



*Untaxing New York
Manufacturers II*

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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 does not apply to manufacturers organized as pass-through entities (S-corporations, proprietorships, LLCs, and partnerships), 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 New York Pass-through Manufacturers

	2022	2026
Private Employment (jobs)	5,187	6,549
Investment, (\$ million)	131	164
Real Disposable Income (\$ million)	380	559

The elimination of the PIT for pass-through manufacturers would increase the number of private-sector jobs by 5,187 in the first full-year and by 6,549 in 2026. It would cause investment to rise by \$131 million in 2022 and by \$164 million in 2026. The increase in employment and investment would boost real (inflation-adjusted) disposable income by \$380 million in 2022 and \$559 million in 2026.

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 \$135.25 million in 2022 and \$153.63 million in 2026. The increase in economic activity would

¹ IRS. SOI Tax Stats - Business Tax Statistics. Retrieved October 1, 2021, from <https://www.irs.gov/statistics/soi-tax-stats-business-tax-statistics>.

boost local tax collections by \$21.29 million in 2022 and \$30.13 million in 2026. Combined state and local tax revenue would fall by \$113.96 million in 2022 and \$123.50 million in 2026.

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

	2022	2026
State Taxes (\$ million)	-135.25	-153.63
Local Taxes (\$ million)	21.29	30.13
Total State and Local Taxes (\$ million)	-113.96	-123.50

The combined effect of these factors is shown below in Table 3:

Table 3: Net Gain to New York State and New York State Taxpayers

	2022	2026
Investment, (\$ million)	131	164
Real Disposable Income (\$ million)	380	559
Personal Income Tax Change (\$ million)	-147	-168
Net gain (\$ million)	364	555

When adding together the effects on New York State investment, real disposable income, and personal income taxes, the net gain to New York State and New York State Taxpayers would be \$364 million in 2022 and \$555 million in 2026.

The Tax Cuts and Jobs Act (TCJA), signed into law on December 22, 2017, capped the federal deduction for state and local taxes at \$10,000. This provision increases federal taxes paid by many New York pass-through manufacturers

The New York State pass-through entity tax (PTET) became effective in 2021, allowing pass-through entities of all types to pay and deduct against the federal income reported to pass-through owners, the New York personal income tax of the owners.² Because this provision allows entities to pay and deduct the tax that the owners will owe, New York State has represented that the provision is, logically, revenue-neutral for the State. The PTET would appear to mitigate the

² New York Department of Taxation and Finance, Pass-Through Entity Tax. Retrieved November 10, 2021 from <https://www.tax.ny.gov/bus/ptet/#scorp>

effect of the federal SALT limitation. However, the amount of New York State tax for LLC/partnerships that can be paid and deducted under PTET is 100% of the entity's income, regardless of source, for New York resident partners. For New York nonresident partners, the New York State tax for LLC/partnerships that can be paid and deducted under PTET is 100% of the entity's income only for New York source income. The same applies to the New York tax paid by such partners: New York residents are taxable on their worldwide income, while New York nonresidents are only taxable on their New York source income.

For S-Corps (the most common form of doing business in New York State), both residents and nonresidents are only allowed a PTET deduction for New York source income, even though 100% of the income will be taxed to the resident shareholders. As explained in the footnote for Table 8 in the Appendix, New York sourced income for manufacturers organized as S-Corps is generally only a fraction of their total income and could be close to zero for a manufacturer with significant exports. Thus, the PTET law, while helpful to many pass-throughs, is likely not of material benefit to New York manufacturers organized as S-Corps.

According to the TCJA, "Section 199A of the law created a 20% deduction for pass-through entities in an effort to reduce taxable income for pass-through income." Section 199A of the TCJA is due to expire on December 31, 2025.³ However, this deduction is not allowable for New York tax purposes and thus would not reduce New York taxes paid by New York pass-through manufacturers.

