Testimony To:

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

Presented By

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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 more than 330 member companies with more than 55,000 employees within a 26-county region. 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.

We have many causes. A main priority that is critical to protecting the state's future economy is creating a better business climate for manufacturers. Simply put, New York State manufacturers are dealing with the challenges of an increasingly competitive global climate and are being hit every day with progressively increasing business costs.

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 and allow manufacturers to thrive in New York State.

Despite the complexities and details of conducting business in a challenging business climate, manufacturers are continuing to do what they can to maintain operations, sustain and grow jobs, invest in their facilities, create quality products, and contribute to communities statewide. Why is this? Because they believe in New York State, and they truly want to do business here.

I think this message resonates because we as a business community recognize that we all need to work together. Albany can create a sound business climate that allows business to create jobs. Further, these businesses are ready to work with you and your colleagues on creating a fair and effective business climate, to help New York State grow and enhance its manufacturing sector.

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 the State of New York. The most significant action the State could take this year is to eliminate the corporate franchise tax for all manufacturers.

As you know, in 2014, the State Legislature and Governor enacted a zero percent corporate franchise tax rate for manufacturers organized as C-Corps. This provided significant tax relief for large manufacturers and helped propel New York's national standing to one of the Top 10 states for pro-manufacturing income tax climates. However, this zero percent rate did not apply to the majority of manufacturers. New York's small to medium size manufacturers, which represent approximately 75% of manufacturers, did not benefit from this zero percent rate, and in fact pay full New York taxes on the business income every year, at the 2nd highest rate in the United States. These small to medium size 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, vs. the entity itself.

To expand or even continue in business, a manufacturer must, after paying operating expenses and taxes, make the following investments in their businesses: inventory; capital expenditures; research and development expenses for new products; and IT and software upgrades. New York C-Corp manufacturers do not have to consider or pay New York income tax on their earnings before investing in these items, while pass-through manufacturers must pay New York income taxes first, before they can make the same required business investments as do C-Corporations.

A pass-through manufacturer must make distributions to the owners of the business to pay the state tax, as 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. If this were true, we might then see C-Corp manufacturers asking to reclaim that benefit and start paying New York income taxes again. New York C-Corp manufacturers pay zero state income taxes on their annual income, while New York pass-through manufacturers are subject to the state income tax at the 2nd highest individual income tax rate in the United States. 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 (the C corps), as well as those located in states with no income tax.

We have heard from our members over the past few years that the pressure to move their facilities and invest in locations outside of New York has been growing stronger. Governors and economic development officials from states with no income tax are aggressively calling New York manufacturers and offering them very attractive incentive packages. Even though these manufacturers tend to be locally-owned and have strong ties to their community, they are finding it more difficult to resist these offers.

In response to the loud 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 in 2018, found that the elimination of the corporate franchise tax 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 the first year and by $147 million in 2023. Additionally, the growth in employment and investment would boost real disposable income by about $503 million in 2023. This increase in economic activity, sparked by extending the zero-percent tax rate to income from pass-through manufacturers, would help mitigate the loss of revenue to New York State and boost local tax revenue collections. In doing so, New York State would be making a solid investment in its economic future by providing the entire manufacturing sector with a friendlier business climate that would allow them to grow, add jobs and make significant capital investments.

Furthermore, with the manufacturing sector's job multiplier effect being as strong as it is, this initiative would also increase jobs and encourage additional investment in New York's economy. As important, it would send a strong message that New York State values its current manufacturing community and is ready to be 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 serve as a strong economic development tool to attract more manufacturers to New York.

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

Sincerely,

Randy Wolken, MACNY President
Paul Henry, CPA