

# Briefing on New York's Response to Federal Budget Cuts

Fiscal Policy Institute  
7/17/2025



# Agenda

---

- I. Impact of the “OBBBA”
- II. How can lawmakers respond?
- III. Tax & Revenue Policy Options

# A Brief Overview of the Effects of the “One Big Beautiful Budget Act”

# Overview of fiscal impacts

Provision	Cost to New York	Cost to Healthcare System	Timing
Essential Plan State Takeover	\$2.7 billion		1/1/26
Essential Plan Loss of Funding (Net of State Takeover)		\$4.9 billion	1/1/26
Cancelling the MCO tax	\$1.6 billion		1/1/26
Work requirements	\$500M	\$8.1 billion	As early as 1/1/26
Cut to DSH cap and changes to state directed payments	\$3.6B		
SNAP benefits cost shifting	\$1.1 billion		10/27; increases 10/28
SNAP administrative cost shifting	\$266 million		10/26
<b>TOTAL CUTS</b>	<b>~\$10 billion</b>	<b>~\$13 billion</b>	

## Recurring cuts will grow over time

Fiscal Year	Programs cut	Recurring annual cuts	One-time cuts
2026	<b>Essential plan &amp; Safety net hospitals (part year)</b>	\$1.6 billion	Medicaid MCO tax: \$1.6 billion
2027	Essential plan & Safety net hospitals (full year); <b>Medicaid work requirements &amp; SNAP administration (part year)</b>	\$4.8 billion	
2028	Essential plan; Safety net hospitals; Medicaid work requirements; SNAP administration (full year); <b>SNAP benefits (part year)</b>	\$5.8 billion	
2029	Essential plan; Safety net hospitals; Medicaid work requirements; SNAP administration & benefits (full year)	\$6.4 billion	
2030 and thereafter	Essential plan; Safety net hospitals; Medicaid work requirements; SNAP administration & benefits (full year); <b>Medicaid Provider Taxes &amp; State-directed payments</b>	\$8.0 billion	

How can State lawmakers respond?

# Extraordinary legislative sessions

---

- Governor and legislature can both call an extraordinary legislative session to respond to a fiscal emergency
- This is the only way to mount a holistic response to fiscal crisis
  - Other options represent stopgap measures and are likely to result in an austerity response
- Current year fiscal impact is estimated by the State to be \$750 million. This can be managed out of the \$31 billion in reserves.
- Next budget session will have to confront shortfalls.

## The Governor's emergency powers

---

- FY 2026 Enacted Budget provided the Governor extraordinary emergency powers over the budget.
- Governor can withhold funds in the event of a \$2 billion fiscal shortfall.
- Emergency powers appear primarily geared to responding to recession, but may be triggered by federal funding shortfalls.
- Withholding powers can only cut appropriated spending, not consider broader options, including revenue.



# The New Tax Policy Landscape

# Agenda

---

1. Get clear on what is changing in federal tax policy
2. Understand who benefits and how much *federal* taxes are falling
3. Look at New York's economy and ability to sustain a larger tax burden
4. Explore broad-based tax measures that can stabilize State funding for social programs

# Tax Policy: Conceptual Overview

---

- The new budget legislation known as the “One Big Beautiful Bill Act” or OBBBA cut taxes for most taxpayers, at a deficit cost of \$3.4 trillion.
- The spending cuts that we’re concerned about total \$1.2 trillion - a small share of the total cost of the legislation.
- The Republican party’s strategy of deficit-financed tax cuts dates back to Ronald Reagan’s 1981 tax bill, which cut the top tax rate from 70% to 50%.
- The current tax cuts are almost entirely *extensions* of current tax rates!

# Tax Policy: Conceptual Overview

---

- In 2017, the “Tax Cuts and Jobs Act” enacted major tax cuts for most taxpayers, at a deficit cost of \$1.5 trillion.
  - Cut the federal corporate tax rate from 35% to 21%
  - Cut income tax rates for most taxpayers
  - Created a special business deduction for “pass-through businesses”
  - Capped the federal income tax deduction for state and local taxes (SALT)
- TCJA tax cuts were set to expire at the end of 2025 due to the budget reconciliation rules.

