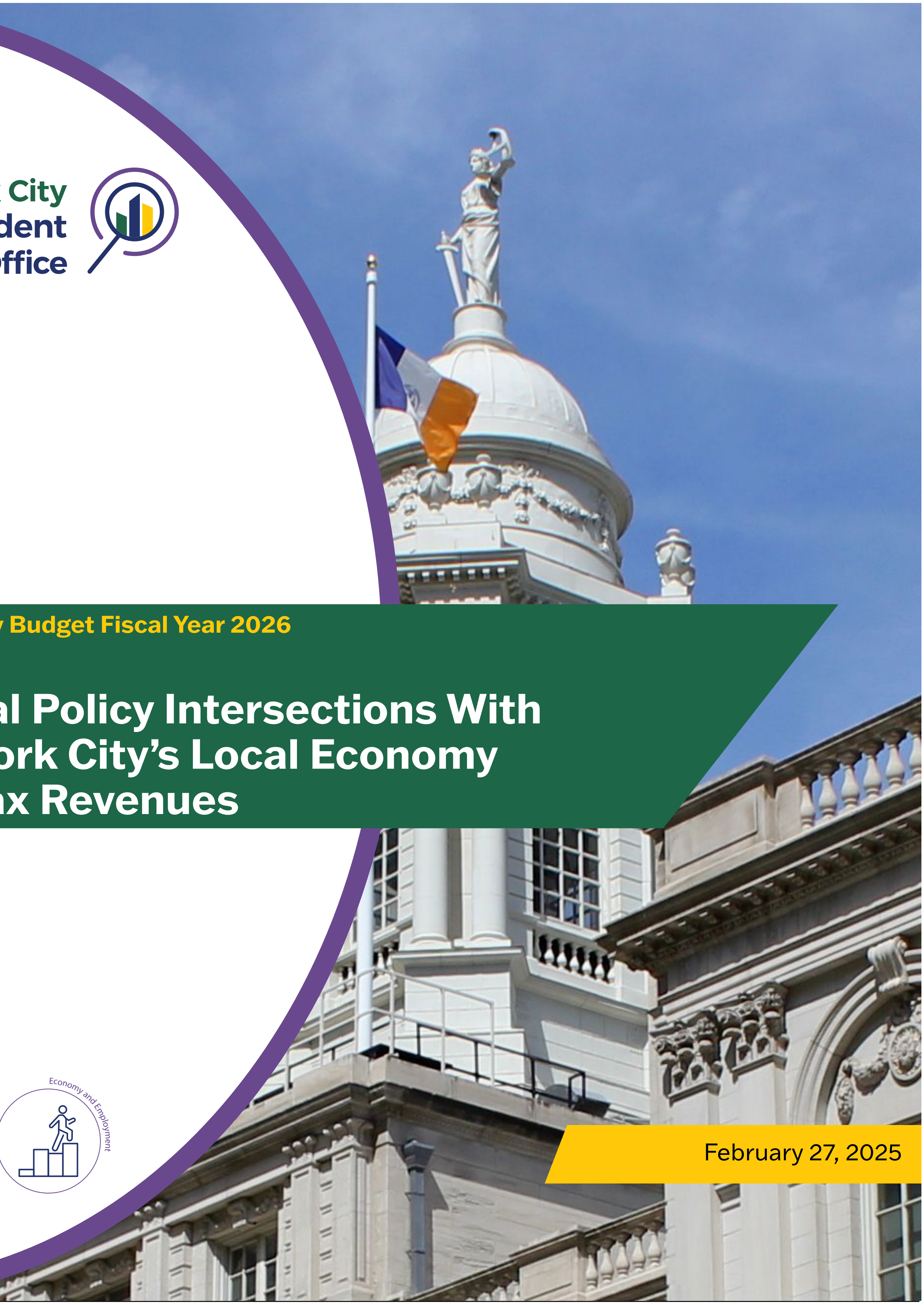
New York City Independent Budget Office

Preliminary Budget Fiscal Year 2026

Federal Policy Intersections With New York City's Local Economy And Tax Revenues



City Budget Overview

Economy and Employment

February 27, 2025

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Continued Uncertainty Under a New Federal Administration

Even before the presidential inauguration, IBO cited an expectation for rapid-fire changes in federal policy and a Trump administration that followed an "anything-but-business-as-usual" playbook. In IBO's economic report accompanying the November Plan—released in December of 2024—IBO highlighted several areas of likely policy change at the federal flowing from statements made by the incoming presidential administration and Congressional leadership that would impact New York City. These topics included:

- Tariffs
- Immigration policy
- Tax cuts
- Federal spending reductions

Since the start of President Trump's second term a little over a month ago, many of the anticipated policy shifts have already taken place, along with actions, including:

- Major disruptions and dismantling of portions of the federal government bureaucracy and the services it provides
- Shifts in international relations, treaties, and accords
- Deep federal cuts to support industry research and development

In some instances, budget and policy changes have been both swiftly announced and then just as swiftly rescinded. Against this chaotic background, it is too early to make reliable predictions as to where federal priorities are headed. In recent developments, Congress has begun its budget reconciliation process with the passage of the House of Representatives "Blueprint" passed on February 25, 2025.

