transfer income, supplements to wages and salaries, proprietors' income, and contributions to government social insurance.[47] Transfer income is comprised largely of income from government programs to households and nonprofit institutions and accounts for just under 20 percent of personal income. This category includes items like Social Security benefits, Medicare and Medicaid funding, unemployment insurance benefits, and other forms of temporary assistance. Though Social Security and Medicare are

[46] See Labor Market Outlook.

[47] Contributions to government social insurance represent a deduction; since state personal income is residence-based, it includes a residential adjustment, which deducts the wages earned by employees who work in the state but live outside of the state and adds the wages earned by state residents who work outside the state. For New York, the residential adjustment represents a net deduction.

relatively stable, growth in the remaining major components tend to move countercyclically, rising when the economy weakens and falling during economic expansions.

Personal income experienced robust growth in 2024 at both the national and state levels, decelerating only modestly from 2023. As indicated in the table below, U.S. personal income is estimated to have risen 5.5 percent in 2024, following 5.9 percent growth in 2023. This continued strength is primarily due to strong growth in wages, other labor income, and rental income. Though U.S. employment growth decelerated in 2024, average wage growth rose from 3.7 percent in 2023 to 4.8 percent in 2024. A labor market that is still tight by historical standards and the lagged effect of high inflation likely drove up both wages and employer supplements to wages and salaries. These forces are expected to moderate going forward as the labor market continues to slow. At the same time, high home prices and mortgage rates have shifted many potential buyers into the rental market, further boosting rental income. U.S. personal income growth is projected to soften more significantly in 2025, falling to 4.3 percent as the labor market continues to normalize. Similar forces explain the deceleration of New York personal income from 5.4 percent in 2023 to 5.3 percent in 2024, followed by a more substantial slowing to 4.4 percent in 2025.

PERCENT CHANGE IN US AND NEW YORK STATE PERSONAL INCOME

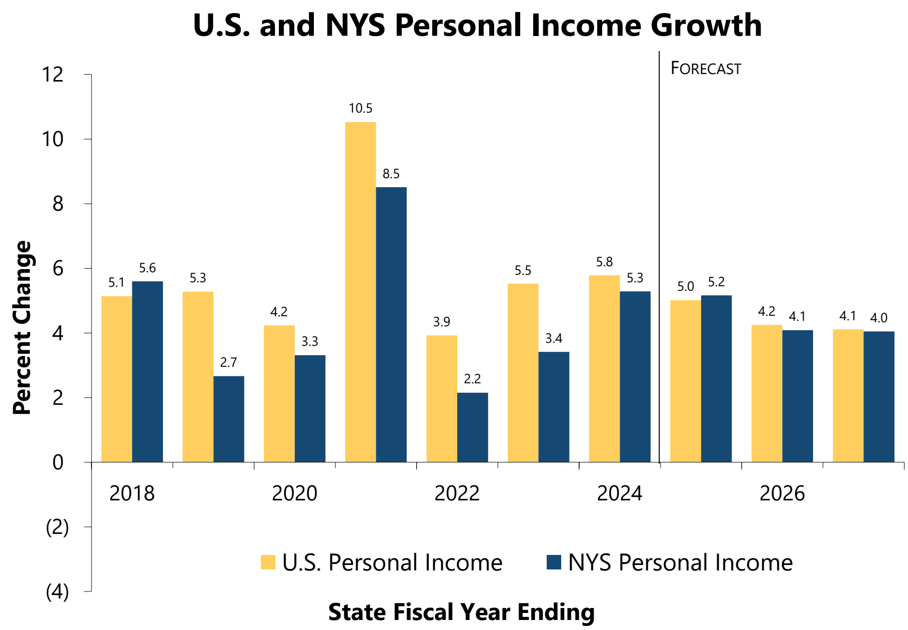
	CY 2023 Actual		CY 2024 Estimated		CY 2025 Forecast	
	US	NYS	US	NYS	US	NYS
Personal Income[1]	**5.9**	**5.4**	**5.5**	**5.3**	**4.3**	**4.4**
Wages[2]	5.4	4.3	5.9	5.2	4.2	4.4
Property Income[3]	10.8	11.7	4.1	3.9	3.5	3.7
Transfer Income	3.1	3.9	6.2	7.4	5.2	5.2
Proprietors' Income	4.0	6.5	2.7	5.0	3.5	3.9
Supplements to Wages & Salaries	6.2	2.6	7.2	5.9	4.7	4.7
Contributions to Social Security	6.0	6.5	4.8	5.1	4.4	4.5

[1] New York State personal income is constructed by using QCEW wages plus non-wage personal income personal income components.
[2] New York State wages are based on QCEW data.
[3] Property income consists of interest income, dividend income, and rental income
Source: NYS Department of Labor; US Bureau of Economic Analysis (BEA) via Moody's Analytics; DOB staff estimates.

Because of the outsized impact of financial sector bonuses on State wage fluctuations, it is more instructive to look at personal income and wage trends on a state fiscal year basis. U.S. personal income growth is expected to slow from 5.0 percent in FY 2025 to 4.2 percent in FY 2026, reflecting the continued softening in job gains and, in turn, slower growth in hourly earnings and wages. In New York, personal income growth is similarly estimated to decelerate from 5.2 percent in FY 2025 to 4.1 percent in FY 2026. While the slowdown in State income growth is also driven by a softening labor market, a more modest bonus outlook is also a factor. State non-wage income is also projected to follow national trends, with growth modestly slowing from 4.8 percent in FY 2025 to 4.5 percent in FY 2026. A more detailed look at personal income and its underlying drivers is discussed in the following sections.

PERCENT CHANGE IN US AND NEW YORK STATE PERSONAL INCOME						
	FY 2024		FY 2025		FY 2026	
	Actual		Estimated		Forecast	
	US	NYS	US	NYS	US	NYS
Personal Income[1]	**5.8**	**5.3**	**5.0**	**5.2**	**4.2**	**4.1**
Wages[2]	5.7	4.2	5.3	5.4	4.2	3.7
Property Income[3]	9.0	9.6	3.2	3.0	3.9	4.2
Transfer Income	3.2	5.0	6.4	6.6	5.0	5.0
Proprietors' Income	3.1	6.1	3.0	4.9	3.9	4.1
Supplements to Wages & Salaries	7.0	4.4	6.7	5.9	4.2	4.0
Contributions to Social Security	5.8	6.7	4.3	4.7	4.6	4.5

[1] New York State personal income is constructed by using QCEW wages plus non-wage personal income components.
[2] New York State wages are based on QCEW data.
[3] Property income consists of interest income, dividend income, and rental income.
Source: NYS Department of Labor; US Bureau of Economic Analysis (BEA) via Moody's Analytics; DOB staff estimates.



Source: NYS Department of Labor; Bureau of Economic Analysis (BEA), DOB staff estimates.

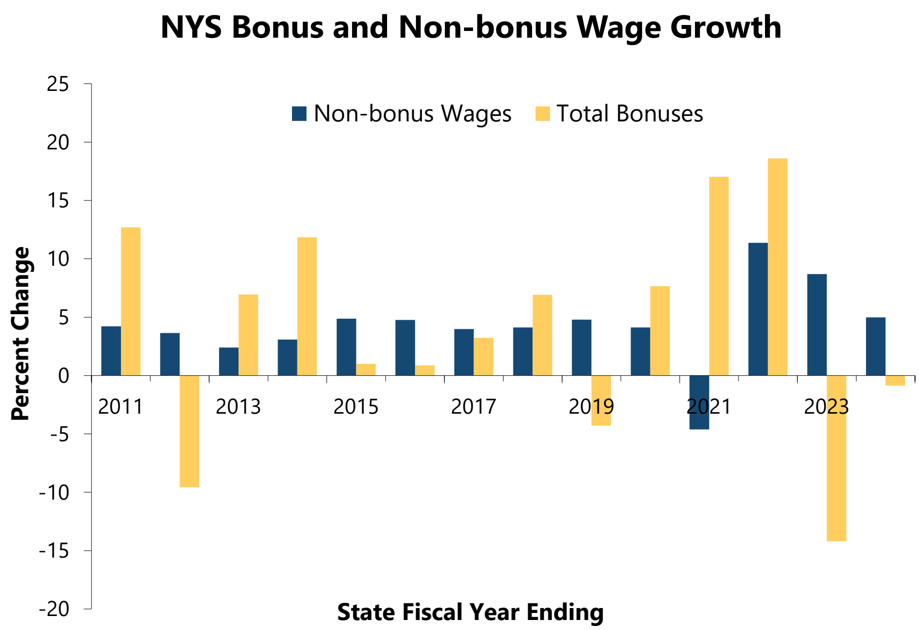
The Variability of Wage Income

As the world's financial capital, New York State's unique industrial structure can cause the State's wage trends to diverge significantly from those of the nation. This is largely due to the volatility of bonus income, which represents an unusually large share of wage income in the highly paid finance and insurance sector. For example, in FY 2024, U.S. wages grew 5.7 percent, while New York State wages rose only 4.2 percent. The State's weaker growth was due in part to weaker employment growth and a 0.9 percent decline in State total bonuses, while non-bonus wages rose a robust 5.0 percent.

State wage growth is estimated to have accelerated to 5.4 percent for the State fiscal year now in progress, despite weaker job growth than witnessed in FY 2024. This strength is due chiefly to a large swing in bonuses from FY 2024's small decline to estimated growth of 13.8 percent. Growth in finance and insurance sector bonuses swung from 3.8 percent growth in FY 2024 to an estimated 16.4 percent for the State fiscal year now in progress. The surge in bonus growth brings estimated State wage growth to within one-tenths of a percentage point of the 5.3 percent U.S rate of growth estimated for FY 2025.

As the U.S. economy continues to slow in FY 2026, the growth gap between the U.S. and New York widens further. State wage growth is projected to fall to 3.7 percent in FY 2026 compared to 4.2 percent for the nation. New York's weaker growth stems primarily from a relatively greater softening of the State's labor market, resulting in a projected decline in non-bonus wage growth from 4.3 percent in FY 2025 to 3.5 percent in FY 2026. In addition, DOB projects a significant deceleration in State bonus growth to 5.4 percent for FY 2026.

The above discussion illustrates the outsized impact fluctuations in bonus income can have on the path of wages in New York. A decomposition of total State wage growth into bonus and non-bonus wage growth is presented in the figure below. The figure highlights the relative volatility of bonus payouts (the yellow bars). Within the 14-year period shown below, non-bonus income fell only once, during the height of the COVID-19 pandemic in FY 2021, while bonus income fell three times during the same period, all during periods of national and State economic expansion.



Source: NYS Department of Labor, DOB staff estimates.

Unlike non-bonus wages, which are relatively evenly distributed throughout the year, the overwhelming proportion of bonus payments are typically paid in the fourth calendar-year quarter of the reference year or the first quarter of the following year. Consequently, it is more meaningful to analyze bonus growth on a State fiscal year basis, rather than on a calendar year basis. In FY 2024, bonuses are estimated to have comprised 12.0 percent of New York State wages, with 55.2 percent of these bonuses paid in the finance and insurance sector. A detailed analysis of bonuses is included in the Financial Markets and Bonuses section below.

Non-bonus wages, driven by changes in the level of employment and non-bonus average wages, offer key insights into the health of the base of the State economy where the overwhelming majority of the workforce is employed. State non-bonus average wages are projected to grow by 2.8 percent in FY 2026, following an estimated growth of 2.9 percent in FY 2025. Historically, non-bonus average wage growth has tracked closely with inflation, but non-bonus average wage growth became more volatile during and in the aftermath of the pandemic due to the large numbers of job losses and subsequent wage gains in low-wage industries, as employers raised pay to combat labor shortages.

NEW YORK STATE PERSONAL INCOME AND COMPONENTS, GROWTH (%)	FY 2024 Actual	FY 2025 Estimated	FY 2026 Forecast
Personal Income*	5.3	5.2	4.1
Total Wages	4.2	5.4	3.7
Non-Bonus Wages	5.0	4.3	3.5
Total Employment	1.8	1.3	0.7
Non-Bonus Average Wages	3.1	2.9	2.8
Total Bonus	-0.9	13.8	5.4
Nonfinancial Bonuses	-6.0	9.3	5.1
Finance and Insurance Bonuses	3.8	16.4	5.9
Non-Wage Income	6.6	4.8	4.5

* New York State personal income is constructed by using QCEW wages and BEA non-wage income.
Source: US Bureau of Economic Analysis (BEA) via Moody's Analytics; New York State Department of Labor; DOB staff estimates.

Total State bonus growth is projected to slow to 5.4 percent in FY 2026, with finance and insurance bonus growth decelerating from 16.4 percent to 5.9 percent. The decline in bonus growth is consistent with slowing national and State economies, growth in equity prices as represented by the S&P 500 of about half its 2024 pace, and a more cautious Federal Reserve that is expected to continue to ease monetary policy to support the economy but at a relatively slow pace.

Non-wage Income

Non-wage income includes property income, transfer income, proprietors' income, supplements to wages and salaries, and employer contributions to social insurance. At the national level, BEA reports the three sub-components of property income: interest income, dividends, and rental income. As indicated in the pie chart above, non-wage income constituted just under 50 percent of personal income for the U.S. in 2023 and 46 percent for New York. State non-wage income is estimated to be growing 4.8 percent in FY 2025, followed by projected growth of 4.5 percent in FY 2026. The performance of personal income and its major components is presented in the table below on a fiscal year basis for both the nation and the State.

Property income, which includes interest, rental, and dividend income, constitutes the largest source of New York non-wage income. For FY 2025, U.S. property income is estimated to grow 3.2 percent while growth in New York property income is estimated at a slightly slower rate of 3.0 percent. For FY 2026, State property income is expected to increase by 4.2 percent, outpacing the U.S. growth rate of 3.9 percent. These projections reflect the combined trends of the individual components of U.S. property income. While New York property income generally tracks the national trend in these components combined, the two can sometimes deviate due to the increased sophistication of New York's investor class.

- **Interest Income**: With the Federal Reserve transitioning from monetary tightening to easing, U.S. interest income is estimated to be growing 2.7 percent in FY 2025, following a strong 12.6 percent increase in FY 2024. However, despite an ongoing loosening of monetary policy, long-term interest rates are expected to remain relatively stable at an elevated rate in FY 2026, with the 10-year Treasury yield projected to hold steady at 4.2 percent on an annual average basis. With heightened levels of uncertainty prompting investors to put upward pressure on the demand for safer, interest-bearing assets relative to equities, U.S. interest income growth is projected to accelerate to 4.1 percent for FY 2026.

- **Rental Income**: Though mortgage rates have fallen from their peaks in the fall of 2023, they remain elevated relative to the recent past, which combined with high housing prices have sustained strong demand for rentals. U.S. rental income is estimated to be growing 5.3 percent in FY 2025, following an 11.2 percent surge in FY 2024. For FY 2026, rental income growth is expected to moderate further to 3.4 percent, as completed units continue to enter the market, increasing the supply of housing.

- **Dividend Income**: Corporate profits are estimated to be growing 4.7 percent in FY 2025, while dividend income is estimated to be rising a more modest 2.5 percent, as companies remain cautious about raising dividends amid heightened economic uncertainty. For FY 2026, dividend income growth is expected to align more closely with corporate profit growth as some of the current level of uncertainty resolves, reaching 4.1 percent.

Transfer income comprises government payments to households in the form of benefits and subsidies. Social Security and medical care benefits combined comprised 81 percent of the transfer income component of New York State personal income in CY 2023. With the easing of inflation, the Social Security cost-of-living adjustment applied to CY 2025 payments is lower than for 2024. Reimbursement rates to health care providers are also expected to exhibit lower growth, all else equal. As a result, State transfer income is projected to grow 5.0 percent in FY 2026, following growth of 6.6 percent in FY 2025. This deceleration is consistent with the projected slowdown in the growth of U.S transfer income from 6.4 percent in FY 2025 to 5.0 percent in FY 2026.

Proprietors' income represents the total business income of unincorporated nonfarm businesses, which are typically self-employed individuals organized as sole proprietors or partnerships. State proprietors' income is estimated to be growing 4.9 percent in FY 2025, with growth projected to decelerate to 4.1 percent in FY 2026.

Supplements to wages and salaries, sometimes referred to as "other labor income," includes employer contributions to private pensions and insurance programs, and thus closely tracks employment and wage trends. This component of personal income is estimated to be growing 5.9 percent in FY 2025 for New York State. However, growth is anticipated to weaken to 4.0 percent in FY 2026, reflecting a softening labor market.

Employer contributions for government social insurance programs represent a deduction from personal income, and also generally track employment and wage trends. U.S. employer contributions are estimated to be growing 4.3 percent in FY 2025 and are projected to grow 4.6 percent in FY 2026. New York's contributions are expected to rise by 4.7 percent in FY 2025 and 4.5 percent in FY 2026, close to the national growth rates.

Financial Markets and Bonuses

The finance and insurance sector contributed 19.4 percent of total state gross domestic product in 2023 and continues to play a critical role in the State's economy. In FY 2024, this sector's wages accounted for 17.4 percent of the State's total but the sector's share of State's employment was only 5.6 percent of the total. Bonuses are an important part of Wall Street compensation packages, constituting 38.1 percent of this sector's wages in FY 2024. Bonus growth in the finance and insurance sector is estimated at 16.4 percent in FY 2025, an acceleration from 3.8 percent growth in FY 2024. The higher growth estimated for the State fiscal year in progress is driven by a recovery in dealmaking activity, which contributed to a rebound in bank profits in 2024. Bank profits in 2025 are expected to face headwinds due to a weakening global and national economic environment, geopolitical tensions, and policy uncertainty under the new administration. However, these headwinds are expected to be partially offset by lower borrowing costs resulting from ongoing Federal Reserve rate cuts, anticipated easing of antitrust regulations, and banks' continued efforts to improve efficiency. On balance, bonus growth of 5.9 percent is projected for FY 2026.

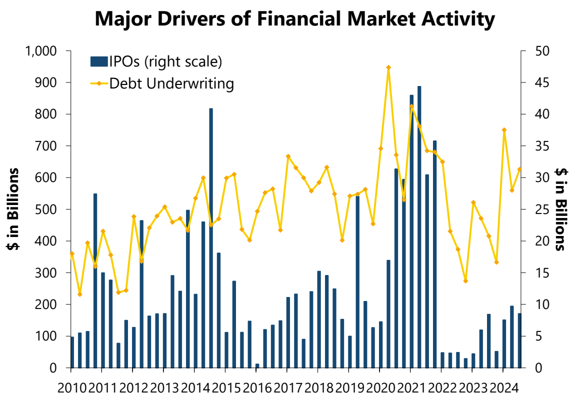
Equity Market

The equity market reached record highs in 2024, fueled by stronger-than-expected economic growth, optimism in the tech sector, cooling inflation, and the Federal Reserve's shift to rate cuts. The S&P 500 index grew by 26.7 percent during the year on an annual average basis. In 2025, equity price growth is expected to moderate to 12.4 percent, reflecting a slowing national and international economy, and heightened investor caution amid global uncertainty.

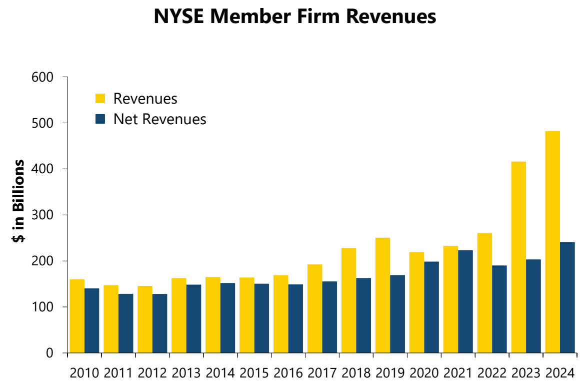
Key Wall Street Revenue Drivers

Initial public offerings (IPOs), corporate debt underwriting, and mergers & acquisitions (M&A) are key drivers of revenues and profits for the securities industry, as well as valuable leading indicators of the health of the financial sector.

- The U.S. IPO market exhibited a strong recovery after reaching a three-decade low in 2022. Activity more than doubled in 2023, surging by 135.3 percent, and continued on its strong upward trajectory in 2024, supported by AI-driven enthusiasm, resilient economic growth, and monetary easing. By November 2024, U.S. companies had raised $30.5 billion in IPO proceeds, a 52.4 percent increase from the prior year. However, proceeds remained below pre-pandemic averages. In 2025, IPO growth is likely to continue, supported by lower borrowing costs and sustained interest in emerging technologies like AI, robotics, and financial technologies (FinTech). Nonetheless, weakening global and national economic conditions and geopolitical uncertainty are expected to temper growth, leading to a moderate expansion in IPO activity in 2025.



Source: Securities Industry and Financial Markets Association (SIFMA).



Notes: The estimates for 2024 are based on three-quarters of actual data annualized; net revenues exclude interest expenses.
Source: Securities Industry and Financial Markets Association (SIFMA); Intercontinental Exchange (ICE).

- After a challenging 2023, M&A activity rebounded in 2024, bolstered by improved business confidence, pent-up demand, and an anticipation of Federal Reserve rate cuts. M&A deal value grew 13.5 percent year-over-year through November according to Dealogic data. Looking ahead to 2025, lower borrowing costs and the potential relaxation of antitrust regulation could drive further growth in M&A, although economic uncertainties, geopolitical instability, and proposed regulations like Basel III Endgame may act as constraints.

- With strong growth in corporate profits and a steady recovery of M&A, debt underwriting experienced robust growth in 2024, increasing 37.4 percent year-over-year through November, as firms sought to capitalize on liquidity and lock in financing to reduce uncertainty. While rate cuts in 2025 can be expected to reduce borrowing costs, economic and political uncertainty may lead firms to exercise caution in issuing new debt.

Wall Street Revenues and Bonuses Face Headwinds

New York Stock Exchange (NYSE) member firm revenues saw robust growth of 16.6 percent during the first three quarters of 2024, driven by higher interest income and underwriting activities. The graph above shows NYSE member-firm total revenues compared to net revenues, which remove interest costs. Revenue growth in 2025 is expected to be more modest than in 2024 due to the anticipated weakening of the key drivers discussed above.

The finance and insurance sector faces a mix of opportunities and challenges in 2025. Rate cuts, the continued recovery of deal activity, and efficiency gains from digital transformation will provide tailwinds for profitability. However, in addition to economic and geopolitical uncertainties, the possible implementation of the Federal Reserve's Basel III endgame proposals, expenses incurred while incorporating the latest anti-fraud and cybersecurity technologies, and the relocation of Wall Street jobs to other states (as discussed below) may also weigh on overall growth. Consequently, bonuses in this sector are expected to grow at a moderate rate of 5.9 percent in FY 2026, following estimated robust growth of 16.4 percent in FY 2025.

Forces Transforming the Banking Sector and the Risks to Personal Income

All of the risks to national and global economic growth apply to the components of U.S. and New York personal income, but as the world's financial capital, risks that are specific to financial markets and the banking sector are particularly pertinent to New York. Several ongoing forces that are reshaping the banking sector, could in turn affect both the near-term and long-term outlook for Wall Street bonuses, State incomes, and tax revenues more generally.

- The finance and insurance sector remains a cornerstone of the State economy. However, New York has been losing finance jobs to other states, such as Texas, Florida, and North Carolina, due to the State's high cost of living and relatively higher tax burden. These factors are not only likely causes of job flight, but also make new businesses reluctant to invest in the State. The State's finance and insurance sector job share in the nation dropped from 10.1 percent in 2000 to 8.5 percent in 2023, and the securities industry share dropped to an all-time low at 36.6 percent. A failure to address the state's affordability crisis could damage New York's long-term competitiveness as a global financial hub, resulting in lower employment, bonus income, and wages.

- The banking industry is undergoing rapid digital transformation, driven by innovations in artificial intelligence (AI), blockchain, decentralized finance (DeFi), and cloud computing. These technologies offer enhanced efficiency, customer experience, risk management, and revenue generation; but they also face challenges, such as high costs of development and deployment, compliance with evolving regulations, workforce adaptation, and heightened cybersecurity risk. Despite the promising long-term profit gains, the initial costs and the accompanying regulatory compliance obligations could temper near-term profit, employment, and wage growth.

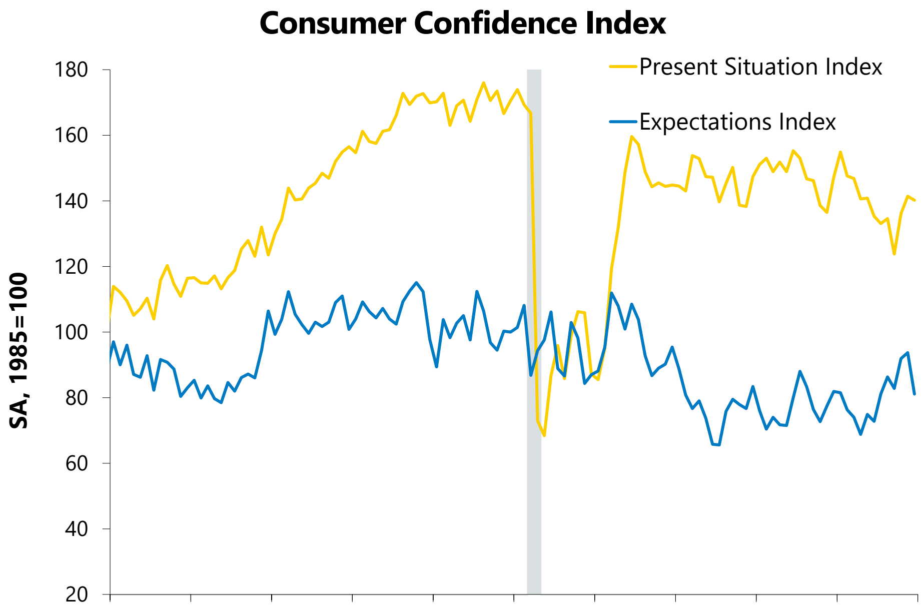
- The regulatory environment has tightened substantially since the global financial crisis, resulting in a safer and more resilient banking system. The payoff to measures taken since 2010 became evident in early 2023 when the failure of two regional banks failed to result in contagion. Additional regulations have come into consideration, such as Basel III Endgame, enhanced stress test requirements, and climate risk disclosures, that aim to further improve financial system stability. However, the anti-regulatory stance of the incoming U.S. administration makes it highly unlikely that these initiatives will be advanced in the near future. While a less regulated environment improves the prospects for near-term profit, income, and employment growth in the financial sector, it raises the risk of another global financial crisis over the long term.

Consumer Spending Outlook

Consumer spending has proven resilient in the face of a marked cooling in the labor market and persistently high prices despite a continuing slowdown in inflation in 2024. Now that excess savings from the COVID-19 pandemic have dried up and household credit card debt started rising, income growth has become the main source of consumers' spending power. Hence, the still-solid labor market plays a vital role in supporting consumers' spending through sustained wage growth (adjusted for inflation).

In addition to income growth, consumer spending is influenced by households' perceptions about the economy. Consumers remained optimistic overall about the future of the economy but continued to express some concern about current economic conditions in 2024. Measures of consumer confidence, including The Consumer Confidence Index®, reflected the resilience of the U.S. consumer in 2024 relative to the pandemic years. The Present Situation Index, which is based on consumers' assessment of current business and labor market conditions, came down in 2024 relative to 2023, reflecting deteriorating consumer sentiment. Overall, the Expectations Index, which is based on consumers' short-term outlook for income, business, and labor market conditions, rose during 2024 relative to 2023 suggesting renewed optimism about the near future. However, for the month of December the index ticked down as consumers begin to adjust their expectations in anticipation of higher prices due to import tariffs in 2025. In addition, November's release of the Survey of Consumer Expectations (SCE) indicates that consumers' outlook on prices remained positive in the medium-term with the three-year ahead expected inflation rate trending down in 2024 relative to 2023.[48] However, longer-term price expectations rose with the five-year ahead expected inflation rate climbing further. The SCE also reveals that households expected a healthier labor market with a lower likelihood for higher unemployment and job losses and a higher likelihood of finding a job in the case of a layoff.

[48] Federal Reserve Bank of New York. "Survey of Consumer Expectations," Available at: https://www.newyorkfed.org/microeconomics/sce#/. Last Accessed: January 9, 2025.

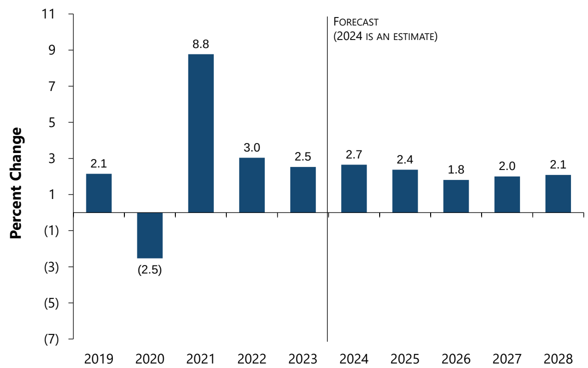


Note: Shaded areas represent U.S. recessions.
Source: Haver Analytics/The Conference Board.

DOB expects real consumption growth to slow from 2.7 percent in 2024 to 2.4 percent in 2025 as a result of cooling employment and wage growth. If the Federal Reserve continues to gradually lower interest rates, DOB expects the consumption of durable goods to remain strong in 2025 before the price effects of tariffs are fully felt. However, the consumption of nondurable goods and services is expected to slow in 2025 as wage growth moderates.

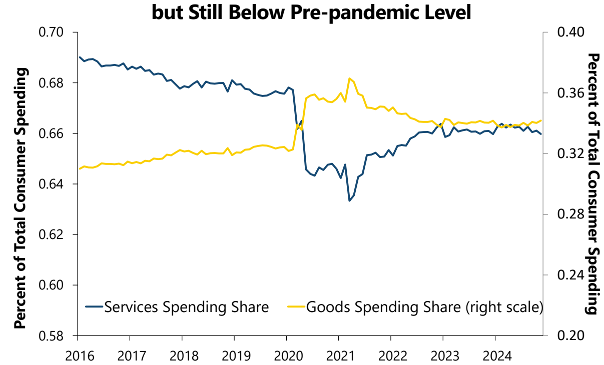
As of the end of 2024, the share of consumer spending on services has recovered from its pandemic lows, but it still has room to grow to return to its pre-pandemic level. The COVID-19 pandemic upended consumer spending behavior in favor of goods as spending on services was largely put on hold due to lockdowns. Since 2022, spending on goods began to normalize while spending on services rose gradually. In 2024, the largest real consumer spending categories in services were healthcare and housing and utilities. The largest contributors to real spending in the nondurable goods categories were other nondurable goods and food and beverages purchased for off-premises consumption. Recreational goods and vehicles and motor vehicle sales were the main components of real durable goods consumption spending.

Real Consumer Spending



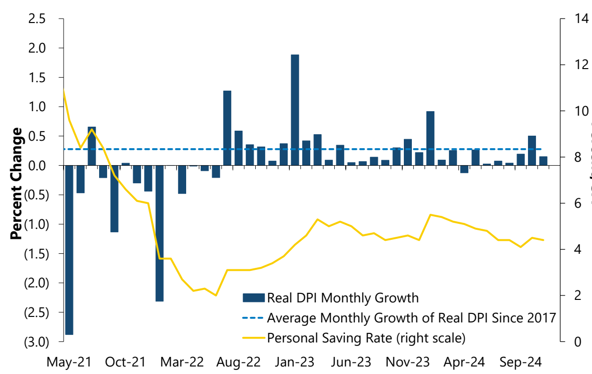
Source: Haver Analytics/BEA; DOB staff estimates.

Spending Share on Services Recovered from Pandemic Lows but Still Below Pre-pandemic Level



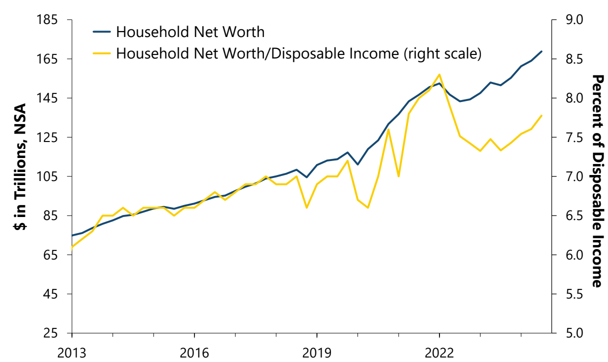
Source: Haver Analytics/BEA.

Real Disposable Personal Income (DPI) and Saving Rate



Source: Haver Analytics/BEA.

Household Net Worth

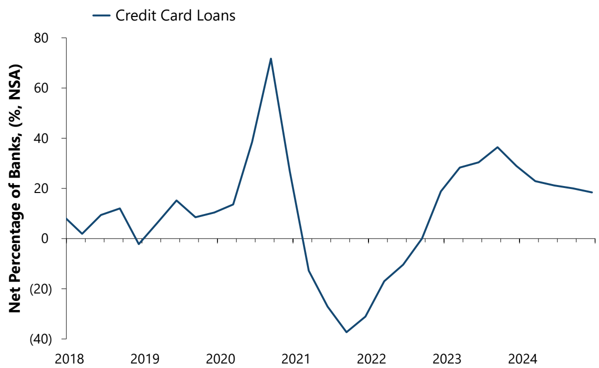


Source: Haver Analytics/BEA.

The potential for further cooling in the labor market could result in reduced wage growth. The rate of job openings has declined steadily, while layoffs have been flat, implying that employers are holding off on both hiring and firing. However, quits have also declined, suggesting employees have less job opportunities and are more likely to hold on to their current positions. If the number of job seekers continues to rise as the number of job openings declines, the former will outpace the latter, shaping a looser labor market that favors employers. This would erode wage growth as a source of spending power.

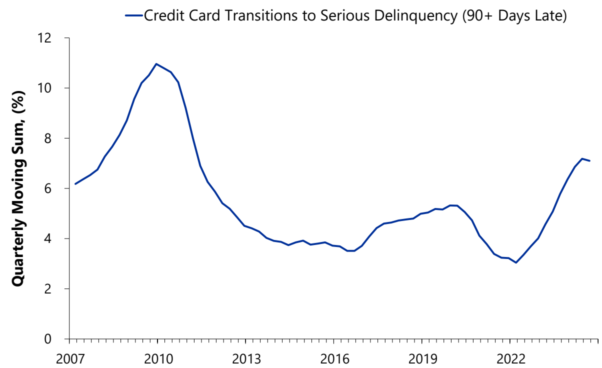
In recent years strong growth in the stock market and home prices boosted household net worth. In addition, the share of interest income in personal income has grown rapidly since the monetary tightening cycle began in 2022. However, if the Federal Reserve considers lowering interest rates further in 2025 and 2026, the contribution of interest income will also come down. Investors will turn to the stock market to seek higher returns. Thus, household net worth and consumer spending in 2025 will be vulnerable to turbulence in the stock market as well as a potential decline in home values.

Tightening Standards – Credit Card Loans



Source: Moody's Analytics/U.S. Board of Governors of the Federal Reserve System (FRB) Senior Loan Officer Opinion Survey.

Credit Card Transitions into Delinquency



Source: Haver Analytics/Federal Reserve Bank of New York (FRBNY) Quarterly Report on Household Debt and Credit.

The rise of credit card delinquencies since 2022 presents a potential risk to consumer spending. While consumers are not broadly exhibiting financial distress at this time, delinquency rates are at their highest levels since 2011. Credit card debt has climbed to an all-time high and has been one of the major contributors to the rise in total household debt.[49] However, the household debt-to-income ratio remains low by historical standards, suggesting that consumers still have room for borrowing. Higher prices have contributed to lower income households using credit cards for nondiscretionary spending. Hence, lower income households are relatively more likely to be overleveraged and disproportionately more financially distressed.[50] If this trend of rising household debt and credit card delinquency persists, it poses negative risks for consumer spending and the economy as a whole.

Recent data reveal that credit demand and supply are largely in balance. While the demand for credit is still stable, some consumers are struggling to qualify for obtaining loans. Consumers recently reported experiencing higher rates of rejection for credit card applications in 2024 and the share of accounts closed by the lender rose to an all-time high.[51] Financial institutions have not reported tightening lending standards which suggests rejections are being driven by growing household debt.[52] Heavily leveraged consumers are not able to acquire new lines of credit and continue to expand borrowing. If this trend continues, a segment of the consumer market will be forced to reign in their spending levels.

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[49] Jason P. Brown and Colton Tousey. "Consumer Debt is High, but Consumers Seem to Have Room to Run," *Economic Bulletin.* Federal Reserve Bank of Kansas City. May 17, 2024. Available at: https://www.kansascityfed.org/documents/10173/EconomicBulletin24BrownTousey0517.pdf. Last Accessed: January 9, 2025.

[50] Andrew F. Haughwout, et al. "Delinquency Is Increasingly in the Cards for Maxed-Out Borrowers," Federal Reserve Bank of New York *Liberty Street Economics*, May 14, 2024. Available at: https://libertystreeteconomics.newyorkfed.org/2024/05/delinquency-is-increasingly-in-the-cards-for-maxed-out-borrowers/. Last Accessed: January 9, 2025.

[51] Federal Reserve Bank of New York. "SCE Credit Access Survey," Available at: https://www.newyorkfed.org/microeconomics/sce/credit-access#/. Last Accessed: January 9, 2025.

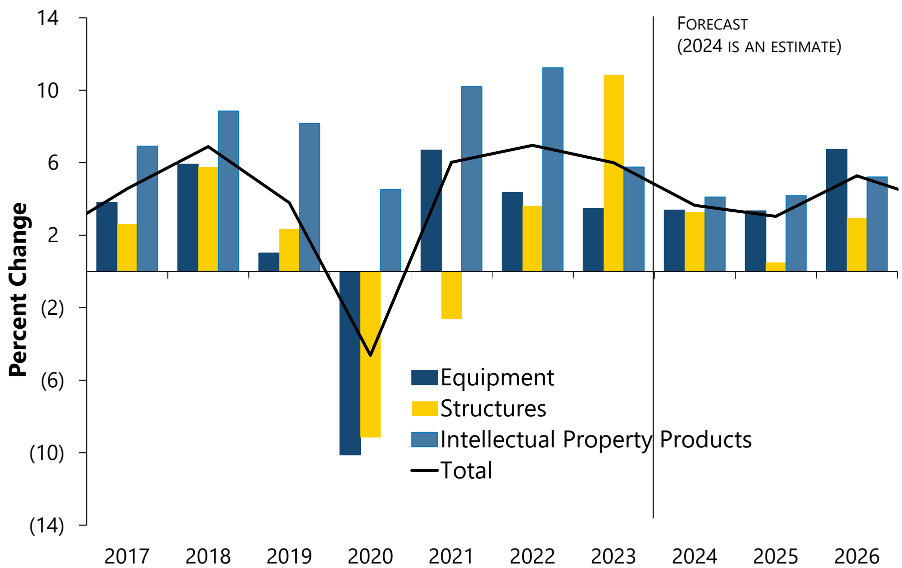
[52] "Senior Loan Officer Opinion Survey on Bank Lending Practices," Board of Governors of the Federal Reserve System. October 2024. Available at: https://www.federalreserve.gov/data/sloos/sloos-202410.htm. Last Accessed: January 9, 2025.

DOB is closely monitoring the impact of imports tariffs expected to go into effect in 2025. All else equal, import tariffs are expected to have an inflationary effect on goods' prices that is likely to be passed down to the final consumer. Tariff-related price changes could push consumers to reallocate their spending toward essentials and away from discretionary categories.

Business Investment Outlook

Business fixed investment, including investment in equipment, structures, and intellectual property products, has been the second largest contributor to real GDP growth since 2021.[53] The relief from supply chain disruptions after the pandemic boosted business investment during 2021 and 2022. Business investment was further bolstered in 2023 by government incentives designed to encourage infrastructure construction, such as the CHIPS and Science Act and the Inflation Reduction Act (IRA) of 2022. This Federal funding supported the development of semiconductor and electric vehicle manufacturing facilities and expanded production capacity for clean and renewable energy in an effort to address climate change. The Federal funding levels peaked in 2024 and are expected to dissipate (see the Fiscal Policy Outlook section for details). As a result, the surge in the construction of manufacturing structures since 2022 will not support investment growth in the out years. In 2024, business investment activity was further held back by uncertainties over the size and timing of the Federal Reserve's monetary easing and U.S. election outcomes. Coming into 2025, policy changes proposed by the new administration are still under discussion. Business decisions over some long-term capital investments may not be made until these policy uncertainties dissipate.

