



*Untaxing New York
Manufacturers*

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Executive Summary

On March 31, 2014, New York Governor Andrew Cuomo signed into law S.B. 6359-D, A 8559-D, (Chapter 59), which created a zero-percent Corporate Franchise Tax rate for manufacturers. The new rate did not apply to manufacturers that are organized as S-corporations, proprietorships, LLCs, and partnerships (pass-throughs), even though pass-through entities in New York outnumber Corporations by a factor of three.¹

The Beacon Hill Institute (BHI) used its New York State Tax Analysis Modeling Program (NY-STAMP) to determine the economic effects of extending the zero-percent Personal Income Tax (PIT) rate to income from manufacturers organized as pass-throughs. Table 1 displays the results.

Table 1: Economic Effects of a Zero-Percent Tax Rate on Pass-through Manufacturers

	2019	2023
Private Employment (jobs)	4,660	5,850
Investment, (\$ million)	118	147
Real Disposable Income (\$ million)	345	503

The elimination of the PIT for pass-through manufacturers would increase private sector jobs by 4,660 in the first full-year and by 5,850 in 2023. It would cause investment to rise by \$118 million in 2019 and by \$147 million in 2023. The increase in employment and investment would boost real disposable income by \$345 million in 2019 and \$503 million in 2023.

The increase in economic activity sparked by extending the zero-percent tax rate to income from pass-through manufacturers would mitigate the loss of revenue to New York State and boost local tax revenue collections. Table 2 displays the results.

In total, state tax collections would fall by only \$168 million in 2019 and \$226 million in 2023. The increase in economic activity would also boost local tax collections by \$34 million in 2019 and \$63

¹ IRS. (n.d.). SOI Tax Stats - Business Tax Statistics. Retrieved September 2018, from <https://www.irs.gov/statistics/soi-tax-stats-business-tax-statistics>.

million in 2023. Combined state and local tax revenue would fall by \$134 million in 2019 and \$163 million in 2023.

Table 2: Fiscal Effects of a Zero-Percent Tax Rate on Pass-through Manufacturers

	2019	2023
State Taxes (\$ million)	-168	-226
Local Taxes (\$ million)	34	63
Total State and Local Taxes (\$ million)	-134	-163

The Tax Cuts and Jobs Act signed into law on December 22, 2017, capped the deduction of state and local taxes at \$10,000 from federal taxable income for filers that itemize their deductions. This provision increases federal taxes paid by many New York pass-through manufacturers. However, “Section 199A of the law created a 20% deduction for pass-through entities in an effort to reduce taxable income for households who receive pass-through income. The provisions of the Tax Cuts and Jobs Act pertaining to pass-through income is due to expire on December 31, 2025. The elimination of the PIT on manufacturing pass-throughs would mitigate any negative effects of the new federal tax law, especially if Congress allows the provisions to expire.²

Extending the zero-percent rate to the PIT on income from pass-throughs manufacturers would, therefore, make the state more attractive to manufacturing businesses, investors and workers; and provide a significant boost to the state economy. Such a policy would create a level playing field for all types of manufacturers regardless of their legal structure, particularly the substantial capital investments associated with such manufacturing firms. Also, it could help reverse the perception that New York is a high-cost, high-tax state and play to the strengths of the New York economy.

² Greenberg, S. and Kaeding, N. (June 2018). Tax Foundation Fiscal Fact Sheet for Reforming the Pass-Through Deduction. Retrieved September 13, 2018, from <https://files.taxfoundation.org/20180621095652/Tax-Foundation-FF593.pdf>.

Introduction

The New York Personal Income Tax

New York PIT laws provide a uniform rate of tax on all income, whether from wages, passive investments, business income from "pass-through" entities regardless of the type of business, or any other sources. Also, New York has one of the highest PIT tax rates in the nation at 8.82%, which is a factor in New York's chronically low national ranking in the Tax Foundation's State Business Tax Climate Index: 49th³.

Thus, the income from a manufacturer in New York that is organized as a pass-through is subject to one of the highest combined federal and state tax rates in the nation. As such, current tax law discourages business from locating in and remaining in the Empire State.

New York collects state income taxes using a progressive 8-bracket system in which tax rates increase as income increases. Table 3 displays the brackets.

