



Center for
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Testimony Submitted to the

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Hearing on

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The Preliminary Budget for Fiscal Year 2026

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Good morning, Chair Brannan and members of the Finance Committee. I am George Sweeting, a Senior Fellow at the Center for New York City Affairs at the New School. Thank you for the opportunity to testify at this hearing on the Mayor's 2026 Fiscal Year Preliminary Budget.

Today I will evaluate four topics related to the Mayor's Preliminary Budget and some concerns or recommendations related to each. These topics include:

- The City's current fiscal condition;
- The "Axe the Tax" proposal to eliminate the City Personal Income Tax PIT for taxpayers below 150 percent of the federal poverty line;
- The RACE credit to induce firms from outside the state to relocate to the city; and
- Potential threats from current federal tax proposals on the City's fiscal condition.

The City's current fiscal condition: The City's current fiscal condition is strong. As often happens, the Preliminary Budget this year includes upward revisions from the November plan in the tax revenue forecast: \$1.2 billion for Fiscal Year 2025, \$2.0 billion in FY 2026, and \$1.3 billion in FY2027. (The revenue outlook for years after FY 2027 was increased, too.)

Much of the upward revision for 2025 is due to the strength of the city's securities and investment banking firms. When final numbers are available, they are expected to show that profits of New York Stock Exchange member firms grew by about 80 percent in calendar year 2024, boosting the City's business tax revenues by 6.1 percent in FY2025. Some of the profits are distributed to employees in the form of bonuses, which are subject to either the City's personal income tax (PIT) or passthrough entity tax (PTET), helping to push those revenue sources up 11.1 percent year-over-year.

The additional tax revenue, combined with lower spending projections for asylum-seeker shelter and assistance and a draw-down of some of the within-year reserves, has produced a \$2.3 billion surplus in FY 2025 which will be rolled forward to bring FY2026 into balance as required. As usual, gaps remain in the outyears.

While the City's current fiscal condition is strong, actions by the Trump Administration on tariffs, immigration, and tax policy have increased the risk of slower growth during the rest of calendar year 2025 compared to the outlook before Inauguration Day.

Axe The Tax: The Mayor's Preliminary Budget includes a proposal to eliminate city personal income tax (PIT) liability for taxpayers with at least one dependent in the household (usually a child) and income below 150 percent of the federal poverty line (FPL). The Governor's Executive budget legislative package includes enabling legislation for this tax credit.

The FPL amount varies by the size of the household. The benefit would diminish over a phase-out range for those taxpayers with income up to \$5,000 above the 150 percent threshold.

("taxpayers" here refers to tax returns, which can cover one or more individuals). The estimated cost is \$63 million in City Fiscal Year 2026 growing to \$70 million by Fiscal Year 2029.

About 170,000 taxpayers would benefit from the credit. The City's Office of Management and Budget (OMB) estimates that the average annual benefit would be about \$350. Roughly two-thirds of beneficiaries – those with incomes below the 150 percent FPL threshold - would receive the full credit. The other one-third - those with incomes up to \$5,000 over the FPL- would receive a reduced credit determined by how much their income exceeds the 150 percent FPL threshold

The credit is non-refundable, meaning if a taxpayer's outstanding tax liability is less than the computed credit, the unused portion of the credit is not refunded to the taxpayer. Because this credit is applied last, after other available credits such as the Earned Income Tax Credit (EITC), this will likely be a fairly frequent outcome.

However, the new credit effectively delivers on the goal of eliminating any remaining tax liability for eligible taxpayers among the working poor. If enacted, this important objective would be achieved while preserving other City resources for what are likely to be challenging budgetary times ahead. The credit is also better targeted at low-income relief than the Governor's proposed Inflation Refund Credit and modest rate reductions in the first five in the State's PIT tax table. It should be adopted.

Relocation Assistance Credit for Employees (RACE): Although not mentioned in the Mayor's Preliminary Budget, the Adams Administration has proposed a new credit designed to induce firms to relocate from outside the state and absorb some of the vacant space in older office buildings in the city. As with the Axe the Tax credit, the enabling legislative language is included in the budget bills in the Governor's Executive Budget package.

For now, the RACE credit is established as a three-year pilot program with a cost of \$150 million. During the three-year pilot, firms relocating to the city from outside New York State and taking space in an eligible building anywhere in the city can receive a credit against their business income tax liability equal to \$5,000 per relocated employee for 10 years, making the value of the credit \$50,000 per employee (\$38,600 net present value, or NPV). The credit, which would be refundable, can be used for a maximum of 500 employees per firm and the pilot would be capped at 3,000 relocated employees. A participating firm must lease at least 20,000 square feet of space in a building that was constructed before 2000. The space cannot be used for retail or hotel businesses, or non-profits. The City's Economic Development Corporation (EDC), which developed the proposal, estimates that the \$150 million pilot program will generate an estimated \$385 million benefit to the City over 10 years.

