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How to Fund the MTA

Lawmakers must look to progressive revenue sources for MTA funding needs

Key Findings

- State lawmakers must add up to $2 billion in new revenue for the MTA's five-year capital plan to this year's budget. They should prioritize progressive revenue sources, in particular:
    - Raising the corporate tax rate or the corporate tax surcharge for the MTA region
    - Taxing "global intangible low-taxed income" (GILTI) which reflects the overseas profit-shifting of multinational corporations ($1-1.5 billion per year)
    - Reducing the rebate of the pass-through entity tax (PTET), which benefits wealthy pass-through business owners ($1.75-2 billion).
- The MTA is already funded through a mix of dedicated taxes, both progressive and regressive. Lawmakers could similarly rely on a combination of taxes.
- Discussions to date have focused on the Payroll Mobility Tax (PMT), an employer-side payroll tax that applies to the downstate MTA region. Because the tax is largely passed on to workers, it is regressive as compared to the options described above. A PMT increase would also likely dwarf the benefit of the tax cuts currently under consideration.
- Lawmakers have considered raising the PMT rate only for New York City, exempting the suburban regions of the MTA network in Long Island and Hudson Valley—but these regional economies depend on the City's economy and commuters, and they should contribute their fair share of MTA funding.
    - New York City *already* disproportionately pays the PMT—jobs based in the City account for 76 percent of metro area wages but pay 85 percent of the tax.
    - Limiting PMT increases to New York City disproportionately shifts the burden onto workers of color, increasing their tax burden by 11 percent.
    - Increasing the PMT solely on New York City could reduce workers' annual wages by an average of $420 per year.

Introduction

The MTA faces a $33 billion shortfall in its upcoming five-year capital plan, setting off a debate over new revenue. In considering new revenue, lawmakers should look to progressive options, including lowering the State's pass-through entity tax (PTET) rebate, or taxing Global Intangible Low-Taxed Income (GILTI).

A revenue source that will likely be the center of debate, the payroll mobility tax (PMT), is cause for concern. The legislature recently carved the metro area's suburbs out of a PMT increase. The New York metro area is a single economy, the wealth of which depends on the MTA. This basic reality is why the entire region has historically served as the MTA's tax base. In considering changes to the PMT—or any other tax dedicated to the MTA—lawmakers should resist calls to split up the MTA's funding structure and instead rely on progressive taxes with sufficient revenue potential.

The MTA's Looming Capital Funding Shortfall

In September 2024, the board of the MTA approved its five-year capital plan for 2025 through 2029, detailing state-of-good-repair maintenance, accessibility upgrades, and service expansions to the MTA's transit services. However, the plan would cost $68.4 billion over the five-year period and only identified $35 billion in funding, leaving a $33 billion shortfall. In December 2024, the State legislature rejected the capital plan, citing concerns over the funding shortfall and setting up a debate over MTA funding as part of the State's fiscal year 2026 budget. Additional revenue of $1-$2 billion would allow the MTA to issue bonds to support the capital plan.[1]

In their proposals, neither the Governor, Senate, nor Assembly made proposals to fill the MTA's capital plan shortfall. The Assembly, however, in its report on its budget proposal, expressed a "commitment to discussing new revenues" as part of final budget negotiations, naming the PMT, a for-hire-vehicle (FHV) surcharge, and fee on deliveries as potential revenue sources. The Assembly's report is notably silent on more progressive options, despite having proposed as recently as 2023 to raise the corporate tax rate in order to fund the MTA.

Of the Assembly's proposed revenue options, increases to the PMT have far greater revenue potential than the other two. The PMT raised $3.2 billion in 2025, while the FHV surcharge raised $300 million, and a delivery fee would be unlikely to raise more than $200 million.

The PMT, however, is a concerning revenue option for numerous reasons. First, the legislature recently shifted the PMT burden onto New York City, carving out suburbs from the last tax increase despite their heavy economic dependence on the City—and therefore the MTA. This carve-out also disproportionately burdens workers of color. These concerns are discussed in detail below.

[1] Revenue from congestion pricing is dedicated to the prior capital plan, 2020-24, and should be considered separately from new funding needs.

