# Testimony of Brian Sampson
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Senator Krueger and members of the panel, thank you for allowing me to speak with you today regarding the business tax structure in New York. My name is Brian Sampson and I am the Executive Director of Unshackle Upstate, a coalition that represents more than 45,000 businesses with more than one and a half million employees.

To fully understand the issues facing private sector employers in New York, we need to look at the total tax structure and the burdens it imposes on employers and their workers each and every day. Let me share some of the specific concerns. According to the Tax Foundation:

1. New York property taxes are among the nation's highest.
    a. State Comptroller Tom DiNapoli has stated that the property tax burden in New York is 49% higher than the national average
    b. Nine of the 10 highest property taxes in the nation, as a share of property value, are located in Upstate New York, a region area that has been struggling to compete economically for a decade.
2. New York's combined state and local tax burden is second highest in the nation. What makes that even more frightening is that New York as raked first or second in tax burden since 1977. That's 32 years!
3. New York's 2009 Business Tax Climate, which reviews corporate taxes, individual income taxes, sales taxes, unemployment insurance taxes, and taxes on property, was 49$^{th}$ in the country, second to worst. This doesn't even take into consideration such high cost burdens as energy, health insurance and workers' compensation.
4. CEO Magazine ranked New York as the worst for the cost of doing business
5. A July 2008 survey of 281 corporate executives by Development Counselors International revealed California, New York and Michigan as the three states with the least favorable business climates, with 42.4% saying New York was the worst.

I hope that you can see that regardless of the size of the business, tremendous burdens have been placed on them by the State of New York. Viewed in isolation, as a matter of tax policy, individual taxes don't appear to be offensive or potentially destructive. However, such a myopic vision is a disservice. Rather, we need to look at the entire tax structure.

Being mindful of their state's business climate, lawmakers tend to rely on drawing business to New York by offering lucrative tax incentives and subsidies. Lawmakers create these deals under the banner of job creation and economic development, such as the implementation of the Empire Zone program. But this is merely short-term stop gap measure that attempts to stem job loss. The truth is that if a state needs to offer such packages, it is most likely covering for a woeful business tax climate. A far more effective approach, with long-term benefits, would be to systematically improve the business tax climate to make it truly attractive to business growth and development and thus improve the state's competitiveness. When assessing which changes to make, lawmakers need to remember these two rules:

1. Taxes matter to business. Business taxes affect business decisions, job creation and retention, plant location, competitiveness, the transparency of the tax system, and the long-term health of a state's economy. Most importantly, taxes diminish profits. If taxes take a larger portion of profits, that cost is passed along to either consumers (through higher prices), workers (through lower wages or fewer jobs), or shareholders (through lower dividends or share value). Thus a state with lower tax costs will be more attractive to business investment, and more likely to experience economic growth.
2. States do not enact tax changes (increases or cuts) in a vacuum. Every tax law will in some way change a state's competitive position relative to its immediate neighbors, its geographic region, and even globally. Ultimately, it will affect the state's national standing as a place to live and to do business. Entrepreneurial states can – and do - take advantage of the tax increases of their neighbors to lure businesses out of high-tax states.

Clearly, there are many non-tax factors that affect a state's overall business climate: its proximity to raw materials or transportation centers, its regulatory or legal structures, the quality of its education system and the skill of its workforce, not to mention the intangible perception of a state's "quality of life." Here in New York, we have so many of the assets a business is seeking, such as highly skilled workers and access to raw materials – which could give them reason to want to locate here. But those factors alone will not keep businesses here, nor keep the revenues they can generate flowing to the state. If we do not significantly change our tax structure, as well as the regulatory environment, we fear that even more private sector job losses will occur.

Unshackle Upstate encourages you and your colleagues in the Legislature, along with Governor Paterson, to immediately make the following changes:

**Correct the damage done by the recently enacted state budget and DRP**

- The increase in the Personal Income Tax is going to further damage the State's already weakened economy, and particularly harm small businesses. The Legislature should enact a carve-out for small businesses filing as subchapter S corporations, an LLC or LLP.
- Remove the more than $850 million in health insurance taxes and assessments were enacted (between the final State Budget and the DRP) that will be passed on in higher premium costs to businesses and the people they employ.
- $525 million in increased 18A assessment were enacted in the final State budget that will drive up energy costs even higher. After health insurance, energy is the second most expensive cost for businesses.

**Change the Corporate Franchise Tax**

- In April 2007, the corporate franchise tax was reduced from 7.5% to 7.1%, and to 6.5% for manufacturers and small businesses.
- Unshackle Upstate recommends further Corporate Franchise Tax reductions **specifically** for small businesses, manufacturers and other Upstate businesses.
- The easiest and most direct way to lessen the corporate tax burden on Upstate businesses is straight rate reductions – the Legislature has taken this approach before, and we strongly recommend that it do so again.

The economic sluggishness we read about each day has prompted many suggestions of short-term economic fixes, but tax reform remains one of the most important long-term economic challenges. Tax reform offers significant opportunities to promote a growing economy by removing or minimizing the many ways in which our tax system interferes with economic decision-making and create in its place a tax system in which household and business decisions are based more on economic merit than on an array of complex and difficult-to-understand tax rules.

New York must do all it can to lower the tax burden on all business, big and small, so that our economy can flourish. Further tax rate reductions would allow for additional investment in workers, equipment and plants, and provide a much-needed stimulus for the Upstate economy which continues to hemorrhage jobs. Only then can we create long-term fiscal planning for the state and get away from short-term gimmicks that impede growth.

Thank you.