



**The  
Business  
Council**

***Testimony to***

**Senate Finance Committee and  
Assembly Ways and Means Committee**

***FY 2015 Executive Budget/Taxation Issues***

***Presented by***

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***February 10, 2014***



On behalf of The Business Council and its 2,400 employer members, I would like to thank you for this opportunity to address the joint Senate and Assembly hearing on the Executive Budget. While we are interested in many components of the Executive Budget, we will focus our comments today on its business tax reform proposals.

**Business Tax Reductions** – We strongly support the Governor’s business tax reform package.

In mid-January, 2014 we released a study completed by economists at Ernst and Young which illustrates the “opportunity costs” of taxation on private sector employers and, conversely, the economic results of business tax reductions. Income earned by business can be paid out as salaries, paid out to business owners (including institutional owners such as pension funds and mutual funds) through dividends or distributions, or re-invested in the business or saved for future investments. Each of these activities provides economic benefits to the state and generates tax receipts for state and local governments. No doubt, taxes are necessary to support governmental services, but taxes can also reduce business’ ability to invest and grow.

Specifically, our project assessed the in-state economic impact of key business tax reductions that we expected to be included in the Executive Budget, including a reduction of the Article 9A ENI rate from 7.1 to 6.5% (and to zero for upstate manufacturers); a modernization and restructuring of the corporate franchise tax, including its merger with the bank tax and other reform and simplification measures; and the adoption of a 20 percent real property tax credit for manufacturers statewide. These measures are projected to provide about \$560 million in directly employer tax relief when fully implemented.

Our findings show that these business tax reforms and lower business tax burdens will produce significant job, income and economic benefits for the state.

The analysis, based on the Regional Economic Models, Inc. (or REMI) model of the New York State economy, found that restructuring the tax code and lowering the basic tax rate would produce more than 14,000 new jobs by 2019, and almost 18,000 new jobs by 2024. The new jobs created through tax reform would be across the state’s major business and employment sectors. It also shows that in-state personal income will increase by \$1.3 billion by 2019, and \$2.1 billion by 2024; and that tax reform will incentivize between \$500 and \$800 million in increased private sector capital investments.

The strong economic impact of this tax reform package is due to tax reductions being targeted in industries with high economic multipliers, such as manufacturing, information, real estate and financial services. These multipliers measure the number of total new jobs that result from an initial new direct job added in each sector. Business tax reductions in these industries have strong spillover effects that increase employment and economic activity throughout the state’s economy.

The study also states that increased economic activity and personal income will generate additional state and local income, sales and other taxes, and that even in the short term, may offset a significant share of the initial projected state revenue loss due to proposed tax reductions.

In short, our work illustrates how a modern and simplified tax code for New York employers businesses will produce significant economic benefits for the state.

Moreover, the tax reductions included in the Executive Budget are broad based, providing benefits to the majority of corporate franchise tax payers, and their benefits focus on current New York state business employers and taxpayers.

While we are working with the Administration on a number of technical amendments to the bill, we support its major provisions and urge its adoption.

We have included the full report with our testimony today.

**Tax Modernization/Reform** – The corporate franchise tax reform package included in the Executive Budget reflects many of the proposals set forth in the Tax Reform/Fairness Commission co-chaired by Peter Solomon and Carl McCall, which issued its final report on November 13, 2013, and the Tax Relief Commission, co-chaired by McCall and former Governor George Pataki, whose final report came out in early December, and whose membership included Business Council President Heather Briccetti. The Executive Budget also reflects extensive work done by the Department of Taxation and Finance staff over the past several years in developing specific legislative language; efforts informed by a significant amount of input from the interested public.

Among its key reforms, the Executive Budget:

- adopts a 6.5% business income rate under the corporate franchise tax. This will give New York the lowest ENI-based business tax rate among northeast states, and puts New York in the top third of competitive business tax rates among the fifty states;
- eliminates the alternative minimum tax, which erodes the effectiveness of investment and job creation tax credits;
- replaces the state's complex "inter-corporate transaction" based combined reporting rules with a more common unitary business/stock ownership test; and
- eliminates the state's separate bank tax, bringing New York into line with the federal tax code and the majority of other states that apply a single general business tax.

The Executive Budget also streamlines (and reduces the cost to the state of) several business tax credits, including the investment tax credit and the brownfield redevelopment credit.

These proposals have several important objectives. They will simplify the state's business tax code, with the intent of reducing compliance and audit costs for taxpayers and the state alike. It will provide "horizontal equity," meaning that it will treat similar taxpayers more uniformly. It will promote economic growth by applying tax reforms - previously adopted within the corporate franchise tax - that eliminate disincentives for having significant in-state employment and capital to current bank tax payers.

Again, we are proposing several technical amendments to the bill; e.g., we believe the proposed limitations on the manufacturing and research and development investment tax credit are too narrow, and would eliminate legitimate industrial and scientific investments from the program. However, we strongly support this business tax modernization and reform package, and urge its adoption.

