New York State Department of Taxation and Finance
Taxpayer Services Division
Technical Services Bureau

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Corporation Tax
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Graduated Tax Rate for Small Businesses

General

Chapter 817 of the Laws of 1987 (Business Tax Reform and Rate Reduction Act of 1987) provides for a graduated tax rate ranging from 8 to 9 percent to be applied to the entire net income base of a "small business taxpayer." The tax on the entire net income base for amounts up to $200,000 is at the rate of 8%. If the entire net income base is more than $200,000 but not over $290,000 the tax is the sum of $16,000 plus 9 percent of the excess of the entire net income base over $200,000, plus an additional 5 percent of the excess of the entire net income base over $250,000.

Small Business Taxpayer Defined

A "small business taxpayer" is defined as:

(1) one which has an entire net income of not more than $290,000 for the taxable year (before application of allocation percentage) and

(2) is a "small business" as defined in Section 1244(c)(3) of the Internal Revenue Code as of the last day of the taxable year, and

(3) is not part of an affiliated group (as defined in Section 1504 of the Internal Revenue Code) unless such group, if it had filed a report under Article 9-A on a combined basis, would have itself qualified as a "small business taxpayer" as defined in Internal Revenue Code Section 1244(c)(3).

In order to qualify as a small business corporation for Section 1244(c)(3) IRC purposes, the aggregate amount of money and other property received by the Corporation for stock, as a contribution of capital, and as paid in surplus, may not exceed $1 million.

Corporation's with an entire net income base exceeding $290,000 would not qualify as a "small business taxpayer" and the tax rate would be 9% of the entire net income base.

If the tax on the capital base is higher than the tax on the entire net income base solely by reason of the application of the rate applicable to small business taxpayers, the tax is the highest of the amounts computed for the entire net income base, alternative minimum taxable income base, or the fixed $250 minimum.

Computation of Tax

Article 9-A Corporations which meet the definition of a "small business taxpayer" are taxed at the graduated rates on their entire net income base. The entire net income base is that portion of entire net income allocated to New York State subject to the modification required by Tax Law

Section 210.3(d) and (e) pertaining to the deductions for optional depreciation and research and development costs that are expensed.

Example

The following example illustrates the computation of tax on the entire net income base by a qualified "small business taxpayer."

Corporation A, a small business corporation has entire net income of $285,000 for taxable year ending December 31, 1987. Corporation A's entire net income base after application of allocation percentages is $265,000. The tax is computed as follows:

$16,000	(8% x $200,000)
+ 5,850	(9% x ($265,000 - $200,000))
+ 750	(5% x ($265,000 - $250,000))
$22,600	Total Tax

TSB-M-87(15)C dated October 14, 1987 should be destroyed.