



OUR NEW YORK, OUR FUTURE

FY2025 NYS EXECUTIVE BUDGET
ECONOMIC AND REVENUE OUTLOOK

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Table of Contents

Introduction	5
Economic Overview.....	8
Receipts Overview.....	12
Economic Backdrop	14
Economic Outlook.....	15
Economic Risks.....	22
Recession Prospects.....	24
Inflation Outlook.....	30
Economic Policy Environment.....	33
Labor Market Outlook.....	41
Personal Income Outlook.....	52
Consumer Spending Outlook.....	60
Investment Outlook.....	63
Construction Outlook.....	67
New York State Adjusted Gross Income.....	77
Receipts Explanation	93
Personal Income Tax.....	94
Alcoholic Beverage Taxes.....	105
Auto Rental Tax and Peer-to-Peer Car Sharing Taxes.....	107
Cigarette and Tobacco Tax.....	110
Highway Use Tax.....	114
Cannabis Taxes.....	116
Motor Fuel Tax.....	120
Opioid Excise Tax.....	124
Sales and Use Tax.....	126
Vapor Products Tax.....	131
Corporation Franchise Tax.....	133
Corporation and Utilities Tax.....	138
Insurance Taxes.....	141
Pass-Through Entity Tax.....	147
Petroleum Business Taxes.....	150
Authorized Combative Sports Tax.....	154

Employer Compensation Expense Program.....	156
Estate Tax.....	158
Gaming Receipts.....	161
Pari-Mutuel Tax.....	170
Real Estate Transfer Tax.....	172
Glossary of Acronyms	175

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 2025 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 2025 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 Outlook:** 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 2025 and coming years.
- **Receipts Explanation:** 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 2025 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 <https://www.budget.ny.gov/pubs/supporting/methodology.html> Last accessed: January 14, 2024.

- 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 <https://www.budget.ny.gov/investor/ais/ALTaaccessAgree2.html> Last accessed: January 14, 2024.

³ <https://www.budget.ny.gov/pubs/archive/fy24/index.html#ter> Last accessed: January 14, 2024.

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.
- Recession Prospects – an examination of several economic trends to assess the likelihood of an economic contraction in FY 2025.
- Inflation Outlook – a review of data related to changes in price levels in recent years and discussion of how inflationary pressures will ease in the coming year.
- Economic Policy Environment – a discussion of monetary and fiscal policy developments over the last year, likely actions in coming years, and the 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.
- Investment and Construction Outlooks – 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.

SELECTED ECONOMIC INDICATORS (Calendar Year)						
	2022 (actual ⁴)	2023 (estimate)	2024 (forecast)	2025 (forecast)	2026 (forecast)	2027 (forecast)
U.S. Indicators⁵						
Gross Domestic Product (current dollars)	9.1	6.3	4.1	4.1	4.1	4.1
Gross Domestic Product Consumption	1.9	2.4	1.3	1.9	2.1	2.2
Residential Fixed Investment	2.5	2.2	1.5	1.9	2.2	2.1
Nonresidential Fixed Investment	(9.0)	(11.1)	(1.6)	1.3	3.7	4.7
Change in Inventories (dollars)	5.2	4.3	2.3	3.3	3.6	3.6
Exports	128.1	41.5	25.0	68.6	66.2	65.5
Imports	7.0	2.8	1.7	2.7	3.6	3.4
Government Spending	8.6	(1.2)	2.9	3.0	3.2	2.9
Corporate Profits ⁶	(0.9)	4.0	1.9	0.4	0.5	0.7
Personal Income	9.8	0.1	1.8	4.0	4.2	4.3
Wages	2.0	5.2	4.1	4.1	4.1	4.0
Nonfarm Employment	7.8	6.3	4.3	4.0	3.8	3.7
Unemployment Rate (percent)	4.3	2.3	0.9	0.7	0.6	0.6
S&P 500 Stock Price Index	3.6	3.6	4.1	4.1	3.9	3.8
Federal Funds Rate	(3.9)	4.1	3.7	3.3	2.8	2.0
10-year Treasury Yield	1.7	5.0	5.1	4.2	3.2	2.6
Consumer Price Index	3.0	4.0	4.3	4.4	4.2	3.9
	8.0	4.1	2.8	2.3	2.3	2.2
New York State Indicators						
Personal Income ⁷	(1.9)	4.0	3.6	4.2	4.1	4.1
Wages and Salaries ⁷						
Total	6.9	4.2	3.1	4.0	3.9	3.9
Without Bonus ⁸	8.5	6.1	3.2	3.6	3.6	3.6
Bonus ⁸	(2.6)	(8.3)	2.2	6.6	6.1	6.1
Finance and Insurance Bonuses ⁸	0.4	(9.2)	0.5	7.6	6.8	6.8
Wage Per Employee	1.8	2.3	3.0	3.4	3.4	3.4
Property Income	2.0	4.5	4.6	4.3	4.4	4.3
Proprietors' Income	(7.2)	6.6	4.4	4.4	5.0	5.2
Transfer Income	(17.8)	2.7	3.8	4.7	4.6	4.5
Nonfarm Employment ⁵						
Total	5.1	1.8	0.1	0.5	0.5	0.5
Private	6.0	2.1	0.1	0.6	0.6	0.6
Unemployment Rate (percent)	4.3	4.2	4.6	4.6	4.5	4.4
Composite CPI of New York State ⁸	6.7	4.0	2.9	2.4	2.3	2.4
New York State Adjusted Gross Income						
Capital Gains	(48.1)	(20.5)	4.4	4.0	3.1	2.8
Partnership/ S Corporation Gains	(2.8)	(4.0)	4.5	5.5	5.3	6.0
Business and Farm Income	5.1	1.3	3.0	3.5	4.8	5.4
Interest Income	38.8	9.3	9.0	(6.7)	4.3	3.6
Dividends	2.6	3.0	4.8	3.4	2.3	3.6
Total NYSAGI	(6.6)	0.6	3.5	4.1	4.2	4.3

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

⁴ For NYSAGI variables, 2022 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 2023 (actual)	FY 2024 (estimate)	FY 2025 (forecast)	FY 2026 (forecast)	FY 2027 (forecast)	FY 2028 (forecast)
U.S. Indicators⁹						
Gross Domestic Product (current dollars)	8.2	5.7	3.8	4.2	4.1	4.1
Gross Domestic Product Consumption	1.5	2.5	1.2	2.1	2.1	2.2
Residential Fixed Investment	1.8	2.1	1.4	2.1	2.1	2.1
Nonresidential Fixed Investment	(12.9)	(6.7)	(1.4)	2.2	4.0	4.7
Change in Inventories (dollars)	5.0	4.0	2.3	3.4	3.6	3.6
Exports	85.6	37.2	37.5	70.7	65.5	65.5
Imports	7.5	1.2	2.0	3.1	3.6	3.3
Government Spending	5.1	(0.5)	3.1	3.2	3.2	2.8
Corporate Profits ¹⁰	0.3	4.1	1.2	0.4	0.6	0.7
Personal Income	8.4	(0.3)	2.0	4.3	4.2	4.3
Wages	4.4	4.9	4.0	4.1	4.1	4.0
Nonfarm Employment	6.8	6.0	3.9	4.0	3.7	3.7
Unemployment Rate (percent)	3.8	1.9	0.7	0.7	0.6	0.6
S&P 500 Stock Price Index	3.6	3.8	4.2	4.1	3.9	3.8
Federal Funds Rate	(9.8)	9.6	2.0	3.5	2.5	2.0
10-year Treasury Yield	2.8	5.2	4.9	3.9	2.9	2.6
Consumer Price Index	3.4	4.1	4.3	4.4	4.1	3.9
	7.4	3.5	2.6	2.2	2.3	2.2
New York State Indicators						
Personal Income ¹¹	0.7	3.5	4.0	4.2	4.1	4.1
Wages and Salaries ¹¹						
Total	5.1	3.2	3.8	4.0	3.9	3.9
Without Bonus ¹²	8.8	4.2	3.3	3.6	3.6	3.6
Bonus ¹²	(14.8)	(3.6)	6.8	6.2	6.1	6.1
Finance and Insurance Bonuses ¹²	(15.1)	(2.7)	7.7	6.9	6.8	6.8
Wage Per Employee	0.9	2.2	3.5	3.4	3.4	3.4
Property Income	2.1	4.5	4.5	4.4	4.3	4.3
Proprietors' Income	(4.4)	6.2	4.2	4.7	5.0	5.2
Transfer Income	(5.6)	2.8	4.2	4.6	4.5	4.4
Nonfarm Employment ¹¹						
Total	4.3	1.0	0.2	0.5	0.5	0.5
Private	5.1	1.2	0.3	0.6	0.6	0.6
Unemployment Rate (percent)	4.1	4.3	4.6	4.5	4.5	4.4
Composite CPI of New York ¹²	6.6	3.4	2.7	2.4	2.4	2.3

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.

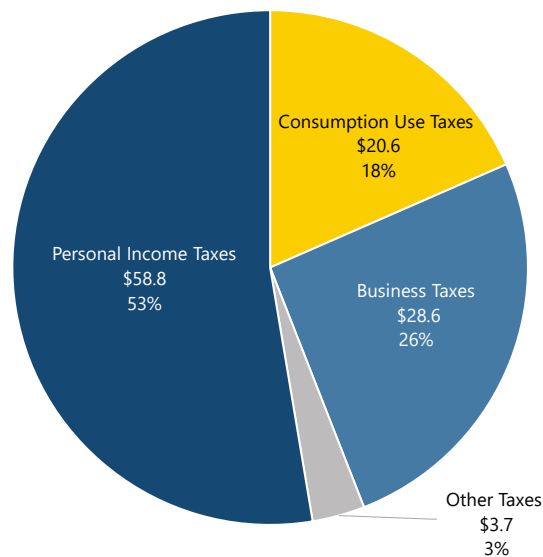
U.S. ECONOMIC FORECAST COMPARISON			
	2023	2024	2025
Real Gross Domestic Product (GDP)			
(chained percent change)			
DOB	2.4	1.3	1.9
Blue Chip Consensus	2.4	1.3	na
CBO*	2.5	1.5	2.2
FED	2.6	1.4	1.8
Consumer Price Index (CPI)			
(percent change)			
DOB	4.1	2.8	2.3
Blue Chip Consensus	4.1	2.6	na
CBO*	3.2	2.5	2.5
FED**	3.2	2.4	2.2
Unemployment Rate			
(percent of the labor force)			
DOB	3.6	4.1	4.1
Blue Chip Consensus	3.7	4.2	na
CBO***	3.9	4.4	4.4
FED	3.8	4.1	4.1
<p>Note: *measured by percent change from fourth quarter to fourth quarter; ** measured by PCE inflation instead of CPI inflation; *** measured by fourth quarter average.</p> <p>Source: NYS DOB, December 2023; Blue Chip Economic Indicators, December 2023; Congressional Budget Office (CBO), December 2023; Federal Reserve Board (FED), December 2023.</p>			

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.

**FY 2023 Tax Receipts Cash Basis
All Funds - \$111.7 Billion**



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 2025	FY 2026	FY 2027	FY 2028
Personal Income Tax	-	175	350	350
Permanently Extend the Itemized Deduction Limit on High Income Filers	-	175	350	350
Consumption/Use Taxes	3	24	26	26
Permanently Extend Authorization to Manage Delinquent Sales Tax Vendors	-	-	-	-
Extend Certain Sales Tax Exemption Related to the Dodd-Frank Protection Act for Three Years	-	-	-	-
Extend the Sales Tax Vending Machine Exemption for One Year	(8)	(2)	-	-
Modernize Tax Law to Include the Vacation Rental Industry	8	16	16	16
Repeal and Replace the Cannabis Potency Tax	-	-	-	-
Provide for the Filing of Amended Sales Tax Returns	3	10	10	10
Business Taxes	-	15	15	20
Establish the Commercial Security Tax Credit	-	(5)	(5)	-
Close the Amended Return Loophole for Personal Income and Corporation Franchise Taxes	-	20	20	20
Permanently Extend the Tax Shelter Provisions	-	-	-	-
Other Actions	-	-	-	-
Make Technical Corrections to the Metropolitan Commuter Transportation Mobility Tax	-	-	-	-
Return Tax Foreclosure Surplus to Property Owner	-	-	-	-
Clarify Taxable Status of Telecommunications Property	-	-	-	-
Permanently Extend the Mandatory Electronic Filing and Payment Requirements	-	-	-	-
Extend Pari-Mutuel Tax Rates and Simulcast Provisions for One Year	-	-	-	-
Extend Authorized Use of Capital Funds by a Certain Off-Track Betting Corporation for One Year	-	-	-	-
TOTAL ALL FUNDS LEGISLATION	3	214	391	396

ECONOMIC BACKDROP

Economic Outlook

As signs pointing to a recession have receded throughout 2023, the economic downturn expected by many in 2023 appears to have been avoided. Economic forecasts have been revised to reflect a likely “soft landing.” At the onset of 2023, the economic outlook was pessimistic. Elevated inflation, rising interest rates, weak industrial production growth, and consumer and business expectations pointed to a recession in 2023. Despite the warning signs which began mid-2022, U.S. economic growth has been strong, continued to create new jobs and expand incomes. The path of the economy in the first half of 2024 can be characterized as slow but continuing economic growth at lower inflation without rapidly rising unemployment.

There are still challenges ahead. While far below its peaks in 2022, inflation is persistent and the impacts of restrictive monetary policy designed to address it are being felt in financial markets, the real estate sector (residential and commercial), and the overall economy, particularly in manufacturing sectors. High interest rates are likely to further curb spending, investment, and employment, and recent gains in wages and personal income are likely to slow in the coming quarters. The global economy is also expected to slow down, reducing business activity in international trade in goods and services. A global geopolitical shock or an unexpected pullback in consumer spending or uncertainties in global trade and financial markets might still tip the economy into a downturn.

U.S. real Gross Domestic Product (GDP) growth is expected to slow from an average pace of 2.4 percent in 2023 to 1.3 percent in 2024.¹³ The U.S. economy should be able to weather the forces that could inhibit growth in the short term and ultimately avoid a contraction. Currently, DOB does not foresee a sustained downturn in the levels of employment, industrial production, retail and wholesale trade, and personal income, but this year’s economic projections point to an economy growing below its long-term potential. In such an economic environment, an unforeseen economic shock or a policy mistake could still spur an economic downturn in the first half of 2024. If that happens, the recession is likely to be relatively short-lived and mild compared to previous recessions in 2001 and 2008-09. The unusually short recession from February to April 2020 was unprecedented and a consequence of the economic lockdowns necessitated by the global COVID-19 pandemic. A repetition of similar events is increasingly unlikely in the near term.

By the end of 2023, robust economic growth, continued strong labor demand, and high average wage growth drove nearly 2.5 million people into the labor force. Increases in labor force participation should be interpreted with caution because they could contribute to an increase in the unemployment rate in 2024 while more people look for jobs. At the same time, early signs suggest businesses are scaling back their open positions and reducing hiring, but large-scale layoffs are not expected. Retirements within the baby boomer generation continues to curb labor supply growth and this will constrain the economic growth outlook over the next decade unless

¹³ DOB’s U.S. economic forecast incorporates the second estimate of 2023 third-quarter GDP, the October 2023 personal income and outlays estimates, the October 2023 CPI report, and the initial estimate of November 2023 employment. DOB’s New York State forecast incorporates the second quarter of 2023 personal income by state data and the first half of 2023 QCEW data.

there is a substantial increase in immigration and/or a boost to productivity growth resulting from the deployment and widespread adoption of new technologies, such as Artificial Intelligence (AI).

MAJOR ECONOMIC INDICATORS			
	Calendar Year Growth (%)		
	CY 2022	CY 2023	CY 2024
	Actual	Estimated	Forecast
Real U.S. Gross Domestic Product (GDP)	1.9	2.4	1.3
Nonfarm Employment			
U.S.	4.3	2.3	0.9
New York State	5.1	1.8	0.1
U.S. Consumer Price Index (CPI)	8.0	4.1	2.8
U.S. Civilian Unemployment Rate	3.6	3.6	4.1
	State Fiscal Year Growth (%)		
	FY 2023	FY 2024	FY 2025
	Actual	Estimated	Forecast
Personal Income			
U.S.	4.4	4.9	4.0
New York State*	0.7	3.5	4.0
Wages			
U.S.	6.8	6.0	3.9
New York State	5.1	3.2	3.8
Nonfarm Employment			
U.S.	3.8	1.9	0.7
New York State	4.3	1.0	0.2

Note: * New York State personal income is constructed by using QCEW wages and BEA non-wage income.
Source: Haver Analytics; Moody's Analytics; New York State Department of Labor; DOB staff estimates.

Real Output Growth

The performance of the U.S. economy defied expectations in 2023. Projections of recession in the U.S. economy have either been scaled back or postponed. U.S. real GDP grew by 4.9 percent in the third quarter of 2023, more than double the historical trend growth rate which averaged 2.2 percent between 2002 and 2022. Consumer spending, residential investment, international trade, and labor markets pointed to an above-trend expansion in 2023. Real GDP is estimated to have grown by 2.4 percent in 2023.

Looking ahead, the stronger momentum in 2023 also supports a positive output growth outlook in 2024 and real GDP is forecast to increase by 1.3 percent on an annual average basis. However, the economy will slow in the first two quarters of 2024 and DOB forecasts real GDP growth below 1 percent in the first half of the year, due to the impact of elevated interest rates on industrial and construction activity and hiring.

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 is 1.7 percent in the next two years. Thus, the U.S. economy will perform well below its potential in

2024, especially in the first half of the year. While such slow growth may not be technically a recession which involves negative growth rates and high unemployment, it is still a growth cycle downturn where the economy deviates significantly from its long-run trajectory.

Price Inflation Pressures

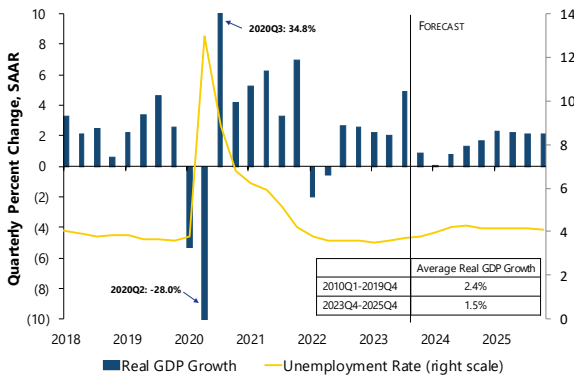
Consumer price inflation slowed markedly from its peak in mid-2022. Year-over-year change in the Consumer Price Index (CPI) dropped to 3.4 percent in December 2023 from 9.1 percent in June 2022. The strength of economic growth over the second half of 2023 and ongoing job growth suggests inflation pressures will remain elevated in 2024. **While the trajectory of inflation is likely to remain volatile in the months ahead, DOB forecasts the CPI to grow 2.8 percent in 2024 following 4.1 percent growth in 2023. Overall consumer price inflation is projected to ease to 2.3 percent in 2025, closer to the Fed's inflation target.** Risks related to global geopolitical instability, such as the conflict in the Middle East, could elevate oil prices, adding to the volatility in prices and posing a major risk to the improved outlook. The section on [Inflation Outlook](#) below discusses the underlying factors of the expected inflation trajectory in 2024 and the risks to the inflation outlook.

U.S. Job Gains

Total nonfarm employment grew by 2.3 percent in 2023. Strong job growth in 2023 created further economic momentum for 2024 by lifting consumer spending. Following COVID-19 relief programs which distributed \$3.3 trillion in Federal spending in Federal Fiscal Years (FFYs) 2020 and 2021, fiscal stimulus funded through, the Infrastructure Investment and Jobs Act (IIJA) of 2022, and the Inflation Reduction Act (IRA) of 2022 have helped keep overall employment levels growing. Together with the CHIPS and Science Act, the new legislation designated over \$1 trillion in funds over the next 10 years. As of November 22, 2023, a total of \$154.4 billion of IIJA and \$5.9 billion of IRA funding has been announced. Government spending likely cushioned the economy from the impact of the Fed's monetary tightening. Monthly job gains averaged 257,000 in the first half of 2023 but slowed to 193,000 per month on average between July and December 2023.

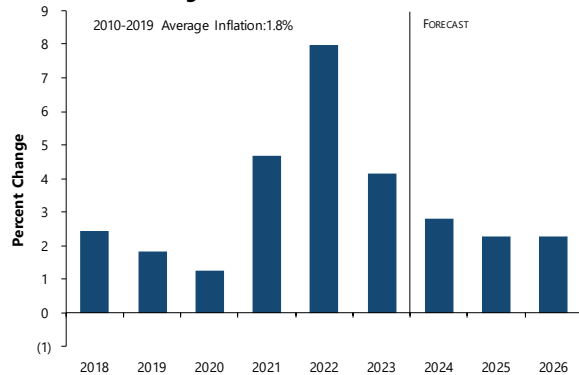
Looking ahead, job gains are expected to slow down significantly in the first half of 2024, but no net job losses are anticipated on a quarterly basis. **Overall, employment is forecast to grow by 0.9 percent in 2024. Similarly, the quarterly unemployment rate is projected to peak at 4.3 percent by mid-2024.** The [Labor Market Outlook](#) section below delves into the factors that buttressed labor markets in 2023 and how labor market trends will be evolving in 2024.

Slow Economic Growth but Moderate Rise in Unemployment



Source: Haver Analytics/BEA, BLS, DOB staff estimates.

Consumer Price Inflation will Trend Down, but likely to Remain Higher than Historical Trends



Source: Haver Analytics/BLS, DOB staff estimates.

New York State Economy and Labor Markets

New York State’s economy was substantially affected by the 2020 recession induced by the global pandemic due to the health crisis and New York’s place within both national and global economies. The State’s economy lagged the national recovery because it was hit so hard and has yet to fully recover from the impact of the COVID-19 pandemic. Since the recovery from the pandemic and the subsequent inflationary period, the State was particularly exposed to volatility in global financial markets as well as the effects of the Federal Reserve’s contractionary monetary policy. As of November 2023, the State employment was 98.9 percent of its pre-pandemic level, though the nation as a whole had regained all its job losses by June 2022. The State’s labor market recovery slowed in 2023 due to labor shortages, high interest rates, and slowing global growth.

New York State employment continued to grow in 2023, but at a slower pace than national employment. **State employment growth is projected to decelerate from estimated growth of 1.8 percent in 2023 to only 0.1 percent in 2024 due to the expected slowdown of the national economy and the continued decline of the State population.** On average, the State only gained 6,100 jobs per month in the first 11 months of 2023, compared to 26,200 average monthly job gains in 2022. State employment is projected to finally surpass its pre-pandemic peak in the second half of 2026.

Both on-going labor shortages and the labor market disruptions such as layoffs and work stoppages recently have been impacting the State’s workforce and overall income trends. The pandemic had an asymmetric impact across the State’s industrial sectors, with low-wage, high-contact service industries bearing a disproportionately large brunt of the job losses. This may have contributed to a widening of the income disparity in the State. Since 2019 the ratio comparing the median income of the highest earners in the top quintile of the income distribution to that of the bottom quintile has been gradually increasing.

The employment recovery since then has been equally uneven. Employment in nine of the State’s major industrial sectors is still under water relative to their February 2020 pre-pandemic peaks. The size of the jobs deficit ranges from a gap of 1.6 percent in the transportation, warehousing and utilities sector to a gap of 9.6 percent in the information sector. In contrast, only three major sectors were posting net job gains as of November 2023 relative to February 2020: financial activities (0.2

percent), professional and business services (1.8 percent), and healthcare and social services (6.7 percent).

The pandemic resulted in several structural shifts for which longer term impacts are still unknown. Firms in the high-wage, high-skill, and information-intensive sectors have adapted to remote work in relatively large numbers. According to The Partnership for New York City's survey, on an average weekday, only 52 percent of Manhattan office workers are in the workplace, and only 9 percent of Manhattan office workers are in the office full time.¹⁴ Businesses that rely heavily on commuter traffic, such as leisure and hospitality, transportation, and administrative and support services, have experienced the greatest challenges. Along with the rise of remote work, soaring housing costs accelerated population shifts away from coastal cities and toward more affordable areas. New York State has shed population in the post-pandemic years. A recent release of the Census population showed a State population loss of 2.7 percent since 2020. The acceleration of out-migration during the pandemic was more significant in New York City. In July 2022, even though Manhattan regained some of its population, the other boroughs in the New York City region continued to lose residents. The high cost of living and income inequality in the State may continue to pose a risk of population loss and exacerbate labor shortages.

The State's unemployment rate fell to a low of 3.9 percent in August 2023 before it started to climb due to the softening of the labor market. It reached 4.3 percent in November 2023, the seventh highest in the country; the U.S. unemployment rate was 3.7 percent for the same month. The statewide unemployment rate for November was pulled up by New York City, which posted a rate of 5.3 percent, compared to a rate of 3.5 percent for the remainder of the State.

U.S. and New York State Personal Income Growth

Higher incomes and household saving levels are expected to continue supporting consumer spending. This will help offset any negative impacts of tightening credit standards and a resumption of student loan payments. At the same time, pandemic income assistance policies that bolstered incomes since 2020 have largely been concluded. The 2023 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.

Consistent with a solid employment outlook and slowly decelerating hourly earnings growth, **DOB projects U.S. wages to grow by 6.3 percent in 2023 and 4.3 percent in 2024.** With nonwage income growth also moderating, **U.S. personal income growth is projected at 5.2 percent in 2023 and 4.1 percent in 2024.**

U.S. wages and personal income grew robustly in 2023 due to tight labor market conditions which supported increasing labor compensation. Although the effect of pandemic-related government transfers on personal income is waning, strong interest income and rental income in 2023 helped bolster personal income growth.

¹⁴ Partnership for New York City, "Survey of Employers" February 2023. <https://pfnyc.org/wp-content/uploads/2023/02/2023-02-RTO-Survey.pdf>. Last accessed: January 14, 2024.

In contrast to the nation, New York State is estimated to have seen weaker personal income and wage growth in 2023, partially/primarily as a result of weather bonus payments relative to 2022. **New York State's total wage growth is expected to decelerate from 5.1 percent for FY 2023 to 3.2 percent growth for FY 2024** in tandem with the slowdown of the national economy, the moderation of the labor market, and the continued decline in bonus growth (3.6 percent). **Total State wage growth is projected to be 3.8 percent for FY 2025 as the outlook for bonus growth improves.** Following weak growth of 0.7 percent for FY 2023 stemming from the unwinding of the many fiscal stimulus programs, State personal income is estimated to grow by 3.5 percent in FY 2024. Looking ahead, New York State personal income growth is projected to pick up somewhat to 4.0 percent in FY 2025.

Interest Rates

Financial market conditions will remain tight in 2024. Since 2022, the Federal Reserve's tightening monetary policy stance appears to have reversed the trajectory of rising inflation, it also made borrowing more costly, reduced demand, and slowed growth (below what it might have been otherwise). High interest rates kept the economy from overheating and high inflation expectations from taking root. The surge in the Treasury bond yields drove up DOB's projections for all other long-term interest rates from mortgage rates to corporate and municipal bond yields. Although these rates headed down toward the end of 2023, they remained well above their levels at the beginning of the year.

Elevated long-term rates are expected to become a significant drag on residential and business investment in 2024 and they will also have a much larger effect on access to credit than rate hikes by the Fed alone. Higher interest rates could take a toll on asset prices as well; the stock market held up better than expected so far. The S&P 500 stock price index averaged 4,685 in the fourth quarter of 2023, representing 19.7 percent growth from a year ago. DOB expects equity markets to soften in 2024, providing less support for household spending through the wealth effect.

Given the recent environment for monetary policy and financial markets, **DOB anticipates no more rate hikes in 2024 and a partial reversal of the tightening policy after mid-2024.** This is consistent with an outlook that reflects the economy's resilience in 2024. If the increase in the long-term Treasury bond yields is sustained, economic momentum could be further curtailed without the Federal Reserve raising its policy rates.

Economic growth, interest rates, and financial conditions influence the finance and insurance sector directly. Bonuses from this sector have a significant impact on New York State's personal income and tax revenue, accounting for 53.2 percent of State total bonuses, and 6.7 percent of State total wages in SFY 2023. **Following a decline of 15.1 percent in FY 2023, the State's finance and insurance sector bonuses are estimated to fall by another 2.7 percent in FY 2024.** The decline is driven by weaker bank profits in 2023, stemming from lower dealmaking activities and high interest costs. Growth in financial activities in 2024 is expected to be modest due to a weak national and global economic environment and geopolitical and presidential election uncertainties. Finance and insurance sector bonuses are projected to grow by 7.7 percent in FY 2025.

There are several economic risks in the horizon that 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. Moreover, there are additional sources of uncertainties despite somewhat favorable expectations for 2024. One of the two sources of uncertainty is whether the economy will experience a recession in early 2024 or not. A recession in overall economic activity would be disruptive, costly, and create even greater uncertainty. However, as discussed in the [Recession Prospects](#) section below, DOB's economic outlook assesses a much-diminished probability of recession in 2024 than was the case entering 2023. A second source of major uncertainty in the economic outlook is whether inflation remains on a downward trajectory and whether inflation expectations remain anchored. While prices in general may not fall, falling inflation without rising unemployment has been a positive surprise. The [Inflation Outlook](#) section below discusses the expected development of the inflation outlook in 2024.

Economic Risks

The U.S. economy surprised economists and analysts with its resilience in the past year. Financial turmoil following the collapse of several regional banks at the beginning of 2023 did not trigger a systemic crisis like the one in 2008. Recession fears diminished over the year. The Federal Reserve's monetary tightening that began in 2022 effectively held inflation expectations in check without dragging the economy into a recession. Rate-sensitive sectors navigated responses to rate hikes and tighter credit conditions well so far.

The resiliency of the U.S. economy could be tested if national and global uncertainties rise significantly. While DOB's economic growth outlook is relatively lackluster, particularly in the first half of 2024, the economy is likely to avoid a recession. Considerable uncertainties about fiscal and monetary policies, interest rate trajectories, and geopolitical tensions could weigh on consumer spending, business investment and hiring, housing and financial markets, as well as global trade. The following factors could potentially increase downside risks to the economic outlook:

- If interest rates fall more gradually than anticipated, then negative impacts would show up in the broader economy. Demand for big-ticket items and home sales would recover more slowly than expected. Firms would find it more challenging to manage their borrowing costs. Broader tightening of credit conditions could wreak havoc on financial markets and cause lingering economic problems beyond the financial sector. Moreover, if interest rates remain elevated for an extended period, the growing level of national debt could create major imbalances that could adversely affect the economy in the medium term.
- A Federal government shutdown in 2024, though unlikely, poses an imminent downside risk to DOB's outlook. As of this writing, the U.S. Congress appears to have reached a spending deal for 2024, but it does not extinguish the shutdown threat as the first of two deadlines nears on January 19. More generally, the upcoming 2024 presidential election will elevate uncertainty associated with longer-term fiscal policies throughout 2024 and into 2025.
- A Fed policy error remains a downside risk. DOB anticipates no more rate hikes and three rate cuts in 2024, but the FOMC left its door open to further rate hikes in its December 2023 meeting. Due to the highly uncertain length of the lag between the Fed's actions and economic activity, it is still possible that the Fed might tighten more than is required to return inflation to its 2 percent target.
- Geopolitical tensions may escalate. A broader conflict in the Middle East could lead to another oil price surge and a resurgence of inflation. More persistent inflation could threaten a de-anchoring of inflation expectations and push the Federal Reserve to continue tightening, driving the economy toward a recession. A tense U.S.-China relationship could give way to intensified export controls of advanced semiconductors to China or even an all-out trade war, disrupting global trade and supply chains.

Risks to New York State Forecast

The forecast for the State economy faces many of the same risks as the national economic outlook. As home to the world's financial capital, New York has significantly greater exposure to monetary policy shifts and the volatility of financial markets. The high interest rates coupled with high vacancy rates due to remote work caused declining commercial real estate property values, and rising delinquencies on commercial real estate loans. These could bring new challenges to the banking industry. Another shock to the banking industry or a weaker equity market performance could result in a broader wave of layoffs, weaker bonuses and wage growth, and significantly lower taxable capital gains realizations than reflected in the current forecast.

More locally, the ongoing persistence of telework, the potential for continued relocation of urban-based workers outside of the State, and a decline in the State's population remain long-run downside risks to total wages and employment. If the recovery of international tourism in New York State is weaker, or if the dollar remains at historically strong levels, job growth within those sectors that rely on tourism spending and exports could be weaker than expected. The declining population poses a threat to economic growth. The State population has declined by 2.7 percent since 2020. Employers, especially those in upstate communities, are facing challenges in finding workers to fill roles.

If growth doesn't fall as much as forecast in the soft-landing scenario, the outcome for the New York State economy could be more favorable than the outlook reflected in this forecast. A more substantial return to an in-office working environment, particularly in densely populated urban areas such as New York City, would likely result in a boost to those industries that serve a substantial commuter customer base, including facilities support services, business support services, office administrative support services, eating and drinking establishments, and other consumer service-based establishments. Additionally, stronger global growth could also bring more tourism spending to the State, resulting in stronger growth in the leisure and hospitality and other tourism-related sectors than is reflected in this forecast.

Recession Prospects

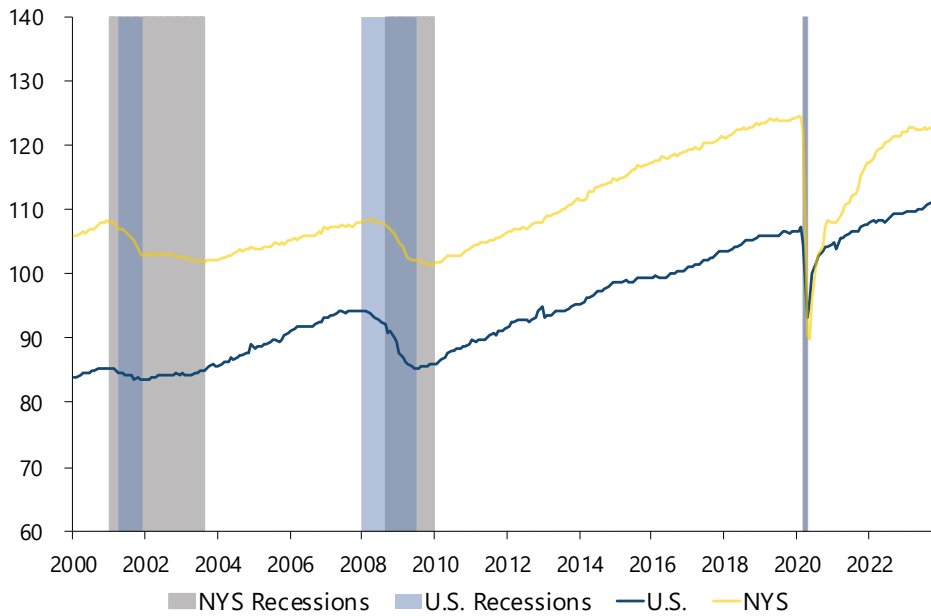
Although certain indicators point towards a slowing economy, there are several factors that reduce the likelihood of a severe downturn which was forecast previously. A closer look at the latest readings of economic indicators at the end of 2023 suggests the economy is not in recession and the probability of recession in the next 12 months is receding. Continuing job gains, healthy consumer spending, and falling inflation will mitigate recession expectations. While there are weaknesses that still point toward a possible recession, the economic forces they represent are either receding or are more likely to be offset by the positive growth momentum of the U.S. economy. This section discusses the key factors that affect the recession outlook in 2024. The balance of positive and negative factors suggest that while the economy may slow, it is much less likely to tip into a recession in the coming year.

Stable Economy and Employment Levels

While the official GDP data provides the broadest measure of economic output in the quarterly or annual frequencies, business cycle phases are better measured by coincident indicators or indexes. The cyclical coincident (composite) indexes are multivariate measures of current economic conditions that are highly correlated with GDP but they provide an earlier monthly insight into economic growth conditions before quarterly GDP data become available. The indexes are more suitable for measuring the state of the economy because they provide an average of the trends in the four main coincident indicators for the U.S. economy: income, sales, industrial production, and employment. (The indexes and variables for the U.S. coincident index are plotted below.) They help determine whether an economy is in expansion or contraction throughout its business cycle. Historically, coincident indexes have been used to delineate periods of expansion and contraction in the business cycle. In fact, the Business Cycle Dating Committee of the National Bureau of Economic Research (NBER), considered as the official arbiter of the business cycle chronology in the U.S., relies on the components of the coincident index to determine when the economy enters and exits a recession.

The recent readings of the coincident indexes for the United States and New York show a slowly expanding but stable economy towards the end of 2023. The lack of a significant downturn in these indexes marks the current resilience of the economy. This points to a continuing growth momentum across major sectors. There are some signs of weakening in select sectors such as manufacturing and construction sectors, but these pockets of trouble have been contained and have not spilled over to the wider economy. The relatively weaker recovery of employment in New York State is one of the factors why the coincident index for the State shows a flattening trend compared to the U.S. coincident index.

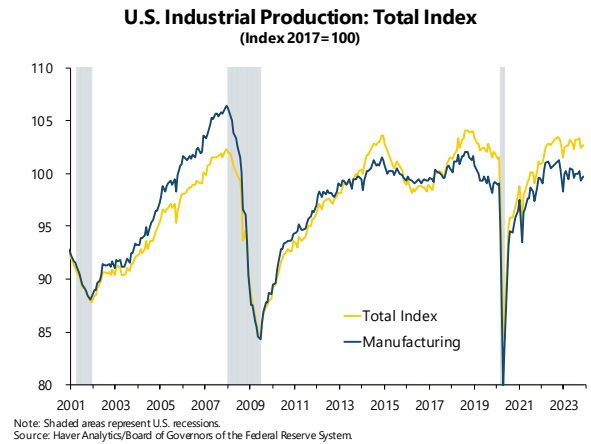
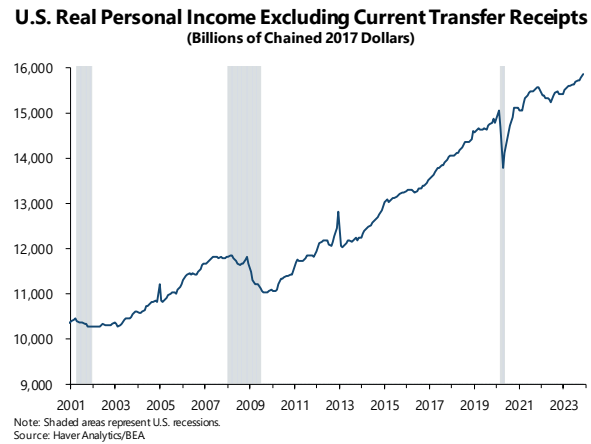
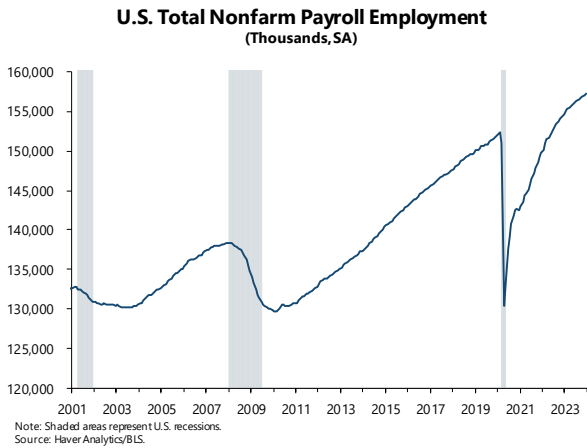
Coincident Economic Indexes



Note: NYS recession dates are DOB staff estimates.
 Source: Moody's Analytics/Conference Board; National Bureau of Economic Research (NBER); DOB staff estimates.

