New York City Independent Budget Office
Focus On:
The Preliminary Budget

February 2024

Details on the January 2024 Economic and Tax Revenue Forecasts

Introduction

The past few years have been marked by economic uncertainty, from the Covid-19 pandemic to the soaring inflation and the widely feared risk of impending recession. It now appears that the economy has reached a position, for the time being, where the question is not whether growth will continue, but how great that growth will be. Major national economic indicators continue to generally improve and the City, while trailing behind the national recovery in certain respects, also continues on a positive trajectory. In IBO's latest forecast, we trace these developments through to their implications for City revenues in the years to come. While Covid-19 aid from the federal government continues to expire, leading to a decrease in overall revenue after fiscal year 2024, City tax revenue is projected to continue increasing—slowly this year, and at a greater rate for the next four years. This report provides details about relevant underlying economic conditions, as well as a discussion of each of the City's major taxes. Full tables of IBO's forecasts can be found in the supplemental documents of its Preliminary Budget report.

IBO Economic Forecast

National Economy. The U.S. economy continues to outperform recent expectations, ending 2023 on a strong note with average real gross domestic product (GDP) growth of 2.5% for the year, according to the Bureau of Economic Analysis's advance fourth quarter estimate.[1] (Years refer to calendar years in this section.) The latter half of 2023 saw marked strength, bolstered by continued growth in national employment which has fueled strong consumer spending. IBO projects GDP growth to slow, but remain positive, over the next two years—to 1.9% and 1.6% in 2024 and 2025, respectively—before picking back up to an average of 2.3% from 2026 through 2028.[2]

These positive indicators of national economic resilience come amidst an environment of falling inflation. Inflation, which peaked at nearly 9.0% (on an annualized basis) in June 2022, had driven widespread concerns of an impending recession. By December 2023, however, inflation had been successfully lowered to an annualized rate of 3.3%. The Federal Reserve's actions to raise interest rates to their highest level since before the 2008 financial crisis, the easing of supply-side bottlenecks that developed during the pandemic, and productivity gains helped reduce inflationary pressures.

New York City Economy. In line with IBO's projections over the past year, New York City ended 2023 with a gain of 77,100 jobs (measured on a Q4-to-Q4 basis). IBO has been projecting gains of this magnitude since spring 2023, most recently estimating gains of 77,400 jobs in November. The City has now nearly reached 100% of its pre-pandemic February 2020 peak but still lags behind the national economy, which surpassed that level in mid-2022 and now stands at 3.2% above its February 2020 level. Similar patterns can be observed in labor force statistics, with the city's unemployment rate standing at 5.4 percent as of January 2024, compared to the national rate of 3.7 percent,

IBO
New York City
Independent Budget Office
Louisa Chafee, Director
110 William Street 14th Floor
New York, New York 10038
Tel. 212-442-0632
www.ibo.nyc.gov
press@ibo.nyc.gov

indicating that the City's labor market is not as tight as it is in the rest of the country.

IBO now projects that an additional 90,500 jobs will be added in the City in 2024, before gradually moderating in future years as the post-pandemic boom fades, from an additional 77,300 jobs in 2025 to 46,900 jobs in 2028. In contrast, the Mayor's Office of Management and Budget (OMB) recently revised its employment forecast substantially upward in consideration of the sustained growth in the latter half of 2023, and it now projects continued strong growth for the remainder of the forecast period, averaging more than 90,000 jobs each year through 2028.

New York City's employment growth following the pandemic has not been even across all industries. Those sectors that have surpassed their pre-pandemic levels include some of the highest-wage industries in the City—particularly the finance and insurance sector and professional, scientific, and technical services sector—which helps to sustain growth in the City's aggregate wages and personal income. However, the sector that has gained the most jobs since the pandemic—nearly 138,000 jobs—is the healthcare industry; most growth is concentrated in the low-wage ambulatory care subsector that includes home health aides. Conversely, many low-wage industries continue to trail well behind, notably retail trade and leisure and hospitality. The higher-wage information sector is also below its peak employment level. This sector is expected to recover somewhat in coming months as a portion of the job loss is attributable to residual impacts of the joint entertainment strikes last year. Nevertheless, the start of 2024 also coincided with announcements of layoffs at several large technology firms, creating additional uncertainty in this sector.