# Tax Policy: Conceptual Overview

---

- Just extending the TCJA cuts this year costs \$4.5 trillion. Overall economic growth means that these tax cuts get more costly over time.
- The point: The imbalance of federal tax revenues and spending will grow over time, likely resulting in greater federal spending cuts in the future.
- States will have to choose between filling the funding holes and allowing their social services to deteriorate
  - Rising rates of healthcare uninsurance
  - Rising unemployment from the health sector
  - Rising hunger, poverty, housing insecurity

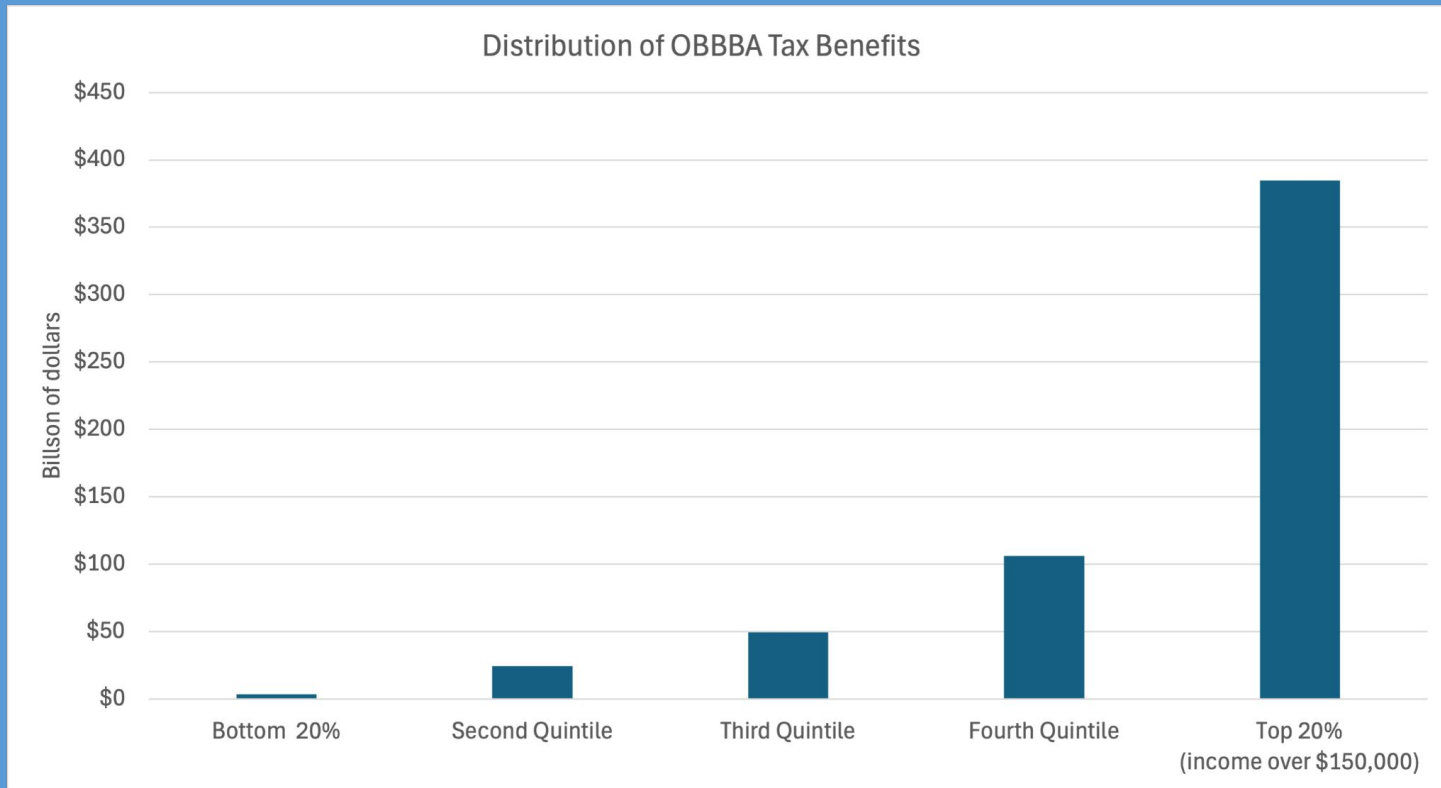
# Highest cost tax cuts

Tax Cut	Ten Year Cost
Extend rate reductions for all brackets	\$2.2 trillion
Extend exemption from the Alternative Minimum Tax	\$1.4 trillion
Extend and increase deduction for pass-through businesses	\$820 billion
Increase estate and gift tax exemption to \$30 million	\$210 billion
Lower rates on multinational profit shifting	\$135 billion
<i>No tax on overtime*</i>	\$124 billion
<i>No tax on car loan interest*</i>	\$60 billion
<i>No tax on tips*</i>	\$40 billion