Economic Fundamentals

Two of the three recessions in this century were characterized by significant levels of over-investment. The period leading up to 2001 recession was often called the technology bubble. The period before the 2007 recession was characterized by over-investment in homebuilding enabled by an unsustainable credit expansion made possible by financial innovation (i.e., credit derivatives markets). The absence of financial instability due to unsustainable credit growth and the lack of evidence of over-investment in critical sectors, such as technology, housing, and business inventories, enhances the stability of the current economy. Additionally, global supply chain disruptions that emerged during the pandemic have eased, and production and supply difficulties no longer pose significant risks to the economy. While interest rate sensitive cyclical sectors, such as manufacturing and construction, could be experiencing challenges, the robustness of labor markets and overall consumer spending diminishes the chances of a pronounced downturn.



Probability of Shocks and Falling Inflation

As the U.S. economy heads into 2024, potential shocks to the economy, such as oil price shocks, stock market shocks, and interest rate shocks are unlikely to cause a severe impact, given the strong economic fundamentals so far. Furthermore, while labor shortages have pushed up wage growth, wage pressures have not been a major factor leading to significant inflation. The lack of wage fueled inflation expectations alleviates concerns over increased monetary tightening or policy mistakes of unexpected interest rate hikes in 2024.

While there are indications of a slowing economy, the probability of a recession in the economic outlook for 2024 in the United States has receded. **Several recent developments point to a stable and resilient economy where leading indicators are gradually improving, strong economic fundamentals are sustained with a low probability of shocks, and inflation remains relatively high but under control.** Consequently, there are reasons for cautious optimism in the economic outlook.

In addition, labor markets have been unusually robust in sustaining job growth in the aftermath of the pandemic. Unemployment insurance claims have remained stable at low levels, indicating firms are not laying off workers in the face of rising costs. While businesses have held on to their workers

and adjusted to rising costs in other ways. For example, firms have increased prices and have realized marginal cost savings by reducing job openings. Hiring is cooling off gradually which will allow for high interest rates to come down without causing a recession in the overall economy.

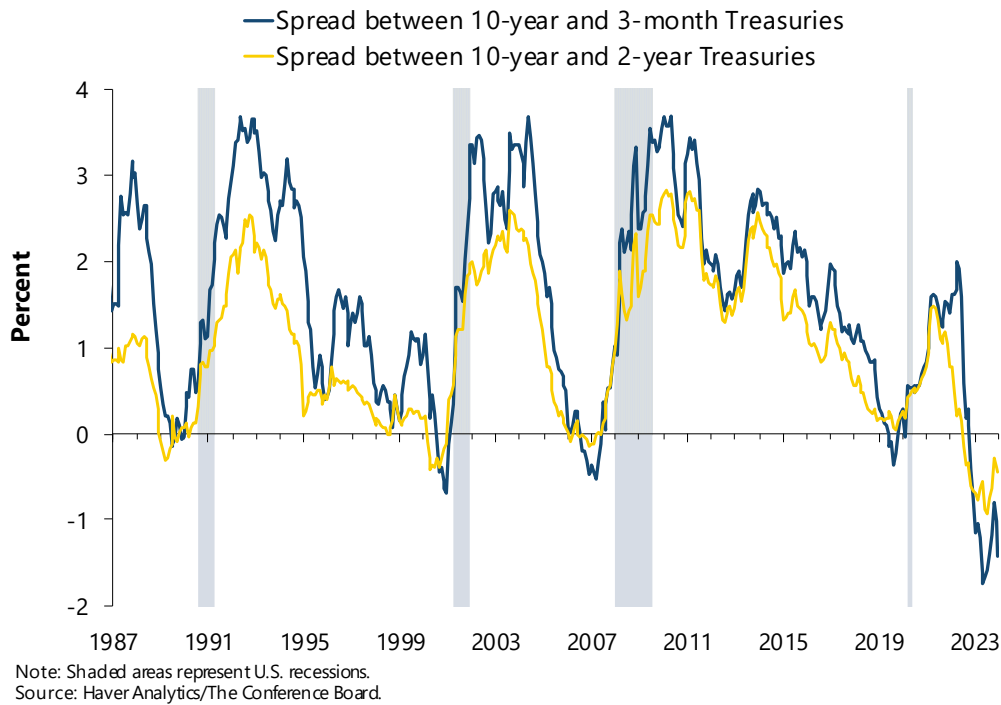
Inverted Yield Curve as a Leading Indicator of Recession

The yield curve plots the relationship between short and long term interest rates. Generally during economic expansions, higher interest rates are paid for longer term debt resulting in positive yield spreads. When short-term interest rates are higher than those paid on long-term debt, the yield curve inverts or the yield spreads become negative. The inverted yield curve has traditionally been seen as a harbinger of a recession. Many earlier recession predictions relied on an inversion of yield spreads which have historically preceded recessions. Once the yield curve inverts, a recession has tended to follow within 12 to 18 months.

In contrast to the historical experience, the yield curve's strength as a recession predictor weakened during recent years. The Fed began raising interest rates in spring 2022 which resulted in the yield curve inversion. At the same time, the Fed began a strategy of balance sheet expansion or quantitative easing meaning the Fed has been a major purchaser of long-term bonds. This strategy of quantitative easing distorts the bonds rates and keeps long-term yields lower than they might otherwise have been — this leads to the yield curve flattening and inverting when short-term rates rise. Thus, the signal from the yield curve may not be as reliable in this cycle as it used to be.

The spread between 10-year Treasury and short-term Treasuries has remained negative for over a year, which would traditionally precede a recession and be a source of concern for the current business cycle. The strength of economic fundamentals in labor markets and consumer spending may offset the signal from the yield curve. **DOB expects the spread between 10-year Treasury and short-term Treasuries to turn positive after the FOMC starts to cut its policy rates, ending the inversion of the yield curve in 2025.** Given the potentially diminished relationship between the yield curve and business cycles in this instance, it is important to examine other leading economic indicators.

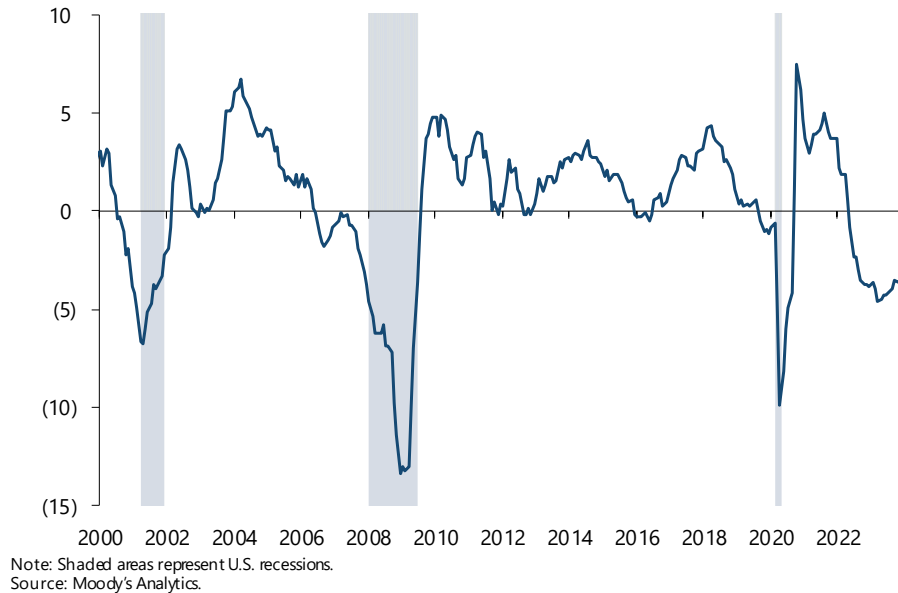
Yield Curve Inverted



Recent Improvements in Leading Economic Indicators

Composite indexes such as *The Conference Board Leading Economic Index™* (LEI) aggregate several leading indicators, including the yield spread, and generally provide a more reliable recession signal. The LEI compiles 10 historically predictive economic measures. Because the composite index averages together individual indicators, it provides a smoother and more reliable forward looking metric. When the LEI falls persistently with widespread weaknesses among its components, it often signals a recession coming. This recession indicator has been decreasing since July 2022 as shown by the six-month growth rate of the index plotted below. In addition to an inverted yield curve, recent contributions to a declining LEI include pessimism of consumer expectations, softening manufacturing new orders from purchasing managers, and weakness in new home building permits.

The Conference Board Leading Economic Index (LEI)
 (Percent Change 6-Month-Ago, 2016=100)



Although the LEI has signaled a potential recession since mid-2022, a closer reading of recent data suggests a turnaround may be developing in the final months of 2023 as shown in the graph above. This suggests the risk of a downturn in the economy may already be receding as positive factors that support continuing growth offset the risks that usually precede a recession. In addition, models that estimate recession probabilities have been pointing to a diminishing probability of recession in the next 12 months. Similar weakness in the LEI and recession signals have occurred in the past without the economy going into recession. Such periods were marked with economic growth slowing below its long-term potential, sometimes called growth cycle recessions (in contrast with a business cycle recession). For example, in the mid-1960s and mid-1990s the LEI signaled economic downturns that did not develop into full blown recessions. Current developments in leading indicators suggest the U.S. economy might be passing through a similar period. It is notable, however, that during such periods, recession risks remain elevated.

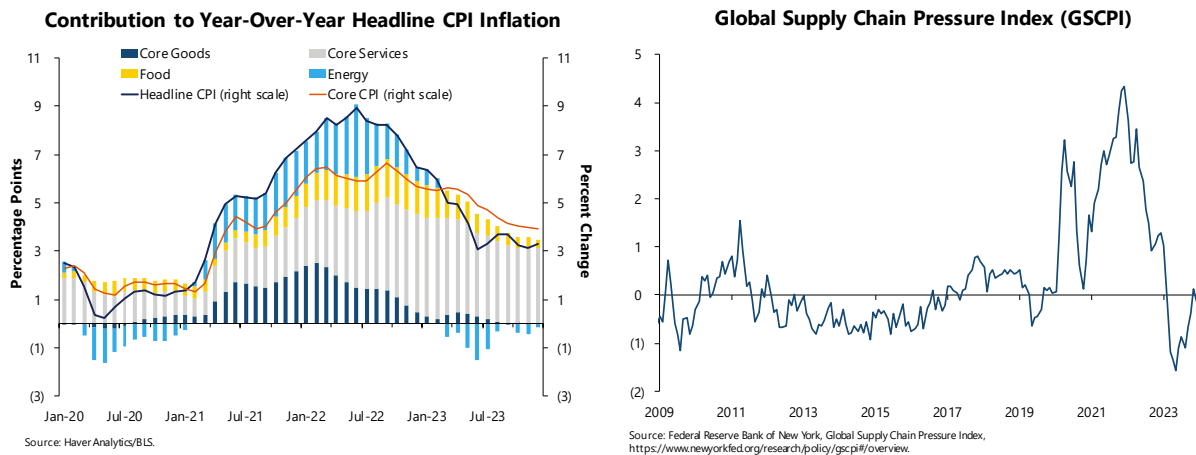
The strength in nonfarm payroll employment throughout 2023 indicates that a massive layoff of workers did not materialize nor is it expected in 2024. A still-tight labor market, with baby boomers aging out of the labor force and restrained foreign immigration, is discouraging businesses from significantly cutting their workforce. Despite the widely expected slowdown in job growth in 2024, employment will not significantly contract and unemployment will not increase sharply. This should help maintain consumer spending levels throughout the year. As consumer demand holds up, there is little reason for businesses to pull back their spending and investment plans. Moreover, fiscal spending related to infrastructure and innovation provides additional impetus for economic growth in the year ahead. If this baseline scenario turns out to be the case, **the U.S. economy is likely to avoid a recession despite a notable slowdown in economic growth in the first half of the year. While such slow growth may not be technically a recession which involves negative growth rates and high unemployment, it still represents a major growth cycle downturn where growth deviates significantly from its long-run trajectory.**

Inflation Outlook

Consumer Price Inflation

Overall price inflation, measured by the year-over-year change in the headline Consumer Price Index (CPI), dropped to 3.4 percent in December 2023 from 9.1 percent in June 2022. This year’s easing inflation can be attributed to supply-side improvement, pandemic-era supply chain bottlenecks and shortages which were finally resolved. The Global Supply Chain Pressure Index, published by the Federal Reserve Bank of New York, turned negative in 2023 and recently reached a neutral level around zero indicating a relief of supply chain-related pressures on prices. However, there is still some way to go before inflationary forces fully subside in the U.S. economy.

Meanwhile, demand-side price pressures have also eased through monetary policy. The Federal Reserve’s continued rate hikes have tempered demand, particularly for housing. Still, consumer spending, business investment, and labor demand remained resilient, but they might have been even stronger if the Federal Reserve had not raised rates. Higher rates in the U.S. also helped strengthen the U.S. dollar, easing price pressures on inflation from imported goods and services.

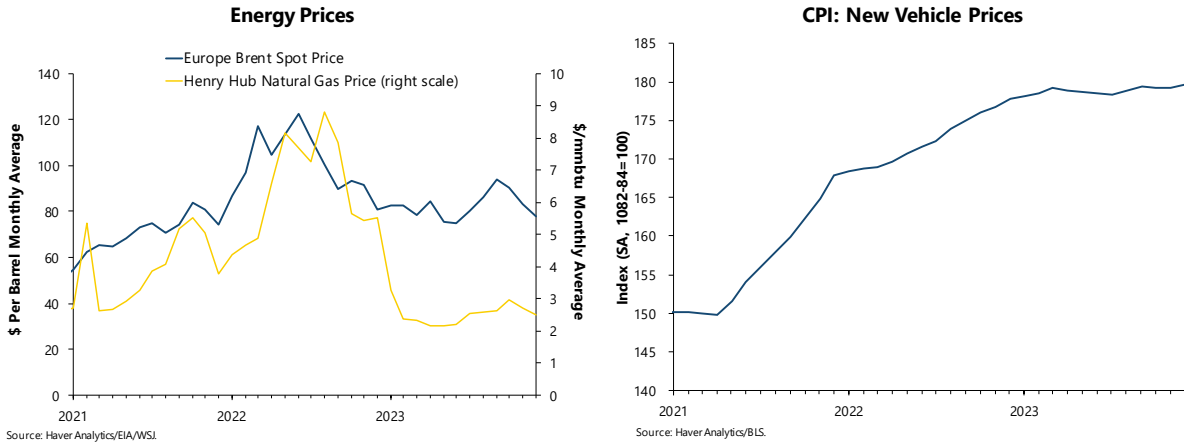


Core Inflation

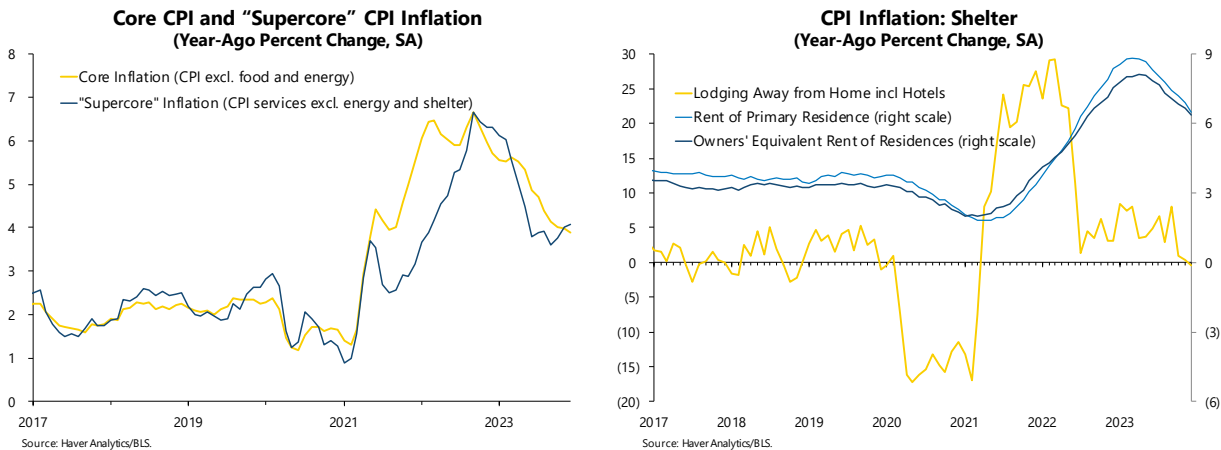
Core inflation has been steadily trending down, suggesting growth continued without creating significant imbalances and risks in the economy, but temporary factors bumped up CPI inflation in the second half of 2023.

Analysis of price changes across different sectors of the economy can provide insights into the trends driving inflation. Highly volatile, and likely temporary, increases in food and energy prices have been particularly influential on overall inflation in recent years. Headline CPI inflation, which includes all goods and services, ticked up in the third quarter of 2023 after declining to its cyclical low in mid-2023. Whereas core CPI, which excludes traditionally more volatile food and energy prices, continued trending down from its cyclical high. In the third quarter of 2023, a sharp increase in global energy prices led to a reacceleration in the overall price index. As a result, the energy component of CPI turned from a large disinflationary factor to a positive contributor to overall CPI

inflation. Meanwhile, the UAW’s strike challenged auto inventory and stalled the softening in new vehicle prices. However, these factors are expected to be temporary, and they won’t reverse the steady slowing of core inflation. Indeed, inflation measured by both the headline CPI and core CPI eased in the fourth quarter of 2023.



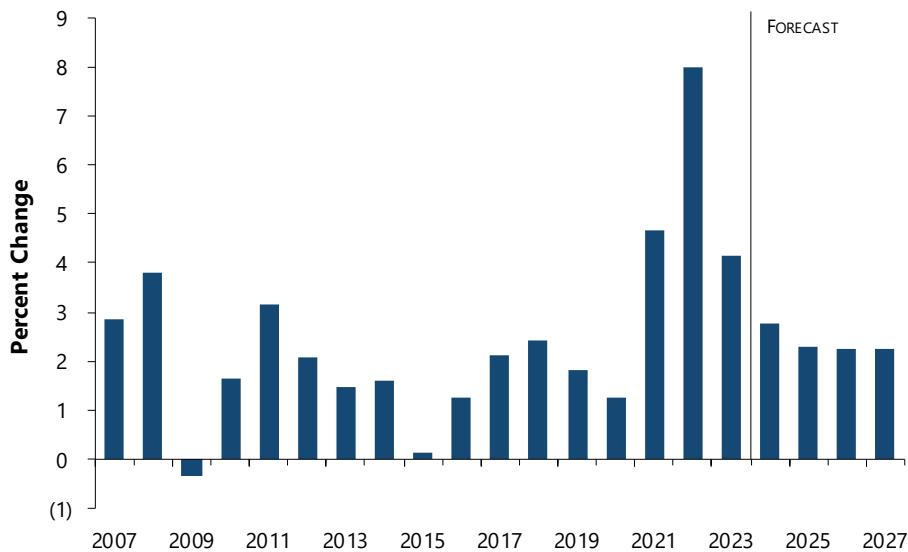
Within the core CPI basket, strong demand for services kept price growth elevated, but some of the price growth in this category will be easing further in 2024 as well. The largest component of core services — shelter — represents about 60 percent of the core services basket, but shelter prices are particularly sticky. Two shelter-related CPI components, rent of primary residence and owners’ equivalent rent, have slowly softened from their 40-year highs since the beginning of 2023 in a lagged response to the moderation of newly negotiated rents. Hotel rates, another shelter-related CPI component, were also gradually normalizing in 2023 from its pandemic-era extremes. When shelter prices are excluded from core services, the so-called “supercore” CPI inflation, which mainly reflects labor costs, has been moderating. Further softening of the labor market should lead to a gradual downdraft in “supercore” inflation as well.



Near-term inflationary pressures remain elevated, but the Federal Reserve’s monetary tightening policies are expected to cool inflation further over the next two years. How much further and how fast could inflation ease? DOB anticipates that inflation pressures will remain elevated in 2024

because the robust economic growth and tight U.S. labor market that continued in the second half of 2023 indicate the momentum of demand-side price pressures will stay in 2024. In 2025, however, DOB expects core inflation to fall from its current elevated rates. Two factors will continue to reduce core inflation: 1) the post-pandemic shift in spending back toward services will unwind, as a result, service price inflation will soften, and 2) the delayed impact of rent moderation will show up in the CPI for shelter more visibly. In addition, the cumulative effect from the Federal Reserve’s monetary tightening policies will ultimately reduce consumer demand for goods and services, discouraging hiring and thus reducing the inflationary pressure from wage growth.

Consumer Price Index (CPI)



Source: Haver Analytics/BLS; DOB staff estimates.

While the trajectory of inflation is likely to remain volatile in the months ahead, overall CPI grew 4.1 percent in 2023 and DOB estimates it will grow 2.8 percent in 2024. In the medium term, overall consumer price inflation is projected to ease to 2.3 percent in 2025, closer to the Fed’s inflation target. Risks related to global geopolitical conflicts could elevate oil prices, adding to the volatility in prices. If these risks materialize and prove long-lasting, tight monetary policy will be likely to persist and dampen the economic growth outlook.

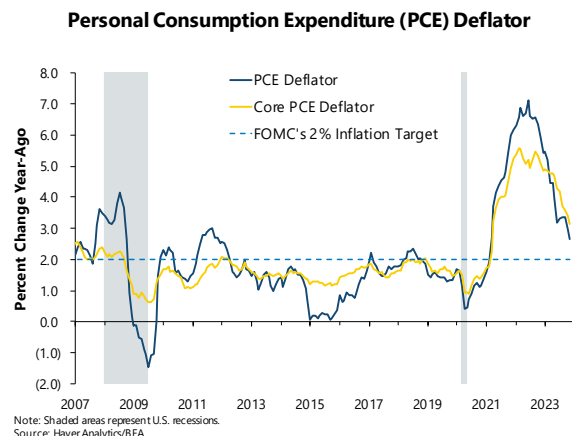
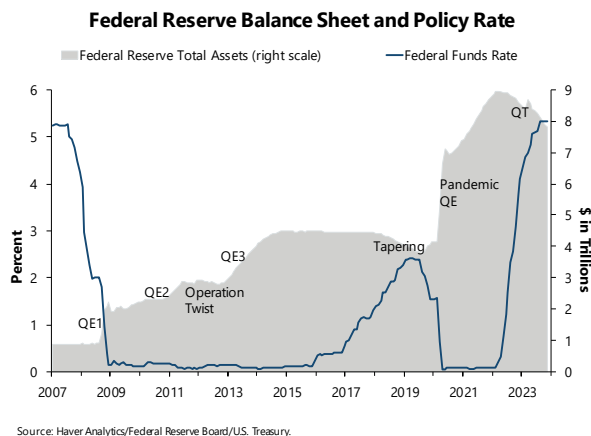
Economic Policy Environment

In the aftermath of the global pandemic induced recession of 2020, economic policies implemented by governments and central banks took on a larger role in shaping the recovery and subsequent economic expansion than in the recession and recovery periods over the last three decades. The impacts of these policies on the U.S. and New York economic outlook are continuing. The outcomes also create new challenges and opportunities, as well as risks, for New York.

Monetary Policy

The Federal Reserve paused raising the federal funds rate after May 2023, but its policy stance remained tilted towards being more restrictive. In 2022, the Federal Open Market Committee (FOMC) committed to a monetary tightening policy to combat high inflation. The federal funds rate rose by a record 425 basis points in 10 months. The policy continued in 2023 with the FOMC raising the target range for the federal funds rate by another 100 basis points from 4.25 – 4.50 percent to 5.25 – 5.50 percent. The current policy rate exceeds the level at the start of the Great Recession of 2008 to 2009. However, rate hikes paused since July 2023 as the FOMC cautiously evaluates the economy because the effects of monetary policy on economic activity, inflation, and financial conditions tend to take place with lags that can be long and variable.

DOB’s economic outlook for 2024 assumes the current cycle of rate hikes are over. At its December meeting, the FOMC left the door open for more rate hikes in 2024, but unless there is a meaningful reacceleration in inflation, the Fed is unlikely to raise rates in 2024. One rationale for ending the rate hikes is the easing of high inflation down to a level closer to the Fed’s target rate of 2 percent. The core personal consumption expenditure (PCE) deflator, which Federal Reserve policymakers believe is the best measure of the underlying rate of consumer price inflation, softened to 3.2 percent on a year-over-year basis as of November 2023. In addition, financial market conditions including more stringent bank lending standards, the strong dollar, and elevated long-term yields should contribute to softening inflation without requiring future hikes in the federal funds rate.



Federal Funds Rate Forecast

Federal funds rate hikes are on hold, but quantitative tightening continues. In addition to changing its policy rate target, adjusting the size of its balance sheet is another tool that the Federal Reserve has used since the Great Recession to achieve its policy goals. The so-called quantitative easing or tightening policies aim to influence liquidity in financial markets and market interest rates through the purchases or sales of asset-backed securities and/or other financial instruments. In the middle of 2022, the Federal Reserve transitioned from the pandemic-era asset purchase program (“quantitative easing” or QE) to QT (quantitative tightening). As of December 2023, the Federal Reserve’s balance sheet shrank by around \$1 trillion from its peak of over \$8 trillion. This policy essentially removes liquidity from the financial markets in an effort to prevent overheating. A study by economists at the Federal Reserve Board of Governors estimated that reducing the balance sheet by around \$2.5 trillion over five years would be roughly equivalent to raising the federal funds rate by half a percentage point.¹⁵ Since the Fed will continue allowing the Treasury and mortgage-backed securities on its balance sheet to mature, additional monetary tightening effects from the QT will continue to have a slowing effect on the economy despite the end of the federal funds rate hikes.¹⁶

Rate cuts are anticipated to start after mid-2024.

Once core inflation gets sufficiently close to the Federal Reserve’s 2 percent target and the economy shows signs of meaningfully slowing to a pace that is not inflationary, the FOMC will be more likely to start lowering rates. **DOB projects** these conditions will be met in the second half of 2024, and **rate cuts will proceed slowly with the effective federal funds rate averaging 5.1 percent in 2024, 4.2 percent in 2025, and 3.2 percent in 2026 before normalizing towards a long-term level of 2.6 percent in 2027.** This projected trajectory is consistent with the latest anticipated federal funds rate targets submitted by participating FOMC members. The Federal Reserve’s goal would be to set the federal funds rate at a level consistent with sustained economic growth without high inflation or high unemployment.

Long-term interest rates peaked in 2023 and are expected to level off in 2024.

Long-term interest rates rose in 2023 due to the record increase in the federal funds rate and expectations that the rate may remain higher for longer. For instance, the 10-year Treasury surged 150 basis points between May and October of 2023, briefly touching 5 percent for the first time since June 2007. The long-term interest rate is partly driven by the average of the current and expected future short-term rates. An unobservable factor called term premium, which is the added compensation investors expect for the uncertainties associated with holding longer-term securities, also helps determine these yields. The uncertainties around holding long-term bonds include risk preferences, economic outlook, and global financial conditions. A New York Fed

¹⁵ <https://www.federalreserve.gov/econres/notes/feds-notes/substitutability-between-balance-sheet-reductions-and-policy-rate-hikes-some-illustrations-20220603.html>. Last accessed: January 14, 2024.

¹⁶ Goldman Sachs projected the Fed balance sheet will continue to run off till the first quarter of 2025 when it is reduced to around 22 percent of GDP from the current 30 percent rate. Please refer to <https://www.gspublishing.com/content/research/en/reports/2023/11/19/36cfc76-d8ce-44af-afdc-698c976663a6.html>. Last accessed: January 14, 2024.

model¹⁷ estimates that the term premium for the 10-year Treasury note climbed by more than a percentage point between May and October of 2023. The driving forces behind the term premium surge include the resilient U.S. economy and heightened concerns over the size and expected increases in the U.S. government debt issuance.

Since the end of October 2023, long-term rates have headed down as markets factored in the expectation of no more Fed rate hikes and potential rate cuts. **As of December 2023, the yield on the 10-year Treasury fell to around 4 percent. DOB expects the 10-year Treasury yield to stay at a similar level in 2024 and 2025 as uncertainties will remain elevated.**

While the broader economy has withstood the impact of higher interest rates and maintained a surprisingly strong pace of growth, some cracks have emerged. For instance, higher interest rates have made purchasing big-ticket items on credit more expensive than consumers had been accustomed to. More evidently, elevated mortgage rates have made houses at near record prices even less affordable and weighed 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 through 2025.

Treasury Yields



Source: Haver Analytics/FRB.

¹⁷ https://www.newyorkfed.org/research/data_indicators/term-premia-tabs#/overview. Last accessed: January 14, 2024.

Fiscal Policy Outlook

Federal Spending Accelerated and Made Fiscal Policy More Active

The Federal government has taken a more aggressive fiscal policy approach since the COVID-19 pandemic-induced recession. New York State received a substantial amount of Federal funding as COVID-19 relief spending flowed to households and businesses. After the pandemic, Federal government spending has been more focused on investments in infrastructure and promotion of competitiveness.

Fiscal policy can be an important tool utilized by governments to stimulate aggregate demand in the short run, support sustainable long-term economic growth, and increase 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 governments around the world, including the U.S., 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 safety, build economic resiliency, and alleviate national security concerns against the ensuing global supply chain disruptions and trade disputes.

Traditionally, New York has not fared well in terms of funding and support from the Federal government. Balance of payments estimates dating back to the 1970s have shown that New Yorkers have sent more in tax revenue to the Federal government than they have received in the form of direct payments, grants, contracts, and wages.¹⁸ COVID-19 upended this traditional relationship between the State and the Federal government as COVID-19 relief spending flowed to households and businesses. Expenditures under COVID-19 relief programs distributed \$3.3 trillion in Federal spending across the U.S. in Federal Fiscal Years (FFYs) 2020 and 2021. As a result of the drastic increase in Federal spending, New York experienced a positive balance of payments for those two years.

Federal funding continued to flow into New York

Federal funding will continue to flow into New York to support investments in infrastructure and industrial competitiveness.

In FFY 2022, the Federal government passed three major spending bills: the Infrastructure Investment and Jobs Act (IIJA)¹⁹, the CHIPS and Science Act²⁰, and the Inflation Reduction Act (IRA)²¹. Together the three pieces of legislation designated over \$1 trillion in funds over the next 10 years. Though smaller than Federal spending in response to the COVID-19 pandemic, these long-term funds are expected to drive investment in infrastructure, clean energy technologies, and competitiveness in semiconductor-based industries. The Federal spending in these laws, together

¹⁸ <https://rockinst.org/issue-areas/fiscal-analysis/balance-of-payments-portal/>, <https://rockinst.org/wp-content/uploads/2023/03/Balance-of-Payments-Federal-2023.pdf>

¹⁹ PL 117-58, Signed November 15, 2021.

²⁰ PL 117-167, Signed August 9, 2022.

²¹ PL 117-169, Signed August 16, 2022.

with the residual effect of some American Rescue Plan provisions and student loan interest and payments forbearance that just ended, supported the strength of the U.S. economy in 2023. DOB is monitoring how the overall economy of New York will be impacted by this additional Federal investment going forward.

MAJOR FISCAL POLICY INITIATIVES				
	Total Federal Funding	Date Passed	Date Expected to Go into Effect	Expected Impact on Federal Deficits
IIJA*	\$550 billion	November 2021	2022-2026	Add \$256 billion over 2021-2031
IRA**	\$500 billion	August 2022	over the next decade	Reduce \$60 billion over 2022-2031
CHIPS and Science Act***	\$60 billion	August 2022	over the next 20 years	Add \$80 billion over 2022-2031

Notes:

*IIJA promotes investment in transportation, clean energy, water quality, and broadband infrastructure across the country.

**IRA aims to curb inflation by reducing the federal government budget deficit, lowering prescription drug prices, and investing in domestic energy production while promoting clean energy.

***CHIPS and Science Act provides funds to support the domestic production of

Sources: The White House, Congress, CBO estimates.

Infrastructure Investment

The White House has been monitoring funding announcements and as of November 22, 2023 they have tracked a total of \$154.4 billion of IIJA and \$5.9 billion of IRA funding awards.²² To date, approximately 5 percent of announced funding is directed to awardees in New York State. 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 the construction, local government, and related sectors across the state.

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 the components which are critical to economic and national

²² For detailed data on awarded projects see: https://www.whitehouse.gov/wp-content/uploads/2023/11/Invest.gov_PublicInvestments_Map_Data_CURRENT.xlsx Last accessed: January 15, 2024. <https://www.cbo.gov/publication/58319> Last accessed: January 15, 2024.

security were produced domestically. The legislation created manufacturing incentives, tax credits, and funding for R&D and workforce development to support the sector.²³ Several states also created incentive programs to attract manufacturing within their borders. New York established the Green CHIPS program that provided incentives for the development of environmentally friendly semiconductor manufacturing and supply chain projects.

New York is positioned to benefit from the Federal investment in semiconductor competitiveness. In conjunction with the CHIPS act signing, Micron announced a \$40 billion plan to build a manufacturing facility in Central NY and GlobalFoundries announced a \$4.2 billion expansion of their facilities in the Capital Region. Some of the funding may also flow to support the semiconductor research facility operated by NY Creates in Albany. This suggests that significant Federal funding and matching private investment could directly lead to growth in the construction of industrial facilities and capital investment and machinery in the State in the coming years. This spending would require complementary investments by firms in the semiconductor supply chain, higher education institutions, and workforce development organizations as they work to build the labor and material infrastructure required to support the industry.

The construction of facilities of this nature is complex and it can take several years after an announcement to build facilities and begin production. DOB does not expect to see significant impacts in the upcoming fiscal year but will be monitoring developments relevant to New York. This could include the construction of new manufacturing facilities and expanded 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.

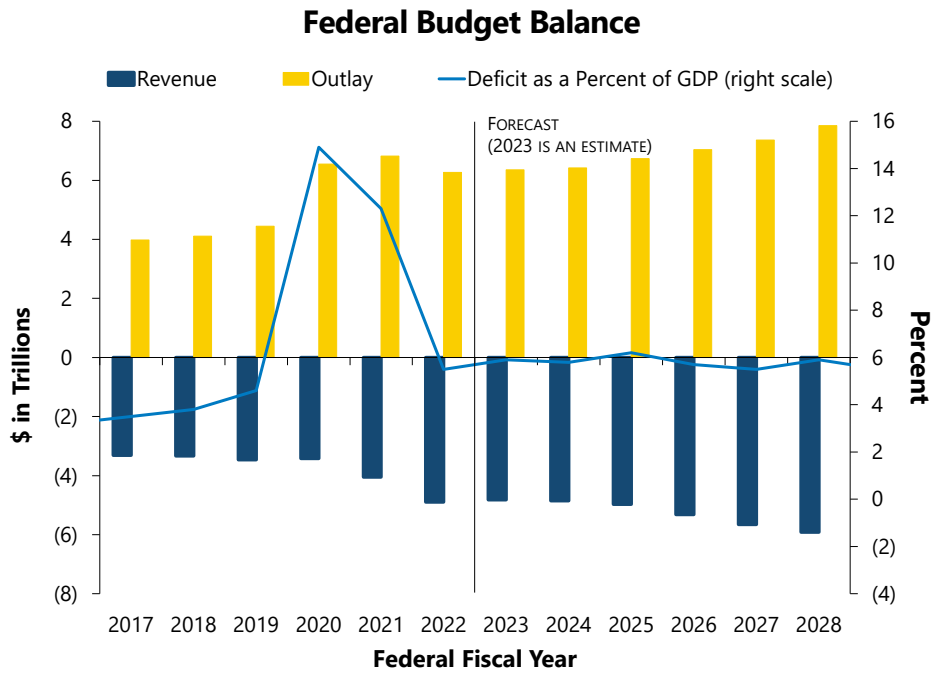
Fiscal Deficits

While fiscal policy has proven highly effective in supporting the economy through hard times, the sizable fiscal imbalance poses potential challenges for the U.S. economy in the future.

As many COVID-19 relief programs expired in 2022 and robust economic recovery raised Federal revenues, the Federal budget deficit narrowed to 5.5 percent of GDP, significantly below its double-digit rate at the height of the pandemic. According to the U.S. Congressional Budget Office (CBO), the deficit as a percent of GDP will stay around 6 percent of GDP for the remainder of the decade. The Federal budget deficit is expected to remain elevated above its pre-pandemic level because the expansion of Federal spending is not expected to be supported by Federal revenue increases.

The outlook for the Federal budget deficits and revenues remains highly uncertain. As of FFY 2022, the Federal outlay only declined by \$0.5 trillion out of the \$2.4 trillion increase from FFY 2019 to FFY 2021. Federal outlays are projected to rise from the 2022 level in the next few years when higher interest rates on debt as well as rising healthcare costs due to an aging population are expected to require increased Federal spending. Meanwhile, the Federal revenue growth is projected to slow down as economic growth dampens. As a result, the Federal budget gap is projected to widen going forward. The need to finance and service the debt interest rates might lead to interest rates remaining higher in the medium and long-term.

²³ <https://www.cbo.gov/publication/58319> Last accessed: January 15, 2024.



Such a sizable fiscal imbalance in the medium- to longer-run poses potential risks to the U.S. economy. Although the nation’s ability to finance these deficits is supported by the world’s largest economy and the U.S. dollar remains the world’s reserve currency with no obvious alternatives in sight, the risk that lenders’ trust may erode remains. For example, Fitch Ratings downgraded the U.S. long-term credit ratings in August 2023, the second downgrade in the nation’s history. In November 2023, Moody’s lowered its outlook on the U.S. credit rating from “stable” to “negative”.

If investors lose confidence in the U.S. government’s ability to service and repay its debt, interest rates could increase abruptly. Borrowing costs throughout the economy would rise, crowding out private investment and slowing economic growth. Meanwhile, interest payments could disrupt other budget priorities, such as national defense and healthcare. The interest rate increase in 2023 has generated substantial concerns over the Federal government’s mounting interest service burden and long-term fiscal health. If the high-interest rate environment were to last longer, there would be further damage to the U.S. economy and borrowing would become more costly across the board.

Policy Uncertainty in 2024 and Beyond

Even if a federal government shutdown is avoided early in the year, the 2024 presidential election creates a great deal of uncertainty about the direction of Federal tax laws and spending after the election. The outcome of the election may result in a renegotiation of fiscal policy in 2025. Revised policies could have major implications for New York State revenues in out-years.

The uncertainty surrounding the 2024 presidential election is also an opportunity for policymakers in Congress and the White House to make tough decisions on both sides of the budget ledger.



