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De Blasio: Overhaul N.Y. City Corporate Tax Structure.

Mayor Bill de Blasio on Monday proposed a major overhaul of New York City's corporate tax structure that would conform important parts of the city's business tax system with state tax law.

De Blasio said the move would modernize an outdated system and provide relief to small businesses and local manufacturers while streamlining city and state corporate tax codes.

The changes would be retroactive to Jan. 1. Gov. Andrew Cuomo is expected to release his state budget proposal later this month. The governor and state legislature must approve the city's proposal.

New York State overhauled its business taxes last year.

According to city finance Commissioner Jacques Jiha, the overhaul would ensure that firms need not maintain separate records for city and tax purposes and create consistency in tax computing that is essential for joint audits.

De Blasio said the changes would be revenue neutral. The mayor said the moves would prevent major administrative burdens for both taxpayers and the city. "These are common-sense reforms that will modernize and streamline a corporate tax code that hasn't seen real changes since the 1940s," he said.

Carol Kellermann, president of the Citizens Budget Commission, said her watchdog organization has backed the concept, but wants to study it further. "We've supported it as a way to simplify and create a uniform basis of taxation, but whether it is truly revenue neutral is what I'd concerned about," she said in an interview. "We'd need to see more information."

Kellermann considered vague a statement by officials that said broadening the tax base "by eliminating certain special deductions and exemptions" would offset a revenue loss estimated at up to \$300 million.

The overhaul would exclude the first \$10,000 of capital tax base; reduce the tax rate for small non-manufacturers with less than \$1 million in allocated net income from 8.85% to 6.5%, and reduce the tax rate for small manufacturers with less than \$10 million in allocated net income from 8.85% to 4.425%. The city would also provide a smaller rate reduction to manufacturers with incomes between \$10 million and \$20 million.

The city would retain the alternative tax base on capital, merge the bank tax into the corporate franchise tax for large corporations, change the method for computing net income that broadens the tax base by treating most income as business income, and redetermine how corporations attribute net income based on the location of a firm's markets rather than the location of its business operations.

"The state made these changes a year ago and the city pretty much had to conform, at least in broad strokes," said George Sweeting, deputy director of the Independent Budget Office. "It would be nice

to have more information about the number of firms and the kinds of firms affected, and how much revenue is lost or gained through each.”

According to de Blasio, the latter would eliminate a tax penalty for increasing operations and employment while incentivizing business to locate employees and jobs within the five boroughs. The proposal also called for adopting unitary combined reporting rules, to prevent shifting of income and expenses among related entities to inappropriately reduce taxes.

“This long-overdue reform represents another initiative that moves the city forward while protecting our long-term fiscal health,” said budget Director Dean Fuleihan.

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