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Budget Option

Expand and Simplify Hotel Tax Room Rate

Revenue: $155 million annually

The New York City hotel occupancy tax consists of two amounts: first, a 5.875 percent tax on the total rent paid by the consumer, and second, a flat daily tax based on the room rate. Since 1980, the per-room tax has been split into four daily tax rates:

- If the room rent per day is $10 or more but less than $20, then the tax rate is $0.50 per day.
- If the room rent per day is $20 or more but less than $30, then the tax rate is $1.00 per day.
- If the room rent per day is $30 or more but less than $40, then the tax rate is $1.50 per day.
- If the room rent per day is $40 or more, then the tax rate is $2.00 per day.

For example, a guest staying in a $250 per night room for four nights would pay the hotel occupancy tax in two sections: 1) the daily room tax, in this case equal to 4 times $2.00, or $8.00; and 2) 5.875 percent of the total rent charged for the four-night stay, in this case $1,000, or $58.75. The total hotel tax would then be $66.75, and the cost including the base hotel rent would be $1,066.75 (the guest would also pay City and State general sales taxes on the base hotel rent of $1,000)

Under this option, the daily room rate would be simplified into one rate, set at double the current top rate of $2.00 per day—since the cost per night for most hotel rooms now well exceeds $40. The new daily room rate would be $4.00 per day, regardless of the room rent. IBO estimates that changing this portion of the hotel occupancy tax would result in $155 million in additional annual revenue. Under this option, in the example above, the City's hotel tax would increase by $8.00, a less than one percent increase in the cost including the base rate per night. This estimate is based on there being no reduction in tourism following the increase in the hotel tax.

This option would require an amendment to the City's administrative code (section 11-2501, et seq.).

Proponents might argue that the additional tax described above would be small relative to the overall cost of staying in a hotel and, therefore, would be unlikely to significantly reduce tourism and hotel stays. They may also note that increasing the tax would not present a new burden for hotel operators, since they already calculate and collect a daily room rate from guests. Supporters might add that this simpler version of the daily room tax would be easier for hotel operators to calculate. Finally, proponents may point out that increasing the tax would account for some inflation since 1980 when the room rate was last updated.

Opponents might argue that the tax, while small, would nevertheless increase the costs of tourism to New York City, which could lead to fewer tourists choosing to visit the city or to stay as long. Since tourism is an important driver of the city's economy, reduced tourism could have negative effects in terms of economic activity and revenue collection. Opponents could also argue that the City should not impose additional tax burdens on the City's leisure and hospitality sector, which has been slow to recover from its downturn during the Covid-19 pandemic.

Prepared by Eric Mosher

Budget Option

Give Licenses to All Unlicensed Cannabis Stores

Revenue: $5 million annually

Since the legalization of non-medical adult-use cannabis sales and consumption in New York State in 2021, the City has seen a handful of licensed cannabis dispensaries and an explosion of hundreds of shops selling cannabis without a State license. City officials have estimated that there are at least 1,500 of these unlicensed shops across the city, none of which collect State or local cannabis tax on sales. This budget option estimates the fiscal impact of granting licenses to all currently unlicensed cannabis dispensaries in the city. Based on data from the State Office of Cannabis Management on amounts of illicit cannabis products seized from unlicensed stores over the course of 2023, IBO estimates that this action would increase City revenue by $5 million annually, as well as additional revenue for the State. This estimate assumes that prices and product volume held by unlicensed smoke shops will remain constant. This option would require amending the New York State Marihuana Regulation & Taxation Act of 2021.

Proponents might argue that granting additional licenses would help the City collect revenue on sales that are already being made. They might also point out that legalizing current illicit sales would reduce the law enforcement resources needed to monitor unlicensed shops and seize products. Finally, supporters may reason that giving licenses to illicit shops could be a faster and simpler way to create a legal cannabis market in New York City than the current system. Supporters might also point out that the longer illicit smoke shops operate without legal recognition or remitting tax, the more normalized the shops become—potentially leading to a consumer protection issue in which New Yorkers do not know the distinction between legal and illicit cannabis products and shops.

Opponents might argue that rewarding the actions of unlicensed shops would not be fair to the hundreds of entrepreneurs who have legally applied for cannabis licenses, many of whom have not yet had the opportunity to open their stores due to lawsuits and injunctions. Opponents may also point out that this method of licensing may not help the State meet its social equity goals of ensuring that a certain proportion of cannabis licenses go to justice-involved individuals, and that it is too soon after legalization to be making drastic changes to the licensing process. They may also claim that, because these businesses have been operating illegally for some time, they may not be willing to collect and remit taxes or follow quality control standards even if they become licensed. Finally, opponents may claim that the annual revenue benefit of this action would diminish over time, as unlicensed shops face greater competition from additional licensed dispensaries across the city.

Prepared by Eric Mosher and Alaina Turnquist

Budget Option

Repeal Small Special-Interest Tax Provisions

Revenue: $53 million annually

Tax expenditures, or “tax breaks,” are policies in the tax code that reduce the amount a taxpayer owes the government, effectively costing the government revenues it would have otherwise received. Small tax breaks—those that cost the City $5 million or less each year—reduce most of the various taxes collected by the City, including property, sales, excise, and business income tax. According to the Department of Finance’s (DOF) 2023 report on tax expenditures, there are 32 different small tax breaks in the City’s tax code. IBO estimates the City could recapture roughly $53 million annually if it repealed small tax breaks. This would involve eliminating $34 million in sales tax breaks, $11 million in property tax breaks, $7 million in business and excise tax breaks, and $750,000 in personal income tax breaks.

Many of these small tax quirks are highly specific and only applicable to extremely small subsets of taxpayers. For example, personal property sold by morticians, motor vehicles purchased out-of-state by a member of the military, and coin-operated car wash services are exempted from sales tax.

This option would require action by the State Legislature.

Proponents might argue that the proliferation of small exemptions in the law contributes to an unnecessarily complicated tax system that makes it difficult to evaluate the equity and efficiency impacts of the overall tax system. Small tax breaks that only benefit hyper-specific entities do not represent the best and highest use of tax dollars for the public good. Instead, these tax breaks are often the result of special interest lobbying and take away available funding to spend on more widely beneficial City programs and projects. Tax breaks reduce flexibility in government spending and forces the City to forego revenues even when facing a budget gap. If the government wants to support any small businesses or individuals relying on niche tax breaks, they can do so through direct and flexible government spending that is more able to respond to changing needs within the City.

Opponents might argue that small tax breaks are not the main source of foregone revenues in the tax system. Those interested in reforming tax policy should instead focus higher value tax breaks, such as the numerous high-dollar property tax abatement programs that benefit large firms and property owners or discounts given on the business corporation tax. Opponents might also argue that by singling out small breaks and leaving the large tax expenditures in place, this may create a less equitable tax system. Additionally, dollar amounts that seem small to the City, in some cases, may have a substantial impact on the finances of small businesses in the relevant industries.

Prepared by Alaina Turnquist

Budget Option

Allow the Commercial Revitalization and Commercial Expansion Programs to Expire

Savings: Minimal in 2029, growing to $20 million annually in 2039 when savings are fully phased in

The New York State Legislature enacted the Commercial Revitalization Program (CRP) in 1995 to increase occupancy of older office and retail spaces in Lower Manhattan by offering incentives to spur improvements in buildings constructed before 1975. The Legislature enacted the Commercial Expansion Program (CEP) in 2000 using the same approach to help promote the development of commercial, manufacturing, and industrial areas in the outer boroughs. Building owners who participate in either of these programs are required to spend a minimum amount on renovations and other improvements of their property. To offset property tax increases resulting from the improvements, owners receive tax abatements, for a period of 3 years to 10 years, depending on the type of space improved. Tenants renting these renovated spaces can also receive a reduction in their commercial rent tax (CRT) liability. In 2005, the area eligible for the CRT benefit was expanded to cover more of Lower Manhattan. The program was last amended in 2023, which extended the application eligibility period through 2028.

The Department of Finance estimates that these programs cost the City over $20 million of forgone tax revenue in 2023— $14 million from property tax abatements and $6 million from CRT reductions in Lower Manhattan. If the State Legislature allowed the CRP and CEP programs to expire by not extending Section 499a of the Real Property Tax Law, no new benefits would be granted starting in fiscal year 2029. Already existing program participants would continue to receive the abatement until their benefits period end. With fewer program participants receiving benefits each year, savings from ending the programs would phase in gradually over 10 years as previously granted benefits expire, growing to $20 million annually in 2039.

Proponents might argue that these programs were enacted when the City needed them but are not necessary now. The CRP eligibility zone encompasses the Financial District and other Lower Manhattan areas that since the 1990s have become desirable mixed-use neighborhoods, providing owners of older buildings plenty of reasons to upgrade their buildings without offering City tax breaks. In a 2018 analysis, IBO found that property owners who upgrade their buildings generally spend more than the minimum required under CRP and CEP, suggesting that the tax benefit offered only limited inducement for investment. IBO concluded that the programs have had little influence on vacancy and employment rates compared with rates in areas not eligible for the benefit.

Opponents might argue that the CRP and CEP help property owners defray the cost of renovating their properties to compete with the new commercial properties built in the eligible areas the last several years. They may also argue that given that New York City continues to work to attract and maintain manufacturing and industrial jobs, the CEP helps incentivize such firms to sign long-term leases and encourage these companies to undertake the necessary upgrades of their facilities.

