



FY 2016

Economic & Revenue Outlook

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FY 2016 EXECUTIVE BUDGET

ECONOMIC AND REVENUE OUTLOOK

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RECEIPTS OVERVIEW

RECEIPTS OVERVIEW

The Economic and Revenue Outlook is a volume designed to enhance the presentation and transparency of the FY 2016 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 FY 2016 Executive Budget. The receipt estimates and projections have been prepared by the Division of the Budget with the assistance of the Department of Taxation and Finance and other agencies concerned with the collection of State receipts. To the extent they are material, sources of receipts not referenced in this volume are discussed in the presentations of the agencies primarily responsible for executing the programs financed by such receipts. The *Economic, Revenue and Spending Methodologies* are available at the Division of the Budget's website at www.budget.ny.gov. The Methodology volume provides a comprehensive review of the methods used in determining the economic and tax receipt projections.

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

- **Financial Plan Receipts and Projections:** Provides a summary of Financial Plan receipts for the current year and the FY 2016 Budget year by tax category and fund type.
- **FY 2016 Revenue Actions:** Summarizes the revenue actions proposed with the FY 2016 Executive Budget.
- **Economic Backdrop:** Provides a detailed description of the Division's forecast of key economic indicators for the national and New York State economies.
- **Comparison of New York State Tax Structure to Other States:** Compares the New York tax structure and burden to other states.
- **Tax Receipts Explanation:** Provides a detailed report for each tax and miscellaneous receipts source describing historical receipts and projections for the current and upcoming budget years, the impact of legislation proposed with the FY 2016 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.

RECEIPTS OVERVIEW

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

ECONOMIC OUTLOOK

The U.S. economy emerged impressively in the spring of last year from a severe winter rut that disrupted activity at the nation's shops, factories, and ports. Two quarters of above 4 percent growth in the middle of 2014 appears to portend a new phase in the nation's recovery, but following a weather-induced contraction of 2.1 percent, it remains unclear how much of that growth represented a rebound from the economy's deep winter rut. Averaging over the first three quarters of the year yields a still lackluster 2.5 percent growth rate, virtually equal to the average for the recovery to-date. Real U.S. GDP is projected to grow 3.1 percent in 2015 on an annual average basis, following 2.4 percent growth in 2014.

The Budget Division forecast points toward an improving domestic economy in 2015, with inflation of only 1 percent projected for this year. The dramatic decline we are now observing in energy prices provides a substantial tailwind to household spending. But the boost from lower energy prices is expected to only partially compensate for the weakness of the global economy, a listless housing market, and continued low wage growth. Without support from these critical sources, the Budget Division anticipates annualized quarterly growth will remain below 3 percent over the near-term. Against this backdrop, the Federal Reserve will have ample flexibility in plotting its path toward interest rate normalization.

New York's private sector labor market continues to enjoy well-above historical average job growth. Total private sector job growth of 1.7 percent is projected for 2015, following growth of 2 percent in 2014. Continued projected declines in government jobs result in slightly lower overall job growth of 1.4 percent for 2015. The turbulence that enveloped equity markets toward the end of 2014 is expected to continue through much of this year, contributing to weaker growth in non-wage income, including taxable capital gains. Finance and insurance bonus growth of about 6 percent is projected for the State fiscal year in progress, down from growth of 13.5 percent for FY 2014. But despite the projected slowdown in bonuses, the State's solid labor market growth is expected to lift overall State wage growth for FY 2016 to 4.7 percent, just above estimated FY 2015 growth of 4.6 percent. Overall personal income growth of 4.6 percent is projected for FY 2016, up from current fiscal year growth of 4 percent. Projected growth for both FY 2015 and FY 2016 remain below historical averages, consistent with national trends in both wage growth and inflation.

For further details, please see the *Economic Backdrop* section on page 27 of this volume.

THE REVENUE SITUATION

All Funds estimated tax receipts growth of 1.7 percent in FY 2015 is attributable to:

- The impact of estate, business, and personal income tax cuts enacted in 2014;
- A tax year 2013 personal income tax settlement characterized by a significant decline in extension payments, due to a prior year base inflated by Federal tax law changes;
- Double-digit growth in December 2014 and January 2015 personal income tax estimated payments, likely attributable to capital gains realizations;
- A decline in overall business tax receipts due to tax cuts and the first year of the repayment of tax credit claims deferred in tax years 2010-2012;
- Another strong year of real estate transfer tax receipts growth, fueled by downstate price appreciation; and
- Below trend sales tax growth following a prior-year base inflated by post-Superstorm Sandy spending.

All Funds projected tax receipts growth of 5.1 percent in FY 2016 is attributable to:

- Personal income tax growth consistent with the estimated wage and personal income growth discussed above and extension payment growth unaffected by anticipated federal tax law changes, as in the prior two years;
- A return to trend growth in taxable sales following two years of mild volatility in the aftermath of Superstorm Sandy;
- Business tax growth consistent with projected corporate profits growth;
- A slowdown in real estate transfer tax receipts growth consistent with long-term averages; and
- A further decline in estate tax receipts attributable to continued phase in of tax cuts enacted in 2014.

In general, base tax receipts growth rates are determined by economic changes, including, but not limited to, changes in interest rates, prices, wages, employment, non-wage income, capital gains realizations, taxable consumption, corporate profits, household net worth, real estate prices and gasoline prices. Federal law changes can influence taxpayer behavior, which also affect base tax receipts growth.

RECEIPTS OVERVIEW

The following table displays growth rates for actual and base tax receipts for FY 1992 through FY 2019. The forecast growth rates assume continued economic growth. Should a recession occur prior to FY 2019, one or more of these forecast growth rates could be much lower or negative.

GOVERNMENTAL FUNDS ACTUAL AND BASE TAX RECEIPTS GROWTH (percent growth)			
State Fiscal Year	Actual Receipts	Base Receipts	Inflation Adjusted Base Receipts
FY 1992	7.2	1.4	(2.4)
FY 1993	6.1	5.0	1.5
FY 1994	4.3	0.7	(2.0)
FY 1995	0.1	1.5	(0.9)
FY 1996	2.6	3.6	0.7
FY 1997	2.0	2.5	(0.3)
FY 1998	3.7	5.6	3.6
FY 1999	7.2	7.9	6.2
FY 2000	7.5	9.1	6.7
FY 2001	7.9	10.1	6.9
FY 2002	(4.9)	(4.2)	(6.5)
FY 2003	(6.7)	(8.0)	(10.5)
FY 2004	8.2	5.8	3.2
FY 2005	13.4	11.5	7.9
FY 2006	10.2	9.4	5.6
FY 2007	9.7	12.9	9.2
FY 2008	3.7	6.6	3.5
FY 2009	(0.8)	(3.2)	(6.3)
FY 2010	(3.2)	(12.7)	(13.2)
FY 2011	5.6	3.1	1.4
FY 2012	5.6	8.0	4.8
FY 2013	3.1	4.7	2.9
FY 2014	5.1	6.2	4.7
FY 2015*	1.7	4.0	2.6
FY 2016**	5.1	4.1	2.7
FY 2017**	4.3	5.0	2.6
FY 2018**	3.9	4.9	2.5
FY 2019**	2.6	4.5	1.8
	Actual Change	Base Change	Adjusted Base Change
Historical Average (FY 1992 to FY 2014)	4.2	3.8	1.2
Forecast Average (FY 2015 to FY 2019)	3.5	4.5	2.4
Forecast Average (FY 2016 to FY 2019)	4.0	4.6	2.4
Recessions	(1.7)	(5.3)	(7.8)
Expansions	5.9	6.3	3.6
*Estimated Receipts			
**Projected Receipts			

RECEIPTS OVERVIEW

ALL FUNDS RECEIPTS (millions of dollars)											
	FY 2014 Results	FY 2015 Current	Change	FY 2016 Proposed	Change	FY 2017 Projected	Change	FY 2018 Projected	Change	FY 2019 Projected	Change
Personal Income Tax	42,961	44,338	3.2%	46,888	5.8%	49,628	5.8%	51,874	4.5%	53,204	2.6%
Consumption/Use Taxes	15,099	15,394	2.0%	15,981	3.8%	16,550	3.6%	17,071	3.1%	17,641	3.3%
Business Taxes	8,259	7,717	-6.6%	8,083	4.7%	7,965	-1.5%	8,114	1.9%	8,269	1.9%
Other Taxes	2,167	2,158	-0.4%	2,161	0.1%	2,127	-1.6%	2,132	0.2%	2,138	0.3%
Payroll Tax	1,204	1,260	4.7%	1,337	6.1%	1,397	4.5%	1,467	5.0%	1,544	5.2%
Total State Taxes	69,690	70,867	1.7%	74,450	5.1%	77,667	4.3%	80,658	3.9%	82,796	2.7%
Miscellaneous Receipts	24,233	30,329	25.2%	25,054	-17.4%	24,122	-3.7%	23,525	-2.5%	23,681	0.7%
Federal Receipts	43,789	46,937	7.2%	49,763	6.0%	50,433	1.3%	52,099	3.3%	52,868	1.5%
Total All Fund Receipts	137,712	148,133	7.6%	149,267	0.8%	152,222	2.0%	156,282	2.7%	159,345	2.0%

Total All Funds receipts in FY 2015 are estimated at \$148.1 billion, 7.6 percent above FY 2014 results. State tax receipts are expected to increase 1.7 percent in FY 2015. This modest increase is due to tax cuts enacted in 2014 and the partial repayment of tax credits deferred in tax years 2010-2012. Miscellaneous receipts growth in FY 2015 is primarily due to newly identified one-time General Fund proceeds of approximately \$5.4 billion from financial settlements reached by the Department of Financial Services (DFS), Department of Law, and Manhattan District Attorney's Office, offset by \$275 million assumed in the FY 2015 Enacted Budget. These settlements include \$3.3 billion from BNP Paribas, S.A. New York Branch, \$715 million from Credit Suisse AG, \$315 million from The Bank of Tokyo-Mitsubishi UFJ, Ltd., \$300 million from Standard Chartered Bank, New York Branch, \$300 million from Bank of America, \$130 million from Bank Leumi USA and Bank Leumi Le-Israel, B.M., \$100 million from Ocwen Financial Corporation and Ocwen Loan Servicing, LLC, \$92 million from Citigroup Inc., \$50 million from MetLife Parties (American Life Insurance Company, Delaware American Life Insurance Company, and MetLife, Inc.), \$35 million from American International Group, Inc., \$25 million from PricewaterhouseCoopers LLP, and \$20 million from AXA Equitable Life Insurance Company. In addition to the financial settlements, the FY 2015 General Fund total includes a deposit of \$1 billion from the State Insurance Fund reserve release in connection with Workers' Compensation law changes included in the FY 2014 Enacted Budget, which is an increase of \$750 million from the amount of the reserve released in FY 2014. In other State funds, FY 2015 miscellaneous receipts are driven by year-to-year variations to health care surcharges and other HCRA resources, licensing fees associated with commercial gaming, bond proceeds, atypical fines and the phase-out of the temporary utility assessment.

Consistent with the projected growth in the New York economy over the multi-year Financial Plan period, the personal income and consumption/use tax categories are expected to grow. Business taxes and other taxes are expected to decline in some or all years due to tax cuts and reforms enacted in 2014.

After controlling for the impact of tax law changes and income shifting by individuals with respect to income tax payments, base tax revenue is projected to increase by 4 percent for FY 2015 and 4.1 percent for FY 2016.

RECEIPTS OVERVIEW

GENERAL FUND RECEIPTS (millions of dollars)						
	FY 2014 Results	FY 2015 Current	FY 2016 Proposed	FY 2017 Projected	FY 2018 Projected	FY 2019 Projected
Total All Funds State Taxes	68,486	69,607	73,113	76,270	79,191	81,252
Less Dedicated Taxes:						
STAR	(3,357)	(3,374)	(3,231)	(3,216)	(3,157)	(3,098)
Revenue Bond Tax Fund	(10,740)	(11,085)	(11,722)	(12,407)	(12,969)	(13,301)
LGAC/Sales Tax Bond Fund	(5,901)	(6,080)	(6,355)	(6,645)	(6,905)	(7,185)
Cigarette/Tobacco Tax	(1,027)	(963)	(915)	(877)	(847)	(817)
Sales Tax	(802)	(854)	(894)	(930)	(959)	(993)
Consumption/Use Taxes	(808)	(827)	(838)	(837)	(843)	(854)
Business Taxes	(2,213)	(2,201)	(2,249)	(2,260)	(2,307)	(2,359)
Real Estate Transfer Tax	(911)	(990)	(1,037)	(1,096)	(1,151)	(1,212)
Total General Fund Taxes	42,727	43,233	45,872	48,002	50,053	51,433
Miscellaneous Receipts	3,219	8,861	2,903	2,633	2,366	2,277
Federal Receipts	0	0	0	0	0	0
Total General Fund Receipts	45,946	52,094	48,775	50,635	52,419	53,710
Annual \$ Change		6,148	(3,319)	1,860	1,784	1,291
Annual % Change		13.4%	-6.4%	3.8%	3.5%	2.5%

Approximately 60 percent of All Funds tax receipts are deposited into the General Fund. The remaining tax collections are dedicated for various purposes including STAR payments to school districts, debt service reserves, health care, and transportation. General Fund tax receipts are projected to total \$43.2 billion in FY 2015, an increase consistent with the All Funds trends discussed above. General Fund miscellaneous receipts are expected to increase by over \$5.6 billion as a result of the financial settlements and transfer noted above.

Change from Mid-Year Update

Revised Estimates and Projections

CHANGE FROM MID-YEAR UPDATE FORECAST (millions of dollars)								
	FY 2015				FY 2016			
	Mid-Year Update	Executive Budget	Change	Change	Mid-Year Update	Executive Budget	Change	Change
GENERAL FUND¹	51,022	52,094	1,072	2.1%	48,417	48,775	358	0.7%
Taxes	42,687	43,233	546	1.3%	45,437	45,872	435	1.0%
Miscellaneous Receipts	8,335	8,861	526	6.3%	2,980	2,903	(77)	-2.6%
Federal Grants	0	0	0	0.0%	0	0	0	0.0%
ALL FUNDS	146,429	148,133	1,704	1.2%	145,870	149,267	3,397	2.3%
Taxes	70,178	70,867	689	1.0%	74,174	74,450	276	0.4%
Miscellaneous Receipts	30,462	30,329	(133)	-0.4%	25,162	25,054	(108)	-0.4%
Federal Grants	45,789	46,937	1,148	2.5%	46,534	49,763	3,229	6.9%

¹Excludes Transfers

- All funds FY 2015 receipts estimates have been increased by \$1.7 billion from the Mid-Year Update. The upward tax revision of \$689 million is due to stronger than expected personal income and sales and use tax receipts.
- All Funds miscellaneous receipts estimates in FY 2015 were revised downward by \$133 million from the Mid-Year Update, which largely reflects \$483 million in reduced receipts to support capital projects including changes in the timing of reimbursements for bond-financed spending with bond proceeds, \$160 million less from one-time fees associated with casino licensing due to differences in timing and in consideration of applicants chosen by the State's Gaming Facility Location Board, and \$97 million less than expected in receipts from lottery and VLT operations, a large portion of which is offset by newly identified one-time proceeds from financial settlements related to The Bank of Tokyo-Mitsubishi UFJ, Ltd. (\$315 million), Bank Leumi USA and Bank Leumi Le-Israel, B.M. (\$130 million), Ocwen Financial Corporation and Ocwen Loan Servicing, LLC (\$100 million), and American International Group, Inc. (\$35 million).
- All Funds Federal grant projections have been revised upward by \$1.1 billion in FY 2015 to reflect year-to-date activity in Medicaid, storm recovery and social services.
- General Fund FY 2015 receipts have been revised upward by \$1.1 billion, reflecting upward tax revisions (as discussed above) and upward revisions in miscellaneous receipts related to newly identified one-time proceeds from financial settlements discussed above.
- All Funds FY 2016 receipts estimates have been increased by \$3.4 billion from the Mid-Year Update. The upward tax revision of \$276 million mainly reflects increases across all tax categories except other taxes, associated with actual collections to date, and legislation included with this Budget.

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- All Funds miscellaneous receipts projections in FY 2016 have been revised downward by \$108 million since the Mid-Year Update, which reflects declines of \$256 million in various miscellaneous receipts in consideration of actual collection trends, as well as \$78 million less than expected in receipts from lottery and VLT operations, partly offset by \$137 million more from one-time fees associated with casino licensing due to differences in timing and in consideration of applicants chosen by the State's Gaming Facility Location Board, and \$89 million more in receipts to support capital projects including changes to the timing of expected bond issuances and the resulting bond proceeds.
- All Funds Federal grant projections have been revised upward by \$3.2 billion in FY 2016, which largely reflects the continued impact of State and Federal changes in the financing of the Medicaid program.
- General Fund FY 2016 receipts have been revised upward by \$355 million, largely associated with the upward tax revisions noted above.

