STATE OF

NEW YORK

2010-11 Executive Budget
Economic and Revenue Outlook

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2010-11 EXECUTIVE BUDGET

ECONOMIC AND REVENUE OUTLOOK

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RECEIPTS OVERVIEW

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The Economic and Revenue Outlook is a volume designed to enhance the presentation and transparency of the 2010-11 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 2010-11 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* and a *Data Appendix* for this volume are available at the Division of the Budget's website at http://www.budget.state.ny.us/pubs/supporting/ForecastMethodology-FINAL_11-05-09.pdf. 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 2010-11 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.

- **2010-11 Revenue Actions**: Summarizes the revenue actions proposed with the 2010-11 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 Receipt 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 longest and most severe national recession since 1930 has ended, with the U.S. economy growing 2.2 percent in the third quarter of 2009. Real U.S. GDP is now projected to rise 2.8 percent for 2010, following a decline of 2.5 percent in 2009. The labor market appears poised for an upturn after two years and 7.2 million jobs lost. Though employment is expected to remain flat on an annual average base, DOB projects quarterly net job growth starting in the first quarter of 2010. Although the pace of job losses has greatly diminished, employment is still falling and the unemployment rate is expected to remain close to 10 percent throughout much of 2010. Therefore, it is unlikely that the labor market will be able to support a strong rebound in consumer demand, which accounts for about two thirds of total economy activity, anytime soon. DOB expects consumption growth of 2.2 percent for 2010, following a decline of 0.6 percent for 2009. DOB projects wage growth of 4.1 percent for 2010, following a 3.3 percent decline in 2009, the first annual decline in wages since 1954. Inflation, as measured by the change in the CPI, is expected to increase to 2.2 percent for 2010, following a decline in consumer prices of 0.3 percent for 2009. Corporate profits are projected to grow 12.7 percent for 2010, following a 5.1 percent decline for 2009.

THE NEW YORK STATE ECONOMY

Having entered the current recession about eight months behind the nation as a whole, New York State is seeing early signs that the economy is poised for a recovery, which implies that the State's downturn will have been about the same length as the nation's, a welcome departure from the pattern of the last forty years. Moreover, New York's peak-to-trough rate of decline in employment is not expected to be as large as the nation's, another welcome departure from the State's prior two recessions. This suggests that the historic level of government policy stimulus, especially the Federal Reserve's unprecedentedly aggressive monetary policies, is at work. Monetary policy actions tend to have disproportionately large impact on New York because of the concentration of the financial service industry in New York City. Though the State labor market may not have fared as poorly as the nation, the same cannot be said for wages. State wages are estimated to have fallen 6.1 percent in 2009, compared with a decline of 3.3 percent for the nation. This estimated decline for 2009 in wages represents the largest in the history of Quarterly Census of Employment and Wages (QCEW) data, and is due in large part to the 50.9 percent decline in finance and insurance sector bonuses estimated for the first quarter of the year compared with the same quarter of 2008.

The Budget Division projects declines in total and private sector State employment for 2010 of 0.4 percent and 0.6 percent, respectively, following declines of 2.6 percent and 3.2 percent in 2009. This forecast is consistent with year-over-year net job growth beginning in the fourth quarter of 2010. The finance and insurance sector is expected to see the largest employment decline of any economic sector at 3.1 percent for 2010, following last year's 6.2 percent decline. From peak to trough, this sector is expected to lose over 60,000 jobs, which is even greater than the losses that followed the September 11 attacks. The outlook for State wages calls for growth of 3.8 percent for 2010, following the historic 6.1 percent decline for 2009. Both bonus and non-bonus wages are expected to contribute to this turnaround. Severely affected by the financial crisis and its impact on every market from real estate to equities, capital gains realizations are estimated to have fallen 35.1 percent for 2009, following a 52.6 percent decline for 2008. Compared with the record level of gains reported for 2007, the 2009 estimate represents a decline of $82 billion, or about 70 percent. Capital gains are expected to grow by 58.7 percent in 2010 largely due to the anticipated rise in the gains tax rate at the end of the year and stabilizing economic conditions.

SELECTED ECONOMIC INDICATORS
(Calendar Year)

	2008 (actual[1])	2009 (estimate)	2010 (forecast)	2011 (forecast)	2012 (forecast)	2013 (forecast)
U.S. Indicators[2]						
Real Gross Domestic Product ($B)	13,312	12,977	13,338	13,779	14,271	14,779
Percent Change	0.4	(2.5)	2.8	3.3	3.6	3.6
Personal Income ($B)	12,239	12,070	12,578	13,159	13,946	14,784
Percent Change	2.9	(1.4)	4.2	4.6	6.0	6.0
Nonagricultural Employment (mil.)	137.0	132.0	132.0	133.9	136.8	139.9
Percent Change	(0.4)	(3.7)	(0.0)	1.5	2.1	2.3
Unemployment Rate	5.8	9.3	9.8	9.1	8.2	7.5
CPI Inflation	3.8	(0.3)	2.2	2.0	2.2	2.3
New York State Indicators						
Personal Income[2] ($B)	933.6	901.0	934.8	973.8	1,028.6	1,080.2
Percent Change	2.7	(3.5)	3.8	4.2	5.6	5.0
Wages and Salaries[2] ($B)	518.3	486.5	505.1	520.8	549.9	575.3
Percent Change	2.0	(6.1)	3.8	3.1	5.6	4.6
Bonuses[3] ($B)	83.1	57.0	64.2	61.9	71.1	75.7
Percent Change	(4.5)	(31.3)	12.6	(3.5)	14.8	6.4
Employment[2] (thousands)	8,583.8	8,356.8	8,325.4	8,388.5	8,456.0	8,515.1
Percent Change	0.7	(2.6)	(0.4)	0.8	0.8	0.7
Unemployment Rate (percent)	5.4	8.4	9.2	8.5	7.7	7.5
NYS Adjusted Gross Income (NYSAGI)						
Capital Gains ($M)	56,030	36,363	57,709	30,754	40,866	44,734
Percent Change	(52.6)	(35.1)	58.7	(46.7)	32.9	9.5
Total NYSAGI ($M)	665,908	606,976	659,184	657,128	705,533	744,802
Percent Change	(8.2)	(8.8)	8.6	(0.3)	7.4	5.6

[1] For NYSAGI and capital gains, 2008 data are preliminary.
[2] Nonagricultural employment, w age, and personal income data are based on QCEW data.
[3] Series created by the Division of the Budget.
Source: Moody's Economy.com; NYS Department of Labor; NYS Department of Taxation and Finance; DOB staff estimates.

THE REVENUE SITUATION

With New York as the world's financial capital, the impact of the most recent financial crisis on the State's fiscal condition has been devastating. Base receipts – corrected for State law changes – are estimated to decline 10.5 percent in 2009-10, following a 3.0 percent decline for 2008-09. Consistent with an economic recovery projected to begin during the first quarter of this year, base tax receipts growth is expected to rebound to 3.1 percent in 2010-11 and 6.4 percent in 2011-12. But there are significant risks to this forecast, as there always are around business cycle turning points. Wall Street bonus payments are always difficult to predict given the volatile nature of the financial markets, but particularly in the current environment given the political crucible Wall Street now finds itself in. Moreover, the State's real estate market is still in decline, with the commercial sector especially at risk. Even though the labor market has neared its trough, job growth is expected to remain weak over the next few years. Therefore, it will take some time for household spending to regain its pre-recession level. Corporate profits are expected to continue growing, consistent with the strengthening of the national recovery, but the lag between the realization of profits and the tax payments generated by those profits has made business tax receipts especially difficult to pin down.

The end of the State's economic downturn, the full-year impact of the temporary rate increase, the stock market recovery, and the sunset at the end of 2010 of preferential Federal tax rates on both capital gains and ordinary income are expected to provide growth of 5.4 percent in personal income tax receipts in 2010-11. Projected corporate profits growth for the 2010 calendar year should result in a return to growth in business tax receipts beginning in 2010-11. With the recovery in household spending, sales tax growth is expected to turn positive in 2010-11, after posting one of the worst annual sales tax declines on record in 2009-10.

Finally, the Tax Department will add over 300 employees to its compliance staff, which is expected to increase audit and compliance collections by $221 million annually.

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

State Fiscal Year	Actual Receipts	Base Receipts	Inflation Adjusted Base Receipts
1987-88	6.2	6.4	2.4
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	6.3
1999-00	7.5	9.1	6.5
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	11.4	8.4
2005-06	10.2	9.5	5.9
2006-07	9.6	12.9	10.0
2007-08	3.6	6.0	2.7
2008-09	(0.9)	(3.0)	(5.7)
2009-10*	(0.8)	(10.5)	(10.8)
2010-11**	5.6	3.1	1.1
2011-12**	5.6	6.4	4.3
2012-13**	1.3	7.5	5.2
2013-14**	4.7	4.8	2.5

	Actual Change	Base Change	Adjusted Base Change
Historical Average (87-88 to 08-09)	4.3	4.2	1.1
Forecast Average (09-10 to 13-14)	3.3	2.3	0.5
Forecast Average (10-11 to 13-14)	4.3	5.5	3.3
Recessions	1.6	(1.0)	(3.9)
Expansions	5.7	6.4	3.4

*Estimated Receipts

** Projected Receipts

TOTAL RECEIPTS (millions of dollars)	2008-09 Actual	2009-10 Estimated	Annual $ Change	Annual % Change	2010-11 Projected	Annual $ Change	Annual % Change
General Fund	**53,801**	**53,557**	**(244)**	**-0.5%**	**54,570**	**1,013**	**1.9%**
Taxes	38,301	37,874	(427)	-1.1%	39,927	2,053	5.4%
Miscellaneous Receipts	3,105	3,508	403	13.0%	2,903	(605)	-17.2%
Federal Grants	45	68	23	51.1%	60	(8)	-11.8%
Transfers	12,350	12,107	(243)	-2.0%	11,680	(427)	-3.5%
State Funds	**80,265**	**81,811**	**1,546**	**1.9%**	**84,626**	**2,815**	**3.4%**
Taxes	60,337	59,839	(498)	-0.8%	63,213	3,374	5.6%
Miscellaneous Receipts	19,883	21,903	2,020	10.2%	21,352	(551)	-2.5%
Federal Grants	45	69	24	53.3%	61	(8)	-11.6%
All Funds	**119,235**	**131,059**	**11,824**	**9.9%**	**133,001**	**1,942**	**1.5%**
Taxes	60,337	59,839	(498)	-0.8%	63,213	3,374	5.6%
Miscellaneous Receipts	20,064	22,133	2,069	10.3%	21,541	(592)	-2.7%
Federal Grants	38,834	49,087	10,253	26.4%	48,247	(840)	-1.7%

FISCAL YEAR 2009-10 OVERVIEW

- Total All Funds receipts are estimated to reach $131 billion, an increase of $11.8 billion, or 9.9 percent from 2008-09 results. All Funds tax receipts are estimated to decrease by $498 million, or 0.8 percent. The majority of the decrease in tax receipts is attributable to declines in the personal income tax, the real estate transfer tax, and the estate tax.

- All Funds miscellaneous receipts are projected to reach $22.1 billion in 2009-10, an increase of nearly $2.1 billion from 2008-09, largely driven by growth in the General Fund, lottery and VLT revenues ($287 million) and State University income ($410 million) partially offset by a reduction in projected revenue from HCRA conversion proceeds ($138 million) and reductions in various special revenue funds.

- Total State Funds receipts are estimated to reach nearly $82 billion in 2009-10, an increase of $1.5 billion, or 1.9 percent.

- Total General Fund receipts are estimated at nearly $54 billion, a decrease of $244 million, or 0.5 percent from 2008-09 results. General Fund tax receipts are estimated to decrease by 1.1 percent. General Fund miscellaneous receipts are estimated to increase by 13.0 percent, reflecting actions taken with the 2009-10 Enacted Budget, as well as actions taken with this Budget.

- Base tax receipts growth, which nets out the impact of law changes, will decrease by an estimated 10.5 percent in 2009-10 after a base decline of 3.0 percent in 2008-09.

FISCAL YEAR 2010-11 OVERVIEW

- Total All Funds receipts are expected to reach $133 billion, an increase of $1.9 billion, or 1.5 percent from 2009-10 estimates. All Funds tax receipts are projected to grow by nearly $3.4 billion or 5.6 percent. This increase is attributable to the full year impact of the temporary personal income tax rate increase, expiring Federal tax laws, and positive revenue actions proposed with this Budget. All Funds Miscellaneous receipts are projected to decrease by $592 million, or 2.7 percent. All Funds Federal grants are expected to decrease by $840 million, or 1.7 percent.

- Total State Funds receipts are projected to be nearly $85 billion, an increase of $2.8 billion, or 3.4 percent from the 2009-10 estimate.

- Total General Fund receipts are projected to be nearly $55 billion, an increase of $1.0 billion, or 1.9 percent from 2009-10 estimates. General Fund tax receipts are projected to grow by 5.4 percent, while General Fund miscellaneous receipts are projected to decline by 17.2 percent, reflecting the loss of several one-time payments. Federal grants revenues are projected to decline by 11.8 percent due to a shift in the timing of payments.

- After controlling for the impact of policy changes, base tax revenue growth is estimated to increase by 3.1 percent for fiscal year 2010-11. The expected rebound in economic activity is expected to increase base growth in tax receipts for the first time since 2007-08.

Change from Mid-Year Update

Revised Estimates and Projections

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

	2009-10 Mid-Year Update	2009-10 Executive Budget	$ Change	% Change	2010-11 Mid-Year Update	2010-11 Executive Budget	$ Change	% Change
General Fund*	**40,454**	**41,450**	**996**	**2.5**	**42,848**	**42,890**	**42**	**0.1%**
Taxes	37,272	37,874	602	1.6	40,101	39,927	(174)	-0.4%
Miscellaneous Receipts	3,114	3,508	394	12.7	2,687	2,903	216	8.0%
Federal Grants	68	68	0	0.0	60	60	0	0.0%
State Funds	**80,608**	**81,811**	**1,203**	**1.5**	**84,587**	**84,626**	**39**	**0.0%**
Taxes	59,383	59,839	456	0.8	63,346	63,213	(133)	-0.2%
Miscellaneous Receipts	21,156	21,903	747	3.5	21,180	21,352	172	0.8%
Federal Grants	69	69	0	0.0	61	61	0	0.0%
All Funds	**128,855**	**131,059**	**2,204**	**1.7**	**133,599**	**133,001**	**(598)**	**-0.4%**
Taxes	59,383	59,839	456	0.8	63,346	63,213	(133)	-0.2%
Miscellaneous Receipts	21,385	22,133	748	3.5	21,366	21,541	175	0.8%
Federal Grants	48,087	49,087	1,000	2.1	48,887	48,247	(640)	-1.3%

* Excludes Transfers

All Funds receipts estimates have been revised upward by $2.2 billion for fiscal year 2009-10 from the Mid-Year Financial Plan Update. The upward tax revision is mostly due to the Penalty and Interest Discount Program (PAID) and a significant bank tax reestimate. Miscellaneous receipts and Federal grants were revised upward by over $1.7 billion due to increases in current-year Federal spending, as well as revenue advanced to 2009-10 from the Aqueduct VLT contract, sweeps from the Battery Park funds, and timing-related changes to capital project revenue.

General Fund receipts for fiscal year 2009-10 have been revised upward by $966 million, mainly reflecting increases in all tax areas, as well as increased one-time payments in miscellaneous receipts.

All Funds receipts estimates have been reduced by $598 million for fiscal year 2010-11 from the Mid-Year Financial Plan Update. The majority of this decrease is attributable to a $640 million reduction in Federal Grants which reflects the Federal impact of savings actions in Medicaid and School Aid.

General Fund receipts for fiscal year 2010-11 have been revised upward by $42 million. Tax revisions account for a decrease of $174 million, while miscellaneous receipts increase by $216 million.

Proposed Law Changes

The 2010-11 Executive Budget includes changes to tax law that would:

- reform certain components of our tax structure to ensure that tax burdens are fairly distributed, that our tax incentive programs are most efficiently utilized and that tax payers 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 2010-11 and beyond.

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.

ALL FUNDS LEGISLATION ($ in millions)	2010-11	2011-12	2012-13	2013-14
Revenue Enhancements	**1,032**	**1,544**	**1,528**	**1,574**
Personal Income Tax	**30**	**44**	**44**	**44**
Define Flow-Through Entities as Taxpayers For QETC and Biofuel Credit Claims	0	2	2	2
Treat S-Corp Gains and Installment Income as Taxable To Non Residents	30	12	12	12
Close Resident Trust Loophole	0	25	25	25
Treat Compensation For Past Services as Taxable To Non Residents	0	5	5	5
User Taxes and Fees	**779**	**1,276**	**1,258**	**1,302**
Allow the Sale of Wine in Grocery Stores	93	54	5	5
Impose a New Excise Tax on Beverage Syrups and Soft Drinks	465	1,000	1,000	1,000
Increase the Cigarette Tax by $1.00 per Pack	218	215	211	207
Narrow Affiliate Nexus Provisions	(5)	(5)	(5)	(5)
Require Informational Returns for Credit and Debit Cards	0	0	35	83
Allow the Use of Statistical Sampling for Certain Sales Tax Audits	8	12	12	12
Business Taxes	**0**	**1**	**3**	**5**
Severance Tax on Natural Gas Production	0	1	3	5
Other Taxes	**2**	**2**	**2**	**2**
Legalize Mixed Martial Arts In New York	2	2	2	2
Improve Audit and Compliance	**221**	**221**	**221**	**221**
Tax Reductions	**(4)**	**(4)**	**(197)**	**(346)**
Expand the Low Income Housing Tax Credit Program	(4)	(4)	(4)	(4)
Empire Zones Replacement Program	0	0	(25)	(50)
Extend and Expand Film Tax Credit	0	0	(168)	(292)
Total All Funds Legislation Change	**1,028**	**1,540**	**1,331**	**1,228**

PERSONAL INCOME TAX

- Require certain S corporation gains from acquisition, liquidation, and installment sales of assets to be treated as New York source income by nonresident shareholders to the extent that the business was conducted in New York;
- Make termination payments, covenants not to compete and other compensation for past services taxable to nonresidents unless specifically exempt under Federal law;
- Equalize maximum bio-fuel and QETC facilities, operations and training credit caps for corporations and unincorporated businesses;
- Recognize legally performed same sex marriages for purposes of determining marital filing status;
- Reduce the ability of certain resident trusts to avoid tax through the use of nonresident trustees;
- Create a school property tax circuit breaker credit, which would take effect when the State ends its fiscal year with a surplus;
- Make technical corrections to Part S-1 of Chapter 57 of 2009 (2009-10 Enacted Budget) to clarify that the State Legislature intended to make Empire Zones decertification provisions applicable to tax year 2008;

- Provide an additional film tax credit allocation for calendar years 2010 through 2014 at $420 million per year or $2.1 billion over this period;

- Provide the Commissioner of the Division of Housing Community Renewal authorization to allocate an additional $4 million in low income housing tax credits;

- Create a new set of economic development incentives to replace the expiring Empire Zones Program, intended to provide sustained job creation, investment, and research and development expenditures in New York State;

- Eliminate STAR exemptions for residences worth $1.5 million or more,

- Limit the STAR tax rate reduction benefit for New York City residents to the first $250,000 of income; and

- Decrease the STAR exemption "floor" from 89 percent to 82 percent.

BUSINESS TAXES

- Make technical corrections to Part S-1 of Chapter 57 of 2009 (2009-10 Enacted Budget) to clarify that the State Legislature intended to make Empire Zones decertification provisions applicable to tax year 2008;

- Authorize the Commissioner of the Division of Housing and Community Renewal to allocate an additional $4 million in State Low-Income Housing Tax Credits to developers of qualifying affordable housing projects in New York;

- Provide an additional film tax credit allocation for calendar years 2010 through 2014 at $420 million per year or $2.1 billion over this period;

- Create a new set of economic development incentives to replace the expiring Empire Zones Program, intended to provide sustained job creation, investment, and research and development expenditures in New York State;

- Introduce study language requiring the Department of Taxation and Finance to provide recommendations to reform State and Local taxes on telecommunications by December 1, 2010; and

- Extend Gramm-Leach-Bliley (GLB) and related bank tax provisions for one year.

OTHER ACTIONS

- Impose a new excise tax of $7.68 per gallon for beverage syrups and $1.28 per gallon for bottled soft drinks, powders, or base products;

- Mirror federal requirements by requiring certain financial institutions to also file information returns with the state annually regarding amounts of credit/debit card settlements and third party network transactions;

- Authorize the use of statistical sampling techniques for certain sales tax audits;
- Narrow the affiliate nexus provisions by excluding as a basis for sales tax vendor-status an affiliate's control over the seller;
- Allow the sale of wine in grocery stores upon payment of a franchise fee;
- Expand the base of the mortgage recording tax to include the financing of co-operatives;
- Impose a 3 percent tax on the market value of natural gas severed from a gas pool in the Marcellus or Utica Shale formation using a horizontal well;
- Increase the cigarette tax by $1 per pack, from $2.75 a pack to $3.75. The proportion of the cigarette tax dedicated to HCRA will be increased to 75 percent to ensure that all of the additional revenue is used to fund health care;
- Maintain the New York Estate Tax Unified Credit amount currently allowed independent of Federal estate tax law in effect on the date of death;
- Extends the estate tax marital deduction to same-sex spouses;
- Extend certain pari-mutuel tax rates and authorization for account wagering for a period of one year;
- Impose an admissions tax on professional combative sports matches or exhibitions (i.e. mixed martial arts) at a rate of 8.5 percent with no cap, and a 3 percent tax on receipts from broadcast rights not to exceed $50,000;
- Make permanent the authorization to operate Quick Draw. The Quick Draw game authorization expires on May 31, 2010;
- Eliminate restrictions on the Quick Draw game related to the hours of operation, food sales, and the size of establishments;
- Eliminate the restriction on the number of hours per day the Video Lottery Terminals may be operated; and
- Eliminate the sunset of the Video Lottery Gaming program.

FISCAL YEARS 2011-12, 2012-13 AND 2013-14 OVERVIEW

TOTAL RECEIPTS (millions of dollars)							
	2010-11 Projected	2011-12 Projected	Annual $ Change	2012-13 Projected	Annual $ Change	2013-14 Projected	Annual $ Change
General Fund	**54,570**	**56,978**	**2,408**	**57,345**	**367**	**60,097**	**2,752**
Taxes	39,927	41,898	1,971	42,334	436	44,476	2,142
State Funds	**84,626**	**88,411**	**3,785**	**89,196**	**785**	**92,678**	**3,482**
Taxes	63,213	66,759	3,546	67,631	872	70,829	3,198
All Funds	**133,001**	**131,234**	**(1,767)**	**132,978**	**1,744**	**137,946**	**4,968**
Taxes	63,213	66,759	3,546	67,631	872	70,829	3,198

Overall, tax receipts growth in the three fiscal years following 2010-11 is expected to remain in the range of 1.3 percent to 5.6 percent. This is consistent with a projected return to modest economic growth in the New York economy in the second half of 2010. Receipt growth is supported by proposals contained with this Budget that create or increase levies intended to deter unhealthy behavior, eliminate unintended tax loopholes and supplement Department of Taxation and Finance efforts to find non-compliant and fraudulent taxpayers. These factors are expected to continue to enhance expected receipt growth through 2013-14.

- Total All Funds receipts in 2011-12 are projected to be $131 billion, a decrease of 1.8 billion over the prior year. All Funds receipts in 2012-13 are expected to increase by $1.7 billion over 2011-12 projections. In 2013-14, receipts are expected to increase by nearly $5.0 billion over 2012-13 projections.

- Total State Funds receipts are projected to be over $88 billion in 2011-12, $89 billion in 2012-13 and nearly $93 billion in 2013-14.

- Total General Fund receipts are projected to reach $57 billion in 2011-12, $57 billion in 2012-13 and $60 billion in 2013-14.

- All Funds tax receipts are expected to increase by 5.6 percent in 2011-12, 1.3 percent in 2012-13 and 4.7 percent in 2013-14. Again, the growth pattern is consistent with an economic forecast of continued but slower economic growth.

Base Growth

Base growth, adjusted for law changes, in tax receipts for fiscal year 2009-10 is estimated to decline 10.5 percent but rebound to grow 3.1 percent in 2010-11. Overall base growth in tax receipts is dependent on a multitude of factors.

The causes of the double-digit decline in 2009-10 are well known:

- the disappearance of major investment banks and their payrolls following the sub-prime mortgage debacle;

- the decline in the value of residential real estate during the 2008-2009 period; and

- the retreat of consumer spending in the face of job losses during the past 18 months.

The expected rebound in base receipts growth in 2010-11 results from:

- a return to modest bonus growth from the financial services industry;
- improved corporate profits growth;
- positive capital gains from a resurgent stock market; and
- an end to consumption declines.

Personal Income Tax

PERSONAL INCOME TAX (millions of dollars)							
	2008-09 Actual	2009-10 Estimated	Annual $ Change	Annual % Change	2010-11 Projected	Annual $ Change	Annual % Change
General Fund*	**23,196**	**23,001**	**(195)**	**-0.8%**	**24,649**	**1,648**	**7.2%**
Gross Collections	44,011	41,817	(2,194)	-5.0%	45,218	3,401	8.1%
Refunds/Offsets	(7,171)	(6,587)	584	-8.1%	(8,075)	(1,488)	22.6%
STAR	(4,434)	(3,420)	1,014	-22.9%	(3,208)	212	-6.2%
RBTF	(9,210)	(8,809)	401	-4.4%	(9,286)	(477)	5.4%
State/All Funds	**36,840**	**35,230**	**(1,610)**	**-4.4%**	**37,143**	**1,913**	**5.4%**
Gross Collections	44,011	41,817	(2,194)	-5.0%	45,218	3,401	8.1%
Refunds	(7,171)	(6,587)	584	-8.1%	(8,075)	(1,488)	22.6%

* Excludes Transfers

All Funds personal income tax receipts for 2009-10, which reflect the net of gross payments minus refunds, are estimated at $35.2 billion, a decline of $1.6 billion (4.4 percent) from the prior year. This is primarily attributable to a dramatic drop in total estimated payments of nearly $3.2 billion (25 percent), $2.7 billion of which relates to extension payments on tax year 2008 returns. Estimated payments for tax year 2009 are projected to fall by $491 million despite the impact of the temporary tax rate increase. Payments with final returns also declined considerably, by $850 million (31.6 percent). Conversely, withholding is projected to rise by $1.5 billion (5.5 percent) due mainly to the temporary tax rate increase. Receipts from delinquencies are projected to increase by $317 million, reflecting the combination of PAID program collections and other compliance improvement initiatives. Total refunds are expected to decline by $584 million (8.1 percent) due to the offsetting impacts of higher refunds on current tax year returns (+$394 million), lower January-March refunds on tax year 2009 returns (-$500 million in the refund "cap" from $1,750 million to $1,250 million) and lower state-city offsets (-$550 million), with the latter primarily due to one-time accounting adjustments. The following table summarizes, by component, actual receipts for 2008-09 and forecast amounts through 2012-13.

PERSONAL INCOME TAX FISCAL YEAR COLLECTION COMPONENTS ALL FUNDS (millions of dollars)	2008-09 Actual	2009-10 Estimated	2010-11 Projected	2011-12 Projected	2012-13 Projected
Receipts					
Withholding	27,686	29,198	30,715	31,670	32,323
Estimated Payments	12,690	9,517	11,294	11,571	11,145
Current Year	7,889	7,398	8,294	8,200	8,075
Prior Year*	4,801	2,119	3,000	3,371	3,070
Final Returns	2,686	1,836	1,893	2,303	2,181
Current Year	192	220	207	207	207
Prior Year*	2,494	1,616	1,686	2,096	1,974
Delinquent Collections	949	1,266	1,316	1,354	1,394
Gross Receipts	**44,011**	**41,817**	**45,218**	**46,898**	**47,042**
Refunds					
Prior Year*	4,544	4,938	5,493	5,109	5,597
Previous Years	402	474	444	424	424
Current Year*	1,750	1,250	1,750	1,750	1,750
State-City Offset*	475	-75	388	388	388
Total Refunds	**7,171**	**6,587**	**8,075**	**7,671**	**8,159**
Net Receipts	**36,840**	**35,230**	**37,143**	**39,227**	**38,883**

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

All Funds income tax receipts for 2010-11 of $37.1 billion are projected to increase $1.9 billion or 5.4 percent from the prior year. This mainly reflects increases resulting from a combination of an improving economy, full taxpayer compliance with the temporary tax rate increase, partially offset by a decline from the timing of refunds. Gross receipts are projected to increase 8.1 percent and reflect projected tax year 2010 estimated payments growth of 12.1 percent ($896 million), while withholding is expected to grow $1.5 billion (5.2 percent). The growth in estimated tax is partly fueled by an expected "spinup" in capital gains realizations in 2010 in anticipation of higher Federal tax rates on such gains after 2010. Payments from extensions and final returns for tax year 2009 are projected to increase by 41.6 percent and 4.1 percent, respectively, with the former largely reflecting the "catch up" by many high income taxpayers to their full tax rate liability increases. Receipts from delinquencies are projected to increase $50 million over the prior year, with expected additional revenues from additional compliance staff replacing the loss of the one-time PAID program collections in 2009-10. Total refunds are estimated to rise by $1.5 billion (22.6 percent), mainly reflecting the shift of $500 million of tax year 2009 refunds from 2009-10 to 2010-11, plus the one-time decline in 2009-10 refunds associated with the state-city offset accounting adjustments.

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 2009-10 of $23.0 billion are expected to decline by $195 million, or 0.8 percent, from the prior year, mainly reflecting the decline in All Funds receipts noted above. Offsetting this decline, however, are a $1 billion drop in transfers to the STAR Fund, mainly due to the elimination of the STAR rebate program after 2008-09, and a $401 million decrease in deposits to the RBTF.

General Fund income tax receipts for 2010-11 of $24.6 billion are projected to rise by $1.6 billion or 7.2 percent over the prior year. Along with the increase in All Funds receipts noted above, the STAR transfer is expected to decline by $211 million due mainly to the proposals to limit exemption amounts and cap the value of the New York City STAR income tax rate reduction program. Deposits to the RBTF are expected to increase by $477 million (5.4 percent), the same percentage increase as projected for net collections since the transfer equals 25 percent of net collections.

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

	2009-10				2010-11			
	Mid Year Update	Revised	$ Change	% Change	Mid Year Update	Executive Financial Plan	$ Change	% Change
General Fund*	**22,831**	**23,001**	**170**	**0.7%**	**24,996**	**24,649**	**(347)**	**-1.4%**
Gross Collections	41,597	41,817	220	0.5%	45,253	45,218	(35)	-0.1%
Refunds/Offsets	(6,567)	(6,587)	(20)	0.3%	(7,285)	(8,075)	(790)	10.8%
STAR	(3,440)	(3,420)	20	-0.6%	(3,480)	(3,208)	272	-7.8%
RBTF	(8,759)	(8,809)	(50)	0.6%	(9,492)	(9,286)	206	-2.2%
State/All Funds	**35,030**	**35,230**	**200**	**0.6%**	**37,968**	**37,143**	**(825)**	**-2.2%**
Gross Collections	41,597	41,817	220	0.5%	45,253	45,218	(35)	-0.1%
Refunds	(6,567)	(6,587)	(20)	0.3%	(7,285)	(8,075)	(790)	10.8%

* Excludes Transfers

Compared to the Mid-Year Update, 2009-10 All Funds income tax receipts are revised upward by $199 million. The increase primarily reflects lower tax year 2009 refunds of $500 million (i.e., the "cap" reduction noted above), $270 million in better-than-expected withholding and an additional $150 million in delinquency payments from the PAID program which was enacted after the Mid-Year Update. These increases are partially offset by higher tax year 2008 refunds of $420 million, lower tax year 2009 estimated payments of $200 million, higher prior year refunds of $80 million and $20 million more in state-city offsets.

Compared to the Mid-Year Update, 2010-11 All Funds income tax receipts are revised downward by $825 million. This reflects higher withholding ($270 million) and a $147 million increase in delinquency payments relating to increased audit resources. These increases are more than offset by a $452 million reduction in estimated payments, and $790 million in additional refunds ($500 million of which reflects the shift from January-March 2010 to April 2010). Proposed legislation would reduce refunds by $30 million.

PERSONAL INCOME TAX (millions of dollars)							
	2010-11 Projected	2011-12 Projected	Annual $ Change	2012-13 Projected	Annual $ Change	2013-14 Projected	Annual $ Change
General Fund*	**24,649**	**26,053**	**1,404**	**25,635**	**(418)**	**27,072**	**1,437**
Gross Collections	45,218	46,900	1,682	47,042	142	49,516	2,474
Refunds/Offsets	(8,075)	(7,671)	404	(8,159)	(488)	(8,477)	(318)
STAR	(3,208)	(3,368)	(160)	(3,527)	(159)	(3,707)	(180)
RBTF	(9,286)	(9,808)	(522)	(9,721)	87	(10,260)	(539)
State/All Funds	**37,143**	**39,229**	**2,086**	**38,883**	**(346)**	**41,039**	**2,156**
Gross Collections	45,218	46,900	1,682	47,042	142	49,516	2,474
Refunds	(8,075)	(7,671)	404	(8,159)	(488)	(8,477)	(318)

* Excludes Transfers

All Funds income tax receipts for 2011-12 of $39.2 billion are projected to increase $2.1 billion or 5.6 percent over the prior year. Gross receipts are projected to increase 3.7 percent and reflect withholding that is projected to grow by 3.1 percent ($955 million). The rate of growth is suppressed somewhat by the expiration of the temporary tax rate increase after 2011. Total estimated taxes on prior and current year liabilities are expected to grow by 2.5 percent, with a $371 million (12.4 percent) increase in extensions on tax year 2010 returns offset by a $94 million (1.1 percent) decline in payments on tax year 2011 returns, the latter reflecting the "spindown" from the higher capital gains realizations in 2010 noted above. Payments from final returns are expected to increase 21.7 percent ($410 million) reflecting the stronger income growth starting in tax year 2010. Delinquencies are projected to increase $38 million or 2.9 percent over the prior year. Total refunds are projected to decline by $404 million or 5.5 percent over the prior year, reflecting the one-time addition of $500 million of current refunds in 2010-11.

General Fund income tax receipts for 2011-12 of $26.1 billion are projected to increase by $1.4 billion million, or 5.7 percent. This reflects a $160 million increase in STAR deposits to account for overall program cost growth, and a $521 million increase in deposits to the RBTF.

All Funds income tax receipts for 2012-13 and 2013-14 are projected to fall to $38.9 billion then rise to $41.0 billion, representing a decline of 0.9 percent and growth of 5.5 percent, respectively. The odd growth rates represent the expiration of the temporary rate increase after calendar year 2011. Otherwise, growth reflects fairly typical patterns absent legislation or unusual economic events. General Fund receipts are projected at $25.6 billion and $27.1 billion, respectively.

User Taxes and Fees

USER TAXES AND FEES (millions of dollars)	2008-09 Actual	2009-10 Estimated	Annual $ Change	Annual % Change	2010-11 Projected	Annual $ Change	Annual % Change
General Fund*	**8,361**	**8,229**	**(132)**	**-1.6%**	**8,634**	**405**	**4.9%**
Sales Tax	7,707	7,504	(203)	-2.6%	7,786	282	3.8%
Cigarette and Tobacco Taxes	446	437	(9)	-2.0%	438	1	0.2%
Motor Vehicle Fees	(42)	13	55	-131.0%	42	29	223.1%
Alcoholic Beverage Taxes	206	223	17	8.3%	229	6	2.7%
ABC License Fees	44	52	8	18.2%	139	87	167.3%
State/All Funds	**14,004**	**13,994**	**(10)**	**-0.1%**	**15,401**	**1,407**	**10.1%**
Sales Tax	10,985	10,668	(317)	-2.9%	11,064	396	3.7%
Cigarette and Tobacco Taxes	1,340	1,335	(5)	-0.4%	1,526	191	14.3%
Motor Fuel	504	501	(3)	-0.6%	503	2	0.4%
Motor Vehicle Fees	723	982	259	35.8%	1,176	194	19.8%
Highway Use Tax	141	140	(1)	-0.7%	134	(6)	-4.3%
Alcoholic Beverage Taxes	206	223	17	8.3%	229	6	2.7%
ABC License Fees	44	52	8	18.2%	139	87	167.3%
Taxicab Surcharge	0	14	14	NA	85	71	507.1%
Syrup Excise Tax	0	0	0	NA	450	450	NA
Auto Rental Tax	61	79	18	29.5%	95	16	20.3%

* Excludes Transfers

All Funds user taxes and fees receipts for 2009-10 are estimated to be $14 billion, a decrease of $10 million or 0.1 percent from 2008-09. Sales tax receipts are expected to decrease by $317 million from the prior year due to a base decline of 7.1 percent. Non-sales tax user taxes and fees are estimated to increase by $307 million from 2008-09 mainly from an increase in motor vehicle fee collections due to law changes.

General Fund user taxes and fees receipts are expected to total $8.2 billion in 2009-10, a decrease of $132 million or 1.6 percent from 2008-09. The decrease largely reflects a decrease in sales tax receipts ($203 million) offset slightly by an increase in motor vehicle fee collections ($55 million) and the alcoholic beverage tax ($17 million).

All Funds user taxes and fees receipts for 2010-11 are projected to be $15.4 billion, an increase of $1.4 billion, or 10.1 percent from 2009-10. This increase reflects tax law changes ($670 million) proposed in this Budget including a new excise tax on beverage syrups and soft drinks, and a cigarette tax increase of $1 per pack. General Fund user taxes and fees receipts are projected to total $8.6 billion in 2010-11, an increase of $405 million, or 4.9 percent from 2009-10. This increase largely reflects an increase in sales tax receipts, motor vehicle fee receipts and ABC license fees.

USER TAXES AND FEES CHANGE FROM MID-YEAR UPDATE FORECAST (millions of dollars)	2009-10				2010-11			
	Mid Year Update	Revised	$ Change	% Change	Mid Year Update	Executive Financial Plan	$ Change	% Change
General Fund*	**8,194**	**8,229**	**35**	**0.4%**	**8,554**	**8,634**	**80**	**0.9%**
Sales Tax	7,462	7,504	42	0.6%	7,688	7,786	98	1.3%
Cigarette and Tobacco Taxes	436	437	1	0.2%	428	438	10	2.3%
Motor Vehicle Fees	13	13	0	0.0%	151	42	(109)	-72.2%
Alcoholic Beverage Taxes	235	223	(12)	-5.1%	239	229	(10)	-4.2%
ABC License Fees	48	52	4	8.3%	48	139	91	189.6%
State/All Funds	**13,946**	**13,994**	**48**	**0.3%**	**14,631**	**15,401**	**770**	**5.3%**
Sales Tax	10,613	10,668	55	0.5%	10,935	11,064	129	1.2%
Cigarette and Tobacco Taxes	1,334	1,335	1	0.1%	1,308	1,526	218	16.7%
Motor Fuel	501	501	0	0.0%	503	503	0	0.0%
Motor Vehicle Fees	982	982	0	0.0%	1,284	1,176	(108)	-8.4%
Highway Use Tax	140	140	0	0.0%	134	134	0	0.0%
Alcoholic Beverage Taxes	235	223	(12)	-5.1%	239	229	(10)	-4.2%
ABC License Fees	48	52	4	8.3%	48	139	91	189.6%
Taxicab Surcharge	14	14	0	0.0%	85	85	0	0.0%
Syrup Excise Tax	0	0	0	NA	0	450	450	NA
Auto Rental Tax	79	79	0	0.0%	95	95	0	0.0%

* Excludes Transfers

All Funds user taxes and fees in 2009-10 are revised up by $48 million from the Mid-Year Update. All Funds user taxes and fees are revised up by $770 million for 2010-11, which includes $670 million from items proposed with this Budget.

USER TAXES AND FEES (millions of dollars)	2010-11 Projected	2011-12 Projected	Annual $ Change	2012-13 Projected	Annual $ Change	2013-14 Projected	Annual $ Change
General Fund*	**8,634**	**8,987**	**353**	**9,359**	**372**	**9,718**	**359**
Sales Tax	7,786	8,179	393	8,617	438	9,053	436
Cigarette and Tobacco Taxes	438	421	(17)	414	(7)	407	(7)
Motor Vehicle Fees	42	54	12	31	(23)	(42)	(73)
Alcoholic Beverage Taxes	229	236	7	241	5	245	4
ABC License Fees	139	97	(42)	56	(41)	55	(1)
State/All Funds	**15,401**	**16,447**	**1,046**	**16,995**	**548**	**17,513**	**518**
Sales Tax	11,064	11,627	563	12,258	631	12,869	611
Cigarette and Tobacco Taxes	1,526	1,497	(29)	1,470	(27)	1,443	(27)
Motor Fuel	503	505	2	508	3	510	2
Motor Vehicle Fees	1,176	1,191	15	1,163	(28)	1,094	(69)
Highway Use Tax	134	141	7	145	4	142	(3)
Alcoholic Beverage Taxes	229	236	7	241	5	245	4
ABC License Fees	139	97	(42)	56	(41)	55	(1)
Taxicab Surcharge	85	85	0	85	0	85	0
Syrup Excise Tax	450	970	520	970	0	970	0
Auto Rental Tax	95	98	3	99	1	100	1

* Excludes Transfers

All Funds user taxes and fees in 2011-12 are projected to increase by $1,046 million and then increase by $548 million in 2012-13 and $518 million in 2013-14.

Business Taxes

BUSINESS TAXES (millions of dollars)							
	2008-09 Actual	2009-10 Estimated	Annual $ Change	Annual % Change	2010-11 Projected	Annual $ Change	Annual % Change
General Fund	**5,556**	**5,688**	**132**	**2.4%**	**5,710**	**22**	**0.4%**
Corporate Franchise Tax	2,755	2,500	(255)	-9.3%	2,836	336	13.4%
Corporation & Utilities Tax	654	739	85	13.0%	705	(34)	-4.6%
Insurance Tax	1,086	1,279	193	17.8%	1,268	(11)	-0.9%
Bank Tax	1,061	1,170	109	10.3%	901	(269)	-23.0%
State/All Funds	**7,604**	**7,824**	**220**	**2.9%**	**7,759**	**(65)**	**-0.8%**
Corporate Franchise Tax	3,221	2,962	(259)	-8.0%	3,276	314	10.6%
Corporation & Utilities Tax	863	968	105	12.2%	922	(46)	-4.8%
Insurance Tax	1,181	1,412	231	19.6%	1,400	(12)	-0.8%
Bank Tax	1,233	1,363	130	10.5%	1,076	(287)	-21.1%
Petroleum Business Tax	1,106	1,119	13	1.2%	1,085	(34)	-3.0%

All Funds business tax receipts for 2009-10 are estimated at more than $7.8 billion, an increase of $220 million, or 2.9 percent from the prior year. The decline in corporate franchise tax receipts in 2009-10 from 2008-09 is more than offset by increases in receipts from the other business taxes.

All Funds corporate franchise tax receipts are estimated to be $2,962 million, a decrease of $259 million, or 8.0 percent from 2008-09. Receipts would be expected to fall $424 million (13.2 percent) absent the increase in the March prepayment from 30 to 40 percent. The year-to-year decrease is primarily due to a decline in tax year 2009 liability of 17.2 percent and higher than anticipated refunds on prior year liability. Estimated payments from calendar year 2009 filers are expected to decline from the prior year. Audit collections are expected to be slightly lower than the prior year while refunds are expected to remain high in 2009-10. Refunds totaling $76 million will be withheld until 2010-11 to accommodate cash flow needs.

All Funds corporation and utilities receipts for 2009-10 are estimated to be $968 million, an increase of $105 million, or 12.2 percent above last year. After accounting for one-time items in 2009-10 (a late payment of $31 million and the increase in the March prepayment from 30 to 40 percent, worth $43 million), underlying base growth is estimated to be $31 million or 3.5 percent. Overall, non-audit receipts are projected to increase $99 million, or 12.0 percent over 2008-09. Audit collections are estimated to increase by $6 million to $53 million in 2009-10 due to strong receipts in the first half of the fiscal year.

All Funds insurance taxes receipts for 2009-10 are estimated to be $1,412 million, an increase of $231 million, or 19.6 percent above last year. The increase is attributable to the newly imposed premiums tax on HMOs ($169 million) and the increase of the March pre-payment from 30 percent to 40 percent ($79 million).

All Funds bank tax receipts for 2009-10 are estimated to be $1,363 million, an increase of $130.0 million, or 10.5 percent above last year. The non-audit base is expected to increase by $346 million, or 44.5 percent, from 2008-09 as a result of substantial improvements in profitability in spite of continued losses from residential and commercial real estate. Taxpayers are carrying forward overpaid 2008 tax year estimated payments and cash refund payouts have slowed considerably as a result. Additionally, $124 million in refunds will be delayed until SFY 2010-11 to manage cash-flow needs. This large increase in non-audit receipts is being partly offset by an estimated $216 million, or 47.5 percent decrease in audit recoveries. This estimated decrease is largely the result of the significant one-time 2008-09 receipts caused by the Voluntary Compliance Initiative.

General Fund business tax receipts for 2009-10 of nearly $5.7 billion are estimated to increase by $133 million, or 2.4 percent from 2008-09. 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)

	2005-06 Actual	2006-07 Actual	2007-08 Actual	2008-09 Actual	2009-10 Estimated	2010-11 Projected
Corporate Franchise Tax	**3,053**	**4,228**	**3,998**	**3,220**	**2,962**	**3,276**
Audit	653	1,133	1,189	905	872	928
Non-Audit	2,400	3,095	2,809	2,315	2,090	2,348
Corporation and Utilities Taxes	**832**	**820**	**801**	**863**	**968**	**923**
Audit	101	52	35	47	53	54
Non-Audit	731	768	766	816	915	869
Insurance Taxes	**1,083**	**1,258**	**1,219**	**1,181**	**1,412**	**1,400**
Audit	33	56	44	41	42	13
Non-Audit	1,050	1,202	1,175	1,140	1,370	1,387
Bank Taxes	**975**	**1,210**	**1,058**	**1,233**	**1,363**	**1,076**
Audit	330	299	104	455	239	130
Non-Audit	645	911	954	778	1124	946
Petroleum Business Taxes	**1,146**	**1,090**	**1,155**	**1,107**	**1,119**	**1,086**
Audit	27	8	9	16	13	22
Non-Audit	1,119	1,082	1,146	1,091	1,106	1,064
Total Business Taxes	**7,089**	**8,606**	**8,231**	**7,604**	**7,824**	**7,761**
Audit	1,144	1,548	1,381	1,464	1,219	1,147
Non-Audit	5,945	7,058	6,850	6,140	6,605	6,614

All Funds business tax receipts for 2010-11 of roughly $7.8 billion are projected to decrease by approximately $65 million or 0.8 percent from the prior year. Corporation franchise tax receipts for 2010-11 are projected to increase by $314 million, or 10.6 percent from the previous year. Corporate profits are projected to show year-over-year growth of 12.7 percent in calendar year 2010 compared to a decline of 5.1 percent in 2009. Bank tax receipts for 2010-11 are projected to decrease by $287 million, or 21.1 percent from the previous year. A decline in audit and compliance receipts (45.6 percent) and the payment of delayed SFY 2009-10 refunds will be partially offset by a rebound in underlying base growth as profitability in the banking sector improves. Insurance taxes are forecast to decrease $12 million, or 0.8 percent. The decline in audit collections is partially offset by a modest increase in base receipts. Corporation and utilities taxes are projected to decline by $46 million, or 4.8 percent. This is driven by forecast declines in the consumption of electricity, natural gas and taxable telecommunications services along with the loss of one-time revenue items in 2009-10. The projected petroleum business tax decline of $34 million, or 3.0 percent, is due to an expected 5.0 percent decrease in the petroleum price index on January 1, 2010.

General Fund business tax receipts for 2010-11 of $5.7 billion are projected to increase $21 million, or 0.4 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)

	2009-10				2010-11			
	Mid Year Update	Revised	$ Change	% Change	Mid Year Update	Executive Financial Plan	$ Change	% Change
General Fund	**5,321**	**5,688**	**367**	**6.9%**	**5,617**	**5,710**	**93**	**1.7%**
Corporate Franchise Tax	2,494	2,500	6	0.2%	2,839	2,836	(3)	-0.1%
Corporation & Utilities Tax	739	739	0	0.0%	699	705	6	0.9%
Insurance Tax	1,154	1,279	125	10.8%	1,166	1,268	102	8.7%
Bank Tax	934	1,170	236	25.3%	913	901	(12)	-1.3%
State/All Funds	**7,563**	**7,824**	**261**	**3.5%**	**7,782**	**7,759**	**(23)**	**-0.3%**
Corporate Franchise Tax	2,952	2,962	10	0.3%	3,269	3,276	7	0.2%
Corporation & Utilities Tax	965	968	3	0.3%	916	922	6	0.7%
Insurance Tax	1,418	1,412	(6)	-0.4%	1,451	1,400	(51)	-3.5%
Bank Tax	1,109	1,363	254	22.9%	1,070	1,076	6	0.6%
Petroleum Business Tax	1,119	1,119	0	0.0%	1,076	1,085	9	0.8%

Compared to the Mid-Year Update, 2009-10 All Funds business tax receipts are estimated to be more than $7.8 billion, an increase of $261 million (3.5 percent). The increase in tax receipts is the result of refund payments ($200 million) delayed until 2010-11, stronger calendar year 2009 liability tax payments in the bank tax and higher than expected audit collections.

All Funds business tax receipts for 2010-11 are nearly $7.8 billion, or $23 million (0.3 percent) below the Mid-Year Update. The decrease effectively reflects a reduction in the insurance tax estimate as premiums growth expectations are revised downward. The minor bank and corporate franchise tax re-estimates reflect increased base collections offsetting the refund payments delayed from 2009-10. Changes to the corporation and utilities and the petroleum business tax estimates are modest.

BUSINESS TAXES (millions of dollars)	2010-11 Projected	2011-12 Projected	Annual $ Change	2012-13 Projected	Annual $ Change	2013-14 Projected	Annual $ Change
General Fund	**5,710**	**5,901**	**191**	**6,333**	**432**	**6,621**	**288**
Corporate Franchise Tax	2,836	2,788	(48)	2,906	118	3,050	144
Corporation & Utilities Tax	705	739	34	770	31	803	33
Insurance Tax	1,268	1,323	55	1,380	57	1,440	60
Bank Tax	901	1,051	150	1,277	226	1,328	51
State/All Funds	**7,759**	**8,003**	**244**	**8,510**	**507**	**8,861**	**351**
Corporate Franchise Tax	3,276	3,227	(49)	3,370	143	3,544	174
Corporation & Utilities Tax	922	961	39	997	36	1,035	38
Insurance Tax	1,400	1,458	58	1,520	62	1,590	70
Bank Tax	1,076	1,232	156	1,491	259	1,550	59
Petroleum Business Tax	1,085	1,125	40	1,132	7	1,142	10

All Funds business tax receipts for 2011-12, 2012-13, and 2013-14 reflect trend growth that is determined in part by the expected level of corporate profits, the expected net interest margins earned by banks, the change in taxable insurance premiums, residential energy expenditures and the consumption of telecommunications services. Business tax receipts and accompanying growth rates are estimated to be $8.0 billion (3.1 percent) in 2011-12, $8.5 billion (6.3 percent) in 2012-13, and $8.9 billion (4.1 percent) in 2013-14. General Fund business tax receipts will reflect the factors outlined above, and are projected to be nearly $5.9 billion (3.3 percent) in 2011-12, $6.3 billion (7.3 percent) in 2012-13, and $6.6 billion (4.6 percent) in 2013-14.

Other Taxes

OTHER TAXES (millions of dollars)	2008-09 Actual	2009-10 Estimated	Annual $ Change	Annual % Change	2010-11 Projected	Annual $ Change	Annual % Change
General Fund*	**1,188**	**953**	**(235)**	**-19.8%**	**933**	**(20)**	**-2.1%**
Estate Tax	1,163	932	(231)	-19.9%	910	(22)	-2.4%
Gift Tax	2	0	(2)	-100.0%	0	0	0.0%
Real Property Gains Tax	0	0	0	NA	0	0	0.0%
Pari-Mutuel Taxes	22	20	(2)	-9.1%	20	0	0.0%
All Other Taxes	1	1	0	0.0%	3	2	200.0%
State/All Funds	**1,889**	**1,408**	**(481)**	**-25.5%**	**1,425**	**17**	**1.2%**
Estate Tax	1,163	932	(231)	-19.9%	910	(22)	-2.4%
Gift Tax	2	0	(2)	-100.0%	0	0	0.0%
Real Property Gains Tax	0	0	0	NA	0	0	0.0%
Real Estate Transfer Tax	701	455	(246)	-35.1%	492	37	8.1%
Pari-Mutuel Taxes	22	20	(2)	-9.1%	20	0	0.0%
All Other Taxes	1	1	0	0.0%	3	2	200.0%

* Excludes Transfers

All Funds other tax receipts for 2009-10 are estimated to be $1.4 billion, down $481 million or 25.5 percent from 2008-09 receipts, reflecting declines of 35.1 percent in the real estate transfer tax receipts and 19.9 percent in the estate tax as a result of current conditions in the equities, real estate and credit markets.

General Fund other tax receipts are expected to total $953 million in fiscal year 2009-10, an decrease of $235 million or 19.8 percent, due to the declines in estate tax and the impact of reduced handle on the pari-mutuel tax.

All Funds other tax receipts for 2010-11 are projected to be more than $1.4 billion, up $17 million or 1.2 percent from 2009-10 reflecting modest growth in the real estate transfer tax, partially offset by declines in the estate tax. General Fund other tax receipts are expected to total $933 million in fiscal year 2010-11, a decrease of $20 million which is attributable to a projected decline in the estate tax due to the lag between changes in estate values and payment of tax.

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

	2009-10				2010-11			
	Mid Year Update	Revised	$ Change	% Change	Mid Year Update	Executive Financial Plan	$ Change	% Change
General Fund*	**926**	**953**	**27**	**2.9%**	**934**	**933**	**(1)**	**-0.1%**
Estate Tax	902	932	30	3.3%	910	910	0	0.0%
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	23	20	(3)	-13.0%	23	20	(3)	-13.0%
All Other Taxes	1	1	0	0.0%	1	3	2	200.0%
State/All Funds	**1,346**	**1,408**	**62**	**4.6%**	**1,397**	**1,425**	**28**	**2.0%**
Estate Tax	902	932	30	3.3%	910	910	0	0.0%
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	420	455	35	8.3%	463	492	29	6.3%
Pari-Mutuel Taxes	23	20	(3)	-13.0%	23	20	(3)	-13.0%
All Other Taxes	1	1	0	0.0%	1	3	2	200.0%

* Excludes Transfers

All Funds other tax receipts in 2009-10 are revised up by $62 million from the Mid-Year Update. All Funds other taxes are revised up by $28 million for 2010-11. These revisions are mainly due to improvements in the real estate markets resulting in upward revisions real estate transfer tax ($35 million in 2009-10 and $29 million in 2010-11) and additional estate tax revenue in 2009-10 from the Penalty and Interest Discount Program (PAID).

OTHER TAXES (millions of dollars)							
	2010-11 Projected	2011-12 Projected	Annual $ Change	2012-13 Projected	Annual $ Change	2013-14 Projected	Annual $ Change
General Fund*	**933**	**958**	**25**	**1,006**	**48**	**1,064**	**58**
Estate Tax	910	935	25	983	48	1,041	58
Gift Tax	0	0	0	0	0	0	0
Real Property Gains Tax	0	0	0	0	0	0	0
Pari-Mutuel Taxes	20	20	0	20	0	20	0
All Other Taxes	3	3	0	3	0	3	0
State/All Funds	**1,425**	**1,515**	**90**	**1,619**	**104**	**1,712**	**93**
Estate Tax	910	935	25	983	48	1,041	58
Gift Tax	0	0	0	0	0	0	0
Real Property Gains Tax	0	0	0	0	0	0	0
Real Estate Transfer Tax	492	557	65	613	56	648	35
Pari-Mutuel Taxes	20	20	0	20	0	20	0
All Other Taxes	3	3	0	3	0	3	0

* Excludes Transfers

The 2011-12 All Funds receipts projection for other taxes is slightly more than $1.5 billion, up $90 million or 6.3 percent from 2010-11 receipts. Modest growth in the estate tax is projected to follow expected increases in household net worth and receipts from the real transfer tax are projected to increase to reflect the continued rebound in the residential and commercial markets.

The 2012-13 All Funds receipts projection for other taxes of just over $1.6 billion is up $104 million or 6.9 percent from 2010-11 receipts. The forecast reflects continued increases in household net worth as well as in the value of real property transfers.

The 2013-14 All Funds receipts projection for other taxes of just over $1.7 billion is up $93 million or 5.7 percent from 2011-12 as continued growth in estate and real estate transfer tax collections is expected.

Miscellaneous Receipts and Federal Grants

MISCELLANEOUS RECEIPTS AND FEDERAL GRANTS (millions of dollars)							
	2008-09 Actual	2009-10 Estimated	Annual $ Change	Annual % Change	2010-11 Projected	Annual $ Change	Annual % Change
General Fund	**3,150**	**3,576**	**426**	**13.5%**	**2,963**	**(613)**	**-17.1%**
Miscellaneous Receipts	3,105	3,508	403	13.0%	2,903	(605)	-17.2%
Federal Grants	45	68	23	51.1%	60	(8)	-11.8%
State Funds	**19,928**	**21,972**	**2,044**	**10.3%**	**21,413**	**(559)**	**-2.5%**
Miscellaneous Receipts	19,883	21,903	2,020	10.2%	21,352	(551)	-2.5%
Federal Grants	45	69	24	53.3%	61	(8)	-11.6%
All Funds	**58,898**	**71,220**	**12,322**	**20.9%**	**69,788**	**(1,432)**	**-2.0%**
Miscellaneous Receipts	20,064	22,133	2,069	10.3%	21,541	(592)	-2.7%
Federal Grants	38,834	49,087	10,253	26.4%	48,247	(840)	-1.7%

All funds miscellaneous receipts include moneys 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 total $22.1 billion in 2009-10, an increase of nearly $2.1 billion from 2008-09. All Funds miscellaneous receipts are projected to reach $22.1 billion in 2009-10, an increase of nearly $2.1 billion from 2008-09, largely driven by growth in the General Fund, lottery and VLT revenues ($287 million) and State University income ($410 million) partially offset by a reduction in projected revenue from HCRA conversion proceeds ($138 million) and reductions in various special revenue funds.

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 sometimes varies. All Funds Federal grants are projected to total nearly $49.1 billion in 2009-10, an increase of $10.3 million from 2008-09. The largest increases in Federal spending are in Medicaid ($5.6 billion) and in School Aid ($1.7 billion). Much of this increase is attributable to enhanced Federal aid from the ARRA, which is in effect for the entirety of fiscal year 2009-10.

General Fund miscellaneous receipts collections are estimated to be $3.5 billion in 2009-10, up $403 million from 2008-09 receipts. This increase is primarily due to the introduction of the 18-A utility assessment, which was partially offset by the loss of one-time District Attorney Settlement receipts. General Fund Federal grants are expected to increase by $23 million from the prior year, due to the implementation of the Medicare Part D subsidy.

All Funds miscellaneous receipts are projected to total $21.5 billion in 2010-11, a decrease of $592 million from the current year. This decline is mainly driven by a decrease in General Fund miscellaneous receipts.

All Funds Federal grants are projected to total $48.2 billion in 2010-11, a decline of $840 million from the current year. The largest declines are in Housing and Community Renewal ($413 million), the Department of Labor ($152 million), and Public Health ($87 million). In most cases, the grant levels reflect projected changes in State spending levels and a corresponding change in estimated Federal reimbursement, not changes in aid levels for New York authorized by Congress.

General Fund miscellaneous receipts collections in 2010-11 are projected to fall to $2.9 billion, a decline of $605 million which is primarily due to the loss of various one-time payments and sweeps.

MISCELLANEOUS RECEIPTS AND FEDERAL GRANTS: CHANGE FROM MID-YEAR UPDATE FORECAST (millions of dollars)								
	2009-10				2010-11			
	Mid Year Update	Revised	$ Change	% Change	Mid Year Update	Executive Financial Plan	$ Change	% Change
General Fund*	**3,182**	**3,576**	**394**	**12.4%**	**2,747**	**2,963**	**216**	**7.9%**
Miscellaneous Receipts	3,114	3,508	394	12.7%	2,687	2,903	216	8.0%
Federal Grants	68	68	0	0.0%	60	60	0	0.0%
State Funds	**21,225**	**21,972**	**747**	**3.5%**	**21,241**	**21,413**	**172**	**0.8%**
Miscellaneous Receipts	21,156	21,903	747	3.5%	21,180	21,352	172	0.8%
Federal Grants	69	69	0	0.0%	61	61	0	0.0%
All Funds	**69,472**	**71,220**	**1,748**	**2.5%**	**70,253**	**69,788**	**(465)**	**-0.7%**
Miscellaneous Receipts	21,385	22,133	748	3.5%	21,366	21,541	175	0.8%
Federal Grants	48,087	49,087	1,000	2.1%	48,887	48,247	(640)	-1.3%

All Funds miscellaneous receipts are projected to total $22.1 billion in 2009-10, an increase of $748 million from the Mid-Year Update, primarily driven by revenue advanced to 2009-10 from the Aqueduct VLT contract, timing-related changes to capital project revenue, and by the General Fund changes detailed below. All Funds Federal grants are projected to total $49.1 billion in 2009-10, an increase of $1.0 billion from the Mid-Year Update.

General Fund miscellaneous receipts are projected to total $3.5 billion in 2009-10, an increase of $394 million from the Mid-Year Update. Revisions to the forecast reflect several actions taken with the Deficit Reduction Plan (DRP), including a $200 million transfer from the Battery Park City Authority and a $90 million transfer from NYSERDA related to the Regional Greenhouse Gas Initiative (RGGI). Federal grants in 2009-10 have not been revised from the Mid-Year Update.

All Funds Federal grants are projected to total $48.2 billion in 2010-11, a downward revision of $640 million from the Mid-Year Update which reflects the Federal impact of savings actions in Medicaid and School Aid.

General Fund miscellaneous receipts and Federal grants projections for 2010-11 have been revised upward by $216 million from the Mid-Year Update, primarily due to an Economic Development transfer from NYPA, an increase in indirect cost receipts, and items proposed with this Budget, including increases to certain civil court filing fees and the deployment of speed enforcement cameras.

MISCELLANEOUS RECEIPTS AND FEDERAL GRANTS (millions of dollars)	2010-11 Projected	2011-12 Projected	Annual $ Change	2012-13 Projected	Annual $ Change	2013-14 Projected	Annual $ Change
General Fund	**2,963**	**2,857**	**(106)**	**2,826**	**(31)**	**2,822**	**(4)**
Miscellaneous Receipts	2,903	2,797	(106)	2,766	(31)	2,762	(4)
Federal Grants	60	60	0	60	0	60	0
State Funds	**21,413**	**21,652**	**239**	**21,565**	**(87)**	**21,849**	**284**
Miscellaneous Receipts	21,352	21,591	239	21,504	(87)	21,788	284
Federal Grants	61	61	0	61	0	61	0
All Funds	**69,788**	**64,475**	**(5,313)**	**65,346**	**871**	**67,117**	**1,771**
Miscellaneous Receipts	21,541	21,729	188	21,642	(87)	21,925	283
Federal Grants	48,247	42,746	(5,501)	43,704	958	45,192	1,488

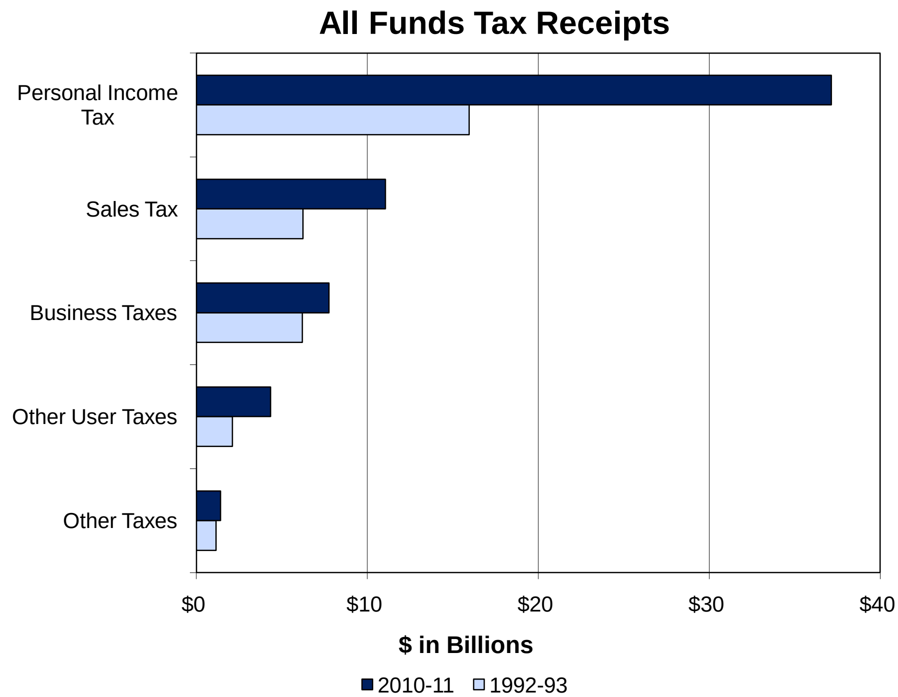
In 2011-12, General Fund miscellaneous receipts and Federal grants are projected to be nearly $2.9 billion, down $106 million from 2010-11. This decrease primarily results from the loss of NYPA payments.

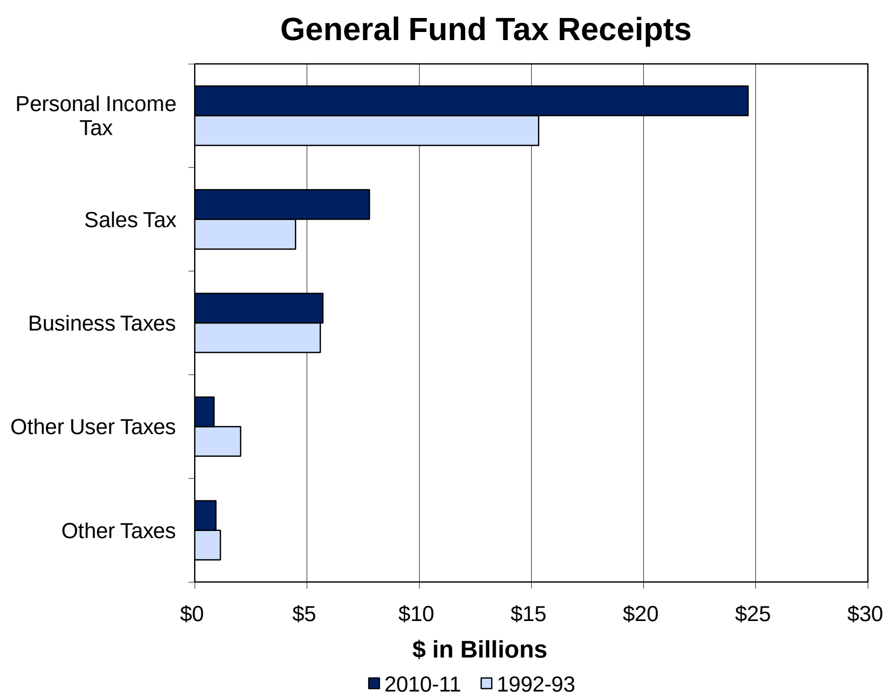
General Fund miscellaneous receipts and Federal grants in 2012-13 are projected to be $2.8 billion, virtually unchanged from the prior year.

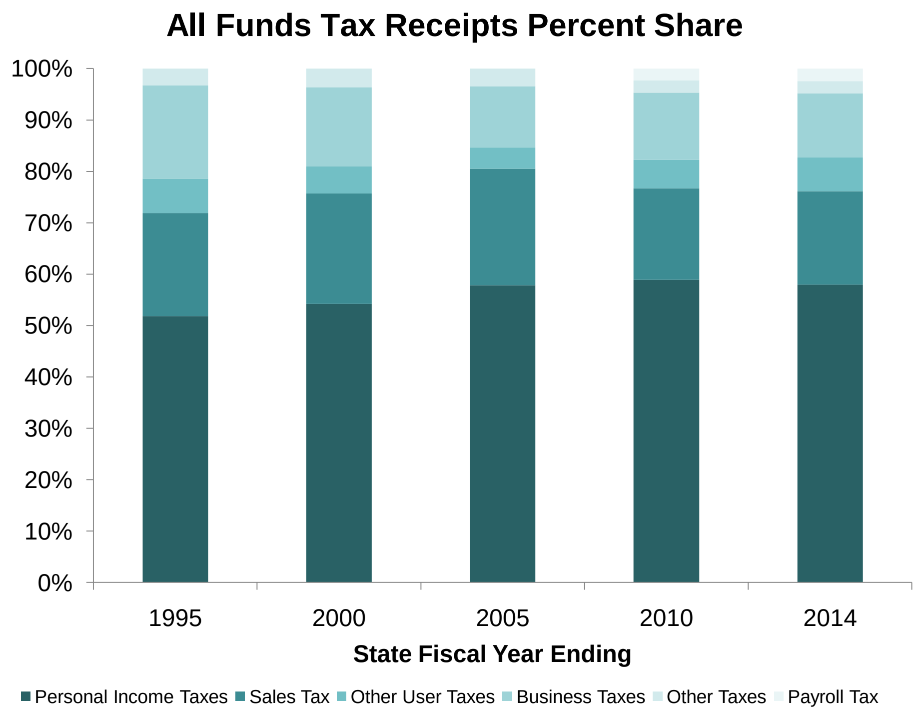
General Fund miscellaneous receipts and Federal grants in 2013-14 are projected to be $2.8 billion, virtually unchanged from the prior year.

All funds miscellaneous receipts are projected to increase by $188 million in 2011-12, decrease by $87 million in 2012-13, and increase by $283 million in 2013-14 reflecting increases in projected lottery receipts, including VLT's and HCRA revenues offset by a decline in miscellaneous receipts in the Job Development Corporation related to capital projects.

All Funds Federal grants are projected to decline by $5.5 billion in 2011-12, primarily attributable to the expiration of enhanced Federal funding from the ARRA. Federal grants are projected to increase by $958 million in 2012-13 and by $1.5 billion in 2013-14.


All Funds Tax Receipts
Personal Income Tax
Sales Tax
Business Taxes
Other User Taxes
Other Taxes
$0
$10
$20
$30
$40
$ in Billions
2010-11
1992-93


General Fund Tax Receipts
Personal Income Tax
Sales Tax
Business Taxes
Other User Taxes
Other Taxes
$0
$5
$10
$15
$20
$25
$30
$ in Billions
2010-11
1992-93


All Funds Tax Receipts Percent Share
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
1995
2000
2005
2010
2014
State Fiscal Year Ending
Personal Income Taxes
Sales Tax
Other User Taxes
Business Taxes
Other Taxes
Payroll Tax

CURRENT STATE RECEIPTS
ALL GOVERNMENTAL FUNDS
2009-2010 and 2010-2011
(millions of dollars)

	2009-2010 Revised	2010-2011 Executive	Annual $ Change
Taxes:			
Withholdings	29,198	30,715	1,517
Estimated Payments	9,517	11,294	1,777
Final Payments	1,836	1,893	57
Other Payments	1,266	1,316	50
Gross Collections	41,817	45,218	3,401
State/City Offset	75	(388)	(463)
Refunds	(6,662)	(7,687)	(1,025)
Reported Tax Collections	35,230	37,143	1,913
STAR (dedicated deposits)	0	0	0
RBTF (dedicated transfers)	0	0	0
Personal income tax	35,230	37,143	1,913
Sales and use tax	10,668	11,066	398
Cigarette and tobacco taxes	1,335	1,526	191
Motor fuel tax	501	503	2
Motor vehicle fees	982	1,176	194
Syrup Tax	0	450	450
Alcoholic beverages taxes	223	229	6
Highw ay Use tax	140	134	(6)
Alcoholic beverage control license fees	52	139	87
Auto rental tax	79	95	16
Taxicab Surcharge	14	85	71
Gross Utility Taxes and fees	13,994	15,403	1,409
LGAC Sales Tax (dedicated transfers)	0	0	0
User Taxes and fees	13,994	15,403	1,409
Corporation franchise tax	2,962	3,276	314
Corporation and utilities tax	968	922	(46)
Insurance taxes	1,412	1,400	(12)
Bank tax	1,363	1,076	(287)
Petroleum business tax	1,119	1,085	(34)
Business taxes	7,824	7,759	(65)
Estate tax	932	910	(22)
Real estate transfer tax	455	492	37
Gift tax	0	0	0
Real property gains tax	0	0	0
Pari-mutuel taxes	20	20	0
Other taxes	1	3	2
Gross Other taxes	1,408	1,425	17
Real estate transfer tax (dedicated)	0	0	0
Other taxes	1,408	1,425	17
Payroll tax	1,383	1,483	100
Total Taxes	59,839	63,213	3,374
Licenses, fees, etc.	598	665	67
Abandoned property	550	550	0
Reimbursements	272	222	(50)
Investment income	25	60	35
Other transactions	20,688	20,044	(644)
Miscellaneous receipts	22,133	21,541	(592)
Federal grants	49,087	48,247	(840)
Total	131,059	133,001	1,942

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2009-2010
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Taxes:					
Withholdings	29,198	0	0	0	29,198
Estimated Payments	9,517	0	0	0	9,517
Final Payments	1,836	0	0	0	1,836
Other Payments	1,266	0	0	0	1,266
Gross Collections	41,817	0	0	0	41,817
State/City Offset	75	0	0	0	75
Refunds	(6,662)	0	0	0	(6,662)
Reported Tax Collections	35,230	0	0	0	35,230
STAR (dedicated deposits)	(3,420)	3,420	0	0	0
RBTF (dedicated transfers)	(8,809)	0	0	8,809	0
Personal income tax	23,001	3,420	0	8,809	35,230
Sales and use tax	10,005	663	0	0	10,668
Cigarette and tobacco taxes	437	898	0	0	1,335
Motor fuel tax	0	105	396	0	501
Motor vehicle fees	13	348	621	0	982
Alcoholic beverages taxes	223	0	0	0	223
Highw ay Use tax	0	0	140	0	140
Alcoholic beverage control license fees	52	0	0	0	52
Auto rental tax	0	26	53	0	79
Taxicab Surcharge	0	14	0	0	14
Gross Utility Taxes and fees	10,730	2,054	1,210	0	13,994
LGAC Sales Tax (dedicated transfers)	(2,501)	0	0	2,501	0
User Taxes and fees	8,229	2,054	1,210	2,501	13,994
Corporation franchise tax	2,500	462	0	0	2,962
Corporation and utilities tax	739	211	18	0	968
Insurance taxes	1,279	133	0	0	1,412
Bank tax	1,170	193	0	0	1,363
Petroleum business tax	0	498	621	0	1,119
Business taxes	5,688	1,497	639	0	7,824
Estate tax	932	0	0	0	932
Real estate transfer tax	455	0	0	0	455
Gift tax	0	0	0	0	0
Real property gains tax	0	0	0	0	0
Pari-mutuel taxes	20	0	0	0	20
Other taxes	1	0	0	0	1
Gross Other taxes	1,408	0	0	0	1,408
Real estate transfer tax (dedicated)	(455)	0	199	256	0
Other taxes	953	0	199	256	1,408
Payroll tax	0	1,383	0	0	1,383
Total Taxes	37,871	8,354	2,048	11,566	59,839
Licenses, fees, etc.	598	0	0	0	598
Abandoned property	550	0	0	0	550
Reimbursements	272	0	0	0	272
Investment income	25	0	0	0	25
Other transactions	2,063	14,349	3,459	817	20,688
Miscellaneous receipts	3,508	14,349	3,459	817	22,133
Federal grants	68	46,475	2,544	0	49,087
Total	41,447	69,178	8,051	12,383	131,059

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2010-2011
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Taxes:					
Withholdings	30,715	0	0	0	30,715
Estimated Payments	11,294	0	0	0	11,294
Final Payments	1,893	0	0	0	1,893
Other Payments	1,316	0	0	0	1,316
Gross Collections	45,218	0	0	0	45,218
State/City Offset	(388)	0	0	0	(388)
Refunds	(7,687)	0	0	0	(7,687)
Reported Tax Collections	37,143	0	0	0	37,143
STAR (dedicated deposits)	(3,208)	3,208	0	0	0
RBTF (dedicated transfers)	(9,286)	0	0	9,286	0
Personal income tax	24,649	3,208	0	9,286	37,143
Sales and use tax	10,382	684	0	0	11,066
Cigarette and tobacco taxes	438	1,088	0	0	1,526
Motor fuel tax	0	106	397	0	503
Motor vehicle fees	43	440	693	0	1,176
Syrup Tax	0	450	0	0	450
Alcoholic beverages taxes	229	0	0	0	229
Highway Use tax	0	0	134	0	134
Alcoholic beverage control license fees	139	0	0	0	139
Auto rental tax	0	35	60	0	95
Taxicab Surcharge	0	85	0	0	85
Gross Utility Taxes and fees	11,231	2,888	1,284	0	15,403
LGAC Sales Tax (dedicated transfers)	(2,596)	0	0	2,596	0
User Taxes and fees	8,635	2,888	1,284	2,596	15,403
Corporation franchise tax	2,836	440	0	0	3,276
Corporation and utilities tax	705	199	18	0	922
Insurance taxes	1,268	132	0	0	1,400
Bank tax	901	175	0	0	1,076
Petroleum business tax	0	483	602	0	1,085
Business taxes	5,710	1,429	620	0	7,759
Estate tax	910	0	0	0	910
Real estate transfer tax	492	0	0	0	492
Gift tax	0	0	0	0	0
Real property gains tax	0	0	0	0	0
Pari-mutuel taxes	20	0	0	0	20
Other taxes	3	0	0	0	3
Gross Other taxes	1,425	0	0	0	1,425
Real estate transfer tax (dedicated)	(492)	0	132	360	0
Other taxes	933	0	132	360	1,425
Payroll tax	0	1,483	0	0	1,483
Total Taxes	39,927	9,008	2,036	12,242	63,213
Licenses, fees, etc.	665	0	0	0	665
Abandoned property	550	0	0	0	550
Reimbursements	222	0	0	0	222
Investment income	60	0	0	0	60
Other transactions	1,406	14,262	3,597	779	20,044
Miscellaneous receipts	2,903	14,262	3,597	779	21,541
Federal grants	60	45,564	2,623	0	48,247
Total	42,890	68,834	8,256	13,021	133,001

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2011-2012
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Taxes:					
Withholdings	31,671	0	0	0	31,671
Estimated Payments	11,572	0	0	0	11,572
Final Payments	2,303	0	0	0	2,303
Other Payments	1,354	0	0	0	1,354
Gross Collections	46,900	0	0	0	46,900
State/City Offset	(388)	0	0	0	(388)
Refunds	(7,283)	0	0	0	(7,283)
Reported Tax Collections	39,229	0	0	0	39,229
STAR (dedicated deposits)	(3,368)	3,368	0	0	0
RBTF (dedicated transfers)	(9,808)	0	0	9,808	0
Personal income tax	26,053	3,368	0	9,808	39,229
Sales and use tax	10,905	722	0	0	11,627
Cigarette and tobacco taxes	421	1,076	0	0	1,497
Motor fuel tax	0	106	399	0	505
Motor vehicle fees	54	442	695	0	1,191
Syrup Tax	0	970			970
Alcoholic beverages taxes	236	0	0	0	236
Highw ay Use tax	0	0	141	0	141
Alcoholic beverage control license fees	97	0	0	0	97
Auto rental tax	0	35	63	0	98
Taxicab Surcharge	0	85	0	0	85
Gross Utility Taxes and fees	11,713	3,436	1,298	0	16,447
LGAC Sales Tax (dedicated transfers)	(2,726)	0	0	2,726	0
User Taxes and fees	8,987	3,436	1,298	2,726	16,447
Corporation franchise tax	2,788	439	0	0	3,227
Corporation and utilities tax	739	204	18	0	961
Insurance taxes	1,323	135	0	0	1,458
Bank tax	1,051	181	0	0	1,232
Petroleum business tax	0	501	624	0	1,125
Business taxes	5,901	1,460	642	0	8,003
Estate tax	935	0	0	0	935
Real estate transfer tax	557	0	0	0	557
Gift tax	0	0	0	0	0
Real property gains tax	0	0	0	0	0
Pari-mutuel taxes	20	0	0	0	20
Other taxes	3	0	0	0	3
Gross Other taxes	1,515	0	0	0	1,515
Real estate transfer tax (dedicated)	(557)	0	132	425	0
Other taxes	958	0	132	425	1,515
Payroll tax	0	1,565	0	0	1,565
Total Taxes	41,899	9,829	2,072	12,959	66,759
Licenses, fees, etc.	599	0	0	0	599
Abandoned property	550	0	0	0	550
Reimbursements	222	0	0	0	222
Investment income	60	0	0	0	60
Other transactions	1,366	14,829	3,298	805	20,298
Miscellaneous receipts	2,797	14,829	3,298	805	21,729
Federal grants	60	40,131	2,555	0	42,746
Total	44,756	64,789	7,925	13,764	131,234

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2012-2013
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Taxes:					
Withholdings	32,323	0	0	0	32,323
Estimated Payments	11,145	0	0	0	11,145
Final Payments	2,181	0	0	0	2,181
Other Payments	1,393	0	0	0	1,393
Gross Collections	47,042	0	0	0	47,042
State/City Offset	(388)	0	0	0	(388)
Refunds	(7,771)	0	0	0	(7,771)
Reported Tax Collections	38,883	0	0	0	38,883
STAR (dedicated deposits)	(3,527)	3,527	0	0	0
RBTF (dedicated transfers)	(9,721)	0	0	9,721	0
Personal income tax	25,635	3,527	0	9,721	38,883
Sales and use tax	11,490	768	0	0	12,258
Cigarette and tobacco taxes	414	1,056	0	0	1,470
Motor fuel tax	0	107	401	0	508
Motor vehicle fees	31	440	692	0	1,163
Syrup Tax	0	970	0	0	970
Alcoholic beverages taxes	241	0	0	0	241
Highw ay Use tax	0	0	145	0	145
Alcoholic beverage control license fees	56	0	0	0	56
Auto rental tax	0	35	64	0	99
Taxicab Surcharge	0	85	0	0	85
Gross Utility Taxes and fees	12,232	3,461	1,302	0	16,995
LGAC Sales Tax (dedicated transfers)	(2,873)	0	0	2,873	0
User Taxes and fees	9,359	3,461	1,302	2,873	16,995
Corporation franchise tax	2,906	464	0	0	3,370
Corporation and utilities tax	770	209	18	0	997
Insurance taxes	1,380	140	0	0	1,520
Bank tax	1,277	214	0	0	1,491
Petroleum business tax	0	504	628	0	1,132
Business taxes	6,333	1,531	646	0	8,510
Estate tax	983	0	0	0	983
Real estate transfer tax	613	0	0	0	613
Gift tax	0	0	0	0	0
Real property gains tax	0	0	0	0	0
Pari-mutuel taxes	20	0	0	0	20
Other taxes	3	0	0	0	3
Gross Other taxes	1,619	0	0	0	1,619
Real estate transfer tax (dedicated)	(613)	0	132	481	0
Other taxes	1,006	0	132	481	1,619
Payroll tax	0	1,624	0	0	1,624
Total Taxes	42,333	10,143	2,080	13,075	67,631
Licenses, fees, etc.	595	0	0	0	595
Abandoned property	550	0	0	0	550
Reimbursements	222	0	0	0	222
Investment income	60	0	0	0	60
Other transactions	1,339	15,228	2,819	829	20,215
Miscellaneous receipts	2,766	15,228	2,819	829	21,642
Federal grants	60	41,063	2,581	0	43,704
Total	45,159	66,434	7,480	13,904	132,977

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2013-2014
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Taxes:					
Withholdings	34,190	0	0	0	34,190
Estimated Payments	11,676	0	0	0	11,676
Final Payments	2,179	0	0	0	2,179
Other Payments	1,471	0	0	0	1,471
Gross Collections	49,516	0	0	0	49,516
State/City Offset	(388)	0	0	0	(388)
Refunds	(8,089)	0	0	0	(8,089)
Reported Tax Collections	41,039	0	0	0	41,039
STAR (dedicated deposits)	(3,707)	3,707	0	0	0
RBTF (dedicated transfers)	(10,260)	0	0	10,260	0
Personal income tax	27,072	3,707	0	10,260	41,039
Sales and use tax	12,070	799	0	0	12,869
Cigarette and tobacco taxes	407	1,036	0	0	1,443
Motor fuel tax	0	107	403	0	510
Motor vehicle fees	(42)	432	704	0	1,094
Syrup Tax	0	970	0	0	970
Alcoholic beverages taxes	245	0	0	0	245
Highw ay Use tax	0	0	142	0	142
Alcoholic beverage control license fees	55	0	0	0	55
Auto rental tax	0	35	65	0	100
Taxicab Surcharge	0	85	0	0	85
Gross Utility Taxes and fees	12,735	3,464	1,314	0	17,513
LGAC Sales Tax (dedicated transfers)	(3,017)	0	0	3,017	0
User Taxes and fees	9,718	3,464	1,314	3,017	17,513
Corporation franchise tax	3,050	494	0	0	3,544
Corporation and utilities tax	803	214	18	0	1,035
Insurance taxes	1,440	150	0	0	1,590
Bank tax	1,328	222	0	0	1,550
Petroleum business tax	0	509	633	0	1,142
Business taxes	6,621	1,589	651	0	8,861
Estate tax	1,041	0	0	0	1,041
Real estate transfer tax	648	0	0	0	648
Gift tax	0	0	0	0	0
Real property gains tax	0	0	0	0	0
Pari-mutuel taxes	20	0	0	0	20
Other taxes	3	0	0	0	3
Gross Other taxes	1,712	0	0	0	1,712
Real estate transfer tax (dedicated)	(648)	0	132	516	0
Other taxes	1,064	0	132	516	1,712
Payroll tax	0	1,704	0	0	1,704
Total Taxes	44,475	10,464	2,097	13,793	70,829
Licenses, fees, etc.	581	0	0	0	581
Abandoned property	550	0	0	0	550
Reimbursements	222	0	0	0	222
Investment income	60	0	0	0	60
Other transactions	1,349	15,528	2,654	981	20,512
Miscellaneous receipts	2,762	15,528	2,654	981	21,925
Federal grants	60	42,596	2,536	0	45,192
Total	47,297	68,588	7,287	14,774	137,946

CURRENT STATE RECEIPTS
GENERAL FUND
2009-2010 and 2010-2011
(millions of dollars)

	2009-2010 Revised	2010-2011 Executive	Annual $ Change
Taxes:			
Withholdings	29,198	30,715	1,517
Estimated Payments	9,517	11,294	1,777
Final Payments	1,836	1,893	57
Other Payments	1,266	1,316	50
Gross Collections	41,817	45,218	3,401
State/City Offset	75	(388)	(463)
Refunds	(6,662)	(6,662)	0
Reported Tax Collections	35,230	37,143	2,938
STAR (dedicated deposits)	(3,420)	(3,208)	212
RBTF (dedicated transfers)	(8,809)	(9,286)	(477)
Personal income tax	23,001	24,649	2,673
Sales and use tax	10,005	10,382	377
Cigarette and tobacco taxes	437	438	1
Motor fuel tax	0	0	0
Motor vehicle fees	13	43	30
Alcoholic beverages taxes	223	229	6
Highw ay Use tax	0	0	0
Alcoholic beverage control license fees	52	139	87
Auto rental tax	0	0	0
Taxicab Surcharge	0	0	0
Gross Utility Taxes and fees	10,730	11,231	501
LGAC Sales Tax (dedicated transfers)	(2,501)	(2,596)	(95)
User Taxes and fees	8,229	8,635	406
Corporation franchise tax	2,500	2,836	336
Corporation and utilities tax	739	705	(34)
Insurance taxes	1,279	1,268	(11)
Bank tax	1,170	901	(269)
Petroleum business tax	0	0	0
Business taxes	5,688	5,710	22
Estate tax	932	910	(22)
Real estate transfer tax	455	492	37
Gift tax	0	0	0
Real property gains tax	0	0	0
Pari-mutuel taxes	20	20	0
Other taxes	1	3	2
Gross Other taxes	1,408	1,425	17
Real estate transfer tax (dedicated)	(455)	(492)	(37)
Other taxes	953	933	(20)
Payroll tax	0	0	0
Total Taxes	37,871	39,927	3,081
Licenses, fees, etc.	598	665	67
Abandoned property	550	550	0
Reimbursements	272	222	(50)
Investment income	25	60	35
Other transactions	2,063	1,406	(657)
Miscellaneous receipts	3,508	2,903	(605)
Federal grants	68	60	(8)
Total	41,447	42,890	2,468

CURRENT STATE RECEIPTS
GENERAL FUND
2010-2011 THROUGH 2013-2014
(millions of dollars)

	2010-2011 Executive	2011-2012 Projected	2012-2013 Projected	2013-2014 Projected
Taxes:				
Withholdings	30,715	31,671	32,323	34,190
Estimated Payments	11,294	11,572	11,145	11,676
Final Payments	1,893	2,303	2,181	2,179
Other Payments	1,316	1,354	1,393	1,471
Gross Collections	45,218	46,900	47,042	49,516
State/City Offset	(388)	(388)	(388)	(388)
Refunds	(7,687)	(7,283)	(7,771)	(8,089)
Reported Tax Collections	37,143	39,229	38,883	41,039
STAR (dedicated deposits)	(3,208)	(3,368)	(3,527)	(3,707)
RBTF (dedicated transfers)	(9,286)	(9,808)	(9,721)	(10,260)
Personal income tax	24,649	26,053	25,635	27,072
Sales and use tax	10,382	10,905	11,490	12,070
Cigarette and tobacco taxes	438	421	414	407
Motor fuel tax	0	0	0	0
Motor vehicle fees	43	54	31	(42)
Alcoholic beverages taxes	229	236	241	245
Highw ay Use tax	0	0	0	0
Alcoholic beverage control license fees	139	97	56	55
Auto rental tax	0	0	0	0
Taxicab Surcharge	0	0	0	0
Gross Utility Taxes and fees	11,231	11,713	12,232	12,735
LGAC Sales Tax (dedicated transfers)	(2,596)	(2,726)	(2,873)	(3,017)
User Taxes and fees	8,635	8,987	9,359	9,718
Corporation franchise tax	2,836	2,788	2,906	3,050
Corporation and utilities tax	705	739	770	803
Insurance taxes	1,268	1,323	1,380	1,440
Bank tax	901	1,051	1,277	1,328
Petroleum business tax	0	0	0	0
Business taxes	5,710	5,901	6,333	6,621
Estate tax	910	935	983	1,041
Real estate transfer tax	492	557	613	648
Gift tax	0	0	0	0
Real property gains tax	0	0	0	0
Pari-mutuel taxes	20	20	20	20
Other taxes	3	3	3	3
Gross Other taxes	1,425	1,515	1,619	1,712
Real estate transfer tax (dedicated)	(492)	(557)	(613)	(648)
Other taxes	933	958	1,006	1,064
Payroll tax	0	0	0	0
Total Taxes	39,927	41,899	42,333	44,475
Licenses, fees, etc.	665	599	595	581
Abandoned property	550	550	550	550
Reimbursements	222	222	222	222
Investment income	60	60	60	60
Other transactions	1,406	1,366	1,339	1,349
Miscellaneous receipts	2,903	2,797	2,766	2,762
Federal grants	60	60	60	60
Total	42,890	44,756	45,159	47,297

CASH RECEIPTS
SPECIAL REVENUE FUNDS
2009-2010 and 2010-2011
(millions of dollars)

	2009-2010 Revised	2010-2011 Executive	Annual $ Change
Personal income tax	3,420	3,208	(212)
User taxes and fees	2,054	2,888	763
Sales and use tax	663	684	21
Cigarette and tobacco taxes	898	1,088	190
Motor fuel tax	105	106	1
Motor vehicle fees	348	440	92
Syrup Tax	0	450	450
Auto Rental tax	26	35	9
Taxicab Surcharge	14	85	71
Business taxes	1,497	1,429	(68)
Corporation franchise tax	462	440	(22)
Corporation and utilities tax	211	199	(12)
Insurance taxes	133	132	(1)
Bank tax	193	175	(18)
Petroleum business tax	498	483	(15)
Payroll Tax	1,383	1,483	
Total Taxes	8,354	9,008	483
Miscellaneous receipts	14,349	14,262	(87)
HCRA	3,891	3,779	(112)
State university income	3,367	3,531	164
Lottery	3,019	3,026	7
Medicaid	687	915	228
Industry assessments	868	912	44
All other	2,517	2,099	(418)
Federal grants	46,475	45,564	(911)
Total	69,178	68,834	(515)

CASH RECEIPTS
SPECIAL REVENUE FUNDS
2010-2011 THROUGH 2013-2014
(millions of dollars)

	2010-2011 Executive	2011-2012 Projected	2012-2013 Projected	2013-2014 Projected
Personal income tax	3,208	3,368	3,527	3,707
User taxes and fees	2,888	3,436	3,461	3,464
Sales and use tax	684	722	768	799
Cigarette and tobacco taxes	1,088	1,076	1,056	1,036
Motor fuel tax	106	106	107	107
Motor vehicle fees	440	442	440	432
Syrup Tax	450	970	970	970
Auto Rental tax	35	35	35	35
Taxicab Surcharge	85	85	85	85
Business taxes	1,429	1,460	1,531	1,589
Corporation franchise tax	440	439	464	494
Corporation and utilities tax	199	204	209	214
Insurance taxes	132	135	140	150
Bank tax	175	181	214	222
Petroleum business tax	483	501	504	509
Payroll Tax	1,483	1,565	1,624	1,704
Total Taxes	9,008	9,829	10,143	10,464
Miscellaneous receipts	14,262	14,829	15,228	15,528
HCRA	3,779	4,168	4,275	4,378
State university income	3,531	3,579	3,629	3,688
Lottery	3,026	3,117	3,296	3,399
Medicaid	915	935	935	935
Industry assessments	912	0	0	0
All other	2,099	3,030	3,093	3,128
Federal grants	45,564	40,131	41,063	42,596
Total	68,834	64,789	66,434	68,588

CASH RECEIPTS
CAPITAL PROJECTS FUNDS
2009-2010 and 2010-2011
(millions of dollars)

	2009-2010 Revised	2010-2011 Executive	Annual $ Change	Annual % Change
User taxes and fees	1,210	1,284	74	6.1%
Motor fuel tax	396	397	1	0.3%
Motor vehicle fees	621	693	72	11.6%
Highway use tax	140	134	(6)	-4.3%
Auto rental tax	53	60	7	13.2%
Business taxes	639	620	(19)	-3.0%
Corporation and utilities tax	18	18	0	0.0%
Petroleum business tax	621	602	(19)	-3.1%
Other taxes	199	132	(67)	-33.7%
Real estate transfer tax	199	132	(67)	-33.7%
Total Taxes	2,048	2,036	(12)	-0.6%
Miscellaneous receipts	3,459	3,597	138	4.0%
Authority bond proceeds	3,195	3,305	110	3.4%
State park fees	93	35	(58)	-62.4%
Environmental revenues	77	77	0	0.0%
All other	94	180	86	91.5%
Federal grants	2,544	2,623	79	3.1%
Total	8,051	8,256	205	2.5%

CASH RECEIPTS
CAPITAL PROJECTS FUNDS
2010-2011 THROUGH 2013-2014
(millions of dollars)

	2010-2011 Executive	2011-2012 Projected	2012-2013 Projected	2013-2014 Projected
User taxes and fees	1,284	1,298	1,302	1,314
Motor fuel tax	397	399	401	403
Motor vehicle fees	693	695	692	704
Highw ay use tax	134	141	145	142
Auto rental tax	60	63	64	65
Business taxes	620	642	646	651
Corporation and utilities tax	18	18	18	18
Petroleum business tax	602	624	628	633
Other taxes	132	132	132	132
Real estate transfer tax	132	132	132	132
Total Taxes	2,036	2,072	2,080	2,097
Miscellaneous receipts	3,597	3,298	2,819	2,654
Authority bond proceeds	3,305	2,997	2,526	2,357
State park fees	35	24	24	24
Environmental revenues	77	103	103	103
All other	180	174	166	170
Federal grants	2,623	2,555	2,581	2,536
Total	8,256	7,925	7,480	7,287

CASH RECEIPTS
DEBT SERVICE FUNDS
2009-2010 and 2010-2011
(millions of dollars)

	2009-2010 Revised	2010-2011 Executive	Annual $ Change	Annual % Change
Personal income tax	8,809	9,286	477	5.4%
User taxes and fees	2,501	2,596	95	3.8%
Sales and use tax	2,501	2,596	95	3.8%
Other taxes	256	360	104	40.6%
Real estate transfer tax	256	360	104	40.6%
Total Taxes	11,566	12,242	676	5.8%
Miscellaneous receipts	817	779	(38)	-4.7%
Mental hygiene patient receipts	352	298	(54)	-15.3%
SUNY dormitory fees	338	341	3	0.9%
Health patient receipts	98	98	0	0.0%
All other	29	42	13	44.8%
Total	12,383	13,021	638	5.2%

CASH RECEIPTS
DEBT SERVICE FUNDS
2010-2011 THROUGH 2013-2014
(millions of dollars)

	2010-2011 Executive	2011-2012 Projected	2012-2013 Projected	2013-2014 Projected
Personal income tax	9,286	9,808	9,721	10,260
User taxes and fees	2,596	2,726	2,873	3,017
Sales and use tax	2,596	2,726	2,873	3,017
Other taxes	360	425	481	516
Real estate transfer tax	360	425	481	516
Total Taxes	12,242	12,959	13,075	13,793
Miscellaneous receipts	779	805	829	981
Mental hygiene patient receipts	298	325	352	505
SUNY dormitory fees	341	341	341	341
Health patient receipts	98	98	98	98
All other	42	41	38	37
Total	13,021	13,764	13,904	14,774

CASH FLOW

CASH FLOW

The following tables report monthly cash flow for All Funds tax receipts for 2009-10 and 2010-11 and 2011-12. The monthly estimates for are primarily based on average shares from prior years adjusted for proposed and previously enacted law changes that will impact normal cash flow. Note 2009-10 collections are based on actual data through November and preliminary December data.

