




# REVENUE ACTIONS







The Executive Budget continues to respond to the ongoing COVID-19 pandemic by utilizing new tax revenue resources to smartly invest in areas that will allow hard-hit New York consumers and businesses to recover and continue to benefit from the ongoing economic resurgence. Importantly, taxpayers will benefit from the acceleration of the middle-income tax cuts that were scheduled to phase in by 2025 as well as a new homeowner property tax rebate credit.

## OVERVIEW

At the onset of the COVID-19 pandemic in 2020, the national and State economies experienced dramatic declines in economic activity and sharp increases in unemployment. However, a combination of Federal and State initiatives, inclusive of the various health measures, have enabled a steady economic recovery that has led to substantial increases in tax receipts.

Real U.S. GDP surpassed its pre-recession peak during the second quarter of 2021, as Federal COVID-19 emergency spending provided an unprecedented level of economic stimulus. The national economy is estimated to have posted strong growth of 5.6 percent for the 2021 calendar year, after contracting 3.4 percent in 2020. Fallout from the pandemic, including but not limited to labor and supply shortages, is expected to restrain economic growth for the current year, but the Budget Division expects growth of 4.3 percent for the year overall.

As of November 2021, New York's economy has regained 62.6 percent of the private sector jobs lost in March and April of 2020, and the proposals included with the FY 2023 Budget are targeted to accelerate the pace of jobs recovery. Total New York State employment is projected to grow 4.5 percent in FY 2023, with private sector jobs growing 5.0 percent.

The pandemic led to double-digit declines in employment in FY 2021, however, state wages fell a mere 2.0 percent, as the steepest job losses were concentrated in low-wage sectors such as leisure and hospitality, retail trade, and transportation, where remote work is not possible. The disparity between employment and wage growth rates was partly due to strong FY 2021 bonus growth thanks to highly expansionary monetary and fiscal policy, leading to a sterling stock market performance and strong financial sector revenues. Despite declines in employment and wages, state personal income enjoyed

8.5 percent growth in FY 2021 due to unprecedented fiscal stimulus payments to small businesses and individuals. With fiscal stimulus on the wane and rate hikes now expected to begin even sooner, only modest growth of 1.0 percent and 1.1 percent are estimated for state personal income for FY 2022 and FY 2023, respectively, despite a strong continuing recovery in employment.

## REVENUE SPOTLIGHT: MOBILE SPORTS WAGERING

Four operators – Caesars, DraftKings, FanDuel and Rush Street Interactive – commenced operations on January 8, 2022 after receiving approval from the Commission. For the first weekend, these operators took in \$150 million in wagers, over 650,000 unique player accounts were utilized, and more than 17 million geolocations were confirmed. BetMGM commenced operations on January 17, 2022.

For mobile sports wagering revenue, effective FY 2023, \$6 million will be directed to programs addressing problem gambling, \$5 million will be directed to a youth sports grant program statewide, and the remaining amount will be directed to education. License fee revenue is directed to education. The State projects \$249 million in revenue (includes \$200 million in already collected license fees) in FY 2022, \$357 million in FY 2023, \$465 million in FY 2024, \$493 million in FY 2025, \$509 million in FY 2026 and \$518 million in FY 2027.

## RESPONDING TO COVID-19 AND PROVIDING TAX RELIEF TO NEW YORK

The Executive Budget continues to take steps to mitigate the impact of the pandemic on New Yorkers. These include:

**Accelerate the Implementation of the Middle-Class Tax Cut.** The eight-year phase-in of personal income tax cuts for middle-class taxpayers first began in Tax Year 2018 and is currently scheduled to be completed at the start of the 2025 Tax Year. This Budget:

- Accelerates tax relief to middle-class New Yorkers by providing the fully implemented reduced tax rates beginning in Tax Year 2023.
- Provides relief to 6.1 million New Yorkers.