# Revenue Raisers

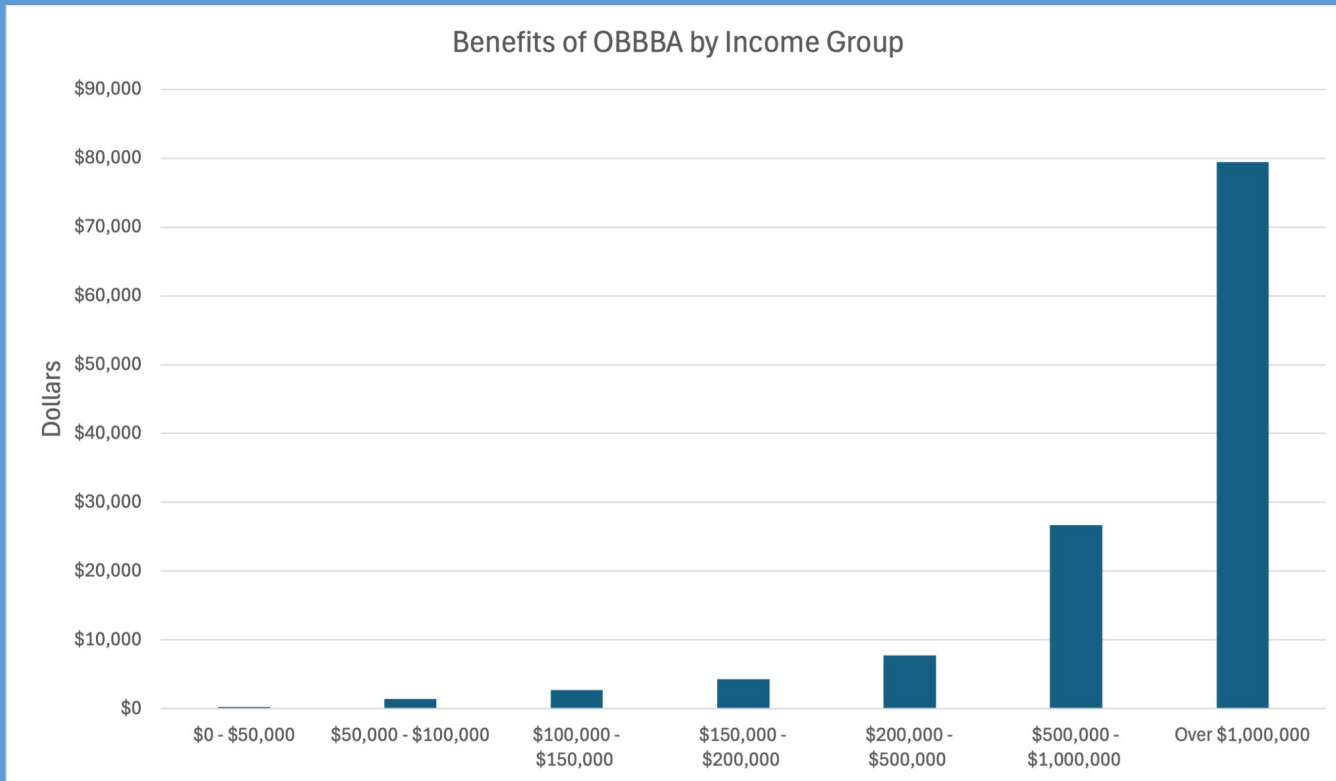
Revenue Raiser	Ten Year Estimate
Limitation of the SALT Deduction	\$790 billion
Termination or limitation of clean energy credits	\$525 billion
Limitations on Premium Tax Credits	\$275 billion
Penalizing foreign country for their taxes	\$115 billion

