



111 Washington Avenue,
First Floor
Albany, NY 12207

518-434-1262
NFIB.com

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New York State Joint Legislative Budget Hearing on Taxes

Testimony submitted by Ashley Ranslow, NY State Director for the National Federation of Independent Business (NFIB)

Thank you very much Senator Krueger, Assemblymember Pretlow, members of the Senate and Assembly, and legislative staff, for your consideration of NFIB's testimony.

NFIB is a member-driven organization representing close to 300,000 small businesses across the country and more than 11,000 across New York State.

NFIB members define our neighborhoods and strengthen our communities with character and value: local hardware stores, independent restaurants, florists, barbers, small retailers, dry cleaners, convenience stores, truckers, farmers, roofers, landscapers, mechanics, and fitness and retail boutiques. These are samples of NFIB members.

There are close to 500,000 small businesses with employees in New York. These businesses employ 40 percent of the state's private-sector workforce, over 3 million New Yorkers, and their production accounts for nearly half of the state's GDP. A staggering 98 percent of New York's businesses have fewer than 100 employees. A strong, vibrant small business eco-system supports local tax bases, governments, and schools. Sixty-seven cents of every dollar spent at a local small business is reinvested into the community. Small businesses also enrich their communities through financial support, in-kind contributions, and volunteerism. Ninety percent of small business owners have financially supported community or civic groups, sixty-three percent have provided in-kind contributions, and seventy-six percent of all business owners reported volunteering

their time according to NFIB's 2024 Small Business' Contribution to the Community report.¹

Small businesses are local job creators and the bedrock of the state and regional economies. Neighborhood employers continue to face significant financial challenges, including inflation, escalating utility bills, high taxes, an exodus of workers from the labor force, rising insurance premiums, and the threat of costly lawsuits. In NFIB's semi-annual "State of the States" Small Business Economic Trends (SBET) report, optimism among New York's small business owners is lagging the nation, driven by lower sales expectations, employment plans, and economic expectations. Thirty-five percent of small business owners report job openings that could not be filled, and only five percent plan to increase employment, a nine-point drop from national sentiment. The cost of labor is the second highest problem for New York's small business owners, but just fifth in the rest of the country (15% vs 9%). The labor shortage continues to drive wages even higher with small business owners reporting that they raised compensation or plan to raise compensation in the next 3 months, while also increasing selling prices. The cost/availability of insurance has increased significantly, with nine percent of small businesses reporting it as their single most important problem compared to five percent just a year ago. Overall, the top five single most important problems for the Empire State's small businesses are labor quality (18%), cost of labor (15%), taxes (14%), government regulation (10%), and cost/availability of insurance (9%).

In NFIB's 2024 Problems and Priorities report, New York small business owners ranked 75 potential business problems, with the top ten problems relating to taxes, regulations, economic uncertainty, and the cost of insurance and utility bills. New York's small business owners identified state business income taxes as the third most burdensome problem – six spots higher than the national average.² Other critical problems higher than the national average include government regulations (4th), cost of natural gas, propane, gasoline, diesel, and fuel oil (5th), electricity rates (7th), workers' compensation (14th), minimum wage (15th), and credit card payment processing costs (20th). The top 20 problems for New York's Main Street demonstrate small business owners' struggles with the cost and logistics of running a business in New York State.

Unfortunately, post-pandemic financial challenges and New York's difficult business environment have taken a toll on the small business eco-system and New York's economy at large. According to Empire State Development, since 2019, New York State has seen a 2.2 percent growth in small businesses with fewer than 100 employees. but a

¹ NFIB Research Center, 2024 Small Businesses' Contribution to the Community, Nov. 2024. [2024 Small Business Contribution to the Community.ai](#).

² NFIB Research Center, 2024 Small Business Problems & Priorities, <https://nfib.com/wp-content/uploads/2024/10/2024-Small-Business-Problems-Priorities.pdf>.

2.4 percent decline in employment in small businesses³. There are nearly 11,000 more small businesses with fewer than 100 employees (due to growth in firms with less than 25 employees), but 75,000 fewer employees working in those businesses, undoubtedly a reflection of business owners trying to contain costs while also facing a severe labor shortage. More troubling, small businesses with more than 24 employees but fewer than 100 employees, have decreased by 4 percent over the last four years, and employment has fallen by 3.8 percent. New York has an opportunity to help small businesses overcome challenges, address the affordability crisis, stem the tide of outmigration of New Yorkers, and put the state's economy in a more competitive and better position. One way to change the trajectory of the Empire State's economy and business climate is to address the state's tax climate.

New York residents and businesses already have the highest state and local tax burden in the nation, the highest individual income tax rates, the third highest property tax rates, and the eighth highest sales tax rates, according to the Tax Foundation. According to a recent report by the Citizens Budget Commission, New York State and its localities have the highest taxes both in collections per capita and per \$1,000 of income. New York collects over \$12,000 in taxes per resident, about \$5,000 more than the national average. Even more troubling, New York's personal income tax collections per \$1,000 are 20 percent higher than California, the second highest state.⁴ New York spends 50 percent more per capita (\$15,268) than the national average (\$10,622 per capita). New York's taxes on small businesses and residents are already too high, and any new taxes or tax increases should be plainly rejected.

