



This Week in State Tax (TWIST)

May 19, 2025



New York: Governor Signs FY 2026 Budget

Assembly Bill 3009C— the New Yorks 2026 budget bill—was signed into law by Governor Hochul on May 9, 2025. Provisions of this bill alter personal income tax rates without extending the current corporate tax rate increase, modify the existing Metropolitan Commuter Transportation District (MCTD) payroll tax, disallow certain deductions on covered properties owned by institutional real estate investors, and create a state reporting requirement for federal partnership audit adjustments.

Corporate and Personal Income Tax Rates: The bill phases in a reduction of personal income tax rates for most tax brackets (up to \$323,200), coupled with an increased rate for income above \$2,155,350. These provisions expire after 2032. Notably, the current temporarily increased corporate tax rate of 7.25 percent for taxpayers with business income exceeding \$5 million was not extended; it is currently set to expire on December 31, 2026, when the rate will revert to 6.5 percent.

MCTD Payroll Tax: The MCTD is divided into two zones – Zone One, which includes Bronx, Kings (Brooklyn), New York (Manhattan), Queens, and Richmond (Staten Island) counties and Zone Two, which includes Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk, and Westchester counties. The budget bill restructures the MCTD rates and brackets as shown in the table below . There are reduced tax rates for local government employers in Zone One with greater than \$2.5 million in quarterly payroll expense; local government employers are not subject to the tax in Zone Two.

Bracket – Quarterly Wage Expense	Pre-July 1, 2025 Rate - Zone One	Pre-July 1, 2025 Rate - Zone Two	Post-July 1, 2025 Rate - Zone One	Post-July 1, 2025 Rate - Zone Two
\$312,500-\$375,000	.11	.11	.055	.055
\$375,000-\$437,500	.23	.23	.115	.115
\$437,500 - \$2,500,000	.60	.34	.60	.34
Over \$2,500,000	.60	.34	.895	.635

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Reporting Federal Partnership Adjustments: The budget bill adopts rules similar to the Multistate Tax Commission (MTC) model statute for state reporting of federal partnership audits and adjustments. The bill requires partnerships to report any federal adjustments for the reviewed year to the state within 90 days; partners are required to pay any additional tax due within 180 days after the final federal determination or the filing of an administrative adjustment request – unless the partners elect to have the payment made at the partnership level. These provisions are effective immediately, but adjustments with a final determination date or administrative adjustment request occurring before the effective date (May 9, 2025) must be reported to the state within one year of that date. No interest will accrue on these adjustments. The bill also provides for reporting of federal adjustments for New York City tax purposes.

Institutional Real Estate Investor Changes: The enacted budget establishes a waiting period for a covered entity to purchase, acquire, or offer to purchase or acquire any interest in a single-family or two-family residence unless such residence has been listed for sale to the public for at least 90 days. A “covered entity” means an institutional real estate investor or an entity that receives funding from such investor. Further, an “institutional real estate investor” means an entity that, directly or indirectly, 1) Owns 10 or more single-family and/or two-family residences (covered properties); 2) Manages or receives funds from investors and acts as a fiduciary for investor(s); and 3) Has \$30 million or more in net value or assets under management on any day during the tax year. If a covered entity fails to comply with the 90-day waiting period, then it may be subject to civil damages and penalties not exceeding \$250,000.

Additionally, the bill disallows a deduction for depreciation and interest for covered properties owned by an institutional real estate investor or a partner, member, or shareholder of an institutional real estate investor. The depreciation and interest deductions must be added back when computing New York entire net income or adjusted gross income. However, any interest paid or accrued in the tax year with respect to covered property sold to an individual for use as a principal residence, or to a nonprofit organization for use as affordable housing, is excluded from the interest disallowance. This provision is applicable to tax years beginning on or after January 1, 2025. Please contact [Russell Levitt](#) with questions on [A. 3009C](#).

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