Table 3: New York Income Tax Brackets 2018

New York – Single Tax Payer		New York – Married Filing Jointly Tax	
Tax Bracket	Tax Rate	Tax Bracket	Tax Rate
\$0.00+	4.0%	\$0.00+	4.0%
\$8,500.00+	4.5%	\$17,150.00+	4.5%
\$11,700.00+	5.25%	\$23,600.00+	5.25%
\$13,900.00+	5.9%	\$27,900.00+	5.9%
\$21,400.00+	6.33%	\$43,000.00+	6.33%
\$80,650.00+	6.57%	\$161,550.00+	6.57%
\$215,400.00+	6.85%	\$323,200.00+	6.85%
\$1,077,550.00+	8.82%	\$2,155,350.00+	8.82%

³ Walczak, Jared. (n.d). Tax Foundation 2018 State Business Tax Climate Index. Retrieved September 11, 2018, from <https://taxfoundation.org/publications/state-business-tax-climate-index/>

For taxpayers filing as single, unmarried, New York’s tax rates range from a low of 4.0% for the first \$8,500 in taxable income to 8.82% for income exceeding \$1,077,550. For resident married individuals filing joining returns, New York’s tax rates range from a low of 4.0% for those with taxable incomes of \$17,150 or less to 8.82% for those making \$2,155,350 or more.⁴

The Economics of Taxing Personal Income

The PIT burden falls on the cost of production and service delivery for state businesses, as the cost of using labor and capital increases. At the same time, it decreases the incentive for state residents to work and save, the result of the tax on wages, interest and capital gains. These two effects reduce the supply of labor in the state and decrease total disposable income. Table 4 displays the PIT regimes for all fifty states.⁵

Table 4: Personal Income Tax Regimes in the Fifty States

No Tax (7)	Flat Tax (10)	Graduated Tax (33)	
Alaska	Colorado 4.63	Alabama	Mississippi
Florida	Illinois 4.95	Arizona	Missouri
Nevada	Indiana 3.23	Arkansas	Montana
South Dakota	Massachusetts 5.1	California	Nebraska
Texas	Michigan 4.25	Connecticut	New Jersey
Washington	New Hampshire 5.0	Delaware	New Mexico
Wyoming	North Carolina 5.499	Georgia	New York
	Pennsylvania 3.07	Hawaii	North Dakota
	Tennessee 3.0	Idaho	Ohio
	Utah 5.0	Iowa	Oklahoma
		Kansas	Oregon
		Kentucky	Rhode Island
		Louisiana	South Carolina
		Maine	Vermont
		Maryland	West Virginia
		Minnesota	Wisconsin
			District of Columbia

⁴ Instructions for Form IT-201 Full-Year Resident Income Tax Return 2018, New York Department of Taxation and Finance. Retrieved September 12, 2018, from https://www.tax.ny.gov/pdf/current_forms/it/it201i.pdf.

⁵ Scarboro, Morgan. (n.d). Tax Foundation Fiscal Fact Sheet of State Individual Income Tax Rates and Brackets for 2018. Retrieved September 11, 2018, from <https://files.taxfoundation.org/20180315173118/Tax-Foundation-FF576-1.pdf>

Most states impose personal (individual) income taxes. States without them – Alaska, Florida, Nevada, South Dakota, Texas, Washington, New Hampshire, and Wyoming – rely on other sources for revenue.⁶ Ten states levy a flat PIT rate, while the rest have multiple tax brackets with graduated rates such as New York. In most states, income taxes remain a significant source of revenue in part because personal income has expanded.⁷

Supporters of income taxes – both proportional and progressive – suggest that income taxes are more closely aligned with the ability to pay, a longstanding objective of tax policy. Yet income taxes, both individual and corporate, distort decisions to work, save and invest and threaten a state’s ability to compete for residents and businesses.

The portion of the income tax levied on capital gains fluctuates along with the stock market, which makes such collections less predictable. And in practice, taxpayer exemptions and deductions readily enacted by legislatures continually erode the tax base. Compliance costs, including time to complete tax forms, and the double taxation of investment income are among the reasons income taxes are less efficient than taxes on consumption.