Proposed Law Changes

The FY 2016 Executive Budget includes changes to tax law that would:

- Provide tax relief proposals to continue improving New York's business climate;
- Strengthen the State's tax revenue enforcement efforts;
- Provide simplification for taxpayers; and
- Close unintended tax loopholes to improve the equity of the tax code.

The tax policy changes proposed with this Budget are reported in the summary table below.

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ALL FUNDS LEGISLATION (\$ in millions)*				
	FY 2016	FY 2017	FY 2018	FY 2019
Personal Income Tax	27	(347)	(977)	(1,593)
Provide Income Based Property Tax Relief Tied to the Property Tax Cap	0	(350)	(850)	(1,350)
Establish the Education Tax Credit	0	0	(100)	(100)
Lower the Outstanding Tax Debt Threshold Required to Suspend Delinquent Taxpayers' Driver's Licenses	9	3	3	3
Allow New York to Enter Reciprocal Tax Collection Agreements with Other States	1	3	3	3
Authorize a Professional and Business License Tax Clearance	0	3	3	3
Require New State Employees to be Compliant with State Tax Obligations	1	2	2	2
Require Practitioners to be Compliant with State Tax Obligations before Receiving Excess Medical Malpractice Coverage	1	2	2	2
Allow OCFS to Share Child Care Data with the Department of Taxation and Finance	0	2	2	2
Make Permanent the Limitation on Charitable Contribution Deductions for High Income New York State and New York City Personal Income Taxpayers	0	70	140	125
Make Warrantless Wage Garnishment Permanent	15	15	15	15
Convert the STAR Benefit into a Tax Credit for New Homeowners	0	(97)	(197)	(298)
Consumption/Use Taxes	11	82	82	82
Extend the Wine Tasting Sales and Use Tax Exemption to Other Alcoholic Beverages	0	0	0	0
Reform the Industrial Development Authority (IDA) Program	4	9	9	9
Expand Sales Tax Collection Requirements for Marketplace Providers	0	59	59	59
Exempt Solar Power Purchase Agreements from State and Local Sales Tax	0	0	0	0
Impose Local Sales Tax on Prepaid Wireless Based on Retail Location	0	0	0	0
Close Certain Sales and Use Tax Avoidance Strategies	5	10	10	10
Enhance Motor Fuel Tax Enforcement	2	4	4	4
Business Taxes	4	(21)	14	11
Extend the Excelsior Tax Credit Program to Entertainment Companies	0	0	0	0
Create the Urban Youth Jobs Program Tax Credit	0	(10)	(10)	(10)
Create the Employee Training Incentive Program (ETIP) Tax Credit	0	0	0	0
Reduce the Net Income Tax on Small Businesses	0	(26)	(29)	(32)
Reform the Investment Tax Credit provided for Master Tapes	0	0	15	15
Impose Sales Tax Refund Requirements on Article 9 Taxpayers	0	0	0	0
Impose Tax Law Section 184 Tax on Wireless Telecom	0	0	0	0
Combine the DOS Biennial Information Statement and Tax Return Filings and Repeal \$9 DOS Fee	0	0	0	0
Allow Petroleum Business Tax Refunds for Farm Use of Highway Diesel Motor Fuel	0	0	0	0
New York City Corporate Tax Reform	0	0	0	0
Require Grantees to be Compliant with State Tax Obligations before Receiving a State Grant from a State or Local Authority	1	2	2	2
Enhance Motor Fuel Tax Enforcement	3	6	6	6
Extend and Reform the Brownfield Cleanup Program	0	0	0	0
Require Commercial Production Tax Credit Economic Impact Report	0	0	0	0
Amend the Corporate Tax Reform Statute for Technical Changes	0	7	30	30
Other Actions	39	59	59	59
Authorize Multi Agency Data Sharing to Enhance Enforcement Initiatives	1	1	1	1
Extend Certain Tax Rates and Certain Simulcasting Provisions for One Year	0	0	0	0
Amend the Estate Tax Statute for Technical Changes	0	0	0	0
Amend the Personal Income Tax, MTA Mobility Tax, and Credit for Disabled Workers Statutes for Technical Changes	0	0	0	0
Extend the Video Lottery Gaming (VLG) Vendor's Capital Awards Program for One Year	0	0	0	0
Expand Electronic Gaming Offerings at Video Lottery Gaming (VLG) Facilities	20	40	40	40
Repeal 59 Nuisance Fees Charged by Various State Agencies	(3)	(3)	(3)	(3)
Align DEC Fees with Service Levels	8	8	8	8
Enhance Oil Spill Preparedness	9	9	9	9
Impose Vehicle Safety Inspection Fee	4	4	4	4
Total All Funds Legislation Change	81	(227)	(822)	(1,441)

*Rounded to the nearest million, revenue proposals only.

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Personal Income Tax

PERSONAL INCOME TAX (millions of dollars)											
	FY 2014	FY 2015		FY 2016		FY 2017		FY 2018		FY 2019	
	Results	Updated	Change	Projected	Change	Projected	Change	Projected	Change	Projected	Change
STATE/ALL FUNDS	42,961	44,338	3.2%	46,888	5.8%	49,628	5.8%	51,874	4.5%	53,204	2.6%
Gross Collections	51,575	52,714	2.2%	56,125	6.5%	59,721	6.4%	62,713	5.0%	64,584	3.0%
Refunds (Incl. State/City Offset)	(8,614)	(8,376)	2.8%	(9,237)	-10.3%	(10,093)	-9.3%	(10,839)	-7.4%	(11,380)	-5.0%
GENERAL FUND ¹	28,864	29,879	3.5%	31,935	6.9%	34,005	6.5%	35,748	5.1%	36,805	3.0%
Gross Collections	51,575	52,714	2.2%	56,125	6.5%	59,721	6.4%	62,713	5.0%	64,584	3.0%
Refunds (Incl. State/City Offset)	(8,614)	(8,376)	2.8%	(9,237)	-10.3%	(10,093)	-9.3%	(10,839)	-7.4%	(11,380)	-5.0%
STAR	(3,357)	(3,374)	-0.5%	(3,231)	4.2%	(3,216)	0.5%	(3,157)	1.8%	(3,098)	1.9%
RBTF	(10,740)	(11,085)	-3.2%	(11,722)	-5.7%	(12,407)	-5.8%	(12,969)	-4.5%	(13,301)	-2.6%

¹Excludes Transfers.

All Funds income tax receipts for FY 2015 are projected to be \$44.3 billion, an increase of \$1.4 billion (3.2 percent) from FY 2014 results. This primarily reflects increases in withholding and estimated payments attributable to the 2014 Tax Year, partially offset by a substantial decline in Tax Year 2013 extension payments.

Withholding in FY 2015 is projected to be \$1.8 billion (5.3 percent) higher compared to FY 2014, due mainly to moderate wage growth. Extension payments are estimated to decline by \$1.8 billion (34.9 percent) due to reduced Tax Year 2013 capital gains realizations (relative to Tax Year 2012). The capital gains acceleration into Tax Year 2012 at the expense of Tax Year 2013 and thereafter, which was done in anticipation of the increase in Federal income tax rates between 2012 and 2013, served to create an inflated extension payments base. (See table below showing the impact of 2013 Federal tax law changes on Tax Year 2012 and 2013 adjusted gross income and tax liability.) This income shifting was coupled with unusually high Tax Year 2012-related (FY 2014) extension overpayments, leading to a significant Tax Year 2013-related (FY 2015) extension payments decline. Estimated payments for Tax Year 2014 are projected to be \$1.3 billion (13.5 percent) higher. Final return payments and delinquencies are projected to be \$204 million (8.5 percent) lower and \$91 million (7.7 percent) higher, respectively.

NEW YORK STATE ADJUSTED GROSS INCOME AND TAX LIABILITY GROWTH RATES 2011-2014 Current Law Projections (millions of dollars)				
Tax Year	NYSAGI		Liability	
	Amount	Growth Rate	Amount	Growth Rate
2012	714,996	8.7	38,046	10.1*
2013	729,623	(0.4)	38,394	(2.2)
2014	771,260	8.2	40,645	9.4

*Before impact of the 2012 tax cut from the 2011 reform legislation.

The decline in total refunds of \$238 million (2.8 percent) reflects a \$328 million (15.8 percent) decrease in current (Tax Year 2014) refunds, a \$405 million (7.5 percent) decrease in prior (Tax Year 2013) refunds, a \$90 million (16.3 percent) decrease in previous (Tax Year 2012 and earlier) refunds, and a \$27 million (4.4 percent) decline in the State-City offset, partially offset by \$612 million in advanced payments for the

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Family Tax Relief credit and the newly enacted Real Property Tax Freeze credit. These advance payments serve to increase refunds.

General Fund income tax receipts are net of deposits to the STAR Fund, which provides property tax relief, and the Revenue Bond Tax Fund (RBTF), which supports debt service payments on State PIT revenue bonds. General Fund income tax receipts for FY 2015 of \$29.9 billion are expected to increase by \$1 billion (3.5 percent) from the prior year, mainly reflecting the increase in All Funds receipts noted above. RBTF deposits are projected to be \$11.1 billion and the STAR transfer is projected to be \$3.4 billion.

The following table summarizes, by component, actual receipts for FY 2014 and forecast amounts through FY 2019.

PERSONAL INCOME TAX FISCAL YEAR COLLECTION COMPONENTS						
ALL FUNDS						
(millions of dollars)						
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
	Results	Current	Proposed	Projected	Projected	Projected
Receipts						
Withholding	33,368	35,149	37,410	39,491	40,970	42,768
Estimated Payments	14,637	14,108	14,996	16,289	17,578	17,401
Current Year	9,454	10,734	11,348	12,219	13,133	12,510
Prior Year*	5,183	3,374	3,648	4,070	4,445	4,891
Final Returns	2,395	2,191	2,378	2,555	2,726	2,919
Current Year	250	239	254	265	277	277
Prior Year*	2,145	1,952	2,124	2,290	2,449	2,642
Delinquent	1,175	1,266	1,341	1,386	1,439	1,496
Gross Receipts	51,575	52,714	56,125	59,721	62,713	64,584
Refunds						
Prior Year*	5,367	4,962	5,678	7,000	8,062	8,578
Previous Years	554	464	488	513	539	564
Current Year*	2,078	1,750	1,750	1,700	1,700	1,700
Advanced Credit Payment	0	612	783	342	0	0
State/City Offset*	615	588	538	538	538	538
Total Refunds	8,614	8,376	9,237	10,093	10,839	11,380
Net Receipts	42,961	44,338	46,888	49,628	51,874	53,204
*These components, collectively, are known as the "settlement" on the prior year's tax liability.						

All Funds income tax receipts for FY 2016 of \$46.9 billion are projected to increase by nearly \$2.6 billion (5.8 percent) from the prior year. This primarily reflects increases of \$2.3 billion (6.4 percent) in withholding, \$614 million (5.7 percent) in estimated payments related to Tax Year 2015, and \$274 million (8.1 percent) in extension payments related to Tax Year 2014, partially offset by an \$861 million (10.3 percent) increase in total refunds. The growth in withholding is the result of projected wage growth of 4.7 percent. The moderate growth in extension payments represents a rebound following a decline in FY 2015. The growth in total refunds is primarily attributable to growth in prior (Tax Year 2014) refunds, following a deflated FY 2015 base which would have been \$328 million higher absent the increase in the administrative cap on refunds between January and March 2014. Legislation included as part of the FY 2015

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Enacted Budget (the Enhanced Real Property Tax Circuit Breaker Credit, the Manufacturing Property Tax Credit, and the length of service awards for volunteer firefighters and ambulance workers deduction) contributes an additional \$101 million to the growth in Tax Year 2014-related prior refunds. Payments from final returns are expected to increase \$187 million (8.5 percent), while delinquencies are projected to increase \$75 million (5.9 percent) from the prior year. The increase in delinquencies is inclusive of \$27 million attributable to Executive proposals.

General Fund income tax receipts for FY 2016 of \$31.9 billion are projected to increase by \$2.1 billion (6.9 percent). RBTF deposits are projected to be \$11.7 billion, and the STAR transfer is projected to be \$3.2 billion.

All Funds income tax receipts of \$49.6 billion in FY 2017 are projected to increase \$2.7 billion (5.8 percent) from the prior year. Gross receipts are projected to increase 6.4 percent, reflecting withholding that is projected to grow by \$2.1 billion (5.6 percent) and estimated payments related to Tax Year 2016 that are projected to grow by \$871 million (7.7 percent). Payments from extensions for Tax Year 2015 are projected to increase by \$422 million (11.6 percent) and final returns are expected to increase \$177 million (7.4 percent). Delinquencies are projected to increase \$45 million (3.4 percent) from the prior year. Total refunds are projected to increase by \$856 million (9.3 percent) from the prior year.

General Fund income tax receipts for FY 2017 of \$34 billion are projected to increase by \$2.1 billion (6.5 percent).

All Funds income tax receipts are projected to increase by \$2.2 billion (4.5 percent) in FY 2018 to reach \$51.9 billion, while General Fund receipts are projected to be \$35.7 billion.

Consumption/Use Taxes

CONSUMPTION/USE TAXES (millions of dollars)											
	FY 2014	FY 2015		FY 2016		FY 2017		FY 2018		FY 2019	
	Results	Updated	Change	Projected	Change	Projected	Change	Projected	Change	Projected	Change
STATE/ALL FUNDS	15,099	15,394	2.0%	15,981	3.8%	16,550	3.6%	17,071	3.1%	17,641	3.3%
Sales Tax	12,588	13,034	3.5%	13,604	4.4%	14,220	4.5%	14,769	3.9%	15,363	4.0%
Cigarette and Tobacco Taxes	1,453	1,282	-11.8%	1,283	0.1%	1,232	-4.0%	1,193	-3.2%	1,153	-3.4%
Motor Fuel Tax	473	487	3.0%	484	-0.6%	485	0.2%	482	-0.6%	478	-0.8%
Highway Use Tax	136	136	0.0%	145	6.6%	139	-4.1%	141	1.4%	150	6.4%
Alcoholic Beverage Taxes	250	251	0.4%	256	2.0%	261	2.0%	266	1.9%	271	1.9%
Taxicab Surcharge	85	85	0.0%	85	0.0%	85	0.0%	85	0.0%	85	0.0%
Auto Rental Tax	114	119	4.4%	124	4.2%	128	3.2%	135	5.5%	141	4.4%
GENERAL FUND¹	6,561	6,670	1.7%	6,979	4.6%	7,261	4.0%	7,517	3.5%	7,792	3.7%
Sales Tax	5,885	6,100	3.7%	6,355	4.2%	6,645	4.6%	6,905	3.9%	7,185	4.1%
Cigarette and Tobacco Taxes	426	319	-25.1%	368	15.4%	355	-3.5%	346	-2.5%	336	-2.9%
Alcoholic Beverage Taxes	250	251	0.4%	256	2.0%	261	2.0%	266	1.9%	271	1.9%

¹Excludes Transfers.

All Funds consumption/use tax receipts for FY 2015 are estimated to be \$15.4 billion, a \$295 million (2 percent) increase from FY 2014 results. Sales tax receipts are expected to increase \$446 million (3.5 percent) from FY 2014, resulting from 5.4 percent base (i.e., absent law changes) growth partially offset by law changes enacted with the FY 2015 and previous fiscal year budgets. Cigarette and tobacco tax collections are estimated to decline \$171 million (11.8 percent), primarily reflecting large declines in taxable cigarette consumption (particularly in NYC) and cigar tax refunds resulting from, in part, a non-binding Administrative Law Judge Determination (Matter of Davidoff of Geneva, Inc.). Resources have been devoted to the Tax Department enforcement unit to more aggressively pursue sale of untaxed cigarettes. Motor fuel tax collections are expected to increase \$14 million (3 percent), reflecting a rebound from a FY 2014 decline caused by severe winter weather.

General Fund consumption/use tax receipts for FY 2015 are estimated to total \$6.7 billion, an increase of \$109 million (1.7 percent) from FY 2014. This increase largely reflects increased sales tax collections offset by greater than trend declines in cigarette collections and cigar tax refunds.

All Funds consumption/use tax receipts for FY 2016 are projected to be \$16 billion, an increase of \$587 million (3.8 percent) from the prior year. The \$570 million (4.4 percent) increase in sales tax receipts reflects sales tax base growth of 3.9 percent due to strong projected disposable income growth. Highway use tax receipts are expected to increase \$9 million (6.6 percent) as FY 2016 is a triennial renewal year.

General Fund consumption/use tax receipts are projected to total \$7 billion in FY 2016, a \$309 million (4.6 percent) increase from the prior year. The projected increase results from increases in sales, cigarette and tobacco, and alcoholic beverage tax receipts. The projected increase in cigarette and tobacco tax receipts is the result of an artificially low FY 2015 base created by the cigar tax refunds mentioned earlier.

