

CITIZENS BUDGET COMMISSION

1 Penn Plaza * Suite 640 * New York, NY 10119

Contact: Charles Brecher
212-279-2605, ext. 315

Elizabeth Lynam
212-279-2605, ext. 318

CBC STUDY FINDS THAT BUSINESS TAXES IN NEW YORK CITY ARE SIGNIFICANTLY HIGHER THAN KEY COMPETITOR LOCATIONS

They Are More Than Twice As High As Those In Westchester County; 70 Percent Higher Than Those In Los Angeles

New York, NY – June 7, 2007 – The Citizens Budget Commission (CBC) today released a study of State and local business taxes in New York City that demonstrates that those taxes are dramatically higher than comparable taxes for key competitors. Most striking is the fact that business taxes in New York City are more than twice those in Westchester County (even given the same State taxes) and more than 70 percent higher than those in Los Angeles.

The study found that businesses that choose to expand in New York City have the lowest rate of return on their investment among the major cities included in the comparison. Although the federal tax burden is the most significant faced by businesses, those that choose to locate in New York City also experience a comparatively high average effective combined State and local tax rate. The 7.5 percent rate on business in New York City is significantly higher than the average state and local rate of 4.5 percent faced by businesses in the eight other locations, and the highest of any single competitor by a large margin.

Table 1 below shows the effective state and local combined tax rate across 11 industries studied – ranging from securities and real estate to manufacturing. In New York City, taxes on businesses were significantly higher than in other New York locations. Among major cities sampled outside of the Northeast, business taxes in New York City ranged from 50 to 70 percent higher.

Table 1
Effective State and Local Tax Rate on Businesses
New York City and Competitor Locations, 2006

	All Industries	
	Average Effective Tax Rate	NYC's Tax Rate as a % of Competitor
New York City	7.5%	100.0%
<u>Regional Northeastern Competitors</u>		
Boston	5.1%	147.1%
Newark, NJ	5.0%	150.0%
Hartford, CT	4.4%	170.5%
Upstate NY (Albany County)	3.5%	214.3%
Downstate NY Metro Area (Westchester County)	3.4%	220.6%
<u>Other Major Cities</u>		
Los Angeles	4.4%	170.5%
Houston	5.2%	144.2%
Miami	5.0%	150.0%

Source: Donald J. Boyd, *A Simulation of Business Taxes in New York City and Other Locations*, June 2, 2007; prepared for the Citizens Budget Commission; available at www.cbcnv.org.

“Business taxes in New York City are way out of line with key competitors,” said Charles Brecher, CBC’s Research Director. “These high taxes undercut New York’s potential for business growth and should be reduced.”

Competitor locations examined include two New York State locations: Westchester County; and Albany County. Major northeastern cities analyzed are: Hartford, CT; Boston, MA; and Newark, NJ. Other major U.S. cities considered are: Los Angeles, CA; Miami, FL; and Houston, TX. Eleven typical industries were examined for each location. In each industry, New York City had the highest taxes.

While this analysis includes the largest taxes imposed in New York City, it does leave several taxes out that, if included, would make New York City look even worse. In particular, the commercial rent tax (for properties in locations subject to the tax), the real property transfer tax, and the mortgage recording tax are not included. These taxes were excluded because whether or not businesses are subject to them varies with circumstances.

The model evaluated the level of taxation on businesses in representative industries by taking into account a variety of complexities. It recognizes that businesses pay multiple taxes, including state and local corporate income taxes, sales taxes on business purchases, property taxes, unemployment insurance taxes, and the federal corporate income tax, and that these taxes interact particularly with regard to deductibility against federal taxes. It also calculates the return on investment over a long time horizon, since features of tax policy—such as depreciation deductions and investment tax credits—span these longer periods.

New York City Can Afford Tax Reform

New York City is in the midst of a great economic boom. The City expects a surplus this fiscal year of more than \$4 billion. This marks the third year in a row that the City’s surplus has exceeded \$3.5 billion. With the City’s recent stellar economic performance, and tax revenues producing more than what is needed to cover current services, it is time to make the business tax climate in New York City more competitive.

State leaders just enacted business tax reductions that will help, reducing collections statewide by \$150 million. But, as the comparison between New York City and Westchester County reveals, the greatest disparity is in local taxes. For example, the top rate on corporations levied by New York State is 7.1 percent to which New York City adds an increment of 8.85 percent, making the cumulative top rate for corporations in New York City 15.95 percent.

The Bloomberg Administration and the City Council have been discussing a proposed tax relief package that would total \$1.3 billion in the coming fiscal year. It includes a new, across-the-board 5 percent property tax cut and an extension of the \$400 property tax rebate for homeowners. The proposal would also grant about \$200 million in new tax cuts for some businesses through greater tax credits for unincorporated businesses, new credits for S-Corporations, phasing out one alternative tax base calculation, and simplifying tax filing for small firms. These measures should now be adopted.

While these initiatives mark a good start, much more should be done to make New York City’s business climate more attractive. Although taxes are only one factor in the location decisions made by firms, they are an important one that should be addressed in a comprehensive review of tax policy.

“In an increasingly competitive marketplace, it’s crucially important that the City ensure its ability to continue attracting jobs and talent,” said Elizabeth Lynam, CBC’s Deputy Research Director. “City leaders should convene a commission to explore tax policy in this context.”

The full text of the study is available at www.cbcny.org.