PERSONAL INCOME TAX

The personal income tax cash flow has followed a somewhat atypical pattern in 2009-10, due mainly to the temporary high income tax rate increase and gradual rebound in bonuses and non-wage incomes. Both withholding and tax year 2009 estimated tax have generally increased as the year has proceeded, as many affected taxpayers began to comply more carefully with the tax increase, or had more incomes subject to the higher rates. The settlement for tax year 2008 returns was quite weak, with April extension payments down by over 50 percent compared to the prior year. Refunds on tax returns generally followed a normal pattern, except that the fixed amount of current refunds paid between January and March is $500 million lower ($1,250 million instead of $1,750 million). Finally, STAR transfers relating to property tax exemptions reverted to the statutory schedule in which the vast majority of reimbursements to local governments occur in December (with a portion of that payment further delayed into January), instead of being fairly evenly distributed between October and December as in recent years.

Cash flow for 2010-11 is expected to exhibit a more normal cash flow pattern. One exception is that April extension payments are expected to increase by over 40 percent because many high income taxpayers did not make sufficient prepayments relating to their tax rate increase. Another exception is that April-December refunds will be $500 million higher due to the $500 million reduction in the January-March 2010 capped amount, with the cap returning to $1,750 million in January-March 2011. STAR reimbursements for property tax exemptions will follow the same schedule as in 2009-10. Proposed Executive Budget initiatives would not have an appreciable impact on overall cashflow patterns.

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 2010-11 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. In 2009-10, this pattern has been affected by large audit and compliance collections as well as large refunds. These refunds are primarily the result of the overpayment of prior year tax liabilities but cash payments of refundable tax credits are also contributing to volatility in net cash flows.

Cash flow for 2010-11 will be impacted by the delay of $200 million in refunds from 2009-10, which will be paid in April 2010.

OTHER TAXES

General Fund cash flow for other taxes is dominated by the estate tax which comprises 97.8 percent of the total. 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 2010-11 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 2009-10 MONTHLY CASHFLOW ACTUAL AND ESTIMATES (millions of dollars)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	**2,866**	**744**	**2,058**	**1,630**	**1,478**	**2,352**	**1,415**	**1,264**	**718**	**4,828**	**1,785**	**1,866**	**23,003**
Gross collections	6,096	2,000	3,530	2,398	2,133	3,580	2,387	2,215	4,084	7,080	3,329	2,985	41,816
Refunds	(2,274)	(1,007)	142	(226)	(163)	(149)	(480)	(460)	(471)	(67)	(950)	(483)	(6,587)
STAR Fund deposit	-	-	(696)	-	-	(221)	(15)	(53)	(1,992)	(432)	-	(11)	(3,419)
DRRF deposit/RBTF	(956)	(248)	(918)	(543)	(493)	(858)	(477)	(439)	(903)	(1,753)	(595)	(625)	(8,808)
User taxes and fees	**615**	**594**	**800**	**613**	**618**	**859**	**635**	**607**	**830**	**708**	**576**	**774**	**8,229**
Sales and use taxes	551	535	736	543	556	795	566	549	768	654	529	723	7,504
Cigarette and tobacco taxes	41	37	40	39	41	42	46	37	40	31	27	17	438
Motor vehicle fees	-	-	-	-	-	-	-	-	-	-	-	13	13
Alcoholic beverage taxes	17	18	19	26	17	18	19	19	19	18	16	17	223
ABC license fees	6	4	5	5	5	5	4	3	3	5	5	5	52
Business taxes	**61**	**(16)**	**1,195**	**35**	**108**	**1,010**	**155**	**82**	**918**	**186**	**126**	**1,829**	**5,688**
Corporation franchise tax	(0)	(32)	473	24	62	518	11	33	365	88	93	865	2,500
Corp. & utilities taxes	29	2	131	0	7	146	8	1	176	2	2	234	739
Insurance taxes	2	8	264	(1)	32	204	12	13	254	94	7	390	1,279
Bank tax	31	6	328	11	7	142	124	35	123	2	24	339	1,170
Other taxes	**51**	**96**	**65**	**83**	**64**	**139**	**61**	**67**	**73**	**78**	**78**	**100**	**953**
Estate & gift tax	50	94	63	82	61	136	59	66	71	77	77	97	932
Real property gains tax	-	-	-	(1)	-	(0)	-	-	-	-	-	1	-
Pari-mutuel taxes	1	2	2	2	3	3	2	1	1	1	2	2	20
Other taxes	0	-	-	0	-	-	0	0	-	-	-	0	1
TOTAL	**3,593**	**1,418**	**4,118**	**2,360**	**2,268**	**4,360**	**2,266**	**2,020**	**2,539**	**5,800**	**2,565**	**4,568**	**37,873**
Miscellaneous Receipts	**81**	**200**	**253**	**(47)**	**192**	**992**	**153**	**190**	**385**	**143**	**117**	**849**	**3,508**
Licenses, Fees, etc.	28	56	44	42	57	79	45	50	105	31	28	33	598
Abandoned Property	9	0	29	0	28	83	58	106	40	39	42	115	550
Reimbursements	10	11	33	10	45	45	22	9	37	17	15	20	272
Investment Income	3	1	3	1	2	1	0	0	1	3	4	6	25
Other Transactions	31	133	144	(100)	60	783	28	25	202	53	29	675	2,064
Federal Grants	**5**	**24**	**-**	**-**	**16**	**-**	**0**	**14**	**-**	**-**	**-**	**8**	**68**
TOTAL RECEIPTS	**3,680**	**1,642**	**4,372**	**2,313**	**2,476**	**5,352**	**2,419**	**2,224**	**2,923**	**5,942**	**2,682**	**5,425**	**41,449**

SPECIAL REVENUE FUNDS 2009-10 MONTHLY CASHFLOW ACTUAL AND ESTIMATES (millions of dollars)													
	Apr	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Total**
Personal income tax	**-**	**-**	**696**	**-**	**-**	**221**	**15**	**53**	**1,992**	**432**	**-**	**11**	**3,419**
User taxes and fees	**210**	**152**	**181**	**163**	**164**	**197**	**161**	**160**	**194**	**174**	**156**	**142**	**2,054**
Sales and use taxes	98	50	64	49	50	68	52	50	61	58	47	17	662
Cigarette and tobacco taxes	85	75	84	83	86	87	63	73	81	68	60	54	898
Motor fuel tax	7	10	10	9	9	9	10	9	9	8	8	8	105
Motor vehicle fees	20	18	24	20	17	29	36	28	36	40	41	40	348
Syrup Excise Tax													-
Taxicab Surcharge	-	-	-	-	-	-	-	-				14	14
Auto Rental Tax			1	2	2	4	-	-	8	-	-	8	26
Business taxes	**56**	**42**	**244**	**65**	**71**	**283**	**71**	**50**	**228**	**(40)**	**58**	**367**	**1,496**
Corporation franchise tax	0	1	64	23	19	82	5	3	50	9	11	194	461
Corp. & utilities taxes	8	(1)	41	2	1	47	(6)	0	44	1	1	74	211
Insurance taxes	1	(2)	30	(1)	7	86	2	0	70	(89)	1	28	133
Bank tax	9	(0)	64	1	(0)	25	27	6	23	0	4	35	193
Petroleum business taxes	38	44	45	40	44	44	43	41	42	39	41	38	498
Other taxes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
MCTD Payroll Tax	**-**	**-**	**-**	**-**	**-**	**-**	**46**	**662**	**89**	**197**	**227**	**163**	**1,383**
TOTAL	**267**	**194**	**1,121**	**229**	**235**	**701**	**292**	**925**	**2,504**	**763**	**440**	**682**	**8,353**

CAPITAL PROJECTS FUND 2009-10 MONTHLY CASHFLOW ACTUAL AND ESTIMATES (millions of dollars)													
	Apr	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Total**
Personal income tax	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
User taxes and fees	**84**	**94**	**115**	**97**	**97**	**114**	**108**	**93**	**118**	**95**	**95**	**101**	**1,209**
Motor fuel tax	28	37	36	33	35	35	36	33	33	32	31	28	396
Motor vehicle fees	49	47	56	51	49	49	59	46	60	52	52	50	621
Highway use tax	12	10	12	13	13	12	12	14	9	12	12	10	140
Auto rental tax	(5)	-	11	-	-	19	-	-	16	-	-	13	53
Business taxes	**48**	**54**	**60**	**50**	**55**	**59**	**53**	**51**	**56**	**49**	**51**	**54**	**638**
Corp. & utilities taxes	0	(0)	3	0	-	5	(1)	(0)	4	-	-	6	17
Petroleum business taxes	47	54	56	49	55	54	54	51	52	49	51	48	621
Other taxes	**-**	**-**	**20**	**20**	**20**	**20**	**20**	**20**	**20**	**20**	**20**	**20**	**199**
Real estate transfer tax	-	-	20	20	20	20	20	20	20	20	20	20	199
TOTAL	**131**	**148**	**195**	**167**	**172**	**194**	**180**	**163**	**193**	**164**	**166**	**175**	**2,047**

DEBT SERVICE FUNDS 2009-10 MONTHLY CASHFLOW ACTUAL AND ESTIMATES (millions of dollars)													
	Apr	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Total**
Personal income tax	**956**	**248**	**918**	**543**	**493**	**858**	**477**	**439**	**903**	**1,753**	**595**	**625**	**8,808**
User taxes and fees	**180**	**178**	**251**	**181**	**185**	**265**	**189**	**183**	**256**	**218**	**176**	**239**	**2,501**
Sales and use taxes	180	178	251	181	185	265	189	183	256	218	176	239	2,501
Business taxes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other taxes	**30**	**30**	**12**	**17**	**24**	**26**	**27**	**25**	**25**	**13**	**13**	**13**	**256**
Real estate transfer tax	30	30	12	17	24	26	27	25	25	13	13	13	256
TOTAL	**1,165**	**457**	**1,181**	**742**	**702**	**1,149**	**693**	**647**	**1,185**	**1,984**	**784**	**877**	**11,565**

CASH FLOW

GENERAL FUND 2010-11 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)													
	Apr	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Total**
Personal income tax	**3,184**	**733**	**2,311**	**1,745**	**1,561**	**2,660**	**1,672**	**1,227**	**831**	**5,495**	**1,480**	**1,751**	**24,650**
Gross collections	7,031	2,209	3,732	2,542	2,244	3,914	2,604	2,335	4,964	7,415	3,267	2,961	45,218
Refunds	(2,786)	(1,231)	(107)	(215)	(163)	(142)	(340)	(585)	(498)	(88)	(1,293)	(627)	(8,075)
STAR Fund deposit	-	-	(408)	-	-	(169)	(27)	(86)	(2,518)	-	-	-	(3,207)
DRRF deposit/RBTF	(1,061)	(244)	(906)	(582)	(520)	(943)	(566)	(437)	(1,117)	(1,832)	(493)	(584)	(9,286)
User taxes and fees	**611**	**621**	**827**	**628**	**654**	**892**	**650**	**632**	**851**	**745**	**640**	**884**	**8,633**
Sales and use taxes	547	555	771	567	580	829	591	575	794	678	548	751	7,785
Cigarette and tobacco taxes	40	46	31	36	51	39	36	33	35	33	30	28	438
Motor vehicle fees	-	-	-	-	-	-	-	-	-	-	-	42	42
Alcoholic beverage taxes	20	16	20	21	19	19	19	20	18	22	17	18	229
ABC license fees	4	5	5	4	4	5	4	4	4	12	45	45	139
Business taxes	**(73)**	**85**	**1,003**	**111**	**127**	**1,156**	**114**	**110**	**1,200**	**105**	**126**	**1,647**	**5,710**
Corporation franchise tax	14	69	400	93	87	550	78	63	545	92	98	747	2,836
Corp. & utilities taxes	6	3	141	8	3	162	3	1	186	2	2	189	706
Insurance taxes	2	7	261	(1)	31	235	11	12	279	8	7	416	1,268
Bank tax	(94)	6	201	11	7	209	22	34	190	2	19	295	901
Other taxes	**77**	**78**	**78**	**78**	**78**	**79**	**78**	**77**	**77**	**77**	**77**	**79**	**933**
Estate & gift tax	76	76	76	76	76	76	76	76	76	76	76	76	910
Real property gains tax	-	-	-	-	-	-	-	-	-	-	-	-	-
Pari-mutuel taxes	1	2	2	2	3	3	2	1	1	1	1	2	20
Other taxes	0	-	0	1	0	0	0	0	1	0	0	1	3
TOTAL	**3,798**	**1,517**	**4,219**	**2,562**	**2,421**	**4,786**	**2,512**	**2,045**	**2,960**	**6,422**	**2,323**	**4,360**	**39,926**
Miscellaneous Receipts	**372**	**114**	**247**	**130**	**157**	**491**	**129**	**235**	**220**	**210**	**213**	**385**	**2,903**
Licenses, Fees, etc.	35	60	51	44	64	44	54	64	54	54	69	73	665
Abandoned Property	9	-	29	16	10	42	16	107	38	69	56	158	550
Reimbursements	9	12	27	9	17	24	14	15	28	12	15	40	222
Investment Income	5	(2)	10	8	6	3	(3)	5	7	8	2	11	60
Other Transactions	314	44	131	53	60	378	49	44	93	67	71	104	1,406
Federal Grants	**-**	**-**	**15**	**-**	**-**	**15**	**-**	**-**	**15**	**-**	**-**	**15**	**60**
TOTAL RECEIPTS	**4,170**	**1,631**	**4,481**	**2,692**	**2,577**	**5,293**	**2,642**	**2,280**	**3,195**	**6,633**	**2,536**	**4,761**	**42,890**

SPECIAL REVENUE FUNDS 2010-11 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)													
	Apr	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Total**
Personal income tax	**-**	**-**	**408**	**-**	**-**	**169**	**27**	**86**	**2,518**	**-**	**-**	**-**	**3,207**
User taxes and fees	**245**	**199**	**212**	**188**	**256**	**222**	**236**	**267**	**307**	**269**	**270**	**214**	**2,887**
Sales and use taxes	103	52	66	51	52	71	54	52	63	60	49	11	684
Cigarette and tobacco taxes	84	102	80	91	139	94	91	84	101	82	73	68	1,088
Motor fuel tax	7	10	10	9	9	9	10	9	9	8	8	8	106
Motor vehicle fees	38	36	41	38	34	40	41	32	41	33	34	33	440
Syrup Excise Tax	-	-	-	-	-	-	40	70	85	85	85	85	450
Taxicab Surcharge	14	-	7	-	21	-	-	21	-	-	21	-	85
Auto Rental Tax	-	-	9	-	-	9	-	-	9	-	-	9	35
Business taxes	**65**	**50**	**230**	**51**	**58**	**217**	**76**	**51**	**222**	**53**	**56**	**301**	**1,430**
Corporation franchise tax	17	10	70	13	9	81	8	6	85	10	8	125	441
Corp. & utilities taxes	3	0	33	0	1	41	1	1	44	1	1	73	199
Insurance taxes	1	(1)	29	(1)	6	31	2	0	33	1	1	30	132
Bank tax	8	(0)	55	1	(0)	22	25	6	21	0	3	35	175
Petroleum business taxes	36	41	43	38	42	41	41	38	40	41	43	39	483
Other taxes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
MCTD Payroll Tax	**85**	**230**	**85**	**90**	**148**	**79**	**81**	**145**	**117**	**139**	**183**	**103**	**1,483**
TOTAL	**396**	**479**	**935**	**330**	**461**	**686**	**421**	**549**	**3,165**	**460**	**508**	**618**	**9,008**

CAPITAL PROJECTS FUND 2010-11 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	**95**	**100**	**123**	**102**	**102**	**119**	**113**	**98**	**124**	**101**	**101**	**107**	**1,284**
Motor fuel tax	28	37	36	34	35	35	36	33	33	32	31	28	397
Motor vehicle fees	55	53	62	57	55	55	65	52	66	58	58	56	693
Highway use tax	12	10	11	12	12	11	11	13	9	12	12	10	134
Auto rental tax	-	-	14	-	-	18	-	-	16	-	-	13	60
Business taxes	**45**	**52**	**56**	**47**	**53**	**55**	**51**	**49**	**54**	**50**	**53**	**56**	**620**
Corp. & utilities taxes	0	0	3	0	-	3	-	0	4	0	0	7	18
Petroleum business taxes	45	51	53	47	53	52	51	49	50	50	52	49	602
Other taxes	**-**	**-**	**13**	**13**	**13**	**13**	**13**	**13**	**13**	**13**	**13**	**13**	**132**
Real estate transfer tax	-	-	13	13	13	13	13	13	13	13	13	13	132
TOTAL	**140**	**151**	**193**	**162**	**168**	**187**	**177**	**160**	**191**	**164**	**166**	**177**	**2,036**

DEBT SERVICE FUNDS 2010-11 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	**1,061**	**244**	**906**	**582**	**520**	**943**	**566**	**437**	**1,117**	**1,832**	**493**	**584**	**9,286**
User taxes and fees	**182**	**185**	**257**	**189**	**193**	**276**	**197**	**192**	**265**	**226**	**183**	**251**	**2,595**
Sales and use taxes	182	185	257	189	193	276	197	192	265	226	183	251	2,595
Business taxes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other taxes	**41**	**41**	**28**	**28**	**28**	**28**	**28**	**28**	**28**	**28**	**28**	**28**	**360**
Real estate transfer tax	41	41	28	28	28	28	28	28	28	28	28	28	360
TOTAL	**1,285**	**470**	**1,191**	**798**	**741**	**1,247**	**791**	**657**	**1,409**	**2,086**	**704**	**862**	**12,241**

REVENUE ACTIONS

REVENUE ACTIONS

The 2010-11 Budget includes a net positive increment of $1.4 billion 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 2010-11 (000s)	Annual Revenue SFY 2012-13 (000s)
I. TAX AND ASSESSMENT ACTIONS							
T&F	Impose Severance Tax on Certain Natural Gas Producers - 9/1/10	CFTX/SFTX	N/A	N/A	N/A	$0	$3,000
T&F	Increase Cigarette Excise Tax (Includes $8M required transfer to NYG) - 6/2/10	GFTX/SFTX	$2.75/pack	$3.75/pack	2008	$218,000	$211,000
T&F	Impose a New Excise Tax on Beverage Syrups and Soft Drinks - 9/1/10	GFTX/SFTX	N/A	Syrup - $7.68/gal Soda & Powder - $1.28/gal	N/A	$465,000	$1,000,000
Health	Expand HCRA Surcharge to Physician Services - 10/1/10	SFMR	N/A	9.63%	N/A	$24,600	$98,500
Health	Increase Hospital Assessment - 4/1/10	SFMR	0.35%	0.75%	2009	$130,200	$142,000
Health	Increase Home Care Assessment - 4/1/10	SFMR	0.35%	0.7%	2009	$17,600	$19,200
Health	Increase Nursing Home Assessment - 4/1/10	SFMR	6%	7%	2006	$67,800	$73,950
			Tax and Assessment Actions-Subtotal			**$923,200**	**$1,547,650**
II. LOOPHOLE CLOSING ACTIONS							
T&F	Define Flow-Through Entities as Taxpayers For QETC and Biofuel Credit Claims -1/1/10	GFTX/DFTX	N/A	N/A	N/A	$0	$2,000
T&F	Treat Compensation For Past Services as Taxable for Non Residents - 1/1/10	GFTX/DFTX	N/A	N/A	N/A	$0	$5,000
T&F	Treat S-Corp Gains and Installment Income as Taxable to Non Residents - Various	GFTX/DFTX	N/A	N/A	N/A	$30,000	$12,000
T&F	Close Resident Trust Loophole - 1/1/10	GFTX/DFTX	N/A	N/A	N/A	$0	$25,000
			Loophole Closing Actions-Subtotal			**$30,000**	**$44,000**
III. NEW OR INCREASED FEES							
Health	Establish Early Intervention Parental Fees - 3/1/11	SFMR	N/A	$45 - $540	N/A	$1,000	$17,072
Judiciary	Increase Certain Civil Court Filing Fees - 7/1/10	GFMR	$45, $45, $165	$60, $120, $215	2003	$41,000	$54,000

REVENUE ACTIONS

Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	Annual Revenue SFY 2010-11	Annual Revenue SFY 2012-13
						(000s)	(000s)
				New or Increased Fees-Subtotal		**$42,000**	**$71,072**
IV. TAX ENFORCEMENT ACTIONS							
T&F	Require Informational Returns for Credit and Debit Cards - 4/1/10	GFTX/DFTX	N/A	N/A	N/A	$0	$35,000
T&F	Allow the Use of Statistical Sampling for Certain Sales Tax Audits - 4/1/10	GFTX/DFTX	N/A	N/A	N/A	$8,000	$12,000
T&F	Improve Non-Voluntary Tax Collections - 4/1/10	GFTX/DFTX	N/A	N/A	2009	$221,000	$221,000
				Tax Enforcement Actions-Subtotal		**$229,000**	**$268,000**
V. OTHER REVENUE ACTIONS							
Lottery	Eliminate Quick Draw Restrictions - 4/1/10	SFMR	N/A	N/A	N/A	$33,000	$54,000
Lottery	Extend VLT Hours of Operation - 4/1/10	SFMR	N/A	N/A	N/A	$45,000	$45,000
T&F	Extend Married Tax Filing Provisions to Same Sex Couples - 1/1/10	GFTX/DFTX	N/A	N/A	N/A	$0	$0
T&F	Narrow Affiliate Nexus Provision - 6/1/09	GFTX/DFTX	N/A	N/A	N/A	($5,000)	($5,000)
T&F	Allow the Sale of Wine in Grocery Stores - 10/1/10	GFTX/DFTX	N/A	Various	N/A	$93,000	$9,000
T&F	Legalize Mixed Martial Arts In New York - 8/1/10	GFTX/DFTX	N/A	N/A	N/A	$2,100	$2,100
Workers Comp	Collect Surplus Funds from Workers Compensation Insurance Carriers - Immediately	SFMR	N/A	N/A	N/A	$23,600	$0
				Other Revenue Actions-Subtotal		**$191,700**	**$105,100**
VI. NEW OR EXPANDED TAX CREDITS							
T&F	Expand the Low Income Housing Tax Credit Program - 1/1/10	GFTX	N/A	N/A	2009	($4,000)	($4,000)
T&F	Extend and Expand the Film Tax Credit - 4/1/10	GFTX/DFTX	N/A	N/A	2009	0	($168,100)
T&F	Create Excelsior Jobs Program - 7/1/10	GFTX/DFTX	N/A	N/A	N/A	0	($50,000)
				New or Expanded Tax Credits – Subtotal		**($4,000)**	**($222,100)**
VII. TECHNICAL CORRECTIONS AND EXTENDERS							
T&F	Extend Major Provisions of the Bank Tax and Temporary GLB Provisions - 1/1/10	GFTX/SFTX	N/A	N/A	2007	$0	$0
T&F	Extend the Pari-Mutuel Tax - 4/1/10	GFTX	N/A	N/A	2009	$0	$0
T&F	Make Technical Corrections to the 2009-10 Enacted Budget Empire Zones Program Changes - 1/1/08	GFTX	N/A	N/A	2009	$0	$0
T&F	Make Technical Corrections to the 2009-10 Enforcement Provisions - Various	GFTX/SFTX CFTX/DFTX	N/A	N/A	2009	$0	$0

Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	Annual Revenue SFY 2010-11	Annual Revenue SFY 2012-13
						(000s)	(000s)
T&F	Amend the Tax on Medallion Taxicab Rides - 6/1/10	SFTX	N/A	N/A	2009	$0	$0
			Technical Corrections and Extenders – Subtotal			**$0**	**$0**
VIII. NEW OR INCREASED FINES							
St. Police	Deploy Speed Enforcement Cameras - 4/1/10	GFMR	N/A	$50 Speed Zone $100 Work Zone	N/A	$32,900	$53,800
			New or Increased Fines-Subtotal			**$32,900**	**$53,800**
			ALL REVENUE ACTIONS – GRAND TOTAL			**$1,444,800**	**$1,867,522**

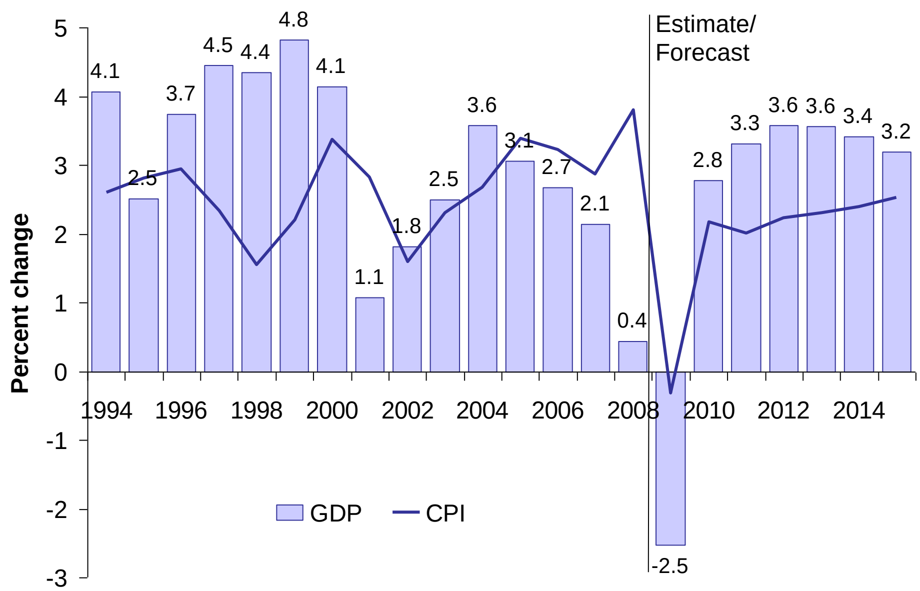
ECONOMIC BACKDROP

ECONOMIC BACKDROP

OVERVIEW

The longest and most severe recession since the 1930s has ended, with the U.S. economy growing 2.2 percent in the third quarter of 2009, the strongest growth in two years. The economy contracted during five of the prior six quarters, unprecedented during the postwar period. Though a large portion of third quarter growth can be attributed to the impact of Federal stimulus programs, there is also evidence that the economy has started on a path to a self-sustaining recovery. The early emergence of the world's large developing economies from recession helped to stimulate a dramatic turning point in real U.S. export growth. The largest inventory correction since the Great Depression started to ease in the third quarter, making a substantial contribution to growth, while total business inventories actually rose in October for the first time in 14 months. Finally, the labor market appears poised for an upturn, with an average of 123,000 jobs lost during the second half of 2009 compared with an average monthly loss of 560,000 for the first half of last year.

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



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

Going forward, the large overhang from the credit/housing market bubble is likely to dampen household and business spending, implying weak growth in final sales during the early stage of the recovery.[1] Thus, the economy will continue to require expansive monetary and fiscal policy at least through the first half of 2010. Despite Federal program provisions that extend beyond 2010, state and local governments are likely to

[1] The technical contribution to output growth from a much smaller decline in inventories is expected to result in growth of over 4 percent in the fourth quarter of 2009. The projected change in inventories for the fourth quarter accounts for about 75 percent of total projected real U.S. GDP growth from the prior quarter.

remain under intense fiscal pressure. Although the labor market is turning, the unemployment rate is expected to remain high throughout much of the year. Therefore, it is unlikely that the job market will be able to support a strong rebound in consumer demand, which accounts for two-thirds of the economy, until the third or fourth quarter of the year. Real U.S. GDP is now projected to rise 2.8 percent for 2010, following a decline of 2.5 percent for 2009 (see Figure 1).

THE NATIONAL ECONOMY

The importance of Federal stimulus programs to the economy's recent improvement cannot be overstated. The Congressional Budget Office (CBO) estimates that in the third quarter of 2009, the American Recovery and Reinvestment Act of 2009 (ARRA) "raised real GDP by between 1.2 percent and 3.2 percent, lowered the unemployment rate by between 0.3 and 0.9 percentage points, and increased the number of people employed by between 600,000 and 1.6 million compared with what those values would have been otherwise."[2] As of this writing, the first-time home-buyers' credit program has been extended through April 2010 and a $300 million program subsidizing the purchase of home appliances via a personal income tax credit is expected to begin in early 2010. Federal government data indicate that as of the end of December 2009, only 32 percent of the total $787 billion package has been spent (see Table 1). Federal spending, the rebuilding of inventories, low interest rates, and continued global growth are expected to support a sustained recovery, with the economy growing at rates consistently above 3 percent by the middle of 2010 (see Figure 2).

TABLE 1
ARRA FUNDING SUMMARY

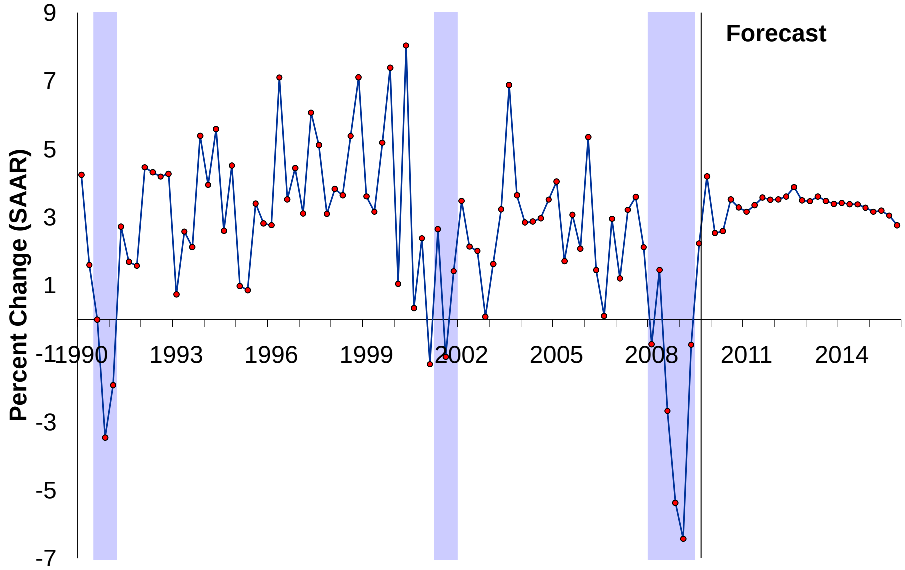
	Total Funds ($B)	Funds Paid Out* ($B)	Percent Paid Out
Tax Benefits	$288.0	$92.8	32%
Contracts, Grants & Loans	$275.0	$67.4	25%
Entitlements	$224.0	$93.3	42%
Total	**$787.0**	**$253.5**	**32%**

* As of December 25, 2009.
Source: www.recovery.gov.

The relatively slow pace of spending suggests that the economy will continue to benefit from Federal stimulus spending through the end of the year. However, the Federal Reserve is projected to begin to withdraw the historic volume of liquidity injected into the economy by the end of the first half of 2010, though the full impact of that withdrawal will not become apparent for some time after. The national recovery is projected to survive that withdrawal, with U.S. economic growth steadily increasing to almost 4 percent by the middle of 2012. However, with the loss of over seven million jobs and seven consecutive quarterly declines in nonresidential fixed investment, it will take quite some time before the economy reaches its "potential," defined as the level of output the economy has the capacity to produce given its labor force, capital stock, and technology. The economy is not projected to reach its potential level until 2015 (see Figure 3).

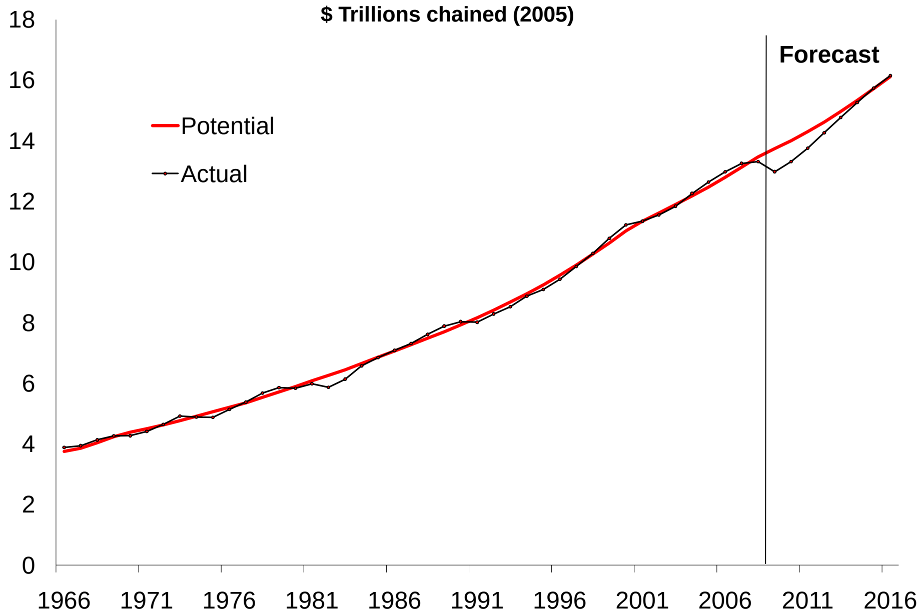
[2] See <http://www.cbo.gov/ftpdocs/106xx/doc10682/11-30-ARRA.pdf> page 17.

Figure 2
Real US GDP Growth



Note: Shaded areas represent US recessions. Current recession trough date is DOB staff estimate.
Source: Moody's Economy.com; DOB staff estimates.

Figure 3
Real US GDP: Actual vs. Potential



Source: Moody's Economy.com; DOB staff estimates.

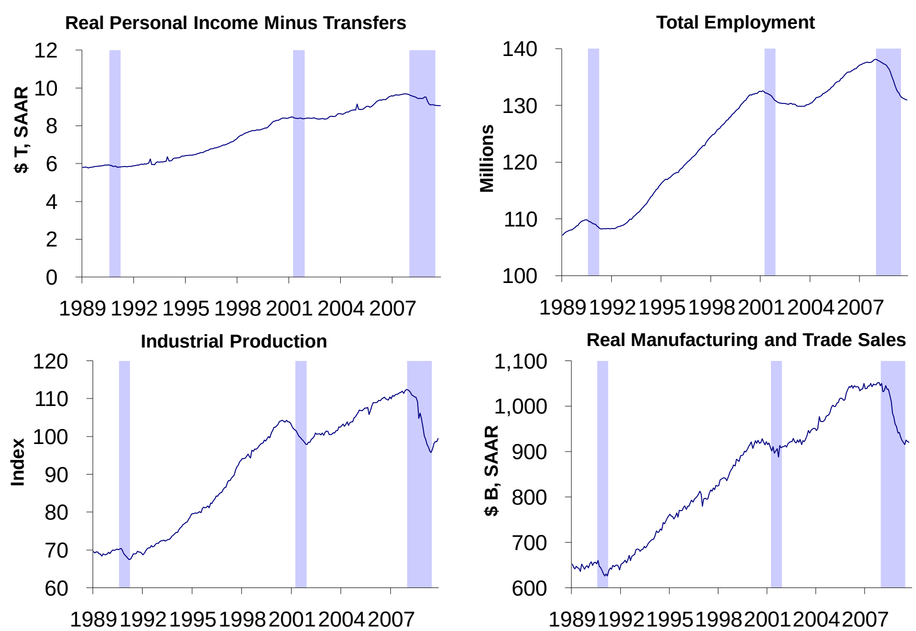
It is unlikely that the National Bureau of Economic Research (NBER) Business Cycle Dating Committee will designate a business cycle trough anytime soon. However, the most recent data indicate that the 2008-2009 recession reached a trough in June 2009 (see Box 1). Even if this assessment turns out to be accurate, there remains much uncertainty surrounding the shape and pace of the recovery, as there always is near a business cycle turning point. Figure 4 shows how four forecasts for real GDP growth for 2010 have evolved over time since early 2009. Like most forecasters, the Budget Division has been raising its forecast for real U.S. GDP growth for 2010 since July. The extent of the revisions between July and October clearly indicates that the success of Federal stimulus programs, such as "cash for clunkers" and the first-time home buyers' credit, was largely unexpected. Similarly, the marked improvement in the labor market in November, as reported in early December, was also unexpected and resulted in further upward revisions in forecasts released between then and early January. Of course the subsequent report that 85,000 jobs were lost in December reminds us that there will be downside surprises as well and that the path to recovery will be anything but smooth.

BOX 1
DATING THE RECESSION TROUGH

Business cycles are defined by a group of private economists at the National Bureau of Economic Research (NBER) Business Cycle Dating Committee. The precise dating of a business cycle turning point is as much an art as a science, particularly given that economic data are subject to revision. This is part of why the Dating Committee often waits more than a year before declaring officially that the national business cycle has entered a new phase.

Although a popular definition of a recession is two consecutive declines in real GDP, the Committee uses monthly data to determine business cycle peaks and troughs, usually focusing on the four key indicators shown in the figure below: real personal income minus transfers, nonfarm payroll employment, industrial production, and real manufacturing and trade sales. More recently they have added a fifth indicator, the monthly real GDP series constructed by Macroeconomic Advisors.

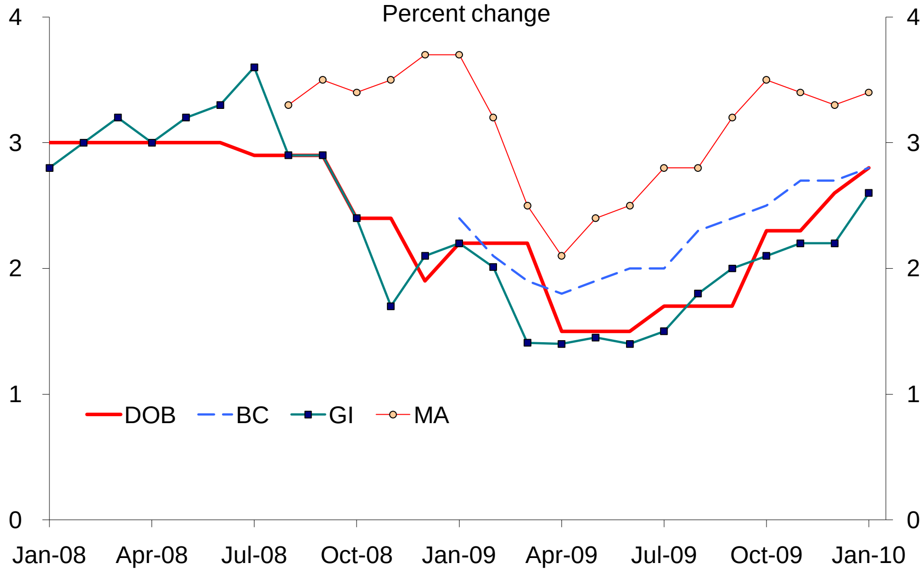
NBER Recession Indicators



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

The four monthly economic series that appear above are generally considered coincident indicators. All but the employment series reached a trough in June 2009. Macroeconomic Advisors' monthly real GDP series also has a trough in June. Although employment plays a critical role in the Dating Committee's analysis of business cycle activity, the Committee implicitly acknowledged that a cyclical trough can precede a labor market turning point in its dating of the last two business cycle troughs. This fact is clearly indicated in the figure above.

Figure 4
Evolution of the GDP Forecast for 2010



Note: DOB does not revise its forecast every month.
Source: Global Insight; Macroeconomic Advisors; Blue Chip; DOB staff estimates.

Labor Market on the Mend

After two years and 7.2 million jobs lost, the labor market finally appears to be turning.[3] The impact of Federal stimulus programs, global growth, and the end of the largest inventory correction since the 1930s will help to ensure that this turnaround is sustainable. Table 2 compares the total number of jobs lost during the second six months of 2009 to the number lost during the first half of the year. The pace of job losses decelerated dramatically during the second half of 2009, falling 76.0 percent from the prior period. Moreover, the improvement was broad-based, with management, administrative support, and waste services jobs, the category that contains temporary help services, having the best showing. The Budget Division outlook is for nonfarm jobs to remain flat in 2010, following a decline of 3.7 percent for 2009. Though the Budget Division projects no growth for 2010 on an annual average basis, the forecast is consistent with net quarterly growth in employment starting in the first quarter. Nevertheless, with growth in the labor force expected to accompany an improving labor market, the national unemployment rate is projected to average 9.8 percent for 2010, up from 9.5 percent in 2009.

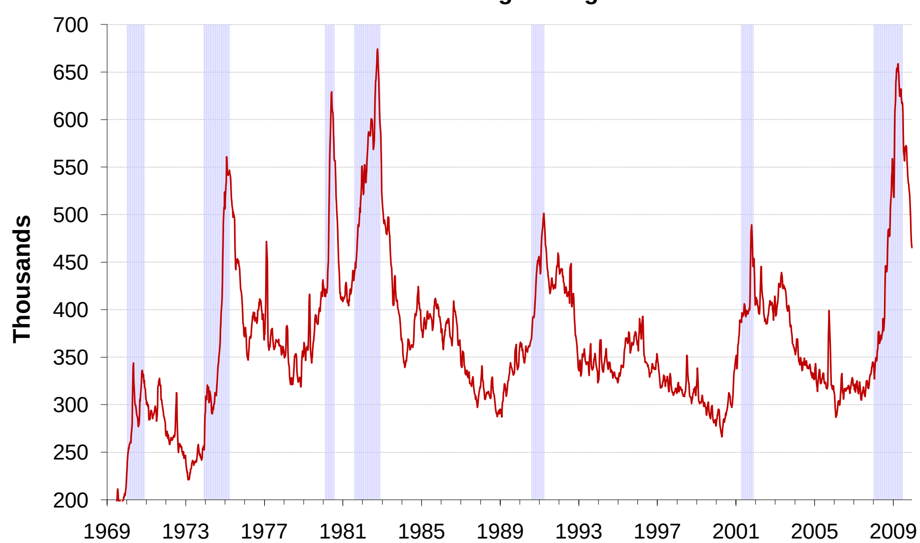
[3] When BLS publishes its 2009 benchmark revision on February 5, 2010, the March 2009 level of employment will be revised down by 824,000 jobs. Thus, it is likely that the total number of jobs lost during the recession will be revised closer to eight million <http://www.bls.gov/ces/cesprelbmk.htm>.

TABLE 2
JOB LOSSES DECELERATE IN THE SECOND HALF OF 2009

			2010Q4 / 2009Q4	
	Jan-Jun (000s)	Jul-Dec (000s)	Jobs Added (000s)	% Change
Total Private	(3,360)	(739)	1,476	1.4
Utilities	3	(1)	5	1.0
Construction	(610)	(324)	16	0.3
Manufacturing and Mining	(1,093)	(265)	67	0.6
Wholesale Trade	(170)	(62)	105	1.9
Retail Trade	(246)	(169)	(10)	(0.1)
Transportation and Warehousing	(172)	(65)	12	0.3
Information	(95)	(39)	2	0.1
Finance and Insurance	(164)	(36)	8	0.1
Real Estate, Rental, and Leasing	(95)	(20)	(31)	(1.5)
Professional and Technical Services	(182)	(10)	288	3.1
Management, Admin. Support, and Waste Service:	(519)	169	140	1.9
Education Services	19	24	128	3.9
Health Care and Social Assistance Services	149	184	528	3.2
Leisure, Hospitality, and Other Services	(185)	(126)	244	1.3
Government	1	(66)	40	0.2
Total	(3,359)	(805)	1,515	1.1

Source: Moody's Economy.com; DOB staff estimates.

Figure 5
Initial Claims
4-Week Moving Average



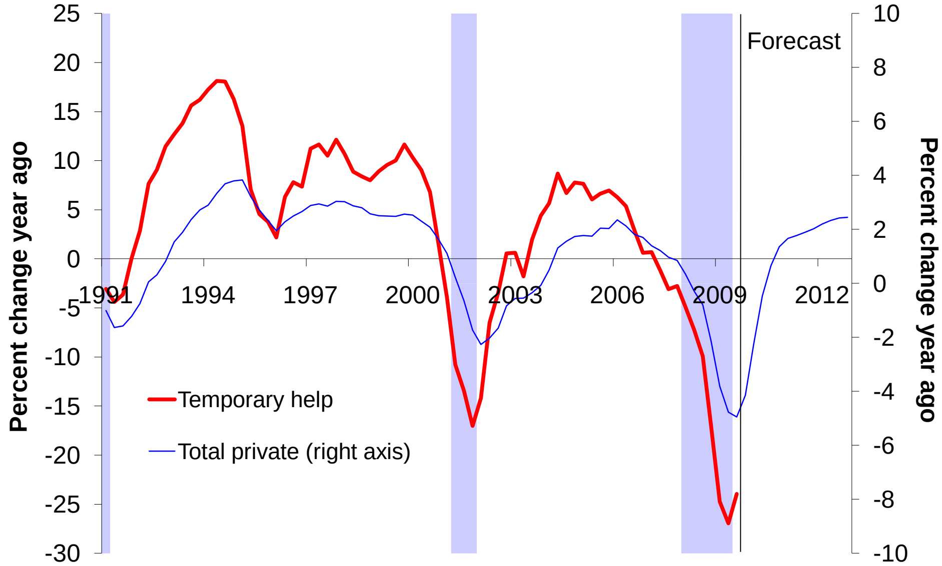
Note: Shaded areas represent U.S. recessions.
Source: Moody's Economy.com.

There is evidence that we are witnessing a self-sustaining labor market turning point. Perhaps the most promising signal is the substantial decline in initial claims for unemployment insurance benefits (see Figure 5). As of early December 2009, the four-week moving average in initial claims was down 28.1 percent from its early April peak, representing a significantly greater rate of decline than was observed during and after the prior two recessions. Over the same 36-week period that followed the late December 1990 peak, initial claims fell only 6.4 percent, and fell 20.4 percent following the October

20, 2001 peak. In contrast, in the wake of the deep recession of the early 1980s, initial claims fell fully 33.7 percent 36 weeks after peaking in early October 1982. Thus, there is reason to believe the current labor market will rebound at a pace that is closer to that of the early 1980s than to the slower pace that followed the two prior downturns.

Another signal that a labor market turning point is at hand is the increase in the demand for temporary help workers, which has been growing since August 2009. As shown in Figure 6, increases in temporary help employment tend to lead total private sector jobs. The results of a statistical model that measures whether growth in temporary help jobs tend to lead private sector hiring overall indicate that when the former start to grow, the latter can be expected to start growing, on average, three quarters later.[4]

Figure 6
Temporary Help Services Employment Leads Total Private



Note: Shaded areas represent U.S. recessions; 2009Q2 trough date is DOB staff estimate.
Source: Moody's Economy.com; Global Insight; DOB staff estimates.

As discussed above, the continuing steep decline in initial claims in Figure 5 would seem to suggest that we can expect a labor market recovery that looks more like the mid-70s or early-80s recoveries, rather than the jobless recovery from the 1990s recession or the job-loss recovery following the 2001 recession. There are several reasons why this may be the case. The recovery that followed the 1990s recession took place within the context of a downsizing of the Federal defense budget following the end of the Cold War. In addition, a period of corporate restructuring and downsizing within the broader manufacturing sector accelerated during the recession and continued through the early part of the recovery. The recovery from the 2001 recession took place in the wake of the attacks of September 11 and the ramp-up to the Iraq war that followed about 17 months later. Due in part to the uncertainty generated by these events, the labor market was on its way to a double-dip leading up to the March 2003 invasion, as illustrated in Figure 5.

[4] A Granger causality test was used to test whether temporary-help services employment "Granger causes" private sector employment. The Akaike Information Criterion is used to determine the model's optimal lag structure. The results are statistically significant at a level below 1 percent.

In contrast, the nation's involvement in two wars has been ongoing, without appearing to contribute to the uncertainty surrounding the economic environment. In addition, the outsourcing of jobs to lower-wage countries has also been ongoing and does not seem to have accelerated substantially during the recession. Finally, Federal stimulus spending is slated to continue through 2010, reinforcing the recovery's momentum. These factors, combined with the rebuilding of inventories that appears to have begun in the fourth quarter of last year, lend support to the expectation that the current labor market recovery will be stronger than the last two.

Table 2 also presents the Budget Division forecast for the number of jobs expected to be created between the fourth quarters of 2009 and 2010 by major sector. With retail trade employment expected to remain virtually flat, only two sectors are projected to continue to lose jobs over the course of the year, construction, and real estate and rental and leasing. These sectors are both related to one of the weakest areas of the economy, commercial construction, which still suffers from overbuilding during the construction/credit bubble.

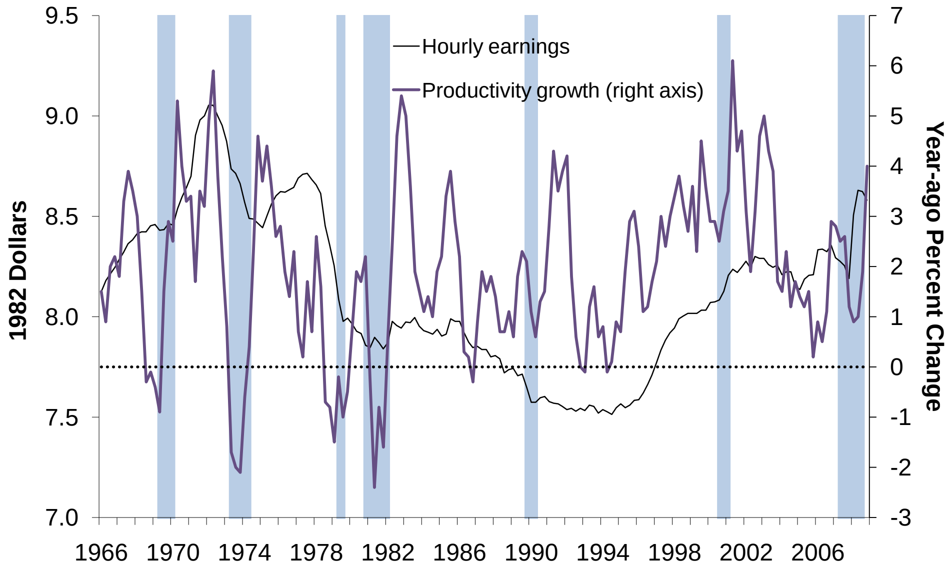
In contrast, growth in education and health care employment, which grew consistently throughout the recession, is expected to accelerate further in 2010. The demand for health care and social assistance jobs should remain robust as baby boomers continue to age and the industry proceeds along the path to de-institutionalization. Management, administrative support, and waste services jobs are projected to expand 1.9 percent in 2010, but be overtaken by professional and technical services employment, which is projected to rise 3.1 percent over the course of the year. U.S. corporate profits have exhibited strong growth starting in the first quarter of 2009 and statistical evidence suggests that growth in professional and technical services jobs follows closely.[5]

One consequence of the extraordinarily deep job cuts made by employers over the last two years has been high productivity growth. Figure 7 indicates that prior to the early 1990s, productivity tended to fall during recessions. During the 1990-91 recession, productivity continued to grow, but the rate of growth fell over the course of the relatively brief downturn. The experience of the last two recessions was quite different. The rate of productivity growth actually rose over the course of the 2001 recession, and it accelerated even more rapidly toward the end of the most recent downturn. In both of these cases, the productivity gains were likely reflective of the sharp declines in the workforce. This conclusion is supported by anecdotal evidence that firms used the downturn as an opportunity to become leaner and more efficient. However, there are limits to this strategy in the face of rising global and domestic demand. Going forward, these productivity increases should be seen as laying the foundation for future hiring and investment increases as the business sector becomes more confident about the recovery and credit conditions simultaneously improve.

[5] Statistical test results indicate that growth in U.S. corporate profits "Granger causes" growth in professional and technical services employment with a lag of only one quarter. However, despite the start of profits growth in 2009Q1, the decline in professional and technical services jobs did not level off until the following September. The longer lag that characterizes the recent period may be due to the fact that the 32.1 percent peak-to-trough decline in profits exhibited between 2006Q3 and 2008Q4 is the largest in the history of the data.

Figure 7

Productivity Growth Raises Real Private Average Hourly Earnings



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

Figure 7 also includes the fluctuation in real hourly earnings over the business cycle and illustrates how real earnings generally track changes in productivity, though they are much more stable. Recent productivity gains bode well for future wage growth, following an estimated decline of 3.3 percent for 2009, the first decline since 1954. The Budget Division projects wage growth of 4.1 percent for 2010, followed by growth of 4.4 percent for 2011. The improvement in wage growth is expected to raise personal income growth from a decline of 1.4 percent for 2009 to growth of 4.2 percent for 2010.

Marginal Federal tax rates are expected to rise at the end of 2010 with the expiration of the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs and Growth Tax Relief Reconciliation Act of 2003. As a result, it is expected that some employers will shift the payment of wages, particularly bonus payouts, from the first quarter of 2011 to the final quarter of 2010, thus permitting employees to take advantage of the lower tax rates. A similar shift of taxable income was observed at the end of both 1992 and 1993 in anticipation of tax increases in the following years. The Budget Division estimates that approximately $135 billion, annualized, will be shifted between the two quarters. Absent this shift, wages would be projected to grow only 3.6 percent in 2010. This rate of growth is well below the long-term average growth rate in U.S. wages of 5.4 percent, and reflects the large degree of slack in the U.S. labor market that will persist through the early stage of the recovery.

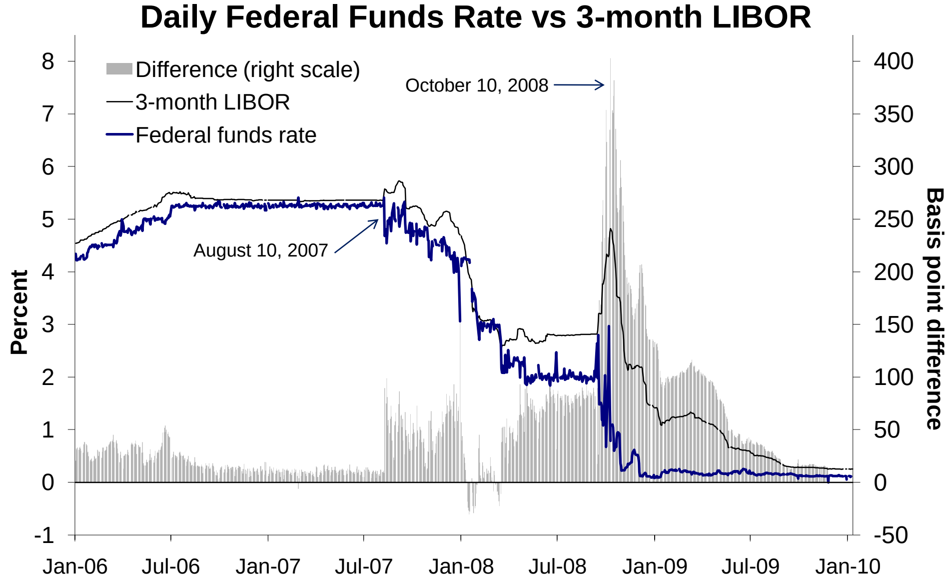
The Credit Crisis Slowly Abates

Pivotal to the strength of the current recovery will be the comeback from the nation's worst credit crisis since the 1930s. Credit market conditions have shown some improvement, particularly interbank lending. Figure 8 shows how the 3-month Libor rate normally tracks the federal funds rate quite closely, but widened as the crisis unfolded.

Liquidity pressures have since eased, as evidenced by the improved profit performance of the largest financial institutions. However, credit remains tight, particularly for households and small businesses, with banks having restricted their willingness to make loans due to the high risk of default that usually accompanies a recession. Indeed Figure 9 indicates that risk spreads have fallen to levels that are more normal historically for a recession. But default risk appears to be particularly high within the commercial real-estate sector, reported to have contributed to 100 of the 140 bank failures in 2009. In addition, there remains an unknown volume of overvalued assets on the books of many financial institutions. The uncertainty surrounding the value of these assets appears to be making lending institutions more conservative in gauging their loan capacity.

Figure 8

Daily Federal Funds Rate vs 3-month LIBOR

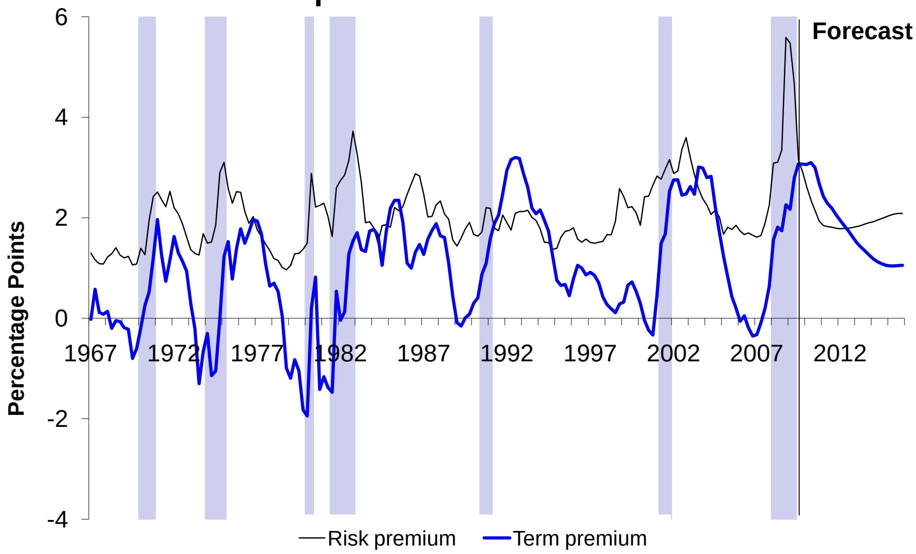


Source: Moody's Economy.com.

Figure 10 depicts the ongoing weakness in the markets for securitized debt and provides evidence that while credit markets have improved, certain segments of the market may never recover their pre-recession peaks. Assuming the volume of corporate debt underwriting for the fourth quarter of 2009 is equal to that of the third, the total volume for the year will represent an increase of 18.7 percent, following a decline of 62.8 percent for 2008. The volume of asset-backed and non-agency mortgage-backed debt combined is estimated to have risen 10.3 percent in 2009, following a decline of 86.2 percent in 2008. At its 2006 peak, securitized debt represented fully 59.8 percent of total corporate debt underwriting, but in 2008, that share fell to 19.2 percent. Finally, the volume of asset-backed commercial paper outstanding remains far below its September 2008 peak (see Figure 11).

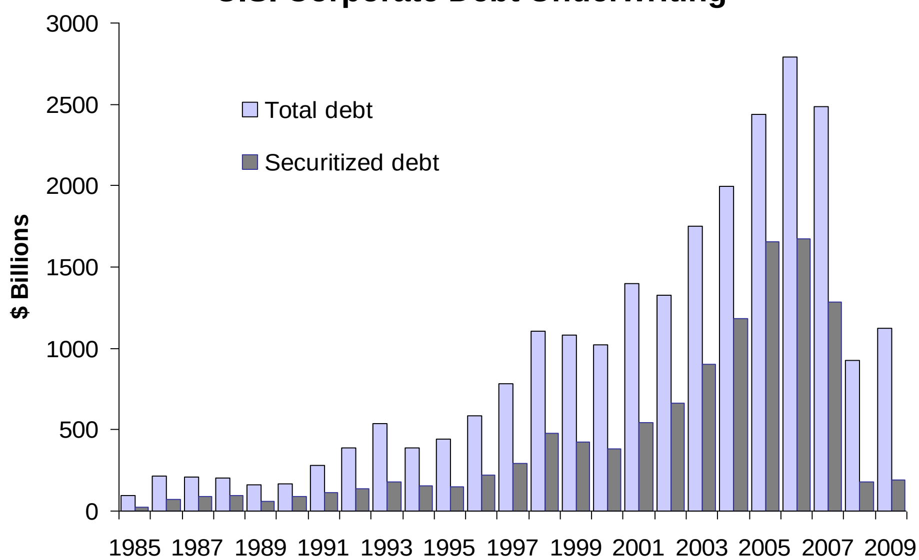
Given the weaknesses still present within the banking system, it may be that the Federal Reserve's quantitative easing programs are still the only force preventing a substantial contraction in the nation's money supply. The ratio of bank loans and leases to nominal GDP attained a historical quarterly peak of 50.6 percent in the fourth quarter of 2008, but fell 4.6 percent through the third quarter of 2009 (see Figure 12). History suggests that this ratio may have a long way to go, having fallen 12.0 percent during the savings and loan crisis of the early 1990s and 14.4 percent during the mid 1970s.

Figure 9
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; 2009Q2 trough date is DOB staff estimate.
Source: Moody's Economy.com.

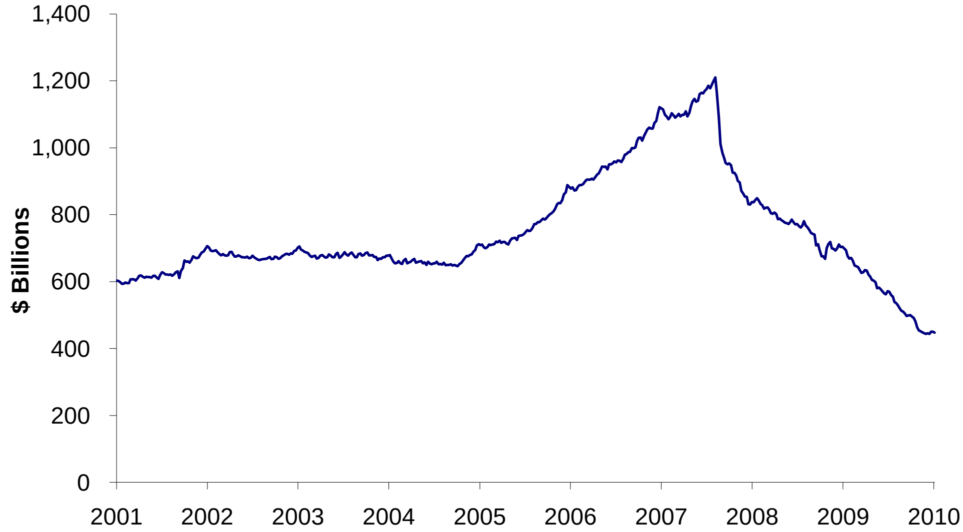
Figure 10
U.S. Corporate Debt Underwriting



Note: Data for 2009 are based on actual values through November and the assumption that December equals the average of the prior two months.
Source: SIFMA.

Figure 11

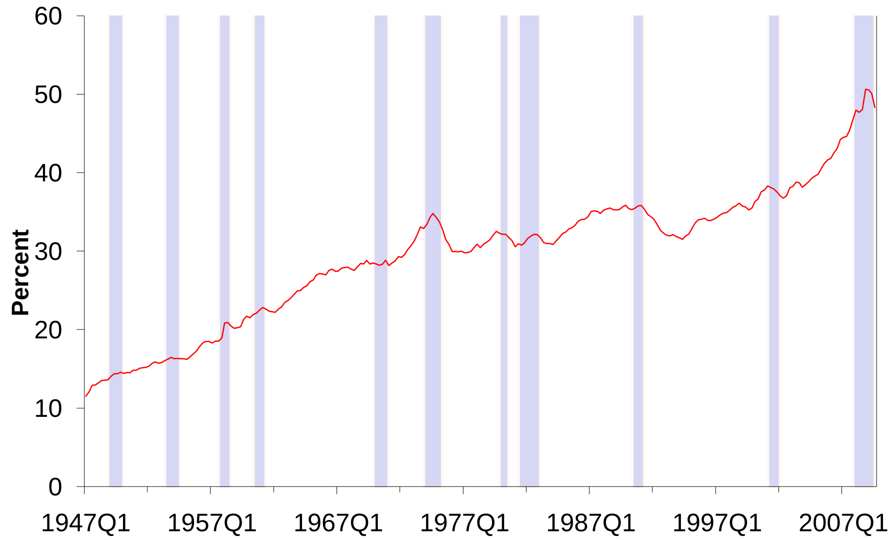
Volume of Asset-backed Commercial Paper Outstanding



Source: Moody's Economy.com.

Figure 12

Bank Loans and Leases
Relative to Nominal GDP

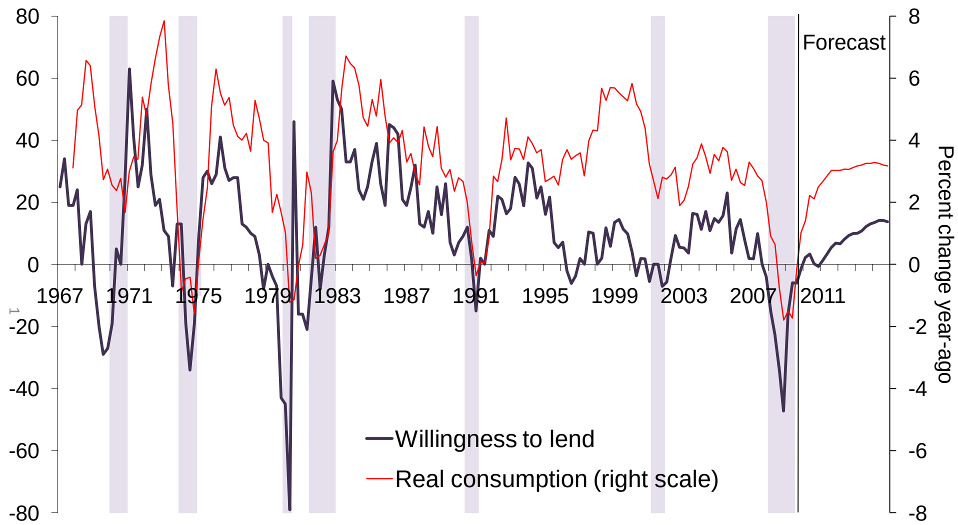


Note: Shaded areas represent U.S. recessions; 2009Q2 trough date is DOB staff estimate.
Source: Moody's Economy.com.

Consumers Slowly Starting to Spend

In the seven quarters following the start of the housing/credit bubble collapse, U.S. households lost $17.5 trillion in net worth, including both financial and nonfinancial sources of wealth. The loss of that wealth, combined with falling wages and the loss of over 7 million jobs resulted in four declines in real consumption spending within the six quarters from the first quarter of 2008 through the second quarter of 2009, unprecedented since the 1930s. Federal stimulus spending and the progressive comeback in household wealth finally have households spending again. Consumption spending grew 2.8 percent in 2009Q3, the first quarter of spending growth above 1 percent since 2007Q4. However, high unemployment, the ongoing deleveraging process, and tight credit will continue to put downward pressure on household spending for the next few quarters. Real consumption spending is expected to rise only 2.2 percent in 2010, following a decline of 0.6 percent in 2009. Based on this forecast, household spending is not expected to surpass its 2007Q4 peak until the second quarter of 2010, representing a historically long recovery period for household spending.

Figure 13
Credit Conditions Improving But Still Tight for Consumers



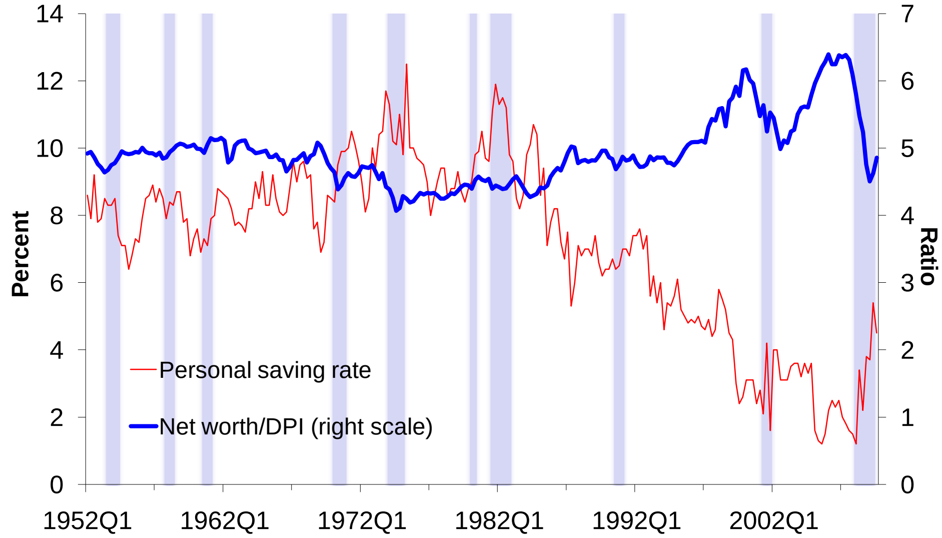
Note: Senior Loan Officers Survey data measures net percentage of banks reporting increased willingness to lend to consumers; shaded areas represent US recessions; 2009Q2 trough date is DOB estimate.
Source: Moody's Economy.com; DOB staff estimates.

The protracted decline in the level of real household spending is unprecedented in the history of the quarterly data. Figure 13 illustrates the depth of the decline, as well as the importance of credit market conditions to spending growth. With the improvement in lending conditions described above, bank willingness to lend to consumers, as measured by the Federal Reserve Board's Senior Loan Officer Survey, is expected to start expanding in 2010. The two most important determinants of banks' willingness to expand consumer credit are short-term interbank borrowing costs and default risk, which is assumed to be inversely related to economic growth. Although borrowing costs are expected to inch up starting in the middle of 2010, that effect will be more than offset by the decline in default rates as the recovery progresses. Nevertheless, as indicated in Figure 13, credit conditions will remain tight compared to prior recoveries.

Household sector spending is not expected to gain substantial momentum until the middle of 2010. As illustrated in Figure 13, projected growth for 2010 is relatively low for this stage of a recovery. Real spending for services and nondurable goods, the less cyclical component of household consumption, is projected to rise 1.8 percent in 2010, following a decline of 0.2 percent for 2009, while real spending for the more cyclical durable goods component is projected to rise 6.2 percent in 2010, following a 4.0 percent decline in 2009. The 2010 increase projected for durable goods is the lowest of the postwar era for the first full year of an expansion, except for the 5.7 percent growth posted for 1992.

Figure 14

Saving Rate and Household Net Worth Relative to Disposable Income

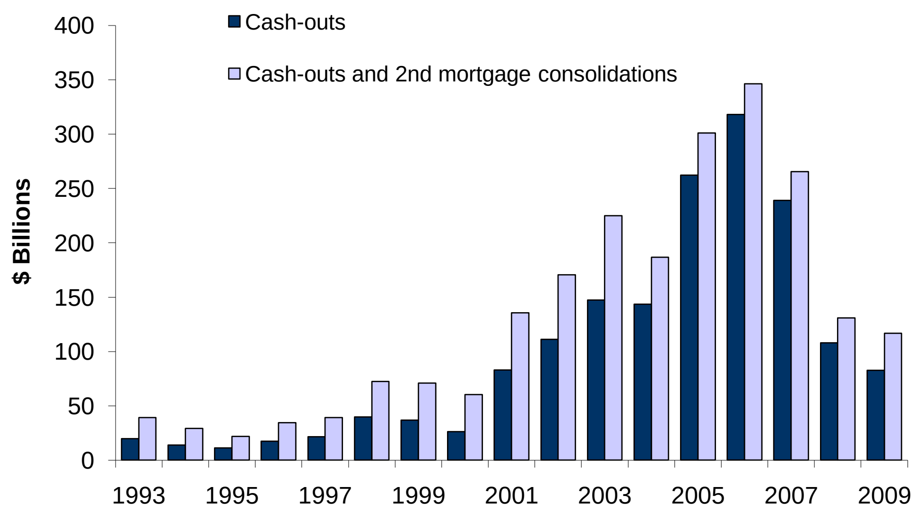


Note: Shaded areas represent U.S. recessions; 2009Q2 trough is DOB staff estimate.
Source: Moody's Economy.com.

The collapse of the housing market erased a large fraction of household wealth. As a result, consumers have been engaged in a deep deleveraging that will continue to put downward pressure on spending. 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. Moreover, when home prices were rising, homeowners were extracting equity from their homes through mortgage refinancing. But as Figure 15 illustrates, the volume of equity cash-outs has fallen 66.3 percent since its 2006 peak. As a result, the personal savings rate has risen from 1.2 percent for the first quarter of 2008 to 4.5 percent for the third quarter of 2009, the most recent quarter for which complete data are available. The low savings rate that characterized much of the recent expansion reflects in large part the accumulation of paper wealth and cheap credit that fed not only the demand for new homes and but also for all of the accouterments, such as autos, furniture, and appliances.

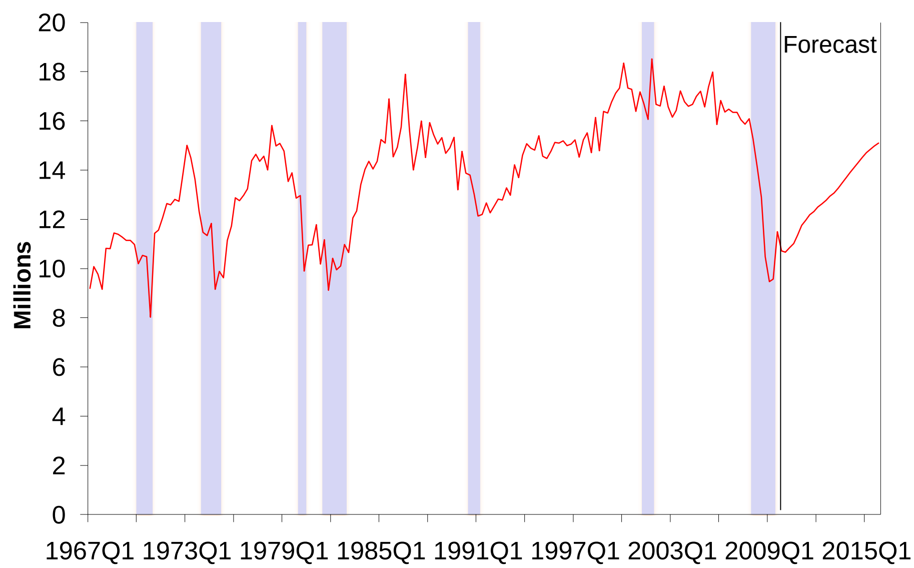
Figure 16 shows the record levels of light vehicle sales attained during the 2002-2007 expansion. On a per-household basis, sales never quite reached the levels attained during some prior expansions, but by the first quarter of 2009, sales per household fell to the lowest point in the data's history. The tepid projected growth in durable spending will be supported by 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 15
Home Equity Cash-Out Volume



Note: The first three quarters of 2009 are Freddie Mac estimates; the fourth quarter is assumed by DOB to be equal to the third.
Source: Freddie Mac.

Figure 16
Passenger Car and Light Truck Sales

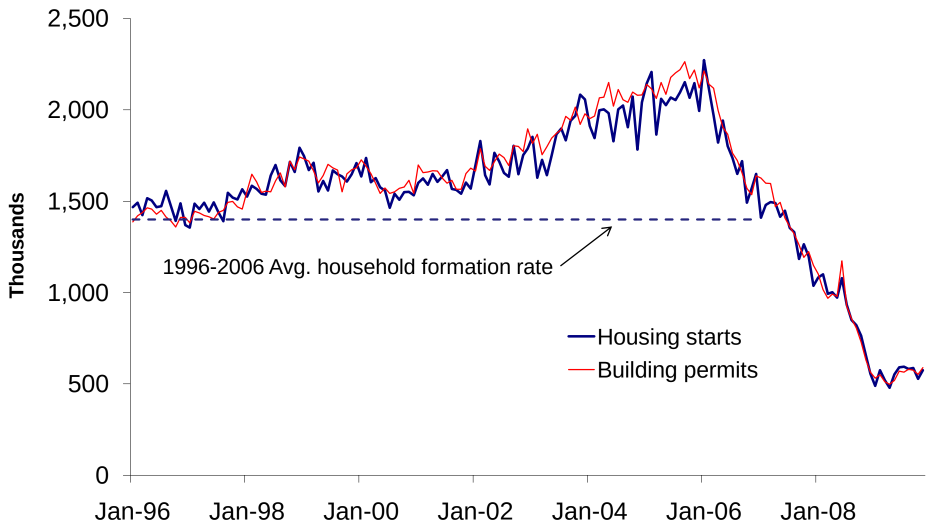


Note: Shaded areas represent U.S. recessions; 2009Q2 trough is DOB staff estimate.
Source: Moody's Economy.com; DOB staff estimates.

The Budget Division's temperate outlook for consumption growth is consistent with a gradual recovery in the housing market that will induce demand for home furniture and appliances, with some additional support given by Federal stimulus funding. Real residential housing investment grew 18.9 percent in the third quarter of 2009, the first quarterly growth since 2005Q4. But much of this growth was due to the Federal first-time home buyers' credit program, supported by historically low mortgage interest rates resulting from Federal Reserve policy actions. Real residential investment is now projected to rise 16.0 percent in 2010, after a decline of 19.6 percent in 2009.

Figure 17

Housing Market Stabilizing



Source: Moody's Economy.com.

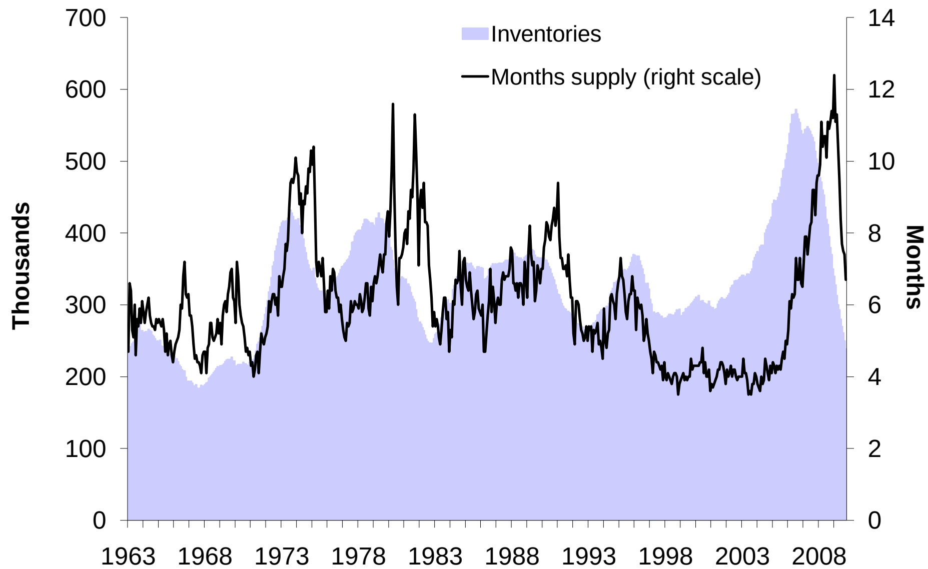
While 1.4 million households were formed each year between 1996 and 2006, on average, housing starts averaged 1.7 million a year over the same period (see Figure 17), which resulted in a large and growing volume of unsold homes when prices started to drop in middle of 2006. As depicted in Figure 18, much progress has been made toward reducing the overhang resulting from the housing boom, but a large inventory remains. Moreover, some of that progress could be undone by rising foreclosures, which put upward pressure on inventories and downward pressure on construction. The Census Bureau data on inventories do not include homes put on the market by banks at the close of a foreclosure proceeding, so it is uncertain precisely how the market is being affected by the rising foreclosure rate (see Figure 19). 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 continued to rise, with rental home vacancies registering the highest reading since the government began collecting such data in 1956. Thus, the expiration of Federal programs and the continued addition to the inventory of unsold homes by foreclosures add a substantial amount of risk to the Budget Division forecast for both residential investment and associated household durable goods spending.[6] In contrast, the rate of

[6] The Federal Reserve announced that it will terminate its purchases of agency mortgage-backed securities and agency debt by the end of March 2010. However, the U.S. Treasury announced on December 24, 2009, that it was effectively removing the limits to its funding commitment to Fannie Mae and Freddie

household formation, which varies consistently with the business cycle, is likely to pick up as the economy recovers, creating upside risk to the forecast.

Figure 18

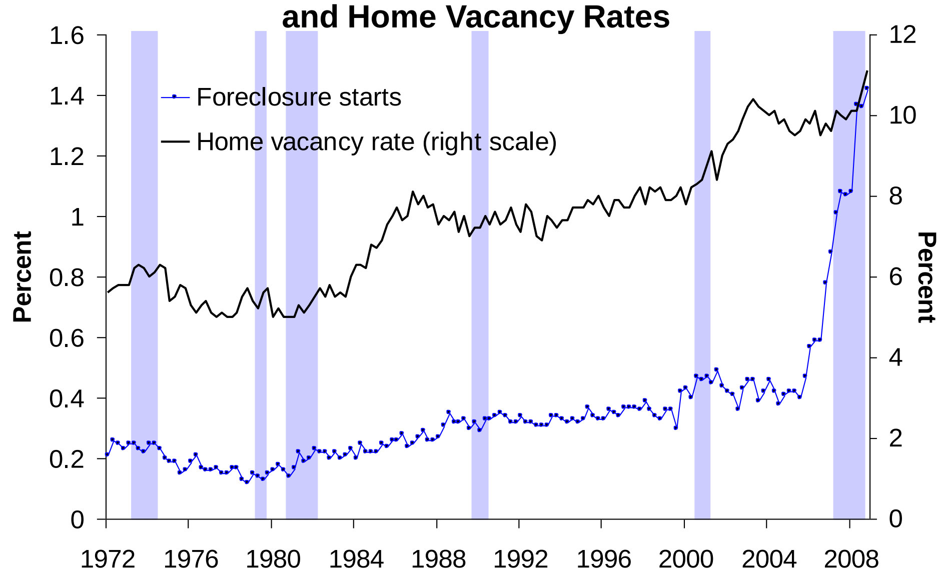
Inventory of New Homes for Sale



Source: Moody's Economy.com.

Figure 19

Percent of Loans Entering Foreclosure and Home Vacancy Rates



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

Mac, as well as lifting the cap on the volume of mortgages that the two agencies can buy for their portfolios, which could have the effect of minimizing the effect of the Federal Reserve's exit from the mortgage market on interest rates.

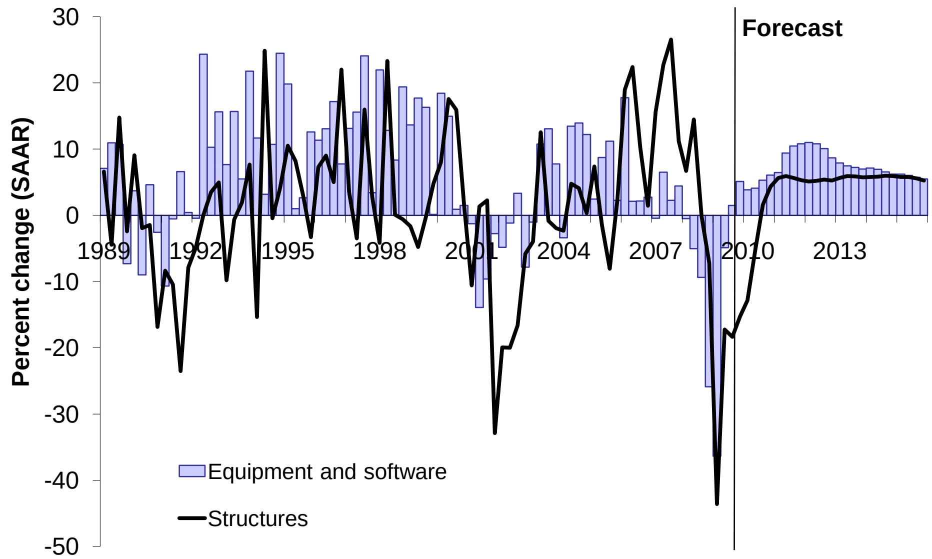
Business Spending to Come Back From the Dead

Burned by overstocked shelves when consumer spending began to weaken, the nation's businesses slashed production and investment at double-digit rates, resulting in the largest inventory correction since the Great Depression. Private business spending on investment in plant and equipment has fallen precipitously since the start of the recession, which can have implications for the nation's future capacity to grow. The two most important factors explaining the $329.9 billion decline in nonresidential investment are the unprecedented pullback in household spending and credit market frictions. Moreover, feedback between these two factors adds to the decline, since as consumers pull back, profits fall, and loan default rates rise, which further reduces lending even in the context of a healthy banking system. Thus it can be difficult to disentangle the two effects.

As the economy improves, the forces alluded to above will tend to reinforce each other in a more virtuous cycle. Banks will be more willing to lend and businesses more willing to borrow to replace old equipment and expand capacity as rising wealth and falling labor market uncertainty lead to higher household spending, resulting in greater profits and lower loan default rates. Given the gradual recovery in credit market conditions, this is expected to be a relatively slow process compared with prior recoveries. On an annual average basis, the Budget Division projects total private nonresidential fixed investment to fall 1.2 percent in 2010, following a decline of 18.1 percent in 2009. This forecast is consistent with increases on a quarterly basis by the second quarter of 2010, edging up above 9 percent by the third quarter of 2011.

The investment recovery process is expected to be especially dichotomous, with a recovery in spending on equipment and software juxtaposed with a continued decline in investment in structures as the economy continues to work through the overhang in commercial construction. As seen in Figure 20, 2009Q3 represents the first quarter of growth in producer durable equipment and software since the fourth quarter of 2007, consistent with the acceleration in auto demand and household spending more generally, as well as global growth. The growth in this component will gradually accelerate as demand grows and credit markets loosen. The Budget Division projects growth of 3.6 percent in equipment and software investment for 2010, following a decline of 17.3 percent in 2009. However, given the overbuilding in the commercial construction sector, nonresidential investment in structures is expected to continue to fall through the second quarter of 2010. This pattern is expected to result in an annual average decline of 10.4 percent for 2010, following a decline of 19.7 percent in 2009.

Figure 20
Real Nonresidential Fixed Investment



Source: Moody's Economy.com; DOB staff estimates.

