New York State Comptroller
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Economic and Policy Insights

Federal Income Tax Provisions Under The Tax Cuts and Jobs Act

April 2025

Introduction

In 2022 (the latest data available), there were over 159.6 million federal individual income tax filers nationally, 6.1 percent (9.8 million) of whom were New York residents. New Yorkers paid an even higher share of total taxes: Of the over $2.1 trillion in individual income tax liability, 8 percent ($168.8 billion) was from New Yorkers.[1]

The Federal Tax Cuts and Jobs Act (TCJA), enacted in December 2017, included over 100 provisions amending the federal taxation of individuals and businesses beginning in tax year 2018. Nearly all 63 provisions impacting the taxation of businesses were permanent; two expired at the end of 2019 and two are set to sunset at the end of 2026 and 2027, respectively.

Two-thirds of the provisions impacting individuals are set to expire on December 31, 2025. The remainder are either permanently set in law or have already expired.[2] This report focuses on expiring provisions impacting individuals that will have the most widespread impact as the Congress considers changes to federal tax policy.

The calculation of adjusted gross income (AGI) for purposes of New York's personal income tax is closely based on the federal calculation. Should the provisions of the TCJA sunset with no additional changes made to the federal tax code, there would be little impact on New York State tax collections due to the decoupling that occurred in State Fiscal Year (SFY) 2018-19. However, new federal tax policy changes may affect State personal income tax collections significantly and may alter the relevance of actions, such as the Employee Compensation Expense Tax and the Pass-Through Entity Tax, that the State has employed to reduce taxpayers' federal tax burden since TCJA enactment.

Change to Cost-of-Living Adjustment Is Permanent

Many provisions of the Internal Revenue Code (IRC) are subject to the cost-of-living adjustment – essentially, adjusting for the rate of inflation. Under the TCJA, the calculation of the cost-of-living adjustment was amended from the annual change in the Consumer Price Index (CPI) to the annual change in the Chained Consumer Price Index (C-CPI). While both measure the change in prices, the C-CPI takes into account consumer behavior to substitute lower cost goods for higher cost ones.[3] The change in the C-CPI is typically lower than that of the CPI; since 2010, it has averaged 0.3% lower.

This change in the calculation of the cost-of-living adjustment was one of the few individual income tax provisions under the TCJA that was made permanent. For those sections of the IRC that are due to revert to pre-TCJA levels upon expiration, the cost-of-living adjustment still applies. References to pre-TCJA levels or TCJA sunset in the following sections reflect the application of the cost-of-living adjustment to the amounts in effect in 2017.

Tax Rates and Brackets

The TCJA retained the seven income tax brackets that existed before its passage but reduced most rates; tax rates of 10 percent and 35 percent remained. The income thresholds to which the tax rates applied were also amended, mainly to eliminate the marriage penalty for married, joint filers with taxable incomes between $96,950 and $501,050. Upon the TCJA's sunset, and assuming no other changes, rates will revert to pre-TCJA levels, with the top rate increasing from 37 percent to 39.6 percent. Figure 1 compares the tax rates and brackets under the TCJA and upon sunset, as well as the number of federal tax filers from New York affected by those tax rates.

Figure 1
Federal Individual Income Tax Rates, Number of Filers, Current and With TCJA Sunset

Married, Joint					
TCJA			TCJA Sunset		
Taxable Income	Tax Rate	Number of Filers	Taxable Income	Tax Rate	Number of Filers
Less than $23,850	10%	312,406	Less than $23,800	10%	311,668
$23,851 to $96,950	12%	928,988	$23,801 to $96,950	15%	929,726
$96,951 to $206,700	22%	934,840	$96,951 to $195,600	25%	882,324
$206,701 to $394,600	24%	363,654	$195,601 to $298,150	28%	307,194
$394,601 to $501,050	32%	59,626	$298,151 to $532,400	33%	180,659
$501,051 to $751,600	35%	63,116	$532,400 to $601,400	35%	20,811
Over $751,600	37%	80,379	Over $601,400	39.6%	110,627

