



State and Local Business Taxes

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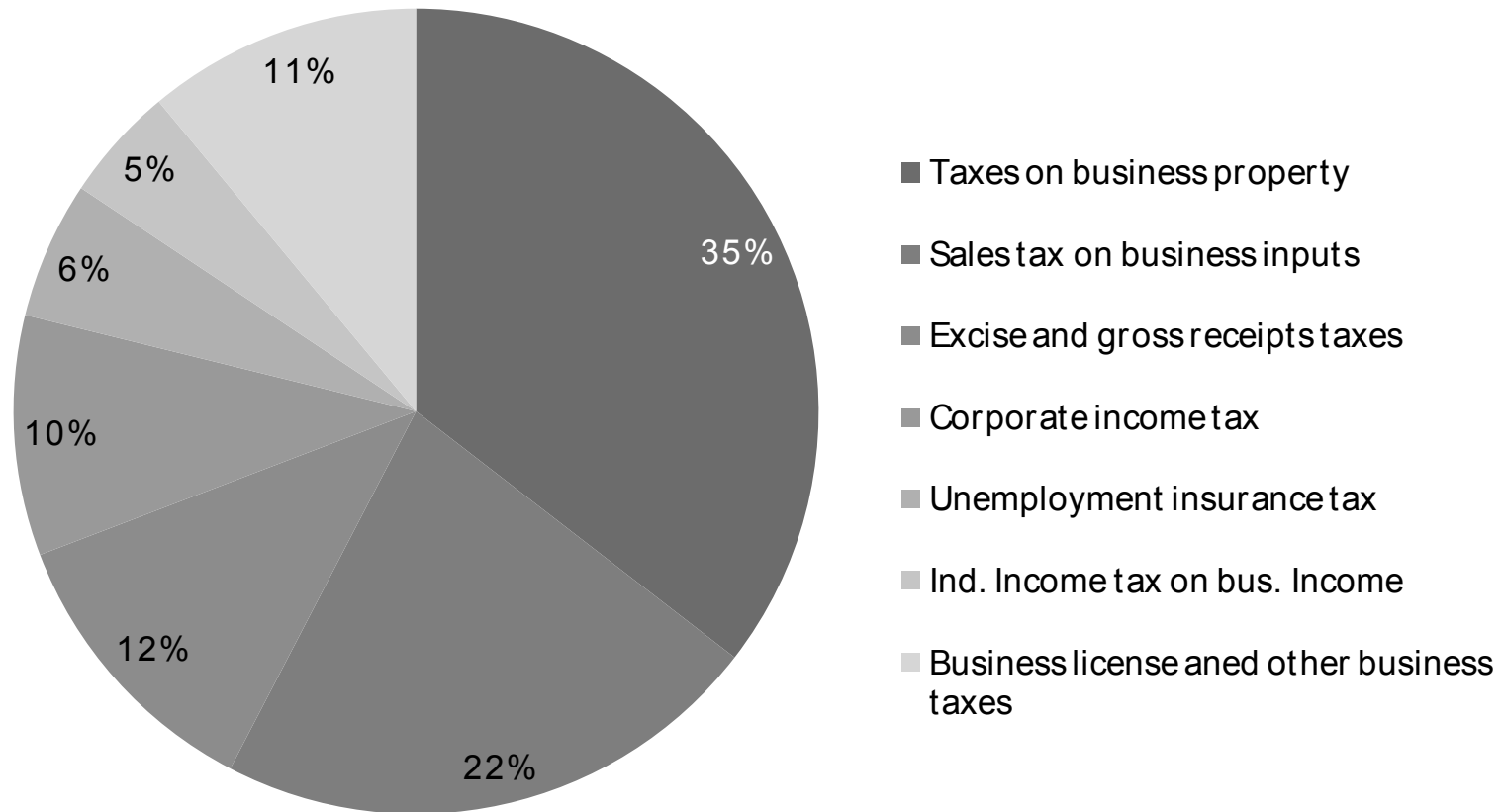
FY 2008 50-state business tax study

- ▶ 7th annual study done in conjunction with COST
- ▶ E&Y estimates of state-local taxes that are the legal liabilities of business: includes corporate and pass-thru business income, net worth, sales tax on business purchases, property taxes
- ▶ \$590 billion of state-local taxes -- 44% of total taxes
- ▶ Property tax accounts for 36% of business taxes; 22% share for sales tax paid on business input purchases
- ▶ Corporate income tax share is 9.6% and falling
- ▶ Study compares business taxes to state-local spending on programs that directly benefit business -- benefits received rationale for bus. taxes. In 2008, business taxes exceeded estimated benefits by 83%