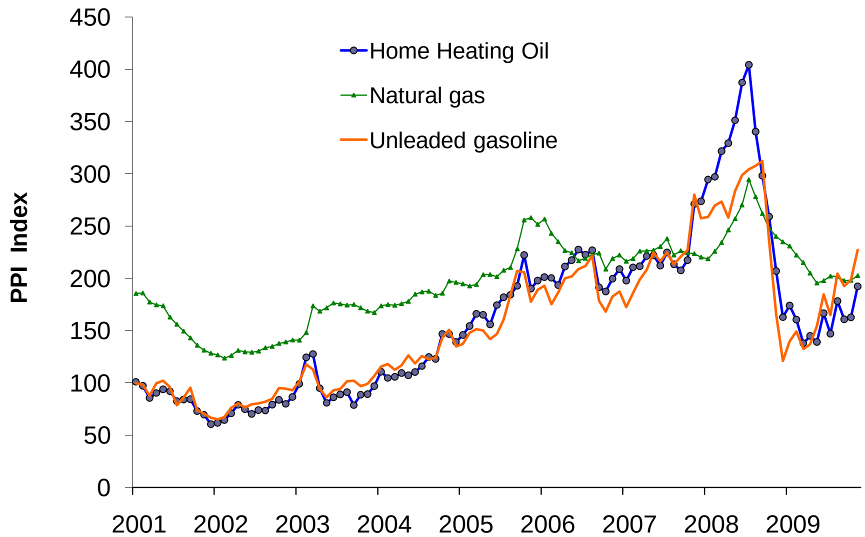
For a given set of current and expected future input and output prices, profit maximizing firms are assumed to choose a level of investment that achieves an optimal long-run relationship between the expected level of sales and the stock of plant and equipment.[7] With consumption and global demand rising, 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 normalizing, as indicated in Figure 9 on page 73, the incentive to invest is yet further increased.

Outlook for Inflation and Monetary Policy

With the large developing countries leading the emergence of the world economy from recession and the dollar weakened compared to a year ago, global commodity prices have continued to be volatile. As indicated in Figure 21, energy prices, though far below their July peaks, are on the rise again. Consequently, headline inflation, which had been running well below the "core" measure that excludes volatile food and energy prices, is starting to escalate (see Figure 22). And with the U.S. recession now over, the probability that rising energy prices will spill over into the core is heightened. A statistical model that measures the sensitivity of core inflation to the change in oil prices suggests that we can expect some pass-through (see Box 2).

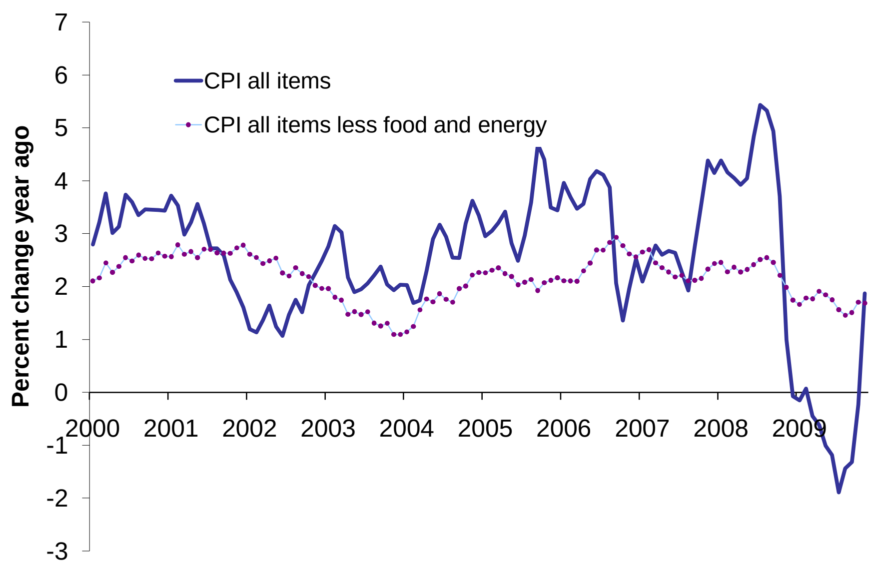
[7] Optimal investment is the level that maintains the profit maximizing or cost minimizing capital-output ratio. With a Cobb-Douglas production function, the optimal capital-output ratio will be equal to the ratio of the price of output to the rental rate of capital. This condition implies that the optimal growth rate of investment varies with output growth and changes in the rental rate of capital relative to output price.

Figure 21
Recent Trends in Energy Prices



Source: Moody's Economy.com.

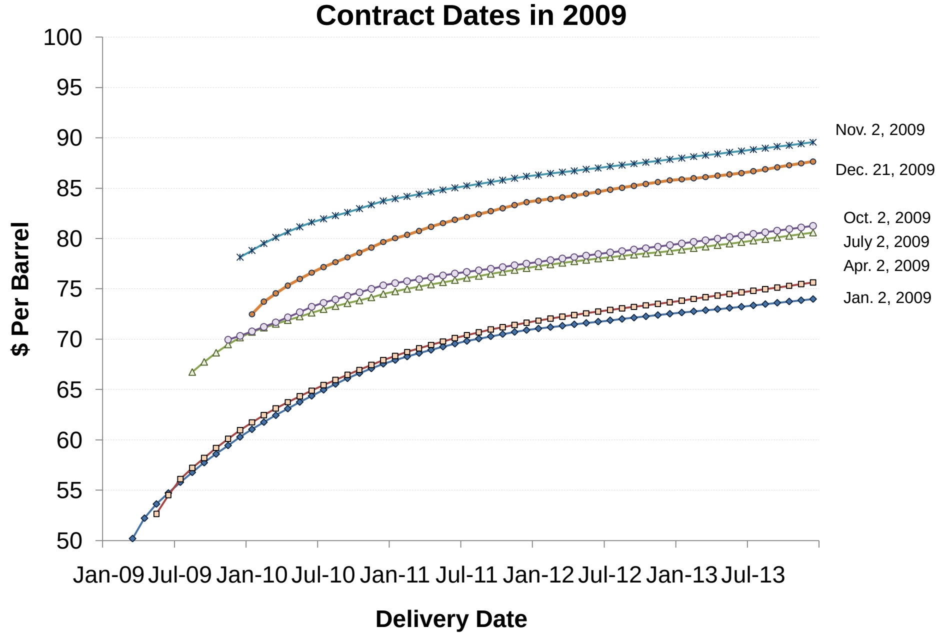
Figure 22
General vs. Core Inflation



Source: Moody's Economy.com.

In addition, as more of the global pool of surplus labor is absorbed into production for the world market, the imported goods prices that traditionally have put downward pressure on domestic inflation may no longer provide the same release valve. For example, apparel prices have been rising. Consequently, though the absence of any significant wage pressure will keep core inflation in check over the short run, price pressures can be expected to build, signaling that inflation expectations will soon replace the labor and financial markets as the Federal Reserve's chief area of concern. The Budget Division projects inflation, as measured by growth in the Consumer Price Index, of 2.2 percent for 2010, following a decline of 0.3 percent for 2009. With oil prices rising as domestic and global demand continues to firm, the per barrel price of benchmark West Texas Intermediate (WTI) crude oil can be expected to fluctuate around $80 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 23).

Figure 23
WTI Crude Oil Futures Prices for Selected Contract Dates in 2009



Source: Bloomberg.

The Budget Division inflation forecast is consistent with long-term inflation expectations remaining anchored in response to a shift in the Federal Reserve's monetary policy stance at about the middle of 2010, when the central bank will begin to execute its "exit strategy" from both its zero federal funds rate policy and its less traditional quantitative easing programs. Figure 24 illustrates how expansive these programs have been and suggests the challenge that lies ahead for both the economy and the central bank in reining in its balance sheet as conditions improve. The Federal Reserve has extended the Term Asset-Backed Securities Loan Facility (TALF) programs for existing commercial mortgage-backed securities (CMBS) through March 2010 and newly structured CMBS through June 2010. These programs were a remarkable success in containing counterparty risk at the peak of the financial crisis, particularly among the primary broker dealers that are critical in the conduct of monetary policy. For example, the Term Auction Facility (TAF), combined aspects of open market operations and the discount window, avoiding the stigma of the latter by functioning as an auction. However, with interbank lending markets in full recovery, a timely unwinding of these programs is likely to be essential to preventing yet another credit bubble.

BOX 2
THE THREAT TO DOMESTIC PRICE STABILITY FROM GLOBAL PRICE SHOCKS

With the unemployment rate hovering close to 10 percent and capacity utilization still 10 points below its pre-recession peak, many have argued that inflation risk is minimal, despite the increase in energy and other global prices from their recession lows. Also, with wages falling by an estimated 3.3 percent in 2009 and projected growth for 2010 well below its historical average, there would appear to be virtually no threat to price stability from domestic sources. But 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 before. According to the U.S. Energy Information Administration, the Asia-Pacific region is currently the leading driver of higher oil demand and therefore of recent price increases, which represent an external shock to the recovering U.S. economy. Energy and other commodity price shocks represent a change in the price of one good relative to all others and not necessarily a change in the general price level itself. Thus, the broader economic impact of such shocks depends largely on their pass-through to domestic core inflation.

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:

$$\begin{aligned} INF_t^C = {} & \underset{(0.12)}{0.04}\,(U_t - U_t^{NAIRU}) - \underset{(0.16)}{0.66}\,(U_t - U_t^{NAIRU})D1983Q4_t + \underset{(0.02)}{0.04}\,(INF_{t-1}^{IM} - INF_{t-1}^{C}) \\ & + 0.03\ PDL(12,2,INF_{t-1}^{E} - INF_{t-1}^{C}) - 0.27\,PDL(12,2,PROD_t) + \underset{(0.07)}{0.34}\ INF_{t-1}^{C} + \underset{(0.10)}{0.91}\ \hat{INF}_{t+4} \end{aligned}$$

$\overline{R}^2 = 0.83$ DW=1.99 $\quad 1957Q2 - 2009Q3$

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)

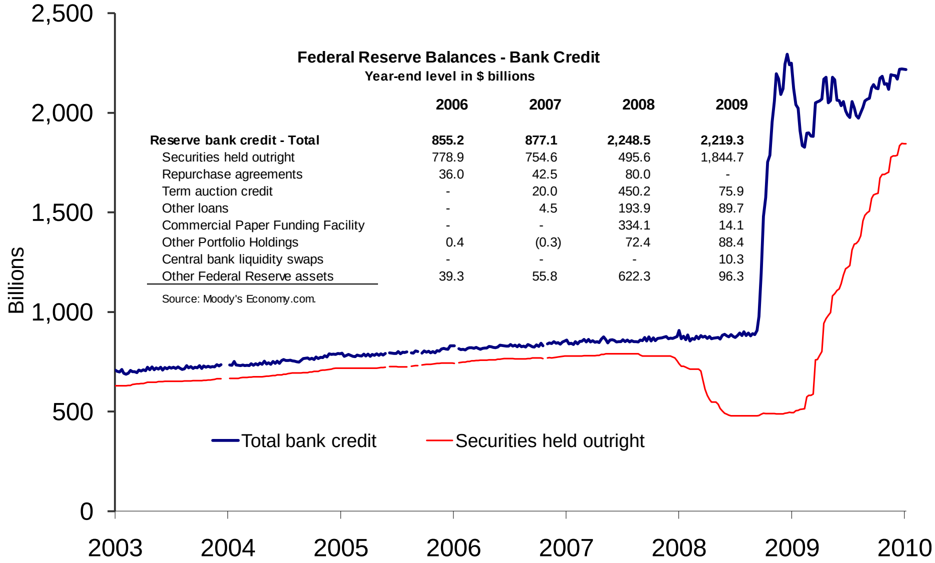
$D1983Q4_t$ = Break point dummy {= 1 for $t \leq$ 1983Q4; 0 otherwise}

Note: All inflation and growth rates are annualized from prior quarter;

standard errors are in parentheses.

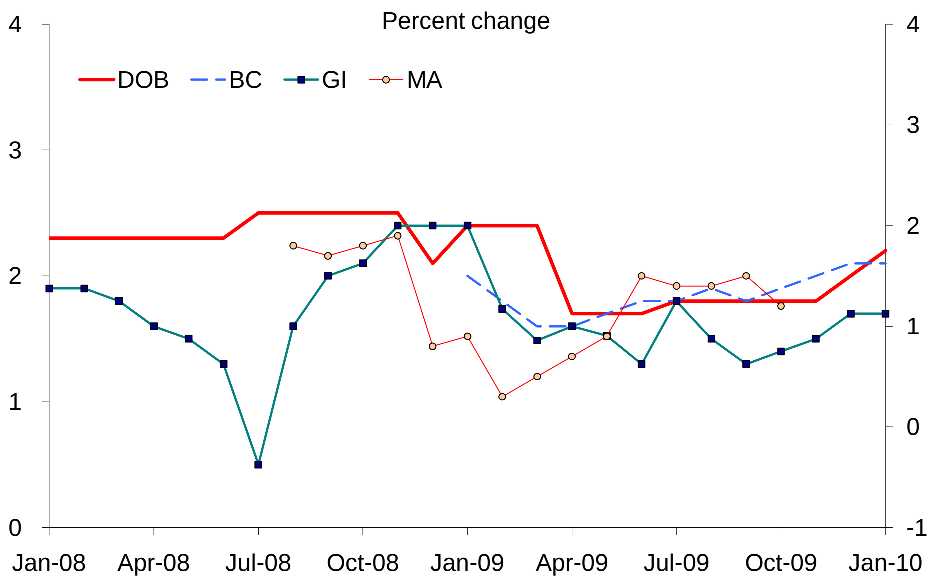
The model results presented above indicate that if either energy inflation or inflation in non-energy import prices rises above core inflation, there is some pass-through to the core inflation rate. Model results also show a negative impact of labor market slack on core inflation, but based on a test for structural change, the impact appears to have changed over time. While the impact was relatively strong and statistically significant during the period prior to 1983Q4, it becomes statistically indistinguishable from zero for the subsequent period. These results suggest that even a large degree of labor market slack does not eliminate inflation risk, particularly when global prices are rising.

Figure 24
The Expansion of the Federal Reserve Balance Sheet



Source: Moody's Economy.com.

Figure 25
Evolution of the CPI Forecast for 2010



Note: DOB does not revise its forecast every month.
Source: Global Insight; Macroeconomic Advisors; Blue Chip; DOB staff estimates.

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.

The Federal Reserve is expected to begin to raise its federal funds policy target with a 25 basis point hike at its late June meeting, although historical experience and the degree of domestic slack might seem to dictate a much longer waiting period. However, there are several reasons to believe that a period of about six months from the labor market turning point will be sufficient to induce the central bank to change course. First, it was the systemic risk to the stability of the financial system itself that ultimately led to the lowest federal funds target rate on record. Though it is highly likely that failures among relatively small regional banks will continue, particularly among banks with an imprudently large share of sour commercial real estate loans on their books, the near-term stability of the financial system is no longer in question. Thus, it was not slack alone that drove rates down to current levels, and therefore slack alone cannot justify their prolonging. Moreover, interest rates near zero can distort the market and lead to future bubbles. Finally, monetary policy impacts are found to operate with a lag of six to eighteen months. Consequently, the central bank's initial rate hikes can be expected to have negligible effects on final demand for a significant period, with their primary impact being on longer-run inflation expectations.

The growing degree of global integration is yet another reason to believe that the Federal Reserve will need to be extra vigilant. As the nation's foreign sector grows as a share of real GDP, the domestic price level becomes increasingly determined by prices that are set globally. Moreover, just as the world's central banks worked together at the height of the crisis, the same pattern of cooperation can be expected on the upside. The Australian central bank has already executed three 25 basis point rate hikes since October 2009, the Chinese central bank has raised rates, and the New Zealand central bank has hinted that it too will soon begin to raise rates. Finally, in light of the ongoing debate as to the role that Federal Reserve policy may have played in the formation of the credit bubble that ultimately led to the financial crisis, it is not unreasonable that with the labor market firmly on a path toward recovery, erring on the side of caution might be in order.

Based on the policy framework described above, the effective federal funds rate is projected to average 0.74 percent in 2010, rising to 1.8 percent average for the fourth quarter. Although this policy is consistent with the Budget Division's output and labor market forecast, there is a considerable amount of risk surrounding this forecast given that the Federal Reserve Board has stated that it will maintain its current policy for "an extended period." With a strengthening domestic and global economy, and growing government debt, the flight to safety that kept the 10-year Treasury yield at remarkably low rates has started to reverse itself. An average 10-year Treasury yield of 3.92 percent is projected for 2010, following an average yield of 3.24 percent for 2009.

The International Economy

With the Asian economies leading the global recovery and the dollar substantially lower than last year, the nation's export sector is helping to lead the national recovery (see Figure 26). The contribution of exports to national economic growth rose from a 4.1 percent quarterly decline in 2009Q2 to 17.8 percent growth in 2009Q3. Growing global demand for U.S. goods and services is projected to result in an 8.6 percent increase in the real value of U.S. exports for 2010, following a decline of 10.3 percent for 2009. Thus, exports are projected to contribute approximately a full percentage point to growth.

Just as the global transmission of negative financial shocks was a pivotal force in dragging the international economy into the recession, the transmission of positive shocks is likely to reinforce the rise of world GDP going forward. As depicted in Figure 27, global equity market activity clearly reflects the expectation that the world's developed and developing countries will grow together, though growth in the developing world is likely to continue to outpace that of the developed world over the near term. Indeed, one major forecaster reportedly expects that for the first time ever, the volume of imports to Brazil, Russia, India, and China — the so-called BRIC nations — will surpass that of the United States in 2009.[8]

The third quarter swing alluded to above was even more dramatic for real U.S. imports, which fluctuated from a decline of 14.7 percent to growth of 21.3 percent. With both household and business sector demand expected to rise over the course of 2010, the demand for imports is expected to rise as well. The value of real U.S. imports is projected to rise 8.8 percent for 2010, following a decline of 14.1 percent for 2009. The third quarter represented the first quarterly deterioration in the current account trade deficit since the second quarter of 2008. As a result, the deficit rose to 3.0 percent of GDP from the prior quarter's 10-year low of 2.8 percent.

The nation's rising trade deficit represents a risk to the future value of the dollar. As illustrated in Figure 28, the dollar has been falling against other world currencies, with the broad index, a trade-weighted index of the nation's major trading partners, falling 9.9 percent since its most recent near-term peak in March 2009. Recently there have also been political challenges to the dollar as the world's premiere reserve currency, which could also contribute to the destabilization of the dollar. However, to date there has been little evidence of a decline in the willingness to hold U.S. dollar-denominated assets. Indeed, as indicated in Table 3, which lists the foreign holdings of U.S. Treasury securities, the desire to hold these securities has risen despite the dollar's loss of value. As the global expansion firms up and investors' appetite for risk induces diversification away from the safest of securities, the desire to hold U.S. Treasuries could wane, though the rise in U.S. interest rates as monetary policy shifts is expected to mitigate that effect to some degree. Nevertheless, the projected rise in the nation's trade deficit, combined with the increasing Federal debt, remains a risk to the dollar, and therefore to the inflation forecast, over the long run.

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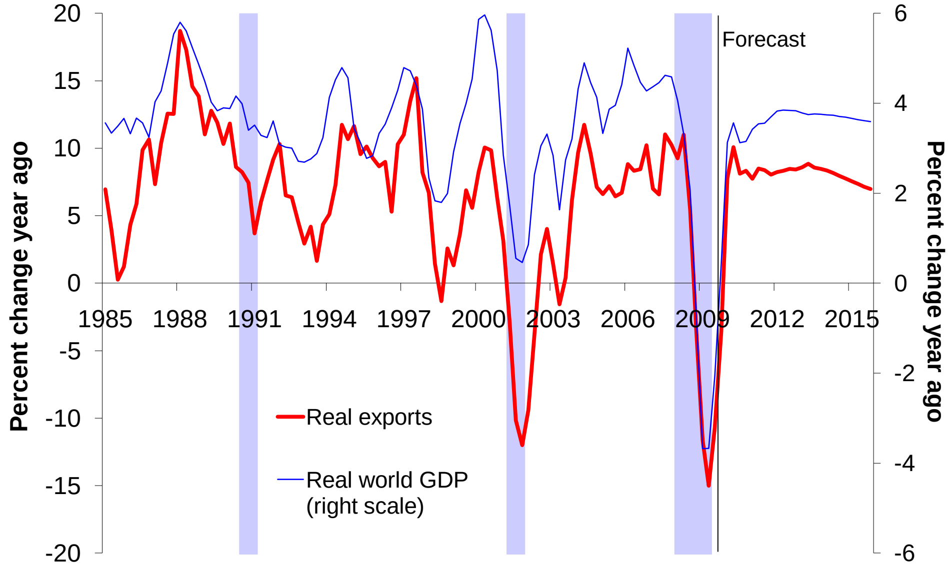
[8] <http://www.nytimes.com/2009/12/30/business/global/30emerge.html?ref=business>, viewed December 30, 2009.

Figure 26
Real Export and World GDP Growth



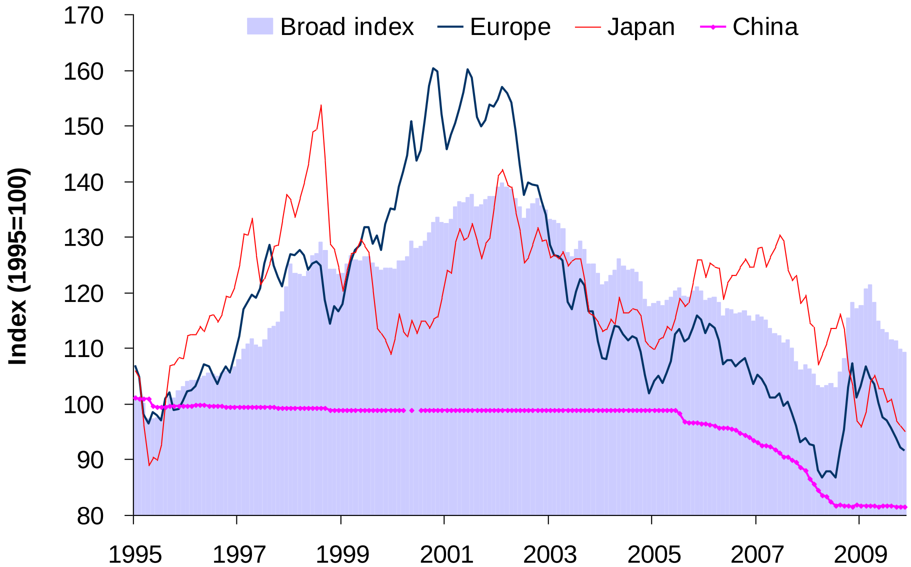
Note: Shaded areas represent U.S. recessions; recession trough date is DOB staff estimate.
Source: Moody's Economy.com; Global Insight; DOB staff estimates.

Figure 27
The Synchronicity of Global Equity Markets in 2009

Source: Yahoo Finance.

Figure 28

Foreign Exchange Value of U.S. Dollar



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

TABLE 3

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-08	583.3	(2.3)	486.9	(5.7)	180.5	18.7	146.1	5.3	2,426.1	26.8
Feb-08	597.4	14.1	490.6	3.7	200.1	19.6	150.7	4.6	2,505.8	79.7
Mar-08	597.4	0.0	490.6	0.0	200.1	0.0	150.7	0.0	2,505.8	0.0
Apr-08	588.8	(8.6)	502.0	11.4	246.8	46.7	153.8	3.1	2,586.5	80.7
May-08	575.3	(13.5)	506.8	4.8	271.2	24.4	164.2	10.4	2,597.5	11.0
Jun-08	628.0	52.7	535.1	28.3	55.0	(216.2)	159.5	(4.7)	2,587.2	(10.3)
Jul-08	637.6	9.6	550.0	14.9	66.1	11.1	162.9	3.4	2,624.0	36.8
Aug-08	637.6	0.0	550.0	0.0	66.1	0.0	162.9	0.0	2,624.0	0.0
Sep-08	617.5	(20.1)	618.2	68.2	112.8	46.7	171.2	8.3	2,799.5	175.5
Oct-08	629.6	12.1	684.1	65.9	133.1	20.3	176.7	5.5	2,979.7	180.2
Nov-08	625.2	(4.4)	713.2	29.1	132.4	(0.7)	187.2	10.5	3,036.0	56.3
Dec-08	626.0	0.8	727.4	14.2	130.9	(1.5)	186.2	(1.0)	3,076.3	40.3
Jan-09	634.8	8.8	739.6	12.2	123.9	(7.0)	186.6	0.4	3,071.6	(4.7)
Feb-09	661.9	27.1	744.2	4.6	129.0	5.1	181.7	(4.9)	3,161.4	89.8
Mar-09	686.7	24.8	767.9	23.7	128.1	(0.9)	192.0	10.3	3,264.7	103.3
Apr-09	685.9	(0.8)	763.5	(4.4)	152.7	24.6	189.5	(2.5)	3,262.0	(2.7)
May-09	677.2	(8.7)	801.5	38.0	163.7	11.0	192.8	3.3	3,292.6	30.6
Jun-09	711.8	34.6	776.4	(25.1)	214.0	50.3	191.2	(1.6)	3,382.1	89.5
Jul-09	724.5	12.7	800.5	24.1	219.9	5.9	189.2	(2.0)	3,427.5	45.4
Aug-09	731.2	6.7	797.1	(3.4)	226.9	7.0	189.1	(0.1)	3,453.1	25.6
Sep-09	751.5	20.3	798.9	1.8	249.3	22.4	185.3	(3.8)	3,497.4	44.3
Oct-09	746.5	(5.0)	798.9	0.0	230.7	(18.6)	188.4	3.1	3,498.1	0.7

* 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.

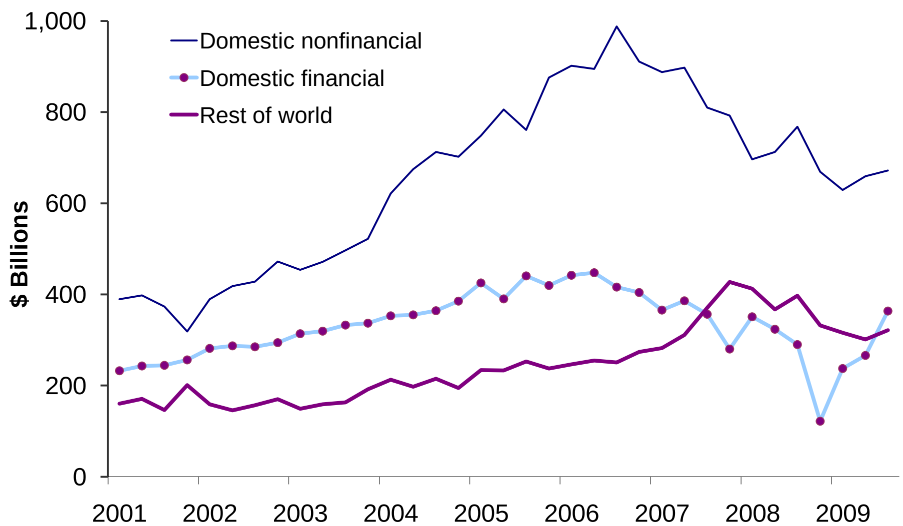
** Grand Total is the total of all 27 countries included in the Portfolio Investment Survey.

Source: U.S. Department of the Treasury/Federal Reserve Board.

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

U.S. corporate profits have staged a remarkable comeback after a 32.1 percent decline between the third quarter of 2006 and the fourth quarter of 2008. Profits have risen 20.9 percent since the end of 2008, led by the financial sector. As shown in Figure 29, financial sector profits have been especially volatile since the start of the credit crisis during the summer of 2007, with profits falling quite sharply in the fourth quarter of 2008, but growing 186.4 percent since then. The nonfinancial sector is expected to continue to see profit growth as a result of recent cost-cutting efforts manifest in the high productivity growth exhibited recently. The Budget Division projects an increase in U.S. corporate profits from current production, which includes the inventory valuation and capital consumption adjustments, of 12.7 percent in 2010, following a decline of 5.1 percent in 2009. Though profits are estimated to have fallen for 2009 on an annual average basis, they have actually been growing on a quarterly basis since the first quarter of the year. As discussed above, the recent growth in profits is thought to be setting the stage for growth in jobs and investment in equipment and software starting in the first quarter of 2010.

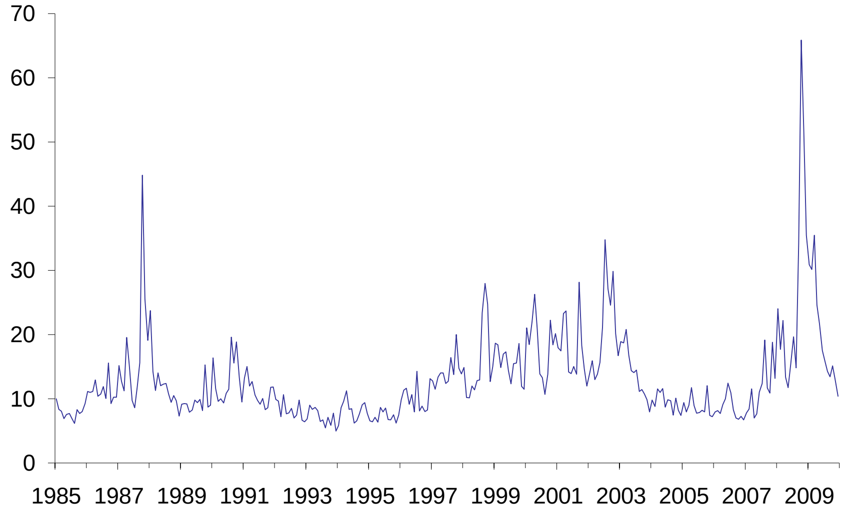
Figure 29
U.S. Corporate Profits



Source: Moody's Economy.com.

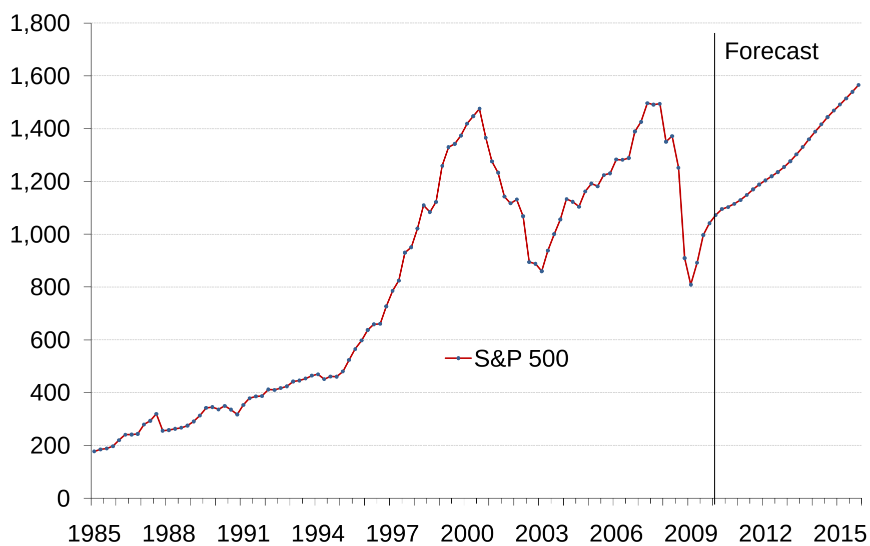
The 2008-2009 recession was an extremely turbulent period for equity markets, as shown in Figure 30. Even in the months after the fall of Lehman Brothers in September 2008, market volatility remained relatively high with a continued seizing of credit markets through the winter. With a report in mid-March that a large financial institution had turned a profit in the first two months of the year, markets finally began to look ahead, ending the 20-month bear market that began in July 2007. Since its March 2009 trough, equity market prices, as represented by the S&P 500, had risen a remarkable 64.8 percent as of the end of last year. Since this increase is due at least in part to the virtually "free money" made available by the central bank's expansive monetary policy, growth can be expected to slow going forward (see Figure 31). Consistent with continued growth in corporate earnings, discounted by higher interest rates, the Budget Division projects equity market growth of 24.9 percent for 2010, following a decline of 22.5 percent in 2009, on an annual average basis. This forecast is consistent with quarterly growth slowing to single digit rates by the third quarter of this year. The S&P 500 is not projected to reach its prior peak until the end of 2014.

Figure 30
Equity Market Volatility



Note: Monthly S&P 500 volatility is measured as the monthly average spread between the daily high and low, divided by the monthly average level of the index.
Source: Yahoo Finance.

Figure 31
The Equity Bull Market Projected to Continue



Source: Moody's Economy.com; DOB staff estimates.

Outlook for Government Spending

Unlike Federal government spending, state and local government expenditures are constrained by revenue flows, often by statute. Since most states and many local governments rely on revenue sources, such as sales and income taxes that are affected by the business cycle, the 2008-2009 recession put a severe strain on municipal government resources. It has been reported that state governments closed a cumulative budget gap of $145.9 billion in crafting their 2010 fiscal year budgets, while 36 states have had to close another round of gaps since their fiscal years began totaling $28.2 billion to date.[9] There is little doubt that these gaps would have been significantly greater were it not for the impact of ARRA. Given the lag between revenue flows and the economic activity that generates them, states will likely continue to be fiscally constrained until well into the national recovery. Moreover, municipal governments will face fiscal pressures from the withdrawal of Federal stimulus funds starting in the 2010-11 fiscal year, under current law. The Budget Division projects a decline in the NIPA definition of real state and local government spending of 1.1 percent for 2010, following a decline of 0.3 percent for 2009.

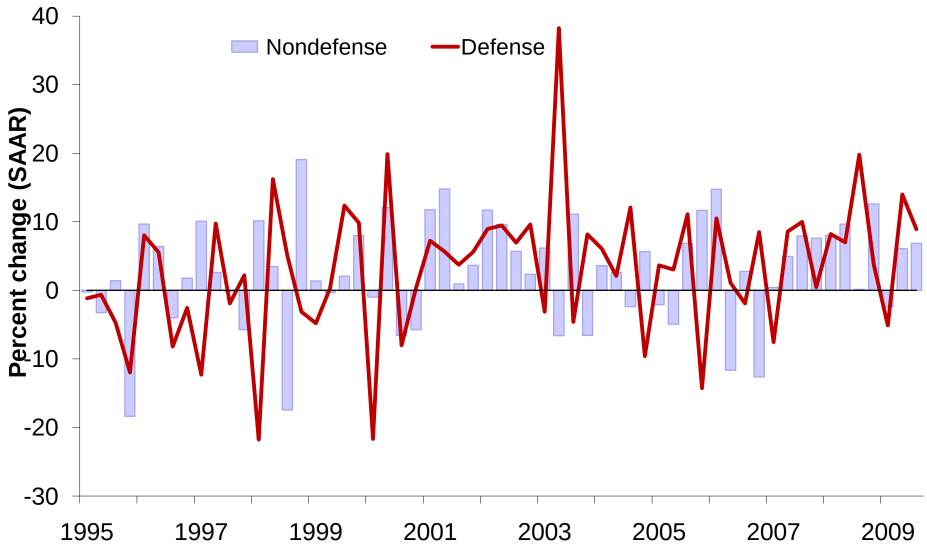
The Iraq and Afghanistan wars continue to be important drivers of Federal spending. Since the beginning of the 2002-03 Federal fiscal year, real Federal government expenditures have risen 32.2 percent, largely driven by a 38.8 percent increase in defense spending. Over the 28 quarters from the fourth quarter of 2002 through the third quarter of 2009, real defense spending grew at an average annualized rate of 5.2 percent, compared to an average rate of 2.9 percent for nondefense spending (see Figure 32). With the renewed focus on the Afghan war, this trend is expected to continue through the current year, but fiscal pressures can be expected to restrain future growth in the Federal budget. The Budget Division projects slower growth of 4.1 percent in the NIPA definition of Federal government spending for 2010, after growth of 5.7 percent in 2009.

Although the impact of ARRA is not detectable in the NIPA definition of Federal government spending, it is very visible in the Federal government budget deficit for the Federal fiscal year (FFY) ending September 30, 2009. 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 (see Figure 33). The total deficit increased by an even larger $962.3 billion due to the shrinking of the off-budget surplus. According to Congressional Budget Office (CBO) estimates as of August 2009, the on-budget deficit is projected to fall, but only slightly by $69.1 billion for FFY 2009-10, as the Federal government continues to spend expansively in support of the nascent economic recovery. Although strong international demand for U.S. government securities continues to keep long-term Treasury yields below 4 percent, it is likely that these rates will climb higher as the global recovery strengthens and investors' appetite for risk increases. Over the course of December 2009 alone, the 10-year Treasury yield rose from 3.2 percent to 3.8 percent. 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.

[9] See <http://www.ncsl.org/?tabid=19250>, viewed December 29, 2009.

Figure 32

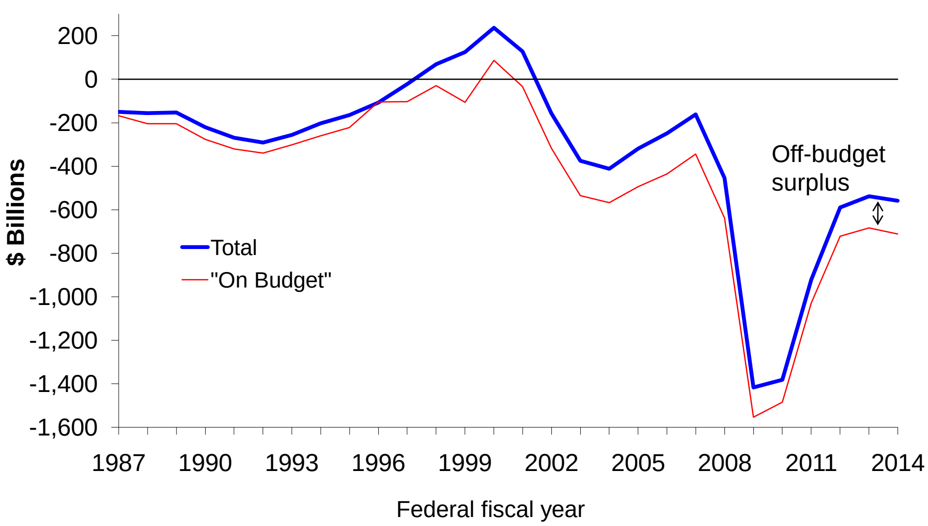
Real Federal Government Spending



Source: Moody's Economy.com.

Figure 33

Federal Budget Surplus or Deficit



Note: Values for 2010-2014 are Congressional Budget Office (CBO) estimates; off-budget surplus includes Social Security trust fund and Postal Service.
Source: Moody's Economy.com; Congressional Budget Office (CBO), *The Budget and Economic Outlook: An Update*, August 2009.

Comparison with Other Forecasters

Table 4 compares the Budget Division's (DOB) forecast for a selection of U.S. indicators with those of other forecasting groups. The 2010 forecasts for real U.S. GDP growth range from a low of 2.4 percent (Moody's Economy.com) to a high of 3.4 percent (Macroeconomic Advisers). The DOB estimate is near the middle of this range. The

DOB 2010 inflation forecast of 2.2 percent represents the top of a relatively narrow forecast range. Unemployment rate forecasts for 2010 range from 9.8 percent (DOB) to 10.4 percent (Moody's Economy.com).

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 3. For a more detailed description, see New York State Economic, Revenue, and Spending Methodologies, November 5, 2009.[10]

TABLE 4
U.S. ECONOMIC FORECAST COMPARISON

	2009	2010	2011
Real Gross Domestic Product (GDP)			
(2005 chained percent change)			
DOB	(2.5)	2.8	3.3
Blue Chip Consensus	NA	2.8	3.1
Moody's Economy.com	(2.5)	2.4	NA
Global Insight	(2.5)	2.6	2.7
Macroeconomic Advisers	(2.5)	3.4	4.3
Consumer Price Index (CPI)			
(percent change)			
DOB	(0.3)	2.2	2.0
Blue Chip Consensus	NA	2.1	2.0
Moody's Economy.com	(0.4)	1.7	NA
Global Insight	(0.3)	1.7	2.0
Macroeconomic Advisers	(0.3)	1.8	1.0
Unemployment Rate			
(percent)			
DOB	9.3	9.8	9.1
Blue Chip Consensus	NA	10.0	9.2
Moody's Economy.com	9.3	10.4	NA
Global Insight	9.3	10.1	9.5
Macroeconomic Advisers	9.3	9.9	8.7

Source: New York State Division of the Budget, December 2009; *Blue Chip Economic Indicators* , January 2010; Moody's Economy.com, *Macro Forecast* , January, 2010; Global Insight, *US Forecast Summary* , January 2010; and Macroeconomic Advisers, *Economic Outlook, December 2009* .

Risks to the U.S. Forecast

The Budget Division outlook calls for a moderately paced recovery from the nation's worst recession since the 1930s, but there are a number of significant risks to the forecast. The credit crunch has eased but is far from over, as default rates remain high and there remains an unknown volume of overvalued assets yet to be recognized by financial firms, particularly in the area of commercial real estate loans. Although risk spreads are returning to historically more normal levels, financing remains tight. If credit market conditions improve at a slower pace than expected, the anticipated pickup in consumption, production, and employment could be delayed. Alternatively, resurgence in the growth of energy and food prices could result in higher inflation than expected, which, in turn, could induce the Federal Reserve to tighten earlier or more quickly than is reflected in the forecast. Higher interest rates could, in turn, impede the recovery.

[10] <http://www.budget.state.ny.us/pubs/supporting/ForecastMethodology-FINAL_11-05-09.pdf>

If home foreclosures accelerate substantially, the housing market could experience a double-dip in the absence of Federal support, and the recovery in residential investment could either be delayed or come to a halt. A surge in foreclosures could also impede the recovery in home prices, which would in turn delay the recovery in household net worth, resulting in lower rates of household spending than projected. With household spending representing two-thirds of final demand, any delay in the recovery of consumption could result in a delay in the net creation of jobs, as well as in the comeback of business investment. A substantial equity market correction could have a similar effect.

With much of the Federal stimulus package yet to be spent, the impact of this spending could accelerate the pace of the recovery beyond what is currently projected. A stronger than expected recovery in the labor market could increase household spending beyond what is currently projected, resulting in greater profits growth and stronger investment growth. Such an eventuality could also lead to stronger equity market growth than expected, and a faster recovery in household wealth. Finally, stronger global growth than expected could result in a faster pickup in the demand for U.S. exports than projected.

BOX 3
THE DIVISION OF THE BUDGET
U.S. MACROECONOMIC MODEL

Macroeconomic modeling has undergone a number of important changes during the last 25 years, 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 98 core equations, of which 29 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 2009:3. 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.[1] 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.

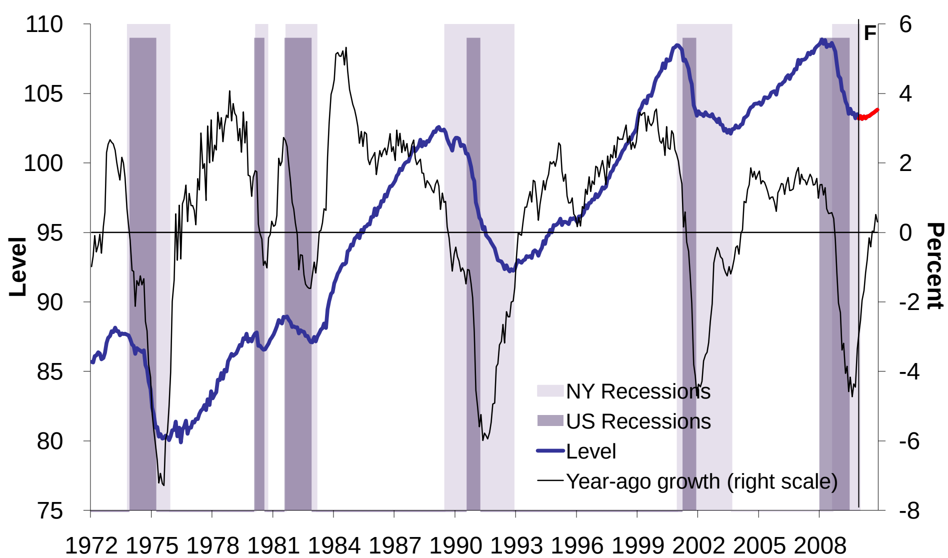
The model structure reflects the microeconomic foundations that govern optimizing behavior, but is sufficiently flexible to capture the short-run fluctuations in employment and output caused by economic imbalances (such as those caused by sticky prices and wages). DOB/U.S. incorporates dynamic adjustment 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.

[1] "A Guide to FRB/USA Macroeconomic Model of the United States," edited by F. Brayton and P. Tinsley. Federal Reserve Board, Version 1.0, October 1996.

THE NEW YORK STATE ECONOMY

The national economy as a whole is in the early stage of a recovery estimated to have begun at the beginning of the third quarter of 2009. And while the end of the nation's most severe recession since the 1930s is a positive indicator for the New York State economy, the State and national business cycles may not precisely coincide. The Budget Division uses the State coincident economic index to determine the State's business cycle turning points (see Box 4). The index is 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. Based on the indicators most closely scrutinized by the NBER Business Cycle Dating Committee, the national recession may have ended in June 2009. But based on the State coincident economic index, it is still too early to precisely date a state-level trough. As of November 2009, the most recent month for which data are available, the State economy still appears to be finding a bottom. The New York leading index is signaling that the State's recovery is likely to begin during the first quarter of 2010.

Figure 34
New York State Index of Coincident Economic Indicators



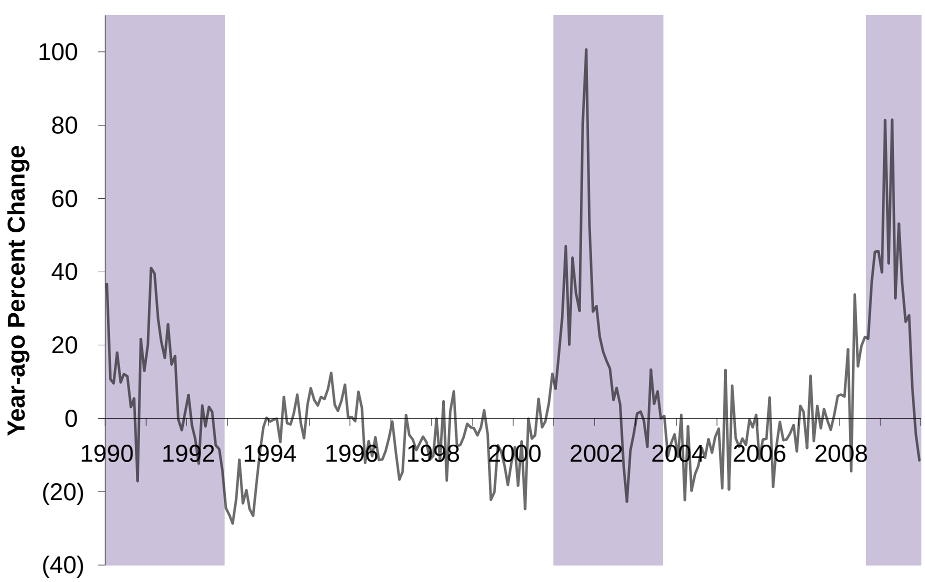
Note: U.S. recession trough and NYS recession dates are DOB staff estimates; forecast (in red) is derived from the New York State Leading Index.
Source: Moody's Economy.com; DOB staff estimates.

The data underlying the leading index point toward the State entering a recovery by the end of the first quarter of this year. Figure 35 shows that year-over-year growth in initial claims for unemployment insurance benefits peaked in April 2009 and were actually below year-ago levels in November and December. Should this trend continue, prospects for an improving labor market going forward are favorable. If these signals are correct, New York's downturn will have been about the same length as the nation's, a welcome departure from the pattern of the last forty years. Moreover, the State's peak to trough rate of decline in employment is not expected to be as large as the nation's, another welcome departure from the recent past.[1]

Though New York's employment losses appear to have been less severe than those of the U.S. as a whole, the same cannot be said for State wages. State wages are estimated to have fallen 6.1 percent in 2009, compared with a decline of 3.3 percent for the nation. The estimated decline in wages for 2009 represents the largest in the history of Quarterly Census of Employment and Wages (QCEW) data, and is due in large part to the 50.9 percent decline in finance and insurance sector bonuses estimated for the first quarter of the year, compared with the same quarter of 2008. Indeed, two of the industries where State employment has fared worse than the nation are finance and insurance, and professional, scientific, and technical services, which are among the highest average wage industries in the State. The negative multiplier effects associated with employment declines in these industries are substantial due to the lost spending power these wages represent. This leads to the question of why New York's labor market decline will turn out to be mild relative to the nation and why it is reasonable to expect that the end to the State's recession is imminent, departing from recent past patterns.

Figure 35

New York State Initial Claims



Note: Shaded areas represent New York State recessions.
Source: Moody's Economy.com; NYS Department of Labor; DOB staff estimates.

[1] This expectation should continue to hold after the release of the annual benchmark revision to the national CES sample. As alluded to above, the U.S. Bureau of Labor Statistics will revise the March 2009 level of employment down by 0.6 percent. This compares to an anticipated 0.5 percent revision to the March 2009 CES level of New York State employment. This estimate was arrived at by comparing the March 2009 decline from March 2008 in the seasonally unadjusted CES estimate of total State employment with the same decline in the QCEW data.

BOX 4
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.

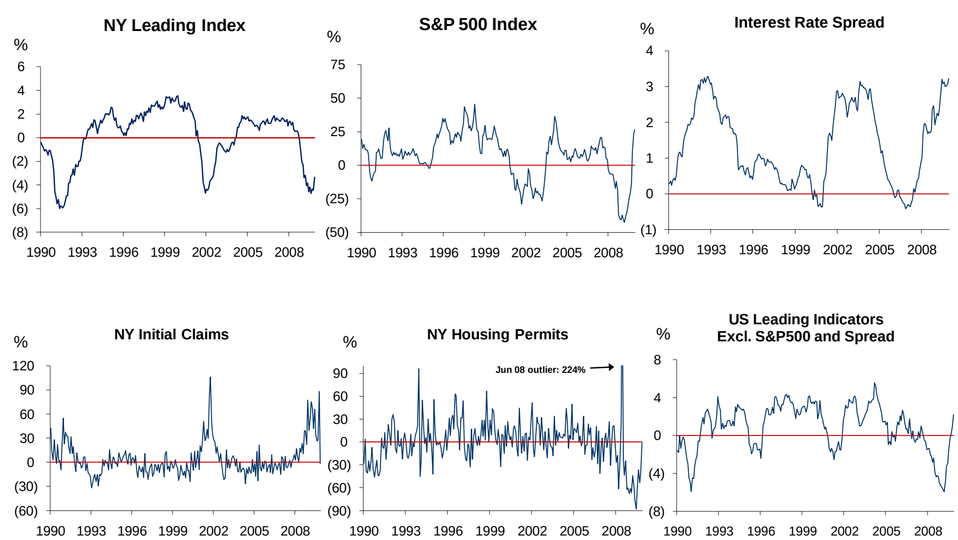
NEW YORK STATE BUSINESS CYCLES

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	324,600
August 2008	-	-	-

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 abridged.
Source: Moody's Economy.com; DOB staff estimates.

(continued on next page)

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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 97, the State entered three of the last five recessions earlier than the nation as a whole, and entered the remaining two only one month later. Based on the leading index, it now appears that New York's emergence from recession will also lag the nation by about six to eight months.

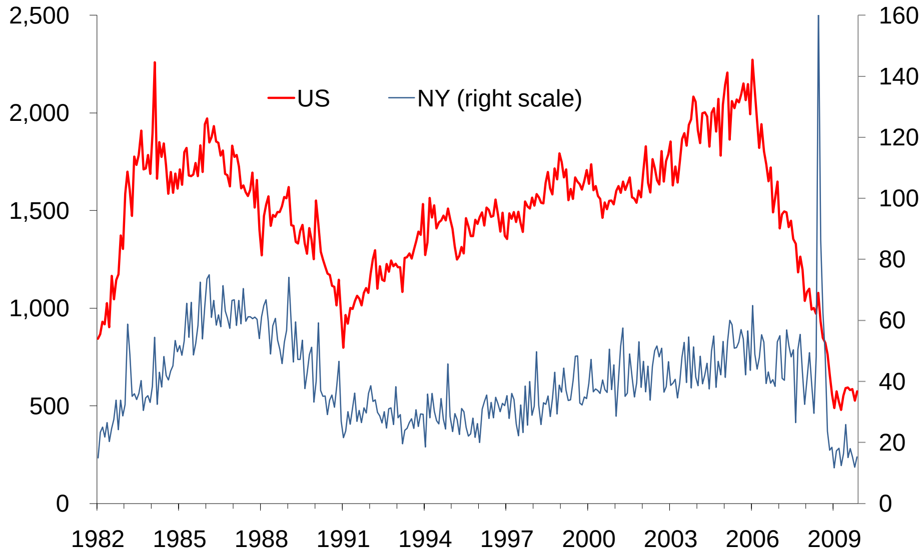
[1] R. Megna and Q. Xu (2003). "Forecasting the New York State Economy: The Coincident and Leading Indicators Approach," International Journal of Forecasting, Vol 19, pages 701-713.
[2] J.H. Stock and M.W. Watson (1991), "A Probability Model of the Coincident Economic Indicators," in K. Lahiri and G.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

The most recent data suggest that New York did not experience as severe a downturn in its residential housing market as did the nation as a whole. Figure 36 compares the recent trend in housing starts in New York with the same for the nation. From its January 2006 peak to the April 2009 trough, national housing starts fell fully 78.9 percent. State housing starts also saw a cyclical peak in January 2006, but the trough is harder to pinpoint due a spike in activity in anticipation of a change to New York City building codes.[2] Though that spike was followed by a decline to historically low levels, a smoother path does not indicate that New York's decline would have been as deep as the nation's.

Figure 37 compares the decline in New York City single-family home prices, as measured by the S&P Case-Shiller home price index, with the single-family 10-city composite for the nation. Both price series experienced peaks in June 2006 and troughs in April 2009. However, the City's peak-to-trough decline was only 20.9 percent, compared with a decline of 33.5 percent for the national 10-city index. Because the State's residential housing sector experienced less of a price bubble than many other states, there is less of an overhang to unwind. Therefore, it is not surprising that the rate at which New York homes have entered foreclosure has been lower than that of the nation overall. In the third quarter of 2009, the most recent quarter for which data are available, 1.06 percent of outstanding mortgage loans entered the foreclosure process, compared to 1.42 percent of U.S. loans.

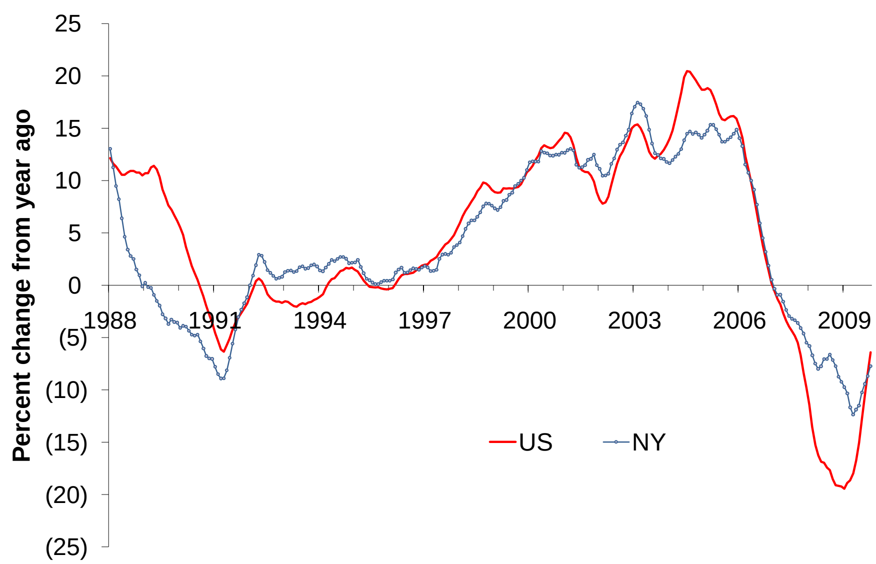
[2] On July 1, 2008, new building codes took effect requiring developers in New York City to add features such as sprinklers, smoke detectors, fire-resistant stairways, and on-site safety managers or coordinators for buildings larger than 10 stories. The change produced a rush to obtain building permits in June.

Figure 36
Housing Starts
Thousands of units



Source: Moody's Economy.com.

Figure 37
S&P/Case-Shiller Home Price Index

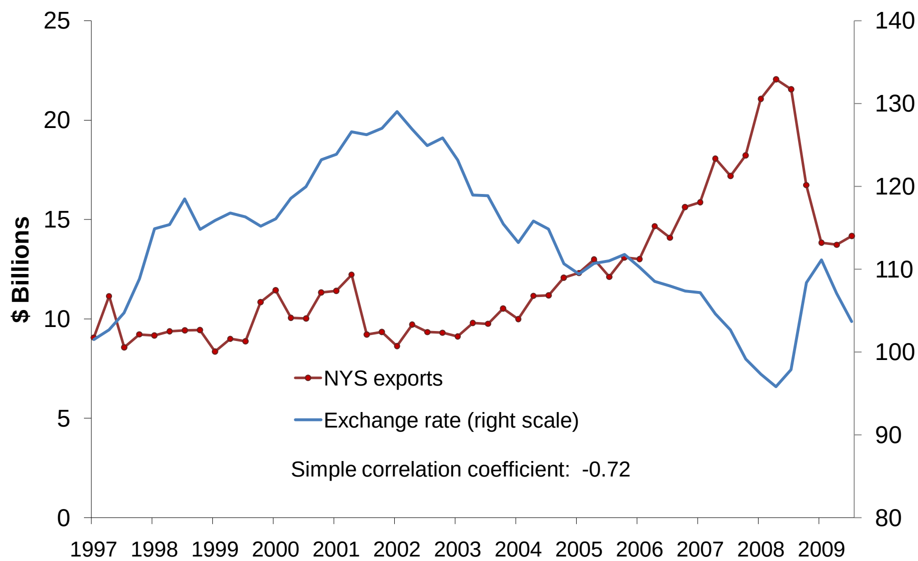


Source: Moody's Economy.com.

Outside of the housing market there are several additional factors that may explain why the State downturn may not last much longer, despite the large bite out of State income. Like the rest of the nation, the State has benefitted from expansive monetary and fiscal stimulus. It is likely that jobs would have been lost in health care, education, and State and local government had it not been for Federal spending under ARRA. As the home of Wall Street, the State benefits disproportionately from low interest rates and the expansion of the Fed's balance sheet. The central bank's current monetary policy stance has resulted in virtually free money with which the large financial institutions have been able to reap large gains from proprietary trading and other activity, resulting in record levels of profits. Though the recent explosive growth in equity markets is unlikely to continue, it now appears that the more traditional sources of investment banking revenue, such as corporate debt and equity underwriting, are starting to come back to life.

The wealth created in financial markets is contributing to growth in household spending just as it is in the rest of the country. With the strong growth in corporate profits, the demand for New York business services by large corporations should increase. Because the State's manufacturing sector is smaller, the State may not have had as much of an inventory overhang to unwind. Finally, New York's manufacturing/export sector is benefitting from a weaker dollar and a growing world economy. This close relationship between the volume of State commodity exports and the value of the dollar is illustrated in Figure 38.

Figure 38
Dollar Exchange Rate and NYS Commodity Exports



Source: Moody's Economy.com.

With a moderate recovery likely to begin in the first quarter of 2010, total State employment is projected to fall 0.4 percent in 2010, following a decline of 2.6 percent for 2009. The State's 2009 decline appears moderate compared with a decline of 3.7 percent for the nation. Private sector employment is projected to fall 0.6 percent in 2010, following a decline of 3.2 percent for 2009. This forecast is consistent with year-over-year net job growth beginning in the fourth quarter of 2010. The improvement in the outlook for State wages is even more dramatic. State wages are projected to grow 3.8 percent for 2010, following a historic 6.1 percent decline for 2009. Both bonus and non-bonus wages are expected to contribute to this turnaround.

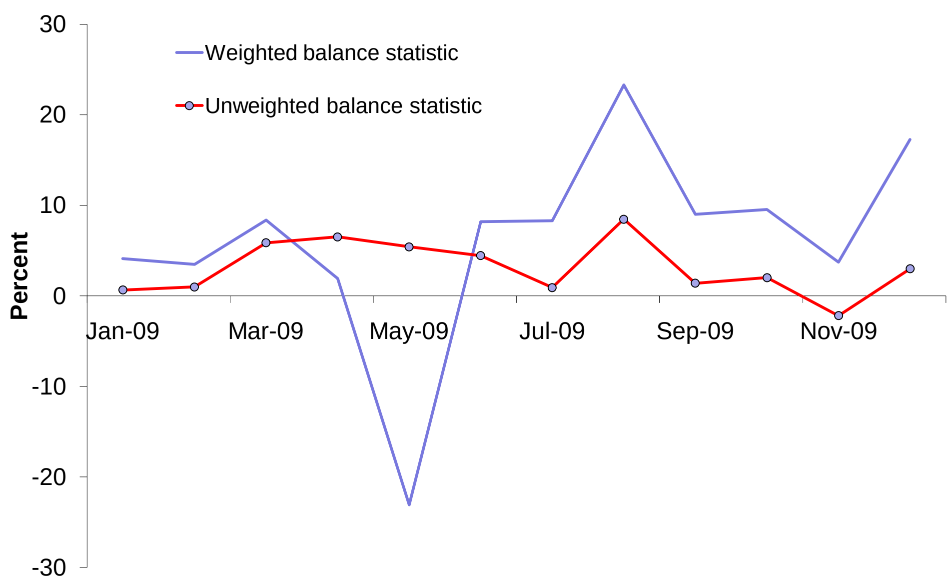
Though monetary policy has been providing critical support to the State's financial sector since the start of the recession, the central bank is already planning the draw-down of its quantitative easing programs and the Budget Division outlook calls for an interest rate policy shift by the end of the second quarter of this year. The fortunes of the financial sector are very sensitive to such shifts. For example, securities industry profits fell 86.9 percent in 1994 in the wake of a monetary tightening that year. In addition, the support drawn from Federal fiscal policy will begin to wane toward the end of 2010, which could also rob the State's recovery of momentum. These forces represent substantial risks to the economy and to the forecast.

The New York State Establishment Survey

In cooperation with the Survey Research Institute at Cornell University, the Budget Division conducts a survey of New York State private business establishments to assess the direction of business sentiment in the State. Every month, the survey asks the manager or CEO of participating firms about the direction of change in various economic indicators for the current month as compared to the prior month and about their expectations for those same indicators for the coming three months. Participants are drawn from a random sample stratified by industry, region, and firm size. Based on survey results, two types of statistics are constructed. An unweighted statistic is constructed by comparing the percentage of firms reporting increases in the measure of interest with the percentage indicating declines, adjusting by the sampling probability for the appropriate stratum. The resulting statistic is referred to as "unweighted" since firms' responses are given equal weight without regard to each firm's share of total stratum employment. A weighted statistic amplifies the contribution of larger firms by weighting each firm by the size of its workforce.

Figure 39

Outlook for Employment Over the Next Three Months



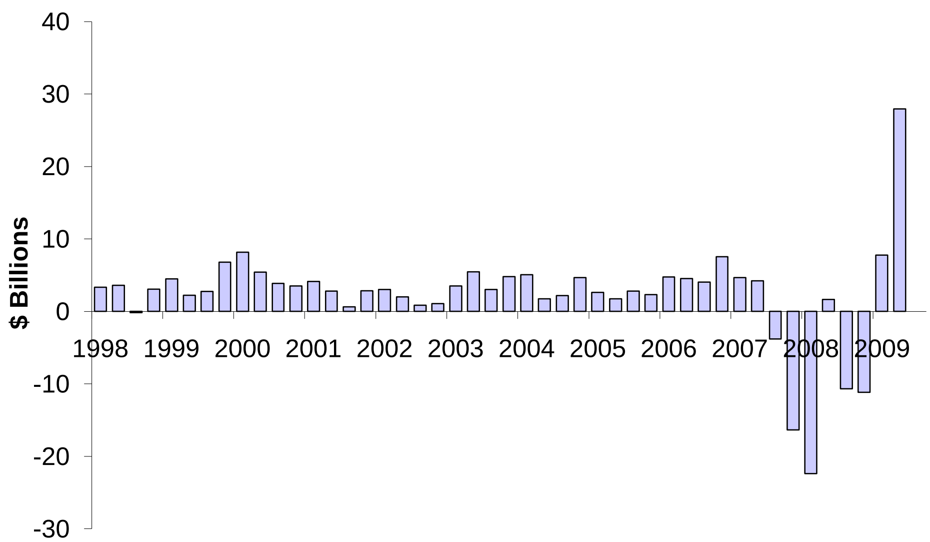
Source: Survey Research Institute; DOB staff estimates.

The most recent results of the Establishment Survey indicate how the employment outlook of survey participants has changed over the course of 2009. Figure 39 plots both the weighted and unweighted balance statistics for the year through December. The two statistics tell very different stories, with the unweighted statistics portraying deterioration over the course of the year, while the weighted statistics show improvement. Since large firms carry more weight among the weighted statistics, it may not be surprising that the latter more closely mirrors the improvement we observe in the national labor market between the first and second halves of 2009. The divergent trends may also indicate that, given current credit market conditions, small firms are struggling more than large firms. Both statistics show an uptick in the final month of the year, consistent with the expectation that the State downturn is finding a bottom and may be poised for a turning point in the first quarter of this year.

The Rebirth of the Securities Industry

At this time last year, Wall Street had just gone through a tumultuous transformation that left no major institution untouched. Of the five large investment banking institutions that existed at the start of 2008, two declared bankruptcy, one was bought by a major bank, and the remaining two reorganized as commercial banks. The major drivers of industry revenues had largely shut down. The securities industry had posted an unprecedented two consecutive years of net losses in 2007 and 2008, presenting the possibility that the profit levels of the past might never again be attainable.

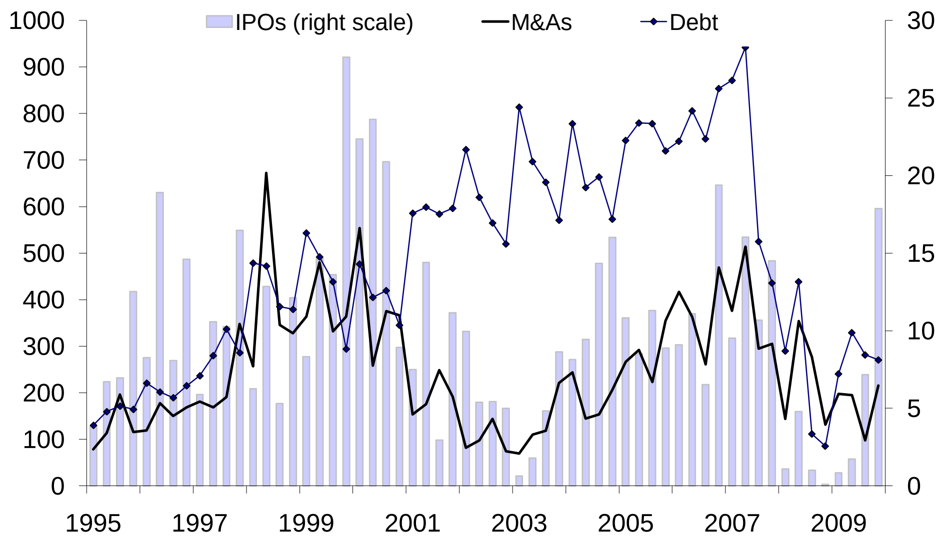
Figure 40
Securities Industry Profits



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

Never say never. Policy measures taken to restore liquidity to the banking system, including the TARP, the extraordinary expansion of the Federal Reserve's balance sheet, as well as its historic interest rate target policy, contributed to an environment that drove profits to new record levels (see Figure 40). Moreover, these record profits materialized despite a dearth of traditional investment banking activity, such as corporate debt and equity underwriting activity. As is evident in Figure 41, the major drivers of securities industry profits, such as initial public offerings (IPOs), debt underwriting, and mergers and acquisitions (M&As) have fallen to their lowest levels in decades. For example, through the first 11 months of 2009, "true" IPOs, which exclude closed-end funds, are about twice their 2008 level, but still only half of their 2007 high; secondary, or "follow-on" common stock offerings are up 10.9 percent over the same period. As discussed above, the market for securitized debt is still operating well below prior year levels.

Figure 41
Major Drivers of Financial Market Activity
$ Billions



Note: Data for 2009Q4 are based on two months of data inflated by 50 percent.
Source: Securities Industry and Financial Markets Association (SIFMA).

TABLE 5
SIFMA INCOME STATEMENT
($ Billions)

	2007	2008	2009*
Revenues	**352.0**	**178.1**	**203.2**
Commissions	28.8	30.2	27.3
Trading Gain (Loss)	(10.3)	(71.8)	26.5
Underwriting Revenue	23.2	16.5	18.2
All Other	310.4	203.2	154.5
Expenses	**363.4**	**220.7**	**131.8**
Total Compensation	69.6	59.8	65.5
Interest Expense	249.8	114.5	20.6
All Other Exppense	44.0	46.3	45.7
Pre Tax Net Income	**(11.3)**	**(42.6)**	**71.4**

* Half year numbers annualized.

Table 5 lists the primary sources of revenue and expenses for the most recent three years. Clearly the two greatest areas of improvement in industry balance sheets are the gains from proprietary trading and the decline in interest expenses. The industry's remarkable growth in trading gains is largely the result of the dramatic rise in equity markets since March 2009. A comparison of that run-up with the early stage of all of the bull markets of the last 50 years appears in Table 6. The bull market that began last March is exceptional for the quick run-up in prices over its first 10 months of life. Indeed, only the bull market that began in August 1982 saw price acceleration of comparable speed. The strength of this market provided large profit opportunities for those market participants with ample access to funding. Moreover, historically low interest rates related to government policy aimed at supporting the economy reduced borrowing costs for those participants, further boosting the potential for profits.

TABLE 6
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
7/19/2007	99.9	57.4	3/9/2009	(55.8)	19.9	12/31/2009	64.8

Source: Moody's Economy.com.

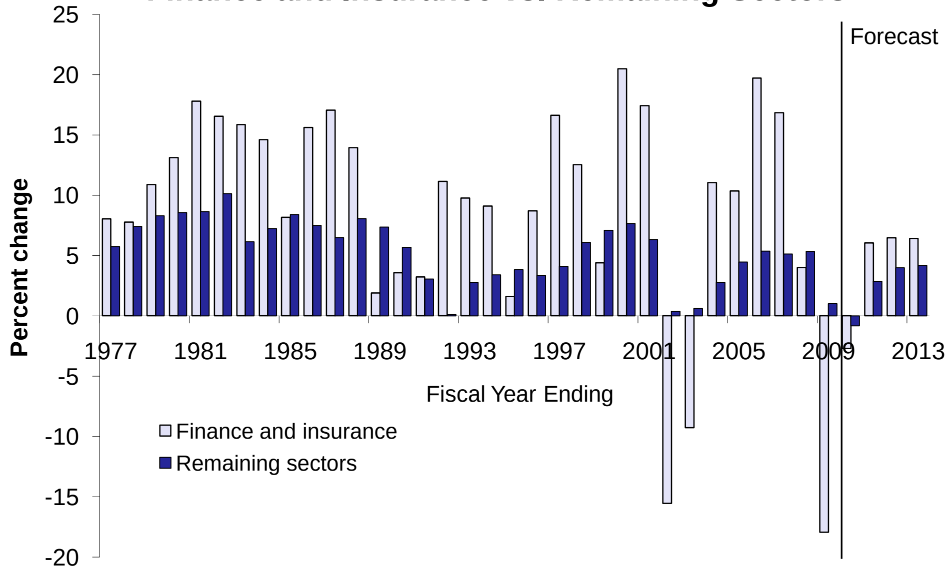
With so much of the industry's recent reversal of fortune related to government policy and supported by taxpayers, there has been widespread call for restrictions on employee pay, particularly on bonuses for top managers, which have come to symbolize Wall Street "greed" in the mind of the public. With only a small portion of industry compensation under the direct supervision of the government-appointed "pay czar," and in advance of the passage of a promised regulatory overhaul of the financial system, much of the impact of public sentiment on actual bonus payouts will be voluntary. Though some firms have made public announcements related to the bonus pay of their very top managers, the ultimate impact of popular sentiment on industry wages will not be known until bonuses are paid out, typically in the first quarter.

Outlook for State Income

The financial crisis resulted in a record decline in finance and insurance sector bonuses of 38.2 percent for the 2008-09 bonus season. This decline, combined with large estimated job losses, is projected to result in a historic decline in wages of 6.1 percent for 2009. Indeed, State wage growth largely has been led by the finance and insurance sector in recent years (see Figure 42). With improving conditions on Wall Street, the Budget Division projects a more moderate decline in finance and insurance bonuses for 2009-10 and growth in total State wages of 3.8 percent for 2010. Growth in both the wage and non-wage components of income will result in total personal income growth of 3.8 percent for 2010, following a decline of 3.5 percent growth for 2009.

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 5. The Budget Division's outlook for State income is based on these constructed series.

Figure 42
New York State Wage Growth
Finance and Insurance vs. Remaining Sectors



Source: NYS Department of Labor; DOB staff estimates.

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 43 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 22.0 percent during the 2006-07 bonus season, surpassing at last the 2000-01 peak that was reached just as the stock market was collapsing earlier in the decade. Due to the large projected declines in bonuses, the finance and insurance sector's wage share is expected to decline to 18.3 percent in 2009-10 and 19.1 percent in 2010-11. In contrast to its large wage share, finance and insurance sector employment is estimated to account for only 6.0 percent of total State employment for the current fiscal year, with that share projected to fall to 5.8 percent in 2010-11, as the industry continues to shed jobs in 2010 and 2011.

BOX 5
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 percent-change-year-ago 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 6.1 percent and 9.9 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.

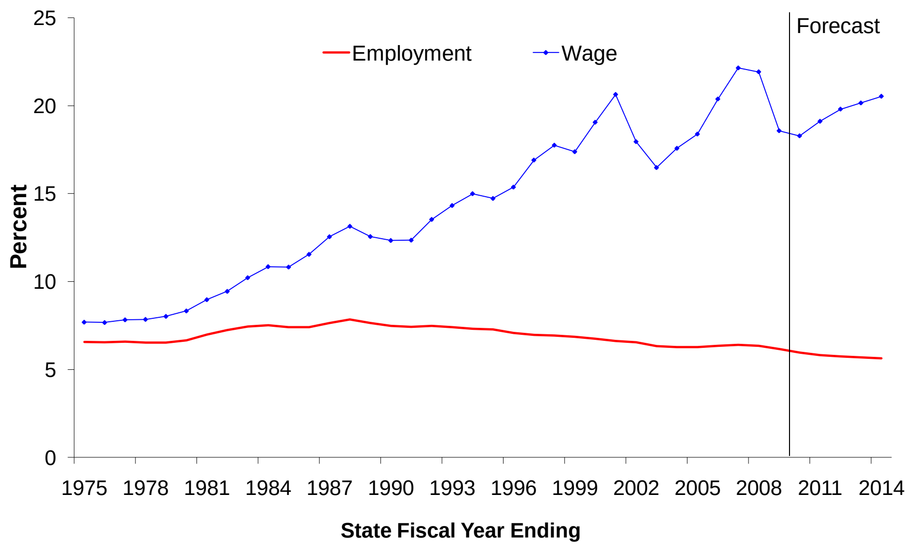
Once an entire year of QCEW data becomes available, the BEA revises its state-level wage data to be more consistent with that data source. For this reason, DOB's method performs well in anticipating the BEA's revised estimates of annual growth in New York wages. To make the actual magnitudes of the Division's 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.

Figure 43
Finance and Insurance Sector Employment and Wages as Share of State Total



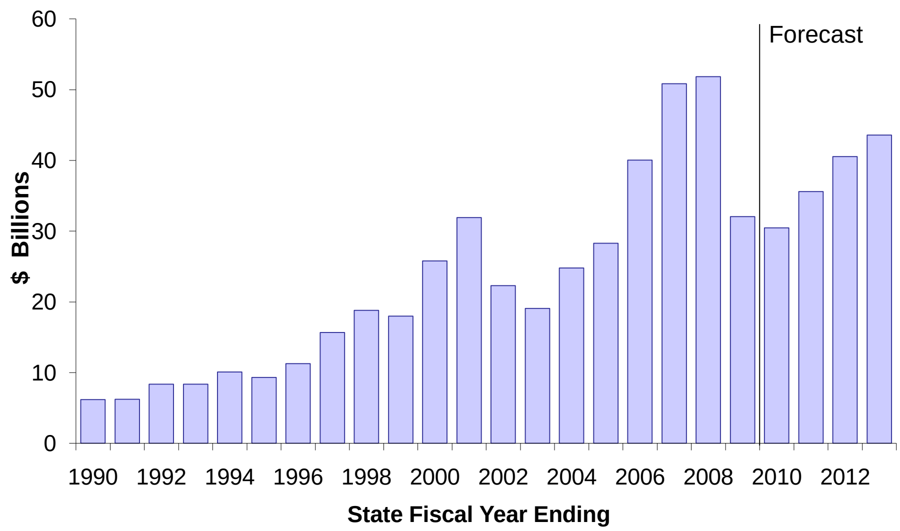
Source: NYS Department of Labor; DOB staff estimates.

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. Finance sector workers are, on average, very highly compensated. In the 1979-80 State fiscal year, the average finance and insurance sector wage was only 25 percent higher than the average wage for the rest of the State economy. For 2006-07, that gap is estimated to have grown to 246 percent. Between 1979-80 and 2006-07, total finance and insurance industry wages increased more than tenfold, while employment rose by only 14 percent. For the rest of the economy, total wages in 2006-07 were not even four times what they were in 1979-80, while employment grew 19 percent. However, with finance and insurance sector wages falling faster than employment, the average sector wage is projected to fall to $180,000 for 2009-10, a decline of 13 percent from its 2007-08 peak of $206,000, but still 253 percent higher than the average wage for the rest of the State economy.

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 options income does not appear in the wage data (and therefore is not taxed) until the options are exercised. Similarly, restricted 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.[3]

Figure 44
New York State Finance and Insurance Sector Bonuses



Source: NYS Department of Labor; DOB staff estimates.

Since 1990, there has been a substantial shift in the State's corporate wage structure away from fixed-pay to performance-based pay. Figure 44 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, when NYSE-member firm profits fell from $21 billion in 2000 to $6.9 billion in 2002, finance and insurance sector bonus income is estimated to have fallen 40 percent from State fiscal year 2000-01 to 2002-03. In contrast, nonbonus wages for this sector are estimated to have fallen about 13 percent during the same period. Changes in nonbonus wages are largely determined by changes in employment and inflation.

The Budget Division projects total State variable income to fall 5.7 percent in the current fiscal year, followed by an increase of 10.2 percent for 2010-11, primarily due to large projected declines in finance and insurance sector bonuses and more generally, the recession. As discussed above, the securities industry is expected to post record profits for 2009, but industry executives are under tremendous pressure to cap the cash portion

[3] See Box 5 on page 116 for a more detailed discussion of bonus estimation.

of bonus payouts and to restructure the overall bonus package to enhance incentives that favor long-term objectives over short-term gains. Consequently, the Budget Division is projecting a modest decline in the cash portion of finance and insurance sector bonuses of 5.0 percent for the 2009-10 bonus season now in progress. This decline results in a payout of $30.5 billion, which is about $1.6 billion below that of 2008-09. The Budget Division projects an increase of 16.9 percent for 2010-11 to $35.6 billion. The 2010-11 projection would bring finance and insurance sector bonuses to a level that is still about $5 billion below that of 2005-06.

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 41 on page 105, the most recent data available suggest that the volumes of debt underwriting and IPOs are improving but can be expected to 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. But despite strong equity market growth of 24.9 percent projected for 2010, 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 current crisis.

With the apparent conflict between the security industry's strong profit performance and pressures to cap employee compensation, the income outlook for the finance industry is highly uncertain at present, producing a high degree of risk to the Budget Division bonus forecast. 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 historically been evenly split between cash and stock incentive payments, the split is expected to be more heavily weighted toward stocks going forward as firms seek to reconstruct their compensation packages. This shift could have substantial implications for Federal, State, and local tax revenue, since income derived from stock options is not taxed until the option is exercised. In addition, with three of the five largest former Wall Street investment banks now owned by commercial banks, and the remaining two reorganized as commercial bank holding companies, the business model that earned large profits from highly-leveraged assets is expected to change as the regulatory environment evolves. This change could result in lower profits for the industry going forward. Given the significant restructuring taking place within the industry, there remains a substantial degree of uncertainty surrounding this 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 3.1 percent for the 2010 calendar year, following an estimated increase of 1.4 percent for 2009. With declining unemployment, total nonbonus wages are projected to grow 2.7 percent for 2010, following a decrease of 1.3 percent for 2009.

Average Wages and Inflation

Average wages are projected to increase 4.2 percent for 2010, largely as a result of higher bonuses, following an estimated decline of 3.7 percent for 2009. The Budget Division projects growth in the composite CPI for New York of 2.4 percent for 2010, following growth of 0.3 percent for 2009. Projected 2010 inflation for New York is consistent with that for the nation.

Nonwage Income

The Division of the Budget projects a 3.7 percent increase in the nonwage components of State personal income for 2010, following a decline of 0.2 percent for 2009. This swing largely reflects property income growth of 3.2 percent for 2010, due to rising interest rates, and growth of 2.6 percent for proprietors' income as conditions for small businesses start to improve. Both of these nonwage income components fell in 2009. In contrast, transfer income is projected to grow 4.6 percent in 2010, after much stronger growth of 10.2 percent in 2009, reflecting the unwinding of Federal stimulus programs that supported low income households.

Outlook for Employment

The State's employment losses during the current recession have not been quite as severe as the nation's. Table 7 compares the percentage decline in State employment for the second quarter of 2009, the most recent quarter for which Quarterly Census of Employment and Wage (QCEW) data are available for New York. The second quarter also represents the steepest year over year decline of the recession, based on the Budget Division forecast. For seven of the 11 declining industries, the national declines are deeper than the State declines, an unusual circumstance indeed. The largest job decline differentials between the State and the nation occur in the real estate-related industries: construction, and real estate and rental and leasing. Even the State's manufacturing decline is marginally better, a rare event that in the last 30 years has only occurred during or in the aftermath of a national recession.

TABLE 7
YEAR-AGO PERCENT CHANGE IN EMPLOYMENT FOR 2009Q2: NYS v. US

	NYS	US
Total Private	**(3.7)**	**(4.8)**
Utilities	1.2	1.8
Construction	(9.9)	(13.7)
Manufacturing and Mining	(11.6)	(11.7)
Wholesale Trade	(6.6)	(5.0)
Retail Trade	(4.2)	(4.0)
Transportation and Warehousing	(6.2)	(6.9)
Information	(2.9)	(4.9)
Finance and Insurance	(7.2)	(4.4)
Real Estate and Rental and Leasing	(3.8)	(6.8)
Professional, Scientific, and Technical Services	(4.5)	(2.5)
Management, Administrative, and Support Services	(6.9)	(9.7)
Educational Services	1.9	1.8
Healthcare & Social Assistance Services	2.0	2.3
Leisure, Hospitality and Other Services	(1.8)	(2.3)
Government	**0.2**	**0.4**
Total	**(3.1)**	**(3.9)**

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.

With the State's recession estimated to end sometime in the first quarter of 2010, the labor market is expected to see its first quarter of year-over-year growth by the final quarter of the year. The State's housing market downturn is not expected to cut quite as deep as the nation's, while a still weak dollar is expected to help boost the State's retail and other tourism-related industries. In addition, the weakened dollar is expected to combine with accelerating global growth to stimulate improvement in the State's export sectors. As for the national, the State's labor market turnaround is not expected to be as weak as the recoveries that followed the prior two recessions.

The Budget Division projects a decline in total State employment of 0.4 percent for 2010, with private sector jobs falling 0.6 percent. Table 8 reports projected changes in employment for selected groups of North American Industry Classification System (NAICS) sectors. The finance and insurance sector is expected to see the largest employment decline of any sector at 3.1 percent, an improvement from last year's 6.1 percent decline. Moreover, the industry is not expected to recover any time soon with the traditional Wall Street business model now in flux, equity market growth likely to slow going forward, and the current pace of industry consolidation likely to continue.

Continued weakness is expected in the real estate sector in 2010, particularly the commercial sector, due to tight credit market conditions and declining real estate values. Construction sector jobs are expected to fall 2.2 percent, with the manufacturing sector expected to fall 2.8 percent. While these two sectors account for the bulk of the job losses projected for 2010, they represent a substantial improvement over 2009. Strong growth in U.S. corporate profits suggests growing demand for State professional, scientific, and technical services industries. A projected decline of 1.4 percent for this sector represents a big improvement from the 3.1 percent decline estimated for 2009.

TABLE 8
CHANGE IN NEW YORK STATE EMPLOYMENT FOR 2010

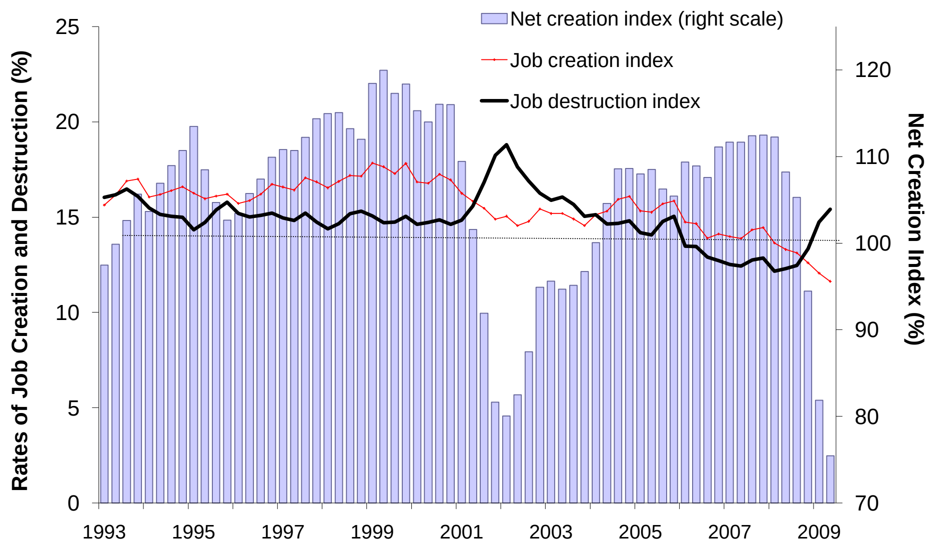
	Percent	Levels
Total Private	**(0.6)**	**(39,832)**
Utilities	(1.3)	(513)
Construction	(2.2)	(7,269)
Manufacturing and Mining	(2.8)	(13,793)
Wholesale Trade	(0.9)	(2,945)
Retail Trade	(0.8)	(7,038)
Transportation and Warehousing	(0.9)	(1,984)
Information	(0.8)	(2,016)
Finance and Insurance	(3.1)	(15,359)
Real Estate and Rental and Leasing	(0.5)	(926)
Professional, Scientific, and Technical Services	(1.4)	(7,980)
Management, Administrative, and Support Services	(0.8)	(4,463)
Educational Services	1.7	4,926
Healthcare & Social Assistance Services	1.7	20,793
Leisure, Hospitality and Other Services	(0.1)	(830)
Government	**0.6**	**8,447**
Total	**(0.4)**	**(31,386)**

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.

An examination of labor market dynamics through the second quarter of 2009, the most recent quarter for which data are available, confirms the severity of the State's recession and the depth of its impact on the labor market. Box 6 describes the methodology used to perform the analysis. Figure 45 shows the gross rates of job creation and job destruction for the period from 1993Q1 through 2009Q2. 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 had already been 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.

Figure 45
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 begins to be discernible. Figure 45 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 State's very low net rate of job creation in the second quarter of 2009 supports the Budget Division's expectation that the State economy will lag the nation's exit from recession by about six to eight months, and is consistent with a 0.6 percent decline in private sector jobs in 2010, following a decline of 3.2 percent in 2009.

BOX 6
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 2.4 percent in 2002, about 39.7 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 2009, the most recent period for which data are available, the QCEW data covered 576,843 private sector establishments in New York State and 6,928,935 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 2009 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 2008 and the second quarter of 2009 is constructed by adding together the number of jobs created by firm startups (firms which existed during the second quarter of 2009 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 2008 and the second quarter of 2009, a total of 821,529 jobs were created from these three sources. Performing this calculation for the second quarter of 2009 produces the following:

$$\text{Gross rate of job gain} = \frac{\text{Startup gain} + \text{Existing firm gain} + \text{M\&A gain}}{\text{Base}} = \frac{821{,}592}{7{,}062{,}497} = 11.6\%$$

This result indicates that the State's gross rate of job creation for the second quarter of 2009 is 11.6 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 2009, 57.0 percent were created by firms with less than 50 employees. Another 21.8 percent were created by medium sized firms of between 50 and 250 workers, and the remaining 21.2 percent by large firms with workforces exceeding 250.

(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 2005," <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)

We similarly construct a gross rate of job destruction by adding together employment at firms that existed in the second quarter of 2008 but not in the second quarter of 2009, 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 2009 yields:

$$\text{Gross rate of job loss} = \frac{\text{Startup loss} + \text{Existing firm loss} + \text{M\&A loss}}{\text{Base}} = \frac{1{,}088{,}653}{7{,}062{,}497} = 15.4\%$$

This result states that the gross rate at which jobs were lost between the two quarters is 15.4 percent. Thus, for the second quarter of 2009, 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 2009, this calculation yields:

$$\text{Net index of job creation} = \frac{\text{Gross rate of job gain}}{\text{Gross rate of job loss}} = \frac{11.6\%}{15.4\%} = 75.5\%$$

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 2009, the retail trade sector and the management and support sector had similar net indices of job creation of 68.8 percent and 66.5 percent, respectively. However, the management and support sector has a much higher turnover rate than the retail trade sector. Understanding these differences has implications for fine-tuning the Budget Division employment forecast.

Employment Dynamics Comparison: 2009Q2

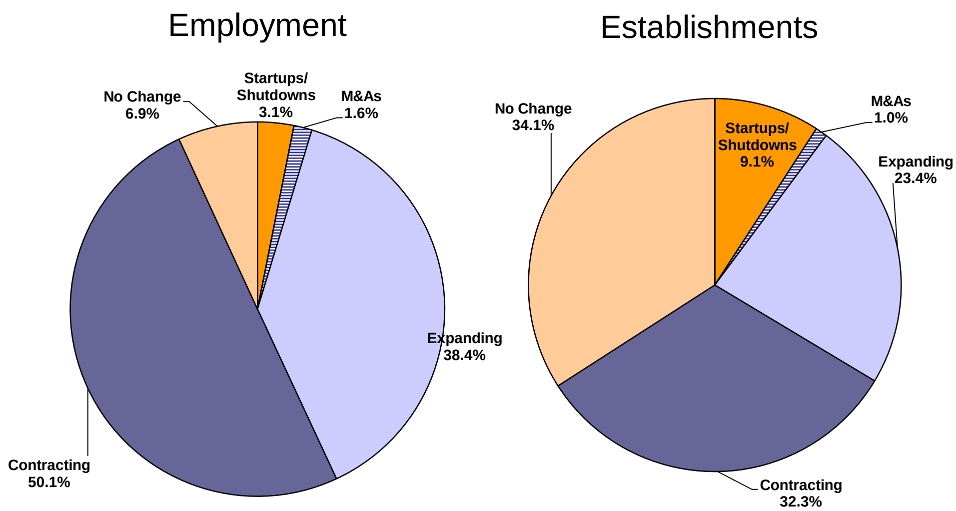
Sector (NAICS code)	Gross rate of job creation	Gross rate of job destruction	Net index of job creation
Retail Trade(44-45)	9.5%	13.7%	68.8%
Management and Support (54-55)	14.2%	21.4%	66.5%

The State's Employment and Establishment Base

Figure 46 shows the composition of the State's employment and establishment base for the second quarter of 2009 by type of establishment. Startups and shutdowns accounted for 9.1 percent of the establishment base for 2009Q2. Because these firms tend to be quite small, averaging only about four employees per firm, they accounted for only 3.1 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 19 employees and accounted for 1.6 percent of employment.