Single					
TCJA			TCJA Sunset		
Taxable Income	Tax Rate	Number of Filers	Taxable Income	Tax Rate	Number of Filers
Less than $11,925	10%	1,103,375	Less than $11,900	10%	1,101,444
$11,926 to $48,475	12%	1,970,601	$11,901 to $48,475	15%	1,972,532
$48,476 to $103,350	22%	1,398,864	$48,476 to $117,400	25%	1,546,705
$103,351 to $197,300	24%	486,292	$117,401 to $244,875	28%	404,140
$197,301 to $250,525	32%	70,876	$244,876 to $532,425	33%	92,634
$250,526 to $626,350	35%	94,538	$532,426 to $534,600	35%	196
Over $626,350	37%	21,803	Over $534,600	39.6%	28,698

Head of Household					
TCJA			TCJA Sunset		
Taxable Income	Tax Rate	Number of Filers	Taxable Income	Tax Rate	Number of Filers
Less than $17,000	10%	238,534	Less than $17,050	10%	239,438
$17,001 to $64,850	12%	742,698	$17,051 to $64,900	15%	742,292
$64,851 to $103,350	22%	230,689	$64,901 to $167,600	25%	339,386
$103,351 to $197,300	24%	123,804	$167,601 to $271,500	28%	29,194
$197,301 to $250,500	32%	12,151	$271,501 to $532,400	33%	9,907
$250,526 to $626,350	35%	13,369	$532,401 to $568,000	35%	436
Over $626,350	37%	3,369	Over $568,000	39.6%	3,961

Note: The number of filers reflects those with federal adjusted gross incomes within the income thresholds shown for tax year 2022 (the latest data available). Depending on the amount of either the standard or itemized deductions claimed by the taxpayer, filers may be shifted into lower tax brackets. TCJA taxable income thresholds are those for 2025; TCJA Sunset are 2017 levels increased for 2025 cost-of-living adjustment.

Sources: Internal Revenue Service, NYS Department of Taxation and Finance PIT Study File, OSC Analysis

Deductions and Exemptions

Standard Deduction and Personal Exemption

The TCJA increased the standard deduction for all filing statuses. However, part of this increase was offset by the elimination of the personal exemption (equal to $4,050 per person in tax year 2017). Upon sunset of the TCJA, the standard deduction will be lowered and the personal exemption reinstated (See Figure 2).

Figure 2
Standard Deduction and Personal Exemption, Current and With Sunset

	STANDARD DEDUCTION		PERSONAL EXEMPTION		TOTAL DEDUCTION	
Filing Status	TCJA	TCJA Sunset	TCJA	TCJA Sunset	TCJA	TCJA Sunset
Single	$15,000	$8,100	$0	$5,150	$15,000	$13,250
Married	$30,000	$16,200	$0	$10,300	$30,000	$26,500
Head of Household	$22,500	$11,900	$0	$5,150	$22,500	$17,050

Note: TCJA standard deductions are those for 2025; TCJA Sunset are 2017 levels increased for cost-of-living adjustment through tax year 2025.

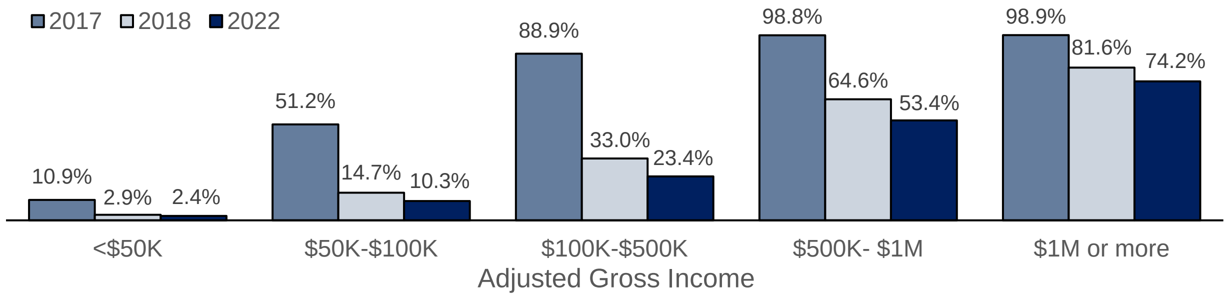
Sources: Internal Revenue Service, OSC Analysis

The personal exemption applied not only to the taxpayer but also to any dependents. As a result, if the TCJA sunsets, the combined standard deduction and personal exemption for those filers with dependents, will, in some cases, be higher than the standard deduction under TCJA. For example, a married couple with two children would have a total deduction of $36,800, an increase of $6,800 over the current standard deduction established by TCJA.