All Funds consumption/use tax receipts are projected to increase to nearly \$16.6 billion (3.6 percent) in FY 2017 and \$17.1 billion (3.1 percent) in FY 2018, largely

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representing base growth in sales tax receipts, offset slightly by trend declines in cigarette tax collections.

General Fund sales and use tax receipts are net of deposits to the Local Government Assistance Tax Fund (25 percent), and the Sales Tax Revenue Bond Fund (25 percent), which supports debt service payments on State sales and use tax revenue bonds. Receipts in excess of the debt service requirements of the funds and the local assistance payments to New York City, or its assignee, are transferred back to the General Fund.

General Fund consumption/use tax receipts are projected to increase to \$7.3 billion (4 percent) in FY 2017 and \$7.5 billion (3.5 percent) in FY 2018, reflecting the All Funds trends noted above.

Business Taxes

BUSINESS TAXES (millions of dollars)											
	FY 2014	FY 2015		FY 2016		FY 2017		FY 2018		FY 2019	
	Results	Updated	Change	Projected	Change	Projected	Change	Projected	Change	Projected	Change
STATE/ALL FUNDS	8,259	7,717	-6.6%	8,083	4.7%	7,965	-1.5%	8,114	1.9%	8,269	1.9%
Corporate Franchise Tax	3,812	2,852	-25.2%	4,589	60.9%	4,310	-6.1%	4,492	4.2%	4,611	2.6%
Corporation and Utilities Tax	798	773	-3.1%	805	4.1%	816	1.4%	818	0.2%	835	2.1%
Insurance Tax	1,444	1,524	5.5%	1,604	5.2%	1,581	-1.4%	1,563	-1.1%	1,637	4.7%
Bank Tax	1,050	1,428	36.0%	(10)	-100.7%	203	2130.0%	190	-6.4%	143	-24.7%
Petroleum Business Tax	1,155	1,140	-1.3%	1,095	-3.9%	1,055	-3.7%	1,051	-0.4%	1,043	-0.8%
GENERAL FUND	6,046	5,516	-8.8%	5,834	5.8%	5,705	-2.2%	5,807	1.8%	5,910	1.8%
Corporate Franchise Tax	3,245	2,368	-27.0%	3,820	61.3%	3,503	-8.3%	3,643	4.0%	3,712	1.9%
Corporation and Utilities Tax	615	590	-4.1%	619	4.9%	624	0.8%	622	-0.3%	631	1.4%
Insurance Tax	1,298	1,370	5.5%	1,433	4.6%	1,405	-2.0%	1,380	-1.8%	1,445	4.7%
Bank Tax	888	1,188	33.8%	(38)	-103.2%	173	555.3%	162	-6.4%	122	-24.7%
Petroleum Business Tax	0	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%

All Funds business tax receipts for FY 2015 are estimated at \$7.7 billion, a \$542 million (6.6 percent) decrease from prior year results. The estimate reflects a decline resulting from the first year of the Tax Year 2010-2012 tax credit deferral payback to taxpayers (an incremental refund increase of \$273 million) and enacted tax reductions for manufacturers which are estimated to reduce All Funds receipts by \$223 million. Growth in the bank and insurance taxes is offset by declines in the corporate franchise tax (for the reasons stated below), the corporation and utilities tax and the petroleum business tax.

Corporate franchise tax receipts are estimated to decrease \$960 million (25.2 percent) in FY 2015, reflecting the credit deferral payback (\$273 million), and tax cuts for manufacturers enacted in the FY 2014 and FY 2015 budgets. The FY 2014 Enacted Budget phased-in a 25 percent tax cut on all four manufacturing tax bases beginning in Tax Year 2014. Additionally, the FY 2015 Enacted Budget reduced the entire net income tax rate to zero percent for qualified manufacturers effective for Tax Year 2014. The impact of these two actions is estimated to reduce FY 2015 receipts by a total of \$223 million compared to FY 2014 receipts. In addition to these actions, audit receipts are expected to decline \$633 million (45.4 percent). Corporate franchise tax receipts for FY 2015 will also include the mandatory first installment for former bank

taxpayers due in March 2015. Since this represents the first payment towards 2015 liability, payments made by former bank taxpayers will be recorded under the corporate franchise tax as a result of corporate tax reform.

Corporation and utilities tax receipts are expected to decline \$25 million (3.1 percent) in FY 2015. Both gross receipts and audits are expected to decline from the prior year while refunds are expected to be much lower in FY 2015 due to an atypically large refund that was paid in FY 2014. The decrease in gross receipts is mainly attributable to the loss of revenue from payments imposed by Section 186 of the Tax Law due to the Long Island Power Authority (LIPA) restructuring that was enacted in the 2013 legislative session.

Insurance tax receipts are expected to increase \$80 million (5.5 percent) in FY 2015. Strength in premiums growth from authorized insurers as well as unauthorized (excess line brokers) insurers will be partially offset by the impact of the State's transition of the prescription drug, hospital and mental health portions of the Empire Plan to self-insurance on January 1, 2014. This transition reduces insurance tax receipts since State and local governments no longer remit the insurance tax as part of premium payments.

Bank tax receipts are estimated to increase \$378 million (36 percent) in FY 2015. A nearly \$676 million increase in audit receipts (based on receipts to date) is partially offset by higher refunds and lower gross receipts. Gross receipts are lower in FY 2015 than FY 2014 because the March 2015 mandatory first installment of tax for bank taxpayers will be recorded in the corporate franchise tax as a result of corporate tax reform.

Petroleum business tax (PBT) receipts are expected to decrease \$15 million (1.3 percent) in FY 2015, primarily due to the 0.8 percent decrease in PBT tax rates effective January 2014 and the estimated 3.2 percent decrease in PBT tax rates effective January 2015. These declines are partially offset by an expected rebound in taxable fuel consumption from FY 2014, which was depressed by severe winter weather.

General Fund business tax receipts for FY 2015 of \$5.5 billion are estimated to decrease \$530 million (8.8 percent) from FY 2014 results, reflecting the All Funds trends discussed above.

All Funds business tax receipts for FY 2016 of \$8.1 billion are projected to increase \$366 million (4.7 percent) from the prior year. The large decline in bank tax receipts and the commensurate large increase in corporate franchise tax receipts beginning in FY 2016 are the result of the repeal of the bank tax and resultant imposition of the corporate franchise tax on former bank taxpayers effective for Tax Year 2015. This year-over-year increase primarily reflects better audit results and lower refund payouts (the second year of the credit deferral payback to taxpayers is smaller than the amount estimated to be paid out in FY 2015). PBT receipts are expected to decrease \$45 million (4 percent) in FY 2016, primarily due to the estimated 3.2 percent decrease in PBT tax rates effective January 1, 2015 noted above and expected declines in taxable motor fuel consumption due to declining vehicle miles traveled and increases in average vehicle fuel efficiency.

RECEIPTS OVERVIEW

General Fund business tax receipts for FY 2016 of \$5.8 billion are projected to increase \$318 million (5.8 percent), reflecting the All Funds trends discussed above.

All Funds business tax receipts for FY 2017 and FY 2018 reflect projected trends in corporate profits, taxable insurance premiums, electric utility consumption and prices, the consumption of taxable telecommunications services, and automobile fuel consumption and fuel prices. All Funds business tax receipts are projected to decrease to \$8 billion (1.5 percent) in FY 2017, and increase to \$8.1 billion (1.9 percent) in FY 2018. General Fund business tax receipts are expected to decrease to \$5.7 billion (2.2 percent) in FY 2017 and increase to \$5.8 billion (1.8 percent) in FY 2018. The decrease in FY 2017 primarily reflects the reduction of the corporate entire net income tax rate to 6.5 percent from 7.1 percent (effective for Tax Year 2016) that was implemented as part of corporate tax reform in the FY 2015 Enacted Budget.

Other Taxes

OTHER TAXES (millions of dollars)											
	FY 2014	FY 2015		FY 2016		FY 2017		FY 2018		FY 2019	
	Results	Updated	Change	Projected	Change	Projected	Change	Projected	Change	Projected	Change
STATE/ALL FUNDS	2,167	2,158	-0.4%	2,161	0.1%	2,127	-1.6%	2,132	0.2%	2,138	0.3%
Estate Tax	1,238	1,149	-7.2%	1,105	-3.8%	1,012	-8.4%	962	-4.9%	907	-5.7%
Real Estate Transfer Tax	911	990	8.7%	1,037	4.7%	1,096	5.7%	1,151	5.0%	1,212	5.3%
Pari-Mutuel Taxes	17	18	5.9%	18	0.0%	18	0.0%	18	0.0%	18	0.0%
All Other Taxes	1	1	0.0%	1	0.0%	1	0.0%	1	0.0%	1	0.0%
GENERAL FUND¹	1,256	1,168	-7.0%	1,124	-3.8%	1,031	-8.3%	981	-4.8%	926	-5.6%
Estate Tax	1,238	1,149	-7.2%	1,105	-3.8%	1,012	-8.4%	962	-4.9%	907	-5.7%
Pari-Mutuel Taxes	17	18	5.9%	18	0.0%	18	0.0%	18	0.0%	18	0.0%
All Other Taxes	1	1	0.0%	1	0.0%	1	0.0%	1	0.0%	1	0.0%

¹Excludes Transfers.

All Funds other tax receipts for FY 2015 are estimated to be nearly \$2.2 billion, a \$9 million (0.4 percent) decrease from FY 2014 results. This reflects an \$89 million (7.2 percent) decrease in estate tax receipts, partially offset by a \$79 million (8.7 percent) increase in real estate transfer tax receipts. The estate tax decrease is primarily the result of FY 2015 Enacted Budget legislation that raises the exemption level from \$1 million to \$5.25 million over a four-year period and an expected return (i.e., reduction) in FY 2015 to a number of super-large estate payments (payments of over \$25 million) consistent with long-term trends. The real estate transfer tax estimate reflects both an increase in the volume of transactions in NYC and modest price growth compared to the prior year.

General Fund other tax receipts are expected to be nearly \$1.2 billion in FY 2015, an \$88 million (7 percent) decrease from FY 2014 results, reflecting the estate tax change noted above.

All Funds other tax receipts for FY 2016 are projected to be nearly \$2.2 billion, a \$3 million (0.1 percent) increase from FY 2015 projections. This reflects projected growth in real estate transfer tax receipts due to projected growth in both the residential and commercial real estate markets, particularly in NYC, nearly entirely offset by a decline in projected estate tax receipts due to the continued phase in of the increased exemption level.

All Funds other tax receipts for FY 2017 and FY 2018 reflect projected trends in household net worth, housing starts and housing prices. All Funds other tax receipts are projected to decrease to \$2.1 billion (1.6 percent) in FY 2017, and remain at \$2.1 billion in FY 2018. General Fund other tax receipts are expected to decrease to just over \$1 billion (8.3 percent) in FY 2017 and decrease further to just under \$1 billion (4.8 percent) in FY 2018. The divergence in growth rates between the All Funds and General Fund projections for other taxes reflects the dedication of the segment exhibiting growth (real estate transfer tax receipts) to other funds, and reflection of the declining portion (estate tax receipts) remaining in the General Fund.

Miscellaneous Receipts Federal Grants

MISCELLANEOUS RECEIPTS (millions of dollars)											
	FY 2014 Results	FY 2015 Updated	Change	FY 2016 Projected	Change	FY 2017 Projected	Change	FY 2018 Projected	Change	FY 2019 Projected	Change
ALL FUNDS	24,233	30,329	25.2%	25,054	-17.4%	24,122	-3.7%	23,525	-2.5%	23,681	0.7%
General Fund	3,219	8,861	175.3%	2,903	-67.2%	2,633	-9.3%	2,366	-10.1%	2,277	-3.8%
Special Revenue Funds	16,776	16,272	-3.0%	16,144	-0.8%	15,912	-1.4%	16,068	1.0%	16,148	0.5%
Capital Projects Funds	3,539	4,724	33.5%	5,559	17.7%	5,124	-7.8%	4,638	-9.5%	4,804	3.6%
Debt Service Funds	699	472	-32.5%	448	-5.1%	453	1.1%	453	0.0%	452	-0.2%

All Funds miscellaneous receipts include monies received from HCRA financing sources, SUNY tuition and patient income, lottery receipts for education, assessments on regulated industries, tribal-state compact revenue, financial settlements and a variety of fees and licenses.

All Funds miscellaneous receipts are projected to total \$30.3 billion in FY 2015, an increase of 25.2 percent from prior year results. This increase is primarily due to the monetary settlements described earlier in this Financial Plan. In addition to the financial settlements, the FY 2015 General Fund total includes a deposit of \$1 billion from the State Insurance Fund reserve release in connection with Workers' Compensation law changes included in the FY 2014 Enacted Budget, which is an increase of \$750 million from the amount received during the prior year. In other State funds, FY 2015 miscellaneous receipts are driven by year-to-year variations to health care surcharges and other HCRA resources, bond proceeds, atypical fines and the phase-out of the temporary utility assessment.

All Funds miscellaneous receipts are projected to decrease annually beginning in FY 2016, mainly due to reduced transfers from the State Insurance Fund (SIF), the loss of one-time financial settlement revenues, the phase-out of the temporary utility assessment, and bond proceeds available to fund capital improvement projects.

RECEIPTS OVERVIEW

FEDERAL GRANTS (millions of dollars)											
	FY 2014 Results	FY 2015 Updated	Change	FY 2016 Projected	Change	FY 2017 Projected	Change	FY 2018 Projected	Change	FY 2019 Projected	Change
ALL FUNDS	43,789	46,937	7.2%	49,763	6.0%	50,433	1.3%	52,099	3.3%	52,868	1.5%
General Fund	0	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Special Revenue Funds	41,405	44,817	8.2%	48,017	7.1%	48,730	1.5%	50,409	3.4%	51,197	1.6%
Capital Projects Funds	2,313	2,047	-11.5%	1,673	-18.3%	1,630	-2.6%	1,617	-0.8%	1,598	-1.2%
Debt Service Funds	71	73	2.8%	73	0.0%	73	0.0%	73	0.0%	73	0.0%

Aid from the Federal government helps pay for a variety of programs including 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 projects Federal reimbursements will be received in the State fiscal year in which spending occurs, but due to the variable timing of Federal grant receipts, actual results often differ from the plan.

All Funds Federal grants are expected to increase in FY 2015, which is mainly driven by enhanced Federal Medicaid funding associated with the ACA. Federal grants are expected to grow to \$52.9 billion by FY 2019, reflecting the continuation of growth in Federal Medicaid spending associated with the ACA, partly offset by the expected phase-down of costs associated with Federal disaster assistance aid.