Additionally, the Empire State should revisit the tax code and consider lowering taxes for small businesses, adopting tax parity with federal law, and eliminating taxes that exacerbate the affordability crisis. In 2022, New York increased the small business deduction from 5% to 15% and expanded the modification to include S-Corps, a much-needed reform that benefits small businesses. However, this tax change did not address tax rates for small businesses organized as C-Corps. Small businesses paying their business taxes via Article 9A (corporate tax) should have taxes reduced from the current rate of 6.5% to 4%. All small businesses should experience lower tax rates, regardless of how their business is organized, to help them grow and invest in New York.

Similarly, New York should prioritize conforming to pro-small business federal tax provisions rather than decoupling state and federal tax rules. H.R. 1, the federal tax reform law, included many tax changes to benefit small businesses. Making the 20 percent Small Business Deduction, Section 199A, permanent was a significant victory for

³ New York State Empire State Development, Annual Report on the State of Small Businesses, 2024.

<https://esd.ny.gov/sites/default/files/media/document/2024-ESD-ANNUAL-REPORT-ON-SMALL-BUSINESSES.pdf>

⁴ Adam Ciampaglio, "New York, Still Top of the Charts," Citizens Budget Commission. January 2025. [New York, Still Top of the Charts | CBCNY](#).

Main Street, providing critical tax relief and certainty for small business owners. The 20 percent small business deduction is expected to increase New York's state GDP by \$6.09 billion annually for the first 10 years and create 71,000 jobs each year same period⁵. While making Section 199A permanent will help small businesses grow and invest, also hugely important for the state's economy. New York should take advantage of this opportunity, and adopt full conformity with Section 199A, allowing small businesses to deduct 20% from state taxes, as well.

The Executive Budget proposes to decouple from certain provisions of H.R. 1 (REV Parts F and G), creating a more complicated, expensive, and confusing tax environment. New York has historically adopted rolling conformity with the Internal Revenue Code (IRC) to maintain an easier tax system while also attempting to remain competitive with other states. Decoupling from certain provisions of H.R. 1 related to research and development expense and qualified production property serves as a barrier to investment, especially for manufacturers, including small manufacturers. These tax incentives are intended to help spur investment in domestic manufacturing, and states that conform to H.R. 1 are likely to reap the benefits rather than states that choose to decouple from the federal government. In recent years, New York has invested a great deal of money in advanced manufacturing, workforce development, and other priorities to bring good-paying jobs to the state; however, raising state level taxable income impedes attracting new opportunities or further investment. Rather than making it more difficult and expensive for businesses to invest and grow in New York, the state should prioritize policies that are pro-growth and help put the Empire State on a more level playing field. The tax decoupling provisions should be rejected, and instead, New York should conform with federal tax policy.

Another detrimental tax policy for small businesses is the Health Care Reform Act (HCRA) tax. The Executive budget proposal includes a provision to reauthorize the HCRA tax, costing small businesses offering health insurance over \$6 billion each year. When originally enacted, HCRA was intended to be a temporary financing mechanism, but now it has evolved into a massive tax that disproportionately affects small businesses. Unlike large, self-insured employers, which are often the largest entities and corporations, who can structure their plans to minimize exposure, small businesses are purchasers of commercial health insurance plans. These plans, largely purchased by small and medium-sized employers, are taxed by the state. Main Street is paying these taxes directly through higher health insurance premiums, resulting in higher costs for the businesses who can least afford it. The HCRA tax is inherently regressive: A small business owner purchasing a standard small-group plan pays a higher effective tax rate than a large employer with a self-insured ERISA plan. The rising cost of health insurance is the top problem for small business owners, leading many to cut back on premium

⁵ Brandon Pizzola, EY, Macroeconomic Impacts of Permanently Extending the Section 199A Deduction on Small Businesses, September 2024, www.NFIB.com/EYReport2024.

contributions, offer only high-deductible plans, or stop offering health insurance altogether. New York's HCRA tax is making healthcare more expensive and harder for small businesses to compete with larger businesses in the benefits that can be offered to employees. The reauthorization of HCRA taxes should not be included in the final enacted budget.

Like HCRA, the higher Article 9-A tax rates on C-corporations were intended to be temporary; however, the Executive budget proposal offers an extension, effectively making them permanent. Extending Article 9-A tax rates again not only add to the cost of doing business in New York, but also create uncertainty, dissuades long-term investment, makes the state less competitive, and reduces job creation. New York already has some of the highest taxes in the nation and should find ways to lower them rather than extend or increase taxes on businesses.

The state cannot seriously address affordability without a thorough review of the tax burdens weighing down businesses and residents alike. There is a direct correlation between taxes and the cost of living in this state, and New York residents have made it clear that the cost of living must be a top priority otherwise, the Empire State will continue to lead the nation in outmigration. New York is facing a sobering reality – the state cannot continue to tax and spend at this level; it does not lead to economic prosperity, and it puts the state's small businesses at a sizeable competitive disadvantage. If New York State is serious about stemming the loss of small businesses and residents and reinvigorating its economy, the tax burden on small businesses and residents must be addressed, and the Legislature should reject all tax increases, reduce the tax burden, and instead focus on creating a more competitive economy and practicing fiscal discipline.

NFIB looks forward to collaborating with the Governor and Legislature to create a better business climate that helps small businesses and their employees, the economy, and creates a more affordable environment for all New Yorkers.