**Manufacturers' Real Property Tax Credit** – During the Pataki/McCall Tax Reduction Commission process, The Business Council was a strong proponent of the real property tax payment-based credit for manufacturers that was included in the Executive Budget. Importantly, this credit, as proposed by Governor Cuomo, will apply to all manufacturers operating in New York State, including C-corporations subject to the corporate franchise tax, and manufacturers organized as sub-S corporations, LLCs or partnerships, whose business income is primarily taxed under the personal income tax.

We believe this proposal is a valuable economic development measure for New York State. First, it alleviates the impact of the tax that is most disproportionately burdensome for most New York manufacturers.

Second, by reducing the cost burden of property tax payments, it will improve the cost-competitiveness of manufacturers that continue to be a source of well-paying jobs in New York. Our research shows that, in upstate New York, the average manufacturing job pays about \$16,000 more in annual wages alone than the average non-manufacturing private sector job. For legislators concerned with promoting strong, middle class job opportunities, there are few more effective approaches than helping support the state's manufacturing sector.

Third, by basing this tax reduction on real property tax payments, rather than reducing the tax rate, the benefit of this tax cut will flow to employers with significant a capital presence – and jobs – within New York State.

**Enhanced 18-A Phase-Out** – The Section 18-A assessment is in effect a gross receipts tax on a utility sales, done through the Public Service Law rather than the Tax Law. Since New York's repeal of the utility gross receipts tax in 2000 – which at the time produced annual customer savings of about \$150 million – the state has imposed well over \$1 billion per year in new energy-based assessments and fees, all through mechanism other than the Tax Law, but all addition to New York's disproportionately high energy costs.

We believe the Governor's proposal for 18-A reductions makes strong sense. Based on EIA and PSC data, 18-A costs the typical small manufacture several thousand per month and costs a large, energy intensive manufacture \$10,000 per month or more. Indeed, we have members for which the 18-A surcharge is over \$1 million per year. The proposed Section 18-A phase-out would eliminate this surcharge effective 1/1/14 for the state's largest business and institutional energy users – entities experiencing the most significant economic hit from this ill-advised gross receipts assessment. In contrast, again based on federal and state energy use data, 18-A costs the average New York homeowner between \$1 and \$3 per month. While the budget does not eliminate these costs in 2014, all energy consumers will see an additional reduction in this assessment in 2014, and , in total dollars, the majority of the assessment relief will flow to small, non-energy intensive residential, commercial, industrial and institutional customers. We believe that is a sensible, strategic approach, and we support its adoption.

That concludes our formal testimony today. Obviously, our main focus is on the Executive Budget's business tax reform provisions, but the broad scope of the budget's spending and programmatic initiatives affect many of our members, and I have attached an overview of other significant Executive Budget provisions of concern to The Business Council members.

Thank you again for the opportunity to testify today, and I look forward to any questions or comments you may have.

*KP*



## **ADDITIONAL FY 2015 EXECUTIVE BUDGET ISSUES**

### **Overview**

- We support the general parameters of the FY 2015 Executive Budget; as it continues the recent 2% spending cap on state operating funds spending for the new fiscal year and begins implementing a \$2 billion tax cut package.

### **Construction**

Staff Contact: Tom Minnick

- We support making "design-build" contract authorization permanent; extend its authorized use to local governments on non-Wicks Law projects.

### **Contract Procurement**

Staff Contact: Heather Jung

- We support extending local governments' ability to "piggyback" off of other government-entity let contracts for an additional six years.

### **Economic Development**

Staff Contact: Ken Pokalsky

- We support adoption of "Global NY," a program to promote foreign investment in New York and to promote exports by in-state businesses, including a new international marketing campaign.

- We support an additional \$150 million in capital funding and \$70 million in Excelsior Job tax credits to be disbursed through the ten regional economic development councils (extending current state support levels.)

- We support funding initiatives including: \$180 million for equipment at Nano Utica; \$110 million for NYSUNY and CUNY 2020 grants; \$105 million to support the NY Genome Center and University of Buffalo; \$50 million to continue the NY "Open for Business" marketing campaign; \$46 million for ongoing ESDC programs including the Economic Development Fund and M/WBE programs; \$31 million for NYSTAR program grants; \$30 million for Onondaga Lake regional redevelopment; \$24 million for community redevelopment related to closure of an additional four corrections facilities; \$12 million to support a Clarkson University/Trudeau Institute partnership; and \$5 million for competitive funding for tourism marketing plans.

### **Education / Higher Education / Workforce Development**

Staff Contact: Sonia Lindell

We support an increase of \$807 million in education aid for the 2014-15 school year, \$608 of which is provided as formula-based school aid.

- We support the \$5 million in support for P-TECH partnerships.