**Create a Tax Credit for Small Businesses' COVID-19-Related Expenses.** To continue the State's support for our small businesses, the Executive Budget includes a new capped refundable tax relief program targeting COVID-19-related expenses for small businesses.

The program provides:

- Up to \$250 million in additional relief to small businesses.
- Eligible COVID-19-related capital investments include, but are not limited to, costs associated with expanding space to accommodate social distancing, HVAC equipment, expenses related to outdoor space expansions, as well as machinery and equipment to facilitate contactless sales.

**Create and Expand Tax Credits for Farms.** New York's support of its critical agriculture industry is expanded by:

- Enhancing two existing tax benefits and establishing a new tax credit.
- Increasing the Investment Tax Credit to 20 percent, up from four percent, for farm businesses.
- Doubling the Farm Workforce Retention Credit to \$1,200 per employee.
- Creating a refundable tax credit for overtime hours paid by farm employers.

**Provide Small Business Tax Relief.** Small businesses were hit particularly hard by the pandemic downturn. The Budget provides much needed tax relief to these businesses by:

- Increasing the small business subtraction modification from 5 percent to 15 percent of net business income or farm income, and
- Expanding the benefit to include pass-through entities with less than \$1.5 million NY-source gross income.
- This proposal will aid 195,000 small businesses through one of the most challenging business climates in modern history.

**Homeowner Tax Rebate Credit.** The Budget creates a new property tax relief credit, the Homeowner Tax Rebate Credit, to eligible low- and middle-income households, as well as eligible senior households:

- Basic STAR exemption and credit beneficiaries with incomes below \$250,000 and Enhanced STAR recipients are eligible for the property tax rebate where the benefit is a percentage of the homeowners' existing STAR benefit.
- This one-year program is, in general, an extension of the real Property Tax Relief Credit Program that expired after 2019, with benefits calculated as a percentage of a homeowner's STAR benefit. Additionally, homeowners in New York City will also be eligible for this credit.
- Outside of New York City, the average benefit will be nearly \$970, providing relief to more than 2 million property tax-paying households. The New York City average benefit will be about \$425, with benefits reaching another 479,000 property tax-paying households.
- For homeowners with income below \$75,000 the statewide average credit is estimated at nearly \$1,050, benefiting an estimated 837,800 recipients.
- The benefit will be in the form of an advanced credit, instead of being claimed when tax returns are filed, thus getting benefits in the hands of New York homeowners more quickly. Credits will be an advance on Tax Year 2022 income tax returns, to be directly sent to eligible homeowners beginning in Fall 2022.

**Extend the New York City Musical and Theatrical Production Tax Credit.** To continue the State's support of an industry greatly affected by the pandemic, the Executive Budget makes the following changes:

- Extends the initial application deadline to June 30, 2023; and
- Doubles the overall cap on the program from \$100 million to \$200 million.

## OTHER KEY TAX CUTS AND CREDITS

**Extend and Enhance the Hire-A-Vet Credit for Three Years.** Currently, eligible veterans are limited to service members who became veterans after September 11, 2001, which limits the credit's reach. In addition, eligible veterans must work at least 35 hours per week for the employer to receive the tax credit amount. The Budget:

- Extends the credit for an additional three years
- Expands eligibility to all veterans
- Removes the distinction between disabled and non-disabled
- Allows the credit for part-time employment to increase the number of veterans impacted

**Provide Tax Credits for the Phase Out of a Certain Grade of Fuel Oil.** Effective July 1, 2023, the use of No. 6 fuel oil for heating any building or facility in New York State is prohibited. This Executive Budget provides a tax credit equal to 50 percent of conversion costs (capped at \$500,000 per taxpayer's buildings located in a municipality) to assist affected entities outside of New York City to convert to cleaner energy sources such as biodiesel heating oil or a geothermal system.

### **Create a Tax Exemption for Student Loan Forgiveness Awards.**

Student loan forgiveness programs are intended to relieve individuals from crippling financial burdens, but in some instances this relief is treated as income for tax purposes, resulting in increased tax liability and ultimately exchanging one debt problem for another. The Budget remedies this issue by excluding forgiven student loans from NYS adjusted gross income.

