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Tax Policy Brief: Revenue Gains from Corporate Tax Increase

New York has the economic capacity to raise corporate taxes significantly

Key Findings

- Increasing the corporate tax rate by 1.25 percent on corporations earning over \$5 million would raise \$1.7 billion.
- New York's top tax rate on corporations is lower than 19 other states, including Louisiana, Minnesota and Nebraska.
- Due to the falling corporate tax rate, corporations now contribute a smaller percentage of New York's total tax collections than they did in prior decades.

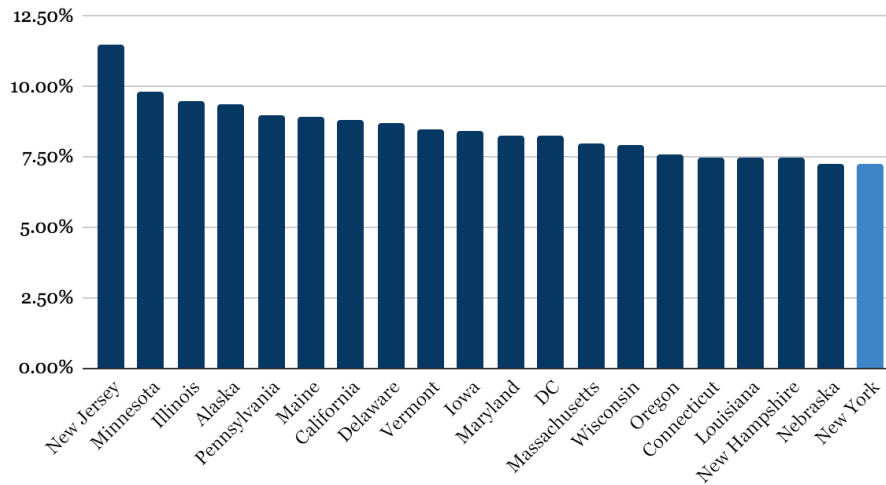
In 2021, New York raised the state corporate tax from its historical low of 6.5 percent to 7.25 percent for corporations earning over \$5 million in profits. The Executive Budget for fiscal year 2023-2024 proposes extending the current tax rates through 2026, which FPI estimates will generate an additional \$1.5 billion in revenue over fiscal years 2024 and 2025.¹

Currently, New York's top rate on corporations is the 20th highest in the country, much lower than it could be given New York's robust economic activity and the strong agglomeration effects that firms experience by operating in New York.² Further, the New York corporate tax is structured so that businesses pay taxes based on where they sell goods and services rather than where they are headquartered or otherwise located. That means that any corporation with significant business in New York is subject to the corporate tax. To avoid paying New York's state corporate tax, a firm would need to stop doing business in New York altogether, a very unlikely outcome given the strong consumer base in New York. **Overall, New York has the economic capacity to raise corporate taxes significantly.**

¹ <https://fiscalpolicy.org/state-corporate-tax-cut-would-cost-new-york-1-2-billion-in-annual-revenue>

² Economists largely find that there are strong agglomeration impacts that make firms cluster in economic hubs. This means that there are strong benefits to locating in a place with many other productive companies.

Figure 1. US States - Top Corporate Tax Rates



One model for raising business taxes is [S1980/A3690](#), which would raise the tax rate on corporations making over \$2.5 million in annual profits. This proposal is designed to capture some of the profits that now go untaxed after the Tax Cuts and Jobs Act of 2017, which lowered the Federal corporate tax rate from 35 percent to 21 percent, a decline over 14 percentage points. The corporate tax proposal would raise state corporate taxes by up to 5.75 percent and would only impact the most profitable businesses. In this post we evaluate the potential revenue gains from implementing such a proposal, as well as a smaller increase of the state corporate tax rate to 8.5 percent.