Upheaval and unpredictability—and very real risks that decisions in Washington will have cascading impacts on the national and local economy—very much defines IBO's January forecast accompanying the Preliminary Budget.

Upheaval and unpredictability—and very real risks that decisions in Washington will have cascading impacts on the national and local economy—very much defines IBO's January forecast accompanying the Preliminary Budget. IBO provides details on the City's overall revenues, expenditures, and budget gaps in its [Analysis of the January 2025 Preliminary Budget and 2025-2029 Financial Plan]. Intended to supplement that information, this report discusses key aspects of IBO's January economic and tax revenue forecasts.

IBO's January Forecast Timing

IBO's January economic forecast is rooted in baseline macroeconomic consensus from January, after the election results had been realized, but before the new presidential administration took office. It incorporates early indicators of how the economy may respond based on general expectations around ideas floated during the Trump campaign. It does not incorporate modeling of the specific federal policies related to the topic areas mentioned above.

Forecasting the impact of specific federal moves on the economy cannot occur until the final form of policy trajectories take clearer shape. In this report, IBO does discuss particular federal policy areas that could have a substantial economic impact as policies are developed.

Figure 1
IBO Estimates Real GDP Growth Stronger in 2025, Slowing Starting in 2026

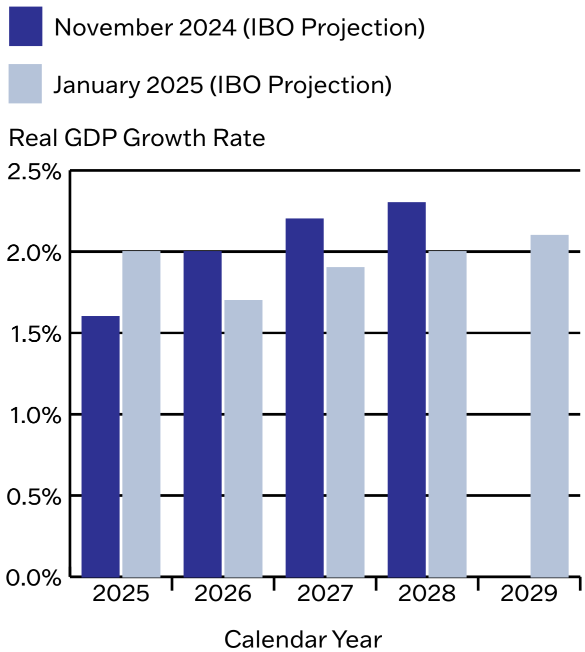
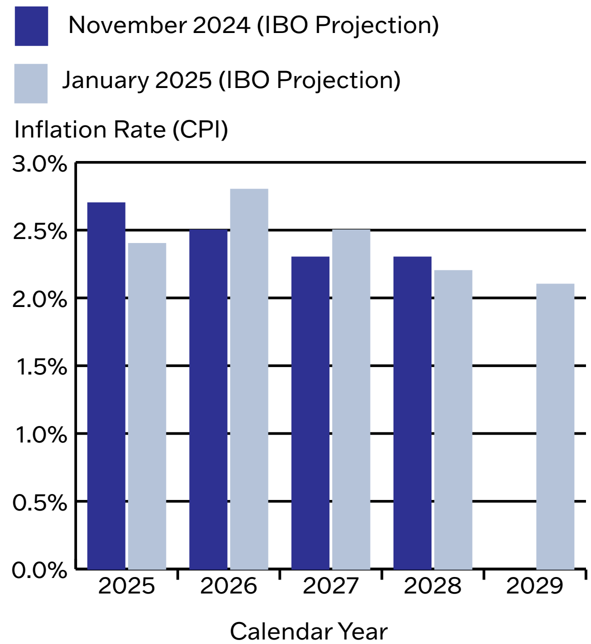


Figure 2
IBO Projects Higher Inflation in 2026 and 2027, Slowing Path Towards Federal Reserve Inflation Target



SOURCE: IBO Economic Forecast

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National Economy

IBO's National Economic Forecast

IBO's forecast of the national economy is largely similar to its forecast in November, which was very similar to forecasts from the preceding year. IBO continues to predict a soft-landing from COVID-era disruptions, meaning continued GDP growth and gradually slowing inflation, without a recession. Events in recent months, however, have resulted in changes to certain aspects of the forecast.

All years in the national and local economic forecast sections of this report refer to calendar years.