## REFORM, SIMPLIFICATION AND OTHER ACTIONS

### **Require S-Corporation Conformity with Federal Returns.**

- The Executive Budget requires all S corporations at the Federal level to be treated as such for state tax purposes.
- Currently, Federal S corporations with investment income above 50 percent of Federal gross income are treated as NYS S corporations.

- This change addresses tax avoidance in cases where shareholders change residence to avoid tax on dividends.

**Modernize Tax Law to Include the Vacation Rental Industry.** In order to create a level playing field between the growing vacation rental sector and traditional hospitality industry participants such as hotels, motels, and B&Bs, the Executive Budget:

- Subjects all vacation rentals to State and local sales taxes, as well as the daily NYC Convention Center hotel fee of \$1.50 per unit.
- Under these new provisions, any vacation rental marketplace provider that facilitates the occupancy of a vacation rental will be responsible for collecting and remitting the State and local sales taxes, in addition to the NYC hotel unit fee.

**Make Local Sales Tax Rate Authorizations Permanent.** In an effort to shore up local government finances and to ensure revenue stability and certainty for local governments going forward, the Executive Budget:

- Grants permanent local sales tax authority for all counties and cities at their existing rates or up to 4 percent.
- As such, local governments would no longer need to seek and receive the State's approval as long as they want to extend their existing rates or increase their rate to no more than 4 percent.
- All local governments will still be required to seek and receive temporary approval by a majority vote of the local government's governing body in order to impose additional sales tax above the current statutory 3 percent threshold.

## GAMING INITIATIVES

**Authorize Casino Licenses.** The Budget:

- Authorizes the awarding of up to three additional casino licenses by allowing the Gaming Facility Location Board to issue a Request for Applications.
- Allows the additional casino gaming facilities to be located statewide, including the Downstate region.

- Should additional casinos commence operations, it is expected they would provide a substantial amount of revenue for State education aid through license fees and recurring tax payments.

## FEE ACTIONS

**Extend the Waste Tire Management Fee for Five Years.** The Executive Budget extends the Waste Tire Fee for five years (imposed by the Environmental Conservation Law and scheduled to expire December 31, 2022) and aligns it with the filing requirements and administrative provisions of the sales tax law so that the fee can be easily reported and remitted on the sales tax return. This \$2.50 fee has historically generated an average of \$26 million per year and funds the abatement of waste tire sites and supports approximately 100 Department of Environmental Conservation employees involved in the critical mission of solid and hazardous waste cleanup activities.



