2012-13 EXECUTIVE BUDGET

ECONOMIC AND REVENUE OUTLOOK

CONTENTS

RECEIPTS OVERVIEW

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The Economic and Revenue Outlook is a volume designed to enhance the presentation and transparency of the 2012-13 Executive Budget. The book provides detailed information on the economic and receipt projections underlying the Executive Budget. The economic analysis and forecasts presented in this volume are also used in the development of the expenditure projections where spending trends are impacted by economic conditions.

Financial Plan receipts comprise a variety of taxes, fees, charges for State provided services, Federal grants, and other miscellaneous receipts. The Economic and Revenue Outlook includes receipt information required by Article VII of the State Constitution and Section 22 of the State Finance Law and provides information to supplement extensive reporting enhancements undertaken in recent years. The Division of the Budget (DOB) believes the information will aid the Legislature and the public in fully understanding and evaluating the economic assumptions and receipts estimates underlying the 2012-13 Executive Budget. The receipt estimates and projections have been prepared by the Division of the Budget with the assistance of the Department of Taxation and Finance and other agencies concerned with the collection of State receipts. To the extent they are material, sources of receipts not referenced in this volume are discussed in the presentations of the agencies primarily responsible for executing the programs financed by such receipts. The *Economic, Revenue and Spending Methodologies* are available at the Division of the Budget's website at www.budget.ny.gov. The Methodology volume provides a comprehensive review of the methods used in determining the economic and tax receipt projections.

The Economic and Revenue Outlook is presented in the following general sections:

- **Financial Plan Receipts and Projections**: Provides a summary of Financial Plan receipts for the current year and the 2012-13 Budget year by tax category and fund type.

- **Financial Plan Tables and Cash Flow**: Provides Financial Plan tables for receipts by fund type and includes a detailed report on monthly cash flow projections for the upcoming fiscal year.

- **2012-13 Revenue Actions**: Summarizes the revenue actions proposed with the 2012-13 Executive Budget.

- **Economic Backdrop**: Provides a detailed description of the Division's forecast of key economic indicators for the national and New York State economies.

- **Comparison of New York State Tax Structure to Other States**: Compares the New York tax structure and burden to other states.

- **Tax Receipts Explanation**: Provides a detailed report for each tax and miscellaneous receipts source describing historical receipts and projections for the current and upcoming budget years, the impact of legislation proposed with the Executive Budget, and significant legislation that has been enacted.

- **Dedicated Fund Tax Receipts**: Provides a report on dedicated tax receipt estimates, with an emphasis on transportation-related dedicated taxes.

- **Audit and Compliance Receipts**: Provides data and analysis to better understand receipts collections.

THE NATIONAL ECONOMY

The U.S. economic recovery survived an almost continuous series of setbacks in 2011 that included spiking energy prices, supply chain disruptions resulting from a virtual shutdown of the world's third largest economy, threats to the global financial system stemming from the European sovereign debt crisis, and uncertainty surrounding the U.S. government's own looming debt problems. As the impacts of the oil shock and Japanese supply chain disruptions unwind, some positive momentum appears to be building, with the fourth quarter of 2011 now expected to have exhibited the strongest growth since the first half of 2010. However, the economy faces many headwinds going forward, including a slowing global economy, financial market volatility, continued weak income growth, and a very slowly imporving housing sector. Consequently, real U.S. GDP is now projected to grow 2.2 percent for 2012, following growth of 1.7 percent for 2011.

With the euro-zone likely to have entered a recession in the fourth quarter and the large developing economies in Asia and Latin America slowing, the U.S. economy is expected to feel the pinch through lower export growth during the first half of 2012. Since a large portion of U.S. corporate earnings are derived from overseas activity, growth in U.S. corporate profits from current production are expected to decelerate to 4.7 percent in 2012, down from 7.9 percent in 2011, and 32.2 percent in 2010. The anticipated slowdown in production for export could modestly dampen employment growth yet again early this year, before picking up during the second half. U.S. nonagricultural employment is projected to grow 1.3 percent in 2012, following 1.0 percent growth in 2011. The absence of a sustained improvement in job growth will keep wage growth low as well, which in turn will help keep consumer price pressures at bay. The unwinding of the gasoline and food price spikes experienced in 2011 will keep consumer price inflation well below last year's rate. The rate of inflation, as measured by growth in the Consumer Price Index, is projected to fall from 3.2 percent in 2011 to 1.8 percent in 2012.

Risks to the U.S. Forecast

The Budget Division outlook calls for the recovery from the nation’s worst recession since the 1930s to continue through 2012 at below-trend growth rates as the economy’s domestic momentum struggles with a recession in Europe and slow growth in other areas of the world. But there are a number of significant risks to the forecast, both positive and negative. If resolution of the euro-debt crisis should turn negative, and in the worst case result in a bank run as occurred in September 2008, short-term credit markets could seize up and the U.S. economy could potentially be dragged back into a recession. A breakup of the euro-zone, or a dissolution of the euro itself could have even worse consequences. Similarly, a hard landing in China would likely cause a deeper global slowdown than expected, resulting in slower export growth than is reflected in the forecast. In contrast, a slow but steady path to resolution of the euro-debt crisis, along with a milder recession in Europe and/or a more modest slowdown elsewhere could result in stronger export and employment growth than anticipated.

The forecast rests on the assumption that the U.S. Congress will extend the payroll tax cut and UI benefit extensions beyond the first two months of the year. If the Congress should fail to come to an agreement, household spending could be less than anticipated. Furthermore, should the failure to come to an agreement cause the household and business sector to lose confidence in the recovery, an even greater pullback in spending could ensue, resulting in much slower growth than is reflected in the forecast. A renewed confidence in the recovery depends upon an improvement in the pace of job growth over the coming quarters. If that improvement fails to materialize, households may pull back once again, resulting in lower consumption growth than expected. Weaker household spending would ripple through the economy and likely result in lower investment growth as well. A substantial equity market correction could have a similar effect. In contrast, if actions taken by the Federal government inspire confidence within the business sector, employment and household spending growth could be stronger than expected.

The housing sector has been virtually absent from this recovery. If home foreclosures accelerate substantially more than expected, a housing market recovery could be further delayed. A surge in foreclosures could also impede the recovery in home prices, which would in turn delay the recovery in household net worth, also resulting in lower rates of household spending than projected. Alternatively, a large increase in household formation could result in stronger demand for housing and therefore a quicker recovery in home prices and construction employment than expected. Finally, oil prices are once again on the rise due to global tensions. These increases could cause gasoline prices to return their lofty May 2011 peaks. Since energy price growth acts as a virtual tax on household spending, faster growth in the price of oil could also result in lower consumption spending than anticipated. A quick resolution of these tensions could send energy prices back down faster than expected, resulting in greater real household spending for non-energy goods and services.

THE NEW YORK STATE ECONOMY

The State coincident index indicates that New York’s recovery got underway in early 2010, coinciding with the State economy’s response to the Federal Reserve’s highly accommodating monetary policy – its near-zero interest rate policy target and the historic expansion of its balance sheet. As home to the world’s financial capital, the State economy is especially sensitive to monetary policy shifts. The strong economic stimulus provided by central bank was reinforced by a weak dollar and strong foreign demand for State produced goods and services, particularly those related to tourism. Foreign demand for New York City real estate has also been strong. These developments helped to support above average quarterly private year-ago job growth of an estimated 2.0 percent over the first three quarters of 2011. Private sector employment is estimated to have grown 1.9 percent for 2011 overall, following virtually flat growth of 0.2 percent in 2010. While private sector growth appears to have been broad-based, with even manufacturing seeing positive year-ago growth, government employment is estimated to have fallen during each quarter of 2011 on a year-ago basis, and 2.9 percent for the year.

But 2011 turned out to be an historically turbulent year for financial markets, with securities industry revenues falling sharply over the course of the year and the nation's banks perceived to be at risk due to the crisis in Europe. That turbulence occurred against a backdrop of an evolving regulatory environment that has altered the pattern of risk-taking behavior of Wall Street firms. These forces resulted in steadily deteriorating revenues over the course of last year, with NYSE member firms experiencing losses in the third quarter, the first since 2008. Fourth quarter revenues and profits are not anticipated to exhibit much improvement. Thus, with finance industry revenues 2011 likely to be well below their 2010 levels, and executive compensation is likely to decline, finance and insurance industry bonus payouts for the 2011-12 bonus season are likely to be well below their 2010-11 levels, with finance and insurance sector bonuses for the first quarter of 2012 expected to be 34.4 percent below their year-ago total. Slower global growth and a stronger dollar are expected to result in slower private sector job growth of 1.4 percent in 2012. Fiscal strains are expected to continue to put pressure on government employment at all levels; public sector jobs are expected to fall 1.0 percent in 2012. State wages are projected to rise 1.9 percent in 2012, following growth of 3.8 percent in 2011, with total personal income rising 3.3 percent in 2012, following growth of 4.5 in 2011. These growth rates are well below historical averages.

Risks to the New York Forecast

All of the risks to the U.S. forecast apply to the State forecast as well, although as the nation's financial capital, developments that have an impact on credit markets, such as the euro-debt crisis, pose a particularly large degree of risk for New York. Yet another financial crisis induced recession would be devastating for the State economy. Even lesser risks, such as a further erosion of equity prices could be quite destabilizing to the financial sector and ultimately bonuses and State wages overall. These risks are compounded by the uncertainty surrounding the implementation of financial reform, which is already altering the composition of bonus packages in favor of stock grants with long-term payouts and claw-back provisions, thus affecting the forecast for taxable wages. As financial regulations evolve, it is becoming increasingly uncertain as when finance sector revenue generating activity such as trading, lending, and underwriting will return to pre-crisis levels, resulting in additional risk to the forecasts for bonuses and personal capital gains.

There are, however, some upside risks to DOB's New York economic outlook as well. A stronger national or global economy than projected could increase the demand for New York goods and services, resulting in stronger job growth than projected. Such an outcome could lead to stronger levels of business activity and income growth than anticipated. If corporate earnings surprise to the upside, a stronger and earlier upturn in stock prices could result, stimulating additional financial market activity, and producing higher wage and bonus growth than currently projected. Of course, a stronger national economy could force the Federal Reserve to raise interest rates earlier or more rapidly than projected, which could negatively affect the State economy and the financial sector in particular.

SELECTED ECONOMIC INDICATORS
(Calendar Year)

	2010 (actual[1])	2011 (estimate)	2012 (forecast)	2013 (forecast)	2014 (forecast)	2015 (forecast)
U.S. Indicators[2]						
Real Gross Domestic Product ($ B)	13,088	13,316	13,615	14,014	14,525	15,009
Percent Change	3.0	1.7	2.2	2.9	3.6	3.3
Personal Income ($ B)	12,374	12,955	13,401	13,943	14,772	15,618
Percent Change	3.7	4.7	3.4	4.0	5.9	5.7
Nonagricultural Employment (millions)	129.8	131.2	132.9	135.1	137.7	140.4
Percent Change	(0.7)	1.0	1.3	1.7	1.9	2.0
Unemployment Rate	9.6	9.0	8.6	8.2	7.6	7.1
CPI Inflation	1.6	3.2	1.8	2.1	2.1	2.3
New York State Indicators						
Personal Income[2] ($ B)	921.4	963.1	994.6	1,036.9	1,096.8	1,156.3
Percent Change	4.1	4.5	3.3	4.3	5.8	5.4
Wages and Salaries[2] ($ B)	502.0	521.3	531.5	557.6	585.1	613.3
Percent Change	4.4	3.8	1.9	4.9	4.9	4.8
Bonuses[3] ($ B)	68.2	71.7	63.8	67.8	72.0	76.2
Percent Change	20.7	5.2	(11.0)	6.3	6.1	5.9
Employment[2] (thousands)	8,318.7	8,408.5	8,490.9	8,577.2	8,659.7	8,731.7
Percent Change	0.1	1.1	1.0	1.0	1.0	0.8
Unemployment Rate (percent)	8.6	7.9	7.6	7.1	6.6	6.2
NYS Adjusted Gross Income (NYSAGI)						
Capital Gains[4] ($ millions)	48,163	56,744	79,721	63,159	65,182	74,496
Percent Change	42.2	17.8	40.5	(20.8)	3.2	14.3
Total NYSAGI ($ millions)	635,441	667,958	710,560	728,456	765,956	812,127
Percent Change	6.5	5.1	6.4	2.5	5.1	6.0

[1] For NYSAGI variables, 2010 is an estimate based on preliminary processing data.
[2] Nonagricultural employment, wage, and personal income numbers are based on QCEW data.
[3] Series created by the Division of the Budget.
[4] The increased volatility assumes taxpayer anticipation of a Federal tax law change.
Source: Moody's Analytics; NYS Department of Labor; NYS Department of Taxation and Finance; DOB staff estimates.

THE REVENUE SITUATION

Revenue results during the current fiscal year have been of two extremes: strong growth during the first half of the year and much weaker growth during the latter half. A significant portion of the growth during the first part of the year was due to a strong tax year 2010 personal income tax settlement. After inching up 2.7 percent in 2010-11, base tax growth is estimated to increase 7.5 percent in 2011-12, but projected to decelerate to 5.7 percent growth in 2012-13, reflecting a continuation of the overall slower growth witnessed during the second half of 2011-12. Consistent with the economic factors described above, revenue collections have exhibited their own volatility. In particular, business tax estimated payments received in December 2011 were flat compared to December 2010, and personal income tax estimated payments received in January 2012 actually declined year over year, both of which are unusual at this point in a recovery. The estimated decline in personal income tax payments likely reflect the economic changes that took place during the course of calendar year 2011 - the first half of the year provided strong positive wage and nonwage income gains resulting in double-digit growth in estimated payments in June and September, but the roller coaster stock market ride caused by the euro crisis, and financial sector cutbacks that are believed to have occurred during the second half of the year likely left high-income taxpayers overpaid for tax year 2011. In contrast, sales tax receipts exceeded expectations late in 2011 due to a strong holiday shopping season. Unlike 2010-11, when there was uncertainty surrounding the impacts of potential changes in the timing and level of financial sector bonus payments, there is sufficient evidence that financial sector bonus payments made for the next two months will fall by a significant double digit percentage from the same period last year - DOB's forecast calls for a 32 percent decline.

After slowing in 2011-12, average wage, total wage, and personal income growth are expected to recover and result in net growth in personal income tax receipts of 4.3 percent, after accounting for the combined impact of the sunset of the high income surcharge and enactment of PIT reform in December 2011. Projected corporate profits growth for the 2012 calendar year combined with an incremental gain from tax credit deferral legislation enacted in 2010 should provide a second consecutive year of growth in business tax receipts in 2012-13. Income and employment growth, partially offset by the return of the full tax exemption on clothing, is expected to produce sales tax growth of 1.9 percent in 2012-13.

Governmental Funds
Actual and Base Tax Receipts Growth
(percent growth)

State Fiscal Year	Actual Receipts	Base Receipts	Inflation Adjusted Base Receipts
1988-89	1.6	2.9	(1.3)
1989-90	6.8	8.3	3.3
1990-91	(0.8)	(3.8)	(9.2)
1991-92	7.2	1.4	(2.3)
1992-93	6.1	5.0	1.8
1993-94	4.3	0.7	(2.2)
1994-95	0.1	1.5	(1.1)
1995-96	2.6	3.6	0.8
1996-97	2.0	2.6	(0.4)
1997-98	3.7	5.6	3.6
1998-99	7.2	7.9	6.5
1999-00	7.5	9.1	6.3
2000-01	7.9	10.1	6.7
2001-02	(4.9)	(4.2)	(6.4)
2002-03	(6.7)	(8.0)	(10.0)
2003-04	8.2	5.8	3.8
2004-05	13.4	11.5	8.5
2005-06	10.2	9.3	5.8
2006-07	9.7	4.9	2.0
2007-08	3.7	13.5	10.2
2008-09	(0.8)	(3.1)	(5.8)
2009-10	(3.2)	(12.4)	(12.7)
2010-11	5.6	2.7	1.1
2011-12*	6.0	7.4	4.1
2012-13**	3.0	5.5	3.6
2013-14**	5.7	6.3	4.2
2014-15**	2.4	5.2	3.1
2015-16**	3.8	4.8	2.5

	Actual Change	Base Change	Adjusted Base Change
Historical Average (88-89 to 10-11)	4.0	3.2	0.4
Forecast Average (11-12 to 15-16)	4.2	5.8	3.5
Forecast Average (12-13 to 15-16)	3.7	5.5	3.3
Recessions	1.3	(1.2)	(4.2)
Expansions	5.7	6.1	3.3

*Estimated Receipts

**Projected Receipts

RECEIPTS OVERVIEW

TOTAL RECEIPTS (millions of dollars)	2010-11 Actual	2011-12 Estimated	Annual $ Change	Annual % Change	2012-13 Projected	Annual $ Change	Annual % Change
General Fund	**54,447**	**57,214**	**2,767**	**5.1%**	**58,715**	**1,501**	**2.6%**
Taxes	39,205	41,920	2,715	6.9%	43,373	1,453	3.5%
Miscellaneous Receipts	3,095	3,244	149	4.8%	3,069	(175)	-5.4%
Federal Grants	54	60	6	11.1%	60	0	0.0%
Transfers	12,093	11,990	(103)	-0.9%	12,213	223	1.9%
State Funds	**83,981**	**88,377**	**4,396**	**5.2%**	**90,802**	**2,425**	**2.7%**
Taxes	60,870	64,532	3,662	6.0%	66,533	2,001	3.1%
Miscellaneous Receipts	22,994	23,700	706	3.1%	24,124	424	1.8%
Federal Grants	117	145	28	23.9%	145	0	0.0%
All Funds	**133,321**	**132,306**	**(1,015)**	**-0.8%**	**132,724**	**418**	**0.3%**
Taxes	60,870	64,532	3,662	6.0%	66,533	2,001	3.1%
Miscellaneous Receipts	23,148	23,832	684	3.0%	24,255	423	1.8%
Federal Grants	49,303	43,942	(5,361)	-10.9%	41,936	(2,006)	-4.6%

FISCAL YEAR 2011-12 OVERVIEW

- Total All Funds receipts are estimated to reach $132.3 billion, a decline of $1 billion (0.8 percent) from 2010-11 results. All Funds tax receipts are estimated to increase by $3.7 billion, or 6 percent. The majority of the increase in tax receipts is attributable to growth in personal income tax collections. All Funds Federal Grants are expected to decline $5.4 billion (10.9 percent) due to ARRA funding declines.

- All Funds miscellaneous receipts are projected to reach $23.8 billion in 2011-12, an increase of $684 million from 2010-11. General Fund miscellaneous receipts are estimated to increase $149 million as well as growth in other areas, primarily SUNY revenue growth from expansions at the three SUNY teaching hospitals, enrollment growth, and greater bond proceeds available for SUNY capital projects ($694 million).

- Total State Funds receipts are estimated to reach $88.4 billion in 2011-12, an increase of $4.4 billion, or 5.2 percent.

- Total General Fund receipts are estimated at $57.2 billion, an increase of $2.8 billion, or 5.1 percent from 2010-11. General Fund tax receipts are estimated to increase by 6.9 percent. General Fund miscellaneous receipts are estimated to increase by 4.8 percent, reflecting gains from 2011 Abandoned Property legislation.

- Base tax receipts growth, which nets out the impact of law changes, will increase by an estimated 7.5 percent in 2011-12 after a modest base increase of 2.7 percent in 2010-11.

FISCAL YEAR 2012-13 OVERVIEW

- Total All Funds receipts are projected to reach $132.7 billion, an increase of $418 million, or 0.3 percent from 2011-12 estimates. All Funds tax receipts are projected to grow by $2 billion or 3.1 percent. This increase is attributable to continued positive economic growth, partially offset by the net impact of expired and recently enacted personal income tax rate legislation.

- All Funds Miscellaneous receipts are projected to increase by $423 million, or 1.8 percent driven by increases in HCRA ($636 million) and lottery receipts ($251 million) offset by a projected decline in programs financed with authority bond proceeds including economic development and health projects ($255 million) and General Fund declines described below. All Funds Federal grants are expected to decrease by $2 billion, or 4.6 percent primarily driven by the loss of ARRA funding.

- Total State Funds receipts are projected to be $90.8 billion, an increase of $2.4 billion, or 2.7 percent from the 2011-12 estimate.

- Total General Fund receipts are projected to be $58.7 billion, an increase of $1.5 billion, or 2.6 percent from 2011-12 estimates. General Fund tax receipts are projected to grow by 3.5 percent, while General Fund miscellaneous receipts are projected to decline by $175 million (5.4 percent). Federal grants revenues are projected to remain constant.

- After controlling for the impact of policy changes, base tax revenue growth is estimated to increase by 5.7 percent for fiscal year 2012-13.

Change from Mid-Year Update

Revised Estimates and Projections

CHANGE FROM MID-YEAR UPDATE FORECAST
(millions of dollars)

	2011-12				2012-13			
	Mid-Year Update	Executive Budget	$ Change	% Change	Mid-Year Update	Executive Budget	$ Change	% Change
General Fund[1]	**45,098**	**45,224**	**126**	**0.3%**	**45,286**	**46,502**	**1,216**	**2.7%**
Taxes	41,886	41,920	34	0.1%	42,202	43,373	1,171	2.8%
Miscellaneous Receipts	3,152	3,244	92	2.9%	3,024	3,069	45	1.5%
Federal Grants	60	60	0	0.0%	60	60	0	0.0%
State Funds	**87,816**	**88,377**	**561**	**0.6%**	**89,259**	**90,802**	**1,543**	**1.7%**
Taxes	64,503	64,532	29	0.0%	65,258	66,533	1,275	2.0%
Miscellaneous Receipts	23,168	23,700	532	2.3%	23,856	24,124	268	1.1%
Federal Grants	145	145	0	0.0%	145	145	0	0.0%
All Funds	**130,834**	**132,306**	**1,472**	**1.1%**	**128,779**	**132,724**	**3,945**	**3.1%**
Taxes	64,503	64,532	29	0.0%	65,258	66,533	1,275	2.0%
Miscellaneous Receipts	23,300	23,832	532	2.3%	23,987	24,255	268	1.1%
Federal Grants	43,031	43,942	911	2.1%	39,534	41,936	2,402	6.1%

[1] Excludes Transfers

- All funds receipts estimates have been revised upward by $1.5 billion for 2011-12 from the Mid-Year Update. The upward tax revision of $29 million is mostly due to the impact of the December 2011 personal income tax reform, stronger than expected sales tax receipts, and an increase in expected business tax audit receipts during the remainder of 2012-13, partially offset by weaker than expected personal income tax receipts.

- All Funds miscellaneous receipts in 2011-12 were revised upward by $532 million largely reflecting increased projections for programs financed with authority bond proceeds, including economic development ($343 million) and modest receipts revisions in various special revenue funds ($81 million) and the General Fund increase detailed below.

- All Funds Federal grants were revised upward in 2011-12 and 2012-13 from the Mid-Year update by $911 million and $2.4 billion, respectively, primarily driven by revisions to Medicaid spending.

- General Fund receipts for 2011-12 have been revised upward by $126 million, reflecting the All Funds tax changes noted above and year-to-date miscellaneous receipts collections.

- All Funds receipts estimates have been increased by nearly $3.9 billion for fiscal year 2012-13 from the Mid-Year Update.

- All Funds miscellaneous receipts in 2012-13 were revised upward by $268 million largely reflecting increased projections for programs financed with authority bond proceeds, including economic development, transportation and parks ($370 million) offset by declines in lottery receipts and receipts revisions in various special revenue funds ($146 million).

- General Fund receipts for 2012-13 have been revised upward by $1.2 billion. Tax revisions account for virtually all the increase (mainly from the December 2011 personal income tax reform).

Proposed Law Changes

The 2012-13 Executive Budget includes changes to tax law that would:

- Reform certain components of the State's tax structure to ensure that tax burdens are fairly distributed, that our tax incentive programs are most efficiently utilized and that taxpayers remit the proper amount of tax that is owed;

- Close unintended tax loopholes to improve the equity of the tax code; and

- Generate additional recurring revenues to help close the State's financial gaps in 2012-13 and beyond.

ALL FUNDS LEGISLATION
($ in millions)*

	2012-13	2013-14	2014-15	2015-16
Revenue Enhancements	**29**	**53**	**53**	**53**
Personal Income Tax	**9**	**24**	**24**	**24**
Make Tax Modernization Provisions Permanent	4	16	16	16
Prohibit Bank Fees From Reducing Tax Levies	5	7	7	7
STAR Benefit Offset	0	1	1	1
User Taxes and Fees	**20**	**29**	**29**	**29**
Tobacco Tax Reform	18	24	24	24
Make Tax Modernization Provisions Permanent	1	4	4	4
Sales Tax Registration Clearance	1	1	1	1
Tax Reductions	**(4)**	**(23)**	**(45)**	**(53)**
Expand The Low Income Housing Tax Credit Program	0	(8)	(16)	(24)
Extend The Television Commercial Production Credit For Five Years	0	(7)	(7)	(7)
Extend The Bio-Fuel Produciton Credit For Seven Years	0	0	(10)	(10)
Make Non-Custodial Parent EITC Permanent	0	0	(4)	(4)
Extend the Alternative Fuels Tax Exemption for Five Years	(2)	(3)	(3)	(3)
Pari-Mutuel Extender	0	0	0	0
Expand Sales Tax Exemption For Solar Equipment Purchases	(2)	(3)	(3)	(3)
Expand Residential Solar Equipment Tax Credit To Leases	-	(2)	(2)	(2)
Total All Funds Legislation Change	**25**	**30**	**8**	**(0)**

* Rounded to nearest million.

The tax policy changes proposed with this Budget are reported in summary below and in detail in the tax-by-tax write-ups contained in this report.

RECEIPTS OVERVIEW

PERSONAL INCOME TAX

- Extend the Empire State commercial production credit for five years, through tax year 2016, for qualified costs associated with TV commercials produced in New York;

- Extend residential solar equipment credit to leases;

- Extend the bio-fuel production credit for seven additional years through tax year 2019;

- Make permanent the enhanced Earned Income Tax Credit (EITC) for certain noncustodial parents who pay child support for a qualifying child with whom they do not reside;

- Provide the Commissioner of the Division of Housing Community Renewal authorization to allocate an additional $8 million annually in low income housing tax credits for five additional years;

- Make permanent the tax modernization provisions, which include mandatory e-filing and e-payment for both preparers and taxpayers, to achieve full intended taxpayer compliance improvement;

- Prohibit banks from charging fees on levied bank accounts; and

- Deny STAR exemptions to persons owing past-due tax liabilities.

USER TAXES AND FEES

- Expand the sales tax registration clearance process;

- Make permanent the Tax Modernization provisions set to expire December 31, 2012;

- Make technical amendments to the tax classification of diesel motor fuel;

- Extend for five years the full or partial tax exemptions on E85, CNG, hydrogen and B20 when purchased for use in a motor vehicle engine;

- Reform the tobacco products tax by equalizing the per-ounce rate on loose tobacco with cigarettes and creating a two-tier tax on cigars; and

- Expand the exemption on solar energy equipment to include commercial use.

BUSINESS TAXES

- Extend the Empire State commercial production credit for five years, through tax year 2016, for qualified costs associated with TV commercials produced in New York ;

- Extend the bio-fuel production credit for seven additional years through tax year 2019;

- Provide the Commissioner of the Division of Housing Community Renewal authorization to allocate an additional $8 million annually in low income housing tax credits for five additional years; and

- Redistribute the statewide collected transmission tax between the upstate and downstate transit accounts in an equitable manner and provide much needed funding to upstate transit systems.

OTHER ACTIONS

- Extend certain pari-mutuel tax rates and authorization for account wagering for a period of one year.

FISCAL YEARS 2012-13, 2013-14, AND 2014-15 OVERVIEW

TOTAL RECEIPTS (millions of dollars)							
	2012-13 Projected	2013-14 Projected	Annual $ Change	2014-15 Projected	Annual $ Change	2015-16 Projected	Annual $ Change
General Fund	**58,715**	**61,345**	**2,630**	**62,013**	**668**	**64,426**	**2,413**
Taxes	43,373	45,859	2,486	46,645	786	48,566	1,921
State Funds	**90,802**	**94,367**	**3,565**	**95,782**	**1,415**	**98,670**	**2,888**
Taxes	66,533	70,253	3,720	71,940	1,687	74,696	2,756
All Funds	**132,724**	**137,949**	**5,225**	**142,449**	**4,500**	**147,167**	**4,718**
Taxes	66,533	70,253	3,720	71,940	1,687	74,696	2,756

Overall, tax receipts growth in the three fiscal years following 2012-13 is expected to remain in the range of 2.4 percent to 5.6 percent. This is consistent with projected modest economic growth in the New York economy during this period and the sunset of personal income tax reform.

- Total All Funds receipts in 2013-14 are projected to be $137.9 billion, an increase of $5.2 billion over the prior year. All Funds receipts in 2014-15 are expected to increase by $4.5 billion over 2013-14 projections. In 2015-16, receipts are expected to increase by nearly $4.7 billion over 2014-15 projections.

- Total State Funds receipts are projected to be nearly $94.4 billion in 2013-14, $95.8 billion in 2014-15 and $98.7 billion in 2015-16.

- Total General Fund receipts are projected to reach just over $61.3 billion in 2013-14, $62 billion in 2014-15 and $64.4 billion in 2015-16.

- All Funds tax receipts are expected to increase by 5.6 percent in 2013-14, 2.4 percent in 2014-15 and 3.8 percent in 2015-16. Again, the growth pattern is consistent with an economic forecast for continued but slower economic growth.

Base Growth

Base growth, adjusted for law changes, in tax receipts for fiscal year 2011-12 is estimated to grow 7.5 percent and 5.7 percent in 2012-13. Overall base growth in tax receipts is dependent on a multitude of factors.

The estimated base receipts growth in 2011-12 results from:

- A strong tax year 2010 personal income tax settlement;
- Moderate corporate profits growth and insurance premium growth; and
- Increased consumption resulting from wage and employment growth as well as the federal payroll tax cut.

The deceleration in base growth in 2012-13 results from:

- A decline in extension payments;
- Slower corporate profits growth; and
- Slower consumer spending growth resulting from a return of the full federal payroll tax.

Personal Income Tax

PERSONAL INCOME TAX
(millions of dollars)

	2010-11 Actual	2011-12 Estimated	Annual $ Change	Annual % Change	2012-13 Projected	Annual $ Change	Annual % Change
General Fund[1]	**23,894**	**25,705**	**1,811**	**7.6%**	**26,911**	**1,206**	**4.7%**
Gross Collections	44,002	45,891	1,889	4.3%	48,117	2,226	4.9%
Refunds/Offsets	(7,793)	(7,227)	566	-7.3%	(7,806)	(579)	8.0%
STAR	(3,263)	(3,293)	(30)	0.9%	(3,322)	(29)	0.9%
RBTF	(9,052)	(9,666)	(614)	6.8%	(10,078)	(412)	4.3%
State/All Funds	**36,209**	**38,664**	**2,455**	**6.8%**	**40,311**	**1,647**	**4.3%**
Gross Collections	44,002	45,891	1,889	4.3%	48,117	2,226	4.9%
Refunds	(7,793)	(7,227)	566	-7.3%	(7,806)	(579)	8.0%

[1] Excludes Transfers.

All Funds receipts for 2011-12 are estimated to be $38.7 billion, an increase of $2.5 billion (6.8 percent) from the prior year. This is primarily attributable to increases in extension payments of $1.2 billion for tax year 2010 and in current estimated payments of $599 million for tax year 2011. The personal income tax reform enacted in December 2011 (effective starting tax year 2012) is projected to generate $385 million in withholding in the first quarter of 2012 and should partially counteract the revenue loss resulting from the expiration of the 2009 temporary rate increase and the year-over-year decline from projected lower financial sector bonuses for 2011-12. The spike in extension payments for tax year 2010 most likely reflects one-time realization of capital gains caused by uncertainty surrounding the late extension of the lower Federal tax rates on capital gains and high-income taxpayers in December of 2010.

Total refunds are expected to decrease by $566 million (7.3 percent) compared to 2010-11. This decrease primarily reflects an artificially high 2010-11 refunds base caused by the shift of $500 million of 2009-10 refunds into 2010-11. Prior year refunds for tax years prior to 2010, which decreased by $367 million, also contributed to lower 2011-12 refunds.

The following table summarizes, by component, actual receipts for 2010-11 and forecast amounts through 2014-2015.

PERSONAL INCOME TAX FISCAL YEAR COLLECTION COMPONENTS
ALL FUNDS
(millions of dollars)

	2010-11 Actual	2011-12 Estimated	2012-13 Projected	2013-14 Projected	2014-15 Projected
Receipts					
Withholding	31,240	31,197	32,598	34,667	36,032
Estimated Payments	9,735	11,530	12,212	13,063	13,702
Current Year	7,386	7,985	8,879	9,097	10,143
Prior Year*	2,349	3,545	3,334	3,966	3,559
Final Returns	1,964	2,125	2,203	2,170	2,167
Current Year	215	227	227	241	242
Prior Year*	1,749	1,898	1,976	1,929	1,925
Delinquent	1,063	1,039	1,104	1,137	1,238
Gross Receipts	44,002	45,891	48,117	51,036	53,139
Refunds					
Prior Year*	5,170	4,715	5,201	5,434	6,312
Previous Years	772	404	557	576	569
Current Year*	1,750	1,750	1,750	1,750	1,750
State-City Offset*	100	358	298	198	148
Total Refunds	7,793	7,227	7,806	7,958	8,779
Net Receipts	36,209	38,664	40,311	43,078	44,360

* These components, collectively, are known as the "settlement" on the prior year's tax liability.

All Funds receipts for 2012-13 are projected to be $40.3 billion, an increase of $1.6 billion (4.3 percent) from 2011-12. This primarily reflects a year-over-year increase of $1.5 billion in receipts from the personal income tax reform enacted in December 2011 and an increase of $829 million in pre-reform withholding receipts partially reduced by $579 million (8 percent) in higher total refunds.

Withholding is projected to be $1.4 billion (4.5 percent) higher compared to 2011-12 due mainly to an increase of $572 million in receipts from recently enacted personal income tax reform combined with modest growth in the pre-reform withholding base. Estimated payments for tax year 2012, which include $974 million from PIT reform, are projected to be $894 million (11.2 percent) higher. Final return payments for tax year 2011 and delinquencies are projected to be $78 million (4.1 percent) and $65 million (7.1 percent) higher, respectively.

The increase in total refunds of $579 million reflects a $486 million (10.8 percent) increase in current refunds and a $153 million (38.3 percent) increase in prior refunds offset by a $60 million (16.8 percent) decrease in the state-city offset.

General Fund income tax receipts are net of deposits to the STAR Fund, which provides property tax relief, and the RBTF, which supports debt service payments on State personal income tax revenue bonds. General Fund income tax receipts for 2011-12 of $25.7 billion are expected to increase by $1.8 billion (7.6 percent), from the prior year, mainly reflecting the increase in All Funds receipts noted above. The RBTF deposit is projected to increase by $614 million.

General Fund income tax receipts for 2012-13 of $26.9 billion are projected to increase by $1.2 billion (4.7 percent). The RBTF deposit is projected to increase by $412 million.

PERSONAL INCOME TAX CHANGE FROM MID-YEAR UPDATE FORECAST
(millions of dollars)

	2011-12				2012-13			
	Mid-Year Update	Executive Budget	$ Change	% Change	Mid-Year Update	Executive Budget	$ Change	% Change
General Fund[1]	**25,870**	**25,705**	**(165)**	**-0.6%**	**25,619**	**26,911**	**1,292**	**5.0%**
Gross Collections	46,376	45,891	(485)	-1.0%	46,612	48,117	1,505	3.2%
Refunds/Offsets	(7,492)	(7,227)	265	-3.5%	(8,023)	(7,806)	217	-2.7%
STAR	(3,293)	(3,293)	0	0.0%	(3,322)	(3,322)	0	0.0%
RBTF	(9,721)	(9,666)	55	-0.6%	(9,648)	(10,078)	(430)	4.5%
State/All Funds	**38,884**	**38,664**	**(220)**	**-0.6%**	**38,589**	**40,311**	**1,722**	**4.5%**
Gross Collections	46,376	45,891	(485)	-1.0%	46,612	48,117	1,505	3.2%
Refunds	(7,492)	(7,227)	265	-3.5%	(8,023)	(7,806)	217	-2.7%

[1] Excludes Transfers

Compared to the Mid-Year Update, 2011-12 All Funds income tax receipts are revised downward by $220 million. The decrease primarily reflects lower-than-expected estimated payments on tax year 2011 ($445 million) and lower-than-estimated assessments ($50 million) partially offset by lower-than-expected refunds ($265 million). The reduction in estimated payments is driven by apparent weaker-than-projected non-wage income for the second half of 2011. Also, compared to the Mid-Year Update, $385 million in projected withholding receipts from the December 2011 personal income tax reform is expected to offset a the $390 million reduction in pre-reform withholding.

The lower estimate for current year refunds of $60 million is based on lower than expected refund requests on tax year 2010. Likewise, reduced prior refunds of $265 million partly reflect lower refunds in the third quarter of 2011-12 for tax years prior to 2010. Lower current and prior refunds are partially offset by a spike in the state-city offset of $60 million related to the 2010 change in New York City personal income tax rates related to the STAR program.

Compared to the Mid-Year Update, 2012-13 All Funds income tax receipts are revised upward by $1.7 billion, reflecting $1.9 billion in new receipts from the above mentioned personal income tax reform ($957 million in withholding and $974 million in estimated payments for tax year 2012), $217 million in lower refunds and $9 million in projected revenue from proposed legislation, partially offset by downward revisions of $240 million in extension payments for tax year 2011 and $160 million in withholding.

PERSONAL INCOME TAX
(millions of dollars)

	2012-13 Projected	2013-14 Projected	Annual $ Change	2014-15 Projected	Annual $ Change	2015-16 Projected	Annual $ Change
General Fund[1]	**26,911**	**28,803**	**1,892**	**29,582**	**779**	**30,566**	**984**
Gross Collections	48,117	51,036	2,919	53,139	2,103	55,062	1,923
Refunds/Offsets	(7,806)	(7,958)	(152)	(8,779)	(821)	(9,254)	(475)
STAR	(3,322)	(3,505)	(183)	(3,688)	(183)	(3,790)	(102)
RBTF	(10,078)	(10,770)	(692)	(11,090)	(320)	(11,452)	(362)
State/All Funds	**40,311**	**43,078**	**2,767**	**44,360**	**1,282**	**45,808**	**1,448**
Gross Collections	48,117	51,036	2,919	53,139	2,103	55,062	1,923
Refunds	(7,806)	(7,958)	(152)	(8,779)	(821)	(9,254)	(475)

[1] Excludes Transfers.

All Funds income tax receipts for 2013-14 of $43.1 billion are projected to increase $2.8 billion (6.9 percent) from the prior year. Gross receipts are projected to increase 6.1 percent and reflect withholding that is projected to grow by $2.1 billion (6.3 percent) and estimated payments related to tax year 2012-13 that are projected to grow by $218 million (2.5 percent). Payments from tax year 2011-12 extensions are projected to increase by $632 million (19 percent) reflecting $612 million from recently enacted personal income tax reform, but offset by the expiration of the 2009 temporary tax increase. Payments from final returns are expected to decrease $47 million (2.4 percent) Delinquencies are projected to increase $26 million (2.7 percent) from the prior year. Total refunds are projected to increase by $152 million (2 percent) from the prior year, partly reflecting $173 million in refunds due to tax cuts implemented as a part of the recent personal income tax reform, partly offset by lower pre reform base refunds.

General Fund income tax receipts for 2013-14 of $28.8 billion are projected to increase by $1.9 billion (7 percent). RBTF deposits are projected to increase by $692 million.

All Funds income tax receipts are projected to increase by $1.3 billion (3 percent)in 2014-15 and $1.4 billion (3.3 percent) in 2015-16. General Fund receipts areprojected at $29.6 billion and $30.6 billion, respectively.

User Taxes and Fees

USER TAXES AND FEES (millions of dollars)

	2010-11 Actual	2011-12 Estimated	Annual $ Change	Annual % Change	2012-13 Projected	Annual $ Change	Annual % Change
General Fund[1,2]	**8,795**	**9,135**	**340**	**3.9%**	**9,341**	**206**	**2.3%**
Sales Tax	8,085	8,426	341	4.2%	8,592	166	2.0%
Cigarette and Tobacco Taxes	480	476	(4)	-0.8%	511	35	7.4%
Alcoholic Beverage Taxes	230	233	3	1.3%	238	5	2.1%
State/All Funds	**14,205**	**14,719**	**514**	**3.6%**	**15,076**	**357**	**2.4%**
Sales Tax	11,538	11,997	459	4.0%	12,246	249	2.1%
Cigarette and Tobacco Taxes	1,616	1,665	49	3.0%	1,733	68	4.1%
Motor Fuel Tax	516	501	(15)	-2.9%	515	14	2.8%
Highway Use Tax	129	134	5	3.9%	147	13	9.7%
Alcoholic Beverage Taxes	230	233	3	1.3%	238	5	2.1%
Taxicab Surcharge	81	85	4	4.9%	88	3	3.5%
Auto Rental Tax	95	104	9	9.5%	109	5	4.8%

[1] Excludes Transfers.

[2] Receipts from motor vehicle fees and alcohol beverage control license fees are now reflected under miscellaneous receipts.

All Funds user taxes and fees receipts for 2011-12 are estimated to be $14.7 billion, an increase of $514 million (3.6 percent) from 2010-11. Sales tax receipts are expected to increase by $459 million (4 percent) from the prior year due to base growth (i.e. absent law changes) of 6.4 percent, offset partly by a return of the clothing exemption at a $55 per item threshold. The remaining estimated increase of $55 million from 2010-11 is mainly from an increase in cigarette and tobacco tax collections due in part to increased compliance as a result of implementation of the prior-approval/coupon system.

General Fund user taxes and fees receipts are expected to total $9.1 billion in 2011-12, an increase of $340 million (3.9 percent) from 2010-11. The increase reflects growth in sales tax receipts of $341 million (4.2 percent) and small and nearly offsetting year-over-year changes in cigarette and tobacco taxes (a decrease of $4 million) and alcoholic beverage taxes (an increase of $3 million).

All Funds user taxes and fees receipts for 2012-13 are projected to be $15.1 billion, an increase of $357 million (2.4 percent) from 2011-12. The increase in sales tax receipts of $249 million (2.1 percent) mostly reflects sales tax base growth of 3.2 percent, offset by a return of the full clothing exemption (at $110 per item).

General Fund user taxes and fees receipts are projected to total $9.3 billion in 2012-13, an increase of $206 million (2.3 percent) from 2011-12. This increase largely reflects the projected increases in All Funds sales tax receipts discussed above.

USER TAXES AND FEES CHANGE FROM MID-YEAR UPDATE FORECAST (millions of dollars)	2011-12				2012-13			
	Mid-Year Update	Executive Budget	$ Change	% Change	Mid-Year Update	Executive Budget	$ Change	% Change
General Fund[1,2]	**9,056**	**9,135**	**79**	**0.9%**	**9,288**	**9,341**	**53**	**0.6%**
Sales Tax	8,351	8,426	75	0.9%	8,552	8,592	40	0.5%
Cigarette and Tobacco Taxes	472	476	4	0.8%	498	511	13	2.6%
Alcoholic Beverage Taxes	233	233	0	0.0%	238	238	0	0.0%
State/All Funds	**14,603**	**14,719**	**116**	**0.8%**	**15,018**	**15,076**	**58**	**0.4%**
Sales Tax	11,877	11,997	120	1.0%	12,172	12,246	74	0.6%
Cigarette and Tobacco Taxes	1,666	1,665	(1)	-0.1%	1,752	1,733	(19)	-1.1%
Motor Fuel Tax	504	501	(3)	-0.6%	515	515	0	0.0%
Highway Use Tax	134	134	0	0.0%	147	147	0	0.0%
Alcoholic Beverage Taxes	233	233	0	0.0%	238	238	0	0.0%
Taxicab Surcharge	85	85	0	0.0%	85	88	3	3.5%
Auto Rental Tax	104	104	0	0.0%	109	109	0	0.0%

[1] Excludes Transfers
[2] Receipts from motor vehicle fees and alcohol beverage control license fees are now reflected under miscellaneous receipts.

All Funds user taxes and fees in 2011-12 are revised up by $116 million from the Mid-Year Update based on stronger than expected to-date sales tax receipts ($120 million), partially offset by minor changes in the remaining taxes. All Funds user taxes and fees are revised up by $57 million for 2012-13, the result of 2011-12 base increases ($69 million), and proposed legislation ($18 million), offset by a reduction in receipts projected from the cigarette tax prior approval system ($30 million).

USER TAXES AND FEES (millions of dollars)	2012-13 Projected	2013-14 Projected	Annual $ Change	2014-15 Projected	Annual $ Change	2015-16 Projected	Annual $ Change
General Fund[1,2]	**9,341**	**9,706**	**365**	**10,123**	**417**	**10,487**	**364**
Sales Tax	8,592	8,954	362	9,373	419	9,745	372
Cigarette and Tobacco Taxes	511	510	(1)	503	(7)	495	(8)
Alcoholic Beverage Taxes	238	242	4	247	5	247	0
State/All Funds	**15,076**	**15,572**	**496**	**16,147**	**575**	**16,659**	**512**
Sales Tax	12,246	12,759	513	13,348	589	13,874	526
Cigarette and Tobacco Taxes	1,733	1,709	(24)	1,680	(29)	1,650	(30)
Motor Fuel Tax	515	516	1	519	3	522	3
Highway Use Tax	147	142	(5)	144	2	152	8
Alcoholic Beverage Taxes	238	242	4	247	5	247	0
Taxicab Surcharge	88	90	2	90	0	90	0
Auto Rental Tax	109	114	5	119	5	124	5

[1] Excludes Transfers.
[2] Receipts from motor vehicle fees and alcohol beverage control license fees are now reflected under miscellaneous receipts.

All Funds user taxes and fees in 2013-14 are projected to increase by $494 million (3.3 percent) and then increase by $575 million (3.7 percent) in 2014-15 and $512 million (3.2 percent) in 2015-16.

Business Taxes

BUSINESS TAXES (millions of dollars)							
	2010-11 Actual	2011-12 Estimated	Annual $ Change	Annual % Change	2012-13 Projected	Annual $ Change	Annual % Change
General Fund	**5,278**	**5,868**	**590**	**11.2%**	**5,977**	**109**	**1.9%**
Corporate Franchise Tax	2,472	2,825	353	14.3%	2,844	19	0.7%
Corporation & Utilities Tax	616	626	10	1.6%	682	56	8.9%
Insurance Tax	1,217	1,274	57	4.7%	1,322	48	3.8%
Bank Tax	973	1,143	170	17.5%	1,129	(14)	-1.2%
State/All Funds	**7,279**	**7,922**	**643**	**8.8%**	**8,152**	**230**	**2.9%**
Corporate Franchise Tax	2,846	3,231	385	13.5%	3,299	68	2.1%
Corporation & Utilities Tax	813	815	2	0.2%	877	62	7.6%
Insurance Tax	1,351	1,413	62	4.6%	1,463	50	3.5%
Bank Tax	1,178	1,374	196	16.6%	1,351	(23)	-1.7%
Petroleum Business Tax	1,091	1,089	(2)	-0.2%	1,162	73	6.7%

All Funds business tax receipts for 2011-12 are estimated at $7.9 billion, an increase of $643 million (8.8 percent) from the prior year. This increase is mainly driven by the corporate franchise and bank taxes. Higher gross receipts for the bank tax and higher audits for the corporate franchise tax are the primary reasons for the increase as well as an incremental $213 million increase (from $100 million in 2010-11 to $313 million in 2011-12) for the tax deferral of certain tax credits included in the corporate franchise tax.

All Funds corporate franchise tax receipts are estimated to be $3.2 billion, an increase of $385 million (13.5 percent) from 2010-11. The year-to-year increase is primarily due to higher audit receipts and the incremental increase for the tax deferral of certain tax credits. Gross receipts adjusted for the impact of the tax deferral are estimated to decline 6.2 percent from 2010-11. This is primarily attributable to the weakness in to-date 2011 liability payments. Through December, 2011 payments from calendar year filers were basically flat compared to the prior year. The majority of the weakness occurred in the month of December when payments declined 11.9 percent.

All Funds corporation and utilities receipts for 2011-12 are estimated to be $815 million, an increase of $2 million (0.2 percent) from last year. Gross receipts for 2011-12 are estimated to decline 1 percent from 2010-11. This lack of growth is related to continued erosion of the telecommunication sector's taxable base, and a large refund ($40 million) expected to be paid in 2011-12. Adjusted for the large refund, receipts growth would be 5.1 percent, primarily driven by higher audit receipts. Consumers continue to shift to mobile and non-cable company voice-over-internet-protocol telecommunications at the expense of landline telecommunications while internet-based communications tools such as Twitter and Facebook continue to grow. In contrast, revenue from the regulated utilities provides a stabilizing component to the corporation and utilities tax base.

All Funds insurance tax receipts for 2011-12 are estimated to be $1,413 million, an increase of $62 million (4.6 percent) from last year. This increase is driven by higher calendar year 2011 liability. Liability year 2011 payments are estimated to increase 5.3 percent over the prior year.

All Funds bank tax receipts for 2011-12 are estimated to be $1,374 million, an increase of $196 million (16.6 percent) above last year. This increase is mainly attributable to strong December collections in commercial bank calendar year liability estimated payments and the corresponding expected increase in the March prepayment. Additionally, refunds are significantly lower in 2011-12 compared to 2010-11 due to the delay in payment of 2009-10 refunds to April 2010. Lower audit receipts are expected to offset a portion of the increase in receipts from higher gross receipts and lower refunds.

General Fund business tax receipts for 2011-12 of nearly $5.9 billion are estimated to increase by $590 million (11.2 percent) from 2010-11. Business tax receipts deposited to the General Fund reflect the All Funds trends discussed above.

ALL FUNDS BUSINESS TAX AUDIT AND NON-AUDIT RECEIPTS
(millions of dollars)

	2008-09 Actual	2009-10 Actual	2010-11 Actual	2011-12 Estimated	2012-13 Projected
Corporate Franchise Tax	**3,220**	**2,511**	**2,846**	**3,231**	**3,299**
Audit	905	698	810	1,085	800
Non-Audit	2,315	1,813	2,036	2,146	2,499
Corporation and Utilities Taxes	**863**	**954**	**814**	**815**	**877**
Audit	47	52	14	54	54
Non-Audit	816	902	800	761	823
Insurance Taxes	**1,181**	**1,491**	**1,351**	**1,413**	**1,463**
Audit	41	35	38	18	13
Non-Audit	1,140	1,456	1,313	1,395	1,450
Bank Taxes	**1,233**	**1,399**	**1,178**	**1,374**	**1,351**
Audit	455	290	239	126	287
Non-Audit	778	1,109	939	1,248	1,064
PBT	**1,107**	**1,104**	**1,091**	**1,089**	**1,162**
Audit	16	10	7	6	6
Non-Audit	1,091	1,094	1,084	1,083	1,156
Total Business Taxes	**7,604**	**7,459**	**7,280**	**7,922**	**8,152**
Audit	1,464	1,085	1,108	1,289	1,160
Non-Audit	6,140	6,374	6,172	6,633	6,992

All Funds business tax receipts for 2012-13 of roughly $8.2 billion are projected to increase by approximately $230 million (2.9 percent) from the prior year. Corporation franchise tax receipts for 2012-13 are projected to increase by $68 million (2.1 percent) from the previous year. Growth in gross collections and lower refunds is partially offset by lower audit receipts. Included in 2012-13 is an incremental increase of $71 million (from $313 million in 2011-12 to $384 million in 2012-13) in receipts from the deferral of certain tax credits. Adjusting for the credit deferral, receipts are estimated to show no growth from 2011-12. Corporation and utilities taxes are projected to grow by $62 million (7.6 percent). Absent the large refund in 2011-12, growth would be 2.6 percent. Both sections 186-e and 186-a are forecast to grow modestly based on revenue expectations for the telecommunications and residential energy sectors. Insurance taxes are forecast to increase $50 million (3.5 percent). The year-over-year increase reflects trend growth in the insurance tax as the industry continues to recover from the economic downturn. Bank tax receipts for 2012-13 are projected to decline by $23 million (1.7 percent) from the previous year. The unusually high commercial bank calendar year filer payments seen in 2011-12 are not expected to be repeated in 2012-13, resulting in a decline in projected gross receipts, which is partially offset by a projected increase in audit receipts. The projected petroleum business tax increase of $73 million is due to an increase in the PBT rate index of 5 percent effective in January 2012 and the projected increase in the PBT tax rate index of 4.3 percent effective in January 2013. Motor and diesel fuel taxable consumption are also projected to grow compared to the prior fiscal year.

General Fund business tax receipts for 2012-13 of nearly $6 billion are projected to increase $109 million (1.9 percent) from the prior year. Business tax receipts deposited to the General Fund reflect the All Funds trends discussed above.

BUSINESS TAXES CHANGE FROM MID-YEAR UPDATE FORECAST
(millions of dollars)

	2011-12				2012-13			
	Mid-Year Update	Executive Budget	$ Change	% Change	Mid-Year Update	Executive Budget	$ Change	% Change
General Fund	**5,868**	**5,868**	**0**	**0.0%**	**6,208**	**5,977**	**(231)**	**-3.7%**
Corporate Franchise Tax	2,909	2,825	(84)	-2.9%	3,006	2,844	(162)	-5.4%
Corporation & Utilities Tax	639	626	(13)	-2.0%	702	682	(20)	-2.8%
Insurance Tax	1,298	1,274	(24)	-1.8%	1,348	1,322	(26)	-1.9%
Bank Tax	1,022	1,143	121	11.8%	1,152	1,129	(23)	-2.0%
State/All Funds	**7,895**	**7,922**	**27**	**0.3%**	**8,392**	**8,152**	**(240)**	**-2.9%**
Corporate Franchise Tax	3,298	3,231	(67)	-2.0%	3,474	3,299	(175)	-5.0%
Corporation & Utilities Tax	842	815	(27)	-3.2%	905	877	(28)	-3.1%
Insurance Tax	1,437	1,413	(24)	-1.7%	1,489	1,463	(26)	-1.7%
Bank Tax	1,229	1,374	145	11.8%	1,373	1,351	(22)	-1.6%
Petroleum Business Tax	1,089	1,089	0	0.0%	1,151	1,162	11	1.0%

Compared to the Mid-Year Update, 2011-12 All Funds business tax receipts are estimated to increase $27 million (0.3 percent). The increase is attributable to the bank tax. Higher than estimated December bank tax receipts are the primary cause of the increase. Reductions in the other business taxes (excluding the petroleum business tax) resulting from year-to-date collection trends partially offset the gain from the bank tax. The petroleum business tax is unchanged from the Mid-Year Update.

All Funds business tax receipts for 2012-13 are nearly $8.2 billion, or $240 million (2.9 percent) below the Mid-Year Update. The decrease is primarily the result of corporate franchise tax receipts. Lower gross receipts carried forward from 2011-12 and the negative impact of the December 2011 Special Session items ($45 million) are the primary reasons for the decrease from the Mid-Year Update. The changes from the Mid-Year Update for the other business taxes are modest.

BUSINESS TAXES
(millions of dollars)

	2012-13 Projected	2013-14 Projected	Annual $ Change	2014-15 Projected	Annual $ Change	2015-16 Projected	Annual $ Change
General Fund	**5,977**	**6,213**	**236**	**5,718**	**(495)**	**6,291**	**573**
Corporate Franchise Tax	2,844	3,024	180	2,335	(689)	2,736	401
Corporation & Utilities Tax	682	706	24	730	24	757	27
Insurance Tax	1,322	1,383	61	1,422	39	1,491	69
Bank Tax	1,129	1,100	(29)	1,231	131	1,307	76
State/All Funds	**8,152**	**8,452**	**300**	**8,042**	**(410)**	**8,674**	**632**
Corporate Franchise Tax	3,299	3,526	227	2,886	(640)	3,315	429
Corporation & Utilities Tax	877	904	27	930	26	963	33
Insurance Tax	1,463	1,533	70	1,579	46	1,654	75
Bank Tax	1,351	1,289	(62)	1,442	153	1,532	90
Petroleum Business Tax	1,162	1,200	38	1,205	5	1,210	5

All Funds business tax receipts for 2013-14, 2014-15, and 2015-16 reflect trend growth that is determined, in part, by the expected level of corporate profits, the expected profitability of banks, the change in taxable insurance premiums, residential energy expenditures and the consumption of telecommunications services. Business tax receipts are estimated to increase to $8.5 billion (3.7 percent) in 2013-14, decline to $8 billion (4.9 percent) in 2014-15, and increase to $8.7 billion (7.9 percent) in 2015-16. The decline in 2014-15 reflects the first year of the credit deferral payback to taxpayers. General Fund business tax receipts will reflect the factors outlined above, and are projected to increase to $6.2 billion (3.9 percent) in 2013-14, decline to $5.7 billion (8 percent) in 2013-14, and increase to $6.3 billion (10 percent) in 2015-16.

Other Taxes

OTHER TAXES (millions of dollars)	2010-11 Actual	2011-12 Estimated	Annual $ Change	Annual % Change	2012-13 Projected	Annual $ Change	Annual % Change
General Fund[1]	**1,237**	**1,212**	**(25)**	**-2.0%**	**1,144**	**(68)**	**-5.6%**
Estate Tax	1,218	1,195	(23)	-1.9%	1,127	(68)	-5.7%
Gift Tax	1	0	(1)	-100.0%	0	0	0.0%
Real Property Gains Tax	0	0	0	NA	0	0	0.0%
Pari-Mutuel Taxes	17	16	(1)	-5.9%	16	0	0.0%
All Other Taxes	1	1	0	0.0%	1	0	0.0%
State/All Funds	**1,817**	**1,832**	**15**	**0.8%**	**1,834**	**2**	**0.1%**
Estate Tax	1,218	1,195	(23)	-1.9%	1,127	(68)	-5.7%
Gift Tax	1	0	(1)	-100.0%	0	0	0.0%
Real Property Gains Tax	0	0	0	NA	0	0	0.0%
Real Estate Transfer Tax	580	620	40	6.9%	690	70	11.3%
Pari-Mutuel Taxes	17	16	(1)	-5.9%	16	0	0.0%
All Other Taxes	1	1	0	0.0%	1	0	0.0%

[1] Excludes Transfers.

All Funds other tax receipts for 2011-12 are estimated to be just over $1.8 billion, an increase of $15 million (0.8 percent) from 2010-11 receipts, reflecting decreases of $23 million (1.9 percent) in estate and gift taxes, as a result of a return to more historical collection patterns and an increase of $40 million (6.9 percent) in real estate transfer tax receipts, as the real estate market continues to rebound.

General Fund other tax receipts are expected to total more than $1.2 billion in fiscal year 2011-12, a decrease of $25 million (2 percent), due to the decrease in the estate tax.

All Funds other tax receipts for 2012-13 are projected to be approximately $1.8 billion, up $2 million (0.1 percent) from 2011-12 reflecting a decline in estate tax collections that are more than offset by growth in the real estate transfer tax. General Fund other tax receipts are expected to total $1,144 million in fiscal year 2012-13, a decrease of $68 million (5.6 percent), which is attributable to a projected decline in estate tax receipts due to a drop in the number and average size of payments expected in 2012-13.

OTHER TAXES CHANGE FROM MID-YEAR UPDATE FORECAST
(millions of dollars)

	2011-12				2012-13			
	Mid-Year Update	Executive Budget	$ Change	% Change	Mid-Year Update	Executive Budget	$ Change	% Change
General Fund[1]	**1,092**	**1,212**	**120**	**11.0%**	**1,087**	**1,144**	**57**	**5.2%**
Estate Tax	1,075	1,195	120	11.2%	1,070	1,127	57	5.3%
Gift Tax	0	0	0	0.0%	0	0	0	0.0%
Real Property Gains Tax	0	0	0	0.0%	0	0	0	0.0%
Pari-Mutuel Taxes	16	16	0	0.0%	16	16	0	0.0%
All Other Taxes	1	1	0	0.0%	1	1	0	0.0%
State/All Funds	**1,712**	**1,832**	**120**	**7.0%**	**1,777**	**1,834**	**57**	**3.2%**
Estate Tax	1,075	1,195	120	11.2%	1,070	1,127	57	5.3%
Gift Tax	0	0	0	0.0%	0	0	0	0.0%
Real Property Gains Tax	0	0	0	0.0%	0	0	0	0.0%
Real Estate Transfer Tax	620	620	0	0.0%	690	690	0	0.0%
Pari-Mutuel Taxes	16	16	0	0.0%	16	16	0	0.0%
All Other Taxes	1	1	0	0.0%	1	1	0	0.0%

[1] Excludes Transfers.

All Funds other tax receipts in 2011-12 are revised up by $120 million from the Mid-Year Update due entirely to an upward revision to estate tax receipts driven by stronger than-anticipated year-to-date results. All Funds other taxes for 2012-13 are revised up by $57 million in recognition of strength in current year estate tax receipts.

OTHER TAXES
(millions of dollars)

	2012-13 Projected	2013-14 Projected	Annual $ Change	2014-15 Projected	Annual $ Change	2015-16 Projected	Annual $ Change
General Fund[1]	**1,144**	**1,137**	**(7)**	**1,222**	**85**	**1,222**	**0**
Estate Tax	1,127	1,120	(7)	1,205	85	1,205	0
Gift Tax	0	0	0	0	0	0	0
Real Property Gains Tax	0	0	0	0	0	0	0
Pari-Mutuel Taxes	16	16	0	16	0	16	0
All Other Taxes	1	1	0	1	0	1	0
State/All Funds	**1,834**	**1,907**	**73**	**2,062**	**155**	**2,137**	**75**
Estate Tax	1,127	1,120	(7)	1,205	85	1,205	0
Gift Tax	0	0	0	0	0	0	0
Real Property Gains Tax	0	0	0	0	0	0	0
Real Estate Transfer Tax	690	770	80	840	70	915	75
Pari-Mutuel Taxes	16	16	0	16	0	16	0
All Other Taxes	1	1	0	1	0	1	0

[1] Excludes Transfers.

The 2013-14 All Funds receipts projection for other taxes of just over $1.9 billion represents an increase of $73 million (4 percent) from 2012-13 receipts. The forecast reflects continued increases in household net worth and the value of real property transfers.

The 2014-15 All Funds receipts projection for other taxes of nearly $2.1 billion is up $155 million (8.1 percent) from 2013-14 as continued growth in estate and real estate transfer tax collections is expected.

The 2015-16 All Funds receipts projection for other taxes is slightly more than $2.1 billion, up $75 million (3.6 percent) from 2014-15 receipts. Receipts from the real estate transfer tax are projected to increase, reflecting the continued rebound in residential and commercial transactions.

Miscellaneous Receipts and Federal Grants

MISCELLANEOUS RECEIPTS AND FEDERAL GRANTS
(millions of dollars)

	2010-11 Actual	2011-12 Estimated	Annual $ Change	Annual % Change	2012-13 Projected	Annual $ Change	Annual % Change
General Fund	**3,149**	**3,304**	**155**	**4.9%**	**3,129**	**(175)**	**-5.3%**
Miscellaneous Receipts[1]	3,095	3,244	149	4.8%	3,069	(175)	-5.4%
Federal Grants	54	60	6	11.1%	60	0	0.0%
State Funds	**23,111**	**23,845**	**734**	**3.2%**	**24,269**	**424**	**1.8%**
Miscellaneous Receipts[1]	22,994	23,700	706	3.1%	24,124	424	1.8%
Federal Grants	117	145	28	23.9%	145	0	0.0%
All Funds	**72,451**	**67,774**	**(4,677)**	**-6.5%**	**66,191**	**(1,583)**	**-2.3%**
Miscellaneous Receipts[1]	23,148	23,832	684	3.0%	24,255	423	1.8%
Federal Grants	49,303	43,942	(5,361)	-10.9%	41,936	(2,006)	-4.6%

[1] Includes receipts from motor vehicle fees and alcohol beverage control license fees, previously reflected as "user taxes and fees."

All funds miscellaneous receipts include monies received from HCRA financing sources, SUNY tuition and patient income, lottery receipts for education, assessments on regulated industries, and a variety of fees and licenses. All Funds miscellaneous receipts are projected to reach $23.8 billion in 2011-12, an increase of $684 million from 2010-11. Augmenting General Fund growth are (see below) growth in SUNY receipts, including bond proceeds available for SUNY capital projects ($694 million), and changes in bond proceed funding for several capital improvement projects including health and environmental conservation ($333 million).

Federal grants help pay for State spending on Medicaid, temporary and disability assistance, mental hygiene, school aid, public health, and other activities. Annual changes to Federal grants generally correspond to changes in federally-reimbursed spending. Accordingly, DOB typically plans that Federal reimbursement will be received in the State fiscal year in which spending occurs, but timing is often unpredictable. All Funds Federal grant are projected to total $43.9 billion in 2011-12, a decline of $5.4 billion from 2010-11 reflecting a decrease in Federal ARRA funding.

General Fund miscellaneous receipts collections are estimated to be $3.2 billion in 2011-12, an increase of $149 million from 2010-11 receipts. This increase is primarily due to timing of payments and the decreased dormancy period for abandoned property from five years to three years.

General fund miscellaneous receipts collections are projected to be $3.1 billion in 2012-13, a decrease of $175 million form 2011-12. This decrease is primarily the result of a decrease in the New York Power for Jobs program receipts and lower public authority receipts.

MISCELLANEOUS RECEIPTS AND FEDERAL GRANTS: CHANGE FROM MID-YEAR UPDATE FORECAST
(millions of dollars)

	2011-12				2012-13			
	Mid-Year Update	Executive Budget	$ Change	% Change	Mid-Year Update	Executive Budget	$ Change	% Change
General Fund[1]	**3,212**	**3,304**	**92**	**2.9%**	**3,084**	**3,129**	**45**	**1.5%**
Miscellaneous Receipts[2]	3,152	3,244	92	2.9%	3,024	3,069	45	1.5%
Federal Grants	60	60	0	0.0%	60	60	0	0.0%
State Funds	**23,313**	**23,845**	**532**	**2.3%**	**24,001**	**24,269**	**268**	**1.1%**
Miscellaneous Receipts[2]	23,168	23,700	532	2.3%	23,856	24,124	268	1.1%
Federal Grants	145	145	0	0.0%	145	145	0	0.0%
All Funds	**66,331**	**67,774**	**1,443**	**2.2%**	**63,521**	**66,191**	**2,670**	**4.2%**
Miscellaneous Receipts[2]	23,300	23,832	532	2.3%	23,987	24,255	268	1.1%
Federal Grants	43,031	43,942	911	2.1%	39,534	41,936	2,402	6.1%

[1] Excludes Transfers.
[2] Includes receipts from motor vehicle fees and alcohol beverage control license fees, previously reflected as "user taxes and fees."

General Fund miscellaneous receipts for 2011-12 have been revised upward by $92 million, reflecting re-estimates from stronger than expected year-to-date receipts and an upward revision of $25 million to the New York Power for Jobs program receipts.

All Funds miscellaneous receipts in 2011-12 were revised upward by $532 million largely reflecting increased projections for programs financed with authority bond proceeds, including economic development ($343 million) and modest receipts revisions in various special revenue funds($81 million) and general fund increase detailed below.

General Fund miscellaneous receipts for fiscal year 2012-13 have been revised upward by $45 million. This revision is the result of upward re-estimates in fees and abandoned property slightly offset by a downward revision to New York Power for Jobs program.

All Funds miscellaneous receipts in 2012-13 were revised upward by $268 million largely reflecting increased projections for programs financed with authority bond proceeds, including economic development, transportation and parks ($370 million) offset by declines in lottery receipts and receipts revisions in various special revenue funds ($146 million).

All Funds Federal grants were revised upward in 2011-12 and 2012-13 from Mid-Year by $911 million and $2 billion, respectively primarily driven by revisions to Medicaid spending.

MISCELLANEOUS RECEIPTS AND FEDERAL GRANTS (millions of dollars)	2012-13 Projected	2013-14 Projected	Annual $ Change	2014-15 Projected	Annual $ Change	2015-16 Projected	Annual $ Change
General Fund	**3,129**	**2,638**	**(491)**	**2,243**	**(395)**	**2,336**	**93**
Miscellaneous Receipts[1]	3,069	2,636	(433)	2,243	(393)	2,336	93
Federal Grants	60	2	(58)	0	(2)	0	0
State Funds	**24,269**	**24,114**	**(155)**	**23,841**	**(273)**	**23,973**	**132**
Miscellaneous Receipts[1]	24,124	24,027	(97)	23,756	(271)	23,888	132
Federal Grants	145	87	(58)	85	(2)	85	0
All Funds	**66,191**	**67,696**	**1,505**	**70,508**	**2,812**	**72,472**	**1,964**
Miscellaneous Receipts[1]	24,255	24,158	(97)	23,887	(271)	24,019	132
Federal Grants	41,936	43,538	1,602	46,621	3,083	48,453	1,832

[1] Includes receipts from motor vehicle fees and alcohol beverage control license fees, previously reflected as "user taxes and fees."

General Fund miscellaneous receipts and Federal Grants are estimated to be $2.6 billion in 2013-14, down $491 million from 2012-13 receipts. This decrease is primarily due to lower 18-A public utility assessments, lower fee estimates, and a change in how Federal grants are reimbursed.

General Fund miscellaneous receipts and Federal grants in 2014-15 are projected to be $2.2 billion, down $393 million from 2013-14. This decrease primarily results from lower 18-A public utility assessments.

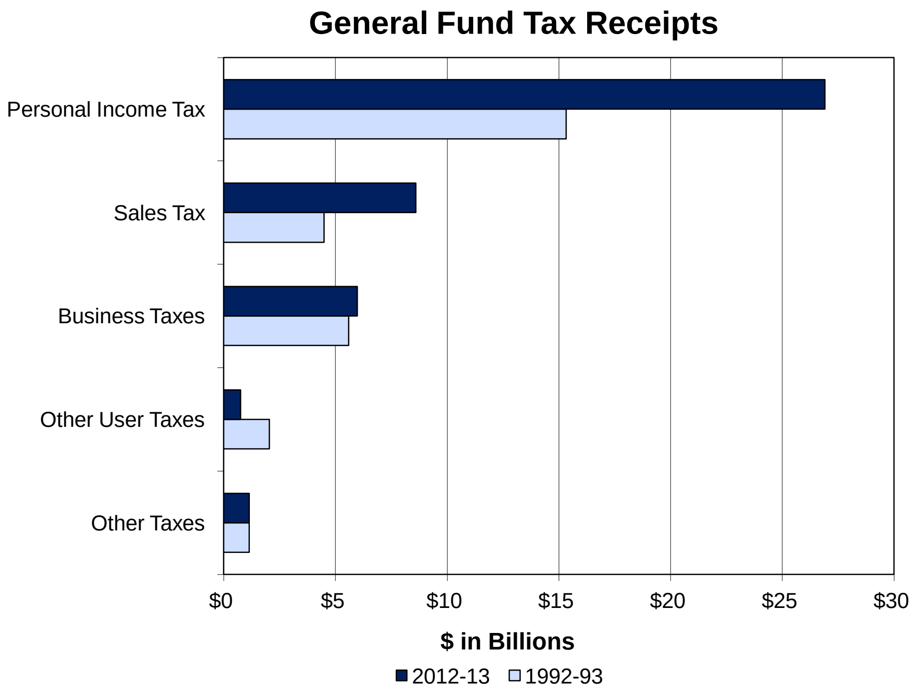
General Fund miscellaneous receipts and Federal grants in 2015-16 are projected to be just over $2.3 billion, an increase of $93 million from the prior year. This increase primarily results from an increase in the New York Power of Jobs program receipts.

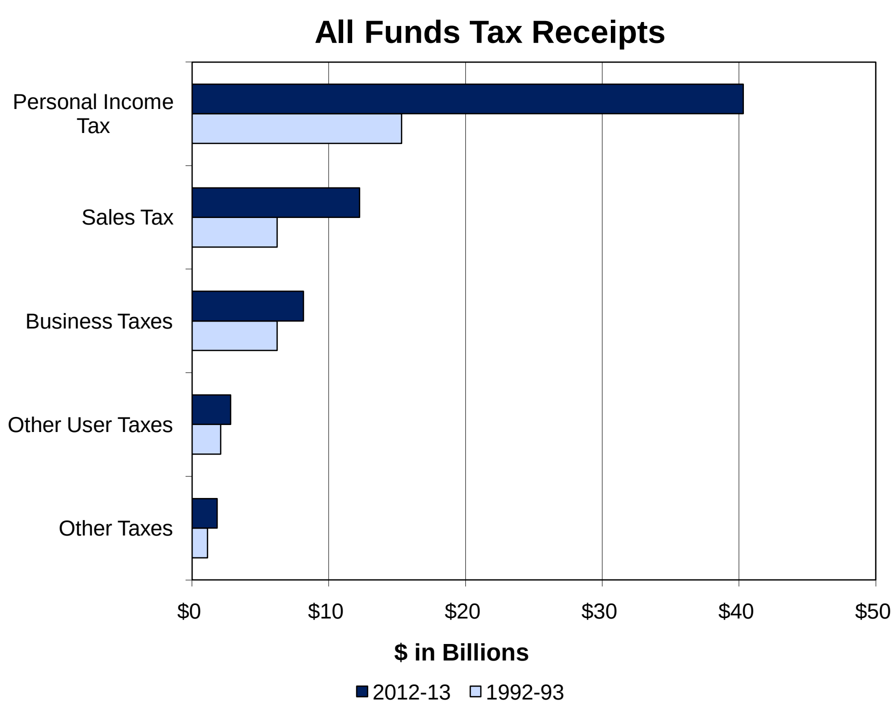
All Funds miscellaneous receipts are projected to total $24.2 billion in 2013-14, a decrease of $97 million from 2012-13. General Fund reductions described above are offset by growth in other areas, primarily HCRA ($179 million) and SUNY receipts ($167 million).

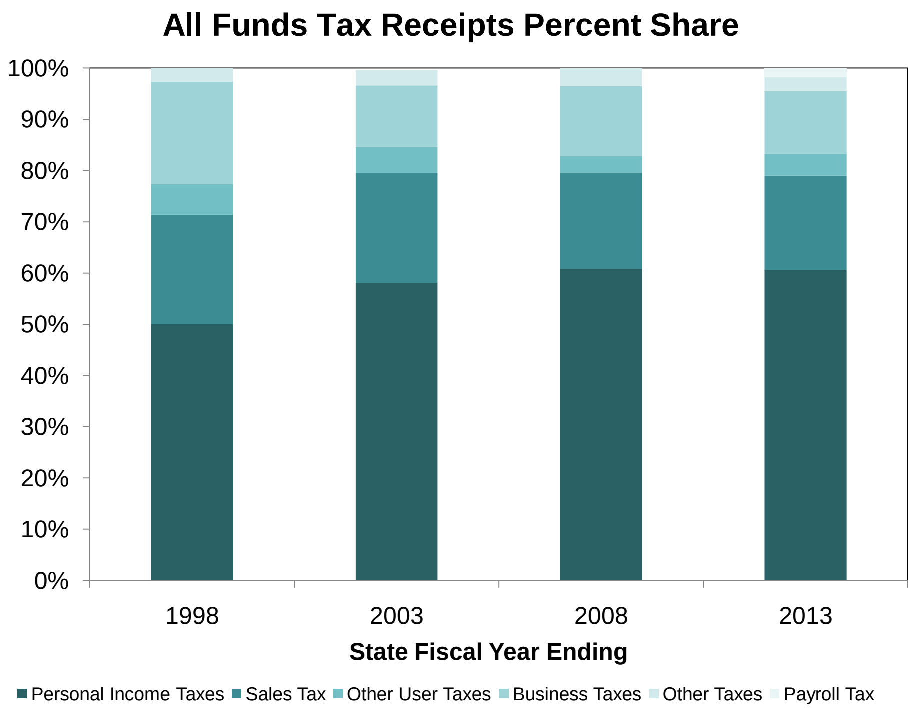
All Funds miscellaneous receipts decrease by $271 million in 2014-15, driven by the decline in General Funds and the projected decline in programs financed with authority bond proceeds, including health projects ($169 million) partially offset by increases in HCRA ($119 million) and SUNY receipts ($159 million).

All Funds miscellaneous receipts are projected to total $24 billion in 2015-16, an increase of $132 million from 2014-15 driven by General Fund increases described above.

All Funds Federal grants are projected to increase in all years driven primarily by Medicaid spending.






All Funds Tax Receipts Percent Share
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
1998
2003
2008
2013
State Fiscal Year Ending
Personal Income Taxes
Sales Tax
Other User Taxes
Business Taxes
Other Taxes
Payroll Tax

CURRENT STATE RECEIPTS
ALL GOVERNMENTAL FUNDS
2011-12 and 2012-13
(millions of dollars)

	2011-12 Revised	2012-13 Executive	Annual $ Change
Taxes:			
Withholdings	31,197	32,598	1,401
Estimated Payments	11,530	12,212	682
Final Payments	2,125	2,203	78
Other Payments	1,039	1,104	65
Gross Collections	45,891	48,117	2,226
State/City Offset	(358)	(298)	60
Refunds	(6,869)	(7,508)	(639)
Reported Tax Collections	38,664	40,311	1,647
STAR (Dedicated Deposits)	0	0	0
RBTF (Dedicated Transfers)	0	0	0
Personal Income Tax	38,664	40,311	1,647
Sales and Use Tax	11,997	12,246	249
Cigarette and Tobacco Taxes	1,665	1,733	68
Motor Fuel Tax	501	515	14
Alcoholic Beverage Taxes	233	238	5
Highw ay Use Tax	134	147	13
Auto Rental Tax	104	109	5
Taxicab Surcharge	85	88	3
Gross Utility Taxes and Fees	14,719	15,076	357
LGAC Sales Tax (Dedicated Transfers)	0	0	0
User Taxes and Fees	14,719	15,076	357
Corporation Franchise Tax	3,231	3,299	68
Corporation and Utilities Tax	815	877	62
Insurance Taxes	1,413	1,463	50
Bank Tax	1,374	1,351	(23)
Petroleum Business Tax	1,089	1,162	73
Business Taxes	7,922	8,152	230
Estate Tax	1,195	1,127	(68)
Real Estate Transfer Tax	620	690	70
Gift Tax	0	0	0
Real Property Gains Tax	0	0	0
Pari-Mutuel Taxes	16	16	0
Other Taxes	1	1	0
Gross Other Taxes	1,832	1,834	2
Real Estate Transfer Tax (Dedicated)	0	0	0
Other Taxes	1,832	1,834	2
Payroll Tax	1,396	1,160	(236)
Total Taxes	64,533	66,533	2,000
Licenses, Fees, Etc.	620	661	41
Abandoned Property	755	785	30
Motor Vehicle Fees	1,400	1,380	(20)
ABC License Fee	55	51	(4)
Reimbursements	222	202	(20)
Investment Income	10	10	0
Other Transactions	20,770	21,167	397
Miscellaneous Receipts	23,832	24,256	424
Federal Grants	43,942	41,935	(2,007)
Total	132,307	132,724	417

RECEIPTS OVERVIEW

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2011-12
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Taxes:					
Withholdings	31,197	0	0	0	31,197
Estimated Payments	11,530	0	0	0	11,530
Final Payments	2,125	0	0	0	2,125
Other Payments	1,039	0	0	0	1,039
Gross Collections	45,891	0	0	0	45,891
State/City Offset	(358)	0	0	0	(358)
Refunds	(6,869)	0	0	0	(6,869)
Reported Tax Collections	38,664	0	0	0	38,664
STAR (Dedicated Deposits)	(3,293)	3,293	0	0	0
RBTF (Dedicated Transfers)	(9,666)	0	0	9,666	0
Personal Income Tax	25,705	3,293	0	9,666	38,664
Sales and Use Tax	11,235	762	0	0	11,997
Cigarette and Tobacco Taxes	476	1,189	0	0	1,665
Motor Fuel Tax	0	105	396	0	501
Alcoholic Beverage Taxes	233	0	0	0	233
Highw ay Use Tax	0	0	134	0	134
Auto Rental Tax	0	39	65	0	104
Taxicab Surcharge	0	85	0	0	85
Gross Utility Taxes and Fees	11,944	2,180	595	0	14,719
LGAC Sales Tax (Dedicated Transfers)	(2,809)	0	0	2,809	0
User Taxes and Fees	9,135	2,180	595	2,809	14,719
Corporation Franchise Tax	2,825	406	0	0	3,231
Corporation and Utilities Tax	626	174	15	0	815
Insurance Taxes	1,274	139	0	0	1,413
Bank Tax	1,143	231	0	0	1,374
Petroleum Business Tax	0	484	605	0	1,089
Business Taxes	5,868	1,434	620	0	7,922
Estate Tax	1,195	0	0	0	1,195
Real Estate Transfer Tax	620	0	0	0	620
Gift Tax	0	0	0	0	0
Real Property Gains Tax	0	0	0	0	0
Pari-Mutuel Taxes	16	0	0	0	16
Other Taxes	1	0	0	0	1
Gross Other Taxes	1,832	0	0	0	1,832
Real Estate Transfer Tax (Dedicated)	(620)	0	119	501	0
Other Taxes	1,212	0	119	501	1,832
Payroll Tax	0	1,396	0	0	1,396
Total Taxes	41,920	8,303	1,334	12,976	64,533
Licenses, Fees, Etc.	620	0	0	0	620
Abandoned Property	755	0	0	0	755
Motor Vehicle Fees	112	486	802	0	1,400
ABC License Fee	55	0	0	0	55
Reimbursements	222	0	0	0	222
Investment Income	10	0	0	0	10
Other Transactions	1,470	14,793	3,558	949	20,770
Miscellaneous Receipts	3,244	15,279	4,360	949	23,832
Federal Grants	60	41,601	2,202	79	43,942
Total	45,224	65,183	7,896	14,004	132,307

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2012-13
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Taxes:					
Withholdings	32,598	0	0	0	32,598
Estimated Payments	12,212	0	0	0	12,212
Final Payments	2,203	0	0	0	2,203
Other Payments	1,104	0	0	0	1,104
Gross Collections	48,117	0	0	0	48,117
State/City Offset	(298)	0	0	0	(298)
Refunds	(7,508)	0	0	0	(7,508)
Reported Tax Collections	40,311	0	0	0	40,311
STAR (Dedicated Deposits)	(3,322)	3,322	0	0	0
RBTF (Dedicated Transfers)	(10,078)	0	0	10,078	0
Personal Income Tax	26,911	3,322	0	10,078	40,311
Sales and Use Tax	11,455	791	0	0	12,246
Cigarette and Tobacco Taxes	511	1,222	0	0	1,733
Motor Fuel Tax	0	108	407	0	515
Alcoholic Beverage Taxe	238	0	0	0	238
Highw ay Use Tax	0	0	147	0	147
Auto Rental Tax	0	41	68	0	109
Taxicab Surcharge	0	88	0	0	88
Gross Utility Taxes and Fees	12,204	2,250	622	0	15,076
LGAC Sales Tax (Dedicated Transfers)	(2,863)	0	0	2,863	0
User Taxes and Fees	9,341	2,250	622	2,863	15,076
Corporation Franchise Tax	2,844	455	0	0	3,299
Corporation and Utilities Tax	682	180	15	0	877
Insurance Taxes	1,322	141	0	0	1,463
Bank Tax	1,129	222	0	0	1,351
Petroleum Business Tax	0	517	645	0	1,162
Business Taxes	5,977	1,515	660	0	8,152
Estate Tax	1,127	0	0	0	1,127
Real Estate Transfer Tax	690	0	0	0	690
Gift Tax	0	0	0	0	0
Real Property Gains Tax	0	0	0	0	0
Pari-Mutuel Taxes	16	0	0	0	16
Other Taxes	1	0	0	0	1
Gross Other Taxes	1,834	0	0	0	1,834
Real Estate Transfer Tax (Dedicated)	(690)	0	119	571	0
Other Taxes	1,144	0	119	571	1,834
Payroll Tax	0	1,160	0	0	1,160
Total Taxes	43,373	8,247	1,401	13,512	66,533
Licenses, Fees, Etc.	661	0	0	0	661
Abandoned Property	785	0	0	0	785
Motor Vehicle Fees	99	482	799	0	1,380
ABC License Fee	51	0	0	0	51
Reimbursements	202	0	0	0	202
Investment Income	10	0	0	0	10
Other Transactions	1,262	15,603	3,306	996	21,167
Miscellaneous Receipts	3,070	16,085	4,105	996	24,256
Federal Grants	60	39,711	2,085	79	41,935
Total	46,503	64,043	7,591	14,587	132,724

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2013-14
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Taxes:					
Withholdings	34,667	0	0	0	34,667
Estimated Payments	13,063	0	0	0	13,063
Final Payments	2,170	0	0	0	2,170
Other Payments	1,136	0	0	0	1,136
Gross Collections	51,036	0	0	0	51,036
State/City Offset	(198)	0	0	0	(198)
Refunds	(7,760)	0	0	0	(7,760)
Reported Tax Collections	43,078	0	0	0	43,078
STAR (Dedicated Deposits)	(3,505)	3,505	0	0	0
RBTF (Dedicated Transfers)	(10,770)	0	0	10,770	0
Personal Income Tax	28,803	3,505	0	10,770	43,078
Sales and Use Tax	11,937	822	0	0	12,759
Cigarette and Tobacco Taxes	510	1,199	0	0	1,709
Motor Fuel Tax	0	109	407	0	516
Alcoholic Beverage Taxes	242	0	0	0	242
Highway Use Tax	0	0	142	0	142
Auto Rental Tax	0	43	71	0	114
Taxicab Surcharge	0	90	0	0	90
Gross Utility Taxes and Fees	12,689	2,263	620	0	15,572
LGAC Sales Tax (Dedicated Transfers)	(2,983)	0	0	2,983	0
User Taxes and Fees	9,706	2,263	620	2,983	15,572
Corporation Franchise Tax	3,024	502	0	0	3,526
Corporation and Utilities Tax	706	183	15	0	904
Insurance Taxes	1,383	150	0	0	1,533
Bank Tax	1,100	189	0	0	1,289
Petroleum Business Tax	0	534	666	0	1,200
Business Taxes	6,213	1,558	681	0	8,452
Estate Tax	1,120	0	0	0	1,120
Real Estate Transfer Tax	770	0	0	0	770
Gift Tax	0	0	0	0	0
Real Property Gains Tax	0	0	0	0	0
Pari-Mutuel Taxes	16	0	0	0	16
Other Taxes	1	0	0	0	1
Gross Other Taxes	1,907	0	0	0	1,907
Real Estate Transfer Tax (Dedicated)	(770)	0	119	651	0
Other Taxes	1,137	0	119	651	1,907
Payroll Tax	0	1,242	0	0	1,242
Total Taxes	45,859	8,568	1,420	14,404	70,251
Licenses, Fees, Etc.	606	0	0	0	606
Abandoned Property	670	0	0	0	670
Motor Vehicle Fees	26	481	811	0	1,318
ABC License Fee	50	0	0	0	50
Reimbursements	202	0	0	0	202
Investment Income	30	0	0	0	30
Other Transactions	1,051	16,016	3,171	1,043	21,281
Miscellaneous Receipts	2,635	16,497	3,982	1,043	24,157
Federal Grants	2	41,305	2,152	79	43,538
Total	48,496	66,370	7,554	15,526	137,946

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2014-15
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Taxes:					
Withholdings	36,032	0	0	0	36,032
Estimated Payments	13,702	0	0	0	13,702
Final Payments	2,167	0	0	0	2,167
Other Payments	1,238	0	0	0	1,238
Gross Collections	53,139	0	0	0	53,139
State/City Offset	(148)	0	0	0	(148)
Refunds	(8,631)	0	0	0	(8,631)
Reported Tax Collections	44,360	0	0	0	44,360
STAR (Dedicated Deposits)	(3,688)	3,688	0	0	0
RBTF (Dedicated Transfers)	(11,090)	0	0	11,090	0
Personal Income Tax	29,582	3,688	0	11,090	44,360
Sales and Use Tax	12,496	852	0	0	13,348
Cigarette and Tobacco Taxes	503	1,177	0	0	1,680
Motor Fuel Tax	0	109	410	0	519
Alcoholic Beverage Taxes	247	0	0	0	247
Highway Use Tax	0	0	144	0	144
Auto Rental Tax	0	45	74	0	119
Taxicab Surcharge	0	90	0	0	90
Gross Utility Taxes and Fees	13,246	2,273	628	0	16,147
LGAC Sales Tax (Dedicated Transfers)	(3,123)	0	0	3,123	0
User Taxes and Fees	10,123	2,273	628	3,123	16,147
Corporation Franchise Tax	2,335	551	0	0	2,886
Corporation and Utilities Tax	730	185	15	0	930
Insurance Taxes	1,422	157	0	0	1,579
Bank Tax	1,231	211	0	0	1,442
Petroleum Business Tax	0	537	668	0	1,205
Business Taxes	5,718	1,641	683	0	8,042
Estate Tax	1,205	0	0	0	1,205
Real Estate Transfer Tax	840	0	0	0	840
Gift Tax	0	0	0	0	0
Real Property Gains Tax	0	0	0	0	0
Pari-Mutuel Taxes	16	0	0	0	16
Other Taxes	1	0	0	0	1
Gross Other Taxes	2,062	0	0	0	2,062
Real Estate Transfer Tax (Dedicated)	(840)	0	119	721	0
Other Taxes	1,222	0	119	721	2,062
Payroll Tax	0	1,329	0	0	1,329
Total Taxes	46,645	8,931	1,430	14,934	71,940
Licenses, Fees, Etc.	594	0	0	0	594
Abandoned Property	655	0	0	0	655
Motor Vehicle Fees	26	481	811	0	1,318
ABC License Fee	50	0	0	0	50
Reimbursements	202	0	0	0	202
Investment Income	30	0	0	0	30
Other Transactions	687	16,286	3,002	1,064	21,039
Miscellaneous Receipts	2,244	16,767	3,813	1,064	23,888
Federal Grants	0	44,571	1,971	79	46,621
Total	48,889	70,269	7,214	16,077	142,449

CURRENT STATE RECEIPTS
GENERAL FUND
2011-12 and 2012-13
(millions of dollars)

	2011-12 Revised	2012-13 Executive	Annual $ Change
Taxes:			
Withholdings	31,197	32,598	1,401
Estimated Payments	11,530	12,212	682
Final Payments	2,125	2,203	78
Other Payments	1,039	1,104	65
Gross Collections	45,891	48,117	2,226
State/City Offset	(358)	(298)	60
Refunds	(6,869)	(6,869)	0
Reported Tax Collections	38,664	40,311	2,286
STAR (Dedicated Deposits)	(3,293)	(3,322)	(29)
RBTF (Dedicated Transfers)	(9,666)	(10,078)	(412)
Personal Income Tax	25,705	26,911	1,845
Sales and Use Tax	11,235	11,455	220
Cigarette and Tobacco Taxes	476	511	35
Motor Fuel Tax	0	0	0
Alcoholic Beverage Taxes	233	238	5
Highw ay Use Tax	0	0	0
Auto Rental Tax	0	0	0
Taxicab Surcharge	0	0	0
Gross Utility Taxes and Fees	11,944	12,204	260
LGAC Sales Tax (Dedicated Transfers)	(2,809)	(2,863)	(54)
User Taxes and Fees	9,135	9,341	206
Corporation Franchise Tax	2,825	2,844	19
Corporation and Utilities Tax	626	682	56
Insurance Taxes	1,274	1,322	48
Bank Tax	1,143	1,129	(14)
Petroleum Business Tax	0	0	0
Business Taxes	5,868	5,977	109
Estate Tax	1,195	1,127	(68)
Real Estate Transfer Tax	620	690	70
Gift Tax	0	0	0
Real Property Gains Tax	0	0	0
Pari-Mutuel Taxes	16	16	0
Other Taxes	1	1	0
Gross Other Taxes	1,832	1,834	2
Real Estate Transfer Tax (Dedicated)	(620)	(690)	(70)
Other Taxes	1,212	1,144	(68)
Payroll Tax	0	0	0
Total Taxes	41,920	43,373	2,092
Licenses, Fees, Etc.	620	661	41
Abandoned Property	755	785	30
Motor Vehicle Fees	112	99	(13)
ABC License Fee	55	51	(4)
Reimbursements	222	202	(20)
Investment Income	10	10	0
Other Transactions	1,470	1,262	(208)
Miscellaneous Receipts	3,244	3,070	(174)
Federal Grants	60	60	0
Total	45,224	46,503	1,918

CASH RECEIPTS
CURRENT STATE RECEIPTS
GENERAL FUND
2012-13 THROUGH 2015-16
(millions of dollars)

	2012-13 Executive	2013-14 Projected	2014-15 Projected	2015-16 Projected
Taxes:				
Withholdings	32,598	34,667	36,032	37,947
Estimated Payments	12,212	13,063	13,702	13,560
Final Payments	2,203	2,170	2,167	2,267
Other Payments	1,104	1,136	1,238	1,288
Gross Collections	48,117	51,036	53,139	55,062
State/City Offset	(298)	(198)	(148)	(148)
Refunds	(7,508)	(7,760)	(8,631)	(9,106)
Reported Tax Collections	40,311	43,078	44,360	45,808
STAR (Dedicated Deposits)	(3,322)	(3,505)	(3,688)	(3,790)
RBTF (Dedicated Transfers)	(10,078)	(10,770)	(11,090)	(11,452)
Personal Income Tax	26,911	28,803	29,582	30,566
Sales and Use Tax	11,455	11,937	12,496	12,992
Cigarette and Tobacco Taxes	511	510	503	495
Motor Fuel Tax	0	0	0	0
Alcoholic Beverage Taxes	238	242	247	247
Highw ay Use Tax	0	0	0	0
Auto Rental Tax	0	0	0	0
Taxicab Surcharge	0	0	0	0
Gross Utility Taxes and Fees	12,204	12,689	13,246	13,734
LGAC Sales Tax (Dedicated Transfers)	(2,863)	(2,983)	(3,123)	(3,247)
User Taxes and Fees	9,341	9,706	10,123	10,487
Corporation Franchise Tax	2,844	3,024	2,335	2,736
Corporation and Utilities Tax	682	706	730	757
Insurance Taxes	1,322	1,383	1,422	1,491
Bank Tax	1,129	1,100	1,231	1,307
Petroleum Business Tax	0	0	0	0
Business Taxes	5,977	6,213	5,718	6,291
Estate Tax	1,127	1,120	1,205	1,205
Real Estate Transfer Tax	690	770	840	915
Gift Tax	0	0	0	0
Real Property Gains Tax	0	0	0	0
Pari-Mutuel Taxes	16	16	16	16
Other Taxes	1	1	1	1
Gross Other Taxes	1,834	1,907	2,062	2,137
Real Estate Transfer Tax (Dedicated)	(690)	(770)	(840)	(915)
Other Taxes	1,144	1,137	1,222	1,222
Payroll Tax	0	0	0	0
Total Taxes	43,373	45,859	46,645	48,566
Licenses, Fees, Etc.	661	606	594	585
Abandoned Property	785	670	655	655
Motor Vehicle Fees	99	26	26	26
ABC License Fee	51	50	50	50
Reimbursements	202	202	202	202
Investment Income	10	30	30	30
Other Transactions	1,262	1,051	687	788
Miscellaneous Receipts	3,070	2,635	2,244	2,336
Federal Grants	60	2	0	0
Total	46,503	48,496	48,889	50,902

SPECIAL REVENUE FUNDS
2011-12 and 2012-13
(millions of dollars)

	FY 2012 Revised	FY 2013 Executive	Annual $ Change
Personal Income Tax	3,293	3,322	29
User Taxes and Fees	2,180	2,250	70
Sales and Use Tax	762	791	29
Cigarette and Tobacco Taxes	1,189	1,222	33
Motor Fuel Tax	105	108	3
Auto Rental Tax	39	41	2
Taxicab Surcharge	85	88	3
Business Taxes	1,434	1,515	81
Corporation Franchise Tax	406	455	49
Corporation and Utilities Tax	174	180	6
Insurance Taxes	139	141	2
Bank Tax	231	222	(9)
Petroleum Business Tax	484	517	33
Payroll Tax	1,396	1,160	(236)
Total Taxes	8,303	8,247	(56)
Miscellaneous Receipts	15,279	16,085	806
HCRA	4,170	4,807	637
State University Income	3,768	4,059	291
Lottery	2,934	3,185	251
Medicaid	870	831	(39)
Industry Assessments	753	766	13
Motor Vehicle Fees	486	482	(4)
All Other	2,298	1,955	(343)
Federal Grants	41,601	39,711	(1,890)
Total	65,183	64,043	(1,140)

CASH RECEIPTS
SPECIAL REVENUE FUNDS
2012-13 THROUGH 2015-16
(millions of dollars)

	2012-13 Projected	2013-14 Projected	2014-15 Projected	2015-16 Projected
Personal Income Tax	3,322	3,505	3,688	3,790
User Taxes and Fees	2,250	2,263	2,273	2,284
Sales and Use Tax	791	822	852	882
Cigarette and Tobacco Taxes	1,222	1,199	1,177	1,155
Motor Fuel Tax	108	109	109	110
Auto Rental Tax	41	43	45	47
Taxicab Surcharge	88	90	90	90
Business Taxes	1,515	1,558	1,641	1,697
Corporation Franchise Tax	455	502	551	579
Corporation and Utilities Tax	180	183	185	191
Insurance Taxes	141	150	157	163
Bank Tax	222	189	211	225
Petroleum Business Tax	517	534	537	539
Payroll Tax	1,160	1,242	1,329	1,418
Total Taxes	8,247	8,568	8,931	9,189
Miscellaneous Receipts	16,085	16,497	16,767	16,812
HCRA	4,807	4,986	5,105	5,105
State University Income	4,059	4,225	4,385	4,442
Lottery	3,185	3,244	3,250	3,252
Medicaid	831	823	826	826
Industry Assessments	766	769	776	783
Motor Vehicle Fees	482	481	481	481
All Other	1,955	1,969	1,944	1,923
Federal Grants	39,711	41,305	44,571	46,718
Total	64,043	66,370	70,269	72,719

CASH RECEIPTS
CAPITAL PROJECTS FUNDS
2011-12 and 2012-13
(millions of dollars)

	2011-12 Revised	2012-13 Executive	Annual $ Change
User Taxes and Fees	595	622	27
Motor Fuel Tax	396	407	11
Highway Use Tax	134	147	13
Auto Rental Tax	65	68	3
Business Taxes	620	660	40
Corporation and Utilities Tax	15	15	0
Petroleum Business Tax	605	645	40
Other Taxes	119	119	0
Real Estate Transfer Tax	119	119	0
Total Taxes	1,334	1,401	67
Miscellaneous Receipts	4,360	4,105	(255)
Authority Bond Proceeds	3,388	3,115	(273)
State Park Fees	33	87	54
Environmental Revenues	77	77	0
Motor Vehicle Fees	802	799	(3)
All Other	60	27	(33)
Federal Grants	2,202	2,085	(117)
Total	7,896	7,591	(305)

CASH RECEIPTS
CAPITAL PROJECTS FUNDS
2012-13 THROUGH 2015-16
(millions of dollars)

	2012-13 Projected	2013-14 Projected	2014-15 Projected	2015-16 Projected
User Taxes and Fees	622	620	628	641
Motor Fuel Tax	407	407	410	412
Highw ay Use Tax	147	142	144	152
Auto Rental Tax	68	71	74	77
Business Taxes	660	681	683	686
Corporation and Utilities Tax	15	15	15	15
Petroleum Business Tax	645	666	668	671
Other Taxes	119	119	119	119
Real Estate Transfer Tax	119	119	119	119
Total Taxes	1,401	1,420	1,430	1,446
Miscellaneous Receipts	4,105	3,982	3,813	3,809
Authority Bond Proceeds	3,115	2,978	2,768	2,728
State Park Fees	87	60	47	33
Environmental Revenues	77	77	77	77
Motor Vehicle Fees	799	811	811	811
All Other	27	56	110	160
Federal Grants	2,085	2,152	1,971	1,655
Total	7,591	7,554	7,214	6,910

CASH RECEIPTS
DEBT SERVICE FUNDS
2011-12 and 2012-13
(millions of dollars)

	2011-12 Revised	2012-13 Executive	Annual $ Change
Personal Income Tax	9,666	10,078	412
User Taxes and Fees	2,809	2,863	54
Sales and Use Tax	2,809	2,863	54
Other Taxes	501	571	70
Real Estate Transfer Tax	501	571	70
Total Taxes	12,976	13,512	536
Miscellaneous Receipts	949	996	47
Mental Hygiene Patient Receipts	325	352	27
SUNY Dormitory Fees	482	505	23
Health Patient Receipts	128	128	0
All Other	14	11	(3)
Federal Grants	79	79	0
Total	14,004	14,587	583

CASH RECEIPTS
DEBT SERVICE FUNDS
2012-13 THROUGH 2015-16
(millions of dollars)

	2012-13 Projected	2013-14 Projected	2014-15 Projected	2015-16 Projected
Personal Income Tax	10,078	10,770	11,090	11,452
User Taxes and Fees	2,863	2,983	3,123	3,247
Sales and Use Tax	2,863	2,983	3,123	3,247
Other Taxes	571	651	721	796
Real Estate Transfer Tax	571	651	721	796
Total Taxes	13,512	14,404	14,934	15,495
Miscellaneous Receipts	996	1,043	1,064	1,062
Mental Hygiene Patient Receipts	352	375	403	403
SUNY Dormitory Fees	505	529	554	554
Health Patient Receipts	128	128	98	98
All Other	11	11	9	7
Federal Grants	79	79	79	79
Total	14,587	15,526	16,077	16,636

CASH FLOW

CASH FLOW

The following tables report monthly cash flow for All Funds tax receipts. Actual results are provided for the first nine months of the current State fiscal year, and estimates are reported for the remainder of 2011-12 and all of 2012-13. The monthly estimates for 2012-13 are primarily based on average shares from prior years adjusted for proposed and previously enacted law changes that will impact normal cash flow. This section contains sub-headings that detail actual cash flow results through December and compare them with Mid-Year estimates and the Enacted Budget estimates. This section also contains charts showing monthly General, Special Revenue, Capital Projects and Debt Service Funds cash flows for total taxes and major tax categories and General Fund miscellaneous receipts and Federal grants.

PERSONAL INCOME TAX

The personal income tax cash flow for 2011-12 has continued the atypical pattern of recent years. The April settlement in extensions was especially strong, growing by over 50 percent from the previous year. However, current year estimated tax payments, after showing strong growth in April, June, and September, declined markedly in December and January. Finally, withholding is expected to decline in the fourth quarter, due to both weakness in financial sector bonuses, and the expiration of the 2009 temporary tax increase. The December 2011 reform legislation represents a withholding tax reduction of over $600 million in the fourth quarter compared to the 2009-2011 law. Cash flow for 2012-13 is expected to exhibit a more normal pattern, especially since The December 2011 reform legislation will be fully in effect for the entire year.

USER TAXES AND FEES

The cash flow pattern in user taxes and fees follows a quarterly pattern, with months at the conclusion of calendar quarters that are larger, reflecting the impact of quarterly taxpayers. The 2012-13 cash flow for sales tax and other taxes in this category are expected to be consistent with historical averages modified for tax law changes and audits. Historically, the fourth-quarter share has been slightly smaller than the other quarters.

BUSINESS TAXES

General Fund cash flow for business taxes typically follows a pattern of large monthly collections in June, September, December and March. This pattern can be affected by large audit and compliance collections as well as large refunds. In 2011-12, the monthly cash flow pattern is expected to be impacted by several large audit cases in the last four months of the fiscal year.

OTHER TAXES

General Fund cash flow for other taxes is dominated by the estate tax. Unlike most taxes that have cash flow patterns determined by statute and possible seasonal influences, the estate tax follows no regular pattern during the year. Prior year cash flow gives little guidance to future cash flow patterns. As a working concept, monthly cash flow for the estate tax for 2012-13 is assumed to be uniform throughout the fiscal year. A minor portion of the tax category comes from pari-mutuel taxes on horse racing which display some seasonality but have little impact on overall cash flow.

GENERAL FUND 2011-12 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	**4,153**	**1,072**	**2,611**	**1,650**	**1,828**	**2,689**	**1,540**	**1,561**	**179**	**4,849**	**1,929**	**1,645**	**25,706**
Gross collections	8,052	2,462	4,168	2,318	2,563	3,960	2,566	2,681	3,855	6,528	3,511	3,226	45,891
Refunds	(2,514)	(1,034)	(166)	(117)	(125)	(138)	(504)	(553)	(157)	(62)	(940)	(917)	(7,227)
STAR Fund deposit			(392)			(178)	(7)	(36)	(2,594)			(87)	(3,293)
DRRF deposit/RBTF	(1,385)	(357)	(1,001)	(550)	(609)	(956)	(516)	(532)	(924)	(1,616)	(643)	(577)	(9,666)
User taxes and fees	**689**	**667**	**892**	**716**	**688**	**881**	**698**	**689**	**916**	**735**	**626**	**939**	**9,135**
Sales and use taxes	633	611	830	642	628	819	637	633	852	674	581	887	8,426
Cigarette and tobacco taxes	37	38	43	48	45	41	41	43	37	37	31	35	476
Alcoholic beverage taxes	19	19	19	26	16	22	19	13	27	24	13	17	233
Business taxes	**161**	**28**	**1,173**	**(36)**	**43**	**1,021**	**59**	**110**	**1,160**	**112**	**199**	**1,839**	**5,868**
Corporation franchise tax	142	19	541	(3)	29	433	46	68	484	118	204	745	2,825
Corp. & utilities taxes	(4)	1	89	7	1	151	(0)	1	144	2	2	233	626
Insurance taxes	0	5	280	2	8	246	2	(1)	220	(4)	(3)	519	1,274
Bank tax	23	3	263	(42)	5	191	11	43	313	(5)	(5)	343	1,143
Other taxes	**67**	**132**	**75**	**88**	**109**	**117**	**98**	**106**	**77**	**114**	**114**	**115**	**1,212**
Estate & gift tax	66	131	73	87	107	115	96	104	76	113	113	114	1,195
Real property gains tax	-	-	-	-	-	-	-	-	-	-	-	-	-
Pari-mutuel taxes	1	1	2	1	2	2	1	1	1	1	1	1	16
Other taxes	-	-	0	-	0	0	-	0	0	-	-	-	1
TOTAL	**5,070**	**1,899**	**4,750**	**2,419**	**2,668**	**4,708**	**2,394**	**2,465**	**2,332**	**5,809**	**2,867**	**4,538**	**41,921**
Miscellaneous Receipts	**77**	**92**	**316**	**115**	**110**	**517**	**145**	**459**	**197**	**162**	**194**	**860**	**3,244**
Licenses, Fees, etc.	46	64	56	29	47	85	28	48	65	43	44	65	620
Abandoned Property	1	0	39	33	18	77	23	322	12	42	40	147	755
ABC license fees	5	5	6	5	5	6	5	5	4	4	4	3	55
Motor vehicle fees	-	-	13	(13)	-	-	-	20	13	19	21	40	112
Reimbursements	4	7	55	2	18	36	9	26	15	10	13	25	222
Investment Income	1	(0)	1	1	0	0	0	0	0	1	2	3	10
Other Transactions	21	15	146	58	22	313	80	37	88	44	71	577	1,470
Federal Grants	**2**	**13**	**-**	**-**	**-**	**17**			**15**			**14**	**60**
TOTAL RECEIPTS	**5,149**	**2,005**	**5,066**	**2,534**	**2,778**	**5,242**	**2,539**	**2,924**	**2,544**	**5,972**	**3,061**	**5,412**	**45,225**

SPECIAL REVENUE FUNDS 2011-12 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	**-**	**-**	**392**	**-**	**-**	**178**	**7**	**36**	**2,594**	**-**	**-**	**87**	**3,293**
User taxes and fees	**206**	**162**	**196**	**193**	**177**	**201**	**186**	**167**	**190**	**202**	**142**	**160**	**2,182**
Sales and use taxes	83	55	73	57	56	70	61	60	67	76	54	50	762
Cigarette and tobacco taxes	95	98	106	106	111	108	98	98	99	98	81	92	1,189
Motor fuel tax	7	8	9	10	9	10	9	7	12	8	7	9	105
Taxicab Surcharge	20	1	0	21	1	1	19	2	1	20	-	-	85
Auto Rental Tax	-	-	9	-	-	12	-	0	11			9	40
Business taxes	**61**	**56**	**240**	**52**	**48**	**200**	**54**	**63**	**235**	**51**	**57**	**319**	**1,434**
Corporation franchise tax	18	16	89	15	10	59	12	17	63	12	20	75	406
Corp. & utilities taxes	1	2	22	1	0	36	1	5	34	1	1	72	174
Insurance taxes	1	2	32	0	1	26	1	2	26	(0)	(0)	49	139
Bank tax	3	(0)	54	(9)	(4)	36	1	6	66	(1)	(1)	80	231
Petroleum business taxes	38	36	42	43	41	43	39	33	46	40	38	43	484
Other taxes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
MCTD Payroll Tax	**125**	**128**	**85**	**97**	**135**	**71**	**114**	**126**	**82**	**167**	**140**	**129**	**1,396**
TOTAL	**392**	**346**	**912**	**341**	**359**	**650**	**360**	**391**	**3,100**	**419**	**338**	**695**	**8,305**

CAPITAL PROJECTS FUND 2011-12 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)													
	Apr	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Total**
Personal income tax	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
User taxes and fees	**40**	**42**	**57**	**49**	**47**	**66**	**46**	**37**	**76**	**41**	**40**	**54**	**595**
Motor fuel tax	29	30	34	37	35	35	33	26	47	30	29	32	396
Highway use tax	12	12	9	13	12	10	13	11	12	11	11	9	134
Auto rental tax	(0)	-	14	-	-	21	-	-	18			13	65
Business taxes	**48**	**44**	**55**	**54**	**51**	**56**	**49**	**42**	**63**	**51**	**48**	**60**	**621**
Corp. & utilities taxes	0	(1)	2	(0)	0	3	0	1	3	1	1	6	15
Petroleum business taxes	48	45	53	54	51	54	49	41	60	50	47	54	606
Other taxes	**-**	**-**	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**119**
Real estate transfer tax	-	-	12	12	12	12	12	12	12	12	12	12	119
TOTAL	**88**	**86**	**124**	**116**	**110**	**134**	**108**	**91**	**151**	**103**	**99**	**125**	**1,335**

DEBT SERVICE FUNDS 2011-12 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)													
	Apr	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Total**
Personal income tax	**1,385**	**357**	**1,001**	**550**	**609**	**956**	**516**	**532**	**924**	**1,616**	**643**	**577**	**9,666**
User taxes and fees	**206**	**204**	**277**	**214**	**209**	**273**	**212**	**211**	**284**	**225**	**194**	**302**	**2,809**
Sales and use taxes	206	204	277	214	209	273	212	211	284	225	194	302	2,809
Business taxes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other taxes	**48**	**49**	**27**	**51**	**75**	**45**	**43**	**32**	**36**	**31**	**29**	**35**	**501**
Real estate transfer tax	48	49	27	51	75	45	43	32	36	31	29	35	501
TOTAL	**1,638**	**610**	**1,305**	**815**	**893**	**1,274**	**771**	**775**	**1,244**	**1,872**	**866**	**914**	**12,976**

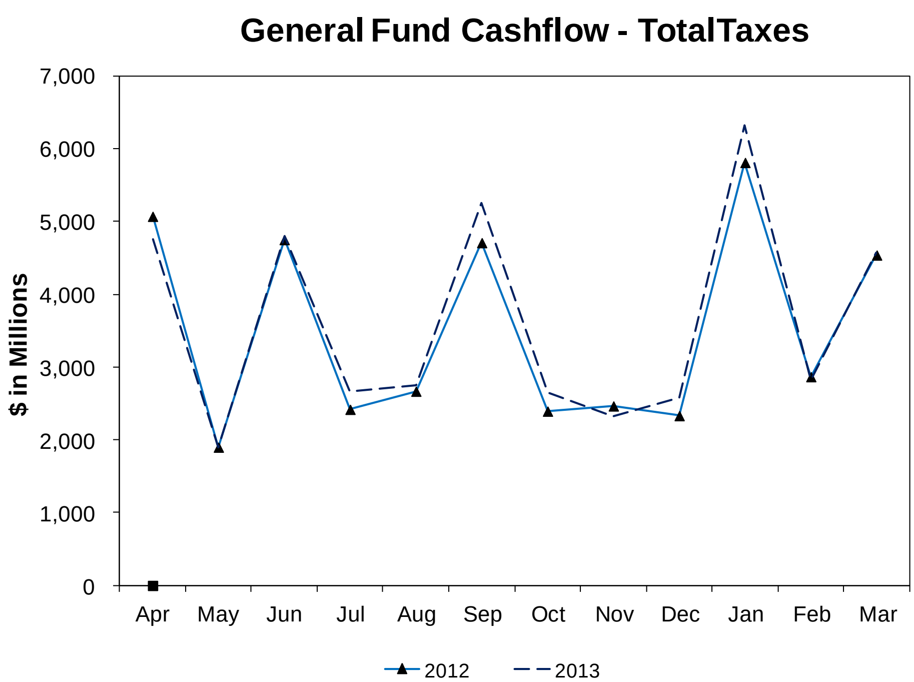
CASH FLOW

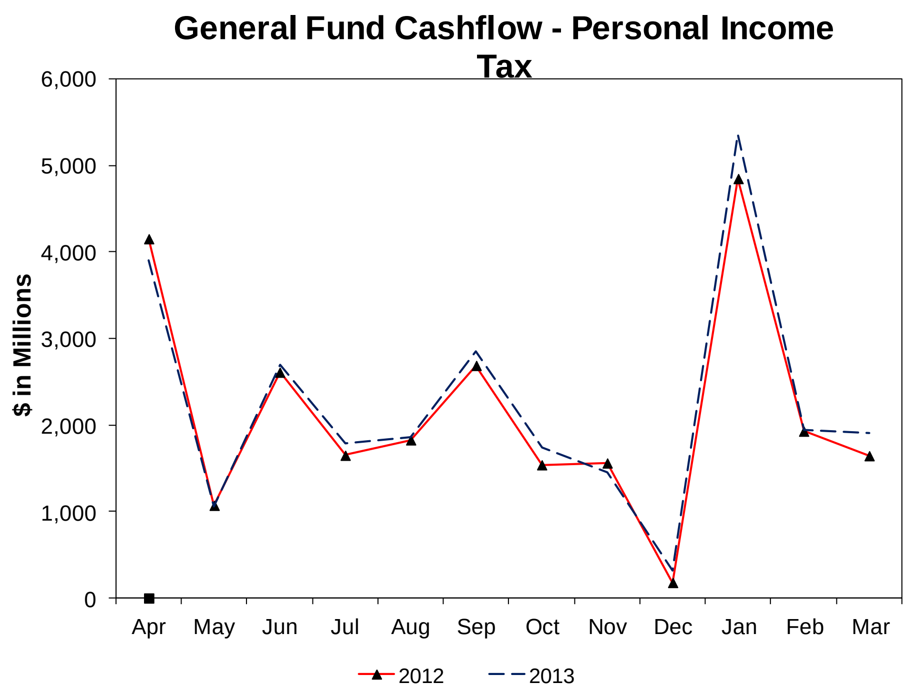
GENERAL FUND 2012-13 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)													
	Apr	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Total**
Personal income tax	**3,899**	**1,064**	**2,701**	**1,786**	**1,864**	**2,855**	**1,744**	**1,455**	**323**	**5,363**	**1,948**	**1,911**	**26,911**
Gross collections	7,982	2,669	4,340	2,523	2,634	4,219	2,829	2,614	4,111	7,178	3,542	3,477	48,117
Refunds	(2,783)	(1,251)	(199)	(142)	(149)	(163)	(474)	(575)	(169)	(28)	(945)	(929)	(7,805)
STAR Fund deposit	-	-	(406)	-	-	(188)	(22)	(74)	(2,634)				(3,322)
DRRF deposit/RBTF	(1,300)	(355)	(1,035)	(595)	(621)	(1,014)	(589)	(510)	(985)	(1,788)	(649)	(637)	(10,078)
User taxes and fees	**710**	**690**	**899**	**727**	**705**	**915**	**710**	**703**	**927**	**752**	**643**	**959**	**9,340**
Sales and use taxes	651	632	837	656	642	839	649	642	862	686	591	902	8,591
Cigarette and tobacco taxes	40	39	42	45	47	54	43	41	43	39	38	40	511
Alcoholic beverage taxes	19	19	19	26	16	22	19	20	21	26	14	16	238
Business taxes	**54**	**47**	**1,106**	**63**	**89**	**1,382**	**100**	**69**	**1,232**	**104**	**133**	**1,600**	**5,977**
Corporation franchise tax	46	39	467	48	74	527	89	61	557	96	121	720	2,844
Corp. & utilities taxes	4	6	125	7	6	147	4	3	177	3	6	193	682
Insurance taxes	6	5	285	6	8	284	4	4	279	4	4	433	1,322
Bank tax	(2)	(3)	230	2	1	424	3	1	218	0	1	254	1,129
Other taxes	**95**	**95**	**96**	**95**	**96**	**96**	**95**	**95**	**95**	**95**	**95**	**96**	**1,144**
Estate & gift tax	94	94	94	94	94	94	94	94	94	94	94	94	1,127
Real property gains tax	-	-	-	-	-	-	-	-	-	-	-	-	-
Pari-mutuel taxes	1	1	2	1	2	2	1	1	1	1	1	1	16
Other taxes	-	-	0	-	0	0	-	0	-	0	-	0	1
TOTAL	**4,759**	**1,896**	**4,801**	**2,670**	**2,754**	**5,248**	**2,650**	**2,323**	**2,576**	**6,313**	**2,818**	**4,565**	**43,372**
Miscellaneous Receipts	**86**	**101**	**310**	**137**	**131**	**459**	**138**	**290**	**254**	**193**	**206**	**763**	**3,069**
Licenses, Fees, etc.	54	72	64	38	67	60	49	57	54	51	54	42	661
Abandoned Property	1	1	40	33	18	76	20	158	59	69	52	258	785
ABC license fees	4	5	5	5	5	5	3	3	5	6	3	2	51
Motor vehicle fees	-	-			-		14	17	17	17	17	17	99
Reimbursements	4	7	55	2	18	15	12	12	25	10	10	32	202
Investment Income	1	-	1	1	0	0	1	1	1	1	1	2	10
Other Transactions	22	17	145	59	23	303	39	42	94	40	69	410	1,262
Federal Grants													**-**
TOTAL RECEIPTS	**4,845**	**1,997**	**5,111**	**2,808**	**2,885**	**5,707**	**2,788**	**2,613**	**2,830**	**6,506**	**3,024**	**5,328**	**46,441**

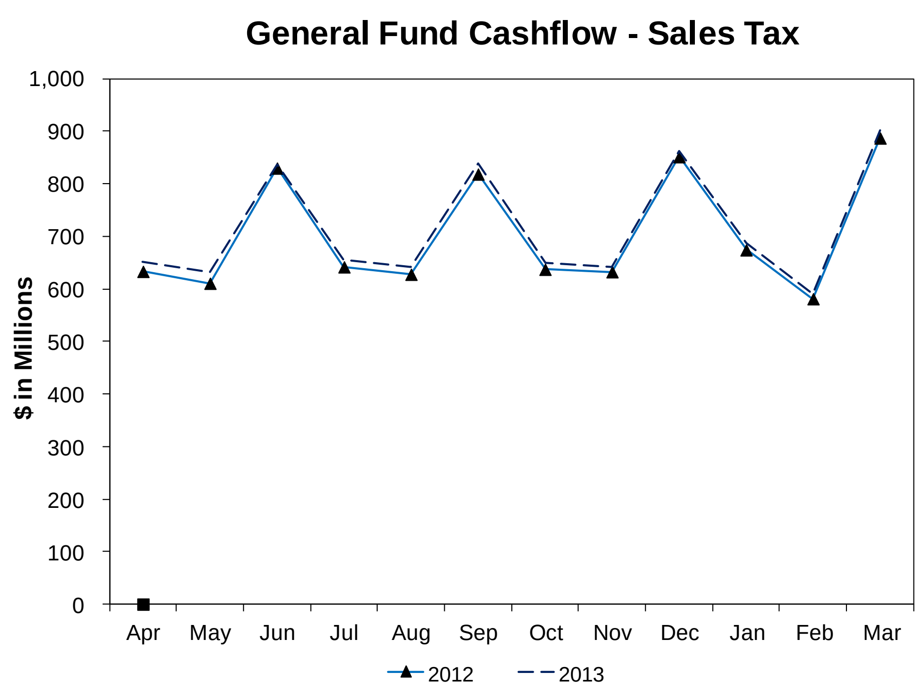
SPECIAL REVENUE FUNDS 2012-13 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)													
	Apr	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Total**
Personal income tax	**-**	**-**	**406**	**-**	**-**	**188**	**22**	**74**	**2,634**	**-**	**-**	**-**	**3,322**
User taxes and fees	**214**	**161**	**202**	**203**	**185**	**210**	**194**	**169**	**208**	**189**	**150**	**165**	**2,250**
Sales and use taxes	85	55	75	60	58	73	63	63	85	68	56	50	791
Cigarette and tobacco taxes	101	97	108	112	117	114	100	97	103	91	86	96	1,222
Motor fuel tax	8	8	9	10	10	10	9	9	9	9	8	10	108
Taxicab Surcharge	20	1		21		1	22			22		1	88
Auto Rental Tax			10			12			11			8	41
Business taxes	**50**	**47**	**228**	**57**	**58**	**283**	**58**	**53**	**255**	**58**	**61**	**307**	**1,515**
Corporation franchise tax	7	6	75	8	12	84	14	10	89	15	19	115	455
Corp. & utilities taxes	1	2	33	2	1	39	1	1	47	1	2	51	180
Insurance taxes	1	1	30	1	1	30	0	0	30	0	0	46	141
Bank tax	(0)	(1)	45	0	0	83	1	0	43	0	0	50	222
Petroleum business taxes	41	39	45	46	44	46	42	42	46	42	39	45	517
Other taxes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
MCTD Payroll Tax	**107**	**106**	**69**	**81**	**111**	**60**	**96**	**92**	**87**	**135**	**112**	**103**	**1,160**
TOTAL	**371**	**314**	**905**	**340**	**354**	**741**	**369**	**388**	**3,183**	**383**	**324**	**575**	**8,247**

CAPITAL PROJECTS FUND 2012-13 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)													
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	-	-	-	-	-	-	-	-	-	-	-	-	-
User taxes and fees	**41**	**42**	**63**	**51**	**48**	**69**	**46**	**45**	**67**	**46**	**45**	**58**	**622**
Motor fuel tax	29	30	35	38	36	36	34	32	36	33	32	35	407
Highway use tax	12	12	12	13	12	12	12	13	13	13	13	10	147
Auto rental tax	-	-	16	-	-	21	-	-	18			13	68
Business taxes	**51**	**49**	**60**	**58**	**55**	**61**	**53**	**51**	**60**	**52**	**49**	**60**	**660**
Corp. & utilities taxes	-	-	4	-	-	4	-	-	4	-	-	4	15
Petroleum business taxes	51	49	56	58	55	57	53	51	57	52	49	56	645
Other taxes	**-**	**-**	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**119**
Real estate transfer tax	-	-	12	12	12	12	12	12	12	12	12	12	119
TOTAL	**93**	**91**	**135**	**121**	**115**	**141**	**111**	**109**	**140**	**110**	**106**	**130**	**1,401**

DEBT SERVICE FUNDS 2012-13 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)													
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	**1,300**	**355**	**1,035**	**595**	**621**	**1,014**	**589**	**510**	**985**	**1,788**	**649**	**637**	**10,078**
User taxes and fees	**217**	**211**	**279**	**219**	**214**	**280**	**216**	**214**	**287**	**229**	**197**	**301**	**2,864**
Sales and use taxes	217	211	279	219	214	280	216	214	287	229	197	301	2,864
Business taxes	-	-	-	-	-	-	-	-	-	-	-	-	-
Other taxes	**55**	**57**	**42**	**58**	**58**	**52**	**51**	**32**	**41**	**41**	**42**	**44**	**571**
Real estate transfer tax	55	57	42	58	58	52	51	32	41	41	42	44	571
TOTAL	**1,572**	**622**	**1,356**	**871**	**893**	**1,346**	**856**	**756**	**1,313**	**2,057**	**888**	**982**	**13,512**




General Fund Cashflow - Personal Income Tax
$ in Millions
6,000
5,000
4,000
3,000
2,000
1,000
0
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
2012
2013


General Fund Cashflow - Sales Tax
$ in Millions
1,000
900
800
700
600
500
400
300
200
100
0
Apr
May
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Jul
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Oct
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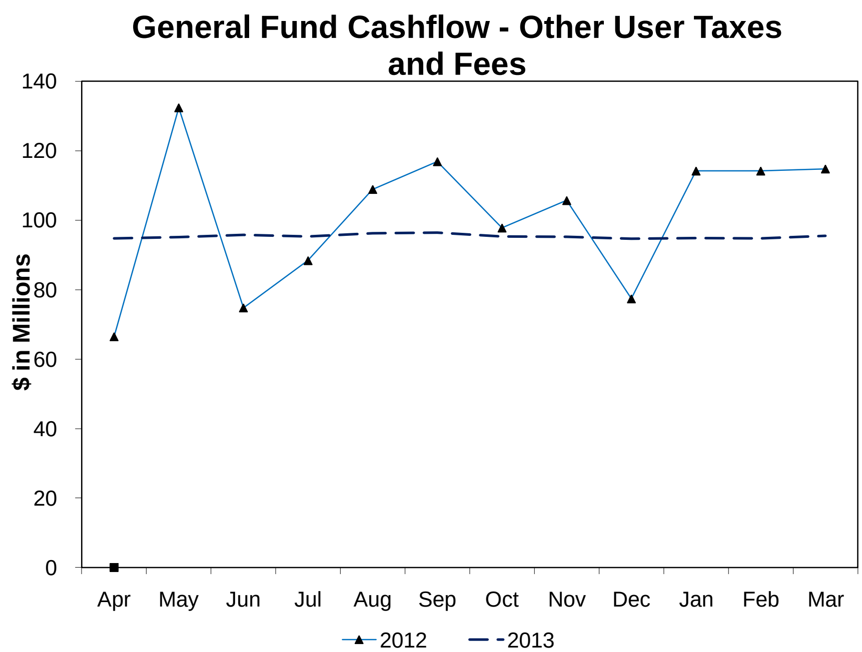
Jan
Feb
Mar
2012
2013


General Fund Cashflow - Other User Taxes and Fees
$ in Millions
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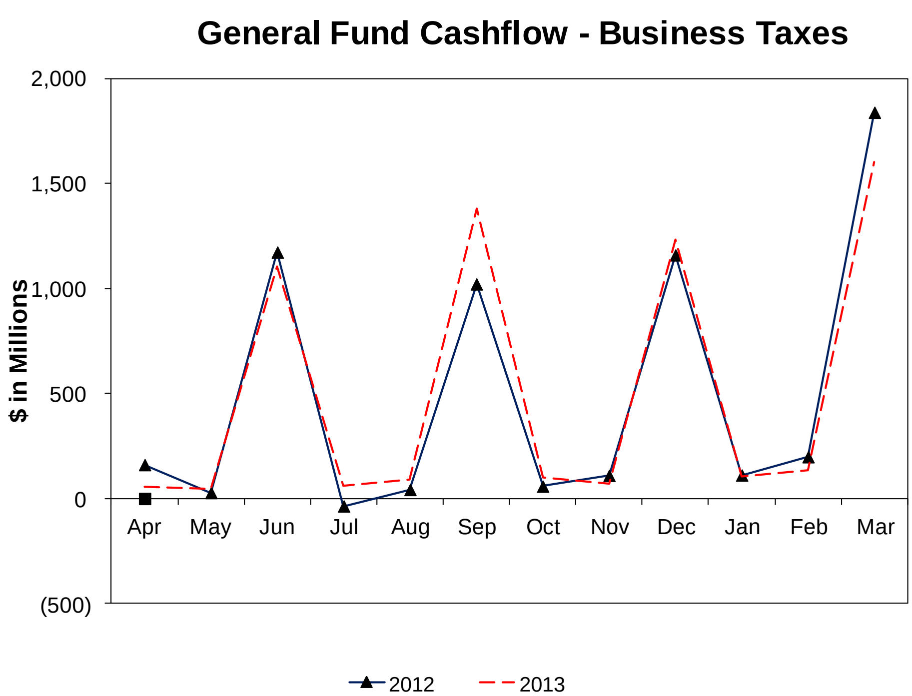
120
100
80
60
40
20
0
Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar
2012
2013


General Fund Cashflow - Business Taxes
$ in Millions
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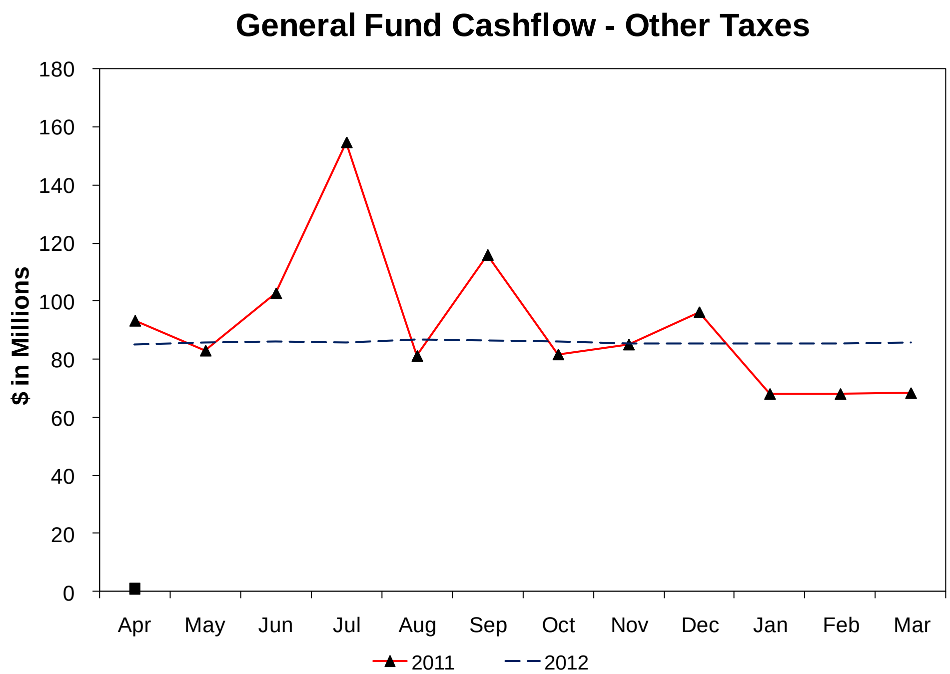
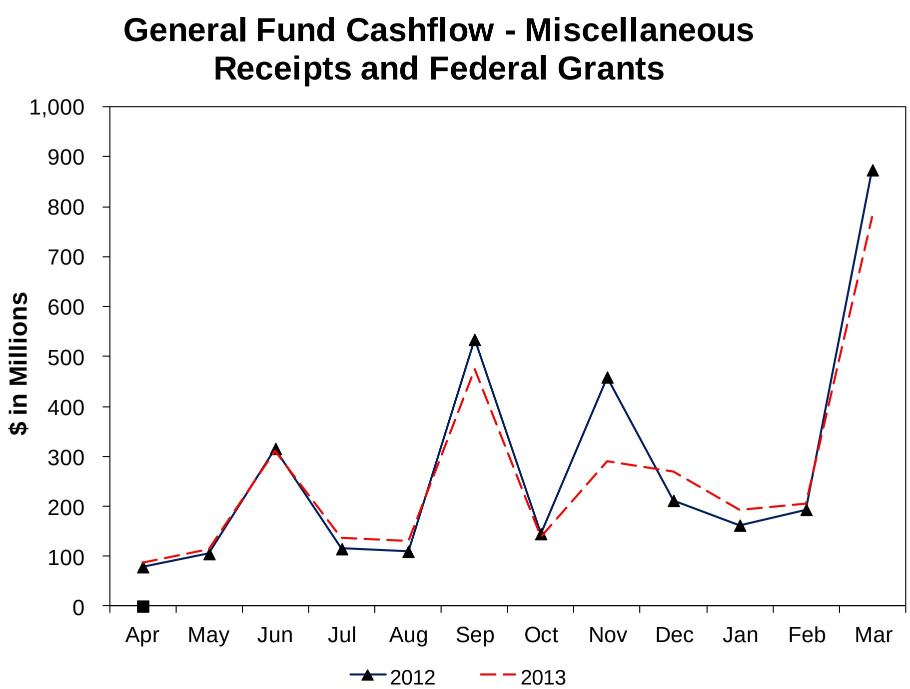
1,500
1,000
500
0
(500)
Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar
2012
2013





RESULTS TO DATE

April-December Results vs. the Mid-Year Update Projections

Cumulative results for the April to December period are $15.7 million above the Mid-Year forecast on a General Fund basis.

