Budget Options For New York City

Economy & Employment

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Budget Option

Give Licenses to All Unlicensed Cannabis Stores

Revenue: $5 million annually

Since the legalization of non-medical adult-use cannabis sales and consumption in New York State in 2021, the City has seen a handful of licensed cannabis dispensaries and an explosion of hundreds of shops selling cannabis without a State license. City officials have estimated that there are at least 1,500 of these unlicensed shops across the city, none of which collect State or local cannabis tax on sales. This budget option estimates the fiscal impact of granting licenses to all currently unlicensed cannabis dispensaries in the city. Based on data from the State Office of Cannabis Management on amounts of illicit cannabis products seized from unlicensed stores over the course of 2023, IBO estimates that this action would increase City revenue by $5 million annually, as well as additional revenue for the State. This estimate assumes that prices and product volume held by unlicensed smoke shops will remain constant. This option would require amending the New York State Marihuana Regulation & Taxation Act of 2021.

Proponents might argue that granting additional licenses would help the City collect revenue on sales that are already being made. They might also point out that legalizing current illicit sales would reduce the law enforcement resources needed to monitor unlicensed shops and seize products. Finally, supporters may reason that giving licenses to illicit shops could be a faster and simpler way to create a legal cannabis market in New York City than the current system. Supporters might also point out that the longer illicit smoke shops operate without legal recognition or remitting tax, the more normalized the shops become—potentially leading to a consumer protection issue in which New Yorkers do not know the distinction between legal and illicit cannabis products and shops.

Opponents might argue that rewarding the actions of unlicensed shops would not be fair to the hundreds of entrepreneurs who have legally applied for cannabis licenses, many of whom have not yet had the opportunity to open their stores due to lawsuits and injunctions. Opponents may also point out that this method of licensing may not help the State meet its social equity goals of ensuring that a certain proportion of cannabis licenses go to justice-involved individuals, and that it is too soon after legalization to be making drastic changes to the licensing process. They may also claim that, because these businesses have been operating illegally for some time, they may not be willing to collect and remit taxes or follow quality control standards even if they become licensed. Finally, opponents may claim that the annual revenue benefit of this action would diminish over time, as unlicensed shops face greater competition from additional licensed dispensaries across the city.

Prepared by Eric Mosher and Alaina Turnquist

Budget Option

Repeal Small Special-Interest Tax Provisions

Revenue: $53 million annually

Tax expenditures, or "tax breaks," are policies in the tax code that reduce the amount a taxpayer owes the government, effectively costing the government revenues it would have otherwise received. Small tax breaks—those that cost the City $5 million or less each year—reduce most of the various taxes collected by the City, including property, sales, excise, and business income tax. According to the Department of Finance's (DOF) 2023 report on tax expenditures, there are 32 different small tax breaks in the City's tax code. IBO estimates the City could recapture roughly $53 million annually if it repealed small tax breaks. This would involve eliminating $34 million in sales tax breaks, $11 million in property tax breaks, $7 million in business and excise tax breaks, and $750,000 in personal income tax breaks.

Many of these small tax quirks are highly specific and only applicable to extremely small subsets of taxpayers. For example, personal property sold by morticians, motor vehicles purchased out-of-state by a member of the military, and coin-operated car wash services are exempted from sales tax.

This option would require action by the State Legislature, though a subset of the small tax expenditures could be repealed at the City level.

Proponents might argue that the proliferation of small exemptions in the law contributes to an unnecessarily complicated tax system that makes it difficult to evaluate the equity and efficiency impacts of the overall tax system. Small tax breaks that only benefit hyper-specific entities do not represent the best and highest use of tax dollars for the public good. Instead, these tax breaks are often the result of special interest lobbying and take away available funding to spend on more widely beneficial City programs and projects. Tax breaks reduce flexibility in government spending and forces the City to forego revenues even when facing a budget gap. If the government wants to support any small businesses or individuals relying on niche tax breaks, they can do so through direct and flexible government spending that is more able to respond to changing needs within the City.

Opponents might argue that small tax breaks are not the main source of foregone revenues in the tax system. Those interested in reforming tax policy should instead focus higher value tax breaks, such as the numerous high-dollar property tax abatement programs that benefit large firms and property owners or discounts given on the business corporation tax. Opponents might also argue that by singling out small breaks and leaving the large tax expenditures in place, this may create a less equitable tax system. Additionally, dollar amounts that seem small to the City, in some cases, may have a substantial impact on the finances of small businesses in the relevant industries.