Notably, sizable portions of the tax cuts enacted in 2017 through the Tax Cut and Jobs Act (TCJA) are set to expire at the end of 2025.²⁴

The outcome of the general election will shed some light on possible changes to tax and spending policy going forward. Some of the TCJA provisions could have major implications for the New York State budget in out-years. For example, if the State and Local Tax (SALT) deduction were to expire, the \$10,000 cap on the SALT deduction would not apply and hence taxpayers in New York would be able to deduct all eligible state and local income, sales, and property taxes, as well as foreign income taxes. This would lower the effective tax rate by filers in the state and potentially improve the State's competitiveness.

²⁴ <https://crsreports.congress.gov/product/pdf/R/R47846>. Last accessed: January 14, 2024.

Labor Market Outlook

The state of the labor market is a critical indicator of economic health. It provides an indication of an economy's ability to create jobs and sustain growing economic activity. The bulk of the State's revenues are raised through income taxes so the employment outlook has a direct impact on the fiscal health of both the U.S. and New York State.

SELECTED LABOR MARKET INDICATORS							
	Population		Labor Force		Employment to Population Ratio		
	NYS	US	NYS	US	NYS	US	
	2020	20,201	331,449	9,577	160,763	53.2	56.8
2021	19,855	332,049	9,561	161,212	55.3	58.4	
2022	19,673	333,271	9,617	164,291	57.7	60.0	
2023	19,571	334,915	9,720	167,103	58.6	60.3	
Percent of Female	51.1	50.4	47.5	46.8	53.0	55.3	
Percent of 25-54 years old (Prime Working Age)	39.2	38.7	64.6	63.8	78.9	80.7	

Notes: The population proportions of females and 25-54-year-olds in New York are based on 2022 ACS 1-year estimates, labor force and employment to population ratio for the same group are based on 2022 Current Population Survey Micro Dataset.

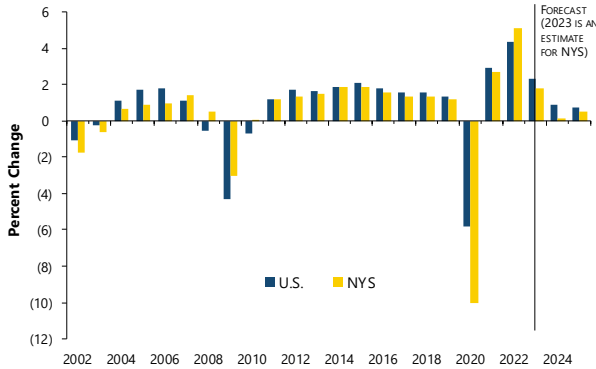
Employment

The U.S. job market remained robust in 2023. However, employment growth has been moderating since February 2022 in both the U.S. and N.Y. As the U.S. economy proved resilient to interest rate hikes and consumers kept spending, labor markets remained solid in 2023. However, U.S. employment growth has been moderating gradually since February 2022, in response to the Federal Reserve's tightening monetary policy. During the first half of 2023, payroll employment growth averaged about 257 thousand monthly. The payroll employment gains in the second half of 2023 were slower, averaging 193 thousand per month since July 2023.

In the first half of 2024, DOB expects the downward trend in employment growth will continue. Growth in nonfarm payrolls is projected to slow down significantly with some job losses possible in the second quarter. At the same time, unemployment is not expected to rise more than 0.2 percentage points in the second quarter. **Overall, employment is forecasted to grow by 0.9 percent in 2024.**

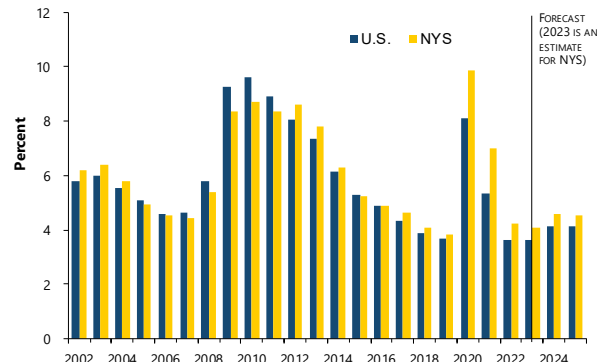
As of December 2023, the U.S. nonfarm payroll employment surpassed its February 2020 pre-pandemic peak by 4.9 million, or 3.2 percent. In 2023, most job growth occurred in customer-facing sectors, particularly the leisure and hospitality and other services sectors, as well as in low-skilled service-related occupations, mainly as a result of the return to normalcy post-pandemic. Hiring in interest rate-sensitive sectors such as finance, real estate, and professional business services stalled later in 2023 after contributing to job growth earlier in the recovery.

Annual Employment Growth



Source: Haver Analytics/BLS; DOB staff estimates.

U.S. and NYS Annual Average Unemployment Rate

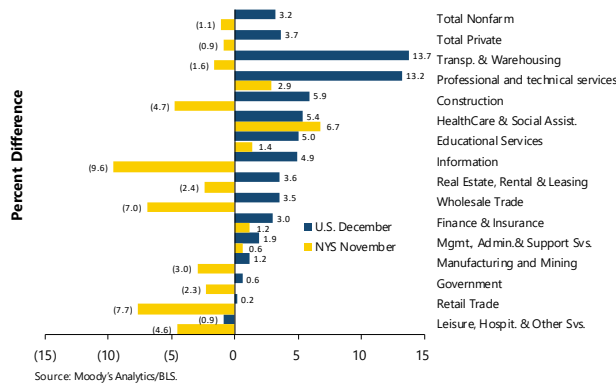


Source: Haver Analytics/BLS; DOB staff estimates.

New York State Labor Markets

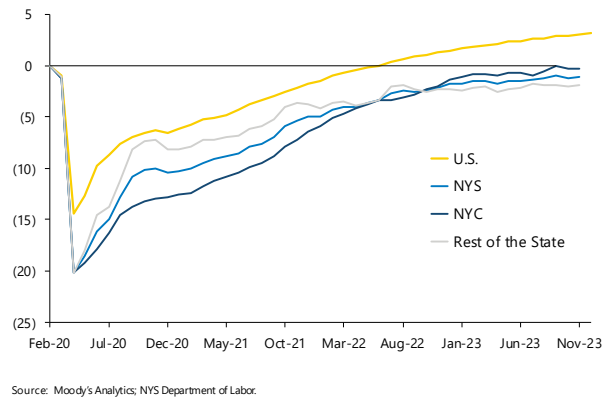
New York State job gains moderated in 2023, with most growth coming from low-wage sectors. New York State employment continued to grow in the first half of 2023 but at a slower pace than the national economy. The state's employment growth has also been slowing since February 2022. New York's private payroll added, on average, 4,400 jobs in the first half of 2023, compared to a monthly average of 4,000 jobs from July 2023 to November 2023. In contrast, the State added a monthly average of 25,500 private jobs in 2022.

Employment Relative to February 2020



Source: Moody's Analytics/BLS.

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



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

The State's total nonfarm employment remained 1.1 percent below its pre-pandemic level, while the nation as a whole had regained all of its job losses by June 2022. As of September of 2023, New York City finally regained the number of jobs lost after the pandemic. Statewide job growth continues in health care, social assistance, and many face-to-face industries, but it has flattened or fallen in the high-paying remote-working sectors, including technology and finance.

The table below shows projected employment changes for New York State by economic sector.

CHANGE IN NEW YORK STATE EMPLOYMENT				
	2023		2024	
	Percent	Level (Thous.)	Percent	Level (Thous.)
Total Private	2.1	163	0.1	12
Utilities	3.0	1	(1.2)	(0)
Construction	0.6	3	(0.7)	(3)
Manufacturing and Mining	(0.6)	(2)	(2.0)	(8)
Wholesale Trade	0.7	2	(0.8)	(2)
Retail Trade	(0.4)	(4)	(1.5)	(13)
Transportation and Warehousing	0.7	2	(0.9)	(3)
Information	(1.6)	(5)	(1.3)	(4)
Finance and Insurance	1.6	8	(0.7)	(3)
Real Estate and Rental and Leasing	0.9	2	(0.8)	(1)
Professional, Scientific, and Technical Svs.	1.7	12	0.4	3
Management, Administrative, and Support Svs.	1.9	12	0.4	3
Educational Services	2.5	9	1.8	6
Healthcare & Social Assistance	3.8	62	1.5	25
Leisure, Hospitality and Other Services	4.3	51	1.4	18
Government	0.3	4	0.0	0
Total	1.8	167	0.1	12

Note: Management, administrative, and support services includes NAICS sectors 55 and 56; sum of sectors may vary from the total due to the exclusion of unclassified.
Source: NYS Department of Labor; Moody's Analytics; DOB staff estimates.

In contrast to strong employment gains of 5.1 percent in 2022, growth slowed in 2023 and the outlook for 2024 is much weaker. The State's employment gains are expected to be led by leisure and hospitality, healthcare and social assistance, and educational services sectors. Key sectoral trends of note include:

- The State's employment recovery in the **healthcare and social assistance** sector outpaced national trends. The State's health care and social assistance sector is expected to continue to lead the State's job growth, albeit at a slower pace. The sectoral employment gains came only in New York City and Long Island regions, as of the second quarter of 2023, these two regions were the only regions among the state surpassing pre-pandemic peak employment level in healthcare and social assistance.
- As tourism and business travel continue to rebound, employment is on track to reach pre-pandemic level. New York State's **leisure, hospitality, and other services** sectors led the State's job recovery in 2022, with the employment level increasing by 15.1 percent (157,000 jobs). As tourism continues to rebound and patrons return to arts and entertainment venues — especially in New York City the sector is expected to continue to expand. The sector was among State's fastest growing in 2023 and is expected continue to grow at a slower pace by 1.4 percent in 2024.
- According to the latest available data from Quarterly Census of Employment and Wages through the second quarter of 2023, New York State's **manufacturing** sector employment

remains well below pre-pandemic levels. However, according to a more timely dataset from Current Employment Statistics, employment in the manufacturing sector recovered through November 2023. The Capital Region was the only region in the State to surpass its pre-pandemic employment level for this sector by 4.5 percent in the second quarter of 2023. The State's manufacturing sector employment is expected to decline further along with the slowdown of the national economy. The New York Fed's Empire State survey reports a significant drop in hiring intentions among service providers and manufacturers in 2024.

- The State's employment in the **information** sector surpassed its pre-pandemic peak in 2022 after strong growth. However, employment in the sector slowed down in 2023 partly as a result of the WGA and SAG-AFTRA strikes and the slowdown in hiring of high-tech companies. Even though the entertainment sector strikes were resolved in November 2023, the declining employment in high-tech firms, will slow employment growth throughout 2024.

The State's total employment is estimated to grow by only 1.8 percent in 2023. **Looking ahead, State employment growth is projected to slow down in 2024, growing 0.1 percent, mainly due to the slowing growth of the national economy.** As a result of slower labor market growth in the State, the employment level is projected to finally surpass its pre-pandemic level in the second half of 2026.

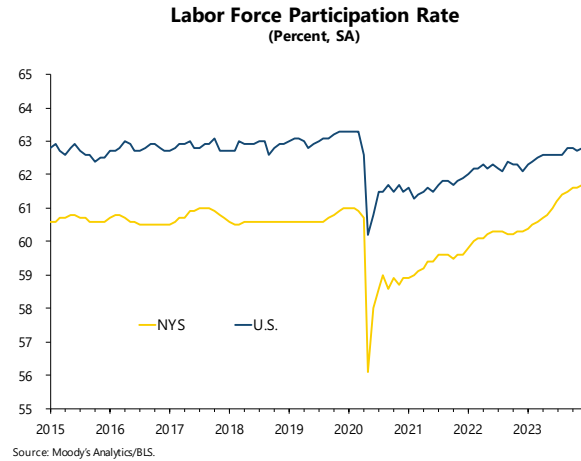
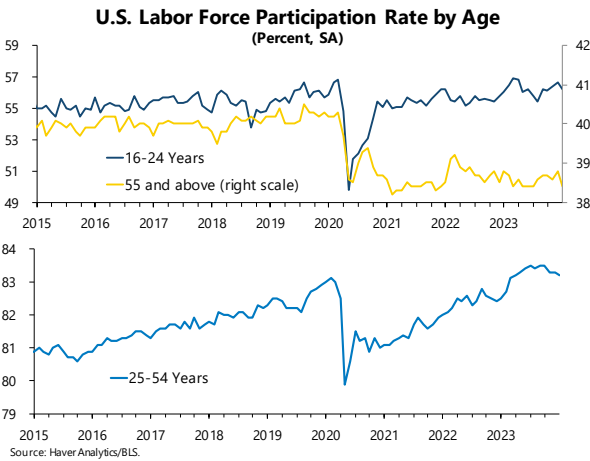
Labor Supply

Labor supply improved considerably in 2023 as more Americans and New Yorkers entered the workforce. The State's labor force participation rate has historically lagged the national rate but the gap has narrowed in recent years. Labor force participation in New York has exceeded its pre-pandemic 10-year average of 61.2 percent after recovering from the pandemic low of 56.0 percent in 2020.

In contrast to 2022, the labor force was far from stagnant in 2023. Higher wages attracted more individuals into the job market. A recent wave of immigration beginning in 2021 made a significant contribution to the labor force. Foreign-born workers accounted for a record high 18.6 percent of the U.S. labor force in 2023, thus 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 recently reached 80.7, the highest ratio over 20 years.

Despite these recent gains, long term demographic trends are limiting labor supply in the United States and other mature economies around the world. The labor force participation rate, which is the ratio of people ages 16 and older who are employed or actively seeking employment to the total non-institutionalized, civilian working-age population, in the U.S. is still below its 10-year average of 63.3 and appears to be flatlining. Labor force participation among adults aged 25 to 54 reached 83.1 percent in February 2023, finally recovering to its February 2020 level. However, labor force participation among those aged 55 and older stayed well below its pre-pandemic level averaging 38.6 percent points throughout 2023. Most of the decline can be attributed to baby boomers choosing to retire during the pandemic. Recent research from the Federal Reserve

suggests that the aging population will put downward pressure on the national labor force participation rate.²⁵



Labor Demand

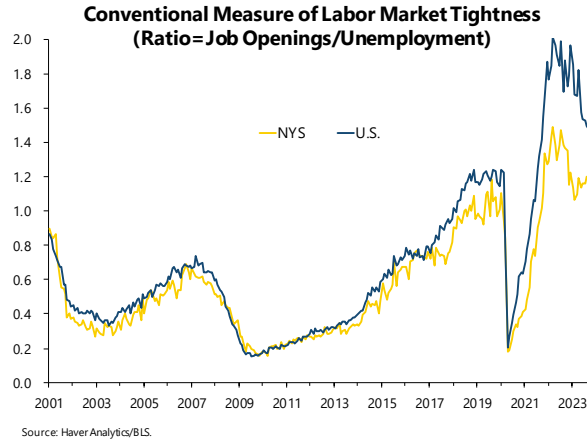
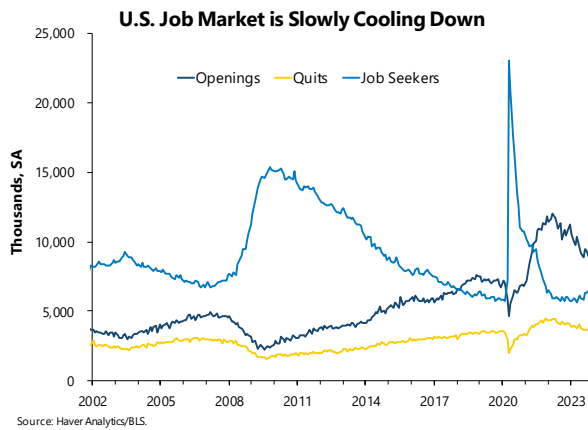
Hiring is slowing, but the job market remains tight compared to the pre-pandemic average. Indicators of labor demand, such as job openings and hiring rates, softened since the beginning of 2023. U.S. job openings have been declining since late 2022; the levels fell sharply in November of 2023, reaching the lowest level in more than two years.

Related labor demand indicators such as slowing quit rates also showed the softening but still point to a relatively tight labor market. Throughout 2021 and 2022, the job market was incredibly tight, leading to a surge in employees quitting in search of better opportunities and higher pay. As the job market started to cool down this year, fewer people switched to new jobs, lowering job quitting rates. U.S. quit rates have fallen from their peak in 2021 but remained at historically high levels in most of 2023. The U.S. quit rates ticked down and reached their pre-pandemic levels in November 2023. Quit rates in New York State lowered to pre-pandemic levels in April 2023 and remained below the national rate driven by multiple factors. The State has not fully recovered jobs in the lower-wage service sector, where quit rates tend to be the highest. In addition, companies in New York continued to offer flexible work arrangements, higher salaries, and better benefits. As a result, New York had one of the lowest quit rates among other states.

The U.S. layoffs remained well below their pre-pandemic levels throughout the year. In early 2023, several big tech companies in the information sector announced layoffs. The layoff rates in the industry declined quickly and were back in line with their pre-pandemic trends later in the year. 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), also declined on a year-over-year basis since the beginning of 2023.

²⁵ A. Hornstein, M. Kudlyak, B. Meisenbacher, and D. Ramachabdran, “How Far Is Labor Force Participation From Its Trend” August 14, 2023, FRBSF Economic Letter, <https://www.frbsf.org/economic-research/publications/economic-letter/2023/august/how-far-is-labor-force-participation-from-its-trend/>. Last accessed: January 14, 2024.

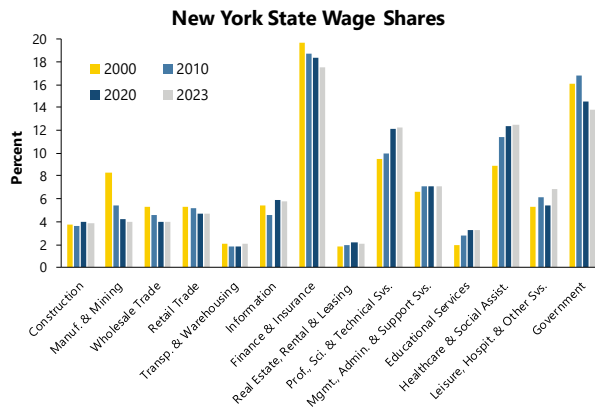
Since the Federal Reserve started raising the policy rate in March 2022, labor market tightness, measured by the ratio of job openings to unemployed worker, has declined from a historic high of 2.0 to 1.4 in November of 2023. Despite the cooling labor demand, labor markets remain tight. Unusual increased tightness during the recovery has now reversed but the tightness measure only returned to where it was before the pandemic when labor markets were already tight. The labor market tightness ratio for the nation approached the pre-pandemic level of 1.2. Similarly, the ratio for New York almost returned to pre-pandemic levels as it dropped to 1.1 in October 2023, after peaking at 1.5.



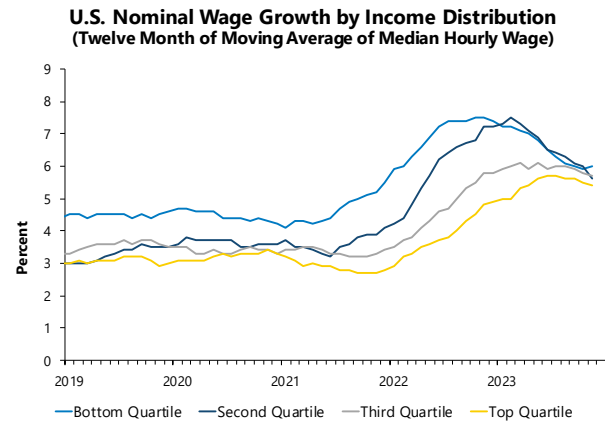
Strong labor demand gave workers bargaining power, often resulting in higher wages. According to Atlanta Fed’s wage tracker dataset which measures annual median hourly wage growth on a monthly basis, nominal wages have increased across all income levels since before the pandemic, with middle-income and lower-income households seeing the greatest growth in earnings. Inflation-adjusted earnings have been decreasing since the beginning of 2023, but they remain above the pre-pandemic average. Similarly, the year-over-year change in the Employment Cost Index, a highly reliable barometer of wage trends, indicates that wage growth is decelerating gradually since the second half of 2022. However, the index is staying still higher than its pre-pandemic level.

In New York State, the wage growth rate was the highest in the leisure and hospitality sector which predominantly employs lower-wage workers. Workers in health care, social assistance, and professional and technical services have also experienced relatively high wage growth in 2023. Even as the demand started softening and hiring slowed, some employers have shown a preference for retaining workers rather than laying them off. Workforce management approaches include cutting working or overtime hours and providing other non-cash benefits such as hybrid or remote work opportunities, which lessened the wage growth pressures. For example, recent evidence suggests that employees value the ability to work from home 2 to 3 days a week as equivalent to about an 8 percent pay increase.²⁶

²⁶ Barrero, Jose Maria, Nicholas Bloom, Steven J. Davis, Brent Meyer, and Emil Mihaylov, “The Shift to Remote Work Lessens Wage-Growth Pressures”, July 2022, NBER Working Paper, No. 30197.



Note: Shares for 2023 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.

Unemployment

The U.S. unemployment rate will increase from 3.6 percent in 2023 to 4.1 percent in 2024, the same as the Fed's median projection. The headline U.S. unemployment rate has remained at historically low levels since early 2022, averaging 3.6 percent in 2022 and 3.5 percent in the first half of 2023. Amid solid job growth and still tight labor markets the unemployment rate edged up to 3.7 percent towards the end of 2023. With more people returning to the labor force as active job seekers, the unemployment rate could gradually rise, which, in turn, may exert further downward pressure on wage growth.

Meanwhile, the State's unemployment rate of 4.3 percent in November 2023 was the seventh highest in the country, contrasting with a national unemployment rate of 3.7 percent for that month. Since the start of the recovery from the pandemic, the State's unemployment rate has been driven upwards by New York City, which posted a rate of 5.3 percent in November 2023. **With the State's labor market cooling and the national economy slowing, the New York unemployment rate is expected to increase from an estimated annual average of 4.2 percent in 2023 to 4.6 percent in 2024 and remain stable in 2025.**

Two Trends Underlying Structural Changes in Labor Markets in New York: Out-migration and AI

Widespread shift to remote work and out-migration pose risks to the New York State Labor Market. New York State continued to shed population in the post-pandemic years. The Census population estimates indicated that, from July 2022 to July 2023, while 42 states and District of Columbia gained population since the start of the pandemic, New York lost 101,984, or 0.5 percent of its residents. The acceleration of out-migration since the pandemic was more significant for New York City than the rest of the state. The rise of remote and/or hybrid work opportunities has reshaped the migration patterns in the dense and expensive urban areas, especially in the early years of the pandemic. An analysis of Census data reveals that the New York Metro area experienced a substantial net loss of 116,000 remote workers in the early years of the pandemic.²⁷

²⁷ The New York Times, "The Places Most Affected by Remote Workers' Moves Around the Country", July 17, 2023, <https://www.nytimes.com/interactive/2023/06/17/upshot/17migration-patterns-movers.html>. Last accessed: January 14, 2024.

Recent trends in labor markets suggest that current levels of remote and/or hybrid work are expected to persist or could even rise as technology improves. Remote work is defined as the practice of employees performing their jobs from a location other than a central office of the employer and hybrid work is defined as the combination of in-person and remote work. As the share of remote work declined since 2021, a hybrid work schedule emerged as the new normal for many workers. An article from Goldman Sachs notes that when several measures of remote work are adjusted, the share of U.S. workers performing remote work at least part of the week dropped to the range of 20-25 percent from its peak of 47 percent at the height of the pandemic.²⁸ According to Survey of Working Arrangements and Attitudes, the share of days worked from home for New York City dropped to 35.9 percent in 2023, compared to national average of 28.8 percent.²⁹

The evidence suggests that as the work mode after pandemic is transitioning towards a hybrid form, most households leaving city centers are choosing to relocate to suburbs of the same city, while some are moving to small metropolitan areas, and a few are moving to rural areas.³⁰ If more companies in State adopt hybrid work patterns, this could reduce the out-migration associated with permanent remote work. However, if more companies in the State fully embrace remote work, it could present an opportunity for remote work-eligible workers to relocate to a different location and work long distance.

Along with the rise of different work modes, increasing housing costs and tight labor markets accelerated population shifts away from coastal cities and toward more affordable regions following the pandemic. In the aftermath of the pandemic, the State's and in particular New York City's population has become older and wealthier, with a rebounding population of new international migrants. According to analysis conducted by the Office of the NYS Comptroller analysis of the personal income tax filers data, middle and working-class individuals are more likely to leave largely because of the cost of living, including high housing costs.³¹ The declining population of these income groups could have a detrimental effect on the labor force of the State. The high cost of living in the State may pose a risk of more population loss.

How can New York capitalize on opportunities and mitigate risks of AI investment?

Artificial intelligence refers to technologies that enable computers to complete tasks once believed to require human intelligence. Examples include those based on perception (interpreting medical imaging or reading handwriting) or optimization of multiple variables (coordinating complex schedules or multiple preferences). The launch of ChatGPT in late 2022 brought a great deal of attention to just one of the potential applications, generative AI, and its ability to create written and visual content. In coming years AI has the potential to automate many tasks that currently rely on

²⁸ Goldman Sachs, "US Daily: Remote Work, Three Years Later", August 28, 2023, <https://www.gspublicinq.com/content/research/en/reports/2023/08/28/6fd0a8a0-3831-4ace-b577-a93337f01ec8.html> Last accessed: January 14, 2024.

²⁹ Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, "Why working from home will stick" 2021, NBER Working Paper, No. 28731.

³⁰ Arjun Ramani and Nicholas Bloom, "The Donut Effect of Covid-19 On Cities", December 2022, NBER Working Paper No.28876

³¹ "Taxpayer Movement During the Pandemic", December 2023, https://www.osc.ny.gov/files/reports/pdf/taxpayer-movement-during-the-pandemic.pdf?utm_medium=email&utm_source=govdelivery. Last accessed: January 14, 2024.

humans. The magnitude and speed of this change is still unknown, but economists have identified pathways through which automation could dramatically impact the global economy.

Automation of tasks has the potential to change the nature of work for many jobs. For some jobs, AI will be a productivity enhancement. In the medical profession, AI can quickly analyze data from a patient's medical history to point doctors to areas of potential concern faster. For others, such as clerical workers whose primary task is the digitization of archival documents, developments in AI could ultimately mean obsolescence. In 2013, Frey and Osborne estimated that 47 percent of U.S. jobs included tasks that were likely to be automated in the coming decades based on recent advancements.³² More recently, the Pew Research Center found that 19 percent of workers were in jobs that had a high exposure to AI including budget analysts, tax preparers, data entry clerks, technical writers, and web developers. For these workers AI had the potential to replace components of their jobs such as collecting information and analyzing data.³³ The ultimate effect of AI on the number and nature of jobs is yet to be seen. It is worth noting that many of the jobs most exposed to AI are held by highly trained and skilled workers and AI has the potential to automate many of their more routine tasks. For these workers AI will be a productivity enhancer.

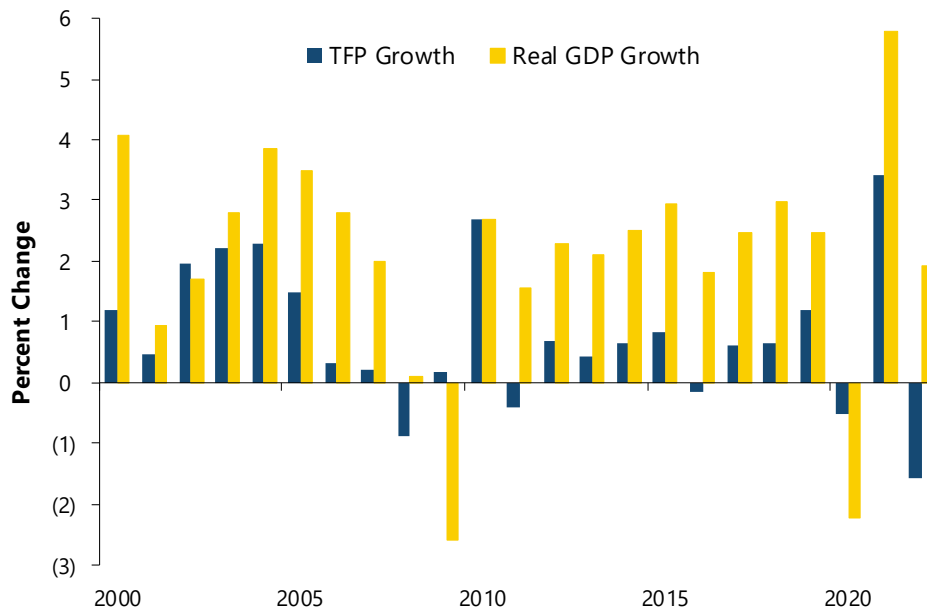
Productivity, or the amount of output generated by each hour of labor, is an important source of long-term sustainable economic growth, particularly in mature economies. Productivity growth is driven by advancements in technology. The most recent global productivity surge occurred in 1995-2005, driven by the widespread advancements in and adoption of Information and Communications Technologies (ICT) aka the internet. During this period of dramatic expansion, new products and services were created that were integrated into every sector of the economy. New businesses formed and flourished based on these technologies leading to a period of dramatic economic growth. Much like ICT, AI has the potential to be used in a wide range of sectors to enhance the productivity of all workers. This economic potential has led to a great deal of excitement among economists, technologists, business leaders, investors, and policy makers about its potential to generate a surge in economic growth.³⁴

³² https://www.oxfordmartin.ox.ac.uk/downloads/academic/The_Future_of_Employment.pdf. Last accessed: January 14, 2024.

³³ <https://www.pewresearch.org/social-trends/2023/07/26/which-u-s-workers-are-more-exposed-to-ai-on-their-jobs/>. Last accessed: January 14, 2024.

³⁴ <https://www.brookings.edu/articles/machines-of-mind-the-case-for-an-ai-powered-productivity-boom/>. Last accessed: January 14, 2024.

Total Factor Productivity (TFP) and Real GDP



Source: Haver Analytics/BLS.

Goldman Sachs researchers estimated that AI would ultimately shift baseline GDP growth upward. Without AI, the U.S. Economy would grow at an average rate of 1.9 percent over the next decade. With an AI productivity boost, U.S. growth could reach 2.3 percent by 2032.³⁵ A report by PWC estimated that the annual impact of AI on the global economy will reach \$15.7 trillion in 2030. Of that, \$3.7 trillion will be seen in North America, representing 14.5 percent of GDP.³⁶ However, substantial barriers to adoption need to be surmounted before these benefits could be fully harnessed. These barriers include the challenge of developing new technological tools, models and applications, transforming business models and work approaches, as well as addressing the social and political challenges that may arise from such transformations.

While the potential for AI to transform the nature of work, productivity, and the economy is widely acknowledged by economists, the timeline for its development and adoption is less certain. The development of AI requires significant investment in hardware, large sets of data to learn from, and a skilled workforce to develop the systems and software. The use cases for the emerging technologies and their pathways to adoption by firms are still under development. The most likely rollout of AI will be through the business services sector. Businesses will likely contract firms with expertise in AI applications in areas such as human resources, logistics, or customer analytics rather than making the substantial investments in personnel and hardware required to build capabilities in house.

³⁵ <https://www.goldmansachs.com/intelligence/pages/ai-may-start-to-boost-us-gdp-in-2027.html#:~:text=They%20estimate%20a%20growth%20boost,in%20advanced%20EMs%20by%202034> Last accessed: January 14, 2024.

³⁶ <https://www.pwc.com/gx/en/issues/analytics/assets/pwc-ai-analysis-sizing-the-prize-report.pdf>. Last accessed: January 14, 2024.

AI related investments and changes to businesses are also likely to alter the structure of the labor market. These investment decisions could worsen hiring trends within various sectors such as the information sector. According to the U.S. Census Bureau, between September 24 and December 31, 3.7 to 4.9 percent of businesses were using AI to produce goods and services in 2023. In comparison, in New York, only 3.2 to 3.8 percent of the businesses used AI during the same period. However, AI was more commonly used in specific industries, such as information and technology and management sectors, where the percentage of current AI use was over 22 percent. In 2024, the deployment phase of AI is expected to continue in semiconductor manufacturing, cyber security companies, and the healthcare industry.

New York State is well positioned as a leader for AI technology. Over the past decades, the State has made investments in semiconductor R&D and manufacturing. This development of advanced hardware is a critical component for the development of AI technologies. New York State is also a global hub of the two sectors at the leading edge of AI adoption: health care and financial services. Major financial services companies, with their vast collection of data have been using AI-based technologies to detect fraud, develop risk management models, and offer customers services such as mobile banking, chat bots, and financial planning. As a hub of health care research and major population center, New York is home to the data and expertise required to develop new applications for the health sectors.

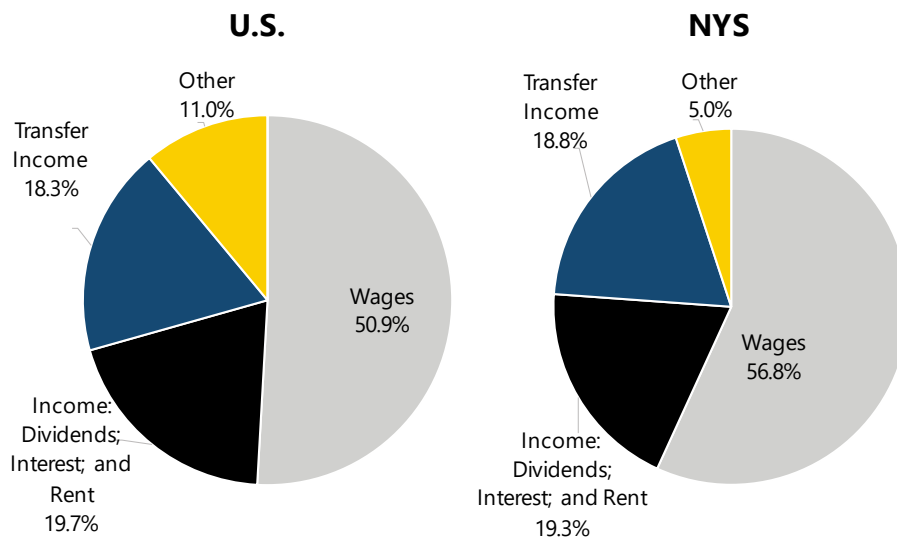
The State's investment in chip research and manufacturing is expected to generate high-paying jobs in out-years. These investments could also increase employment in adjacent upstream and downstream sectors. The resulting growth in economic activity could lead to strong employment and wage growth in the next 2-5 years. While AI is not immediately seen in the forecasts for the FY 2025 financial plan, DOB economists are tracking developments as these technologies develop in New York State and beyond.

Personal Income Outlook

Understanding the current trajectory in personal income plays a key role in estimating consumer spending and its impact on the economy and the State’s Financial Plan. Wages and salaries comprise the largest component of both national and New York State personal income – above 50 percent in 2022. Thus, personal income estimates have a direct bearing on both income and consumption-based taxes. These variables also impact government spending estimates. Several non-wage components of personal income are also highly correlated with general economic trends – namely property income, proprietors’ income, contributions to Social Security, and other labor income. Transfer income or income received from government programs, which accounts for less than 20 percent of personal income, tends to move countercyclically with general economic trends. This is because it contains elements such as unemployment insurance benefits and Medicaid services spending, which rise when the economy turns downward.

As the largest revenue source for the State Financial Plan, higher personal income or wages will lead to increased tax revenues. Stronger personal income can also stimulate consumer spending, impacting sales tax revenues positively. Increased tax revenues can enhance the State’s ability to fund and maintain social programs and services.

Shares of Major Components in U.S. and NYS Personal Income in 2022

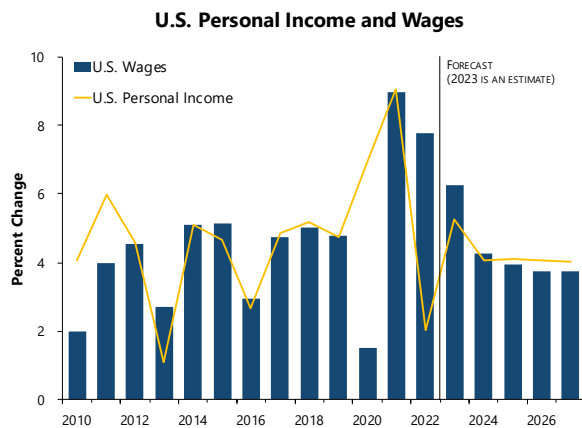


Source: Bureau of Economic Analysis (BEA); NYS Department of Labor.

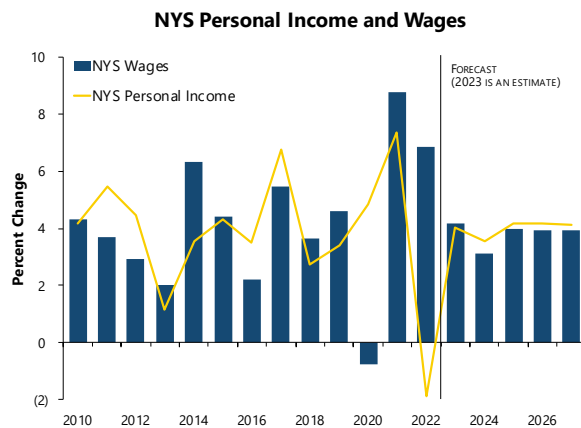
The figure below illustrates the relationship between personal income and wages. Any unexpected development that affects wages would directly affect personal income and, therefore, consumer spending and GDP growth. U.S. wages and personal income grew robustly in 2023 due to tight labor market conditions and high inflation which led workers to demand higher wages.

U.S. wages and personal income were estimated to grow by 6.3 percent and 5.2 percent respectively in 2023. Although the effect of pandemic related government transfers is waning, personal income was supported by interest income and rental income in 2023. Household net worth is on the rise again at a faster pace than in the pre-pandemic period. This is due to a strong stock market in 2023 relative to 2022 and higher home prices. The rise in household net worth has also provided an extra impetus to consumer spending through interest income earned on assets and wealth effects. Looking ahead, U.S. personal income is projected to increase by 4.1 percent in 2024. Compared to the average growth rate of 4.4 percent during the five years before the pandemic; this is a slower but still healthy growth rate.

New York State is expected to have weaker growth in wages and personal income in 2023 than the nation mainly due to the decline in bonuses, particularly in the finance and insurance sector. **Following an estimated growth of 4.0 percent in 2023, New York State personal income is projected to grow at 3.6 percent in 2024 as wages are expected to decelerate from a growth rate of 4.2 percent in 2023 to 3.1 percent in 2024.**



Source: Bureau of Economic Analysis (BEA), DOB staff estimates.



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

Wages and Variable Income

Wages and variable income will grow on par with the nation after a brief dip in 2024. When looking at U.S. wages at State fiscal year frequency, U.S. wages grew by 6.8 percent in FY 2023 while New York State wages increased by 5.1 percent for the same year. The State wages’ weaker growth can be attributed to the 14.8 percent decline in State total bonuses. **With the slowdown of the national economy, the softening of the labor market, and the continued decline in bonus growth, the New York State total wages are expected to decelerate to 3.2 percent growth for FY 2024, weaker than the national wage growth of 6.0 percent. State employment growth is estimated to be weaker than the national, and the bonuses are expected to continue to be a drag despite the continued boosts from minimum wage increases. State total wage growth is projected to be 3.8 percent for FY 2025, 0.1 percentage point lower than the projected national wage growth of 3.9 percent as the outlook of bonus growth improves.**

12.5 percent of New York State wages were paid on a variable basis as bonuses in FY 2023. Moreover, bonuses are usually paid in the fourth quarter of a given calendar year or the first quarter of the following year. For these reasons, it’s instructive to disaggregate total wages into bonus and

non-bonus wages which can be done using QCEW data³⁷. The Financial Markets and Bonuses section below has a more in-depth discussion of bonuses.