Personal Income Tax

April through December General Fund personal income tax receipts of $17.3 billion were $112.7 million below the Mid-Year forecast, mainly due lower-than-expected withholding ($220 million) and estimated taxes ($156 million) partially offset by lower than expected refunds ($107 million), delay of STAR transfers ($87 million) from December 2011 to March 2012 and RBTF transfers ($67 million).

User Taxes and Fees

April through December General Fund user taxes and fees were $44.4 million more than estimated due to stronger-than-anticipated sales and use tax collections ($41.2 million) and cigarette and tobacco tax collections ($3.1 million).

Business Taxes

Year-to-date General Fund business tax receipts cash flow was $53.5 million lower than estimated. Higher than estimated bank tax receipts ($199.7 million) driven by strong December estimated payments from calendar year taxpayers was offset by weaker than expected receipts in the corporate franchise tax ($213.4 million), corporation and utilities tax ($12.1 million) and the insurance tax ($27.7 million). The lower than estimated receipts for these three taxes were primarily driven by lower than expected December gross receipts.

Other Taxes

April through December General Fund tax receipts were $19.7 million higher than the Mid-Year estimate due to higher estate tax payments.

Miscellaneous Receipts and Federal Grants

General Fund miscellaneous receipts and Federal grants were $180 million above Financial Plan estimates mainly due to higher-than-expected abandoned property transfers ($134.3 million) and licenses and fees receipts ($58.4 million), which are slightly offset by lower-than-expected receipts in the remaining categories.

All Other

The remainder of the change from the Mid-Year Update was due to decreases in transfers from other funds ($62.3 million).

April- December Results vs. Enacted Budget Projections

Cumulative results for the April to December period are $48.8 million above the Enacted Budget, on a General Fund basis.

Personal Income Tax

April through December General Fund personal income tax receipts of $17.3 billion were $86.4 million above Enacted Budget projections. The variance is mainly due to lower refunds ($507 million) and delay of STAR payments from December 2011 to March 2012 ($87 million) partially offset by lower withholding ($467 million) and delinquencies ($31 million).

User Taxes and Fees

April through December General Fund user taxes and fees were $11.4 million above Enacted Budget projections. Due to slightly stronger than expected consumer spending, sales tax receipts are up $13.6 million from Enacted Budget projections.

Business Taxes

Year-to-date General Fund business tax receipts fell below Enacted Budget projections by $277.5 million. The largest component of this shortfall, or $298.7 million, was in corporate franchise tax receipts. Lower gross receipts driven by lower than expected calendar year filer estimated payments was partially offset by higher than expected audits. Corporation and utilities tax receipts were lower than expected by $41.4 million. Lower gross receipts driven primarily by the telecommunications sector was partially offset by lower refunds. The refund variance is timing related, with a large refund expected to be paid in the last quarter of the fiscal year. Insurance tax receipts were ahead of plan by $11.1 million through December. Bank tax receipts were higher than estimated by $51.5 million. The variance is driven by higher than expected gross receipts, primarily from December 2011. The year-to-date variance from audit receipts and refunds offset.

Other Taxes

Year-to-date General Fund other taxes were $99 million above the Enacted Budget forecast largely due to stronger than expected estate tax receipts.

Miscellaneous Receipts and Federal Grants

General Fund miscellaneous receipts and Federal grants were $248.6 million above Enacted Budget projections due mainly to higher -than-anticipated collections from licenses and fee collections ($58.4 million), and abandoned property ($185.4 million).

All Other

The remainder of the change from the Enacted Budget projections was due to a decrease in transfers from other funds ($119.2 million).

REVENUE ACTIONS

REVENUE ACTIONS

The 2012-13 Budget includes a net positive increment of just over $27 million in All Funds receipts reflecting the revenue actions contained in this budget. The accompanying table summarizes the revenue proposals by type of action required and provides a short description of the proposal, the date that the proposal will become effective, the Fund type where revenue will be deposited, the last time an action was taken in the area, and the incremental revenue gain or loss from the proposed action. This table represents gross revenue adds and reductions without any adjustments for associated spending changes, movements across funds or General Fund spending offsets.

REVENUE ACTIONS LIST

Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	Annual Revenue SFY 2012-13	Annual Revenue SFY 2014-15
						(000s)	(000s)
I. TAX AND ASSESSMENT ACTIONS							
			Tax and Assessment Actions-Subtotal			**$0**	**$0**
II. LOOPHOLE CLOSING ACTIONS							
Tax	Tobacco tax reform - 7/1/12	GFTX	N/A	N/A	N/A	$18,000	$24,000
			Loophole Closing Actions -Subtotal			**$18,000**	**$24,000**
III. TAX ENFORCEMENT ACTIONS							
Tax	Prohibit bank fees from reducing tax levies - 7/1/12	GFTX	N/A	N/A	N/A	$5,000	$7,000
Tax	STAR benefit offset - 4/1/12	GFTX	N/A	N/A	N/A	$0	$1,000
Tax	Sales tax reg clearance - 4/1/12	GFTX	N/A	N/A	N/A	$1,000	$1,000
			Tax Enforcement Actions-Subtotal			**$6,000**	**$9,000**
IV. OTHER REVENUE ACTIONS							
Racing	Collect unused horse racing vouchers - 4/1/12	SFMR	N/A	N/A	N/A	$200	$200
Tax	Make tax modernization provisions permanent - 4/1/12	GFTX/SFTX	N/A	N/A	N/A	$5,000	$20,000
			Other Revenue Actions-Subtotal			**$5,200**	**$20,200**
V. EXPANDED TAX CREDITS AND EXEMPTIONS							
Tax	Expand sales tax exemption for solar equipment purchases - 4/1/12	GFTX/DFTX	N/A	N/A	2005	($2,000)	($3,000)
Tax	Expand residential solar equipment tax credit To leases - 4/1/12	GFTX/DFTX	N/A	N/A	2008	$0	($2,000)
Tax	Expand the low income housing tax credit program - 4/1/12	GFTX	N/A	N/A	N/A	$0	($16,000)
			Expanded Tax Credits and Exemptions – Subtotal			**($2,000)**	**($21,000)**

REVENUE ACTIONS

Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	Annual Revenue SFY 2012-13 (000s)	Annual Revenue SFY 2014-15 (000s)
VI. TAX CUT EXTENDERS							
Tax	Extend the commercial production credit for five years - 4/1/12	GFTX	N/A	N/A	N/A	$0	($7,000)
Tax	Extend the bio-fuel production credit for seven years - 4/1/12	SFTX	N/A	N/A	N/A	$0	($10,000)
Tax	Extend the alternative fuels tax exemption for five years - 4/1/12	GFTX/CFTX	N/A	N/A	N/A	($1,600)	($3,200)
Tax	Make non-custodial parent EITC permanent - 4/1/12	GFTX	N/A	N/A	N/A	$0	($4,000)
Tax	Pari-Mutuel extender - 4/1/12	GFTX	N/A	N/A	N/A	$0	$0
			Technical Corrections and Extenders -Subtotal			**($1,600)**	**($24,200)**
VII. TECHINICAL CORRECTIONS							
Tax	Fuel Definitions technical corrections - 4/1/12	GFTX	N/A	N/A	N/A	$0	$0
			Technical Corrections -Subtotal			**$0**	**$0**
VIII. LENGTHEN LICENSE TERMS							
State	Accelerate security guard fees and extend license terms - 4/1/12	SFMR	$36	$72	1991	$1,800	$1,800
State	Accelerate real estate broker and salesperson fees and extend license terms - 4/1/13	SFMR	$150/$50	$300/$100	1989		$5,000
			Lengthen License Terms -Subtotal			**$1,800**	**$6,800**
			ALL REVENUE ACTIONS – GRAND TOTAL			**$27,400**	**$14,800**

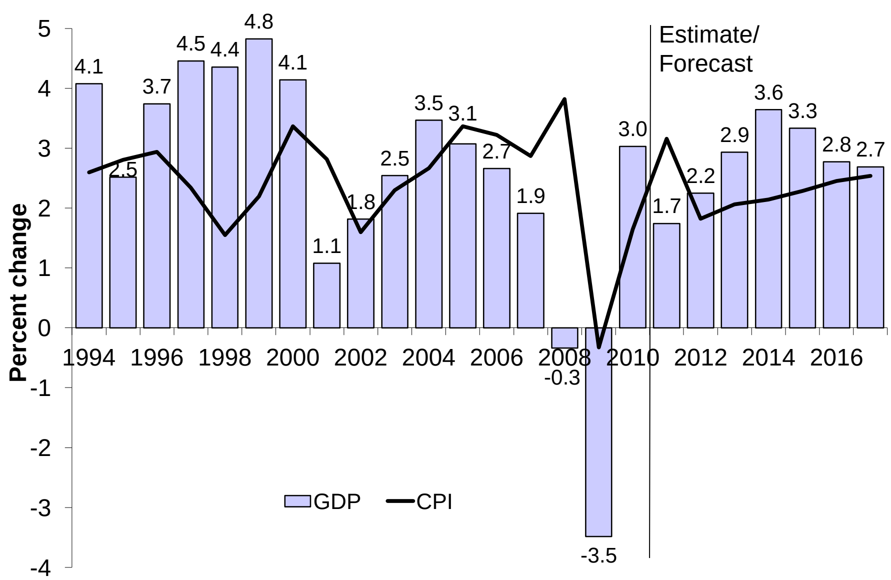
ECONOMIC BACKDROP

ECONOMIC BACKDROP

OVERVIEW

The U.S. economic recovery survived an almost continuous series of setbacks in 2011 that included spiking energy prices, supply chain disruptions resulting from a virtual shutdown of the world's third largest economy (Japan), threats to the global financial system stemming from the European sovereign debt crisis, and uncertainty surrounding the U.S. government's own looming debt problems. As the impacts of the oil shock and Japanese supply chain disruptions unwind, some positive momentum appears to be building, with the fourth quarter of 2011 now expected to have exhibited the strongest growth since the first half of 2010. However, the economy faces many headwinds going forward, including a slowing global economy, financial market volatility, waning fiscal stimulus, continued weak income growth, and an almost stagnant housing sector. Consequently, real U.S. GDP is now projected to grow 2.2 percent for 2012, following growth of 1.7 percent for 2011 (see Figure 1).

Figure 1
Outlook for Real U.S. GDP Growth and Inflation



Note: Displayed values pertain to GDP growth.
Source: Moody's Analytics; DOB staff estimates.

With the euro-zone likely to have entered a recession in the fourth quarter and the large developing economies in Asia and Latin America slowing, the U.S. economy is expected to feel the pinch through lower export growth during the first half of 2012. The anticipated slowdown in production for export could modestly dampen employment growth yet again early this year, before picking up during the second half. U.S. nonagricultural employment is projected to grow 1.3 percent in 2012, representing only a modest improvement from the 1.0 percent growth observed in 2011. The absence of a sustained improvement in job growth will keep wage growth low as well, which in turn will help keep consumer price pressures at bay. The unwinding of the gasoline and food price spikes experienced in 2011 will keep consumer price inflation well below last year's rate. The rate of inflation, as measured by growth in the Consumer Price Index, is projected to fall from 3.2 percent in 2011 to 1.8 percent in 2012.

New York State's economic recovery was initially supported by a strong profit performance on Wall Street during the second half of 2009, a performance due largely to Federal Reserve policies designed to keep interest rates low and strengthen the nation's banking system. In addition, strong emerging market growth combined with a weak dollar appears to have spurred foreign demand for the State’s exports, including New York City as a tourist and luxury-shopping destination. Foreign demand for New York City real estate has also been strong. With another strong bonus season in 2010-11, the State’s recovery continued to outpace that of the nation overall through the first half of 2011.

Although the State economy started last year on a high note, 2011 turned out to be an historically turbulent year for financial markets, with securities industry revenues falling sharply over the course of the year and the nation's banks perceived to be at risk due to the crisis in Europe. In addition to the finance industry's declining profitability, its compensation practices remain under a cloud of uncertainty as the regulations associated with the Dodd-Frank financial reform continue to be written. As a result, 2011-12 finance and insurance sector bonuses are expected to be well below their 2010-11 levels, bringing 2011-12 State wage growth down to 0.5 percent from 5.4 percent in 2010-11.

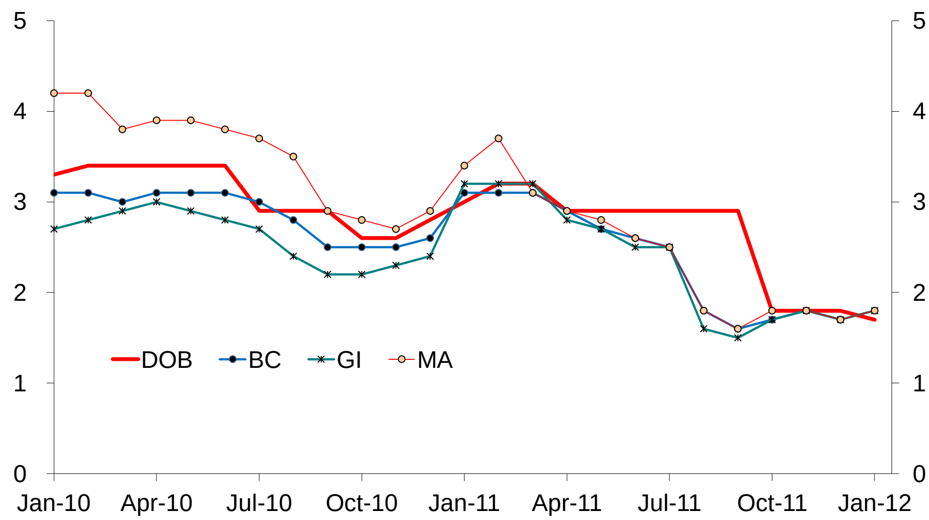
THE NATIONAL ECONOMY

The current economic terrain looks much like that of early 2011. At that time, the labor market appeared to be improving, with initial claims starting the year just above the benchmark 400,000 level. Private sector job growth was accelerating toward the end of 2010, with monthly job gains averaging over 200,000 per month during the period from February to April 2011. This optimism is visible in the forecasts for 2011 across a spectrum of professional forecasters. Figure 2 and Figure 3 illustrate how a selection of forecasts for 2011 and 2012 real U.S. GDP growth have evolved over time. For 2011, the period starts in January 2010, with the four forecasts presented ranging from growth of 2.7 percent to 4.2 percent. The nation’s nascent recovery was almost derailed by the euro-debt crisis in the spring of 2011, and by early September, the average over the four forecasts was down 0.7 percentage points.

The announcement of QE2 at the end of August 2010 appeared to usher in a period of improving economic conditions, particularly in the financial and labor markets. As of January 2011, the forecast range was fairly tight around an average of 3.2 percent, which would have represented the strongest annual rate of growth since 2004. However, this auspicious start could not survive the barrage of negative shocks the economy suffered from almost the first day of the new year. By May, the economy was bowing under the strain of an oil price shock, supply chain disruptions, and financial market convulsions. Employment growth and household spending slowed substantially during the middle of the year. But with the unwinding of last year's shocks – gasoline prices are now about 60 cents below their early May 2011 peak and the auto industry has almost fully recovered from the supply chain disruptions resulting from the Japanese earthquake and tsunami – evidence is mounting that positive momentum is starting to build and the U.S. labor market appears once again to be on the verge of an upswing.

The U.S. economy continues to enjoy expansive monetary and fiscal policy support. Barring an unforeseen acceleration in growth, the Federal Reserve expects to keep its short-term interest rate target near zero through the middle of 2013. Moreover, to reduce the risk that the Euro-sovereign debt crisis critically disrupts international credit flows, the U.S. central bank is engaged in a coordinated policy action with other major central banks to establish currency swap arrangements "so that liquidity support operations could be put into place quickly should the need arise."[1] These actions represent an intensive effort to forestall a global credit crisis similar to what was witnessed in late 2008, although the success of these efforts can hardly be guaranteed. In addition, the U.S. Congress is struggling to pass measures that will prevent the expiration of the payroll tax cut and unemployment insurance benefit extensions put into place for 2011. Thus far, an agreement has been reached to extend these actions for only two more months, but it is expected that they will ultimately be extended for the remainder of the calendar year; that expectation is incorporated into the Budget Division economic forecast.

Figure 2
Evolution of the GDP Forecast for 2011
Percent change



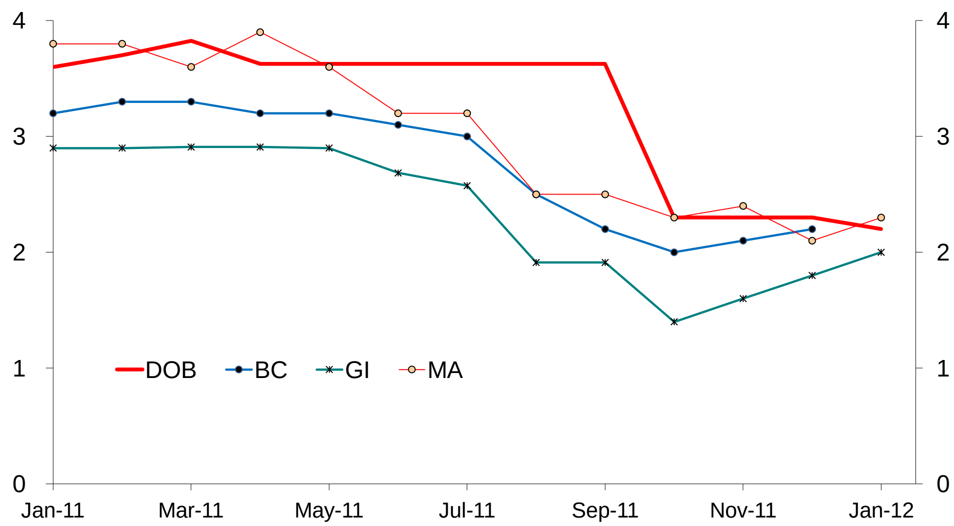
Note: DOB revises its national economic forecast less frequently than the major professional forecasters.
Source: Global Insight; Macroeconomic Advisers; Blue Chip; DOB staff estimates.

Although the Budget Division forecast implies that economic growth in 2012 will remain historically weak for this point in an expansion, we see virtually no chance that the U.S. economy will follow Europe into a recession at this time. While this view is widely held among professional forecasters, it is not the only view. Indeed, a reputable research institute maintains that the economy remains on an irreversible path toward recession. While several European indicators of economic activity are indeed signaling a recession for the eurozone as a whole, and indicators from both Asia and Latin America are signaling slowdowns in the large developing economies in those areas, there are good reasons to believe that the U.S. economy will not follow Europe into another downturn. U.S. banks are better capitalized and less leveraged than they were in the fall of 2008

[1] http://www.federalreserve.gov/newsevents/press/monetary/20111130a.htm

when a credit squeeze that began in the summer of 2007 evolved into a full blown credit crunch a year later. In addition, while the housing market is not adding to real U.S. GDP in any significant way, neither is it subtracting from it as it was in 2007 and 2008. The bubble-like conditions that existed in the auto sector for much of the last decade have long since dissipated and more recently evolved into pent-up demand in response to the supply disruptions resulting from the Japanese earthquake and tsunami. Finally, both fiscal and monetary policies are in place to bolster household demand and maintain sufficient liquidity in the financial system. Nevertheless, the current outlook is flush with risk and uncertainty.

Figure 3
Evolution of the GDP Forecast for 2012
Percent change



Note: DOB revises its national economic forecast less frequently than the major professional forecasters.
Source: Global Insight; Macroeconomic Advisors; Blue Chip; DOB staff estimates.

The national economy will continue to receive a large dose of government support during 2012. The Congressional Budget Office (CBO) estimates that total impact of the American Recovery and Investment Act (ARRA), enacted in February 2009, over the 2009–2019 period will amount to about $825 billion, up from the original $787 billion estimate.[2] Of this total, $738.0 billion had been paid out as of December 30, 2011.[3] CBO now estimates that real GDP was between 0.3 and 1.9 percentage points higher in the third quarter of 2011 due to the impact of ARRA. This compares to an impact between 0.8 and 4.6 percentage points in the second quarter of 2010 and illustrates how the program's impact has waned over time. Nevertheless, with nearly 90 percent of ARRA's budgetary impact realized by the end of the third quarter of 2011, CBO estimates that some of the program's impact is expected to extend into 2012. Table 1 presents CBO's estimates for the impact of ARRA on output and employment for the 2009 to 2012 calendar years.

[2] For more detail please see "Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output From July 2011 through September 2011", CBO, November 2011,<http://www.cbo.gov/ftpdocs/125xx/doc12564/11-22-ARRA.pdf>, viewed December 31, 2011.
[3] <http://www.recovery.gov/Pages/default.aspx>

More significantly, on December 23, 2011, the Congress passed the Temporary Payroll Tax Cut Continuation Act of 2011, which for two months extends the two-percentage-point payroll tax cut, continues expanded unemployment benefits, and delays a reduction in Medicare payments to doctors. The Budget Division forecast rests on the assumption that Congress will ultimately extend both the payroll tax cut and expanded unemployment benefits for the remainder of the year. These programs add approximately $160 billion to household income in 2012. Relative to the payroll tax cut, the expansion of UI benefits is more targeted toward low-income households, which have the highest marginal propensities to spend, and therefore is expected to be proportionately more stimulative.[4]

TABLE 1
CBO ESTIMATES OF ARRA IMPACT
ANNUAL AVERAGE CHANGES

	Real GDP (%)		Employment (millions)	
	Low	**High**	**Low**	**High**
2009	0.4	1.8	0.2	0.9
2010	0.7	4.1	0.7	3.3
2011	0.4	2.2	0.5	2.6
2012	0.1	0.8	0.2	1.1

Source: CBO, November 2011.

In addition to fiscal support, the U.S. economy continues to enjoy highly accommodative monetary support from the Federal Reserve. In the statement released at the end of its August 9, 2011, meeting, the Federal Open Market Committee (FOMC) made an unprecedented change in language by announcing that its short-term interest rate target was likely to remain exceptionally low for a specific period, namely through mid-2013. While we expect the Board’s decisions to remain data dependent, the change in language surely represents an ongoing commitment to buttressing a weak economy in the absence of inflationary pressure, as well as a concern that without the central bank’s support, the economy may not be able to independently gather sufficient momentum. Figure 4 illustrates how expansive the central bank’s programs have been – the asset side of its balance sheet rising from $877 billion at the end of 2007 to almost $2.9 trillion at the end of 2011 (see Table 2). Figure 4 also shows a sudden uptick toward the end of 2011, unrelated to the volume of securities held outright. Table 2 indicates that this increase is due to a rise in currency swaps between 2010 and 2011, a part of a coordinated effort to support the global financial system in the face of mounting pressures from the euro-debt crisis.

[4] The total value of the new tax relief package does not represent $160 billion net additional stimulus relative to past Budget Division forecasts. For example, in the Mid-year forecast, DOB assumed that the the payroll tax cut would get extended roughly in its 2011 form, though the most recent CBO/JCT estimates add an additional $12 billion to the 2011 value. Thus, only the extended UI benefit value ($41 billion) and the excess of the value of the 2012 payroll tax cut estimate over its 2011 value represent net new stimulus in the Executive Budget forecast.

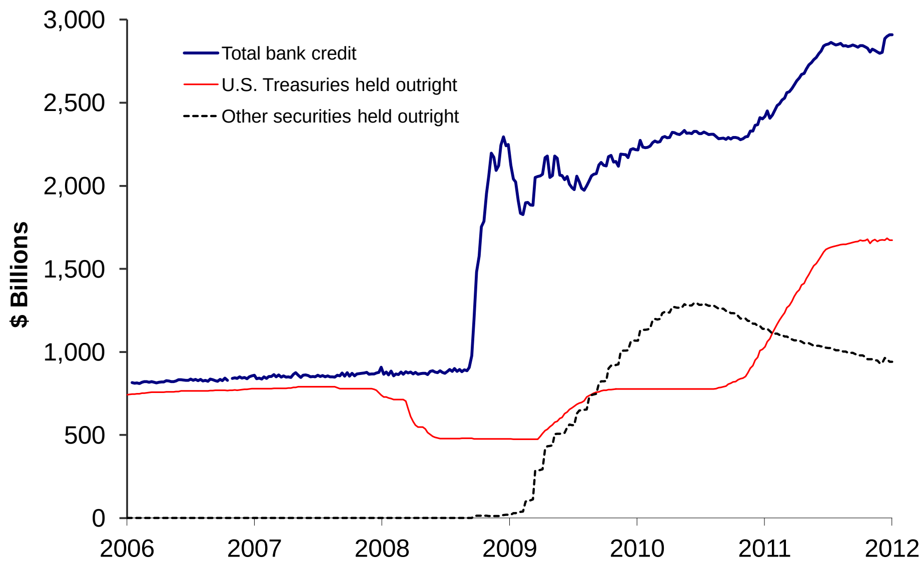
TABLE 2
Federal Reserve Balances - Bank Credit
Year-end Level in $ Billions

	2007	2008	2009	2010	2011
Reserve bank credit - Total	**877.1**	**2,248.5**	**2,216.7**	**2,403.2**	**2,908.6**
Securities held outright	754.6	495.6	1,844.7	2,155.7	2,613.4
Repurchase agreements	42.5	80.0	-	-	-
Term auction credit	20.0	450.2	75.9	-	-
Other loans	4.5	193.9	89.7	45.1	9.1
Commercial Paper Funding Facility	-	334.1	14.1	-	-
Other Portfolio Holdings	(0.3)	72.4	88.4	91.4	33.9
Central bank liquidity swaps	-	553.7	10.3	0.1	99.8
Other Federal Reserve assets	53.8	41.4	91.4	108.7	150.1

Source: Moody's Analytics.

The Federal Reserve's recent actions suggest concern that current economic conditions are still too fragile to begin a weaning off of public support. This assessment is not inconsistent with the Budget Division outlook. Despite historically low interest rates, a hefty liquidity backstop, and some fiscal support, annualized quarterly growth is projected to average only 2.3 percent in 2012. Quarterly growth is expected to accelerate to a much healthier 3.3 percent in 2013, barring any substantial positive or negative shocks (see Figure 5).

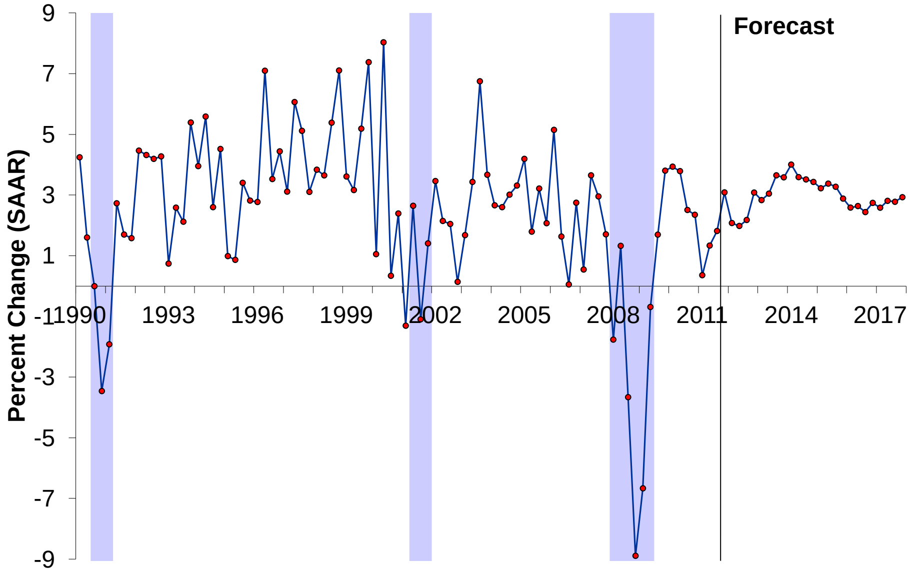
Figure 4
The Expansion of the Federal Reserve Balance Sheet



Note: Other securities include Federal agency-debt and mortgage-backed securities.
Source: Moody's Analytics.

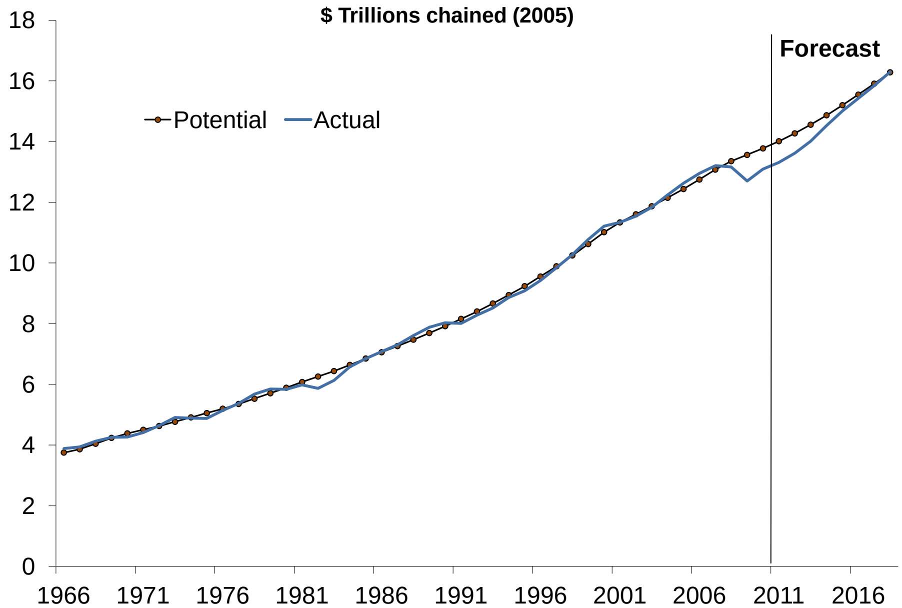
Box 1 provides a sobering reminder of how far there is to go before the economy recovers its pre-recession peaks in four key monthly economic indicators, and how little progress was made toward that end in 2011. At the pace implied by the Budget Division forecast, the national economy is not expected to reach its "potential" level – defined as the level of output the economy has the capacity to produce given its labor force, capital stock, and technology – until 2018 (see Figure 6).

Figure 5
Real US GDP Growth



Note: Shaded areas represent US recessions.
Source: Moody's Analytics; DOB staff estimates.

Figure 6
Real US GDP: Actual vs. Potential

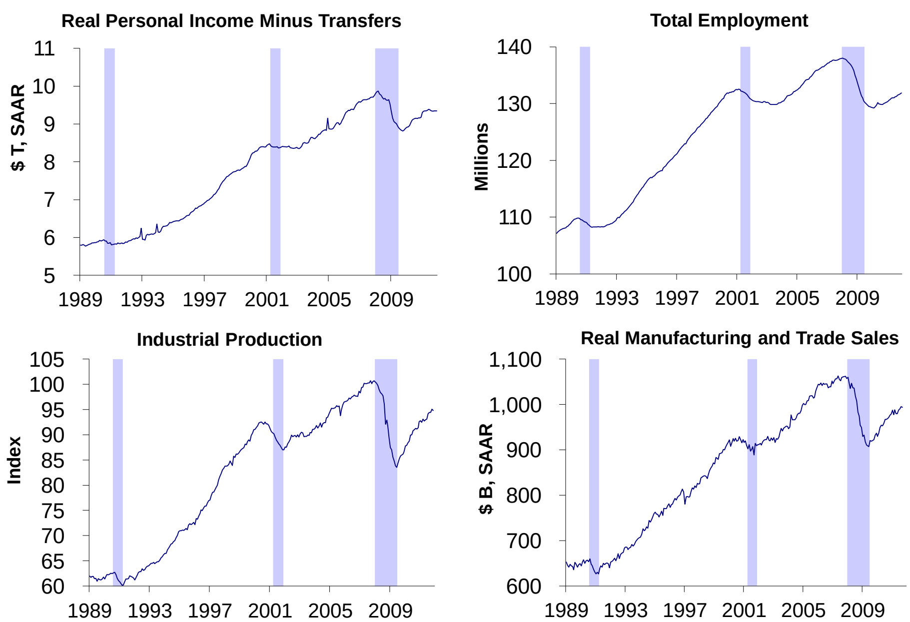


Source: Moody's Analytics; DOB staff estimates.

BOX 1
RECOVERING FROM THE GREAT RECESSION

Business cycles are defined by a group of private economists at the National Bureau of Economic Research (NBER) Business Cycle Dating Committee. Although the Dating Committee designated June 2009 as the trough of the 2007-2009 recession, nine quarters later, economic output, as defined as real U.S. GDP, was still below its pre-recession peak, unprecedented during the postwar period. The severity of the recession is well illustrated by the monthly series the Dating Committee uses to determine business cycle peaks and troughs. These series include: real personal income minus transfers, nonfarm payroll employment, industrial production, and real manufacturing and trade sales.

NBER Recession Indicators



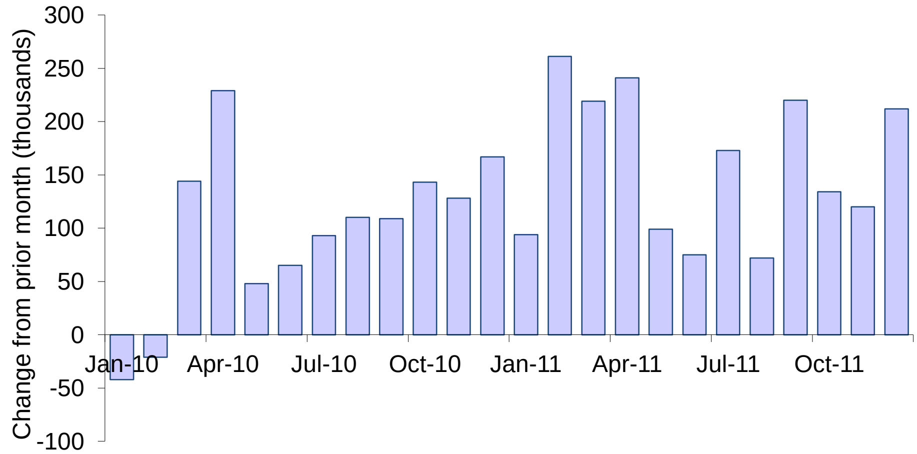
Note: Shaded areas represent U.S. recessions.
Source: Moody's Analytics.

The four monthly economic series that appear above are generally considered coincident indicators. Three of the four series reached a trough in June 2009. The fourth indicator, employment, started to turn up in March 2010, although the hiring and layoff of Census workers added some additional volatility to the job counts. Each of these data series is a stark reminder of why this last downturn has come to be known as the Great Recession.

The Déjà Vu Labor Market

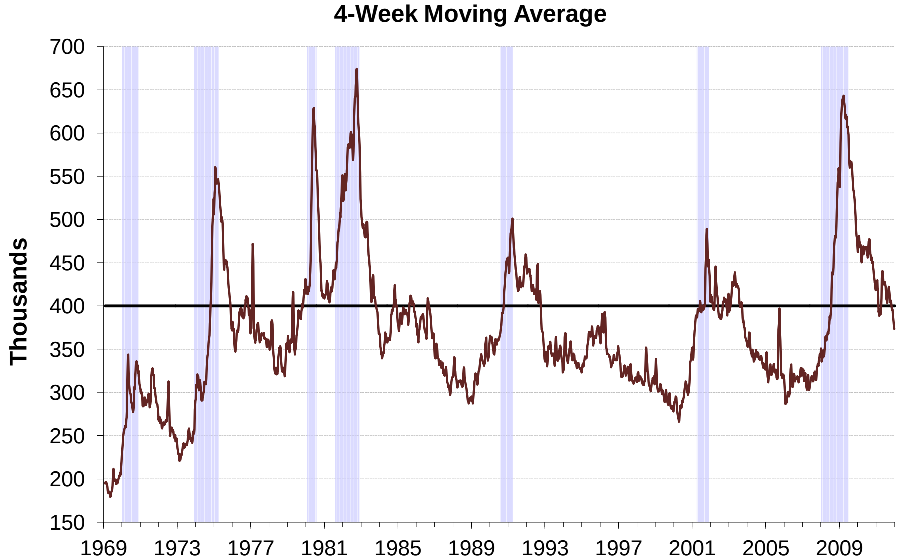
This time last year, the nation's labor market appeared poised for solid gains as the economy continued to shrug off its mid-2010 malaise. However, a string of setbacks shook the job market off course yet again. As is clearly illustrated in Figure 7, after a few months of impressive gains early in 2011, the labor market began to struggle as supply chain disruptions, the reemergence of the euro-debt crisis, spiking energy prices, and the impacts of extreme weather began to take their toll. Real U.S. export growth started to weaken in the second quarter and manufacturing employment growth slowed to a crawl. By mid-April, initial claims for unemployment insurance benefits were back above the benchmark 400,000 level (see Figure 8). Recession fears loomed.

Figure 7
U.S. Private Sector Employment Gains



Source: Moody's Analytics.

Figure 8
Initial Claims
4-Week Moving Average

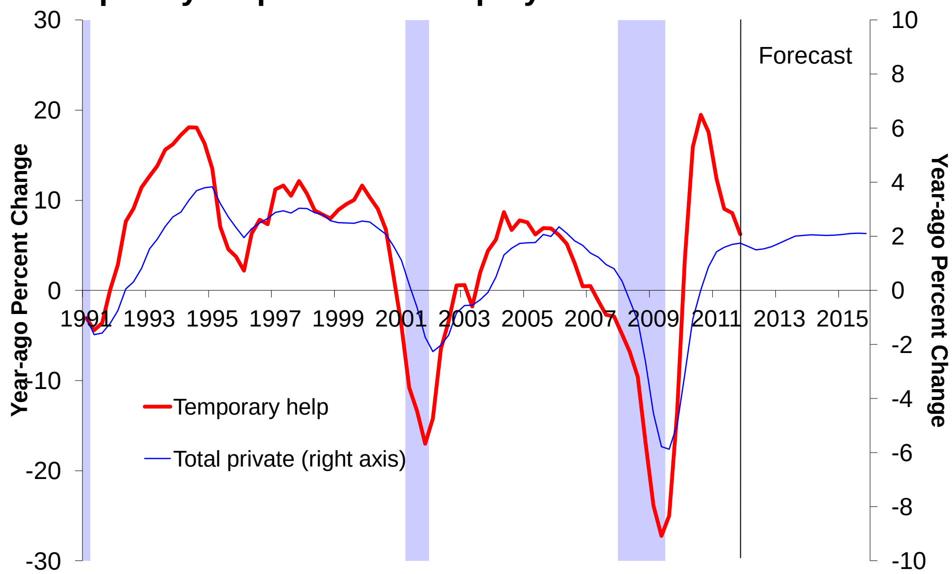


Note: Shaded areas represent U.S. recessions.
Source: Moody's Analytics.

With supply chain disruptions unwinding and gasoline prices well below their peaks, the labor market appears to be regaining its footing, with job growth expected to gradually improve over the course of 2012. As indicated in Figure 8, initial claims have been below 400,000 since mid-November, and temporary help employment started growing again in July, following three months of decline. Figure 9 shows that growth in temporary help employment tends to lead total private sector job growth.[5] Total employment growth of 1.3 percent is projected for this year on an annual average basis, following growth of 1.0 percent in 2011, with private sector growth of 1.7 percent projected for this year, following 1.6 percent growth in 2011.[6] With growth in the labor force expected to accompany an improving job market, the national unemployment rate is projected to average 8.6 percent for 2012, down only slightly from 9.0 percent in 2011.

Figure 9

Temporary Help Services Employment Leads Total Private



Note: Shaded areas represent U.S. recessions.
Source: Moody's Analytics; DOB staff estimates.

Although overall growth will be only slightly stronger than last year, the composition of growth will be somewhat different. Table 3 shows the number of jobs expected to be added by sector over the course of this year by comparing projected employment for the fourth quarter of 2012 with the same quarter of last year. With the global economy slowing, sectors believed to be relatively more export oriented will see substantially slower growth in 2012 than in 2011. For example, job growth in manufacturing is expected to slow from 1.8 percent in 2011 to 0.3 percent in 2012. Professional and technical services employment grew a strong 3.4 percent in 2011. Although these services represent a small piece of total exports, their value grew 145.3 percent between 1999 and 2010, the most recent year for which data are available. Growth in professional and technical services employment is projected to slow to 2.6 percent in 2012.

[5] A Granger causality test was used to test whether temporary help services employment "Granger causes" private sector employment, using the Akaike Information Criterion to determine the model's optimal lag structure. The results indicate that when the former start to grow, the latter can be expected to start growing, on average, three quarters later. The results are statistically significant at a level below 1 percent.
[6] When BLS publishes its 2011 benchmark revision on February 3, 2012, the March 2011 level of employment will be revised up by 192,000 jobs, a modest increase of 0.1 percent; see <http://www.bls.gov/ces/cesprelbmk.htm>, viewed January 1, 2012.

TABLE 3

DÉJÀ VU JOB GROWTH IN 2012
Q4 / Q4

	2010 %Change	2011 %Change	2012 Jobs Added	2012 % Change
Total Private	0.8	1.7	1,861	1.7
Utilities	(1.4)	0.9	5	0.8
Construction	(3.3)	0.6	82	1.5
Manufacturing	0.5	1.8	39	0.3
Wholesale Trade	(0.2)	1.5	79	1.4
Retail Trade	0.4	1.5	233	1.6
Transportation and Warehousing	1.4	1.7	60	1.4
Information	(2.0)	(1.5)	11	0.4
Finance and Insurance	(0.7)	(0.2)	30	0.5
Real Estate, Rental, and Leasing	(1.7)	0.8	25	1.3
Professional and Technical Services	0.3	3.4	198	2.6
Management, Admin. Support, and Waste Service:	4.1	2.6	265	2.7
Education Services	2.4	2.3	86	2.5
Health Care and Social Assistance Services	2.0	2.1	388	2.3
Leisure, Hospitality, and Other Services	1.0	1.6	361	1.9
Government	(1.1)	(1.2)	(51)	(0.2)
Total	0.5	1.2	1,810	1.4

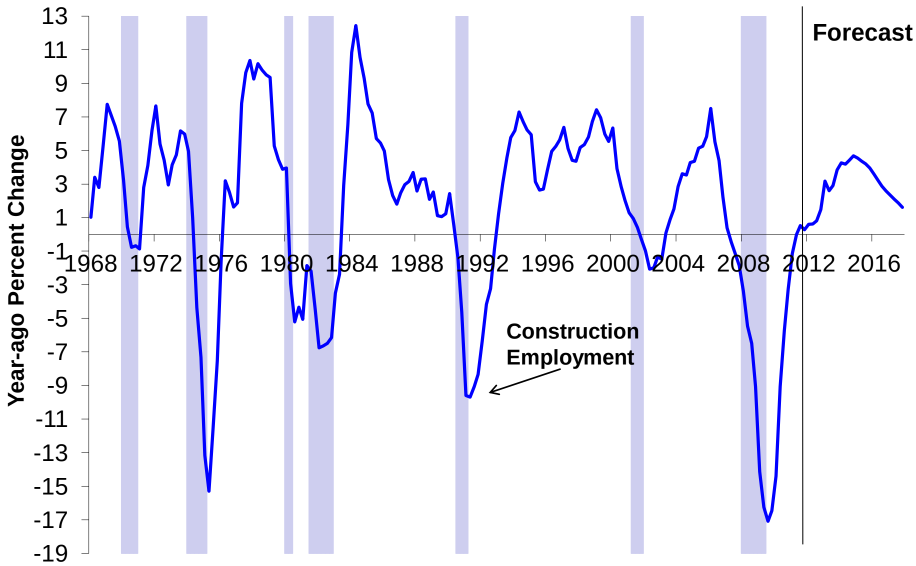
Source: Moody's Analytics; DOB staff estimates.

Those sectors that are relatively less export oriented are expected to benefit from a gradual revival in household spending, with support from Federal stimulus programs, along with continued growth in private business investment, including a renewed buildup of inventories. Two sectors expected to represent much less of a drag on overall employment growth are government and construction. State and local government employment has fallen precipitously since the end of the recession in June 2009, shedding 588,000 jobs, a decline of 3.0 percent. The intense fiscal pressure faced by state and local governments is expected to ease somewhat going forward, as incomes and household spending improve. As a result, total government employment is expected to improve from a decline of 1.2 percent in 2011 to a decline of only 0.2 percent in 2012.

The construction sector is also expected show improvement over 2011. The problems plaguing the residential real estate sector mean that a traditional support to cyclical growth has thus far been missing almost entirely from this expansion (see Figure 10). Moreover, the housing sector is closely associated with other areas of consumer demand that have also been depressed during this expansion. However, housing starts have started to show improvement, particularly multifamily unit starts as more and more households choose renting over homeownership. Private nonresidential construction is also seeing stronger growth. Construction employment growth is projected to accelerate to 1.5 percent in 2012 from 0.6 percent in 2011, though the number of jobs that are expected to be added to this sector is relatively low.

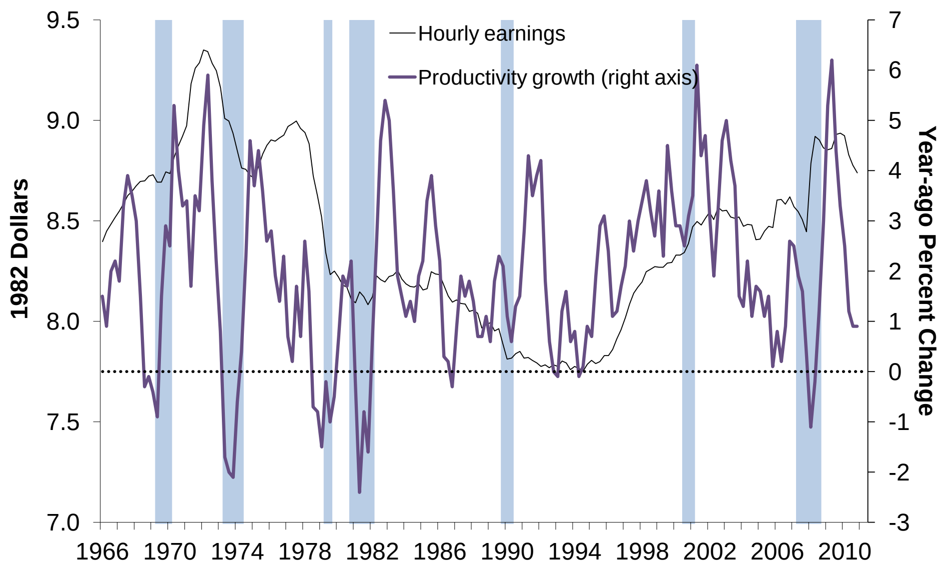
The Budget Division forecast of 1.7 percent for 2012 fourth quarter year-ago job growth represents virtually no acceleration from the same measure for 2011. The U.S. labor market continues to be plagued by many of the same factors that have restrained job growth since the start of the recovery in 2009. These factors include the slow pace of output growth, the transfer of production off-shore, improving but still tight credit markets for small businesses, and a still-depressed housing sector. Recent research emphasizes the importance of the housing sector to the behavior of the business cycle (see Box 2). The rising cost of hiring and the uncertainty surrounding the cost of implementing health care reform may also be contributing to the sluggish pace of employment growth. Finally, for some occupations, employers may be having a harder time filling positions during the current recovery than during the prior recoveries, possibly due to a need for specialized skills not prevalent among the currently unemployed.

Figure 10
The Construction Sector Improving But Still Sluggish



Note: Shaded areas represent U.S. recessions.
Source: Moody's Analytics; DOB staff estimates.

Figure 11
Productivity Growth and Real Private Average Hourly Earnings



Note: Shaded areas represent U.S. recessions.
Source: Moody's Analytics.

BOX 2
FINANCIAL CRISES, HOUSING, AND THE BUSINESS CYCLE

Confounding what has become conventional wisdom, the results of a recent study of the recession and recovery patterns across 59 countries do not support the thesis that recessions associated with banking and finance crises are universally deeper and longer.[1] Nor do the authors find that the pace of recovery depends on whether the recession was related to a financial crisis. The authors find that the characteristics of a financial crisis-induced recession depend on the characteristics of the economy. For example, such recessions tend to be deeper than other types of recessions in emerging economies, but not in advanced economies. In contrast, financial crisis-induced recessions tend to be longer in advanced economies, but not in emerging economies.

The study also concludes that recoveries tend to be slower following long recessions, but faster following deep recessions. Based on a sample of 18 advanced economies, the authors find that for every one percent increase in the recession's depth, defined as the decline in the level of GDP from peak to trough, the level of output one year after the trough tends to be 0.6 percentage points higher, and remains 0.6 percentage points higher two years after the trough. For every one calendar quarter increase in the recession duration, defined as the number of quarters from peak to trough, the level of output one year after the trough tends to be 0.6 percentage points lower, and remains 0.5 percentage points lower two years after the trough.

But perhaps what is most pertinent to the current phase of the U.S. recovery, the authors find that among advanced economies, recessions associated with housing slumps tend to be longer and deeper and the recoveries associated with these recessions tend to be significantly slower. Although Leamer (2007) finds that during the postwar period, the U.S. has experienced eight recessions "preceded by substantial problems in housing and consumer durables," for the purposes of their study, Howard, et al. (2011) define only the Great Recession of 2008-2009 as a recession associated with a housing slump.[2] The level of output one year after the trough of a recession associated with a housing slump is found to be 1.6 percentage points lower, and 2.0 percentage points lower two years after the trough.

We conclude that the financial crisis contributed more to the length than the depth of the Great Recession, while the housing slump contributed not only to the length and depth of the recession, but also to the weakness of the recovery. One of the authors' more discouraging findings is that following long and deep recessions, output growth tends not to return to pre-recession rates, largely due to reductions in labor utilization, rather than declines in productivity. They find that the workweek quickly returns or even exceeds the pre-recession trend, while employment and labor force participation remain depressed. Thus, the impact of the most recent downturn on the U.S. labor force may be longer lasting than we are comfortable imagining.

[1] Howard, Greg, Robert Martin and Beth Anne Wilson (2011), "Are Recoveries from Banking and Financial Crises Really So Different?" International Finance Discussion Papers 2011-1037, Board of Governors of the Federal Reserve System, Washington, D.C.
[2] Leamer, Edward E. (2007), "Housing IS the Business Cycle," NBER Working Paper No. 13428, September, p. 4.

One consequence of a weak labor market is weak income growth. Figure 11 illustrates how real earnings generally track changes in productivity, though they are much more stable. By the first quarter of 2010, the third quarter of the expansion, productivity growth had reached 6.3 percent, the highest since the first quarter of 1962. However, there has been very little real earnings growth since the end of the recession in mid-2009. In fact, real earnings dropped 2.2 percent between the third quarter of 2010 and the third quarter of 2011. Although productivity gains typically bode well for future wage growth, the high degree of slack in the labor force is likely delaying the average degree of pass-through, which has been particularly damaging to household purchasing power during a period of rising gasoline prices. The Budget Division projects wage growth of only 3.2 percent for 2012, following growth of 3.5 percent for 2011. The deceleration in wage growth is expected to contribute to lower personal income growth of 3.4 percent for 2012, following growth of 4.7 percent for 2011. Personal income growth for 2011 had been boosted by the payroll tax cut. Even with the continuation of the tax cut into 2012, projected growth rates for both wages and total personal income are well below historical averages.

Household Deleveraging Continues

Relatively weak job growth for this time stage of an economic recovery and decelerating income growth do not bode well for the mainstay of the U.S. economy, household spending. The Budget Division projects real consumption spending growth to slow to 2.0 percent in 2012, following growth of 2.2 percent in the prior year, as households continued to deleverage and rebalance after suffering a substantial loss of income and wealth. Virtually every source of support for consumer spending collapsed during the recession, resulting in real consumption falling for six consecutive quarters from the first quarter of 2008 through the second quarter of 2009. This protracted decline in the level of real household spending is unprecedented in the history of the quarterly data. Spending growth gained some momentum over the course of 2010, peaking at 3.6 percent in the fourth quarter as both job growth and equity markets were beginning to pick up some steam.

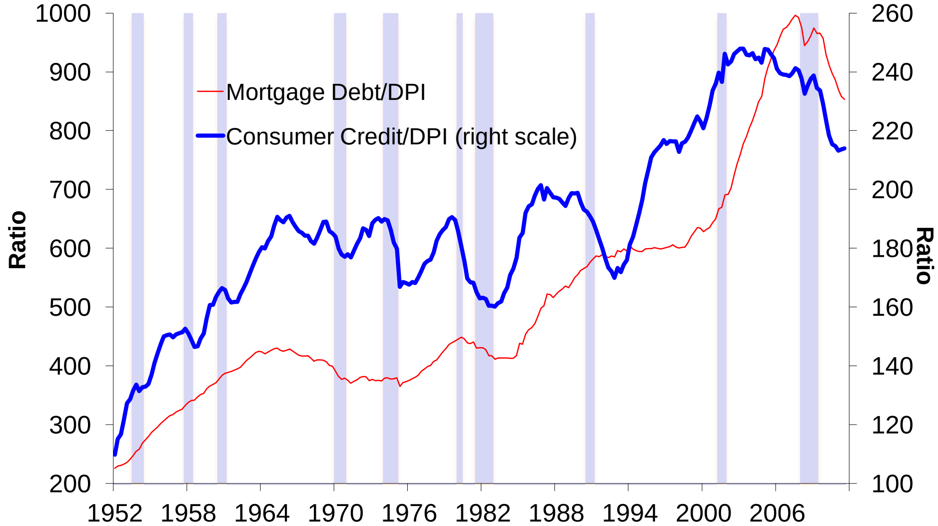
The setbacks that plagued the economy in 2011 were particularly acute for household spending, forestalling a significant recovery in the fundamental supports for household spending: job and income growth, appreciation in the value of household wealth in the form of home ownership and financial assets, and well-functioning credit markets. Indeed, the spike in energy prices that added $1.24 to the price of a gallon of gasoline between the end of August 2010 and early May 2011 effectively neutralized the stimulative impact of the 2011 payroll tax cut that otherwise would added $105.4 billion to household income last year. Moreover, home price and equity price declines resulted in an 8.1 percent decline in household net worth between the third quarters of 2010 and 2011.

In the wake of the collapse of the housing bubble in mid-2006, U.S. households and nonprofit organizations lost $15.4 trillion in net worth, including both financial and nonfinancial sources of wealth.[7] Since bottoming out in the first quarter of 2009, only $3.0 trillion of that wealth has been restored, with households actually losing ground through the third quarter of 2011. Financial market volatility resulted in the loss of $4.6 trillion of the $8.0 trillion gained between the 2009Q2 market trough and 2011Q1. Except for two quarters of increases associated with the Federal home-buyers tax credit in the first half of 2010, real estate wealth has fallen continuously since the third quarter of 2006, with U.S. households losing $7.0 trillion as of 2011Q3.[8]

[7] Net worth data are based on Moody's Analytics smoothed estimates of the Federal Reserve flow of funds data.
[8] Net of mortgage liabilities, the decline is $7.2 trillion.

Figure 12

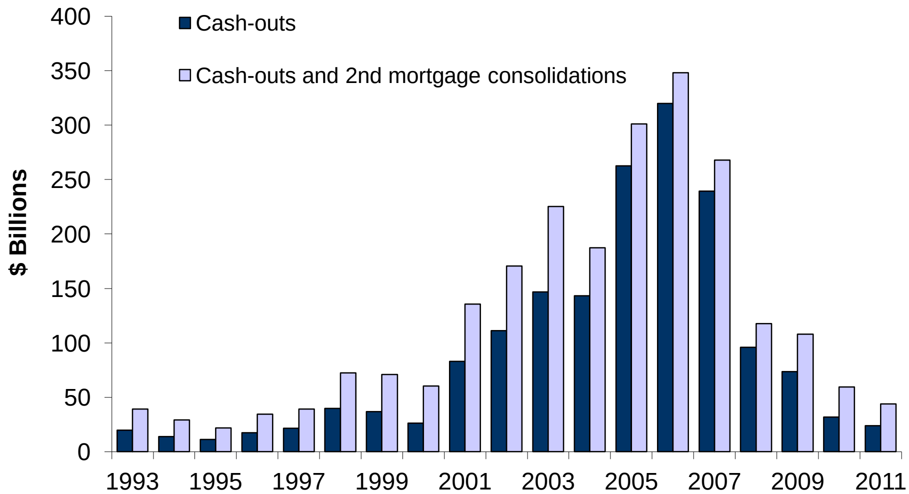
Home Mortgage Debt and Consumer Credit Relative to Disposable Income



Note: Shaded areas represent U.S. recessions.
Source: Moody's Analytics.

The importance of home values as a support for spending growth cannot be overstated. Mortgage debt grew 72 percent between the end of the 2001 recession and the home price peak in 2006Q1, compared to growth of 28 percent over the first 17 quarters of the 1990s expansion. In contrast, nominal consumption grew at about the same rate over both periods, suggesting that households were becoming ever more dependent on debt to fuel spending growth. This development is illustrated in Figure 12, which compares mortgage debt and consumer debt, both as a percentage of disposable income. Although both tend to rise during expansions, the rate of increase in mortgage debt during much of the 2002-2007 expansion was unprecedented. Moreover, when home prices were rising, homeowners were extracting equity from their homes through mortgage refinancing in order to finance current spending (see Figure 13). In contrast, an estimated $44 billion was cashed out in 2011, compared with a peak of about $350 billion, set its 2006.

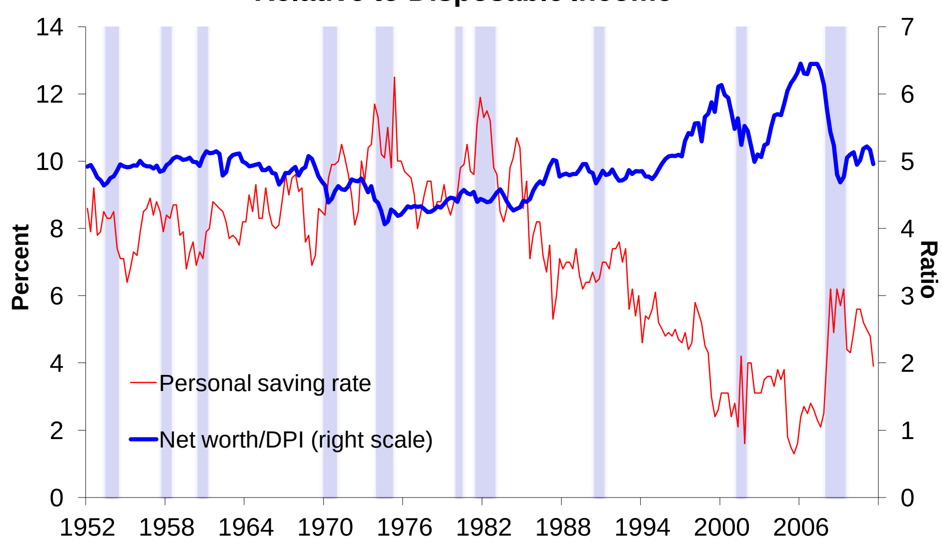
Figure 13
Home Equity Cash-Out Volume



Note: The first three quarters of 2011 are Freddie Mac estimates; the fourth quarter is assumed by DOB to be equal to the third.
Source: Freddie Mac.

Figure 14

Saving Rate and Household Net Worth Relative to Disposable Income

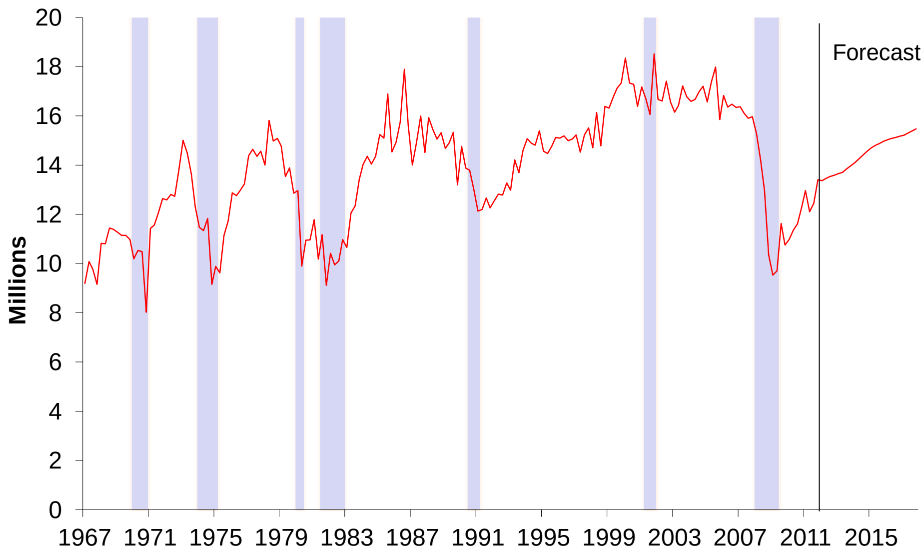


Note: Shaded areas represent U.S. recessions.
Source: Moody's Analytics.

Figure 14 compares the rate of personal savings out of disposable income with the ratio of household net wealth to disposable income. As household wealth falls relative to current income, households save more out of income in order to begin to restore some of what has been lost. As a result, the personal savings rate has risen from an average of 2.9 percent during the 2002-2007 expansion to a quarterly average of 5.1 percent for the period from the first quarter of 2008 through the third quarter of 2011. The low savings rate that characterized the recent expansion reflects in large part the accumulation of paper wealth and cheap credit that fed not only the demand for new homes but also the demand for durable goods, such as autos, furniture, and appliances. Figure 15 shows the record levels of light vehicle sales attained during the 2002-2007 expansion and the steep decline that followed. The estimated pick-up in household spending in the fourth quarter of 2011 appears to have been led by the strongest annualized pace of auto sales since the middle of 2008. However, that accelerated spending growth appears to have been accompanied by very weak income growth and a decline in the monthly saving rate from 5.0 percent in June to 3.5 percent in November. This development calls into question whether the apparent strength of the fourth quarter can be sustained going into 2012.

Figure 15

Passenger Car and Light Truck Sales

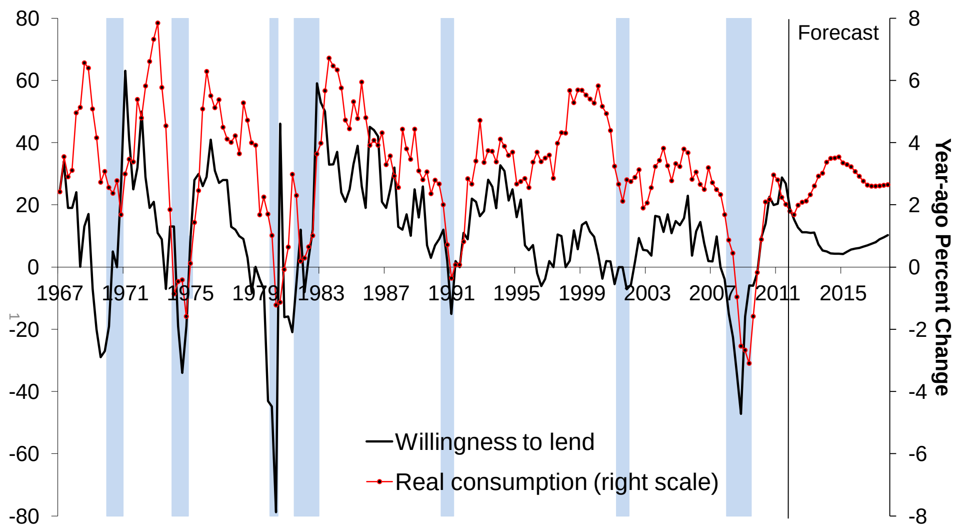


Note: Shaded areas represent U.S. recessions.
Source: Moody's Analytics; DOB staff estimates.

In addition to labor income, credit market conditions are critical to spending growth. Figure 16 illustrates this fact by comparing real consumption growth to bank willingness to lend to consumers, as measured by the Federal Reserve Board's Senior Loan Officer Survey. Bank lending to households is expected to continue to improve in 2012, although at a lesser pace than exhibited in the second half of 2011. Indeed, the rate of improvement already began to fall off during the second half of last year. The two most important determinants of banks' willingness to expand consumer credit are short-term interbank borrowing costs and default risk, which tends to be inversely related to economic growth. Default rates are expected to continue falling as the recovery progresses, although that trend will be partially offset by an upward creep in borrowing costs, likely reflecting the slightly elevated counterparty risk associated with the euro-debt crisis.

Though Figure 12 indicates that progress has been made in the deleveraging the mountain of debt that was built up during the last expansion, the process is expected to continue to put downward pressure on spending going forward. Only modest increases in employment, income, household net worth, and credit conditions are expected to support tepid increases in household spending. Real spending for services and nondurable goods, the less cyclical component of household consumption, is projected to rise 1.6 percent in 2012, following similar growth of 1.5 percent for 2011. Growth in real spending for the more cyclical durable goods component is projected to slow to 5.0 percent in 2012, following an 8.3 percent decline in 2011. Projected growth in durable spending implies a gradual rise in light vehicle sales to their long-run annualized value of about 15 million vehicles per year by the end of 2015.

Figure 16
Improvement in Credit Conditions Slowing

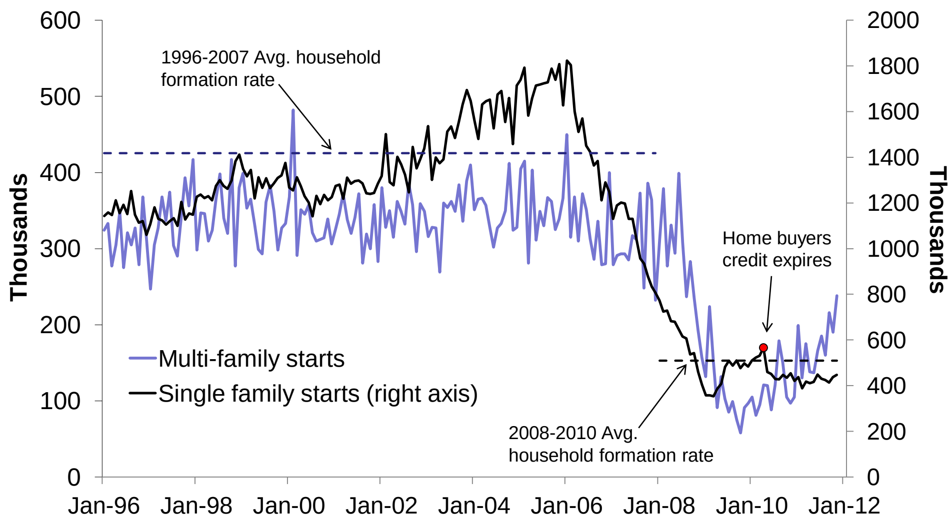


Note: Senior Loan Officers Survey data measures net percentage of banks reporting increased willingness to lend to consumers; shaded areas represent US recessions.
Source: Moody's Analytics; DOB staff estimates.

The Budget Division's outlook for only moderate consumption growth is consistent with the dearth of stimulus from the housing market and the associated induced demand for goods such as home furniture and appliances. The Budget Division projects only modest growth in real private residential investment of 6.2 percent for 2012, after a decline of 1.7 percent in 2011. Although there has been some improvement in new home construction, Figure 17 indicates that much of that improvement is accounted for by multi-family units rather than single family starts. This development indicates that more and more households are choosing to rent rather than own. Though the implications of that shift for household spending have not been documented, it is likely that apartment dwellers spend less on durable goods for the home than do home owners.

Continued high unemployment represents a considerable downside risk to the demand for housing and household items going forward. An average of 1.4 million households were formed each year from 1996 to 2007, while housing starts averaged 1.7 million a year over the same period (see Figure 17). The resulting housing oversupply produced a large and growing volume of unsold homes when prices started to drop in middle of 2006. At the same time, the rate of household formation also began to show a significant drop. Indeed, household formation fell for three consecutive years from 2008 to 2010, the most recent year for which Current Population Survey data are available, averaging only about 500,000 per year over the period. It is possible that rate of household formation will not rise to historical averages until the labor market improves substantially.

Figure 17
Single Family Housing Market Still Weak



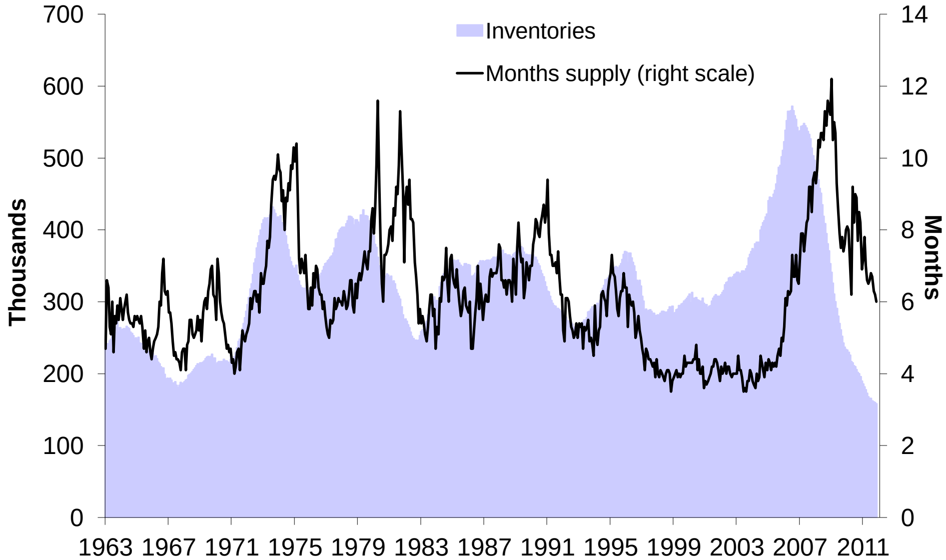
Source: Moody's Analytics.

Figure 18 indicates that some progress has been made toward reducing the overhang resulting from the housing boom. According to the Census Bureau, the average number of months it takes to sell a new single family home at the current sales rate fell to six in November, the lowest since early 2006. However, these data become suspect particularly when examining the inventory of single family homes for sale, which are likely overstating that progress, due to rising foreclosures. The Census Bureau inventories data do not include homes put on the market by banks at the end of a foreclosure proceeding, so the precise inventory of homes for sale is uncertain. How the market is being affected by the rising foreclosure rate is more certain: upward pressure on inventories and downward pressure on construction (see Figure 19). A statistical analysis described in Box 3 indicates that the impact could be substantial. In addition, because of the lag between the time a homeowner goes into arrears and the point at which a foreclosed home goes back on the market, foreclosures could continue to put upward pressure on inventories even as the labor market improves.

Figure 19 also indicates that the home vacancy rate has fallen after posting its highest reading since the government began collecting such data in 1956 in the second quarter of 2008, but it remains high. Thus, falling home prices, high vacancy rates, and the continued addition to the inventory of unsold homes by foreclosures add a substantial amount of short-term risk to the Budget Division forecast for both residential investment and associated household durable goods spending. Moreover, weakness in home prices may be impeding the expansion of small businesses as well. On the other hand, the rate of household formation, which varies consistently with the business cycle, is likely to pick up as the economy recovers. Given the delay with which the housing market is joining the recovery, this critical market may provide future stimulus to the expansion as it matures, creating upside risk to the forecast longer-term.

Figure 18

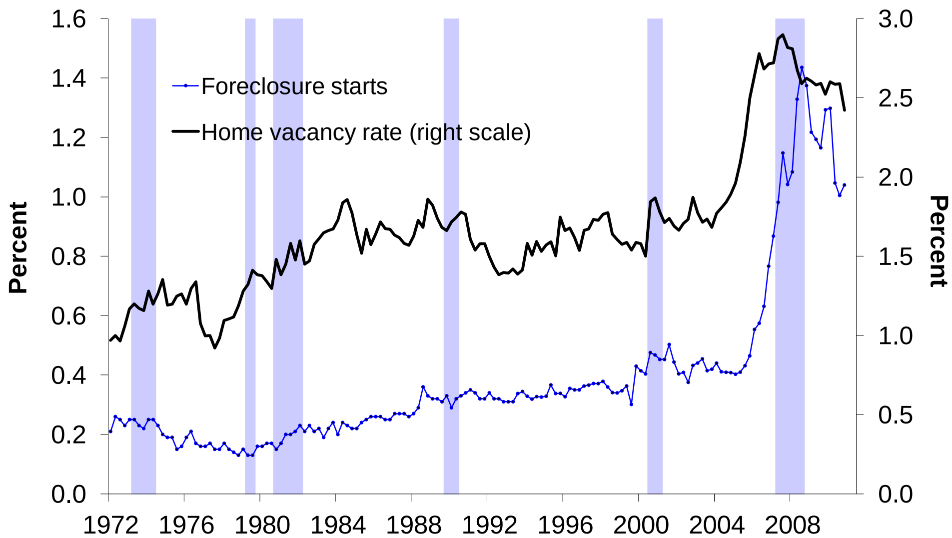
Inventory of New Homes for Sale



Source: Moody's Analytics.

Figure 19

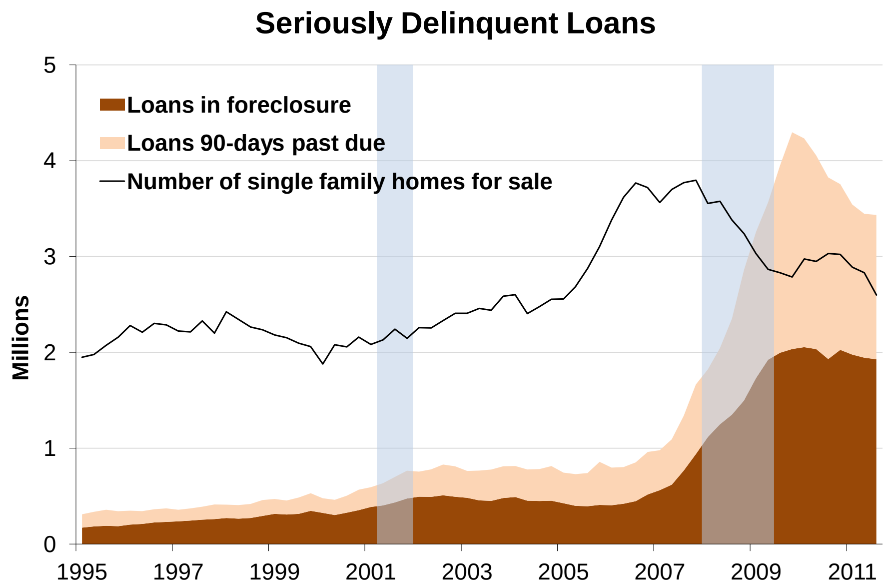
Percent of Loans Entering Foreclosure and Home Vacancy Rates



Note: Shaded areas represent U.S. recessions.
Source: Moody's Analytics.

BOX 3
HOUSING MARKET RISKS

As of the third quarter of 2011, 1.9 million homeowners were in foreclosure and another 1.5 million were delinquent on their mortgages for more than 90 days, putting them at a very high risk of foreclosure. Together these two groups comprise the "seriously delinquent." A large fraction of these homeowners end up moving out of their homes, either by selling their homes at a steep discount or by losing their homes to lending institutions, which in turn put them on the market, often at a reduced price. These homes are not reported in the Census Bureau's official home inventory statistics and consequently are often referred to as shadow inventory. Of course high levels of inventory put downward pressure on home prices, particularly when the seller is a bank looking for a quick sale. The figure below indicates that the number of seriously delinquent properties has risen significantly since 2006 and currently exceeds the combined number of new and existing homes for sales.



Note: Shaded areas represent U.S. recessions.
Source: Moody's Analytics.

Foreclosure activity has slowed down significantly since the "robo-signing" controversy that erupted in October 2010, when banks were found to have mailed tens of thousands of default notices based on deficient documentation. Major banks were forced to freeze foreclosures in multiple states. As a result, the data now shows big declines in the number of foreclosures on a year ago basis, with the latest decline of 14 percent in November 2011. However, this decline is hiding the potential wave of foreclosures that are in the pipeline waiting to be processed, posing a great risk to the overall housing market.

According to RealtyTrac's most recent quarterly report, it took an average of 336 days to complete the foreclosure process for units that were foreclosed during the third quarter of 2011.[1] In New York, foreclosure process took 986 days. Foreclosed properties, especially REOs, real-estate-owned properties, usually sell at a price well below that of other sales. According to CoreLogic Inc, home prices declined 1.4 percent on a month over month basis, and 4.3 percent on a year over year basis in November.[2] Excluding distressed sales (short sales and REOs), the year over year decline was only 0.6 percent.

Based on a system of equations that estimates housing starts, the inventory of homes for sale, home prices, residential investment, and durable consumption, a one percent increase in the housing inventory -- defined as the official plus the shadow inventory -- lowers housing starts by 0.5 percent. If a large fraction of seriously delinquent properties enters the market, both housing starts and home prices are negatively affected. Housing starts are a direct indicator of residential investment, while residential investment is a significant predictor of real durable consumption. As a result, we conclude that increases in foreclosures and the shadow inventory of REOs poses a substantial risk to the recovery in both residential investment and consumption spending.

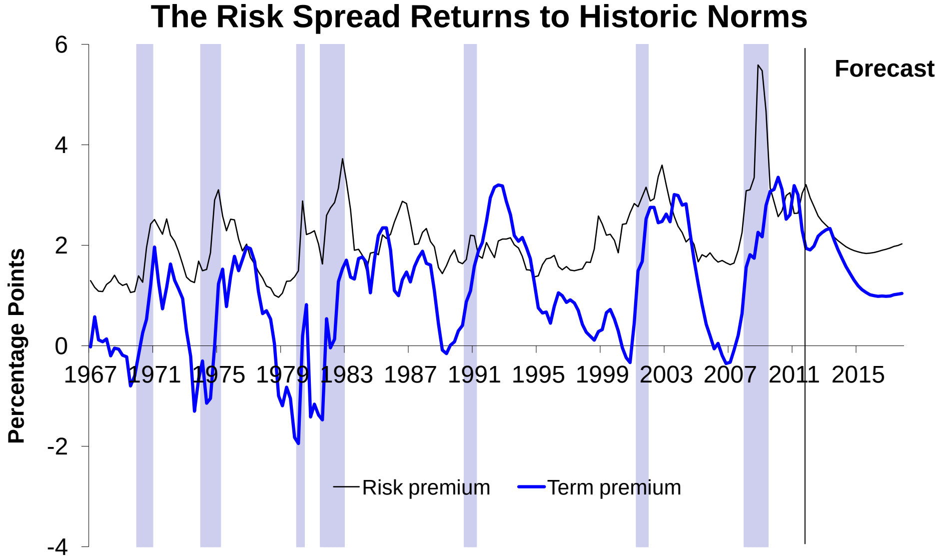
[1] See <http://www.realtytrac.com/content/foreclosure-market-report/third-quarter-and-september-2011-us-foreclosure-market-report-6880>.
[2] See <http://www.corelogic.com/about-us/researchtrends/asset_upload_file959_13894.pdf>.

Business Spending To Lead the Way

Real business fixed investment, which includes investment in equipment and software, as well as in nonresidential structures, is expected to continue to help lead the recovery, although at a diminished pace in the coming years. Real nonresidential fixed investment, which fell 0.8 percent in 2008 and then plummeted 17.8 percent in 2009 as firms slashed production and spending in response to weakened consumer spending in the wake of the collapse of the housing bubble and the financial crisis, increased 4.4 percent in 2010 and is currently expected to post growth of 8.8 percent for all of 2011. If the expectation for growth this year is fulfilled, it will be the largest percentage increase in real nonresidential fixed investment since 2001.

For a given set of current and expected future input and output prices, profit maximizing firms are assumed to choose a level of investment that achieves an optimal long-run relationship between the expected level of sales and the stock of plant and equipment. With consumption and global demand rising, the incentive to expand and invest can be expected to rise as well. In addition, a decrease in the cost of acquiring and using capital goods, commonly referred to as the user cost of capital, also induces firms to increase investment spending. Factors that reduce the user cost include a decline in the prices of new investment goods, falling inflation-adjusted borrowing costs, rising equity prices, and changes in the tax code, such as the creation of an investment tax credit. Consequently, with risk spreads continuing to normalize, as indicated in Figure 20, the incentive to invest is yet further increased.

Figure 20
The Risk Spread Returns to Historic Norms



Note: The term premium is defined as the gap between the 10-year and one-year Treasury yields; the risk premium is defined as the gap between the BAA rated corporate bond and 10-year Treasury yields; shaded areas represent U.S. recessions.
Source: Moody's Analytics; DOB staff estimates.

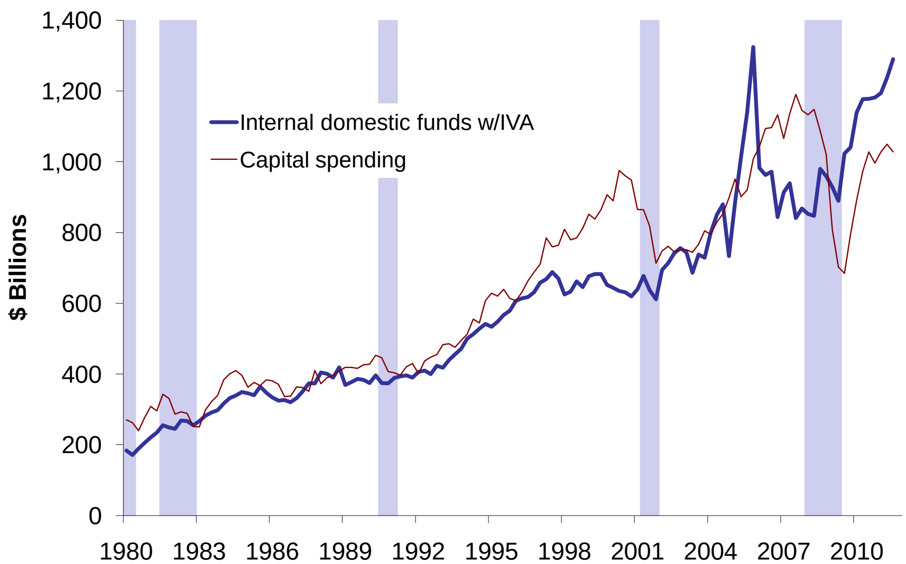
However, the three most important factors explaining the collapse of investment during the national recession of December 2007-June 2009 are the unprecedented pullback in domestic household spending; credit market frictions; and falling international trade. Moreover, feedback among these three factors amplified the decline. As consumers pulled back, profits and imports fell, and loan default rates rose, causing an already fragile banking system to tighten further.

As the economy improves, the forces alluded to above tend to reinforce each other in a virtuous cycle instead. Banks slowly become more willing to lend and businesses more willing to borrow, in order to replace old equipment and expand capacity as rising wealth and falling labor market uncertainty led to higher domestic and global demand, resulting in greater profits and lower loan default rates.

The growth in spending on equipment and software has been strong despite the slow recovery in credit market conditions and the even slower recovery in the labor market. After six straight quarters of declines, some worn out equipment and out-of-date software needed to be replaced. Meanwhile, investment in nonresidential structures finally initiated a comeback after falling for seven straight quarters, a streak that began with the third quarter of 2008 and continued to the first quarter of 2010. In addition to fiscal policy incentives including bonus depreciation and accelerated business expensing, the strength of the comeback in investment spending is likely the result of the following factors.

Figure 21

Finance Gap for Nonfinancial Corporations



Note: Shaded areas represent U.S. recessions.
Source: Moody's Analytics.

Total U.S. corporate profits, with inventory valuation and capital consumption adjustments, rose 9.1 percent in 2009 and a hefty 32.2 percent in 2010. As a result of the dearth of investment spending during the recession and three years of strong profits growth, large firms have accumulated stockpiles of funds that are available for capital spending.[9] Figure 21 compares total internal domestic funds with outlays for capital

[9] A detailed discussion of U.S. corporate profits outlook can be found on page 96.

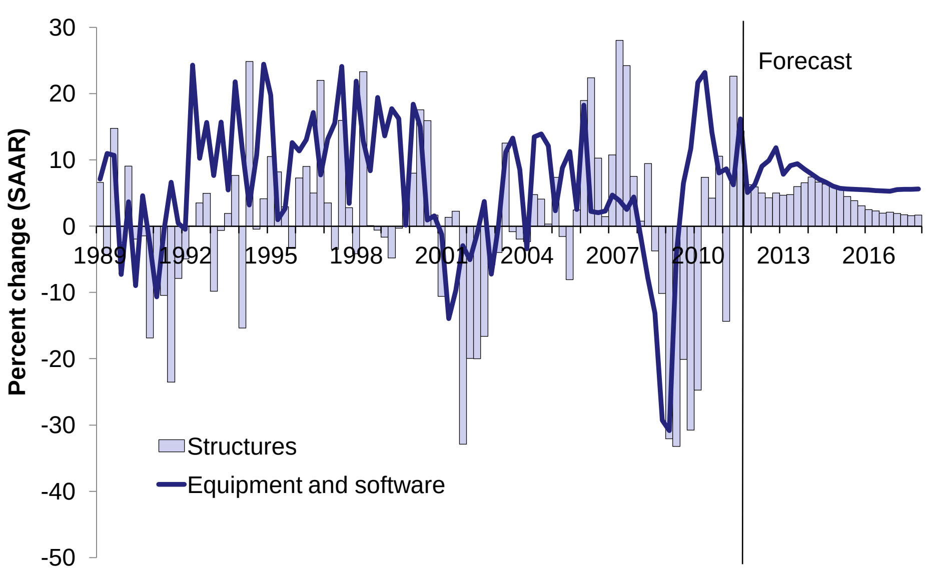
spending for the nonfinancial corporate sector since 1980. The excess of the latter over the former is known as the financing gap. The financing gap is typically growing during expansions as firms accelerate investment to keep up with growing demand. The gaps grew particularly wide during prior two expansions, coinciding with the high-tech investment boom of the 1990s and the commercial real estate boom that took place during the 2002-2007 expansion. However, the current expansion stands in contrast with prior expansions in that capital outlays have failed to exceed internal domestic funds since 2008Q1, the first quarter of the recession. In the third quarter of 2011, the most recent period for which data are available, cash holdings by nonfarm nonfinancial corporations totaled $2.12 trillion (not seasonally adjusted), a record. Cash also made up 7.2 percent of all corporate assets, a near-50 year record.

The gradual improvement in credit conditions is another factor explaining the recent strength of investment growth. Evidence from the Senior Loan Officers' Survey suggests that credit market conditions have been improving more quickly for the large and medium sized firms that likely dominate the investment statistics than for small firms. Based on survey results, the net percentage of banks reporting tighter standards for commercial and industrial loans to large and medium firms has fallen for eight straight quarters, while the same statistic for small firms has now fallen for six straight quarters.

Yet another factor has been the revival of foreign trade, particularly the strong growth of U.S. exports. Real exports of capital goods (excluding autos), which fell 15.2 percent in 2009, based on seasonally adjusted data, rose 13.8 percent in 2010; those exports are up a much more modest 2.7 percent for the first 10 months of 2011, the most recent data available. Finally, heading into a fourth straight year of very low interest rates, firms must be aware that the current low interest rate environment will not last forever.

Figure 22

Real Nonresidential Fixed Investment



Source: Moody's Analytics; DOB staff estimates.

Investment spending is expected to continue to grow as household spending rises and credit markets continue to loosen (see Figure 22). The Budget Division projects growth of 8.5 percent in real equipment and software investment for 2012, following an increase of 10.3 percent in 2011. Equipment and software investment is expected to rebound to 9.4 percent growth in 2013. Meanwhile, investment in nonresidential structures is expected to rise 7.6 percent in 2012, after growing 5.0 percent in 2011.

Outlook for Monetary Policy and Inflation

For the policymakers of the Federal Reserve System, the recovery from the 2008-2009 recession must seem like a macroeconomic version of the movie "Groundhog Day." Just as the Pittsburgh TV weatherman in the film finds himself repeating the same day over and over, the central bank seems to find itself reaching for unconventional policy tools anew each year. As happened last year, just when the economy appeared to be on the brink of a healthy, sustainable expansion, macroeconomic shocks arrived to stall improvements in output and employment during 2011. One notable difference between this year and 2010 was the relative lack of discussion of the Fed's "exit strategy" this time around.

In fact, the Fed's policy-setting Federal Open Market Committee (FOMC) took some of the guesswork out of monetary policy by announcing, after its scheduled early August meeting, that expected economic conditions would likely warrant "exceptionally low levels for the federal funds rate at least through mid-2013." The FOMC has kept the target range for this interest rate at zero to 25 basis points since its meeting of December 16, 2008, already an unusually long period of time. The announcement of such a specific date was also unprecedented, and came as the U.S. economy appeared to be slowing noticeably. It was controversial within the FOMC as well, as three members voted against the policy directive, preferring instead the vaguer "for an extended period," as prior statements have said.

The Budget Division normally uses a modified version of Taylor's monetary rule as a guide to forecasting changes in the central bank's federal funds policy target. Taylor's rule is a federal funds rate reaction function that responds to both the deviation of inflation from its target level and the deviation of output growth from its potential level. We assume the Federal Reserve weighs deviations from its inflation target about twice as heavily as deviations from its output growth target, so the inflation deviation has a weight of unity while the output growth deviation has a weight of 0.5. In addition, the contemporaneous value of inflation is replaced by an average of actual inflation for the past three quarters, estimated inflation for the current quarter, and expected inflation for one quarter ahead. A similar term is constructed for output growth. However, given the zero bound on nominal interest rates, Taylor's rule has recently been limited in its guidance as to how the central bank will proceed.

Given that the Budget Division expects the unemployment rate to average 8.6 percent in 2012 and that the FOMC's own unemployment projections have become more pessimistic since June, it is difficult to make a case for an earlier policy move. Thus, the Budget Division forecast for inflation and the output gap is consistent with a first move toward policy tightening in the third quarter of 2013.

With the Federal Reserve continuing its ultra-low federal funds rate target, attention remained fixed on the central bank's unconventional policy tools. As 2011 began, the Federal Reserve was still in the process of implementing its $600 billion Large Scale Asset Purchase program, nicknamed "QE2" (for "quantitative easing" -- the first such program had been completed in April 2010). QE2 was completed at the end of June, as had been planned when it was first announced in November 2010. But this year, with the economy already experiencing shocks due to natural disasters in Japan, the "Arab Spring" uprisings, and fierce weather, there was little discussion of an exit strategy for the Fed.

The FOMC announced the new policy after its September meeting, which followed an August nonfarm payrolls report of no new jobs on net having been created, and substantial downward revisions to job counts for June and July. It was the worst jobs report since September 2010. The committee said that it would rebalance the maturity structure of its portfolio, purchasing $400 billion of Treasury securities with remaining maturities of six to 30 years, while selling an equal amount of securities with remaining maturities of three years or less. The new program was dubbed "Operation Twist" after a similar attempt by the Fed to flatten the yield curve undertaken in 1961. Other things being equal, lower long-term interest rates should tend to increase demand for longer-term real assets, such as houses, durable consumer goods, and business investment in equipment and nonresidential structures.

At this point, it is difficult to assess the results of the current Operation Twist. In part this is because the new policy began just three months ago, and in part because of the Fed's gradual implementation of the portfolio rebalancing. Recent economic data have been somewhat stronger than earlier in the year, but the Fed has maintained for some time that the economy would gain momentum later in the year as the shocks of late winter and the spring dissipated.

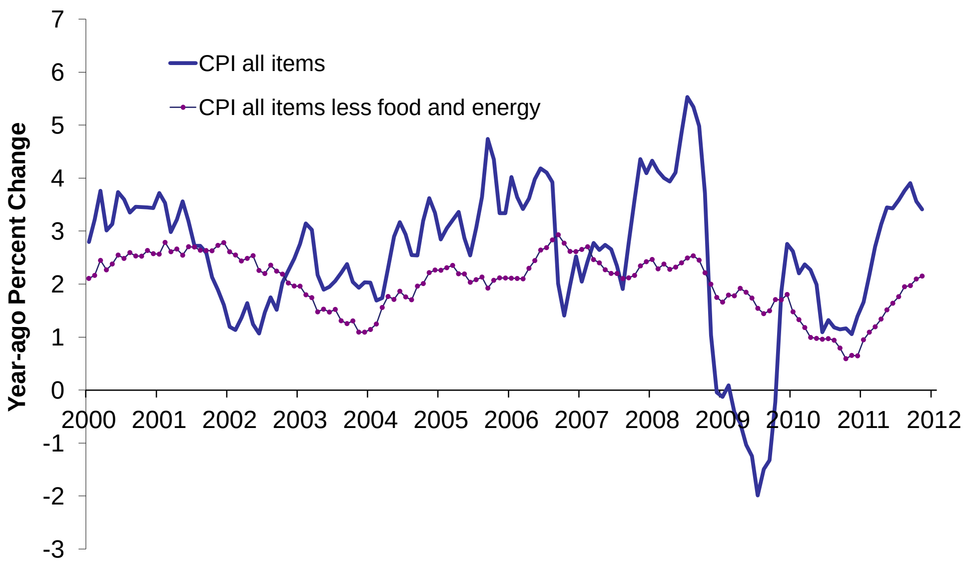
Finally, as discussed above, the disasters in Japan and the continuing European debt crisis have led the Fed to continue to operate its "temporary" U.S.-dollar liquidity swap facilities. These arrangements with the European Central Bank, and the central banks of Canada, England, Japan and Switzerland, make it easier and less expensive for banks to obtain U.S. dollars. The revived dollar liquidity swap facilities are now set to expire on February 1, 2013. Meanwhile, in November the Fed and the other central banks announced lower pricing on the dollar liquidity swaps, and also created foreign currency liquidity swap lines. These liquidity facilities, also set to expire on February 1, 2013, allow the Federal Reserve to obtain foreign currencies, which it can then in turn lend to U.S. financial institutions, should the need arise.

Based on the policy framework described above and a relatively benign outlook for inflation over the near-term, the effective federal funds rate is projected to average 0.13 percent in 2012, rising to 0.76 in 2013. Meanwhile, an average 10-year Treasury yield of 2.41 percent is projected for 2012, down from the 2.79 percent average for 2011. The Budget Division expects the yield to climb to 3.18 percent, on average, for 2013. Of course, a deterioration of economic and/or financial conditions could cause the Fed to once again undertake stimulative policies of some sort, driving interest rates down once more.

Deflation concerns receded in 2011, as the rise in consumer prices began to accelerate early in the year. Consumer prices, as represented by the all-items Consumer Price Index (CPI), fell 0.3 percent in 2009, followed by still benign growth of 1.6 percent in 2010. But by 2011, the specter of rising inflation had emerged, driven in large part by spiking energy and food prices resulting from both the unrest in the Middle East and growing demand from the large emerging economies. In addition, the earthquake and subsequent tsunami that struck Japan in March of last year induced supply-chain bottlenecks that disrupted vehicle production, putting upward pressure on motor vehicle prices. CPI inflation, which began the year at 1.7 percent on a year-ago basis in January, was running at 3.9 percent by September, the fastest in three years. Moreover, as indicated in Figure 23, core CPI, which excludes the volatile food and energy components, was on the rise as well.

Figure 23

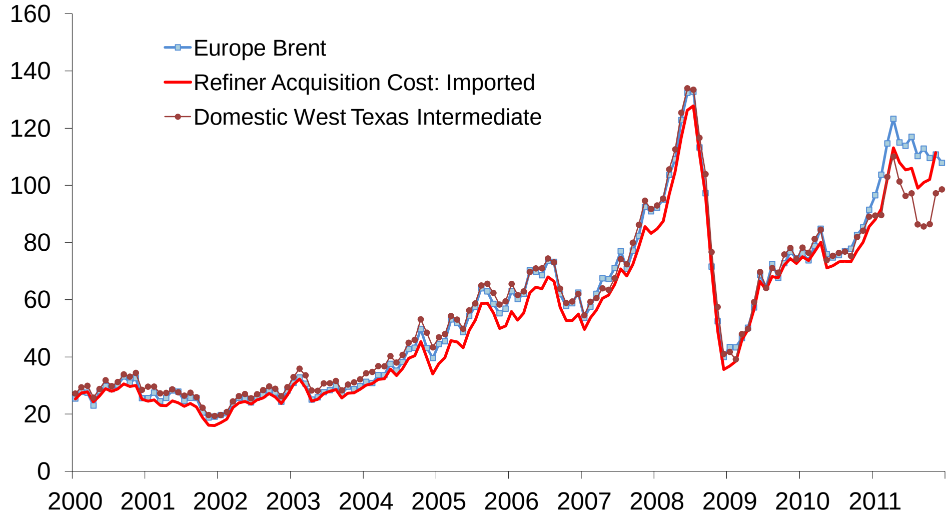
General vs. Core Inflation



Source: Moody's Analytics.

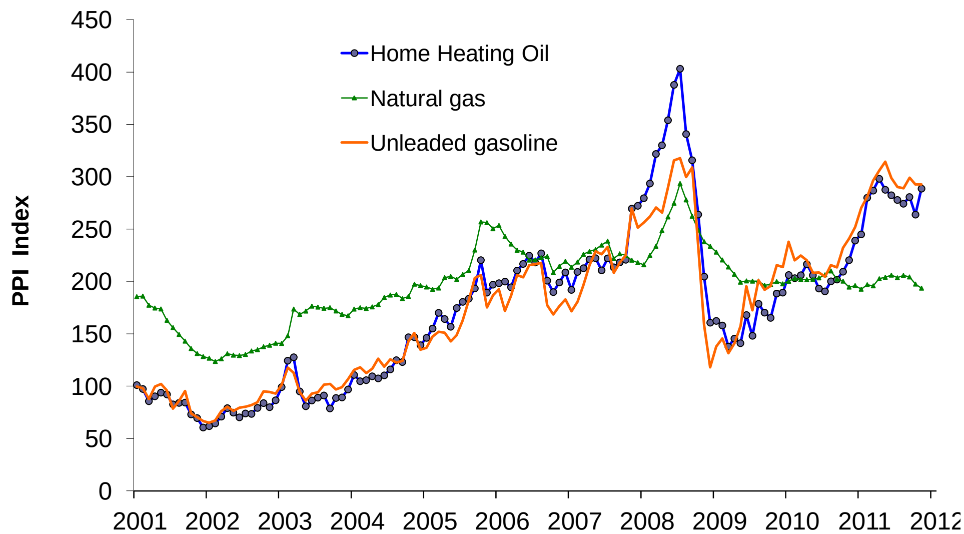
An unusual feature of the energy market in 2011 was the divergence between two benchmark measures of oil prices, West Texas Intermediate Crude (WTI) and Europe Brent. In January 2010, Brent was $2 below WTI, but by its September 2011 peak Brent was a record $26 above WTI (see Figure 24). The divergence was a consequence of supply factors in the U.S. that resulted in a glut of oil that could not be easily moved, and the impact of fear induced by the conflict in Libya on supplies in Europe. The rise in oil prices found its way into gasoline prices, which were the most volatile component of the typical market basket of household purchases during 2011. Because of the importance of imported Brent to the East Coast production of gasoline, gasoline prices remained elevated despite the decline in WTI. As represented by the Producer Price Index component for unleaded gasoline, gas price inflation peaked at 51.0 percent in May of last year on a year-ago basis, before moderating in November to 21.5 percent (see Figure 25), while comparable heating oil inflation peaked at 46.1 percent the following month. In stark contrast, natural gas prices were virtually flat in 2011, in large part due to growth in supply and the potential for new supplies as evolving extraction technologies proliferate.

Figure 24
Oil Price



Source: Moody's Analytics.

Figure 25
Recent Trends in Energy Prices



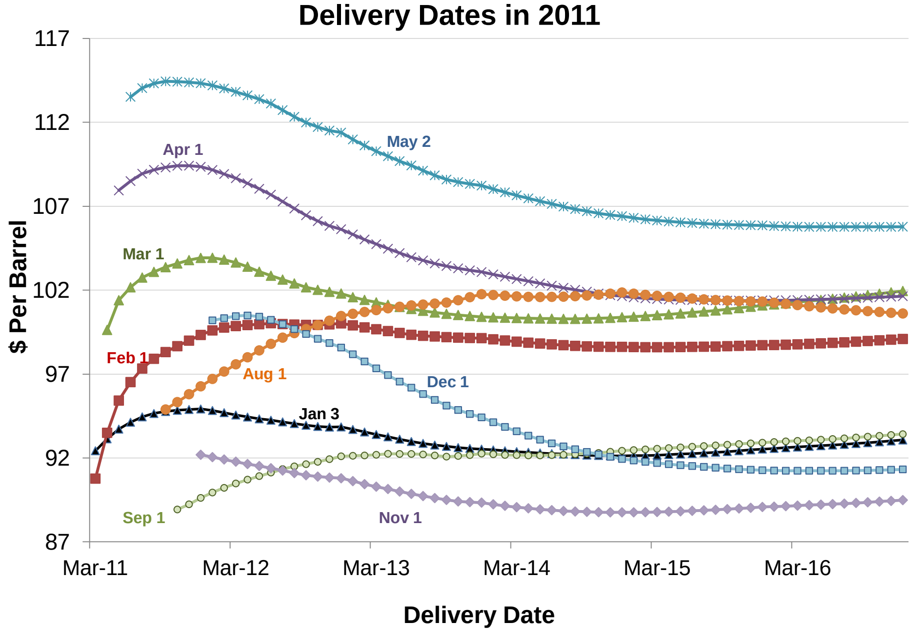
Source: Moody's Analytics.

Since core CPI excludes the more-volatile energy and food components, it is considered a better measure of the underlying trend in inflation. In January 2011, the core CPI was 0.9 percent higher than it was in January 2010, just three months after establishing an all-time record low 12-month increase of just 0.6 percent. But by November the core was 2.2 percent higher than a year ago, the largest such increase since 2008. Increases in the indices for shelter, medical care, and apparel all helped push the core CPI upward in November. However, owing in large part to the underlying weakness of the domestic economy, particularly the labor market, the forces which had driven up prices in 2011 are generally believed to be only transitory. Surveys of households, professional forecasters, and measures of investor expectations derived from Treasury securities markets, tend to indicate that longer-term inflation expectations have remained reasonably anchored. Well anchored inflation expectations in turn free the Federal Reserve to continue to pursue an accommodating monetary policy.

The Budget Division projects inflation, as measured by growth in the Consumer Price Index, will moderate to 1.8 percent for 2012, under the influence of sluggish domestic and international growth, following an estimated 3.2 percent rise in 2011. New Middle East tensions surrounding Iran have oil prices rising once again. Since this is viewed as yet another transitory force, the price per barrel of benchmark WTI crude oil can be expected to fluctuate in the mid-$90s over the near-term. Due to the extreme volatility in global energy prices, the Budget Division uses the futures contract curve to guide its oil price forecast (see Figure 26).

Figure 26

WTI Crude Oil Futures Prices for Selected Contract Delivery Dates in 2011



Source: Bloomberg.

BOX 4
THE THREAT TO DOMESTIC PRICE STABILITY FROM GLOBAL PRICE SHOCKS

Although the unemployment rate has fallen 1.5 percentage points from its October 2009 peak of 10 percent, it is still well above the non-accelerating inflation rate of unemployment, or NAIRU. Capacity utilization is up 10.5 percentage points from its trough, but remains 3.5 points below its pre-recession peak. With real earnings stagnating, there appears to be virtually no threat to price stability from domestic sources. However, with the U.S. far more integrated into the global economy, global prices now play a larger role in determining the domestic price level than ever before. According to the U.S. Energy Information Administration, the Asia-Pacific region is currently the leading driver of oil demand and therefore of rising energy prices over the long-run. Against a backdrop of rising long-term demand, conflicts involving oil-producing nations cause excessive price volatility, representing an external shock to the recovering U.S. economy through higher import prices. Here we are concerned with measuring the pass-through of that volatility into core consumer prices.

The model estimates the impact of both domestic and global factors on core price inflation. Near the peak of the business cycle, when markets are tight, it should be easier for firms to pass along higher costs to consumers than during a slowdown. Similarly, with employment and wages growing, consumers would be willing to pay more as well. Thus, when the unemployment rate is above the so-called non-accelerating inflation rate of unemployment, commonly referred to as the NAIRU, core inflation should be lower. But with the nation's foreign sector now much larger than before, we test the hypothesis that the impact of domestic labor market forces on core inflation may have fallen over time. Additionally, when the prices of the imported goods with which domestic non-energy producers must compete grow at a faster rate than core inflation, core inflation can be expected to accelerate. When productivity growth is high, firms can absorb higher costs without sacrificing profits, removing the necessity of raising output prices and risk losing market share. In contrast, if firms expect high future inflation, they may feel more comfortable raising prices today without risking market share, since with wages presumably growing with expected future inflation, consumers are willing to pay those higher prices. The results of a statistical analysis that includes all of these factors appear below:

$$
\begin{aligned}
INF_t^C = &-\underset{(0.090)}{0.001}\,(U_t - U_t^{NAIRU}) - \underset{(0.16)}{0.75}\,(U_t - U_t^{NAIRU})D1983Q4_t + \underset{(0.02)}{0.05}\,(INF_{t-1}^{IM} - INF_{t-1}^{C}) + \underset{(0.07)}{0.34}\,INF_{t-1}^{C} + \underset{(0.13)}{0.62}\,\hat{INF}_{t+4} \\
&- 0.03\ PDL(18, 2, INF_{t-1}^{E} - INF_{t-1}^{C}) + 0.25\ PDL(18, 2, (INF_{t-1}^{E} - INF_{t-1}^{C})D1983Q4_t) - 0.37\,PDL(12, 2, PROD_t)
\end{aligned}
$$

$\overline{R}^2 = 0.84$ DW = 2.09 $1957Q2 - 2011Q3$

INF_t^C = Core CPI inflation, current qtr.

U_t = Unemployment rate, current qtr.

U_t^{NAIRU} = NAIRU, current qtr.

INF_{t-1}^{IM} = Non-oil import price inflation, prior qtr.

$PROD_t$ = Nonfarm business productivy growth, current qtr.

INF_{t-1}^{E} = Energy CPI inflation, prior qtr.

$\hat{INF}_{t+4}$ = Expected annual inflation, 4 qtrs. ahead

PDL(l,d,var) = Polynomial distrubuted lag (l = number of lags; d = degree of polynomial)

$D1983Q4_t$ = Break point dummy {= 1 for $t \leq$ 1983Q4; 0 otherwise}

Note: All inflation and growth rates are annualized from prior quarter; standard errors are in parentheses.

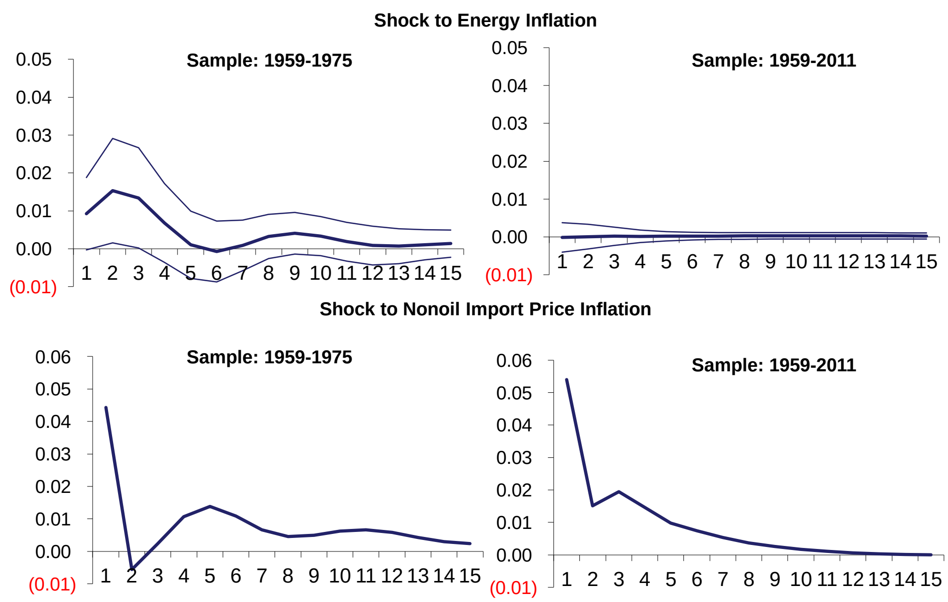
The model results presented above indicate that if inflation in non-energy import prices rises above core inflation, there is some pass-through to the core inflation rate. Model results also show a negative impact of labor market slack on core inflation, but based on a test for structural change, the impact appears to have changed over time. Similarly, core inflation has become less sensitive to oil prices for the period from 1984Q1 onward. These results suggest that most of the upside risk to core inflation arises from inflationary expectations becoming unanchored and rising non-oil import prices.

(Continued on next page)

(Continued from previous page)

The results above are supported by an alternative model suggested in Clark and Terry (2009), who find that the pass through from energy inflation to core inflation has been virtually nonexistent since the mid 1980s.[1] Following their lead, we estimate a Bayesian vector-autoregression model (BVAR) that incorporates four endogenous variables: the core PCE price deflator; the PCE price deflator for energy goods and services; the federal funds rate, and the unemployment gap, defined as the difference between the unemployment rate and the NAIRU. DOB's model also includes three exogenous variables: inflation expectations, nonoil import inflation and productivity. The impulse response functions show that shocks to global non oil prices do pass-through to core PCE inflation, with the result being less ambiguous over the entire sample than for the 1959-1975 period in isolation. In contrast, oil shocks have a much larger impact over the earlier sample than over the entire sample.

Impulse Response Functions for Core PCE Inflation



Note: Shocks to PCE Energy inflation charts contain 2 standard deviation lines.
Source: Moody's Analytics; DOB staff estimates.

The model results also indicate that the federal funds rate has become less sensitive to oil shocks, consistent with the Federal Reserve no longer viewing them as a threat to core inflation.

[1]Clark, Todd and Stephen Terry (2009), "Time Variation in the Inflation Passthrough of Energy Prices," The Federal Reserve Bank of Kansas City, *Research Working Papers RWP 09-06*.

The Budget Division inflation forecast is consistent with long-term inflation expectations remaining anchored for now. However, accelerating domestic demand and emerging market growth could cause prices to rise more quickly than anticipated, particularly energy prices, creating risk to the inflation forecast. With demand still generally weak, producers have been limited in their ability to pass increases in input prices onto consumers, other than those that are energy related. But as the U.S. recovery gains strength toward the end of 2012, the probability that volatile energy and food prices will spill over into core inflation is heightened. A statistical model that measures the sensitivity of core inflation to the change in oil prices suggests that we can expect very little pass-through in time (see Box 4). Nevertheless, we expect that the Federal Reserve will want to move away from near-zero short-term interest rates as soon as they see some internally generated momentum in business hiring, to keep inflation expectations stable.

The International Economy

It is likely that the greatest risks to the nation's economy in 2012 lie off its shores. The euro-area represents two significant risks to U.S. growth. The first is the fragility of European banks and the exposure of the U.S. banking system to that weakness, while second is the downturn that appears to be underway in a subset of euro-area nations that could turn into a broader, more severe recession. Moreover, these two phenomena are deeply intertwined, as the deeper the downturn, the less likely that European governments will be able to make their debt payments. Euro-zone governments reportedly will need to refinance more than €1 trillion (about $1.29 trillion) of maturing short-term and long-term debt in 2012. That is more than 10 percent of the size of the euro-zone economy itself. These developments present yet a third risk. The euro has fallen below $1.28, its lowest level since September 2010. A cheap euro can only further erode European demand for U.S. exports.

The amount of risk posed by the U.S. banking system's exposure to European sovereign debt and European banks is uncertain. According to one source, as of November, 2011, the six largest U.S. banks held a $50 billion exposure to the PIIGS nations – Portugal, Ireland, Italy, Greece, and Spain.[10] In addition, five of these U.S. banks have $188 billion in exposure to French banks alone and $225 billion in exposure to the UK.[11] Concern over the weakness of European banks has recently intensified with doubts about Hungary's ability to meet its obligations and concerns about Spain.

Resolution of Greece's debt crisis appears to include a 50 percent write-down on its debt owed to private bondholders, with the implication that up to €206 billion in debt held by private investors could eventually be cut by half. While the global financial community appears able to absorb the equivalent of Greece defaulting on half of its debt, it is not clear that similar terms could be negotiated for larger economies facing a threat of similar proportion. For example, the market for Italian government debt is reportedly the world's third largest. Unlike the market for U.S. Treasury debt, the largest holders of European sovereign debt are banks. Thus, the risk of an Italian default would undoubtedly increase counterparty risk within the global financial community, increasing the probability of an event comparable to the fall of Lehman Brothers in September 2008.

The degree of the danger posed by bank exposure to sovereign debt depends on the ability of European governments to make payments on their debt, and that depends on prospects for growth. Recent data indicate that the euro-zone economy continued to deteriorate late in 2011, particularly in German, France, and Italy, the region's three largest economies. By one estimate, euro-zone gross domestic product fell around 1.75 percent in the last three months of 2011. Germany saw two months of declining retail sales in October and November, and a fall in industrial orders in November. France is believed to have entered another recession in the last quarter of 2011. The Italian economy contracted in the third quarter and is expected to continue to decline as fiscal

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[10] See Fitch Ratings, "Eurozone Contagion Poses Threat to U.S. Bank Rating Outlook," November 16, 2011. <http://www.fitchratings.com/web/en/dynamic/articles/Eurozone-Contagion-Poses-Threat-to-U.S.-Bank-Rating-Outlook.jsp>, viewed January 8, 2012. The report lists the six largest U.S. banks as JP Morgan Chase, Bank of America, Citigroup, Wells Fargo, Goldman Sachs, and Morgan Stanley.

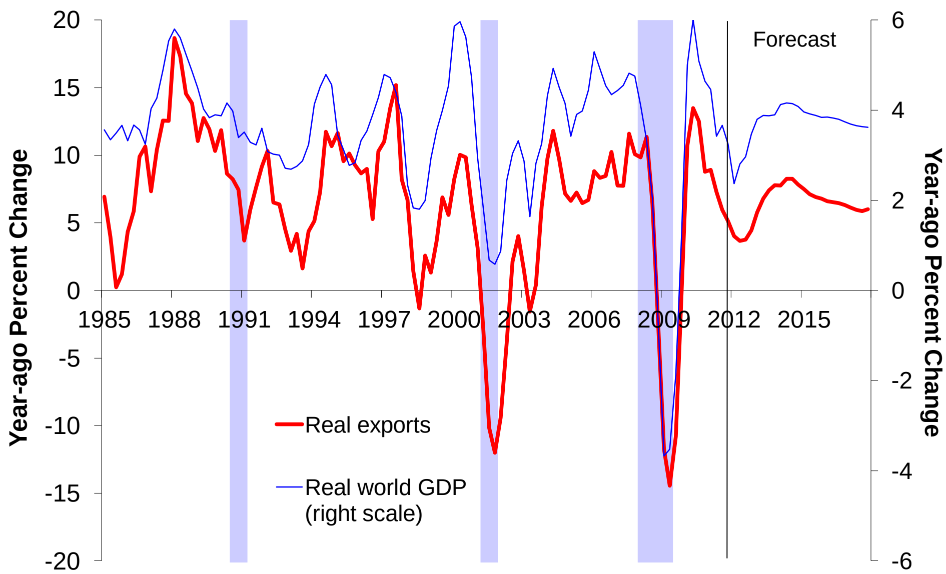
[11] The report's list of the five largest banks excludes Wells Fargo.

austerity and declining trade flows shrink both domestic and foreign demand. A severe recession in Europe would compromise efforts to bring the debt crisis under control. However, the deep cuts in public spending needed to reduce government deficits increase the risk of a deep downturn.

The slowdown in Europe appears to be spilling over into the emerging economies as well. Declining demand from Europe and the U.S. could make it more difficult for China's government to manage a soft landing for its economy. Growth in the Brazilian economy was flat in the third quarter and its central bank has begun cutting interest rates. India and South Korea have also slowed and the IMF has said that the European crisis is even having an impact in sub-Saharan Africa.

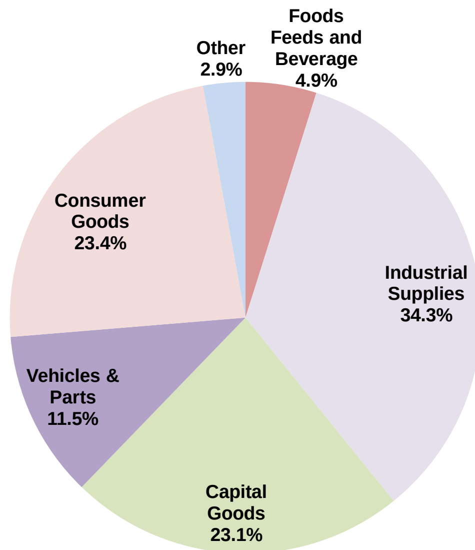
With the global slowdown intensifying just as the U.S. labor market appears poised for an upturn, what had been a leading sector in the national recovery has turned into a major source of risk. Since the middle of 2010, when the euro-debt crisis first emerged as a serious threat to global growth, global demand for U.S. exports, adjusted for inflation, began to decelerate. As illustrated in Figure 27, both real world GDP growth and real U.S. export growth peaked during the second quarter of 2010 on a year-ago basis. From the technical end of the recession in 2009Q2 through 2010Q3, real U.S. exports grew at an average annualized quarterly rate of 12.9 percent, but growth slowed to an average of 6.0 percent over the next four quarters. Weakening global demand for U.S. goods and services is projected to result in a slowdown in the growth in real U.S. exports from 6.8 percent in 2011 to 4.0 percent in 2012.

Figure 27
Real Export and World GDP Growth



Note: Shaded areas represent U.S. recessions.
Source: Moody's Analytics; IHS Global Insight; DOB staff estimates.

Figure 28
2011 Share of Imported Goods by End-Use Category



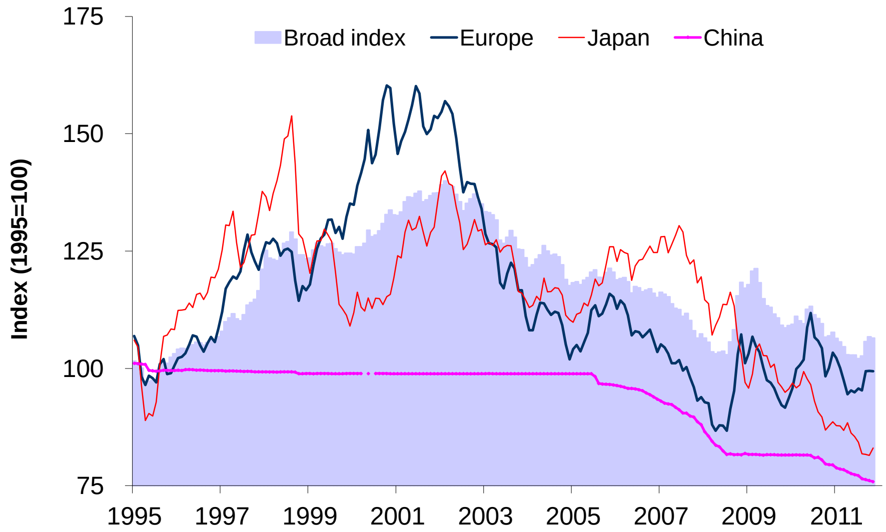
Note: Values are based on the first 10 months of data, before adjusting for inflation.
Source: Moody's Analytics.

Import growth has decelerated even more substantially than has growth in exports, at least since the middle of 2010 and coinciding with the struggling U.S. recovery and pullback by households. Though imports are a subtraction from GDP, their growth represents an increase in final sales and as such signals increasing household and business sector demand. Figure 28 decomposes U.S. imports for the first ten months of 2011. Although the Census Bureau does not break out final demand by sector, it is estimated that at least half the value of imports is business-related. Since these shares have been relatively stable since 2010, the deceleration in import growth presumably represents a weakening in both household and business demand. Real import growth is projected to remain weak until picking up again during the second half of 2012. The value of real U.S. imports is projected to rise 3.4 percent for 2012, following 4.8 percent growth for 2011. Weakening import growth has had a favorable impact on the current account trade deficit, which had started to deteriorate since the recession trough in the second quarter of 2009. At 2.9 percent of nominal GDP for 2011Q3, the deficit is a bit higher than its 2.4 percent low in 2009Q2, but well below its most recent 6.4 percent peak in the fourth quarter of 2005.

Given the nation's historically large Federal budget deficit, there is much concern over the future value of the dollar. As illustrated in Figure 29, the dollar is down against other world currencies since peaking roughly around the turn of the century. The broad index, a trade-weighted index of the nation's major trading partners, has fallen 22.6 percent from its February 2002 historical peak and 10.7 percent since its most recent near-term peak in March 2009. But the intervening period has been characterized by volatility as well, not surprising given the degree of turmoil in global financial markets.

Figure 29

Foreign Exchange Value of U.S. Dollar



Note: The broad Index is a trade weighted index of major trading partners.
Source: Moody's Analytics.

TABLE 4
MAJOR FOREIGN HOLDERS OF TREASURY SECURITIES*
($ Billions)

	Japan		Mainland China		United Kingdom		Oil Exporters		Grand Total**	
	Level	Change	Level	Change	Level	Change	Level	Change	Level	Change
Jan-10	765.2	(0.5)	889.0	(5.8)	208.3	28.0	211.9	10.8	3,702.1	17.0
Feb-10	768.2	3.0	877.5	(11.5)	233.5	25.2	211.9	0.0	3,745.4	43.3
Mar-10	783.3	15.1	895.2	17.7	279.0	45.5	223.4	11.5	3,877.8	132.4
Apr-10	793.8	10.5	900.2	5.0	321.1	42.1	232.9	9.5	3,951.1	73.3
May-10	784.8	(9.0)	867.7	(32.5)	350.7	29.6	228.6	(4.3)	3,958.1	7.0
Jun-10	799.9	15.1	1,112.1	244.4	94.5	(256.2)	210.2	(18.4)	4,070.0	111.9
Jul-10	817.3	17.4	1,115.1	3.0	107.2	12.7	209.3	(0.9)	4,125.5	55.5
Aug-10	832.5	15.2	1,136.8	21.7	181.0	73.8	211.7	2.4	4,272.0	146.5
Sep-10	860.8	28.3	1,151.9	15.1	190.5	9.5	215.4	3.7	4,324.2	52.2
Oct-10	873.6	12.8	1,175.3	23.4	209.0	18.5	207.8	(7.6)	4,373.1	48.9
Nov-10	875.9	2.3	1,164.1	(11.2)	242.5	33.5	204.3	(3.5)	4,411.4	38.3
Dec-10	882.3	6.4	1,160.1	(4.0)	270.4	27.9	211.9	7.6	4,435.6	24.2
Jan-11	885.9	3.6	1,154.7	(5.4)	278.1	7.7	215.5	3.6	4,451.4	15.8
Feb-11	890.3	4.4	1,154.1	(0.6)	295.7	17.6	218.8	3.3	4,472.0	20.6
Mar-11	907.9	17.6	1,144.9	(9.2)	324.6	28.9	222.3	3.5	4,476.1	4.1
Apr-11	906.9	(1.0)	1,152.5	7.6	332.5	7.9	221.5	(0.8)	4,487.9	11.8
May-11	912.4	5.5	1,159.8	7.3	345.1	12.6	230.0	8.5	4,514.8	26.9
Jun-11	911.0	(1.4)	1,165.5	5.7	347.8	2.7	229.7	(0.3)	4,500.8	(14.0)
Jul-11	914.8	3.8	1,173.5	8.0	353.4	5.6	234.4	4.7	4,484.3	(16.5)
Aug-11	936.6	21.8	1,137.0	(36.5)	397.2	43.8	236.3	1.9	4,572.6	88.3
Sep-11	956.8	20.2	1,148.3	11.3	421.6	24.4	229.9	(6.4)	4,660.2	87.6
Oct-11	979.0	22.2	1,134.1	(14.2)	408.4	(13.2)	226.2	(3.7)	4,656.3	(3.9)

* Estimated foreign holdings of U.S. Treasury marketable and nonmarketable bills, bonds and notes are based on Treasury Foreign Portfolio Investment survey benchmarks and on monthly data reported under the Treasury International Capital (TIC) Reporting System.
** Grand Total is the total of all 27 countries included in the Portfolio Investment Survey.
Source: U.S. Department of the Treasury/Federal Reserve Board.

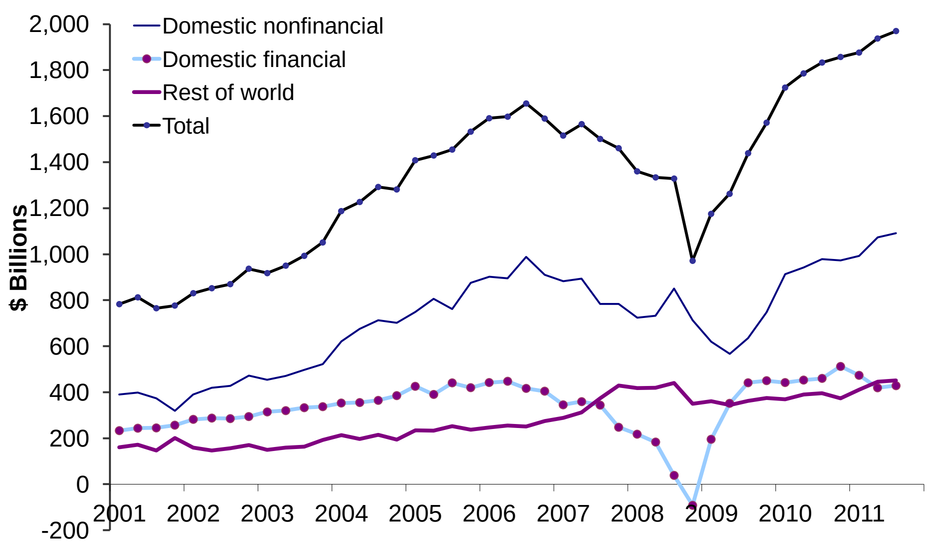
However, recent trends indicate that the safe haven statuses of both the dollar and U.S. Treasuries are relatively secure. Table 4, which lists the foreign holdings of U.S.

Treasury securities, shows that the desire to hold these securities has generally been rising despite the dollar's loss of value. However, the data indicate that China, the largest single holder, has been reducing its holdings, and that outside of Japan, which would prefer a stronger dollar relative to the yen, demand has not been growing among the major holders. Therefore, once the current soft patch has past and global growth firms up, it is likely that investors will diversify away from the safety of U.S. Treasuries. Thus, the projected rise in the nation's trade deficit, combined with an increasing Federal debt, continues to be a risk to the dollar, and therefore to the inflation forecast, over the long run.

Outlook for U.S. Corporate Profits and the Stock Market

U.S. corporate profits have continued to exhibit remarkable strength during the recovery (see Figure 30), with profits more than doubling between the end of 2008 and the third quarter of 2011. The 2008Q4 trough in profits was largely determined by the domestic financial sector, which posted net losses of $92 billion. But those losses had turned to gains by the first quarter of 2009; the TARP and other efforts to bring the global financial sector back from the brink made the finance industry a leading economic sector in the recovery from recession. Both domestic nonfinancial profits and rest-of-world profits hit their respective troughs along with the rest of the economy in 2009Q2. However, the rest-of-world trough was quite shallow and profits since then have risen 30.8 percent through 2011Q3. The decline in domestic nonfinancial profits was much more formidable during the recession, as has been the comeback, with these profits having risen 92.7 percent through the third quarter of 2011.

Figure 30
U.S. Corporate Profits



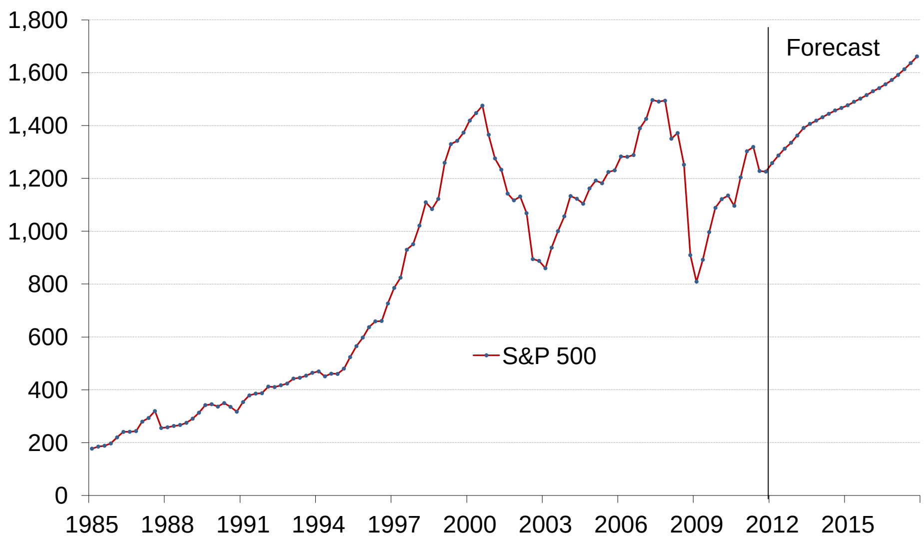
Source: Moody's Analytics.

The strong growth in domestic nonfinancial profits appears virtually severed from the relative weakness in the domestic economy, illustrating how well integrated large U.S.

corporations are with the global economy. Roughly half of the earnings of S&P 500 firms are estimated to be derived from overseas sources. But with the global economy growing more slowly in 2012 than in 2011, foreign earnings, whether from foreign direct investment or the sale of domestically produced goods and services abroad, are expected to be lower. Moreover, Wall Street's largest financial firms have booked losses for the third quarter of 2011, under pressure from both the euro-debt crisis and an evolving regulatory environment. As a result, U.S. corporate profits from current production, which includes the inventory valuation and capital consumption adjustments, are expected to see much slower growth going forward. U.S. corporate profits are projected to grow 4.7 percent in 2012, down from 7.9 percent in 2011, and 32.2 percent in 2010.

Figure 31

The Equity Market Projected to Increase



Source: Moody's Analytics; DOB staff estimates.

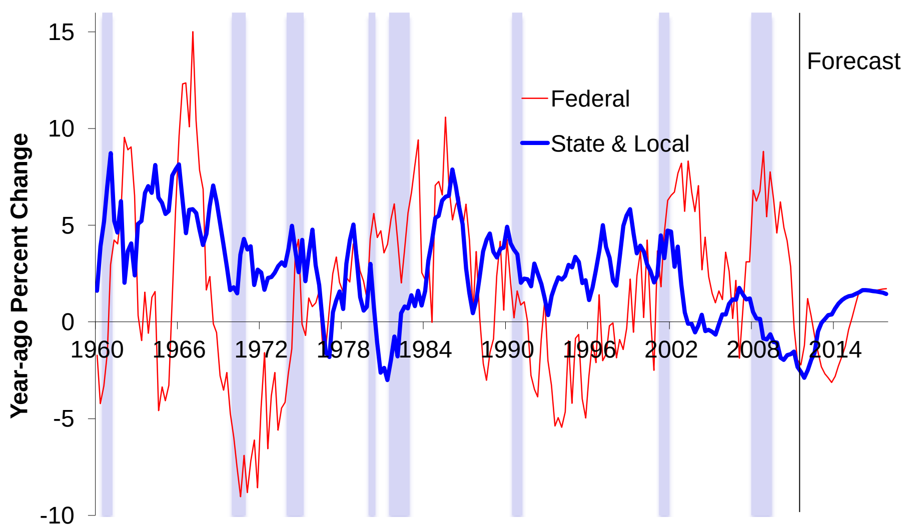
Equity market turbulence has become a constant throughout this recovery (see Figure 31. Although markets have generally risen since their March 2009 troughs, there have been two major corrections along the way: a 16 percent correction between April 23, 2010, and July 2, 2010; and a 19 percent correction between July 7, 2011 and October 3, 2011. Recent movements in equity prices have been more reflective of the fear surrounding the euro-debt crisis than the path of corporate earnings. But over the long term, equity market price growth is expected to be consistent with the growth in corporate earnings, discounted by the change in interest rates. With corporate earnings slowing and interest rates rising very gradually over the medium term, the Budget Division projects slow equity market growth of 0.9 percent for 2012, following growth of 11.4 percent in 2011. Given this expectation for relatively modest growth over the course of 2012, the S&P 500 is not projected to reach its most recent July peak until the first quarter of 2013.