Budget Option

Allow the Relocation and Employment Assistance Program to Expire

Revenue: $2.5 million in 2026, increasing gradually to $30 million in 2038

The Relocation and Employment Assistance Program (REAP) provides City tax credits to businesses that relocate jobs from outside New York City or from Houston Street to 96th Street to the boroughs outside Manhattan or to eligible locations in Manhattan (below Houston Street or north of 96th Street). Currently, firms receiving REAP benefits get credits for 12 years against their business income and utility taxes; REAP tax credits are refundable for the year of relocation and the next four years. The credits are either $3,000 per qualified employee for businesses relocating to eligible areas also designated as revitalization zones or $1,000 per employee for firms moving to areas outside of revitalization zones.

Originally enacted in 1987, the program has been renewed several times. The amount and duration of credits and areas of the city that are eligible have also changed over the years. REAP is currently set to expire on June 30, 2025, and State legislation is required for the program to be reauthorized. The program, however, has never been evaluated to make sure that it is achieving its stated objective: expanding employment outside of the Manhattan business core, particularly by attracting new firms to the city. The Department of Finance estimates that REAP credits cost the City $30 million of foregone tax revenue in 2023, with around 200 firms receiving the credit. If REAP were allowed to expire in 2025, the cost of the program would phase out gradually over 12 years as firms currently receiving the credit would continue to do so until their eligibility ended. Savings in the first year would be about $2.5 million, growing to $30 million in 2038.

Proponents might argue that although REAP helps companies reduce the cost of relocating to eligible areas of New York City, it likely does not play a vital role in companies' decisions to relocate employees. Businesses considering a move to New York City are more concerned with access to markets, a highly skilled labor force, and other amenities the city has to offer. As of fiscal year 2023, only 200 firms out of the hundreds of thousands of firms operating in the city benefited from this program. Proponents might also point out that businesses that are eligible for REAP by simply relocating from one location within the city to another do not increase the city's employment base.

Opponents might argue that because the cost of doing business in New York City is already so high, any program that provides a financial incentive for companies to relocate their employees here would be beneficial to the city in the long run. REAP also helps efforts to promote the City as business friendly. Finally, opponents might argue that REAP benefits help businesses already in the city remain here by reducing the cost of relocating to less expensive areas in the city.

Prepared by Richard DiSalvo

Budget Option

Bring Civil Service Test Fees in Line with Costs

Revenue: $14 million annually

New York State's civil service system was implemented in 1883 in the wake of President Garfield's assassination by a disgruntled patronage seeker. The system, enshrined in the State Constitution, serves as a bulwark against the temptation by elected officials to use their office to enrich supporters. According to the Department of Citywide Administrative Services (DCAS), 80 percent of the City's job openings are currently filled through competitive civil service exams. Potential employees are hired from merit-based lists established through exams that are either open to the public or taken by civil servants seeking promotions. Each public-sector civil service exam has an application fee that the applicant must pay to DCAS. According to the 2023 Mayor's Management Report, DCAS received an average of 104,374 applications for civil service exams over the prior five years.

Legal precedent in New York has authorized municipal governments to charge fees for services, so long as the fees do not exceed the cost of administering the program or service for which the fee is applied. Over the past five years, the City spent $13 million annually on average for exam development and administration while only collecting an average of $6 million annually in fee revenue. Currently, $14 million is budgeted for developing and administering civil service exams in fiscal year 2024. Under this option, civil service exam fees would increase, aligning the fee schedule with the current cost of developing and administering the City's civil service exams. This option would require amending the State Civil Service Law.

New York City's civil service exam fees are determined by the minimum of the salary range of the title for which the exam is given. The current fee schedule includes differing fees across 11 salary ranges. As a result, the annual revenue derived from civil service exam fees varies from year to year based upon what type of exams are given and the salary ranges for those positions. The current average exam payment is $74; under this option the average payment would increase to $130.

Proponents might argue that permanent civil service appointments provide access to benefits and job protections that are unique to public-sector employment. Increased civil service exam fees would enable DCAS to devote resources to alternative recruitment, retention, and human capital projects to continue modernizing City hiring. In addition, supporters could point out that the exam fee schedule has not been updated in nearly a decade while the City's cost of developing and administering the exams has continually risen.

Opponents might argue that the City's civil service system is difficult to navigate and understand for many job seekers. The process often takes many months, if not years, and can be a deterrent for many applicants. Increasing exam fees would be another barrier that restricts the pool of applicants; in fact, the State has waived its civil service exam fees until December 2025 to promote equity. Increased exam fees would remove incentives for the City to become more cost effective and efficient in the exam delivery process.

Prepared by Zachary Herman

Budget Option

Broaden Sales Tax to Include Digital Media Goods and Streaming Services

Revenue: $55 million annually

As the internet's role in consumer technology has grown, the ways that households consume watch, read, and listen to media have evolved. Many consumers are moving away from purchasing physical copies of movies, books, and music in favor of digital versions or streaming services that offer content on-demand. The purchase of these digital goods and services, however, is not included in New York City's sales tax base. This budget option explores the potential revenue from applying New York City sales tax to digital media goods and subscriptions to streaming services; IBO estimates doing so would generate $55 million annually for New York City. This option would require state legislation to authorize New York City to impose the tax, which could be accomplished through amendments to Articles 28 and 29 of the New York State Tax Law.

Proponents might argue that as consumers continue to shift their consumption away from physical entertainment goods in favor of digital goods and services, tax law should adapt to account for some of the lost revenue from declining sales of physical products. They may also note that broadening the sales tax to include streaming services and digital media is a more efficient, transparent, and neutral approach to taxing the digital economy than creating new excise taxes that directly target digital goods or streaming services. Finally, they may contend that several states and localities are moving toward sales tax regimes that include streaming subscription services and digital media, providing potential blueprints to guide a similar effort in New York.

Opponents might argue that the New York State sales tax was designed to apply to tangible personal property, and since digital goods and streaming subscriptions are not tangible and cannot be resold, they should not be subject to sales tax. In addition, since low-income households spend a greater share of income than high-income households on audio/visual services, including digital media and streaming subscriptions, opponents might contend that this approach would further the regressivity of the sales tax. Opponents may also suggest that sales location and other issues may arise, if for example, a New York City resident accesses a streaming subscription or buys a digital media file from another city or state with a different approach to taxing digital goods or streaming services.

Prepared by Cole Rakow

Budget Option

Cap Personal Income Tax Credit at $10,000 for Payers of the Unincorporated Business Tax

Revenue: $75 million annually

In 1966, New York City established the Unincorporated Business Tax (UBT) to tax business income from unincorporated sole proprietorships and partnerships. Since fiscal year 1997, New York City residents with positive UBT liability have been able to claim a credit against their City personal income tax (PIT) liability for some or all of the UBT they pay. The credit was created to minimize double taxation of the same income to the same individual. This option would cap the credit at $10,000.

The current PIT credit for UBT paid is designed to be progressive. New York City residents with taxable personal income of $42,000 or less receive a credit equal to 100 percent of their UBT liability. This percentage decreases gradually for taxpayers with higher incomes until it reaches 23 percent for taxpayers with incomes of $142,000 or more. Data on the UBT credits from the City's Department of Finance by income groups shows that for tax year 2019, a total of $144 million in credits was provided to over 24,000 city resident tax filers. Of those recipients, more than 7,500 with federal adjusted gross income (AGI) of $1 million and above received an average credit of approximately $14,421. Capping the UBT credit at $10,000 would increase PIT revenue by an estimated $75 million annually. This option would not affect commuters, as they do not pay City personal income tax. Since the elimination of the commuter PIT in 1999, the UBT has been the only City tax on commuters' unincorporated business incomes earned in the city. This option would require amending State tax law and the City's administrative code.

Proponents might argue that the progressive scale of the PIT credit for UBT paid is not sufficiently steep, especially at higher income levels, and that capping the credit is a good way to control the cost of the credit to the City. They might also argue that the cap would only affect a relatively small number of taxpayers (12 percent of all UBT credit recipients), with 79 percent of those with incomes more than $2 million in New York AGI, who would be able to afford the tax increase. There would be no reduction in the personal income tax credit provided to the other unincorporated business owners.

Opponents might argue that the progressive scale of the PIT credit for UBT paid means that resident taxpayers with taxable incomes over $42,000 already face some double taxation of the same income, and that double taxation would increase under the proposal. They might also argue that a better alternative would be to increase the rate on the UBT while simultaneously increasing the PIT credit for city residents' UBT liability, thereby having more of the tax increase fall on nonresidents who are not subject to double taxation on the same income by the City. As with any option to increase the effective tax on city businesses, there is some risk that proprietors and partners will move their businesses out of the city in response to the credit cap.

Budget Option

Charge a Fee for Curbside Collection Of Nonrecyclable Bulk Items

Revenue: $60 million annually

The Department of Sanitation (DSNY) currently provides free removal of large items that do not fit in a bag or container as part of its residential curbside collection service. Bulk items that are predominantly or entirely metal, including washers, dryers, refrigerators, and air conditioners are collected as recycling, while all other bulk items are collected as refuse. Nonrecyclable bulk items, including mattresses, couches, carpet, and wood furniture, make up about 3.2 percent, or 98,000 tons, of New York City's residential refuse stream (61 bulk items per ton, in an average year). In 2022, the city spent about $13 million to export and landfill these items.