The elimination of the PIT on manufacturing pass-throughs would mitigate any negative effects of the new federal tax law regarding the SALT limitation. The same negative effects are only somewhat mitigated by New York's PTET law (or only nominally for New York manufacturers organized as S-Corps) even if Congress allows its provisions to expire, which is not certain.

³ N. Kaeding and S. Greenberg, (June 2018). Tax Foundation Fiscal Fact Sheet for Reforming the Pass-Through Deduction. Retrieved October 1, 2021, from <https://files.taxfoundation.org/20180621095652/Tax-Foundation-FF593.pdf>.

Extending the zero-percent rate to the PIT on income from pass-through manufacturers would make the state more attractive to manufacturing businesses, investors, and workers and significantly boost the state economy. It would create a level playing field for all types of manufacturers regardless of their legal structure. 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.

Introduction

The New York Personal Income Tax

New York imposes a progressive income tax on all income, including business income from "pass-through" entities regardless of the type of business. The top income tax rate of 10.90% is one of the highest in the nation. New York's tax code is a factor in The Tax Foundation's State Business Tax Climate Index, which puts New York's ranking at 48th, the second-lowest in the country.⁴

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

New York collects state income taxes using an 8-bracket system in which tax rates increase with income. Table 4 displays the brackets.

⁴ Tax Foundation "2021 State Business Tax Climate Index." Retrieved October 1, 2021, from <https://taxfoundation.org/publications/state-business-tax-climate-index/>

Table 4: New York Income Tax Brackets

Single Taxpayer		Married Filing Jointly Taxpayer	
Tax Bracket	Tax Rate	Tax Bracket	Tax
\$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+	5.97%	\$43,000.00+	5.97%
\$80,650.00+	6.33%	\$161,550.00+	6.33%
\$215,400.00+	6.85%	\$323,200.00+	6.85%
\$1,077,550.00+	9.65%	\$2,155,350.00+	9.65%
\$5,000,000.00+	10.30%	\$5,000,000.00+	10.30%
\$25,000,000.00+	10.90%	\$25,000,000.00+	10.90%

For taxpayers filing as single and unmarried, New York's tax rates range from a low of 4.0% for the first \$8,500 in taxable income to 10.90% for income exceeding \$25,000,000. For married individuals filing joint returns, New York's tax rates range from a low of 4.0% for those with taxable incomes of \$17,150 or less to 10.90% for those making \$25,000,000 or more.⁵

The Economics of Taxing Personal Income

The PIT burden raises the cost of production for state businesses. 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 and capital in the state and decrease total disposable income. Table 5 displays the PIT regimes for all fifty states.⁶

⁵ Instructions for Form IT-201 Full-Year Resident Income Tax Return, New York Department of Taxation and Finance. Retrieved October 1, 2021, from https://www.tax.ny.gov/pdf/current_forms/it/it201i.pdf.

⁶ Morgan Scarborough, Tax Foundation Fiscal Fact Sheet of State Individual Income Tax Rates and Brackets for 2021. Retrieved October 1, 2021, from <https://taxfoundation.org/publications/state-individual-income-tax-rates-and-brackets/>

Table 5: Personal Income Tax Regimes in the Fifty States

No Tax (7)	Flat Tax (10)	Graduated Tax (33)	
Alaska	Colorado 4.55	Alabama	Missouri
Florida	Illinois 4.95	Arizona	Montana
Nevada	Indiana 3.23	Arkansas	Nebraska
South Dakota	Kentucky 5.0	California	New Jersey
Tennessee	Massachusetts 5.0	Connecticut	New Mexico
Texas	Michigan 4.25	Delaware	New York
Washington	*New Hampshire 5.0	Georgia	North Dakota
Wyoming	North Carolina 5.25	Hawaii	Ohio
	Pennsylvania 3.07	Idaho	Oklahoma
	Utah 4.95	Iowa	Oregon
		Kansas	Rhode Island
		Louisiana	South Carolina
		Maine	Vermont
		Maryland	West Virginia
		Minnesota	Wisconsin
		Mississippi	District of Columbia

*New Hampshire imposes a flat state tax on interest and dividend income.