- We support the commitment for \$1.5 billion over 5 years for "high quality" universal pre-k; charter schools would be eligible for pre-K funding.

- We support the Enhanced Youth Works Tax Credit, whereby employers will be eligible for an additional \$1,000 credit for at-risk youth employed full-time for an additional year (\$500 for part-time status), and an increase in the annual credit allocation will increase from \$6 million to \$10 million.

### **Election and Campaign Finance Reform**

Staff Contact: Heather Jung

- We oppose a reduction in corporate and LLC contributions to an aggregate total of \$1,000 per year.

- We oppose a state-level matching funds system at a \$6 to \$1 rate, funded by a voluntary taxpayer check-off, from the abandoned property fund, private contributions from individuals and organizations, and transfers from the general fund.

### **Energy**

Staff Contact: Darren Suarez

- We support an enhanced phase-out of the additional, temporary Section 18-A assessment.

### **Environment**

Staff Contact: Darren Suarez

- We generally support proposed amendments to the brownfield cleanup program, including a ten year extension, retention of as of right tax credits, creation of a no-credit fast track approval program; broader special assessment exemptions for remedial wastes; and expansion of the program to include additional sites. We do not support tax credit criteria as currently proposed.
- We support authorizing the State to issue an additional \$100M in bonds to provide funding for the State Superfund Program.

### **Financial Services**

Staff Contact: Marcus Ferguson

- We support enhance consumer protection through no-fault automobile insurance fraud reform.

### **Health Care / Health Insurance**

Staff Contact: Lev Ginsburg

- We oppose expanding health insurance plan network adequacy requirements and requiring insurers to provide access to out-of-network providers in certain instances.
- As part of the extension of HCRA taxes through 2017, we support a detailed review of the extent to which bad debt/charity costs will be reduced through ACA implementation, and a corresponding reduction of HCRA taxes to reflect that outcome.

### **Taxation / Revenues / Tax Credits**

Staff Contact: Ken Pokalsky

- As discussed in our main budget testimony, we generally support the corporate tax modernization and reform package.
- We are supporting an amended version of the Executive Budget's definition of manufacturer and manufacturing activity, and the related amendments to the Article 9A investment tax credit.
- We support the refundable credit under Article 9A and 22 equal to 20% of real property taxes paid by a qualified NY manufacturer.
- We support Estate Tax Reform, including an increase in the Estate Tax exclusion threshold to \$5.25 million (and future indexing); phases down the tax rate to 10% by FY 2017; subjects certain gifts to be added back for estate tax purposes.
- We support repeal of the stock transfer tax, which under current law is collected and fully rebated to taxpayers with no net revenues to the state.
- We support allowing self-employed individuals to file MTA mobility tax returns with their personal income tax returns.



### **Technology / Telecommunications**

Staff Contact: Marcus Ferguson

- We support allowing the PSC to forgo application of certain regulatory provisions to telephone corporations if such provisions are not necessary to ensure just and reasonable rates.
- We support streamlining of the confirmation of cable franchises and renewals by establishing a process that subjects franchises to the PSC's minimum franchising standards, rather than requiring PSC approval.

### **Transportation/Construction**

Staff Contact: Tom Minnick

- We support providing \$155 million in new state funding under the New York Works Program to fast track highway and bridge projects; \$45 million for essential project engineering and \$25 million to enhance transit, rail and aviation programs.
- We support \$2.5 million for a feasibility study of the Northern Tier Expressway (Route 98) between Watertown and Plattsburgh.