Under this option, DSNY would institute a $20 fee for every nonrecyclable bulk item that they collect, generating around $60 million in revenue in the first year. The fee could be paid through the purchase of a sticker or tag at various retailers, such as grocery and convenience stores, or directly from DSNY's website. The sticker or tag would be attached to the bulk item, once it is placed at the curb, making proof of payment easy for sanitation workers to see. Items would continue to be collected on regular trash days.

This option assumes a 20 percent reduction in the number of bulk items thrown out for DSNY to collect in response to the fee, which itself would lead to a $2.8 million reduction in waste export costs due to fewer bulk items being sent to landfills. Administrative and enforcement costs are assumed to equal 20 percent of total revenue. Ten percent of the bulk items are assumed to be picked up erroneously, not having paid the fee. An additional 15 percent, representing bulk items weighing less than 15 pounds, are assumed to be shifted into the bagged refuse stream. Under this option, the collection of recyclable metal bulk items would continue to be provided without a fee. This estimate does not include fees for electronic bulk items, such as computers or televisions, which are banned from disposal and are handled through legally mandated free manufacturer take-back programs.

Proponents might argue that exporting waste to out-of-state landfills is expensive and having residents pay directly for their largest and heaviest items more directly aligns use of the service to the cost of providing the service. They could note that many other cities charge for bulk collection or limit the number of bulk items a property may have collected each year. Additionally, charging a fee for large refuse items would give residents some incentive to send less of their waste to landfills, either by donating their items for reuse or simply by throwing out fewer bulk items. Proponents could point to the city's NYC Stuff Exchange, which could help residents get rid of items they do not want without throwing them away and at no cost. They could also argue that any needed increases in enforcement for illegal dumping would be covered by the revenue generated by the collection fees and the summonses issued to violating properties.

Opponents might argue that this fee would be difficult to implement and enforce in a large, dense city such as New York. Instituting a fee for what was previously a free service could increase illegal dumping of bulk items, which could require increased spending on enforcement and be a nuisance to nearby residents. Multifamily buildings, which often gather all residents' garbage in common areas, could face more difficulties with this new charge, as the building owners would be responsible for their tenants' behavior. They could be burdened with untraceable items and forced to pay the fee on their tenants' behalf. Opponents could also argue that the fee is particularly burdensome for low-income residents. Lastly, they could argue that this fee would not reduce DSNY's tonnage very much because certain items, such as broken or heavily-used furniture will have no potential for reuse and will have to go to a landfill eventually.

Budget Option

Collect PILOTS From Private Higher Education Institutions and Hospitals

Revenue: $165 million annually if applied to student, faculty, and staff housing

Under New York State law, real property owned or used by private higher education institutions and hospitals is exempt from the City's real property tax. In fiscal year 2024, these exemptions cost the City $1.5 billion—a $695 million tax expenditure for higher education and a $806 million one for hospitals. At universities and hospitals, exemptions for student, faculty, or staff housing represented 17 percent ($250 million) of the total. Under this option, nonprofit colleges, universities, and hospitals in the city would make payments in lieu of taxes (PILOTs), either voluntarily or through legislation.

There are many example universities paying PILOTs to municipalities. Brown University has agreed to pay the City of Providence $175 million over 20 years. Princeton University contributed $10 million to its town in 2020. In Boston, private universities and hospitals are required to make PILOTs equal to 25 percent of what their property taxes would have been.

Based on fiscal year 2024 tax assessments, if New York City universities and hospitals were to make PILOTs equal to 66 percent of the exempted tax liability for student, faculty, and staff housing properties, the City would receive $165 million in PILOT revenue—$51 million from hospital housing, $54 million from student dormitories, and $60 million from other higher education student or faculty housing. (If the PILOTs were calculated as 66 percent of tax exemptions on all of their properties, university and hospital PILOTs would boost revenue to the City by $990 million.)

Because university and hospital properties are tax-exempt, currently there is little incentive for the Department of Finance (DOF) to devote resources to assessing their value as accurately as possible. If these institutions were required to pay PILOTs, greater attention to these properties could change assessed values and estimates of additional City revenue. This option would require an amendment to the New York State Real Property Tax Law.

Proponents might argue that colleges and universities consume City services without paying their share of the property tax burden. With respect to housing facilities specifically, proponents could contend that housing is not directly related to providing education or medical services. Instead, housing is an optional service that organizations elect to provide. Finally, proponents might point to several other cities that collect PILOTs, including large cities such as Boston, Philadelphia, New Haven, and Hartford and smaller cities such as Cambridge and Ithaca.

Opponents might argue that colleges and universities already contribute to the city: provide employment opportunities, purchase goods and services from city businesses, provide an educated workforce, and enhance the community through research, cultural events, and other programs and services. Opponents also could argue that the tax exemption on faculty and staff housing encourages residence and consumption of local goods and services, thereby generating income tax and sales tax revenue.

Budget Option

Collect Sales Tax on Capital Improvement Installation Services

Revenue: $364 million annually

Currently both the City and State sales taxes in New York exclude charges for improvements that constitute a permanent addition or alteration to real property, substantially increasing its value or prolonging its useful life. Examples include: installation or replacement of central air systems, heating systems, windows, and electrical wiring; and planting trees, lawns, and perennials. Property repair, maintenance, and more minor installation services (including the installation of items such as window air conditioners, that do not constitute permanent additions to real property) are subject to the sales tax. By broadening the sales tax base to include capital improvement installation services, this option would increase City revenue by an estimated $364 million. This option requires the State Legislature to authorize New York City to impose the tax, which could be accomplished through amendments to Articles 28 and 29 of the New York State Tax Law.

A sales tax exception would be retained for replacements necessitated by property casualties such as storms or fires. Note that the above revenue estimate does not incorporate an estimate for a casualty exception. Nor does it factor in the possibility that imposing the sales tax could reduce the scale of capital improvements services or lead to increased tax evasion by the providers and purchasers of these services.

Proponents might argue that there is no economic distinction between real property improvements and other services that are currently taxed; broadening the sales tax base would ensure a more neutral tax structure and decrease differential tax treatment. Others might argue that base-broadening could allow a reduction in the overall city sales tax rate, which in turn would strengthen the City's competitiveness and diminish the economic burden imposed by the sales tax.

Opponents might argue that capital improvement installation services, unlike other services, are intermediary inputs whose benefits are not exhausted when they are purchased, but only over a long period of time. Therefore, a tax on installation services would run afoul of the principle that sales taxes fall on final household consumption. In addition, improvement installation services increase property values. They are therefore already a source of revenue through the City's real property tax and real estate transaction taxes, and to the extent that taxing installation services curtails improvements, it will have a negative impact on revenue from these other taxes. Finally, the tax would hit employment in—and in some cases possibly the existence of—firms and subcontractors providing improvement services.

Prepared by Eric Mosher

Budget Option

Commuter Tax Restoration

Revenue: $1.2 billion annually

This option would restore the nonresident earnings component of the personal income tax (PIT), known as the commuter tax. From the time it was established in 1971, the tax had equaled 0.45 percent of wages and salaries earned in the City by commuters and 0.65 percent of income from self-employment. The New York State Legislature repealed the tax effective July 1, 1999. Assuming the Legislature restored the commuter tax—formerly authorized in Article 30-B of New York State Tax Law—at its former rate effective July 1, 2024, IBO estimates that the City's PIT collections would increase by $1.2 billion each year, based on data from the Mayor's Office of Management and Budget.

Proponents might argue that people who work in the city, whether residents or not, rely on police, fire, sanitation, transportation, and other city services and thus should assume some of the cost of providing these services. If New York City were to tax commuters, it would hardly be unusual—New York State and many other states, including New Jersey and Connecticut, tax nonresidents who earn income within their borders. Moreover, compared with the PIT rates facing residents, it would not unduly burden most commuters. Census Bureau data for 2019-2021 indicate that among those working full-time in the City, the median earnings of commuters was $80,000, compared with $50,000 for City residents. Also, by lessening the disparity of the respective income tax burdens facing residents and nonresidents, reestablishing the commuter tax would reduce the incentive for current residents working in the City to move to surrounding jurisdictions. Finally, some might argue for reinstating the commuter tax on the grounds that the political process which led to its elimination was unfair despite court rulings upholding the legality of the elimination. By repealing the tax without input from or approval of either the City Council or Mayor Giuliani, the State Legislature unilaterally eliminated a significant source of City revenue.

Opponents might argue that reinstating the commuter tax would adversely affect business location decisions because the City would become a less competitive place to work and do business both within the region and with respect to other regions. By creating disincentives to work in the City, the commuter tax would cause more nonresidents to prefer holding jobs outside of the City. If in turn, businesses that find it difficult to attract the best employees for City-based jobs or self-employed commuters (including those holding lucrative financial, legal, and other partnerships) are induced to leave the City, the employment base and number of businesses would shrink. The tax would also make the New York region a relatively less attractive place for businesses to locate, thus constraining growth of the City's economy and tax base. Another argument against the commuter tax is that the companies that commuters work for already pay relatively high business income and commercial property taxes, which should provide sufficient revenue to pay for the services that commuters use. Finally, with the advent of the mobility payroll tax to support the Metropolitan Transportation Authority, suburban legislators could argue that suburban households (and firms) are already helping to finance the City's transportation infrastructure.