Turning to real estate, the primary open question for the City remains the vitality of the commercial real estate market and, specifically, the future of office usage amongst industries that adapted to remote work arrangements during the pandemic. Long-term leases and the stability of companies' work-from-home policies add to the evolving nature of the commercial real estate market. While the growth in demand for office space has notably slowed, IBO does not anticipate a collapse in this real estate sector and asking rents have not materially declined to date. (For more discussion, see IBO's report on forecasting Manhattan office space and related tax revenue implications.) Many large financial institutions have returned to the office, but other large office-using industries such as professional services have been less consistent. This reduces demand not just for office space itself, but also various support industries such as retail stores and restaurants in central business districts that rely on a large in-person workforce. On the residential side, there has been some weakening in average values for smaller residential properties, potentially related to the continued high interest rate environment created by the Federal Reserve's actions to combat inflation.

IBO Revenue Forecast

IBO's forecast of revenue comprises taxes, fines, fees, and State and Federal aid. Figure 1 shows that IBO's revenue estimate totals $114.4 billion for the current fiscal year, $5.9 billion more than 2023 revenues. (Years in this section refer to City fiscal years.) For 2025, total revenue is expected to decline to $111.6 billion, a decrease of 2.4%. This decline largely reflects lower estimates of federal funding—$12.2 billion anticipated in 2024 compared with $7.8 billion in 2025. Total revenue is expected

Figure 1
Total Revenue and City Tax Forecasts: IBO Compared With OMB
Dollars in Millions

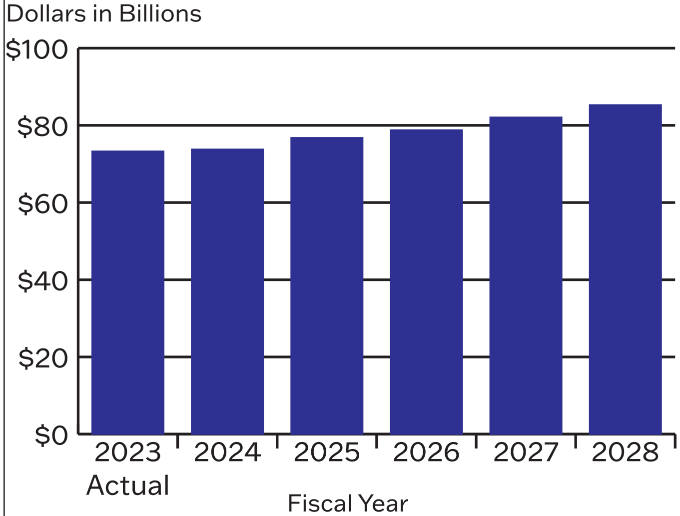
		Fiscal Year				
	Prior Year Actuals 2023	**2024**	**2025**	**2026**	**2027**	**2028**
Total Revenue-IBO	$108,478	$114,386	$111,608	$111,374	$114,702	$118,077
Total Revenue-OMB		114,104	109,441	109,188	111,895	114,204
City Tax Revenue-IBO	73,299	73,810	76,829	78,770	82,146	85,299
City Tax Revenue-OMB		73,028	74,945	76,868	79,621	81,703

SOURCE: IBO; OMB
NOTE: Total revenue presented less intra-city payments.
New York City Independent Budget Office

Figure 2

2024 Tax Revenue Expected to be Slightly Above 2023 Levels, With Growth Resuming Starting in 2025

IBO's Tax Revenue Forecast



SOURCE: IBO January 2024 Tax Revenue Forecast

New York City Independent Budget Office

to remain lower than 2024 through 2026 before rebounding starting in 2027.

Despite forecasted declines in revenue from this year to next, IBO's City tax revenue forecast is expected to grow by an annual average of 3.1%. IBO anticipates modest growth of $510 million in 2024 compared with 2023 (0.7% increase). IBO expects greater tax revenue growth starting in 2025 to an annual average increase of 3.7% through 2028 (see Figure 2). This stands in contrast to OMB which forecasts $271 million decrease in tax revenues for 2024 compared with 2023, and a more modest annual average growth rate of 2.8% from 2025 through 2028. Real property tax and personal income tax continue to dominate City tax revenues, anticipated to yield $32.6 billion (44%) and $16.2 billion (22%) in City tax revenues, respectively. These two taxes alone represent two thirds of total City tax revenue, as shown in Figure 3.