The growth of non-bonus wages provides critical insights into the current health of the State economy, while bonus income, sometimes referred to as variable income, reflects the more recent performance of businesses and signals the direction of the State's economy. The State's non-bonus average wage is estimated to grow by 4.2 percent in FY 2024, following growth of 8.8 percent for FY 2023. Non-bonus average wages have historically trended with inflation, however, during the pandemic, non-bonus average wage growth became much more volatile due to asymmetric job losses and unusually large gains in low wage industries as employers had to address severe labor shortages by offering higher pay.

Total New York State bonus income is estimated to drop by 3.6 percent for FY 2024 due to weak dealmaking activities and high interest costs. Besides the finance and insurance sector, which accounted for more than half of the total bonuses, the professional, scientific, and technical services sector and the information sector also play important roles in the State total bonuses. The former accounted for 11.9 percent of the State's total bonuses in FY 2023, while the information sector's bonuses represented 4.9 percent. Total State bonuses are projected to grow by 6.8 percent in FY 2025 as the economy starts to improve in the second half of 2024, and the Federal Reserve starts lowering short-term interest rates to offset an economic slowdown.

³⁷ For a more detailed discussion, see FY 2020 Economic and Revenue Outlook, p.93.
<https://www.budget.ny.gov/pubs/archive/fy20/exec/ero/fy20ero.pdf>. Last accessed: January 14, 2024.



Non-wage Income

Non-wage income will grow in line with national trends. Non-wage income accounted for approximately 49 percent of national personal income, and 43 percent of State personal income. State non-wage income is projected to rise by 4.2 percent for FY 2025, following an estimated growth of 3.9 percent in FY 2024. The tables below show the outlook of U.S. and New York State personal income components.

PERCENT CHANGE IN US AND NEW YORK STATE PERSONAL INCOME						
	FY2023		FY2024		FY2025	
	US	NYS	US	NYS	US	NYS
Personal Income¹	4.4	0.7	4.9	3.5	4.0	4.0
Wages ²	6.8	5.1	6.0	3.2	3.9	3.8
Property Income ³	7.1	2.1	5.6	4.5	4.4	4.5
Transfer Income	(1.9)	(5.6)	1.9	2.8	4.2	4.2
Proprietors' Income	1.9	(4.4)	3.5	6.2	4.0	4.2
Other Labor Income	2.6	(0.2)	4.1	4.1	3.8	3.8
Contributions to Social Security	8.7	7.4	5.1	4.7	4.7	4.8

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; Moody's Analytics/Bureau of Economic Analysis (BEA); DOB staff estimates.

PERCENT CHANGE IN US AND NEW YORK STATE PERSONAL INCOME						
	CY2022		CY2023		CY2024	
	US	NYS	US	NYS	US	NYS
Personal Income¹	2.0	(1.9)	5.2	4.0	4.1	3.6
Wages ²	7.8	6.9	6.3	4.2	4.3	3.1
Property Income ³	7.0	2.0	6.5	4.5	4.6	4.6
Transfer Income	(13.8)	(17.8)	2.5	2.7	3.2	3.8
Proprietors' Income	2.4	(7.2)	3.5	6.6	4.0	4.4
Other Labor Income	2.1	(0.3)	4.0	3.4	3.9	3.8
Contributions to Social Security	10.1	9.5	5.4	4.5	4.8	4.7

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; Moody's Analytics/Bureau of Economic Analysis (BEA); DOB staff estimates.

- **Property income** is generally the largest component of New York State non-wage income. Overall U.S. property income is estimated to grow by 5.6 percent in FY 2024, while the State property income is estimated to grow at a weaker rate of 4.5 percent. State property income is expected to increase by 4.5 percent in FY 2025, about the same as the U.S. property income growth of 4.4 percent.
 - Driven by high interest rates, U.S. **interest income** is estimated to increase by 7.9 percent in FY 2024, following an increase of 9.8 percent in FY 2023.
 - High mortgage rates and housing prices made people prefer renting over buying. National rental prices had been rising for 37 months consecutively until May 2023. The national median rental price peaked in August 2023 and has cooled slightly in recent months but remained high. U.S. **rental income** is estimated to grow by 8.3 percent in FY 2024, following strong growth of 9.7 percent in FY 2023.
 - The estimated 0.3 percent decline in corporate profits led to weak **dividend income** growth of 2 percent in SFY 2024.

- **Transfer income** was an especially critical component of the non-wage income throughout the pandemic. Afterwards, U.S. transfer income experienced a decline of 1.9 percent in FY 2023, and the State transfer income declined by 5.6 percent in the same year as many Federal programs continued to unwind. Following an estimated growth of 2.8 percent in FY 2024, State transfer income is projected to grow by 4.2 percent in FY 2025, the same as the U.S. transfer income growth for that year.

- Following a decline of 4.4 percent in FY 2023, New York State **proprietors' income** is estimated to grow by 6.2 percent in FY 2024, followed by a projected growth of 4.2 percent in FY 2025. U.S. proprietors' income which grew by 1.9 percent in FY 2023 is estimated to grow by 3.5 percent in FY 2024 and is projected to grow by the same rate of 4.2 percent as the State in FY 2025. The State's stronger proprietors' income than the nation in recent years may be due to the State's various grants to support small businesses in the State.

- **Other labor income** which includes employer contributions to pensions and insurance is estimated to grow by 4.1 percent in FY 2024 at both the national and the State level. This increase will be followed by a slightly weaker growth of 3.8 percent in FY 2025 as the labor market gets weaker.

- Lastly, **contributions to Social Security** represent a deduction from personal income and usually track employment and wage growth closely. U.S. employee contributions to Social Security are estimated to increase by 5.1 percent in FY 2024, while the State contributions to Social Security are estimated to grow at a weaker rate of 4.7 percent due to weaker employment estimates. State employee contributions to Social Security are estimated to grow by 4.8 percent, close to the national growth rate of 4.7 percent.

Financial Markets and Bonuses

Finance and insurance sector bonuses have a significant impact on aggregate personal income in New York State and hence tax revenues, accounting for 53.2 percent of State total bonuses, and 6.7 percent of State total wages in SFY 2023. Following a decline of 15.1 percent in FY 2023, the State's finance and insurance sector bonuses are estimated to fall by another 2.7 percent in FY 2024. The decline is driven by weaker bank profits in 2023, stemming from the lower levels of dealmaking activities and high interest costs. This section discusses the recent trends in financial markets and the outlook for bonuses.

Looking ahead, The Federal Reserve is expected to complete its monetary tightening cycle and start reducing the Federal Funds rate in mid-2024 as price inflation stabilizes. This baseline outlook scenario assumes the economy achieves a soft landing where unemployment doesn't rise substantially amid slowing economic activity. The rate cuts are expected to lower banks' interest costs. While economic growth is expected to slow, Initial Public Offering (IPO) activity and debt underwriting are projected to continue their recoveries. Merger and Acquisition (M&A) activities will also see a gradual increase in 2024 as interest rates stabilize and eventually decline. Growth in financial activities is expected to be modest due to a weak national and global economic environment and geopolitical and presidential election uncertainties. As a result, finance and insurance sector bonuses are projected to grow by 7.7 percent in FY 2025.

Equity Market Optimism will continue to wane as the economy slows in 2024.

After the S&P 500 stock price index finished 2022 with a decline of 20.0 percent, the equity market gained 24.7 percent by the end of 2023 as investors expected inflation to continue to moderate allowing the Fed to stop raising interest rates. The U.S. economy remained resilient, and investors adjusted their projections away from recession and toward a "soft landing" scenario for the U.S. economy.

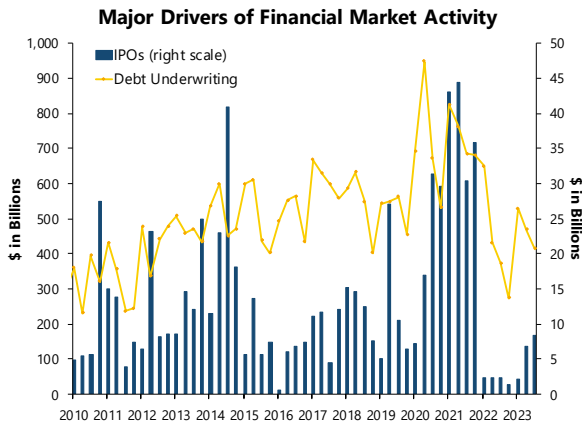
Equity prices are expected to grow more moderately in 2024 than in 2023, as the economy slows down and the investors brace for future uncertainties. Given the [risks](#) to the economy, the S&P 500 stock price index is projected to grow by 3.7 percent in 2024 on an annual average basis. In the longer term, stock prices are projected to grow at a moderate pace as the Federal Reserve loosens monetary policy starting in mid-2024.

Key Revenue Drivers

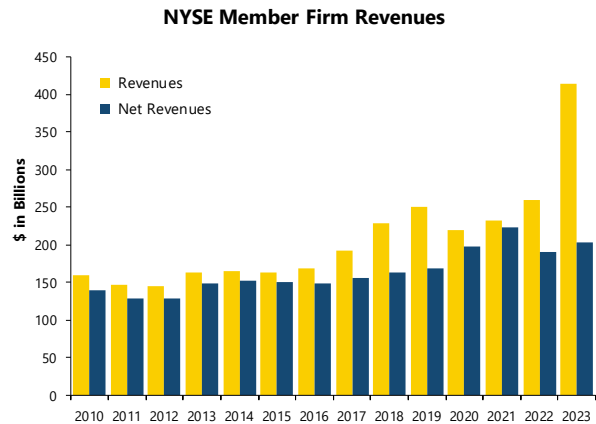
IPO and corporate debt underwriting fees represent a key driver of revenues and profits for the securities industry, as well as a valuable leading indicator for the overall financial sector.

- In 2022, the IPO market saw the lowest proceeds for over three decades likely due to financial and economic uncertainties. As shown in the graph below, IPO activities started to recover in 2023 due to the easing of inflation and better equity market performance. In the first eleven months of 2023, U.S. companies raised \$20.0 billion in IPO proceeds, compared to only \$8.5 billion in the entire 2022, which represents a 136.2 percent increase from the same period in 2022. However, the monthly average of IPO proceeds in the first

eleven months of 2023 was less than half of the average monthly amount in 2019. **IPO activity is not expected to have significant growth in 2024.**



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



Notes: The estimates for 2023 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).

- Central banks worldwide continued raising key interest rates to tame rampant inflation. **Increased financing costs led to weaker investor demand for debts.** Total debt underwriting decreased by 0.9 percent in the first eleven months of 2023 compared to the same period last year, following a decline of 41.5 percent in 2022. This downswing in borrowing was partly due to banks' precautionary tightening of lending requirements, as well as businesses' lack of appetite for higher debt-servicing costs. Additionally, in recent years many companies have already locked in favorable financing terms and set aside ample cash reserves that allowed them to self-finance.
- North American M&A deal volume declined by 27.0 percent in the first half of 2023 from the same period in 2022. **The increased cost of borrowing has weighed on bond issuance and made it challenging to take out loans to fund M&A.** The geopolitical, economic, and financial uncertainties made the banks take a more risk-averse stance in underwriting new deals. This decline extended into the third quarter, which saw another 8.6 percent decline. The lack of deals has resulted in lower total advisory fees, negatively affecting financial sector profits and bonus payments.

NYSE Member Firms' Revenues Meet Headwinds

New York Stock Exchange (NYSE) member firms' total revenues experienced strong growth of 75.6 percent during the first three quarters of 2023, compared to the same period a year ago, following growth of 12.0 percent annual growth in 2022. The graph above shows NYSE member-firm total revenues compared to net revenues, which remove interest costs. As a result of higher interest expenses, net revenues only increased by 6.9 percent during the first three quarters of 2023 compared to the same period a year ago, following a decline of 14.8 percent in 2022.

The Federal Reserve is expected to cut rates in 2024. Such a development can lower banks' interest costs. However, the slowing economy presents headwinds for banks' revenue-generating activities. Therefore, **DOB projects that the banking industry revenues will grow modestly.**

Bonuses will be modest

The slowing global and national economy, coupled with multiple disruptive forces, such as reduced money supply and geopolitical tensions, will make 2024 a challenging year for the banking industry. With a moderating economic outlook, anecdotal reports of Wall Street layoffs began permeating the news in late 2023³⁸. An extended period of high interest rates will continue to push banks' funding costs higher and squeeze profit margins. High borrowing costs and weak economic conditions will weaken loan demand. Banks may further tighten lending standards due to a less favorable economic outlook, which will lead to fewer loans issued and less fees and interest income the banks can charge.

Besides a slowing economy and high interest rates, the banks face some other challenges in 2024 which can weaken profits and lead to lower bonus payments. The high interest rates coupled with high office vacancy rates due to remote work have resulted in declining commercial real estate property values. Delinquencies on commercial real estate loans are rising, and many banks are setting aside more money to cover possible future loan defaults. In the wake of the regional bank failures, financial regulators imposed stricter regulations and capital requirements on the banks. The more restrictive regulatory environment will also dampen the banks' profits.

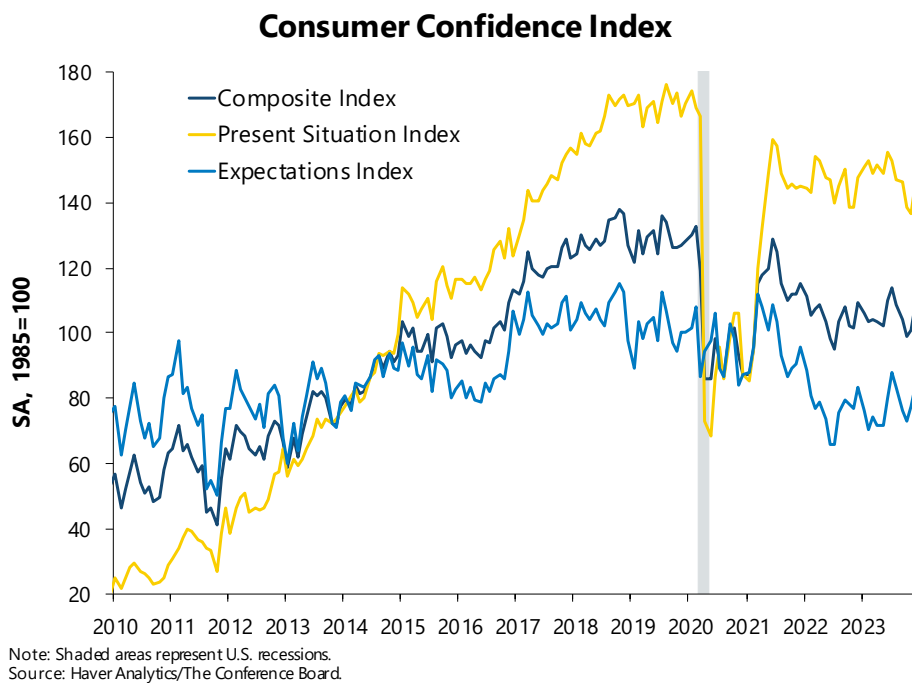
As a result of weak economic growth, high interest rates, and other headwinds facing banks, the finance and insurance sector is expected to have a modest bonus growth in 2024. **Finance and insurance sector bonuses for SFY 2025 are projected to grow by 7.7 percent, following an estimated decline of 2.7 percent for SFY 2024.**

³⁸ <https://www.forbes.com/sites/qai/2023/10/23/big-bank-layoffs-number-thousandswith-more-on-the-way/?sh=5f5f5c5318f0>. Last accessed: January 14, 2024.

Consumer Spending Outlook

Consumer spending has shown remarkable resilience.

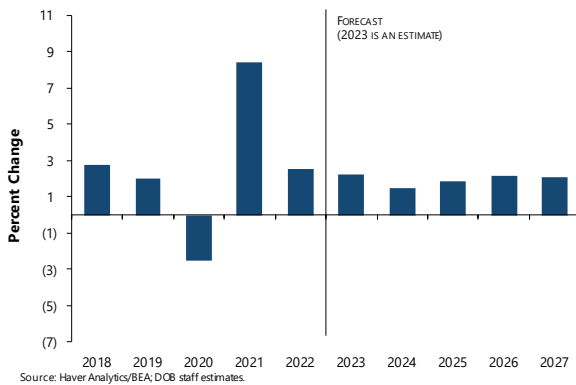
A strong labor market and job growth supported consumers' positive outlook on the current economic environment and their underlying spending decisions. Continued hiring and rising real wages (wage growth adjusted for inflation) supported consumers' spending. However, consumers continued to express some concern about future conditions and a possible downturn. Measures of consumer confidence, including *The Consumer Confidence Index*[®], reflected the resilience of the U.S. consumer in 2023 relative to the pandemic years. The Present Situation Index, which is based on consumers' assessment of current business and labor market conditions, rose to 148.5 in December 2023 from 136.5 in November, which reflected consumers' renewed optimism. The Expectations Index, which is based on consumers' short-term outlook for income, business, and labor market conditions, jumped to 85.6 in December. A level of 80 or below for The Expectations Index historically signals a recession within the next year.



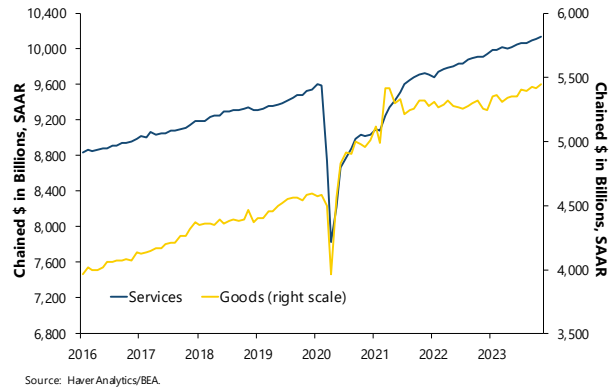
DOB expects real consumption growth to slow down from 2.2 percent in 2023 to 1.5 percent in 2024 as a result of weakening employment and wage growth and elevated interest rates. Growth rates of the two main components of consumer spending, consumption of nondurables and services and consumption of durables are also expected to decelerate in 2024, with durables' growth slowing relatively more than that of nondurables and services. The reason for this is that persistently high interest rates would discourage consumers from purchasing durable items like light vehicles or appliances.

The nature of household spending has also shifted in recent years. Consumer spending on goods grew rapidly while spending on services shrank when the pandemic lockdown kept people away from activities involving large gatherings. However, in the last two years, this trend reversed. In 2023, the strongest consumer spending categories were comprised of housing and utilities (services), health care (services), other nondurable goods (e.g., expenditures on pharmaceutical products, recreational items such as games, spending by U.S. residents abroad, etc.), and food and beverages purchased for off-premises consumption.

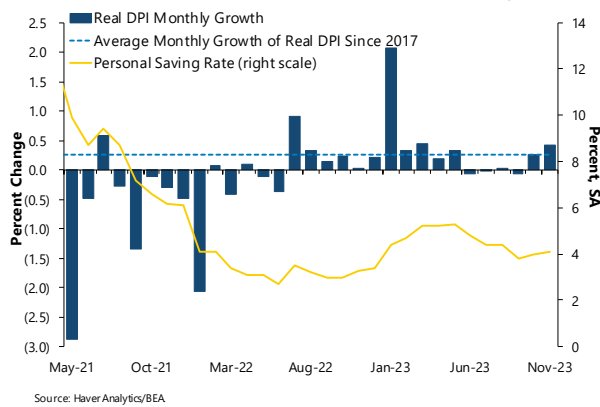
Real Consumer Spending



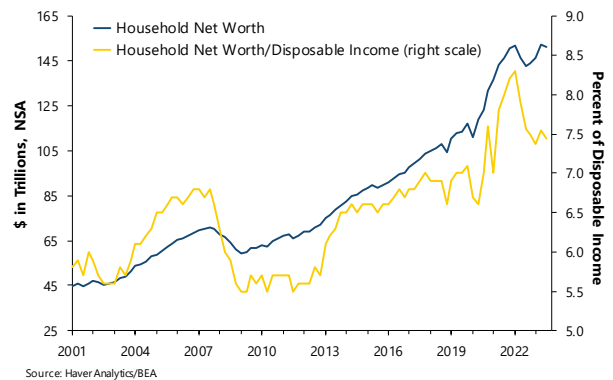
Real Consumer Spending Shifts From Goods Toward Services



Real Disposable Personal Income (DPI) and Saving Rate



Household Net Worth



Potential downside risks to consumer spending growth in 2024 stem from weakening labor markets, declining household net worth, and student loan repayment or delinquencies. The main driver of consumer spending is income and wage growth. A potential labor market slowdown would result in higher unemployment and slower wage growth, which could drive down consumer spending.

Another factor underlying consumers' outlook on the economy and more importantly their willingness to spend is their net worth. Recently, the rise in household net worth also supports greater consumer spending through the wealth effect. Household net worth is on the rise again at a faster pace than in the pre-pandemic period. This is due to a strong stock market in 2023 relative to 2022 which boosted people's assets and increased home values. In addition, the share of interest income in personal income has grown rapidly since the rise in interest rates in 2022, which

has also propped up consumer spending. However, potential turmoil in the stock market or an unexpected decline in home asset values in 2024 could have a negative impact on net worth.

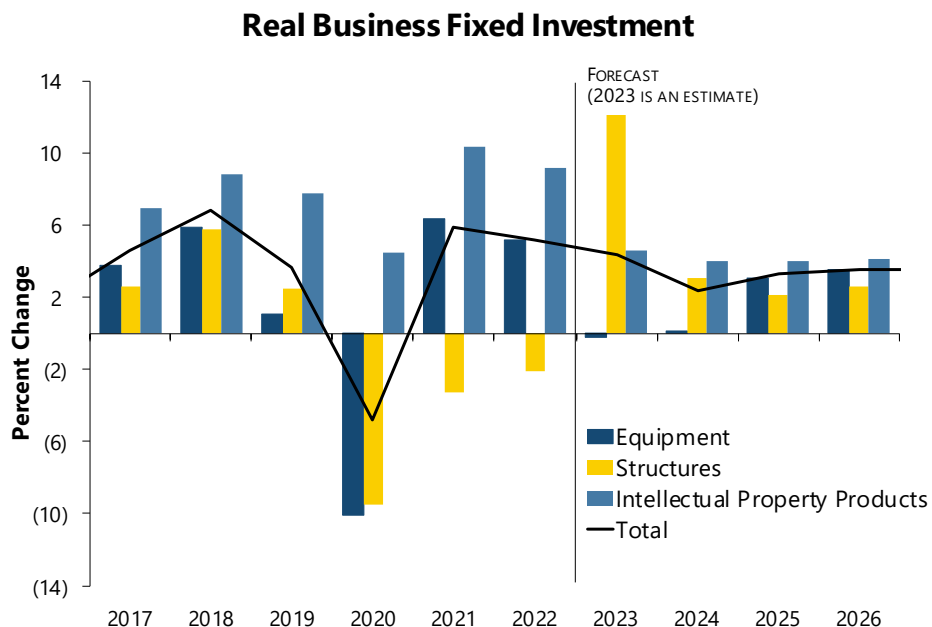
Another potential risk to consumer spending is the resumption of student loan repayments or rising defaults on these loans. As payments and interest accrual on student loans resumed in October of this year and transfer income declined due to the waning effect of COVID-era income support, savings experienced a drop in the third quarter. Student loan repayments may contribute to consumer insolvency for some. For this reason, it is important to monitor whether households turn to debt to meet their financial obligations. Although household debt as a percentage of disposable income rose slightly in 2023, consumers are currently not exhibiting financial distress across the board.³⁹ As student loan delinquency data is released to credit bureaus with a 12-month delay in order to protect consumers' credit, the effects on consumer spending should be monitored as the risks could spill over to the economy as a whole.⁴⁰

³⁹ S&P Connect, U.S. Economic Outlook (November 2023)
<https://connect.ihsmarkit.com/document/show/phenix/4915113?connectPath=Search&searchSessionId=ccfe3515-642a-407b-ad8f-3c9aee7f097b>. Last accessed: January 14, 2024.

⁴⁰ TransUnion (July 2023)
<https://newsroom.transunion.com/student-loan-payments-resume/#:~:text=The%20U.S.%20Department%20of%20Education,they%20manage%20these%20new%20payments>. Last accessed: January 14, 2024.

Investment Outlook

Business fixed investment, driven by consumer spending and government incentives, remained resilient despite high interest rates and restricted borrowing conditions. Business fixed investment, including investment in equipment, structures, and intellectual property products, is historically one of the most interest rate-sensitive and cyclical components of GDP. It has performed better in this monetary tightening cycle than it has in the past. Strength in consumer spending provided strong revenues that supported overall business investment. Moreover, those firms which have not required access to additional capital have been somewhat insulated from higher rates and tighter credit requirements to date. Business investment was further bolstered in 2023 by government incentives designed to encourage infrastructure construction. Federal funding was directed towards the development of semiconductor and electric vehicle plants, and clean and renewable energy production to address climate change.



Source: Haver Analytics/BEA; DOB staff estimates.

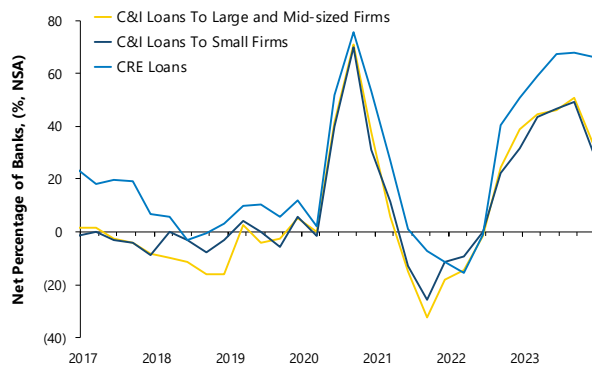
Going forward, the surge of investment in equipment and intellectual property products after the pandemic-induced recession is anticipated to dissipate in 2023. The government incentive-driven investment in structures will slow down in 2024 after rebounding in 2023 from three years of contraction, but while the associated capital stock will keep growing. Growth of real business fixed investment is forecast to slow from 5.2 percent in 2022 down to 4.3 percent in 2023 and to 2.3 percent in 2024. The following three factors are expected to weigh down business investment.

- Weaker demand: Demand for goods and services will ease in 2024 as households' purchasing power falls as a result of slowing wages and income. Moreover, since the U.S. economy has recovered close to potential output following the COVID recession,

businesses may not need to expand capacity as fast to keep pace with sales, which will undercut momentum in capital spending.

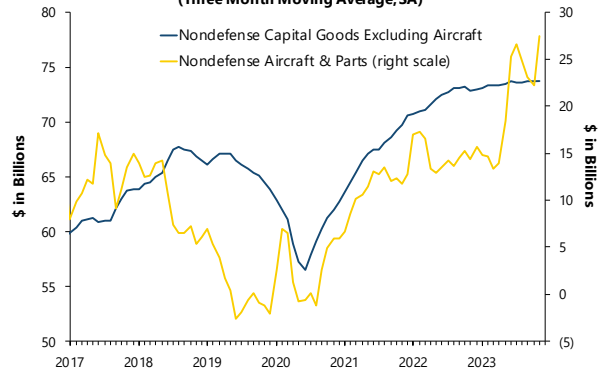
- **Higher borrowing costs:** Although corporate borrowing costs have continued to rise since the Fed started to hike the federal funds rate, firms with corporate debt locked in at low rates earlier in the recovery have yet to feel the pain of higher borrowing costs. Many of these debts will be due to reset in 2024, and thus higher interest expenses are expected to make it considerably more expensive for businesses to finance capital expansion through the issuance of corporate debt.
- **Tighter credit:** For businesses that cannot raise capital by issuing debt (i.e., smaller firms), lending standards for bank loans that they relied on have tightened considerably over the last year or so. A recent Federal Reserve System Survey of bank lending officials showed that credit standards for commercial and industrial (C&I) and commercial real estate (CRE) loans remained very tight at the end of 2023. This will reduce the flow of credit to small and mid-sized businesses going forward and deter new capital investment or payroll expansion.

Tightening Standards – Commercial & Industrial (C&I) Loans and Commercial Real Estate (CRE) Loans



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

Manufacturers' New Orders (Three Month Moving Average, SA)



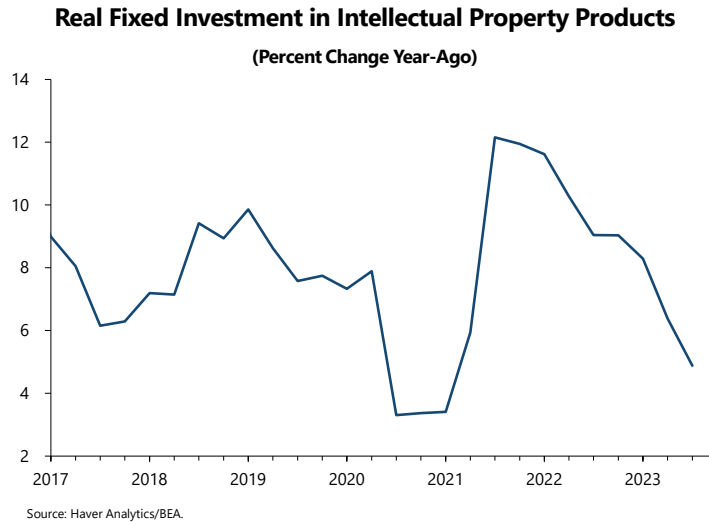
Source: Haver Analytics/Census Bureau.

Among the three components of business fixed investment, equipment investment slowed down significantly in 2023 and investment in intellectual property products moderated.

Strong recovery in real equipment investment that occurred in 2021 and 2022 pulled back in 2023 as the positive effect from the clearing of supply chain bottlenecks dissipated. Investment in transportation equipment is the only bright point in equipment investment, while all other categories exhibited either flat growth or contraction. While new orders of civilian aircraft rose rapidly, manufacturers' new orders of nondefense capital goods excluding aircraft (or core capital goods) flattened out over 2022. The slowdown in core new orders, a leading indicator for the business cycle, suggests that headwinds such as macroeconomic uncertainty, tight credit conditions, and higher borrowing costs will continue to dampen equipment investment in 2024.

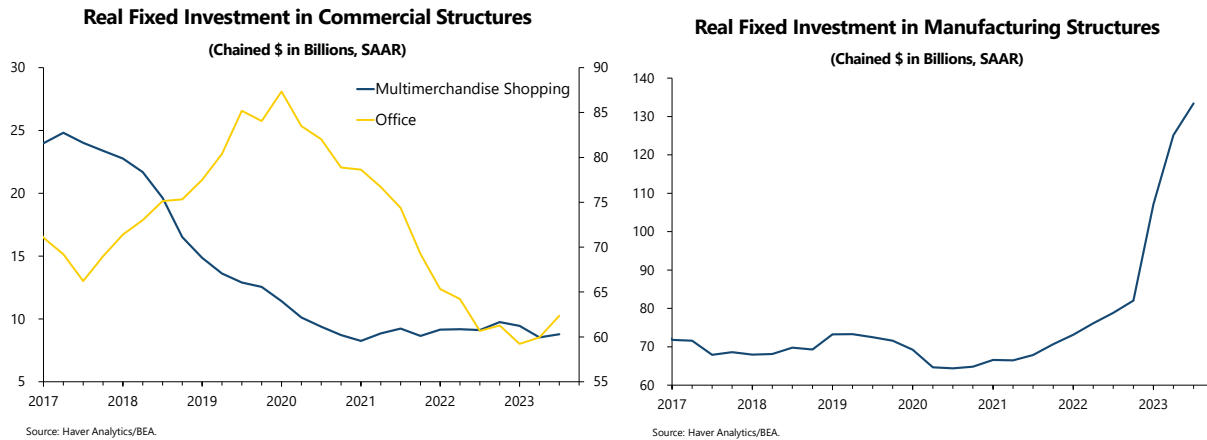
Real investment in intellectual property products (IPP), including software, R&D, and entertainment, literary & artistic originals, moderated in 2023 after growing at around 10 percent rate in 2021 and 2022. Companies are expected to normalize IPP investments from now on. The outliers are

investments in cyber security and generative AI (GenAI). The KPMG U.S. CEO Outlook survey⁴¹ revealed that CEOs are eager to leverage the new technology to boost productivity growth and contain costs. At the same time they also express concerns about uncertainties and risks – for example, the need to guard themselves more aggressively from cyber-attacks and the theft of intellectual property enabled by GenAI.



Structures investment was boosted by Federal funding as well as a return to normal levels of economic activity and exhibited double-digit growth in 2023, reversing consecutive declines in the prior three years. Notably, manufacturing construction spending took off in 2023. Supported by generous tax incentives in the CHIPS and Science Act of 2022 and rising demand for electronic vehicles, spending on plants housing the production of semiconductors and electric vehicle batteries surged. The climate-specific provisions of the Inflation Reduction Act (IRA) of 2022 also helped boost manufacturing structure investment in clean energy production and renewable energy technology. Tailwinds in the manufacturing sector will continue to prop up total business investment and generate high-paying jobs in 2024, however, impacts from these investments will start to dissipate after the initial surge.

⁴¹ <https://kpmg.com/us/en/articles/2023/kpmg-2023-us-ceo-outlook.html>. Last accessed: January 15, 2024.



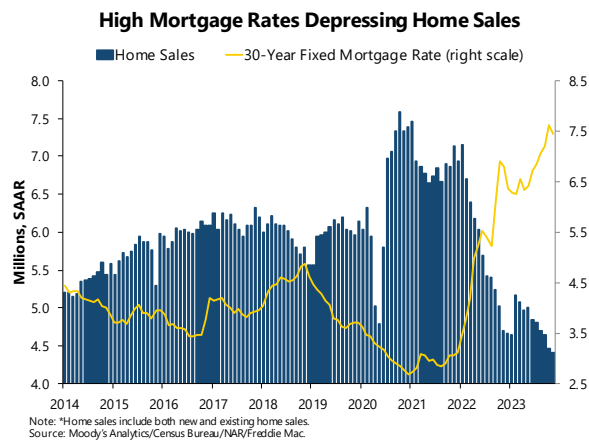
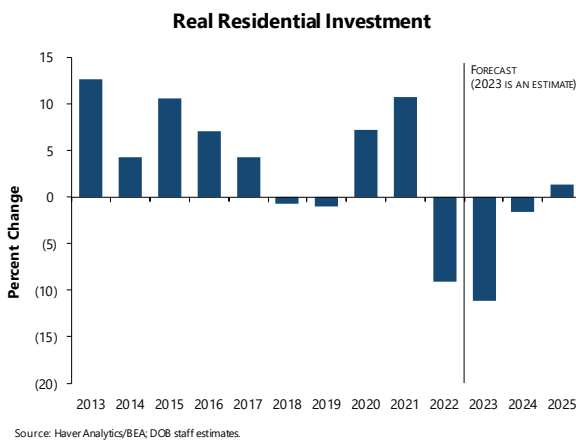
Federal government incentives have stimulated capital investments to New York State. For example, Micron announced its plan to build the country’s largest semiconductor fabrication facility in Central New York (please refer to the [Fiscal Policy Outlook](#) section for details). Apart from the structures investment that benefitted from government support, other components of structures investment are facing strong headwinds. In particular, headwinds on commercial construction projects have weighed on investment in commercial structures since the onset of the pandemic. As demand for office and retail space is not expected to return any time soon and banks will remain cautious in their commercial real estate (CRE) loans, commercial structures investment will remain muted. Slow recovery in the commercial real estate industry is expected to continue dragging the New York State economy and the health of financial institutions that hold commercial real estate loans (please refer to the [Construction Outlook](#) for further discussion).

Construction Outlook

U.S. Housing Market

Housing is one of the most sensitive economic sectors to shift in the direction of monetary policy and thus can be a bellwether about upcoming changes in the direction of the economy. Although fixed residential investment represented only 4.5 percent of U.S. GDP in 2022, the housing sector punches above its weight by fueling consumption growth not only through the wealth effect but also by increasing the demand for complementary durable goods, such as furniture, appliances, and autos.

The residential construction market was already reeling from pandemic-related supply-chain disruptions and labor shortages when the Federal Reserve initiated the fastest monetary tightening cycle in its history. The 30-year mortgage commitment rate rose from 3.1 percent in the fourth quarter of 2021 to 7.3 percent in the final quarter of 2023. The 30-year mortgage commitment rate is projected to average a still elevated 6.5 percent for 2024. Already weakened by the impact and aftermath of the pandemic, real residential fixed investment fell nine consecutive quarters after the second quarter of 2021. **The most recent estimates indicate real residential investment fell 11.1 percent in 2023. A third consecutive annual decline of 1.6 percent is projected for this year, shaving about 0.1 percent from real U.S. GDP growth. Shallow growth of 1.3 percent is projected for 2025.**



Recent Developments

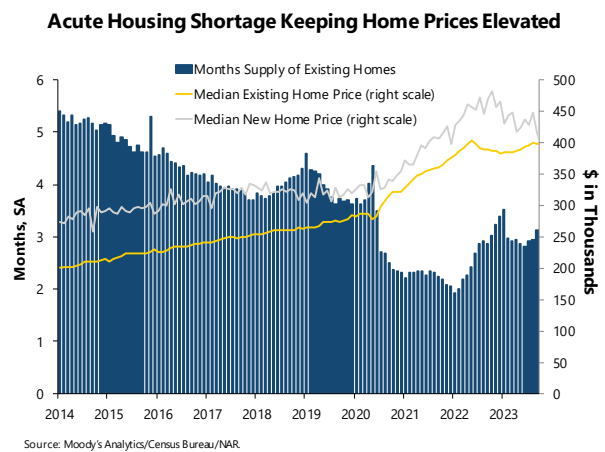
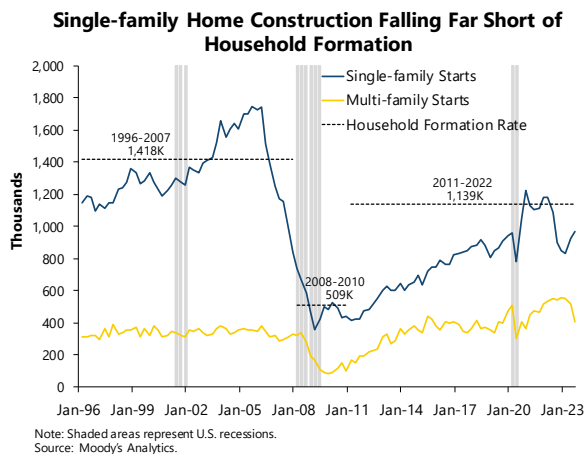
The housing sector is highly sensitive to shifts in the direction of monetary policy. It is thus no surprise that the more than 400 basis point increase in mortgage rates over the past two years has severely dampened both the demand for new home, as well as the supply, which had already been tight due to supply-chain disruptions and labor shortages that expanded during the pandemic. Real residential fixed investment fell nine consecutive quarters starting in the second quarter of 2021.

