

## Tax Parking Placards as a Fringe Benefit

Revenue: \$13 million annually

New York City-issued parking permits, also known as placards, are issued by the New York Police Department, Department of Transportation, and Department of Education and allow the holder to park in a subset of otherwise restricted parking spaces ostensibly in connection with the conduct of official duties. With legal parking spaces in short supply in much of the city, having access to reserved spaces is a valuable convenience. Currently, there are 125,500 city-issued placards in circulation.

If you qualify for one, a city-issued parking permit can be a valuable benefit of city employment, yet there is no official valuation placed on them. In general, Internal Revenue Service regulations state that employment compensation is subject to tax, including many forms of nonmonetary compensation that flows from employer to employee. Nonmonetary fringe benefits are supposed to be taxed at “fair market value,” the amount someone would pay in an arm’s length transaction to buy the benefit. Recognizing placards as a fringe benefit, which would require state approval, would enable them to be subject to city income tax.

Using the estimated going rate of counterfeit placard sales and factoring in a premium that a legal placard would presumably command, the fair market value of a placard is about \$4,000. With the number of parking permits currently authorized, the total value of outstanding placards is over \$500 million. Taxing the value of these placards as income would yield considerable revenue for the city. Even if 25 percent of recipients forgo their placard rather than pay tax on the benefit, the city would generate an estimated \$13.1 million in new city tax revenue. If the state chose to recognize parking placards as a form of compensation city employees would also see an increase in their state income tax liability.

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**Proponents might argue** that these placards, which act as a de facto free parking pass for the permit holder, should already be taxable, and formalizing the process could bring the city into closer compliance with federal tax regulations. Taxing placards may also lead to some reduction in the number issued, which in turn would help congestion and potentially reduce the illegal practice of using placards to park in unapproved areas such as next to fire hydrants or in bus and bicycle lanes. Taxing placards would also raise revenue from a car-centric benefit greatly maligned by transit advocates, revenue that could fund other city services.

**Opponents might argue** that parking placards are a necessity rather than a perk. Taxing placards would do little to address the problem of illegal parking by public employees, which is really an enforcement issue. In addition, the benefit would need to be renegotiated in future collective bargaining agreements.

## Levy an Additional 3 Percent Sales Tax on Alcohol

Revenue: \$150 million annually

Alcoholic beverages sold in bars, restaurants, and liquor stores in New York City are currently subject to the general sales tax at a combined rate of 8.875 percent that consists of a 4.0 percent state tax, a 4.5 percent city tax, and 0.375 percent earmarked for public transportation needs. Because excessive consumption often has negative economic and health consequences for individuals, households, and communities, a number of jurisdictions (including Washington, D.C., Maryland, and Tennessee) use higher sales tax rates on alcohol as a tool to discourage excessive consumption while generating extra revenue. This option, which would require approval by the State Legislature, would increase the sales tax applicable to all alcohol sales in New York City by 3.0 percentage points, thereby raising the total tax rate for alcohol to 11.875 percent. Considering annual alcohol sales in New York City's bars, restaurants, and liquor stores, this sales tax increase would result in about \$150 million of additional revenue for the city each year.

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**Proponents might argue** that an additional tax above and beyond the general sales tax can be an effective tool to discourage consumption of harmful items—similar to the increase in the cigarette tax in 2002, which is credited with reducing tobacco consumption. Proponents could justify taxing alcohol at higher rates by highlighting the social costs of alcohol consumption, like impaired driving, higher mortality, general health problems, crime, and domestic violence. They would also cite studies indicating that increasing the price of alcohol has been demonstrated to be an effective means of curtailing underage alcohol usage as well as adult binge drinking. They could argue that unlike the existing alcohol excise tax—a flat charge paid by vendors for each gallon sold—which has lost much of its bite when adjusted for inflation, sales taxes are based on a percentage of the price and therefore will maintain their effectiveness over time. Lastly, they could contend that much of the economic impact from such a tax increase would fall on heavy drinkers and individuals who purchase the most expensive alcoholic beverages, and that a portion of the generated revenue could be earmarked for alcohol abuse treatment programs.

