



New York City Leaders Propose Single Sales Factor, Other Tax Changes

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New York City businesses could receive \$2.7 billion in tax breaks if the city is successful in changing to a single-sales-factor apportionment formula.

Mayor Michael Bloomberg, an independent, and Council Speaker Christine Quinn (D) are pushing the corporate tax change as part of the city's budget deal and touting it as a way to encourage new investment in the recession-battered city.

"This is being done obviously to promote businesses staying or locating their headquarters in the city," said Bloomberg spokesman Marc LaVorgna. "You're basically penalized for having a headquarters here in New York. We want to change that."

New York City currently levies taxes by a three-factor formula that equally weighs a business's property, local payroll, and sales. New York state recently switched from a similar formula to single-sales-factor apportionment; having New York City do the same would align the city's and the state's tax structures and make it simpler for businesses to file their taxes, proponents say.

In addition to simplification, the city estimates 27,000 businesses would benefit from the change as it is phased in over the next 10 years.

"It's an added incentive to locate in what we believe is the best place in the world to do business," LaVorgna said.

Companies headquartered in the city but with the majority of their sales outside city limits would benefit from this method. At the same time, it could have the opposite effect on businesses that do a lot of sales in the city but do not have much office space or manufacturing facilities; they potentially could save money by relocating outside the city because otherwise their taxes would be based only on sales -- which would therefore make them more liable.

Using a single-sales-factor approach to corporate taxes is gaining traction around the country as beleaguered businesses lobby lawmakers for help. This year, the California State Legislature agreed to an optional single-sales-factor apportionment system. Virginia lawmakers also implemented single-sales-factor apportionment for manufacturers this legislative session.

But while some business groups claim that the single sales factor helps businesses and in turn creates new jobs, critics say the formula amounts to a giveaway to big corporations. They also question the claims that the tax change creates jobs or encourages investment.

"Mainly, it's going to be a big tax loss to New York City over time," said James Parrott, deputy director of the Fiscal Policy Institute. "And a tax loss toward what end? I'm totally unconvinced

that there's any economic benefit to the city from this tax loss. If it's a big revenue loss and it doesn't get you anything, then the question arises, Why do it?"

According to a Center on Budget and Policy Priorities study revised in 2005, single-sales-factor apportionment does not necessarily create or retain jobs.

"Switching to a single sales factor formula automatically provides an immediate tax savings to any in-state business that sells a large share of its goods or services in other states. A business does not have to create a single new job or make even one dollar's-worth of new investment to reap the benefits of the tax cut," the report states.

Plan Includes Tax Increases

Because the city would lose revenue under a single-sales-factor formula, tax increases have been proposed to offset the revenue loss. Proposals in the budget include a 0.5 percentage point increase in the city sales tax and a repeal of the sales tax exemption on clothing that costs more than \$110.

The budget also includes what the mayor's office is calling a series of "loophole closers" to help raise more revenue. Details of this plan were not available through city hall because the plan is still in the draft stage, LaVorgna said.

However, the plan does include requiring combined reporting for multistate businesses, a tax change that the city estimates would raise \$92 million in fiscal 2010. The plan also calls for net operating loss carryforwards, which would raise \$15 million, and a change to the city's bank tax.

Currently, foreign banks are required to use an alternative tax base that is computed based on par value of issued common stock; a taxable assets base is used for domestic banks. Under the city's plan, both foreign and domestic banks would switch to an alternative tax base, LaVorgna said. Further details were not available, but LaVorgna said the plan would raise \$15 million.

The New York Bankers Association questioned this proposal.

"At a time when the banking industry is suffering through one of its worst economic crises, the draft legislation would pay for the cost of providing a tax break to non-banks through an increase in taxation on banks and thrifts," it said in a memorandum.

The city wants the changes to go into effect by the start of the new fiscal year on July 1, which gives the public less than a month to vet them. The changes would have to be approved by the New York State Legislature.

But progress may be stymied by upheaval in Albany, where Republicans and Democrats are engaged in a power struggle in the Senate. As a result, big-ticket issues have been placed on the back burner.