Real Business Fixed Investment

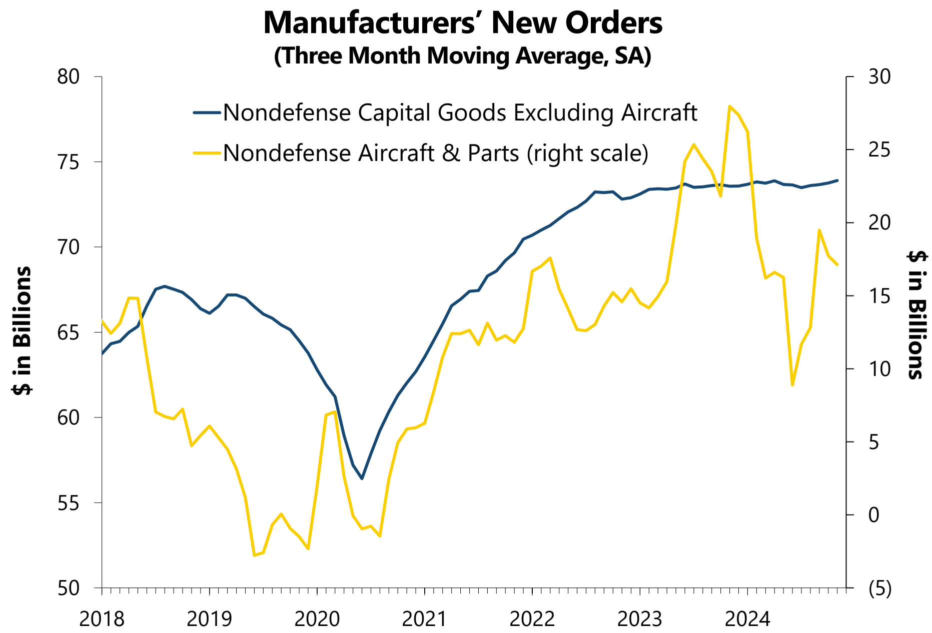


Source: Haver Analytics/BEA; DOB staff estimates.

DOB forecasts growth in real business fixed investment to weaken from 6.0 percent in 2023 to 3.7 percent in 2024 and 3.0 percent in 2025, before strengthening again to 5.3 percent in 2026. As economic growth moderates and consumer demand softens, business investment to expand production capacity could also slow. As a result, the momentum of capital spending is likely to slow as was seen in 2024 when new orders for nondefense capital goods excluding aircraft remained

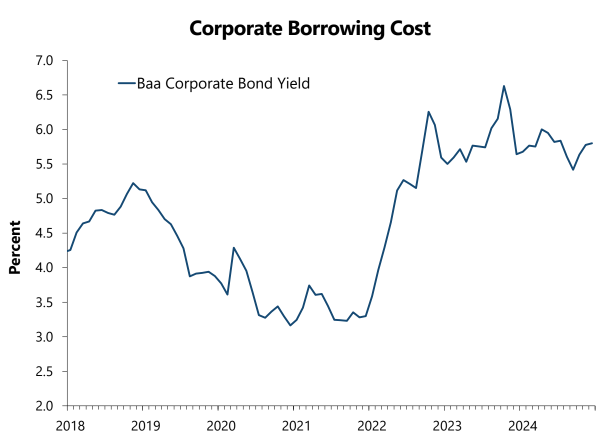
[53] Personal consumption expenditure was the largest contributor to real GDP growth from 2021 to 2024.

flat. This category, also known as core capital goods, includes durable goods used in production such as equipment and machinery for civilian purposes. The size of new orders for these goods is an important leading indicator for the business cycle.

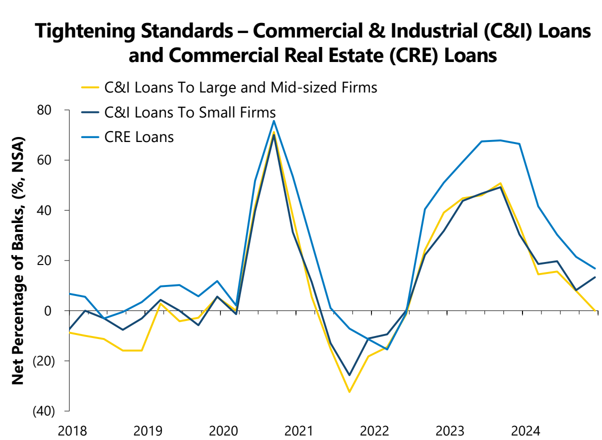


Source: Haver Analytics/Census Bureau.

High borrowing costs and tight credit requirements faced by firms will limit access to capital and place additional downward pressure on business investment. During the 2022-2023 monetary tightening cycle, business fixed investment performed better than in the past because firms with corporate debt locked in at low rates earlier in the post-pandemic recovery did not immediately face higher borrowing costs. However, firms are now facing the resetting of previously low-interest-rate debts and the need to raise capital. Even though monetary easing is underway, borrowing costs may be slow to fall and tight financial conditions will make capital expansion costly to finance, either through corporate debt issuance (large firms) or through bank loans (smaller firms).

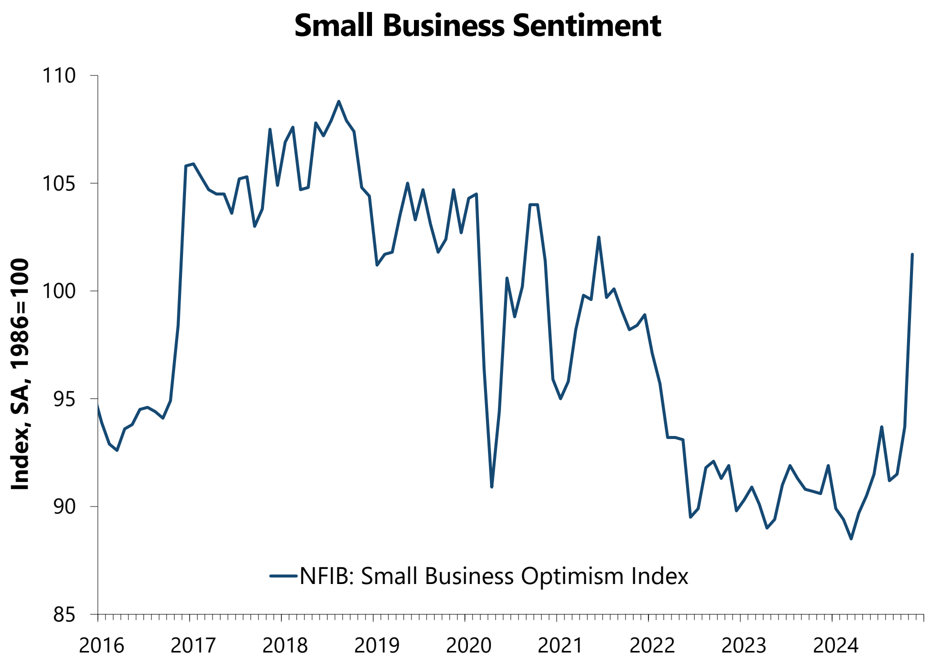


Source: Moody's Analytics.



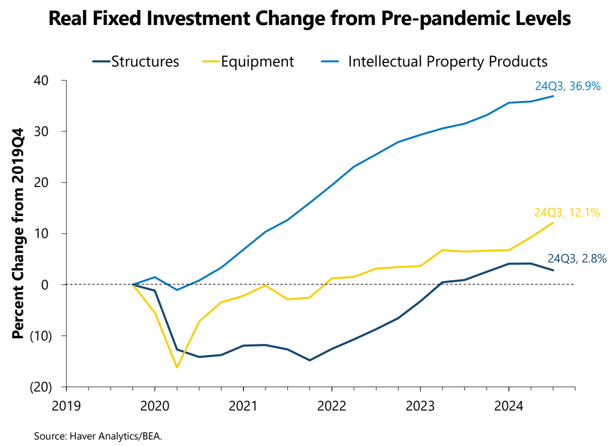
Source: Moody's Analytics/U.S. Board of Governors of the Federal Reserve System (FRB) Senior Loan Officer Opinion Survey.

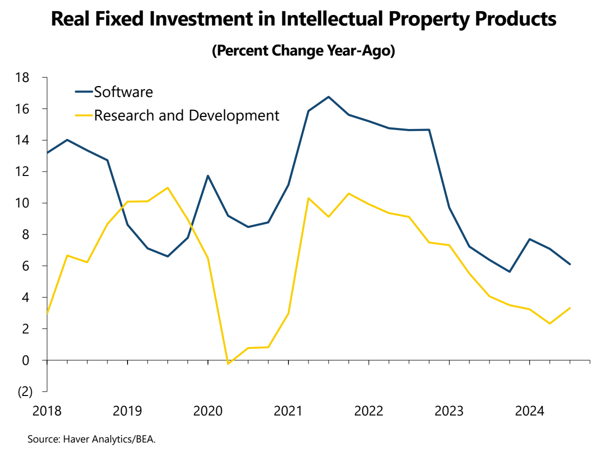
The good news is that new tailwinds may be developing. The Federal Reserve has started to ease monetary policy by cutting the Federal Funds rate by 50 basis points in September 2024 and 25 basis points in November and December. Moreover, the direction of fiscal policy will be clarified in early 2025 as the new administration sets priorities. Corporate tax cuts that increase the after-tax return to investment are likely to be extended and the regulatory environment may shift in a business-friendly direction. Sentiment among small-business owners, measured by the NFIB's Small Business Optimism Index, has risen sharply since late 2024 and might reach historical highs during the first Trump administration. These tailwinds may bolster business fixed investment with a lag beyond 2025.

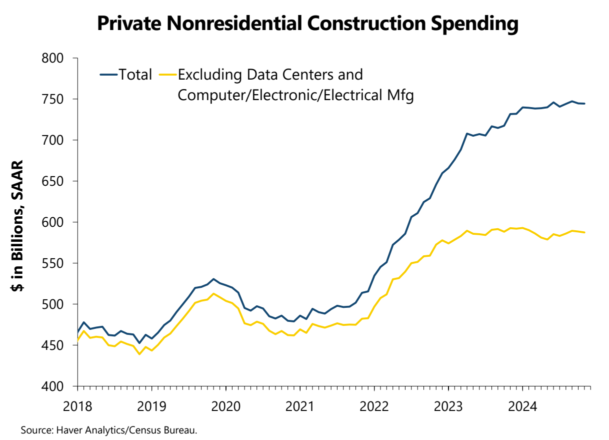


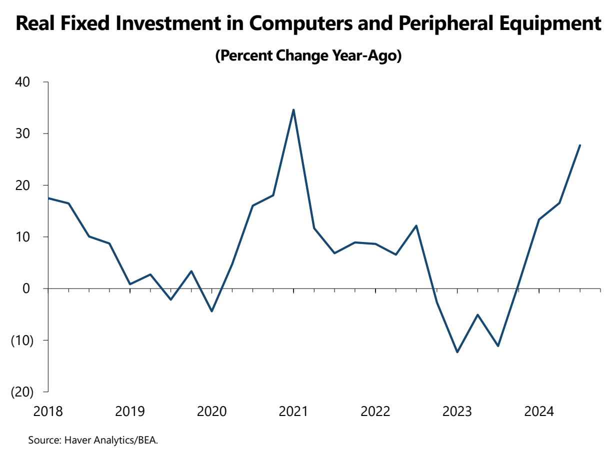
Source: Haver Analytics/National Federation of Independent Business (NFIB).

Business investment in technology is anticipated to remain the bright spot. Real investment in intellectual property products (IPP), including software and R&D, boomed in 2021 and 2022, and displaced equipment investment as the largest share of business investment. A surge of construction spending on data centers and computer/electronic/electrical manufacturing factories followed in 2022 and 2023. As the investment in manufacturing structures cooled off in 2024, equipment investment accelerated. Real investments in computers and peripheral equipment exhibited double-digit growth in 2024 and the strength will likely continue into 2025. So far, trillions of dollars have been spent on purchasing hardware and software to facilitate automation and artificial intelligence, constructing data centers to support cloud computing and storage, or preventing cyber-attacks and the theft of intellectual property. As of the third quarter of 2024, business investments in intellectual property products, equipment, and structures are 36.9 percent, 12.1 percent, and 2.8 percent above their respective pre-pandemic levels. These investments in new technologies could gradually increase productivity further and boost potential output growth (please refer to the Long-term Economic Growth and Productivity section for details).







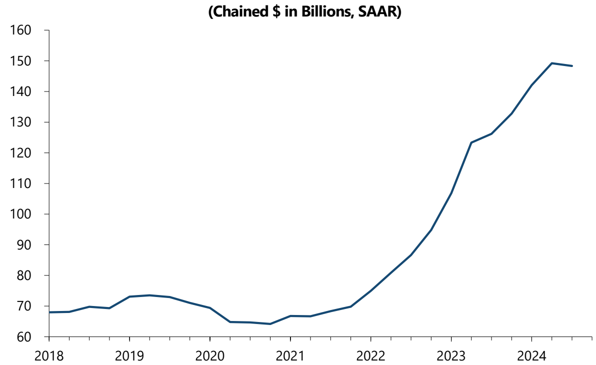


Both Federal and State government incentives stimulated capital investments, particularly tech investments, in New York State in 2024. For example, Micron announced its plan to build the country's largest semiconductor fabrication facility in Central New York. GlobalFoundries announced an award of up to $1.5 billion in direct funding through the CHIPS and Science Act to expand its chip manufacturing and technology development. Governor Hochul also announced New York has been awarded the first National Semiconductor Technology Center Facility in the nation and unlocked $825 million in Federal funding. These investments may spread out several years from construction to production and DOB will be monitoring their developments and impacts on the New York State economy (please refer to Fiscal Policy Outlook and Long-term Economic Growth and Productivity sections for details).

Despite an investment boom in manufacturing structures that benefitted from strong demand for new technologies and Federal government incentives, headwinds on commercial construction projects have weighed on investment in structures since the onset of the pandemic. As demand for office and retail space is not expected to return to pre-pandemic levels in the near term, banks will remain cautious in their commercial real estate (CRE) loans. On the supply side, commercial real estate builders will also face rising material and labor costs similar to homebuilders, due to looming changes to trade and immigration policies. As a result, investment in commercial structures is expected to remain muted. Slow recovery in the commercial real estate industry is expected to continue weighing on the New York State economy and the health of financial institutions that hold commercial real estate loans (please refer to the Commercial Real Estate Market section for further discussion).

Real Fixed Investment in Manufacturing Structures

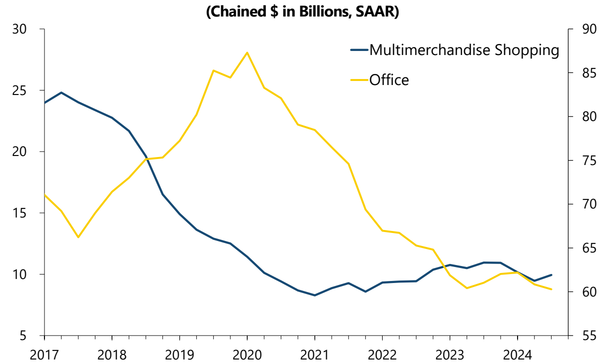
(Chained $ in Billions, SAAR)



Source: Haver Analytics/BEA.

Real Fixed Investment in Commercial Structures

(Chained $ in Billions, SAAR)



Source: Haver Analytics/BEA.

Long-term Economic Growth and Productivity

Economic output growth is driven by three broad factors. The first is growth in the contribution of labor. This occurs when the number of workers increases or these workers get better at their jobs through on-the-job experience, education and training, or better matching. The second contributor to growth is investment and improvements in capital. Modern understanding of capital has expanded to include intangible capital such as software as well as tangible capital including equipment and structures. Firms purchase and build new equipment, factories, and software tools in order to expand product lines or produce more efficiently in the long run.

Previous sections of this volume have discussed the expected changes in the U.S. and New York State labor force and capital investments. Both are important drivers of the economy's growth path. This section addresses the third driver of economic growth referred to by economists as total factor productivity (TFP) but more commonly thought of as innovation. TFP is responsible for incremental value creation beyond what can be accounted directly by contributions of capital and labor.

Total factor productivity-related growth occurs when firms change how they use labor and capital inputs to make higher value outputs or more efficient production processes. In other words, TFP improvements occur when firms innovate. TFP-related growth is supported by Research & Development (R&D), invention, specialized human capital, and more effective management. New knowledge generated through these investments in innovation develops new methods of production that use capital and labor more efficiently. This knowledge is also integrated into what is produced, leading to new and higher-value products and the creation of new markets.

Innovation and its effective implementation are critical in supporting long-term economic growth. The productivity gains enabled by innovation support new economic activity which increases the value of output without generating inflation. As workers specialize, they produce more value per hour worked and see higher wages and personal income. Productivity growth and innovation are particularly important for economies with lower levels of population growth. If the size of the labor force is not expanding, the only way to continue economic growth is by having workers create more value.

Productivity gains are important to the long-term fiscal health of the State. The increased output and income generated through productivity are captured in higher revenues for firms in the state, greater returns to capital, and higher wages for employees. If New York wishes to continue growing its economy and the State's revenues, innovation and the productivity gains it generates are critical to its long-term economic health.

New York's Innovation Ecosystem

New York State has a long history of innovation serving as headquarters for corporate R&D facilities and home to internationally recognized research universities and hospitals. In recent years the Federal and New York State governments have invested in developing an innovation ecosystem in the State that would support continued economic growth. These investments have included funding for private-public partnerships to promote technological advancement and business attraction in high-tech sectors such as biotechnology and life sciences, clean technologies and renewable energies, software and digital media, semiconductors, and transportation.

While innovation is a critical component of the global, national, and state economic well-being, it can be challenging to directly observe its impact on the economy. Innovation is different from invention. Innovation is an intangible concept making its measurement in an economy challenging. This section will present multiple measures to track the innovation ecosystem in New York and discuss how it contributes to the State's long-term economic health: R&D expenditures, R&D workforce, and R&D value-added.

R&D Expenditures

One common measure is investment in R&D. Firms, higher education institutions, and governments allocate funds toward the development of new products and processes through R&D.

In 2021, a total of $38.2 billion worth of R&D was performed by entities (firms, universities, non-profits) in the State representing 4.8 percent of the national total.[54] NY ranked 4th among the states in total R&D expenditures. California ranked the highest with $236.1 billion followed by Washington ($54.0B), and Massachusetts ($52.4B). Nationally, R&D expenditures represented 3.3 percent of GDP but in New York, the State's R&D performance was the equivalent of 2.0 percent of the State's output.

In 2021, New York ranked fifth among the states in total business R&D expenditures. Businesses generally invest in applied research or later stage development that will result in product or process improvements that will benefit the firm in the short and medium term. Businesses conduct the largest portion of R&D in the U.S., representing 77.1 percent of R&D expenditures nationally and 68.9 percent of R&D performed in New York.

New York ranked second among the states for R&D expenditures by higher education institutions trailing only California. The $7.6 billion spent by New York's colleges and universities represented 8.8 percent of all higher education R&D nationally. Three universities in New York State (New York University, Cornell, and Columbia University) ranked among the top 25 higher education institutions for R&D expenditures in 2023.[55] Higher education institutions conduct research to address fundamental science and engineering. The outputs of academic R&D are often more widely distributed, and much is considered part of the public domain. This research often will not have an immediate impact on economic output, but it lays the groundwork for the R&D conducted by businesses. The research conducted by faculty at colleges and universities has the secondary benefit of providing training for the R&D workforce. The capabilities and expertise built through the R&D conducted at the State's higher education institutions is a critical component of the innovation ecosystem that will attract firms interested in implementing the research in their products and production processes.

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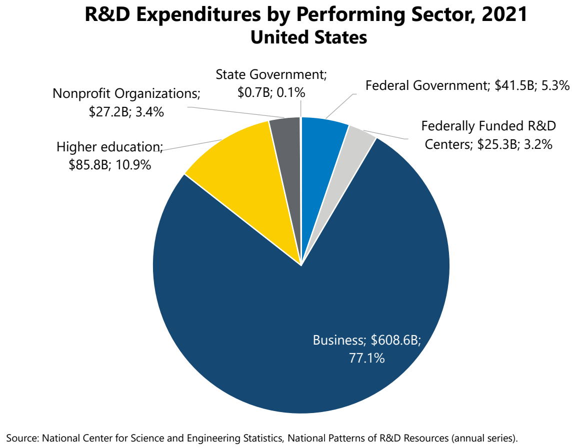
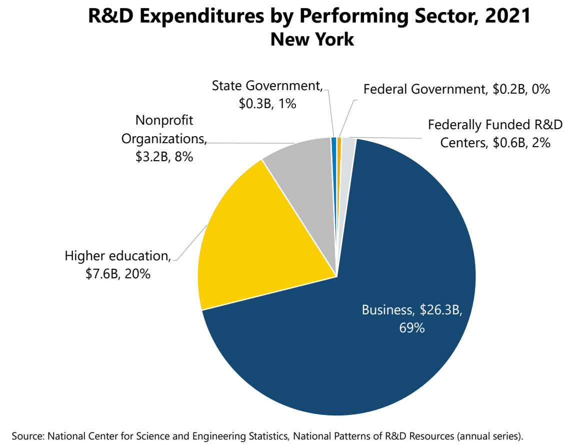
[54] See National Center for Science and Engineering Statistics (NCSES). 2024. *National Patters of R&D Resources: 2021-22 Data Update.* NSF 24-318. Alexandria, VA: National Science Foundation. Available at: http://ncses.nsf.gov/data-collections/national-patterns/2021-2022#data. Last Accessed: January 15, 2025.
[55] See National Center for Science and Engineering Statistics (NCSES), 2024. *Academic Institution Profiles.* Alexandria, VA: National Science Foundation. Available at: http://ncsesdata.nsf.gov/profiles/site. Last Accessed: January 15, 2025.





The R&D Workforce

In 2021, the U.S. economy employed 3,272,600 individuals performing R&D representing 2.2 percent of total employment.[56] R&D employment is highly geographically concentrated in ten states that account for 61.3 percent of the national total.[57] California was home to 21.4 percent of the national R&D workforce in 2021. New York ranked fifth the same year with an R&D workforce of 148,200 individuals.

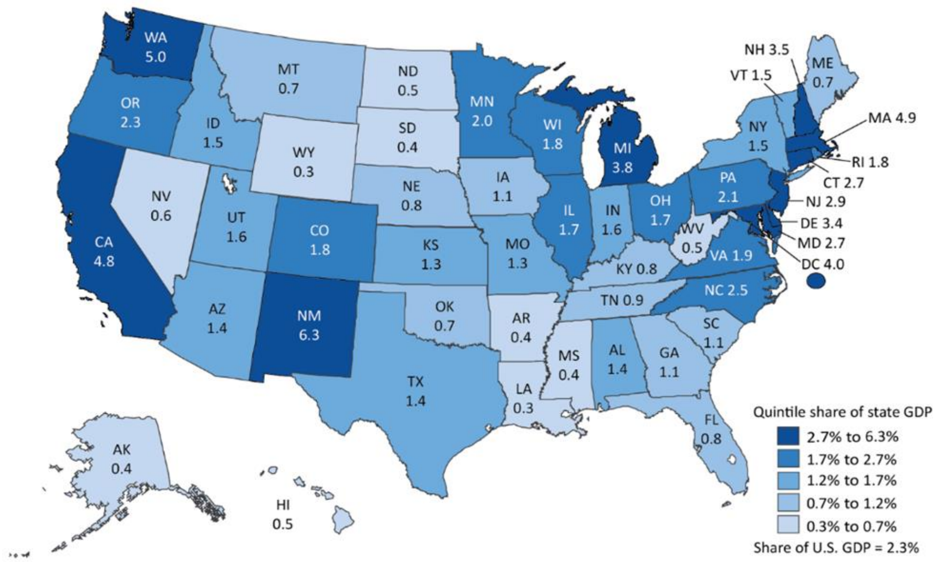
While New York had high levels of R&D employment, these jobs represented only 1.6 percent of the state's workforce. The states in which R&D employment made up the greatest share of the workforce are Massachusetts (5.3 percent), Washington (5.0 percent), New Mexico (4.2 percent), California (3.9 percent), Michigan, and Maryland (both 3.3 percent).

R&D's contribution to New York State GDP

The Bureau of Economic Analysis recently released data that detailed the contribution of R&D to the economic output, or GDP, of the states. In 2021, New York's R&D activity generated $28.1 billion in value-added output to the economy. New York's represented 5.2 percent of R&D value added nationally and the State ranked fifth after California ($163.4B), Washington ($34.2B), Massachusetts ($31.9B), and Texas ($29.9B). Nationally R&D activity accounted for 2.3 percent of value-added output. For New York, R&D represented 1.5 percent of the state's value-added output. The states where R&D was a larger contributor to the State GDP were New Mexico (6.3 percent), Washington (5.0 percent), Massachusetts (4.9 percent), and California (4.8 percent).

[56] Ledia Guci et al., "Preliminary Results From a New R&D Satellite Account," *Survey of Current Business*, August 30, 2024. Available at: http://apps.bea.gov/scb/issues/2024/08-august/pdf/0824-research-development.pdf. Last Accessed January 15, 2025.
[57] Ibid.

R&D Value Added: Share of State GDP, 2021



Source: U.S. Bureau of Economic Analysis, https://apps.bea.gov/scb/issues/2024/08-august/images/0824-rea-chart-6.svg.

New York R&D by Sector

U.S. firms performed $692 billion in R&D in 2022. The industries in the economy that perform the most R&D are pharmaceutical manufacturers ($126B), software publishers ($50B), semiconductor manufacturers ($49B), scientific R&D services ($40B), and aerospace manufacturers ($35B). Together these firms invest the equivalent of 16.5 percent of their annual sales in R&D performance.[58]

Nationally, the four industries that generate the greatest value-added related to R&D are professional, scientific, and technical services, information, chemical manufacturing, and computer and electronic manufacturing. These are the industries that generate the greatest output driven by R&D performance.

In all but one sector, the State's share of national output is higher than the State's share of R&D output in 2021, the most recent year R&D data is available. This is driven by the State's composition of firms in these sectors. The information sector is a diverse one that includes software publishers, internet services, broadcasters, studios, and publishers. New York is a dominant producer in the information industry representing 12.4 percent of national output. But New York's output is concentrated among broadcasting and telecommunications firms in the state. The State has a smaller share of the software engineering, data processing, and search engine firms that are

[58] Table 10. Domestic R&D paid for by the company and others and performed by the company, by type of cost, industry, and company size: 2022. National Center for Science and Engineering Statistics (NCSES). 2024. Business Enterprise Research and Development: 2022. NSF 24-335. Alexandria, VA: U.S. National Science Foundation, Available at: https://ncses.nsf.gov/surveys/business-enterprise-research-development/2022. Last Accessed: January 15, 2025.

performing the bulk of the R&D in the sector. Still, New York ranked third among the states in 2021 for information sector R&D output behind California and Washington.

A similar trend can be seen in the professional, scientific, and technical services sector. New York is home to legal, accounting, and advertising firms which contributes to its large share of the U.S. output in the sector. However, it has relatively fewer engineering and research firms that perform the sector's R&D. New York ranked third among the states in the sector's output.

Chemical manufacturing is the largest R&D performing industry in the sector nationally generating $54.9 billion in R&D output in 2021. The second largest R&D performing sector is computer and electronic product manufacturing with $52.3 billion. New York ranked eighth in chemical and twelfth in computer and electronic product R&D value add in 2021. In recent years, New York State has enabled significant private and public investment in the semiconductor industry attracting industry manufacturers including Global Foundries, Micron, and national semiconductor research centers. In the coming years, New York's position in this sector may change.

New York is leveraging private and public investment to develop an innovation ecosystem

Economists have long recognized that innovators and companies often co-locate in a region to support the development of related technologies. Innovation clusters are geographic areas where a critical mass of scientists, engineers, and entrepreneurs come together to support an emerging industry. Universities conduct critical research and train a workforce. Firms locate in the area to take advantage of the expertise and find the workers they need to develop the technology into new products which attracts other firms in the supply chain that will eventually supply or purchase from companies developing the emerging technologies. Startups are attracted to the innovation cluster by the concentration of collaborators, investors, and customers. Innovation clusters attract talent, foster the creation of high-paying jobs, investors, and promote the region's economic growth. Key examples of innovation clusters are Silicon Valley in California, Route 128 in Massachusetts, and the Research Triangle in North Carolina.

Supporting innovation clusters has been a key component of New York's economic development strategy. The State has invested in research facilities and public-private partnerships to attract the development of new technologies into the State. NY CREATES is an internationally recognized non-profit semiconductor R&D facility located in Albany. Over the past two decades, the center has built a campus that attracts global leaders in the semiconductor industry to develop advancements in chip design and manufacturing. Industry partners include IBM, Applied Materials, TEL, and Wolfspeed and academic partners come from SUNY and over a dozen of other institutions to collaborate with the industry partners to address the technical challenges facing the semiconductor sector.

Beyond research, the facility hosts college and workforce development programs that prepare students to work in semiconductor production facilities or fabs or conduct research in the innovative sector. The potential to collocate with an advanced research facility can be attractive to manufacturers. The facility provides access to suppliers of equipment, experts who can help optimize production, and a steady flow of workers who can fill roles at all levels. In 2024, Governor Hochul and Senator Schumer announced the complex will be home to the nation's first National Semiconductor Technology Center facility. New York will receive $825 million in Federal funding to establish a research facility that will accelerate the development of advanced semiconductor production technologies that will eventually be used by industrial partners nationwide.

New York has used the public-private investment model to support innovation and economic development in other fields. The Life Science Initiative was an investment in pharmaceutical, device and diagnostic research, development, and manufacturing. Battery-NY will accelerate innovation in energy and battery technologies and production. The Empire AI consortium is a collaboration of higher education institutions across the state that will provide researchers from academia, the public sector, and small companies with access to the computing resources required to develop AI technologies.

Risks

R&D investment is cyclical. In times of corporate profits and expansions, companies make investments in R&D projects that may not yield immediate returns. These investments can be further buoyed by Federal policies such as preferential tax treatments for R&D or funding programs. In economic downturns, businesses reduce their R&D investments and reprioritize projects that will yield returns in the shorter term. There is more uncertainty associated with investments in R&D compared to spending on equipment or structures. While a company can expect to see returns upon the installation of a new piece of equipment, the timing of the innovation outcomes is less certain. A downturn could result in less spending on earlier stage research. These decisions often result in downsizing of the R&D workforce in the short term and slow the pace of innovation which would have generated returns in the longer term.

The R&D workforce in the U.S. is highly dependent of foreign-born workers. In 2021, 19 percent of all STEM workers were foreign-born; 60 percent of these workers are U.S. citizens, 22 percent temporary visa holders, and 18 percent are permanent residents.[59] The pipeline of foreign-born workers begins in higher education. In 2021, 34 percent of science and engineering graduate degrees were awarded to individuals with temporary student visas and may will eventually be employed in the U.S..[60] Approximately 71 percent of foreign doctoral graduates who received a degree between 2015-2017 were still in the U.S. after five years. Changes in immigration policy could have a dramatic effect on the U.S. R&D workforce. Limiting the number of temporary student (F-1) visas would lower the number of scientists and engineers trained domestically. Creating barriers or changing caps to H-1B visas for scientists and engineers would limit the supply of labor necessary for innovation.

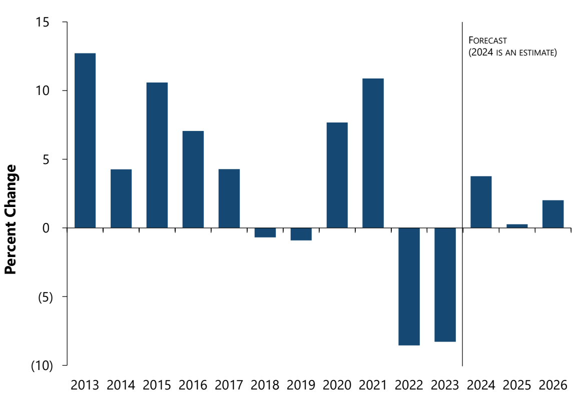
[59] National Science Board, National Science Foundation. 2024. The STEM Labor Force: Scientists, Engineers, and Technical Workers. *Science and Engineering Indicators 2024.* NSB-2024-5. Alexandria, VA. Available at: https://ncses.nsf.gov/pubs/nsb20245/. Last Accessed: January 15, 2025.
[60] National Science Board, National Science Foundation. 2023. Higher Education in Science and Engineering. *Science and Engineering Indicators 2024*. NSB-2023-32. Alexandria, VA. Available at: https://ncses.nsf.gov/pubs/nsb202332/. Last Accessed: January 15, 2025.

Housing Market Outlook

The housing market affects the U.S. GDP through two channels: housing services and residential investment. The value of housing services measured by rent and imputed owner-occupied housing accounts for approximately 10 percent of GDP. Residential investment accounted for 3.4 percent of GDP over the last 12 months ending in September 2024, but it drives significant cyclical swings due to its sensitivity to interest rates. Following the pandemic, mortgage rates declined to 2.7 percent by the fourth quarter of 2020 fueling the demand for housing. Simultaneously, pandemic-induced behavioral changes, including a retirement boom that resulted in more than 1.6 million people leaving the labor force, migration from city centers to suburban areas and increased demand for remote-work-friendly housing, further exacerbated the demand-supply imbalance in key regions. The number of homes sold in the U.S. increased from approximately 6 million in 2019 to 7.5 million in 2021.

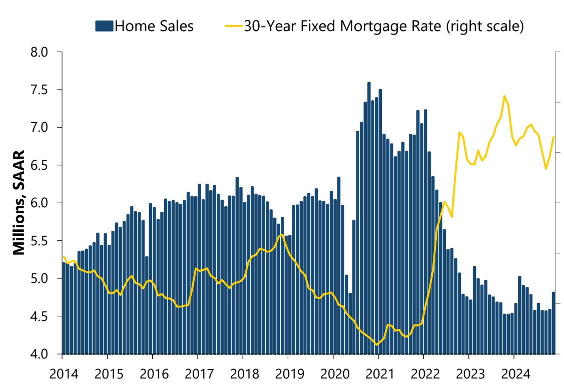
The "housing boom" was ultimately short-lived. After the Federal Reserve's rate hikes in 2022, home sales experienced a sharp correction and declined to 4.7 million in 2024 as 30-year fixed mortgage rates climbed as high as 7.3 percent in the final quarter of 2023 and remained at 6.7 percent in 2024. With the Fed reducing the target interest rates, DOB projects mortgage rates to decline to 6.2 percent in 2025 and 5.7 percent in 2026. This is expected to increase housing demand and boost housing starts, but the pace of the decline may not be fast enough to improve housing supply significantly in the short term. Consequently, after increasing by an estimated 3.8 percent in 2024 which contributed to 0.1 percentage point to real GDP growth, real residential fixed investment is projected to remain relatively flat with only 0.3 percent growth in 2025, followed by 2.0 percent in 2026, significantly below its 4.7 percent average growth in the 2010s. These growth rates will not offset the two years of greater than 8 percent declines in residential investment seen in 2022 and 2023.

Real Residential Investment is Projected to Remain Flat in 2025



Source: Haver Analytics/BEA; DOB staff estimates.

High Mortgage Rates are Depressing Home Sales

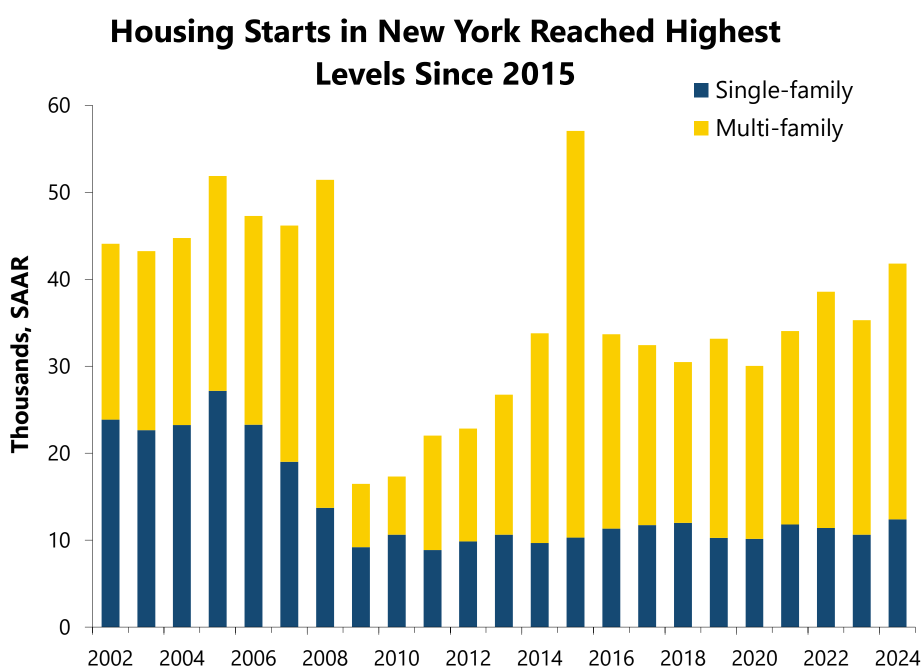


Note: *Home sales include both new and existing home sales.
Source: Moody's Analytics/Census Bureau/NAR/Freddie Mac.

Despite elevated interest rates, new home construction in New York had a revival in 2024. New single-family housing starts increased by 16.2 percent and multi-family housing units increased by 24.4 percent in the first 11 months of 2024, higher than the nationwide increase of 7.4 percent for single-family housing starts and 27.3 percent decline for multi-family housing starts. Single-family housing starts in New York reached its highest annual level since 2008 and multi-family housing starts reached its highest level since 2015.

New York State committed to a $25 billion Housing Plan in the FY 2023 Enacted Budget. The plan allocated funding for the construction of multi-family affordable housing, the preservation of existing affordable housing and the development of supportive housing. Together these programs were expected to create and preserve 100,000 affordable homes statewide. More recently, the FY 2025 Enacted Budget further addressed the State's housing crisis through programs that would incentivize housing construction of mixed-income and affordable units and return vacant apartments to the rental market. The 2026 Executive Budget includes a $1 billion commitment to support affordable housing in New York City.

These policy actions along with falling interest rates are expected to increase new housing construction in the State in the coming years. Housing starts are projected to increase further by 3.7 percent in 2025 and 3.4 percent in 2026. With these increases, 45,000 new housing units annually are expected to start construction in the next two years, nearly 50 percent above the annual average in the 2010s and matching the annual starts of the early 2000s prior to the Great Recession of 2008-2009. Even though this increase is a significant gain over the past decades, when adjusted for population, the number of housing starts is only half of the national average.



Note: Data for 2024 are through November.
Source: Moody's Analytics.

Housing Affordability

In recent years, the housing affordability crisis has come to the forefront of the public policy debate. Whereas rising house prices may stimulate consumption among existing homeowners as their perceived wealth and borrowing capacity go up, it reduces residual income among households who have not owned their homes, depressing consumer spending especially in high housing cost areas. [61] [62] Furthermore, the lack of reasonably priced housing reduces labor mobility into areas with better paying jobs and negatively impacts employers' ability to attract workers.[63] Indeed, fewer people are moving than at any time going back to 1940s, only 7.8 percent of Americans (25.6 million) moved to a different residence in 2023, down from 11.2 percent annual average in the 2010s.

Housing affordability also impacts household formation as younger Americans delay moving out of their parents' homes when it becomes costlier to do so evidenced by a sharp decline in household formation after the Great Recession. Net household formation (defined as the annual change in the number of households) dipped to 232,000 in 2023, the second lowest level since 1948. Recent research by Freddie Mac suggests that the U.S. would have added one million more households by 2024 had housing remained as affordable as prior to the pandemic.

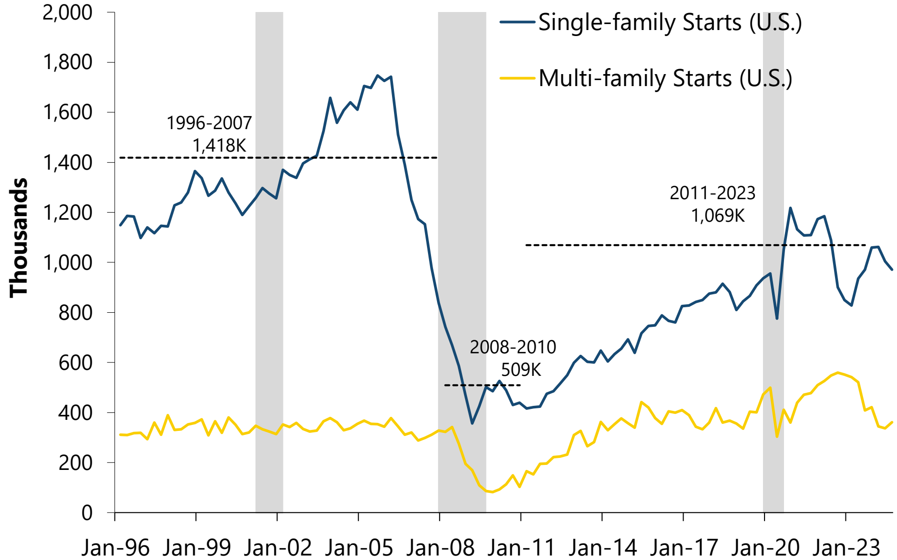
Nationwide, there aren't enough new homes being built to meet the demand, leading to higher prices and less affordability. Across the country, the construction of new single-family homes has stayed well below pre-Great Recession levels for over ten years. It has been far too low to keep up with even the slower rate of net household formation in the last decade. New multi-family home construction has increased above pre-Great Recession levels, but it is not sufficient to close the gap in housing shortages. The national housing shortage was estimated to reach 3.7 million units as of the third quarter of 2024.