Budget Option

Eliminate the Manhattan Resident Parking Tax Abatement

Revenue: $23 million annually

The City imposes taxes of 18.375 percent on garage parking in Manhattan. Manhattan residents who park a car in a long-term rented space for a month or more are eligible to have a portion of these taxes abated, effectively reducing their tax to 10.375 percent, which matches the tax rate for garage parking in boroughs outside Manhattan. Currently, just over 200,000 vehicles belong to Manhattan's nearly 1.7 million residents. If 1 out of every 5 of these vehicles receives the monthly parking abatement, eliminating this abatement would generate an additional $23 million annually in City sales tax. The elimination of the abatement would require an amendment to New York State Tax Law.

Proponents might argue that having a car in Manhattan is a luxury and that drivers who can afford to own a car and lease a long-term parking space can also afford to pay a premium for garage space. Car owners contribute to the city's congestion, poor air quality, carbon emissions, and wear and tear on streets. Elimination of the parking tax abatement would force Manhattan car owners to pay a greater share of the costs of their choice to drive. They might also point out that the additional tax would be a small cost relative to the overall expense of owning and parking a car in Manhattan. The average pre-tax monthly cost to park is $726 in downtown Manhattan, and $579 in midtown. The tax increase would be about $58 a month downtown, $46 a month in midtown, and lower in residential neighborhoods with less expensive parking. This relatively modest increase is unlikely to notably influence car owners' choices about where to park.

Opponents might argue that the tax abatement is necessary to encourage Manhattan residents to park in garages, thereby reducing demand for the finite supply of street parking. Furthermore, they may argue cars are scarcely a luxury good for the many Manhattan residents who work outside the borough and rely on their cars to commute. Finally, they could argue that, at least in certain neighborhoods, residents are already paying premium rates charged to commuters from outside the city, which are higher than those charged in predominantly residential areas.

Budget Option

Eliminate the Property Tax Exemption For Madison Square Garden

Revenue: $42 million annually

This option would eliminate the property tax exemption for Madison Square Garden (MSG). Since 1982, MSG has received a full exemption from property tax liability for its sports, entertainment, and exposition property. This tax exemption was the subject of an IBO evaluation in 2023. In 2013, the Garden's owners completed a $1 billion renovation of the facility, and as a result the tax expenditure for the exemption more than doubled, and in 2023 is valued at $42 million by the Department of Finance. Eliminating this exemption would require the State to amend Section 429 of the Real Property Tax Law.

The exemption is contingent upon the continued use of MSG by professional major league hockey and basketball teams for their home games. Legislators determined that the "operating expenses of sports arenas serving as the home of such teams have made it economically disadvantageous for the teams to continue their operations; that unless action is taken, including real property tax relief and the provision of economical power and energy, the loss of the teams is likely…" (Section 1 of L.1982, c.459). When enacted, the exemption was intended to ensure the viability of professional major league sports teams in New York City.

Proponents might argue that the City has many fiscal needs that are more pressing than sports and entertainment, and thus the exemption is a poor allocation of scarce public dollars. Moreover, proponents could argue that the historical motivation for the exemption likely no longer applies. MSG Company and the teams playing in the Garden are no longer economically disadvantaged to warrant a subsidy, which has totaled $947 million since its inception, as measured in 2023 dollars. According to Forbes, the Knicks' market value in 2023 is $6.6 billion (the second most valuable team in the NBA); while the Rangers' value was $2.7 billion (the second most valuable team in the NHL). They could also argue that the threat of relocation is much less credible today than in 1982, not only because limited other markets to which the teams could relocate, but also because team revenue is boosted from operating in the nation's largest media market. Thus, relocating would likely cost the Garden more in revenue than it saves through the tax exemption.

Opponents might argue that the presence of the teams boosts city pride and that foregoing $42 million is reasonable compared with the risk that the teams might leave the city. Some also might contend that reneging on the tax exemption would add to the impression that the City is not a friendly place to do business. The City has also entered into agreements with Yankee Stadium, Citi Field, and the Barclays Center to subsidize these facilities directly or indirectly, so the City has chosen to subsidize other stadiums as well.

Budget Option

Expand and Increase City Alcohol Taxes

Revenue: $222 million annually

Many of the laws related to taxation of alcoholic beverages in New York City have remained unchanged since 1980. In New York City, alcohol is taxed by excise taxes on the wholesale sales and general sales taxes on retail sales. This budget option explores the impacts of three potential changes to the City's approach to taxing alcohol.

Levy an additional 3 percent City sales tax on alcohol. Sales of alcoholic beverages in New York City are subject to a general sales tax rate of 8.875 percent, which includes City, State, and MTA-district taxes. This option would increase the City sales tax for the purchase of alcoholic beverages to a combined rate of 11.875 percent. This change would raise additional City revenue by an estimated $191 million annually.

Adjust the alcohol excise tax to account partially for inflation since 1980. Current tax rates for wholesale distribution of alcohol have been constant at 12 cents per gallon for beer and one dollar per gallon of liquor (with alcohol content greater than 24 percent) since 1980. This option would double these excise tax rates, bringing them to 24 cents per gallon of beer and two dollars per gallon of liquor, generating an estimated $27 million in additional revenue.

Expand the alcohol excise tax to include wine and low-alcohol-content liquor. The City's alcohol tax currently only applies to beverages with alcohol content above 24 percent. This option would extend the City's alcohol tax to beer, wine, and liquor with alcohol content below 24 percent, which would yield an estimated $4 million in additional revenue.

These three changes together would increase revenue by a combined $222 million, accounting for anticipated reductions in consumption of alcohol because of the tax increase. These changes would require amendment of New York State Tax Law, Articles 18 and 28.

Proponents might argue that first two of these changes would streamline and simplify alcohol tax laws. They might also argue that since the tax has eroded in real (inflation-adjusted) terms over time, this approach would restore a portion of the real value of the tax to City coffers. A potential benefit of the first approach is that, since sales taxes are based on a percentage of the price the consumer pays, increasing the sales tax on alcoholic products would not lose effectiveness over time due to inflation. Overall, proponents might say, increasing alcohol taxes could serve to discourage excessive consumption of alcohol, which often has negative health-related and economic consequences for individuals, households, and communities. Moreover, they might argue that additional revenue from tax increases could be used to fund treatment and prevention programs to directly address these problems.

Opponents might argue that given that alcohol taxes account for a small proportion of the price of alcohol, even doubling the tax is unlikely to substantially reduce alcohol consumption. They might also argue that the alcohol tax is regressive compared with the City's other revenue sources, for two reasons. First, alcohol expenditures, like consumption expenditures generally, are a larger share of income for low-income consumers. Second, since the tax is levied on quantity, instead of price, the tax paid (as a percentage of price) is higher for the less costly products lower-income New Yorkers are most likely to purchase. Opponents might also argue that instituting a higher tax rate on alcohol would greatly harm restaurants and bars, where profits disproportionately come from the sale of alcohol. They might point out that such establishments support tourism and nightlife, local industries that are major employers and important sources of City tax revenue.

Prepared by Eric Mosher

Budget Option

Extend the Corporate Taxes to Insurance Company Business Income

Revenue: $672 million annually

Since the city's insurance corporation tax was eliminated in 1974 as part of state insurance tax reform, insurance companies are the only large category of businesses that are currently exempt from New York City corporate taxes. New York City had taxed insurance companies at a rate of 0.4 percent on premiums received in the insurance of risks located in the city. This option would restore the taxation of insurance companies in a different form, by simply extending the jurisdiction of the business corporation tax, a tax on corporate profits, to include these companies.

Using previous estimates from the city's Department of Finance and taking into account recent trends in the collection of the city's other corporate taxes, as well as the impact of changes to federal law under the Tax Cuts and Jobs Act (TCJA) of 2017, IBO estimates that the insurance company exemption will cost the city $672 million in fiscal year 2024.

Insurance companies are subject to federal and state taxation. In New York State, life and health insurers pay a net income-based tax. In addition, life insurers pay a 0.7 percent tax on premiums, non-life insurers covering accident and health premiums pay a 1.75 percent tax, and all other non-life insurance premiums are taxed at a rate of 2.0 percent. Almost all states with insurance taxes provide for retaliatory taxation. For example, an increase in New York's tax on business conducted in New York by insurance companies headquartered in Connecticut may trigger an increase in Connecticut's tax on the business conducted in Connecticut by companies headquartered in New York. This option assumes that by extending the city's general corporation tax to include insurance premium income rather than creating a new and separate insurance tax in the city, at least some of these retaliatory taxes would not be triggered, although that would likely be determined on a case-by-case basis. Extending the corporate tax to insurance companies would require legislation in Albany to repeal Chapter 649, Section 11 of the New York State Laws of 1974.

Proponents might argue that much of the tax benefit resulting from the insurance company exemption is exported to out-of-city insurance companies that collect health and life insurance premiums from New York City residents and businesses. They might claim this tax would put the insurance industry on a more equal footing with other industries in New York City, removing its unfair advantage over businesses in other sectors. Insurance companies located here avail themselves of public goods provided by the city and thus should pay city taxes to offset these costs. Finally, if other states impose retaliatory taxes, the city could adopt a credit against insurance firms' business corporation tax liability, although this would reduce the revenue raised under the option.

Opponents might argue that with one of the highest tax rates (combined city and state) in the country, plus other states' retaliatory taxes that might be triggered if the city reinstituted the taxation of insurance companies, the additional burden could be enough to drive insurance firms with large offices and staffs out of New York City. Moreover, the incidence of the insurance corporation tax is unclear. To the extent that insurance companies can pass the additional tax on to their customers in the form of higher premiums, this tax would indirectly increase the tax burden borne by New York City residents buying insurance from New York-based companies.