**Opponents might argue** that compared with other revenue-generating options, seeking to raise revenue by increasing sales taxes is inevitably more burdensome for lower-income groups, which spend a larger proportion of their disposable income on consumption goods, including alcohol. They could contend that an increase in the price of alcohol in New York City may increase tax evasion—as has been the case with New York's cigarette taxes, among the very highest in the nation—and shift a portion of alcohol purchases to neighboring jurisdictions. They might also voice skepticism of claims that problem drinkers will lower their alcohol consumption as a result of price increases. 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. Such establishments support tourism and nightlife, local industries that are major employers and important sources of city tax revenue. Finally, opponents could argue that the resulting reductions in personal income and business tax collections might well offset some or all of the revenue gains from increasing the sales tax.

## Adjust the Alcohol Tax to Partially Account for Inflation Since 1980

Revenue: \$25 million annually

Since 1980, New York City has taxed wholesale distributors of beer at a rate of 12 cents per gallon and of liquor (with alcohol content greater than 24 percent) at 26.4 cents per liter, or a dollar per gallon. Because this tax is based on volume and the rates have remained unchanged, revenue from the tax has been declining when adjusted for inflation and is now about a third of what it was in 1980. To address the erosion of tax revenue, this option—which requires state approval—would double the current alcohol excise tax to 24 cents per gallon of beer and \$2 per gallon of liquor with alcohol content greater than 24 percent, resulting in additional tax revenue of \$25 million. If this option were adopted in conjunction with the option to extend the excise tax to wine and other liquor with less than 24 percent alcohol (see page 67), they together would bring in \$35 million in additional tax revenue annually—\$25 million from doubling the rate on alcohol currently subject to the tax and \$10 million from the higher rate extended to wine and other alcohol not currently taxed.

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**Proponents might argue** that since the tax has eroded in real terms over the last 30 years, the city should restore at least a portion of the real value of the tax. On a per serving basis, this would amount to about 1 cent per 12 ounce beer and 1.5 ounce serving of liquor. They might also argue that in addition to boosting city revenue, doubling the rate would make it more effective at reducing consumption and mitigating some of the negative social costs associated with excessive drinking such as drunk driving. Moreover, additional revenue from a tax increase could be used to fund treatment and prevention programs to directly address these problems. Finally, doubling the rate would result in a tax that is still not as onerous as it was in 1980.

**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 a one-time increase does not address the loss in the real value of the tax going forward, as prices rise but the tax rate remains constant in per gallon terms. Further, they would point out that the proposed tax rate on beer—24 cents per gallon—would be higher than the state's own excise tax of 14 cents per gallon. Finally, opponents might also argue that the alcohol tax is very 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 percent of price) is higher for the less costly products lower-income New Yorkers are most likely to purchase.

## Broaden Alcohol Tax to Include Wine and Liquor with Low Alcohol Content

Revenue: \$6 million annually

Since 1980, New York City has taxed distributors of beer at a rate of 12 cents per gallon and of liquor (with alcohol content greater than 24 percent) at 26.4 cents per liter, or a dollar per gallon. Wine and liquor with less than 24 percent alcohol are currently exempt from the alcohol excise tax. To address the disparity in taxation between wine and other forms of alcohol, this option would extend the beer tax rate of 12 cents per gallon to wine and other liquor with less than 24 percent alcohol, leaving the combined state and local tax rate on wine well below the state tax rate in New Jersey and Connecticut. This measure—which would require state legislation—would generate an additional \$6 million in revenue each year.

