New York City Independent Budget Office

Focus On:
The Preliminary Budget

March 2021

While Tax Collections Are Stronger Than Expected, Revenue Forecast for 2021 Still Less Than Last Year

Overview. IBO forecasts $61.7 billion in total tax collections in 2021, 1.9 percent ($1.2 billion) less than last year's receipts. (Years refer to city fiscal years unless otherwise noted.) While property tax and unincorporated business tax revenues are expected to grow in the current year, we project large decreases in revenue from the corporate income, personal income, sales, real property transfer, mortgage recording, and hotel occupancy taxes. The decline in total tax revenue from 2020 to 2021 in IBO's current forecast, however, is about half the decrease we projected two months ago. In recent months, collections of most taxes have been stronger than previously expected, prompting IBO to raise its forecast of most major taxes for the current year, with the noticeable exceptions of sales and hotel taxes.

For 2022, IBO's latest forecast calls for tax revenue to resume growing, albeit slowly by historical standards, to $63.4 billion, a 2.7 percent increase over 2021. Although most taxes are expected to grow in 2022, the outlook for total tax revenue is pulled down by larger-than-anticipated declines in property tax assessments on the city's latest property tax roll.

Covid and the Revenue Outlook. The city's tax receipts have been battered by the Covid pandemic and public health measures taken over the past 12 months to contain the virus. Our forecast of total tax revenue in 2021 is $4.4 billion (6.6 percent) less than the total we projected in January 2020—the last forecast IBO made before the pandemic took hold in the U.S. The current forecast for 2022 is just under $5 billion (7.3 percent) *less*. Collections of all major taxes are now forecast to be below the levels we projected a year ago, with decreases in our sales and hotel tax estimates accounting for over half of the reduction in total tax revenue.

Tax Revenue Outlook. IBO expects total tax revenue to resume growing after this year. For 2022, we forecast $63.4 billion, a $1.6 billion (2.7 percent) increase over 2021 revenue. Based on our expectation that economic growth will strengthen in the latter half of this calendar year, IBO projects a $2.7 billion (4.3 percent) revenue increase in fiscal year 2023, to $66.1 billion. Tax revenue growth is expected to moderate in the last two years of the financial plan period, slowing to an average annual rate of 2.7 percent in 2024 and 2025, with tax collections reaching $69.6 billion in the latter year.

While IBO's latest tax revenue forecast for 2021 is higher than in our previous forecast, our forecasts of total revenue in 2022 through 2024 have been reduced by $1.5 billion for 2022 and by greater amounts in 2023 and 2024. (We

Changes to IBO's Tax Revenue Forecasts
February 2021 Forecast Compared
With January 2020 Forecast
Dollars in millions

Tax	2021		2022	
Real Property	($368.4)	-1.2%	($2,749.4)	-8.4%
Personal Income	(920.2)	-6.6%	(219.9)	-1.5%
Sales	(1,956.0)	-22.7%	(1,131.4)	-12.7%
Corporate	(76.5)	-1.9%	(178.0)	-4.3%
Unincorporated Business	(26.1)	-1.3%	(91.2)	-4.2%
Real Property Transfer	(431.4)	-30.0%	(232.2)	-15.6%
Mortgage Recording	(246.8)	-23.5%	(144.5)	-13.9%
Commercial Rent	(72.2)	-7.9%	(49.6)	-5.3%
Hotel Occupancy	(556.9)	-86.1%	(373.5)	-56.6%
Other Taxes and Audits	285.1	13.2%	179.6	9.1%
TOTAL	**($4,369.4)**	**-6.6%**	**($4,990.1)**	**-7.3%**

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IBO Tax Revenue Forecast, February 2021 *Dollars in millions*						
	Actuals	**Forecasts**				
Tax Revenue	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Property	$29,650	$30,894	29,878	30,849	31,193	31,484
Personal Income	13,551	12,982	14,152	14,928	15,369	15,870
General Sales	7,372	6,653	7,799	8,458	9,015	9,522
Corporate	4,509	3,965	4,005	4,117	4,252	4,426
Unincorporated Business	1,939	2,045	2,064	2,158	2,268	2,386
Real Property Transfer	1,135	1,005	1,253	1,331	1,387	1,427
Mortgage Recording	975	802	894	944	979	1,000
Hotel Occupancy	468	90	287	422	531	579
Other Taxes and Audits	3,325	3,286	3,034	2,878	2,914	2,942
Total Taxes	**$62,924**	**$61,721**	**$63,366**	**$66,086**	**$67,908**	**$69,636**

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did not forecast 2025 revenues two months ago.) IBO's forecasts of personal income, business income, and real estate-related taxes have all increased since December, but we have lowered our projections of sales and hotel tax revenues and—most significantly—our property tax forecast. Based on the Department of Finance's January release of the preliminary property tax assessment roll for 2022, we have decreased our property tax forecast by $2.4 billion in 2022 and by greater amounts in 2023 and 2024. Assessments on the new roll are far lower than IBO had forecast because the department incorporated expectations of steep decreases in rental income from commercial and apartment building properties when estimating their assessed values for tax purposes.