[61] John Y. Campbell and João F. Cocco, "How do house prices affect consumption? Evidence from micro data," *Journal of Monetary Economics*, April, 2007. Available at: https://www.sciencedirect.com/science/article/abs/pii/S0304393206001279. Last Accessed: January 15, 2025.

[62] Jerry Anthony, "Housing Affordability and Economic Growth," *Housing Policy Debate*, May 16,2022. Available at: https://doi.org/10.1080/10511482.2022.2065328. Last Accessed: January 15, 2025.

[63] Raven E. Saks, "Job Creation and housing construction: Constraints on Metropolitan area employment growth," *Finance and Economics Discussion Series (FEDS)*, September 22, 2005. Available at: https://www.federalreserve.gov/econres/feds/job-creation-and-housing-construction-constraints-on-metropolitan-area-employment-growth.htm. Last Accessed: January 15, 2025.

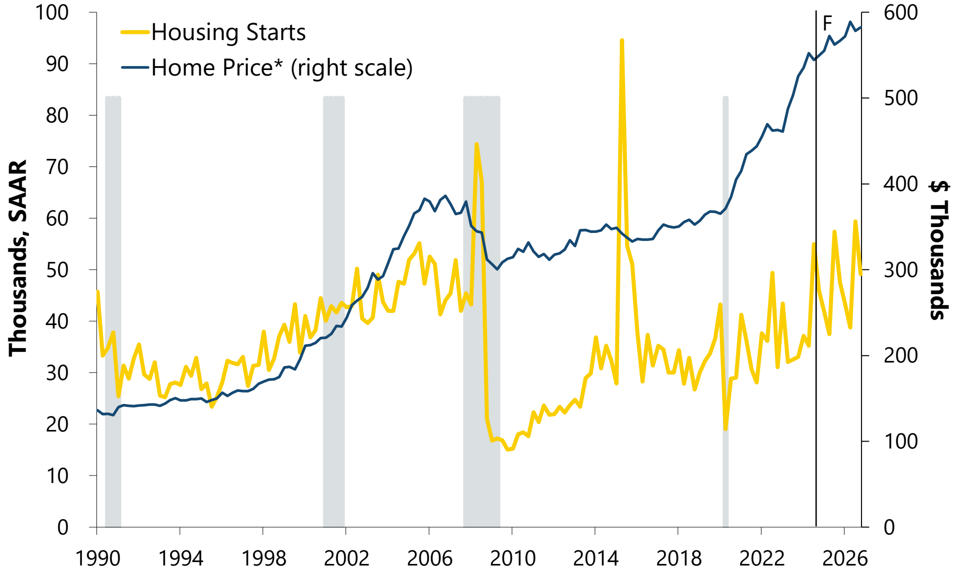
Single-family Home Construction is Falling Short of New Household Formation



Note: Shaded areas represent U.S. recessions.
Source: Moody's Analytics.

With already existing housing shortages, home prices accelerated significantly after the pandemic both nationwide and in New York State as 30-year fixed mortgage rates fell below 3 percent and housing construction did not catch up to increased demand. However, even after the Fed's rate increases, home prices continued to go up in New York due to lack of supply. Across New York State, growth of median existing home prices accelerated in 2024 compared to 2023 while number of sales plummeted. The statewide median existing single-family home price grew by 10.9 percent in the first 9 months of 2024, faster than the nation's growth of 6.3 percent in the same period. DOB projects that New York State's average single-family home price will increase by 3.4 percent in 2025 and 2.9 percent in 2026 as the interest rates go down. While these price increases are still high, the price growth represents a significant deceleration from 2024 as housing construction continues to grow in New York.

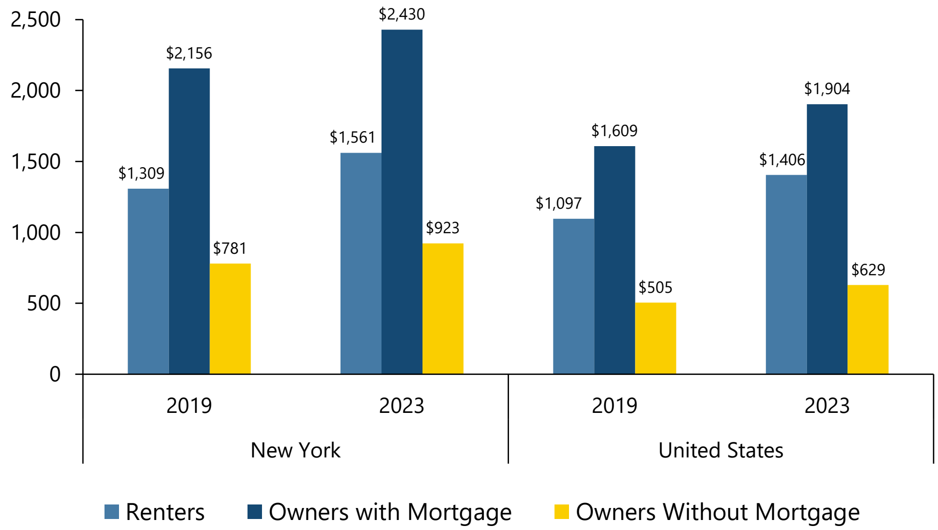
Home Price Increases are Projected to Decelerate as Housing Starts Continue to Grow in New York



*Average price existing single-family home price.
Source: Moody's Analytics; DOB staff estimates.

All costs associated with housing have faced inflationary pressures in the last five years including home insurance, utilities, and real estate taxes. For instance, home insurance rates across the nation increased by 37.8 percent since 2019 and by 20.7 percent in New York whereas fuel and utilities were up by around 30 percent. Renters face the greatest volatility as they tend to have lower incomes than homeowners on average, spend a higher share of their incomes on housing, and face regular rent adjustments often tied to inflation. Median shelter costs inclusive of all housing expenditures increased by 19.3 percent for renters in New York between 2019 and 2023. While homeowners with mortgages face the highest shelter costs, they were somewhat insulated from the price changes thanks to low interest rates they had locked in prior to rate hikes. Median shelter costs for homeowners with mortgages increased by 12.7 percent between 2019 and 2023. Homeowners without mortgages also saw their housing costs rise by 18.2 percent in the same time frame.

Median Shelter Costs Grew by Double Digits for Both Homeowners and Renters Since 2019



Source: United States Census Bureau

Policymakers generally define housing affordability in terms of the percentage of income spent on housing inclusive of these additional expenses. The maximum affordable rent for federally subsidized housing was set at 30 percent of income since 1981 and this threshold became an indicator of affordability for housing across the United States. Households who spend more than 30 percent of their income on housing costs inclusive of utilities and taxes are considered housing cost-burdened. The share of households who are housing cost-burdened rose across New York State and nationwide between 2019 and 2023. The share of cost-burdened New York renters, whose incomes are lower on average and who spend a larger share of their incomes on housing compared to homeowners, increased from 50.1 percent in 2019 to 51.4 percent in 2023. The increase in rent burdens coincided with declines in rental vacancy rates across New York. Rental vacancy rates across New York State, especially in New York City metro area, were already below national averages before the boom and the gap increased further in 2023. Vacancy rate for rental properties in New York State decreased from 4.0 percent in 2019 to 3.4 percent in 2023 compared to a decline from 6.0 percent to 5.5 percent for the U.S. New York City especially deals with significant rental unit shortage with vacancy rates recorded in 2023 at 2.1 percent in The Bronx, 2.5 percent in Brooklyn, and 2.6 percent in Queens.

Homeowners in New York State also have a higher share of households who are housing cost burdened compared to the rest of the nation as not only home prices are higher in New York but also other costs such as property taxes are elevated. In 2023, 28.6 percent of households who carried a mortgage across the United States were cost-burdened compared to 33.8 percent in New York, whereas 15.2 percent of U.S. households who were mortgage-free were cost-burdened compared to 20.5 percent in New York.

New York City Housing Market

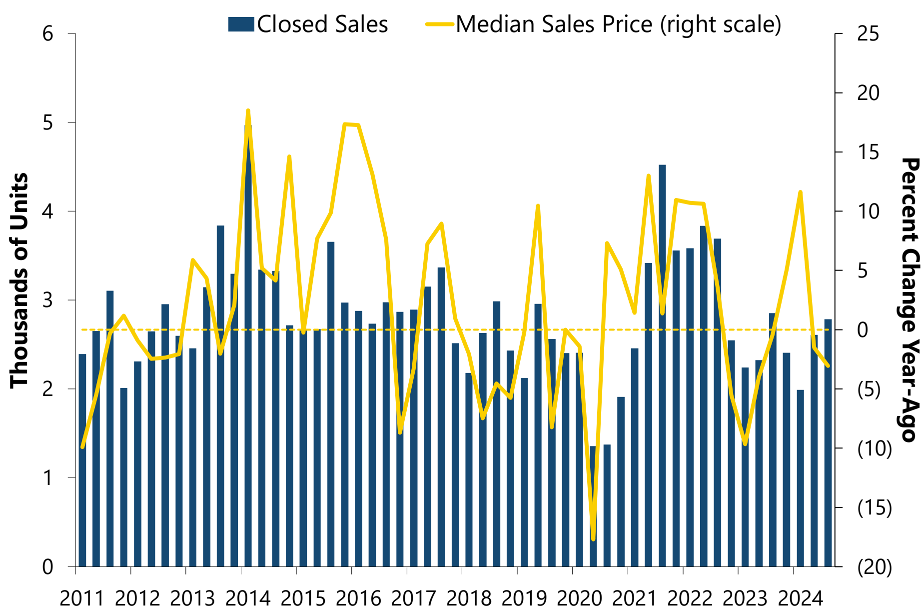
The slowdown in residential sales activity across the State and nation also impacted New York City with the number of residential transactions (including single-family homes, condos, and co-ops) declining by 3.8 percent in 2024 according to New York City Department of Finance rolling sales data. This is a continuation of the cooling of the housing market activity that peaked in 2021. The decline in 2024 was observed across all New York City boroughs except The Bronx. The decline in the average monthly number of transactions varied from 3 percent in Brooklyn to 8.2 percent in Staten Island. Median price of homes increased in outer boroughs between 5.2 percent in Queens to 10.7 percent in The Bronx in 2024. Manhattan had a small decline in median price of 0.8 percent.

TRENDS IN NEW YORK CITY RESIDENTIAL PROPERTY SALES AND PRICES (Percent Change)						
	Unit Sales		Average Price		Median Price	
	Level	Percent Growth	Level	Percent Growth	Level	Percent Growth
Bronx						
2019	423	-7.5%	$715,972	4.6%	$470,570	8.1%
2020	341	-19.2%	$1,490,798	108.2%	$715,820	52.1%
2021	416	21.8%	$857,959	-42.4%	$559,542	-21.8%
2022	405	-2.7%	$934,672	8.9%	$590,750	5.6%
2023	307	-24.1%	$807,148	-13.6%	$564,800	-4.4%
2024	308	0.3%	$938,119	16.2%	$625,000	10.7%
Brooklyn						
2019	1,128	-3.6%	$1,226,562	5.7%	$789,319	1.6%
2020	910	-19.3%	$1,326,584	8.2%	$805,371	2.0%
2021	1,504	65.3%	$1,570,794	18.4%	$924,764	14.8%
2022	1,396	-7.2%	$1,568,610	-0.1%	$956,003	3.4%
2023	1,000	-28.3%	$1,321,077	-15.8%	$920,000	-3.8%
2024	970	-3.0%	$1,462,171	10.7%	$980,000	6.5%
Manhattan						
2019	1,088	4.3%	$2,542,261	-1.1%	$1,169,971	5.0%
2020	763	-29.9%	$2,811,292	10.6%	$1,118,188	-4.4%
2021	1,533	101.0%	$2,556,249	-9.1%	$1,174,473	5.0%
2022	1,431	-6.6%	$2,691,200	5.3%	$1,208,825	2.9%
2023	1,077	-24.8%	$2,723,632	1.2%	$1,210,000	0.1%
2024	1,023	-5.0%	$2,726,842	0.1%	$1,200,000	-0.8%
Queens						
2019	1,390	-4.7%	$832,797	19.7%	$564,678	4.6%
2020	1,082	-22.1%	$807,373	-3.1%	$598,806	6.0%
2021	1,583	46.3%	$832,219	3.1%	$661,226	10.4%
2022	1,307	-17.4%	$770,351	-7.4%	$710,000	7.4%
2023	1,205	-7.8%	$876,719	13.8%	$656,000	-7.6%
2024	1,166	-3.2%	$916,724	4.6%	$690,000	5.2%
Staten Island						
2019	456	-11.8%	$547,462	3.3%	$525,673	1.9%
2020	414	-9.3%	$573,252	4.7%	$545,706	3.8%
2021	574	38.6%	$730,397	27.4%	$595,293	9.1%
2022	491	-14.4%	$702,096	-3.9%	$635,875	6.8%
2023	376	-23.4%	$653,235	-7.0%	$626,944	-1.4%
2024	345	-8.2%	$695,003	6.4%	$665,000	6.1%

Note: Unit Sales Level shows average monthly number of transactions. Average Price and Median Price Levels are of the entire year.
Source: New York City Department of Finance (Rolling Sales Data).

Manhattan's condo and co-op market represents the largest segment of residential sales, adding up to $32 billion in transactions in 2024 and corresponding to 46 percent of the value of all residential transactions in New York City. This segment of the market was not exempt from the decline in transactions in the rest of New York City. The number of Manhattan condo and co-op sales, the most expensive segment of New York City residential market, fell by 1.8 percent in the 12 months that ended in September 2024 and was 14.8 percent below the average for the last decade. While increased interest rates took a toll on the number of sales, it did not lead to a significant drop in prices, especially for new developments. Median sales price for resales remained flat from a year ago at just under $1 million whereas it increased by 6.1 percent for new developments and was over $2.1 million. Meanwhile, months of supply, the number of months to sell all listing inventory at the current sales rate, was 7.8 months in the third quarter of 2024, exactly the average over last 10 years.

Manhattan's Condo and Co-op Sales Slowed Down in 2024



Source: Miller Samuel Inc. and Douglas Elliman Real Estate.

Risks

Monetary Policy and Macroeconomic Environment

The housing market is sensitive to mortgage rates which are projected to decline in 2025 and 2026. Inflation is significantly lower but still has not reached the Federal Reserve's target rate. Any further delays in the Fed's rate cut cycle will impact housing demand and supply negatively beyond what is forecasted. Such a scenario could lead to fewer market transactions of existing homes as well as declines in construction activity. Additionally, the New York City housing market is sensitive to Wall Street bonuses which might be impacted by a slower pace of Fed cuts. Further local risks could develop as a result of geopolitical conflicts and the strength of the U.S. dollar that could impact foreign demand on New York City luxury housing market.

Household Formation and Demographic Changes

Demographic dynamics cause significant structural risks to the housing market. The U.S. has an aging population with the share of younger individuals continuously declining. Consequently, lower levels of net household formation may continue reducing the demand for new housing. Net immigration, which was elevated in recent years, has slowed but may decline further. Demographic dynamics combined with potentially longer-than-anticipated elevated mortgage rates may result in continued weak housing demand, and in return, weaker or even negative growth in real residential fixed investment than forecasted.

Labor Shortages in Construction Industry

Further changes in immigration policy may not only reduce housing demand but also may cause disruptions of new construction. In New York State, 69.5 percent of workers in the construction industry were foreign-born in 2023 (more than double the 29 percent rate nationwide). A slowdown in the flow of new immigrants may cause labor shortages and delays in the completion of ongoing construction and negatively impact the available inventory.

Lock-in Effect

Furthermore, more households own their homes outright than ever before (39.8 percent nationally and 42.6 percent in New York) and have little reason to move elsewhere. Even for those who did have mortgages, nearly 75 percent of all existing mortgages have a rate below 5 percent and 21.6 percent have a rate below 3 percent, creating a lock-in effect where existing homeowners are unable or unwilling to move homes as new mortgages would be significantly costlier for them than their current ones. According to research from FHFA, this mortgage rate lock-in prevented 1.33 million sales between 2022Q2 and 2023Q4, and the number of Americans moving to a different home was at an all-time low in 2023.[64]

Housing Policy

There are also upside risks to the housing market outlook, mostly due to local policy changes. As discussed above, New York State made significant investments in housing in recent budgets with more proposals included in the FY2026 Executive Budget. The funding commitments and policy changes have been designed to spur additional public and private investment in affordable housing. Depending on how fast the changes induce new housing construction, these new policy initiatives might increase residential construction beyond the current forecast.

[64] Ross M. Batzer et al., "The Lock-In Effect of Rising Mortgage Rates," *Federal Housing Finance Agency*, August 30, 2024. Available at: https://www.fhfa.gov/research/papers/wp2403. Last Accessed: January 15, 2025.

Commercial Real Estate Market

DOB's outlook for long-term interest rates does not foresee a return to the ultra-low interest rate environment that preceded the onset of the COVID-19 pandemic. As a consequence, the economy's most interest-rate sensitive sectors, of which the commercial real estate (CRE) sector is one, are facing a long-term process of adjustment to the new fundamentals of a changing world. Moreover, the pandemic and its aftermath have had a profound impact on the CRE market for both the nation and the State. The post-pandemic development that has likely had the greatest impact on this sector is the growth in remote work. Bureau of Labor Statistics (BLS) reports that as of November 2024, fully 23.3 percent of the national workforce was working remotely at least some hours, with 10.9 percent estimated to be working remotely all their hours on the job. These shares are more than double BLS's estimate that prior to the pandemic 9.4 percent of the national workforce worked remotely at least some hours.

While the Federal Reserve's recent interest rate cuts have brought some relief to the CRE sector, the Budget Division interest rate forecast is consistent with a monetary policy that remains vigilant of inflation risk, with the 30-year mortgage commitment rate not falling far below 6 percent over the forecast horizon. Given the CRE debt market tends to be highly leveraged, characterized by short-term maturities and balloon payments, interest rate volatility poses an especially high risk. Since the Federal Reserve began raising interest rates to counteract inflation, CRE borrowers whose loans have matured within the most recent 30 months have been forced to refinance at significantly higher interest rates. Approximately $1.7 trillion, or almost 30 percent of outstanding CRE debt, is reportedly expected to mature during the period from 2024 to 2026.[65] The banking system is reported to hold almost 40 percent of that debt, which may be fortuitous.[66] The relative health of the nation's banking system bodes well for being able to negotiate with troubled borrowers and absorb delinquent debt. The current financial environment, combined with rising vacancy rates and declining valuations, has created the most precarious situation for the CRE market since the global financial crisis, particularly for office properties, which face a unique set of challenges from the increase in remote work.

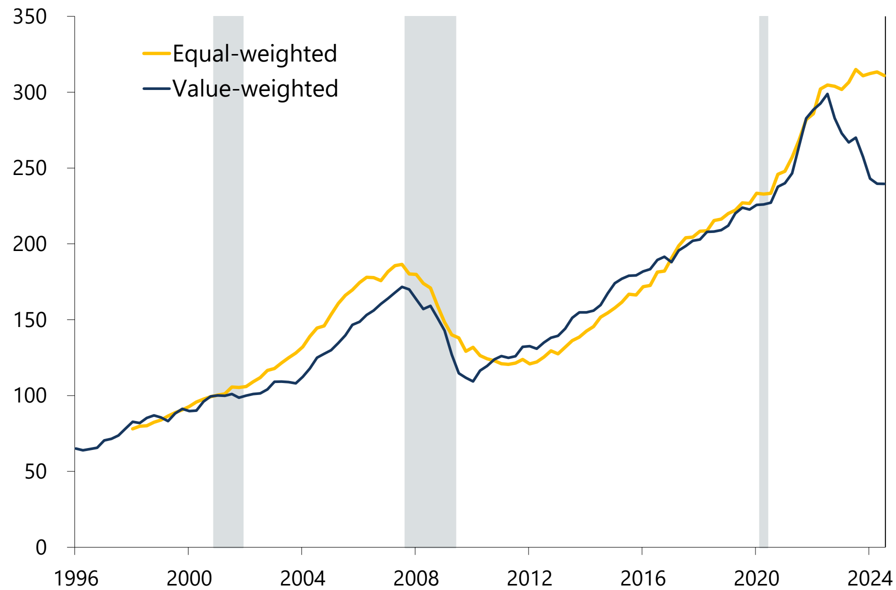
The figure below presents two perspectives on historical CRE price growth and the impact of the recent period of monetary tightening. The CoStar commercial repeat sale price index tracks market trends by comparing how prices have moved for properties that have sold more than once. The equal-weighted price index gives all sales transactions the same weight, while the value-weighted index more heavily reflects the high-value transactions that are more common in "core markets" like New York City. Both indexes display a pandemic bump as interest rates fell to their lowest levels since the 2008-2009 global financial crisis. While growth in the equal-weight index appears to have stalled when the Federal Reserve began to tighten in the first half of 2022, the value-weighted index exhibits a steep decline beginning in the fourth quarter of that year. As the price trends reflected in these indexes are based on repeat sales of the same property and thus based

[65] See Kathleen Navin, "Commercial Real Estate in Focus," Federal Reserve Bank of St. Louis, May 30, 2024. Available at: https://www.stlouisfed.org/on-the-economy/2024/may/commercial-real-estate-in-focus. Last Accessed: January 15, 2025.

[66] Richard Hill (2024, December 5). *How Do CRE Capital Markets Actually Work?* [Webinar], National Association of Business Economists. Available at: https://www.youtube.com/watch?v=Wuz2adsXTNQ. Last Accessed: January 15, 2025.

on completed sales transactions, the index may not fully reflect the deterioration in CRE market conditions, since many owners tend to delay putting their properties on the market until conditions become more favorable.

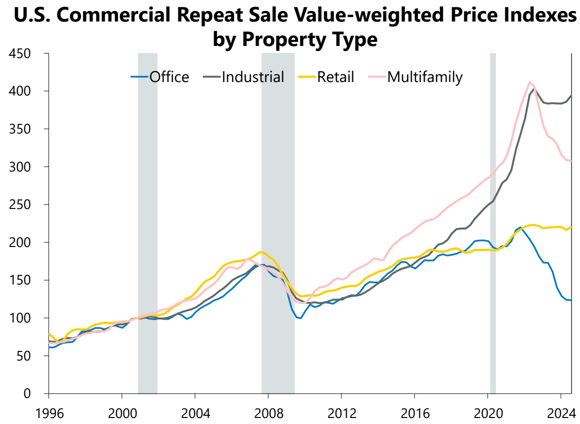
U.S. Commercial Repeat Sale Price Indexes



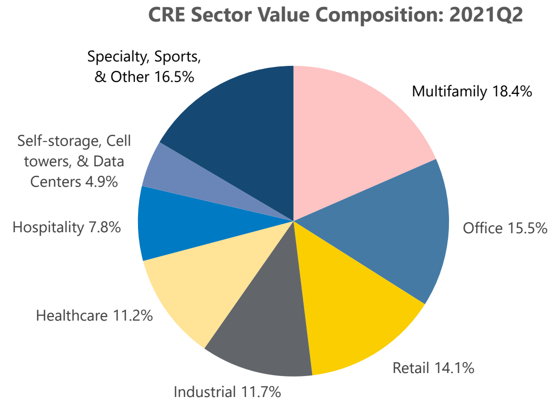
Note: Shaded areas represent recessions.
Source: CoStar.

The recent weakness in CRE prices has taken its toll on the overall value of the market. The Federal Reserve reports that the nominal market value of CRE fell from $24.0 trillion in the second quarter of 2023 to $21.8 trillion in the second quarter of 2024, a decline of 9.1 percent over the period.[67] This decline compares to 3.2 percent growth in the CPI.

[67] See Board of Governors of the Federal Reserve System, *Financial Stability Report*, October 2023, https://www.federalreserve.gov/publications/files/financial-stability-report-20231020.pdf and Board of Governors of the Federal Reserve System, *Financial Stability Report*, November 2024, https://www.federalreserve.gov/publications/files/financial-stability-report-20241122.pdf; there are varying estimates of the size of the CRE market, ranging up to $25 trillion. See Hill, *op. cit*.



Note: Shaded areas represent recessions.
Source: CoStar.

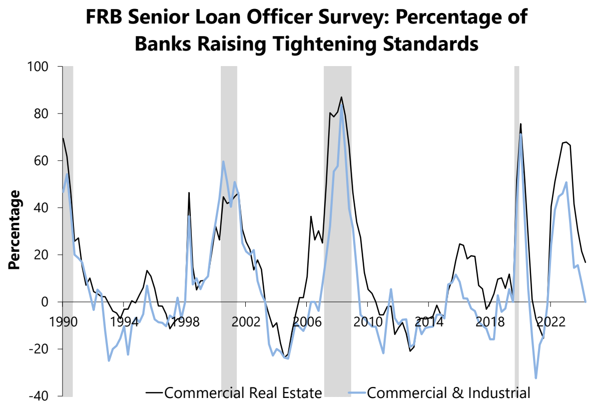


Source: Nareit.

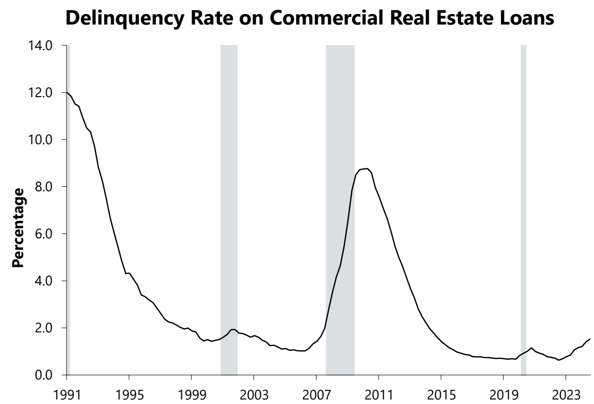
A similar trend is seen across many CRE property types. The left-hand-side figure above displays the CRE market's four largest individual property types: multifamily, office, retail, and industrial. While the recent monetary tightening affected all four types, both multifamily and office buildings show much steeper declines than either industrial properties or retail properties. However, while multifamily buildings have given back a large portion of their post-pandemic price gains, prices remain above their 2019 values, and are expected to continue to be supported by the nation's ongoing shortage of residential housing. In contrast, office buildings have lost much ground since the eve of the pandemic. The right-hand-side figure displays the composition of the CRE sector by market value for the second quarter of 2021.[68] Market composition has likely changed since that point, with office properties comprising a smaller share due to their loss of value, and newer types of commercial structures such as data centers comprising a larger share with the growth in artificial intelligence and cell phone usage. But these data also highlight that the subsector currently most at risk, the office building sector, comprises only about 15 percent of the market.

The Federal Reserve Bank Senior Loan Officer Survey reports the percentage of banks that have tightened their lending standards over the prior three months, thus representing a good indicator of lenders' perception of risk. As indicated above, banks are important lenders within the CRE market. The left-hand-side figure below shows that banks' perception of CRE risk has generally tracked with risk pertaining to the commercial and industrial sector, the other major segment of the nonresidential market. But the most recent period shows CRE market risk to be particularly elevated.

[68] "Estimating the Size of the Commercial Real Estate Market in the U.S.," *Nareit Research Note.* Available at: https://www.reit.com/data-research/research/nareit-research/estimating-size-commercial-real-estate-market-us-2021. Last Accessed: January 15, 2025.



Note: Commercial & Industrial refers to loans to mid-size and large firms, which loans to small firms tend to track very closely; shaded areas represent recessions.
Source: Federal Reserve Board of Governors via Moody's Analytics.



Note: Shaded areas represent recessions.
Source: Federal Reserve Bank of St. Louis.

The right-hand-side figure above puts the current pace of CRE delinquencies into historical perspective. While the current CRE delinquency rate appears to be rising, it as yet appears to be relatively contained compared to the early 1990s, when the market was recovering from an oversupply of commercial construction and the savings and loan crisis, as well as compared to the period surrounding the Great Recession.[69] While delinquencies will likely continue to rise over the coming years, the spillover of CRE risk to the banking system and to the economy overall is likely to be small due to the central bank's shift toward monetary easing and perhaps most importantly, the relative health of the banking system due in no small part to the much tighter regulatory framework that was put in place in the wake of the global financial crisis. However, as the Federal Reserve continues to recalibrate its stance toward inflation, these risks could become more significant.

One of the primary sources of CRE loan delinquency risk is vacancy rates for offices located in central business districts, which started their dramatic increase during the pandemic, and have continued to increase well in the post-pandemic period. Office vacancy rates reached 19 percent for the overall U.S. market during the first quarter of 2024, surpassing highs reached during the Great Recession. Moreover, vacancy rates are likely to rise above their current values, as space that is either subleased or leased but not fully used runs the risk of turning into vacancies once those leases come up for renewal. Vacancy rates have also risen for multifamily and industrial properties but remain well below 5 percent.

New York City

The New York City market contains many of the nation's and indeed the world's most valuable CRE properties. The borough of Manhattan is the largest office market in the nation, accounting for about 10 percent of total U.S. office inventory, but had a total market vacancy rate of more than 15 percent as of September 2024.[70] The table below highlights the volatility wreaked by the pandemic on New York City's commercial real estate market. A common pattern emerges for the pace of sales across each of the boroughs: steep declines in 2020 (or weak growth in the case of the

[69] See Navin, *op. cit.*
[70] Morgan Stanley, "Can Empty Offices Solve the U.S. Housing Shortage?" October 2, 2024, https://www.morganstanley.com/ideas/commercial-residential-real-estate-conversion.

relatively small Staten Island market) and a rebound in 2021. Sales weakened in 2022 in every borough and even further in 2023. Although data for 2024 remains incomplete, sales trends generally improved last year, with sales even growing in Manhattan and Staten Island. Price trends have been even more volatile than sales as they are more dependent on the value composition of sales. The sale of one of the most valuable properties can substantially skew price trends in any given period.

During periods of distress, commercial property markets tend to witness a "flight to quality," as it is the highest quality properties that have the best chance of retaining their value. As employers try to entice their workers to return to the office, they have expressed a preference for new construction that offers amenities often not found in older properties, including proximity to transportation, conference centers, lounge seating, more food choices, and gym or wellness facilities. For this reason, demand for New York City's Class A properties has remained robust, while demand for Classes B and C has lagged. Nevertheless, the City's commercial property market, despite being more heavily dominated by office buildings than that of other large cities, is far from collapsing. For example, as of October 2024, $3.6 billion worth of commercial mortgage-backed securities (CMBS) loans backed by New York City inventory were in delinquency 90 days or more. However, these delinquencies represent only 6.3 percent of the New York City CMBS market, compared with Chicago's $1.4 billion in delinquency, which represent a much larger 23.3 percent of that city's market.[71] DC, Philadelphia, and San Francisco round out the five cities with the greatest volumes of CMBS delinquencies. With an overall office vacancy rate of 34.9 percent as of the end of the third quarter of 2024, the San Francisco office market faces particularly substantial challenges.[72]

Risks

To date, the commercial real estate market, including New York City's, has been able to absorb the elevated rate of vacancies, delinquencies, and foreclosures that have emerged since the pandemic. The market is expected to continue to be able to do so as long as the Federal Reserve continues to loosen financial conditions and national and state economic growth remain robust. However, the CRE market remains fraught with risk. An unanticipated uptick in inflation could stymie the downward interest rate path reflected in the DOB monetary policy forecast. Higher interest rates than anticipated could cause banks to further tighten lending standards, raising delinquency and foreclosure risk. In contrast, lower inflation and interest rates than expected could have the opposite effect. Finally, many firms continue to push for employees to return to the office on a full-time basis. Indeed, some of the largest investment banks on Wall Street, are using a recent Financial Industry Regulatory Authority (FINRA) pilot program rule requiring that the home offices of remote workers to be registered and inspected every three years as a justification for requiring workers back in the office on a full-time basis. If firms are more successful in their efforts, vacancy

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[71] See Jonathan Miller, "Messaging About The New York Commercial Office Distress Remains Opaque So Look At The Second City," *Housing Notes*, December 11, 2024, https://housingnotes.com/messaging-about-the-new-york-commercial-office-distress-remains-opaque-so-look-at-the-second-city/?utm_source=rss&utm_medium=rss&utm_campaign=messaging-about-the-new-york-commercial-office-distress-remains-opaque-so-look-at-the-second-city.

[72] See Cushman & Wakefield, "Marketbeat San Francisco Office Q3 2024,"https://cw-gbl-gws-prod.azureedge.net/-/media/cw/marketbeat-pdfs/2024/q3/us-reports/office/san-francisco_americas_marketbeat_office-q3-2024_v3.pdf?rev=c216568cafee4968aa0173e9349410f8.

rates could fall, strengthening the market and reducing the downward pressure on office building prices, while an unwinding of that trend could have the opposite effect.

TRENDS IN NEW YORK CITY COMMERCIAL PROPERTY SALES AND PRICES

	Unit Sales		Average Price		Median Price	
	Level	Percent Growth	Level	Percent Growth	Level	Percent Growth
Bronx						
2019	367	27.9%	$5,177,355	33.9%	$1,650,000	43.5%
2020	345	-6.0%	$5,595,732	8.1%	$1,675,000	1.5%
2021	366	6.1%	$5,073,088	-9.3%	$2,000,000	19.4%
2022	299	-18.3%	$5,998,302	18.2%	$2,025,000	1.3%
2023	265	-11.4%	$6,042,507	0.7%	$2,100,000	3.7%
2024	184	-6.1%	$3,043,786	-57.6%	$1,550,000	-31.5%
Brooklyn						
2019	1,492	79.8%	$4,982,271	3.7%	$1,100,000	-9.3%
2020	1,113	-25.4%	$3,827,747	-23.2%	$950,000	-13.6%
2021	1,814	63.0%	$3,158,339	-17.5%	$1,100,000	15.8%
2022	1,727	-4.8%	$4,228,206	33.9%	$1,100,000	0.0%
2023	1,352	-21.7%	$4,939,339	16.8%	$1,350,000	22.7%
2024	1,035	3.4%	$3,944,057	4.2%	$1,335,000	6.0%
Manhattan						
2019	762	37.5%	$39,593,955	6.4%	$3,900,000	0.5%
2020	520	-31.8%	$28,462,039	-28.1%	$4,826,250	23.8%
2021	870	67.3%	$22,688,785	-20.3%	$3,000,000	-37.8%
2022	825	-5.2%	$30,547,758	34.6%	$3,475,000	15.8%
2023	688	-16.6%	$16,636,724	-45.5%	$3,208,686	-7.7%
2024	529	3.9%	$18,750,191	44.9%	$2,700,000	-5.3%
Queens						
2019	935	28.3%	$6,461,854	71.7%	$1,300,000	-3.0%
2020	801	-14.3%	$5,424,303	-16.1%	$930,000	-28.5%
2021	1,261	57.4%	$4,415,631	-18.6%	$997,885	7.3%
2022	1,249	-1.0%	$5,149,176	16.6%	$950,000	-4.8%
2023	1,008	-19.3%	$4,458,379	-13.4%	$1,075,000	13.2%
2024	650	-17.4%	$3,469,863	-13.3%	$990,000	-3.4%
Staten Island						
2019	166	4.4%	$2,871,582	22.1%	$892,500	5.0%
2020	173	4.2%	$3,599,062	25.3%	$750,000	-16.0%
2021	218	26.0%	$2,551,091	-29.1%	$1,150,000	53.3%
2022	224	2.8%	$2,843,559	11.5%	$998,500	-13.2%
2023	175	-21.9%	$2,386,910	-16.1%	$1,125,000	12.7%
2024	422	203.6%	$804,059	-66.7%	$200,000	-84.6%

Note: Sales are annual totals; annual average prices can be significantly skewed by sales of extremely high-valued properties; levels and growth rates for 2024 are based on the first months of data; growth for 2024 is relative to the same period in 2023.
Source: New York City Department of Finance (Rolling Sales Data).

New York State Adjusted Gross Income

Personal income tax (PIT) receipts account for nearly 51 percent of the State's total tax revenue in FY 2024. Personal income tax liability is based on taxable income, which in turn is derived from New York State adjusted gross income (NYSAGI), in conformity with New York State tax laws.[73] Detailed knowledge of the composition of this personal income tax base and its determinants is critical to accurately projecting New York State's largest revenue source.

The components of NYSAGI, such as dividend income and capital gains income, vary with the State and national economies. DOB's forecast of the components of aggregate personal income uses these linkages. Anticipated or actual changes in Federal tax law can also generate considerable volatility which DOB tries to incorporate into its forecast.

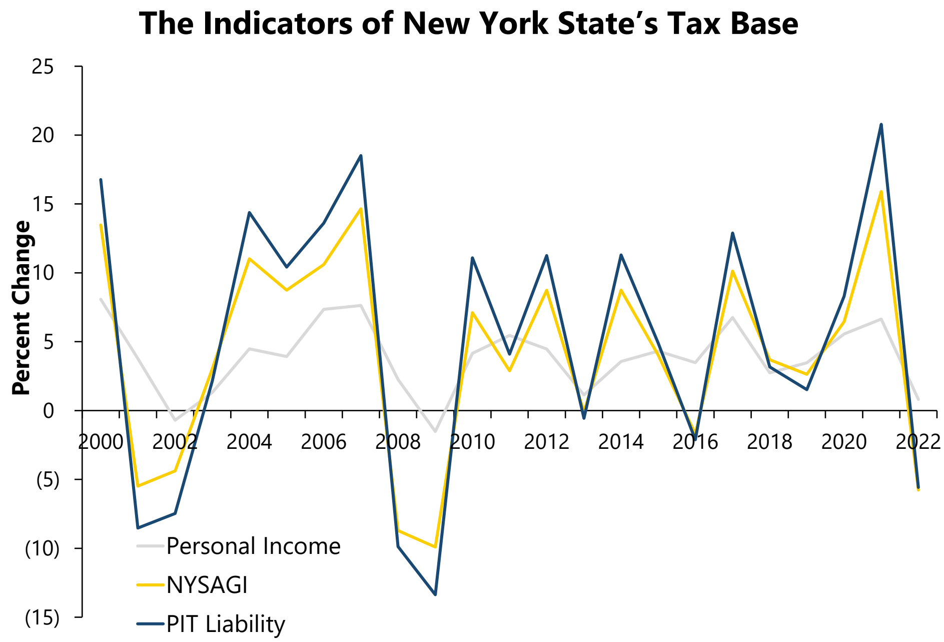
Growth in personal income is less volatile than growth in either NYSAGI or PIT liability, while movements in NYSAGI and PIT liability are closely related. The figure below illustrates the effects of actual and anticipated Federal law changes on NYSAGI, using "frozen" 2002 State tax law to remove the effects of NYS law changes.

Some of the additional volatility in NYSAGI and PIT liability can be ascribed to "income shifting," where taxpayers attempt to minimize their tax liability in certain years in anticipation of changes in tax law. The timing of some components of income – such as capital gains or bonuses – can be adjusted to try to minimize tax liability. One such instance occurred in 2016-18, when a Federal tax cut was expected following the 2016 presidential election. With lower tax rates expected in 2017, NYSAGI fell 1.7 percent in 2016 but jumped 10.1 percent in 2017, though the new Federal tax legislation was not signed into law until December of that year. NYSAGI growth fell to just 3.7 percent in 2018, in part because of outsized growth in the prior year.

This legislation also caused some taxpayers to shift payment of their 2018 property taxes into 2017 in order to take advantage of the last year of more generous treatment of the state and local taxes (SALT) itemized deduction as this deduction was capped in the new law.

After unprecedented NYSAGI growth of 15.9 percent in 2021, NYSAGI fell 5.8 percent in 2022, driven in large part by a steep decline in capital gains realizations from a historically high level in 2021. Based in part on preliminary processing information, NYSAGI is estimated to have grown just 1.4 percent in 2023. Growth of 4.8 percent in 2024 is forecast, with a 6.2 percent increase expected for 2025, slowing to 2.7 percent growth in 2026.

[73] A detailed discussion of the relationship between three important indicators of the size of the State's PIT base, PIT liability, NYSAGI, and state personal income, can be found at this link and later in this section.



Note: PIT liability is computed based on 2002 NYS tax law.
Source: NYS DTF; Moody's Analytics; DOB staff estimates.