**Proponents might argue** that the exemption of wine and liquor with lower alcohol content from the city's alcohol tax is arbitrary and that similar goods should be treated the same under tax law. They could also argue that in addition to boosting city revenue, broadening the alcohol excise tax base might reduce consumption and mitigate some of the negative social costs associated with excessive drinking such as drunk driving. Moreover, additional revenue from a tax increase could be used to fund treatment and prevention programs to directly address these problems. Finally, they might point out that because New York State's Department of Taxation and Finance already collects both city and state taxes on alcohol, and because the state already levies its own tax on wine and liquor with lower alcohol content, the additional cost of administering the new tax would be very low.

**Opponents might argue** that given that alcohol taxes account for a small proportion of the price of alcohol, a tax increase is unlikely to change consumption patterns significantly and thus substantially reduce alcohol consumption. Opponents might also point out that excise taxes like the alcohol tax are very regressive compared with the city's other revenue sources, making a relatively bigger dent in the budgets of low- and moderate-income New Yorkers. This regressiveness stems from two sources. First, alcohol expenditures, like consumption expenditures generally, are a larger share of income for low-income citizens. Second, since the tax is levied on quantity of the alcoholic beverage, not price, the tax rate (as a percent of price) is higher for less costly products which lower-income New Yorkers are more likely to purchase.

## Collect Sales Tax on Capital Improvement Installation Services

Revenue: \$275 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 installations of items, such as window air conditioners, that do not constitute permanent additions to real property) are currently subject to the sales tax. By broadening the sales tax base to include capital improvement installation services, this option, which would require state approval, would increase city revenue by an estimated \$275 million.

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 installation services, or lead to substantial tax evasion by the providers and purchasers of these services.

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**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, strengthening the city's competitiveness and diminishing 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. Thus 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—many small firms and subcontractors providing improvement services.

## Extend Tax on Cosmetic Surgical and Nonsurgical Procedures

Revenue: \$30 million annually

A March 2012 ruling by the New York State Department of Taxation and Finance narrowed the exemption of Botox and dermal filler products from the sales tax; this exemption now applies only to instances where these products are being used for clearly medical rather than cosmetic purposes. However, there is still a broad range of cosmetic surgical and nonsurgical procedures that remain exempt from city and state sales taxes. IBO estimated that over \$600 million will be spent on currently exempt cosmetic procedures in New York City in 2020. Assuming some impact of taxation on baseline expenditures, extending the sales tax to cover all cosmetic procedures would generate an average of about \$30 million per year for New York City. This change requires state approval.

**Proponents might argue** that all of the reasons for taxing cosmetic articles, such as facial creams or lip balms, and (now) selected cosmetic compounds and applications, apply as well to cosmetic surgery and related procedures. While medical training and certification are required to perform all of the surgical and most of the nonsurgical procedures, the procedures themselves have primarily aesthetic rather than medical rationales—a distinction noted in the American Medical Association's recommendations as to what to exclude from and include in standard health benefits packages. For tax purposes, there is thus no reason to treat cosmetic enhancements differently than cosmetic products: the exemption should apply only to cases where medical conditions or abnormalities are being treated. Insofar as there is an economic return to physical attractiveness, cosmetic procedures may increasingly reallocate income to those who can spend the most on enhancements.

**Opponents might argue** that rather than seeing cosmetic procedures as luxuries, people increasingly regard them as vital to improving self-esteem and general quality of life. Moreover, they may even be seen as investments that augment professional status and income, which are positively correlated with physical attractiveness. Furthermore, cosmetic surgical and nonsurgical procedures are sought by persons at all income levels. The burden of a tax on these procedures would therefore not fall only on the wealthy. Health benefits never should be subject to a sales tax, and it will not suffice to tax procedures not covered by insurance, because insurers do not provide consistent guidelines.