As of the most recent six months of data ending in November 2023, new and existing home sales were down 32.3 percent from the same period in 2021, from 6.9 million units (annualized) to 4.6 million. Over that same two-year period, single family housing starts were down 12.8 percent, while

multi-family starts were down 12.2 percent. This weakness has depressed both real residential construction and real estate agent fees, both of which contribute to BEA’s measure of real residential fixed investment.

The nation’s housing shortage began to emerge prior to the pandemic. Indeed, housing starts have significantly lagged the rate of new household formation since the end of the Great Recession. New household formation has averaged 1,139 thousand per year over the period from 2011 through 2022, but single-family housing starts averaged only 790 thousand per year over the same period. As measured by the number of months’ supply of existing homes, the single-family home shortage now stands at its most acute level since the start of the century. This measure reached historic lows when it fell below two months in early 2022, rising only slightly to just above three months as of September 2023 – well below pre-pandemic levels and far below the six-month threshold generally associated with moderate price appreciation.

With mortgage rates staying close to their recent highs and home prices so far above their pre-pandemic levels, existing home affordability is the lowest it has been since 1985, as measured by the National Association of Realtors. Such conditions tend to keep homeowners out of the home-buying market, resulting in a “lock-in effect” that is depressing the inventory of homes for sale. These conditions will tend to put upward pressure on prices. At the same time, high mortgage rates can put downward pressure on home prices by reducing demand, all things being equal. These forces have already been at work in the market for new homes, where prices appear to have peaked in the fall of 2022. The median new home price has since come down, though prices remain well above pre-pandemic levels.



Outlook

As monetary policy becomes less restrictive and the 10-year Treasury yield continues its downward slide, mortgage rates are expected to follow suit. However, the pace of decline in 2024 is expected to fall well short of the pace of increase observed over the prior two years when the 30-year mortgage commitment rate rose from 3.1 percent in the fourth quarter of 2021 to 7.3 percent in the final quarter of 2023. Thus, the housing market, as one of the most interest-rate sensitive sectors of the economy, is not expected to exhibit a significant pick-up until late in 2024. **After falling 9.0**

percent in 2022 and an estimated 11.1 percent in 2023, growth in real residential fixed investment is projected to fall 1.6 percent in 2024, followed by shallow growth of 1.3 percent in 2025.

Risks

Housing affordability is affected by both mortgage interest costs and home prices, along with other factors, such as real estate taxes. The 30-year mortgage commitment rate is expected to gradually decline to 6 percent by the second half of 2025, but if rates fall more gradually than anticipated, then the demand for new and existing homes will recover more slowly than expected, as will the demand for realtor services, resulting in weaker growth in real residential fixed investment than is reflected in this forecast. In contrast, if interest rates should fall faster than expected, the opposite effect could ensue.

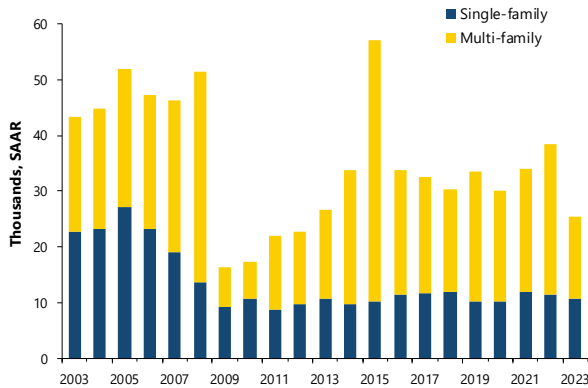
Housing Market in New York

New home construction softened substantially in New York last year in the wake of higher interest rates. During the first 11 months of 2023, New York State housing starts fell 32.1 percent over the same period in 2022, after rising by 13.2 percent in 2022. The 2023 decline in total starts is entirely attributable to multi-family home construction. With the State housing market exiting the final throes of the Federal Reserve's monetary tightening in the first half of 2024, New York State's average single-family home price is projected to fall 0.8 percent in 2024 on an annual average basis, following an estimated decline of 1.0 percent in 2023. The State's average single-family existing home price grew 13.5 percent and 5.8 percent growth in 2021 and 2022, respectively. State housing starts are projected to fall 2.3 percent in 2024, following an estimated decline of 30.8 percent for 2023.

Growth in median existing home prices decelerated in every county except Tioga in 2023, based on the first three quarters of data. The statewide median existing home price grew 2.5 percent in 2023, down from 9.1 percent in 2022; for the U.S., the comparable rate of growth fell from 10.3 percent to 1.3 percent. Despite the recent growth, upstate home prices remain low relative to downstate and the rest of the country.

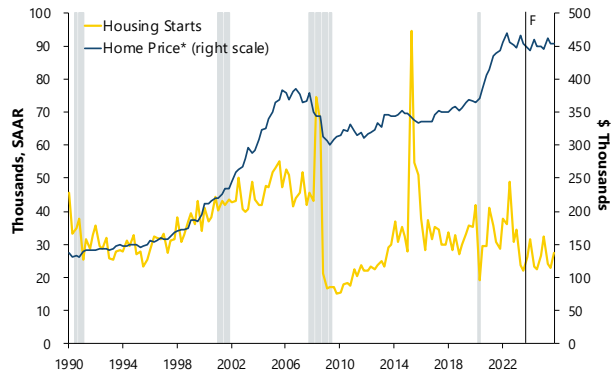
As mortgage rates rose, sales activity over the first 11 months of 2023 fell close to 30 percent in all five boroughs of New York City compared to the same period in 2022, following declines of a much smaller magnitude for 2022.

Recent Trends in NYS Housing Starts



Note: Data for 2023 are through November.
Source: Moody's Analytics.

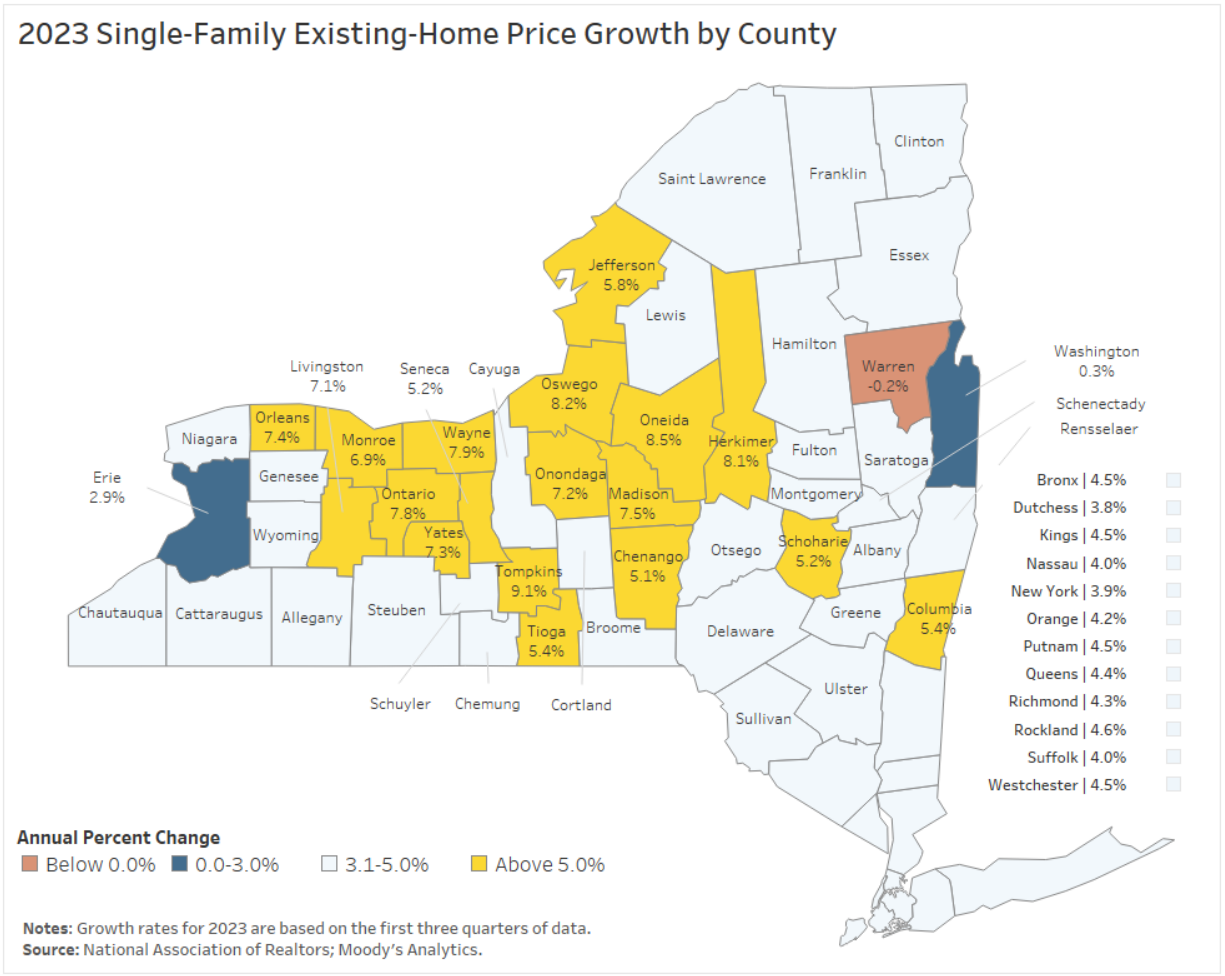
NYS Housing Market Outlook



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

Recent Developments

The Federal Reserve’s monetary tightening and its impact on mortgage rates took a toll on New York State housing market activity last year. Housing starts fell 32.1 percent over the first 11 months of data in 2023 on a year-ago basis, compared with growth of 13.2 percent in 2022. However, this substantial decline in total starts for 2023 is more than accounted for by multi-family home construction, which fell 45.1 percent over the same period; single-family home grew 2.0 percent.¹ The most recent data for building permits indicate that housing starts likely have further to fall in 2024. Statewide building permits fell 40.5 percent over the first 11 months of 2023 on a year-ago basis, with single-family starts falling 16.2 percent and multi-family starts falling 49.0 percent. However, despite the relatively fast growth of upstate home prices, upstate price levels remain low relative to downstate and the U.S., offering further evidence of the regional heterogeneity in the State’s housing market. The nine counties that exhibit median existing single-family home prices above the estimated statewide median for 2023 of \$502,016 all lie within the 12-county MTA region. Indeed, the only upstate county (by this definition) that is above the nationwide median of \$389,160 is Ulster County.



The slowdown in New York City housing market activity that began in 2022 only intensified in 2023. The table below presents unit property sales and their associated average and median prices based on New York City Department of Finance rolling sales data through October 2023.⁴² Based on these data, all five New York City boroughs experienced substantial declines in unit property sales of close to 30 percent, compared to the same period in 2022, following declines of a much smaller magnitude for 2022.

New York City Department of Finance rolling sales data provide a more comprehensive picture of trends in City real estate prices than can be gleaned from movements in the median existing-family home price alone. These data show that with the exception of Manhattan, every borough saw declines in both median and average prices in 2023, based on the first 11 months of data. Moreover, for the outer boroughs, the declines in average prices far outpaced the declines in median prices, while the growth in the median price in Manhattan outstripped the growth in the average price.

⁴² New York City Department of Finance unit sales includes most residential property of up to three units (such as one-, two-, and three-family homes and small stores or offices with one or two attached apartments), vacant land that is zoned for residential use, and most condominiums that are not more than three stories; as well as all other property that is primarily residential, such as cooperatives and condominiums. See <https://www.nyc.gov/site/finance/taxes/property-rolling-sales-data.page>. Last accessed: January 14, 2024.

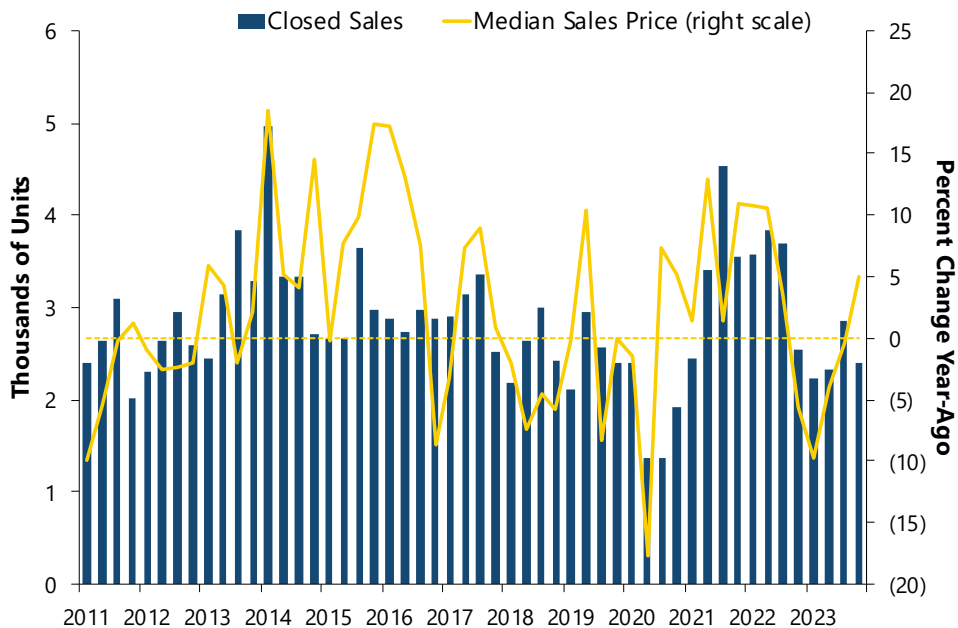


This pattern indicates that the City’s real estate market vulnerabilities are greatest toward the top of the market. The risk that this weakness could spread to other segments of the market remains uncertain.

TRENDS IN NEW YORK CITY RESIDENTIAL PROPERTY SALES AND PRICES (Percent Change Year-Ago)						
	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	300	-25.9%	\$818,904	-12.4%	\$569,864	-3.5%
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	981	-29.7%	\$1,336,265	-14.8%	\$922,045	-3.6%
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	1,068	-25.4%	\$2,708,147	0.6%	\$1,235,760	2.2%
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	1,535	-3.0%	\$1,664,388	100.0%	\$682,684	3.2%
2023	1,176	-23.4%	\$894,799	-46.2%	\$658,740	-3.5%
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	346	-29.6%	\$645,621	-8.0%	\$623,109	-2.0%
Note: Levels and growth rates for 2023 are based on 11 months of data; growth is over the same period of the prior year.						
Source: New York City Department of Finance (Rolling Sales Data).						

Much of New York City’s most expensive real estate market is concentrated among Manhattan’s condos and co-ops. In 2022, condo and co-op sales accounted for approximately 80 percent of total Manhattan residential sales.¹ Pent-up demand in the wake of the pandemic caused an explosion of sales in late 2021 and 2022, supported by the historically low interest rates of that time. But by late 2022, rising mortgage rates were beginning to take their toll, with condo and co-op sales falling 18.4 percent by the third quarter of that year on a year-ago basis. Unit sales saw five consecutive quarters of double-digit declines ending in the third quarter of last year. The median sales price fell four consecutive quarters ending in the third quarter of 2023, while the average sales price fell three consecutive quarters.

Manhattan’s Condo and Co-op Market



Source: Miller Samuel Inc. and Douglas Elliman Real Estate

Manhattan’s luxury market — defined as the top 10 percent of all condo and co-op sales in a period — appears to have held up better than the broader market since the start of the pandemic. Correspondingly, this segment of the market also appears to be less sensitive to changes in interest rates. For the fourth quarter of 2023, the most recent quarter of data available, the entry threshold for the top 10 percent was approximately \$4.0 million, an increase of 1.5 percent from the same quarter in 2022. The fourth quarter median sales price within the luxury market rose 4.9 percent from the prior year to \$6.1 million, compared to 5.1 percent growth for the broader market for the same quarter. Thus, the sensitivity of the broader market to the turnaround in mortgage interest rates does not appear to be as visible within the luxury market. This could be due to the greater prevalence of cash sales within the luxury market, as well as its more global nature. The fourth-quarter median luxury price was 27 percent above its pre-pandemic level at the fourth quarter of 2019, almost twice the 15 percent growth in the market-wide median sales price.

Commercial Real Estate

New York City's commercial real estate market showed similar weakness in 2023, and due to its relatively lower sales volumes and higher price points, even more volatility. Property sales fell in every borough during the first 11 months of 2023, ranging from a 10.2 percent drop in the Bronx to a 26.0 percent drop in Staten Island. Brooklyn saw the largest number of sales (110), though these represented a decline of 23.4 percent through November from the same period in 2022. Brooklyn was also the only borough to see growth in both the average and median property prices, though the latter (19.0 percent) far outpaced the former (2.0 percent). Both Queens and Staten Island saw double digit declines in average commercial property prices and double digit growth in median prices. These data reinforce the notion that market weakness appears greatest among the City's most expensive properties.

Some recent data may be providing a window into how seismic an impact the pandemic has had on New York City's commercial real estate market. A comparison between the 2018-2020 period and 2021-2022 indicates a couple of broad trends. The first trend has been characterized as a flight to quality as employers trying to entice their workers to return to the office have expressed a preference for new construction that offers amenities often not found in older properties, including increased proximity to transportation, conference centers, lounge seating, more food choices, and gym or wellness facilities. As a consequence of this trend, construction completed since 2015 was the only segment of the market to post positive absorption in 2022, while the broader market exhibited a net reduction in occupied space that year.

Yet another emerging trend has been a shift in the industry mix dominating the leasing of newly developed properties in excess of 10,000 square feet. During the 2018-2020 period, 40.3 percent of such leases were accounted for by technology, advertising, media, and information (TAMI) sector firms, while 18.6 percent of leases were accounted for by financial services and 25.0 percent by legal services, 8.4 percent by health services, and 2.9 percent other professional services. During this period, commercial property landlords favored TAMI sector tenants, due to the large volume of venture capital backing the sector, despite its start-up risks.

In contrast, in 2021-2022, financial services accounted for fully 43.4 percent of newly developed properties, while other professional services accounted for 18.1 percent, TAMI 14.6 percent, legal services 10.5 percent, and health services 1.2 percent. This shift likely reflects the disproportional degree of effort exhibited by financial firms to bring its employees back into the office, while other industries have been relatively more accommodative of hybrid work arrangements. The shift may also reflect some overhiring that occurred within the technology sector and the subsequent layoffs that occurred early in the recent monetary tightening cycle.



TRENDS IN NEW YORK CITY COMMERCIAL PROPERTY SALES AND PRICES (Percent Change Year-Ago)						
	Unit Sales		Average Price		Median Price	
	Level	Percent Growth	Level	Percent Growth	Level	Percent Growth
Bronx						
2019	31	27.9%	\$5,175,630	28.1%	\$2,013,380	37.8%
2020	29	-6.0%	\$4,970,402	-4.0%	\$2,618,125	30.0%
2021	30	5.8%	\$4,710,405	-5.2%	\$1,935,136	-26.1%
2022	25	-18.1%	\$5,723,738	21.5%	\$2,143,500	10.8%
2023	22	-10.2%	\$5,395,846	-5.7%	\$2,504,632	16.8%
Brooklyn						
2019	124	79.8%	\$4,852,242	3.4%	\$1,119,633	-8.4%
2020	93	-25.4%	\$3,804,816	-21.6%	\$950,629	-15.1%
2021	151	62.3%	\$2,904,258	-23.7%	\$1,183,132	24.5%
2022	144	-4.4%	\$4,307,072	48.3%	\$1,173,739	-0.8%
2023	110	-23.4%	\$4,393,228	2.0%	\$1,396,282	19.0%
Manhattan						
2019	64	37.5%	\$38,206,697	2.1%	\$5,173,133	22.0%
2020	43	-31.8%	\$28,806,466	-24.6%	\$6,685,515	29.2%
2021	72	65.6%	\$17,053,938	-40.8%	\$3,118,532	-53.4%
2022	69	-4.2%	\$27,463,191	61.0%	\$4,058,078	30.1%
2023	55	-19.9%	\$12,552,441	-54.3%	\$3,209,382	-20.9%
Queens						
2019	78	28.3%	\$6,928,583	84.3%	\$1,385,043	4.4%
2020	67	-14.3%	\$5,075,333	-26.7%	\$990,992	-28.5%
2021	105	56.9%	\$4,390,583	-13.5%	\$1,096,199	10.6%
2022	104	-0.6%	\$4,899,964	11.6%	\$1,039,705	-5.2%
2023	83	-19.8%	\$3,906,197	-20.3%	\$1,216,447	17.0%
Staten Island						
2019	14	4.4%	\$2,958,398	46.1%	\$998,958	15.6%
2020	14	4.2%	\$2,753,424	-6.9%	\$800,740	-19.8%
2021	18	23.1%	\$2,567,755	-6.7%	\$1,306,053	63.1%
2022	19	5.2%	\$2,639,187	2.8%	\$1,111,840	-14.9%
2023	14	-26.0%	\$2,017,743	-23.5%	\$1,686,682	51.7%

Note: Levels and growth rates for 2023 are based on 11 months of data; growth is over the same period of the prior year.
Source: New York City Department of Finance (Rolling Sales Data).

Outlook

Total State housing starts are estimated to have fallen a hefty 30.8 percent in 2023. And with an even larger decline in permits estimated for last year, and mortgage rates expected to fall very slowly over the course of the current year, the decline in housing starts is expected to continue into the first half of 2024 on a year-ago basis, though at a much-reduced pace. New York State housing starts are projected to fall a shallower 2.3 percent in 2024, before improving to 3.0 percent growth in 2025. Prospects for the State's residential housing market also depend on the outlook for home prices. The average existing single-family home price in New York is estimated to have fallen 1.0 percent in 2023, after rising 5.8 percent in 2022. Consistent with a sluggish start to the recovery of the State's real estate market, New York's average single-family home price is projected to fall another 0.8 percent in 2024, followed by growth of 0.8 percent in 2025.

Risks

Consistent with a widely anticipated shift in the Federal Reserve's monetary policy stance by mid-2024, mortgage rates are expected to gradually decline over the course of 2024 and 2025. But if mortgage rates fall more slowly than expected both the demand and supply for housing could fall further than is reflected in this forecast, possibly translating to both fewer housing starts and weaker growth in existing home prices than projected. Greater home price declines than anticipated could affect real estate and rental and leasing industry wages, as well as State real estate transfer tax collections and local government property tax collections. Further declines in the State's population, as well as a weaker economy more generally could lead to a rise in unemployment, which could also depress the demand for homes. On the other hand, either lower interest rates or a stronger labor market could lead to a more robust and/or higher prices in homebuilding activity for 2024 than is reflected in this forecast.

Additional risks to the outlook could come from persistent labor shortages, particularly upstate. Ongoing shortages of construction workers could constrain supply and push construction costs and home prices up. Developments that promote labor force participation and grow the workforce could partially offset some of these forces. As the market for luxury housing is a global one, international forces, such as swings in the value of the dollar or global conflict, also represent risks that can affect the New York City real estate market. Although national trends and monetary policy developments affect the construction sector across the nation, another risk could stem from the highly localized or regional nature of real estate markets if, for example, zoning regulations fail to keep up with the needs of their communities by constricting supply. Changes to the current panoply of regulations and building incentives represent both positive and negative risks to the forecast.

New York State Adjusted Gross Income

Personal income tax (PIT) receipts accounted for nearly 49 percent of the State’s total tax revenue in FY 2023. 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.⁴³ 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 State and national economic conditions. 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 incorporates into its forecast.

Growth in personal income is less volatile than growth in both NYSAGI and 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.

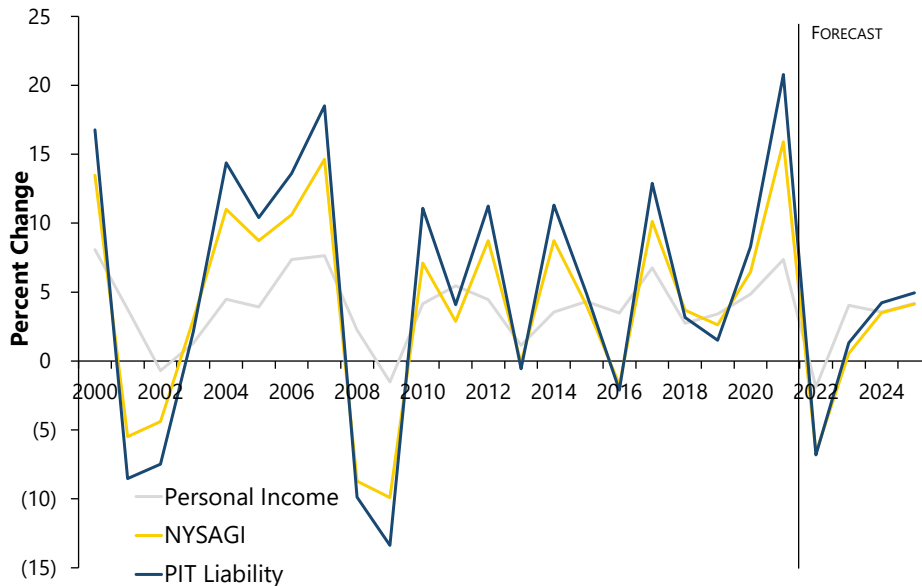
Some of the additional volatility in NYSAGI and PIT liability can be ascribed to “income shifting,” where taxpayers attempt to minimize their tax liability in certain years in anticipation of tax law changes by shifting the timing of certain components of income, such as capital gains or bonuses. One recent example stems from 2016-18, when a Federal tax cut was expected to be adopted 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 tax legislation was not signed into law until December 2017. NYSAGI growth fell to 3.7 percent in 2018, in part because of the outsized growth in the prior year. Also of note: new limitations on itemized deductions, in particular the cap on the deduction of state and local taxes (SALT) paid, caused taxpayers to try to pay forward their 2018 property taxes in 2017 to take advantage of the last year of more generous treatment of the SALT itemized deduction.

NYSAGI grew 15.9 percent in 2021 as national economic activity rebounded sharply after an unprecedented decline during 2020 and is estimated to have fallen 6.6 percent in 2022.

The rebound was accompanied by massive Federal fiscal support through 2021. Equities markets set several records over the course of the year. Based in part on preliminary partial data from income tax returns, NYSAGI growth is estimated to have fallen 6.6 percent in 2022, driven in large part by a steep decline in capital gains realizations from 2021’s historically high level. DOB forecasts almost flat growth of just 0.6 percent for 2023. Growth of 3.5 percent is anticipated in 2024 with stronger growth of 4.1 percent for 2025 as the economy strengthens.

⁴³ 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 in the [Personal Income Tax](#) section of this volume.

The Indicators of New York State’s Tax Base



Note: PIT liability is computed based on 2002 NYS tax law. NYSAGI and liability for 2022 are preliminary.
 Source: NYS DTF; Moody’s Analytics; DOB staff estimates.

The Major Components of NYSAGI

A filer’s AGI is composed of earning from wages, capital gains realizations, 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 QCEW data, they are highly correlated. To be consistent with DOB’s New York State macroeconomic forecast, projected growth rates for taxable wages beginning with 2022 and onward are based on the estimated growth of total State wages derived from the macroeconomic forecast, which is based on QCEW data.

CHANGES IN NYSAGI AND ITS MAJOR COMPONENTS								
	2018	2019	2020	2021	2022*	2023	2024	2025
	Actual				Estimate			
NYSAGI								
Level (\$ Billions)	906.9	930.8	990.8	1,148.4	1,072.2	1,078.2	1,116.0	1,162.1
Change (\$ Billions)	32.3	23.9	60.1	157.6	(76.2)	6.0	37.8	46.1
% Change	3.7	2.6	6.5	15.9	(6.6)	0.6	3.5	4.1
Wages								
Level (\$ Billions)	645.4	673.4	668.4	719.6	761.9	793.6	818.2	850.8
Change (\$ Billions)	19.0	28.1	(5.0)	51.2	42.3	31.7	24.6	32.6
% Change	3.0	4.4	(0.7)	7.7	5.9	4.2	3.1	4.0
Capital Gains								
Level (\$ Billions)	102.2	93.2	134.5	207.0	107.5	85.4	89.2	92.8
Change (\$ Billions)	2.3	(9.0)	41.3	72.5	(99.5)	(22.1)	3.8	3.6
% Change	2.3	(8.8)	44.3	53.9	(48.1)	(20.5)	4.4	4.0
Partnership/S Corporation								
Level (\$ Billions)	99.3	98.7	104.0	126.6	123.1	118.2	123.5	130.3
Change (\$ Billions)	(9.1)	(0.6)	5.3	22.7	(3.5)	(4.9)	5.3	6.8
% Change	(8.4)	(0.6)	5.3	21.8	(2.8)	(4.0)	4.5	5.5

Source: NYS DTF; DOB staff estimates.
 *2022 estimates are based on processing data except for wages.

Positive Capital Gains Realizations

Positive capital gains realizations play a large role in determining NYSAGI and its growth 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 factors likely to influence capital gains realization behavior, such as anticipated and actual tax law changes, financial market activity, and real estate market activity.⁴⁴ Realization behavior has been shown 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.”

After falling 8.8 percent in calendar year 2019, strong growth in stock prices and a booming housing market in 2020 and 2021 – in spite of the pandemic – helped capital gains realizations increase 44.3 percent in 2020 with even stronger growth of 53.9 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, capital gains are expected to fall 48.1 percent in 2022 (based on preliminary partial data). Despite a runup in the last two months of the year, the S&P 500 spent

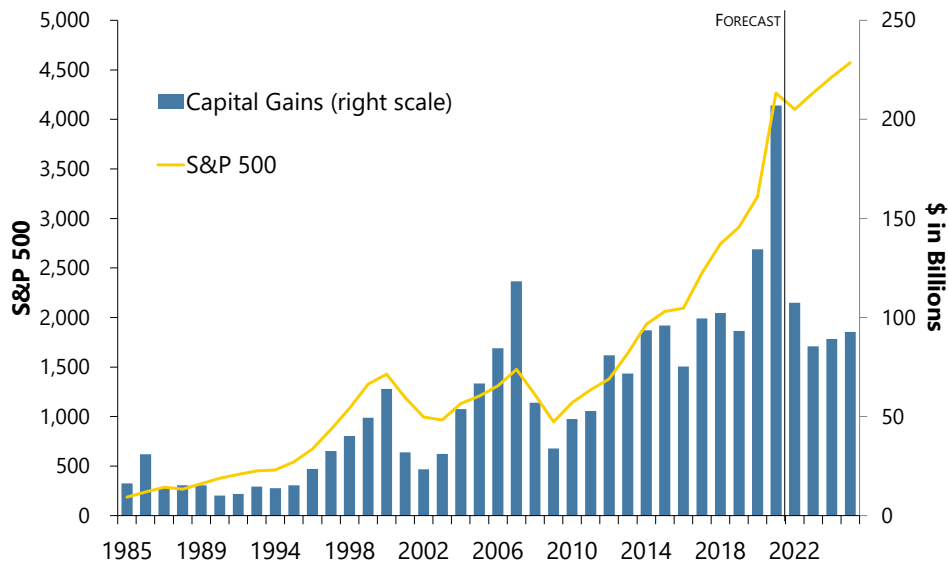
⁴⁴ For a discussion of the Division’s traditional approach to modeling capital gains realizations, see L. Holland, H. Kayser, R. Megna and Q. Xu “The Volatility of Capital Gains Realizations in New York State: A Monte Carlo Study,” *Proceedings, 94th Annual Conference on Taxation*, National Tax Association, Washington, DC, 2002, p. 172-183.

most of 2023 at values well below the peak of 2022. State real estate transfer taxes, an indicator of capital gains derived from real estate transactions, were also down substantially from 2022. Finally, as discussed below, private equity and hedge fund activity remain weak as well. Consequently, another drop (of 20.5 percent) is expected in 2023. Muted 4.4 percent growth is forecast for 2024, followed by a 4.0 percent gain in 2025.

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 in 2021, the S&P 500 ran up a 32.6 percent gain on an annual average basis that year. 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. DOB projects weaker growth of 3.7 percent in 2024 and 3.3 percent in 2025.

Capital Gains Realizations and the S&P 500 Index



Note: 2022 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 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.

Private equity's contribution to capital gains weakened during 2022's second half, with the weakness continuing into 2023. Depending on monetary policy and geopolitical developments, this weakness may continue into 2024. Deal making rebounded in the second half of 2020, and private equity went on to set new annual records in global deal volume and transaction volume in 2021.⁴⁵ However, Russia's attack against Ukraine and the start of the Federal Reserve's increases in the federal funds target range, both in 2022, caused the market to chill, with mergers and acquisitions (M&A) activity falling by about one-third on a year-over-year basis according to Bloomberg data.⁴⁶

A similar cooling trend developed in venture capital which, unlike private equity, invests primarily in startup businesses. "In 2022, venture capitalists invested \$452.3 billion across approximately 16,000 deals. That marked a \$260.9 billion, or 36.6 percent, pullback from the record-setting \$713.0 billion invested in 2021."⁴⁷ Heading into 2023, it was expected that private equity was returning to a more "normal" environment.

Despite this more optimistic outlook, private equity started 2023 on a slow note, according to PwC (PricewaterhouseCoopers, LLP). PwC said that from the first quarter of 2022 to the first quarter of 2023, private equity-related deal volumes fell approximately 30 percent, taking the market back to pre-pandemic levels. But aggregate deal value had "ticked up modestly each quarter since the post-COVID plunge."⁴⁸ In addition, the consulting firm said that "PE firms sit atop unprecedented dry powder reserves (about \$1.1 trillion in the U.S.),"⁴⁹ i.e., funds that have not been committed to any deals and are hence available for use in buyouts. A midyear 2023 report by Bain & Company argued that "nothing is fundamentally broken in the global economy," though how long the "current doldrums" would last is "anybody's guess."⁵⁰ It noted that the "clock is ticking on a record \$3.7 trillion in dry powder (\$1.1 trillion in buyout funds)" so fund managers have "ample incentive to get moving after four quarters of relative inactivity."⁵¹

⁴⁵ Stephen A. Cohen, Karessa L. Cain, and Alon B. Harish, "Private Equity: 2021 Year in Review and 2022 Outlook," Harvard Law School Forum on Corporate Governance, February 9, 2022, available at corpgov.law.harvard.edu/2022/02/09/private-equity-2021-year-in-review-and-2022-outlook/. Last accessed: January 14, 2024.

⁴⁶ Andrew Miller, "ANALYSIS: How Private Equity Fared in 2022," *Bloomberg Law*, January 17, 2023, available at <https://news.bloomberglaw.com/bloomberg-law-analysis/analysis-how-private-equity-fared-in-2022>. Last accessed: January 14, 2024.

⁴⁷ *Ibid.*

⁴⁸ *Ibid.*

⁴⁹ *Ibid.*

⁵⁰ Hugh MacArthur, Rebecca Burack, Christopher De Vusser, Graham Rose, and Brenda Rainey, "Stuck in Place: Private Equity Midyear Report 2023," Bain & Company, July 17, 2023, available at <https://www.bain.com/insights/stuck-in-place-private-equity-midyear-report-2023>. Last accessed: January 14, 2024.

⁵¹ *Ibid.*

Finally, a forward-looking report by BluWave, LP, foresaw 2024 as the start of a new cycle of private equity activity, based on its proprietary data and interactions with dealmakers in the U.S.⁵² BluWave expects that the pickup in private equity will occur in the second half of 2024, based in part on its belief that Federal Reserve monetary policy will be “more closely reflecting past pre-boom cycles.”⁵³ Thus, the expectation is for a weaker contribution to capital gains from private equity for 2022 and 2023, though 2024 could see improvement, after exceptional performance from the second half of 2020 through 2021.

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) failed to outperform the broader market in 2021, the same as in the prior two years.⁵⁴ One report found hedge funds fell 4.25 percent in 2022 which was less severe than the drop in the S&P 500 (19.4 percent).⁵⁵ The industry was said to have been “booming” in 2022.⁵⁶

However, as equities began surging by midyear 2023, hedge funds began to look like a less attractive investment option for the wealthy. Some investors may also have been tempted away from hedge funds by rising bond yields. An analyst noted that “for tax paying private wealth, hedge funds are typically less tax efficient than strategies such as private equity,” arguing that this fact produces “an inherent ‘brake’” on hedge fund industry growth. The top hedge fund strategy had a 5.9 percent return year-to-date by late October.⁵⁷ Note that by early December the S&P 500 was up 19 percent for 2023.

Risks to the capital gains forecast appear weighted to the downside. The [Federal Reserve](#) began shrinking its bloated balance sheet in mid-2022 as well as rapidly raising the target range for the federal funds rate since March 2022, with the result that the withdrawal of “easy money” policies has been working to slow key sectors of the economy. While [recession fears](#) have faded, a recession could still come about, since there are long and variable lags in the effects of monetary policy changes. The 2024 presidential election could also increase uncertainty in economic decisionmakers. On the other hand, capital gains surprised to the upside in tax year 2020 despite the global pandemic and could do so again if the Fed manages to tame inflation without provoking a recession.

⁵² “BluWave’s 2024 Private Equity Market Outlook: The Start of a New Growth Cycle,” Business Wire, November 16, 2023, available at <https://finance.yahoo.com/news/bluwave-2024-private-equity-market-120600336.html>. Last accessed: January 14, 2024.

⁵³ Ibid.

⁵⁴ Christine Williamson, “Hedge fund managers return 10.3% in 2021, below 2020’s performance,” *Pensions & Investments*, January 10, 2022, available at <https://www.pionline.com/hedge-funds/hedge-fund-managers-return-103-2021-below-2020s-performance>. Last accessed: January 14, 2024.

⁵⁵ Carolina Mandi, “Hedge funds in 2022 post worst performance since 2018, dragged down by equities -HFR data,” Reuters, January 9, 2023, available at <https://www.reuters.com/business/finance/hedge-funds-2022-post-worst-performance-since-2018-dragged-down-by-equities-hfr-2023-01-09/>. Last accessed: January 14, 2024.

⁵⁶ Hannah Zhang, “Hedge Funds Thrived in 2022. Now They’re on a Hiring Spree,” Corner Office, *Institutional Investor*, March 17, 2023, available at <https://www.institutionalinvestor.com/article/2bstowo5tb2vl2optqh24/corner-office/hedge-funds-thrived-in-2022-now-theyre-on-a-hiring-spre-e>. Last accessed: January 14, 2024.

⁵⁷ Nell Mackenzie, “Hedge fund investors pull \$80 billion from industry in 2023 – Aurum,” Reuters, November 1, 2023, available at <https://www.reuters.com/business/finance/hedge-fund-investors-pull-80-billion-industry-2023-aurum-2023-11-01/>. Last accessed: January 14, 2024.

Rent, Royalty, Partnership, and S Corporation Gains

While growing at an annual average of 9.5 percent over its history, partnership and S corporation income growth has both generally slowed and become more volatile in the period since the Great Recession. Partnership and S corporation income grew 21.8 percent in 2021. Based in part on partial preliminary processing information, DOB estimates a decline of 2.8 percent in 2022. With a continuation of the Federal Reserve's monetary tightening policies in 2023, partnership income is expected to fall 4.0 percent. Growth of 4.5 percent is forecast for 2024, with 5.5 percent growth expected in 2025.