Prepared by Alaina Turnquist

Budget Option

Allow the Commercial Revitalization and Commercial Expansion Programs to Expire

Savings: Minimal in 2029, growing to $20 million annually in 2039 when savings are fully phased in

The New York State Legislature enacted the Commercial Revitalization Program (CRP) in 1995 to increase occupancy of older office and retail spaces in Lower Manhattan by offering incentives to spur improvements in buildings constructed before 1975. The Legislature enacted the Commercial Expansion Program (CEP) in 2000 using the same approach to help promote the development of commercial, manufacturing, and industrial areas in the outer boroughs. Building owners who participate in either of these programs are required to spend a minimum amount on renovations and other improvements of their property. To offset property tax increases resulting from the improvements, owners receive tax abatements, for a period of 3 years to 10 years, depending on the type of space improved. Tenants renting these renovated spaces can also receive a reduction in their commercial rent tax (CRT) liability. In 2005, the area eligible for the CRT benefit was expanded to cover more of Lower Manhattan. The program was last amended in 2023, which extended the application eligibility period through 2028.

The Department of Finance estimates that these programs cost the City over $20 million of forgone tax revenue in 2023— $14 million from property tax abatements and $6 million from CRT reductions in Lower Manhattan. If the State Legislature allowed the CRP and CEP programs to expire by not extending Section 499a of the Real Property Tax Law, no new benefits would be granted starting in fiscal year 2029. Already existing program participants would continue to receive the abatement until their benefits period end. With fewer program participants receiving benefits each year, savings from ending the programs would phase in gradually over 10 years as previously granted benefits expire, growing to $20 million annually in 2039.

Proponents might argue that these programs were enacted when the City needed them but are not necessary now. The CRP eligibility zone encompasses the Financial District and other Lower Manhattan areas that since the 1990s have become desirable mixed-use neighborhoods, providing owners of older buildings plenty of reasons to upgrade their buildings without offering City tax breaks. In a 2018 analysis, IBO found that property owners who upgrade their buildings generally spend more than the minimum required under CRP and CEP, suggesting that the tax benefit offered only limited inducement for investment. IBO concluded that the programs have had little influence on vacancy and employment rates compared with rates in areas not eligible for the benefit.

Opponents might argue that the CRP and CEP help property owners defray the cost of renovating their properties to compete with the new commercial properties built in the eligible areas the last several years. They may also argue that given that New York City continues to work to attract and maintain manufacturing and industrial jobs, the CEP helps incentivize such firms to sign long-term leases and encourage these companies to undertake the necessary upgrades of their facilities.

Prepared by Richard DiSalvo

Budget Option

Allow the Relocation and Employment Assistance Program to Expire

Revenue: $2.5 million in 2026, increasing gradually to $30 million in 2038

The Relocation and Employment Assistance Program (REAP) provides City tax credits to businesses that relocate jobs from outside New York City or from Houston Street to 96th Street to the boroughs outside Manhattan or to eligible locations in Manhattan (below Houston Street or north of 96th Street). Currently, firms receiving REAP benefits get credits for 12 years against their business income and utility taxes; REAP tax credits are refundable for the year of relocation and the next four years. The credits are either $3,000 per qualified employee for businesses relocating to eligible areas also designated as revitalization zones or $1,000 per employee for firms moving to areas outside of revitalization zones.

Originally enacted in 1987, the program has been renewed several times. The amount and duration of credits and areas of the city that are eligible have also changed over the years. REAP is currently set to expire on June 30, 2025, and State legislation is required for the program to be reauthorized. The program, however, has never been evaluated to make sure that it is achieving its stated objective: expanding employment outside of the Manhattan business core, particularly by attracting new firms to the city. The Department of Finance estimates that REAP credits cost the City $30 million of foregone tax revenue in 2023, with around 200 firms receiving the credit. If REAP were allowed to expire in 2025, the cost of the program would phase out gradually over 12 years as firms currently receiving the credit would continue to do so until their eligibility ended. Savings in the first year would be about $2.5 million, growing to $30 million in 2038.

Proponents might argue that although REAP helps companies reduce the cost of relocating to eligible areas of New York City, it likely does not play a vital role in companies' decisions to relocate employees. Businesses considering a move to New York City are more concerned with access to markets, a highly skilled labor force, and other amenities the city has to offer. As of fiscal year 2023, only 200 firms out of the hundreds of thousands of firms operating in the city benefited from this program. Proponents might also point out that businesses that are eligible for REAP by simply relocating from one location within the city to another do not increase the city's employment base.

Opponents might argue that because the cost of doing business in New York City is already so high, any program that provides a financial incentive for companies to relocate their employees here would be beneficial to the city in the long run. REAP also helps efforts to promote the City as business friendly. Finally, opponents might argue that REAP benefits help businesses already in the city remain here by reducing the cost of relocating to less expensive areas in the city

Prepared by Richard DiSalvo

Budget Option

Commuter Tax Restoration

Revenue: $1.2 billion annually

This option would restore the nonresident earnings component of the personal income tax (PIT), known as the commuter tax. From the time it was established in 1971, the tax had equaled 0.45 percent of wages and salaries earned in the City by commuters and 0.65 percent of income from self-employment. The New York State Legislature repealed the tax effective July 1, 1999. Assuming the Legislature restored the commuter tax—formerly authorized in Article 30-B of New York State Tax Law—at its former rate effective July 1, 2024, IBO estimates that the City's PIT collections would increase by $1.2 billion each year, based on data from the Mayor's Office of Management and Budget.