The income tax, in sum, negatively impacts net compensation for companies and individuals producing products and services. The income tax demands a portion of the interest, dividends and capital gains made on investments; leaves less money in the pockets of workers; decreases the ability and incentive for state residents to work and save. The decrease in total disposable income, in turn, impacts business through reduced demand for goods and services.

New York State Competitiveness

The BHI State Competitiveness Index employs 42 indicators that measure "the micro-foundations of prosperity" and has been compiled annually since 2001. The Index identifies how well a state performs in its ability to cultivate, for example, a solid base of scientists and engineers or how well a state is doing in protecting its environment while holding down utility costs. The Index

⁶ New Hampshire and Tennessee do not tax wage income but tax dividend income instead.

⁷ Brunori, *State Tax Policy: A Political Perspective*, (Washington D.C.: Urban Institute Press, 2001), 89.

can point to whether a state can improve the productivity of its workers by cutting down on time spent on daily commutes to work.⁸

According to BHI's Fifteenth Annual State Competitiveness Report, New York ranks 31 among all states in its ability to sustain a high level of income for its citizens, with higher rankings for openness to trade and travel (6th), human resources (20th) and technology (16th). However, New York needs to improve its state and fiscal policy performance (45th), Infrastructure (43rd), and Business Incubation (48th) dramatically.

New York compares poorly to the states that perform well in the Fiscal and Government subsector, namely Wyoming (1), South Dakota (2), Alaska (3), Florida (4) and Nevada (5). The 2018 Tax Foundation's Business Tax Climate Index echoes the BHI results by ranking New York 49th out of 50 states.⁹

One way to improve the prospects for the state's long-term economic health is to improve the business tax climate.

Economic Effects

To determine the effects of a policy that would eliminate the state PIT on income from pass-through manufacturers on the New York economy, BHI used its State Tax Analysis Modeling Program (STAMP) for New York State.¹⁰ The New York STAMP (NYS-STAMP) model is a five-year dynamic Computable General Equilibrium (CGE) model that simulates the economic effects due to changes in taxes, costs (general and sector-specific) and other "exogenous" changes. As

⁸ Beacon Hill Institute for Public Policy. (n.d). 16th Annual State Competitiveness Report. Retrieved September 18, 2018, from <http://www.beaconhill.org/Compete15/Compete2015.pdf>.

⁹ Walczak, J. Drenkard, S., and Bishop-Henchman, J. (March 2, 2017) 2018 State Business Climate Index, Retrieved September 18, 2018, from https://files.taxfoundation.org/20171016171625/SBTCL_2018.pdf

¹⁰ For a description of the STAMP model see http://www.beaconhill.org/STAMP_Web_Brochure/STAMP_HowSTAMPworks.html.

such, it provides a mathematical description of the economic relationships among producers, households, governments and the rest of the world.

NYS-STAMP is general in the sense that it takes all the relevant markets, such as the capital and labor markets, and flows into account. It is an equilibrium model because it assumes that demand equals supply in every market (goods and services, labor and capital). This equilibrium is achieved by allowing prices to adjust within the model. It is computable because it can be used to generate numeric solutions to tax policy changes.

Conceptually, the elimination of the PIT for pass-through manufacturers would provide a boost to the state’s private economy leading to an increase in private employment, disposable income and investment. BHI assumed that a zero-percent PIT rate on income from manufacturers would be fully implemented in the calendar year 2019. We report the effects for 2019 and 2023, five-years after implementation. Table 5 displays the results that would occur against the baseline of no change to New York state tax policy¹¹

Table 5: Economic Effects of a Zero-Percent Tax Rate on Pass-through Manufacturers

Economic Indicators	2019	2023
Private Employment (jobs)	4,660	5,850
Investment, (\$ million)	118	147
Real Disposable Income (\$ million)	345	503

The NYS-STAMP analysis shows that extending the policy would increase private sector jobs by 4,660 in the first full-year and 5,850 in 2023 by putting more money in the hands of households and businesses. Investment would increase by \$118 million in 2019 and by \$147 million in 2023. The enactment of an extended policy would positively affect household income. Real disposable income in New York would increase by \$345 million in 2019 and surge by \$503 million in 2023 as pass-through manufacturers take advantage of the lower business cost.

¹¹. We gather economic data from three sources: The U.S. Department of Labor, Bureau of Labor Statistics provides employment and wage data; the U.S. Department of Commerce provides income and investment data and the 2016 Comprehensive Annual Financial Report for the State of New York offers supplements to the other sources.