Budget Option

Extend the Mortgage Recording Tax To Cooperative Apartments

Revenue: $100 million annually

The mortgage recording tax (MRT) is levied on the amount of the mortgage used to finance the purchase of houses, condominium apartments, and all commercial property. It is also levied when mortgages on such properties are refinanced. The City's residential MRT tax rate is 1.0 percent of the value of the mortgage if the amount of the loan is under $500,000, and 1.125 percent for larger mortgages. In addition, mortgages recorded in New York City are subject to a State MRT, of which a portion, equal to 0.5 percent of the value of the mortgage, is deposited into the City's general fund. Currently, loans to finance the sales of cooperative (coop) apartments are not subject to either the City or State MRT, since such loans are not technically mortgages. Extending the MRT to coops was initially proposed in 1989 when the real property transfer tax was amended to cover coop apartment sales. IBO estimates that extending the City MRT to coops would raise $100 million per year. If the State MRT were also extended to coops, the additional revenue to the City would be around 50 percent greater.

This option would require the State Legislature to broaden the definition of financing subject to the MRT to include not only traditional mortgages but also loans used to finance the purchase of shares in residential cooperatives. Under current law (Consolidated Laws, Chapter 60 Tax Law, Article 11 Tax on Mortgages), loans to finance cooperatives are not technically mortgages since they are not used to purchase real estate, but rather shares in a housing corporation.

Proponents might argue that this option serves the purpose ending the inequity that allows cooperative apartment buyers to avoid a tax that is imposed on transactions involving other types of real estate.

Opponents might argue that the proposal will increase costs to coop purchasers, driving down sales prices, lowering coop market values and, ultimately, property tax revenue.

Prepared by Richard DiSalvo and Sarah Sayavong

Budget Option

Impose a City “Mansion Tax”

Revenue: $270 million annually

Sales of real property in New York City are subject to a Real Property Transfer Tax (RPTT). The combined City and State tax rates for residential properties are 1.4 percent when the sales price is $500,000 or less, and 1.825 percent when the price is above $500,000 but less than $1 million. Residential properties that sell for $1 million or more are subject to an additional State tax, often referred to as a “mansion tax.” This tax starts at 1.0 percent for residential properties sold over $1 million, scaling up to 3.9 percent for residences sold for $25 million or more. While technically the RPTT is paid by the seller, economic theory suggests that the burden of the tax is shared (not necessarily equally) between buyers and sellers.

Under this option, IBO models one possible version for the City in which a mansion tax could be levied on residential properties selling for $2 million or more. The tax would have three rates: 1.0 percent on sales of $2 million to just under $5 million, 1.5 percent on sales from $5 million to just under $10 million, and 2.0 percent on sales of $10 million and above. If levied on the entire value of the property—as the State mansion tax is set up—IBO estimates that the tax would generate around $270 million in annual City revenue. If the tax were applied only to property value above $2 million, IBO estimates that revenue collected would be $165 million under this structure. This option would require State legislative approval.

Proponents might argue that the tax would raise a considerable amount of revenue while affecting a relatively small number of buyers and sellers; for example, only 24 percent of residential sales in fiscal year 2019 would have been subject to the new tax. The burden of the tax would be shared by sellers and buyers. Many buyers of luxury residences in New York City already do not pay the mortgage recording tax (MRT) because they make all-cash purchases or because they purchase coops, which are not subject to the tax. Even with an increase in the City RPTT for high-priced properties, in many cases, the buyers of these properties would face a lower tax burden than purchasers of lower-priced residences who pay both RPTT and MRT.

Opponents might argue that under the State mansion tax, luxury residential real estate is already subject to a progressive RPTT rate. The top rates are well above the RPTT rate imposed on commercial sales, which after a recent increase in the State rate, reaches 3.275 percent on properties sold for $2 million or more. Opponents might also point out that taxes on economic activity reduce the level of that activity, meaning that the new tax would lead to fewer residential sales and lower prices net of taxes. Opponents might also note a market distortion under this proposal because the higher tax rate would apply to the entire value of the property—as soon as the sales price reached $2 million, there would be a jump of $20,000 in City RPTT liability. As a result, one would expect a bunching of sales priced just below $2 million, $5 million, and $10 million to avoid the higher tax rate.

Budget Option

Impose Penalties for Failed Façade Inspections and Increase Penalties for Outstanding Façade Repairs

Revenue: $150 million annually

The Department of Buildings (DOB) Façade Inspection Safety Program, also referred to as Local Law 11, is designed to protect pedestrians from falling debris from unstable building façades. Under Local Law 11, buildings that are six stories or taller are required to undergo façade inspections every five years. If the building fails the inspection, the building owner must erect a sidewalk shed and make repairs within 90 days, although this timeframe may be extended by DOB. Beyond that period, if repairs are not addressed, the building owner incurs a civil penalty of $1,000 per month, with additional penalties that increase after the first year.

Over the past two decades, the number of sidewalk sheds on City streets erected after a failed façade inspection more than tripled, from 1,100 in 2000 to 3,400 in 2021. Many of the buildings that fail a façade inspection are not repaired in the year following the failed inspection. In 2021, 57 percent of sidewalk sheds erected after a failed façade inspection were up longer than a year; 7 percent of these sheds were older than four years. Sidewalk sheds that remain up for years after a failed façade inspection represent long-uncorrected unsafe conditions.

This option would impose a penalty for buildings that fail a façade inspection to encourage more preventive maintenance and improve the timeliness of repairs when problems are identified through Local Law 11. The penalty would be equal to 1 percent of the building's assessed value, with a cap at $150,000, upon failure of an inspection. An additional penalty of the same amount would be added for each additional year the façade repairs are not completed. The median annual penalty for failing a façade inspection under this option is estimated at $48,000. IBO estimates that the City would collect an additional $150 million per year were this option to be adopted, assuming the number of buildings with outstanding façade repairs fell by 20 percent in response to the new penalties. DOB may have the authority to levy these fines. Alternatively, City Council could impose this through local legislation.

Proponents might argue that current penalties do little to ensure that building owners proactively maintain their façades, let alone encourage timely repairs. That incentive is particularly low for owners of high-value properties, for which the $1,000 per month penalty pales in comparison to other expenses. Proponents might say with higher penalties that accrue over time, building owners may be more likely to undertake proactive repairs on their façades, rather than wait until they fail a façade inspection to identify and address issues. When building owners delay making façade repairs, the sidewalks continue to be a nuisance to pedestrians, residents, and business owners. Proponents might also argue that the current penalties are regressive because the law currently penalizes owners of low-value buildings the same as high-value buildings.

Opponents might argue that the cost to fix a building's façade in a short time frame may be more than some building owners are able to afford. Were this option to be adopted, some building owners might be pushed to sell their building due to the increased penalties. Furthermore, older buildings often feature ornate stone façades that are more expensive to maintain. This option could make it more likely for building owners to raze older buildings in favor of new construction, or to replace ornate façades with plainer façades that are easier to maintain.

Prepared by Sarah Parker

Budget Option

Include Live Theatrical Performances, Movie Theater Tickets, And Other Amusements in the Sales Tax Base

Revenue: $115 million annually

Currently, State and City sales taxes are levied on ticket sales to amusement parks featuring rides and games and to spectator sports such as professional baseball and basketball games. But sales of tickets to live dramatic or musical performances, movies, and admission to sports recreation facilities where the patron is a participant (such as bowling alleys and pool halls) are exempt from New York City's 4.5 percent sales tax, New York State's 4.0 percent sales tax, and the 0.375 percent Metropolitan Commuter Transportation District (MCTD) sales tax. IBO estimates that in the 2022-2023 season, nearly $1.6 billion in ticket sales were attributed to Broadway shows, with the industry having recovered substantially from a low of $845 million in 2021-2022, during the height of pandemic.

Assuming Broadway ticket sales—by far the largest contributor to the estimated revenue generated by amusements in New York City—continue to exhibit a strong recovery, adding sales of tickets to live theatrical performances, movies, and other amusements to the City's tax base would yield an estimated $115 million in sales tax revenue. This change would require State legislation to authorize New York City to impose the tax, which could be accomplished through amendments to Articles 28 and 29 of the New York State Tax Law.

Proponents might argue that the current sales tax exemptions provide an unfair advantage to some forms of entertainment over others, such as untaxed opera tickets and overtaxed admissions to hockey games. In addition, they may argue that a large share of the additional sales tax would be paid by tourists, who make up the majority of Broadway show theatergoers, as opposed to New York City residents. Proponents may also contend that the tax will have relatively little impact on the quantity and price of theater tickets sold to visitors because Broadway shows are a major tourist attraction for which there are few substitutes.

Opponents might argue that subjecting currently exempt amusements to the sales tax would hurt sales of some local amusements more than others. For example, while sales of Broadway tickets may be relatively unaffected by the introduction of a sales tax on ticket sales, sales of movie theater tickets may decline as more residents substitute a movie streamed over the Internet for a night out at the cinema. In addition, fewer ticket sales for live musical and theatrical performances as well as movies may also reduce demand for complementary goods and services such as meals at city restaurants and shopping at retail stores. Opponents may also point out that this option would break conformity with the state in terms of sales tax base unless Albany also adds these activities to the State sales tax base (as well as the tax base for the MCTD tax).