REVENUE ACTIONS

REVENUE ACTIONS

The FY 2016 Budget includes a net positive increment of \$81 million in All Funds receipts reflecting the revenue actions contained in this budget. The accompanying table summarized 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, 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						
(millions of dollars)						
Agency	Description and Effective Date	Fund Type	General Fund		All Funds	
			FY 2016	FY 2017	FY 2016	FY 2017
Tax Credits						
Tax	Provide Income Based Property Tax Relief Tied to the Property Tax Cap - 1/1/15	GFTX	-	(350)	-	(350)
Tax	Establish the Education Tax Credit - 1/1/16	GFTX	-	-	-	-
Tax	Create the Urban Youth Jobs Program Tax Credit - 1/1/15	GFTX	-	(10)	-	(10)
Tax	Create the Employee Training Incentive Program (ETIP) Tax Credit - 1/1/15	GFTX	-	-	-	-
Tax	Extend the Excelsior Tax Credit Program to Entertainment Companies - 1/1/15	GFTX	-	-	-	-
	Subtotal		-	(360)	-	(360)
Tax Cut and Reform Actions						
Tax	Reduce the Net Income Tax on Small Businesses - 1/1/16	GFTX	-	(26)	-	(26)
Tax	Extend the Wine Tasting Sales and Use Tax Exemption to Other Alcoholic Beverages - 4/1/15	GFTX	-	-	-	-
Tax	Reform the Investment Tax Credit provided for Master Tapes - 1/1/16	GFTX	-	-	-	-
Tax	Reform the Industrial Development Authority (IDA) Program - 4/1/15	GFTX	4	9	4	9
Tax	Expand Sales Tax Collection Requirements for Marketplace Providers - 3/1/16	GFTX/SFTX	-	56	-	59
Tax	Exempt Solar Power Purchase Agreements from State and Local Sales Tax - 12/1/15	GFTX	-	-	-	-
Tax	Impose Sales Tax Refund Requirements on Article 9 Taxpayers - 1/1/15	GFTX	-	-	-	-
Tax	Impose Tax Law Section 184 Tax on Wireless Telecom - 1/1/15	GFTX	-	-	-	-
	Subtotal		4	39	4	42

Key:

CF = Capital Projects Fund
DF = Debt Service Funds
MR = Miscellaneous Receipts

GF = General Fund
PF = Private Purpose Trust Fund

SF = Special Revenue Funds
EF = Enterprise Funds
TX = Tax

REVENUE ACTIONS

Agency	Description and Effective Date	Fund Type	General Fund		All Funds	
			FY 2016	FY 2017	FY 2016	FY 2017
Tax Simplification Actions						
Tax	New York City Corporate Tax Reform - 1/1/15	GFTX	-	-	-	-
Tax	Allow Petroleum Business Tax Refunds for Farm Use of Highway Diesel Motor Fuel - 4/1/15	SFTX/CFTX	-	-	-	-
Tax	Impose Local Sales Tax on Prepaid Wireless Based on Retail Location - 4/1/15	GFTX	-	-	-	-
Tax & DOS	Combine the DOS Biennial Information Statement and Tax Return Filings and Repeal \$9 DOS Fee - 4/1/15	SFMR	-	-	-	-
Subtotal			-	-	-	-
Enforcement Initiatives						
Tax	Lower the Outstanding Tax Debt Threshold Required to Suspend Delinquent Taxpayers' Driver's Licenses - 4/1/15	GFTX	9	3	9	3
Tax	Allow New York to Enter Reciprocal Tax Collection Agreements with Other States - 4/1/15	GFTX	1	3	1	3
Tax	Close Certain Sales and Use Tax Avoidance Strategies - 4/1/15	GFTX	5	10	5	10
Tax	Authorize a Professional and Business License Tax Clearance - 4/1/15	GFTX	-	3	-	3
Tax	Require New State Employees to be Compliant with State Tax Obligations - 4/1/15	GFTX	1	2	1	2
Tax	Require Practitioners to be Compliant with State Tax Obligations before Receiving Excess Medical Malpractice Coverage - 4/1/15	GFTX	1	2	1	2
Tax	Require Grantees to be Compliant with State Tax Obligations before Receiving a State Grant from a State or Local Authority - 4/1/15	GFTX	1	2	1	2
Tax	Authorize Multi Agency Data Sharing to Enhance Enforcement Initiatives - 4/1/15	SFMR	-	-	1	1
Tax	Extend Current STAR / Tax Delinquency Program and Convert it from Offset into a Tax Clearance Program - 4/1/15	SFTX	1	1	-	-
Tax	Allow OCFS to Share Child Care Data with the Department of Taxation and Finance - 4/1/15	GFTX	-	2	-	2
Tax	Enhance Motor Fuel Tax Enforcement - 9/1/15	GFTX/SFTX/CFTX	1	2	5	10
Subtotal			20	30	24	38
Tax Law Extenders						
Tax	Make Permanent the Limitation on Charitable Contribution Deductions for High Income New York State and New York City Personal Income Taxpayers - 1/1/16	GFTX	-	70	-	70
Tax	Make Warrantless Wage Garnishment Permanent - 4/1/15	GFTX	15	15	15	15
Tax	Extend and Reform the Brownfield Cleanup Program - 1/1/16	GFTX	-	-	-	-
Gaming	Extend Certain Tax Rates and Certain Simulcasting Provisions for One Year - 7/1/15	SFMR	-	-	-	-
Subtotal			15	85	15	85

REVENUE ACTIONS

Agency	Description and Effective Date	Fund Type	General Fund		All Funds	
			FY 2016	FY 2017	FY 2016	FY 2017
School Tax Relief (STAR) Program Actions						
Tax	Convert the STAR Benefit into a Tax Credit for New Homeowners - Credit Portion - 1/1/15	GFTX	-	(97)	-	(97)
Tax	Convert the STAR Benefit into a Tax Credit for New Homeowners - Spending Savings - 4/1/15	GFTX	97	197	-	-
Tax	Cap Annual Growth in Basic and Enhanced Exemption Benefit at Zero Percent - 4/1/15	GFTX	54	54	-	-
Tax	Eliminate Entirely the New York City PIT Rate Reduction Benefit for High Income Taxpayers - 1/1/15	GFTX	41	51	-	-
Tax	Recoup Savings Retrospectively from Unlawfully Claimed Exemptions Removed During Re-registration Process - 4/1/15	GFTX	1	-	-	-
Tax	Allow Unenrolled Registrants to Receive the STAR Exemption Benefit for Tax Year 2014 - 4/1/15	GFTX	(1)	-	-	-
Subtotal			192	205	-	(97)
Technical Corrections						
Tax	Require Commercial Production Tax Credit Economic Impact Report - 1/1/15	GFTX	-	-	-	-
Tax	Amend the Corporate Tax Reform Statute for Technical Changes - 1/1/14	GFTX	-	7	-	7
Tax	Amend the Estate Tax Statute for Technical Changes - 4/1/15	GFTX	-	-	-	-
Tax	Amend the Personal Income Tax, MTA Mobility Tax, and Credit for Disabled Workers Statutes for Technical Changes - 4/1/15	GFTX/SFTX	-	-	-	-
Subtotal			-	7	-	7
Gaming Initiatives						
Gaming	Extend the Video Lottery Gaming (VLG) Vendor's Capital Awards Program for One Year - 4/1/15	SFMR	-	-	-	-
Gaming	Expand Electronic Gaming Offerings at Video Lottery Gaming (VLG) Facilities - 5/1/15	SFMR	-	-	20	40
Subtotal			-	-	20	40
Repeal Nuisance Fees						
Various	Repeal 59 Nuisance Fees Charged by Various State Agencies* - 4/1/15	GFMR/SFMR CFMR	(0)	(0)	(3)	(3)
Subtotal			(0)	(0)	(3)	(3)
Assure that Revenues from Fees Cover Associated Functions						
DEC	Align DEC Fees with Service Levels	SFMR	-	-	8	8
DEC	Enhance Oil Spill Preparedness	SFMR	-	-	9	9
DOT	Impose Vehicle Safety Inspection Fee - Immediately	CFMR	-	-	4	4
Subtotal			-	-	21	21
TOTAL REVENUE ACTIONS			231	6	81	(227)

*With the exception of one fee, these nuisance fees proposed for repeal generate less than \$50,000 each. They are outlined in the table below.

REVENUE ACTIONS

ENUMERATED LIST OF FEES FOR REPEAL						
(thousands of dollars)						
Agency	Description and Effective Date	Fund Type	General Fund		All Funds	
			FY 2016	FY 2017	FY 2016	FY 2017
Repeal Nuisance Fees						
Ag&Mkts	Commercial Feed License Fee - 4/1/15	GFMR	(5)	(5)	(5)	(5)
Ag&Mkts	Farm Product Dealer's License Fee - 4/1/15	PFMR	-	-	(9)	(9)
Ag&Mkts	Food Salvage Fee - 4/1/15	GFMR	(3)	-	(3)	-
Ag&Mkts	Liming Brands License Fee - 4/1/15	GFMR	(1)	(7)	(1)	(7)
Ag&Mkts	Refrigerated Warehouse Fee - 4/1/15	GFMR	(8)	(1)	(8)	(1)
Ag&Mkts	Rendering Plants Fee - 4/1/15	GFMR	(2)	(2)	(2)	(2)
Ag&Mkts	Rendering Transportation Fee - 4/1/15	GFMR	(2)	(2)	(2)	(2)
Ag&Mkts	Seed Potato Inspection Fee - 4/1/15	SFMR	-	-	(10)	(10)
Ag&Mkts	Soil and Plant Inoculants Fee - 4/1/15	GFMR	-	(6)	-	(6)
DEC	Flood Control Permit Fee - 4/1/15	GFMR	(1)	(1)	(1)	(1)
DEC	Water Well Driller Registration Fee - 4/1/15	GFMR	(5)	(5)	(5)	(5)
DOL	Antique Boiler Inspection Fees (2) - 4/1/15	SFMR	-	-	(2)	(2)
DOL	Boiler Certificate of Competency Fee - 4/1/15	SFMR	-	-	(10)	(10)
DOL	Boiler Shop Survey Fee - 4/1/15	SFMR	-	-	(7)	(7)
DOL	Building Plans Exam Fee - 4/1/15	SFMR	-	-	(1)	(1)
DOL	Commissary Operator Permit Fee - 4/1/15	SFMR	-	-	-	-
DOL	Day of Rest Easement Application Fee - 4/1/15	SFMR	-	-	(4)	(4)
DOL	Defense Dispensation Fee - 4/1/15	SFMR	-	-	-	-
DOL	Farm Grower Permit Fee - 4/1/15	SFMR	-	-	(9)	(9)
DOL	Farm Labor Contractor Permit Fee - 4/1/15	SFMR	-	-	(14)	(14)
DOL	Industrial Homework Certificates Employer Application Fee - 4/1/15	SFMR	-	-	-	-
DOL	Industrial Homework Certificates Homeworker Application Fee - 4/1/15	SFMR	-	-	(1)	(1)
DOL	Laser Regulation Permit Fee - 4/1/15	GFMR	(25)	(25)	(25)	(25)
DOL	Miniature Boiler Inspection Fee - 4/1/15	GFMR	-	-	-	-
DOL	Professional Employer Organization Exemption Fee - 4/1/15	GFMR	(11)	(11)	(11)	(11)
DOL	Professional Employer Organization Initial Registration and Renewal Fees (2) - 4/1/15	GFMR	(65)	(65)	(65)	(65)
DOL	Scaffold Plan Examination Fee - 4/1/15	SFMR	-	-	(28)	(28)
DOL	Ski Tows and Passenger Tramways Fees (2) - 4/1/15	SFMR	-	-	(19)	(19)
DOL	Slot Machine Repair License Fees (2) - 4/1/15	GFMR	-	-	-	-
DOL	Workplace Safety and Loss Certification Application Fee - 4/1/15	SFMR	-	-	(18)	(18)
DOL	Workplace Safety and Loss DOL Consultation Fee - 4/1/15	SFMR	-	-	-	-
DOL	Workplace Safety and Loss Incentive Application and Renewal Fees (2) - 4/1/15	SFMR	-	-	-	-
DOL	Workplace Safety and Loss Recertification Application Fee - 4/1/15	SFMR	-	-	(21)	(21)
DOL	Workplace Safety and Loss Specialist Certification and Recertification Fees (2) - 4/1/15	SFMR	-	-	(8)	(8)
DOL	Written Assurances Fee - 4/1/15	SFMR	-	-	-	-
DOS	Apartment Information Vendor License Fee - 4/1/15	SFMR	-	-	(9)	(9)
DOS	Biennial Statement Filing Fee - 4/1/15	SFMR	-	-	(2,570)	(2,570)
DOS	Cease and Desist List License Fee - 4/1/15	SFMR	-	-	-	-
DOT	Intrastate Authority Application Fee - 4/1/15	CFMR	-	-	(40)	(40)
Just. Ctr	Conference Fee - 4/1/15	SFMR	-	-	-	-
Just. Ctr	Technology-Related Assistance for Individuals with Disabilities Enterprise Fee - 4/1/15	EFMR	-	-	-	-
WCB	Chiropractic Arbitration Request Fee - 4/1/15	SFMR	-	-	(4)	(4)
WCB	Claimant's Representative License Fee - 4/1/15	GFMR	(8)	(8)	(8)	(8)
WCB	Hospital Arbitration Request Fee - 4/1/15	SFMR	-	-	(1)	(1)
WCB	Medical Arbitration Request Fee - 4/1/15	SFMR	-	-	(43)	(43)
WCB	Medical Center Authorization License Fee - 4/1/15	SFMR	-	-	-	-
WCB	Medical / X-Ray Bureau Authorization License Fee - 4/1/15	SFMR	-	-	(10)	(10)
WCB	Podiatry Arbitration Request Fee - 4/1/15	SFMR	-	-	-	-
WCB	Psychology Arbitration Request Fee - 4/1/15	SFMR	-	-	(1)	(1)
WCB	Publication Fee - 4/1/15	SFMR	-	-	(1)	(1)
WCB	Self insurer's Representative License Fee - 4/1/15	GFMR	(12)	(12)	(12)	(12)
WCB	Subpoena Fee - 4/1/15	SFMR	-	-	(13)	(13)
WCB	X-Ray Laboratory Authorization License Fee - 4/1/15	SFMR	-	-	(2)	(2)
TOTAL FEES FOR REPEAL			(148)	(150)	(3,003)	(3,005)

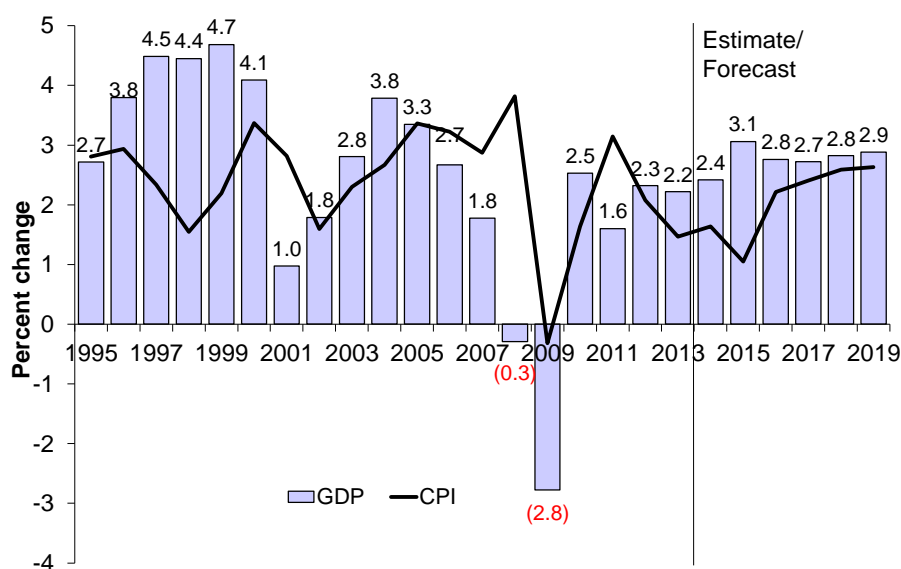
ECONOMIC BACKDROP

ECONOMIC BACKDROP

OVERVIEW

The U.S. economy emerged impressively in the spring of last year from a severe winter rut that disrupted activity at the nation's shops, factories, and ports. Two quarters of above 4 percent growth in the middle of 2014 appears to portend a new phase in the nation's recovery, but following a weather-induced contraction of 2.1 percent, it remains unclear how much of that growth represented a rebound from the economy's deep winter rut. Since the technical end of the Great Recession in mid-2009, there have been several false starts within the recovery's first five and a half years, all of which have dissolved into disappointment. Averaging over the first three quarters of the year yields a still lackluster 2.5 percent growth rate, virtually equal to the average for the recovery to-date. Real U.S. GDP is projected to grow 3.1 percent in 2015, following 2.4 percent growth in 2014. As indicated in Figure 1, if the Budget Division forecast should come to pass, it will be the first year of growth above 3 percent since 2005.

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



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

The Budget Division forecast points toward an improving domestic economy in 2015, with inflation of only 1.0 percent projected for this year. The dramatic decline we are now observing in energy prices provides a substantial tailwind to household spending. With gasoline prices down by more than \$1.50 per gallon since the middle of 2014, cheaper energy is succeeding at what an improving labor market has failed to achieve for many – a significant rise in disposable income. Indeed, the boost from energy is comparable to the payroll tax holiday implemented in 2011 and 2012. However, the high real GDP growth rates observed during the second and third quarters of 2014 are likely unsustainable. The boost from lower energy prices is expected to only partially compensate for the weakness of the global economy, a listless housing market, and continued low wage growth. Without support from these critical sources, the Budget Division anticipates annualized quarterly real GDP growth will remain below 3 percent

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over the near term. With a considerable amount of labor market slack remaining, credit markets still healing, and the housing market still sluggish, even this nation's economy, arguably the strongest in the global arena, is in many aspects still convalescing. Against this backdrop, the Federal Reserve will have ample flexibility in plotting its path toward interest rate normalization.

New York's private sector labor market continues to enjoy well-above historical average job growth. The State's two leading sectors have been leisure and hospitality, which continues to benefit from strong domestic and international tourism; and construction, supported by strong activity in both the commercial and residential real estate markets. The strengthening dollar poses a risk to the momentum in these sectors given the strong foreign participation in both markets, but much of that risk could be offset by lower energy costs. Thus, solid growth is still expected going forward. Strong profit growth within the national corporate sector has maintained robust demand for the State's professional and business services sector. Growth rates in the State's finance and insurance sector, and the information sector – which includes social media – are estimated to have exceeded growth at the national level for 2014 and are expected to continue strong growth this year. Total private sector job growth of 1.7 percent is projected for 2015, following growth of 2.0 percent in 2014. Continued projected declines in government jobs result in slightly lower overall job growth of 1.4 percent for 2015.