Table 1. Corporate Tax Rate Proposals

Corporate Profits	NY Corporate Tax Rate pre-2021	Current NY Corporate Tax Rate	Moderately Increased NY Corporate Tax Rate	S1980/A3690 Corporate Tax Proposal
\$0 - \$2,499,999	6.50%	6.50%	6.50%	6.50%
\$2,500,000 - \$4,999,999	6.50%	6.50%	6.50%	8%
\$5,000,000 - \$9,999,999	6.50%	7.25%	8.50%	8%
\$10,000,000 - \$19,999,999	6.50%	7.25%	8.50%	12%
\$20,000,000 and up	6.50%	7.25%	8.50%	14%

Estimates of the annual increase in revenue gained from the 2021 tax increases range between \$750 million and \$1.4 billion. That is, an increase of 0.75 percentage points in the tax rate on corporations making over \$5 million in revenue translates into about \$1 billion in additional revenue. Under assumptions of linearity, these numbers would suggest that raising the rate another 1.25 percentage points to 8.5% on corporations earning over \$5 million would generate an additional \$1.67 billion in annual tax revenues to the state.

Table 2. Corporate Tax Rates - Estimated Additional Revenue

Corporate Tax Rate	Estimated Additional Revenue
2021 Current NY Corporate Tax Rate Increase (0.75 pct. pts.)	\$1.0 billion
Moderately Increased NY Corporate Tax Rate	\$2.7 billion
S1980/A3690 Corporate Tax Rates	\$3.4 billion
<i>Current tax rate lower bound estimate: \$750M, upper bound estimate: \$1.4B; Moderately increased rate lower bound estimate: \$2.25B, upper bound estimate: \$3.33B; The S1980/A3690 Corporate Tax Rates lower bound estimate: \$2.9B, upper bound estimate: \$4.3B</i>	

The corporate tax proposal in S1980/A3690 would raise rates to 14 percent for corporations making over \$20 million in total profits annually and creates two more brackets for firms making between \$10 million and \$20 million. Using New York state tax data, we estimate the distribution of firm gross profits and conservatively estimate that the proposed corporate tax increase would raise an additional \$3.4 billion in annual revenue to the state, at least \$1 billion more in annual revenue than raising the top rate to 8%. We give a range of possible estimates based on the uncertainty in the distribution of business revenues for firms operating in the state.

GILTI and PTET

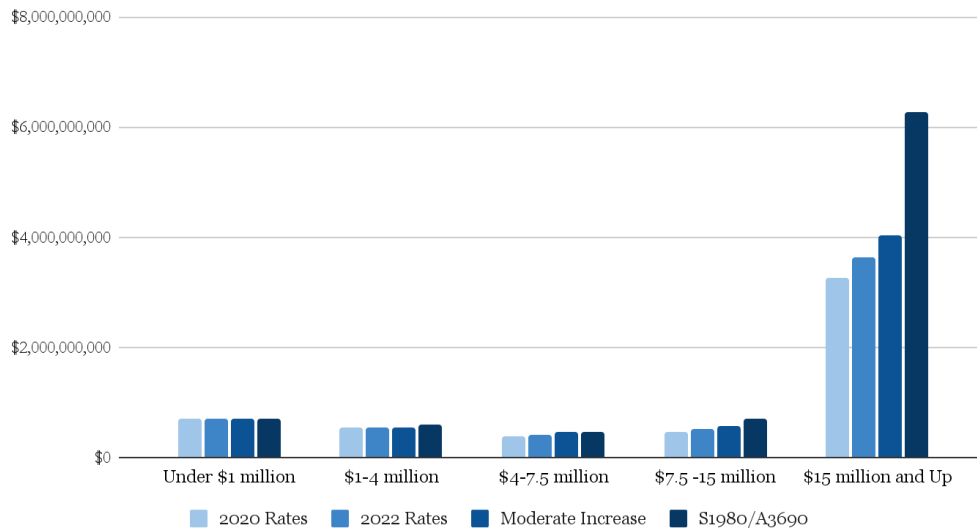
S1980/A3690 also includes a reduction in the rebate of the Pass-Through Entity Tax and the inclusion of the federal provision for “Global Intangible Low-Tax Income” (GILTI) in New York’s corporate tax. The bill’s reduction in the PTET rebate would raise about \$2.75 billion per year and taxation of GILTI would raise another \$600 million to \$1 billion.