Prepared by Cole Rakow

Budget Option

Increase Speed Camera and Red Light Camera Fines for Multiple Violations in the Same Year

Revenue: $475 million annually

The New York State Legislature has authorized the installation of cameras around the City to provide for monitoring and enforcement of certain vehicular violations. Speed cameras operate 24 hours a day in 750 school zones around the City. Based on images captured by school zone speed cameras, the City issues citations to owners of vehicles that are found to exceed the posted speed limit by more than 10 miles per hour. The City also operates hundreds of cameras posted at critical intersections, fining vehicles that illegally pass through red lights.

Currently, the fine for either a speed or red light camera violation is $50. Some other violations issued by the City include incremental increases for multiple violations in the same 12-month period. For example, the owner of a vehicle that illegally travels in a posted bus lane is currently fined $50. A second offense within the same 12-month period results in a fine of $100 and the fines increase to $150 for a third offense, $200 for a fourth offense, and $250 for each additional offense after that.

In fiscal year 2023, the City adjudicated over 6.3 million violations for 2.5 million vehicles that violated the posted speed limits in school zones. Over one million of these vehicles (48 percent) had multiple school speed zone violations during the year, while over 66,000 had 10 or more violations. The City also adjudicated nearly 670,000 summonses to over 520,000 vehicles for red light camera violations during fiscal year 2023. Of this total, nearly 100,000 vehicles (19 percent) were issued multiple summonses for red light violations, and 137 vehicles were issued more than 10 such violations in the year.

If the City had an incremental fine structure for repeated school zone speeding and red light camera violations that mirrored the existing incremental fines for bus lane violations, in fiscal year 2023, the City would have collected approximately $475 million of additional revenue. Fines for school zone speed camera violations would have increased by 130 percent while red light camera fines would have increased by 28 percent. Our estimate of revenues under an incremental fine structure assumes no behavioral change. Revisions to sections of the New York State Vehicle and Traffic Law would be required to implement this change.

Proponents might argue that speed and red light camera violations involve moving vehicles and pose a serious threat to life and property. In too many cases, lives have been lost due to someone driving recklessly. Increasing the fine structure for multiple violations could help to further deter reckless driving and thus increase the safety of the city's streets.

Opponents might argue that because red light and speed camera violations are issued to the owner of a vehicle, it is possible that the actual driver of the vehicle may not be paying the increase in fines for repeated violations. If that is the case, an increase in fines would raise revenue but would do little to reduce recidivism. Moreover, some research suggests that there is little relation between traffic fines and behavior for the most frequent offenders. Finally, since these fines would be assessed independently from driver income, they may pose undue burden on low-income violators while having minimal impact on higher-income violators.

Prepared by Emily Pramik

Budget Option

Increase the Number of Tax Auditors in The City's Department of Finance

Revenue: $165 million annually

Tax audits conducted by the City's Department of Finance (DOF) typically bring in over $1 billion in City tax revenue in most years. The amount of revenue collected is sensitive to the Department of Finance's auditing efforts. The number of auditors on the DOF's payroll has been declining in recent years. After peaking in 2019 at more than 350 auditors, by 2022 headcount fell to about 75 percent of the peak, to a level not seen since at least 2013. Concurrently, audit revenue has generally declined, from a high of $1.3 billion in 2018 to $849 million in 2022.

Audits of the City's business income taxes—the corporation taxes and the unincorporated business tax—account for the vast majority of DOF audit revenue, about 82 percent on average in recent years. From 2014 through 2016, DOF made large investments in information technology within the audit unit to design and maintain systems that would more effectively identify potential audits most likely to generate large amounts of revenue.

By comparing the historical relationship between the number of City auditors on the Department of Finance's payroll and the amount of tax audit revenue collected, IBO calculated average net revenue (audit collections minus salary and benefits) generated per auditor from 2017 through 2022, a starting year that captures the impact of newly employed information technologies on revenue. If DOF were to hire 50 additional auditors, restoring staffing levels to their pre-pandemic average, IBO estimates that this would net $165 million in additional tax revenue annually.

Proponents might argue that tax audit revenue represents money that is owed to the City under existing tax law; it should have been already paid and is not a new or additional burden on the businesses or individuals who are audited. The amount of revenue that can be brought in exceeds the labor costs of conducting more audits, making this a sound financial decision for the City. They might also argue that as total tax revenue has continued to grow, in the long run, more effort should be made to ensure that the City is not losing out on revenue due to noncompliance, a sum which could correspondingly be growing as well.

Opponents might argue that audit revenue is a small percentage of total City tax revenue and that efforts to raise additional revenue should be focused elsewhere. They might also argue that since most audit revenue comes from the business income taxes, which are already very high in the City compared to other localities, increased compliance efforts and the costs incurred by businesses during the auditing process may deter business activity in the City. Finally, there would be diminishing returns to hiring additional auditors, because it is likely that the current system prioritizes audits that maximize revenues, and because the City would have to offer higher salaries to new hires in order to compete with the private sector.

Budget Option

Institute a Residential Permit Parking Program

Revenue: $2 million in the first year; $6 million annually by year three

This option involves establishing a pilot residential permit parking program in New York City. The program would be phased in over three years, with 25,000 annual permits issued the first year, 50,000 the second year, and 75,000 the third year. If successful, the program could be expanded in subsequent years.

On-street parking is a perennial challenge for residents of many New York City neighborhoods. Residential areas adjacent to commercial districts, schools, and major employment centers attract large numbers of non-resident vehicles. These vehicles compete with those of residents for a limited number of parking spaces. Many cities faced with similar situations give preferential parking access to local residents, most commonly through a neighborhood parking permit program. The permit itself does not guarantee a parking space, but by preventing all or most outside vehicles from using on-street spaces for more than a limited period, permit programs can make parking easier for residents. In recent years, City Council members have called for residential parking permitting, although any such program would require State approval and amendment of the New York Vehicle and Traffic law.

Under the budget option, permit parking zones would be created in selected areas of the city. Within these zones, a set number of parking spaces would be available only to resident permit holders, with the remaining spaces available to non-residents. The permitted areas would exclude commercial zones and metered parking areas and would ideally be neighborhoods with ample public transportation options and sufficient paid off-street parking available. Permits would be sold to neighborhood residents with valid New York State license plates. IBO has assumed an annual charge of $100, with administrative costs equal to 20 percent of revenue. Depending on the initial performance of the program, the City may opt to expand it to include a larger number of permits, or a limited supply of permits that may be purchased by individuals with out-of-state plates and qualified local businesses.

Proponents might argue that residential permit parking has a proven track record in other major cities, and that the benefits to neighborhood residents of easier parking would far outweigh the fees. The program would also arguably serve as a deterrent to commuters seeking free parking in neighborhoods that lie just beyond the zone where congestion pricing is scheduled to take effect. Finally, requiring permit holders to have vehicles registered in-state would incentivize resident car owners to relinquish their out-of-state plates, a practice that affects the City's and State's revenues from New York vehicle registrations and associated fees.

Opponents might argue that it is unfair for city residents to have to pay for on-street parking in their own neighborhoods. Opponents also might argue that, despite the availability of public transportation or off-street parking, businesses located in or near permit zones may experience a loss of clientele, particularly from outside the neighborhood, because residents would take more of the on-street parking.

Prepared by Emily Pramik

Budget Option

Issue Financial Penalties Against Property Owners Who Fail to Give Access for Building Inspections

Revenue: $13 million annually

Inspections made by the Department of Buildings (DOB) often stem from 311 complaints. However, a DOB inspector cannot inspect a building or construction site without being granted access; if the inspector is refused access, or no one is there to allow the inspector to enter after two attempts, DOB often closes the complaint without any violation being issued. Nearly 20 percent of complaints forwarded to DOB by 311—representing about 50,000 complaints—end in this way each year. While DOB can pursue an access warrant to gain entry, the process to obtain one is onerous, requiring DOB to coordinate with the Law Department and other City agencies before petitioning in court to justify an access warrant, and so is rarely pursued.

DOB violations can carry financial penalties, which are enforced and collected by the City's Office of Administrative Trials and Hearings (OATH). When inspectors are denied access to properties, this means fewer violations and so fewer penalties. Property owners who know they are likely in violation of DOB rules have reasons to refuse access to DOB inspectors. After all, violations not only carry financial penalties, but an open DOB violation on a property can prevent it from receiving construction permits, or even temporarily halt construction work altogether. Currently, other than an access warrant, there is no mechanism to compel or incentivize property owners to allow DOB inspections.

Under this option, DOB inspectors would be able to impose a $500 penalty when they are unable to gain access to a property. Property owners could get the penalty dropped by permitting access at a subsequent inspection. Were the threat of these penalties sufficient to reduce the number of properties where a DOB inspector were unable to gain access by one third, thereby boosting the number of OATH summons issued by DOB, IBO estimates that the combined revenue from these no-access penalties, plus the additional OATH penalties collected for violations found, would result in an additional $13 million in revenue per year, in addition to the benefit of safer buildings and construction sites. To implement this option, DOB may have the authority to levy these fines. Alternatively, City Council could impose this option through local legislation.

Proponents might argue that the current system presents a moral hazard—property owners who know they are likely in violation of DOB rules are more likely to refuse access to DOB inspectors. With limited ways to disincentivize property owners from refusing to access to DOB inspectors, some unsafe conditions and unlawful activities, such as illegal conversions of apartments, likely remain unaddressed, leading to buildings that are less safe for City residents.