### **Travel and Tourism**

Staff Contact: Heather Jung

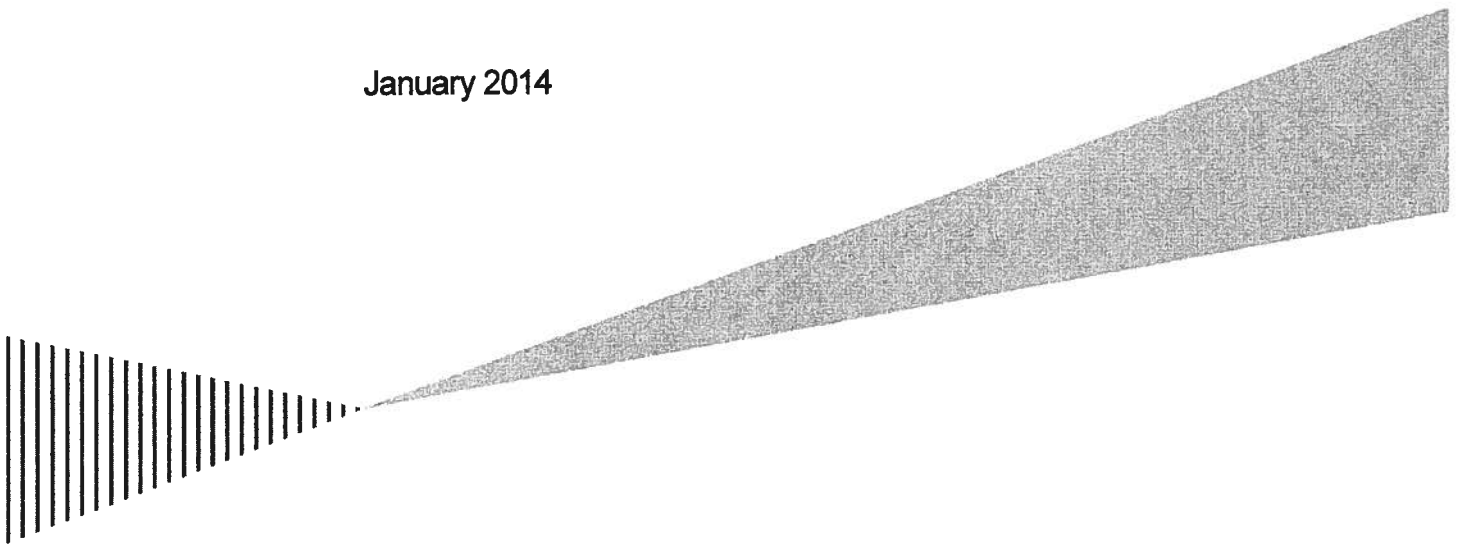
- We support \$5 million for the Market-NY program to provide competitive grants for regional promotion of events and tourism and \$1.1 million in funding for Taste-NY to help market NYS food and food products.



# **Analysis of economic impacts of New York corporate income tax reform**

Prepared for the Public Policy Institute of the Business  
Council of New York State

January 2014



**EY**

Building a better  
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## **Executive summary**

New York Governor Andrew M. Cuomo is proposing a tax relief package that would provide over \$2 billion of annual tax reductions for New York State individual and business taxpayers. The tax relief proposal includes significant business tax changes to enhance New York's economic competitiveness, improve tax fairness by imposing more uniform taxes on all types of businesses, and simplify the business tax system to reduce compliance and administrative costs. Business tax recommendations include: 1) modernizing and simplifying the corporate franchise tax, 2) reducing the corporate franchise tax rate, and 3) reducing property taxes.

This paper, prepared by EY for the Public Policy Institute, the research affiliate of the Business Council of New York State, Inc., provides estimates of the expected benefits to New York State's economy and residents from the recommended business tax changes designed to simplify the tax system and improve New York's business tax competitiveness. A detailed model of the New York State economy is used to estimate the increased statewide economic activity, including jobs, personal income and capital investment, expected from the proposed business tax changes.

The specific business tax reductions included in the economic impact analysis are:

- ▶ A reduction in the corporate franchise tax rate from 7.1% to 6.5%. For Upstate manufacturers, the corporate franchise tax rate would be zero.
- ▶ Modernization and simplification of the corporate franchise tax, including the merger of the bank franchise tax into the general corporation franchise tax
- ▶ Adoption of a new business tax credit designed to offset 20% of the property taxes paid by manufacturers on real property

Table ES-1 presents the expected economic impacts from the package of business tax changes in 2019 and 2024. The impacts equal the difference in the economic measures in each year, before and after the proposed business tax changes. The economic impacts include the direct impacts on business taxpayers, as well as the multiplier effects throughout the New York economy. Key findings include:

- ▶ Compared to the forecasted level of employment under New York's current business tax system, the business tax changes are expected to add over 14,100 new jobs in 2019 and 17,800 new jobs in 2024.
- ▶ The state's real gross domestic product, the broadest measure of the size of the New York State economy, could expand by over \$1.8 billion in 2019 and \$2.7 billion in 2024.
- ▶ By reducing the tax burden on the income from new investments in machinery, equipment and buildings, the tax reductions will increase the rate of return on capital investments in New York and stimulate investment. As a result, annual real capital investment is expected to be \$800 million higher in 2024 as a result of the proposal.

- ▶ The combined effect of increased employment and increased labor productivity due to the higher stock of capital equipment is expected to generate substantial increases in the personal income received by New York residents. Personal income is expected to increase by \$1.3 billion in 2019 and \$2.1 billion in 2024.
- ▶ State and local governments in New York will also benefit from the stronger state economy as tax bases expand with increases in consumer spending, household and business incomes, and taxable property values.

**Table ES-1. Dynamic New York State economic impacts of the proposed business tax changes**

<b>Economic measures</b>	<b>Economic impacts</b>	
	<b>2019</b>	<b>2024</b>
Total employment (number of jobs)	14,100	17,800
Personal income (\$millions)	\$1,330	\$2,133
Gross domestic product (millions of \$2005)	\$1,755	\$2,707
Real capital investment (millions of \$2005)	\$526	\$799
Static tax reductions (\$millions)	\$607	\$737

Source: EY calculations based on simulations using the REMI New York State economic model.