Outlook for Government Spending

State and local government spending is typically a stabilizing factor during a downturn. Sales tax and withholding collections tend to be the most cyclically sensitive, while income tax receipts related to nonwage income tend to respond with more of a lag. In contrast, property tax revenues have traditionally tended to be the most cyclically stable. However, with financial markets under duress, housing prices still falling, and labor markets just starting to rebound, every source of state and local revenue has been and continues to be strained. Figure 32 shows how, in contrast to most prior recessions, real state and local government spending has fallen during virtually every quarter since 2008Q4. Unlike Federal government spending, state and local government expenditures are constrained by revenue flows, often by statute. Thus, the declines in state and local spending stand in stark contrast to the elevated growth in Federal spending during and subsequent to the recession.

Figure 32

Real Government Spending Over the Business Cycle



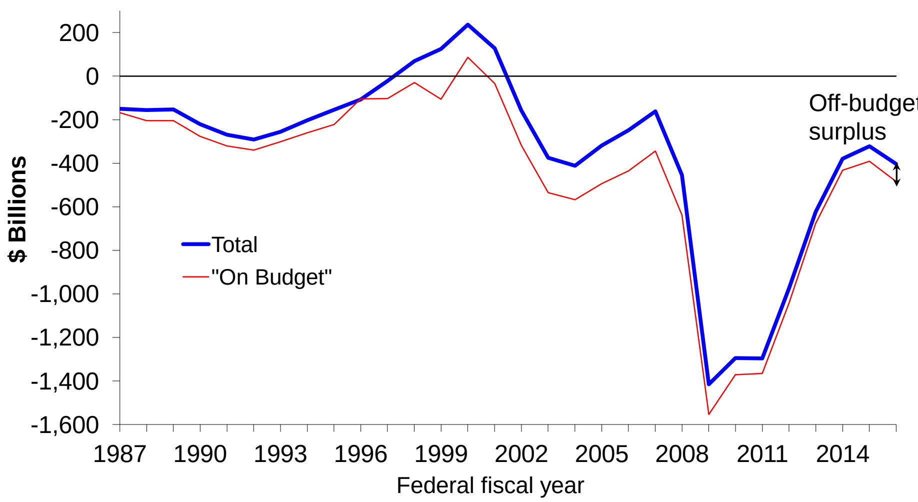
Note: Shaded areas represent U.S. recessions.
Source: Moody's Analytics; DOB staff forecast.

The National Conference of State Legislatures (NCSL) reports that states may be experiencing a fiscal turning point. While state governments closed a cumulative budget gap of $91 billion in crafting their 2012 fiscal year budgets, only four states—California, Missouri, New York, and Washington—report the emergence of a budget gap since the fiscal year began, with these gaps totaling only $4.4 billion.[12] Much of the improvement in fiscal conditions was attributed to improvement in revenue flows. As a result, a smaller decline in state and local government spending is anticipated for this year than is estimated for 2011. However, states like New York and New Jersey that depend on financial market performance for a significant portion of resources could be facing added

[12] See National Conference of State Legislatures, *State Budget Update: Fall 2011*, <http://www.ncsl.org/portals/1/documents/fiscal/FallSBU2011Final_FREEVERSION.pdf>,viewed January 9, 2012.

revenue uncertainty in planning for the 2013 fiscal year. The Budget Division projects a decline in the NIPA definition of real state and local government spending of 1.6 percent for 2012, following a decline of 2.3 percent for 2011.

Figure 33
Federal Budget Surplus or Deficit



Note: Values for 2011-2016 are Congressional Budget Office (CBO) estimates; off-budget surplus includes Social Security trust fund and Postal Service.
Source: Moody's Analytics; Congressional Budget Office (CBO), *The Budget and Economic Outlook: An Update*, August 2011.

Stimulus spending and the nation's military involvement in both Iraq and Afghanistan have continued to be important drivers of Federal spending. Since the end of the 2001-02 Federal fiscal year, real Federal government expenditures have risen 35.2 percent, largely driven by a 40.3 percent increase in defense spending. Over the 36 quarters from the fourth quarter of 2002 through the third quarter of 2010, real defense spending grew at an average annualized rate of 5.0 percent, compared to an average rate of 3.5 percent for nondefense spending (see Figure 32). However, beginning with the third quarter of 2010, there has been a significant slowdown recently in the NIPA component of Federal spending. From the first quarter of 2008, the first quarter of the recession, through the second quarter of 2010, Federal NIPA spending growth averaged 6.6 percent, but that rate dropped to an average of 1.1 percent over the five quarters from 2010Q3 through 2011Q3, a period that included two quarters of decline. With the end of the war in Iraq and pressure to restrain future growth in the Federal budget as concern over the deficit mounts, further declines in spending are anticipated. The Budget Division projects a decline of 0.2 percent in the NIPA definition of Federal government spending for 2012, following a decline of 1.4 percent in 2011.

Although the impacts of many of the economic stimulus programs are not visible in the NIPA definition of Federal government spending, it is very visible in the Federal government budget deficits for recent Federal fiscal years (FFYs). The "on-budget" deficit increased to a record $1,554.1 billion for FFY 2008-09 from $638.1 billion for the prior year, an increase of $916.0 billion. The total deficit, net of the off-budget surplus that includes the Social Security trust fund and the Postal Service, increased by an even larger $960.9 billion due to the shrinking of the off-budget surplus (see Figure 33). With the improvement in the economy during 2010 fiscal year, the on-budget and total deficits shrank by $183.0 billion and $121.52 billion, respectively, but both remained virtually unchanged for FFY 2011. According to Congressional Budget Office (CBO) estimates as of August 2011, the total deficit is projected to fall further by $323.6 billion for FFY 2012, as Federal government revenues rise with the ongoing economic recovery.[13] However, the level of the deficit is still projected to remain close to $1 trillion for the current year and consequently the nation's growing national debt remains a risk to the Budget Division interest rate and inflation forecasts for both the current year and the out-years.

Comparison with Other Forecasters

Table 5 compares the Budget Division's (DOB) forecast for a selection of U.S. indicators with those of other forecasting groups. The 2012 forecasts for real U.S. GDP growth range from a low of 2.0 percent (Global Insight) to a high of 2.6 percent (Moody's Analytics). The DOB 2012 inflation forecast of 1.8 percent represents the middle of a range from 1.5 percent (Global Insight) to 2.1 percent (Blue Chip and Moody's Analytics). DOB's unemployment rate forecast for 2012 is at the bottom of a very narrow range from 8.6 percent to 8.9 percent (Macroeconomic Advisers).

TABLE 5
U.S. ECONOMIC FORECAST COMPARISON

	2011	2012	2013
Real Gross Domestic Product (GDP)			
(2005 chained percent change)			
DOB	1.7	2.2	2.9
Blue Chip Consensus	1.7	2.2	NA
Moody's Analytics	1.8	2.6	NA
Global Insight	1.8	2.0	2.4
Macroeconomic Advisers	1.8	2.3	3.0
Consumer Price Index (CPI)			
(percent change)			
DOB	3.2	1.8	2.1
Blue Chip Consensus	3.2	2.1	NA
Moody's Analytics	3.2	2.1	NA
Global Insight	3.1	1.5	1.8
Macroeconomic Advisers	3.1	1.8	1.5
Unemployment Rate			
(percent)			
DOB	9.0	8.6	8.2
Blue Chip Consensus	9.0	8.8	NA
Moody's Analytics	9.0	8.8	NA
Global Insight	9.0	8.8	8.6
Macroeconomic Advisers	9.0	8.9	8.7

Source: New York State Division of the Budget, January 2012; *Blue Chip Economic Indicators* , December 2011; Moody's Analytics, *Macro Forecast* , December 2011; Global Insight, *US Forecast Summary* , January 2012; and Macroeconomic Advisers, *Economic Outlook,* January 2012.

[13] Beyond FFY 2012, the CBO's deficit projections start to fall faster, since they are based on the assumption that the Bush tax cuts will sunset as scheduled at the end of 2012.

For a brief description of the methodology used by the Budget Division to construct its macroeconomic model for the national economy (DOB/US), see Box 5. For a more detailed description, see *New York State Economic, Revenue, and Spending Methodologies*, November, 2011.[14]

Risks to the U.S. Forecast

The Budget Division outlook calls for the recovery from the nation's worst recession since the 1930s to continue through 2012 at below-trend growth rates as the economy's domestic momentum struggles with a recession in Europe and slow growth in other areas of the world. But there are a number of significant risks to the forecast, both positive and negative. If resolution of the euro-debt crisis should take an unexpected turn, resulting in a lack of confidence that banks servicing sovereign debt can meet their financial obligations, and in the worst case a bank run results as occurred in September 2008, short-term credit markets could seize up and the U.S. economy could potentially be dragged back into a recession. A breakup of the euro-zone, or a dissolution of the euro itself, could have a similar result, among other negative consequences. Similarly, a hard landing in China would likely cause a deeper global slowdown than is expected, resulting in slower export growth than in the forecast. In contrast, a slow but steady path to resolution of the euro-debt crisis, along with a milder recession in Europe and/or a more modest slowdown elsewhere could result in stronger export and employment growth than anticipated.

The forecast rests on the assumption that the U.S. Congress will extend the payroll tax cut and UI benefit extensions beyond the first two months of the year. If the Congress should fail to come to an agreement, household spending could be less than anticipated. Furthermore, should the failure to come to an agreement cause the household and business sector to lose confidence in the recovery, an even greater pullback in spending could ensue, resulting in much slower growth than is reflected in the forecast. A renewed confidence in the recovery depends upon the improvement in the pace of job growth over the coming quarters. If that improvement fails to materialize, households may pull back once again, resulting in lower consumption growth than expected. Weaker household spending would ripple through the economy and likely result in lower investment growth as well. A substantial equity market correction could have a similar effect. In contrast, if actions taken by the Federal government inspire confidence within the business sector, employment and household spending growth could be stronger than expected.

The housing sector has been virtually absent from the recovery. If home foreclosures accelerate substantially more than expected, a housing market recovery could be further delayed. A surge in foreclosures could also impede the recovery in home prices, which would in turn delay the recovery in household net worth, also resulting in lower rates of household spending than projected. Alternatively, a large increase in household formation could result in stronger demand for housing and therefore a quicker recovery in home prices and construction employment than expected. Finally, oil prices are once again on the rise due to global tensions. These increases could cause gasoline prices to

[14] See <http://www.budget.state.ny.us/pubs/supporting/MethodologyBook.pdf >.

return their lofty May 2011 peaks. Since energy price growth acts as a virtual tax on household spending, faster growth of the price of oil than expected could also result in lower consumption spending than anticipated. A quick resolution of these tensions could send energy prices back down faster than expected, resulting in greater real household spending for non-energy goods and services.

BOX 5
THE DIVISION OF THE BUDGET U.S. MACROECONOMIC MODEL

Macroeconomic modeling has undergone a number of important changes over the last four decades, primarily as a result of developments in economic and econometric theory. These developments include the incorporation of both rational expectations and micro-foundations based on the long-run optimizing behavior of firms and households. In addition, analysts now employ more flexible specifications of behavioral relations within a vector autoregressive (VAR) model framework. Recent developments also include a more rigorous analysis of the time series properties of commonly used macroeconomic data series, as well as the implications of these properties for model specification and statistical inference. There has also been a significant improvement in the understanding of the long-run equilibrium relationships among macroeconomic data series and the predictive power of these relationships in constraining economic dynamics.

The Budget Division's U.S. macroeconomic model (DOB/U.S.) incorporates the theoretical advances described above in an econometric model used for forecasting and policy simulation. The model contains 132 core equations, of which 37 are behavioral. In addition, there are hundreds of auxiliary forecasting equations that incorporate the results from the core model as inputs. The current estimation period for the model is 1965:1 through 2011:3. Our analysis borrows heavily from the Federal Reserve Board model which was redesigned during the 1990s using the most up-to-date advances in modeling techniques. We are grateful to Federal Reserve Board economists for providing guidance and important insights as we developed the DOB/U.S. macroeconomic model.

In economic parlance, DOB/U.S. could be termed a neoclassical model. Agents optimize their behavior subject to economically meaningful constraints. Households exhibit optimizing behavior when making consumption and labor supply decisions, subject to a wealth constraint. Expected wealth is, in part, determined by expected future output and interest rates. Likewise, firms maximize profits when making labor demand and investment decisions. The value of investment is affected by the cost of capital, as well as expectations about the future path of output and inflation. The economy's long-run growth path converges to an estimate of potential GDP growth. Monetary policy is administered through adjustments to the federal funds rate, as guided by Taylor's Rule. Current and anticipated changes in this rate influence agents' expectations and the rate of return on various financial assets.

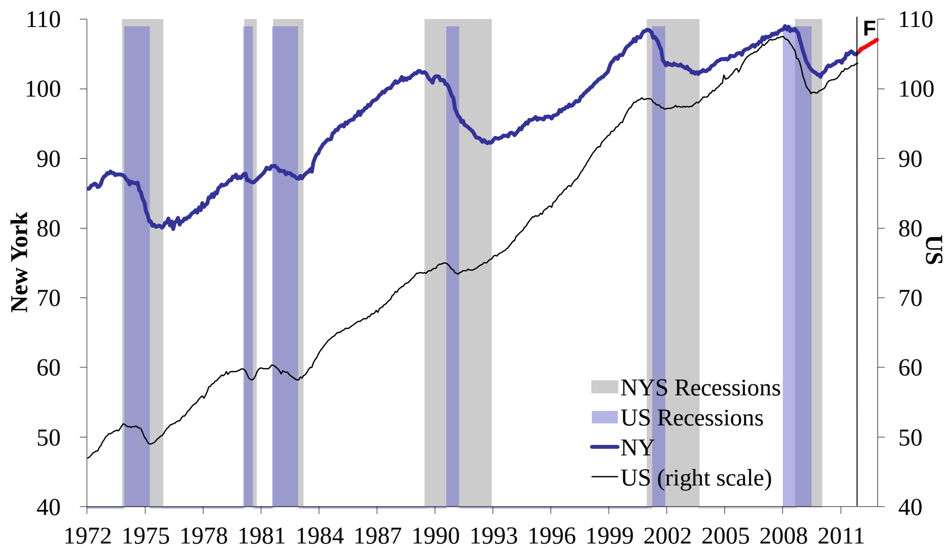
DOB/U.S. incorporates three key theoretical elements into this neoclassical framework: expectations formation, equilibrium relationships, and dynamic adjustments (movements toward equilibrium). The model addresses expectations formation by first assuming that expectations are rational and then specifying a common information set that is available to economic agents who incorporate all relevant information when forming and making their expectations. Long-run equilibrium is defined as the solution to a dynamic optimization problem carried out by households and firms. The model structure incorporates an error-correction framework that ensures movement back to long-run equilibrium.

The model structure reflects the microeconomic foundations that govern optimizing behavior, but is sufficiently flexible to capture the short-run fluctuations in employment and output caused by economic imbalances (such as those caused by sticky prices and wages). DOB/U.S. incorporates dynamic adjustment mechanisms that reflect the fact that while agents are forward looking, they do not adjust to changes in economic conditions instantaneously. The presence of frictions (costs of adjusting productive inputs, sticky wages, persistent spending habits) governs the adjustment of nonfinancial variables. These frictions, in turn, create imbalances that constitute important signals in the setting of wages and prices. In contrast, the financial sector is assumed to be unaffected by frictions due to the negligible cost of transactions and the presence of well-developed primary and secondary markets for financial assets.

THE NEW YORK STATE ECONOMY

The New York State economy entered its second year of recovery from the 2008-2009 recession with impressive momentum. The Budget Division uses the State coincident economic index to determine the State's business cycle turning points (see Box 6). The index's level and growth are plotted in Figure 34 along with the turning points for both the New York and U.S. business cycles. Based on the index, the State economy is estimated to have experienced a business cycle peak in August 2008, fully eight months after the nation peaked as a whole. The index also indicates that the State recession ended in December 2009, implying a six-month lag and that the State recession was just a bit shorter than the national downturn. The index indicates that the current recovery is proceeding at a stronger pace that the recovery from the 2001-2003 recession. The Budget Division estimates that total State employment grew 1.1 percent in 2011 on an annual average basis, following an increase of 0.1 percent for 2010.

Figure 34
New York State Index of Coincident Economic Indicators



Note: NYS recession dates are DOB staff estimates; NYS forecast (in red) is derived from the New York State Leading Index.
Source: Moody's Analytics; DOB staff estimates.

The State coincident index indicates that New York's recovery got underway in early 2010, responding vigorously to the Federal Reserve's near-zero interest rate policy target and the historic expansion of its balance sheet. As home to the world's financial capital, the State economy is especially sensitive to monetary policy shifts. Strong income growth in the first quarter of 2011 combined with the weak dollar and strong foreign demand for State produced goods and services, particularly those related to tourism, helped to support above average quarterly year-ago private job growth of an estimated 2.0 percent over the first three quarters of 2011. Private sector employment is estimated to have grown 1.9 percent for 2011 overall, following virtually flat growth of 0.2 percent in 2010. Moreover, outside of government, growth appears to have been broad-based with even manufacturing seeing positive year-ago growth. In contrast, government employment is estimated to have fallen during each quarter of 2011 on a year-ago basis.

BOX 6
NEW YORK STATE INDICES OF COINCIDENT AND LEADING ECONOMIC INDICATORS

In the absence of an official mechanism for dating business cycles at the sub-national level, DOB staff constructed a New York State Index of Coincident Economic Indicators measuring overall economic conditions for New York.[1] The methodology used to construct the index is based on the Stock and Watson methodology and rests on the notion that co-movements in many macroeconomic time series can be captured by a single unobserved variable representing the overall state of the economy.[2] Four State data series – private sector employment, hours worked in the manufacturing sector, the unemployment rate, and sales tax receipts (as a proxy for retail sales) – are combined into a single index using the Kalman filter, a common approach to the estimation of unobserved variables. Based on the DOB Coincident Index, six business cycles have been identified for New York since the early 1970s, as reported in the table below. A recession is judged to have begun if the DOB Coincident Index sustains three to five consecutive declines of significant depth. A similar approach is used to date business cycle troughs. The last column of the table below reports the number of private sector jobs lost due to the recession, although labor market cycles do not always coincide precisely with the technical business cycle dates.

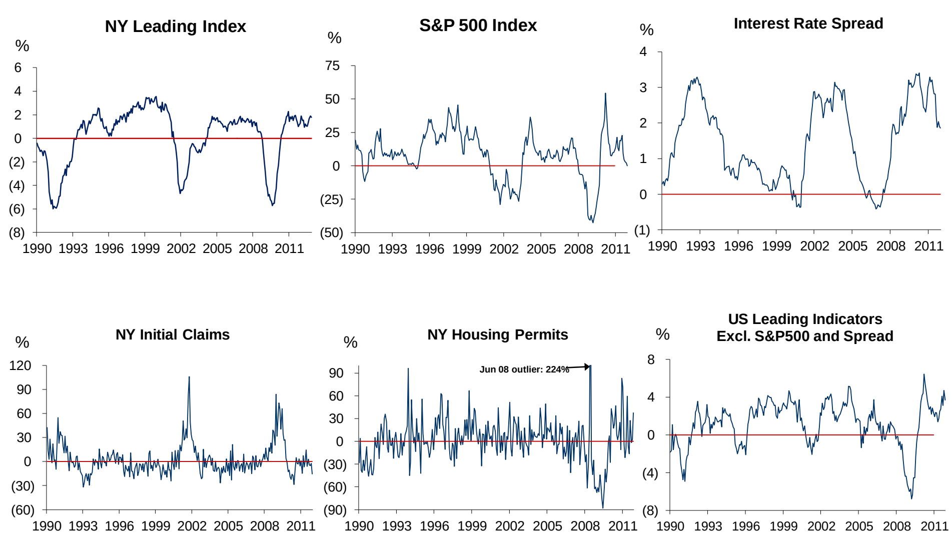
NEW YORK STATE BUSINESS CYCLES

Peak Date	Trough Date	Recession Length (in months)	Private Sector Job Losses
October 1973	November 1975	25	384,800
February 1980	September 1980	7	54,800
August 1981	February 1983	18	76,600
June 1989	November 1992	41	551,700
December 2000	August 2003	32	329,300
August 2008	December 2009	16	352,700

Source: DOB staff estimates.

In order to gauge the future direction of the State economy, the Budget Division produces the New York State Index of Leading Economic Indicators, which yields a forecast for the Coincident Index up to 12 months ahead. The forecasting model includes the following five leading economic variables in a vector autoregressive framework: the U.S. Index of Leading Economic Indicators (excluding stock prices and the interest rate spread), New York housing permits, New York initial unemployment insurance claims, stock prices, and the spread between the 10-year and one-year U.S. Treasury rates.

Variables Used in New York Index of Leading Indicators



Note: All percent changes are from prior year; the June 2008 outlier in housing permits is removed.
Source: Moody's Analytics; DOB staff estimates.

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The long lag with which the New York economy entered the last recession contrasts sharply with the experience of the prior five downturns. As illustrated in Figure 34 on page 103, the State entered three of the five prior recessions earlier than the nation as a whole, and entered the remaining two only one month later. The State's estimated business cycle trough date is December 2009, which implies that New York's recession was two months shorter than that of the nation as a whole.

[1] R. Megna and Q. Xu (2003). "Forecasting the New York State Economy: The Coincident and Leading Indicators Approach," International Journal of Forecasting, Vol 19, pages 701-713.
[2] J.H. Stock and M.W. Watson (1991), "A Probability Model of the Coincident Economic Indicators," in K. Lahiri and G. H. Moore (eds.), Leading Economic Indicators: New Approaches and Forecasting Records, New York: Cambridge University Press, pages 63-85.

But financial markets saw a historically turbulent year in 2011, as the euro-debt crisis took center stage yet again. This occurred against a backdrop of an evolving regulatory environment that has altered the pattern of risk-taking behavior of Wall Street firms. The result was steadily deteriorating revenues over the course of last year, with NYSE member firms experiencing losses in the third quarter, the first since 2008. Fourth quarter revenues and profits are not anticipated to exhibit much improvement. Thus with finance industry revenues 2011 likely to be well below their 2010 levels, and executive compensation still in the crucible, finance and insurance industry bonus payouts for the 2011-12 bonus season are expected to drop 31.8 percent below their 2010-11 levels. State wages are projected to rise 1.9 percent in 2012, following growth of 3.8 percent in 2011, with total personal income rising 3.3 percent in 2012, following growth of 4.5 in 2011. These growth rates are well below historical averages.

Outlook for Employment

The New York State labor market appears to have enjoyed strong, broad-based growth in 2011. Table 6 compares the percentage change in State employment for the second quarter of 2011, the most recent quarter for which Quarterly Census of Employment and Wage (QCEW) data are available for New York, to the change in employment for the nation as a whole. Both U.S. employment and State employment saw increases in total employment of similar magnitude, but behind the headline numbers lie differing trends in public and private growth. New York exhibited strong private sector growth of 2.1 percent compared with 1.6 percent growth for the nation. But the State's government sector lost jobs at a rate of 4.4 percent, compared with a national decline of 2.8 percent.

Table 6 presents some additional interesting differences. In the second quarter of 2011, the State labor market saw growth in both the information sector and the finance and insurance sector on a year-ago basis, while the nation saw declines. The latter sector is expected to have seen a turning point later in the year. New York led the nation in two sectors: leisure, hospitality and other services; and professional, scientific, and technical services (PST). The growth the first of these sectors was likely related to New York City's status as a shopping and tourist destination, aided by a weaker dollar. The growth in PST was likely supported by strong growth in U.S. corporate profits and the demand for State business services from elsewhere in the global economy. In contrast, the State's utilities and construction industries are seeing greater declines than are the nation's.

TABLE 6
YEAR-AGO PERCENT CHANGE IN EMPLOYMENT FOR 2011Q2: NYS v. US

	NYS	US
Total Private	**2.1**	**1.6**
Utilities	(2.3)	(0.2)
Construction	(0.7)	(0.0)
Manufacturing and Mining	0.3	2.3
Wholesale Trade	1.8	1.7
Retail Trade	1.6	1.0
Transportation and Warehousing	1.8	2.3
Information	2.2	(1.0)
Finance and Insurance	2.2	(0.4)
Real Estate and Rental and Leasing	0.4	0.0
Professional, Scientific, and Technical Services	3.4	2.8
Management, Administrative, and Support Services	2.6	3.4
Educational Services	2.0	2.1
Healthcare & Social Assistance Services	1.5	2.2
Leisure, Hospitality and Other Services	3.7	1.7
Government	**(4.4)**	**(2.8)**
Total	**0.9**	**0.8**

Note: Management, and administration and support services includes NAICS sectors 55 and 56; sum of sectors may not match the total due to the exclusion of unclassified.

Source: NYS Department of Labor; DOB staff estimates.

TABLE 7
CHANGE IN NEW YORK STATE EMPLOYMENT FOR 2012

	Percent	Levels
Total Private	**1.4**	**95,700**
Utilities	(0.4)	(200)
Construction	1.3	4,000
Manufacturing and Mining	(0.8)	(3,700)
Wholesale Trade	1.2	3,900
Retail Trade	1.1	9,900
Transportation and Warehousing	1.3	2,700
Information	0.2	600
Finance and Insurance	(0.9)	(4,400)
Real Estate and Rental and Leasing	0.9	1,600
Professional, Scientific, and Technical Services	2.0	11,700
Management, Administrative, and Support Services	2.2	12,500
Educational Services	1.9	5,800
Healthcare & Social Assistance Services	1.9	24,500
Leisure, Hospitality and Other Services	2.5	26,900
Government	**(1.0)**	**(13,400)**
Total	**1.0**	**82,300**

Note: Management, and administration and support services includes NAICS sectors 55 and 56; sum of sectors may not match the total due to the exclusion of unclassified.

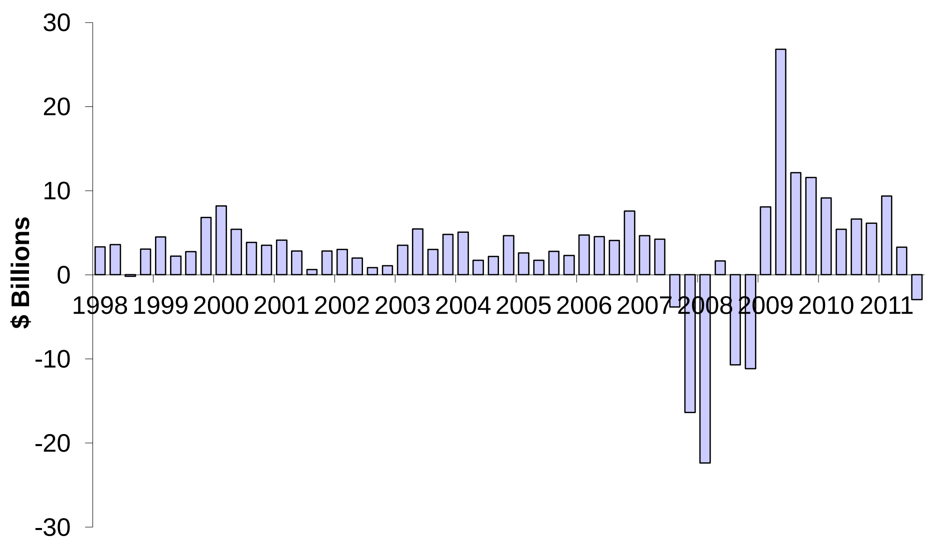
Source: NYS Department of Labor; DOB staff estimates.

The Budget Division projects total State employment growth of 1.0 percent for 2012, with private sector jobs increasing 1.4 percent. This forecast compares to growth of 1.3 percent and 1.7 percent, respectively, for the nation, and indicates that New York is expected to continue losing government jobs at a faster pace than the nation. Table 7 reports projected changes in employment for 2012 by sector. The steep decline in government is an indication of the fiscal strains that will continue to be experienced by governments at all levels in New York, particularly as the Federal stimulus funding tapers off. Construction is projected to grow after three consecutive years of decline, while the manufacturing, and finance and insurance sectors are expected to decline in 2012 following growth in 2011. New York is expected to be more negatively affected than the nation as a whole by the fallout from the job and income losses from the finance sector.

Transformation of the Securities Industry

The securities industry is undergoing an historic transformation that is likely to have a significant impact on its future profitability, employee compensation, and ultimately State revenues. Forced to write down hundreds of billions in bad assets, financial firms experienced five quarters of substantial losses during the darkest days of the financial crisis (see Figure 35). These developments brought the global financial system to the brink of disaster, challenging both policymakers and the industry to devise a new regulatory framework to reduce systemic risk. Though this framework is still evolving, it is already having an impact on the way the securities industry does business, particularly in the area of executive compensation.

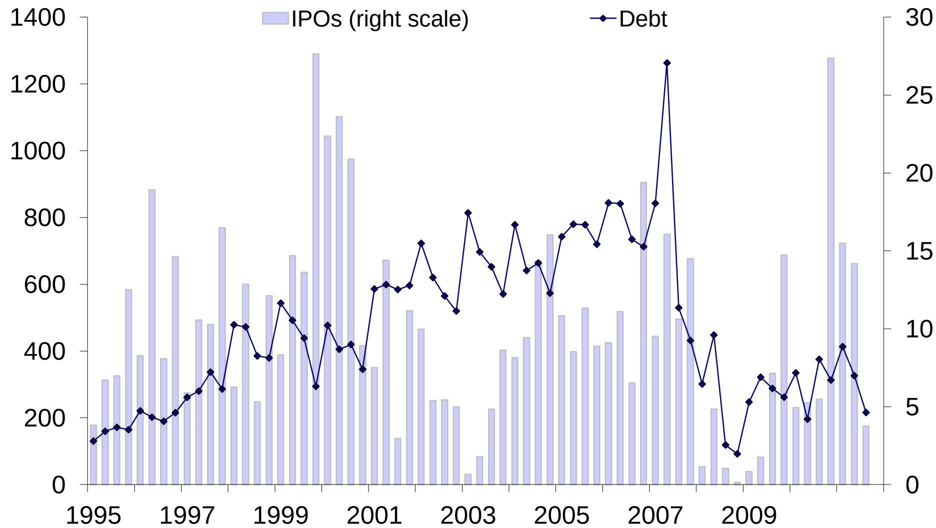
Figure 35
Securities Industry Profits



Source: SIFMA.

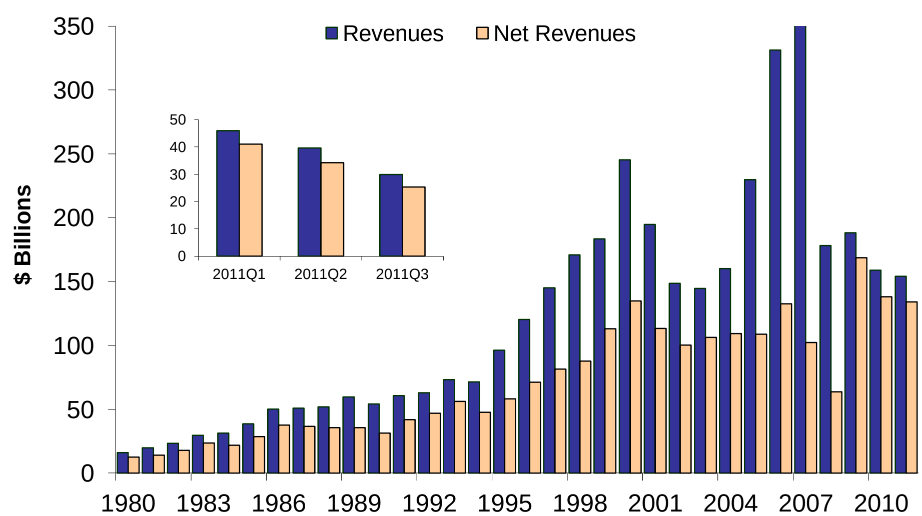
Securities industry profitability has in recent years exhibited an unprecedented degree of volatility. Policy measures taken in late 2008 and early 2009 to restore liquidity to the banking system, including the TARP, the extraordinary expansion of the Federal Reserve's balance sheet and its historic interest rate target policy all helped drive profits to new record levels in 2009. These lofty profits materialized despite a relatively low volume of traditional investment banking activity such as corporate debt and equity underwriting (see Figure 36). For example, the 2009 value of "true" IPOs, which exclude closed-end funds, were more than three times their 2008 level, but still less than half of their 2007 prerecession peak. Similarly, total U.S. corporate debt underwriting was up 19.7 percent in 2009, but was still less than half of its 2007 level. Activity levels improved further in 2010, with debt underwriting up 9.0 percent. Owing to the $15.8 billion General Motors IPO in November, one of the largest in history, true IPOs were up 76.3 percent in 2010, yet as shown in Figure 35 profits continued to decline.

Figure 36
Major Drivers of Financial Market Activity
$ Billions



Source: Securities Industry and Financial Markets Association (SIFMA).

Figure 37
NYSE Member Firm Revenues



Note: Estimate for 2011 is annualized based on three quarters of actual data; net revenues exclude interest expenses.
Source: SIFMA.

Figure 37 shows New York Stock Exchange member firm revenues before and after subtracting interest costs; the steady deterioration since 2009 is evident. The revenue estimates displayed in the graph for 2011 represent annualized values based on the first three quarters of the year. However, as indicated prominently in the graph, the trend over the course of the year has been downward. With fourth quarter revenues likely to be closer to third quarter then first quarter results, the year-end total could be lower than this estimate. A substantial deterioration in 2011 revenues and profits appears to have occurred despite only a small decline in IPO and debt underwriting totals.

TABLE 8
NYSE MEMBER FIRM FINANCIAL RESULTS
($ Billions)

	2007	2008	2009	2010	2011*
Revenues	**352.0**	**178.1**	**185.3**	**159.8**	**155.5**
Commissions	28.8	30.2	26.5	25.0	26.6
Trading Gain (Loss)	(10.3)	(71.8)	28.4	16.7	4.3
Underwriting Revenue	23.2	16.5	19.6	20.3	19.5
All Other	310.4	203.2	123.5	97.7	105.0
Expenses	**363.4**	**220.7**	**126.7**	**134.7**	**142.6**
Total Compensation	69.6	59.8	61.3	66.9	70.1
Interest Expense	249.8	114.5	18.6	19.6	20.1
All Other Exppense	44.0	46.3	46.7	48.2	52.4
Pre Tax Net Income	**(11.3)**	**(42.6)**	**58.6**	**25.1**	**12.9**

* Estimate for 2011 is annualized based on three quarters of actual data.
Source: SIFMA.

TABLE 9
BULL AND BEAR MARKETS

Peak Dates	Percent Price Run-up	Bull Market Duration in Months	Trough Dates	Percent Decline	Bear Market Duration in Months	First 10-month Run-up Dates	First 10-month Run-up Percent Price Run-Up
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
8/3/1956	-	-	10/22/1957	(21.5)	14.6	8/15/1958	21.9
12/12/1961	85.7	49.7	6/26/1962	(28.0)	6.5	4/19/1963	32.3
2/9/1966	78.8	43.6	10/7/1966	(22.2)	7.9	7/31/1967	29.4
11/29/1968	47.2	25.8	5/26/1970	(36.1)	17.9	3/19/1971	45.8
1/11/1973	73.5	31.6	10/3/1974	(48.2)	20.8	7/28/1975	42.4
9/21/1976	73.1	23.7	3/6/1978	(19.4)	17.5	12/28/1978	10.8
1/6/1981	58.9	34.1	8/12/1982	(25.8)	19.2	6/6/1983	60.9
8/25/1987	228.8	60.5	12/4/1987	(33.5)	3.4	9/26/1988	20.9
7/16/1990	64.8	31.4	10/11/1990	(19.9)	2.9	8/5/1991	30.3
3/24/2000	417.0	113.6	10/9/2002	(49.1)	30.5	8/1/2003	26.2
10/9/2007	101.5	60.1	3/9/2009	(56.8)	17	12/31/2009	64.8
4/29/2011	101.6	25.7					

Source: Moody's Analytics.

Table 8 lists the primary sources of revenue and expenses for NYSE member firms for the most recent five years. Clearly the two greatest areas of improvement in industry balance sheets in 2009 were the gains from proprietary trading and the decline in interest expenses. The improvement in underwriting revenue was relatively small at $3.1 billion and the industry saw declines in other major areas. The industry's remarkable growth in trading gains was largely the result of the dramatic rise in equity markets that started in

March 2009 and lasted until the end of the year. Table 9 compares this run-up with the early stage of all of the bull markets of the last 50 years appears in. The bull market that began in March 2009 is exceptional in that only the bull market that began in August 1982 saw price acceleration of comparable speed over its first 10 months of life. The strength of this market provided large profit opportunities for those market participants with ample access to funding like the large Wall Street institutions. Of course historically low interest rates reduced borrowing costs for those participants, further boosting the potential for profits.

With proprietary trading becoming an important source of revenue for the securities industry, large finance sector institution performance was increasingly resembling that of hedge funds. When equity markets hit a speed bump in April 2010, which was followed by a 16 percent correction, the industry entered yet another period of extreme volatility. Trading gains fell off in 2010, with an even bigger decline estimated for 2011. These trends coincided with yet another important development affecting bank behavior and revenue growth: the change in the regulatory environment. Since the president signed the Dodd-Frank Wall Street Reform and Consumer Protection Act into law in July, 2010, the details of implementation have been a work in progress. Box 7 outlines many of the key provisions of the reform and summarizes regulations recently proposed by the Federal Reserve consistent with the Dodd-Frank framework that strengthen bank capital requirements and seek to limit counterparty risk.

While much room remains left for interpretation, evidence suggests that the new regulatory environment is altering bank business practices in two fundamental ways. The composition of executive compensation appears to be evolving away from cash in favor of deferred compensation and stock grants, more closely tying pay to the long-term performance of the firm. To reinforce such long-term incentives, packages including claw-back provisions that allow the firm to take back a portion of bonus pay if actions taken by an employee are ultimately judged to have been too risky. Consistent with that principle, firms also appear to have altered their business practices in favor of less risky behavior by both reducing leverage and engaging in fewer risky trades.

Given the degree of fear and turbulence that characterized financial markets in 2011, the environment effectively provided a test of whether the new regulatory environment will be successful in reducing systemic risk. Figure 38 plots the 3-month LIBOR rate starting about six months before the financial crisis first emerged in the summer of 2007. The 3-month LIBOR rate normally tracks the federal funds rate quite closely, but when counterparty risk rose as financial institutions began to fear that money lent to another firm might not be paid back, LIBOR rose substantially above, with the October 2008 spike representing a seizing up of short-term credit markets. Although LIBOR is currently elevated due to the fear engendered by the euro-debt crisis, it is nowhere near its 2008 and early 2009 levels. LIBOR may be providing evidence that U.S. financial markets are now a safer place, but at a cost of lower revenues, profits, and bonus payouts on Wall Street.

BOX 7
THE DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT
KEY PROVISIONS

On July 21, 2010, the President signed into law the long awaited financial reform package hammered out by the Congress in the preceding months. The purpose of the Act is to prohibit banking entities from assuming excessive risk, but the two provisions that appear to be having the most immediate effects on Wall Street behavior are those related to executive compensation and the so-called "Volker Rule," which limits the volume of proprietary trading a bank is allowed to engage in.

Executive compensation

Shareholders get the right to a nonbinding vote on executive pay and "golden parachute" packages; compensation committees for firms listed on stock exchanges must have independent directors and can hire their own compensation experts; the Securities and Exchange Commission (SEC) gets enhanced regulatory authority.

Derivatives

The Act establishes Federal oversight of the derivatives markets, with the SEC and Commodity Futures Trading Commission (CFTC) given authority to regulate over-the-counter derivatives; a greater role is created for third-party clearinghouses; foreign-exchange swaps are to be regulated.

Hedge funds

Hedge funds and private-equity advisers will be required to register with the SEC as investment advisers and provide information about their trades and portfolios as needed to assess systemic risk; asset threshold of investment advisers subject to federal regulation raised to $100 million from the current $30 million.

Bank regulation (the "Volker Rule")

Banks are prohibited from proprietary trading, i.e., using their own money to place directional market bets that are unrelated to serving clients, although certain asset classes are exempt, including U.S. Treasury bonds, agency bonds and municipal obligations; bank ownership in hedge funds and private equity funds is capped at three percent.

Federal Reserve reform

Federal Reserve's emergency lending authority is restricted to broad-based programs; counterparties and information about amounts and terms and conditions of emergency and discount-window lending and open-market transactions to be disclosed on a delayed basis.

Systemic risk

The Act creates a 16-member Financial Stability Oversight Council empowered to 1) recommend rules to the Federal Reserve on capital, leverage, liquidity and risk management as firms grow in size and complexity; 2) require by a 2/3 vote the Fed to regulate a nonbank holding company if it believes that the company could pose a risk to financial stability in the U.S.; approve by 2/3 vote a Fed decision to breakup large complex companies if they pose "grave threats" to financial stability as a last resort.

"Too big to fail"

Taxpayers are not responsible for saving failing financial companies or cover the costs of liquidation; requires large, complex financial companies to submit plans for their rapid and orderly shutdown; penalties imposed if the plans are inadequate; creates an orderly liquidation mechanism for the FDIC to use to unwind failing systemically important financial firms that forces shareholders and unsecured creditors to bear the losses; establishes that most large financial firms that fail will be resolved through bankruptcy.

(continued on next page)

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Mortgage reform

The Act requires that institutions ensure that borrowers can repay the loans they take out; prohibits financial incentives for certain subprime loans to be made; prohibits prepayment penalties; lenders must disclose the maximum a borrower could pay on variable-rate mortgages and that payments will vary based on interest-rate changes; requires companies that sell products like mortgage-back securities to retain at least five percent of the credit risk unless the underlying loans meet standards that reduce riskiness.

Other provisions

The Act creates a Consumer Financial Protection Bureau, a Federal Insurance Office in the Department of the Treasury, and an Office of Credit Ratings within the SEC.

Regulations Proposed by the Federal Reserve

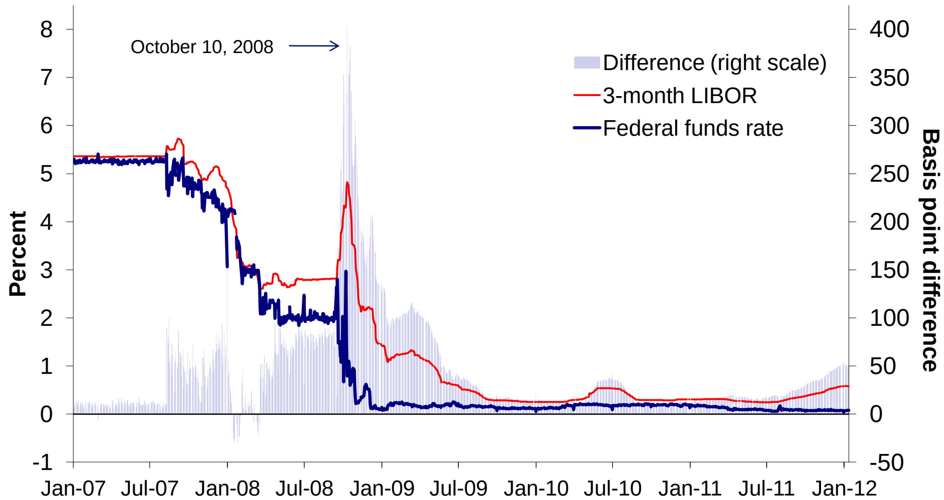
On December, 2011, the Federal Reserve proposed rules tied to the Dodd-Frank regulatory framework that would require large U.S. banks to hold more capital and to keep it more easily accessible. The central bank also proposed formal limits on the amount of credit exposure that a bank holding company can have to any single major borrower, be it another bank or a corporation.

Further, banks with more than $50 billion in assets would be required to maintain a cushion equal to 5 percent instead of 4 percent of assets. For the roughly 30 banks in the United States with more than $50 billion in assets, the new requirements would limit their credit exposure to a single counterparty to 25 percent of the bank's regulatory capital. The very largest banks would face stricter limits: 10 percent of capital for credit exposure between two banks with more than $500 billion in total consolidated assets, or between one bank of that size and a large nonbank financial company.

The Federal Reserve will also be requiring banks to adhere to significantly stricter international requirements, known as the Basel III accords, that set capital requirements for the largest multinational financial institutions at 7 percent of capital plus a surcharge of up to 2.5 percent depending on a bank's overall risk levels. The international standards are expected to be phased at the earliest in 2016.

Figure 38

Daily Federal Funds Rate vs 3-month LIBOR

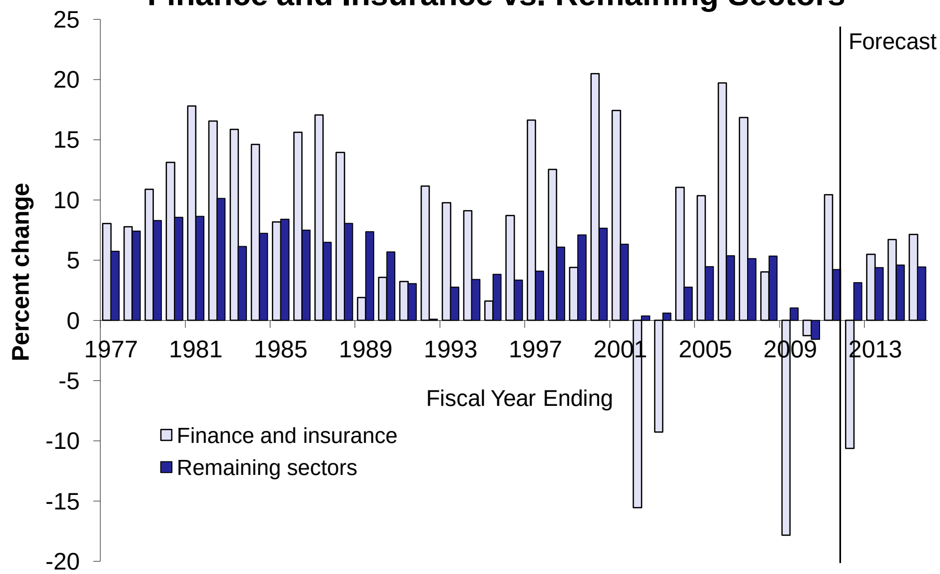


Source: Moody's Analytics.

Outlook for State Income

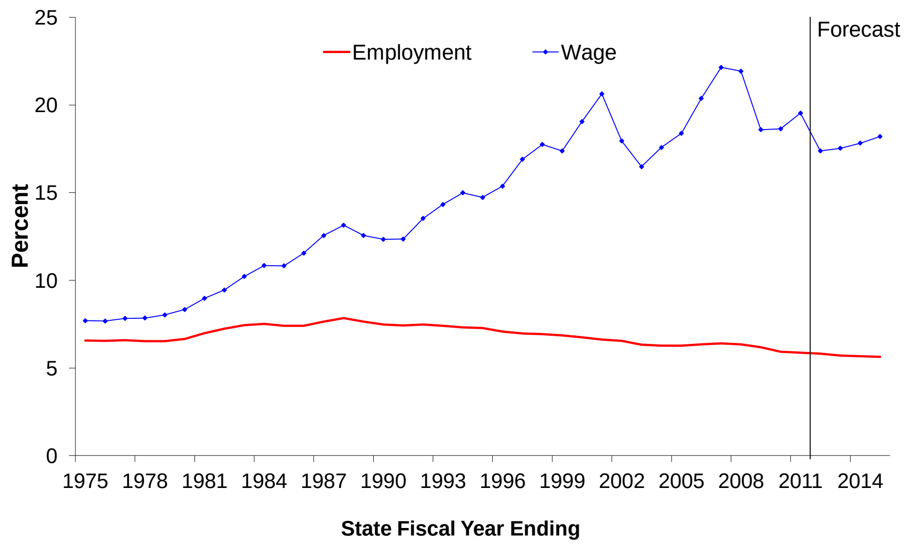
The financial crisis resulted in a record decline in finance and insurance sector bonuses of 37.1 percent for the 2008-09 bonus season. This decline, combined with large job losses, led to a historic decline in State wages of 7.2 percent for 2009. Indeed, State wage growth and decline have largely been led by the finance and insurance sector in recent years (see Figure 39). With improved conditions on Wall Street, particularly near-zero borrowing costs for the largest banks, finance and insurance sector bonuses grew almost 20 percent during the first quarter of 2011, resulting in 19.3 percent growth for all of 2010-11. However, the U.S. economy was plagued by a panoply of shocks over the course of 2011, most notably the euro-debt crisis, that resulted in extreme financial market volatility. In the context of the evolution of financial reform, this volatility resulted in declining revenues over the course of the year, with NYSE member firms experiencing a loss in the aggregate during the third quarter of last year. The Budget Division estimates a 31.8 percent decline in finance and insurance bonuses for the 2011-12 State fiscal year. Total State wage growth of 1.9 percent is estimated for the 2012 calendar year, following 3.8 percent growth for 2011. Slower growth in State wages will result in total personal income growth of 3.3 percent for 2012, following growth of 4.5 percent for 2011.

Figure 39
New York State Wage Growth
Finance and Insurance vs. Remaining Sectors



Source: NYS Department of Labor; DOB staff estimates.

Figure 40
Finance and Insurance Sector Employment and Wages as Share of State Total



Source: NYS Department of Labor; DOB staff estimates.

Because the state-level wage data published by the U.S. Bureau of Economic Analysis have proven unsatisfactory for the purpose of forecasting State tax liability, the Budget Division constructs its own wage and personal income series based on Quarterly Census of Employment and Wages (QCEW) data. Moreover, because of the importance of trends in variable income – composed of stock-related incentive income and other one-time bonus payments – to the understanding of trends in State wages overall, the Budget Division has developed a methodology for decomposing wages into bonus and nonbonus series. For a detailed discussion, see Box 8. The Budget Division's outlook for State income is based on these constructed series.

Because of the prominence of New York City in the world of finance, New York State employment and incomes are profoundly affected by the fortunes of the financial markets. Figure 40 shows how finance and insurance sector wages as a share of the State total have grown over time on a State fiscal year basis. That share is estimated to have peaked at 22.1 percent during the 2006-07 bonus season. Due to the large estimated decline in bonus payouts during 2008-09 and the 31.8 percent decline currently estimated for 2011-12, the finance and insurance sector's wage share is expected to fall to about 17.4 percent for the 2011-12 State fiscal year. In contrast to its large wage share, finance and insurance sector employment is estimated to account for only 5.8 percent of total State employment for the current fiscal year and to 5.7 in 2012-13 as the industry continues to shed jobs.

The financial markets affect employment and income in New York City and its surrounding suburbs, both directly – through compensation paid to finance sector workers and purchases made by finance sector firms, and indirectly – as finance sector workers spend their incomes on housing, entertainment, other purchases, and so on. Despite recent declines, finance sector workers continue to be, on average, very highly compensated. Even after falling to $185,000 in 2009-10 in the wake of the financial crisis, finance and insurance sector wages were still 264 percent higher than the average wage for the rest of the State economy. The bonus decline estimated for 2011-12 is expected to bring the average wage for this sector down to about $194,000.

BOX 8
THE CONSTRUCTION OF NEW YORK STATE WAGES AND THE ESTIMATION OF VARIABLE INCOME

Trends in State wages are critical to an accurate analysis and forecast of personal income tax liability and collections. To improve the link between the economic and tax variables on a quarterly basis, the Division of the Budget (DOB) constructs its own wage series from the available primary data sources. This series differs from the data published by the U.S. Bureau of Economic Analysis (BEA).

The DOB uses only New York data to construct its State wage series. The primary source is data collected under the Quarterly Census of Employment and Wages (QCEW) program. In contrast, the BEA uses national information to adjust the quarterly values for seasonal variation, as well as to ensure that state level wages add up to national estimates. The consequence is often a significant difference between the two series in both the quarterly pattern and the annualized growth rates. For example, according to staff estimates based on the QCEW data, wage growth rates for the first and second quarters of 2000, on a year-ago percent-change basis, were 18.3 percent and 8.5 percent, respectively. The comparable growth rates originally published by the BEA were 2.4 percent and 5.4 percent. These estimates have since been revised up to 7.5 percent and 9.1 percent, respectively. However, the lack of timeliness in the revision process limits the usefulness of BEA data for state forecasting purposes.

A comparison with yet another source of wage data also demonstrates the greater accuracy of the QCEW data. Since the amount of wages withheld for personal income tax purposes varies systematically with wages itself, withholding data provide a useful guide for estimating State wage growth. For example, wages withheld during the first quarter of 2000 were 18.6 percent above withholding for the same quarter of the previous year. This estimate is much more consistent with the growth rate derived from the QCEW data than with the BEA's estimate of 2.4 percent.

Once an entire year of QCEW data becomes available, the BEA revises its state level wage data to be more consistent with that data source. For this reason, DOB's method performs well in anticipating the BEA's revised estimates of annual growth in New York wages. To make the actual magnitudes of the Division's wage series more strictly comparable to the BEA wage series, noncovered and unreported legal wages must be added to wages taken directly from the QCEW data. The addition of these components typically changes the annual growth rate for State wages by no more than two tenths of one percentage point.

An increasing portion of New York State wages has been paid on a variable basis, in the form of either bonus payments or proceeds derived from the exercise of stock options. Because no government agency collects data on variable income as distinct from ordinary wages, it must be estimated. DOB derives its bonus estimate from firm level data collected under the QCEW program. This method allows a large degree of flexibility as to when individual firms actually make variable income payments. However, as with any estimation method, some simplifying restrictions are necessary. DOB's method incorporates the assumption that each establishment makes variable income payments during at most two quarters of the year. However, the determination as to which quarters contain these payments is made at the firm level.

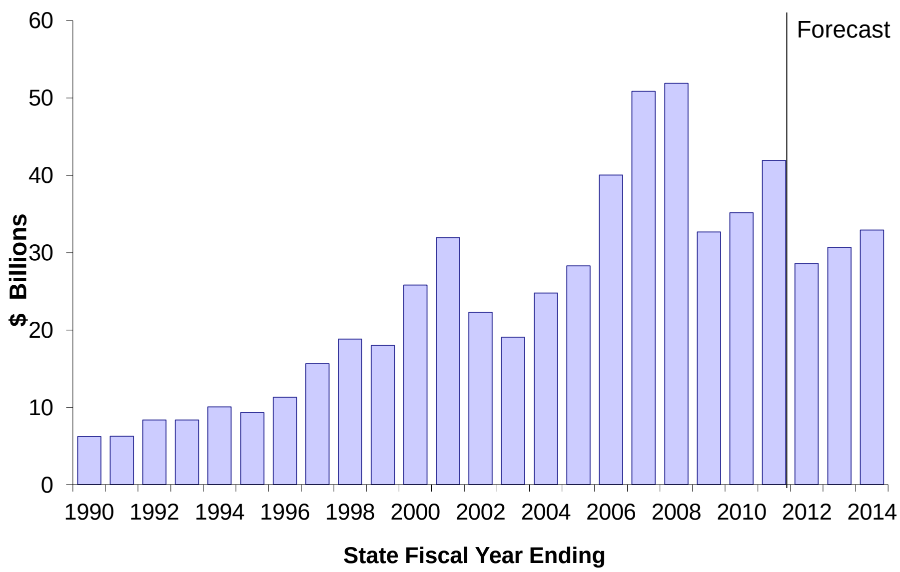
Firms report their wages to the QCEW program on a quarterly basis. A firm's average wage per employee is calculated for each quarter. The average over the two quarters with the lowest average wages is assumed to reflect the firm's base pay, that is, wages excluding variable pay. If the average wage for either of the remaining quarters is significantly above the base wage, then that quarter is assumed to contain variable income.[1] The average variable payment is then defined as total average wage minus the base average wage, after allowing for an inflation adjustment to base wages. Total variable pay is then calculated by multiplying the average bonus payment by the total number of firm employees. It is assumed that only private sector employees earn variable pay.

[1] The threshold adopted for this purpose was 25 percent. However, the variable income estimates are fairly robust to even a five-percentage-point swing in this criterion.

Variable Income Growth

Variable income is defined as that portion of wages derived primarily from bonus payments, stock incentive income, and other one-time payments. As performance incentives for a given calendar year, firms tend to grant employee bonus "packages" during either the fourth quarter of that year or the first quarter of the following year. Although the cash component of bonus income is unambiguously counted (and taxes withheld) in the quarter in which it was granted by the firm, stock incentive income typically is not. Stock grants do not appear in the wage data until they are vested. Nevertheless, variable income payments are sufficiently concentrated in the fourth and first calendar-year quarters to make the State fiscal year a logical period of analysis for discussing the determinants of variable income growth.[15]

Figure 41
New York State Finance and Insurance Sector Bonuses



Source: NYS Department of Labor; DOB staff estimates.

A substantial shift in the State's corporate wage structure away from fixed-pay to performance-based pay started in about 1990. Figure 41 portrays how dramatically variable income paid to employees in the finance and insurance industry has grown since the early 1990s. The robust performance of security industry profits during 1999 and 2000 resulted in finance and insurance sector bonus growth of 43.5 percent and 23.7 percent in the 1999-2000 and 2000-01 State fiscal years, respectively, to levels that accounted for more than half of total bonuses paid in the State. An incentive-based payment structure allows employers to share with employees the risks of doing business and is particularly attractive to the securities industry, given the degree of volatility in industry profits. For example, the two-year decline in NYSE-member firm profits from $21.0 billion in 2000 to $6.9 billion in 2002 led to an estimated drop in finance and insurance sector bonuses of 40 percent between State fiscal years 2000-01 and 2002-03.

[15] See Box 8 on page 115 for a more detailed discussion of bonus estimation.

In contrast, nonbonus wages for this sector are estimated to have fallen about 13 percent during the same period.

Until recently, changes in nonbonus wages were typically determined by changes in employment and inflation. However, an examination of the conditions that led up to the recent financial crisis determined that the high ratio of bonus to base pay may have created an incentive for employees to engage in dangerously risky behavior that could be detrimental to the finances of a firm over the long run. This determination appears to have led more recently to a shift away from bonus pay back to base pay. It is remains to be seen whether this shift represents a short-term fix or a long-term trend, and underscores the high degree of uncertainty that surrounds the estimation and forecasting of variable pay.

The Budget Division projects total State variable income to fall 16.4 percent in the current fiscal year, followed by an increase of 6.3 percent for 2012-13, led primarily the decline and subsequent slow rebound in finance and insurance sector bonuses. As discussed above, finance industry executives are under tremendous pressure to cap the cash portion of bonus payouts and to restructure the overall bonus package to enhance incentives that favor long-term objectives over short-term gains. The cash portion of finance and insurance sector bonuses is projected to decline 31.8 percent for the current 2011-12 bonus season, resulting in a payout of $28.6 billion, or $13.3 billion lower than 2010-11.[16] The moderate growth projected for 2012-13 results a payout of $30.7 billion. The 2012-13 projection would bring finance and insurance sector bonuses to a level that is still about $21.2 billion below that the 2007-08 historical peak.

The Budget Division model for finance and insurance sector bonuses is based on the underlying volume of activity that generates industry earnings, such as IPOs and corporate debt underwriting. As indicated in Figure 36 on page 108, the most recent data available suggest that the volumes of debt underwriting and IPOs still remain low relative to their prior peaks. Historically, the volume of underwriting activity has been closely correlated with growth in the secondary market for equities that drives this activity. With equity market growth of 0.9 percent projected for 2012, as represented by growth in the S&P 500 stock index, it could take a long time for the industry to return to the record levels of activity that characterized 2006 and 2007. The high volume of activity in those years was in part related to the financial engineering bubble that produced the subprime debt debacle at the root of the 2007-2008 financial crisis.

Given the pressures to re-incentivize and cap employee compensation, the income outlook for the finance industry is highly uncertain at present, producing a high degree of risk to the outlook for bonuses. Historically, there has been a close relationship between New York Stock Exchange (NYSE) member-firm profits and finance and insurance sector bonus payouts. Though bonus payouts have in the past been evenly split between cash and stock incentive payments, the split has recently become more heavily weighted toward stocks as firms seek to reconstruct their compensation packages. This trend is expected to continue going forward, having substantial implications for Federal, State, and local tax revenue, since income derived from stock grants is not taxed until the stocks

[16] Were it not for the “leakage” of some large bonus payments into 2010Q2, finance and insurance sector bonuses would be estimated to fall 9.9 percent for 2010-11, following growth of 14.5 percent for 2009-10.

vest. In addition, with new regulations being developed pursuant to the Dodd-Frank Act, the business model that earned large profits from highly-leveraged assets is being transformed. This change appears to already be resulting in lower revenues for the industry and creates a substantial degree of uncertainty surrounding the Budget Division outlook.

Nonbonus Wages

Unlike the variable component of income, nonbonus wages are driven by changes in employment and the nonbonus average wage and, therefore, are relatively more stable. After adjusting for inflation, the nonbonus average wage for each of the State's industrial sectors is believed to have a stable long-run relationship with the real U.S. average wage, which in turn is determined by labor productivity. However, State real average wages can deviate from their long-run trend due to short-term fluctuations related to business cycles, shocks to the regional economy, or shocks to a specific industrial sector that is relatively more important to the State economy, such as finance and insurance. Nonbonus average wages are projected to rise 3.0 percent for the 2012 calendar year, following an estimated increase of 2.5 percent for 2011. With declining unemployment, total nonbonus wages are projected to grow 4.0 percent for 2012, following an increase of 3.6 percent for 2011.

Average Wages and Inflation

Average wages are estimated to increase 2.8 percent for 2011, followed by a a smaller projected increase of 0.9 percent for 2012, which is largely a result of an expected 11 percent decline in total bonuses. The Budget Division projects growth in the composite CPI for New York of 2.0 percent for 2012, following growth of 3.0 percent for 2011. Projected 2012 inflation for New York is consistent with that for the nation.

Nonwage Income

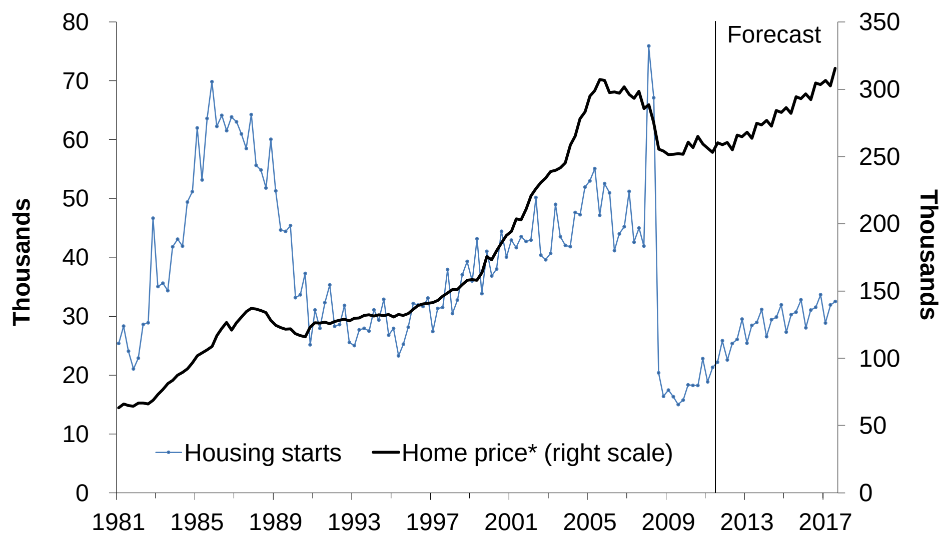
The Division of the Budget projects a 4.8 percent increase in the nonwage components of State personal income for 2012, following an increase of 5.4 percent for 2011. The 2011 increase reflects a decline in the employee contribution to social security of 18.6 percent for 2011 and a more moderate increase of 0.8 percent for 2012, consistent with the payroll tax holiday passed by the U.S. Congress in December 2010 that was continued into this year. Proprietors' income growth is projected to moderate to 5.7 percent for 2012, following 6.3 percent growth for 2011. Transfer income is expected to continue its slow growth at 2.7 percent in 2012, following 1.7 percent growth in 2011, as Federal stimulus programs that support low income households continue to unwind.

Housing Market Stabilizing but Risks Remain

New York State's housing market appears to be stabilizing. Figure 42 compares the recent trends in both housing starts and home prices in New York. The State's residential housing market did not experience as severe a downturn in as did the nation as a whole in the wake of the recent bubble. The State's peak-to-trough decline in housing starts is estimated at less than 50 percent, compared to 79.0 percent for the nation.[17] New York State's average single-family existing home price peaked in the fourth quarter of 2005, falling 18.2 percent before reaching a trough during the second quarter of 2009; this compares to a 21.8 percent decline for the nation. As a result of the Federal home buyer's credit in the middle of 2010, prices for both the State and the nation rallied in the spring of 2010. But Figure 42 shows the rally proved temporary for New York, and for the nation.

State housing starts are projected to grow 17.2 percent in 2012, following growth of 20.7 percent in 2011. We note that the recent trend in housing starts is distorted by building code change in 2008 described in footnote 17 that drew forward an unknown number of starts as builders raced to beat the code change, resulting in growth of 11.6 percent in 2008, at a time starts were falling from the boom levels of earlier in the decade. A decline of 68.3 percent followed in 2009, bringing starts to their lowest levels in the history of the series going back to 1981. As indicated in Figure 42, even the double-digit growth rates projected for 2012 and 2013 keep starts at historically low levels as the market continues to absorb the 2008 increase. At about 28,000 starts per year, the average level of starts from 2008Q2 through 2017Q4 is just below the 1990-2000 pre-bubble annual average of about 32,000. The near-term forecast for continued growth is supported by exceptionally low mortgage interest rates and above average job growth through the end of 2013. Given the importance of the rental market in the New York City metro area, the recent strength in this market should also support the outlook for continued growth in starts.

Figure 42
NYS Housing Market Stabilizing



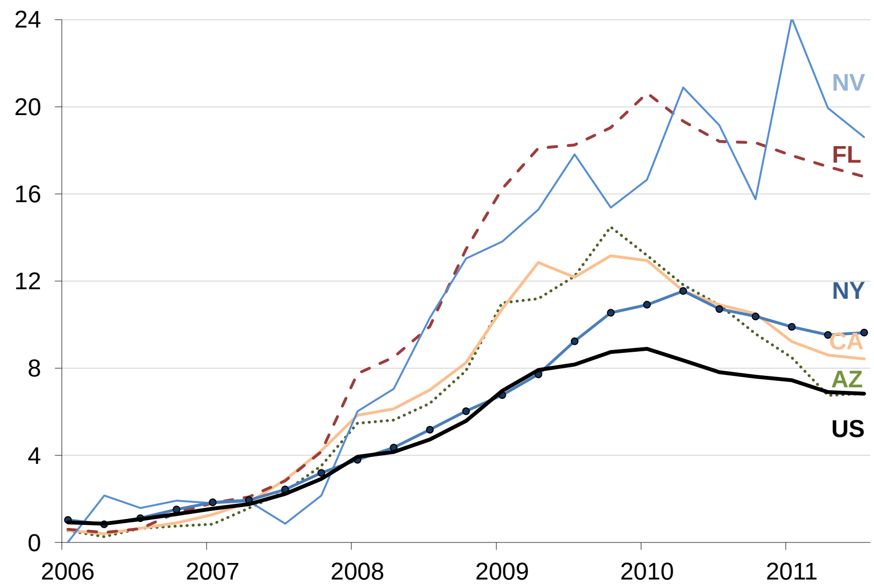
*Average existing single family home price.
Source: Moody's Analytics; DOB staff estimates.

[17] A trough in the State housing starts series is hard to pinpoint due to a change in New York City building codes that took effect on July 1, 2008, requiring developers to add features such as sprinklers, smoke detectors, fire-resistant stairways, and on-site safety managers or coordinators for buildings larger than 10 stories. The change produced a rush to obtain building permits and start work in June of that year.

As for the nation, prospects for the State's residential housing market also depend on the outlook for prices. New York State's average single family home price is expected to rise 1.1 percent in 2012, following a decline of 0.5 percent in 2011. The good news is that because New York's residential housing sector experienced less of a price and construction bubble than many other states, there was less of an overhang to unwind, and as a result, New York's foreclosure rate has been consistently lower than the nation's since the collapse of home prices in 2006. For example, for the third quarter of 2011, the most recent quarter for which data are available, 0.82 percent of the State's outstanding mortgage loans entered the foreclosure process, compared to 1.08 percent of U.S. loans.

However, an alternative view of New York's foreclosure situation is less sanguine. Figure 43 displays the percentage of total mortgage debt outstanding that is overdue by 90 days. Based on the most recent data, New York looks worse not only than the nation, but also than two of the states hit hardest by the housing market collapse, Arizona and California. The buildup of homeowners in foreclosure or "pre-foreclosure" status in New York may be representative of the long length of the foreclosure process here relative to other states. In the wake of the "robo-call" scandal at the end of 2010, the foreclosure process virtually came to a halt. When that process restarts in earnest, the State's shadow inventory of homes could rise significantly, risking more downward pressure on prices and further delaying the recovery of the housing market.

Figure 43
Percent of Mortgage Debt 90+ Days Overdue



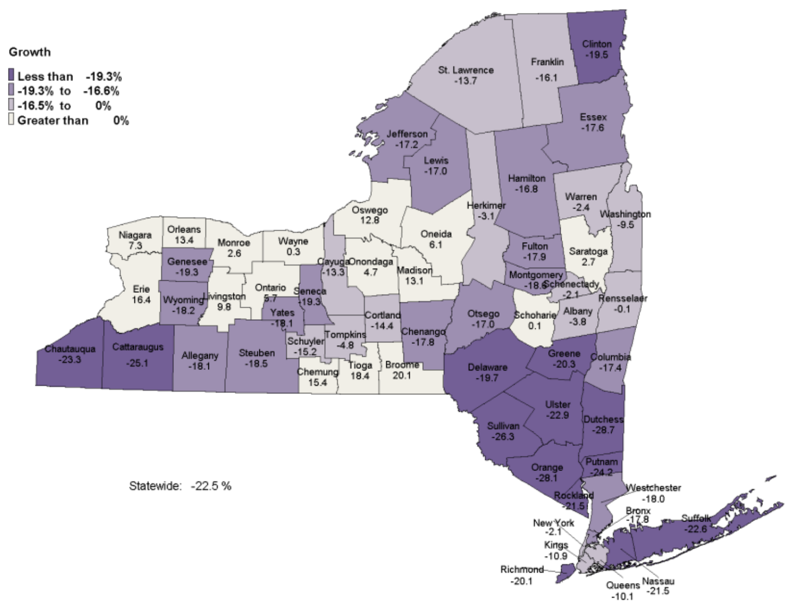
Source: Federal Reserve.

Figure 43's focus on statewide data masks the regional disparity in foreclosure activity within the State. On average, price declines have been greater in the State's downstate counties than Upstate, where home values tend to be much lower (see Figure 44). With so many high-value homes well below their values at the height of the bubble and many likely underwater, it is no surprise that that the delinquency rate among high-value homes exceeds that of low-value homes and likely accounts for these regional imbalances (see Figure 45). Therefore loss of wealth from the decline in home prices and the risk from large numbers of foreclosures is likely much greater in some parts of the State than others.

One area of the State housing market not covered by the single family home data is the luxury apartment market in New York City. This market segment has been doing quite well, receiving significant support from foreign buyers attracted by low borrowing rates, the cheap dollar, and the singularity of City real estate. It is reported that condo and co-op purchases rose 17 percent in the third quarter of 2011 from a year ago to just above, the highest volume since the third quarter of 2007, at a median sales price of $911,333. Buyers from China, Korea, South America and Europe reportedly helped to support an increase in condo sales of 33 percent for the quarter.[18]

Figure 44

Home Values in Many Areas Still Well Below Their Peaks

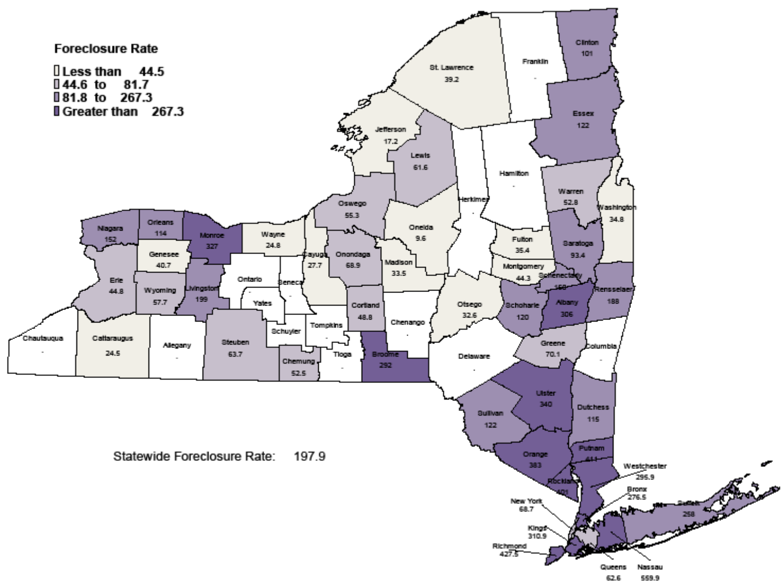


Note: Change in home prices covers the 2005Q4-2011Q3 period.
Source: Moody's Analytics.

[18] Prashant Gopal and Katie Spencer, "Manhattan Apartment Sales Gain on Foreign Buys," October 4, 2011, <http://www.corcoran.com/news/index.aspx?page=Article&pub_id=13085>, viewed January 13, 2012.

Figure 45

November 2011 Foreclosure Rate per Million Housing Units



Source: Realty Trac.

New York State Labor Market Dynamics

An examination of labor market dynamics through the second quarter of 2011, the most recent quarter for which data are available, confirms the emergence of the labor market from the recent downturn. Box 9 describes the methodology used to perform the analysis.

Figure 46 shows the gross rates of job creation and job destruction for the period from 1993Q1 through 2011Q2. The percentage rates of gross job creation and destruction are represented by lines and measured on the left-hand axis, while the net job creation index is represented by bars and measured on the right-hand axis.

When the State's economy was booming during the early part of the period, the gross number of jobs created well exceeded the gross number destroyed. However, the tide turned in 2001 with the onset of the 2001 national recession. Thus, the State labor market was already losing momentum when the September 11 attacks occurred. The full impact of that tragedy on an already weakened economy is seen during the first quarter of 2002, when the gap between the gross rates of job destruction and job creation was at its widest. The job gap began to close soon afterward, though pausing in early 2003, perhaps indicating the impact of the Iraq war on the business sector outlook. By late 2003, the economic stimulus provided by the expanding national economy was enough to bring the State's 2001-2003 recession to an end.

BOX 9
ANALYZING PRIVATE SECTOR EMPLOYMENT DYNAMICS AT THE ESTABLISHMENT LEVEL

The expansion or contraction of an industry over time is usually measured by the net change or net growth in jobs. However, a look beneath the net numbers into the mechanics of job creation and destruction at the establishment level facilitates a deeper understanding of the underlying dynamics.[1] During times when State employment is growing slowly, or even falling, an examination of the underlying dynamics reveals an extremely active labor market – even in the worst of times, new firms are created and existing firms add jobs. For example, though private sector employment fell 3.3 percent in 2009, about 23 percent of the State's business establishments created jobs. The data for this study derive from the Quarterly Census of Employment and Wages (QCEW) program.[2] These data include all establishments subject to Federal unemployment insurance laws and cover approximately 98 percent of all employment. For the second quarter of 2011, the most recent period for which data are available, the QCEW data covered 583,530 private sector establishments in New York State and 7,062,703 private sector employees.

Establishment-level data facilitate the investigation of questions that cannot be addressed at the aggregate level. Such questions include whether the primary source of job creation is new firm startups or existing firms that have chosen to expand, or whether net employment growth is the result of an increase in the rate of job creation or a decrease in the rate of job destruction. Two industries may exhibit the same net change in employment but one may have a high job turnover rate, resulting from high gross rates of gains and losses, while the other may have a low turnover rate. Previous studies have found that an increase in the turnover rate tends to be associated with an increase in net growth.[3] Hence, the underlying dynamics may give clues as to the near-term direction of the business cycle, and an industry that suddenly starts to experience an increase in firm startups or gross job creation may turn out to be a leading industry in the economy's next growth phase. Moreover, one can also determine whether new jobs are being created in relatively high-wage or low-wage industries.

Because QCEW data are not seasonally adjusted, comparisons over time should be restricted to the same quarter of various years. We therefore analyze job growth relative to the same quarter of the previous year. Comparability across time also requires normalizing by a common base. Because the jobs that were eliminated between the two quarters are no longer in the 2011 job count, we follow BLS and define the base as the average of the two quarters.

The gross number of jobs created between the second quarter of 2010 and the second quarter of 2011 is constructed by adding together the number of jobs created by firm startups (firms which existed during the second quarter of 2011 but did not exist four quarters prior), expanding firms that existed in both quarters, and firms created through mergers and acquisitions. Between the second quarter of 2010 and the second quarter of 2011, a total of 900,328 jobs were created from these three sources. Performing this calculation for the second quarter of 2011 produces the following:

$$\text{Gross rate of job gain} = \frac{\text{Startup gain} + \text{Existing firm gain} + \text{M\&A gain}}{\text{Base}} = \frac{900{,}328}{6{,}989{,}910} = 12.9\%$$

This result indicates that the State's gross rate of job creation for the second quarter of 2011 is 12.9 percent. An analysis of job creation at the establishment level also confirms the conventional wisdom that small firms are the State economy's primary growth engine. For example, of the nearly one million gross number of jobs created during the second quarter of 2011, 57.1 percent were created by firms with less than 50 employees. Another 23.5 percent were created by medium sized firms of between 50 and 250 workers, and the remaining 19.4 percent by large firms with workforces exceeding 250.

We similarly construct a gross rate of job destruction by adding together employment at firms that existed in the second quarter of 2010 but not in the second quarter of 2011, jobs lost from contracting firms that existed in both quarters, and jobs lost due to a merger or acquisition. We then divide by the State's job base (as defined above), which for the second quarter of 2011 yields:

(continued on next page)

[1] For a similar analysis for the U.S., see U.S. Bureau of Labor Statistics (BLS), "Business Employment Dynamics: First Quarter 2011," <http://www.bls.gov/news.release/pdf/cewbd.pdf>.
[2] For a detailed description of QCEW data, see 2003-04 *New York State Executive Budget, Appendix II*, page 100.
[3] See R. Jason Faberman, "Job Flows and Labor Dynamics in the U.S. Rust Belt." Monthly Labor Review, September 2002, Vol. 125, No. 9, pages 3-10.

(continued from previous page)

$$\text{Gross rate of job loss} = \frac{\text{Startup loss + Existing firm loss + M\&A loss}}{\text{Base}} = \frac{754{,}740}{6{,}989{,}910} = 10.8\%$$

This result states that the gross rate at which jobs were lost between the two quarters is 10.8 percent. Thus, for the second quarter of 2011, the gross rate of job creation exceeded the gross rate of job destruction. A net index of job creation is constructed by dividing the gross rate of job gains by the gross rate of job losses. For the second quarter of 2011, this calculation yields:

$$\text{Net index of job creation} = \frac{\text{Gross rate of job gain}}{\text{Gross rate of job loss}} = \frac{12.9\%}{10.8\%} = 119.3\%$$

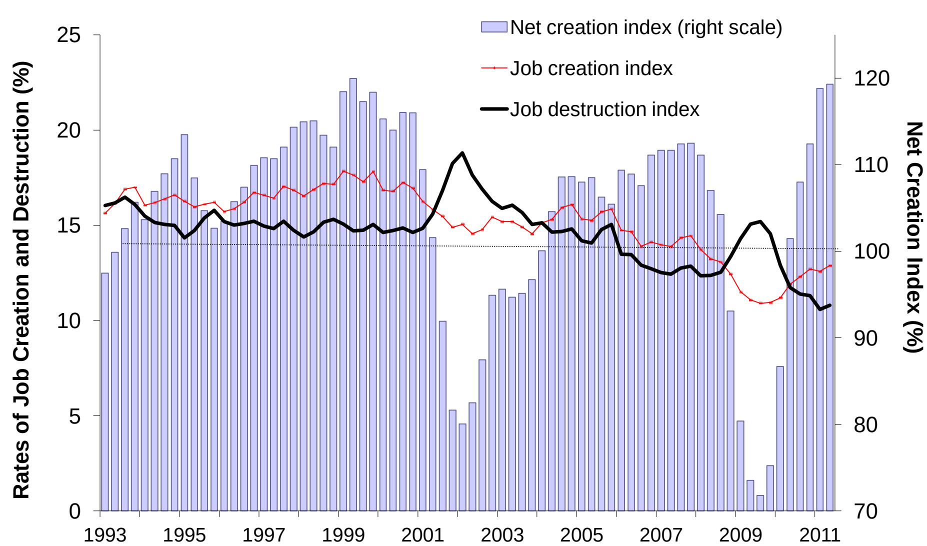
A net index value of exactly 100 percent implies that the gross number of jobs created is entirely offset by the number of jobs destroyed; a value above 100 percent, as we see above, indicates that employment is growing; a value below 100 percent indicates a net job loss, implying the presence of a "job gap."

As illustrated in the table below, two industries can have similar values for the net index but have very different underlying dynamics. For example, for the second quarter of 2011, the construction sector and the manufacturing and mining sector had similar net indices of job creation of 96.4 percent and 102.2 percent, respectively. However, the construction sector has a much higher turnover rate than the manufacturing and mining sector. Understanding these differences has implications for fine-tuning the Budget Division employment forecast.

Employment Dynamics Comparison: 2011Q2

Sector (NAICS code)	Gross rate of job creation	Gross rate of job destruction	Net index of job creation
Construction (23)	19.4%	20.1%	96.4%
Manufacturing and Mining(21, 31-33)	11.7%	11.5%	102.2%

Figure 46
NYS Private Sector Employment Dynamics



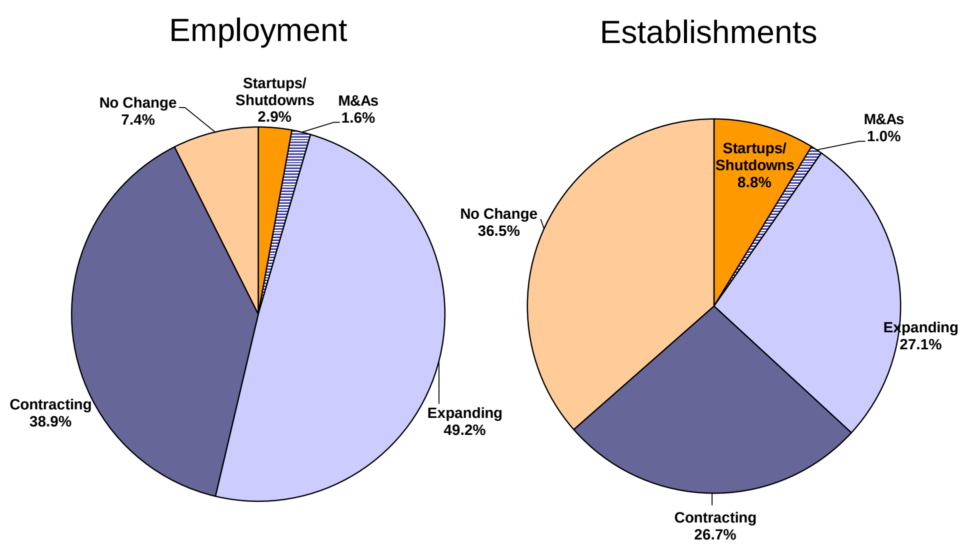
Source: NYS Department of Labor; DOB staff estimates.

A strong U.S. economy combined with strong global growth helped to keep the State's net job creation index above 100 percent from the first quarter of 2004 through the third quarter of 2008. Because a significant portion of the State economy is export-oriented, particularly the manufacturing sector, there is a strong association between State export growth and private-sector job growth. But by the first quarter of 2008, a loss of momentum is discernible. Figure 46 shows the gross rate of job creation starting to fall in the first quarter of 2008 and the gross rate of job destruction rising by the following period. The third quarter of 2009 represents a peak in the rate of job destruction and a trough in the rate of job creation. From that point on, however, the State labor market shows improvement. The 2.1 percent rate of net job creation in the second quarter of 2011 is consistent with the Budget Division 1.9 percent estimate for private sector job growth in 2011, followed by a slower 1.4 percent increase in 2012.

The State's Employment and Establishment Base

Figure 47 shows the composition of the State's employment and establishment base for the second quarter of 2011 by type of establishment. Startups and shutdowns accounted for 8.8 percent of the establishment base in 2011Q2. Because these firms tend to be quite small, averaging only about four employees per firm, they accounted for only 2.9 percent of the State's private sector employment base. Firms that were either acquired or absorbed by other firms accounted for 1.0 percent of the establishment base. The average size of these firms was about 20 employees and accounted for 1.6 percent of employment.

Figure 47
Composition of State's Employment and Establishment Base
2011Q2



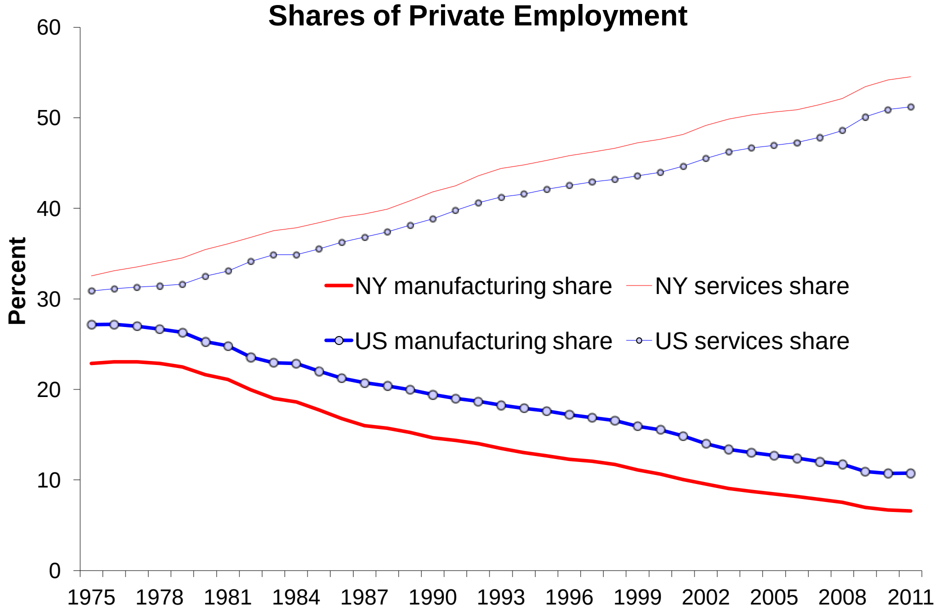
Source: NYS Department of Labor; DOB staff estimates.

Existing firms are classified according to whether their employment levels (a) expanded, (b) contracted, or (c) experienced no change relative to the same quarter of the prior year. Existing firms represent an overwhelming share of both establishments and employment: 90.2 percent of the State's establishment base and 95.5 percent of the job base. As indicated in the right-hand panel of Figure 47, the three types of existing firms accounted for somewhat similar shares of establishments: 26.7 percent, 27.1 percent and 36.5 percent, respectively. This tends not to be the case for the shares of the total job base accounted for by expanding, contracting and "no change" firms, which are 49.2 percent, 38.9 percent, and 7.4 percent, respectively. That the job share of expanding firms is a significantly higher than that of contracting firms is consistent with the healthy rate of net job creation for the quarter. The average size of existing firms also varies by firm type, with those firms experiencing no change in employment averaging less than three employees, expanding firms averaging 24 employees, and contracting firms averaging 16.

Manufacturing

The State has been losing manufacturing jobs for nearly 30 years, and now employs fewer workers in that sector than in the following sectors: finance and insurance; professional, scientific, and technical services; and trade, transportation and utilities. Nevertheless, the manufacturing sector is important Upstate, where it still accounts for a significant share of private employment.

Figure 48
Manufacturing and Service Sector Shares of Private Employment



Source: Moody's Analytics; NYS Department of Labor.

The Budget Division's forecast for the manufacturing and mining sector represents the continuation of a long-term decline.[19] Since the mid-1970s, New York's comparative advantage has shifted away from manufacturing in favor of services (see Figure 48), and the manufacturing sector continues to experience significant job losses. Competitive

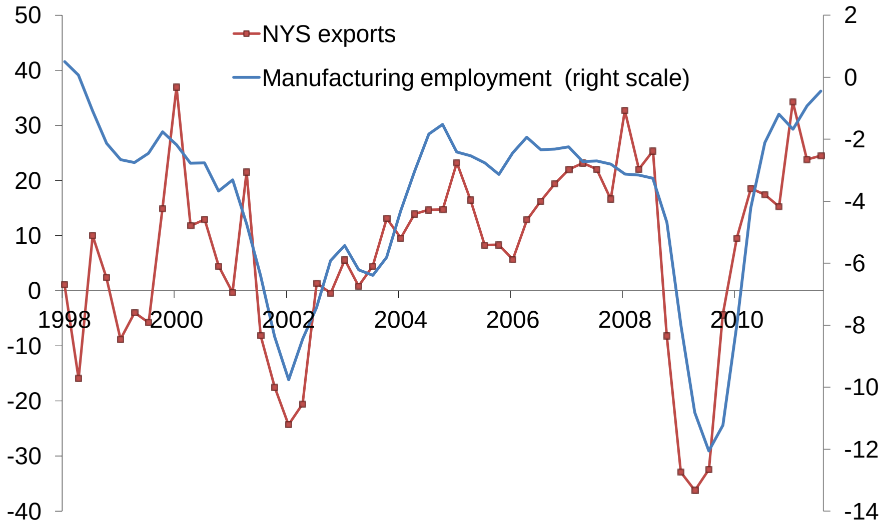
[19] The Budget Division combines manufacturing and mining for forecasting purposes. As of the second quarter of 2011, mining accounted for less than 0.1 percent of total employment in this category and will be ignored for the remainder of the discussion.

pressures arising from increased globalization have resulted in the decline of State manufacturing employment virtually every year since 1984, with the rate of job loss accelerating during recessions.

Figure 49

NY State Exports and Manufacturing Employment

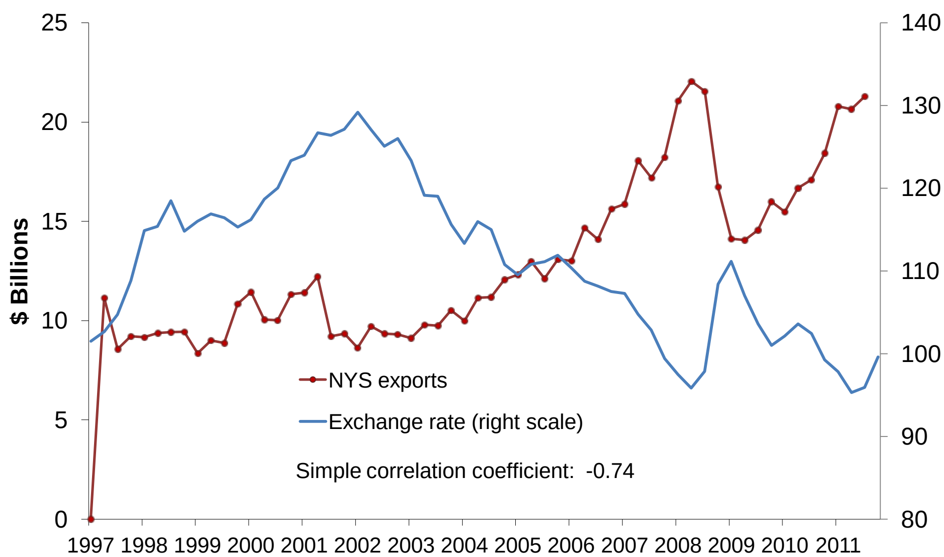
Year-ago percent change



Note: The two series have a simple correlation coefficient of 0.59.
Source: Moody's Analytics.

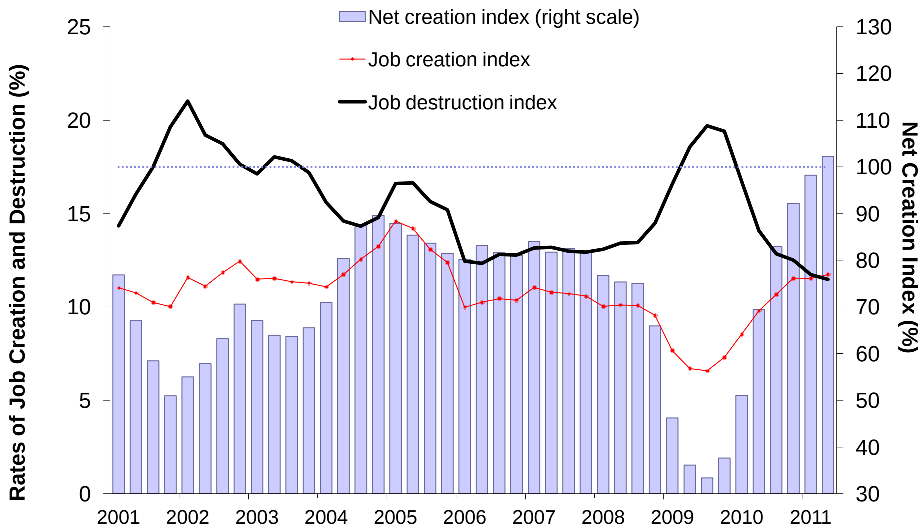
Figure 50

Dollar Exchange Rate Index and NYS Commodity Exports



Source: Moody's Analytics

Figure 51
Mining and Manufacturing



Source: NYS Department of Labor; DOB staff estimates.

The 0.01 percent decline in manufacturing jobs estimated for 2011 would keep sector employment 60.0 percent below its 1984 level of about 1.2 million workers. For 2012, employment is expected to fall 0.8 percent, to approximately 457,000 workers. These estimates correspond to projected job losses of 3,700 in 2012. Although there has been a modestly positive impact from the comeback of the nation's auto industry, the State's manufacturing sector continues to be negatively affected by the less-than-robust national economic recovery, the continued globalization of production, and risks associated with the European debt crisis and the global slowdown more generally. Figure 49 suggests that slower growth in demand for State exports is likely to result in less demand for New York State manufacturing workers. Moreover, Figure 50 indicates that the demand for State exports is sensitive to the value of the U.S. dollar. Consequently, the recent strengthening of the dollar against the euro poses a risk to the State's manufacturing sector in 2012.

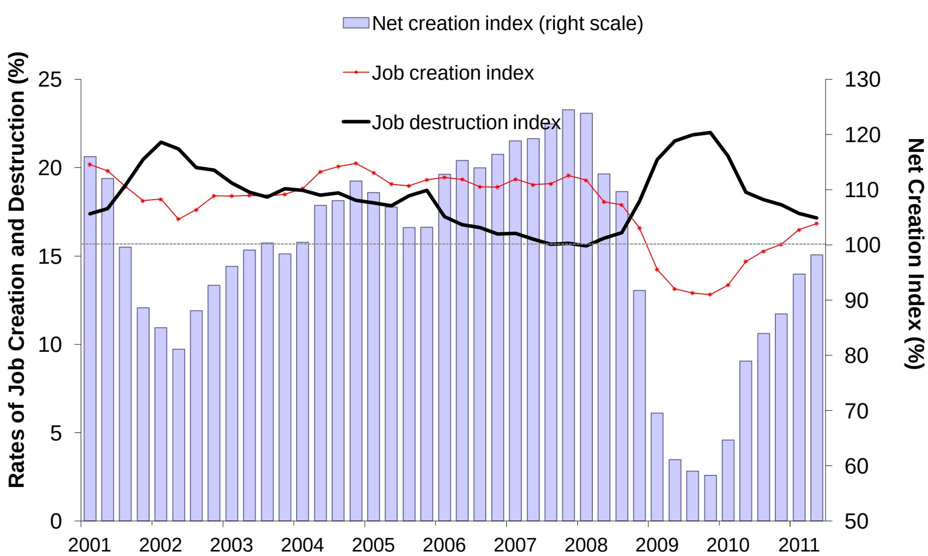
In the wake of the 2001-03 State recession, job creation began to rise and job destruction continued to fall, leading to a net index of job creation of almost 90 percent by the end of 2004 (see Figure 51). The net index dropped back down to about 82 percent by the second quarter of 2007, consistent with the slowdown in manufacturing nationwide, in advance of the "official" start of the national recession in December 2007. Those losses accelerated starting in 2008 due to an increasing rate of job destruction and a falling job creation rate. Losses continued in 2009, as net creation index reached just 33 percent by the third quarter of 2009, resulting in a decline of 10.9 percent for the year, the largest in the history of the series. After a brief period of very low growth, the sector is expected to go back to declines, with a 0.8 percent employment decline in 2012.

Construction and Real Estate

Although the boom and bust cycle in the residential housing market was a bit less pronounced for New York than for the nation, its impact on the labor market was nonetheless severe. Commercial real estate was also hard hit in the last recession. As a result, the construction sector was the second hardest-hit during the downturn, after manufacturing. However, the Budget Division is projecting an increase in construction employment of 1.3 percent for 2012, after a 0.5 percent decrease in 2011. Meanwhile, employment in the real estate, and rental and leasing sector is projected to increase 0.9 percent in 2012 after an increase of 0.4 percent in 2011.

Construction employment increased steadily since the second quarter of 2004, producing strong net growth through the third quarter of 2008. However, significantly tighter credit conditions and the imploding national housing market slowed construction spending, with employment falling on a year-ago basis by 2008Q4.

Figure 52
Construction & Real Estate



Source: NYS Department of Labor; DOB staff estimates.

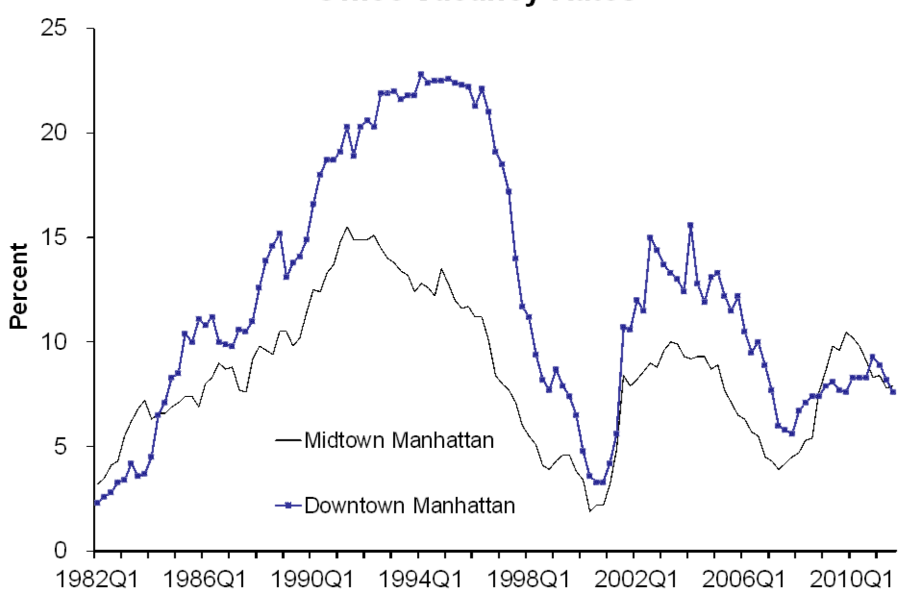
Underlying labor market dynamics indicate that the construction and real estate sectors started to weaken in the second quarter of 2008 with a decline in the rate of job creation that continued right through the fourth quarter of 2009 (see Figure 52). The rate of job destruction started to tick up in the second quarter of 2008 and continued unabated until 2009Q4, when it rate began to fall. Year-ago growth in State construction employment peaked in the first quarter of 2008, held up by strong levels of activity in the commercial building sector in 2007, particularly Downstate. Otherwise, construction employment in the State might have peaked earlier, as it did in the nation.

However, the credit crisis started just as new office space was coming online, resulting in increased office vacancy rates. For example, office vacancy rates for both downtown and midtown Manhattan turned upward starting in the first quarter of 2008, though they were still well below national office vacancy rates. (see Figure 53). After increasing at the end of 2009 and 2010, Manhattan office vacancy rates started to come down in 2011.

The Budget Division outlook for modest construction employment growth in 2011 is supported by activity already in the pipeline, such as the ongoing reconstruction of the World Trade Center and a multi-year subway project. Projects financed by the waning American Recovery and Reconstruction Act may also help reduce net job losses. Finally, Figure 53 indicates that office vacancy rates may be leveling off. However, the overhang created by the high volume of activity that preceded the downturn remains a major source of risk to the recovery of the downstate real estate market.

Regional data indicate that the housing sector collapse has negatively impacted construction employment in all of the State's regions, with every region reporting lower employment in the first of half of 2011 compared to the same period in 2010. The steepest construction employment declines occurred in the Hudson Valley (7.2 percent), Long Island (5.2 percent), Mohawk Valley (4.6 percent), and Capital District (4.2 percent). However, it should be noted that the federal personal income tax credit for homebuyers, enacted in 2009, required taxpayers to have at least entered into a binding purchase agreement by June 30, 2010, with a closing by September 30 of that year. The regional effects noted above may reflect, in part, the expiration of that temporary tax credit.

Figure 53
Office Vacancy Rates



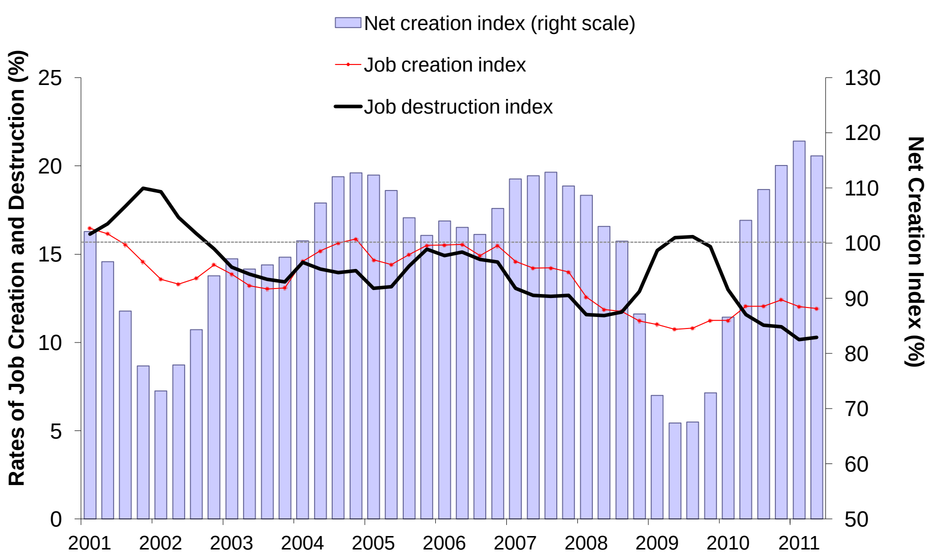
Source: Moody's Analytics; CBRE.

Trade, Transportation, and Warehousing

The Budget Division projects this sector will gain about 16,500 jobs in 2012, for an increase of 1.1 percent, after 1.6 percent growth in 2011. The retail trade, wholesale trade, and transportation and warehousing segments are among the more cyclically sensitive industrial sectors, and were hit hard by the recent recession. As Figure 54 shows, this sector experienced large “job gaps” in both State recessions of 2001-2003 and September 2008-December 2009. In the more recent recession the sector lost jobs for six consecutive quarters, from the fourth quarter of 2008 through the first quarter of 2010. Although the gross job destruction rate took a huge dive during the first quarter of 2010, the net index turned positive in the following quarter. Growth did pick up over the course of 2010, reaching a 1.9 increase during the first quarter of 2011, later tailing off.

For 2012, the Budget Division projects increases of 1.2 percent for wholesale trade, 1.1 percent for retail trade and 1.3 percent for transportation and warehousing. These increases represent a slowdown from the 1.6 percent growth each subsector posted in 2011 and are consistent with both lower national and State income growth and the anticipated slowdown in international trade.

Figure 54
Trade, Transportation, and Warehousing



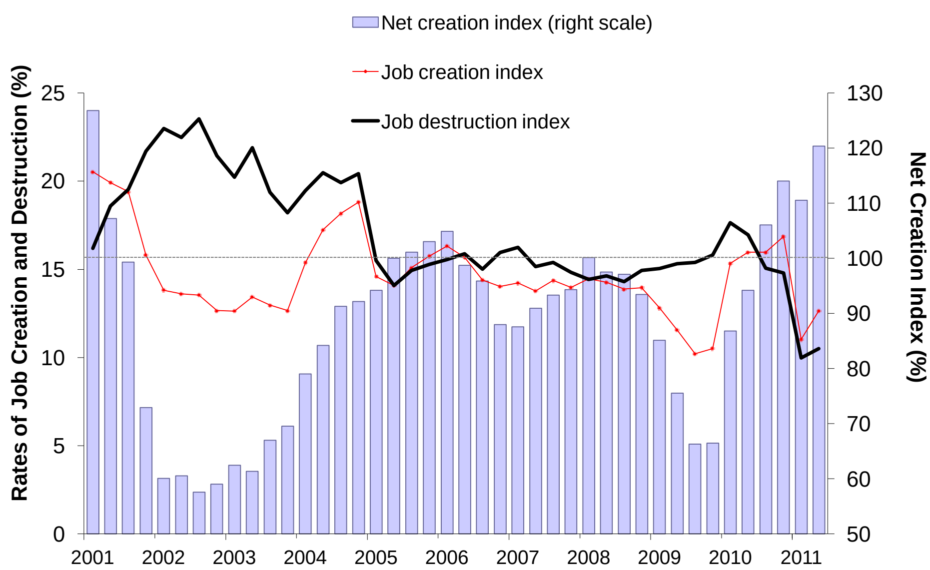
Source: NYS Department of Labor; DOB staff estimates.

Information (Media and Communications)

The information sector, which includes publishing, motion pictures, broadcasting, and telecommunications, is the most regionally concentrated industrial sector with almost 60 percent of State employment located in New York City. The information sector is estimated to have gained about 3,600 jobs in 2011, after experiencing annual declines since 2001. The relatively outsized gains in 2011 appear to be related to a penetration of the New York City market by the social media industry and are not expected to be repeated at that scale going forward. Job gains of only 600, or 0.2 percent, are expected in 2012.

The information sector was among the hardest hit in the State during the 2001-2003 recession and was extremely negatively affected by the collapse of the internet/high-tech bubble. Employment in the sector, which reached its most recent peak in 2001, has to date failed to recover to that level, and had been trending downward even before the 2008-2009 State recession hit. In addition, this sector was once one of the most dynamic sectors in the State, exhibiting gross rates of job creation and destruction generally well above statewide averages, but this dynamism has waned with the contraction of the industry (see Figure 55).

Figure 55
Information

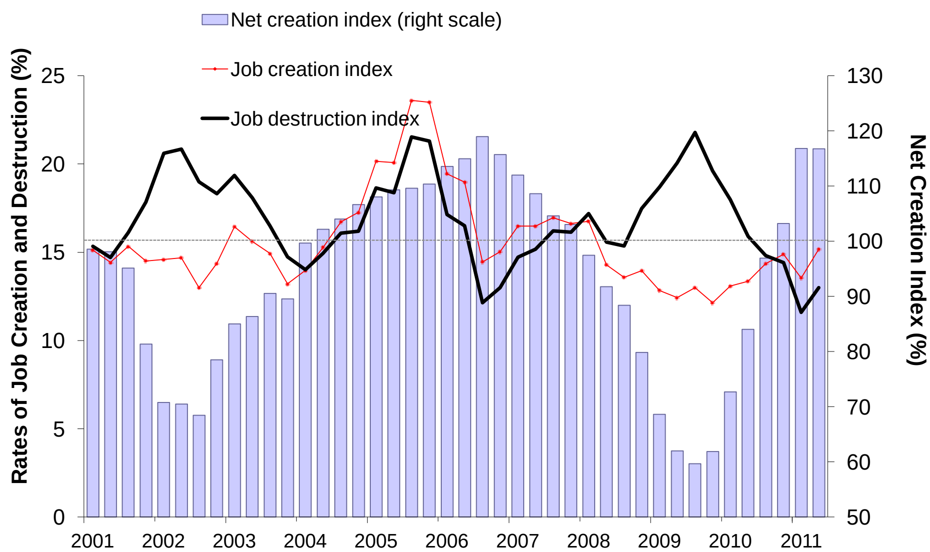


Source: NYS Department of Labor; DOB staff estimates.

Finance and Insurance

Another volatile year in the financial markets has had its impact on employment in one of the State's leading sectors, finance and insurance. The Budget Division estimates that this sector gained 4,400 jobs in 2011, thanks to 2.1 percent growth during the first half of the year. However growth is expected to have turned negative by the end of 2011, while declines continue until the second half of 2013. Financial firms have announced global layoffs totaling about 500,000 thus far and a good portion of those are expected to affect their New York workforce. As a result, the sector is expected to lose 4,400 jobs in 2012, a 0.9 percent decline. As has been the case in the past, it could take many years before Wall Street fully recovers from one of the most cataclysmic periods in its history. For example, after the stock market crash of 1987 and the national recession of 1990-91, it took ten years for the securities industry to recover its previous employment peak; this time it could take longer. The Budget Division does not project that the finance and insurance sector will reach its pre-recession 2007Q3 peak of 548,000 jobs before the end of the forecast horizon in 2017. As might be expected, most of the sector's losses of 2008-2010 period have occurred in New York City, and that is expected to be the case in 2012 as well.

Figure 56
Finance and Insurance



Source: NYS Department of Labor; DOB staff estimates.

During the middle of the past decade, the finance and insurance sector had been a bright spot for the State's economy (see Figure 56). The jobs lost during the 2001-2003 recession lowered industry compensation costs and helped Wall Street firms to increase profits significantly by 2003. After three years of job losses, strong revenue and profit performances resulted in the sector's net job creation index rising above 100 in 2004; it remained there through 2007. During these years, employees received record salaries and bonuses and State personal income tax revenues soared. In addition, both job creation and job destruction rates climbed to about 20 percent in 2005, proving this sector to be one of the State's most dynamic. Between the middle of 2005 and the end of 2007 the rates of job creation and destruction moved in parallel, with the latter remaining above the former, implying net job growth.

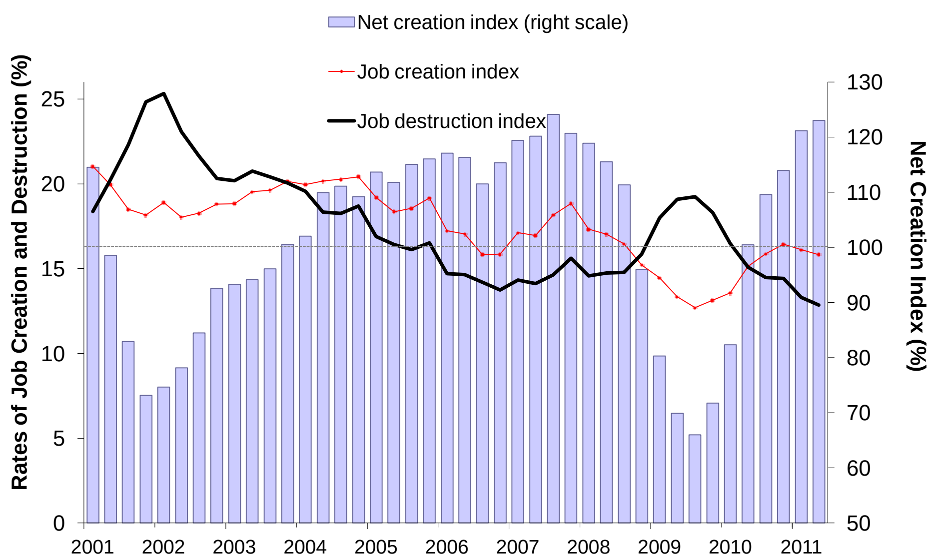
With the start of the credit crisis that began during the summer of 2007, the finance and insurance sector's rate of job creation began to fall, with the net creation index falling below 100 by the first quarter of 2008. The sector's rate of job destruction took a sharp upward turn in the fourth quarter of that year, coinciding with the shock to the global financial sector generated by the fall of Lehman Brothers. The sector lost 9,500 jobs in 2008, and a record 38,300 jobs were lost in 2009. During this period, the sector was facing the most severe downturn since the Great Depression. However the job destruction index started to decline at the end of 2009 and continued to do so until the second quarter of 2011. On the other hand, the job creation index started to increase during 2010, with net index turning positive at the end of that year. Job losses faded to 9,200 during 2010. While the new recruitment efforts of early 2011 kept the net index positive during the first half of the year, it is estimated to have turned negative by the fourth quarter, with the announced layoffs coming to pass.

Professional and Business Services

This sector, along with the education and health services sector, is expected to help lead State employment gains in 2012. It includes two groups of industries: the professional, scientific, and technical services sector (PST), which encompasses legal, accounting, architectural, engineering, advertising, and technical services; and the management, administrative, and other business support services group. The Budget Division estimates that the PST subsector saw an estimated gain of 3.3 percent, or 18,000 jobs, in 2011, to be followed by a gain of 2.0 percent, or 11,700 jobs, in 2012. The management, administrative, and support services sector is expected to follow a similar trend with a 2012 gain of 12,500 jobs, or 2.2 percent, after a 2011 gain of 14,200 jobs, or 2.6 percent. This sector includes temporary help services, which helps to explain its earlier recovery.

Figure 57

Professional and Business Services



Source: NYS Department of Labor; DOB staff estimates.

Temporary help services are one of the first employment classes to grow following a downturn, consistent with the substantial improvement in this sector coming out of recessions. Many firms hire temporary workers in the early months following a recession, being uncertain as to whether an increase in the demand for their products will be sustained. This contributes to the high job turnover rate in this sector, as well as to its cyclical sensitivity.

Meanwhile, in the PST subsector, the most recent recession led to a dramatic increase in the job destruction index, and decrease in job creation index, which in turn pushed down the net creation index down to a level even worse than in the 2001-2003 State recession (see Figure 57). Since the second quarter of 2010, the trends in those two indexes have reversed, leading to the highest rate of net job creation since the 2007 peak level by the second quarter of 2011. The State's PST sector serves both a national and international customer base; thus, slower growth in both U.S. corporate profits and the global economy implies slower growth in this sector going forward.

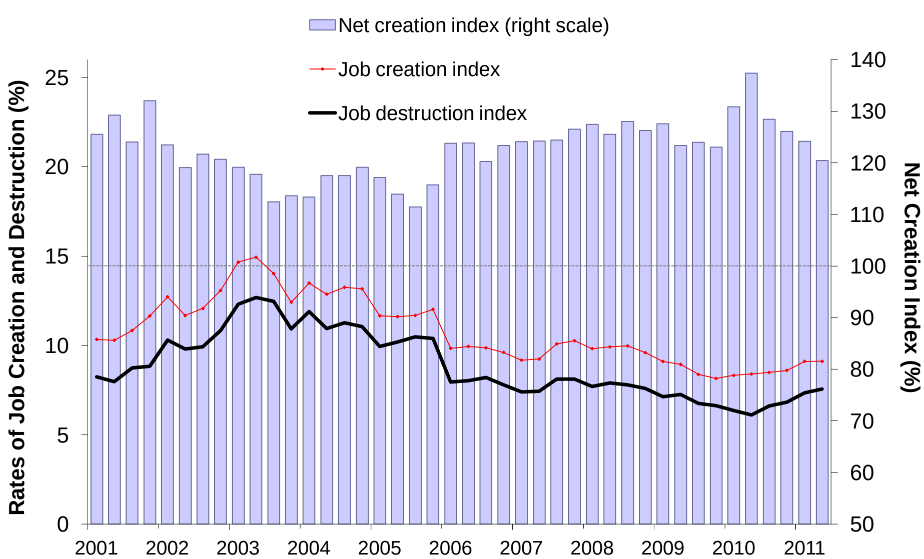
Education and Health Care

The private education and healthcare and social assistance sectors have exhibited consistent strength and remain the brightest spots in the employment forecast (see Figure 58). Together, these two sectors are expected to add about 30,200 new jobs in 2012 for growth of 1.9 percent.

The health care industry is the larger of the two, employing an estimated total of almost 1.3 million workers in 2011. The private education sector is estimated to employ only about 302,800, as it excludes more than 600,000 workers employed at public educational institutions. Neither of these sectors exhibits a significant degree of cyclical sensitivity. Moreover, the demand for jobs within the health care and social assistance sector is expected strengthen further with the aging of the State's population. Private education employment is projected to rise 1.9 percent for 2012, following estimated growth of 2.0 percent for 2011. Healthcare and social assistance employment is also projected to rise 1.9 percent in 2012, following estimated growth of 1.7 percent for 2011.

Figure 58

Education, Health Care, and Social Assistance



Source: NYS Department of Labor; DOB staff estimates.

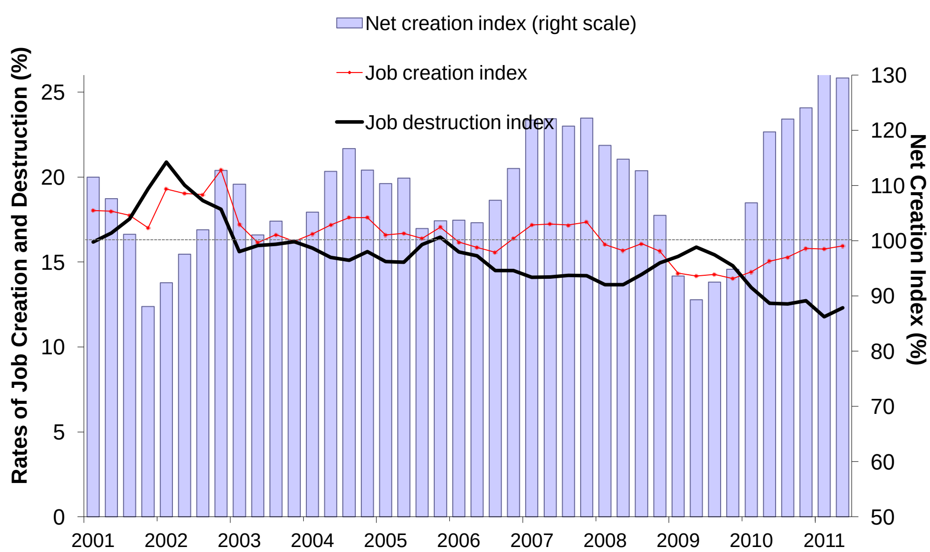
Leisure, Hospitality, and Other Services

The Budget Division expects leisure, hospitality, and other services employment to increase by 2.5 percent in 2012, following an increase of 3.7 percent in 2011. The national and global recessions had a severe impact on this sector, particularly in the arts, entertainment, and other tourism-related industries, not unlike the impact of the September 11 attacks (see Figure 59). In that case, the gross rate of job destruction increased considerably during the fourth quarter of 2001 and the first quarter of 2002, although the sector began to bounce back soon thereafter.

During the more recent State recession, the net index started falling in the first quarter of 2008 and was below 100 by the first quarter of 2009. The sector's rate of job destruction peaked early, in the second quarter of 2009, and the sector has been improving since, experiencing net growth by the first quarter of 2010. Since then this sector has experienced strong growth, mainly due to the improvement of the job destruction index, which led to the highest net creation index since 2001 in the first quarter of 2011. This sector is estimated to have added almost 38,500 jobs in 2011, and is expected to add another 26,900 jobs in 2012, with the strengthening of the national and global economies and a weakened U.S. dollar favoring tourism. However, this may prove optimistic if the ongoing euro-debt crisis deteriorates beyond current expectations.

Figure 59

Leisure, Hospitality, and Other Services



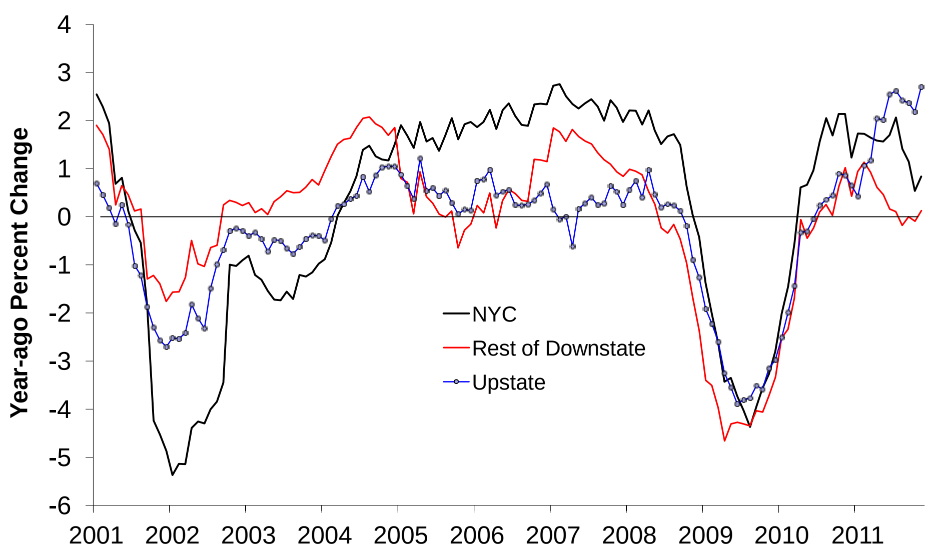
Source: NYS Department of Labor; DOB staff estimates.

Regional Job Growth Disparity

Figure 60 indicates that since the start of the last State recovery in late 2003, employment growth has been quite variable across the State's regions. Between October 2003 and October 2008 the State's private sector added 338,400 jobs, a 4.8 percent increase. Fully 74.7 percent of these jobs were added in New York City, which saw a private sector increase of 252,700, or 8.4 percent. This strong growth is no surprise given the robust performance of the City's services industries, because their market is not just national but global. Employment growth in the downstate region excluding New York City was weaker, at 2.6 percent, a gain of 38,500 jobs. However, growth in the upstate region was still weaker, with the private sector adding only about 47,200 jobs during the period, for growth of 1.9 percent.

By the middle of 2008, the national recession and the housing market contraction began to hit New York. As shown in Figure 60, the downstate region outside of New York City was the first to be affected. But the New York City labor market took a big hit when the credit crisis intensified with the fall of Lehman Brothers in September 2008. Most of the job losses in the financial and business services sectors were in the City. In addition, the synchronized global economic recession put significant downward pressure on the City's tourism-related establishments, including airlines, hotels, and restaurants, resulting in severe job losses.

Figure 60
NYS Private Sector Employment by Region

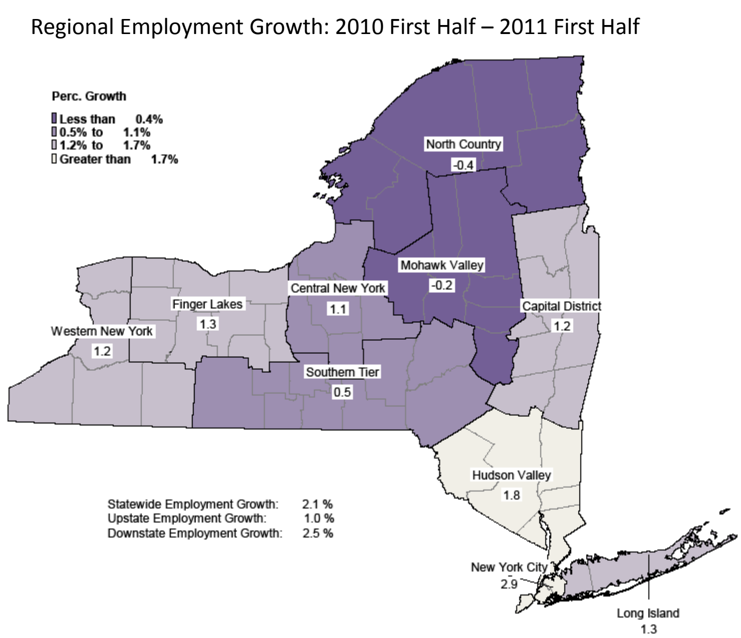


Note: Upstate is defined as the State total minus the ten downstate counties.
Source: NYS Department of Labor (CES).

Meanwhile, the upstate economy's continued relative dependence on manufacturing, in particular the auto, machinery and equipment industries, meant that the weakening demand for cars and light trucks, and investment goods more generally, resulted in extensive layoffs, especially in the western part of the State. But as Figure 60 also shows, job losses turned to growth in 2010, starting in New York City and spreading to the remainder of the State later in the year, consistent with the beginning of recovery in January 2010. Job growth in the rest of downstate began to deteriorate close to the beginning of 2011, presumably negatively affected by the many setbacks that plagued the economy last year, particularly the finance sector. By the end of the year, the region was experiencing either slow or no growth on a year-ago basis. Those same setbacks caused job growth in New York City to decelerate by the middle of the year. However, jobs in upstate are less concentrated in the financial sectors and thus kept growing in 2011.

Figure 61 compares the relative performance of New York's 10 regions between the first half of 2010, a trough period for State employment, and the first half of 2011, the most recent period for which the most accurate data – Quarterly Census of Employment and Wages (QCEW) data – are available. These data indicate that job growth over the period, was broad-based. Private-sector employment for the State as a whole grew 2.1 percent over the period, with the downstate regions showing faster growth of 2.5 percent. Meantime, the upstate region grew 1.0 percent. A more detailed analysis of regional employment trends can be found in Table 12 through Table 15 on pages 141-142.

Figure 61
Regional Employment Declines: 2010H1-2011H1



Risks to the New York Forecast

All of the risks to the U.S. forecast apply to the State forecast as well, although as the nation's financial capital, developments that have an impact on credit markets, such as the euro-debt crisis, pose a particularly large degree of risk for New York. Yet another financial crisis induced recession would be devastating for the State economy. Even lesser risks, such as a further erosion of equity prices could be quite destabilizing to the financial sector and ultimately bonuses and State wages overall. These risks are compounded by the uncertainty surrounding the implementation of financial reform, which is already altering the composition of bonus packages in favor of stock grants with long-term payouts and claw-back provisions, thus affecting the forecast for taxable wages. As financial regulations evolve, it is becoming increasingly uncertain as when finance sector revenue generating activity such as trading, lending, and underwriting will return to pre-crisis levels, resulting in additional risk to the forecasts for bonuses and personal capital gains.

There are, however, some upside risks to DOB's New York economic outlook as well. A stronger national or global economy than projected could increase the demand for New York goods and services, resulting in stronger job growth than projected. Such an outcome could lead to stronger levels of business activity and income growth than anticipated. If corporate earnings surprise to the upside, a stronger and earlier upturn in stock prices could result, stimulating additional financial market activity, and producing higher wage and bonus growth than currently projected. Of course, a stronger national economy could force the Federal Reserve to raise interest rates earlier or more rapidly than projected, which could negatively affect the State economy and the financial sector in particular.

BOX 10
THE NEW YORK STATE DIVISION OF THE BUDGET
NEW YORK MACROECONOMIC MODEL

DOB's New York Macroeconomic model (DOB/N.Y.) attempts to capture the fundamental linkages between the New York and the national economies.[1] Clearly, New York's economy depends on economic developments in the U.S. economy, usually expanding when the national economy is growing and contracting when the nation is in recession. However, this relationship is neither simple nor static. The growth rate of the State's economy can vary substantially in comparison to the nation. For example, during the 1990-91 national recession, the State's recession began noticeably earlier and ended significantly later than for the nation as a whole. Alternatively, during the early 1980s recession, the State's economy fared better than the nation.

The objective of DOB/N.Y. is to quantify the linkages between the national and State economies within an econometric modeling framework. DOB/N.Y. is a structural time series model with most of the exogenous variables derived from DOB/U.S. In general, the long-run equilibrium relationships between State and national economic variables are captured by a cointegration/error-correction specification, while the State's specific dynamics are modeled using a restricted vector autoregressive (RVAR) framework. DOB/N.Y. has four major components: a nonfarm payroll employment segment, a real nonbonus average wage segment, a bonus payment segment, and a nonwage income segment.

Employment

The national economy affects New York employment through two channels. First, if State employment growth for a specific sector is related to the growth of the U.S. employment in the same sector, U.S. employment for that sector is specified as an exogenous variable in the equation. Second, overall U.S. economic conditions, as measured by the growth of real U.S. GDP, is included either directly in the employment equations for some sectors or indirectly through the VAR relationships.

Intra-sectoral relationships for New York employment can be different from those for the nation as a whole. These relationships are captured in a restricted VAR model where the impact of one sector on other sectors is explicitly specified.

Average Real Nonbonus Wages

Our analysis suggests the existence of a long-run equilibrium relationship between real nonbonus average wage for most New York sectors and the national real average wage. Thus, the State average real nonbonus wage by sector is modeled in a cointegration/error-correction framework. This modeling approach is based on the belief that, since both labor and capital are free to move in a market economy, regional differences in labor costs tend to converge toward their long-run equilibrium values, though this process may take quite a long time. This formulation allows for short-run adjustments towards equilibrium, which describe the short-run dynamics of State-specific economic conditions.

Bonus Income

The DOB model for finance and insurance bonus income incorporates those factors that drive Wall Street profits: merger and acquisition activity, IPOs, and the volume of debt underwriting. Our analysis shows that bonuses paid in the State's other economic sectors tend to have long-term equilibrium relationships with those paid in the finance and insurance sectors; more technically, bonus payments in the financial services sector are cointegrated with bonuses paid in most other sectors. Consequently, the results from the finance and insurance sector bonus model are used to estimate bonuses paid in other sectors.

Nonwage Incomes and Other Variables

The New York nonwage components, except for the residence adjustment, are all driven by their national counterparts. The relationship is modeled as a change in the New York variable, as a function of a change in the U.S. nonwage counterpart, along with lags of the independent and dependent variables as appropriate to account for short-term fluctuations.

[1] For more information, see *New York State Economic, Revenue and Spending Methodologies*, November, 2011,<http://www.budget.ny.gov/pubs/supporting/MethodologyBook.pdf>.

TABLE 10

NEW YORK STATE PRIVATE EMPLOYMENT BY INDUSTRY

INDUSTRY	Employment in Thousands 2007	2008	2009	2010	2011*	Percent Change 2007	2008	2009	2010	2011*
Mining and Manufacturing	557.4	537.4	479.0	460.5	458.1	(2.3)	(3.6)	(10.9)	(3.9)	0.0
Construction and Real Estate	537.0	544.7	501.7	481.9	465.3	3.4	1.4	(7.9)	(4.0)	(0.6)
Trade, Trans., and Warehousing	1,477.5	1,476.3	1,408.6	1,413.5	1,418.4	1.5	(0.1)	(4.6)	0.3	1.8
Information	263.2	262.1	251.5	251.3	253.7	(1.3)	(0.4)	(4.0)	(0.1)	1.6
Finance and Insurance	544.1	534.6	496.3	487.1	493.8	1.1	(1.7)	(7.2)	(1.9)	2.1
Business and Professional Svs.	1,136.0	1,153.3	1,094.2	1,095.9	1,112.1	3.2	1.5	(5.1)	0.2	2.9
Education and Health Care	1,491.6	1,522.9	1,549.0	1,579.9	1,606.6	1.9	2.1	1.7	2.0	1.7
Leisure, Hospitality, and Other Svs	1,022.7	1,040.3	1,028.4	1,052.7	1,065.7	3.1	1.7	(1.1)	2.4	3.9
Other **	89.0	79.4	84.2	84.2	86.0	(15.0)	(10.9)	6.1	(0.0)	8.3
Statewide	7,118.4	7,150.9	6,892.9	6,906.9	6,959.6	1.5	0.5	(3.6)	0.2	2.1

* Levels for 2011 are based on the first two quarters of the year; 2011 growth rates are relative to the same period in 2010.

