



BUDGET WATCH '03

WHY THE NEW JERSEY PLAN WOULD BE BAD NEWS FOR NEW YORK

The public-employee unions claim that New York State could reap new revenues by closing corporate “loopholes.” But their plan is a virtual copy of the disaster that New Jersey inflicted on itself last summer. It could double—yes, double—New York’s corporate income tax.

In a frantic effort to solve their state’s budget problems, New Jersey’s Governor and Legislature last year enacted a surprise package of corporate tax increases. Their plan effectively doubled corporate income taxes in New Jersey, under the guise of closing “loopholes.” It didn’t work—New Jersey still faces a \$1.5 billion deficit in its current fiscal year, and a \$5 billion deficit in the next year.

But now the public-employee unions in New York are promoting the same basic idea for *this* state—double corporate income taxes while claiming that this is just closing loopholes. Here’s a look at their plan, drafted by the Fiscal Policy Institute and now being discussed behind closed doors all around Albany:

Gross receipts/AMT

New York’s corporate income tax is based on income—that is, on profits. But a key feature of the New Jersey plan now being pushed in New York is to create an alternative minimum tax based on gross receipts—that is, on sales.

This means that if corporations above a certain size don’t have taxable profits high enough to generate a specified minimum income tax payment, they would instead be assessed a percentage on their gross receipts in the state.

No bill language has been made public, so no one knows what thresholds of size and income are being considered to trigger this tax—nor what rate is under consideration. But the unions have set a target of \$400 million to \$460 million in revenues.

A gross-receipts tax falls hardest on low-margin businesses—such as grocery stores and other retailers. It could mean the death knell for businesses that are struggling through the recession without making profits. And incredibly, it could *increase* a corporation’s income tax when its profits go *down*.

Worldwide combination reporting

The crown jewels of New York State’s economy are its global companies—corporations that leverage major investments in our state, and the skills of New Yorkers, to play leading roles in markets around the world.

The “New Jersey plan” would stand that advantage on its head, and single out these major corporations for taxes based on income they (or their subsidiaries) had earned overseas. This is described as being aimed at closing “loopholes” that allegedly have allowed some companies to divert taxable profits to out-of-state subsidiar-

ies through trademarking arrangements and other devices.

But New York State already has the power to disallow such devices when they are not conducted on an “arms-length” basis. In truth, combination reporting is simply a device to raise up to \$400 million in new taxes from our major corporate employers—only a small portion of which would be connected in any way with these alleged “loopholes.”

Decoupling; and other measures

The “New Jersey plan” as promoted by its New York adherents has a number of other components, including reversing New York’s wise decision last year to remain coupled with federal depreciation schedules. This “decoupling” scheme would supposedly raise up to \$545 million. But every dollar would be taken out of the investments that manufacturers and others would make in new plant and equipment—the very thing we want to encourage, not punish, as we struggle to recover from recession.

Other proposals would limit the corporate investment tax credit, and adopt a “throwback rule,” among other things. All told, this New York variant of “the New Jersey plan” would increase state corporate income taxes in New York by \$1.5 billion to \$2 billion—or roughly double the \$1.8 billion collected now.

Business pays its fair share now

That \$1.8 billion, by the way, is only the tip of the iceberg in terms of the total tax burden that business in New York carries. In fact, it’s only one-sixteenth of the total that business pays to state and local governments in New York

Add in utility taxes, the portion of sales and income and property taxes paid by business, and so on, and all told, **business pays over \$30 billion—or one dollar in every three** collected by the state and its localities in New York. And according to Federal Reserve and Census Bureau figures, overall business taxes in New York (like taxes here generally) are still among the highest in the nation.

It didn’t work the last time

In the last recession, the Legislature adopted a dark-of-the-night tax increase on business. So when the national recession ended, New York *kept losing* jobs for two years after the nation had turned around. And state tax receipts went down, not up. It’s hard to think of a good reason to wish that history would repeat itself.