Fiscal Effects

NYS-STAMP allows us to calculate the dynamic revenue effects, as opposed to static effects, under the tax change. Static estimates assume that there is no change in underlying economic activity in response to a change in tax law. For example, a static estimate of a cut in a PIT, say from 10% to 5%, would cause revenues to fall by 50% $(= 10 - 5)/10$. A dynamic estimate would show a smaller drop in revenue because it would capture the positive effect on the tax base of the cut in the PIT.

According to economic theory, a cut in the income tax can be expected to lead to growth in work and therefore payrolls. A tax cut that is levied on personal income causes workers to receive higher (after tax) wages and increases their standard of living. To the employer, the tax cut makes labor less costly and causes employers to demand more labor. With more workers employed, the base upon which the income tax is levied increases, resulting in a “dynamic” increase in tax revenue.

Below we compute a hypothetical tax change analysis, using a dynamic analysis. We are hypothetically proposing to change the tax rate from 5% to 6% and are starting with a tax base of \$100 billion. The above-described behavioral effects will make tax revenue smaller than that suggested by a static analysis.

How much smaller will depend on the sensitivity of people's economic decisions to the change in tax policy. Economists use the expression "elasticity" to denote this sensitivity. Through economic research, this elasticity is assigned a value. Suppose, for example; we determine that the elasticity of the personal income tax base to changes in the tax rate is 0.1. That is to say, a 1% increase in the tax rate will cause the tax base to shrink by 0.1 %.

In our forgoing example, the tax rate rises by 20% (from 5% to 6%). Now applying the assumed elasticity of .1, the personal income tax base would shrink by 2%. In that case, revenue would increase, not by \$1 billion, but by only \$880 million:

- (1) Old Revenue = $.05 * \$100 \text{ billion} = \5 billion .
- (2) New Revenue = $.06 * (\$100 \text{ billion} - 2\% * \$100 \text{ billion}) = \$5.880 \text{ billion}$.
- (3) Change in Revenue = New Revenue – Old Revenue = $-.880 \text{ billion}$.

This shows how static analysis leads policymakers to exaggerate the amount of revenue they can expect to get from a tax increase. Because, in this instance, the static model ignores the negative effect on payrolls, the tax base and other elements of economic activity, it produces too large a revenue estimate. Our simple dynamic analysis reveals that the tax-rate change will bring in \$120 million less in revenue than predicted by the static analysis.

The reverse holds true when static analysis is used to estimate the outcome of a tax decrease; static analysis overestimates the amount of revenue that will be lost from a tax cut. Just as people's economic decisions are affected by a tax increase, they react in the opposite fashion to a tax cut: work and payrolls expand. This expansion leads to more jobs and a dynamic increase in revenues as workers earn and spend more money. This dynamic increase works to offset the loss in revenues from the tax rate cut and diminishes the overall revenue loss. One of the principal purposes of STAMP is to capture such dynamic effects.

However, before we can simulate the tax change in NYS-STAMP, we need to estimate the static tax changes that would take place under the zero-percent PIT rate on income from manufacturing firms. We estimate that the policy would change PIT tax revenues by \$239 million in 2019, on a static basis. We then translate the change in static tax revenues into a change in the PIT tax rate in each of the state's eight tax brackets. The Methodology section below provides the details of this calculation. Table 6 displays the results of the NYS-STAMP simulation.

Under the proposed policy of a zero-percent PIT rate on income from pass-through manufacturers, we find revenue gains to the sales tax, corporate income tax, and other revenue and fees. Sales tax at the state level would increase by \$4.39 million in 2019 and \$8.07 million in 2023. Personal income tax revenues would decrease by \$184.93 million in 2019 and fall by \$256.11 million in 2023.

Table 6: Fiscal Effects of a Zero-Percent Tax Rate on Pass-through Manufacturers (\$ millions)

State Taxes	2019	2023
Sales Tax	4.39	8.07
Personal Income Tax	-184.93	-256.11
Corporate Income Tax	1.59	2.89
Other Revenue and Fees	11.03	18.69
Total State Taxes	-167.92	-226.46
Local Taxes	33.88	63.21
Total State and Local Taxes	-134.04	-163.25

Other state tax revenues and fees would increase by \$11.03 million in 2019 and \$18.69 million in 2023. New York State would lose \$167.92 million in tax revenue for 2019 and \$226.46 million in 2023.