Gross Domestic Product Growth

Real GDP is a reflection of all economic activity within a country and is a go-to metric for how economists measure the size of the economy. Following real GDP growth of 2.8% in 2024, IBO projects growth of 2.0% in 2025. IBO's January GDP forecast is somewhat improved from its projections in November, given the nature of growth through the fourth quarter of 2024 and into the new year. However, there are some potential early indicators of slowing GDP growth, which thus far has been sustained in large part by strong consumer expenditures during the post-COVID recovery. National retail sales in January were down by nearly a percentage point compared to December, particularly driven by fewer automobile sales, according to seasonally adjusted data from the U.S. Census Bureau's advance estimate.[1] This may be due in part to a particularly cold winter across much of the country, and natural disasters such as wildfires in Southern California, as natural conditions can influence in-person shopping and consumer spending habits. It may also reflect consumer anxiety about job stability, household savings, and planning for the future. Consumers and the media have noted price increases, particularly when it comes to groceries, leading to the single largest drop in the Consumer Confidence Index since 2021.

Figure 1 shows IBO reduced its real GDP growth projections in future years, compared with its November forecast, to a low of 1.7% in 2026 before rising back to 2.1% in 2029. IBO's January estimates anticipate weaker GDP growth in 2026 compared with the Mayor's Office of Management and Budget (OMB), but then slightly stronger growth starting in 2027. A general slowdown was already anticipated as the economy moved out of its post-pandemic recovery boom. This even slower growth, however, is consistent with generally dampened consumer and business activity.

Inflation

This GDP growth slowdown ties to a broader feeling of caution amid economic uncertainty and a higher interest rate environment, resulting from persistently elevated inflation. IBO projects an inflation rate of 2.4% in 2025, increasing to 2.8% in 2026, before continuing its longer-term descent toward a 2.0% target. (See Figure 2.) Compared to November, IBO's 2025 inflation projection is slightly lower in response to official statistics as the year began, but higher in 2026 and 2027, in the broad expectation of future policy changes. IBO's inflation rate forecast is higher than the Administration's through 2028, and slightly lower in 2029.

Widespread increase in tariff rates on goods imported into the United States will produce upward inflationary pressure, as the import tax will, in many cases, be passed on to the consumer in the form of higher prices.

Inflation has been widely discussed in the broader context of tariff policy. A tariff is a tax on imported or exported goods, used as a form of trade or foreign policy. A widespread increase in tariff rates on goods imported into the United States will produce upward inflationary pressure, as the import tax will, in many cases, be passed on to the consumer in the form of higher prices. The most sweeping of proposed tariffs thus far—25% on most goods imported from Canada and Mexico—have been put on pause for one month after initially announced to take effect on February 4. Other import taxes, however, such as a 25% tariff on steel and aluminum, took effect and are expected to have a notable impact in the construction industry (particularly on high-rise construction typical of New York City) and on many manufacturing industries, notably automobiles and other types of machinery. If left in place, this is expected to lead to higher prices for many consumer goods.

U.S. Unemployment Rate

IBO projects the U.S. unemployment rate—people in the labor force seeking work, but without jobs—to remain stable at or near 4.0% for the whole forecast period. Combined with continued positive real GDP growth, this indicates a national economy that is softening in the short term but—so long as current trends hold—is not on the cusp of falling into recession. Sudden shocks to the economy, such as those from major policy changes, could rapidly change this trajectory.

Local Economy

IBO's Forecast Model

IBO forecasts local economic conditions using an internal model that accounts for the estimated relationships between various economic indicators for New York City.[2] As its basis, the model incorporates forecasts of national economic performance from a variety of sources, with the aim to produce a forecast that is consistent across different measures of economic activity and between the local and national levels.

However, the City's economy is also dependent upon specific local dynamics including its unique industrial mix (in which the finance industry plays a key role), the size and activity of the residential and commercial real estate markets, and particular concerns about constraints to the labor force. As with the national economic forecast discussed above, IBO's current local economic forecast does not directly incorporate specific federal policy changes but rather an era of broader wariness for consumers and businesses.

IBO's Local Economic Forecast

IBO's projections for payroll employment growth in the City have remained stable since its forecast in November. Nearly 87,000 jobs were added in the City in 2024 (measured on a Q4-to-Q4 basis), ending the year at 4.8 million jobs. IBO expects future job growth to moderate, to 69,000 jobs in 2025, and then grow by gradually smaller amounts in subsequent years until 41,000 jobs are added in 2029.

Job Growth by Industry

This slowdown in job growth, while informed by broader economic conditions, is also a reflection that the City's labor market is tightening as population growth remains relatively stagnant, and more of the existing workforce population ages into retirement. Without an influx of new working-age residents to the City's labor force, the City cannot sustain the same level of job growth experienced during the recovery from the pandemic. Continued changes to immigration policy will further constrict the City's labor force and stifle future employment and economic growth. Proposals such as curtailing the number of H-1B work visas for recruiting highly skilled employees in specialized fields will impact the City's finance, technology, and healthcare sectors. Expanded enforcement and mass deportation of undocumented immigrants will ripple through the City's hospitality, food service, construction, and home health care sectors.

Continued changes to immigration policy will further constrict the City's labor force and stifle future employment and economic growth.

Notably, much of the City's recent employment growth has been concentrated amongst jobs connected to home health care. Of the 87,000 net jobs added in 2024, over 60,000 were from two subsectors that contain most home health aides: ambulatory care and social assistance.

