




REVENUE ACTIONS



The FY 2025 Executive Budget continues to build on the accomplishments of the FY 2024 Budget by:

- Repealing the Cannabis Potency Tax and replacing it with a weight-based tax to ease tax compliance for distributors.
- Giving the Tax Department new tools and extending longstanding provisions that bolster tax compliance.
- Supporting local governments by creating tax parity between hotels and the vacation rental industry.
- Addressing the Supreme Court ruling on local property tax foreclosures to ensure Counties can continue to take action on property tax delinquencies in an appropriate manner.

ECONOMIC BACKGROUND AND OUTLOOK

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, U.S. economic growth has been strong, continuing to create new jobs and expand incomes. The downturn expected by many has been avoided and economic forecasts have been revised to reflect a likely “soft landing.” There are still challenges ahead. While far below its peaks in 2022, inflation is persistent and the impacts of the restrictive monetary policy designed to address it are being felt in financial markets, the real estate sector (residential and commercial), and the overall economy. High interest rates are likely to curb spending, investment, and employment in the near term.

BRIEFING BOOK REVENUE ACTIONS (millions of dollars)				
	General Fund		All Funds	
	FY 2025	FY 2026	FY 2025	FY 2026
Reform, Simplification, and Other Actions	3	214	3	214
Establish the Commercial Security Tax Credit	-	(5)	-	(5)
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)	(8)	(2)
Modernize Tax Law to Include the Vacation Rental Industry	8	16	8	16
Repeal and Replace the Cannabis Potency Tax	-	-	-	-
Provide for the Filing of Amended Sales Tax Returns	3	10	3	10
Permanently Extend the Itemized Deduction Limit on High Income Filers	-	175	-	175
Close the Amended Return Loophole for Personal Income and Corporation Franchise Taxes	-	20	-	20
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	-	-	-	-
Permanently Extend the Tax Shelter Provisions	-	-	-	-
Gaming Initiatives	-	-	-	-
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 REVENUE ACTIONS	3	214	3	214

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. The U.S. economy should be able to weather the forces inhibiting growth in the short term and avoid a contraction. Currently the New York State Division of the Budget does not foresee a sustained downturn in the levels of employment, industrial production, retail and wholesale trade, and personal income, but this year's growth rate points 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.

New York State's economy is still on a recovery path from the impact of the COVID-19 pandemic. 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. On average, the State only gained 6,100 jobs per month in the first eleven months of 2023, compared to 26,200 average monthly job gains in 2022. State employment growth is projected to decelerate from an 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.

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 due to the slowdown of the national economy, softening labor markets, and the continued decline in bonus growth. Total State wage growth is projected to be 3.8 percent for FY 2025 as the outlook for bonus growth improves. State personal income is estimated to grow by 3.5 percent in FY 2024 due to an anticipated 3.6 percent decline in total bonuses. New York State personal income growth should pick up somewhat to 4 percent in FY 2025 due to the projected improvement of bonuses later in the year despite slowing employment growth.

PROVIDING TAX RELIEF TO NEW YORK: REFORM, SIMPLIFICATION AND OTHER ACTIONS

Establish the Commercial Security Tax Credit. To help business owners offset the costs of retail theft prevention measures, the Executive Budget proposes to create a \$3,000 tax credit for small businesses that spend more than \$12,000 on such measures and join an anti-prevention partnership. The program is capped at \$5 million annually and is available for 2024 and 2025.

Permanently Extend Authorization to Manage Delinquent Sales Tax Vendors. The Executive Budget makes permanent certain provisions concerning the segregated sales tax account program. In effect since 2011, these provisions have improved vendor compliance and reduced the need to pursue costly collection actions when sales tax collected by vendors is not remitted in a timely manner to the Department.

Extend Certain Sales Tax Exemption Related to the Dodd-Frank Protection Act for Three Years. The Dodd-Frank Wall Street Reform and Consumer Protection Act required certain financial institutions to create subsidiaries and then transfer property or services to those subsidiaries. In order to continue to address the unintended consequences of the Federal Act as it pertains to "separate legal entities," the Executive Budget extends for three years the tax exemption, first provided in 2015, that excludes these required transfers from taxable sales.