A separate IBO brief will examine the extensive changes to the property tax forecast in greater detail. The remainder of this brief summarizes IBO's forecasts of the city's other major taxes. The revenue forecasts are based on the assumption that mass vaccination and other public health measures effectively curtail the spread of Covid by sometime this fall, allowing a gradual return to pre-pandemic economic activity and an acceleration of economic growth by the end of the calendar year and into 2022. Because this outlook is so closely tied to the course of the pandemic, there are substantial downside risks to the forecasts.

Personal Income Tax. IBO's forecast of personal income tax (PIT) revenue in 2021—$13.0 billion—is $569 million (4.2 percent) *less* than 2020 receipts. PIT revenue growth is cyclical, decreasing during recessions and increasing during expansions. The pandemic and shutdown quickly led to a decrease in withholding receipts—the largest component of PIT collections—in 2020, which has continued into this year. Declines in withholding have been far less steep than the plunge in employment the city experienced over the past year, however, because job losses have been concentrated in low- and moderate-wage industries where remote work is often infeasible. Despite the fact that withholding remains below its level in 2020, it currently is stronger than previously expected.

Similarly, we have greatly increased our forecast of estimated payments, which have been swelled by the bull market on Wall Street. Contrary to prior expectations of continued weakness in estimated payments, collections this January—the month in which most taxpayers who make estimated payments remit the fourth quarterly installment towards their estimated liability—were 10 percent greater than receipts in January 2020, before the pandemic hit New York. As a result of IBO's upward revisions in our projections of withholdings and estimated payments for 2021, we now expect PIT revenue to decrease $569 million from 2020 to 2021, less than half the decline we forecast in December.

Based on our expectation that economic growth will accelerate later this calendar year, IBO forecasts a strong rebound in PIT collections in 2022, yielding $14.2 billion in revenue—a 9.0 percent ($1.2 billion) increase compared with collections in 2021. PIT revenue is projected to grow at a more moderate, 3.9 percent average annual rate in 2023 through 2025, generating $15.9 billion in the final year of the forecast period. As with the 2021 forecast, IBO's current projections for 2022 and beyond are substantially greater than we had previously estimated, reflecting an increase in our forecast of employment this calendar year and the now greater likelihood that personal income will be boosted by additional federal stimulus spending.

Corporate Taxes. IBO's forecast of corporate tax revenue this year is $4.0 billion, $545 million (12.1 percent) less than the record amount collected in 2020. The falloff of revenue in response to the pandemic has not been as steep as IBO previously projected, the result of a rebound in corporate profits that began more quickly than expected and the securities industry's strong profits in calendar year 2020. In addition, corporate tax collections in December, a month in which many companies make a scheduled payment against expected tax liability, were unexpectedly strong—the second highest amount ever for the month—prompting us to raise the forecast for the current year by $410 million compared with our estimate just two months ago.

Corporate tax collections are expected to resume growing after 2021, although the growth is expected to be weak at first. IBO's revenue forecast for 2022 is only $40 million (1.0 percent) greater than our 2021 projection. Revenue growth is projected to accelerate during the remainder of the forecast period, at an average annual rate of 3.4 percent in 2023 through 2025. IBO's forecast of corporate tax revenue in 2025—$4.4 billion—still falls short of its pre-pandemic level in 2020, reflecting a city economy than has not yet regained all that was lost during the pandemic's recession.

Unincorporated Business Tax. IBO forecasts a $105 million (5.4 percent) increase in revenue from the unincorporated business tax (UBT) in 2021, yielding $2.0 billion in tax receipts. This growth would follow back-to-back decreases in 2019 and 2020 of UBT revenue. As with the corporate and personal income taxes, UBT collections in December and January were stronger than anticipated. As a result, IBO raised its UBT forecast for 2021 by $197 million. Collections from partnerships and proprietorships in the professional and business services sector have been particularly strong, because the sector has been less affected by the pandemic and recession than many other sectors.

IBO's unincorporated business tax forecast for 2022 is only 1.0 percent ($19 million) greater than projected collections in 2021. We expect revenue growth to accelerate after 2022, when the economic recovery will be more firmly in place. We forecast UBT receipts rising from $2.1 billion in 2022 to $2.4 billion in 2025—growth at a 5.0 percent average annual rate.

Sales Tax. Unlike receipts of business and personal income taxes, recent collections of the sales tax have fallen far short of IBO's expectations, leading us to lower our forecast substantially. For the current year, we forecast $6.7 billion in sales tax revenue, $719 million (9.7 percent) less than collections in 2020, continuing a trend that saw a $438 million (5.6 percent) decline from 2019 to 2020.

