



# S.9009-B, Parts GG, RR and SS | A.10009-B, Parts OO and PP

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<b>BILL</b> S.9009-B, Parts GG, RR and SS   A.10009-B, Parts OO and PP
<b>SUBJECT</b> Increased taxes on unincorporated businesses
<b>DATE</b> March 19, 2026
<b>OPPOSE</b>

The Business Council opposes legislative proposals for multiple tax increases on unincorporated businesses such as LLCs and partnerships. These include reductions in the “pass through entity tax” (PTET) credits at both the state and NYC levels, and an increase in the New York City unincorporated business tax. While these provisions are the focus of this memo, note that unincorporated business can also be adversely impacted by other current tax proposals, including “decoupling” from federal investment incentives and increases in the personal income tax.

**PTET Credit** – In the wake of 2017 federal tax law changes, the state legislature – along with 35 other states – adopted state-level “pass through entity tax” mechanisms in 2021, then adopted a NYC version in 2022, to restore federal deductibility of taxes on business income. Typically, non-incorporated entities (and “sub-S corporations”) do not pay an entity-level tax on their earnings; rather, the income of these businesses are taxed at the partner or member level under state and NYC personal income tax. Under the PTET, the entity pays federally deductible New York State and NYC taxes on business earnings, while the individuals receive a credit for their “share” of the entity-level tax on their personal income tax filings to avoid double taxation. This mechanism is revenue neutral for both the state and NYC (actually, a slight revenue generator for both.)

In their budget resolutions, both the Senate (S.9009-B, Parts RR) and Assembly (A.10009-B, Part OO) propose to reduce the NYC PTET credit to 75% of taxes paid, in effect taxing 125% of a business’ net income, and the Senate (in S.9009-B, Parts GG) proposes to reduce the NYS PTET credit to 90% of taxes paid. Since it increases the personal income tax liability of individuals, these proposals represent a back-door PIT increase for business owners. Importantly, these tax increases would apply regardless of the size or profitability of the business, or the total taxable income of the individual, so it will impact non-incorporated businesses of all sizes, and in all sectors.

In contrast, virtually all other states with a PTET maintain a 100% credit at the personal income tax level (Connecticut is one exception that we are aware of.)

In reduction the credit, these proposals would significantly erode the public purpose of the PTET, which was to avoid unfair, disproportionate federal tax treatment of businesses in high tax states like New York, with combined state and NYC-level taxes.

Importantly, if these proposals make the PTET option non-viable for taxpayers (because of the reduced credit along with the added complexity of compliance on the business end), it could actually **increase compliance challenges** for both the state and NYC tax departments. Under the PTET, tax departments can focus their audit and collection efforts at a single entity, rather than the tens, hundreds or even thousands of individual owners of pass-through entities.

**UBT** – The vast majority of taxing jurisdictions in the U.S. do not impose entity-level taxes on unincorporated businesses; instead, their income is taxed at the individual level under the PIT. In this respect, NYC is unique in imposing a tax on unincorporated businesses including sole proprietors, partnerships and LLCs, with limited exceptions.

The tax is currently imposed at a rate of 4% of taxable income attributed to New York City. The UBT generated \$2.6 billion in the City's FY2022.

The legislature proposes (in S.9009-B, Part SS and A.10009-B, Part PP) to increase the UBT rate from 4 to 4.4%, a ten percent increase, for businesses with taxable income above \$5 million. It is projected to raise business tax liability by \$250 million per year.

In short, this proposal is just an straight increase in the cost-of-doing business in New York City, which will impact many mid-sized businesses that are facing significant other cost factors, including for goods, materials and energy. It also increases a type of tax liability that unincorporated entities face in virtually no other jurisdictions in the U.S. And, as mentioned, the owners of these businesses would also see their city and NYS tax liability increase under other Senate and Assembly budget proposals.

Businesses operating in New York City face a wide range cost factors that are increasing due to state and city policy decisions, including those for labor and benefits, energy and others. We strongly urge the Administration and legislature to avoid imposing new or increased costs on its employers, and strongly recommend against the tax increases that target unincorporated businesses.