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, 89.8 percent of the State's establishment base and 95.3 percent of the job base. As indicated in the right hand panel of Figure 46, the three types of existing firms accounted for roughly similar shares of establishments: 23.4 percent, 32.3 percent and 34.1 percent, respectively, though with net job creation so low, it is not surprising that the contracting firm share is almost 10 points higher than the expanding firm share. This differential is even greater across shares of the job base: 38.4 percent, 50.1 percent, and 6.9 percent. 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 22 employees, and contracting firms averaging 17.

Figure 46
Composition of State's Employment and Establishment Base
2009Q2



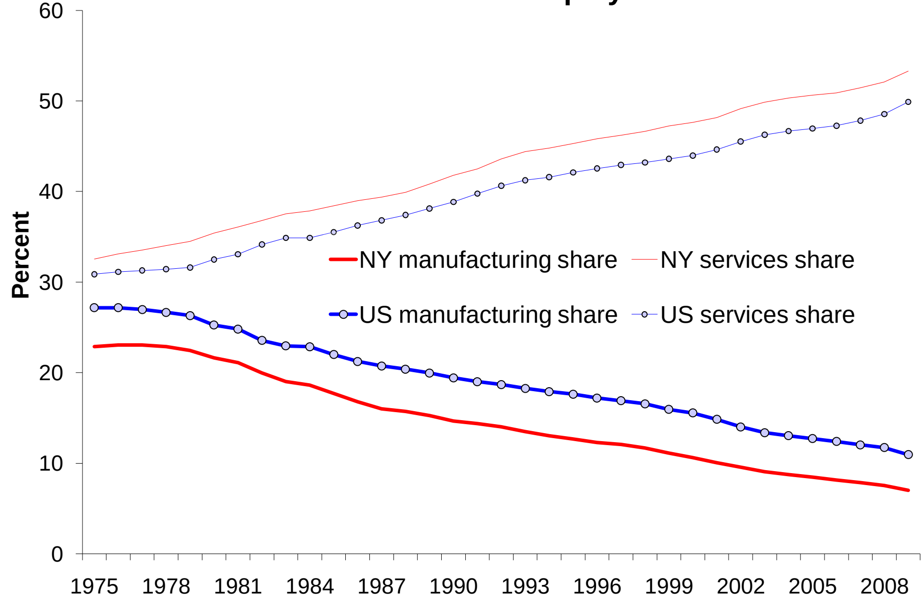
Source: NYS Department of Labor; DOB staff estimates.

Manufacturing

The Budget Division's forecast for the manufacturing and mining sector represents a continuation of a long-term downward trend.[4] Since the mid-1970s, New York's comparative advantage has shifted away from manufacturing in favor of services (see Figure 47), and the manufacturing sector continues to experience significant job losses. Competitive pressures arising from increased globalization have resulted in the decline of State manufacturing employment each year since 1984, with the rate of job loss accelerating during recessions. The 9.7 percent decline in manufacturing jobs estimated for 2009 would bring sector employment 58.0 percent below its 1984 level of about 1.2 million workers. For 2010, employment is expected to fall another 2.8 percent to approximately 472,000 workers. These estimates correspond to projected job losses of 52,000 in 2009 and 13,800 in 2010. The State's manufacturing sector continues to be negatively affected by the ongoing stress in the nation's auto industry and the increasing globalization of production, but the strengthening of the national and global economies should increase the demand for goods manufactured in New York, resulting in a smaller job decline for 2010 (see Figure 48).

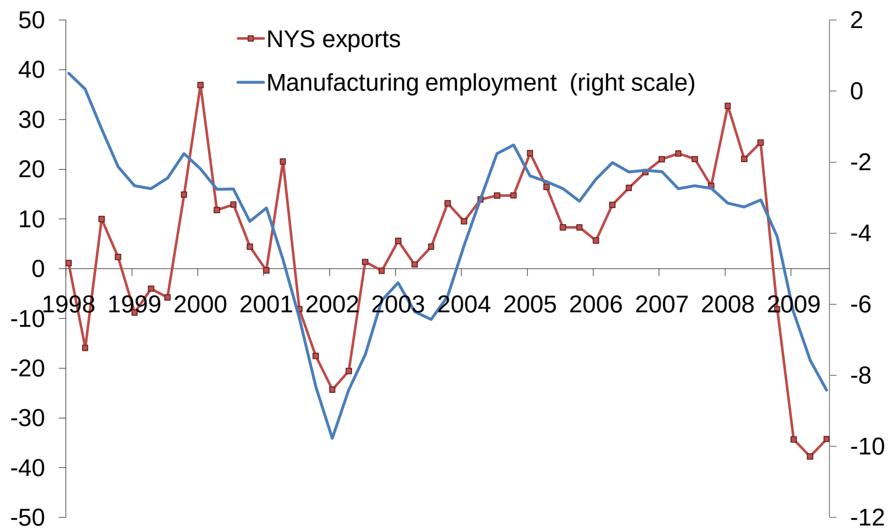
[4] The Budget Division combines manufacturing and mining for forecasting purposes. As of the second quarter of 2009, mining accounted for less than 0.1 percent of total employment in this category and will be ignored for the remainder of the discussion.

Figure 47
Manufacturing and Service Sector Shares of Private Employment



Source: Moody's Economy.com; NYS Department of Labor.

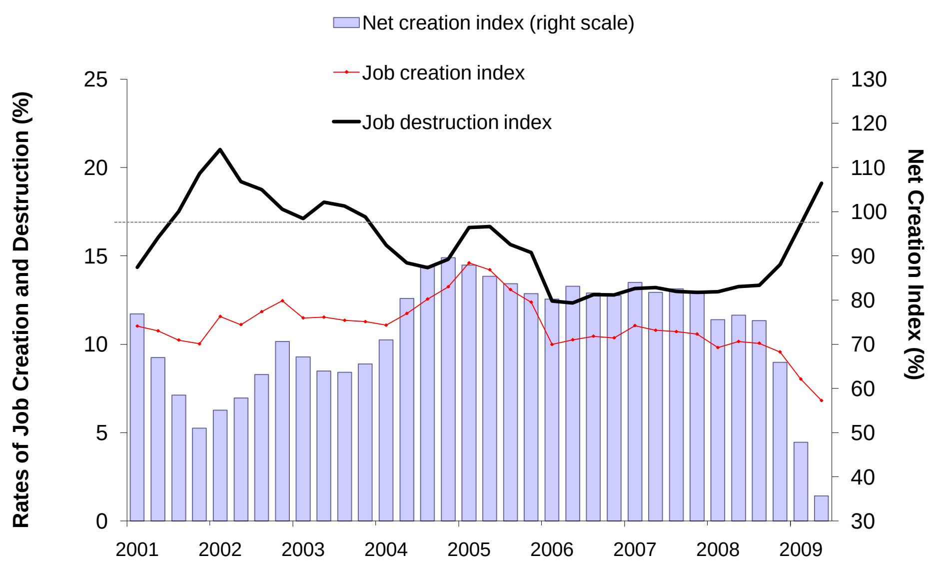
Figure 48
NY State Exports and Manufacturing Employment
Year-ago percent change



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

Although the State has been losing manufacturing jobs for a long time, this sector still employed about the same number of workers as the finance and insurance sector in the first half of 2009. The manufacturing sector is important in the upstate regions, where it still accounts for a significant share of private employment.

Figure 49
Mining and Manufacturing



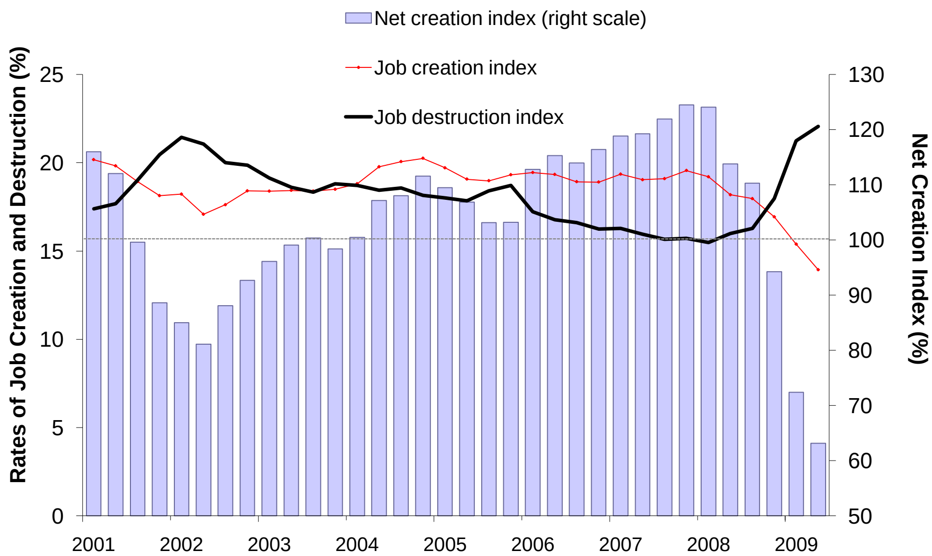
Source: NYS Department of Labor; DOB staff estimates.

In 2002, the second year of the 2001-03 State recession, manufacturing lost over 50,000 jobs, representing a decline of 7.2 percent. That was the greatest rate of decline since the beginning of 1975 when QCEW data started. However, there was a temporary improvement in net job creation beginning in 2003. Net job losses eased due to a decline in the gross rate of job destruction, while the gross rate of job creation remained flat (see Figure 49). In 2004, 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 that year. The net index dropped back down to about 82 percent by the second quarter of 2007, consistent with the slowdown in manufacturing nationwide. Those losses accelerated starting in the third quarter of 2008 due to an increasing rate of job destruction and a falling job creation rate. As of the second quarter of 2009, the net creation rate was below 35 percent. Losses are projected to continue for the remainder of 2009, resulting in a decline of 9.7 percent, the largest in the history of the series. With global demand increasing and both the national and State recessions over, the net rate of job loss will decelerate to 2.8 percent for 2010.

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 still was severe. Moreover, the commercial real estate cycle is still playing out. As a result, the construction sector was the second hardest hit during this downturn after manufacturing. The Budget Division is projecting a decline in construction employment of 2.2 percent for 2010, following an 8.5 percent decrease in 2009. Employment in the real estate and rental and leasing sector is projected to fall 0.5 percent in 2010 after a decline of 3.1 percent in 2009, which compares to a national 2009 decline of 6.1 percent. Construction employment had been increasing 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 50
Construction & Real Estate



Source: NYS Department of Labor; DOB staff estimates.

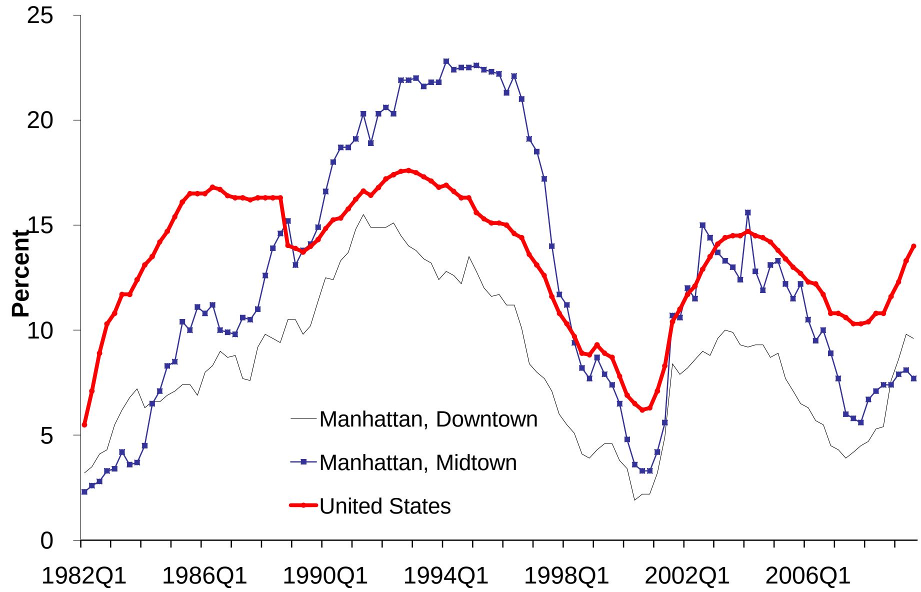
Underlying labor market dynamics indicate that the construction and real estate sectors started to weaken in the second quarter of 2008 with a decline in the rate of job creation that has continued right through 2009Q2 (see Figure 50). The rate of job destruction started to tick up in 2008Q2 and has also continued unabated. Year-ago growth in State construction employment peaked in the first quarter of 2008, but that peak might have come earlier, as it did for the nation, had it not been for strong levels of activity in the commercial building sector in 2007, particularly downstate. 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 that of the U.S. (see Figure 51).

The Budget Division outlook for substantially lower rates of job loss in 2010 is supported by activity already in the pipeline, such as the planned reconstruction of the World Trade Center and a multi-year subway project. Projects financed by the American Recovery and Reconstruction Act may also help reduce net job losses. Finally, Figure 51 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 2009 compared to the same period in 2008. The

Hudson Valley, Mohawk Valley, and Long Island experienced the steepest construction employment declines: 12.5 percent, 9.4 percent, and 8.7 percent, respectively.

Figure 51
Office Vacancy Rates



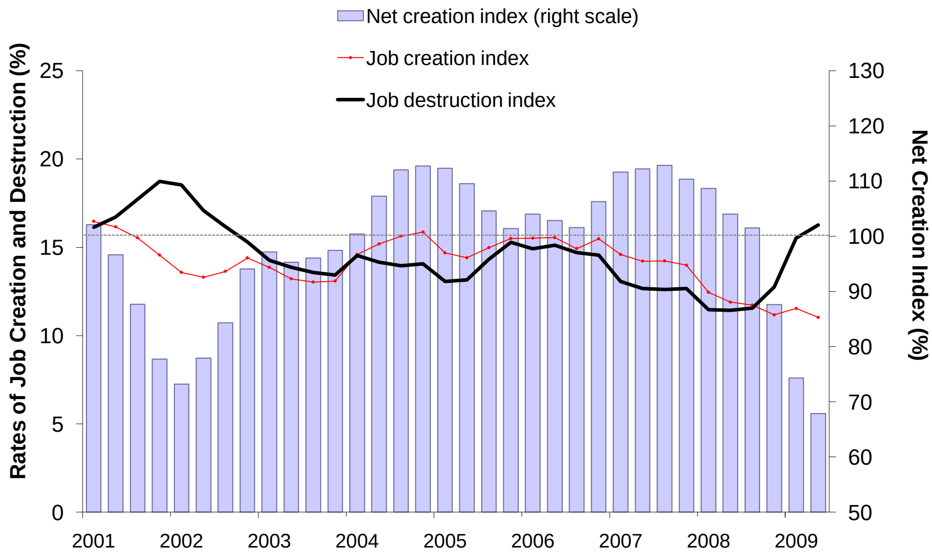
Source: Moody's Economy.com.

Trade, Transportation, and Warehousing

The Budget Division projects this sector will lose about 12,000 jobs in 2010, for a decline of 0.8 percent, after a 4.4 percent loss of 65,000 jobs in 2009. The retail trade, wholesale trade, and transportation and warehousing sectors are among the more cyclically sensitive industrial sectors and have been hit hard by the current recession. Figure 52 shows these sectors beginning to see increases in the gross rate of job destruction in 2005, perhaps due to the start of the unwinding of the housing and auto market bubbles, but employment growth picked up toward the end of 2006 and through much of 2007. Despite this growth, employment in both the wholesale trade, and transportation and warehousing sectors never rose above their pre 2001-2003 recession peaks. In addition, these sectors have been losing jobs since the fourth quarter of 2008, primarily due to higher job destruction rates.

The aftermath of September 11 had a dramatic impact on the transportation and warehousing portion of this sector. The job gap reached its maximum during the first quarter of 2002, but had gradually narrowed with job growth most recently peaking at 2.1 percent in 2006. However, higher energy costs during much of 2008 and the deepening of the national recession significantly weakened job growth in these sectors. For 2010, the Budget Division projects declines of 0.9 percent for wholesale trade, 0.8 percent for retail trade and 0.9 percent for transportation and warehousing. These declines represent a substantial improvement over 2009.

Figure 52
Trade, Transportation, and Warehousing

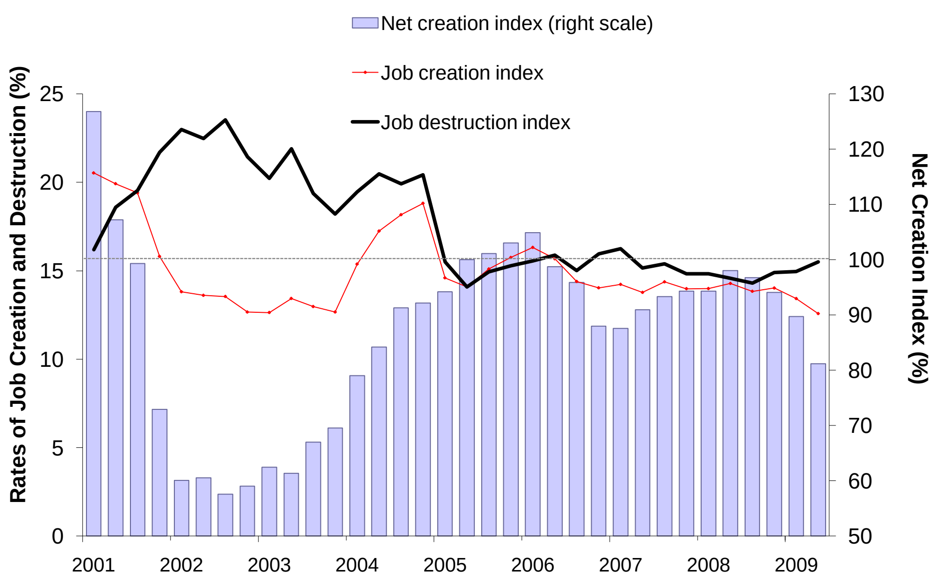


Source: NYS Department of Labor; DOB staff estimates.

Information (Media and Communications)

The information sector includes publishing, motion pictures, broadcasting, and telecommunications, and is estimated to have lost 5,900 jobs in 2009, to be followed by a projected loss of about 2,000 jobs in 2010; these represent declines of 2.3 percent and 0.8 percent, respectively.

Figure 53
Information



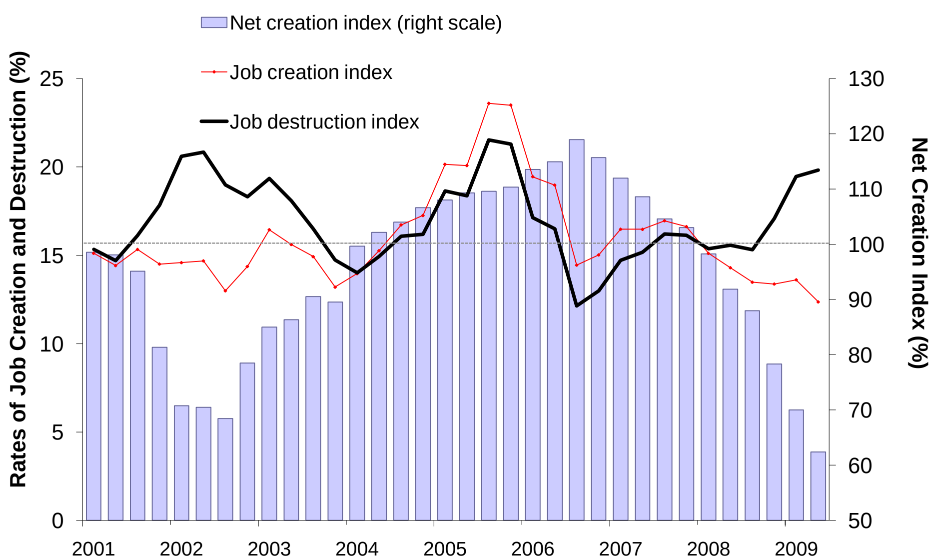
Source: NYS Department of Labor; DOB staff estimates.

This sector was among the hardest hit in the State during the 2001-2003 recession and has never recovered (see Figure 53). This year will represent the tenth consecutive year of job losses, with the industry losing a total of 70,600 jobs since 2000. In addition, the information 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. However, this dynamism has waned with the contraction of the industry. It remains the most regionally concentrated, with almost 60 percent of State employment in this sector located in New York City.

Finance and Insurance

The financial crisis that started in 2007 has resulted in large job losses in the financial and insurance sector. The Budget Division estimates that the financial and insurance sector lost 33,300 jobs in 2009 and may lose another 15,400 in 2010, representing declines of 6.2 percent and 3.1 percent, respectively. Although the Budget Division expects fewer losses in 2010, this sector's projected rate of job loss is the greatest of all the State's industries. This is comparable to difficult financial periods in the past. The attacks of September 11, the 2001 national recession, and subsequent corporate governance scandals resulted in losses of 29,800 jobs in 2002 and 11,000 more in 2003. And as in the past, it could take many years before Wall Street recovers from one of the most cataclysmic periods in its history. 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. As might be expected, most of the sector's losses have occurred in New York City, and that is expected to be the case in 2010 as well (see Figure 54).

Figure 54
Finance and Insurance



Source: NYS Department of Labor; DOB staff estimates.

Until recently, the finance and insurance sector had been a bright spot for the State's economy. 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 and remaining there for four years through 2007. During these years, employees received record salaries and bonuses and the 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.

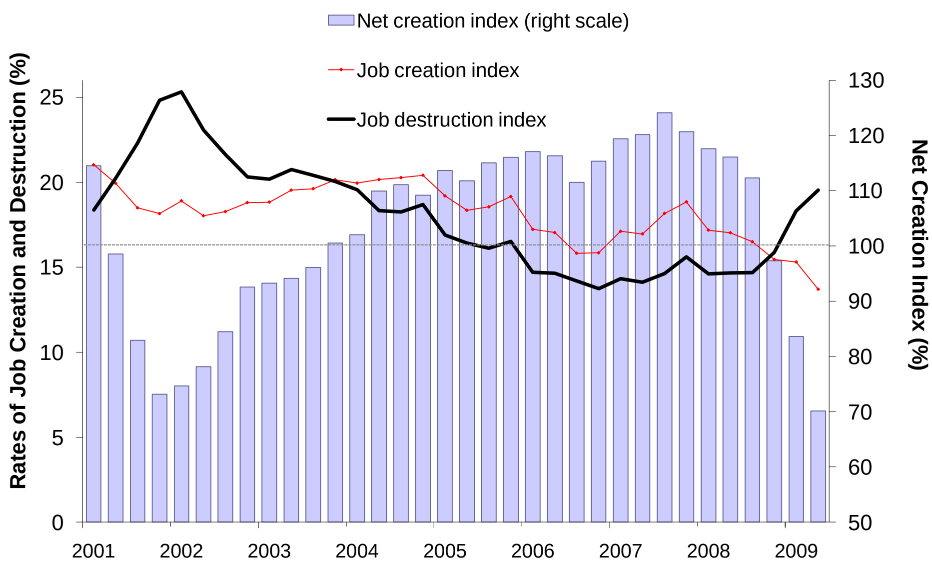
With the start of the credit crisis that began during the summer of 2007, the finance and insurance sector's rate of job creation began to fall, with the net creation index falling below 100 by the first quarter of 2008. The sector's rate of job destruction took a sharp upward turn in the fourth quarter of that year, coinciding with the shock to the global financial sector generated by the fall of Lehman Brothers. During this period, the sector was facing the most severe downturn since the Great Depression. As of the second quarter of 2009, the net index was an extremely low 60 percent. What remains of Wall Street will ultimately be operating under a new regulatory environment. As a result, it is difficult to foresee what Wall Street's future will look like.

Professional and Business Services

The State's professional and business services sector includes two groups of industries. The first is the professional, scientific, and technical services sector (PST), which includes legal, accounting, architectural, engineering, advertising, and technical services. The second is the management, administrative, and other business support services. The downturn in national output and profits is projected to lead to a PST sector loss of 1.4 percent, or 8,000 jobs, in 2010, following a 3.1 percent loss of 18,000 jobs in 2009. This sector was one of the State's strongest from 2005 through the first half of 2008, benefiting greatly from the strength of the national economy (see Figure 55). The management, administrative, and support services sector is expected to follow a similar trend with a 2010 loss of 4,500 jobs, or 0.8 percent, following a 2009 loss of 29,800 jobs, or 5.3 percent.

With the collapse of the high-tech bubble, the State's professional, scientific, and technical services industries saw a significant increase in the rate of gross job destruction during 2001 and early 2002. However, the job gap in this sector narrowed substantially during the first three quarters of 2003, with the net index rising above 100 percent by the fourth quarter and net job growth continuing into 2008. Employment growth in this sector turned negative in the first quarter of 2009 primarily due to a rising job destruction rate.

Figure 55
Professional and Business Services



Source: NYS Department of Labor; DOB staff estimates.

The gross rate of job destruction rose swiftly in the management, administrative, and support services sector in 2001, but the job gap had narrowed significantly by the fourth quarter of 2002. The job gap continued to narrow in 2003 which resulted in positive net job creation in 2004 and 2005. Positive growth continued until the fourth quarter of 2008 when rapidly rising job destruction rates and falling job creation rates resulted in net employment declines which are still continuing. This sector contains temporary help services, one of the first employment classes to grow following a downturn, which helps to explain the substantial improvement in this sector between 2003 and 2004. Many firms hire temporary workers coming out of a recession, 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 its cyclical sensitivity.

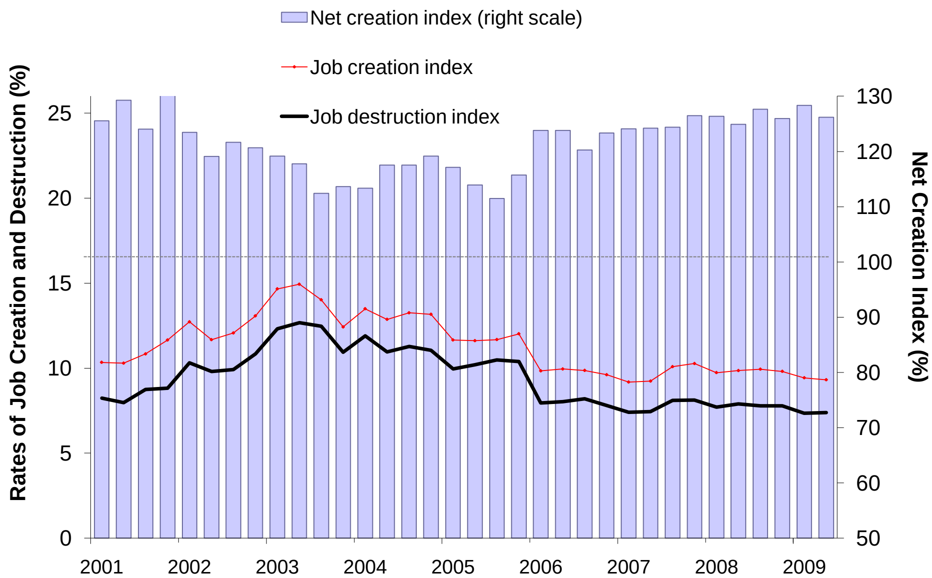
During the first half of 2009, every region experienced net job losses in the professional and business sector compared to the first half of 2008. The regions hit hardest were the North Country with a loss of 8.7 percent, the Southern Tier with a loss of 6.9 percent, and the Capital District with a loss of 4.8 percent. New York City, which saw a decline of 4.7 percent in the first half of 2009, still retains a disproportionately large share of the State’s jobs in this sector, 50.3 percent. Though professional and business services had become an area of labor market strength during the expansion, it has been hit hard in the current recession.

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 56). Together, these two sectors are expected to add 25,700 new jobs in 2010 after adding 27,100 jobs in 2009, an increase of 1.7 percent following an increase of 1.8 percent.

Figure 56

Education, Health Care, and Social Assistance



Source: NYS Department of Labor; DOB staff estimates.

The health care industry is the larger of the two, employing an estimated total of almost 1.3 million workers in 2009. The private education sector is estimated to employ only about 290,000, as it excludes more than 600,000 workers employed at public educational institutions. Neither of these sectors exhibits a significant degree of cyclical sensitivity, and both are expected to exhibit growth in 2010 despite a decline in the private sector as a whole. 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 1.7 percent for 2010, following estimated growth of 1.9 percent for 2009. Healthcare and social assistance employment is also projected to rise 1.7 percent in 2010, the same as in 2009.

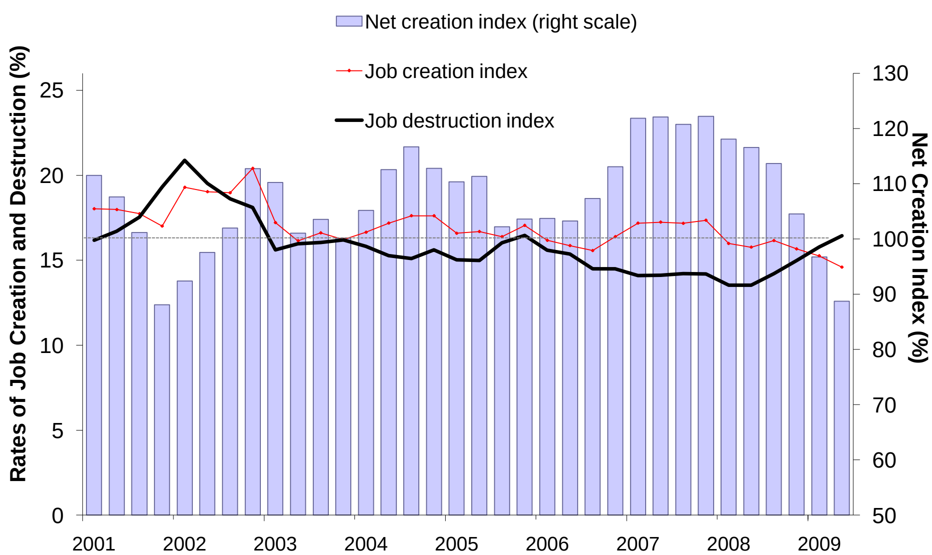
Leisure, Hospitality, and Other Services

The Budget Division expects leisure, hospitality, and other services employment to decline by 0.1 percent in 2010, following a decline of 1.5 percent in 2009. The simultaneity of the national and global recessions has had a severe impact on this sector, particularly the arts, entertainment, and other tourism-related industries, not unlike the impact of the September 11 attacks (see Figure 57). In the wake of that cataclysmic event, 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.

The net job creation index remained above 100 percent from the first quarter of 2004 until early 2009, despite a fall-off in growth at the end of 2004 and early 2005. Beginning in the third quarter of 2006, growth in this sector took off due to both increases in the rate of job creation and consistent decreases in the rate of job destruction. However, the net index started falling in the first quarter of 2008 and was negative by the first quarter of 2009. This sector is expected to continue to decline in 2010 although the rate of decline will slow in 2010 consistent with the strengthening of the national and global economies and a weakened U.S. dollar.

Figure 57

Leisure, Hospitality, and Other Services

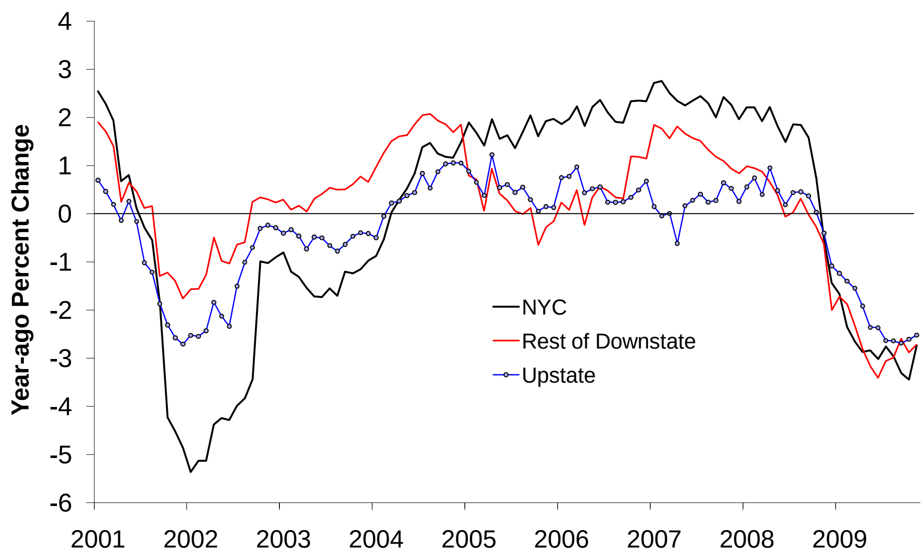


Source: NYS Department of Labor; DOB staff estimates.

Regional Job Growth Disparity

Figure 58 indicates that since the start of the last State recovery in late 2003, employment growth has been quite variable across the State's regions. The State's private sector added 359,000 jobs between October 2003 and October 2008, a 5.1 percent increase. Fully 71.5 percent of these jobs were added in New York City, which saw a private sector increase of 257,000, or 8.6 percent. This strong growth is no surprise given the robust performance of the City's services industries for which the market is not just national but global. Employment growth in the downstate region excluding New York City was weaker, at 3.3 percent, or an addition of 49,000 jobs. However, growth in the upstate region was weaker still, with the private sector adding only about 53,000 jobs during the period, for growth of 2.1 percent.

Figure 58
NYS Private Sector Employment by Region



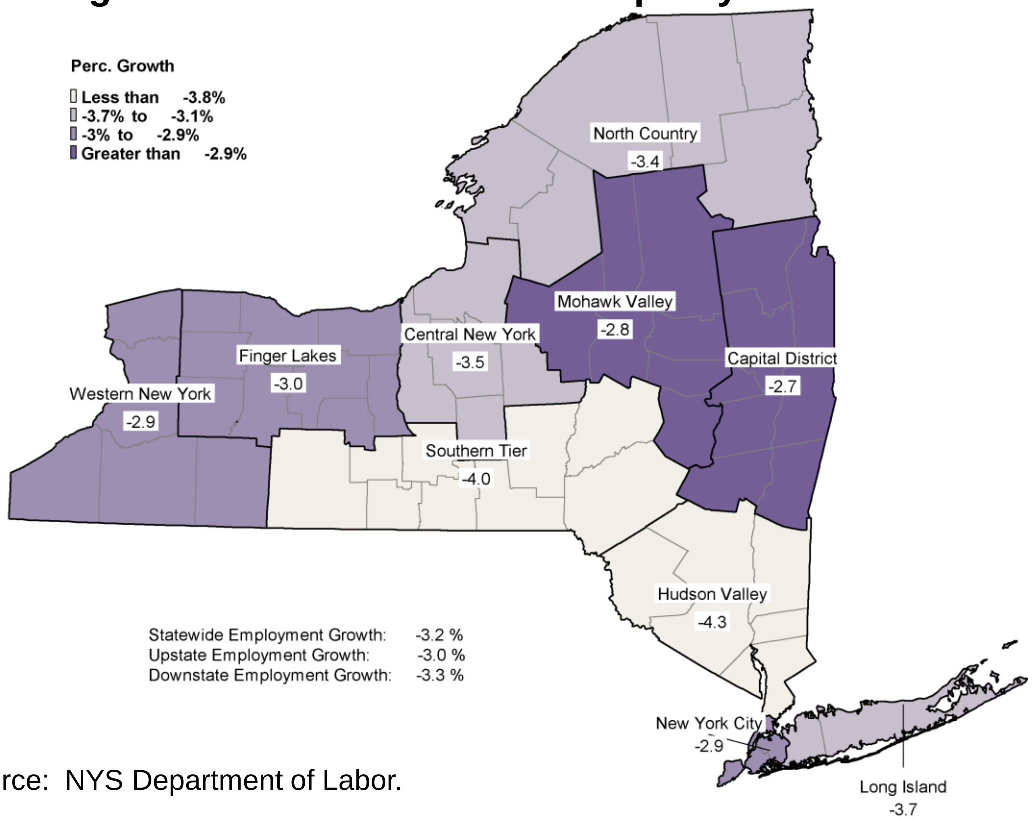
Note: Upstate is defined as the State total minus the ten downstate counties.
Source: NYS Department of Labor (CES).

By the middle of 2008, the national recession and the housing market contraction began to hit New York, with the downstate region outside of New York City the first to be affected (see Figure 58). But the New York City labor market took an even bigger 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 are estimated to be realized 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. For the upstate economy, the continued relative dependence on manufacturing, in particular the auto, machinery and equipment industries, the current 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 Figure 58 also shows these job losses leveling off toward the end of 2009, supporting the view that the State recession is finding a bottom and is likely to end during the first quarter of 2010.

Figure 59 compares the relative performance of New York's 10 regions between the first half of 2008, a peak period for State employment, and the first half of 2009, 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 declines over the period, which roughly covers the first year of the State recession, were extremely broad-based. Private sector employment for the State as a whole fell 3.2 percent over the period; the downstate regions fell at about the same rate, 3.3 percent; while the upstate region fell a weaker 3.0 percent. Employment declines range from 2.7 percent in the Capital District to 4.3 percent in the Hudson Valley. With almost every industry bleeding jobs except for education and health care, no region has been left unscathed. A more detailed analysis of regional employment trends can be found in Table 9 through Table 12 on pages 133-134.

Figure 59

Regional Private Job Growth Disparity 2008H1-2009H1



Source: NYS Department of Labor.

Risks to the New York Forecast

The Budget Division's outlook for the New York economy includes a moderate recovery to begin in the first quarter of 2010. However, there are many risks to this forecast. All of the risks to the U.S. forecast apply to the State forecast as well, although as the nation's financial capital, the credit crisis and the remaking of Wall Street pose a particularly large degree of uncertainty for New York. If the Federal Reserve should raise interest rates earlier or more rapidly than projected, the State economy and the financial sector in particular could experience a setback. A large equity market correction or a large number of commercial real estate loan defaults could also be destabilizing to the financial sector. This uncertainty is compounded by the current political climate, which could alter the composition of bonus packages in favor of stock options, thus affecting the forecast for taxable wages. In addition, it is also uncertain when the lending and underwriting activity related to such transactions as IPOs, mergers and acquisitions, will return to prior levels, resulting in additional risk to the forecasts for bonuses and personal capital gains.

There are, however, some upside risks 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. It could also result in a stronger and earlier upturn in stock prices, stimulating additional financial market activity, and producing higher wage and bonus growth than currently projected.

BOX 7
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 5, 2009, http://www.budget.state.ny.us/pubs/supporting/ForecastMethodology-FINAL_11-05-09.pdf

TABLE 9

NEW YORK STATE PRIVATE EMPLOYMENT BY INDUSTRY

INDUSTRY	Employment in Thousands 2005	2006	2007	2008	2009*	Percent Change 2005	2006	2007	2008	2009*
Mining and Manufacturing	583.7	570.3	557.4	537.5	487.1	(2.4)	(2.3)	(2.3)	(3.6)	(10.0)
Construction and Real Estate	506.7	519.3	537.0	545.7	496.7	1.0	2.5	3.4	1.6	(6.8)
Trade, Trans., and Warehousing	1,447.6	1,455.5	1,477.5	1,477.5	1,404.5	0.9	0.5	1.5	0.0	(4.5)
Information	268.0	266.7	263.2	261.6	254.8	(0.1)	(0.5)	(1.3)	(0.6)	(2.2)
Finance and Insurance	526.1	538.2	544.1	534.5	503.1	1.9	2.3	1.1	(1.7)	(6.4)
Business and Professional Svs.	1,077.7	1,101.3	1,136.0	1,154.0	1,097.7	2.4	2.2	3.2	1.6	(4.3)
Education and Health Care	1,436.7	1,463.1	1,491.6	1,522.4	1,548.7	1.5	1.8	1.9	2.1	2.0
Leisure, Hospitality, and Other Svs	981.7	991.7	1,022.7	1,041.5	1,011.5	1.0	1.0	3.1	1.8	(1.2)
Other **	98.1	104.7	89.0	86.3	87.6	0.1	6.8	(15.0)	(3.1)	1.6
Statewide	6,926.3	7,010.8	7,118.4	7,160.9	6,891.8	1.0	1.2	1.5	0.6	(3.2)

* Levels for 2009 are based on the first two quarters of the year; 2009 growth rates are relative to the same period in 2008.

** Includes agriculture, utilities, and unclassified firms.

TABLE 10

NEW YORK STATE PRIVATE EMPLOYMENT BY REGION

REGION	Employment in Thousands 2005	2006	2007	2008	2009*	Percent Change 2005	2006	2007	2008	2009*
New York City	2,947.8	3,010.6	3,092.6	3,126.8	3,028.7	1.8	2.1	2.7	1.1	(2.9)
Long Island	1,014.8	1,026.6	1,038.4	1,035.9	991.5	0.6	1.2	1.1	(0.2)	(3.7)
Hudson Valley	721.9	726.7	736.3	732.9	697.3	0.8	0.7	1.3	(0.5)	(4.3)
Capital District	385.3	387.6	388.5	389.5	376.1	0.9	0.6	0.2	0.2	(2.7)
Mohawk Valley	132.1	132.4	132.6	131.8	126.4	0.3	0.3	0.2	(0.6)	(2.8)
North Country	106.7	108.3	108.9	108.6	102.8	0.9	1.5	0.5	(0.3)	(3.4)
Central New York	284.5	283.7	287.1	286.3	274.6	0.5	(0.3)	1.2	(0.3)	(3.5)
Southern Tier	234.3	236.9	239.1	239.1	228.2	0.4	1.1	0.9	0.0	(4.0)
Western New York	513.4	512.8	514.2	516.2	495.9	(0.2)	(0.1)	0.3	0.4	(2.9)
Finger Lakes	457.3	456.3	458.4	458.1	439.9	0.7	(0.2)	0.5	(0.1)	(3.0)
Unclassified	128.1	128.9	122.4	135.7	130.4	(2.3)	0.6	(5.0)	10.9	(0.1)

* Levels for 2009 are based on the first two quarters of the year; 2009 growth rates are relative to the same period in 2008.

TABLE 11

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	2.9	7.9	17.2	5.0	10.6	18.4	22.6	14.5	0.9
Long Island	7.6	8.3	24.9	2.6	5.3	15.0	20.7	14.5	1.1
Mid Hudson	7.7	8.7	23.4	2.8	4.4	13.1	23.2	15.2	1.6
Capital Region	8.1	6.8	22.0	2.8	5.7	15.2	22.3	16.0	1.2
Mohawk Valley	13.8	4.8	25.2	2.4	5.7	8.0	25.3	13.9	0.9
North Country	11.9	7.3	26.5	1.9	2.4	7.0	22.8	17.6	2.6
Central New York	12.7	6.4	23.6	2.0	5.1	12.9	19.9	15.3	2.0
Southern Tier	18.4	5.0	19.8	1.8	3.9	9.5	25.8	14.3	1.5
Western New York	14.2	5.8	22.0	1.8	5.3	14.4	19.3	16.2	1.0
Finger Lakes	16.6	5.9	19.8	2.3	3.3	13.7	22.5	14.0	1.9
Statewide	7.2	7.5	20.5	3.7	7.3	16.0	21.8	14.7	1.2

Note: Shares are based on the period from 2008Q3 through 2009Q2.

TABLE 12

REGIONAL EMPLOYMENT TRENDS: 2005-2009

Region	Employment (000's)					Percent Change				
	2005	2006	2007	2008	2009*	2005	2006	2007	2008	2009*
Manufacturing and Mining										
New York City	113.5	105.4	100.8	95.1	83.4	(5.3)	(7.1)	(4.4)	(5.6)	(13.4)
Long Island	86.3	85.1	83.4	80.8	75.3	(1.0)	(1.4)	(1.9)	(3.1)	(7.6)
Hudson Valley	61.6	60.6	59.6	57.7	52.3	(1.8)	(1.7)	(1.6)	(3.1)	(9.7)
Capital District	33.3	33.1	32.7	32.3	29.8	0.5	(0.7)	(1.1)	(1.5)	(7.6)
Mohawk Valley	20.7	20.2	19.5	18.8	17.2	(3.2)	(2.3)	(3.9)	(3.3)	(9.1)
North Country	14.6	14.6	14.2	13.7	12.0	(3.5)	(0.1)	(2.9)	(3.8)	(13.2)
Central New York	39.2	38.7	38.7	37.6	34.2	(0.7)	(1.1)	(0.1)	(2.7)	(10.2)
Southern Tier	44.0	45.2	45.8	45.1	41.1	(0.4)	2.5	1.4	(1.5)	(9.3)
Western New York	82.8	81.1	79.3	76.4	68.6	(3.5)	(2.1)	(2.2)	(3.6)	(10.8)
Finger Lakes	86.5	85.1	82.0	78.4	71.6	(1.6)	(1.6)	(3.6)	(4.4)	(8.9)
Unclassified	1.1	1.2	1.4	1.6	1.5	(15.9)	5.1	18.1	13.3	3.3
Statewide	583.7	570.3	557.4	537.5	487.1	(2.4)	(2.3)	(2.3)	(3.6)	(10.0)
Construction and Real Estate										
New York City	225.6	231.0	243.2	248.5	234.6	1.7	2.4	5.3	2.2	(4.8)
Long Island	82.0	85.2	87.3	87.9	78.8	0.7	3.9	2.4	0.7	(8.7)
Hudson Valley	63.6	65.4	67.9	66.8	57.6	2.9	2.9	3.8	(1.7)	(12.5)
Capital District	26.6	27.0	27.2	27.1	24.4	0.7	1.6	0.7	(0.5)	(6.2)
Mohawk Valley	6.4	6.4	6.7	6.5	5.5	0.1	0.0	3.6	(2.5)	(9.4)
North Country	7.0	7.5	7.8	8.1	7.1	0.6	6.9	4.6	3.3	(7.0)
Central New York	17.6	18.2	18.5	18.6	16.5	0.1	3.4	1.7	0.5	(7.0)
Southern Tier	11.5	11.7	11.8	12.1	10.6	1.6	1.9	0.9	2.4	(8.3)
Western New York	29.6	29.9	29.4	29.9	27.0	(1.5)	1.1	(1.7)	1.8	(3.2)
Finger Lakes	26.7	26.0	26.7	27.2	24.2	0.6	(2.5)	2.8	1.9	(6.4)
Unclassified	10.2	10.9	10.4	13.0	10.6	(9.9)	6.5	(4.4)	24.8	(8.9)
Statewide	506.7	519.3	537.0	545.7	496.7	1.0	2.5	3.4	1.6	(6.8)
Trade, Transportation, and Warehousing										
New York City	514.0	524.1	539.7	542.2	516.8	1.2	1.9	3.0	0.5	(4.2)
Long Island	257.1	256.3	260.7	260.0	245.2	0.0	(0.3)	1.7	(0.3)	(5.5)
Hudson Valley	171.3	171.8	173.3	172.2	162.9	1.3	0.3	0.9	(0.6)	(5.4)
Capital District	89.0	88.7	87.5	86.0	82.6	0.9	(0.3)	(1.4)	(1.7)	(3.4)
Mohawk Valley	32.3	32.7	33.1	33.3	31.8	2.8	1.2	1.3	0.7	(3.6)
North Country	27.7	28.1	28.5	28.6	27.5	1.8	1.6	1.6	0.3	(2.2)
Central New York	68.4	67.4	67.7	67.7	64.7	1.0	(1.4)	0.4	0.1	(3.9)
Southern Tier	47.9	47.7	48.0	47.6	45.2	0.6	(0.3)	0.7	(1.0)	(4.5)
Western New York	114.2	113.4	114.8	114.6	108.1	1.2	(0.7)	1.3	(0.2)	(4.9)
Finger Lakes	91.2	90.6	92.0	91.4	87.3	1.1	(0.6)	1.5	(0.6)	(4.2)
Unclassified	34.6	34.9	32.2	33.9	32.4	(2.1)	0.7	(7.7)	5.5	(3.4)
Statewide	1,447.6	1,455.5	1,477.5	1,477.5	1,404.5	0.9	0.5	1.5	0.0	(4.5)
Information										
New York City	151.0	152.9	155.5	156.6	150.8	0.9	1.3	1.7	0.7	(3.2)
Long Island	28.0	28.4	26.9	25.7	26.4	1.8	1.6	(5.4)	(4.4)	2.6
Hudson Valley	22.7	22.0	21.4	21.0	19.2	(3.6)	(3.0)	(3.0)	(1.7)	(8.4)
Capital District	12.1	11.8	11.1	10.6	10.6	0.4	(2.8)	(5.6)	(4.2)	(0.6)
Mohawk Valley	4.3	3.9	3.5	3.2	3.1	(4.0)	(9.9)	(10.1)	(8.6)	(2.8)
North Country	1.9	2.1	2.1	2.0	2.0	(5.1)	5.8	0.0	(3.8)	0.0
Central New York	6.6	6.2	6.1	5.8	5.5	(8.4)	(6.3)	(2.7)	(3.5)	(6.4)
Southern Tier	4.8	4.7	4.6	4.4	4.2	(1.7)	(1.8)	(3.5)	(3.4)	(7.2)
Western New York	10.4	10.0	9.4	9.2	9.0	(3.2)	(4.2)	(6.5)	(1.2)	(2.0)
Finger Lakes	11.8	11.3	10.7	10.4	10.2	(5.1)	(4.2)	(5.2)	(2.6)	(3.4)
Unclassified	14.3	13.4	12.1	12.6	13.7	5.6	(6.7)	(9.3)	3.8	14.4
Statewide	268.0	266.7	263.2	261.6	254.8	(0.1)	(0.5)	(1.3)	(0.6)	(2.2)

(Cont'd on next page)

REGIONAL EMPLOYMENT TRENDS: 2005-2009 (*cont'd*)										
Region	Employment (000's)					Percent Change				
	2005	2006	2007	2008	2009*	2005	2006	2007	2008	2009*
Finance and Insurance										
New York City	321.8	331.7	341.5	337.5	315.4	2.8	3.1	3.0	(1.2)	(7.1)
Long Island	62.0	59.8	59.6	56.6	52.7	(2.8)	(3.5)	(0.4)	(5.1)	(8.0)
Hudson Valley	34.1	34.8	34.2	32.5	30.7	5.3	2.0	(1.6)	(5.0)	(6.7)
Capital District	22.2	22.7	22.3	22.1	21.8	1.3	2.3	(1.8)	(0.9)	(1.9)
Mohawk Valley	8.0	8.2	8.2	7.6	7.3	1.6	2.2	(0.1)	(7.1)	(5.2)
North Country	2.8	2.9	2.6	2.6	2.5	2.0	3.9	(8.3)	(2.6)	(1.7)
Central New York	14.0	14.4	14.6	14.6	14.3	2.2	2.8	1.7	(0.2)	(2.0)
Southern Tier	9.5	9.5	9.3	9.2	9.0	0.1	(0.5)	(2.0)	(1.1)	(2.4)
Western New York	28.7	29.3	28.0	27.7	26.4	(0.2)	2.2	(4.4)	(1.3)	(4.4)
Finger Lakes	15.3	15.8	15.7	15.3	14.7	(1.1)	3.0	(0.6)	(2.4)	(4.3)
Unclassified	7.7	9.2	7.9	8.8	8.3	7.1	19.9	(13.6)	11.6	(4.5)
Statewide	526.1	538.2	544.1	534.5	503.1	1.9	2.3	1.1	(1.7)	(6.4)
Business and Professional Services										
New York City	533.0	548.6	571.4	580.9	552.5	2.6	2.9	4.2	1.7	(4.7)
Long Island	152.7	156.6	158.3	157.3	147.7	2.7	2.5	1.1	(0.7)	(5.8)
Hudson Valley	94.4	94.8	96.6	96.1	91.7	0.5	0.4	1.9	(0.5)	(4.1)
Capital District	55.5	57.2	58.3	59.8	56.7	2.9	3.1	1.9	2.7	(4.8)
Mohawk Valley	10.6	10.7	10.6	10.6	10.0	(4.7)	1.4	(0.9)	0.4	(5.1)
North Country	7.0	7.5	7.8	7.8	7.0	13.3	6.7	4.5	0.1	(8.7)
Central New York	35.9	36.0	37.0	36.8	35.4	1.8	0.4	2.7	(0.6)	(3.0)
Southern Tier	21.7	22.6	23.2	23.1	21.4	1.9	4.2	2.4	(0.4)	(6.9)
Western New York	68.1	70.0	71.6	74.0	71.9	2.3	2.9	2.3	3.3	(1.4)
Finger Lakes	60.0	60.9	62.1	63.0	60.2	3.4	1.4	2.0	1.4	(3.6)
Unclassified	38.9	36.3	39.0	44.5	43.3	1.3	(6.6)	7.3	14.1	1.3
Statewide	1,077.7	1,101.3	1,136.0	1,154.0	1,097.7	2.4	2.2	3.2	1.6	(4.3)
Education, Health Care, and Social Assistance										
New York City	649.2	664.4	675.9	688.7	702.9	2.0	2.3	1.7	1.9	2.1
Long Island	191.6	197.5	203.5	208.6	211.6	1.7	3.1	3.0	2.5	2.1
Hudson Valley	154.7	157.2	161.6	164.7	166.7	1.5	1.6	2.8	1.9	1.8
Capital District	81.4	81.5	83.5	85.1	86.1	0.2	0.1	2.4	1.9	1.0
Mohawk Valley	30.0	30.7	31.8	32.4	32.9	2.5	2.3	3.7	1.8	3.0
North Country	24.4	24.4	24.2	24.2	24.2	0.6	0.1	(1.0)	0.0	1.0
Central New York	53.8	54.3	55.6	56.0	56.2	2.3	1.0	2.3	0.8	0.1
Southern Tier	58.0	58.4	59.0	60.3	60.5	0.4	0.6	1.1	2.3	0.7
Western New York	94.9	94.4	95.1	96.8	98.9	0.4	(0.5)	0.7	1.8	2.7
Finger Lakes	94.4	95.4	97.2	100.5	102.2	1.8	1.1	1.9	3.3	2.6
Unclassified	4.3	4.9	4.4	5.2	6.3	(25.1)	12.7	(10.2)	18.9	28.6
Statewide	1,436.7	1,463.1	1,491.6	1,522.4	1,548.7	1.5	1.8	1.9	2.1	2.0
Leisure, Hospitality, and Other Services										
New York City	407.1	416.0	435.2	449.0	442.2	2.7	2.2	4.6	3.2	(0.6)
Long Island	141.7	143.3	146.7	147.8	142.1	0.1	1.2	2.4	0.7	(1.1)
Hudson Valley	106.7	106.6	109.7	110.5	105.0	(0.7)	(0.1)	2.9	0.7	(3.0)
Capital District	60.1	60.5	61.3	61.8	59.5	0.4	0.7	1.3	0.9	(1.3)
Mohawk Valley	18.4	18.2	18.1	18.1	17.3	0.1	(1.0)	(0.6)	0.2	(1.1)
North Country	18.6	18.6	19.0	18.9	17.7	(0.4)	(0.2)	1.9	(0.3)	(1.8)
Central New York	42.7	42.2	43.0	43.4	42.2	(0.3)	(1.2)	2.1	0.8	(1.3)
Southern Tier	33.2	33.4	33.9	33.9	32.7	0.3	0.6	1.7	(0.2)	(1.7)
Western New York	78.8	78.8	81.1	82.3	80.9	(0.4)	(0.0)	2.9	1.4	(0.2)
Finger Lakes	62.5	62.3	63.5	63.5	61.8	1.2	(0.3)	1.9	(0.1)	(0.9)
Unclassified	12.0	11.9	11.1	12.3	10.0	(2.4)	(0.5)	(6.5)	10.1	(13.4)
Statewide	981.7	991.7	1,022.7	1,041.5	1,011.5	1.0	1.0	3.1	1.8	(1.2)

* Levels for 2009 are based on the first two quarters of the year; 2009 growth rates are relative to the same period

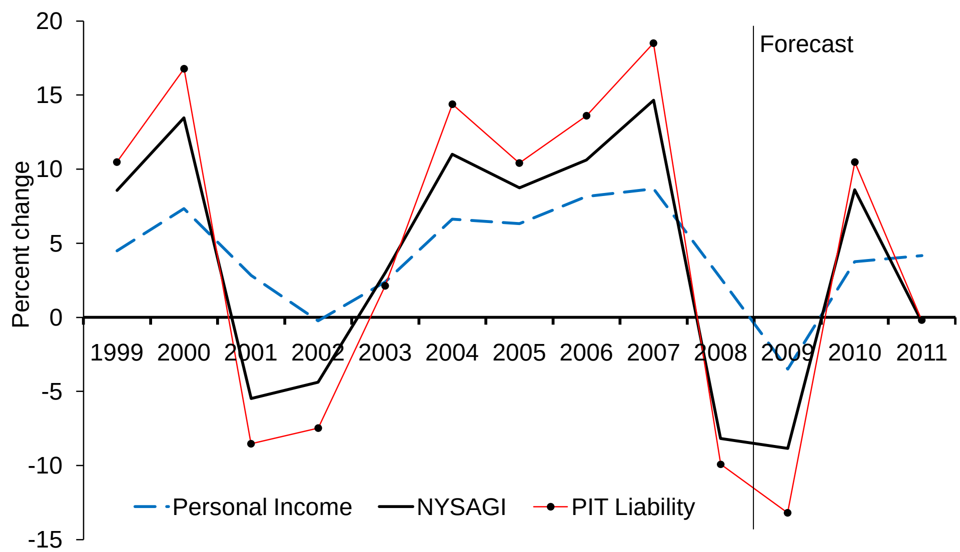
Source: NYS Department of Labor.

NEW YORK STATE ADJUSTED GROSS INCOME

The personal income tax receipts account for almost 60 percent of the State's total tax revenue stream. Therefore, detailed knowledge of the composition of the State's personal income tax base and its determinants is critical to accurately projecting receipts. 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. 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 personal income tax liability forecast will thus depend on the linkages between NYSAGI and the outlook for both the national and State economies.[5] Following exceptionally strong growth of 14.6 percent in 2007, NYSAGI is estimated to have been severely affected by the U.S. and New York recessions, falling, 8.2 percent in 2008 and another 8.8 percent in 2009 (see Figure 60). These declines represent the steepest since the data became available in 1980. For 2010, a strengthening national recovery, the beginning of a recovery at the State level, and taxpayers' anticipation of higher Federal tax rates in 2011 are expected to combine to boost State taxable income 8.6 percent. But the shifting of income into 2010 is projected to result in flat growth in NYSAGI for 2011, despite positive growth in many income components.

Figure 60

The Indicators of New York State's Tax Base



Note: Personal income tax (PIT) liability is computed based on 2002 NY State tax law; 2008 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

The Budget Division forecasts for the components of NYSAGI are based on detailed historical tax return data from samples of State taxpayers through the 2007 tax year, made available by the New York State Department of Taxation and Finance. For 2008,

[5] Box 8 on page 155 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 2009 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..[6]

TABLE 13
CHANGES IN NYSAGI AND ITS MAJOR COMPONENTS

	2004	2005	2006	2007	2008*	2009	2010	2011
	Actual				Estimated			
NYSAGI								
Level ($ Billions)	526.0	571.9	632.6	725.2	665.9	607.0	659.2	657.1
Change ($ Billions)	52.2	46.0	60.7	92.6	(59.3)	(58.9)	52.2	(2.1)
% Change	11.0	8.7	10.6	14.6	(8.2)	(8.8)	8.6	(0.3)
Wages								
Level ($ Billions)	397.4	417.0	445.2	485.6	494.4	464.1	481.8	496.8
Change ($ Billions)	24.1	19.6	28.2	40.4	8.9	(30.3)	17.7	15.0
% Change	6.5	4.9	6.8	9.1	1.8	(6.1)	3.8	3.1
Capital Gains								
Level ($ Billions)	53.8	66.7	84.4	118.3	56.0	36.4	57.7	30.8
Change ($ Billions)	22.6	12.9	17.8	33.9	(62.3)	(19.7)	21.3	(27.0)
% Change	72.5	24.0	26.6	40.1	(52.6)	(35.1)	58.7	(46.7)
Partnership/S Corporation								
Level ($ Billions)	45.9	53.8	61.2	70.7	73.1	68.4	76.0	84.0
Change ($ Billions)	4.8	7.9	7.4	9.5	2.4	(4.7)	7.6	8.0
% Change	11.6	17.3	13.8	15.5	3.3	(6.4)	11.1	10.5

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

* 2008 Estimates are based on processing data except for wages.

Positive Capital Gains Realizations

The Budget Division's near-term outlook for NYSAGI is significantly affected by the estimated fluctuation in capital gains realizations. The national recession that began with a real estate market downturn and very tight credit markets quickly depressed all the major sources of capital gains, including equity markets, residential and commercial real estate market transactions, and hedge fund and private equity buyout activity. Following strong growth of 40.1 percent in 2007, preliminary data indicate that capital gains realizations fell 52.6 percent in 2008, while estimates for 2009 suggest another decline of

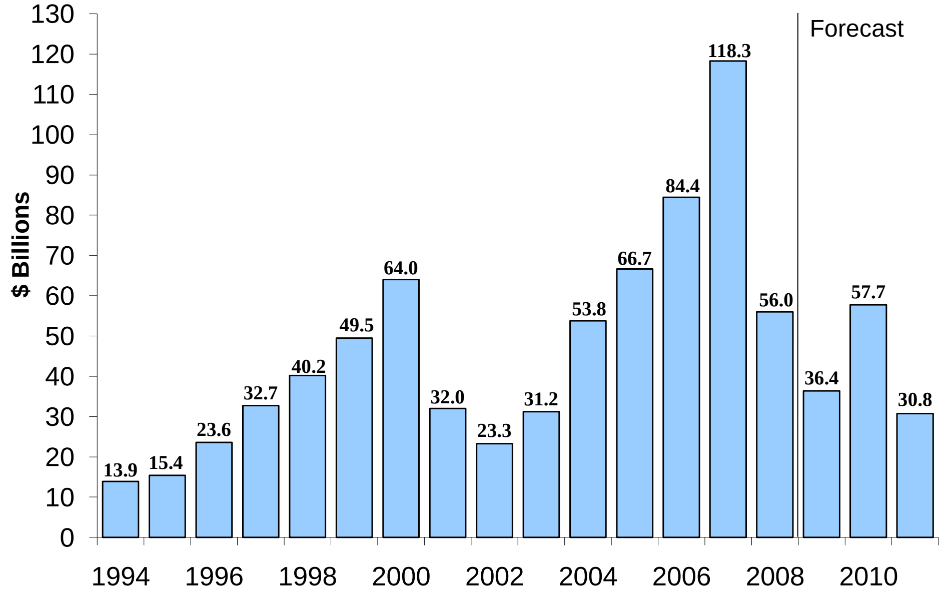
[6] For a detailed discussion of the Budget Division forecast state wages, see *New York State Economic, Revenue, and Spending Methodologies*, November 5, 2009, pp. 49-54, http://www.budget.state.ny.us/pubs/supporting/ForecastMethodology-FINAL_11-05-09.pdf.

35.1 percent (see Figure 61). Over those two years, capital gains income is expected to have fallen by $81.9 billion from a record level of $118.3 billion in 2007 to $36.4 billion in 2009. Recovering national and State economies and the sunset of a favorable capital gains tax rate at the end of 2010 lead DOB to forecast 58.7 percent growth for tax year 2010 followed by a decline of 46.7 percent in 2011 as the higher tax rate takes effect.

The volatility in capital gains realizations has accounted for a large share of the fluctuation in total NYSAGI in recent years and is expected to continue to do so. Between 2007 and 2009, NYSAGI is estimated to have declined by $118.3 billion, of which 69.3 percent can be attributed to the extraordinary two-year decline in capital gains income. While the estimated capital gains realizations accounted for 16.3 percent of NYSAGI in 2007, this share is expected to decline to 6.0 percent by 2009.

Figure 61

Capital Gains Realizations



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

The Budget Division's forecasting model has attempted 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.[7] 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, the Tax Reform Act of 1986 raised the capital gains tax rate from 20 percent to 28 percent, effective January 1, 1987. Because the tax increase was anticipated by taxpayers when the law was enacted in 1986, taxpayers increased realizations by 90.7 percent that year to take advantage of the lower rate, and reduced realizations by 54.6 percent in the following year. Similarly,

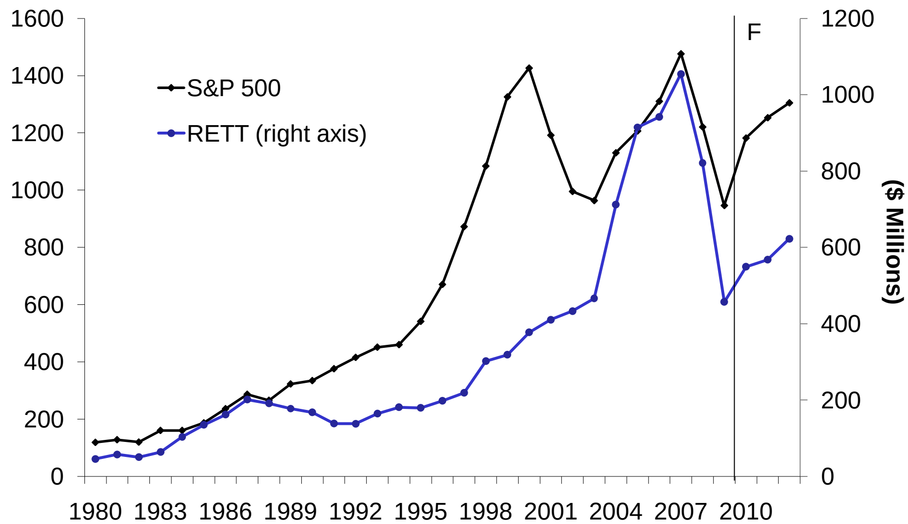
[7] For a discussion of the Budget Division's traditional approach to modeling capital gains realizations, see L. Holland, H. Kayser, R. Megna and Q. Xu "The Volatility of Capital Gains Realizations in New York State: A Monte Carlo Study," *Proceedings*, *94th Annual Conference on Taxation*, National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

the lowering of the capital gains tax rate from 20 percent to 15 percent with the passage of the Jobs and Growth Tax Relief and Reconciliation Act (JGTRRA) of 2003 in June of that year contributed to the strong rebound in capital gains realizations in 2003 and 2004. Since JGTRRA was implemented retroactively, no anticipatory realization behavior on the part of taxpayers was observed.

The favorable capital gains tax rate of 15 percent is scheduled to sunset at the end of 2010 and return to 20 percent. Since this increase in the tax rate will be anticipated, we expect an unlocking of capital gains in 2010 that contributes to 58.7 percent growth that year followed by a decline of 46.7 percent in 2011. Capital gains realizations are also affected by State income tax rates. For tax years 2009 to 2011, the State has temporarily instituted new tax brackets with higher tax rates for wealthier taxpayers. The top State income tax rate was increased from 6.85 percent to 8.97 percent. Since the 2009 rate increase was not anticipated by taxpayers, taxpayer realization behavior was not affected in 2008.

Figure 62

Real Estate Transfer Taxes and S&P 500 Index



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

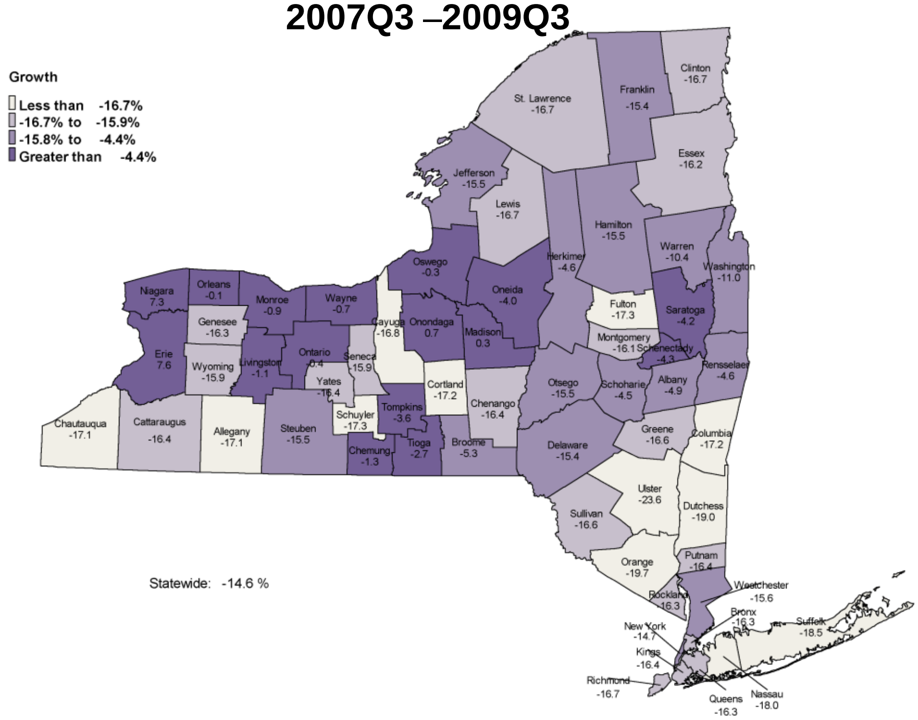
Fluctuations in equity and real estate markets strongly influence capital gains realizations. Equity markets, as measured by the Standard & Poor 500 index, declined by 17.3 percent in 2008 and are estimated to fall another 22.5 percent in 2009 (see Figure 62). Equity markets started to recover in the second quarter of 2009. However, despite brisk growth of over 60 percent by the end of 2009, the S&P 500 index had only risen to its September 2008 level and remains well below its July 2008 peak. Continued growth in corporate earnings is expected to result in 24.9 percent growth in the S&P 500 index in 2010.

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 and are estimated to represent a large component of capital gains realizations, 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.[8] Although no direct evidence exists for New York, the role of real estate market activity in determining gains is supported by data from national studies and from other states. Historical data for California show that in 2005, 20.7 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.[9] 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.[10]

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. Real estate transfer taxes fell 22.1 percent in 2008 and are estimated to fall another 44.3 percent in 2009, a drop of $597 million from a high of $1,054 million in 2007 (see Figure 62).

Figure 63

Growth in Median Sales Price of Existing Single-Family Homes 2007Q3 –2009Q3



Source: Moody's Economy.com

Additional State real estate market indicators lend support to the severity of the decline in the real estate market from 2007 to 2009. Figure 63 shows the percentage

[8] 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.
[9] Unpublished Study, Economics and Statistical Research Bureau, California Franchise Tax Board.
[10] 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.

change in the median prices of existing homes sold during the third quarter of 2007 and those sold during the third quarter of 2009 by county. All but four upstate counties – Erie, Niagara, Onondaga and Madison – experienced declines in median home values, many of them with declines exceeding 15 percent. Because New York City home prices tend to be quite high, it is more likely that New York City sales will generate sufficient capital gains to surpass the exemption threshold than sales in areas where prices are lower. Thus, the decline in the State's real estate market, particularly the decline in home values in the New York City area, contributed to the declines in capital gains realizations projected for both 2008 and 2009.

Neither the performance of the real estate market nor the equity markets appears to fully explain the high volatility in capital gains realizations, particularly over the past several years. Changing levels of private equity and hedge funds activity and profitability likely explain at least some of the extraordinary growth leading up to 2007 and some of the dramatic declines over the past two years. 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 return to private equity investments is often not realized for several years, but the rate of return is generally high relative to the return to 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 have 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. This decline can in part be attributed to the fact that the industry is struggling to allocate about $1 trillion of uninvested commitments from the previous boom times, according to Preqin. However, the decline the liquidity of assets held by endowments and pension funds, and an inability to generate the kinds of returns investors had become accustomed to are also believed to be playing a role. According to Thomson Reuters, of the sixteen initial public offerings (IPOs) backed by buyout firms in the United States in 2009, six were priced below their expected offering range. In the current economic environment, private equity firms are experiencing particular difficulty finding profitable exits for buyouts exceeding $10 billion that took place in 2006 and 2007. Given the lack of investment opportunities, difficulties in raising funds and appealing to investor satisfaction, it remains to be seen how the private equity industry will fare in 2010.

Hedge funds, whose performance depends on relatively easy access to borrowed funds to leverage and healthy financial institutions with which to trade, experienced serious trouble as the financial crisis made leveraging all but impossible in 2008. Hedge funds around the world recorded record losses in 2008, leading investors to pull out a record $155 billion worth of investments, and to a large number of fund liquidations. However, 2009 is shaping up to be a highly profitable year for the hedge fund industry. According to performance tracker Hedge Funds Research, the average return for hedge funds in 2009 was 19 percent compared to a 19 percent loss in 2008, with start-ups beginning to outpace hedge fund liquidations in the second half of 2009. Investors also put $150 billion back into hedge funds in 2009, according to Barclays Capital. Though hedge fund investments have not yet regained their previous peak, the industry is expected to have a very strong performance in 2010.

There are both downside and upside risks to the forecast for capital gains realizations. Two years of declining equity and real estate market have created realized and unrealized losses that can potentially be used to offset gains as markets are recovering, leading to lower taxable realizations than market conditions would predict. Moreover, though the Budget Division projects relatively strong growth in real estate transactions for 2010, large numbers of foreclosures may continue to depress the housing sector, rendering the real estate and capital gains forecast too optimistic. On the other hand, a stronger-than-expected performance of the hedge fund industry in 2009 may result in stronger-than-expected growth in capital gains realizations.

Rent, Royalty, Partnership, and S Corporation Gains

Positive rent, royalty, estate, trust, partnership and S corporation income grew 15.5 percent in 2007 and an estimated 3.3 percent in 2008, accounting for 11.0 percent of NYSAGI in 2008, up from 5.5 percent in 1990 and 7.6 percent in 2000. Consistent with a contracting economy in 2009, DOB estimates a decline in partnership and S corporation income of 6.4 percent in 2009, followed by growth of 11.1 percent in 2010 and 10.5 percent in 2011 as the national economy continues to rebound from the recession.

The largest contributor to the rent, royalty, estate, trust, partnership and S corporation component is partnership income, much of which originates within the finance and real estate industries and is therefore linked to the performances of both the economy and financial markets. A second large contributor to this component 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. Over the years, the number of S corporations has increased dramatically, as rules governing which businesses can form S corporations have become less stringent. Tax incentives for forming S corporations as opposed to C corporations arise from avoiding double taxation of earnings at the corporate level and the individual level.

While New York proprietors' income (as defined under NIPA and which includes partnership, S corporation, and sole proprietorship income) grew at an average annual rate of 6.8 percent between 1980 and 2008, taxable partnership and S corporation income grew at a significantly faster rate of 11.7 percent. Some of this growth is due to past tax law changes and to an easing of the Federal and State requirements for forming S corporations. Strong growth from 2004 to 2007 coincided with the exceptional performances of financial markets and a robust performance of the U.S. economy. As economic growth slowed in 2008, so did partnership and S corporation gains. For 2009, partnership and S-corporation income growth is expected to turn negative consistent with the decline in GDP. Improving national and State economic conditions and recovering equity markets are expected to result in a return to strong growth in partnership and S corporation income by 2010.

The Budget Division's partnership and S corporation income forecast contains both upside and downside risks. Downside risks stem from the fact that 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, the very weak performance of the real estate market in New York State in 2009 represents a potential downside risk as does the possibility that the real estate market continues to founder as a result of continued foreclosures and tight credit for consumers. On the other hand, the rising volume of hedge fund activity in the second half of the 2009 represents upside risk to the 2009 estimate and beyond.

Dividend Income

Taxable dividend income grew a strong 21.5 percent in 2007, but preliminary data indicate that dividend income declined 13.4 percent in 2008. The Budget Division estimates another decline of 14.1 percent for 2009, followed by projected growth of 10.2 percent for 2010 and 7.5 percent for 2011.

Taxable dividend income is expected to rise with the fortunes of publicly held U.S. firms, which, in turn, are expected to vary with the business cycle as measured by growth in real U.S. GDP, long-term interest rates as represented by the 10-year Treasury yield, the performance of equity markets, and dividend payouts by S&P 500 firms. Fluctuations in New York State taxpayers' dividend income have ranged from a decline of 19.3 percent in 2001 to an increase of 26.6 percent in 2004, proving much more variable than U.S. dividend income, a component of the NIPA definition of U.S. personal income, or dividend payouts by S&P 500 firms. While State taxable dividend income grew at an average annual rate of 6.7 percent with a standard deviation of 11.7 percentage points between 1976 and 2008, U.S. dividend income grew an average 9.9 percent annually with a standard deviation of 8.0 percentage points over the same period, and dividend payouts by S&P 500 firms at a rate of 6.5 percent with a standard deviation of 5.0 percentage points.

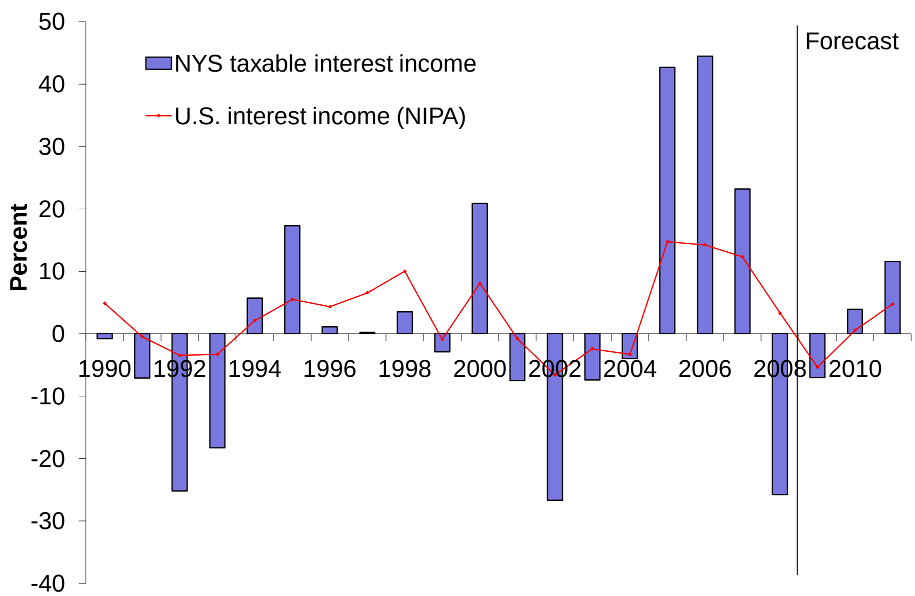
Dividend income experienced four years of very strong growth in excess of 20 percent from 2004 to 2007. The strong growth in 2004 reflects a number of one-time dividend payouts, most notably the $32 billion dividend distribution by Microsoft. The strong growth from 2004 to 2007 can also be attributed to strong economic growth and a lower tax rate for dividend income that took effect with the implementation of JGTRRA in June 2003. Consistent with a contracting economy and the reduction or cancellation of dividend payouts by many struggling corporations, dividend income experienced a double-digit decline in 2008, and is estimated to experience another double-digit decline in 2009. In contrast, growth of 10.2 percent is expected for 2010, consistent with strong projected equity market growth and 2.8 percent real GDP growth. With the favorable tax treatment of dividend income set to expire at the end of 2010, the Budget Division projects slower growth in dividend income for 2011. Risks to the forecast appear to be balanced at this time.

Interest Income

After two years of growth exceeding forty percent, taxable interest income had another year of strong growth in 2007, increasing by 23.2 percent. However, preliminary data suggest a 25.8 percent decline in New York taxable interest income for 2008 (see Figure 64). The Budget Division estimates another decline of 7.0 percent for 2009, but rising interest rates and increased economic activity are expected to result in growth of 3.9 percent in 2010 and 11.6 percent in 2011.

For a given amount of assets, an increase in interest rates will increase interest income. In addition, the overall trend in taxable interest income for New York is found to closely track that of U.S. interest income, another component of the NIPA definition of U.S. personal income. However, taxable interest income for New York is much more volatile than the latter measure (see Figure 64). For the period from 1977 to 2008, the average growth rate for U.S. interest income was 7.6 percent, with a standard deviation of 8.5 percentage points. In contrast, New York's interest income over the same period averaged 6.7 percent growth, with a standard deviation of over 11.9 percentage points. The additional volatility in the New York series could be related to the behavioral response of State taxpayers to past changes in the tax law.

Figure 64
Interest Income



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

The remarkable growth in New York State taxpayers' interest income since between 2004 and 2007 reflects a rebound from four years of declines between 2001 and 2004 due to the sharp drop in interest rates 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. The growth may also reflect the explosion of debt related to the housing market bubble, as well as growth in the national debt. The Federal Reserve ushered in a new round of interest rate cuts starting in the second half of 2007, leading ultimately to a federal funds rate of close to zero. The Budget Division expects the Federal Reserve to start increasing rates in the middle of 2010 and consequently projects a slight increase in taxable interest income of 3.9 percent for this year.

Close inspection of Figure 64 reveals that there is considerable downside risk to the forecast, particularly for 2010. In 2004, a year in many respects similar to what the Budget Division expects for 2010, taxable interest income continued to fall despite a rising federal funds rate, above-average economic growth, and a housing market starting to boom. In 2004, long-term interest rates remained stubbornly low, despite the central bank's policy shift. The Budget Division's current outlook calls for long-term rates to rise as the global and national expansions increase investors' appetite for risk. But there is much uncertainty surrounding this forecast.

Small Business and Farm Income

After growing 4.5 percent in 2007, preliminary data suggest that small business and farm income fell 5.1 percent in 2008, consistent with a shrinking economy and tight credit conditions. The Budget Division estimates another decline of 4.2 percent for 2009, followed by growth of 7.0 percent for 2010 and 6.1 percent for 2011, consistent with recoveries in both the national and State economies.

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, which is forecast within DOB/N.Y., 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, which might not be captured by the NIPA definition of 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 4.7 percent. Proprietors' income, as defined under NIPA, experienced similar changes in growth, growing at annual average rates of 12.6 percent prior to 1990 and 4.4 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 3.2 percent in 2007, followed by growth of 4.1 percent for 2008, based on preliminary data. The Budget Division estimates 4.2 percent growth for 2009, followed by growth of 3.6 percent in 2010 and 4.8 percent in 2011.

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 long-term interest rates during the previous year, 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 6.8 percent between 1991 and 2008. This coincides with a decline in the average 10-year Treasury yield from 10.6 percent in the former period to 5.8 percent in the latter. Both declines are likely the result of lower inflation rates in the later period.

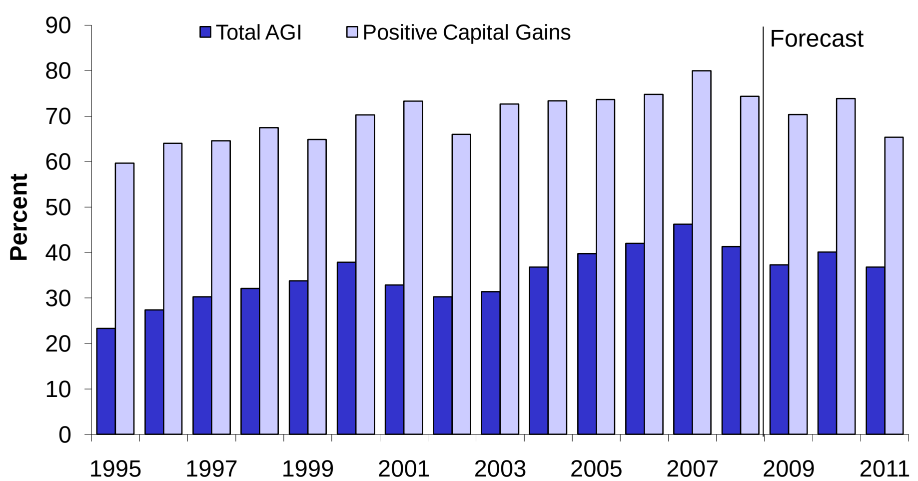
Long-term Treasury yields were exceptionally low in 2008 and 2009 as a result of exceptionally low federal funds rates and the flight to safety engendered by the financial crisis, but are expected to increase in 2010 and remain closer to recent historic averages thereafter. The risks to the forecast 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 60 on page 136, 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 8 compares these three important indicators of the size of the State's personal income tax base and discusses their respective volatilities. 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 65). 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 65

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



Note: For nonresident taxpayers, shares are based on total income; 2008 data are preliminary based on processing information.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

BOX 8
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 these three concepts – personal income tax liability, NYSAGI, and State personal income – is presented in Figure 60 on page 136. For example in 2007, personal income experienced solid growth of 8.7 percent, while NYSAGI grew a stronger 14.6 percent and personal income tax liability an even stronger 19.0 percent.

Economists use the concept of elasticity to measure the sensitivity of one economic indicator to another. Thus, 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. For example, if GDP increases one percent and personal income responds to that improvement in economic conditions by growing two percent, the elasticity would be two. 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 additions or subtractions 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. When asset market conditions are depressed, taxpayers can refrain from selling, which can result in dramatic declines in taxable capital gains, such as the estimated 52.6 percent decline in 2008. Likewise, taxpayers can respond to upturns in market conditions by accelerating trading activity, similarly resulting in dramatic growth, such as the 72.5 percent growth in taxable capital gains income experienced in 2004, and 40.1 percent in 2007. 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 such strategic responses in 2010 as taxpayers as expected to realize capital gains and pay compensation early to avoid the higher tax rates in 2011, shifting taxable income from 2011 to 2010.

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. Growth in those components usually increases the average effective tax rate and contributes to the higher elasticity of personal income tax liability. It is evident from Table 13 on page 137 that the volatility of positive capital gains is much greater than that of wages, positive partnership/S corporation income, and total NYSAGI. In 2007, taxable wages grew 9.1 percent, NYSAGI 14.6 percent, and capital gains realizations 40.1 percent. Indeed, the $33.9 billion increase in capital gains realizations constituted almost thirty percent of the increase in NYSAGI.

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 5 on page 108.
[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/ForecastMethodology-FINAL_11-05-09.pdf>.

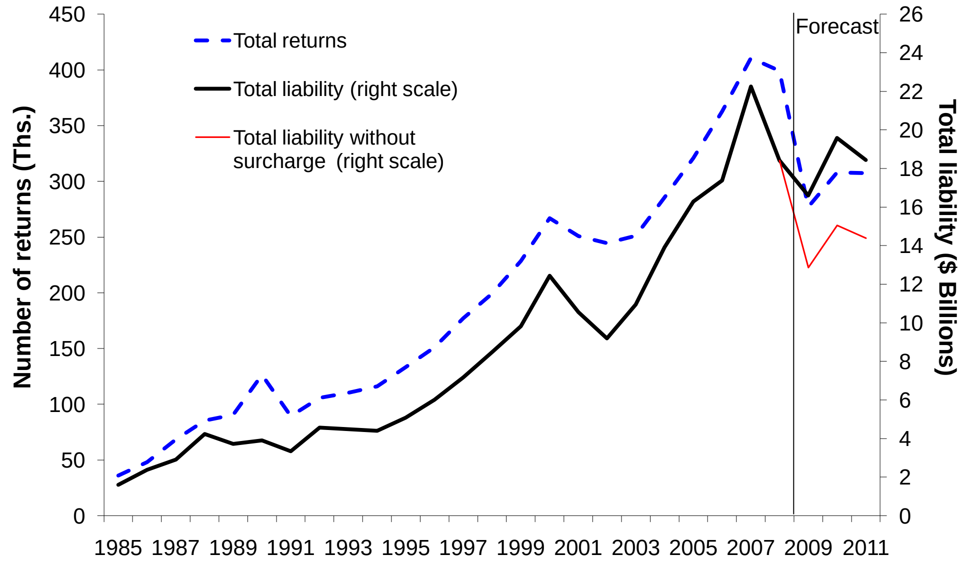
Out-year estimation of the income distribution is fraught with uncertainty since the share of income earned among the wealthiest taxpayers can fluctuate dramatically with such factors as the business cycle, financial markets, and changes in Federal and State tax treatment. As incomes rise, some taxpayers 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. A higher effective tax rate means more liability from a dollar of income earned by New York taxpayers.

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 17.4 percent. During the same period, the liability generated by these taxpayers grew even more rapidly at an annual average rate of 28.2 percent (see Figure 66). The large decline in NYSAGI and capital gains realizations estimated for 2008 and 2009 is expected to partially unwind the growth in the concentration of income, at least temporarily. Between 2007 and 2009, high-income taxpayers' share of returns is estimated to have dropped from 4.2 percent to 2.9 percent, while the share of NYSAGI dropped from 49.2 percent to 35.5 percent (see Figure 67). The liability generated by these high-income taxpayers is affected by a temporary tax increase for wealthier taxpayers for tax years 2009 to 2011.[11] Without the tax law change, the share of liability among these wealthier taxpayers would have fallen from 63.2 percent to 47.2 percent. Even with the higher tax rates for the wealthier taxpayers, the liability share declines to 53.5 percent.

Table 14 indicates that trends in both wage and nonwage income are responsible for the increasing concentration of income and liability over the ten-year span from 1997 to 2007. The share of nonwage income accruing to the top 25 percent of taxpayers grew 9.5 percentage points between 1997 and 2007, while the wage share grew 4.6 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 1997 have gone disproportionately to the top filers. The impact of the large declines in capital gains income and wages in a recession driven by the collapse of financial and real estate markets will likewise be felt disproportionately by the top filers whose wage and nonwage income shares are expected to be considerably lower in 2008 and 2009 than in the peak year of 2007.

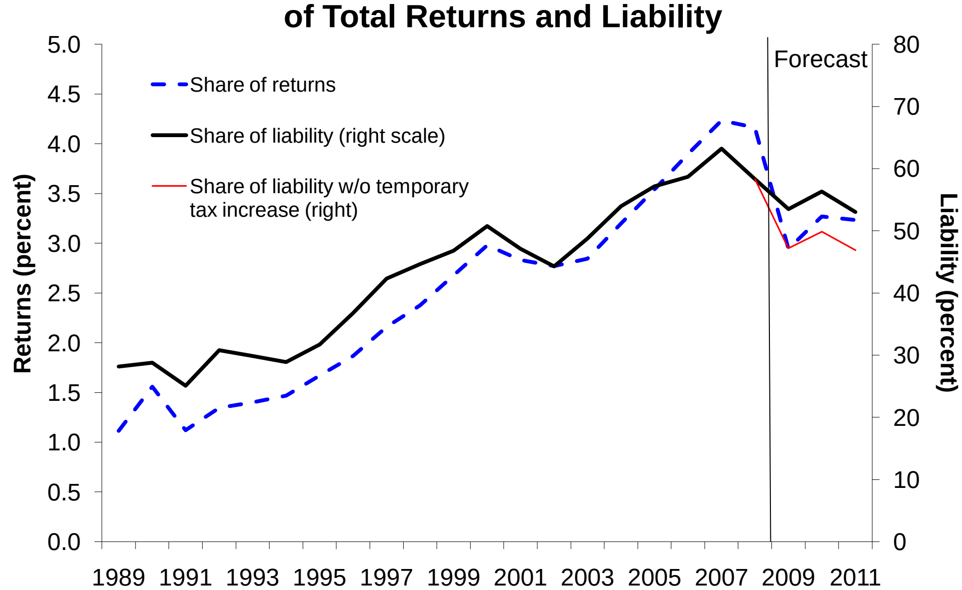
[11] See the "Personal Income Tax" section for more detail on the temporary income brackets and tax rates.

