111 Washington Avenue,
First Floor
Albany, NY 12207

518-434-1262
NFIB.com

February 14, 2025

New York State Joint Legislative Budget Hearing on Taxes

Testimony submitted by Ashley Ranslow, New York 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 allowing NFIB to testify today.

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

NFIB members are the businesses that define our neighborhoods and strengthen our communities with character and value: local hardware stores, independent restaurants, florists, barbers, small retailers, dry cleaners, convenience stores, farmers, roofers, landscapers, mechanics, and fitness and retail boutiques. These businesses are a sample 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, the highest possible state Unemployment Insurance taxes, an exodus of workers from the labor force, rising insurance premiums, and the threat of costly lawsuits.

In NFIB's latest Small Business Economic Trends report, 18 percent of small business owners report inflation as their single most important problem, and 35 percent of small business owners report job openings that could not be filled. The labor shortage continues to drive wages even higher with 33 percent of small business owners reporting that they raised compensation, and 20 percent plan to raise compensation in the next 3 months. Additionally, 22 percent of small business owners continue to report raising average selling prices[2]. The ongoing pressures of inflation and labor shortages are leading to growing uncertainty over future economic prospects and the opportunity for increased sales going forward.

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.[3] Other critical problems higher than the national average include government regulations (4th), electricity rates (7th), workers' compensation (14th), minimum wage (15th), credit card payment processing costs (20th), and unemployment compensation (21st). The top 20 problems for New York's Main Street illustrate 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 2.2 percent growth in small businesses with fewer than 100 employees but a 2.4 percent decline in employment in small businesses[4]. There are nearly 11,000 more

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[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, Small Business Economic Trends, Jan. 2025. SBET Report - NFIB.

[3] NFIB Research Center, 2024 Small Business Problems & Priorities, 2024 Small Business Problems & Priorities.indd.

[4] 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

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 their challenges, stem the tide of out migration of New Yorkers, and put the state's economy in a more competitive and better position. This begins by creating an environment where small businesses are not merely keeping their heads above water but instead are prospering and expanding within New York State.

The Fiscal Year 2026 budget is an opportunity to ease the financial burdens plaguing small businesses across the state and begin to tackle the affordability crisis by lowering taxes and avoiding additional tax assessments.

NFIB strongly supports the provision in the Fiscal Year 2026 Executive Budget proposal to set aside $165 million to pay the Interest Assessment Surcharge (IAS) currently levied against small businesses because of the state's outstanding Unemployment Insurance debt. Small businesses have been shouldering the repayment of the UI debt, as well as the IAS, and it is time for New York State to chip in. The dedicated $165 million to pay interest on the UI debt this year will save employers from a surcharge of approximately $15 per employee and is the least that New York can do to alleviate the financial burden stemming from the Unemployment Insurance Trust Fund crisis. The $165 million would cover the IAS for 2025, but will need to be addressed again in 2026, otherwise businesses will continue to pay the IAS until the interest and the multibillion-dollar debt has been satisfied.

While this is an important step in the right direction, the state must provide additional funds in the Fiscal Year 2026 budget to tackle the state's outstanding $6.3 billion UI debt which is leading to unnecessarily high taxes and dragging down the state's economy. Applications for unemployment benefits surged when non-essential businesses were shut down by New York State due to the pandemic. The UI system quickly became overwhelmed by the unparalleled spike in claims and extraordinary amounts of money poured out of New York's UI Trust Fund. To continue to satisfy claims, New York needed to borrow funds from the federal government. New York and California are now the only two states with outstanding federal UI advances, but unlike nearly three dozen other states, New York has not used any of the billions in federal COVID relief to help pay off its UI advance. The outstanding pandemic-related federal UI advance has led to the highest possible state UI taxes, an Interest Assessment Surcharge (IAS), and increased federal UI taxes for New York businesses.

Employers in New York continue to face a Federal Unemployment Tax Act (FUTA) tax offset credit reduction of 1.2 percent resulting in a FUTA tax increase of $105 per employee. If the outstanding federal UI advance is not paid off this year (2025), the FUTA offset will double due to the Benefit Cost Rate offset. The Benefit Cost Rate offset is triggered when a state has not repaid a federal UI advance as of January 1st for five years. New York's employers are potentially looking at a total credit reduction of 2.3 percent to be paid by January 31st, 2026, if New York does not pay off the remaining debt in 2025. This is in addition to the highest possible state UI tax rates, which average an extra $250 per employee per year. For many employers, UI costs have risen by thousands of dollars each year over pre-pandemic levels. These substantial added costs are shouldered solely by businesses across New York, even though state public policy positions led to this crisis. New York's businesses, especially small businesses, remain at a competitive disadvantage as their counterparts in 48 other states do not have this added cost.

Additionally, NFIB supports the Executive Budget proposal to lower taxes for the middle class (S.3008/A.3009, REV Part B). Most small businesses in New York pay their business taxes as pass-through entities via their personal income tax. The – marginal – middle-class personal income tax cuts enacted over the past several years are a small piece of relief for small business owners who continue to absorb escalating costs associated with state-specific mandates and regulations. Additional middle-class tax cuts will help provide modest tax relief for many small businesses in New York, but more can and should be done.

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 their taxes reduced from the current rate of 6.5% to 4%. The Fiscal Year 2026 budget should also include tax parity for manufacturers (A.4951). Most manufacturers in New York State are small-to-medium sized companies organized as pass-through entities. These small and medium manufacturers do not benefit from the same tax benefit as larger manufacturers organized as C-corps. In 2014, C-Corp manufacturers saw their taxes lowered to a zero percent tax rate, but this change only impacted about 25 percent of manufacturing companies in New York State and put small and medium manufacturing companies at a competitive disadvantage with their larger counterparts. It is time to provide equitable tax treatment for the entire industry.

While the Executive Budget does not propose any new or increased taxes, it does include a provision for a $3 billion increase in state aid to the MTA (if matched by New York City contributions); however, the provision is silent on where that aid comes from. This is an incredibly troubling provision, as any tax, fee, or other source of revenue to fund the MTA should not be negotiated behind closed doors. NFIB adamantly opposes any increases to the MTA payroll mobility tax, congestion pricing, tolls, or any other source of revenue levied against small businesses owners. Main Street pays enough in taxes, fees, assessments, and tolls, and cannot be treated as a bottomless piggy bank.

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 eight 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.[5]" New York spends 50 percent more per capita ($15,268) than the national average ($10,622 per capita). 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, including any to fund the MTA, 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.

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