# Distribution of Tax Cut Benefits in 2027

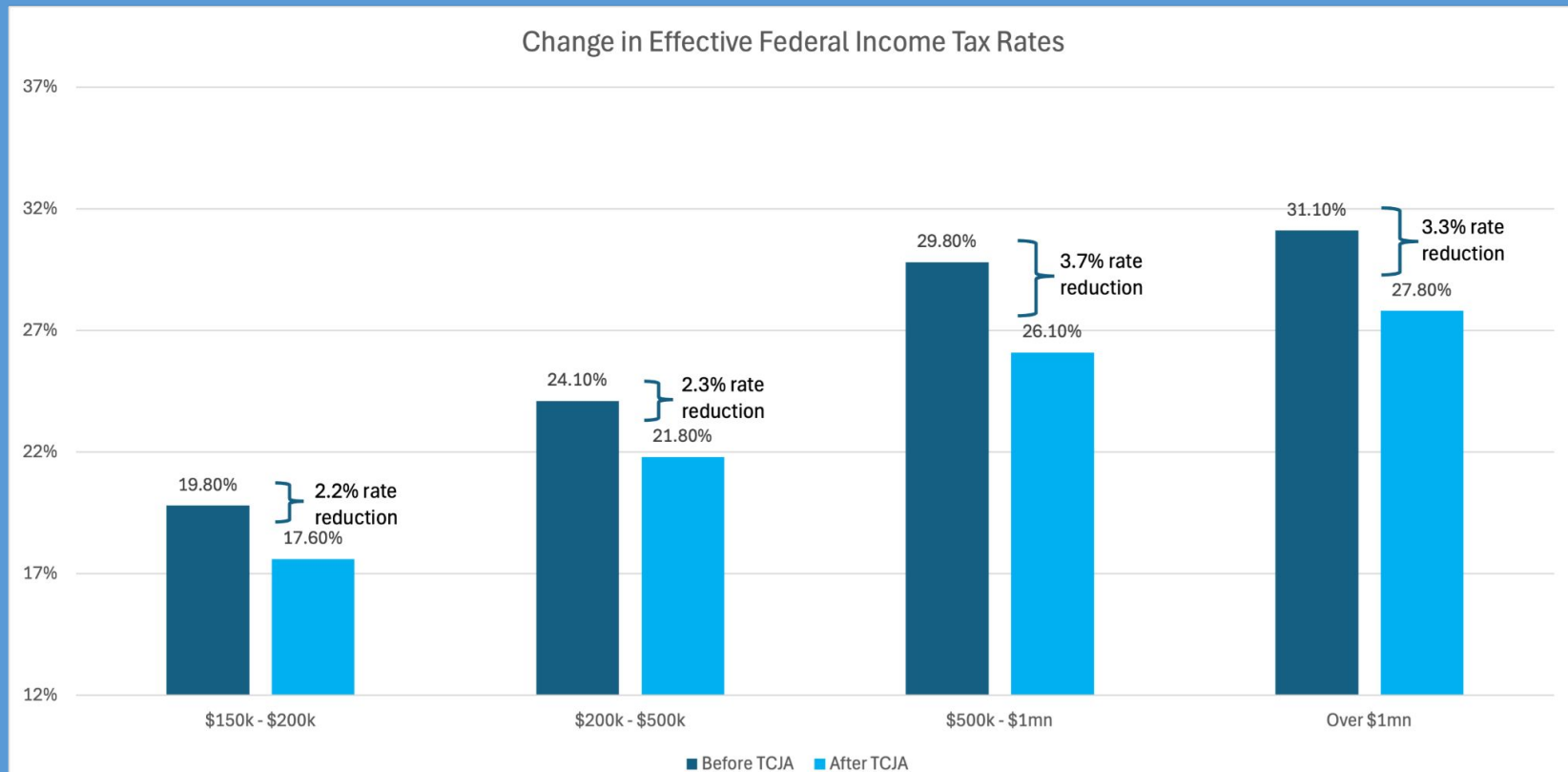




# Tax cut per household in 2027



# Income tax cuts



# SALT

---

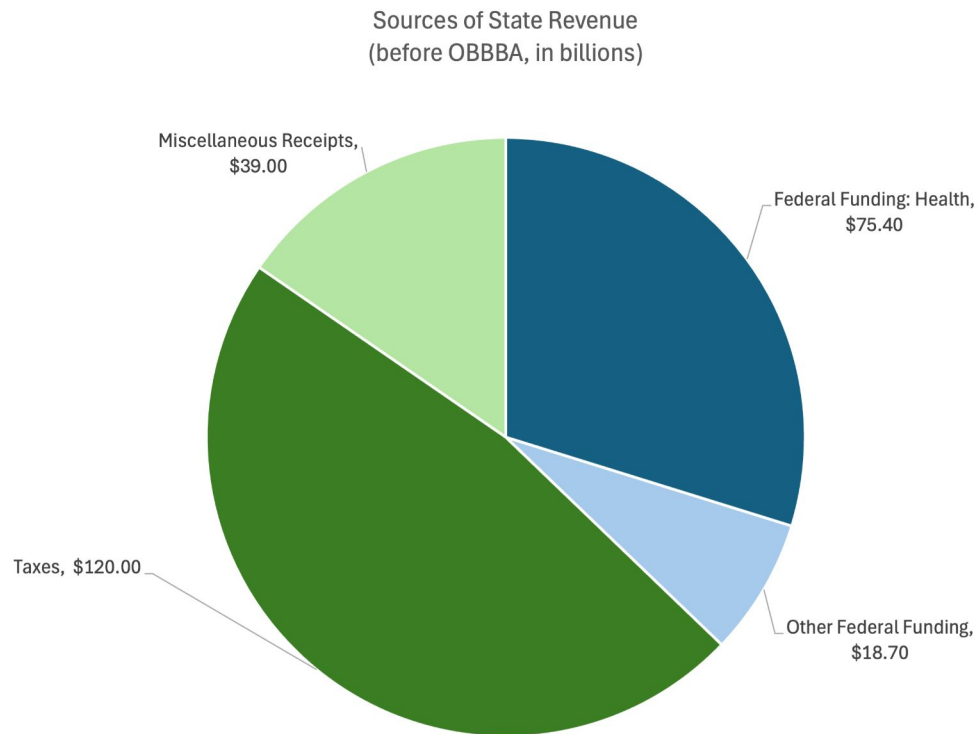
- The 2017 TCJA limited the federal income tax deduction for state and local taxes to \$10,000 (the “SALT cap”).
- This is most consequential for high income earners who could easily have over \$100,000 of state and local taxes that they deduct from their federal taxes.
- Hugely controversial because it targets blue states that generally have higher taxes.
- In New York, high earners can negate most of the effect of this limitation with a “workaround” called the “Pass-Through Entity Tax”
- Each year, about \$16 billion of PTET are paid to avoid the SALT cap. 90% of the benefit goes to households making over \$500,000.