Among all the city taxes, the pandemic has had its greatest impact on sales tax revenue. The initial shutdown of all but essential commercial establishments, the deeply depressed state of the tourism industry, and the loss of spending by former commuters who are now working from homes outside the city have all taken their toll on the sales tax base. The difference between our pre-pandemic sales tax forecasts and our current projection for 2021 is huge—just under $2.0 billion (22.7 percent).

We expect that a combination of widespread vaccinations, the easing of restrictions on businesses, pent-up consumer demand, the return of some commuters, and faster economic growth will generate a strong sales tax rebound. IBO forecasts $7.8 billion in sales tax revenue in 2022, an increase of $1.1 billion (17.2 percent) compared with 2021 and an amount almost equal to the pre-pandemic record set in 2019. For the remainder of the forecast period, we expect revenue growth to slow from the torrid pace of 2022 but still remain strong, averaging 6.9 percent annually in 2023 through 2025 and generating $9.5 billion in sales tax receipts in 2025.

Hotel Occupancy Tax. In response to recent collections that were even weaker than anticipated, IBO has once again lowered its forecast of hotel tax revenue. We are now projecting that 2021 collections will total $90 million. This is $387 million (80.8 percent) *less* than 2020 collections, which were 25.2 percent lower than in 2019. The pandemic's damage to leisure and business travel to the city was swift, in part because New York City was the first epicenter of Covid hospitalizations and fatalities in the U.S. The drastic collapse of demand for hotel stays has forced a large share of hotels to close temporarily or go out of business entirely, and has slashed nightly room and occupancy rates of those hotels that have remained in operation.

As vaccinations spread and the threat to health abates, tourists are expected to return, first domestic visitors and then international travelers, thereby increasing hotel occupancy and boosting tax revenue. IBO's hotel tax forecast for 2022 is $287 million, more than triple our projection for the current year, and $422 million for 2023, an increase of 47.2 percent. We expect tourism and the demand for hotel accommodations to remain strong after 2023, with hotel tax collections growing at an average annual rate of 17.1 percent over the following two years to reach $579 million in 2025. Still, our 2025 forecast is less than the $625 million collected in 2019. IBO expects that it will take years before leisure tourism returns to pre-pandemic levels and we anticipate that business travel will remain lower than before the pandemic now that many businesses have had experience using low-cost technology to facilitate meetings.

Real Property Transfer Tax. IBO's forecast of the real property transfer tax (RPTT) for the current year is $1.0 billion, $130 million (11.5 percent) *less* than 2020 receipts. The decrease in collections this year follows an even steeper decline in 2020. The two-year decrease reflects the slowing of real estate activity that normally happens during recessions and, in particular, a decline in the number of sales of commercial properties priced over $100 million—sales that typically account for a large share of tax revenue. Residential sales have also declined, but to a lesser extent.

IBO has increased its RPPT forecast for each year from 2021 through 2025. We expect stronger economic growth at the end of this calendar year and into 2022 to fuel a rebound in real estate activity and boost RPTT revenue to $1.25 billion next year, a 24.7 percent increase over 2021 receipts. RPTT collections will continue to increase after 2022, but at a slower pace, averaging 4.4 percent annually in 2023 through 2025.

Mortgage Recording Tax. Revenue from the mortgage recording tax (MRT) is also projected to decline for a second year in a row. Our MRT forecast for 2021 is $802 million, $172 million (17.7 percent) *less* than revenue last year. As with the RPTT, collections in recent months have been greater than expected, prompting us to increase the 2021 forecast by $33 million. Lower sales prices in many city neighborhoods and persistently low mortgage rates have limited the decline in mortgage transactions and MRT revenue this year.

With the expectation that interest rates will continue to be very low in the near term, we expect MRT growth to resume next year. IBO's mortgage recording tax forecast for 2022 is now $894 million, $92 million (11.5 percent) more than our 2021 projection. As was the case with almost all other major taxes, we increased our forecast for 2021 and 2022 in response to the unanticipated strength of collections in recent months. We expect MRT revenue to grow at a more moderate 3.8 percent average annual rate in 2023 through 2025, with revenue reaching $1.0 billion in the final year of the forecast period.

Commercial Rent Tax. For 2021, IBO forecasts $841 million in revenue from the commercial rent tax (CRT), $23 million (2.7 percent) *less* than collections last year. This would be the second consecutive decline in CRT receipts, which fell $43 million from 2019 to 2020. The back-to-back declines in CRT collections reflect the toll that the pandemic has taken on office and retail markets in Manhattan, as well as administrative changes that reduced collections in 2020.

IBO expects growth in CRT receipts to resume in 2022, with collections reaching $883 million, a $43 million (5.1 percent) increase over our forecast for 2021. Over the remainder of the financial plan period, we anticipate growth in CRT revenue will continue at a 3.4 percent average annual pace to reach $975 million in 2025. These forecasts are subject to greater than usual uncertainty, however, due to the possibility of major structural changes in Manhattan's markets for office and retail space.

Prepared by the IBO's Economics Team