Tax Insights
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State and Local Tax
Services

New York City retroactively cuts UBT credit for high-income residents; prior estimated tax payments may warrant review

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In brief

What happened?

The New York City Council enacted Int. No. 972 on August 18, amending Section 11-1706 of the Administrative Code to reduce the Unincorporated Business Tax (UBT) credit available to city residents with taxable income of $1 million or more. Under the new provision, the credit phases down from 23% to 15% for city residents with taxable incomes between $1 million and $1.25 million, and is capped at 15% above $1.25 million. The law is retroactive to January 1, 2026.

Why is it important?

Under prior law, all city resident taxpayers with city taxable income of $142,000 or more received a flat 23% UBT credit regardless of income level. The new law effectively increases the city personal income tax burden on high-earning pass-through business owners by reducing that credit for those with taxable income above $1 million. Because the change is retroactive to January 1, 2026, affected taxpayers may need to adjust estimated payments already made.

Actions to consider

Taxpayers subject to the reduced credit may want to update their 2026 projections and revisit estimated tax payments already made or scheduled for the remainder of the year. For owners of UBT-paying businesses, that analysis should incorporate the lower resident credit and any resulting increase in projected New York City tax obligations. Entity choice also could be considered where the additional city tax cost is material.

In detail

Background: The UBT credit mechanism

New York City imposes an unincorporated business tax on the income of unincorporated businesses doing business in the city, such as partnerships, limited liability companies, and sole proprietorships. For flow-through entities subject to the tax, income flows through to the individual partners or proprietors and is included in their city personal income tax. Accordingly, a credit mechanism exists to mitigate the resulting double taxation on this income. The credit is calculated as a percentage of the taxpayer's allocable share of the UBT paid, with the applicable percentage varying based on the taxpayer's city taxable income.

Pre-2026 credit structure

For tax years beginning on or after January 1, 2007, and before January 1, 2026, the credit structure is as follows:

- City taxable income of $42,000 or less: 100% credit.
- City taxable income greater than $42,000 but less than $142,000: the credit phases down from 100% by a formula that subtracts $42,000 from city taxable income, divides by $100,000, and multiplies by 77%.
- City taxable income of $142,000 or greater: 23% credit.

Notably, under this prior structure, every taxpayer with city taxable income of $142,000 or more, regardless of how high their income, received the same 23% credit.

The new credit structure for 2026 and beyond

For tax years beginning on or after January 1, 2026, the law retains the same treatment for taxpayers with city taxable income below $1 million but adds two new tiers for higher earners:

City taxable income	Credit percentage
$42,000 or less	100%
Greater than $42,000 but less than $142,000	Phases down from 100% using the same formula as prior law
$142,000 to less than $1 million	23%
$1 million to less than $1.250 million	Phases down from 23% using a formula: subtract $1 million from city taxable income, divide by $250,000, multiply by 8%, and subtract from 23%
$1.250 million or greater	15%

Retroactive effective date

These changes take effect immediately and are retroactive to January 1, 2026. This means the new, reduced credit percentages apply to the entire 2026 tax year, including quarters for which estimated tax payments may have already been calculated under the prior credit structure.

Let's talk

If you have questions regarding this change, please contact:

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