Itemized Deductions

As opposed to claiming the standard deduction, taxpayers can choose to itemize their deductions – statutory allowable expenses to be excluded from their incomes – if the itemized deductions are higher than the standard deduction.[4] With the higher standard deduction provided under the TCJA, the share of total New York filers itemizing their deductions dropped from 35.4 percent in 2017 to 12.4 percent in 2018 and 10.3 percent in 2022. The decline was most significant for incomes less than $500,000, as shown in Figure 3.

Figure 3
Itemizers as a Share of Total Federal Individual Tax Filers, by Income Level, Select Years, New York



Source: Internal Revenue Service, Statistics of Income

Wealthier filers claim a greater amount of itemized deductions; 36 percent of the itemized deductions reported by New York filers in 2017 were taken by those with incomes over $500,000. The TCJA eliminated the cap on the total amount of deductions higher-income taxpayers could claim; high-income filers claimed 44.8 percent of total itemized deductions reported by New York filers in 2022.

However, the TCJA also placed limits on some specific deductions, as shown in Figure 4. Of particular note was the limit on state and local taxes paid (SALT) which includes the payment of income taxes as well as property taxes.[5] As noted in the Comptroller's 2017 report, SALT comprised the largest share of itemized deductions paid by New York filers, and the average amount claimed by itemizers exceeded the $10,000 limit at most income thresholds.

Figure 4
Itemized Deduction Limits, Current and With Sunset

Deduction	TCJA	TCJA Sunset
State and Local Taxes (SALT)	No more than $10,000	Unlimited
Home Equity Loan Interest	Not Deductible	Deductible
Mortgage Interest	Mortgages less than $750,000	Mortgages less than $1 million
Charitable Contributions	Up to 60% of Adjusted Gross Income	Up to 50% of Adjusted Gross Income
Total Itemized Deductions	Unlimited	Limited to lesser of 3% above the income threshold or 80% of deductions reported
		Income Thresholds: Married - $400,900 Single - $334,100 Head of Household - $367,500
		Limit applies to deductions for taxes paid, interest paid, charitable contributions not paid in cash, job expenses, and certain other deductions

Sources: Internal Revenue Code, OSC Analysis

Alternative Minimum Tax (AMT)

The AMT is an additional tax imposed on high-income taxpayers who have a high amount of certain deductions and tax benefits. Under the AMT, taxpayers calculate their alternative minimum taxable income (AMTI) upon which a tax rate of 26 percent or 28 percent is applied.[6] The AMT owed is then the difference between the tax liability based on the AMTI and that based on the standard calculation of taxable income.[7]

To calculate AMTI prior to the TCJA, taxpayers were required to add back deductions for state and local taxes paid, home equity interest, deductions for job expenses and other miscellaneous expenses, investment interest, as well as certain targeted business deductions to their taxable incomes.[8] The personal exemption was also excluded from the calculation of AMTI.[9]

The TCJA eliminated the personal exemption and the deduction for home equity interest resulting in their exclusion from the calculation of AMTI. The deduction of state and local taxes paid (despite being limited under TCJA) was still added back into the AMTI calculation.[10] Taxpayers subject to the AMT were then authorized to take a statutorily established exemption based on filing status and AMTI, both of which were increased under TCJA (See Figure 5).

Figure 5
Income Thresholds and Exemptions for Calculation of the Alternative Minimum Tax, by Filing Status, Current and With Sunset