FY2008 state and local business taxes

Business Tax	2008 (\$billions)	% Total Taxes	One-Year Growth
Property taxes on business property	\$209.3	35.5%	4.9%
General sales taxes on business inputs	130.8	22.2%	1.3%
Corporate income tax	56.9	9.6%	-7.1%
Unemployment insurance	32.5	5.5%	-9.2%
Business and corporate license	36.8	6.2%	7.1%
Public utility taxes	26.6	4.5%	12.1%
Individual income tax on business income	27.2	4.6%	5.4%
Excise taxes	26.0	4.4%	-6.0%
Insurance premiums taxes	15.6	2.6%	0.7%
Other business taxes	28.4	4.8%	28.8%
Total Business Taxes	\$590.0	100.0%	2.7%

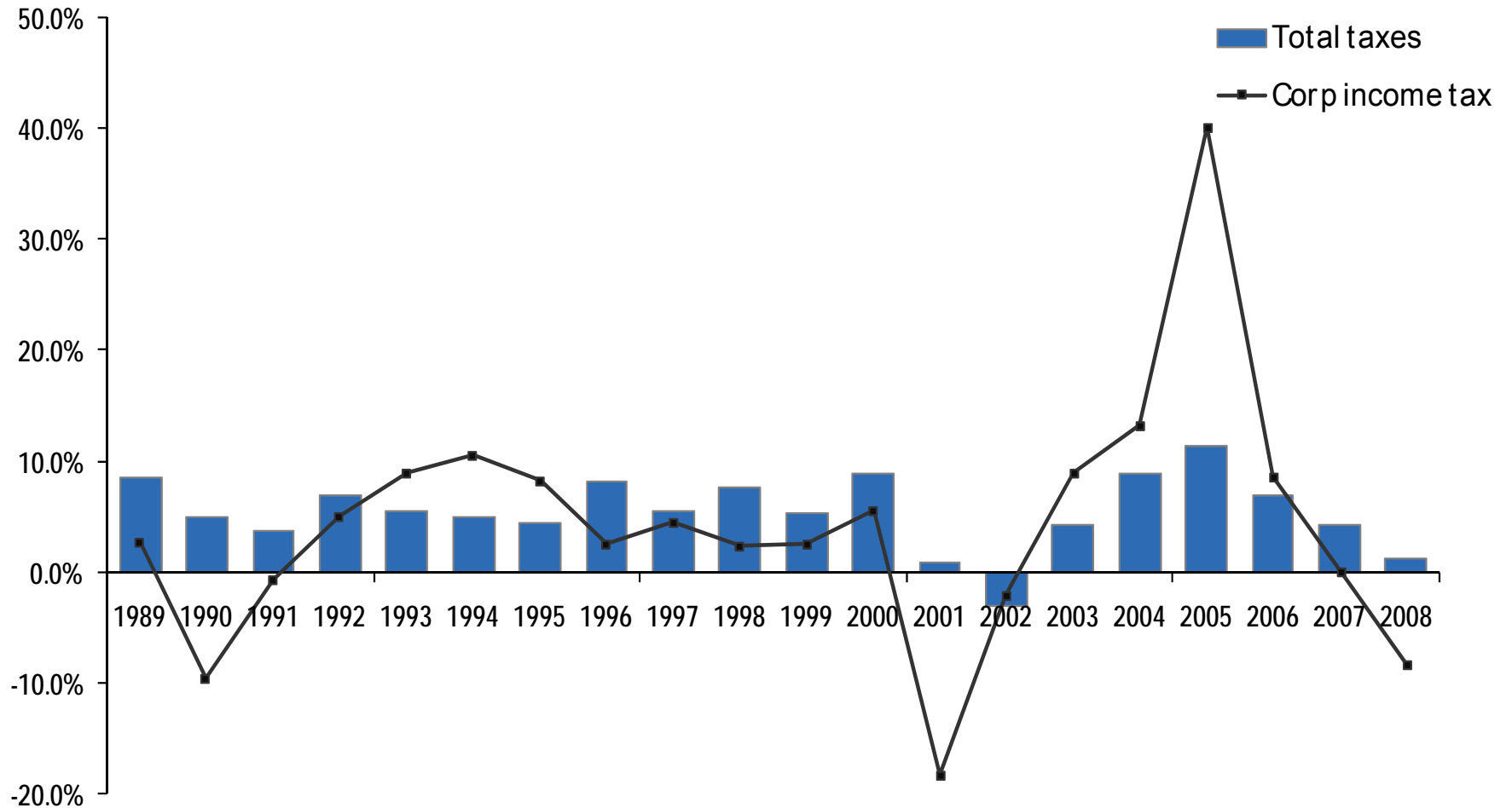
Composition of state and local business taxes, FY 2008



