



REVENUE ACTIONS



The FY 2026 Executive Budget continues to build on the accomplishments of the FY 2025 Budget by:

- Providing New York’s first-ever Inflation Refund.
- Making New York more affordable for low- and middle-income families by enhancing the Empire State Child Credit.
- Cutting taxes for the middle-class to the lowest rates in 67 years.
- Continuing to build support for advanced manufacturing in the State through the extension of the Excelsior Jobs program, lowering the cost of hiring for high-tech and advanced manufacturing startup companies.

ECONOMIC BACKGROUND AND OUTLOOK

The U.S. economy marked another year of unexpected resilience in 2024. High inflation continued falling without a significant increase in labor market weakness. As a result, economic outlooks have been revised up throughout the year. National employment slowed as expected but continued to grow at a healthy pace. Price inflation moderated markedly towards the 2.0 percent target. Together these readings are consistent with an economy settling into a balanced growth path without significant forces to generate inflation or unemployment. Meanwhile, the Federal Reserve has shifted toward a less restrictive monetary policy with the objective of preventing a major labor market weakness.

The calendar year 2025 economic growth outlook is shaping up to be slower than 2024. Significant policy changes proposed by the new administration will have a meaningful impact on various aspects of the economy - including labor markets, international trade, and business investment. The Division of the Budget’s (DOB) baseline forecast partially reflects these policy changes. However, size and timing, and implementation details remain highly uncertain. DOB expects elevated business investment, particularly productivity-enhancing technology investment, will be bolstered by the extension of corporate tax cuts and business-friendly deregulation policies.

On balance, U.S. real Gross domestic product (GDP) growth is forecast to slow from an estimated average pace of 2.7 percent in 2024 to 2.1 percent in 2025

and 2.0 percent in 2026. Attaining the Federal Reserve’s target inflation rate is expected to take longer in light of expected tariff hikes and tax cuts. Monetary policy is likely to continue easing in the next two years, but future rate cuts are anticipated to be more gradual. Due to an uptick in inflation expectations and prospects for bigger budget deficits, long-term interest rates are likely to remain elevated. This would curb consumer spending, residential and business investment, as well as employment and income gains.

In line with a cooling national labor market, New York State’s employment growth has slowed this year and is projected to grow by 1.5 percent in 2024. Job growth is projected to decelerate further to 0.8 percent in 2025.

New York personal income is projected to grow by 4.1 percent in FY 2026, a deceleration from an estimated growth of 5.2 percent in FY 2025, primarily due to slowing wage growth. Despite the slowdown in employment growth, wages are expected to experience a solid growth of 5.4 percent in FY 2025 due to estimated robust growth in the finance and insurance sector bonuses. Strong performance in equity markets, a better-than-expected economic outlook, and ongoing Federal Reserve rate cuts will likely drive finance and insurance sector bonuses to a 16.4 percent increase in FY 2025. However, the continued slowing of employment growth and a moderating outlook for finance and insurance sector bonuses suggest wage growth could slow to 3.7 percent in FY 2026.

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

Enact a One-Time Inflation Refund. In recent years, New York State has experienced growth in sales tax revenues that exceed historical averages. As inflation has increased prices, the State has collected more in sales tax revenue. With that in mind, the Executive Budget uses that surplus growth to provide a one-time payment to New Yorkers, delivering \$3 billion in direct payments to around 8.6 million New York taxpayers statewide in 2025.

Provide a Middle-Class Tax Cut and Extend the Temporary PIT High Income Surcharge for Five Years. The Executive Budget expands upon previous measures to make the State more affordable by cutting rates for the State's first five tax brackets by 20 basis points each over two years, providing nearly \$1 billion in annual relief when fully phased-in. The Executive Budget also extends of the State's temporary top rates, ensuring that New York's highest earners continue to pay their fair share, generating over \$5 billion annually on a tax year basis.

Enhance the Empire State Child Credit for Three Years. The Executive Budget enhances the State's child tax credit by increasing the maximum credit from \$330 to \$1,000 for children under the age of four and \$500 for children ages four through sixteen. Furthermore, the Governor's proposal eliminates the restrictive earned income requirement, allowing low-income New Yorkers to fully benefit from the credit.

Extend and Amend the Excelsior Jobs Program. The Executive Budget proposes to make numerous changes to the Excelsior Jobs program, including the following:

- Create a new tier for semiconductor supply chain companies;
- Create a large-scale semiconductor R&D tax credit;
- Update the Jobs Retention Tax Credit for small businesses and remove industry specific limitations;
- Replace the Employee Training Incentive Program (ETIP) with a new Semiconductor Workforce Training Credit; and
- Extend the program an additional ten years.

