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Large employers should confirm compliance with New York's Metropolitan Transportation Mobility Tax

Employment Tax Advisory Services
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Large employers should confirm compliance with New York's Metropolitan Commuter Transportation Mobility Tax

Effective July 1, 2025, New York significantly increased the Metropolitan Commuter Transportation Mobility Tax (MCTMT) rates for most large employers, materially increasing the potential cost of noncompliance. With higher rates now in effect, even relatively small errors in identifying covered employees and/or computing the correct MCTMT liability can result in additional, and potentially substantial, assessments. (See [Tax Alert 2025-1044](#).)



The better the question.
The better the answer.
The better the world works.

Following is an explanation of the MCTMT, the cost of noncompliance and steps employers should consider.

Background

The MCTMT is an employer-paid payroll tax that New York enacted in 2009 to provide a dedicated funding source for the Metropolitan Transportation Authority (MTA). The tax applies to certain employers and self-employed individuals engaging in business within the Metropolitan Commuter Transportation District (MCTD), which includes New York City and several surrounding downstate counties. The tax is administered by the New York State Department of Taxation and Finance (Department). ([MCTMT overview](#); [Publication 420, Guide to the MCTMT.](#))

In general, employers are subject to the MCTMT if they are required to withhold New York State income tax from wages and their payroll expense within the MCTD exceeds a quarterly threshold, with the tax calculated and reported on a quarterly basis. ([Employers: MCTMT.](#))

Although the tax is commonly referred to as a “commuter” or “mobility” tax, employers must pay the total amount, and it cannot be deducted from employees’ wages. Employer liability is determined by where employees work rather than where the employer is headquartered. (*New York Tax Law Section 802.*)

The current and historical MCTMT tax rates and applicable MCTD zones are shown below.

Current and historical MCTMT employer tax rates

Covered zones and counties ²		January 1, 2025, through June 30, 2025		July 1, 2025 and after	
Metropolitan Commuter Transportation District (MCTD) Zone	Counties	Payroll expense in any calendar quarter	Tax rate	Payroll expense in any calendar Quarter	Tax rate
Zone 1	Bronx, Kings (Brooklyn), New York (Manhattan), Queens and Richmond (Staten Island)	Over \$312,500 but not over \$375,000	0.11%	Over \$312,500 but not over \$375,000	0.055%
		Over \$375,000 but not over \$437,500	0.23%	Over \$375,000 but not over \$437,500	0.115%
		Over \$437,500	0.60%	Over \$437,500 but not over \$2,500,000	0.600%
				Over \$2,500,000 ¹	0.895%
Zone 2	Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk and Westchester	Over \$312,500 but not over \$375,000	0.11%	Over \$312,500 but not over \$375,000	0.055%
		Over \$375,000 but not over \$437,500	0.23%	Over \$375,000 but not over \$437,500	0.115%
		Over \$437,500	0.34%	Over \$437,500 but not over \$2,500,000	0.340%
				Over \$2,500,000 ¹	0.635%

¹ Local government employers within MCTD Zone 1 with a payroll expense over \$2,500,000 in any calendar quarter are subject to an MCTMT rate of 0.60%. Local government employers operating in Zone 2 are exempt from the MCTMT.

² Employers can identify the employee’s correct MCTD zone by entering the resident/work location address [here](#).

Payroll expense (covered wages)

For purposes of calculating payroll expense, New York generally looks to the same wages and compensation that are subject to Social Security/Medicare (FICA), but without applying the annual Social Security wage cap. In most cases, payroll expense includes all employee compensation that is subject to the Medicare portion of FICA.

For covered employees whose wages are subject to the federal railroad retirement tax, payroll expense likewise includes the full amount of wages and compensation subject to that tax, without applying the annual wage cap that otherwise applies.

Covered employer

An employer is subject to the MCTMT if it is required to withhold New York State income tax from wages and the payroll expense for covered employees exceeds the quarterly statutory threshold. The MCTMT can apply to employers headquartered outside of New York and to employees who work only occasionally in New York City and surrounding areas.

Covered employer examples:

Scenario	MCTMT liability
Employer headquarters in Texas, employees work in Queens	Yes
Employer headquarters in Albany, employees commute to Westchester	Yes

Covered employee

If the employee is covered for MCTMT purposes, all wages for that employee are included in the payroll expense, not just the wages attributable to the portion of time spent within the MCTD.