The Major Components of NYSAGI

A filer's AGI is composed of earnings from wages, net capital gains realizations, net rent, royalty and S corporation gains, dividends, interest, small business and farm income, and pensions. DOB forecasts each of these categories individually.

Wages

Although the measure of taxable wages derived from State tax returns does not precisely match the dollar amount derived from the Department of Labor's QCEW data, they tend to follow a similar trend. To be consistent with DOB's New York State macroeconomic forecast, projected growth rates for taxable wages beginning with 2023 and onward are based on the estimated growth of total State wages derived from the macroeconomic forecast, which is based on QCEW data.

NYSAGI MAJOR COMPONENT DISTRIBUTION (millions of dollars)												
Income	Actual								Estimate			
Component	2015	2016	2017	2018	2019	2020	2021	2022	2023[1]	2024	2025	2026
NYSAGI												
Amount	807,775	794,105	874,568	906,868	930,755	990,849	1,148,443	1,082,213	1,097,887	1,150,679	1,222,010	1,255,505
Growth	4.0%	(1.7%)	10.1%	3.7%	2.6%	6.5%	15.9%	(5.8%)	1.4%	4.8%	6.2%	2.7%
Wages												
Amount	584,317	592,135	626,377	645,360	673,440	668,444	719,648	763,105	801,274	841,049	876,191	908,228
Growth	4.6%	1.3%	5.8%	3.0%	4.4%	(0.7%)	7.7%	(0.7%)	5.0%	5.0%	4.2%	3.7%
NYSAGI Share	72.3	74.6	71.6	71.2	72.4	67.5	62.7	70.5	73.0	73.1	71.7	72.3
Net Capital Gains												
Amount	93,409	72,465	96,426	99,766	90,855	131,880	203,441	106,432	85,222	97,565	121,173	128,936
Growth	2.7%	(22.4%)	33.1%	3.5%	(8.9%)	45.2%	54.3%	(47.7%)	(19.9%)	14.5%	24.2%	6.4%
NYSAGI Share	11.6	9.1	11.0	11.0	9.8	13.3	17.7	9.8	7.8	8.5	9.9	10.3
Interest and Dividends												
Amount	33,591	35,014	38,749	43,175	48,391	38,250	40,974	46,645	72,983	62,630	65,226	57,145
Growth	(3.9%)	4.2%	10.7%	11.4%	12.1%	(21.0%)	7.1%	13.8%	56.5%	(14.2%)	4.1%	(12.4%)
NYSAGI Share	4.2	4.4	4.4	4.8	5.2	3.9	3.6	4.3	6.6	5.4	5.3	4.6
Taxable Pension												
Amount	44,131	44,815	47,175	49,367	50,731	51,608	55,736	57,705	58,916	61,810	64,630	67,622
Growth	3.9%	1.6%	5.3%	4.6%	2.8%	1.7%	8.0%	3.5%	2.1%	4.9%	4.6%	4.6%
NYSAGI Share	5.5	5.6	5.4	5.4	5.5	5.2	4.9	5.3	5.4	5.4	5.3	5.4
Net Business and Partnership Income												
Amount	95,745	94,548	111,115	99,519	98,259	93,021	119,320	120,429	116,894	124,957	131,279	131,179
Growth	5.7%	(1.3%)	17.5%	(10.4%)	(1.3%)	(5.3%)	28.3%	0.9%	(2.9%)	6.9%	5.1%	(0.1%)
NYSAGI Share	11.9	11.9	12.7	11.0	10.6	9.4	10.4	11.1	10.6	10.9	10.7	10.4
All Other Incomes and Adjustments[2]												
Amount	(43,418)	(44,873)	(45,273)	(30,318)	(30,922)	7,646	9,324	(12,102)	(37,403)	(37,333)	(36,488)	(37,606)
Growth	3.4%	3.4%	0.9%	(33.0%)	2.0%	#######	22.0%	(229.8%)	209.1%	(0.2%)	(2.3%)	3.1%
NYSAGI Share	(5.4)	(5.7)	(5.2)	(3.3)	(3.3)	0.8	0.8	(1.1)	(3.4)	(3.2)	(3.0)	(3.0)

[1]Estimates for 2023 are based on processing data.

[2]Includes alimony received, unemployment income, IRA income, and other incomes. This number can be negative due to Federal and NYS adjustments to income, which together reduce final NYSAGI.

Source: NYS DTF; DOB staff estimates.

Net Capital Gains Realizations

Net capital gains realizations play a large role in determining NYSAGI and its growth, both because they are a large share of income and because of their volatility. DOB's forecasting model attempts to capture the volatility in capital gains income by incorporating those factors that are most likely to influence capital gains realization behavior, such as anticipated and actual tax law changes, financial market activity, and real estate market activity.[74] Realization behavior has been shown in the past to be greatly affected by Federal and State taxes on capital gains income because they are a cost associated with the buying and selling of capital assets. Taxpayers may decide to realize capital gains earlier than planned if they expect taxes on capital gains to increase: a case of "income shifting."

Strong growth in stock prices and a booming housing market in 2020 and 2021 – in spite of the pandemic – helped net capital gains realizations increase 45.2 percent in 2020 with even stronger growth of 54.3 percent for 2021. Due in large part to both the Federal Reserve aggressively increasing the federal funds rate throughout 2022 and a bear market in stocks, net capital gains realizations fell 47.7 percent in 2022. Based in part on incomplete processing information, net

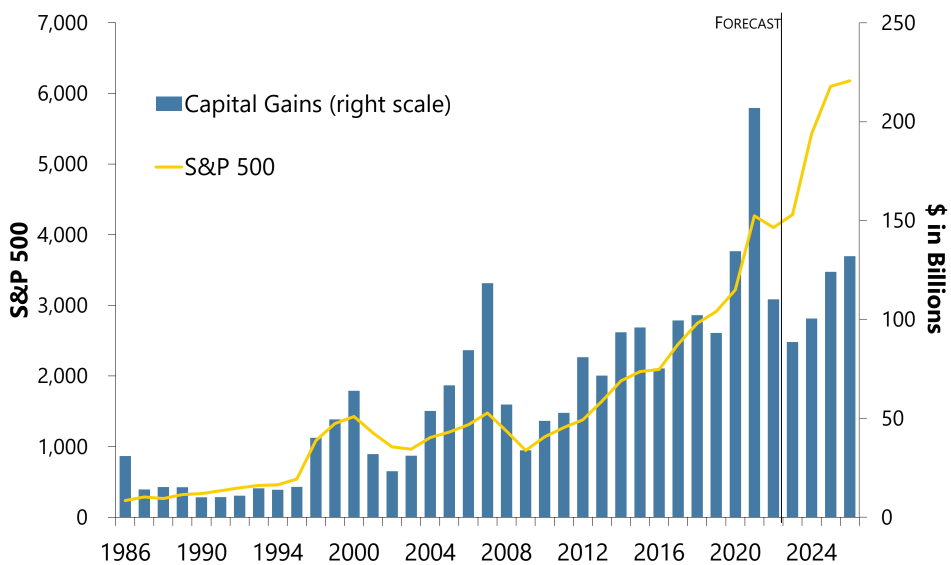
[74] For a discussion of the Division's traditional approach to modeling capital gains realizations, see L. Holland, H. Kayser, R. Megna and Q. Xu "The Volatility of Capital Gains Realizations in New York State: A Monte Carlo Study," *Proceedings, 94th Annual Conference on Taxation*, National Tax Association, Washington, DC, 2002, pages 172-183.

capital gains realizations are estimated to have fallen 19.9 percent in 2023. Net realizations are forecast to rebound with growth of 14.5 percent in 2024 with stronger growth of 24.2 percent in 2025, slowing to 6.4 percent growth in 2026.

The figure below shows how fluctuations in equity markets (measured by the S&P 500 index) help explain the magnitude of fluctuations in capital gains realizations. Note that while capital gains collapsed during both the "dot-com" recession of 2001 (during which 9/11 also took place) and the housing bust/Global Financial Crisis (GFC) of 2007-09, no such collapse accompanied the very brief COVID-19 recession.

In spite of a plunge in the spring of 2020 as COVID-19 pandemic shutdowns surged, the reopening economy and news of advances toward a coronavirus vaccine led the index to rise 10.5 percent for 2020. With relatively few government-mandated shutdowns, the S&P 500 ran up a 32.6 percent gain on an annual average basis in 2021. The Federal Reserve's monetary tightening in response to high inflation helped lead to a 3.9 percent decrease in the S&P 500 in 2022. Stock prices rose by 4.5 percent in 2023 over 2022, then surged 26.7 percent in 2024. DOB forecasts a 12.4 percent gain in 2025 with weaker growth of 1.3 percent in 2026.

Capital Gains Realizations and the S&P 500 Index



Note: 2023 CG realizations are estimated.
Source: Moody's Analytics; NYS DTF; DOB staff estimates.

Fluctuating levels of private equity and hedge fund activity and profitability also contribute to capital gains realizations. Private equity firms own stakes in companies not listed on a public stock exchange, generally receiving a return on their investment in one of three ways: through a sale or merger of the company; a recapitalization; or by selling shares back to the public through an IPO. The returns on private equity investments often are not realized for several years, but the rate of return is generally high relative to returns on publicly held stocks, to compensate for the higher degree of risk and the value added through the extraction of operating efficiencies. Though related to the performance of equity and real estate markets, capital gains from private equity funds have their own dynamics.

Meanwhile, hedge funds -- investment partnerships that are limited to very high-income individuals and use aggressive and sometimes risky trading techniques to try to generate high returns – likewise have returns that are related to equity and real estate market performance but are subject to idiosyncratic forces of their own.

Risks to the capital gains forecast appear weighted to the downside. To date, the Federal Reserve's attempt to bring inflation back to its 2-percent target by raising interest rates has not brought on a recession as had been feared. But while inflation has eased, it is becoming evident that interest rates will need to be higher and for longer than had been hoped. Also, because monetary policy operates with long and variable lags, a recession may still lie in the future. Economic policies of the incoming Federal administration may also prove disruptive to capital markets. On the other hand, net capital gains realizations surprised to the upside in tax year 2020 despite the coronavirus and could do so again if the Fed does succeed in taming inflation without provoking a recession.

Net Business and Partnership Income

This category combines net income from rent, royalties, partnerships, and S corporations ("net partnership income") with income from small businesses and farms ("net business income"). Net business and farm income is considerably smaller than net partnership income, making up just 27.4 percent of the aggregate over the last five years of history. Net business and partnership income declined in four of the five years from 2016 through 2020 but surged 28.3 percent in 2021, followed by very low growth of 0.9 percent in 2022. DOB estimates that it fell 2.9 percent in 2023, based in part on incomplete processing information. Net business and partnership income is forecast to grow 6.9 percent in 2024, with slower growth of 5.1 percent in 2025 and to dip 0.1 percent in 2026. Because the drivers of these two AGI components are not identical, each will be discussed separately below.

Net Rent, Royalty, Partnership, and S corporation Income

While growing at an average 9.2 percent annually over its history, net partnership and S corporation income growth has both generally slowed and become more volatile in the period since the Great Recession. Net partnership and S corporation income surged 29.1 percent in 2021 after a minor 0.7 percent decline in the 2020 pandemic year. It decreased 0.7 percent again in 2022. Based in part on partial processing information, DOB estimates another decline in 2023 of 3.4 percent. Growth is projected to return in 2024 at 7.5 percent, with a smaller 5.1 percent increase forecast for 2025. Net partnership income is expected to fall 1.8 percent in 2026.

Partnership income is the largest contributor to this NYSAGI component, much of which originates within the finance and real estate industries. Another large contributor is income from S corporation ownership. Prior to the passage of the TCJA and its corporate tax rate cut, opting for S corporation status allowed firms to pass earnings through to a limited number of shareholders, avoiding corporate taxation while still enjoying the limited liability that corporate status affords.

Growth in net income from partnerships and S corporations is related to both the economy and financial markets. However, average annual growth of 4.3 percent during the most recent expansion (through 2019, or pre-COVID) is lower, based on the strength of the economy and equity markets, than pre-recession relationships would suggest. Partnership and S corporation income gains and losses tend to rise and fall together, suggesting that the growth rates are linked at least in part to births and deaths of partnerships and S corporations.

DOB's net partnership and S corporation income forecast contains both upside and downside risks. Like net capital gains income, net partnership and S corporation income is sensitive to the performance of the private-equity sector and hedge funds, which can be very volatile. In addition, the real estate market is not captured independently in the forecast model. Since there is a high concentration of real estate partnerships in the State, a better-than-predicted real estate market (due to an improved employment situation and a decline in foreclosures) could lead to higher-than-expected net partnership and S corporation gains. Conversely, a slowing real estate market could result in smaller than expected gains.

Net Small Business and Farm Income

This NYSAGI component contains income from operating a business, practicing a profession as a sole proprietor, or operating a farm. It is expected to vary with the overall strength of the national and State economies, with some volatility deriving from income shifting. Because of restrictions on business activity due to the onset of COVID-19, small business and farm income fell 16.3 percent in tax year 2020. That is the worst decline in DOB's history of the series. With far fewer pandemic-related disruptions in the next year, net business income jumped 26.0 percent. Growth slowed to 5.6 percent in 2022. Based in part on partial processing information, DOB estimates that net business income declined 1.7 percent in 2023. DOB forecasts growth of 5.3 percent, 5.0 percent, and 4.6 percent for 2024, 2025 and 2026, respectively.

Small business and farm income growth and volatility have both fallen over the years. This component of taxable income grew at an annual average rate of 11.5 percent from 1980 to 1990 with a standard deviation of 10.8 percentage points. However, between 1991 and 2022 it grew at an annual average rate of just 3.9 percent, with a standard deviation of 6.9 percentage points. Proprietors' income, as defined under NIPA, experienced similar changes in growth, falling from 10.5 percent growth to 4.3 percent annual average growth over the two periods; however, the standard deviation of growth increased, from 8.4 percentage points in the earlier period to 10.0 percentage points from 1991 to 2022.

Risks to the forecast of business income are closely linked to the risks to the overall economic forecast as sole proprietors' income is particularly responsive to the state of the business cycle. With parts of the economy (such as housing) already slowing under the pressure of higher interest rates, more downside than upside risks appear likely to be realized.

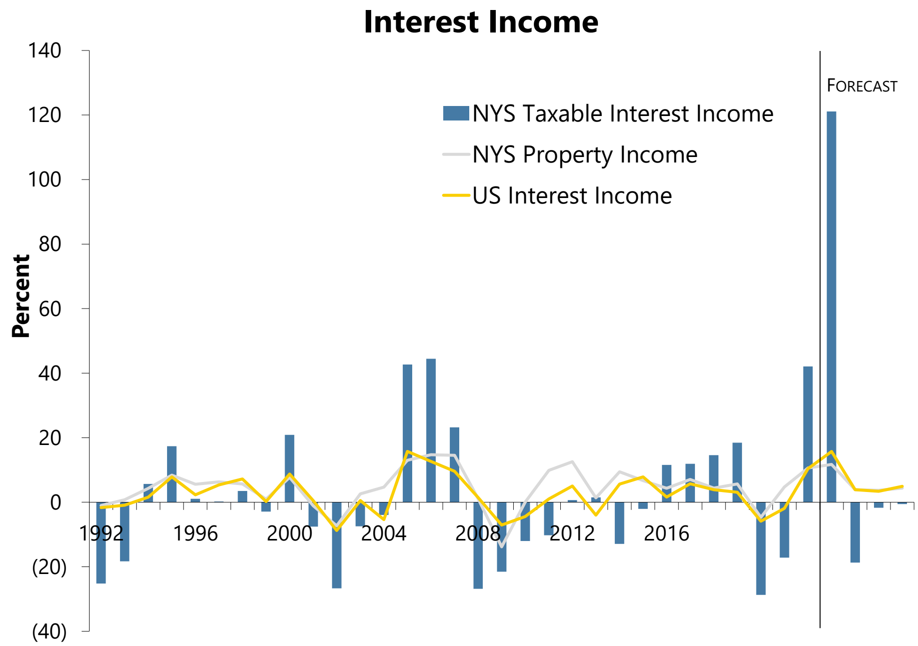
Interest and Dividend Income

Generally, interest and dividend income combined has tended to be a less volatile component of AGI than net capital gains or net business and partnership income. But things have been different since 2019. It fell 21.0 percent in 2020 as the Federal Reserve cut interest rates rapidly due to COVID-19, while dividends were impaired by the near-total shutdown of the economy that year. Interest and dividend income grew 7.1 percent in 2021 before increasing 13.8 percent in 2022. Based in part on partial processing information, DOB estimates that this component will grow 56.5 percent in 2023. DOB forecasts a 14.2 percent decline for 2024, followed by growth of 4.1 percent and a 12.4 percent decrease in 2025 and 2026, respectively. Since the forces behind the two components are different, each will be discussed below.

Interest Income

After the Federal Reserve cut the federal funds target range to zero to 0.25 percent – effectively zero – in March 2020 as part of its response to the coronavirus pandemic, taxable interest income fell 28.7 percent in 2020. It fell another 17.2 percent in 2021 as interest rates remained low. The Fed began to raise the federal funds rate target in March 2022 in order to combat inflation. Growth in interest income responded by rising 42.1 percent that year. With the Fed raising interest rates four more times in 2023 – to a 23-year high – DOB estimates that growth was a record 121.1 percent that year (an estimate in part based on incomplete processing data). With the Fed having reduced its federal funds rate target in the second half of 2024, DOB forecasts interest income to fall 18.7 percent in 2024, with declines of 1.7 percent in 2025 and 0.6 percent in 2026.

For a given amount of assets, an increase in interest rates will increase interest income. In addition, NYS property income, a component of the NIPA definition of state personal income that includes interest income, is a good indicator of the trend in State taxable interest income, despite being much less volatile (see below). Volatility has increased since the pandemic for the three concepts in the chart. Note that from 1977 to 2019 the standard deviation of the annual growth of NYS property income was 6.5 percentage points, while the standard deviation for the growth rate of U.S. interest income, a part of the NIPA definition of U.S. personal income, was 7.4 percentage points. In contrast, State taxable interest income annual growth had a standard deviation of 17.0 percentage points. But in the 2020-2022 period, the standard deviation for growth in NYS property income is 7.7 percentage points, the standard deviation for the growth of U.S. interest income is 8.5 percentage points, while the standard deviation for the growth of State taxable interest income is 38.0 percentage points.



Note: 2023 NYS taxable interest income is preliminary.
Source: Moody's Analytics; NYS DTF; DOB staff estimates.

Risks to the interest income forecast are linked to the Federal Reserve's monetary policy. With the Fed indicating that persistent inflation will require it to keep the federal funds rate target higher than expected several months ago, and for a longer period of time, there appears to be little downside risk to the forecast for taxable interest income.

Dividend Income

Taxable dividend income is a highly volatile component of NYSAGI, as illustrated by a growth rate that has ranged from a drop of 28.7 percent in 2009 to a gain of 26.6 percent in 2004. Dividend income fell 16.4 percent in 2020, the first year of the COVID-19 pandemic. It grew 19.4 percent in 2021 as the economy recovered but weakened to 4.0 percent growth in 2022. Based in part on partial processing data, DOB estimates that dividend income grew 25.6 percent in 2023. Following a historically high level of dividend income in 2023, DOB forecasts a 10.4 percent decline in 2024, followed by an increase of 8.6 percent in 2025 and then a 20.5 percent decrease in 2026.

State taxable dividend income moves with dividend income in the national economy, a component of the NIPA definition of U.S. personal income. Other determinants include long-term interest rates, as represented by the 10-year Treasury yield, and the performance of equity markets. Despite the link to the national economy, State taxable dividends grow more slowly but are more variable than U.S. dividend income: they increased 6.5 percent on average between 1976 and 2019 with a standard deviation of 12.2 percentage points, while U.S. dividend income grew an average of 9.3 percent over the same period, with a standard deviation of 10.3 percentage points. This relationship between State dividend income and U.S. dividend income holds in the pandemic and post-pandemic era, as State dividend income averaged 2.3 percent growth over 2020-2022 while U.S. dividend income growth averaged 11.2 percent, with the standard deviation for State dividend income growth being 17.9 percentage points against an 8.9-percentage point standard deviation for U.S. dividend income growth.

Risks to the dividend income forecast are closely linked to the risks embedded in the U.S. equity markets, corporate profitability, and the performance of publicly traded private equity firms.

Pension Income

Growth in pension income in the near term is expected to remain well below its longer-term average growth (7.3 percent over 1981-2022). After growing just 1.7 percent in 2020, growth surged 8.0 percent in 2021, its largest percentage increase since 2010, which was about the time the first “baby boomers” turned 65 (2011). Perhaps not coincidentally, the so-called “Great Resignation” is thought to have started in March 2021.

Pension income grew 3.5 percent in 2022 and in 2023 is estimated to have increased 2.1 percent, based in part on incomplete processing information. DOB expects pension income to rise 4.9 percent in 2024 with slower growth of 4.6 percent in both 2025 and 2026.

Besides demographics, pension income, which includes payments from retirement plans, life insurance annuity contracts, profit-sharing plans, military retirement pay, and employee savings plans, is linked to prior-year long-term interest rates, suggesting that firms base the level of pension and life insurance benefits they offer to employees on their expectations of future profitability, which in turn is tied to the future strength of the economy.

The risks to the forecast for pension income are related mainly to long-term interest rate risks. As the economy recovered more quickly than expected from the COVID-19 shock but with more persistent and higher inflation than was anticipated, upside risk to the pension income forecast seems dominant, since it is now apparent that it will be a longer and slower path to the Fed’s 2-percent inflation target.

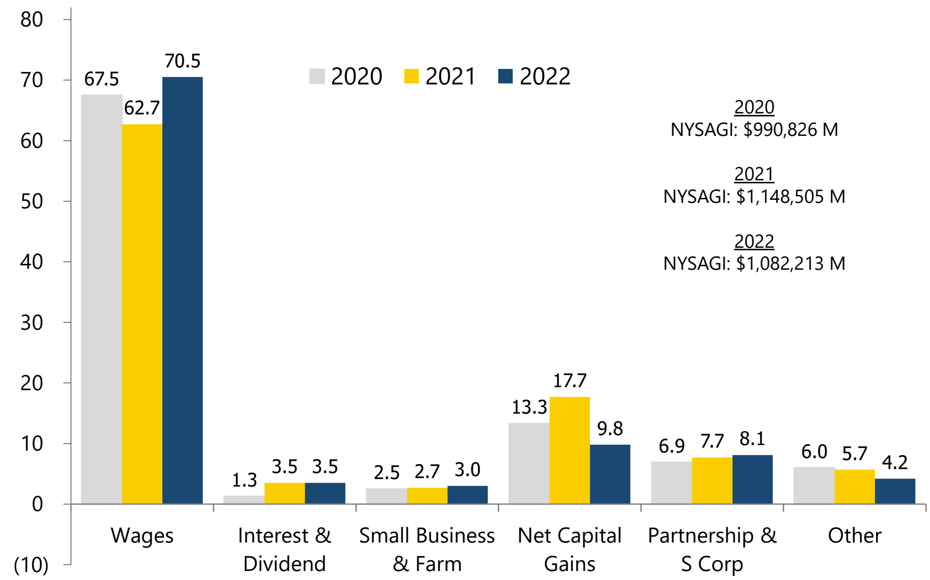
The Concentration of Income and Liability

New York State’s progressive tax structure, combined with its concentration of highly compensated persons in the New York City region – due, in turn, to the City’s traditional role as a financial center and corporate headquarters – means that the State is reliant on these taxpayers for a large share of its tax revenues. This section discusses this issue.

THE CONCENTRATION OF STATE INCOME AND LIABILITY 2020, 2021, and 2022					
	Number of Returns	NYSAGI	Wage Income	Nonwage Income	Liability
2020					
Total ($ in millions)	9,655,600	$845,330	$555,740	$335,278	$44,855
Share: Top 1%	–	32.1	16.6	52.6	45.6
Share: Top 5%	–	47.8	34.6	63.2	62.8
Share: Top 10%	–	58.0	47.8	68.1	72.8
Share: Top 25%	–	76.2	71.7	76.2	88.3
Share: Top 50%	–	91.7	91.1	86.0	98.8
Medians: Top 1%	–	$1,103,355	$646,680	$455,911	$69,547
Medians: Top 5%	–	$347,066	$265,612	$34,216	$19,901
Medians: Top 10%	–	$223,957	$184,976	$13,957	$12,296
Medians: Top 25%	–	$128,894	$111,091	$4,414	$6,216
Medians: Top 50%	–	$77,683	$66,511	$1,992	$3,248
2021					
Total ($ in millions)	9,420,379	$973,521	$592,170	$446,518	$58,653
Share: Top 1%	–	36.3	17.1	54.3	53.6
Share: Top 5%	–	52.0	34.9	65.8	69.0
Share: Top 10%	–	61.6	47.7	70.8	77.5
Share: Top 25%	–	78.3	71.2	78.4	90.3
Share: Top 50%	–	92.4	90.8	86.5	98.9
Medians: Top 1%	–	$1,401,545	$622,250	$782,678	$92,715
Medians: Top 5%	–	$407,739	$288,131	$71,863	$24,786
Medians: Top 10%	–	$253,453	$198,076	$23,649	$14,096
Medians: Top 25%	–	$140,574	$117,825	$5,964	$6,906
Medians: Top 50%	–	$83,883	$71,009	$1,680	$3,550
2022					
Total ($ in millions)	9,255,452	$910,379	$634,636	$341,952	$51,359
Share: Top 1%	–	30.4	15.3	48.6	45.9
Share: Top 5%	–	47.1	33.1	61.2	63.5
Share: Top 10%	–	57.8	46.1	66.8	73.5
Share: Top 25%	–	76.5	69.6	75.6	88.8
Share: Top 50%	–	92.2	90.0	84.3	99.4
Medians: Top 1%	–	$1,322,178	$754,032	$576,573	$85,971
Medians: Top 5%	–	$417,038	$312,896	$38,217	$25,297
Medians: Top 10%	–	$265,039	$216,257	$12,007	$14,693
Medians: Top 25%	–	$149,240	$129,043	$2,403	$7,363
Medians: Top 50%	–	$89,221	$78,427	$314	$3,795

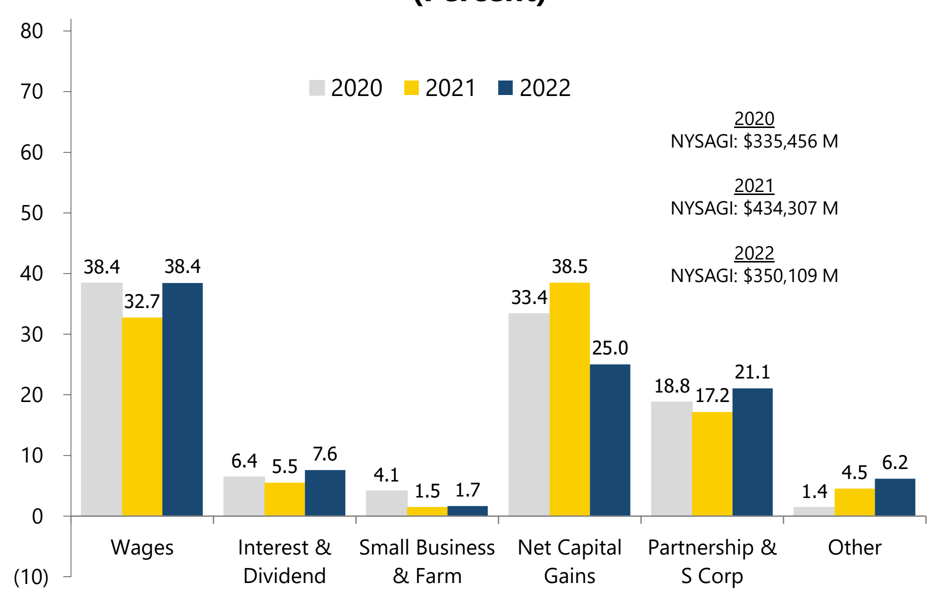
Note: Returns are ranked on the basis of NYSAGI. Returns are full-year resident only.
Note that Pass-Through Entity Tax (PTET) credits were added back to 2021 and 2022 liability.
Source: NYS DTF; DOB staff estimates.

Composition of NYSAGI for All Taxpayers
(Percent)



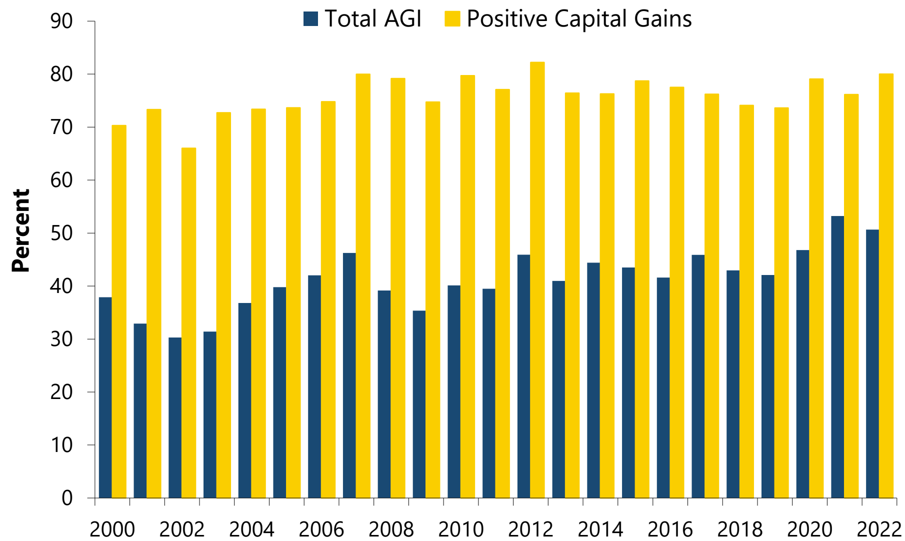
Note: Capital gains and partnership/S corporation gains income are net of losses.
Source: NYS DTF; DOB staff estimates.

Composition of NYSAGI for the Top 1% of Taxpayers
(Percent)



Note: Capital gains and partnership/S corporation gains income are net of losses.
Source: NYS DTF; DOB staff estimates.

Income Shares of the Top One Percent Taxpayers
AGI and Capital Gains Realizations



Note: For nonresident taxpayers, shares are based on total income.
Source: NYS DTF; DOB staff estimates.

The first chart shows that the top 50 percent of full-time resident filers account for virtually all of the liability in this group of taxpayers (essentially 99 percent) while roughly half of all liability has been incurred by the top one percent alone, ranging from a low of 45.6 percent to as much as 53.6 percent recently. Not surprisingly, the share of wage income (ranging from 15.3 percent to 17.1 percent) in the top one percent of filers is swamped by the share of nonwage income (items such as net capital gains and net partnership income), which ranged from 48.6 percent to 54.3 percent.

The chart also shows that the top 10 percent of resident filers have accounted for between 66.8 percent and 70.8 percent of nonwage income over tax years 2020-2022. Such a high concentration of volatile elements of income in relatively small groups points to a vulnerability of State tax revenues to outside economic forces over which the State has no control.

While income from wages is not as concentrated at the very top as is nonwage income, note that the top 25 percent of resident filers account for about 70 percent of all wage income among such filers. The top 50 percent account for roughly 90 percent of resident filer wages.

In 2021, the previous top bracket - and associated marginal tax rate of 8.82 percent - was replaced by three temporary brackets with marginal tax rates between 9.65 percent and 10.9 percent. The effect of the State's additional tax brackets and rates can be seen in part in the change in median liability among the top one percent and top five percent between 2020 and 2021 (the first tax year the changed tax law was effective): the median among the top one percent increased to $92,715 from $69,547 in 2020, while the median liability increased to $24,786 from $19,901 for the top five percent of filers.

Of course, economic conditions also played a role in increasing liability. Tax year 2021 was the first year after the COVID-19 pandemic caused widespread economic disruption. Median State AGI for the top one percent increased to $1.4 million in tax year 2021, from $1.1 million in tax year 2020, declining to $1.3 million in tax year 2022. Perhaps due to a heavier concentration of capital gains in the top one percent, the table also shows that median AGI for the other top groups increased over 2020-2022 period. In the top 50 percent, median AGI in tax year 2022 was $89,221, up from $83,883 in 2021 and $77,683 in tax year 2020.

Note that NYSAGI exhibits more volatility than does State personal income, while tax liability is more volatile than NYSAGI. The chart on the second page of this section on NYSAGI provides a visual illustration.[75]

The table also shows that, even at the top of the distribution, the top one percent are in a class of their own. Median AGI for the three years for the top one percent averages $1,275,693, versus an average AGI of $390,614 for filers in the top five percent, or about 3.27 times higher.

The next two figures that follow the chart illustrate the decomposition of NYSAGI into its main components for the three most recent tax years with full data available, for all taxpayers and the top one percent of taxpayers. Looking at the two, note that the distribution of NYSAGI shares between wages and net capital gains is much more balanced for the top one percent of taxpayers, while the share of NYSAGI that comes from wage income is by far the largest (at about two-thirds of total AGI) for all taxpayers. However, in both categories wages and net capital gains represent the two greatest sources of income, with net partnership income in third place.

For the top one percent of filers, income from interest and dividends is decidedly more important than small business and farm income, especially in 2021 and 2022 when small business and farm income makes up 1.5 and 1.7 percent of NYSAGI, as opposed to dividend and interest income shares of 5.5 percent and 7.6 percent for those two years, respectively. In contrast, for all filers interest and dividend income represented 3.5 percent of NYSAGI, and small business and farm income's share was 2.7 percent, in tax year 2021. The dividend and interest share remained the same in 2022 while the small business and farm share edged up to 3.0 percent.

The final figure looks at the shares of NYSAGI and positive capital gains that accrued to the top one percent of NYS taxpayers over tax years 2000-2022. Only once in that span has their positive capital gain share fallen below 70 percent (in 2002 when it was 66 percent). It reached a high of 82.2 percent in 2012 and reached 80 percent twice (in 2007 and in 2022). Over this timespan it has averaged 75.9 percent. Their share of NYSAGI has averaged 41.3 percent over the span and has exhibited somewhat more volatility than has the positive capital gains share.

Note that these very-high income filers are not immune to economic fluctuations. In 2009 their NYSAGI share fell to 35.4 percent while their share of capital gains was down to 74.7 percent, as the Great Recession officially was ending, from shares of 46.2 percent (NYSAGI) and 80.0 percent (capital gains) in 2007, at the onset of the Great Recession. More recently the share of NYSAGI

[75] For a comparison of three important indicators of the State's PIT base and a discussion of their respective volatilities, see the FY2022 *Economic and Revenue Outlook*, p. 103, located at https://www.budget.ny.gov/pubs/archive/fy22/ex/ero/fy22ero.pdf.

declined for three straight years before bottoming at 42.1 percent in 2019, only to rebound to a 22-year high of 53.2 percent in 2021. In that same time frame the share of positive capital gains rebounded from 73.6 in 2019 to 80.0 percent in 2022.

A confounding effect is due to the ability of these taxpayers to shift certain components of income between tax years in response to anticipated or actual changes in tax law. For example, in the "fiscal cliff" episode of 2012-13, when it appeared that Federal tax cuts enacted in 2001 and 2003 would expire in 2013, the share of capital gains increased to 82.2 percent in 2012 from 77.1 percent in 2011 while the share of NYSAGI increased to 45.9 percent from 39.5 percent, due to fears of a tax increase in 2013. Similarly, an expectation of lower taxes in 2017 may have contributed to the NYSAGI share rising to 45.9 percent in 2017 from 41.6 percent in 2016.

Risks to the Forecast

As forecasts of the components of NYSAGI are consistent with economic variables from DOB's macroeconomic forecasting models, much of the risks to PIT are the same as the risks to the State and national economies. However, the risks and uncertainties are heightened in the case of taxable income, because of the prominence of bonus income and capital gains realizations, and even more so for PIT revenues, as a consequence of the State's progressive tax system. A noneconomic risk to the forecast is the potential longer-term shrinkage of the tax base as a result of the State's falling population.

RECEIPTS EXPLANATION

Personal Income Tax

PERSONAL INCOME TAX (millions of dollars)								
		FY 2024	FY 2025	Change		FY 2026	Change	
		Results	Estimated	Dollar	Percent	Projected	Dollar	Percent
Withholding		54,699	59,736	5,037	9.2	61,941	2,205	3.7
Estimated Payments	Current Year	6,331	8,067	1,736	27.4	8,464	397	4.9
	Prior Year[58]	4,448	4,840	392	8.8	5,122	282	5.8
	Total	10,779	12,907	2,128	19.7	13,586	679	5.3
Final Returns	Current Year	405	400	(5)	(1.2)	419	19	4.8
	Prior Year[58]	3,245	3,171	(74)	(2.3)	3,342	171	5.4
	Total	3,650	3,571	(79)	(2.2)	3,761	190	5.3
Delinquent		1,871	1,984	113	6.0	2,040	56	2.8
	Gross Receipts	**70,999**	**78,198**	**7,199**	**10.1**	**81,328**	**3,130**	**4.0**
Refunds	Prior Year[58]	10,011	9,754	(257)	(2.6)	10,909	1,155	11.8
	Previous Years	1,879	1,776	(103)	(5.5)	1,815	39	2.2
	Current Year[58]	3,196	3,500	304	9.5	3,971	471	13.5
	Advanced Credit Payment	821	853	32	3.9	4,022	3,169	371.5
	State/City Offset[58]	1,253	1,352	99	7.9	1,551	199	14.7
	Total	17,160	17,235	75	0.4	22,268	5,033	29.2
	Net All Funds Receipts[59]	**53,839**	**60,963**	**7,124**	**13.2**	**59,060**	**(1,903)**	**(3.1)**
Fund Distribution	General Fund	25,312	29,028	3,716	14.7	28,134	(894)	(3.1)
	Debt Service Funds (RBTF)	26,919	30,482	3,563	13.2	29,529	(953)	(3.1)
	Special Revenue Funds (STAR)	1,608	1,453	(154)	(9.6)	1,397	(57)	(3.9)

FY 2025 receipts are estimated to increase from FY 2024 primarily reflecting increases in withholding, estimated payments for tax year 2024, extension payments for tax year 2023, and delinquencies, partially offset by a decrease in final returns coupled with a slight increase in total refunds.

Withholding in FY 2025 is estimated to increase compared to FY 2024 due to growth in both bonus and non-bonus wages. Estimated payments for tax year 2024 are expected to increase as non-wage income increases following two consecutive years of decline. However, PTET liability between tax years 2023 and 2024 is estimated to have increased, causing the negative effect of PTET credits on estimated payments for tax year 2024 to be more severe relative to tax year 2023. Extension payments (i.e., prior year estimated) for tax year 2023 will increase despite a decrease in non-wage income. Following a sharp decline in tax year 2022 liability, taxpayers presumably took advantage of safe-harbor payment rules for tax year 2023 estimated payments, necessitating a correction via extension payments. This is coupled with a decrease in PTET liability between tax years 2022 and 2023, lessening the negative effect of PTET credits on extension payments for tax year 2023. Delinquent collections are projected to increase while final return payments are projected to decrease. Gross receipts for FY 2025 are projected to increase due to the combination of these factors.

Total refunds are projected to increase minimally, driven by of increases in state/city offsets, advanced credit payments, and the administrative refund cap. These increases are offset by a decrease in prior year refund payments for tax year 2023 driven by a decrease in PTET-related refunds relative to tax year 2022, despite FY 2025 Enacted Budget legislation that provided one-time supplemental payments of the Empire State Child Credit. Refunds for tax years previous to 2023 also are projected to decrease.

The primary risks to FY 2025 receipts estimates result from uncertainty surrounding bonus payments paid by financial services companies, the fourth quarterly estimated tax payment, and PTET-related refund payments. With respect to financial sector bonuses, a large portion of these payments are typically paid in the last quarter of the fiscal year. Consequently, complete information about such payments is not available when Budget estimates are constructed. Similarly, the fourth quarterly estimated tax payment is consistently the largest payment, and a significant portion of this revenue is not received until after DOB's forecast has been produced. Lastly, an unprecedented amount of refunds was disbursed during the final quarter of FY 2023, primarily attributable to PTET credits. Refunds remained similarly elevated in FY 2024. Substantial risk stems from the uncertain magnitude of PTET credit influence on the final quarter of FY 2025.

FY 2026 receipts are projected to decrease, with an increase in total refunds more than offsetting an increase in gross receipts.

Gross FY 2026 receipts are projected to increase, attributable to increases in all gross receipts components. Withholding is expected to increase due to growth in both bonus and non-bonus wages, while growth in non-wage income will drive estimated payments for tax year 2025 to increase. These increases will be partially offset by the cost of the proposed Middle-Class Tax Cuts beginning in tax year 2025. Extension payments for tax year 2024 are projected to increase despite the increase in PTET-related credits from tax year 2023 and their negative effect on payments. Delinquencies and final returns are also expected to increase.

