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## The REAP Tax Break Isn't Great: Now Albany Has to Decide What to Do with It

## **IBO Report on REAP**

New York City has spent nearly four decades giving out tax breaks to businesses under the Relocation and Employment Assistance Program (REAP), but there's one problem—no one can prove it actually creates new jobs, or that business decisions are tipped to benefit the City because of the tax break. With REAP set to expire in June, it's time to ask: Is this tax break worth renewing?

REAP gives tax credits to businesses to relocate jobs from Manhattan south of 96th Street, or outside the City, to other parts of Manhattan or any other borough. These tax breaks reduce the amount of revenue the City collects. This is a form of spending known as a "tax expenditure." From an accounting standpoint, every \$1 the City opts not to collect is functionally equivalent to \$1 in direct City spending. Yet, despite its long history, REAP has **never** been evaluated for its return on investment. In fact, firms that benefit from REAP are not required to demonstrate that they financially need the benefit or what kinds of wages relocated jobs pay. While data limitations prevent a full economic impact evaluation, IBO can <u>evaluate</u> how REAP stacks up against best practices for economic development incentives—and it doesn't hold up.

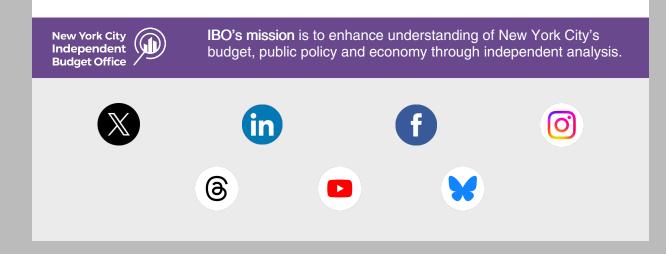
- Set minimum eligibility thresholds. REAP does not have minimum eligibility thresholds, meaning a business with just one employee can qualify for tax breaks.
- Cap participation to control costs. REAP does not have a limit on the size of the tax credit given to a single firm or the maximum amount of revenue the City chooses to forgo. Any company that meets the criteria receives the benefit, making program costs unpredictable. In 2018, Amazon's bid to create a second headquarters (HQ2) in Queens alone could have triggered \$75 million in REAP tax breaks.
- Require competitive wages. REAP has no wage criteria. Strong economic development programs typically ensure that public resources support jobs that pay at least the average local wage and support sectors the City specifically wants to invest in developing. REAP benefits any type of job other than those in hotels or retail.
- Measure effectiveness and ROI. REAP has been in place for 38 years, yet it has never undergone a return-on-investment analysis. The lack of reporting requirements makes it nearly impossible to assess whether it is working. IBO currently does not have access to business tax data. For the IBO to evaluate the program, Albany would need to provide access to business tax data.

Even without a full ROI analysis, what IBO *can* see about the existing program raises concerns. REAP does not appear to encourage job creation to support manufacturing

firms, as is often claimed. Less than 5% of REAP funding goes to manufacturing. Moreover, REAP allows firms to shuffle existing jobs within the City while receiving tax breaks. For example, if a central Manhattan-based company with 120 employees moves across the river to Long Island City, the total number of jobs and who is employed remains the same, but taxpayers pay for the relocation.

Furthermore, **REAP**'s incentive to move jobs **out of Manhattan** is in direct contradiction to another relocation tax break being proposed in Albany. Both Mayor Adams and Governor Hochul are promoting "<u>Relocation Assistance Credit for Employees</u>" (**RACE**) tax breaks that include firms moving jobs **into Manhattan**.

With REAP's expiration approaching—and discussions around job relocation tax breaks more broadly— Albany has a choice: demand transparency and accountability or let economic development tax breaks continue to quietly drain public funds without justification.



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