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Overtaxing New York's Businesses

By CHARLES BRECHER | July 5, 2007
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WITH NEW YORK CITY'S ECONOMY ROARING AND THE CITY'S COFFERS OVERFLOWING WITH LARGE surpluses, now is the time to re-examine the extraordinary number and variety of business taxes that weaken New York's economic competitiveness.

It may seem contradictory that the city's economy could be both roaring and suffering competitively at the same time. The roar, however, comes from national and international forces, such as a strong stock market and a relatively weak dollar.

These beneficial effects may wane, but the drag of excessive taxes will remain. Taxes are never the only factor affecting business location, but they are an important consideration, especially in tough times.

A recent study conducted for the Citizens Budget Commission revealed that state and local taxes on businesses in New York City are dramatically higher than comparable taxes for key competitors.

Most striking was that business taxes in New York City are more than twice those in Westchester County — even given the same state taxes, more than 70% higher than those in Los Angeles, and between 40% and 50% higher than Miami, Boston, and Houston.

The study found that businesses that choose to expand in New York City have the lowest rate of return on their investment among nine locations included in the comparison.

The 7.5% average effective state and local tax rate on businesses in New York City is significantly higher than the comparable rate of 4.5% in the eight other locations, and the highest of any single competitor by a large margin. This was true among 11 different industry categories studied, ranging from manufacturing to financial services.

And these numbers don't even include several taxes that are peculiar to New York City that would make the comparison even worse.

In particular, the commercial rent tax, the real property transfer tax, and the mortgage recording tax were excluded because whether or not they apply to individual businesses depends on specific circumstances. These excluded taxes alone cost the city's businesses $2.3 billion annually.

New York's excessive business tax rates are the reason that the city periodically feels compelled to offer special tax incentives to individual companies to attract or retain them.

The latest example is the $240 million deal struck with JPMorgan Chase for the construction of a new office tower downtown. This came on top of an even larger deal with Goldman Sachs to build a nearby tower.

These deals favor individual firms, who have leverage with City Hall, and force the remainder of the business community to make up the lost revenues.

A major factor in the underlying problem of high business taxes is the structure of New York City's property tax. It strongly favors individual homeowners at the expense of commercial property owners.

The average homeowner pays about $6 for each thousand dollars of property value while an owner of an office building pays about $41 per thousand — or about seven times as much.

The favorable treatment is well illustrated by the townhouse that Mayor Bloomberg owns and occupies. He currently pays $74,000 in property taxes but if the building were used for commercial purposes, the bill would jump to $611,000.

Now is the time to consider revamping business taxes in New York because the thriving economy and surplus revenues can ease the transition for those who will be asked to pay more.

While the burden on some homeowners will inevitably increase, the benefits to the overall economy will be more jobs and economic opportunity.

Mr. Bloomberg and the City Council made some progress in the budget just passed. Property tax rates were lowered for all types of property by 7% — a break from past practice of giving rebates only to homeowners.

In addition they made modest cuts, valued at about $28 million annually, in taxes on unincorporated businesses.

The city sought additional cuts in the corporate income tax, which are subject to approval in the state Legislature.

So far only $42 million of the $77 million in such cuts have been passed in Albany.

Those actions should be the start, not the end, of efforts to reform the city's business taxes.

Mr. Bloomberg and the Council should appoint a blue-ribbon commission to map a multi-year strategy relating to the whole range of taxes and tax incentives. The commission should have estimates of the fiscal impact in time for the mayor's January 2008 financial plan and specific recommendations for his executive budget in April 2008.

While the focus of this commission will be business taxes, its goal should be to strengthen the entire local economy, so that it can weather the effects of an economic downturn caused by changed national and international forces.

When that happens, a more competitive tax system will help retain and increase the jobs that many New Yorkers will be seeking.

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