# Analysis of economic impacts of New York corporate income tax reform

## Introduction

New York Governor Andrew M. Cuomo is proposing a tax relief package that would provide over \$2 billion of annual tax reductions for New York State individual and business taxpayers. The tax relief proposal includes significant business tax changes to enhance New York's economic competitiveness, improve tax fairness by imposing more uniform taxes on all types of businesses, and simplify the business tax system to reduce compliance and administrative costs. Business tax recommendations include: 1) modernizing and simplifying the corporate franchise tax, 2) reducing the corporate franchise tax rate, and 3) reducing real property taxes.<sup>1</sup>

This paper, prepared by EY for the Public Policy Institute, the research affiliate of the Business Council of New York State, Inc., provides estimates of the expected benefits to New York State's economy and residents from the Governor's recommended business tax changes. A comprehensive model of the New York State economy is used to estimate the increased statewide economic activity, including jobs, personal income and capital investment, expected from the proposed business tax changes.

The following sections describe the proposed business tax changes, discuss the objectives and guiding principles of tax reform, and present the estimates of the expected benefits to New York State's economy and residents from the Governor's recommended business tax changes.

## Components of the Governor's business tax proposal

The Governor's business tax proposal includes merging the bank franchise tax (Article 32) into a substantially modified general corporation franchise tax (Article 9-A).<sup>2</sup> In addition to the unification of Articles 9-A and 32, key components of the tax reform proposal include:

- ▶ The adoption of an economic nexus standard
- ▶ Replacement of the current combined reporting system with mandatory water's edge unitary combined reporting with a more than 50% stock ownership test

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<sup>1</sup> The Governor's recommendations incorporate a number of the business tax changes recently recommended in the final reports of two state commissions: the New York State Tax Relief Commission and the New York State Tax Reform and Fairness Commission. See New York State Tax Relief Commission, *Final Report* (December 2013) and New York State Tax Reform and Fairness Commission, *Final Report* (November 2013).

<sup>2</sup> The specific tax reform changes described in this section are based on additional information from the New York Department of Taxation and Finance on the specific components of the corporate franchise tax reform packages recommended by the Tax Fairness and Tax Relief Commissions. The description of the components of the corporate tax reform recommendations included in this report may change as more details of the Governor's recommendations become available.

- ▶ Selected tax base changes include:
  - Elimination of the exemption for income from subsidiary capital; this income would be treated as either taxable business income, exempt investment income or other exempt income
  - Modification of the definition of investment income and the adoption of an exemption for investment income net of attributable interest expenses
  - Expanded NOL provisions with credits for pre-tax reform NOLs
- ▶ Article 9-A's existing single sales factor apportionment formula will apply to all filers under the reform proposal along with market (customer) based sourcing of sales, including new sourcing rules for income from qualified financial instruments
- ▶ Elimination of the Article 9-A minimum taxable income base and tax on subsidiary capital, and the Article 32 alternative entire net income tax base, taxable assets base and fixed dollar minimum tax
- ▶ An increase in the amount of the fixed dollar minimum tax under the modified Article 9-A tax

In addition to these extensive changes in the corporate franchise tax structure, the Governor's business tax recommendations include:

- ▶ A reduction in the corporate franchise tax rate for most filers from 7.1% to 6.5%
- ▶ A reduction in the corporate franchise tax rate to zero for Upstate New York manufacturers
- ▶ A tax credit equal to 20% of annual property taxes against corporate income taxes for manufacturers

## **Benefits of New York corporation tax reform**

Broad tax policy principles have served as a guide in the development of the business tax recommendations advanced by the Department of Taxation and Finance (the "Department"), the Tax Reform and Fairness Commission and the Tax Relief Commission. These principles include: 1) *horizontal equity* to treat taxpayers uniformly, 2) *simplicity* to reduce compliance and administrative costs and increase voluntary compliance, and 3) *economic competitiveness* to sustain New York State economic growth.

### **Horizontal equity**

The horizontal equity principle can be described as providing a level playing field. The objective is to apply similar tax provisions to taxpayers that are similarly situated.

This principle is unattainable under New York's current corporate franchise tax system because taxpayers engaged in similar economic activities (e.g., lending or leasing) can be subject to Article 9-A or Article 32. Thus, such taxpayers, engaged in the same economic activities, are

subject to different tax bases, apportionment methodologies and combined group filing requirements. The result is significant differences in effective tax rates on income from similar activities. The merger of Article 32 into a modified Article 9-A creates a level playing field by providing more uniformity in the franchise tax system.