# What does this mean for New York?

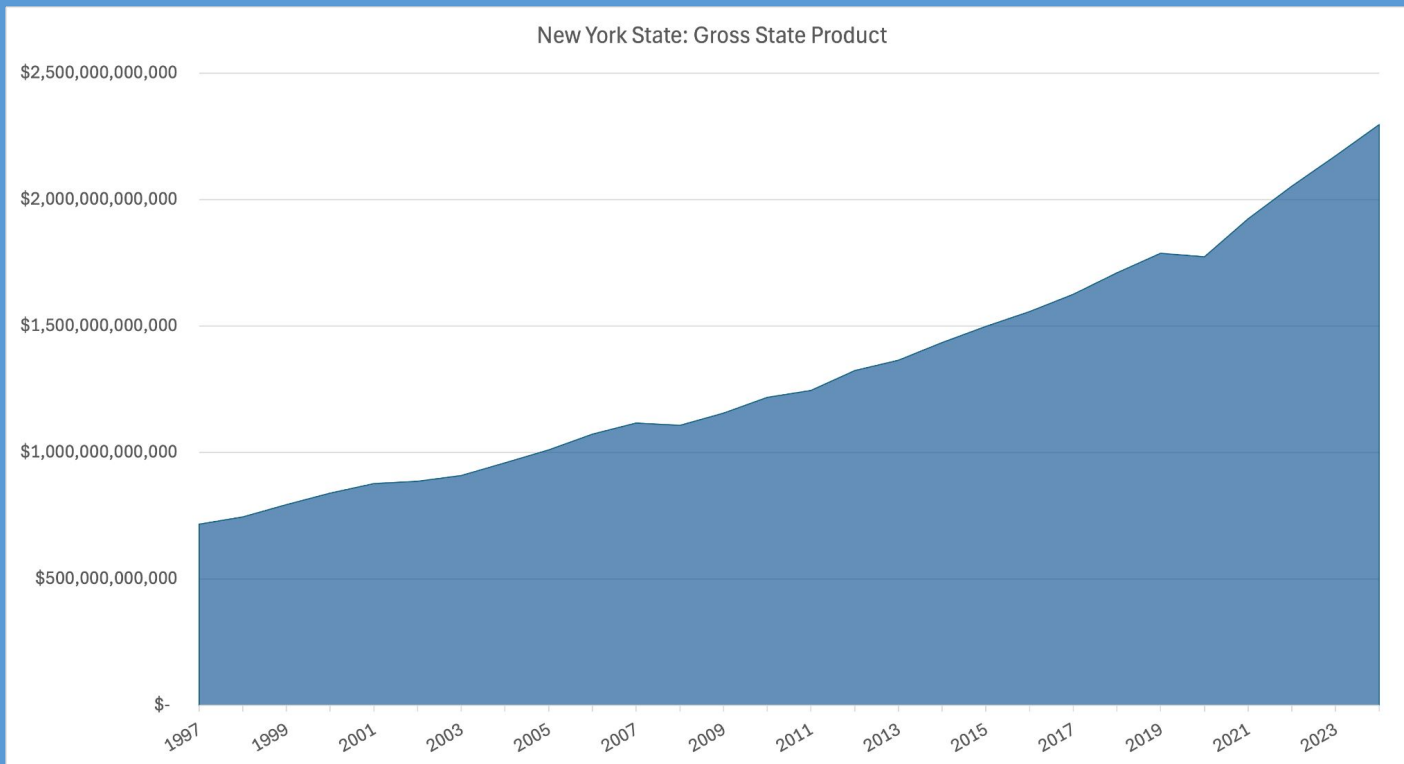
---

- Elected officials have regularly declared that nothing can be done to backfill these funding cuts because the scale is so large.
- How do we get beyond the “so many dollars” rhetoric?
- Need to look at the budget holistically, and in the context of the state economy.

# Structure of State Revenue (current year)



# Measuring State Spending



# Measuring State Spending

---

- The value of all state economic activity (gross state product) was \$2.3 trillion in 2024
  - State tax revenue: \$148 billion
  - NYC tax revenue: \$87 billion
  - Other local tax revenue: \$65 billion
- The value of all state and local taxes paid was 13 percent of total state economic activity
- **Increasing the overall tax burden by just 0.44 percent would yield \$10 billion of tax revenue – the amount needed to backfill the federal gaps. But which instrument to use?**