Figure 66
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 67
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 14
THE CONCENTRATION OF STATE INCOME AND LIABILITY
1997 and 2007

	Number of Returns	Gross Income	Wage Income	Nonwage Income	Liability
			1997		
Total ($ millions)	8,194,718	$408,920	$285,919	$123,001	$16,950
Share: Top 1%	–	22.9	14.4	42.6	33.6
Share: Top 5%	–	38.1	29.0	59.1	53.7
Share: Top 10%	–	48.5	40.4	67.4	65.0
Share: Top 25%	–	69.0	63.9	80.9	84.0
			2007		
Total ($ 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

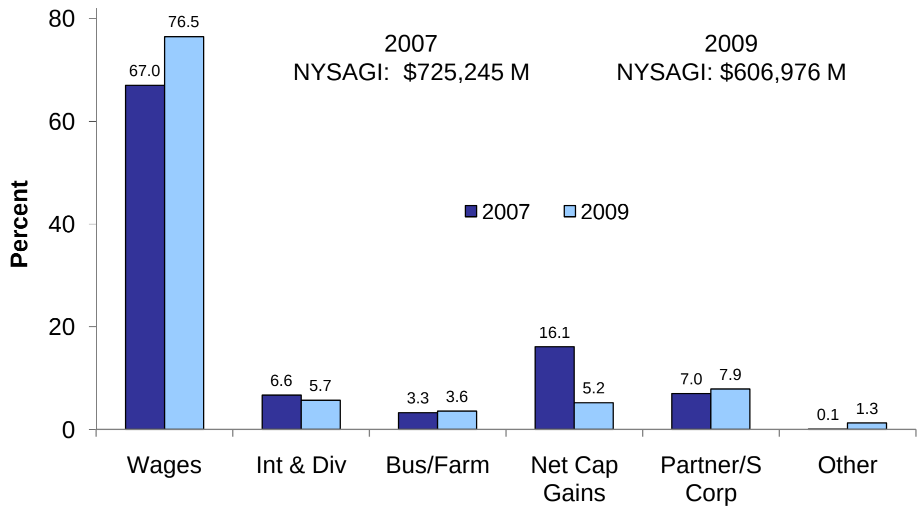
Note: Returns are ranked on the basis of gross income and based on a weighted statistical sample of all tax returns.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

Figure 68 and Figure 69 display the estimated composition of NYSAGI for 2007 and the projected composition for 2009, 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 two-year period.[12] With a 16.3 percent decline in NYSAGI over the two years for all taxpayers, the share of net capital gains income is projected to fall from 16.1 percent to 5.2 percent of NYSAGI, and the share of wages to increase from 67.0 percent to 76.5 percent.

High-income taxpayers are expected to experience a much larger 39.8 percent decline in NYSAGI over the two years and see their share of capital gains income drop from 29.4 percent to 13.1 percent of NYSAGI. The wage share is expected to increase from 45.3 percent to 51.0 percent for high-income taxpayers, and net partnership/S corporation income is expected to grow from 14.2 percent to 23.6 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.

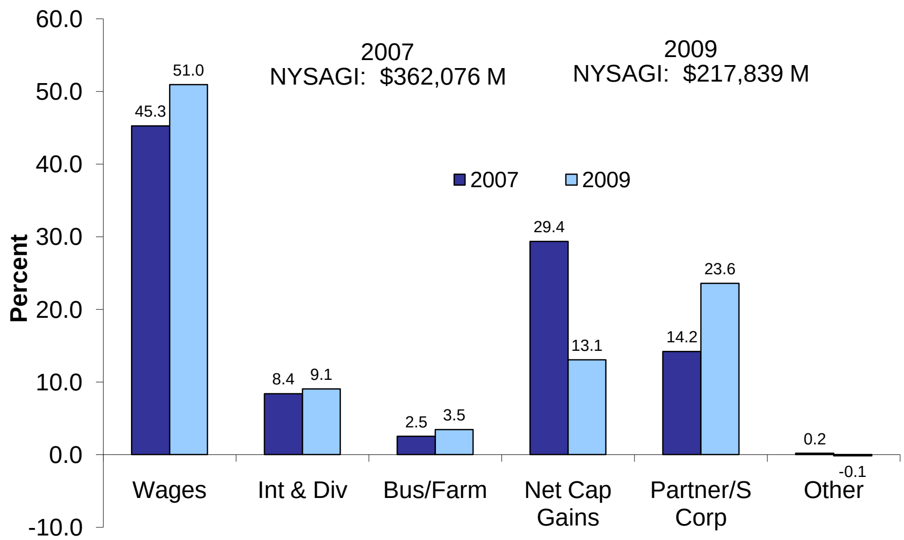
[12] Net capital gains and partnership/S corporation income in these figures are net of the corresponding aggregate losses.

Figure 68
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 69
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

With the national economy on track for a slow recovery from a severe recession and the State economy expected to follow suit in the first half of 2010, the Budget Division's forecast for the personal income tax provides a balanced picture of upside and downside risk, particularly with respect to its most volatile components. Equity markets and the hedge fund industry are showing signs of strengthening, providing some positive momentum that may lead to larger than expected capital gains realizations. However, uncertainty about the recovery of the real estate market, a struggling private equity industry, and potentially large unrealized capital gains losses provide some downside risks to the forecast.

TABLE 15
TABLE 1.A - SELECTED ECONOMIC INDICATORS
(Calendar Year)

	2008 (actual[1])	2009 (estimate)	2010 (forecast)	2011 (forecast)	2012 (forecast)	2013 (forecast)	1976-2008 Average[2]
U.S. Indicators[3]							
Gross Domestic Product (current dollars)	2.6	(1.3)	4.0	5.3	5.9	5.9	6.9
Gross Domestic Product	0.4	(2.5)	2.8	3.3	3.6	3.6	3.1
Consumption	(0.2)	(0.6)	2.2	2.9	3.1	3.2	3.3
Residential Fixed Investment	(22.9)	(19.6)	16.0	11.6	9.9	9.1	2.6
Nonresidential Fixed Investment	1.6	(18.1)	(1.2)	6.4	8.9	7.5	5.2
Change in Inventories (dollars)	(25.9)	(113.2)	13.6	40.9	61.1	55.5	29.5
Exports	5.4	(10.3)	8.6	8.2	8.4	8.6	6.0
Imports	(3.2)	(14.1)	8.8	7.7	8.3	7.8	6.9
Government Spending	3.1	2.0	0.9	1.6	2.0	2.5	2.2
Corporate Profits[4]	(11.8)	(5.1)	12.7	9.4	6.6	7.2	7.8
Personal Income	2.9	(1.4)	4.2	4.6	6.0	6.0	7.0
Wages	2.1	(3.3)	4.1	4.4	6.7	6.3	6.6
Nonagricultural Employment	(0.4)	(3.7)	(0.0)	1.5	2.1	2.3	1.8
Unemployment Rate (percent)	5.8	9.3	9.8	9.1	8.2	7.5	6.2
S&P 500 Stock Price Index	(17.3)	(22.5)	24.9	6.0	4.1	6.0	9.2
Federal Funds Rate	1.9	0.2	0.7	3.2	4.2	4.8	6.4
10-year Treasury Yield	3.7	3.3	3.9	5.3	5.9	6.1	7.5
Consumer Price Index	3.8	(0.3)	2.2	2.0	2.2	2.3	4.3
New York State Indicators							
Personal Income[5]	2.7	(3.5)	3.8	4.2	5.6	5.0	6.4
Wages and Salaries[5]							
Total	2.0	(6.1)	3.8	3.1	5.6	4.6	6.0
Without Bonus[6]	3.4	(1.3)	2.7	4.1	4.4	4.3	5.6
Bonus[6]	(4.5)	(31.3)	12.6	(3.5)	14.8	6.4	10.6
Finance and Insurance Bonuses[6]	(5.2)	(40.2)	21.3	(7.1)	21.7	7.2	18.3
Wage Per Employee	1.3	(3.7)	4.2	2.3	4.8	3.9	5.2
Property Income	0.9	(10.3)	3.2	5.6	4.9	5.1	7.5
Proprietors' Income	2.2	(2.3)	2.6	5.4	6.8	6.3	8.1
Transfer Income	6.9	10.2	4.6	4.5	5.2	5.0	6.5
Nonfarm Employment[5]							
Total	0.7	(2.6)	(0.4)	0.8	0.8	0.7	0.8
Private	0.6	(3.2)	(0.6)	0.9	0.8	0.7	0.8
Unemployment Rate (percent)	5.4	8.4	9.2	8.5	7.7	7.5	6.5
Composite CPI of New York[6]	3.9	0.3	2.4	2.5	2.9	2.9	4.4
New York State Adjusted Gross Income (NYSAGI)							
Capital Gains	(52.6)	(35.1)	58.7	(46.7)	32.9	9.5	18.8
Partnership/ S Corporation Gains	3.3	(6.4)	11.1	10.5	10.6	9.2	11.9
Business and Farm Income	(5.1)	(4.2)	7.0	6.1	6.0	5.3	7.5
Interest Income	(25.8)	(7.0)	3.9	11.6	9.0	6.5	6.9
Dividends	(13.4)	(14.1)	10.2	7.5	4.6	7.1	7.3
Total NYSAGI	(8.2)	(8.8)	8.6	(0.3)	7.4	5.6	6.6

[1] For NYSAGI variables, 2008 is an estimate.

[2] For the NYSAGI variables, averages are calculated using data through 2007. Partnership and S corporation gains data start in 1978, NYSAGI and business income 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 2000 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 Economy.com; NYS Department of Labor; NYS Department of Taxation and Finance; DOB staff estimates.

TABLE 16

TABLE 2.A - SELECTED ECONOMIC INDICATORS
(State Fiscal Year)

	2008-09 (actual)	2009-10 (estimate)	2010-11 (forecast)	2011-12 (forecast)	2012-13 (forecast)	2013-14 (forecast)	1976-77 - 2008-09 Average
U.S. Indicators[1]							
Gross Domestic Product (current dollars)	1.2	(0.3)	4.5	5.5	5.9	5.8	6.7
Gross Domestic Product	(0.9)	(1.2)	3.1	3.4	3.6	3.5	3.0
Consumption	(0.8)	0.2	2.6	3.0	3.1	3.2	3.2
Residential Fixed Investment	(22.9)	(12.3)	17.4	10.6	9.8	9.1	2.1
Nonresidential Fixed Investment	(4.5)	(15.4)	1.1	7.6	8.7	7.1	5.1
Change in Inventories (dollars)	(54.5)	(88.4)	26.9	44.5	63.1	51.5	28.4
Exports	0.1	(5.9)	8.5	8.3	8.5	8.6	6.0
Imports	(7.1)	(9.0)	9.0	7.9	8.3	7.8	6.7
Government Spending	2.7	2.1	0.6	1.8	2.1	2.5	2.2
Corporate Profits[2]	(15.2)	4.3	10.5	9.0	6.2	7.5	7.3
Personal Income	1.6	(0.2)	4.4	5.3	5.8	6.1	6.9
Wages	0.5	(2.0)	4.4	5.6	6.2	6.3	6.5
Nonagricultural Employment	(1.3)	(3.4)	0.8	1.6	2.2	2.3	1.7
Unemployment Rate (percent)	6.6	9.7	9.6	8.9	8.0	7.3	6.2
S&P 500 Stock Price Index	(25.5)	(5.3)	17.4	4.9	4.3	6.7	8.7
Federal Funds Rate	1.2	0.2	1.3	3.5	4.4	4.8	6.3
10-year Treasury Yield	3.4	3.4	4.3	5.5	6.0	6.0	7.4
Consumer Price Index	2.7	0.3	2.0	2.1	2.2	2.3	4.3
New York State Indicators							
Personal Income[3]	(1.0)	(0.3)	4.0	5.3	5.1	5.0	6.5
Wages and Salaries[3]							
Total	(3.2)	(1.2)	4.0	4.9	4.7	4.6	6.1
Without Bonus[4]	2.1	(0.5)	3.2	4.2	4.4	4.3	5.6
Bonus[4]	(29.1)	(5.7)	10.2	9.8	6.5	6.3	12.0
Finance and Insurance Bonuses	(38.2)	(5.0)	16.9	14.0	7.5	7.1	16.6
Wage Per Employee	(2.9)	1.3	3.9	4.0	3.8	3.9	5.2
Property Income	(4.3)	(8.2)	5.0	5.3	5.0	5.0	7.5
Proprietors' Income	1.1	(1.4)	3.2	6.1	6.7	6.3	8.1
Transfer Income	7.9	10.6	3.0	5.1	5.1	4.9	6.6
Nonfarm Employment[3]							
Total	(0.2)	(2.4)	0.0	0.9	0.8	0.7	0.8
Private	(0.4)	(3.0)	(0.0)	1.0	0.8	0.7	0.9
Unemployment Rate (percent)	6.2	8.8	9.1	8.4	7.6	7.4	6.6
Composite CPI of New York[4]	3.1	0.8	2.2	2.6	3.0	2.9	4.3

[1] All indicators are percent changes except change in inventories, the unemployment rate, and interest rates; all GDP components refer to chained 2000 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 Economy.com; 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 30 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 2010-11 Executive Budget includes an initiative that would devote annual budgetary surpluses to provide property tax relief to New Yorkers via a property tax circuit breaker credit.

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 regional and state 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 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. In 2007, the gap was $3.96, or 36.3 percent above the national average.

State Taxes

- The "residential adjustment" made to New York personal income (the denominator in the tax-to-income ratio) is not made to New York State personal income tax receipts, meaning the New York tax-to-income ratios discussed here are inherently overstated.

- New York is an average tax state when looking only at state taxes.

- New York taxes per $100 of personal income actually declined from $7.39 in 1977 to $7.01 in 2007.

- New York's state tax rank declined from 10th highest in 1977, to 21st highest in 2007.

- New York's tax burden as measured by the ratio of state taxes to income was one cent above the national average in 2007.

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. The local Medicaid share in New York was addressed as part of the local Medicaid relief program enacted with the 2005-06 Budget. The cost of the Medicaid program is gradually being shifted to the State and should act to reduce taxing pressures at the local level over time.

- New York City uniquely imposes taxes which comprise a large portion of New York's total local burden. In 2007, $1.68 of New York's local burden of $7.87 per $100 of State personal income was due to New York City (NYC) personal and corporate income taxes. This accounted for more than 21 percent of the total local burden.

- Higher than average property taxes as a share of income (44.4 percent above the 2007 national average) in New York are tied, for the most part, to rapidly escalating school property taxes over the past several years.

Property Taxes in New York State

- 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, the ten highest property tax counties in the nation (and 16 of the top 20) in 2008 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 2008. Using this metric, five of the ten highest property tax counties in the nation (and six of the top 25) in 2008 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 2008 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.

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 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 2009. 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 2007, respectively. The New York rank in terms of state taxes went from 10th highest to 21st highest over this period.

Tables 4 and 5 report local taxes as a share of state personal income by state in 1977 and in 2007. In 2007, New York had the highest local tax burden using this measure. New York fell from $4.12 above the mean local tax burden in 1977 to $3.94 in 2007, but

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

some of this decrease is captured in the general decrease in variation amongst local taxes across states. The remaining 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.

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 2007, the latest year for which complete state and local tax information is 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 1977-2007 period. During this time, New York's state tax burden fell relative to the mean, and has been below the mean for all but two of the last ten recorded years. Table 8b reports changes in the state and local tax-to-income ratio over the 1977-2007 period. In 1977 state and local taxes as a percent of personal income were 4.96 percentage points above the national average. In 2007, New York was 3.96 percentage points above the national average. The average state and local tax-to-income ratio has remained relatively constant nationwide over the thirty year period, while the New York ratio has declined overall in spite of a recent increase. 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 790 counties in 2008 that had populations of at least 65,000 as of July 1, 2008. 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 790 U.S. counties covered, and are not relative solely to the counties of New York State.

[2] *Property Taxes on Owner-Occupied Housing by County, 2005-2008.* Tax Foundation, September 22, 2009.

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 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 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 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 State Adjusted Gross Income (NYSAGI) 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 capital 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 2009 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	10
Alaska	0	NA	9.4	0	7
Arizona	4.54	$300,000	6.97	5.6	10.6
Arkansas	7	$31,700	6.5	6	6
California	9.55	$92,699	8.84	8.25	10.75
Colorado	6.5	Flat Rate	4.63	2.9	7.62
Connecticut	5	$1,000,001	7.5	6	6
Delaware	5.95	$60,000	8.7	0	0
Florida	0	NA	5.5	6	7.5
Georgia	6	$10,000	6	4	8
Hawaii	11	$400,000	6.4	4	4.5
Idaho	7.8	$52,836	7.6	6	6
Illinois	3	Flat Rate	7.3	6.25	10.25
Indiana	3.4	Flat Rate	8.5	7	7
Iowa	8.98	$63,316	12	6	7
Kansas	6.45	$60,000	7.05	5.3	8.925
Kentucky	6	$75,000	6	6	6
Louisiana	6	$50,000	8	4	11
Maine	8.5	$40,350	8.93	5	5
Maryland	6.25	$1,000,000	8.25	6	6
Massachusetts	5.3	Flat Rate	9.5	6.25	6.25
Michigan	4.35	Flat Rate	4.95	6	6
Minnesota	7.85	$131,971	9.8	6.875	7.875
Mississippi	5	$10,000	5	7	11.5
Missouri	6	$9,000	6.25	4.225	9.6
Montana	6.9	$15,401	6.75	0	0
Nebraska	6.84	$54,000	7.81	5.5	7
Nevada	0	NA	0	6.85	8.1
New Hampshire	State Income tax limited to Interest Income and Dividends only		8.5	0	0
New Jersey	10.75	$1,000,001	9	7	7
New Mexico	4.9	$34,001	7.6	5	8.188
New York[2]	**8.97**	**$500,001**	**7.1**	**4**	**8.875**
North Carolina	8	$200,000	6.9	5.75	8.25
North Dakota	4.86	$372,951	6.5	5	7.75
Ohio	5.925	$200,000	0.26	5.5	7.75
Oklahoma	5.5	$15,001	6	4.5	11
Oregon	11	$500,001	7.9	0	0
Pennsylvania	3.07	Flat Rate	9.99	6	8
Rhode Island	9.9	$372,951	9	7	7
South Carolina	7	$13,701	5	6	8
South Dakota	0	NA	0	4	8
Tennessee	State Income tax limited to Interest Income and Dividends only		6.5	7	9.75
Texas	0	NA	0	4.7	8.35
Utah	5	Flat Rate	5	6	7
Vermont	9.4	$372,951	8.5	4	5
Virginia	5.75	$17,000	6	6.5	9.5
Washington	0	NA	0	6	6
West Virginia	6.5	$60,000	8.5	5	5.6
Wisconsin	7.75	$300,001	7.9	4	6
Wyoming	0	NA	0	0	0
Mean Values	**5.61**		**6.54**	**4.85**	**5.99**
Standard Deviation	**2.99**		**2.82**	**1.87**	**2.20**
Coefficient of Variation	**53.31**		**43.08**	**38.56**	**36.73**

[1] **Source:** Commerce Clearinghouse. Reflects combined state and highest local rate for each state.

[2] New York State top corporate rate on qualifying manufacturers and emerging technology taxpayers is 6.5 percent.

[2] New York State top PIT rate is temporary and is scheduled to return to 6.85 percent effective January 1, 2012.

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 - 2007 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	5.91	38	2.01	35	34.0	2.93	31	49.5	0.34	34	5.7	0.64	30	10.7
Alaska	13.51	1	0.00	50	0.0	0.86	49	6.4	2.98	1	22.1	9.67	1	71.5
Arizona	6.91	22	1.80	38	26.0	3.98	10	57.5	0.47	22	6.8	0.66	27	9.6
Arkansas	8.66	6	2.54	24	29.3	4.52	5	52.1	0.43	29	4.9	1.18	11	13.6
California	7.55	14	3.51	4	46.5	2.67	35	35.3	0.73	7	9.7	0.64	28	8.5
Colorado	4.62	47	2.40	28	52.0	1.73	45	37.4	0.24	43	5.2	0.25	49	5.3
Connecticut	6.67	26	3.29	7	49.3	2.58	37	38.6	0.43	27	6.4	0.38	44	5.6
Delaware	8.39	7	2.96	13	35.3	1.33	48	15.8	0.87	4	10.4	3.23	4	38.5
Florida	5.55	44	0.00	50	0.0	4.38	7	78.9	0.35	33	6.3	0.82	20	14.8
Georgia	5.74	42	2.76	15	48.0	2.46	38	42.9	0.32	36	5.6	0.20	50	3.5
Hawaii	10.15	3	3.11	11	30.7	6.44	1	63.4	0.20	45	2.0	0.40	41	3.9
Idaho	7.44	15	2.96	14	39.8	3.51	19	47.2	0.40	31	5.3	0.57	34	7.7
Illinois	5.72	43	1.79	39	31.3	2.84	34	49.6	0.56	13	9.8	0.53	36	9.3
Indiana	6.66	28	2.19	31	32.9	3.69	12	55.3	0.47	23	7.0	0.31	48	4.7
Iowa	6.22	36	2.56	21	41.2	2.66	36	42.8	0.31	37	5.0	0.68	25	11.0
Kansas	6.81	25	2.71	17	39.8	3.02	28	44.3	0.52	16	7.7	0.56	35	8.2
Kentucky	7.58	13	2.33	30	30.7	3.52	18	46.4	0.76	6	10.0	0.98	16	12.9
Louisiana	7.15	19	2.09	33	29.3	3.57	16	50.0	0.49	20	6.9	0.99	15	13.9
Maine	8.01	10	3.04	12	37.9	3.78	11	47.2	0.41	30	5.1	0.78	22	9.7
Maryland	5.76	41	2.55	23	44.2	2.22	41	38.5	0.30	39	5.2	0.69	24	12.1
Massachusetts	6.53	32	3.60	3	55.1	1.89	44	29.0	0.66	9	10.2	0.37	45	5.7
Michigan	6.89	23	1.86	37	27.0	3.35	22	48.6	0.52	17	7.5	1.16	12	16.8
Minnesota	8.34	8	3.40	6	40.7	3.43	20	41.1	0.56	14	6.7	0.96	17	11.5
Mississippi	7.68	12	1.68	40	21.9	4.91	4	64.0	0.44	26	5.8	0.64	29	8.3
Missouri	5.36	46	2.42	27	45.2	2.41	39	45.0	0.20	46	3.6	0.33	47	6.2
Montana	7.31	18	2.62	18	35.9	1.67	46	22.9	0.56	12	7.7	2.45	5	33.5
Nebraska	6.34	35	2.57	20	40.6	3.04	27	48.0	0.33	35	5.2	0.40	42	6.3
Nevada	6.20	37	0.00	50	0.0	5.04	3	81.3	0.00	47	0.0	1.16	13	18.7
New Hampshire	3.99	50	0.20	42	4.9	1.35	47	33.8	1.09	2	27.4	1.35	10	33.9
New Jersey	6.89	24	2.74	16	39.8	2.85	33	41.3	0.68	8	9.8	0.63	31	9.1
New Mexico	9.17	4	1.95	36	21.3	4.39	6	47.9	0.76	5	8.3	2.06	7	22.5
New York	**7.01**	**21**	**3.84**	**2**	**54.7**	**2.17**	**42**	**30.9**	**0.60**	**10**	**8.6**	**0.41**	**40**	**5.8**
North Carolina	7.41	16	3.47	5	46.8	2.91	32	39.2	0.51	18	6.9	0.52	37	7.0
North Dakota	7.75	11	1.38	41	17.8	3.52	17	45.4	0.59	11	7.7	2.26	6	29.2
Ohio	6.57	30	2.46	26	37.4	3.15	26	47.9	0.28	40	4.3	0.68	26	10.3
Oklahoma	6.55	31	2.17	32	33.2	2.33	40	35.6	0.44	25	6.8	1.60	8	24.4
Oregon	5.90	39	4.26	1	72.3	0.60	50	10.1	0.31	38	5.2	0.73	23	12.4
Pennsylvania	6.40	33	2.04	34	31.8	3.01	29	47.0	0.47	21	7.4	0.88	19	13.8
Rhode Island	6.58	29	2.58	19	39.2	3.23	25	49.0	0.43	28	6.5	0.34	46	5.2
South Carolina	6.35	34	2.37	29	37.3	3.34	23	52.7	0.23	44	3.6	0.41	39	6.4
South Dakota	4.46	49	0.00	50	0.0	3.59	15	80.6	0.27	42	6.1	0.60	32	13.4
Tennessee	5.54	45	0.12	43	2.2	4.07	9	73.4	0.55	15	9.8	0.81	21	14.5
Texas	4.56	48	0.00	50	0.0	3.60	14	78.9	0.00	48	0.0	0.96	18	21.1
Utah	7.40	17	3.22	8	43.5	3.30	24	44.6	0.50	19	6.8	0.38	43	5.2
Vermont	11.02	2	2.50	25	22.7	3.63	13	33.0	0.36	32	3.3	4.53	3	41.1
Virginia	5.82	40	3.19	9	54.9	1.90	43	32.7	0.27	41	4.7	0.45	38	7.8
Washington	6.66	27	0.00	50	0.0	5.22	2	78.3	0.00	49	0.0	1.45	9	21.7
West Virginia	8.74	5	2.56	22	29.3	4.17	8	47.7	1.02	3	11.6	0.99	14	11.4
Wisconsin	7.13	20	3.12	10	43.7	2.97	30	41.7	0.45	24	6.4	0.59	33	8.2
Wyoming	8.23	9	0.00	50	0.0	3.36	21	40.8	0.00	50	0.0	4.88	2	59.2
Mean	**7.00**		**2.18**		**31.6**	**3.14**		**46.2**	**0.49**		**6.9**	**1.18**		**15.3**
Standard Deviation	**1.64**		**1.15**			**1.11**			**0.42**			**1.54**		
Coefficient of Variation	**23.39**		**52.82**			**35.38**			**85.76**			**130.54**		
NYS Diff. from Mean	**0.02**		**1.66**		**23.2**	**(0.97)**		**(15.3)**	**0.11**		**1.7**	**(0.78)**		**(9.5)**
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	**4.12**		**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 - 2007 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	3.06	39	1.22	49	39.7	1.36	7	44.3	0.49	9	16.0
Alaska	4.62	12	3.56	13	77.0	0.92	18	20.0	0.14	30	3.1
Arizona	4.28	21	2.54	35	59.3	1.44	5	33.7	0.30	21	7.0
Arkansas	2.09	49	0.84	50	40.1	1.21	10	57.7	0.05	48	2.3
California	3.83	28	2.59	31	67.7	0.90	19	23.5	0.33	17	8.7
Colorado	4.72	9	2.84	28	60.1	1.58	2	33.4	0.31	20	6.5
Connecticut	4.28	22	4.19	6	97.8	0.00	49	0.0	0.09	42	2.1
Delaware	2.17	48	1.64	44	75.6	0.02	46	1.1	0.51	7	23.3
Florida	4.88	5	3.83	10	78.5	0.73	22	14.9	0.33	19	6.7
Georgia	4.51	15	2.96	24	65.6	1.54	3	34.2	0.01	50	0.2
Hawaii	2.94	41	2.27	39	77.1	0.34	30	11.6	0.33	18	11.2
Idaho	2.59	47	2.35	37	90.7	0.07	40	2.9	0.17	27	6.4
Illinois	4.75	8	3.87	8	81.5	0.70	24	14.7	0.18	26	3.7
Indiana	3.38	36	2.92	25	86.5	0.05	43	1.3	0.41	13	12.2
Iowa	4.29	20	3.48	16	81.0	0.67	25	15.5	0.15	29	3.5
Kansas	4.40	17	3.34	18	75.9	0.95	16	21.6	0.11	36	2.5
Kentucky	2.92	42	1.60	45	54.8	0.38	29	12.9	0.94	5	32.3
Louisiana	4.30	19	1.67	43	38.9	2.51	1	58.3	0.12	32	2.9
Maine	4.58	13	4.52	4	98.6	0.00	48	0.1	0.06	47	1.3
Maryland	4.57	14	2.27	38	49.7	0.20	33	4.3	2.10	2	45.9
Massachusetts	3.60	33	3.48	15	96.6	0.05	41	1.4	0.07	46	1.9
Michigan	3.83	27	3.53	14	92.2	0.08	39	2.1	0.22	23	5.7
Minnesota	2.77	45	2.56	34	92.3	0.11	37	3.8	0.11	39	3.8
Mississippi	2.81	44	2.59	32	92.4	0.11	36	3.9	0.11	40	3.7
Missouri	4.25	24	2.62	30	61.6	1.20	11	28.3	0.43	12	10.1
Montana	2.99	40	2.85	27	95.2	0.01	47	0.5	0.13	31	4.3
Nebraska	4.78	7	3.71	12	77.7	0.56	26	11.8	0.51	8	10.6
Nevada	4.07	25	2.65	29	65.0	0.94	17	23.0	0.49	10	12.0
New Hampshire	4.71	11	4.63	3	98.4	0.00	50	0.0	0.08	45	1.6
New Jersey	5.13	2	5.02	1	97.9	0.03	45	0.5	0.08	44	1.6
New Mexico	3.20	38	1.58	46	49.4	1.42	6	44.3	0.20	24	6.3
New York	**7.87**	**1**	**4.23**	**5**	**53.7**	**1.44**	**4**	**18.4**	**2.20**	**1**	**27.9**
North Carolina	3.22	37	2.40	36	74.5	0.71	23	22.0	0.11	35	3.5
North Dakota	3.58	34	3.03	22	84.7	0.46	28	12.9	0.08	43	2.3
Ohio	5.07	3	3.37	17	66.4	0.49	27	9.7	1.21	3	23.9
Oklahoma	2.92	43	1.53	47	52.4	1.28	8	43.8	0.11	37	3.7
Oregon	3.81	29	3.00	23	78.6	0.25	31	6.4	0.57	6	14.9
Pennsylvania	4.45	16	3.20	19	71.9	0.10	38	2.2	1.15	4	25.9
Rhode Island	4.81	6	4.67	2	97.1	0.03	44	0.7	0.11	38	2.2
South Carolina	3.74	31	3.13	20	83.8	0.21	32	5.6	0.40	14	10.6
South Dakota	3.97	26	2.89	26	72.7	0.96	15	24.3	0.12	33	3.0
Tennessee	3.45	35	2.18	40	63.2	1.03	13	30.0	0.24	22	6.9
Texas	4.72	10	3.87	9	82.0	0.74	21	15.6	0.11	34	2.4
Utah	3.79	30	2.56	33	67.5	1.08	12	28.5	0.15	28	4.0
Vermont	1.56	50	1.47	48	94.3	0.05	42	3.1	0.04	49	2.6
Virginia	4.28	23	3.12	21	72.9	0.76	20	17.8	0.40	15	9.3
Washington	3.70	32	2.14	41	57.8	1.22	9	32.9	0.35	16	9.4
West Virginia	2.75	46	2.13	42	77.5	0.18	34	6.6	0.44	11	15.9
Wisconsin	4.36	18	4.08	7	93.6	0.18	35	4.0	0.10	41	2.4
Wyoming	4.97	4	3.78	11	76.2	1.00	14	20.2	0.18	25	3.7
Mean	**3.93**		**2.93**		**74.7**	**0.64**		**16.6**	**0.35**		**8.7**
Std. Dev.	**1.02**		**0.96**			**0.57**			**0.45**		
CV	**25.93**		**32.61**			**88.78**			**127.06**		
NYS Diff.	**3.94**		**1.30**		**(21.0)**	**0.80**		**1.8**	**1.84**		**19.2**

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**
Alabama	6.41	2.16	8.56
Alaska	15.69	3.26	18.96
Arizona	7.21	4.75	11.97
Arkansas	6.43	2.03	8.47
California	6.57	5.89	12.46
Colorado	5.30	5.29	10.58
Connecticut	5.43	4.82	10.24
Delaware	8.32	1.96	10.28
Florida	5.28	3.29	8.57
Georgia	5.90	3.66	9.56
Hawaii	8.96	2.44	11.40
Idaho	6.44	3.13	9.56
Illinois	5.57	4.53	10.10
Indiana	5.59	3.34	8.92
Iowa	6.11	4.13	10.24
Kansas	5.74	4.27	10.01
Kentucky	7.19	2.39	9.58
Louisiana	7.00	3.17	10.17
Maine	6.92	3.67	10.59
Maryland	6.20	4.50	10.70
Massachusetts	6.70	6.52	13.23
Michigan	6.65	4.31	10.96
Minnesota	8.29	3.74	12.03
Mississippi	7.53	2.29	9.82
Missouri	4.72	3.93	8.66
Montana	6.12	5.28	11.41
Nebraska	5.67	5.62	11.29
Nevada	5.69	4.09	9.78
New Hampshire	3.34	5.45	8.79
New Jersey	5.01	6.10	11.10
New Mexico	8.04	1.95	10.00
New York	**7.39**	**8.09**	**15.48**
North Carolina	6.97	2.60	9.57
North Dakota	7.12	3.58	10.70
Ohio	4.42	3.97	8.40
Oklahoma	6.04	2.91	8.95
Oregon	5.30	5.05	10.34
Pennsylvania	6.29	3.92	10.21
Rhode Island	6.58	4.46	11.04
South Carolina	7.01	2.31	9.31
South Dakota	4.58	5.33	9.91
Tennessee	5.71	3.34	9.05
Texas	5.18	3.74	8.92
Utah	6.36	3.55	9.91
Vermont	7.59	5.26	12.85
Virginia	5.48	3.78	9.26
Washington	7.13	3.08	10.21
West Virginia	7.86	2.20	10.06
Wisconsin	8.01	3.88	11.89
Wyoming	6.95	5.10	12.05
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**	**4.12**	**4.96**
Sources: Moody's Economy.com, DOB Staff Estimates			

Table 6b - State/Local Split of 2007 Tax-to-Income Ratio			
State	**State Taxes**	**Local Taxes**	**State/Local**
Alabama	5.91	3.06	8.97
Alaska	13.51	4.62	18.14
Arizona	6.91	4.28	11.19
Arkansas	8.66	2.09	10.75
California	7.55	3.83	11.38
Colorado	4.62	4.72	9.34
Connecticut	6.67	4.28	10.95
Delaware	8.39	2.17	10.56
Florida	5.55	4.88	10.43
Georgia	5.74	4.51	10.25
Hawaii	10.15	2.94	13.09
Idaho	7.44	2.59	10.03
Illinois	5.72	4.75	10.46
Indiana	6.66	3.38	10.04
Iowa	6.22	4.29	10.52
Kansas	6.81	4.40	11.21
Kentucky	7.58	2.92	10.50
Louisiana	7.15	4.30	11.45
Maine	8.01	4.58	12.58
Maryland	5.76	4.57	10.33
Massachusetts	6.53	3.60	10.13
Michigan	6.89	3.83	10.72
Minnesota	8.34	2.77	11.11
Mississippi	7.68	2.81	10.49
Missouri	5.36	4.25	9.61
Montana	7.31	2.99	10.30
Nebraska	6.34	4.78	11.11
Nevada	6.20	4.07	10.27
New Hampshire	3.99	4.71	8.70
New Jersey	6.89	5.13	12.03
New Mexico	9.17	3.20	12.37
New York	**7.01**	**7.87**	**14.88**
North Carolina	7.41	3.22	10.63
North Dakota	7.75	3.58	11.33
Ohio	6.57	5.07	11.64
Oklahoma	6.55	2.92	9.46
Oregon	5.90	3.81	9.71
Pennsylvania	6.40	4.45	10.85
Rhode Island	6.58	4.81	11.39
South Carolina	6.35	3.74	10.09
South Dakota	4.46	3.97	8.43
Tennessee	5.54	3.45	8.99
Texas	4.56	4.72	9.27
Utah	7.40	3.79	11.19
Vermont	11.02	1.56	12.58
Virginia	5.82	4.28	10.10
Washington	6.66	3.70	10.37
West Virginia	8.74	2.75	11.49
Wisconsin	7.13	4.36	11.50
Wyoming	8.23	4.97	13.20
Mean Values	**7.00**	**3.93**	**10.92**
Standard Deviation	**1.64**	**1.02**	**1.58**
Coefficient of Variation	**23.39**	**25.93**	**14.46**
NYS Diff. from Avg.	**0.02**	**3.94**	**3.96**
Sources: U.S. Census Bureau, DOB Staff Estimates			

Table 7 - 2007 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	2.01	0.02	0.34	0.00	2.93	1.36	1.22	1.10	8.97
Alaska	0.00	0.00	2.98	0.00	0.86	0.92	3.56	9.81	18.14
Arizona	1.80	0.00	0.47	0.00	3.98	1.44	2.54	0.96	11.19
Arkansas	2.54	0.00	0.43	0.00	4.52	1.21	0.84	1.23	10.75
California	3.51	0.00	0.73	0.00	2.67	0.90	2.59	0.97	11.38
Colorado	2.40	0.00	0.24	0.00	1.73	1.58	2.84	0.55	9.34
Connecticut	3.29	0.00	0.43	0.00	2.58	0.00	4.19	0.47	10.95
Delaware	2.96	0.14	0.87	0.00	1.33	0.02	1.64	3.60	10.56
Florida	0.00	0.00	0.35	0.00	4.38	0.73	3.83	1.15	10.43
Georgia	2.76	0.00	0.32	0.00	2.46	1.54	2.96	0.21	10.25
Hawaii	3.11	0.00	0.20	0.00	6.44	0.34	2.27	0.73	13.09
Idaho	2.96	0.00	0.40	0.00	3.51	0.07	2.35	0.74	10.03
Illinois	1.79	0.00	0.56	0.00	2.84	0.70	3.87	0.71	10.46
Indiana	2.19	0.29	0.47	0.00	3.69	0.05	2.92	0.44	10.04
Iowa	2.56	0.07	0.31	0.00	2.66	0.67	3.48	0.76	10.52
Kansas	2.71	0.00	0.52	0.00	3.02	0.95	3.34	0.67	11.21
Kentucky	2.33	0.77	0.76	0.09	3.52	0.38	1.60	1.06	10.50
Louisiana	2.09	0.00	0.49	0.00	3.57	2.51	1.67	1.12	11.45
Maine	3.04	0.00	0.41	0.00	3.78	0.00	4.52	0.84	12.58
Maryland	2.55	1.55	0.30	0.00	2.22	0.20	2.27	1.24	10.33
Massachusetts	3.60	0.00	0.66	0.00	1.89	0.05	3.48	0.44	10.13
Michigan	1.86	0.14	0.52	0.00	3.35	0.08	3.53	1.24	10.72
Minnesota	3.40	0.00	0.56	0.00	3.43	0.11	2.56	1.07	11.11
Mississippi	1.68	0.00	0.44	0.00	4.91	0.11	2.59	0.74	10.49
Missouri	2.42	0.17	0.20	0.00	2.41	1.20	2.62	0.59	9.61
Montana	2.62	0.00	0.56	0.00	1.67	0.01	2.85	2.58	10.30
Nebraska	2.57	0.00	0.33	0.00	3.04	0.56	3.71	0.90	11.11
Nevada	0.00	0.00	0.00	0.00	5.04	0.94	2.65	1.65	10.27
New Hampshire	0.20	0.00	1.09	0.00	1.35	0.00	4.63	1.43	8.70
New Jersey	2.74	0.00	0.68	0.00	2.85	0.03	5.02	0.71	12.03
New Mexico	1.95	0.00	0.76	0.00	4.39	1.42	1.58	2.26	12.37
New York	**3.84**	**0.90**	**0.60**	**0.78**	**2.17**	**1.44**	**4.23**	**0.93**	**14.88**
North Carolina	3.47	0.00	0.51	0.00	2.91	0.71	2.40	0.63	10.63
North Dakota	1.38	0.00	0.59	0.00	3.52	0.46	3.03	2.35	11.33
Ohio	2.46	1.02	0.28	0.02	3.15	0.49	3.37	0.86	11.64
Oklahoma	2.17	0.00	0.44	0.00	2.33	1.28	1.53	1.71	9.46
Oregon	4.26	0.01	0.31	0.04	0.60	0.25	3.00	1.24	9.71
Pennsylvania	2.04	0.72	0.47	0.00	3.01	0.10	3.20	1.31	10.85
Rhode Island	2.58	0.00	0.43	0.00	3.23	0.03	4.67	0.45	11.39
South Carolina	2.37	0.00	0.23	0.00	3.34	0.21	3.13	0.81	10.09
South Dakota	0.00	0.00	0.27	0.00	3.59	0.96	2.89	0.72	8.43
Tennessee	0.12	0.00	0.55	0.00	4.07	1.03	2.18	1.04	8.99
Texas	0.00	0.00	0.00	0.00	3.60	0.74	3.87	1.07	9.27
Utah	3.22	0.00	0.50	0.00	3.30	1.08	2.56	0.53	11.19
Vermont	2.50	0.00	0.36	0.00	3.63	0.05	1.47	4.57	12.58
Virginia	3.19	0.00	0.27	0.00	1.90	0.76	3.12	0.85	10.10
Washington	0.00	0.00	0.00	0.00	5.22	1.22	2.14	1.79	10.37
West Virginia	2.56	0.00	1.02	0.00	4.17	0.18	2.13	1.43	11.49
Wisconsin	3.12	0.00	0.45	0.00	2.97	0.18	4.08	0.69	11.50
Wyoming	0.00	0.00	0.00	0.00	3.36	1.00	3.78	5.06	13.20
Mean Values	**2.18**	**0.12**	**0.49**	**0.02**	**3.14**	**0.64**	**2.93**	**1.40**	**10.92**
Standard Deviation	**1.15**	**0.31**	**0.42**	**0.11**	**1.11**	**0.57**	**0.96**	**1.53**	**1.58**
Coefficient of Variation	**52.82**	**268.43**	**85.76**	**583.87**	**35.38**	**88.78**	**32.61**	**109.31**	**14.46**
NYS Diff. from Avg.	**1.66**	**0.78**	**0.11**	**0.76**	**(0.97)**	**0.80**	**1.30**	**(0.47)**	**3.96**
Sources: U.S. Census Bureau, DOB Staff Estimates									

Table 8a - State Tax Burdens as a Pct. Of Personal Inc., 1977 - 2007					
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)
2007	7.00	7.01	1.64	23.39	0.02
97-07 avg.	**6.68**	**6.40**	**1.29**	**19.28**	**(0.28)**

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 - 2007					
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
2007	10.92	14.88	1.58	14.46	3.96
97-07 avg.	**10.47**	**13.65**	**1.14**	**10.85**	**3.18**

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

Table 9 - 2008 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
Niagara County	$2,797	150	$96,900	2.9%	1	$55,778	5.0%	57
Monroe County	$3,705	77	$130,000	2.9%	2	$65,521	5.7%	43
Wayne County	$3,187	113	$113,000	2.8%	3	$63,330	5.0%	56
Chautauqua County	$2,021	305	$77,800	2.6%	4	$51,146	4.0%	157
Cayuga County	$2,460	221	$96,900	2.5%	5	$56,877	4.3%	101
Cattaraugus County	$1,970	322	$78,200	2.5%	6	$48,938	4.0%	146
Onondaga County	$3,160	116	$125,900	2.5%	7	$68,191	4.6%	77
Erie County	$2,968	134	$119,700	2.5%	8	$62,855	4.7%	73
Oswego County	$2,155	273	$88,900	2.4%	9	$53,535	4.0%	147
Chemung County	$2,026	302	$85,200	2.4%	10	$50,872	4.0%	154
Madison County	$2,623	189	$113,600	2.3%	12	$58,137	4.5%	86
Steuben County	$1,928	335	$84,000	2.3%	13	$51,248	3.8%	178
Broome County	$2,271	251	$99,100	2.3%	14	$58,774	3.9%	164
Ontario County	$3,052	124	$134,400	2.3%	15	$66,396	4.6%	81
Schenectady County	$3,779	76	$170,100	2.2%	19	$68,403	5.5%	44
Oneida County	$2,272	250	$103,800	2.2%	20	$59,623	3.8%	174
Tompkins County	$3,552	89	$168,100	2.1%	25	$68,932	5.2%	52
St. Lawrence County	$1,543	439	$78,000	2.0%	39	$52,693	2.9%	345
Rensselaer County	$3,427	95	$184,300	1.9%	63	$69,990	4.9%	62
Sullivan County	$3,607	84	$194,300	1.9%	66	$60,942	5.9%	31
Clinton County	$2,012	307	$112,900	1.8%	87	$60,821	3.3%	273
Orange County	$5,705	21	$321,000	1.8%	89	$88,722	6.4%	22
Ulster County	$4,282	48	$243,300	1.8%	93	$71,213	6.0%	29
Putnam County	$7,324	10	$423,900	1.7%	107	$100,499	7.3%	10
Rockland County	$8,430	5	$492,000	1.7%	109	$106,379	7.9%	7
Nassau County	$8,628	2	$504,600	1.7%	113	$104,629	8.2%	4
Suffolk County	$7,109	12	$433,800	1.6%	122	$96,338	7.4%	9
Jefferson County	$1,967	326	$121,900	1.6%	132	$58,034	3.4%	253
Albany County	$3,310	107	$209,700	1.6%	141	$79,497	4.2%	122
Westchester County	$8,890	1	$578,900	1.5%	153	$110,520	8.0%	6
Dutchess County	$4,720	34	$326,700	1.4%	181	$85,929	5.5%	45
Saratoga County	$3,048	125	$225,200	1.4%	207	$75,575	4.0%	142
Warren County	$2,512	210	$191,200	1.3%	221	$59,547	4.2%	112
Bronx County	$2,417	228	$406,000	0.6%	620	$67,590	3.6%	205
Richmond County	$2,739	159	$468,600	0.6%	630	$88,629	3.1%	313
Queens County	$2,742	158	$502,600	0.5%	670	$73,315	3.7%	183
New York County	$4,430	43	$873,600	0.5%	696	$150,171	2.9%	338
Kings County	$2,675	181	$596,000	0.4%	717	$74,368	3.6%	198
National Average	$1,897	NA	$197,600	1.0%	NA	$65,385	2.9%	NA

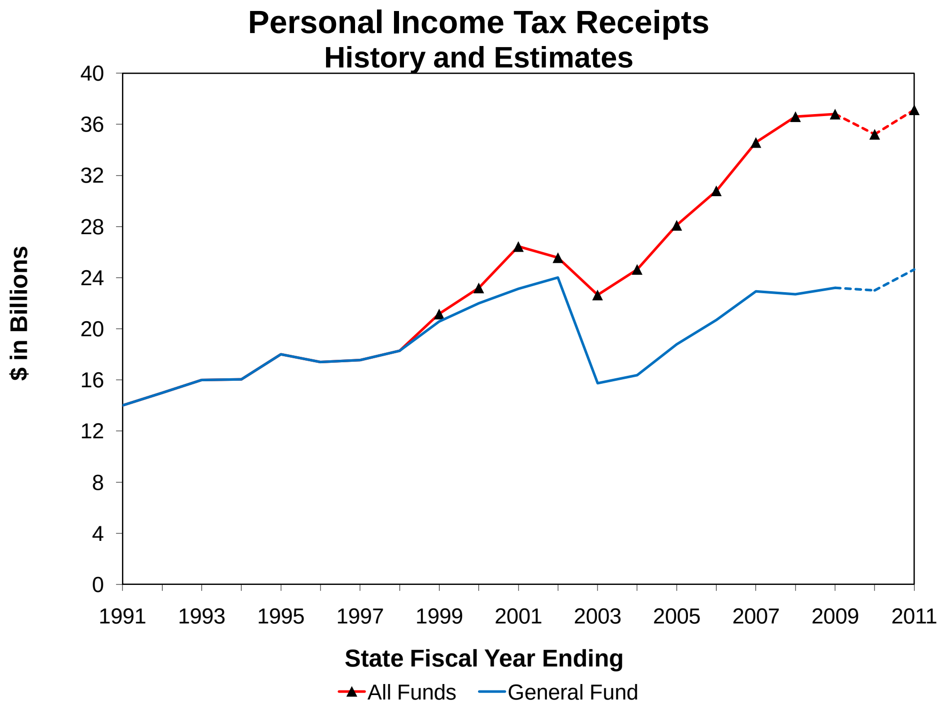
Source: U.S. Census Bureau; Tax Foundation calculations.

TAX RECEIPTS

PERSONAL INCOME TAX

PERSONAL INCOME TAX (millions of dollars)	2008-09 Actual	2009-10 Estimated	Change	Percent Change	2010-11 Projected	Change	Percent Change
General Fund	23,196.0	23,002.6	(193.4)	(0.8)	24,649.6	1,647.0	7.2
Other Funds	13,644.0	12,226.9	(1,417.1)	(10.4)	12,493.4	266.5	2.2
All Funds	36,840.0	35,229.5	(1,610.5)	(4.4)	37,143.0	1,913.5	5.4

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
2000-01	26,744	3,629	23,115	3,077	250	26,442
2001-02	27,529	3,515	24,014	1,310	250	25,574
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
Estimated						
2009-10	29,590	6,587	23,003	3,420	8,807	35,230
2010-11						
Current Law	32,519	8,104	24,415	3,420	9,278	37,113
Proposed Law	32,725	8,075	24,650	3,208	9,286	37,143

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

PROPOSED LEGISLATION

Legislation submitted with this Budget would:

- require certain S corporation gains from acquisition, liquidation, and installment sales of assets to be treated as New York source income by nonresident shareholders to the extent that the business was conducted in New York;

- make termination payments, covenants not to compete and other compensation for past services taxable to nonresidents unless specifically exempt under Federal law;

- equalize maximum bio-fuel and QETC facilities, operations and training credit caps for corporations and unincorporated businesses;

- recognize legally performed same sex marriages for purposes of determining marital filing status;

- reduce the ability of certain resident trusts to avoid tax through the use of nonresident trustees;

- create a school property tax circuit breaker credit, which would take effect when the State ends its fiscal year with a surplus;

- make technical corrections to Part S-1 of Chapter 57 of 2009 (2009-10 Enacted Budget) to clarify that the State Legislature intended to make Empire Zones decertification provisions applicable to tax year 2008;

- provide an additional film tax credit allocation for calendar years 2010 through 2014 at $420 million per year or $2.1 billion over this period;

- provide the Commissioner of the Division of Housing Community Renewal authorization to allocate an additional $4 million in low income housing tax credits;

- create a new set of economic development incentives to replace the expiring Empire Zones Program, intended to provide sustained job creation, investment, and research and development expenditures in New York State;

- eliminate STAR exemptions for residences worth $1.5 million or more;

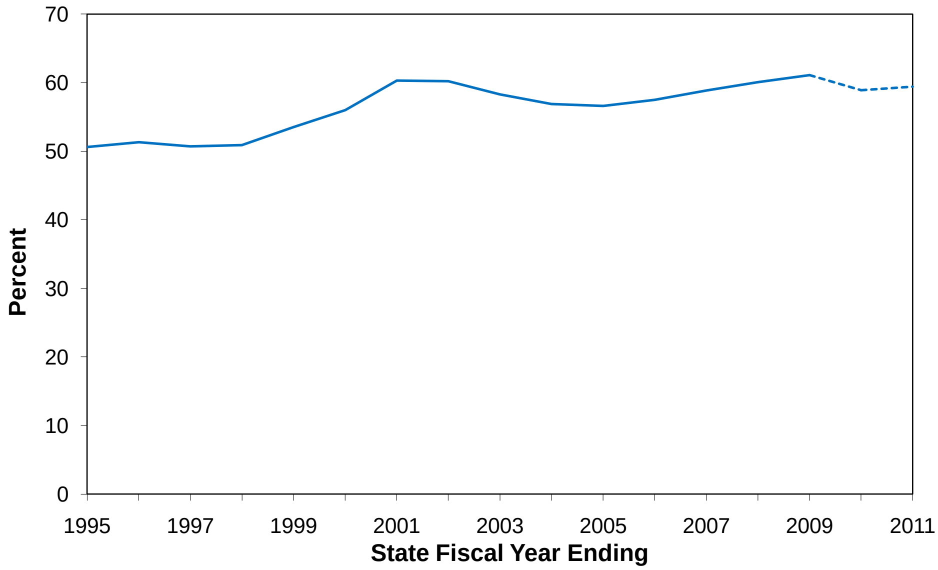
- limit the STAR tax rate reduction benefit for New York City residents to the first $250,000 of income; and

- decrease the STAR exemption “floor” from 89 percent to 82 percent.

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 2009-10 and 2010-11.

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. New York generally conforms to Federal itemized deductions including various limitations. New York also limits deductions for high income taxpayers with only 50 percent allowed for incomes between $525,000 and $1 million and only 50 percent of the charitable contribution allowed for incomes above $1 million.

Tax Rates and Structure

As shown in the 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 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 have been 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 have been increased to 8.97 percent.

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

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

TABLE 2
TAX SCHEDULES FOR 2010 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 +4.00	0	0 to 8,000	0 +4.00	0	0 to 11,000	0 +4.00	0
16,000 to 22,000	640 +4.50	16,000	8,000 to 11,000	320 +4.50	8,000	11,000 to 15,000	440 +4.50	11,000
22,000 to 26,000	910 +5.25	22,000	11,000 to 13,000	455 +5.25	11,000	15,000 to 17,000	620 +5.25	15,000
26,000 to 40,000	1,120 +5.90	26,000	13,000 to 20,000	560 +5.90	13,000	17,000 to 30,000	725 +5.90	17,000
40,000 to 300,000	1,946 +6.85	40,000	20,000 to 200,000	973 +6.85	20,000	30,000 to 250,000	1,492 +6.85	30,000
300,000 to 500,000	19,756 +7.85	300,000	200,000 to 500,000	13,303 +7.85	200,000	250,000 to 500,000	16,562 +7.85	250,000
500,000 and over	35,456 +8.97	500,000	500,000 and over	36,853 +8.97	500,000	500,000 and over	36,187 +8.97	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 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.
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
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 NPC 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

Subject	Description	Effective Date
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
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		

Subject	Description	Effective Date
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
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 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.	2009 and after
	Moved current program sunset date from December 30, 2011, to June 30, 2010.	

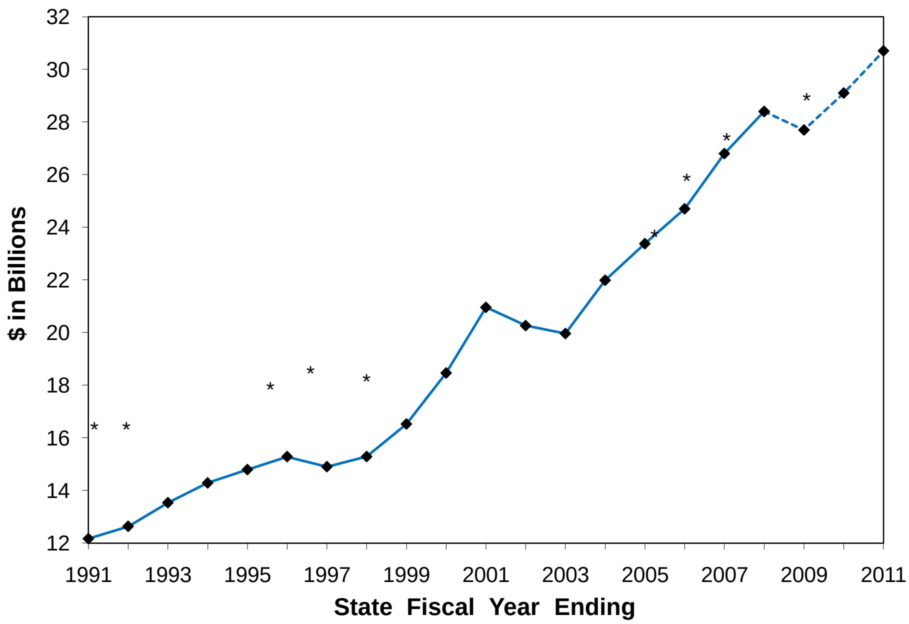
Withholding Changes

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.

Effective Date	Feature	Changes
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.

Personal Income Tax Withholding



The above graph shows the history of withholding collections beginning in 1990-91. 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 and projected fees for 2009-10 and 2010-11. 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 rates currently applicable to LLC partnerships.

Limited Liability Company and Partnership Fees
(thousands of dollars)

SFY	Amount
1995-96	764
1996-97	3,925
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 Estimated	106,000
2010-11 Projected	106,000

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 and after to more closely match the estimate of refunds payable during this three-month period. However, for the fiscal year 2009-10, the "cap" is set at $1,250 million.

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 New York State adjusted gross income (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 a seven-year span from 2000 to 2007 with a breakdown by taxpayer characteristics. Both NYSAGI and liability showed considerable growth over these seven years with liability growth of 42.4 percent and NYSAGI growth of 41.6 percent. The State and national economies were vigorous in both years with 2000 still enjoying the long expansion that would end with a recession in 2001, and the current recession not beginning until December 2007.

While the relative small share of returns filed by nonresidents increased slightly over the period from 9.2 percent to 10.2 percent, their liability share in 2007 declined from the previous year, slipping to 15.8 percent from 16.4 percent for tax year 2006. In part this was because growth in resident liability sped up while growth in nonresident liability slowed in the 2000-07 period versus 1999-2006. Resident liability grew 40.9 percent from 2000-07 versus 38.1 percent in 1999-2006, while nonresident liability growth slowed to 51.2 percent in 2000-07 versus 58.8 percent growth in the earlier seven-year period. Wage growth for both classes of taxpayers slowed in the more recent seven-year span while growth in nonwage components of income accelerated: resident wages grew 28.5 percent from 2000-07 versus 33.1 percent from 1999-2006, while nonresident wages grew 39.8 percent as opposed to 50.3 percent in the two periods. On the other hand nonwage income, such as dividends, interest and capital gains, expanded by 68.3 percent from 2000-07 rather than 57.0 percent in 1999-2006 for residents, while nonresident nonwage income rose 93.4 percent versus 86.2 percent, respectively.

TABLE 3
PERCENT SHARES OF STATE AGI, WAGES, NONWAGE INCOME AND LIABILITY BY VARIOUS TAXPAYER CHARACTERISTICS, 2000 AND 2007
(Values for AGI, wages, nonwage income and liability in millions of dollars)

	2000					2007				
	Returns	NYSAGI	Wages	Nonwage Income	Liability	Returns	NYSAGI	Wages	Nonwage Income	Liability
Total	8,963,399	519,501	373,177	151,678	24,733	9,700,043	735,360	485,565	258,362	35,217
percent change						8.2	41.6	30.1	70.3	42.4
Residents	8,141,259	455,264	320,662	139,380	21,042	8,706,284	639,262	412,138	234,580	29,638
percent share	90.8	87.6	85.9	91.9	85.1	89.8	86.9	84.9	90.8	84.2
percent change						6.9	40.4	28.5	68.3	40.9
Nonresidents	822,140	64,238	52,515	12,298	3,691	993,759	96,099	73,427	23,782	5,579
percent share	9.2	12.4	14.1	8.1	14.9	10.2	13.1	15.1	9.2	15.8
percent change						20.9	49.6	39.8	93.4	51.2
Married filing jointly	3,249,625	334,268	232,082	105,359	17,255	3,306,853	474,058	297,388	181,611	24,627
percent share	36.3	64.3	62.2	69.5	69.8	34.1	64.5	61.2	70.3	69.9
percent change						1.8	41.8	28.1	72.4	42.7
Head of Household	1,443,698	42,017	36,994	5,461	862	1,559,005	56,204	48,699	8,486	839
percent share	16.1	8.1	9.9	3.6	3.5	16.1	7.6	10.0	3.3	2.4
percent change						8.0	33.8	31.6	55.4	-2.7
Single Filers	4,269,877	143,216	104,101	40,858	6,617	4,834,185	205,098	139,479	68,265	9,752
percent share	47.6	27.6	27.9	26.9	26.8	49.8	27.9	28.7	26.4	27.7
percent change						13.2	43.2	34.0	67.1	47.4
Itemized Deduction	1,855,355	272,618	174,484	100,561	14,806	2,506,901	457,123	261,239	199,913	24,590
percent share	20.7	52.5	46.8	66.3	59.9	25.8	62.2	53.8	77.4	69.8
percent change						35.1	67.7	49.7	98.8	66.1
Standard Deduction	7,105,972	246,849	198,677	51,098	9,925	7,190,958	278,116	224,219	58,428	10,620
percent share	79.3	47.5	53.2	33.7	40.1	74.1	37.8	46.2	22.6	30.2
percent change						1.2	12.7	12.9	14.3	7.0

Note: NYSAGI in this table is different from that in other tables due to different treatment of negative NYSAGI.
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 only 1.8 percent from 2000 to 2007, leading to a decline in the share of taxpayers claiming this status from 36.3 percent to 34.1 percent. Meanwhile, returns filed as "head of household" increased 8.0 percent over the period, and filers claiming single status increased 13.2 percent. Married filing jointly taxpayers account for the bulk of nonwage income, about 70 percent, while single filers account for about 26 percent. Married taxpayers account for about 70 percent of the liability in both years despite the decline in the share of married taxpayers, while single filers' share is about 28 percent.

Taxpayers who itemized their deductions made up 20.7 percent of taxpayers in 2000, rising to 25.8 percent by 2007, largely reflecting the influence of the economic boom of the mid-2000s on incomes, and increases in local property taxes and other itemized deduction categories. In 2000, standard deduction returns accounted for 79.3 percent of all returns and 40.1 percent of liability, while the remaining 20.7 percent of returns that were itemized accounted for about 60 percent of liability. By 2007, itemizers made up nearly 70 percent of liability while standard deduction takers' share of liability had fallen to 30.2 percent.

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). Processing data suggests that NYSAGI declined by 8.2 percent in 2008 as equity markets and real estate markets tumbled. This decline comes after years of above-average growth in NYSAGI fueled by strong equity and real estate markets following the 2001-2003 recession. NYSAGI grew 11.0 percent in 2004, 8.7 percent in 2005, 10.6 percent in 2006 and 12.8 percent in 2007.

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

Component of Income	2003	2004	2005	2006	2007	2008*	2009	2010	2011
	Actual					Estimate			
NYSAGI									
Amount	473,778	525,964	571,916	632,601	725,245	665,908	606,976	659,184	657,128
Percent Change	3.0	11.0	8.7	10.6	14.6	(8.2)	(8.8)	8.6	(0.3)
Wages									
Amount	373,313	397,431	416,988	445,210	485,565	494,421	464,074	481,818	496,833
Percent Change	1.2	6.5	4.9	6.8	9.1	1.8	(6.1)	3.8	3.1
Share of NYSAGI	78.8	75.6	72.9	70.4	67.0	74.2	76.5	73.1	75.6
Net Capital Gains									
Amount	28,455	51,196	64,411	82,412	116,436	52,572	31,357	53,563	25,652
Percent Change	39.5	79.9	25.8	27.9	41.3	(54.8)	(40.4)	70.8	(52.1)
Share of NYSAGI	6.0	9.7	11.3	13.0	16.1	7.9	5.2	8.1	3.9
Interest and Dividends									
Amount	20,417	22,485	29,673	39,366	48,204	38,430	34,429	36,786	40,321
Percent Change	(0.2)	10.1	32.0	32.7	22.5	(20.3)	(10.4)	6.8	9.6
Share of NYSAGI	4.3	4.3	5.2	6.2	6.6	5.8	5.7	5.6	6.1
Taxable Pension									
Amount	25,127	26,432	28,974	30,257	31,216	32,502	33,878	35,085	36,762
Percent Change	3.0	5.2	9.6	4.4	3.2	4.1	4.2	3.6	4.8
Share of NYSAGI	5.3	5.0	5.1	4.8	4.3	4.9	5.6	5.3	5.6
Net Business and Partnership Income									
Amount	48,157	53,686	60,718	67,249	74,345	73,723	69,463	76,714	83,728
Percent Change	3.0	11.5	13.1	10.8	10.6	(0.8)	(5.8)	10.4	9.1
Share of NYSAGI	10.2	10.2	10.6	10.6	10.3	11.1	11.4	11.6	12.7
All Other Incomes/ Adjustments /1									
Amount	(21,691)	(25,266)	(28,849)	(31,893)	(30,521)	(25,740)	(26,224)	(24,783)	(26,168)
Percent Change	4.1	16.5	14.2	10.6	(4.3)	(15.7)	1.9	(5.5)	5.6

* Estimates for 2008 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.

Just as the years of strong NYSAGI growth starting in 2003 were characterized by a growing share of capital gains related income at the expense of wage income, so is the decline in 2008 characterized by a substantial drop in the share of capital gains income from 16.1 percent in 2007 to an estimated 7.9 percent in 2008. The share of wage income, on the other hand, grew from 67.0 percent in 2007 to an estimated 74.2 percent in 2008. By comparison, the shares of other components of NYSAGI are more stable or have shown consistent long-run growth patterns.

Changes in the timing of year-end bonus payments also affect the NYSAGI growth rate. It is estimated that bonuses in the financial and insurance sector represent more than half of the total bonuses paid out each year. Beginning in 1994-95, the pattern of these bonus payments has shifted from approximately 40 percent paid at the end of the calendar year, and 60 percent paid early in the following year, to 30 percent and 70 percent, respectively.

The State's recovery from the 2001-2003 recession is reflected in the State's tax liability. Based on the approximately 9.7 million returns reflected in the annual study file of personal income tax returns prepared by the New York State Department of Taxation and Finance, total liability was about $35.2 billion in 2007, up from $29.8 billion in 2006. Additional personal income tax liability worth approximately $1.7 billion in 2007 was received from fiduciary returns, late-filed returns and other transactions not included in the annual study file.

TABLE 5
LIABILITY AND EFFECTIVE TAX RATES
Current Law
1998 - 2011
($ in Millions)

	NYSAGI		Liability		Effective
	Amount	Growth Rate (percent)	Amount	Growth Rate (percent)	Tax Rate* (percent)
1998	413,128	9.0	18,986	12.0	4.60
1999	448,531	8.6	20,977	10.5	4.68
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	29,605	3.9	4.68
2007	725,245	14.6	35,215	19.0	4.86
2008**	665,908	(8.2)	31,590	(10.3)	4.74
2009**	606,976	(8.8)	31,047	(1.7)	5.12
2010**	659,184	8.6	34,772	12.0	5.28
2011**	657,128	(0.3)	34,780	0.0	5.29

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

Also, as indicated in Table 5, given $725 billion in NYSAGI in 2007, the average effective tax rate was 4.86 percent (based on study file liability), up from 4.51 percent in 2002 and up from 4.68 percent in 2006. Between 2002 and 2007, NYSAGI grew 57.7 percent, while liability grew 69.9 percent. The greater increase in liability can largely be attributed to four years of strong growth in net capital gains income which grew 407.2 percent over the five years. Dividend and interest income also experienced substantial increases of 149.2 percent and 125.7 percent respectively between 2002 and 2007. Capital gains, dividend and interest income tend to be concentrated among taxpayers in the highest tax bracket. More broadly distributed wages and salaries experienced much more modest growth of 20.7 percent over the same five years. However, bonus payments, the part of wages accounted for by taxpayers in the highest income tax bracket grew a much stronger 197.0 percent between 2002 and 2007.

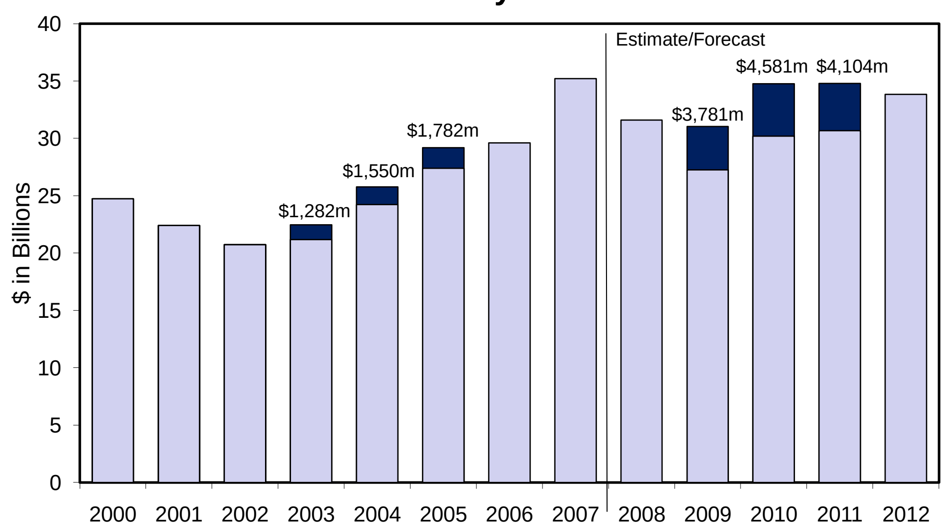
Liability growth in 2006 was substantially lower than NYSAGI growth because of several changes in the State tax regime for 2006: the temporary surcharge enacted by the legislature in 2003 expired, lowering the tax rate for the highest income earners; the standard deduction for married filers was increased; and the Empire State Child Credit for eligible children aged 4-16 became effective. Furthermore, the Federal limitation on itemized deductions was reduced by one-third. For 2007 and 2008, there were no major changes in the State tax regime. Growth in liability exceeded growth in NYSAGI in 2007 due to strong growth in capital gains and bonus income.

Liability Forecast Summary: 2009-2011

In the aftermath of collapsed equity and real estate markets and a national recession, the Division of the Budget estimates an 8.8 percent decline in NYSAGI for 2009, followed by a recovery to 8.6 percent growth in 2010 and a 0.3 percent decline in 2011. Income growth is expected to be enhanced for 2010 and reduced for 2011 by taxpayers' anticipation of the expiration of the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs and Growth Tax Relief Reconciliation Act of 2003.[1] With the new, temporary tax brackets and tax rates, liability is expected to fall only 1.7 percent in 2009, after dropping an anticipated 10.3 percent in 2008. With a strong rebound in NYSAGI growth expected in 2010 liability is forecast to increase 12.0 percent, while the mild decline in NYSAGI in the following year will leave liability essentially unchanged in 2011. The expiration of the temporary tax brackets and rates for the 2012 liability year will result in a 2.7 percent decrease in liability despite an expected 7.4 percent increase in NYSAGI.

Without the new brackets and rates it is estimated that liability would have fallen 13.7 percent in 2009. On a constant law basis, liability is projected to rise 8.7 percent in 2012.

Total Liability 2000-2012



Note: Values above bars indicate the amount of additional liability due to temporary brackets and rates for those tax years. "Current law" for 2006-2012 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.

[1] The impact of the law change on taxpayer behavior is discussed in more detail above in the "Economic Backdrop" section.

Risks to the Liability Forecast

Liability estimates are subject to significant risks from both unanticipated shifts in economic conditions and changes in taxpayer behavior. For example, slower than expected economic growth would put downward pressure on tax liability, holding other factors constant. The stock market and the entire financial services industry may do much better or much worse than envisioned, with consequent positive or negative impacts on State tax liability. As discussed in "New York State Adjusted Gross Income" under the "Economic Backdrop" section, income sources that are most closely tied to the fate of the financial sector, particularly capital gains and bonus payments, always exhibit a high degree of volatility and are difficult to forecast with precision. These most volatile components of NYSAGI fall most heavily on the wealthiest taxpayers who, in turn, contribute the lion's share of liability. As seen in Table 6, the State's taxpayers with NYSAGI exceeding $1 million only represented 0.6 percent of all tax returns while contributing 31.3 percent of NYSAGI and 40.7 percent of liability in the peak 2007 tax year.

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

	2007 (Actual)			2010 (Forecast)		
Income Group	**Returns**	**Liability**	**AGI**	**Returns**	**Liability**	**AGI**
0 - $50,000	67.4	4.1	16.6	61.0	4.6	17.5
$50,000 - $100,000	19.3	15.3	18.0	26.4	23.3	28.5
$100,000 - $200,000	9.1	17.4	16.1	9.7	18.6	18.6
$200,000 - $1,000,000	3.7	22.5	18.0	2.6	20.2	14.7
$1,000,000 and above	0.6	40.7	31.3	0.4	33.3	20.7

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

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 one percent of taxpayers to fall from 39.0 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. Note that even following the expiration of the 2003-2005 temporary tax brackets, the share of liability coming from the top one percent of taxpayers grew from 39.0 percent in 2006 to 43.1 percent in 2007. With the economic downturn, their share is estimated to have fallen to 32.9 percent by 2009, on a constant law basis. However, because the 2009 tax law change falls heavily in the highest income groups, the share of liability from the top one percent of taxpayers is estimated to have risen to about 40 percent once more. This means changes in the economy that affect a small number of taxpayers in the high-income group can have disproportionate effects on State tax revenues.

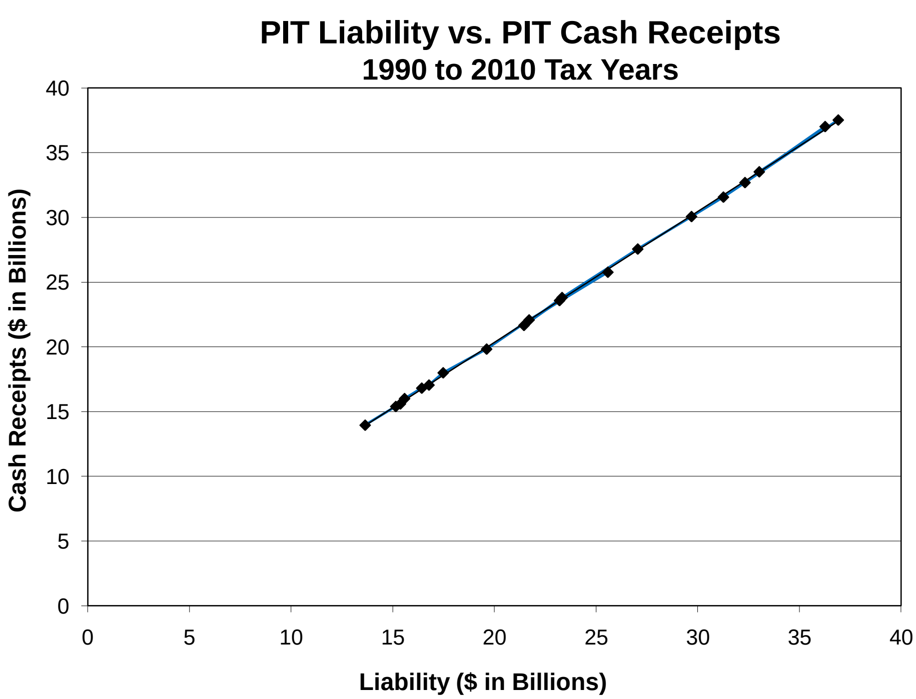
TABLE 7
CHANGES IN THE SHARE OF LIABILITY ORIGINATING WITH THE TOP ONE PERCENT OF NYS TAXPAYERS

	1995-2002, 2006-08 Tax Law			2003-05, 2009-11 Brackets and Rates		
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)
1997	5,705	16,950	33.7	--	--	--
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*	11,809	31,590	37.4	--	--	--
2009*	8,973	27,266	32.9	12,263	31,047	39.5
2010*	10,392	30,191	34.4	14,316	34,772	41.2
2011*	9,780	30,676	31.9	13,245	34,780	38.1

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

TAX LIABILITY AND CASH PAYMENTS

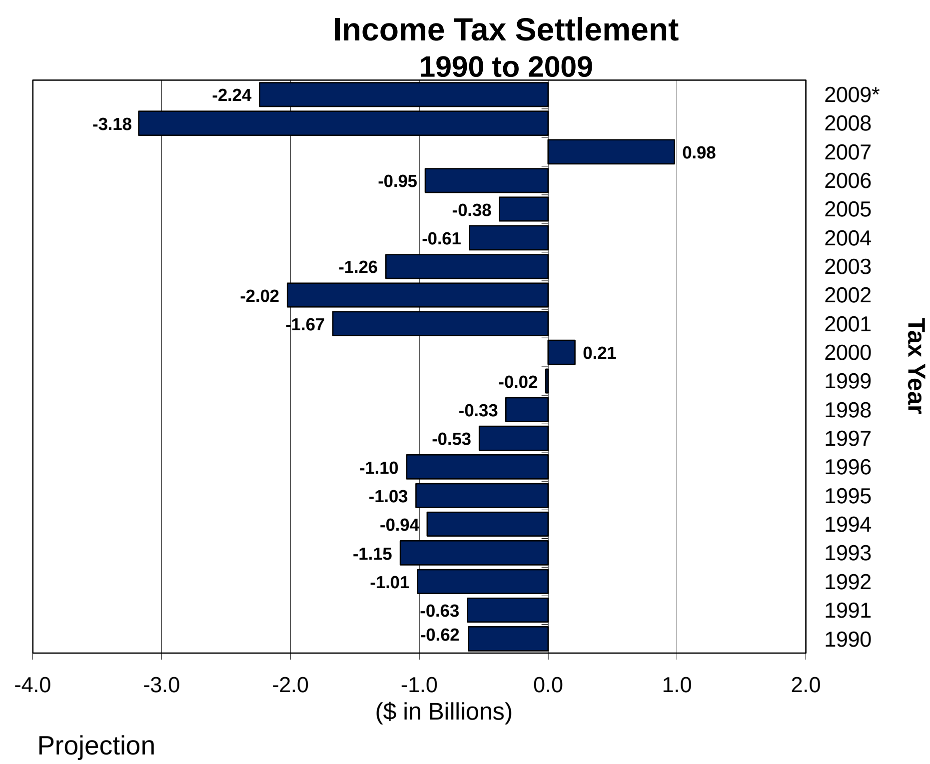
Although significant risks necessarily remain in any estimates of income tax liability, estimation of the level of tax liability for a particular tax year leads, with a high degree of confidence, to the approximate level of cash receipts that can be expected for the particular tax year. The consistency in this relationship is shown in the graph below.



The above graph shows a trend line for the history of liability and cash receipts beginning in 1990, and dots 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 2009 tax year will be received before the end of the 2009-10 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 2008 tax year will be received largely in the 2009-10 fiscal year.

As is evident in the graph below showing net settlement payments for the 1990 through 2009 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 about $600 million for the 2004 tax year and only $380 million for tax year 2005. However, the 2006 settlement was negative $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 current recessionary economic environment, the 2008 settlement returned to a negative $3.18 billion while the 2009 settlement is projected to be a significantly less negative $2.24 billion. The 2009 projected settlement includes payments attributed to the 2009 rate increase that are not reflected in prepayments.

New York temporarily increased the personal income by adding a new tax rate of 7.85 for three years on taxable income over $300,000 for married joint filers (lower level for others) and 8.97 on taxable income over $500,000 for all filers. The temporary rate increase for tax year 2009 through 2011 affects both the liability and cash estimates and projections for the three fiscal years starting 2009-10. Table 8 summarizes the impact of the surcharge for both tax liability and associated collections.

TABLE 8
TEMPORARY RATE INCREASE AND PERMANENT ITEMIZED DEDUCTION LIMITATION*
TAX YEAR AND FISCAL YEAR ESTIMATES - CURRENT LAW
(millions of dollars)

	Fiscal Year			
Tax Year	**2009-10**	**2010-11**	**2011-12**	**Liability Totals**
2009				
Withholding	883	0	0	
Estimated Tax	1,659	0	0	
Settlement	0	1,239	0	
Subtotal	2,542	1,239	0	3,781
2010				
Withholding	1,101	1,215	0	
Estimated Tax	0	2,013	0	
Settlement	0	0	252	
Subtotal	1,101	3,228	252	4,581
2011				
Withholding	0	1,021	1,296	
Estimated Tax	0	0	1,787	
Settlement	0	0	0	
Subtotal	0	1,021	3,083	4,104
FY Cash Total	3,643	5,488	3,335	12,466

*2009-10 Enacted Budget Provisions

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 http://www.budget.state.ny.us/pubs/supporting/ForecastMethodology-FINAL_11-05-09.pdf

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RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2009-10 Estimates

All Funds collections through December are approximately $23,335 million, a decrease of $4,232 million, or 15.4 percent below the comparable period in the prior fiscal year. This dramatic drop to date is primarily the result of payments related to tax year 2008 liability. To date withholding collections have also decreased 0.8 percent compared to the same period in 2008-09.

All Funds receipts for 2009-10 are estimated to be $35,230 million, a decrease of $1,611 million (4.4 percent) from the prior year. This primarily reflects a 55.9 percent decline in extension payments for tax year 2008 liability. The forecast also assumes that current estimated payments on 2009 liability will be 6.2 percent lower than comparable payments on 2008 liability. However, the decrease in estimated tax payments would be worse without the temporary rate increase. Weakness in the economy in general, and the financial sector in particular, are expected to significantly lower the remaining payments on 2009 liability.

Table 9 shows the components of the personal income tax from 2006-07 through 2010-11.

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

	2006-07 (Actual)	2007-08 (Actual)	2008-09 (Actual)	2009-10 (Estimated)	2010-11 (Projected)
Receipts					
Withholding	26,802	28,440	27,686	29,198	30,715
Estimated Payments	10,355	11,640	12,690	9,517	11,294
Current Year	7,572	8,592	7,889	7,398	88,294
Prior Year*	2,783	3,048	4,801	2,119	3,000
Final Returns	2,102	2,167	2,686	1,836	1,893
Current Year	194	206	192	220	207
Prior Year*	1,907	1,961	2,494	1,616	1,686
Delinquent Collections	831	923	949	1,266	1,316
Gross Receipts	40,090	43,170	44,011	41,817	45,218
Refunds					
Prior Year*	3,231	4,286	4,544	4,938	5,493
Previous Years	257	341	402	474	444
Current Year*	1,500	1,500	1,750	1,250	1,750
State-City Offset*	522	479	475	(75)	388
Total Refunds	5,510	6,606	7,171	6,587	8,075
Net Receipts	34,580	36,564	36,840	35,230	37,143

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

The primary risk to the 2009-10 receipts estimate results from the timing of bonus payments paid by financial services companies. A large portion of 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 16.6 percent increase in withholding during the first quarter of 2010, due in large part to the impact of the temporary rate increase, which was not in effect during the same quarter in 2009. This contributes significantly to the 5.5 percent annual withholding growth rate.

Total refunds are expected to decrease by $583.9 million (8.1 percent) below 2008-09 largely due to the refund "cap" which has been lowered to $1,250 million from $1,750 million. This $500 million in refunds will be paid out in the first quarter of fiscal year 2010-11. The decrease is also due to a one-time $523 million positive adjustment for prior year state-city offsets, which in turn offsets a $394 million (8.7 percent) increase in refunds on current year returns paid between April and December.

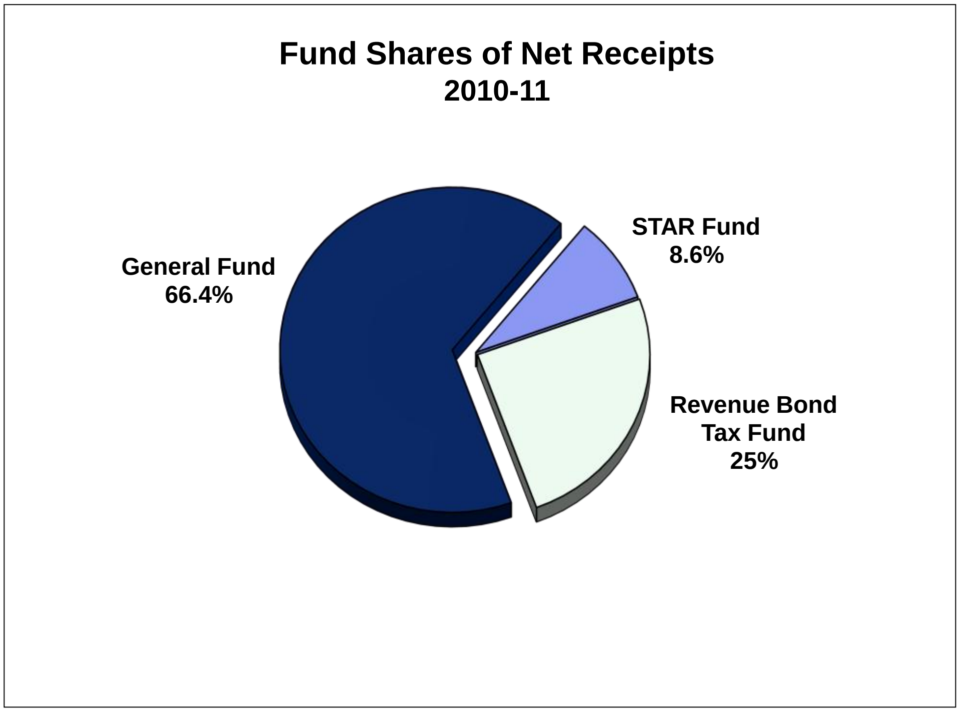
2010-11 Projections

All Funds receipts are projected to be $37,143 million, an increase of $1,914 million, or 5.4 percent above 2009-10.

Withholding receipts are projected to increase by 5.2 percent and reflect an economic recovery and full-year implementation of the temporary rate increase. Absent this legislation, the increase would be 4.6 percent. The other major component of collections, current estimated payments on 2010 income, are projected to increase by 12.1 percent, which in part reflects anticipated acceleration of capital gains realizations relating to the scheduled expiration of reduced Federal capital gains tax rates after 2010.

Extension and final payments related to 2009 returns are expected to increase significantly, by $938 million (25 percent) from 2008, reflecting a rebound from weak non-wage income for the 2008 tax year and strong settlement payments resulting from the temporary rate increase.

Total refunds for 2010-11 are projected to increase by $1,488 million (22.6 percent). This increase largely reflects the shift of $500 million of fiscal year 2009-10 “cap” refunds to fiscal year 2010-11. It is also due to a return to a trend state-city offset following the positive one-time adjustment in 2009-10.



General Fund

General Fund net personal income tax receipts are estimated to be $23,002 million in 2009-10 and are projected to be $24,650 million in 2010-11, a 7.2 percent increase above 2009-10.

Other Funds

In 2009-10 and 2010-11, respectively, dedicated personal income tax receipts of $3,419.5 million and $3,207.6 million will be deposited into the School Tax Relief Fund.

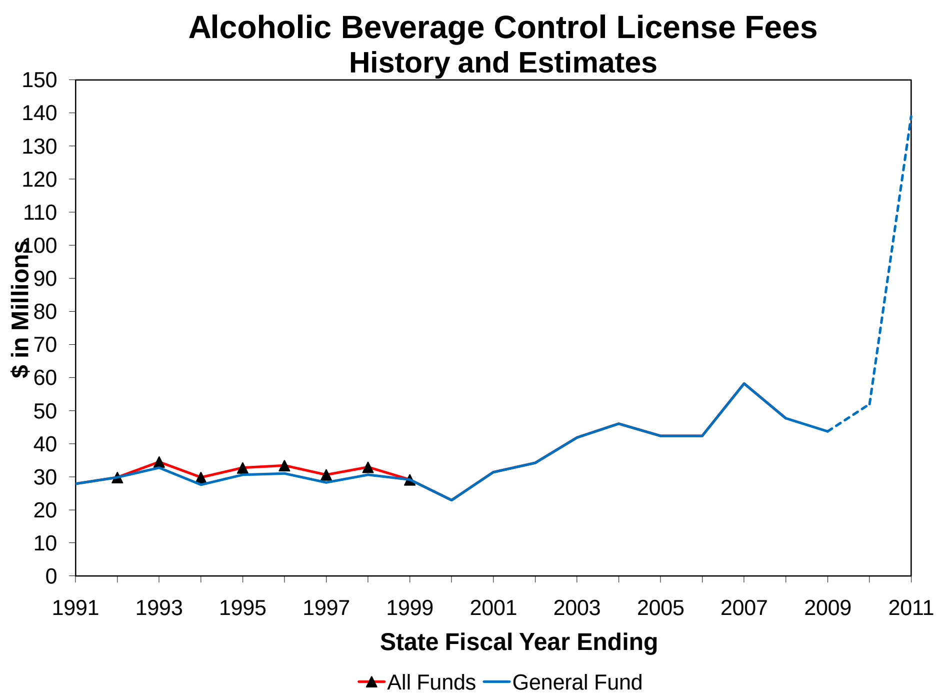
In 2009-10 and 2010-11, respectively, dedicated receipts of $8,807.4 million and $9,285.8 million will be deposited into the Revenue Bond Tax Fund (RBTF), the increase reflecting the above mentioned revenue growth in net income tax collections upon which the RBTF is based.

ALCOHOLIC BEVERAGE CONTROL LICENSE FEES

ALCOHOLIC BEVERAGE CONTROL LICENSE FEES
(millions of dollars)

	2008-09 Actual	2009-10 Estimated	Change	Percent Change	2010-11 Projected	Change	Percent Change
General Fund	43.7	52.0	8.3	19.0	139.0	87.0	167.3
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	43.7	52.0	8.3	19.0	139.0	87.0	167.3

Note: Totals may differ due to rounding.



ALCOHOLIC BEVERAGE CONTROL LICENSE FEES BY FUND
(thousands of dollars)

	Gross General Fund	Refunds	General Fund	Special Revenue Funds	All Funds Receipts
2000-01	33,140	1,787	31,353	0	31,353
2001-02	35,495	1,251	34,244	0	34,244
2002-03	43,124	1,183	41,941	0	41,941
2003-04	47,187	1,796	45,391	0	45,391
2004-05	44,543	2,179	42,364	0	42,364
2005-06	44,934	2,608	42,326	0	42,326
2006-07	60,337	2,164	58,173	0	58,173
2007-08	50,433	2,735	47,698	0	47,698
2008-09	46,498	2,796	43,702	0	43,702
Estimated					
2009-10	52,000	0	52,000	0	52,000
2010-11					
current law	48,000	0	48,000	0	48,000
proposed law	139,000	0	139,000	0	139,000

ALCOHOLIC BEVERAGE CONTROL LICENSE FEES

PROPOSED LEGISLATION

Legislation submitted with this budget:

- allows the sale of wine in grocery stores with the payment of one-time franchise fee.

DESCRIPTION

Fee Base and Rate

New York State distillers, brewers, wholesalers, retailers, and others who sell alcoholic beverages are required by law to be licensed by the State Liquor Authority. License fees vary depending on the type and location of the establishment or premises operated, as well as the class of beverage for which the license is issued.

Administration

Fees are paid directly to the State Liquor Authority on or before the expiration date of the current one-, two-, or three-year license, or with the application for a new license.

NUMBER OF LICENSES BY CATEGORY (calendar year)

		Bars and Restaurants						
	Liquor Stores	Beer, Wine and Liquor	Beer and Wine	Beer Only	Subtotal	Grocery Stores	Wholesale	Total
2000	2,491	20,694	3,748	1,877	26,319	19,167	1,201	49,178
2001	2,482	20,545	3,991	1,942	26,478	18,994	1,181	49,135
2002	2,494	21,192	4,256	2,066	27,514	19,051	1,202	50,261
2003	2,501	19,666	4,470	1,977	26,113	18,726	1,233	48,573
2004	2,525	19,772	4,606	1,984	26,362	18,496	1,254	48,637
2005	2,558	19,686	4,825	1,984	26,495	18,270	1,294	48,617
2006	2,628	19,497	4,929	1,964	26,390	18,878	1,640	49,536
2007	2,654	19,801	5,030	2,260	27,091	18,291	1,371	49,407
2008	2,702	19,858	5,108	2,245	27,211	18,171	1,432	49,516
2009	2,743	19,671	5,250	2,048	26,969	17,721	1,528	48,961

Significant Legislation

The significant statutory changes for this revenue source are summarized below.