| REVENUE ACTIONS AND STAR (MILLIONS OF DOLLARS)  |                |                |                |                |
|---|----------------|----------------|----------------|----------------|
|   | GENERAL FUND   |                | ALL FUNDS      |                |
|   | FY2023         | FY2024         | FY2023         | FY2024         |
| <b>RESPONDING TO COVID-19</b>   | <b>(2,263)</b> | <b>(1,061)</b> | <b>(2,263)</b> | <b>(1,061)</b> |
| Accelerate the Implementation of the Middle-Class Tax Cut   | (162)          | (615)          | (162)          | (615)          |
| Create a Tax Credit for Small Businesses COVID-19 Related Expenses  | -              | (250)          | -              | (250)          |
| Extend the New York City Musical and Theatrical Production Tax Credit   | -              | (100)          | -              | (100)          |
| Create and Expand Tax Credits for Farms   | -              | (16)           | -              | (16)           |
| Provide Small Business Tax Relief   | (100)          | (100)          | (100)          | (100)          |
| Provide a Homeowner Tax Rebate Credit   | (2,200)        | -              | (2,200)        | -              |
| <b>OTHER KEY TAX CUTS AND CREDITS</b>   | <b>-</b>       | <b>(8)</b>     | <b>-</b>       | <b>(8)</b>     |
| Extend the Clean-Heating Fuel Credit for Three Years  | -              | -              | -              | -              |
| Extend the Alternative Fuels and Electric Vehicle Recharging Property Credit for Five Years                             | -              | -              | -              | -              |
| Extend the Credit for Companies Who Provide Transportation to Individuals with Disabilities for an Additional Six Years | -              | -              | -              | -              |
| Extend the New York Youth Jobs Program Tax Credit for an Additional Five Years  | -              | -              | -              | -              |
| Extend the Empire State Apprenticeship Tax Credit for an Additional Five Years  | -              | -              | -              | -              |
| Extend the Film Tax Credit for Three Years  | -              | -              | -              | -              |
| Extend the Telecommunications Assessment Ceiling Programs for Four Years  | -              | -              | -              | -              |
| Extend and Enhance the Brownfields Program  | -              | -              | -              | -              |
| Extend the Credit for Employment of Persons with Disabilities for Six Years   | -              | -              | -              | -              |
| Increase the Aggregate Dollar Amount of the Low-Income Housing Credits  | -              | (7)            | -              | (7)            |
| Extend and Enhance the Hire-A-Vet Credit for Three Years  | -              | -              | -              | -              |
| Provide Tax Credits for the Phase Out of a Certain Grade of Fuel Oil  | -              | -              | -              | -              |
| Create a Tax Exemption for Student Loan Forgiveness Awards  | -              | (1)            | -              | (1)            |

| REVENUE ACTIONS AND STAR (MILLIONS OF DOLLARS)  |                |                |                |              |
|---|----------------|----------------|----------------|--------------|
|   | GENERAL FUND   |                | ALL FUNDS      |              |
|   | FY2023         | FY2024         | FY2023         | FY2024       |
| <b>REFORM AND SIMPLIFICATION ACTIONS</b>  | <b>20</b>      | <b>53</b>      | <b>21</b>      | <b>54</b>    |
| Streamline the Withholding Table and Quarterly Interest Rate Publication Process              | -              | -              | -              | -            |
| Solar and Wind Valuation Program Technical Corrections  | -              | -              | -              | -            |
| Enact STAR Administrative Reforms   | -              | -              | -              | -            |
| Require S-Corporation Conformity with Federal Return  | -              | 13             | -              | 13           |
| Eliminate the Investment Tax Credit for Production of Master Tapes                            | -              | -              | -              | -            |
| Establish a Permanent Rate for the Article 9-A MTA Surcharge                                  | -              | -              | -              | -            |
| Modernize Tax Law to Include the Vacation Rental Industry                                     | 20             | 40             | 22             | 43           |
| Make Local Sales Tax Rate Authorizations Permanent  | -              | -              | -              | -            |
| Exempt Certain Water Vessels from the Petroleum Business Tax                                  | -              | -              | (1)            | (2)          |
| <b>ENFORCEMENT INITIATIVES</b>  | <b>-</b>       | <b>25</b>      | <b>-</b>       | <b>25</b>    |
| Expand the Financial Institution Data Management Program                                      | -              | 25             | -              | 25           |
| <b>GAMING INITIATIVES</b>   | <b>-</b>       | <b>-</b>       | <b>-</b>       | <b>-</b>     |
| Authorize Casino Licenses   | -              | -              | -              | -            |
| Extend PariMutuel Tax Rates and Simulcast Provisions for One Year                             | -              | -              | -              | -            |
| Extend Authorized use of Capital Funds by Certain Off-Track Betting Corporations for One Year | -              | -              | -              | -            |
| <b>FEE ACTIONS</b>  | <b>-</b>       | <b>-</b>       | <b>5</b>       | <b>20</b>    |
| Extend the Waste Tire Management Fee for Five Years   | -              | -              | 5              | 20           |
| <b>TOTAL REVENUE ACTIONS</b>  | <b>(2,442)</b> | <b>(1,011)</b> | <b>(2,436)</b> | <b>(990)</b> |