## Implement a Carbon Tax and Dividend

Revenue: \$157 million annually

New York City has made some progress in reducing carbon emissions: city residents, businesses, and visitors were responsible for the emission of 52 million tons of carbon in 2016, 15 percent below the baseline metric established in 2005. Despite this progress, additional action will be required to meet the city's goal of an 80 percent reduction by 2050. Fees or taxes on the emission of greenhouse gases are regarded by economists as an economically efficient way to reduce emissions, which can help to slow the pace of global warming and rising sea-levels, while also providing revenue.

Under this option, a tax would be collected by electric, gas, and heating oil companies and would be assessed on energy from each provider according to the carbon intensity of their energy mix. Customers could lower their tax by using less energy or choosing a less socially costly source of energy. The city's ability to collect the tax from a few points in the energy delivery chain with existing collection processes would reduce overhead costs and simplify compliance.

This option, which would institute an initial charge equivalent to \$2 per ton, rising to \$10 per ton over five years, would generate \$307 million annually at the full rate, and cover emissions associated with electricity, natural gas, steam, and heating oil use. In New York, a \$10 per ton carbon tax would add approximately 0.3 cents per kilowatt hour, or around 2 percent, to the residential cost of electricity, less than half the rate of some recently imposed local carbon taxes. IBO's estimate assumes that emissions would decline 10 percent in the short run. In the long run, these declines would likely be larger, as building efficiency increases and the market demands cleaner sources of electricity.

In order to alleviate equity issues if the city, with state approval, imposed such a tax, consideration would have to be given to how to protect low-income households. As an alternative to exempting low-income households, a carbon dividend credit could be refunded based on the revenue generated from the carbon tax. IBO assumes that each household—regardless of income—would receive an equal share of the dividend, which would ensure that families are not unduly burdened, but leave in place incentives to reduce energy use.

Instituting a dividend would reduce the new revenue from \$306 million to \$157 million per year, with the balance refunded to households.

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**Proponents might argue** that charging a tax on each ton of carbon emitted would force consumers to acknowledge the cost of energy use and therefore influence consumer behavior. The revenue could be used to prepare New York City for the costs of climate change or other priorities including reductions in other taxes. They could point to popular carbon taxes in Boulder, Colorado and British Columbia that have led to emission reductions and stable revenue streams while appropriately pricing a resource with large social costs.

**Opponents might argue** that the fee may encourage businesses to relocate to jurisdictions with lower energy prices or that carbon intensive power would still be generated due to demand outside the city. They also might be concerned about costs to low-income families that are nonetheless high energy consumers. Opponents could argue that eventual regulation on the state or federal level could affect New York City's tax as emissions would be subject to multiple regulatory authorities.



## Extend Sales Tax to Digital Goods, Including Music, E-Books, and Video

Revenue: \$34 million annually

Currently, receipts from the sale of digital goods, including music, video, and e-books, are excluded from New York State and New York City sales taxes. (However, sales of digital software are taxed.) This option would extend the local sales tax to digital goods and broaden the sales tax base, consistent with the recommendation of the New York State Tax Reform and Fairness Commission. The demand for physical goods like CDs, DVDs, and books has been declining over the past several years in favor of their electronic substitutes, most notably due to the increase in online streaming of film and music. In response to these changes many states have adapted their tax laws to include digital goods in their sales tax bases, either by including them in their definition of tangible personal property or by explicitly listing digital goods in the delineation of tax base components. If New York State were to extend the New York sales tax base to include digital goods—either for both the city and state or the city alone—this option would result in additional city tax revenue of approximately \$34 million, based on conservative sales estimates.

**Proponents might argue** that digital goods should be taxed in the same way as their physical substitutes so that government tax policy does not distort the consumption decisions of households. They might point out that households that opt for digital goods are relatively wealthier than those that purchase the physical substitutes, so eliminating the current tax exemption for digital goods would lessen the general regressivity of the sales tax. Proponents might further argue that tax law should be responsive to changing markets, so that as the market for physical goods erodes, the tax on its more popular substitute at least partially offsets the loss in revenue. Finally, they might argue that although the litigation surrounding the ability to tax out-of-state vendors applies to both shipped physical goods and digital goods, this is less of a concern in New York State because most of the major vendors, such as Amazon and Apple, have a physical presence in the state.