** Includes agriculture, utilities, and unclassified firms.

TABLE 11

NEW YORK STATE PRIVATE EMPLOYMENT BY REGION

REGION	Employment in Thousands 2007	2008	2009	2010	2011*	Percent Change 2007	2008	2009	2010	2011*
New York City	3,092.6	3,123.1	3,015.9	3,042.8	3,102.4	2.7	1.0	(3.4)	0.9	2.9
Long Island	1,038.4	1,033.6	991.9	995.5	994.0	1.1	(0.5)	(4.0)	0.4	1.3
Hudson Valley	736.3	730.6	699.6	697.7	699.6	1.3	(0.8)	(4.2)	(0.3)	1.8
Capital District	388.5	389.5	378.1	374.9	374.1	0.2	0.3	(2.9)	(0.9)	1.2
Mohawk Valley	132.6	131.4	127.7	126.7	124.5	0.2	(0.9)	(2.8)	(0.8)	(0.2)
North Country	108.9	108.5	104.7	104.6	101.9	0.5	(0.4)	(3.5)	(0.1)	(0.4)
Central New York	287.1	286.5	275.2	272.6	271.8	1.2	(0.2)	(3.9)	(1.0)	1.1
Southern Tier	239.1	238.8	228.4	227.4	225.8	0.9	(0.1)	(4.4)	(0.5)	0.5
Western New York	514.2	516.6	498.6	498.8	497.7	0.3	0.5	(3.5)	0.0	1.2
Finger Lakes	458.4	458.2	442.6	442.8	441.7	0.5	(0.0)	(3.4)	0.0	1.3
Unclassified	122.4	134.0	130.1	123.1	126.1	(5.0)	9.5	(2.9)	(5.4)	6.3

* Levels for 2011 are based on the first two quarters of the year; 2011 growth rates are relative to the same period in 2010.

TABLE 12

REGIONAL EMPLOYMENT SHARES BY INDUSTRY

REGION	Mining/ Manuf.	Constr. & Real Estate	Trade, Trans. & Wareh.	Info.	Finance and Insurance	Bus. & Prof. Svs.	Educ. & Health Care	Leisure, Hosp. & Other Svs.	Other
New York City	2.4	7.3	17.4	5.0	10.1	18.2	23.4	15.3	1.0
Long Island	7.2	7.4	24.4	2.4	5.2	14.9	22.4	15.0	1.1
Mid Hudson	7.0	7.6	23.3	2.6	4.2	13.2	24.4	16.0	1.6
Capital Region	7.8	6.4	21.8	2.6	5.7	14.6	23.4	16.5	1.2
Mohawk Valley	13.1	4.4	24.8	2.1	5.6	7.9	26.6	14.5	1.0
North Country	10.7	6.8	26.4	1.7	2.4	6.7	24.0	18.4	2.8
Central New York	11.8	6.1	23.5	1.9	5.0	12.7	20.8	16.0	2.2
Southern Tier	16.7	4.9	20.1	1.7	3.8	9.5	26.7	15.1	1.4
Western New York	13.3	5.6	21.7	1.7	5.2	14.8	20.0	16.7	1.0
Finger Lakes	15.3	5.6	19.9	2.1	3.3	13.9	23.5	14.6	1.9
Statewide	6.6	6.9	20.4	3.6	7.1	15.9	22.8	15.4	1.3

Note: Shares are based on the period from 2010Q3 through 2011Q2.

TABLE 13

REGIONAL EMPLOYMENT TRENDS: 2007-2011										
Region	Employment (000's)					Percent Change				
	2007	2008	2009	2010	2011*	2007	2008	2009	2010	2011*
Manufacturing and Mining										
New York City	105.4	100.8	95.3	81.6	76.3	(7.1)	(4.4)	(5.4)	(14.4)	(6.5)
Long Island	85.1	83.4	80.8	74.4	72.7	(1.4)	(1.9)	(3.1)	(8.0)	(2.3)
Hudson Valley	60.6	59.6	57.2	51.8	49.8	(1.7)	(1.6)	(3.9)	(9.5)	(4.0)
Capital District	33.1	32.7	32.3	29.4	28.9	(0.7)	(1.1)	(1.4)	(8.9)	(1.6)
Mohawk Valley	20.2	19.5	18.8	17.0	16.7	(2.3)	(3.9)	(3.2)	(9.5)	(2.1)
North Country	14.6	14.2	13.7	11.9	11.4	(0.1)	(2.9)	(3.8)	(12.5)	(4.9)
Central New York	38.7	38.7	37.7	33.5	32.3	(1.1)	(0.1)	(2.5)	(11.1)	(3.6)
Southern Tier	45.2	45.8	45.1	40.0	38.0	2.5	1.4	(1.5)	(11.3)	(5.2)
Western New York	81.1	79.3	76.6	67.3	65.8	(2.1)	(2.2)	(3.4)	(12.1)	(2.2)
Finger Lakes	85.1	82.0	78.1	70.4	67.7	(1.6)	(3.6)	(4.8)	(9.9)	(3.9)
Unclassified	1.2	1.4	1.6	1.4	0.9	5.1	18.1	15.4	(9.6)	(38.7)
Statewide	570.3	557.4	537.4	479.0	460.5	(2.3)	(2.3)	(3.6)	(10.9)	(3.9)
Construction and Real Estate										
New York City	231.0	243.2	248.2	233.1	225.3	2.4	5.3	2.1	(6.1)	(3.3)
Long Island	85.2	87.3	87.8	79.0	74.9	3.9	2.4	0.5	(10.0)	(5.2)
Hudson Valley	65.4	67.9	66.2	57.7	53.5	2.9	3.8	(2.6)	(12.8)	(7.2)
Capital District	27.0	27.2	27.1	25.2	24.2	1.6	0.7	(0.3)	(7.0)	(4.2)
Mohawk Valley	6.4	6.7	6.4	6.0	5.7	0.0	3.6	(3.4)	(7.3)	(4.6)
North Country	7.5	7.8	8.1	7.6	7.3	6.9	4.6	3.4	(5.7)	(4.0)
Central New York	18.2	18.5	18.7	17.3	16.9	3.4	1.7	0.7	(7.3)	(2.5)
Southern Tier	11.7	11.8	12.0	11.3	11.2	1.9	0.9	1.4	(5.6)	(1.2)
Western New York	29.9	29.4	29.9	28.3	27.7	1.1	(1.7)	1.9	(5.6)	(2.0)
Finger Lakes	26.0	26.7	27.3	25.4	25.1	(2.5)	2.8	2.0	(6.7)	(1.2)
Unclassified	10.9	10.4	13.0	10.9	10.1	6.5	(4.4)	25.0	(16.4)	(7.0)
Statewide	519.3	537.0	544.7	501.7	481.9	2.5	3.4	1.4	(7.9)	(4.0)
Trade, Transportation, and Warehousing										
New York City	524.1	539.7	542.0	519.3	529.1	1.9	3.0	0.4	(4.2)	1.9
Long Island	256.3	260.7	259.7	244.6	244.3	(0.3)	1.7	(0.4)	(5.8)	(0.1)
Hudson Valley	171.8	173.3	171.8	163.2	162.2	0.3	0.9	(0.9)	(5.0)	(0.6)
Capital District	88.7	87.5	86.0	82.9	82.1	(0.3)	(1.4)	(1.7)	(3.5)	(1.0)
Mohawk Valley	32.7	33.1	33.2	32.1	31.4	1.2	1.3	0.3	(3.4)	(2.1)
North Country	28.1	28.5	28.6	27.9	27.7	1.6	1.6	0.1	(2.6)	(0.5)
Central New York	67.4	67.7	67.7	64.8	64.0	(1.4)	0.4	0.0	(4.2)	(1.3)
Southern Tier	47.7	48.0	47.6	45.4	45.5	(0.3)	0.7	(0.9)	(4.6)	0.1
Western New York	113.4	114.8	114.5	108.9	108.5	(0.7)	1.3	(0.3)	(4.9)	(0.3)
Finger Lakes	90.6	92.0	91.4	87.7	88.3	(0.6)	1.5	(0.6)	(4.0)	0.6
Unclassified	34.9	32.2	33.8	31.8	30.3	0.7	(7.7)	5.3	(6.0)	(4.6)
Statewide	1,455.5	1,477.5	1,476.3	1,408.6	1,413.5	0.5	1.5	(0.1)	(4.6)	0.3
Information										
New York City	152.9	155.5	156.8	148.4	149.8	1.3	1.7	0.8	(5.4)	0.9
Long Island	28.4	26.9	25.6	26.2	24.0	1.6	(5.4)	(4.6)	2.0	(8.1)
Hudson Valley	22.0	21.4	21.0	19.0	18.5	(3.0)	(3.0)	(1.9)	(9.6)	(2.6)
Capital District	11.8	11.1	10.7	10.5	10.0	(2.8)	(5.6)	(3.5)	(2.3)	(4.8)
Mohawk Valley	3.9	3.5	3.2	3.0	2.8	(9.9)	(10.1)	(8.6)	(4.8)	(6.1)
North Country	2.1	2.1	2.0	1.9	1.9	5.8	0.0	(3.2)	(3.6)	(3.3)
Central New York	6.2	6.1	5.9	5.3	5.1	(6.3)	(2.7)	(3.3)	(8.8)	(3.8)
Southern Tier	4.7	4.6	4.4	4.1	3.9	(1.8)	(3.5)	(3.5)	(6.9)	(3.9)
Western New York	10.0	9.4	9.3	8.9	8.5	(4.2)	(6.5)	(1.1)	(3.4)	(4.6)
Finger Lakes	11.3	10.7	10.5	9.9	9.4	(4.2)	(5.2)	(2.1)	(5.0)	(5.1)
Unclassified	13.4	12.1	12.7	14.3	17.3	(6.7)	(9.3)	5.1	11.9	21.3
Statewide	266.7	263.2	262.1	251.5	251.3	(0.5)	(1.3)	(0.4)	(4.0)	(0.1)

(Cont'd on next page)

REGIONAL EMPLOYMENT TRENDS: 2007-2011 (*cont'd*)										
Region	Employment (000's)					Percent Change				
	2007	2008	2009	2010	2011*	2007	2008	2009	2010	2011*
	Finance and Insurance									
New York City	331.7	341.5	337.8	310.3	305.8	3.1	3.0	(1.1)	(8.1)	(1.4)
Long Island	59.8	59.6	56.6	52.1	52.1	(3.5)	(0.4)	(5.1)	(7.9)	0.1
Hudson Valley	34.8	34.2	32.5	30.4	29.7	2.0	(1.6)	(5.1)	(6.4)	(2.5)
Capital District	22.7	22.3	22.1	21.6	21.3	2.3	(1.8)	(0.9)	(2.3)	(1.4)
Mohawk Valley	8.2	8.2	7.6	7.2	7.1	2.2	(0.1)	(7.4)	(5.5)	(1.9)
North Country	2.9	2.6	2.6	2.5	2.5	3.9	(8.3)	(2.9)	(2.3)	(0.5)
Central New York	14.4	14.6	14.6	13.9	13.5	2.8	1.7	(0.2)	(5.1)	(2.5)
Southern Tier	9.5	9.3	9.2	8.8	8.7	(0.5)	(2.0)	(1.3)	(3.5)	(1.9)
Western New York	29.3	28.0	27.7	26.4	25.6	2.2	(4.4)	(1.4)	(4.7)	(2.8)
Finger Lakes	15.8	15.7	15.3	14.7	14.6	3.0	(0.6)	(2.6)	(3.9)	(0.9)
Unclassified	9.2	7.9	8.8	8.4	6.3	19.9	(13.6)	10.6	(4.0)	(25.7)
Statewide	538.2	544.1	534.6	496.3	487.1	2.3	1.1	(1.7)	(7.2)	(1.9)
	Professional and Business Services									
New York City	548.6	571.4	581.2	549.4	553.8	2.9	4.2	1.7	(5.5)	0.8
Long Island	156.6	158.3	156.7	147.6	146.7	2.5	1.1	(1.0)	(5.8)	(0.6)
Hudson Valley	94.8	96.6	96.1	91.4	91.8	0.4	1.9	(0.5)	(4.9)	0.5
Capital District	57.2	58.3	59.7	56.4	54.9	3.1	1.9	2.4	(5.6)	(2.6)
Mohawk Valley	10.7	10.6	10.6	10.0	9.9	1.4	(0.9)	0.0	(6.1)	(0.7)
North Country	7.5	7.8	7.8	7.1	7.1	6.7	4.5	(0.0)	(9.6)	(0.3)
Central New York	36.0	37.0	36.8	35.5	34.7	0.4	2.7	(0.7)	(3.5)	(2.2)
Southern Tier	22.6	23.2	23.0	21.1	21.7	4.2	2.4	(0.5)	(8.5)	2.9
Western New York	70.0	71.6	74.2	72.6	74.0	2.9	2.3	3.6	(2.1)	1.9
Finger Lakes	60.9	62.1	63.2	60.1	60.9	1.4	2.0	1.8	(5.0)	1.4
Unclassified	36.3	39.0	43.9	43.1	40.4	(6.6)	7.3	12.6	(1.7)	(6.2)
Statewide	1,101.3	1,136.0	1,153.3	1,094.2	1,095.9	2.2	3.2	1.5	(5.1)	0.2
	Education, Health Care, and Social Assistance									
New York City	664.4	675.9	688.6	701.5	714.4	2.3	1.7	1.9	1.9	1.8
Long Island	197.5	203.5	208.6	212.2	222.1	3.1	3.0	2.5	1.7	4.6
Hudson Valley	157.2	161.6	164.8	167.3	170.7	1.6	2.8	2.0	1.5	2.0
Capital District	81.5	83.5	85.2	86.2	87.4	0.1	2.4	2.1	1.2	1.3
Mohawk Valley	30.7	31.8	32.3	33.3	33.5	2.3	3.7	1.7	2.9	0.8
North Country	24.4	24.2	24.2	24.5	25.0	0.1	(1.0)	0.0	1.4	2.1
Central New York	54.3	55.6	56.0	56.2	56.6	1.0	2.3	0.9	0.3	0.8
Southern Tier	58.4	59.0	60.3	60.4	60.9	0.6	1.1	2.2	0.3	0.8
Western New York	94.4	95.1	97.0	99.0	100.3	(0.5)	0.7	2.0	2.2	1.3
Finger Lakes	95.4	97.2	100.7	102.4	104.1	1.1	1.9	3.5	1.7	1.7
Unclassified	4.9	4.4	5.3	5.9	4.8	12.7	(10.2)	20.0	12.6	(19.6)
Statewide	1,463.1	1,491.6	1,522.9	1,549.0	1,579.9	1.8	1.9	2.1	1.7	2.0
	Leisure, Hospitality, and Other Services									
New York City	416.0	435.2	448.3	445.0	460.3	2.2	4.6	3.0	(0.7)	3.4
Long Island	143.3	146.7	147.6	145.0	147.9	1.2	2.4	0.6	(1.8)	2.0
Hudson Valley	106.6	109.7	110.2	107.7	110.3	(0.1)	2.9	0.5	(2.3)	2.4
Capital District	60.5	61.3	62.0	61.4	61.6	0.7	1.3	1.1	(0.9)	0.3
Mohawk Valley	18.2	18.1	18.1	18.0	18.4	(1.0)	(0.6)	(0.2)	(0.6)	2.3
North Country	18.6	19.0	18.9	18.5	18.9	(0.2)	1.9	(0.1)	(2.5)	2.5
Central New York	42.2	43.0	43.5	42.9	43.4	(1.2)	2.1	1.2	(1.4)	1.1
Southern Tier	33.4	33.9	33.8	33.7	34.2	0.6	1.7	(0.3)	(0.3)	1.6
Western New York	78.8	81.1	82.4	82.2	83.4	(0.0)	2.9	1.6	(0.2)	1.4
Finger Lakes	62.3	63.5	63.5	63.4	64.3	(0.3)	1.9	(0.0)	(0.2)	1.5
Unclassified	11.9	11.1	12.0	10.8	9.9	(0.5)	(6.5)	7.4	(10.2)	(7.9)
Statewide	991.7	1,022.7	1,040.3	1,028.4	1,052.7	1.0	3.1	1.7	(1.1)	2.4

* Levels for 2011 are based on the first two quarters of the year; 2011 growth rates are relative to the same period in 2010.
Source: NYS Department of Labor.

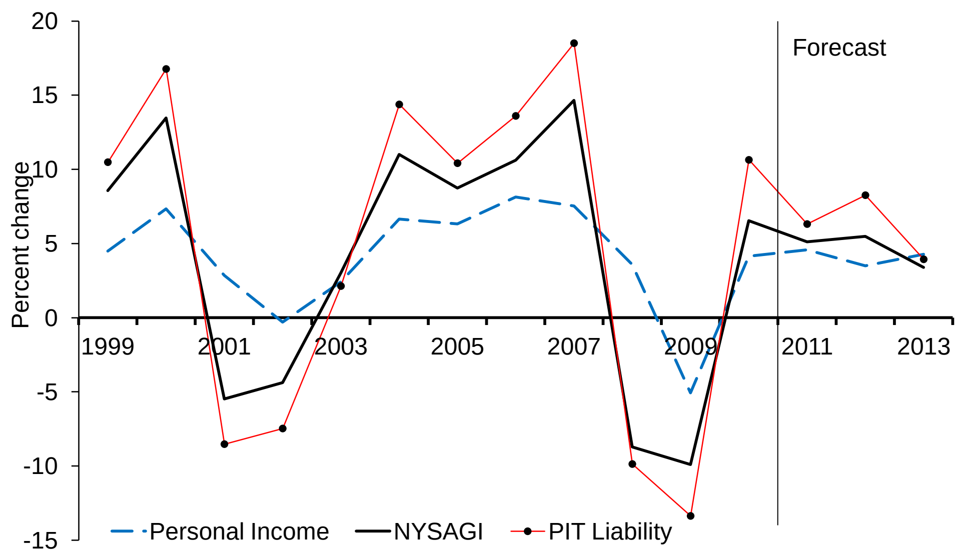
NEW YORK STATE ADJUSTED GROSS INCOME

Receipts from the personal income tax account for almost 60 percent of the State's total tax revenue stream. New York State adjusted gross income (NYSAGI) is the measure of taxable income from which taxpayers' personal income tax liability is computed in conformity with New York State tax laws.[20] Detailed knowledge of the composition of this personal income tax base and its determinants is critical to accurately projecting New York's largest revenue source. At the aggregate level, the components of NYSAGI such as dividend income or capital gains income vary with State and Federal economic indicators. The Budget Division's forecast of the components of personal income forecast will thus depend on the linkages between NYSAGI and the outlook for both the national and State economies.

Following two years of severe declines consistent with national and State recessions that were both more severe and longer than any before, NYSAGI is estimated to experience above average growth of 6.5 percent in 2010 in response to a slow but sustained recovery at the State and national levels. NYSAGI is expected to grow by 5.1 percent for 2011 followed by 6.4 percent for 2012 and 2.5 percent for 2013 (see Table 14).

Figure 62

The Indicators of New York State's Tax Base



Note: Personal income tax (PIT) liability is computed based on 2002 NY State tax law; 2010 liability and NYSAGI data are preliminary.
Source: NYS Department of Taxation and Finance; Moody's Economy.com; DOB staff estimates.

The Major Components of NYSAGI

Budget Division forecasts for the components of NYSAGI are based on detailed historical tax return data from samples of State taxpayers through the 2009 tax year, made available by the New York State Department of Taxation and Finance. For 2010,

[20] Box 11 on page 154 discusses in detail the relationship between three important indicators of the size of the State's personal income tax base, personal income tax liability, NYSAGI, and state personal income.

preliminary processing data based on the entire population of tax returns are used to construct estimates for all of the income components.

Although the measure of taxable wages derived from State tax returns does not precisely match the dollar amount derived from Quarterly Census Employment and Wages (QCEW) data, they tend to follow a similar trend. Therefore, projected growth rates for taxable wages from 2011 onward are based on the forecast of growth for total State wages derived from the Budget Division New York macroeconomic forecast, which is based on QCEW data. For a discussion of the Budget Division forecast for State wages, see "Outlook for State Income" on page 113.[21]

TABLE 14
CHANGES IN NYSAGI AND ITS MAJOR COMPONENTS

	2006	2007	2008	2009	2010*	2011	2012	2013
	Actual				Estimated			
NYSAGI								
Level ($ Billions)	632.6	725.2	662.1	596.5	635.4	668.0	710.6	728.4
Change ($ Billions)	60.7	92.6	(63.2)	(65.6)	39.0	32.5	42.7	17.8
% Change	10.6	14.6	(8.7)	(9.9)	6.5	5.1	6.4	2.5
Wages								
Level ($ Billions)	445.2	485.6	492.9	463.9	482.8	503.4	516.8	542.3
Change ($ Billions)	28.2	40.4	7.3	(29.0)	18.8	20.6	13.4	25.5
% Change	6.8	9.1	1.5	(5.9)	4.1	4.3	2.7	4.9
Capital Gains								
Level ($ Billions)	84.4	118.3	57.0	33.9	48.2	56.7	79.7	63.2
Change ($ Billions)	17.8	33.9	(61.3)	(23.1)	14.3	8.6	23.0	(16.6)
% Change	26.6	40.1	(51.8)	(40.6)	42.2	17.8	40.5	(20.8)
Partnership/S Corporation								
Level ($ Billions)	61.2	70.7	75.8	70.4	66.4	71.1	77.9	88.1
Change ($ Billions)	7.4	9.5	5.1	(5.4)	(4.0)	4.8	6.8	10.1
% Change	13.8	15.5	7.2	(7.1)	(5.7)	7.2	9.5	13.0

Source: NYS Department of Taxation and Finance; DOB staff estimates.
* 2010 Estimates are based on processing data except for wages.

Positive Capital Gains Realizations

NYSAGI growth is highly correlated with the capital gains realizations, both because of the relatively large share of income from positive capital gains realizations and because of the highly volatile nature of this income component. After adding $87.1 billion to New York's taxable income during four years of exceptionally high growth from 2004 to 2007, capital gains realizations eliminated a combined $84.4 billion from NYSAGI between 2007 and 2009, falling 51.8 percent in 2008 and another 40.6 percent in 2009 (see Table 14). Capital gains realizations are expected to have

[21] *New York State Economic, Revenue, and Spending Methodologies*, November, 2011, pp. 54-56, < http://www.budget.ny.gov/pubs/supporting/MethodologyBook.pdf >

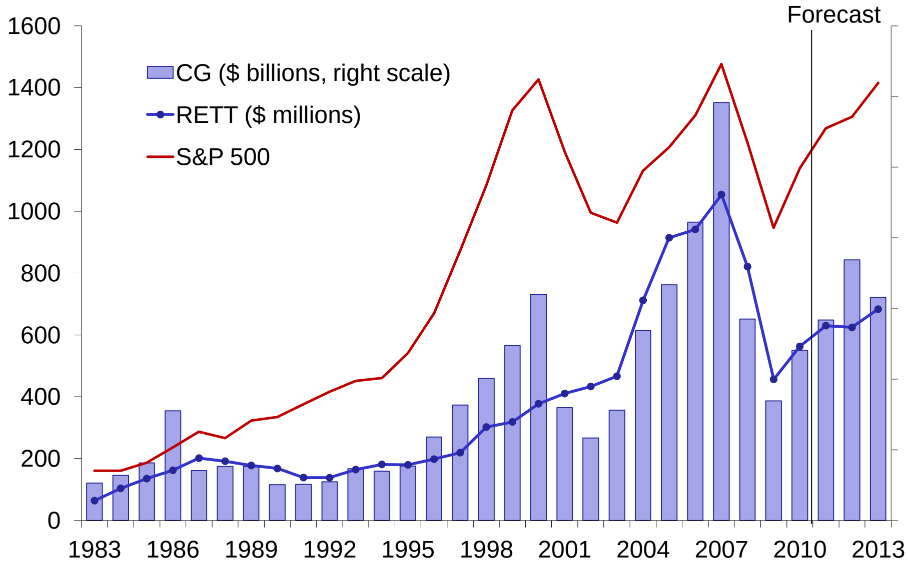
from NYSAGI between 2007 and 2009, falling 51.8 percent in 2008 and another 40.6 percent in 2009 (see Table 14). Capital gains realizations are expected to have experienced strong growth of 42.2 percent in 2010, however, realizations levels remain low and so does its share of NYSAGI. In 2007, capital gains realizations accounted for 16.3 percent of NYSAGI compared to 7.8 percent in 2010. In the context of the ongoing slow recovery of both the national and State economies, the Budget Division estimates 17.8 percent growth in capital gains realizations for 2011. Anticipated increases in the marginal tax rate on capital gains income are likely to move realizations that otherwise would have occurred in 2013 to be realized in 2012 to avoid the higher rate, leading to strong capital gains realization growth of 40.5 percent in 2012 followed by an expected decline of 20.8 percent in 2013.

The Budget Division's forecasting model attempts to capture the inherent volatility in capital gains income by incorporating those factors that are most likely to influence realization behavior, such as expected and actual tax law changes, financial market activity, and real estate market activity.[22] Federal and state taxes on capital gains income constitute a cost associated with the buying and selling of capital assets and, therefore, can greatly affect realization behavior. For example, in anticipation of the tax rate increase from 20 percent to 28 percent as part of the Tax Reform Act of 1986, taxpayers increased realizations by 90.7 percent in 1986, and reduced realizations by 54.6 percent in the following year. Similarly, the 40.5 percent growth predicted for 2012 is in part due to the unlocking of gains in anticipation of both a 3.8 percent Medicare tax surcharge on investment income that is to take effect in 2013, as well as the sunset of the low 15 percent capital gains tax rate established in the Economic Growth and Tax Relief Reconciliation Act of 2001 and thus a return to the 20 percent rate in 2013.

Figure 63 clearly shows how fluctuations in equity markets, as measured by the Standard & Poor 500 index, and real estate markets, as measured by State real estate transfer tax collections help explain the magnitude of the fluctuations in capital gains realizations. Both markets grew strongly between 2003 and 2007, and both markets experienced precipitous declines in 2008 and 2009. While the declines in the S&P 500 in 2008 and 2009 were similar in magnitude to those experienced in the 2001-02 recession, the declines in capital gains realizations in 2001 and 2002 pale in comparison to those experienced in 2008 and 2009. The concurrent collapse of the real estate market clearly contributed to the collapse in capital gains realizations.

[22] For a discussion of the Budget Division's traditional approach to modeling capital gains realizations, see L. Holland, H. Kayser, R. Megna and Q. Xu "The Volatility of Capital Gains Realizations in New York State: A Monte Carlo Study," *Proceedings, 94th Annual Conference on Taxation*, National Tax Association, Washington, DC, 2002, pages 172-183.

Figure 63
Capital Gains Realizations, Real Estate Transfer Taxes and S&P 500 Index



Source: Moody's Economy.com; NYS Department of Taxation and Finance; DOB staff estimates.

Equity markets began to turn around after the first quarter of 2009 and experienced 20.3 percent growth in 2010 on an annual average basis, contributing strongly to the 42.2 percent expected capital gains growth for 2010. On an annual average basis, equity market grew a lower 11.4 percent in 2011, leading to somewhat lower predicted capital gains realization growth of 17.8 percent in 2011.

The health of the real estate market also plays a critical role in determining capital gains realizations. Gains from both residential and commercial real estate transactions are taxable, though gains earned from the sale of a primary home are exempt up to a certain limit, for example, up to $500,000 for married couples filing jointly.[23] California data show that in 2009, 11.3 percent of positive capital gains realizations were generated by real estate transactions. That share has fluctuated from a low of 8.3 percent in 1996, to a high of 32.4 percent in 1990. A study based on national data indicates that in 1993, 22 percent of net capital gains realizations in the U.S. were generated by real estate transactions.[24]

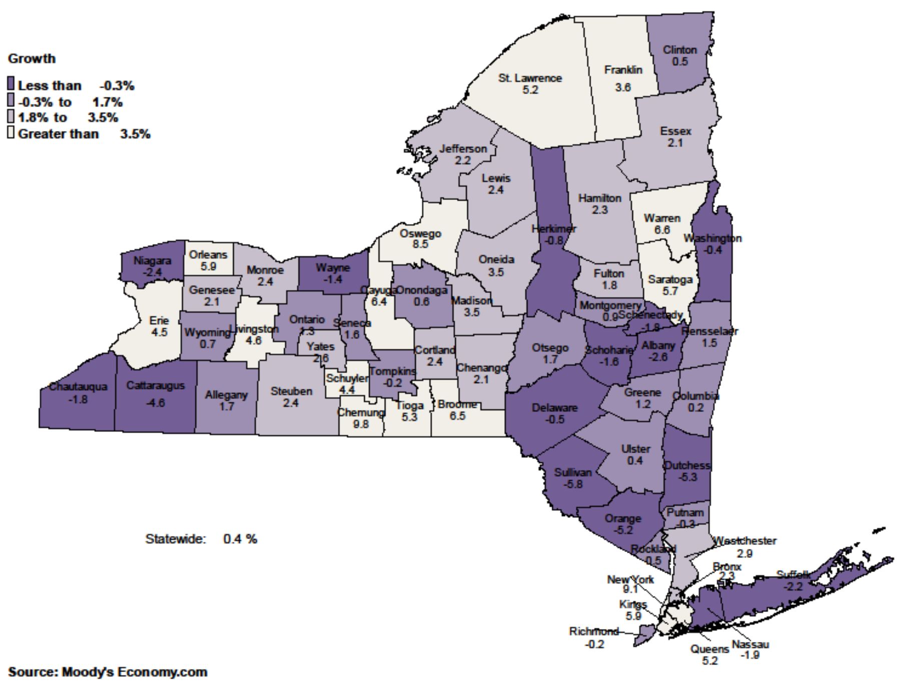
State real estate transfer tax (RETT) data provide a timely indicator of the strength of real estate sales and therefore of the possible impact of the real estate market on taxable gains. After falling 22.1 percent in 2008 and another 44.4 percent in 2009, resulting in a two-year drop of $598 million from the 2007 record level of $1,054, real estate staged a recovery with strong 23.3 percent growth in 2010 followed by 12.0 percent growth in

[23] Taxpayers can claim this exclusion if they have lived in their home for a total of two years within the 5-year period ending on the date they sold or exchanged their home and if they have not sold or exchanged another home within the 2-year period ending on the date they sold or exchanged their home.
[24] L. E. Burman and P. R. Ricoy, "Capital Gains and the People Who Realize Them," *National Tax Journal* 50(3), September 1997, pages 427-451.

2011 (see Figure 63). The recovery of real estate transactions likely contributed to the strong growth in capital gains in 2010 even though, like in the case of equity markets, the 2010 level of RETT cash remains far below their 2007 peak.

Figure 64 shows that, despite the recent growth in RETT collections, the median sales price of existing single-family homes in New York State in the third quarter of 2011 essentially unchanged from the end of the recession in late 2009. In the downstate counties where higher home prices make it more likely that during periods of strong price growth, a sale will generate sufficient capital gains to surpass the exemption threshold, the median sales price of existing single-family homes still declined. While the large declines in home values and sales between 2007 and 2009 in all likelihood contributed to the large declines in taxable capital gains realizations in 2008 and 2009, the residential housing market's contributions to capital gains realization in 2010 were thus most likely insignificant.

Figure 64
Growth in Median Sales Price of Existing Single-Family Homes
2009 Q3 - 2011 Q3



Fluctuating levels of private equity and hedge fund activity and profitability likely explain at least some of the extraordinary growth leading up to 2007 and some of the dramatic declines in 2008 and 2009. Private equity firms own stakes in companies that are not listed on a public stock exchange and generally receive a return on their investment through a sale or merger of the company, a recapitalization, or by selling shares back to the public through an initial public offering. The returns on private equity investments are often not realized for several years, but the rate of return is generally high relative to returns on publicly held stocks to compensate for the higher degree of risk and the value added through the extraction of operating efficiencies. Though related to the performance of equity markets and real estate markets, capital gains from private equity funds exhibit their own dynamics.

Private equity funds hit hard times in the recent past, both in terms of fund-raising activity and in terms of deals and returns. According to data provider Private Equity Intelligence Ltd., or Preqin, the global volume of capital raised by the private equity firms fell 65 percent in 2009, with the average fund size decreasing by 13 percent. The private equity sector appeared to have turned the corner in 2010, recording the highest quarterly figure on record in the fourth quarter of 2010. Preqin reports that private equity firms saw a more than doubling of the value of announced buyout deals, and that deal flows in North America were up 130 percent from 2009 and 35 percent from 2008. However, private equity performance in 2011 trailed that of 2010.

Hedge fund performance depends on relatively easy access to borrowed funds with which to leverage and on healthy financial institutions with which to trade. Consequently, these entities experienced serious difficulties when the financial crisis made leveraging all but impossible in 2008. Hedge funds around the world recorded record losses in 2008, leading investors to withdraw a record $155 billion worth of investments, and to a large number of fund liquidations. Hedge funds had much better years in 2009 and 2010. Eurekahedge's North American Hedge Fund Index increased 23.6 percent in 2009, following a 9.0 percent drop in 2008, and in 2010, the average hedge fund performance was up 10.4 percent, according to Hedge Fund Research Inc. However, 2011 turned out to be a challenging year for hedge funds with the typical hedge fund losing 4.1 percent over 2010.

There are both downside and upside risks to the forecast for capital gains realizations. Poor performances of private equity and hedge fund firms may mean lower capital gains realizations in 2011 than the 17.8 percent we currently estimate based on the moderate year-over-year growth in real estate and equity market transactions. Downward pressure on equity markets from a worsening of the European Sovereign Debt crisis could have a large negative effect on realizations in 2012. On the other hand, increases in the marginal tax rate on capital gains realizations from the Medicare tax surcharge and the sunset of the low rates established in the Economic Growth and Tax Relief Reconciliation Act of 2001 may result in a much larger shift of realizations from 2013 to 2012 and hence much higher realizations growth in 2012 than currently predicted.

Rent, Royalty, Partnership, and S Corporation Gains

After 7.2 percent growth in 2008, rent, royalty, estate, trust, partnership and S corporation income fell by 7.1 percent in 2009, and is expected to fall another 5.7 percent in 2010. Consistent with an economy on a rebound and an upswing in equity markets, DOB estimates a brighter future for partnership and S corporation income with 7.2 percent growth for 2011, followed by growth of 9.5 percent for 2012 and 13.0 percent for 2013.

The largest contributor to this component is partnership income, much of which originates within the finance and real estate industries. A second large contributor is income from S corporation ownership. Selection of S corporation status allows firms to pass earnings through to a limited number of shareholders and to avoid corporate taxation while still enjoying limited liability as afforded by corporate status. New York State taxable partnership and S corporation income grew at a rate of 10.7 percent between 1980 and 2010, faster than the average annual rate of 6.4 percent for New York proprietors' income, as defined under NIPA and which includes partnership, S corporation, and sole proprietorship income.

At the Federal level, partnerships and S corporations are the first and second fastest growing business entity forms, according to IRS Statistics of Income (SOI) data. Between 1997 and 2007, the latest year for which SOI data are available, the number of S corporations grew 62.7 percent while the number of partnerships grew 76.1 percent.

Growth in income from Partnership and S corporations is linked to both the economy and financial markets. Strong growth in this component from 2004 to 2007 coincided with the exceptional performance of financial markets and robust national economic growth. When equity markets fell and the economy contracted in 2008, growth in partnership and S corporation gains slowed to less than half of the prior year's rate. In 2009, partnership and S-corporation income fell, consistent with anemic GDP growth and equity market prices considerably below their 2007 peaks. Partnership and S corporations continue to perform poorly in 2010 despite strength in equity markets and slow growth in GDP. Losses from Partnership and S corporations also fell substantially both years but particularly in 2010, suggesting that the declines in Partnership and S corporations gains may be affected by the exit of large numbers of struggling partnerships and S corporations. By 2011, we expect this downward momentum to end and Partnership and S corporation gains to return to positive growth of 7.2 percent in 2011, 9.5 percent in 2012 and 13.0 percent in 2012, consistent with a recovery in national economic growth.

The Budget Division's partnership and S corporation income forecast contains both upside and downside risks. The real estate market is not captured independently in the forecast model. Since there is a high concentration of real estate partnerships in New York State, a better than predicted real estate market as the employment situation improves and foreclosures start winding down could lead to higher than expected partnership and S corporation gains. Downside risks are associated with the poor performance in 2011 by hedge fund and private equity firms, some of which are partnerships, as well as a possible spill-over of the European Sovereign Debt Crisis to the American economy.

Dividend Income

Following declines of 8.4 percent in 2008 and 28.7 percent in 2009, taxable dividends are estimated to have rebounded nicely with 11.3 percent growth in 2011. In line with relatively low but sustained economic growth in 2012 and 2013, the Budget Division predicts 6.4 percent growth in 2012, and 5.5 percent in 2013.

Taxable dividend income is expected to rise and fall with U.S. dividend income, a component of the NIPA definition of U.S. personal income, long-term interest rates as represented by the 10-year Treasury yield, the performance of equity markets, and an indicator for when the State is in a recession. Fluctuations in New York State taxpayers' dividend income have ranged from an estimated decline of 32.0 percent in 2009 to an increase of 26.6 percent in 2004. Taxable dividends thus prove much more variable than U.S. dividend income. While State taxable dividend income grew at an average annual rate of 6.0 percent with a standard deviation of 12.7 percentage points between 1976 and 2010, U.S. dividend income grew an average 9.9 percent annually with a standard deviation of 9.4 percentage points over the same period.

Dividend income experienced four years of growth in excess of 20 percent between 2004 and 2007, where the strong growth in 2004 reflects a number of one-time dividend payouts, most notably the $32 billion dividend distribution by Microsoft. For all four years, strong economic growth and a lower tax rate for dividend income that took effect with the implementation of JGTRRA in June 2003 contributed to its strong showing. The declines in dividend income for 2008 and 2009 are consistent with the reduction or cancellation of dividend payouts by many struggling corporations during the long and severe recession. Processing data for 2010 suggest that firms have started paying dividends again as corporate profits and equity gains soared. With a much more muted equity market performance in 2011 and continued slow economic growth for 2011, DOB forecasts single-digit growth of 6.4 percent for 2011, followed by 5.5 percent for 2012. starting with 2010. DOB expects taxable dividend income to reach its 2007 in 2015.

Interest Income

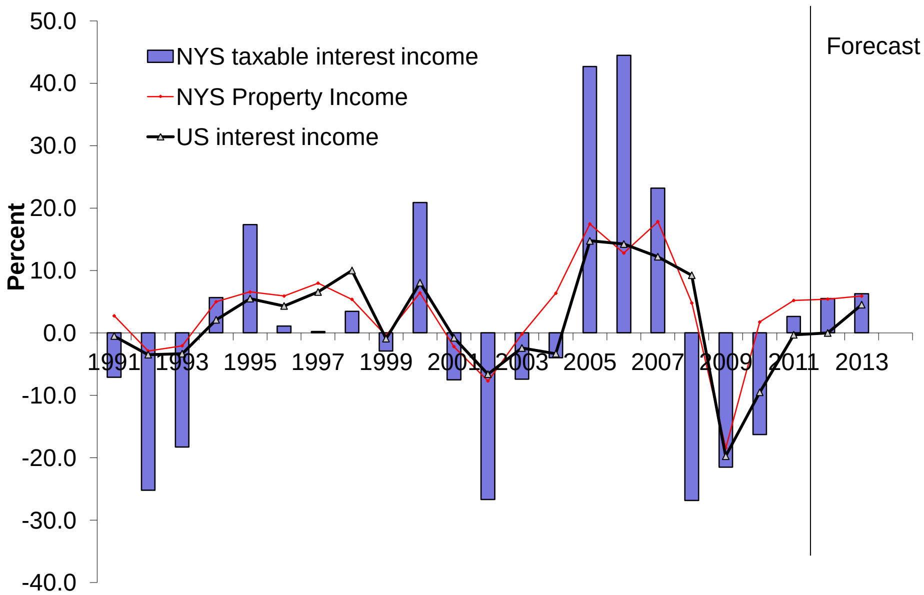
Taxable interest income fell 26.8 percent in 2008 and 21.5 percent in 2009. DOB estimates that this income component will have fallen further by 16.3 percent in 2010 before experiencing slow growth of 2.6 percent in 2011. Interest income is predicted to pick up speed as the economy improves with 5.5 percent growth in 2012, 6.3 percent in 2013. We expect strong growth of 14.8 percent in 2013.

For a given amount of assets, an increase in interest rates will increase interest income. In addition, New York property income, a component of the NIPA definition of state personal income that includes interest income, is found to be a good indicator of the trend in taxable interest income for New York, although it is much less volatile. Taxable interest income for New York is also much more volatile than U.S. interest income, a component of the NIPA definition of U.S. personal income (see Figure 65). For the period from 1977 to 2010, the average growth rate for New York property income was 6.5 percent, with a standard deviation of 8.2 percentage points, and the average growth rate for U.S. interest income was 6.4 percent, with a standard deviation of 9.9 percentage points. In contrast, State taxable interest income averaged 4.4 percent growth over the same period, with a standard deviation of 18.5 percentage points. The additional volatility in this component of NYSAGI could be related to the behavioral response of State taxpayers to past changes in the tax law.

The remarkable growth in New York State taxpayers' interest income between 2004 and 2007 reflects a rebound from four years of declines between 2001 and 2004 due to the sharp drop in interest rates. The low interest rates were engineered by the Federal Reserve as the national economy was suffering the impact of the 2001 recession, the attacks of September 11, and their aftermath. In response to the latest severe recession, the Federal Reserve ushered in a new round of interest rate cuts starting in the second half of 2007. With the federal funds rate falling to close to zero and staying low from 2008 to the present, taxable interest income for 2008, 2009, and 2010 experienced large declines. Though the Budget Division expects the Federal Reserve to keep rates toward low until 2013, New York property income is expected to pick up momentum, leading to slow predicted growth for 2011 and 2012. As the federal fund rate start to increase in conjunction with growing New York property income, interest income is predicted to grow at a rate of 14.8 percent in 2013.

Figure 65

Interest Income



Source: Moody's Economy.com; NYS Department of Taxation and Finance; DOB staff estimates.

Small Business and Farm Income

After a rather large decline of 6.7 percent in 2008, small business and farm income has remained largely unchanged for two years with 0.7 percent growth in 2009 and a predicted 1.1 percent growth in 2010. The contraction of credit as a result of the financial crisis was particularly hard for small businesses for which credit is particularly critical. Because small businesses historically have a higher failure rate, small-business lending is the highest-risk lending for banks and thus the first to go as economic conditions worsen. In an environment of tight credit, obtaining loans to maintain or grow activity has been difficult for many small businesses. As credit is becoming more available in a slow but sustained economic recovery, the Budget Division estimates moderate growth of 5.1 percent for 2011, followed by 5.1 percent for 2012, and 6.5 percent in 2013.

Small business and farm income combines income reported as a result of operating a business, practicing a profession as a sole proprietor, or operating a farm. Such income is expected to vary with the overall strength of the national and State economies. The inclusion in the model of State proprietors' income, a component of the NIPA definition of New York personal income, insures consistency between the Budget Division's New York forecast and the forecast of this component of NYSAGI. Real U.S. GDP captures the impact of the national business cycle beyond what is captured by State proprietors' income.

Small business and farm income growth has shrunk over the years. While it grew at an annual rate of 11.5 percent from 1980 to 1990, since 1991 this component of income has only grown at an annual average rate of 4.6 percent. Proprietors' income, as defined under NIPA, experienced similar changes in growth, growing at annual average rates of 11.1 percent prior to 1990 and 5.2 percent thereafter.

Risks to the forecast of business income are closely linked to the risks to the economic forecast as sole proprietors' income responds strongly to GDP growth.

Pension Income

Pension income grew 9.9 percent in 2010, following a small decline of 0.5 percent in 2008 and 3.5 percent growth in 2009. The Budget Division estimates 2.1 percent growth for 2011, 3.5 percent in 2012, and 2.7 percent in 2013.

Pension income includes payments from retirement plans, life insurance annuity contracts, profit-sharing plans, military retirement pay, and employee savings plans. Pension income is linked to prior year long-term interest rates, suggesting that firms base the level of pension and life-insurance benefits they offer to employees on their expectations of future profitability, which is in turn tied to the future strength of the economy. Pension income has grown steadily over the years, although the growth rate has declined considerably over time. While the average annual growth rate between 1980 and 1990 was 12.6 percent, it fell to 6.6 percent between 1991 and 2010. This coincides with a decline in the average 10-year Treasury yield from 10.6 percent in the former period to 5.4 percent in the latter. Both declines are likely the result of lower inflation rates in the later period.

Long-term Treasury yields were exceptionally low in 2008 and 2009 as a result of exceptionally low federal funds rates and the flight to safety engendered by the financial crisi. The federal fund rate is expected to remain low through 2012 and expected to increase in 2013. The risks to the forecast in pension income are thus related to the risks to long-term interest rates. If the Federal Reserve Board keeps the federal funds rate low longer than anticipated, pension income will likely be lower as well.

Changes in the State Distribution of Income and Revenue Risk

As indicated in Figure 62 on page 144, NYSAGI exhibits more volatility than other indicators of the State's tax base, such as State personal income, while tax liability is more volatile still. Box 11 compares these three important indicators of the size of the State's personal income tax base and discusses their respective volatilities.

BOX 11
INCOME TAX LIABILITY AND ALTERNATIVE MEASURES OF INCOME

A major focus of the Budget Division's forecasting effort is an accurate projection of personal income tax receipts. This requires estimates of income tax liability, which depends on taxpayer income. New York State tax law determines the components of income to be taxed and the corresponding tax rates.

Personal income tax liability is the amount which State taxpayers actually owe for a given tax year and thus measures the State's tax base.[1] Personal income tax liability is derived from taxpayers' New York State adjusted gross income (NYSAGI), in conformity with State tax law. A measure that is closely related to NYSAGI is State personal income, a U.S. Bureau of Economic Analysis national income and product accounts (NIPA) concept that measures income derived from value added to current production.[2] This widely available data source is often used as a proxy for NYSAGI. The relative volatility of personal income tax liability, NYSAGI, and State personal income, is presented in Figure 62 on page 144. For example in 2010, personal income grew 4.1 percent, while NYSAGI grew a stronger 6.5 percent and personal income tax liability at constant law grew an even stronger 10.6 percent.

Economists use the concept of elasticity to measure the sensitivity of one economic indicator to another. Elasticity is defined as the percentage change in one economic indicator when another changes by one percent. Since tax revenues tend to vary with the business cycle, we are often interested in the elasticity of the tax base with respect to a broad measure of economic conditions, such as GDP. The more sensitive a particular tax base measure is to a change in GDP, the higher the elasticity.

Typically, the elasticity of NYSAGI tends to be higher than that of personal income because NYSAGI measures the taxable components of income, which include realized capital gains and losses. Gains and losses earned on changes in asset prices are not included in the NIPA concept of personal income since they do not represent changes to the value of current production.[3] Unlike the primary drivers of personal income – employment and wages, which have relatively stable bases – income from capital gains realizations can rise and fall dramatically. In an asset market downturn such as in 2008, for example, taxpayers can refrain from selling, causing a 51.8 percent decline in capital gains realizations. In addition to behavioral responses to changes in market conditions, NYSAGI fluctuations can result from statutory changes and taxpayers' strategic responses to such changes. We expect taxpayers to realize capital gains and pay compensation early to avoid higher tax rates in 2013, shifting taxable income from 2013 to 2012.

Personal income tax liability is even more elastic than NYSAGI, primarily because of the progressivity of the State tax system. The volatile components of taxable income, such as bonuses and capital gains realizations, tend to be concentrated among the State's high-income taxpayers, who are also taxed at the highest marginal tax rate. As the more volatile income components respond strongly to changing economic conditions, the effective or average tax rate changes. Furthermore, as incomes rise, some taxpayers move into higher income tax brackets, increasing the effective tax rate and the amount of liability generated from a given amount of adjusted gross income. The opposite occurs as incomes fall. For example, the average effective tax rate fell from a high of 4.81 percent in 2000 to a low of 4.51 percent in 2002 without any significant changes in tax law. This impact is exacerbated in New York by provisions in State laws that recapture the benefits of portions of income being taxed at lower rates for high income taxpayers.

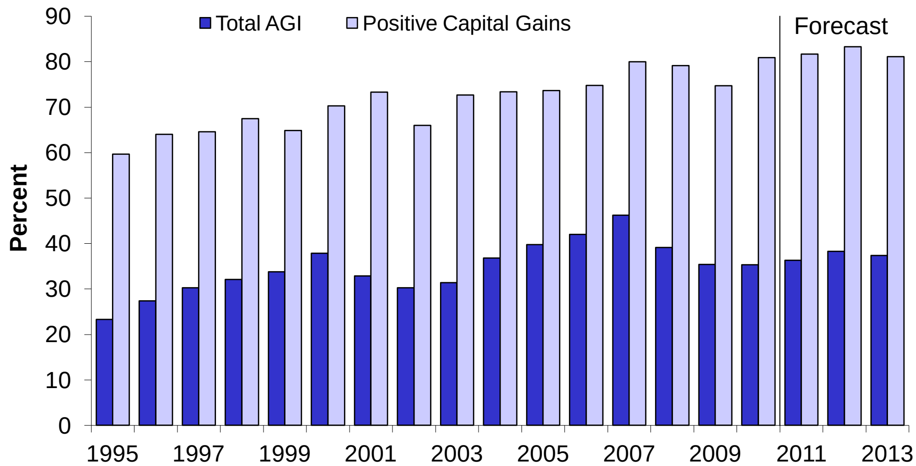
The fact that the most volatile components of income can and have accounted for a large portion of the change in NYSAGI poses significant risks to the Division of the Budget's personal income tax forecast.[4] Therefore, the Budget Division has consistently maintained that a cautious approach to projecting these components is warranted.

[1] For a detailed discussion of personal income tax liability, see Tax Receipt Section "Personal Income Tax."
[2] For a detailed explanation of how the Budget Division constructs State personal income, see **Box 8** on page 115.
[3] However, any transaction cost generated by such a sale would add value to current production and would therefore be included in personal income.
[4] For a detailed explanation of the Budget Division's use of fan charts to compute prediction intervals around forecasts, see *New York State Economic, Revenue and Spending Methodologies*, November 5, 2009, pp. 55-58, <http://www.budget.state.ny.us/pubs/supporting/MethodologyBook.pdf>.

The most volatile components of taxable income, such as bonuses and capital gains realizations, are highly concentrated among the State's highest-income taxpayers. While the top one percent of taxpayers, as determined by their NYSAGI, accounted for 46.2 percent of adjusted gross income in 2007, they accounted for fully 80.0 percent of capital gains realizations (see Figure 66). Since the income of wealthy taxpayers is taxed at the highest rate, an accurate projection of these income components is critical to an accurate projection of personal income tax liability.

Figure 66

Income Shares of the Top One Percent Taxpayers AGI and Capital Gains Realizations

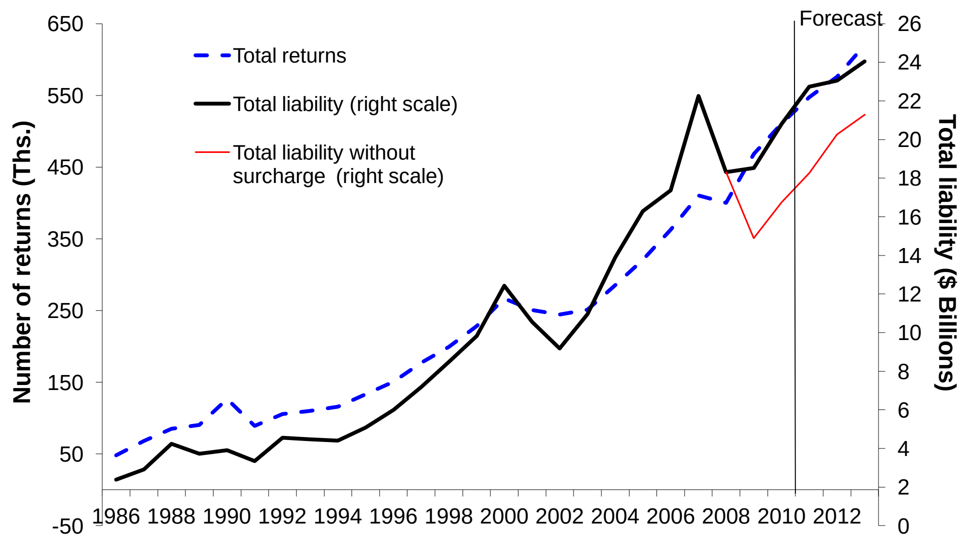


Note: For nonresident taxpayers, shares are based on total income; 2010 data are preliminary based on processing information.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

Between 1995 and 2007, the number of returns generated by high-income taxpayers – those reporting NYSAGI of $200,000 or more – grew substantially at an average annual rate of 16.9 percent. During the same period, the liability generated by these taxpayers grew even more rapidly at an annual average rate of 27.0 percent (see Figure 67). However, while the number of returns of high-income taxpayers is predicted to have increased another 24.4 percent between 2007 and 2010, their liability is predicted to have fallen by 6.4 percent and would have fallen 24.7 percent were it not for an increase in the State's top income tax rate from 6.85 percent to 8.97 percent. [25] The large decline in NYSAGI and capital gains realizations partially unwound the growth in the concentration of income, at least temporarily. While high-income taxpayers' share of returns is estimated to have increase from 4.2 percent in 2007 to 5.3 percent in 2010, their share of liability dropped from 63.2 percent to 60.3 percent and would have fallen to 55.0 percent without the tax increase (see Figure 68).

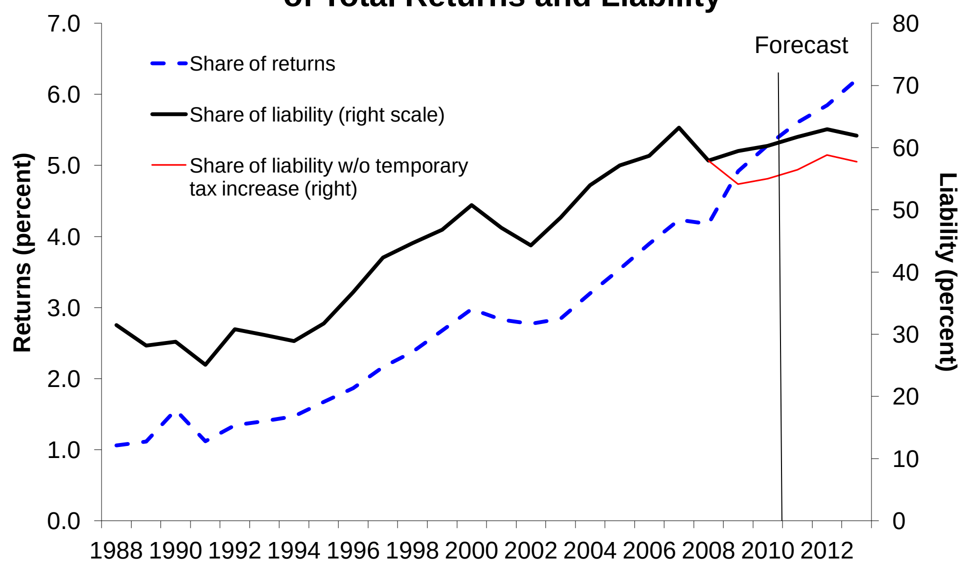
[25] See the "Personal Income Tax" section for more detail on the temporary income brackets and tax rates.

Figure 67
New York State High-Income Tax Returns



Note: High-income taxpayers are those reporting NYSAGI of $200,000 or more.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

Figure 68
High-Income Taxpayers as Percent of Total Returns and Liability



Note: High-income taxpayers are those reporting NYSAGI of $200,000 or more.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

Table 15 shows the increasing concentration of income and liability over the ten-year span from 1999 to 2009. The share of nonwage income accruing to the top 25 percent of taxpayers grew 4.4 percentage points between 1999 and 2009, while the wage share grew 2.8 percentage points. Much of the growth in nonwage income during those years was in capital gains realizations and partnership and S corporation income, which tend to accrue primarily to high-income filers. Although wage income is more evenly distributed across taxpayers than nonwage income, the gains in wages earned since 1999 have gone disproportionately to the top filers.

The large declines in capital gains income in a recession driven by the collapse of financial and real estate markets had a disproportionate impact on the top filers. Compared to the peak year of 2007, the share of non-wage income accruing to the top 25 percent of taxpayers was 2.6 percentage points lower in 2009. The greatest decline was experienced by the top 1 percent of taxpayers, whose share fell 8.5 percentage points in just two years. The 2010 tax year saw improvements in nonwage income and wages that can be expected to increase the wage and nonwage income shares of the top filers.

TABLE 15
THE CONCENTRATION OF STATE INCOME AND LIABILITY
1999, 2007 and 2009

	Number of Returns	Gross Income	Wage Income	Nonwage Income	Liability
		1999			
Total ($ in millions)	8,532,282	$480,345	$328,851	$151,494	$20,977
Share: Top 1%	–	25.4	15.8	46.2	35.5
Share: Top 5%	–	40.8	30.4	63.2	55.3
Share: Top 10%	–	51.1	42.0	70.8	66.6
Share: Top 25%	–	70.8	65.0	83.4	84.8
		2007			
Total ($ millions)	9,700,043	$778,402	$485,565	$292,837	$35,217
Share: Top 1%	–	34.4	19.5	59.2	46.4
Share: Top 5%	–	49.7	35.4	73.3	65.1
Share: Top 10%	–	59.2	46.7	79.8	75.2
Share: Top 25%	–	76.7	68.5	90.4	90.2
		2009			
Total ($ in millions)	9,524,621	$646,935	$463,939	$182,995	$31,168
Share: Top 1%	–	25.8	15.9	50.7	42.6
Share: Top 5%	–	41.6	32.3	65.2	61.5
Share: Top 10%	–	52.6	44.7	72.6	72.6
Share: Top 25%	–	73.5	67.8	87.8	89.5

Note: Returns are ranked on the basis of gross income and based on a weighted statistical sample of all tax returns in the State.

Source: NYS Department of Taxation and Finance; DOB staff estimates.

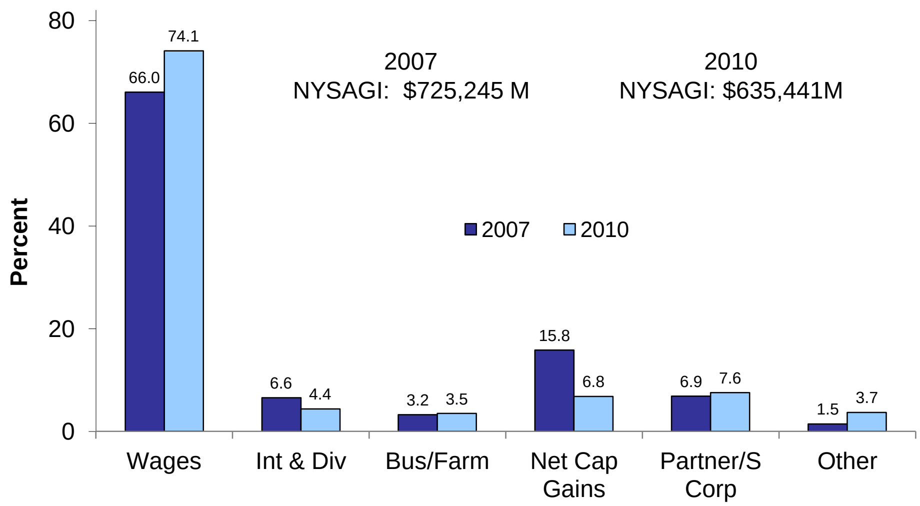
Figure 69 and Figure 70 display the estimated composition of NYSAGI for 2007 and the projected composition for 2010, both for all taxpayers and for high-income taxpayers, defined as those reporting NYSAGI of $200,000 or more. The figures show a substantial shift in income from net capital gains realizations to wages and partnership/S corporation income over the three-year period.[26] With a 12.6 percent decline in NYSAGI over the

[26] Net capital gains and partnership/S corporation income in these figures are net of the corresponding aggregate losses.

three years for all taxpayers, the share of capital gains income net of capital gains losses is projected to fall from 15.8 percent to 6.8 percent of NYSAGI, and the share of wages to increase from 66.0 percent to 76.7 percent.

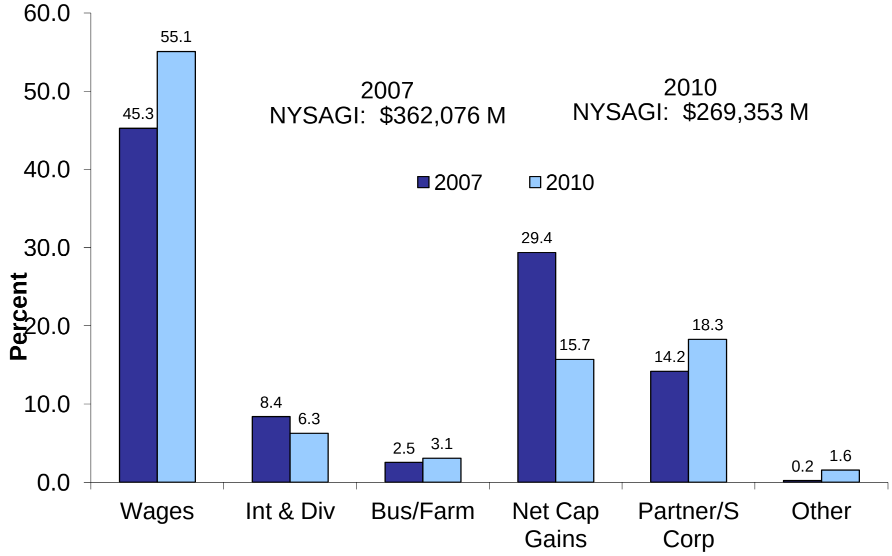
High-income taxpayers are expected to experience a much larger 25.6 percent decline in NYSAGI over the three years from 2007 to 2010 and see capital gains net of losses drop as a share of their total NYSAGI from 29.4 percent to 15.7 percent. Wages as a share of total NYSAGI are expected to increase from 45.3 percent to 55.1 percent for high-income taxpayers, while net partnership/S corporation income is expected to grow from 14.2 percent to 18.3 percent of NYSAGI. High-income taxpayers have a much higher concentration of capital gains income and partnership/S corporation income, and a much smaller concentration of wage income.

Figure 69
Composition of NYSAGI for All Taxpayers



Note: Both capital gains and partnership/S corporation gains income are net of losses.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

Figure 70
Composition of NYSAGI for High-Income Taxpayers



Note: Both capital gains and partnership/S corporation gains income are net of losses.
High-income taxpayers are those reporting NYSAGI of $200,000 or more.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

Summary

The Budget Division's forecast for the personal income tax provides a balanced picture of upside and downside risks, particularly with respect to its most volatile components. As forecasts of the components of New York State's adjusted gross income are consistent with economic indicator variables from the Budget Divisions macroeconomic forecasting models, much of the risk to the personal income tax are the same as the risks to the New York and national economies. However, because of the prominence of bonus income and capital gains realizations in taxable income, the risks and uncertainties are heightened and, as a consequence of the progressive tax system, even more so for personal income tax revenues.

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SELECTED ECONOMIC INDICATORS
(Calendar Year)

	2010 (actual[1])	2011 (estimate)	2012 (forecast)	2013 (forecast)	2014 (forecast)	2015 (forecast)	1977-2010 Average[2]
U.S. Indicators[3]							
Gross Domestic Product (current dollars)	4.2	3.9	4.1	5.3	6.1	5.9	6.3
Gross Domestic Product	3.0	1.7	2.2	2.9	3.6	3.3	2.8
Consumption	2.0	2.2	2.0	2.7	3.5	3.2	3.0
Residential Fixed Investment	(4.3)	(1.7)	6.2	11.3	16.2	13.5	1.0
Nonresidential Fixed Investment	4.4	8.8	8.3	8.1	7.5	5.7	4.5
Change in Inventories (dollars)	58.8	26.5	45.1	46.2	44.4	42.5	25.1
Exports	11.3	6.8	4.0	6.9	8.0	7.1	5.8
Imports	12.5	4.8	3.4	5.1	6.6	6.9	6.1
Government Spending	0.7	(2.0)	(1.1)	(1.0)	(0.2)	1.1	2.1
Corporate Profits[4]	32.2	7.9	4.7	5.6	5.2	5.8	8.0
Personal Income	3.7	4.7	3.4	4.0	5.9	5.7	6.5
Wages	2.2	3.5	3.2	4.7	5.3	5.4	6.0
Nonagricultural Employment	(0.7)	1.0	1.3	1.7	1.9	2.0	1.5
Unemployment Rate (percent)	9.6	9.0	8.6	8.2	7.6	7.1	6.3
S&P 500 Stock Price Index	20.3	11.4	2.9	8.4	4.4	3.3	8.3
Federal Funds Rate	0.2	0.1	0.1	0.8	2.9	4.3	6.0
10-year Treasury Yield	3.2	3.3	2.4	3.2	4.3	5.2	7.2
Consumer Price Index	1.6	3.2	1.8	2.1	2.1	2.3	4.1
New York State Indicators							
Personal Income[5]	4.1	4.5	3.3	4.3	5.8	5.4	6.0
Wages and Salaries[5]							
Total	4.4	3.8	1.9	4.9	4.9	4.8	5.6
Without Bonus[6]	2.2	3.6	4.0	4.7	4.8	4.7	5.3
Bonus[6]	20.7	5.2	(11.0)	6.3	6.1	5.9	9.9
Finance and Insurance Bonuses[6]	23.8	3.0	(23.7)	7.3	7.5	7.2	15.4
Wage Per Employee	4.3	2.8	0.9	3.9	3.9	4.0	4.9
Property Income	1.7	5.2	5.4	5.9	7.1	7.1	6.5
Proprietors' Income	9.9	6.3	5.7	7.3	8.0	7.5	7.4
Transfer Income	5.1	1.7	2.7	4.1	5.9	5.0	6.6
Nonfarm Employment[5]							
Total	0.1	1.1	1.0	1.0	1.0	0.8	0.7
Private	0.2	1.9	1.4	1.2	1.0	0.9	0.7
Unemployment Rate (percent)	8.6	7.9	7.6	7.1	6.6	6.2	6.5
Composite CPI of New York[6]	1.7	3.0	2.0	2.2	2.3	2.4	4.1
New York State Adjusted Gross Income (NYSAGI)							
Capital Gains	42.2	17.8	40.5	(20.8)	3.2	14.3	14.8
Partnership/ S Corporation Gains	(5.7)	7.2	9.5	13.0	10.0	9.7	11.1
Business and Farm Income	1.1	5.0	5.1	6.5	7.7	7.9	6.8
Interest Income	(16.3)	2.6	5.5	6.3	14.8	12.6	5.0
Dividends	11.3	6.4	5.5	7.1	7.7	7.0	5.7
Total NYSAGI	6.5	5.1	6.4	2.5	5.1	6.0	5.5

[1] For NYSAGI variables, 2010 is an estimate.
[2] Averages for NYSAGI variables are based on data through 2009. Partnership and S corporation gains data start in 1978, NYSAGI and Business and Farm data in 1980.
[3] All indicators are percent changes except change in inventories, the unemployment rate, and interest rates; all GDP components refer to chained 2005 dollars, unless otherwise noted.
[4] Includes inventory valuation and capital consumption adjustments.
[5] Nonagricultural employment, wage, and personal income numbers are based on CEW data.
[6] Series created by the Division of the Budget.
Source: Moody's Analytics; NYS Department of Labor; NYS Department of Taxation and Finance; DOB staff estimates.

SELECTED ECONOMIC INDICATORS
(State Fiscal Year)

	2010-11 (actual)	2011-12 (estimate)	2012-13 (forecast)	2013-14 (forecast)	2014-15 (forecast)	2015-16 (forecast)	1977-78 - 2010-11 Average
U.S. Indicators[1]							
Gross Domestic Product (current dollars)	4.6	3.9	4.3	5.6	6.1	5.9	6.3
Gross Domestic Product	3.0	1.7	2.4	3.2	3.6	3.2	2.8
Consumption	2.5	1.9	2.1	3.0	3.5	3.1	3.0
Residential Fixed Investment	(3.3)	0.2	7.2	13.2	15.9	12.5	0.8
Nonresidential Fixed Investment	8.2	8.7	8.0	8.1	7.1	5.4	4.5
Change in Inventories (dollars)	61.1	23.3	47.7	45.8	43.6	42.6	25.2
Exports	10.8	5.6	4.4	7.4	8.0	6.9	5.9
Imports	13.2	3.0	4.1	5.4	6.9	6.8	6.0
Government Spending	0.1	(2.0)	(1.0)	(0.9)	0.1	1.3	2.1
Corporate Profits[2]	22.6	7.3	4.5	5.5	5.3	6.0	8.0
Personal Income	4.8	3.9	3.7	4.6	6.0	5.7	6.5
Wages	3.2	3.1	3.6	5.0	5.3	5.5	6.0
Nonagricultural Employment	0.2	1.1	1.4	1.8	1.9	2.0	1.5
Unemployment Rate (percent)	9.4	8.9	8.5	8.0	7.5	7.0	6.3
S&P 500 Stock Price Index	15.6	6.2	6.2	7.4	3.8	3.4	8.3
Federal Funds Rate	0.2	0.1	0.2	1.2	3.3	4.5	6.0
10-year Treasury Yield	3.2	2.4	2.6	3.4	4.5	5.4	7.2
Consumer Price Index	1.6	3.2	1.7	2.1	2.2	2.3	4.0
New York State Indicators							
Personal Income[3]	5.2	2.5	4.6	4.6	5.8	5.3	6.0
Wages and Salaries[3]							
Total	5.4	0.5	4.6	5.0	4.9	4.8	5.6
Without Bonus[4]	3.7	3.3	4.3	4.8	4.8	4.6	5.3
Bonus[4]	16.9	(16.4)	6.3	6.2	6.0	5.9	9.5
Finance and Insurance Bonuses	19.3	(31.8)	7.4	7.2	7.4	7.0	15.7
Wage Per Employee	4.6	(0.5)	3.5	3.9	3.9	4.0	4.9
Property Income	4.3	5.4	5.6	6.1	7.3	7.0	6.6
Proprietors' Income	11.2	5.2	6.1	7.7	7.9	7.4	7.5
Transfer Income	3.5	1.5	3.2	4.4	5.9	4.7	6.6
Nonfarm Employment[3]							
Total	0.7	1.0	1.0	1.0	0.9	0.8	0.6
Private	1.1	1.8	1.3	1.1	1.0	0.9	0.7
Unemployment Rate (percent)	8.3	7.9	7.5	7.0	6.4	6.2	6.5
Composite CPI of New York[4]	1.7	3.2	1.8	2.2	2.3	2.4	4.2

[1] All indicators are percent changes except change in inventories, the unemployment rate, and interest rates; all GDP components refer to chained 2005 dollars, unless otherwise noted.

[2] Includes inventory valuation and capital consumption adjustments.

[3] Nonagricultural employment, wage, and personal income numbers are based on CEW data.

[4] Series created by the Division of the Budget.

Source: Moody's Analytics; NYS Department of Labor; DOB staff estimates.

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

An important consideration in tax policy decisions in New York State, and by extension in setting Budget priorities, is the position of the State in terms of state and local tax rates and bases relative to other states.

An emphasis on tax reduction in New York over much of the past thirty years has modestly reduced the disparity between New York State tax rates and burdens and those of the rest of the nation. However, local taxes in New York State remain very high relative to other states.

The data presented here suggest there is pressure on states to remain competitive with respect to tax policy. This is evidenced by the gradual clustering over time of states around the national average tax-to-income ratio. However, there is also a strong tendency for a state tax position to be highly persistent over time; this means movements towards the average have been slow. The persistence most probably reflects a combination of localized spending pressures and priorities and different state and regional attitudes towards tax policy.

Several important points on comparative tax structures can be seen by examining the accompanying tables.

TOTAL STATE AND LOCAL TAXES

- Overall, state and local tax structures are broadly similar in both the taxes imposed and the rates applied. Average rates measured by the tax-to-income ratios are also roughly equivalent across states, especially when aggregating both state and local taxes together.

- The variability across states within each category of tax (e.g., income, sales, or property taxes examined in isolation) is greater than the dispersion for taxes when examined in the aggregate (all state and local taxes added together). For example, a fairly large number of states have excluded the personal income tax from their fiscal policy mix; a smaller subset has excluded corporate taxes, and a few impose no appreciable sales tax.

- In general, it appears that the spread of state and local tax burdens across states has been narrowing over time. This may reflect both competitive pressures to keep taxes in line with other states, and the more widespread use of income taxes nationwide.

- The national average state and local tax-to-income ratio has remained remarkably stable over time and significantly below that of New York.

- The state and local tax-to-income ratio for New York exceeded the national average by $4.96 per $100 of personal income, or 47.1 percent in 1977, ranking New York second nationally. In 2009, the gap was $4.01, or 38.8 percent above the national average, ranking New York third nationally.

State Taxes

- New York's tax-to-personal income ratio is inherently overstated. The numerator includes all personal income tax receipts, whether from residents or non-residents. The denominator, as calculated by the U.S. Bureau of Economic Analysis, excludes the personal income of non-N.Y. residents.

- New York is a slightly above-average tax state when looking only at state taxes.

- New York's tax burden, as measured by the ratio of state taxes to income, was forty-six cents or 7.1 percent above the national average in 2009.

- New York taxes per $100 of personal income actually declined from $7.39 in 1977 to $6.95 in 2009.

- New York's state tax rank declined from tenth highest in 1977, to fifteenth highest in 2009.

Local Taxes

- At least a portion of New York's significant local tax burden is due to the large portion of sales tax retained by New York localities. This contrasts sharply with other states and reflects, at least in part, the need at the local level in New York for receipts to pay for the local share of Medicaid.

- New York City uniquely imposes taxes which comprise a large portion of New York's total local burden. In 2009, nearly $1.47 of New York's local burden of $7.38 per $100 of state personal income was due to New York City (NYC) personal and corporate income taxes. This accounted for 20 percent of the total local burden.

Property Taxes in New York State

- Higher than average property taxes as a share of income (44.6 percent above the 2009 national average) in New York are tied, for the most part, to rapidly escalating school property taxes over the past several years.

- Significant disparities exist within New York with respect to the property tax burden.

- Property tax burdens as a percent of median home value are felt most heavily in Upstate counties due to relative weakness in home value appreciation and other demographic factors. In fact, nine of the top ten highest property tax counties in the nation (and 14 of the top 20) in 2009 were in Upstate New York as measured by property taxes paid on the median-valued home in that county.[1]

- Long Island and suburban counties near NYC (Westchester, Rockland, Putnam and Orange) experienced high property taxes as a percent of each county's respective median household income in 2009. Using this metric, 5 of the 10 highest property tax counties in the nation in 2009 were clustered Downstate. At least in part, this is a housing supply issue that characterizes Downstate and that disproportionately affects the elderly and middle class.

- Noticeably, the five counties of New York City did not have relatively high residential property tax burdens in 2009 when compared to other New York counties. This is the result of the more diverse tax structure in the City and a large and valuable commercial property tax base.

- Chapter 97 of the Laws of 2011 generally imposed a growth cap of 2 percent on the annual property tax levy of local taxing jurisdictions. This should reduce New York's local tax rank over the coming years.

TABLE CONSTRUCTION

This section compares the state and local tax structure in New York State with other states. Table 1 reports tax rates for the major tax sources utilized by state and local governments. The first and second data columns of the table show the top personal income tax rate by state, and the income level at which the top rate takes effect; the third column lists top corporate tax rates (most state corporate tax structures have relatively flat rate structures, so the rate reported often applies to all corporate income subject to tax); the fourth column reports state sales tax rates; and the final column reports the average combined state and local sales tax rates imposed by the various jurisdictions within such state. The rates are those in effect as of 2011. The income and corporate tax rates reported exclude local rates. This exclusion is important since New York is one of only a handful of states where significant local personal income and corporate taxes are imposed, as in New York City.

Tables 2 and 3 report state taxes collected by source divided by state personal income for 1977 and for 2009, respectively. The New York rank in terms of state taxes went from tenth highest to fifteenth highest over this period.

Tables 4 and 5 report local taxes as a share of state personal income by state in 1977 and in 2009. In 2009, New York had the highest local tax burden using this measure. New York fell from $4.13 above the mean local tax burden in 1977 to $3.55 in 2009, but some of this decrease is captured in the general decrease in variation amongst local taxes across states. The above-average local tax burden is caused by relatively high property taxes, the large sales tax burden imposed at the local level, and the high ratio in the other category that picks up the income and corporate taxes imposed by New York City.

[1] Source: U.S. Census Bureau; Tax Foundation calculations.

Tables 6a, 6b and 7 report state and locally imposed taxes as a percentage of state personal income. The data used in the calculations are for fiscal years ending in 1977 and 2009, the latest year for which complete state and local tax information are available. The tax-to-income ratios included on table 7 are: state and local income taxes, state and local corporate taxes, state and local sales taxes, local property taxes, all other state and local taxes, and finally combined state and local taxes. Table 8a reports changes in only the state tax-to-income ratio over the 1977-2009 period. During this time, New York's state tax burden fell relative to the mean, and has been below the mean for all but three of the last fifteen recorded years. New York's 2009 showing of 46 cents above the national average coincided with the first year of the State high income personal income tax surcharge. Table 8b reports changes in the state and local tax-to-income ratio over the 1977-2009 period. In 1977 state and local taxes as a percent of personal income were 4.96 percentage points above the national average. In 2009, New York was 4.01 percentage points above the national average. The average state and local tax-to-income ratio has remained relatively constant nationwide over the thirty-one year period, while the New York ratio has declined overall in spite of a recent increase and should decline further in the years ahead due to the property tax cap noted earlier. In every year since 1977, New York has been at least 2.74 percentage points above the mean.

The bottom of each table reports the mean for each tax category, as well as the standard deviation and the Coefficient of Variation (CV). Additionally, the difference between the national average and New York values is reported. While the standard deviation provides a sense of how the data are dispersed around the average value for all states, the CV allows comparisons of spread for data with different averages and is defined simply as the standard deviation divided by the average and is reported as a percentage. It essentially provides a normalized, unit-free measure of dispersion.

Table 9 reports U.S. Census Bureau data on county-level property tax collections on owner-occupied housing across the U.S., as compiled and calculated by the Tax Foundation, for the 38 New York State counties that appeared in the Tax Foundation report[2]. The source report covered the 792 counties in 2009 that had populations of at least 65,000 as of July 1, 2009. Table 9 is sorted by county, in descending order of median property taxes paid on homes in that county as a percentage of the same county's median home value. Median values report the data point for which half of the data set values are higher and half lower. They differ from mean values (the sum of all observations divided by the number of observations) in that outlying values, such as particularly expensive homes, do not skew the computation. The rankings reported indicate the relative ordering of the counties with respect to the 792 U.S. counties covered, and are not relative solely to the counties of New York State.

The Tax-to-Income Percentage

The tax-to-personal-income percentage offers one simple and commonly used way of comparing states with respect to relative tax burdens. It must be noted that the real effort of tax burden analysis should be to determine who actually faces the economic

[2] *Property Taxes on Owner-Occupied Housing by County, 2005-2009.* Tax Foundation, September 28, 2010.

consequences of a tax, not who is legally required to pay the tax. All simple measures of tax burden across states are inadequate from this perspective. In general, any single indicator of burden will necessarily be limited in value. The following three additional issues should be taken into consideration when relying on this measure:

Tax Exportation

In using taxes per dollar of personal income as a measure of tax burden it must be noted that for many states a significant portion of the tax base is "exported" or paid by out-of-state taxpayers.

For example, in New York, a large number of workers from New Jersey and Connecticut pay tax on New York source income and on taxable sales while in New York. This means that, unless a portion of Connecticut's and New Jersey's personal income is also shifted to New York State; the actual burden on New Jersey residents will appear to be a burden on New York residents.

Another example of tax exportation can be seen in states with a large tourism economy. These states will realize increases in their sales tax collections and other excise taxes that may overstate the tax burden actually paid by their citizens.

Finally, methods used to apportion corporate taxable income are neither consistent across states, nor are they necessarily representative of actual activity. For example, some states use a three-factor allocation formula that takes into account the percentage of a taxpayer's property, payroll and receipts amounts in the state compared to those amounts everywhere. Other states use different formulas. These differences in allocation formulas could result in either tax importation or exportation, again distorting this measure as a method of comparison of true tax burden imposed on each state's residents.

Overall, it would seem likely that New York State is a net exporter of tax burdens relative to other states. This serves to bias the tax-to-income percentage for New York upward – making burdens in New York appear too high using this measure.

Income Adjustments

Given two states with identical marginal tax rate structures, differences in the incomes of individuals could yield different tax-to-income percentage results. For example, if New York State and Alabama had identical progressive income brackets built into their respective tax codes, the higher average personal incomes of New York State residents would tend to lead to higher taxes per dollar of personal income due to the nature of the income tax.

Particularly important is the distinction between the National Income and Product Account (NIPA) measure of personal income as defined by the Bureau of Economic Analysis (BEA), and taxable personal income as defined by each state's respective tax code. For example, the NIPA personal income measure does not include capital gains (by the definition of personal income). However, capital gains are a component of New York Adjusted Gross Income (NYAGI) that contributes significantly to personal income tax receipts in New York State. States with high income individuals, like New York, would be more likely to have the tax-to-income percentage distorted upward. In the gains example, the percentage of personal income used in Table 2 will be influenced because the numerator will include taxes on capital gains income that is not included in the denominator, effectively overstating the tax burden relative to other states since New York has a disproportionate share of taxpayers with large capital gains incomes.

Federal Offsets

The Federal tax structure allows for the deductibility of certain state and local taxes. As a result, residents of states with relatively higher state income, property and corporate tax burdens, such as New York State, receive a larger deduction, thereby offsetting a portion of the individual's total tax burden. Again, this is not reflected in the tax-to-income percentage reported here. So again, it would appear this biases the measure in a way that makes New York look like a relatively higher tax state than is actually the case.

With all three issues, the tax-to-income percentage calculation likely biases the tax burden in New York upward.

Table 1 Comparison of 2011 State Top Rates

State	Top PIT Rate	Highest Tax Bracket (Married Filing Joint)	Top Corp. Rate	State Sales Rate	Combined Sales Tax Rate[1]
Alabama	5	$6,000	6.5	4	8.64
Alaska	0	NA	9.4	0	1.74
Arizona	4.54	$300,000	6.97	6.6	9.12
Arkansas	7	$32,600	6.5	6	8.5
California	10.3	$2,000,000	8.84	7.25	8.13
Colorado	4.63	Flat Rate	4.63	2.9	7.48
Connecticut	6.5	$1,000,000	7.5	6.35	6.35
Delaware	6.95	$60,000	8.7	0	0
Florida	0	NA	5.5	6	6.65
Georgia	6	$10,000	6	4	6.87
Hawaii	11	$400,000	6.4	4	4.35
Idaho	7.8	$52,836	7.6	6	6.02
Illinois	5	Flat Rate	9.5	6.25	8.27
Indiana	3.4	Flat Rate	8.5	7	7
Iowa	8.98	$64,755	12	6	6.81
Kansas	6.45	$60,000	7	6.3	8.26
Kentucky	6	$75,000	6	6	6
Louisiana	6	$100,000	8	4	8.84
Maine	8.5	$39,900	8.93	5	5
Maryland	5.5	$500,000	8.25	6	6
Massachusetts	5.3	Flat Rate	8.25	6.25	6.25
Michigan	4.35	Flat Rate	-	6	6
Minnesota	7.85	$134,170	9.8	6.88	7.18
Mississippi	5	$10,000	5	7	7
Missouri	6	$9,000	6.25	4.23	7.67
Montana	6.9	$15,600	6.75	0	0
Nebraska	6.84	$54,000	7.81	5.5	6.77
Nevada	0	NA	0	6.85	7.93
New Hampshire	State Income tax limited to Interest Income and Dividends only		8.5	0	0
New Jersey	8.97	$500,000	9	7	7.03
New Mexico	4.9	$24,000	7.6	5.13	7.23
New York[2]	**8.97**	**$500,000**	**7.1**	**4**	**8.48**
North Carolina	7.75	$100,000	6.9	4.75	6.85
North Dakota	4.86	$379,150	6.4	5	6.38
Ohio	5.925	$200,000	-	5.5	6.78
Oklahoma	5.5	$15,000	6	4.5	8.66
Oregon	11	$500,000	7.6	0	0
Pennsylvania	3.07	Flat Rate	9.99	6	6.34
Rhode Island	5.99	$125,000	9	7	7
South Carolina	7	$13,800	5	6	7.14
South Dakota	0	NA	0	4	5.81
Tennessee	State Income tax limited to Interest Income and Dividends only		6.5	7	9.43
Texas	0	NA	-	6.25	8.14
Utah	5	Flat Rate	5	5.95	6.68
Vermont	8.95	$379,150	8.5	6	6.14
Virginia	5.75	$17,000	6	5	5
Washington	0	NA	-	6.5	8.79
West Virginia	6.5	$60,000	8.5	6	6
Wisconsin	7.75	$298,940	7.9	5	5.43
Wyoming	0	NA	0	4	5.34
Mean Values	**5.62**		**7.00**	**5.08**	**6.39**
Standard Deviation	**2.90**		**2.38**	**1.96**	**2.30**
Coefficient of Variation	**51.54**		**34.00**	**38.58**	**35.99**

[1]Source: Tax Foundation. Reflects combined state and average local rate for each state.

[2] New York State top corporate rate on eligible qualifying manufacturers is 3.25 percent effective January 1, 2012.

[2] New York State top PIT rate fell to 8.82 percent effective January 1, 2012.

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

Table 2 - 1977 Components and Percentage of Total State Tax Burden per $100 Personal Income													
State	Total State Taxes	Rank	PIT	Rank	Percent of Total	Sales and Use	Rank	Percent of Total	Cor-porate	Rank	Percent of Total	Other	Rank	Percent of Total
Alabama	6.41	26	1.10	34	17.2	3.25	21	50.7	0.35	38	5.4	1.71	16	26.7
Alaska	15.69	1	4.27	1	27.2	0.68	50	4.4	0.73	9	4.6	10.01	1	63.8
Arizona	7.21	11	1.19	29	16.4	3.66	17	50.7	0.32	40	4.5	2.05	10	28.4
Arkansas	6.43	25	1.31	26	20.4	3.81	11	59.2	0.54	18	8.4	0.78	41	12.1
California	6.57	23	1.89	15	28.8	2.49	38	37.9	0.86	4	13.0	1.34	22	20.4
Colorado	5.30	43	1.67	19	31.5	1.59	46	30.1	0.40	29	7.5	1.64	18	31.0
Connecticut	5.43	41	0.22	41	4.1	3.92	9	72.3	0.75	6	13.9	0.53	46	9.8
Delaware	8.32	3	3.37	2	40.5	1.46	47	17.6	0.62	12	7.4	2.87	5	34.5
Florida	5.28	44	0.00	45	0.0	3.49	19	66.2	0.31	41	5.9	1.47	20	27.9
Georgia	5.90	33	1.53	22	26.0	2.96	28	50.1	0.53	22	9.0	0.88	33	14.9
Hawaii	8.96	2	2.65	7	29.6	5.59	1	62.3	0.36	36	4.0	0.36	50	4.1
Idaho	6.44	24	1.97	13	30.6	3.05	26	47.5	0.54	19	8.4	0.87	35	13.5
Illinois	5.57	39	1.48	23	26.6	2.50	36	44.9	0.40	30	7.2	1.19	26	21.3
Indiana	5.59	38	1.15	30	20.5	3.69	15	66.1	0.22	44	4.0	0.52	47	9.3
Iowa	6.11	31	2.12	12	34.6	2.70	33	44.1	0.43	27	7.1	0.87	36	14.2
Kansas	5.74	34	1.24	28	21.6	2.92	30	50.9	0.73	10	12.7	0.85	37	14.8
Kentucky	7.19	12	0.95	36	13.3	3.75	12	52.2	0.60	14	8.4	1.88	14	26.2
Louisiana	7.00	16	0.54	38	7.8	1.97	40	28.2	0.39	32	5.5	4.09	2	58.5
Maine	6.92	19	1.11	33	16.0	4.37	6	63.2	0.52	23	7.5	0.92	32	13.3
Maryland	6.20	29	1.25	27	20.1	2.68	34	43.3	0.34	39	5.4	1.93	13	31.2
Massachusetts	6.70	20	2.72	6	40.6	2.68	35	40.1	0.91	2	13.5	0.39	49	5.8
Michigan	6.65	21	1.75	17	26.4	2.93	29	44.1	1.08	1	16.3	0.88	34	13.3
Minnesota	8.29	4	3.19	4	38.5	3.21	22	38.7	0.86	5	10.4	1.03	29	12.4
Mississippi	7.53	9	1.02	35	13.6	5.36	3	71.2	0.36	37	4.7	0.79	39	10.5
Missouri	4.72	47	0.90	37	19.0	1.95	41	41.3	0.31	42	6.6	1.56	19	33.1
Montana	6.12	30	2.19	11	35.8	1.63	45	26.6	0.49	26	8.0	1.81	15	29.6
Nebraska	5.67	37	1.58	20	27.8	2.92	31	51.6	0.39	33	6.8	0.78	42	13.7
Nevada	5.69	36	0.00	46	0.0	3.68	16	64.8	0.00	47	0.0	2.00	11	35.2
New Hampshire	3.34	50	0.12	42	3.5	1.90	42	56.9	0.54	20	16.3	0.78	43	23.3
New Jersey	5.01	46	1.14	32	22.9	2.02	39	40.4	0.54	21	10.7	1.30	24	26.0
New Mexico	8.04	5	0.36	40	4.5	4.85	4	60.3	0.40	31	4.9	2.44	8	30.3
New York	**7.39**	**10**	**2.20**	**10**	**29.7**	**1.22**	**48**	**16.5**	**0.89**	**3**	**12.1**	**3.09**	**4**	**41.7**
North Carolina	6.97	17	2.28	9	32.8	2.89	32	41.5	0.60	15	8.6	1.19	27	17.1
North Dakota	7.12	14	1.32	25	18.6	3.94	8	55.4	0.52	24	7.4	1.33	23	18.7
Ohio	4.42	49	0.08	43	1.7	2.50	37	56.6	0.39	34	8.8	1.45	21	32.8
Oklahoma	6.04	32	1.15	31	19.0	1.80	44	29.7	0.37	35	6.2	2.72	6	45.0
Oregon	5.30	42	3.06	5	57.7	0.75	49	14.2	0.50	25	9.4	0.99	30	18.7
Pennsylvania	6.29	28	0.47	39	7.5	3.12	23	49.6	0.75	7	11.9	1.95	12	31.0
Rhode Island	6.58	22	1.56	21	23.7	3.82	10	58.1	0.61	13	9.3	0.59	45	9.0
South Carolina	7.01	15	1.71	18	24.5	4.19	7	59.8	0.63	11	9.0	0.47	48	6.8
South Dakota	4.58	48	0.00	47	0.0	3.74	13	81.6	0.06	46	1.3	0.79	40	17.1
Tennessee	5.71	35	0.08	44	1.5	3.34	20	58.5	0.58	16	10.2	1.71	17	29.9
Texas	5.18	45	0.00	48	0.0	3.01	27	58.2	0.00	48	0.0	2.17	9	41.8
Utah	6.36	27	1.89	16	29.8	3.12	24	49.1	0.30	43	4.7	1.04	28	16.4
Vermont	7.59	8	2.32	8	30.6	3.73	14	49.1	0.56	17	7.4	0.98	31	12.9
Virginia	5.48	40	1.91	14	34.8	1.86	43	33.9	0.42	28	7.8	1.29	25	23.6
Washington	7.13	13	0.00	49	0.0	4.65	5	65.3	0.00	49	0.0	2.48	7	34.7
West Virginia	7.86	7	1.43	24	18.2	5.58	2	71.0	0.20	45	2.6	0.65	44	8.2
Wisconsin	8.01	6	3.35	3	41.9	3.08	25	38.5	0.74	8	9.2	0.84	38	10.5
Wyoming	6.95	18	0.00	50	0.0	3.61	18	52.0	0.00	50	0.0	3.34	3	48.0
Mean	**6.56**		**1.42**		**20.7**	**3.07**		**48.3**	**0.48**		**7.5**	**1.59**		**23.5**
Standard Deviation	**1.71**		**1.02**			**1.12**			**0.24**			**1.45**		
Coefficient of Variation	**26.08**		**72.06**			**36.56**			**50.75**			**91.14**		
NYS Diff. from Mean	**0.83**		**0.78**		**9.0**	**(1.85)**		**(31.8)**	**0.41**		**4.6**	**1.50**		**18.2**

Source: Moody's Economy.com, DOB Staff Estimates

Table 3 - 2009 Components and Percentage of Total State Tax Burden per $100 Personal Income

State	Total State Taxes	Rank	PIT	Rank	Percent of Total	Sales and Use	Rank	Percent of Total	Cor-porate	Rank	Percent of Total	Other	Rank	Percent of Total
Alabama	5.32	38	1.70	37	32.0	2.69	34	50.6	0.32	21	6.0	0.61	27	11.5
Alaska	16.22	1	0.00	44	0.0	0.82	49	5.1	2.07	1	12.8	13.33	1	82.2
Arizona	5.05	41	1.17	41	23.2	3.04	24	60.2	0.27	30	5.3	0.57	30	11.3
Arkansas	7.99	7	2.39	19	29.9	4.01	7	50.2	0.37	13	4.6	1.21	11	15.1
California	6.44	19	2.83	8	43.9	2.32	38	36.0	0.61	4	9.5	0.68	22	10.6
Colorado	4.12	49	2.09	28	50.7	1.56	46	37.9	0.16	42	3.9	0.31	46	7.5
Connecticut	6.20	22	2.86	6	46.1	2.77	31	44.7	0.23	36	3.7	0.35	42	5.6
Delaware	7.98	8	2.59	13	32.5	1.35	48	16.9	0.59	5	7.4	3.45	5	43.2
Florida	4.47	47	0.00	44	0.0	3.76	9	84.1	0.26	32	5.8	0.45	38	10.1
Georgia	4.82	43	2.34	23	48.5	2.10	41	43.6	0.21	38	4.4	0.17	50	3.5
Hawaii	8.55	5	2.43	16	28.4	5.67	1	66.3	0.14	44	1.6	0.31	45	3.6
Idaho	6.43	20	2.38	20	37.0	3.19	20	49.6	0.29	24	4.5	0.57	31	8.9
Illinois	5.45	37	1.71	36	31.4	2.93	27	53.8	0.32	20	5.9	0.49	37	9.0
Indiana	6.79	17	1.97	30	29.0	4.03	6	59.4	0.38	11	5.6	0.41	39	6.0
Iowa	6.13	25	2.37	21	38.7	2.87	28	46.8	0.23	35	3.8	0.65	24	10.6
Kansas	6.03	28	2.46	14	40.8	2.74	32	45.4	0.33	19	5.5	0.49	36	8.1
Kentucky	7.03	14	2.39	18	34.0	3.37	17	47.9	0.28	25	4.0	0.99	16	14.1
Louisiana	6.14	24	1.77	34	28.8	3.13	23	51.0	0.37	14	6.0	0.87	18	14.2
Maine	7.24	11	2.85	7	39.4	3.41	16	47.1	0.30	23	4.1	0.69	21	9.5
Maryland	5.55	35	2.35	22	42.3	2.26	39	40.7	0.27	29	4.9	0.67	23	12.1
Massachusetts	5.97	29	3.21	3	53.8	1.85	43	31.0	0.54	6	9.0	0.36	40	6.0
Michigan	6.78	18	1.75	35	25.8	3.73	10	55.0	0.21	37	3.1	1.10	13	16.2
Minnesota	7.71	9	3.12	4	40.5	3.31	19	42.9	0.35	17	4.5	0.93	17	12.1
Mississippi	7.20	12	1.65	38	22.9	4.60	3	63.9	0.36	15	5.0	0.58	29	8.1
Missouri	4.67	45	2.16	27	46.3	2.08	42	44.5	0.13	46	2.8	0.30	48	6.4
Montana	7.12	13	2.45	15	34.4	1.57	45	22.1	0.49	9	6.9	2.62	6	36.8
Nebraska	5.62	34	2.25	24	40.0	2.83	29	50.4	0.28	26	5.0	0.26	49	4.6
Nevada	5.52	36	0.00	44	0.0	4.28	5	77.5	0.00	47	0.0	1.23	10	22.3
New Hampshire	3.74	50	0.17	42	4.5	1.46	47	39.0	0.87	2	23.3	1.24	9	33.2
New Jersey	6.13	26	2.41	17	39.3	2.65	35	43.2	0.54	7	8.8	0.54	33	8.8
New Mexico	7.24	10	1.44	39	19.9	3.73	11	51.5	0.24	34	3.3	1.83	7	25.3
New York	**6.95**	**15**	**3.95**	**1**	**56.8**	**2.17**	**40**	**31.2**	**0.48**	**10**	**6.9**	**0.35**	**41**	**5.0**
North Carolina	6.28	21	2.92	5	46.5	2.58	36	41.1	0.28	28	4.5	0.50	35	8.0
North Dakota	9.10	4	1.40	40	15.4	3.56	13	39.1	0.49	8	5.4	3.66	4	40.2
Ohio	5.82	32	2.02	29	34.7	2.95	26	50.7	0.13	45	2.2	0.72	20	12.4
Oklahoma	6.15	23	1.91	32	31.1	2.37	37	38.5	0.26	31	4.2	1.61	8	26.2
Oregon	5.15	40	3.73	2	72.4	0.64	50	12.4	0.18	40	3.5	0.60	28	11.7
Pennsylvania	5.94	31	1.89	33	31.8	2.98	25	50.2	0.34	18	5.7	0.73	19	12.3
Rhode Island	5.96	30	2.21	25	37.1	3.19	21	53.5	0.25	33	4.2	0.31	47	5.2
South Carolina	5.20	39	1.91	31	36.7	2.77	30	53.3	0.17	41	3.3	0.34	43	6.5
South Dakota	4.25	48	0.00	44	0.0	3.46	15	81.4	0.16	43	3.8	0.64	26	15.1
Tennessee	4.83	42	0.10	43	2.1	3.71	12	76.8	0.38	12	7.9	0.65	25	13.5
Texas	4.55	46	0.00	44	0.0	3.55	14	78.0	0.00	47	0.0	1.00	15	22.0
Utah	6.10	27	2.61	12	42.8	2.70	33	44.3	0.28	27	4.6	0.52	34	8.5
Vermont	10.27	3	2.18	26	21.2	3.37	18	32.8	0.36	16	3.5	4.36	3	42.5
Virginia	4.80	44	2.66	11	55.4	1.63	44	34.0	0.18	39	3.8	0.33	44	6.9
Washington	5.77	33	0.00	44	0.0	4.61	2	79.9	0.00	47	0.0	1.16	12	20.1
West Virginia	8.28	6	2.69	10	32.5	3.85	8	46.5	0.73	3	8.8	1.01	14	12.2
Wisconsin	6.81	16	2.81	9	41.3	3.13	22	46.0	0.31	22	4.6	0.55	32	8.1
Wyoming	10.64	2	0.00	44	0.0	4.31	4	40.5	0.00	47	0.0	6.33	2	59.5
Mean	**6.49**		**1.93**		**30.8**	**2.95**		**47.8**	**0.34**		**5.2**	**1.27**		**16.2**
Standard Deviation	**2.00**		**1.03**			**0.99**			**0.30**			**2.07**		
Coefficient of Variation	**30.84**		**53.51**			**33.58**			**88.94**			**162.58**		
NYS Diff. from Mean	**0.46**		**2.03**		**26.0**	**(0.78)**		**(16.5)**	**0.14**		**1.8**	**(0.92)**		**(11.2)**

Source: U.S. Census Bureau, DOB Staff Estimates

Table 4 - 1977 Components and Percentage of Total Local Taxes Per $100 of Personal Income										
State	Total	Rank	Property	Rank	Percent of Total	Sales	Rank	Percent of Total	Other	Rank	Percent of Total
Alabama	2.16	47	0.87	50	40.6	0.90	4	41.6	0.39	9	17.9
Alaska	3.26	36	2.57	36	78.6	0.65	13	20.0	0.04	45	1.4
Arizona	4.75	14	3.88	18	81.8	0.76	9	16.0	0.11	30	2.3
Arkansas	2.03	48	1.85	44	90.9	0.12	29	6.1	0.06	41	3.0
California	5.89	4	5.02	8	85.2	0.65	14	11.0	0.22	16	3.8
Colorado	5.29	8	4.01	15	75.9	1.11	3	21.0	0.16	21	3.1
Connecticut	4.82	13	4.77	10	99.1	0.00	44	0.0	0.04	46	0.9
Delaware	1.96	49	1.67	46	85.0	0.00	42	0.2	0.29	12	14.7
Florida	3.29	35	2.78	31	84.4	0.40	20	12.1	0.12	28	3.5
Georgia	3.66	30	2.97	28	81.3	0.56	16	15.2	0.13	26	3.5
Hawaii	2.44	42	1.95	43	80.1	0.23	24	9.4	0.26	15	10.5
Idaho	3.13	38	3.04	26	97.3	0.02	37	0.8	0.06	40	2.0
Illinois	4.53	15	3.71	20	81.9	0.66	12	14.5	0.16	20	3.6
Indiana	3.34	34	3.22	24	96.6	0.01	41	0.2	0.11	29	3.3
Iowa	4.13	20	4.00	16	96.9	0.01	39	0.2	0.12	27	2.9
Kansas	4.27	19	4.02	14	94.1	0.16	27	3.8	0.09	34	2.1
Kentucky	2.39	43	1.60	47	66.9	0.11	31	4.7	0.68	5	28.5
Louisiana	3.17	37	1.54	49	48.5	1.49	2	47.1	0.14	24	4.4
Maine	3.67	29	3.64	21	99.3	0.00	45	0.0	0.03	50	0.7
Maryland	4.50	16	2.93	29	65.1	0.20	26	4.4	1.37	1	30.4
Massachusetts	6.52	2	6.48	1	99.4	0.00	46	0.0	0.04	49	0.6
Michigan	4.31	18	3.95	17	91.6	0.04	35	1.0	0.32	11	7.4
Minnesota	3.74	27	3.59	22	96.0	0.07	33	2.0	0.08	36	2.1
Mississippi	2.29	45	2.17	38	94.5	0.08	32	3.7	0.04	48	1.8
Missouri	3.93	23	2.75	33	69.8	0.80	7	20.2	0.39	8	10.0
Montana	5.28	9	5.08	7	96.1	0.00	47	0.0	0.21	17	3.9
Nebraska	5.62	5	5.24	5	93.3	0.25	22	4.4	0.13	25	2.3
Nevada	4.09	21	2.76	32	67.5	0.76	8	18.7	0.57	6	13.9
New Hampshire	5.45	6	5.35	4	98.1	0.00	48	0.0	0.11	32	1.9
New Jersey	6.10	3	5.50	3	90.2	0.52	17	8.5	0.08	35	1.3
New Mexico	1.95	50	1.59	48	81.7	0.21	25	11.0	0.14	23	7.4
New York	**8.09**	**1**	**5.53**	**2**	**68.4**	**1.51**	**1**	**18.7**	**1.04**	**3**	**12.9**
North Carolina	2.60	41	2.14	41	82.4	0.40	19	15.5	0.05	42	2.0
North Dakota	3.58	31	3.45	23	96.5	0.02	38	0.6	0.11	31	3.0
Ohio	3.97	22	3.03	27	76.3	0.14	28	3.5	0.81	4	20.3
Oklahoma	2.91	40	2.04	42	70.0	0.82	6	28.3	0.05	43	1.8
Oregon	5.05	12	4.65	12	92.3	0.11	30	2.3	0.28	13	5.5
Pennsylvania	3.92	24	2.59	35	66.2	0.03	36	0.9	1.29	2	32.9
Rhode Island	4.46	17	4.42	13	99.1	0.00	49	0.0	0.04	47	0.9
South Carolina	2.31	44	2.15	40	93.2	0.00	43	0.1	0.15	22	6.7
South Dakota	5.33	7	4.82	9	90.6	0.24	23	4. 6	0.26	14	4.9
Tennessee	3.34	33	2.27	37	68.0	0.88	5	26.3	0.19	18	5.8
Texas	3.74	28	3.21	25	85.8	0.46	18	12.2	0.07	37	2.0
Utah	3.55	32	2.91	30	81.8	0.56	15	15.7	0.09	33	2.6
Vermont	5.26	10	5.19	6	98.7	0.00	50	0.0	0.07	39	1.3
Virginia	3.78	26	2.60	34	69.0	0.75	10	19.9	0.42	7	11.1
Washington	3.08	39	2.15	39	70.0	0.74	11	24.2	0.18	19	5.9
West Virginia	2.20	46	1.80	45	81.8	0.06	34	2.8	0.34	10	15.3
Wisconsin	3.88	25	3.83	19	98.7	0.01	40	0.1	0.05	44	1.2
Wyoming	5.10	11	4.69	11	92.0	0.34	21	6.6	0.07	38	1.4
Mean	**3.96**		**3.36**		**84.8**	**0.36**		**9.0**	**0.24**		**6.2**
Standard Deviation	**1.31**		**1.30**			**0.40**			**0.30**		
CV	**33.18**		**38.66**			**111.00**			**123.72**		
NYS Diff. from Mean	**4.13**		**2.17**		**(16.4)**	**1.15**		**9.7**	**0.80**		**6.7**

Source: Moody's Economy.com, DOB Staff estimates.
Note: "Other" includes NYC imposed taxes and other categories.

Table 5 - 2009 Components and Percentage of Total Local Taxes Per $100 of Personal Income

State	Total	Rank	Property	Rank	Percent of Total	Sales	Rank	Percent of Total	Other	Rank	Percent of Total
Alabama	3.05	40	1.32	49	43.4	1.15	6	37.8	0.57	7	18.8
Alaska	4.34	15	3.56	15	81.9	0.66	17	15.2	0.12	29	2.9
Arizona	4.16	19	2.82	32	67.8	1.15	7	27.5	0.20	21	4.6
Arkansas	1.92	49	0.91	50	47.4	0.97	9	50.5	0.04	49	2.1
California	4.09	22	3.28	19	80.3	0.53	21	13.0	0.27	19	6.7
Colorado	4.63	9	2.99	28	64.5	1.39	2	30.1	0.25	20	5.4
Connecticut	4.55	11	4.48	4	98.5	0.00	34	0.0	0.07	44	1.5
Delaware	2.21	48	1.80	44	81.3	0.00	34	0.0	0.41	11	18.7
Florida	4.58	10	4.11	9	89.8	0.19	28	4.2	0.27	18	6.0
Georgia	4.32	16	3.10	24	71.8	1.10	8	25.5	0.12	30	2.7
Hawaii	2.67	45	2.39	38	89.5	0.00	34	0.0	0.28	17	10.5
Idaho	2.68	44	2.54	35	94.9	0.00	34	0.0	0.14	27	5.1
Illinois	4.63	8	4.21	8	91.0	0.27	27	5.7	0.15	25	3.3
Indiana	4.03	24	3.29	18	81.7	0.00	34	0.0	0.73	6	18.3
Iowa	4.14	20	3.47	16	83.7	0.53	20	12.9	0.15	26	3.4
Kansas	4.11	21	3.36	17	81.9	0.66	18	15.9	0.09	39	2.2
Kentucky	2.58	47	1.69	46	65.5	0.00	34	0.0	0.89	5	34.5
Louisiana	4.18	18	1.85	43	44.2	2.22	1	53.1	0.11	31	2.7
Maine	4.48	14	4.44	5	99.1	0.00	34	0.0	0.04	50	0.9
Maryland	4.06	23	2.25	40	55.4	0.00	34	0.0	1.81	1	44.6
Massachusetts	3.75	29	3.69	12	98.3	0.00	34	0.0	0.07	45	1.7
Michigan	3.85	27	3.65	13	94.8	0.00	34	0.0	0.19	22	5.2
Minnesota	3.01	41	2.86	30	95.1	0.05	32	1.7	0.09	38	3.2
Mississippi	2.70	43	2.60	34	96.3	0.00	34	0.0	0.10	35	3.7
Missouri	3.71	30	2.49	37	67.0	0.80	14	21.6	0.42	10	11.3
Montana	3.18	38	3.08	25	96.8	0.00	34	0.0	0.10	33	3.2
Nebraska	4.54	12	3.64	14	80.2	0.41	22	9.0	0.49	8	10.8
Nevada	3.86	26	3.23	21	83.7	0.31	25	7.9	0.32	15	8.3
New Hampshire	5.03	3	4.96	2	98.5	0.00	34	0.0	0.08	43	1.5
New Jersey	5.33	2	5.25	1	98.4	0.00	34	0.0	0.08	42	1.6
New Mexico	3.11	39	1.74	45	56.0	1.24	3	39.9	0.12	28	4.1
New York	**7.38**	**1**	**4.42**	**6**	59.8	**1.23**	**4**	16.7	**1.73**	**2**	**23.5**
North Carolina	3.32	35	2.49	36	75.0	0.74	15	22.1	0.10	34	2.9
North Dakota	3.32	36	2.90	29	87.2	0.37	24	11.1	0.06	46	1.6
Ohio	4.80	6	3.18	23	66.2	0.40	23	8.4	1.22	3	25.4
Oklahoma	2.91	42	1.66	47	57.0	1.20	5	41.1	0.06	47	1.9
Oregon	3.64	31	3.20	22	87.8	0.00	34	0.0	0.44	9	12.2
Pennsylvania	4.24	17	3.05	26	72.0	0.06	31	1.4	1.12	4	26.6
Rhode Island	4.99	4	4.90	3	98.2	0.00	34	0.0	0.09	40	1.8
South Carolina	3.54	32	3.00	27	84.8	0.15	29	4.2	0.39	12	11.0
South Dakota	3.83	28	2.84	31	74.3	0.89	11	23.2	0.10	36	2.6
Tennessee	3.25	37	2.18	42	67.0	0.90	10	27.7	0.18	23	5.4
Texas	4.65	7	3.94	10	84.8	0.60	19	12.9	0.11	32	2.3
Utah	3.39	33	2.61	33	77.1	0.68	16	20.1	0.10	37	2.8
Vermont	1.61	50	1.53	48	94.8	0.03	33	2.0	0.05	48	3.2
Virginia	3.90	25	3.25	20	83.2	0.30	26	7.6	0.35	13	9.1
Washington	3.34	34	2.22	41	66.5	0.81	13	24.1	0.31	16	9.3
West Virginia	2.59	46	2.25	39	86.9	0.00	34	0.0	0.34	14	13.1
Wisconsin	4.52	13	4.29	7	94.9	0.15	30	3.3	0.09	41	1.9
Wyoming	4.81	5	3.76	11	78.2	0.88	12	18.3	0.17	24	3.5
Mean	**3.83**		**3.05**		**79.5**	**0.46**		**12.3**	**0.32**		**8.2**
Std. Dev.	**0.98**		**0.98**			**0.51**			**0.39**		
CV	**25.57**		**32.05**			**110.11**			**124.86**		
NYS Diff.	**3.55**		**1.36**		**(19.7)**	**0.77**		**4.4**	**1.42**		**15.3**

Source: U.S. Census Bureau, DOB Staff estimates.
Note: "Other" includes NYC imposed taxes and all other categories.

Table 6a - State/Local Split of 1977 Tax-to-Income Ratio				
State	**State Taxes**	**Local Taxes**	**State/Local Total**	**Total Rank**
Alabama	6.41	2.16	8.56	48
Alaska	15.69	3.26	18.96	1
Arizona	7.21	4.75	11.97	8
Arkansas	6.43	2.03	8.47	49
California	6.57	5.89	12.46	5
Colorado	5.30	5.29	10.58	19
Connecticut	5.43	4.82	10.24	22
Delaware	8.32	1.96	10.28	21
Florida	5.28	3.29	8.57	47
Georgia	5.90	3.66	9.56	37
Hawaii	8.96	2.44	11.40	11
Idaho	6.44	3.13	9.56	37
Illinois	5.57	4.53	10.10	27
Indiana	5.59	3.34	8.92	43
Iowa	6.11	4.13	10.24	22
Kansas	5.74	4.27	10.01	29
Kentucky	7.19	2.39	9.58	35
Louisiana	7.00	3.17	10.17	26
Maine	6.92	3.67	10.59	18
Maryland	6.20	4.50	10.70	16
Massachusetts	6.70	6.52	13.23	3
Michigan	6.65	4.31	10.96	15
Minnesota	8.29	3.74	12.03	7
Mississippi	7.53	2.29	9.82	33
Missouri	4.72	3.93	8.66	46
Montana	6.12	5.28	11.41	10
Nebraska	5.67	5.62	11.29	12
Nevada	5.69	4.09	9.78	34
New Hampshire	3.34	5.45	8.79	45
New Jersey	5.01	6.10	11.10	13
New Mexico	8.04	1.95	10.00	30
New York	**7.39**	**8.09**	**15.48**	2
North Carolina	6.97	2.60	9.57	36
North Dakota	7.12	3.58	10.70	16
Ohio	4.42	3.97	8.40	50
Oklahoma	6.04	2.91	8.95	42
Oregon	5.30	5.05	10.34	20
Pennsylvania	6.29	3.92	10.21	24
Rhode Island	6.58	4.46	11.04	14
South Carolina	7.01	2.31	9.31	39
South Dakota	4.58	5.33	9.91	31
Tennessee	5.71	3.34	9.05	41
Texas	5.18	3.74	8.92	43
Utah	6.36	3.55	9.91	31
Vermont	7.59	5.26	12.85	4
Virginia	5.48	3.78	9.26	40
Washington	7.13	3.08	10.21	24
West Virginia	7.86	2.20	10.06	28
Wisconsin	8.01	3.88	11.89	9
Wyoming	6.95	5.10	12.05	6
Mean Values	**6.56**	**3.96**	**10.52**	
Standard Deviation	**1.71**	**1.30**	**1.82**	
Coefficient of Variation	**26.08**	**32.85**	**17.34**	
NYS Diff. from Avg.	**0.83**	**4.13**	**4.96**	
Sources: Moody's Economy.com, DOB Staff Estimates				

Table 6b - State/Local Split of 2009 Tax-to-Income Ratio				
State	**State Taxes**	**Local Taxes**	**State/Local Total**	**Total Rank**
Alabama	5.32	3.05	8.37	48
Alaska	16.22	4.34	20.56	1
Arizona	5.05	4.16	9.21	35
Arkansas	7.99	1.92	9.91	27
California	6.44	4.09	10.53	17
Colorado	4.12	4.63	8.75	44
Connecticut	6.20	4.55	10.75	13
Delaware	7.98	2.21	10.19	22
Florida	4.47	4.58	9.05	41
Georgia	4.82	4.32	9.14	37
Hawaii	8.55	2.67	11.22	9
Idaho	6.43	2.68	9.11	38
Illinois	5.45	4.63	10.08	26
Indiana	6.79	4.03	10.82	12
Iowa	6.13	4.14	10.27	21
Kansas	6.03	4.11	10.14	25
Kentucky	7.03	2.58	9.61	30
Louisiana	6.14	4.18	10.32	19
Maine	7.24	4.48	11.72	6
Maryland	5.55	4.06	9.61	30
Massachusetts	5.97	3.75	9.72	29
Michigan	6.78	3.85	10.63	15
Minnesota	7.71	3.01	10.72	14
Mississippi	7.20	2.70	9.90	28
Missouri	4.67	3.71	8.38	47
Montana	7.12	3.18	10.30	20
Nebraska	5.62	4.54	10.16	24
Nevada	5.52	3.86	9.38	34
New Hampshire	3.74	5.03	8.77	43
New Jersey	6.13	5.33	11.46	7
New Mexico	7.24	3.11	10.35	18
New York	**6.95**	**7.38**	**14.33**	3
North Carolina	6.28	3.32	9.60	32
North Dakota	9.10	3.32	12.42	4
Ohio	5.82	4.80	10.62	16
Oklahoma	6.15	2.91	9.06	40
Oregon	5.15	3.64	8.79	42
Pennsylvania	5.94	4.24	10.18	23
Rhode Island	5.96	4.99	10.95	10
South Carolina	5.20	3.54	8.74	45
South Dakota	4.25	3.83	8.08	49
Tennessee	4.83	3.25	8.08	49
Texas	4.55	4.65	9.20	36
Utah	6.10	3.39	9.49	33
Vermont	10.27	1.61	11.88	5
Virginia	4.80	3.90	8.70	46
Washington	5.77	3.34	9.11	38
West Virginia	8.28	2.59	10.87	11
Wisconsin	6.81	4.52	11.33	8
Wyoming	10.64	4.81	15.45	2
Mean Values	**6.49**	**3.83**	**10.32**	
Standard Deviation	**2.00**	**0.98**	**2.02**	
Coefficient of Variation	**30.84**	**25.57**	**19.60**	
NYS Diff. from Avg.	**0.46**	**3.55**	**4.01**	

Sources: U.S. Census Bureau, DOB Staff Estimates

Table 7 - 2009 Ratios of Tax Collections to Personal Income by Category

State	State PIT	Local PIT	State Corporate	Local Corporate	State Sales	Local Sales	Local Property	All Other	Total State/Local
Alabama	1.70	0.08	0.32	0.00	2.69	1.15	1.32	1.10	8.37
Alaska	0.00	0.00	2.07	0.00	0.82	0.66	3.56	13.46	20.56
Arizona	1.17	0.00	0.27	0.00	3.04	1.15	2.82	0.76	9.21
Arkansas	2.39	0.00	0.37	0.00	4.01	0.97	0.91	1.26	9.91
California	2.83	0.00	0.61	0.00	2.32	0.53	3.28	0.95	10.53
Colorado	2.09	0.00	0.16	0.00	1.56	1.39	2.99	0.56	8.75
Connecticut	2.86	0.00	0.23	0.00	2.77	0.00	4.48	0.41	10.75
Delaware	2.59	0.16	0.59	0.01	1.35	0.00	1.80	3.69	10.19
Florida	0.00	0.00	0.26	0.00	3.76	0.19	4.11	0.73	9.05
Georgia	2.34	0.00	0.21	0.00	2.10	1.10	3.10	0.28	9.14
Hawaii	2.43	0.00	0.14	0.00	5.67	0.00	2.39	0.59	11.22
Idaho	2.38	0.00	0.29	0.00	3.19	0.00	2.54	0.71	9.11
Illinois	1.71	0.00	0.32	0.00	2.93	0.27	4.21	0.64	10.08
Indiana	1.97	0.63	0.38	0.00	4.03	0.00	3.29	0.51	10.82
Iowa	2.37	0.08	0.23	0.00	2.87	0.53	3.47	0.72	10.27
Kansas	2.46	0.00	0.33	0.00	2.74	0.66	3.36	0.59	10.14
Kentucky	2.39	0.74	0.28	0.08	3.37	0.00	1.69	1.06	9.61
Louisiana	1.77	0.00	0.37	0.00	3.13	2.22	1.85	0.98	10.32
Maine	2.85	0.00	0.30	0.00	3.41	0.00	4.44	0.72	11.72
Maryland	2.35	1.55	0.27	0.00	2.26	0.00	2.25	0.93	9.61
Massachusetts	3.21	0.00	0.54	0.00	1.85	0.00	3.69	0.43	9.72
Michigan	1.75	0.12	0.21	0.00	3.73	0.00	3.65	1.17	10.63
Minnesota	3.12	0.00	0.35	0.00	3.31	0.05	2.86	1.03	10.72
Mississippi	1.65	0.00	0.36	0.00	4.60	0.00	2.60	0.69	9.90
Missouri	2.16	0.14	0.13	0.02	2.08	0.80	2.49	0.56	8.38
Montana	2.45	0.00	0.49	0.00	1.57	0.00	3.08	2.71	10.30
Nebraska	2.25	0.00	0.28	0.00	2.83	0.41	3.64	0.75	10.16
Nevada	0.00	0.00	0.00	0.00	4.28	0.31	3.23	1.56	9.38
New Hampshire	0.17	0.00	0.87	0.00	1.46	0.00	4.96	1.31	8.77
New Jersey	2.41	0.00	0.54	0.00	2.65	0.00	5.25	0.61	11.46
New Mexico	1.44	0.00	0.24	0.00	3.73	1.24	1.74	1.96	10.35
New York	**3.95**	**0.82**	**0.48**	**0.65**	**2.17**	**1.23**	**4.42**	**0.61**	**14.33**
North Carolina	2.92	0.00	0.28	0.00	2.58	0.74	2.49	0.60	9.60
North Dakota	1.40	0.00	0.49	0.00	3.56	0.37	2.90	3.70	12.42
Ohio	2.02	1.04	0.13	0.03	2.95	0.40	3.18	0.87	10.62
Oklahoma	1.91	0.00	0.26	0.00	2.37	1.20	1.66	1.67	9.06
Oregon	3.73	0.00	0.18	0.03	0.64	0.00	3.20	1.01	8.79
Pennsylvania	1.89	0.76	0.34	0.00	2.98	0.06	3.05	1.09	10.18
Rhode Island	2.21	0.00	0.25	0.00	3.19	0.00	4.90	0.40	10.95
South Carolina	1.91	0.00	0.17	0.00	2.77	0.15	3.00	0.74	8.74
South Dakota	0.00	0.00	0.16	0.00	3.46	0.89	2.84	0.73	8.08
Tennessee	0.10	0.00	0.38	0.00	3.71	0.90	2.18	0.81	8.08
Texas	0.00	0.00	0.00	0.00	3.55	0.60	3.94	1.11	9.20
Utah	2.61	0.00	0.28	0.00	2.70	0.68	2.61	0.61	9.49
Vermont	2.18	0.00	0.36	0.00	3.37	0.03	1.53	4.41	11.88
Virginia	2.66	0.00	0.18	0.00	1.63	0.30	3.25	0.69	8.70
Washington	0.00	0.00	0.00	0.00	4.61	0.81	2.22	1.47	9.11
West Virginia	2.69	0.00	0.73	0.00	3.85	0.00	2.25	1.35	10.87
Wisconsin	2.81	0.00	0.31	0.00	3.13	0.15	4.29	0.64	11.33
Wyoming	0.00	0.00	0.00	0.00	4.31	0.88	3.76	6.50	15.45
Mean Values	**1.93**	**0.12**	**0.34**	**0.02**	**2.95**	**0.46**	**3.05**	**1.45**	**10.32**
Standard Deviation	**1.03**	**0.32**	**0.30**	**0.09**	**0.99**	**0.51**	**0.98**	**2.05**	**2.02**
Coefficient of Variation	**53.51**	**257.93**	**88.94**	**552.85**	**33.58**	**110.11**	**32.05**	**141.75**	**19.60**
NYS Diff. from Avg.	**2.03**	**0.70**	**0.14**	**0.63**	**(0.78)**	**0.77**	**1.36**	**(0.83)**	**4.01**

Sources: U.S. Census Bureau, DOB Staff Estimates

Table 8a - State Tax Burdens as a Pct. Of Personal Inc., 1977 - 2009

Year	Mean	NYS	Standard Deviation	Coefficient of Variation	NY difference from mean
1977	6.56	7.39	1.17	26.08	0.83
1978	6.42	6.91	1.34	20.80	0.49
1979	6.47	6.71	1.70	36.32	0.24
1980	6.45	6.57	2.72	42.21	0.12
1981	6.47	6.43	4.03	62.33	(0.04)
1982	6.62	6.55	3.67	55.48	(0.07)
1983	6.41	6.41	2.58	40.20	0.00
1984	6.58	6.69	2.34	35.55	0.12
1985	6.64	6.89	2.05	30.93	0.26
1986	6.61	7.10	2.02	30.52	0.49
77-86 avg.	**6.52**	**6.77**	**2.36**	**38.04**	**0.24**
1987	6.53	7.22	1.32	20.25	0.69
1988	6.64	7.02	1.41	21.26	0.38
1989	6.57	6.63	1.40	21.31	0.06
1990	6.54	6.75	1.42	21.73	0.21
1991	6.58	6.52	1.59	24.08	(0.07)
1992	6.55	6.64	1.32	20.14	0.09
1993	6.82	6.77	1.62	23.76	(0.05)
1994	6.73	6.99	1.21	18.05	0.26
1995	6.88	6.84	1.44	20.91	(0.04)
1996	6.74	6.46	1.33	19.80	(0.28)
87-96 avg.	**6.66**	**6.78**	**1.41**	**21.13**	**0.13**
1997	6.81	6.26	1.34	19.73	(0.55)
1998	6.71	6.11	1.28	19.01	(0.60)
1999	6.73	6.25	1.31	19.53	(0.49)
2000	6.76	6.29	1.22	18.09	(0.47)
2001	6.69	6.60	1.17	17.53	(0.10)
2002	6.35	6.39	1.12	17.66	0.05
2003	6.31	6.12	1.11	17.61	(0.19)
2004	6.42	6.21	1.14	17.79	(0.21)
2005	6.75	6.35	1.38	20.41	(0.40)
2006	6.95	6.78	1.48	21.31	(0.17)
97-06 avg.	**6.65**	**6.34**	**1.25**	**18.87**	**(0.31)**
2007	7.00	7.01	1.64	23.39	0.02
2008	7.17	7.07	3.38	47.15	(0.10)
2009	6.49	6.95	2.00	30.84	0.46

Sources: Moody's Economy.com, U.S. Census Bureau, DOB Staff Estimates

Table 8b - State/Local Tax Burdens as a Pct. of Personal Inc., 1977 - 2009					
Year	**Mean**	**NYS**	**Standard Deviation**	**Coefficient of Variation**	**NY Difference From Mean**
1977	10.52	15.48	1.82	17.34	4.96
1978	10.21	14.68	1.48	14.51	4.47
1979	10.11	13.95	1.80	17.79	3.84
1980	9.94	13.56	2.81	28.29	3.62
1981	9.86	13.21	4.07	41.30	3.35
1982	10.07	13.33	3.74	37.15	3.26
1983	9.95	13.22	2.79	28.03	3.27
1984	10.05	13.43	2.58	25.63	3.39
1985	10.19	13.82	2.37	23.28	3.63
1986	10.23	14.09	2.41	23.52	3.86
77-86 avg.	**10.11**	**13.88**	**2.59**	**25.68**	**3.77**
1987	10.28	14.47	1.65	16.04	4.19
1988	10.38	14.10	1.62	15.63	3.72
1989	10.28	13.67	1.47	14.34	3.39
1990	10.31	13.86	1.49	14.49	3.55
1991	10.43	13.87	1.65	15.81	3.44
1992	10.40	14.11	1.40	13.42	3.71
1993	10.70	14.53	1.72	16.08	3.82
1994	10.63	14.71	1.18	11.07	4.08
1995	10.79	14.22	1.41	13.03	3.43
1996	10.55	13.72	1.20	11.34	3.17
87-96 avg.	**10.48**	**14.13**	**1.48**	**14.13**	**3.65**
1997	10.63	13.55	1.21	11.35	2.92
1998	10.48	13.26	1.12	10.66	2.78
1999	10.45	13.26	1.01	9.68	2.80
2000	10.36	13.10	1.05	10.10	2.74
2001	10.24	13.12	0.97	9.48	2.88
2002	10.12	13.13	0.95	9.42	3.02
2003	10.18	13.45	0.99	9.76	3.27
2004	10.29	13.75	1.05	10.24	3.46
2005	10.66	14.06	1.26	11.80	3.40
2006	10.89	14.61	1.35	12.40	3.72
97-06 avg.	**10.43**	**13.53**	**1.10**	**10.49**	**3.10**
2007	10.92	14.88	1.58	14.46	3.96
2008	10.91	14.74	3.42	31.36	3.83
2009	10.32	14.33	2.02	19.60	4.01
Sources: Moody's Economy.com, U.S. Census Bureau, DOB Staff Estimates					

Table 9 - 2009 Property Taxes on Owner-Occupied Housing, by County

County	Median Property Taxes Paid on Homes	Rank	Median Home Value	Taxes as % of Home Value	Rank	Median Income for Home Owners	Taxes as % of Income	Rank
Monroe County	$3,891	71	$134,500	2.9%	1	$66,369	5.9%	47
Niagara County	$2,867	149	$99,900	2.9%	2	$55,424	5.2%	59
Wayne County	$3,051	129	$109,700	2.8%	3	$57,275	5.3%	54
Chemung County	$2,434	230	$93,100	2.6%	4	$55,156	4.4%	108
Chautauqua County	$2,102	299	$80,600	2.6%	5	$49,321	4.3%	129
Erie County	$3,119	122	$119,900	2.6%	6	$61,929	5.0%	65
Onondaga County	$3,156	121	$126,100	2.5%	7	$65,460	4.8%	72
Steuben County	$2,020	309	$81,200	2.5%	9	$50,629	4.0%	165
Madison County	$2,712	179	$111,500	2.4%	10	$59,344	4.6%	95
Cayuga County	$2,486	219	$103,100	2.4%	12	$56,620	4.4%	110
Oswego County	$2,249	264	$93,700	2.4%	13	$58,386	3.9%	187
Schenectady County	$3,804	77	$160,900	2.4%	15	$65,537	5.8%	48
Cattaraugus County	$1,834	359	$77,800	2.4%	16	$47,898	3.8%	192
Oneida County	$2,460	225	$106,600	2.3%	19	$56,402	4.4%	119
Broome County	$2,428	231	$108,100	2.2%	23	$53,589	4.5%	101
Tompkins County	$3,687	90	$168,400	2.2%	28	$68,276	5.4%	53
Ontario County	$2,927	142	$136,600	2.1%	33	$65,526	4.5%	106
Rensselaer County	$3,749	82	$179,800	2.1%	43	$70,408	5.3%	55
St. Lawrence County	$1,613	416	$80,300	2.0%	57	$52,389	3.1%	348
Clinton County	$2,320	253	$117,800	2.0%	62	$58,470	4.0%	170
Sullivan County	$3,476	99	$179,000	1.9%	65	$57,924	6.0%	44
Nassau County	$8,940	2	$475,500	1.9%	77	$104,465	8.6%	5
Orange County	$5,677	21	$305,900	1.9%	85	$89,067	6.4%	30
Rockland County	$8,542	5	$463,300	1.8%	89	$99,843	8.6%	6
Putnam County	$7,295	12	$396,400	1.8%	90	$93,387	7.8%	9
Suffolk County	$7,361	11	$407,500	1.8%	102	$92,207	8.0%	8
Albany County	$3,760	81	$215,200	1.7%	122	$79,336	4.7%	82
Ulster County	$4,129	59	$246,100	1.7%	136	$69,197	6.0%	45
Westchester County	$9,044	1	$544,700	1.7%	138	$109,692	8.2%	7
Dutchess County	$5,118	31	$310,600	1.6%	142	$83,270	6.1%	39
Jefferson County	$1,996	315	$129,100	1.5%	166	$57,156	3.5%	257
Saratoga County	$3,409	105	$235,300	1.4%	194	$81,074	4.2%	136
Warren County	$2,473	223	$181,800	1.4%	229	$58,388	4.2%	134
Richmond County	$2,966	137	$449,400	0.7%	612	$84,957	3.5%	258
Bronx County	$2,412	237	$393,600	0.6%	652	$68,206	3.5%	247
Queens County	$2,896	143	$475,600	0.6%	654	$73,664	3.9%	174
New York County	$4,742	38	$849,000	0.6%	689	$129,470	3.7%	223
Kings County	$2,834	156	$570,300	0.5%	713	$76,674	3.7%	215
National Average	$1,917	NA	$185,200	1.0%		$63,306	3.0%	NA

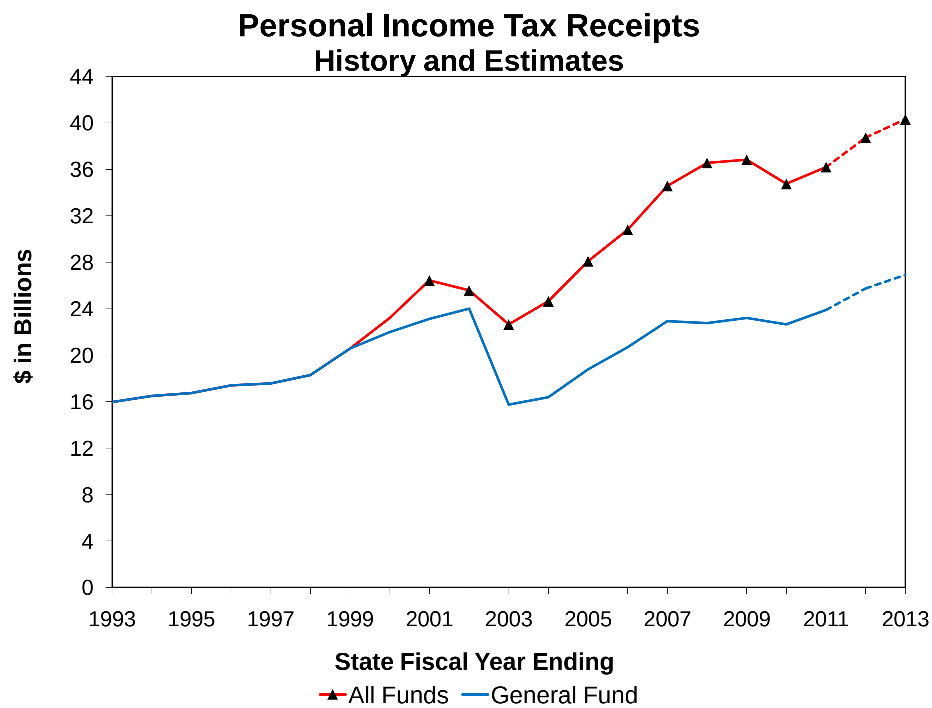
Source: U.S. Census Bureau; Tax Foundation calculations.