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 income from partnerships and S corporations is related to both the economy and financial markets. However, average annual growth of 3.7 percent during the most recent expansion (through 2019, or pre-COVID) is lower 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. The severity of the Great Recession forced a large number of entities to exit the market, and tighter credit markets made it difficult for new entities to enter as economic conditions improved.

DOB's partnership and S corporation income forecast contains both upside and downside risks. Like capital gains income, 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 partnership and S corporation gains. Conversely, a slowing real estate market could result in smaller than expected gains.

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 but, based in part on preliminary partial returns data, it weakened to a 2.6 rate of increase in 2022. DOB forecasts a 3.0 percent increase in 2023, with an improvement to 4.8 percent growth in 2024 before a slowdown to a 3.4 percent increase in 2025.

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



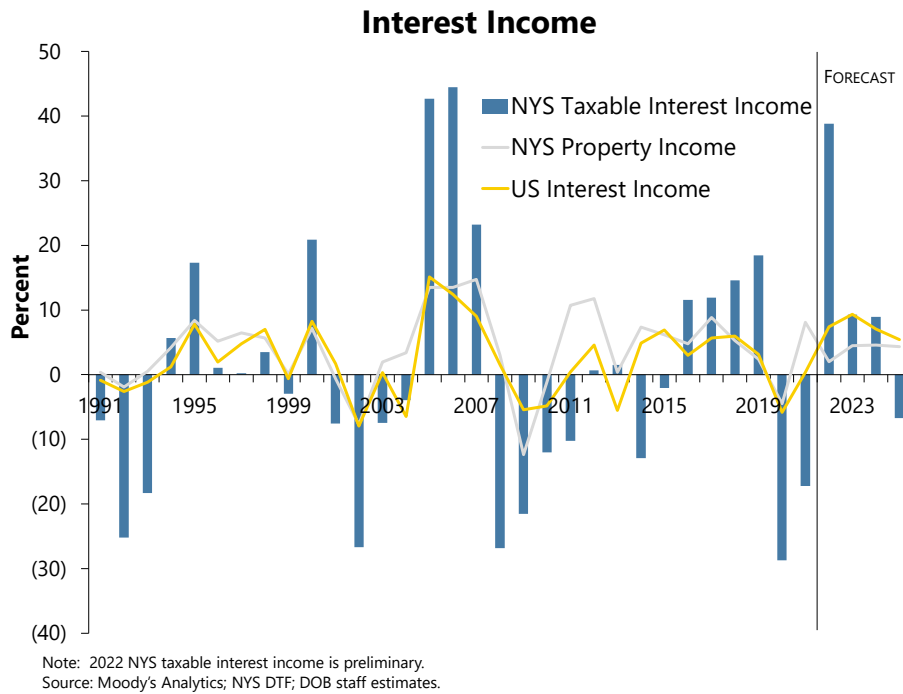
U.S. dividend income: they increased 6.2 percent on average between 1976 and 2021 with a standard deviation of 12.6 percentage points, while U.S. dividend income grew an average of 9.5 percent over the same period, with a standard deviation of 10.3 percentage points.

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.

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. With the Fed beginning to raise the federal funds rate target range in March 2022, DOB estimates a jump of 38.8 percent for tax year 2022, based in part on partial processing information. Growth is estimated to have slowed to 9.3 percent in 2023, due in part to the higher base in 2022. Taxable interest income is forecast to rise 9.0 percent in tax year 2024, but to decline 6.7 percent in 2025 as the Fed is expected to gradually reduce the target federal funds range.

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 following chart). Note that from 1977 to 2021 the standard deviation of the annual growth of NYS property income was 6.6 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 7.5 percentage points. In contrast, State taxable interest income annual growth had a standard deviation of 17.6 percentage points. The additional volatility in this component of NYSAGI could be related to the behavioral response of State taxpayers to changes in tax law.



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 elevated for multiple years, there appears to be little downside risk to the forecast for taxable interest income over the near term.

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. Due to 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, small business and farm income recovered to 26.0 percent growth in 2021. Based in part on preliminary partial data from income tax returns, DOB estimates an increase of 5.1 percent in 2022. Growth is forecast to fade to just 1.3 percent for 2023 with an improvement to 3.0 percent in 2024. In 2025, growth of 3.5 percent is expected.

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 2021 it grew only at an annual average rate of 3.9 percent, with a standard deviation of 7.0 percentage points. Proprietors’ income, as defined under NIPA, experienced similar changes in growth, falling from 10.5 percent growth to 4.4 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 9.9 percentage points from 1991 to 2021.

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.

Pension Income

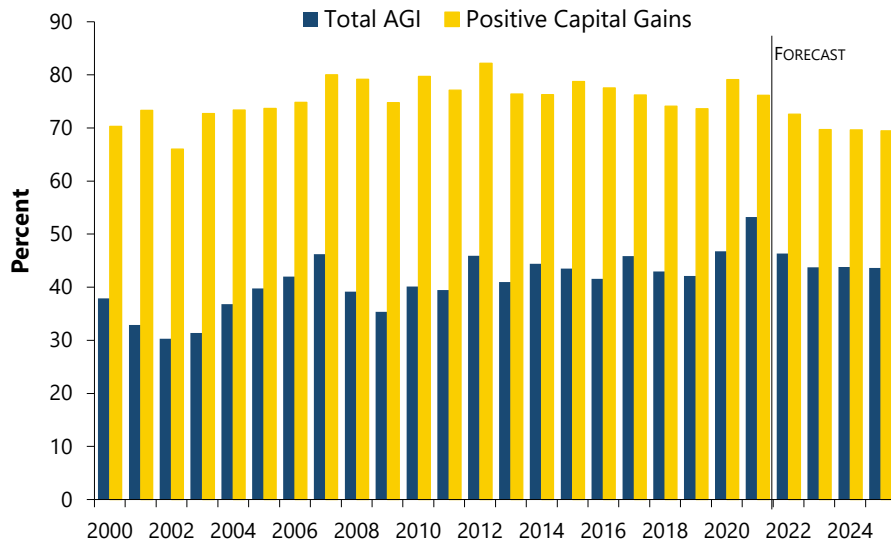
Growth in pension income rebounded to an expansion of 8.0 percent in 2021. DOB estimates growth of 3.5 percent in 2022, based in part on incomplete processing information. Growth of 5.8 percent, 6.6 percent and 7.1 percent is forecast for tax years 2023, 2024 and 2025, respectively.

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 and upside risk to the pension income forecast seems dominant.

Concentration of Liability Among High-Income Filers

**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.

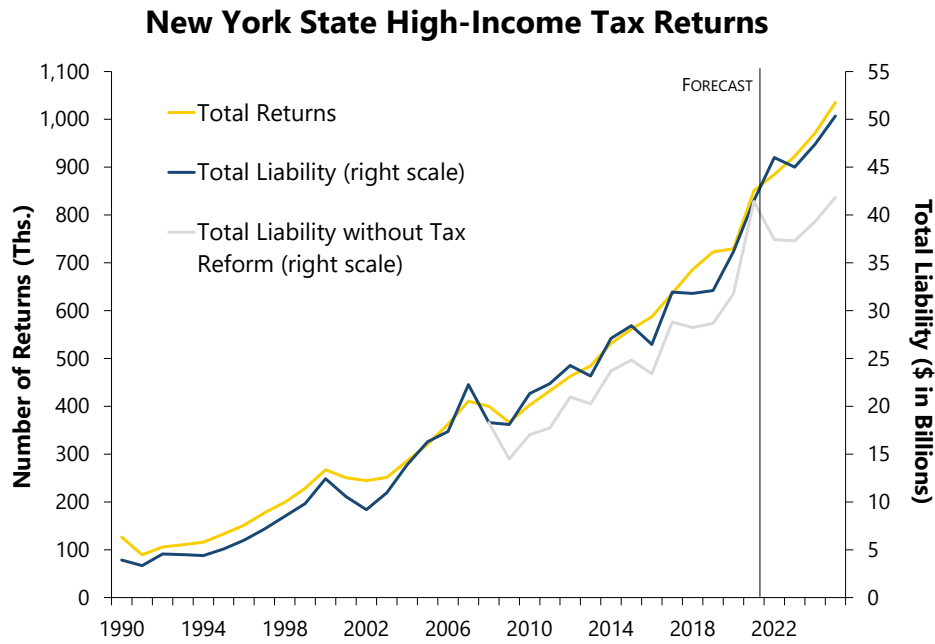
The most volatile components of taxable income, such as bonuses and capital gains realizations, are highly concentrated among the State’s highest-income taxpayers. **In 2021 the top one percent of taxpayers, as determined by their NYSAGI, accounted for 53.2 percent of total adjusted gross**

income, the highest proportion of any year on available records. Prior to tax year 2021, the largest AGI share of the top one percent of filers was 46.2 percent in 2007. These filers also accounted for 79.1 percent of capital gains realizations in 2021 (see figure above). Meanwhile, based in part on preliminary partial returns data, the share of AGI among the top one percent of filers fell to 46.3 percent in 2022. Going forward, DOB projects that the AGI share of these filers will be in the range of 43.6 percent to 43.8 percent during 2023-25.

Meanwhile, based on preliminary partial data from income tax returns, the share of positive capital gains accounted for by the top one percent of filers slipped to 72.6 percent in 2022, the lowest proportion since 2003. The share is expected to dip to 69.7 percent for tax year 2023 and to slide a bit in the next two years, ending at 69.4 percent in 2025.

The income of the top one percent of filers is particularly vulnerable 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. Similarly, a rebounding economy in 2021 contributed to the high AGI and capital gains shares for tax year 2021 noted above. As previously discussed in this section, the ability of these filers to engage in income shifting is a confounding factor when observing the changes in share proportions.

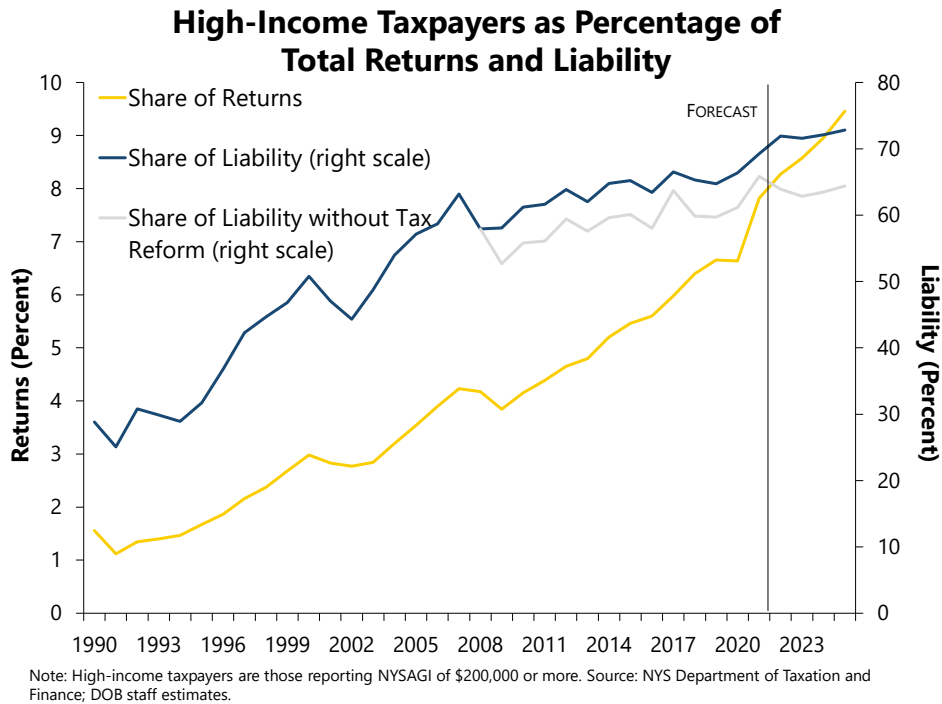
Despite the pandemic, both the number of high-income filers (defined as those filers with NYSAGI of \$200,000 and above) and their tax liability increased in tax year 2020. High-income liability was spurred upward in tax year 2021 and beyond in part due to the enactment of three new tax brackets and rates (9.65 percent, 10.3 percent, and 10.9 percent) in 2021. But note that liability would have risen in tax year 2021 in the absence of both tax reform and the higher rates. The chart also indicates that liability derived from the high-income filers would have fallen in 2022 without the tax reform. Growth in the number of high-income returns also becomes more trend-like in 2022 through 2025, after the spurt in 2021.



Note: High-income taxpayers are those reporting NYSAGI of \$200,000 or more.
 Source: NYS DTF; DOB staff estimates.

The large decline in capital gains realizations (and thus NYSAGI) brought about by the Great Recession temporarily unwound some of the concentration of income and the share of high-income filers dropped to 3.8 percent in 2009 from 4.2 percent in 2007, but by 2011 the share of returns exceeded its 2007 value. The high-income share of returns reached 7.8 percent in tax year 2021, the last year for which complete data is available, and currently is projected to reach 9.5 percent in tax year 2025.

Meanwhile, the liability share of high-income filers climbed to a then-peak of 63.2 percent in 2007 before falling to 57.9 percent the next year as the Great Recession took hold. By 2012 the liability share exceeded the prior peak, reaching 63.9 percent, aided by economic growth and the 8.82 percent top rate under the reform law passed in December 2011 (see figure below). In tax year 2021, the first under the new brackets and rates for high-income taxpayers, the liability share reached 69.3 percent. Based in part on preliminary partial returns data, the high-income liability share for tax year 2022 is estimated at 71.9 percent and DOB projects it will reach 72.8 percent in tax year 2025.



Income Volatility Among High Earners

The table below shows the changes in the concentration of income and liability from the pre-Great Recession peak in 2007 to the trough in 2009, and in 2021. The table is restricted to full-year resident filers only.

The share of nonwage income accruing to the top 10 percent of taxpayers fell by 10.0 percentage points between 2007 and 2009, a result of the Great Recession; but even in 2021, this group's nonwage income share did not exceed its 2007 share (70.8 percent versus 75.6 percent in 2007). Wage income, which is more evenly distributed across taxpayers, saw the share of the top 10 percent of taxpayers fall 1.4 percentage points between 2007 and 2009; however, by tax year 2021 the share was 47.7 percent, exceeding 2007's share by 1.7 percentage points. One indication of the severity of the Great Recession on State taxpayers can be seen in the fact that even as late as 2021, a year with strong growth in liability, the shares of wage income, nonwage income and liability were still generally lower than their counterparts in 2007, even among the most affluent resident tax filers.

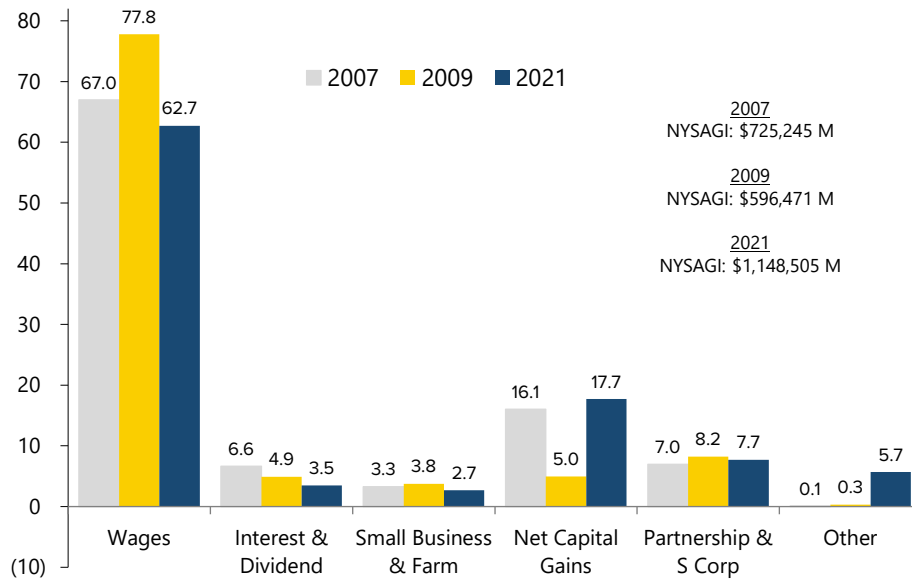
THE CONCENTRATION OF STATE INCOME AND LIABILITY					
2007, 2009, and 2021					
	Number of Returns	NYSAGI	Wage Income	Nonwage Income	Liability
2007					
Total (\$ in millions)	8,706,284	\$631,690	\$412,138	\$270,354	\$29,635
Share: Top 1%	–	36.4	18.0	59.2	47.7
Share: Top 5%	–	51.1	33.9	71.0	65.9
Share: Top 10%	–	60.6	46.0	75.6	76.4
Share: Top 25%	–	77.9	69.3	83.1	92.0
2009					
Total (\$ in millions)	8,585,978	\$520,154	\$401,419	\$167,410	\$25,908
Share: Top 1%	–	27.1	15.1	49.2	43.1
Share: Top 5%	–	42.9	31.5	60.8	61.8
Share: Top 10%	–	54.1	44.6	65.6	73.5
Share: Top 25%	–	75.1	69.4	74.8	91.5
2021					
Total (\$ in millions)	9,420,379	\$973,521	\$592,170	\$446,518	\$49,469
Share: Top 1%	–	36.3	17.1	54.3	46.1
Share: Top 5%	–	52.0	34.9	65.8	63.5
Share: Top 10%	–	61.6	47.7	70.8	73.4
Share: Top 25%	–	78.3	71.2	78.4	88.5

Note: Returns are ranked on the basis of NYSAGI. Returns are full-year resident only.
 Data for 2007 and 2009 are based on a weighted statistical sample of all State returns.
 Source: NYS DTF; DOB staff estimates.

The following figures illustrate the decomposition of NYSAGI into its main components for the 2007 peak year, the 2009 trough year, and for 2021 (the most recent complete year), for all taxpayers and for high-income taxpayers, defined here as those reporting NYSAGI of \$200,000 or more.

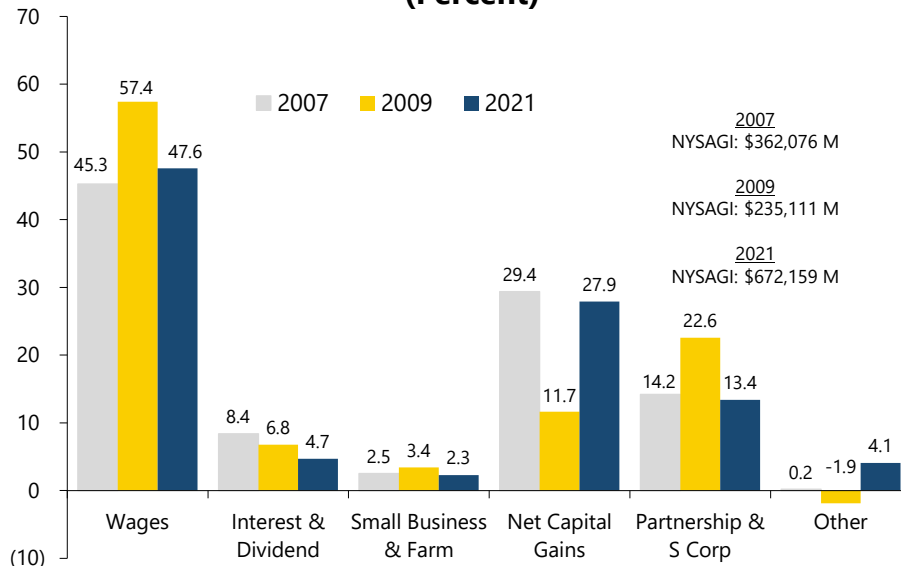
The shares of NYSAGI for 2021 for all filers resemble those of 2007 rather closely, though there are some interesting divergences. The 2021 wage income share is smaller than the 2007 share. Partnership income, at 7.7 percent, is larger than its 2007 share but smaller than its 8.2 percent share in 2009. Notably, the residual “other” income category, negligible at 0.1 percent in 2007, accounts for 5.7 percent of NYSAGI in 2021. While this reflects in part the increasingly older State population (since the “other” category contains taxable pensions, IRA income, and other such components), it also reflects the runup in unemployment compensation as the Federal and State governments sought to buoy the economy from the effects of the pandemic (taxable unemployment compensation jumped to \$43.6 billion in 2020 from \$1.4 billion in 2019, declining to a still elevated \$27.8 billion in 2021). The share from interest and dividends is the lowest of the three tax years, due to both continuing sporadic shutdowns of the economy in response to COVID-19 and to the Federal Reserve’s monetary policy, which drove short-term interest rates to near zero throughout 2021. Meanwhile the share of net capital gains in 2021 is over three times larger than in 2009, when the economy began to emerge from the Great Recession, and at 17.7 percent they exceed their 2007 share.

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 High-Income Taxpayers (Percent)



Note: Both capital gains and partnership/S corporation gains income are net of losses. High-income taxpayers are those reporting NYSAGI of \$200,000 or more.
 Source: NYS DTF; DOB staff estimates.

What is striking about the chart for the high-income filers is the extent to which their shares of NYSAGI in 2021 reverted to 2007 proportions. The effects of the “COVID-19 recession” can be seen in the decreased importance of dividend and interest income as a share of NYSAGI, falling to 4.7 percent in 2021 from 8.4 percent in 2007, as well as in the sudden importance of the “other”



income components, at a 4.1 percent share in 2021 versus 0.2 percent in 2007. Wage income is relatively more important in 2021 than it was in 2007, with net capital gains and partnership-derived income of somewhat less importance, based on their shares of NYSAGI.

Risks to the Forecast

Because the forecasts of the components of NYSAGI are consistent with the economic variables from DOB's macroeconomic forecasting models, many of the risks to PIT are the same as the risks to the State and national economies. However, risks and uncertainties to taxable income are heightened 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, with out-migration among high-income earners being a particularly significant consideration.

RECEIPTS EXPLANATION

Personal Income Tax

PERSONAL INCOME TAX (millions of dollars)								
		FY 2023	FY 2024	Change		FY 2025	Change	
		Results	Estimated	Dollar	Percent	Projected	Dollar	Percent
Withholding		52,477	53,808	1,331	2.5	56,386	2,578	4.8
Estimated Payments	Current Year	8,158	5,807	(2,351)	(28.8)	6,047	240	4.1
	Prior Year ⁵⁸	10,270	4,457	(5,813)	(56.6)	5,110	653	14.7
	Total	18,428	10,264	(8,164)	(44.3)	11,157	893	8.7
Final Returns	Current Year	406	383	(23)	(5.6)	400	17	4.4
	Prior Year ⁵⁸	4,961	3,247	(1,714)	(34.6)	3,381	134	4.1
	Total	5,367	3,630	(1,737)	(32.4)	3,781	151	4.2
Delinquent		1,879	1,860	(19)	(1.0)	1,914	54	2.9
Gross Receipts		78,151	69,562	(8,589)	(11.0)	73,238	3,676	5.3
Refunds	Prior Year ⁵⁸	9,767	10,054	287	2.9	9,974	(80)	(0.8)
	Previous Years	1,893	2,277	384	20.3	2,326	49	2.2
	Current Year ⁵⁸	2,999	3,000	1	0.0	3,000	0	0.0
	Advanced Credit Payment	2,707	828	(1,879)	(69.4)	1,002	174	21.0
	State/City Offset ⁵⁸	2,008	1,203	(805)	(40.1)	1,432	229	19.0
	Total	19,375	17,362	(2,013)	(10.4)	17,734	372	2.1
Net All Funds Receipts⁵⁹		58,776	52,200	(6,576)	(11.2)	55,504	3,304	6.3
Fund Distribution	General Fund	27,607	24,483	(3,124)	(11.3)	26,177	1,694	6.9
	Debt Service Funds (RBTF)	29,388	26,100	(3,288)	(11.2)	27,752	1,652	6.3
	Special Revenue Funds (STAR)	1,781	1,617	(164)	(9.2)	1,575	(42)	(2.6)

FY 2024 receipts are estimated to decrease from FY 2023 primarily reflecting substantial decreases in extension payments for tax year 2022, estimated payments for tax year 2023, and final returns, partially offset by an increase in withholding coupled with a decrease in total refunds.

Withholding in FY 2024 is estimated to increase compared to the prior year, as growth in non-bonus wages is expected to sufficiently offset the combined effects of Middle-Class Tax Cuts - which were originally scheduled to phase-in between tax years 2018 and 2025 but were accelerated by two years by FY 2023 Enacted Budget legislation - and a decline in bonus wages.

Estimated payments for tax year 2023 are expected to decrease as non-wage income continued to decline from the tax year 2021 peak. However, PTET liability between tax years 2022 and 2023 is estimated to have declined, causing the negative effect of PTET credits on estimated payments for tax year 2023 to be less severe relative to tax year 2022. Extension payments (i.e., prior year estimated) for tax year 2022 will decrease significantly driven by a steep decline in capital gains income. Delinquent collections and final return payments are projected to decrease as well. The

⁵⁸ These components, collectively, are known as the "settlement" on the prior year's tax liability.

⁵⁹ PIT Receipts are defined as gross receipts minus refunds.



decline in final returns is in part attributable to a reduction in unemployment insurance income between tax years 2021 and 2022. Gross receipts for FY 2024 are projected to decline due to the combination of these factors.

Total refunds are projected to decrease, primarily driven by a combination of decreases in advanced credit payments - attributable to the expiration of the one-time Homeowner Tax Rebate Credit after tax year 2022 - and the state/city offset. These decreases are partially offset by projected increases in prior year refund payments for tax year 2022 and refunds for tax years previous to 2022. Growth in prior refund payments for tax year 2022 will be suppressed by an estimated decline in PTET-related refunds relative to tax year 2021. The administrative refund cap is expected to remain at the FY 2023 level.

The primary risks to FY 2024 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 were disbursed during the final quarter of FY 2023 and the dramatic year-over-year growth was primarily attributable to PTET credits. Substantial risk stems from the uncertain magnitude of PTET credit influence on the final quarter of FY 2024.

FY 2025 receipts are projected to increase, with an increase in total refunds partially offsetting an increase in gross receipts.

Gross FY 2025 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. Nonwage income is also expected to increase following two consecutive years of decline, driving growth in estimated payments for tax year 2024. Extension payments for tax year 2023 are projected to increase due to a substantial difference between tax year 2023 remittances through FY 2024 and estimated liability. 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. Delinquencies and final returns are also expected to increase minimally.

FY 2025 total refunds are expected to increase, driven by growth in refunds for tax years previous to 2023, advanced credit payments, and state/city offsets. These increases are partially offset by prior refunds for tax year 2023, which are projected to decline despite the influence of FY 2024 Enacted Budget legislation that expanded the Empire State Child Credit to include children under the age of four. The administrative refund cap is projected to remain unchanged from FY 2024.

Base and Rate

PIT is NYS’s largest source of tax receipts, accounting for nearly 49 percent of tax collections in FY 2023. 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 2024, 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 2023 are enumerated below.

PERSONAL INCOME TOP TAX RATES, STANDARD DEDUCTIONS, AND DEPENDENT EXEMPTIONS							
(dollars)							
		2013	2014	2015	2016	2017-2020	2021-2023
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 Middle-Class Tax Cut established permanent tax rate reductions for taxpayers with taxable income between \$26,000 and \$300,000. The tax years 2013 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.



RECEIPTS EXPLANATION

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 2023 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. As detailed previously in the [Economic Backdrop – New York State Adjusted Gross Income](#) section of this volume, NYSAGI growth has been somewhat volatile in the years since the Great Recession. The major components, growth rates, and shares of NYSAGI are displayed below. Growth rates in recent years also show the impact of taxpayers behaving strategically by shifting income in anticipation of tax law changes, which can enhance or swamp the economic drivers of NYSAGI.

NYSAGI MAJOR COMPONENT DISTRIBUTION (millions of dollars)											
Income Component	Actual							Estimate			
	2015	2016	2017	2018	2019	2020	2021	2022 ¹	2023	2024	2025
NYSAGI											
Amount	807,775	794,105	874,568	906,868	930,755	990,849	1,148,443	1,072,205	1,078,189	1,116,013	1,162,074
Growth	4.0%	(1.7%)	10.1%	3.7%	2.6%	6.5%	15.9%	(6.6%)	0.6%	3.5%	4.1%
Wages											
Amount	584,317	592,135	626,377	645,360	673,440	668,444	719,648	761,901	793,553	818,194	850,796
Growth	4.6%	1.3%	5.8%	3.0%	4.4%	(0.7%)	7.7%	(0.7%)	4.2%	3.1%	4.0%
NYSAGI Share	72.3	74.6	71.6	71.2	72.4	67.5	62.7	71.1	73.6	73.3	73.2
Net Capital Gains											
Amount	93,409	72,465	96,426	99,766	90,855	131,880	203,441	103,696	81,233	84,691	87,899
Growth	2.7%	(22.4%)	33.1%	3.5%	(8.9%)	45.2%	54.3%	(49.0%)	(21.7%)	4.3%	3.8%
NYSAGI Share	11.6	9.1	11.0	11.0	9.8	13.3	17.7	9.7	7.5	7.6	7.6
Interest and Dividends											
Amount	33,591	35,014	38,749	43,175	48,391	38,250	40,974	45,881	48,181	51,171	51,150
Growth	(3.9%)	4.2%	10.7%	11.4%	12.1%	(21.0%)	7.1%	12.0%	5.0%	6.2%	(0.0%)
NYSAGI Share	4.2	4.4	4.4	4.8	5.2	3.9	3.6	4.3	4.5	4.6	4.4
Taxable Pension											
Amount	44,131	44,815	47,175	49,367	50,731	51,608	55,736	57,687	61,016	65,063	69,691
Growth	3.9%	1.6%	5.3%	4.6%	2.8%	1.7%	8.0%	3.5%	5.8%	6.6%	7.1%
NYSAGI Share	5.5	5.6	5.4	5.4	5.5	5.2	4.9	5.4	5.7	5.8	6.0
Net Business and Partnership Income											
Amount	95,745	94,548	111,115	99,519	98,259	93,021	119,320	119,660	111,834	115,129	120,866
Growth	5.7%	(1.3%)	17.5%	(10.4%)	(1.3%)	(5.3%)	28.3%	0.3%	(6.5%)	2.9%	5.0%
NYSAGI Share	11.9	11.9	12.7	11.0	10.6	9.4	10.4	11.2	10.4	10.3	10.4
All Other Incomes and Adjustments²											
Amount	(43,418)	(44,873)	(45,273)	(30,318)	(30,922)	7,646	9,324	(16,620)	(17,629)	(18,236)	(18,328)
Growth	3.4%	3.4%	0.9%	(33.0%)	2.0%	(124.7%)	22.0%	(278.2%)	6.1%	3.4%	0.5%
NYSAGI Share	(5.4)	(5.7)	(5.2)	(3.3)	(3.3)	0.8	0.8	(1.6)	(1.6)	(1.6)	(1.6)

¹Estimates for 2022 are based on processing data.

²Includes 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.

LIABILITY AND EFFECTIVE TAX RATES ¹ (millions of dollars)					
	NYSAGI		Liability		Effective Tax Rate
	Amount	Growth	Amount	Growth	
2014	776,477	8.7%	41,910	12.3%	5.4%
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 ²	1,072,205	(6.6%)	64,010	(10.4%)	6.0%
2023 ²	1,078,189	0.6%	62,867	(1.8%)	5.8%
2024 ²	1,116,013	3.5%	65,723	4.5%	5.9%

¹Liability divided by AGI.

²Estimates 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 appear 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 in part to surges in capital gains and partnership income as the economy more fully recovered from the pandemic. Based in part on preliminary partial returns data, tax year 2022 liability is estimated to have fallen 10.4 percent, but this is in comparison to a historic peak in the previous year. Minimal NYSAGI growth (0.6 percent) is estimated for tax year 2023, driving an expected liability decline of 1.8 percent before a forecast rebound to growth of 4.5 percent in tax year 2024. If these tax year 2022 and tax year 2023 liability estimates are realized, the expected back-to-back decreases will be the first since 2008 and 2009, during the Great Recession.

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 2023 will be received before the end of FY 2024. 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 2023 will be received largely in FY 2025.

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. The administrative refund cap is scheduled to remain at \$3 billion annually thereafter.

History

PERSONAL INCOME TAX RECEIPTS HISTORY (millions of dollars)												
		FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Withholding		31,958	33,368	34,907	36,549	37,524	40,269	41,084	43,118	44,218	53,328	52,477
Estimated Payments	Current Year	9,001	9,454	10,367	11,561	10,912	14,329	10,481	10,996	10,930	14,123	8,158
	Prior Year ¹	3,192	5,183	3,376	4,550	4,060	3,452	3,529	6,029	5,512	7,543	10,270
	Total	12,193	14,637	13,743	16,111	14,972	17,781	14,010	17,025	16,441	21,666	18,428
Final Returns	Current Year	203	250	254	269	261	308	344	339	402	474	406
	Prior Year ¹	1,945	2,145	1,952	2,360	2,328	2,170	2,341	3,114	3,170	4,045	4,961
	Total	2,148	2,395	2,206	2,630	2,588	2,478	2,685	3,454	3,572	4,519	5,367
Delinquent		1,144	1,175	1,393	1,310	1,434	1,507	1,396	1,388	1,300	1,609	1,879
Gross Receipts		47,443	51,575	52,248	56,600	56,518	62,036	59,175	64,985	65,532	81,121	78,150
Refunds	Prior Year ¹	4,568	5,367	4,961	5,130	5,199	6,292	6,034	5,927	6,048	5,489	9,767
	Previous Years	589	554	458	618	474	527	589	530	545	729	1,893
	Current Year ¹	1,750	2,078	1,950	2,550	1,750	2,249	2,250	2,245	2,187	2,380	2,999
	Advanced Credit Payment	0	0	579	571	678	610	1,080	1,505	593	663	2,707
	State/City Offset ¹	309	615	591	675	851	856	1,135	1,117	1,192	1,122	2,008
	Total	7,216	8,614	8,539	9,545	8,952	10,534	11,088	11,326	10,565	10,384	19,375
Net All Funds Receipts		40,227	42,961	43,710	47,055	47,566	51,501	48,087	53,659	54,967	70,737	58,776
Fund Distribution	General Fund	26,884	28,864	29,485	31,957	32,535	36,037	21,620	24,646	25,456	33,464	27,607
	Debt Service Funds (RBTF)	10,057	10,740	10,927	11,764	11,891	12,875	24,044	26,830	27,483	35,369	29,388
	Special Revenue Funds (STAR)	3,286	3,357	3,297	3,335	3,139	2,589	2,423	2,184	2,027	1,904	1,781

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

Significant statutory changes within the past decade are:

- In 2014, the \$350 Middle-Class Family Tax Credit, which was provided to taxpayers with dependents under the age of 17, zero or positive tax liability, and income between \$40,000 and \$300,000, was amended to eliminate the prepayment element for tax years 2015 and 2016.
- In 2014, a refundable Property Tax Freeze Credit was established, providing a two-year tax relief program to offset school and municipal property tax increases for NYS homeowners.⁶⁰
- In 2014, a refundable Enhanced Real Property Tax Credit was established for residents of NYC based on qualifying real property taxes paid or the real property tax equivalent. This was subsequently extended in 2015 for an additional four years, through tax year 2019.
- Beginning in tax year 2014, qualified NYS manufacturers were made eligible for a refundable Property Tax Credit equal to 20 percent of the real property taxes paid.⁶¹

⁶⁰ Please refer to https://www.tax.ny.gov/pdf/publications/orpts/rp5301fs_prop_tax_facts.pdf for a detailed description of this tax credit. Last accessed: January 14, 2024.

⁶¹ Please refer to https://www.tax.ny.gov/pit/credits/manu_real_property_tax_credit.htm for a detailed description of this tax credit. Last accessed: January 14, 2024.

- 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 2024.⁶²
- 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 2018.⁶³
- 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;
 - 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.

⁶² Please refer to https://www.tax.ny.gov/bus/ct/farm_workforce_ret_credit.htm for a detailed description of this tax credit. Last accessed: January 14, 2024.

⁶³ Please refer to https://www.tax.ny.gov/pit/credits/ny_youth_works.htm for a detailed description of this tax credit. Last accessed: January 14, 2024.

- 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 2023.⁶⁴
- 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.⁶⁵
- 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.⁶⁶
- 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:
 - 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 Middle-Class Tax Cut 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.⁶⁷

⁶⁴ Please refer to <https://www.tax.ny.gov/pit/credits/real-property-tax-relief-credit.htm> for a detailed description of this tax credit. Last accessed: January 14, 2024.

⁶⁵ Please refer to <https://www.tax.ny.gov/bus/ptet/> for a detailed description of this optional tax. Last accessed: January 14, 2024.

⁶⁶ Please refer to <https://www.tax.ny.gov/pit/property/homeowner-tax-rebate-credit.htm> for a detailed description of this tax credit. Last accessed: January 14, 2024.

⁶⁷ Please refer to <https://www.tax.ny.gov/legal/2022/pit-corp-changes.htm#small-businesses> for a detailed description of this tax benefit. Last accessed: January 14, 2024.

- 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 2021.⁶⁸
 - The Additional Restaurant Return-to-Work Credit was effective for TY 2022.⁶⁹
 - 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.⁷⁰
 - The COVID-19 Capital Costs Tax Credit was created in 2022.⁷¹
- 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, 2036.⁷²
- Extended in 2023, the Rehabilitation of Historic Properties Credit is effective through Tax Year 2029.⁷³
- 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 2034.⁷⁴

⁶⁸ Please refer to <https://www.tax.ny.gov/pit/credits/restaurant-return-to-work-tax.htm> for a detailed description of this credit. Last accessed: January 14, 2024.

⁶⁹ Please refer to <https://www.tax.ny.gov/pit/credits/additional-restaurant-return-to-work-credit.htm> for a detailed description of this credit. Last accessed: January 14, 2024.

⁷⁰ Please refer to <https://esd.ny.gov/new-york-city-musical-and-theatrical-production-tax-credit> for a detailed description of this credit. Last accessed: January 14, 2024.

⁷¹ Please refer to <https://www.tax.ny.gov/pit/credits/covid-19-capital-costs-tax-credit.htm> for a detailed description of this credit. Last accessed: January 14, 2024.

⁷² Please refer to <https://www.tax.ny.gov/pit/credits/brownfield-redevelopment-credit.htm> for a detailed description of this program. Last accessed: January 14, 2024.

⁷³ Please refer to https://www.tax.ny.gov/pit/credits/hist_prop.htm for a detailed description of this tax credit. Last accessed: January 14, 2024.

⁷⁴ Please refer to <https://esd.ny.gov/new-york-state-film-tax-credit-program-production> for a detailed description of this tax credit. Last accessed: January 14, 2024.