2008 50-state business tax study

- ▶ Slowing business tax growth in FY08 (+2.7%) reflects initial impact of recession that began in Dec. 2007 – sharp drop from 7.4% average growth over prior 5 yrs.
- ▶ Corporate income tax fell 7% in FY08 after doubling over prior 5 yrs. – reminder of volatility of CIT
- ▶ Over the last 8 yrs., the share of total taxes paid by business has increased from 42.5% to 44.1% (just below the share in FY1990)

State corporate income tax vs. total state taxes, % change (fiscal years, 1989- 2007)



Strong growth in state and local business taxes (FY02 to FY08)

Business Tax	FY2002	FY2008	% Growth FY02-FY08	% of Total Business Tax Growth
Property taxes on business property	\$152.9	\$209.3	36.8%	29.9%
General sales taxes on business inputs	\$97.9	\$130.8	33.5%	17.4%
Corporate income tax	\$28.5	\$56.9	99.7%	15.1%
Unemployment Insurance	\$21.0	\$32.5	55.1%	6.1%
Business and corporate licenses	\$17.0	\$36.8	116.9%	10.5%
Individual income tax on business income	\$14.8	\$27.2	83.7%	6.6%
Public utility taxes	\$20.3	\$26.6	31.0%	3.3%
Excise taxes	\$20.8	\$26.0	24.9%	2.8%
Insurance premiums	\$11.2	\$15.6	39.5%	2.4%
Other business taxes	\$17.4	\$28.4	62.8%	5.8%
Total Business Taxes	\$401.8	\$590.0	46.8%	100.0%
Total State and Local Taxes	\$926.1	\$1339.0	44.6%	