### **Simplifying the tax system**

The corporate franchise tax reform recommendations provide substantial benefits in reduced compliance costs for both taxpayers and the state. The integration of Articles 9-A and 32 contributes to both the simplicity and ease of compliance and administration principles by:

- ▶ Reducing the number of returns filed by groups of affiliates that are currently filing under both Article 32 and Article 9-A. The proposal also reduces the number of tax bases that must be calculated on each return.
- ▶ Simplifying the determination of which affiliated subsidiaries are to be included in a combined return. Under current law, among other requirements, combination is required under Article 9-A if there are “substantial intercorporate transactions” among the related corporations. A Department memorandum (TSB-M-08(2)C) describing how to determine if there are substantial intercorporate transactions notes that it depends upon “the facts and circumstances of all activities and transactions between related corporations.” It then describes a very complicated and difficult to apply, 10-step analysis, unique to New York, which must be followed to determine if a combined report is required and, if so, which corporations are to be included.

Subsequent to issuing the memorandum, the Department promulgated regulations that include most of the same complicated rules unique to New York. The tax reform proposal, on the other hand, adopts combined return features that are used in most states that require unitary combined reporting.

- ▶ Changing the calculation of NOLs to remove complicated restrictions that make it difficult to accurately determine allowable NOLs.
- ▶ Applying the same apportionment formula and sourcing rules to all companies engaged in similar economic activity.
- ▶ Eliminating taxpayer uncertainty and administrative difficulties for the Department related to the determination of the appropriate filing status (Article 9-A or Article 32) for taxpayers in the financial services industry.

These changes should reduce both the cost of compliance and administration, as well as audit disputes and litigation expenses, for taxpayers currently subject to Article 9-A or Article 32, as well as for the state. While the cost savings may be substantial to both the Department of Taxation and Finance and to taxpayers, there is no current estimate of the dollar amount of these savings.

## **Improving New York's business tax competitiveness**

A key objective of the business tax reform recommendations is to increase New York's business tax competitiveness relative to other states. The proposed tax reforms would increase tax competitiveness for taxpayers that have significant employment and capital investments in New York in several ways:

- ▶ The application of the single sales factor based on destination sales to current Article 32 taxpayers would reduce the tax base for taxpayers with significant in-state employment and capital. The single sales factor formula would also reduce any increase in franchise taxes triggered by adding new investments and jobs in New York. Article 9-A taxpayers were provided with the competitive benefits of this apportionment formula change in 2005. Single sales factor apportionment for business taxes has been adopted by 18 other states, including California, Connecticut, Texas, Ohio, Pennsylvania, Illinois, Michigan, Maryland and New Jersey.
- ▶ The corporate tax rate under the modified Article 9-A franchise tax recommendation would be reduced from 7.1% to 6.5%, an 8.5% rate reduction. The rate would be reduced to zero for Upstate manufacturers. For a large number of taxpayers, the tax rate reduction would exceed any additional taxes resulting from proposed modifications in other components of the franchise tax structure.

In contrast, there may be net tax increases for other taxpayers due to:

- ▶ The adoption of the economic nexus standard which subjects corporations with greater than \$1 million in New York State revenues to the franchise tax. This base increase would affect firms selling into New York with minimal employment and property in the state.
- ▶ The combined reporting changes would add additional subsidiaries to the combined group. The net tax impact in this case will depend upon the profitability per dollar of sales of the added corporations compared to this ratio for members of the combined group under current law. If the additional subsidiaries are relatively more profitable, the new combined group's taxes could increase.

Although the business tax recommendations may increase tax liabilities for some taxpayers in selected industries, substantial business tax reductions for most business taxpayers should stimulate additional in-state economic activity.

Business tax competitiveness should also be evaluated in terms of the burden of New York business taxes relative to other states. Over the last two years, for example, there has been a definite trend towards lowering the level of state corporate income taxes to improve business tax competitiveness. These tax law changes include the adoption of single sales factor apportionment formulas and reductions in corporate income tax rates. For example, tax rate cuts have been adopted by legislatures in Idaho, Indiana, Massachusetts, New Mexico, North Carolina, North Dakota and West Virginia. Tax rate cuts exceeded 20% in Indiana, New Mexico and North Carolina. Single sales factor apportionment has been adopted most recently in California, New Jersey, New Mexico, South Carolina and Virginia (for manufacturers).

## Economic impact analysis

As noted above, it is reasonable to expect that the Governor's business tax reform proposal will increase New York's business tax competitiveness and result in stronger state economic growth. The following analysis provides initial estimates of the potential benefits of the recommendations for franchise tax reform, franchise tax rate reductions and the business property tax credits (as described above) in terms of additional jobs, incomes and capital investment in New York.<sup>3</sup>

### Economic impact modeling assumptions

The economic impact analysis begins with Department estimates of the net change in corporate franchise tax collections from the Governor's business tax recommendations. The Department also developed additional information on the net change for Article 9-A taxpayers and Article 32 taxpayers. These "static" revenue change estimates are the starting point for EY's "dynamic" economic impact analysis.<sup>4</sup>

The Regional Economic Models, Inc. (REMI) model of the New York State economy was used to estimate the expected economic impact on the state's economy from the Governor's business tax proposals. The economic impacts include the direct effects on business taxpayers, as well as the "multiplier" effects throughout the New York economy. The revenue impact estimates, with an EY modification described in the next paragraph, were used as inputs to the REMI model.