**Opponents might argue** that digital goods are inherently different from their physical analogues, especially given that digital goods cannot easily be resold. They might also argue that sourcing is not straightforward for sales of digital goods, since the location of the business selling the good is not as relevant, and there is no physical shipment address in the sale of digital goods. They also might point out that while the delivery of physical goods to stores or customers does impose costs to the city—wear and tear on city streets, air pollution from trucks, police and fire services to protect store property, garbage pick-up of packaging, etc.—the delivery of digital goods makes no such demands on city services and thus there is no justification for subjecting them to the sales tax. Finally, unless the state also adopts this option, extending the city sales tax to digital goods would add to the compliance burden on sellers by significantly undermining the conformity between the city's and state's sales tax bases.



## Impose a 75 Percent Excise Tax on E-Cigarettes

Revenue: \$30 million annually

Sales of electronic nicotine delivery systems (ENDS)—often sold as electronic cigarettes or vaporizers—have ballooned since their introduction to the U.S. market in 2007. ENDS devices heat liquid nicotine to allow users to ingest it through vapor, rather than smoke. ENDS products come in two major categories: small disposable and reusable e-cigarettes that look very similar to conventional combustible cigarettes and larger vaporizers that come in many shapes and sizes and are filled with liquid nicotine. The use of e-cigarettes is increasing rapidly, driven by their perceived lower health risk as compared with combustible cigarettes, their declining price, and their convenience. While the long-term health impact of e-cigarette use is not known, they are currently seen as safer than conventional cigarettes.

The federal government does not yet regulate e-cigarettes, but over 40 states have implemented various policies governing their sale and use. New York State bans retailers from selling e-cigarettes to minors and bans e-cigarette use in all public spaces in which conventional cigarette use is also banned. Currently, eight states have e-cigarette taxes. Unlike conventional cigarettes, which come in a standard form of 20 cigarettes to a pack and are subject to an excise (unit) tax on each pack, ENDS products are not sold in a consistent form. Most ENDS excise tax proposals take one of two forms: a tax proportional to either the wholesale or retail product price or a tax proportional to the amount of nicotine in the product, with the former the most common. Minnesota law defines e-cigarettes and liquid nicotine as tobacco products and taxes them at 95 percent of their wholesale price; estimated revenue from this levy was \$5.3 million in Minnesota's 2014 fiscal year. North Carolina taxes ENDS products by the amount of liquid nicotine they contain at a rate of 5 cents per milliliter. Given the variety of nicotine concentrations and products for sale, a tax proportional to price would be much simpler to implement.

In 2013, a proposal was introduced in the New York State Legislature to define “electronic cigarette cartridges” and liquid nicotine as “other tobacco products” and impose a tax on them at rates of 75 percent of the wholesale price; a 2014 proposal would have imposed a 95 percent tax. In the state's January 2017 budget proposal, Governor Cuomo proposed a 10 cents per milliliter tax. If New York City were to implement a 75 percent wholesale tax on ENDS products, which requires state approval, revenue could amount to \$30 million annually. This figure takes into account forecast growth in the ENDS market, a decline in consumption attributable to the increased cost, and a relatively low rate of compliance given the large number of ENDS sales online.

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**Proponents might argue that excise taxes on combustible cigarettes have long functioned to both dissuade people from smoking and to generate revenue. A tax on ENDS would function to further discourage people from ingesting nicotine and would offset a small part of the continuing decline in cigarette tax revenue. They might further argue that the safety of ENDS remains unknown and that we should discourage their use until they are proven safe.**

**Opponents might argue that ENDS are helping people to quit smoking combustible cigarettes and their use should be encouraged. They could also say that an excise tax would more heavily impact in-person sales and that it would not fully capture online sales, placing a greater burden on small convenience stores and “vape shops.” Opponents could also point out the inconsistency of taxing ENDS while not taxing nicotine patches and gums, which are also nicotine delivery systems, albeit solely used for quitting smoking.**

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

Revenue: \$98 million annually

Currently, state and local 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 2017 these businesses generated just over \$3.0 billion in revenue, nearly \$1.7 billion of which was attributable to Broadway ticket sales.

