New York Tax Reform Benefits Manufacturers

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Canadian companies that expand into the U.S. often apply for and receive major tax incentives. But what if the tax law were amended to create a significant incentive across the board, without companies even having to apply? Well, that is exactly what New York State has done.

On March 31, 2014 New York State enacted significant changes to reform its corporation tax laws, most of which took effect January 1, 2015. Many of the changes are aimed at simplifying an overly complex system of taxation and include the elimination of some taxes and revisions to the tax bases. Included in the corporate tax reform are changes that will greatly benefit qualifying New York State manufacturers by reducing the income tax rate to 0% and creating a 20% real property tax credit.

To qualify, a manufacturer must have property in New York that is principally used by the taxpayer in the production of goods by manufacturing, processing, assembling, refining, mining, extracting, farming, agriculture, horticulture, floriculture, viticulture or commercial fishing and during the tax year more than 50% of its gross receipts are derived from the sales of goods produced by these activities.

To be eligible for the zero percent tax rate the manufacturer must have either:

1) property located in New York with an adjusted basis for federal income tax purposes at the close of the taxable year of at least $1 million; or
2) all of its real and personal property is located in New York.

The zero percent tax rate applies to the business income tax base and is only available for qualified manufacturing corporations taxed under Article 9-A, franchise tax on business corporations.

The real property tax credit for qualified manufacturers is a credit equal to 20% of real property taxes paid during a tax year for real property located in New York and principally used in manufacturing. The property can be owned or leased by the taxpayer. Leased property must be leased from an unrelated third party. The lease must be in writing and require the lessee to pay the real property taxes. The lessee must make the real property tax payment directly to the taxing authority.

For those that are not qualified manufacturers, the tax rate on business income will be reduced from 7.1% to

6.5% beginning January 1, 2016.

The legislation is a huge step forward for encouraging businesses to expand and grow in New York and it doesn't stop there. New York offers a number of attractive incentive programs available at the state and local levels to help businesses locate and grow here. Additionally, there is no sales tax on machinery, equipment, tools or supplies used in manufacturing and New York State does not have a personal property tax on inventories, machinery and equipment either.

For additional information on this topic or other cross border tax and accounting questions, please feel free to contact Andrew J. Toth, CPA, Partner at Tronconi Segarra & Associates, LLP by e-mail atoth@tsacpa.com or by phone (716) 633-1373.