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Credits and Abatements: Examining the Adams Administration's Three Tax Proposals

In its Preliminary Budget for fiscal year 2023, the Adams Administration presented a tax program consisting of three proposals, which together would reduce the city tax revenue by an estimated \$300 million annually. The proposal to increase the earned income tax credit against the personal income tax (PIT) accounts for the bulk of the costs—\$250 million a year. The two other proposals would provide abatements to property owners and credits to businesses for creating childcare facilities, with each expected to reduce revenue by \$25 million.

Virtually any change to New York City's tax laws must be approved by the state legislature, and the current proposals are no exception. An omnibus bill introduced in the Assembly to enact various components of New York State's financial plan for state fiscal year 2022-23 (#A.9009-B) includes three sections authorizing the Administration's tax program. The comparable bill introduced in the State Senate (#S.8009-B) has language to enact two of three proposals. The details of the tax program proposals presented here have been gleaned from the Assembly bill.

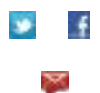
Increase the Earned Income Tax Credit Against PIT Liability. Beginning in calendar year 2004, the city has provided an earned income tax credit (EITC) against city personal income tax liability. For many low- and moderate-income tax filers, the EITC increases the value of earned wages, salaries, and some self-employment income, creating an incentive to work. The credit is refundable, meaning that if the credit exceeds the tax filer's pre-credit liability, the amount of excess credit is refunded to the filer. Since its inception, the amount of the city's EITC has been defined as 5 percent of the already existing federal EITC for eligible tax filers. The amount of the federal credit varies by tax filing status, the number of children, and income.¹

If enacted, the Administration's proposal would increase the applicable percentage from 5 percent of the federal credit under current law, to as much as 30 percent for filers with incomes below \$5,000, with the change taking effect for tax (calendar) year 2022. The percentage of the federal credit would decline for filers with higher incomes, with a minimum of 10 percent for filers with incomes of \$42,500 or greater. (For 2022, the maximum qualifying income for the federal credit is \$53,057 for a family with three or more children.) The proposed schedule contains nine income ranges as follows:

Proposed City Earned Income Tax Credit Schedule	
Income	Percent of Federal EITC
Under \$5,000	30 percent
From \$5,000 to \$7,500	Phase down from 30 percent to 25 percent
From \$7,500 to \$15,000	25 percent
From \$15,000 to \$17,500	Phase down from 25 percent to 20 percent
From \$17,500 to \$20,000	20 percent
From \$20,000 to \$22,500	Phase down from 20 percent to 15 percent
From \$22,500 to \$40,000	15 percent
From \$40,000 to \$42,500	Phase down from 15 percent to 10 percent
\$42,500 or greater	10 percent

NOTE: Income is defined as New York adjusted gross income.
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The Administration estimates that if enacted, its EITC proposal would cost the city \$250 million annually, compared with an estimated cost of \$91.0 million for the current EITC. In tax year 2019, about 829,350 tax filers—about one-fifth of all filers—received the city EITC, and the current proposal would reduce PIT liability or increase PIT refunds for all of these filers. The greatest relative increases in the city EITC proposal would accrue to those



Impact on New York City Earned Income Tax Credit, 2021, for Joint Filers with Two Children					
Income	Current			Percent	
	Federal EITC	City EITC	Proposed City EITC	City EITC Increase	City EITC Increase
\$4,500	\$1,810	\$91	\$543	\$453	500%
\$18,000	5,980	299	1,196	897	300%
\$35,000	3,968	198	595	397	200%

New York City Independent Budget Office

with the lowest incomes under the proposal. Because the city credit is calculated as a share of the federal credit however, the relationship between a filer’s income and the credit under the federal EITC—where, the credit rises as income increases, then remains constant as income continues to rise, before finally phasing out—would still have the greatest impact on the amount of the city credit.

The table at the top of this page provides a few examples, for joint filers with two children, of what the impact of the proposal on the city EITC would be had the proposal been in effect for tax year 2021.

When the Preliminary Budget was released, the Administration announced its intention to lobby the state to also commit \$250 million toward increases in the New York State income tax EITC. As of this writing, the Assembly bill contains a section that beginning in tax year 2022 would increase the state EITC from 30 percent of the federal EITC to 37.5 percent for most filers and 60 percent for single filers with no children. In the Senate bill, the increase to 37.5 percent of the federal EITC would phase in from 2022 through 2025.

Tax Abatements for Property Owners Creating Childcare Facilities. Beginning in city fiscal year 2023 through 2030, the city’s Department of Finance would be authorized to grant property tax abatements to property owners who have incurred costs in constructing or altering existing space to create a licensed childcare facility or expand an existing facility. The abatements would reduce the tax levy on buildings where childcare centers have been created, with only one abatement per building permitted. The amount of the abatement would depend on whether the facility was located in a “childcare desert,” defined as a census tract with either no childcare facilities or three or more children per available childcare slot. Property owners creating facilities in childcare deserts would receive an enhanced abatement of up to \$15 per square-foot of the childcare premises; facilities in other areas of the city would receive an abatement of up to

\$7 per square. The abatement would be revoked if the childcare center ceased operating for more than 180 days during the year of the abatement.

The amount of the abatement that could be used to reduce the levy for the abatement year would be no more than either the building’s property tax liability in that year or \$45,000 for the enhanced abatement and \$20,000 for others. However, a property owner would be allowed to carry forward for up to four years any amount of unused abatement to reduce future levies.

If enacted, the aggregate amount of abatements in any year would be capped at \$25 million. The aggregate amount of abatements would be allocated on a “pro rata basis” among property owners whose applications have been approved by the Department of Finance.

Tax Credits for Businesses Making Childcare Services Available to Employees. Under this proposal, the city would allow a credit against corporate tax or the unincorporated business tax to firms which provide, either directly or through a third party, childcare to their employees. The cost charged to employees could not exceed 40 percent of “the child care rate,” a dollar amount based on New York State’s childcare market rate survey. The amount of the credit would be determined by a formula that includes the average of the number of children served by the employer-provided childcare program and “the child care rate.” (The specific dollar amount of the rate is not specified in the legislation.) As with the proposed property tax abatements, the aggregate amount of tax credits applied each year could not exceed \$25 million. The program would begin on January 1, 2023.

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Endnotes

¹The Tax Policy Center describes the federal credit in greater detail (<https://www.taxpolicycenter.org/briefing-book/what-earned-income-tax-credit>).

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