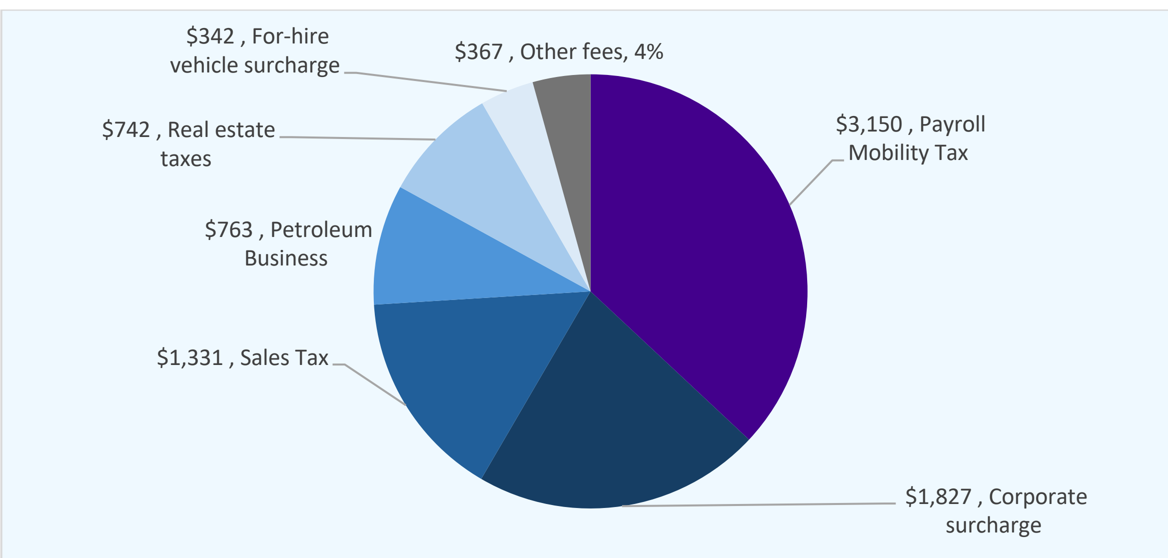
Second, while employers pay the PMT, economic literature consistently shows that most of the tax is passed on to workers.[2] A $2 billion PMT increase applied to the entire metro area, for instance, would depress workers' incomes by $280 per year. If this increase was applied only to New York City workers, it would depress wages by $420. This effect would dwarf New Yorkers' tax savings from the so-called middle-class tax cut that the legislature is likely to pass simultaneously.

Progressive Revenue Options for the MTA

While the public policy debate over raising taxes for the MTA has often focused on the question of "which tax" to raise, it would make more sense to think about which *set* of taxes to raise. Dedicated taxes make up the MTA's largest funding source, providing 44 percent of the agency's revenue. The PMT, a corporate tax surcharge, and a dedicated sales tax comprise the largest taxes. These major taxes other than the PMT are applied equally across the metro area. Taxes on petroleum businesses and a range of real estate transfer taxes also constitute major revenue sources. The largest single dedicated tax only contributes one-third of total MTA tax revenue.

Progressive taxes (such as the corporate tax) distribute the tax burden more fairly, while regressive taxes (such as the sales tax) can be more stable in volatile economic periods because they tend to fluctuate less than, for instance, corporate profits or Wall Street bonuses. The final budget should prioritize progressivity for funding the MTA, so as to minimize the impact on working- and middle-class New Yorkers. And to the extent that lawmakers choose to rely on regressive taxes, those taxes should be only one piece of a more balanced set of revenue measures.

Figure 1. Taxes dedicated to the MTA



[2] A recent meta-analysis finds that 83.8% of payroll taxes are passed onto workers in countries that are economically comparable to the U.S. See Kim et al, "Labor market institutions and the incidence of payroll taxation" (2022), Journal of Public Economics, https://ink.library.smu.edu.sg/cgi/viewcontent.cgi?article=3605&context=soe_research.

Lawmakers should also consider two additional progressive revenue sources to fund the MTA's capital needs: lowering the pass-through entity tax (PTET) rebate and taxing Global Intangible Low-Taxed Income (GILTI). Each option would be capable of raising $1 to $2 billion annually.

Reduce the Rebate of the Pass-Through Entity Tax: $1.75-2 billion per year

The 2017 federal tax law known as the "Tax Cuts and Jobs Act" lowered the federal income tax deduction for state and local taxes to $10,000.[3] In search of a workaround, many states determined that they could permit the owners of pass-through businesses (partnerships, LLCs, and S corporations) to pay an *elective* tax on their entity-level business income, which would be deductible for federal income tax purposes, restoring much of the benefit of the previously unlimited state and local tax deduction. These taxpayers then receive a credit against their New York personal income tax (PIT) liability for the same amount of PTET paid, resulting in a large federal tax benefit but no additional state tax liability. Importantly, taxpayers receive a 100 percent rebate of their PTET payment in form of a PIT credit, even though a full rebate is not necessary to provide some tax benefit (discussed below).