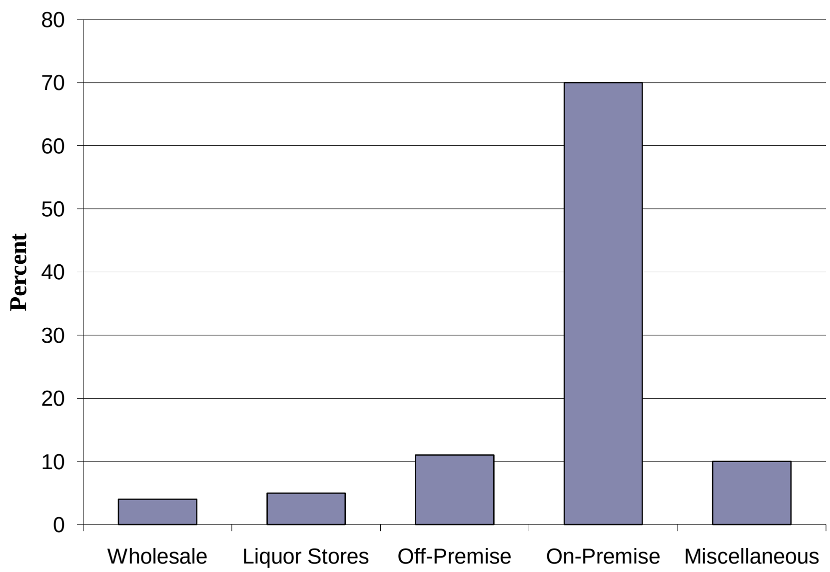
Subject	Description	Effective Date
Legislation Enacted in 1997		
License Renewal	Changed the required purchase of a triennial license to allow licensees to continue to purchase a triennial license or optionally purchase an annual or biennial license at a prorated cost.	December 1, 1998
Legislation Enacted in 2002		
Fee Increases	Increased license fees for most licensees by 28 percent.	September 1, 2002
Legislation Enacted in 2003		
Open Sundays	Allowed liquor stores to have an option of closing a day other than Sunday.	May 15, 2003
Legislation Enacted in 2004		
Seven Day Sales	Allowed liquor stores to open seven days per week.	August 20, 2004
Legislation Enacted in 2005		

Subject	Description	Effective Date
Direct Shipments	Allowed the direct shipment of wine to individual consumers in New York State.	August 11, 2005
Legislation Enacted in 2007		
Auction Licenses	Allowed auctions of distilled spirits and licensing of auctioneers.	October 15, 2007

FEE LIABILITY

The most significant source of revenue is the licensing of almost 20,000 bars and restaurants that offer on-premise consumption. The majority of State-licensed bars and restaurants are authorized to sell beer, wine, and liquor. Approximately 5,000 licensees are permitted to sell only beer and wine. The remaining 2,245 licensees in 2008 sold only beer. In addition, there were about 18,000 grocery stores licensed to sell beer for off-premise consumption and about 1,400 alcoholic beverage wholesalers. Finally, the miscellaneous licenses, which account for roughly 7 percent of revenue, are made up of specialty and seasonal licenses (veterans' clubs and seasonal tour boats).

Alcoholic Beverage Control License Fees
Share of 2009-10 Receipts by License Category



TAX LIABILITY

For a more detailed discussion of the methods and models used to develop estimates and projections for the alcohol beverage control license fees, please see the *Economic, Revenue and Spending Methodologies* at http://www.budget.state.ny.us/pubs/supporting/ForecastMethodology-FINAL_11-05-09.pdf
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ALCOHOLIC BEVERAGE CONTROL LICENSE FEES

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2009-10 Estimates

All Funds collections through December are $38.6 million, an increase of $ 7.6 million, or 24.5 percent above the comparable period in the prior fiscal year.

All Funds receipts for 2009-10 are estimated to be $52 million, an increase of $8.3 million, or 19 percent above last year.

2010-11 Projections

All Funds receipts are projected to be $139 million, an increase of $87 million, or 167 percent above last year.

General Fund

Effective April 1, 1998, all proceeds from alcoholic beverage control license fees are deposited in the General Fund.

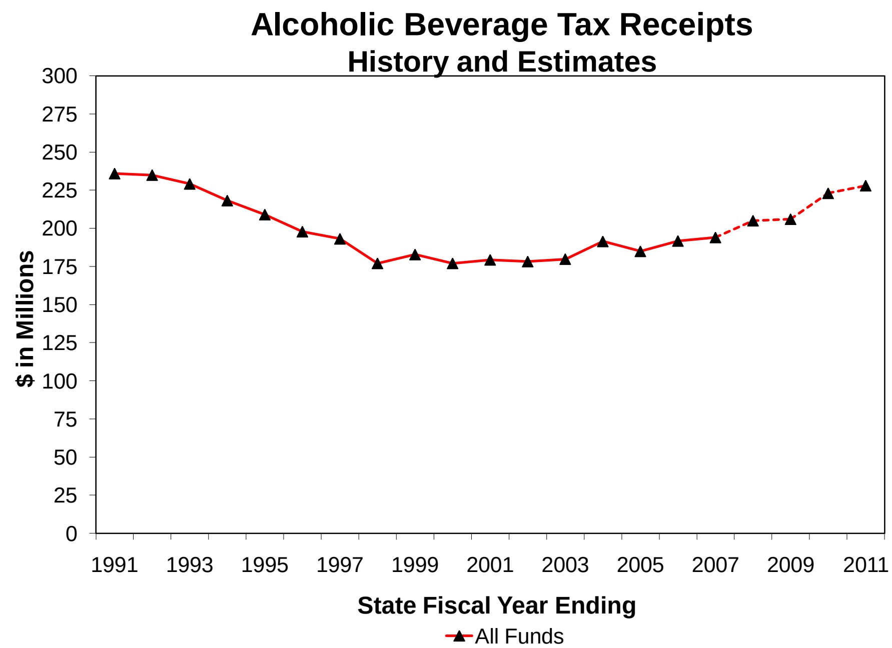
Other Funds

From 1992-93 through 1997-98, a portion of license fee receipts was deposited in the Alcoholic Beverage Control Enhancement Account. Revenues deposited into the account were used to support efforts to improve compliance with licensing regulations and expedite license processing. Beginning in 1998-99, this special revenue fund was eliminated, and since that time all licensing fees have been deposited in the General Fund.

ALCOHOLIC BEVERAGE TAXES

ALCOHOLIC BEVERAGE TAXES (millions of dollars)							
	2008-09 Actual	2009-10 Estimated	Change	Percent Change	2010-11 Projected	Change	Percent Change
General Fund	205.9	223.0	17.1	8.3	229.0	6.0	2.7
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	205.9	223.0	17.1	8.3	229.0	6.0	2.7

Note: Totals may differ due to rounding.



ALCOHOLIC BEVERAGE TAXES BY FUND (thousands of dollars)				
	Gross General Fund	Refunds	General Fund	All Funds Receipts
2000-01	179,407	67	179,340	179,340
2001-02	178,146	1	178,145	178,145
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
Estimated				
2009-10	223,100	100	223,000	223,000
2010-11				
current law	228,100	100	228,000	228,000
proposed law	229,100	100	229,000	229,000

PROPOSED LEGISLATION

Legislation submitted with this Budget would:

- permit the sale of wine in grocery stores.

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

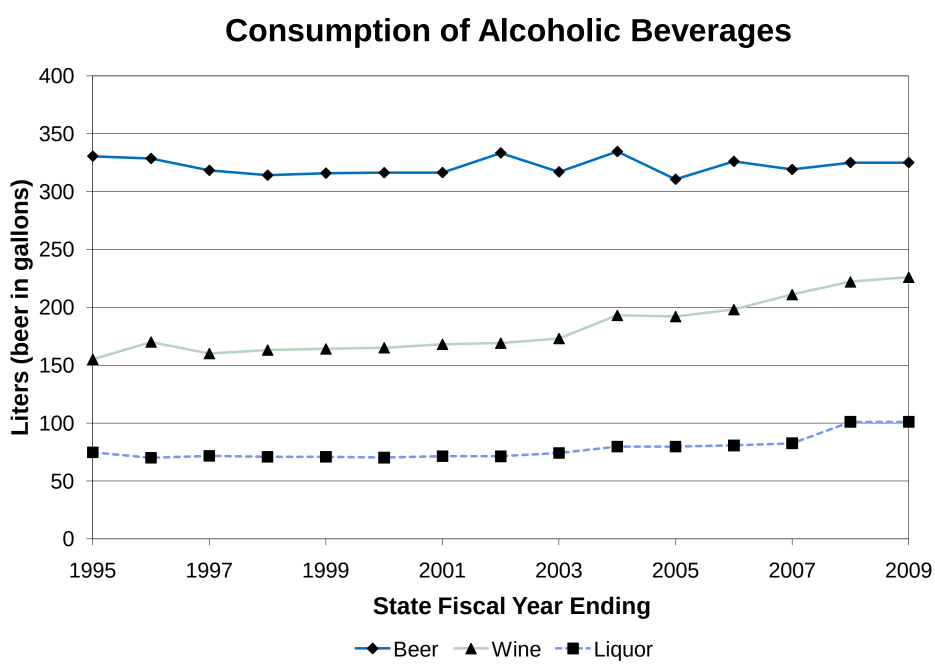
The tax is remitted by licensed distributors and noncommercial importers of such beverages in the month following the month of delivery.

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 3.2 cents to 5 cents per liter; and cider with at least 3.2 percent alcohol from 0.4 cents to 1 cent per liter.	May 1, 1989
Legislation Enacted in 1991		
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, 1991
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
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

Subject	Description	Effective Date
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	Rate increased from 11 cents per gallon to 14 cents per gallon.	May 1, 2009
Wine Tax Increase	Rate increased 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

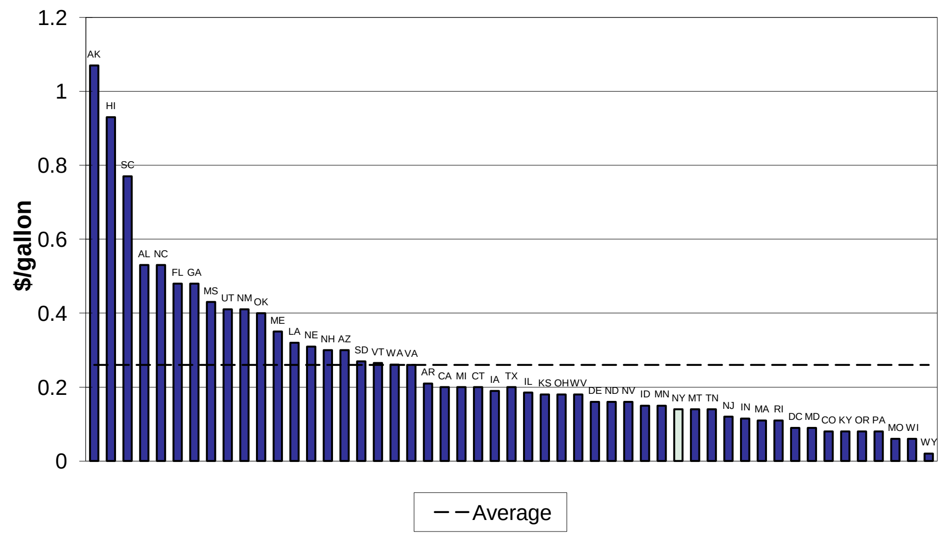
Overall, per capita consumption of taxed beverages and receipts has remained fairly constant in recent years with declines in one beverage class being offset with increases in others, due to shifts in consumer preferences. For example, wine and liquor consumption in recent years has increased relative to beer consumption. In addition, the movement of alcoholic beverage demand towards less expensive beverages with lower alcohol content is attributed, in part, to the impact of rising relative prices on beverages with higher alcohol content. Furthermore, the New York State tax on liquor is relatively high in comparison to both other forms of alcohol and to other states.

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 in the nation;
- The sixth lowest wine tax in the nation (of those participating states[1]); and
- The third highest liquor tax in the nation (of those participating states[2]).

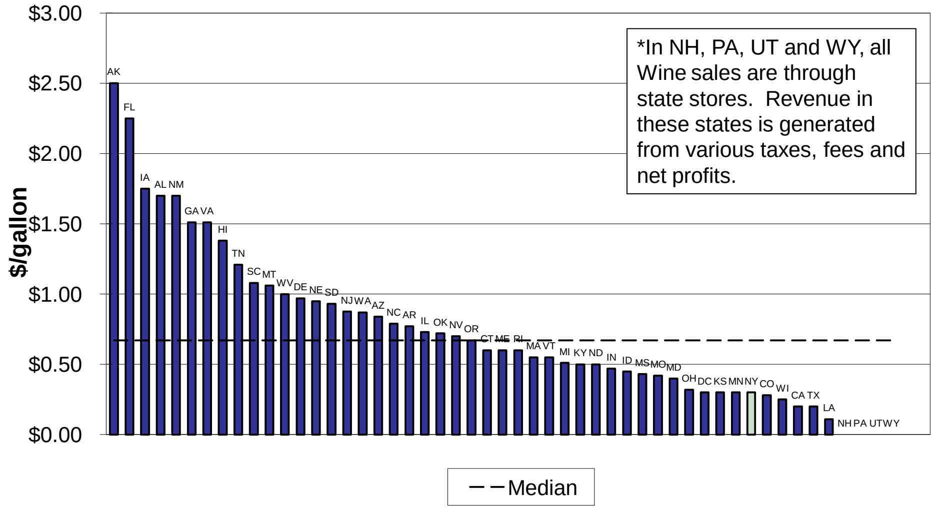
Beer Tax Rates by State
(July 2009)



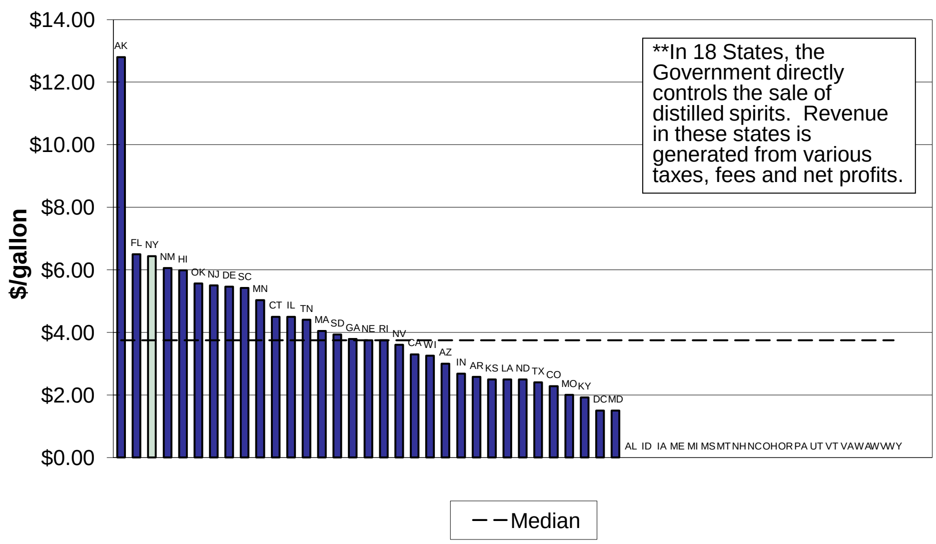
Source: Tax Foundation

[1] In NH, PA, UT, and WY, all wine sales are through state stores. Revenue in these states is generated from various taxes, fees, and net profits.
[2] In 18 states, the government directly controls the sale of distilled spirits. Revenue in these states is generated from various taxes, fees, and net profits.

Wine Tax Rates by State
(July 2009)



Liquor Tax Rates by State
(July 2009)



The State continues to suffer tax avoidance and evasion due to the bootlegging of liquor from other 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 wholesales. 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 http://www.budget.state.ny.us/pubs/supporting/ForecastMethodology-FINAL_11-05-09.pdf

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

2009-10 Estimates

All Funds collections through December are $171.7 million, an increase of $13.8 million, or 8.7 percent above the comparable period last year.

All Funds receipts for 2009-10 are estimated to be $223 million, an increase of $17 million, or 8 percent above last year.

Of the total estimated receipts, $158 million is projected to be derived from liquor, $49 million from beer and $16 million from wine and other taxed beverages.

COMPONENTS OF ALCOHOLIC BEVERAGE TAX RECEIPTS (millions of dollars)							
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10 Projected	2010-11 Projected
Beer	34	36	37	38	36	49	50
Liquor	141	145	147	154	159	158	162
Wine & Other	10	11	12	13	11	16	17
Total	185	192	196	205	206	223	229

2010-11 Projections

All Funds receipts are projected to be $229 million, an increase of $6 million, or 2.7 percent above 2009-10.

Based on recent trends, the consumption of beer and liquor are expected to grow modestly.

Of the total projected alcoholic beverage tax receipts, $ 162 million is projected to be derived from liquor, $50 million from beer, and $17 million from wine and other specialty beverages.

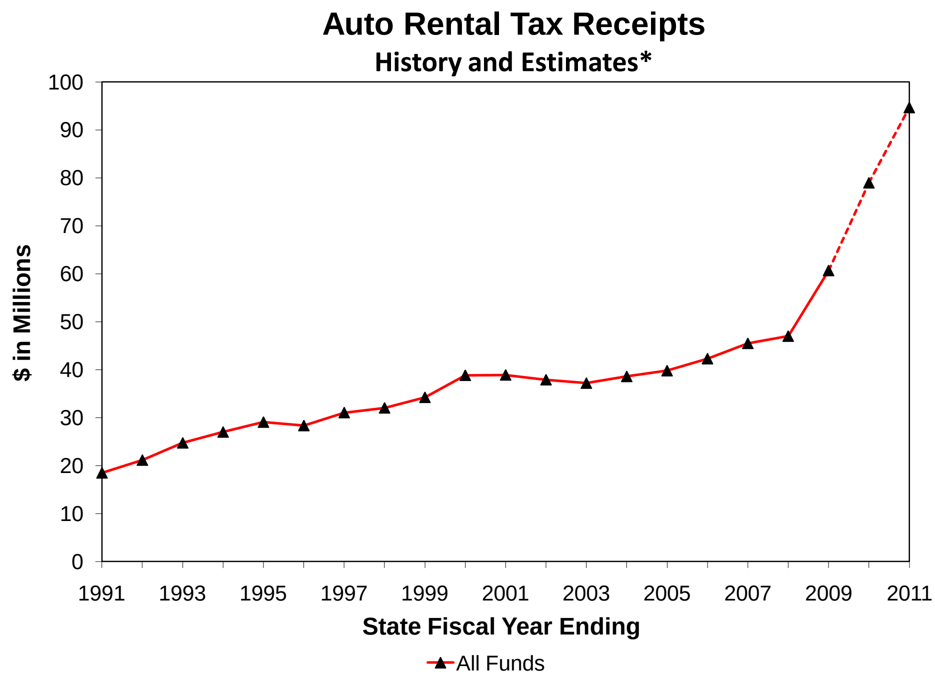
General Fund

Currently, all receipts from the alcoholic beverage tax are deposited in the General Fund.

AUTO RENTAL TAX

AUTO RENTAL TAX (millions of dollars)							
	2008-09 Actual	2009-10 Estimated	Change	Percent Change	2010-11 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	60.7	79.0	18.3	30.1	94.7	15.7	19.9
All Funds	60.7	79.0	18.3	30.1	94.7	15.7	19.9

Note: Totals may differ due to rounding.



*Revenues include the supplemental tax on auto rentals

AUTO RENTAL TAX BY FUND (thousands of dollars)				
	General Fund	Capital Project Funds[1]	Special Revenue Funds[2]	All Fund Receipts
2000-01	38,916	0	0	0
2001-02	37,914	0	0	0
2002-03	0	37,191	0	37,191
2003-04	0	38,593	0	38,593
2004-05	0	39,824	0	39,824
2005-06	0	42,303	0	42,303
2006-07	0	45,500	0	45,500
2007-08	0	46,973	0	46,973
2008-09	0	60,702	0	60,702
Estimated				
2009-10	0	52,700	26,300	79,000
2010-11	0	59,700	35,000	94,700

[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 that is rented or used 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 http://www.budget.state.ny.us/pubs/supporting/ForecastMethodology-FINAL_11-05-09.pdf

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RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2009-10 Estimates

All Funds collections through December are $55.9 million, an increase of $8.3 million, or 17.4 percent above the comparable period in the prior fiscal year. Without the supplemental tax, auto tax receipts are down $9.4 million or 19.7 percent.

All Funds receipts for 2009-10 are estimated to be $79.0 million, an increase of $18.3 million, or 30.1 percent above last year. This includes the estimated $26.3 million from the supplemental tax on passenger car rentals in the MCTD. Without the supplemental tax, auto rental tax receipts are estimated to decline by $8 million, or 13.2 percent below last year.

2010-11 Projections

All Funds receipts are projected to be $94.7 million, an increase of $15.7 million, or 19.9 percent above 2009-10. Without the supplemental tax, auto rental tax receipts are projected to increase by $7 million, or 13.3 percent above 2009-10. The full impact of the auto rental tax increase is projected to increase revenues by $10 million.

General Fund

Since April 1, 2002, no auto rental tax receipts have been deposited in the General Fund.

Other Funds

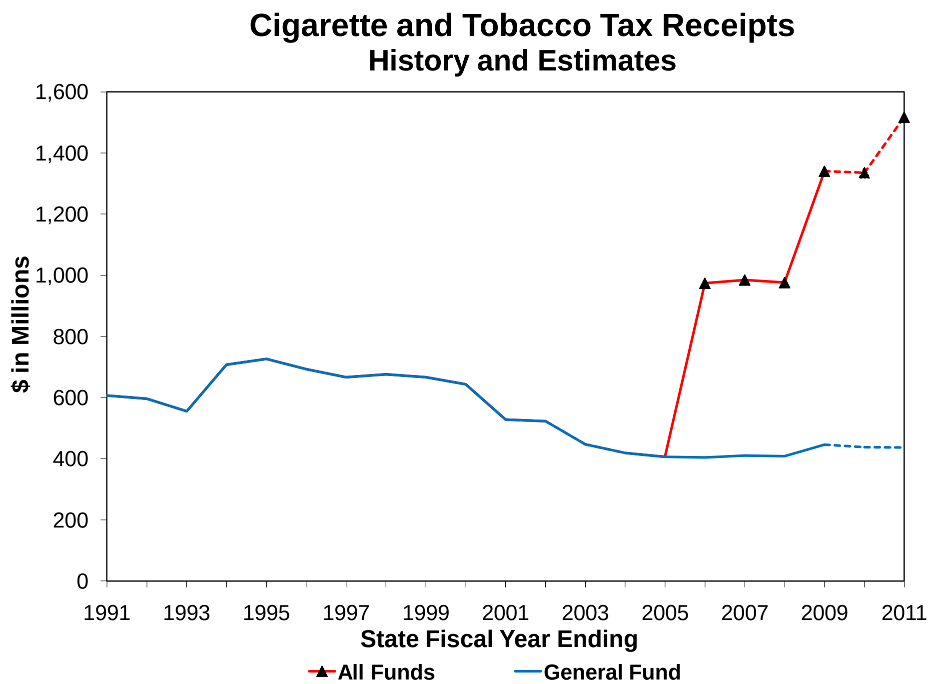
Legislation enacted in 2002 dedicated all receipts from the auto rental tax to the Dedicated Highway and Bridge Trust Fund, effective April 1, 2002.

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)							
	2008-09 Actual	2009-10 Estimated	Change	Percent Change	2010-11 Projected	Change	Percent Change
General Fund	446.4	437.5	(8.9)	(2.0)	438.0	0.5	0.1
Other Funds	894.0	898.0	4.0	0.4	1,088.0	190.0	21.2
All Funds	1,340.4	1,335.5	(4.9)	(0.4)	1,526.0	190.5	14.3

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
2000-01	532	4	528	0	528
2001-02	530	7	523	0	532
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
Estimated					
2009-10	439	1	438	898	1,336
2010-11					
Current Law	429	1	428	880	1,308
Proposed Law	439	1	438	1,088	1,526

*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 submitted with this Budget would:

- Increase the cigarette tax by $1 per pack, from $2.75 a pack to $3.75. The revenue split between HCRA and the General Fund would increase to dedicate 75 percent of cigarette revenue to HCRA.

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 $2.75 per package of 20 cigarettes. Legislation proposed with this Budget would increase the rate to $3.75 per pack.

The Federal government imposes a cigarette excise tax on manufacturers and first importers of cigarettes. The Federal tax rate was increased from 24 cents to 34 cents per pack on January 1, 2000, to 39 cents per pack on January 1, 2002, and to $1.01 per pack on April 1, 2009. Effective March 1, 2000, New York raised its tax by 55 cents to $1.11 per pack and effective April 3, 2002, by 39 cents to $1.50 per pack. On June 3, 2008, the State's tax was increased by $1.25 to $2.75 per pack. 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		***Rate***		***Rate***
	(cents)		(cents)		(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				
June 2, 2010 (proposed)	375				

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 46 percent of their wholesale price except for snuff products, which are taxed at a rate of $0.96 cents per ounce. 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 and maximum local cigarette tax rates.

CIGARETTE TAX RATES
Cents Per Pack Ranked by State Tax Rate
As of January 1, 2010

Rank (High toLow)	State Rate	Rank (High toLow)	State Rate
Rhode Island	346.0	Oregon	118.0
Connecticut	300.0	Arkansas	115.0
New York	**275.0**	Oklahoma	103.0
New Jersey	270.0	Indiana	99.5
Hawaii	260.0	Illinois	98.0
Wisconsin	252.0	New Mexico	91.0
Massachusetts	251.0	California	87.0
District of Columbia	250.0	Colorado	84.0
Vermont	224.0	Nevada	80.0
Washington	202.5	Kansas	79.0
Alaska	200.0	Utah	69.5
Arizona	200.0	Mississippi	68.0
Maine	200.0	Nebraska	64.0
Maryland	200.0	Tennessee	62.0
Michigan	200.0	Wyoming	60.0
New Hampshire	178.0	Kentucky	60.0
Montana	170.0	Idaho	57.0
Pennsylvania	160.0	West Virginia	55.0
Delaware	160.0	North Carolina	45.0
Minnesota	156.0	North Dakota	44.0
South Dakota	153.0	Alabama	42.5
Texas	141.0	Georgia	37.0
Iowa	136.0	Louisiana	36.0
National Average	**134.4**	Virginia	30.0
Florida	133.9	Missouri	17.0
Ohio	125.0	South Carolina	7.0

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 by banning Internet sales and the delivery by common carrier of cigarettes to individual consumers in New York. This law, however, cannot apply to the U.S. Postal Service. After a lawsuit by Brown and Williamson Tobacco, this legislation was ruled unconstitutional by the U.S. District Court of the Southern District of New York and enjoined from going into effect. The State's appeal was heard in June 2002 and the law became effective in March 2003 when the U.S. Circuit Court of Appeals ruled for the State. Appeals in this case have been exhausted. In April 2003, trucking associations from New York, New Jersey and Connecticut filed a separate suit to have the statute declared unconstitutional. The case was decided in favor of the State by the U.S. District Court of the Southern District of New York in December 2004.

In 2005, legislation was enacted requiring the collection of tax on cigarettes sold on Native-American reservations to non-Native-Americans. In January 2007, a preliminary injunction was issued in the 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, are taken. Further litigation may be brought upon the implementation of the statutes.

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
Legislation Enacted in 1985		
Cigarettes - CMSA	Enacted the Cigarette Marketing Standards Act (CMSA) as Article 20-A of the Tax Law.	November 1, 1985

Subject	Description	Effective Date
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	Imposes a tax on snuff products at a rate of $0.96 cents per ounce.	July 1, 2008
Legislation Enacted In 2009		
Cigarette Tax	Increased the 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

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 http://www.budget.state.ny.us/pubs/supporting/ForecastMethodology-FINAL_11-05-09.pdf

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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

2009-10 Estimates

Total collections (including HCRA) through December are $1,078 million, an increase of $130.5 million from the comparable period in the prior fiscal year. Total receipts for 2009-10 are estimated to be $1,335.5 million, a decrease of $4.9 million, or 0.4 percent below last year. The decrease reflects a decline in cigarette tax receipts, partially attributable to lower consumption following the Federal tax increase on April 1, 2009, partially off-set by increased tobacco tax collections due to the increased tax rate.

A temporary restraining order has been issued as a result of litigation against the increased retail registration fee enacted in the 2009-10 budget. This temporary restraining order has allowed retailers to register based on the pre-increase rates pending further court action. All receipts from the fee increase have been removed from the estimate until final resolution of the litigation.

2010-11 Projections

Under current law, all Funds receipts are projected to be $1,308 million, a decrease of $27.5 million, or 2.1 percent above 2009-10. This decrease reflects trend declines in taxable consumption of cigarettes and lower audit collections from the tobacco products tax. Legislation proposed with this Budget would increase the cigarette tax by $1 per pack, resulting in projected All Funds receipts of $1,526 million, an increase of $190.5 million from the prior year.

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 June 2, 2010 (*proposed*)	
General Fund	25.00
HCRA	75.00

Currently, 70.63 percent of the proceeds from the State cigarette tax of $2.75 are deposited in the Tobacco Control and Insurance Initiatives Pool established in the Health Care Reform Act of 2000. HCRA's portion of the cigarette tax would increase to 75 percent under legislation proposed with this Budget.

Prior to 2005-06, HCRA was not included within the State's fund structure. Beginning in 2005-06, the Tobacco Control and Insurance Initiatives Pool is included in All Funds collections as a Special Revenue Fund.

Based on the percentage distribution of cigarette tax, the pool will receive an estimated $898 million in 2009-10. Receipts to date are $715.6 million, $19.5 million or 2.8 percent above receipts for the first nine months of 2008-09. HCRA will receive a larger percentage of cigarette tax receipts in 2009-10 due to the change in the percentage splits that took effect in June 2008. Under current law, receipts in 2010-11 are projected to decline by $18 million, or 2.0 percent, reflecting trend declines in taxable consumption. Under the proposal to increase the cigarette tax to $3.75 per pack, 2010-11 receipts are projected to increase by $190 million, to $1,088 million.

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 Tobacco Control and Insurance Initiatives Pool. New York State share of the City's cigarette tax is projected to be $77 million in 2009-10 and $76 million in 2010-11. However, receipts would decline to $68 million under proposed law to increase the State's excise tax, due to reduced taxable consumption in New York City.

General Fund

General Fund cigarette and tobacco tax receipts for 2009-10 are estimated at $437.5 million, a decrease of $8.9 million, or 2.0 percent, from 2008-09. This decline reflects the loss of revenue from pre-buying in advance of the June 3, 2008 cigarette tax increase and a decline in cigarette consumption, partially offset by higher tobacco products tax collection. Through December, General Fund cigarette and tobacco tax receipts are an estimated $362.4 million, an increase of $11.3 million, or 3.2 percent above the comparable period in the prior fiscal year. Following the increase in the tobacco products tax from 37 percent of the wholesale price to 46 percent of the wholesale price in April 2009, receipts have increased by $15.2 million year-to-date. Receipts from the tobacco products tax are projected to be $62.0 million for the year.

For 2010-11, General Fund cigarette tax receipts under current law are projected at $428 million, a decrease of $9.5 million. This decrease reflects trend declines in taxable consumption of cigarettes and lower audit collections from the tobacco products tax. Under proposed law, General Fund receipts are projected to be $10 million higher, due to pre-buying in advance of the proposed $1 per pack increase in the State cigarette excise tax.

CIGARETTE AND TOBACCO TAX RECEIPTS
(millions of dollars)

	General Fund				HCRA	General
Fiscal Year	Cigarette Tax	Tobacco Tax	Other	Total	Cigarette Tax*	Fund Plus HCRA
2000-01	504	21	4	528	495	1,024
2001-02	499	22	2	523	481	1,005
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**	373	62	3	438	898	1,336
2010-11**	376	59	3	438	1,088	1,526

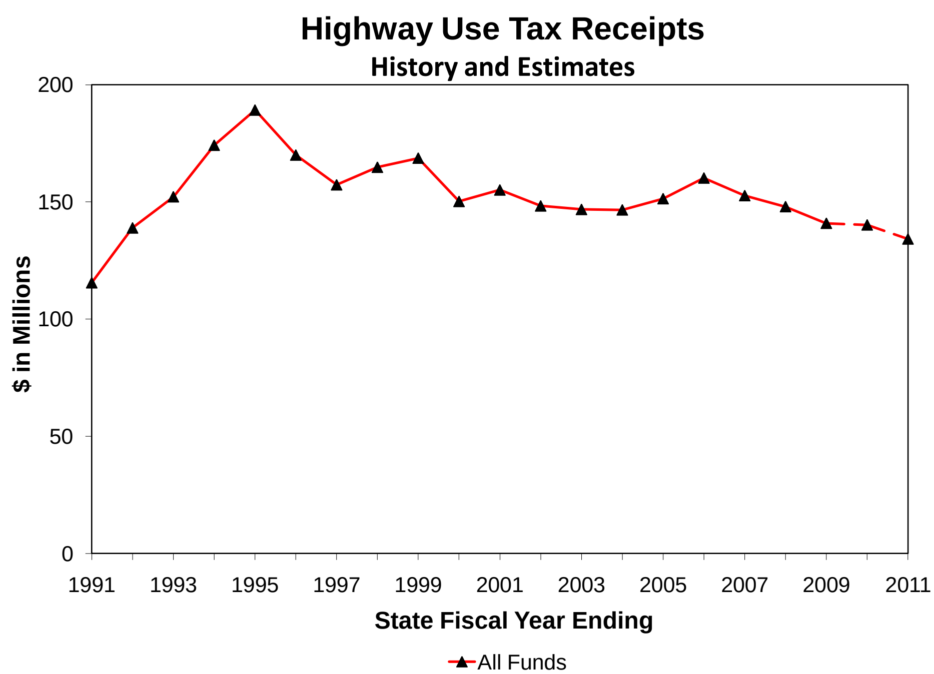
Note: Components may not add to total due to rounding.
* Prior to 2005-06, HCRA Cigarette Tax receipts were deposited to the off-budget Tobacco Control and Insurance Incentive Pool established in the Health Care Reform Act of 2000.
** Estimated

HIGHWAY USE TAX

HIGHWAY USE TAX
(millions of dollars)

	2008-09 Actual	2009-10 Estimated	Change	Percent Change	2010-11 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	140.9	140.2	(0.7)	(0.5)	134.2	(6.0)	(4.3)

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
2000-01	157	2	155	155
2001-02	150	2	148	148
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
Estimated				
2009-10	142	2	140	140
2010-11	136	2	134	134

[1] Dedicated Highway and Bridge Trust Fund.

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, 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 $0.08 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.

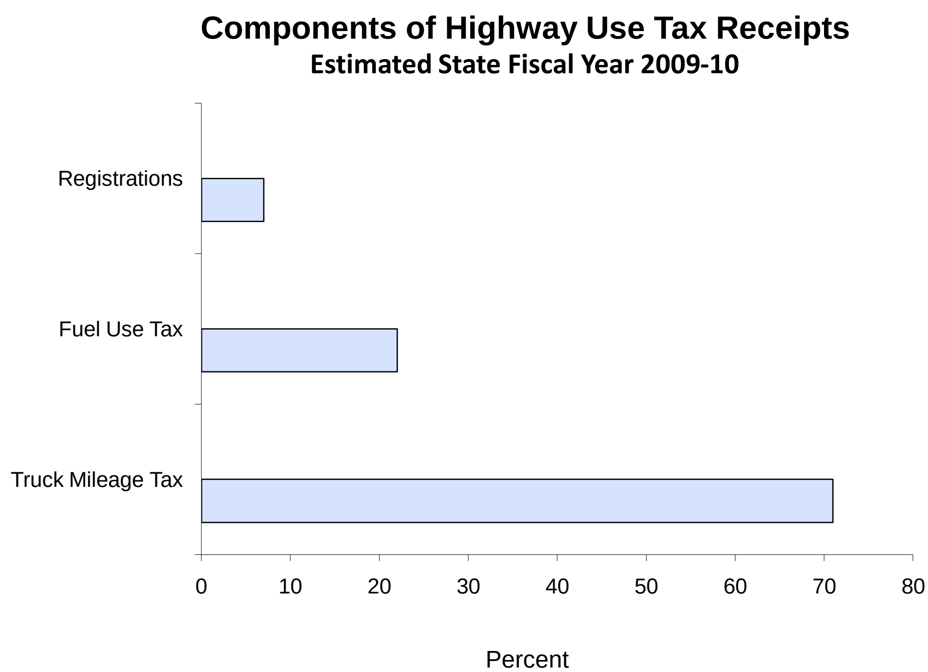
Fees Registration

Prior to July 1, 2007, commercial carriers liable for the truck mileage tax would purchase a highway use permit/sticker for each qualifying vehicle. Permits were issued triennially at an initial cost of $15 with subsequent renewals of $4 for motor vehicles and $2 for trailers.

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 law was later repealed on September 6th, 2008, in a technical corrections bill). 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. 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 a certificate of registration are now all $15.



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 rates) 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 eight 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 eight to seven percent.	1978 and after
Legislation Enacted in 1982		
Fuel Carrier Permit	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

Subject	Description	Effective Date
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 in order to comply with Federal law.	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 http://www.budget.state.ny.us/pubs/supporting/ForecastMethodology-FINAL_11-05-09.pdf

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RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2009-10 Estimates

All Funds collections through December are $107.1 million, a decrease of $4.1 million, or 3.7 percent below the comparable period in the prior fiscal year.

All Funds receipts for 2009-10 are estimated to be $140.2 million, a decrease of $0.7 million, or 0.5 percent below last year.

Net truck mileage tax receipts are estimated at $100.0 million, fuel use tax receipts at $30.5 million and registration fees at $9.7 million. The re-registration program and the fee increase occurred in 2009-10, which increased revenues by $7.5 million. The last time TMT receipts were at or below $100 million was in 1990-91.

2010-11 Projections

All Funds receipts are projected to be $134.2 million, a decrease of $6 million, or 4.3 percent below 2009-10. The decrease reflects a non-triennial year.

General Fund

Since 1994-95, no highway use tax receipts have been deposited in the General Fund.

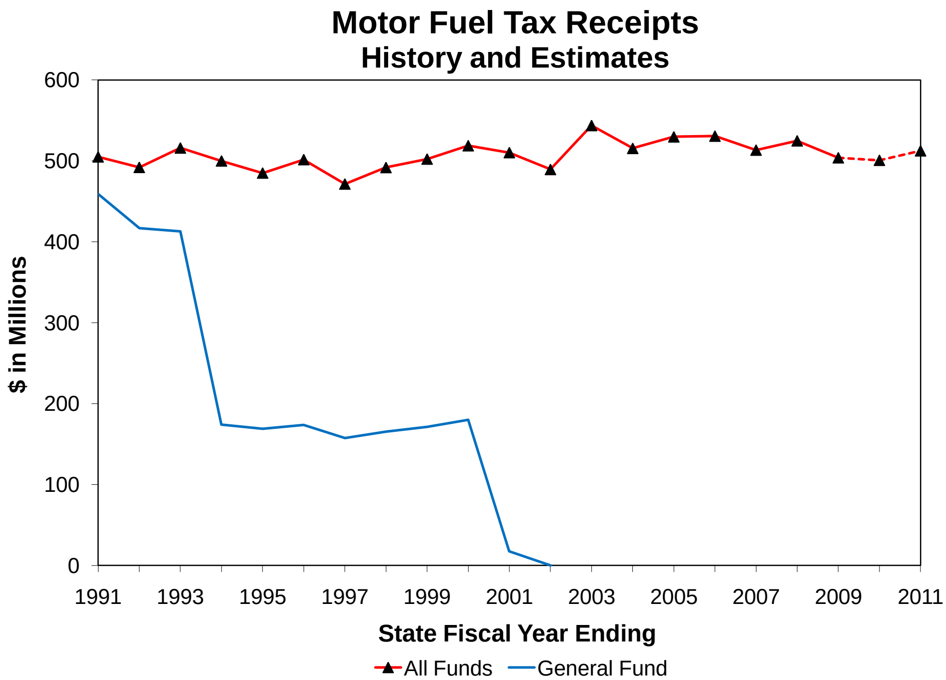
Other Funds

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)							
	2008-09 Actual	2009-10 Estimated	Change	Percent Change	2010-11 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	503.9	500.8	(3.1)	(0.6)	502.5	1.7	0.3
All Funds	503.9	500.8	(3.1)	(0.6)	502.5	1.7	0.3

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
2000-01	524	17	58	323	112	14	510
2001-02	502	0	62	320	107	13	489
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
Estimated							
2009-10	519	0	105	396	0	18	501
2010-11	521	0	106	397	0	18	503

[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

No new legislation is proposed with this Budget.

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. The history of the tax rate is below.

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 (July 1, 2009) [1]		
State	State Motor Fuel Tax (cents per gallon)	Total State Tax [2] (cents per gallon)
1. CONNECTICUT**	25.0	40.0
2. WASHINGTON	37.5	39.5
3. ILLINOIS *	19.0	37.3
4. CALIFORNIA *	18.0	37.0
5. INDIANA *	18.0	36.0
6. MICHIGAN *	19.0	35.0
7. **NEW YORK ***	8.0	33.3
8. RHODE ISLAND	32.0	33.0
9. WISCONSIN	30.9	32.9
10. W. VIRGINIA	20.5	32.2
11. PENNSYLVANIA	12.0	31.2
12. N. CAROLINA	26.6	29.9
13. MAINE	29.5	29.5
14. OHIO	28.0	28.0
15. HAWAII *	17.0	28.0
16. MONTANA	27.0	27.8
17. NEBRASKA	26.4	26.4
18. IDAHO	25.0	26.0
19. KANSAS	24.0	25.0
20. UTAH	24.5	24.5
21. OREGON	24.0	24.0
22. S. DAKOTA	22.0	24.0
23. MINNESOTA	22.0	24.0
24. MARYLAND	23.5	23.5
25. NEVADA	23.0	23.0
26. DELAWARE	23.0	23.0
27. N. DAKOTA	23.0	23.0
28. KENTUCKY	21.1	22.5
29. VERMONT	19.0	22.5
30. COLORADO	22.0	22.0
31. ARKANSAS	21.5	21.7
32. TENNESSEE	20.0	21.4
33. MASSACHUSETTS	21.0	21.0
34. IOWA	19.7	21.0
35. DIST. OF COLUMBIA	20.0	20.0
36. LOUISIANA	20.0	20.0
37. TEXAS	20.0	20.0
38. NEW HAMPSHIRE	18.0	19.5
39. VIRGINIA	19.0	19.0
40. ARIZONA	18.0	19.0
41. GEORGIA *	7.5	19.0
42. NEW MEXICO	17.0	18.9
43. MISSISSIPPI	18.0	18.4
44. ALABAMA	16.0	18.0
45. MISSOURI	17.0	17.6
46. OKLAHOMA	16.0	17.0
47. S. CAROLINA	16.0	16.8
48. FLORIDA	16.1	16.1
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
(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 wholesale gasoline price
*** Alaska excise tax reverts to 8 cents per gallon on Sept. 1, 2009
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 requires 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.	September 1, 2006

TAX LIABILITY

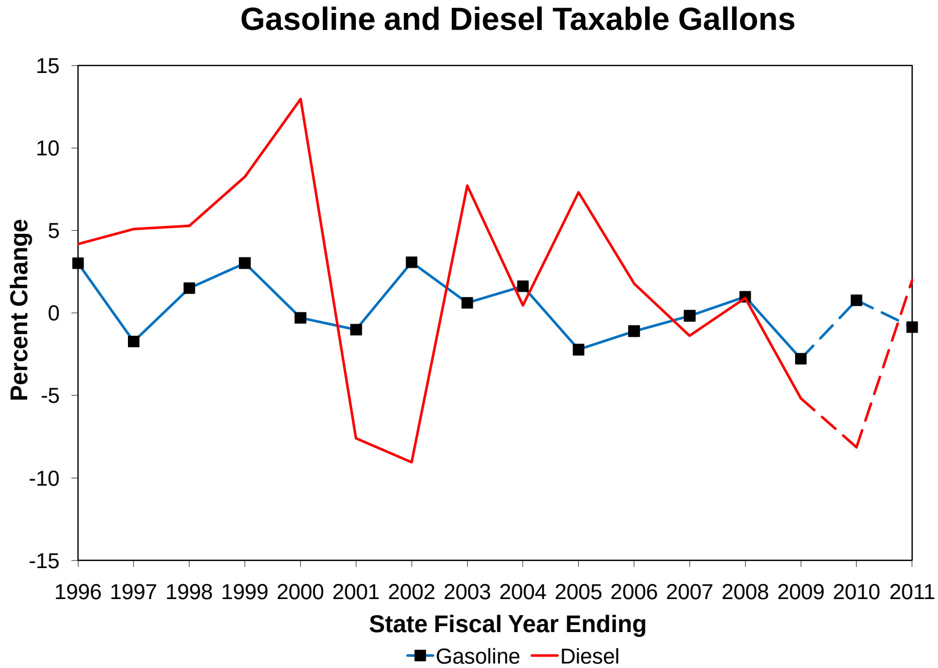
Motor fuel tax collections are a function of the number of gallons of fuel imported into the State by distributors. Gallonage is determined in large part by fuel prices, the amount of fuel held in inventories, the fuel efficiency of motor vehicles and overall state economic performance.

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 http://www.budget.state.ny.us/pubs/supporting/ForecastMethodology-FINAL_11-05-09.pdf

Taxable Gallons

Diesel fuel consumption is more susceptible to economic events, while gasoline consumption is driven more heavily by fuel prices.

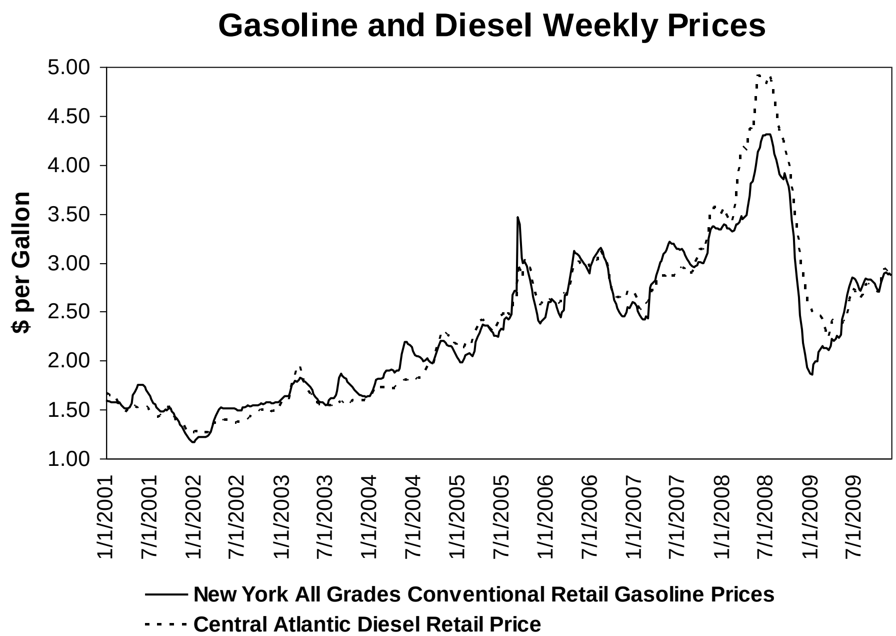
Gasoline and diesel fuel consumption decreased significantly in 2008-09 due to higher fuel prices and slower economic activities. Gasoline gallonage consumption was the lowest since 1997-98 while diesel gallonage consumption was the lowest since 2002-03. The following chart shows the gallonage trend since 1995-96.



Gasoline gallons are projected to grow modestly in 2009-10 while diesel gallons are estimated to decline. A discussion related to energy prices can be seen in the Economic Forecast section of this volume.

Gasoline and Diesel Gallons				
Fiscal Year	Gasoline (millions of gallons)	Percent Change	Diesel (millions of gallons)	Percent Change
2005-06	5,607	(1.10)	920	1.72
2006-07	5,597	(0.17)	907	(1.38)
2007-08	5,652	0.98	916	0.91
2008-09	5,496	(2.77)	868	(5.17)
2009-10 (Est.)	5,538	0.77	798	(8.13)
2010-11 (Proj.)	5,491	(0.85)	814	2.00

The gasoline price reached a peak of $4.30 in June and July 2008. Since November 2008, the price of gasoline has been below $3. From the middle of March through September, the diesel price was over $4. The peak diesel price was $4.91. Since December 2008, the diesel price has not been above $3. Since the motor fuel tax and sales tax on motor fuel and diesel motor fuel are capped, the State realized no additional tax revenues during the peak price periods. The following chart shows a history of weekly price changes.



Source: U.S. Department of Energy, Energy Information Administration (EIA)

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2009-10 Estimates

All Funds collections through December are $384.9 million, an increase of $1.8 million, or 0.5 percent above the comparable period in the prior fiscal year.

All Funds receipts for 2009-10 are estimated to be $500.8 million, a decrease of $3.1 million, or 0.6 percent below last year.

2010-11 Projections

All Funds receipts are projected to be $502.5 million, an increase of $1.7 million, or 0.3 percent above 2009-10.

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

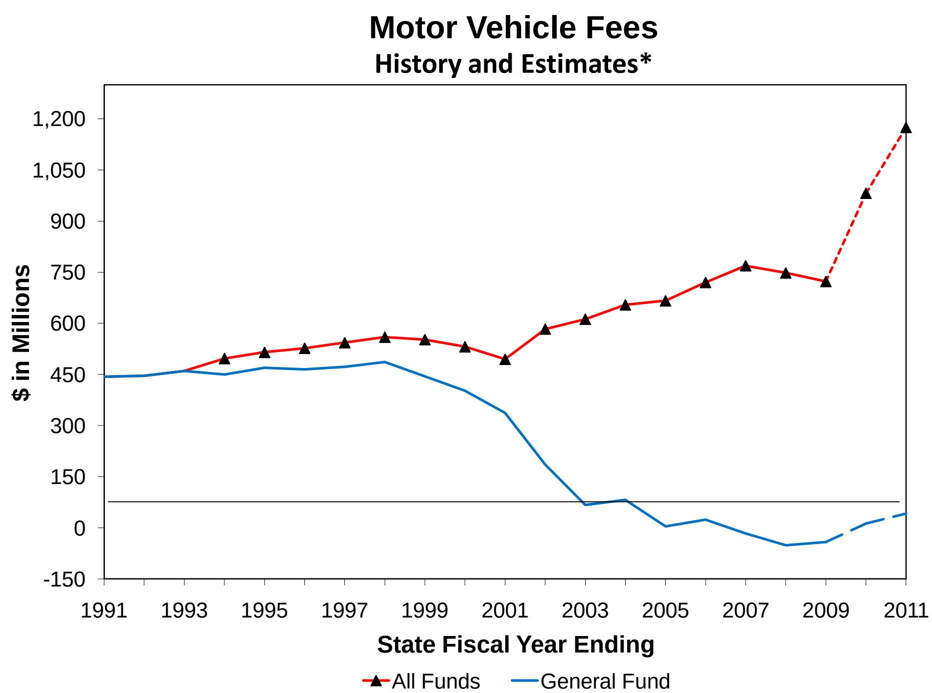
[1] Dedicated Highway and Bridge Trust Fund.
[2] Emergency Highway Reconditioning and Preservation Fund and the Emergency Highway Construction and Reconstruction Fund.
[3] Dedicated Mass Transportation Trust Fund.

Motor fuel tax receipts in 2009-10 are estimated to be $396 million for DHBTF and $105 million for DMTTF. Motor fuel tax receipts in 2010-11 are projected to be $397 million for DHBTF and $106 million for the DMTTF.

MOTOR VEHICLE FEES

MOTOR VEHICLE FEES (millions of dollars)							
	2008-09 Actual	2009-10 Estimated	Change	Percent Change	2010-11 Projected	Change	Percent Change
General Fund	(42.0)	12.7	54.7		42.3	29.6	233.1
Other Funds	764.9	969.0	204.1	26.7	1,132.3	163.3	16.9
All Funds	722.9	981.7	258.8	35.8	1,174.6	192.9	19.6

Note: Totals may differ due to rounding.



*Revenues include the supplemental motor vehicle fees

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]
2000-01	356	19	337	0	0	0	157	0	157	494
2001-02	208	23	185	28	0	28	371	0	371	584
2002-03	92	25	67	76	0	76	470	0	470	613
2003-04	100	18	82	105	0	105	468	0	468	655
2004-05	33	29	4	138	0	138	525	0	525	666
2005-06	24	0	24	206	5	201	571	15	495	720
2006-07	(17)	0	(17)	234	5	229	572	15	557	770
2007-08	(51)	0	(51)	235	5	230	584	15	569	748
2008-09	(42)	0	(42)	223	5	218	562	15	547	723
Estimated										
2009-10	13	0	13	353	5	348	636	15	621	982
2010-11	42	0	42	445	5	440	708	15	693	1,175

[1]Dedicated Mass Transportation Trust Fund and the MTA Aid Trust Account.

[2]Dedicated Highway and Bridge Trust Fund.

MOTOR VEHICLE FEES

PROPOSED LEGISLATION

No new legislation is proposed with 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 2008, almost 10.7 million vehicles were registered in New York State, including 872,036 commercial vehicles. Vehicles owned by nonresidents and registered with a political jurisdiction outside the State are not usually required to be registered in New York. New York State Vehicle and Traffic Law require drivers to be licensed by the Department of Motor Vehicles. The current license renewal period is eight years. In 2008, New York State had over 11 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		86.25 for period of 28.75 per year or 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 $33.4 million in 2008-09.

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; provided reciprocity is granted; and vehicles owned and used for the transportation of animals by societies for the prevention of cruelty to animals. The revenue loss from these exemptions is minimal.

Significant Legislation

The recent significant statutory changes to motor vehicle fees are summarized below.

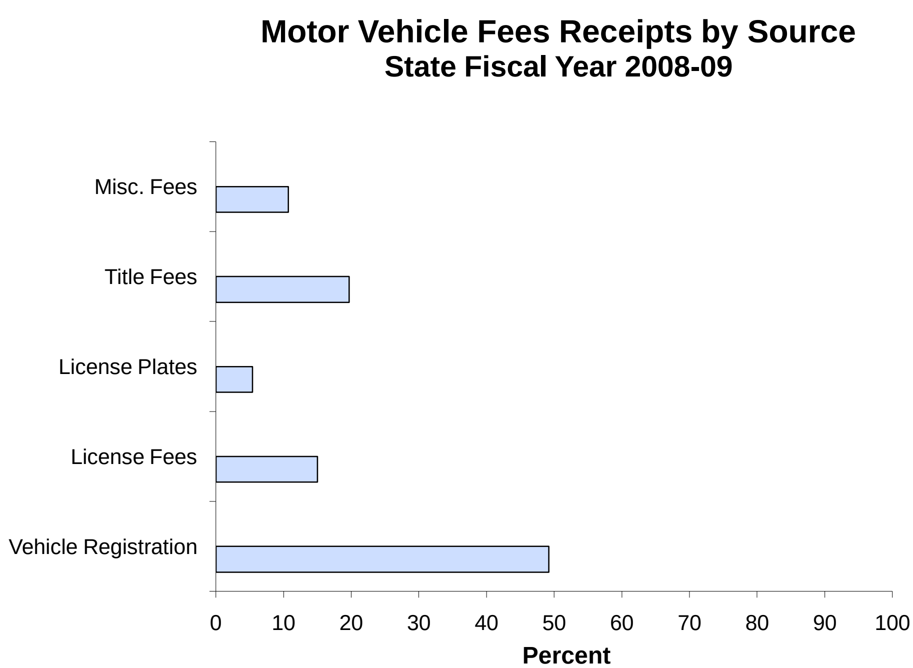
Subject	Description	Effective Date
Legislation Enacted in 1989		
Registrations	Biennialization of registration for vehicles weighing less than 18,000 pounds.	June 16, 1989
Administrative Changes in 1996		
Licenses	License renewal period extended to five years.	April 1, 1996
Legislation Enacted in 1997		
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 Motorcycle Safety Fund.	January 1, 1998
Administrative Changes in 1997		
Photo image fee	Photo image fee increased to $3.00.	April 1, 1997
Legislation Enacted in 1998		

MOTOR VEHICLE FEES

Subject	Description	Effective Date
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

FEE LIABILITY

The chart below shows the shares of receipts from vehicle registrations, licenses, and other fees.



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.

For a more detailed discussion of the methods and models used to develop estimates and projections for the motor vehicle fees, please see the *Economic, Revenue and Spending Methodologies* at http://www.budget.state.ny.us/pubs/supporting/ForecastMethodology-FINAL_11-05-09.pdf

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RECEIPTS: ESTIMATES AND PROJECTIONS

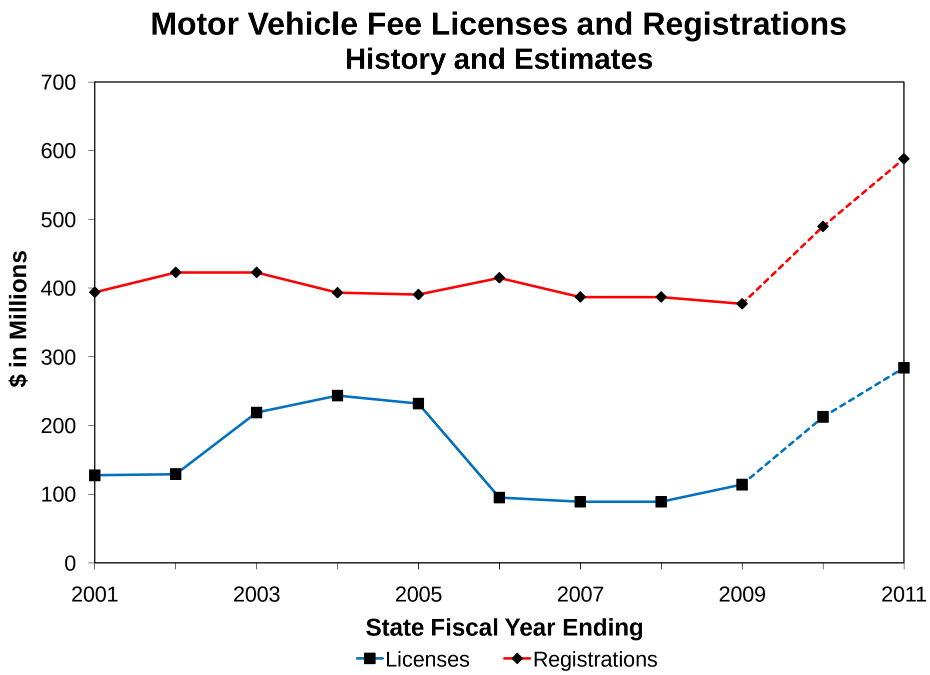
All Funds

2009-10 Estimates

All Funds collections through December are $694.7 million, an increase of $151.2 million, or 27.8 percent above the comparable period in the prior fiscal year.

All Funds receipts for 2009-10 are estimated to be $981.7 million, an increase of $258.8 million, or 35.8 percent above last year. This increase reflects the increase in license and registration fees and the peak in the license renewal cycle. The 25 percent increase in license and most registration fees in the 2009-10 Enacted Budget are estimated to increase receipts by $18.8 million and $51.9 million, respectively. Receipts from license renewals are estimated to increase by roughly $60 million. The MTA supplemental motor vehicle fees are estimated to increase receipts by $120.7 million.

The increase in registration fee receipts in 2009-10 and 2010-11 is due to the 25 percent increase and the newly imposed supplemental motor vehicle fees. The number of registrations has remained relatively flat year to year. However, license renewals follow an eight-year renewal pattern and are currently at the portion of the cycle that will produce an increase in receipts.

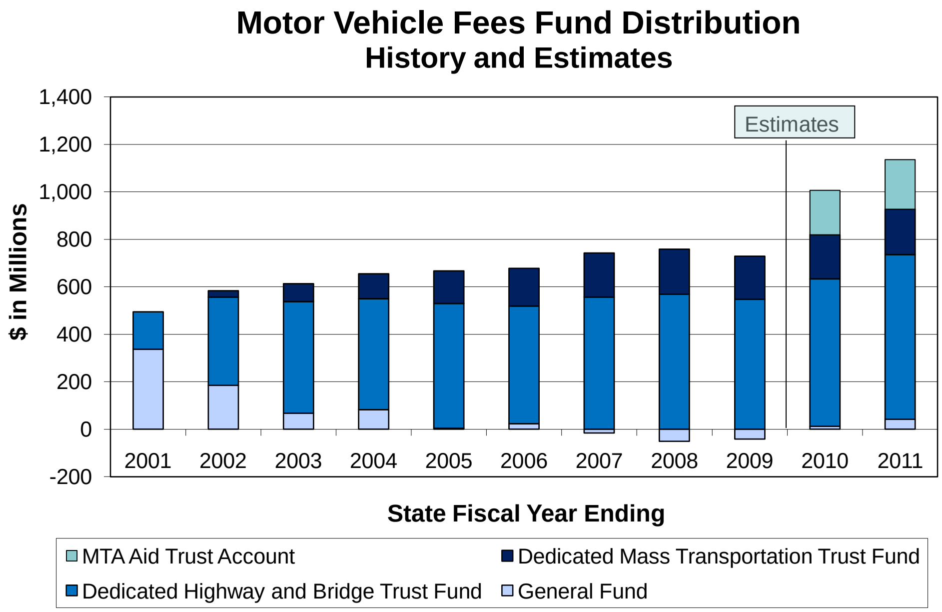


2010-11 Projections

All Funds receipts are projected to be $1,174.6 million, an increase of $192.9 million, or 19.6 percent above 2009-10. Before statutory changes, license renewals are projected to increase by roughly $12 million. The 25 percent increase in license and most registration fees in the 2009-10 Enacted Budget are projected to increase receipts by $37.6 million and $103.7 million, respectively. The increase in the issuance cost of license plates from $15 to $25 is projected to increase revenues by $20 million. The MTA supplemental motor vehicle fees are projected to increase receipts by $208.3 million.

General Fund

Effective in 2006 and every year thereafter, of the amount of otherwise non-dedicated motor vehicle fees, $169,354,000 will be 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 and any surplus monies remain in the General Fund. The General Fund covered a shortfall of $16.5 million in 2006-07, $50.9 million in 2007-08 and $42 million in 2008-09. The General Fund in 2009-10 and 2010-11 is estimated to receive $12.7 million and $42.3 million respectively. The increase in funds is due to the uptick in license renewals and the issuance cost increase of license plates on April 1, 2010. The following chart shows the estimated fund distribution from all sources of motor vehicle fees.



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 Dedicated Highway and Bridge Trust Fund (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.

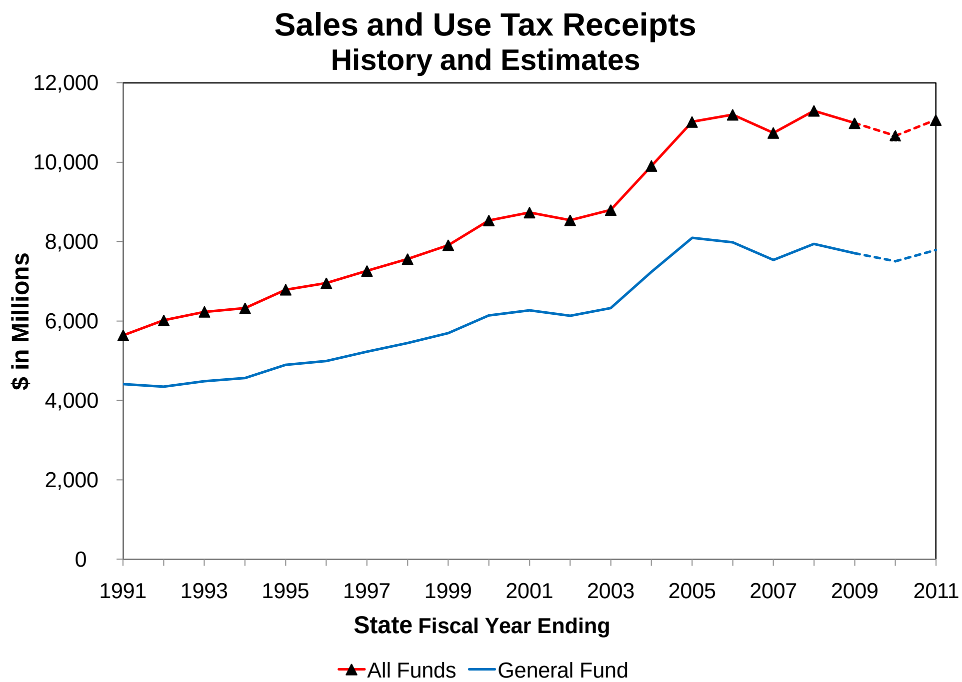
In 2009-10, the Dedicated Highway and Bridge Trust Fund will receive an estimated $620.6 million and the Dedicated Mass Transportation Trust Fund will receive an estimated $186.5 million. The MTA Aid Trust Account is estimated to receive $120.7 million. Various other dedicated funds will receive a portion of the remaining $41.2 million.

In 2010-11, the Dedicated Highway and Bridge Trust Fund will receive a projected $692.7 million and the Dedicated Mass Transportation Trust Fund will receive a projected $190.1 million. The MTA Aid Trust Account is projected to receive $208.3 million. Various other dedicated funds will receive a portion of the remaining $41.2 million.

SALES AND USE TAX

SALES AND USE TAX (millions of dollars)	2008-09 Actual	2009-10 Estimated	Change	Percent Change	2010-11 Projected	Change	Percent Change
General Fund	7,707.1	7,503.8	(203.3)	(2.6)	7,785.0	281.2	3.7
LGAC	2,566.9	2,501.2	(65.7)	(2.6)	2,595.0	93.8	3.8
MTOAF	711.2	662.2	(49.0)	(6.9)	684.0	21.8	3.3
All Funds	10,985.2	10,667.2	(318.0)	(2.9)	11,064.0	396.8	3.7

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
2000-01	6,311	39	6,272	368	2,092	8,732
2001-02	6,174	43	6,131	365	2,044	8,540
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
Estimated						
2009-10	7,564	60	7,504	662	2,501	10,667
2010-11						
Current Law	7,831	60	7,771	684	2,590	11,045
Proposed Law	7,845	60	7,785	684	2,595	11,064

[1] Mass Transportation Operating Assistance Fund.
[2] Local Government Assistance Corporation Fund.

PROPOSED LEGISLATION

Legislation submitted with this Budget would:

- mirror federal requirements by requiring certain financial institutions to also file information returns with the state annually regarding amounts of credit/debit card settlements and third party network transactions;

- authorize the use of statistical sampling techniques for certain sales tax audits; and

- narrow the affiliate nexus provisions by excluding as a basis for sales tax vendor-status an affiliate's control over the seller.

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 rate in 1971 and to 4.25 percent in 2003. The rate reverted to 4 percent on June 1, 2005.

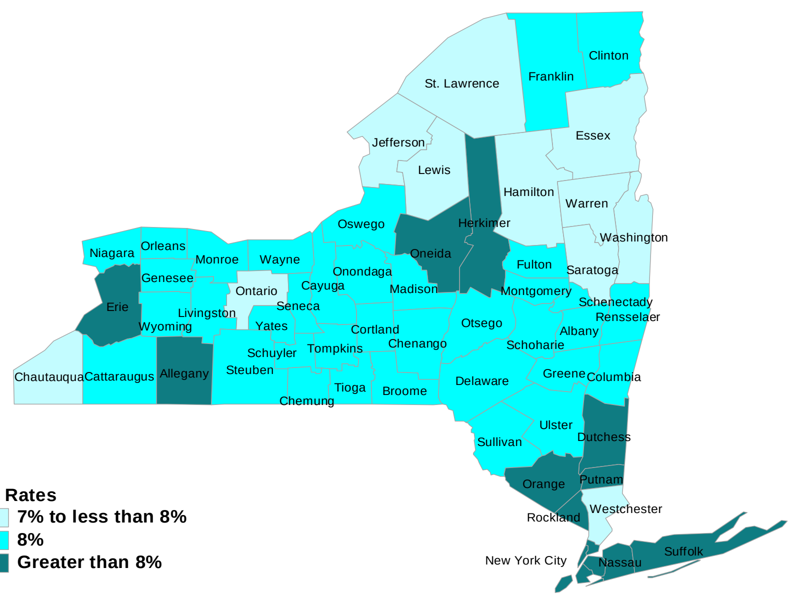
Effective June 1, 2006, the State sales tax rate on motor fuel and diesel motor fuel was capped at 8 cents per gallon.

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 19 cities (including New York City) that impose the general sales tax, 51 counties and three cities received legislative authority to temporarily impose additional rates of tax above the statutory 3 percent general sales tax rate. Over 93 percent of the State's population resides in an area where the tax rate equals or exceeds 8 percent. One county and one city increased their sales tax rate in 2009; On August 1, 2009, the sales tax rate in New York City went from 4 to 4.5 percent and on September 1, 2009, the tax rate in Ontario County went from 3.13 to 3.5 percent.

An additional 0.375 percent sales and use tax is imposed in the 12-county Metropolitan Commuter Transportation District (MCTD). The entire proceeds from the additional MCTD tax are earmarked for the Mass Transportation Operating Assistance Fund (MTOAF).

Combined State and Local Sales Tax Rates By County
Effective September 1, 2009



Administration

There are currently 587,177 sales tax vendors selling taxable property or services who are required to register with the Department of Taxation and Finance. The 2008-09 Enacted Budget provided for a sales tax vendor registration program. This registration program provides a means to update taxpayer information, delete obsolete registrations, and collect new data to support administration of the sales tax. A $50 vendor registration application fee is to be paid by existing monthly and quarterly vendors.

Vendors generally are required to remit the tax quarterly. However, vendors who collect more than $300,000 of tax 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. Nearly 64 percent of sales tax receipts are remitted by the approximately 5,700 vendors that are required to remit by EFT.

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 for upstate and 14¾ cents in the MCTD region. This represents the 8 cents per gallon state sales tax, 6 cents per gallon local sales tax (the lowest in any county) and 0.375 percent MCTD sales and use tax. Legislation enacted in 1995 required prepayment of the sales tax on cigarettes. The tax is prepaid by cigarette agents at the same time as payment for cigarette excise tax stamps. The cigarette prepayment was increased from 7 percent to 8 percent in the 2009-10 Enacted Budget.

SALES TAX VENDORS AND TAXABLE SALES

Filing Status	Number of Active Vendors*	Percent of Total Vendors	Percent of State and Local Receipts
Monthly EFT	5,709	1.0	63.7
Monthly Non-EFT	35,698	6.1	22.3
Quarterly	261,326	44.5	13.7
Annual	284,444	48.4	0.4
Total	587,177	100.0	100.0

* Vendors identified as of December 8, 2009.
Selling period March 1, 2007 through February 28, 2008.
Source: New York State Department of Taxation and Finance.

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. Effective September 1, 2006, the vendor allowance was increased to 5 percent of tax liability, up to a maximum of $175 per quarter for returns filed on time. This cap increased to $200 on March 1, 2007.

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 1970		
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 eight percent sales tax component to the fuel use tax.	1977 and after
Legislation Enacted in 1978		
Residential Fuel	Provided phasing in 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 eight to seven percent.	1978 and after
Legislation Enacted in 1981		
MTA	Imposed 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 one 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	The additional cost of new alternative fuel vehicles above the sales price of comparable gasoline or diesel powered vehicles is exempt from tax. Expired February 29, 2005.	September 1, 1992
Legislation Enacted in 1993		
Information and Entertainment	Tax imposed on information and entertainment services (5%)	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 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
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		
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
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 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. The localities also have options to cap the tax amount at $2 or $3 per gallon under the cents-per-gallon method. Effective December 1, 2007, only 8 counties and 2 cities are imposing the $2 cap on motor fuel and diesel motor fuel.	June 1, 2006
Alternative Fuels	A full exemption for E85, CNG and Hydrogen and a partial exemption for B20 from September 1, 2006 through 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 seven to eight 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

TAX LIABILITY

The sales and compensating use tax, which accounted for about 18.2 percent of 2008-09 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 http://www.budget.state.ny.us/pubs/supporting/ForecastMethodology-FINAL_11-05-09.pdf

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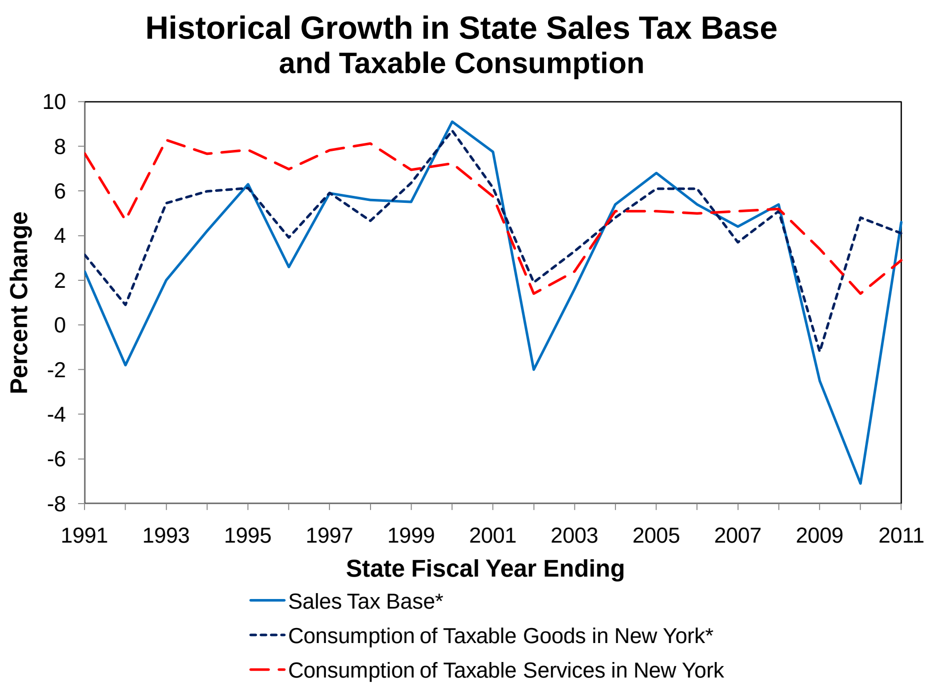
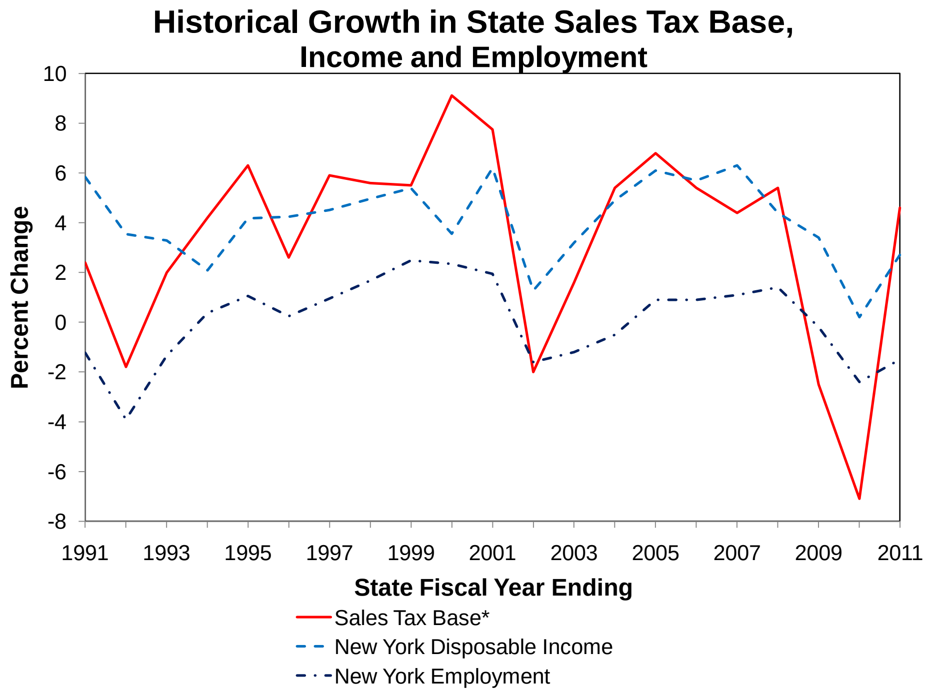
MAJOR ECONOMIC FACTORS AFFECTING SALES TAX RECEIPTS
STATE FISCAL YEARS 2001-02 to 2010-11
Percent Change

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Estimated 2009-10	Projected 2010-11
Consumption of Taxable Goods in NY	1.9	3.3	4.8	6.1	6.1	3.7	5.1	(1.2)	4.8	4.1
Consumption of Taxable Services in NY	1.4	2.4	5.1	5.1	5.0	5.1	5.2	3.4	1.4	2.9
NY Employment	(1.6)	(1.2)	(0.5)	0.9	0.9	1.1	1.4	(0.2)	(2.4)	(1.5)
NY Disposable Income	1.3	3.2	4.9	6.1	5.7	6.3	4.4	3.4	0.2	2.7
NY Nominal Value of New Auto and Light Truck Sales	8.5	3.1	2.7	(1.8)	0.3	(2.6)	7.9	(18.1)	(3.9)	9.6
Sales Tax Base	(2.0)	1.6	5.4	6.8	5.4	4.4	5.4	(2.5)	(7.1)	4.7

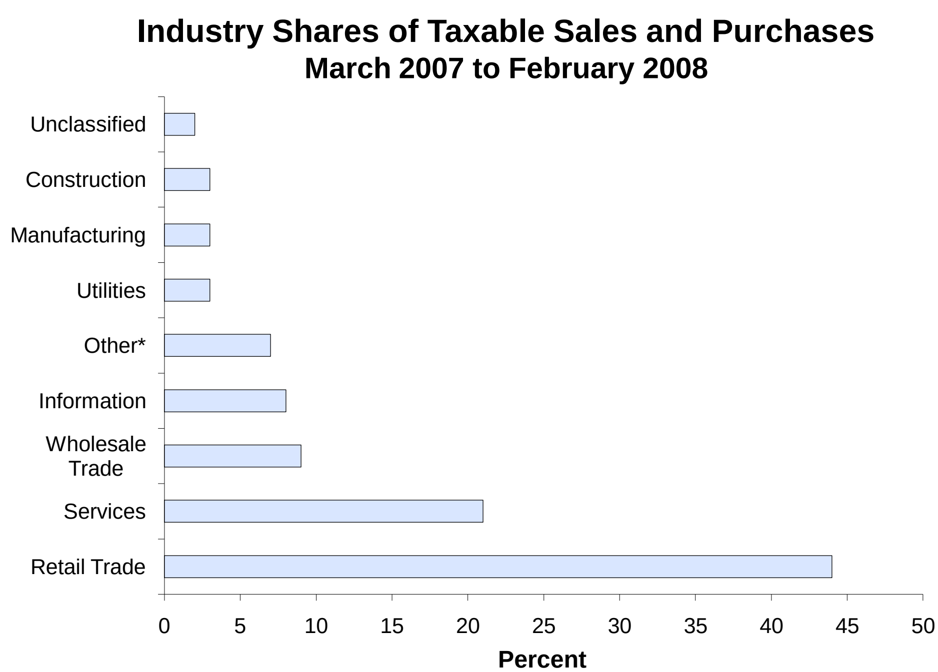


*Based on Division of the Budget estimate



*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 21 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 $16.9 million from this program for calendar year 2006, $22.6 million in calendar year 2007 and $37.9 million in calendar year 2008.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2009-10 Estimates

All Funds collections through December are $8,002 million, a decrease of $481 million, or 5.7 percent below the comparable period in the prior fiscal year.

All Funds receipts for 2009-10 are estimated to be $10,667 million, a decrease of $318 million, or 2.9 percent below last year. This includes an estimated $55 million from the Penalty and Interest Discount Program.

The sales tax decline in 2008-09 and 2009-10 was more severe than either the decline in 1990-91, 1991-1992 or 2002-03. From the third quarter of 2008-09 to the second quarter of 2009-10, the base decline in sales tax has been significant. In the first two quarters of 2009-10, the sales tax base declined over 10 percent. The third quarter of 2009-10 shows only a slight decline in the base.

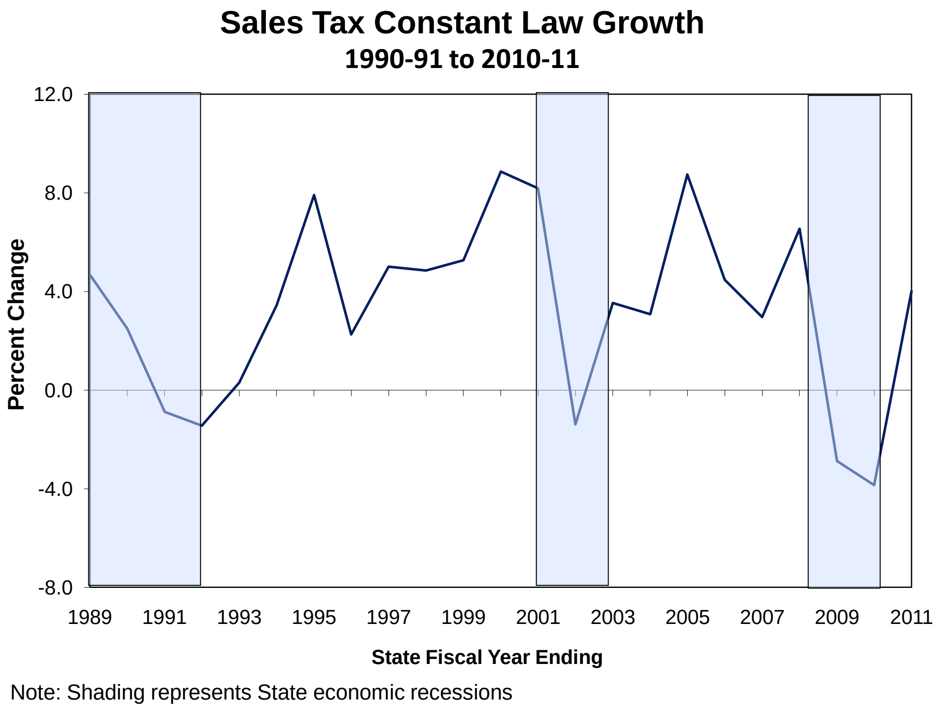
Consumption of New York taxable services and consumption of taxable goods are expected to increase by 1.4 percent and 4.8 percent respectively. Employment and light truck sales are estimated to decline by 2.4 percent and 3.9 percent respectively. These factors help to explain the reduction in the rate of growth in the sales tax base from negative 2.5 percent in 2008-09 to negative 7.1 percent in 2009-10. The cap on motor fuel and diesel motor fuel, which was imposed in 2006, will cost the State over $100 million in 2009-10.

2010-11 Projections

All Funds receipts are projected to be $11,064 million, an increase of $397 million, or 3.7 percent above 2009-10.

Without the recommended tax law changes, sales tax revenues are projected to increase by roughly $378 million from 2009-10. The sales tax base in 2010-11 is projected to grow by 4.7 percent. With tax law changes, sales tax receipts are projected to grow an additional $19 million.

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.



General Fund

Direct deposits to the General Fund for 2009-10 are estimated to be $7,504 million, a decrease of $203 million, or 2.6 percent below 2008-09 receipts. With tax law changes, General Fund receipts in 2010-11 are projected to be $7,785 million, a 3.7 percent increase from 2009-10. Without tax law changes, General Fund receipts are projected to be $7,771 million, an increase of $267 million, or 3.6 percent above 2009-10 receipts.

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 $2,577 million in 2008-09 and are estimated at $2,501 million in 2009-10, and $2,595 million in 2010-11. LGATF receipts in excess of debt service requirements on LGAC bonds are transferred to the General Fund. Of the deposits to LGATF, $2,134 million and $2,203 million are scheduled to be transferred back to the General Fund in 2009-10 and 2010-11, respectively.

Mass Transportation Operating Assistance Fund

The Mass Transportation Operating Assistance Fund (MTOAF) was created in 1981 to finance State public transportation needs. MTOAF derives part of its revenues from the 0.375 percent sales and compensating use tax imposed in the MCTD. MTOAF, which received $711 million in sales and use tax receipts in 2008-09, will receive an estimated $662 million in 2009-10 and $684 million in 2010-11. The entire proceeds from the MCTD tax are earmarked for the Mass Transportation Operating Assistance Fun

BEVERAGE SYRUPS AND SOFT DRINK TAX

PROPOSED LEGISLATION

The Executive Budget proposes that a new Article 16 be added to the Tax Law to impose an excise tax on beverage syrups and soft drinks effective September 1, 2010.

Tax Base and Rate

The excise tax rate would be:

- $7.68 per gallon for beverage syrups or simple syrups; and

- $1.28 per gallon for bottled soft drinks, powders, or base products.

The new Article 16 would define terms used in that Article, including “bottle,” “bottled soft drink,” “distributor,” “powder or base product,” “simple syrup,” “syrup,” and “soft drink”. “Bottled soft drink” means any soft drink, contained in any bottle. “Soft drink” means any nonalcoholic beverage, whether naturally or artificially flavored, whether carbonated or noncarbonated, sold for human consumption, containing more than 10 calories per eight ounces, including, but not limited to, soda, water, sports drinks, energy drinks, colas and any flavored drinks, any fruit or vegetable drinks containing less than seventy percent (70%) of natural fruit juice or natural vegetable juice, or a combination of juices, any frozen, freeze-dried, or other concentrate to which water is added to produce a beverage containing less than seventy percent (70%) of natural fruit juice or natural vegetable juice, and coffee and tea bottled as a liquid for sale.

Dietary aids, infant formula, and milk, milk products, and milk substitutes are exempt. Soft drinks imported or manufactured in this State for sale or use outside the State and soft drinks, up to one gallon per month, imported to this State for an individual’s personal use and consumption are also exempt.

Administration

Every distributor shall, on or before the twentieth day of each month, file with the commissioner a return, on forms to be prescribed and furnished by the commissioner, stating the number of gallons of syrups or simple syrups, bottled soft drinks, or powders or base products imported or caused to be imported, produced, refined, bottled, manufactured, compounded or mixed by the distributor in the state during the preceding calendar month and any other information that the commissioner may require for the proper enforcement of the provisions of this article.

The commissioner may require each distributor under this article to:
(a) electronically pay over to the commissioner all taxes collected;
(b) electronically file a return with the commissioner; and
(c) electronically file a return indicating that no tax is due if no tax is due.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2009-10 Estimates

No revenue is estimated for 2009-10.

2010-11 Projections

All Fund receipts for 2010-11 are $450 million.

According to the New England Journal of Medicine, a 10 percent price increase on soft drinks will result in a 8 to 10 percent decrease in soft drink consumption. On average, this tax will increase the price of sugar-sweetened beverages by 17 percent, which will reduce consumption by approximately 15 percent, improve nutrition, raise revenue for health programs and recover some of the health costs caused by consumption of high calorie, nutrient poor foods and beverages. The price increase is expected to have the greatest impact on the consumers that consume a disproportionate amount of these products (i.e., adults who are overweight/obese, younger, less educated and/or low-income) and those who are most sensitive to price (youth and low-income individuals). Thus, the greatest reductions in intake and the greatest health benefits will accrue to those who are disproportionately affected by obesity and obesity-related diseases such as diabetes.

Health Care Reform Act (HCRA)

This proposal would direct all receipts from the excise tax on beverage syrups and soft drinks to the HCRA Resources Fund.

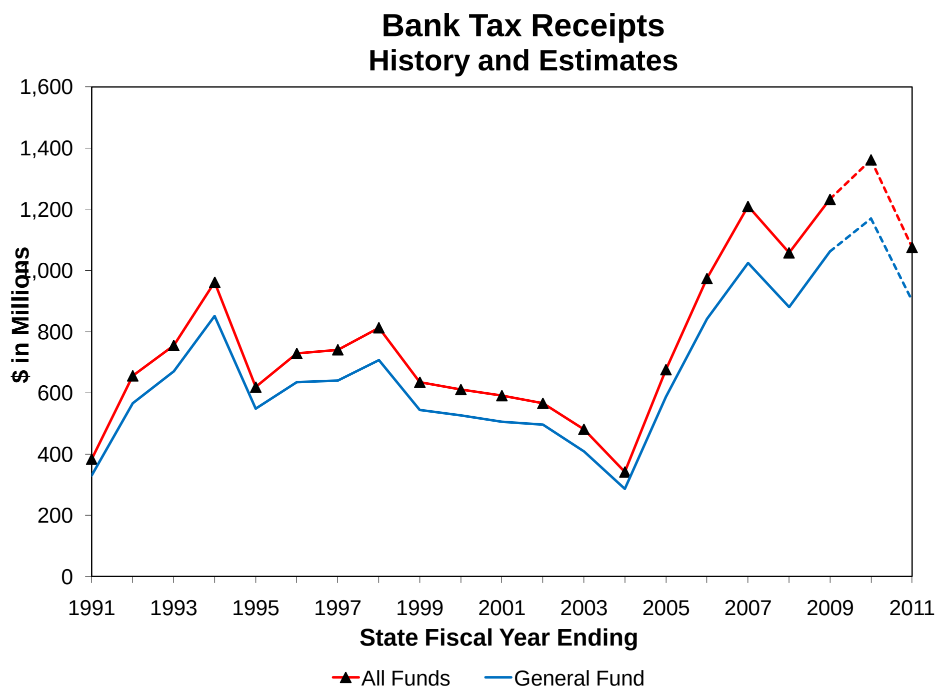
General Fund

No receipts from the excise tax would be directed to the General Fund. However, since the estimated shelf price of a soft drink will increase on average by 17 percent, sales tax receipts are estimated to increase by $15 million in 2010-11.

BANK TAX

BANK TAX (millions of dollars)							
	2008-09 Actual	2009-10 Estimated	Change	Percent Change	2010-11 Projected	Change	Percent Change
General Fund	1,061.5	1,170.2	108.7	10.2	900.8	(269.4)	(23.0)
Other Funds	171.7	193.0	21.3	12.4	175.0	(18.0)	(9.3)
All Funds	1,233.2	1,363.2	130.0	10.5	1,075.8	(287.4)	(21.1)

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
2000-01	598	92	506	97	11	86	591
2001-02	565	69	496	80	10	70	566
2002-03	523	114	409	84	12	72	481
2003-04	428	142	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	203	31	172	1,233
Estimated							
2009-10	1,246	76	1,170	218	25	193	1,363
2010-11							
Current Law	1,175	274	901	195	20	175	1,076
Proposed Law	1,175	274	901	195	20	175	1,076

[1] Receipts from the MTA business tax surcharge are deposited in the Mass Transportation Operating Assistance Fund.

PROPOSED LEGISLATION

Legislation submitted with this Budget would:

- make technical corrections to Part S-1 of Chapter 57 of 2009 (2009-10 Enacted Budget) to clarify that the State Legislature intended to make Empire Zones decertification provisions applicable to tax year 2008; and

- extend Gramm-Leach-Bliley (GLB) and related bank tax provisions for one year.

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.

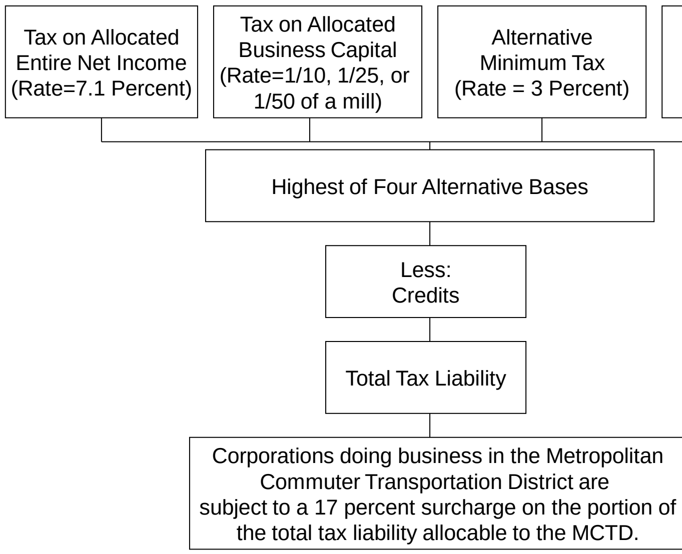
- An alternative minimum tax (AMT) base imposed at a rate of 3 percent of entire net income (as calculated above) and further adjusted to reflect certain Federal tax preference items and adjustments, and State-specific net operating loss (NOL) modifications.

- 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 $100,000 for the current year are required to make a pre-payment equal to 40 percent of their previous year's tax liability, and quarterly tax installment payments on an estimated basis in March, June, September, and December. A final payment is made in March.

