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2015 LEGISLATIVE PUBLIC HEARING ON 2015-16 EXECUTIVE BUDGET PROPOSAL - TAXES

NFIB/NY STATE DIRECTOR MICHAEL DURANT
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Good morning.

First, let me thank Chairman DeFrancisco, Chairman Farrell and the other members of the legislature here today as part of this joint committee, for allowing me to be here on behalf of small business today.

My name is Mike Durant, and I am the New York State Director of the National Federation of Independent Business. NFIB represents nearly 11,000 small businesses across New York encompassing virtually every segment of our state's economy. The typical NFIB member has 5 or fewer employees and more than half of our members report gross sales of \$350,000 or less. It is on behalf of those members that I am here today.

Our testimony today will focus on three aspects of the Governor's proposed budget, and primarily the proposed small business tax cut.

I will start with the proposed assessment of \$25 on fully insured health insurance plans. There is no shortage of stories written about the small business experience with regards to the Affordable Care Act, and health care costs continue to be a top tier issue for our members. This assessment will ultimately get passed down and further increase costs on small businesses. It is always a laudable endeavor to increase health care coverage, but there is a price tag associated with it. We oppose this assessment and urge its removal from any final budget agreement.

Our second focus is on the Governor's property tax proposal.

Like last year, NFIB strongly opposes the "circuit breaker" methodology. While the Governor's rhetoric on New York's property taxes being too high, his mechanism of addressing this problem continues to miss the mark. NFIB is a strong supporter of the property tax cap. In fact, we would urge the tax cap to be made permanent this year, but shifting the tax burden will never lead to a serious discussion on addressing the costly unfunded mandates that have led to this problem in the first place. Further, the absence of property tax relief for commercial property only heightens the tax issues that small employers face.

Additionally, the \$1.66 billion dollar price tag of this plan is a leap of faith and paid for by future budget surplus' that may or may not come to fruition. It is our continued position that significant

property tax relief should be a priority but only based on addressing the root of the problem, not the potential fiscal restraint by the state.

Which brings us to the proposed small business tax cut.

I ask that, when negotiating this budget and considering small business and their impact on our state's economy that you consider a few facts.

- Small business is adversely impacted the most with the current mandated increase in labor costs as well as the proposed hike within this budget proposal.
- There are more than 500,000 small businesses, accounting for approximately 3 million private sector employees and 98% of all businesses in New York.
- New York currently provides approximately \$420 million in tax credits for the film and television industry.
- New York currently provides more than \$320 million in tax breaks through the Start UP New York program aimed at attracting businesses to our state.
- New York recently enacted comprehensive tax reform aimed at reforming our business tax climate, but it was targeted to corporations, the banking industry and manufacturers.

The Governor's proposal is a phased-in reduction to the corporate tax rate for small employers that meet specific criteria. In total, this tax cut is approximately \$32 million and would benefit around 40,000 small businesses.

Out of more than 500,000 small businesses.

Our concern is not with the phased-in approach, nor with the income and employee thresholds within the Governor's proposal.

It is with the approach and within the context of the investments made by this State for economic development which have less permanent impact on the present and future economy of this state. The amount of investment sent to attract narrow or temporary employment opportunities at the expense of the widespread employment small businesses can and do provide.

More than 90 percent of small businesses are set up as pass through entities. The sole proprietors, subchapter S corporations and partnerships do not pay the corporate franchise tax. For these small employers, pass through business income is taxed on the business owners' tax returns through the individual income tax code.

So while the Governor has stated repeatedly that if his plan were to be enacted that small businesses would be paying the lowest taxes since 1917, he is speaking about a very specific group of small employers.

In fact, according to the Tax Foundation, pass through businesses account for 59.3% of private sector employment, which is the 9th highest in the nation. These are the small businesses being

left out in the Governor's proposal and have been largely shut out of the business tax reform enacted last year.

While we support the Governor's proposal for our members that may qualify, we strongly advocate for a broad approach to small business tax reform. In no way will the tax climate for small business in this state be dramatically altered with this proposal.

NFIB would alternatively propose a permanent and broad personal income tax reduction. Not only would a reduction in personal income taxes help sustain small employers, it would positively benefit those New Yorker's that need fiscal relief the most.

There are other approaches that would be more beneficial but unfortunately would muddy an already convoluted tax code. From exemptions to carve outs, targeted tax reductions for small businesses are possible.

As I previously stated, we have seen massive tax breaks aimed at attracting economic investment in New York through the Start UP program. We have seen significant tax reform targeting corporations and manufacturers. We are dealing one phased-in minimum wage increase, a pending minimum wage increase for tipped employees and yet another proposed increase in this budget proposal.

To say that NFIB members and small employers generally feel slighted is an understatement. There is a never ending push in Albany to increased labor costs that impact NFIB members the most, while they are continuously excluded from tax reduction efforts. This is a cycle that directly threatens the collective largest private sector employers in this state. If there was ever a time that the Governor and legislature could roll up their collective sleeves to find sensible tax reduction solutions for small business, I would say it is now.

So I speak to you today with a sense of urgency but also with a dose of reality. Small business needs this budget to be sensible in its approach and broad in positive tax impact. Anything less will further threaten their viability and deepen their resentment for the tax and economic development policies enacted and pushed in Albany. There are sensible and fiscally prudent solutions that will allow small employers to flourish and lead to the economic resurgence we continue to look for here in New York.

Thank you.