This estimation is based off of the most recent data from the New York State Tax on the distribution of corporate profits which is not necessarily completely representative of the current New York business landscape. However, it is likely that the data that was used represents a conservative estimate of the tax liability landscape.

Table 3. GILTI and PTET - Estimated Additional Revenue

Revenue Proposal	Additional Revenue Estimate
25% Reduction in the PTET Rebate	\$2.75 billion
10% Reduction in the PTET Rebate	\$1.1 billion
GILTI Taxation	\$600 million - \$1 billion
<i>PTET calculation based on projections of \$11 billion in annual PTET receipts; GILTI Taxation lower bound estimate: \$600M; upper bound estimate: \$1 billion</i>	

Figure 2. Estimated Corporate Tax Revenue by Net Profit and Rate Structure³



New York’s Corporate Tax in Historical Perspective

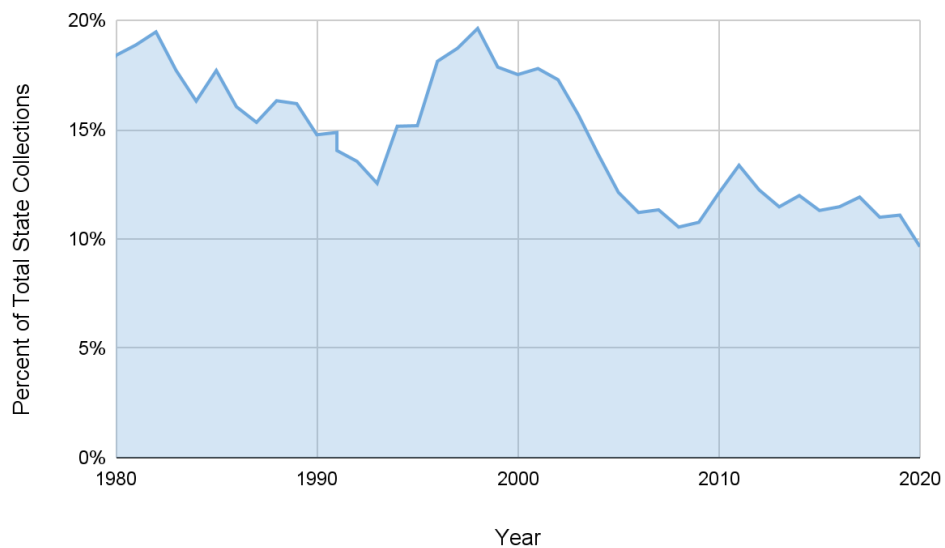
New York’s corporate tax is the state’s third largest source of tax revenue, behind the personal income tax and sales taxes. Due to the falling corporate tax rate over time, corporations now contribute a smaller percentage of the state’s total tax collections than they did in prior decades.

Fig 3. New York’s Falling Corporate Tax Rate: 1990 - 2024



³ The figures in this chart are computed using a distribution of corporate tax revenues in New York state from 2010. Because these numbers are out of date, we have inflated total revenue to match 2022 revenues from the corporate tax. However, the distribution is out-of-date and likely represents an underestimate of overall revenue gains from the proposed changes to the rate structure.

Fig 4. New York’s Corporate Tax Revenues as Share of Total Collections: 1980-2020



Appendix: New York State Corporate Tax Rates: 1948 - 2026

Year	Corporate Tax Rate
1948 - 1967	5.500%
1968-70	7.000%
1971-73	9.000%
1974	9.000%
1975-76	12.000%
1977-88	10.000%
1987-89	9.000%
1990-93	10.350%
1994	10.125%
1995	9.675%
1996	9.225%
1997-99	9.000%
1999-00	8.500%
2000-01	8.000%
2001-05	7.500%
2006	7.500%
2007 - 2015	7.100%
2016-2021	6.500% - <i>Cuomo corporate tax cut</i>
2021-2026	7.250% - <i>2021 corporate tax increase</i>

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