Most states impose personal (individual) income taxes. States without them – Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming – rely on other sources for revenue.⁷ Ten states levy a flat PIT rate, while the rest, including New York, have multiple tax brackets. In most states, income taxes remain a significant source of revenue.⁸

Proponents 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 with the stock market, which makes such collections less predictable. And in practice, taxpayer exemptions and deductions

⁷ New Hampshire does not tax wage income but tax dividend income instead.

⁸ Brunori, *State Tax Policy: A Political Perspective*, (Washington D.C.: Urban Institute Press, 2001), 89.

erode the tax base. Compliance costs, including time to complete tax forms and the double taxation of saving, 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 takes a portion of the profits made on business investment, leaves less money in the pockets of workers, and 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.

Economic Effects

To determine the effects of the elimination of the state PIT on pass-through income for New York manufacturers, BHI used its State Tax Analysis Modeling Program (STAMP) for New York State.⁹ The New York STAMP (NYS-STAMP) model is a five-year dynamic Computable General Equilibrium (CGE) model that simulates the economic effects resulting from changes in taxes, environmental laws (general and sector-specific) and other "exogenous" changes. As such, it provides a mathematical description of the economic relationships between producers, households, governments, and the rest of the world.

NY-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 until markets clear. 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 2022. We report the effects for 2022 and 2026, five years

⁹ For a description of the STAMP model see http://www.beaconhill.org/STAMP_Web_Brochure/STAMP_HowSTAMPworks.html.

after implementation. Table 6 displays the results that would occur against the baseline of no change to New York state tax policy¹⁰

Table 6: Economic Effects of a Zero-Percent Tax Rate on New York Pass-through Manufacturers

Economic Indicators	2022	2026
Private Employment (jobs)	5,187	6,549
Investment, (\$ million)	131	164
Real Disposable Income (\$ million)	380	559

The NYS-STAMP analysis shows that extending the policy would increase private-sector jobs by 5,187 in 2022 and 6,549 in 2026 by reducing the cost of labor. Investment would increase by \$131 million in 2022 and by \$164 million in 2026. Extending the policy would positively affect household income. Real (inflation-adjusted) disposable income in New York would increase by \$380 million in 2022 and by \$559 million in 2026, as pass-through manufacturers take advantage of the lower business cost.

Fiscal Effects

NYS-STAMP allows us to calculate the dynamic (as opposed to static) revenue effects of 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

¹⁰ 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 2021 Comprehensive Annual Financial Report for the State of New York offers supplements to the other sources.

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.

As an example, consider a proposal to increase the tax rate from 5% to 6%, given a tax base of \$100 billion. The behavioral effects will make tax revenue smaller than that suggested by 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. Suppose, for example, 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 billion.

This shows how static analysis leads policymakers to exaggerate the amount of revenue they can expect to get from a tax increase. The static model ignores the negative effect on payrolls, the tax base, and other elements of economic activity and produces too large a revenue estimate.

The reverse holds true when a 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.

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 reduce PIT tax revenues by \$200 million in 2022 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 Appendix below provides the details of this calculation. Table 7 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 \$3.10 million in 2022 and \$4.43 million in 2026. Personal income tax revenues would decrease by \$147.13 million in 2022 and fall by \$168.24 million in 2026.

Table 7: Fiscal Effects of a Zero-Percent Tax Rate on New York Pass-through

Manufacturers (\$ millions)		
State Taxes	2022	2026
Sales Tax	3.10	4.43
Personal Income Tax	-147.13	-168.24
Corporate Income Tax	1.15	1.72
Other Revenue and Fees	7.63	8.46
Total State Taxes	-135.25	-153.63
Local Taxes	21.29	30.13
Total State and Local Taxes	-113.96	-123.50

Other state tax revenues and fees would increase by \$7.63 million in 2022 and \$8.46 million in 2026. The state of New York would lose \$135.25 million in tax revenue for 2022 and \$153.63 million in 2026.