The health care sector, broadly, is the City's largest industry, at over 1 million jobs (see Figure 3). The home health industry's rapid employment growth in recent years can be partially attributed to a change in the state's Consumer Directed Personal Assistance Program (CDPAP), allowing family members and friends to provide care that is compensated through Medicaid. Federal cuts propositioned for Medicare and Medicaid will likely influence the future of this program. Closer to home, the State is now about to implement changes to this program. IBO projects 32,000 home health care jobs to be added in 2025, and less in future years.

Despite rapid growth in the number of jobs, the home health care industry is a lower-wage industry, which limits its impact on personal income growth and, correspondingly, the income tax base for the City. Other low-wage industries have also struggled to regain the losses suffered during the pandemic.

Figure 3
Employment and Projected Growth by Sector
Thousands of Jobs

Sector	Employment (2024 Q4)	IBO Estimated 2025 Employment Growth (Q4-to-Q4)
Health Care and Social Assistance	1,027.9	27.2
Professional and Business Services	791.3	16.4
Government	573.3	2.6
Financial Activities	499.5	5.4
Leisure and Hospitality	460.8	5.7
Retail Trade	300.3	0
Education	254.9	3.1
Information	206.8	3.4
Personal Services	183.6	2.6
Transportation and Utilities	153.5	-1.8
Wholesale Trade	132.4	-1.7
Construction	131.5	4.2
Manufacturing	56.5	2.3

SOURCES: Bureau of Labor Statistics; IBO January 2025 Economic Forecast

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The leisure and hospitality sector (about 460,000 jobs) is approaching pre-pandemic levels seen five years ago, but has not yet reached it. The retail trade sector (about 300,000 jobs) remains depressed and has been shedding additional jobs in recent years. This in part reflects increased online shopping, exacerbated by the pandemic, which now appears to reflect a permanent shift.

Personal Income Growth

Personal income growth in the City, with aggregate wages forming the largest portion, has largely been sustained by strong employment trends in certain higher-wage sectors. Employment in financial activities (about 500,000 jobs) suffered only a minor setback during the pandemic and while not growing rapidly, has been stable and is near record highs. The financial activities sector has the highest average wages in the City, Similarly, employment in professional and business services (about 790,000 jobs) has surpassed pre-pandemic levels and is projected to continue healthy growth, a sector which also trends towards higher-than-average salaries.

The information sector (about 205,000 jobs) and construction sector (about 130,000 jobs) are also higher wage industries in the City, yet employment remains depressed. In the information sector, layoffs in technology and the joint actors and writers strikes in 2023 have had residual effects. A high-interest rate environment resulting from soaring inflation through 2022, reflecting pandemic-era disruptions to the global supply chain, has led to a slowdown in construction activity. If the national economy continues on its existing path of recovery, employment in these sectors is expected to improve over the coming years, although construction activity may continue to be constrained by tariffs on key building materials.

Government is a sector in the middle of the City's average wage spectrum. While sizeable, at about 575,000 jobs, the majority of the jobs are employed by the City's local government, and employment trends will depend on the City's broader economic and budgetary future. Federal employment in New York City represents around 46,000 jobs, potentially subject to the employment cuts under the actions of the initiative dubbed the Department of Government Efficiency (DOGE). Federal employees play critical roles such as Transportation Security Administration agents and air traffic controllers, Social Security Administration staff, passport processing, and operating historic and cultural sites run through the National Park Service such as the Statue of Liberty. Furthermore, as federal dollars support various New York City industries, notably health care and education, DOGE's intentions—as currently expressed—will have a marked negative impact on employment and earnings in those industries.

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With its status as a global financial hub, the profits of the securities industry are particularly important to the City's economic well-being and aggregate personal income, the foundation of its tax base. Wall Street profits peaked at $58.4 billion in 2021, before contracting substantially in the following two years amidst heightened interest rates, averaging $24.1 billion. IBO observes that Wall Street profits again rose to an estimated $40.1 billion in 2024. Barring any larger macroeconomic problems, profits are projected to remain heightened in coming years. If future federal tax reform is designed in such a way to have stimulatory effects on the business community—such as a further reduction to the top marginal corporate tax rate—Wall Street profits, and related portions of City's tax base, could be bolstered.

Interest Rates

Higher interest rates also took a toll on real estate activity in the City, with the value of commercial transactions contracting by 23% in 2023, and the value of residential transactions contracting by 31%. Activity in the real estate market is expected to rebound in 2025 and beyond, if interest rates continue to fall. IBO's forecast is based on the premise of two additional cuts to interest rates by the Federal Reserve this year, in line with stated intentions as of January 2025.

Tourism

Finally, New York City tourism has continued its path of recovery from pandemic-era lows, as evidenced by consistently increasing nightly rates for hotel rooms. Tourist visits are expected to surpass the pre-pandemic peak in 2025. However, it has long been noted that international tourists spend more money per visit in the City, on average, than domestic tourists. As such, rising geopolitical tensions may discourage international tourism to the United States. If this happens, it will have an outsized negative economic impact on the City's hospitality, food service, retail, and entertainment sectors.