TAX RECEIPTS

PERSONAL INCOME TAX

PERSONAL INCOME TAX (millions of dollars)							
	2010-11 Actual	2011-12 Estimated	Change	Percent Change	2012-13 Projected	Change	Percent Change
General Fund	23,894.1	25,705.3	1,811.2	7.6	26,910.9	1,205.6	4.7
Other Funds	12,315.8	12,958.7	642.9	5.2	13,400.1	441.4	3.4
All Funds	36,209.9	38,664.0	2,454.1	6.8	40,311.0	1,647.0	4.3

Note: Totals may differ due to rounding.



PERSONAL INCOME TAX BY FUND (millions of dollars)						
	Gross General Fund	Refunds	General Fund Receipts	Special Revenue Funds[1]	Debt Service Funds[2]	All Funds Receipts
2002-03	20,037	4,296	15,741	2,664	4,243	22,648
2003-04	20,813	4,442	16,371	2,819	5,457	24,647
2004-05	23,448	4,668	18,781	3,059	6,260	28,100
2005-06	26,431	5,731	20,700	3,213	6,900	30,813
2006-07	28,450	5,510	22,940	3,994	7,646	34,580
2007-08	29,365	6,606	22,759	4,664	9,141	36,564
2008-09	30,367	7,171	23,196	4,434	9,210	36,840
2009-10	29,296	6,642	22,654	3,409	8,688	34,751
2010-11	31,687	7,793	23,894	3,264	9,052	36,210
Estimated						
2011-12	32,932	7,227	25,705	3,293	9,666	38,664
2012-13						
Current Law	34,710	7,806	26,904	3,322	10,076	40,302
Proposed Law	34,717	7,806	26,911	3,322	10,078	40,311

[1] School Tax Relief Fund.
[2] Debt Reduction Reserve Fund and Revenue Bond Tax Fund.

PROPOSED LEGISLATION

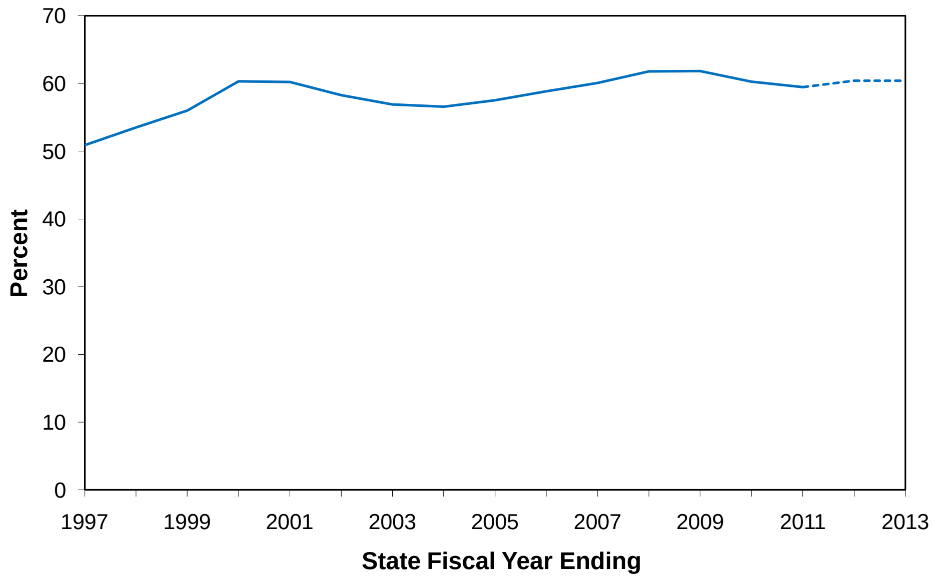
Legislation proposed with this Budget would:

- Extend the Empire State commercial production credit for five years, through tax year 2016, for qualified costs associated with TV commercials produced in New York;
- Extend residential solar equipment credit to leases;
- Extend the bio-fuel production credit for seven additional years through tax year 2019;
- Make permanent the enhanced Earned Income Tax Credit (EITC) for certain noncustodial parents who pay child support for a qualifying child with whom they do not reside;
- Provide the Commissioner of the Division of Housing Community Renewal authorization to allocate an additional $8 million annually in low income housing tax credits for five additional years;
- Make permanent the tax modernization provisions, which include mandatory e-filing and e-payment for both preparers and taxpayers, to achieve full intended taxpayer compliance improvement;
- Prohibit banks from charging fees on levied bank accounts; and
- Deny STAR exemptions to persons owing past-due tax liabilities.

DESCRIPTION

The personal income tax is by far New York State’s largest source of tax receipts. It is estimated that the personal income tax will account for approximately 60 percent of All Funds tax receipts in 2011-12 and 2012-13.

PIT Receipts as Share of All Funds Tax Receipts



Note: PIT Receipts are defined as gross receipts minus refunds.

Tax Base

The State's personal income tax structure adheres closely to the definitions of adjusted gross income and itemized deductions used for Federal personal income tax purposes, with certain modifications, such as: (1) the inclusion of investment income from debt instruments issued by other states and municipalities and the exclusion of income on certain Federal obligations; (2) the exclusion of pension income received by Federal, New York State and local government employees, private pension and annuity income up to $20,000 ($40,000 for married couples filing jointly), and any Social Security income and refunds otherwise included in Federal adjusted gross income; and (3) the subtraction of State and local income taxes from Federal itemized deductions.

New York allows either a standard deduction or itemized deductions, whichever is greater. Although New York generally conforms to Federal rules pertaining to itemized deductions, the State imposes some additional limitations. New York limits itemized deductions for taxpayers with New York State Adjusted Gross Incomes (NYSAGI) between $525,000 and $1 million to only 50 percent of federally allowed deductions, and for taxpayers with incomes above $1 million to only 50 percent of charitable contributions. For tax years 2010 to 2012, itemized deductions are limited to only 25 percent of charitable contributions for taxpayers with NYSAGI above $10 million.

Tax Rates and Structure

As shown in Table 1, beginning in 1995, personal income tax rates were gradually reduced over three years. These reductions reduced the top tax rates from 7.875 (in 1994) to the current permanent top rate of 6.85 percent, increased the income thresholds applicable to various tax brackets, and increased the standard deduction. In tax years 2003, 2004, and 2005, a temporary personal income tax surcharge added two new brackets applicable to taxpayers with taxable income over $150,000 and taxable income over $500,000, and increased the top rate to 7.7 percent. In 2006, the top rate returned to 6.85 percent, reflecting the sunset of the temporary surcharge, and the standard deduction for married taxpayers filing jointly increased from $14,600 to $15,000. For tax years 2009 through 2011, two new tax brackets and rates were added, applicable to taxpayers with taxable incomes over $300,000 for married filing jointly returns (with lower levels for other filing categories) and taxable incomes over $500,000 for all filers, and the top bracket tax rates were increased to 8.97 percent.

For tax years 2012 to 2014, four new tax brackets and rates replaced the former bracket and rate applicable to taxpayers with taxable income above $40,000 for married filing jointly returns (with lower levels for other filing categories). The tax rate for taxpayers (married filing jointly returns) with taxable income in the $40,000 to $150,000 and $150,000 to $300,000 brackets has been lowered to 6.45 percent and 6.65 percent respectively, while the rates on the $300,000 to $2 million tax bracket remained unchanged from 2008 law at 6.85 percent. The top rate for those earning $2 million and above (married filing jointly returns) has been increased to 8.82 percent. The tax brackets and standard deduction amounts were also indexed to the Consumer Price Index (CPIU) starting in tax year 2013.

TABLE 1
PERSONAL INCOME TOP TAX RATES, STANDARD DEDUCTIONS, AND DEPENDENT EXEMPTIONS

	1995	1996	1997-2000	2001	2002	2003-2005	2006-2008	2009-2011	2012-2014*
Top Rate (Percent)	7.59375	7.125	6.85	6.85	6.85	7.70	6.85	8.97	8.82
Thresholds									
Married Filing Jointly	25,000	26,000	40,000	40,000	40,000	500,000	40,000	500,000	2,000,000*
Single	12,500	13,000	20,000	20,000	20,000	500,000	20,000	500,000	1,000,000*
Head of Household	19,000	17,000	30,000	30,000	30,000	500,000	30,000	500,000	1,500,000*
Standard Deduction									
Married Filing Jointly	10,800	12,350	13,000	13,400	14,200	14,600	15,000	15,000	15,000
Single	6,600	7,400	7,500	7,500	7,500	7,500	7,500	7,500	7,500
Head of Household	8,150	10,000	10,500	10,500	10,500	10,500	10,500	10,500	10,500
Dependent Exemption	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000

* Tax brackets and standard deductions are subject to indexing based on the CPIU for tax years 2013 and 2014

TABLE 2
TAX SCHEDULES FOR 2012 LIABILITY YEAR*
(dollars)

Married - Filing Jointly			Single			Head of Household		
Taxable Income	Tax Rate Percent	Of Amt. Over	Taxable Income	Tax Rate Percent	Of Amt. Over	Taxable Income	Tax Rate Percent	Of Amt. Over
0 to 16,000	0		0 to 8,000	0		0 to 12,000	0	
	+4.00	0		+4.00	0		+4.00	0
16,000 to 22,000	640		8,000 to 11,000	320		12,000 to 16,500	480	
	+4.50	16,000		+4.50	8,000		+4.50	12,000
22,000 to 26,000	910		11,000 to 13,000	455		16,500 to 19,500	683	
	+5.25	22,000		+5.25	11,000		+5.25	19,500
26,000 to 40,000	1,120		13,000 to 20,000	560		19,500 to 30,000	840	
	+5.90	26,000		+5.90	13,000		+5.90	17,000
40,000 to 150,000	1,946		20,000 to 75,000	973		30,000 and 100,000	1,460	
	+6.45	40,000		+6.45	20,000		+6.45	30,000
150,000 to 300,000	9,041		75,000 to 200,000	4,521		100,000 and 250,000	5,975	
	+6.65	150,000		+6.65	75,000		+6.65	100,000
300,000 to 2,000,000	19,016		200,000 to 1,000,000	12,833		250,000 and 1,500,00	15,950	
	+6.85	300,000		+6.85	200,000		+6.85	250,000
2,000,000 and over	135,466		1,000,000 and over	67,633		1,500,000 and over	101,575	
	+8.82	2,000,000		+8.82	1,000,000		+8.82	1,500,000

*Benefits of graduated tax rates recaptured for taxpayers with adjusted gross incomes above $100,000.

Tax Expenditures

Tax expenditures are defined as features of the Tax Law that by exclusion, exemption, deduction, allowance, credit, deferral, preferential tax rate or other statutory provision reduce the amount of a taxpayer's liability to the State by providing either economic incentives or tax relief to particular entities to achieve a public purpose. The personal income tax structure includes various exclusions, exemptions, tax credits, and other statutory devices designed to adjust State tax liability. For a more detailed discussion of tax expenditures, see the Annual Report on New York State Tax Expenditures, prepared by the Department of Taxation and Finance and the Division of the Budget.

Credits

Current law authorizes a wide variety of credits against personal income tax liability. The major individual credits are:

Credit	Description
Earned Income Tax Credit (EITC)	Allowed at a rate of 7.5 percent of the Federal credit in 1994, 10 percent in 1995, and 20 percent in 1996 and thereafter. Starting in 1996, the EITC is offset by the amount of the household credit. The EITC was raised to 22.5 percent of the Federal credit in 2000, 25 percent in 2001, 27.5 percent in 2002, and 30 percent in 2003 and thereafter. The credit is fully refundable for New York residents whose credit amount exceeds tax liability. The Federal Economic Growth and Tax Relief Reconciliation Act of 2001 provided marriage penalty relief for married taxpayers filing jointly by increasing the phase-out range for the credit beginning in 2002.
Household Credit	Permitted for single taxpayers in amounts declining from $75 to $20, as their household income rises to $28,000, and for married couples and heads of households, in amounts declining from $90 to $20, as their household income rises to $32,000. This latter category is also eligible for additional amounts based on the number of eligible exemptions and income level.

Credit	Description
Child and Dependent Care Credit	Allowed at a rate of 20 percent or more of the comparable Federal credit. In 1997, the credit became refundable and equal to 60 percent of the Federal credit for those with incomes under $10,000, with a phase-down until it was 20 percent for incomes of $14,000 and above. In 1998, the percentage of the Federal credit increased to 100 percent for those with incomes less than $17,000, with this percentage gradually phasing down to 20 percent for those with incomes of $30,000 or more. For 1999, the phase-down from 100 percent to 20 percent began at incomes of $35,000 and ended at incomes of $50,000. For 2000 and later years, the credit as a share of the Federal credit equals 110 percent for incomes up to $25,000, phases down from 110 percent to 100 percent for incomes between $25,000 and $40,000, equals 100 percent for incomes between $40,000 and $50,000, phases down from 100 percent to 20 percent for incomes between $50,000 and $65,000, and equals 20 percent for incomes over $65,000. The credit is fully refundable for New York residents whose credit amount exceeds tax liability. Federal legislation enacted in 2001 and effective in 2003 increased maximum allowable expenses from $2,400 to $3,000 for one dependent ($4,800 to $6,000 for two or more dependents); the maximum credit rate from 30 percent to 35 percent; and the income at which the credit begins to phase down from $10,000 to $15,000.
College Tuition Tax Credit	Available as an alternative to the college tuition deduction, this refundable credit equals the applicable percentage of allowed tuition expenses multiplied by 4 percent. It was phased in over a four-year period with applicable percentages of allowed tuition expenses beginning at 25 percent in tax year 2001, 50 percent in 2002, 75 percent in tax year 2003, and 100 percent in 2004 and thereafter. For 2004 and thereafter the minimum credit is the lesser of tuition paid or $200 and the maximum credit is $400 (4 percent of expenses up to $10,000).
Real Property Tax Circuit Breaker Credit	Based on a more inclusive definition of income than that used generally in the income tax. For eligible taxpayers over the age of 65, the credit ranges downward from $375 as income rises to $18,000; for other taxpayers, the credit can be as high as $75.
Agricultural Property Tax Credit	Permitted for allowable school district property taxes paid by an eligible farmer on qualified agricultural property.
Empire State Child Credit	Effective in 2006, this refundable credit for children ages 4-16 equals the greater of $100 times the number of children qualifying for the Federal credit or 33 percent of the Federal credit.
Long Term Care Insurance Credit	A non-refundable credit equal to 10 percent of a taxpayer's long-term care insurance premium became effective in 2002. The credit amount was increased to 20 percent in 2004. Unused amounts may be carried forward to future tax years.

In addition, credits are allowed for investment in production facilities, for investment in economic development zones, film production, Brownfields, and for personal income taxes paid to other states. Other minor credits also apply.

Significant Legislation

The significant statutory changes made to the State personal income tax since 1987 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1987		
Tax Reform and Reduction	In response to Federal tax reform, the State reduced the top rate from 9 percent on earned income and 13 percent on unearned income to 7 percent on all income and increased standard deduction amounts. The reductions were implemented over a five-year period.	1987 and after
Legislation Enacted in 1990-1994		
Tax Reduction Program	Annually delayed the final two years of the 1987 legislation that would have reduced to the top rate from 7.875 percent to 7.593575 percent and then to 6.85 percent.	1990-1994
Legislation Enacted in 1991		
Rate Recapture	Enacted the "supplemental tax" to recapture the value of marginal tax rates below the top rate.	1991 and after

Subject	Description	Effective Date
Legislation Enacted in 1993		
Limited Liability Companies	Authorized the formation of LLCs and imposed a fee.	1994 and after
Legislation Enacted in 1994		
Earned Income Tax Credit	Enacted a new State credit equal to a percentage of the Federal credit. The rates were set at 7.5 percent of the Federal credit in 1994, 10 percent in 1995, 15 percent in 1996, and 20 percent in 1997 and thereafter.	1994 and after
Legislation Enacted in 1995		
Standard Deduction	Increased the standard deduction over three years.	1995 and after
Tax Rate Schedule	Reduced the top tax rate from 7.875 percent to 6.85 percent and raised bracket thresholds over three years.	1995 and after
Earned Income Tax Credit	Accelerated into 1996 from 1997 the credit of 20 percent of the Federal amount, but offset it by the household credit.	1996
Legislation Enacted in 1996		
Child and Dependent Care Credit	Increased the credit for taxpayers with adjusted gross incomes of less than $14,000 and made the credit refundable for residents.	1996 and after
Agricultural Property Tax Credit	Created a credit for school property tax that farmers pay on their farm property.	1997 and after
Legislation Enacted in 1997		
Child and Dependent Care Credit	Increased credit to 100 percent of the Federal credit for incomes up to $17,000, phasing down to 20 percent for incomes of $30,000 or more.	1998 and after
College Choice Tuition Savings Program	Authorized taxpayers to deduct from Federal AGI (FAGI) up to $5,000 ($10,000 for married couples filing jointly) of contributions made to family tuition accounts.	1998 and after
School Tax Relief Program (STAR)	Created the STAR program for school property exemptions and NYC income tax reductions, financed by PIT receipts.	
Legislation Enacted in 1998		
Child and Dependent Care Credit	Increased the credit to 100 percent of the Federal credit for incomes up to $35,000, phasing down to 20 percent for incomes of $50,000 or more.	1999 and after
School Tax Relief Program (STAR)	Accelerated the fully effective senior citizens' school property tax exemption and began the deposit of a portion of personal income tax receipts into the STAR fund.	1998-99 school year
Alternative Fuels Vehicle Credit	Created a credit for vehicles powered by electricity and alternative fuels; clean fuel refueling property; and qualified hybrid vehicles.	Extended in 2004
Legislation Enacted in 1999		
Earned Income Tax Credit	Increased the EITC to 22.5 percent of the Federal credit in 2000 and 25 percent of the Federal credit for subsequent tax years.	2000 and after
Legislation Enacted in 2000		
Earned Income Tax Credit	Increased the EITC to 30 percent of the Federal credit over a two-year period, beginning in 2002. The expansion first increased the EITC to 27.5 percent of the Federal credit in 2002 and then to 30 percent of the Federal credit in 2003 and after.	2002 and after
Child and Dependent Care Credit	Increased the credit to 110 percent of the Federal credit for those with incomes up to $25,000, phased down from 110 percent to 100 percent for incomes between $25,000 and $40,000, equal to 100 percent for incomes between $40,000 and $50,000, phased down from 100 percent to 20 percent for incomes between $50,000 and $65,000, and equal to 20 percent for incomes greater than $65,000.	2000 and after
Long-Term Care Insurance Credit	Created a long-term care insurance credit equal to 10 percent of a taxpayer's long-term care insurance premium.	2002 and after

Subject	Description	Effective Date
Marriage Penalty	Reduced the marriage penalty by increasing the standard deduction for taxpayers who are married filing jointly from $13,000 to $14,600 in three stages.	2001 and after
College Tuition Deduction/Credit	Authorized taxpayers to deduct from FAGI up to $10,000 for attendance at a qualified higher education institution.	2001 and after
Petroleum Tank Credit	Created a two-year personal income tax credit of up to $500 for homeowners who remove and/or replace a residential fuel oil storage tank.	2001 and 2002
Legislation Enacted in 2003		
LLC Fees	Temporarily increased fees for 2003 and 2004.	2003 to 2004
Three-Year Personal Income Tax Surcharge	Created two new tax brackets applicable to taxpayers with incomes over $150,000 and over $500,000.	2003 to 2005
Legislation Enacted in 2004		
Long-Term Care Insurance Credit	Increased the credit for long-term care insurance from 10 percent to 20 percent of premium expense.	2004 and after
Military Pay Exemption	Exempted pay of members of the New York National Guard for services performed in New York as part of the "War on Terror."	2004 and after
Legislation Enacted in 2005		
Nursing Home Assessment Tax Credit	Created a refundable nursing home assessment tax credit for residents of a residential health care facility who directly paid any assessment.	2005 and after
Limited Liability Company Fees	Extended the higher fees to tax years 2005 and 2006.	2005 and 2006
Legislation Enacted in 2006		
STAR	Created a new STAR rebate paid in 2006 and increased NYC STAR credit amounts and indexed the enhanced STAR benefit for the 2006-07 school year. In the event that the enacted State budget does not appropriate moneys to pay STAR rebates authorized in 2006, a refundable personal income tax credit to lower school property taxes takes effect.	2006 and after
Empire State Child Credit	Created a refundable credit for children ages 4-16 which equals the greater of $100 times the number of children qualifying for Federal credit or 33 percent of the Federal credit.	2006 and after
Marriage Penalty	Increased the married filing joint standard deduction from $14,600 to $15,000 in order to eliminate the marriage penalty.	2006 and after
Earned Income Credit	Extended the credit to noncustodial parents who satisfy their child support obligations.	2006 and after; sunsets January 1, 2013
Legislation Enacted in 2007		
Loophole Closers	Required certain Federal S corporations to become New York S corporations if they form New York C corporations to avoid tax and granted the Tax Department authority to disregard personal service or S corporations formed primarily to avoid tax.	2007 and after
STAR	Created a new "middle class rebate" program, increased enhanced rebate amounts and New York City STAR credits.	2007 and after
Legislation Enacted in 2008		
LLC and other Flow-Through Entity Fees	Restructured and reformed the fees and minimum taxes imposed on limited liability companies, and S and C corporations.	2008 and after
STAR	Delayed scheduled increases in the Basic Middle Class STAR Rebates and NYC PIT credit by one year and scaled down other STAR program components.	2008 and after

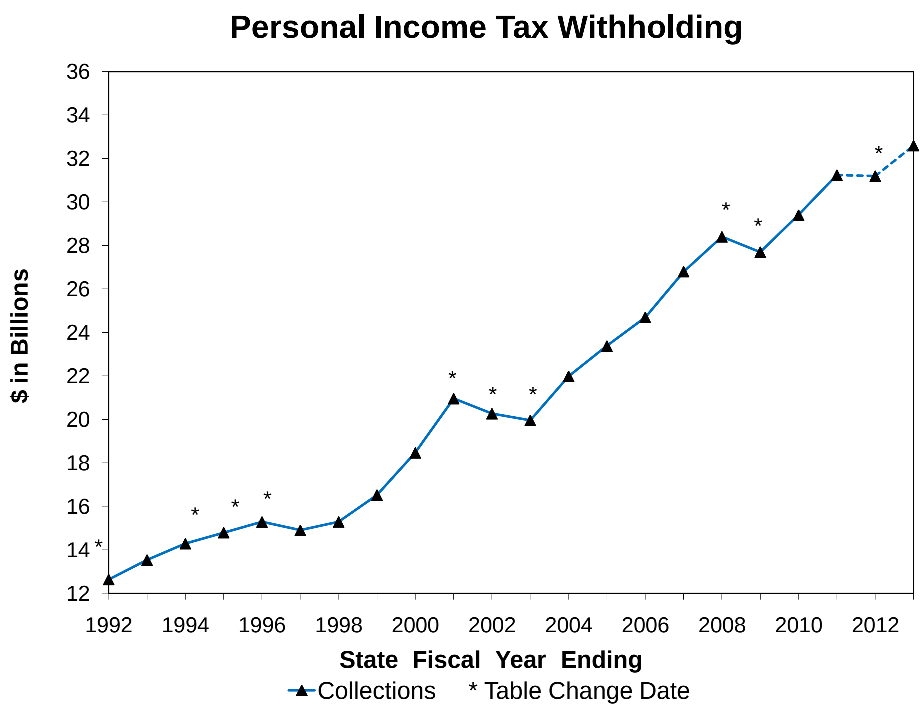
Subject	Description	Effective Date
Legislation Enacted in 2009		
Non-LLC Partnership Fees	Levied fees on non-LLC partnerships with NY-source income at or above $1 million at the same rates currently applicable to LLC partnerships.	2009 and after
Three Year Temporary Rate Increase	Created two new tax brackets applicable to taxpayers with incomes over $300,000 and over $500,000.	2009 to 2011
Limited Itemized Deduction	Increased the itemized deduction limitation applicable to high income taxpayers from 50 percent to 100 percent except for the deduction for charitable contributions.	2009 and after
STAR	Eliminated Middle Class STAR rebates and reduced corresponding NYC PIT credits.	2009 and after
Empire Zones Reform	Reformed the Empire Zones program. All companies that had been certified for at least three years were subjected to a performance review focusing on cost/benefit ratios.	2008 and after
	The QEZE real property tax credit was reduced by 25 percent and firms were disqualified for the QEZE sales tax refund/credit unless the sale qualified for a refund or credit of the local sales and use tax.	2009 and after
	Moved current program sunset date from December 30, 2011, to June 30, 2010.	
Legislation Enacted in 2010		
Limited Itemized Deduction	Temporarily further limited the use of itemized deductions to 25 percent of Federal deduction for charitable contribution for taxpayers with NYSAGI over $10 million.	2010-2012
Tax Credit Deferral	Capped aggregate business related tax credit claims at $2 million per taxpayer for each of tax years 2010, 2011 and 2012. The total amount of credits deferred can be claimed by affected taxpayers on returns for tax years 2013, 2014 and 2015.	January 1, 2010
Loophole Closers	Required certain S corporation gains to be treated as New York source income by nonresident shareholders, made certain termination payments, covenants not to compete and other compensation for past services taxable to nonresidents, and equalized maximum bio-fuel and QETC facilities, operations and training credit caps for corporations and unincorporated businesses.	2010 and after
Limited High Income NYC STAR Benefit	Limited New York City personal income tax STAR rate reduction credit by eliminating benefits on taxable income in excess of $500,000.	2010 and thereafter
Legislation Enacted in 2011		
Offset Lottery Winnings with Outstanding Tax Debts	Permitted the crediting of lottery prizes exceeding $600 against prize winner's liabilities for taxes owed to the State.	August 1, 2011
STAR	Limited exemption growth to 2 percent annually.	2011-12 school year and after
Excelsior Jobs Program Amendments	Modified the credit to make it more widely available and attractive and created a new energy incentive. It also lengthened the benefit period from five to ten years.	2011 and after
Economic Transformation and Facility Redevelopment Program	This new program provided tax incentives to businesses to stimulate redevelopment in targeted communities where certain correctional or juvenile facilities are closed (economic transformation areas).	2011 to 2021
PIT Reform	Reformed the personal income tax by lowering rates for middle income taxpayers and adding three new brackets on taxable income above $150,000 for tax years 2012 through 2014. Also indexed to the CPIU the tax brackets and standard deduction starting in tax year 2013.	January 1, 2012
New York Youth Works Tax Credit Program	This new program provided a tax credit to businesses that employ at risk youth in part-time or full-time positions in 2012 and 2013.	January 1, 2012

Subject	Description	Effective Date
Empire State Jobs Retention Program	This new program provided a jobs tax credit to businesses that are at risk of leaving the State due to the negative impact on their business from a natural disaster. The tax credit is 6.85 percent of gross wages of jobs that are retained in New York.	January 1, 2012

Withholding Changes

Various changes in tax rates, deductions and exemptions have been reflected in withholding tables as follows:

Effective Date	Feature	Changes
10/1/91	Rate Schedule	Changed for taxpayers with annual taxable wages in excess of $90,000 to account for the Federal limitation on itemized deductions and for the State tax table benefit recapture.
7/1/92	Rate Schedule	Changed for taxpayers with annual taxable wages in excess of $150,000 to account for the State tax table benefit recapture.
7/1/95	Deduction Allowance Rate Schedule	Increased to $5,650 for single individuals, $6,150 for married couples. Lowered the maximum rate to 7.59 percent and reduced the number of tax brackets.
4/1/96	Deduction Allowance Rate Schedule	Increased to $6,300 for single individuals, $6,800 for married couples. Lowered the maximum rate to 7 percent and broadened the wage brackets to which the rates apply.
1/1/97	Deduction Allowance Rate Schedule	Increased to $6,975 for single individuals, $7,475 for married couples. Lowered the maximum rate to 6.85 percent and broadened the wage brackets to which the rates apply.
7/1/03	Rate Schedule	Raised maximum rate to 8.55 percent and added two new wage brackets.
1/1/04	Rate Schedule	Decreased maximum rate to 7.7 percent and lowered rate for second highest bracket from 7.5 percent to 7.375 percent.
1/1/05	Rate Schedule	Lowered rate for second highest bracket from 7.375 to 7.25 percent.
1/1/06	Rate Schedule	Eliminated top two rates to reflect expiration of the temporary tax surcharge.
5/1/09	Rate Schedule	Raised maximum rate to 8.97 percent and added two new wage brackets; added new higher rate to reflect phase out of itemized deductions.
1/1/12	Rate Schedule	Lowered rates for middle income taxpayers and created a new 8.82 percent tax rate and bracket for tax years through 2014.



The above graph shows the history of withholding collections beginning in 1991-92. Asterisks denote the dates of withholding table changes.

Limited Liability Companies

A limited liability company (LLC) can be formed in New York by one or more persons by filing its articles of organization with the Secretary of State and paying an annual filing fee. The fee is reflected in the "returns" component of the personal income tax.

The annual filing fee has been imposed since 1994 and applies to any LLC that has any income, gain, loss or deduction attributable to New York sources in the taxable year. For 2007, the fee was $50 per member, the minimum fee was $325 and the maximum was $10,000. Filing fees for the tax year are due no later than January 30 of the following year. The following table shows historical LLC fees and estimated for 2011-12. Fee amounts were temporarily increased for 2003 through 2006, which explains the higher collections for 2003-04 through 2006-07.

The 2008-09 Enacted Budget restructured the flow-through entity level LLC fees such that the existing LLC fees and corporate franchise tax minimum taxes were replaced with new fees/minimum taxes applicable to all LLC partnerships, C corporations, and S corporations based on New York source income. The 2009-10 Enacted Budget further levied fees on non-LLC partnerships with NY-source income at or above $1 million at the same rates applicable to LLC partnerships.

Limited Liability Company and Partnership Fees (thousands of dollars)	
SFY	Amount
1997-98	7,677
1998-99	12,305
1999-2000	16,680
2000-01	21,267
2001-02	24,869
2002-03	26,517
2003-04	71,419
2004-05	64,104
2005-06	70,755
2006-07	78,036
2007-08	50,973
2008-09	56,219
2009-10	67,469
2010-11	68,667
2011-12 Estimated	70,000

Administration

Timing of the Payment of Refunds

The payment of refunds during the final quarter of the State's fiscal year (i.e., the January-March period) has been managed in accordance with cash flow expectations and to minimize potential year-end imbalances in the State's General Fund. From fiscal years 2000-01 through 2004-05, refunds of $960 million were paid during January through March. The amount of refunds paid during this three-month period was increased to $1,512 million in fiscal year 2005-06 and to $1,500 million for 2006-07 and 2007-08. The refund "cap" was further increased to $1,750 million for 2008-09 to more closely match the estimate of refunds payable during this three-month period. The refund "cap" was reduced to $1,250 million for fiscal year 2009-10 for cash management purposes, but reverted to $1,750 million in fiscal year 2010-11.

School Tax Relief Fund

Legislation enacted in 1998 created the School Tax Relief (STAR) program and the STAR Fund. The program provides residential homeowners with State-funded tax exemptions, and tax relief under the New York City (NYC) income tax for all NYC residents. In addition to school property tax exemptions, New York City residents who have relatively low homeownership rates are provided State-funded STAR credits and rate reductions against the New York City personal income tax. To reimburse school districts and New York City for the costs of the program, a portion of State personal income tax receipts are deposited to the STAR Fund. Pursuant to the State Finance Law, payments are currently made to school districts in October, November and December, and to New York City in September and June.

Revenue Bond Tax Fund

Legislation enacted in 2001 authorized the issuance of State Personal Income Tax Revenue Bonds and provided a source of payment for the debt service on those Bonds by earmarking a portion of personal income tax receipts to the newly created Revenue Bond Tax Fund (RBTF). Effective May 2002, such legislation directs the State Comptroller to deposit an amount equal to 25 percent of estimated monthly State personal income tax receipts (after payment of refunds and STAR deposits). Effective April 1, 2007, deposits to the RBTF are calculated before the deposit of income tax receipts to the STAR Fund. Although this decreases General Fund personal income tax receipts, RBTF deposits in excess of debt service requirements are transferred back to the General Fund.

Taxpayer Characteristics

Personal income tax liability and NYSAGI, the income base that determines personal income tax liability, differ noticeably across taxpayer groups. Table 3 examines the changes in NYSAGI and liability over an eight-year span from 2002 to 2009, with a breakdown by taxpayers' characteristics. Both NYSAGI and liability showed considerable growth over these years, with liability growing 50.3 percent and NYSAGI growing 31.3 percent. The much more rapid growth in liability can be accounted for in part by the enactment of new temporary brackets and rates for high-income taxpayers, and by the enactment of a restriction on itemized deductions of millionaires to a fraction of charitable contributions; both of these changes in State tax law were first effective for the 2009 tax year. While in 2002 the national economy was in its first full year of recovery from recession, the State's economy had yet to emerge from its recession. In 2009, the nation's economy began its recovery from the recession that began in December 2007 in June while the State's economy, which entered its recession only in August 2008, would not begin recovering until December.

The share of both returns and liability accounted for by nonresidents continued to trend upward between 2002 and 2009. The nonresident share of returns rose from 9.1 percent in 2002 to 9.9 percent in 2009, while the nonresident liability share rose from 15.7 percent to 16.9 percent. The rising share of liability accounted for by the nonresident filers can be explained by the fact that their liability grew faster than that of resident filers, even as the economy was slowing, thanks to more robust gains in both wage and nonwage income by nonresidents. Resident liability grew 48.3 percent from 2002 to 2009, but nonresident liability increased 61.5 percent over the same period. Wages of resident filers rose 25.3 percent from 2002 to 2009, while nonresident wages increased 29.4 percent. Resident nonwage income, such as dividends, interest received and capital gains, grew 50.1 percent from 2002 to 2009, compared to 71.3 percent for the nonresident filers.

TABLE 3
PERCENT SHARES OF STATE AGI, WAGES, NONWAGE INCOME AND LIABILITY
BY VARIOUS TAXPAYER CHARACTERISTICS, 2002 AND 2009
(Values for AGI, wages, nonwage income and liability in millions of dollars)

	2002					2009				
	Returns	NYSAGI	Wages	Nonwage Income	Liability	Returns	NYSAGI	Wages	Nonwage Income	Liability
Total	8,831,272	467,528	368,720	105,213	20,731	9,524,621	613,849	463,939	160,657	31,168
percent change						7.9	31.3	25.8	52.7	50.3
Residents	8,029,481	408,962	320,421	94,625	17,476	8,585,978	533,575	401,419	142,005	25,911
percent share	90.9	87.5	86.9	89.9	84.3	90.1	86.9	86.5	88.4	83.1
percent change						6.9	30.5	25.3	50.1	48.3
Nonresidents	801,791	58,567	48,299	10,888	3,255	938,644	80,274	62,521	18,652	5,258
percent share	9.1	12.5	13.1	10.3	15.7	9.9	13.1	13.5	11.6	16.9
percent change						17.1	37.1	29.4	71.3	61.5
Married filing jointly	3,223,603	296,446	227,156	73,140	14,408	3,333,168	387,550	280,513	113,574	21,951
percent share	36.5	63.4	61.6	69.5	69.5	35.0	63.1	60.5	70.7	70.4
percent change						3.4	30.7	23.5	55.3	52.4
Head of Household	1,502,080	45,013	40,476	5,190	826	1,544,974	55,620	49,553	7,064	938
percent share	17.0	9.6	11.0	4.9	4.0	16.2	9.1	10.7	4.4	3.0
percent change						2.9	23.6	22.4	36.1	13.5
Single Filers	4,105,589	126,069	101,088	26,884	5,497	4,646,479	170,678	133,873	40,019	8,280
percent share	46.5	27.0	27.4	25.6	26.5	48.8	27.8	28.9	24.9	26.6
percent change						13.2	35.4	32.4	48.9	50.6
Itemized Deduction	1,954,703	235,370	171,291	66,635	12,008	2,459,526	321,475	223,227	103,339	18,382
percent share	22.1	50.3	46.5	63.3	57.9	25.8	52.4	48.1	64.3	59.0
percent change						25.8	36.6	30.3	55.1	53.1
Standard Deduction	6,874,902	232,122	197,397	38,574	8,721	7,062,610	292,072	240,580	57,147	12,765
percent share	77.8	49.6	53.5	36.7	42.1	74.2	47.6	51.9	35.6	41.0
percent change						2.7	25.8	21.9	48.1	46.4

Source: NYS Department of Taxation and Finance; DOB staff estimates

With respect to filing status, an interesting development is the slow decline in the share of returns from taxpayers filing as "married filing jointly." These taxpayers increased by 3.4 percent from 2002 to 2009, leading to a decline in the share of taxpayers claiming this status from 36.5 percent to 35 percent. Meanwhile, returns filed as "head of household" increased 2.9 percent over the period, and filers claiming single status increased 13.2 percent. Married filing jointly taxpayers accounted for the bulk of nonwage income, about 71 percent, while single filers accounted for about 25 percent. Married filers accounted for a somewhat larger share of liability in 2009 than in 2002, while the single filers' share was stagnant: in 2002 the married filers' share was 69.5 percent, rising to 70.4 percent by 2009, while the share of liability accounted for by the single filers increased just from 26.5 percent to 26.6 percent.

Taxpayers who itemized their deductions made up 22.1 percent of filers in 2002, rising to 25.8 percent by 2009, largely reflecting the continuing influence of increases in local property taxes and other itemized deduction categories. In 2002, standard deduction returns accounted for 77.8 percent of all returns and 42.1 percent of liability, while the remaining 22 percent of returns that were itemized accounted for about 58 percent of liability. By 2009 itemizers made up 59.0 percent of liability, while standard deduction takers' share of liability only had slipped to 41.0 percent. Note that with the new limitation on itemized deductions for millionaires, many of these high-liability taxpayers became standard deduction takers, rather than itemizers.

Recent Liability History

New York State adjusted gross income, NYSAGI, is the income base that determines personal income tax liability. Table 4 lists the major components, their growth rates and their respective shares of NYSAGI (see also Economic Backdrop – New York State Adjusted Gross Income section). NYSAGI fell by 8.7 percent in 2008 and 9.9 percent in 2009 as equity markets and real estate markets tumbled. These decline came after years of above-average growth in NYSAGI fueled by strong equity and real estate markets following the 2001-2003 recession. Processing data suggests a 6.5 percent increase in 2010 with the State and national economies coming out of the long and severe recession and equity markets in particular experiencing a strong rebound. NYSAGI growth is expected to be lower with 5.1 percent growth in 2011 in response to anemic economic growth and rather stagnant equity markets.

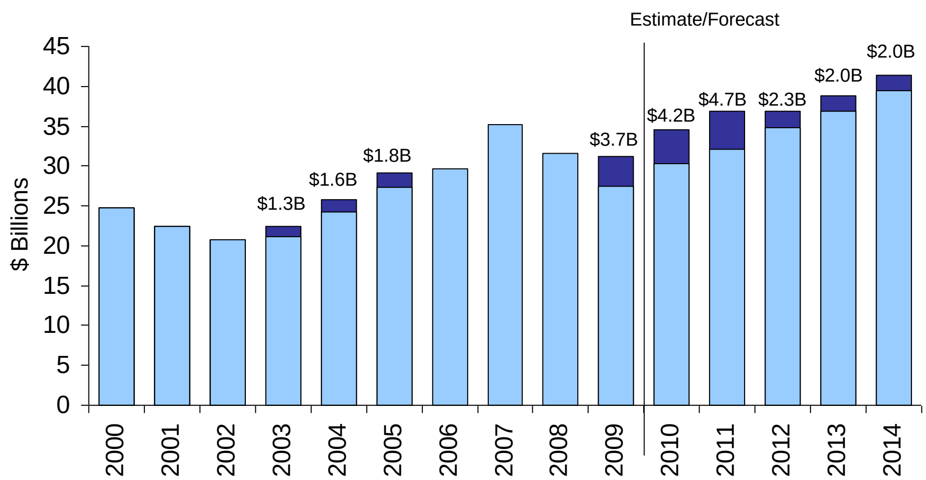
TABLE 4
DISTRIBUTION OF THE MAJOR COMPONENTS OF NEW YORK ADJUSTED GROSS INCOME (NYSAGI)
(millions of dollars)

Component of Income	2005	2006	2007	2008	2009	2010*	2011	2012	2013
	Actual					Estimate			
NYSAGI									
Amount	571,916	632,601	725,245	662,053	596,471	635,441	667,958	710,560	728,456
Percent Change	8.7	10.6	14.6	(8.7)	(9.9)	6.5	5.1	6.4	2.5
Wages									
Amount	416,988	445,210	485,565	492,900	463,939	482,775	503,412	516,817	542,290
Percent Change	4.9	6.8	9.1	1.5	(5.9)	4.1	4.3	2.7	4.9
Share of NYSAGI	72.9	70.4	67.0	74.5	77.8	76.0	75.4	72.7	74.4
Net Capital Gains									
Amount	64,411	82,412	116,436	53,401	29,689	44,492	53,261	76,081	59,036
Percent Change	25.8	27.9	41.3	(54.1)	(44.4)	49.9	19.7	42.8	(22.4)
Share of NYSAGI	11.3	13.0	16.1	8.1	5.0	7.0	8.0	10.7	8.1
Interest and Dividends									
Amount	29,673	39,366	48,204	39,205	29,358	28,422	29,751	31,395	33,516
Percent Change	32.0	32.7	22.5	(18.7)	(25.1)	(3.2)	4.7	5.5	6.8
Share of NYSAGI	5.2	6.2	6.6	5.9	4.9	4.5	4.5	4.4	4.6
Taxable Pension									
Amount	28,974	30,257	31,216	31,070	32,167	35,337	36,088	37,335	38,354
Percent Change	9.6	4.4	3.2	(0.5)	3.5	9.9	2.1	3.5	2.7
Share of NYSAGI	5.1	4.8	4.3	4.7	5.4	5.6	5.4	5.3	5.3
Net Business and Partnership Income									
Amount	60,718	67,249	74,345	73,560	71,447	71,910	76,682	83,647	93,184
Percent Change	13.1	10.8	10.6	(1.1)	(2.9)	0.6	6.6	9.1	11.4
Share of NYSAGI	10.6	10.6	10.3	11.1	12.0	11.3	11.5	11.8	12.8
All Other Incomes/ Adjustments /1									
Amount	(28,849)	(31,894)	(30,521)	(28,083)	(30,128)	(27,495)	(31,236)	(34,715)	(37,924)
Percent Change	14.2	10.6	(4.3)	(8.0)	7.3	(8.7)	13.6	11.1	9.2

* Estimates for 2010 are based on processing data.
/1 includes alimony received, unemployment income, IRA income, and other incomes. This number is negative due to Federal and New York adjustments to income, which together reduce final NYSAGI.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

Changes in capital gains' share of total taxable income contribute prominently to changes in NYSAGI. The declines in 2008 and 2009 are characterized by substantial drops in capital gains' share of total taxable income from 16.1 percent in 2007 to an estimated 5.0 percent in 2009. Capital gains realizations experienced strong growth in 2010, albeit off a low base, improving their share of taxable income to 7.0 percent. Though wages also fell in 2009, the drop was smaller than the declines in some of the other components and, as a result, the share of wage income increased from 67.0 percent in 2007 to an estimated 77.8 percent in 2009. As many other components experienced relatively strong growth in 2010, the wage share fell slightly to 76.0 percent.

Total Liability 2000-2014



Note: Values above bars indicate the amount of additional liability due to temporary brackets and rates for those tax years. "Current law" for 2006-2014 includes changes in State and federal tax law that are effective with the 2006 tax year and beyond.
Source: New York State Department of Taxation and Finance; DOB staff estimates.

The State's recent recessions are clearly reflected in State Tax liability, which fell in 2001 and 2002, and again in 2008; it would have fallen 13.3 percent in 2009, but for the enactment of temporary high-income tax brackets and rates, and the limitation of millionaire itemized deductions. Those actions limited the 2009 decline to just 1.5 percent. Based on preliminary processing data, total liability was about $34.5 billion in 2010, up 10.8 percent from $31.2 billion in 2009, as the State and national economies recovered, however fitfully, from their most recent recessions. The expiration of the temporary brackets and rates at the end of the 2011 tax year, and the new personal income tax law that will be in force for the 2012 tax year mean that liability will show a slight growth of just 1.6 percent in 2012, despite an expected 6.4 percent increase in NYSAGI.

TABLE 5
LIABILITY AND EFFECTIVE TAX RATES*
Current Law
2000 - 2013
(millions of dollars)

	NYSAGI		Liability		Effective
	Amount	Growth Rate	Amount	Growth Rate	Tax Rate
					(percent)
2000	508,934	13.5	24,494	16.8	4.81
2001	481,001	(5.5)	22,406	(8.5)	4.66
2002	459,919	(4.4)	20,729	(7.5)	4.51
2003	473,778	3.0	22,456	8.3	4.74
2004	525,964	11.0	25,769	14.8	4.90
2005	571,916	8.7	28,484	10.5	4.98
2006	632,601	10.6	29,838	4.8	4.72
2007	725,245	14.6	35,215	18.0	4.86
2008	662,053	(8.7)	31,621	(10.2)	4.78
2009	596,471	(9.9)	31,162	(1.5)	5.22
2010**	635,441	6.5	34,535	10.8	5.43
2011**	667,958	5.1	36,834	6.7	5.51
2012**	710,560	6.4	37,431	1.6	5.27
2013**	728,456	2.5	38,830	3.7	5.33

* Liability divided by AGI.
** Estimate/Forecast
Source: NYS Department of Taxation and Finance; DOB staff estimates.

Risks to the Liability Forecast

The collapse of the financial markets and the resulting large declines in income from bonus payments and capital gains in 2001 and 2002 caused the share of liability originating with the top 1 percent of taxpayers to fall from 39 percent in 2000 to 32.2 percent in 2002 (see Table 7). Over time the State has become increasingly reliant on its high-income taxpayers as a source of income tax revenues. This has happened even with the adoption of temporary brackets with higher tax rates that were applied to high-income filers: note that even following the expiration of the 2003-2005 temporary tax brackets, the share of liability derived from the top 1 percent of taxpayers grew from 39.0 percent in 2006 to 43.1 percent in 2007. With the financial crises and economic downturn of 2007-2009, history repeated itself as their share is estimated to have fallen back to 33.2 percent in 2009 and 2010, on a constant-law basis. However, because the 2009 tax law change fell most heavily on the highest income groups, the share of liability accounted for by the top 1 percent of taxpayers is estimated to have risen to 39.1 percent in 2009 and to have risen further to 40.2 percent by 2011. The new State tax law enacted in December 2011, effective with the 2012 tax year, is estimated to have increased this proportion to 42.4 percent for 2012. But this implies that changes in the economy, or in the institutional practices of firms (i.e., the timing and types, not to mention the size, of bonus payments), that affect a small number of taxpayers in the high-income groups can have disproportionately large effects on State tax revenues.

TABLE 6
PERCENT DISTRIBUTION OF RETURNS, LIABILITY AND AGI BY INCOME GROUPS UNDER CURRENT LAW

	2009 (Actual)			2012 (Forecast)		
Income Group	**Returns**	**Liability**	**AGI**	**Returns**	**Liability**	**AGI**
0 - $50,000	64.9	3.3	14.8	62.6	3.2	12.4
$50,000 - $100,000	19.8	16.7	17.1	20.1	14.6	15.1
$100,000 - $200,000	10.4	20.5	17.2	11.5	19.2	16.5
$200,000 - $1,000,000	4.3	25.9	19.3	5.1	23.4	19.7
$1,000,000 and above	0.6	33.6	31.5	0.7	39.6	36.3

Source: NYS Department of Taxation and Finance; DOB Staff estimates.

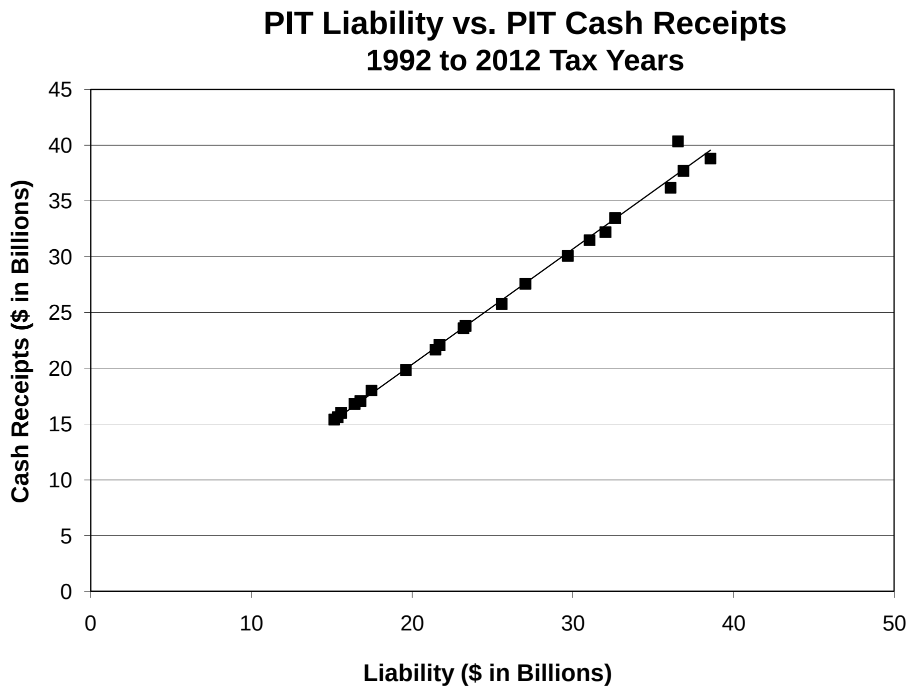
TABLE 7
CHANGES IN THE SHARE OF LIABILITY ORIGINATING WITH THE TOP ONE PERCENT OF NYS TAXPAYERS

	1995-2002, 2006-08 Tax Law			2003-05, 2009-11 Brackets and Rates; New Law Begins in 2012		
Year	**Liability, top 1 Percent (millions)**	**Liability, all taxpayers (millions)**	**Share of total liability, top 1 (Percent)**	**Liability, top 1 Percent (millions)**	**Liability, all taxpayers (millions)**	**Share of total liability, top 1 (Percent)**
1998	6,654	18,986	35.0	--	--	--
1999	7,462	20,977	35.6	--	--	--
2000	9,644	24,733	39.0	--	--	--
2001	7,864	22,406	35.1	--	--	--
2002	6,681	20,731	32.2	--	--	--
2003	7,146	21,173	33.8	8,079	22,456	36.0
2004	8,487	24,218	35.0	9,607	25,769	37.3
2005	9,794	26,741	36.6	11,093	28,484	38.9
2006	11,539	29,605	39.0	--	--	--
2007	15,195	35,215	43.1	--	--	--
2008	11,890	31,621	37.6	--	--	--
2009	9,138	27,522	33.2	12,194	31,162	39.1
2010*	10,067	30,294	33.2	13,630	34,535	39.5
2011*	10,905	32,160	33.9	14,796	36,834	40.2
2012*	12,856	35,089	36.6	15,869	37,431	42.4
2013*	12,534	36,818	34.0	15,471	38,830	39.8

* Estimated
Note: The 2003-2005 surcharges expired at the end of the 2005 tax year.
Note 2: The 2009-2011 brackets and rates expired at the end of the 2011 tax year.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

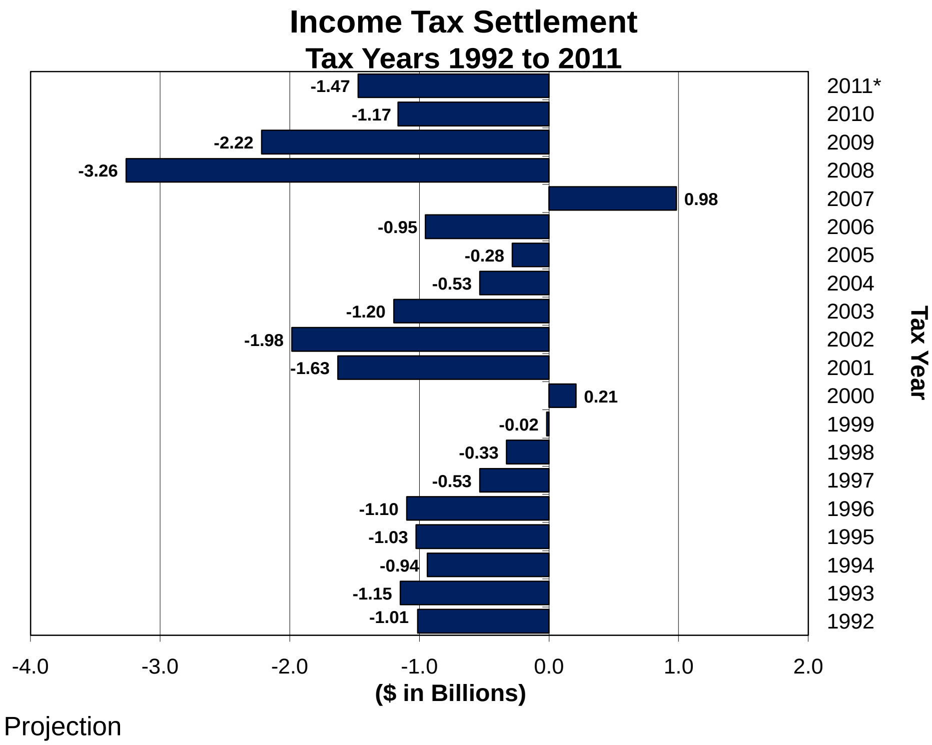
TAX LIABILITY AND CASH PAYMENTS

Although significant risks necessarily remain in any estimates of income tax liability, the estimation of the level of tax liability for a particular tax year leads, with a high degree of confidence, to the approximate level of cash receipts that can be expected for the particular tax year. The consistency in this relationship is shown in the graph below, which shows a trend line for the history of liability and cash receipts beginning in 1992, and dots to denote actual liability and cash results or estimates.



Despite the strong relationship between tax-year liability and cash receipts, estimation of cash payments is subject to an important complication that pervades forecasts for the Executive Budget and other State Financial Plan updates. This complication is determining the portions of tax-year liability that will occur in particular State fiscal years. Income tax prepayments – withholding tax and quarterly estimated tax payments – tend to be received not long after income is earned. For example, most withholding tax payments and quarterly estimated tax payments for the 2011 tax year will be received before the end of the 2011-12 State fiscal year. Settlement payments – those payments received when taxpayers file final returns for a tax year – tend to be received in the next State fiscal year after the end of a tax year. Thus, settlement payments for the 2011 tax year will be received largely in the 2012-13 fiscal year.

As is evident in the graph below showing net settlement payments for the 1992 through 2011 tax years, the amount of liability received in the settlement can vary widely from year to year. In most years, the net settlement has been very negative, with State settlement outlays (such as refunds and offsets) far exceeding taxpayer settlement payments (such as those sent with returns and extension requests). There have been some important exceptions to this pattern – most notably during times of tax reform and rapid economic growth, and during periods with large increases in non-wage income.



Several different settlement patterns have occurred in recent years. With the rapid growth of the New York economy in the late 1990s, the settlement became much less negative than it traditionally had been. This pattern resulted generally from prepayment growth rates that fell short of liability growth rates, leading to the need for increased settlement payments with final returns. With the weak economy of 2001 and 2002, taxpayers, in aggregate, dramatically reduced their settlement payments and the total settlement became very negative again, with the net amount paid out by the State exceeding $2 billion for the 2002 tax year. Due to the temporary tax increases enacted by the Legislature in 2003, the net settlement payout by the State was negative by $530 million for the 2004 tax year and $280 million for tax year 2005. However, the 2006 settlement was negative by $950 million, due mainly to refund claims for the new child credit. Due to strength of the 2007 tax year, the 2007 settlement was highly positive at $980 million. However, due to the recessionary economic environment, the 2008 settlement turned negative again ($3.26 billion), while the 2009 settlement was a significantly less negative $2.22 billion. Due to strong extension payments, the 2010 settlement ended at an even smaller negative $1.17 billion. The 2009 and 2010 settlements include payments attributed to the 2009 rate increase that are not reflected in prepayments. The 2011 settlement is projected to be a negative $1.47 billion.

For tax years 2009, 2010 and 2011, New York temporarily added two new tax rates: 7.85 percent on taxable income over $300,000 for married joint filers (lower level for others) and 8.97 percent on taxable income over $500,000 for all filers. Further, laws enacted in 2009 completely disallowed the use of itemized deductions (except for charitable contributions) for taxpayers with NYSAGI over $1 million. For tax years 2010 and 2011, the itemized deduction for charitable contributions has been further reduced from 50 percent to 25 percent for taxpayers with NYSAGI over $10 million.

For tax years 2012 to 2014, four new tax brackets and rates replaced the former bracket and rate applicable to taxpayers with taxable income above $40,000 for married filing jointly returns (with lower levels for other filing categories). The tax rate for taxpayers (married filing jointly returns) with taxable income in the $40,000 to $150,000 and $150,000 to $300,000 brackets has been lowered to 6.45 percent and 6.65 percent respectively, while the rates on the $300,000 to $2 million tax bracket remained unchanged from 2008 law at 6.85 percent. The top rate for those earning $2 million and above (married filing jointly returns) has been increased to 8.82 percent. The tax brackets and standard deduction amounts were also indexed to the CPIU starting in tax year 2013.

The above mentioned personal income tax reform enacted in December of 2011 affects both the liability and cash estimates and projections for the five fiscal years starting in 2011-12. Table 8 summarizes the impact of the personal income tax reform for both tax liability and associated collections.

Table 8
DECEMBER 2011 PIT REFORM
TAX YEAR AND FISCAL YEAR ESTIMATES - CURRENT LAW
(millions of dollars)

	Fiscal Year					
Tax Year	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**Liability Totals**
2012						
Withholding	385	545	0	0	0	
Estimated Tax	0	974	0	0	0	
Settlement	0	0	439	0	0	
Subtotal	385	1,519	439	0	0	2,343
2013						
Withholding	0	412	397	0	0	
Estimated Tax	0	0	756	0	0	
Settlement	0	0	0	382	0	
Subtotal	0	412	1,153	382	0	1,947
2014						
Withholding	0	0	442	321	0	
Estimated Tax	0	0	0	788	0	
Settlement	0	0	0	0	410	
Subtotal	0	0	442	1,109	410	1,961
Total	385	1,931	2,034	1,491	410	6,251
CPIU Indexing	**0**	**0**	**0**	**(156)**	**(331)**	
Total Fiscal Year Impact	385	1,931	2,034	1,335	79	

For a more detailed discussion of the methods and models used to develop estimates and projections for the personal income tax, please see the *Economic, Revenue and Spending Methodologies* at www.budget.ny.gov.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2011-12 Estimates

All Funds collections through December are approximately $27,318 million, an increase of $2,887 million (11.8 percent) above the comparable period in the prior fiscal year.

All Funds receipts for 2011-12 are estimated to be $38,664 million, an increase of $2,454 million (6.8 percent) from the prior year. This is primarily attributable to increases in extension payments of $1,195 million for tax year 2010 and in current estimated payments of $599 million for tax year 2011. The personal income tax reform enacted in December 2011, projected to generate $385 million in withholding in the first quarter of 2012, should partially counteract the revenue loss resulting from the expiration of the 2009 temporary rate increase and the projected year-over-year decline from lower financial sector bonuses for 2011-12. The spike in the extension payments for tax year 2010 most likely reflects catch-up payments for increased liability due to one-time realization of capital gains caused by uncertainty surrounding the late extension of the lower Federal tax rates on capital gains and high-income taxpayers in December 2010.

Total refunds are expected to decrease by $566 million (7.3 percent) compared to 2010-11. This decrease primarily reflects an artificially high 2010-11 refunds base caused by the shift of $500 million of 2009-10 refunds into 2010-11. The prior year refunds for tax years prior to 2010, which decreased by $367 million, also contributed to lower 2011-12 refunds.

Table 9 shows the components of the personal income tax from 2008-09 through 2012-13.

TABLE 9
FISCAL YEAR COLLECTION COMPONENTS
ALL FUNDS
(millions of dollars)

	2008-09 (Actual)	2009-10 (Actual)	2010-11 (Actual)	2011-12 (Estimated)	2012-13 (Projected)
Receipts					
Withholding	27,686	29,443	31,240	31,197	32,598
Estimated Payments	12,690	9,028	9,735	11,530	12,212
Current Year	7,889	6,938	7,386	7,985	8,879
Prior Year*	4,801	2,090	2,349	3,545	3,334
Final Returns	2,686	1,822	1,964	2,125	2,203
Current Year	192	206	215	227	227
Prior Year*	2,494	1,616	1,749	1,898	1,976
Delinquent Collections	949	1,100	1,063	1,039	1,104
Gross Receipts	44,011	41,393	44,002	45,891	48,117
Refunds					
Prior Year*	4,544	4,986	5,171	4,715	5,201
Previous Years	402	468	772	404	557
Current Year*	1,750	1,250	1,750	1,750	1,750
State-City Offset*	475	(-62)	100	358	298
Total Refunds	7,171	6,642	7,793	7,227	7,806
Net Receipts	36,840	34,751	36,210	38,664	40,311

* These components, collectively, are known as the "settlement" on the prior year's tax liability.

The primary risk to the 2011-12 receipts estimate results from uncertainty surrounding a projected significant decline in bonus payments paid by financial services companies. A large portion of these financial sector bonuses are typically paid in the first quarter of the calendar year. Consequently, complete information about such payments is not available when Budget estimates are constructed. The forecast assumes a 17.8 percent increase in capital gains for tax year 2011. Likewise, the forecast also assumes a 4.1 percent decrease in withholding during the first calendar quarter of 2012 due to the projected sharp drop in financial sector bonuses.

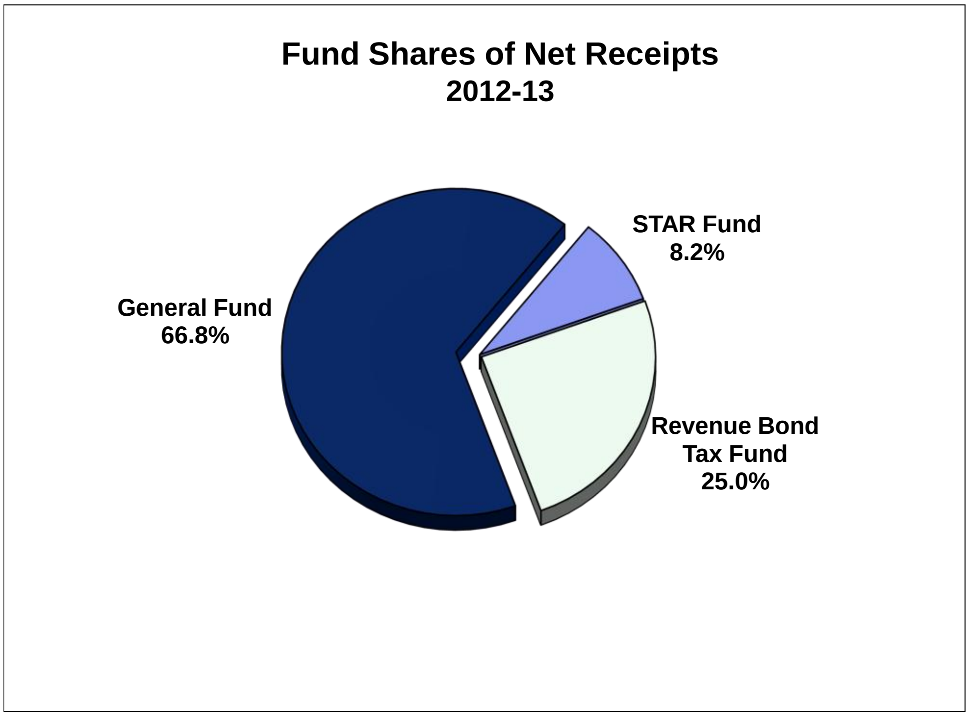
2012-13 Projections

All Funds receipts are projected to be $40,311 million, an increase of $1,647 million (4.3 percent) from 2011-12.

This primarily reflects year-over-year growth of $1,546 million in receipts from the personal income tax reform enacted in December 2011 and an $829 million increase in pre-reform withholding receipts, partially reduced by $579 million (8 percent) in higher total refunds.

Withholding is projected to be $1,401 million (4.5 percent) higher compared to 2011-12, due mainly to $572 million of additional receipts from recently enacted personal income tax reform combined with modest growth in the pre-reform withholding base. Estimated payments for tax year 2012, which includes $974 million from PIT reform, are projected to be $894 million (11.2 percent) higher. Final return payments for tax year 2011 and delinquencies are projected to be $78 million (4.1 percent) and $65 million (7.1 percent) higher, respectively.

The increase in total refunds of $579 million reflects a $486 million (10.8 percent) increase in current refunds and a $153 million (38.3 percent) increase in prior refunds, reduced by a $60 million (16.8 percent) decrease in the state-city offset.



General Fund

General Fund net personal income tax receipts are estimated to be $25,705 million in 2011-12 and are projected to be $26,911 million in 2012-13.

Other Funds

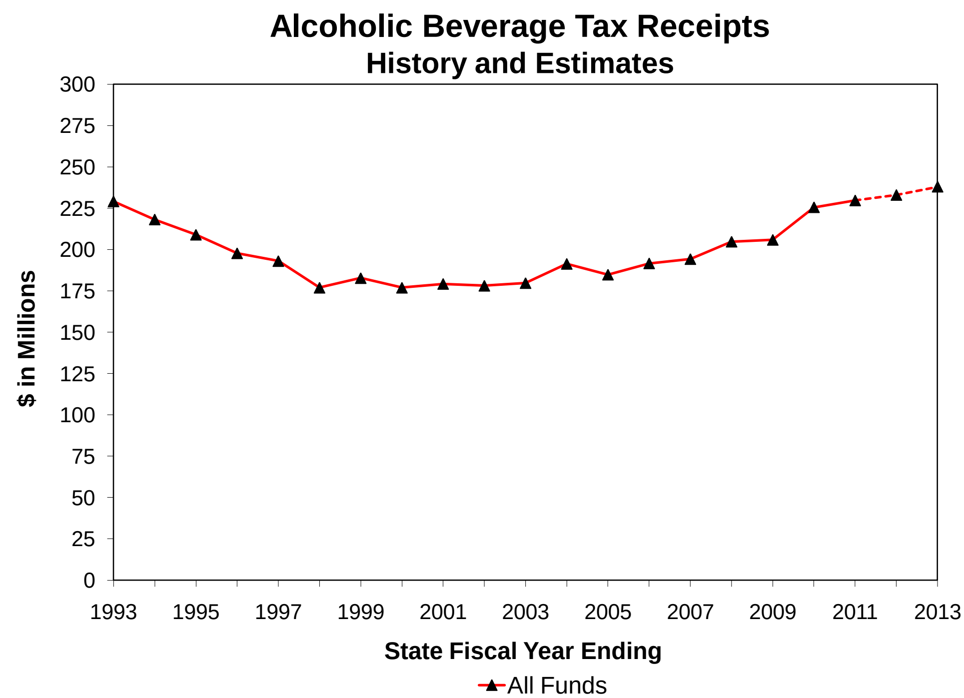
In 2011-12 and 2012-13, respectively, dedicated personal income tax receipts of $3,293 million and $3,322 million will be deposited into the School Tax Relief Fund.

In 2011-12 and 2012-13, respectively, dedicated receipts of $9,666 million and $10,078 million will be deposited into the Revenue Bond Tax Fund (RBTF). This increase reflects the growth in net income tax collections upon which the RBTF is based.

ALCOHOLIC BEVERAGE TAXES

ALCOHOLIC BEVERAGE TAXES (millions of dollars)							
	2010-11 Actual	2011-12 Estimated	Change	Percent Change	2012-13 Projected	Change	Percent Change
General Fund	229.7	233.0	3.3	1.4	238.0	5.0	2.1
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	229.7	233.0	3.3	1.4	238.0	5.0	2.1

Note: Totals may differ due to rounding.



ALCOHOLIC BEVERAGE TAXES BY FUND (thousands of dollars)				
	Gross General Fund	Refunds	General Fund	All Funds Receipts
2002-03	180,686	931	179,755	179,755
2003-04	191,380	23	191,357	191,357
2004-05	184,955	68	184,887	184,887
2005-06	191,696	22	191,674	191,674
2006-07	194,379	83	194,296	194,296
2007-08	205,375	546	204,829	204,829
2008-09	205,913	5	205,908	205,908
2009-10	225,647	87	225,560	225,560
2010-11	229,718	0	229,718	229,718
Estimated				
2011-12	233,100	100	233,000	233,000
2012-13				
Current law	238,100	100	238,000	238,000
Proposed law	238,100	100	238,000	238,000

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

Tax Base and Rate

New York State imposes excise taxes at various rates on liquor, beer, wine and specialty beverages.

STATE TAX RATES (dollars per unit of measure)		
Liquor over 24 percent alcohol	1.70	per liter
All other liquor with more than 2 percent alcohol	0.67	per liter
Liquor with not more than 2 percent alcohol	0.01	per liter
Naturally sparkling wine	0.30	per gallon
Artificially carbonated sparkling wine	0.30	per gallon
Still wine	0.30	per gallon
Beer with 0.5 percent or more alcohol	0.14	per gallon
Cider with more than 3.2 percent alcohol	0.04	per gallon

Administration

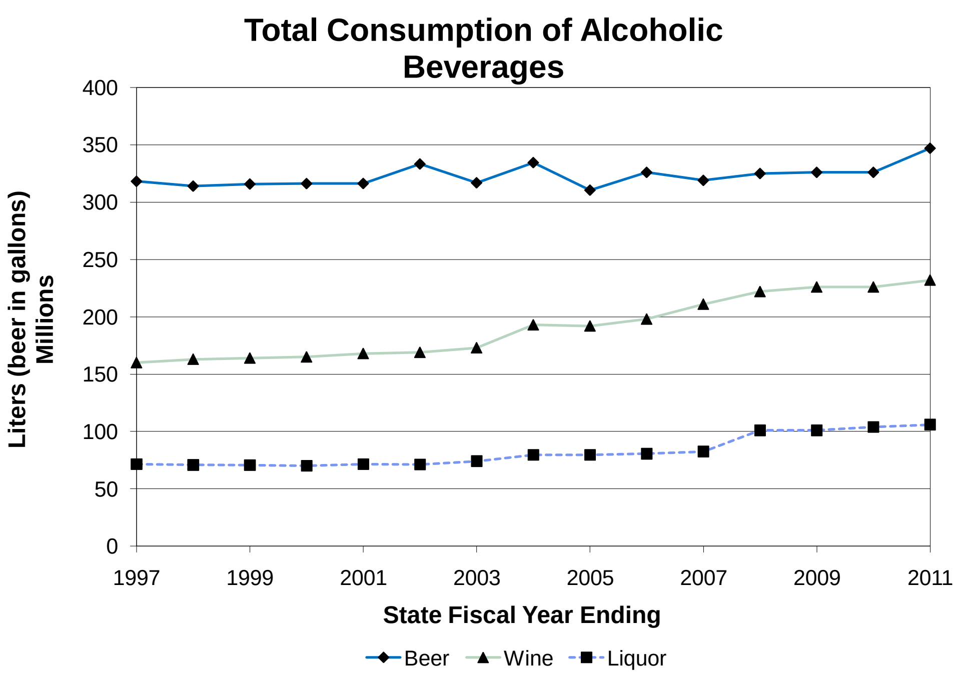
The tax is remitted by licensed distributors and noncommercial importers of such beverages in the month following the month of delivery.

Significant Legislation

The significant statutory changes to this tax source are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1989		
Various Tax Increases	Increased the State excise tax rate on: beer with at least 0.5 percent alcohol from 5.5 cents to 11 cents per gallon; liquor with at least 24 percent alcohol from $1.08 to $1.40 per liter; liquor with between 2 and 24 percent alcohol from 26.4 cents to 55 cents per liter; wine from 12.1 cents to 19 cents per gallon; and cider with at least 3.2 percent alcohol from 1.5 cents to 3.8 cents per gallon.	May 1, 1989
Legislation Enacted in 1990		
Various Tax Increases	Increased the State excise tax rate on: beer with at least 0.5 percent alcohol from 11 cents to 21 cents per gallon; liquor with at least 24 percent alcohol from $1.40 to $1.70 per liter; and liquor with between 2 and 24 percent alcohol from 55 cents to 66.8 cents per liter.	June 1, 1990
Legislation Enacted in 1994		
Wine Tax Decreased	Decreased the State excise tax rate on: artificially carbonated sparkling wine from 56.8 cents per gallon to 19 cents per gallon; and naturally sparkling wine from 94 cents per gallon to 19 cents per gallon.	July 1, 1994
Legislation Enacted in 1995		
Beer Tax Cut	Reduced the State excise tax rate on beer with at least 0.5 percent alcohol from 21 cents to 16 cents per gallon.	January 1, 1996
Legislation Enacted in 1998		
Beer Tax Cut	Reduced the state excise tax rate on beer with at least 0.5 percent alcohol from 16 cents to 13.5 cents per gallon.	January 1, 1999

Subject	Description	Effective Date
Legislation Enacted in 1999		
Beer Tax Cut	Reduced the State excise tax rate on beer with at least 0.5 percent alcohol from 13.5 cents to 12.5 cents per gallon.	April 1, 2001
Exemption	Increased the small brewers' tax exemption from the first 100,000 barrels of domestically brewed beer to 200,000 barrels.	April 1, 2001
Legislation Enacted in 2000		
Exemption	Accelerated the small brewers exemption increase by moving the effective date from April 1, 2001, to January 1, 2000.	January 1, 2000
Beer Tax Cut	Reduced the State excise tax rate on beer with at least 0.5 percent alcohol from 12.5 cents to 11 cents per gallon.	September 1, 2003
Legislation Enacted in 2007		
Auction Licenses	Authorized the sale of privately held liquors to persons licensed by the State Liquor Authority to conduct auctions.	October 15, 2007
Legislation Enacted in 2008		
Seven Day Sales	Authorization made permanent.	April 1, 2008
Enforcement Provisions	Various enforcement and penalty provisions made permanent.	October 31, 2009
Legislation Enacted in 2009		
Beer Tax Increase	Increased the State excise tax rate on beer from 11 cents per gallon to 14 cents per gallon.	May 1, 2009
Wine Tax Increase	Increased the State excise tax rate on wine from 19 cents per gallon to 30 cents per gallon.	May 1, 2009
Enforcement Provisions	New third party reporting requirements imposed.	May 1, 2009



TAX LIABILITY

Overall, consumption of taxed beverages and receipts has increased across all alcoholic beverage categories, particularly wine and liquor, since 2006-07. In 2010-

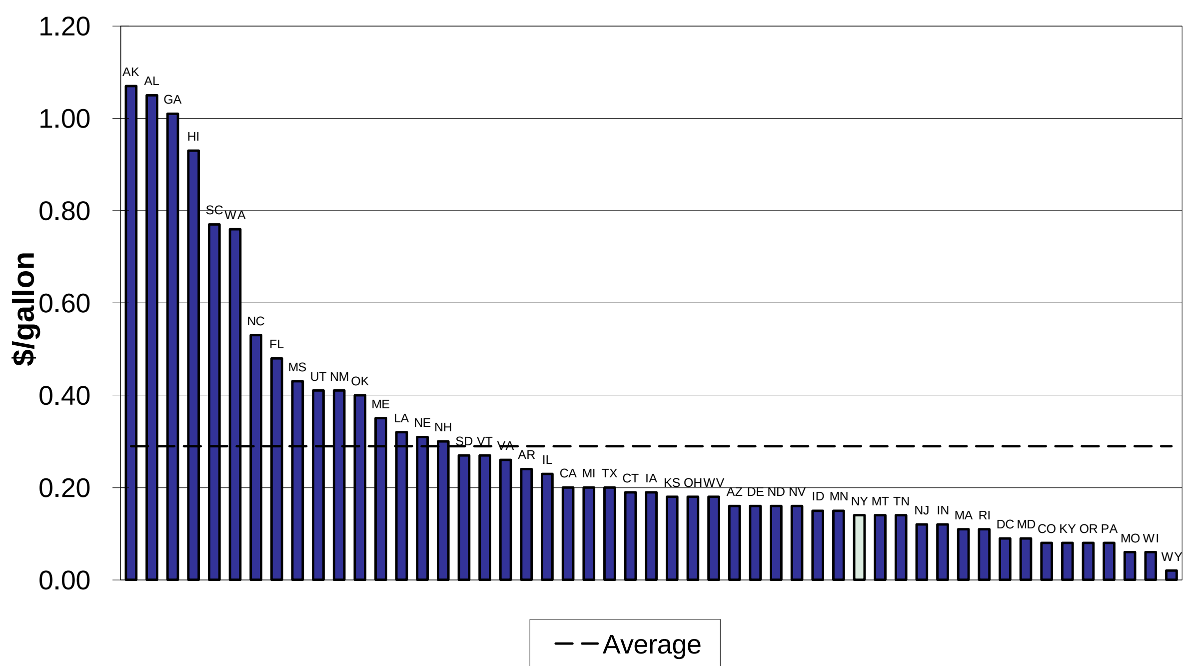
2011, price conscious consumers appear to have shifted consumption to beer in response to the economic downturn.

Other States

Compared with the alcohol tax rates in the other states in the nation, New York State currently has:

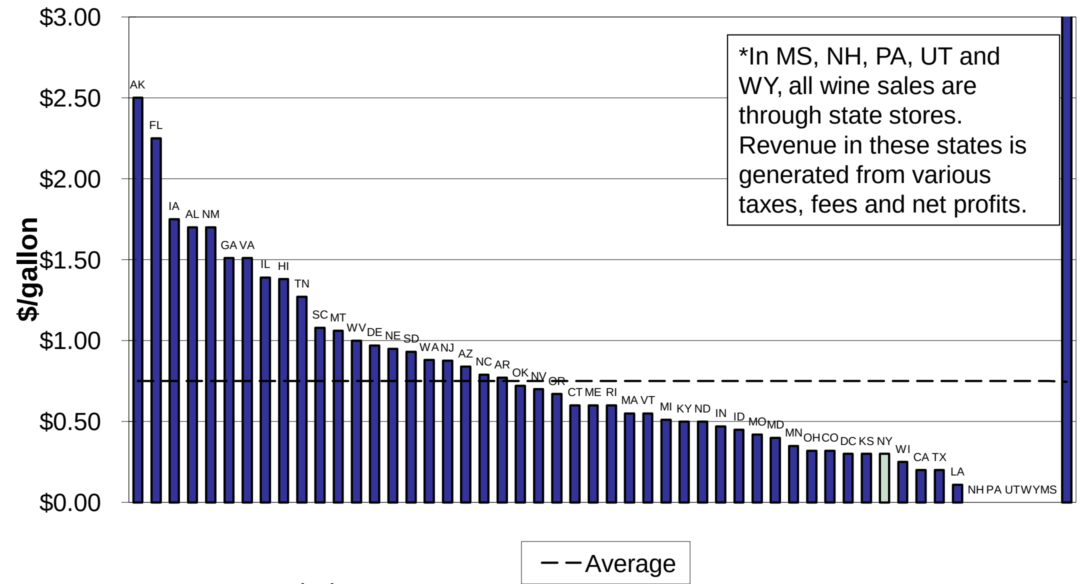
- The sixteenth lowest beer tax;
- The fifth lowest wine tax (of those participating states); and
- The fourteenth highest liquor tax (of those participating states).

Beer Tax Rates by State (January 2011)



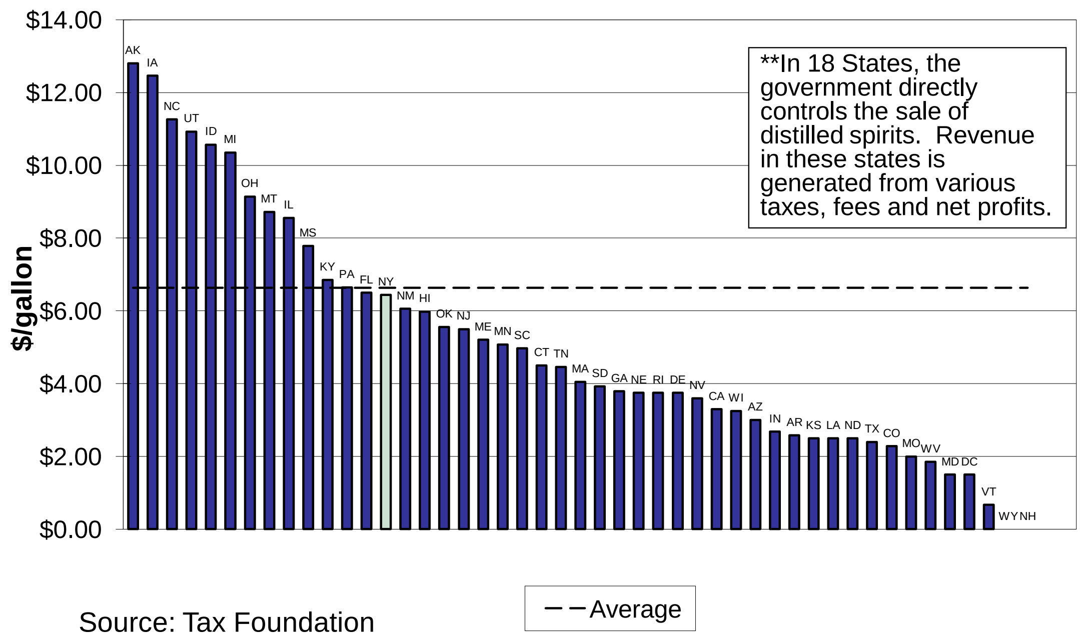
Source: Tax Foundation

Wine Tax Rates by State
(January 2011)



Source: Tax Foundation

Liquor Tax Rates by State
(September 2010)



Source: Tax Foundation

*Note: 18 States have direct control over the sale of distilled spirits. The implied Excise Tax rate is calculated using methodology designed by the Distilled Spirits Council of the United States (DISCUS).

ALCOHOLIC BEVERAGE TAXES

The New York State tax on liquor is relatively high compared to other forms of alcohol but still below the average of all states. Enforcement legislation enacted in 1993 added registration, invoice and manifest requirements, as well as seizure and forfeiture provisions. Additionally, the legislation provided higher fines for the bootlegging of varying volumes of liquor. These alcoholic beverage enforcement provisions have provided some protection to the State's liquor industry and tax base, thereby moderating year-over-year declines in State alcoholic beverage tax receipts. Other provisions were extended on a number of occasions and were made permanent in 2008. In 2009, new third party reporting requirements were imposed on wholesalers. It is expected that retailers will have an increased incentive to fully report sales.

For a more detailed discussion of the methods and models used to develop estimates and projections for the alcohol beverage taxes, please see the *Economic, Revenue and Spending Methodologies* at www.budget.ny.gov.

ALCOHOLIC BEVERAGE TAX ENFORCEMENT PROVISIONS

Violations	Volume	Penalties
Import liquor without registration		Class A misdemeanor
Produce, distill, manufacture, compound, mix or ferment liquors without registration or tax payments		Class A misdemeanor
Cause liquor covered by a warehouse receipt to be removed from a warehouse		Class A misdemeanor
Three or more above violations in a five-year period		Class E felony
Import liquor without registration	More than 360 liters within one year	Class E felony
Produce, distill, manufacture, compound, mix or ferment liquors without registration or tax payments	More than 360 liters within one year	Class E felony
Cause liquor covered by a warehouse receipt to be removed from a warehouse	More than 360 liters within one year	Class E felony
Custody, possession or control of liquor without registration or tax payments		Class B misdemeanor
Custody, possession or control of liquor without registration or tax payments	Exceeds 360 liters	Class E felony
Import liquor without registration	More than 90 liters	Seize transportation vehicles and liquor.
Distribute or hold liquor for sale without paying alcoholic beverage taxes	More than 90 liters	Seize transportation vehicles and liquor.
Failure by a distributor to pay the tax		10 percent of the tax amount due, plus 1 percent each month after the expiration. The penalty shall not be less than $100 but shall not exceed 30 percent in aggregate.
Failure by any other person to pay the tax		50 percent of the tax amount due, plus 1 percent each month after the expiration. The penalty shall not be less than $100.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2011-12 Estimates

All Funds collections through December are $178.9 million, an increase of $4 million (2.3 percent) above the comparable period in the prior fiscal year.

All Funds receipts for 2011-12 are estimated to be $233 million, an increase of $3.3 million (1.4 percent) above last year.

Of the total estimated receipts, $170 million is projected to be derived from liquor, $44 million from beer and $19 million from wine and other taxed beverages.

COMPONENTS OF ALCOHOLIC BEVERAGE TAXES RECEIPTS
(millions of dollars)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12 Estimated	2012-13 Projected
Beer	37	38	36	44	45	44	45
Liquor	147	154	159	163	167	170	174
Wine & Other	12	13	11	17	18	19	19
Total	196	205	206	224	230	233	238

2012-13 Projections

All Funds receipts are projected to be $238 million, an increase of $5 million (2.1 percent) above 2011-12.

Based on recent trends, the consumption of all categories of alcohol is expected to grow modestly.

Of total projected alcoholic beverage tax receipts, $174 million is projected to be derived from liquor, $45 million from beer, and $19 million from wine and other specialty beverages.

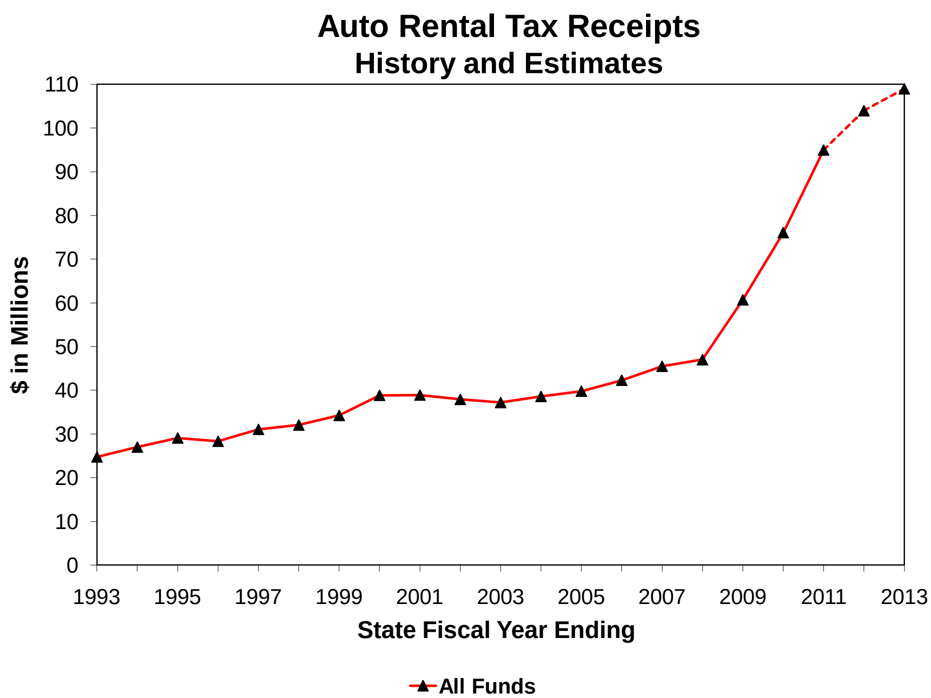
General Fund

Currently, all receipts from the alcoholic beverage tax are deposited in the General Fund.

AUTO RENTAL TAX

AUTO RENTAL TAX (millions of dollars)							
	2010-11 Actual	2011-12 Estimated	Change	Percent Change	2012-13 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	95.0	104.0	9.0	9.5	109.0	5.0	4.8
All Funds	95.0	104.0	9.0	9.5	109.0	5.0	4.8

Note: Totals may differ due to rounding.



AUTO RENTAL TAX BY FUND (millions of dollars)			
	Capital Project Funds[1]	Special Revenue Funds[2]	All Fund Receipts
2002-03	37.2	0.0	37.2
2003-04	38.6	0.0	38.6
2004-05	39.8	0.0	39.8
2005-06	42.3	0.0	42.3
2006-07	45.5	0.0	45.5
2007-08	47.0	0.0	47.0
2008-09	60.7	0.0	60.7
2009-10	51.7	24.4	76.1
2010-11	60.0	35.0	95.0
Estimated			
2011-12	65.0	39.0	104.0
2012-13			
Current Law	68.0	41.0	109.0
Proposed Law	68.0	41.0	109.0

[1] Dedicated Highway and Bridge Trust Fund.
[2] MTA Aid Trust Account.

AUTO RENTAL TAX

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

Tax Base and Rate

On June 1, 1990, the State imposed a 5 percent tax on charges for the rental or use in New York State of a passenger car with a gross vehicle weight of 9,000 pounds or less. The rate was increased to 6 percent on June 1, 2009. In addition, on June 1, 2009, a supplemental tax at the rate of 5 percent was imposed on the receipts from the rental of a passenger car within the Metropolitan Commuter Transportation District (MCTD). For more information, please see the Metropolitan Transportation Authority (MTA) Financial Assistance Fund Receipts Section.

The auto rental tax applies to a vehicle rented by a resident or a nonresident, regardless of where the vehicle is registered. The tax does not apply to a car lease covering a period of one year or more.

Administration

The auto rental tax is remitted quarterly by the vendor on the vendor's sales tax return to the Department of Taxation and Finance.

TAX LIABILITY

Receipts from the auto rental tax are influenced by the overall health of the economy, particularly consumer and business spending on travel. Unusual events that affect travel have had a significant influence on receipts.

For a more detailed discussion of the methods and models used to develop estimates and projections for the auto rental tax, please see the *Economic, Revenue and Spending Methodologies* at www.budget.ny.gov.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2011-12 Estimates

All Funds collections through December are $84 million, an increase of $9.8 million (13.2 percent) above the comparable period in the prior fiscal year. Absent the MCTD supplemental tax, auto tax receipts would have increased $5.7 million (12.2 percent).

All Funds receipts for 2011-12 are estimated to be $104 million, an increase of $9 million (9.5 percent) above last year. This includes an estimated $39 million from the supplemental tax on passenger car rentals in the MCTD. Absent the supplemental tax, auto rental tax receipts are estimated to increase by $5 million (8.3 percent).

2012-13 Projections

All Funds receipts are projected to be $109 million, an increase of $5 million (4.8 percent) above 2011-12. This increase reflects projected growth in the national consumption of motor vehicle rental services.

General Fund

Since April 1, 2002, no auto rental tax receipts have been deposited in the General Fund.

Other Funds

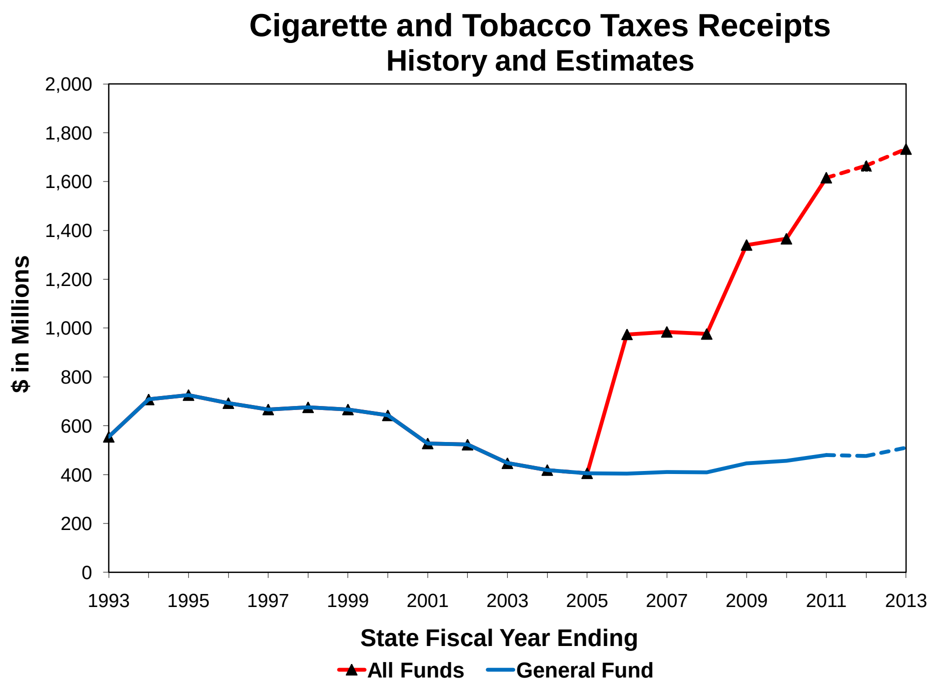
Legislation enacted in 2002 dedicated all receipts from the auto rental tax to the Dedicated Highway and Bridge Trust Fund, effective April 1, 2002.

Legislation enacted in 2009 dedicated all receipts from the supplemental tax on passenger cars in the MCTD to the MTA Aid Trust Account of the MTA Financial Assistance Fund, effective June 1, 2009.

CIGARETTE AND TOBACCO TAXES

CIGARETTE AND TOBACCO TAXES (millions of dollars)							
	2010-11 Actual	2011-12 Estimated	Change	Percent Change	2012-13 Projected	Change	Percent Change
General Fund	480.2	476.0	(4.2)	(0.9)	511.0	35.0	7.4
Other Funds	1,135.5	1,189.0	53.5	4.7	1,222.0	33.0	2.8
All Funds	1,615.7	1,665.0	49.3	3.1	1,733.0	68.0	4.1

Note: Totals may differ due to rounding.



CIGARETTE AND TOBACCO TAXES BY FUND (millions of dollars)					
	Gross General Fund	Refunds	General Fund	Special Revenue Funds*	All Funds Receipts
2002-03	454	8	446	0	446
2003-04	428	9	419	0	419
2004-05	409	3	406	0	406
2005-06	406	2	404	571	974
2006-07	412	1	411	574	985
2007-08	410	1	409	567	976
2008-09	447	1	446	894	1,340
2009-10	457	1	456	910	1,366
2010-11	481	1	480	1,136	1,616
Estimated					
2011-12	483	7	476	1,189	1,665
2012-13					
Current Law	494	1	493	1,222	1,715
Proposed Law	512	1	511	1,222	1,733

*Between March 2000 and March 2005, a portion of the State's cigarette tax receipts was deposited in the off-budget Tobacco Control and Insurance Initiatives Pool established in the Heath Care Reform Act of 2000. After March 2005, that portion is deposited in the HCRA Resources Pool which is a Special Revenue Fund within the State's Fund structure.

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Reform the tobacco products tax by equalizing the per-ounce rate on loose tobacco with cigarettes and creating a two-tier tax on cigars.

Tax Base and Rate

The New York State cigarette excise tax is imposed by Article 20 of the Tax Law on the sale or use of cigarettes within the State. The current tax rate is $4.35 per package of 20 cigarettes.

The Federal government imposes a cigarette excise tax at a rate of $1.01 per pack on manufacturers and first importers of cigarettes. New York City also levies a separate cigarette excise tax of $1.50 per pack.

STATE, FEDERAL AND NEW YORK CITY CIGARETTE EXCISE TAX RATES PER PACK OF 20 CIGARETTES (since 1950)

State		Federal		New York City	
	Rate (cents)		*Rate* (cents)		*Rate* (cents)
July 1, 1939	2	Before November 1, 1951	7	Before May 1, 1959	1
January 1, 1948	3	November 1, 1951	8	May 1, 1959	2
April 1, 1959	5	January 1, 1983	16	June 1, 1963	4
April 1, 1965	10	January 1, 1991	20	January 1, 1976	8
June 1, 1968	12	January 1, 1993	24	July 2, 2002	150
February 1, 1972	15	January 1, 2000	34		
April 1, 1983	21	January 1, 2002	39		
May 1, 1989	33	April 1, 2009	101		
June 1, 1990	39				
June 1, 1993	56				
March 1, 2000	111				
April 3, 2002	150				
June 3, 2008	275				
July 1, 2010	435				

The State also imposes a tax on other tobacco products, such as chewing tobacco, snuff, cigars, pipe tobacco and roll-your-own cigarette tobacco, at a rate of 75 percent of their wholesale price except for snuff products, which are taxed at a rate of $2.00 per ounce. Cigars with a weight of less than 4 pounds per 1,000 are taxed at a rate equivalent to the state cigarette tax. The Federal government also imposes an excise tax on manufacturers and importers of tobacco products at various rates, depending on the type of product.

Retail establishments that sell cigarettes are required to register with the Department of Taxation and Finance. Vending machine owners are required to purchase stickers from the Department.

The following table provides a comparison of state cigarette tax rates.

CIGARETTE TAX RATES
Cents Per Pack Ranked by State Tax Rate
As of January 1, 2012

Rank (High toLow)	State Rate	Rank (High toLow)	State Rate
New York	**435.0**	Florida	133.9
Rhode Island	346.0	Ohio	125.0
Connecticut	340.0	Oregon	118.0
Haw aii	320.0	Arkansas	115.0
Washington	302.5	Oklahoma	103.0
New Jersey	270.0	Indiana	99.5
Vermont	262.0	Illinois	98.0
Wisconsin	252.0	California	87.0
Massachusetts	251.0	Colorado	84.0
District of Columbia	250.0	Nevada	80.0
Alaska	200.0	Kansas	79.0
Arizona	200.0	Mississippi	68.0
Maine	200.0	Nebraska	64.0
Maryland	200.0	Tennessee	62.0
Michigan	200.0	Kentucky	60.0
Montana	170.0	Wyoming	60.0
Utah	170.0	Idaho	57.0
New Hampshire	168.0	South Carolina	57.0
New Mexico	166.0	West Virginia	55.0
Delaw are	160.0	North Carolina	45.0
Pennsylvania	160.0	North Dakota	44.0
Minnesota	158.6	Alabama	42.5
South Dakota	153.0	Georgia	37.0
National Average	**146.4**	Louisiana	36.0
Texas	141.0	Virginia	30.0
Iow a	136.0	Missouri	17.0

Source: Campaign for Tobacco-Free Kids

Administration

State-registered stamping agents, who are mostly wholesalers, purchase tax stamps from the State and affix the stamps to cigarette packages to be sold by New York State registered retailers. The excise tax is paid by the stamping agent and is passed on. Purchasers of non-State stamped cigarettes, such as cigarettes sold out-of-State or on Native American lands, must remit the cigarette excise tax directly to the Department of Taxation and Finance. An individual may bring two cartons into the State without being subject to the excise tax.

Tax Evasion

Cigarette tax evasion is a serious problem in New York and throughout the Northeast. Widespread evasion not only reduces State and local revenues, but also reduces the income of legitimate wholesalers and retailers. The Department of Taxation and Finance has acted vigorously to curb cigarette bootlegging through investigatory and enforcement efforts. Legislation enacted in 1996 substantially increased penalties for retailers and wholesalers who sell unstamped or illegally stamped packages of cigarettes. Further legislation enacted in 2002 increased the number of enforcement agents.

The positive effects of the 1996 enforcement legislation were realized later that year, with an increase in the number of new retailer license applications. This increase, as well as an enhanced State enforcement presence, may have led to less severe declines in taxable cigarette consumption than otherwise would have occurred.

In 2000, comprehensive legislation was enacted to combat cigarette bootlegging and reduce youth and adult smoking that included prohibiting the delivery by common carrier of cigarettes to individual consumers in New York.

In 2005, legislation was enacted requiring the collection of tax on cigarettes sold on Native American reservations to non-Native Americans through the use of a coupon system to provide an adequate supply of untaxed cigarettes for consumption by the nation or tribe. In January 2007, a preliminary injunction was issued in State Supreme Court enjoining the enforcement of these statutes until certain actions are taken by the Tax Department, including the issuance of enabling regulations and the distribution of Indian tax-exempt coupons. This injunction was lifted in 2010 following the adoption of regulations.

In 2010, legislation was enacted providing for a prior-approval system that allows for the sale of untaxed, stamped cigarettes to be sold to reservation retailers in an amount that will provide an adequate supply of untaxed cigarettes for consumption by the nation or tribe. The Indian nation or tribe can opt to use the coupon system in place of the prior approval system. The prior-approval/coupon system was implemented in 2011 after a Federal Court injunction was lifted. Also in 2010, the Federal government prohibited the shipment of cigarettes through the U.S. Postal Service.

Significant Legislation

The significant statutory changes to cigarette and tobacco taxes since 1939 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1939		
Cigarettes – Imposition	Imposed a “temporary” tax on the sale of cigarettes at the rate of $0.02 per pack.	July 1, 1939
Legislation Enacted in 1947		
Cigarettes – Permanent	Made the $0.02 per pack tax on cigarettes permanent.	March 8, 1947
Cigarettes – Additional Tax	Imposed an additional $0.01 per pack tax (0.5 cents per 10 cigarettes) to finance the “war bonus account.”	January 1, 1948
Legislation Enacted in 1949		
Cigarettes – Use Tax	Enacted a cigarette use tax.	May 1, 1949
Legislation Enacted in 1959		
Cigarettes – Increase	Increased the cigarette tax to $0.05 per pack from $0.03.	April 1, 1959
Tobacco – Imposition	Enacted a tobacco products tax equal to 15 percent of the wholesale price of tobacco products.	July 1, 1959
Legislation Enacted in 1961		
Tobacco – Repeal	Repealed the tobacco products tax.	July 1, 1961

Subject	Description	Effective Date
Legislation Enacted in 1985		
Cigarettes - CMSA	Enacted the Cigarette Marketing Standards Act (CMSA) as Article 20-A of the Tax Law.	November 1, 1985
Legislation Enacted in 1989		
Tobacco – Imposition	Enacted a tobacco products tax equal to 15 percent of the wholesale price of tobacco products.	July 1, 1989
Legislation Enacted in 1993		
Tobacco – Rate Increase	Increased the tobacco products tax to 20 percent of the wholesale price from 15 percent.	June 1, 1993
Legislation Enacted in 1996		
Enforcement Provisions	Increased penalties and fines for selling unstamped cigarettes, violation of retail dealer and vending machine registration provisions, and providing inaccurate registration information.	December 3, 1996
Legislation Enacted in 1999		
Cigarette Tax Increase	Increased the cigarette excise tax from 56 cents to $1.11 per pack, as part of the Health Care Reform Act (HCRA) of 2000.	March 1, 2000
Legislation Enacted in 2000		
Underage Smoking	Increased penalties for illegal sales of tobacco products to minors.	September 1, 2000
Enforcement Provisions	Created civil and criminal penalties for persons who sell and ship cigarettes to persons who are not licensed or registered cigarette dealers or agents.	November 16, 2000
Enforcement Provisions	Created civil and criminal penalties for carriers who transport cigarettes to persons who are not licensed or registered cigarette dealers or agents.	January 1, 2001
Safe Cigarettes	Required the promulgation and imposition of fire-safety standards for cigarettes and rolled tobacco products sold in New York.	July 1, 2004
Legislation Enacted In 2002		
Cigarette Tax Increase	Increased the cigarette excise tax from $1.11 per pack to $1.50 per pack.	April 3, 2002
Tobacco Tax Increase	Increased the other tobacco products tax from 20 percent of the wholesale price to 37 percent.	July 3, 2002
Enforcement Provisions	Increased the number of enforcement agents.	May 29, 2002
Legislation Enacted In 2005		
Enforcement Provisions	Required collection of tax on sales to non-Native Americans on New York reservations.	March 1, 2006
Legislation Enacted In 2008		
Cigarette Tax Increase	Increased the cigarette excise tax from $1.50 per pack to $2.75 per pack.	June 3, 2008
Tobacco Tax	Imposed a tax on snuff products at a rate of $0.96 cents per ounce.	July 1, 2008
Legislation Enacted In 2009		
Cigarette Tax	Increased retail registration fees from $100 to $1,000 for retail locations with less than $1 million in annual sales, $2,500 for retail locations with annual sales of at least $1 million but less than $10 million, and $5,000 for retail locations with sales of $10 million or more.	January 1, 2010
Tobacco Tax	Increased the other tobacco products tax from 37 percent of the wholesale price to 46 percent.	April 7, 2009

Subject	Description	Effective Date
Legislation Enacted In 2010		
Cigarette Tax Increase	Increased the cigarette excise tax from $2.75 per pack to $4.35 per pack.	July 1, 2010
Enforcement Provisions	Required all cigarettes sold to Native American nations or tribes and reservation cigarette sellers to bear a tax stamp, established a prior approval system for sales of untaxed, stamped cigarettes to reservation retailers, and allowed the governing body of an Native American nation or tribe to opt to use the coupon system for the purchase of tax exempt cigarettes for sales to its members.	September 1, 2010
Tobacco Tax	Increased the tobacco products tax to 75 percent of the wholesale price from 46 percent; increased the tax on snuff to $2.00 per ounce from $0.96 per ounce; and created a new category under the tobacco products tax imposing a tax on "little cigars" at a rate equivalent to the cigarette tax rate.	August 1, 2010
Legislation Enacted In 2011		
Cigarette Tax	Repealed the graduated annual retail registration fee of between $1,000 and $5,000 annually and replaced it with a flat $300 annual fee.	January 1, 2010

TAX LIABILITY

Taxable cigarette consumption is a function of retail cigarette prices and a long-term downward trend in consumption. The decline in consumption reflects the impact of increased public awareness of the adverse health effects of smoking, smoking restrictions imposed by governments, anti-smoking education programs, and changes in consumer preferences toward other types of tobacco. Recently, declines in taxable consumption have been exacerbated by evasion.

For a more detailed discussion of the methods and models used to develop estimates and projections for the cigarette and tobacco taxes, please see the *Economic, Revenue and Spending Methodologies* at www.budget.ny.gov.

TOBACCO MSA PAYMENTS

Under the Tobacco Master Settlement Agreement (MSA) reached between states and manufacturers in 1998, manufacturers are required to make payments to New York. The amounts of these payments are subject to various adjustments. The adjustment for the volume of packs shipped is based on national shipments, and changes in New York consumption will have only a minor impact. In 2003 and 2004, New York State issued $4.2 billion in tobacco bonds and used these payments to pay debt service.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2011-12 Estimates

All Funds collections (including HCRA) through December are $1,291.1 million, an increase of $35.3 million (2.8 percent) above the comparable period in the prior fiscal year.

Total receipts for 2011-12 are estimated to be $1,665 million, an increase of $49.3 million (3.1 percent) from 2010-11. The increase reflects the implementation of the prior-approval system for sales to Native American retailers and full-year impacts of the State cigarette tax increase of $1.60 per pack, to $4.35 per pack, effective July 1, 2010.

2012-13 Projections

All Funds receipts are projected to be $1,733 million, an increase of $68 million (4.1 percent) from 2011-12. This increase reflects the full year of cigarette tax revenue from the implementation of laws requiring the collection of tax on cigarettes sold on Indian reservations to non-Native Americans and the impact of legislation included in the Executive Budget to reform the tobacco products tax.

Health Care Reform Act (HCRA)

Legislation passed in 2002 established a percentage distribution of cigarette tax receipts to HCRA. The following table shows the historic distributions since then.

CIGARETTE TAX DISTRIBUTION (percent)	
April 1, 2002, to April 30, 2002	
General Fund	56.30
HCRA	43.70
May 1, 2002, to March 31, 2003	
General Fund	35.45
HCRA	64.55
April 1, 2003, to June 2, 2008	
General Fund	38.78
HCRA	61.22
Beginning June 3, 2008	
General Fund	29.37
HCRA	70.63
Beginning July 1, 2010	
General Fund	24.00
HCRA	76.00

Prior to 2005-06, HCRA was not included within the State's fund structure. Beginning in 2005-06, the HCRA Resources Pool was included in the State's All Funds collections as a Special Revenue Fund. Currently, 76 percent of the proceeds from the State cigarette tax of $4.35 are deposited in the HCRA Resources Pool.

Based on the percentage distribution of the cigarette tax, the pool will receive an estimated $1,189 million in 2011-12. Preliminary receipts for the first 9 months of 2011-12 are $920.1 million, $43.6 million (5 percent) above receipts for the comparable period in 2010-11. The increase in receipts reflects the full-year impact of the June 2010 cigarette tax increase and the implementation of the prior-approval system for sales of cigarettes to Native American retailers.

Receipts in 2012-13 are projected to be $1,222 million, an increase of $33 million (2.8 percent) from 2011-12. This reflects the full-year impact of the prior-approval system, partially offset by historical trend declines in cigarette consumption.

As part of the agreement allowing New York City to increase its cigarette tax from eight cents to $1.50 per pack in July 2002, the City provides the State with 46 percent of the receipts generated through its tax. These receipts are deposited into the HCRA Resources Pool. The New York State share of the City's cigarette tax is projected to be $59 million in 2011-12 and $58 million in 2012-13.

General Fund

General Fund preliminary collections through December are $375.5 million, a decrease of 3.8 million (1 percent) below the comparable period in the prior fiscal year.

General Fund cigarette and tobacco tax receipts for 2011-12 are estimated at $476 million, a decrease of 4.2 million (0.9 percent) from 2010-11. Receipts from the cigarette tax are projected to be $375.5 million, a decrease of $6 million (1.6 percent) from 2010-11. This decrease reflects the loss of revenue from pre-buying in advance of the July 1, 2010 cigarette tax increase and trend declines in consumption, partially offset by increased taxable sales as a result of the prior-approval system. Receipts from the tobacco products tax are projected to be $95 million, $0.9 million (0.9 percent) lower than in 2010-11 as the full-year impact of the August 1010 tax increase is more than offset by the impact of a Tax Tribunal ruling issued in 2011 on the definition of wholesale price.

Receipts from retail cigarette registrations are estimated to be $5.5 million in 2011-12, an increase of $2.7 million from 2010-11. Legislation enacted in 2011 repealed the graduated fee structure that had been enjoined due to litigation, and implemented a $300 annual fee. The increased revenue from the higher fee, imposed retroactively to 2010 registrations, is partially offset by refunds of fees for retailers who paid the full graduated fee for 2010 and 2011 registrations.

Under current law, General Fund cigarette tax and tobacco tax receipts in 2012-13 are projected at $493 million, an increase of $17 million (3.6 percent) from 2011-12. Cigarette tax receipts are expected to be $385.9 million, or $10.4 million higher than in 2011-12, while tobacco products tax receipts are estimated to be $99.6 million, an increase of $4.6 million (4.8 percent) from 2011-12. The cigarette tax increase is the result of the full year impact of the prior-approval system, while the increase in tobacco taxes reflect lower refunds following the 2011 Tax Tribunal decision. Receipts from retail registrations are projected to be $7.5 million in 2012-13.

Legislation proposed with this Budget would reform the tobacco products tax to impose the tax at a rate of 50 percent of the retail price (inclusive of a new 20 cent per piece wholesale tax) instead of 75 percent of the wholesale price. The retailer would receive a credit of 20 cents per cigar for prepayment of the wholesale portion of the tax. The proposal would also equalize the tax rate on loose tobacco to the equivelant tax imposed on cigarettes ($4.53 per ounce) to close the "roll your own" loophole. These proposals address enforcement issues that have reduced tobacco products tax receipts, and are projected to generate $18 million in revenue in 2012-13 from increased compliance.

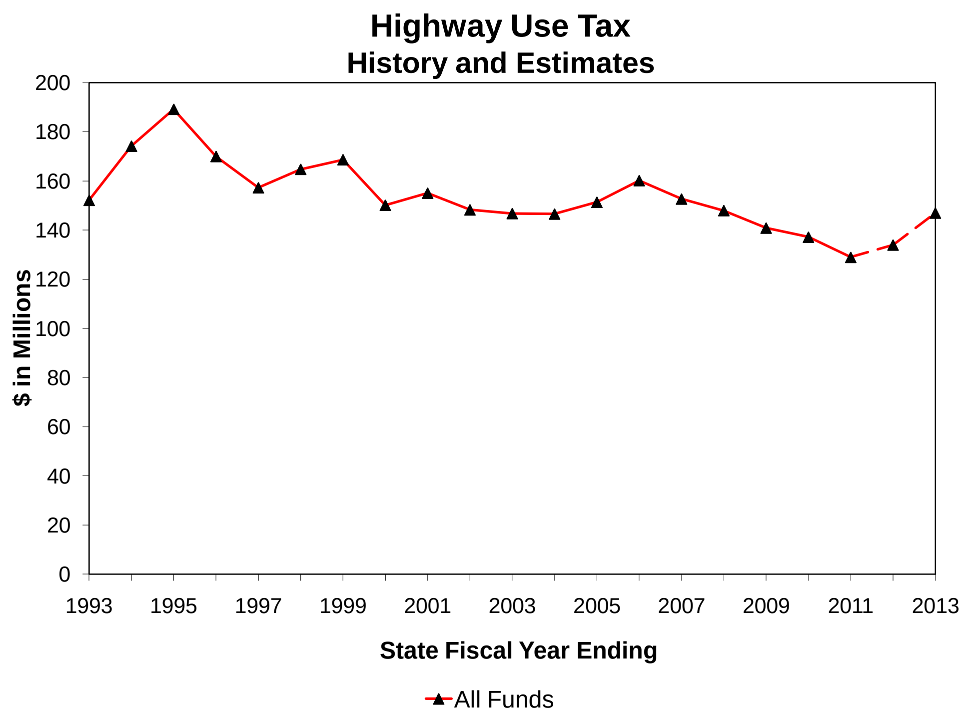
CIGARETTE AND TOBACCO TAXES RECEIPTS (millions of dollars)						
	General Fund				HCRA	General
Fiscal Year	Cigarette Tax	Tobacco Tax	Other	Total	Cigarette Tax*	Fund Plus HCRA
2002-03	404	38	5	446	675	1,121
2003-04	376	40	3	419	593	1,013
2004-05	363	40	3	406	573	979
2005-06	361	39	3	404	571	974
2006-07	364	44	3	411	574	985
2007-08	359	47	3	409	567	976
2008-09	395	48	3	446	894	1,340
2009-10	378	64	14	456	910	1,366
2010-11	382	96	3	481	1,136	1,616
Estimated						
2011-12	376	95	6	476	1,189	1,665
2012-13	386	118	8	511	1,222	1,733

Note: Components may not add to total due to rounding.
* Prior to 2005-06, HCRA Cigarette Tax receipts were deposited to the off-budget Tobacco Control and Insurance Incentive Pool established in the Health Care Reform Act of 2000.

HIGHWAY USE TAX

HIGHWAY USE TAX (millions of dollars)	2010-11 Actual	2011-12 Estimated	Change	Percent Change	2012-13 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	129.2	134.0	4.8	3.7	147.0	13.0	9.7
All Funds	129.2	134.0	4.8	3.7	147.0	13.0	9.7

Note: Totals may differ due to rounding.



HIGHWAY USE TAX BY FUND (millions of dollars)	Gross Capital Projects Funds[1]	Refunds	Capital Projects Funds[1]	All Funds Receipts
2002-03	149	2	147	147
2003-04	149	2	147	147
2004-05	153	2	151	151
2005-06	162	2	160	160
2006-07	155	2	153	153
2007-08	150	2	148	148
2008-09	143	2	141	141
2009-10	139	2	137	137
2010-11	131	2	129	129
Estimated				
2011-12	136	2	134	134
2012-13				
Current Law	149	2	147	147
Proposed Law	149	2	147	147

HIGHWAY USE TAX

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

Articles 21 and 21-A of the Tax Law impose a highway use tax on commercial vehicles using the public highways of the State. Highway use tax revenues are derived from three sources: the truck mileage tax, the fuel use tax and registration fees.

Truck Mileage Tax

The truck mileage tax (TMT) is levied on commercial vehicles having a loaded gross weight of more than 18,000 pounds, or an unloaded weight in excess of 8,000 pounds for trucks and 4,000 pounds for tractors. The tax is imposed at rates graduated according to the gross vehicle weight. Under the gross weight method, the tax is calculated by multiplying the number of "laden" or "unladen" miles traveled on public highways of the State by the appropriate tax rate.

In addition, a supplemental tax equal to the base truck mileage tax was imposed in 1990. The supplemental tax was reduced by 50 percent on January 1, 1999, and was reduced by an additional 20 percent on April 1, 2001.

BASE TRUCK MILEAGE TAX RATES

Gross Weight Method		Unloaded Weight Method	
Laden Miles **Gross Weight of Vehicle**	**Mills Per Mile**	**Unloaded Weight of Truck**	**Mills Per Mile**
18,001 to 20,000	6.0	8,001 to 9,000	4.0
20,001 to 22,000	7.0	9,001 to 10,000	5.0
(increased gradually to)		(increased gradually to)	
74,001 to 76,000	35.0	22,501 to 25,000	22.0
76,001 and over	add 2 mills per ton and fraction thereof	25,001 and over	27.0
Unladen Miles **Unloaded Weight of Truck**		**Unloaded Weight of Tractor**	
18,001 to 20,000	6.0	4,001 to 5,500	6.0
20,001 to 22,000	7.0	5,501 to 7,000	10.0
(increased gradually to)		(increased gradually to)	
28,001 to 30,000	10.0	10,001 to 12,000	25.0
30,001 and over	add 5/10 of a mill per ton and fraction thereof	12,001 and over	33.0
Unloaded Weight of Tractor			
7,001 to 8,500	6.0		
8,501 to 10,000	7.0		
(increased gradually to)			
16,001 to 18,000	10.0		
18,001 and over	add 5/10 of a mill per ton and fraction thereof		

Fuel Use Tax

The fuel use tax is a complement to the motor fuel tax and the sales tax, and is levied on commercial vehicles: (1) having two axles and a gross vehicle weight of more than 26,000 pounds; (2) having three or more axles, regardless of weight; or (3) used in combination when the gross vehicle weight exceeds 26,000 pounds. In contrast to the sales tax and motor fuel tax, which are imposed upon the amount of fuel purchased within the State, the fuel use tax is imposed on fuel purchased outside but used within New York. This tax is based on the number of miles traveled on the public highways of the State.

The aggregate fuel use tax rate is the sum of the appropriate motor fuel tax rate and the sales tax rate. The motor fuel tax component is eight cents per gallon. The sales tax component is derived by adding the amount from the State sales tax rate and the amount from the lowest county sales tax rate. A credit or refund is allowed for motor fuel tax, petroleum business tax or sales tax paid on fuels purchased in New York but not used within the State.

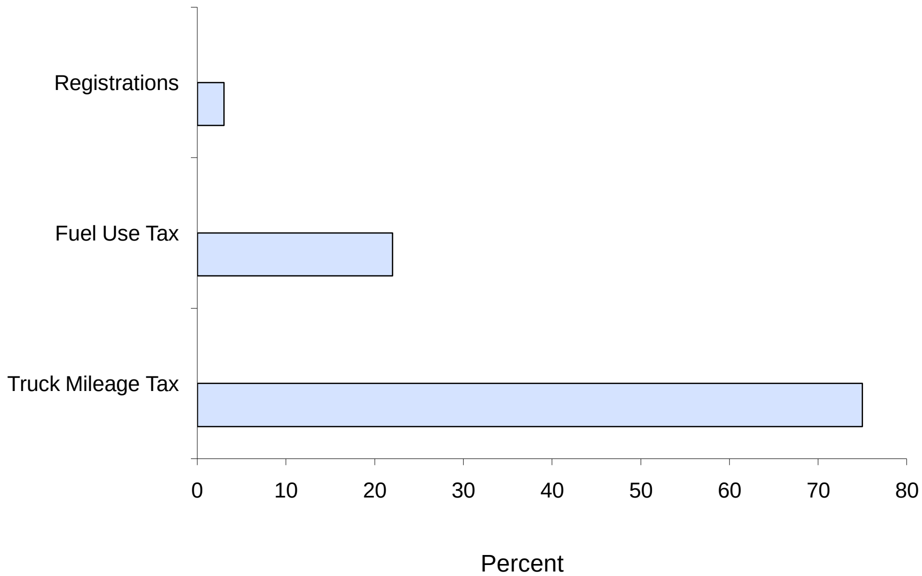
Registration System

On August 10, 2005, a Federal law was enacted that restricted the ability of States to require motor carriers to display a permit sticker. This Federal law was repealed on September 6th, 2008. On July 1, 2007, New York State replaced the permit system with a registration system to adhere to this Federal transportation law.

The current registration system is based on the license plate number of each vehicle. The Commissioner could deny registration if the carrier has not paid monies due from any other tax and there is a civil penalty for any person who fails to obtain a certificate of registration when it is required. In addition, the Commissioner of the Department of Taxation and Finance is authorized to require the use of decals again. It is assumed that the Commissioner will supply decals in 2012-13. Special permits are issued for the transportation of motor vehicles, for automotive fuel carriers, and for trips into New York State not to exceed 72 hours.

Effective April 7, 2009, the application fee for a certificate of registration for any trailer, semi-trailer, dolly, or other attached device used for transporting automotive fuel was increased from $5 to $15. The renewal fee for any truck, tractor, or other self propelled vehicle was increased from $4 to $15, and the renewal fee for any trailer, semi-trailer, dolly, or other attached device used for transporting automotive fuel was increased from $2 to $15. Based on these amendments, the initial cost and the renewal fee for all certificates of registration are both $15. The cost of a decal is $4.

Components of Highway Use Tax Receipts
Estimated State Fiscal Year 2011-12



Administration

Most taxpayers remit the truck mileage tax on a monthly basis. The tax is remitted on or before the last day of each month for the preceding month. Fuel use taxpayers file quarterly with their home state under the rules of the International Fuel Tax Agreement (IFTA). The home state subsequently distributes the funds to the state where the liability occurred.

Significant Legislation

The significant statutory changes to this tax source since 1951 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1951		
Truck Mileage Tax	Imposed a truck mileage tax based on weight and miles driven in New York (Mileage on State Thruway was exempted).	1951 and after
Legislation Enacted in 1960		
Tax Calculation	Created an optional method introduced for determining tax, based on unloaded weight and mileage.	1960 and after
Legislation Enacted in 1968		
Fuel Use Tax	Added the fuel use tax (rate equaled the motor fuel excise tax rate) and applied to fuel purchased out of State but used in New York State.	1968 and 1970
Legislation Enacted in 1977		
Sales Tax Component	Added an 8 percent sales tax component to the fuel use tax.	1977 and after
Legislation Enacted in 1978		
FUT Rate Change	Reduced the sales tax component from 8 percent to 7 percent.	1978 and after

Subject	Description	Effective Date
Legislation Enacted in 1982		
Fuel Carrier Permit	Required that every automotive fuel carrier must have a special Automotive Fuel Carrier permit and distinctively colored sticker for each motor vehicle, required to be registered under the Highway Use Tax Law.	September 1, 1982
Legislation Enacted in 1987		
Trip Permit	Established a 72-hour “trip permit.”	October 1, 1987
Legislation Enacted in 1990		
Thruway Miles and Supplemental Tax	Applied the truck mileage tax to Thruway miles. Imposed a supplemental tax equal to the base mileage tax.	July 1, 1990
Legislation Enacted in 1993		
Trust Fund	Earmarked receipts to the Dedicated Highway and Bridge Trust Fund.	April 1, 1993
Legislation Enacted in 1994		
Thruway Mileage	Reduced the truck mileage tax rates imposed on New York State Thruway mileage by one-half and eliminated such rates on and after January 1, 1996.	January 1, 1995
Refunds	Permitted taxpayers who purchase more fuel in New York State than they consume in the State to claim refunds or credits for all excess payments of State fuel use taxes (prior to January 1, 1995, taxpayers could only obtain a refund or credit for the motor fuel tax portion of the fuel use tax).	January 1, 1995
International Fuel Tax Agreement	Authorized the State to join the federally mandated International Fuel Tax Agreement (IFTA) on January 1, 1996. This agreement provides for the uniform reporting and collection of fuel-use-related taxes among IFTA jurisdictions. Under IFTA, jurisdictions may only impose a fuel use tax on vehicles with loaded gross weights of more than 26,000 pounds or with three or more axles. Therefore, since January 1, 1996, vehicles with loaded gross weights between 18,000 pounds and 26,000 pounds and with fewer than three axles that had been taxed in New York were excluded from the fuel use tax.	January 1, 1996
Legislation Enacted in 1995		
Fuel Use Tax Rate Cut	Reduced the diesel fuel excise tax rate from ten cents per gallon to eight cents per gallon. As a result, the diesel fuel tax component of the fuel use tax was also reduced to eight cents per gallon.	January 1,1996
Legislation Enacted in 1998		
Supplemental Tax	Reduced the truck mileage supplemental tax by 50 percent.	January 1, 1999
Legislation Enacted in 2000		
Supplemental Tax	Reduced the truck mileage supplemental tax by 20 percent.	April 1, 2001
Legislation Enacted in 2006		
Alternative Fuels	Exempted or partially exempted fuel use tax on alternative fuels, including E85 and B20.	September 1, 2006
Fuel Use Tax Cap	Capped the statewide rate for the sales tax component at 8 cents per gallon for motor fuel and diesel motor fuel for the State rate, plus the lowest county sales tax rate.	June 1, 2006
Legislation Enacted in 2007		
HUT – Permit	Replaced the permit system with a registration system.	July 1, 2007
Legislation Enacted in 2009		
HUT - Fee Increase	Increased the replacement fee for a certificate of registration to $15.	April 7, 2009

TAX LIABILITY

Highway use tax receipts are a function of the demand for trucking, which fluctuates with national and State economic conditions.

For a more detailed discussion of the methods and models used to develop estimates and projections for the highway use tax, please see *Economic, Revenue and Spending Methodologies* at www.budget.ny.gov.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2011-12 Estimates

All Funds collections through December are $103.3 million, an increase of $3.4 million (3.4 percent) above the comparable period in the prior fiscal year.

All Funds receipts for 2011-12 are estimated to be $134 million, an increase of $4.8 million (3.7 percent) above last year.

Net truck mileage tax receipts are estimated at $100 million, fuel use tax receipts at $30 million and registration fees at $4 million.

2012-13 Projections

All Funds receipts are projected to be $147 million, an increase of $13 million (9.7 percent) above 2011-12. This assumes an increase of $8 million in registration receipts due to re-registration and the mailing of decals. Decals will also improve enforcement efforts and help increase TMT receipts by $4 million.

General Fund

Since 1994-95, no highway use tax receipts have been deposited in the General Fund.

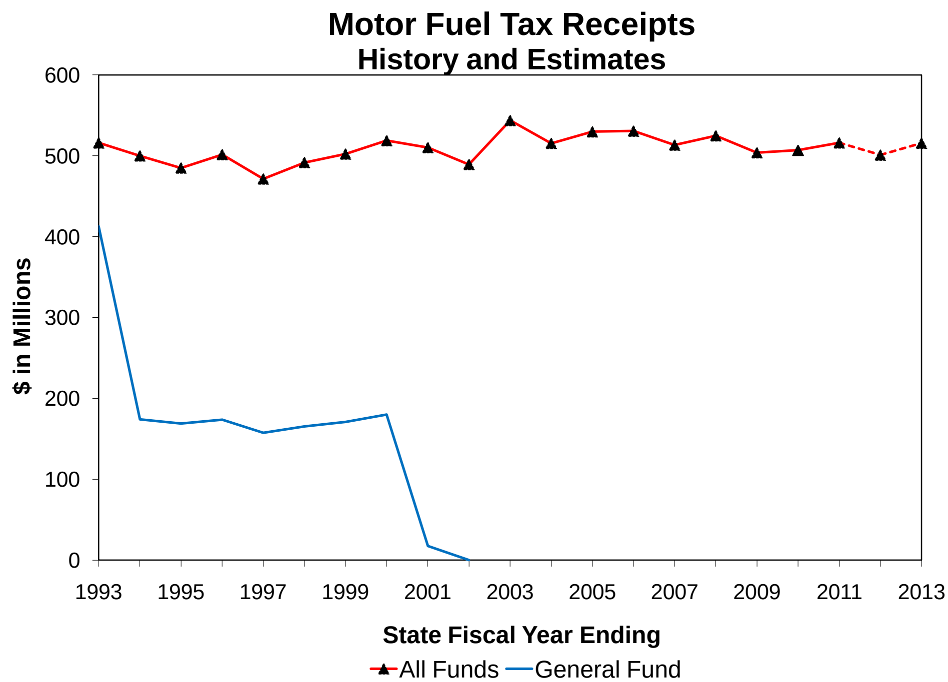
Other Funds

Currently, all highway use tax receipts are directed to the Dedicated Highway and Bridge Trust Fund.

MOTOR FUEL TAX

MOTOR FUEL TAX (millions of dollars)							
	2010-11 Actual	2011-12 Estimated	Change	Percent Change	2012-13 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	516.1	501.0	(15.1)	(2.9)	514.6	13.6	2.7
All Funds	516.1	501.0	(15.1)	(2.9)	514.6	13.6	2.7

Note: Totals may differ due to rounding.



MOTOR FUEL TAX BY FUND (millions of dollars)							
	Gross All Funds Receipts	General Fund	Special Revenue Funds[1]	Capital Projects Funds[2]	Debt Service Funds[3]	All Funds Refunds	All Funds Receipts
2002-03	560	0	69	356	119	16	544
2003-04	528	0	105	411	0	12	516
2004-05	542	0	110	420	0	12	530
2005-06	546	0	111	420	0	15	531
2006-07	526	0	107	406	0	13	513
2007-08	543	0	110	415	0	18	525
2008-09	528	0	106	398	0	24	504
2009-10	523	0	106	401	0	16	507
2010-11	540	0	108	408	0	24	516
Estimated							
2011-12	525	0	105	396	0	24	501
2012-13							
Current Law	539	0	108	407	0	24	515
Proposed Law	539	0	108	407	0	24	515

[1] Dedicated Mass Transportation Trust Fund.
[2] Dedicated Highway and Bridge Trust Fund.
[3] Emergency Highway Reconditioning and Preservation Fund and Emergency Highway Construction and Reconstruction Fund.

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Extend for five years the full or partial tax exemptions on E85, CNG, hydrogen and B20 when purchased for use in a motor vehicle engine; and

- Make technical amendments to the tax classification of diesel motor fuel.

DESCRIPTION

Tax Base

Gasoline motor fuel and diesel motor fuel taxes are imposed by Article 12-A of the Tax Law upon the sale, generally for highway use, of motor fuel and diesel motor fuel, respectively. The motor fuel tax is levied primarily on fuel used in motor vehicles operating on the public highways of the State or on fuel used in recreational motorboats operating on the State’s waterways. Exemptions, credits and refunds are allowed for certain other uses of gasoline and diesel motor fuel.

Tax Rate

The motor fuel tax on gasoline motor fuel and diesel fuel is eight cents. A motor fuel tax of two cents was imposed on gasoline motor fuel in 1929. The tax on gasoline was increased to 3 cents in 1932, to four cents in 1937, to six cents in 1956, to seven cents in 1959 and to eight cents in 1972. A motor fuel tax of two cents was imposed on diesel motor fuel in 1936. The tax on diesel fuel was increased to four cents in 1947, to six cents in 1956, to nine cents in 1959 and to ten cents in 1972. The tax on diesel fuel was reduced to eight cents in 1996.

