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Before the State of the State: New York's Fiscal Outlook and Millionaire Tax Breaks



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This afternoon, Governor Hochul will deliver the State of the State speech, which is expected to address matters of affordability in New York and the State's relationship with the federal government. FPI here releases summaries of two previous publications on the State's fiscal outlook and the tax breaks that New York's millionaire earners will receive from the federal government this year.

New York's Fiscal Year 2027 Budget Outlook

New York State heads into fiscal year 2027 on strong footing, with revenue outperforming expectations. Nevertheless, the State's fiscal outlook is clouded by federal funding cuts enacted last year and continued uncertainty over federal funding. Managing these risks responsibly and maintaining the provision of public services for New Yorkers may require recurring new revenue.

In the first half of the current fiscal year (FY 2026), tax revenue exceeded initial projections, creating a $3 billion surplus. Revenue in the subsequent two months (through November 2025, most recent data available), was even stronger, generating an additional $1.5 billion in surplus funds. If these trends continue, the State is on track to end FY 2026 with a surplus in excess of $5 billion. This surplus would contribute to the State's record high $33 billion fiscal reserves.

Revenue exceeding pessimistic projections is not a one-off phenomenon in FY 2026. Rather, it has defined the State's recent budget cycles and is likely to continue in future years. The State projects flat nominal growth through FY 2028. This would be consistent with a major recession. If revenue instead grew at a subdued rate—half its average real rate over the 2010s—the State would enjoy average budget surpluses of $2.1 billion next year and $1.3 billion the following year.

Projections of future revenue are also depressed by two further policy decisions: planned tax cuts and in-year fiscal reserves that exaggerate future gaps. Two tax cuts—a reduction in personal income tax rates currently being phased in and a corporate tax cut set for this year—will collectively depress future revenue by $2 billion annually. Further, the State budgets in-year reserves, called the Transaction Risk Reserve, that remove $2 billion each year in apparent fiscal resources. These funds are not used, adding $2 billion in resources at the close of each fiscal year. Accounting for these dynamics and assuming subdued revenue growth, the State can expect future budget surpluses that average $4.5 each year.

Nevertheless, federal funding cuts under the "One Big Beautiful Bill Act"(OBBBA), which President Trump signed into law in July 2025, present a profound fiscal challenge. The OBBBA enacted deep cuts to Medicaid and SNAP. FPI estimates that the costs to New York may total $5.8 billion in FY 2027 and will rise to $14.3 billion by FY 2030. These costs are not fully captured in current DOB projections, which do not plan for State policy that maintains New Yorkers' current access to health insurance and food assistance.

Taken together, New York's current revenue and fiscal capacity is robust enough to maintain public services and make investments in new social provision, including childcare. Nevertheless, responding proactively to federal cuts and safeguarding New Yorkers from their effects will require an even greater fiscal effort that includes new, recurring revenue.

New York Millionaires Set for $12 Billion Federal Tax Cut

As New York State policymakers head into the 2026 legislative session, they will be focused on the threats to the State budget from the OBBBA, which enacted $4.5 trillion in federal tax cuts over the next ten years and cut $1 trillion in spending on Medicaid and SNAP. The tax cuts benefit the wealthy and upper-middle class: about 70 percent of the tax cuts go to the top 20 percent of households while the spending cuts harm households with the lowest incomes.

Determining the scale of tax benefits handed out to the highest-income New Yorkers will allow lawmakers to assess the extent to which the State can simply recapture these tax benefits through progressive taxation to offset the damage done by OBBBA spending cuts.

FPI estimates that New York taxpayers earning at least $1 million annually will collectively receive $12 billion in federal tax savings each year under the OBBBA. This is equivalent to an average annual tax cut of about $129,600 per millionaire taxpayer—roughly 2.7% of their total income.

Major Tax Provisions Driving Millionaire Benefits

1. Individual Income Tax

Prior to the OBBBA, the top income tax rate for joint filers with incomes over $787,700 was 39.6 percent for 2026. The OBBBA cuts this tax rate to 37 percent. Under these rate changes, New York taxpayers earning over $1 million will save around $6.5 billion annually.

2. Pass-through Deduction

The OBBBA makes permanent a 20 percent business income tax deduction for the owners of certain pass-through businesses (such as LLCs, S corporations, or partnerships). This tax break primarily benefits the highest income earners. FPI estimates that New York taxpayers earning over $1 million collectively benefit by about $1.6 billion annually through the deduction.

3. Corporate Tax Cuts

The first Trump administration's Tax Cuts and Jobs Act of 2017 lowered the corporate tax rate from 35 percent to 21 percent, and the OBBBA enacted additional corporate tax breaks. The economic benefits of corporate tax cuts accrue primarily to high-earners who own corporate stock. FPI estimates that the lower corporate tax rate saves New Yorkers earning more than $1 million per year a collective $3.8 billion.