Extend the Sales Tax Vending Machine Exemption for One Year. The Executive Budget continues to incentivize an industry shift to cashless vending machines that can collect sales tax at the point of sale by extending for one year, the existing sales tax exemption for certain food and drink purchased from vending machines (\$1.50 or less for items purchased from vending machines that only accept coin or currency and \$2.00 or less from vending machines that can accept cashless payments). The current exemption is scheduled to expire May 31, 2024.

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 or motels, 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.

Repeal and Replace the Cannabis Potency Tax. To promote and support the expansion of the legal adult-use cannabis market, the Executive Budget simplifies, streamlines, and reduces the tax collection obligations and burden for cultivators, processors, and distributors by repealing the wholesale THC potency tax, and replacing it with a wholesale excise tax of 9 percent, while maintaining the State retail excise tax rate of 9 percent and the local retail excise tax rate of 4 percent. For vertically-integrated entities such as the Registered Organizations and microbusinesses where an arm's length transaction between the distributor and the retailer is non-existent, the new wholesale excise tax will accrue on the final retail sale to consumers and be imposed on 75 percent of the final retail sales price.

Provide for the Filing of Amended Sales Tax Returns. Amended sales tax returns are not contemplated in Sales Tax Law, so there are no clear rules regarding the process or timeline for filing amended returns. The Executive Budget addresses this by clarifying that amended sales tax returns are subject to similar limitations as other tax filings and creating clear process standards.

Permanently Extend the Itemized Deduction Limit on High Income Filers. Since 2010, itemized deductions for taxpayers with New York adjusted gross income of more than \$10 million have been limited to 25 percent of the allowed Federal charitable contribution deduction. The Executive Budget permanently extends this long-standing limit.

Make Technical Corrections to the Metropolitan Commuter Transportation Mobility Tax. Legislation enacted as part of the FY 2024 Enacted Budget inadvertently repealed the Metropolitan Commuter Transportation Mobility Tax for self-employed individuals within suburban Metropolitan Commuter Transportation District counties. The Executive Budget corrects this erroneous repeal.

Return Tax Foreclosure Surplus to Property Owner. When a delinquent property taxpayer experiences a loss of their property through a foreclosure proceeding, any equity that has been accumulated during their ownership has been forfeited in the past. However, on May 25, 2023, the Supreme Court unanimously ruled that it is unconstitutional for localities to unilaterally retain the surplus monies from a foreclosure. To implement the Supreme Court's holding, the Executive Budget provides that when a tax delinquent property is foreclosed upon by the county and sold, any money the county receives that exceeds the liability amount (e.g., overdue taxes, penalties, interest, mortgage liens, etc.) will be returned to the property owner, or lienors, as appropriate.

Clarify Taxable Status of Telecommunications Property. Under current statute, telecommunications property is not taxable if it is "used in the transmission of news or entertainment radio, television or cable television signals for immediate, delayed or ultimate exhibition to the public." The Executive Budget would clarify that properties are excluded from the definition of real property, and therefore not taxable, only if the property is primarily or exclusively used in the transmission of radio, television, or cable signals.

Permanently Extend the Tax Shelter Provisions. The Executive Budget permanently extends various tax shelter provisions that were originally established in 2005. These include various PIT and Corporate Tax penalties that promote abusive tax shelters and the failure to disclose certain transactions, and the substantial understatement of tax liability.

Close the Amended Return Loophole for Personal Income and Corporation Franchise Taxes. By changing the limitation on petitions filed to the Division of Tax Appeals, this proposal would allow the Department of Taxation and Finance to act on amended returns that are filed during or after the appeals process and aid in their enforcement of withholding filing and billing processes.

GAMING INITIATIVES

Extend Pari-Mutuel Tax Rates and Simulcast Provisions for One Year. To maintain the current pari-mutuel wagering structure in the State, the Executive Budget extends various expiring Racing, Pari-Mutuel Wagering, and Breeding Law provisions for an additional year, as was done in the FY 2024 Enacted Budget.

Extend Authorized Use of Capital Funds by a Certain Off-Track Betting Corporation for One Year. To provide financial flexibility, the Executive Budget extends Capital Off-Track Betting Corporation's ability to use up to \$1 million of its capital acquisition fund for operational expenses for an additional year, provided certain conditions are met, as was proposed in the FY 2024 Executive Budget.