Key Takeaways on Local Economy

In sum, local economic indicators to date have largely followed an expected and stable path toward sustained recovery, suggesting a sound economic footing in the City for the time being. However, the City still faces longer term challenges such as a shrinking labor force. And more immediately, the risks to the economy based on what Washington has indicated thus far are myriad, depending on both choices made at the national level and on how the State and City choose to respond. The legal challenges faced by Mayor Adams and his administration, and Governor Hochul's proposed "guardrails" for restoring public trust further add to deep uncertainty. IBO continue to track economic indicators as policy choices made by the federal, state, and local governments develop.

City Tax Revenue

IBO's Tax Revenue Forecast

IBO generates forecasts for each of the City's major sources of tax revenue, drawing from its local economic forecast discussed above. The largest sources of City tax revenue are:

* Real Property (44%)
* Personal Income (21%)
* General Sales (13%)
* Corporate (9%)

Other, smaller taxes comprise the remaining 12%. Total tax revenue in 2025 is projected at $78.7 billion, $430 million higher than the Administration's forecast of $78.2 billion. (All years in this City Tax Revenue section refer to City fiscal years.)

In subsequent years, IBO projects a faster rate of tax revenue growth than the Adams Administration, leading to a gradually increasing gap between the two forecasts. (See Figures 4 and 5.) In 2026, IBO's forecast of $80.7 billion exceeds the Administration's forecast of $79.9 billion by $770 million, By the end of the forecast period in 2029, IBO's forecast of $90.6 billion exceeds the Administration's forecast by $3.4 billion.

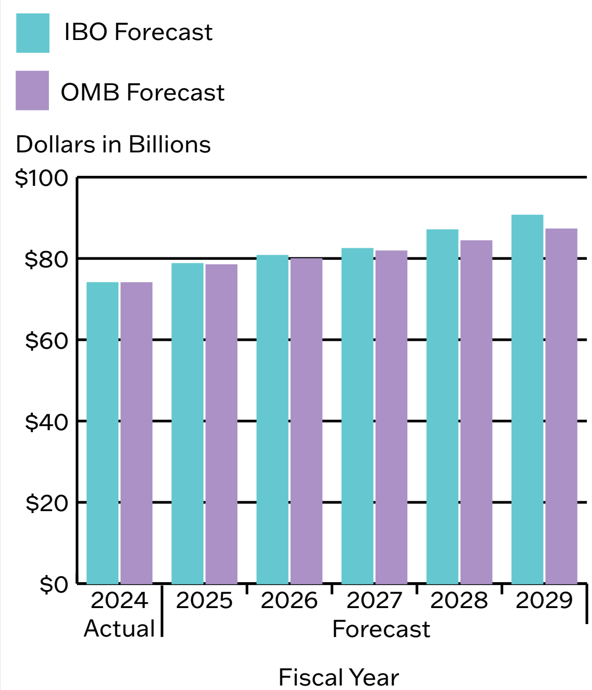
Figure 4
Total Tax Revenue
Dollars in Millions

Forecast	2024 Actual	Fiscal Year 2025	2026	2027	2028	2029
IBO	$74,050	$78,673	$80,675	$83,420	$86,958	$90,622
OMB	$74,050	$78,244	$79,907	$81,921	$84,297	$87,203

SOURCES: IBO; OMB
New York City Independent Budget Office

Several provisions of the Tax Cuts and Jobs Act of 2017, passed during the first Trump administration, are set to expire in 2025. It is anticipated that federal tax reform will be a prominent feature of the federal budgetary process this year—whether to extend or expand, and how to pay for it.

Figure 5
IBO Tax Revenue Forecast Exceeds OMB's by an Increasing Amount



SOURCE: IBO Economic Forecast
New York City Independent Budget Office

As with the economic forecast, all of IBO's tax revenue forecasts are primarily predicated on economic consensus from January, before the presidential inauguration, and as such do not make specific assumptions about future changes in federal policy. In addition to the various policy-related risks to the general economy, which would flow through to changes in tax collections, changes to federal tax policy would impact City tax collections, because state and local tax laws are coupled to many provisions in the federal tax code. Several provisions of the Tax Cuts and Jobs Act of 2017, passed during the first Trump administration, are set to expire in 2025. It is anticipated that federal tax reform will be a prominent feature of the federal budgetary process this year—whether to extend or expand, and how to pay for it. It is too early to model the impact of any specific provisions, until the shape of Congressional debate over tax reform becomes more focused.

Property Tax

Real Property Taxes (RPT) are paid by owners of real estate in New York City. The amount of tax owed depends on the Class (type) of property, its value for tax purposes, and the applicable tax rate. Under State law, there are four classes of property in the City (see Figure 6). Based on the Department of Finance's final assessment roll for 2025, IBO's forecast of RPT revenue this year is $34.2 billion, $1.3 billion (4.1%) greater than 2024 receipts. (See Figure 7.)

