



Testimony To:

New York State Senate Finance Committee
New York State Assembly Ways and Means Committee
Joint Legislative Hearing:

Economic Development

Presented By

Randy Wolken
President and CEO, MACNY, the Manufacturers Association

Paul Henry, CPA
Tax Partner, The Bonadio Group

January 29, 2018

Thank you for the opportunity to appear before you today to raise an important issue for small to medium size manufacturers in New York State. My name is Randy Wolken and I am the President and CEO of MACNY, The Manufacturers Association. I am joined today by Paul Henry, CPA, Tax Partner of The Bonadio Group.

As you may know, MACNY is a trade association representing over 300 member companies with over 55,000 employees within a 26-county region and we advocate for the growth and development of the manufacturing sector of New York State. Founded in 1913, we support policies that will enable New York State manufacturers to thrive in today's competitive global market. We also represent the Manufacturers Alliance of New York, which includes six regional manufacturing associations and over 2,000 companies.

Our many causes include one large cause that is critical to protecting our state's future economy: creating a better business climate for manufacturers. Simply put, New York State manufacturers are dealing with the ramifications of an increasingly competitive global climate and they also are being hit every day with progressively increasing business costs.

New York based manufacturing has become increasingly vulnerable over the years, susceptible to both national and international competition. New York businesses continue to shut down and relocate either overseas or to different parts of the country, due to luring incentive packages, lower production costs, cheaper wages, and lower taxes. Due to these continuous burdens to our sector, MACNY works consistently with Albany lawmakers to create and revise legislation and policies that will lessen some of these burdens to the manufacturing sector, and allow them to thrive in New York State.

It is no secret that our state is enduring difficult times. However, despite the intricacies and details of conducting business in such a challenging business climate, manufacturers are still here, and they are doing whatever they can to continue

operations, sustain and grow jobs, invest in their facilities, create quality products and contribute to their communities. Why? Because they believe in New York State and they truly want to do business here.

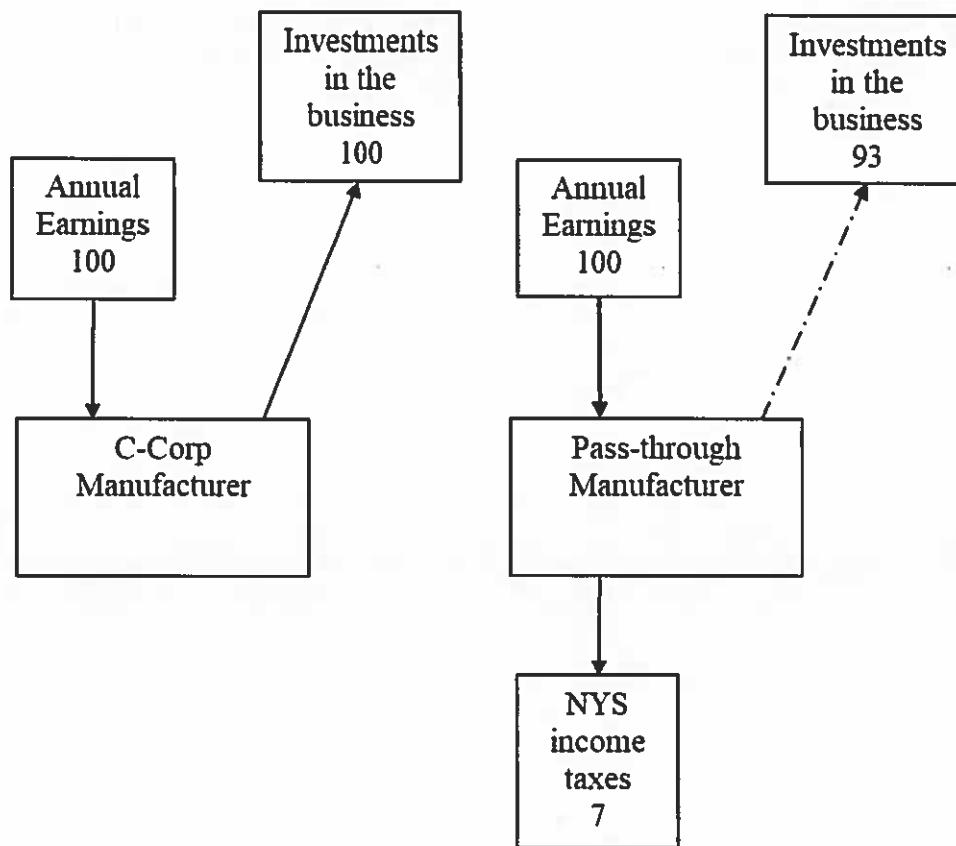
I think this message resonates well in today's hearing because we as a business community recognize that in order for New York State to regain its financial footing, we all need to work together. Albany can create a sound business climate that allows business to create jobs. These businesses are ready to work with you and your colleagues on creating a fair and effective business climate, and despite making some sacrifices, ready to tackle our budget crisis together and get New York State back on track with a growing manufacturing sector.