Local tax revenues would enjoy a bump under a new policy. Local revenues would increase by \$21.29 million in 2022, rising to \$30.13 million in 2026 on the back of a stronger economy.

Combined state and local revenue would fall by \$113.96 million in 2022 and by \$123.50 million in 2026.

Conclusion

Earlier this decade, 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."¹¹ The elimination of the Corporate Franchise Tax on manufacturers helped bolster the case for attracting businesses to the state.

However, the job of cutting business taxes is far from complete. Companies that organize as pass-throughs, such as S-Corps, L.L.Cs, and partnerships, are left out, as they do not pay the Corporate Franchise Tax.

Extending the zero-percent tax rate to pass-through manufacturers would help New York in becoming more competitive against other states while providing 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 to attract more businesses while providing greater state economic growth.

Appendix: 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

¹¹ New York State: Tomorrow Starts Today, <https://www.youtube.com/watch?v=HVGjTIOfgZo>.

such, it provides a mathematical description of the economic relationships among producers, households, governments, and the rest of the world.¹²

A CGE tax model is a computerized method of accounting for the economic effects of tax policy changes. The 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.

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.

¹² 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 October 1, 2021).

To simulate extending the zero-percent tax rate on the incomes of pass-throughs, BHI had 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 do not exist for S-Corps, Partnerships, LLCs, and Proprietorships by industry or by state. Therefore, BHI had 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 8 displays the details of the calculations.

BHI started 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 through 33 for the latest year available.¹³ We inflated the data to 2022 using the ten-year historical data for each category and calculated the compound annual growth rate (CAGR) for each category. We used the CAGR to grow the data for all three categories to 2022, which yielded a total net income of \$162.407 billion.

Next, we needed to allocate the national net income data for pass-throughs to New York state pass-throughs. BHI used U.S. Bureau of Economic Analysis data for 2020 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 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 2.40% (\$38.8 billion/ \$1,618.3 billion). We multiply the \$162.407 billion by 2.40% to get our net income for New York pass-through manufacturers, or \$3.89 billion.

¹³ IRS. (n.d.). SOI Tax Stats - Business Tax Statistics. Retrieved October 1, 2021 from <https://www.irs.gov/statistics/soi-tax-stats-business-tax-statistics>.

Table 8: Personal Income Tax Base for Manufacturing Pass-Throughs (\$000s)¹⁴

U.S. Net Income for manufacturing industry	2022
S-Corp	96,024,293
Partnerships and LLC	60,234,010
Proprietorships	6,148,369
Total	162,406,672
New York share of net income (2.40%)	3,891,819
Non-resident income (12%)	-471,468
Adjust net income to taxable income (86.5%)	-466,536
Total taxable income	2,953,815

We needed to make a series of adjustments to our net income figure to transform it into taxable income by New York Residents. We excluded the income of nonresidents from the tax base using the New York Department of Taxation and Finance report "Personal Income Tax Filers Summary Datasets through the tax year 2019", or 12%, reducing our net income by \$471 million to \$3.420 billion.¹⁵

We transformed net income into the tax base of taxable income before applying the applicable tax rates. We used data from the New York Department of Taxation and Finance report "Personal Income Tax Filers Summary Datasets through the tax year 2019." We divided the average taxable income by the average AGI to get 86.36% and multiplied it by \$3.420 billion from above for a taxable income tax base of \$2.954 billion.

¹⁴ This is a conservative estimate, based on an average of all New York nonresident taxpayers. New York nonresidents are only taxed on their New York *source* income; for pass-throughs, sourcing is determined by an average of in-state property, payroll, and sales for LLC/partnerships, and in the case of S corporation, *completely by in-state sales* (i.e. to New York customers). Because New York manufacturers export approximately 77% of their products *outside the U.S.* (2019 International Trade Administration, U.S. Census Bureau), the amount of non-New York source income of pass-through manufacturing businesses reported to New York non-residents is likely much more than 12% of all New York income. Thus, a higher percentage of non-New York source income reported to such non-New York residents, if known, would reduce the estimated Total taxable income, as captioned, and thus reduce the Personal Income Tax effect (cost), as shown in Table 8.