Local tax revenues would enjoy a bump under a new policy. Local revenues would increase by \$33.88 million in 2019; rising to \$63.21 million in 2023 on the back of a stronger economy. Combined state and local revenue would fall by \$134.04 million in 2019 and by \$163.25 million in 2023.

Conclusion

Earlier in this decade, policymakers in New York enacted legislation to eliminate the state Corporate Franchise Tax on the manufacturing sector. Around the same time, the state launched an advertising campaign “The New New York Works for Business” in which a T.V. spot claimed the state has the “lowest business taxes in decades.”¹² The elimination of the Corporate Franchise Tax on manufacturers helped bolster the case for attracting businesses to the state.

However, the job is less than half done. Companies that organize as pass-throughs, such as S-Corps, L.L.Cs, and partnerships were left out, as they do not pay the Corporate Franchise Tax.

¹² New York State: Tomorrow Starts Today, <https://www.youtube.com/watch?v=HVGjTIQfgZo>.

Extending the zero-percent tax rate to pass-through manufacturers would help extend the general direction of overall New York state tax policy in favor of job creation and growth. By doing so, the policy would boost jobs, investment, incomes, and local tax revenues. The policy would provide a net positive impact on the New York State economy.

New York lawmakers should consider extending the benefits of the zero-percent tax rate on the income of New York manufacturers organized as pass-throughs, which would further state growth and competitiveness.

Methodology

To identify the economic effects of the tax changes and understand how they operate through a state's economy, BHI utilized its STAMP (State Tax Analysis Modeling Program) model. STAMP is a five-year dynamic CGE (computable general equilibrium) model that has been programmed to simulate changes in taxes, costs (general and sector-specific) and other economic inputs. As such, it provides a mathematical description of the economic relationships among producers, households, governments and the rest of the world.¹³

A CGE tax model is a computerized method of accounting for the economic effects of tax policy changes. A CGE model is specified in terms of supply and demand for each economic variable included in the model, where the quantity supplied or demanded of each variable depends on the price of each variable. Tax policy changes are shown to affect economic activity through their effects on the prices of outputs and of the factors of production (principally, labor and capital) that enter into those outputs.

¹³ For a clear introduction to CGE tax models, see John B. Shoven and John Whalley, "Applied General-Equilibrium Models of Taxation and International Trade: An Introduction and Survey," *Journal of Economic Literature* 22 (September 1984): 1008. Shoven and Whalley have also written a useful book on the practice of CGE modeling entitled *Applying General Equilibrium* (Cambridge: Cambridge University Press, 1992). See also Roberta Piermartini and Robert The *Demystifying Modeling Methods for Trade Policy* (Geneva, Switzerland: World Trade Organization, 2005)

http://www.wto.org/english/res_e/booksp_e/discussion_papers10_e.pdf (accessed September 12, 2018).

A CGE model is in “equilibrium,” in the sense that supply is assumed to equal demand for the individual markets in the model. For this to be true, prices are allowed to adjust within the model (i.e., they are “endogenous”). For instance, if the demand for labor rises, while the supply remains unchanged, then the wage rate must rise to bring the labor market into equilibrium. A CGE model quantifies this effect.

Finally, a CGE model is numerically specified (“computable”), which is to say it incorporates parameters that are believed to be descriptive of the actual relationships between quantities and prices. It produces estimates of changes in quantities (such as employment, the capital stock, gross state product and personal consumption expenditures) that result from changes in prices (such as the price of labor or the cost of capital) that result from changes in tax policy (such as the substitution of an income tax for a sales tax).

Because it consists of a large number of interrelated equations, a CGE model ordinarily requires the application of a nonlinear computational algorithm, typically some variation on Newton's method. STAMP requires and utilizes the development and use of a sophisticated computer program for the solution of its equations.

To simulate extending the zero-percent tax rate on the incomes of pass-throughs, BHI needs to estimate the amount of overall PIT revenue that would be lost if the zero-percent tax rate were extended to pass-throughs in the manufacturing sector.