In order to begin our work together, the State needs to level the playing field for all manufacturers. What the manufacturing sector needs is reassurance from the State that the products they produce and the jobs they provide are integral to the success of New York. The most significant action the State can take this year is to eliminate the corporate franchise tax for all manufacturers.

As you know, in 2014 the Legislature and Governor enacting a zero percent corporate franchise tax rate for manufacturers organized as C-corps. This provided significant tax relief for large manufacturers, and catapulted New York's national standing to one of the Top 10 states for pro-manufacturing income tax climates for these manufacturers. However, there was, and perhaps still is, a misconception that this zero percent rate applied to all manufacturers. Unfortunately, New York's small to medium manufacturers, which actually represent approximately 75% of manufacturers, did not benefit from this zero percent rate. These small to medium sized manufacturers operate their businesses through S corporations, LLCs, partnerships, or even sole proprietorships. These are commonly referred to as "pass-through" entities, where the entity owners are required to pay income taxes on the annual business earnings.

To expand or even continue in business, a manufacturer *must*, after paying operating expenses and taxes, make the following investments in their businesses: capital expenditures or “capex” like complex machinery and buildings, the building up of inventory, research and development expenses for new products, and IT and software upgrading.

NY C-corp manufacturers do not have to consider or pay NY income tax on their earnings before investing in these items, while pass-through manufacturers actually have to pay NY income taxes *first, and* at the 2nd highest rate in the nation, *before* they make the same required business investments as C-Corporations:



As shown in the illustration, the pass-through manufacturer has to make distributions to the owners of the business to pay the NY tax, because the tax liability of the pass-through falls to them. There is sometimes a misconception that the tax distributions of a pass-through are a *personal benefit* to the pass-through owners in some way: that the

mechanics of just paying the taxes on the business earnings represents income or benefit to them. If that were actually true, we might see C-Corp manufacturers asking to reclaim that benefit and start paying NY income taxes again.

So to be perfectly clear, NY C-Corp manufacturers pay zero NY income taxes on their annual income, while NY pass-through manufacturers are subject to NY income tax at the 2nd highest individual income tax rate in the United States. This is a fact, and is why we are here today.

So as a result of not providing the same relief to pass-through manufacturers, we have inadvertently put these small to medium size manufacturers at a competitive disadvantage with large manufacturers in New York and those located in states with no income tax. We heard from our members over the past few years that the pressure to move their facilities and invest in locations outside of New York was growing stronger. Governors and economic development officials from states with no income tax are aggressively calling New York manufacturers offering them very attractive incentive packages. Despite the fact that these manufacturers tend to be locally owned and have strong ties to their community, it is becoming increasingly difficult to continue to resist these calls.

In response to the pleas from our small to medium size manufacturers, the Manufacturing Research Institute of New York State, commissioned a study to analyze the impact of extending the zero percent corporate franchise tax rate to these small and medium manufacturers.

The study, conducted by The Beacon Hill Institute, found that the elimination of the corporate franchise tax for pass-through manufacturers would increase private sector jobs by 3,455 in the first full-year (2018) and by 4,850 in 2022. It would cause investment to rise by \$88 million in 2018 and by \$122 million in 2022. The increase in employment and investment would boost real disposable income by \$244 million in 2018 and \$407 million in 2022. 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.

In doing so, New York State will be making a solid investment in its economic future by proving the entire manufacturing sector with a more friendly business climate that allows them to grow, add jobs and make significant capital investments. Additionally, with the manufacturing sector's job multiplier effect being as strong as it is, this initiative will also increase jobs and encourage additional investment in the New York State's economy. As important, it will be sending a strong message: that New York State values its current manufacturing community and is ready to step up as a major competitor on the international playing field for retaining talent and manufacturing in our state.

Enacting a zero percent income tax for our small to medium size manufacturers would have a profound positive impact on these existing companies and would be a strong economic development tool to attract manufacturers to New York.

Thank you for your continued support of New York's manufacturers and for your time and commitment to New York State.