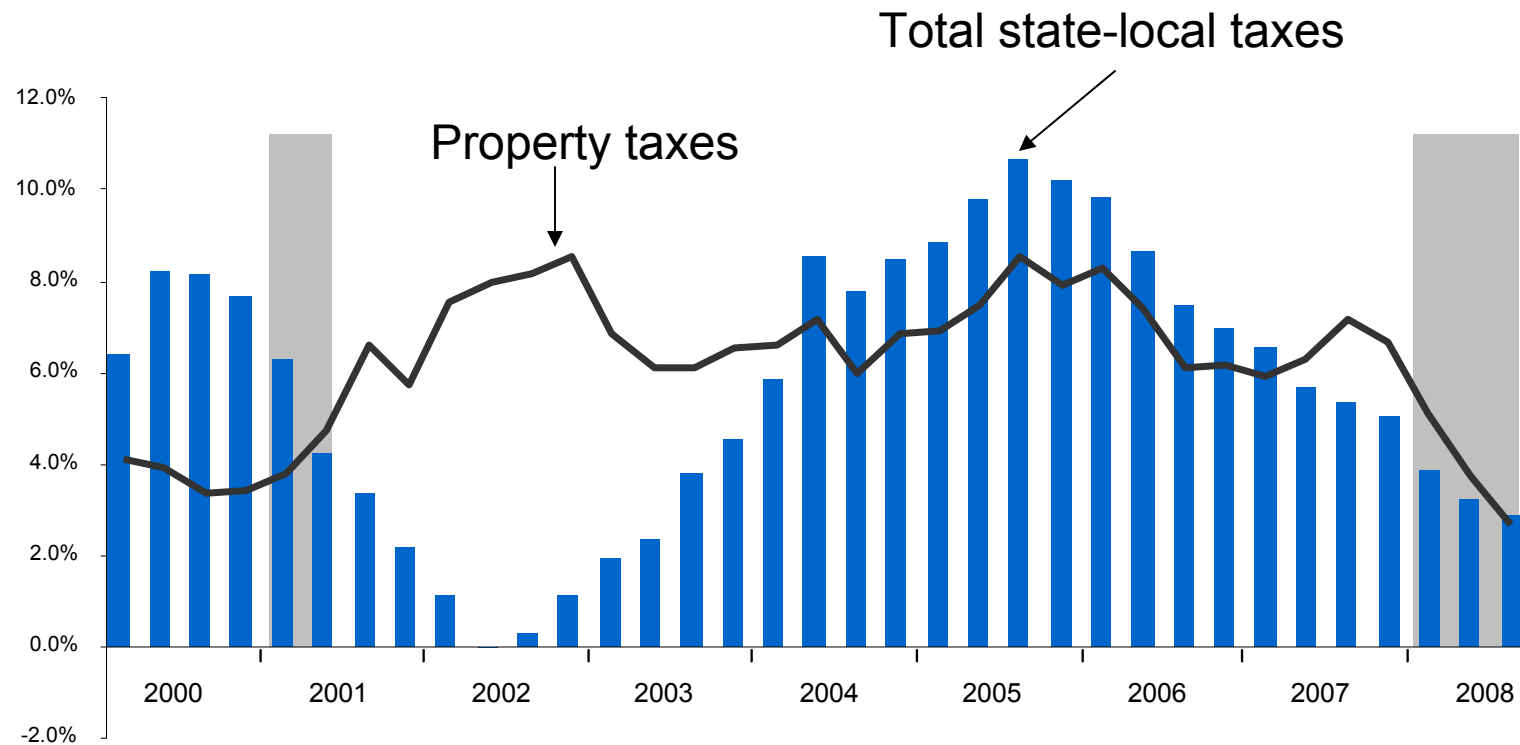
Impact of the recession

- ▶ Index of state economies fell in all 50 states last 3 mos.
(source: Federal Reserve Bank of Philadelphia)
- ▶ State tax collections fell 4% in the 4th quarter of 2008
(source: Rockefeller Center, *State Revenue Report*)
- ▶ Decreases in all major taxes: sales taxes (-6.1%),
personal income taxes (-1.1%), corporate income taxes
(-15.5%)
- ▶ Created large FY09 state deficits -- \$100b (17% of
spending) and counting; \$1.7b gap in NY
- ▶ FY 2010 NY budget closed \$17.7b gap: \$5.1b tax
increase, \$6.2b stimulus funds and \$6.4b spending cuts

Impact of the recession (cont.)

- ▶ Federal tax collections are very weak through April
 - ▶ Individual income taxes down 24%
 - ▶ Corporate income taxes down 56%
- ▶ State tax collections see “unprecedented” drops
 - ▶ NY total taxes in March down 11% from 2008; corporate franchise tax is down 20% yr.-to-date
 - ▶ OH individual income taxes in April down 36% yr.-over-yr. (\$322m below estimate); collections down 15% for yr.
 - ▶ CA individual income taxes down by \$9b; 20% for yr.
 - ▶ RI April individual income taxes down by 40%
- ▶ Local taxes also slowing sharply, unlike 2001 recession – implications for business property taxes that already account for 36% of all state-local business taxes