IBO projects $35.2 billion in revenue in 2026, an upward revision of $408 million from the November forecast, based on greater than expected values on the tentative roll that was released in January. This is also just over $400 million higher than the Administration's forecast. The forecasts for 2027 and 2028 have also increased accordingly, given the strength of the tentative roll. By 2029, IBO's revenue forecast is $39.5 billion, about $2.0 billion higher than the Administration's.

Figure 6 **Real Property Tax Class Descriptions**	
Class 1	One-, Two-, and Three-Family Houses
Class 2	Apartment Buildings, Including Coops and Condos
Class 3	Utility Company Properties
Class 4	Commercial and Industrial Properties
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With the continuing recovery of commercial real estate (class 4) since the disruptions of the pandemic, IBO's forecast for future years incorporates a conservative 2.0% annual growth rate in the assessed values of Manhattan offices. This is far below the pre-pandemic trend of 5.8% annual growth. Projected growth for non-office commercial real estate is slightly higher, between 3% and 5%, bolstering the projections for sustained growth in overall property tax revenue, the majority of which is derived from class 2 and class 4.

Real Estate Related Taxes

Reflecting anticipated trends in real estate markets and the renting of commercial real estate in the ongoing recovery from the pandemic-era disruptions, Figure 8 shows IBO's forecast of the three real estate related taxes:

Figure 7
Real Property Tax Revenue
Dollars in Millions

		Fiscal Year				
Forecast	**2024 Actual**	**2025**	**2026**	**2027**	**2028**	**2029**
IBO	$32,859	$34,201	$35,242	$36,691	$38,035	$39,489
OMB	$32,859	$34,223	$34,839	$35,831	$36,659	$37,491

SOURCES: IBO; OMB
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- Real Property Transfer Tax (RPTT)
- Mortgage Recording Tax (MRT)
- Commercial Rent Tax (CRT)

> In addition to sales prices, Real Property Transfer Tax revenue depends on the volume of transactions, in particular large commercial sales, and thus can vary from year to year.

Paid by the seller, RPTT liabilities are based on the sale prices of real estate transactions. In addition to sales prices, RPTT revenue depends on the volume of transactions, in particular large commercial sales, and thus can vary from year to year. Collection patterns so far this year have led IBO to slightly increase its forecast of 2025 revenue to $1.3 billion, as activity in real estate markets resumes with the anticipation of falling interest rates. IBO forecasts continued strong (7.1%) growth in revenue as mortgage rates decline further in 2026, growing to $1.4 billion, and an annual average of 4.2% growth in the following years, with collections reaching $1.6 billion in 2029.[3]

The MRT is a one-time tax paid by mortgage holders based on the size of their mortgages on real property, including refinancings. IBO forecasts $724 million in 2025 MRT revenue. This is a slight downward revision from the November forecast. Increases in fixed mortgage rates starting at the beginning of calendar year 2022, to highs not seen in over 20 years, led to a 50.7% collapse in MRT collections from 2022 to 2024. The slow pace of interest rate reductions by the Federal Reserve, in response to persistent inflation, has driven IBO's estimates of MRT revenue downward over the past year, and predictions of a large bounce in revenue due to pent-up demand for housing has not yet materialized. Looking at current market trends, IBO's projected growth in MRT revenue is predicted to be quite strong as markets begin responding to interest rate reductions. Revenue is projected to grow by 21% in 2025 and 25% in 2026. Growth is predicted to slow after this two-year surge, reaching total collections of $943 million in 2029.

The slow pace of interest rate reductions by the Federal Reserve, in response to persistent inflation, has driven IBO's estimates of Mortgage Recording Tax revenue downward over the past year. Predictions of a large bounce in revenue due to pent-up demand for housing have not yet materialized.

CRT is imposed on rent payments made by large commercial tenants in Manhattan properties south of 96th Street. Because these tenants usually sign ten-year leases, CRT collections tend to remain relatively stable from year to year. IBO forecasts $947 million in CRT revenue this year, slightly more than 2024 collections,

Figure 8
Real Estate Related Tax Revenues
Dollars in Millions

			Fiscal Year				
Tax	**Forecast**	**2024 Actual**	**2025**	**2026**	**2027**	**2028**	**2029**
Real Property Transfer	IBO	$1,130	$1,317	$1,411	$1,496	$1,532	$1,563
	OMB	$1,130	$1,230	$1,289	$1,357	$1,425	$1,490
Mortgage Recording	IBO	$597	$725	$902	$926	$936	$943
	OMB	$597	$712	$781	$863	$903	$942
Commercial Rent	IBO	$918	$947	$992	$1,011	$1,023	$1,031
	OMB	$918	$931	$951	$966	$979	$992

SOURCES: IBO; OMB

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with annual revenue further increasing by $84 million through 2029, to just over $1.0 billion. Reflecting continued weak demand for commercial space in Manhattan, this is an average annual increase of 2.3% from 2025 through 2028, a much slower rate of growth when compared with the 4.6% average annual growth seen in the decade prior to the pandemic.