Many of the highest earners in New York are owners of pass-through businesses and take advantage of the PTET to reduce their federal income tax liability. FPI estimates that 92 percent of PTET credits benefit taxpayers making over $1 million per year, and that 97 percent of PTET credits benefit taxpayers making over $500,000 per year.

Because the PTET is optional, the rebate must be large enough that the election provides a net benefit to an electing taxpayer. That is, the federal income tax savings must *at least* be equal to the amount of PTET paid, after the rebate, for a taxpayer to break even—and the taxpayer's federal income tax savings must in practice be slightly *greater* than the cost of making the PTET election in order for them to have an adequate incentive to elect to pay the tax. For taxpayers in the top tax bracket, with a federal income tax rate of 37%, they must receive at least a 63% credit to break even.[4]

Reducing the PTET credit against the Personal Income Tax by 13 percent—to an 87 percent rebate—would yield approximately $1.75-$2.1 billion annually. This would put New York in line

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[3] Often referred to as the "SALT cap".

[4] Explanation: Suppose a New York taxpayer earns $100 of partnership income and elects to pay the PTET, which is set at a rate of 10% (corresponding to the top state income tax rate of 10% in this example). The taxpayer's *federal* benefit from the PTET election is $3.70—the value of their tax rate (37%) multiplied by their deduction ($10 of PTET paid). The taxpayer also pays New York personal income tax of $10 (10% * $100 of partnership income). The taxpayer, before taking any credit against their PIT liability, has paid $20 of total tax to New York—$10 of PTET and $10 of PIT—and has saved $3.70 on their federal taxes. If the taxpayer receives a 63% PTET credit against their PIT liability they will have paid $13.70 in total tax to New York ($10 in PTET and $3.70 in PIT) and saved $3.70 on their federal taxes, making this the break-even point. Thus, the PTET rebate must be *higher* than 63% to incentivize the PTET election. If we take a slightly higher rebate of 70%, we see that the taxpayer pays $13 in tax to New York and saves $3.70 on their federal taxes, making them better off by $0.70 overall, and thus providing an incentive to elect to pay the PTET. To use a realistic example, a New York taxpayer with $2 million in income (roughly the average income for millionaire taxpayers) would pay $200,000 in PTET and receive a $74,000 benefit from the federal tax deduction of the PTET paid. If this taxpayer receives a PIT credit equal to 85% of their PTET paid (against the taxpayer's $200,000 in PIT liability) they will owe $30,000 in PIT liability (after credits), and still receive a net benefit of $44,000 from making the PTET election.

with Massachusetts, which rebates 90 percent of its version of the PTET, and Connecticut, which rebates 87.5 percent of its version of the PTET.[5]

Tax Multi-National Corporate Profit Shifting (GILTI): $1.0-1.5 billion per year

The 2017 TCJA imposed a new provision of federal tax law known as “global intangible low-taxed income” or GILTI. The GILTI rules, designed to combat profit-shifting by multinational corporations, impose an additional corporate tax on highly profitable foreign subsidiaries of US corporations that own valuable intangible assets such as intellectual property.

The thought behind GILTI is that a US corporation could just as easily locate its intangible assets in its domestic (US) subsidiaries, and if those assets are owned by foreign subsidiaries, then it likely reflects a decision to move those assets into a tax haven.

New York State’s corporate tax law currently recognizes the GILTI rules but actively exempts nearly all GILTI from the corporate tax. The State could instead include half of GILTI (following the federal tax treatment) in its corporate tax, which would likely yield over $1 billion in annual revenue. FPI would recommend using an 8 percent apportionment rule, consistent with the state tax law treatment of a range of financial instruments.[6]

New York City Disproportionately Pays the PMT

The MTA is funded primarily by dedicated taxes in the New York metro area. Taxes on sales and corporate profits, among other economic activities, are levied on the New York metro area counties served by the MTA.[7] The largest dedicated tax, however, is the payroll mobility tax (PMT), which is paid by employers on the wages of their metro area-based employees.

Until 2023, PMT rates were the same across the metro area: 0.34 percent for employers with payrolls over $437,500. (The rate is lower for smaller employers). In 2023, as part of a plan to fill the MTA’s $3 billion operating deficit, State lawmakers raised the PMT only for New York City, nearly doubling the rate to 0.6 percent, while leaving it unchanged for jobs based in the suburbs.