If the sales of tickets to live theatrical performances, movies, and other amusements were added to the city's tax base, the city would gain an estimated \$98 million in sales tax revenue, assuming that Broadway ticket sales—by far the largest contributor to the estimated revenue generated by amusements in New York City—do not decline significantly in future years. Because New York City's sales tax base is established in state law, such a change would require legislation by Albany.

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**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 over taxed 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).

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

Revenue: \$20 million annually

Unlike other localities in New York State and the state itself, New York City exempts the interior design services industry from the sales tax. The definition of decorating and design services includes the preparation of layout drawings, furniture arranging, staging, lighting and sound design, and interior floral design. The decorating and design industry is highly concentrated in the city, with annual sales totaling \$720 million in 2015, more than half (55 percent) of sales in the state as a whole. By way of comparison, 48 percent of all sales tax collections statewide in 2015 were attributable to sales in New York City.

Opportunities for businesses to assign the interior decorating and design services performed in the rest of the state to the city might contribute to the industry's concentration in the city. New York State Department of Taxation and Finance guidelines state that the geographical location of the services' delivery determines the sales tax rate to be applied. For example, an owner of a second home in Washington County, which levies a 3 percent sales tax on interior design services, can hire a design firm in the same county to develop plans for that home and yet avoid the local tax if the firm mails the plans to the owner's home or office in New York City.

Using detailed industry-level data on New York State's sales tax collections both within and outside the city, IBO estimates that repealing the city sales tax exemption for interior design services could add \$20 million in revenue to the city budget annually. This estimate is conservative, because it incorporates both a decline in the volume of decorating services rendered in New York City and a drop in the volume of services actually performed outside the city but currently reported as within the five boroughs in response to the differences in tax rates.

Repealing the tax exemption for interior decorating services would require approval from the New York State Legislature.

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**Proponents might argue** that by making the city's taxation of interior design services conform to the tax treatment elsewhere in the state, repealing this exemption would simplify the tax code, reducing compliance costs for both businesses and taxing authorities. 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 services are currently subject to sales tax. As a result, applying the sales tax to interior decorating services would reduce opportunities for tax avoidance.

**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, therefore, reducing the sales tax base.

# Legalize and Tax Sports Betting in New York State

Revenue: \$9 million annually

The Supreme Court's 2018 decision in *Murphy v. NCAA* empowered states to decide whether to legalize sports betting within their borders. Since then, a number of states, including New Jersey, moved to legalize some form of sports betting. A number of bills have been submitted in Albany that would allow for the legalization of sports betting in New York. A 2013 law enabled sports betting at four upstate casinos, but broader, more comprehensive sports gambling in the state—including online gambling—would require additional legislation and possibly a state constitutional amendment.

With sports betting illegal in most parts of the United States it is difficult to measure the actual amount of money wagered on sporting events, which also makes estimating potential revenue from legalizing and taxing sports betting highly speculative. In the United Kingdom, where sports betting has been legal for many years, an average of about \$205 U.S. dollars per capita was wagered in 2017. Based on this average, we estimate that \$66.8 billion would be wagered annually nationwide—less than many other estimates, which range as high as nearly \$400 billion. A conservative estimate of New York City's share of the total wagered nationwide would be roughly \$2 billion a year.