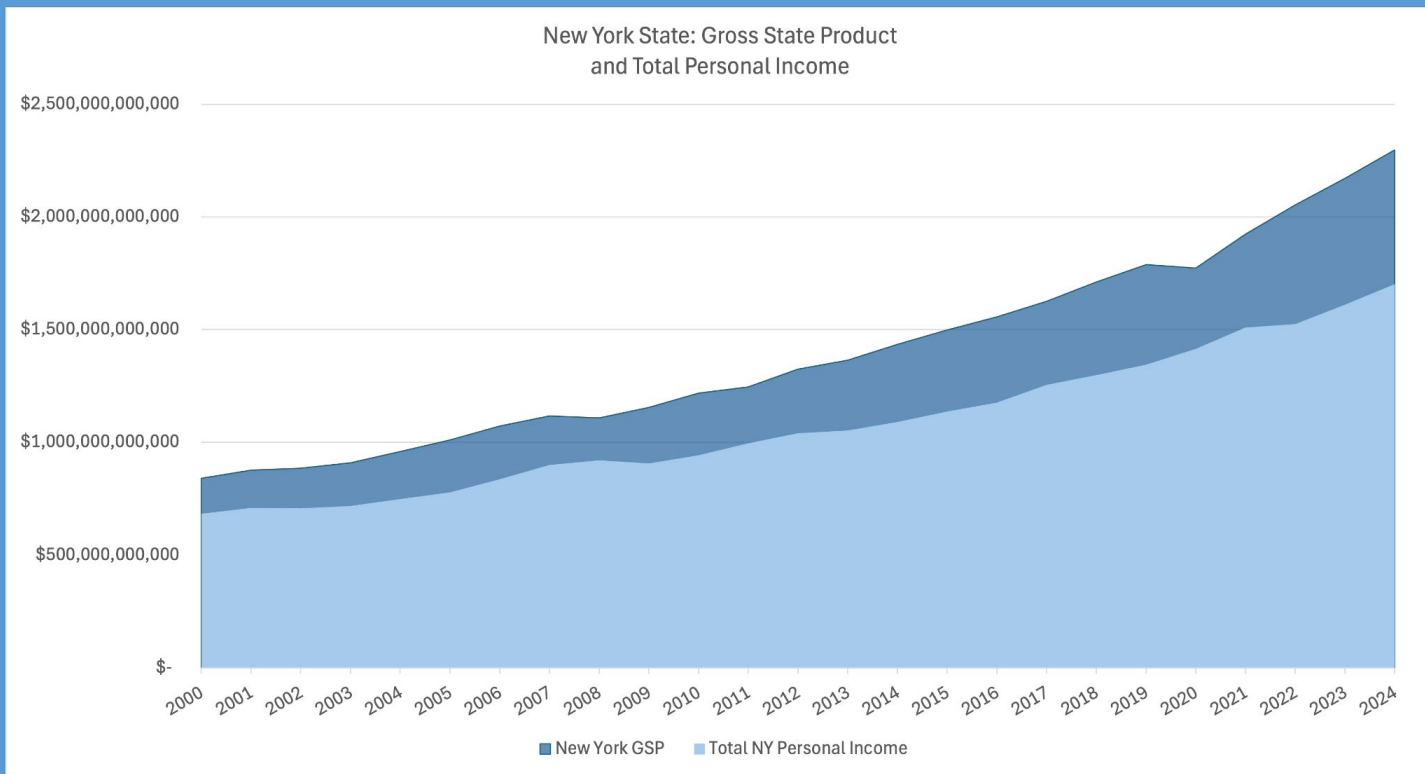
# Broad-Based Taxes

---

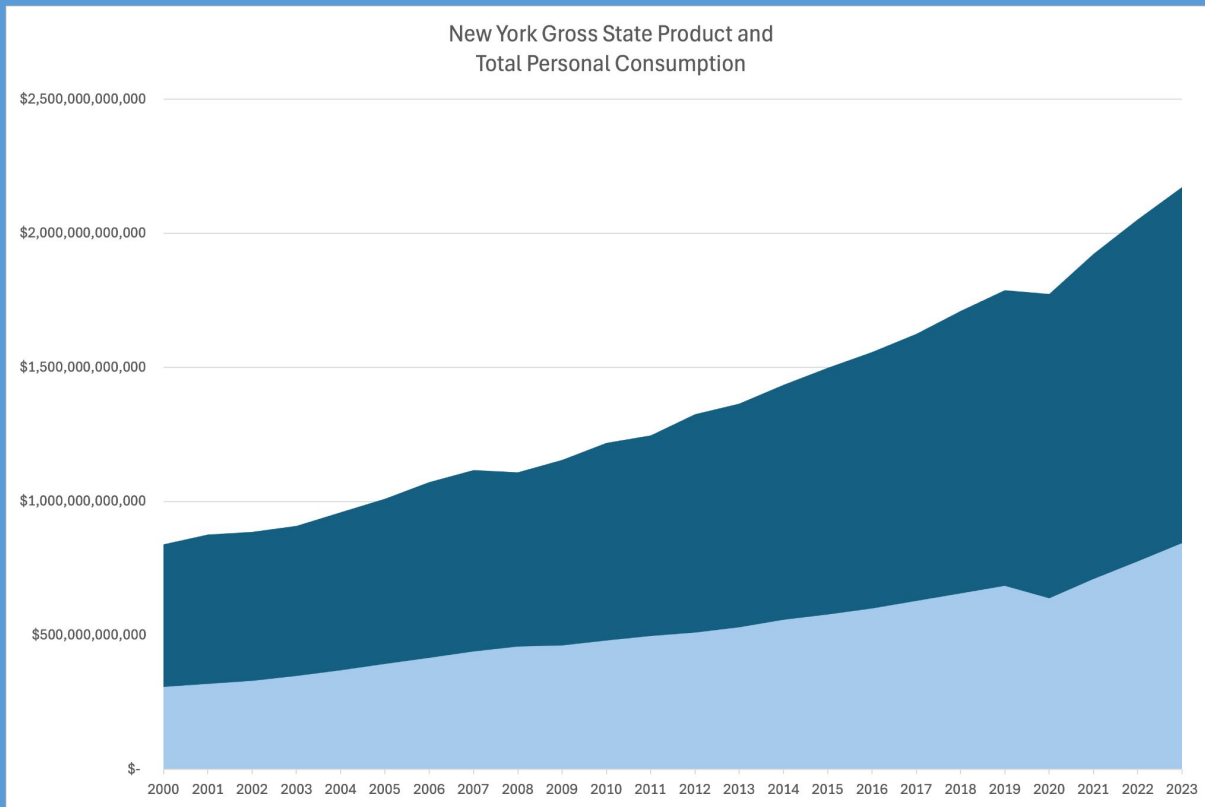
- Tax policy experts – especially when thinking about *revenue* – think about the **tax base**, not the tax.
- A tax base is the economic asset subject to tax, such as income, sales, corporate profits, or real property.
- There are only a few tax bases that yield substantial revenue, especially at tax rates low enough to be non-distortionary.
  - Consumption
  - Income
  - Corporate profits