FY 2026 total refunds are expected to increase due to increases in all refund components. Projected growth in advanced credit payments is particularly strong due to the proposed one-time Inflation Refund payments for tax year 2025. Similarly, the administrative refund cap is projected to increase to allow benefits from the proposed enhancement of the Empire State Child Credit to be realized early in the tax year 2025 filing season. Projected growth in prior refunds for tax year 2024 is driven by a combination of increased PTET-related refunds compared to tax year 2023 and a reconciliation of tax liability from FY 2025 estimated tax overpayment.

Base and Rate

PIT is NYS's largest source of tax receipts, accounting for nearly 51 percent of tax collections in FY 2024. The State's PIT structure adheres closely to the definitions of AGI and itemized deductions used for Federal PIT purposes, with certain modifications, such as: the inclusion of investment income from debt instruments issued by other states and municipalities and the exclusion of income on certain Federal obligations; the exclusion of pension income received by Federal, NYS and local government employees, private pension and annuity income up to $20,000 ($40,000 for married couples filing jointly), and any Social Security Income and refunds otherwise included in Federal AGI; and the subtraction of state and local income taxes from Federal itemized deductions.

NYS allows either a standard deduction or itemized deductions, whichever is greater. Although NYS generally conforms to Federal rules pertaining to itemized deductions, the State imposes some additional limitations. NYS limits itemized deductions for taxpayers with NYSAGI between $525,000 and $1 million to only 50 percent of Federally allowed deductions, and for taxpayers with incomes above $1 million to only 50 percent of charitable contributions. Under current law, for tax years 2010 through 2029, itemized deductions are limited to only 25 percent of charitable contributions for taxpayers with NYSAGI above $10 million.

Recent and current tax rates and deductions, as well as detailed tax rate schedule for 2024 are enumerated below.

PERSONAL INCOME TOP TAX RATES, STANDARD DEDUCTIONS, AND DEPENDENT EXEMPTIONS
(dollars)

		2013	2014	2015	2016	2017-2020	2021-2024
Top Rate		**8.82%**	**8.82%**	**8.82%**	**8.82%**	**8.82%**	**10.90%**
Thresholds	Married Filing Jointly	2,058,550	2,092,800	2,125,450	2,140,900	2,155,350	25,000,000
	Single	1,029,250	1,046,350	1,062,650	1,070,350	1,077,550	25,000,000
	Head of Household	1,543,900	1,569,550	1,594,050	1,605,650	1,616,450	25,000,000
Standard Deduction	Married Filing Jointly	15,400	15,650	15,850	15,950	16,050	16,050
	Single	7,700	7,800	7,900	7,950	8,000	8,000
	Head of Household	10,800	10,950	11,100	11,150	11,200	11,200
Dependent Exemption		**1,000**	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**

In 2016, the Tax Law was amended to establish permanent tax rate reductions for taxpayers with taxable income between $26,000 and $300,000. The tax years 2014 through 2017 tax brackets with marginal tax rates of 5.9 percent, 6.45 percent, and 6.65 percent were scheduled to be replaced by two tax brackets with marginal tax rates of 5.5 percent and 6 percent. These rate reductions were originally scheduled to phase in over the course of eight years with full implementation occurring in tax year 2025. This schedule was accelerated by two years by 2022 legislation, with full implementation occurring in tax year 2023, skipping the interim tax brackets for tax years 2023 and 2024.

In 2021, the previous top bracket - and associated marginal tax rate of 8.82 percent - was replaced by three temporary brackets with marginal tax rates between 9.65 percent and 10.9 percent. The top rate is scheduled to revert to 8.82 percent beginning tax year 2028.

TAX SCHEDULES FOR 2024 LIABILITY YEAR* (dollars)			
Taxable Income	Dollar per	Tax Rate Percent	of Amount Over
Married - Filing Jointly			
Up to $17,150	$ -	4.00%	$ -
$17,150 - $23,600	$ 686	4.50%	$ 17,150
$23,600 - $27,900	$ 976	5.25%	$ 23,600
$27,900 - $161,550	$ 1,202	5.50%	$ 27,900
$161,550 - $323,200	$ 8,553	6.00%	$ 161,550
$323,200 - $2,155,350	$ 18,252	6.85%	$ 323,200
$2,155,350 - $5,000,000	$ 143,754	9.65%	$ 2,155,350
$5,000,000 - $25,000,000	$ 418,263	10.30%	$ 5,000,000
$25,000,000 - and over	$ 2,478,263	10.90%	$ 25,000,000
Single			
Up to $8,500	$ -	4.00%	$ -
$8,500 - $11,700	$ 340	4.50%	$ 8,500
$11,700 - $13,900	$ 484	5.25%	$ 11,700
$13,900 - $80,650	$ 600	5.50%	$ 13,900
$80,650 - $215,400	$ 4,271	6.00%	$ 80,650
$215,400 - $1,077,550	$ 12,356	6.85%	$ 215,400
$1,077,550 - $5,000,000	$ 71,413	9.65%	$ 1,077,550
$5,000,000 - $25,000,000	$ 449,929	10.30%	$ 5,000,000
$25,000,000 - and over	$ 2,509,929	10.90%	$ 25,000,000
Head of Household			
Up to $12,800	$ -	4.00%	$ -
$12,800 - $17,650	$ 512	4.50%	$ 12,800
$17,650 - $20,900	$ 730	5.25%	$ 17,650
$20,900 - $107,650	$ 901	5.50%	$ 20,900
$107,650 - $269,300	$ 5,672	6.00%	$ 107,650
$269,300 - $1,616,450	$ 15,371	6.85%	$ 269,300
$1,616,450 - $5,000,000	$ 107,651	9.65%	$ 1,616,450
$5,000,000 - $25,000,000	$ 434,163	10.30%	$ 5,000,000
$25,000,000 - and over	$ 2,494,163	10.90%	$ 25,000,000

* Benefits of graduated tax rates are recaptured for taxpayers with adjusted gross incomes above $107,650.

Liability

PIT liability is derived from the NYSAGI income base. The Economic Environment – New York State Adjusted Gross Income section of this volume should be referenced for comprehensive discussion of NYSAGI.

LIABILITY AND EFFECTIVE TAX RATES (millions of dollars)					
	NYSAGI		Liability		Effective
	Amount	Growth	Amount	Growth	Tax Rate[1]
2015	807,775	4.0%	43,503	3.8%	5.4%
2016	794,105	(1.7%)	41,736	(4.1%)	5.3%
2017	874,568	10.1%	48,000	15.0%	5.5%
2018	906,868	3.7%	48,712	1.5%	5.4%
2019	930,755	2.6%	49,567	1.8%	5.3%
2020	990,849	6.5%	54,517	10.0%	5.5%
2021	1,148,443	15.9%	71,406	31.0%	6.2%
2022	1,082,213	(5.8%)	63,493	(11.1%)	5.9%
2023[2]	1,097,887	1.4%	63,482	(0.0%)	5.8%
2024[2]	1,150,679	4.8%	68,977	8.7%	6.0%
2025[2]	1,222,010	6.2%	74,886	8.6%	6.1%

[1]Liability divided by AGI.

[2]Estimates and projections; these do not include the effects of PTET credits.

Source: NYS DTF; DOB staff estimates.

Over time the State has become increasingly reliant on its high-income taxpayers as a source of income tax revenues. Note that the new personal income tax law enacted with the FY 2022 Budget created three new “millionaire” brackets of 9.65 percent, 10.3 percent, and 10.9 percent, replacing the 8.82 percent rate for these filers.

The complex interaction between tax policy and taxpayer behavior is only one example of how changes in the economy, government policy, or the institutional practices of firms (i.e., the timing and types, not to mention the size, of bonus payments) that affect a small number of taxpayers in the high-income groups can have disproportionately large effects on State tax revenues. A particular concern to NYS is the severe limits that 2017’s TCJA imposed on itemized deductions, especially the deduction for state and local taxes, including property taxes. Note the decline in liability growth to 1.5 percent for 2018 after a 15.0 percent growth surge in 2017, as taxpayers sought to take advantage of tax provisions that would be taken away by the TCJA in 2018, the first tax year under the new Federal law. Growth fell to just 1.8 percent for tax year 2019. Unusual amounts of Federal fiscal support to individuals appears to have helped liability grow 10.0 percent in 2020, the first year of the COVID-19 pandemic. Liability jumped 31.0 percent in tax year 2021. In part this was due to the effect of the new, higher brackets and rates enacted that year, and additionally to surges in capital gains and partnership income as the economy more fully recovered from the pandemic. Liability fell 11.1 percent in tax year 2022, but this is in comparison to a historic peak in the previous year. Based in part on preliminary partial returns data, tax year 2023 liability is estimated to have remained virtually flat with the previous year, driven by minimal NYSAGI growth (1.4 percent) which includes a nearly 20 percent decline in net capital gains. Improved NYSAGI growth, including an increase in net capital gains, is expected to produce liability growth of 8.7 percent in tax year 2024, followed by growth of 8.6 in tax year 2025.

Although significant risks remain in any estimates of income tax liability, estimated tax liability for a particular tax year leads, with a high degree of confidence, to the approximate level of cash receipts that can be expected for such year. Despite this strong relationship, estimation of cash payments is subject to an important complication that pervades forecasts for the Executive Budget and other State Financial Plan updates, namely determining the portions of tax-year liability that will occur in particular SFYs. Income tax prepayments – withholding tax and quarterly estimated tax payments – tend to be received not long after income is earned. For example, most withholding tax payments and quarterly estimated tax payments for tax year 2024 will be received before the end of FY 2025. Settlement payments – those payments received when taxpayers file final returns for a tax year – tend to be received in the next SFY after the end of a tax year. Thus, settlement payments for tax year 2024 will be received largely in FY 2026.

Administration

DTF administers PIT in general conformity with the Federal PIT and IRS administration. Taxpayers have taxes withheld from their wages and employers subsequently remit those withholdings to DTF on various schedules based on their payroll size. Taxpayers may be required to remit estimated tax on a quarterly basis if withholding is insufficient or they receive nonwage income. Tax returns are generally due on April 15, though taxpayers may request an extension until October 15. Taxpayers with tax paid in excess of liability may request refunds or opt to credit overpayments toward future tax liabilities.

The payment of refunds during the final quarter of the State's fiscal year is administratively managed in accordance with cash flow expectations and to minimize potential year-end imbalances in the State's General Fund. The administrative refund cap totaled nearly $2.3 billion in FY 2019 and remained steady through FY 2020. After a slight decline to approximately $2.2 billion in FY 2021, the administrative refund cap increased to just under $2.4 billion in FY 2022 followed by an increase to $3 billion in FY 2023. Following an increase to $3.2 billion in FY 2024, the administrative refund cap is scheduled to increase to $3.5 billion in FY 2025. The cap will continue to increase to allow benefits from the proposed enhancement of the Empire State Child Credit to be realized early in the affected tax filing seasons. In FY 2029, the administrative refund cap is scheduled to revert to $3.5 billion and remain at that level annually thereafter.

History

PERSONAL INCOME TAX RECEIPTS HISTORY (millions of dollars)		FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Withholding		33,368	34,907	36,549	37,524	40,269	41,084	43,118	44,218	53,328	52,477	54,700
Estimated Payments	Current Year	9,454	10,367	11,561	10,912	14,329	10,481	10,996	10,930	14,123	8,158	6,332
	Prior Year[1]	5,183	3,376	4,550	4,060	3,452	3,529	6,029	5,512	7,543	10,270	4,448
	Total	14,637	13,743	16,111	14,972	17,781	14,010	17,025	16,441	21,666	18,428	10,780
Final Returns	Current Year	250	254	269	261	308	344	339	402	474	406	405
	Prior Year[1]	2,145	1,952	2,360	2,328	2,170	2,341	3,114	3,170	4,045	4,961	3,245
	Total	2,395	2,206	2,630	2,588	2,478	2,685	3,454	3,572	4,519	5,367	3,650
Delinquent		1,175	1,393	1,310	1,434	1,507	1,396	1,388	1,300	1,609	1,879	1,871
	Gross Receipts	**51,575**	**52,248**	**56,600**	**56,518**	**62,036**	**59,175**	**64,985**	**65,532**	**81,121**	**78,151**	**71,001**
Refunds	Prior Year[1]	5,367	4,961	5,130	5,199	6,292	6,034	5,927	6,048	5,489	9,767	10,011
	Previous Years	554	458	618	474	527	589	530	545	729	1,893	1,879
	Current Year[1]	2,078	1,950	2,550	1,750	2,249	2,250	2,245	2,187	2,380	2,999	3,196
	Advanced Credit Payment	0	579	571	678	610	1,080	1,505	593	663	2,707	821
	State/City Offset[1]	615	591	675	851	856	1,135	1,117	1,192	1,122	2,008	1,253
	Total	8,614	8,539	9,545	8,952	10,534	11,088	11,326	10,565	10,384	19,375	17,160
	Net All Funds Receipts	**42,961**	**43,710**	**47,055**	**47,566**	**51,501**	**48,087**	**53,659**	**54,967**	**70,737**	**58,776**	**53,840**
Fund Distribution	General Fund	28,864	29,485	31,957	32,535	36,037	21,620	24,646	25,456	33,464	27,607	25,312
	Debt Service Funds (RBTF)	10,740	10,927	11,764	11,891	12,875	24,044	26,830	27,483	35,369	29,388	26,920
	Special Revenue Funds (STAR)	3,357	3,297	3,335	3,139	2,589	2,423	2,184	2,027	1,904	1,781	1,608

[1] These components, collectively, are known as the "settlement" on the prior year's tax liability.

Significant statutory changes within the past decade are:

- In 2016, the refundable Farm Workforce Retention Credit was created for farm employers equal to a fixed amount per eligible farm employee. In 2021, this credit was extended through tax year 2024.[76]
- In 2016, the STAR PIT credit for eligible NYC resident taxpayers was converted from a credit against NYC tax liability to a credit against NYS tax liability.
- In 2017, the STAR-related NYC PIT rate reduction benefit was converted into a NYS PIT credit for NYC taxpayers.
- Effective in 2012, the New York Youth Works Job Program Tax Credit provides a tax incentive for businesses to hire qualified employees. The tax credits were increased by fifty percent beginning in 2018.[77]
- NYS made several changes in 2018 in an effort to combat the effects of the 2017 TCJA, namely:
    - Maintained the 2017 value of the Empire State Child Tax Credit;

[76] Refer to https://www.tax.ny.gov/bus/ct/farm_workforce_ret_credit.htm for a detailed description of this tax credit.
[77] Refer to https://www.tax.ny.gov/pit/credits/ny_youth_works.htm for a detailed description of this tax credit.

  - Decoupled from the Federal $10,000 state and local tax itemized deduction limit, the temporary medical expense deduction increase, and the repeal and limitation of other federal itemized deductions;

  - Maintained the NYS single filer standard deduction and eliminated the restriction that a NYS filer may only itemize deductions if deductions were itemized on the filer's federal return; and

  - Established the Charitable Gifts Trust Fund to accept donations to fund health care and education programs. Contributions made to the Fund or qualified contributions made to the Health Research Inc., the SUNY Impact Foundation, or the CUNY Research Foundation were provided an 85 percent tax credit, while school districts and municipalities were authorized to establish charitable funds through local law and provide up to a 95 percent tax credit for donations to such funds.

- In 2021, NYS enacted a surcharge on high-income earners, increasing the prior top marginal rate of 8.82 percent to 9.65 percent, while adding higher marginal rates of 10.3 percent and 10.9 percent beginning at $5 million and $25 million in taxable income, respectively. The rate increases are effective tax years 2021 through 2027. Beginning tax year 2028, the top three rates are scheduled to revert to 8.82 percent on a permanent basis.

- In 2021, the Property Tax Relief Credit was established to provide qualifying homeowners with property tax relief when total property taxes exceed a fixed percentage of income. Qualifying homeowners must be PIT STAR credit-eligible New York residents with incomes no greater than $250,000. This credit is available for tax years 2021 through 2023.[78]

- In 2021, in response to Federal tax law changes, the Pass-through Entity Tax (PTET) was established as an elective tax paid by NYS partnerships and S-corporations for which a corresponding PIT credit may be received.[79]

- In 2022, the Homeowner Tax Rebate Credit was enacted as a one-time advanced credit payment providing relief to low- and middle-income homeowners, as well as senior homeowners to offset property taxes.[80]

- In 2022, Earned Income Tax Credit (EITC) and Empire State Child Credit (ESCC) recipients were provided one-time supplemental payments equal to 25 percent of the EITC and between 25 and 100 percent of the ESCC claimed for tax year 2021, provided the benefit in each case was at least $25.

- Tax credits for farms were expanded in 2022 by:

[78] Refer to https://www.tax.ny.gov/pit/credits/real-property-tax-relief-credit.htm for a detailed description of this tax credit.
[79] Refer to https://www.tax.ny.gov/bus/ptet/ for a detailed description of this optional tax.
[80] Refer to https://www.tax.ny.gov/pit/property/homeowner-tax-rebate-credit.htm for a detailed description of this tax credit.

- Doubling the Farm Workforce Retention Credit from $600 to $1,200 per eligible farm employee and extending the credit through tax year 2025.

- Increasing the Investment Tax Credit to 20 percent of the investment credit base, up from 4 percent for businesses filing under PIT and 5 percent for businesses filing under the Corporation Franchise Tax, for farm businesses.

- Establishing a refundable tax credit for overtime wages paid by farm employers, taking effect when the overtime threshold is reduced below 60 hours per week.

- In 2022, the eight-year tax cut program was accelerated by two years, phasing-in the lower rates of 5.5 percent and 6 percent (originally planned for completion in tax year 2025) in tax year 2023, skipping the interim tax brackets for tax years 2023 and 2024.

- In 2022, the small business subtraction modification was increased from 5 percent to 15 percent of net business or farm income included in Federal AGI. This benefit was also expanded to include qualifying pass-through entities.[81]

- From 2021 to 2023, four credits were enacted to provide critical assistance to those in the food service and entertainment industries severely impacted by the pandemic.

    - Restaurant Return-to-Work Tax Credit was effective for TY 2021:[82]

    - The Additional Restaurant Return-to-Work Credit was effective for TY 2022:[83]

    - In 2023, the New York City Musical and Theatrical Production Tax Credit was extended an additional two years, through 2025, and the total program cap was increased to $300 million.[84]

    - The COVID-19 Capital Costs Tax Credit was created in 2022:[85]

- In 2023, the Brownfield Clean-Up Program was modified to allow certain projects that received a certificate of completion in 2017 to claim the credit for a period of 15 years after the certificate was received. In 2022, the credit was extended to December 31, 2036.[86]

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[81] Refer to https://www.tax.ny.gov/legal/2022/pit-corp-changes.htm#small-businesses for a detailed description of this tax benefit.
[82] Refer to https://www.tax.ny.gov/pit/credits/restaurant-return-to-work-tax.htm for a detailed description of this credit.
[83] Refer to https://www.tax.ny.gov/pit/credits/additional-restaurant-return-to-work-credit.htm for a detailed description of this credit.
[84] Refer to https://esd.ny.gov/new-york-city-musical-and-theatrical-production-tax-credit for a detailed description of this credit.
[85] Refer to https://www.tax.ny.gov/pit/credits/covid-19-capital-costs-tax-credit.htm for a detailed description of this credit.
[86] Refer to https://www.tax.ny.gov/pit/credits/brownfield-redevelopment-credit.htm for a detailed description of this program.

- Extended in 2023, the Rehabilitation of Historic Properties Credit is effective through Tax Year 2029.[87]

- In 2023, the Empire State Child Credit was expanded to include children under four years of age as qualifying children.

- Effective in 2024, the Empire State Film Production Tax Credit is $700 million from Tax Year 2024 through Tax Year 2034.[88]

- In 2024, Empire State Child Credit (ESCC) recipients were provided one-time supplemental payments equal to 25 and 100 percent of the ESCC claimed for tax year 2023, provided the benefit was at least $25.

[87] Refer to https://www.tax.ny.gov/pit/credits/hist_prop.htm for a detailed description of this tax credit.
[88] Refer to https://esd.ny.gov/new-york-state-film-tax-credit-program-production for a detailed description of this tax credit.

Alcoholic Beverage Taxes

ALCOHOLIC BEVERAGE TAXES (millions of dollars)								
		FY 2024	FY 2025	Change		FY 2026	Change	
		Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent
General Fund	Beer	40.5	41.2	0.7	1.7	40.5	(0.7)	(1.7)
	Liquor > 24% (Liquor A)	192.2	183.7	(8.5)	(4.4)	183.2	(0.5)	(0.3)
	Liquor > 2% up to 24% (Liquor B)	25.2	30.5	5.3	21.0	32.2	1.7	5.6
	Wine and Other	17.4	16.6	(0.8)	(4.6)	16.1	(0.5)	(3.0)
	Total	275.3	272.0	(3.3)	(1.2)	272.0	0.0	0.0
All Funds Total		**275.3**	**272.0**	**(3.3)**	**(1.2)**	**272.0**	**0.0**	**0.0**

FY 2025 receipts are estimated to slightly decrease from FY 2024 results. Year-to-date collections are in line with downward collections trends that have occurred over the last two fiscal years, driven by a decline in consumption of liquor A (which makes up the vast majority of total ABT collections). There appears to be a potential shift occurring in overall long-term alcohol consumption trends led by the newest generation to reach the legal drinking age. In general, they have shown a tendency towards more moderate drinking habits, with increased interest in zero-alcohol products, and increased consumption of liquor B (e.g., ready-to-drink cocktails, which are taxed at a lower rate than liquor A due to lower ABV content).

FY 2026 receipts are projected to remain flat compared to the current year primarily due to the expectation that declines in overall liquor collections experienced in recent years will revert to minor growth, albeit slower than previously anticipated. This is offset by small projected declines in both beer and wine consumption, consistent with long-term consumption trends.

Base and Rate

NYS imposes excise taxes at various rates on liquor, beer, wine, and cider beverages. As of January 1, 2024, compared to alcoholic beverage tax rates in other states, NYS has the 23rd highest liquor tax (liquor A); is tied for the 39th highest beer tax; and is tied for the 42nd highest wine tax.

Liability

In general, consumption of overall liquor has experienced small to moderate annual growth over the last decade. Typically, this reflected small growth in consumption of liquor A, while consumption of liquor B fluctuated between small to moderate annual growth and declines. Since the onset of COVID-19, consumption of liquor B has experienced explosive growth. Meanwhile, consumption of liquor A is tracking towards consecutive years of declines. Wine consumption appears to have hit a peak over the last decade around FY 2017-2019 and has experienced consistent declines since that time period. Meanwhile, beer consumption has generally been trending downward over the last decade, with a few exceptions (e.g., craft brewery boom and subsequent leveling off, COVID-19 impact).

Administration

Generally, the alcoholic beverage taxes are remitted by licensed distributors (including producers) and non-commercial importers of such beverages in the month following the month of delivery. Registered distributors can apply for annual filing status, and be approved by DTF, if they produce under a certain volume of alcohol, and do not hold another license with SLA that requires them to pay taxes on a monthly basis. This is also the case for individual non-commercial importers of beer or wine; however, it is not an option for liquor importers.

History

DISTRIBUTIONS BY BEVERAGE TYPE BASED ON REPORTED VOLUMES
(millions of dollars)

	General Fund						All Funds
	Beer	Liquor A	Liquor B	Total Liquor	Wine and Other	Total	Total
FY 2015	46	177	8	185	20	251	251
FY 2016	47	180	8	188	20	255	255
FY 2017	47	183	8	190	20	258	258
FY 2018	46	186	8	193	20	259	259
FY 2019	46	189	8	196	20	262	262
FY 2020	44	192	8	200	15	259	259
FY 2021	43	192	12	204	20	271	271
FY 2022	45	200	14	214	18	277	277
FY 2023	40	200	21	220	17	275	275
FY 2024	40	192	25	217	17	275	275

Significant statutory changes within the past decade include:

- In 2016, products used in on-site tastings were exempted from taxation.
- In 2020, liquor under two percent alcohol by volume (ABV) was exempted from taxation.
- Beginning November 16, 2024, alcoholic beverage manufacturers with the appropriate license issued by the State Liquor Authority were permitted to ship limited quantities of liquor, cider, mead, or braggot, directly to eligible consumers in New York State. Prior to this date, wine was the only alcoholic beverage that could be shipped directly.

Auto Rental Tax and Peer-to-Peer Car Sharing Taxes

AUTO RENTAL & PEER-TO-PEER CAR SHARING TAXES (millions of dollars)									
			FY 2024 Actual	FY 2025 Estimated	Change Dollar	Change Percent	FY 2026 Projected	Change Dollar	Change Percent
Auto Rental	Capital Projects Funds	DHBTF	100.0	104.0	4.0	4.0	103.0	(1.0)	(1.0)
	Special Revenue Funds	PTSOA	31.0	33.0	2.0	6.5	34.0	1.0	3.0
		Total	131.0	137.0	6.0	4.6	137.0	0.0	0.0
Peer-to-Peer	General Fund	GF	0.2	1.6	1.4	700.0	1.6	0.0	0.0
	Special Revenue Funds	PTSOA	0.4	0.4	0.0	n/a	0.4	0.0	0.0
		Total	0.6	2.0	1.4	233.3	2.0	0.0	0.0
	All Funds Total		**131.6**	**139.0**	**7.4**	**5.6**	**139.0**	**0.0**	**0.0**

FY 2025 receipts compared to FY 2024 results:

- Auto rental receipts are estimated to moderately increase due to an increase in overall taxable consumption related to business and leisure travel, coupled with a slightly higher estimated Office of the State Comptroller (OSC) accounting adjustment (related to the fiscal year end closeout process) compared to the prior year.

- Peer-to-peer car sharing receipts are estimated to increase primarily due to a notably smaller estimated negative OSC accounting adjustment compared to the prior year. Excluding the aforementioned accounting adjustment, receipts are estimated to marginally increase during the second full year of collections.

FY 2026 receipts compared to the current year estimates:

- Auto rental receipts are projected to remain flat due to a moderate increase in overall taxable consumption, offset by a moderately lower projected OSC accounting adjustment compared to the prior year.

- Peer-to-peer car sharing receipts are projected to remain flat as the relatively new transportation service industry continues to establish itself with potential consumers.

Base and Rate

Auto Rental

NYS levies a 12 percent tax (6 percent statewide special tax and 6 percent special supplemental tax) on charges for the rental or use of a passenger car with a gross vehicle weight of 9,000 pounds or less in NYS, regardless of where the vehicle is registered or the residency of the renter. For the special supplemental tax, collections from rentals in the MCTD are directed to the MTA (off-Budget) and collections from rentals outside the MCTD are directed to PTSOA. The tax does not apply to a car lease covering a period of one year or more or to peer-to-peer car sharing.

Peer-to-Peer Car Sharing

Peer-to-Peer car sharing is defined as an authorized use of a shared vehicle by an individual other than the vehicle's owner through a program that facilitates the use of operation of a shared vehicle by a shared driver. NYS levies a 6 percent tax (3 percent statewide special tax and 3 percent special supplemental tax) on the gross receipts paid by a shared driver who takes ownership of the shared vehicle in NYS, regardless of where the vehicle is registered or the residency of the shared driver. For the special supplemental tax, collections from possessing a shared vehicle within the MCTD are directed to the MTA (off-Budget) and all other collections from outside the MCTD are directed to PTSOA. The tax does not apply to a car lease covering a period of one year or more.

Liability

Both auto rental and peer-to-peer car sharing receipts are influenced by overall economic conditions, particularly consumer and business spending on travel. Unusual events that disrupt the flow of travel and tourism within NYS (i.e., catastrophic weather events such as Superstorm Sandy or global pandemics such as COVID-19) can have a significant influence on receipts. The existence of app-based transportation options can also adversely impact the overall demand of car rentals and car sharing services. It should be noted that as the peer-to-peer car sharing industry continues to expand its presence in NYS, there are reasonable expectations that a gradual and moderate shift away from the auto rental industry towards the car sharing industry will take place as has been seen in other sectors such as lodging, as car sharing is generally seen as more flexible and affordable than auto rentals.

Administration

Vendors remit auto rental and peer-to-peer car sharing receipts quarterly to DTF via their sales tax return.

History

AUTO RENTAL & PEER-TO-PEER CAR SHARING TAXES RECEIPTS HISTORY (millions of dollars)							
	AUTO RENTAL				PEER-TO-PEER		
	Capital Projects Funds (DHBTF)	Special Revenue Funds			General Fund	Special Revenue Funds	All Funds Total
		MTAFAF	PTSOA	Total		PTSOA	
FY 2015	74	45	0	45	0	0	119
FY 2016	79	47	0	47	0	0	126
FY 2017	78	49	0	49	0	0	127
FY 2018	78	45	0	45	0	0	123
FY 2019	81	49	0	49	0	0	130
FY 2020	87	0	20	20	0	0	107
FY 2021	52	0	12	12	0	0	64
FY 2022	77	0	22	22	0	0	99
FY 2023	94	0	28	28	2.0	0.0	124
FY 2024	100	0	31	31	0.2	0.4	132

Significant statutory changes within the past decade include:

- In 2019, the auto rental tax rate within the MCTD increased from 11 to 12 percent and outside the MCTD the tax rate increased from 6 to 12 percent. In addition, the revenues from the MCTD supplemental tax rate (6 percent) were moved off-Budget and are no longer included in ART collections.

- On September 1, 2022, the peer-to-peer car sharing tax went into effect.

Cannabis Taxes

CANNABIS TAXES (millions of dollars)				FY 2024 Actual	FY 2025 Estimated	Change Dollar	Change Percent	FY 2026 Projected	Change Dollar	Change Percent
Special Revenue Funds	Medical	Counties	Manufacturer	2.1	1.4	(0.7)	(31.6)	1.5	0.1	4.6
			Distributor	2.1	1.4	(0.7)	(31.6)	1.5	0.1	4.6
	Medical	Agency Operations	OASAS	0.5	0.1	(0.4)	(82.8)	0.0	(0.1)	(100.0)
			DCJS	0.5	0.1	(0.4)	(82.8)	0.0	(0.1)	(100.0)
	Medical	Cannabis Revenue Fund		3.6	0.7	(2.9)	(80.1)	0.0	(0.7)	(100.0)
		Total		8.8	3.8	(5.0)	(57.2)	3.0	(0.8)	(20.0)
Special Revenue Funds	Adult-Use	Cannabis Revenue Fund		33.5	158.0	124.5	371.4	245.0	87.0	55.1
All Funds Total				**42.3**	**161.8**	**119.5**	**282.6**	**248.0**	**86.3**	**53.3**

FY 2025 receipts compared to FY 2024 results:

Adult-Use cannabis receipts are estimated to increase during the second full year of collections due to the continued expansion and maturation of the adult-use market, as more cultivators, processors, distributors, retailers, microbusinesses, and registered organizations are licensed and eligible to participate in the market.

- Medical cannabis receipts are estimated to substantially decrease, due to the part-year impact of the FY 2025 Enacted Budget legislation that reduced the tax rate from 7 percent to 3.15 percent beginning June 1, 2024, and the shifting of consumers from the medical to adult-use markets.

FY 2026 receipts compared to the current year estimates:

- Adult-Use cannabis receipts are projected to increase during the third full year of collections due the further expansion and maturation of the overall adult-use market and continued enforcement actions curtailing illegal and unlicensed dispensaries.

- Medical cannabis receipts are projected to slightly decrease mainly due to the full-year impact of the reduced excise tax rate.

Base and Rate

Adult-Use Cannabis

Two taxes are currently imposed:

- A wholesale excise tax of 9 percent.
  - Vertically integrated entities such as registered organizations or microbusinesses that sell adult-use cannabis products directly to a retail customer must impose the 9 percent wholesale excise tax on 75 percent of the final amount charged at retail for the sale or transfer of those products.

- An excise tax of 13 percent (9 percent State, 4 percent localities) is imposed on the retailer for the sale or transfer of cannabis to a consumer.

Medical Cannabis

An excise tax of 3.15 percent is imposed on the gross receipts from medical cannabis sold or furnished by a registered organization to a certified patient or designated caregiver.

Administration

Adult-Use Cannabis

The Adult-Use cannabis program is administered by the NYS Office of Cannabis Management (OCM), which along with the Cannabis Control Board (CCB) is responsible for: approving the rules and regulations that govern the industry, implementing a comprehensive regulatory framework for New York's adult-use cannabis industry; and issuing licenses to cannabis businesses.

On October 4, 2023, OCM opened the general application window for non-conditional licenses to all applicants interested in participating in New York’s adult-use market. As of January 6, 2025, there are 282 operating cannabis retail dispensaries across New York State.

The taxes, which are imposed on both the distributor or processor and the retailer must be remitted quarterly to DTF. The tax return must include the total amount of tax due for the quarters ending May, August, November, and February. Returns must be filed, and the tax paid no later than the 20th of the month following the end of each quarter (i.e., June, September, December, and March).

Medical Cannabis

The medical cannabis program is administered by OCM, which determines the number of registered manufacturing and distribution organizations permitted within NYS. Registered organizations are responsible for manufacturing and dispensing medical cannabis in NYS, and each is permitted by statute to have a maximum of eight dispensing facilities (increased from a maximum of four dispensing facilities with the passage of the Marihuana Regulation and Taxation Act).[89]

The tax is imposed on the registered organization, which must remit the excise tax collections monthly to DTF. The tax return must include the gross receipts by the county where the medical cannabis was manufactured and the county where the dispensing facility is located. Returns must be filed, and the tax paid no later than the 20th of each month following the month in which the product was sold.

History

Medical use of cannabis was authorized in 2014 and dispensing of medical cannabis began in 2016.

Adult-use cannabis was authorized in March 2021 and retail sales began in December 2022.

CANNABIS TAXES RECEIPTS HISTORY (thousands of dollars)

	Medical (Special Revenue Funds)						Adult-Use (Special Revenue Funds)	All Funds
	Medical Cannabis Counties		Agency Operations		NY Cannabis Revenue Fund		NY Cannabis Revenue Fund	
	Manufactured	Distributed	OASAS	DCJS	Cannabis Revenue Fund*	Total	Cannabis Revenue Fund	Total
FY 2016	2.5	2.5	0.6	0.6	5.0	11.0	0.0	11.0
FY 2017	130.7	130.7	28.8	28.8	265.6	584.6	0.0	584.6
FY 2018	423.1	423.1	94.0	94.0	846.2	1,880.5	0.0	1,880.5
FY 2019	870.6	870.6	193.5	193.5	1,739.1	3,867.3	0.0	3,867.3
FY 2020	1,290.1	1,290.1	283.4	283.4	2,550.6	5,697.6	0.0	5,697.6
FY 2021	1,884.3	1,884.3	422.0	422.0	3,798.3	8,411.0	0.0	8,411.0
FY 2022	2,904.5	2,904.5	645.4	645.4	5,808.9	12,908.7	0.0	12,908.7
FY 2023	2,616.5	2,616.5	581.4	581.4	5,232.9	11,628.8	962.5	12,591.3
FY 2024	2,097.2	2,097.2	466.0	466.0	3,630.1	8,756.5	33,515.4	42,271.8

*Monies were not directed to the Fund until FY 2022.

- Effective June 1, 2024, the adult-use cannabis wholesale THC potency tax was repealed and replaced with an excise tax of 9 percent.

- Effective June 1, 2024, the medical cannabis excise tax rate imposed on the gross receipts from medical cannabis sold or furnished by a registered organization to a certified patient or designated caregiver was reduced from 7 percent to 3.15 percent. Additionally, the statutory revenue distribution was amended so that the manufacturing and distributing counties equally share the revenues. The Cannabis Revenue Fund, DCJS, and OASAS no longer receive funding from medical cannabis receipts.

[89] Refer to NYS OCM's Medical Cannabis Program Guide for a complete list of qualified conditions, registered organizations, and laws and regulations.

Cigarette and Tobacco Tax

CIGARETTE AND TOBACCO TAXES (millions of dollars)								
		FY 2024	FY 2025	Change		FY 2026	Change	
		Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent
General Fund	Cigarette Tax	183.8	176.2	(7.6)	(4.1)	166.1	(10.1)	(5.7)
	Tobacco Tax	71.5	68.8	(2.7)	(3.7)	69.9	1.1	1.6
	Registration Fees	5.1	5.0	(0.1)	(2.0)	5.0	0.0	0.0
	Total	260.4	250.0	(10.4)	(4.0)	241.0	(9.0)	(3.6)
HCRA	Cigarette Tax	582.1	558.0	(24.1)	(4.1)	526.0	(32.0)	(5.7)
All Funds Total		**842.5**	**808.0**	**(34.5)**	**(4.1)**	**767.0**	**(41.0)**	**(5.1)**

FY 2025 receipts are estimated to decrease from FY 2024. This decrease represents a return to typical trends for taxable cigarette consumption following the initial impact of the $1 per pack tax increase effective September 1, 2023. Tobacco products tax receipts are estimated to experience a moderate decrease based on year-to-date collections.

FY 2026 receipts are projected to decrease from the current year due to a continued long-term trend decline in taxable cigarette consumption. Tobacco products tax receipts are projected to remain close to flat, with the minor growth largely due to year-over-year variance in refunds expected to be paid out.

Base and Rate

The cigarette and tobacco product taxes consist of the following:

- The NYS cigarette excise tax is $5.35 per pack (20 cigarettes) or $53.50 per carton (200 cigarettes). In NYC, there is an additional tax of $1.50 per pack or $15 per carton. In total, in NYC, the combined State and City tax is $6.85 per pack or $68.50 per carton.

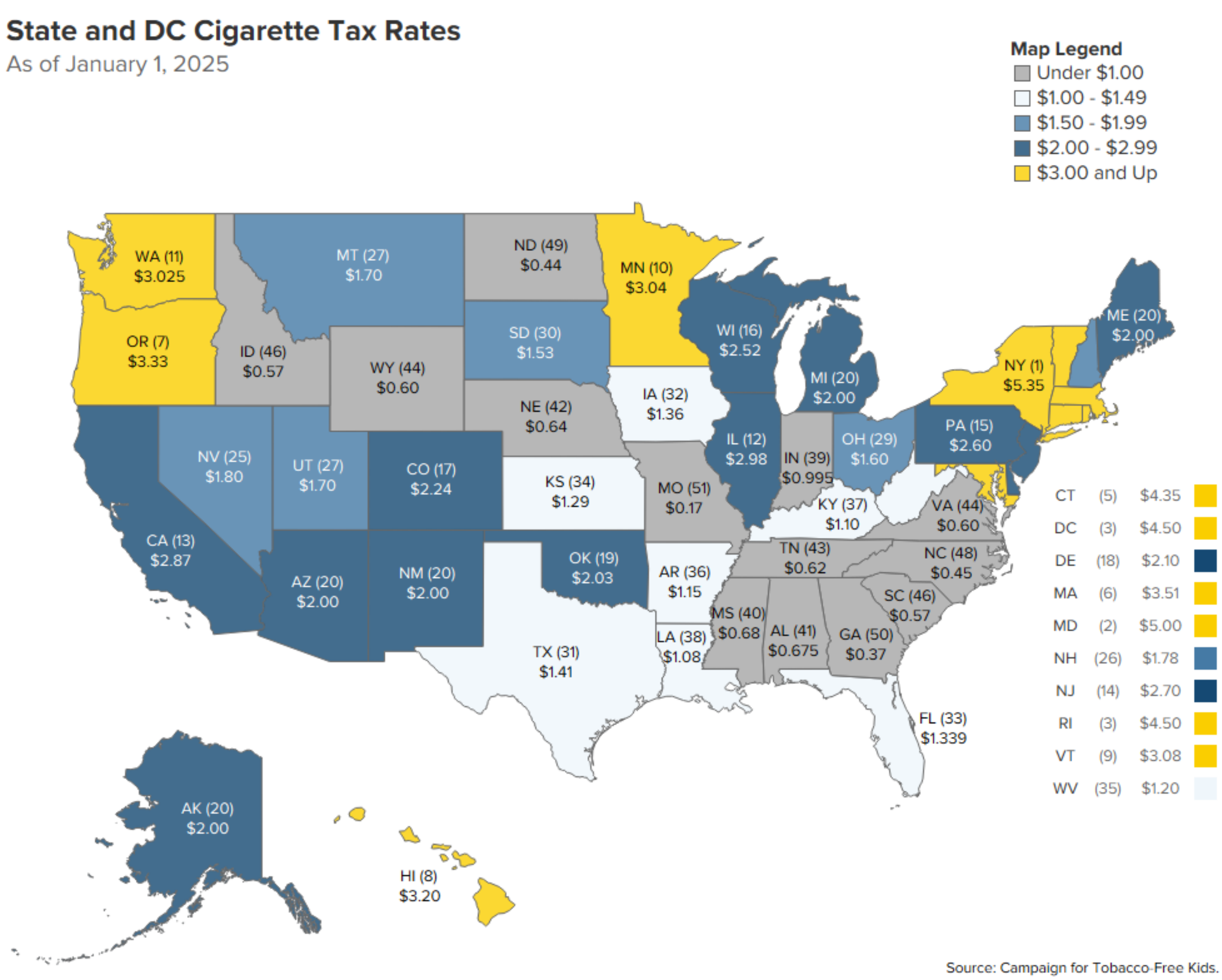
- The tax on tobacco products tax is levied on cigars, little cigars, snuff, and all other tobacco products. The tax per little cigar is $0.2675 ($5.35 per pack of 20 little cigars), while the tax on snuff is $2.00 per ounce or fraction thereof. For all other tobacco products (large cigars, chewing tobacco), the tax is 75 percent of the wholesale price.