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 are 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
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		
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
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
Legislation Enacted in 2001		
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, 2001. Sunsets for tax years beginning on or after January 1, 2003.	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

Subject	Description	Effective Date
Empire Zones Program	Amended to clarify certain provisions and implement new components for several credit calculations.	Various
Legislation Enacted in 2003		
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, 2003. Sunsets for tax years beginning on or after January 1, 2005.	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.	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
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 Extension	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 will be phased in over a three-year period starting in tax year 2006, and be 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 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)
Bank Tax Extension	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
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 transitional provisions, will become taxable under Article 32 of the Tax Law. These conditions include: 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 results in the corporation becoming taxable as a bank under Article 32. The legislation also provides that an investment subsidiary of a bank or bank holding company is included in the definition of a banking corporation and taxable under Article 32.	January 1, 2007
Bank Tax Extension	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 changes 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

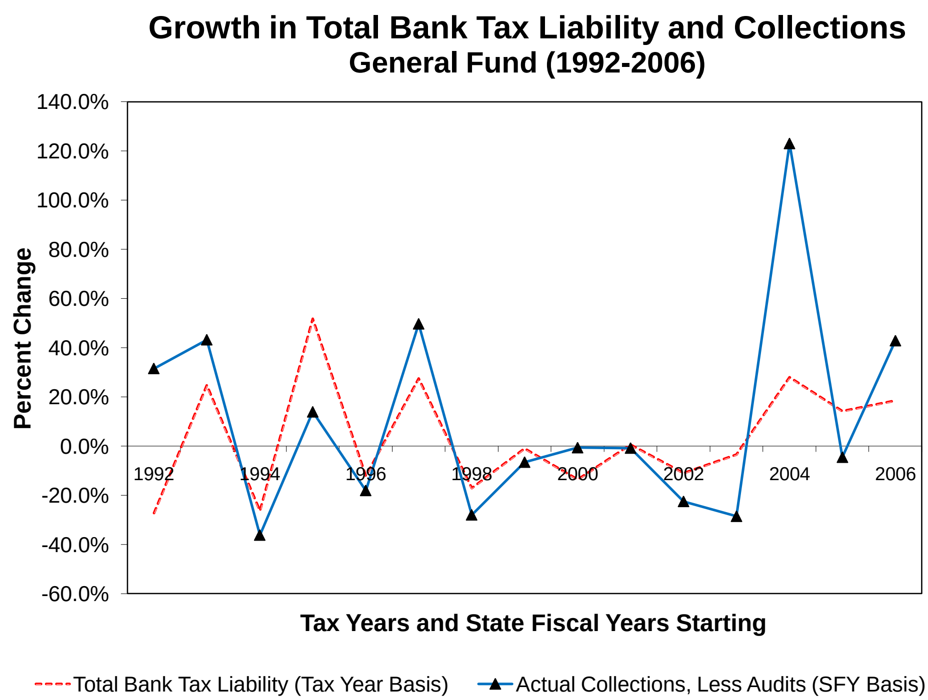
Mandatory First Installment Percentage	Required taxpayers with a prior year tax liability over $100,000 to calculate their mandatory first installment payment of franchise tax and MTA surcharge at 30 percent, instead of the previous 25 percent, of the prior year's tax liability. Taxpayers with a prior 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
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 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
	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

TAX LIABILITY

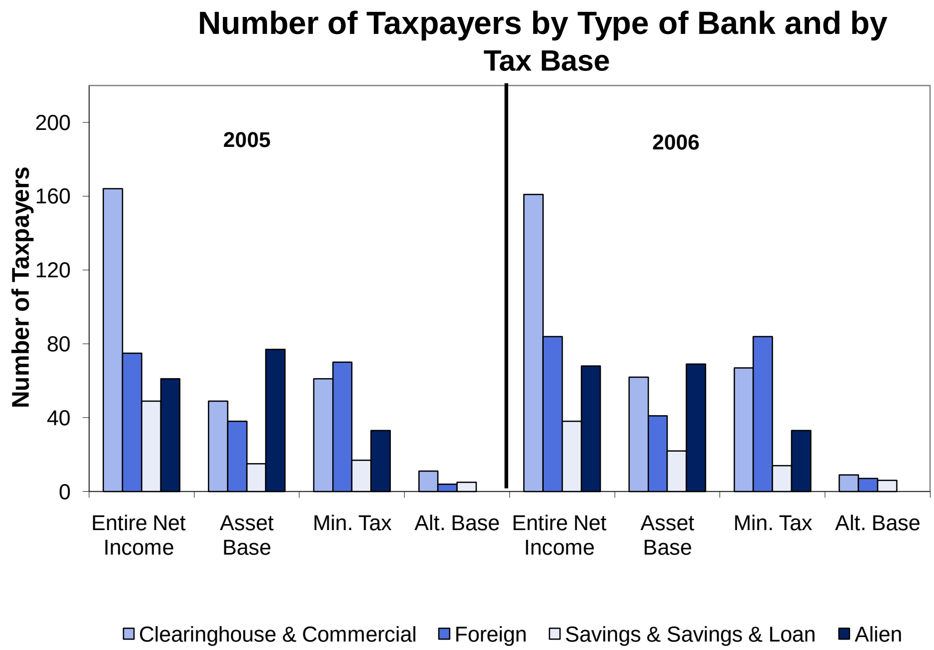
The Bank Tax Study File, which is compiled by the Department of Taxation and Finance's Office of Tax Policy Analysis (OTPA), contains the most recent tax data available on all banks filing under Article 32. The most current liability information is for the 2006 tax year. The annual study of bank tax returns indicates that 765 taxpayers filed tax returns as banking corporations for 2006, a 4.9 percent increase 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. 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, banks 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. 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.

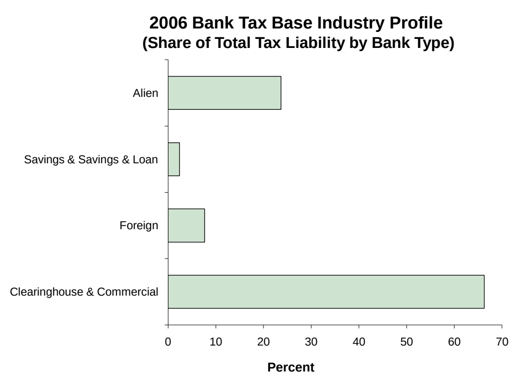
The accompanying graph compares historical bank tax liability and collections. Since taxpayers must pay estimated taxes months in advance of knowing actual liability, it is difficult for taxpayers to determine the proper level of payments needed over the course of a year. This is especially true if business 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.

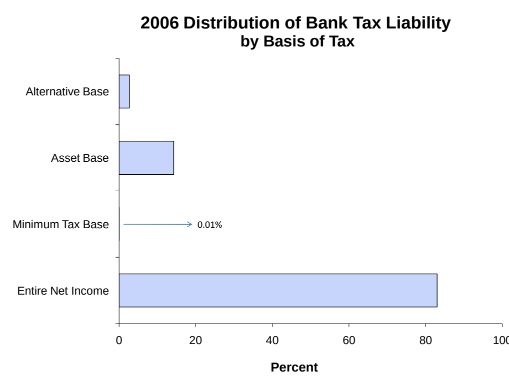


Between 2005 and 2006 (2006 representing the latest year for which complete tax liability data are available), total General Fund bank tax liability increased by more than 18 percent, from $579 million to $686 million. The number of taxpayers increased by 4.9 percent, with the majority of the increase occurring in foreign (i.e. domiciled in another state) banks (29 banks, 15.5 percent increase) and clearinghouse and commercial banks (14 banks, 4.9 percent increase). Though not easily visible in the following graph, from 2005 to 2006 the asset, minimum taxable income and AMT bases each had nearly 10 percent more taxpayers. The entire net income base had only two more taxpayers in 2006 than in 2005.



The following charts show that clearinghouse and commercial banking institutions accounted for 66.3 percent of total tax liability in 2006, and alien banking institutions accounted for 23.7 percent of total liability, while foreign banking institutions and savings banks and savings and loan institutions together accounted for the remaining 10.0 percent of total liability. On a basis of tax concept, payments under the ENI base comprised over 83 percent of total tax liability.





RECEIPTS: ESTIMATES AND PROJECTIONS

BANK TAX (millions of dollars)							
	Actual 2008-09	Estimated 2009-10	Change	Percent Change	Projected 2010-11	Change	Percent Change
General Fund							
Non-Audit Receipts	655	965	311	47.5	781	(184)	(19.1)
Audit Receipts	407	205	(202)	(49.6)	120	(85)	(41.5)
Executive Budget Initiative	0	0	0	--	0	0	--
Total	**1,062**	**1,170**	**109**	**10.2**	**901**	**(269)**	**(23.0)**
Other Funds							
Non-Audit Receipts	124	159	35	28.5	165	6	3.8
Audit Receipts	48	34	(14)	(29.2)	10	(24)	(70.6)
Executive Budget Initiative	0	0	0	--	0	0	--
Total	**172**	**193**	**21**	**12.4**	**175**	**(18)**	**(9.3)**
All Funds							
Non-Audit Receipts	778	1,124	346	44.5	946	(178)	(15.9)
Audit Receipts	455	239	(216)	(47.5)	130	(109)	(45.6)
Executive Budget Initiative	0	0	0	--	0	0	--
Total	**1,233**	**1,363**	**130**	**10.5**	**1,076**	**(287)**	**(21.1)**

All Funds

2009-10 Estimates

All Funds collections through December are approximately $959.4 million, an increase of $204.0 million, or 27.0 percent above the comparable period in the prior fiscal year. The year-to-date increase is attributable to an increase in non-audit receipts over the prior year of approximately $285 million, or more than 62 percent. Year-to-date payments on 2009 tax year liabilities are over 6 percent higher than payments on 2008 liability through the comparable period. In addition, cash refunds through December 2009 are nearly $45 million, or roughly 80 percent lower than through the same period in the previous fiscal year. However, prior year adjustments remain elevated and are being carried-forward as payment on 2009 liability instead of materializing as refund requests. December 2009 carry-forwards were $112 million (238 percent) higher than in December of 2008. The increase in non-audit receipts has been partially offset by a significant decrease in audit receipts of roughly $84 million, or nearly 29 percent. The decline in audit recoveries is principally attributable to the 2008-09 Voluntary Compliance Initiative (VCI) which generally waived penalties and interest for certain taxpayers who voluntarily acknowledged that had previously engaged in transactions to shelter taxable income, as a means of accelerating the settlement of those audits. (See the "Audits and Compliance" section for a more detailed discussion of audit receipts).

All Funds receipts for 2009-10 are estimated to be $1,363.2 million, an increase of $130.0 million, or 10.5 percent above last year. The non-audit base is expected to increase by $346 million, or 44.5 percent, from 2008-09 as a result of substantial improvements in profitability in spite of continued losses from residential and commercial real estate. Taxpayers are carrying forward overpaid 2008 tax year estimated payments and cash refund payouts have slowed considerably as a result. Additionally, $124.2 million in refunds will be delayed until SFY 2010-11 to manage cash-flow needs. This large increase in non-audit receipts is being partly offset by an estimated $216 million, or 47.5 percent decrease in audit recoveries. This estimated decrease is largely the result of the significant one-time 2008-09 receipts caused by the VCI.

2010-11 Projections

All Funds receipts are projected to be $1,075.8 million, a decrease of $287.4 million, or 21.1 percent below 2009-10. Non-audit receipts are projected to decrease by $178 million, or 15.9 percent, primarily the result of delaying $124.2 million in SFY 2009-10 refunds. The estimate also assumes continued profitability for many banks, partially dampened by the application of net operating losses against earnings. Additionally, audit receipts are projected to decrease by $109 million, or 45.6 percent, as the current inventory of large bank tax audit cases is depleted, while newer cases will begin to cover the tax years in which loan quality issues first appeared.

General Fund

General Fund collections for 2009-10 are estimated at $1,170.2 million, an increase of $108.7 million (10.2 percent) from 2008-09. This increase is largely the result of the refunds delay offset by a $202 million, or 49.6 percent, decrease in audit receipts.

General Fund collections for 2010-11 are projected to be $900.8 million, a decrease of $269.4 million, (23.0 percent). This reflects a projected decrease in audit receipts and the payment of the delayed SFY 2009-10 refunds.

Other Funds

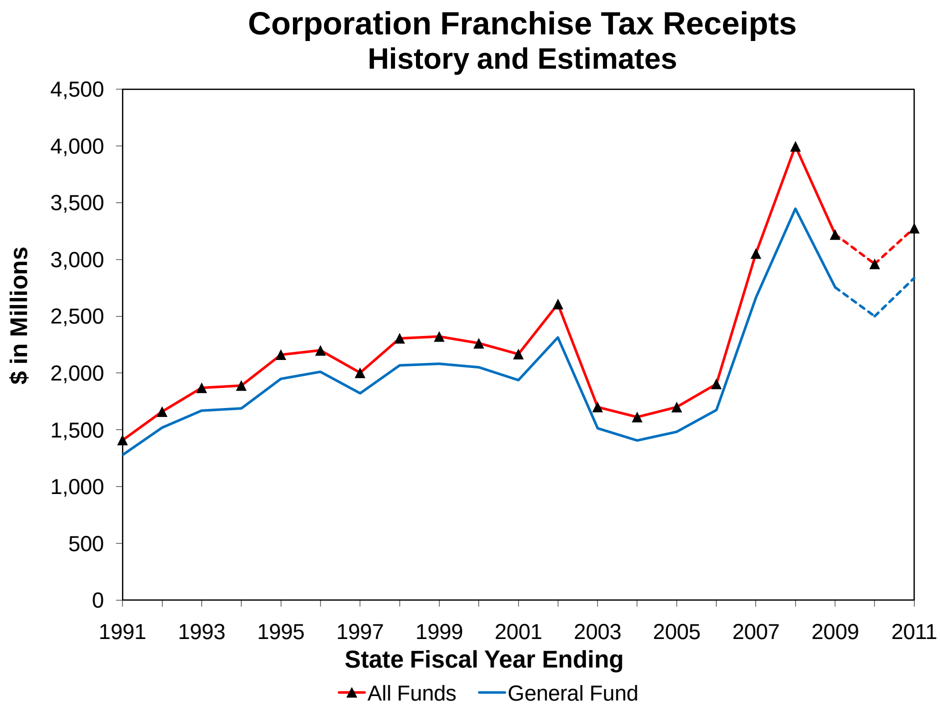
Bank tax receipts from surcharges deposited to MTOAF generally reflect the All Funds and General Fund trends described above. MTOAF bank tax receipts for 2009-10 reflect year-to-date trends and are estimated at $193 million, including $34 million in audit receipts. Surcharge receipts for 2010-11 of $175 million reflect the decline of $24 million in audit receipts resulting from banking operations more concentrated within the MCTD relative to the State as a whole.

CORPORATION FRANCHISE TAX

CORPORATION FRANCHISE TAX
(millions of dollars)

	2008-09 Actual	2009-10 Estimated	Change	Percent Change	2010-11 Projected	Change	Percent Change
General Fund	2,755.0	2,500.5	(254.5)	(9.2)	2,835.7	335.2	13.4
Other Funds	465.3	461.2	(4.1)	(0.9)	440.7	(20.5)	(4.4)
All Funds	3,220.3	2,961.7	(258.6)	(8.0)	3,276.4	314.7	10.6

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
2000-01	2,814	479	2,335	334	39	295	2,630
2001-02	2,012	497	1,515	236	48	188	1,703
2002-03	1,942	535	1,407	243	38	205	1,612
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
Estimated							
2009-10	3,287	786	2,501	536	75	461	2,962
2010-11							
Current Law	3,426	586	2,840	491	50	441	3,280
Proposed Law	3,422	586	2,836	491	50	441	3,276

[1] Receipts from the MTA business tax surcharge are deposited in the Mass Transportation Operating Assistance Fund.

PROPOSED LEGISLATION

Legislation submitted with this Budget would:

- make technical corrections to Part S-1 of Chapter 57 of 2009 (2009-10 Enacted Budget) to clarify that the State Legislature intended to make Empire Zones decertification provisions applicable to tax year 2008;
- provide an additional film tax credit allocation for calendar years 2010 through 2014 at $420 million per year or $2.1 billion over this period;
- provide the Commissioner of the Division of Housing and Community Renewal (DHCR) authorization to allocate an additional $4 million in low income housing tax credits;
- extend Gramm-Leach-Bliley (GLB) provisions for one year; and
- create a new set of economic development incentives to replace the expiring Empire Zones Program, intended to provide sustained job creation, investment, and research and development expenditures in New York State.

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 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.
- 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.

- 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 $10 million.

- A fixed dollar minimum tax, which is based on a taxpayer's NY source gross income as shown in the following schedule.

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

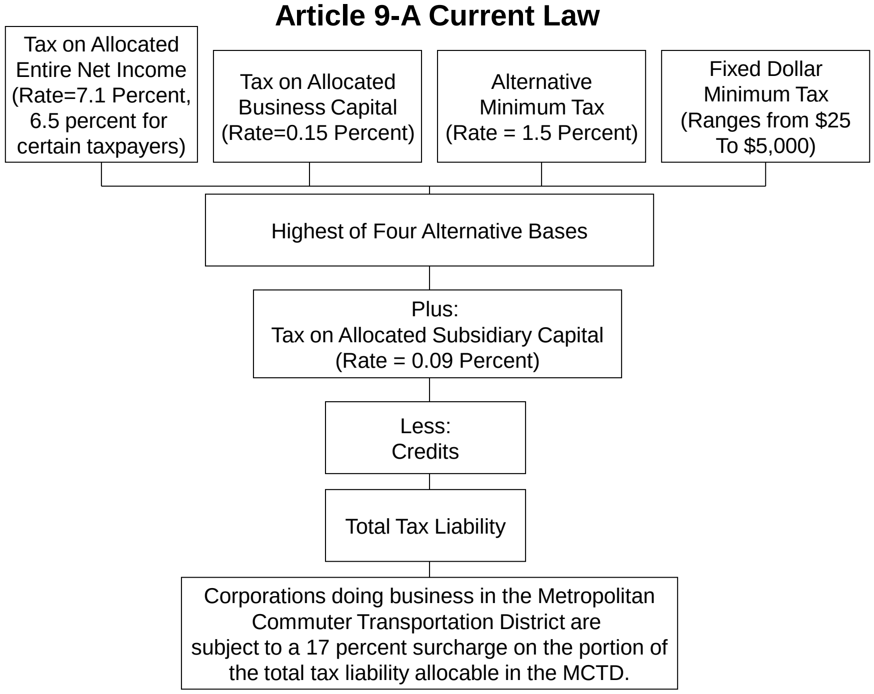
In addition to the tax paid on the highest of the four alternative bases, C corporations also pay a tax of 0.9 mills of each dollar of subsidiary capital allocated to New York State.

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 in 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 year are required to make quarterly tax payments 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.

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 5.0 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 3.0 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
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 3.0 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

Subject	Description	Effective Date
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
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
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 will be phased in over a three-year period starting in tax year 2006, and 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		

Subject	Description	Effective Date
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 REIT or 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
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. 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

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 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 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 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 is 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

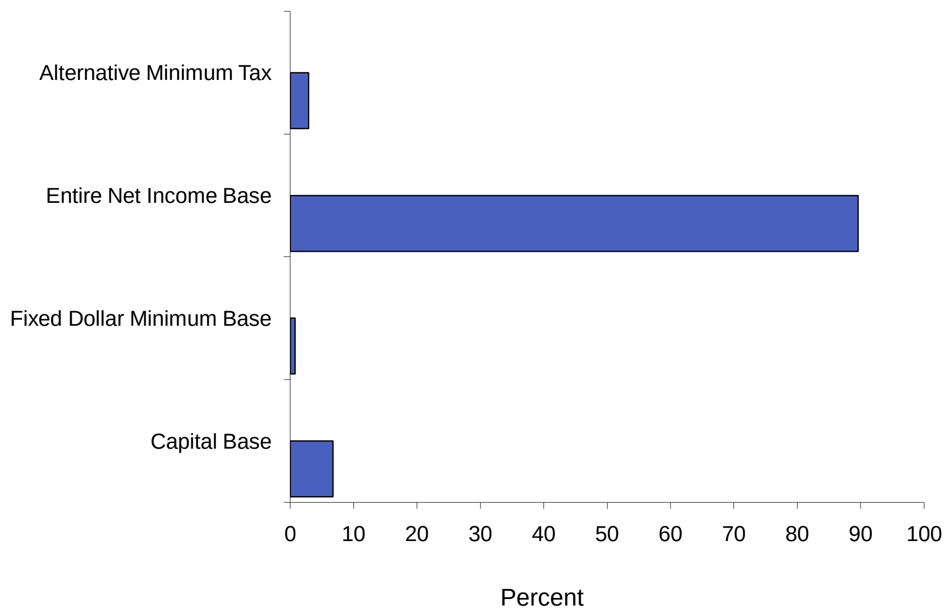
TAX LIABILITY

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 2006 tax year.

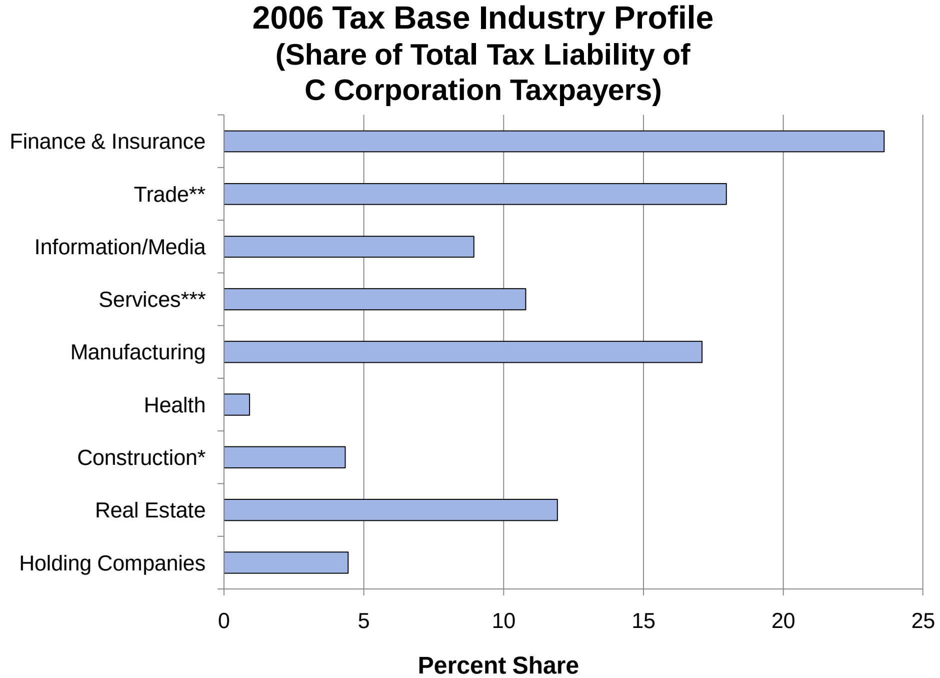
Although the study file does not include information on non-allocating fixed dollar minimum tax filers and S corporations, OTPA compiles corporate tax return data relating to the total number of C and S corporations and tax liability for these entities. The 2005 New York State Corporate Tax Statistical Report, the most recent data available, indicates that 255,246 taxpayers filed as C corporations, while 356,744 taxpayers filed as S corporations. The number of C corporations decreased by 0.8 percent from the prior year, while 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 seen growth averaging 3.6 percent.

As noted above, C corporations pay under the highest of four alternative bases. In 2005, roughly 90 percent of liability was paid under the entire net income base. The capital base was the second largest base, at 6.7 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.

2006 Distribution of Tax Liability
by Tax Base

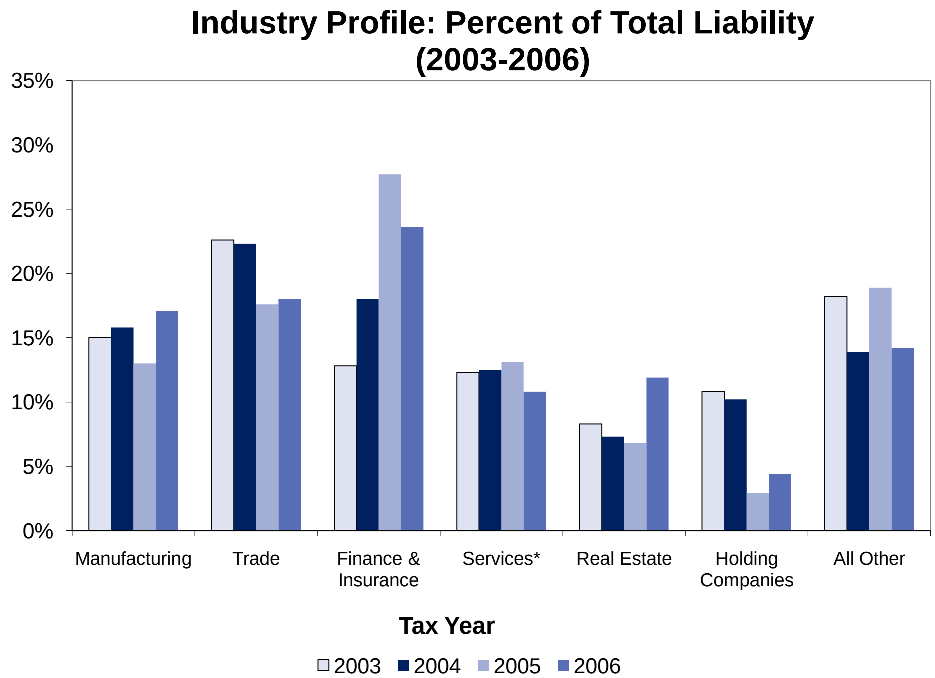


The next chart shows the distribution of tax liability by major industry sector. The 2006 study file indicates that 23.6 percent of total C corporation liability was paid by the finance and insurance sector, 17.1 percent by the manufacturing sector and 18.0 percent by the trade sector. These three sectors have represented the majority of total liability over the last several years.



*   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)

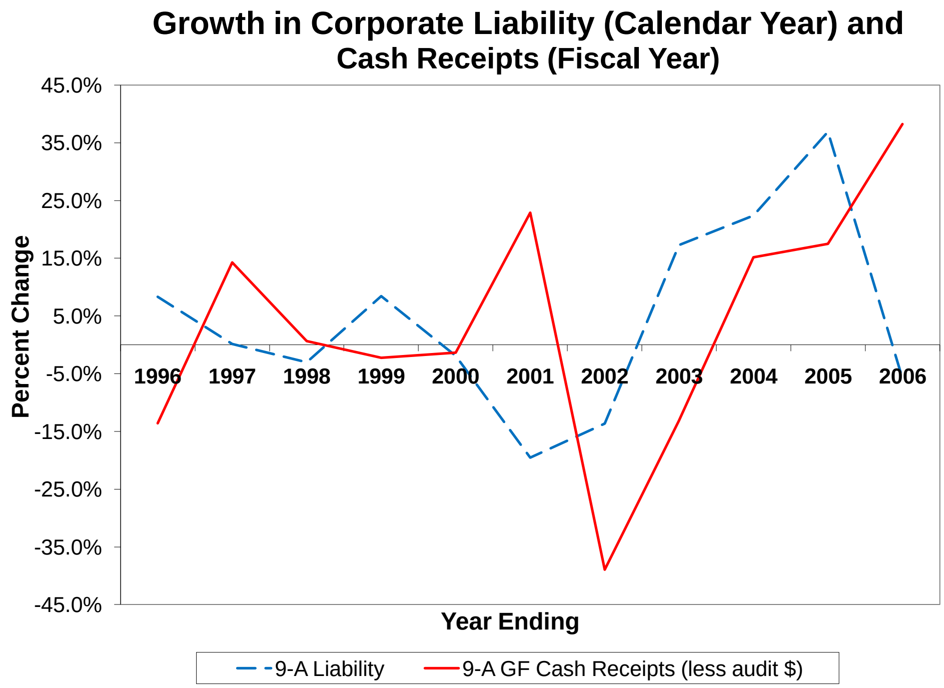
The following chart illustrates the percentage of liability paid by the industry groups of the State's tax base. These industry groups accounted for the vast majority of total tax liability from 2003 to 2006. Liability for the finance and insurance sector increased in importance over the last few years. Liability for the finance and insurance sector was 12.8 percent in 2003, 18.1 percent in 2004 and jumped to over 20 percent in 2005 (27.2 percent) and 2006 (23.6 percent). In comparison, the manufacturing industry's share of liability has remained relatively constant with the exception of 2005, when it declined to 13.0 percent of total liability from an average of 15.4 percent for 2003 and 2004 and 17.1 percent in 2006. Trade as a percent of liability has decreased from approximately 22.5 percent for 2003 and 2004 to 17.8 percent for 2005 and 2006. Real estate as a percent of liability declined steadily from 2003 through 2005 and then grew to 11.9 percent in 2006. In 2006, over 35 percent of the tax base was generated by the FIRE (Finance, Insurance, Real Estate) sector.



* 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)

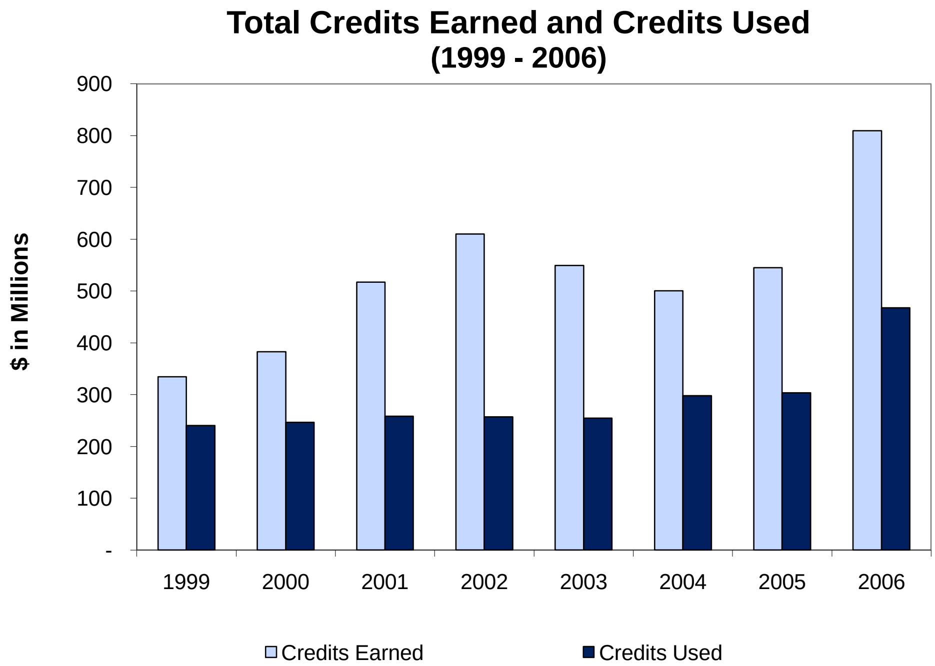
The link between underlying corporate tax liability and cash receipts in any given State fiscal year is often obscured by the timing of payments, the carry forward of prior year losses or credits and the reconciliation of prior year liabilities. Tax collections are the net payments and adjustments made by taxpayers on returns and extensions over the course of a State fiscal year. Current year liability collections include a mandatory first installment payment that is paid in March and is based on 40 percent (effective with tax years commencing January 1, 2010, or later) of the prior year's liability. In addition, 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. 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 were relatively stablethrough 2005. In 2006, credits earned increased by $264.5 million and credits used increased by $164.6 million. The increase in credits earned is attributable to the first year of Brownfield credits ($182.3 million) and an increase in Empire Zones credits ($78.7 million). Credits used increased in all major areas with the largest increase in Empire Zones ($74.1 million), the Film Production credit ($25.5 million) and Brownfields ($42.9 million). The upward trend in the Film Production credit and Brownfields is expected to continue in future years as these programs grow. The Brownfields tax credit program began in 2005. The Film Production tax credit program began in 2004 and was enhanced in 2006, 2008 and 2009. The total amount of film credits allocated through 2009 is approximately $1.0 billion. Total credit claims paid for tax years 2004 through 2006 is $58.2 million based on the Tax Expenditure Report. Therefore, total credits to be paid in future tax years are estimated to be $940 million.

RECEIPTS: ESTIMATES AND PROJECTIONS

CORPORATION FRANCHISE TAX (millions of dollars)	Actual 2008-09	Estimated 2009-10	Change	Percent Change	Projected 2010-11	Change	Percent Change
General Fund							
Non-Audit Receipts	1,977	1,782	(195)	(9.9)	2,062	280	15.7
Audit Receipts	778	719	(59)	(7.5)	778	59	8.2
Executive Budget Initiative	0	0	0	--	(4)	(4)	--
Total	**2,755**	**2,501**	**(254)**	**(9.2)**	**2,836**	**335**	**13.4**
Other Funds							
Non-Audit Receipts	338	308	(30)	(8.8)	291	(18)	(5.7)
Audit Receipts	128	153	26	20.0	150	(3)	(2.0)
Executive Budget Initiative	0	0	0	--	0	0	--
Total	**465**	**461**	**(4)**	**(0.9)**	**441**	**(21)**	**(4.4)**
All Funds							
Non-Audit Receipts	2,315	2,090	(225)	(9.7)	2,352	262	12.5
Audit Receipts	905	872	(33)	(3.7)	928	56	6.4
Executive Budget Initiative	0	0	0	--	(4)	(4)	--
Total	**3,220**	**2,962**	**(258)**	**(8.0)**	**3,276**	**314**	**10.6**

All Funds

2009-10 Estimates

All Funds collections through December are $1,701.8 million, a decrease of $697.1 million, or approximately 29.1 percent below the comparable period in the prior fiscal year. This year-to-year decrease is primarily attributable to a decline in audit collections, higher refunds and lower calendar year filer liability for tax year 2009. Through December, audit collections are $585.8 million, a decrease of $157.4 million or 21.2 percent. Refunds continue to be higher than the prior year as taxpayers claim refunds on tax year 2007 and 2008 final returns. Refunds paid to-date are $683.6 million, an increase of 12.1 percent over 2008-09. Gross collections, the majority of which are calendar year filer estimated payments, total an estimated $1,799.5 million to-date in 2009-10 compared to $2,265.5 million in 2008-09, a decrease of $466.0 million or 20.6 percent.

All Funds receipts for 2009-10 are estimated to be $2,961.7 million, a decrease of $258.6 million or 8.0 percent from last year. Receipts would be expected to fall $423.6 million (13.2 percent) absent the increase in the March prepayment from 30 to 40 percent. The year-to-year decrease is primarily due to a decline in tax year 2009 liability of 17.2 percent and higher than anticipated refunds on prior year liability. Estimated payments from calendar year 2009 filers are expected to decline from the prior year. Audit collections are expected to be slightly lower than the prior year while refunds are expected to remain high in 2009-10. Refunds totaling $75.8 million will be withheld until 2010-11 to accommodate cash flow needs.

2010-11 Projections

All Funds receipts are projected to be $3,276.4 million, an increase of $314.7 million, or 10.6 percent above 2009-10. This includes a loss of $4 million from proposed legislation to increase the low income housing credit. Corporate profits are expected to rebound in calendar year 2010 with growth of 12.7 percent compared to a decline of 5.1 percent for calendar year 2009. This is projected to generate growth in current law, non-audit collections of roughly 12.4 percent. Audit collections are expected to grow 6.4 percent while refunds are expected to decline significantly as prior year adjustments decrease.

General Fund

General Fund collections for 2009-10 are expected to be $2,500.5 million, a decrease of $254.5 million, or 9.2 percent below 2009-10. Weak growth in current year liability as a result of the economic slowdown, lower audit collections and higher cash refunds are the drivers for the decline in year-over-year tax receipts. Audit collections are estimated at $719 million, which includes $19 million from the Penalty and Interest Discount Program (PAID), and refunds are projected to be $786 million in 2009-10.

For 2010-11, General Fund receipts are projected to be $2,835.7 million, an increase of $335.2 million, or 13.4 percent over 2009-10. The estimate reflects improvement in corporate profits for calendar 2010 as the economic recovery strengthens. The estimate for 2010-11 audit collections is $778 million, an increase of $59 million over the prior year. Refunds are expected to be significantly lower in 2010-11 at $586 million.

Other Funds

Under current law, corporations doing business in the MCTD are subject to a 17 percent surcharge on the portion of the total liability allocable to the region.

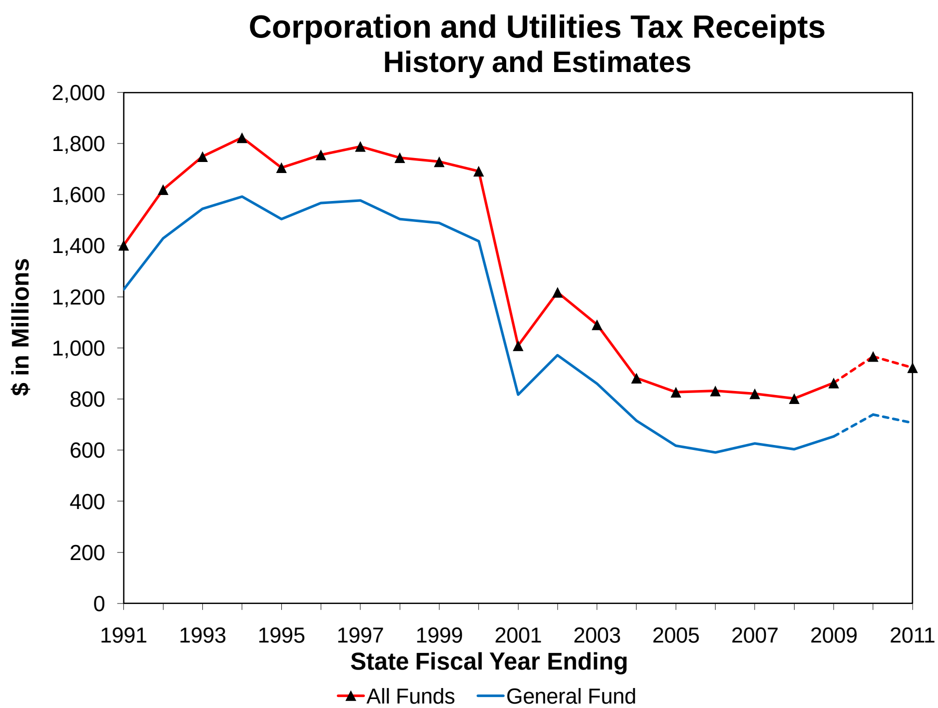
The Article 9-A contribution to the MTOAF for 2009-10 is estimated to fall 0.9 percent relative to the prior year, to $461.2 million. The voluntarily remitted portion of receipts is estimated to decline 8.8 percent from 2008-09. Audit collections are expected to increase from $127.5 million to $153.0 million based on current year trends and an additional $3 million from PAID.

Collections for 2010-11 are expected to decrease 4.4 percent to $440.7 million. Adjusted for the impact of the increase in the prepayment rate in 2009-10 and PAID, receipts would decrease 1.8 percent.

CORPORATION AND UTILITIES TAXES

CORPORATION AND UTILITIES TAXES (millions of dollars)							
	2008-09 Actual	2009-10 Estimated	Change	Percent Change	2010-11 Projected	Change	Percent Change
General Fund	654.0	738.6	84.6	12.9	705.6	(33.0)	(4.5)
Other Funds	209.2	229.1	19.9	9.5	217.0	(12.1)	(5.3)
All Funds	863.2	967.7	104.5	12.1	922.6	(45.1)	(4.7)

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
2000-01	847	30	817	193	1	192	0	0	0	1,009
2001-02	999	27	972	247	1	246	0	0	0	1,218
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	33	617	203	9	194	17	1	16	827
2005-06	607	16	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	665	11	654	198	7	191	19	2	18	863
Estimated										
2009-10	755	17	739	223	12	211	19	1	18	968
2010-11										
Current Law	723	17	706	211	12	199	19	1	18	923
Proposed Law	723	17	706	211	12	199	19	1	18	923

[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 submitted with this Budget would:

- introduce study language requiring the Department of Taxation and Finance to provide recommendations to reform State and Local taxes on telecommunications by December 1, 2010.

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. Historically, Article 9 receipts have come primarily from the public utility, telecommunications, and transportation industries. However, statutory and regulatory changes enacted in 2000 have reduced the percentage share of General Fund corporation and utilities tax receipts attributable to utilities from 56.5 percent in 1999-2000 to 17.1 percent in 2008-09. In recent years, the telecommunications industry has become the primary source of collections, accounting for more than 74 percent of 2008-09 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 1/20th 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.

Effective January 1, 2000, the section 186 franchise tax imposed on public utilities and waterworks, gas, electric, steam heating, lighting and power companies was repealed, and these taxpayers became subject to the corporate franchise tax imposed under Article 9-A of the Tax Law.

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. As shown in the following tables, between January 1, 2000 and January 1, 2005 the gross receipts tax imposed on:

- charges for transmission/distribution services to residential customers was gradually reduced from 3.25 percent to its current rate of 2 percent;
- charges for transmission/distribution services to nonresidential customers was gradually eliminated; and
- the sale of the energy commodity was gradually eliminated, declining from 3.25 percent to zero.

TAX RATES CONTAINED IN SECTION 186-a OF THE TAX LAW		
Effective Date	**Type**	**Rate (percentage)**
Prior to January 1, 2000	Commodity	3.25
	Transmission/Distribution	3.25
January 1, 2000	Commodity	2.10
	Transmission/Distribution	2.50
January 1, 2001	Commodity	2.00
	Transmission/Distribution	2.45
January 1, 2002	Commodity	1.90
	Transmission/Distribution	2.40
January 1, 2003	Commodity	0.85
	Transmission/Distribution	2.25
January 1, 2004	Commodity	0.40
	Transmission/Distribution	2.125
January 1, 2005	Commodity	0.00
	Transmission/Distribution	2.00

PHASE-IN SCHEDULE FOR EXCLUSION OF TRANSMISSION AND DISTRIBUTION FOR NONRESIDENTIAL CUSTOMERS	
Effective Date	**Percent Excluded**
Calendar Year 2000	0
Calendar Year 2001	0
Calendar Year 2002	25
Calendar Year 2003	50
Calendar Year 2004	75
Calendar Year 2005	100

Section 186-e imposes a 2.5 percent gross receipts tax on charges for telecommunications services. The tax was reduced to 3.25 percent from 3.5 percent on October 1, 1998, and reduced again to 2.5 percent on January 1, 2000.

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
	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.	

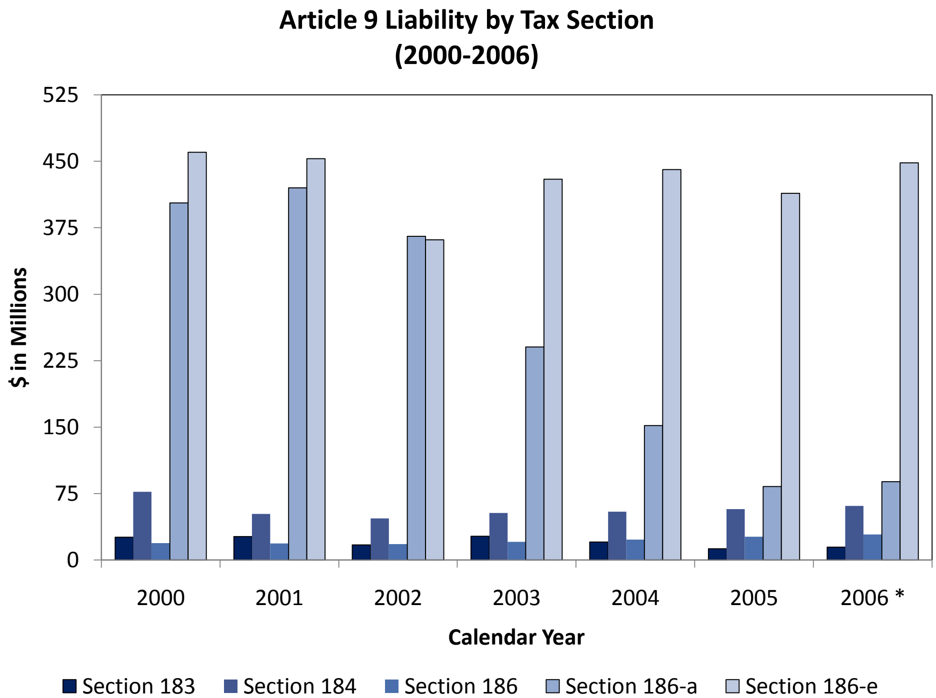
Subject	Description	Effective Date
Legislation Enacted in 1999		
MTOA Fund	Increased the percent of collections from section 183 and section 184 to be distributed to the MTOA Fund from 54 percent to 64 percent on January 1, 2000, and to 80 percent on January 1, 2001.	January 1, 2000 January 1, 2001
Legislation 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 2.0 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
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

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 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

TAX LIABILITY

The *2005 New York State Corporate Tax Statistical Report* contains the most recent data available on Article 9 tax liability. The corporation and utilities tax represented 13.4 percent of total New York State corporate tax liability in 2005.

The chart below shows Article 9 liability by tax section as shown in the *2005 New York State Corporate Tax Statistical Report* and the 2006 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, and $641 million in 2006. The declines in liability over this 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.



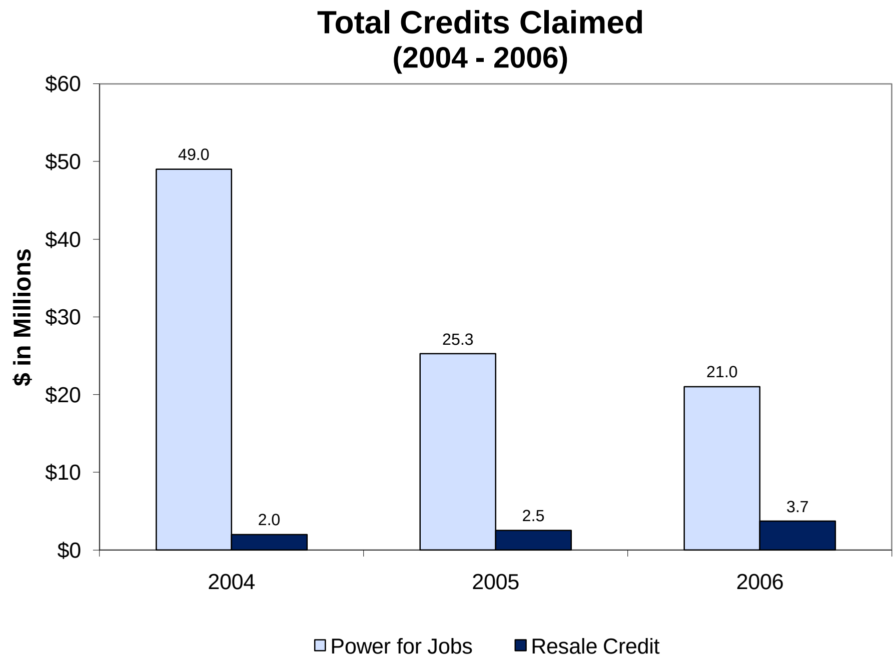
* 2006 data is from Article 9 study file.

Beginning with tax year 2004, an Article 9 Tax Study File is provided by the Department of Taxation and Finance's Office of Tax Policy Analysis (OTPA). The most recent Article 9 study file is 2006.

Sections 183 and 184 and sections 186-a and 186-e represent the largest share of tax liability under Article 9. 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 represented approximately 70 percent of total tax paid for section 183 and nearly 95 percent for section 184 over this three year period. For section 183, air, rail and water transportation made up the second largest industry. In section 184, truck transportation represents approximately 3 percent of total liability. The same pattern is seen in section 186-e, the excise tax on telecommunications services. In tax years 2004 through 2006, over 90 percent of the total 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.

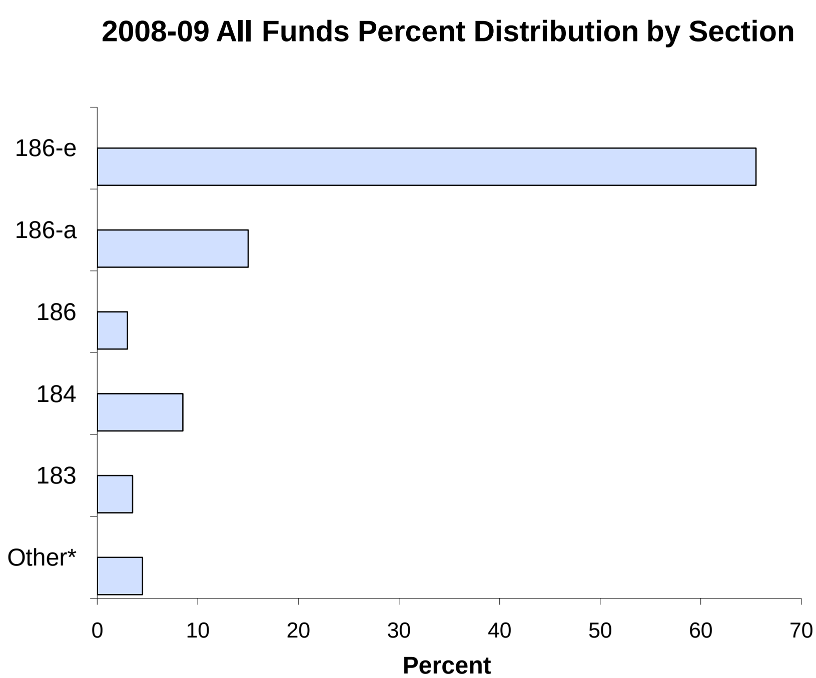
Credits

The following graph shows major credits used by Article 9 taxpayers in tax years 2004, 2005, and 2006. Taxpayers claimed the resale credit for telecommunications services under section 186-e and the power for jobs credit under section 186-a.



The bar graph below depicts the share of total 2008-09 Article 9 All Funds attributable to each section of Article 9. Section 186-e, the gross receipts tax on telecommunications services, represents nearly 70 percent of All Funds receipts. The next largest section, 186-a, represents approximately 15 percent.

RECEIPTS: BY SECTION



* Other includes sections 180, 181 and 185

CORPORATION AND UTILITIES TAX

The table below reflects the tax collections attributable to each section of Article 9 for 2008-09, 2009-10 and 2010-11. 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	2008-09 Actual	2009-10 Estimated	2010-11 Projected
180	Organization tax on New York (domestic) corporations	1.0	1.0	1.0
181	License and maintenance fees on out-of-State (foreign) corporations	21.4	27.0	27.0
183	Franchise tax on transportation and transmission companies	26.1	17.0	17.0
184	Additional franchise tax on transportation and transmission companies	63.6	73.6	72.0
185	Franchise tax on agricultural cooperatives	(0.4)	0.1	0.1
186 [1]	Franchise tax on water, steam, gas, electric, light and power companies	22.2	28.0	28.0
186a & e	Gross receipts tax on public utilities and excise tax on telecommunication	609.7	682.5	649.5
Various	MTA Surcharge	119.5	138.5	128.0
	All Funds Total	863.2	967.7	922.6
	Less Other Funds			
	MTA Surcharge	119.5	138.5	128.0
	MTOAF	71.7	72.5	71.2
	DHBTF	18.0	18.1	17.8
	General Fund	654.0	738.6	705.6

[1] Tax was repealed January 1, 2000, at which time such companies generally became taxable under the corporation franchise tax.

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 http://www.budget.state.ny.us/pubs/supporting/ForecastMethodology-FINAL_11-05-09.pdf

RECEIPTS: ESTIMATES AND PROJECTIONS

CORPORATION AND UTILITIES TAXES (millions of dollars)

	Actual 2008-09	Estimated 2009-10	Change	Percent Change	Projected 2010-11	Change	Percent Change
General Fund							
Non-Audit Receipts	633	706	73	11.5	666	(40)	(5.7)
Audit Receipts	21	33	12	57.1	40	7	21.2
Executive Budget Initiative	0	0	0	--		0	--
Total	**654**	**739**	**85**	**13.0**	**706**	**(33)**	**(4.5)**
Other Funds							
Non-Audit Receipts	183	209	26	14.2	203	(6)	(2.9)
Audit Receipts	26	20	(6)	(23.1)	14	(6)	(30.0)
Executive Budget Initiative	0	0	0	--		0	--
Total	**209**	**229**	**20**	**9.6**	**217**	**(12)**	**(5.2)**
All Funds							
Non-Audit Receipts	816	915	99	12.1	869	(46)	(5.0)
Audit Receipts	47	53	6	12.8	54	1	1.9
Executive Budget Initiative	0	0	0	--	0	0	--
Total	**863**	**968**	**105**	**12.2**	**923**	**(45)**	**(4.6)**

All Funds

2009-10 Estimates

All Funds collections through December are $648.1 million, an increase of $23.5 million, or 3.8 percent above the comparable period in the prior fiscal year. Gross collections are showing slight growth over the prior year. Growth through December is estimated to be 2.6 percent. Also contributing to current year growth are strong audit receipts. Audit collections have grown 62 percent over the comparable period last year. Higher year-to-date refunds are offsetting some of the growth in gross collections and audits.

All Funds receipts for 2009-10 are estimated to be $967.7 million, an increase of $104.5 million, or 12.1 percent above last year. After accounting for one-time items in 2009-10 (a late payment of $31 million and the increase in the March prepayment from 30 to 40 percent, worth $43 million), underlying base growth is estimated to be $30.5 million or 3.5 percent. Overall, non-audit receipts are projected to increase $99 million, or 12.0 percent over 2008-09. Audit collections are estimated to increase by $6.4 million to $53 million in 2009-10 due to strong receipts in the first half of the fiscal year.

2010-11 Projections

All Funds receipts are projected to be $922.6 million, a decrease of $45.1 million, or 4.7 percent below 2009-10. Absent the one-time items included in 2009-10 and noted above, All Funds receipts would increase a projected $28.9 million or 3.2 percent. Both sections 186-e and 186-a are forecast to decline 4.8 percent each in 2010-11, based on revenue expectations for the telecommunications and residential energy sectors. Audit collections are expected to be $54 million in 2010-11, a slight increase from 2009-10.

General Fund

General Fund collections for 2009-10 are expected to be $738.6 million, an increase of $84.6 million, or 12.9 percent above 2008-09. The increase is attributable to the same factors noted under All Funds.

For 2010-11, General Fund receipts are projected to be $705.6 million, a decrease of $33.0 million, or 4.5 percent from 2009-10. The estimate reflects the same factors noted under All Funds.

Other Funds

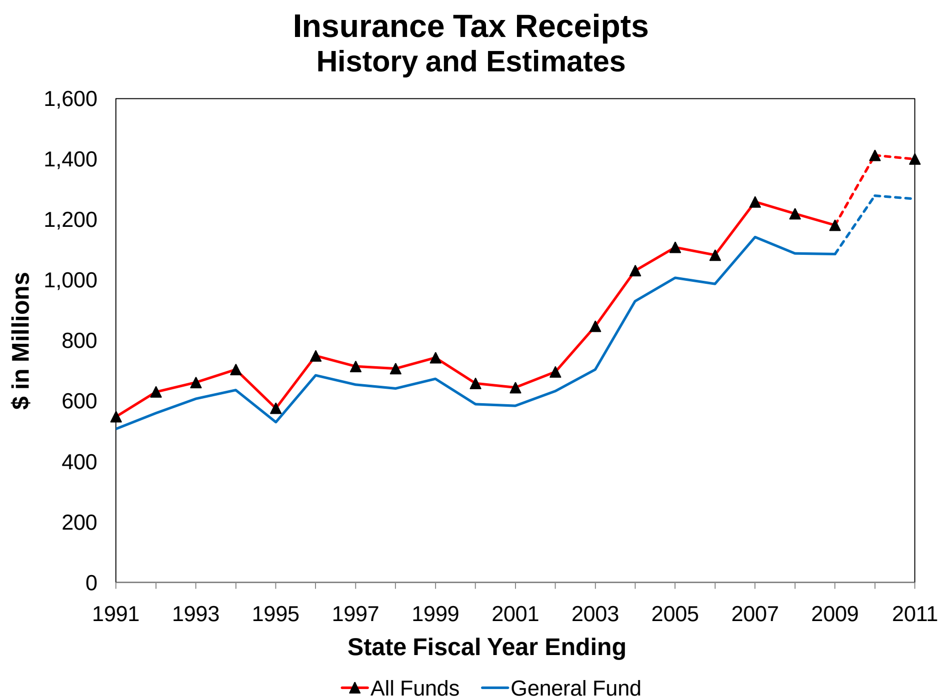
As previously discussed, a portion of Article 9 receipts is deposited into special revenue funds. Sections 183 and 184 collections deposited into the MTOAF will total an estimated $72.5 million for 2009-10. The remaining portion of sections 183 and 184 collections, or $18.1 million, is earmarked for the DHBTF. In 2010-11, receipts deposited into the MTOAF and the DHBTF are projected at $71.2 million and $17.8 million, respectively.

The MCTD business tax surcharge will result in deposits of an estimated $138.5 million for 2009-10 and $128 million in 2010-11 into the MTOAF.

INSURANCE TAXES

INSURANCE TAXES (millions of dollars)							
	2008-09 Actual	2009-10 Estimated	Change	Percent Change	2010-11 Projected	Change	Percent Change
General Fund	1,085.7	1,279.0	193.3	17.8	1,268.0	(11.0)	(0.9)
Other Funds	95.3	133.4	38.1	40.0	131.8	(1.6)	(1.2)
All Funds	1,181.0	1,412.4	231.4	19.6	1,399.8	(12.6)	(0.9)

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
2000-01	648	64	584	70	10	60	644
2001-02	667	34	633	69	6	63	696
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	1,123	35	1,088	137	6	131	1,219
2008-09	1,135	49	1,086	101	6	95	1,181
Estimated							
2009-10	1,309	30	1,279	139	6	133	1,412
2010-11							
Current Law	1,298	30	1,268	138	6	132	1,400
Proposed Law	1,298	30	1,268	138	6	132	1,400

[1] Receipts from the MTA surcharge are deposited in the Mass Transportation Operating Assistance Fund.

PROPOSED LEGISLATION

Legislation submitted with this Budget would:

- make technical corrections to Part S-1 of Chapter 57 of 2009 (2009-10 Enacted Budget) to clarify that the State Legislature intended to make Empire Zones decertification provisions applicable to tax year 2008.

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

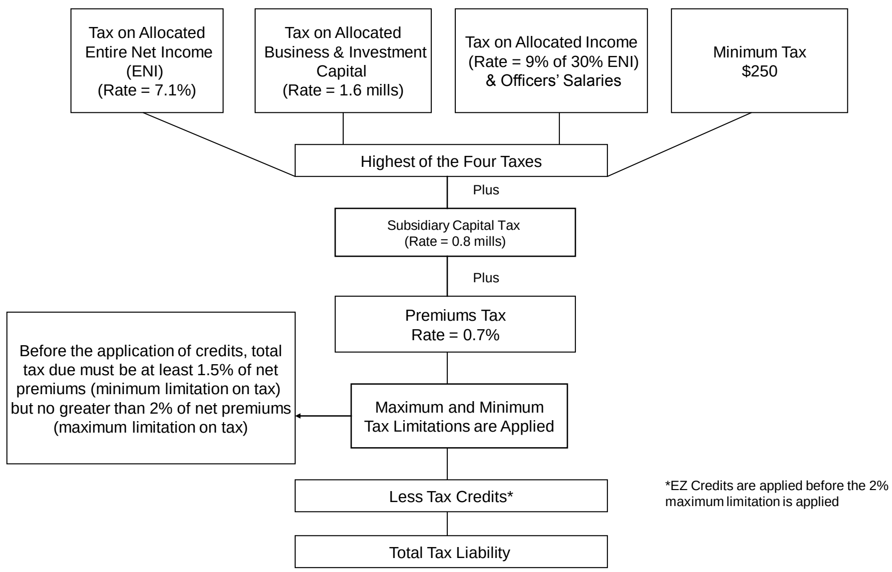
Base	Rate
Allocated entire net income	7.1 percent
Allocated business and investment capital	1.6 mills for each dollar
Allocated income and officers' salaries	9.0 percent
Minimum tax	$250

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 2.0 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 (2.0 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 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 make quarterly tax payments on an estimated basis in installments in June, September, and December. Under current law, the first tax payment is required to be 40 percent of prior year liabilities. A final payment is due in March.

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 1951 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 2.0 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
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. • 8.0 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

Subject	Description	Effective Date
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. • 2.0 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 2.0 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.	2003
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

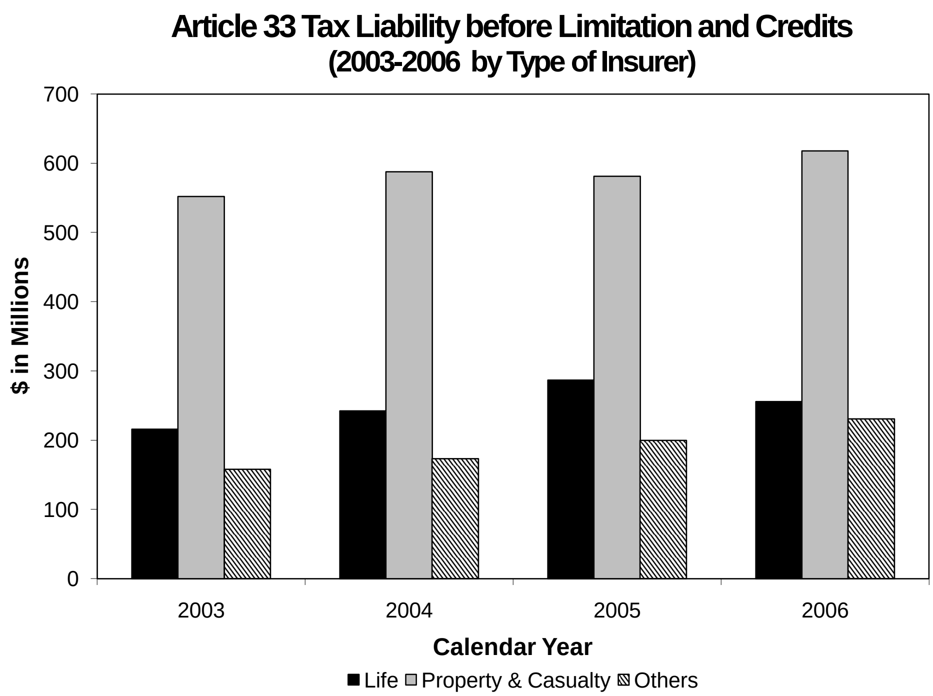
Subject	Description	Effective Date
Legislation Enacted in 2006		
Annuity Premiums	Amended the tax limitation applicable to certain insurance companies to provide that it is computed by using the amount of annuity premium of the insurance company that are in excess of 95 percent of total premiums.	January 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	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
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 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

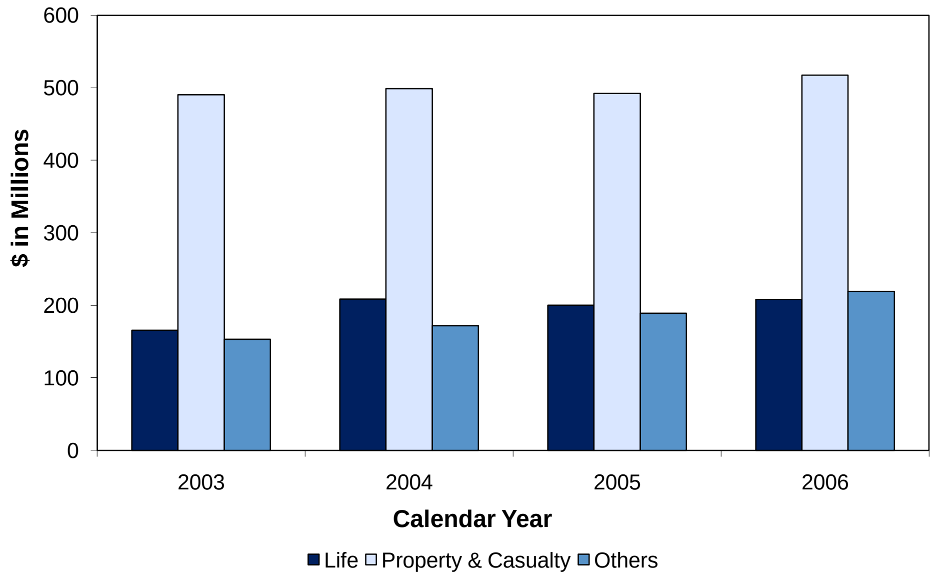
TAX LIABILITY

The Department of Taxation and Finance's Insurance Franchise Tax Study File contains tax liability data for the 2006 tax year, the most recent year for which such data are available. The 2006 Study File indicates that the property and casualty sector is the largest sector, accounting for 54.7 percent of total tax liability. Other insurers, which includes accident and health insurers, are the second largest, with 23.2 percent of total liability. The 22.1 percent balance is attributable to life insurers.

The following graphs show insurance tax liability for life insurers, property and casualty insurers and all other insurers from 2003 through 2006 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
(2003-2006 by Type of Insurer)



Property and Casualty and Life Companies

According to data from the New York State Insurance Department, the five largest lines of business under the property and casualty sector are automobile, workers' compensation, commercial multi-peril, general liability, and homeowners' multi-peril. In 2006, these lines accounted for more than 81 percent of total premiums. The table below reports actual property and casualty premiums and growth from 2002 through 2008 for New York State. Total premiums for property and casualty companies overall declined by 1.3 percent in 2008.

PROPERTY AND CASUALTY INSURANCE PREMIUMS NEW YORK CALENDAR YEAR (millions of dollars/percent)							
Lines of Insurance	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Automobile	11,898	12,721	12,875	12,344	12,039	11,533	11,475
percent change	*10.4*	*6.9*	*1.2*	*(4.1)*	*(2.3)*	*(4.2)*	*(0.5)*
Workers' Compensation	3,412	3,403	1,928	3,759	4,133	4,229	3,501
percent change	*4.0*	*(0.3)*	*(43.3)*	*95.0*	*10.0*	*2.3*	*(17.2)*
Commercial Multi-Peril	2,688	2,779	2,897	2,958	3,074	3,071	3,059
percent change	*14.3*	*3.4*	*4.3*	*2.1*	*3.9*	*(0.1)*	*(0.4)*
General Liability	3,478	3,741	4,018	3,997	4,387	4,308	4,489
percent change	*41.7*	*7.6*	*7.4*	*(0.5)*	*9.8*	*(1.8)*	*4.2*
Homeowners' Multi-Peril	2,661	2,901	3,183	3,427	3,615	3,799	3,966
percent change	*7.8*	*9.0*	*9.4*	*8.0*	*5.5*	*5.1*	*4.4*
Other	5,432	5,785	5,841	5,886	6,426	7,407	7,409
percent change	*21.4*	*6.5*	*1.0*	*0.8*	*9.2*	*15.3*	*0.0*
TOTAL P/C PREMIUMS	29,570	31,330	30,733	32,371	33,674	34,347	33,900
percent change	*14.6*	*6.0*	*(1.9)*	*5.3*	*4.0*	*2.0*	*(1.3)*

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 http://www.budget.state.ny.us/pubs/supporting/ForecastMethodology-FINAL_11-05-09.pdf

RECEIPTS: ESTIMATES AND PROJECTIONS

INSURANCE TAX RECEIPTS (millions of dollars)							
	Actual 2008-09	**Estimated 2009-10**	**Change**	**Percent Change**	**Projected 2010-11**	**Change**	**Percent Change**
General Fund							
Non-Audit Receipts	1,052	1,244	192	18.3	1,257	13	1.0
Audit Receipts	34	35	1	2.9	11	(24)	(68.6)
Executive Budget Initiative	0	0	0	--	0	0	--
Total	**1,086**	**1,279**	**193**	**17.8**	**1,268**	**(11)**	**(0.9)**
Other Funds							
Non-Audit Receipts	88	126	38	43.6	130	4	2.8
Audit Receipts	7	7	0	0.0	2	(5)	(71.4)
Executive Budget Initiative	0	0	0	--	0	0	--
Total	**95**	**133**	**38**	40.0	**132**	**(1)**	**(1.0)**
All Funds							
Non-Audit Receipts	1,140	1,370	230	20.2	1,387	17	1.2
Audit Receipts	41	42	1	2.4	13	(29)	(69.0)
Executive Budget Initiative	0	0	0	--	0	0	--
Total	**1,181**	**1,412**	**231**	**19.6**	**1,400**	**(12)**	**(0.9)**

All Funds

2009-10 Estimates

All Funds preliminary collections through December are $981.3 million, an increase of $228.5 million, or 30.4 percent above than the comparable period in the prior fiscal year. The year-to-date increase is the result of the newly imposed premiums tax on HMOs and an increase in estimated payments on current year tax liability of $71.6 million, or nearly 10 percent, for the traditional tax base.

All Funds receipts for 2009-10 are estimated to be $1,412.4 million, an increase of $231.4 million, or 19.6 percent above last year. The increase is attributable to the newly imposed premiums tax on HMOs ($169 million) and the increase of the March pre-payment from 30 percent to 40 percent ($79 million).

2010-11 Projections

All Funds receipts for 2010-11 are projected to be $1,399.8 million, a decrease of $12.6 million, or 0.9 percent below 2009-10. The year-over-year decrease is attributable to a $29 million decline audit receipts, the impact of the prepayment increase in March 2010 and a return to historical prior year adjustment patterns, partially offset by a modest liability increase.

General Fund

General Fund collections for 2009-10 reflect year-to-date trends and are estimated to be $1,279 million, an increase of $193.3 million, or 17.8 percent over the prior year. The increase is attributable to the newly imposed premiums tax on HMOs, which will now be reflected in the General Fund instead of being transferred to Health Care Reform Act (HCRA) fund.

General Fund collections for 2010-11 are projected to be $1,268 million, a decrease of $11 million, or 0.9 percent. The decrease reflects the same trends impacting All Funds receipts for 2009-10, and also includes $60 million in anticipated receipts from the Insurance Department.

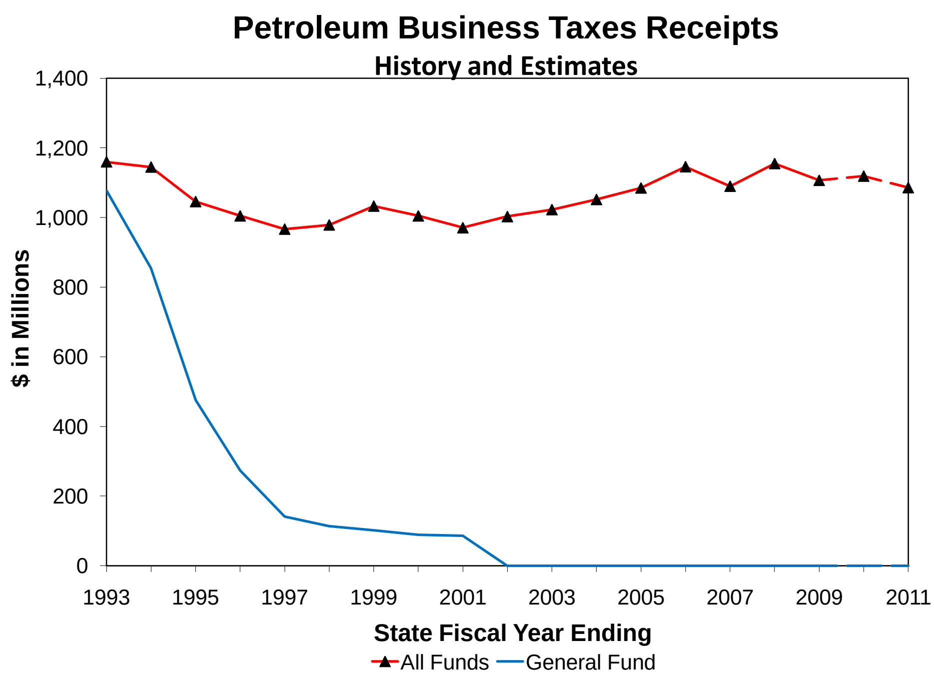
Other Funds

Insurance tax receipts from the surcharge that is deposited to MTOAF generally reflect the All Funds and General Fund trends described above. MTOAF insurance tax receipts for 2009-10 reflect year-to-date trends and are estimated to be $133.4 million (including $7 million in audit receipts). Receipts for 2010-11 of $131.8 million reflect the trends described above.

PETROLEUM BUSINESS TAXES

PETROLEUM BUSINESS TAXES (millions of dollars)							
	2008-09 Actual	2009-10 Estimated	Change	Percent Change	2010-11 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	1,106.6	1,118.5	11.9	1.1	1,085.6	(32.9)	(2.9)
All Funds	1,106.6	1,118.5	11.9	1.1	1,085.6	(32.9)	(2.9)

Note: Totals may differ due to rounding.



PETROLEUM BUSINESS TAXES BY FUND (millions of dollars)										
	Gross General Fund	Refunds	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
2000-01	88	2	86	405	9	396	501	12	489	971
2001-02	0	0	0	459	10	449	566	12	554	1,003
2002-03	1	0	1	462	8	454	578	10	568	1,023
2003-04	0	0	0	478	6	472	587	7	580	1,052
2004-05	0	0	0	492	6	486	607	8	599	1,085
2005-06	0	0	0	523	9	514	642	10	632	1,146
2006-07	0	0	0	493	7	486	613	9	604	1,090
2007-08	0	0	0	525	11	514	659	18	641	1,155
2008-09	0	0	0	508	15	493	639	25	614	1,107
Estimated										
2009-10	0	0	0	509	11	498	639	18	621	1,119
2010-11										
Current Law	0	0	0	494	11	483	621	18	603	1,086
Proposed Law	0	0	0	494	11	483	621	18	603	1,086

[1] Dedicated Mass Transportation Trust Fund and Mass Transportation Operating Assistance Fund.
[2] Dedicated Highway and Bridge Trust Fund.

PROPOSED LEGISLATION

Legislation submitted with this Budget would:

- impose a 3 percent tax on the market value of natural gas severed from a gas pool in the Marcellus or Utica Shale formation using a horizontal well.

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 indexed with annual adjustments made on January 1 of each year to the base and supplemental tax rates to reflect the change in the producer price index (PPI) for refined petroleum products for the 12 months ending August 31 of the preceding year. 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 5.0 percent on January 1, 2009, and decreased by 5 percent on January 1, 2010. The petroleum PPI is projected to increase by at least 5.0 percent through August 2010, triggering a PBT rate increase of not more than 5.0 percent on January 1, 2011.

PETROLEUM BUSINESS NET TAX RATES FOR 2009 - 2011
(cents per gallon)

	2009			2010			2011 [2]		
Petroleum Product	**Base**	**Supp**	**Total[1]**	**Base**	**Supp**	**Total[1]**	**Base**	**Supp**	**Total[1]**
Automotive fuel									
Gasoline and other non diesel	10.30	6.80	**17.10**	9.80	6.50	**16.30**	10.20	6.80	**17.00**
Diesel	10.30	5.05	**15.35**	9.80	4.75	**14.55**	10.20	5.05	**15.25**
Aviation gasoline or Kero-Jet Fuel	6.80	0.00	**6.80**	6.50	0.00	**6.50**	6.80	0.00	**6.80**
Non-automotive diesel fuels									
Commercial gallonage	9.30	0.00	**9.30**	8.90	0.00	**8.90**	9.30	0.00	**9.30**
Nonresidential heating	5.00	0.00	**5.00**	4.80	0.00	**4.80**	5.00	0.00	**5.00**
Residual petroleum products									
Commercial gallonage	7.10	0.00	**7.10**	6.80	0.00	**6.80**	7.10	0.00	**7.10**
Nonresidential heating	3.80	0.00	**3.80**	3.70	0.00	**3.70**	3.80	0.00	**3.80**
Railroad diesel fuel	9.00	0.00	**9.00**	8.50	0.00	**8.50**	8.90	0.00	**8.90**

[1] *The Tax rates represent the net tax rate after credits.*
[2] *Projected — The projected petroleum producer price index increase of 10.6 percent through August 2010 will result in an increase of not more than 5.0 percent in the PBT tax rates on January 1, 2011.*

PETROLEUM PPI AND PETROLEUM BUSINESS TAX RATE (percent change)		
Year	Petroleum PPI	PBT Rate Index
2000	(7.85)	(5.00)
2001	55.84	5.00
2002	13.08	5.00
2003	(19.51)	(5.00)
2004	27.01	5.00
2005	12.94	5.00
2006	35.10	5.00
2007	35.89	5.00
2008	(1.22)	(1.20)
2009	42.08	5.00
2010	(34.93)	(5.00)
2011*	10.55	5.00

* 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 taxes (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

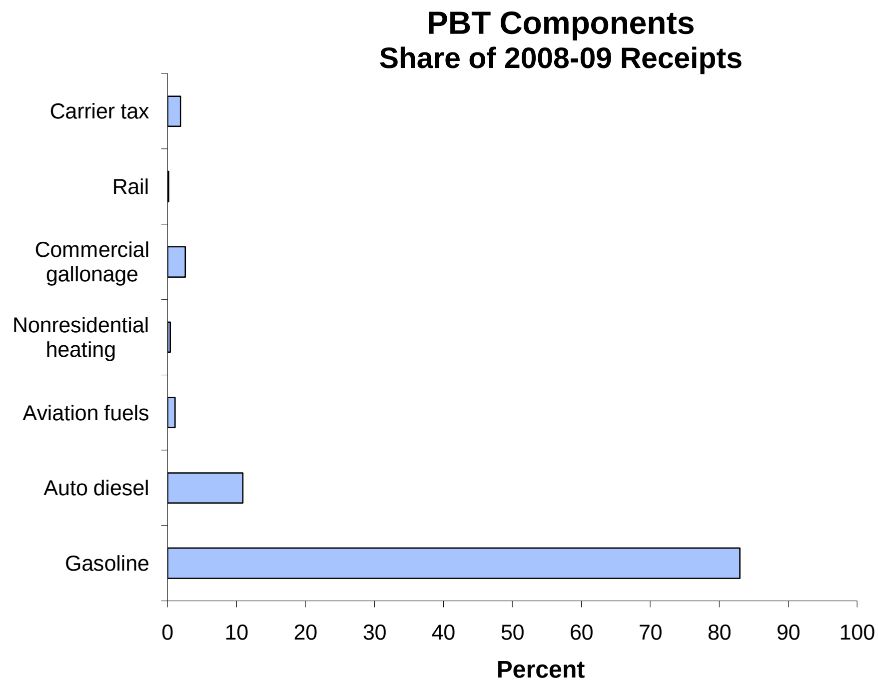
The significant statutory changes to this tax source since 1990 are summarized below.

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 ten 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 over flight 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.	September 1, 2006

TAX LIABILITY

Petroleum business tax receipts are primarily a function of the number of gallons of fuel imported into the State by distributors. 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 http://www.budget.state.ny.us/pubs/supporting/ForecastMethodology-FINAL_11-05-09.pdf

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2009-10 Estimates

All Funds collections through December are $852.6 million, an increase of $17.8 million, or 2.1 percent above the comparable period in the prior fiscal year.

All Funds receipts for 2009-10 are estimated to be $1,118.5 million, an increase of $11.9 million, or 1.1 percent above last year. For the last three months, petroleum products will be taxed at a lower rate than in the previous nine months.

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 gallonage is estimated to increase by 0.77 percent and diesel gallonage is estimated to decrease by 8.1 percent. The increase in receipts is primarily accounted for by the 5 percent increase in the PBT index on January 1, 2009, offset slightly by the 5 percent decrease in the PBT index on January 1, 2010.

2010-11 Projections

All Funds receipts are projected to be $1,085.6 million, a decrease of $32.9 million, or 2.9 percent below 2009-10. The decrease in receipts is generated primarily by the 5 percent decrease in the PBT Index effective January 1, 2010, offset slightly by the projected 5 percent increase effective January 1, 2011. The Executive Budget proposal to impose a severance tax on certain natural gas production will have no revenue impact in 2010-11.

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. As a result, no PBT receipts will be deposited in the General Fund.

Other Funds

In past years, revenues from the PBT have been shared by the General Fund and the Mass Transportation Operating Assistance Fund (MTOAF). Prior to the 1990 revisions, the General Fund received 72.7 percent and MTOAF 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 MTOAF 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.

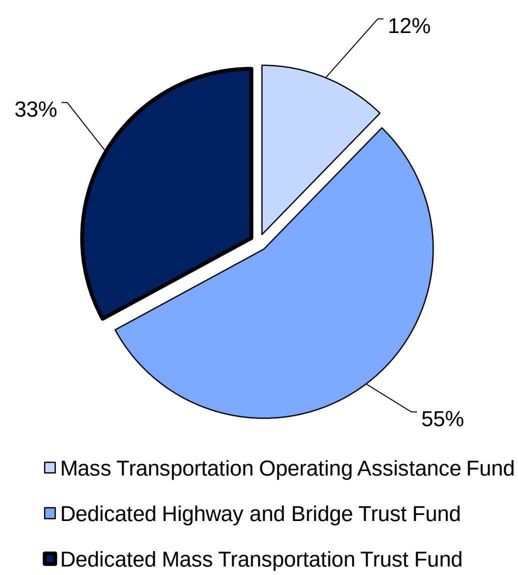
PBT BASE TAX FUND DISTRIBUTION (percent)			
Effective Date	General Fund	MTOAF[1]	Dedicated Funds Pool[2]
Prior to April 1, 1993	82.3	17.7	0.0
April 1, 1993	28.3	17.7	54.0
September 1, 1994	22.4	18.6	59.0
September 1, 1995	18.0	19.2	62.8
April 1, 1996	17.4	19.3	63.3
January 1, 1997	14.5	19.3	66.2
January 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 2009-10 are estimated to be $135.1 million for MTOAF, $620.9 million for the DHBTF, and $362.5 million for the DMTTF. Petroleum business tax receipts in 2010-11 are projected to be $131.3 million for MTOAF, $602.5 million for the DHBTF, and $351.8 million for the DMTTF.

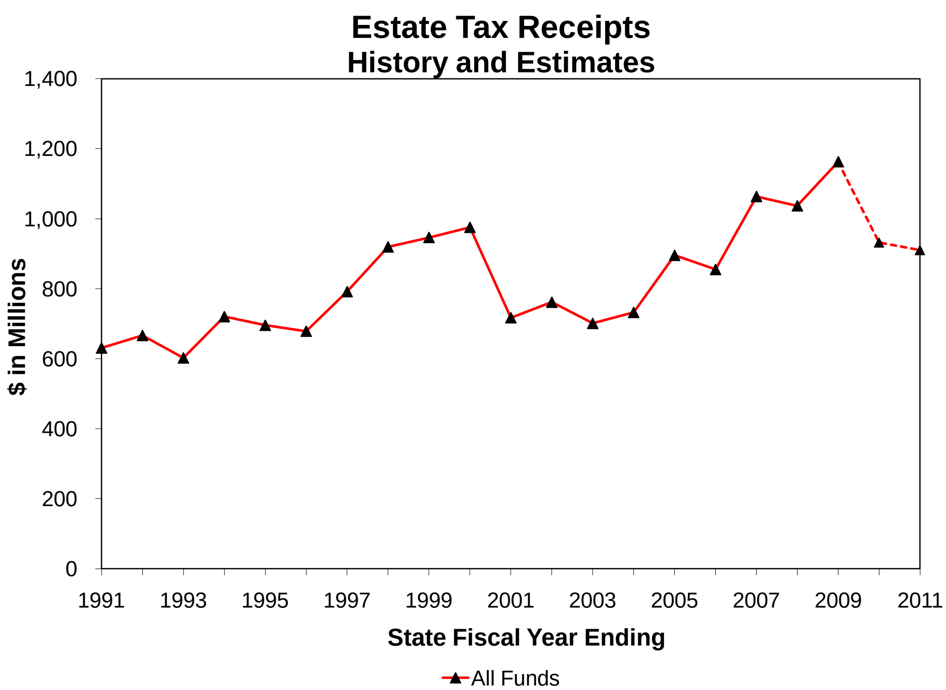
Estimated PBT Receipts 2009-10



ESTATE TAX

ESTATE TAX (millions of dollars)							
	2008-09 Actual	2009-10 Estimated	Change	Percent Change	2010-11 Projected	Change	Percent Change
General Fund	1,162.6	931.8	(230.8)	(19.9)	910.0	(21.8)	(2.3)
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	1,162.6	931.8	(230.8)	(19.9)	910.0	(21.8)	(2.3)

Note: Totals may differ due to rounding.



ESTATE TAX BY FUND (millions of dollars)				
	Gross General Fund	Refunds	General Fund	All Funds Receipts
2000-01	777	60	717	717
2001-02	791	30	761	761
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
Estimated				
2009-10	987	55	932	932
2010-11	965	55	910	910

PROPOSED LEGISLATION

Legislation submitted with this Budget would:

- maintain the New York Estate Tax Unified Credit amount currently allowed independent of federal estate tax law in effect on the date of death; and

- extends the marital deduction to same-sex spouses.

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 equal to the Federal Credit in effect at the time of the decedent's death. However, the New York credit is capped at 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 and 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		

Subject	Description	Effective Date
Estate and Gift - Gift Imposition	Imposed a gift tax as Article 26-A of the Tax Law.	January 1, 1972
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 on deferred payments of estate tax, where estate consists largely of a closely-held business, from 4 percent to 2 percent.	January 1, 1998
Legislation Enacted in 1999		
Federal Conformity	Conformed New York State law to Federal law as of July 22, 1998, except for the 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

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 across the board and thousands of the smallest estates have been effectively exempt from the tax. As a result, the volatility in receipts from this source is expected to increase, due to the more 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 estate tax, please see the *Economic, Revenue and Spending*

Methodologies at http://www.budget.state.ny.us/pubs/supporting/ForecastMethodology-FINAL_11-05-09.pdf

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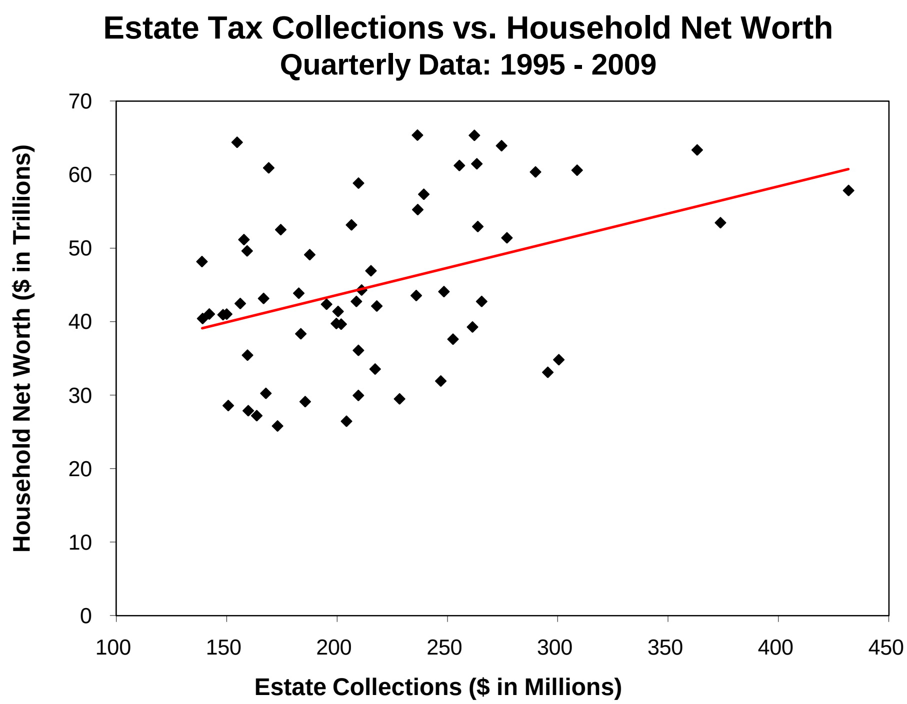


RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2009-10 Estimates

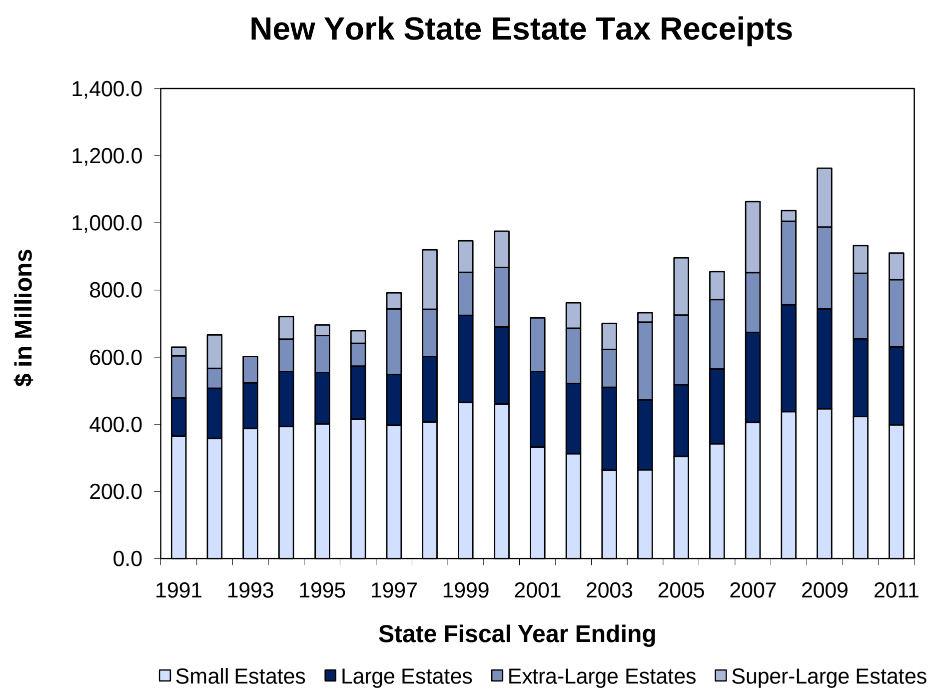
All Funds receipts through December are $682.0 million, a decrease of $322 million, or 32.1 percent below the comparable period in the prior fiscal year.

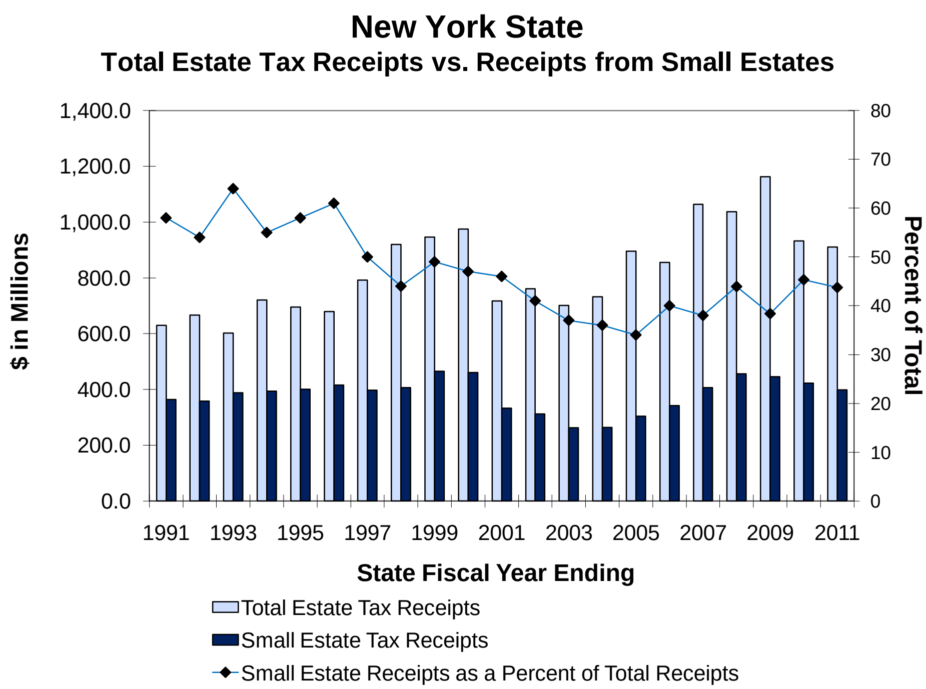
All Funds receipts for 2009-10 are estimated to be $931.8 million, a decrease of $230.8 million, or 19.9 percent below last year. The sharp declines in the stock market suffered during 2008 and the beginning of 2009, along with declines in housing values have resulted in lower estate tax collections in 2009-10.

Small estate (less than $0.5 million in payments) collections through December are $296.6 million, a decrease of $53.1 million, or 15.2 percent below the comparable period in 2008-09. Small estate receipts for 2009-10 are estimated to be $422.3 million, a decrease of $23.6 million, or 5.3 percent below 2008-09. The decline in small estate tax receipts reflects declines in housing prices and stock values. The decline in small estate collections is partially offset by the receipt of an estimated $20 million from the Penalty and Interest Discount Program (PAID).