RANKING OF STATE TAXES PER GALLON (January 1, 2012) [1]

State	State Motor Fuel Tax (cents per gallon)	Total State Tax [2] (cents per gallon)
1. CONNECTICUT**	25.0	42.0
2. MICHIGAN *	19.0	40.3
3. N. CAROLINA	38.9	38.9
4. ILLINOIS *	19.0	38.8
5. WASHINGTON	37.5	38.5
6. CALIFORNIA	35.7	35.7
7. INDIANA *	18.0	35.2
8. **NEW YORK ***	8.0	34.0
9. W. VIRGINIA	20.5	33.4
10. RHODE ISLAND	32.0	33.0
11. WISCONSIN	30.9	32.9
12. PENNSYLVANIA	12.0	32.3
13. MAINE	30.0	31.5
14. OREGON	30.0	31.0
15. HAWAII *	17.0	30.0
16. OHIO	28.0	28.0
17. KENTUCKY	26.4	27.8
18. MONTANA	27.0	27.8
19. NEBRASKA	26.7	27.5
20. MINNESOTA	27.0	27.1
21. IDAHO	25.0	26.0
22. VERMONT	19.0	25.1
23. UTAH	24.5	24.5
24. KANSAS	24.0	24.0
25. S. DAKOTA	22.0	24.0
26. DIST. OF COLUMBIA	23.5	23.5
27. MARYLAND	23.5	23.5
28. MASSACHUSETTS	21.0	23.5
29. COLORADO	22.0	23.3
30. DELAWARE	23.0	23.0
31. N. DAKOTA	23.0	23.0
32. NEVADA	23.0	23.0
33. IOWA	21.0	22.0
34. ARKANSAS	21.5	21.7
35. TENNESSEE	20.0	21.4
36. LOUISIANA	20.0	20.0
37. TEXAS	20.0	20.0
38. GEORGIA *	7.5	19.6
39. NEW HAMPSHIRE	18.0	19.5
40. ARIZONA	18.0	19.0
41. VIRGINIA	19.0	19.0
42. NEW MEXICO	17.0	18.9
43. MISSISSIPPI	18.0	18.8
44. MISSOURI	17.0	17.3
45. ALABAMA	16.0	17.0
46. OKLAHOMA	16.0	17.0
47. S. CAROLINA	16.0	16.8
48. FLORIDA	16.6	16.6
49. NEW JERSEY	10.5	14.5
50. WYOMING	13.0	14.0
51. ALASKA	8.0	8.0

NOTES:

(1) Assumes a pump price of $3.00.

(2) Includes applicable State sales tax--(local taxes not included)

* State sales tax applies on sales of gasoline in these states

** Includes petroleum gross receipts tax --7% of w holesale gasoline price

Source: OTPA compilation from various sources including CCH Tax Guides & FTA

Administration

Although the motor fuel tax is imposed on the consumer, the tax is remitted upon importation into New York. This tax-on-first-import system is designed to reduce gasoline tax evasion, which has involved bootlegging from other states and successions of tax-free sales among "dummy" corporations masked by erroneous record keeping and reporting.

Since 1988, taxes on diesel motor fuel have been collected upon the first non-exempt sale in the State. Prior to that time, the diesel motor fuel tax was collected at the time of retail sale or use by a bulk user.

The tax is generally remitted monthly, although vendors whose average monthly tax is less than $200 may remit quarterly. Chapter 55 of the Laws of 1992 required accelerated remittance of the tax by taxpayers with annual liability of more than $5 million for motor fuel and petroleum business tax (PBT) combined. These taxpayers are required to remit taxes electronically or by certified check by the third business day following the first 22 days of each month. Taxpayers can choose to make either a minimum payment of three-fourths of the comparable month's tax liability for the preceding year, or 90 percent of actual liability for the first 22 days. Taxes for the balance of the month are remitted by the twentieth of the following month.

Tax Expenditures

Exemptions from the motor fuel tax include:

- kerosene and crude oil;
- fuel not used in motor vehicles. "Motor vehicle" is defined as any vehicle propelled by power, except muscular power. However, vehicles such as boats (other than pleasure craft), road building machinery and tractors used exclusively for agricultural purposes are excluded from the definition of motor vehicles;
- fuel used in tanks of vehicles entering New York State;
- sales to state, local and Federal governments, the United Nations and qualifying Native American nations; and
- certain exempt organizations.

Other exemptions apply only to the diesel motor fuel tax, including certain sales for heating purposes and sales of kero-jet fuel for use in airplanes.

Full and partial refunds and credits for tax paid are available for fuel used by:

- omnibus carriers or taxicabs;
- nonpublic school vehicle operators, exclusively for education-related purposes; and

- volunteer ambulance services.

Significant Legislation

The significant statutory changes to this tax source since 1985 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1985		
First Import	Motor fuel is taxed on a “first import” system.	June 1, 1985
Legislation Enacted in 1988		
First Sale	Diesel motor fuel is taxed on a “first sale” system.	September 1, 1988
Legislation Enacted in 1995		
Diesel Rate	Reduced the diesel motor fuel tax from 10 cents to 8 cents per gallon.	January 1, 1996
Aviation Fuel	Provided an up-front exemption from the motor fuel excise tax for retail sales of aviation gasoline.	September 1, 1995
Legislation Enacted in 2005		
Enforcement Provisions	Required collection of taxes on sales to non-Native Americans on New York reservations.	March 1, 2006
Legislation Enacted in 2006		
Alternative Fuel	Exempted or partially exempted motor fuel tax on alternative fuels, including E85 and B20, sunsets September 1, 2012.	September 1, 2006
Legislation Enacted in 2011		
Modernize Fuel Definitions	Modernized fuel definitions to conform with changes in Federal and State Law.	September 1, 2011

TAX LIABILITY

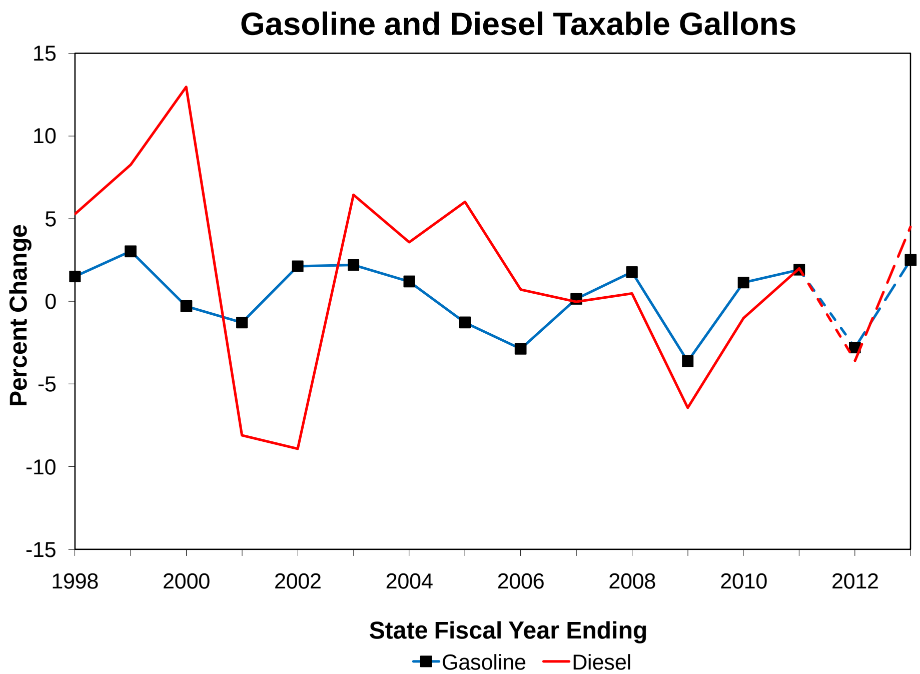
Motor fuel tax collections are a function of the number of gallons of fuel imported into the State by distributors. Gallonage is determined in large part by fuel prices, the amount of fuel held in inventories, the fuel efficiency of motor vehicles and overall state economic performance.

For a more detailed discussion of the methods and models used to develop estimates and projections for the motor fuel tax, please see the *Economic, Revenue and Spending Methodologies* at www.budget.ny.gov.

Taxable Gallons

Diesel fuel taxable gallonage is more susceptible to economic events, while gasoline taxable gallonage is driven more heavily by fuel prices.

In 2010-11, gasoline taxable gallonage and diesel fuel taxable gallonage increased by roughly 2 percent when compared to 2009-10. This was due to only modest growth in energy prices combined with an improving economy. In 2011-12, gasoline taxable gallonage is estimated to decline by 2.8 percent while diesel taxable gallonage is estimated to decline by 3.6 percent due to higher energy prices and a weaker economy. In 2012-13, it is projected that there will be a recovery in gasoline and diesel fuel taxable gallonage due to lower energy prices and improving economic conditions. The following chart shows taxable gallonage trends since 1997-98.



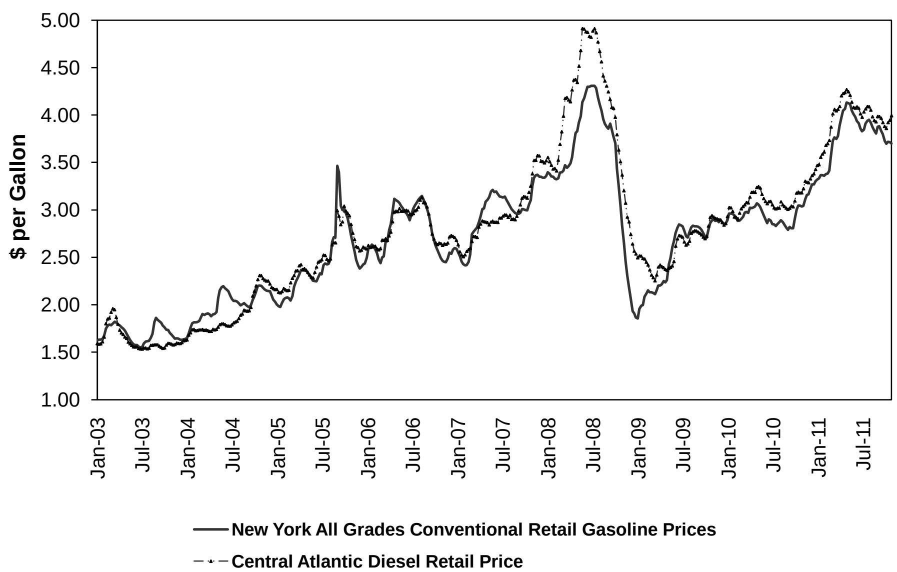
Gasoline and Diesel Taxable Gallons				
Fiscal Year	Gasoline (millions of gallons)	Percent Change	Diesel (millions of gallons)	Percent Change
2007-08	5,662	1.8	917	0.5
2008-09	5,457	(3.6)	858	(6.4)
2009-10	5,520	1.1	849	(1.0)
2010-11	5,625	1.9	866	2.0
2011-12 (Est.)	5,468	(2.8)	835	(3.6)
2012-13 (Proj.)	5,605	2.5	873	4.5

The average monthly price of gasoline sold in New York generally increased, on a year-over-year basis, from August 2002 until July 2008. This includes a sharp acceleration in gasoline price growth from October 2007 until September 2008. Higher energy prices and a severe national recession reduced travel demand and caused gasoline prices to drop from a peak of $4.27 in July 2008 to a low of $1.95 in January 2009. Recent trends, including some travel demand recovery, the temporary loss of Libyan crude oil supplies, and recovering oil demand in emerging economies have resulted in steady year-over-year increases in gasoline prices.

The average monthly price of diesel peaked in July 2008 at $4.86 per gallon, roughly 250 percent higher than the July 2002 price. Similar to gasoline prices, diesel prices experienced year-over-year declines for 13 consecutive months starting in November 2008. Since January 2010, monthly growth rates in diesel fuel prices have continuously exceeded 10 percent, and often exceeded 20 percent.

Since the motor fuel tax and sales tax on motor fuel and diesel motor fuel are capped, State tax revenues have not been directly affected by the volatility in fuel prices. The following chart shows a history of weekly price changes.

Gasoline and Diesel Weekly Prices



Source: U.S. Department of Energy, Energy Information Administration (EIA)

A further discussion of energy prices can be found in the Economic Forecast section of this volume.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2011-12 Estimates

All Funds collections through December are $385.2 million, a decrease of $5.1 million (1.3 percent) below the comparable period in the prior fiscal year.

All Funds receipts for 2011-12 are estimated to be $501 million, a decrease of $15.1 million (2.9 percent) below 2010-11.

2012-13 Projections

All Funds receipts are projected to be $514.6 million, an increase of $13.6 million (2.7 percent) above 2011-12.

General Fund

Motor fuel tax receipts are no longer deposited in the General Fund.

Other Funds

Since 2003, motor fuel tax receipts have been distributed by law to two funds: the Dedicated Highway and Bridge Trust Fund (DHBTF) and the Dedicated Mass Transportation Trust Fund (DMTTF). The fund distribution since 1993 is shown in the following table.

MOTOR FUEL TAX FUND DISTRIBUTION (percent)

Effective Date	General Fund	DHBTF[1]	EHF[2]	DMTTF[3]
Prior to April 1, 1993				
Gasoline	78.1	0.0	21.9	0.0
Diesel	78.1	0.0	21.9	0.0
Prior to April 1, 2000				
Gasoline	28.1	50.0	21.9	0.0
Diesel	78.1	0.0	21.9	0.0
Prior to April 1, 2001				
Gasoline	0.0	67.7	21.9	10.4
Diesel	28.1	31.5	21.9	18.5
Prior to April 1, 2003				
Gasoline	0.0	67.7	21.9	10.4
Diesel	0.0	49.2	21.9	28.9
April 1, 2003 and After				
Gasoline	0.0	81.5	0.0	18.5
Diesel	0.0	63.0	0.0	37.0

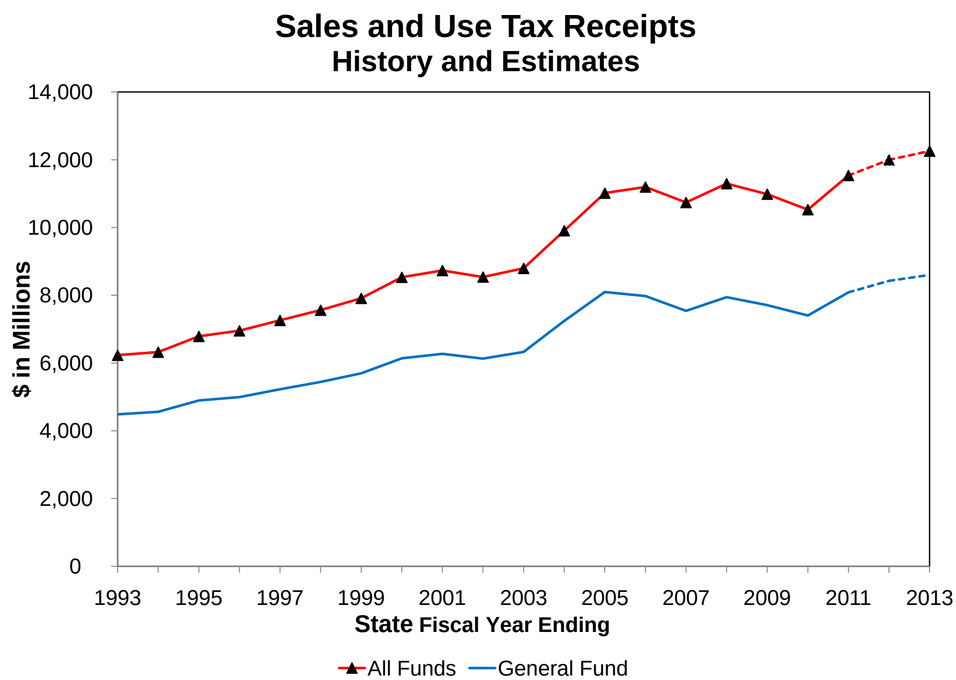
[1] Dedicated Highway and Bridge Trust Fund.
[2] Emergency Highway Reconditioning and Preservation Fund and the Emergency Highway Construction and Reconstruction Fund.
[3] Dedicated Mass Transportation Trust Fund.

Motor fuel tax receipts in 2011-12 are estimated to be $395.6 million for DHBTF and $105.4 million for DMTTF. Motor fuel tax receipts in 2012-13 are projected to be $406.7 million for DHBTF and $107.9 million for the DMTTF.

SALES AND USE TAX

SALES AND USE TAX (millions of dollars)							
	2010-11 Actual	**2011-12 Estimated**	**Change**	**Percent Change**	**2012-13 Projected**	**Change**	**Percent Change**
General Fund	8,084.8	8,426.3	341.5	4.2	8,591.3	165.0	2.0
LGAC	2,697.2	2,808.7	111.5	4.1	2,863.5	54.8	2.0
MTOAF	755.9	762.0	6.1	0.8	791.0	29.0	3.8
All Funds	11,537.9	11,997.0	459.1	4.0	12,245.8	248.8	2.1

Note: Totals may differ due to rounding.



SALES AND USE TAX BY FUND (millions of dollars)						
	Gross General Fund	**Refunds**	**General Fund**	**Special Revenue Funds[1]**	**Debt Service Funds[2]**	**All Funds Receipts**
2002-03	6,390	62	6,328	362	2,106	8,796
2003-04	7,300	59	7,241	399	2,267	9,907
2004-05	8,143	49	8,094	429	2,493	11,016
2005-06	8,048	70	7,978	603	2,615	11,196
2006-07	7,593	54	7,539	688	2,512	10,739
2007-08	8,009	64	7,945	705	2,646	11,296
2008-09	7,771	64	7,707	711	2,567	10,985
2009-10	8,138	53	8,085	656	2,467	11,208
2010-11	8,168	83	8,085	756	2,697	11,538
Estimated						
2011-12	8,519	93	8,426	762	2,809	11,997
2012-13						
Current Law	8,684	93	8,591	791	2,864	12,246
Proposed Law	8,684	93	8,591	791	2,864	12,246

[1] Mass Transportation Operating Assistance Fund.
[2] Local Government Assistance Corporation Fund.

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Expand the sales tax registration clearance process;
- Make permanent the Tax Modernization provisions set to expire December 31, 2012;
- Expand the exemption on solar energy equipment to include commercial use;
- Extend for five years the full or partial tax exemptions on E85, CNG, hydrogen and B20 when purchased for use in a motor vehicle engine; and
- Make technical amendments to the tax classification of diesel motor fuel;

DESCRIPTION

Tax Base

In general, all retail sales of tangible personal property are taxed under Article 28 of the Tax Law unless specifically exempt, but services are taxable only if they are enumerated in the Tax Law.

Specifically, the sales tax is applied to receipts from the retail sale of:

- Tangible personal property (unless specifically exempt);
- Certain gas, electricity, refrigeration and steam and telephone service;
- Selected services;
- Food and beverages sold by restaurants, taverns and caterers;
- Hotel occupancy; and
- Certain admission charges and dues.

Examples of taxable services include installing or maintaining tangible personal property and protective and detective services.

Tax Rate

The sales and compensating use tax was enacted in 1965 at the rate of 2 percent. The tax rate was increased to 3 percent in 1969, to 4 percent in 1971 and to 4.25 percent in 2003. The rate reverted to 4 percent on June 1, 2005. Please see the "Comparison of New York State Tax Structure with Other States" section for further information on the tax rate.

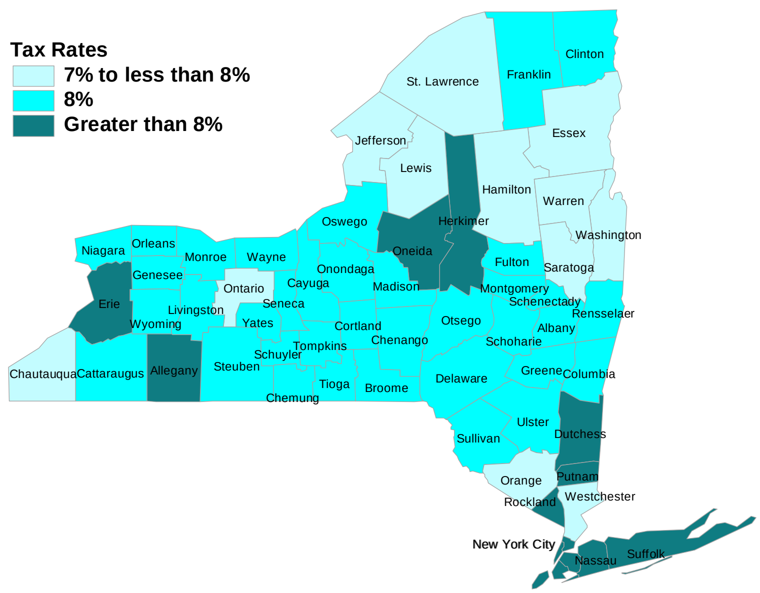
Effective June 1, 2006, the State sales tax rate on motor fuel and diesel motor fuel was capped at 8 cents per gallon.

An additional 5 percent sales tax is imposed on the receipts from the sale of telephone entertainment services that are exclusively delivered aurally.

Counties and cities are authorized to impose general sales tax rates up to 3 percent. Of the 57 counties and the 20 cities (including New York City) that impose the general sales tax, 51 counties and 3 cities received legislative authority to impose additional rates of tax above the statutory 3 percent general sales tax rate. Over 88 percent of the State's population resides in an area where the tax rate equals or exceeds 8 percent.

Combined State and Local Sales Tax Rates by County

Effective November 1, 2011



An additional 0.375 percent sales and use tax is imposed in the 12-county Metropolitan Commuter Transportation District (MCTD). All proceeds from the additional MCTD tax are earmarked for the Mass Transportation Operating Assistance Fund (MTOAF).

Administration

There are currently 562,266 sales tax vendors selling taxable property or services who are required to register with the Department of Taxation and Finance. Vendors generally are required to remit the tax quarterly. However, vendors who collect more than $300,000 of taxable sales in one of the immediately preceding four quarters must remit the tax monthly by the twentieth of the month following the month of collection. Vendors collecting less than $3,000 yearly may elect to file annually, in March.

Vendors collecting more than $500,000 annually in State and local tax are required to remit the tax by electronic funds transfer (EFT). Collections for the first 22 days of the month must be remitted electronically or by certified check within three business days thereafter. Legislation enacted in 1992 started the EFT program, originally with the threshold for mandatory participation at $5 million in annual tax liability. Legislation in 1994, 1995, and 2002 reduced the threshold to $4 million, $1 million and to the current $500,000 threshold, respectively. Roughly 65 percent of sales tax receipts are remitted by the approximately 5,800 vendors that are required to remit by EFT. Effective May 30, 2011, all filers are subject to a $50 penalty for each failure to e-file unless the taxpayer can show that the failure was due to reasonable cause.

To reduce tax evasion, special provisions for remitting the sales tax on motor fuel and cigarettes have been enacted. Since 1985, the sales tax on gasoline has been remitted by the first importer of the fuel into New York. Prior to 2006, the tax was prepaid at a per gallon rate based on regional prices. Currently, the pre-payment is fixed at 14 cents per gallon for upstate and 14¾ cents in the MCTD region. The cigarette prepayment rate is 8 percent and is prepaid by cigarette agents at the same time as payment for cigarette excise tax stamps.

SALES TAX VENDORS AND TAXABLE SALES

Filing Status	Number of Active Vendors*	Percent of Total Vendors	Percent of State and Local Receipts
Monthly EFT	5,767	1.0	65.1
Monthly Non-EFT	36,706	6.6	21.7
Quarterly	243,733	43.3	12.8
Annual	276,060	49.1	0.4
Total	562,266	100.0	100.0

* Vendors identified as of November 21, 2011.
Selling period March 1, 2009 through February 28, 2010.
Source: New York State Department of Taxation and Finance.

Non-monthly sales tax vendors are allowed to retain a portion of the sales tax that they have collected, both as partial compensation for the administrative costs of collecting and remitting the tax and as an incentive for timely payment of the tax to the State. The vendor allowance is 5 percent of tax liability, up to a maximum of $200 per quarter for returns filed on time.

Tax Expenditures

A myriad of exemptions from the sales tax have been enacted over the life of the tax. Broad exemptions have been provided for sales for resale and for machinery and equipment used in production or in research and development. These particular exemptions prevent multiple taxation of the same property, a situation known as tax pyramiding.

Other exemptions, such as sales to exempt organizations, certain vending machine sales and certain other coin-operated sales, are also provided. Legal, medical and other professional services, sales of real property, and rental payments are also excluded from the base of the sales tax. For further details, please see the Tax Expenditure Report.

Significant Legislation

The significant statutory changes to this tax source since its inception are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1965		
Reimpose	Imposed a 2 percent sales and use tax on retail sales or use of tangible personal property.	August 1, 1965
Legislation Enacted in 1969		
Rate Increase	Increased the sales tax rate to 3 percent.	April 1, 1969
Legislation Enacted in 1971		
Rate Increase	Increased the sales tax rate to 4 percent.	June 1, 1971
Legislation Enacted in 1975		
March Prepayment	Imposed a March prepayment under the sales tax.	1975 and after
Legislation Enacted in 1977		
Fuel Use Tax	Added an 8 percent sales tax component to the fuel use tax.	1977 and after
Legislation Enacted in 1978		
Residential Fuel	Provided phasing in the exemption for residential energy use. It was fully exempted on October 1, 1980.	January 1, 1979
Fuel Use Tax	Reduced the sales tax component from 8 percent to 7 percent.	1978 and after
Legislation Enacted in 1981		
MTA	Imposed the MTA sales tax at 0.25 percent.	1981 and after
Legislation Enacted in 1985		
Gasoline Tax Payment	Required sales tax on gasoline pre-paid upon importation of fuel into the State. (The same requirement applied to diesel fuel in 1988.)	June 1, 1985
MTA	The Mass Transportation and Operating Assistance Fund (MTOAF) was created. The rate was one-quarter of 1 percent.	September 1, 1985
Legislation Enacted in 1989		
Base Broadening	Broadened the sales tax base to impose tax on parking, protective and detective services, building maintenance, interior design services, auto leasing, and 900 numbers.	1989 and after
Legislation Enacted in 1990		
Cable Television	Exempted cable television service from the tax.	September 1, 1990
LGAC	Created the Local Government Assistance Corporation (LGAC). One-fourth of State four-cent sales tax collections were earmarked to the LGAC.	1990 and after
Legislation Enacted in 1991		
March prepayment	Ended March prepayment.	1993 and after
Legislation Enacted in 1992		
EFTs	Established Electric funds transfer (EFT) for large vendors.	1992 and after
Alternative Fuel Vehicles	Exempted the additional cost of new alternative fuel vehicles above the sales price of comparable gasoline or diesel powered vehicles from tax. Expired February 29, 2005.	September 1, 1992

Subject	Description	Effective Date
Legislation Enacted in 1993		
Information and Entertainment	Imposed the tax on information and entertainment services (5 percent).	1993 and after
Legislation Enacted in 1994		
Racehorses	Exempted certain registered racehorses used in authorized pari-mutuel events.	June 1, 1994
Vendor Allowance	Enacted the vendor allowance credit for timely filed quarterly or annual returns at the rate of 1.5 percent of State sales tax collected up to a maximum of $100 per return.	September 1,1994
Legislation Enacted in 1995		
Homeowners' Associations	Exempted dues paid to homeowners' associations operating social or athletic facilities for their members.	September 1, 1995
Meteorological Services	Exempted the sale of meteorological information services.	September 1, 1995
Legislation Enacted in 1996		
Clothing and Footwear	Exempted clothing and footwear priced under $500 for the one-week period of January 18-24, 1997.	January 18-24, 1997
Promotional Materials	Expanded the exemption for certain printed promotional materials distributed by mail to customers in New York State.	March 1, 1997
Legislation Enacted in 1997		
Buses	Provided an exemption for buses used to transport persons for hire, and related parts and services.	December 1, 1997
Clothing and Footwear	Exempted clothing priced under $100 for the one-week periods of September 1-7, 1997, and September 1-7, 1998.	September 1-7, 1997 September 1-7, 1998
	Permanently exempted clothing priced under $100.	December 1, 1999
Homeowner Association Parking	Exempted parking services sold by a homeowners' association to its members.	December 1, 1997
Various Coin-Operated Devices	Raised the exemption threshold for bulk vending machine sales to 50 cents from 25 cents, exempted coin-operated car washes, exempted coin-operated photocopying costing under 50 cents, and exempted certain hot food and beverages sold through vending machines.	December 1, 1997
Vendor Allowance	Increased the sales tax vendor allowance from 1.5 percent to 3.5 percent of State tax collected, capped at $150 per quarter.	March 1, 1999
Legislation Enacted in 1998		
Clothing and Footwear	Included footwear in the September 1-7, 1998, temporary clothing exemption and raised exemption threshold to $500 from $100.	September 1-7, 1998
	Exempted clothing and footwear priced under $500 during the January 17-24, 1999 period.	January 17-24, 1999
	Included footwear in the permanent clothing exemption beginning on December 1, 1999, and raised exemption threshold from $100 to $110.	December 1, 1999
Coin Telephones	Increased the exemption threshold for coin-operated telephone calls to 25 cents from 10 cents.	September 1, 1998
College Textbooks	Exempted textbooks purchased by college students that are required for their courses.	June 1, 1998
Computer Hardware	Exempted computer system hardware used to design and develop computer software for sale.	June 1, 1998
Internet Access Service	Codified State policy of exempting charges for Internet access services.	February 1, 1997
Materialmen	Allowed certain materialmen (i.e., building materials suppliers) to remit sales tax returns on either a cash or an accrual basis.	June 1, 1999

Subject	Description	Effective Date
Telephone Central Office Equipment	Expanded existing exemption for telephone central office equipment to include such equipment or apparatus used in amplifying, receiving, processing, transmitting, and re-transmitting telephone signals.	September 1, 1998
Alternate Fuel Vehicle Refueling Equipment	Receipts from the sale and installation of alternative fuel vehicle refueling equipment is exempt from tax. Expired February 29, 2005.	March 1, 1998
Legislation Enacted in 1999		
Clothing and Footwear	Changed the effective date of the permanent exemption for clothing and footwear priced under $110 from December 1, 1999, to March 1, 2000.	March 1, 2000
	Temporarily exempted clothing and footwear priced under $500 for the periods of September 1-7, 1999, and January 15-21, 2000.	September 1-7, 1999 January 15-21, 2000
Computer Hardware	Provided an exemption for computer system hardware used to design and develop Internet web sites for sale.	March 1, 2001
Farm Production	Expanded the farm production exemption to include fencing and certain building materials. Converted the refund for tax paid on motor vehicles to an exemption.	March 1, 2001
Telecommunications Equipment	Exempted machinery and equipment used to upgrade cable television systems to provide telecommunications services for sale and to provide Internet access service for sale.	March 1, 2001
Theater	Exempted certain tangible personal property and services used in the production of live dramatic or musical arts performances.	March 1, 2001
Legislation Enacted in 2000		
Farm Production	Exempted property, building materials and utility services used in farm production. Expanded definition of farms to include commercial horse boarding operations.	September 1, 2000
Internet Data Centers	Exempted computer hardware and software purchased by Internet Data Centers (web site hosting facilities) operating in New York. Included required equipment such as air conditioning systems, power systems, raised flooring, cabling, and the services related to the exempted property.	September 1, 2000
Vending Machines	Exempted food and drink sold through a vending machine that costs 75 cents or less.	September 1, 2000
Telecommunications Equipment and Communications Services	Exempted property used to provide telecommunications services, Internet access services, or a combination thereof. Also, exempted certain services to the exempted property, such as installation and maintenance. Provided a three-year exemption for machinery and equipment used to upgrade cable television systems to a digital-based technology.	September 1, 2000
Radio and Television Broadcasting	Exempted machinery and equipment (including parts, tools and supplies) and certain services used for production and transmission of live or recorded programs. A broadcaster includes Federal communications licensed radio and television stations, television networks, and cable television networks.	September 1, 2000
Pollution Abatement	Exempted manufacturing and industrial pollution control equipment and machinery.	March 1, 2001
Transmission and Distribution of Electricity and Gas	Phased out over three years the sales tax on the separately purchased transmission of electricity and gas.	September 1, 2000
Empire Zones	Exempted property and services used or consumed by qualified businesses within Empire Zones.	March 1, 2001
Purchase of Gas or Electricity from Outside of New York	Imposed a compensating use tax on purchases of gas or electricity from vendors located outside of New York.	June 1, 2000
Legislation Enacted in 2001		
Empire Zones	Added eight new Empire Zones, for a total of 66 zones throughout the State. Four of the eight new Empire Zones became effective immediately.	October 29, 2001
Legislation Enacted in 2002		

SALES AND USE TAX

Subject	Description	Effective Date
Temporary Exemption in Liberty Zone	Temporarily exempted most tangible personal property priced under $500 sold in the Liberty and Resurgence Zones in New York City for the periods of June 9-11, July 9-11 and August 20-22, 2002.	June 1, 2002
EFT Threshold Change	Lowered the Electronic Fund Transfer threshold from $1 million to $500,000.	September 1, 2002
Legislation Enacted in 2003		
Surcharge	Raised the State sales tax rate from 4 to 4.25 percent through May 31, 2005.	June 1, 2003
Temporary repeal of clothing exemption	Temporarily repealed the exemption on items of clothing and footwear priced under $110 and created two clothing exemption weeks at the same $110 threshold.	June 1, 2003
Use tax line on PIT return	Required a line on PIT returns for taxpayers to report use tax owed.	May 24, 2003
Legislation Enacted in 2004		
Extend Temporary Repeal of Clothing Exemption	Extended the expiration date to May 31, 2005, for the temporary repeal of the exemption on items of clothing and footwear priced under $110 and created two exemption weeks at the same $110 threshold.	August 20, 2004
Aircraft Parts and Services	Exempted parts used exclusively to maintain, repair, overhaul or rebuild aircraft parts or aircraft services.	December 1, 2004
Vessels Providing Local Transit	Provided refunds and credits for certain vessels used to provide transit service and certain related property and services.	December 1, 2004
Contractors and Affiliates	Required contractors, subcontractors and their affiliates who make deliveries of taxable services or tangible personal property valued at more than $300,000 to New York locations to register as sales tax vendors.	August 20, 2004
Legislation Enacted in 2005		
Extend Temporary Repeal of Clothing Exemption	Extended the expiration date to March 31, 2007, for the temporary repeal of the exemption on items of clothing and footwear priced under $110 and created two exemption weeks at the same $110 threshold. If the 2006-07 Executive Budget included tax cut proposals, the year-round exemption for such items takes effect on April 1, 2006.	April 12, 2005
Manhattan Parking Vendors	Made permanent the sales tax enforcement provisions relating to parking vendors in Manhattan.	April 12, 2005
Metropolitan Commuter Transportation District Sales Tax Rate	Increased the sales and use tax rate in the Metropolitan Commuter Transportation District (MTCD) from 0.25 percent to 0.375 percent.	June 1, 2005
Sales Tax Medicaid Intercept	Provided for the State to calculate an optional local “Medicaid amount”, and for such amount to be intercepted from local sales tax distributions and directed to the State.	April 12, 2005
Amusement Park Admissions	Extended until October 1, 2006, the 75 percent sales tax exemption of the amount charged for admission to a qualifying place of amusement.	April 12, 2005
Lower Manhattan Office Space	Provided sales tax exemption for property used to furnish or equip lower Manhattan office space.	August 30, 2005
Residential Solar Energy	Exempted the sale and installation of residential solar energy systems equipment from sales and use taxes.	July 26, 2005
In Bay Car Washes	Exempted coin-operated or fully automated car washing, waxing or vacuuming from sales and use taxes.	December 1, 2005
Marine Terminal Facilities	Exempted certain machinery and equipment for marine container terminals in New York City from State sales and use taxes.	December 1, 2005
Waste Transfer Stations	Exempted certain waste transfer services from State and local sales and use taxes.	December 1, 2005
State Charter Credit Unions	Exempted State charter credit unions from sales and use taxes.	March 1, 2006
Direct Shipment of Wine	Provided for certain limited direct interstate shipments of wine.	August 11, 2005

Subject	Description	Effective Date
Electricity	Exempted electricity, refrigeration and steam services produced by a cogeneration facility owned by certain cooperative corporations.	March 1, 2006
Legislation Enacted in 2006		
Clothing	Permanently exempted clothing and footwear priced under $110.	April 1, 2006
Vendor Allowance	Increased vendor credit from 3.5 percent to 5 percent and increased the cap from $150 to $175. The cap increased to $200 on March 1, 2007.	September 1, 2006
Amusement Parks	Exempted admissions to amusement parks permanently.	October 1, 2006
Motor Fuel Cap	Limits the amount of state sales tax imposed on motor fuels to 8 cents per gallon. Localities imposing a sales tax have the option either to continue to use the percentage rate method or to change to a cents-per-gallon method of computing sales tax.	June 1, 2006
Alternative Fuels	Exempted or partially exempted sales tax on alternative fuels, including E85 and B20, sunsets September 1, 2011.	September 1, 2006
Cabaret	Exempted admissions to cabaret.	December 1, 2006
Credit Card	Allowed refund of sales tax paid on certain credit card accounts.	January 1, 2007
Legislation Enacted in 2008		
Sales – Exempt Organizations	Required nonprofit charitable, educational, religious and other organizations to collect sales tax on retail sales of certain property and services.	September 1, 2008
SUT – Vendor Registration	Required all vendors to register with the Department of Taxation and Finance. The registration fee is $50.	November 1, 2008
Sales Tax Nexus	Created an evidentiary presumption that certain sellers using New York residents to solicit sales in the State are vendors required to collect tax.	April 23, 2008
Sales – Voluntary Disclosure and Compliance (VDC) Program	Allowed eligible taxpayers to voluntarily disclose and pay certain underreported tax liabilities and interest.	April 23, 2008
Legislation Enacted in 2009		
Transportation	Imposed a sales tax on certain transportation services (specifically black cars, limousines, and livery vehicles).	June 1, 2009
Compliance	Increased tax compliance efforts (i.e., third-party reporting).	June 1, 2009
Prepaid Rate Cigarettes	Increased prepaid sales tax rate on cigarettes from 7 percent to 8 percent of the base retail price.	June 1, 2009
Affiliate Nexus	Expanded the definition of vendor to preclude certain retailers from avoiding the tax.	June 1, 2009
Abusive Schemes	Narrowed the exemption for commercial aircraft and the use tax exemption for motor vehicles, vessels and aircraft.	June 1, 2009
Empire Zone	Converted the QEZE sales tax exemption to a refundable credit.	April 1, 2009
Legislation Enacted in 2010		
Sales - Clothing and Footwear Exemption	Repealed the $110 clothing and footwear exemption until March 31, 2012; Temporary $55 exemption from April 1, 2011, to March 31, 2012.	October 1, 2010
Sales - Vendor Credit	Repealed the vendor credit for monthly filers.	September 1, 2010
Sales - Room Remarketer	Clarified that room remarketers must collect sales and NYC occupancy taxes.	September 1, 2010
Transportation	Exempted livery service in NYC from the sales tax.	June 1, 2009
Affiliate Nexus	Narrowed affiliate nexus provisions.	June 1, 2009
PLC	Repealed private label credit card provisions.	June 1, 2010
Legislation Enacted in 2011		
Electronic News Exemption	Provided an exemption for certain electronic news services and electronic periodicals.	March 1, 2012

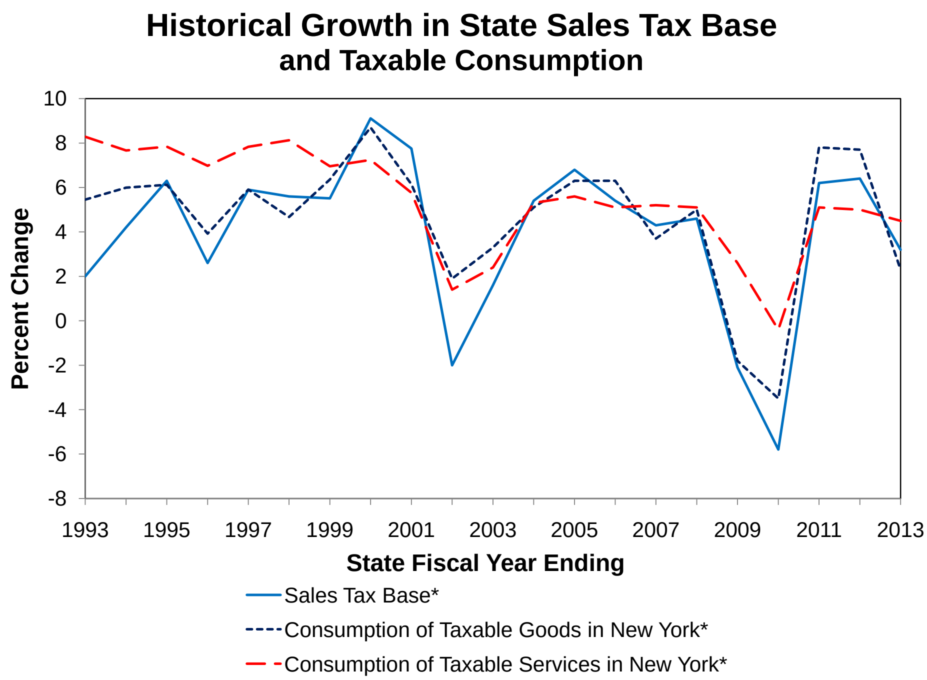
TAX LIABILITY

The sales and compensating use tax, which accounted for about 19 percent of 2010-11 All Funds tax receipts, is the second largest State tax revenue source (the personal income tax is the largest).

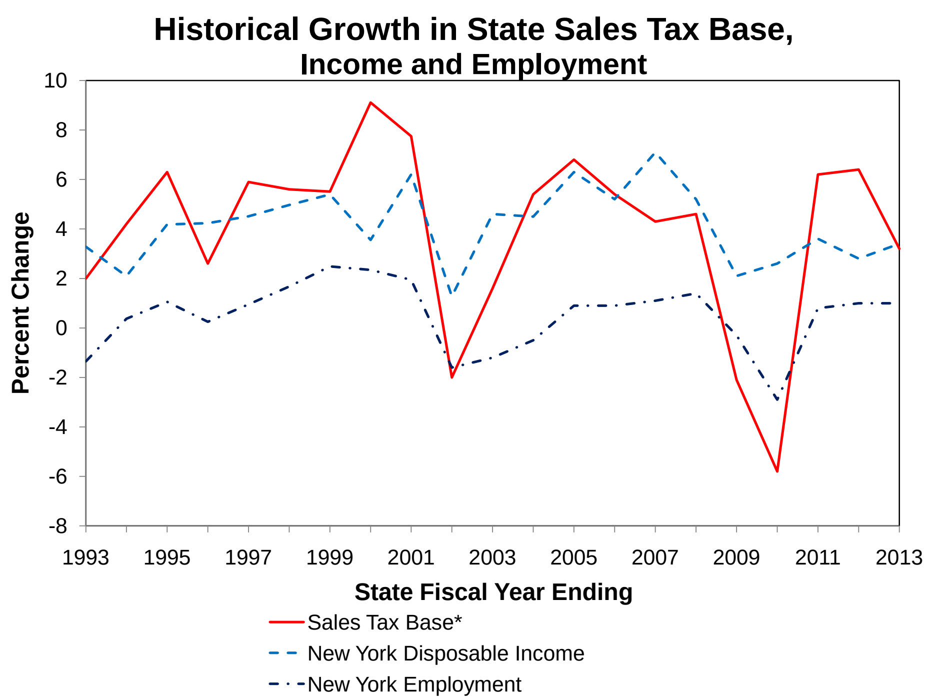
In the long run, sales tax receipts are a function of changes in the tax rate and economic activity, as measured by such factors as disposable income and employment. Short-run fluctuations in receipts can result from rapid changes in consumer prices, auto sales, and home sales. The following table and graphs show the growth rate of major economic factors affecting the sales tax. For a more detailed discussion of the methods and models used to develop estimates and projections for the sales and use tax, please see the *Economic, Revenue and Spending Methodologies* at www.budget.ny.gov.

MAJOR ECONOMIC FACTORS AFFECTING SALES TAX RECEIPTS
STATE FISCAL YEARS 2003-04 to 2012-13
Percent Change

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	Estimated 2011-12	Projected 2012-13
Consumption of Taxable Goods in NY	5.1	6.3	6.3	3.7	5.0	(1.8)	(3.5)	7.8	7.6	2.2
Consumption of Taxable Services in NY	5.3	5.6	5.1	5.2	5.1	2.6	(0.4)	5.1	4.9	4.0
NY Employment	(0.5)	0.9	0.9	1.1	1.4	(0.3)	(2.9)	0.7	1.0	1.0
NY Disposable Income	4.5	6.3	5.2	7.1	5.2	2.1	2.6	3.6	2.5	3.6
NY Nominal Value of New Auto and Light Truck Sales	2.7	(1.8)	0.3	(2.6)	8.0	(20.3)	(5.2)	23.5	8.3	8.6
Sales Tax Base	5.4	6.8	5.4	4.3	4.6	(2.1)	(5.8)	6.2	6.4	3.2

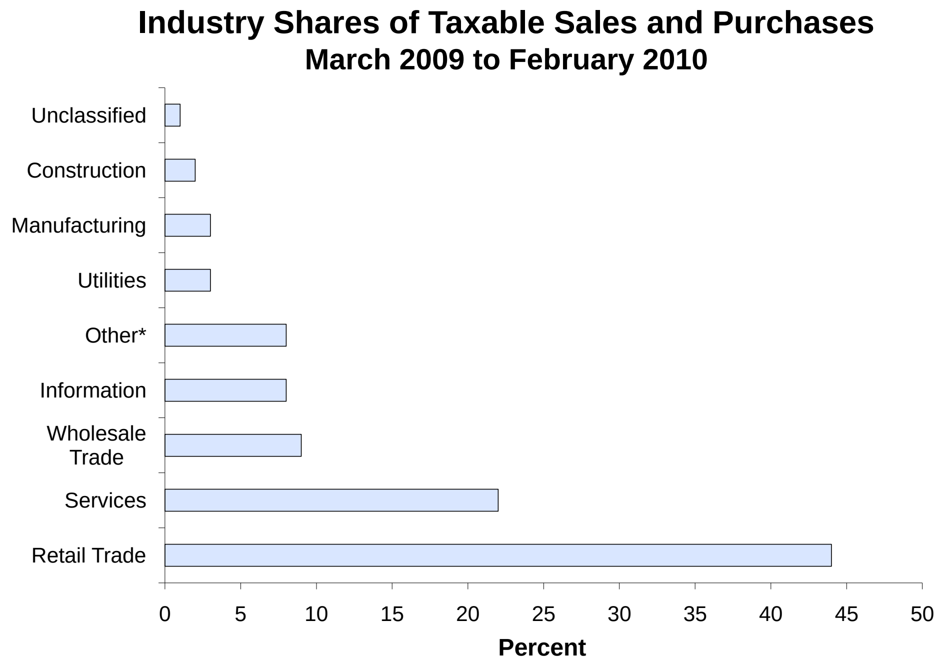


*Based on Division of the Budget estimate



*Based on Division of the Budget estimate

Although numerous exemptions from tax on the sales of tangible personal property have been enacted (see *Tax Expenditure Report*), roughly 44 percent of total taxable sales and purchases subject to the sales and use tax are remitted by the retail trade industry. This includes, for example, automobile dealers and general merchandise stores. The service industry (including accommodations, food and administrative services) remits roughly 22 percent of the statewide total and accounts for the next largest share of taxable sales and purchases.



*Includes Agriculture, Mining, Transportation, FIRE, Education and Government.
Source: New York State Department of Taxation and Finance.

States are currently constrained by United States Supreme Court decisions limiting which out-of-state vendors can be required to collect the sales tax on a state's behalf. In general, a vendor must have some physical presence or nexus in a state to be required to collect that particular state's sales tax. Thus, a compensating use tax complements the sales tax, and is imposed on the use of taxable property or services in-state, if the transaction has not already been subject to tax. This will include, for example, taxable items purchased via mail order or on the Internet if the vendor has no taxable nexus with New York. The use tax also applies to certain uses of self-produced property or services. With some exceptions, the base of the use tax mirrors the base of the sales tax. The use tax is remitted by the purchaser directly to the New York State Department of Taxation and Finance, but low compliance for certain transactions remains an ongoing concern.

Effective with the 2003 personal income tax filing year, the New York State personal income tax return contains a line on which taxpayers may enter the amount of use tax owed for the preceding calendar year. New York State collected $28.4 million from this program in 2005-06, $33.6 million in 2006-07, $45.6 million in 2007-08, $43.5 million in 2008-09, $53.5 million in 2009-10, and $24.6 million in 2010-11.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2011-12 Estimates

All Funds collections through December are $8,955 million, an increase of $297.9 million (3.4 percent) from the comparable period in the prior fiscal year.

All Funds receipts for 2011-12 are estimated to be $11,997 million, an increase of $459.1 million (4.0 percent) above last year. The growth rate is suppressed by the partial return of the clothing and footwear exemption at $55 per item (no exemption was in effect during 2010-11).

Base growth (i.e., growth absent law changes) rates in the first three quarters of 2011-12 were 8.5 percent and 4.1 percent and 7.9 percent, respectively. The base growth rate in the last quarter is estimated to be 5.3 percent.

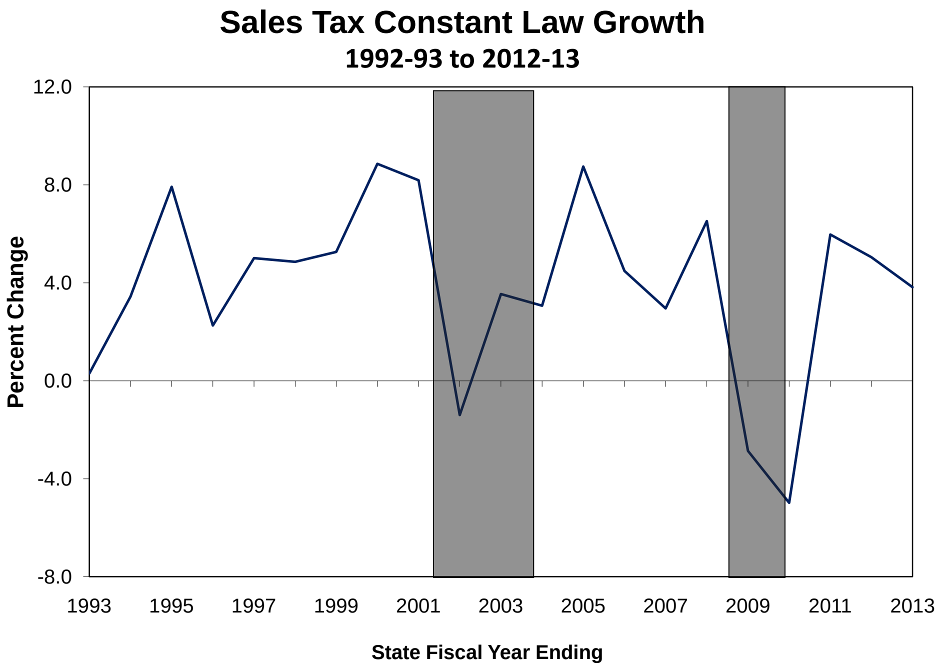
As the national and State economies continue to rebound, strong growth is expected in the consumption of goods and services. The consumption of New York taxable goods are estimated to increase by 7.6 percent, due partly to the growth in the consumption of food and beverages (6 percent), recreational goods and services (5 percent) and furnishings and household equipment (4 percent). The consumption of New York taxable services are estimated to increase by 5 percent due primarily to growth in food services and accommodations (6 percent) and transportation services (3 percent). The estimated increase in the nominal value of NY light vehicle sales in 2011-12 (8.3 percent), along with the historic increase in 2010-11, will bring sales near the level seen prior to the recession. These factors help to explain sales tax base growth of 6.4 percent. The cap on motor fuel and diesel motor fuel, which was imposed in 2006, is estimated to reduce State revenues by over $400 million in 2011-12, or roughly $150 million more than the 2010-11 impact.

2012-13 Projections

All Funds receipts are projected to be $12,246 million, an increase of $248.8 million (2.1 percent) above 2011-12.

The rate of growth in the sales tax base in 2012-13 is projected to be 3.2 percent, 3.2 percentage points lower than in 2011-12. The reduced growth rate is the result of a projected leveling off of employment growth and the projected return of the full Federal social security tax.

The primary risk factor for the sales and use tax estimate is the economic forecast, which provides the basis for the sales tax estimates. Unexpected slowdowns in income, employment, auto sales, and the associated consumption of taxable goods would adversely impact the level of taxable sales.



Note: Shading represents State economic recessions

General Fund

Direct deposits to the General Fund for 2011-12 are estimated to be $8,426.3 million, an increase of $341.5 million (4.2 percent) above 2010-11 receipts. General Fund receipts for 2012-13 are projected to be $8,591.3 million.

Local Government Assistance Corporation Fund

The Local Government Assistance Corporation (LGAC) was created in 1990 to help the State eliminate its annual spring borrowing. To pay the debt service on the bonds issued by LGAC, the State has diverted an amount equal to the yield of one-fourth of net sales and use tax collections from the 4 percent statewide sales tax to the Local Government Assistance Tax Fund (LGATF). Sales tax deposits to LGATF were $2,697.2 million in 2010-11 and are estimated to be $2,808.7 million in 2011-12, and $2,863.5 million in 2012-13. LGATF receipts in excess of debt service requirements on LGAC bonds are transferred to the General Fund.

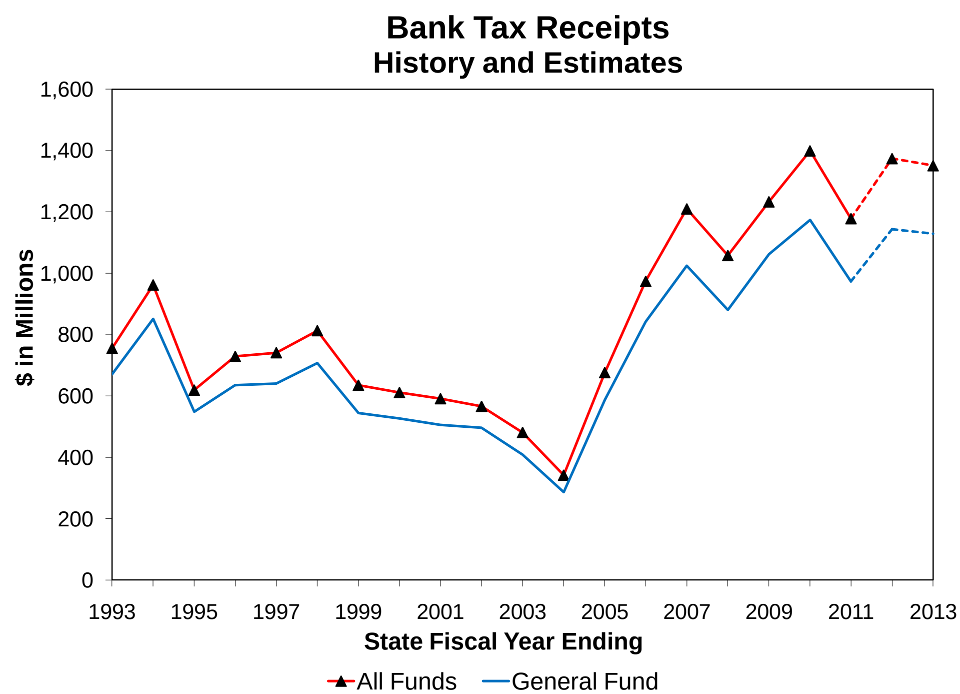
Mass Transportation Operating Assistance Fund

The Mass Transportation Operating Assistance Fund (MTOA) was created in 1981 to finance State public transportation needs. MTOA derives part of its revenues from the 0.375 percent sales and compensating use tax imposed in the MCTD. MTOA received $755.9 million in sales and use tax receipts in 2010-11, and will receive an estimated $762 million in 2011-12 and $791 million in 2012-13. The entire proceeds from the MCTD tax are earmarked for MTOA.

BANK TAX

BANK TAX (millions of dollars)							
	2010-11 Actual	2011-12 Estimated	Change	Percent Change	2012-13 Projected	Change	Percent Change
General Fund	973.3	1,143.0	169.7	17.4	1,129.0	(14.0)	(1.2)
Other Funds	204.9	231.0	26.1	12.7	222.0	(9.0)	(3.9)
All Funds	1,178.2	1,374.0	195.8	16.6	1,351.0	(23.0)	(1.7)

Note: Totals may differ due to rounding.



BANK TAX BY FUND (millions of dollars)							
	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds	Refunds	Special Revenue Funds[1]	All Funds Receipts
2002-03	524	115	409	84	12	72	481
2003-04	431	145	286	71	15	56	342
2004-05	662	75	587	100	11	89	676
2005-06	941	99	842	150	17	133	975
2006-07	1,098	74	1,024	193	7	186	1,210
2007-08	1,002	122	880	196	18	178	1,058
2008-09	1,296	234	1,062	208	36	172	1,234
2009-10	1,243	70	1,173	241	15	226	1,399
2010-11	1,199	226	973	245	40	205	1,178
Estimated							
2011-12	1,273	130	1,143	256	25	231	1,374
2012-13							
Current Law	1,254	125	1,129	247	25	222	1,351
Proposed Law	1,254	125	1,129	247	25	222	1,351

[1] Receipts from the MTA business tax surcharge are deposited in the Mass Transportation Operating Assistance Fund.

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

Tax Base and Rate

The bank tax is levied by Article 32 of the Tax Law on banking corporations conducting business in New York State. Banking corporations are classified as commercial banks, savings banks, savings and loan associations, foreign banks and alien banks. Foreign banks are those formed under the laws of another state, whereas alien banks consist of banks formed under the laws of another country. Article 32 bank tax liability is computed under four alternative bases, with tax due based on the highest tax calculated under the four alternative bases. The four alternative bases are:

- An entire net income (ENI) base, which begins with Federal taxable income before net operating loss deductions and special deductions, and is further adjusted by the exclusion, deduction or addition of certain items. The resulting base is allocated to New York and subject to a tax rate of 7.1 percent.

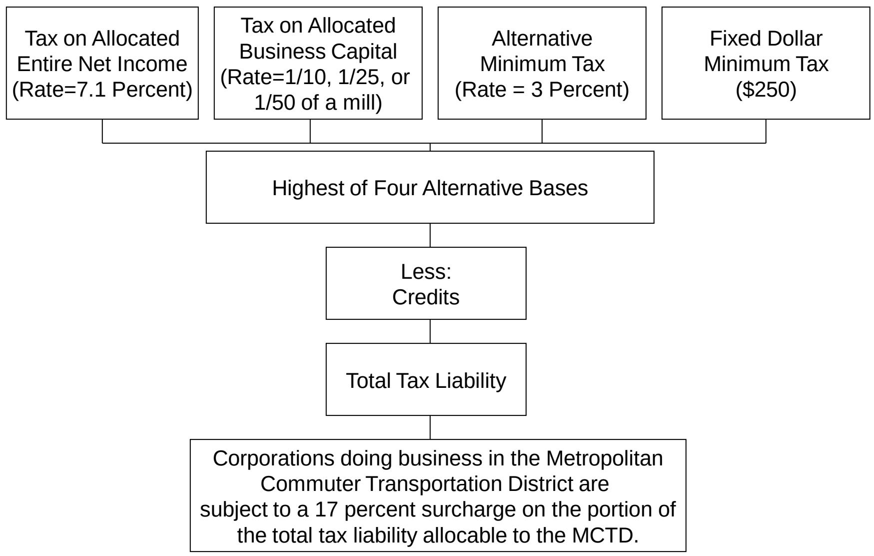
- An alternative minimum tax (AMT) base imposed at a rate of 3 percent of entire net income (as calculated above) and further adjusted to reflect certain Federal tax preference items and adjustments, and State-specific net operating loss (NOL) modifications.

- An assets base imposed at the rate of 1/10, 1/25, or 1/50 of a mill of taxable assets allocated to New York. The applicable rate depends on the size of the bank's net worth relative to assets and mortgages as a percent of total assets.

- A fixed dollar minimum tax of $250.

Banks conducting business in the Metropolitan Commuter Transportation District (MCTD) are also subject to a 17 percent surcharge on the portion of the total tax liability allocated to the MCTD. The collections from the surcharge are deposited into the Mass Transportation Operating Assistance Fund (MTOAF).

Bank Tax Article 32 – Current Law



Administration

Banks that reasonably expect their tax liability to exceed $1,000 for the current tax year are required to make a mandatory first installment of estimated tax and three additional estimated payments. The mandatory first installment is due 75 days from the end date of a taxpayer's fiscal year. The remaining three estimated tax payments are due on the fifteen day of the third month of the fiscal year quarter. The majority of the taxpayers have a fiscal year that ends December 31. The mandatory first installment for these taxpayers is due March 15 with the remaining three estimated payments due on June 15, September 15 and December 15. A final payment is also required of all taxpayers. This payment is due with the mandatory first installment. Taxpayers that expect their tax liability to exceed $100,000 for the current tax year are required to make a mandatory first installment equal to 40 percent of their prior year liability. Taxpayers with expected liability greater than $1,000 and less than $100,000 must make a mandatory first installment equal to 25 percent of their prior year liability.

Tax Expenditures

Tax expenditures are defined as features of the Tax Law that by exclusion, exemption, deduction, allowance, credit, deferral, preferential tax rate or other statutory provision reduce the amount of a taxpayer’s liability to the State by providing either economic incentives or tax relief to particular entities to achieve a public purpose. The major tax expenditure items for the bank tax include: the deduction of 60 percent of dividends, gains, and losses from subsidiary capital, the deduction of 22.5 percent of interest income from government obligations, and the international banking facility formula allocation election. For a more detailed discussion of tax expenditures, see the *Annual Report on New York State Tax Expenditures*, prepared by the Department of Taxation and Finance and the Division of the Budget.

Significant Legislation

The significant statutory changes to this tax source since 1981are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1981		
Metropolitan Transportation Business Tax Surcharge	Imposed a temporary 17 percent surcharge on business taxpayers on tax liability allocated to the Metropolitan Commuter Transportation District (MCTD). Collections are dedicated in support of the Metropolitan Transportation Authority.	January 1, 1982
Legislation Enacted in 1985		
Omnibus Tax Equity and Enforcement Act of 1985	Provided several new enforcement tools in enhancing tax compliance, including new penalties for tax evaders, enhancement of existing penalties, and broader investigatory power for the Department of Taxation and Finance.	Various dates in 1985
Bank Tax Restructuring	Significant Changes were made to the Bank Tax under the Tax Law and the New York City administrative code in 1985 that created the current bank tax structure in Article 32 of the Tax Law.	January 1, 1985
Legislation Enacted in 1986		
Economic Development Zones	Authorized the designation of selected towns, counties, cities and villages as Economic Development Zones (EDZs), which provided certain tax benefits to qualifying businesses.	January 1, 1986
Legislation Enacted in 1987		
Business Tax Reform and Rate Reduction Act of 1987	Reformed the tax by lowering the rate, restructuring the alternative bases to include a broader range of items of income, limited the usefulness of the ITC, and decoupled from the Federal bad debt deduction.	January 1, 1987
Legislation Enacted in 1989		
Bank Tax Extension	Provided an extension of the Bank Tax that had expired for commercial banks. The tax did not apply to tax years beginning on or after January 1, 1990. Sunsets for tax years beginning on or after January 1, 1992.	January 1, 1990
Legislation Enacted in 1990		
Temporary Business Tax Surcharge	Imposed a temporary 15 percent tax surcharge on the tax liability of certain business taxpayers. The surcharge was extended twice.	January 1, 1990
Legislation Enacted in 1992		
Bank Tax Extension	Provided an extension of the Bank Tax that had expired for commercial banks. The tax did not apply to tax years beginning on or after January 1, 1992. Sunsets for tax years beginning on or after January 1, 1994.	January 1, 1992
Legislation Enacted in 1994		
Subsidiary Capital	Specified subsidiary capital taxation rules to allow deduction of 60 percent of the amount by which gains exceed losses from such capital, to the extent such gains and losses were taken into account in determining taxable income.	January 1, 1994
Bank Tax Extension	Provided an extension of the bank tax that had expired for commercial banks. The tax did not apply to tax years beginning on or after January 1, 1994. Sunsets for tax years beginning on or after January 1, 1995.	January 1, 1994
Legislation Enacted in 1995		
Bank Tax Extension	Provided an extension of the Bank Tax that had expired for commercial banks. The tax did not apply to tax years beginning on or after January 1, 1995. Sunsets for tax years beginning on or after January 1, 1997.	January 1, 1995

Subject	Description	Effective Date
Legislation Enacted in 1996		
Bank Tax Extension	Provided an extension of the Bank Tax that had expired for commercial banks. The tax did not apply to tax years beginning on or after January 1, 1997. Sunsets for tax years beginning on or after January 1, 2001.	January 1, 1997
Legislation Enacted in 1997		
Net Operating Loss	Allowed banks to claim a net operating loss deduction (NOLD) for losses incurred on or after January 1, 2001.	January 1, 2001
Legislation Enacted in 1998		
Investment Tax Credit	Allowed bank taxpayers that are brokers/dealers in securities to claim a credit for equipment used in broker/dealer activities and in activities connected with broker/dealer operations.	October 1, 1998
Legislation Enacted in 1999		
Rate Reduction — ENI	Reduced the ENI tax rate from 9 percent to 7.5 percent in phases over three years.	June 30, 2000
Legislation Enacted in 2000		
Empire Zones (EZ)	Transformed Economic Development Zones (EDZ) to Empire Zones, effectively providing for virtual "tax free" zones for certain businesses. The enhanced benefits include a tax credit for real property taxes, a tax reduction credit, and a sales and use tax exemption. The tax reduction credit may be applied against the fixed dollar minimum tax, which may reduce the taxpayer's liability to zero.	January 1, 2001
Transitional Provision for Federal *Gramm-Leach-Bliley Act* of 1999	Created transitional provisions relating to the enactment and implementation of the Federal *Gramm-Leach-Bliley Act* of 1999 to allow certain corporations that were taxed under the corporate franchise tax or bank tax in 1999 to maintain that taxable status in 2000. Also permitted certain corporations that are owned by financial holding companies or are financial subsidiaries of banks to elect to be taxed under either the corporate franchise tax or bank tax for the 2000 taxable year.	January 1, 2000
Legislation Enacted in 2001		
Bank Tax and GLB Provisions	Provided an extension of the Bank Tax that had expired for commercial banks. The tax did not apply to tax years beginning on or after January 1, 2001. Sunsets for tax years beginning on or after January 1, 2003. Also, extended for two years, until January 1, 2003, the provisions relating to the Federal *Gramm-Leach-Bliley Act*.	January 1, 2001
Legislation Enacted in 2002		
Estimated Payment Requirement	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year's liability for those corporate taxpayers whose prior year's liability exceeds $100,000.	January 1, 2003
Empire Zones Program	Amended to clarify certain provisions and implement new components for several credit calculations.	Various
Legislation Enacted in 2003		
Bank Tax and GLB Provisions	Provided an extension of the Bank Tax that had expired for commercial banks. The tax did not apply to tax years beginning on or after January 1, 1997. Sunsets for tax years beginning on or after January 1, 2005. Also, extended on or after January 1, 2004, the provisions relating to the Federal *Gramm-Leach-Bliley Act*.	January 1, 2003
Modification for Decoupling from Federal Bonus Depreciation	Required taxpayers to make modifications to Federal taxable income for property placed in service on or after June 1, 2003, that qualified for the special bonus depreciation allowance allowed by the Federal Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003. The modifications do not apply to qualified resurgence zone property or qualified New York Liberty Zone property.	June 1, 2003

Subject	Description	Effective Date
Intangible Holding Companies	Required taxpayers to modify Federal taxable income relating to certain royalty and interest payments made with respect to the use of intangible property by related members or royalty and interest payments received from related members.	January 1, 2003
Superfund-Brownfield Tax Credits	Created tax incentives for the redevelopment of brownfields through three refundable tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. There are three components in the redevelopment tax credit: a site preparation component; a tangible property component; and an onsite groundwater remediation component.	April 1, 2005
Legislation Enacted in 2004		
Bank Tax and GLB Provisions	Extended for one year, until January 1, 2006, certain provisions of the Tax Law and the Administrative Code of the City of New York relating to the taxation of commercial banks. Also extended for two years, until January 1, 2006, the provisions relating to the Federal *Gramm-Leach-Bliley Act.*	January 1, 2004
Empire Zones Program Extension	Extended the Empire Zones (EZ) Program to March 31, 2005.	January 1, 2004
Legislation Enacted in 2005		
Single Sales Apportionment	Changed the computation used to allocate income and assets to New York by banking corporations taxed under Article 32 that are owned by a bank or bank holding company and are substantially engaged in providing services to an investment company from a three-factor formula of receipts, deposits, and wages to a single receipts factor.	These provisions were phased in over a three-year period starting in tax year 2006, and were fully effective for tax years beginning on or after January 1, 2008
Legislation Enacted in 2006		
Empire Zones / Significant Investments	Provided that a Qualifying Empire Zone Enterprise (QEZE) with fewer than 200 existing jobs that makes an investment of $750 million or more and creates 500 new jobs is deemed a "new business," qualifying the taxpayer for a 50 percent refund of its EZ Investment Tax Credits and EZ Employment Incentive Credits. Also authorized such taxpayers to select their program benefit period to start either upon certification (current law), or when the qualifying investment is placed in service.	January 1, 2006
Eliminate S Corporation Differential Tax Base	Eliminated the tax base imposed on S Corporations that was calculated using the difference between the corporate franchise tax rate and the top personal income tax rate. The rate had been changed, and the base was also suspended during tax years 2003 through 2005 when the PIT surcharge was in effect. Elimination of this base conformed the State tax code with Federal treatment of S corporations.	January 1, 2003 (note that the differential had already been suspended - eff. date reflected first instance of non-imposition)
Bank Tax and GLB Provisions	Extended for two years, until January 1, 2008, certain provisions of the Tax Law and the Administrative Code of the City of New York relating to the taxation of commercial banks. Also extended for two years, until January 1, 2008, the provisions relating to the Federal *Gramm-Leach-Bliley Act.*	January 1, 2006
Legislation Enacted in 2007		
Rate Reduction - ENI	Lowered the rate imposed on the ENI base from 7.5 percent to 7.1 percent.	January 1, 2007
REIT/RIC Loophole Closer	Closed a loophole and conformed to Federal rules by eliminating, over a five-year period, the deduction for certain dividends received by a parent company from a Real Estate Investment Trust (REIT) or Regulated Investment Company (RIC) to ensure that either the REIT or RIC or its shareholders pay tax on the income earned by the REIT or RIC. Banks with taxable assets of $8 billion or less were excluded from these provisions.	January 1, 2007

Subject	Description	Effective Date
Taxation of Certain Banking Corporations	Established conditions under which certain corporations that elected to be taxable under Article 9-A of the Tax Law, or are required to be taxed under Article 9-A pursuant to the *Gramm-Leach Bliley Act* transitional provisions, will become taxable under Article 32 of the Tax Law. These conditions included: ceasing to be a taxpayer under Article 9-A; becoming subject to the $800 fixed dollar minimum tax for inactive corporations; having no wages or receipts allocable to New York or otherwise becoming inactive; being acquired by an unaffiliated corporation in a transaction under Section 338(h)(3) of the Internal Revenue Code; or becoming engaged in a different line of business as a result of acquiring a certain amount of assets. Meeting any one of these conditions resulted in the corporation becoming taxable as a bank under Article 32. The legislation also provided that an investment subsidiary of a bank or bank holding company was included in the definition of a banking corporation and taxable under Article 32.	January 1, 2007
Bank Tax and GLB Provisions	Extended for two years, until January 1, 2010, certain provisions of the Tax Law and the Administrative Code of the City of New York relating to the taxation of commercial banks. Also extended for two years, until January 1, 2010, the provisions relating to the Federal *Gramm-Leach-Bliley Act.* This extension also amended the provisions so that bank taxpayers no longer meeting the definition of doing a banking business would be moved to taxation under the corporation franchise tax.	January 1, 2008
Acceleration of Single Sales Apportionment Phase-In	Accelerated, by one year, the final phase-in of the move to sales-only apportionment of income and assets for certain banking corporations.	January 1, 2007
Amendment to Add-Back Provisions Related to Certain Intangible Income	Eliminated the add-back of certain intangible income and related interest for bank taxpayers, if the corporation receiving the income from the bank is included in a New York State combined return.	January 1, 2007
GLB Conforming Provision Amendments	Amended the Enacted Budget provisions that required bank taxpayers no longer meeting the definition of doing a banking business to file under the corporation franchise tax to delay the effect of those provisions by clarifying that taxpayers no longer meeting the definition of doing a banking business as a result of transactions which occurred prior to January 1, 2008 would not be subject to the said amended provisions for tax years 2008 and 2009. Also provided language notifying potentially affected taxpayers of the prospective 2010 law change.	June 29, 2007
Legislation Enacted in 2008		
Taxation of Credit Card Banks	Imposed the bank tax on banks with credit card operations in New York State that exceed 1,000 customers or accepting vendors, or $1 million in receipts from customers or vendors.	January 1, 2008
REITs/RICs Provisions Technical and Substantive Amendments	Amended the 2007 REITs/RICs provisions to make closely-held REIT and RIC subsidiaries includable in a combined return with the closest affiliate in the corporate group that is a New York State taxpayer, regardless of the article under which that taxpayer files its New York return. Previously, REITs and RICs were treated as Article 9-A corporation franchise taxpayers by definition. This legislation also made other technical and conforming changes.	January 1, 2008
Qualified Production Activity Income (QPAI) Deduction	Decoupled New York State from Internal Revenue Code (IRC) Section 199 and required taxpayers to add back the qualified production activities income (QPAI) deduction when computing New York taxable income.	January 1, 2008
Mandatory First Installment Percentage	Required taxpayers with a prior year tax liability over $100,000 to calculate their mandatory first installment payment of franchise tax and MTA surcharge at 30 percent, instead of the previous 25 percent, of the prior year's tax liability. Taxpayers with a prior year liability between $1,000 and $100,000 would continue to use the 25 percent amount to calculate their mandatory first installment.	January 1, 2009

Subject	Description	Effective Date
MTA Surcharge Extender	Extended the temporary MTA surcharge imposed on bank taxpayers which was scheduled to sunset for taxable years ending before December 31, 2009. The legislation extended the sunset date for four years to taxable years ending before December 31, 2013.	April 23, 2008
GLB Provision Amendments	Eliminated language notifying taxpayers of a potential law change that would prospectively tax corporations no longer meeting the definition of doing a banking business under the corporation franchise tax instead of the bank tax.	September 25, 2008
Brownfields Program Reform	Amended the tangible property credit component to impose a limit of the lesser of $35 million or three times the qualifying costs used in calculating the site preparation and on-site groundwater components for projects accepted into the Brownfields program after June 22, 2008. Qualifying manufacturers accepted after this date would be subject to a tangible property credit component limitation equal to the lesser of $45 million or six times the qualifying costs used in calculating the site preparation and on-site groundwater components. Several other changes were effected, including increasing the credit percentages awarded under the site preparation and on-site groundwater components to as much as fifty percent.	June 23, 2008
Legislation Enacted in 2009		
Tax Treatment of Overcapitalized Insurance Companies	Required overcapitalized captive insurance companies to file a combined report with the corporation that directly owns or controls over 50 percent of the voting stock of the captive if that corporation is a bank taxpayer.	January 1, 2009
Estimated Payment Requirement	Increased the first quarterly installment of estimated tax from 30 percent to 40 percent of the prior year's liability for those corporate taxpayers whose liability exceeds $100,000.	January 1, 2010
Empire Zones Reform	Reformed the Empire Zones program. All companies that had been certified for at least three years were subjected to a performance review focusing on cost/benefit ratios.	January 1, 2008
	Reduced the QEZE real property tax credit by 25 percent and disqualified firms for the State QEZE sales tax refund/credit unless the sale qualified for a local sales and use tax refund or credit.	April 1, 2009
	Moved program sunset from December 30, 2011 to June 30, 2010.	April 7, 2009
Legislation Enacted in 2010		
Conform to Federal Bad Debt Provisions	Conformed the State bank tax deduction for bad debts to the calculations provided for in the Internal Revenue Code for Federal tax purposes.	January 1, 2010
Historic Properties Tax Credits	Allowed banks to claim the nonresidential tax credit for historic properties.	January 1, 2010
Make REITs/RICs Loophole Closer Permanent	Made permanent the provisions that address the closely-held Real Estate Investment trusts and Regulated Investment Companies loophole, which would have otherwise expired on December 31, 2010	August 11, 2010
REIT Technical Amendments	Clarified that certain publicly traded REITs with fractional ownership shares in non-related U.S. REITs are not subject to provisions relating to "closely-held" REITs that were enacted in 2008-09.	August 11, 2010
Technical Changes to Empire Zones Program	Made technical corrections to the 2009-10 Enacted Budget Empire Zones Program changes. Clarified that the Legislature intended to decertify certain businesses retroactively to the 2008 tax year, clarified reporting provisions, and allowed qualified investment projects to claim the investment tax credit and employee incentive tax credit after June 30, 2010.	August 11, 2010
Bank Tax and GLB Provisions	Extended for one year bank tax reform provisions from 1985 and 1987, as well as provisions that were intended to temporarily address regulatory changes from the Federal *Gramm-Leach-Bliley Act*.	January 1, 2010
Excelsior Jobs Program	Established a new economic development program to provide incentives based on job creation, investment and research and development expenditures in New York State.	July 1, 2010

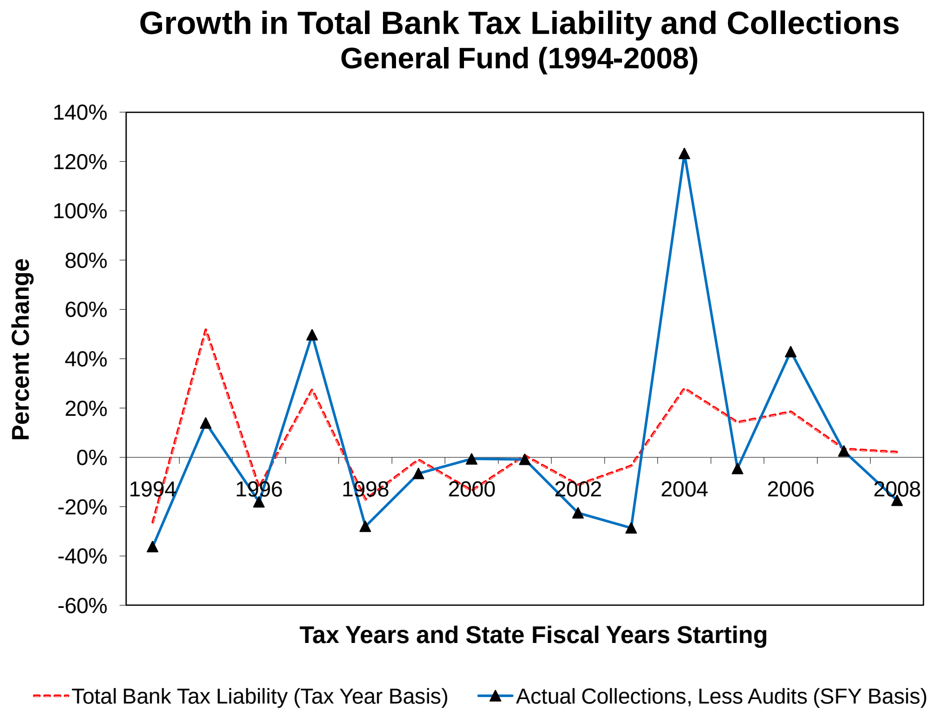
Subject	Description	Effective Date
Tax Credit Deferral	Capped aggregate business related tax credit claims at $2 million per taxpayer for each of tax years 2010, 2011 and 2012. The total amount of credits deferred can be claimed by affected taxpayers on returns for tax years 2013, 2014 and 2015.	January 1, 2010
Legislation Enacted in 2011		
Excelsior Jobs Program Amendments	Modified the credit to make it more widely available and attractive and created a new energy incentive. It also lengthened the benefit period from five to ten years.	March 31, 2011
Economic Transformation and Facility Redevelopment Program	This new program provided tax incentives to businesses to stimulate redevelopment in targeted communities where certain correctional or juvenile facilities are closed (economic transformation areas). This program will expire on December 31, 2021.	March 31, 2011
Bank Tax and GLB Provisions	Made permanent the bank tax reform provisions from 1985 and 1987. Extended the provisions that were intended to temporarily address regulatory changes from the Federal Gramm-Leach-Bliley Act for two years to tax years beginning or after January 1, 2013.	January 1, 2011

TAX LIABILITY

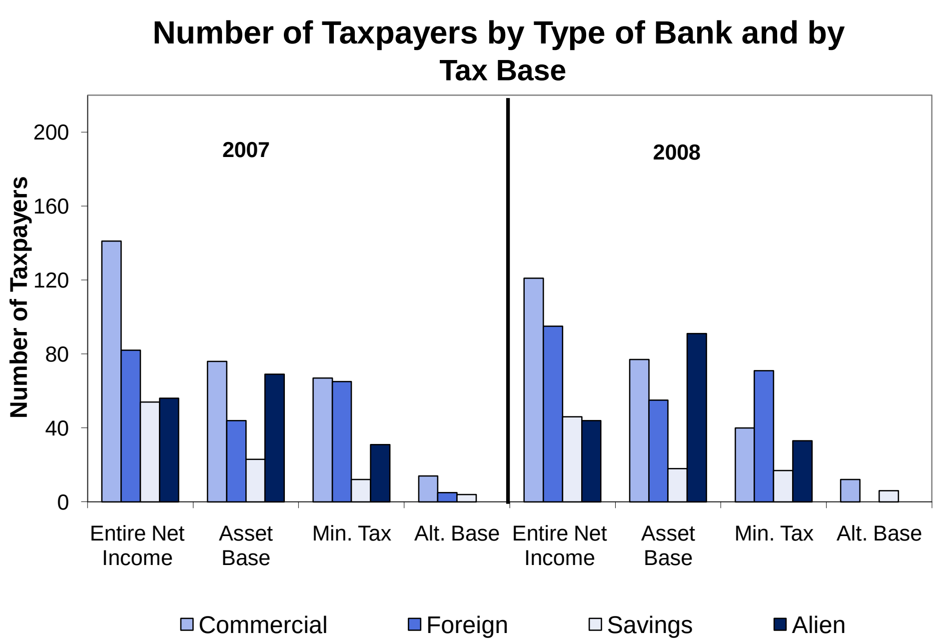
The Bank Tax Study File, which is compiled by the Department of Taxation and Finance's Office of Tax Policy Analysis (OTPA), contains the most recent tax data available on all banks filing under Article 32. The most current liability information is for the 2008 tax year. The annual study of bank tax returns indicates that 726 taxpayers filed tax returns as banking corporations for 2008, a 2.3 percent decrease from the previous year.

The link between underlying bank tax liability and collections in any given State fiscal year is often obscured by the timing of payments, the carry forward of prior year losses or credits, and the reconciliation of prior year liabilities. Tax collections are the net payments and adjustments made by taxpayers on returns and extensions over the course of a State fiscal year. For taxpayers with a fiscal year ending December thirty-one, collections include a mandatory first installment payment that is paid in March and is based on 40 percent of the prior year's liability. In addition, these taxpayers are required to make estimated payments, based on projected liability for the current tax year, in June, September, and December. A final payment is made in March of the subsequent year. Calendar year taxpayers make up the majority of the tax base. Taxpayers may make periodic adjustments to these payments after the close of the tax year as their actual liability for a given tax year becomes more definite. Tax liability in the current year is based on estimated performance for that year. It is generally calculated by tax bases, tax rates, special deductions and additions, losses and tax credits. The Tax Law grants taxpayers extensions that allow the filing of returns up to two years after the end of their tax year.

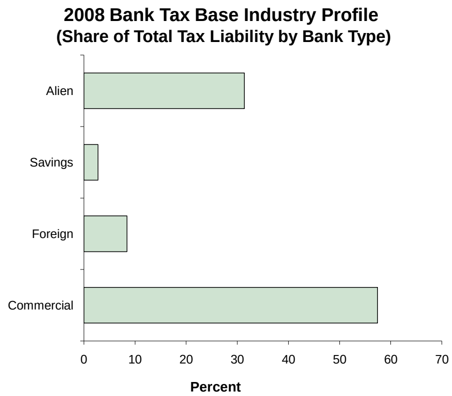
The following graph compares historical bank tax liability and collections. Since taxpayers must pay estimated taxes months in advance of knowing actual liability, it is difficult for taxpayers to determine the proper level of payments needed over the course of a year. This is especially true if business or economic conditions change. The graph illustrates the significant volatility in the underlying relationship between payments and liability, which is further compounded by the potential difference between a taxpayer's tax year and the State fiscal year.

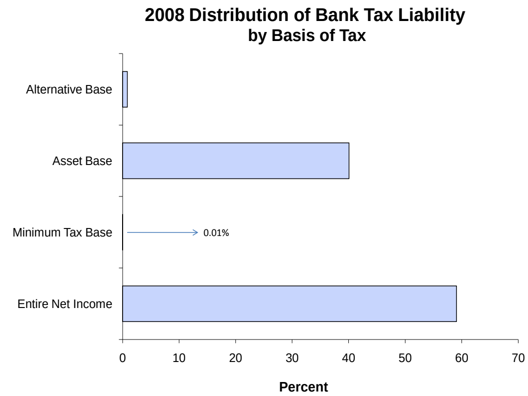


The number of taxpayers decreased by 2.3 percent from 2007 to 2008. Decreases occurred in commercial banks (48 banks, 16.1 percent) and savings banks (six banks, 6.4 percent). Increases occurred in foreign (i.e. domiciled in another state) banks (24 banks, 12.8 percent) and alien (domiciled outside the U.S.) banks (12 banks, 7.7 percent). Though not easily visible in the following graph, from 2007 to 2008 the alternative minimum, entire net income, and fixed dollar minimum taxable income bases had declines of 21.7, 8.1 and 8 percent, respectively. The asset base was the only tax base to grow, increasing 13.7 percent from 2007 to 2008.



The following charts show that commercial banking institutions accounted for 57.4 percent of total tax liability in 2008, and alien banking institutions accounted for 31.4 percent of total liability, while foreign banking institutions and savings banks together accounted for the remaining 11.2 percent of total liability. On a tax base concept, payments under the ENI base comprised over 59 percent of total tax liability.





RECEIPTS: ESTIMATES AND PROJECTIONS

BANK TAX
(millions of dollars)

	Actual 2010-11	Estimated 2011-12	Change	Percent Change	Projected 2012-13	Change	Percent Change
General Fund							
Non-Audit Receipts	769	1,043	274	35.6	889	(154)	(14.8)
Audit Receipts	204	100	(104)	(51.0)	240	140	140.0
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**973**	**1,143**	**170**	**17.4**	**1,129**	**(14)**	**(1.2)**
Other Funds							
Non-Audit Receipts	170	205	35	20.9	175	(30)	(14.6)
Audit Receipts	35	26	(9)	(26.3)	47	21	80.8
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**205**	**231**	**26**	**12.7**	**222**	**(9)**	**(3.9)**
All Funds							
Non-Audit Receipts	939	1,248	309	32.9	1,064	(184)	(14.7)
Audit Receipts	239	126	(113)	(47.3)	287	161	127.8
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**1,178**	**1,374**	**196**	**16.6**	**1,351**	**(23)**	**(1.7)**

All Funds

2011-12 Estimates

All Funds receipts through December are $965.7 million, an increase of $149.3 million (18.3 percent) from the comparable period in the prior fiscal year. The majority of the year-to-date increase is attributable to strong collections in December for commercial bank estimated payments on calendar year liability. The December 2011 estimated payment for commercial bank taxpayers increased 54.8 percent over the prior year. Additionally, refunds are significantly lower in 2011-12 compared to 2010-11 due to the delay in payment of 2009-10 refunds to April 2010. Audit receipts are lower on a year-to-date basis as there have been fewer large audits cases in 2011-12.

All Funds receipts for 2011-12 are estimated to be $1,374 million, an increase of $195.8 million (16.6 percent) from 2010-11. This increase is mainly attributable to strong December collections in commercial bank calendar year liability estimated payments and the corresponding expected increase in March prepayments. Audit receipts and refunds are estimated to be lower by $113.2 million (47.3 percent) and $110.4 million (41.6 percent), respectively, from 2010-11.

2012-13 Projections

All Funds receipts are projected to be $1,351 million, a decrease of $23 million (1.7 percent) from 2011-12. The unusually high commercial bank calendar year filer payments seen in 2011-12 are not expected to be repeated in 2012-13. This decrease is partially offset by a projected increase in audit receipts.

General Fund

General Fund collections for 2011-12 are estimated at $1,143 million, an increase of $169.7 million (17.4 percent) from 2010-11. The increase reflects the same trends impacting 2011-12 All Funds receipts.

General Fund collections for 2012-13 are projected to be $1,129 million, a decrease of $14 million (1.2 percent). The decrease reflects the same trends impacting All Funds receipts for 2012-13.

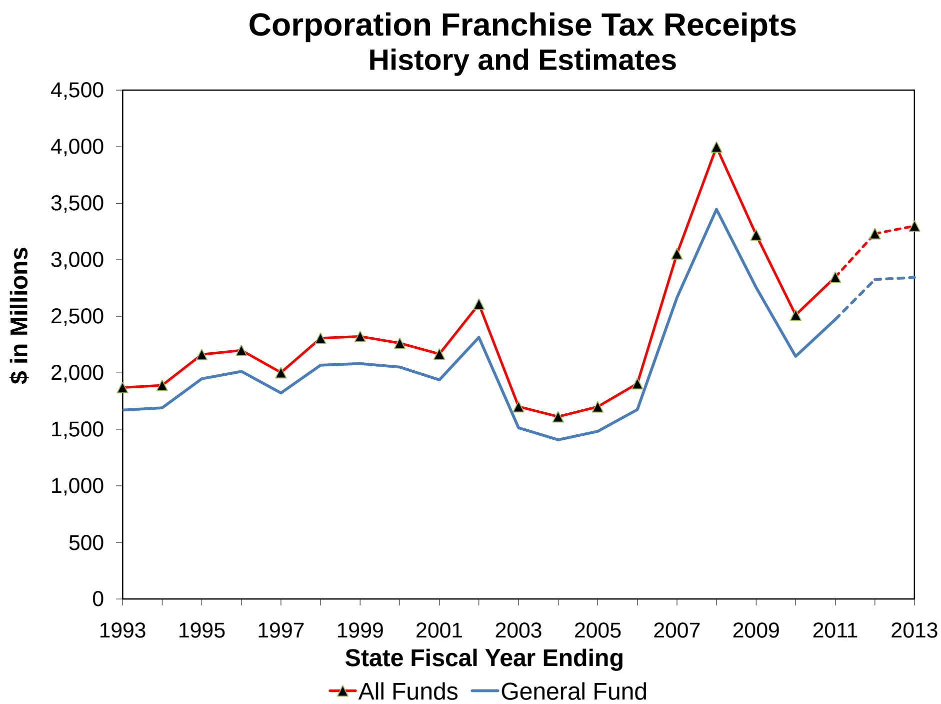
Other Funds

Bank tax receipts from surcharges deposited to MTOAF generally reflect the All Funds trends described above. MTOAF bank tax receipts for 2011-12 reflect year-to-date trends and are estimated at $231 million. Surcharge receipts for 2012-13 are projected to be $222 million.

CORPORATION FRANCHISE TAX

CORPORATION FRANCHISE TAX (millions of dollars)							
	2010-11 Actual	2011-12 Estimated	Change	Percent Change	2012-13 Projected	Change	Percent Change
General Fund	2,472.2	2,825.0	352.8	14.3	2,844.0	19.0	0.7
Other Funds	373.6	406.0	32.4	8.7	455.0	49.0	12.1
All Funds	2,845.8	3,231.0	385.2	13.5	3,299.0	68.0	2.1

Note: Totals may differ due to rounding.



CORPORATION FRANCHISE TAX BY FUND (millions of dollars)							
	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds	Refunds	Special Revenue Funds[1]	All Funds Receipts
2002-03	1,943	535	1,408	243	38	205	1,613
2003-04	2,006	524	1,482	266	48	218	1,700
2004-05	2,289	431	1,858	293	40	253	2,111
2005-06	3,070	405	2,665	415	27	388	3,053
2006-07	4,010	333	3,677	576	25	551	4,228
2007-08	4,035	589	3,446	592	41	551	3,997
2008-09	3,579	824	2,755	542	76	465	3,220
2009-10	2,942	797	2,145	442	76	366	2,511
2010-11	3,234	762	2,472	458	84	374	2,846
Estimated							
2011-12	3,516	691	2,825	484	78	406	3,231
2012-13							
Current Law	3,447	603	2,844	533	78	455	3,299
Proposed Law	3,447	603	2,844	533	78	455	3,299

[1] Receipts from the MTA business tax surcharge are deposited in the Mass Transportation Operating Assistance Fund.

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Extend the Empire State commercial production credit for five years, through tax year 2016, for qualified costs associated with TV commercials produced in New York ;

- Extend the bio-fuel production credit for seven additional years through tax year 2019; and

- Provide the Commissioner of the Division of Housing Community Renewal authorization to allocate an additional $8 million annually in low income housing tax credits for five additional years.

DESCRIPTION

Tax Base and Rate

The corporation franchise tax is levied by Articles 9-A and 13 of the Tax Law. Article 9-A imposes a franchise tax on domestic and foreign corporations for the privilege of exercising their corporate franchise or doing business, employing capital, owning or leasing property, or maintaining an office in New York. The Article 9-A tax is made up of business entities classified as either C corporations or S corporations. Article 13 of the Tax Law imposes a 9 percent tax on certain not-for-profit entities on business income earned from activities not related to their exempt purpose.

For C corporations, current law requires corporation franchise tax liability to be computed under four alternative bases, with tax due based on the highest tax calculated under the four alternative bases. The four alternative bases are:

- An entire net income (ENI) base, which begins with Federal taxable income before net operating loss deductions and special deductions, and is further adjusted by the exclusion, deduction or addition of certain items. The resulting base is allocated to New York and subject to a tax rate of 7.1 percent. Qualifying small businesses with an ENI of $290,000 or less, certain manufacturers and qualified emerging technology companies are subject to a rate of 6.5 percent. Eligible qualified New York manufacturers are subject to a rate of 3.25 percent for tax years 2012, 2013 and 2014.

- An alternative minimum tax (AMT) base imposed at a rate of 1.5 percent of the ENI (as calculated above) further adjusted to reflect certain Federal tax preference items and adjustments and State-specific net operating loss (NOL) modifications. Eligible qualified New York manufacturers are subject to a rate of 0.75 percent for tax years 2012, 2013, and 2014.

- A capital base, imposed at a rate of 0.15 percent on business and investment capital allocated to New York. For most taxpayers, the maximum annual tax is $1 million.

- A fixed dollar minimum tax, which is based on a taxpayer's NY source gross income as shown in the following schedule. Eligible qualified New York manufacturers will pay one-half of the rates shown in the schedule below for tax years 2012, 2013 and 2014.

C AND S CORPORATIONS
FIXED DOLLAR MINIMUM TAXES

Gross Income	C Corp Min Tax	S Corp Min Tax
$100,000 or less	$25	$25
$100,001 - $250,000	$75	$50
$250,001 - $500,000	$175	$175
$500,001 - $1,000,000	$500	$300
$1,000,001 - $5,000,000	$1,500	$1,000
$5,000,001 - $25,000,000	$3,500	$3,000
Over $25,000,000	$5,000	$4,500

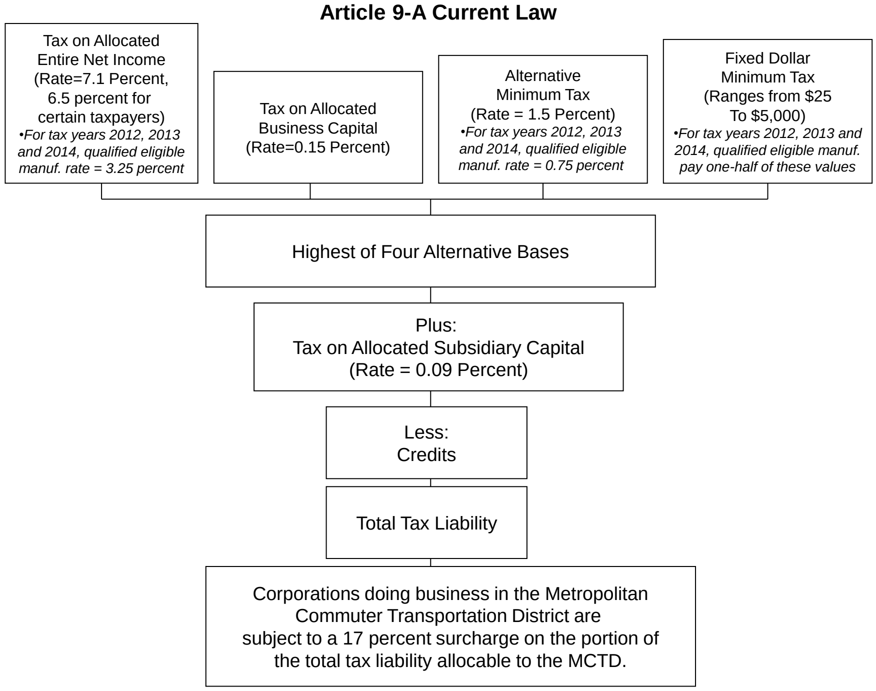
In addition to the tax paid on the highest of the four alternative bases, C corporations also pay a tax of 0.9 mills of each dollar of subsidiary capital allocated to New York State.

S corporations are also subject to a fixed dollar minimum tax imposed at the rates shown in the table above.

Additionally, corporations conducting business in the Metropolitan Commuter Transportation District (MCTD) are subject to a 17 percent surcharge on the portion of the total tax liability computed using the franchise tax rates in effect for the period July 1, 1997, through June 30, 1998, and allocable to the MCTD. The collections from the surcharge are deposited into the Mass Transportation Operating Assistance Fund (MTOAF).

The following flow chart shows how Article 9-A tax liability is computed under the four alternative bases.

Article 9-A Current Law



Administration

Corporations that reasonably expect their tax liability to exceed $1,000 for the current tax year are required to make a mandatory first installment of estimated tax and three additional estimated payments. The mandatory first installment is due 75 days from the end date of a taxpayer's fiscal year. The remaining three estimated tax payments are due on the 15th day of the third month of the fiscal year quarter. The majority of the taxpayers have a fiscal year that ends December 31. The mandatory first installment for these taxpayers is due March 15 with the remaining three estimated payments due on June 15, September 15 and December 15. A final payment is also required of all taxpayers. This payment is due with the mandatory first installment. Taxpayers that expect their tax liability to exceed $100,000 for the current tax year are required to make a mandatory first installment equal to 40 percent of their prior year liability. Taxpayers with expected liability greater than $1,000 and less than $100,000 must make a mandatory first installment equal to 25 percent of their prior year liability.

Tax Expenditures

Tax expenditures are defined as features of the Tax Law that by exclusion, exemption, deduction, allowance, credit, deferral, preferential tax rate or other statutory provisions reduce the amount of a taxpayer’s liability to the State by providing either economic incentives or tax relief to particular entities to achieve a public purpose. The corporate franchise tax structure includes various tax expenditures, and the distribution of these benefits varies widely among firms and industries. Among the major tax expenditure items for the corporate franchise tax are the exclusion of interest, dividends and capital gains from subsidiary capital, the investment tax credit, the Empire Zone, Brownfields and Film Production tax credits, and the preferential tax rates for qualifying small business corporations. For a more detailed discussion of tax expenditures, see the

Annual Report on New York State Tax Expenditures, prepared by the Department of Taxation and Finance and the Division of the Budget.

Significant Legislation

Significant statutory changes to the corporate franchise tax since 1981 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1981		
Metropolitan Transportation Business Tax Surcharge	Imposed on business taxpayers a temporary 17 percent surcharge on tax liability allocated to the Metropolitan Commuter Transportation District (MCTD). Collections are dedicated in support of the Metropolitan Transportation Authority.	January 1, 1982
Legislation Enacted in 1985		
Omnibus Tax Equity and Enforcement Act of 1985	Provided several new enforcement tools for enhancing tax compliance, including new penalties for tax evaders, enhancement of existing penalties, and broader investigatory power for the Department of Taxation and Finance.	Various dates in 1985
Legislation Enacted in 1986		
Economic Development Zones	Authorized the designation of selected towns, counties, cities and villages as Economic Development Zones (EDZs), which provided certain tax benefits to qualifying businesses.	January 1, 1986
Legislation Enacted in 1987		
Business Tax Reform and Rate Reduction Act of 1987	Reformed the tax by lowering the rate, restructuring the alternative bases to include a broader range of items of income, and limited the usefulness of the ITC.	January 1, 1987
Legislation Enacted in 1990		
Temporary Business Tax Surcharge	Imposed a temporary 15 percent tax surcharge on the tax liability of certain business taxpayers. The surcharge was extended twice.	January 1, 1990
Legislation Enacted in 1994		
Depreciation	Changed the Modified Accelerated Cost Recovery System (MACRS) depreciation rule for non-New York property to conform to provisions of the Federal Tax Reform Act of 1986.	January 1, 1994
Limited Liability Companies (LLC) and Limited Liability Partnerships (LLP)	Provided New York State authority for formation of LLCs and LLPs, which are business organizations that provide many of the tax benefits associated with partnerships and the liability protection afforded to corporations.	October 24, 1994
Rate Reduction – Alternative Minimum Tax (AMT)	Reduced rate from 5 percent to 3.5 percent.	January 1, 1995
Legislation Enacted in 1997		
Alternative Fuel Vehicle Credit	Provided corporations and individuals with a tax credit for a portion of the cost of purchasing or converting vehicles to operate on alternative fuels.	January 1, 1998
Legislation Enacted in 1998		
Rate Reduction – AMT	Reduced rate from 3.5 percent to 3 percent phased in over two years.	June 30, 1998
Investment Tax Credit	Allowed brokers/dealers in securities to claim a credit for equipment or buildings used in broker/dealer activity and in activities connected with broker/dealer operations.	October 1, 1998

Subject	Description	Effective Date
Rate Reduction – ENI	Reduced the tax rate from 9 percent to 7.5 percent over a three year period beginning after June 30, 1999.	June 30, 1999
Legislation Enacted in 1999		
Rate Reduction – AMT	Reduced rate from 3 percent to 2.5 percent.	June 30, 2000
EDZ/ZEA Wage Tax Credit	Doubled the existing Economic Development Zone (EDZ) and Zone Equivalent Area (ZEA) wage tax credits.	January 1, 2001
Legislation Enacted in 2000		
Energy Reform and Reduction	Reformed energy taxation for energy companies, previously taxed under section 186 of Article 9, to pay tax under the Article 9-A corporate franchise tax.	January 1, 2000
Securities and Commodities Brokers or Dealers Customer Sourcing	Allowed securities broker/dealers to allocate receipts, which constitute commissions, margin interest or account maintenance fees, as a service performed at the customer's mailing address.	January 1, 2001
Empire Zones (EZ)	Transformed Economic Development Zones (EDZ) to Empire Zones, effectively providing for virtual "tax free" zones for certain businesses. The enhanced benefits included a tax credit for real property taxes, a tax reduction credit, and a sales and use tax exemption. The tax reduction credit may be applied against the fixed dollar minimum tax, which may reduce the taxpayer's liability to zero.	January 1, 2001
Rate Reduction – S Corporations	Reduced the differential tax rate imposed on S corporations by 45 percent.	June 20, 2003
Rate Reduction – Small Businesses	Reduced the tax rate for small businesses with entire net income of $200,000 or less to 6.85 percent.	June 30, 2003
Legislation Enacted in 2002		
Estimated Payment Requirement	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year's liability for those corporate taxpayers whose prior year's liability exceeds $100,000.	January 1, 2003
Legislation Enacted in 2003		
Modification for Decoupling from Federal Bonus Depreciation	Decoupled from Federal depreciation allowances for property placed in service on or after June 1, 2003, that qualified for the special bonus depreciation allowance allowed by the Federal Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003. The modifications do not apply to qualified resurgence zone property or qualified New York Liberty Zone property.	June 1, 2003
Intangible Holding Companies	Required taxpayers to modify Federal taxable income relating to certain royalty and interest payments made with respect to the use of intangible property by related members or royalty and interest payments received from related members.	January 1, 2003
S Corporation Tax Change	Taxed S corporations on a fixed dollar minimum amount for tax years 2003, 2004 and 2005 only. The fixed dollar minimum amounts are those imposed under Article 9-A, ranging from $100 to $1,500.	January 1, 2003
Superfund-Brownfield Tax Credits	Created tax incentives for the redevelopment of brownfields through three tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. There are three components in the redevelopment tax credit: a site preparation component, a tangible property component, and an onsite groundwater remediation component.	April 1, 2005
Legislation Enacted in 2004		
Fixed Dollar Minimum Tax	Provided a temporary adjustment to the corporate franchise tax fixed dollar minimum tax schedule, with tax amounts ranging from $100 to $10,000. Applicable to tax years 2004 and 2005.	January 1, 2004
Empire State Film Production Credit	Provided a new tax credit for film production activity in New York State. The credit was originally scheduled to sunset August 20, 2008.	January 1, 2004

Subject	Description	Effective Date
Legislation Enacted in 2005		
Single Sales Apportionment	Changed the computation of a corporation's business allocation percentage from a three-factor formula of payroll, property and receipts to a single receipts factor.	These provisions were phased in over a three year period starting in tax year 2006, and were fully effective for tax years beginning on or after January 1, 2008
Empire Zones Amendments / Twelve New Zones	Made significant changes to the Empire Zone/Qualified Empire Zone Enterprise program with respect to zone boundaries, zone designations, taxpayer eligibility, and benefits. Also authorized twelve new Empire Zones.	Changes to eligibility and benefits apply to taxpayers certified on or after April 1, 2005
Small Business Rate Reduction	Lowered the tax rate from 6.85 percent to 6.5 percent for small businesses and expanded the definition of a qualifying small business.	January 1, 2005
Capital Base Increase	Increased the maximum tax due under the capital base alternative from $350,000 to $1 million for all taxpayers, excluding manufacturers.	January 1, 2005
Legislation Enacted in 2006		
Empire Zones / Significant Investments	Provided that a Qualifying Empire Zone Enterprise (QEZE) with fewer than 200 existing jobs that makes an investment of $750 million or more and creates 500 new jobs is deemed a "new business," qualifying the taxpayer for a 50 percent refund of its EZ Investment Tax Credits and EZ Employment Incentive Credits. Also authorized such taxpayers to select their program benefit period to start either upon certification (current law), or when the qualifying investment is placed in service.	January 1, 2006
Eliminate S Corporation Differential Tax Base	Eliminated the tax base imposed on S Corporations that was calculated using the difference between the corporate franchise tax rate and the top personal income tax rate. The rate had been changed, and the base was also suspended during tax years 2003 through 2005 when the PIT surcharge was in effect. Elimination of this base conforms the State tax code with Federal treatment of S corporations.	January 1, 2003 (note that the differential had already been suspended - eff. date reflects first instance of non-imposition)
Empire State Film Production Tax Credit	Increased the annual credit limitation from $25 million to $60 million annually for 2006 through 2011. Extended credit to December 31, 2011.	June 6, 2006
Legislation Enacted in 2007		
Rate Reduction - ENI	Reduced the rate on the ENI base from 7.5 percent to 7.1 percent, and amended the recapture rate for the small business rate to conform to the general rate change.	January 1, 2007
Rate Reduction - ENI (Manufacturers and QETCs)	Reduced the rate on the ENI base from 7.5 percent to 6.5 percent for qualifying manufacturers and emerging technology companies.	January 31, 2007
Rate Reduction - AMT	Reduced the rate applicable to the alternative minimum taxable income base from 2.5 percent to 1.5 percent.	January 1, 2007
Combined Filing Requirement	Required taxpayers operating several corporations on a unitary basis to file a combined return if there are substantial inter-corporate transactions between them.	January 1, 2007
REITS/RICS Loophole Closer	Required combining a Real Estate Investment Trust (REIT) or Regulated Investment Company (RIC) held as a subsidiary with its parent company. In computing combined entire net income, the deduction available to REITs for dividends paid are not allowed. In addition, such a combined report must include the combined capital of the REIT or RIC subsidiary.	January 1, 2007
Acceleration of Single Sales Apportionment Phase-In	Accelerated, by one year, the final phase-in of the move to sales-only apportionment of income and capital.	January 1, 2007

Subject	Description	Effective Date
Legislation Enacted in 2008		
Restructure Fixed Dollar Minimum Tax	Changed minimum tax from a tax based on gross payroll to one based on gross income	January 1, 2008
Change Capital Base	Increased the capital base cap for non-manufacturers from $1 million to $10 million for a three year period. The cap reverts to $1 million effective January 1, 2011. Reduced the capital base rate from 0.178 percent to 0.15 percent.	January 1, 2008
Decouple from the Federal Qualifying Production Activities Income Deduction	Decoupled New York State Entire Net Income determination from Federal QPAI deduction. The Internal Revenue Code allows an above the line deduction of 6 percent (rising to 9 percent in 2010) for manufacturing activities.	January 1, 2008
Technical correction to REITS/RICS Loophole Closer	For a period of three tax years, required all captive REITS and RICS to file a combined return with the closest corporation that directly or indirectly owns or controls the captives.	January 1, 2008
Estimated Payment Requirement	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year's liability for those corporate taxpayers whose prior year liability exceeds $100,000.	January 1, 2009
Brownfields Program Reform	Amended the tangible property credit component to impose a limit of the lesser of $35 million or three times the qualifying costs used in calculating the site preparation and on-site groundwater components for projects accepted into the Brownfields program after June 22, 2008. Qualifying manufacturers accepted after this date would be subject to a tangible property credit component limitation equal to the lesser of $45 million or six times the qualifying costs used in calculating the site preparation and on-site groundwater components. Several other changes were effected, including increasing the credit percentages awarded under the site preparation and on-site groundwater components to as much as fifty percent.	June 23, 2008
Empire State Film Production Tax Credit	Increased the credit rate from 10 percent of qualified production costs to 30 percent. Extended the sunset to December 31, 2013 and increased the annual allocation each year from 2008 through 2013.	April 23, 2008
Legislation Enacted in 2009		
Tax Treatment of Overcapitalized Insurance Companies	Required an overcapitalized captive insurance company to file a combined report with the corporation that directly owns or controls over 50 percent of the voting stock of the captive if that corporation is an Article 9-A taxpayer.	January 1, 2009
Estimated Payment Requirement	Increased the first quarterly installment of estimated tax from 30 percent to 40 percent of the prior year's liability for those corporate taxpayers whose liability exceeds $100,000.	January 1, 2010
Empire Zones Reform	Reformed the Empire Zones program. All companies that had been certified for at least three years were subjected to a performance review focusing on cost/benefit ratios.	January 1, 2008
	The QEZE real property tax credit was reduced by 25 percent and firms were disqualified for the QEZE sales tax refund/credit unless the sale qualified for a refund or credit of the local sales and use tax.	April 1, 2009
	Moved program sunset date from December 30, 2011 to June 30, 2010.	April 7, 2009
Empire State Film Production Tax Credit	Authorized an additional $350 million for calendar year 2009. For taxable years beginning January 1, 2009, the utilization of the credit was spread across several years based on the dollar amount of the credit.	January 1, 2009
Change to the Tax Classification of HMOs	Subjected for-profit HMOs to the franchise tax on insurance corporations under Article 33 of the Tax Law.	January 1, 2009
Legislation Enacted in 2010		
Make REITs/RICs Loophole Closer Permanent	Made permanent the provisions that address the closely-held REIT and RIC loophole, which would have otherwise expired on December 31, 2010.	August 11, 2010

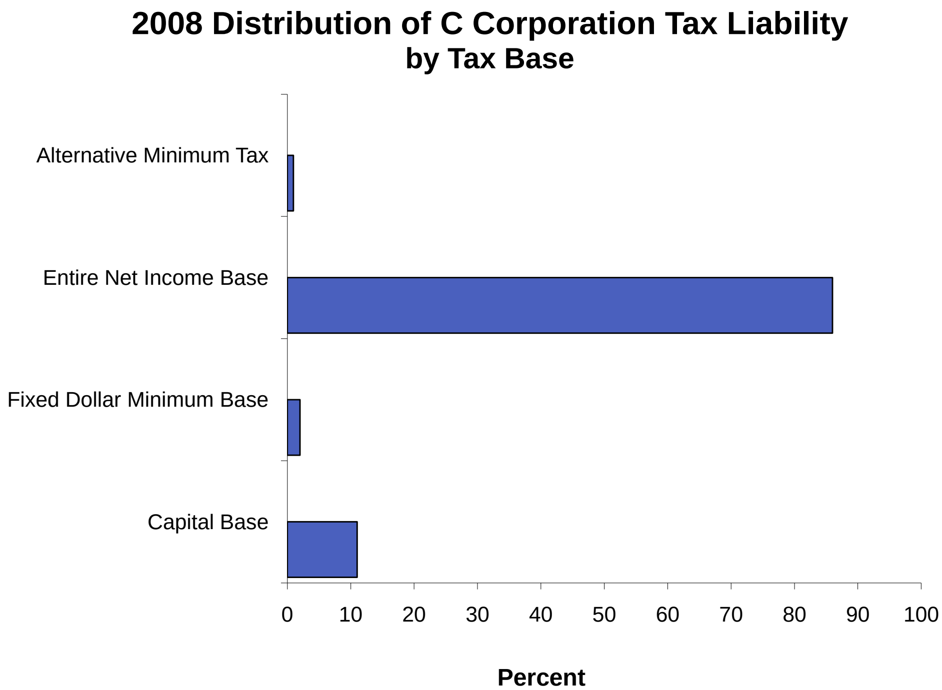
Subject	Description	Effective Date
Tax Credit Deferral	Capped aggregate business related tax credit claims at $2 million per taxpayer for each of tax years 2010, 2011 and 2012. The total amount of credits deferred can be claimed by affected taxpayers on returns for tax years 2013, 2014 and 2015.	January 1, 2010
Technical Changes to Empire Zones Program	Made technical corrections to the 2009-10 Enacted Budget Empire Zones Program changes. Clarified that the Legislature intended to decertify certain businesses retroactively to the 2008 tax year, clarified reporting provisions, and allowed qualified investment projects to claim the investment tax credit and employee incentive tax credit after June 30, 2010.	August 11, 2010
Empire State Film Production Tax Credit	Authorized an additional $420 million for calendar years 2010 through 2014, $7 million of which is dedicated to a new post production tax credit. This measure also imposed various reforms to enhance the State's return on investment.	August 11, 2010
Excelsior Jobs Program	Established a new economic development program to provide incentives based on job creation, investment and research and development expenditures in New York State.	July 1, 2010
REIT Technical Amendments	Clarified that certain publicly traded REITs with fractional ownership shares in non-related U.S. REITs are not subject to provisions relating to "closely-held" REITs that were enacted in 2008-09.	August 11, 2010
Legislation Enacted in 2011		
Excelsior Jobs Program Amendments	Modified the credit to make it more widely available and attractive and created a new energy incentive. It also lengthened the benefit period from five to ten years.	March 31, 2011
Economic Transformation and Facility Redevelopment Program	This new program provided tax incentives to businesses to stimulate redevelopment in targeted communities where certain correctional or juvenile facilities are closed (economic transformation areas). This program will expire on December 31, 2021.	March 31, 2011
Manufacturing Tax Reduction	This will reduce the rate on the entire net income base, the rate on the alternative minimum taxable income base and the fixed dollar minimum tax by 50 percent for eligible qualified manufacturers for tax years 2012, 2013, and 2014. The Tax Department will administer an annual total tax benefit limit of $25 million by directing tax relief to economic regions with special economic challenges.	January 1, 2012
New York Youth Works Tax Credit Program	This new program will provide a tax credit to businesses that employ at risk youth in part-time or full-time positions in 2012 and 2013.	January 1, 2012
Empire State Jobs Retention Program	This new program will provide a jobs tax credit to businesses that are at risk of leaving the State due to the negative impact on their business from a natural disaster. The tax credit is 6.85 percent of gross wages of jobs that are retained in New York.	January 1, 2012

TAX LIABILITY

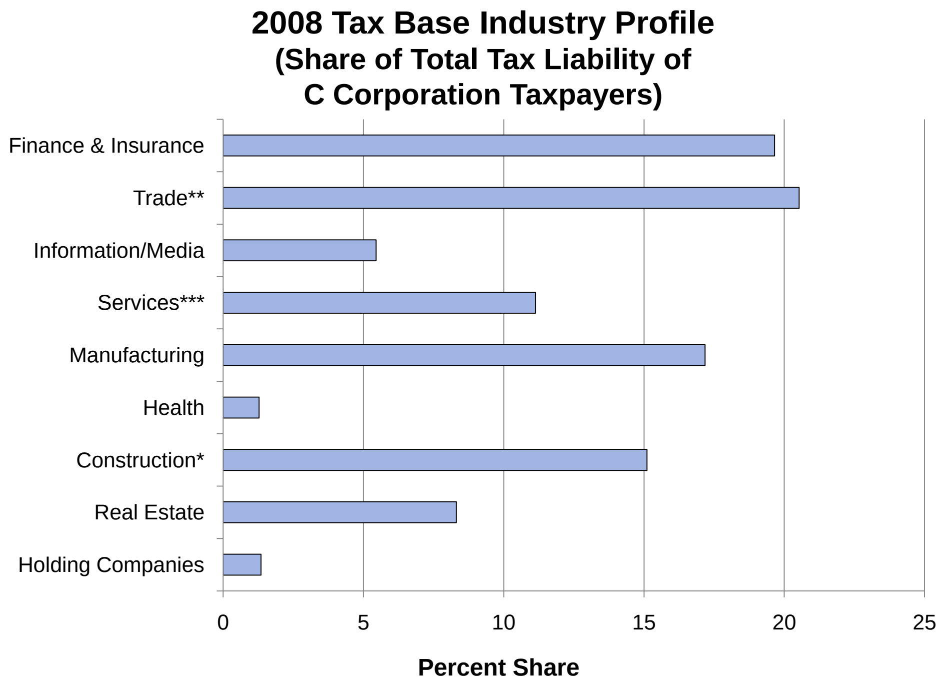
The Corporate Franchise Tax Study File, which is compiled by the Department of Taxation and Finance's Office of Tax Policy Analysis (OTPA), contains the most recent data available on Article 9-A liability for corporations filing under Article 9-A. The most current liability information is for the 2008 tax year.

Although the study file does not include information on non-allocating fixed dollar minimum tax filers and S corporations, OTPA compiles corporate tax return data relating to the total number of C and S corporations and tax liability for these entities. The 2007 New York State Corporate Tax Statistical Report, the most recent data available, indicates that 254,683 taxpayers filed as C corporations, while 380,662 taxpayers filed as S corporations. The number of C corporations declined by 3.4 percent from the prior year and the number of S corporations increased by 3.6 percent. Over the last several years, the number of C corporations has been relatively flat, while the number of S corporations has experienced growth averaging 3.7 percent.

As noted above, C corporations pay under the highest of four alternative bases. In 2008, 86 percent of liability was paid under the entire net income base. The capital base was the second largest base, at 11 percent of liability. These percentages have been fairly constant over time with the exception of the AMT base, which has been diminishing the last few years due to Tax Law changes that have reduced the AMT rate.

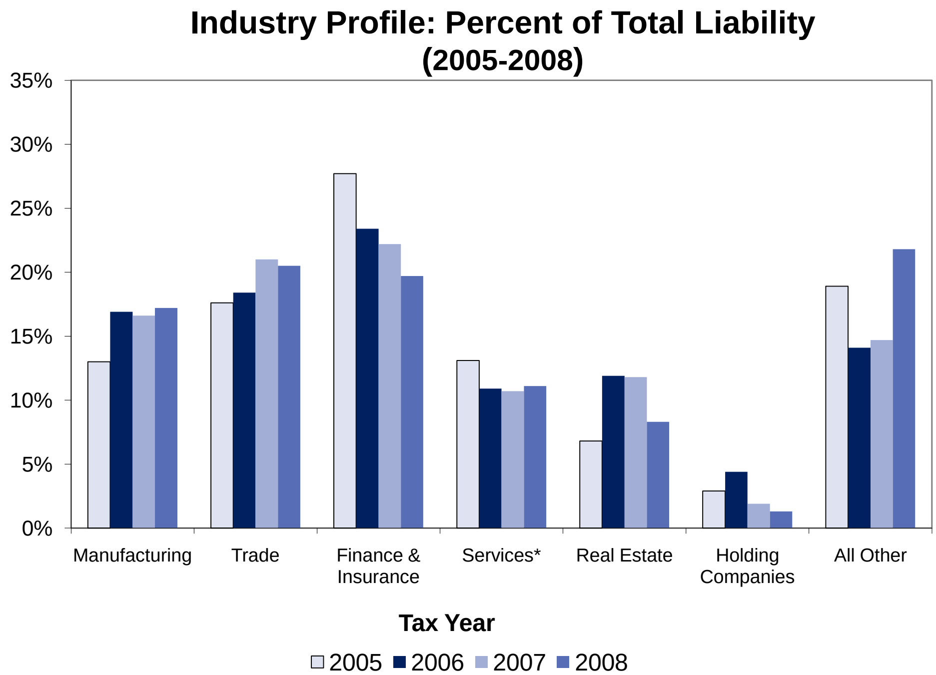


The next chart shows the distribution of tax liability by major industry sector. The 2008 study file indicates that 19.7 percent of total C corporation liability was paid by the finance and insurance sector, 20.5 percent by the trade sector and 17.2 percent by the manufacturing sector. These three sectors have represented the majority of total liability over the last several years. Liability year 2008 is the first year the Finance and Insurance sector has represented less than 20 percent of total C corporation liability since 2004.



* Construction, agriculture, mining, and utilities. (NAICS Sectors 11, 21, 22, and 23)
** Wholesale trade, retail trade and Transportation and warehousing. (NAICS Sectors 42, 44, 45, 48 and 49)
*** Services consist of: professional, scientific, and technical services; administrative and support and waste management and remediation services; art, entertainment, and recreation services; accommodation and food services; and other services. (NAICS Sectors 54, 56, 71, 72, and 81)

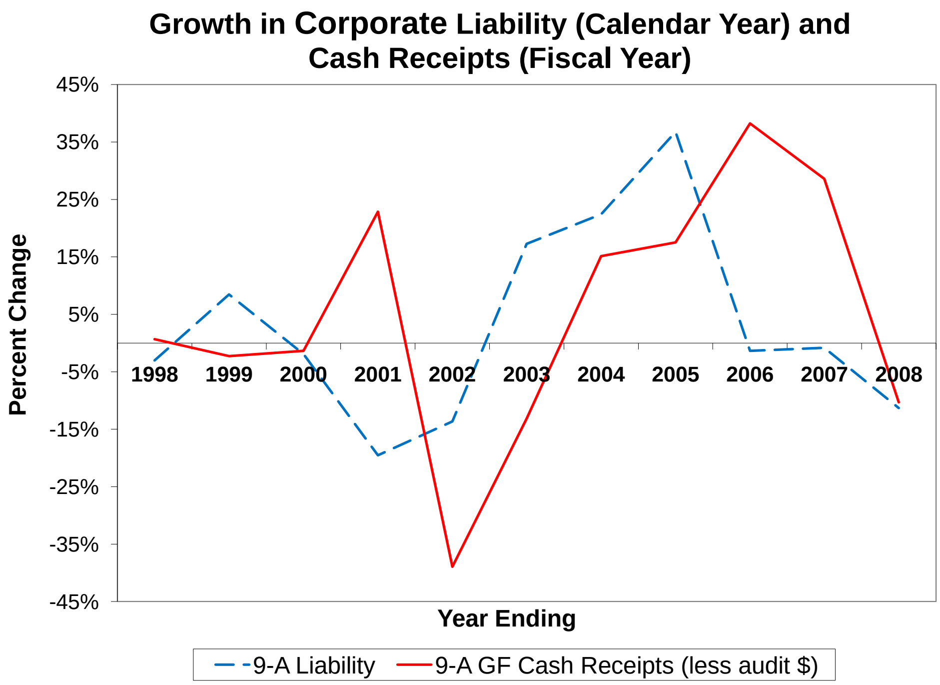
The following chart illustrates the percentage of liability paid by the industry groups of the State's tax base. Liability for the finance and insurance, manufacturing and trade sectors represent the largest share of liability paid over the 2005 to 2008 period. Over this period finance and insurance has declined as a percentage of total liability while trade has increased. The manufacturing sector has been a stable percentage over the last three years. The services sector has also been relatively stable while real estate declined in 2008 after reaching a high of nearly 12 percent in 2006 and 2007.



* These services consist of: professional, scientific, and technical services; administrative and support and waste management and remediation services; art, entertainment, and recreation services; accommodation and food services; and other services. (NAICS Sectors 53, 54, 55, 56, 71, 72, and 81)

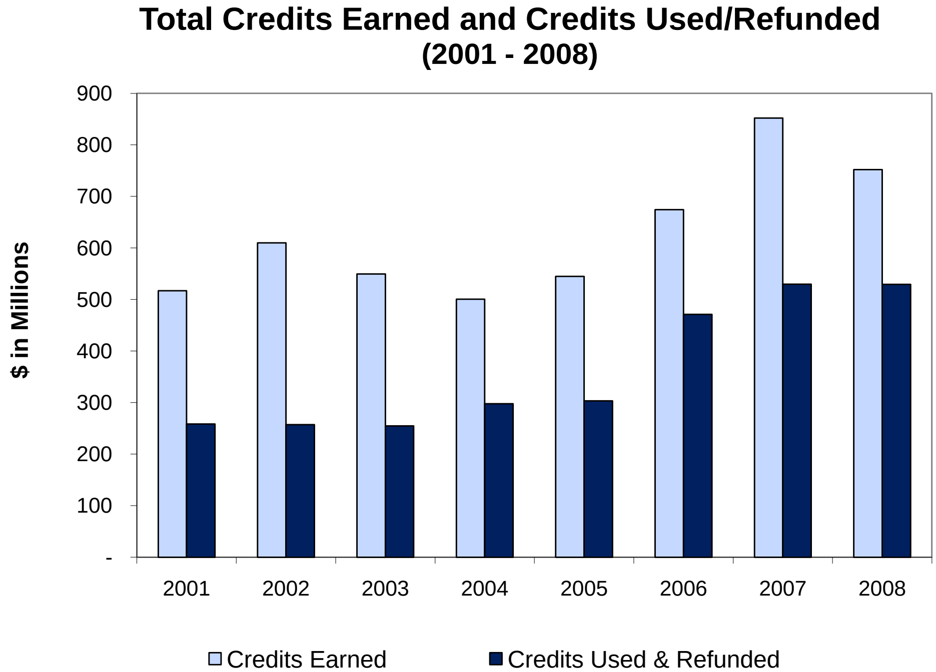
The link between underlying corporate tax liability and cash receipts in any given State fiscal year is often obscured by the timing of payments, the carry forward of prior year losses or credits and the reconciliation of prior year liabilities. Tax collections are the net payments and adjustments made by taxpayers on returns and extensions over the course of a State fiscal year. For taxpayers with a fiscal year ending December 31, current year liability collections include a mandatory first installment payment that is paid in March and is based on 40 percent of the prior year's liability. In addition, calendar year corporations are required to make estimated payments, based on projected liability for the current tax year, in June, September and December. A final payment is made in March of the subsequent year. Calendar year taxpayers make up the majority of the tax base. Taxpayers may make periodic adjustments to these payments after the close of the tax year as their actual liability for a given tax year becomes more definite.

Tax liability in the current year is based on estimated performance for the same year. It is generally calculated by using tax bases, tax rates, special deductions and additions, losses and tax credits. Since taxpayers must pay estimated taxes months in advance of knowing actual liability, it is difficult for taxpayers to determine the proper level of payments needed over the course of a year. This is especially true if business or economic conditions change. The accompanying graph compares historical corporate tax liability and fiscal year cash receipts. It illustrates the significant volatility in the underlying relationship between payments and liability, which is often compounded by the difference between a taxpayer's tax year and the State fiscal year for many taxpayers.



Credits

The following graph shows major credits earned and used by Article 9-A taxpayers, and illustrates that the amount of credits earned significantly exceeds the amount of credits used. These credits include the investment tax credit (ITC), Empire Zone credits, Brownfield credits, Film Production tax credit, the alternative minimum tax (AMT) credit, the agricultural property tax credit, and the special additional mortgage recording tax credit. Credit earned is the amount of credit earned by a taxpayer in the current tax year. This is prior to any credit recapture, and does not include credits earned in or carried over from any prior years.



Generally, Tax Law provisions prevent taxpayers from using tax credits to reduce final liability below the fixed dollar minimum tax or the AMT. This has resulted in taxpayers carrying forward a significant amount of tax credits into subsequent tax years. It is expected that the use of refundable credits, especially Empire Zones, Brownfields and the Film Production Tax credit, will significantly increase the total amount of credits used in future years. These credits can then be used to more than offset tax liability through requests for cash refunds or credit carry forwards.

As seen in the chart above, credits earned and credits used and refunded were relatively stable through 2005. In 2006 and 2007 both credits earned and credits used and refunded increased. Even though credits earned declined in 2008, they remain at a high level compared to history. Credits used and refunded in 2008 were basically the same as 2007. The decline in the 2008 credits earned category is explained by a significant drop in Brownfield tax credits. Brownfield tax credits earned increased substantially from 2006 ($44 million) to 2007 ($128 million) but declined to $35 million in 2008. This may be attributable to the beginnings of the financial crisis and the lack of credit available to fund these large scale projects. Offsetting a portion of the decrease in Brownfield tax credits is an increase in credits earned for the Film tax credit. Credits earned for the film production tax credit program increased from $81 million in 2007 to $105 million in 2008. Credits earned for the investment tax credit were basically the same for 2007 and 2008 and credits earned for the Empire Zones program declined slightly.

The Film Production tax credit and the Brownfield tax credit are expected to be the largest tax credit programs in future years. Demand for the Brownfield tax credit program remains robust even though the value of the tax credits earned was low in 2008. The expectation is that this program will cost approximately $500 million annually in the near term and $300 million annually when the 2008 reforms are fully implemented (SFY 2020-21). The Film Production tax credit program is currently allocated $420 million per year through tax year 2014. The total amount of tax credits available for this program since its inception in 2004 is $3.1 billion.

RECEIPTS: ESTIMATES AND PROJECTIONS

CORPORATION FRANCHISE TAX (millions of dollars)							
	Actual 2010-11	Estimated 2011-12	Change	Percent Change	Projected 2012-13	Change	Percent Change
General Fund							
Non-Audit Receipts	1,788	1,895	107	6.0	2,168	273	14.4
Audit Receipts	684	930	246	36.0	676	(254)	(27.3)
Executive Budget Initiatives	0	0	0	--		0	--
Total	**2,472**	**2,825**	**353**	**14.3**	**2,844**	**19**	**0.7**
Other Funds							
Non-Audit Receipts	248	251	3	1.2	331	80	31.9
Audit Receipts	126	155	29	23.4	124	(31)	(20.0)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**374**	**406**	**32**	**8.7**	**455**	**49**	**12.1**
All Funds							
Non-Audit Receipts	2,036	2,146	110	5.4	2,499	353	16.4
Audit Receipts	810	1,085	276	34.0	800	(285)	(26.3)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**2,846**	**3,231**	**385**	**13.5**	**3,299**	**68**	**2.1**

All Funds

2011-12 Estimates

All Funds receipts through December are $2,058.5 million, an increase of $171.9 million (9.1 percent) above the comparable period in the prior fiscal year. This increase is attributable to higher receipts for gross collections and audits and lower refunds. Through December, audit receipts are estimated to be $717.5 million, an increase of $112 million (18.5 percent). Refunds are $12.6 million lower than last year through December. Gross receipts, the majority of which are calendar year filers, are $1,934.1 million, an increase of $47.3 million (2.5 percent). Through December, estimated payments made by calendar year filers were basically flat compared to the prior year. This weakness in calendar year filer liability is partially offset by stronger receipts from fiscal year filers. Additionally, taxpayers continue to use high levels of prior period adjustments to make payments toward current year liability. If current trends continue, 2011-12 will be the fourth consecutive year where prior period adjustments exceeded $1 billion.

All Funds receipts for 2011-12 are estimated to be $3,231 million, an increase of $385.2 million (13.5 percent) from 2010-11. This increase is mainly the result of strong audit receipts growth (34 percent) and higher gross collections (5.4 percent). Several large audit cases are expected to be finalized in 2011-12. Gross receipts include an incremental increase of $213 million from the deferral of certain tax credits. Adjusted for the impact of the credit deferral, gross receipts are estimated to decline 6.2 percent. This is driven primarily by the weak December estimated payment. Preliminary December 2011 estimated payments are projected to decline 16.8 percent year-over-year.