Personal Income Tax

Personal Income Taxes (PIT) are withheld from employees' paychecks or paid in the form of quarterly estimated payments based on their current earnings. Created by New York State in 2021, the Pass-Through Entity Tax (PTET) is a workaround to the federal cap on the amount of state and local taxes (SALT) that are eligible for federal income tax deduction. PTET shifts income tax liability of some taxpayers from the PIT to PTET, but does not ultimately affect the total amount of City tax revenue. PTET is scheduled to expire in 2027, at which time IBO forecasts quarterly payments to increase substantially in lieu of PTET revenue. Removing or keeping the cap on the federal deduction for State and Local Taxes may be part of ongoing negotiations over tax code reform in Washington.

IBO's forecast of continued employment and personal income gains in the coming years underlies the projected growth in combined revenue from the PIT and PTET— averaging 5.8% per year during the forecast period and growing from $17.8 billion in 2025 to $20.7 billion in 2029 (Figure 9). This is the fastest growth

Figure 9
Personal Income Tax (Including PTET) Revenue
Dollars in Millions

		Fiscal Year				
Forecast	**2024 Actual**	**2025**	**2026**	**2027**	**2028**	**2029**
IBO	$15,671	$17,789	$17,971	$18,534	$19,785	$20,771
OMB	$15,671	$17,408	$17,621	$18,336	$19,069	$19,923

SOURCES: IBO; OMB

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rate of all the City's major taxes in the current forecast, exceeded only by growth of the much smaller real property transfer and mortgage recording taxes. Withholding collections most directly reflect income from employment and account for the largest share of PIT revenue. Withholding collections are forecast to increase between $288 million and $620 million per year in 2025 through 2029.

IBO's forecast of combined PIT and PTET revenue is $382 million greater than the Administration's in 2025, as IBO revised its withholding forecast upwards due to strong collections through December. After 2025, IBO's revenue projections remain higher than the Administration's, first by a decreasing amount through 2027, but eventually growing to a difference of $848 million above the Administration in 2029—with higher amounts of personal income in IBO's economic forecast underlying much of the difference.

Sales Tax

The General Sales Tax is paid by consumers for many services and most goods, based on the amount purchased. Revenue is influenced by both local economic conditions as well as national and global economic trends, because both local residents and visitors buy goods and services that incur the General Sales Tax. Sales tax collections in 2025 were sluggish at the beginning of the year but picked up strength in the second quarter. In December, the City collected over $1 billion in sales tax revenue, the first time collections have passed that threshold in a single month. As shown in Figure 10, 2025 General Sales Tax revenue is projected to grow by 3.9% to $10.3 billion. This is substantially slower than the growth seen in recent years during the post-COVID boom and high inflation, but is more in line with long-term average growth.

> In December, the City collected over $1 billion in sales tax revenue, the first time collections have passed that threshold in a single month.

In line with the economic forecast of a gradually cooling economy and generally declining inflation, it is projected that sales tax collections will remain in this stable growth pattern. IBO's General Sales Tax forecast for 2026 through 2029 averages 4.1% growth, annually. IBO's forecasts are slightly higher than the Administration's in 2025 and 2029, and slightly lower in 2026 and 2027; however, in each year of the forecast period, the difference remains minimal and within 1% (from a difference of $16 million to $105 million).

Figure 10
Sales Tax Revenue
Dollars in Millions

		Fiscal Year				
Forecast	**2024 Actual**	**2025**	**2026**	**2027**	**2028**	**2029**
IBO	$9,914	$10,305	$10,682	$11,111	$11,579	$12,091
OMB	$9,914	$10,288	$10,751	$11,198	$11,683	$12,075

SOURCES: IBO; OMB

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Figure 11
Business Income Tax Revenues
Dollars in Millions

Tax	Forecast	2024 Actual	Fiscal Year 2025	2026	2027	2028	2029
Corporate	IBO	$6,886	$7,058	$6,978	$6,882	$7,145	$7,586
	OMB	$6,886	$7,239	$7,267	$6,779	$6,904	$7,395
Unincorporated Business	IBO	$2,789	$3,086	$3,206	$3,320	$3,441	$3,559
	OMB	$2,789	$3,024	$3,140	$3,197	$3,252	$3,387

SOURCES: IBO; OMB

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Corporate Taxes

The City imposes a tax on the profits of corporations through three mechanisms, the Business Corporation Tax for C-corporations, and the General Corporation Tax and Banking Corporation Tax for S-Corporations. Combined collections for all of the corporate taxes totaled $6.9 billion in 2024, the latest in a string of record-breaking years for corporate tax revenue in the City. (See Figure 11). IBO projects collections of $7.1 billion in 2025 (growth of 2.5%), based on collections so far this year.