There are many different models by which sports wagers could be taxed. For now we assume that the sports wagering legislation enacted in New York would mirror the legislation passed in New Jersey, with a new tax created at the state level as New York City lacks the authority to create a tax on its own. Under the pattern set by New Jersey, most of the new revenue from the legalization of sports betting would flow to the state. New Jersey's law established an 8.5 percent state tax on in-person wagers made at authorized brick and mortar sports betting facilities, including horse race tracks and casinos. In addition, the New Jersey legislation establishes a 1.25 percent fee that flows directly to the communities in which sports betting venues are located. New Jersey also allows individuals to place sports bets online or through apps on mobile devices, although these wagers are not subject to the 1.25 percent local assessment.

Based on the limited history of legal sports betting in New Jersey, approximately 40 percent of bets are placed at brick and mortar locations. This would translate to just over \$700 million of in-person sports bets placed annually in New York City. Assuming a 1.25 percent local tax as allowed under the New Jersey law, New York City would receive \$8.8 million in revenue a year. This estimate does not account for any increase in business taxes or indirect economic output that would result from business activity created by legalization of sports betting.

**Proponents might argue** that sports betting is a huge untapped reservoir of business activity that currently exists illicitly in New York. It makes sense to legalize and administer the process, effectively eliminating the criminal element while generating tax revenue from the transactions. Proponents might also contend that the state already encourages other types of gambling, including wagering on certain types of sports events. With the recent Supreme Court ruling, many states have begun the process of passing legislation to legalize sports gambling. In addition to New Jersey, nearby states that have legalized sports betting are Pennsylvania, Delaware, and Rhode Island. If New York does not pass its own legal sports gambling legislation, it runs the risk of losing a larger portion of the existing illicit sports betting revenue to neighboring states.

**Opponents might argue** that the additional revenue raised from taxing legalized sports gambling does not outweigh the societal costs of increased access to betting, particularly for people with gambling addictions. They might also point out that taxing gambling is a regressive form of taxation, placing the greatest burden on individuals with the lowest incomes. Finally, opponents may contend that the recent history of casino failures shows the market for gambling has become saturated, which suggests further expansion of gambling is unlikely to have much impact on tax revenues.

## Tax Laundering, Dry Cleaning, and Similar Services

Revenue: \$33 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 \$33 million annually and would require state legislation.

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**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 (vertical integration), in turn reducing the revenue of small businesses that formerly provided these services. Finally, they might also point out that, even without vertical integration, 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.

## Tax Single-Use Disposable Plastic Bags

Revenue: \$80 million annually

Single-use disposable plastic bags (such as those used in supermarkets and drug stores) are made of thin, lightweight film, typically from polyethylene, a petroleum-based material. Although convenient, plastic bags represent the largest share of plastic in the city's waste stream. Plastic bags make up about 2.3 percent, or 67,000 tons, of New York City's residential waste, according to the Department of Sanitation. In 2015, the city spent approximately \$7 million to export and landfill plastic bags. Once in a landfill, plastic bags can take 10 years to fully break down—and for some plastics it can take much longer.

Even if disposed of properly, single-use bags are often a source of litter in the city. Due to their light weight, plastic bags are carried by the wind into the surrounding environment where they litter streets, roads, and parks; pollute waterways; and harm marine life. The city devotes considerable resources to collecting plastic bags, as well as cleaning up streets, catch basins, and surrounding waters. Retailers purchase plastic bags in bulk for about 2 cents to 5 cents per bag, a cost that is passed on to consumers.

This option, which would institute a tax of 6 cents per bag, would generate \$80 million in revenue in the first year, including \$1.6 million in averted waste export costs due to fewer bags being thrown out. Institution of this tax would require state approval.

IBO's estimate assumes that the tax would be collected along with the general sales tax at grocery, liquor, and drug stores throughout the city. Of the 6 cents, 4 cents would go to the city while 2 cents would be transferred to the retailer as an incentive for compliance. This estimate assumes that the use of plastic bags would drop by 20 percent in the short term in response to the tax and that administrative and enforcement costs would amount to 10 percent of total revenue generated. Over time, as consumers further reduce their use of plastic bags, annual revenue would decline. City revenue from the tax would drop to \$62 million a year if the use of plastic bags declined by a total of 40 percent.