Alcoholic Beverage Taxes

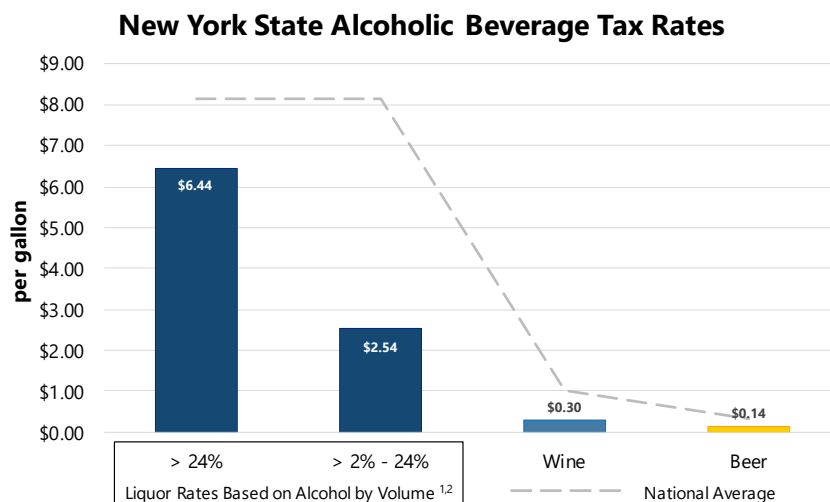
ALCOHOLIC BEVERAGE TAXES								
(millions of dollars)								
		FY 2023	FY 2024	Change		FY 2025	Change	
		Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent
General Fund	Beer	43.9	43.6	(0.3)	(0.6)	43.3	(0.3)	(0.7)
	Liquor	220.4	214.9	(5.5)	(2.5)	217.4	2.5	1.2
	Wine and Other	17.7	17.5	(0.2)	(1.3)	17.3	(0.2)	(1.1)
	Total	282.0	276.0	(6.0)	(2.1)	278.0	2.0	0.7
All Funds Total		282.0	276.0	(6.0)	(2.1)	278.0	2.0	0.7

FY 2024 receipts are estimated to decrease from FY 2023 results primarily due to sustained consumption declines in all categories, but primarily in liquor.

FY 2025 receipts are projected to increase from the current year due to an expected resumption of typical upward consumption trends for liquor. Wine and beer consumption are projected to continue to experience slight declines.

Base and Rate

NYS imposes excise taxes at various rates on liquor, beer, wine, and cider beverages. As of January 1, 2023, compared to alcoholic beverage tax rates in other states, NYS currently has the 26th lowest liquor tax; is tied for the 11th lowest beer tax; and is tied for the 4th lowest wine tax.



¹NYS taxes liquor by the liter, while it taxes all other alcoholic beverages by the gallon. For visual comparison purposes, liquor tax rates of \$1.70, \$0.67, and \$0.01 per liter have been converted (One US Gallon = 3.785 liters) into rates of \$6.44, \$2.54, and \$0.04 per gallon.

²NYC imposes an additional tax of 26.04 cents per gallon (6.88 cents per liter) on liquor and 12 cents per gallon on beer.

Liability

In general, liquor consumption has experienced marginal to moderate growth over the past decade. 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 had remained relatively flat, with a few exceptions (e.g., craft brewery boom and subsequent leveling off) during the same period until more significant fluctuations, both up and down, occurred since the onset of the COVID-19 pandemic.

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	Wine and Other	Total	Total
FY 2014	47	184	20	250	250
FY 2015	46	185	20	251	251
FY 2016	47	188	20	255	255
FY 2017	47	190	20	258	258
FY 2018	46	193	20	259	259
FY 2019	46	196	21	262	262
FY 2020	44	196	19	259	259
FY 2021	43	208	20	271	271
FY 2022	45	214	18	277	277
FY 2023	44	220	18	282	282

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.

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

AUTO RENTAL & PEER-TO-PEER CAR SHARING TAXES									
(millions of dollars)									
			FY 2023	FY 2024	Change		FY 2025	Change	
			Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent
Auto Rental	Capital Projects Funds	DHBTf	94.0	100.0	6.0	6.4	93.0	(7.0)	(7.0)
	Special Revenue Funds	PTSOA	28.0	31.0	3.0	10.7	31.0	0.0	0.0
	Total			122.0	131.0	9.0	7.4	124.0	(7.0)
Peer-to-Peer	General Fund	GF	2.0	0.2	(1.8)	(90.0)	1.6	1.4	700.0
	Special Revenue Funds	PTSOA	0.0	0.4	0.4	n/a	0.4	0.0	0.0
	Total			2.0	0.6	(1.4)	(70.0)	2.0	1.4
All Funds Total			124.0	131.6	7.6	6.1	126.0	(5.6)	(4.3)

FY 2024 receipts compared to FY 2023 results:

- Auto rental receipts are estimated to increase primarily due to business and leisure travel fully returning to pre-pandemic levels, as well as a notably higher Office of the State Comptroller’s (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 decrease primarily due to the OSC accounting adjustment related to the fiscal year end closeout process. Excluding that accounting adjustment, receipts are estimated to increase due to the first full-year impact of the tax being in effect.

FY 2025 receipts compared to the current year estimates:

- Auto rental receipts are projected to decline primarily due to a projected shift towards the less expensive peer-to-peer car sharing program, coupled with the impact of a significantly lower projected OSC accounting adjustment related to the fiscal year end closeout process compared to the prior year.
- Peer-to-peer car sharing receipts are projected to slightly increase as growth of the market is expected to continue, coupled with a higher projected OSC accounting adjustment related to the fiscal year end closeout process compared to the prior year.

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 compared to 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		All Funds Total
	Capital Projects Funds (DHBTF)	Special Revenue Funds			General Fund	Special Revenue Funds	
		MTAFAP	PTSOA	Total		PTSOA	
FY 2014	71	43	0	43	0	0	114
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	124

Significant statutory changes within the past decade include:

- In 2019, the 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.

Cigarette and Tobacco Tax

CIGARETTE AND TOBACCO TAXES								
(millions of dollars)								
		FY 2023	FY 2024	Change		FY 2025	Change	
		Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent
General Fund	Cigarette Tax	187.7	181.9	(5.8)	(3.1)	172.1	(9.8)	(5.4)
	Tobacco Tax	72.9	72.8	(0.1)	(0.1)	75.6	2.8	3.8
	Registration Fees	5.2	5.3	0.1	1.2	5.3	0.0	0.0
	Total	265.8	260.0	(5.8)	(2.2)	253.0	(7.0)	(2.7)
HCRA	Cigarette Tax	594.5	576.0	(18.5)	(3.1)	545.0	(31.0)	(5.4)
All Funds Total		860.3	836.0	(24.3)	(2.8)	798.0	(38.0)	(4.5)

FY 2024 receipts are estimated to decrease from FY 2023 results primarily due to a continued trend decline in taxable cigarette consumption. Tobacco products tax receipts are estimated to remain close to flat.

FY 2025 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 increase slightly as refunds are expected to return to more historical levels.

Base and Rate

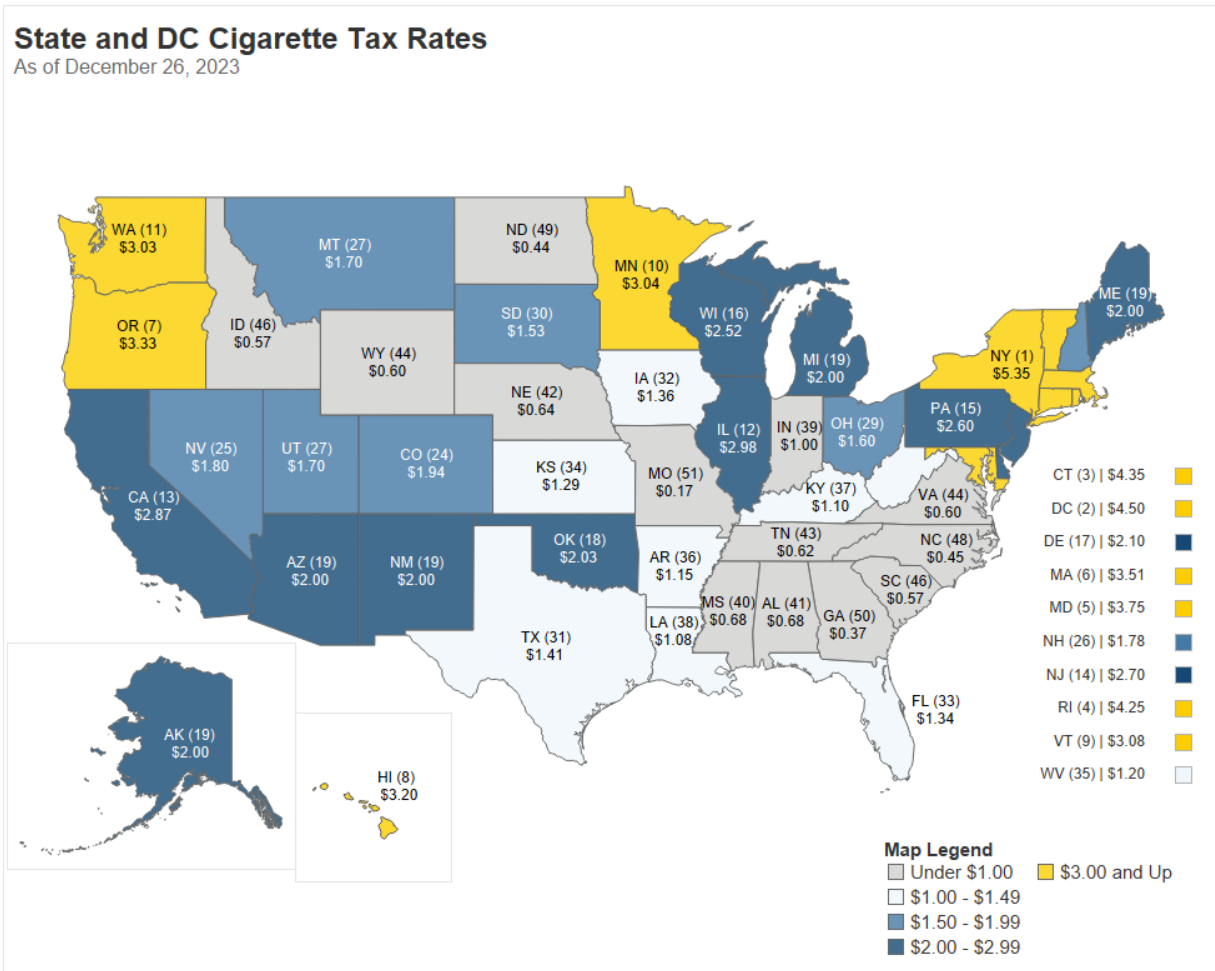
The cigarette and tobacco product taxes consist of the following:

- 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 on cigars, little cigars, snuff, and all other tobacco products. The tax per 20 little cigars is \$5.35, 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.

At a state tax rate of \$5.35 per pack, NYS currently has the highest cigarette tax (excluding NYC's additional tax) in the nation, ahead of the District of Columbia (taxing at a rate of \$4.50 per pack). With a national average tax of \$1.93 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 2014	324	95	7	426	1,027	1,453
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

Significant statutory changes within the past decade include:

- In 2014, a multi-agency task force was formed to reduce illegal tobacco trafficking and sales. The multi-agency Cigarette Strike Force is composed of State and local agencies that work with Federal agents to stop the influx of counterfeit and untaxed tobacco products into NYS. The Strike Force also focuses on tracing any illicit financial earnings from criminal activity.
- 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 2023	FY 2024	Change		FY 2025	Change	
		Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent
Capital Projects Funds (DHBTF)	TMT	113.2	115.5	2.3	2.1	116.2	0.7	0.6
	Fuel Use	28.1	27.3	(0.8)	(2.9)	24.9	(2.4)	(8.8)
	IFTA Decal	0.6	0.5	(0.0)	(6.1)	0.5	(0.0)	(6.7)
	Total	141.9	143.4	1.5	1.1	141.6	(1.8)	(1.2)
Special Revenue Funds (HUTAA)	Registrations	0.6	0.6	(0.0)	(5.7)	1.4	0.8	133.3
All Funds Total		142.5	144.0	1.5	1.0	143.0	(1.0)	(0.7)

FY 2024 receipts are estimated to increase from FY 2023 results due to a moderate increase in TMT receipts, partially offset by a small decrease in fuel use tax receipts.

FY 2025 receipts are projected to decrease from the current year due to a moderate decrease in fuel use tax receipts, partially offset by small increases in both TMT and registration receipts. Registrations are estimated to increase due to FY 2025 being a triennial year in the triennial registration cycle.

Base and Rate

There are four components of the highway use tax (HUT):⁷⁵

- 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.

⁷⁵ Please refer to https://www.tax.ny.gov/pubs_and_bulls/tq_bulletins/hut/introduction.htm and <https://www.tax.ny.gov/bus/ifta/fuel.htm> for a detailed description of these components. Last accessed: January 14, 2024.

- 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.

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)				Total	Special Revenue Funds (HUTAA)	All Funds Total
	TMT	Fuel Use	IFTA Decal	Registrations		Registrations	
FY 2014	99	31	0	6	136	0	136
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

Significant statutory changes within the past decade include:

- Enacted in 2006, the exemption on alternative fuels (E85, B20, CNG, and hydrogen) has been extended several times for various durations.
- 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.

Cannabis Taxes

				CANNABIS TAXES (millions of dollars)						
				FY 2023	FY 2024	Change		FY 2025	Change	
				Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent
Special Revenue Funds	Medical	Counties	Manufacturer	2.6	2.0	(0.6)	(22.6)	2.0	0.0	0.0
			Distributor	2.6	2.0	(0.6)	(22.6)	2.0	0.0	0.0
	Medical	Agency Operations	OASAS	0.6	0.5	(0.1)	(22.6)	0.5	0.0	0.0
			DCJS	0.6	0.5	(0.1)	(22.6)	0.5	0.0	0.0
	Medical	Cannabis Revenue Fund		5.2	4.1	(1.2)	(22.6)	4.1	0.0	0.0
Total			11.6	9.0	(2.6)	(22.6)	9.0	0.0	0.0	
Special Revenue Funds	Adult-Use*	Cannabis Revenue Fund		3.7	70.0	66.3	1,809.7	158.0	88.0	125.7
		Total		3.7	70.0	66.3	1,809.7	158.0	88.0	125.7
All Funds Total				15.3	79.0	63.7	416.5	167.0	88.0	111.4

*Includes license and application fees.

FY 2024 receipts compared to FY 2023 results:

- Adult-use cannabis receipts are estimated to increase during the first full year of tax collections; the THC potency tax and the retail excise tax are estimated to generate \$32 million, while license and application fees are estimated to generate \$38 million.
- Medical cannabis receipts are estimated to slightly decrease, mainly due in part to an overall decline in registered patients.

FY 2025 receipts compared to the current year estimates:

- Adult-use cannabis receipts are projected to increase during the second full year of collections, reflecting 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. Adult-use cannabis taxes are projected to generate \$158 million. The Executive Budget proposes to repeal the THC potency tax and replace it with a wholesale excise tax of 9 percent. The State and local retail excise tax rates are to remain unchanged at 9 and 4 percent, respectively. This would apply to sales starting June 1, 2024, and is estimated to maintain current Financial Plan projections.
- Medical cannabis receipts are projected to remain flat compared to the current year estimates.

Base and Rate

Cannabis revenue includes receipts from adult-use and medical cannabis taxes.

Adult-Use Cannabis

A THC potency tax is imposed on the distributor or processor at the time of the sale or transfer of cannabis to a retailer. The tax rates are based on the following product categories:

- \$0.005 per milligram of total THC for cannabis flower products;
- \$0.008 per milligram of total THC for concentrated cannabis products; and
- \$0.03 per milligram of total THC for edible cannabis products.

The Executive Budget proposes to repeal the THC potency tax and replace it with a wholesale excise tax of 9 percent. For vertically integrated companies, which include registered organizations and microbusinesses, they would pay the wholesale tax on 75 percent of their retail price charged to customers.

An excise tax is further imposed on the retailer for the sale or transfer of cannabis to a consumer. The retail excise tax rate of 13 percent is a combination of:

- 9 percent for the State; and
- 4 percent for the localities.

Medical Cannabis

An excise tax of 7 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. The application window closed on December 18, 2023.

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 Marijuana Regulation and Taxation Act).⁷⁶

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	0.0	11.0
FY 2017	130.7	130.7	28.8	28.8	265.6	584.6	0.0	0.0	584.6
FY 2018	423.1	423.1	94.0	94.0	846.2	1,880.5	0.0	0.0	1,880.5
FY 2019	870.6	870.6	193.5	193.5	1,739.1	3,867.3	0.0	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	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	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	0.0	12,908.7
FY 2023	2,616.5	2,616.5	581.4	581.4	5,232.9	11,628.8	3,665.5	3,665.5	15,294.3

*Monies were not directed to the Fund until FY 2022.
**Includes license and application fees.

Significant statutory changes within the past decade include:

- In 2021, the Marijuana Regulation and Taxation Act (MRTA) authorized the production, distribution, use, and taxation of adult-use cannabis products sold to consumers over the legal age limit (at least 21 years old); and the transfer, and subsequently, the direct deposit

⁷⁶ Please refer to [NYS OCM's Medical Cannabis Program Guide](#) for a complete list of qualified conditions, registered organizations, and laws and regulations. Last accessed: January 14, 2024.



RECEIPTS EXPLANATION

of the remaining and previously undistributed 45 percent balance of Medical cannabis receipts to the New York State Cannabis Revenue Fund.

Motor Fuel Tax

MOTOR FUEL TAX RECEIPTS (millions of dollars)								
		FY 2023	FY 2024	Change		FY 2025	Change	
		Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent
Special Revenue Funds (DMTTF)	Gasoline	28.2	76.8	48.7	172.8	77.8	0.9	1.2
	Diesel	9.9	28.0	18.2	183.9	27.1	(0.9)	(3.2)
	Total	38.0	104.8	66.8	175.7	104.9	0.1	0.0
Capital Projects Funds (DHBTF)	Gasoline	124.1	338.4	214.4	172.8	339.9	1.5	0.4
	Diesel	16.8	47.7	30.9	183.9	46.2	(1.5)	(3.2)
	Total	140.9	386.2	245.3	174.1	386.1	(0.1)	(0.0)
All Funds	Gasoline	152.2	415.3	263.0	172.8	417.7	2.4	0.6
	Diesel	26.7	75.7	49.1	183.9	73.3	(2.4)	(3.2)
	Total	178.9	491.0	312.1	174.5	491.0	0.0	0.0

FY 2024 receipts are estimated to significantly increase from FY 2023 results primarily due to the temporary suspension of the State motor fuel excise tax on the sale and use of motor fuel and diesel motor fuel in effect from June 1, 2022, to December 31, 2022.

FY 2025 receipts are projected to be flat compared to the current year. Minor projected growth in gasoline receipts is due to a marginal projected increase in gasoline consumption, combined with a small increase in audit collections. This is offset by a moderate decline in diesel receipts due to a small projected decrease in diesel consumption, combined with a small decrease in audit collections.

Base and Rate

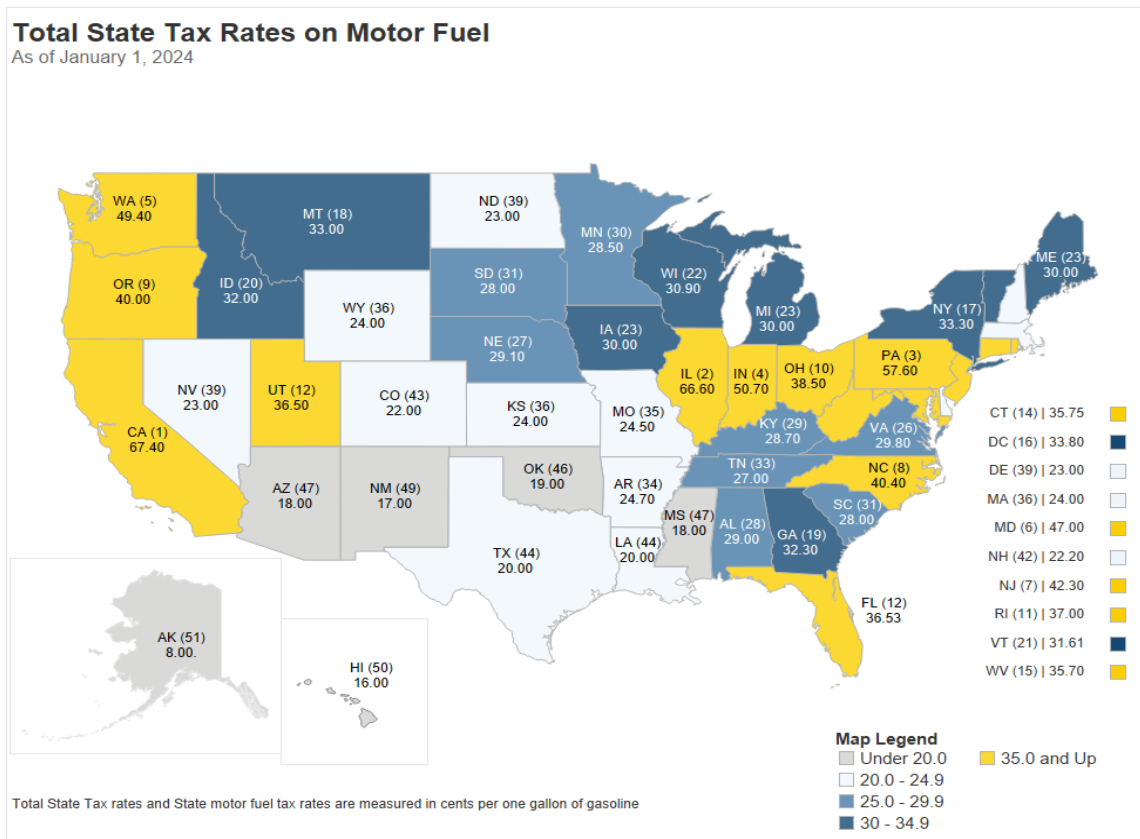
Gasoline motor fuel and diesel motor fuel taxes of \$0.08 per gallon are imposed upon the sale, generally for highway use, of motor fuel and diesel motor fuel, respectively. However, the State motor fuel excise tax on the sale and use of motor fuel and diesel motor fuel was suspended from June 1, 2022 through December 31, 2022. 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.

Prior to 1988, the diesel motor fuel tax was collected at the time of retail sale or use by a bulk user. Since 1988, taxes on diesel motor fuel have been collected upon the first non-exempt sale in NYS. Interdistributor sales of highway diesel motor fuel sold below the rack are considered tax-exempt.

Compared to other states, NYS is ranked 17th in overall state taxes per gallon imposed on motor fuel.



Traditionally, gasoline taxable consumption is driven by prices which in turn are influenced by domestic and international economic conditions. The pandemic-induced 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. The typical, pre-COVID-19, relationship between fuel prices and demand gradually returned in FY 2022. In the spring of 2022, following Russia’s invasion of Ukraine, global energy prices, including NYS fuel prices increased to levels not seen in recent years. One week before Russia invaded Ukraine, the weekly average price for a gallon of regular grade gasoline in New York was \$3.63. After the invasion, the average weekly price continued to climb to a high of \$4.94 during the week of June 13, 2022. Average weekly prices gradually stabilized after the temporary fuel tax (State and MCTD sales tax, and State motor fuel excise tax) suspension went into effect on June 1, 2022 (the suspension expired on December 31, 2022). The average weekly price fell to \$3.30 during the week of January 2, 2023, which, at the time, represented a 3.5 percent decline from the prior year (the price decline could have also been in part due to seasonality as fuel prices are typically the lowest in January and begin to increase during the summer months). Ending with the



week of January 1, 2024, the average weekly price over the immediately preceding 52 weeks was approximately \$3.55 (compared to the average weekly price of \$4.03 experienced 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. More recently, the FY 2021 diesel receipts decline is more attributable to the pandemic's adverse impact on travel activities. Nonetheless, by FY 2022, diesel receipts had fully recovered to pre-pandemic levels.

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 2014	76	22	99	337	38	374	413	60	473
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



Significant statutory changes within the past decade include:

- Originally enacted in 2006, the exemption on alternative fuels (E85, B20, CNG, and hydrogen) has been extended several times for various durations.
- 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 2023	FY 2024	Change		FY 2025	Change	
	Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent
General Fund	26.7	23.0	(3.7)	(14.0)	23.0	0.0	0.0
All Funds Total	26.7	23.0	(3.7)	(14.0)	23.0	0.0	0.0

FY 2024 receipts are estimated to decline from FY 2023 results primarily due to a decline in taxable consumption.

FY 2025 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:⁷⁷

- \$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.⁷⁸ 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.

⁷⁷ 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. Last accessed: January 14, 2024.

⁷⁸ See <https://www.tax.ny.gov/bus/oei/oeitdx.htm> for more information on those who qualify as a registrant, reporting periods and due dates, and frequently asked questions. Last accessed: January 14, 2024.

History

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

There have been no significant statutory changes within the past decade.

Sales and Use Tax

SALES AND USE TAX							
(millions of dollars)							
	FY 2023	FY 2024	Change		FY 2025	Change	
	Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent
General Fund	6,662.9	9,326.0	2,663.1	40.0	9,538.5	212.5	2.3
Debt							
LGAC	2,198.2	0.0	(2,198.2)	(100.0)	0.0	0.0	N/A
Service							
STRB	8,855.2	9,326.0	470.8	5.3	9,538.5	212.5	2.3
Funds							
Total	11,053.4	9,326.0	(1,727.4)	(15.6)	9,538.5	212.5	2.3
Special							
Revenue							
MTOA	1,217.0	1,279.0	62.0	5.1	1,303.0	24.0	1.9
Funds							
All Funds Total	18,933.3	19,931.0	997.7	5.3	20,380.0	449.0	2.3

FY 2024 receipts are estimated to increase from FY 2023 results due to an increase in taxable consumption and a bounce back in fuel-based receipts due to the end of the temporary suspension of the State and MCTD sales tax on the sale and use of motor fuel and diesel motor on December 31, 2022. The annual sales tax base is estimated to grow at 4.3 percent over the prior year. General Fund receipts are estimated to significantly increase, largely due to the statutory elimination of the Local Government Assistance Tax Fund distribution for the entire fiscal year, compared to a part-year impact of the elimination in the previous fiscal year. Please see the significant statutory changes section below for further details.

FY 2025 receipts are projected to increase from the current year due to small growth in taxable consumption. The sales tax base is projected to grow by 2 percent. FY 2025 receipts are also impacted by a few Executive Budget proposals. One proposal (Extend the Sales Tax Vending Machine Exemption for One Year), which negatively impacts receipts is more than offset by two other proposals (Modernize Tax Law to Include the Vacation Rental Industry and Provide for the Filing of Amended Sales Tax Returns) that positively impact receipts.

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.⁷⁹

The sales tax base has significantly expanded in the last decade to capture the growing online market. From the 2009 law to expand the vendor definition to include out-of-State sellers with related businesses (“affiliates”) in NYS, to the implementation of “Wayfair” regulations, to the most recent marketplace law, these measures have created tax fairness between brick-and-mortar main

⁷⁹ See <https://www.tax.ny.gov/pdf/publications/sales/pub750.pdf> for a complete description of the sales tax base. Last accessed: January 14, 2024.

street businesses and online companies. In addition, 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 the preceding calendar year. This line has captured certain online sales made out-of-State (in which use tax was owed) and large use tax purchases made out-of-State that are used in-State. NYS collected \$27.4 million in FY 2022 and \$19.3 million in FY 2023 from this line.

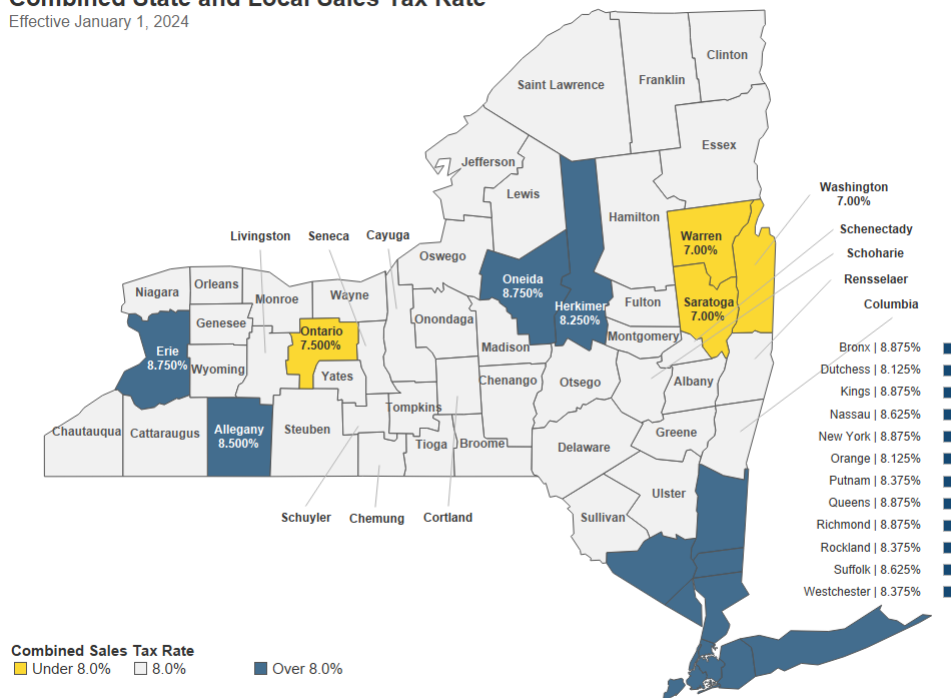
NYS imposes three separate sales and use tax rates.

- 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. However, the State and MCTD sales tax on the sale and use of motor fuel and diesel motor fuel was temporarily suspended from June 1, 2022 through December 31, 2022.
- Local county rates range from 3 percent to 4.75 percent. Erie and Seneca County have elected to permanently cap their respective local sales tax rates on motor fuel and diesel at \$2.00 per gallon; notably, in the midst of the 2022 temporary fuel taxes suspension, several counties opted to cap their local sales tax rate on motor fuel and diesel motor fuel from June 1, 2022 through either December 31, 2022 or February 28, 2023. Delaware County’s current sales tax cap of \$2.00 per gallon is scheduled to expire on February 29, 2024.
- 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.

Combined State and Local Sales Tax Rate

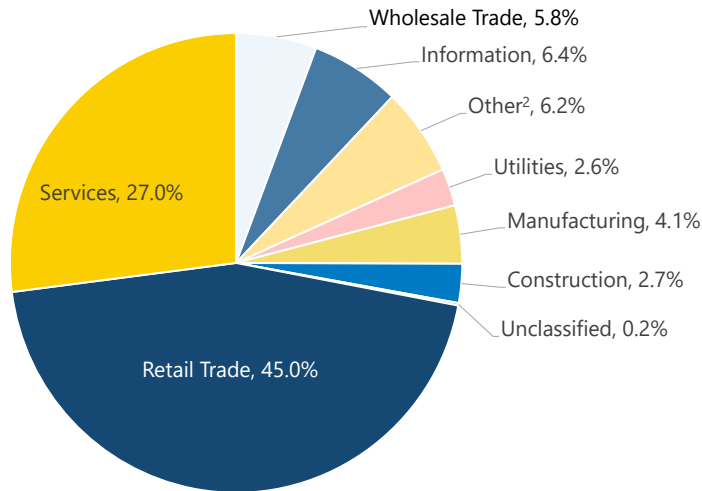
Effective January 1, 2024



Liability

The sales and compensating use tax, which accounted for 17 percent of FY 2023 tax receipts, is the second largest NYS tax revenue source. Approximately 72 percent of sales and use tax receipts are derived from retail trade and services industries.

**Industry Shares of New York State Sales Tax Receipts
Ten Year Historical Average¹**



¹ Covers March-February fiscal years ending 2014-2023, with 2023 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.

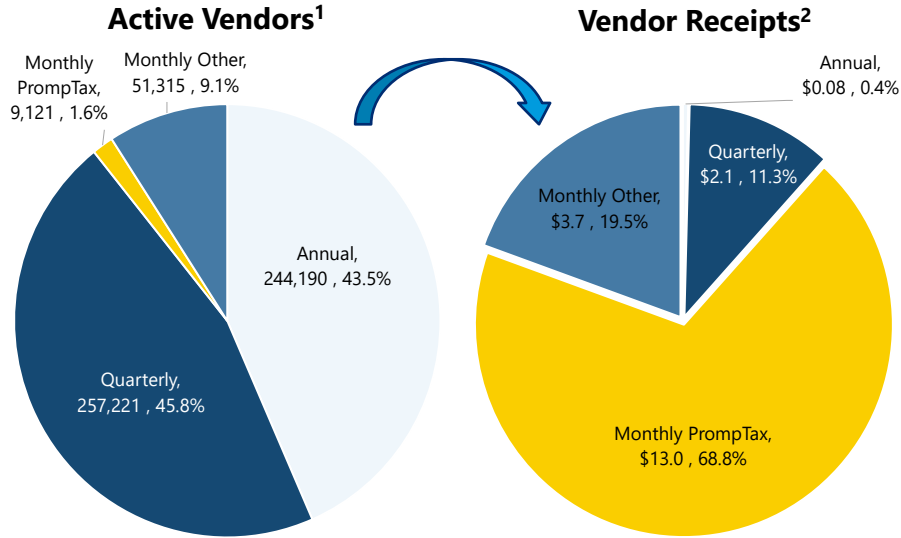
Administration

- **Monthly PromptTax:** 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, 2022 through February 28, 2023



¹Number of vendors identified as of November 30, 2023.
²Vendor 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 2014	5,885	802	2,951	2,951	5,901	12,588
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

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).
- In 2019, NYS required marketplace providers to collect sales tax on sales of tangible personal property that they facilitate for marketplace sellers. Additionally, the outdated exemption for the transportation, transmission or distribution of gas or electricity when purchased from ESCOs was eliminated.
- 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 2021, NYS clarified when sales tax is due on the full (not discounted) retail price if a rebate, discount, or similar price reduction is used, and the vendor is fully reimbursed by a third-party; modified the sales tax treatment of vehicle leases with terminal rental adjustment clauses (TRACs) to provide lessors with more options to collect and remit sales tax; and eliminated the State racing admissions tax to impose the State sales tax on racing admissions.
- 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. The sales tax exemption for certain vending machine purchases was also extended for an additional year.

Vapor Products Tax

VAPOR PRODUCTS TAX (millions of dollars)							
	FY 2023	FY 2024	Change		FY 2025	Change	
	Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent
Special Revenue Funds HCRA	24.8	25.0	0.2	0.6	25.0	0.0	0.0
All Funds Total	24.8	25.0	0.2	0.6	25.0	0.0	0.0

FY 2024 and FY 2025 receipts are estimated to remain essentially flat compared to FY 2023 results.

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.

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

Significant statutory changes within the past decade include:

- In 2020, all flavored vapor products other than tobacco flavored products were banned.

Corporation Franchise Tax

CORPORATION FRANCHISE TAX RECEIPTS								
(millions of dollars)								
		FY 2023	FY 2024	Change		FY 2025	Change	
		Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent
General Fund	Non-Audits	6,455.3	6,861.0	405.7	6.3	6,301.0	(560.0)	(8.2)
	Audits	836.0	430.0	(406.0)	(48.6)	490.0	60.0	14.0
	Total	7,291.3	7,291.0	(0.3)	(0.0)	6,791.0	(500.0)	(6.9)
Special Revenue Funds (MMTOA)	Non-Audits	1,525.3	1,582.0	56.7	3.7	1,647.0	65.0	4.1
	Audits	201.0	78.0	(123.0)	(61.2)	97.0	19.0	24.4
	Total	1,726.2	1,660.0	(66.2)	(3.8)	1,744.0	84.0	5.1
All Funds	Non-Audits	7,980.6	8,443.0	462.4	5.8	7,948.0	(495.0)	(5.9)
	Audits	1,037.0	508.0	(529.0)	(51.0)	587.0	79.0	15.6
	Total	9,017.5	8,951.0	(66.5)	(0.7)	8,535.0	(416.0)	(4.6)

FY 2024 receipts are estimated to decrease from FY 2023 results due to a large decline in audit receipts compared to FY 2023. Gross receipts are estimated to slightly increase while refunds are expected to moderately decrease in FY 2024.

FY 2025 receipts are projected to decrease from the current year due to an increase in refunds. Gross receipts are projected to slightly increase while audits are projected to moderately increase from the current year.

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 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 through 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 (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.

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.



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. 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 2014	2,261	984	3,245	394	173	567	2,654	1,158	3,812
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

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

Significant statutory changes within the past decade are:

- A significant overhaul of the corporate tax system was enacted in 2014.⁸⁰
- Effective in 2014, the entire net income tax rate for qualified NYS manufacturers, which was 6.5 percent, was eliminated. Those manufacturers are also eligible for a non-refundable Property Tax Credit equal to 20 percent of the real property taxes paid.

⁸⁰ Please refer to https://www.tax.ny.gov/bus/ct/corp_tax_reform.htm for a detailed description of this tax reform. Last accessed: January 14, 2024.

- 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 2018.⁸¹
- In 2022, the Excelsior Jobs Program, New York State’s primary economic development program, was expanded to include the Green CHIPS Tax Credit Program.⁸²
 - 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).⁸³
- From 2021 to 2023, four credits were enacted to provide critical assistance to small businesses and those in the food service and entertainment industries severely impacted by the pandemic.
 - Restaurant Return-to-Work Tax Credit was effective for TY 2021.⁸⁴
 - The Additional Restaurant Return-to-Work Credit was effective for TY 2022.⁸⁵
 - 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.⁸⁶
 - The COVID-19 Capital Costs Tax Credit was created in 2022.⁸⁷
- 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, 2036.⁸⁸

⁸¹ Please refer to https://www.tax.ny.gov/pit/credits/ny_youth_works.htm for a detailed description of this tax credit. Last accessed: January 14, 2024.

⁸² Please refer to <https://esd.ny.gov/green-chips> for a detailed description of this credit program. Last accessed: January 14, 2024.

⁸³ Please refer to <https://esd.ny.gov/excelsior-jobs-program> for a detailed description of these credits. Last accessed: January 14, 2024.

⁸⁴ Please refer to <https://www.tax.ny.gov/pit/credits/restaurant-return-to-work-tax.htm> for a detailed description of this credit. Last accessed: January 14, 2024.

⁸⁵ Please refer to <https://www.tax.ny.gov/pit/credits/additional-restaurant-return-to-work-credit.htm> for a detailed description of this credit.

⁸⁶ Please refer to <https://esd.ny.gov/new-york-city-musical-and-theatrical-production-tax-credit> for a detailed description of this credit. Last accessed: January 14, 2024.

⁸⁷ Please refer to <https://www.tax.ny.gov/pit/credits/covid-19-capital-costs-tax-credit.htm> for a detailed description of this credit. Last accessed: January 14, 2024.

⁸⁸ Please refer to <https://www.tax.ny.gov/pit/credits/brownfield-redevelopment-credit.htm> for a detailed description of this program. Last accessed: January 14, 2024.

- 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 2029.⁸⁹
- 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 credit is 20 percent of the subsidy market rate for child care for each infant or toddler seat, with a maximum of 25 child care seats allowed to be considered for credit. The total annual program cap is \$25 million, and the credit is currently authorized for Tax Years 2023 and 2024.
- Effective in 2024, the Empire State Film Production Tax Credit is \$700 million from Tax Year 2024 through Tax Year 2034.⁹⁰

⁸⁹ Please refer to https://www.tax.ny.gov/pit/credits/hist_prop.htm for a detailed description of this tax credit. Last accessed: January 14, 2024.