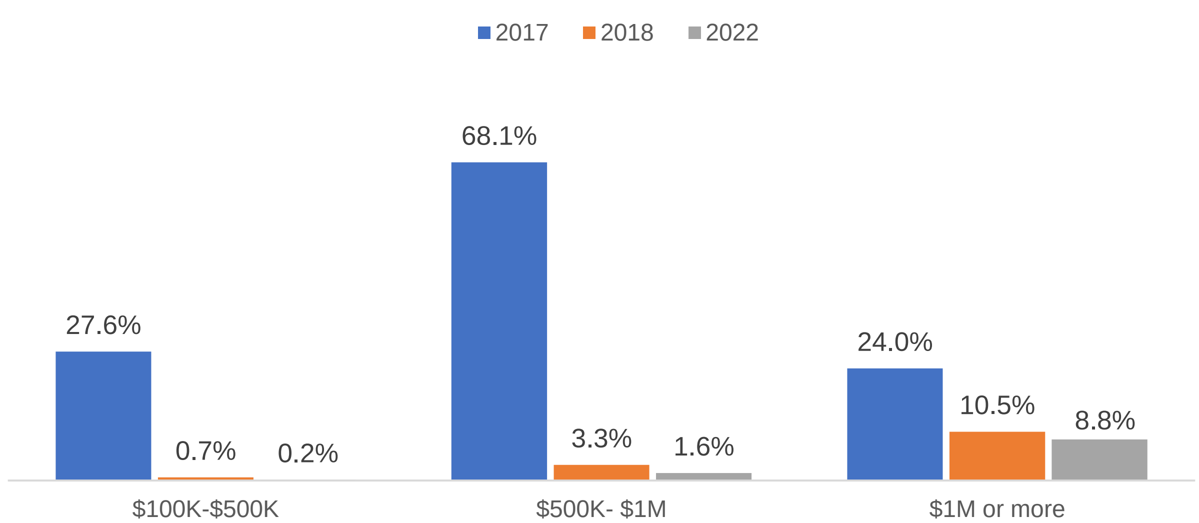
	TCJA		TCJA Sunset	
Filing Status	**Minimum Taxable Income**	**Exemption Amount**	**Minimum Taxable Income**	**Exemption Amount**
Single or Head of Household	$626,350	$88,100	$154,200	$69,400
Married, Separate	$626,350	$68,500	$102,800	$54,000
Married, Joint	$1,252,700	$137,000	$205,600	$108,000

Note: Exemptions are gradually phased out for incomes in excess of the statutory thresholds. For example, the exemption amount is zero at incomes above $1,800,700 for married, joint filers.

Sources: Internal Revenue Service, OSC Analysis

Under TCJA, the share of New York tax filers paying the AMT dropped significantly from 5.9 percent in 2017 to just 0.1 percent in 2022; at incomes between $100,000 and $500,000, the share subject to the AMT was close to zero in 2022 (see Figure 6).[11] Whereas over half the filers with incomes over $500,000 were subject to the AMT in 2017, this share dropped to less than 5 percent in 2022. In addition, the AMT liability for these filers in 2022 was less than 10 percent of what it was in 2017.

Figure 6
Share of Total Filers Who Paid the Alternative Minimum Tax, by Select Income Level and Tax Years, New York