Opponents might argue that the process to get an access warrant, through the court system, is a sufficient mechanism to ensure DOB access to a property. The argument that the bureaucratic process of obtaining access warrants through the court system is too cumbersome does not justify that the City should instead use financial penalties to coerce property owners who do not elect to provide that access freely.

Budget Option

Make Real Estate Sales Between Nonprofits and For-Profits Subject to the City's Property Transfer Tax

Revenue: $15 million annually for the City; $9 million for the Metropolitan Transportation Authority

Both the City and State charge real property transfer taxes (RPTT) on the sale of real property. Currently, transfers of real property between nonprofit and for-profit entities are subject to the State RPTT but are exempt from the City RPTT. This option would modify the City's tax treatment of real property transfers between nonprofit and for-profit entities, making them conform to State tax practice. Although RPTT is generally paid for by the seller, in the case of a nonprofit selling property to a for-profit entity, RPTT would be paid by the buyer. Both New York City and the Metropolitan Transportation Authority (MTA) would receive new revenue from this change.

The City's RPTT rates range from 1.0 percent to 2.625 percent, depending on the property's value and type. Included in the highest rate is a 1.0 percent "urban tax" on commercial property sales that is dedicated to the MTA. Based on sales data for fiscal years 2021 through 2023, IBO estimates that eliminating the exemption in the City RPTT for nonprofit transfers to for-profit entities would raise about $15 million annually for the City, and an additional $9 million in urban tax revenue dedicated to the MTA. This change would require State legislation amending Section 11-2106 of the New York City Administrative Code.

Proponents might argue that for-profit entities that sell real property should not receive a tax break solely by virtue of the type of buyer. If the not-for-profit entity is the seller, it will continue to be exempt from the tax, which would instead be paid by the for-profit buyer. In addition, proponents might argue that conforming City taxation to State practice simplifies and increases the transparency of the tax system.

Opponents might argue that while the proposed tax would formally be paid by the for-profit buyer, economic theory posits that buyer and seller would each bear part of the burden. As a result, the proposed extension of the City RPTT may reduce the sale price received by nonprofit sellers, thereby diminishing their ability to provide the services that are their mission.

Prepared by Richard DiSalvo and Sarah Sayavong

Budget Option

Personal Income Tax Increase for High-Income Residents

Revenue: $543 million in 2023, growing annually in the following years

Under this option the marginal personal income tax (PIT) rates of high-income New Yorkers would be increased. The City personal income tax now has four tax brackets. The top bracket begins at $50,000 of taxable income for single filers, $90,000 of taxable income for joint filers and $60,000 for heads of households, and its effective marginal tax rate is 3.876 percent (the 3.4 percent base rate plus a 14 percent surcharge).

This option would add three higher income brackets with higher rates. A fifth bracket with a marginal tax rate of 4.0 percent would be levied on taxable incomes ranging from: $250,000 to $500,000 for single filers; $350,000 to $700,000 for joint filers; and $300,000 to $600,000 for heads of household. A sixth bracket would tax incomes up to $1 million, $1.5 million, and $1.25 million for single, joint, and head of household filers, respectively, at a marginal rate of 4.128 percent. A top marginal rate of 4.264 percent would be levied on incomes greater than $1 million. The proposed top rate is 10 percent higher than the current top rate, although lower than 4.45 percent marginal rate for New Yorkers with incomes over $500,000 that was in effect from 2003 through 2005. Unlike the State's personal income tax, there would be no "recapture provisions" under which some or all of taxable income not in the highest brackets were taxed at the highest marginal rates.

If this option were in effect for fiscal year 2023, PIT revenue would have increased by $543 million. This tax change would require amendment of Chapter 17 of Title 11 of the Administrative Code, which would require State legislation.

Proponents might argue that PIT increase for high income households would provide a substantial boost to City revenues without affecting the vast majority of city residents. Had this option been in place for the entire calendar year 2022, only 4.4 percent of all city resident taxpayers would have paid more tax, all of whom with adjusted gross incomes above $250,000. Almost all the additional tax burden (89 percent) would be borne by the roughly 38,000 taxpayers whose incomes are above $1 million. Finally, they could claim that there is no evidence that many affluent New Yorkers left the city in response to previous tax increases, even with a larger State income tax increase also enacted at the same time.

Opponents might argue that New Yorkers are already among the most heavily taxed in the nation and a further increase in their tax burden is now more likely to induce relocation out of the city. Tax increases only exacerbate the city's competitive disadvantage with respect to other areas of the country. Because of the $10,000 cap on state and local tax (SALT) deductions that was imposed in 2017, taxpayers affected by the proposed increase would not be able to claim the entire amount of their SALT as an itemized deduction from their federal tax, so the burden of City tax increase is greater than it would have been in the past. Even if less burdensome than the 2003-2005 increase, city residents earning more than $5 million would pay, on average, an additional $62,950 in income taxes for calendar year 2022, accounting for 23 percent of total PIT liability. If 5 percent of them were to leave the city in response to higher taxes, this option would yield $186 million less PIT revenue per year (assuming those moving had average tax liabilities for the group).

Budget Option

Repeal the New York City Sales Tax Exemption On Interior Decorating and Design Services

Revenue: $23 million annually

The New York City decorating and design industry is a growing sector; from 2018 through 2022, there has been nearly 30 percent growth in the number of interior designers employed in the New York metro area. Unlike other local governments in New York State, New York City exempts the interior design services industry from local sales tax. (State sales tax remains applicable for the whole state.) The exemption's definition of decorating and design services includes the preparation of layout drawings, furniture arranging, staging, lighting and sound design, and interior floral design.

Interior decorating services are highly concentrated in the city, and it is likely that many locations outside of the city hire New York City-based firms to render services. New York State Department of Taxation and Finance guidelines state that the geographical and location of the services' delivery determines the sales tax rate to be applied. For services rendered directly at a New York City location, the City sales tax exemption is straightforward. Furthermore, however, an owner of a second home in Dutchess County, which would levy a 3.75 percent sales tax on interior design services, can hire a local design firm to develop plans for that home and avoid the local tax if the firm mails the plans to the owner in New York City.

Using Department of Finance 2023 Annual Report on Tax Expenditures estimates, repealing the City sales tax exemption for interior design services could add $23 million in annual revenue to the City budget. Repealing the tax exemption for interior decorating services would require State legislation to authorize New York City to impose the tax, which could be accomplished through amendments to Articles 28 and 29 of the New York State Tax Law.

Proponents might argue that repealing the City's tax exemption of interior design services would conform to the tax treatment elsewhere in the state, simplifying the tax code and reducing compliance costs for both businesses and tax collectors. They could also point out that services such as painting and repair of real property (but not capital improvements) that involve some aspects of interior decorating are currently subject to sales tax, creating potential inequities in tax treatment for similar services.

Opponents might argue that taxing interior design services, which are often an input for other goods and services rather than a final product, is economically inefficient. New York City may lose some firms currently registered within the city due to the exemption. The repeal may also negatively affect consumer expenditures on taxable goods and services such as furniture, fixtures, and floral arrangements that are frequently purchased as part of projects involving interior design work, potentially reducing the overall sales tax base.

Prepared by Sarah Parker

Budget Option

Require the Economic Development Corporation to Remit Surplus Income to the City

Revenue: $67 million per year for three years, $25 million annually in subsequent years

Economic development programs in New York City are administered by the Economic Development Corporation (EDC), a nonprofit organization, under contract with the City. EDC operates and maintains City-owned real estate and can retain surplus revenue to fund its own initiatives, in addition to grant money that it receives from the City and other sources. Because EDC is a non-profit acting on behalf of the City, this spending does not appear in the City's budget.

EDC's real estate operations are extremely profitable. Since 2019, EDC earned an average of $275 million in gross operating revenue each year from sources such as rental income from City-owned properties, income from the sale of City-owned assets, and developer and tenant fees. Related expenses have averaged $121 million per year, leaving an average annual net operating income of $154 million—a 56 percent profit margin.

EDC must remit some of this net income to the City, though the amount is subject to annual negotiations with the Mayor and the Comptroller. Over the past three years, EDC has paid the City an average of $38 million a year. EDC is allowed to retain the rest of its net operating income—$116 million on average—to pay for its own activities. These funds are in addition to grants it receives from the City and other sources, such as federal community development grants and capital project funds.

EDC retains surpluses and build up substantial cash reserves. At the end of 2021, EDC held $108 million in unrestricted cash and investments. The Industrial Development Agency and Build NYC, two affiliated organization staffed by EDC employees, had additional unrestricted investments worth $21 million.

This option would require the Mayor to request EDC and its affiliates to remit their net operating income from real estate asset management activities to the City at the end of each fiscal year. Assuming EDC's recent staffing levels and programmatic spending are maintained, the transfer would net about $25 million in City revenue, in addition to the funds the city currently receives from EDC. If the City were to sweep EDC's current unrestricted cash and investments over a three-year period, this would result in the transfer of another $43 million per year for three years.

Proponents might argue that EDC should not fund its policy agenda using revenue from City-owned property. They could argue that it would be more transparent if the City directly appropriated money for economic development in the context of competing needs, rather than allow EDC to retain revenue that would otherwise flow to the City. This would treat EDC like other revenue-generating City agencies, which are required to remit the revenue they raise to City coffers. They might also argue that the proposal would not compromise EDC's ability to manage City-owned properties, and that EDC could retain its policy functions—though paid for from the City budget.

