



How 2025 Federal Tax Code Changes Could Impact New York City Filers

IBO's *Federal Changes, Local Impacts* series is a collection of short reports that examine areas of New York City's budget, economy, and operations that are particularly reliant on federal funding, subject to notable federal policy changes, or both. These reports are intended to inform public discussion by objectively highlighting how federal decisions may affect the City. IBO encourages readers to visit its [website](#) to explore additional topics covered in this series.

Since the One Big Beautiful Bill Act/H.R. 1 was enacted in July 2025, the Trump administration has indicated that, beginning in September, it will refer to the measure as the "Working Families Tax Cut Act." In this report, IBO continues to use the bill's original name.

Introduction

In July 2025, the One Big Beautiful Bill Act (OBBBA) enacted, among other provisions, widespread changes in the federal tax code. In 2024, the federal government collected \$4.9 trillion in tax revenue; the changes made in OBBBA are expected to reduce federal tax revenue by \$4.5 trillion over the next ten years, increasing the deficit by \$3.4 trillion, relative to previous law.¹ OBBBA made permanent many provisions from the 2017 Tax Cuts and Jobs Act (TCJA) that were otherwise set to expire in 2025. One obvious impact of this change is that the federal government will have less revenue to support its budget priorities; with federal spending reductions already incorporated into OBBBA, this may trigger additional cuts yet to come.

Federal tax reforms, however, also have implications for state and local governments. In New York State and New York City, OBBBA tax changes have garnered a lot of attention for creating potential tax savings for high-income earners. This is particularly relevant for New York City, which has one of the largest concentrations of multi-millionaires and billionaires in the country, as well as many flagship corporate offices for leading industries. It should be noted that the tax provisions discussed in this report do not have direct effects on the level of state and local taxation, but these changes have prompted conversations on the extent to which New York State and City might respond with tax changes of their own.

A recent Office of the New York State Comptroller [report](#) describes and provides context for OBBBA impacts on New York State tax filers. Building off that report, IBO focuses on some of the most discussed impacts for New York City taxpayers specifically, in both personal income and business income liabilities. This is not intended as an exhaustive list, nor an estimation of total revenue impacts. The final impact of the legislation's many provisions

will be interactive and dependent upon changes to the broader economy that result. However, the discussion of provisions below suggest a very mixed set of benefits across the income distribution, both in terms of the size of the aggregate benefit and the population over which it is spread.

Changes to the Personal Income Tax

Personal income earned by New Yorkers—in the form of wages, pass-through business income, dividends and interest, and capital gains—is taxed by the Federal, State, and City governments. OBBBA solidifies many temporary provisions previously changed by TCJA in 2017—including making permanent the seven marginal tax rates ranging from 10% to 37% established in that bill, which would otherwise have expired this year.² IBO discusses some of the most prevalent and widely tracked new personal income tax provisions in OBBBA below.

Permanent Expansion of the Standard Deduction

For most tax filers, the standard deduction offers the maximum amount of deduction from taxable personal income, generating the lowest federal tax liability, beyond that which would be achieved through itemizing specific deductions. When it passed in 2017, TCJA nearly doubled the standard deduction, but also set the increase to expire in 2025.³ OBBBA increased the standard deduction even further and made that increase permanent. Under OBBBA, the standard deduction rose from \$30,000 to \$31,500 for married filers, filing jointly; \$22,500 to \$23,625 for heads of household; and \$15,000 to \$15,750 for single filers.⁴

In 2023, 3.4 million New York City tax filers (88.4% of all filers) took the standard deduction. If the same filers took the standard deduction as in 2023 (the latest year for which detailed data is available), under the expanded amounts, an additional \$3.4 billion of income would be deductible, resulting in about \$1.0 billion in federal tax savings spread across all 3.4 million filers. For reference, estimated total personal income in the city for calendar year 2025 is \$840 billion, suggesting a relatively modest impact. The expansion will also likely have the effect of increasing the number of filers choosing the standard deduction, when they are near the margin of itemizing or not.

The likelihood of taking the standard deduction is highest at lower-to-middle income levels and decreases as one moves up the income distribution and individual itemization becomes more beneficial for minimizing personal income tax liability. (See IBO's [Tables on New York City Residents' Income and Income Tax Liability](#) for more detail.)

Expansion of the SALT Deduction Cap

Historically, federal income tax filers were able to fully deduct the amount of property taxes paid, plus the larger of either income taxes or sales taxes that filers pay to state and local governments. This is known as the state and local taxes (SALT) deduction. Only filers itemizing deductions, rather than taking the standard deduction, qualify for the SALT deduction benefits. The TCJA imposed a temporary limit on the amount that could be deducted, a cap of \$10,000 for a married couple filing jointly and single filers (\$5,000 for married, filing separately).