Establish the CATALIST NY Program. The Executive Budget establishes the Companies Attracting Talent to Advance Leading Innovations and Scale Technologies in New York (CATALIST NY) program. This initiative will allow small businesses that have completed a NYS incubator program to provide a personal income tax benefit for up to eight of its newly hired full time employees. The wages of these new employees will not be subject to State personal income tax.

Extend and Amend the Film Tax Credit. The Executive Budget proposes to make the following changes to the film tax credit program, seeking to strengthen the filming industry in the State while remaining competitive with other states:

- Remove the tiered payout structure for new applicants when paying tax credits;
- Extend the program an additional two years through 2036;
- \$100 million incentive for independent studios;
- Make several enhancements to the post-production credit;
- Provide a 10 percent credit rate benefit for long-term studio partners; and
- Remove certain restrictions on above-the-line qualified costs.

Expand the Credit for Employment of Persons with Disabilities (WETC). This credit supports businesses who hire people with disabilities who receive vocational rehabilitation services. The Executive Budget proposes to make the credit equal to the first \$5,000 in wages of each qualified worker in the first year of employment, more than doubling the maximum credit amount. This credit can be combined with the Federal Work Opportunity Tax Credit, that offers a full credit of \$2,400 in the first year, in which case the WETC applies to the second year of employment.

Amend the State Historic Property Tax Credits. Current law requires that the recipient of a State historic tax credit be the same taxpayer as the recipient of the equivalent Federal credit. Additionally, the tax credit eligibility is further limited to census tracts at or below the State median family income unless located within State-owned land under the jurisdiction of NYS Parks. The FY 2026 Executive Budget proposes to remove these restrictions by allowing for the State credit to be transferred and exempt projects from the census tract limitations for affordable housing purposes.

Extend and Double the Low-Income Housing Credits. The Low-Income Housing Tax Credit Program has been critical to supporting the development of housing for low- and middle-income households. The Executive Budget proposes to double the current \$15 million annual allocation to \$30 million and extend the program an additional 4 years.

Impose Waiting Period Restriction and Limit Deductions on Institutional Real Estate Investors.

To address affordability in the housing market for individuals and families, the Executive Budget proposes to prohibit institutional investors from seeking to buy a single-or two-family home unless it has been on the market for at least 75 days and prohibit these investors from claiming interest and depreciation deductions with regard to one- and two-family homes.

Enact PTET Flexibility. To allow for pass-through entities to better assess the appropriateness and suitability of electing into the optional pass-through entity tax (PTET), the Executive Budget proposes to move the annual election date from March 15th to September 15th. This change would also allow for businesses formed after March 15th the opportunity to opt into the tax.

Establish a Tax Credit for Organ Donation. To eliminate barriers to organ donation and encourage New Yorkers to give the gift of life, the Executive Budget repeals the existing tax deduction for living organ donors and replaces it with a far more generous tax credit, fully mitigating up to \$10,000 in unreimbursed expenses associated with these critical donations.

Increase the Article 9-A Estimated Payment Threshold. Currently, Article 9-A taxpayers are required to make payments of estimated tax when their tax liability for a prior year exceeded \$1,000. The Executive Budget proposes to increase the threshold to \$5,000, reducing the filing burden for many small businesses as well as achieving administrative cost and time savings for the Tax Department.

Simplify the STAR Income Definition. The Executive Budget simplifies the STAR income and age eligibility rules in order to make it easier for taxpayers to qualify and receive benefits, as well as make it easier for the Tax Department to administer. Age eligibility would be updated so that only one resident owner needs to be 65 or older for Enhanced STAR; income requirements would be updated so only the income of primary owner is considered; consolidate and standardize the eligibility determination process; clarify the residency cutoff date for income eligibility; and make it easier for taxpayers who do not file tax returns to retain eligibility by using prior year income.

Improve the Tax Warrant Process. Currently, the Tax Department files tax warrants in two places: tax liens for real property are filed with the county clerk and tax liens on personal property are filed with the Department of State (DOS). To streamline the process and to assist in obtaining lien priority, the Executive Budget would require the Department to file both liens with DOS and file copies of all warrants with the clerks of counties where the tax debtor owns real property.

