Position Paper
"Free Buses, Costly Burden: Who Really Pays for Fare-Free Transit in New York City?"

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Executive Summary
New York City is considering the policy of eliminating bus fares, following global trends toward fare-free public transit as a measure to improve equity, sustainability, and mobility. While the direct cost of eliminating bus fares is approximately **$900 million annually**, this policy is likely to cause a **spillover subway fare revenue loss of $100–185 million**, bringing the total fiscal gap to **$1.0–1.1 billion per year**. Without structural reform to tax avoidance and fiscal carve-outs benefiting the wealthy and large corporations, the burden of funding such initiatives will disproportionately fall on **middle-class households and small businesses**. Even if **progressive tax measures targeting wealth and luxury assets** are used, **outmigration of high-income residents and businesses** may ultimately shrink the city's tax base. In that case, the very groups such policies aim to protect—**low- and middle-income earners**—will again suffer as a shrinking revenue pool forces new rounds of tax increases or service cuts.
This paper provides a breakdown of the projected fiscal impact, the likely sources of replacement revenue, and the socioeconomic groups that will ultimately bear the burden—**with or without** targeted wealth taxes.

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1. Overview: The Cost of Free Buses
1.1 Fare Revenue Breakdown (2023 Estimates)

Transit Source	Annual Revenue
Bus Fares	$900 million
Subway Fares	$3.7 billion
Estimated Subway Fare Loss (shift to buses, 3–5%)	$100–185 million
Total Lost Revenue from Free Buses	**$1.0–1.1 billion**

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2. Who Will Pay?
In absence of structural reforms, or even in their presence, funding this new commitment carries significant risk.

2.1 Without Wealth Tax Reform

Source	Feasibility	Impact
NYC Budget Reallocation	Politically possible, but competes with schools, police, housing	May cut services or delay projects
NY State Budget	Partial funding possible	Requires Albany’s buy-in
Federal Transit Grants	Very limited, not recurring	Competitive and conditional
MTA Fare Increases Elsewhere	Regressive and unpopular	Undermines affordability goals
New Taxes/Fees (sales, property, business)	High impact on middle class and small businesses	Politically expedient but economically regressive

⚠️ These mechanisms tend to fall hardest on NYC's **working class, renters, and small businesses**, exacerbating inequality even as the policy aims to reduce it.

2.2 With Targeted Wealth and Capital Taxes
Potential Taxes:

- **Luxury real estate transfer tax**
- **High-income surcharge**
- **Capital gains-based city surtax**
- **High-value pied-à-terre tax**
- **Ultra-high-end vehicle registration fees**

Strengths	Risks
Appear equitable on paper	Wealth and capital are highly mobile
May temporarily raise significant revenue	May trigger outmigration of high earners and business owners
Politically popular	Reduces long-term tax base, driving instability
Aligns with social justice messaging	Pushes city toward dependency on unstable high-end revenues

Key Insight:
NYC's **top 1% of earners** contribute **~40% of income tax revenue**, but their presence is increasingly optional. The outflux of even a few thousand high-income households or family offices can **erase the projected gains** from new taxes—and may even worsen the fiscal position, requiring **middle-income earners and small businesses to pick up the slack.**

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3. Tax Burden by Socioeconomic Group

Group	% of NYC Taxpayers	% of Local Taxes Paid	Key Taxes Paid
Low-Income (<$40k)	~35%	2–4%	Sales tax, rent (via property tax)
Lower-Middle ($40–80k)	~25%	6–8%	Sales, income tax
Upper-Middle ($80–250k)	~25%	20–25%	Income, property, UBT
High-Income ($250k–$1M)	~10%	25–30%	Income, capital gains
Very High-Income (>$1M)	1–2%	30–35% (nominal)	Capital gains, real estate
Small Businesses	~4–5%	8–10%	UBT, rent tax, sales tax
Large Corporations	<1%	5–7%	Corporate and commercial property taxes

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4. Behavioral Effects and Risks
4.1 Rider Behavior Shift

- Up to **5% of subway riders** may switch to free buses, costing the subway system **up to $185 million/year**.
- May strain bus capacity and reduce subway efficiency in high-traffic corridors.

4.2 Outmigration of Wealth

- Even **modest tax increases** on high-income households have historically triggered **flight to lower-tax jurisdictions** (e.g., Florida, Texas, Connecticut suburbs).
- Reducing payroll, real estate investment, and local spending hurts low-income service jobs and shrinks the city's long-term fiscal base.

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5. Fiscal Sustainability and Equity Concerns

Fare-free buses are a **progressive idea with regressive risks**. Without airtight tax design and rigorous modeling of mobility patterns (both economic and demographic), the **moral win** may become a **budgetary trap**.

- If **wealth taxes** backfire, the **shrinking high-end tax base** increases pressure on the **middle class and small business sector**.
- If **broad taxes** (sales, property, business fees) are used instead, the policy becomes **regressive by default**.
- Either way, without **multi-level fiscal coordination** and **smart piloting**, the **financial losers may be the very communities the policy hopes to help**.

Conclusions

While **fare-free buses** are a powerful symbol of inclusion, climate action, and transit equity, they must be **grounded in economic realism**. The projected $1.0–1.1 billion in lost revenue could theoretically be offset by progressive taxes—but if such taxes provoke **capital flight or business relocation**, the city could be left with **less total revenue**, not more.

This would force city leaders to make tough choices—**cutting services**, **raising regressive taxes**, or **delaying infrastructure**—all of which disproportionately harm **low- and middle-income residents** and **small business owners**.