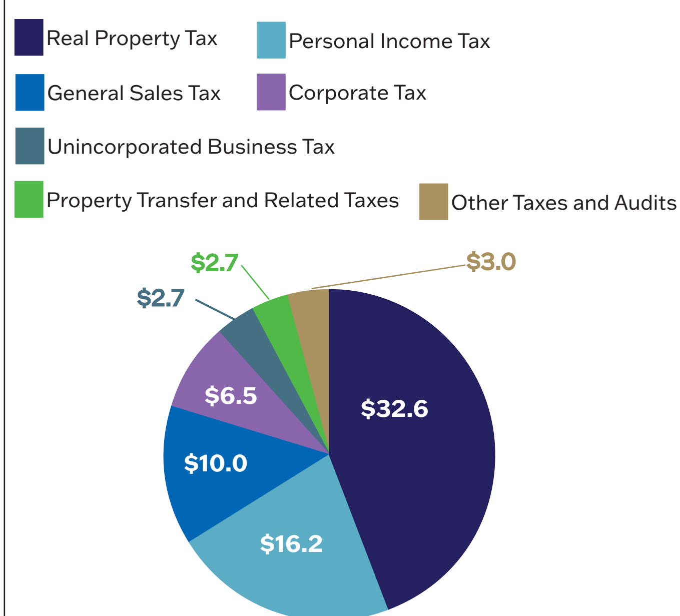
Real Property Tax. Real Property Taxes (RPT) are paid by owners of real estate in New York City. The amount of tax owed depends on the Class (type) of property, its value for tax purposes, and the applicable tax rate. Under the State's property tax law, there are four classes of property in the City (see Figure 4).

Based on the Department of Finance's final assessment roll for 2024, IBO's forecast of RPT revenue this year is $32.6 billion, $1.1 billion (3.6%) greater than 2023 receipts. Based on the tentative assessment roll for 2025, IBO's forecast of 2025 revenue is $33.7 billion, $1.1 billion (3.3%) greater than projected 2024 revenue. This forecast is similar to the gross levy that IBO had predicted in December before the tentative roll was released. (The gross levy is the total amount of tax liability for a fiscal year prior to deducting abatements.) Most of the levy-projected growth from 2024 to 2025 (about 60%) comes from Class 2 and Class 4 properties—apartment buildings including cooperative (coop) and condominium (condo) buildings, and commercial and industrial properties, respectively. Each of these two classes account for about 39% of the 2025 tentative gross levy. IBO's estimate of Class 4 revenue growth from 2025 through 2028 incorporates a forecast of sluggish 2.0% annual growth in the assessed values of Manhattan offices, far below the pre-pandemic trend of 5.8% annual growth. For the remainder of the forecast period, IBO estimates RPT annual increases

Figure 3

Real Property and Personal Income Taxes Projected to Contribute Nearly Two Thirds of Tax Revenue This Year

IBO's 2024 Tax Revenue Forecast, Dollars in Billions



SOURCE: IBO January 2024 Tax Revenue Forecast

NOTE: Figures may not add up to precise total due to rounding. Property transfer and related taxes refers to the Real Property Transfer, Mortgage Recording, and Commercial Rent Taxes. Other Taxes and Audits refers to Utility, Hotel Occupancy, Cannabis, and other tax and tax audit revenues.

New York City Independent Budget Office

Figure 4
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

New York City Independent Budget Office

ranging from $801 million to $1.3 billion, with revenue reaching $37.0 billion by 2028. This\ is consistent with IBO's expectations for growth in real estate assessed values for 2026 through 2028.

IBO's forecast of RPT revenue this year is slightly lower ($58 million) than OMB's. For 2025 and the following years, its forecasts are higher than OMB's, with the difference growing from $497 million in 2025 to $1.5 billion in 2028. IBO's RPT forecast shows greater growth in the aggregate value of real property in the City than OMB's, which in turn drives greater gross levy projections.