Property taxes will not prop up state and local total taxes in this recession



4-quarter moving average of percent changes in taxes

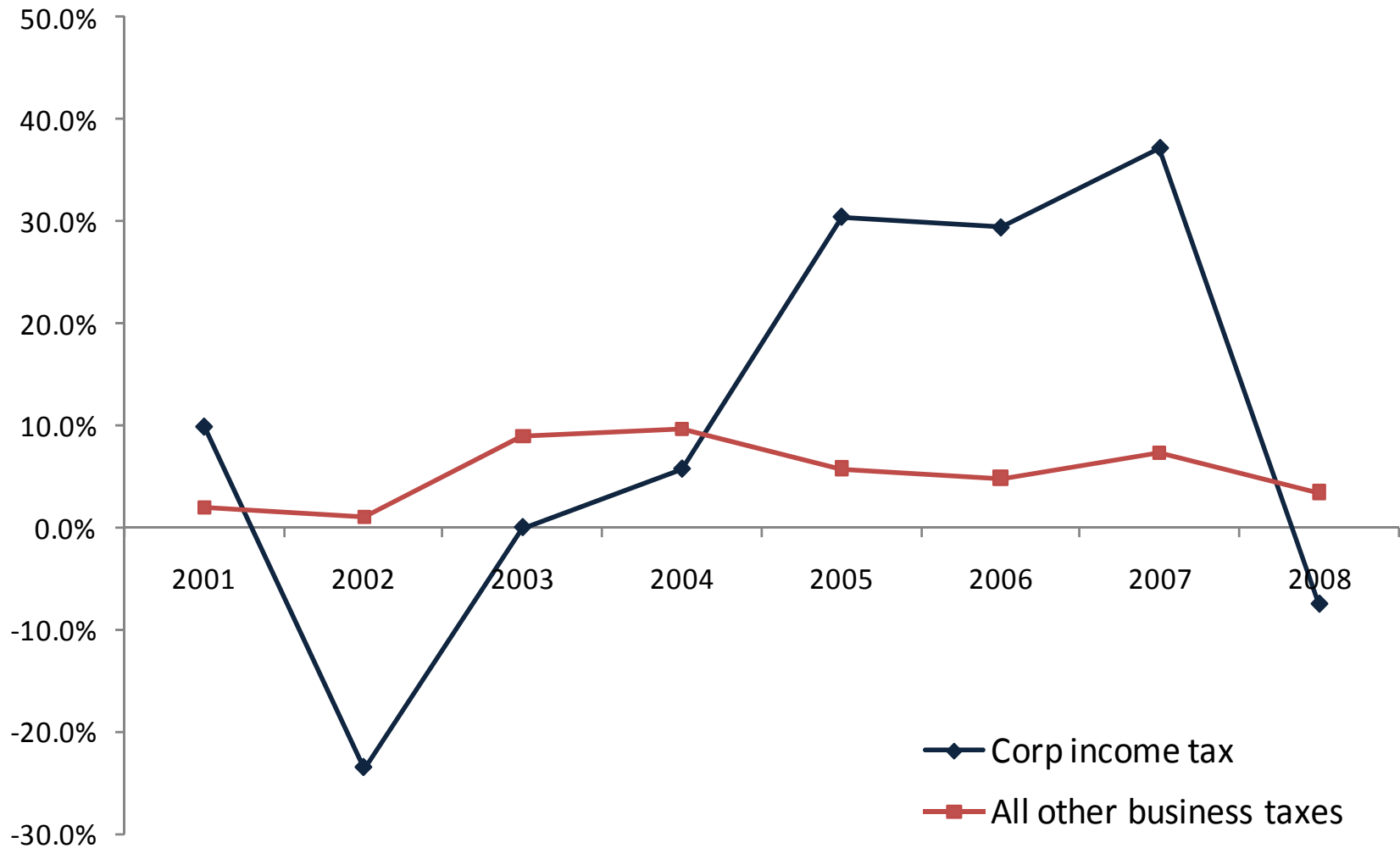
New York state and local business taxes (billions of dollars)

Business Tax	FY 2008 (updated)		FY02 to
	Amount	% of total	FY07
			Annual growth
Property tax on bus. prop.	\$21.7	36%	5%
Sales tax on bus. inputs	11.6	20%	4%
Corporation income tax	11.5	19%	-8%
Business license tax	1.2	2%	3%
Unemployment insurance	2.3	4%	-11%
Excise taxes	3.3	6%	5%
Individual income tax	4.5	8%	6%
Public utility tax	1.6	3%	4%
Insurance premiums tax	1.1	2%	-3%
Other business taxes	0.6	1%	4%
Total business taxes	\$59.4	100%	1%

New York vs. U.S. state-local business taxes

- ▶ As a share of total business taxes, NY property taxes are 6% above U.S. average; sales taxes on business inputs are 9% below the average
- ▶ NY corporate income tax share is double the U.S. average (19.4% vs. 9.6%); individual income taxes, as percent of total business taxes is 83% higher than the average
- ▶ NY relies heavily on the most volatile business tax that taxes highly mobile capital investments
- ▶ NY business tax to GSP ratio, one measure of business tax burdens, is 18% above the U.S. average

NY corporate income tax vs. all other business taxes, % change by fiscal year



Trends to watch

- ▶ Overall business tax increases – rates and bases
- ▶ Continued efforts to increase taxes on “out-of-state” firms: economic and affiliate nexus, market sourcing, combined reporting, expense addbacks, single sale factor apportionment.
- ▶ Property tax increases
 - ▶ Rising rates, including effects of homestead exemptions
 - ▶ Increases in business share of assessed value
 - ▶ Classified property tax systems
- ▶ Shift to non-income tax bases, including filing fees, alternative minimum taxes based on gross receipts to shore up corporate income taxes and reduce volatility
- ▶ Payroll tax increases: unemployment insurance.; MTA (\$1.5b)
- ▶ Individual income tax rate increases

Longer-run perspective: tax changes to improve competitiveness

- ▶ Business may be asked to support packages of changes that raise short-run taxes but provide long-run tax reductions
- ▶ Opportunities to expand targeted credits and incentives
- ▶ Importance of proactive business involvement in the tax policy process – explain the impacts of tax policy changes on business tax competitiveness
- ▶ Keep the focus on changes in the system of state and local taxes on business