The OBBBA created a temporary expansion of this cap, to \$40,000 for joint filers and single filers making less than \$500,000 per year (an increase from \$5,000 to \$20,000 for married, filing separately). At incomes above \$500,000 (or \$250,000 for married, filing separately), the cap begins to phase out until reaching \$10,000 again at incomes of \$600,000 or greater. This expansion of the cap is now set to expire in 2030, reverting to an across-the-board cap of \$10,000, which has been made permanent, eliminating the need for the phase-out provisions thereafter.⁵

New York State's Pass-Through Entity Tax (PTET)

In response to the SALT cap, New York State created the Pass-Through Entity Tax (PTET) which allows taxpayers to reclassify an amount of personal income tax liability to be electively paid by an eligible partnership or S corporation, which is not federally taxable as business tax income, thus exempting it from the \$10,000 cap. State and local taxes are paid on this income in the form of estimated quarterly payments, and taxpayers then receive an equivalent credit against their state and local personal income tax liabilities to offset the amount of tax already paid. As a result, PTET is designed to be revenue-neutral to the State and City, with taxes being shifted from the personal income tax to PTET.

To generate a preliminary estimate, IBO used IRS's Statistics of Income tax data to measure the impact of raising the SALT deduction limit specifically for New York City filers. (See accompanying [report](#) for details on IBO's calculations of this estimate.) IBO found that—after accounting for income already being reclassified as PTET to bypass the existing \$10,000 cap—increasing the cap up to \$40,000 would allow about an additional \$3.5 billion of personal income to be deducted from federal income taxes, resulting in a federal tax savings of just over \$1.0 billion for New York City taxpayers, spread across about 400,000 itemizing filers.⁶ In addition to the \$840 billion in aggregate personal income in the city, this can be compared to local personal income tax collections in the City, which totaled \$15.7 billion in fiscal year 2024.⁷

While thus poised to benefit a certain group of New Yorkers who are eligible to maximize the expanded cap, this OBBBA provision does not appear to return a particularly sizable amount of money back into the pockets of New Yorkers. However, the amount of tax savings is more concentrated within a particular population, and the permanence of the cap and temporary nature of the expansion increases the significance of PTET for impacted New Yorkers moving forward.

Expansion of the Child Tax Credit

In 2017, TCJA increased the child tax credit from \$1,000 to \$2,000 per child aged 16 or younger. Under OBBBA, this credit was made permanent at an increased level of \$2,200, and will be indexed for inflation. Prior to 2017, the credit phased out at incomes over \$110,000 for married joint filers, or \$75,000 for single filers and heads of household. Under TCJA, these thresholds were increased to \$400,000 and \$200,000, respectively, and OBBBA makes those new thresholds permanent. To illustrate the individual impact, a family with married parents, filing jointly, and two children, making less than \$400,000, would see

their federal tax liability decrease by \$2,000. At the same time, provisions were changed regarding the portion of the child tax credit that is refundable, meaning that even if the credits and deductions take a filer's taxable income below \$0, the eligible amount of the credit is returned as a tax refund, up to a cap of \$1,700 per child. For refundability, OBBBA includes a requirement that at least one parent and the eligible children have Social Security numbers, whereas previously only the child was required.⁸

In 2023, there were 1.8 million dependents claimed in New York City tax filings. While there are some dependents who are not children age 16 or younger, the number of dependents can be used as a proxy to give a sense of scope to the degree to which the expanded child tax credit may impact New Yorkers. If every dependent benefited from the full increase to the child tax credit, that equates to federal tax savings of \$360 million. The actual impact will be lower—filers with income above the thresholds will not be eligible for the full credit and not all filers will meet the refundability requirements.

Deductibility of Tip Income

Before OBBBA, tip income (where reported) was treated as any other form of earnings for tax purposes. OBBBA allows for up to \$25,000 of tip income to be deducted, which phases out when total income surpasses \$300,000 for a married couple filing jointly or \$150,000 for a single filer. This deduction is temporary, for tax years 2025 through 2028. Only voluntary tips earned in industries that are traditionally reliant on tipping for compensation are eligible for the deduction, including: food and beverage services, hospitality, entertainment, and personal services.⁹ As an illustration of the individual impact of this provision, a single filer making \$100,000, with \$25,000 or more of that coming from tip income, would see about \$3,400 in federal tax savings.

In New York City, the leisure and hospitality industry, which employs over 450,000 people, out of a total 4.8 million jobs, is most situated to benefit from this new deduction. Of that, nearly 320,000 employees work specifically in food services such as restaurants and bars, where tipped work is standard. Another 180,000 people are employed in personal services, which includes traditionally tipped professions such as barber and salon services. These industries have relatively lower median wages than other industries, which, combined with the income thresholds established in the law, targets this tax exemption toward lower-income New Yorkers.