Unfortunately, state-level income data does not exist for S-Corps, Partnerships, LLCs, and Proprietorships by industry or by state. Therefore, BHI needs to use a combination of national data and New York State data to estimate the taxable income for S-Corps, Partnerships, LLCs and Proprietorships in New York. Table 7 displays the details of the calculations.

BHI starts with data from the IRS Statistics of Income, Business Tax Statistics which contains U.S. net income data for S-corporations, partnerships and non-farm proprietorships for the North

American Industry Code (NAIC) 31: Manufacturing for the latest year available.¹⁴ We inflate the data to 2018 using the ten-year historical data for each category and calculate the compound annual growth rate (CAGR) for each category. We use the CAGR to grow the data for all three categories to 2018, which yields a total net income of \$209.425 billion

Now we need to allocate the national net income data for pass-throughs to New York state pass-throughs. BHI uses U.S. Bureau of Economic Analysis data for 2017 from “Table 6.1D. National Income Without Capital Consumption Adjustment by Industry” for the manufacturing industry (line 8) and “SA5N Personal Income by Major Component and Earnings by NAICS Industry for New York State” (line code 500) to distribute the national income data from above to New York State. The ratio of the New York data to the national data is 2.44 percent (\$38.9 billion/ \$1,590.4 billion). We multiply the \$209.425 billion by 2.44 percent to get our net income for New York pass-through manufacturers, or \$5.116 billion.

Table 7: Personal Income Tax Base for Manufacturing Pass-Throughs (\$000s)

U.S. Net Income for the manufacturing industry	2019
S-Corp	114,691,163
Partnerships and LLC	88,635,231
Proprietorships	6,098,467
Total	209,424,862
New York share of net income (2.44%)	5,116,398
Non-resident income (17%)	-868,324
Adjust net income to taxable income (86.5%)	-572,418
Total taxable income	3,675,656

We need to make a series of adjustments to our net income figure to transform it into taxable income by New York Residents. BHI excludes the income of non-residents from the tax base using the “New York Adjusted Gross Income and Tax Liability: Analysis of State Personal Income

¹⁴ IRS. (n.d.). SOI Tax Stats - Business Tax Statistics. Retrieved September 11, 2018, from <https://www.irs.gov/statistics/soi-tax-stats-business-tax-statistics>.

Tax Returns by Place of Residence” through tax year 2014, or 17 percent, reducing our net income by \$868 million to \$4,248 billion.¹⁵

BHI transforms net income into the tax base of taxable income before applying the applicable tax rates. We use data from Table 22 of the New York Department of Taxation and Finance report “Analysis of 2014 Personal Income Tax Returns.”¹⁶ We divide the average taxable income by the average AGI to get 86.5 percent and multiply it by \$4.248 billion from above for a taxable income tax base of \$3.676 billion.

We distribute these tax cuts to the appropriate personal income tax brackets to calculate the revenue loss due to extending the zero-percent tax rate on pass-through manufacturers. We utilize IRS “Table 1.4. All Returns: Sources of Income, Adjustments, and Tax Items, by Size of Adjusted Gross Income, Tax Year 2014 (Filing Year 2015).” We divide the AGI for partnership and S-Corp net income for taxable returns for each tax bracket by the net income for the total of all brackets to get the total ratio of net income from that bracket to the total net income from all brackets. We multiply the percentage for each tax bracket by our total taxable income to get the taxable income for that bracket. Next, we multiply the taxable income for each bracket by the tax rate for that bracket.

We adjust the tax for each income bracket for three tax credits that will be effectively eliminated, by prospective new statute, the operation of existing statutes, overlapping rules, or practical effects, for pass-throughs under the policy. The Investment Tax Credit is allowed for "property principally used in the production of goods by manufacturing, processing, assembling, refining, mining, extracting, farming, agricultural, horticulture, floriculture, viticulture or commercial

¹⁵ New York State: Department of Taxation and Finance. (n.d.). New York Adjusted Gross Income and Tax Liability: Analysis of State Personal Income Tax Returns by Place of Residence through tax year 2014. Retrieved September 11, 2018, from https://www.tax.ny.gov/research/stats/stat_pit/county_of_residence/analysis_of_2014_state_personal_income_tax_returns_by_place_of_residence_open_data.htm.