2012-13 Projections

All Funds receipts are projected to be $3,299 million, an increase of $68 million (2.1 percent) from 2011-12. Higher gross receipts and lower refunds are mainly offset by lower audits. It is expected that the number of large audit cases in 2012-13 will be lower than in 2011-12. Gross receipts in 2012-13 include an incremental increase of $71 million from the deferral of certain tax credits. Adjusted for the credit deferral, 2012-13 receipts would be flat compared to 2011-12.

General Fund

General Fund collections for 2011-12 are expected to be $2,825 million, an increase of $352.8 million (14.3 percent). General Fund collections reflect the same trends impacting 2011-12 All Funds receipts.

For 2012-13, General Fund receipts are projected to be $2,844 million, an increase of $19 million (0.7 percent). General Fund collections reflect the trends described above for 2012-13 All Funds receipts.

Other Funds

Under current law, corporations doing business in the MCTD are subject to a 17 percent surcharge on the portion of total liability allocable to the region.

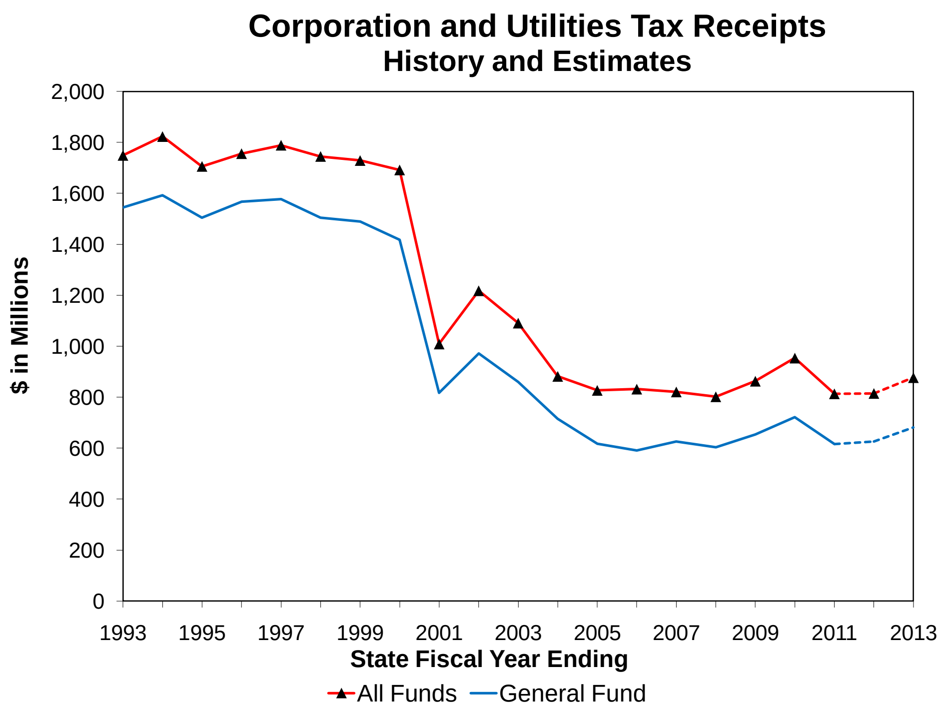
The Article 9-A contribution to the MTOAF for 2011-12 is estimated to be $406 million, an increase of $32.4 million (8.7 percent). The voluntary remitted portion of receipts is estimated to grow $3 million (1.2 percent) from 2010-11. Audit collections are expected to increase from $126 million to $155 million based on the current audit caseload.

Collections for 2012-13 are expected to increase 12.1 percent to $455 million. The voluntary remitted portion of receipts is projected to increase $80 million (31.9 percent) while audit receipts are expected to be $124 million, a decrease from 2011-12, as the number of large audit cases is expected to fall in 2012-13.

CORPORATION AND UTILITIES TAXES

CORPORATION AND UTILITIES TAXES (millions of dollars)	2010-11 Actual	2011-12 Estimated	Change	Percent Change	2012-13 Projected	Change	Percent Change
General Fund	616.1	626.0	9.9	1.6	682.0	56.0	8.9
Other Funds	197.5	189.0	(8.5)	(4.3)	195.0	6.0	3.2
All Funds	813.6	815.0	1.4	0.2	877.0	62.0	7.6

Note: Totals may differ due to rounding.



CORPORATION AND UTILITIES TAXES BY FUND (millions of dollars)	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds	Refunds	Special Revenue Funds[1]	Gross Capital Project Funds	Refunds	Capital Projects Funds[2]	All Funds Receipts
2002-03	911	51	860	247	16	231	0	0	0	1,091
2003-04	729	14	715	173	6	167	0	0	0	882
2004-05	650	34	617	203	9	194	17	1	16	827
2005-06	608	17	591	229	6	223	19	1	18	832
2006-07	639	13	626	182	4	178	18	1	17	821
2007-08	618	15	603	189	6	183	16	1	15	802
2008-09	666	12	654	198	7	191	19	2	18	863
2009-10	741	19	722	225	13	212	21	2	20	954
2010-11	635	19	616	201	19	182	19	3	16	814
Estimated										
2011-12	681	55	626	190	16	174	16	1	15	815
2012-13										
Current Law	702	20	682	195	15	180	16	1	15	877
Proposed Law	702	20	682	195	15	180	16	1	15	877

[1] Receipts from the MTA business tax surcharge and a portion of receipts from the taxes imposed by sections 183 and 184 of the Tax Law deposited in accounts of the Mass Transportation Operating Assistance Fund (MTOAF).
[2] A portion of receipts from taxes imposed by sections 183 and 184 of the Tax Law deposited to Dedicated Highway and Bridge Trust Fund (DHBTF).

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Redistribute the statewide collected transmission tax between the upstate and downstate transit accounts in an equitable manner and provide much needed funding to upstate transit systems.

DESCRIPTION

Tax Base and Rate

Article 9 of the Tax Law imposes taxes and fees on a number of specialized industries, including public utilities, newly organized or reorganized corporations, out-of-State corporations doing business in New York State, transportation and transmission companies, and agricultural cooperatives. In recent years, the telecommunications industry has become the primary source of collections, accounting for more than 70 percent of General Fund corporation and utilities tax receipts.

Section 180 assesses an organization tax upon newly incorporated or reincorporated domestic (in-State) corporations. The tax is imposed at a rate of $1/20^{th}$ of one percent of the total amount of the par value (the nominal or face value of a security) of the stock that the corporation is authorized to issue. The tax rate for stocks with “no-par” value is five cents per share. The tax also applies to any subsequent changes in the share of stocks, including changes to the number of par value and “no-par” value stocks or newly authorized stock. The minimum tax imposed by section 180 is $10.

Section 181 imposes a license fee on foreign (out-of-State) corporations for the privilege of exercising a corporate franchise or conducting business in a corporate or organized capacity in New York State. The fee is assessed at a rate equivalent to the organization tax imposed by section 180 and attributable to the amount of capital stock employed in the State. Foreign corporations are also subject to an annual maintenance fee of $300. Foreign corporations may claim a credit for the fee paid against the tax due under Article 9, the corporate franchise tax or the bank tax.

Section 183 provides for a franchise tax on the capital stock of transportation and transmission companies, including telecommunications, trucking, railroad, and other transportation companies. The tax is imposed at the highest of the following three alternatives:

- 1.5 mills per dollar of the net value of capital stock allocated to New York State;
- 0.375 mills per dollar of par value for each one percent of dividends paid on capital stock if dividends amount to 6 percent or more; or
- A minimum tax of $75.

Section 184 levies an additional franchise tax of 0.375 percent on the gross receipts of transportation and transmission companies. As of July 1, 2000, gross receipts from international, interstate, and inter-Local Access Transport Areas (LATAs) services and 30 percent of intra-LATA gross receipts are excluded from the tax.

Railroad and trucking companies that elected to remain subject to Article 9 taxes (rather than to become subject to the corporate franchise tax imposed under Article 9-A) pay the tax at a rate of 0.375 percent of gross earnings, including an allocated portion of receipts from interstate transportation-related transactions.

Section 185 imposes a franchise tax on farmers, fruit-growers and other agricultural cooperatives. The tax is imposed at the highest of the following three alternatives:

- 1.0 mills per dollar of the net value of capital stock allocated to New York State;
- 0.25 mills per dollar of par value for each one percent of dividends paid on capital stock if dividends amount to 6 percent or more; or
- A minimum tax of $10.

Section 186-a imposes a two percent gross receipts tax on charges for the transportation, transmission, distribution, or delivery of electric and gas utility services.

Section 186-e imposes a 2.5 percent gross receipts tax on charges for telecommunications services.

Article 9 taxpayers that conduct business in the Metropolitan Commuter Transportation District (MCTD) are subject to a 17 percent surcharge on their liability attributable to the MCTD.

Administration

Taxpayers subject to sections 182, 182-a, 184, 186-a and 186-e make quarterly tax payments of equal installments on an estimated basis in June, September and December. A final payment is made in March. Additionally, taxpayers are required to make a first installment of tax equal to 40 percent of their prior year's liability. This is paid in March along with the final payment.

As shown in the following table, the Tax Law has been amended from time-to-time to provide various formulas for the deposit and disposition of receipts from the taxes imposed by sections 183 and 184 of the Tax Law to the Mass Transportation Operating Assistance Fund (MTOAF) and more recently the Dedicated Highway and Bridge Trust Fund (DHBTF).

SECTIONS 183 AND 184 DISTRIBUTION TO FUNDS SINCE 1982 (percentage)			
Effective Date	**General Fund**	**MTOAF**	**DHBTF**
July 1, 1982	60.0	40.0	0.0
April 1, 1996	52.0	48.0	0.0
January 1, 1997	50.5	49.5	0.0
January 1, 1998	46.0	54.0	0.0
January 1, 2000	36.0	64.0	0.0
January 1, 2001	20.0	80.0	0.0
April 1, 2004	0.0	80.0	20.0

All receipts from the 17 percent surcharge imposed on Article 9 taxpayers that conduct business in the MCTD are deposited in the MTOAF.

Significant Legislation

Significant statutory changes to the corporation and utilities taxes since 1990 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1990		
Temporary Tax Surcharge	Imposed a temporary 15 percent surcharge on taxpayers liable for tax under Sections 183, 184, 186 and 186-a of the Article 9 Corporations and Utilities Tax. The surcharge was phased-out over a three-year period starting in 1994.	January 1, 1990
Legislation Enacted in 1995		
Telecommunications Act of 1995	Restructured the transmission portion of section 184 to apply to only local telecommunication services. Also, all toll revenues from interstate, and inter-LATAs services were exempted.	January 1, 1995
	Enacted section 186-e, which imposed a 3.5 percent excise tax on receipts from telecommunications services.	
	Replaced the property factor with a new allocation mechanism. Under the "Goldberg" allocation method, receipts are allocated to New York if the call originates or terminates in this State and is charged to a service address in this State, regardless of where the charges for such services are billed or ultimately paid.	
	Shifted the access deduction from inter-exchange carriers and local carriers who are ultimate sellers to initial sellers.	
Section 184	Exempted 30 percent of intra-LATA toll receipts.	January 1, 1996
Legislation Enacted in 1996		
Trucking and Railroad Companies	Allowed these companies the option of being taxed under the general corporate franchise tax (Article 9-A).	January 1, 1997
	Reduced the tax rate on section 184 for these companies from 0.75 percent to 0.6 percent.	
Legislation Enacted in 1997		
Power for Jobs Program	Created a tax credit against section 186-a to compensate utilities for revenue losses associated with participation in the program. The program makes low-cost power available to businesses, small businesses and not-for-profit corporations for job retention and creation. The credit is allowed to the utility providing low cost power to retail customers selected by the Power Allocation Board. Program sunsets December 31, 2003.	July 29, 1997
Rate Reductions	Reduced the section 184 tax rate from 0.75 percent to 0.375 percent.	January 1, 1998

Subject	Description	Effective Date
	Reduced section 186-a and section 186-e tax rates from 3.5 percent to 3.25 percent as of October 1, 1998, and to 2.5 percent on January 1, 2000.	
Legislation Enacted in 1999		
MTOA Fund	Increased the percent of collections from section 183 and section 184 to be distributed to the MTOA Fund from 54 percent to 64 percent on January 1, 2000, and to 80 percent on January 1, 2001.	January 1, 2000 January 1, 2001
Legislation Enacted in 2000		
Utility Tax Reform	Repealed the section 186 tax. The section 186-a and section 189 taxes are phased-out over a five year period. Elimination of the gross receipts tax for manufacturers and industrial energy customers retroactive to January 1, 2000; elimination of the tax for all other business customers over a five year period. For residential consumers, the commodity tax is eliminated and the transmission/distribution rate of the 186-a tax is reduced from 2.5 percent to 2 percent.	January 1, 2000
Power for Jobs	Provided an additional 300 megawatts of low-cost power to businesses across New York through the Power for Jobs program. Changed program sunset to December 31, 2005.	January 1, 2001
Legislation Enacted in 2001		
Section 189	Created a prospective and retroactive credit for taxes paid to other states where natural gas was purchased.	Retroactive to August 1, 1991
Legislation Enacted in 2002		
Power for Jobs	Provided low cost power for economic development through phase five of the Power for Jobs Program and provided an energy service company option for recipients under the program.	July 30, 2002
Estimated Payments	Increased the first quarterly payment of estimated tax, for taxpayers paying under sections 182, 182-a, 184, 186-a, and 186-e, from 25 percent to 30 percent of the prior year's liability. Taxpayers whose prior year's liability exceeds $100,000 are affected. Taxpayers whose prior year's liability is between $1,000 and $100,000 will continue to make a first quarterly payment of 25 percent of the prior year's liability. Sunsets for tax years beginning on or after January 1, 2006.	January 1, 2003
Legislation Enacted in 2003		
Superfund-Brownfield Credits	Created tax incentives for the redevelopment of brownfields through three tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. There are three components in the redevelopment tax credit: a site preparation component, a tangible property component, and an onsite groundwater remediation component.	April 1, 2005
Sections 183 & 184	Allocated the remaining 20 percent of section 183 and 184 collections to the Dedicated Highway and Bridge Trust Fund (DHBTF).	April 1, 2004
Legislation Enacted in 2004		
Power for Jobs Program	Modified the Power for Jobs Program to allow prior recipients of low cost power an option of a credit or rebate.	March 1, 2004
Legislation Enacted in 2005		
Power for Jobs Program Extension	Extended the Power for Jobs program through December 31, 2006.	April 1, 2005
Legislation Enacted in 2006		
Power for Jobs Program Extension	Extended the Power for Jobs program through June 30, 2007.	April 1, 2006

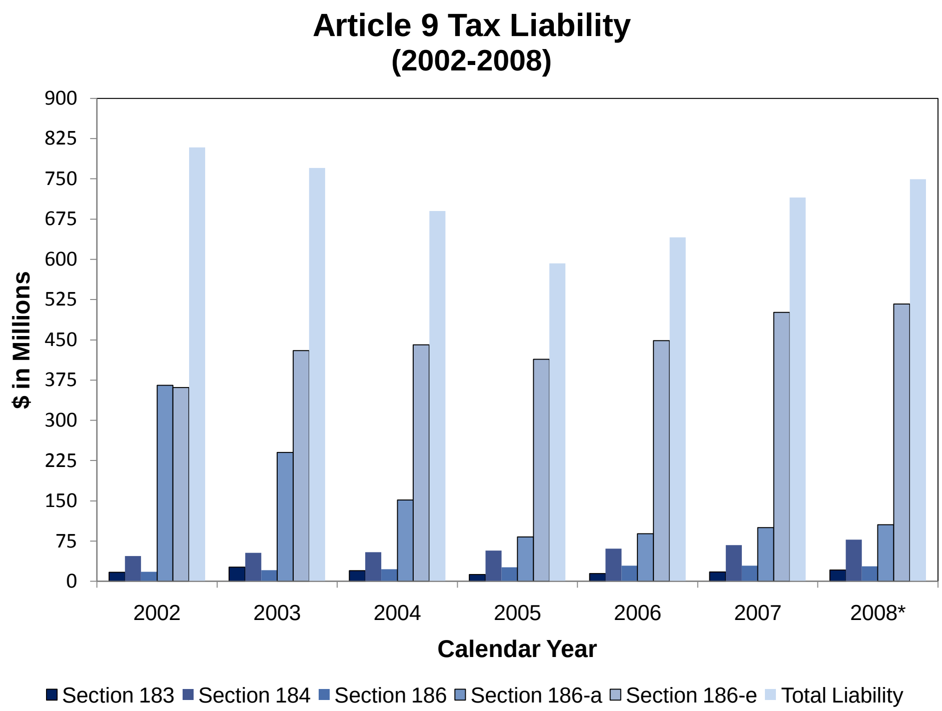
Subject	Description	Effective Date
Legislation Enacted in 2007		
Power for Jobs Program Extension	Extended the Power for Jobs program through June 30, 2008.	April 1, 2007
Legislation Enacted in 2008		
Estimated Payment Requirement	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year's liability for tax sections 182, 182-a, 184, 186-a and 186-e.	January 1, 2009
Power for Jobs Program Extension	Extended the Power for Jobs program through June 30, 2009.	April 1, 2008
Brownfields Program Reform	Amended the tangible property credit component to impose a limit of the lesser of $35 million or three times the qualifying costs used in calculating the site preparation and on-site groundwater components for projects accepted into the Brownfields program after June 22, 2008. Qualifying manufacturers accepted after this date would be subject to a tangible property credit component limitation equal to the lesser of $45 million or six times the qualifying costs used in calculating the site preparation and on-site groundwater components. Several other changes were effected; including increasing the credit percentages awarded under the site preparation and on-site groundwater components to as much as fifty percent.	June 23, 2008
Legislation Enacted in 2009		
Estimated Payment Requirement	Increased the first quarterly installment of estimated tax from 30 percent to 40 percent of the prior year's liability for those corporate taxpayers whose liability exceeds $100,000.	January 1, 2010
Replace County Law Wireless Surcharge with New Tax Law Section 186-f	Moved the imposition of the surcharge on wireless communication from the County Law Section 309 to the new Tax Law Section 186-f.	September 1, 2009
Telecommunications Study	Directed the Department of Taxation and Finance, in consultation with the Public Services Commission, to conduct a study of assessments, fees, tax rates, and associated policies of the State of New York relating to the telecommunications industry.	October 1, 2009
Power for Jobs Program Extension	Extended the power for Jobs Program through May 15, 2010.	July 11, 2009
Legislation Enacted in 2010		
Power for Jobs Program Extension	Extended the Power for Jobs Program through May 15, 2011.	August 4, 2010
Tax Credit Deferral	Capped aggregate business related tax credit claims at $2 million per taxpayer for each of tax years 2010, 2011 and 2012. The total amount of credits deferred can be claimed by affected taxpayers on returns for tax years 2013, 2014 and 2015.	January 1, 2010
Legislation Enacted in 2011		
Power for Jobs Program Extension	Extended the Power for Jobs Program through June 30, 2012. This program expires on June 30, 2012 and will be replaced with the Recharge New York program enacted in 2011.	March 31, 2011

TAX LIABILITY

The *2007 New York State Corporate Tax Statistical Report* contains the most recent data available on Article 9 tax liability. The corporation and utilities tax represented 15.4 percent of total New York State corporate tax liability in 2007.

The chart below shows Article 9 liability by tax section as shown in the *2007 New York State Corporate Tax Statistical Report* and the 2008 Article 9 study file. Total tax liability for Article 9 was $808 million in 2002, $770 million in 2003, $690 million in

2004, $592 million in 2005, $641 million in 2006, $715 million in 2007, and $749 million in 2008. The declines in liability over the 2001 through 2005 period are attributable to the repeal of the section 186 franchise tax imposed on water, gas, electric and power companies on January 1, 2000, and phased-in reductions in the tax rates imposed under section 186-a on commodities and transmission and distribution that began in tax year 2000. The final year of the phase-in was calendar year 2005.

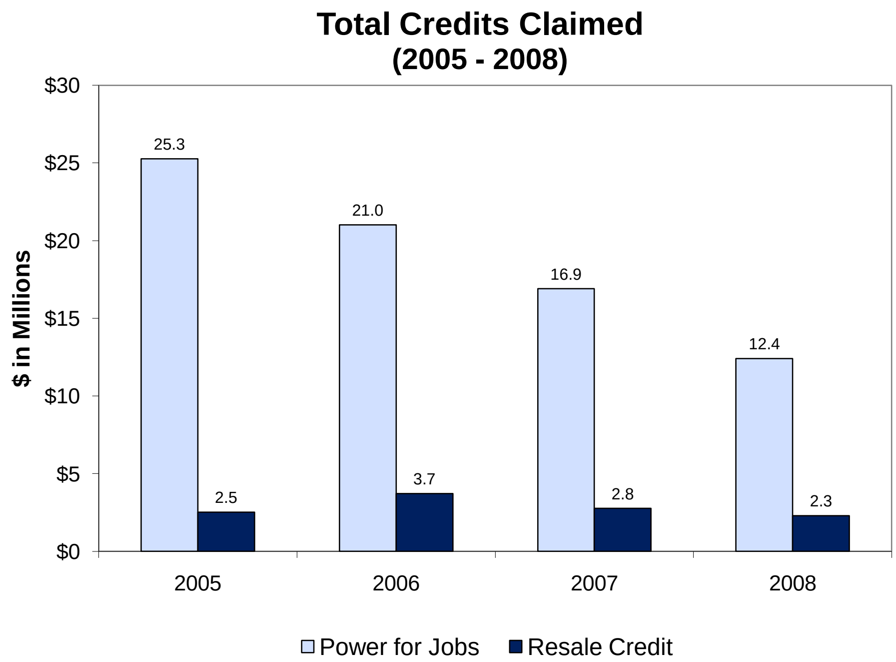


* 2008 data is from Article 9 study file.

Sections 186-a and 186-e represent the largest share of tax liability under Article 9 with approximately 85 percent of total liability. Sections 183 and 184 represent just over 11 percent of total liability. Although a broad range of industries are represented on the study file for sections 183 and 184, the overwhelming portion of the tax is paid by the telecommunications industry, which represents approximately 64 percent of total tax paid for section 183 and nearly 95 percent for section 184. For section 183, management of companies and enterprises made up the second largest industry (approximately 23 percent). In section 184, truck transportation represents approximately two percent of total liability. The same pattern is seen in section 186-e, the excise tax on telecommunications services. Over 90 percent of the total 186-e tax liability was paid by the telecommunications industry. Section 186-a is the gross receipts tax paid on the furnishing of utility services and the majority of that tax is paid by the utilities industry.

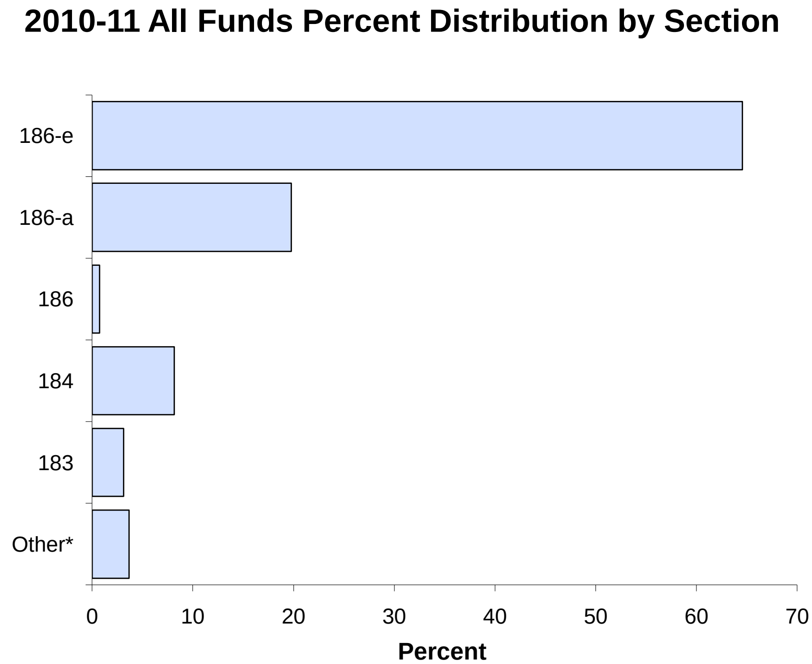
Credits

The following graph shows major credits used by Article 9 taxpayers in tax years through 2008. Taxpayers claimed the resale credit for telecommunications services under section 186-e and the power for jobs credit under section 186-a. The decline in the Power For Jobs tax credit over the past several years is due to a decline in the number of businesses opting for the discounted power rates, resulting in less tax credits claimed by utilities.



The bar graph below depicts the share of total 2010-11 Article 9 All Funds attributable to each section of Article 9. Section 186-e, the gross receipts tax on telecommunications services, represents nearly 65 percent of All Funds receipts. The next largest section, 186-a, represents approximately 20 percent.

RECEIPTS: BY SECTION



* Other includes sections 180, 181 and 185

The table below reflects the tax collections attributable to each section of Article 9 for 2010-11, 2011-12, and 2012-13. The All Funds total reflects taxes from the various sections prior to the distribution of receipts from sections 183 and 184 to MTOAF and DHBTF.

CORPORATION AND UTILITIES TAXES BY TAX LAW SECTION
(millions of dollars)

Section of Law	Type of Companies	2010-11 Actual	2011-12 Estimated	2012-13 Projected
180	Organization tax on New York (domestic) corporations	0.7	1.9	1.6
181	License and maintenance fees on out-of-State (foreign) corporations	28.9	27.0	27.0
183	Franchise tax on transportation and transmission companies	22.9	21.9	24.0
184	Additional franchise tax on transportation and transmission companies	59.1	51.1	56.0
185	Franchise tax on agricultural cooperatives	0.2	0.1	0.1
186 [1]	Franchise tax on water, steam, gas, electric, light and power companies	4.9	28.0	28.0
186a	Gross receipts tax on public utilities	143.0	160.0	180.5
186e	Excise tax on telecommunications	438.4	409.0	444.7
Other	186-a (non-PSC) and 189	0.0	0.0	0.0
Various	MTA Surcharge	115.5	116.0	115.0
	All Funds Total	813.6	815.0	877.0
	Less Other Funds			
	MTA Surcharge	115.5	116.0	115.0
	MTOAF	65.6	58.0	65.0
	DHBTF	16.4	15.0	15.0
	General Fund	616.1	626.0	682.0

[1] Tax was repealed January 1, 2000 for energy utilities, at which time such companies generally became taxable under the corporation franchise tax. After this date only certain independent power producers are subject to section 186.

For a more detailed discussion of the methods and models used to develop estimates and projections for the corporation and utilities taxes, please see the *Economic, Revenue and Spending Methodologies* at www.budget.ny.gov.

RECEIPTS: ESTIMATES AND PROJECTIONS

CORPORATION AND UTILITIES TAXES
(millions of dollars)

	Actual 2010-11	Estimated 2011-12	Change	Percent Change	Projected 2012-13	Change	Percent Change
General Fund							
Non-Audit Receipts	613	586	(27)	(4.4)	642	56	9.6
Audit Receipts	3	40	37	1,233.3	40	0	0.0
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**616**	**626**	**10**	**1.6**	**682**	**56**	**8.9**
Other Funds							
Non-Audit Receipts	187	175	(12)	(6.2)	181	6	3.4
Audit Receipts	11	14	3	27.3	14	0	0.0
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**198**	**189**	**(9)**	**(4.3)**	**195**	**6**	**3.2**
All Funds							
Non-Audit Receipts	800	761	(39)	(4.8)	823	62	8.1
Audit Receipts	14	54	40	285.7	54	0	0.0
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**814**	**815**	**1**	**0.2**	**877**	**62**	**7.6**

All Funds

2011-12 Estimates

All Funds preliminary collections through December are $495.8 million, $20.8 million (4 percent) below the comparable period in the prior fiscal year. This decrease is largely due to weakness in the telecommunications sector. Consumers continue to shift to mobile and non-cable company voice-over-internet-protocol telecommunications at the expense of landline telecommunications while internet-based communications tools such as Twitter and Facebook continue to grow.

All Funds receipts are estimated for 2011-12 to be $815 million, an increase of $1.4 million (0.2 percent) from 2010-11. The tax base for the telecommunications sector continues to erode for the reasons described above. Non-audit receipts for this section of the tax have declined annually since 2008-09. In contrast, revenue from the regulated utilities is a stable component of the corporation and utilities tax base.

2012-13 Projections

All Funds receipts are projected to be $877 million, an increase of $62 million (7.6 percent) from 2011-12. Absent a large 2011-12 refund, All Funds growth would be 2.6 percent. Both sections 186-e and 186-a are forecast to grow modestly based on revenue expectations for the telecommunications and residential energy sectors.

General Fund

General Fund collections for 2011-12 are expected to be $626 million, an increase of $9.9 million (1.6 percent) from 2010-11. The increase reflects the same trends impacting 2011-12 All Fund receipts.

For 2012-13, General Fund receipts are projected to be $682, an increase of $56 million (8.9 percent) from 2011-12 and reflects the trends that impact 2012-13 All Funds receipts. Adjusted for a large 2011-12 refund, growth would be 2.4 percent.

Other Funds

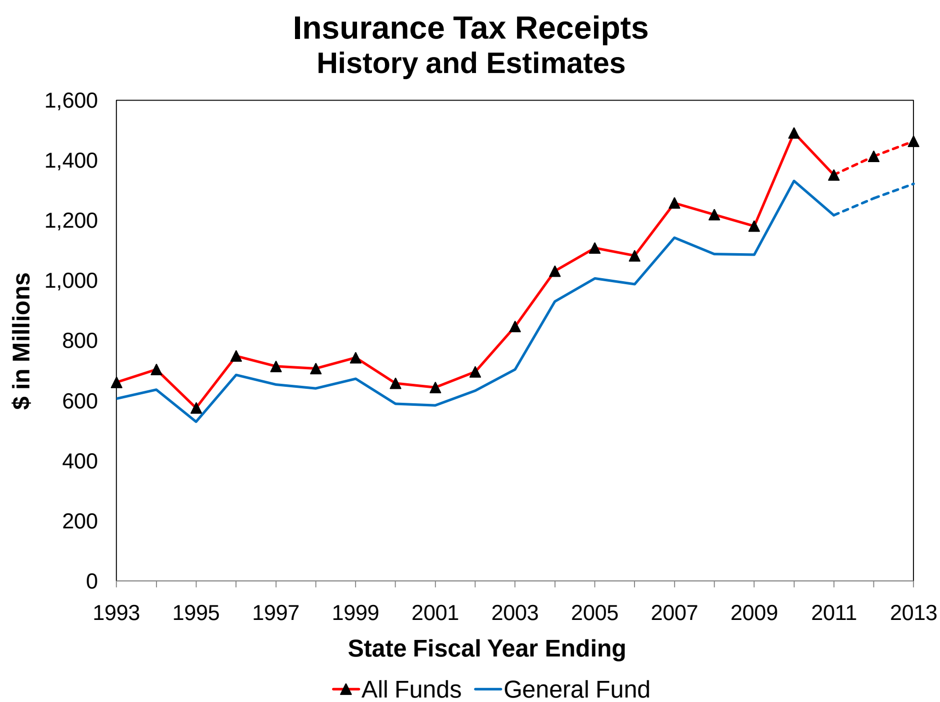
As previously discussed, a portion of Article 9 receipts is deposited into special revenue funds. Sections 183 and 184 collections deposited into the MTOAF will total an estimated $58 million for 2011-12 and $65 million for 2012-13. The remaining portion of sections 183 and 184 collections, or $15 million, is earmarked for the DHBTF. Receipts for the DHBTF are projected at $15 million in 2012-13.

The MCTD business tax surcharge will result in deposits of an estimated $116 million for 2011-12 and $115 million for 2012-13 into the MTOAF.

INSURANCE TAXES

INSURANCE TAXES (millions of dollars)							
	2010-11 Actual	2011-12 Estimated	Change	Percent Change	2012-13 Projected	Change	Percent Change
General Fund	1,217.2	1,274.0	56.8	4.7	1,322.0	48.0	3.8
Other Funds	133.7	139.0	5.3	4.0	141.0	2.0	1.4
All Funds	1,350.9	1,413.0	62.1	4.6	1,463.0	50.0	3.5

Note: Totals may differ due to rounding.



INSURANCE TAXES BY FUND (millions of dollars)							
	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds	Refunds	Special Revenue Funds[1]	All Funds Receipts
2002-03	763	59	704	82	10	72	776
2003-04	983	53	930	109	8	101	1,031
2004-05	1,058	51	1,007	119	18	101	1,108
2005-06	1,022	35	987	103	7	96	1,083
2006-07	1,176	34	1,142	122	6	116	1,258
2007-08	1,122	34	1,088	139	8	131	1,219
2008-09	1,135	49	1,086	106	11	95	1,181
2009-10	1,360	29	1,331	167	7	160	1,491
2010-11	1,248	31	1,217	140	6	134	1,351
Estimated							
2011-12	1,309	35	1,274	149	10	139	1,413
2012-13							
Current Law	1,352	30	1,322	151	10	141	1,463
Proposed Law	1,352	30	1,322	151	10	141	1,463

[1] Receipts from the MTA surcharge are deposited in the Mass Transportation Operating Assistance Fund.

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

Tax Base and Rate

Under Article 33 of the Tax Law and the Insurance Law, the State imposes taxes on insurance corporations, insurance brokers and certain insured for the privilege of conducting business or otherwise exercising a corporate franchise in New York.

Tax Rate on Non-Life Insurers

Non-life insurers are subject to a premiums-based tax. Accident and health premiums received by non-life insurers are taxed at the rate of 1.75 percent and all other premiums received by non-life insurers are taxed at the rate of 2 percent. A $250 minimum tax applies to all non-life insurers.

Tax Rate on Life Insurers

The franchise tax on life insurers has two components. The first component is a franchise tax computed under four alternative bases, with tax due based on the highest tax calculated under the four alternative bases. In addition, a 0.8 of one mill tax rate applies to each dollar of subsidiary capital allocated to New York.

RATES FOR THE INCOME BASE OF THE FRANCHISE TAX ON LIFE INSURERS

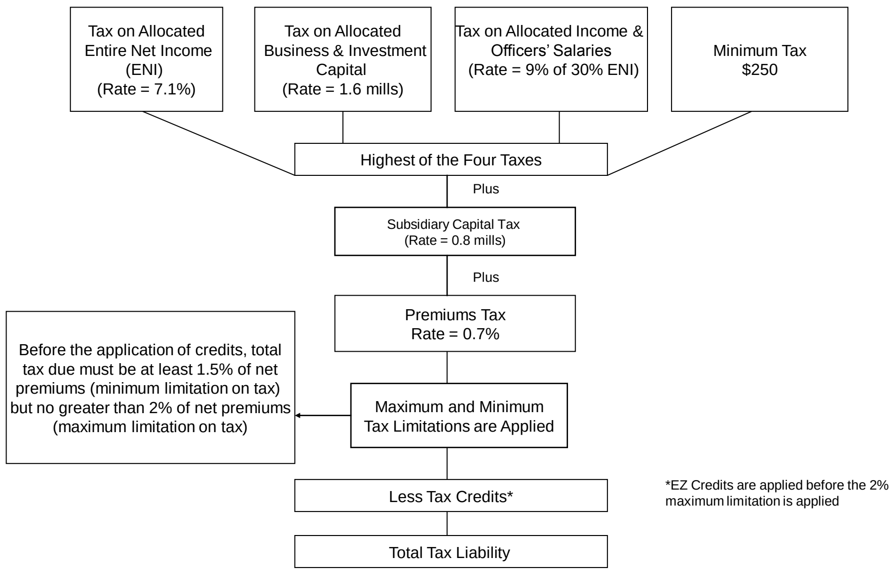
Base	Rate
Allocated entire net income	7.1 percent
Allocated business and investment capital	1.6 mills for each dollar
Allocated income and officers' salaries	9.0 percent of 30 percent of ENI
Minimum tax	$250

Tax is allocated to New York under the entire net income (ENI) base by a formula that apportions ENI based on weighted ratios of premiums (with a weight of nine) and wages (with a weight of one) earned or paid in New York, to total premiums and total wages for all employees for the tax year.

The second component is an additional franchise tax on gross premiums, less returned premiums. The tax rate on premiums is 0.7 percent and applies to premiums written on risks located or resident in New York. This tax is added to the sum of the tax due on the highest of the alternatives from the income base plus the tax imposed on subsidiary capital.

Maximum and minimum tax limitations are computed based on net premiums. Life insurers determine their maximum limitation by multiplying net premiums by 2 percent and their minimum limitation by multiplying net premiums by 1.5 percent. Under these limitations, the total tax calculated under the highest of the four alternative bases plus the tax imposed on subsidiary capital plus the 0.7 percent tax on net premiums must be at least as high as the minimum tax or "floor" (1.5 percent of net premiums) but no greater than the maximum limitation (2 percent of net premiums).

Computation of Article 33 Tax on Life Insurance Companies



Generally, taxpayers with a tax liability that exceeds the floor may not reduce their liability with tax credits to a level below the floor. However, taxpayers may use Empire Zone and Zone Equivalent Area tax credits to do so.

Article 33 taxpayers conducting business in the Metropolitan Commuter Transportation District (MCTD) are subject to a 17 percent surcharge on the portion of their tax liability which is attributable to the MCTD area.

Article 33 of the Tax Law also imposes a premiums tax on captive insurance companies licensed by the Superintendent of Insurance for the privilege of conducting business or otherwise exercising a corporate franchise in New York. The tax is imposed on net premiums and net reinsurance premiums (gross premiums less return premiums) written on risks located or resident in the State at rates which vary with the amount of net premiums. The top rate is 0.4 percent on direct premiums and 0.225 percent on reinsurance premiums. Captive (i.e. affiliates that insure the risks of the other corporate members) insurers are subject to a minimum tax of $5,000. Tax credits are not allowed against the tax imposed on captive insurance companies and these companies are not subject to the business tax surcharge.

Other Taxes Imposed on Insurers

Article 33-A of the Tax Law imposes a tax at the rate of 3.6 percent of premiums on independently procured insurance. This tax is imposed on any individual, corporation or other entity purchasing or renewing an insurance contract covering certain property and casualty risks located in New York from an unauthorized insurer (an unauthorized insurer is an insurer not authorized to transact business in New York under a certificate of authority from the Superintendent of the Insurance Department).

The Insurance Law imposes a premiums tax on a licensed excess line (i.e. covering unique or very large risks) insurance broker when a policy covering a New York risk is procured through such broker from an unauthorized insurer. Transactions involving a licensed excess lines broker and an insurer not authorized to do business in New York are permissible under limited circumstances delineated in Article 21 of the Insurance Law. The tax is imposed at a rate of 3.6 percent of premiums covering risks located in New York.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 included legislation that superseded New York's taxation of excess lines and independently procured insurance. The Dodd-Frank legislation gave the "home state" of the insured the sole authority to regulate and collect taxes on these transactions. Generally, the insured's home state is the state where it is headquartered, or in the case of individuals, their place of residence. Chapter 61 of the Laws of 2011 conformed New York's excess lines premium tax and the tax on independently procured insurance to this Federal change.

The Insurance Law authorizes the Superintendent of Insurance to assess and collect retaliatory taxes from a foreign insurance corporation when the overall tax rate imposed by its home jurisdiction on New York companies exceeds the comparable tax rate imposed by New York on such foreign insurance companies.

Retaliatory taxes have been employed by the states since the nineteenth century to ensure a measure of fairness in the interstate taxation of insurance corporations. Retaliatory taxes deter other states from discriminating against foreign corporations and effectively require states with a domestic insurance industry to maintain an overall tax rate on insurance corporations that is generally consistent with other states.

Nevertheless, there are a variety of mechanisms for taxing insurance corporations throughout the states, and differences in overall tax rates among the states are inevitable. New York provides an additional measure of protection for its domestic insurance industry by allowing domestic corporations to claim a credit under Article 33 of the Tax Law for 90 percent of the retaliatory taxes legally required to be paid to other states.

Receipts from the 17 percent business tax surcharge imposed on insurance companies conducting business in the MCTD are deposited in the Mass Transportation Operating Assistance Fund (MTOAF).

Administration

Insurance companies that reasonably expect their tax liability to exceed $1,000 for the current tax year are required to make a mandatory first installment of estimated tax and three additional estimated payments. The mandatory first installment is due 75 days from the end date of a taxpayer's fiscal year. The remaining three estimated tax payments are due on the 15th day of the third month of the fiscal year quarter. The majority of the taxpayers have a fiscal year that ends December 31. The mandatory first installment for these taxpayers is due March 15 with the remaining three estimated payments due on

June 15, September 15 and December 15. A final payment is also required of all taxpayers. This payment is due with the mandatory first installment. Taxpayers that expect their tax liability to exceed $100,000 for the current tax year are required to make a mandatory first installment equal to 40 percent of their prior year liability. Taxpayers with expected liability greater than $1,000 and less than $100,000 make a mandatory first installment equal to 25 percent of their prior year liability. Life insurance companies with expected liability greater than $1,000 make a mandatory first installment equal to 40 percent of their prior year liability.

Tax Expenditures

Tax expenditures are defined as features of the Tax Law that by exclusion, exemption, deduction, allowance, credit, deferral, preferential tax rate or other statutory provision reduce the amount of a taxpayer's liability to the State by providing either economic incentives or tax relief to particular entities to achieve a public purpose. Article 33 taxpayers are eligible for several targeted tax credits, including the certified capital companies (CAPCOs) credit, the investment tax credit (ITC), the long-term care insurance credit, and Empire Zones credits. For a more detailed discussion of tax expenditures, see the *Annual Report on New York State Tax Expenditures*, prepared by the Department of Taxation and Finance and the Division of the Budget.

There are also several types of insurance contracts that are exempt from the franchise tax. These include, but are not limited to, certain annuity contracts, certain reinsurance premiums and certain health insurance contracts for insured's aged 65 years and older. Certain corporations and other entities that provide insurance are exempt from State franchise taxes and the regional business surcharge. Non-profit medical expense indemnity corporations and other health service corporations, organized under Article 43 of the Insurance Law, are exempt from these State taxes. In addition, cooperative insurance companies in effect (operation) prior to January 1, 1974, are exempt from taxation while those formed on or after that date are subject to the tax.

Significant Legislation

The significant statutory changes to this tax source since 1990 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1990		
Temporary Business Tax Surcharge	Imposed a temporary 15 percent surcharge on insurance tax liability otherwise due. Subsequent legislation eliminated the surcharge over a three-year period starting in 1994.	January 1, 1990
Legislation Enacted in 1997		
Premium Tax Rate for Life Insurers	Reduced the premium tax rate from 0.8 percent to 0.7 percent.	January 1, 1998
Cap on Tax Liability	Reduced the limitation on tax liability for life insurers from 2.6 percent to 2 percent.	January 1, 1998
Credit for Investment in Certified Capital Companies (CAPCOs)	Changed credit to equal 100 percent of amount invested in CAPCO's for taxable years beginning after 1998. The rate was changed to equal 10 percent per year for ten years. The statewide cap was set at $100 million.	January 1, 1999

Subject	Description	Effective Date
Captive Insurance Companies	Allowed the formation of captive insurance companies. Subject to a special premiums tax with a top rate of 0.4 percent or $5,000. This is in lieu of the premiums and income-based tax.	January 1, 1998
Legislation Enacted in 1999		
CAPCOs	Established CAPCO Program Two. Increased Statewide cap from $100 million to $130 million.	January 1, 2001
State Insurance Fund	Conformed the State Insurance Fund tax treatment to the regular insurance tax.	January 1, 2001
Entire Net Income (ENI) Tax Rate	Reduced ENI tax rate over a three-year period: • 8.5 percent for taxable years beginning after June 30, 2000 and before July 1, 2001. • 8 percent for taxable years beginning after June 30, 2001 and before July 1, 2002. • 7.5 percent for taxable years beginning on or after July 1, 2002.	June 30, 2000
Cap on Tax Liability	Reduced the limitation on tax liability for non-life insurers over a three-year period: • 2.4 percent for taxable years beginning after June 30, 2000 and before July 1, 2001. • 2.2 percent for taxable years beginning after June 30, 2001 and before July 1, 2002. • 2 percent for taxable years beginning on or after July 1, 2002.	June 30, 2000
Legislation Enacted in 2000		
CAPCOs	Established CAPCO Program Three. Increased the statewide cap from $130 million to $280 million.	January 1, 2002
Investment Tax Credit	Allowed insurance taxpayers that are brokers/dealers in securities to claim a credit for equipment or buildings used in broker/dealer activity and in activities connected with broker/dealer operations.	Available for property placed in service between January 1, 2002 and October 1, 2003
Empire Zones Program	Provided Qualified Empire Zone Enterprises (QEZE) tax incentives in Empire Zones. Transformed the current Economic Development Zones into virtual “tax-free” zones for certain businesses. The enhanced benefits of this program include a tax credit on real property taxes paid, tax reduction credit, and sales and use tax exemption.	January 1, 2001
Legislation Enacted in 2002		
Estimated Payments	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year’s liability for non-life insurance companies under Article 33. Life insurance companies, which currently pay a first quarterly payment of 40 percent, are not affected. Taxpayers whose prior year’s liability exceeds $100,000 are affected. Taxpayers whose prior year’s liability is between $1,000 and $100,000 will continue to make a first quarterly payment of 25 percent of the prior year’s liability. Sunsets for tax years beginning on or after January 1, 2006, and expires January 1, 2007.	January 1, 2003
Legislation Enacted in 2003		
Insurance Tax Structure	Changed the tax base for insurance taxpayers as follows: • Life and Health insurance taxpayers covering life and accident/health premiums are taxed on the four tax bases and are now subject to a minimum tax of 1.5 percent of premiums. • Non-life insurers covering accident & health premiums are subject to tax on 1.75 percent of premiums. • All other non-life insurers are subject to tax on 2 percent of premiums.	January 1, 2003
Modification for Decoupling from Federal Bonus Depreciation	Required modifications to Federal taxable income for property placed in service on or after June 1, 2003 that qualified for the special bonus depreciation allowance allowed by the Federal Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003. The modifications do not apply to qualified resurgence zone property or qualified New York Liberty Zone property.	June 1, 2003

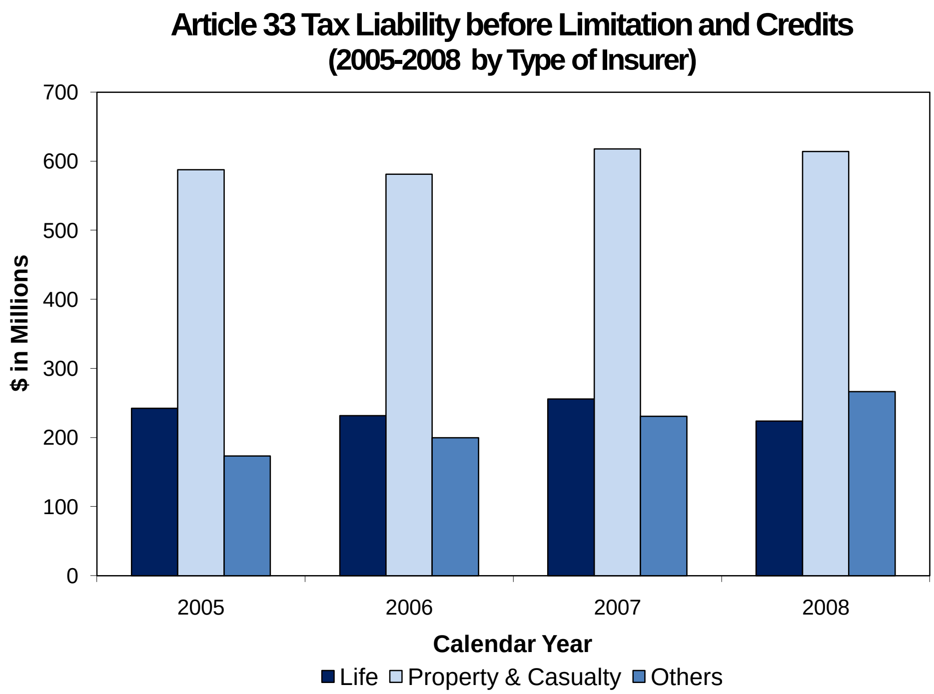
Subject	Description	Effective Date
Intangible Holding Companies	Required modifications to Federal taxable income relating to certain royalty and interest payments made with respect to the use of intangible property by related members or royalty and interest payments received from related members.	January 1, 2003
Superfund-Brownfield Credits	Created tax incentives for the redevelopment of brownfields through three tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. There are three components in the redevelopment tax credit: a site preparation component, a tangible property component, and an onsite groundwater remediation component.	April 1, 2005
Legislation Enacted in 2004		
Fourth Certified Capital Company (CAPCO) Credit	Established CAPCO Program Four. Increased the Statewide cap from $280 million to $340 million.	January 1, 2006
Legislation Enacted in 2005		
Fifth Certified Capital Company (CAPCO) Program	Established CAPCO Program Five. Provided an additional allocation of $60 million that is made available over a ten year period beginning in 2007.	April 1, 2005
Legislation Enacted in 2006		
Annuity Premiums	Amended the tax limitation applicable to certain insurance companies to provide that it is computed by using the amount of annuity premium of the insurance company that are in excess of 95 percent of total premiums.	January 1, 2006
Legislation Enacted in 2007		
Entire Net Income (ENI) Tax Rate	Reduced the rate on the ENI base from 7.5 percent to 7.1 percent.	January 1, 2007
Legislation Enacted in 2008		
REITs/RICs Provisions Technical and Substantive Amendments	Amended the 2007 REITs/RICs provisions to make closely-held REIT and RIC subsidiaries includable in a combined return with the closest affiliate in the corporate group that is a New York State taxpayer, regardless of the article under which that taxpayer files its New York return. Previously, REITs and RICs were treated as Article 9-A corporation franchise taxpayers by definition. This legislation also made other technical and conforming changes.	January 1, 2008
Qualified Production Activity Income (QPAI) Deduction	Decoupled New York State from Internal Revenue Code (IRC) Section 199 and required taxpayers to add back the qualified production activities income (QPAI) deduction when computing New York taxable income.	January 1, 2008
Mandatory First Installment Percentage	Provided that non-life insurance companies with a prior year tax liability over $100,000 must calculate their mandatory first installment payment of franchise tax and MTA surcharge at 30 percent, instead of the previous 25 percent, of the prior year's tax liability. Taxpayers with a prior year liability between $1,000 and $100,000 will continue to use the 25 percent amount to calculate their mandatory first installment. Life insurance taxpayers with a prior year liability between $1,000 and $100,000 will continue to use the 40 percent amount to calculate their mandatory first installment.	January 1, 2009
MTA Surcharge Extender	Extended the temporary MTA surcharge imposed on certain insurance taxpayers, which was scheduled to sunset for taxable years ending before December 31, 2009. The legislation extends the sunset date for four years to taxable years ending before December 31, 2013	April 23, 2008

Subject	Description	Effective Date
Brownfields Program Reform	Amended the tangible property credit component to impose a limit of the lesser of $35 million or three times the qualifying costs used in calculating the site preparation and on-site groundwater components for projects accepted into the Brownfields program after June 22, 2008. Qualifying manufacturers accepted after this date would be subject to a tangible property credit component limitation equal to the lesser of $45 million or six times the qualifying costs used in calculating the site preparation and on-site groundwater components. Several other changes were effected; including increasing the credit percentages awarded under the site preparation and on-site groundwater components to as much as fifty percent.	June 23, 2008
Legislation Enacted in 2009		
Tax Treatment of Overcapitalized Insurance Companies	Required an overcapitalized captive insurance company to file a combined report with the corporation that directly owns or controls over 50 percent of the voting stock of the captive if that corporation is an Article 9-A taxpayer.	January 1, 2009
Estimated Payment Requirement	Increased the first quarterly installment of estimated tax from 30 percent to 40 percent of the prior year's liability for those corporate taxpayers whose liability exceeds $100,000.	January 1, 2010
Empire Zones Reform	Reformed the Empire Zones program. All companies that had been certified for at least three years were subjected to a performance review focusing on cost/benefit ratios.	January 1, 2008
	The QEZE real property tax credit was reduced by 25 percent and firms are no longer eligible for the QEZE sales tax refund/credit unless the sale qualifies for a refund or credit of the county or city sales and use tax.	April 1, 2009
	Moved current program sunset from December 30, 2011 to June 30, 2010.	April 7, 2009
Change to the Tax Classification of HMOs	Subjected for-profit HMOs to the franchise tax on insurance corporations under Article 33 of the Tax Law.	January 1, 2009
Legislation Enacted in 2010		
Historic Properties Tax Credits	Allows insurance companies to claim the nonresidential tax credit for historic property.	January 1, 2010
Tax Credit Deferral	Capped aggregate business related tax credit claims at $2 million per taxpayer for each of tax years 2010, 2011 and 2012. The total amount of credits deferred can be claimed by affected taxpayers on returns for tax years 2013, 2014 and 2015.	January 1, 2010
Technical Changes to Empire Zones Program	Made technical corrections to the 2009-10 Enacted Budget Empire Zones Program changes. Clarified that the Legislature intended to decertify certain businesses retroactively to the 2008 tax year, clarified reporting provisions, and allowed qualified investment projects to claim the investment tax credit and employee incentive tax credit after June 30, 2010.	August 11, 2010
Excelsior Jobs Program	Established a new economic development program to provide incentives based on job creation, investment and research and development expenditures in New York State.	July 1, 2010
Legislation Enacted in 2011		
Conformity with Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010	Conformed New York's taxation of excess lines and independently procured insurance to this Federal change. The Dodd-Frank legislation gave the "home state" of the insured the sole authority to regulate and collect taxes on these transactions.	July 21, 2011
Excelsior Jobs Program Amendments	Modified the credit to make it more widely available and attractive and created a new energy incentive. It also lengthened the benefit period from five to ten years.	March 31, 2011
Economic Transformation and Facility Redevelopment Program	This new program provided tax incentives to businesses to stimulate redevelopment in targeted communities where certain correctional or juvenile facilities are closed (economic transformation areas). This program will expire on December 31, 2021.	March 31, 2011

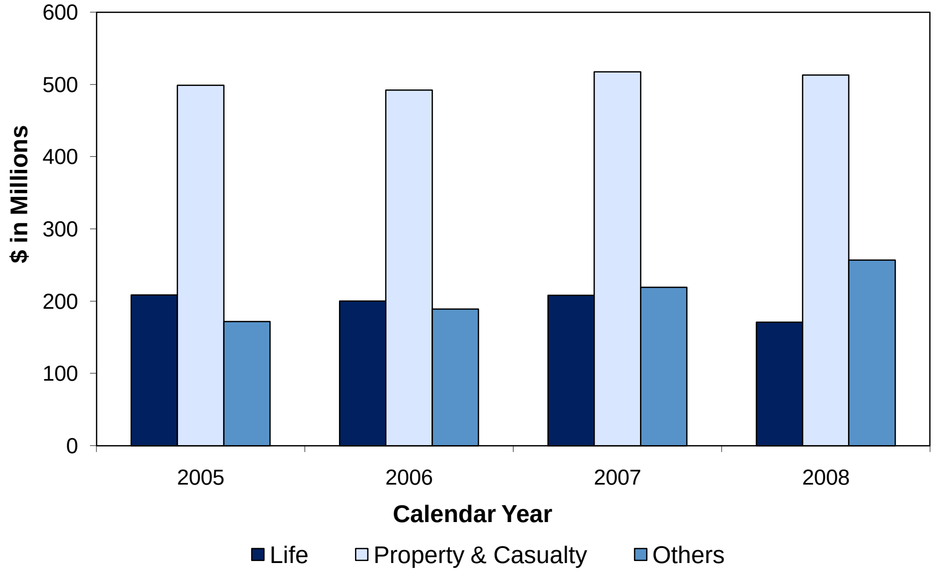
TAX LIABILITY

The Department of Taxation and Finance's Insurance Franchise Tax Study File contains tax liability data for the 2008 tax year, the most recent year for which such data are available. The 2008 Study File indicates that the property and casualty sector is the largest sector, accounting for 52 percent of total tax liability. Other insurers, which include accident and health insurers, are the second largest, with 30.5 percent of total liability. The 17.5 percent balance is attributable to life insurers. Over the last several years the other insurers category has become relatively more important at the expense of life insurers.

The following graphs show insurance tax liability for life insurers, property and casualty insurers and all other insurers from 2005 through 2008 before and after the application of the limitation of tax due as determined by taxable premiums and credits.



Article 33 Tax Liability after Limitation and Credits
(2005-2008 by Type of Insurer)



Property and Casualty and Life Companies

According to data from the New York State Insurance Department, the three largest lines of business under the property and casualty sector are automobile, general liability, and homeowners' multi-peril. The table below reports actual property and casualty premiums and growth from 2004 through 2010 for New York State. Total premiums for property and casualty companies grew by 0.4 percent in 2010, the first increase in two years.

PROPERTY AND CASUALTY INSURANCE PREMIUMS
NEW YORK CALENDAR YEAR
(millions of dollars/percent)

	2004	2005	2006	2007	2008	2009	2010
Lines of Insurance							
Automobile	12,875.0	12,342.0	12,039.0	11,769.0	11,709.0	11,744.0	11,895.0
percent change	1.2	(4.1)	(2.5)	(2.2)	(0.5)	0.3	1.3
Workers' Compensation	1,928.0	3,759.0	4,133.0	4,228.0	3,501.0	3,423.0	3,623.0
percent change	(43.3)	95.0	9.9	2.3	(17.2)	(2.2)	5.8
Commercial Multi-Peril	2,897.0	2,964.0	3,074.0	3,072.0	3,058.0	3,026.0	2,986.0
percent change	4.3	2.3	3.7	(0.1)	(0.5)	(1.0)	(1.3)
General Liability	4,018.0	3,997.0	4,387.0	4,306.0	4,488.0	4,155.0	4,138.0
percent change	7.4	(0.5)	9.8	(1.8)	4.2	(7.4)	(0.4)
Homeowners' Multi-Peril	3,174.0	3,429.0	3,615.0	3,908.0	4,079.0	4,219.0	4,336.0
percent change	9.4	8.0	5.4	8.1	4.4	3.4	2.8
Other	5,840.0	5,893.0	6,427.0	7,048.0	7,059.0	6,318.0	6,036.0
percent change	1.0	0.9	9.1	9.7	0.2	(10.5)	(4.5)
TOTAL P/C PREMIUMS	30,732.0	32,384.0	33,675.0	34,331.0	33,894.0	32,885.0	33,014.0
percent change	(1.9)	5.4	4.0	1.9	(1.3)	(3.0)	0.4

Source: New York State Insurance Department

For a more detailed discussion of the methods and models used to develop estimates and projections for insurance taxes, please see the *Economic, Revenue and Spending Methodologies* at www.budget.ny.gov.

RECEIPTS: ESTIMATES AND PROJECTIONS

INSURANCE TAX RECEIPTS (millions of dollars)	Actual 2010-11	Estimated 2011-12	Change	Percent Change	Projected 2012-13	Change	Percent Change
General Fund							
Non-Audit Receipts	1,188	1,260	72	6.0	1,311	51	4.0
Audit Receipts	29	14	(15)	(51.4)	11	(3)	(21.4)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**1,217**	**1,274**	**57**	**4.7**	**1,322**	**48**	**3.8**
Other Funds							
Non-Audit Receipts	125	135	10	8.2	139	4	3.0
Audit Receipts	9	4	(5)	(55.1)	2	(2)	(50.0)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**134**	**139**	**5**	4.0	**141**	**2**	**1.4**
All Funds							
Non-Audit Receipts	1,313	1,395	82	6.2	1,450	55	3.9
Audit Receipts	38	18	(20)	(52.3)	13	(5)	(27.8)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**1,351**	**1,413**	**62**	**4.6**	**1,463**	**50**	**3.5**

All Funds

2011-12 Estimates

All funds receipts through December are $855 million, an increase of $44.7 million (5.5 percent) from the comparable period in the prior fiscal year. The year-to-date increase is driven by higher calendar year 2011 liability. Through the December estimated payment, 2011 liability has grown 4.8 percent from the prior year.

All Funds receipts for 2011-12 are estimated to be $1,413 million, an increase of $62.1 million (4.6 percent) from 2010-11. The increase is attributable to the factors described above.

2012-13 Projections

All Funds receipts for 2012-13 are projected to be $1,463 million, an increase of $50 million (3.5 percent) from 2011-12. The year-over-year increase reflects trend growth in the insurance tax as the industry continues to recover from the economic downturn.

General Fund

General Fund collections for 2011-12 reflect year-to-date trends and are estimated to be $1,274 million, an increase of $56.8 million (4.7 percent) from 2010-11. The increase reflects the same trends impacting 2011-12 All Fund receipts.

General Fund collections for 2012-13 are projected to be $1,322 million, an increase of $48 million (3.8 percent) from 2011-12. The increase reflects the same trends impacting All Funds receipts for 2012-13.

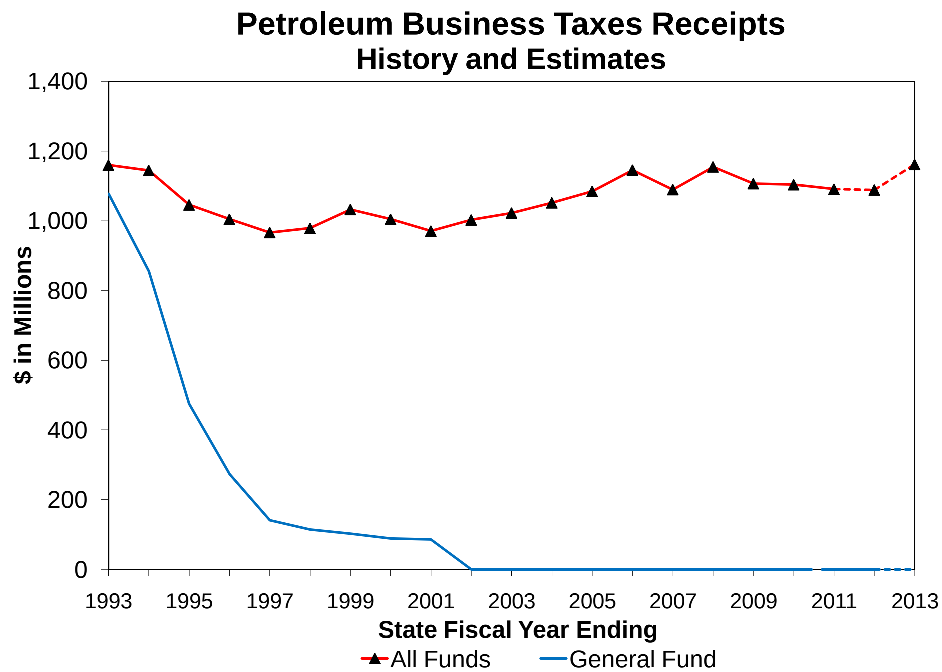
Other Funds

Insurance tax receipts from the business tax surcharge imposed on insurance companies doing business in the MCTD generally reflect the trends described above. Receipts for 2011-12 are estimated to be $139 million, an increase of $5.3 million (4 percent). MTOAF receipts for 2012-13 are projected to be $141 million.

PETROLEUM BUSINESS TAXES

PETROLEUM BUSINESS TAXES (millions of dollars)							
	2010-11 Actual	2011-12 Estimated	Change	Percent Change	2012-13 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	1,090.4	1,089.0	(1.4)	(0.1)	1,162.2	73.2	6.7
All Funds	1,090.4	1,089.0	(1.4)	(0.1)	1,162.2	73.2	6.7

Note: Totals may differ due to rounding.



PETROLEUM BUSINESS TAXES BY FUND (millions of dollars)								
	Net General Fund	Gross Special Revenue Funds	Refunds	Net Special Revenue Funds[1]	Gross Capital Projects Funds[2]	Refunds	Net Capital Projects Funds[2]	Net All Funds Receipts
2002-03	1	462	8	454	578	10	568	1,023
2003-04	0	478	6	472	587	7	580	1,052
2004-05	0	492	6	486	607	8	599	1,085
2005-06	0	523	9	514	642	10	632	1,146
2006-07	0	493	7	486	613	9	604	1,090
2007-08	0	525	11	514	659	18	641	1,155
2008-09	0	508	15	493	639	25	614	1,107
2009-10	0	502	11	491	631	18	613	1,104
2010-11	0	497	13	484	626	20	606	1,090
Estimated								
2011-12	0	497	13	484	625	20	605	1,089
2012-13								
Current Law	0	530	13	517	666	20	646	1,163
Proposed Law	0	530	13	517	665	20	645	1,162

[1] Dedicated Mass Transportation Trust Fund and Mass Transportation Operating Assistance Fund.
[2] Dedicated Highway and Bridge Trust Fund.

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Extend for five years the full or partial tax exemptions on E85, CNG, hydrogen and B20 when purchased for use in a motor vehicle engine; and

- Make technical amendments to the tax classification of diesel motor fuel.

DESCRIPTION

Tax Base and Rate

Article 13-A of the Tax Law imposes a tax on petroleum businesses for the privilege of operating in the State, based upon the quantity of various petroleum products imported for sale or use in the State. Petroleum business tax (PBT) rates have two components: the base tax, whose rates vary by product type; and the supplemental tax, which is imposed, in general, at a uniform rate.

Tax rates are indexed with annual adjustments made on January 1 of each year to the base and supplemental tax rates to reflect the percent change in the producer price index (PPI) for refined petroleum products for the 12 months ending August 31 of the preceding year. To prevent significant changes in tax rates resulting from large changes in the petroleum PPI, tax rates cannot increase or decrease by more than 5 percent per year. In addition to the 5 percent cap on tax rate changes, the statute requires, in general, that the base and supplemental tax rates each be rounded to the nearest tenth of one cent. As a result, the percentage change in tax rates is usually less than the 5 percent limit on the change in the index.

Based on changes in the petroleum PPI, the PBT rate index increased by 5 percent on January 1, 2011, and increased by 5 percent on January 1, 2012. The petroleum PPI is estimated to increase by at least 4.3 percent through August 2012, triggering an estimated PBT rate increase of 4.3 percent on January 1, 2013.

PETROLEUM BUSINESS NET TAX RATES FOR 2011 - 2013
(cents per gallon)

	2011			2012			2013		
Petroleum Product	**Base**	**Supp**	**Total[1]**	**Base**	**Supp**	**Total[1]**	**Base**	**Supp**	**Total[1]**
Automotive fuel									
Gasoline and other non diesel	10.2	6.8	**17.0**	10.7	7.1	**17.8**	11.2	7.4	**18.6**
Highway Use Diesel	10.20	5.05	**15.25**	10.70	5.35	**16.05**	11.20	5.65	**16.85**
Aviation gasoline or Kero-Jet Fuel	6.8	0.0	**6.8**	7.1	0.0	**7.1**	7.4	0.0	**7.4**
Non-Highway Use diesel fuels									
Commercial gallonage	9.3	0.0	**9.3**	9.7	0.0	**9.7**	10.1	0.0	**10.1**
Nonresidential heating	5.0	0.0	**5.0**	5.2	0.0	**5.2**	5.5	0.0	**5.5**
Residual petroleum products									
Commercial gallonage	7.1	0.0	**7.1**	7.4	0.0	**7.4**	7.7	0.0	**7.7**
Nonresidential heating	3.8	0.0	**3.8**	4.0	0.0	**4.0**	4.2	0.0	**4.2**
Railroad diesel fuel	8.9	0.0	**8.9**	9.4	0.0	**9.4**	9.9	0.0	**9.9**

1 The Tax rates represent the net tax rate after credits.

2 Projected — The projected petroleum producer price index increase of 4.3 percent through August 2013 will result in an increase of not more than 4.3 percent in the PBT tax rates on January 1, 2013.

PETROLEUM PPI AND PETROLEUM BUSINESS TAX RATE INDEX
(percent change)

Year	Petroleum PPI	PBT Rate Index
2002	13.1	5.0
2003	(19.5)	(5.0)
2004	27.0	5.0
2005	12.9	5.0
2006	35.1	5.0
2007	35.9	5.0
2008	(1.2)	(1.2)
2009	42.1	5.0
2010	(34.9)	(5.0)
2011	18.6	5.0
2012	29.8	5.0
2013*	4.3	4.3

* Estimated

The Motor Fuel Tax section contains a table showing New York's combined fuel tax rank among the 50 states and the District of Columbia.

Administration

The tax is collected monthly in conjunction with the State motor fuel tax (Article 12-A). Article 13-A also imposes the petroleum business carrier tax on fuel purchased outside New York and consumed within the State. The carrier tax is collected quarterly along with the fuel use tax portion of the highway use tax (see section titled Highway Use Tax).

Under 1992 legislation, businesses with yearly motor fuel and petroleum business tax liability of more than $5 million are required to remit, using electronic funds transfer, their tax liability for the first 22 days of the month within three business days after that date. Taxpayers can choose to make either a minimum payment of three-fourths of the comparable month's tax liability for the preceding year, or 90 percent of actual liability for the first 22 days. The tax for the balance of the month is paid with the monthly returns filed by the twentieth of the following month.

Tax Expenditures

Specifically exempted from Article 13-A taxes are fuels used for manufacturing, residential or not-for-profit organization heating purposes, fuel sold to governments, sales for export from the State, kerosene other than kero-jet fuel, crude oil, liquefied petroleum gas (LPG), and certain bunker fuel. For a complete list of tax expenditure items related to the PBT, see the *New York State Tax Expenditure Report*.

Significant Legislation

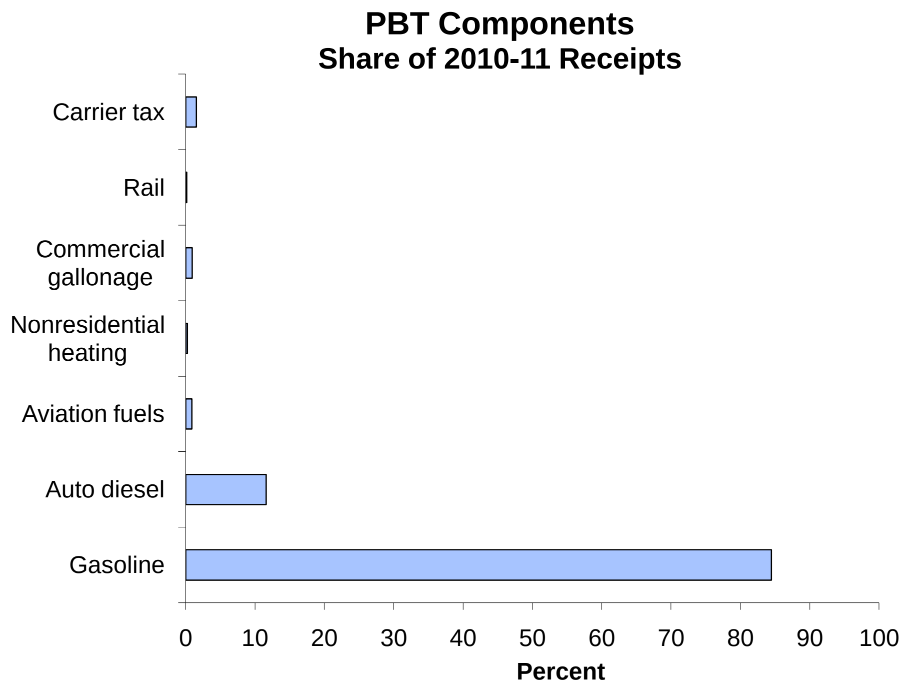
The significant statutory changes to this tax source since 1990 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1990		
Replace gross receipts tax	Converted the tax from a gross receipts basis to a cents-per-gallon basis. The tax no longer applied to kerosene, bunker fuel or liquid petroleum gasoline.	September 1, 1990
Business Tax Surcharge	Imposed a business surcharge at a rate of 15 percent for two years and 10 percent for one year.	June 1, 1990
Lubricating Oil Tax	Imposed a tax of 10 cents per quart on lubricating oil.	September 1, 1990
Legislation Enacted in 1992		
Tax Liability	Required businesses with yearly motor fuel and petroleum business tax liability of more than $5 million to remit, using electronic funds transfer, their tax liability for the first 22 days of the month, within three business days after that date. Taxpayers can choose to make either a minimum payment of three fourths of the comparable month's tax liability for the preceding year, or 90 percent of actual liability for the 22 days. The tax for the balance of the month is paid with the monthly returns filed by the twentieth of the following month.	December 1, 1992
Legislation Enacted in 1993		
Fund Distribution	The majority of PBT receipts were primarily directed to the General Fund in years past. Since 2001, none of these receipts was directed to this Fund. The majority of funds are directed to the Dedicated Funds Pool, which is split between the Dedicated Mass Transportation Fund (37 percent) and the Dedicated Highway Bridge Trust Fund (63 percent). A smaller portion is directed to the Mass Transportation Operating Assistance Fund.	1993 and after
Legislation Enacted in 1994		
Indexing	Enacted tax rate indexing.	January 1, 1996
Business Tax Surcharge	The business tax surcharge was slowly phased out and eliminated on June 1, 1997.	January 1, 1994
Legislation Enacted in 1995		
Aviation Fuels	Effectively eliminated the supplemental tax imposed on aviation gasoline and kero-jet fuel and reduced the base tax rate for those products to a rate that is equivalent to the statutory supplemental tax rate. To maintain the first import system, which imposes the petroleum business tax on aviation gasoline upon importation, and still allow retail sellers of aviation gasoline to sell such product at a reduced rate, distributors of aviation gasoline must remit the full tax imposed on that product and may subsequently take a credit for the difference between the full rate and the reduced rate.	September 1, 1995

Not-for-profit Organizations	Provided full exemption for heating fuel that is for the exclusive use and consumption of certain not-for-profit organizations.	January 1, 1996
Legislation Enacted in 1996		
Railroads	Exempted diesel motor fuel used for railroads from the supplemental portion of the tax and reduced the base rate by 1.33 cents per gallon.	January 1, 1997
Commercial Heating	Provided full exemption from the supplemental tax imposed on distillate and residual fuels used by the commercial sector for heating.	March 1, 1997
Manufacturing	Expanded to a full exemption, the partial exemption provided for residual and distillate fuels used in manufacturing.	January 1, 1998
Diesel Supplemental Tax	Reduced by three-quarters of one cent per gallon the supplemental tax imposed on diesel motor fuel.	January 1, 1998
	Reduced by an additional one cent per gallon the supplemental tax imposed on diesel motor fuel.	April 1, 1999
Utilities	Increased by one-half cent per gallon the base tax credit for residual and distillate fuels used by utilities to generate electricity.	April 1, 1999
Legislation Enacted in 1997		
Vessels	Created a credit or refund for fuel used in vessels that was purchased in the State and consumed outside the State; clarified that the export credit/refund applies to export for use, as well as sale; stated that the legal incidence of the tax is on consumers; and limited the judicial remedies available to taxpayers.	April 1, 1984
Legislation Enacted in 1999		
Commercial Heating	Reduced by 20 percent the petroleum business tax rates on commercial gallons for space heating.	April 1, 2001
Mining and Extraction	Provided for reimbursement of petroleum business tax imposed on fuels used for mining and extraction.	April 1, 2001
Legislation Enacted in 2000		
Minimum Tax	Eliminated the minimum taxes on petroleum businesses and aviation fuel businesses under the PBT.	March 1, 2001
Commercial Heating	Reduced by 33 percent the petroleum business tax rates on commercial gallons for space heating.	September 1, 2002
Legislation Enacted in 2004		
Aviation Fuel	Eliminated PBT on fuels used for aircraft overflight and landing.	November 1, 2004
	Exempted fuel burned on takeoff by airlines operating non-stop flights between at least four cities in New York.	June 1, 2005
Legislation Enacted in 2005		
Enforcement Provisions	Required collection of taxes on sales to non-Native Americans on New York reservations.	March 1, 2006
Legislation Enacted in 2006		
Alternative Fuels	Exempted or partially exempted PBT on alternative fuels, including E85 and B20, sunsets September 1, 2012.	September 1, 2006
Legislation Enacted in 2011		
Modernize Fuel Definitions	Modernized fuel definitions to conform with changes in Federal and State Law.	September 1, 2011

TAX LIABILITY

Petroleum business tax receipts are primarily a function of the number of gallons of fuel imported into the State by distributors. Taxable gallonage is largely determined by overall fuel prices, the number of gallons held in inventories, the fuel efficiency of motor vehicles and State economic performance. The following chart displays the composition of PBT receipts by fuel type.



For a more detailed discussion of the methods and models used to develop estimates and projections for the petroleum business taxes, please see the *Economic, Revenue and Spending Methodologies* at www.budget.ny.gov.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2011-12 Estimates

All Funds collections through December are $818.3 million, a decrease of $0.3 million (0 percent) below the comparable period in the prior fiscal year.

All Funds receipts for 2011-12 are estimated to be $1,089 million, a decrease of $1.4 million (0.1 percent) below last year. The decrease in receipts is primarily accounted for by the estimated decline in gasoline and diesel taxable gallonage, offset by the increase in the PBT index on January 1, 2011 and January 1, 2012.

Petroleum business tax receipts derived from motor fuel and diesel motor fuel are estimated to follow the same consumption trends as fuel subject to the motor fuel excise tax (see section titled Motor Fuel Tax). Gasoline taxable gallonage is estimated to decrease by 2.8 percent and diesel taxable gallonage is estimated to decrease by 3.6 percent.

2012-13 Projections

All Funds receipts are projected to be $1,162.2 million, an increase of $73.2 million (6.7 percent) above 2011-12. The increase in receipts is generated primarily by the 5 percent increase in the PBT Index effective January 1, 2012, and the projected 4.3 percent increase effective January 1, 2013.

General Fund

Legislation enacted in 2000 provided that all remaining PBT receipts deposited in the General Fund be deposited in the Dedicated Funds Pool, effective April 1, 2001.

Other Funds

In past years, revenues from the PBT have been shared by the General Fund and the Mass Transportation Operating Assistance Fund (MTOA). Prior to the 1990 revisions, the General Fund received 72.7 percent and MTOA received 27.3 percent or a guaranteed amount. The 1990 statute converted the tax from a gross receipts tax to a cents-per-gallon tax, expanded the tax yield, and limited the MTOA share to slightly more than 17.7 percent of the non-surcharge revenues – the dollar equivalent of its share prior to the expansion. Carrier tax receipts were deposited in the General Fund until April 1, 2001.

Separate 1991 transportation legislation provided that, effective April 1, 1993, 100 percent of the supplemental tax and a portion of the base tax, were to be split between the Dedicated Mass Transportation Trust Fund (DMTTF) and the Dedicated Highway and Bridge Trust Fund (DHBTF). Numerous pieces of legislation were enacted in subsequent years that reduced General Fund deposits and increased the amount of the base tax deposited in the dedicated transportation funds.

Legislation enacted in 2000 significantly increased the flow of PBT funds to the Dedicated Funds Pool. Effective April 1, 2001, all PBT receipts previously deposited in the General Fund, including the balance of the basic tax and the carrier tax, were redistributed to the DHBTF and the DMTTF.

Statutory changes to the allocation of the PBT base tax by fund type are reported in the following table.

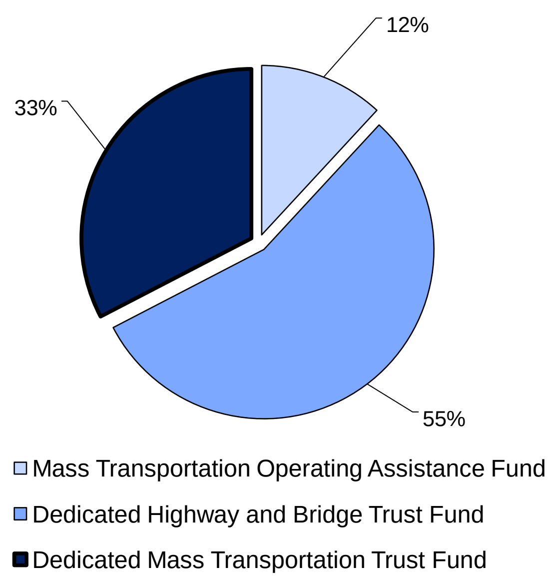
PBT BASE TAX FUND DISTRIBUTION
(percent)

Effective Date	General Fund	MTOAF[1]	Dedicated Funds Pool[2]
Prior to April 1, 1993	82.3	17.7	0.0
April 1, 1993	28.3	17.7	54.0
September 1, 1994	22.4	18.6	59.0
September 1, 1995	18.0	19.2	62.8
April 1, 1996	17.4	19.3	63.3
January 1, 1997	14.5	19.3	66.2
January 1, 1998	12.4	19.5	68.1
April 1, 1999	10.7	19.5	69.8
April 1, 2001 and thereafter	0.0	19.7	80.3

1 This fund is split between the Public Transportation System Operating Assistance Account and the Metropolitan Mass Transportation Operating Assistance Account.
2 This pool is split between the Dedicated Mass Transportation Trust Fund (37 percent) and the Dedicated Highway and Bridge Trust Fund (63 percent).

Petroleum business tax receipts in 2011-12 are estimated to be $129 million for MTOA, $604.6 million for the DHBTF, and $355.4 million for the DMTTF. Petroleum business tax receipts in 2012-13 are projected to be $138.3 million for MTOA, $645.2 million for the DHBTF, and $378.7 million for DMTTF.

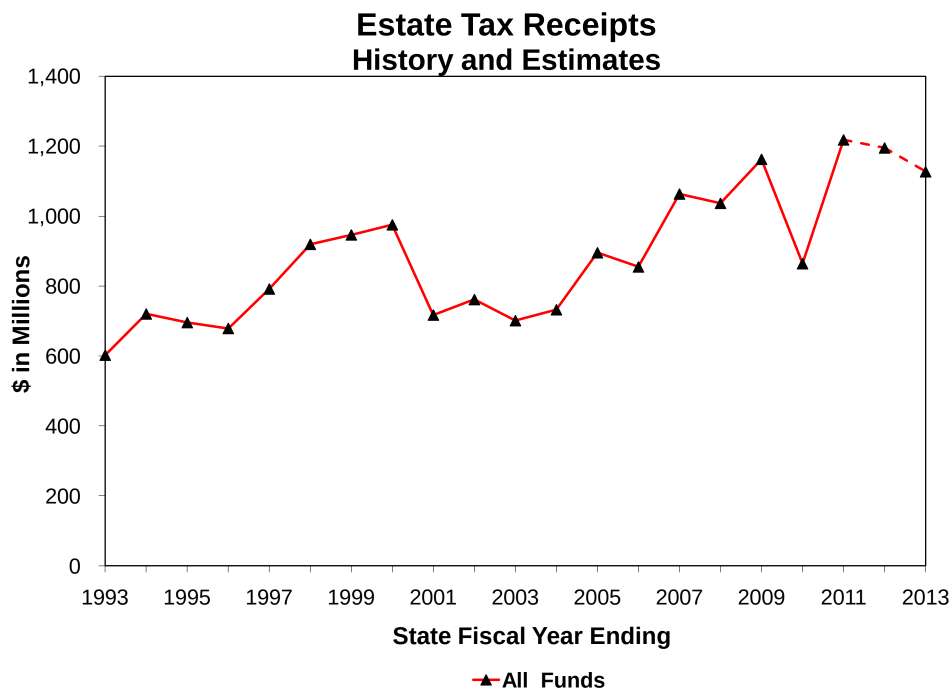
Estimated PBT Receipts 2011-12



ESTATE TAX

ESTATE TAX (millions of dollars)	2010-11 Actual	2011-12 Estimated	Change	Percent Change	2012-13 Projected	Change	Percent Change
General Fund	1,218.1	1,195.0	(23.1)	(1.9)	1,127.0	(68.0)	(5.7)
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	1,218.1	1,195.0	(23.1)	(1.9)	1,127.0	(68.0)	(5.7)

Note: Totals may differ due to rounding.



ESTATE TAX BY FUND (millions of dollars)	Gross General Fund	Refunds	General Fund	All Funds Receipts
2002-03	736	35	701	701
2003-04	760	28	732	732
2004-05	936	41	895	895
2005-06	892	37	855	855
2006-07	1,122	59	1,063	1,063
2007-08	1,079	42	1,037	1,037
2008-09	1,277	114	1,163	1,163
2009-10	909	45	864	864
2010-11	1,269	51	1,218	1,218
Estimated				
2011-12	1,265	70	1,195	1,195
2012-13				
Current	1,182	55	1,127	1,127
Proposed	1,182	55	1,127	1,127

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

Tax Base and Rate

New York imposes a tax on the estates of deceased State residents and on the part of a nonresident's estate made up of real and tangible personal property located within New York State. The New York estate tax is based on the estate tax provisions of the Federal Internal Revenue Code as amended through July 22, 1998, with New York modifications.

The tax base is calculated by first determining the value of the gross estate using Federal estate tax provisions. The Federal gross estate comprises the total amount of real estate, stocks and bonds, mortgages, notes, cash, insurance on the decedent's life, jointly owned property, other miscellaneous property, transfers during the decedent's life, powers of appointment, and annuities that the decedent owned.

The Federal gross estate is reduced by the Qualified Conservation Easement Exclusion and the following deductions: funeral expenses and expenses incurred in administering property subject to claims; debts of the decedent; mortgages and liens; net losses during administration, and expenses incurred in administration of the property not subject to claims; bequests to a surviving spouse (marriage deduction); charitable, public, and similar gifts; and a qualified family-owned business interest deduction. This yields the taxable estate for New York and becomes the basis for calculating New York's estate tax.

The total value of all items of real and tangible personal property of the taxpayer located outside of New York State is divided by the taxpayer's Federal gross estate to arrive at the proportion of the estate outside New York State. This proportion is then used to allocate the Federal credit for state death taxes to New York to arrive at the New York State estate tax.

New York's estate tax is calculated by using the Unified Rate Table and the table for computing the maximum New York State credit for state death taxes as they were in effect on July 22, 1998. The New York estate tax is equal to the amount of the credit for state death taxes which cannot exceed the amount of the Federal tax based on the July 22, 1998 rates and the current State unified credit. The computation of maximum New York State credit for state death taxes is a graduated schedule with rates that range from 0.8 percent on adjusted taxable estates in excess of $40,000 but less than $90,000, to 16 percent on adjusted taxable estates for New York State of $10,040,000 or more.

New York allows a Unified Credit that provides an exemption level of $1 million.

Administration

The Surrogate Court has jurisdiction of the probate of the estate and the authority to finalize the amount of the tax. The tax due is required to be paid on or before the date fixed for filing the return, nine months after the decedent's date of death. A twelve-month extension may be granted by the Commissioner of Taxation and Finance.

If the payment of the tax will cause undue hardship, the Commissioner may authorize a payment extension for up to four years from the decedent's date of death. It may be necessary for the taxpayer to provide a bond in an amount of no more than twice the amount due if an extension is approved for payment of the tax.

If the payment of the tax due is not made within nine months of the decedent's date of death, additional interest is charged to the remaining payments of the tax. The interest for extended payments is computed and compounded daily on the portion remaining from the first day of the tenth month following the decedent's date of death to the date of the payment. There is no discount for early payment of the estate tax.

The executor and the beneficiaries who have received property are personally liable for the payment of the estate tax. If there is no will, the Federal, New York and foreign death taxes paid or payable by the estate's representatives are apportioned among the beneficiaries.

There is reciprocity with other states with the collection of inheritance and estate taxes in nonresident estates. Refund claims of an overpayment of the tax must be filed by the executor within three years from the time the return was filed or two years from the time the tax was paid, whichever is later.

Tax Expenditures

Since the tax is equal to the Federal credit for state death taxes, as it existed on July 22, 1998, there is only one New York specific tax expenditure, the Qualified Family Owned Business Interest Deduction which has been eliminated from the Federal estate tax but is still allowed in New York.

Significant Legislation

The significant statutory changes since 1925 to the estate tax are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1925		
Estate Tax	Imposed an estate tax.	April 2, 1925
Legislation Enacted in 1963		
Estate Tax – Conformity	Adopted applicable Federal rules for determining gross estate and allowable deductions.	April 1, 1963
Legislation Enacted in 1971		
Estate and Gift - Gift Imposition	Imposed a gift tax as Article 26-A of the Tax Law.	January 1, 1972

ESTATE TAX

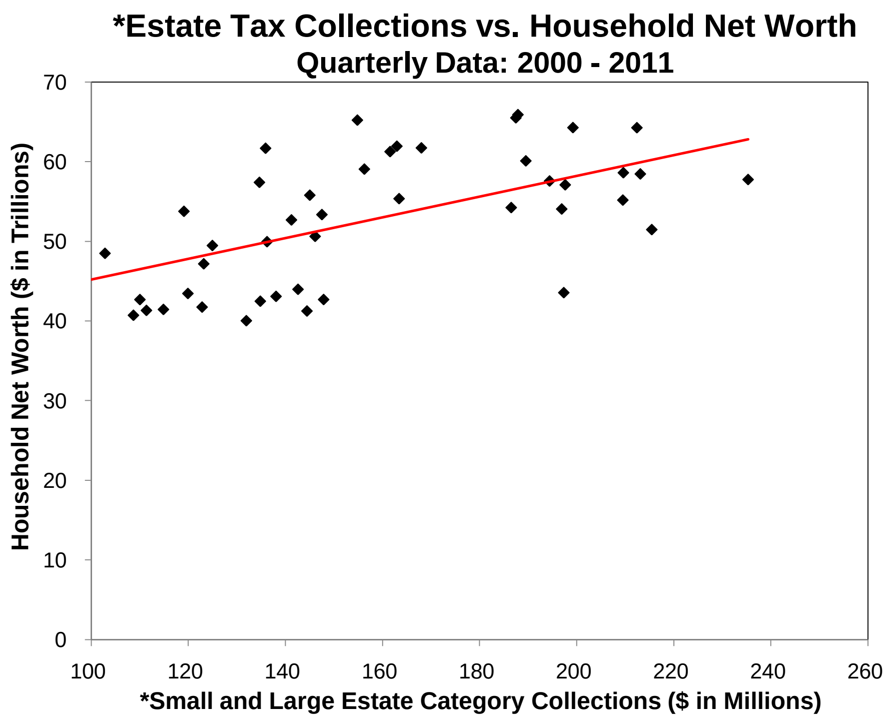
Subject	Description	Effective Date
Legislation Enacted in 1982		
Estate and Gift – Unification	Unified the estate tax and the gift tax rates and credit.	January 1, 1983
Legislation Enacted in 1994		
Unified Credit for Estate and Gift Taxes	Increased credit from $2,750 to $2,950, thereby eliminating the tax on taxable gifts/estates of $115,000 or below, up from $108,600.	June 9, 1994
Legislation Enacted in 1995		
Deduction	Authorized a principal residence deduction of $250,000 (maximum).	June 7, 1995
Legislation Enacted in 1997		
Unified Credit for Estate and Gift Taxes	Increased credit from $2,950 to $10,000, thereby eliminating the tax on taxable estates of $300,000 or below.	October 1, 1998
	Increased credit from $2,950 to $10,000, thereby eliminating the tax on taxable gifts of $300,000 or below.	January 1, 1999
	Set the State's unified credit to equal the Federal credit, but capped the maximum credit to exempt the first $1,000,000 of the estate.	February 1, 2000
Estate Tax Rate	Set the New York estate tax rates equal to the Federal credit for State estate taxes paid.	February 1, 2000
Gift Tax	Repealed.	January 1, 2000
Tax Liability Due Date	Increased from six to seven months.	October 1, 1998
	Increased from seven to nine months (same as Federal).	February 1, 2000
Legislation Enacted in 1998		
Closely-Held Business	Reduced interest rate from 4 percent to 2 percent on deferred payments of estate tax, where estate consists largely of a closely-held business.	January 1, 1998
Legislation Enacted in 1999		
Federal Conformity	Conformed New York State law to Federal law as of July 22, 1998, except for unified credit provisions.	August 9, 1999
Family-Owned Business Deduction	Repealed family-owned business exclusion and replaced with family-owned business deduction, conforming to Federal law changes.	December 31, 1997
Penalty and Interest	Waived penalty and interest on estate tax associated with a cause of action that was pending on the date of death, or which was associated with the decedent's death. The waiver is applicable from the date of the return disclosing the cause of action if filed.	July 13, 1999
Legislation Enacted in 2010		
Unified Credit	Set the State's unified credit to provide a $1,000,000 exemption level independent of the Federal Credit.	January 1, 2010

TAX LIABILITY

The recent yield of this tax has been heavily influenced by three factors: 1) tax law changes, 2) annual variations in the relatively small number of large estates, and 3) the value of the equity market, given the large component of corporate stock in large taxable estates. Tax law changes have reduced estate tax collections and thousands of the smallest estates have been effectively exempted from the tax. As a result, the volatility in receipts from this source is expected to increase, due to the random nature of collections from large estates.

In developing projections for estate tax receipts, the value of household net worth is used to forecast receipts from estates that make payments of less than $4 million. In addition to the value of equities, a distributional analysis is utilized to estimate receipts and the number of estates where payments exceed $4 million.

For a more detailed discussion of the methods and models used to develop estimates and projections for the estate tax, please see the *Economic, Revenue and Spending Methodologies* at www.budget.ny.gov.



RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2011-12 Estimates

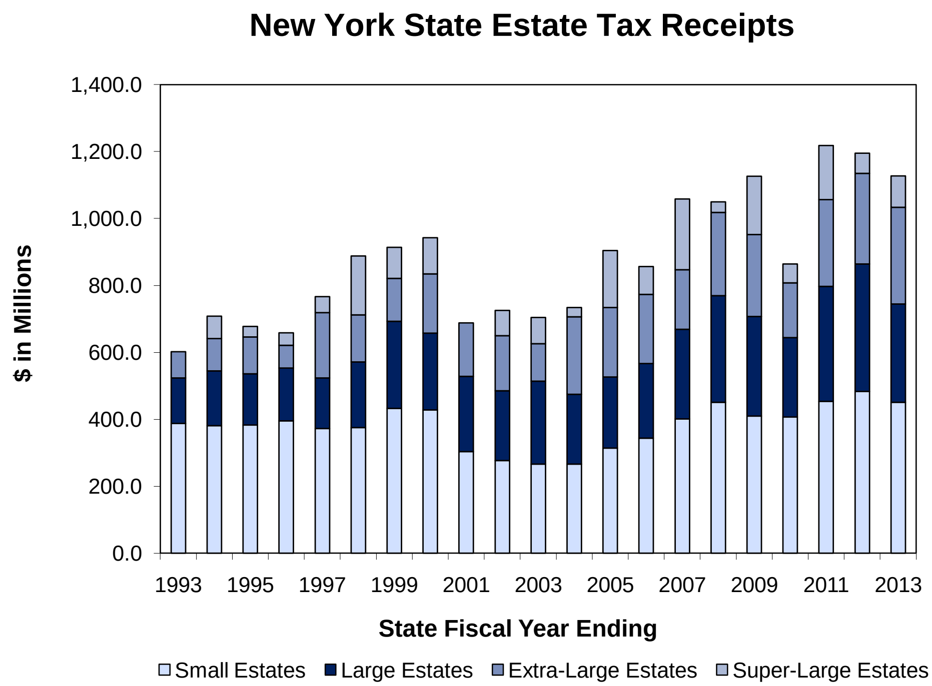
All Funds collections through December are $854.7 million, a decrease of $25 million (2.8 percent) below the comparable period in the prior fiscal year.

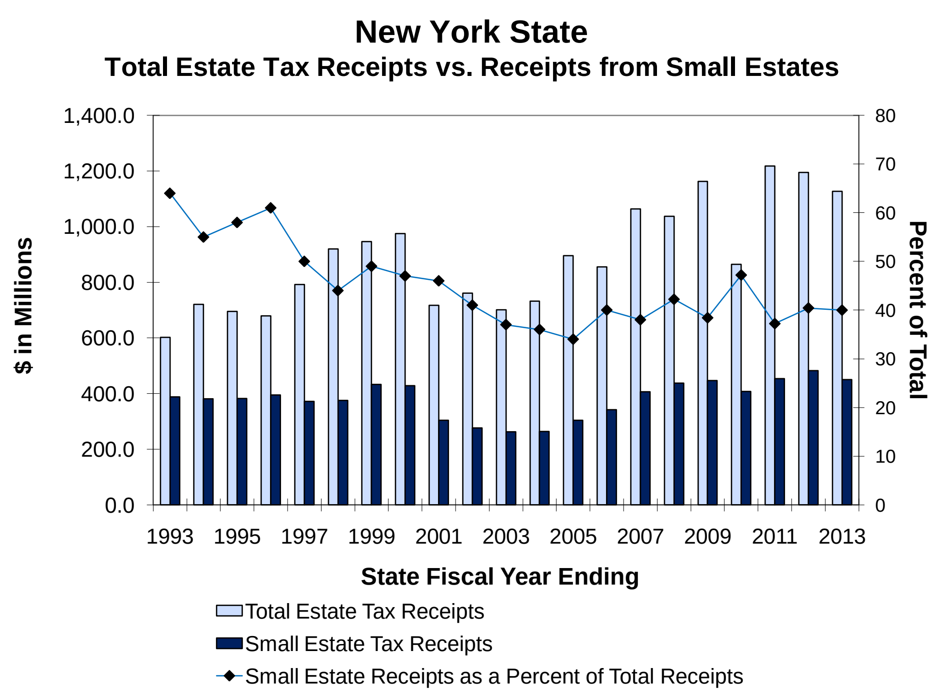
All Funds receipts for 2011-12 are estimated to be $1,195 million, a decrease of $23.1 million (1.9 percent) below 2010-11.

Small estate (less than $0.5 million in payments) collections through December are $355.9 million, an increase of $0.2 million above the comparable period in 2010-11. Small estate receipts for 2011-12 are estimated to be $483 million, an increase of $29.8 million (6.6 percent) above 2010-11.

Large estate payments through December are $288.2 million, an increase of $51.9 million (22 percent) above the comparable period in 2010-11. Large estates (between $0.5 and $4 million in payments) are estimated to increase to $381.2 million in 2011-12, an increase of $37.1 million (10.8 percent), reflecting significant increases during the first half of the year.

Extra-large and super-large estate collections through December are $210.6 million, a decrease of $75.9 million (26.5 percent) from the same period in 2010-11. Receipts from extra-large estates (payments between $4 million and $25 million) and super-large payments (payments greater than $25 million) are estimated to decrease by $90 million (21.4 percent) from 2010-11 levels, to $330.8 million.





2012-13 Projections

All Funds receipts are projected to be $1,127 million, a decrease of $68 million (5.7 percent) below 2011-12. This decline represents a continuing return to more historical transaction levels from a peak in 2010-11, as well as the estimated impact of the increase in the federal gift tax exemption, which is expected to reduce State taxable estate levels.

Large estate tax payments are projected to decrease to $293.9 million (22.9 percent), and collections from small estate payments are projected to decrease by $32.5 million (6.7 percent) to $450.5 million.

Super-large and extra large estate payments are projected to increase $51.8 million to $382.6 million (15.7 percent) in 2012-13.

ESTATE TAX RECEIPTS BY SIZE OF ESTATE
(millions of dollars)

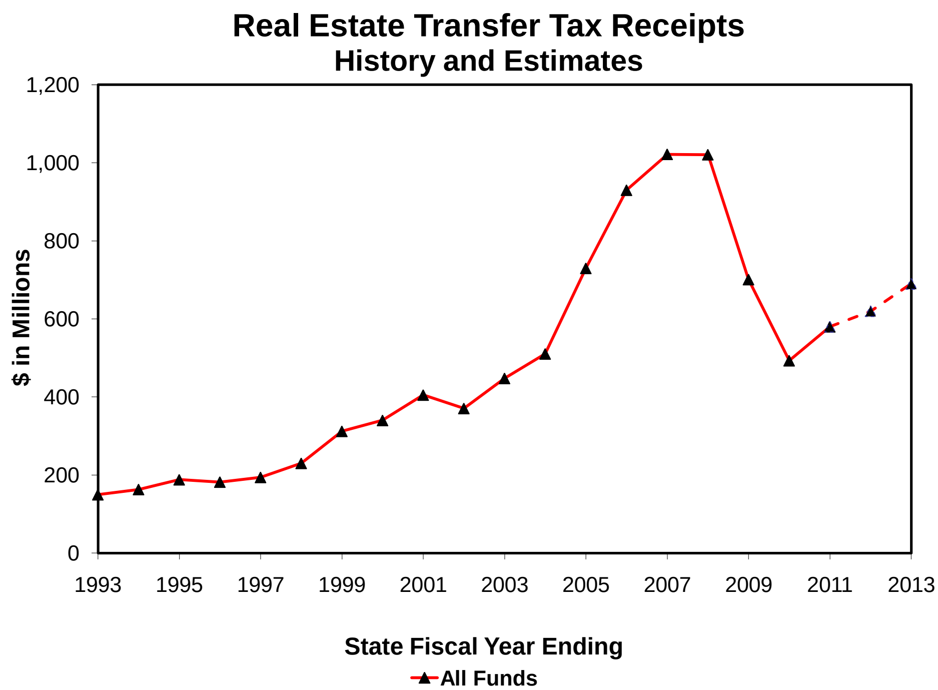
	Super-Large[1] and Extra-Large[2] Estates		Large Estates[3]		Small Estates[4]	Grand Total
	Number	Taxes	Number	Taxes	Taxes	Taxes
2002-03	16	190.5	200.0	247.6	262.9	701.0
2003-04	26	259.1	169.0	209.1	264.1	732.3
2004-05	25	377.9	191.0	212.9	304.5	895.3
2005-06	25	289.7	173.0	223.1	342.0	854.8
2006-07	28	389.5	217.0	267.8	406.0	1,063.3
2007-08	31	280.9	264.0	318.3	437.5	1,036.7
2008-09	30	418.9	246.0	297.4	446.3	1,162.6
2009-10	23	220.2	197.0	236.4	408.0	864.6
2010-11	34	420.8	279.0	344.1	453.2	1,218.1
Estimated						
2011-12	38	330.8	328.0	381.2	483.0	1,195.0
2012-13	32	382.6	250.0	293.9	450.5	1,127.0

[1] Payment of at least $25.0 million.
[2] Payment of at least $4.0 million, but less than $25.0 million.
[3] Payment of at least $0.5 million, but less than $4.0 million.
[4] Payment less than $0.5 million. (Small estates include all CARTS less all refunds.)

REAL ESTATE TRANSFER TAX

REAL ESTATE TRANSFER TAX (millions of dollars)	2010-11 Actual	2011-12 Estimated	Change	Percent Change	2012-13 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	580.1	620.0	39.9	6.9	690.0	70.0	11.3
All Funds	580.1	620.0	39.9	6.9	690.0	70.0	11.3

Note: Totals may differ due to rounding.



REAL ESTATE TRANSFER TAX BY FUND (millions of dollars)	Capital Projects Funds[1]	Gross Debt Service Funds[2]	Refunds	Net Debt Service Funds[2]	All Funds Receipts
2002-03	112	336	0	336	448
2003-04	112	399	1	398	510
2004-05	112	618	1	618	730
2005-06	112	827	1	826	938
2006-07	147	876	1	875	1,022
2007-08	212	810	1	809	1,021
2008-09	237	465	1	464	701
2009-10	199	295	1	294	493
2010-11	119	461	0	461	580
Estimated					
2011-12	119	502	1	501	620
2012-13					
Current law	119	572	1	571	690
Proposed law	119	572	1	571	690

[1] Enviornmental Protection Fund.
[2] Clean Water/Clean Air Bond Debt Sevice Fund.

REAL ESTATE TRANSFER TAX

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

Tax Base and Rate

The New York State real estate transfer tax (RETT) is imposed by Article 31 of the Tax Law on each conveyance of real property or interest therein, when the consideration exceeds $500, at a rate of $4 per $1,000 of consideration (price). The tax became effective August 1, 1968. Prior to May 1983, the rate was $1.10 per $1,000 of consideration. Effective July 1, 1989, an additional 1 percent tax was imposed on residential conveyances for which the consideration is $1 million or more.

Administration

Typically, the party conveying the property (grantor) is responsible for payment of the tax, either through the purchase of adhesive documentary stamps, by the use of a metering machine, or through other approaches provided by the Commissioner of Taxation and Finance.

For deeded transfers, the tax is paid to a recording agent (generally the county clerk). For non-deeded transactions, payments are made directly to the Commissioner of Taxation and Finance ("central office" collections). All payments are due to the recording agent within 15 days of the transfer. For counties with more than $1.2 million in liability during the previous calendar year, payments received between the first and fifteenth day of the month are due to the Commissioner by the twenty-fifth day of the same month. Payments received in such counties between the sixteenth and the final day of the month are due to the Commissioner by the tenth day of the following month. Payments from all other counties are due to the Commissioner by the tenth day of the month following their receipt. Although the county payment schedule is statutory, it is not useful for predicting monthly cash flows, due to the unpredictable payment behavior of some large counties.

Tax Expenditures

The tax rate imposed on conveyances into new or existing real estate investment trusts (REITs) is $2 per $1,000 of consideration. New York State (including agencies, instrumentalities, subdivisions, and public corporations), the United States (including agencies and instrumentalities), and the United Nations are exempt. If an exempt entity is the grantor in a transfer, the tax burden falls upon the grantee. Other significant exemptions from the tax are: conveyances pursuant to the Federal bankruptcy act and mere change of identity conveyances. A deduction from taxable consideration is allowed for any lien or encumbrance remaining at the time of sale involving a one-, two-, or three-family house or individual residential condominium unit.

TAX LIABILITY

Real estate transfer tax receipts are a function of the number and type of conveyance and the consideration per conveyance. Conveyances and prices are largely determined by mortgage rates, vacancy rates and inflation. The Manhattan commercial real estate market, which has historically been subject to large swings in demand and capacity, can have a significant impact on receipts.

For a more detailed discussion of the methods and models used to develop estimates and projections for the real estate transfer tax, please see the *Economic, Revenue and Spending Methodologies* at www.budget.ny.gov.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2011-12 Estimates

All Funds collections through December are $488.6 million, an increase of $62.5 million (14.7 percent) above the comparable period in the prior fiscal year.

All Funds receipts for 2011-12 are estimated to be $620 million, an increase of $39.9 million (6.9 percent) above last year.

New York's recent real estate market experience has followed national trends, but in moderation. Home sales, both existing and new, have declined from their peaks; prices declined in many regions, and construction of new homes fell drastically. However, the declines in New York were less extreme than in many other states.

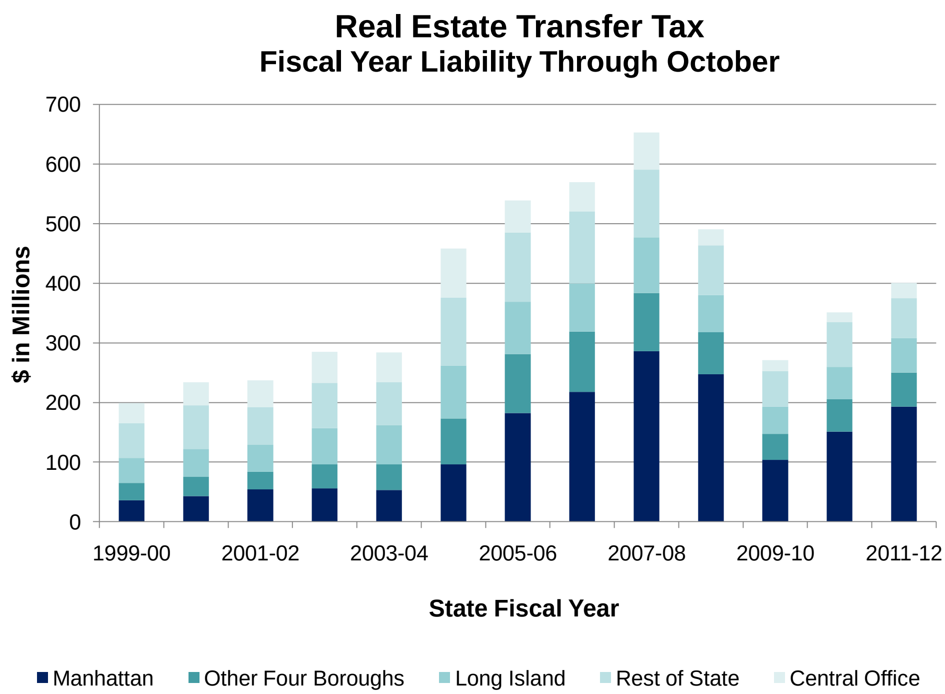
While the number of home sales is beginning to rebound from the bottom of the market, prices are still relatively low in most areas. Low mortgage interest rates are acting as a stimulator while continuing tighter credit standards are working in opposition to restrain growth. The excess supply of houses, as well as an increasing inventory of foreclosures, are also factors holding back a rebound in the housing market. Higher value properties have generally seen a larger price decline than more modestly priced parcels. Regional markets have been mixed with sales prices showing somewhat less volatility than other parts of the country.

New York City residential RETT collections have increased by approximately 28 percent year-over-year through October as the number and value of transactions has increased.

The mansion tax has played an important role in the receipts growth that has characterized recent fiscal years. In 2007-08, the mansion tax share was 31 percent, with total receipts reaching $316 million. Mansion tax proceeds in 2009-10 accounted for 35 percent of total RETT receipts, but mansion tax receipts of $174 million (7,567 transactions) were the lowest in six years. Mansion tax receipts are expected to total $215 million in 2011-12.

The number of real estate transfer tax transactions peaked at over 574,000 in 2005-06. The expected total for 2011-12 is now slightly more than 300,000.

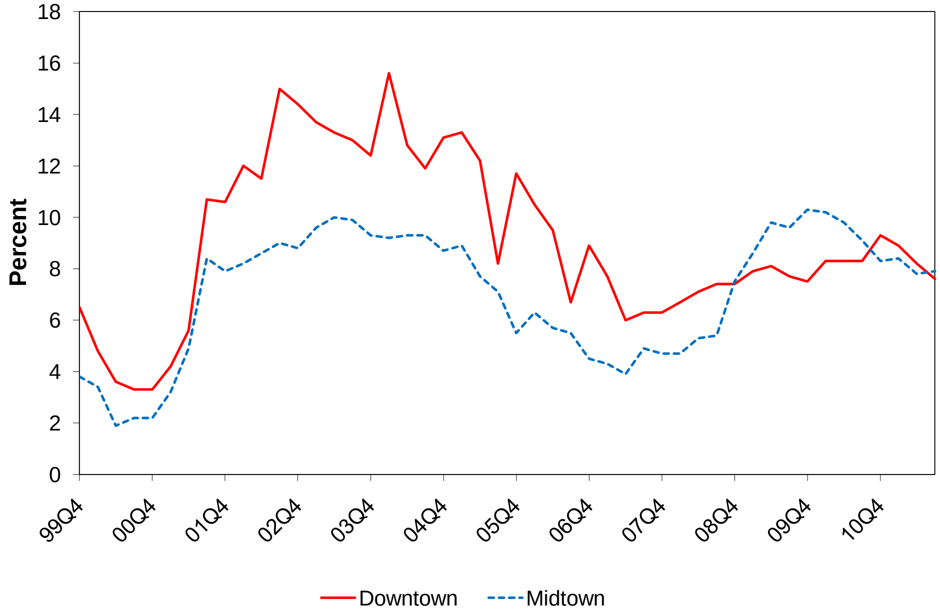
The following chart compares tax liability by location through October since 1999-2000.



Nationally, the number of homes sold to foreign nationals declined following the recession. However, in a resurgence of foreign investment, it is currently estimated that 15 percent of the apartment sales in NYC are to foreigners. New York has historically been a major attraction for foreign investment in commercial property and this has continued due to the weak US dollar and New York's reputation as a good commercial investment.

In New York City, commercial RETT collections and transactions have increased year-over-year, but are still below the peak numbers of 2007. Currently, the Manhattan commercial market faces significant uncertainty as the credit markets adjust to the current situation. Credit availability is being restricted by tight lending standards. Downtown's vacancy rate was 7.6 percent during the third quarter of 2011 compared to 8.3 percent during the same period in 2010. The Midtown rate declined from 9.1 percent to 7.9 percent during the same period.

Vacancy Rates in Manhattan



Source: C.B. Richard Ellis

2012-13 Projections

All Funds receipts are projected to be $690 million, an increase of $70 million (11.3 percent) above 2011-12.

The short term outlook for the housing market is based upon a number of factors, including low interest rates, continued tight credit standards, and health of the financial sector. Average existing home prices are expected to increase modestly in 2012.

An increase in REITs and commercial activity is expected to occur in 2012-13 as investor optimism in New York City real estate increases and prices remain low. The diversifying of industry in NYC is expected to positively impact the commercial market and demand for office space in the coming years.

General Fund

The General Fund will receive no direct deposit of real estate transfer tax receipts in 2011-12 or 2012-13. However, the balance of the Clean Water/Clean Air Fund, not needed for debt service, is transferred to the General Fund.

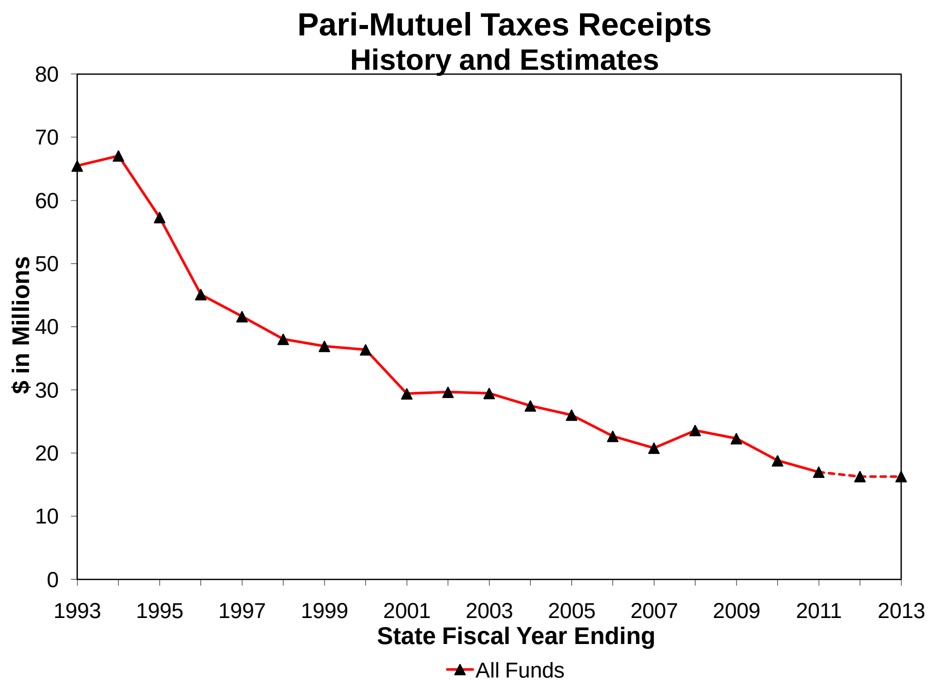
Other Funds

The statutory amount of real estate transfer tax receipts to be deposited in the Environmental Protection Fund will be $119 million for 2011-12 and every year hereafter.

PARI-MUTUEL TAXES

PARI-MUTUEL TAXES (millions of dollars)							
	2010-11 Actual	2011-12 Estimated	Change	Percent Change	2012-13 Projected	Change	Percent Change
General Fund	17.0	16.3	(0.7)	(4.1)	16.3	0.0	0.0
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	17.0	16.3	(0.7)	(4.1)	16.3	0.0	0.0

Note: Totals may differ due to rounding.



PARI-MUTUEL TAXES BY FUND (thousands of dollars)				
	General Fund			All Funds
	Flat	Harness	OTB	Receipts
2002-03	10,559	803	18,094	29,456
2003-04	9,999	796	16,694	27,489
2004-05	9,257	426	16,346	26,029
2005-06	5,736	258	16,673	22,667
2006-07	7,152	450	13,208	20,810
2007-08	8,287	672	14,621	23,580
2008-09	7,602	589	14,110	22,301
2009-10	6,710	669	11,439	18,818
2010-11	7,355	661	9,024	17,040
Estimated				
2011-12	10,200	700	5,400	16,300
2012-13				
Current Law	10,500	700	5,100	16,300
Proposed Law	10,500	700	5,100	16,300

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Extend certain tax rates and authorization for account wagering for a period of one year.
-

DESCRIPTION

Tax Base and Rate

The State has levied taxes on pari-mutuel wagering activity conducted at horse racetracks since 1940. Off-track betting (OTB) parlors were first authorized in 1970 and simulcasting was first authorized in 1984. Each racing association or corporation and Off-track Betting Corporation pays the State a portion of the commission (the "takeout") withheld from wagering pools (the "handle") as a tax for the privilege of conducting pari-mutuel wagering on horse races. There are numerous tax rates imposed on wagering on horse races. The rates vary depending upon the type of racing (thoroughbred or harness), the type of wager (regular, multiple, or exotic) and location at which it is placed (at the track, or off-track through simulcasting or at an Off-track Betting Corporation). The average effective pari-mutuel tax rate was 0.9 percent of the handle in 2010.

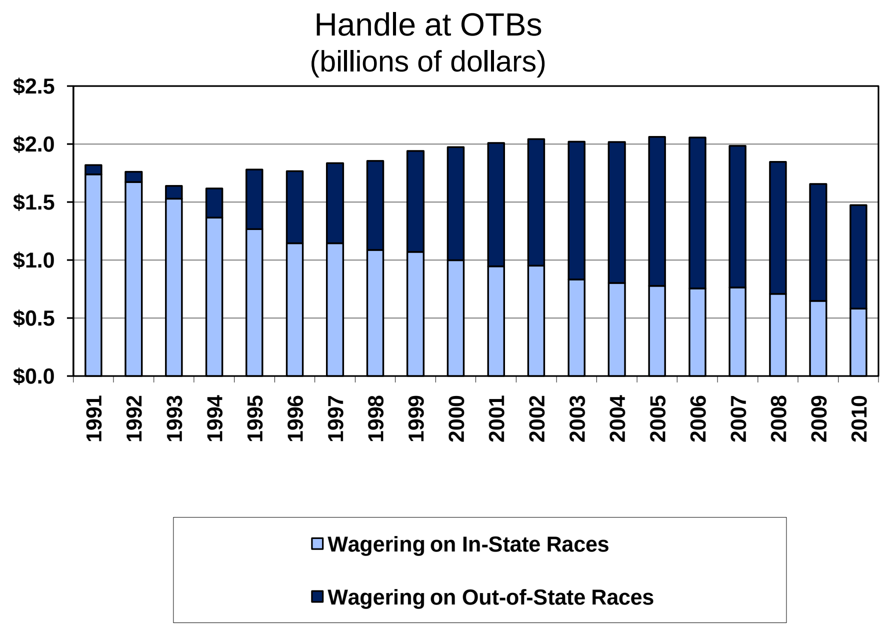
In an effort to support the New York agricultural and breeding industries, a portion of the takeout is allocated to the State's thoroughbred and standard bred (harness) horse breeding and development funds.

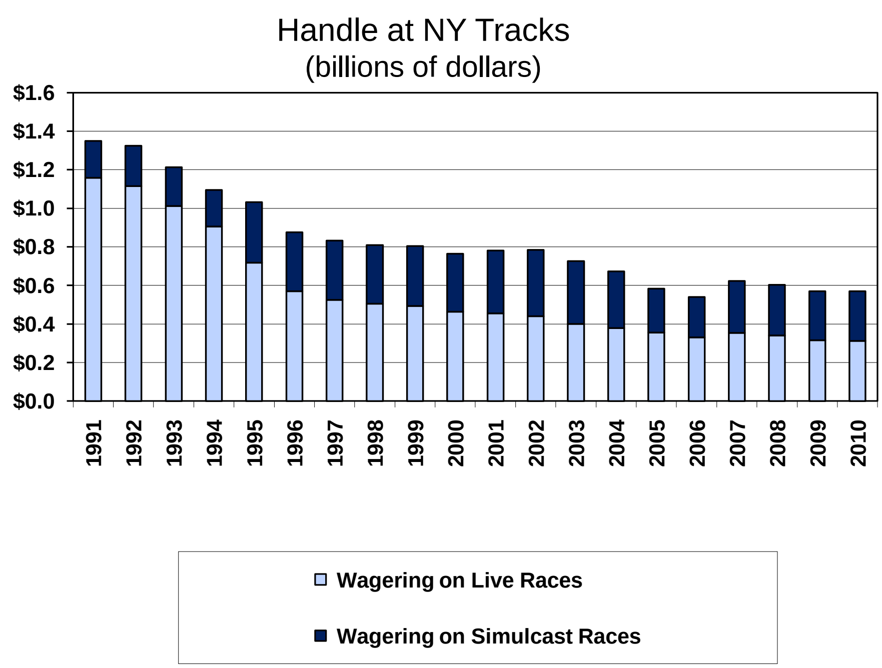
With the increase in OTB activity and simulcasting over the last 20 years, off-track bets now account for 72 percent of the statewide handle. The expansion of OTBs has contributed, in part, to the corresponding decline in handle and attendance at racetracks.

To promote industry growth, the State has authorized higher takeouts to support capital improvements at non-New York Racing Association (NYRA) tracks and, more importantly, reduced its on-track tax rates by as much as 90 percent at thoroughbred and harness tracks, authorized the expansion of simulcasting at racetracks and OTB facilities, allowed in-home simulcasting experiments and telephone betting, lowered the tax rates on simulcast wagering, redirected the State franchise fee on nonprofit racing associations to repay loans from the New York State Thoroughbred Capital Investment Fund, and reduced tax rates on NYRA bets. In 2001, the State authorized the operation of video lottery terminals, at authorized racetracks, and directed a portion of VLT receipts to be used for purse enhancements and for the breeder's funds.

In 2008, the State awarded a 25-year license to operate the Aqueduct, Belmont, and Saratoga Racetracks to the New York Racing Association. Also, in 2008, the State took over operation of the New York City Off-track Betting Corporation.

In December 2010, the New York City Off-track Betting Corporation ceased pari-mutuel wagering operations after the failure to reach an agreement on a restructuring plan to bring the corporation out of bankruptcy.





Administration

The New York State Racing and Wagering Board has general jurisdiction over all horse racing activities and all pari-mutuel betting activities, both on-track and off-track, in the State and over the corporations, associations, and persons engaged in gaming activities. The racetracks and OTBs calculate the pari-mutuel tax owed to the State based upon the handle, then remit the taxes to the Department of Taxation and Finance as prescribed by law.

Significant Legislation

The significant statutory changes to this tax source since 1940 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1940		
Imposed Pari-Mutuel Tax	Authorized pari-mutuel betting and imposed a pari-mutuel tax.	March 31, 1940
Legislation Enacted in 1973		
Off-track Betting	Authorized off-track betting and the creation of regional off-track betting corporations.	July 1, 1973
Legislation Enacted in 1984		
Simulcasting	Authorized the simulcasting of horse racing.	July 1, 1984
Legislation Enacted in 1994		
Expanded Betting	Authorized widespread in-home simulcasting experiments, simulcasts of flat racing bridging the time gap between the end of New York flat racing and the beginning of harness racing, and tripled the number of out-of-State harness track simulcasts.	July 6, 1994
Breakage	Allotted the State's share of all OTB breakage to horse breeding funds.	July 6, 1994
Legislation Enacted in 1995		
Tax Rates	Lowered rate on regular bets (involving one horse) at NYRA from 5 percent to 4 percent and reduced the tax on NYRA wagers at OTBs: from 1.1 percent to 0.5 percent on regular and multiple (involving two horses) bets, and from 3.1 percent to 1.5 percent on exotic (involving three or more) bets.	June 1, 1995
Takeout	Increased the takeout on NYRA wagers involving two horses (multiple bet) from 17 percent to 20 percent, while lowering the takeout on NYRA wagers involving one horse (regular bet) from 17 percent to 15 percent.	June 1, 1995
Legislation Enacted in 1997		
Franchise Fee	Redirected the payment of NYRA franchise fee to repay debts owed to the New York State Thoroughbred Racing Capital Improvement Fund.	January 1, 1998
Legislation Enacted in 1998		
Tax Rates	Established the rate on all simulcast races at 1.5 percent for the initial race of the day and at 1.0 percent for later races, if NYRA is running. If NYRA is not racing, the rate on these races are 1.0 percent and 0.5 percent, respectively.	January 1, 1998
	Extended authorizations for lower tax rates for on-track and off-track bets on NYRA through June 30, 2002.	
Legislation Enacted in 1999		
Tax Rates	Cut the rate on all NYRA bets to 2.6 percent.	September 10, 1999
	Cut the rate on all NYRA bets to 1.6 percent.	April 1, 2001
Legislation Enacted in 2001		
Expanded Simulcasting	Lowered the takeout on NYRA races, decreased the percentage of takeout going to purses, allowed a "pick six" wager, provided two contemporaneous out-of-State simulcast signals during the Saratoga meeting, and provided a third out-of-State contemporaneous simulcast signal during the winter months and provided lower State tax rates for the additional simulcast racing.	June 12, 2001

Subject	Description	Effective Date
Legislation Enacted in 2002		
Extended Expiring Laws	Extended to July 1, 2007, simulcasts for thoroughbred and harness racing, in-home simulcasts, telephone accounts and telephone wagering, simulcasts of out-of-State races, and current tax rates for off-track betting corporations.	June 17, 2002
	Extended the NYRA franchise to December 31, 2012, provided that Aqueduct racetrack commences video lottery gaming on April 1, 2003.	January 28, 2002
Legislation Enacted in 2003		
NYRA Franchise	Extended franchise to December 31, 2013, provided that VLTs are in operation at the Aqueduct raceway on or before March 1, 2004. If NYRA is not able to initiate VLT operation by that date, then the NYRA franchise will expire on December 31, 2007.	January 29, 2003
Regulatory Fee	Instituted a regulatory fee to directly fund the State's regulation of racing, authorized tracks to set their own takeout rates within a narrow range, allowed unlimited simulcasts, and eliminated mandatory fund balances for telephone betting accounts.	May 16, 2003
Legislation Enacted in 2005		
Regulatory Fee	Increased the amount of the fee from 0.39 percent to 0.50 percent of handle.	July 11, 2005
OTB Tax Credit	Allowed a credit equal to 45 percent of the pari-mutuel tax attributable to increased handle at regional off-track betting corporations for races which are conducted at tracks located within the State.	July 1, 2005
Legislation Enacted in 2006		
Rate Reduction	Lowered the tax rate on regular, multiple and exotic bets for wagering on NYRA races at OTBs and wagering on thoroughbred races at simulcast theaters by 0.2 percentage points. The tax rates on all regular, multiple and exotic bets on out-of-state simulcasts placed between April 1, 2006 and March 31, 2007 are lowered by 0.2 percentage points and the distribution from wagers on these races to the thoroughbred breeder's fund is increased by 0.2 percentage points.	April 1, 2006
Legislation Enacted in 2008		
NYRA Franchise	Awarded the New York Racing Association a 25 year franchise to operate the Aqueduct, Belmont, and Saratoga Racetracks.	February 19, 2008
NYC OTB	Provided for the State to take over the operations of New York City's Off-track Betting. Established a task force to study needed changes to the State's OTB structure.	June 17, 2008
Takeout	Increased the takeout on wagering on in-state thoroughbred races by one percentage point.	September 15, 2008
Takeout	Increased the takeout on wagering on out-of-state thoroughbred races by one percentage point.	March 15, 2009
Legislation Enacted in 2009		
Takeout	Repealed the one percentage point increase in takeout on wagering on out-of-state thoroughbred races.	March 13, 2009

TAX LIABILITY

The primary factors that affect pari-mutuel tax liability are: the handle and attendance at racetracks and OTB parlors, the number of simulcasts, and competition from other forms of gambling.

For a more detailed discussion of the methods and models used to develop estimates and projections for the pari-mutuel taxes, please see the *Economic, Revenue and Spending Methodologies* at www.budget.ny.gov.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2011-12 Estimates

All Funds collections through December are $13.6 million, a decrease of $0.3 million (2.2 percent) below the comparable period in the prior fiscal year. All Funds receipts for 2011-12 are estimated to be $16.3 million, a decrease of $0.7 million (4.1 percent) below last year.

Receipts from OTBs are estimated at $5.4 million for 2011-12, a decrease of $3.6 million (40.2 percent) below the prior fiscal year. This decline reflects continued declines in handle during the fiscal year combined with a loss of receipts from NYC OTB, which closed in December 2010. Receipts through December from off-track betting have decreased by $3.3 million to $4.5 million, (42.7 percent) below the comparable period in 2010-11.

Receipts through December from thoroughbred on-track handle, including simulcasts, are $8.6 million, an increase of $3.0 million (54.2 percent) above the same period last year. Receipts for the fiscal year are estimated at $10.2 million, an increase of $2.9 million. This growth in on-track thoroughbred handle reflects a shift in handle from the now closed NYC OTB to NYRA.

Pari-mutuel tax receipts from on-track harness wagering are estimated to be $700,000 in 2011-12, a slight increase from 2010-11.

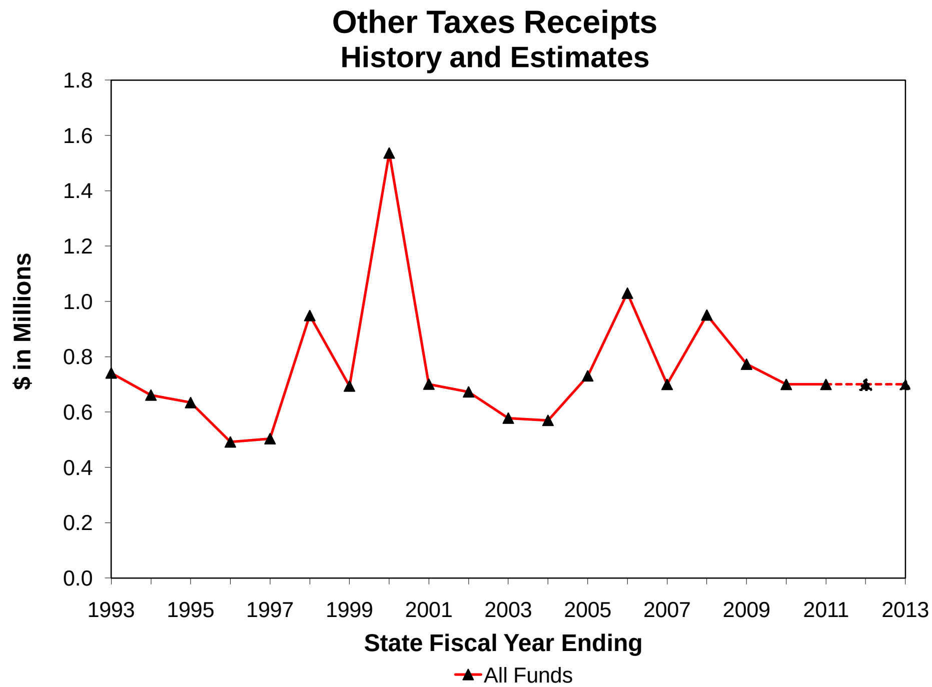
2012-13 Projections

All Funds receipts from Pari-Mutuel taxes are projected to remain at $16.3 million in 2012-13. On-track handle on thoroughbred racing is projected to increase slightly, as the NYRA handle grows. However, this increase is estimated to be offset by continued declines in handle at OTBs. On-track harness handle is expected to remain flat.

OTHER TAXES

OTHER TAXES (millions of dollars)							
	2010-11 Actual	2011-12 Estimated	Change	Percent Change	2012-13 Projected	Change	Percent Change
General Fund	0.7	0.7	0.0	0.0	0.7	0.0	0.0
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	0.7	0.7	0.0	0.0	0.7	0.0	0.0

Note: Totals may differ due to rounding.



OTHER TAXES BY FUND (thousands of dollars)			
	General Fund		All Funds
	Admissions	Exhibitions	Receipts
2002-03	319	259	578
2003-04	344	226	570
2004-05	379	352	731
2005-06	474	556	1,030
2006-07	364	307	671
2007-08	370	581	951
2008-09	369	404	773
2009-10	340	350	690
2010-11	352	361	713
Estimated			
2011-12	360	385	745
2012-13			
Current Law	350	350	700
Proposed Law	350	350	700

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

Tax Base and Rate

Racing Admissions Tax – A tax is levied on the charge for admissions to racetracks and simulcast theaters throughout the State. The increase in simulcasts at off-track betting locations within New York, expanded interstate competition, and the growth of casino activity in close proximity to New York residents have led to declines in total paid attendance at tracks and in receipts from this source. In addition, the introduction of video lottery terminals at tracks has led many facilities to eliminate their admission charges.