Past IBO corporate tax forecasts anticipated a decline in revenue because the level of post-pandemic growth repeatedly seemed unsustainable. Also, some net operating losses—which can be carried forward for up to five years according to accounting rules—would have to eventually be realized. However, given the continued strength of collections throughout the pandemic and beyond, IBO's current forecast integrates a more modest anticipated decline (compared to previous forecasts) in 2026 and 2027, dropping by $80 million and $96 million, respectively. IBO then anticipates corporate tax revenue growth to resume after 2027.

Fiscal Year 2024 represented the latest in a string of record-breaking years for corporate tax revenue in the City.

IBO's forecast is below the Administration's by $181 million in 2025 and $289 million in 2026. While collections to date this year have been strong, the Administration's projection of $7.2 billion in revenue would require especially strong collections in the second half of the year, compared to historical trends. The Administration also does not project the anticipated decline in collection to occur until 2027, although its single-year decline is greater than IBO's two-year decline beginning in 2026, ultimately bringing the two forecasts closer into alignment in the later years of the financial plan period. From 2027 through 2029, IBO's forecast is higher than the Administration's, by a range of $103 million to $241 million.

Unincorporated Business Tax

The City's Unincorporated Business Tax (UBT) is imposed on the profits of businesses operating within the City that are organized in a form other than a corporation, such as sole-proprietorships, partnerships, and limited liability companies. Coming off four years of strong growth even throughout the pandemic, collections thus far this year indicate that revenues will continue to grow by $297 million in 2025, to $3.1 billion (growth of 10.6%). IBO estimates moderated but sustained growth averaging 3.6% per year from 2026 through 2029, with collections totaling $3.6 billion at the end of its forecast period. (Again, see Figure 11.) IBO's forecast for UBT is higher than the Administration's in all years, by $62 million in 2025, gradually expanding to a difference of $172 million in 2029.

Figure 12
Hotel Occupancy Tax Revenue
Dollars in Millions

Forecast	2024 Actual	Fiscal Year 2025	2026	2027	2028	2029
IBO	$706	$770	$802	$835	$867	$902
OMB	$706	$761	$790	$821	$846	$878

SOURCES: IBO; OMB
New York City Independent Budget Office

Hotel Occupancy Tax

The Hotel Occupancy Tax is paid by individuals who stay in hotel rooms, based on the amount of money the occupant pays the hotel operator, including service fees. As shown in Figure 12, IBO forecasts Hotel Occupancy Tax revenue growth slightly higher than 9% in 2025, to total collections of $770 million. Presently, the City continues to see a rebound in tourism following the COVID-19 pandemic. Rising Hotel Occupancy Tax collections is a function of both a greater number of hotel stays and rising average hotel prices, reflecting continuing upward demand for City hotel rooms. (See IBO's recent report on hotels in the City and a recent policy change.) Hotel Occupancy Tax growth is expected to moderate after this, to an annual average of 4.0% from 2026 through 2028, more in line with long-term norms before the pandemic. IBO's forecast is slightly higher than the Administration's in all years of the forecast period, growing to a difference of $24 million (2.7%) in 2029.

Rising Hotel Occupancy Tax collections is a function of both a greater number of hotel stays and rising average hotel prices, reflecting continuing upward demand for City hotel rooms.

Figure 13
Cannabis Tax Revenue
Dollars in Millions

Forecast	2024 Actual	Fiscal Year 2025	2026	2027	2028	2029
IBO	$4	$17	$23	$28	$33	$36
OMB	$4	$14	$20	$28	$30	$30

SOURCES: IBO; OMB
New York City Independent Budget Office

Cannabis Tax

New York City's Cannabis Tax is paid by consumers on sales at licensed retail cannabis dispensaries in lieu of the City's General Sales Tax. As the City's newest tax, and amidst an initially slow rollout of legal dispensaries, it has taken time for Cannabis Tax collections to grow toward their potential. In the first two quarters of 2025, $7.5 million was collected, compared to under $4 million in all of 2024. The number of licensed dispensaries has grown rapidly—as of January 31 there were 106 stores operating in the City, an increase of 81 stores from a year prior. As a result, IBO has revised its forecast for Cannabis Tax revenue upwards, to $23 million in 2026, as shown in Figure 13. IBO's Cannabis Tax revenue is projected to rise to $36 million by 2029. This forecast is based on an estimate of average retail sales per store, which is in turn based on an estimate of how sales per store will change as new stores enter the market.

As the City's newest tax, and amidst an initially slow rollout of legal dispensaries, it has taken time for Cannabis Tax collections to grow toward their potential.

Endnotes

[1] U.S. Census Bureau, "Advance Monthly Sales for Retail and Food Services," Release Number: CB25-24, February 14, 2025.
[2] IBO's local economic model is a custom simultaneous equations model that forecasts over 90 local economic series, allowing for changes in any individual segment of the economy to impact others based on estimated economic interrelationships.
[3] As discussed earlier in this report, IBO did not incorporate into its economic forecast any specific policy ideas put out by the incoming presidential administration. The size and speed of changes to the Federal Fund Rate will depend on trends happening in the national economy; it is too soon to predict how changes in federal government will impact this.