New York State and City will need to decide whether to align with federal tax law or leave tip income as taxable at the State and City level. Maintaining the status quo would have no effect on State or City revenues, but would likely complicate the process between filing federal and State returns.

Other Personal Income Tax Provisions

Several other changes have been made to the personal income tax code as part of OBBBA, and have been written about extensively elsewhere, including the State Comptroller's [report](#). These include:

- A \$6,000 deduction for seniors 65 years and older, phasing out above incomes of \$150,000 for married couples filing jointly and \$75,000 for a single filer

- A temporary deduction for overtime pay up to \$25,000 for joint filers and \$12,500 for single filers in certain industries (particularly those involving physical labor)
- Making permanent a charitable contributions deduction of up to \$2,000 for joint filers or \$1,000 for single filers (for itemizers, contributions must exceed 0.5% of taxable income)
- An increased credit for child-care expenses, for those making less than \$105,000 (married, filing jointly)

Potential Impact of Changes to ACA Tax Credits

When the Affordable Care Act (ACA) imposed a requirement that adults must carry health insurance, there was concern about the affordability of health insurance for lower and middle income households. To address this, provisions in the ACA created the premium tax credit (PTC) which first became available in 2014. The goal of this credit is to reduce the amount that individuals pay for ACA marketplace insurance premiums, and the size of the credit is determined based on household income. Households up to 400% of the federal poverty level were eligible for the first several years that PTC was available. In 2021, federal legislation expanded eligibility criteria, thereby creating what are known as enhanced premium tax credits (EPTC). This expansion offered subsidies to individuals over 400% of the federal poverty level, capping their premiums at 8.5% of their household income.

EPTC are set to expire at the end of calendar year 2025 and deliberations are currently underway at the federal level about whether another extension will be put in place. A [statement](#) released by Governor Hochul noted that over 1.7 million New Yorkers statewide currently qualify for EPTC. If this subsidy were to expire, New York State of Health estimates that health insurance premiums will increase by nearly 40% across the state. The Congressional Budget Office [estimates](#) that the annual cost of permanently extending the enhanced credits, nationwide, would be \$25 billion in 2026, growing to \$36 billion in 2035.

Changes to Business Income Taxation

In addition to the taxation of personal income, the treatment of business income is significant to many New Yorkers, either directly or indirectly. OBBBA touches upon many elements of business taxation, much of which is making permanent the business-related provisions enacted in 2017 through TCJA that would otherwise expire in 2025. This includes the permanent extension of a flat 21% corporate tax rate at the federal level.

While OBBBA largely maintains the business tax framework established by TCJA, it also makes several technical adjustments or modifications, including the rate of interest deduction for certain capital-intensive businesses, and details in the way that foreign income is treated for multinational firms. Limitations in data about business income tax liabilities, combined with extreme sensitivity businesses taxes have to broader economic conditions, makes estimating of potential revenue effects for New York City businesses difficult. However, the treatment of business income taxation was central to the legislative debate over OBBBA. Some changes made to business tax law may be of particular interest to New Yorkers, with broad implications discussed below.

Major Business Tax Provisions Made Permanent

Business income tax provisions in OBBBA contribute to the high overall price tag of the bill in terms of forgone revenue, given that such provisions were set to expire under the 2017 TCJA. Now, many tax provisions will remain in place as they have been since 2017. As a result, businesses' responses to OBBBA's changes are expected to be broadly consistent with current behavior under TCJA, with the added benefit of permanence.

One of TCJA's major provisions that OBBBA has now made permanent is a 20% deduction on qualified business income from non-corporate businesses, paid as part of an individual's personal income tax.¹⁰ Along with making the deduction permanent, OBBBA also raised the income thresholds to qualify for the deduction to from \$415,000 to \$465,000 for married filers, filing jointly, and from \$207,500 to \$232,500 for single filers. Above these income limits, the deduction phases out.

Additionally, OBBBA permanently restored 100% immediate expensing for qualified capital expenditures on (non-real estate) production property, such as machinery and equipment for the production process. This was a temporary provision of TCJA which was set to phase down over time. Otherwise, the deduction would be spread over the usable life of the investment as it depreciates.

Immediate Deductibility of Domestic Research and Development Expenses

Prior to TCJA in 2017, research and development (R&D) expenditures were fully and immediately deductible. Provisions in TCJA required that beginning in 2022, these expenses had to be spread over a period of 5 years for domestic expenses and 15 years for foreign expenses. OBBBA restores pre-TCJA full and immediate expensing of these investments in R&D for domestic spending, starting in tax year 2025. It also allows certain provisions for retroactive expensing of expenditures made from 2022 through 2024. Foreign R&D expensing is still required to be spread over 15 years.