The turbulence that enveloped equity markets toward the end of 2014 is expected to continue through much of this year, contributing to weaker growth in non-wage income, including taxable capital gains. Finance and insurance bonus growth of about 6 percent is projected for the State fiscal year in progress, down from growth of 13.5 percent for 2013-14. But despite the projected slowdown in bonuses, the State's solid labor market growth is expected to lift overall State wage growth for 2015-16 to 4.7 percent, just above estimated 2014-15 growth of 4.6 percent. Overall personal income growth of 4.6 percent is projected for 2015-16, stronger than current fiscal year growth of 4.0 percent. Projected growth for both 2014-15 and 2015-16 remain below historical averages, consistent with national trends in both wage growth and inflation.

THE NATIONAL ECONOMY

The slowest recovery since the 1930s has made much progress. Of the four coincident economic indicators that the National Bureau of Economic Research (NBER) Business Cycle Dating Committee gives the most weight to in determining business cycle turning points, all have finally surpassed their pre-recession peaks (see Box 1). Real personal income minus transfers was the first indicator to do so, relatively early in the recovery in January 2012. It took until October 2013, four years and three months into the recovery, for industrial production, real manufacturing and trade sales to follow suit. Given the weakness of the labor market recovery, it is not surprising that employment was the laggard, finally surpassing its January 2008 peak in May of last year.

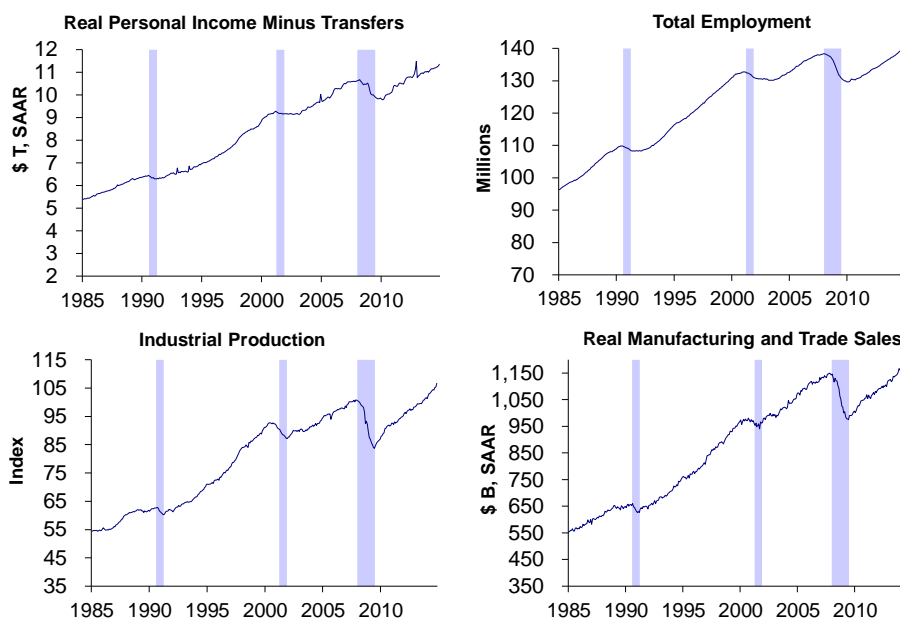
But the significance of the May 2014 milestone may be marginal, since the population and labor force are larger than they were on the brink of the Great Recession. Thus, the unemployment rate still remains 1.2 percentage points above its pre-recession low of 4.4 percent, and there are many segments of the economy that have yet to catch up

to where they were in 2007; income inequality has widened as well. However, the economy is likely more resilient to the myriad types of adverse events that have plagued this recovery from the beginning, from severe weather to seismic catastrophe, from domestic terrorism to wars overseas. The impacts of those events are quite visible in the pattern of real quarterly GDP growth over the last five and a half years (see Figure 2). Since the technical end of the recession at the end of the second quarter of 2009, growth has averaged only 2.4 percent to-date, the weakest of the postwar period.

BOX 1 RECOVERING FROM THE GREAT RECESSION

Business cycles are defined by a group of private economists at the National Bureau of Economic Research (NBER) Business Cycle Dating Committee. The severity of the Great Recession is well illustrated by the monthly series the Dating Committee uses to determine business cycle peaks and troughs. These series include: real personal income minus transfers, nonfarm payroll employment, industrial production, and real manufacturing and trade sales. The Dating Committee designated June 2009 as the trough of the 2007-2009 recession, but economic output, as defined by real U.S. GDP, failed to surpass its pre-recession peak until 2011Q2, a recovery period of unprecedented length during the postwar period.

NBER Recession Indicators



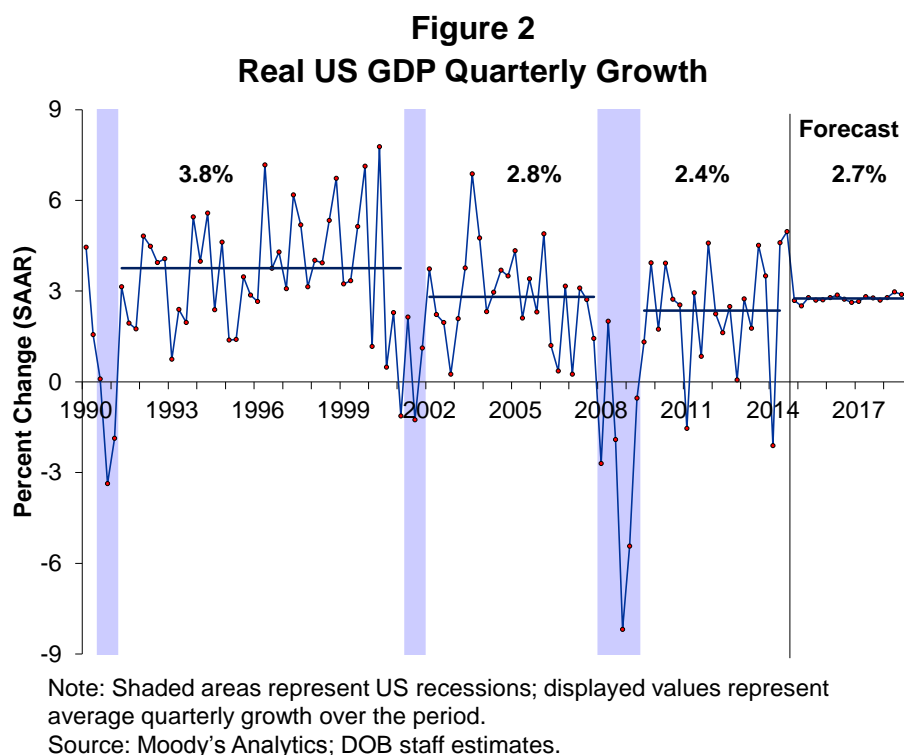
Note: Shaded areas represent U.S. recessions.
Source: Moody's Analytics.

As indicated in Figure 3 below, the current recovery has been the slowest since the 1930s. It took until May 2014 for employment to finally surpass its pre-recession peak, the final indicator to do so. However, that prior peak occurred a full seven years ago; the nation's labor force has since added about 2.1 million workers, indicating a larger degree of slack than existed at the beginning of 2008. Moreover, employment represents only one of the two indicators that directly relate to the Federal Reserve's dual mandate, the other being inflation, which has been running well below the central bank's 2 percent target. Thus, monetary policy is expected to remain highly accommodative at least until the middle of this year.

Last year was one of extreme weather-induced volatility. The first quarter contracted 2.1 percent due largely to the harsh winter, but was followed by two strong quarters of 4.6 percent and 5.0 percent growth, respectively. Second quarter growth was strong

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across the board, revealing just how much the cold weather dampened activity among the nation's households, factories, and ports. Household spending, business investment in equipment, and inventories all stayed high in the third quarter, while growth in exports, imports, and both residential and non-residential construction fell markedly. The most recent data suggest that only the momentum from household spending survived to the fourth quarter, with business investment, government spending, and exports and imports expected to exhibit only moderate to weak growth. Based on the most recent high frequency data, the change in inventories is also expected to have remained high in the fourth quarter, but the inventory buildup over the second half of 2014 could portend slowing production going forward.



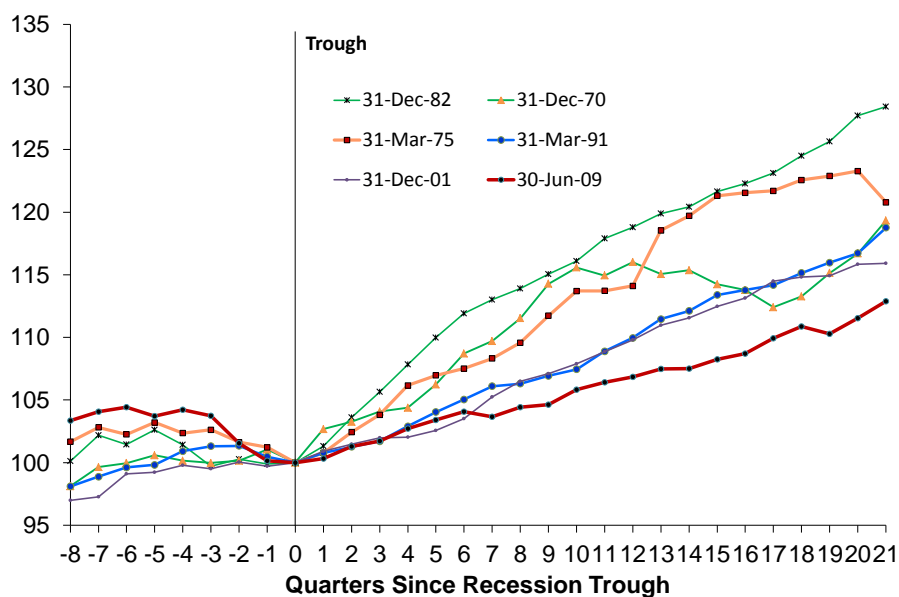
The 4.8 percent average rate over the second and third quarters of 2014 represents a significant improvement over the 2.1 percent average over the prior life of the recovery. Falling energy prices will provide a substantial boost to the real value of disposable income for low-income and middle-income households. The labor market has strengthened significantly, while growth in home and equity prices has supported strong growth in household wealth. Both of these developments are expected to result in consistently stronger household spending, which should give private business more confidence to invest and hire further.

Nevertheless, as illustrated in Figure 2, real quarterly growth is still expected to remain below 3 percent going forward. Growth in residential housing investment is expected to remain under 8 percent throughout 2015, a solid improvement over last year, but well below the growth seen in past recoveries. Wage growth is expected to remain tepid due to labor market slack that continues to be masked by the rapid decline in the unemployment rate. The strengthening dollar will pile on top of weak growth abroad in

keeping real quarterly export growth below 5 percent. Continued low long-term interest rates, with short-term rates remaining stuck at their zero bound, put downward pressure on bank profits, which will diminish the incentive to lend in the context of credit markets that are still struggling to normalize. Upon completion of this forecast, the Federal Reserve was still expected to start raising interest rates in the middle of this year, but with the yield curve flattening, there is great risk to that forecast as it could serve to further strengthen the dollar and have a deleterious effect on bank lending.

Indeed, a number of current developments remind of the “interest rate conundrum” that emerged during the expansion of the 2000s, when long-term Treasury yields remained stubbornly low, even as the Federal Reserve raised short-term rates. Due to its safe haven status and the U.S. being virtually the strongest of the world’s major economies, the U.S. dollar has strengthened substantially in recent months. However, with that same safe-haven status afforded to U.S. Treasury securities, long-term interest rates, which normally rise as the economy strengthens, have instead fallen. Also contributing to the drop in rates is a softening of inflation expectations, which also normally rise with the economy’s good fortune. But the economic malaise overseas and the precipitous drop in oil prices have not only purged any inflationary concerns here at home, but have raised deflationary concerns in Europe where growth is much weaker.

Figure 3
Cumulative Real GDP Growth Before and After the Recession Trough



Note: Zero point represents the recession troughs.
Source: Moody’s Analytics; DOB staff estimates.

Finally, there continues to be a silver lining around the slow but steady pace of this recovery. Figure 3 compares the cumulative rate of output growth of the current recovery with the pace of the five previous recoveries. The current recovery continues to reign as the weakest of the Postwar Era. But with the labor market beginning to pick up steam in a sustained way, household formation should also continue to rise, increasing the demand for single-family homes which, in turn, could further inject energy into a recovery

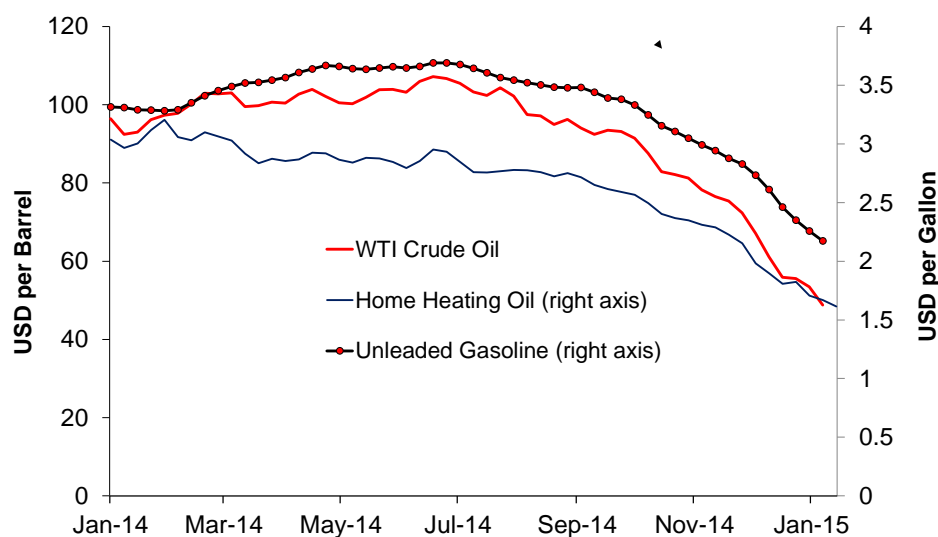
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already in its sixth year. Thus, barring some unforeseen catastrophic event, the current expansion could soon rival the record-long expansions of the 1980s and 1990s.

The American Energy Revolution

Crude oil prices have plunged more than 50 percent since a recent peak in June of \$115 per barrel, and as illustrated in Figure 4 gasoline prices have followed suit. Several factors have converged to lead oil prices down, but certainly one of the most critical has been the recent oil boom in the U.S. This development has been driven by a combination of horizontal drilling and hydraulic fracturing, or fracking, which unlocked supplies from shale formations including the Eagle Ford and the Permian in Texas and the Bakken in North Dakota. These technologies have been instrumental in raising national energy production and made the United States the world's largest producer of oil and natural gas liquids, recently surpassing Saudi Arabia and Russia (see Table 1). U.S. oil production has been increasing steadily since 2005, but accelerated after the recession, growing a brisk 35.2 percent between 2009 and 2013. Increased domestic oil production led to the U.S. importing just 40.3 percent of petroleum needs by 2012 and 33.5 percent by 2013, compared to its 2005 peak of 60.7 percent, according to U.S. Energy Information Administration (EIA) data.

Figure 4
Recent Trends in Energy Prices



Source: Moody's Analytics.

The new boom in shale production in the U.S. could have lasting effects on the international price of oil. The current price cycle is perhaps unlike prior price cycles because it is structural, brought about in part by growing unconventional oil production in the U.S. and Canada. Another factor has been the Organization of the Petroleum Exporting Countries' (OPEC) decision to maintain its collective production at the current ceiling of 30 million barrels a day rather than cutting production to keep prices from

dipping further. This decision either suggests that OPEC's power to manipulate global oil prices has diminished, or may represent a strategy to force higher-cost producers such as shale drillers to curb production, and thus maintain market share rather than price. The supply glut has also been exacerbated by Libyan oil production coming back online, and Russian oil production surging to a two-decade high, while Iraq announced plans to boost its exports 12 percent to 3.3 million barrels. The United Arab Emirates will also continue to expand output capacity.

TABLE 1
RECENT TRENDS IN GLOBAL OIL PRODUCTION
(Thousands of Barrels per Day)

	2009	2010	2011	2012	2013	2009-2013 Percent Growth	2009 Share	2013 Share
Russia	9,934	10,157	10,239	10,397	10,534	6.0%	11.7%	11.7%
Saudi Arabia	9,819	10,642	11,264	11,726	11,600	18.1%	11.6%	12.9%
United States	9,130	9,696	10,129	11,119	12,343	35.2%	10.7%	13.7%
World Total	84,951	87,581	87,871	89,759	90,136	6.1%	100.0%	100.0%

Note: Oil includes crude oil plus lease condensate, natural gas plant liquids, and other liquid fuels.

Source: U.S. Energy Information Administration.