Source: Internal Revenue Service, Statistics of Income

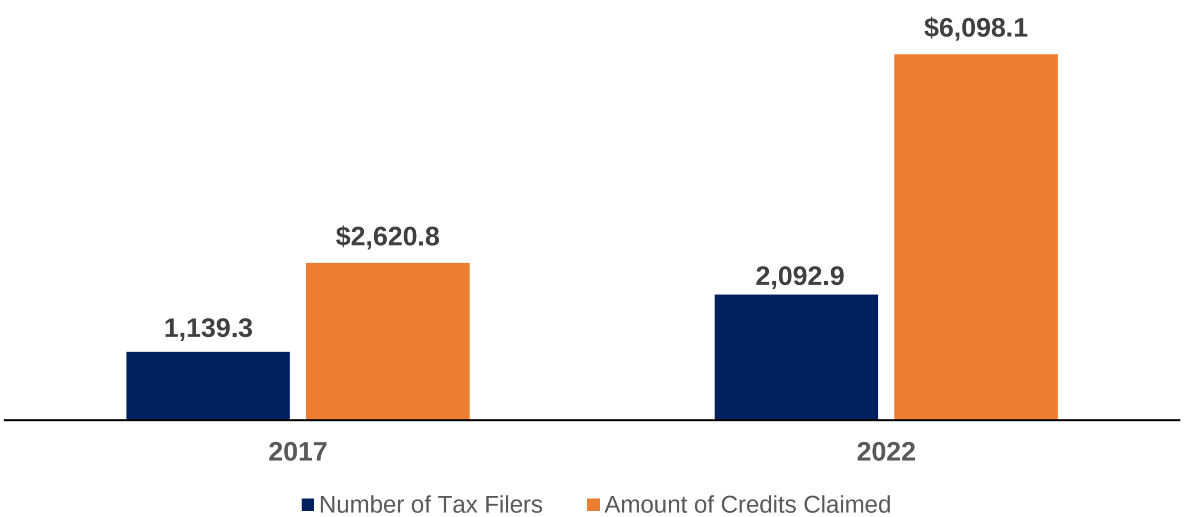
Child Tax Credit

Federal individual income taxpayers are authorized to claim a tax credit for children aged 16 years or less. While the child tax credit is technically nonrefundable (meaning, the credit cannot reduce a taxpayer's liability below zero), an additional child tax credit is allowed which authorizes the taxpayer to claim a refundable credit for the balance of the credit.

Prior to the TCJA, the child tax credit was equal to $1,000 per child phasing out at incomes above $110,000 (married) or $75,000 (single or head of household) for taxpayers with earned income over $3,000. The refundable, additional child tax credit was limited to the lesser of 15 percent of earned income above $3,000 or the balance of the credit disallowed under the non-refundable portion.

Under TCJA, the child tax credit was increased to $2,000 per child with a valid Social Security number.[12] The income threshold at which the credit phased out was increased to $400,000 (married) or $200,000 (single or head of household); the earned income threshold lowered to $2,500. The refundable, additional credit was capped at the lesser of 15 percent of earned income above $2,500 or $1,700 per child.[13] In addition, a $500 non-refundable credit was also allowed for certain dependents or children who do not have a Social Security number. As shown in Figure 7, these changes nearly doubled the number of tax filers in New York claiming the credit, as well as increasing the amount claimed by over 100 percent.

Figure 7
Federal Child Tax Credit Claimants (in thousands) and Credits Claimed (in millions), 2017 and 2022, New York



Note: Credits claimed in 2022 include tax filers who claimed the nonrefundable credit for qualified dependents.

Sources: Internal Revenue Service, Statistics of Income

Other Tax Provisions

Business Income Deduction

Federal individual income tax filers with business income (e.g. sole proprietors) are allowed to deduct up to either 20 percent of their net income or their taxable income, whichever is less. Members of pass-through entities (partnerships or S-corporations) are also allowed to claim the deduction but only for 20 percent of their share of the business income. The deduction is limited to taxpayers with taxable incomes of $394,600 or less (married, joint filers) or $197,300 or less (all other filers). This deduction will be eliminated with the expiration of the TCJA.

Estate Tax Exclusion

The basic exclusion amount under the federal estate tax is the value of an estate that does not require a federal estate tax return to be filed. Under the TCJA, the basic exclusion was doubled from $5 million to $10 million. Similar to provisions for the federal individual income tax, the exclusion amount is indexed to inflation. With the sunset of the TCJA, the basic exclusion amount will decrease from $13.99 million to $6.99 million.

Impact of TCJA on New York Personal Income Tax

The calculation of taxable income for purposes of New York's personal income tax (PIT) is closely based on the federal calculation. As a result, changes to the Internal Revenue Code may impact PIT collections. While this was the case for many of the provisions under the TCJA, in SFY 2018-19, the State chose to decouple from most of those provisions that would either have an adverse effect on New York taxpayers or tax collections.[14] For example, the imposition of the $10,000 limit on itemized deductions for SALT, if allowed to flow-through, would have increased certain taxpayers' State PIT liability by millions of dollars. Similarly, the increase in the Child Tax Credit would have decreased State tax collections.[15]

In other cases, new taxes were enacted to reduce the additional federal tax burden caused by the TCJA provisions, particularly the SALT deduction limit; these include the Employee Compensation Expense Tax (ECET) and the Pass-Through Entity Tax (PTET).[16] Both new taxes were employed to reduce New York taxpayers' federal liability through the ability of businesses to deduct all state and local taxes paid at the federal level, while maintaining State tax collections.[17] In tax year 2024, there were 96,376 businesses electing to pay the PTET; some businesses electing the PTET also choose to pay the ECET as well.