To more accurately estimate the dynamic economic impacts of the change in the apportionment formula for Article 32 taxpayers, EY estimated the division of the net change in Article 32 into 1) an estimate of aggregate tax increases, and 2) an estimate of aggregate tax decreases. The two tax change "buckets" are modeled as having different impacts on the New York economy due to the differences in relative employment and investment levels in the state for taxpayers in the two groups.<sup>5</sup>

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<sup>3</sup> The Governor is also proposing the immediate elimination of the 2% Temporary Utility Assessment (18-A) that applies to selected industrial utility purchases. This change will lower the cost of doing business in New York and increase the State's competitiveness. The economic benefits of this tax change are not included in the economic impact analysis.

<sup>4</sup> The revenue impact estimates accompanying the Governor's recommendations are reported for the fully phased in business tax changes. EY used different constant rates of growth for components of the recommendations to project the changes beyond the state's current tax forecast. In modeling the economic impacts of the recommended business tax changes, the fully phased in amount of tax changes were used as the starting point.

<sup>5</sup> The static revenue estimates for the impact of applying the single sales factor apportionment formula to Article 32 taxpayers were based on earlier tax policy simulation runs prepared by the New York City Department of Finance. These runs provided information on the ratio of aggregate tax increases and aggregate tax decreases from the change in apportionment. EY developed independent estimates from U.S. Census, *Enterprise Statistics*, of the proportion of tax increases that would be paid by taxpayers with relatively low ratios of New York payroll and property to New York sales. These are the taxpayers that may pay higher taxes due to the change in the apportionment formula.

## Economic impact results

Table 1 provides a high-level overview of the estimated statewide economic impacts of the Governor's business tax recommendations. The results are summarized for 2019 and 2024, assumed to be 5 and 10 years after the initial tax cuts.

As shown in Table 1, the recommendations add an estimated 14,100 jobs by 2019; the new jobs increase to almost 17,800 by 2024. These are the estimated number of additional jobs in the New York state economy that would be added to the forecast level of employment that is expected without the tax changes. It is important to note that the job increase is measured by comparing the employment level in each future year before and after the recommended business tax changes. The job changes are not being measured relative to the level of jobs in 2014.

**Table 1. Dynamic New York economic impacts of the Tax Relief Commission's recommended business tax changes**

Economic measures	Economic impacts	
	2019	2024
Total employment (number of jobs)	14,100	17,800
Personal income (\$millions)	\$1,330	\$2,133
Real disposable personal income (millions of \$2005)	\$1,290	\$1,665
Gross domestic product (millions of \$2005)	\$1,755	\$2,707
Real Capital investment (millions of \$2005)	\$526	\$799
Static tax reductions (\$millions)	\$607	\$737

Source: EY calculations based on REMI model of the New York economy simulations.

The recommended corporate franchise tax reforms, franchise tax rate cuts, and property tax credits have a significant impact on personal income of New York residents. New York personal income increases by over \$1.3 billion in 2019 and by over \$2.1 billion in 2024. This is the estimated additional income received by New York residents as a result of the tax changes.

Table 1 also shows that the combination of business tax changes results in substantially higher levels of capital investment (machines, equipment and buildings) in New York State. Real capital investment increases by \$526 million in 2019 and \$800 million per year by 2024.<sup>6</sup> This additional capital investment is an important source of increases in worker productivity and compensation over time.

<sup>6</sup> By 2019 the job and personal income increases equal 0.1% of the economy-wide figures before the business tax reductions; the increase in capital investment is close to 0.4%.

The increase in personal income generates additional state and local income, sales, property and other taxes. Estimates of this dynamic tax feedback effect suggest that the additional taxes may offset roughly one-third of the initial static revenue loss from the business tax reductions by 2019. While the state revenue estimators do not recognize this dynamic feedback effect in bill analyses prepared for legislators, it is an important public-sector benefit from a stronger New York economy.