But while the supply has increased substantially in recent years, growth in oil demand has slowed. U.S. Energy Information Administration (EIA) data indicate that in the U.S., the world's biggest consumer of petroleum products, demand for oil increased 99,000 barrels per day in 2014 after growing 471,000 barrels per day in 2013. World demand also slowed, largely due to lower economic growth in much of the world: Europe and Brazil are struggling to grow; Argentina has a difficult time trying to handle its debt default; Japan has slid into recession; China is straining to manage a slowdown; Russia's ruble has devalued sharply and the nation may fall into a recession in 2015.

In an effort to quantify the impact of supply and demand forces on recent trends in the price of crude oil, we estimate a model suggested by James Hamilton that incorporates three indicators of global demand for oil: the price of copper, the value of the U.S. dollar, and the 10-year Treasury yield. The price of copper is highly correlated with global growth, particularly in emerging markets, while the safe haven status of both the U.S. dollar and the 10-year Treasury yield make those two indicators good proxies for the health of the global economy. The results, presented in Box 2, indicate that the price of a barrel of oil would have come down from \$105 per barrel at the end of June 2014 to \$79 per barrel by the middle of January – a total of \$26 per barrel – based on weakness in global demand alone, i.e., in the absence of any supply-related factors. With prices hovering just below \$50, the observed decline is about \$56 per barrel. Thus, demand factors account for 46 percent of the observed decline, while supply factors the remaining 54 percent.

While falling oil prices are a boon to the households and businesses that consume oil, they also have negative effects on producers. Some oil producing companies have already announced layoffs as well as delays or cancellations of new exploration. In the most recent Beige Book, the Federal Reserve Bank of Dallas noted a falloff in demand for oilfield services in the Permian and Eagle Ford basin areas of Texas. The bank also reported that some firms supplying oilfield services are expecting declines in the demand

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for their services ranging from 15 percent to 40 percent. The Federal Reserve Bank of Minneapolis said that oil and gas exploration had already decreased in late December in Montana and North Dakota. These developments indicate that we may be a long way from knowing where crude oil prices may settle over the long term.

BOX 2 NOT MUCH THREAT TO DOMESTIC PRICE STABILITY FROM GLOBAL PRICE SHOCKS

Crude oil prices have dropped precipitously since the end of June 2014 due to both expanding supply and weakened demand. In order to assess the size of the impacts of supply and demand factors, we follow James Hamilton in constructing a demand-side model that incorporates three proxies for the health of the global economy: the price of copper, the trade-weighted value of the dollar, and the 10-year Treasury yield. The dependent variable is the price of West Texas Intermediate Crude. To avoid spurious results, we first difference the natural logarithm of all variables, except for the Treasury yield where we first difference the level directly. Since supply side factors are assumed to be uncorrelated with the demand side variables, their exclusion is assumed not to bias the results, which appear below.

$$\Delta p_{oil,t} = 0.182 \Delta p_{copper,t} - 1.712 \Delta p_{dollar,t} + 0.109 \Delta r_{10y,t}$$

(0.070) (0.343) (0.028)

$$\bar{R}^2 = 0.31 \quad DW = 1.91 \quad \text{April 2007 – June 2014}$$

$\Delta p_{oil,t}$ = Weekly Changes in the Natural Logarithm of WTI Crude Oil Price.

$\Delta p_{copper,t}$ = Weekly Changes in the Natural Logarithm of Copper Price (NYMEX, dollars per pound).

$\Delta p_{dollar,t}$ = Weekly Changes in the Natural Logarithm of Trade Weighted Exchange Value of U.S. Dollar (Major Currencies).

$\Delta r_{10y,t}$ = Weekly Changes in the 10-year U.S. Treasury Yield.

Note: Standard errors are in parentheses.

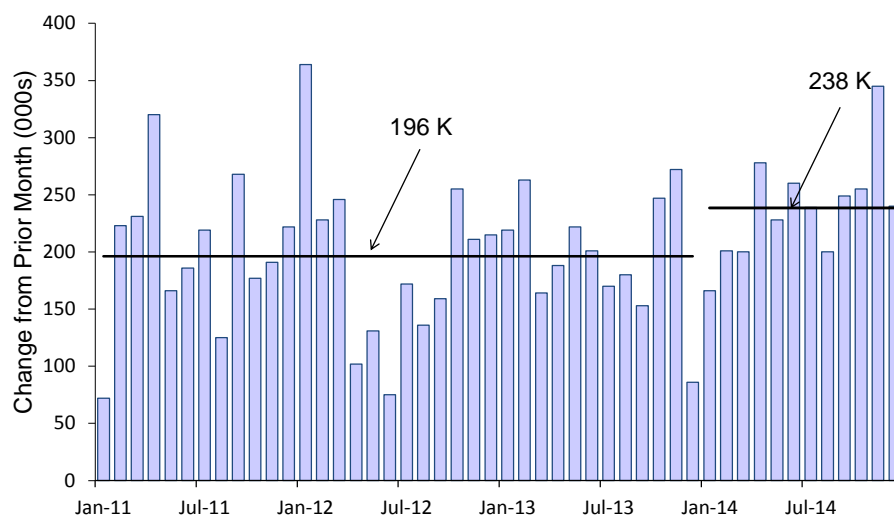
The model is estimated using weekly data from April 2007 through June 2014 although the model parameters are stable if the estimation period is extended to include data through mid-January 2015. All variables are statistically significant at the 1 percent level. Results imply that of the \$56 decline in the price of oil between late June 2014 and mid-January 2015, \$26, or 46.4 percent, is due to demand-side factors, with the remaining 53.6 percent due to supply-side factors.

James Hamilton (2014) <<http://econbrowser.com/archives/2014/12/oil-prices-as-an-indicator-of-global-economic-conditions>>, viewed January 19, 2015.

The Labor Market Hits Its Stride

The US labor market is finally showing signs of sustained and increasing vigor with monthly private sector employment gains averaging 238,000 in 2014, following a period of steady but volatile gains that averaged 196,000 since the beginning of 2011 (Figure 5). There was a slow start to the year due to the severe winter weather, but for the remainder of the year, growth was clearly buttressed by the absence of crises of the type that had enveloped large segments of the global economy in the recent past, such as the euro-debt crisis, the Japanese earthquake and tsunami, and spiking energy prices associated with upheaval in the Middle East.

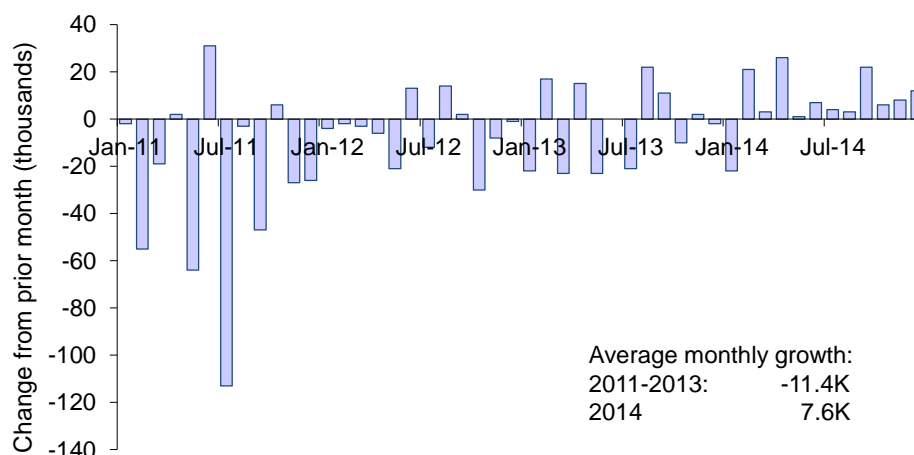
Figure 5
U.S. Private Sector Employment Gains



Source: Moody's Analytics.

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Figure 6
U.S. Public Sector Employment Gains



Source: Moody's Analytics.

Last year was also remarkable for its dearth of political and fiscal tumult. Indeed, public sector employment also strengthened in 2014 with eleven months of consecutive employment increases, the first such string of gains since prior to the recession (see Figure 6). Absent any severe adverse shocks, the Budget Division expects improving domestic economic conditions to support continued strong labor market gains going forward. Total employment growth of 2.1 percent is projected for 2015 on an annual average basis, following growth of 1.9 percent in 2014. The Budget Division forecast is consistent with average monthly private sector employment growth in 2015 of 229,000

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jobs, similar to the 238,000 jobs gained last year. The 2015 projection reflects private sector growth of 2.5 percent for this year, following growth of 2.2 percent in 2014. Government employment is expected to grow 0.4 percent in 2015, an improvement over growth of 0.2 percent last year.

Table 2 shows the number of jobs expected to be added by sector over the course of 2015 by comparing projected employment for the fourth quarter of this year with the same quarter last year. Continued steady private-sector employment growth of 2.3 percent is expected for 2015, but with some alteration in the composition of growth across industries. Much of the strongest growth can be found in the services sectors. Professional and technical services, management, administrative support, and waste services, health care and social assistance services, and leisure, hospitality, and other services all have been growing near or above the overall jobs growth rate for the past years, and for all of these sectors, continued strong growth is expected for 2015. Solid domestic demand for business services is supported by continued growth in corporate earnings, as well as diminished drag from the public sector.

TABLE 2
STEADY JOB GROWTH IN 2015
Q4 / Q4

	2013 %Change	2014 %Change	2015 Jobs Added	2015 % Change
Total Private	2.2	2.4	2,731	2.3
Natural Resources and Mining	4.2	5.5	25	2.7
Utilities	(0.1)	0.9	6	1.1
Construction	3.2	4.3	224	3.6
Manufacturing	0.7	1.5	136	1.1
Wholesale Trade	1.6	1.9	115	2.0
Retail Trade	2.2	1.7	263	1.7
Transportation and Warehousing	1.8	3.4	99	2.1
Information	0.3	0.4	18	0.7
Finance and Insurance	0.5	1.1	53	0.9
Real Estate, Rental, and Leasing	2.6	2.3	45	2.2
Professional and Technical Services	2.8	3.2	300	3.5
Management, Admin. Support, and Waste Services	4.5	4.0	399	3.6
Education Services	0.7	1.5	115	3.2
Health Care and Social Assistance Services	1.9	2.2	426	2.3
Leisure, Hospitality, and Other Services	2.6	2.4	521	2.6
Government	(0.1)	0.4	95	0.4
Total	1.8	2.1	2,819	2.0

Source: Moody's Analytics; DOB staff estimates.

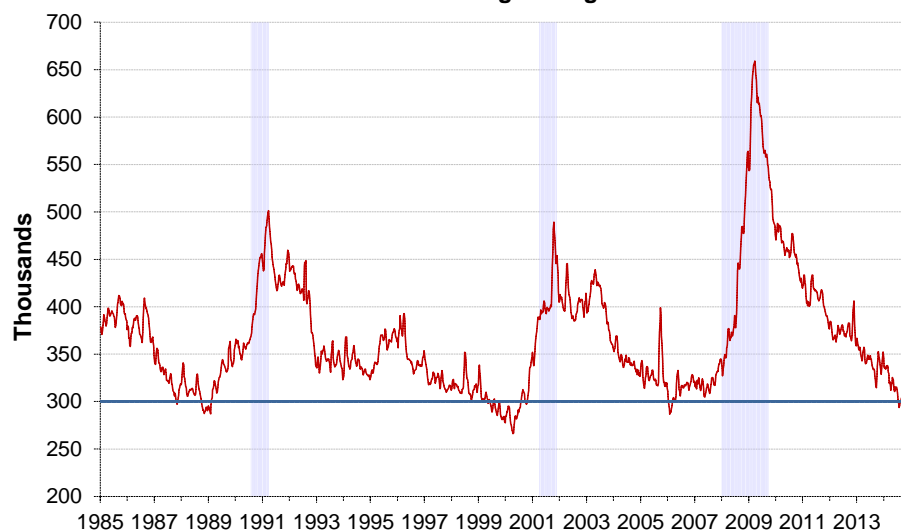
Several areas are expected to exhibit slower growth in 2015 than in 2014. Falling energy prices are expected to slow down the recent strong growth in domestic energy exploration and extraction. As a result, employment growth in natural resources and mining is expected to decelerate relative to the very strong growth of the previous two years. In addition, a slumping euro-area, weak global growth more generally, and a strong dollar will dampen growth in those sectors that are relatively more export-oriented in 2015, such as manufacturing and transportation and warehousing.

As disposable income rebounded nicely from a tax law-related decline in 2013, and with household balance sheets firming in 2014 and 2015, sectors most closely tied to consumer demand are expected to continue to expand. Retail trade employment is projected to continue growth of 1.7 percent over the course of 2015, while employment growth in wholesale trade is expected to continue at 2.0 percent. Leisure, hospitality, and other services is projected to grow a strong 2.6 percent. Both the trade and leisure and hospitality sectors are expected to benefit from continued strength in tourism. The strong dollar poses a risk to tourism-related industries, but solid domestic growth, along with reduced travel costs are expected to offset much of that risk.

The government sector is expected to show slow growth for a second year, an improvement over the declines of the prior three years. Discounting the run-up in employment that accompanied the conduct of the Decennial Census, the government sector had shed 846,000 jobs between its April 2009 cyclical peak and its July 2013 cyclical trough. Since then the government sector has added 114,000 jobs.

Construction sector employment is expected to advance a strong 3.6 percent over the course of 2015, following even stronger growth of 4.3 percent last year, due to the nation's continuing housing sector recovery. Multifamily housing starts continue to outpace single-family home construction, as many households make the choice to rent rather than own. But with median new home prices rising almost 40 percent since early 2009, single-family housing starts are increasing as well, though at a much slower pace.

Figure 7
Initial Claims
4-Week Moving Average

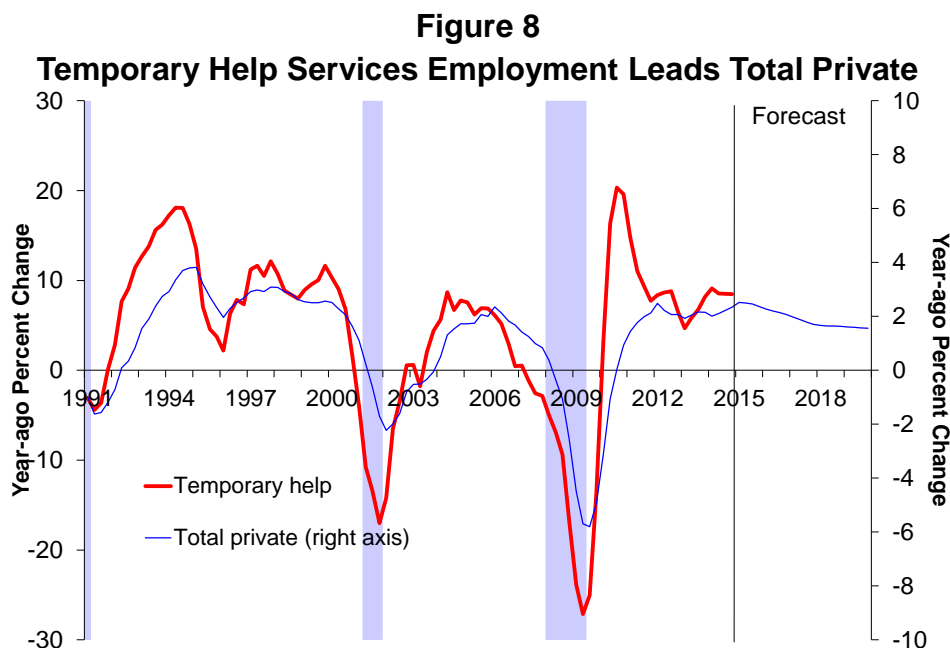


Note: Shaded areas represent U.S. recessions.
Source: Moody's Analytics.

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Two leading labor market indicators support the outlook for an acceleration in job growth for this year. Figure 7 indicates that the 4-week moving average for initial claims fell below 300,000 in July 2014 and has stayed at or below that historically low level for more weeks than any time since 1999 and 2000, although claims have not yet reached the

lows of that period. As illustrated in Figure 8, the demand for temporary help services is volatile, but otherwise is a reliable leading indicator of private sector hiring.¹ Recent trends in both claims and temporary services hiring are signaling the steady improvement reflected in the Budget Division forecast.