⁹⁰ Please refer to <https://esd.ny.gov/new-york-state-film-tax-credit-program-production> for a detailed description of this tax credit. Last accessed: January 14, 2024.

Corporation and Utilities Tax

CORPORATION AND UTILITIES TAXES (millions of dollars)								
	FY 2023	FY 2024	Change		FY 2025	Change		
	Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent	
General Fund	407.7	386.0	(21.7)	(5.3)	414.0	28.0	7.3	
Special Revenue Funds (MTOAF)	Transmission Tax	40.4	56.0	15.6	38.6	44.0	(12.0)	(21.4)
	MCTD Surcharge	66.4	62.0	(4.4)	(6.6)	70.0	8.0	12.9
	Total	106.8	118.0	11.2	10.5	114.0	(4.0)	(3.4)
Capital Projects Funds	DHBTf	10.1	14.0	3.9	38.6	11.0	(3.0)	(21.4)
All Funds Total	524.6	518.0	(6.6)	(1.3)	539.0	21.0	4.1	

FY 2024 receipts are estimated to decrease from FY 2023 results due primarily to the first utilization of the COVID-19 Utility Debt Relief Tax Credit. The credit will result in lower gross receipts from the utility sector. The decline is partially offset by modest growth in gross receipts from the telecommunication sector. Audits and refunds are both expected to decline from FY 2023 levels.

FY 2025 receipts are projected to increase from the current year due to a decline in the utilization of the COVID-19 Utility Debt Relief Tax Credit. In addition, audits and refunds are projected to decline from FY 2024.

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 0.15 percent;
- 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 0.0375 percent for each 1 percent of dividends paid.

Apply a rate of 0.15 percent to capital stock on which dividends are not paid, or are paid at a rate of less than 6 percent.; or

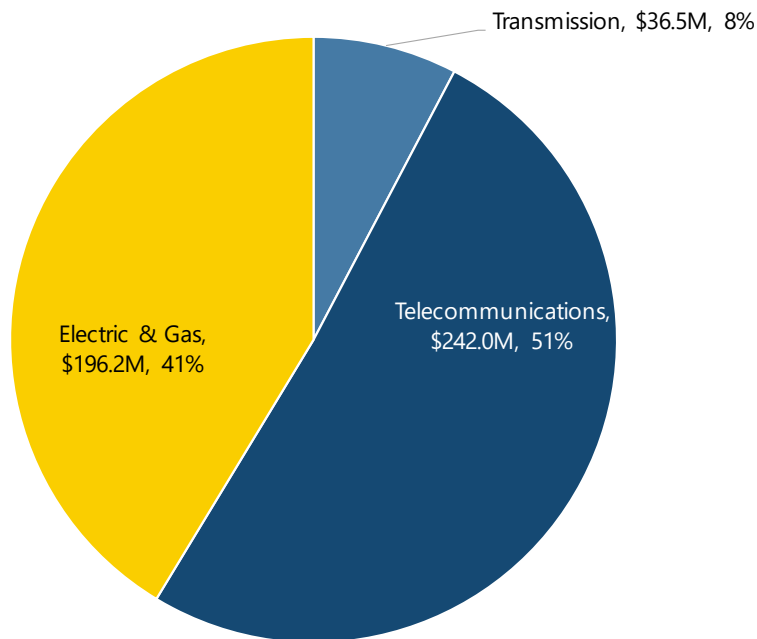
- A minimum tax of \$75.

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.

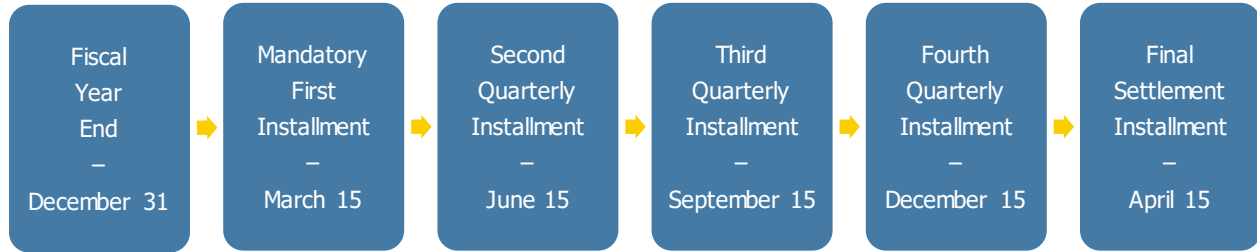
Liability

2020 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.



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)						
	General Fund	Special Revenue Funds (MTOAF)			Capital Projects Fund (DHBTF)	All Funds Total
		Transmission Tax	MCTD Surcharge	SRF Total		
FY 2014	615	54	115	169	14	797
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

Significant statutory changes within the past decade are:

- In 2014, corporate tax reform repealed the organization tax on in-State corporations and the license and maintenance fees on out-of-state corporations.
- 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 debt that the taxpayer waived that was owed to the taxpayer by customers who received utility arrears assistance pursuant to a State COVID-19 assistance program.

Insurance Taxes

INSURANCE TAXES (millions of dollars)							
	FY 2023	FY 2024	Change		FY 2025	Change	
	Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent
General Fund	2,380.6	2,428.0	47.4	2.0	2,436.0	8.0	0.3
Special Revenue Funds (MMTOA)	299.8	282.0	(17.8)	(5.9)	274.0	(8.0)	(2.8)
All Funds Total	2,680.4	2,710.0	29.6	1.1	2,710.0	0.0	0.0

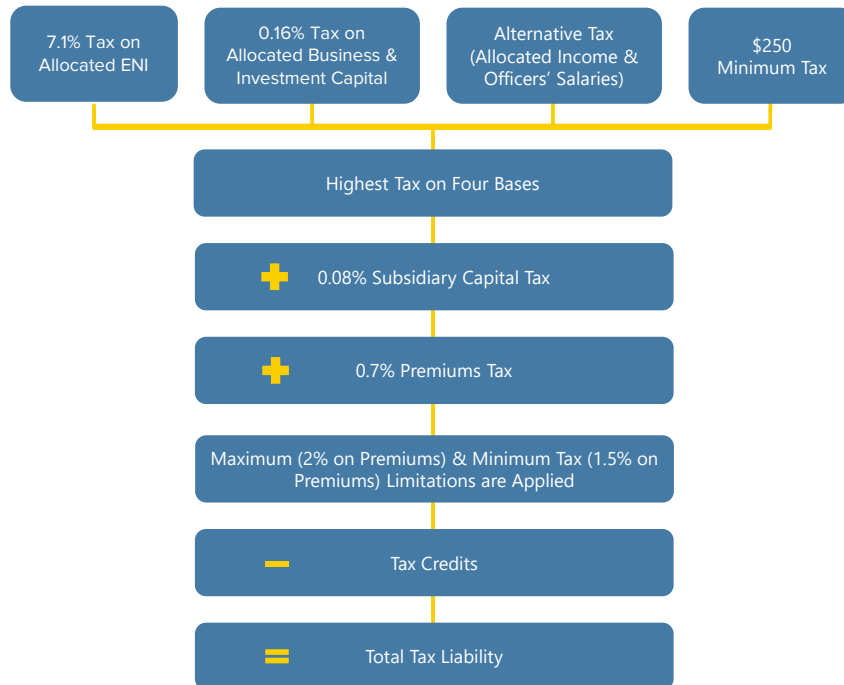
FY 2024 receipts are estimated to increase from FY 2023 results due to an increase in gross receipts, supported by projected growth in taxable premiums. Audits are expected to decrease sharply following an unusually strong FY 2023 while refunds are estimated to slightly decrease.

FY 2025 receipts are projected to remain flat compared to the current year due to a slight decrease in gross receipts being offset by higher audits and lower refunds.

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.

- 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.
- 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.

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.⁹¹

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.

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.

⁹¹ For further detail on these franchise taxes on insurance corporations, please refer to <https://www.tax.ny.gov/bus/ct/article33.htm>. Last accessed: January 14, 2024.

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.



RECEIPTS EXPLANATION

NYS property and casualty sector premiums history and growth from 2015 through 2022 are listed below.

NEW YORK STATE CALENDAR YEAR PROPERTY AND CASUALTY INSURANCE PREMIUMS								
(millions of dollars)								
Insurance Lines	2015	2016	2017	2018	2019	2020	2021	2022
Automobile								
Premiums	14,145	15,004	15,876	16,635	17,045	16,802	17,967	18,551
Growth	4.1%	6.1%	5.8%	4.8%	2.5%	(1.4%)	6.9%	3.3%
Workers' Compensation								
Premiums	5,524	5,894	5,943	5,918	5,621	4,750	4,869	5,110
Growth	5.0%	6.7%	0.8%	(0.4%)	(5.0%)	(15.5%)	2.5%	4.9%
Commercial Multi-Peril								
Premiums	3,592	3,659	3,863	3,958	4,097	4,119	4,380	4,820
Growth	(0.6%)	1.9%	5.6%	2.5%	3.5%	0.5%	6.3%	10.1%
General Liability								
Premiums	5,710	5,830	5,647	6,093	6,760	7,259	8,440	8,639
Growth	7.5%	2.1%	(3.1%)	7.9%	10.9%	7.4%	16.3%	2.4%
Homeowner's Multi-Peril								
Premiums	5,196	5,224	5,286	5,397	5,593	5,816	6,196	6,767
Growth	2.2%	0.5%	1.2%	2.1%	3.6%	4.0%	6.5%	9.2%
Other								
Premiums	6,392	6,381	6,295	6,628	6,751	6,809	7,277	8,264
Growth	(0.7%)	(0.2%)	(1.4%)	5.3%	1.9%	0.9%	6.9%	13.6%
Total Property and Casualty Premiums								
Premiums	40,558	41,993	42,908	44,629	45,867	45,555	49,127	52,151
Growth	3.2%	3.5%	2.2%	4.0%	2.8%	(0.7%)	7.8%	6.2%

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.



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 2014	1,298	146	1,444
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

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 2029.⁹²
- 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.⁹³

⁹² Please refer to https://www.tax.ny.gov/pit/credits/hist_prop.htm for a detailed description of this tax credit. Last accessed: January 14, 2024.

⁹³ Please refer to https://www.tax.ny.gov/pit/credits/low_income.htm for a detailed description of this tax credit. Last accessed: January 14, 2024.

Pass-Through Entity Tax

PASS-THROUGH ENTITY TAX (millions of dollars)							
	FY 2023	FY 2024	Change		FY 2025	Change	
	Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent
General Fund	7,472.1	6,941.0	(531.1)	(7.1)	7,240.0	299.0	4.3
Debt Service Funds (RBTF)	7,472.1	6,941.0	(531.1)	(7.1)	7,240.0	299.0	4.3
All Funds	14,944.2	13,882.0	(1,062.2)	(7.1)	14,480.0	598.0	4.3

FY 2024 receipts are estimated to decrease from FY 2023 results due to lower Tax Year 2023 estimated payments. In addition, refunds are expected to increase over FY 2023, which are partially offset by an increase in Tax Year 2022 final return payments.

FY 2025 receipts are projected to increase from the current year due to a projected increase in net partnership income resulting in higher Tax Year 2024 estimated payments.

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.⁹⁴

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:

⁹⁴ <https://www.tax.ny.gov/pdf/memos/ptet/m21-1c-1i.pdf> Last accessed: January 14, 2024.

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.

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

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

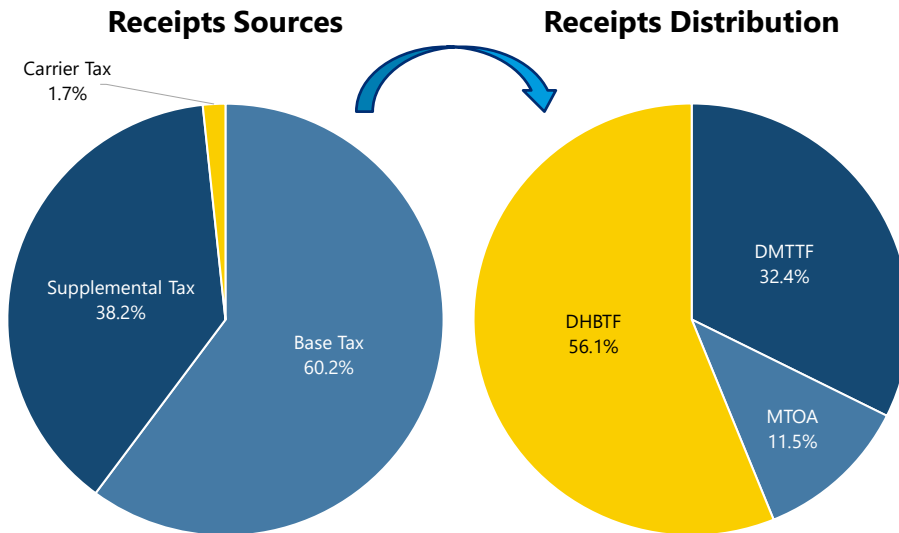
PETROLEUM BUSINESS TAXES								
(millions of dollars)								
		FY 2023	FY 2024	Change		FY 2025	Change	
		Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent
Receipts Sources	Base Tax	658.5	672.4	13.9	2.1	654.5	(17.9)	(2.7)
	Supplemental Tax	418.0	424.2	6.2	1.5	395.4	(28.8)	(6.8)
	Carrier Tax	18.3	18.4	0.1	0.8	18.1	(0.3)	(1.5)
	Total Taxes	1,094.7	1,115.0	20.3	1.9	1,068.0	(47.0)	(4.2)
Fund Distribution	Capital Projects Funds (DHBTF)	614.5	625.9	11.4	1.9	597.0	(28.9)	(4.6)
	Special Revenue Funds							
	DMTTF	354.2	360.5	6.3	1.8	345.5	(15.1)	(4.2)
	MTOA	126.0	128.6	2.6	2.1	125.6	(3.1)	(2.4)
	Total	480.3	489.1	8.9	1.8	471.0	(18.1)	(3.7)
	All Funds Total	1,094.7	1,115.0	20.3	1.9	1,068.0	(47.0)	(4.2)

FY 2024 receipts are estimated to increase from FY 2023 results due to a small uptick in both gasoline and diesel consumption coupled with a five percent increase in the PBT rate index effective January 1, 2023, paired with a five percent decrease in the PBT rate index effective January 1, 2024.

FY 2025 receipts are projected to decrease from the current year primarily due to a 5 percent decrease in the PBT rate index effective January 1, 2024, coupled with an estimated 5 percent decrease in the PBT rate index effective January 1, 2025.

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 2023, gasoline and diesel receipts based on reported gallonage constituted 84.5 and 13.5 percent of the total, respectively.

FY 2023 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, whose rates 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:

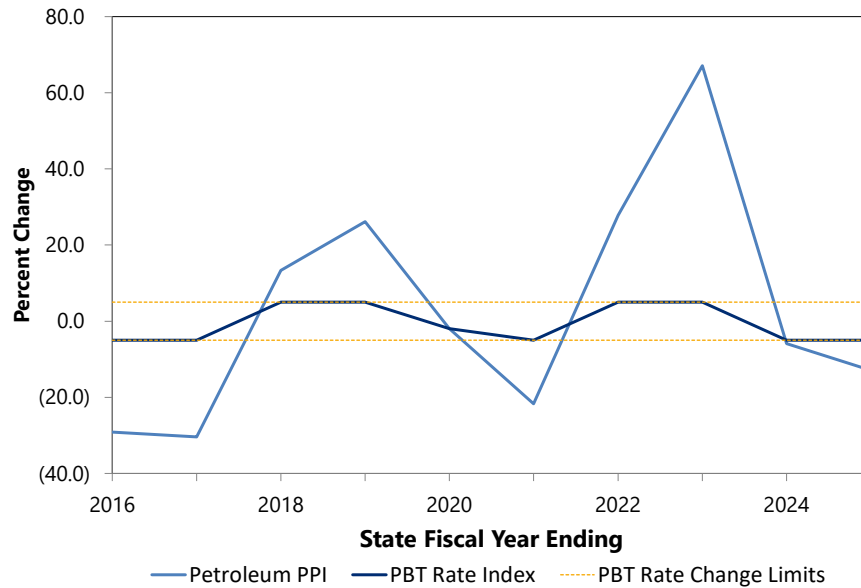
- automotive fuel;
- aviation gasoline or kerosene-jet fuel;
- non-highway use diesel fuels;
- railroad diesel fuel; and
- residual petroleum products.

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.⁹⁵

⁹⁵ Refer to https://www.tax.ny.gov/pubs_and_bulls/publications/pub-908.htm for specific tax rates. Last accessed: January 14, 2024.

Based on changes in the petroleum PPI, the PBT rate index increased by five percent effective January 1, 2023, and decreased by five percent effective January 1, 2024. The petroleum PPI is estimated to decrease by 12.9 percent from September 2023 through August 2024, resulting in an estimated five percent decrease in the PBT rates effective January 1, 2025.

Petroleum Producer Price and PBT Rate Indexes



The [Motor Fuel Tax](#) section of this volume contains a map that ranks New York State 17th 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	Supplemental	Carrier	Total	Capital Projects	Special Revenue Funds		All Funds
	Tax	Tax	Tax	Taxes	Funds (DHBTF)	DMTTF	MTOA	Total
FY 2014	704	429	22	1,155	641	376	137	1,155
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

Significant statutory changes within the past decade include:

- Originally enacted in 2006, the exemption on alternative fuels (E85, B20, CNG, & hydrogen) has been extended several times for various durations.
- 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 2023	FY 2024	Change		FY 2025	Change	
	Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent
General Fund	2.0	1.5	(0.5)	(24.9)	2.0	0.5	33.3
All Funds Total	2.0	1.5	(0.5)	(24.9)	2.0	0.5	33.3

FY 2024 receipts are estimated to decrease from FY 2023 results due to lower receipts from high profile events.

FY 2025 receipts are projected to increase from the current year, returning to typical levels.

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:
 - An 8.5 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

Taxes on gross receipts from ticket sales are remitted to DTF no later than 10 days after the event. Taxpayers remit combative sports taxes on gross receipts from broadcasting rights and digital internet streaming (kick boxing, single discipline martial arts, or mixed martial arts events, only) to DTF by the end of the month in which the event occurred (or within the first five days of the following month if the event occurred in the last five days in a month).

History

AUTHORIZED COMBATIVE SPORTS TAX RECEIPTS HISTORY		
(thousands of dollars)		
	General	All Funds
	Fund	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

Significant statutory change within the past decade is:

- In 2016, the tax base was expanded to include kick boxing, single discipline martial arts, and mixed martial arts events.

Employer Compensation Expense Program

EMPLOYER COMPENSATION EXPENSE PROGRAM TAXES (millions of dollars)							
	FY 2023	FY 2024	Change		FY 2025	Change	
	Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent
General Fund	3.4	7.0	3.6	108.2	7.3	0.3	3.6
Debt Service Funds (RBTF)	3.4	7.0	3.6	108.2	7.3	0.3	3.6
All Funds	6.7	14.0	7.3	108.2	14.5	0.5	3.6

All Funds FY 2024 receipts are estimated to increase substantially from FY 2023 results, primarily reflecting growth in wages and employer participation between tax years 2022 and 2023.

All Funds FY 2025 receipts are projected to increase from the current year due to wage growth coupled with a modest increase in participation between tax years 2023 and 2024.

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 2019¹	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

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

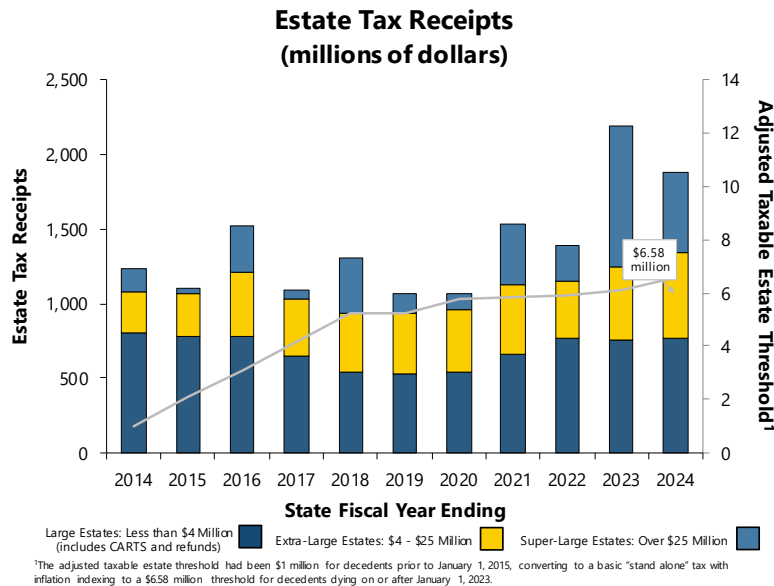
ESTATE TAXES (millions of dollars)											
	FY 2023 Actual		FY 2024 Estimated		Receipts Change		FY 2025 Projected		Receipts Change		
	Number	Receipts	Number	Receipts	Dollar	Percent	Number	Receipts	Dollar	Percent	
General Fund	Large	563	752.8	606	766.2	13.4	1.8	545	724.4	(41.8)	(5.5)
	Extra-Large	62	490.7	70	571.4	80.7	16.4	53	466.3	(105.1)	(18.4)
	Super-Large	11	941.7	7	544.4	(397.3)	(42.2)	4	134.3	(410.1)	(75.3)
	Total	636	2,185.2	683	1,882.0	(303.2)	(13.9)	602	1,325.0	(557.0)	(29.6)
All Funds	636	2,185.2	683	1,882.0	(303.2)	(13.9)	602	1,325.0	(557.0)	(29.6)	

FY 2024 receipts are estimated to decrease substantially from FY 2023 results primarily due to an estimated four fewer super-large payments at a lower average value compared to the prior year.

FY 2025 receipts are projected to decrease substantially from the current year as super-large payments are expected to return to historic levels and average payment amounts.

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.⁹⁶ 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.⁹⁷



⁹⁶ NYS follows Federal Guidelines for applicable estate tax deductions. See <https://www.irs.gov/pub/irs-pdf/i706.pdf>. Last accessed: January 14, 2024.

⁹⁷ See <https://www.tax.ny.gov/pit/estate/etidx.htm> for specific metrics on these provisions and rates. Last accessed: January 14, 2024.

Liability

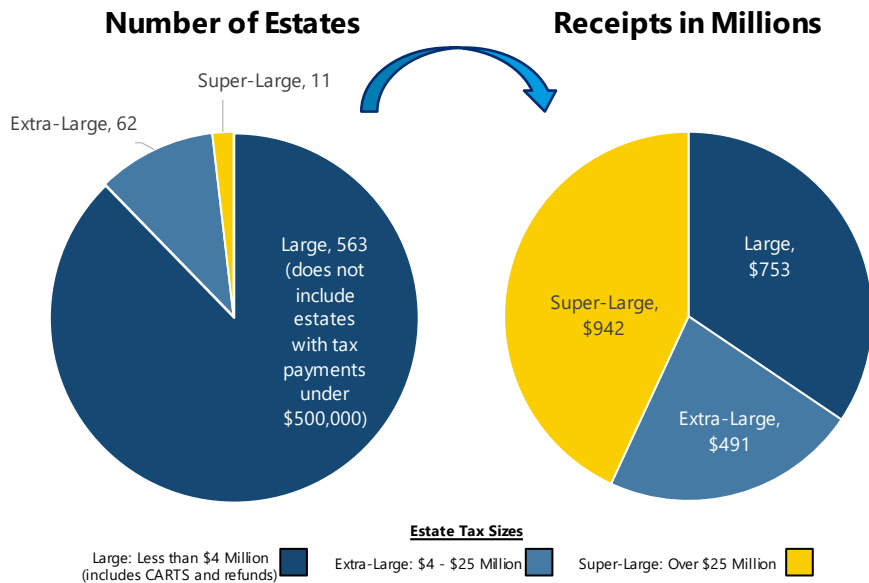
Estate tax receipts are historically volatile, as receipts are heavily influenced by both annual variations in the relatively small number of extra-large and super-large estates and the value of the equity market, given the large component of corporate stock in large taxable estates.

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 2023 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 2014	4	161	32	273	285	804	1,238
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

*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 2014, a “stand alone” NYS estate tax was created. With a basic threshold amount that increased over four years, it equaled what would have been the Federal basic exemption amount (pursuant to Federal law as it existed on December 1, 2017) beginning January 1, 2019. The basic threshold amount, which is indexed to inflation on an annual basis, is \$6.94 million for decedents dying on or after January 1, 2024.

Gaming Receipts

		GAMING RECEIPTS (millions of dollars)								
		FY 2023	FY 2024	Change		FY 2025	Change			
		Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent		
Special Revenue Funds	Lottery	Education	2,513.0	2,630.0	117.0	4.7	2,373.0	(257.0)	(9.8)	
	VLTs	Education	1,000.0	1,076.0	76.0	7.6	1,043.0	(33.0)	(3.1)	
	Casinos	Education	141.0	128.0	(13.0)	(9.2)	129.6	1.6	1.3	
		Localities	34.6	32.0	(2.6)	(7.5)	32.4	0.4	1.3	
		Total	175.6	160.0	(15.6)	(8.9)	162.0	2.0	1.3	
	Mobile Sports Wagering	Education	729.2	833.0	103.8	-	849.0	16.0	1.9	
		Youth Sports	5.0	5.0	0.0	-	5.0	0.0	0.0	
		Problem Gambling	6.0	6.0	0.0	-	6.0	0.0	0.0	
		Total	740.2	844.0	103.8	-	860.0	16.0	1.9	
	IFS	Education	5.9	7.0	1.1	18.6	6.0	(1.0)	(14.3)	
		TSC	State	125.5	147.1	21.6	17.2	168.0	20.9	14.2
			Localities	75.1	86.9	11.8	15.7	98.0	11.1	12.8
			Total	200.6	234.0	33.4	16.7	266.0	32.0	13.7
	All Funds	Education	4,389.1	4,674.0	284.9	6.5	4,400.6	(273.4)	(5.8)	
State		125.5	147.1	21.6	17.2	168.0	20.9	14.2		
Localities		109.7	118.9	9.2	8.4	130.4	11.5	9.7		
Total		4,635.3	4,951.0	315.7	6.8	4,710.0	(241.0)	(4.9)		

FY 2024 receipts compared to FY 2023 results:

- Traditional lottery receipts are estimated to increase primarily due to a substantially greater amount of administrative surplus. This is partially offset by overall lower games sales totals, driven by a decline in Mega Millions which experienced two jackpot rollups over \$1.2 billion in FY 2023, as well as less contribution from the lapsed prize surplus fund.
- VLT receipts are estimated to increase primarily due to a greater amount of administrative surplus, as well as the full-year impact of the Resorts World Hudson Valley facility.
- Commercial gaming (casino) tax receipts are estimated to decrease, primarily due to Tioga receiving a retroactive slot tax reduction for FY 2023, and a slot tax rate reduction for FY 2024, as well as Resorts World Catskills' slot GGR experiencing a strong decline.
- Mobile sports wagering receipts are estimated to increase due to growth as the market approaches maturity.
- IFS receipts are estimated to increase largely due to an increased amount of short-term interest payments.

- TSC receipts are estimated to increase primarily due to growth across all Tribe/Nation payments, as well as the Mohawk Tribe continuing to pay the State delinquent slot share payments owed since the end of FY 2020.

FY 2025 receipts compared to FY 2024 estimates:

- Lottery receipts are projected to decrease primarily due to a significantly lower amount of administrative surplus available. Additionally, Mega Millions and Powerball jackpots are expected to return to more typical levels seen under the current game structures.
- VLT receipts are projected to decrease primarily due to a return to typical administrative surplus levels, with minimal to small NMI growth assumed for most facilities.
- Casino receipts are projected to increase slightly due to Tioga receiving a retroactive slot tax reduction for FY 2023 in FY 2024, in addition to their FY 2024 slot tax reduction.
- Mobile sports wagering receipts are projected to increase slightly due to minimal growth as the market approaches maturity.
- IFS receipts are projected to decrease due to fewer short-term interest payments projected.
- TSC receipts are projected to increase due to the expected receipt of outstanding payments owed by the Mohawk Tribe since the end of FY 2020, as well as growth from all Tribe/Nation payments. While the Seneca Compact is set to expire March 31, 2024, negotiations are ongoing and any potential change, if at all, to the revenue sharing agreement is unknown at present. Therefore, the projections assume that the Compact continues with the current revenue sharing agreement.

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 2023 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 2023, these games constituted approximately 32 percent of the education contribution from traditional lottery games.



RECEIPTS EXPLANATION

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 (65%)	65%	20%	15%	1999	N/A
Instant (75%)	75%	10%	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 2023, approximately 57 percent of the education funding contribution from VLT facilities was derived from Resorts World NYC and Empire City.

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 can receive a 6.4 percent additional commission 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)		
	<u>Table Games¹</u>	<u>Slot Machines</u>
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 licenses⁹⁸, 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.

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 support, \$5 million is dedicated to a Youth Sports Program, and the remaining amount helps fund education.

Mobile Sports Wagering Operators	
<u>Operator</u>	
FanDuel Sportsbook	
Bally Bet	
BetMGM	
DraftKings Sportsbook	
Caesars Sportsbook	
Wynn Interactive	
Fanatics Sportsbook*	
Resorts World Bet	
Rush Street Interactive	
*The Gaming Commission approved Fanatics' acquisition of PointsBet's license in October 2023.	

⁹⁸ See <https://nycasinos.ny.gov/> for more information on the additional casino license process. Last accessed: January 14, 2024.

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 is set to expire March 31, 2024.

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. The Gaming Commission will continue with the regulation and taxation of IFS during the appeals process. 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 licenses, the Board has set the license fee amount at \$500 million for each casino.

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. 18 IFS entities are registered in NYS, with 11 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 Total
	Lottery	VLTs	Casinos			MSW	IFS	TSC	
	Education	Education	Education	Localities*	Total	Total**	Education	Total*	
FY 2014	2,235	938	N/A	N/A	N/A	N/A	N/A	482	3,655
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	220	4,363
FY 2023	2,513	1,000	141	35	176	740	6	201	4,635

*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 2014, Suffolk and Nassau OTBs were authorized to have up to 1,000 VLT terminals, and the VLT free play allowance was increased from 10 to 15 percent. In 2022, Suffolk OTB was authorized to have up to 2,000 VLT terminals.
- In 2015, VLTs were authorized to offer certain electronic table games (ETGs).
- In 2016, the operation of IFS was legalized in NYS.
- In 2017, NYRA was reprivatized, and regulations were modified to require horsemen and racetracks to contribute to equine drug testing.
- 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. Eight platform providers and nine operators were selected through a competitive bidding process to operate mobile sports wagering in the State. Separately, 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 – FY 2026, provided Vernon Downs maintains 70 percent of their 2016 FTE levels. In the same legislation, 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, legislation was passed which altered the distribution of casino tax revenue for the three additional casino licenses depending on their location, if Downstate. Depending on the location, if Downstate, up to 50 percent of tax revenue from a given facility would be directed to the MTA. 100 percent of any license fees from facilities located Downstate are directed to the MTA.

Pari-Mutuel Tax

PARI-MUTUEL TAX (millions of dollars)							
	FY 2023	FY 2024	Change		FY 2025	Change	
	Actual	Estimated	Dollar	Percent	Projected	Dollar	Percent
General Fund	13.0	12.0	(1.0)	(7.7)	12.0	0.0	0.0
All Funds Total	13.0	12.0	(1.0)	(7.7)	12.0	0.0	0.0

FY 2024 receipts are estimated to decrease compared to FY 2023 results due to lower handle on horse races.

FY 2025 receipts are projected to remain flat compared to the current year.

Base and Rate

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 includes a portion of commissions withheld from handle (wagering pools) and a remittance of the breakage (the difference between a wager pool for a given bet and the total payout to bettors) and 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 five NYS regions including the Capital District, Catskill, Nassau, Suffolk and Western.

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, there is no longer a need to place bets in-person at a track or Off-Track Betting (OTB) facility. The vast majority of simulcast wagers made are on NYRA races.

Liability

The PMT is levied on wagers on pari-mutuel wagering activity that occurs 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 NYS resident places a simulcast wager using an out-of-State ADW website, a market origin fee equal to five percent of handle is imposed. Five percent of the market origin fee is directed to PMT.

If a bettor places a wager on a NYS race outside of the State, the State does not collect direct revenues, including PMT, on these races.

Administration

The Gaming Commission regulates all horse racing and pari-mutuel wagering in NYS. Racetracks and OTBs calculate the PMT 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			Total	All Funds
	Flat	Harness	OTB*		Total
FY 2014	11,039	538	5,244	16,821	16,821
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

*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 the expectation is that horse racing at Aqueduct Racetrack will move to Belmont Racetrack following completion of the renovations.
- In 2023, the State continued to extend for one year reduced on-track rates by as much as 90 percent at thoroughbred and harness tracks and certain simulcasting provisions.

Real Estate Transfer Tax

REAL ESTATE TRANSFER TAX (millions of dollars)							
	FY 2023	FY 2024	Change		FY 2025	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)	1,214.7	908.7	(306.0)	(25.2)	889.7	(19.0)	(2.1)
All Funds Total	1,472.0	1,166.0	(306.0)	(20.8)	1,147.0	(19.0)	(1.6)

FY 2024 receipts are estimated to decrease substantially from FY 2023 due to reduced real estate market activity as a result of higher mortgage rates, significantly lower housing starts, a minor decline in the average housing price, and overall limited available inventory. The first half of FY 2023 receipts significantly benefitted from lower mortgage rates and likely post-pandemic pent up demand.

FY 2025 receipts are projected to decrease slightly as the market continues to stabilize. A small projected decline in the average housing price is expected to offset a projected increase in housing starts and a projected decline in mortgage rates.

Base and Rate

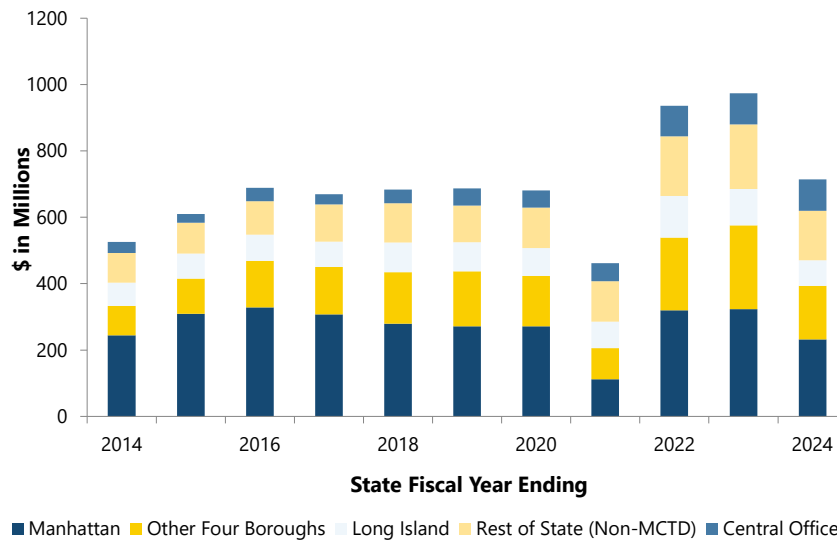
The real estate transfer tax is imposed on each conveyance of real property or interest therein, when the consideration (price) exceeds \$500, at a rate of 0.4 percent. An additional one percent tax is imposed on conveyances of residential real property only when the consideration is \$1 million and 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 58 percent of total liability in FY 2023, which is historically above average, possibly due to post-pandemic pent up demand in the first half of the year.

Real Estate Transfer Tax Liability



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 2014	119	792	911
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

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 was 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



GLOSSARY OF ACRONYMS

ABT	Alcoholic Beverage Taxes	FYE	Fiscal Year Ending
AFC	Automotive Fuel Carrier	GDP	Gross Domestic Product
AGI	Adjusted Gross Income	HCRA	Health Care Reform Act
ART	Auto Rental Tax	HUT	Highway Use Tax
BCP	Brownfield Cleanup Program	HUTAA	Highway Use Tax Administration Account
BCP-EZ	Expedited Brownfield Cleanup Program	IFS	Interactive Fantasy Sports
BEA	Bureau of Economic Analysis	IFTA	International Fuel Tax Agreement
BLS	Bureau of Labor Statistics	IMF	International Monetary Fund
CARES	Coronavirus Aid, Relief, and Economic Security	IPO	Initial Public Offering
CBO	Congressional Budget Office	IPP	Intellectual Property Products
CDC	Centers for Disease Control and Prevention	IRS	Internal Revenue Service
CES	Current Employment Statistics	LATAs	Local Access Transport Areas
CFT	Corporation Franchise Tax	LGAC	Local Government Assistance Corporation
CPFF	Commercial Paper Funding Facility	LIHC	Low Income Housing Credit
CPI	Consumer Price Index	M&A	Mergers & Acquisitions
CPI-U	Consumer Price Index for All Urban Consumers	MBS	Mortgage Backed Security
CUNY	City University of New York	MCTD	Metropolitan Commuter Transportation District
CUT	Corporation and Utilities Tax	MCTF	Medical Cannabis Trust Fund
CV	Coefficient of Variation	MLF	Municipal Liquidity Facility
CWCA	Clean Water/Clean Air	MME	Morphine Milligram Equivalent
CY	Calendar Year	MMMFLF	Money Market Mutual Fund Liquidity Facility
DCJS	Division of Criminal Justice Services	MSA	Metropolitan Statistical Area
DFS	Department of Financial Services	MSLP	Main Street Lending Program
DHBTF	Dedicated Highway Bridge and Trust Fund	MTA	Metropolitan Transportation Authority
DHCR	Division of Housing and Community Renewal	MTOAF	Metropolitan Transit Operating Assistance Fund
DOB	Division of the Budget	NAFTA	North American Free Trade Agreement
DOH	Department of Health	NAICS	North American Industry Classification System
DOL	Department of Labor	NBER	National Bureau of Economic Research
DTF	Department of Taxation and Finance	NIPA	National Income and Product Accounts
EB	Extended Benefits	NMI	Net Machine Income
ECEP	Employer Compensation Expense Program	NYC	New York City
ENI	Entire Net Income	NYS	New York State
EPF	Environmental Protection Fund	NYSE	New York Stock Exchange
EPU	Economic Policy Uncertainty	OASAS	Office of Addiction Services and Supports
ESCO	Energy Service Companies	OCFA	Office of Children and Family Services
ETIP	Employee Training Incentive Program	OPEC+	The Organization of the Petroleum Exporting Countries
FAA	Federal Aviation Administration	OTB	Off-Track Betting
FDA	Food and Drug Administration	P/E	Price-to-Earnings
FEMA	Federal Emergency Management Agency	PBT	Petroleum Business Tax
FFY	Federal Fiscal Year (October 1 to September 30)	PCE	Personal Consumption Expenditures
FOMC	Federal Open Market Committee	PDCF	Primary Dealer Credit Facility
FY	Fiscal Year	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
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
RBTF	Revenue Bond Tax Fund
REIT	Real Estate Investment Trust
RETT	Real Estate Transfer Taxes
RIC	Regulated Investment Company
SALT	State and Local Tax
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
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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