Proponents might argue that people who work in the city, whether residents or not, rely on police, fire, sanitation, transportation, and other city services and thus should assume some of the cost of providing these services. If New York City were to tax commuters, it would hardly be unusual—New York State and many other states, including New Jersey and Connecticut, tax nonresidents who earn income within their borders. Moreover, compared with the PIT rates facing residents, it would not unduly burden most commuters. Census Bureau data for 2019-2021 indicate that among those working full-time in the City, the median earnings of commuters was $80,000, compared with $50,000 for City residents. Also, by lessening the disparity of the respective income tax burdens facing residents and nonresidents, reestablishing the commuter tax would reduce the incentive for current residents working in the City to move to surrounding jurisdictions. Finally, some might argue for reinstating the commuter tax on the grounds that the political process which led to its elimination was unfair despite court rulings upholding the legality of the elimination. By repealing the tax without input from or approval of either the City Council or Mayor Giuliani, the State Legislature unilaterally eliminated a significant source of City revenue.

Opponents might argue that reinstating the commuter tax would adversely affect business location decisions because the City would become a less competitive place to work and do business both within the region and with respect to other regions. By creating disincentives to work in the City, the commuter tax would cause more nonresidents to prefer holding jobs outside of the City. If in turn, businesses that find it difficult to attract the best employees for City-based jobs or self-employed commuters (including those holding lucrative financial, legal, and other partnerships) are induced to leave the City, the employment base and number of businesses would shrink. The tax would also make the New York region a relatively less attractive place for businesses to locate, thus constraining growth of the City's economy and tax base. Another argument against the commuter tax is that the companies that commuters work for already pay relatively high business income and commercial property taxes, which should provide sufficient revenue to pay for the services that commuters use. Finally, with the advent of the mobility payroll tax to support the Metropolitan Transportation Authority, suburban legislators could argue that suburban households (and firms) are already helping to finance the City's transportation infrastructure.

Prepared by Michael Jacobs

Budget Option

Extend the General Corporation Tax to Insurance Company Business Income

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Since the city's insurance corporation tax was eliminated in 1974 as part of state insurance tax reform, insurance companies are the only large category of businesses that are currently exempt from New York City corporate taxes. New York City had taxed insurance companies at a rate of 0.4 percent on premiums received in the insurance of risks located in the city. This option would restore the taxation of insurance companies in a different form, by simply extending the jurisdiction of the business corporation tax, a tax on corporate profits, to include these companies.

Using previous estimates from the city's Department of Finance and taking into account recent trends in the collection of the city's other corporate taxes, as well as the impact of changes to federal law under the Tax Cuts and Jobs Act (TCJA) of 2017, IBO estimates that the insurance company exemption will cost the city $654 million in fiscal year 2023.

Insurance companies are subject to federal and state taxation. In New York State, life and health insurers pay a net income-based tax. In addition, life insurers pay a 0.7 percent tax on premiums, non-life insurers covering accident and health premiums pay a 1.75 percent tax, and all other non-life insurance premiums are taxed at a rate of 2.0 percent. Almost all states with insurance taxes provide for retaliatory taxation. For example, an increase in New York's tax on business conducted in New York by insurance companies headquartered in Connecticut may trigger an increase in Connecticut's tax on the business conducted in Connecticut by companies headquartered in New York. This option assumes that by extending the city's general corporation tax to include insurance premium income rather than creating a new and separate insurance tax in the city, at least some of these retaliatory taxes would not be triggered, although that would likely be determined on a case-by-case basis. Extending the corporate tax to insurance companies would require legislation in Albany to repeal Chapter 649, Section 11 of the New York State Laws of 1974.

Proponents might argue that much of the tax benefit resulting from the insurance company exemption is exported to out-of-city insurance companies that collect health and life insurance premiums from New York City residents and businesses. They might claim this tax would put the insurance industry on a more equal footing with other industries in New York City, removing its unfair advantage over businesses in other sectors. Insurance companies located here avail themselves of public goods provided by the city and thus should pay city taxes to offset these costs. Finally, if other states impose retaliatory taxes, the city could adopt a credit against insurance firms' business corporation tax liability, although this would reduce the revenue raised under the option.

Opponents might argue that with one of the highest tax rates (combined city and state) in the country, plus other states' retaliatory taxes that might be triggered if the city reinstituted the taxation of insurance companies, the additional burden could be enough to drive insurance firms with large offices and staffs out of New York City. Moreover, the incidence of the insurance corporation tax is unclear. To the extent that insurance companies can pass the additional tax on to their customers in the form of higher premiums, this tax would indirectly increase the tax burden borne by New York City residents buying insurance from New York-based companies.