As a result, New York City workers shoulder a disproportionate tax burden. Jobs based in New York City account for 76 percent of metro area wages but pay 85 percent of the PMT. Because the metro area functions as a unified economy, taxes dedicated to the MTA have historically avoided discriminating between the City and its suburbs.

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[5] Massachusetts: “Introduction”, https://www.mass.gov/info-details/elective-pass-through-entity-excise; Connecticut: “PE Tax Credit”, page 4, https://portal.ct.gov/-/media/drs/forms/2024/pass-through/ct-pet-instructions_1224.pdf

[6] 5 percent of GILTI is currently included in the corporate tax base, but none is apportioned to New York State.

[7] New York City and seven counties served by the MTA constitute the Metropolitan Commuter Transportation District (MCTD). This brief refers to the MCTD as the New York metro area and to MCTD counties outside the City as the suburbs.

The Suburbs Depend Heavily on the City's Economy

New York City is the economic engine of the metro area. Workers who commute from the rest of the metro area into the City earn $126,400 on average—58 percent more than those who live and work in the metro area suburbs (who earn an average $80,000). As such, while these commuters account for one-fifth of workers in the suburbs, they account for more than one-quarter (28 percent) of suburban wages.

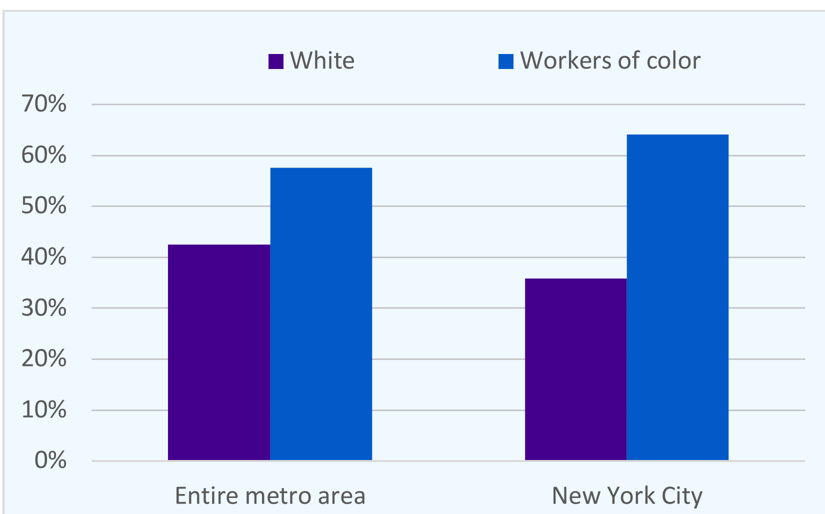
The high wages suburban commuters bring home are central to their local economies. FPI estimates that commuters' local spending supports one-third (34 percent) of jobs based in the suburbs.[8] While some workers in these locally-based jobs use the MTA infrequently, their business depends heavily on wages brought home from New York City. Without these commuters, the metro area's suburban economies would be far smaller and poorer.

Further, an additional 8 percent of suburb-based jobs are held by New York City residents. Taken together, commuters to the City, reverse commuters, and suburban jobs created by commuter spending account for more than half (54 percent) of suburban jobs.

Singling out New York City for tax hikes shifts the burden onto workers of color

Excluding the metro area's suburbs from the PMT shifts the burden of the tax onto more workers of color. Across the entire metro area, including the City and its suburbs, 58 percent of jobs are held by people of color. In New York City, however, 64 percent of jobs are held by people of color.

Figure 2. Share of workers in the metro area and New York City by race



[8] FPI analysis of data from the American Community Survey. Analysis estimates indirect jobs induced by suburban commuters to New York City using the induced jobs multiplier for professional services from the Economic Policy Institute. Sources: US Census Bureau, American Community Survey, 2021, 1-year file; Josh Bivens, "Updated employment multipliers for the U.S. economy" Economic Policy Institute (January 2019),

Shifting the entire burden of a PMT increase onto the City would also shrink the tax's base, increasing the burden on each affected taxpayer. Because City workers are disproportionately people of color, this would amplify tax burdens on workers of color. For instance, a PMT hike that raised $2 billion across the entire metro area would levy $1.15 billion from workers of color. A rate hike raising the same amount focuses only on the City would raise $1.28 billion from workers of color, a $132 million (11 percent) shift from white to non-white workers.

Table 1. Distribution of a $2 billion PMT increase based on region affected ($ in millions)

	Entire metro area	New York City only	Difference
White	$ 850	$ 717	$ (132)
People of color	$ 1,150	$ 1,283	$ 132