Much of the structure of the RACE credit mirrors the City's existing relocation incentive known as Relocation Employment and Assistance Program, or "REAP." One big difference is that REAP is not available in all areas of the city while RACE would be. Another key difference is the focus on driving tenants to lease space in older office buildings. Since the pandemic and the embrace of

remote work, vacancies, particularly in Class” B” and “C” buildings, have remained elevated relative to pre-pandemic levels, as newer buildings with amenities that are in demand account for much of the new leasing activity. Yet despite the lower demand, asking rents in older buildings have not fallen dramatically. The proposed credit against business taxes would enable relocating firms to use the savings to sign leases with higher rents than they otherwise would have. EDC estimates that the credit is equivalent to a roughly \$20 per square foot rent discount.

EDC also estimates that in addition to the hoped for 3,000 relocated workers, the credit will generate almost as many additional indirect jobs in business services, eating and drinking establishments, and other personal services in business districts. Evaluations of REAP and other employment incentive programs, such as the Commercial Expansion Program and the Commercial Revitalization Program, have often found that these programs do not generate the expected employment gains, and that the return to the city, if any, is less than anticipated. These evaluations suggest caution and careful scrutiny of the assumptions used in developing this credit. Bringing existing jobs into the city and signing leases in qualified buildings will help support the value of older buildings and hopefully allow landlords to avoid tax delinquencies. Because building owners often face minimum asking rent requirements in their financing agreements and other constraints on their rent flexibility, it is unrealistic to expect asking rents to move inversely in lockstep with vacancy rates. However, to the extent that relocating firms use the savings from the credit to pay rents that are out of line with vacancies, the credit is using public dollars to cover the difference between asking rents priced in relation to actual vacancy rates and asking rents priced as if vacancies were lower than current levels.

While the program may be more generous than necessary, it promises to help address a major challenge for the City budget – namely, how to increase occupancy rates in older commercial buildings so as to avoid a major fall in the value of those buildings. The simple answer is to increase the number of tenants. The RACE credit is set up as a pilot program. As such, there must be an opportunity to look carefully at how the program is working before deciding whether there is still an extended need for the credit and whether the benefits to the city are in line with the cost. The program should only be extended beyond the three-year pilot period if such a review answers these questions in the affirmative.

Federal Tax Policy Threat: Much of the discussion of federal threats to New York City has focused on the spending side, and for good reason. However, there are proposed changes underway that would also harm the revenue side of the City’s budget. One is President Trump’s continued demand for ending taxes on Social Security benefits, tips, and overtime pay. Because the New York City (and State) income taxes are closely linked to the federal income tax, removing those sources from Adjusted Gross Income at the federal level would flow through to the city and state tax bases. Very rough estimates suggest that ending the tax on half of Social Security benefits for incomes greater than \$32,000, along with exempting tip income and overtime pay could cost the City roughly \$2 billion a year. The City would almost certainly move to “de-couple” from the federal code and continue taxing these sources. This would come at a cost of adding to the already complex process of filing taxes.

Another change being debated is the extension of the 2017 Tax Cut and Jobs Act (TCJA). Many of its components will expire at the end of calendar year 2025. Prior to the passage of TCJA, state and local taxes (SALT) paid were fully deductible for federal tax purposes. This meant that for New York taxpayers who itemized their deductions, roughly a third of the burden of their state and local taxes were shifted to the full complement of federal income taxpayers. In 2017, the SALT deduction was capped at \$10,000, effectively raising the federal income tax for many taxpayers in high tax/high service states and cities, such as New York, whose state and local taxes exceed \$10,000.

The SALT deduction has long prompted a mixed response. Many progressives and tax analysts oppose the deduction because it disproportionately benefits higher income taxpayers. On the other hand, progressives also are generally supportive of strong tax bases to fund local services. President Trump has called for removing the cap as part of the extension of TCJA while some of the most conservative members of Congress have proposed ending the deduction entirely to raise money as an offset to other tax cuts. For New York, the concern is that eliminating the SALT deduction entirely would make it harder to garner support if local taxes must be raised in the future, because the burden would fall entirely on New Yorkers, with no shifting to the federal level.

Thank you and I am happy to answer any questions.