Real Estate-Related Taxes. In 2024, IBO estimates $2.7 billion will be collected from the three real estate-related taxes—the Real Property Transfer Tax (RPTT), the Mortgage Recording Tax (MRT), and the Commercial Rent Tax (CRT). Starting in 2025, IBO forecasts the combined revenue for these three taxes will increase annually from $2.7 billion in 2024 to $3.8 billion in 2028.

Real Property Transfer Tax. Lower-than-predicted RPTT collections to date this year have prompted IBO to reduce its forecast of 2024 revenue to $1.2 billion, as higher interest rates have, in part, stymied the real estate market. IBO's 2024 forecast is $731 million (38.4%) less than the record amount of RPTT collected by the City in 2022, when real estate sales boomed following their pandemic-related downturn. Paid by the seller, RPTT liabilities are based on the sale prices of the real estate transactions. In addition to sales prices, the City's RPTT revenue depends on the volume of transactions, in particular large commercial sales, and thus can vary from year to year. IBO forecasts a rebound of revenue in 2025, to $1.4 billion, and slower growth in the following years, with collections reaching $1.6 billion in 2028.

Mortgage Recording Tax. IBO forecasts $658 million in 2024 MRT revenue, the lowest amount since 2012, followed by a stronger rebound in collections generating $1.1 billion revenue by 2028. The MRT is paid by mortgage holders based on the size of their mortgages on real property, including refinancings. Increases in fixed mortgage rates starting at the beginning of calendar year 2022 to highs not seen in over 20 years are projected to lead to a 50.7% collapse in MRT collections from 2022 to 2024. Pent-up demand for housing and the expectation that mortgage rates will soften through next calendar year are generating favorable conditions for a resumption of revenue growth in 2025. IBO forecasts a 26.7% increase in MRT collections next year and slower rates of growth averaging 11.2% annually through 2028.

Commercial Rent Tax. IBO forecasts $909 million in CRT revenue this year, slightly less than 2023 collections, with the forecast increasing to $978 million by 2028. Commercial rent tax is a tax 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 grow steadily from year to year. Reflecting continued weakening demand for commercial space in Manhattan in the wake of the Covid-19 pandemic, IBO forecasts average annual CRT increases of 1.8% in 2025 through 2028, compared with the 4.6% average annual growth seen in the decade prior to the pandemic.

Personal Income Tax and PTET. IBO's forecast of steady employment and personal income gains in the coming years underlies the projected growth in combined revenue from the Personal Income Tax (PIT) and Pass Through Entity Tax (PTET)—from $16.2 billion in 2024 to $20.4 billion in through 2028. Created by New York State, PTET is a workaround to the federal cap on the amount of State and local taxes that are eligible for federal income tax deduction, shifting income tax liability of some taxpayers from the PIT to PTET but not affecting the amount of City tax revenue. Though the forecast of 2024 revenue is $1.0 billion lower than collections in 2023, this reduction does not reflect weaker economic growth in the current year. Rather, the decrease results from lower estimates of PTET collections and from offset payments, an accounting adjustment between the State and City.

Withholding collections, which most directly reflect income from employment and account for most PIT revenue, are forecast to increase by between $629 and $732 million each year. Reflecting weak collections to date in 2024, IBO forecasts a $299 million decrease from 2023 to 2024 in quarterly estimated (installment) payments, the second largest component of PIT revenue. After this year, estimated quarterly payments are projected to increase strongly each year, especially in 2027 when the effect of PTET is expected to cease. Compared with OMB's projections, IBO's forecast of combined PIT and PTET revenue is $160 million greater in the current year, mostly due to its higher withholding forecast. After 2024, the difference grows and reaches $1.3 billion in 2028—with higher amounts of personal income in IBO's economic forecast underlying the difference.

General Sales Tax. IBO forecasts a 5.1% increase in New York City's General Sales Tax revenue in the current fiscal year, anticipating $10.0 billion in revenue for 2024. Collections have been buoyed by local employment growth and an increasing number of visitors to the City. IBO's projected rate of revenue growth this year is similar to the average annual rate seen during the last economic expansion. Slower economic growth in both the national and local economies is expected to reduce growth in sales tax revenue after 2024. IBO forecasts tax increases varying from 2.0% to 3.3% in 2025 through 2028. Though IBO's current forecast is greater than its previous forecast in all years, only for 2024 does IBO's forecast exceed OMB's sales tax revenue projections.