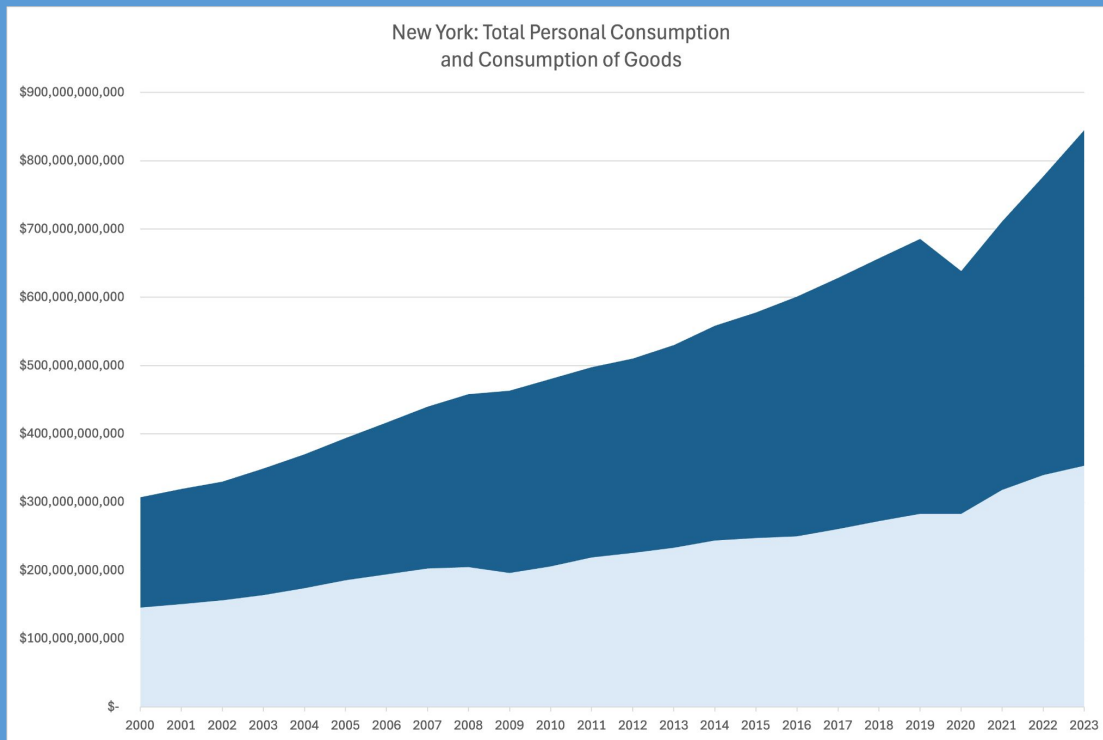
# Total Personal Income



# Consumption



# Consumption



# What you've been waiting for

---

- Raise the personal income tax by 1 percentage point on all taxpayers earning over \$250,000: \$5 billion
- Impose a sales tax on services: at 1 percent, \$5-6 billion annually
- Tax pass-through businesses like corporations: \$9 billion annually