Extension Discussions

Since the beginning of the year, there have been ongoing discussions in Washington relating to the extension of the expiring provisions of the TCJA. Discussions have reportedly included various scenarios, such as the possibility of making all provisions permanent, a temporary extension of certain or all provisions, or amendments to certain provisions (such as the SALT deduction).[18]

There are also reportedly new proposals being discussed that could potentially be included with any extension package including: exempting tipped wages, overtime wages, or Social Security benefits from the individual income tax, eliminating the itemized deduction for mortgage interest, imposing a limit on the deduction for SALT on businesses as well as individuals, and eliminating the tax exemption on municipal bonds.[19]

Social Security Benefits

Currently not all Social Security benefits are taxable under the IRC. For taxpayers with certain income (inclusive of 50 percent of their Social Security benefits) totaling less than $32,000, benefits are not subject to tax. For those with incomes over this threshold, up to half of their benefits are taxable.[20] According to the IRS, over 1.4 million federal tax filers in New York (14.6 percent) reported nearly $29 billion in taxable Social Security income in tax year 2022.

Tipped Income

Tips received in performance of a service whether as an employee or a self-employed individual are included as taxable wages and salaries under the federal individual income tax. Occupations most associated with tipped income are those in the leisure and hospitality and personal care sectors, such as waiters and waitresses, hair stylists, or delivery persons. In 2023, there were over 620,000 jobs in these occupations in New York, comprising 6.6 percent of total employment in the State.[21]

Post-TCJA Implications for New York

If the provisions of the TCJA expire, there would be little impact on New York State tax collections due to the decoupling that occurred, primarily since any changes pegged the Tax Law to the IRC as it existed prior to the enactment of the TCJA.

The ECET and PTET, while they are permanently in statute, are voluntary taxes. That is, businesses elect to pay the tax as opposed to the associated income being taxed under the PIT. The sunset of TCJA could result in collections from these taxes reverting to the PIT as participation potentially wanes or disappears altogether. In addition, should a limit on the deduction for SALT for federal business tax purposes be enacted along with an extension of the limit at the individual tax level, the benefits of the ECET and PTET would go away, potentially increasing federal taxes for both businesses and individuals in New York.

The impact of other proposals under consideration would vary. Since Social Security benefits are already excluded from being taxed under New York’s PIT, their exclusion from income at the federal level would have no impact on the State. However, in order to maintain PIT collections at current levels, the State potentially would have to further de-couple from the IRC should the proposal to exclude tipped wages or other certain proposals that flow through to the calculation of income at the State level be enacted.

In addition, proposals to further limit or even eliminate certain itemized deductions may or may not have a large impact on federal income taxation of New York taxpayers. For example, there is a proposal to fully eliminate the itemized deduction for mortgage interest. As shown earlier, the increased standard deduction caused a large shift of taxpayers away from itemizing, particularly at lower income levels. In 2022, the number of New York filers claiming the mortgage interest deduction was more than 61 percent lower than in 2017.

While the exemption for interest income on municipal bonds is only applicable at the federal level (New York requires such income to be added back under the PIT), its potential elimination would have an adverse impact on the State's financing of its capital projects. Without the exemption, municipal bond purchasers would demand a higher interest rate, thus increasing the debt services costs on the bonds.[22] Higher debt service costs could constrain municipal finances resulting in either lower capital investments or lower spending on the various services the State and municipalities provide.

Conclusion

Whatever the outcome relating to the extension of the TCJA as well the inclusion of any new proposals, New York taxpayers will be impacted – some for the better, some for the worse, or even some maintaining the status quo. How these provisions flow through to taxpayer liability under the State PIT have the potential to exacerbate the continued out-migration of taxpayers from New York, particularly should the de-coupling of any harmful provisions not occur.

In addition, a large component of the State budget is comprised of federal receipts, and federal dollars provide the backbone of New York's safety net. As such, how any tax package impacts the federal deficit and/or spending could constrain New York's ability to provide the vital services provided under both federal and State programs.

As reports by the Office of the State Comptroller have also consistently shown, outside of recent years in which it has received extraordinary federal pandemic relief assistance, New York is a donor state to the federal government (it receives less in federal spending than it sends to Washington in tax revenues).[23] Changes in Washington could alter the federal impact on the State.

Endnotes

1 Internal Revenue Service, Statistics of Income Division, Table 2. Individual Income and Tax Data, by State and Size of Adjusted Gross Income, Tax Year 2022, accessed on January 1, 2025.