Large estates (less than $4 million in payments) are estimated to decrease to $232.1 million, reflecting significant declines during the first half of the year. Large estate collections through December are $179.5 million, a decrease of $73.5 million, or 29.0 percent below the comparable period in 2008-09.

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 $141.5 million from 2008-09 levels to $277.4 million. The average size of receipts in this category has declined from last year's average, when receipts in this category were boosted in the prior year by large receipts in July of 2008. Receipts through December are $205.9 million, $195.7 million less than through the first 9 months of 2008-09.





2010-11 Projections

All Funds receipts are projected to be $910 million, a decrease of $21.8 million, or 2.3 percent below 2009-10.

Estate tax collections in 2010-11 are expected to remain relatively flat from 2009-10 levels. Declines over the beginning of the year are expected to be off-set by growth in the latter part of the year, as the rebound in equity prices begin to be reflected in estate tax payments.

Large estate tax payments are projected to increase by 0.4 percent to $233 million, while collections from small estate payments are projected to decline by $24.3 million, to $398 million.

Super-large estate payments are projected to be $80 million in 2010-11. The payments from extra-large estates are expected to increase to $199 million. The projections for the super-large and extra-large estates are based upon a distributional analysis, which suggests the number of super-large and extra-large estate payments will remain consistent with the number of payments received in 2009-10.

ESTATE TAX RECEIPTS BY SIZE OF ESTATE
(millions of dollars)

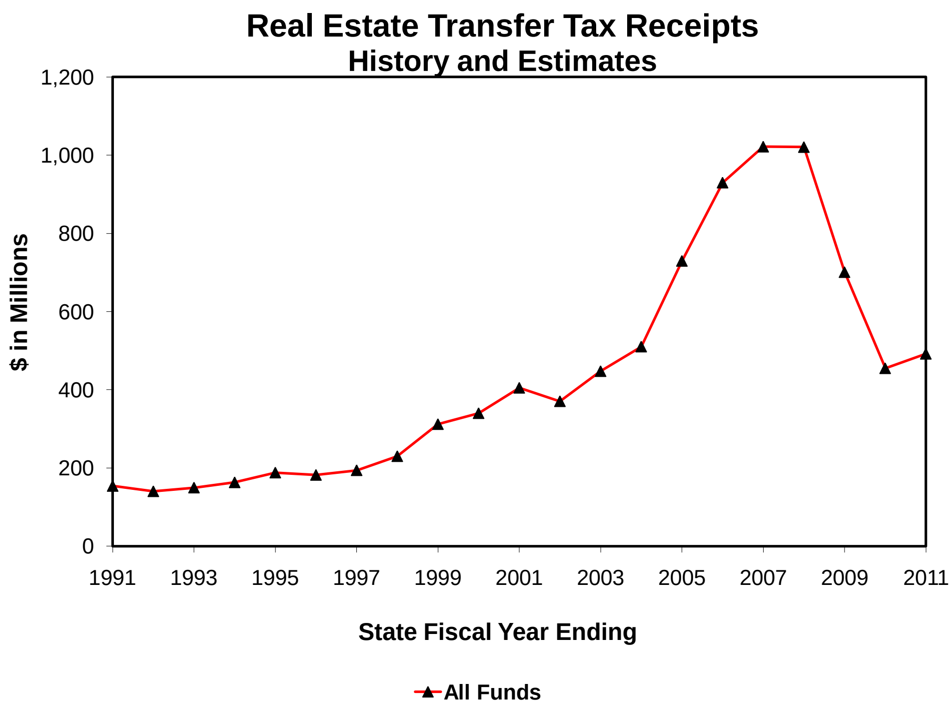
	Super-Large[1] and Extra-Large[2] Estates		Large Estates[3]		Small Estates[4]	Grand Total
	Number	Taxes	Number	Taxes	Taxes	Taxes
2000-01	22	160.0	179	224.7	332.4	717.1
2001-02	21	240.1	167	208.8	312.5	761.4
2002-03	16	190.5	200	247.6	262.8	700.9
2003-04	26	259.1	169	209.1	264.1	732.3
2004-05	25	377.9	191	212.9	304.5	895.3
2005-06	25	289.7	173	223.1	342.1	854.9
2006-07	28	389.5	217	267.8	406.0	1,063.3
2007-08	31	280.9	264	318.3	437.5	1,036.7
2008-09	30	418.9	246	297.4	445.9	1,162.2
Estimated						
2009-10	26	277.4	204	232.1	422.3	931.8
2010-11	26	279.0	214	233.0	398.0	910.0

[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)							
	2008-09 Actual	2009-10 Estimated	Change	Percent Change	2010-11 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	701.2	455.0	(246.2)	(35.1)	492.0	37.0	8.1
All Funds	701.2	455.0	(246.2)	(35.1)	492.0	37.0	8.1

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
2000-01	112	293	0	293	405
2001-02	112	259	0	259	371
2002-03	112	336	0	336	448
2003-04	112	398	1	397	509
2004-05	112	618	1	618	730
2005-06	112	827	1	826	938
2006-07	147	875	1	874	1,022
2007-08	212	809	1	808	1,021
2008-09	237	464	1	463	701
Estimated					
2009-10	199	256	1	255	455
2010-11					
current law	199	293	1	292	492
proposed law	132	360	1	359	492

[1] Enviornmental Protection Fund.
[2] Clean Water/Clean Air Bond Debt Sevice Fund.

PROPOSED LEGISLATION

Legislation submitted with this Budget would:

- reduce the amount to be deposited into the Environmental Protection Fund.

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 http://www.budget.state.ny.us/pubs/supporting/ForecastMethodology-FINAL_11-05-09.pdf

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2009-10 Estimates

All Funds receipts through December are $356 million, a decrease of $245 million, or 41 percent below the comparable period in the prior fiscal year.

All Funds receipts for 2009-10 are estimated to be $455 million, a decrease of $246 million, or 35 percent below last year.

New York's recent real estate market experience has followed the 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.

Downstate areas, which had enjoyed increases in property values during the real estate boom period, did see values and sales fall substantially. Many upstate regions had a more moderate upswing and less of a downward slide.

While the number of home sales is beginning to rebound from the "bottom" of the market, prices are still lower than last year in most areas. Low mortgage interest rates as well as the Federal housing tax credit are acting as stimulators while tighter credit standards are restraining growth. The excess supplies of houses as well as increasing foreclosures are also factors holding back a rebound in the housing market. Higher value properties have generally seen a larger decline than more modestly priced parcels.

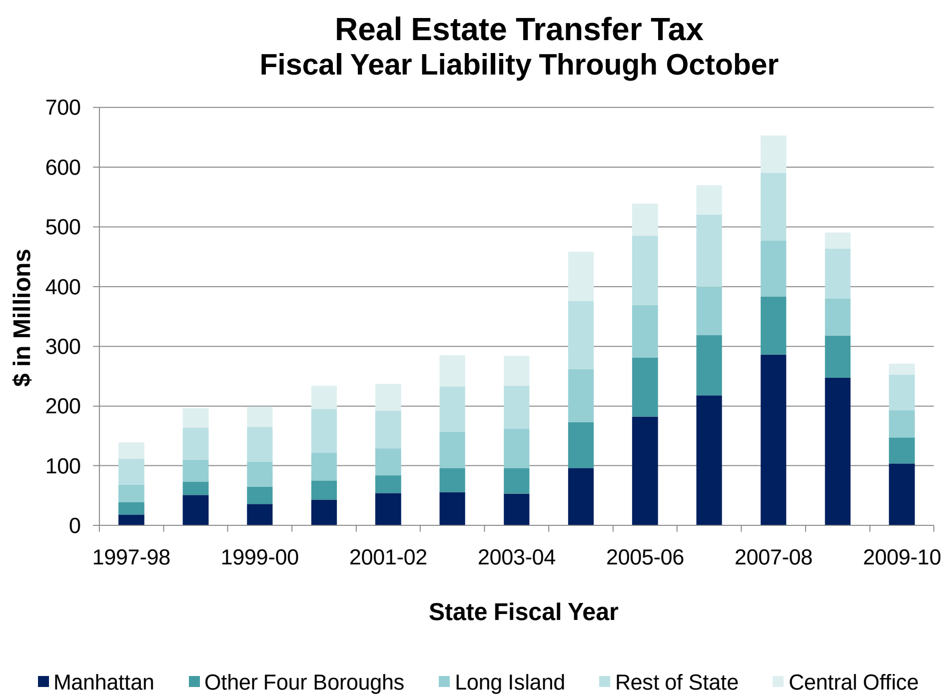
The growth in receipts between 2002 and 2007 has closely followed the acceleration in housing values as well as the large number of commercial property sales, especially in New York City. Subsequent to this period, the growth in the residential market has slowed or reversed in many areas of the State. New York City commercial sales have fallen by about 50 percent in 2009 from 2008, which was already lower than 2007 levels. The rapid escalation of rents in prime Manhattan locations that were typical over the past few years has ended as demand has waned. Average sales prices are down 40 percent from the 2005 peak and forecasts are for continuing declines through 2011.

New York City residential RETT collections have declined by approximately 33 percent year-over-year as the number and value of transactions has declined. In New York City, commercial RETT collections are projected to continue to decline after a number of years of rapid growth. The number of extraordinarily large parcels (valued over $25 million each) is expected to fall dramatically from its peak of 80 sales per quarter in 2007 to fewer than 10 per quarter in 2009. The sharp decline of the financial markets has resulted in a decline in the financial sector employment levels which is expected to have a negative impact on the demand for office space.

The mansion tax has played an important role in the receipts growth that has characterized recent fiscal years. As residential home prices increased, especially downstate, so too did the proportion of homes priced in excess of $1 million. In State fiscal year 1998-99, the mansion tax accounted for 11.3 percent of all real estate transfer tax receipts. By State Fiscal Year 2004-05, this share had increased to 26 percent. In 2006-07, the mansion tax generated 24 percent of total RETT collections. In 2007-08, the percent total was 31 percent with the total dollars reaching $316 million. Mansion tax proceeds in 2008-09 were 32 percent but the total of $227 million, (9,675 transactions) was the lowest in four years. Through November, the number of mansion tax transactions was 4,250 and collections totaled $97 million.

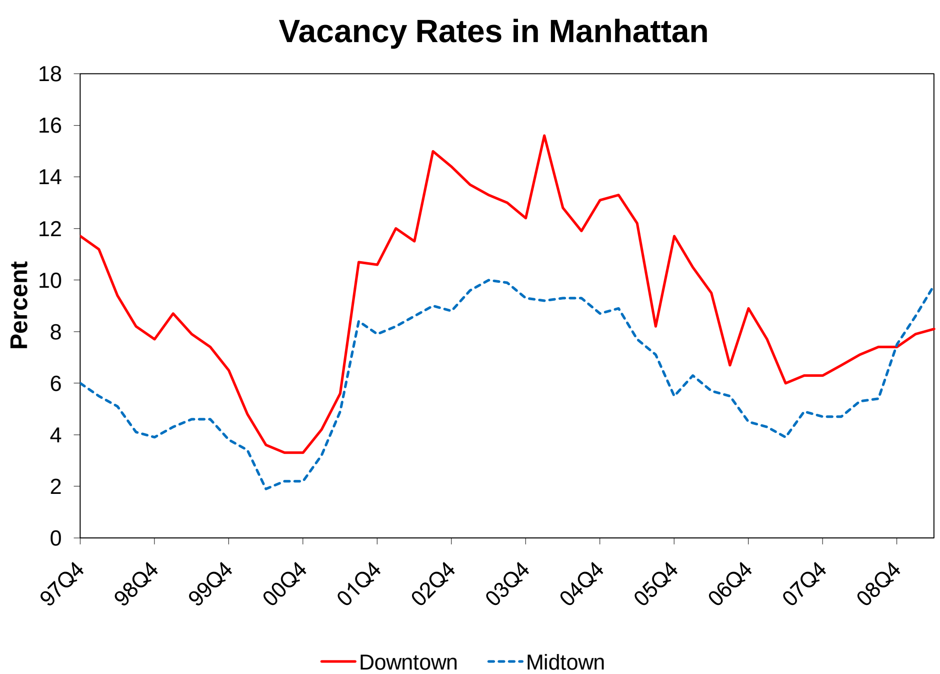
The number of real estate transfer tax transactions peaked at over 574,000 in 2005-06. The expected total for 2009-10 is now slightly less than 300,000.

The following chart compares tax liability by location through October since 1997-98.



Over the past seven years, much of the strength in the transfer tax receipts has come in the increased volume and value of downstate commercial real estate sales. It is estimated that at one time approximately one third of receipts were a result of commercial real estate sales. Much of this activity was generated by foreign investors. The weak U.S. dollar had stimulated the foreign sales activity. However, since 2007-08, the worldwide recession and tighter credit standards have caused much of this international investment to decline. Nationally, the number of home sold to foreign nationals declined. While New York State does not rank high on the list of states attracting vacation home purchases by international investors, New York was a major attraction for foreign investment in commercial property. However, 2009 saw a decline in foreign capital inflow from 2007 levels.

Currently, the Manhattan commercial market faces significant uncertainty as the credit markets adjust to the current situation. Credit availability is being restricted by tightening lending standards. Vacancy rates are rising as new buildings are completed and become available while demand slackens. Downtown, the vacancy rate was 7.7 percent during the third quarter of 2009 compared to 7.4 percent during the same period last year. The Midtown rate rose from 5.4 percent to 9.6 percent during the same period.



Source: C.B. Richard Ellis

2010-11 Projections

All Funds receipts are projected to be $492 million, an increase of $37 million, or 8 percent above 2009-10. Due to the volatile nature of the current residential housing and commercial markets, this receipts estimate contains a high degree of risk.

The boom in the housing market, which was spurred by record-low mortgage rates and easy credit terms, has clearly ended. The weakness in the residential market showed in both declines in housing starts as well as falling or flat average sales prices of existing homes. Outside of New York City, existing home sales, at midyear, were increasing year-over-year but prices were still stagnant. Problems in the sub-prime mortgage market, as evidenced by increased delinquencies and bankruptcy filings, are expected to continue.

The Statewide residential median sales price (outside of NYC) increased from $120,000 in 1997 to $219,000 in 2005. Since then, the median price has fallen to $185,000 in 2008 according to the most recent data from the Office of Real Property Services.

The short term outlook for the housing market is based upon a number of factors, including; low interest rates, the federal tax housing credit which was extended until June 2010 and continued tight credit standards. The average existing home prices are expected to continue to fall but at a slower pace, and new construction is expected to begin to turn positive later in 2010.

Nationally, new home sales have fallen significantly from the 2005 peak and have hit the lowest point since 1991. The supply of new homes grew to a point that prices and construction activity declined considerably. Housing starts are beginning to rebound from the extremely low levels of 2008 but the trends are inconsistent. New York has followed a similar pattern for existing home sales.

In New York, regional markets have been mixed with sales prices showing somewhat less volatility than other parts of the county.

In the New York City area, the Federal Reserve Board reports that housing markets are weak. The average sales price of residential property (including condos and co-ops) declined more than 20 percent with the largest fall-off in Manhattan.

The decline in the financial services sector employment and profitability is not only impacting the number of commercial transactions but also is likely to reduce the future demand and prices in the condo and co-op markets. Recent data show that Manhattan housing transactions are up over last year but median sales prices are down. New York City residential sales are now at 2003 levels.

It is expected that the number of extremely high value commercial sales, which have occurred in the last few years, will not recur in the short term. Strong demand in recent years for Manhattan office space had driven up rent prices and pushed down vacancy rates. Weak employment outlook is likely to translate into a weak demand for office space as well high-end residential units.

General Fund

The General Fund will receive no direct deposit of real estate transfer tax receipts in 2009-10 or 2010-11. However, the balance of the Clean Water/Clean Air Fund, not needed for debt service, is transferred to the General Fund. In 2009-10 and 2010-11, it is expected that $256 million and $360 million, respectively, will be transferred to the General Fund.

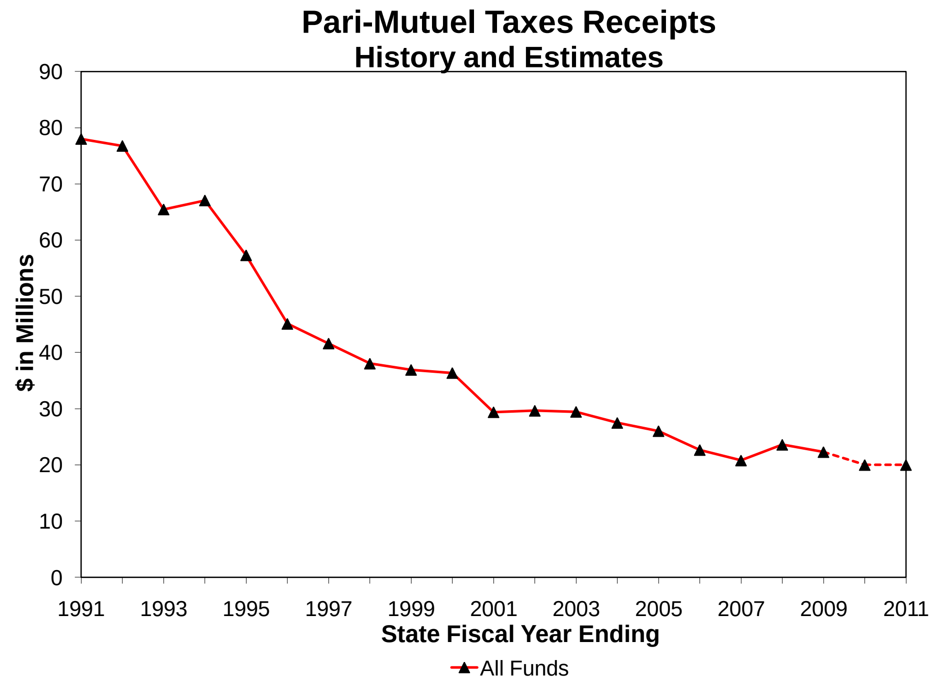
Other Funds

During 2009-10, the statutory amount of real estate transfer tax receipts to be deposited in the Environmental Protection Fund will be $199.3 million. The amount to be deposited for 2010-11 and thereafter is proposed to be $132.3 million.

PARI-MUTUEL TAXES

PARI-MUTUEL TAXES (millions of dollars)							
	2009-09 Actual	2009-10 Estimated	Change	Percent Change	2010-11 Projected	Change	Percent Change
General Fund	22.3	20.0	(2.3)	(10.3)	20.0	0.0	0.0
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	22.3	20.0	(2.3)	(10.3)	20.0	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
2000-01	14,152	750	14,444	29,346
2001-02	10,525	852	18,269	29,646
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
Estimated				
2009-10	7,000	600	12,400	20,000
2010-11	7,400	600	12,000	20,000

PROPOSED LEGISLATION

Legislation submitted with this Budget would:

- extend certain tax rates and authorization for account wagering for a period of one year.

DESCRIPTION

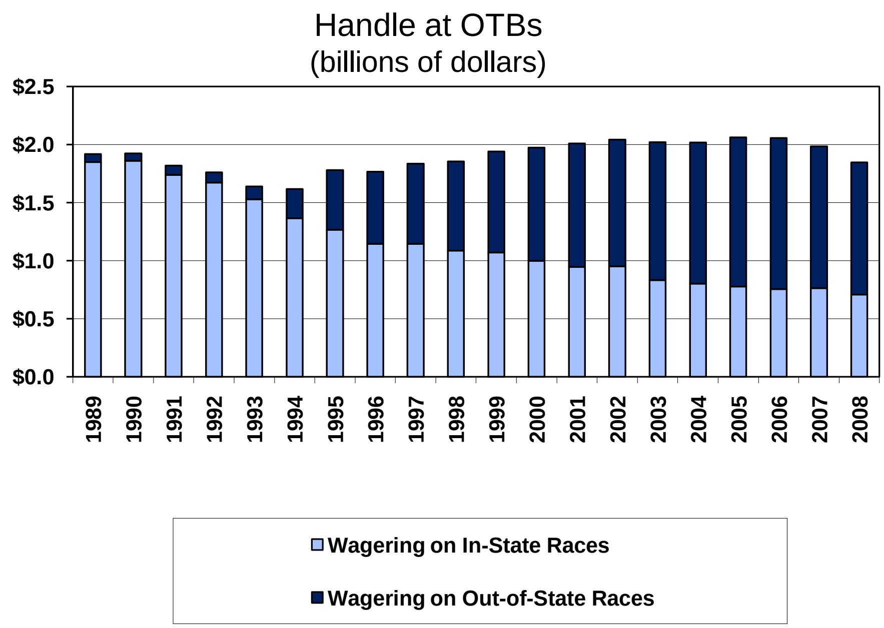
Tax Base and Rate

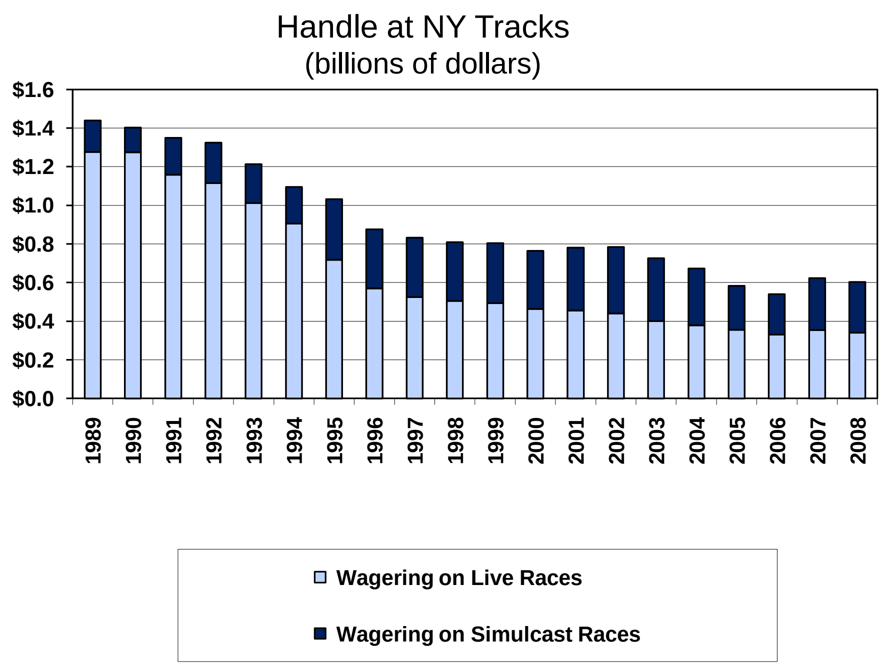
The State has levied taxes on pari-mutuel wagering activity conducted at horse racetracks since 1940. Off-track betting (OTB) parlors were first authorized in 1970 and simulcasting was first authorized in 1984. Each racing association or corporation and Off-Track Betting Corporation pays the State a 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 0.93 percent of the handle in 2008.

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 75 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 growth of the industry, 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.





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
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 http://www.budget.state.ny.us/pubs/supporting/ForecastMethodology-FINAL_11-05-09.pdf

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2009-10 Estimates

All Funds receipts through December are $15.1 million, a decrease of $2.6 million, or 14.9 percent below the comparable period in the prior fiscal year. All Funds receipts for 2009-10 are estimated to be $20 million, a decrease of $2.3 million, or 10.3 percent below last year.

Receipts through December from off-track betting have decreased by $2.2 million or 19.9 percent from the comparable period in 2008-09. The lower year-to-date receipts are partially due to the timing of payments from NYC OTB. Receipts from OTBs are estimated at $12.4 million for 2009-10, a decrease of $1.7 million, or 12.1 percent below the prior fiscal year. This decline reflects significant declines in handle during the fiscal year.

Receipts through December from thoroughbred on-track handle, including simulcasts, is $5.9 million, a decrease of $0.5 million, or 7.9 percent below the same period last year. Receipts for the fiscal year are estimated at $7.0 million, a decline of $0.6 million.

Receipts of pari-mutuel taxes from on-track harness wagering are estimated to be $600,000 in 2009-10, consistent with 2008-09.

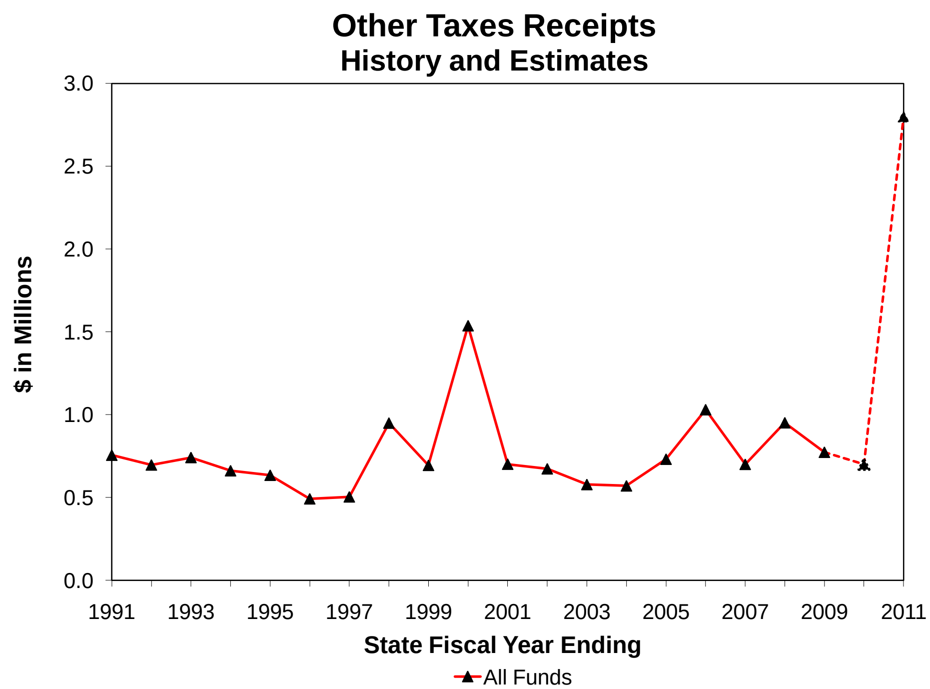
2010-11 Projections

Pari-Mutuel tax receipts are projected to remain at $20.0 million in 2010-11. A projected decline in receipts from OTBs is projected to be offset by an increase in on-track handle at flat tracks. The current estimates assume the extension of the current rate structure and authorization of account wagering, as proposed in the Executive Budget.

OTHER TAXES

OTHER TAXES (millions of dollars)							
	2008-09 Actual	2009-10 Estimated	Change	Percent Change	2010-11 Projected	Change	Percent Change
General Fund	0.8	0.7	(0.1)	(12.5)	2.8	2.1	300.0
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	0.8	0.7	(0.1)	(12.5)	2.8	2.1	300.0

Note: Totals may differ due to rounding.



OTHER TAXES BY FUND (thousands of dollars)			
	General Fund		All Funds
	Admissions	Exhibitions	Receipts
2000-01	289	412	701
2001-02	285	388	673
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
Estimated			
2009-10	335	365	700
2010-11			
Current Law	335	365	700
Proposed Law	335	2,465	2,800

PROPOSED LEGISLATION

Legislation submitted with this Budget would:

- Impose an admissions tax on professional combative sports matches or exhibitions at a rate of 8.5 percent with no cap, and a 3 percent tax on receipts from broadcast rights not to exceed $50,000.

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

2009-10 Estimates

All Funds collections through December are $615,000, a decrease of $94,000, or 13.3 percent below the comparable period in the prior fiscal year. All Funds receipts for 2009-10 are estimated to be $700,000, a decrease of 73,000 from 2008-09.

2010-11 Projections

All Funds receipts under current law are projected to remain at $700,000, the same total as for 2009-10. 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 2009-10 levels. The Executive Budget includes a proposal to remove the ban on professional combative sports and would impose an 8.5 percent admission tax on matches and exhibitions. This proposal would increase receipts by $2.1 million annually.

METROPOLITAN TRANSPORTATION AUTHORITY FINANCIAL ASSISTANCE FUND RECEIPTS

METROPOLITAN FINANCIAL ASSISTANCE FUND RECEIPTS (millions of dollars)							
	2008-09 Actual	2009-10 Estimated	Change	Percent Change	2010-11 Projected	Change	Percent Change
General Fund	0	0	0	0	0	0	NA
Other Funds	0	1,544	1,544	NA	1,811	267	17.3
All Funds	0	1,544	1,544	NA	1,811	267	17.3

Note: Totals may differ due to rounding.

PROPOSED LEGISLATION

Legislation submitted with this Budget would:

- Amend the tax on medallion taxicab rides in the Metropolitan Commuter Transportation District (MCTD) with a flat tax of $1,750 per quarter per medallion.

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. 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 newly imposed by Chapter 25, Laws of 2009. These new 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)			
	2009-10	2010-11	Change from Prior Year
Mobility Tax	1,383	1,483	100
Motor Vehicle Fees	121	208	88
Passenger Car Rentals Tax	26	35	9
Taxicab Surcharge	14	85	71
Total	1,544	1,811	267

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. For the 2009 tax year, the individual's mobility tax liability was computed using ten-twelfths of the total net earnings from self-employment allocated to the MCTD.

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.)

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 and from individuals with net earnings from self-employment allocated to the MCTD of $10,000 or less for a tax year.

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.

2009-10 Receipts and 2010-11 Projections

All Funds collections through December are $797.4 million. All Funds receipts for 2009-10 are estimated to be $1,383.4 million. Receipts for 2010-11 are projected to be $1,483.3 million.

SUPPLEMENTAL TAX ON PASSENGER CAR RENTALS

Effective June 1, 2009, a supplemental tax of 5 percent is 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.

2009-10 Receipts and 2010-11 Projections

All Funds collections through December are $17.7 million. All Funds receipts for 2009-10 are estimated to be $26.3 million. Receipts for 2010-11 are projected to be $35 million.

TAX ON MEDALLIAN 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. Under legislation submitted with this Budget, this tax is repealed on June 1, 2010. The adjusted quarterly period and filing due dates for the taxicab ride tax are:

Quarterly period	Due date for filing return
October through December	January 20
January through March	April 20
April through May	June 20

METROPOLITAN TRANSPORTATION AUTHORITY FINANCIAL ASSISTANCE FUND RECEIPTS

Under legislation submitted with this Budget, a flat tax will be imposed at $1,750 per quarter per medallion effective June 1, 2010, (for an effective annual rate of $7,000 per year per medallion). The Taxicab and Limousine Commission or NYC must increase the maximum taxicab vehicle lease rate or rental charge and taxicab trip fares so that the economic incidence of the tax is ultimately passed through to the consumer. This preserves the pass through provisions of the current law. This proposal is expected to have the same effect on taxicab fares as current law. The quarterly period and filing due dates for this medallion tax are:

Quarterly period	Due date
June through August	August 31
September through November	November 30
December through February	February 27
March through May	May 31

2009-10 Receipts and 2010-11 Projections

All Fund receipts for 2009-10 are estimated to be $14.2 million. Receipts for 2010-11 are projected to be $85 million.

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 level fees.

2009-10 Receipts and 2010-11 Projections

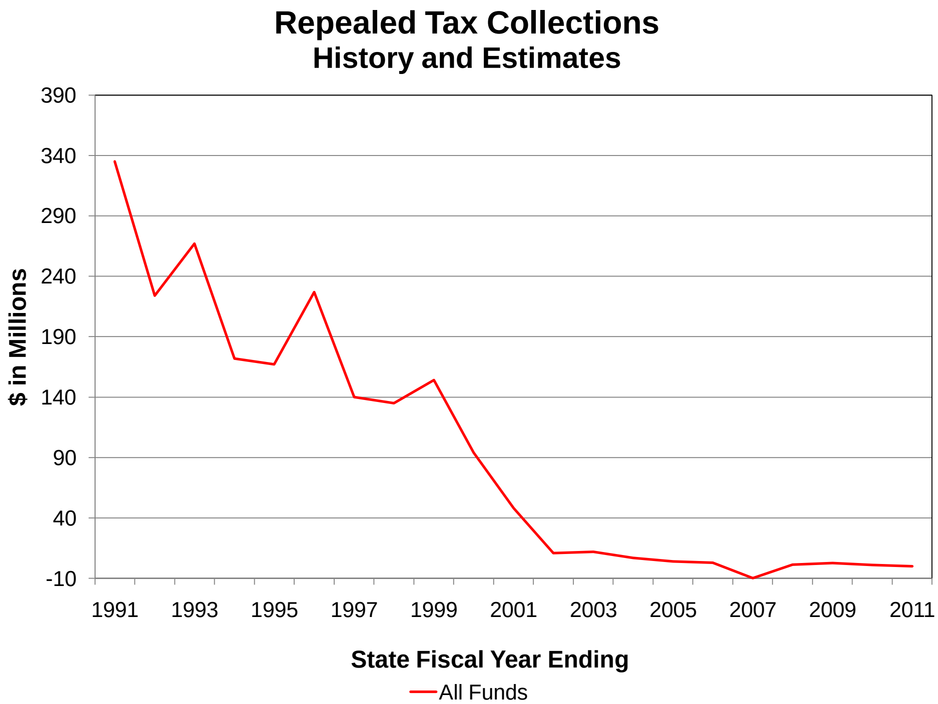
All Funds collections from the supplemental motor vehicle license fee through December are $4.7 million. All Funds receipts for 2009-10 are estimated to be $14.8 million. Receipts for 2010-11 are projected to be $26.7 million.

All Funds collections from the supplemental registration fee through December are $42.3 million. All Funds receipts for 2009-10 are estimated to be $105.9 million. Receipts for 2010-11 are projected to be $181.6 million.

REPEALED TAXES

REPEALED TAXES (millions of dollars)							
	2008-09 Actual	2009-10 Estimated	Change	Percent Change	2010-11 Projected	Change	Percent Change
General Fund	2.7	(0.4)	(3.1)	(114.8)	0.0	0.4	(100.0)
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	2.7	(0.4)	(3.1)	(114.8)	0.0	0.4	(100.0)

Note: Totals may differ due to rounding.



REPEALED TAXES BY FUND (thousands of dollars)				
	Gross General Funds	Refunds	General Fund	All Funds Receipts
2000-01	53,183	5,548	47,628	47,628
2001-02	11,120	1,120	10,000	10,000
2002-03	12,623	732	11,891	11,891
2003-04	7,676	275	7,401	7,401
2004-05	5,000	1,200	3,800	3,800
2005-06	2,937	1	2,936	2,936
2006-07	2,279	12,176	(9,896)	(9,896)
2007-08	1,746	300	1,446	1,446
2008-09	2,735	0	2,735	2,735
Estimated				
2009-10	296	652	(356)	(356)
2010-11	0	0	0	0

GIFT TAX

Until it was repealed on January 1, 2000, New York imposed a gift tax as a complement to the transfer tax on estates to equalize the tax burden on lifetime transfers. Like the estate tax, the base of this levy was derived from the Federal tax base, with exclusions for transfers of property located outside the State. The tax was imposed on a lifetime basis. Taxable gifts made during a taxpayer's lifetime, after allowable exclusions, were taxed in aggregate as one gift.

2009-10 Receipts and 2010-11 Projections

All Funds collections through December are $270,000 with $20,000 refunds paid. Given results to date, All Funds receipts for 2009-10 are estimated to be $200,000. No receipts are expected for 2010-11 or for any subsequent fiscal year.

REAL PROPERTY GAINS TAX

The real property gains tax, enacted in 1983, was repealed on July 13, 1996. All property transferred after June 15, 1996, is exempt from the provisions of the real property gains tax. This tax was levied at a rate of 10 percent of the gain from sales of New York commercial property of $1 million or greater, including anything of value arising from land ownership, such as air rights or zoning credits. Remaining collections stem primarily from assessments on prior year tax liability and from deferred installment payments for tax liability arising from sales of condominium and cooperative housing for projects that were still being sold at the time of the gains tax repeal.

2009-10 Receipts and 2010-11 Projections

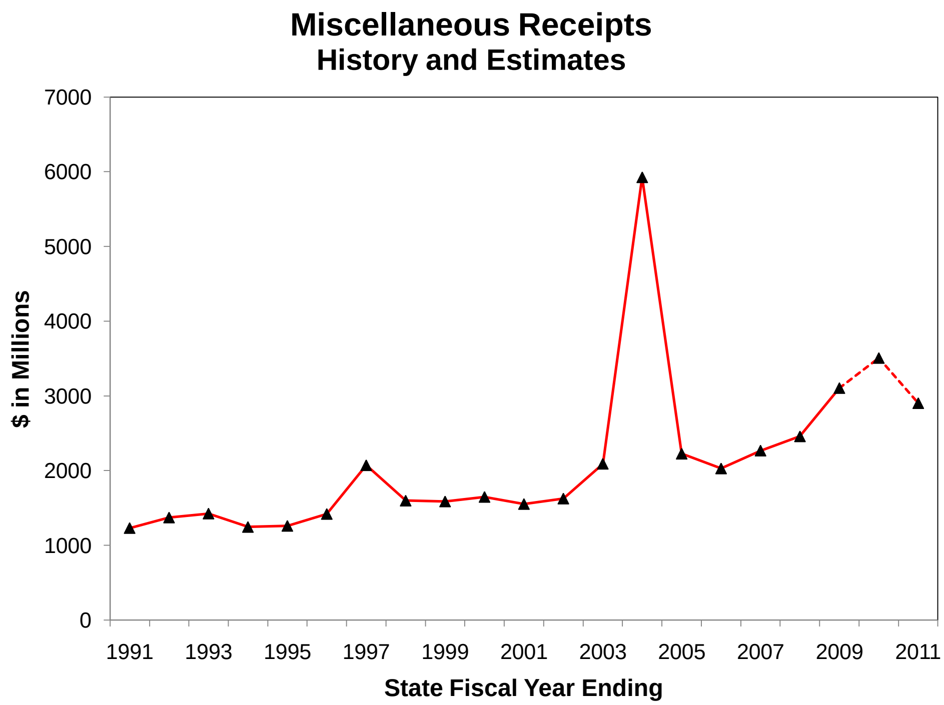
Through December, All Funds collections are $25,000 with $632,000 refunds paid. As a result, net real property gains tax collections for 2009-10 are estimated to be a loss of $607,000.

No receipts are expected for 2010-11 or for any subsequent fiscal year.

MISCELLANEOUS RECEIPTS
GENERAL FUND

MISCELLANEOUS RECEIPTS - GENERAL FUND (millions of dollars)							
	2008-09 Actual	2009-10 Estimated	Change	Percent Change	2010-11 Projected	Change	Percent Change
General Fund	3,105.0	3,508.1	403.1	13.0	2,903.7	(604.4)	(17.2)

Note: Totals may differ due to rounding.



MISCELLANEOUS RECEIPTS - GENERAL FUND (millions of dollars)					
	2006-07	2007-08	2008-09	2009-10 Estimated	2010-11 Projected
Licenses, Fees, Etc.	698.7	604.5	561.6	597.6	665.2
Abandoned Property	708.2	693.8	698.1	550.0	550.0
Reimbursements	164.8	163.1	253.4	272.0	222.0
Investment Income	190.7	220.6	104.2	25.0	60.0
Other Transactions	505.1	776.1	1,487.7	2,063.5	1,406.5
Total	2,267.5	2,458.1	3,105.0	3,508.1	2,903.7

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- increase various civil court filing fees;
- eliminate the State's role in dog licensing;
- repeal the centralized procurement contract with the Office of General Services;

- establish the use of automated speed cameras for vehicle and traffic safety; and

- incorporate the NYC's Housing Development Corporation under the State's Bond Issuance Charge.

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

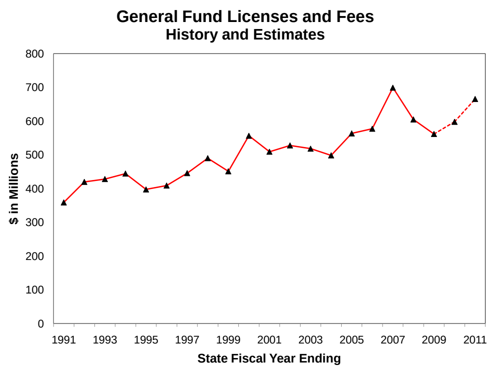
The significant statutory changes since 1994 are summarized below.

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
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
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

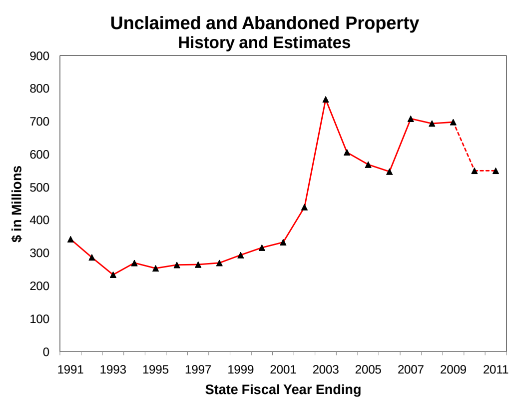
Legislation Enacted in 2001		
Mandatory Surcharges	Extended for two years the mandatory surcharges pertaining largely to standing or moving violations of the Vehicle and Traffic Law.	October 31, 2001
Legislation Enacted in 2002		
Supplemental Wireless Service Surcharge	Increased from $0.70 to $1.20 monthly the State wireless communication service surcharge.	August 1, 2002
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
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
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
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 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

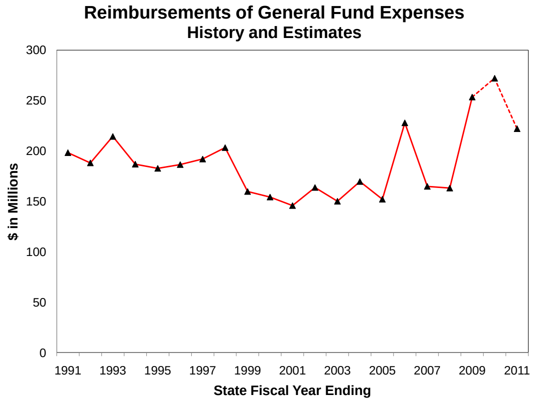
Components of Miscellaneous Receipts



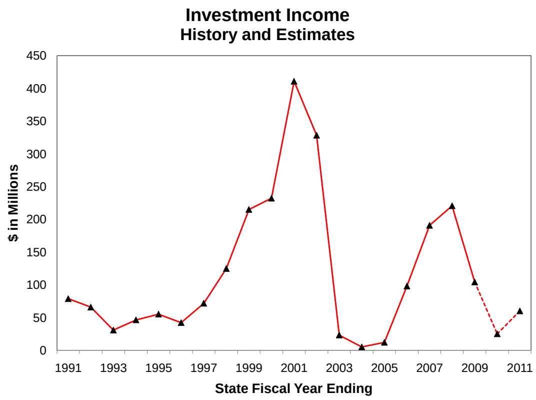
Historically, General Fund license and fee revenues have grown modestly and fairly consistently, aside from minimal peaks and troughs associated with law changes. In 2009-10 and 2010-11, these revenues are projected to increase as a result of law changes becoming fully effective.



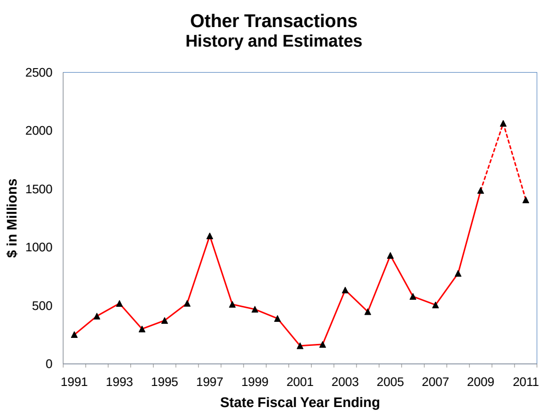
Historically, unclaimed and abandoned property revenue has remained relatively stable with minimal growth, aside from spikes in 2002-03 and 2003-04 resulting from a large amount of abandoned property released to the State of New York by the Office of the State Comptroller. This property was associated 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 remain relatively constant in the forecast period after dropping off slightly in 2009-10 due to the economic recession.



Historically, reimbursements of General Fund expenses and revenue advances have remained relatively constant, and are expected to remain so over the forecast period. 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 drop significantly as both General Fund account balances and interest rates are very low.



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; and SONYMA.

2008-09 RECEIPTS

In State fiscal year 2008-09, miscellaneous receipts totaled $3,105 million. Major revenue sources included: $698 million in unclaimed and abandoned property; $562 million in fees, licenses, fines, royalties, and rents; $395 million in payments from the New York Power Authority, a portion of which offsets revenue losses resulting from the "Power for Jobs" program; $325 in atypical fines and civil recoveries; $253 million in reimbursements; $211 million in medical provider assessments; $125 million from the State of New York Mortgage Agency; $119 million in additional bond issuance charges; $79 million from the supplemental wireless surcharge; $41 million from the drivers responsibility program; and $30 million from hurricane Katrina Revenue (i.e. – the State receives reimbursement from the Federal Emergency Management Agency for services provided by state agencies after the disaster). In addition, receipts included $164 million from Monroe County's Medicaid sales tax intercept payment; and $104 million in interest earnings on short-term investments and bank accounts, an amount that is net of certain expenses incurred in providing banking services to various State agencies.

2009-10 ESTIMATES

Miscellaneous receipts are estimated to be $3,507 million for fiscal year 2009-10. Miscellaneous receipts are estimated to increase $402 million from the prior year primarily due to the introduction of the 18-A utility assessment, which was partially offset by the loss of one-time District Attorney settlement receipts. The estimate includes: $602 million in receipts from the 18-A utility assessment; $598 million in fees, licenses, fines, royalties, and rents; $550 million in unclaimed and abandoned property; $272 million in reimbursements; $223 million in payments from the New York Power Authority, a portion of which offsets revenue losses resulting from the "Power for Jobs" program; $200 million in funds sweeps from the Battery Park City Authority; $197 million in medical provider assessments; $162 million from Monroe County's Medicaid sales tax intercept payments; $131 million from the supplemental wireless surcharge; $130 in atypical fines and civil recoveries; $108 million in additional bond issuance charges; $95 million from New York State Energy Research and Development Agency; $66 million in Bottle Bill proceeds; $41 million from the Driver's Responsibility program; $35 million from the OTDA Back to School Initiative; $28 million from shifting Office of Real Property Services funds to the General Fund; $26 million in payments from the Dormitory Authority of the State of New York; $25 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); $12 million from the privatization of the Empire State Development Corporation; and $9 million from the State of New York Mortgage Agency.

2010-11 PROJECTIONS

Miscellaneous receipts are projected to be $2,903 million in fiscal year 2010-11, a decrease of $605 million from 2009-10, which is primarily due to the loss of various one-time payments. The 2010-11 projection includes: $665 million in fees, licenses, fines, royalties, and rents; $557 million in receipts from the 18-A utility assessment; $550 million in unclaimed and abandoned property; $222 million in reimbursements; $202 million in medical provider assessments; $165 million from Monroe County's Medicaid sales tax intercept payments; $115 million in Bottle Bill proceeds; $107 million in additional bond issuance charges; $83 million from the supplemental wireless surcharge; $60 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); $41 million from the Driver's Responsibility program; $33 million from the implementation of speed enforcement cameras; $29 million from shifting Office of Real Property Services funds to the General Fund; and $5 million from civil recoveries.

MISCELLANEOUS RECEIPTS
SPECIAL REVENUE FUNDS

MISCELLANEOUS RECEIPTS - SPECIAL REVENUE FUNDS (millions of dollars)							
	2008-09 Actual	2009-10 Estimated	Change	Percent Change	2010-11 Projected	Change	Percent Change
State Fund	12,911.0	14,119.0	1,208.0	-2.7	14,073.0	(46.0)	11.7
Federal Funds	178.0	230.0	52.0	-46.5	188.0	(42.0)	1.9
All Funds	13,089.0	14,349.0	1,260.0	-3.3	14,261.0	(88.0)	11.6

Note: Totals may differ due to rounding.

Miscellaneous receipts deposited to special revenue funds represent approximately 21 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 2008-09 through projected 2010-11. If the proposed legislation related to SUNY is enacted, the money in the SUNY Income Fund would no longer be included in the State's Special Revenue Funds.

MISCELLANEOUS RECEIPTS - SPECIAL REVENUE FUNDS (millions of dollars)			
		Estimated	
	2008-09	2009-10	2010-11
HCRA	3,614	3,891	3,779
State University Income	2,958	3,367	3,531
Lottery	2,732	3,019	3,026
Medicaid	562	687	915
Industry Assessments	868	912	886
All Other	2,355	2,473	2,124
Total	13,089	14,349	14,261

HCRA FINANCING

HCRA receipts include recurring surcharges and assessments on hospital revenues, 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), the Provider Assessments Fund and the Indigent Care account. These resources are discussed in more detail below.

Provider Assessments

A new Provider Assessments Fund was established with the 2002-03 Enacted Budget and is currently supported by a partially-reimbursable 5.5 percent assessment as of on nursing home revenues and a 0.35 percent assessment on hospital and home care revenues.

The Executive Budget proposes increasing the partially-reimbursable assessment on nursing home revenues by 1 percent and by increasing the assessments on hospital and home care revenues by 0.35 percent.

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.

The Executive Budget proposes legislation that would grant SUNY greater flexibility in managing its operations. The legislation, among other things, would give SUNY sole custody of tuition and other revenues, and spending supported by these revenues would no longer be appropriated. However, to provide comparable annual spending totals, the Financial Plan continues to include this spending.

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.

INDUSTRY ASSESSMENTS/ALL OTHER

All Other
Components of Miscellaneous Receipts
(millions of dollars)

	Estimated	
	2009-10	**2010-11**
Health	339	346
Environmental Conservation	239	217
Tribal State Compact	205	147
State Police	187	205
HESC	121	126
Education	120	124
CUNY	145	140
Motor Vehicles	77	81
All Other	1,040	738
Total Miscellaneous Receipts	**2,473**	**2,124**

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 Banking Department, the Insurance Department, 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.

MISCELLANEOUS RECEIPTS – SPECIAL REVENUE FUNDS

- 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.

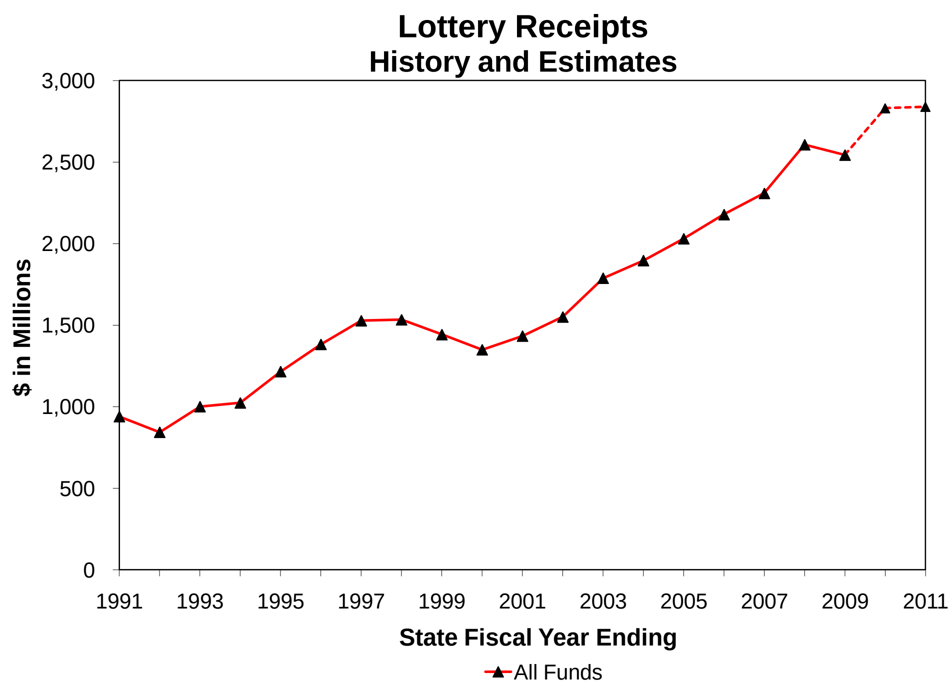
- Motor Vehicles fees include, assessments against insurers, surcharges on traffic violations and suspended licenses and vehicle registration fees.

- Interest on Lawyer Account miscellaneous revenue comes from the transfer of interest from certain escrow accounts held by attorneys for their clients.

LOTTERY

MISCELLANEOUS RECEIPTS - LOTTERY (millions of dollars)							
	2008-09 Actual	2009-10 Estimated	Change	Percent Change	2010-11 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	2,544.0	2,831.0	287.0	11.3	2,838.0	7.0	0.2
All Funds	2,544.0	2,831.0	287.0	11.3	2,838.0	7.0	0.2

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	Sweet Million	Power Ball	Other*	VLTs	Admin. Surplus**	Total Receipts
2000-01	282.7	247.4	164.5	250.2	14.5	135.0	126.7				54.5		159.8	1,435.5
2001-02	377.1	256.8	182.4	254.8	13.2	152.2	121.9				0.0		193.2	1,551.5
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
Estimated														
2009-10	670.0	300.0	273.0	77.0	11.0	106.0	104.0	189.0	18.0	19.0	0.0	683.0	381.0	2,831.0
2010-11														
Current Law	675.0	298.0	275.0	54.0	10.0	90.0	102.0	141.0	28.0	134.0	0.0	512.0	441.0	2,760.0
Proposed Law	675.0	298.0	275.0	54.0	10.0	90.0	127.0	141.0	28.0	134.0	0.0	557.0	449.0	2,838.0

** 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

Legislation submitted with this Budget would:

- make permanent the authorization to operate Quick Draw. The Quick Draw game authorization expires on May 31, 2010;
- eliminate restrictions on the Quick Draw game related to the hours of operation, food sales, and the size of establishments;
- eliminate the restriction on the number of hours per day the Video Lottery Terminals may be operated; and
- eliminate the sunset of the Video Lottery Gaming program.

DESCRIPTION

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 lotto-type 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. The New York State Division of the Lottery was established in 1976, and assumed the operation of the State's Lottery.

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 pick-your-own-numbers games offering large 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, top prizes are pari-mutuel and value of any top prize not won is added to the top prize in the subsequent drawing;
- Daily numbers games, which are fixed-odds 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 are pick-your-own numbers games offering 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 gaming devices. Video Lottery Terminals (VLTs) 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 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	50	35	15
PowerBall	50	35	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
Three Instant Games at 75%	75	10	15

FREQUENCY OF LOTTERY DRAWINGS

Game	Date of Inception	Frequency of Drawings
Lotto	1967	Saturday and Wednesday 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 daily from 10 a.m. to 3 p.m. and 4 p.m. to midnight
Mega Millions	2002	Tuesday and Friday at 11:00 PM
Sweet Million	2009	Monday and Thursday at 9:30 PM
PowerBall	2010	Saturday and Wednesday 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 2010-11
(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	44	10	32	10	4
More than $62.5 million up to $100 Million	48	10	32	10	0
Over $100 million	50	10	32	8	0

Tracks with less than 1,100 machines (*Batavia*)

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $50 million	40	10	36	10	4
More than $50 million to $62.5 million	47	10	29	10	4
More than $62.5 million up to $100 Million	51	10	29	10	0
More than $100 million up to $150 Million	53	10	29	8	0
Over $150 million	56	10	26	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	36	10	40	10	4
More than $50 million to $62.5 million	47	10	29	10	4
More than $62.5 million up to $100 Million	51	10	29	10	0
More than $100 million up to $150 Million	53	10	29	8	0
Over $150 million	56	10	26	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	34	10	42	10	4
More than $62.5 million to $100 million	38	10	42	10	0
Over $100 million	40	10	42	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	38	10	42	10	0
Over $100 million	40	10	42	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

Net Machine Income	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.

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.

Sales agents are notified electronically by the Lottery Division's operations vendor by Monday of each week of the amount due the State from sales during the previous week. The agent has until Tuesday to deposit sufficient funds in specified joint bank accounts at which time the operations vendor sweeps the receipts and transfers them to the Lottery Division by Wednesday morning. For VLTs, deposits are required within two days of sales, and payments are wired into the Lottery Division accounts daily.

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
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

Subject	Description	Effective Date
Legislation Enacted in 1994		
Limit on Draws per Day	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	The use of unclaimed prize money for the promotional supplementation of games other than Lotto by the Division is limited to 16 weeks per year.	April 1, 1994
Annual Plan	The Division is required 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.	
	Drawings for the game can be held no more than 13 hours each day, of which only eight hours can be consecutive.	
	If there is no license for the sale of alcohol, then the premises have to be a minimum of 2,500 square feet.	
	If there is a license to sell alcohol, 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 Terminals	Allowed the Lottery Division to license the operation of video lottery machines at selected New York State racetracks.	October 29, 2001
Legislation Enacted in 2002		
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 Terminals	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 Terminals	Provides 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

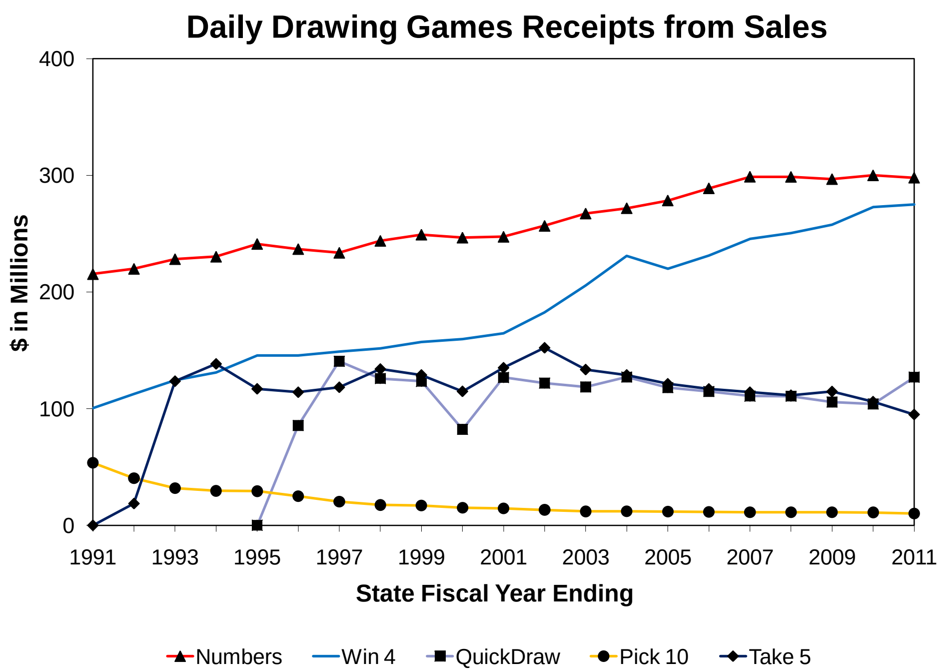
Subject	Description	Effective Date
Legislation Enacted in 2007		
Quick Draw	Extended the operation of Quick Draw until May 31, 2008.	May 31, 2007
Legislation Enacted in 2008		
Quick Draw	Extended the operation of Quick Draw until May 31, 2010.	April 23, 2008
Video Lottery Terminals	Revised the distribution of VLT receipts to provide different commissions to tracks based on factors including: size of the facility; population surrounding the facility; and proximity to Indian and out-of-state casinos. In addition, tracks were provided a capital allowance for capital expenditures to enhance the facilities.	April 1, 2008
Video Lottery Terminals	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 Terminal	Reduced capital investment and employment requirements for a facility located in Sullivan County to qualify for a 75 percent commission rate.	August 11, 2009

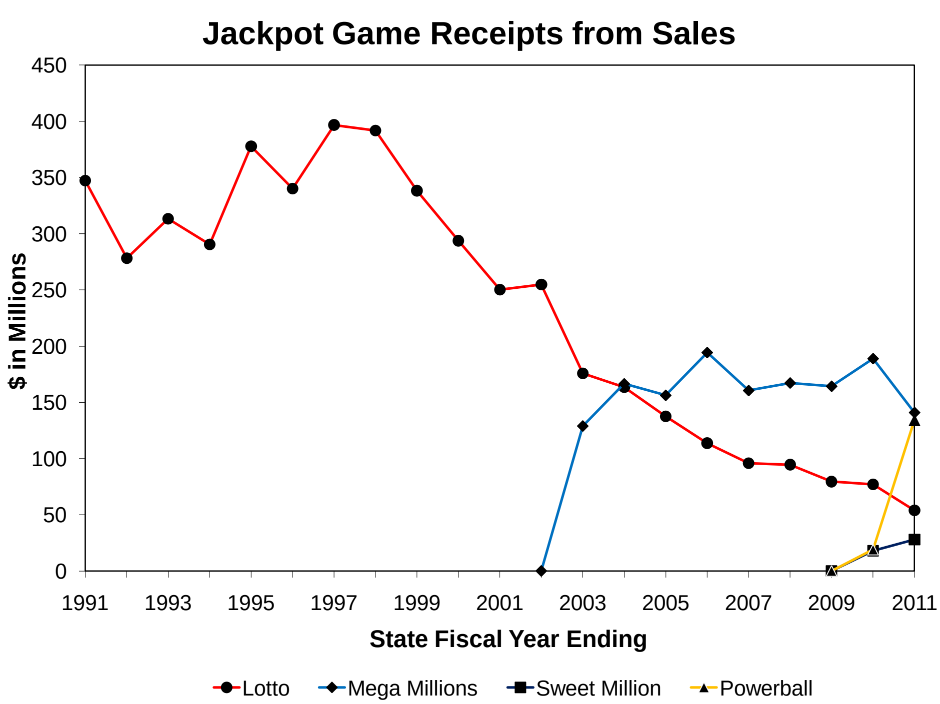
Lottery Demand

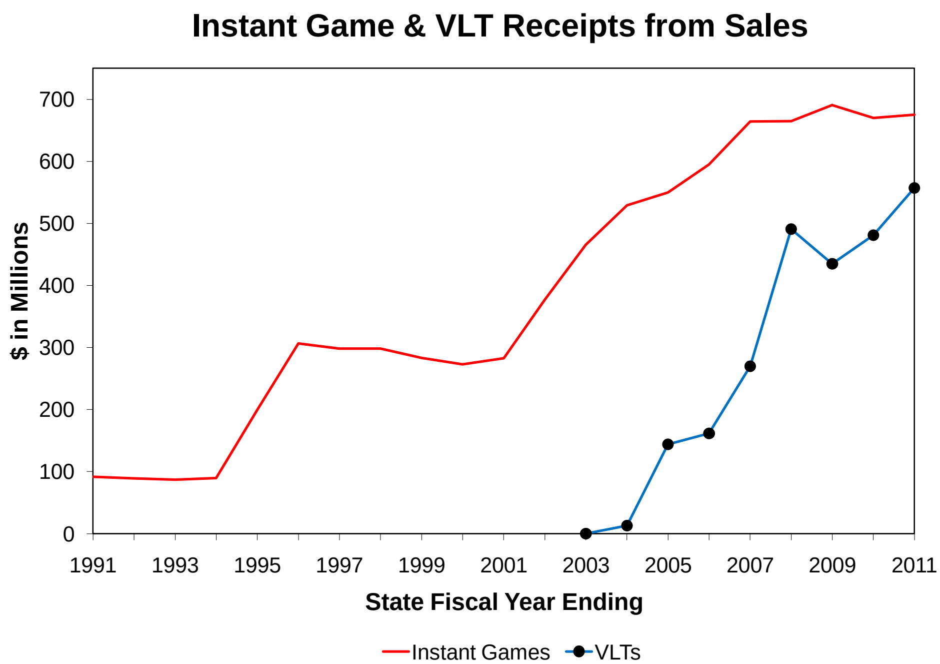
Factors that affect the demand for Lottery games include: the size of jackpots, the price of lottery tickets; the amount spent on advertising and marketing; the prize payout percentage; the development of new games that generate increased sales; the potential customers' attitude towards Lottery games; and competition from other gambling venues.

For a more detailed discussion of the methods and models used to develop estimates and projections, please see the *Economic, Revenue and Spending Methodologies* at http://www.budget.state.ny.us/pubs/supporting/ForecastMethodology-FINAL_11-05-09.pdf.

The following graphs show the receipts history of the various games since 1989.


Daily Drawing Games Receipts from Sales
$ in Millions
400
300
200
100
0
1991
1993
1995
1997
1999
2001
2003
2005
2007
2009
2011
State Fiscal Year Ending
Numbers
Win 4
QuickDraw
Pick 10
Take 5


Jackpot Game Receipts from Sales
$ in Millions
450
400
350
300
250
200
150
100
50
0
1991
1993
1995
1997
1999
2001
2003
2005
2007
2009
2011
State Fiscal Year Ending
Lotto
Mega Millions
Sweet Million
Powerball



RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2009-10 Estimates

Receipts for education from sales of Lottery games for 2009-10 are estimated to be $2.83 billion, an increase of $287 million, or 11.3 percent above last year. Unspent administrative allowances and miscellaneous income account for $381 million of receipts. Sales of all traditional games will benefit from a 53rd week of deposits in 2009-10. Net receipts for education also include $683 million from the operation of video lottery terminals, including $200 million in receipts for the right to operate VLTs at Aqueduct. A game-by-game profile follows.

Instant Games and Video Lottery Gaming

Sales of Instant Games to date have remained flat from 2008-09 levels. Players have shifted purchases from higher priced 75 percent games to lower priced 65 percent games. Revenue to support education from the sale of Instant Games is projected to decline by $20.8 million due to the use of prize support from the lapsed prize fund in the prior year, which resulted in enhanced education support in 2008-09.

VLT machines are currently in operation at Saratoga, Finger Lakes, Monticello, Buffalo, Batavia, Tioga, Vernon, and Yonkers racetracks. Receipts from VLT sales are estimated at $483 million for 2009-10, up $48.1 million from the prior year. This increase reflects growth in gaming activities at most facilities. The State is also expected to receive a $200 million payment in 2009-10 from the selected operator of VLTs at Aqueduct Racetrack.

Jackpot Games

Mega Millions receipts from sales in 2009-10 is estimated to be $189 million, an increase of $24.6 million from 2008-09. This increase reflects an increase in large jackpot roll-ups during the year. To date, there have been 5 roll-ups in excess of $100 million, including a $333 million jackpot awarded in August. There were 5 roll-ups in excess of $100 million in all of 2008-09, with the largest jackpot reaching $212 million.

STATES PARTICIPATING IN MEGA MILLIONS	
California	New Jersey
Georgia	New York
Illinois	Ohio
Maryland	Texas
Massachusetts	Virginia
Michigan	Washington

In October, the Mega Millions consortium and Multi-State Lottery Association (MUSL) reached an agreement to cross-sell Mega Millions and Powerball. The New York Lottery is expected to begin offering Powerball with the February 2nd drawing. Sales from Powerball are projected to generate $19 million for education during the last two months of 2009-10. The 33 jurisdictions currently offering Powerball have a combined population of approximately 125 million, compared to the combined population of 160 million in the 12 states currently participating in Mega Millions.

JURISDICTIONS PARTICIPATING IN POWERBALL	
Arizona	Nebraska
Arkansas	New Hampshire
Colorado	New Mexico
Connecticut	North Carolina
District of Columbia	North Dakota
Delaware	Oklahoma
Florida	Oregon
Idaho	Pennsylvania
Indiana	Rhode Island
Iowa	South Carolina
Kansas	South Dakota
Kentucky	Tennessee
Louisiana	Vermont
Maine	U.S. Virgin Islands
Minnesota	Wisconsin
Missouri	West Virginia
Montana	

Lotto receipts from sales are expected to decline by $2.5 million in 2009-10 to $77 million. Lotto sales in the beginning of the year were bolstered by a run-up in the jackpot to $41 million, compared to the highest jackpot in 2008-09 of $27 million at the end the fiscal year. Since that run-up, sales have declined nearly 4 percent from the same period last year. The decline in sales is projected to accelerate at the end of the year when Powerball is launched.

In September, the Lottery launched Sweet Million, a new version of the Lotto game that offers a fixed top prize of $1 million. Through December, there have been five $1 million winners. Sweet Million receipts from sales are projected to equal $18 million in 2009-10.

Daily Drawing Games

Win 4 is projected to continue its strong growth in 2009-10, with receipts from sales increasing by $15.3 million, or 5.9 percent. Receipts from sales of the Numbers game is projected to increase by 0.7 percent from 2008-09, only showing a year-over-year increase due to the extra week in 2009-10.

Following a year of growth in 2008-09 due to the effective "Little Bit of Luck" advertising campaign, Take 5 sales returned to trend declines in 2009-10. Receipts from Take 5 sales are estimated to decline by 7.6 percent from 2008-09 levels. Quick Draw is estimated to generate $104 million in receipts from sales, a decline of $1.7 million

2010-11 Projections

Under current law, receipts for education from the Lottery in 2010-11 are projected to be $2.76 billion, a decrease of $71 million, or 2.5 percent below 2009-10. Adjusting for the one-time payment received in 2009-10 for the right to operate VLTs at Aqueduct, receipts for education are projected to increase by $129 million, or 4.9 percent.

Under proposed law, receipts for education from Lottery games are projected to increase from the prior fiscal year by $7 million, or 0.2 percent, to $2.84 billion.

The Lottery Division will restructure a portion of the Lottery Prize Fund to invest in high quality municipal bonds. This action would increase the miscellaneous income by $50 million in 2010-11, bringing the administrative surplus and miscellaneous income to $449 million for the year.

Instant Games and Video Lottery Gaming

Instant games receipts from sales are projected to increase by $5 million, or 0.7 percent. Growth in game sales, as consumers begin to increase spending, is largely offset by the loss of the extra week of receipts that occurred in 2009-10.

The VLT program is projected to generate $557 million for education in 2010-11, a decrease of $126 million. This decrease represents the loss of the one-time $200 million payment for the right to operate VLT's at Aqueduct. Adjusting for the Aqueduct payment, VLT receipts are projected to increase by $74 million. Receipts from Yonkers Raceway are projected to increase as a scheduled decrease in the track's vendor fee from 34 percent to 31 percent of NMI takes effect on April 1st. Legislation included in the Executive Budget to remove the restrictions on the number of hours that VLTs can be operated is expected to increase revenue by $45 million in 2010-11.

Jackpot Games

Both Lotto and Mega Millions will be negatively impacted by the introduction of Powerball in 2010. Receipts from Mega Millions sales are projected to decrease by $48 million, to $141 million, as roll-ups are expected to decrease based on historical patterns. Collection experience shows a direct correlation between the size of the jackpots and the amount of revenue received. Lotto sales are projected to decrease by 29.9 percent due to trend declines in the game, the loss of the large roll-up experienced in 2009-10, and competition from Powerball drawing on the same days as Lotto.

The full year offering of Powerball and Sweet Million is estimated to generate receipts from sales of $134 million and $28 million, respectively.

Daily Drawing Games

Sales of the Daily Numbers are projected to return to modest growth in 2010-11, although the loss of the additional week of deposits that occurred in 2009-10 will result in a small year-over-year decrease in revenue. Win 4 receipts from sales are projected to continue to increase in 2010-11, although growth will remain below historical trend levels. Revenue from sales attributable to the Numbers game is projected to decrease by 0.7 percent in 2010-11, to $298 million. Win 4 receipts from sales are projected to grow by $2 million, an increase of 0.7 percent.

Receipts from Take 5 sales are projected to decline by $16 million in 2009-10 to $90 million. Competition from Sweet Million and Powerball is expected to reduce Take 5 sales.

Receipts from sales of the Quick Draw game are projected to increase by $23 million. The removal of restrictions on the operation of the game is projected to increase revenue from Quick Draw by $25 million in 2010-11 and increase the administrative surplus by $8 million. Sales are also expected to be helped by the Lottery's efforts to improve the monitor appearance of the game.

MISCELLANEOUS RECEIPTS
CAPITAL PROJECTS FUNDS

MISCELLANEOUS RECEIPTS - CAPITAL PROJECTS FUNDS (millions of dollars)							
	2008-09 Actual	2009-10 Estimated	Change	Percent Change	2010-11 Projected	Change	Percent Change
State Funds	3,022	3,459	437	14.5%	3,597	138	4.0%
Federal Funds	1,882	2,544	662	35.2%	2,623	79	3.1%
All Funds	4,904	6,003	1,099	22.4%	6,220	217	3.6%

Note: Totals may differ due to rounding.

MISCELLANEOUS RECEIPTS - CAPITAL PROJECTS FUNDS (millions of dollars)			
	2008-09	2009-10	2010-11
Authority Bond Proceeds			
Transportation	950	965	946
Public Protection	300	336	347
Health and Social Welfare	107	155	179
Education	1,572	1,948	1,966
Mental Hygiene	212	367	404
Economic Development/ Government Oversight	672	978	1,039
General Government	65	30	42
Other	367	434	282
State Park Fees	24	24	24
Environmental Revenues	37	24	24
All Other	202	216	244
Total	4,508	5,477	5,497
Accounting Adjustment	(1,486)	(2,018)	(1,900)
Financial Plan Total	3,022	3,459	3,597

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 $28 million in 2009-10 and $28 million in 2010-11, 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)							
	2008-09 Actual	**2009-10 Estimated**	**Change**	**Percent Change**	**2010-11 Projected**	**Change**	**Percent Change**
General Fund	0	0	0	0	0	0	0
Other Funds	844	817	(27)	(3.20)	779	-38	(4.7)
All Funds	844	779	(65)	(7.70)	830	51	6.5
Note: Totals may differ due to rounding.							

MISCELLANEOUS RECEIPTS - DEBT SERVICE FUNDS (millions of dollars)			
	2008-09	**2009-10**	**2010-11**
Mental Hygiene Patient Receipts	298	352	298
SUNY Dormitory Fees	419	338	341
Health Patient Receipts	108	98	98
All Other	19	29	42
Total	844	817	779

Miscellaneous receipts in the Debt Service fund type include patient revenues, rental fees, medical insurance payments, Federal interest subsidy payments on Build America Bonds (BABs), 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 14 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.

MISCELLANEOUS RECEIPTS – DEBT SERVICE FUNDS

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 in the construction and rehabilitation of SUNY dormitories. These payments are made pursuant to a lease-purchase payment 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, payments from local housing agencies to finance the debt service costs on general obligation bonds, and Federal interest subsidy payments for State-supported debt issued as BABs, as authorized by the Federal stimulus legislation.

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 $49.1 billion in 2009-10 and $48.2 billion in 2010-11. These revenues represent approximately 36 percent of total receipts in governmental funds, excluding general obligation bond proceeds, and are deposited into the General Fund, Special Revenue and the Capital Projects fund types.

GENERAL FUND

Federal grants are deposited into the General Fund only in limited instances. The Federal subsidy payment related to Medicare Part D is the main Federal grant in the General Fund.

SPECIAL REVENUE FUNDS

Federal grants account for approximately three-quarters 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. Receipts for State-operated facilities represent 8 percent of total Federal Medicaid reimbursements, while receipts for non-State-operated facilities represent the remaining 92 percent.

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.

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	Wefare	All Other				
2000-01	4	13,657	1,527	9,090	24,274	1,509	0	25,787
2001-02	4	14,896	2,187	9,615	26,698	1,423	0	28,125
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
Estimated								
2009-10	68	31,030	2,782	12,663	46,475	2,544	0	49,087
2010-11	60	30,052	2,699	12,813	45,564	2,623	0	48,247

DEDICATED FUND TAX 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 2008-09 and estimated to be deposited in 2009-10 to 2013-14. The estimates reflect Executive Budget recommendations.

DEDICATED FUND TAX RECEIPTS ($ in millions)	2008-09 Actual	2009-10 Estimated	2010-11 Recommended
SPECIAL REVENUE FUNDS			
School Tax Relief Fund (STAR)			
Personal Income Tax	4,434	3,420	3,208
Dedicated Mass Transportation Trust Fund	648	655	648
Petroleum Business Tax	360	363	352
Motor Fuel Tax	106	105	106
Motor Vehicle Fees	182	187	190
Metropolitan Transportation Authority Financial Assistance Fund		1,545	1,811
MCTD Payroll Tax		1,384	1,483
Motor Vehicle Fees		121	208
Auto Rental Tax		26	35
Taxicab Surcharge		14	85
Mass Trans. Operating Assistance Fund	1,768	1,796	1,762
Corporate Surcharges			
Corporation Franchise Tax	465	461	441
Corporation and Utilities Tax	120	139	128
Insurance Tax	95	133	132
Bank Tax	172	193	175
Other			
Sales and Use Tax	711	662	684
Petroleum Business Tax	133	135	131
Corporation and Utilities — Sections 183 & 184	72	73	71
HCRA Resources Fund	894	1,348	2,058
Cigarette Tax	894	898	1,088
Syrup Excise Tax		450	970
Other Special Revenue Funds			
Motor Vehicle Fees	37	41	41
Total Tax Receipts: Special Revenue Funds-Other	7,781	8,805	9,528
DEBT SERVICE FUNDS			
Revenue Bond Tax Fund			
Personal Income Tax	9,210	8,806	9,285
Clean Water/Clean Air Fund			
Real Estate Transfer Tax	464	256	360
Local Government Assistance Tax Fund			
Sales and Use Tax	2,567	2,501	2,595
Total Tax Receipts: Debt Service Funds	12,241	11,563	12,240
CAPITAL PROJECTS FUNDS			
Dedicated Highway and Bridge Trust Funds	1,778	1,849	1,905
Petroleum Business Taxes	613	621	603
Motor Fuel Tax	398	396	397
Motor Vehicle Fees	547	621	693
Highway Use Tax	141	140	134
Transmission Tax	18	18	18
Auto Rental Tax	61	53	60
Environmental Protection Fund			
Real Estate Transfer Tax	237	199	132
Total Tax Receipts: Capital Projects Funds	2,015	2,048	2,037
Total Tax Receipts: Other Funds	**22,037**	**22,416**	**23,805**

DEDICATED FUND TAX RECEIPTS ($ in millions)			
	2011-12 Recommended	2012-13 Recommended	2013-14 Recommended
SPECIAL REVENUE FUNDS			
School Tax Relief Fund (STAR)			
Personal Income Tax	3,368	3,527	3,708
Dedicated Mass Transportation Trust Fund	664	665	660
Petroleum Business Tax	365	367	370
Motor Fuel Tax	106	107	107
Motor Vehicle Fees	193	191	183
Metropolitan Transportation Authority Financial Assistance Fund	1,893	1,952	2,032
MCTD Payroll Tax	1,565	1,624	1,704
Motor Vehicle Fees	208	208	208
Auto Rental Tax	35	35	35
Taxicab Surcharge	85	85	85
Mass Trans. Operating Assistance Fund	1,817	1,932	2,017
Corporate Surcharges			
Corporation Franchise Tax	439	464	494
Corporation and Utilities Tax	133	138	142
Insurance Tax	135	140	150
Bank Tax	181	214	222
Other			
Sales and Use Tax	722	768	799
Petroleum Business Tax	136	137	139
Corporation and Utilities — Sections 183 & 184	71	71	71
HCRA Resources Fund	2,046	2,026	2,006
Cigarette Tax	1,076	1,056	1,036
Syrup Excise Tax	970	970	970
Other Special Revenue Funds			
Motor Vehicle Fees	41	41	41
Total Tax Receipts: Special Revenue Funds-Other	9,829	10,143	10,464
DEBT SERVICE FUNDS			
Revenue Bond Tax Fund			
Personal Income Tax	9,806	9,721	10,260
Clean Water/Clean Air Fund			
Real Estate Transfer Tax	425	481	516
Local Government Assistance Tax Fund			
Sales and Use Tax	2,726	2,873	3,018
Total Tax Receipts: Debt Service Funds	12,957	13,075	13,794
CAPITAL PROJECTS FUNDS			
Dedicated Highway and Bridge Trust Funds	1,939	1,948	1,965
Petroleum Business Taxes	624	628	633
Motor Fuel Tax	399	401	403
Motor Vehicle Fees	695	692	704
Highway Use Tax	140	145	142
Transmission Tax	18	18	18
Auto Rental Tax	63	64	65
Environmental Protection Fund			
Real Estate Transfer Tax	132	132	132
Total Tax Receipts: Capital Projects Funds	2,071	2,080	2,097
Total Tax Receipts: Other Funds	**24,857**	**25,298**	**26,355**

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 newly imposed by Chapter 25, Laws of 2009. These new 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.

The Executive Budget proposal would amend the tax on medallion taxicabs to a flat tax of $1,750 per quarter per medallion.

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.

The MMTOA receives:

- receipts collected from the taxes imposed on transportation and transmission companies by sections 183 and 184 of Article 9 of the Tax Law;

- 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 slightly more than 70 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. The 2009-10 Executive Budget proposes a new excise tax on beverage syrups and soft drinks and an increase in the cigarette excise tax of a $1 per pack.

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)

	2008-09 Actual	2009-10 Estimated	2010-11 Recommended	2011-12 Recommended	2012-13 Recommended	2013-14 Recommended
Lottery	2,082	2,148	2,281	2,284	2,325	2,367
VLTs	462	683	557	645	783	844
Total Lottery	2,544	2,831	2,838	2,929	3,108	3,211

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 $199 million. Legislation proposed in the Executive Budget would set the deposit at $132 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.

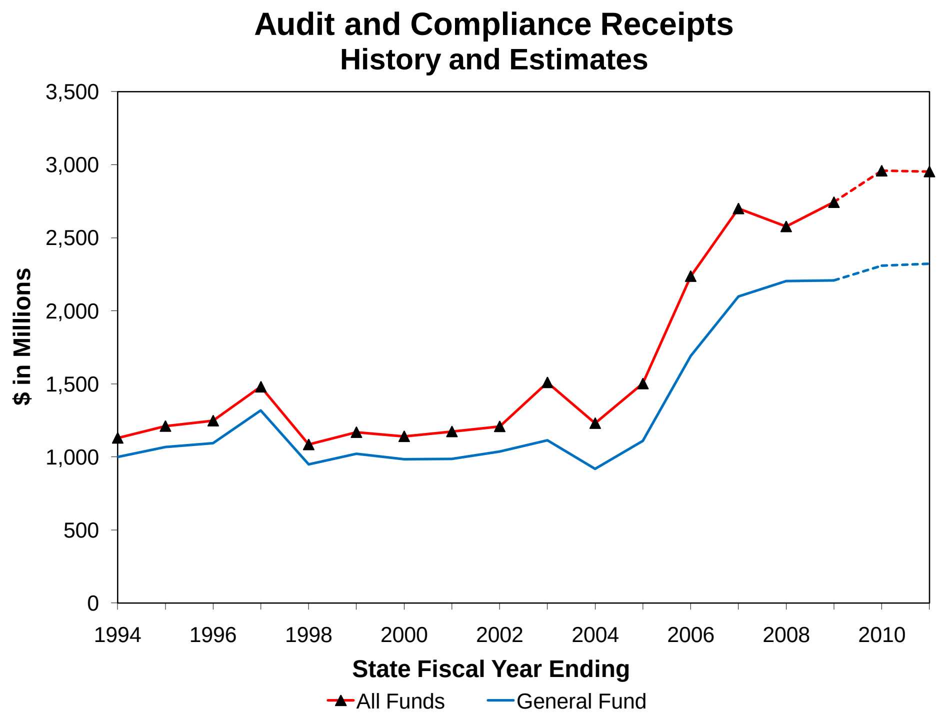
- The Parks, Recreation and Historic Preservation Account for any municipal park project, historic preservation project, urban cultural park project, waterfront revitalization program, or coastal rehabilitation project.

- 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

AUDIT AND COMPLIANCE RECEIPTS (millions of dollars)							
	2008-09 Actual	2009-10 Estimated	Change	Percent Change	2010-11 Projected	Change	Percent Change
General Fund	2,208	2,308	100	4.5	2,323	15	0.7
Other Funds	535	651	116	21.6	630	(21)	(3.2)
All Funds	2,743	2,958	215	7.8	2,953	(5)	(0.2)

Note: Totals may differ due to rounding.



PROPOSED LEGISLATION

Legislation submitted with this Budget would:

- strengthen existing law by allowing the Department of Taxation and Finance to use statistical sampling during certain sales tax audits;

- mirror Federal guidelines to require financial institutions to file information returns annually to report credit and debit card payment settlements deposited into each sales tax vendor's account; and

- provide technical corrections to the tax enforcement provisions contained in the 2009-10 Enacted Budget.

AUDIT AND COMPLIANCE RECEIPTS

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
1993-94	1,130		
1994-95	1,211	81	7.2
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
Estimated			
2009-10	2,958	215	7.8
2010-11	2,953	(5)	(0.2)

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 reach nearly $3.0 billion in 2009-10 and 2010-11. This source of receipts has grown dramatically in recent years, having more than doubled since 2001-02. 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. Collections for 2008-09 increased 6.4 percent, following a 4.5 percent decrease in 2007-08 and robust growth of 20.7 percent in 2006-07, 48.8 percent in 2005-06 and 22 percent in 2004-05. Prior to 2002-03, enforcement receipts were relatively stable in the range of $1.1 billion to $1.2 billion annually.

Historic Growth in 2005-06 and 2006-07 Audit and Compliance Receipts

TABLE 2
ALL FUNDS AUDIT AND COMPLIANCE COLLECTIONS BY TAX TYPE
(in millions)

	2004-05	2005-06	2006-07	Two-Year Total Change	Two-Year Percent Change
Personal Income Tax	**630**	**701**	**732**	**102**	**16.2**
User Taxes and Fees	**331**	**350**	**352**	**21**	**6.3**
Business Taxes	**503**	**1,144**	**1,546**	**1,043**	**207.4**
Corporation and Utilities Taxes	43	101	52	9	20.9
Corporate Franchise Tax	397	653	1,133	736	185.4
Bank Tax	24	330	299	275	1,145.8
Insurance Tax	32	33	56	24	75.0
Petroleum Business Taxes	7	27	6	(1)	(14.3)
Other Taxes	**38**	**41**	**70**	**32**	**84.2**
Total	**1,503**	**2,237**	**2,700**	**1,197**	**79.6**

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 $1,042 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 2009-10

TABLE 3
ALL FUNDS COLLECTIONS BY TAX TYPE
PENALTY AND INTEREST DISCOUNT PROGRAM (PAID)
(in millions)

	2009-10
Personal Income Tax	**150**
User Taxes and Fees	**57**
Business Taxes	**22**
Other Taxes	**24**
Total	**253**

TABLE 4
ALL FUNDS AUDIT AND COMPLIANCE COLLECTIONS BY TAX TYPE
(in millions)

	2008-09	2009-10 *	Change from Prior Year	Percent Change from Prior Year
Personal Income Tax	**860**	**1,163**	**303**	**35.2**
User Taxes and Fees	**369**	**502**	**133**	**36.0**
Business Taxes	**1,465**	**1,219**	**(246)**	**(16.8)**
Corporation and Utilities Taxes	47	53	6	12.8
Corporate Franchise Tax	906	872	(34)	(3.8)
Bank Tax	455	239	(216)	(47.5)
Insurance Tax	41	42	1	2.4
Petroleum Business Taxes	16	13	(3)	(18.8)
Other Taxes	**49**	**75**	**26**	**53.1**
Total	**2,743**	**2,958**	**215**	**7.9**

*** Includes PAID program receipts**

Audit and compliance receipts for 2009-10 are estimated to be $2,958 million, an increase of $215 million or 7.9 percent from 2008-09. Overall, audit and compliance receipts are projected to continue to remain significantly above average collections for the period before 2005-06. The receipts increase from 2008-09 is mainly due to the additional receipts expected from the Penalty and Interest Discount (PAID) program to be conducted late in the fiscal year, the enhanced tax enforcement tools and new targeted resources for the Department of Taxation and Finance included in the 2009-10 Enacted Budget, partially offset by the one-time impact of the Voluntary Compliance Initiative (VCI) on January 31, 2009, and the decline in proceeds from the financial sector audits noted above. The overall increase results from increases of $303 million, or 35.2 percent, in audit receipts from personal income taxes, and $133 million in user taxes and fees audit receipts. Largely offsetting these increases is a decrease of $246 million (16.8 percent) in audit collections from business taxes from the previous year's high level, due largely to an expected $216 million (47.5 percent) decrease in bank tax audit receipts.

Estimated Receipts for 2010-11

TABLE 5
ALL FUNDS AUDIT AND COMPLIANCE COLLECTIONS BY TAX TYPE
(in millions)

	2009-10 *	2010-11	Change from Prior Year	Percent Change from Prior Year
Personal Income Tax	**1,163**	**1,216**	**53**	**4.6**
User Taxes and Fees	**502**	**556**	**54**	**10.8**
Business Taxes	**1,219**	**1,147**	**(72)**	**(5.9)**
Corporation and Utilities Taxes	53	54	1	1.9
Corporate Franchise Tax	872	928	56	6.4
Bank Tax	239	130	(109)	(45.6)
Insurance Tax	42	13	(29)	(69.3)
Petroleum Business Taxes	13	22	9	69.2
Other Taxes	**75**	**34**	**(41)**	**(54.4)**
Total	**2,958**	**2,953**	**(5)**	**(0.2)**

*** Includes PAID program receipts**

Audit and compliance receipts for 2010-11 are projected to be $2,953 million, a decline of $5 million or 0.2 percent from 2009-10. The slight decrease from 2009-10 is the result of the loss of the one-time impact of the 2009-10 PAID program offset by increased audit activity due to the hiring of additional audit and compliance staff. The additional staff is expected to generate $221 million in 2010-11. The overall decrease results from decreases in business taxes ($72 million) and other taxes ($41 million), offset by increases of $53 million in the personal income tax and $54 million in user taxes and fees. The proposed statistical sampling legislation accounts for $8 million in 2010-11.

Trends in All Funds Audit and Tax Receipts

Table 6 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 2007-08 and 2008-09, audit and compliance receipts were 4.2 percent and 4.5 percent, respectively, of All Funds tax receipts. In 2009-10 and 2010-11, audit and compliance receipts are expected to be 5.1 percent (4.7 percent absent PAID) and 4.8 percent of total All Funds tax receipts, respectively.

TABLE 6
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
1993-94	1,130	33,026	3.4
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
Estimated			
2009-10	2,958	58,454	5.1
2010-11	2,953	61,727	4.8

* Metropolitan Commuter Transportation Mobility Tax receipts are not included.

As is shown in the Table 7 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 1993-94. However, the business taxes share of total taxes ranged from 12 percent to 21 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 share of audit receipts from the business taxes category is expected to fall to 41 percent and 39 percent, respectively, due to the same factors contributing to the decline in 2009-10 business tax audit receipts described above.

Table 7

	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
1993-94	30	5	22	43	21	11	18	50
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
Estimated								
2009-10	41	3	17	39	13	2	24	61
2010-11	39	1	19	41	13	2	25	60

* Metropolitan Commuter Transportation Mobility Tax collections are not included.

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 the audit and compliance percentage ranging from 19 percent to 25 percent and the tax receipts percentage ranging from 18 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 shares of user taxes and fees and personal income tax audit receipts deviated from these historical trends, but their respective shares of total tax receipts remained consistent with history. With the estimated reduction in business tax receipts and increased focus on sales tax, the 2009-10 and 2010-11 audit and compliance share for user taxes and fees is expected to increase.

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 the business taxes is expected to decline from the high levels of 2005-06 through 2008-09, these taxes still represent approximately 40 percent of the 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. Audit and compliance receipts in the forecast period will be driven by routine audits and not the large cases of the last few years. In the forecast period the focus of audit and compliance is shifting from business taxes to user taxes and fees and the personal income tax. Several enforcement programs recently enacted as well as the proposed additional audit and compliance staff will be focused on these tax areas. In particular, focusing new resources on lower volume sales tax vendors provides significant risks to the forecast.

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. Beginning April 1, 2003, the interest rate computation applied to all liabilities increased by two percent for all taxpayers. 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 back those deductions 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 is 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 will be reduced by either 20 percent or 50 percent (depending on the age of the assessment) if the tax is paid in full by the end of PAID, which will be open for collections from January 15, 2010, through March 15, 2010. This program is expected to increase All Funds audit and compliance receipts by $253 million in 2009-10.