For businesses with substantial R&D expenses that are making investments within the United States, this represents a substantial federal tax benefit relative to the rules put in place under TCJA. This may have a particular effect on the technology industry, which has had a growing presence in New York City in recent years. The final impact of this provision on New York State and City tax collections will depend on the interaction with other R&D incentives, such as the State's R&D Tax Credit as a part of the Excelsior Jobs Program.

Interaction of Business and Personal Income Taxes

The overarching theme of OBBBA's business tax provisions is to maintain or expand favorable tax treatment for businesses, relative to the pre-TCJA regime. Permanently enacting some of the major provisions first introduced with TCJA, or even returning to more favorable tax terms seen prior to TCJA, may provide businesses a greater ability for long-term planning and increased investment.

If these favorable business tax provisions increase profitability, those profits may then be passed along to individuals in the form of higher wages, increased pass-through income,

or greater capital gains and dividends. As a result, there may be a business tax impact on the personal income tax side as well. Both New York State and City have a graduated progressive, if relatively flat, income tax structure, meaning that higher incomes will push some taxpayers into brackets that are required to pay more State and City tax, increasing tax liability solely as a result of higher personal income. The relationship between business and personal tax liabilities is expected to be unevenly dispersed across New York City's income distribution, however, and will vary by industry. The extent to which business tax benefits yield any benefits for lower income taxpayers depends largely upon the extent to which wages increase as a result.

Conclusion

OBBBA enacted many changes to the tax code, and only a handful have been highlighted here. As discussed, different provisions target different populations and portions of the income distribution. Tax filers at the lower end of the income distribution are expected to benefit from certain provisions in OBBBA—including the expanded standard deduction, expanded child tax credit, and tipped earnings deduction. National estimates, however, suggest that filers at the higher end of the income distribution are positioned to gain the most direct benefits from OBBBA tax code changes, particularly when also considering the bill's direct spending and transfer components.¹¹

Factoring in the ramifications of OBBBA's impacts on businesses yields an even more complex picture of the potential tax effects from this bill on New Yorkers as a whole. In addition, the trajectories of the broader national and local economies will have a major influence on the impacts of these tax changes. The potential for economic stimulus from tax breaks may be counteracted by the high price tag of the legislation, which adds substantially to the national deficit and continues to create political turbulence. It may also lead to decreased federal spending in critical areas supporting the local economy, highlighted in other pieces in this [Federal Changes, Local Impacts](#) series. All these factors will evolve, impacting the long-term economic dynamic for New York City. IBO will continue to track and analyze these tax developments and economic impacts in the months and years to come.

Endnotes

- 1 Static estimate by the Congressional Budget Office; static estimates do not incorporate the impact of broader changes to the macroeconomy that result from the policy change in question. See [Estimated Budgetary Effects of Public Law 119-21](#).
- 2 The 10% tax rate applies to those making up to \$23,850 (married, filing jointly), \$17,000 (head of household), or \$11,925 (single filer); the 37% tax rate applies to those making more than \$751,600 (married, filing jointly) or \$626,350 (single filers or head of household) in the 2025 tax year.
- 3 In tax year 2018, the standard deduction increased from \$12,700 to \$24,000 for married couples filing jointly and \$6,350 to \$12,000 for single filers.
- 4 2025 amounts; the standard deduction is indexed for inflation and increases over time.
- 5 Additionally, for tax years 2026 through 2029, the SALT cap and income thresholds will increase by 1% per year.
- 6 As is discussed in the companion piece explaining the calculation of this estimate, this is likely an overestimate of tax savings because of phase-out provisions and the potential for increased usage of PTET.
- 7 Inclusive of PTET income.
- 8 Additionally, there is an earned income component to the refundable credit that was temporarily increased from \$2,500 to \$3,000 under TCJA; it has reverted to \$2,500 under OBBBA.
- 9 See proposed regulation including qualifying industries here: [Occupations That Customarily and Regularly Received Tips: Definition of Qualified Tips](#)
- 10 Such pass-through businesses include S-Corporations, sole proprietorships, and partnerships. This provision was established in TCJA as a way to grant favorable treatment to such businesses, in parallel with the corporate tax rate reduction for C-Corporations.
- 11 See Congressional Budget Office, "[How the 2025 Reconciliation Act \(Public Law 119-21\) Will Affect the Distribution of Resources Available to Households](#)" and The Budget Lab-Yale University (12 August 2025), "[Combined Distributional Effects of the One Big Beautiful Bill Act and of Tariffs](#)."

Prepared By:
Cole Rakow



Follow IBO
@nycibo



info@ibo.nyc.gov



www.ibo.nyc.gov