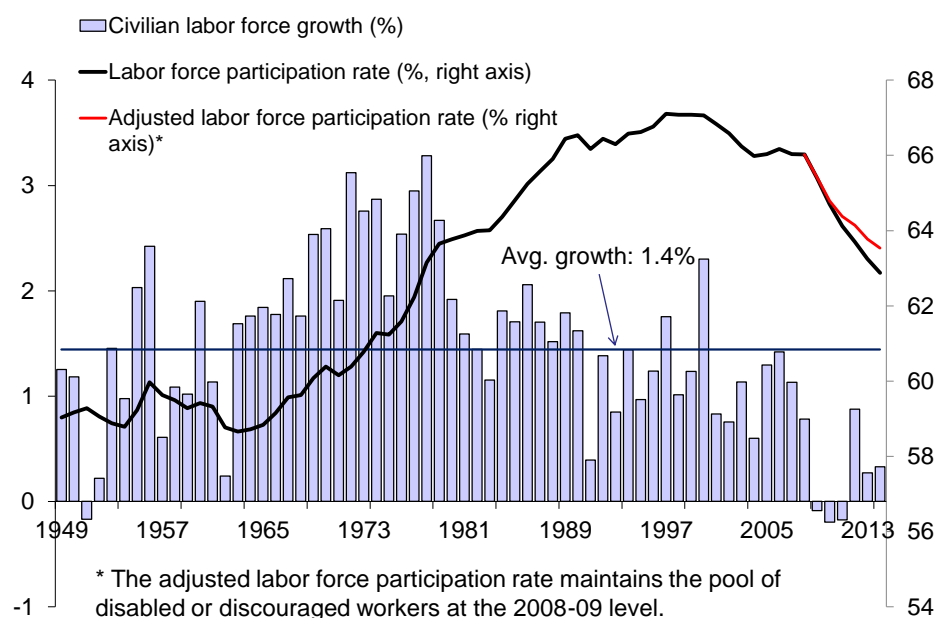
With continued growth in private and public employment and an improving job market, the Budget Division projects the national unemployment rate to continue its downward path to an average of 5.5 percent for 2015 from 6.2 percent in 2014. By the fourth quarter of 2015, the unemployment rate is projected to be at 5.4 percent, only 0.2 percentage point above the non-accelerating inflation rate of unemployment, or NAIRU, which has been steady at 5.2 percent since 2010, according to the Congressional Budget Office (CBO). However, two factors suggest that there remains a substantial degree of slack in the U.S. labor market. Although the projected unemployment rate for 2015Q4 is the lowest since the third quarter of 2008, it is still higher than the prerecession low of 4.6 percent in 2006 and 2007, and well above the 3.9 percent low of the long 1990s expansion. In addition, the unemployment rate's recent rapid fall is due to not only improving job gains, but also to continued weak growth in the nation's labor force, up only 0.3 percent in 2014, and the concomitant low labor force participation rate.

Figure 9 presents labor force growth rates since 1948, confirming that the current expansion is witnessing the weakest labor force growth of any postwar expansion. Figure 9 also shows a declining labor force participation rate since 1997, with declines accelerating during the 2001 recession and again during the 2008-09 recession. The national labor force participation rate fell 1.8 percentage points between 2010 and 2014.

¹ Granger causality test results indicate that temporary help services employment "Granger causes" private sector employment with a three quarter lag on average. The results are statistically significant below the 1 percent level.

That decline has been affected by both long-term structural factors and business cycle conditions that result in slack. The number of working-age people in the US who are not in the labor force for reasons of disability has been increasing since disability screening was liberalized and disability benefits relative to wages were increased.² This structural impact was augmented by cyclical forces in the form of an increased number of discouraged workers who lost their jobs during the recession, exhausted their unemployment benefits, and left the labor force, perhaps considering themselves unemployable, with some joining the ranks of disabled workers. While the contribution of discouraged workers to labor market slack has been decreasing as the labor market strengthens, an additional 2.6 million working-age people have left the labor force due to disability. These workers will cease to be counted in the labor force data, and thus will not contribute to the official unemployment rate, until they rejoin the labor force presumably at some point in the future. If the number of discouraged and disabled workers had remained at its 2008-09 levels, the labor force participation rate would have been an estimated 0.7 percentage points higher in 2014.

Figure 9
U.S. Labor Force



Source: Moody's Analytics.

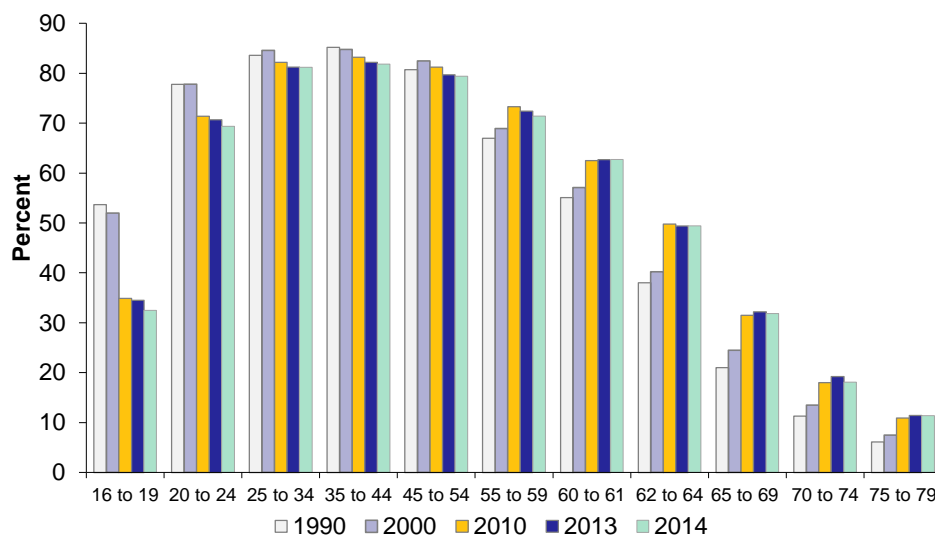
Another structural contributor is the aging of the population and the growing number of workers reaching retirement age. As demonstrated in Figure 10, labor force participation rates decline for older cohorts starting at the prime working age of 35 to 44. As members of the large baby-boom generation age, they lower the nationwide labor force participation rate, particularly as of 2010 when the first baby boomers reached retirement age. A couple of factors have muted this impact in the past. As Figure 10 shows, while labor force participation has decreased over time for the younger cohorts, it has increased for cohorts age 55 and older, particularly between 1990 and 2010. But these trends appear to be leveling off. Participation rates for some of the older cohorts

² John Merline (2012) "The Sharp Rise in Disability Claims: Are federal disability benefits becoming a general safety net?" Region Focus, Federal Reserve Bank of Richmond, Second/Third Quarter 2012.

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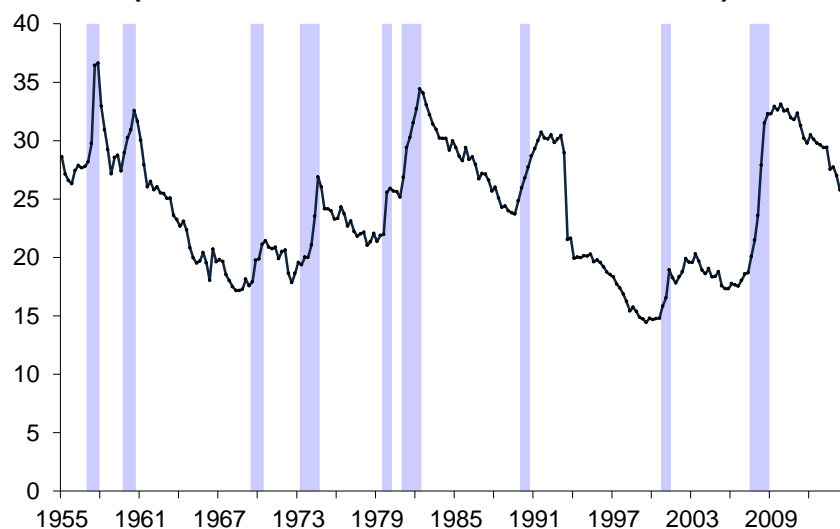
decreased between 2013 and 2014, most likely because older workers no longer felt as much of a need to augment their retirement accounts. The recession had greatly reduced retirement savings for a large share of the population, leading some older workers to postpone retirement immediately following the recession. With recent solid growth in equity markets, many retirement accounts have been replenished.

Figure 10
Labor Force Participation Rates
by Age Group



Source: U.S. Bureau of Labor Statistics.

Figure 11
Employed Part-time for Economic Reasons
(As a Share of Total Part-Time Workers)

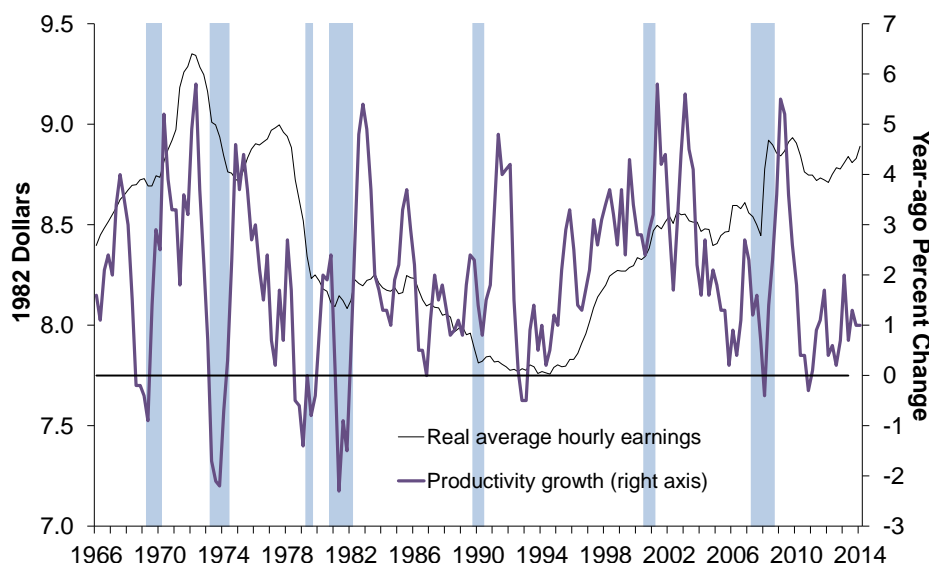


Note: Pertains to nonagricultural workers; shaded areas represent US recessions.
Source: Moody's Analytics.

Additional evidence of slack in the labor force that is hidden by today's low unemployment rate can be found in the unusually high number of workers who are working part-time involuntarily. Figure 11 presents the number of part-time workers who report working part-time for economic reasons, i.e., because they can't find full-time work or had their hours reduced due to a weak economy, as a share of total part-time workers. Only the share reported five and a half years into the 1980s expansion is comparable.

A consequence of that slack is continued weak income growth. As illustrated in Figure 12, labor income has historically tended to rise with productivity. Figure 12 also shows that increasing productivity growth predates increases in labor income growth. Researchers at the Federal Reserve Bank of San Francisco suggest an explanation for the delayed labor income response.³ In a simulation model, they show that nominal wages exhibit downward wage rigidities as adjustments to economic downturns tend to favor layoffs over lowering wages. During and following recessions these downward nominal wage rigidities result in pent-up wage deflation. As the economy improves, productivity increases, and unemployment comes down, pent-up wage deflation initially causes wage growth to continue decelerating, as newly hired workers settle for lower wages and existing workers accept flat wages until the rigidities become non-binding and labor income starts rising in line with productivity gains.

Figure 12
Productivity Growth and Real Private Average Hourly Earnings



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

Labor productivity was strong coming out of the recession as employment continued to fall even as output rose but then declined sharply in line with weak output and investment growth. Productivity growth started regaining some positive momentum in early 2012, albeit with a lot of volatility, while real hourly earnings continued to fall for

³ Mary C. Daly and Bart Hobijn (2014). "Downward Nominal Wage Rigidities Bend the Phillips Curve." *Working Paper 2013-08*, Federal Reserve Bank of San Francisco, January 2014.

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another full year before rebounding. Productivity gains are expected to continue improving with continued stronger investment and output growth, accompanied by moderate gains in employment. Productivity growth and diminishing slack in the labor force bode well for future wage growth. The Budget Division projects wage growth of 4.6 percent for 2015, following growth of 4.3 percent for 2014. Note that wage growth for 2014 is elevated due to the shifting of wages out of 2013 into 2012, in advance of federal tax rate increases for high-income earners, resulting in a reduction in the 2013 wage base. In contrast, the stronger growth rate for 2015 is a true reflection of real improvements in the labor market and the strength of the U.S. economy.

Consistent with higher wage growth, total personal income growth is projected to accelerate to 4.5 percent for 2015 from 3.9 percent in 2014.⁴ Strong dividend growth of 7.5 percent projected for 2015 will be supported by the cash-rich U.S. corporate sector's apparent desire to continue returning profits to shareholders. Nevertheless, projected growth rates for both wages and total personal income remain below historical averages.

Household Spending, the Slow Housing Recovery, and the Energy Boost

Employment growth and the revaluing of both financial and nonfinancial wealth may finally be jump-starting the mainstay of the U.S. economy, household spending. Spending growth accelerated over the course of the year from 1.2 percent in the first quarter to 4.1 percent by the fourth. The Budget Division projects significantly higher real consumption spending growth of 3.3 percent in 2015, compared with growth of 2.5 percent in the prior year. Some of this improvement is due to continued growth in equity market prices and the recovery of the housing market, but the recent plunge in energy prices may also be starting to play a role in boosting consumers' real disposable income and thus spending.⁵

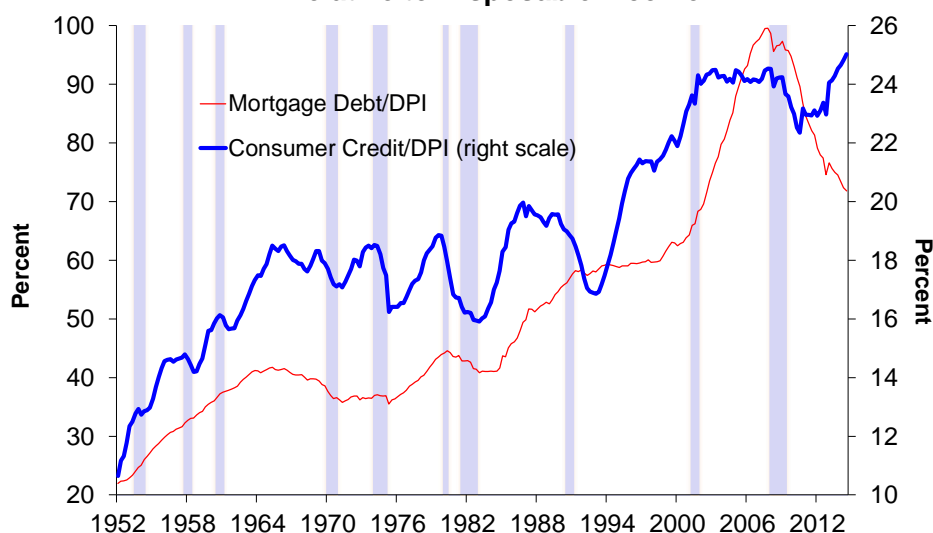
The decline in crude oil prices since the end of June 2014 has translated into a decline in gasoline prices to-date of over \$1.50 per gallon. As of January 12 of this year, heating oil prices were down 50 percent from their winter 2014 peak which occurred at the end of January last year. Cheaper fuel has given consumers and businesses more money to spend on other goods and services, in particular on products that are complementary to energy use, such as automobiles, transportation, and leisure activity. Energy price declines will particularly benefit low-income earners because they spend so much of the next dollar earned, rather than save. The Budget Division estimates that plummeting prices will save consumers about \$100 billion overall in 2015, or approximately \$850 per household, although not all of that windfall is expected to be spent.

⁴ As for wages, the shifting of dividends and other forms of income out of 2013, in advance of federal tax rate hikes, elevates growth in some of the nonwage components of personal income growth for 2014 as well.

⁵ According to the latest report from Thomson Reuters/ the University of Michigan, the survey of consumer sentiment found that U.S. consumers are more optimistic about the economy than at any time in the past eight years, buoyed by more jobs and falling gas prices.

Figure 13

**Home Mortgage Debt and Consumer Credit
Relative to Disposable Income**

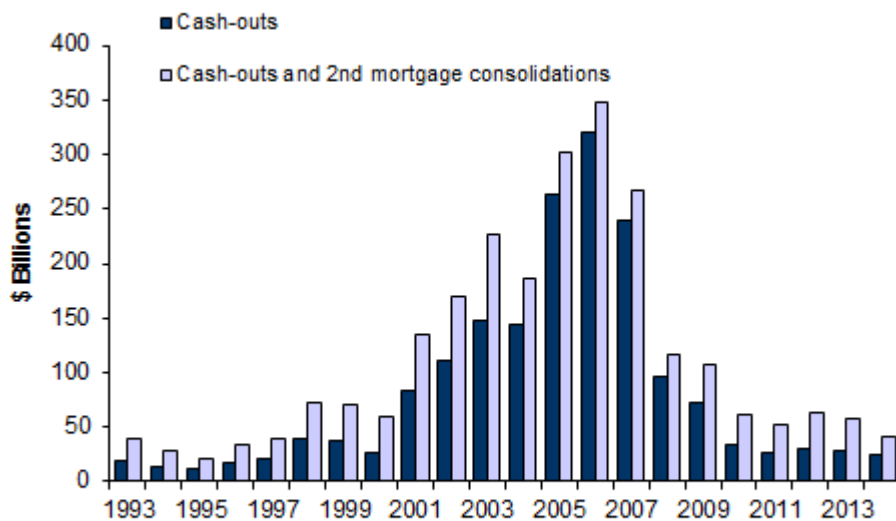


Note: Shaded areas represent U.S. recessions.