¹⁵ New York State: Department of Taxation and Finance. "Personal Income Tax Filers Summary Datasets through tax year 2019". Retrieved October 1, 2021, from <https://www.tax.ny.gov/research/stats/statistics/pit-filers-summary-datasets-beginning-tax-year-2015.htm>

We distributed these tax cuts to the appropriate personal income tax brackets to calculate the revenue loss due to extending the zero-percent tax rate on income from pass-through manufacturers. We utilized IRS "Table 1.4. All Returns: Sources of Income, Adjustments, and Tax Items, by Size of Adjusted Gross Income, Tax Year 2018 (Filing Year 2019)." We divided 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 multiplied the percentage for each tax bracket by our total taxable income to get the taxable income for that bracket. Next, we multiplied the taxable income for each bracket by the tax rate for that bracket.

We adjusted the tax for each income bracket for three tax credits that will be effectively eliminated 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 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.¹⁶ The Small Business and/or Farm Exclusion represents 5% of qualifying small business/farm income where such income is less than \$250,000.¹⁷ This analysis assumes that a subset of qualifying small businesses/farms are manufacturers. Thus, if the tax on the income of 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 2021: \$1 million for the Small Business and/or Farm Exclusion and \$30 million for the Investment Tax Credit. We grow the 2021 figures to 2022 using the Investment Tax Credit CAGR from 2017 to 2021 since the report for the other credits does not contain historical data.¹⁸

¹⁶ New York Tax Law Sec. 606(a)(2)

¹⁷ New York Tax Law Sec. 612 (c) (39).

¹⁸ FY 2022 Annual Report on New York State Tax Expenditures, Division of Budget, Department of Taxation and Finance, <https://www.budget.ny.gov/pubs/archive/fy22/ex/ter/fy22ter.pdf>.

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*.¹⁹ 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 F.Y. 2014. We grow the figure to \$3.900 billion for 2022 using the same procedure as above.²⁰

We then allocated 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 1.35% (\$162.407 billion / \$12.023 trillion). We applied the 1.35% to the \$52.68 billion to estimate that the resident credit reduces the revenue loss from the policy by \$36.86 million in 2022. We allocated the total adjustments for the three tax credits to each bracket using the same method as above.

As a result, we estimated that extending a zero-percent tax rate to pass-through manufacturers would cost New York State a static revenue loss of \$200 million in 2022. Table 9 displays the results. We then translated the static revenue change into a change in tax rates for each New York PIT bracket and entered them into the NY-STAMP model.

¹⁹ New York Tax Law Sec. 620 (a).

²⁰ New York State: Department of Taxation and Finance. (n.d.). Analysis of 2014 Personal Income Tax Returns. Retrieved October 1, 2021, from https://www.tax.ny.gov/research/stats/stat_pit/personal_income_tax_returns/analysis_of_2014_personal_income_tax_returns.htm.

Table 9: 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	72	4.00	2
\$5,000 under \$10,000	62	4.15	1
\$10,000 under \$15,000	824	5.14	28
\$15,000 under \$20,000	2,166	5.90	89
\$20,000 under \$25,000	2,277	5.95	95
\$25,000 under \$30,000	3,471	5.97	145
\$30,000 under \$40,000	8,298	5.97	348
\$40,000 under \$50,000	10,656	5.97	446
\$50,000 under \$75,000	41,395	5.97	1,734
\$75,000 under \$100,000	51,491	6.25	2,301
\$100,000 under \$200,000	252,189	6.33	11,473
\$200,000 under \$500,000	573,278	6.85	29,062
\$500,000 under \$1,000,000	476,089	6.85	24,135
\$1,000,000 or more	1,531,537	10.28	130,223
Total	2,953,815	na	200,083

About the Authors

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