¹⁶ New York State: Department of Taxation and Finance. (n.d.). Analysis of 2014 Personal Income Tax Returns. Retrieved September 11, 2018, from https://www.tax.ny.gov/research/stats/stat_pit/personal_income_tax_returns/analysis_of_2014_personal_income_tax_returns.htm.

fishing”, and thus if the tax on the income of such pass-through manufacturers were zero, then the Investment Tax Credit would no longer result in a tax cost/expenditure to New York State.¹⁷ The Small Business and/or Farm Exclusion represents 5% of qualifying small business/farm income where such income is less than \$250,000¹⁸. This analysis assumes that a subset of qualifying small business/farms are manufacturers, thus if the tax on the income of such pass-through manufacturers were zero, then that portion of the Small Business and/or Farm Exclusion would no longer result in a tax cost/expenditure to New York State.

The New York Tax Expenditure Report provides estimates for these credits for 2018: \$23 million for the Small Business and/or Farm Exclusion and \$35 million for the Investment Tax Credit. We grow the 2018 figures to 2019 using the Investment Tax Credit CAGR from 2012 to 2018 since the report for the other credits does not contain historical data.¹⁹

New York allows state taxpayers to claim a “Resident Credit” for taxes paid to “another state, a local government within another state, the District of Columbia, or a Canadian province” on income derived from sources within the other jurisdiction *and subject to New York tax*.²⁰ Because the income of pass-through manufacturers would no longer be subject to New York Tax, neither would the taxes paid to other states be eligible for the Resident Credit, and thus would no longer result in a tax cost/expenditure to New York State. The “Analysis of 2014 Personal Income Tax Returns” report estimates that the deduction was valued at \$1.529 billion in FY 2014. We grow the figure to \$2,129 billion for 2019 using the same procedure as above.²¹

¹⁷ New York Tax Law Sec. 606(a)(2)

¹⁸ New York Tax Law Sec. 612 (c) (39).

¹⁹ FY 2018 Annual Report on New York State Tax Expenditures, Division of Budget, Department of Taxation and Finance, <https://www.budget.ny.gov/pubs/archive/fy19/exec/fy19ter/taxexpendfy19.pdf>, 24, 25.

²⁰ New York Tax Law Sec. 620 (a).

²¹ New York State: Department of Taxation and Finance. (n.d.). Analysis of 2014 Personal Income Tax Returns.

Retrieved September 11, 2018, from

https://www.tax.ny.gov/research/stats/stat_pit/personal_income_tax_returns/analysis_of_2014_personal_income_tax_returns.htm.

We then allocate a portion of the figure to New York pass-throughs using the ratio of total pass-through income to total AGI in national data from the IRS for Statistics of Income, or 1.94% (\$209.4 billion / \$10.822 trillion). We apply the 1.94% to the \$2.129 billion to estimate that the resident credit reduces the revenue loss from the policy by \$41.192 million in 2019. We allocate the total adjustments for the three tax credit to each bracket using the same method as above.

As a result, we estimate that extending a zero-percent tax rate to pass-through manufacturers would cost New York State a static revenue loss of \$239 million in 2019. Table 8 displays the results. We then translate the static revenue change into a change in tax rates for each New York PIT brackets and enter them into the NY-STAMP model.

Table 8: Static Revenue Loss of a Zero PIT Rate on Manufacturing Pass-Throughs

Income Tax Brackets	Taxable Income	NYS Tax Rate	Static Income Tax
\$1 under \$5,000	113	4.00	3
\$5,000 under \$10,000	199	4.00	6
\$10,000 under \$15,000	1,999	4.00	57
\$15,000 under \$20,000	2,160	4.25	67
\$20,000 under \$25,000	4,294	4.88	160
\$25,000 under \$30,000	4,210	5.90	200
\$30,000 under \$40,000	12,887	5.90	612
\$40,000 under \$50,000	15,970	6.30	822
\$50,000 under \$75,000	54,945	6.45	2,910
\$75,000 under \$100,000	76,416	6.45	4,047
\$100,000 under \$200,000	343,634	6.53	18,474
\$200,000 under \$500,000	708,499	6.69	39,195
\$500,000 under \$1,000,000	624,101	6.85	35,550
\$1,000,000 or more	1,826,229	8.62	136,404
Total	3,675,656	na	238,506

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