Corporate Taxes. If 2024 revenues come in stronger than 2023, as IBO predicts, this would be the fifth consecutive record-breaking year for corporate taxes, taxes that are prone to volatility and have long been expected to contract in light of pandemic disruptions. The City imposes taxes on the profits of corporations operating in the City through one of three mechanisms—the Business Corporation Tax for C-corporations, and the General Corporation Tax and Banking Corporation Tax for S-corporations. Collections through January in 2024 are much stronger than previously anticipated, leading IBO to increase its forecast of corporate tax revenue in the current year to $6.5 billion, $523 million (8.8%) greater than 2023 revenue. IBO projects a moderate contraction in collections for 2025, anticipating $6.1 billion, followed by modest revenue growth in the remainder of the forecast period. OMB also forecasts an increase in corporate tax revenue this year, but after 2024, it predicts a two-year decline in collections followed by two years of little growth. As a result, the difference between IBO's and OMB's forecasts gradually widens from $245 this year to $761 million in 2028.

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: sole-proprietorships, partnerships, and limited liability companies. IBO forecasts $2.7 billion in UBT revenue this year, $180 million (7.1%) greater than 2023 collections. Revenue is expected to continue increasing in the following years, at more modest growth rates, averaging 3.7% per year from 2025 through 2028. OMB's 2024 UBT forecast is $121 million less than IBO's. The difference between IBO's and OMB's forecasts expands in subsequent years, to $258 million in 2028 because OMB generally predicts smaller UBT increases than IBO.

Hotel Occupancy Tax. The strong recovery in New York City tourism continues, having nearly collapsed during the Covid-19 pandemic. IBO forecasts 9.3% growth the Hotel Occupancy Tax revenue this year, moderately higher than previous projections. Collections are being fueled by both increasing numbers of visitors to the City and by rising daily rooms rates, which reached a record high of over $300 a night on average in the last quarter of calendar year 2023. The projected slowing of the U.S. economy through calendar year 2025 is expected to lower hotel tax growth rates in the outyears. From 2025 through 2028, annual hotel tax growth will vary between 3.2% and 4.3%. OMB shares IBO's general outlook for the hotel tax—strong growth this year followed by slower growth, though OMB's forecasts are slightly lower for each year.

Cannabis Tax. Although a small dollar amount relative to other taxes, IBO projects strong growth in the City's Cannabis Tax revenue, reflecting an anticipated rapid increase in the number of licensed retail cannabis dispensaries. IBO estimates cannabis taxes will generate $10 million in revenue for 2024 growing to $45 million in 2028. The tax is paid by consumers on sales at licensed retailers in lieu of the General Sales Tax. Because many more operating licenses have been awarded, the pace of store openings will likely continue to increase through calendar year 2025. (See IBO's August 2023 report on the growth of legal cannabis in New York City for an expanded discussion.)

IBO's and OMB's cannabis tax forecasts both feature strong revenue growth, particularly through 2026. IBO's cannabis tax revenue forecast is higher than OMB's in all years except for 2025. Risks such as the continued legal challenges to New York State's Marijuana Regulation & Taxation Act lend some underlying uncertainty to this revenue forecast.

This report was supervised by Michael Jacobs and Sarah Parker with report production by Tara V. Swanson. Contributors to this report include: Richard DiSalvo, Benjamin Ferri, Julie Anna Golebiewski, Eric Mosher, Cole Rakow, and Sarah Sayavong.

Please direct any inquires on this report to michaelj@ibo.nyc.gov.

Endnotes

[1] GDP refers to growth domestic product, an overall measure of the size country's economy. This measure of GDP growth compares the average GDP in the four quarters of 2023 to the annual average in 2022. An often-reported alternative measure compares GDP at the end of 2023 to its value at the end of 2022, resulting in 3.1 percent real GDP growth in 2023.

[2] IBO's forecast was completed in January 2024, using Moody's Analytics macroeconomic forecast as a baseline. Recent data suggests that GDP growth for 2024 may be higher than 1.9 percent.