- The registration fee for each retail location is $300, and $100 for each vending machine. The license application fee for either a wholesaler cigarette dealer or cigarette agent is $1,500.

Liability

Taxable cigarette consumption is a function of retail cigarette prices and a long-term downward trend in consumption. The decline in consumption reflects the impact of increased public awareness of the adverse health effects of smoking, smoking restrictions imposed by governments, anti-smoking education programs, and changes in consumer preferences toward other types of tobacco and nicotine products.

At a state tax rate of $5.35 per pack, NYS currently has the highest state cigarette tax in the nation, ahead of Maryland (taxing at a rate of $5.00 per pack). With a national average tax of $1.96 per pack, cigarette tax evasion is a serious issue in NYS and throughout the Northeast. The most significant area of concern is the importation of cigarettes from low-tax states. Widespread evasion not only reduces State and local revenues, but also reduces the income of legitimate wholesalers and retailers. DTF continues to vigorously pursue cigarette bootlegging through investigatory and enforcement efforts.



Administration

Retail establishments that sell cigarettes are required to register with DTF and vending machine owners are required to purchase registration stickers from DTF.

State-registered stamping agents, who are mostly wholesalers, purchase tax stamps from NYS and affix the stamps to cigarette packages to be sold by registered retailers. The tax is paid by the stamping agent and is passed on. Purchasers of non-State stamped cigarettes, such as cigarettes sold out-of-State or on Native American lands, must remit the cigarette excise tax directly to DTF. An individual may bring two cartons into NYS without being subject to the excise tax.

History

CIGARETTE AND TOBACCO TAXES RECEIPTS HISTORY (millions of dollars)						
	General Fund				HCRA	All Funds
	Cigarette Tax	Tobacco Tax	Registration Fees	Total	Cigarette Tax	Total
FY 2015	303	46	7	355	959	1,314
FY 2016	293	22	7	322	928	1,251
FY 2017	277	76	7	360	876	1,235
FY 2018	262	73	7	342	829	1,171
FY 2019	246	75	6	328	780	1,108
FY 2020	228	79	6	313	722	1,035
FY 2021	220	85	5	310	696	1,006
FY 2022	210	78	5	293	665	958
FY 2023	188	73	5	266	594	860
FY 2024	184	71	5	260	582	843

Significant statutory changes within the past decade include:

- In 2020, the definition of "wholesale price" of tobacco products was reformed to clarify that it means the price for which the tobacco products are sold to a distributor and cigarette enforcement was enhanced via the following amendments:
    - Authorized DTF to revoke a retailer's Certificate of Registration (CoR) for one year (increased from six months) for its first violation for selling untaxed cigarettes;
    - Required that a retail dealer who is caught selling untaxed cigarettes have the CoR revoked at all retail locations. For a second violation within five years, this punishment also applies to any affiliated person of the retail dealer;
    - Authorized the automatic start to the Certificate of Authority (CoA) (the required license to collect sales tax and operate a business) revocation process after the third revocation of a retail dealer's registration in five years, effectively shutting down the business' operations; and

- Authorized DTF to deny a retail dealer registration to any applicant with outstanding tax debts.

- In 2021, it was established that retail dealers who had their licenses suspended or revoked were allowed ten days to transfer their lawful products to another retail dealer. Additionally, DTF's ability to revoke or suspend a retailer's CoA if they sell unlawfully stamped cigarettes three or more times in five years was clarified.

- In 2023, the State excise tax on cigarettes was increased by $1 per pack. Additionally, the State authorized DTF to suspend a retail dealer's CoR for one year if they refuse an inspection, and permanently revoke the CoR for a second refusal within three years. If the retail dealer does not have a valid CoR, they are subject to a $5,000 penalty for the first refusal, and a $10,000 penalty for a second refusal within three years.

Highway Use Tax

HIGHWAY USE TAX (millions of dollars)									
		FY 2024	FY 2025	Change		FY 2026	Change	
		Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent
Capital Projects Funds (DHBTF)	TMT	113.2	112.2	(1.0)	(0.9)	113.4	1.2	1.1
	Fuel Use	24.2	22.9	(1.3)	(5.5)	23.6	0.7	3.1
	IFTA Decal	0.6	0.5	(0.1)	(12.8)	0.5	0.0	2.0
	Total	138.0	135.6	(2.4)	(1.7)	137.5	1.9	1.4
Special Revenue Funds (HUTAA)	Registrations	0.6	1.4	0.8	143.8	0.4	(1.0)	(71.4)
All Funds Total		**138.6**	**137.0**	**(1.6)**	**(1.1)**	**138.0**	**1.0**	**0.7**

FY 2025 receipts are estimated to decrease from FY 2024 results due to moderate declines in TMT and FUT receipts, partially offset by an increase in registration receipts. Registrations are estimated to increase due to FY 2025 being a renewal year in the triennial registration cycle.

FY 2026 receipts are projected to increase from the current year due to moderate increases in TMT and FUT receipts, partially offset by a decline in registration receipts.

Base and Rate

There are four components of the highway use tax:[90]

- The TMT is levied on motor carriers who operate certain motor vehicles on NYS public highways.

- The FUT ensures that motor carriers who purchase fuel out-of-State, but operate a vehicle on NYS public highways, are subject to the same taxes as fuel purchased in-State. The current fuel use tax rate is $0.24 per gallon.

- Pursuant to IFTA, motor carriers who designate NYS as their base jurisdiction for IFTA licensing purposes must apply and receive one IFTA license per fleet of vehicles and a set of two decals for each qualified vehicle operated under said license. There is no fee for the annual license, but there is an $8 fee for each set of decals ordered.

- As part of the HUT or AFC registration process, an issued HUT or AFC decal is required to be affixed to each vehicle. The cost of the certification and decal fee is $1.50.

[90] Refer to https://www.tax.ny.gov/pubs_and_bulls/tg_bulletins/hut/introduction.htm and https://www.tax.ny.gov/bus/ifta/fuel.htm for a detailed description of these components.

Liability

HUT receipts are generally a function of the demand for trucking, which fluctuates with national and State economic conditions.

Administration

Most taxpayers remit the TMT on a monthly basis, on or before the last day of each month for the preceding month. Fuel use taxpayers file quarterly with their home state under the rules of IFTA. The home state subsequently distributes the funds to the state where the liability occurred. The registration process generally occurs on a triennial basis.

History

HIGHWAY USE TAX RECEIPTS HISTORY (millions of dollars)							
	Capital Projects Funds (DHBTF)					Special Revenue Funds (HUTAA)	All Funds
	TMT	Fuel Use	IFTA Decal	Registrations	Total	Registrations	Total
FY 2015	103	31	1	6	140	0	140
FY 2016	108	30	0	20	159	0	159
FY 2017	109	27	0	0	136	2	139
FY 2018	110	25	1	0	136	(43)	93
FY 2019	121	25	1	0	147	(2)	145
FY 2020	113	28	1	0	141	1	141
FY 2021	111	23	0	0	134	0	135
FY 2022	117	23	1	0	140	2	142
FY 2023	113	28	1	0	142	1	143
FY 2024	113	24	1	0	138	1	139

Significant statutory changes within the past decade include:

- First enacted in 2006, the exemption on certain alternative fuels (E85, CNG, and hydrogen) and a partial exemption for B20 has been extended several times for various durations, with the most recent in 2021 for five years.

- In 2016, the $15 HUT registration fee and $4 decal fees directed to the DHBTF were replaced with a combined HUT registration and decal fee of $1.50, directed to the HUTAA.

- In 2021, certain monthly and quarterly TMT filers had their filing frequency and reporting requirements reduced.

Motor Fuel Tax

MOTOR FUEL TAX RECEIPTS (millions of dollars)								
		FY 2024	FY 2025	Change		FY 2026	Change	
		Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent
Special Revenue Funds (DMTTF)	Gasoline	76.5	77.7	1.2	1.5	77.1	(0.6)	(0.8)
	Diesel	27.0	26.5	(0.5)	(1.9)	26.4	(0.1)	(0.4)
	Total	103.6	104.2	0.7	0.6	103.5	(0.7)	(0.7)
Capital Projects Funds (DHBTF)	Gasoline	337.1	339.0	1.9	0.6	340.4	1.4	0.4
	Diesel	46.0	44.7	(1.3)	(2.9)	45.1	0.4	0.8
	Total	383.2	383.8	0.6	0.2	385.5	1.7	0.5
All Funds	**Gasoline**	**413.7**	**416.7**	**3.1**	**0.7**	**417.5**	**0.7**	**0.2**
	Diesel	**73.1**	**71.3**	**(1.8)**	**(2.5)**	**71.5**	**0.3**	**0.4**
	Total	**486.8**	**488.0**	**1.2**	**0.3**	**489.0**	**1.0**	**0.2**

FY 2025 receipts are estimated to be marginally higher than FY 2024 results due to a moderate increase in gasoline receipts (driven by moderate increases in consumption and audit receipts, partially offset by higher refunds) and a moderate decrease in diesel receipts (driven by unchanged consumption, coupled with lower audit receipts).

FY 2026 receipts are projected to marginally increase from the current year due to a minor projected increase in both gasoline and diesel consumption.

Base and Rate

Gasoline motor fuel and diesel motor fuel taxes of $0.08 per gallon are imposed upon the sale, generally for highway use, of motor fuel and diesel motor fuel, respectively. The motor fuel tax is levied primarily on fuel used in motor vehicles operating on the public highways of NYS or on fuel used in recreational motorboats operating on the waterways of NYS. Exemptions, credits, and refunds are allowed for certain other uses of gasoline and diesel motor fuel.

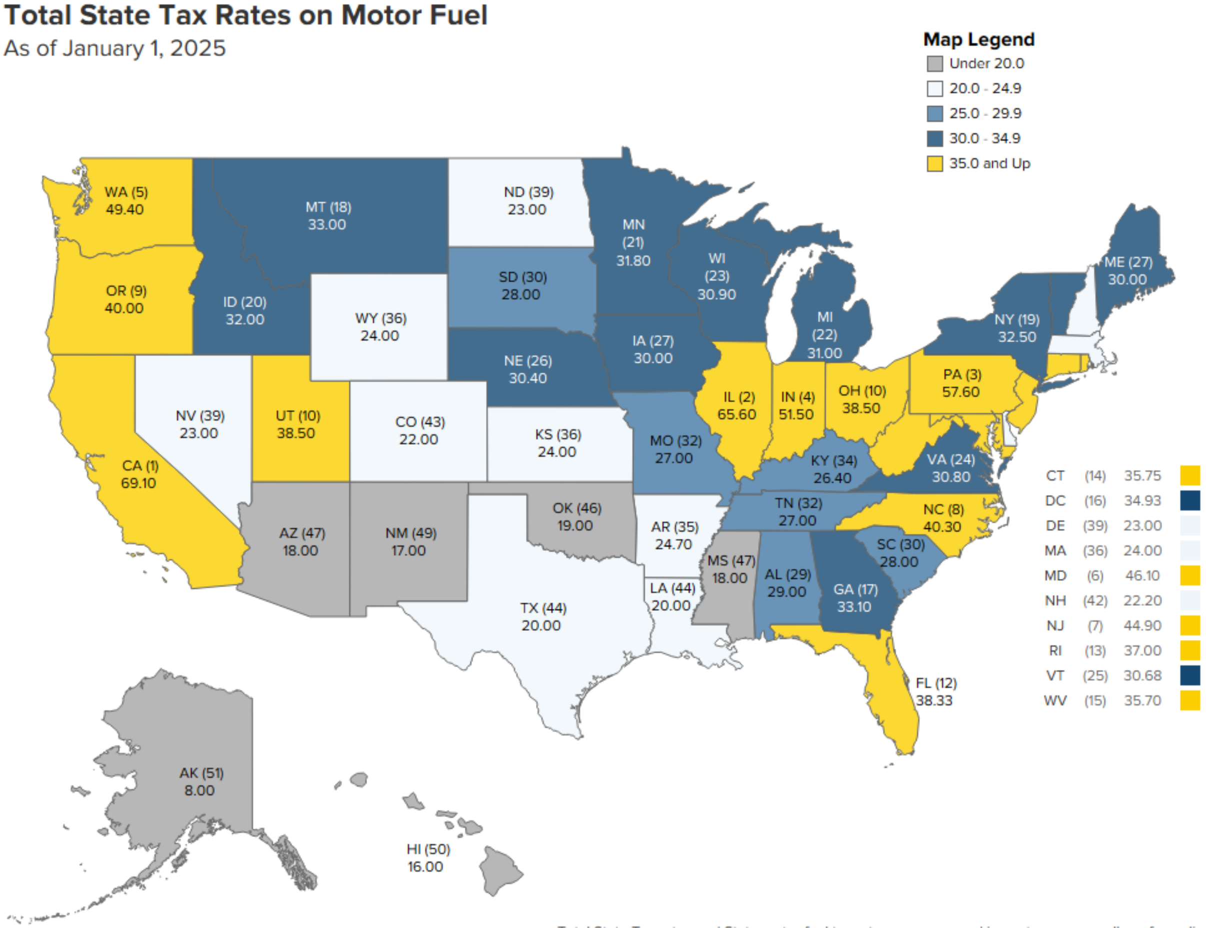
Liability

Although the motor fuel tax is imposed on the consumer, the tax is remitted upon importation into NYS. This tax-on-first-import system is designed to reduce gasoline tax evasion, which previously involved bootlegging from other states and successions of tax-free sales among "dummy" corporations masked by erroneous record keeping and reporting.

Taxes on diesel motor fuel are collected upon the first non-exempt sale in NYS. Interdistributor sales of highway diesel motor fuel sold below the rack are considered tax-exempt.

NYS is ranked the 19th highest in overall state taxes per gallon imposed on motor fuel. This rank is two spots lower compared to 2024 data.

Total State Tax Rates on Motor Fuel
As of January 1, 2025



Total State Tax rates and State motor fuel tax rates are measured in cents per one gallon of gasoline.
Source: Department of Tax and Finance

Motor fuel revenues are partially determined by gasoline prices, which are volatile due to the influence of domestic and international economic conditions. As a result, total receipts can fluctuate. During the COVID-19 pandemic, reductions in vehicle miles traveled and, therefore, gasoline consumption, disrupted the typical relationship between fuel prices and demand, leading to record-low tax collections along with declining prices in FY 2021. In the spring of 2022, following Russia's invasion of Ukraine, global energy prices increased to levels not seen in recent years. Within weeks, the price for a gallon of regular grade gasoline in New York jumped from $3.63 to $4.94. However, there have been fewer dramatic fluctuations in recent years. In the 52-week period during the week of January 8, 2024, through December 30, 2024, the average weekly price was approximately $3.31 (compared to the average weekly price of $3.54 during the comparable period in the previous year).

Diesel consumption is also heavily correlated with economic activity. After taking a nose-dive during the Great Recession, diesel receipts began to recover slightly, but then began to decline again due to the amount of refunds processed to multiple Wall Street firms that sold off large quantities of tax-paid gallons of highway diesel fuel. These large refunds were paid out for highway diesel motor fuel gallons that were sold outside of NYS up to two years after the tax was originally collected. By contrast, the diesel receipts decline in FY 2021 was more attributable to the pandemic's adverse impact on travel activities. Nevertheless, by FY 2022, diesel receipts had fully recovered to pre-pandemic levels and have since, generally remained stable.

Long-term downside risk exists for both gasoline and diesel consumption as there is a continued push towards hybrid and electric vehicles for both personal and commercial vehicle usage.

Administration

The tax is generally remitted monthly, although vendors whose average monthly tax is less than $200 may remit quarterly. Taxpayers with annual liability of more than $5 million for motor fuel and petroleum business tax (PBT) combined are required to remit taxes electronically, or by certified check on an accelerated timeline, by the 3rd business day following the first 22 days of each month. Taxpayers must make either a minimum payment of 75 percent of the comparable month's tax liability for the preceding year, or 90 percent of actual liability for the first 22 days of the month. Taxes for the balance of the month are remitted by the 20th of the following month.

History

MOTOR FUEL TAX RECEIPTS HISTORY
(millions of dollars)

	Special Revenue Funds (DMTTF)			Capital Projects Funds (DHBTF)			All Funds		
	Gasoline	Diesel	Total	Gasoline	Diesel	Total	Gasoline	Diesel	Total
FY 2015	79	22	101	349	37	386	429	58	487
FY 2016	81	24	105	357	41	398	439	64	503
FY 2017	83	27	109	364	46	410	447	72	519
FY 2018	80	29	109	354	50	403	434	79	513
FY 2019	84	27	111	372	45	417	456	72	528
FY 2020	81	27	108	358	46	404	439	73	512
FY 2021	67	24	91	293	41	334	360	66	425
FY 2022	78	28	106	342	48	389	419	76	495
FY 2023	28	10	38	124	17	141	152	27	179
FY 2024	77	27	104	337	46	383	414	73	487

Significant statutory changes within the past decade include:

- Effective in 2006, the exemption on certain alternative fuels (E85, CNG, and hydrogen) and a partial exemption for B20 has been extended several times for various durations, with the most recent in 2021 for five years.

- In 2022, New York State temporarily suspended the motor fuel excise tax on motor fuel and diesel motor from June 1, 2022 through December 31, 2022.

- In 2023, distributors of motor fuel and diesel motor fuel were newly required to collect, report, and remit taxes on every gallon of fuel sold, including any additional gallons realized from temperature fluctuations.

Opioid Excise Tax

OPIOID EXCISE TAX (millions of dollars)							
	FY 2024	FY 2025	Change		FY 2026	Change	
	Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent
General Fund	21.6	20.0	(1.6)	(7.3)	20.0	0.0	0.0
All Funds Total	**21.6**	**20.0**	(1.6)	(7.3)	**20.0**	**0.0**	**0.0**

FY 2025 receipts are estimated to decline from FY 2024 results primarily due to the continuing trend towards lower priced opioids and a decline in overall taxable consumption.

FY 2026 receipts are projected to remain flat.

Base and Rate

There is an excise tax on the first sale of an opioid unit in NYS at the following rates:[91]

- $0.0025 on each morphine milligram equivalent (MME) with a wholesale acquisition cost of less than $0.50 per unit; or

- $0.015 on each MME with a wholesale acquisition cost of $0.50 or more per unit.

Liability

Opioid excise tax receipts are primarily a function of the demand for drugs subject to the tax. Overall demand is impacted by the current trend in prescriptions levels.

Administration

All first sales of an opioid unit by a registrant in NYS must be reported.[92] Registrants must e-file their quarterly excise tax returns on the 20th of the month following the quarter in which the opioid was sold. The first return was not due until January 21, 2020, covering the period of July 1, 2019 through December 31, 2019. Subsequently, all returns are currently due on the 20th of the following months; January, April, July, and October.

[91] See https://health.ny.gov/professionals/narcotic/docs/opioid_drug_listing.pdf. for a complete list of drugs that are subject to the opioid excise tax.
[92] See https://www.tax.ny.gov/bus/oet/oetidx.htm for more information on those who qualify as a registrant, reporting periods and due dates, and frequently asked questions.

History

OPIOID EXCISE TAX RECEIPTS HISTORY (millions of dollars)		
	General Fund	All Funds Total
FY 2020	19	19
FY 2021	30	30
FY 2022	29	29
FY 2023	27	27
FY 2024	22	22

Sales and Use Tax

SALES AND USE TAX (millions of dollars)								
		FY 2024	FY 2025	Change		FY 2026	Change	
		Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent
General Fund		9,314.9	9,564.0	249.1	2.7	9,883.5	319.5	3.3
Debt Service Funds	LGAC	0.0	0.0	0.0	N/A	0.0	0.0	N/A
	STRB	9,309.1	9,564.0	254.9	2.7	9,883.5	319.5	3.3
	Total	9,309.1	9,564.0	254.9	2.7	9,883.5	319.5	3.3
Special Revenue Funds	MTOA	1,279.0	1,314.0	35.0	2.7	1,350.0	36.0	2.7
All Funds Total		**19,903.0**	**20,442.0**	**539.0**	**2.7**	**21,117.0**	**675.0**	**3.3**

FY 2025 receipts are estimated to increase from FY 2024 results due to an increase in taxable consumption. The annual sales tax base is estimated to grow by 3.5 percent over the prior year.

FY 2026 receipts are projected to increase from the current year due to growth in taxable consumption. The annual sales tax base is projected to increase by 2.9 percent.

Base and Rate

Generally, all retail sales of tangible personal property are taxed under Article 28 of the Tax Law unless specifically exempt, but services are taxable only if they are enumerated in Tax Law.[93]

As the online market has expanded greatly in the 21st century, the State has taken action to capture this ever-growing market and create tax fairness between brick-and-mortar main street businesses and online companies.

- Effective with the 2003 PIT filing year, the NYS PIT return contains a line on which taxpayers may enter the amount of use tax owed for online purchase for the preceding calendar year.
- In 2009, expanded the vendor definition to include out-of-State sellers with related businesses (“affiliates”) in NYS.
- In 2019, NYS required marketplace providers to collect sales tax on sales of tangible personal property that they facilitate for marketplace sellers.

NYS imposes three separate sales and use tax rates.

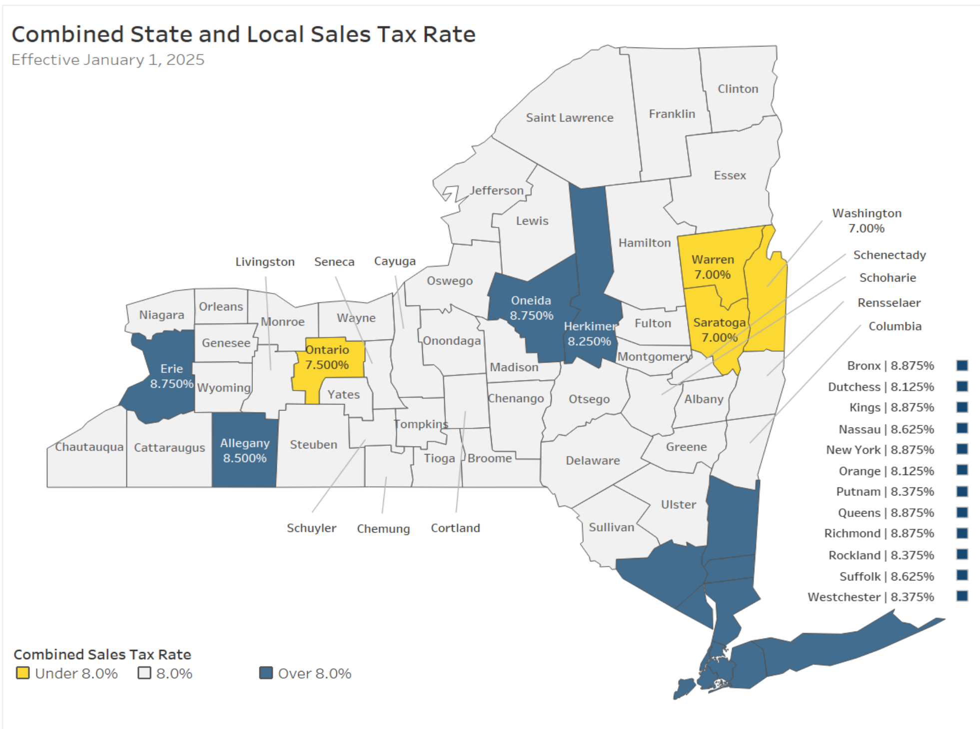
- Since 1971, the State rate has been 4 percent (with a temporary increase to 4.25 percent from June 1, 2003 to June 1, 2005). The State tax rate on motor fuel and diesel motor fuel is capped at $0.08 per gallon.

[93] See https://www.tax.ny.gov/pdf/publications/sales/pub750.pdf for a complete description of the sales tax base.

- Local county rates range from 3 percent to 4.75 percent. Seneca County's sales tax rate on motor fuel and diesel is capped at $0.08 per gallon, same as the State.

- An additional 0.375 percent sales and use tax is imposed in the MCTD.

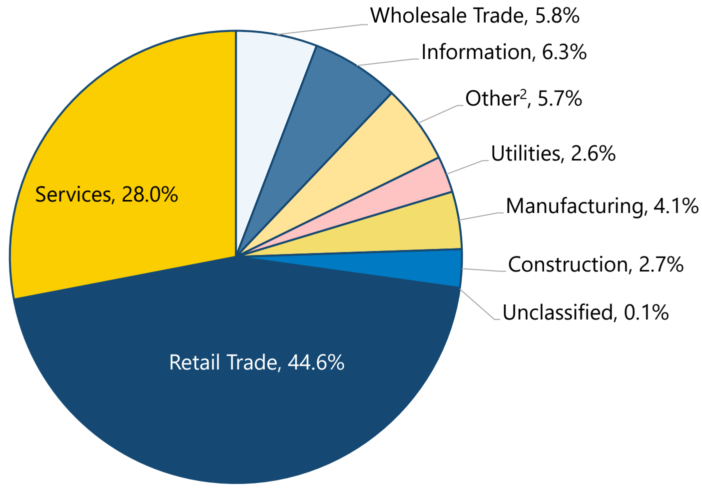
In addition to these rates, there is a five percent State sales tax imposed on the receipts from the sale of telephone entertainment services that are exclusively delivered aurally.



Liability

The sales and compensating use tax, which accounted for approximately 19 percent of FY 2024 tax receipts, is the second largest NYS tax revenue source. Approximately 73 percent of sales and use tax receipts are derived from the retail trade and services industries.

Industry Shares of New York State Sales Tax Receipts
Ten Year Historical Average[1]



[1] Covers March-February fiscal years ending 2015-2024, with 2024 preliminary results.
[2] Includes Agriculture, Mining, Transportation, FIRE (Finance, Insurance and Real Estate), Education, and Government.
Source: New York State Department of Taxation and Finance.

Administration

- Monthly PrompTax: Vendors with annual sales and use tax liability exceeding $500,000 or with an annual liability for prepaid sales tax on motor fuel and diesel motor fuel exceeding $5 million. The payment schedule requires tax for the first 22 days of a month to be paid within 3 business days thereafter.

- Monthly Other: Vendors with more than $300,000 of taxable sales and purchases in any of the immediately preceding four quarters must remit the tax monthly by the 20th of the month following the month of collection.

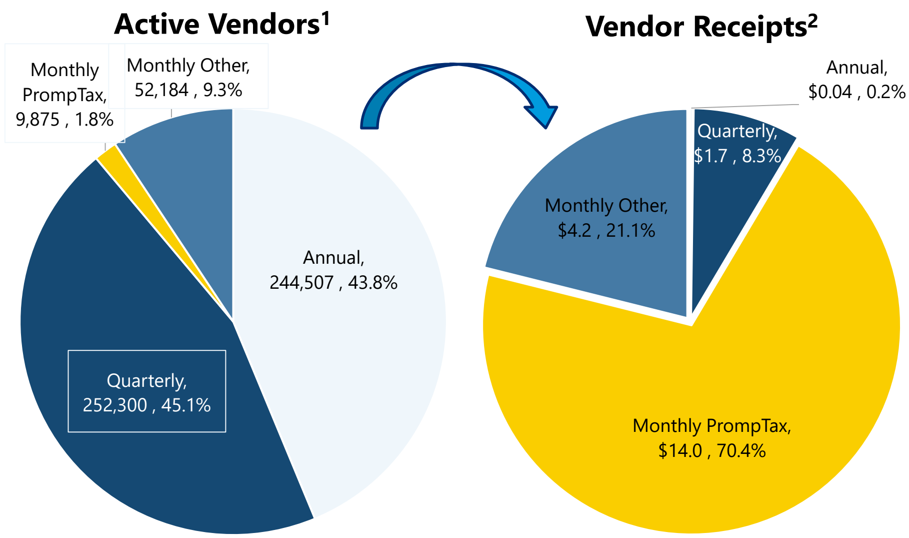
- Annual: Vendors collecting less than $3,000 yearly may elect to file annually, in March.

- Quarterly: All other vendors are quarterly filers.

All filers are subject to a $50 penalty for each failure to e-file, unless the taxpayer can show that the failure was due to reasonable cause.

Quarterly and annual sales tax filers receive a vendor allowance of 5 percent of tax liability, up to a maximum of $200 per quarter for returns filed on time.

Sales Tax Vendors and Taxable Sales – Selling Period March 1, 2023 through February 29, 2024



[1]Number of vendors identified as of November 26, 2024.
[2]Vendor receipts in billions of dollars.

History

SALES AND USE TAX RECEIPTS HISTORY (millions of dollars)						
	General Fund	Special Revenue Funds (MTOA)	Debt Service Funds			All Funds Total
			LGAC	STRB	Total	
FY 2015	6,084	854	3,027	3,027	6,053	12,992
FY 2016	6,243	874	3,121	3,121	6,243	13,359
FY 2017	6,483	903	3,242	3,242	6,483	13,870
FY 2018	6,777	942	3,388	3,388	6,777	14,495
FY 2019	7,091	963	3,537	3,537	7,074	15,127
FY 2020	7,446	1,049	3,718	3,718	7,437	15,932
FY 2021	6,639	873	3,317	3,317	6,634	14,146
FY 2022	4,122	1,089	4,121	8,248	12,369	17,580
FY 2023	6,663	1,217	2,198	8,855	11,053	18,933
FY 2024	9,315	1,279	0	9,309	9,309	19,903

Significant statutory changes within the past decade include:

- In 2014, an additional one percentage point of the four percent State sales tax was shifted from the General Fund to the sales tax revenue bond fund (STRBF).

- On April 1, 2021, all LGAC obligations were paid or otherwise discharged. As a result:
  - in FY 2022 and for the first half of FY 2023, the deposit to STBF increased to 50 percent (from 25 percent), the deposit to LGAC remained unchanged at 25 percent, while the deposit to the General Fund decreased to 25 percent (from 50 percent); and
  - for the second half of FY 2023 and annually thereafter, the portion deposited into STBF remains unchanged at 50 percent, and the portion deposited to the General Fund reverts back to 50 percent.
- In 2022, New York State temporarily suspended the sales and use tax on motor fuel and diesel motor fuel, while certain localities opted to temporarily cap their local sales and use tax rate on motor fuel and diesel motor fuel.
- In 2023, the sales tax incentives for businesses to locate or relocate in the Murray Street area and lower Manhattan were extended for four years. The lease must begin by September 1, 2027, for the Murray Street exemption and September 1, 2029, for the lower Manhattan exemption. The exemptions, which have been in place since 2005, expire in December of the following year.
- In 2024, New York State imposed sales tax on all short-term rentals statewide and required the platforms or booking services that facilitate short-term rentals to collect and remit sales tax on behalf of their hosts.

Vapor Products Tax

VAPOR PRODUCTS TAX (millions of dollars)								
		FY 2024	FY 2025	Change		FY 2026	Change	
		Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent
Special Revenue Funds	HCRA	23.9	21.0	(2.9)	(12.1)	21.0	0.0	0.0
All Funds Total		**23.9**	**21.0**	**(2.9)**	**(12.1)**	**21.0**	**0.0**	**0.0**

FY 2025 receipts are estimated to decrease from FY 2024 results based on year-to-date collections. The decline in taxable consumption is potentially attributable to consumers continuing to seek and consume untaxed, flavored vapor products or other untaxed, alternative nicotine products.

FY 2026 receipts are estimated to remain flat compared to FY 2025.

Base and Rate

A 20 percent tax is imposed on receipts from the retail sale of vapor products sold in NYS. It is collected by the vapor products dealer and remitted monthly, quarterly, or annually with applicable sales tax returns to DTF. Vapor products include any noncombustible liquid or gel, regardless of the presence of nicotine, that is used in an electronic cigar, cigarillo, pipe, as well as vaping or hookah pens or other similar devices. Vapor products do not include any Food and Drug Administration approved drug or medical device.

Liability

Taxable vapor products consumption is a function of retail vapor product prices and trends in vapor products consumption.

In 2020, the State banned flavored vapor products, except those with tobacco flavoring, unless they receive FDA approval. To date, the FDA has only approved a limited number of non-tobacco flavored products. After the ban was implemented, taxable vapor product consumption in the State immediately dropped off and has since continued to decline. This is in contrast with the reported growth in national vapor products sales. This disconnect between State and national trends suggests notable tax evasion similar to that seen with the cigarette excise tax.

Administration

Vapor products dealers are licensed by the DTF commissioner to sell vapor products in NYS. Dealers apply and register each location or each vending machine in which vapor products are sold. Registered dealers must reapply for the following calendar year annually on or before September 20th.

History

VAPOR PRODUCTS TAX RECEIPTS HISTORY (millions of dollars)		
	Health Care Reform Act (HCRA)	All Funds Total
FY 2020	10	10
FY 2021	32	32
FY 2022	29	29
FY 2023	25	25
FY 2024	24	24

Corporation Franchise Tax

CORPORATION FRANCHISE TAX RECEIPTS (millions of dollars)		FY 2024	FY 2025	Change		FY 2026	Change	
		Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent
General Fund	Non-Audits	7,212.2	6,636.0	(576.2)	(8.0)	6,608.0	(28.0)	(0.4)
	Audits	312.8	320.0	7.2	2.3	430.0	110.0	34.4
	Total	7,525.0	6,956.0	(569.0)	(7.6)	7,038.0	82.0	1.2
Special Revenue Funds (MMTOA)	Non-Audits	1,658.4	1,812.0	153.6	9.3	1,879.0	67.0	3.7
	Audits	78.3	85.0	6.7	8.6	80.0	(5.0)	(5.9)
	Total	1,736.7	1,897.0	160.3	9.2	1,959.0	62.0	3.3
All Funds	**Non-Audits**	**8,870.6**	**8,448.0**	**(422.6)**	**(4.8)**	**8,487.0**	**39.0**	**0.5**
	Audits	**391.1**	**405.0**	**13.9**	**3.6**	**510.0**	**105.0**	**25.9**
	Total	**9,261.6**	**8,853.0**	**(408.6)**	**(4.4)**	**8,997.0**	**144.0**	**1.6**

FY 2025 receipts are estimated to decrease from FY 2024 results due to a large increase in refunds compared to FY 2024. Gross receipts and audits are expected to increase slightly in FY 2025.

FY 2026 receipts are projected to increase from the current year due to a moderate increase in gross receipts and a significant increase in audits. These increases are offset by a projected increase in refunds.

Base and Rate

The corporation franchise tax is levied by Articles 9-A and 13 of the Tax Law on a variety of different corporation types, namely: C corporations, S corporations, manufacturers, real estate investment trusts (REITs), and regulated invest companies (RICs).

For C corporations under Article 9-A, corporation franchise tax liability is the highest tax calculated under three alternative bases which are:

- A tax measured by the business income base subject to either a tax rate of 7.25 percent for taxpayers with business incomes above $5 million or 6.5 percent for taxpayers with business incomes of $5 million or less. These rates are reflective of a temporary increase in these rates applicable for Tax Year 2021 through Tax Year 2026, after which, the tax rate reverts to 6.5 percent. For qualified emerging technology companies (QETC), the tax rate is 4.875 percent regardless of business income, and manufacturers are exempt from this base. For Tax Year 2020, this income tax base represented approximately 96 percent of C corporations' tax liability;

- A tax measured by the capital base subject to the rates below, represented approximately two percent of C corporations' liability for Tax Year 2020; and

C CORPORATIONS CAPITAL BASE RATES		
	TY 2021 - TY 2026	TY 2027 & Thereafter
Corporate Small Business Taxpayers	0.000%	0.000%
Qualified New York Manufacturers and QETCs	0.000%	0.000%
Cooperative Housing Corporations	0.000%	0.000%
All Other Taxpayers	0.1875%	0.000%

- A tax measured by the fixed dollar minimum, which represented the remaining two percent of tax liability for Tax Year 2020.

C-Corps conducting business in the MCTD are subject to an additional surcharge of 30 percent.

Under Article 9-A, REITs, RICs and S-corps pay the fixed dollar minimum amount.

Under Article 13, a 9 percent tax is imposed on certain not-for-profit entities on business income earned from activities not related to their exempt purpose.

Liability

The link between underlying corporate tax liability and cash receipts in any given SFY is often obscured by the timing of payments, the carry forward of prior year losses or credits and the reconciliation of prior year liabilities.

Tax collections are the net payments and adjustments made by taxpayers on returns and extensions over the course of the SFY. Tax liability in the current year is based on estimated economic performance for the same year. It is generally calculated by using tax bases, tax rates, special deductions and additions, losses, and tax credits. Since taxpayers must pay estimated taxes months in advance of knowing actual liability, it is difficult for taxpayers to determine the proper level of payments needed over the course of a year. This is especially true when business or economic conditions change. Volatility in the underlying relationship between payments and liability is often compounded by the difference between a taxpayer's tax year and the SFY.

Administration

Corporation franchise taxpayers make quarterly tax payments after their fiscal year ends (FYEs) based on their estimated tax liability, making periodic adjustments to these payments as their actual liability for a given tax year becomes more definite. A final settlement payment is due 106 days from the end date of a taxpayer's fiscal year to reconcile that year's tax liability.
The overwhelming majority of corporation franchise taxpayers have a December 31st FYE and follow the schedule shown below while taxpayers that have a different FYE follow a quarterly schedule shifted based on their fiscal calendar.

Fiscal Year End – December 31	→	Mandatory First Installment – March 15	→	Second Quarterly Installment – June 15	→	Third Quarterly Installment – September 15	→	Fourth Quarterly Installment – December 15	→	Final Settlement Installment – April 15

Corporations that reasonably expect their tax liability to exceed $1,000 for the current tax year are required to make a mandatory first installment payment based on their tax liability from two years prior. The FY 2026 Executive Budget proposes to increase the $1,000 threshold for making a mandatory first installment to $5,000.

For corporations expecting a liability of $100,000 or more, the mandatory first installment payment is 40 percent of the corporation’s tax liability. The remainder of corporations are required to pay 25 percent of their tax liability.

History

CORPORATION FRANCHISE TAX RECEIPTS HISTORY (millions of dollars)	General Fund			Special Revenue Funds (MMTOA)			All Funds		
	Non-Audit	Audits	Total	Non-Audit	Audits	Total	Non-Audit	Audits	Total
FY 2015	2,470	520	2,990	463	95	558	2,933	615	3,548
FY 2016[1]	3,225	538	3,763	651	114	764	3,587	940	4,527
FY 2017	2,036	439	2,476	602	88	690	2,452	713	3,166
FY 2018	1,764	562	2,326	637	116	754	2,328	752	3,080
FY 2019	2,985	425	3,410	789	98	887	3,773	523	4,297
FY 2020	3,389	403	3,791	931	102	1,033	4,319	505	4,824
FY 2021	3,340	550	3,890	943	121	1,064	4,284	671	4,954
FY 2022	5,539	278	5,818	1,349	68	1,417	6,888	347	7,235
FY 2023	6,455	836	7,291	1,525	201	1,726	7,980	1,037	9,017
FY 2024	7,212	313	7,525	1,658	78	1,737	8,871	391	9,262

[1]Corporate tax reform merged the bank tax into the corporation franchise tax.

Significant statutory changes within the past decade are:

- Effective in 2012, the New York Youth Jobs Program Tax Credit provides a tax incentive for businesses to hire qualified employees. The tax credits were increased by fifty percent beginning in 2018.[94]

- In 2022, the Excelsior Jobs Program, New York State's primary economic development program, was expanded to include the Green CHIPS Tax Credit Program.[95]

    - In addition to the larger Excelsior Jobs Program, four sub-programs have been created including the Empire State Jobs Retention Program Tax Credit (effective in 2012), Employee Training Incentive Program Tax Credit (effective in 2015), Life Sciences Research and Development Tax Credit (effective in 2018) and Child Care Services Tax Credit (effective in 2021).[96]

- From 2021 to 2023, four credits were enacted to provide critical assistance to those in the food service and entertainment industries severely impacted by the pandemic.