Boxing and Wrestling Exhibitions Tax – A tax is levied on gross receipts from boxing and wrestling exhibitions, including receipts from broadcast and motion picture rights. A pay-per-view event with high spectator interest can impact the yield of the tax substantially, causing receipts to vary considerably from year to year.

The racing admissions tax rate is 4 percent of the admissions charge and the boxing and wrestling exhibitions tax rate is 3 percent.

Administration

The Department of Taxation and Finance is responsible for collecting the receipts of the racing admissions tax and the boxing and wrestling exhibitions tax.

Significant Legislation

In 1999, the tax rate on boxing and wrestling exhibitions was reduced from 5.5 percent to 3 percent with a $100,000 cap per exhibition ($50,000 from admissions and $50,000 from broadcast rights).

TAX LIABILITY

The major factor that affects racing admissions tax liability is the number of customers who attend on-track races; this is dependent on factors such as the weather and competition from other types of gambling or non-gambling entertainment.

The wrestling and boxing exhibitions tax can be affected by the importance of the events staged in a given fiscal year and by the degree of competition at other types of entertainment venues.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2011-12 Estimates

All Funds collections through December are $710,701, an increase of $65,941 (10.2 percent) above the comparable period in the prior fiscal year. All Funds receipts for 2011-12 are estimated to be $745,000, an increase of $32,428 from 2010-11.

2012-13 Projections

All Funds receipts are projected to be $700,000, consistent with 2011-12 collections. The number of boxing and wrestling exhibitions in New York State is expected to remain at historic levels. Paid attendance at race tracks is expected to remain at a level consistent with 2011-12 levels.

METROPOLITAN TRANSPORTATION AUTHORITY FINANCIAL ASSISTANCE FUND RECEIPTS

METROPOLITAN FINANCIAL ASSISTANCE FUND RECEIPTS (millions of dollars)	2010-11 Actual	2011-12 Estimated	Change	Percent Change	2012-13 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	1,655.9	1,703.0	47.1	2.8	1,470.0	(233.0)	(13.7)
All Funds	1,655.9	1,703.0	47.1	2.8	1,470.0	(233.0)	(13.7)

Note: Totals may differ due to rounding.

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

Chapter 25, Laws of 2009, created the Metropolitan Transportation Authority Financial Assistance Fund under the joint custody of the Commissioner of Taxation and Finance and the State Comptroller. Monies in this special fund are to be kept separately from and not be commingled with any other monies in the joint or sole custody of the State Comptroller or the Commissioner of Taxation and Finance. The fund contains all monies collected, credited or transferred to it from any other fund, account or source, including the revenues derived from sources imposed by Chapter 25, Laws of 2009. These revenue sources are:

- The metropolitan commuter transportation mobility tax;
- Supplemental motor vehicle fees: a supplemental learner permit/license fee in the MCTD and a supplemental registration fee in the MCTD;
- The supplemental tax on passenger car rentals in the MCTD; and
- The tax on medallion taxicabs in the MCTD.

Revenues generated from the mobility tax are directed to the Mobility Tax Trust Account of the MTA Financial Assistance Fund. Revenues generated from the supplemental motor vehicle fees, supplemental tax on car rentals, and the tax on taxicab rides are directed to the MTA Aid Trust Account of the MTA Financial Assistance Fund.

ALL FUNDS RECEIPTS BY TAX (millions of dollars)	2010-11 Actual	2011-12 Estimated	Change	Percent Change	2012-13 Projected	Change	Percent Change
Mobility Tax	1,359.5	1,396.0	36.5	2.7	1,160.0	(236.0)	(16.9)
Motor Vehicle Fees	180.3	183.0	2.7	1.5	181.0	(2.0)	(1.1)
Passenger Car Rentals Tax	35.0	39.0	4.0	11.4	41.0	2.0	5.1
Taxicab Surcharge	81.1	85.0	3.9	4.8	88.0	3.0	3.5
Total	1,655.9	1,703.0	47.1	2.8	1,470.0	(233.0)	(13.7)

METROPOLITAN COMMUTER TRANSPORTATION MOBILITY TAX

Tax Base and Rate

Article 23 of the Tax Law imposes the metropolitan commuter transportation mobility tax on certain employers and self-employed individuals engaging in business within the Metropolitan Commuter Transportation District (MCTD). The MCTD consists of New York City and the counties of Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk, and Westchester. Article 23 applies to:

- Employers (other than public school districts) beginning on or after March 1, 2009;
- Employers that are public school districts within the MCTD beginning on or after September 1, 2009; and
- Self-employed individuals for tax years beginning on or after January 1, 2009.

The mobility tax is imposed at a rate of 0.34 percent of an employer's payroll expense for all covered employees for each calendar quarter. For individuals with net earnings from self-employment, the tax is 0.34 percent of the net earnings from self-employment allocated to the MCTD for the tax year.

Exemptions: an employer that is an agency or instrumentality of the United States, the United Nations, or an interstate agency or public corporation created under an agreement or compact with another state or Canada is not subject to the mobility tax. (For example, the Port Authority of New York and New Jersey is exempt.) Effective April 1, 2012, all elementary and secondary schools are also exempt.

Credits: no tax credit may be used to reduce the amount of mobility tax due.

No mobility tax is due from employers with a quarterly payroll of $2,500 or less ($312,500 or less effective April 1, 2012); individuals with net earnings from self-employment allocated to the MCTD of $10,000 or less for a tax year ($50,000 or less for tax years beginning January 1, 2012); and the non-wage portion of S corporation member income. Effective April 1, 2012 employers with quarterly payroll greater than $312,500 but no greater than $375,000 will be taxed at a reduced rate of 0.11 percent and employers with a quarterly payroll greater than $375,000 but no greater than $437,500 will be taxed at a reduced rate of 0.23 percent.

Administration

Taxpayers who make electronic withholding tax payments must make their mobility tax payments at the same time. These payments are due within three days of the respective payroll date. Taxpayers who make quarterly withholding payments and those with self employment income must make quarterly payments. These payments are due on the last business day of the month following the end of the calendar quarter in which the taxpayer made the payroll or earned the self employment income (e.g. January 31 for the calendar quarter ending December 31).

Those with self employment income are also required to file an annual reconciliation return by the last business day of the month four months after the close of their fiscal year.

Significant Legislation

Significant statutory changes to the mobility tax since 2011 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 2011		
Tax Rate and Exemption Changes	Expanded the annual tax exemption threshold for self-employment from $10,000 to $50,000 annually.	January 1, 2012
	Exempted all elementary and secondary schools from the tax; exempted employers with quarterly payroll not greater than $312,500; lowered the rate on employers with quarterly payroll greater than $312,500 but no greater than $375,000 to 0.11 percent; and lowered the rate on employers with quarterly payroll greater than $375,000 but no greater than $437,500 to 0.23 percent.	April 1, 2012

2011-12 Estimates and 2012-13 Projections

All Funds collections through December are $960.6 million, an increase of $26 million (2.8 percent) from the comparable period in 2010-11. All Funds receipts for 2011-12 are estimated to be $1,396 million, an increase of $36.5 million (2.7 percent) from 2010-11. Receipts for 2012-13 are projected to be $1,160 million, a decline of $236 million (16.9 percent) from 2011-12. The decline reflects December 2011 legislative changes.

SUPPLEMENTAL TAX ON PASSENGER CAR RENTALS

Effective June 1, 2009, a supplemental tax of 5 percent was imposed on the rental of a passenger vehicle in the MCTD. The tax base and administration of this tax are the same as the State Auto Rental Tax.

2011-12 Estimates and 2012-13 Projections

All Funds collections through December are $31.5 million, an increase of $4.1 million (15.2 percent) from the comparable period in 2010-11. All Funds receipts for 2011-12 are estimated to be $39 million, an increase of $4 million (11.4 percent) from 2010-11. Receipts for 2012-13 are projected to be $41 million, an increase of $2 million (5.1 percent) from 2011-12.

TAX ON MEDALLION TAXICABS IN THE MCTD

Tax Base and Rate

Effective November 1, 2009, a tax of 50 cents was imposed on taxicab rides that originate in New York City and end within the MCTD. On July 1, 2010, the incidence of the tax was statutorily shifted to medallion owners from taxicab vehicle owners. The quarterly period and filing due dates are:

Quarterly period	Due date for filing return
January through March	April 20
April through June	July 20
July through September	October 20
October through December	January 20

2011-12 Estimates and 2012-13 Projections

All Funds collections through December are $65.4 million, an increase of $4.5 million (7.4 percent) from the comparable period in 2010-11. All Fund receipts for 2011-12 are estimated to be $85 million, an increase of $3.9 million (4.8 percent) from 2010-11. Receipts for 2012-13 are projected to be $88 million, an increase of $3 million (3.5 percent) from 2011-12 due to recent legislation authorizing the rollout of 1,500 taxicab medallions.

NEW MOTOR VEHICLE FEES IN THE MCTD

Effective September 1, 2009, there is a supplemental motor vehicle license fee of one dollar per six month interval and a supplemental registration fee of $25 in the MCTD. The timing and administration of these fees are the same as the State fee.

2011-12 Estimates and 2012-13 Projections

All Funds receipts from supplemental motor vehicle fees are estimated to be $183 million in 2011-12, an increase of $2.7 million (1.5 percent) from 2010-11. Receipts in 2012-13 are projected to be $181 million, a decline of $2 million (1.1 percent) from 2011-12.

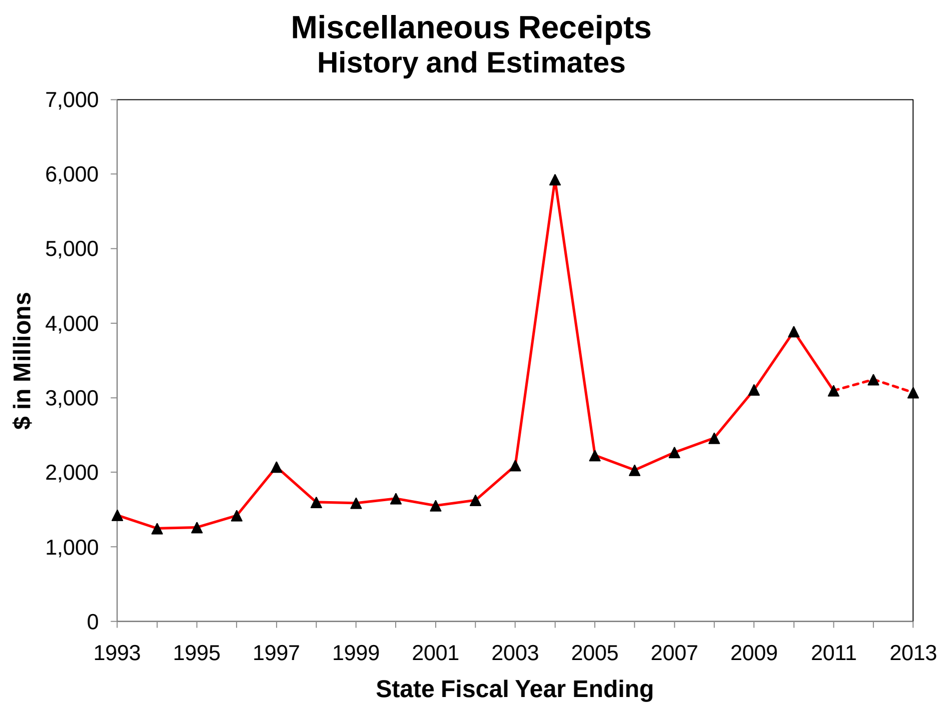
All Funds collections from the supplemental motor vehicle license fee through December are $20 million, an increase of $3.5 million (21.2 percent) from the comparable period in 2010-11. All Funds receipts for 2011-12 are estimated to be $26 million. Receipts for 2012-13 are projected to be $24 million annually.

All Funds collections from the supplemental registration fee through December are $123.8 million, a decrease of $0.7 million (0.6 percent) from the comparable period in 2010-11. All Funds receipts for 2011-12 and 2012-13 are estimated to be $157 million.

MISCELLANEOUS RECEIPTS
GENERAL FUND

MISCELLANEOUS RECEIPTS - GENERAL FUND (millions of dollars)							
	2010-11 Actual	2011-12 Estimated	Change	Percent Change	2012-13 Projected	Change	Percent Change
General Fund	3,095.2	3,243.8	148.6	4.8	3,069.3	(174.5)	(5.4)

Note: Totals may differ due to rounding.



MISCELLANEOUS RECEIPTS - GENERAL FUND (millions of dollars)					
	2008-09	2009-10	2010-11	2011-12 Estimated	2012-13 Projected
Licenses, Fees, Etc.	561.7	709.9	677.4	619.5	660.6
Abandoned Property	698.1	608.1	645.4	755.0	785.0
Reimbursements	253.5	323.1	270.3	222.0	202.0
Investment Income	104.2	14.0	5.7	10.0	10.0
ABC License Fees	43.7	49.0	47.9	55.0	51.0
Motor Vehicle Fees	(42.0)	15.2	33.8	112.0	99.0
Other Transactions	1,487.5	2,168.6	1,414.7	1,470.3	1,261.7
Total	3,106.7	3,887.9	3,095.2	3,243.8	3,069.3

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Transfer $913,000 from NYSERDA (off-budget) to the general fund to help offset New York State's debt service requirements relating to a nuclear waste site that NYSERDA owns and manages;
- Create a new fee to support the electronic death registry;
- Shift commercial feed licensing receipts to General Fun miscellaneous receipts; and
- Shift consumer food receipts to General Fund miscellaneous receipts.

DESCRIPTION

Miscellaneous receipts cover a broad range of unrelated revenue sources with significant recurring income derived from abandoned property, investment earnings, fees, licenses, fines, and various reimbursements to the State's General Fund. Each year, the reported receipts may be significantly impacted by various nonrecurring transactions.

Significant Legislation

The significant statutory changes since 1994 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1994		
Assessments	Extended for one year the assessments on health facility providers.	April 1, 1994
Mandatory Surcharges	Extended for two years the mandatory surcharges pertaining largely to standing or moving violations of the Vehicle and Traffic Law.	October 31, 1994
Legislation Enacted in 1995		
Assessments	Extended for one year the assessments on health facility providers.	April 1, 1995
Love Canal Claims	Provided for the deposit into the General Fund of moneys received from settlement of Love Canal claims.	April 1, 1995
Power Authority of NY	Provided for the one-time payment to the General Fund of $15.9 million in lieu of annual payments.	April 1, 1995
Legislation Enacted in 1996		
Assessments	Extended for one year the current assessments on health facility providers and imposed new assessments.	April 1, 1996
Power Authority, MMIA, Workers Compensation	Provided for the deposit into the General Fund of moneys from these entities, respectively: $50 million, $481 million, and $97 million.	April 1, 1996
Fees and Fines	Moved into the General Fund receipts previously deposited into various special revenue accounts.	August 31, 1996
Legislation Enacted in 1997		
Assessments	Provided for the collection of assessments for prior years from certain health facilities.	January 1, 1995
	Initiated a phase-out of the assessments on private health facility providers.	April 1, 1997

Subject	Description	Effective Date
Mandatory Surcharges	Extended for two years the mandatory surcharges pertaining largely to standing or moving violations of the Vehicle and Traffic Law.	October 31, 1997
Alcohol Beverage Control License Fees	Changed the required purchase of a triennial alcohol beverage license to allow licensees to continue to purchase a triennial license or optionally purchase an annual or biennial license at a prorated cost.	December 1, 1998
Legislation Enacted in 1998		
Assessments	Accelerated the phase-out of assessments on private health facility providers.	April 1, 1998
Legislation Enacted in 1999		
Assessments	Further accelerated the phase-out of assessments on private health facility providers.	April 1, 1999
Mandatory Surcharges	Extended for two years the mandatory surcharges pertaining largely to standing or moving violations of the Vehicle and Traffic Law.	October 31, 1999
Legislation Enacted in 2000		
Assessments	Provided amnesty on interest and penalties for private health facilities that paid any outstanding assessments by March 31, 2001.	April 1, 2000
Legislation Enacted in 2001		
Mandatory Surcharges	Extended for two years the mandatory surcharges pertaining largely to standing or moving violations of the Vehicle and Traffic Law.	October 31, 2001
Legislation Enacted in 2002		
Supplemental Wireless Service Surcharge	Increased from $0.70 to $1.20 monthly the State wireless communication service surcharge.	August 1, 2002
Alcohol Beverage Control License Fees	Increased alcohol beverage license fees for most licensees by 28 percent.	September 1, 2002
Legislation Enacted in 2003		
Abandoned Property	Reduced the time period for collecting abandoned property related to the demutualization of insurance companies, from five years to two.	January 1, 2003
Assessments	Increased cost recovery assessments' cap from $20 million to $40 million.	April 1, 2003
Criminal Fines	Increased criminal fines deposited into the Justice Court Fund from between $100 and $1,500 to $150 and $2,250.	April 1, 2003
Lobbyist Fee	Increased annual lobbyist registration fees to $100 in 2004 and $200 in 2005.	April 1, 2003
Uncashed Checks	Reduced the dormancy period of uncashed checks from three years to one year.	April 1, 2003
Background Checks	Required holders of HAZMAT license endorsement to undergo criminal background check for a fee of $75.	May 15, 2003
Sex Offender Fee	Required sex offenders to pay a DNA databank fee of $50, a sex offender registration fee of $50, and a sex offender registration change fee of $10.	May 15, 2003
Data Search Fee	Increased data search fee by $1.	July 1, 2003
Court Motion Fees	Imposed a $45 motion fee on Supreme/County and Appellate Courts, a stipulation of Discontinuance Fee of $35 and increased all Civil Court Fees by 25 percent.	July 14, 2003
Oil and Gas Depth Fees	Increased Oil and Gas Depth fees by 50 percent.	August 1, 2003
Penal Bonds	Increased fee on penal bonds from $1,000 to $2,500.	October 1, 2003
DWI or DWAI Surcharge	Imposed a $25 surcharge on DWI or DWAI convictions.	November 12, 2003
Parking Surcharges	Increased parking ticket surcharges to provide relief to the General Fund and Big 6 cities from $5 to $15.	November 12, 2003

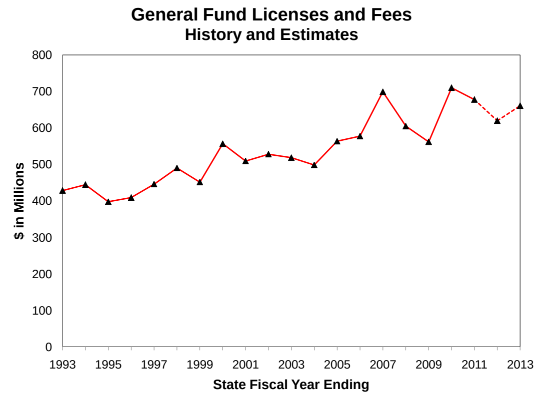
MISCELLANEOUS RECEIPTS – GENERAL FUND

Subject	Description	Effective Date
Legislation Enacted in 2004		
Filing Fees	Increased Filing Fees for Alcoholic Beverage Control License applications.	April 1, 2004
Local Prosecution Program	Imposed various fees related to the Vehicle and Traffic Local Prosecution Program.	August 20, 2004
Driver Responsibility	Created the Driver Responsibility Program with fees of $100 and $250.	August 20, 2004
Federal Bed Contracts	Imposed State Correctional Facility Bed Rental Fee of $30,000 per year to the Federal Government.	April 1, 2004
Waste Tire Fee	Extended the current Waste Tire Fee of $2.50.	October 20, 2004
Stormwater Fees	Increased Stormwater Fees from $50 to $50-$350.	April 1, 2004
Snowmobile Fee	Increased Snowmobile Fee from $5 to $10.	August 20, 2004
Alcohol Beverage Control License Fees	Allowed liquor stores to open seven days per week.	August 20, 2004
Legislation Enacted in 2005		
Food Inspection Violations	Imposed a fine of $300 for the first food inspection violation.	January 1, 2005
Agent License Fee	Increased insurance agent license fee from $20 to $40.	April 1, 2005
Service of Process Fee	Increased service of process fee from $20 to $40.	April 1, 2005
Reinsurance License Fee	Increased reinsurance license fee from $100 to $500.	April 1, 2005
Alcohol Beverage Control License Fees	Allowed the direct shipment of wine to individual consumers in New York State.	August 11, 2005
Legislation Enacted in 2006		
Abandoned Property	Reduced the dormancy period on uncashed checks from five years to three years and added foreign securities as abandoned property.	April 1, 2006
Banking Fines and Penalties	Reorganized the fee and fine structure of the Banking Department, including eliminating all annual license fees, increasing and simplifying application fees to match the Department’s work processes, and raising fine levels to encourage industry compliance.	April 1, 2006
Point Insurance Reduction	Allowed drivers to reduce points on their license via internet defensive driving courses for a fee of $8 for students and $7,500 for insurance providers.	April 16, 2006
Driver Responsibility Program	Dedicated the remaining funds from the Driver Responsibility Program to the Dedicated Highway and Bridge Trust Fund.	April 1, 2006
ATV Registration Fee	Repealed the $15 ATV train maintenance portion of the fee while maintaining the basic ATV registration fee of $10.	April 1, 2006
Legislation Enacted in 2007		
Alcohol Beverage Control License Fees	Allowed auctions of distilled spirits and licensing of auctioneers.	October 15, 2007
Legislation Enacted in 2008		
Vendor Service Fee	Created a vendor service fee to capture a portion of the benefit of centralized contracting and low prices leveraged through state aggregate purchases.	April 1, 2008
Legislation Enacted in 2009		
DMV Surcharge Caps	Removed the cap on surcharges for DMV fines and penalties.	April 1, 2009
License Termination Fees	Increased the driver’s license termination fees.	April 1, 2009
Real Property Transfer Fee	Increased the real property transfer fee from $75 to $125 for residential properties, from $165 to $250 for commercial properties, and from $50 to $100 for co-ops.	April 1, 2009
18-A Utility Assessment	Increased the 18-A utility assessment.	April 1, 2009
Asbestos Project Notification Fees	Increased the notification fee for asbestos projects from $1,000 to $2,000.	April 1, 2009

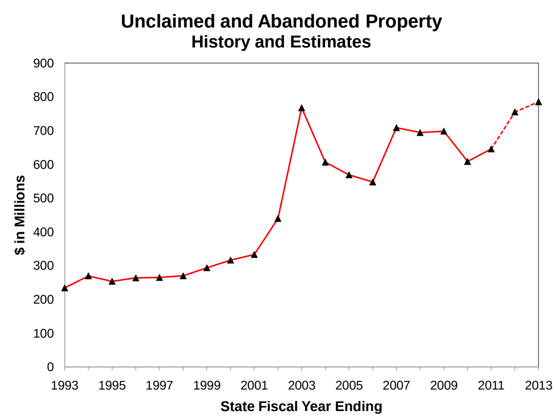
Subject	Description	Effective Date
Bottle Bill	Expanded the 5 cent minimum bottle deposit to water bottles, increased the handling fee to 3.5 cents, and allowed the state to collect 80 percent of unclaimed deposits.	October 31, 2009
Legislation Enacted in 2010		
Abandoned Property	Reduced dormancy periods on undelivered goods from five to three years, and on money orders from seven to five years.	August 3, 2010
Judiciary	Increased various civil court filing fees.	July 1, 2010
Legislation Enacted in 2011		
Abandoned Property	Reduced dormancy periods on various abandoned property items from 5 or 6 years to 3 years.	March 31, 2011

Components of Miscellaneous Receipts

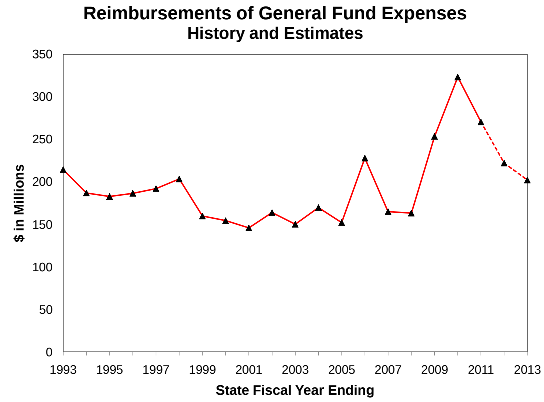
Historically, General Fund license and fee revenues have grown modestly and fairly consistently, aside from minimal peaks and troughs associated with law changes. In 2011-12, revenues are expected to decline from the prior year. In 2012-13, these revenues are projected to increase slightly from 2011-12.



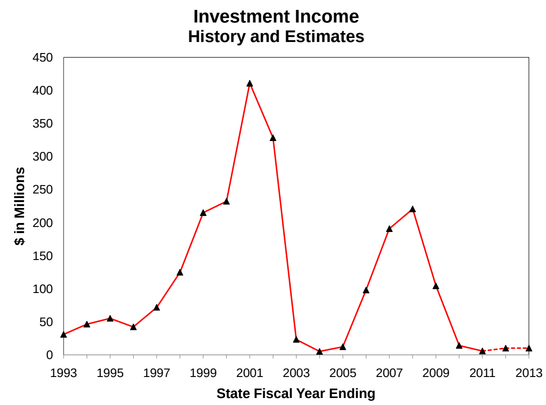
Historically, unclaimed and abandoned property revenue has remained relatively stable with minimal growth, aside from spikes in 2002-03 and 2003-04 resulting from a large amount of abandoned property released to the State of New York by the Office of the State Comptroller. This property was associated with the sale of stocks as well as a reduction in the dormancy period of uncashed checks. Unclaimed and abandoned property revenue is expected to increase in the forecast period as a result of recently enacted legislation to reduce several dormancy periods.



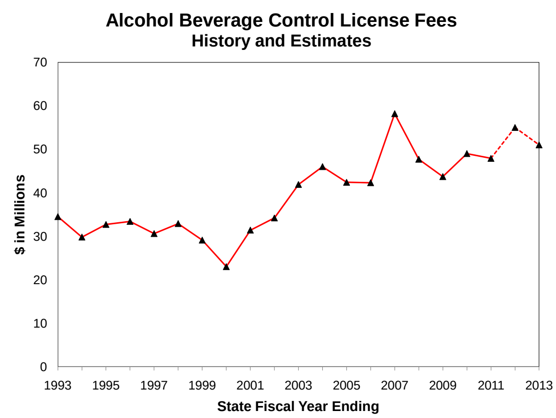
Historically, reimbursements of General Fund expenses and revenue advances have remained relatively constant with 2009-10 and 2010-11 being exceptions. Over the forecast period receipts are expected to return to historical trends. In 2006, a portion of General Fund Federal Grants was reclassified to this category of General Fund Miscellaneous Receipts. For more information on this reclassification, please see the Federal Grants section of this volume.



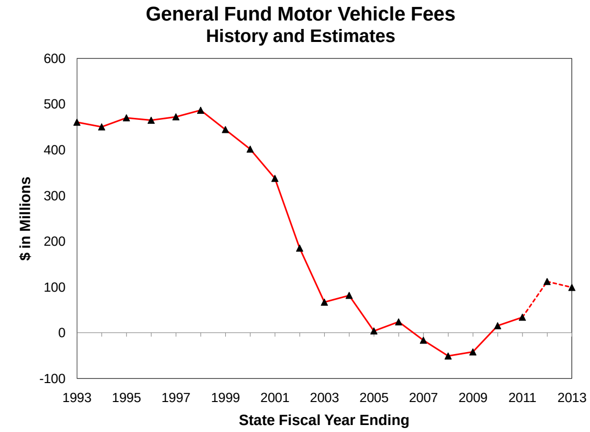
The trends in investment income are directly related to General Fund account balances and interest rates. For example, the large increase in 2000-01 followed by the severe drop in 2002-03 was a result of the impact of economic growth and subsequent recession on State finances; balances declined and interest rates declined sharply. The forecast for investment income is expected to remain very low as both General Fund account balances and interest rates are expected to remain low.



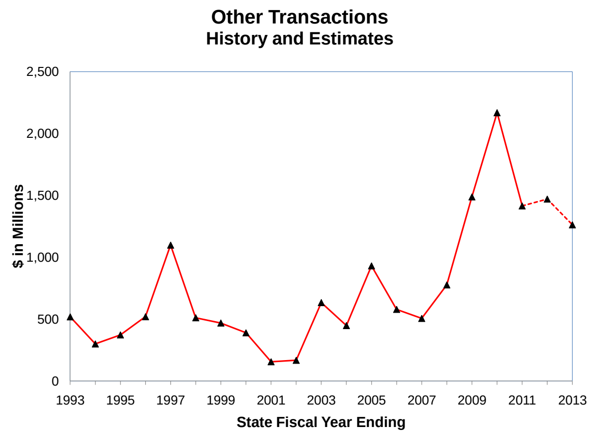
Historically, the number of alcoholic beverage control licenses has remained relatively constant. However, changes in license fees and length of licenses have caused variation in receipts. Effective April 1, 1998, all proceeds from alcoholic beverage control license fees are deposited in the General Fund. An accounting error uncovered in 2006-07 revealed that internet renewals hadn't been deposited properly. This caused a one-time payment of $13 million in 2006-07. These revenues are projected to remain fairly constant over the forecast period.



In 2004-05, almost all of motor vehicle fee revenue was redirected from the General Fund to Dedicated Transportation Funds. Since 2006, of the amount of otherwise non-dedicated motor vehicle fees, $169.4 million is deposited in these Dedicated Funds. Surplus monies remain in the General Fund while the General Fund has to cover any shortfall.



Other transactions, excluding tobacco securitization proceeds (which are not included in the accompanying graph), are an unrelated grouping of transactions and payments, which do not fall under the other miscellaneous receipts categories. Differences in collections year-to-year are the result of large, unusual payments to the State of New York, including: bond issuance charges; a supplemental wireless surcharge; SONYMA, and timing-of-payments pursuant to Section 18a of Public Service Law.



2011-12 ESTIMATES

Miscellaneous receipts are estimated to be $3,244 million for fiscal year 2011-12. Miscellaneous receipts are estimated to increase $149 million from the prior year. The estimate includes: $755 million in unclaimed and abandoned property; $521 million in receipts from the 18-A utility assessment; $620 million in fees, licenses, fines, royalties, and rents; $222 million in reimbursements; $194 million in medical provider assessments; $168 million from Monroe County's Medicaid sales tax intercept payments; $106 million in payments from the New York Power Authority, a portion of which offsets revenue losses resulting from the "Power for Jobs" program; $115 million in Bottle Bill proceeds; $107 million in additional bond issuance charges; $85 million from the supplemental wireless surcharge; $82 in atypical fines and civil recoveries; $55 million in receipts from alcohol beverage control license fees; $112 million in receipts from motor vehicle fees; $30 million from shifting Office of Real Property Services funds to the General Fund; $50 million from Public Authority Resources; $10 million in interest earnings on short-term investments and bank accounts (this amount is net of certain expenses incurred in providing banking services to various State agencies); $7 million from Fund Enterprise Shared Services; $4 million from the Housing Finance Agency; and $1 million from the New York State Energy Research and Development Agency.

2012-13 PROJECTIONS

Miscellaneous receipts are projected to be $3,069 million in fiscal year 2012-13, a decrease of $175 million from 2011-12. The 2012-13 projection includes: $785 million in unclaimed and abandoned property; $521 million in receipts from the 18-A utility assessment; $661 million in fees, licenses, fines, royalties, and rents; $202 million in reimbursements; $194 million in medical provider assessments; $171 million from Monroe County's Medicaid sales tax intercept payments; $115 million in Bottle Bill proceeds; $99 million in receipts from motor vehicle fees; $110 million in additional bond issuance charges; $15 million in payments from the New York Power Authority, a portion of which offsets revenue losses resulting from the "Power of Jobs" program; $86 million from the supplemental wireless surcharge; $51 million in receipts from alcohol beverage control license fees; $30 million from shifting Office of Real Property Services funds to the General Fund; $10 million in interest earnings on short-term investments and bank accounts (this amount is net of certain expenses incurred in providing banking services to various State agencies); $14 million in atypical fines and civil recoveries; and $4 million from the Housing Finance Agency; and $1 million from the New York State Energy Research and Development Agency.

MISCELLANEOUS RECEIPTS
SPECIAL REVENUE FUNDS

MISCELLANEOUS RECEIPTS - SPECIAL REVENUE FUNDS
(millions of dollars)

	2010-11 Actual	2011-12 Estimated	Change	Percent Change	2012-13 Projected	Change	Percent Change
State Fund	15,154	15,147	(7)	(2.7)	15,954	807	11.7
Federal Funds	152	132	(20)	(46.5)	131	(1)	1.9
All Funds	15,306	15,279	(27)	(3.3)	16,085	806	11.6

Miscellaneous receipts deposited to special revenue funds represent approximately 25 percent of total special revenue receipts, excluding transfers from other funds. These receipts include SUNY tuition and patient income, lottery receipts for education, health care surcharges, assessments, and conversion proceeds used to finance Health Care Reform Act (HCRA) programs, assessments on regulated industries, and a variety of fees and licenses, all of which are dedicated to support specific programs. The following table summarizes miscellaneous receipts for 2010-11 through projected 2012-13.

MISCELLANEOUS RECEIPTS - SPECIAL REVENUE FUNDS
(millions of dollars)

		Estimated	
	2010-11	2011-12	2012-13
HCRA	4,150	4,170	4,807
State University Income	3,275	3,768	4,059
Lottery	3,206	2,934	3,185
Medicaid	739	870	831
Industry Assessments	890	753	766
Motor Vehicle Fees	415	486	482
All Other	2,631	2,298	1,955
Total	15,306	15,279	16,085

HCRA FINANCING

HCRA receipts include recurring surcharges and assessments on hospital revenues, physician procedures, a “covered lives” assessment paid by insurance carriers, a portion of cigarette tax revenues, and other revenues dedicated by statute, as well as proceeds from insurance company conversions. These resources help finance the State’s Medicaid program, Family Health Plus, workforce recruitment and retention, the Elderly Pharmaceutical Insurance Coverage Program (EPIC), Child Health Plus (CHP), Graduate Medical Education, AIDS programs, disproportionate share payments to hospitals and other various public health initiatives. The 2005-06 Enacted Budget created a new HCRA Resources Fund that includes all HCRA financed programs including those that were previously excluded from the State’s Financial Plan.

MEDICAID

In addition to the General Fund, State Medicaid costs are financed by various Special Revenue Funds which include the HCRA Resources Fund (described above) and the Provider Assessments Fund discussed in more detail below.

Provider Assessments

The Provider Assessments Fund is currently supported by a partially-reimbursable 5.5 percent assessment, 9 percent on nursing home revenues and a 0.75 percent assessment on hospital and home care revenues.

STATE UNIVERSITY INCOME

The majority of special revenue receipts that support SUNY's operations are provided by tuition, patient revenue, and user fees. SUNY's three teaching hospitals at Brooklyn, Stony Brook and Syracuse, as well as the Long Island Veterans' Home, receive patient revenue from third-party payers including Medicare, Medicaid, insurance companies, and individuals. User fees, which include fees for food, parking, career placement and recreation, are generated from service users; includes students, faculty, staff, and the public. Other receipts primarily include interest earnings and fringe benefit recoveries from SUNY's other special revenue accounts.

LOTTERY

Receipts from the sale of lottery tickets and proceeds from Video Lottery Terminals (VLT) at racetracks are used to support public education, as well as administrative costs associated with Lottery operations. The Lottery is discussed in detail in a separate section.

MOTOR VEHICLE FEES

Motor vehicle fees are imposed by the Vehicle and Traffic Law. In general, motor vehicles, motorcycles, trailers, semi-trailers, buses, and other types of vehicles operating in New York are required to be registered with the Department of Motor Vehicles. Numerous other fees, related to the processes of registration or licensing, are also components of motor vehicle fees. Examples are: fees for inspection and emission stickers; repair shop certificates; and insurance civil penalties. Motor Vehicle Fees are discussed in more detail is a separate section.

INDUSTRY ASSESSMENTS/ALL OTHER

All Other
Components of Miscellaneous Receipts
(millions of dollars)

	Estimated	
	2011-12	**2012-13**
Health	301	175
Environmental Conservation	206	201
Tribal State Compact	126	129
State Police	178	182
HESC	104	108
Education	121	124
CUNY	152	163
Children and Family Services	128	165
Homeland Security	125	126
All Other	857	582
Total Miscellaneous Receipts	**2,298**	**1,955**

The remaining revenues in this category include fees, licenses, and assessments collected by State agencies, primarily to support all or specific components of their operations. Receipts from assessments primarily reflect reimbursements from regulated industries, which fund the administrative costs of State agencies charged with their oversight. State agencies funded entirely from assessments include the Department of Financial Regulation, the Public Service Commission, and the Workers' Compensation Board.

In addition to agency industry assessments, various fines and fees are collected to support agency operations and programs. The major sources of miscellaneous receipts by agency are detailed below.

- Health receipts include reimbursement for patient care provided at the Department's health care facilities, regulatory fees, audit recoveries, and registration, testing and certification fees for various public health services.

- Environmental Conservation fees include vehicle emission inspection fees and fees on regulated pollutants, sporting license fees, revenues from the sale of forest products, and recreational user fees.

- Tribal State Compact receipts consist of all revenues resulting from tribal state compacts executed pursuant to Executive Law.

- State Police miscellaneous revenue sources include seized assets, a portion of the State's monthly surcharge on cellular telephone bills, fees for accident reports and an annual fee on insurance policies of all registered motor vehicles.

- HESC receipts include administrative fees paid by the Federal government and collections on defaulted loans.

- Education miscellaneous revenue sources include professional licensing fees and disciplinary fines, teacher certification fees and filing fees on certain documents filed in county clerks' offices.

- CUNY miscellaneous receipts include income derived from excess tuition revenue and collections from self-supporting activities such as application fees, continuing education, and dormitory fees.

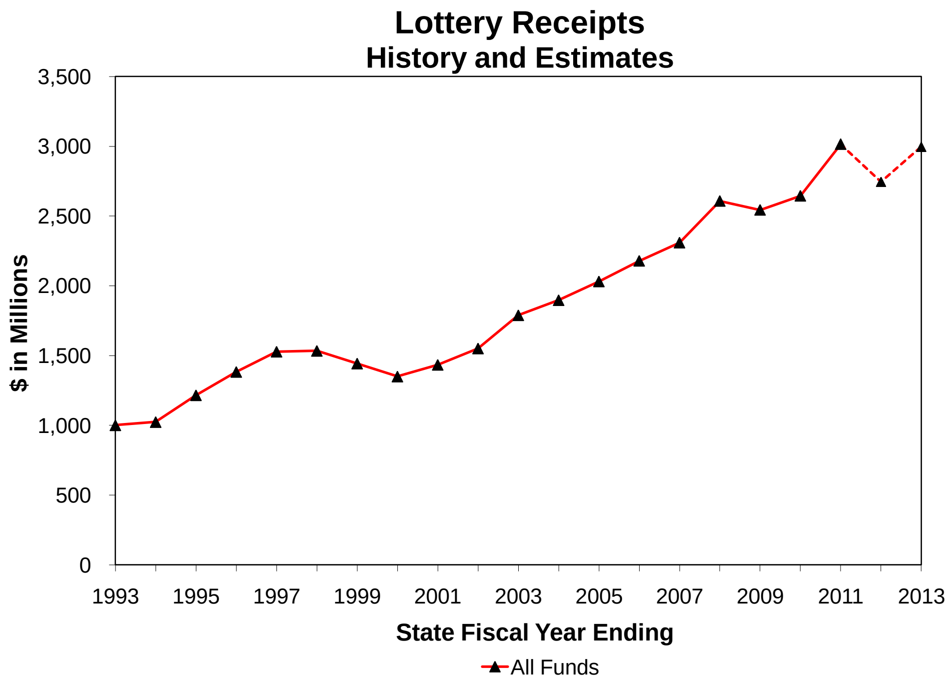
- Children and Family Services miscellaneous receipts primarily consist of reimbursements from social services districts for their youth in OCFS facilities made pursuant to Executive Law.

- Homeland Security and Emergency Services miscellaneous receipts consist of wireless telephone surcharge revenues collected by telephone companies pursuant to Tax Law.

LOTTERY

MISCELLANEOUS RECEIPTS - LOTTERY (millions of dollars)							
	2010-11 Actual	2011-12 Estimated	Change	Percent Change	2012-13 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	3,014.8	2,746.0	(268.8)	(8.9)	2,997.0	251.0	9.1
All Funds	3,014.8	2,746.0	(268.8)	(8.9)	2,997.0	251.0	9.1

Note: Totals may differ due to rounding.



LOTTERY RECEIPTS BY COMPONENT (millions of dollars)														
	Instant Games	Numbers	Win 4	Lotto	Pick 10	Take 5	Quick Draw	Mega Millions	Power Ball	Sweet Million	Other*	VLTs	Admin. Surplus**	Total Receipts
2002-03	465.7	267.3	205.3	175.7	11.9	133.5	118.6	129.0			0.0		281.9	1,789.0
2003-04	529.0	271.9	213.1	163.4	12.1	128.9	127.1	166.6			0.0	12.6	272.3	1,897.1
2004-05	550.0	278.5	220.0	137.5	11.8	121.3	118.0	156.3			0.0	141.2	296.0	2,030.7
2005-06	594.9	288.9	231.4	113.7	11.4	116.9	114.7	194.4			9.5	161.7	341.8	2,179.4
2006-07	664.2	298.8	245.6	95.9	11.1	114.1	110.8	160.6			11.9	269.7	326.5	2,309.2
2007-08	665.4	298.7	250.6	94.6	11.2	111.5	110.7	167.3			8.0	490.8	398.9	2,607.7
2008-09	690.8	296.8	257.7	79.5	11.2	114.7	105.7	164.4			3.8	434.9	384.5	2,544.0
2009-10	665.9	300.8	272.7	81.0	11.5	109.4	105.2	198.1	12.1	15.9	0.0	492.5	379.6	2,644.7
2010-11	636.6	297.8	270.8	59.5	10.6	98.8	105.3	162.3	70.4	20.1	0.0	906.6	376.0	3,014.8
Estimated														
2011-12	615.0	305.0	280.0	54.0	11.0	98.0	121.0	119.0	89.0	16.0	0.0	674.0	364.0	2,746.0
2012-13														
Current Law	639.0	314.0	293.0	52.0	11.0	98.0	119.0	148.0	123.0	14.0	0.0	821.0	365.0	2,997.0
Proposed Law	639.0	314.0	293.0	52.0	11.0	98.0	119.0	148.0	123.0	14.0	0.0	821.0	365.0	2,997.0

** Other includes: Millennium Millions (1999-2000 and 2000-01), King Kong (2005-06) and Raffle games (2006-07, 2007-08, 2008-09 and 2009-10).*
*** Any unused portion of Lottery's administrative allowance and other miscellaneous income used for aid to education.*

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

The Lottery Division, as an independent agency within the Department of Taxation and Finance, manages the operation and sales of the State's Lottery games. The Lottery Division is authorized to operate five types of games:

- Instant games, sold as scratch-off tickets in which most prizes are won immediately (approximately 45 games are currently being offered for sale with prices ranging from $1 to $30);

- Lotto games, which are games offering large pari-mutuel top prizes, with drawings conducted 15 times weekly: seven 5-of-39 draws (Take-5), two 6-of-59 draws (Lotto), two 6-of-40 draws (Sweet Million), and four multi-jurisdictional drawings (Mega Millions and Powerball). For the Lotto, Mega Millions and Powerball games, the value of any top prize not won is added to the top prize in the subsequent drawing;

- Daily numbers games, which are fixed payout games with twice daily drawings where players select either a three-digit number (Daily Numbers), or a four-digit number (Win 4). Instant Win and Lucky Sum are offered as add-on games to Daily Numbers and Win 4;

- Keno-like games, which offer prizes that are of a fixed amount with drawings conducted either daily (Pick 10) or every few minutes (Quick Draw). The Lottery Division currently pays base top prizes of $500,000 in Pick 10 and $100,000 in Quick Draw; and

- Video lottery games, which are lottery games played on Video Lottery Terminals (VLTs), which are authorized only at selected thoroughbred and harness tracks.

The Division of the Lottery periodically offers short-run promotional lottery games. In 1999-2000 and 2000-01, the Lottery Division operated the Millennium Millions game. In 2005-06, the Lottery offered a King Kong promotional game in conjunction with the release of the King Kong movie. The Raffle to Riches game was held in 2006-07 and again in 2007-08. The Lottery conducted the Turkey Raffle in November of 2008.

The table below shows the statutory distribution of lottery sales among prizes, revenue for education and the allowance for expenses related to administration of the games. Any unused administration revenue is earmarked for education.

DISTRIBUTION OF LOTTERY SALES (Percent)			
	Prizes	Education	Admin. Allowance
Lotto	40	45	15
Sweet Million	40	45	15
Mega Millions*	55	30	15
Power Ball*	55	30	15
Numbers	50	35	15
Win 4	50	35	15
Take 5	50	35	15
Pick 10	50	35	15
Quick Draw	60	25	15
Instant	65	20	15
Five Instant Games at 75%	75	10	15

* Mega Million and Power Ball currently offer a 50% prize payout.

FREQUENCY OF LOTTERY DRAWINGS		
Game	Date of Inception	Frequency of Drawings
Lotto	1976	Wednesday and Saturday at 11:21 PM
Numbers	1980	Twice Daily
Win 4	1981	Twice Daily
Pick 10	1988	Once Daily
Take 5	1992	Once Daily
Quick Draw	1995	Every four minutes
Mega Millions	2002	Tuesday and Friday at 11:00 PM
Sweet Million	2009	Monday and Thursday at 9:30 PM
Power Ball	2010	Wednesday and Saturday at 10:59 PM

The following table shows the current distributions of VLT receipts (after prizes) among revenue for education, administration, operator commission, and funds available for promotions and capital. Distributions to purses and breeders funds are made from the operator's commissions, and are not separately shown.

DISTRIBUTION OF VLT RECEIPTS AFTER PRIZES* IN 2012-13
(Percent)

Tracks with 1,100 or more machines (*Saratoga, Finger Lakes*)

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $62.5 million	45	10	31	10	4
More than $62.5 million up to $100 Million	49	10	31	10	0
Over $100 million	51	10	31	8	0

Tracks with less than 1,100 machines (*Batavia*)

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $50 million	41	10	35	10	4
More than $50 million to $62.5 million	48	10	28	10	4
More than $62.5 million up to $100 Million	52	10	28	10	0
More than $100 million up to $150 Million	54	10	28	8	0
Over $150 million	57	10	25	8	0

Tracks with a population less than 1 million within 40 mile radius (*Tioga*)

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $50 million	37	10	39	10	4
More than $50 million to $62.5 million	48	10	28	10	4
More than $62.5 million up to $100 Million	52	10	28	10	0
More than $100 million up to $150 Million	54	10	28	8	0
Over $150 million	57	10	25	8	0

Tracks within 15 miles of a Class III Native American Casino (*Vernon, Buffalo Fairgrounds*)

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $62.5 million	35	10	41	10	4
More than $62.5 million to $100 million	39	10	41	10	0
Over $100 million	41	10	41	8	0

Tracks Located in Sullivan County within 60 miles of Gaming Facility in a Contiguous State (*Monticello*)

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $100 million	39	10	41	10	0
Over $100 million	41	10	41	8	0

Tracks with 1,100 or more machines located in Westchester County (*Yonkers*)

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $62.5 million	47	10	31	8	4
Over $62.5 million	51	10	31	8	0

Aqueduct Racetrack

	Education	Lottery Administration	Commission	Marketing	Racing Support Payment
All Net Machine Income	44	10	31	8	7

*Not less than 90 percent of sales must be used for prizes.
Net Machine Income is gross receipts minus prize payments. Free-play allowance amounts are excluded from the calculation of NMI.

Administration

The Lottery Division develops new lottery games, markets and advertises, distributes games, provides terminals and computer programming, regulatory oversight and otherwise performs all functions necessary to operate an effective State lottery. The Comptroller, pursuant to an appropriation, distributes all net receipts from the Lottery directly to school districts. This aid includes special allowances for textbooks for all school children and additional amounts for pupils in approved State-supported schools for the deaf and the blind.

The Lottery Division's game vendor notifies sales agents of the State's share of sales proceeds by the Monday following the liability week. The agent has until Tuesday to deposit sufficient funds into a specified bank account, at which time the operations vendor sweeps the funds and transfers them to the Lottery Division by Wednesday morning. For VLTs, the Division sweeps the accounts daily. All gaming funds are transferred to the State on Wednesday.

History

In 1966, New York State voters approved a referendum authorizing a State Lottery, and ticket sales commenced under the auspices of the Lottery Commission. Under the original lottery legislation, a passive draw game was offered with 12 drawings a year, 30 percent of gross receipts earmarked to prizes, 55 percent to education, and the remaining 15 percent representing an upper limit on administrative expenses. Since its inception, numerous games have been introduced with varying prize payout schedules to make them attractive to the consumer. In 1973, the New York State Racing and Wagering Board took over operation of the Lottery from the Lottery Commission, but Lottery operations were subsequently shut down in 1975. The New York State Division of the Lottery was established in 1976, and assumed the operation of the State's Lottery.

Significant Legislation

The significant lottery legislation enacted since 1967 is summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1967		
Authorization	Authorized a State Lottery to be operated by the Lottery Commission. The lottery may not have more than 12 draws in a fiscal year, and may not have a prize payout of more than 30 percent, with a minimum of 55 percent of revenue for education.	April 18, 1967
Legislation Enacted in 1968		
Number of Drawings	Increased the number of allowable drawings to not more than one regular drawing per week, and authorized special or bonus drawings.	March 12, 1968
Legislation Enacted in 1970		
Number of Drawings	Eliminated the restriction on the number of drawings allowed.	April 22, 1970
Prize Payout	Increased the prize payout to not more than 40 percent and lowered the minimum revenue for education to 45 percent.	April 22, 1970

LOTTERY

Subject	Description	Effective Date
Legislation Enacted in 1973		
Operation	Transferred the operation of the State Lottery to the New York State Racing and Wagering Board.	July 1, 1973
Legislation Enacted in 1976		
Operation	Established the New York State Division of the Lottery, which replaced the Racing and Wagering Board as the operator of the State Lottery.	March 31, 1976
Legislation Enacted in 1980		
Prize Payout	Authorized prize payouts of up to 50 percent for daily numbers games and a minimum of 35 percent of revenue to education.	April 1, 1980
Legislation Enacted in 1988		
Prize Payout	Authorized a 50 percent prize payout for Instant games, “Daily Numbers Games” and “Win 4” with a minimum of 35 percent of revenue to education. Authorizes a 40 percent prize payout for “Win 10” and other State-operated lottery games.	July 19, 1998
Legislation Enacted in 1991		
Prize Payout	Increased the prize payout for instant games from 50 percent to 55 percent and lowered the minimum amount of revenue for education to 30 percent. Increased the prize payout for “Pick 10” from 40 percent to 50 percent and lowered the minimum amount of revenue for education to 35 percent.	June 12, 1991
Legislation Enacted in 1994		
Limit on Draws per Day	Required that the drawings for Pick 10, Take 5, and Lotto games are to be offered no more than once daily.	April 1, 1994
Unclaimed Prize Money	Limited the use of unclaimed prize money for the promotional supplementation of games other than Lotto by the Division to 16 weeks per year.	April 1, 1994
Annual Plan	Required the Division to submit an annual report to the Legislature, the Governor, and the Division of the Budget each year.	April 1, 1994
Legislation Enacted in 1995		
Quick Draw	Authorized Quick Draw.	April 1, 1995
	Authorized a 60 percent prize payout.	
	Limited drawings for the game to no more than 13 hours each day, of which only eight hours can be consecutive.	
	Required that if there is no license for the sale of alcohol for on premises consumption, then the premises have to be a minimum of 2,500 square feet.	
	Required that if there is a license to sell alcohol for on premises consumption, then at least 25 percent of the gross sales must be from sales of food.	
Legislation Enacted in 1999		
Instant Games	Authorized a 65 percent prize payout.	April 1, 1999
	Reduced the percent dedicated to education from 30 percent to 20 percent.	
Legislation Enacted in 2001		
Multi-jurisdictional	Allowed the Lottery Division to enter into agreements to conduct multi jurisdictional lotto games with a 50 percent prize payout (Mega Millions).	October 29, 2001
Video Lottery Gaming	Allowed the Lottery Division to license video lottery gaming at selected New York State racetracks.	October 29, 2001
Legislation Enacted in 2002		

Subject	Description	Effective Date
Instant Games	Authorized up to three 75 percent prize payout Instant ticket games to be offered during the fiscal year.	January 28, 2002
Legislation Enacted in 2003		
Quick Draw	Extended the operation of Quick Draw until May 31, 2004.	January 28, 2002
Video Lottery Gaming	Provided that of the total amount wagered on video lottery terminals, not less than 90 percent is paid out for prizes. Of the balance, the Lottery Division retains 10 percent for administration, 29 percent is paid to the racetracks as a commission, and 61 percent is dedicated to education. Of the commission paid to the tracks, the amount allocated to purses in years one through three is 25.9 percent; in years four and five, 26.7 percent; and in subsequent years, 34.5 percent. The Breeders' funds receive 4.3 percent of the commission paid to racetracks in the first through fifth years and 5.2 percent in the following years. The racetracks are allowed to enter into agreements, not to exceed five years, with the horsemen to reduce the percentage of the vendor fee allocated to purses. The program expires ten years after the start of the program.	May 2, 2003
Legislation Enacted in 2004		
Quick Draw	Extended the operation of Quick Draw until May 31, 2005.	August 20, 2004
Legislation Enacted in 2005		
Quick Draw	Extended the operation of Quick Draw until May 31, 2006.	April 12, 2005
Video Lottery Gaming	Provided a graduated vendor's fee that allows participating tracks to receive 32 percent of the first $50 million of revenue after prizes, 29 percent of the next $100 million, and 26 percent of net revenue over $150 million. In addition, a marketing allowance of 8 percent of the first $100 million in net revenue and 5 percent thereafter was established. The marketing allowance is limited to 4 percent of net revenue for tracks located in Westchester or Queens Counties. The expiration of the program is extended until December 31, 2017.	April 12, 2005
Legislation Enacted in 2006		
Quick Draw	Extended the operation of Quick Draw until May 31, 2007.	April 28, 2006
Legislation Enacted in 2007		
Quick Draw	Extended the operation of Quick Draw until May 31, 2008.	May 31, 2007
Legislation Enacted in 2008		
Quick Draw	Extended the operation of Quick Draw until May 31, 2010.	April 23, 2008
Video Lottery Gaming	Revised the distribution of video lottery receipts to provide different commissions to tracks based on factors including: size of the facility; population surrounding the facility; and proximity to Native American and out-of-state casinos. In addition, tracks were provided a capital allowance for capital expenditures to enhance their facilities.	April 1, 2008
Video Lottery Gaming	Provided a commission rate of 75 percent to a facility located in Sullivan County that has made a capital investment of at least one billion dollars and has no fewer than 2,000 full-time permanent employees. However, the qualifying facility is required to provide a minimum contribution to education of $38 million plus an amount equal to the Lottery's administrative costs, not to exceed 7 percent of net machine income.	July 7, 2008
Legislation Enacted in 2009		
Multi-jurisdictional	Authorized the Lottery to enter more than one multi-jurisdictional lottery association.	April 7, 2009
Video Lottery Gaming	Reduced capital investment and employment requirements for a facility located in Sullivan County to qualify for a 75 percent commission rate.	August 11, 2009

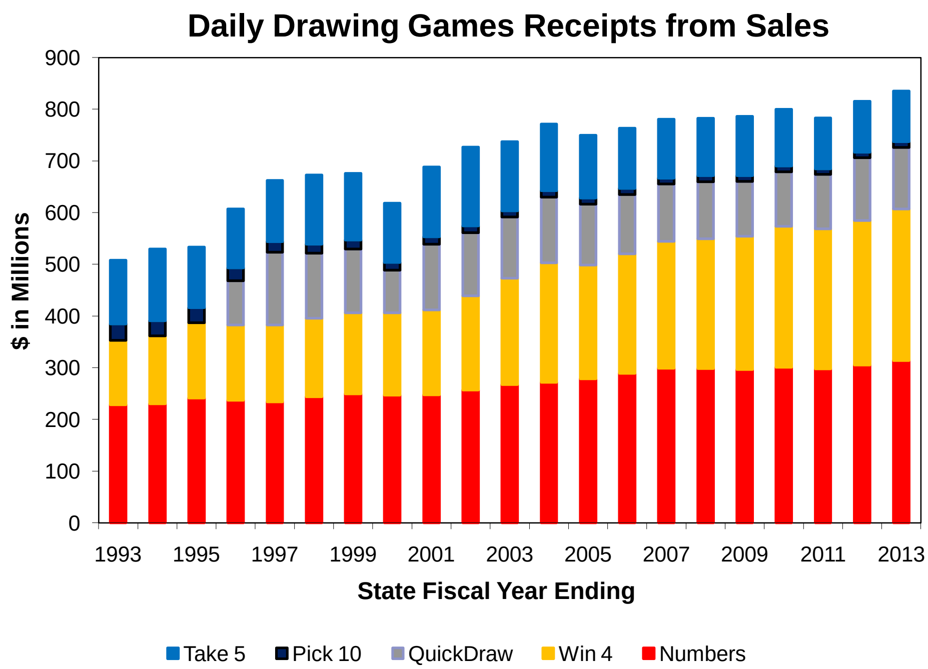
Subject	Description	Effective Date
Legislation Enacted in 2010		
Quick Draw	Made the Lottery's authorization to operate the Quick Draw lottery game permanent and removed the restrictions on the number of hours Quick Draw can be operated.	July 1, 2010
Video Lottery Gaming	Removed the sunset on the Video Lottery Gaming Program.	August 11, 2010
	Increased the hours that VLTs may be operated to 20 hours from 16 hours, but no later than 4 am.	
	Reduced the vendor commission by one percent of net machine income.	
Legislation Enacted in 2011		
Multi-jurisdictional	Increased the maximum prize payout from 50 to 55 percent of sales of multi-jurisdictional lottery games.	March 31, 2011
Instant Games	Increased the number of 75 percent prize payout Instant ticket games to be offered during the fiscal year from three to five.	March 31, 2011
Video Lottery Gaming	Authorized the Lottery to participate in Multi-Jurisdictional progressive video lottery games.	March 31, 2011
	Provided a free-play allowance that excluded free-play credits up to 10 percent of net machine income at each track from the calculation of NMI.	

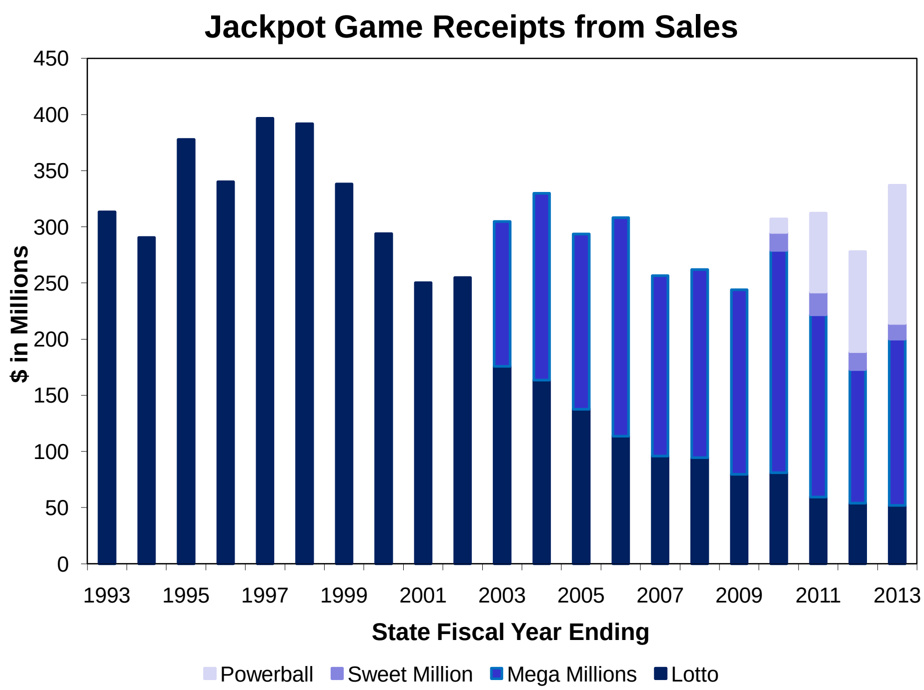
Lottery Demand

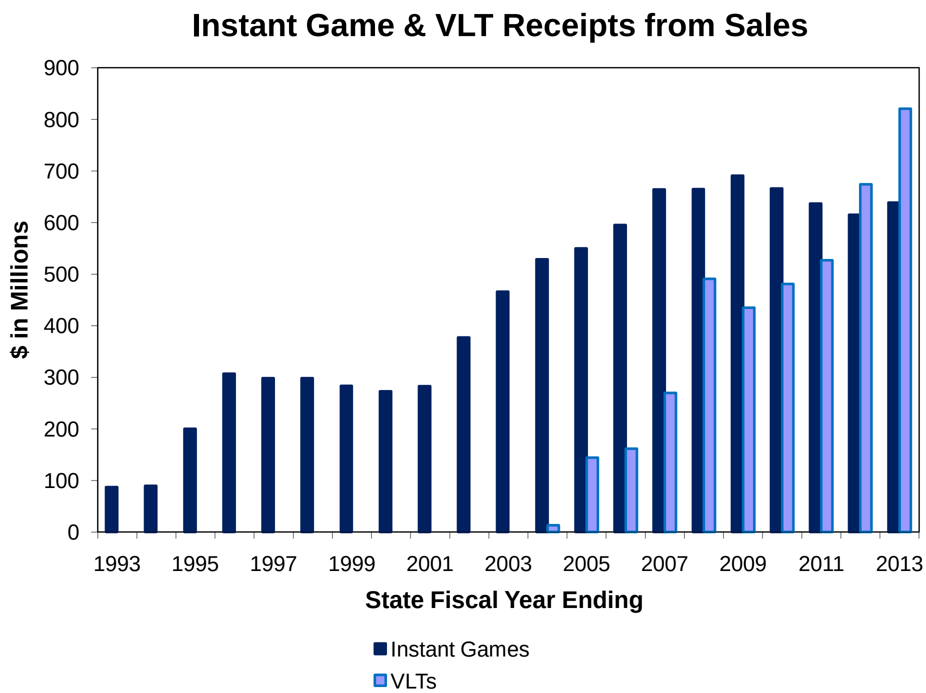
Factors that affect the demand for Lottery games include: the size of jackpots, the price of lottery tickets; the amount spent on advertising and marketing; the prize payout percentage; the development of new games that generate increased sales; the potential customers attitude towards Lottery games; and competition from other gambling venues.

For a more detailed discussion of the methods and models used to develop estimates and projections for Lottery receipts, please see the *Economic, Revenue and Spending Methodologies* at www.budget.ny.gov.

The following graphs show the receipts history of the various games since 1992.


Daily Drawing Games Receipts from Sales
$ in Millions
0
100
200
300
400
500
600
700
800
900
1993
1995
1997
1999
2001
2003
2005
2007
2009
2011
2013
State Fiscal Year Ending
Take 5
Pick 10
QuickDraw
Win 4
Numbers


Jackpot Game Receipts from Sales
$ in Millions
0
50
100
150
200
250
300
350
400
450
1993
1995
1997
1999
2001
2003
2005
2007
2009
2011
2013
State Fiscal Year Ending
Powerball
Sweet Million
Mega Millions
Lotto



RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2011-12 Estimates

All Funds collections through December are $1,735.9 million, a decrease of $315.6 million (15.4 percent) below the comparable period in the prior fiscal year. Receipts for education from sales of Lottery games for 2011-12 are estimated to be just under $2.8 billion, a decrease of $268.8 million (8.9 percent) below 2010-11. This comparison includes a $380 million one-time Aqueduct licensing fee in the receipts for 2010-11. Without this extraordinary item in the prior year, receipts on the Lottery core business are expected to increase by $111.2 million (4.2 percent) over 2010-11. Unspent administrative allowances and miscellaneous income account for $364 million of receipts. A game-by-game profile follows.

Instant Games and Video Lottery Gaming

Year-to-date, sales of 65 percent prize-payout instant games have declined, while sales of 75 percent prize payout instant games grew slightly. Revenue to support education from the sale of Instant Games is estimated to be $615 million, a decline of $21.6 million (3.4 percent) from 2010-11. Sales of 65 percent prize-payout games continue to be negatively affected by economic conditions; while 75 percent prize payout-games have been positively impacted by 2011 Enacted Budget Legislation authorizing two additional games annually.

VLT machines are currently in operation at Aqueduct, Saratoga, Finger Lakes, Monticello, Buffalo, Batavia, Tioga, Vernon, and Yonkers racetracks. Receipts from gaming operations at VLT facilities are estimated at $674 million for 2011-12, up $147.4 million (28 percent) from the prior year. This increase reflects the part-year revenue from the Resorts World New York Casino (which began operations on October 28, 2011) and the impact of the free-play allowance program authorized in the 2011-12 Enacted Budget. Total VLT receipts for 2011-12 are projected to be $232.6 million (25.7 percent) lower than the prior year, primarily due to the one-time payment of $380 million received from Genting New York in the prior fiscal year for the rights to operate VLTs at Aqueduct.

Jackpot Games

Mega Millions receipts from sales in 2011-12 are estimated to be $119 million, a decrease of $43.3 million from 2010-11. The decrease reflects a significant drop in large jackpot roll-ups during the year. To date, there have been three roll-ups in excess of $100 million with two of those jackpots being hit in the first drawing after exceeding the $100 million mark. By comparison, there were four roll-ups in excess of $100 million during the first nine months of 2010-11, including roll-ups of $380 million and $266 million. Additionally, 2010-11 also ended with the jackpot rolling up to $319 million.

In January, the Multi-State Lottery Association (MUSL) implemented changes to the Powerball game which included increasing the price from $1 to $2. These changes are expected to increase revenue from sales as a result of both the higher price and from increased jackpot levels. Through a combination of higher jackpot roll-ups to date, increased customer awareness of the game, and a projected impact of the changes to the game, Powerball receipts from sales are estimated to increase by $18.6 million (26.4 percent), to $89 million in 2011-12.

Trend declines in sales of Lotto and Sweet Million continued in 2011-12 as customers prefer the higher jackpots offered by Mega Millions and Powerball. Sales of Lotto are estimated to decline by 9.2 percent while Sweet Millions sales are projected to drop by 20.4 percent.

Daily Drawing Games

Sales of Numbers and Win 4 displayed strong growth during the first nine months of 2011-12. For the entire fiscal year, receipts from sales of Numbers and Win 4 are estimated to increase by $7.2 million (2.4 percent) and $9.2 million (3.4 percent) respectively. Take 5 sales are estimated to remain flat from 2010-11 levels as continued promotions have reversed the historical trend decline in the game.

Quick Draw is estimated to generate $121 million in receipts from sales, an increase of $15.7 million (14.9 percent). Trend declines have been offset by the full year impact of legislation enacted in 2010 that eliminated the restriction on the number of hours that Quick Draw could be operated.

2012-13 Projections

Receipts for education from sales of Lottery games for 2012-13 are estimated to be just under $3 billion, an increase of $251 million (9.1 percent) above 2011-12. Unspent administrative allowances and miscellaneous income account for $365 million of receipts. The implementation of the Lottery's workforce plan that was approved as part of the 2011-12 Enacted Budget is projected to have a positive impact across all traditional Lottery games.

Instant Games and Video Lottery Gaming

Receipts from Instant Games sales are projected to increase by $24 million (3.9 percent) to $639 million. Sales of 75 percent games are projected to continue to grow in 2012-13 as the continued impact of legislation enacted in 2010, which allowed Lottery to issue two additional games a year, will allow Lottery to provide a better inventory of games for customers. Improvement in economic conditions, combined with better retailer support through Lottery's workforce plan, are expected to result in the growth of 65 percent games.

Receipts from the State's VLT operations are projected to total $821 million in 2012-13. The growth in receipts of $147 million (21.8 percent) is largely attributable to the full-year impact of VLT operations at the Aqueduct Racetrack. All other facilities are expected to experience modest net machine income growth during 2012-13, with the exception of Yonkers, which will face a full year of competition from the Resorts World Casino at Aqueduct Racetrack.

Jackpot Games

The change in the Powerball game format in January 2012 to a $2 game format is projected to result in significant growth in Powerball sales. Receipts for education from Powerball are projected to increase by $34 million (38.2 percent), as high jackpot roll-ups attract increased customer play.

The roll-up pattern of Mega-Millions is expected to return to historical levels following the abnormally low number of roll-ups experienced during 2011-12. Combined with the migration of some Powerball customers who prefer the $1 per play offered by Mega Million, receipts for education are projected to increase by $29 million (24.4 percent).

Daily Drawing Games

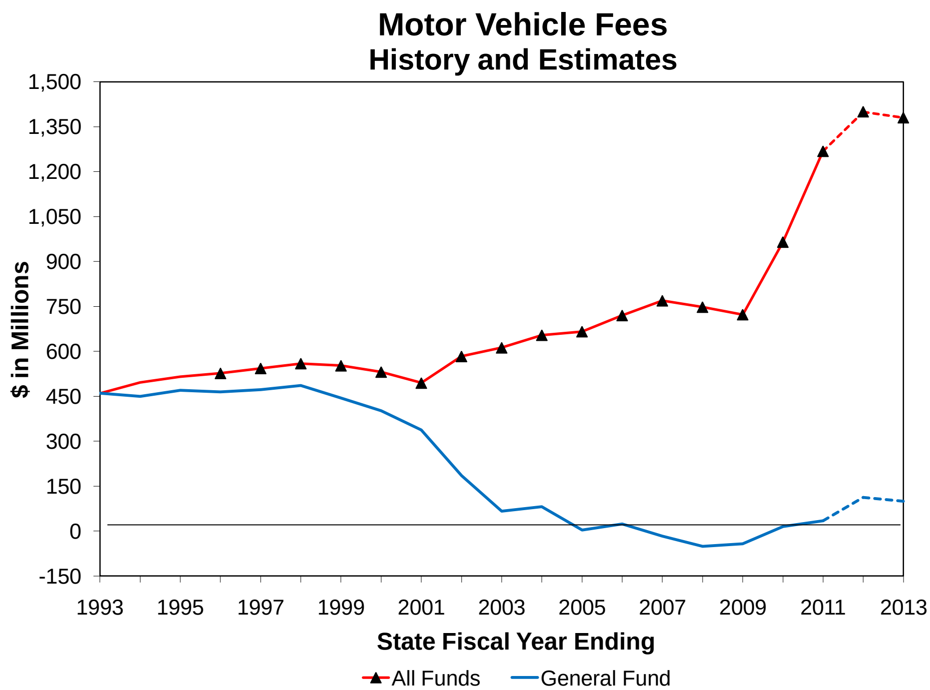
Sales of Numbers and Win 4 are projected to maintain the strong growth achieved in 2011-12 into 2012-13 as additional retailer support helps grow these games by $9 million (3 percent) and $13 million (4.6 percent) respectively. Take 5 sales are estimated to remain flat in 2012-13 with continued promotions to support the game.

Receipts from Quick Draw are projected to decline by $2 million (1.7 percent). This decline reflects a return to historical trend decline that had been offset by the expansion in the hours of operation authorized in 2010. However, the historical decline is expected to be mitigated by increased hours and continued promotion of the game.

MOTOR VEHICLE FEES

MOTOR VEHICLE FEES (millions of dollars)							
	2010-11 Actual	2011-12 Estimated	Change	Percent Change	2012-13 Projected	Change	Percent Change
General Fund	33.8	112.0	78.2	231.4	99.0	(13.0)	(11.6)
Other Funds	1,235.1	1,288.0	52.9	4.3	1,281.0	(7.0)	(0.5)
All Funds	1,268.9	1,400.0	131.1	10.3	1,380.0	(20.0)	(1.4)

Note: Totals may differ due to rounding.



MOTOR VEHICLE FEES BY FUND (millions of dollars)										
	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds[1]	Refunds	Special Revenue Funds[1]	Gross Capital Projects Funds[2]	Refunds	Capital Projects Funds[2]	All Funds Receipts[3]
2002-03	72	5	67	76	0	76	486	16	470	613
2003-04	87	5	82	105	0	105	484	16	468	655
2004-05	9	5	4	138	0	138	542	17	525	667
2005-06	30	6	24	201	0	201	511	16	495	720
2006-07	-12	5	(17)	229	0	229	573	16	557	770
2007-08	-46	5	(51)	230	0	230	585	16	569	748
2008-09	-37	5	(42)	218	0	218	562	15	547	723
2009-10	20	5	15	322	0	322	645	17	628	965
2010-11	39	5	34	422	0	422	838	25	813	1,269
Estimated										
2011-12	117	5	112	486	0	486	827	25	802	1,400
2012-13										
Current Law	104	5	99	482	0	482	824	25	799	1,380
Proposed Law	104	5	99	482	0	482	824	25	799	1,380

MOTOR VEHICLE FEES

PROPOSED LEGISLATION

No new legislation is proposed in this Budget.

DESCRIPTION

Fee Base

Motor vehicle fees are imposed by the Vehicle and Traffic Law. In general, motor vehicles, motorcycles, trailers, semi-trailers, buses, and other types of vehicles operating in New York are required to be registered with the Department of Motor Vehicles. In 2010, 10.7 million vehicles were registered in New York State, including 825,477 commercial vehicles. The Vehicle and Traffic Law also requires drivers to be licensed by the Department of Motor Vehicles. The current license renewal period is eight years. In 2010, New York State had 11.3 million licensed drivers. Numerous other fees, related to the processes of registration or licensing, are also components of motor vehicle fees. Examples are: fees for inspection and emission stickers; repair shop certificates; and insurance civil penalties.

Fee Schedules

Most vehicle registration fees in New York are based on weight. Two important exceptions are buses, which are charged according to seating capacity, and semi-trailers, which are charged a flat fee. Registration fees for vehicles weighing less than 18,000 pounds are imposed biennially. The main registration fees are as follows:

MAIN REGISTRATION FEES

Type of Vehicle	Weight of Vehicle	Annual Fee* (dollars)
Passenger vehicle	Each 100 lbs. or major fraction thereof up to 3,500 lbs.	0.81
	Plus: for each 100 lbs or major fraction thereof above 3,500 lbs.	1.21
Passenger vehicle – minimum fee		12.94
Passenger vehicle – maximum fee		70.08
Passenger vehicle propelled by electricity		16.18
Auto truck and light delivery vehicle	Each 500 lbs. maximum gross weight or fraction thereof	3.60
Tractors (registered separately from semi-trailers)	Each 100 lbs. maximum gross weight or fraction thereof	1.51
Trailers	Each 500 lbs. maximum gross weight or fraction thereof	5.39
Semi-trailers – pre-1989 model year		28.75 per year
Semi-trailers – model year 1989 or later		28.75 per year or 86.25 for a period of 5.5 to 6.5 years
Bus – seating capacity 15 to 20 passengers		74.75

*This does not include the $25 supplemental fee imposed on registrations in the Metropolitan Commuter Transportation District (MCTD).

The main licensing fees are listed below:

MAIN DRIVER LICENSING FEES	
Type of License	**Fee* (dollars)**
Photo Fee	12.50
Original/Renewal	
• A, B, CDL, or C (Commercial)	9.50 – for each six months
• Non CDL/C or E	6.25 – for each six months
• D (Passenger)	3.25 – for each six months
• M (Motorcycle)	3.75 – for each six months
*This does not include the $1 supplemental fee per six months imposed on licenses in the MCTD.	

Administration

Registration and licensing occur in person or by mail at the central and district offices of the Department of Motor Vehicles, and county clerks' offices in most counties. Many transactions can also be completed via the Internet. The county clerks were historically compensated with a fixed portion of each fee, but, since April 1, 1999, they have received 12.7 percent of gross receipts. This totaled $46.3 million in 2010-11.

COUNTY CLERKS' RETENTION SCHEDULE	
Type of Retention	**Period**
Fixed portion of each fee.	Until December 31, 1996
8.1 percent of gross receipts.	From January 1, 1997
9.3 percent of gross receipts.	From July 1, 1998
12.7 percent of gross receipts.	From April 1, 1999

Fee Exemptions

Certain vehicles registered in New York are exempt from registration fees. The exemptions include: vehicles owned by the State or municipalities; passenger vehicles owned by consular offices; and vehicles owned and used for the transportation of animals by societies for the prevention of cruelty to animals. Vehicles owned by nonresidents and registered with a political jurisdiction outside the State are not usually required to be registered in New York. The revenue loss from these exemptions is minimal.

Significant Legislation

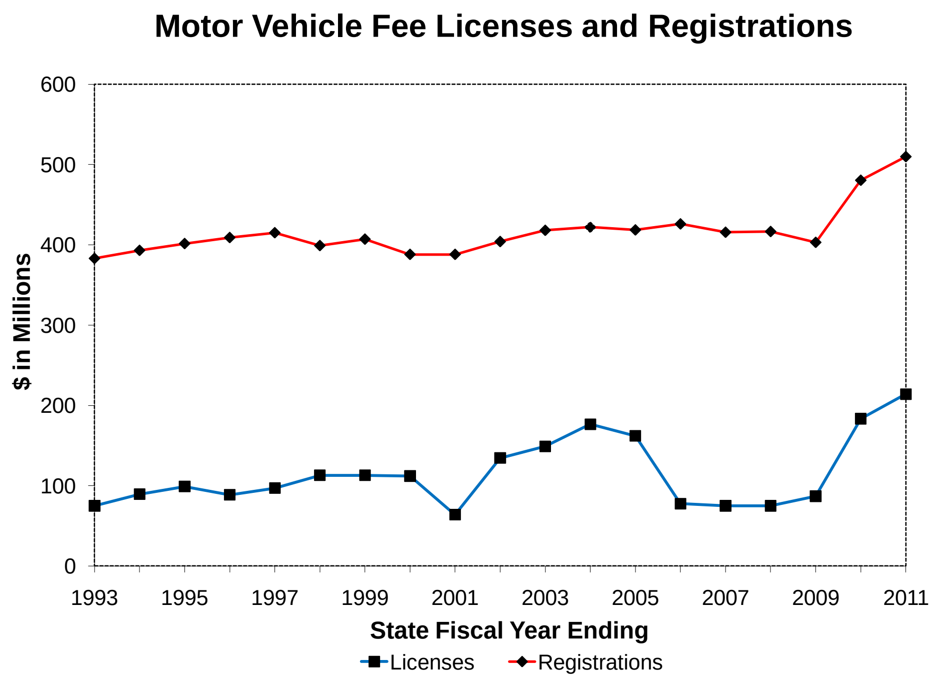
Significant statutory changes to motor vehicle fees since 1989 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1989		
Registrations	Biennialization of registration for vehicles weighing less than 18,000 pounds.	June 16, 1989
Administrative Changes in 1996		
Licenses	License renewal period extended to five years.	April 1, 1996
Legislation Enacted in 1997		
Licenses	Original license period extended to five years.	September 1, 1997
Motorcycles	Added $2.50 to annual fee for registration and $0.50 for each six months to license or permit and earmarked both to the Motorcycle Safety Fund.	January 1, 1998

MOTOR VEHICLE FEES

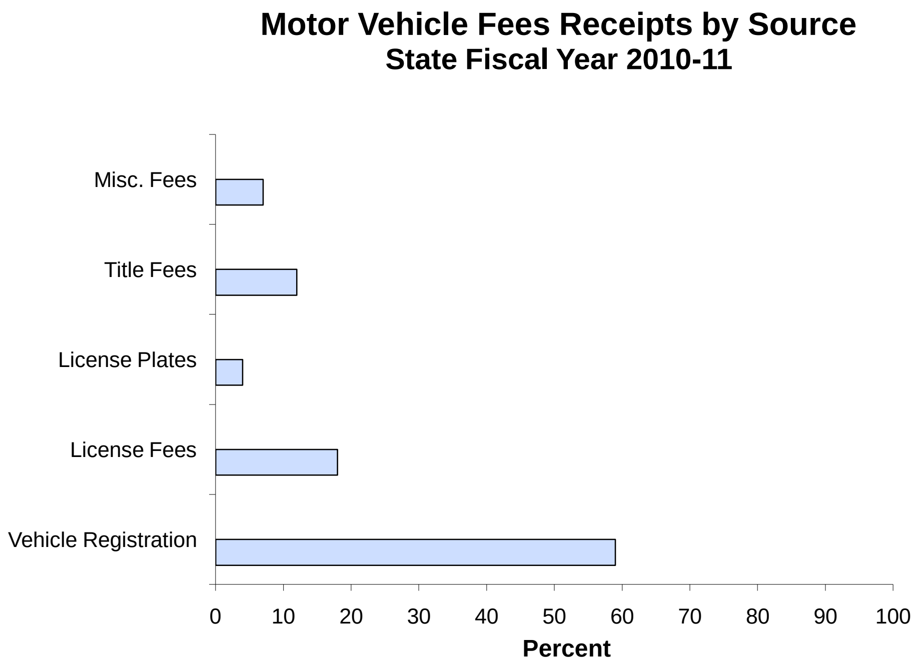
Subject	Description	Effective Date
Administrative Changes in 1997		
Photo image fee	Photo image fee increased to $3.00.	April 1, 1997
Legislation Enacted in 1998		
Registration fees	Fees on passenger vehicle registration reduced 25 percent.	July 1, 1998
Administrative Changes in 2000		
License plates	Reissuance (January 2001-January 2003).	January 1, 2001
Licenses	License renewal period extended to eight years.	April 1, 2000
Administrative Changes in 2003		
Photo Image Fee	Increased photo image fee to $5.00.	February 1, 2003
Legislation Enacted in 2005		
Title Fees	Raised title fees from $10 to $20 and $30.	October 1, 2005
Insurance Buyback	Expanded the insurance buyback program.	October 1, 2005
Dealer Registration	Raised dealer/transporter registration fees by 50 percent.	October 1, 2005
Temporary Registration	Raised dealer issued temporary registration fees from $2 to $5.	October 1, 2005
Salvaged Vehicle Inspection	Raised salvaged vehicle inspection fees from $100 to $150.	October 1, 2005
Legislation Enacted in 2008		
Enhanced License	Western Hemisphere Travel Initiative (WHTI) licenses made available for an additional $30.	June 1, 2008
Legislation Enacted in 2009		
Registration Fee	Increased most registration fees by 25 percent.	September 1, 2009
License Fee	Increased licenses fees and the photo fee by 25 percent.	September 1, 2009
Supplemental Fee	Imposed a supplemental fee of $25 on registrations and $1 per six months on licenses in the MCTD.	September 1, 2009
License Plates	Increased the fee for license plate issuance from $15 to $25.	April 1, 2010
Legislation Enacted in 2011		
General Fund	General Fund receipts now includes fines and assessments.	April 1, 2011

FEE LIABILITY



Vehicle registration and driver licensing fees are a function of the fee schedules, the number of licensed drivers and registered vehicles, and the number of years between license and vehicle registration renewals. Historically, these motor vehicle fees fluctuate little as a result of economic conditions. In general, collections change when fee or renewal schedules change.

The number of registrations has remained relatively flat year to year. The increase in registration fee receipts in the last two years is due to the 25 percent fee increase and the supplemental MCTD motor vehicle fees imposed in 2009. Effective in 2000, license renewals follow an eight-year renewal pattern and are currently moving towards the license renewal cycle peak.



RECEIPTS: ESTIMATES AND PROJECTIONS

Motor Vehicle Fee (MVF) Receipts are reported as a sub category of Miscellaneous Receipts by the Office of the State Comptroller (OSC). However, OSC reports some MVF receipts in various other sub categories (e.g., fines and penalties) in Miscellaneous Receipts. The Division of the Budget began categorizing all DMV collected fees as motor vehicle fees with regard to the State's Financial Plan. Therefore, the DOB MVF estimate and actual receipts will be higher than reported by OSC, and other Miscellaneous Receipts categories will be lower by an off-setting amount.

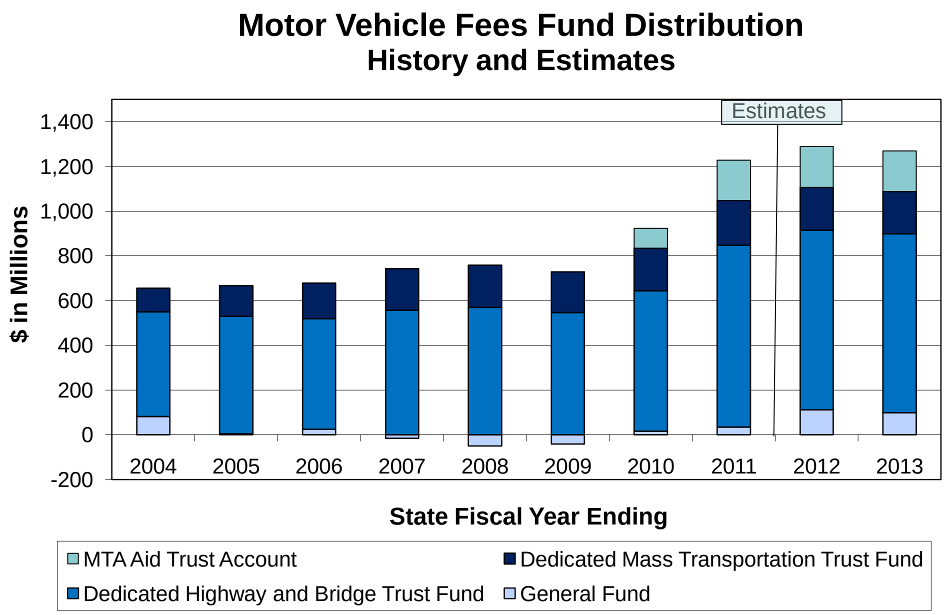
All Funds

2011-12 Estimates

All Funds receipts for 2011-12 are estimated to be $1,400 million, an increase of $131.1 million (10.3 percent) above 2010-11. This increase mainly reflects an increase in the General Fund of $78.2 million due to the peak in the license renewal cycle and a reclassification of $70 million from Special Revenue Other to Motor Vehicle Fees. Receipts from the license and registration fee increase enacted in 2009 are estimated to be $145 million, $5 million higher than 2010-11.

2012-13 Projections

All Funds receipts are projected to be $1,380 million, a decrease of $20 million (1.4 percent) below 2011-12. This decrease is due mainly to lower license renewals after the cycle peak in 2011-12.



General Fund

Effective in 2006 and every year thereafter, $169.4 million of otherwise non-dedicated motor vehicle fees are deposited in the Dedicated Funds. If there is a shortfall, revenues from the General Fund are transferred to the Dedicated Funds to cover the shortfall while any surplus monies would remain in the General Fund. The General Fund in 2011-12 and 2012-13 is estimated to receive $112 million and $99 million, respectively. The increase in funds is due to the uptick in license renewals and the inclusion of assessments and fines, which were previously included in General Fund Miscellaneous Receipts. This reclassification will effectively increase motor vehicle fee receipts by roughly $75 million and reduce Miscellaneous Receipts by the same amount.

Other Funds

Since April 1, 1993, a percentage of registration fees have been deposited in the Dedicated Highway and Bridge Trust Fund. The percentage dedicated to the fund has been adjusted several times.

The revenues from the 25 percent registration and license increase, effective September 1, 2009, are directed solely to the Dedicated Highway and Bridge Trust Fund (DHBTF). Of the balance of receipts generated from the cost of registration, 80 percent is directed to the DHBTF, while the remainder is directed to the Dedicated Mass Transportation Trust Fund (DMTTF).

Legislation in 2009 dedicated all receipts from the supplemental fee on registrations and licenses to the MTA Aid Trust Account of the MTA Special Assistance Fund.

In 2011-12, the Dedicated Highway and Bridge Trust Fund will receive an estimated $802 million and the Dedicated Mass Transportation Trust Fund will receive an estimated $192 million. The MTA Aid Trust Account is estimated to receive $183 million. Various other dedicated funds (Special Revenue Other) will receive a portion of the remaining $111 million, which was increased by $70 million compared to 2010-11 due to the inclusion of all DMV receipts as motor vehicle fees.

In 2012-13, the Dedicated Highway and Bridge Trust Fund will receive a projected $799 million and the Dedicated Mass Transportation Trust Fund will receive a projected $190 million. The MTA Aid Trust Account is projected to receive $181 million. Various other dedicated funds (Special Revenue Other) will receive a portion of the remaining $111 million.

MISCELLANEOUS RECEIPTS CAPITAL PROJECTS FUNDS

MISCELLANEOUS RECEIPTS - CAPITAL PROJECTS FUNDS (millions of dollars)

	2010-11 Actual	2011-12 Estimated	Change	Percent Change	2012-13 Projected	Change	Percent Change
State Funds	3,845	4,360	515	13.4%	4,105	(255)	-5.9%
Federal Funds	2,494	2,197	(297)	-11.9%	2,080	(117)	-5.3%
All Funds	6,339	6,557	218	3.4%	6,185	(372)	-5.7%

Note: Totals may differ due to rounding.

MISCELLANEOUS RECEIPTS - CAPITAL PROJECTS FUNDS (millions of dollars)

	2010-11	2011-12	2012-13
Authority Bond Proceeds			
Transportation	748	955	1,185
Public Protection	249	294	273
Health and Social Welfare	138	263	187
Education	1,775	1,819	1,933
Mental Hygiene	160	430	563
Economic Development/ Government Oversight	1,038	934	391
General Government	28	38	10
Other	168	304	314
State Park Fees	24	25	33
Environmental Revenues	36	28	28
All Other	916	919	929
Total	5,281	6,008	5,846
Accounting Adjustment	(1,436)	(1,648)	(1,741)
Financial Plan Total	3,845	4,360	4,105

Miscellaneous receipts in the Capital Projects Fund type include reimbursements from the proceeds of bonds sold by public authorities, fees, and other sources of revenue dedicated to specific capital projects funds, primarily for environmental or transportation capital purposes. The Miscellaneous Receipts table reflects an accounting adjustment for spending made directly from bonds sold by public authorities for State projects. This capital activity, commonly referred to as “Off-Budget Spending,” is not reflected in the Comptroller’s accounting system, but is included in the Five-Year Capital Program and Financial Plan estimates and projections. Although Federal Funds are included in the first table, in order to provide a more complete picture of non-tax receipts, a fuller discussion of Federal Funds is included in a separate section.

Regarding capital projects spending activity in the Capital Program and Financing Plan, State Funds receipts are utilized to finance two types of capital spending. Authority bond proceeds are used for spending financed with Authority Bonds, while Other Miscellaneous Receipts (Parks, Environmental, and Other receipts) are used to finance State Pay-As-You-Go spending. Federal Funds receipts (Federal Grants) are utilized to finance Federal Pay-As-You-Go spending.

REIMBURSEMENT FROM AUTHORITY BOND PROCEEDS

Pursuant to statutory authorizations, State agencies enter into contractual arrangements with public authorities to provide for the financing of State capital projects. Such contractual arrangements for financing capital project spending exist with the Empire State Development Corporation, the Dormitory Authority of the State of New York, the Environmental Facilities Corporation, the New York State Housing Finance Authority, and the New York State Thruway Authority. Currently, the primary functional areas for which authority bond proceeds finance capital projects spending are transportation, higher education, and economic development. After the State makes payments directly from appropriations for project costs, it is reimbursed by the public authority from the proceeds of bonds sold previously, except for the" Off-Budget Spending" mentioned previously. The amount of reimbursements received annually reflects the level of bondable capital spending in that year and may fluctuate depending upon when the spending occurs and the timing of related bond sales. As bondable spending fluctuates to reflect the progress of capital programs across all areas, so do the bond receipts received as reimbursements.

STATE PARKS, ENVIRONMENTAL, AND OTHER REVENUES

The following miscellaneous receipts do not include reimbursements from authority bond proceeds.

State Parks user fees and related revenues are deposited into the State Parks Infrastructure Fund and the Miscellaneous Capital Projects Fund. These revenues, which are projected at $25 million in 2011-12 and $33 million in 2012-13, will be used to finance improvements at various facilities across the State's park system.

Other miscellaneous environmental revenues include receipts primarily from the sale of surplus State lands, the leases of coastal State property, and the sale of environmental license plates. These are deposited into the Environmental Protection Fund. Other environmental revenues from settlements with individuals and other parties who are liable for damage caused to State environmental properties are deposited in the Natural Resource Damages Fund.

Other moneys and fees are received in the various Capital Projects Funds to support capital programs at State facilities. Finally, certain receipts reimburse the State for capital spending on behalf of municipalities, public authorities, and private corporations, primarily for transportation and environmental projects. A major portion of these receipts reflect repayments pursuant to previously negotiated agreements.

MISCELLANEOUS RECEIPTS
DEBT SERVICE FUNDS

MISCELLANEOUS RECEIPTS - DEBT SERVICE FUNDS (millions of dollars)							
	2010-11 Actual	2011-12 Estimated	Change	Percent Change	2012-13 Projected	Change	Percent Change
General Fund	0	0	0	0	0	0	0
Other Funds	900	949	49	5.5	996	47	5.0
All Funds	900	949	49	5.5	996	47	5.0

Note: Totals may differ due to rounding.

MISCELLANEOUS RECEIPTS - DEBT SERVICE FUNDS (millions of dollars)			
	2010-11	2011-12	2012-13
Mental Hygiene Patient Receipts	310	325	352
SUNY Dormitory Fees	462	482	505
Health Patient Receipts	116	128	128
All Other	12	14	12
Total	900	949	996

Miscellaneous receipts in the Debt Service fund type include patient revenues, rental fees, medical insurance payments, interest income on investments, and other revenues. These revenues are typically first dedicated for the payment of lease-purchase agreements, contractual obligations, and debt service. These revenues support about 16 percent of the State's debt service payments and have been pledged as security for bonds issued for Mental Hygiene facilities, Department of Health facilities and the State University of New York (SUNY) dormitories. In addition, the revenues are used by the State to pay debt service on general obligation housing bonds. After such requirements are satisfied, the balance of most miscellaneous receipts, together with other receipts and transfers, flow back to the General Fund or to Special Revenue funds to offset the cost of State operations.

MENTAL HYGIENE PATIENT RECEIPTS

Payments from patients and various third-party payers, including Medicare and insurance companies, for services provided by the mental hygiene agencies are deposited in the Mental Health Services Fund as miscellaneous receipts. The revenues received are used to make lease-purchase payments to the Dormitory Authority of the State of New York (DASNY) for debt service on mental health services bonds. Additionally, portions of State and local assistance and Federal Medicaid payments to not-for-profit community facilities are earmarked to pay their share of debt service. These are also deposited as miscellaneous receipts in the Mental Health Services Fund. DASNY makes loans to eligible not-for-profit agencies providing mental health services and, in return, the voluntary agencies make rental payments equal to the amount of debt service on bonds issued to finance their projects.

DORMITORY FEES

Miscellaneous receipts in the SUNY Dormitory Fund are composed primarily of fees charged to SUNY students for dormitory room rentals and other associated fees. The receipts of the Fund are pledged for debt service on bonds issued by DASNY for the construction and rehabilitation of SUNY dormitories. These payments are made pursuant to a lease-purchase agreement.

HEALTH PATIENT RECEIPTS

Patient care reimbursements from the Department of Health's hospitals and the veterans' homes (Oxford, New York City and Western New York) are deposited into the Health Income Fund to make lease-purchase rental payments to DASNY. Similar to the Mental Hygiene Services Fund, the receipts are pledged for debt service of bonds issued by DASNY to finance the construction and rehabilitation of State hospitals and veteran's homes. These receipts are composed of payments from Medicaid, Medicare, insurance, and individuals.

ALL OTHER

The all other miscellaneous receipts category primarily includes investment income receipts from the Local Government Assistance Corporation, and payments from local housing agencies to finance the debt service costs on general obligation bonds.

FEDERAL GRANTS

To qualify to receive Federal grants, the State must comply with guidelines established by the Federal government. Each Federal grant must be used pursuant to Federal laws and regulations. Additionally, the State is required to follow specific cash management practices regarding the timing of cash draws from the Federal government pursuant to regulations for each grant award. In most cases, the State finances spending in the first instance, then receives reimbursement from the Federal government.

Total receipts from the Federal government are projected at $43.9 billion in 2011-12 and $41.9 billion in 2012-13. These revenues represent approximately one-third of total receipts in governmental funds, excluding general obligation bond proceeds, and are deposited into the General Fund, Special Revenue, Capital Projects and the Debt Service fund types.

GENERAL FUND

Federal grants are deposited into the General Fund only in limited instances. The Federal subsidiary payment related to Medicare Part D is the main Federal grant in the General Fund.

SPECIAL REVENUE FUNDS

Federal grants account for nearly two-thirds of all special revenue receipts and are used to support a wide range of programs at the State and local government level. Medicaid is the single largest program supported by Federal funds, and helps finance health care, medical supplies, and professional services for eligible persons. The State receives funds from the Federal government to make payments to providers for both State-operated and non-State-operated facilities. The State-operated category includes facilities of the Offices of Mental Health and Mental Retardation and Developmental Disabilities. These facilities receive Medicaid funds for the delivery of eligible services to patients.

Other Federal grants in the Special Revenue Funds support programs administered primarily by the departments of Education, Family Assistance, Health, and Labor. These programs include Welfare, Foster Care, Food and Nutrition Services, and Supplementary Educational Services.

CAPITAL PROJECTS FUNDS

Federal grants in the Capital Projects fund type finance transportation planning, engineering, and construction projects. Federal grants also support local wastewater treatment projects financed through the State's Revolving Loan Fund. Other Federal grants are for the rehabilitation of State armories, eligible housing programs, and other environmental purposes.

DEBT SERVICE FUNDS

Federal grants in the Debt Service fund type reflect interest subsidies received on Build America Bonds (BABs), pursuant to a financing option provided to the State through the American Recovery and Reinvestment Act (ARRA).

FEDERAL GRANTS BY FUND
(millions of dollars)

	General Fund	Special Revenue Funds			Total Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total All Funds
		Medicaid	Welfare	All Other				
2002-03	6	17,297	2,542	11,847	31,686	1,567	0	33,259
2003-04	654	21,435	2,018	11,668	35,121	1,548	0	37,323
2004-05	9	22,666	1,998	9,828	34,492	1,721	0	36,222
2005-06	0	21,524	2,097	9,741	33,362	1,767	0	35,129
2006-07	151	22,906	2,243	8,540	33,689	1,738	0	35,578
2007-08	69	22,417	2,184	8,494	33,095	1,745	0	34,909
2008-09	45	24,844	2,597	9,466	36,907	1,882	0	38,834
2009-10	71	30,054	2,721	10,605	43,380	2,061	13	45,525
2010-11	55	31,423	2,674	12,596	46,693	2,499	57	49,304
Estimated								
2011-12	60	27,672	2,625	11,304	41,601	2,202	79	43,942
2012-13	60	27,261	2,584	9,867	39,712	2,085	79	41,936

DEDICATED FUND TAX AND FEE RECEIPTS

All or portions of several tax sources, including the personal income tax, transportation-related taxes and fees, cigarette taxes, sales and use taxes, and corporate taxes are statutorily dedicated to various Special Revenue, Debt Service and Capital Projects Funds. The tables below identify each dedicated fund by Fund type, the source and amount of dedicated tax receipts deposited in 2010-11 and estimated to be deposited in 2011-12 to 2015-16. The estimates reflect Executive Budget recommendations.

DEDICATED FUND TAX RECEIPTS

DEDICATED FUND TAX AND FEE RECEIPTS ($ in millions)	2010-11 Actual	2011-12 Estimated	2012-13 Recommended
SPECIAL REVENUE FUNDS			
School Tax Relief Fund (STAR)			
Personal Income Tax	3,263	3,293	3,322
Dedicated Mass Transportation Trust Fund	665	652	677
Petroleum Business Tax	356	355	379
Motor Fuel Tax	108	105	108
Motor Vehicle Fees	201	192	190
Metropolitan Transportation Authority Financial Assistance Fund	1,656	1,703	1,470
MCTD Payroll Tax	1,360	1,396	1,160
Motor Vehicle Fees	180	183	181
Auto Rental Tax	35	39	41
Taxicab Surcharge	81	85	88
Mass Trans. Operating Assistance Fund	1,780	1,841	1,927
Corporate Surcharges			
Corporation Franchise Tax	374	406	455
Corporation and Utilities Tax	116	116	115
Insurance Tax	134	139	141
Bank Tax	205	231	222
Other			
Sales and Use Tax	756	762	791
Petroleum Business Tax	129	129	138
Corporation and Utilities — Sections 183 & 184	66	58	65
HCRA Resources Fund	1,136	1,189	1,222
Cigarette Tax	1,136	1,189	1,222
Other Special Revenue Funds			
Motor Vehicle Fees	40	111	111
Total Tax Receipts: Special Revenue Funds-Other	8,540	8,789	8,729
DEBT SERVICE FUNDS			
Revenue Bond Tax Fund			
Personal Income Tax	9,052	9,666	10,078
Clean Water/Clean Air Fund			
Real Estate Transfer Tax	461	501	571
Local Government Assistance Tax Fund			
Sales and Use Tax	2,697	2,809	2,864
Total Tax Receipts: Debt Service Funds	12,210	12,976	13,513
CAPITAL PROJECTS FUNDS			
Dedicated Highway and Bridge Trust Funds	2,032	2,017	2,081
Petroleum Business Taxes	606	605	645
Motor Fuel Tax	408	396	407
Motor Vehicle Fees	813	802	799
Highway Use Tax	129	134	147
Transmission Tax	16	15	15
Auto Rental Tax	60	65	68
Environmental Protection Fund			
Real Estate Transfer Tax	119	119	119
Total Tax Receipts: Capital Projects Funds	2,151	2,136	2,200
Total Tax Receipts: Other Funds	**22,901**	**23,901**	**24,442**

DEDICATED FUND TAX AND FEE RECEIPTS
($ in millions)

	2013-14 Recommended	2014-15 Recommended	2015-16 Recommended
SPECIAL REVENUE FUNDS			
School Tax Relief Fund (STAR)			
Personal Income Tax	3,505	3,688	3,790
Dedicated Mass Transportation Trust Fund	689	691	693
Petroleum Business Tax	391	393	394
Motor Fuel Tax	109	109	110
Motor Vehicle Fees	189	189	189
Metropolitan Transportation Authority Financial Assistance Fund	1,556	1,645	1,736
MCTD Payroll Tax	1,242	1,329	1,418
Motor Vehicle Fees	181	181	181
Auto Rental Tax	43	45	47
Taxicab Surcharge	90	90	90
Mass Trans. Operating Assistance Fund	1,989	2,100	2,185
Corporate Surcharges			
Corporation Franchise Tax	502	551	579
Corporation and Utilities Tax	118	120	126
Insurance Tax	150	157	163
Bank Tax	189	211	225
Other			
Sales and Use Tax	822	852	882
Petroleum Business Tax	143	144	145
Corporation and Utilities — Sections 183 & 184	65	65	65
HCRA Resources Fund	1,199	1,177	1,155
Cigarette Tax	1,199	1,177	1,155
Other Special Revenue Funds			
Motor Vehicle Fees	111	111	111
Total Tax Receipts: Special Revenue Funds-Other	9,049	9,412	9,670
DEBT SERVICE FUNDS			
Revenue Bond Tax Fund			
Personal Income Tax	10,770	11,090	11,452
Clean Water/Clean Air Fund			
Real Estate Transfer Tax	651	721	796
Local Government Assistance Tax Fund			
Sales and Use Tax	2,984	3,123	3,247
Total Tax Receipts: Debt Service Funds	14,405	14,934	15,495
CAPITAL PROJECTS FUNDS			
Dedicated Highway and Bridge Trust Funds	2,112	2,122	2,138
Petroleum Business Taxes	666	668	671
Motor Fuel Tax	407	410	412
Motor Vehicle Fees	811	811	811
Highway Use Tax	142	144	152
Transmission Tax	15	15	15
Auto Rental Tax	71	74	77
Environmental Protection Fund			
Real Estate Transfer Tax	119	119	119
Total Tax Receipts: Capital Projects Funds	2,231	2,241	2,257
Total Tax Receipts: Other Funds	**25,685**	**26,587**	**27,422**

DEDICATED FUND TAX RECEIPTS

The following discussion identifies the statutory provisions which establish the dedicated funds, the source of dedicated tax receipts and the formula used to allocate tax receipts to the funds, and the purposes for which those deposits may be used.

SPECIAL REVENUE FUNDS

School Tax Relief Fund ("STAR" Fund-053)

The School Tax Relief Fund was established by Section 97 of the State Finance Law. The Fund consists of all moneys credited or transferred thereto from the General Fund or from any other fund or sources. The moneys of the Fund are appropriated for school property tax exemptions granted pursuant to the Real Property Tax Law and for payments to the city of New York pursuant to State Finance Law and Tax Law.

Dedicated Mass Transportation Trust Fund ("DMTTF" Fund-073)

The Dedicated Mass Transportation Trust Fund was established by Section 89-c of the State Finance Law. State tax receipts of the DMTTF are derived from the State's motor fuel tax, motor vehicle fees, and a portion of the petroleum business tax. The moneys of the DMTTF, pursuant to an appropriation, are used for the reconstruction, replacement, purchase, modernization, improvement, reconditioning, preservation and maintenance of mass transit facilities, vehicles, and rolling stock, or the payment of debt service or operating expenses incurred by mass transit operating agencies, and for rail projects.

Metropolitan Transportation Authority Financial Assistance Fund (Fund-225)

Chapter 25, Laws of 2009, created the Metropolitan Transportation Authority Financial Assistance Fund under the joint custody of the Commissioner of Taxation and Finance and the State Comptroller. Moneys in this special fund are to be kept separately from and not be commingled with any other moneys in the joint or sole custody of the State Comptroller or the Commissioner of Taxation and Finance. The fund contains all moneys collected, credited or transferred to it from any other fund, account or source, including the revenues derived from sources imposed by Chapter 25, Laws of 2009. These revenue sources are:

- The metropolitan commuter transportation mobility tax;
- Supplemental motor vehicle fees: a supplemental learner permit/license fee in the Metropolitan Commuter Transportation District (MCTD) and a supplemental registration fee in the MCTD;
- The supplemental tax on passenger car rentals in the MCTD; and
- The tax on medallion taxicabs in the MCTD. (On July 1, 2010, the incidence of the medallion taxicab tax is paid by medallion owners, not taxicab vehicle owners.)

Revenues generated from the mobility tax are directed to the Mobility Tax Trust Account of the MTA Financial Assistance Fund. Revenues generated from the supplemental motor vehicle fees, supplemental tax on car rentals, and the tax on taxicab rides are directed to the MTA Aid Trust Account of the MTA Financial Assistance Fund.

Mass Transportation Operating Assistance Fund ("MTOAF" Fund-313)

The Mass Transportation Operating Assistance Fund was established by Section 88-a of the State Finance Law. Tax receipts dedicated to the fund are comprised of a 17 percent surcharge levied on the portion of the State general business corporation tax, bank tax, the corporations and utilities tax, and the insurance tax allocated to the Metropolitan Commuter Transportation District (MCTD), a .375 percent sales tax levied in the MCTD, a portion of the petroleum business tax, and a portion of the taxes on transportation and transmission companies. The moneys of the MTOAF are subject to appropriation and are allocated among two accounts within the Fund. The moneys in each account must be used for the transportation assistance purposes for which each account was established. The accounts of MTOAF include:

- Public Transportation Systems Operating Assistance Account (PTOA - Fund 313-01)

- Metropolitan Mass Transportation Operating Assistance Account (MMTOA - Fund 313-02)

The PTOA receives:

- 45 percent of the 19.7 percent of the basic petroleum business tax that is dedicated to the MTOAF; and

- Included in the 2012-13 Executive Budget is a proposal to dedicate 26 percent of the receipts collected from the tax imposed on transportation and transmission companies by section 183 and 184 of Article 9 of the Tax Law.

The MMTOA receives:

- 80 percent of the receipts collected from the taxes imposed on transportation and transmission companies by sections 183 and 184 of Article 9 of the Tax Law. A proposal included in the 2012-13 Executive Budget would change this dedication from 80 percent to 54 percent;

- All tax receipts from the 17 percent surcharge imposed on taxpayers that are subject to the corporation franchise tax, corporations and utilities tax, the insurance taxes, and the bank tax and that conduct business in the Metropolitan Commuter Transportation District ("MCTD");

- Tax receipts from the 0.375 percent sales and use tax imposed in the MCTD; and

- 55 percent of the 19.7 percent of the basic petroleum business tax that is dedicated to the MTOAF.

Health Care Reform Act Resources Fund ("HCRA" Fund-061)

The Health Care Reform Act (HCRA) Resources Fund was established by section 92-dd of the State Finance Law and receives 76 percent of total State cigarette tax revenues. Other revenues dedicated to this Fund include hospital surcharges and assessments, a Covered Lives Assessment on commercial insurers and a portion of cigarette revenue from New York City's locally imposed cigarette tax. These resources support numerous public health, Medicaid and insurance programs for the uninsured/underinsured; including Family Health Plus, Healthy NY, Child Health Plus, anti-tobacco initiatives, graduate medical education, working disabled, and indigent care.

State Lottery Fund (Fund-160)

The State Lottery Fund was established by Section 92-c of the State Finance Law. Receipts of the Fund are derived from the sale of lottery tickets and from video gaming machines. The moneys of the Fund are used to pay the expenses incurred in the operation of the State Lottery and for the purchase of machinery or other capital equipment by the Division of the Lottery, and to provide aid to all school children, including pupils with special educational needs and handicapping conditions. The table below summarizes the receipts for education generated from lottery and video lottery terminals (VLTs). Lottery receipts are classified as Special Revenue miscellaneous receipts.

STATE LOTTERY FUND
(millions of dollars)

	2010-11 Actual	2011-12 Estimated	2012-13 Recommended	2013-14 Recommended	2014-15 Recommended	2015-16 Recommended
Lottery	2,108	2,072	2,176	2,178	2,173	2,175
VLTs	907	674	821	878	889	889
Total Lottery	3,015	2,746	2,997	3,056	3,062	3,064

Other Special Revenue Funds

Since 2006, certain motor vehicle fees have been reclassified from special revenue miscellaneous receipts to special revenue motor vehicle fees. Though these receipts have moved from one category to another; they still remain dedicated to the same funds.

DEBT SERVICE FUNDS

Revenue Bond Tax Fund ("RBTF" Fund 311-02)

The Revenue Bond Tax Fund was established by Section 92-z of the State Finance Law. The Fund receives 25 percent of the receipts from the State personal income tax imposed by Article 22 of the Tax Law. Payments from the Fund are pledged to pay the debt service on State-supported Personal Income Tax Revenue Bonds, which support a variety of capital projects. No later than the fifteenth day of each month, the Comptroller is required to pay over to the General Fund all money in the RBTF in excess of the aggregate amount required to be set aside for debt service.

Clean Water/Clean Air Fund ("CWCAF" Fund-361)

The Clean Water Clean Air Fund was established by Section 97-bbb of the State Finance Law. The Fund receives all real estate transfer taxes in excess of the deposit to the Environmental Protection Fund. The moneys in the Fund are used to reimburse the General Fund for transfers made to the General Debt Service Fund to pay the debt service on 1996 Clean Water/Clean Air general obligations bonds. At the end of each month, the Comptroller is required to pay over to the General Fund all moneys in the CWCAF in excess of the aggregate amount required for such reimbursements.

Local Government Assistance Tax Fund ("LGATF" Fund-364)

The Local Government Assistance Tax Fund was established by Section 92-r of the State Finance Law. The Fund receives moneys collected from the imposition of the State sales and compensating use taxes in an amount attributable to a 1 percent rate of taxation. Payments from the Fund are pledged to pay the debt service on State-supported Local Government Assistance Corporation Bonds originally issued in the early 1990s to finance payments to local governments previously financed by the State. The Comptroller is required to pay over to the General Fund all money in the LGATF in excess of the aggregate amount required to be set aside for debt service. In addition, local aid payments due to New York City and assigned by the City to the Sales Tax Asset Receivable Corporation (STARC) are appropriated from the LGATF.

CAPITAL PROJECTS FUNDS

Dedicated Highway and Bridge Trust Fund ("DHBTF" Fund-072)

The Dedicated Highway and Bridge Trust Fund was established by Section 89-b of the State Finance Law. The DHBTF receives moneys from the motor fuel tax, motor vehicle fees, highway use tax, auto rental tax, petroleum business tax and a portion of the transportation and transmission tax imposed under the corporations and utilities tax. The moneys of the Fund, pursuant to an appropriation, are used to support transportation, including the reconstruction, replacement, reconditioning, restoration, rehabilitation and preservation of State, county, town, city and village roads, aviation projects, matching Federal highway grants, snow and ice removal, acquisition of real property, bus safety inspection, rail freight facilities, intercity rail passenger facilities, state, municipal and private ports, ferry lines, and certain DMV expenses. Payments from the Fund are also pledge to support the debt service on State-supported Dedicated Highway and Bridge Trust Fund Bonds.

Environmental Protection Fund ("EPF" Fund-078)

The Environmental Protection Fund was established by Section 92-s of the State Finance Law. The Fund currently receives real estate transfer taxes in the amount of $119 million. Moneys in the Fund are deposited to the following accounts:

- The Solid Waste Account for any non-hazardous municipal landfill closure project, municipal waste reduction or recycling project or local solid waste management plans.

- The Parks, Recreation and Historic Preservation Account for any municipal park project, historic preservation project, urban cultural park project, waterfront revitalization program, or coastal rehabilitation project.

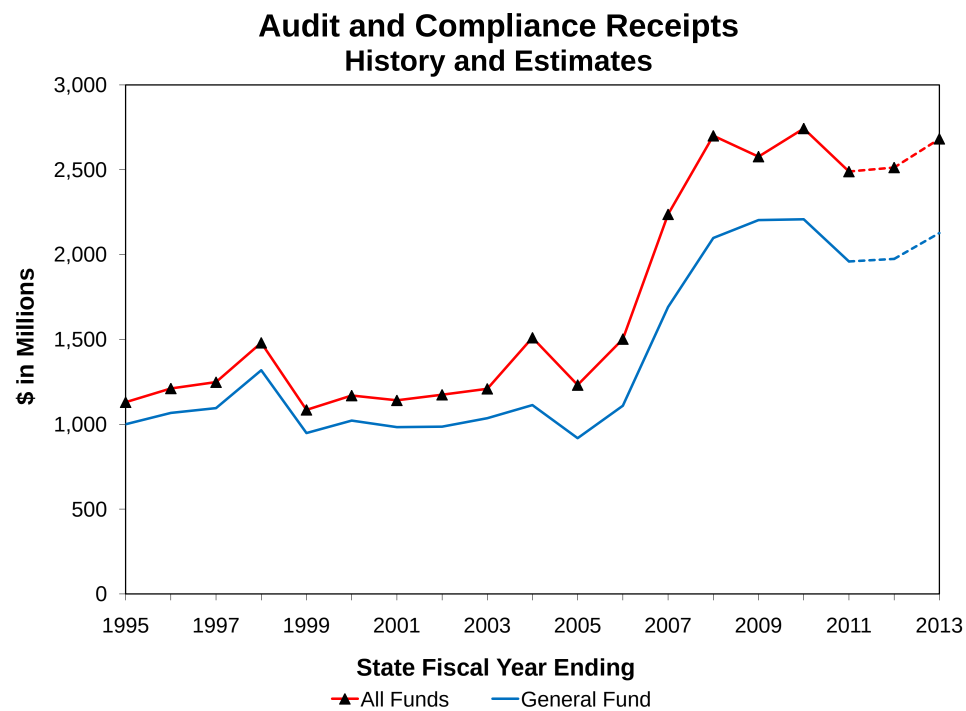
- The Open Space Account for any open space land conservation project, bio-diversity stewardship and research, non-point source abatement and control projects, upon the request of the Director of the Division of the Budget.

AUDIT AND COMPLIANCE RECEIPTS

(millions of dollars)

	2010-11 Actual	2011-12 Estimated	Change	Percent Change	2012-13 Projected	Change	Percent Change
General Fund	1,974	2,127	153	7.8	2,077	(50)	(2.4)
Other Funds	539	555	16	3.0	555	0	0.0
All Funds	2,513	2,682	169	6.7	2,632	(50)	(1.9)

Note: Totals may differ due to rounding.



PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Prohibit banks from charging fees on levied bank accounts;
- Expand the sales registration clearance process; and
- Deny STAR exemptions to persons owing past-due tax liabilities.

DESCRIPTION

This section summarizes the cash collected by the Department of Taxation and Finance related to its audit and compliance activities. The amounts reported are already reflected in the estimates of individual tax receipts contained in this volume.

The Department of Taxation and Finance's Office of Tax Enforcement (OTE) is composed of the Audit Division, the Division of Collections and Civil Enforcement ("Collections") and the Criminal Division. The Audit Division is responsible for verifying that the correct tax has been paid and the Compliance Division is responsible for collecting the correct tax.

The collections base of OTE activities is the correct amount of taxes legally required to be paid, which is verified through the audit process. The receipts from enforcement activities are the result of incorrect tax payments, including filing returns with math errors; filing past due returns or the incorrect return; the improper interpretation of Tax Law, regulations or instructions; and tax evasion that results in a gap between the amount that is legally due and required to be paid and the amount that was voluntarily paid. In certain instances, taxpayers may also be subject to penalties and interest.

Growth in Recent Collections

TABLE 1
Growth All Funds Audit and Compliance Collections
(in millions)

	All Funds Audit and Compliance Collections	Change from Prior Year	Percent Change from Prior Year
1994-95	1,211		
1995-96	1,247	36	3.0
1996-97	1,480	233	18.7
1997-98	1,085	(395)	(26.7)
1998-99	1,169	84	7.7
1999-00	1,141	(28)	(2.4)
2000-01	1,174	33	2.9
2001-02	1,209	35	3.0
2002-03	1,510	301	24.9
2003-04	1,232	(278)	(18.4)
2004-05	1,503	271	22.0
2005-06	2,237	734	48.8
2006-07	2,700	463	20.7
2007-08	2,577	(123)	(4.5)
2008-09	2,743	166	6.4
2009-10	2,489	(254)	(9.3)
2010-11	2,513	24	1.0
Estimated			
2011-12	2,682	169	6.7
2012-13	2,632	(50)	(1.9)

Collectively, it is estimated that the portion of All Funds receipts attributable to enforcement activities and reflected in the estimates and projections of the individual taxes will be roughly $2.7 billion in 2011-12 and $2.6 billion in 2012-13. This source of receipts grew a dramatic 122 percent between 2003-04 and 2008-09. This growth can be attributed to a combination of policy actions adopted over the past few years and improved performance by the Department of Taxation and Finance in identifying and concluding productive audits. Prior to 2002-03, enforcement receipts were relatively stable in the range of $1.1 billion to $1.2 billion annually.

The historic two-year growth in audit and compliance receipts of $1.2 billion (80 percent) from 2004-05 to 2006-07 was largely attributable to growth in audit collections from business taxes of nearly 207 percent, or $1,043 million.

The significant increase attributable to business taxes was primarily the result of: (1) the Voluntary Compliance Initiative (VCI) enacted in 2005, which provided for reduced penalties for the voluntary reporting of tax shelter activities, (2) several audits involving back years that were closed following a favorable Tax Tribunal decision, and (3) the settlement of audit issues with a significant number of financial service and other large multi-state taxpayers.

Estimated Receipts for 2011-12

TABLE 2
ALL FUNDS AUDIT AND COMPLIANCE COLLECTIONS BY TAX TYPE
(in millions)

	2010-11	2011-12	Change from Prior Year	Percent Change from Prior Year
Personal Income Tax	**936**	**912**	**(24)**	**(2.6)**
User Taxes and Fees	**429**	**437**	**8**	**1.9**
Business Taxes	**1106**	**1,289**	**183**	**16.5**
Corporation and Utilities Taxes	13	54	41	315.4
Corporate Franchise Tax	809	1,085	276	34.1
Bank Tax	239	126	(113)	(47.3)
Insurance Tax	38	18	(20)	(52.6)
Petroleum Business Taxes	7	6	(1)	(14.3)
Other Taxes	**42**	**44**	**2**	**4.8**
Total	**2,513**	**2,682**	**169**	**6.7**

Audit and compliance receipts for 2011-12 are estimated to be $2,682 million, an increase of $169 million (6.7 percent) from 2010-11. The increase is composed of: $8 million (1.9 percent) from user taxes and fees, $183 million (16.5 percent) from business taxes, and $2 million from other taxes partially offset by a $24 million (2.6 percent) decline in the personal income tax. Overall, audit and compliance receipts are projected to continue to remain significantly above the average collections for the period before 2005-06.

Estimated Receipts for 2012-13

TABLE 3
ALL FUNDS AUDIT AND COMPLIANCE COLLECTIONS BY TAX TYPE
(in millions)

	2011-12	2012-13	Change from Prior Year	Percent Change from Prior Year
Personal Income Tax	**912**	**976**	**64**	**7.0**
User Taxes and Fees	**437**	**452**	**15**	**3.4**
Business Taxes	**1,289**	**1,160**	**(129)**	**(10.0)**
Corporation and Utilities Taxes	54	54	0	0.0
Corporate Franchise Tax	1,085	800	(285)	(26.3)
Bank Tax	126	287	161	127.8
Insurance Tax	18	13	(5)	(27.8)
Petroleum Business Taxes	6	6	0	0.0
Other Taxes	**44**	**44**	**0**	**0.0**
Total	**2,682**	**2,632**	**(50)**	**(1.9)**

Audit and compliance receipts for 2012-13 are projected to be $2,632 million, a decline of $50 million (1.9 percent) from 2011-12. The decline in audit and compliance receipts is mainly due to fewer projected large business tax cases. The overall decrease results from a $129 million decrease in business taxes partially offset by increases of $64 million in the personal income tax and $15 million in user taxes and fees.

Trends in All Funds Audit and Tax Receipts

Table 4 below reports All Funds audit and compliance collections, All Funds tax receipts, and All Funds audit and compliance collections as a percent of All Funds tax receipts. Although All Funds audit and compliance receipts have fluctuated over time, they have consistently comprised roughly 3 percent to 5 percent of total All Funds tax receipts. In 2009-10 and 2010-11, audit and compliance receipts were 4.4 percent and 4.2 percent, respectively, of All Funds tax receipts. In 2011-12 and 2012-13, audit and compliance receipts are expected to be 4.2 percent and 4 percent of total All Funds tax receipts, respectively.

TABLE 4
All Funds Audit and Compliance Collections As A Percent of All Funds Tax Receipts* (in millions)

	All Funds Audit and Compliance Collections	All Funds Tax Receipts	Audit and Compliance As a Percent of All Funds
1994-95	1,211	33,050	3.7
1995-96	1,247	33,927	3.7
1996-97	1,480	34,620	4.3
1997-98	1,085	35,921	3.0
1998-99	1,169	38,495	3.0
1999-00	1,141	41,389	2.8
2000-01	1,174	44,658	2.6
2001-02	1,209	42,475	2.8
2002-03	1,510	39,626	3.8
2003-04	1,232	42,851	2.9
2004-05	1,503	48,598	3.1
2005-06	2,237	53,578	4.2
2006-07	2,700	58,740	4.6
2007-08	2,577	60,871	4.2
2008-09	2,743	60,338	4.5
2009-10	2,489	56,440	4.4
2010-11	2,513	59,511	4.2
Estimated			
2011-12	2,682	63,137	4.2
2012-13	2,632	65,372	4.0

* Excludes Metropolitan Commuter Transportation Mobility Tax receipts.

As shown in Table 5 below, the historical distribution of audit and compliance receipts by broad tax categories (i.e., personal income tax, business taxes, user taxes and fees, and miscellaneous/other taxes) differs significantly from the distribution of voluntary receipts by tax category. For example, the share of total audit and compliance receipts attributable to the business tax category ranged from about 27 percent to 41 percent over the ten-year period beginning in 1995-96. However, the business taxes share of total taxes ranged from 12 percent to 19 percent over that same period. As a result of significant audit collections in the bank and corporate franchise taxes discussed earlier, the percentage share of audit receipts from business taxes deviated from these historical trends and accounted for 51 percent, 57 percent, 53 percent and 53 percent, respectively, of total 2005-06, 2006-07, 2007-08 and 2008-09 audit receipts. In 2009-10 and 2010-11, the percentage share of total audit receipts from business taxes fell to 44 percent. This percentage share reduction was mainly due to a decline in large case settlements and an increase in the personal income tax share. In 2011-12 and 2012-13, the share of audit receipts from the business taxes category is expected to remain below the 2005-06 to 2008-09 level at 48 percent and 44 percent, respectively.

Table 5								
	Percent of All Funds Audit and Compliance Collections By Tax Category				Percent of All Funds* Collections By Tax Category			
	Business Taxes	Other Taxes and Fees	User Taxes and Fees	Personal Income Tax	Business Taxes	Other Taxes and Fees	User Taxes and Fees	Personal Income Tax
1994-95	29	6	25	40	19	11	20	50
1995-96	37	7	19	37	18	11	20	51
1996-97	41	5	20	34	19	10	20	51
1997-98	39	6	20	35	18	11	20	51
1998-99	40	5	19	36	17	10	20	53
1999-00	34	6	20	40	15	10	20	55
2000-01	31	4	22	43	13	8	19	60
2001-02	32	5	20	43	12	8	19	61
2002-03	31	4	20	45	13	8	22	57
2003-04	27	4	23	46	12	8	23	57
2004-05	34	3	21	42	12	8	23	57
2005-06	51	3	15	31	12	8	21	59
2006-07	57	3	13	27	15	3	23	59
2007-08	53	1	14	32	14	3	23	60
2008-09	53	2	14	31	13	3	23	61
2009-10	44	2	15	39	13	2	23	62
2010-11	44	2	17	37	12	3	24	61
Estimated								
2011-12	48	2	16	34	13	3	23	61
2012-13	44	2	17	37	12	3	23	62

* Excludes Metropolitan Commuter Transportation Mobility Tax receipts.

Similarly, the total share of audit and compliance receipts attributable to the personal income tax does not match its share of total taxes. However, during this ten-year period, the percent shares of audit and compliance receipts and total tax receipts attributable to the user taxes and fees category were more consistent with one another, with both the audit and compliance percentage and the tax receipts percentage ranging from 19 percent to 23 percent. As a result of the high level of business tax audit receipts during the 2005-06 through 2008-09 period, the audit and compliance shares of audit receipts for user taxes and fees and the personal income tax deviated from these historical trends, but their respective shares of total tax receipts remained consistent with history. With the estimated increases in personal income tax and sales tax receipts, the 2011-12 and 2012-13 audit and compliance shares for personal income tax and user taxes and fees are expected to remain higher than the level of 2005-06 through 2008-09.

Risk to the Forecast

The audit and compliance plan in the forecast period contains risk. Even though the share of audit and compliance receipts received from business taxes is expected to decline from the high levels of 2005-06 through 2008-09, these taxes still represent more than 40 percent of total expected audit and compliance receipts. Audit and compliance receipts for the 2005-06 through 2008-09 period were driven by voluntary compliance programs and the settlement of several large financial services and multi-state taxpayer cases. Although 2011-12 audit and compliance receipts are expected to receive a boost from business tax large cases, the recent-years trend of receipts being driven more by routine audits and less by the large cases is expected to continue. Any changes of enforcement programs and audit and compliance staff focused on these tax areas may lead to instability of the audit receipts. Requiring certain financial institutions to file information returns with the State annually regarding amounts of credit/debit card settlements and third party network transactions is expected to increase sales tax audit collections starting in 2012-13.

Significant Legislation Impacting Historical Audit Receipts

Significant statutory changes that have had an impact on audit and compliance activities are summarized below.

Tax Amnesty – 1994

In 1994, New York State authorized a three-month tax amnesty program that focused on three types of taxpayers. The income tax component focused on non-residents required to file a New York return. The business tax component also focused on out-of-State taxpayers whose activities in New York State make them taxpayers, and the compensating use tax component focused on resident individuals and small businesses. This amnesty program required eligible taxpayers to pay any taxes owed in addition to all applicable interest, in exchange for the waiver of any related criminal prosecution or other administrative penalties.

Tax Amnesty – 1996

The legislation established a three-month tax amnesty program. Between November 1, 1996, and January 31, 1997, certain taxpayers could apply for a waiver of penalty relating to certain unpaid tax liabilities for taxable periods ending, or transactions or uses occurring, on or before December 31, 1994. The taxes covered by this amnesty program were the same taxes that were included under the 1985 program. These taxes were the personal income tax, the corporate franchise tax imposed under Article 9-A, certain taxes imposed under Article 9, the sales and use tax and the estate and gift tax. Three additional taxes that did not exist in 1985 were also covered by the program: the beverage container tax, the auto rental tax and the hotel occupancy tax.

The amnesty program excluded several groups of taxpayers. The excluded groups included those with outstanding liabilities owed under "sin" taxes (i.e., the alcoholic beverage tax and cigarette and tobacco products taxes), the real estate transfer tax, the real property gains tax, corporate franchise taxes imposed on banks and insurance companies, large corporations (those with more than 500 employees in the United States), regulated utilities and entities principally engaged in the conduct of aviation (with a tax liability under Article 9 of the Tax Law). Taxpayers involved in a criminal investigation or civil or criminal litigation relating to the penalty for which amnesty is sought were also excluded. Finally, taxpayers that received benefits under New York State's 1985 and 1994 amnesty programs were ineligible for amnesty for those taxes for which they already received benefits.

Tax Amnesty – 2003

Taxpayers with outstanding liabilities were given a limited opportunity to settle those liabilities without penalties and with a reduction in the appropriate rate of interest. The tax amnesty applied to the personal income tax, sales and compensating use tax, corporate franchise taxes other than the bank and insurance taxes, and various excise taxes. The amnesty applied to taxable periods ending on or before December 31, 2000, or in the case of the sales tax or excise taxes with quarterly returns, periods ending on or before February 28, 2001. Under the estate tax, amnesty applied to estates of decedents dying on or before February 1, 2000.

Amnesty participants received a waiver of certain penalties and a two-percent reduction in the applicable interest rate relating to unpaid liabilities. Amnesty was not granted to taxpayers under criminal investigation, taxpayers who had been convicted of a tax-related crime, taxpayers who were parties to administrative proceedings with the Department of Taxation and Finance, or taxpayers with more than 500 employees.

Intangible Assets

Legislation enacted in 2003 required taxpayers (with some exceptions) who deduct interest or royalty expenses for amounts paid to a related member for the use of intangible assets to add those deductions back to their taxable income.

Temporary Tax-Shelter Disclosure and Voluntary Compliance Initiative

Legislation enacted in 2005 created a tax-shelter disclosure requirement for taxpayers or advisors engaging in abusive tax shelters to provide copies of their Federal reports to the Commissioner of Taxation and Finance. The legislation also allowed taxpayers a limited period of time (from October 1, 2005, through March 1, 2006) to avoid substantial new penalties by voluntarily disclosing participation in such a shelter by filing amended returns for the liability periods affected. The Voluntary Compliance Initiative was available for tax liabilities under Articles 9, 9-A, 22, 30, 32 and 33. The disclosure reporting requirements mirror the permanent Federal requirements and were to sunset in July 2007. Chapter 60, Laws of 2007, extended the provisions by two years, to July, 2009. Legislation enacted in 2008 extended these provisions by an additional two years and re-opened the Voluntary Compliance Initiative from November 1, 2008, through January 31, 2009.

Penalty and Interest Discount Program (PAID)

As part of the Deficit Reduction Package enacted in November 2009, PAID was designed to increase tax audit and compliance collections by temporarily reducing the penalties and interest owed on many overdue tax liabilities for which the taxpayer had been issued an assessment or final determination by the Department of Taxation and Finance. Specifically, the assessment or final determination must have been issued on or before December 31, 2006. Penalties and interest were reduced by either 20 percent or 50 percent (depending on the age of the assessment) if the tax had been paid in full by the end of PAID, which was open for collections from January 15, 2010, through March 15,

2010. This program increased All Funds audit and compliance receipts by $50 million in 2009-10.