Whether an employee is covered is based on the four-prong test as shown below so long as some services are performed in the MCTD.

MCTMT four-prong test for identifying covered employees:

Step	Decision question	If YES →	If NO →
Start	Apply tests in order–stop once any test results in a covered employee.		
Test 1 – Localization	Are services performed entirely in the MCTD, OR performed both inside and outside the MCTD with outside services only incidental (temporary, transitory, or isolated)?	Covered employee	Proceed to Test 2
Test 2 – Base of operations	Does the employee have a single base of operations located in the MCTD? (If none or more than one base exists, skip this test.)	Covered employee	Proceed to Test 3

Step	Decision question	If YES →	If NO →
Test 3 – Direction and control	Does direction and control emanate only from within the MCTD and does the employee perform some services in the MCTD?	Covered employee	Proceed to Test 4
Test 4 – Residence	Does the employee reside in the MCTD and perform some services in the MCTD?	Covered employee	Not a covered employee

In practice, this test generally functions as an “or” test because if any one prong is satisfied, the employee is covered and subject to MCTMT requirements.

Consequences of noncompliance

Employers that fail to timely file or pay the MCTMT are subject to significant penalties and interest under New York law.

A failure to file a required MCTMT return or to pay the tax when due generally results in a penalty of 10% of the tax due, with an additional 1% for each month or fraction thereof the failure continues, up to a maximum of 30% of the tax due; if a return is filed more than 60 days late, the minimum penalty may be the lesser of \$100 or 100% of the tax required to be shown on the return. (*New York Tax Law Section 1145.*)

In addition to penalties, statutory interest accrues from the original due date until payment is made in full, regardless of extensions, at the underpayment rate established by the Department. (*New York Tax Law Section 1145(a)(1)(ii); 20 NYCRR Section 536.1.*)

New York permits multiple penalties to apply concurrently, although penalties may be waived if the employer demonstrates that the failure was due to reasonable cause and not willful neglect. (*New York Tax Law Section 1145(a)(1)(iii).*)

The risk of these assessments increases in matters involving remote or hybrid workers where employers fail to identify employees performing services within the applicable MCTD zones, resulting in unreported MCTMT liability across multiple quarters/years.

New York payroll tax audits

The typical New York payroll tax audit is initiated by the Department mailing the employer a formal audit notification letter that identifies the tax periods under examination and an Information Document Request (IDR). The IDR generally includes a demand to review books and records, a power of attorney form, and a questionnaire tailored to identify an employer’s landscape, develop an audit plan, and spot potential gaps in an employer’s withholding process, controls and compliance.

As part of the IDR, the Department requires an employer to provide, for the calendar years under examination, an electronic payroll data file detailing, among other items, the resident and work location codes of employees, their wages across all US jurisdictions, New York state and local taxes withheld and MCTMT taxes paid. The Department also requests other records, such as business traveler policies, travel expense reimbursement records and other data showing employee work locations for the audit period.

The Department processes employer data through a series of electronic tests designed to identify possible instances of noncompliance, for example, potential failures to pay and report all or a portion of the MCTMT based on employee resident/work location, travel expense reimbursements or other relevant information.

The Department makes an initial assessment of the MCTMT liability, which is reduced or eliminated based on data the employer provides showing how the Department’s calculation is incorrect.

What can businesses do?

Employers have multiple remedies to self-correct gaps in their governance of New York state and local employment and withholding taxes. For instance, some employers may believe the best action is to proactively come forward under New York's Voluntary Disclosure and Compliance Program (referred to as a VDA) to remediate historical errors. Under this program, the employer sets forth the facts and parameters of the disclosure to the Department with the ultimate goal of satisfying liabilities. If successful, the employer may limit its exposure and be relieved from penalties.

Employers might also consider undertaking the rigor of their own internal audit reviews to identify possible compliance gaps. As part of this process, an employer can look at its current withholding and employment tax policies and determine whether to refresh and update them or to implement a more comprehensive plan to strengthen overall compliance.

Regardless of what they choose and what challenges they face with compliance or an audit examination, employers may want to work to confirm compliance with the new rates.

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