    - Restaurant Return-to-Work Tax Credit was effective for TY 2021:[97]

    - The Additional Restaurant Return-to-Work Credit was effective for TY 2022:[98]

[94] Refer to https://dol.ny.gov/youthjobs for a detailed description of this tax credit.
[95] Refer to https://esd.ny.gov/green-chips for a detailed description of this credit program.
[96] Refer to https://esd.ny.gov/excelsior-jobs-program for a detailed description of these credits.
[97] Refer to https://www.tax.ny.gov/pit/credits/restaurant-return-to-work-tax.htm for a detailed description of this credit.
[98] Refer to https://www.tax.ny.gov/pit/credits/additional-restaurant-return-to-work-credit.htm for a detailed description of this credit.

- In 2023, the New York City Musical and Theatrical Production Tax Credit was extended an additional two years, through 2025, and the total program cap was increased to $300 million.[99]

- The COVID-19 Capital Costs Tax Credit was created in 2022:[100]

- In 2023, the Brownfield Clean-Up Program was modified to allow certain projects that received a certificate of completion in 2017 to claim the credit for a period of 15 years after the certificate was received. In 2022, the credit was extended to December 31, 2036.

- In 2023, the temporary business income and capital base tax rate increases were extended for an additional three years, through Tax Year 2026.

- Extended in 2023, the Rehabilitation of Historic Properties Credit is effective through Tax Year 2029.[101]

- In 2023, the refundable Child Care Creation and Expansion Tax Credit Program was created and made available to businesses that either establish or increase the number of infant and toddler seats in a child care program licensed by OCFS.. The total annual program cap is $25 million and the credit is currently authorized for Tax Years 2023 and 2024.[102]

- Effective in 2024, the Empire State Film Production Tax Credit is $700 million from Tax Year 2024 through Tax Year 2034.[103]

- In 2024, the Newspaper and Broadcast Media Jobs Program was created to bolster local journalism by providing tax relief for new and existing hires for eligible entities. The total annual program cap is $30 million, with $4 million set aside for new hires and $26 million for existing hires, split evenly amongst entities with 100 or fewer employees and those with more. The credit is currently authorized for Tax Years 2025 through 2027.

99 Refer to https://esd.ny.gov/new-york-city-musical-and-theatrical-production-tax-credit for a detailed description of this credit.
100 Refer to https://www.tax.ny.gov/pit/credits/covid-19-capital-costs-tax-credit.htm for a detailed description of this credit.
101 Refer to https://www.tax.ny.gov/pit/credits/hist_prop.htm for a detailed description of this tax credit.
102 Refer to https://ocfs.ny.gov/programs/childcare/initiatives/creation-credit.php for a detailed description of this tax credit.
103 Refer to https://esd.ny.gov/new-york-state-film-tax-credit-program-production for a detailed description of this tax credit.

Corporation and Utilities Tax

CORPORATION AND UTILITIES TAXES (millions of dollars)		FY 2024 Actual	FY 2025 Estimated	Change Dollar	Change Percent	FY 2026 Projected	Change Dollar	Change Percent
General Fund		401.1	423.0	21.9	5.5	432.0	9.0	2.1
Special Revenue Funds (MTOAF)	Transmission Tax	63.3	44.0	(19.3)	(30.5)	44.0	0.0	0.0
	MCTD Surcharge	73.8	73.0	(0.8)	(1.1)	74.0	1.0	1.4
	Total	137.1	117.0	(20.1)	(14.7)	118.0	1.0	0.9
Capital Projects Funds	DHBTF	15.8	11.0	(4.8)	(30.5)	11.0	0.0	0.0
All Funds Total		**554.0**	**551.0**	**(3.0)**	**(0.5)**	**561.0**	**10.0**	**1.8**

FY 2025 receipts are estimated to decrease slightly from FY 2024 results due primarily to a decline in audits. The decline is partially offset by modest growth in gross receipts as compared to FY 2024, which was significantly impacted by the COVID-19 Utility Debt Relief Tax Credit and resulted in lower gross receipts from the utility sector. Refunds are expected to increase from FY 2024 levels.

FY 2026 receipts are projected to increase from the current year due to an increase in audits, partially offset by a decline in gross receipts. Refunds are projected to remain unchanged from FY 2025.

Base and Rate

The corporation and utilities tax is an accumulation of several smaller taxes levied on the telecommunications, utilities, and transportation and transmission companies.

A gross receipts tax is levied at a rate of 2.5 percent on non-mobile telecommunication services, and at 2.9 percent on mobile telecommunication services.

A 2 percent gross receipts tax is imposed on charges for the transportation, transmission, distribution, or delivery of electric and gas utility services for residential customers.

Transportation and transmission companies are taxed both on their gross earnings and their capital stock. A franchise tax of 0.375 percent is levied on the gross earnings of transportation and transmission companies excluding international, interstate, and inter-Local Access Transport Areas (LATAs) services, and 30 percent of intra-LATA gross receipts.

In addition, a franchise tax on the capital stock of transportation and transmission companies is imposed at the highest of the following three alternatives:

- Allocated valued of issued capital stock multiplied by the tax rate of 1.5 mills (.0015);
- Allocated value of issued capital stock on which dividends are paid at a rate of 6 percent or more, multiplied by the tax rate of .375 mills (.000375) for each 1 percent of dividends

paid. Apply a rate of 1.5 mills (.0015) to capital stock on which dividends are not paid, or are paid at a rate of less than 6 percent.; or

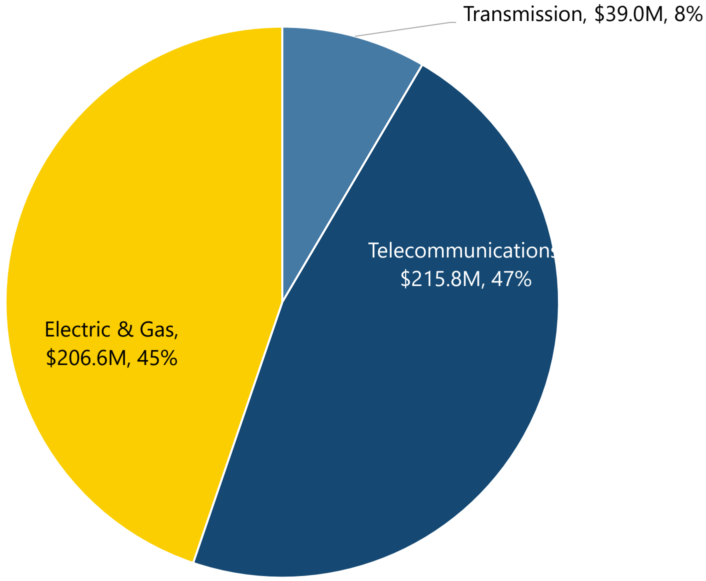
- A minimum tax of $75.

Railroad and trucking companies subject to the corporation and utilities tax are taxed at a rate of 0.375 percent of gross earnings, including an allocated portion of receipts from interstate transportation-related transactions.

Corporation and utilities taxpayers conducting business within the MCTD are subject to a 17 percent surcharge on their MCTD-associated liability, collections from which are directed to the MTOAF.

Liability

2021 Corporation and Utilities Tax Liability by Industry



Administration

Corporation and utilities taxpayers make quarterly tax payments after their fiscal year end (FYE) based on their estimated tax liability, making periodic adjustments to these payments as their actual liability for a given tax year becomes more definite. A final settlement payment is due 106 days from the end date of a taxpayer's fiscal year to reconcile that year's tax liability. Additionally, in March of every year, taxpayers are required to make a mandatory first installment equal to 40 percent of their tax from two tax years prior.

Fiscal Year End – December 31 → Mandatory First Installment – March 15 → Second Quarterly Installment – June 15 → Third Quarterly Installment – September 15 → Fourth Quarterly Installment – December 15 → Final Settlement Installment – April 15

The overwhelming majority of corporation and utilities taxpayers have a December 31st FYE and follow the schedule shown above while taxpayers that have a different FYE follow a similar quarterly schedule.

History

CORPORATION AND UTILITIES TAXES RECEIPTS HISTORY (millions of dollars)

		Special Revenue Funds (MTOAF)			Capital	All
	General Fund	Transmission Tax	MCTD Surcharge	SRF Total	Projects Fund (DHBTF)	Funds Total
FY 2015	576	38	103	141	10	727
FY 2016	594	58	107	165	15	774
FY 2017	538	61	106	167	15	720
FY 2018	570	55	109	164	14	748
FY 2019	495	61	101	162	15	673
FY 2020	518	58	114	172	15	705
FY 2021	417	41	82	123	10	550
FY 2022	435	37	74	111	9	555
FY 2023	408	40	66	107	10	525
FY 2024	401	63	74	137	16	554

Significant statutory changes within the past decade are:

- In 2015, a State excise tax rate of 2.9 percent and a 0.721 percent MCTD rate was imposed on the sale of mobile telecommunications services.

- In 2021, the State authorized a refundable tax credit in the amount of customer debt that the utility company waived. These customers received utility arrears assistance pursuant to a State COVID-19 assistance program.

Insurance Taxes

INSURANCE TAXES (millions of dollars)							
	FY 2024	FY 2025	Change		FY 2026	Change	
	Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent
General Fund	2,521.1	2,525.0	3.9	0.2	2,616.0	91.0	3.6
Special Revenue Funds (MMTOA)	292.0	304.0	12.0	4.1	318.0	14.0	4.6
All Funds Total	**2,813.1**	**2,829.0**	**15.9**	**0.6**	**2,934.0**	**105.0**	**3.7**

FY 2025 receipts are estimated to increase from FY 2024 results due to an increase in gross receipts. Audits are estimated to decrease with refunds remaining essentially unchanged.

FY 2026 receipts are projected to increase due to gross receipts and audits, with refunds remaining flat as compared to FY 2025.

Base and Rate

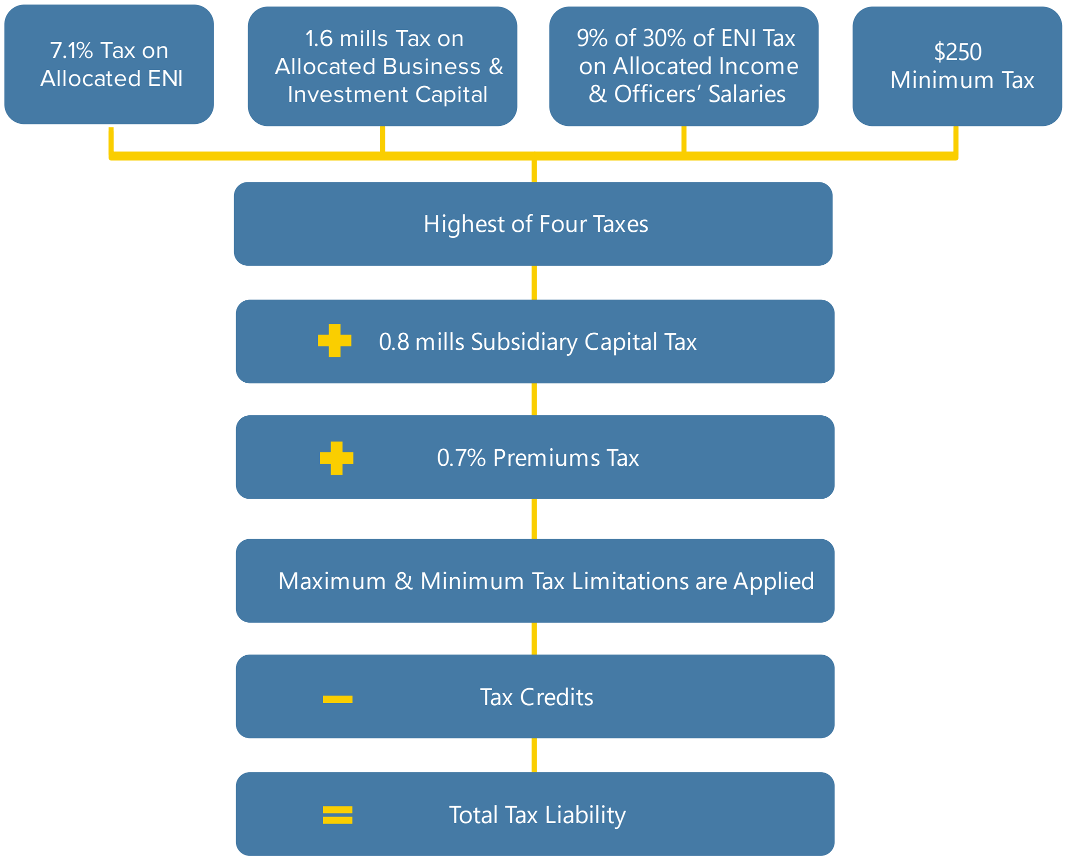
The State imposes taxes on insurance corporations, insurance brokers, and certain insureds for the privilege of conducting business or otherwise exercising a corporate franchise in NYS. These are grouped into two categories for tax purposes: non-life insurers and life insurers. In addition, the state imposes a tax on captive insurance companies.

1. The computation of tax on non-life insurance corporations is the greater of:

    - A tax on premiums: 1.75 percent tax on accident and health premiums plus 2 percent tax on all other non-life insurance company premiums; and

    - A minimum tax of $250.

2. The computation of tax on authorized life insurance corporations is illustrated below. Unauthorized life insurance and non-life insurance corporations are not subject to the premiums tax or the maximum or minimum limitations.



Taxpayers conducting business in the MCTD are subject to a 17 percent surcharge on the portion of their tax liability which is attributable to the MCTD area. The collections from the surcharge are deposited into the MTOAF.[104]

3. The computation of tax on captive insurance companies is based on gross direct premiums and assumed reinsurance premiums. Captive insurers are subject to a minimum tax of $5,000. Tax credits are not allowed against the tax imposed on captive insurance companies, and these companies are not subject to the MCTD business tax surcharge.

Other Taxes Imposed on Insurers

There is a 3.6 percent tax on premiums of independently procured insurance. This tax is imposed on any insured purchase or renewal of an insurance contract covering certain property and casualty risks from an unauthorized insurer where the home state of the insured is NYS. An unauthorized insurer is an insurer not authorized to transact business in NYS under a certificate of authority from the Superintendent of DFS.

[104] For further detail on these franchise taxes on insurance corporations, refer to https://www.tax.ny.gov/bus/ct/article33.htm.

There is a premiums tax on a licensed excess line insurance broker (i.e., covering unique or very large risks) when a policy covering a risk, where the home state of the insured is NYS, is procured through such broker from an unauthorized insurer. Transactions involving a licensed excess lines broker and an insurer not authorized to do business in NYS, are permissible under limited circumstances delineated in Article 21 of the Insurance Law. The tax is imposed at a rate of 3.6 percent of premiums covering risks located in NYS.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 gave the home state of the insured the sole authority to regulate and collect taxes on these transactions. Generally, the insured's home state is the state where it is headquartered, or in the case of individuals, their place of residence.

The Superintendent of DFS is authorized to assess and collect retaliatory taxes from a foreign insurance corporation when the overall tax rate imposed by its home jurisdiction on NYS companies exceeds the comparable tax rate imposed by NYS on such foreign insurance companies.

Retaliatory taxes have been employed by states since the 19th century to ensure a measure of fairness in the interstate taxation of insurance corporations. Retaliatory taxes deter other states from discriminating against foreign corporations and effectively require states with a domestic insurance industry to maintain an overall tax rate on insurance corporations that is generally consistent with other states. NYS provides an additional measure of protection for its domestic insurance industry by allowing domestic corporations to claim a credit for 90 percent of the retaliatory taxes legally required to be paid to other states.

Liability

The link between underlying insurance tax liability and cash receipts in any given SFY is often obscured by the timing of payments and the reconciliation of prior year liabilities. Tax collections are the net payments and adjustments made by taxpayers on returns and extensions over the course of the SFY.

Tax liability in the current year is based on estimated performance for the same year. It is generally calculated by using premiums, tax bases, tax rates, special deductions and additions, losses, and tax credits. Since taxpayers must pay estimated taxes months in advance of knowing actual liability, it is difficult for taxpayers to determine the proper level of payments needed over the course of a year. This is especially true if business or economic conditions change. Volatility in the underlying relationship between payments and liability is often compounded by the difference between a taxpayer's tax year and the SFY.

NYS property and casualty sector premiums history and growth from 2016 through 2023 are listed below.

NEW YORK STATE CALENDAR YEAR PROPERTY AND CASUALTY INSURANCE PREMIUMS (millions of dollars)								
Insurance Lines	2016	2017	2018	2019	2020	2021	2022	2023
Automobile								
Premiums	15,004	15,876	16,635	17,045	16,802	17,967	18,551	20,911
Growth	6.1%	5.8%	4.8%	2.5%	(1.4%)	6.9%	3.3%	12.7%
Workers' Compensation								
Premiums	5,894	5,943	5,918	5,621	4,750	4,869	5,110	5,210
Growth	6.7%	0.8%	(0.4%)	(5.0%)	(15.5%)	2.5%	4.9%	2.0%
Commercial Multi-Peril								
Premiums	3,659	3,863	3,958	4,097	4,119	4,380	4,820	5,130
Growth	1.9%	5.6%	2.5%	3.5%	0.5%	6.3%	10.1%	6.4%
General Liability								
Premiums	5,830	5,647	6,093	6,760	7,259	8,440	8,639	8,844
Growth	2.1%	(3.1%)	7.9%	10.9%	7.4%	16.3%	2.4%	2.4%
Homeowner's Multi-Peril								
Premiums	5,224	5,286	5,397	5,593	5,816	6,196	6,767	7,514
Growth	0.5%	1.2%	2.1%	3.6%	4.0%	6.5%	9.2%	11.0%
Other								
Premiums	6,381	6,295	6,628	6,751	6,809	7,277	8,264	8,695
Growth	(0.2%)	(1.4%)	5.3%	1.9%	0.9%	6.9%	13.6%	5.2%
Total Property and Casualty Premiums								
Premiums	**41,993**	**42,908**	**44,629**	**45,867**	**45,555**	**49,127**	**52,151**	**56,304**
Growth	**3.5%**	**2.2%**	**4.0%**	**2.8%**	**(0.7%)**	**7.8%**	**6.2%**	**8.0%**

Source: National Association of Insurance Commissioners

Administration

Insurance taxpayers make quarterly estimated payments after their fiscal year-end based on their estimated tax liability, making periodic adjustments to these payments as their actual liability for a given tax year becomes more definite. A final settlement payment is due 106 days from the end date of a taxpayer's fiscal year to reconcile that year's tax liability.

The overwhelming majority of insurance taxpayers have a December 31st FYE and follow the schedule shown below while taxpayers that have a different FYE follow a similar quarterly schedule.

Fiscal Year End – December 31	→	Mandatory First Installment – March 15	→	Second Quarterly Installment – June 15	→	Third Quarterly Installment – September 15	→	Fourth Quarterly Installment – December 15	→	Final Settlement Installment – April 15

Insurers that reasonably expect their tax liability to exceed $1,000 for the current tax year are required to make a mandatory first installment payment based on their tax liability from two years prior. For corporations expecting a liability of $100,000 or more, the mandatory first installment payment is 40 percent of the insurer's tax liability, with the remainder paying 25 percent of their tax liability.

History

INSURANCE TAXES RECEIPTS HISTORY (millions of dollars)			
	General Fund	Special Revenue Funds (MMTOA)	All Funds Total
FY 2015	1,375	158	1,533
FY 2016	1,419	161	1,580
FY 2017	1,410	170	1,580
FY 2018	1,609	168	1,777
FY 2019	1,638	199	1,837
FY 2020	2,053	253	2,306
FY 2021	1,976	214	2,190
FY 2022	2,214	239	2,452
FY 2023	2,380	300	2,680
FY 2024	2,521	292	2,813

Significant statutory changes within the past decade are:

- The Rehabilitation of Historic Properties Credit is equal to 20 percent of qualified rehabilitation expenditures made by the taxpayer with respect to a qualified historic structure in New York State with a cap of $5 million per structure. Since its creation in 2006, the credit was extended for the third time in 2023 and is effective through Tax Year 2029.[105]

[105] Refer to https://parks.ny.gov/documents/shpo/tax-credit-programs/NYSCommercialTaxCreditPrograms.pdf for a detailed description of this tax credit.

- The NYS Low Income Housing Credit (LIHC) is based on the existing Federal program and requires an agreement between the taxpayer and the DHCR for a long-term commitment to low-income housing. The credit amount allocated is a credit against tax for ten years. Since its creation in 2000, the allocation pool has been increased and extended numerous times, currently through FY 2026, and expanded to allow transferability to third parties.[106]

[106] Refer to https://www.tax.ny.gov/pit/credits/low_income.htm for a detailed description of this tax credit.

Pass-Through Entity Tax

PASS-THROUGH ENTITY TAX (millions of dollars)							
	FY 2024	FY 2025	Change		FY 2026	Change	
	Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent
General Fund	6,977.7	7,984.0	1,006.3	14.4	6,733.5	(1,250.5)	(15.7)
Debt Service Funds (RBTF)	6,977.7	7,984.0	1,006.3	14.4	6,733.5	(1,250.5)	(15.7)
All Funds	**13,955.4**	**15,968.0**	**2,012.6**	**14.4**	**13,467.0**	**(2,501.0)**	**(15.7)**

FY 2025 receipts are estimated to increase from FY 2024 results due primarily to higher Tax Year 2024 estimated payments. This is offset by refunds, which are also expected to increase over FY 2024, coupled with a decline in final returns.

FY 2026 receipts are projected to decrease from the current year primarily due to a FY 2026 Executive Budget proposal that would shift the election deadline and corresponding date of the required estimated payments from March 15th to September 15th, resulting in decreased Tax Year 2026 estimated payments received in FY 2026. This decrease in estimated payments is exacerbated by a projected increase in FY 2026 refunds.

Base and Rate

The PTET under Article 24-A is an optional tax that partnerships or New York S corporations may annually elect to pay on certain income for tax years beginning on or after January 1, 2021. Generally, PTE taxable income includes all income, gain, loss, or deduction that flows through to a direct partner, member, or shareholder for New York personal income tax purposes.[107]

Calculating the PTET

For each tax year beginning on or after January 1, 2021, PTET is imposed on each electing entity's PTE taxable income. This tax is in addition to any other taxes imposed on the entity under the Tax Law and is determined as follows:

[107] For further details on how the calculation of PTE taxable income differs between electing New York S corporations and electing partnerships, refer to https://www.tax.ny.gov/pdf/memos/ptet/m21-1c-1i.pdf.

PASS-THROUGH ENTITY TAX RATES

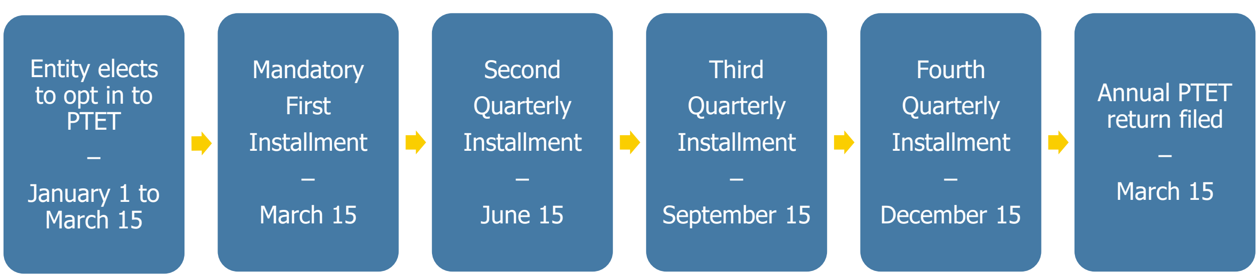
If the PTE taxable income is:	then the PTET due is:
$2 million or less	6.85% of PTE taxable income
greater than $2 million but less than or equal to $5 million	$137,000 plus 9.65% of the excess of PTE taxable income greater than $2 million.
greater than $5 million but less than or equal to $25 million	$426,500 plus 10.30% of the excess of PTE taxable income greater than $5 million
Greater than $25 million	$2,486,500 plus 10.90% of the excess of PTE taxable income greater than $25 million

Liability

Beginning January 1, 2021, qualifying entities, such as partnerships and S corporations, may opt into the PTET and elect to pay a tax of up to 10.9 percent on the New York-sourced taxable income at the partnership or corporate level. If a partnership or New York S corporation elects to pay PTET, partners, members, or shareholders of an electing partnership or New York S corporation who are subject to tax under Article 22 may be eligible for a PTET credit on their New York State income tax returns.

The program also includes a resident tax credit that allows for reciprocity with other states that have implemented substantially similar taxes, which currently include Connecticut and New Jersey.

Administration



Beginning January 1, 2022, eligible entities may opt into the PTET on or after January 1 but no later than March 15 for each tax year. The election to opt in to the PTET must be made online on an annual basis and is irrevocable. For Tax Year 2022 only, the opt in date was extended from March 15, 2022 to September 15, 2022. The FY 2026 Executive Budget proposes to change the deadline for qualifying entities to elect to pay the PTET from March 15th to September 15th of a given tax year, first effective for Tax Year 2026. The proposal would also make corresponding changes to the estimated payment deadlines for elections after March 15th.

For PTET tax years beginning on or after January 1, 2022, electing entities must make quarterly tax payments in an amount equal to at least 25 percent of the required annual payment for the taxable year. The required annual payment is the lesser of:

- 90 percent of the PTET required to be shown on the return of the electing entity for the taxable year; or

- 100 percent of the PTET shown on the return of the electing entity for the preceding PTET taxable year.

PTET estimated payments will only be applied to the PTET liability and cannot be applied to any other taxes. In addition, payments may not be transferred between related entities or individuals. Penalties and interest will apply to underpayments or late payments based on the rules in Article 22.

The PTET annual return is generally due on March 15 after the close of the PTET taxable year. However, the electing entity can request a six-month extension of time to file the annual return; it is not an extension to pay any tax due. The electing entity must pay all of the PTET by the original due date of the return, or penalties for failure to pay taxes due are applicable.

History

PASS-THROUGH ENTITY TAX RECEIPTS HISTORY (millions of dollars)

	General Fund	Debt Service Funds (RBTF)	All Funds
FY 2022	8,215	8,215	16,430
FY 2023	7,472	7,472	14,944
FY 2024	6,978	6,978	13,955

A significant statutory change since PTET's inception is:

- In 2022, the PTET was amended to allow a resident S corporation to utilize both New York source and non-New York source income in computing their PTET.

Petroleum Business Taxes

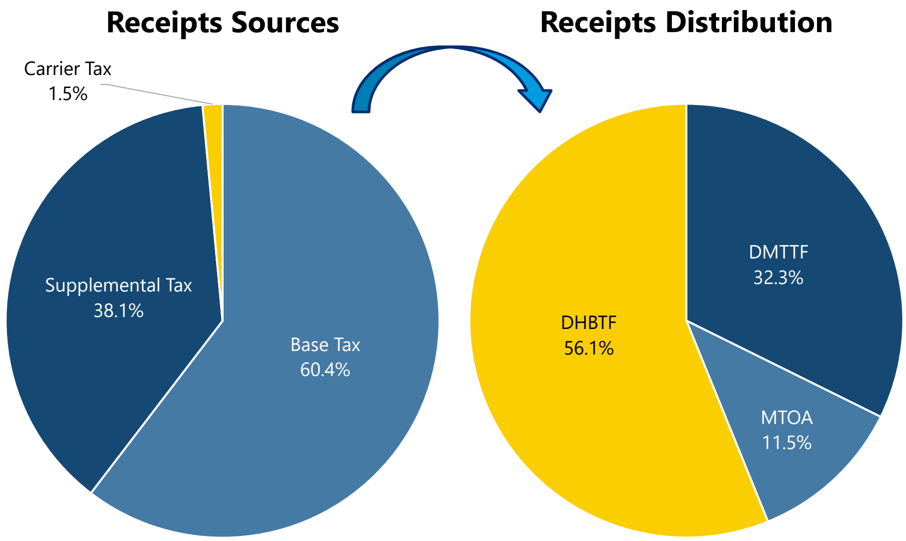
PETROLEUM BUSINESS TAXES (millions of dollars)									
			FY 2024	FY 2025	Change		FY 2026	Change	
			Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent
Receipts Sources		Base Tax	669.8	640.0	(29.8)	(4.4)	610.1	(29.8)	(4.7)
		Supplemental Tax	422.9	405.6	(17.3)	(4.1)	388.3	(17.3)	(4.3)
		Carrier Tax	16.4	16.4	0.0	0.1	16.6	0.1	0.9
		Total Taxes	**1,109.1**	**1,062.0**	**(47.1)**	**(4.2)**	**1,015.0**	**(47.0)**	**(4.4)**
Fund Distribution	Capital Projects Funds (DHBTF)		622.7	595.5	(27.2)	(4.4)	569.1	(26.4)	(4.4)
	Special Revenue Funds	DMTTF	358.4	343.9	(14.5)	(4.1)	329.0	(14.9)	(4.3)
		MTOA	128.0	122.6	(5.4)	(4.2)	116.9	(5.7)	(4.6)
		Total	486.4	466.5	(19.9)	(4.1)	445.9	(20.6)	(4.4)
	All Funds Total		**1,109.1**	**1,062.0**	**(47.1)**	**(4.2)**	**1,015.0**	**(47.0)**	**(4.4)**

FY 2025 receipts are estimated to decrease from FY 2024 results mainly due to the five percent decrease in the PBT rate index effective January 1, 2024 and January 1, 2025.

FY 2026 receipts are projected to decrease from the current year primarily due to the five percent decrease in the PBT rate index effective January 1, 2025, coupled with an estimated 5 percent decrease in the PBT rate index effective January 1, 2026.

Petroleum business tax receipts derived from motor fuel and diesel motor fuel are assumed to follow the same consumption trends as fuel subject to the motor fuel excise tax (refer to *Motor Fuel Tax* section of this volume). In terms of the share of PBT base and supplemental receipts in FY 2024, gasoline and diesel receipts based on reported gallonage constituted 84.8 and 13.2 percent of the total, respectively.

FY 2024 Actual PBT Resources



Base and Rate

Article 13-A of the Tax Law imposes a tax on petroleum businesses for the privilege of operating in NYS, based upon the quantity of various petroleum products imported for sale or use in NYS. PBT rates have two components: the base tax with rates that vary by product type; and the supplemental tax, which, in general, is imposed at a uniform rate. The following product types are subject to the petroleum business tax:

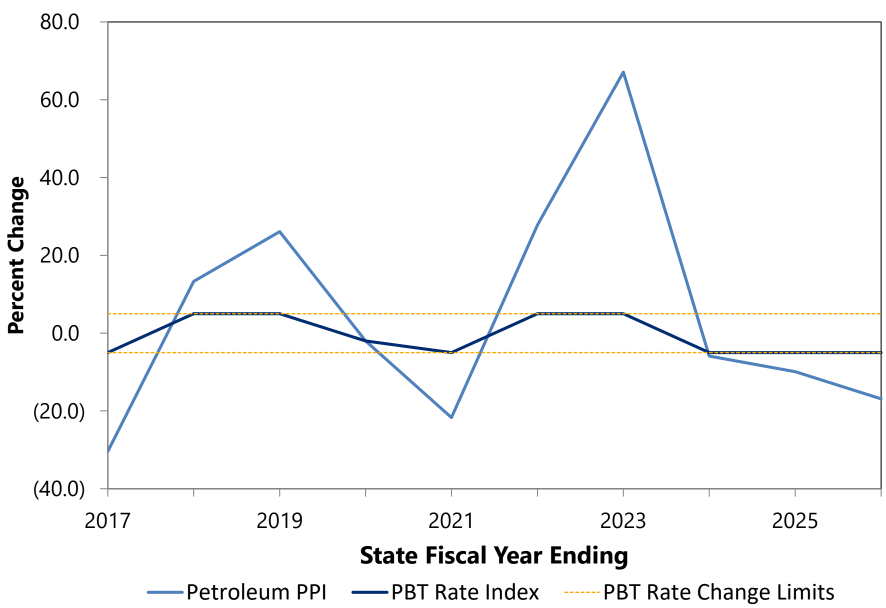
- automotive fuel;
- aviation gasoline or kerosene-jet fuel;
- non-highway use diesel fuels;
- railroad diesel fuel; and
- residual petroleum products.

Tax rates are indexed with annual adjustments made on January 1st of each year to the base and supplemental tax rates to reflect the percent change in the producer price index (PPI) for refined petroleum products for the 12 months ending August 31st of the preceding year. To prevent significant changes in tax rates resulting from large changes in the petroleum PPI, tax rates cannot increase or decrease by more than five percent per year. In addition to the five percent cap on tax rate changes, the statute requires, in general (i.e., excluding diesel), that the base and supplemental tax rates each be rounded to the nearest tenth of one cent. As a result, the percentage change in tax rates is usually less than the five percent limit.[108]

[108] Refer to https://www.tax.ny.gov/pubs_and_bulls/publications/pub-908.htm for specific tax rates.

Based on changes in the petroleum PPI, the PBT rate index decreased by five percent effective January 1, 2024 and January 1, 2025. The petroleum PPI is estimated to decrease by 16.9 percent from September 2024 through August 2025, resulting in an estimated five percent decrease in the PBT rates effective January 1, 2026.

Petroleum Producer Price and PBT Rate Indexes



The *Motor Fuel Tax* section of this volume contains a map that ranks New York State 19th in combined fuel taxes imposed among the 50 states and the District of Columbia.

Liability

PBT receipts are primarily a function of the number of gallons of fuel imported into NYS by distributors. Taxable gallonage is largely determined by overall fuel prices, the number of gallons held in inventories, the fuel efficiency of motor vehicles, and overall State economic performance.

Administration

The tax is collected monthly in conjunction with NYS motor fuel tax (Article 12-A). Article 13-A also imposes the petroleum business carrier tax on fuel purchased outside NYS and consumed within NYS. The carrier tax is collected quarterly along with the fuel use tax portion of the highway use tax (refer to *Highway Use Tax* section of this volume).

Businesses with annual motor fuel and petroleum business tax liability of more than $5 million are required to electronically remit their tax liability for the first 22 days of the month, within 3 business days after that date. Taxpayers may make either a minimum payment of 75 percent of the comparable month's tax liability for the preceding year, or 90 percent of actual liability for the first 22 days. The tax for the balance of the month is paid with the monthly returns filed by the 20th of the following month.

History

PETROLEUM BUSINESS TAX RECEIPTS HISTORY (millions of dollars)								
	Receipts Sources				Fund Distribution			
	Base Tax	Supplemental Tax	Carrier Tax	Total Taxes	Capital Projects Funds (DHBTF)	Special Revenue Funds DMTTF	Special Revenue Funds MTOA	All Funds Total
FY 2015	700	436	22	1,158	644	378	136	1,158
FY 2016	677	426	20	1,124	625	367	132	1,124
FY 2017	682	423	18	1,124	624	367	133	1,124
FY 2018	664	413	15	1,092	608	355	129	1,092
FY 2019	705	444	16	1,165	654	376	135	1,165
FY 2020	705	437	18	1,161	652	374	135	1,161
FY 2021	569	358	15	942	526	306	110	942
FY 2022	626	392	15	1,032	578	334	120	1,032
FY 2023	658	418	18	1,095	614	354	126	1,095
FY 2024	670	423	16	1,109	623	358	128	1,109

Significant statutory changes within the past decade include:

- Enacted in 2006, the exemption on certain alternative fuels (E85, CNG, & hydrogen) and a partial exemption for B20 has been extended several times for various durations, with the most recent in 2021 for five years.
- Effective in 2016, all revenues collected from the PBT on aviation fuel are set aside for airport use in accordance with Federal regulations.
- In 2022, tugboats and towboats were exempted from the PBT.
- In 2023, distributors of motor fuel and diesel motor fuel were newly required to collect, report, and remit taxes on every gallon of fuel sold, including any additional gallons realized from temperature fluctuations.

Authorized Combative Sports Tax

AUTHORIZED COMBATIVE SPORTS TAX (millions of dollars)							
	FY 2024	FY 2025	Change		FY 2026	Change	
	Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent
General Fund	1.5	2.0	0.5	33.9	1.0	(1.0)	(50.0)
All Funds Total	**1.5**	**2.0**	**0.5**	**33.9**	**1.0**	**(1.0)**	**(50.0)**

FY 2025 receipts are estimated to increase from FY 2024 primarily due to a return to more typical receipts levels from high profile events.

FY 2026 receipts are projected to decrease from the current year, primarily due to the tax rate reduction from 8.5 percent on gross receipts from ticket sales of kick boxing, single discipline martial arts, and mixed martial arts events to 3 percent, effective December 1, 2024.

Base and Rate

Authorized combative sports fall into one of two categories for NYS tax purposes.

- The following is levied on boxing, sparring, and wrestling events:
  - A 3 percent tax on gross receipts from ticket sales (with a maximum of $50,000 in taxes due per event); plus
  - A 3 percent tax on gross receipts from broadcasting rights (with a maximum of $50,000 in taxes due per event).
- The following is levied on kick boxing, single discipline martial arts, and mixed martial arts events:
  - A 3 percent tax on gross receipts from ticket sales (no maximum amount of taxes due per event); plus

    A 3 percent tax on gross receipts from broadcasting rights and digital internet streaming (with a maximum of $50,000 in taxes due per event).

Liability

Authorized combative sports tax liability is largely affected by participant popularity and the number of high-profile events held in a given State Fiscal Year.

Administration

The due date for filing a tax return and paying the tax on gross receipts varies depending on whether the gross receipts are from ticket sales, broadcasting rights, or digital streaming from the event.[109]

History

AUTHORIZED COMBATIVE SPORTS TAX RECEIPTS HISTORY (thousands of dollars)		
	General Fund	All Funds Total
FY 2014	645	645
FY 2015	627	627
FY 2016	871	871
FY 2017	2,378	2,378
FY 2018	2,033	2,033
FY 2019	1,959	1,959
FY 2020	1,661	1,661
FY 2021	72	72
FY 2022	1,207	1,207
FY 2023	2,008	2,008
FY 2024	1,465	1,465

Significant statutory changes within the past decade include:

- In 2016, the tax base was expanded to include kick boxing, single discipline martial arts, and mixed martial arts events.
- In 2024, the tax on gross receipts from ticket sales of kick boxing, single discipline martial arts, and mixed martial arts events was reduced from 8.5 percent to 3 percent.

[109] See https://www.tax.ny.gov/bus/acst/auth_combat_sports_tax.htm for further detail on filing returns and paying the tax.

Employer Compensation Expense Program

EMPLOYER COMPENSATION EXPENSE PROGRAM TAXES (millions of dollars)							
	FY 2024	FY 2025	Change		FY 2026	Change	
	Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent
General Fund	6.5	7.5	1.0	14.6	7.5	0.0	0.0
Debt Service Funds (RBTF)	6.5	7.5	1.0	14.6	7.5	0.0	0.0
All Funds	**13.1**	**15.0**	**1.9**	**14.6**	**15.0**	**0.0**	**0.0**

All Funds FY 2025 receipts are estimated to increase from FY 2024 results, primarily reflecting growth in wages as employer participation growth between tax years 2023 and 2024 was minimal.

All Funds FY 2026 receipts are projected to remain the same as the current year due as wage growth will offset the decrease in participation between tax years 2024 and 2025.

Base and Rate

Employers electing to participate in the program are subject to a State tax on all annual payroll expenses in excess of $40,000 per employee. The tax rate was 1.5 percent in 2019 and 3 percent in 2020. The tax rate is 5 percent for all years after 2020.

Liability

ECEP liability is a function of salaries earned by employees of participating employers and the applicable tax rate. Since liability is generated on a calendar year basis, collections in any given SFY will be a combination of liability from two distinct calendar years.

Administration

Employers wishing to participate in the ECEP during a given year must enroll with the DTF by December 1st of the preceding year. Employers may not deduct from an employee's wages an amount representing all or any portion of ECEP taxes.

Participating employers remit ECEP tax payments electronically with withholding tax payments, within three days of the respective payroll date. Taxpayers making quarterly withholding payments also make quarterly ECEP tax payments, due the last business day of the month following the end of the calendar quarter in which the taxpayer made the payroll (e.g., January 31st for the calendar quarter ending December 31st).

History

EMPLOYER COMPENSATION EXPENSE PROGRAM RECEIPTS HISTORY (thousands of dollars)			
	General Fund	RBTF	All Funds Total
FY 2019[1]	26	26	53
FY 2020	997	997	1,994
FY 2021	1,613	1,613	3,227
FY 2022	6,402	6,402	12,804
FY 2023	3,362	3,362	6,725
FY 2024	6,542	6,542	13,083

1. ECEP receipts were first received in January 2019, in the last quarter of FY 2019.

The ECEP was established in 2018, with tax year 2019 as the first year of participation eligibility. Participating employers pay an optional tax intended to mitigate the tax burden for employees affected by the SALT deduction limit. While the TCJA limits deductibility for individuals, it does not cap deductibility for ordinary and necessary business expenses paid or incurred by employers in carrying on a trade or business.