In 2016, the City Council passed legislation to charge customers a 5 cent fee for disposable shopping bags. Albany legislators, however, enacted roadblocks to its implementation that would still need to be overturned for any plastic tax or fee to be established in the city.

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**Proponents might argue** that charging a tax on each plastic bag would force consumers to acknowledge the cost of the product's disposal and therefore influence consumer behavior. They could point to the recently instituted tax in Washington, D.C., as well as results from several cities in Europe that have reduced bag consumption by 80 percent to 90 percent over time while generating revenue for local governments.

**Opponents might argue** that the tax may encourage city residents to switch to single-use paper bags or shop in surrounding communities. Some could also argue that the tax is regressive, having the greatest impact on the poorest New Yorkers. Opponents also might be concerned about increased costs more broadly to consumers and potential effects on customer convenience.



## Tax Sugar-Sweetened Beverages

Revenue: \$208 million annually

New York City residents consume over 325 million gallons of sugar-sweetened beverages each year. These products—including soda, energy drinks, and fruit beverages—have little nutritional value, but extensive marketing and low costs have made them popular consumer choices. Scientific evidence suggests that drinking such beverages can increase the risk of obesity and related conditions like diabetes, heart disease, stroke, arthritis, and cancer. Many New Yorkers already suffer from these conditions: 34 percent of adults are overweight and another 24 percent are obese.

A tax on sugar-sweetened beverages, which would require state approval, could discourage consumption of high calorie drinks and raise revenue. An excise tax of half a cent per ounce levied on beverages with any added caloric sweetener could generate \$208.1 million in revenue for the city, equivalent to 13 percent of the Department of Health and Mental Hygiene's total budget. Diet beverages or those sweetened with noncaloric sugar substitutes would not be subject to the tax.

Unlike many other food and beverage items, soft drinks are already subject to the combined New York State and local sales tax of 8.875 percent, or about 13 cents per 20-ounce bottle. That amount may be too low to affect consumption. The proposed excise tax would increase the cost of beverages by an additional 7 percent on average, providing more of an incentive for consumers to choose water, milk, or another unsweetened drink for refreshment. In addition, the excise tax would discourage consumers from choosing larger portions to maximize value, as the tax would be proportional to the size rather than the price of a drink.

IBO's revenue estimate is based on the assumption that there would be full compliance, that the tax would be fully reflected in the retail price, and that a 10 percent increase in price yields a 12 percent reduction in purchases.ue: \$208 million annually

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**Proponents might argue** that soda is not necessary for survival and offers no nutritional value. A tax-induced price increase would encourage consumers to substitute other beverages that have few if any negative health consequences such as milk or water. Mexico implemented a national tax on sugar-sweetened beverages beginning in January 2014 and initial data has shown that consumption of these drinks declined by 6 percent from 2014 to 2015. Additionally, soda is associated with costly conditions like obesity and diabetes that are often treated with public funds through Medicaid. A 2008 poll of New York State residents showed that 72 percent of those surveyed were in favor of a tax on sugary beverages if the revenue is used for obesity prevention and health promotion programs.

**Opponents might argue** that a tax on sugar-sweetened beverages would disproportionately affect some consumers and may not lead to weight reduction. Such a tax is regressive, falling more heavily on low-income consumers. In addition, soft drink consumption is a relatively small part of the diet for overweight people and food and drinks that serve as substitutes for sugar sweetened sodas may also be highly caloric, reducing the tax's impact on weight loss. Furthermore, it would adversely affect local retailers and producers who will see sales and/or profits fall as consumption declines. In March 2015, Berkeley, California implemented a one cent per ounce tax on sugar-sweetened beverages and initial reports show that only a portion of the tax has been passed along to consumers.