[2] For example, the threshold for medical expenses allowed to be deducted was lowered from 10 percent to 7.5 percent of adjusted gross income, but only for tax year 2018.

[3] U.S. Bureau of Labor Statistics, Chained Consumer Price Index for All Urban Consumers.

[4] The taxpayer also has the option of claiming itemized deductions even if they do not exceed the standard deduction.

[5] Federal income taxpayers are allowed to claim an itemized deduction for state and local sales taxes paid if the amount of such taxes exceed the amount the taxpayer paid in state and local income taxes. These taxes are subject to the SALT limit as well.

[6] Minimum taxable incomes of $239,100 or less incur a tax rate of 26 percent; for those above $239,100, the tax rate is 28 percent.

[7] The standard calculation of taxable income is the taxpayer's adjusted gross income less all allowable deductions (either the standard deduction or itemized deductions) as reported on federal tax form 1040.

[8] Business deductions to be added back include net operating losses, stock options, disposition or depreciation of assets, the exercise of stock options, and certain business costs.

[9] For taxpayers who do not itemize their deductions, alternative minimum taxable income excludes the standard deduction.

[10] For those taxpayers who claim the standard deduction but also claim the specified business income adjustments subject to elimination under the AMT, the taxpayer's adjusted gross income is the starting point for the calculation of Alternative Minimum Taxable Income.

[11] While there are tax filers with incomes less than $100,000 subject to the AMT, their share of filers are extremely small, less than 0.2 percent in 2017 and just under .01 percent in 2022.

[12] Prior to TCJA, the child tax credit was allowed to be claimed for children with individual tax identification numbers (ITIN) as well as those with social security numbers.

[13] When the TCJA was enacted, the cap on the refundable, additional child tax credit was set at $1,400 per child but, is subject to the cost-of-living adjustment until the cap reaches $2,000.

[14] See NYS Division of Budget, *Summary of Tax Reforms, FY2019 Enacted Budget,* for the actions taken by the State to de-couple from certain provisions of the TCJA. Since the State statutorily imposes limits on the amount of itemized deductions certain taxpayers may claim, the repeal of certain limits at the federal level, while flowing through to certain deductions at the State level, had little to no impact on New York PIT liability. As a result, these provisions were not subject to decoupling.

[15] In subsequent years, amendments have been made to New York's Empire State Child Tax credit to mitigate the increased tax liability incurred by taxpayers as a result of decoupling from the federal credit.

[16] New York also created Charitable Gifts Trust Funds by which taxpayers could make donations to the State which would qualify as charitable deductions at the federal level as well as a State tax credit for the contribution. However, in 2019, the IRS issued regulations that disallowed deductions for these types of contributions.

[17] The ECET and PTET essentially substituted a tax on the business entity for the PIT. For more information, see, for example, Division of Budget, *FY 2022 Enacted Budget Financial Plan*, p. 51, https://www.budget.ny.gov/pubs/archive/fy22/en/fy22en-fp.pdf.

[18] United States Senate, Budget Committee, Budget Options Memo, https://www.finance.senate.gov/imo/media/doc/budget_optionspdf.pdf; see also Tax Foundation, *Budget Reconciliation: Tracking the 2025 Trump Tax Cuts,* March 6, 2025.

[19] Ibid.

[20] Income used for the determination of taxable social security benefits include wages, both taxable and tax exempt interest, taxable portions of dividends, IRA distributions, and pensions, capital gains/losses, and other additional income. The $32,000 income threshold is for married, joint filers; for single or head of household filers, the

threshold is $25,000. For those with incomes over $44,000 (married, joint) or $34,000 (single or head of household), 85 percent of social security benefits are taxable.

[21] New York State Department of Labor, Occupational Employment and Wages, accessed on March, 10, 2025.

[22] Municipal Securities Rulemaking Board, *Municipal Bond Basics*, accessed on March 20, 2025. For example, for the State's recent general obligation bond sale that occurred on March 18, 2025, the difference in interest rates for its tax-exempt bonds ranged from 60 basis points to over 150 basis points lower than those for the taxable bonds.

[23] The only federal fiscal years in which New York received more federal funding than it provided in federal tax revenues were those in which the surge in federal funding relating to the COVID-19 pandemic occurred.

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