

# *A Fair Share — At Least!*

*Business taxes in New York State are far more than meets the eye – about one-third of all state and local taxes, in fact.*

“We have to make business pay its fair share!”

That’s the rallying cry from public employee unions and other organizations whose funding depends on New York State taxpayers.

But many business owners and managers in the Empire State might respond that they’d love to pay their fair share – and *only* that. Combined state and local corporate income taxes in New York are among the highest in the country, even after state-level tax cuts in recent years. And counting all the taxes they pay, businesses currently account for more than one-third of all the tax revenues collected by state and local governments in New York. That applies to business’ share of the taxes that support education, too.

**Combined state and local corporate income taxes in New York are among the highest in the country.**

Most of the claims that employers don’t pay their fair share are based on a misunderstanding – or outright misrepresentation – of how businesses are taxed. For instance, the Fiscal Policy Institute, an organization funded by unions and liberal foundations, uses state corporate income tax revenues to measure businesses’ contribution to the public treasury. But at \$1.8 billion or so, the state corporate income tax accounts for only about one-sixteenth of the total taxes paid by business.

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- ◆ The state’s corporate income tax collects about \$1.8 billion year.
- ◆ But that’s only about one-sixteenth of all the taxes paid by business to state and local government in New York.
- ◆ Add in sales taxes, fuel taxes, health insurance taxes, property taxes, the business taxes paid through personal income tax, and so on.
- ◆ That brings the business share of state tax revenues to \$10.6 billion—or over 25 percent.
- ◆ The business share of local taxes in New York is even higher—about 41 percent.
- ◆ So all told, business pays \$30.4 billion. That’s one dollar in every three collected by state and local government in New York.
- ◆ And the corporate income tax burden in New York is well above the national average.

**All told, businesses across the Empire State will pay almost \$30.5 billion in state and local taxes this year.**

A careful analysis shows that business taxpayers will pay more than \$10.5 billion to support education, health care, transportation and other services funded through the state budget in fiscal 2003-04. At the local level, businesses will contribute even more – some \$19.9 billion, including \$6.6 billion in school taxes alone. All told, businesses across the Empire State will pay almost \$30.5 billion in state and local taxes – or 34.1 percent of total tax collections – this year.

## **One dollar in three**

Tens of thousands of businesses in various industries pay New York State's corporate income tax. Then there are the other state taxes imposed on specific sectors – the gross receipts taxes on energy and telecommunications companies, the petroleum business tax, the bank tax, the insurance tax. Trucking companies, and others (such as manufacturers and grocery stores) that ship goods on state highways, pay the highway use tax.

Businesses pay state and local sales tax on company vehicles, office furniture, employees' travel expenses and countless other purchases. Some 280,000 businesses – partnerships, Subchapter S corporations and sole proprietorships – effectively pay state and New York City income tax not through the regular corporate tax, but through the personal income taxes their owners file. (The Assembly Ways and Means Committee staff estimates that "S" corporations account for more than half of all corporations.) Private employers pay hundreds of millions of dollars in state taxes on health-insurance policies and hospital care – taxes that drive up the already high cost of health coverage.

All told, businesses pay about one in every four tax dollars collected by the state government, as illustrated by the table on the following page.

At the local level, businesses pay more than 41 percent of the property taxes raised by schools and local governments across the state, according to data compiled by the state Office for Real Property Services. The burden is even higher in New York City, where business pays 51 percent of property taxes, and pays a corporate income tax and various other city-specific taxes as well.

Schools are heavily dependent on property taxes. Business' share of local property taxes for schools is \$6.6 billion; add that to business' share of state taxes that go to local schools, and the total business contribution to education, alone, is almost \$10.1 billion. Thus business pays 34.2 percent of the state and local taxes that support education – slightly higher than its share of the overall tax burden.

Technically, of course, economists know that "business" doesn't pay taxes – people do. Taxes charged to business are ultimately imposed on company employees (in reduced compensation), shareholders (in lower dividends and gains), and customers (in the cost of goods sold). The debate in Albany, and the numbers in this report, focus on taxes levied on business activity and charged in the first instance to a company's bottom line – not those taxes passed through to consumers, such as the cigarette taxes collected by tobacco companies.

How does our overall business tax burden compare to the competition?

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## What Does Business Pay?

Share of New York's state and local revenues ('03-'04, projected)

	Total Revenues	From business taxpayers	Business share
<b>New York State taxes</b>			
Personal income tax	\$ 23,054	\$ 2,305	10%
Sales and use tax	9,413	2,353	25%
Motor fuel tax	538	161	30%
Cigarette/tobacco tax	446	0	0%
Motor vehicle fees	651	260	40%
Alcoholic beverage	180	18	10%
Highway use	149	149	100%
ABC License	42	42	100%
Auto rental	44	22	50%
<b>Corporation franchise tax</b>	<b>1,796</b>	<b>1,796</b>	<b>100%</b>
Corporation and utilities tax	993	497	50%
Insurance tax	903	903	100%
Bank tax	543	543	100%
Petroleum business tax	1,001	501	50%
Estate tax	736	0	0%
Real estate transfer tax	404	162	40%
Pari-mutuel tax	32	0	0%
Health insurance taxes	1,300	845	65%
<b>Total state taxes</b>	<b>\$ 40,928</b>	<b>\$ 10,557</b>	<b>25.8%</b>
<b>Local taxes</b>			
Local sales taxes outside NYC	\$ 4,884	\$ 1,221	25%
Total property taxes outside NYC	21,081	8,679	41%
New York City taxes	22,450	9,989	44%
<b>Total local taxes</b>	<b>\$ 48,415</b>	<b>\$ 19,889</b>	<b>41.1%</b>
<b>Total state and local taxes</b>	<b>\$ 89,343</b>	<b>\$ 30,446</b>	<b>34.1%</b>

**All dollar figures are in millions.**

Figures for total state revenues: *New York State Executive Budget, 2003-04* (projections for FY '03-'04). Local tax totals: extrapolations from Office of the State Comptroller, New York City budget. Property tax shares: state Office for Real Property Services. Calculations of business share: The Public Policy Institute, based on data from New York State Division of the Budget, Department of Taxation & Finance, and other sources.

**According to Federal Reserve economists, New York's state and local taxes on corporate profits were third-highest among all the states, and 82 percent higher than the national average.**



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## ***A Fair Share – At Least!***

*Business Pays One-Third of All State and Local Taxes in New York*

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Experts on state finances find it difficult to compare overall taxes on employers across the country, because of differences in states' and localities' tax structures. Perhaps the most comprehensive effort to measure state and local tax burdens nationwide is that undertaken by economists at the Federal Reserve Bank of Boston, which uses a "representative tax system." Their calculations reveal each state's "tax effort" – essentially, how much the state and its local governments collect in taxes, compared to what the state's economy can afford to support.

By this measure, according to the Federal Reserve economists, New York's state and local taxes on corporate profits were third-highest among all the states, and 82 percent higher than the national average.

The Fed study, released last fall, was based on 1997 data. New York has cut corporate taxes since then, but not so dramatically as to wipe out the disparity with other states. U.S. Census Data for fiscal 2000 show New York's combined state and local corporate income taxes were second-highest in the nation on a per-capita basis. Other taxes that fall heavily on employers tend to be much higher in New York than other states, the Census Bureau has reported. For instance, our property-tax burden was second-highest in the nation, 52 percent higher than average; our personal-income taxes were second-highest, 68 percent above average.