

NY Boosts Payroll Tax For Large Biz, Cuts Income Tax Rates

By **Michael Nunes**

Law360 (May 9, 2025, 3:01 PM EDT) -- New York will reduce income taxes on lower- to middle-income taxpayers, increase payroll taxes for big businesses in the New York City metro area and allow tax liabilities to be pushed out to partners under a budget bill that Gov. Kathy Hochul signed Friday.



New York Gov. Kathy Hochul signed a state budget Friday that reduces the rate of the state's payroll mobility tax for smaller businesses in the New York City metropolitan area and reconfigures the state's individual income tax regime to reduce rates on the bottom five brackets. (NDZ/STAR MAX/IPx)

In line with a previously announced **budget compromise**, the Democratic governor signed **A.B. 3009**, which reduces the rate of the state's payroll mobility tax for smaller businesses in the New York City metropolitan area while increasing the tax for businesses with more than \$2.5 million in payroll expenses. The budget changes the state's metropolitan commuter transportation mobility tax, which is imposed on businesses located in Manhattan, Bronx, Queens, Brooklyn and Staten Island, which are in zone one, and Rockland, Nassau, Suffolk, Orange, Putnam, Dutchess and Westchester counties, which are in zone two.

The approved budget bill will also reconfigure the state's individual income tax regime to lower rates on the bottom five brackets. The state currently has eight tax brackets.

The state Assembly and Senate passed the legislation during a late-night session Thursday. During a visit to a public school Friday, Hochul said the \$254 billion budget will make the state more affordable for

families.

"Your family is my fight, and I wanted to make sure I could fight for your moms and dads to have more money back in their pockets," the governor said.

Businesses in zones one and two with payroll expenses between \$312,500 and \$375,000 will be taxed at a rate of .055%, instead of the current 0.11%, whereas businesses with payroll expenses between \$375,000 and \$437,500 will be taxed at 0.115%, down from 0.23%.

Businesses located in zone one with between \$437,500 and \$2.5 million will be taxed at 0.6%, and the state has created a new tier with a rate of 0.895% for businesses with over \$2.5 million in payroll expenses.

Businesses in zone two with payroll expenses between \$437,500 and \$2.5 million will be taxed at 0.34% and expenses over \$2.5 million will be taxed at 0.635%.

The budget also lowers individual income tax rates on each of the lowest five tax brackets by 0.1 percentage points in 2026, reducing the tax burden on those with income up to \$323,200. Starting in 2027, the rates will be reduced by another 0.1 percentage point.

The budget extends the state's top income tax bracket, which levies a 10.9% tax on income more than \$25 million, to 2032, instead of sunseting it in 2027 as originally planned.

During Thursday's legislative session, Assemblyman Edward P. Ra, R-Franklin Square, said that the bill provided for "a modest income tax cut, but it's not that much."

Speaker Carl Heastie, D-Bronx, and Ways and Means Committee Chair J. Gary Pretlow, D-Mount Vernon, issued a joint statement calling the budget an investment "in our people and in our state" at a time of "economic insecurity."

"We are fighting to support our small businesses, put money back into the pockets of hardworking families and invest in programs that will allow our children to reach their full potential," they said

Hochul had **initially proposed** that partnerships be required to report any adjustments made at the federal level and pay state tax liability on behalf of its partners. Tim Noonan, tax residency practice leader at Hodgson Russ LLP, said that the current iteration of the plan unveiled yesterday brings New York more in line with other states as it allows partners to elect to pay the tax liability.

"It's more consistent with what other states are doing and what the Multistate Tax Commission had suggested that states do," he said. "The new proposal seems to follow that, which is good news."

More than 20 states have adopted some version of the MTC's model statute, which the commission formally approved in 2019. The model law seeks to achieve uniformity in how states handle the federal centralized partnership audit system, which was enacted as part of the **Bipartisan Budget Act of 2015** and took effect Jan. 1, 2018.

Alysse McLoughlin, a partner at Jones Walker LLP, told Law360 that New York's proposal to allow tax to be pushed out to the partners is "a lot closer to those uniform rules."

A proposal by Hochul to push back the annual election date for entity-level taxes from March 15 to Sept. 15 isn't included in the current bill.

In a statement on Wednesday, Sen. Tom O'Mara, R-Chemung, ranking member on the Senate Finance Committee, called the package "another late, bloated, affordable spending spree" because it was passed after the state's April 1 budget deadline.

"New York is already one of the highest taxed, heavily mandated, overregulated and least affordable states in the nation. This budget makes it worse," he said.

--Additional reporting by Paul Williams. Editing by Neil Cohen.