Opponents might argue that in addition to maintaining and investing in City-owned real estate, EDC already contributes hundreds of millions of dollars to the City's budget each year. They could also argue that EDC funds its own operations without any assistance from the City's general fund, which frees up City funds for other needs. Finally, they could contend that EDC's expense spending is already monitored by the Office of Management and Budget, City Comptroller, and the Corporation's independent board of directors.

Budget Option

Revise the Coop/Condo Property Tax Abatement Program

Revenue: $304 million annually

Recognizing that most apartment owners had a higher property tax burden than owners of Class 1 properties (one-, two-, and three-unit homes), in 1997 the cooperative/condominium (coop/condo) property tax abatement program (Section 467-a) was enacted. This program was billed as a first step towards the goal of equal tax treatment for all owner-occupied housing. But some apartment owners—particularly those residing east and west of Central Park and in northern Brooklyn—already had low property tax burdens.

The abatement has been renewed seven times, most recently in June 2023 when it was extended through fiscal year 2027. A prior extension, covering 2013 through 2015, included a provision to phase out the abatement for nonprimary residences by 2015, and revised the abatement schedule to increase its generosity for relatively lower-valued apartments. In fiscal year 2024, IBO estimates the citywide total cost of the abatement is $788 million, with coop and condo apartments in Manhattan accounting for $555 million of the total cost.

The City could reduce the cost of the abatement program, while continuing to support the intended objective, by reducing benefits for highly valued apartments. This could be accomplished by restricting the program geographically or by property value. For example, buildings located in neighborhoods with a concentration of very high-valued apartments could be designated as ineligible for the program, or buildings with high average assessed value per apartment could be prohibited from participating.

The option modeled here is one in which the abatement program excludes residences where the average assessed value per apartment is greater than $150,000 (which corresponds to about a $1.2 million sale price per apartment in fiscal year 2024). IBO estimates that had this exclusion been adopted for fiscal year 2024, the City would have collected $304 million in additional revenue. The $150,000 threshold would eliminate the abatement for about 30 percent of coop and condo apartments with high assessed values, 93 percent of which are in Manhattan, mostly in the borough's high-income neighborhoods on either side of Central Park and in lower Manhattan. Implementing this option change would require State legislation to revise the abatement's benefits schedule, as detailed in NYS Real Property Tax Law Section 467-a, which was last revised in 2013.

Proponents might argue that the intent of the program was to provide property tax relief to coop and condo owners, but these expenditures are concentrated in neighborhoods where the average household incomes are among the highest in the city. Since government resources are always limited, it is important that the City avoid giving greater-than-intended benefits to some of the it's wealthiest residents.

Opponents might argue that the result of the change would be to increase some apartment owners' property taxes at a time when the City faces pressure to limit its very high overall tax burden. In addition, the abatement program, especially as revised in 2013, provides a tax reduction only for owners' primary residences, and therefore supports homeownership, a common policy objective.

Prepared by Richard DiSalvo and Sarah Sayavong

Budget Option

Tax Large Vacant Residential Lots the Same as Commercial Property

Revenue: $20 million in the first year, rising to $130 million annually when fully phased in

Under New York State law, a commercially zoned lot outside of Manhattan that is situated immediately adjacent to property with a residential structure, has the same owner as the adjacent residential property, and an area of no more than 10,000 square feet is currently taxed as Class 1 residential property, as are all residentially zoned vacant lots. All other vacant land is taxed as commercial property. In fiscal year 2023, there were 14,205 vacant properties taxed as Class 1 that were not owned by government. These Class 1 vacant lots are assessed and taxed at more favorable rates than if they were treated as Class 4 commercial properties.

Under this option, vacant lots not owned by a government entity with an area of 2,500 square feet (the median lot size for Class 1 properties with buildings on them in New York City) or larger would be taxed as Class 4 commercial property, which is assessed at higher values than Class 1 and has no caps on annual assessment growth; 7,080 lots would be reclassified. Phasing in the assessment increase evenly over five years would generate $20 million in additional property tax revenue in the first year, and the total increment would grow by $28 million in each of the next four years. If tax rates remain at their 2023 levels, the total annual property tax revenue generated by the reclassification upon completion of the phase-in would be $130 million. This option would require amending the State's Real Property Tax Law.

Proponents might argue that vacant property could be better utilized and awarding it preferential treatment further encourages its underdevelopment. The intention of the lower assessment rate, they could argue, is to incentivize development of Class 1 property. Vacant land zoned for residential use that is not being developed for its intended purposes may thus be an unwise policy at a time in which the city is experiencing a shortage of affordable housing. At the same time, the minimum lot size requirement would allow very small lots to remain vacant and, along with the City's zoning laws and land use review process, provide a safeguard against inappropriate development in residential areas.

Opponents might argue that that the current tax treatment of vacant residential lots serves to preserve open spacein residential areas in a city with far too little open space. Opponents might also argue that zoning policies are less effective at restricting development in residential areas than the preferential tax treatment because the latter is codified in real property tax law. Furthermore, opponents might also point out that the 7,080 vacant lots have a median land area of 4,000 square feet while the median area of existing Class 1A, 1C, and Class 2 property with at least 2,500 square feet is 11,247 square feet. Thus, many of the vacant residential lots would be too small to develop for housing and would sit vacant even if reclassified.

Budget Option

Tax Laundering, Dry Cleaning, and Similar Services

Revenue: $49 million annually

Receipts from dry cleaning, laundering, tailoring, shoe repair, and shoe shining services are not currently subject to City and State sales tax. This option would lift the City exemption, broadening the sales tax base to include these services. It would result in additional New York City sales tax revenue of approximately $49 million annually and would require State legislation amending Article 29 of the Tax Law and local legislation to impose the tax.

Proponents might argue that laundering, tailoring, shoe repair, and similar services should not be treated differently from other goods and services that are presently being taxed. They might further argue that services make up a growing share of total consumption. Broadening the sales tax base to include more services would help the City maintain sales tax revenue and also decrease the economic inefficiency created by differences in tax treatment. In addition, the bulk of the new taxes would be paid by more affluent consumers who use such services more frequently and have a greater ability to pay. The City's commitment to a cleaner environment, which is reflected in the various City policies that regulate laundering and dry-cleaning services, further justifies inclusion of these services in the sales tax base.

Opponents might argue that laundering, tailoring, shoe repair, and similar services are generally provided by the self-employed and small businesses, and these operators may not have the facility to record, collect, and transmit the tax. They could also argue that bringing those services into the sales tax base would increase the incentive for hotels and restaurants—which together account for a sizable portion of the demand for laundering and dry cleaning services—to do their own laundry and dry cleaning in-house, in turn reducing the revenue of small businesses that formerly provided these services. Finally, they also might also point out that a portion of the additional cost associated with the tax may be shifted to the consumer through an increase in the price of the services.

Prepared by Eric Mosher

Budget Option

Value Gramercy Park as Its Own Lot Instead of Reflecting the Value in Surrounding Buildings

Revenue: $9 million annually

Gramercy Park, which was established in the 19th century, is a private park. The park is fenced and only individuals who have a key to the park can enter. Keys are only available to residents of some—but not all—of the buildings immediately surrounding the park. According to Department of Finance (DOF) property tax records, the park currently has a market value of $0. The value of the park, in theory, is reflected in the assessed value of properties that have keys to the park.

In 2020, IBO conducted an analysis using DOF's fiscal year 2021 property tax assessment rolls and public real estate listings on which buildings have keys to the park, and there appeared to be more properties listed with keys than recorded by DOF as keyholders. Moreover, comparing values of residential coop buildings that DOF determined have keys to the values of similar nearby coop apartment buildings without keys, IBO found no notable differences in market values, assessed values, and property tax per square foot. IBO inferred from this evidence that DOF did not in practice systematically reflect the value of park access in the assessed values of properties that have keys.

If DOF instead were to value the park as an independent lot, based on the median land value of the Class 1 properties surrounding the park, IBO estimates that the park would have a market value of $197 million and property tax liability of over $9 million for fiscal year 2024. IBO does not expect any reduction in tax liability for buildings with park keys because of this policy change. Alternatively, DOF could more accurately assess the full market values of key-holding buildings on the tax rolls to reflect the implied value of park access.

The de facto tax exemption of Gramercy Park dates to a 1910 court ruling where the Trustees of Gramercy Park effectively argued that their properties paid the value of the tax indirectly through their higher property tax assessments, and therefore the park should not be taxed directly. The City never challenged the ruling. The City would need to clarify the tax status of the park in order to collect property taxes on the lot.

Proponents might argue that if any assessment method that depends on capturing value reflected in other properties is not kept current, then the owners with park keys are shifting the tax burden on this private property to the rest of the City, a particularly unfair outcome given the relative affluence of the Gramercy Park neighborhood. They might also point out that directly taxing the value of the private park is a more transparent and efficient way of ensuring that those who benefit from the private park pay their appropriate share for the privilege.

Opponents might argue that although properties with park keys may not pay higher property taxes than similar properties around the park, they pay higher real property transfer and mortgage recording taxes because they tend to have higher sale prices due to park access. Over time these taxes could make up for some of the property taxes foregone from the park. Moreover, the park and surrounding streets are privately maintained, which contributes to making the overall neighborhood more attractive.