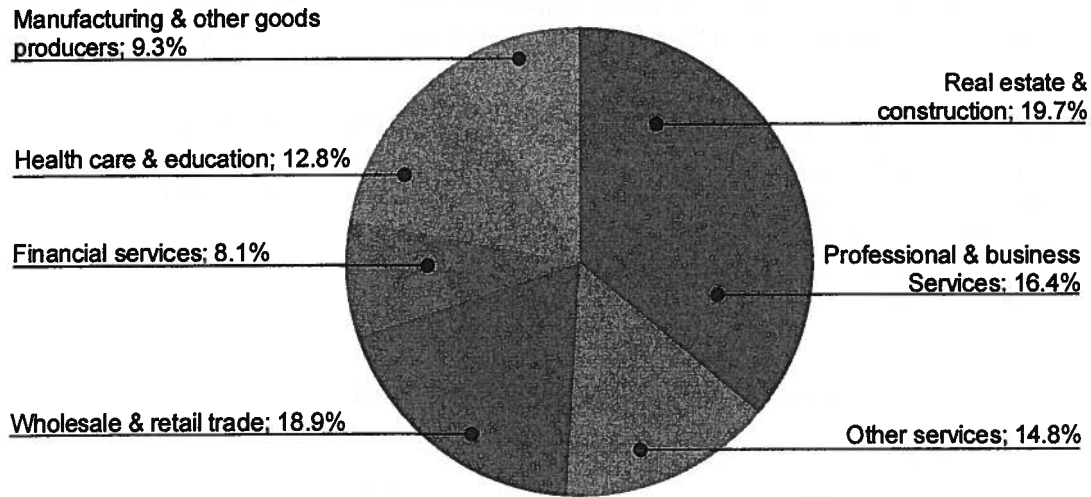
Table 2 and Figure 1 show that employment increases due to the proposed business tax changes are spread widely across all major sectors of the New York economy, a result of the multiplier effects throughout the state economy. The table presents the 2019 distribution of the projected new private-sector employment by broad industry sectors. The shares range from almost 20% in retail and wholesale and real estate and construction industries to just over 8% in the financial services sector.

**Table 2. Distribution of New York employment increases by major industry sector**

Industry category	2019 distribution
Real estate and construction	19.7%
Wholesale and retail trade	18.9%
Professional and business services	16.4%
Other services	14.8%
Health care and education	12.8%
Manufacturing and other goods producers	9.3%
Financial services	8.1%
Total employment change	100.0%

Source: EY calculations based on REMI model of the New York economy simulations.

**Figure 1. Shares of 2019 employment increases by major industry sector**



Source: EY calculations based on REMI model of the New York economy simulations.

### **Understanding the economic impact results**

One reason for the strong economic impacts from the business tax proposal is that the business tax reductions are concentrated in industries that have relatively high economic multipliers. Business tax reductions in these industries can have strong spill-over effects that increase employment and investment throughout the New York economy.

Table 3 presents estimates of the multiplier impacts for an expansion of New York employment in each major industry. The estimates are based on REMI model runs for New York State. The multiplier measures the number of total new jobs that result from an initial new direct job added by a firm in each industry. For example, a multiplier of 3.0 in a given industry indicates that each new direct job in that industry results in three total new jobs in the state. In addition to the initial direct job, economic activity related to additional purchases from instate suppliers, as well as additional consumer spending on instate goods and services from higher worker incomes, add two more jobs throughout the New York economy. The jobs multiplier in this example is 3, the total new economy-wide jobs per one new direct job in a specific industry.

Table 3 shows that the information and financial service industries have multipliers greater than 3.0 with the manufacturing and management of companies (headquarters) sectors having multipliers greater than 2.0.



**Table 3. New York State job multipliers for each new job added by major industry**

<b>Industry</b>	<b>Job multiplier</b>
Information	3.9
Financial services	3.3
Real estate	2.5
Management of companies	2.4
Manufacturing	2.3
Wholesale trade	2.1
Professional, scientific & technical services	1.9
Retail trade	1.7
Construction	1.6
Transportation and warehousing	1.5
Health care	1.4
Arts, entertainment, and recreation	1.4
Other services	1.3
Educational services	1.3

Note: Multiplier estimates based on REMI New York State model runs adding 1,000 direct jobs to each industry.

High job multiplier values are due to several factors including an extensive network of in-state suppliers of goods and services to an industry and high wages and salaries in an industry that result in significant spending on consumer goods and services provided by in-state firms.

Table 4 provides estimates of the average New York wages and salaries by major industry compared to the statewide average of 100%. For example, annual wages in the management of companies industry is 279% or almost 2.8 times higher than the all-industry average of 100%. The above-average levels of annual wages in the management of companies, financial services, professional, scientific, & technical services, and manufacturing industries results in relatively high additional consumer spending when jobs are added to these industries.

**Table 4. Average annual New York wages, relative to statewide average,  
by major industry group, 2014**  
State-wide average = 100%

<b>Industry</b>	<b>Relative average annual wages</b>
Management of companies	279%
Financial services	259%
Information	177%
Professional, scientific & technical services	135%
Manufacturing	119%
<b>State-wide average</b>	<b>100%</b>
Construction	93%
Health care	82%
Educational services	75%
Transportation and warehousing	70%
Retail trade	56%
Other services	54%
Arts, entertainment, and recreation	46%

Source: The wage data is part of the economic data base in the REMI model of the New York State economy.