

## **Support Services Alliance**

### **Senate Select Committee on Budget and Tax Reform**

**April 30, 2009 – 12:30 p.m.**

#### **Christopher Koetzle, VP, Membership Services & Marketing**

Good afternoon Chairwoman Krueger and members of the committee. Thank you for the opportunity to speak today. My name is Chris Koetzle, and I am the Vice President of Membership Services and Marketing for Support Services Alliance or SSA.

For over 30 years SSA has served New York's small-business community by bringing them the products and services they need to succeed. Started as a membership organization, we have always believed that small businesses are America's economic backbone and that they can strengthen their economic position by forming a purchasing alliance.

Now, SSA provides a vast array of benefits and assistance to thousands of small businesses and the self-employed across New York. Our programs include a strong advocacy initiative before the state government, group insurance purchasing opportunities for health, life, vision, long term care, and dental; payroll and benefits administration services, a bi-monthly news magazine, and a toll-free help line.

Before we begin, I am sure that many of you already know that small businesses are an important part of our economy and the essential component to our recovery. In fact, our recovery depends on them. Most recent data shows that the state has 450,000 small employers representing over 90% of the state's private employers and who together employ over 50% of the state's private sector employment.

The SBA noted that small employers created all of the state's new private sector jobs from 2004 to 2005. And, on a national level, small businesses generated half of the nation's non-farm GDP in 2005. Although those are the latest numbers available, I'd be willing to bet that the trend held true in '06, '07, '08, and will again in '09.

Clearly, small businesses are essential to our economy and I appreciate this committee's attention to helping them thrive in New York.

While it is the goal of this committee to focus on and examine the Corporate Franchise Tax in New York State, I would like to begin my testimony by focusing on some immediate first steps that the Legislature can take in order to improve the business climate in this state. Given the current fiscal crisis both within New York's borders and globally, SSA is well aware of the various sacrifices and needed changes to our fiscal behaviors that everyone must endure. Our organization as well as the entire small business community is determined to forge ahead and fight through our current economic downturn. That being said, I would be remiss if I didn't first address some of the specific budgetary actions that New York State undertook in the final enacted 2009-10 State Budget, as well the Deficit Reduction Plan which passed in early February.

### **1) Budget & DRP**

Despite the availability of Federal stimulus funding to help balance the budget deficit, the final enacted State Budget inexplicably included a personal income tax increase for "higher-income taxpayers." While this was originally couched and marketed across the state as a "Millionaires Tax," it should be more aptly called the "Small Business Owner Tax." Unlike the true millionaires of this State, small businesses do not have the ability to pick up and move to avoid new tax increases. What I feel was never recognized during the budget debate was the fact that this tax increase affects the thousands of small businesses that pay personal income taxes as Subchapter S Corporations. SSA strongly encourages the Governor and Legislature to revisit this issue and "carve out" small businesses from the recent personal tax increase.

Also included within the enacted budget were new or increased taxes in two areas that are the most costly for small businesses – health care and energy costs.

In the health insurance arena, the final State Budget increased the HCRA surcharges on hospital visits from 8.95% to 9.63%, and also extended the 1.75% premium tax to for-profit HMOs. Even worse, in the DRP the Governor and Legislature increased the Covered Lives Assessment by \$240 million, and added another \$180 million in Department of Insurance

assessments. Altogether, the final State Budget and DRP added over \$800 million in new and increased health insurance taxes and assessments. At a time when businesses and families are already struggling to pay for health insurance, it makes no sense whatsoever to be adding \$800 million in taxes and assessments on to the cost of coverage.

In the energy arena, the final State Budget increased the current 18-A assessment by approximately \$525 million. In addition, in the DRP, there was a \$476 million “sweep” of New York Power Authority (NYPA) funds (into the State’s General Fund) which could have been used to help provide low-cost power to small businesses. Energy costs are another significant cost burden that many small businesses struggle with on a daily basis. The price that New York State residents pay for energy is already exorbitant compared to other states. Adding \$525 million in assessments and sweeping \$475 million from NYPA will only make it harder for small businesses in these already tough and challenging economic times.

While we appreciate the Committee’s focus on the corporate franchise tax, we respectfully submit that the Legislature must first revisit these recent tax increases in the final State Budget and DRP, and take immediate action to reduce the negative impact these tax hikes will have on small businesses.

## **2) Corporate Franchise Tax (9-A)**

Corporate taxes in New York are a major part of the high cost of doing business in our State. New York had the third-highest level of state and local corporate income taxes per capita in the country (only Alaska and New Hampshire were higher). High taxes make it more difficult for existing businesses to stay afloat, and contribute to making New York uncompetitive with other States.

With regard specifically to the corporate franchise tax in New York State, we acknowledge that the intent of the tax is to fund economic development programs which theoretically may benefit small businesses across New York, but it is SSA’s strong belief that the best way to help small businesses would be to simply reduce the 9-A rate for small businesses.

In the 2005-2006 state budget, the corporate franchise tax for small businesses was reduced from 6.85% to 6.5%. SSA feels strongly that now is the time for the State to reduce this rate once again for small businesses as

a sign of its commitment to helping revive many aspects of the economy during this fiscal crisis. Investment in the small business sector now will pay huge dividends in future years for the local economies that they serve as well as New York State itself.

We appreciate your interest in leveling the playing field between small and large businesses. Clearly, many small businesses do not have the resources, expertise or professional assistance to take advantage of some of the State's special tax credit programs (in the same way that large businesses do). Our members have been clear; there are three issues that are impacting them most: high energy costs, ever-increasing health premiums, and skyrocketing property taxes. These costs are the culprits that kill our economy, overburden our small businesses and make New York uncompetitive. This burden is felt equally across all industries and every sector in the market.

So, in addition to lowering the tax for small businesses, we suggest the following plans:

First, we ask that you repeal the increase to the Covered Lives Assessment. Or, if you prefer use the Article 9-A revenues as a credit to offset the assessment.

Second, repeal the \$525 million in new assessments on energy for small businesses or apply Article 9-A credits to cover those as well.

Finally we need a cap on property taxes so that we can begin to get a handle on runaway property taxes for all New Yorkers.

In closing, we believe that small businesses have suffered an economic disadvantage relative to larger businesses and other out-of-state small businesses for years.

The state's tax code is complex; we need simplification.

The state's tax code provides too many specific credits that require too much capital from small businesses; we need help on the big cost drivers that are breaking the backs of our small businesses on a daily basis.

And, the state's tax code places too great a burden on the smallest employers; we need relief.

We look forward to working with the Legislature and the Governor in the coming months to address some of these all important issues that I have brought before you today. I am convinced that through a partnership between New York's business leaders and government, we can help make New York the Empire State once again.

Thank you for your time today and I will be happy to answer any questions that you may have.