Reporting of Federal Partnership Adjustments. Partnerships no longer file amended Federal partnership tax returns to report adjustments made due to a Federal audit, or changes that are self-reported. As such, there is no trigger to file amended New York State returns for the partnership or partners resulting from Federal partnership tax adjustments. The Executive Budget addresses this issue by requiring partnerships to report and pay New York tax on Federal adjustments that result in underpayments of tax, preserving critical State revenues.

Clarify Taxpayer Notification and Protest Rights. The Executive Budget clarifies that a taxpayer voluntarily viewing their outstanding balance on the Tax Department's online services system does not renew the protest period to challenge the outstanding assessment and override statutorily set limitation periods.

Eliminate Duplicative IDA Sales and Use Tax Exemption Reporting. The Executive Budget eliminates the requirement that IDA agents and project operators have to file a sales tax information form to the Tax Department. IDAs already report this information to the Authorities Budget Office and Comptroller's Office through the Public Authorities Reporting Information System (PARIS). Since the Department can access such data through PARIS, this bill would reduce redundancy and the administrative burden on IDA agents.

Amend the Digital Gaming Media Production Credit Program. The Executive Budget proposes a change to this program to allow for unused credits in any year to be available for future years, providing similar treatment as the film tax credit program.

Make a Technical Change to the Newspaper and Broadcast Media Jobs Program. Currently, the \$300,000 credit cap is erroneously applied to the parent and subsidiaries as a whole. The Executive Budget fixes this error by allowing each subsidiary to be eligible for its own \$300,000 credit cap.

Make Permanent the Estate Tax Three-Year Gift Addback Rule. To prevent the granting of deathbed gifts to take advantage of the difference between the Federal and State exemption threshold level, while at the same time reducing one's otherwise taxable New York estate, the three-year gift addback rule was previously extended until January 1, 2026, which is the date the two thresholds are set to coincide, eliminating the incentive for deathbed gifts. The Executive Budget makes permanent the three-year gift add-back rule to ensure there is no future concern over potential revenue losses in the event that the higher Federal estate tax threshold level is extended or increased at a later time.

Extend the New York City Musical and Theatrical Production Tax Credit for Two Years. To maintain support of the musical and theatrical industry in NYC, the Executive Budget proposes to extend the credit an additional two years and increase the total program credit allocation from \$300 million to \$400 million.

Credit and Exemption Extenders. The following Executive Budget proposals are being extended with no other changes:

- Extend the Clean Heating Fuel Credit (Three Year Extension);
- Extend the Alternative Fuels and Electric Vehicle Recharging Property Credit (Three Year Extension);
- Extended the Sales Tax Vending Machine Exemption (One Year Extension);
- Extend the Workers with Disabilities Tax Credit (Three Year Extension);
- Extend the Hire a Veteran Credit (Three Year Extension);
- Extend the Musical and Theatrical Production Credit (Four Year Extension); and
- Extend the Financial Institution Data Match System (Five Year Extension).

GAMING INITIATIVES

Conduct a Study of Thoroughbred Fetlock Joint Injury Detection Through Advanced Imaging.

The Executive Budget authorizes the funding of a longitudinal study of the thoroughbred fetlock joint through advanced imaging. The study and research will be conducted by the Cornell Ruffian Equine Specialists facility. This would be funded in part by a \$2 million grant from the New York Racing Association, as well as an additional 1 percent market origin fee in effect for three years.

Temporarily Extend the Lower Casino Slot Tax Rates.

The Executive Budget extends the existing slot machine tax rates for commercial casinos as were imposed in the prior State Fiscal Year through June 30, 2028. The proposal requires each casino to be current on all State obligations or in compliance with a repayment agreement with the State. Each facility is additionally subject to certain annual reporting requirements related to the use of funds from the lowered slot tax rate.

Amend and Simplify the Pari-Mutuel Tax Rate Structure.

To create a simplified pari-mutuel tax rate structure, the Executive Budget provides a flat tax on handle at a rate of 1.1 percent for thoroughbred tracks, 1 percent for harness tracks and 0.6 percent for off-track betting facilities (OTBs), with a cap on the tax payment for harness tracks of equivalent to what the facility paid in live racing handle tax in FY 2024. In setting the tax rates, the intent is to ensure none of the tracks, nor OTBs, pay more in taxes, while simplifying the tax rate structure. The Executive Budget also eliminates breakage which is an outdated concept that unfavorably rounds bettors' winnings. Additionally, racing entities will be able to mutually agree to amend any statutory revenue distribution schemes by providing an amended distribution agreement, including the new terms and conditions, to the Gaming Commission.

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 2025 Executive Budget.