Estate Tax

ESTATE TAXES (millions of dollars)											
		FY 2024 Actual		FY 2025 Estimated		Receipts Change		FY 2026 Projected		Receipts Change	
		Number	Receipts	Number	Receipts	Dollar	Percent	Number	Receipts	Dollar	Percent
General Fund	Large	551	717.3	530	698.6	(18.7)	(2.6)	570	753.5	54.9	7.9
	Extra-Large	70	593.6	65	561.4	(32.3)	(5.4)	57	550.2	(11.2)	(2.0)
	Super-Large	7	544.4	4	117.0	(427.4)	(78.5)	4	134.3	17.3	14.8
	Total	628	1,855.4	599	1,377.0	(478.4)	(25.8)	631	1,438.0	61.0	4.4
All Funds		**628**	**1,855.4**	**599**	**1,377.0**	**(478.4)**	**(25.8)**	**631**	**1,438.0**	**61.0**	**4.4**

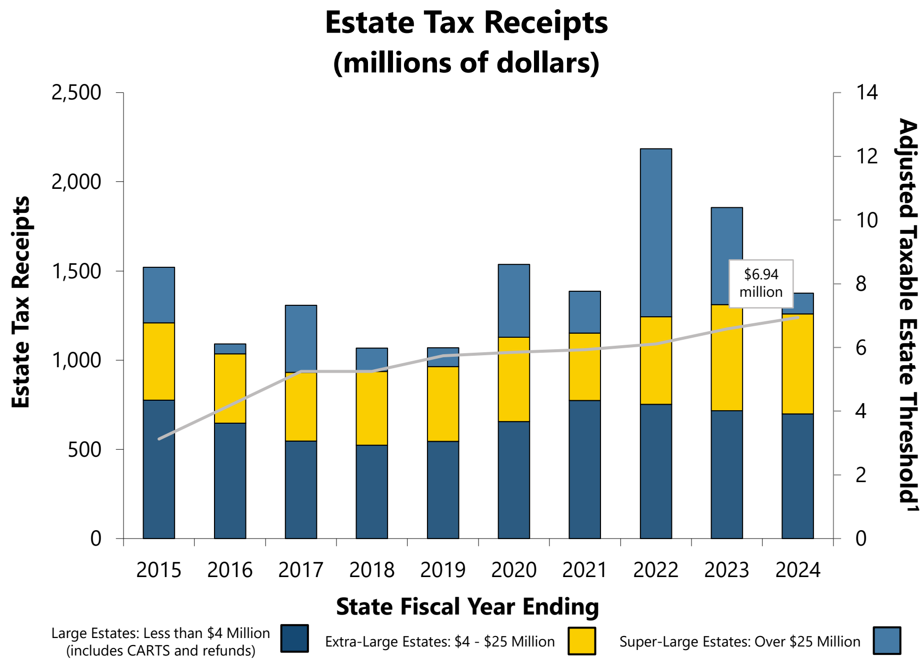
FY 2025 receipts are estimated to decrease substantially from FY 2024 results primarily due to the expectation that there will be fewer super-large payments at a lower average payment value compared to the prior year.

FY 2026 receipts are projected to increase from the current year mainly due to projected growth in household net worth.

Base and Rate

NYS imposes a tax on the estates of deceased NYS residents and on the part of a non-resident's estate made up of real and tangible personal property located within NYS, less applicable deductions.[110] Based on the Federal Internal Revenue Code estate tax provisions, with minor modifications, NYS estate taxes are levied on a graduated scale with rates ranging from 3.06 to 16 percent of adjusted taxable estates.[111] The basic threshold amount, which is indexed to inflation on an annual basis, is $7.16 million for decedents dying on or after January 1, 2025. If the New York taxable estate (including adding back includible gifts) is at or below this amount, an applicable credit equivalent to the tax computed on the taxable estate is applied, resulting in no tax due. The applicable credit is phased out as the New York taxable estate reaches 105 percent of the basic threshold amount.

[110] NYS follows Federal Guidelines for applicable estate tax deductions. See https://www.irs.gov/pub/irs-pdf/i706.pdf.
[61] See https://www.tax.ny.gov/pit/estate/etidx.htm for specific metrics on these provisions and rates.



[1]The adjusted taxable estate threshold had been $1 million for decedents prior to January 1, 2015, converting to a basic "stand alone" tax with inflation indexing to a $6.94 million threshold for decedents dying on or after January 1, 2024 through December 31, 2024.

Liability

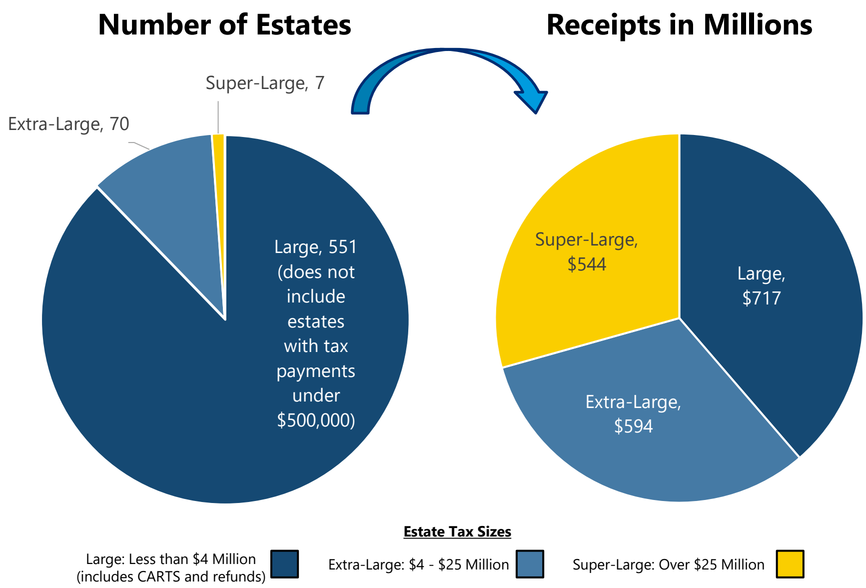
Estate tax receipts are historically volatile, as receipts are heavily influenced by both annual variations in the relatively small number of extra-large and super-large estates and the value of the equity market, given the large component of corporate stock in large taxable estates.

Administration

In general, estate tax is due to DTF nine months following the decedent's death, with daily compounding interest charged on late payments. The DTF Commissioner may authorize a 12-month extension, or up to a 4-year extension in cases of undue hardship. The Surrogate Court has jurisdiction of the probate of the estate and the authority to finalize the amount of the estate tax owed.

The executor and beneficiaries who have received property are personally liable for the payment of the estate tax. In cases lacking a will, the Federal, NYS, and foreign death taxes are apportioned among the beneficiaries. Reciprocity with other states for the collection of inheritance and estate taxes aids NYS in the collection of non-resident estates.

FY 2024 Estate Tax Receipts by Estate Size



History

ESTATE TAX RECEIPTS HISTORY (millions of dollars)							
	Super-Large Estates (Over $25 Million)		Extra-Large Estates ($4 - $25 Million)		Large Estates* (Less than $4 Million)		Total Estate Taxes
	Number	Taxes	Number	Taxes	Number*	Taxes	
FY 2015	1	45	37	276	285	787	1,108
FY 2016	6	312	49	421	358	788	1,521
FY 2017	2	54	42	389	385	647	1,091
FY 2018	6	375	50	375	409	558	1,308
FY 2019	3	132	50	413	466	523	1,068
FY 2020	3	107	47	414	446	549	1,070
FY 2021	7	409	58	469	525	660	1,537
FY 2022	7	235	49	378	592	773	1,386
FY 2023	11	942	62	491	563	753	2,185
FY 2024	7	544	70	594	551	717	1,855

*Large Estates include CARTS and refunds; number of payments excludes estates with tax payments under $500,000.

Significant statutory changes within the past decade include:

- In 2019, the requirement that taxable gifts for Federal purposes made within three years of death are to be added back when calculating the decedent's New York gross estate was extended to January 1, 2026.

Gaming Receipts

GAMING RECEIPTS (millions of dollars)									
			FY 2024 Actual	FY 2025 Estimated	Change Dollar	Change Percent	FY 2026 Projected	Change Dollar	Change Percent
Special Revenue Funds	Lottery	Education	2,630.0	2,523.0	(107.0)	(4.1)	2,431.0	(91.9)	(3.6)
	VLTs	Education	1,076.0	1,080.0	4.0	0.4	1,098.0	18.0	1.7
	Casinos	Education	128.3	131.2	2.9	2.3	131.2	0.0	0.0
		Localities	31.9	32.8	0.9	2.8	32.8	0.0	0.0
		Total	160.2	164.0	3.8	2.4	164.0	0.0	0.0
	Mobile Sports Wagering	Education	888.8	1,079.0	190.2	21.4	1,188.0	109.0	10.1
		Youth Sports	5.0	5.0	0.0	0.0	5.0	0.0	0.0
		Problem Gambling	6.0	6.0	0.0	0.0	6.0	0.0	0.0
		Total	899.8	1,090.0	190.2	21.1	1,199.0	109.0	10.0
	IFS	Education	21.8	6.0	(15.8)	(72.5)	5.0	(1.0)	(16.7)
	TSC	State	143.2	166.9	23.7	16.6	142.6	(24.3)	(14.6)
		Localities	79.2	99.1	19.9	25.2	84.4	(14.7)	(14.8)
		Total	222.4	266.0	43.6	19.6	227.0	(39.0)	(14.7)
All Funds		**Education**	**4,744.9**	**4,819.1**	**74.2**	**1.6**	**4,853.3**	**34.1**	**0.7**
		State	**143.2**	**166.9**	**23.7**	**16.6**	**142.6**	**(24.3)**	**(14.6)**
		Localities	**111.1**	**131.9**	**20.8**	**18.7**	**117.2**	**(14.7)**	**(11.2)**
		Other	**11.0**	**11.0**	**0.0**	**0.0**	**11.0**	**0.0**	**0.0**
		Total	**5,010.2**	**5,129.0**	**118.8**	**2.4**	**5,124.0**	**(4.9)**	**(0.1)**

FY 2025 receipts compared to FY 2024 results:

- Traditional lottery receipts are estimated to decrease primarily due to less administrative surplus expected to be available. Additionally, overall games sales are estimated to decrease, driven by a decline in Powerball sales which experienced two jackpot rollups over $1 billion in FY 2024, with one reaching $1.765 billion (second-highest in U.S. history).

- VLT receipts are estimated to remain relatively flat despite estimated NMI increases for each individual VLT facility, as there is expected to be less administrative surplus available compared to FY 2024.

- Commercial gaming (casino) tax receipts are estimated to increase slightly due to small to moderate slot GGR growth across all facilities, other than Resorts World Catskills, which is expected to continue its recent slot GGR declines. The Gaming Commission is expected to approve additional Downstate casino licensees by the end of 2025.

- Mobile sports wagering receipts are estimated to increase due to well above double digit growth in handle experienced to-date as the market continues to mature.

- IFS receipts are estimated to significantly decrease mainly due to the State's receipt of a fine of roughly $15 million in FY 2024 from PrizePicks for offering IFS without a license.

- TSC receipts are estimated to increase primarily due to the expected receipt of outstanding payments owed by the Mohawk Tribe since the end of FY 2020. With Seneca Compact negotiations ongoing, this estimate reflects the assumption that the State will continue to receive slot share payments from the Seneca Nation retroactive to March 2024 going forward.

FY 2026 receipts compared to FY 2025 estimates:

- Traditional lottery receipts are projected to decrease primarily due to a significantly lower amount of administrative surplus projected to be available. This is partially offset by a notable projected sales increase due to the revamped Mega Millions game launching in April 2025.

- VLT receipts are projected to grow slightly due to a range of flat to moderate growth assumptions across all VLT facilities.

- Casino receipts are projected to remain flat with flat to small growth in tax revenue projected at del Lago, Tioga and Rivers and a projected decline at Resorts World Catskills. With the temporary slot tax rate reductions set to expire at the end of FY 2026, the FY 2026 Executive Budget proposes to extend these rates through June 30, 2028, provided the casinos maintain certain obligations to the State.

- Mobile sports wagering receipts are projected to increase due to an expectation of continuing growth as the market approaches maturity.

- IFS receipts are projected to decrease as IFS receipts (excluding STIP) have seen predominantly monthly declines throughout FY 2024 and FY 2025.

- TSC receipts are projected to decrease primarily due to the expected receipt in FY 2025 of outstanding payments owed by the Mohawk Tribe since the end of FY 2020.

Base and Rate

Gaming revenue includes receipts from lottery games, VLTs, casinos, mobile sports wagering, IFS, and TSCs.

Traditional Lottery

There are two types of lottery games:

- Draw games include Cash4Life, Lotto, Mega Millions, Numbers, Powerball, Quick Draw, Pick 10, Take 5 and Win 4. In FY 2024 these games constituted approximately 68 percent of the education contribution from traditional lottery games.

- Instant scratch-off games have either a 64.25 or 74.25 percent prize-payout. In FY 2024, these games constituted approximately 32 percent of the education contribution from traditional lottery games.

The statutory distribution of lottery sales among prizes, education funding, and the remaining allowance for expenses related to game administration is shown below.

LOTTERY RECEIPTS DISTRIBUTION AND DRAWING FREQUENCY

Lottery Game	Prize Payouts	Education Funding	Administrative Allowance	Inception Date	Drawing Frequency
Mega Millions*	50%	35%	15%	2002	Tuesday and Friday at 11:00 PM
Powerball*	50%	35%	15%	2010	Monday, Wednesday, and Saturday at 10:59 PM
Cash4Life	55%	35%	10%	2014	Once Daily
Lotto	40%	45%	15%	1976	Wednesday and Saturday at 8:15 PM
Numbers	50%	45%	5%	1980	Twice Daily
Win 4	50%	45%	5%	1981	Twice Daily
Pick 10	50%	45%	5%	1988	Once Daily
Take 5	50%	45%	5%	1992	Twice Daily
Quick Draw	60%	25%	15%	1995	Every four minutes
Instant (64%)	64%	21%	15%	1999	N/A
Instant (74%)	74%	11%	15%	2002	N/A

*Mega Millions and Powerball can offer a prize payout up to 55 percent.

Video Lottery Gaming

VLTs are in use at 10 facilities in the State (see table below for specific facilities). In FY 2024, approximately 67 percent of the education funding contribution from VLT facilities was derived from Resorts World NYC, Nassau OTB machines (housed at Resorts World NYC) and Empire City Casino (MGM).

The statutory distribution of VLT NMI (after prize payouts) is among education funding, agent commission, and the remaining allowance for administration expenses.

VLT RECEIPTS DISTRIBUTION BY LOCATION (After Prize Payouts)	Education Funding	Agent Commission	Administrative Allowance
Hamburg Gaming at the Fairgrounds Vernon Downs Casino Hotel	34.0%	56.0%	10.0%
Batavia Downs Gaming	39.0%	51.0%	10.0%
Resorts World Casino New York City	40.0%	50.0%	10.0%
Resorts World Hudson Valley	41.0%	49.0%	10.0%
Nassau Downs OTB at Resorts World Casino New York City Suffolk OTB (Jake's 58 Hotel & Casino)	45.0%	45.0%	10.0%
Saratoga Casino Hotel Finger Lakes Gaming & Racetrack	46.5%	43.5%	10.0%
Empire City Casino by MGM Resorts	50.5%	39.5%	10.0%

Not shown in the chart above, Saratoga, Finger Lakes, and Resorts World Hudson Valley currently receive an additional commission (capped at 10 percent) to offset the reduction in revenues due to competition from a nearby casino. Vernon Downs is eligible to receive a 6.4 percent additional commission through March 31, 2027, provided it maintains certain employment requirements.

Commercial Gaming

Four casinos are licensed and operating in NYS:

- Tioga Downs Casino Resort opened in December 2016;
- del Lago Resort & Casino and Rivers Casino & Resort both opened in February 2017; and
- Resorts World Catskills opened in February 2018.

COMMERCIAL GAMING TAXES LEVIED (Percent of Gross Gaming Revenue Generated)		
	Table Games[1]	Slot Machines
del Lago Resort & Casino	10.0%	37.0%[2]
Tioga Downs Casino Resort	10.0%	37.0%[3]
Resorts World Catskills	10.0%	39.0%[2]
Rivers Casino & Resort	10.0%	45.0%[2]

[1]Table game revenue includes retail sports wagering.
[2]These rates are temporarily lowered to 30% from April 1, 2021 to March 31, 2026.
[3]Tioga received a lower tax rate of 34.5% for FY 2022 and FY 2023, and a 30% tax rate from April 1, 2023 to March 31, 2026.

For the additional casino licenses[112], the tax rates will be determined through a competitive bidding process in which the tax on gross gaming revenue from slot machines shall be no less than 25 percent and the tax on gross gaming revenue from all other sources (e.g. table games and retail sports wagering) shall be no less than 10 percent. Up to three applicants can be selected and licensed.

[112] See https://nycasinos.ny.gov/ for more information on the additional casino license process.

Mobile Sports Wagering

Nine mobile sports wagering operators and eight platform providers are operating in NYS. Operators are taxed at 51 percent of gross gaming revenue. Of the tax collected, $6 million is dedicated to problem gambling education and treatment, $5 million is dedicated to fund youth sports programs, and the remaining amount is directed to education.

Mobile Sports Wagering Operators
Operator
FanDuel Sportsbook
Bally Bet
BetMGM
DraftKings Sportsbook
Caesars Sportsbook
ESPN Bet*
Fanatics Sportsbook**
Resorts World Bet
Rush Street Interactive

*The Gaming Comission approved ESPN Bet's acquisition of WynnBet's license in September 2024.

**The Gaming Commission approved Fanatics' acquisition of PointsBet's license in October 2023.

Tribal State Compact

NYS has TSC agreements with three Nations:

- Seneca Nation operates three Class III casinos in the Western region including Seneca Niagara Casino (2002), Seneca Allegany Casino (2004), and Seneca Buffalo Casino (2007).
- Saint Regis Mohawk Tribe operates the Class III Akwesasne Mohawk Casino (1999); and
- Oneida Nation operates four Class III casinos, Turning Stone (1993), Yellow Brick Road (2015), Point Place (2018) and Lake House Casino (2020).

Pursuant to these TSCs, each Nation directs 25 percent of the casino’s net drop from slots to NYS. The distribution is:

- 25 percent to the host county or counties;
- 10 percent to regional counties on a per capita basis;

- Madison County receives an annual payment of $3.5 million and Oneida County receives $2.5 million; and

- The remainder (plus interest) is directed to NYS.

The TSC agreement with the Seneca Nation expired on December 8, 2023, but the Nation continues to make payments that are deposited into escrow while negotiations are ongoing.

Interactive Fantasy Sports

IFS operators offer fee-based contests in which participants assemble a fantasy roster of players using their skills and knowledge, then compete against other participants. NYS levies a 15 percent tax on IFS gross revenue generated in NYS and an additional tax rate of 0.5 percent (capped at $50,000 per taxpayer annually).

In October 2018, the NYS Supreme Court rendered a split decision that IFS is in violation of the State Constitution as a form of unlawful gambling, but it does not constitute gambling under NYS Penal Law. The State Attorney General appealed the decision in November 2018, which stayed the lower court ruling. In March 2022, the New York Court of Appeals ruled that IFS does not violate the State Constitution as a form of unlawful gambling.

Administration

Gaming components noted herein are administered by the NYS Gaming Commission.

Lottery

The Gaming Commission develops new lottery games, markets and advertises existing games, distributes games, provides terminals and computer programming for betting, and regulates and performs all other functions necessary to operate an effective NYS lottery.

The Lottery game vendor notifies sales agents of the State's share of sales proceeds by the Monday following the liability week. The sales agent makes necessary deposits, and the operations vendor then tenders them to the Gaming Commission.

Video Lottery Gaming

The Gaming Commission collects revenue from VLT licensees daily and holds these funds in its sole custody account. On a weekly basis, revenues collected are transferred to the State Treasury and allocated to the Video Gaming Education Account, Video Gaming Administration Account, and the Video Gaming Prize Pending Account based on statutory requirements.

Commercial Gaming

The Gaming Commission regulates casinos and administers the tax on commercial gaming revenues. Casinos file tax returns and remit payment to the State Treasury on a weekly basis based on statutory rates for slot and table games. Funds from such payments are then allocated to the Commercial Gaming Revenue Fund. For zone 2 facilities, the Commission also collected license fees totaling $171 million as established by the New York Gaming Facility Location Board (GFLB). For the additional casino licenses, the Board has set both the minimum capital investment and license fee amount at $500 million each for each casino licensee.

Mobile Sports Wagering

The Gaming Commission regulates mobile sports wagering operators and platform providers and administers the tax on gross gaming revenue. Tax returns are filed, and payments are remitted to the State Treasury on a weekly basis. Additionally, the Commission collected a $25 million license fee from each platform provider for a total of $200 million.

Interactive Fantasy Sports

The Gaming Commission administers and regulates IFS entities. 11 IFS entities are registered in NYS, with 9 actively operating and filing tax returns with the Gaming Commission on a monthly basis. Funds underlying each registrant's tax obligation are also remitted monthly to a commission account and are then transferred to the State Treasury to be allocated to the IFS Education Account.

Tribal State Compact

Per the TSC agreements, NYS collects exclusivity payments from the Oneida Nation, Saint Regis Mohawk Tribe, and the Seneca Nation on a quarterly basis. Exclusivity payments are remitted directly by the Tribe or Nation to the State Treasury and allocated to the Tribal State Compact Fund. Each Seneca Nation casino is accounted for separately, while the Oneida Nation casinos are aggregated.

History

GAMING RECEIPTS BY COMPONENT (millions of dollars)									
	Special Revenue Funds								All Funds
	Lottery	VLTs	Casinos			MSW	IFS	TSC	
	Education	Education	Education	Localities*	Total	Total**	Education	Total*	Total
FY 2015	2,191	907	N/A	N/A	N/A	N/A	N/A	161	3,258
FY 2016	2,351	961	121	30	151	N/A	N/A	233	3,696
FY 2017	2,322	958	31	8	38	N/A	3	207	3,528
FY 2018	2,301	958	88	22	110	N/A	5	81	3,455
FY 2019	2,533	939	136	34	170	N/A	5	90	3,737
FY 2020	2,473	944	151	38	188	N/A	6	88	3,699
FY 2021	2,426	382	63	16	79	N/A	6	60	2,952
FY 2022	2,601	1,002	138	34	172	361	7	650	4,792
FY 2023	2,513	1,000	141	35	176	740	6	201	4,635
FY 2024	2,630	1,076	128	32	160	900	22	222	5,010

*A portion of commercial gaming casino (20 percent) and Tribal State Compact (various) receipts are directed to localities.
**A portion of Mobile Sports Wagering receipts are directed to problem gambling and youth sports.

Significant statutory changes within the past decade include:

- In 2015, VLTs were authorized to offer certain electronic table games (ETGs).
- In 2016, the operation of IFS was legalized in NYS.
- In 2018, the VLT hold harmless transfer provision was eliminated. Previously, the VLT amount for education could not be lower than $958.2 million and an annual transfer would be made from the commercial gaming education to VLT education to make up the difference if the amount was lower than $958.2 million.
- In 2019, the distribution structure of VLT NMI was simplified by reducing the number of VLG commission rates from over 20 to just 6. Marketing allowance and capital awards were made part of the operators' commission and the operators now have more flexibility in marketing spending.
- In 2019, the Gaming Commission adopted regulations to allow sports wagering at the four commercial casinos. All four casinos are now operating a sports book at their facility.
- In 2021, mobile sports wagering was authorized; a process was established for casinos to petition for a slot tax rate no lower than 30 percent; and the requirement that lottery draw games be offered no more than once daily was amended to no more than twice daily.
- In 2022, the State authorized the GFLB to select up to three additional applicants for commercial casino licensure.

- In 2023, Tioga Downs was granted a reduced slot tax rate of 30 percent for FY 2024 through FY 2026, provided Vernon Downs maintains 70 percent of their 2016 FTE levels. Vernon Downs was granted 6.4 percent of NMI as additional commission through the end of FY 2027, provided the facility maintains 70 percent of its 2016 FTE levels. Separately, the distribution of casino tax revenue was altered for the three additional casino licenses depending on their location. If Downstate, up to 50 percent of tax revenue from a given facility would be directed to the MTA and 100 percent of any license fees would be directed to the MTA.

Pari-Mutuel Tax

PARI-MUTUEL TAX (millions of dollars)							
	FY 2024	FY 2025	Change		FY 2026	Change	
	Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent
General Fund	12.2	12.0	(0.2)	(1.3)	15.0	3.0	25.0
All Funds Total	**12.2**	**12.0**	**(0.2)**	**(1.3)**	**15.0**	**3.0**	**25.0**

FY 2025 receipts are estimated to decrease slightly compared to FY 2024 results due to lower handle on horse races.

FY 2026 receipts are projected to increase compared to the current year entirely due to a FY 2026 Executive Budget proposal to authorize and fund a study of thoroughbred fetlock joint injury detection through advanced imaging. This includes a temporary one percent market origin fee imposed on out-of-State ADW handle wagered in-State effective September 1, 2025 through August 31, 2028 that will cover the expenses related to the study.

Base and Rate

There are two components of PMT: a portion of commissions withheld from handle (wagering pools) and remittance of a portion of the breakage (the amount collected from rounding winning bets). In addition, a portion of the five percent market origin fee imposed on handle wagered in-State through out-of-State ADW providers is included as PMT collections.

There are numerous tax rates imposed, which vary depending upon the type of racing, the type of wager (regular, multiple, or exotic), and the location at which it is placed. This tax is collected from:

- The four thoroughbred flat tracks, including the three NYRA tracks (Aqueduct, Belmont, and Saratoga) and one track located in Finger Lakes;
- The seven harness tracks located in Batavia, Buffalo, Monticello, Saratoga, Tioga, Vernon, and Yonkers; and
- The OTB facilities located in four NYS regions including the Capital District, Nassau, Suffolk and Western. Catskill OTB ceased accepting wagers effective November 20, 2024 and moved its accounts to Suffolk OTB's ADW platform.

The FY 2026 Executive Budget proposes to amend and simplify the PMT rate structure by imposing a flat tax on handle from thoroughbred racetracks (1.1 percent), harness racetracks (1 percent), and OTBs (0.6 percent) and adjusting breakage to round to the penny. In addition, if entities can mutually agree on a new distribution scheme, the new agreements will supersede current law.

The base of the tax has shifted with the emergence of simulcast and the closure of NYC OTB in 2010. With the ability of a bettor to place a wager using an app or other simulcast means, it is no longer necessary to place bets in-person at a track or Off-Track Betting facility. The vast majority of simulcast wagers made are on NYRA races.

Liability

The PMT is levied on pari-mutuel wagers on horse racing that are placed in-State. These bets are placed at NYS racetracks, OTB facilities or through a racetrack or OTB facility's app or online platform.

If a bettor located within NYS places a simulcast wager using an out-of-State ADW website, a market origin fee equal to 5 percent of handle is imposed (5 percent of the market origin fee is directed as PMT, 5 percent is directed to the Gaming Commission and the remaining 90 percent is directed to the industry). The PMT does not apply in this instance.

If a bettor located outside NYS places a wager on any race, the State does not collect PMT or the market origin fee on these races.

Administration

The Gaming Commission regulates all horse racing and pari-mutuel wagering in NYS. Racetracks and OTBs calculate the tax amount owed to NYS from the portion of the commission (the "takeout") withheld from wagering pools and then remit the taxes on a monthly basis to DTF.

History

In 2008, NYS awarded a 25-year license to the NYRA to operate Aqueduct, Belmont, and Saratoga Racetracks.

PARI-MUTUEL TAX RECEIPTS HISTORY (thousands of dollars)					
	General Fund				All Funds
	Flat	Harness	OTB*	Total	Total
FY 2015	12,428	482	5,128	18,038	18,038
FY 2016	11,423	466	5,293	17,182	17,182
FY 2017	10,604	426	4,726	15,756	15,756
FY 2018	10,318	378	4,676	15,373	15,373
FY 2019	10,510	353	4,504	15,367	15,367
FY 2020	9,299	332	4,286	13,917	13,917
FY 2021	5,650	19	3,983	9,652	9,652
FY 2022	8,298	249	4,401	12,948	12,948
FY 2023	8,753	298	3,954	13,005	13,005
FY 2024	8,065	296	3,807	12,167	12,167

*Includes the Market Origin Fee, which generates roughly $1.5 million annually.

Significant statutory changes within the past decade include:

- In 2023, the State authorized a capital appropriation to loan NYRA monies to make racetrack improvements and demolish and rebuild the grandstand at Belmont Racetrack. NYRA is required to repay the State, plus interest, within 20 years, and at the completion of the renovations, horse racing at Aqueduct Racetrack will move to Belmont Racetrack.

- In 2024, the State continued to extend for one year reduced on-track rates and certain simulcasting provisions.

Real Estate Transfer Tax

REAL ESTATE TRANSFER TAX (millions of dollars)							
	FY 2024	FY 2025	Change		FY 2026	Change	
	Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent
Capital Projects Funds (EPF)	257.4	257.4	0.0	0.0	257.4	0.0	0.0
Debt Service Funds (CWCA)	907.8	934.7	26.8	3.0	1,020.7	86.0	9.2
All Funds Total	**1,165.2**	**1,192.0**	**26.8**	**2.3**	**1,278.0**	**86.0**	**7.2**

FY 2025 receipts are estimated to increase from FY 2024 due to increased real estate market activity driven by estimated growth in housing starts, the average housing price, and bonuses, as well as an expected decline in mortgage rates.

FY 2026 receipts are projected to increase from the current year as the same trends in housing starts, the average housing price, bonuses and mortgage rates estimated in FY 2025 are projected to continue in FY 2026 to varying degrees. Also, the potential impact of the new Federal administration on the economy as a whole, but specifically the real estate market, poses additional uncertainty.

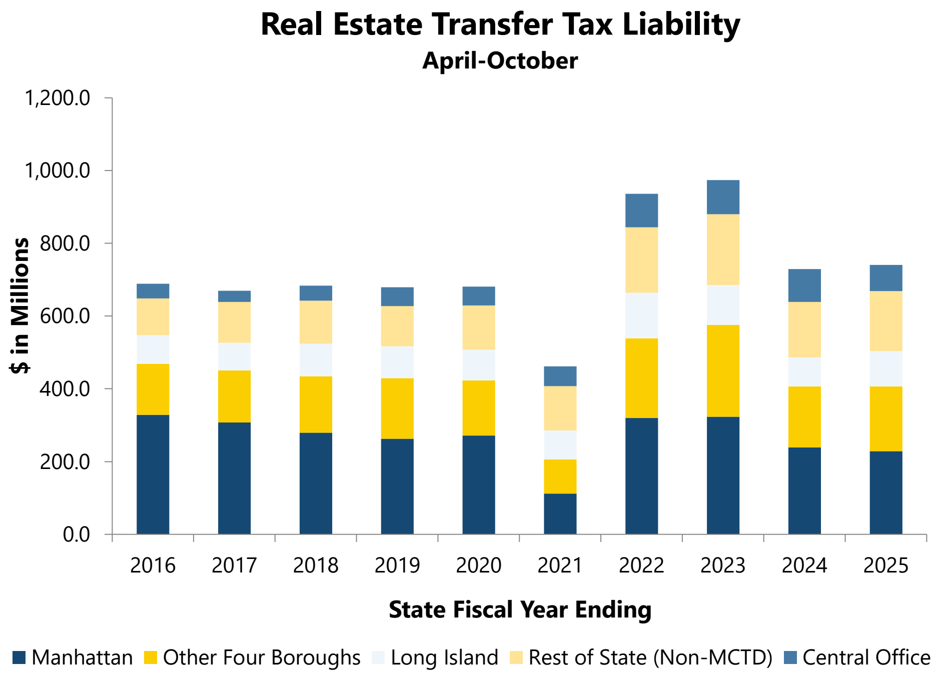
Base and Rate

The real estate transfer tax is imposed on each conveyance of real property or interest therein, when the consideration (price) exceeds $500, at a rate of 0.4 percent. An additional one percent tax is imposed on conveyances of residential real property only when the consideration is $1 million and above. The tax rate for conveyances of real property to existing real estate investment trusts (REIT) is 0.2 percent.

Federal and State entities, as well as the United Nations, are exempt from the tax. If an exempt entity is the grantor in a transfer, the tax burden falls upon the grantee. Other significant exemptions from the tax are conveyances pursuant to the Federal Bankruptcy Act and mere change of identity conveyances.

Liability

Real estate transfer tax receipts are a function of the number and type of conveyances and the consideration per conveyance. Conveyances and prices are largely determined by mortgage rates, vacancy rates, and inflation. Trends in the Manhattan commercial real estate market, which have historically been subject to large swings in demand and capacity, can have a significant impact on receipts. The Manhattan luxury residential market also has an outsized impact on receipts. Overall, NYC tax liability was 55.5 percent of total liability in FY 2024.



Administration

Typically, the party conveying the property (grantor) is responsible for payment of the tax to DTF.

For deeded transfers, the tax is paid to a recording agent (generally the county clerk) within 15 days of the transfer. For non-deeded transactions (cooperative housing or stock transfers), payments are made directly to DTF's central office. Counties remit collections to DTF once or twice per month.

- Counties with more than $1.2 million in liability during the previous calendar year remit payments received by the recording agent between the 1st and 15th day of the month to DTF by the 25th day of the same month. Payments received by the recording agent in such counties between the 16th and the final day of the month are due to DTF by the 10th day of the following month;

- All other county recording agents remit collections to DTF by the 10th day of the month following their receipt.

History

REAL ESTATE TRANSFER TAX RECEIPTS HISTORY (millions of dollars)			
	Capital Projects Funds (EPF)	Debt Service Funds (CWCA)	All Funds Total
FY 2015	119	919	1,038
FY 2016	119	1,044	1,163
FY 2017	119	1,007	1,126
FY 2018	119	1,006	1,125
FY 2019	119	1,016	1,135
FY 2020	119	1,005	1,124
FY 2021	119	830	949
FY 2022	119	1,520	1,639
FY 2023	257	1,215	1,472
FY 2024	257	908	1,165

Significant statutory changes within the past decade include:

- In 2019, a 0.25 percent real estate transfer tax was imposed on commercial properties $2 million and above and residential properties $3 million and above in NYC. Also, a progressive mansion tax was imposed on residential properties in NYC ranging from 0.25 percent on properties that are $2 million to $3 million, up to 2.9 percent on properties that are $25 million and above.

- In 2021, responsible persons billing language was added and it clarified that only the seller is responsible for paying the basic RETT and cannot pass through the cost to the buyer.

- In 2022, the statutory annual amount of receipts dedicated to the Environmental Protection Fund was increased from $119.1 million to $257.35 million.

GLOSSARY OF ACRONYMS

ABT	Alcoholic Beverage Taxes
ABV	Alcohol by Volume
ADW	Advanced Deposit Wagering
AI	Artificial Intelligence
AFC	Automotive Fuel Carrier
AGI	Adjusted Gross Income
ART	Auto Rental Tax
BCP	Brownfield Cleanup Program
BCP-EZ	Expedited Brownfield Cleanup Program
BEA	Bureau of Economic Analysis
BIL	Bipartisan Infrastructure Law
BLS	Bureau of Labor Statistics
B20	Biodiesel Blended Fuel
CARES	Coronavirus Aid, Relief, and Economic Security
CBO	Congressional Budget Office
CCB	Cannabis Control Board
CDC	Centers for Disease Control and Prevention
CES	Current Employment Statistics
CFT	Corporation Franchise Tax
CHIPS	Creating Helpful incentives to Produce Semiconductors
CMBS	Commercial Mortgage-Backed Securities
CNG	Compressed Natural Gas
CoA	Certificate of Authority
CoR	Certificate of Registration
CPFF	Commercial Paper Funding Facility
CPI	Consumer Price Index
CPI-U	Consumer Price Index for All Urban Consumers
CRE	Commercial Real Estate
CUNY	City University of New York
CUT	Corporation and Utilities Tax
CV	Coefficient of Variation
CWCA	Clean Water/Clean Air
CY	Calendar Year
DCJS	Division of Criminal Justice Services
DeFi	Decentralized Finance
DFS	Department of Financial Services
DHBTF	Dedicated Highway Bridge and Trust Fund
DHCR	Division of Housing and Community Renewal
DOB	Division of the Budget
DOH	Department of Health
DOL	Department of Labor
DTF	Department of Taxation and Finance
EB	Extended Benefits
ECEP	Employer Compensation Expense Program
ENI	Entire Net Income
EPF	Environmental Protection Fund
EPU	Economic Policy Uncertainty
ESCO	Energy Service Companies
ETIP	Employee Training Incentive Program
E85	Ethanol Blended Fuel
FAA	Federal Aviation Administration
FDA	Food and Drug Administration
FEMA	Federal Emergency Management Agency
FFY	Federal Fiscal Year (October 1 to September 30)
FINRA	Financial Industry Regulatory Authority
FOMC	Federal Open Market Committee
FUT	Fuel Use Tax
FY	Fiscal Year
FYE	Fiscal Year Ending
GDP	Gross Domestic Product
HCRA	Health Care Reform Act
HUT	Highway Use Tax
HUTAA	Highway Use Tax Administration Account
IFS	Interactive Fantasy Sports
IFTA	International Fuel Tax Agreement
IIJA	Infrastructure Investment and Jobs Act
IMF	International Monetary Fund
IPO	Initial Public Offering
IPP	Intellectual Property Products
IRS	Internal Revenue Service
LATAs	Local Access Transport Areas
LGAC	Local Government Assistance Corporation
LIHC	Low Income Housing Credit
M&A	Mergers & Acquisitions
MBS	Mortgage Backed Security
MCTD	Metropolitan Commuter Transportation District
MCTF	Medical Cannabis Trust Fund
MLF	Municipal Liquidity Facility
MME	Morphine Milligram Equivalent
MMMFLF	Money Market Mutual Fund Liquidity Facility
MSA	Metropolitan Statistical Area

MSLP	Main Street Lending Program
MTA	Metropolitan Transportation Authority
MTOAF	Metropolitan Transit Operating Assistance Fund
NAFTA	North American Free Trade Agreement
NAICS	North American Industry Classification System
NBER	National Bureau of Economic Research
NIPA	National Income and Product Accounts
NMI	Net Machine Income
NY CREATES	New York Center for Research, Economic Advancement, Technology, Engineering, and Science
NYC	New York City
NYS	New York State
NYSE	New York Stock Exchange
OASAS	Office of Addiction Services and Supports
OCFA	Office of Children and Family Services
OCM	Office of Cannabis Management
OPEC+	The Organization of the Petroleum Exporting Countries
OSC	Office of the State Comptroller
OTB	Off-Track Betting
P/E	Price-to-Earnings
PBT	Petroleum Business Tax
PCE	Personal Consumption Expenditures
PDCF	Primary Dealer Credit Facility
PEUC	Pandemic Emergency Unemployment Compensation
PIT	Personal Income Tax
PMCCF	Primary Market Corporate Credit Facility
PMI	Purchasing Managers Index
PMT	Pari-Mutuel Tax
PPI	Producer Price Index
PPPLF	Paycheck Protection Program Liquidity Facility
PwC	PricewaterhouseCoopers, LLP
PST	Professional, Scientific, and Technical Services
PTE	Pass Through Entity
PTET	Pass Through Entity Tax
PTSOA	Public Transportation Systems Operating Assistance Fund
PUA	Pandemic Unemployment Assistance
PUC	Pandemic Unemployment Compensation
QCEW	Quarterly Census of Employment and Wages
QETC	Qualified Emerging Technology Companies
QT	Quantitative Tightening
R&D	Research and Development
RBTF	Revenue Bond Tax Fund
REIT	Real Estate Investment Trust
RETT	Real Estate Transfer Taxes
RIC	Regulated Investment Company
SALT	State and Local Tax
SCE	Survey of Consumer Expectations
SFY	State Fiscal Year (April 1 through March 31)
SLA	State Liquor Authority
SMCCF	Secondary Market Corporate Credit Facilities
STAR	School Tax Relief
STBF	Sales Tax Bond Fund
SUNY	State University of New York
TALF	Term Asset-Backed Securities Loan Facility
TAMI	Technology, Advertising, Media, and Information
TCJA	Tax Cuts and Jobs Act of 2017
TFP	Total Factor Productivity
TMT	Truck Mileage Tax
TSC	Tribal State Compact
TY	Tax Year (January 1 through December 31)
U.S.	United States
U-3	Headline Unemployment Rate
U-6	Underemployment Rate
UI	Unemployment Insurance
UII	Unemployment Insurance Income
USD	United States Dollar
USMCA	United States-Mexico-Canada Agreement
VIX	Volatility Index
VLG	Video Lottery Gaming
VLT	Video Lottery Terminal

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