Source: Moody's Analytics.

Figure 14

Home Equity Cash-Out Volume



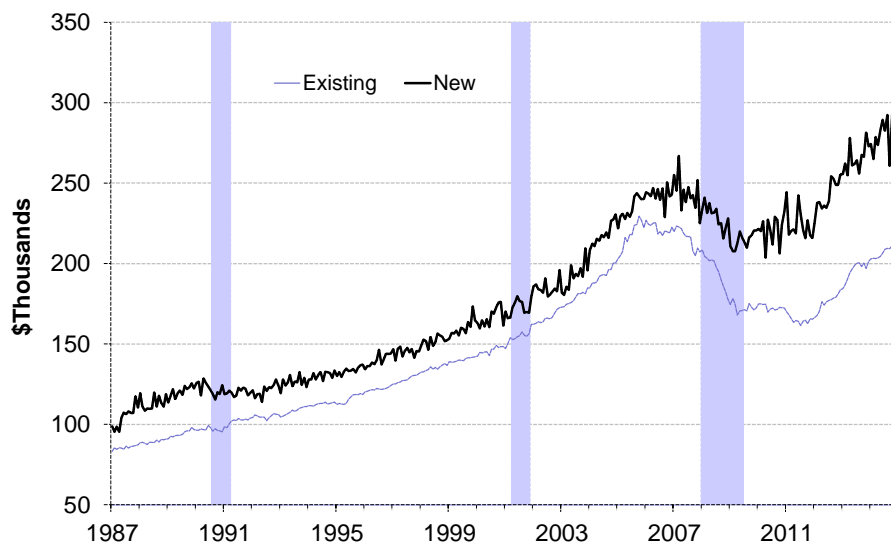
Note: The first three quarters of 2014 are based on Freddie Mac estimates; the fourth quarter is assumed by DOB to be equal to the third.

Source: Freddie Mac.

The collapse of housing prices starting in 2005 took a heavy toll on middle-class households for whom homes are the most important and in many cases the only asset. Since the end of the recession, household spending has been the weakest of any postwar recovery, averaging only 2.2 percent growth annually through the third quarter of 2014. Figure 13 and Figure 14 illustrate the key role mortgage debt played in fueling household spending before, during, and after the recession. As the housing bubble was inflating, not

only did mortgage and other consumer debt grow together, but homeowners also extracted equity from their homes to supplement their incomes and other borrowing. When prices collapsed, equity cash-outs did as well; mortgage and other forms of consumer debt fell in tandem. But Figure 13 also shows that mortgage debt has continued to fall, even as other consumer debt began to rise. This pattern distinguishes the current expansion from virtually all other postwar expansions, and illustrates the large impact that the housing bubble is still having on household spending.

Figure 15
U.S. Median Home Prices Rebounding



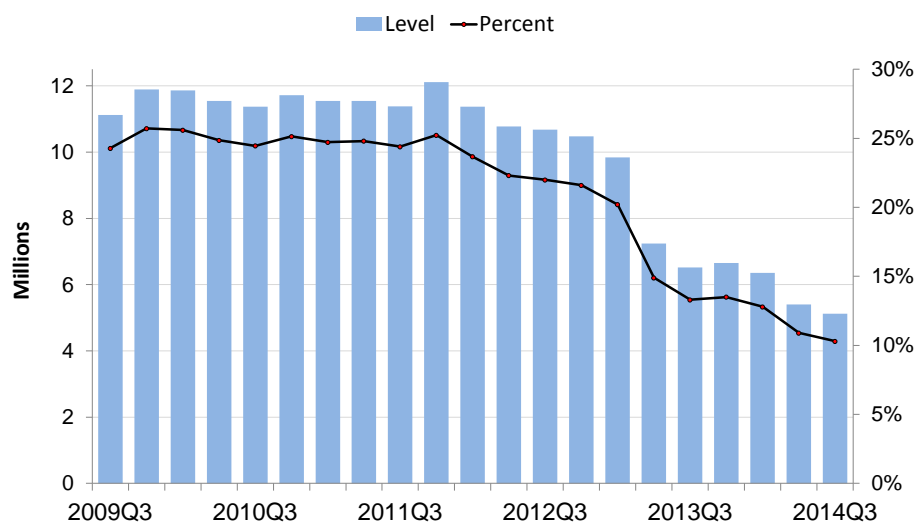
Note: Shaded areas represent U.S. recessions.
Source: Moody's Analytics.

Additional data show that much of the residual damage from the housing market collapse is concentrated among lower-income households. Figure 15 depicts the disparity between the rates of recovery of existing home prices versus new home prices. By November 2014, the median existing home price had recovered only \$47,000 of the \$68,000 lost between the October 2005 peak of \$229,000 and the July 2011 trough of \$161,000. But the median home price of new homes has surpassed its pre-recession peak. There is evidence that the market for new homes has been dominated by large and expensive homes purchased by wealthier households, for whom it is easier to obtain a mortgage, making prices appear to recover more quickly.

Figure 16 illustrates that rising home prices have, in turn, dramatically reduced the number of residential properties with negative equity, i.e., properties where mortgage debt exceeds the market value. The number of mortgages “underwater” fell from 12.1 million at the end of 2011 to 5.1 million in the third quarter of 2014, reducing the share of underwater mortgages from 25.2 percent to 10.3 percent. Thus, more homeowners looking to sell their homes are able to do so without incurring a loss, increasing the inventory of homes for sale. However, there is evidence that a large proportion of the homes still underwater are owned by lower-income households.

The continued recovery of the housing market will be critical to strengthening the momentum of the economic recovery. As suggested above, real estate is the main source of wealth for many households in the United States. Households lost \$12 trillion in total net worth between the second quarter of 2007 and the first quarter of 2009 as both their financial asset and real estate wealth declined in the wake of the collapse of the housing bubble.⁶ By the third quarter of 2014, households had gained \$25.5 trillion in net worth, or \$13.2 trillion more than the previous peak. But this buildup was almost entirely based on the recovery of financial wealth. Financial assets bottomed out in the first quarter of 2009 and by the second quarter of 2011 exceeded their prior peak in 2007. In contrast, real estate wealth declined continuously through the third quarter of 2011 and, by the third quarter of 2014, had only recovered \$5.1 trillion of the \$6.8 trillion lost between 2006 and 2011. By the time real estate wealth finally turned the corner in the first quarter of 2012, financial asset wealth had already recovered all its losses.

Figure 16
Negative Equity:
Number and Percentage of Mortgages “Under Water”



Source: Corelogic.

TABLE 3
MEDIAN VALUES FOR FAMILIES WITH ASSET HOLDINGS
BY PERCENTILE OF INCOME
(Dollars in Thousands)

Asset type							Ratio of top decile to bottom quintile		
	Less than 20	20-39.9	40-59.9	60-79.9	80-89.9	90-100	2013	2010	2007
Financial assets	\$1	\$4	\$16	\$51	\$132	\$567	567	501	238
Nonfinancial assets	\$23	\$61	\$110	\$197	\$304	\$705	31	32	20
Primary residence	\$80	\$106	\$125	\$170	\$250	\$475	6	5	5

Source: 2007, 2010, 2013 Survey of Consumer Finances Chartbook, Federal Reserve Board.

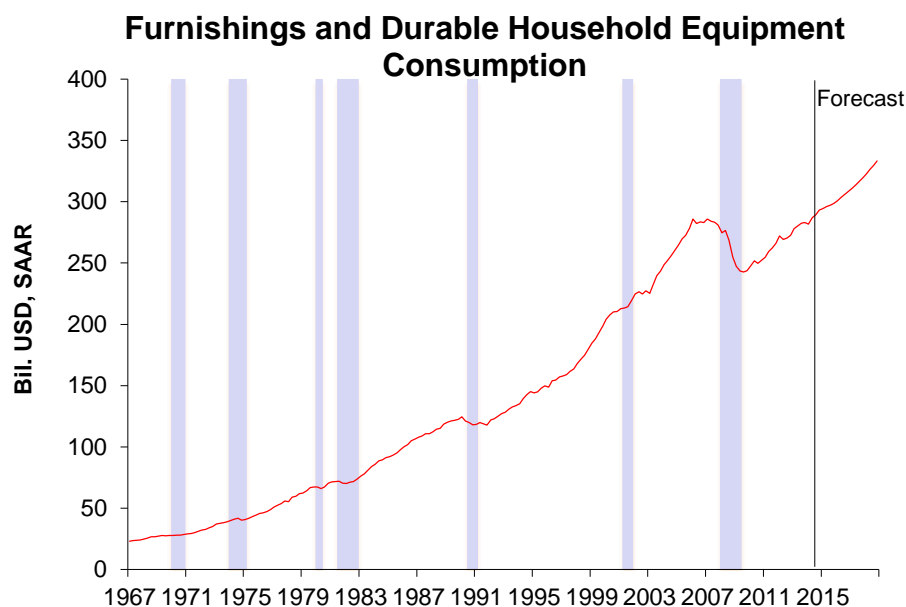
⁶ Net worth data are based on Moody's Analytics smoothed estimates of the Federal Reserve flow of funds data.

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The strong recovery of financial wealth is a tide that has not lifted all boats. Indeed, there is evidence that financial wealth has become even more concentrated than prior to the Great Recession. Table 3 provides some evidence of how various types of asset holdings are distributed across the population by income; the table demonstrates that changes in financial asset values are seen to accrue disproportionately to high-income households. The ratios of top-decile median holdings to those of the bottom quintile give an indication of how relatively concentrated a given type of wealth is among the top 10 percent of households. Financial assets are the most concentrated, with the top decile's median family holdings fully 567 times the value of those of the bottom 20 percent in 2013. Past results show that this ratio was only 238 in 2007, indicating that financial assets have become even more concentrated among high-income households since the financial crisis.

In contrast, holdings related to home ownership appear relatively more evenly distributed, with a ratio of top-decile median holdings to those of the bottom quintile of only six in 2013 and five in 2007. Thus, declines in home values, and the resulting destruction of real estate wealth, are likely to have had their greatest impact on households with the lowest incomes and, thus, the highest marginal propensities to consume. Correspondingly, the rise in equity market values would not fully compensate for the loss of real estate wealth since financial assets tend to be much more concentrated among those households with the highest marginal propensities to save.

Figure 17

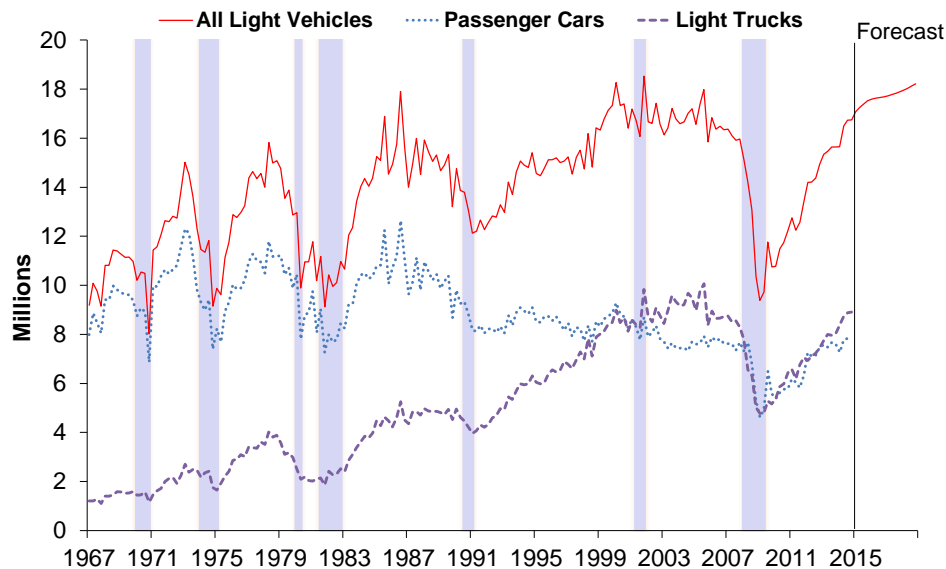


Note: Shaded areas represent U.S. recessions.
Source: Moody's Analytics; DOB staff estimates.

The disparity in wealth holdings has profound implications for the strength of the expansion and is a reminder of how critical a full recovery of the housing market is to continued strength in household spending. The upturn in the housing market is expected to fuel consumption growth not only through the wealth effect but also by increasing the demand for complementary durable goods, such as furniture, appliances and autos.

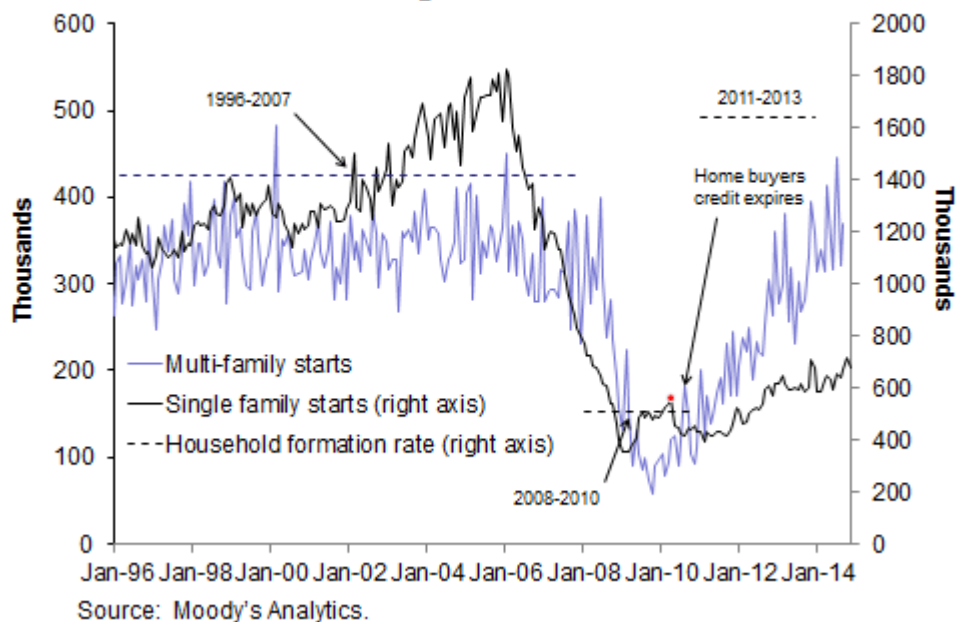
Figure 17 shows the steep decline in nominal consumption of furnishings and durable household equipment following the housing market crisis. This spending has trended upward since the third quarter of 2009 and had returned to its pre-crisis level by the second quarter of 2014. Similarly, Figure 18 shows the steep decline in light passenger car and light truck sales following the housing market decline, during which the average age of light vehicles on the road lengthened, rising from 9.5 years in 2005 to 10.8 years in 2011. Light vehicle sales have risen significantly over the past three years, almost returning to pre-recession highs. Rising housing starts are expected to have increased truck purchases by construction workers, who may have been delaying the replacement of aging vehicles in the wake of the housing collapse and the resulting lull in building activity.

Figure 18
Passenger Car and Light Truck Sales



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

Figure 19
Household Formation and New Home Construction
Recovering From Low Levels



As illustrated in Figure 19, the recovery of new home construction has been slow, particularly for single-family homes. While much of the housing bubble originated from a building boom in single-family homes, the collapse and the ensuing tight market for mortgage credit resulted in a significant decrease in both single-family and multi-family starts. The recovery, however, has been substantially stronger for multi-family housing, which are more strongly linked to investors rather than individual homebuyers. Since investors and renters are in general likely to spend less on home improvement than homeowners, consumer spending on furniture and household equipment is likely to strengthen further in the future when single family housing starts accelerate to levels more commensurate with historical levels of household formation.

The Budget Division's outlook for an improvement in both household spending and the demand for new residential construction is predicated on a sustained rise in home prices, a diminishing volume of negative equity, and significantly higher real disposable income and wealth. A projected rise in home prices is supported by declines in the home vacancy rate and in the rate at which homes are entering foreclosure; both of these rates have fallen to their lowest levels since the mid-2000s. The Budget Division projects growth in real private residential investment of 6.1 percent for 2015, substantially higher than the 1.5 percent growth in 2014. The most recent Current Population Survey data indicate that there was a dramatic decline in the rate of household formation during the recession, from 1.4 million on average over the period from 1996 to 2007 to about 500,000 for the 2008 to 2010 period (see Figure 19). Household formation has since rebounded, averaging 1.64 million from 2011 to 2013, the most recent years for which data are available. As employment and income prospects improve, household formation is expected to remain well above the recession lows, fueling the demand for new home construction.

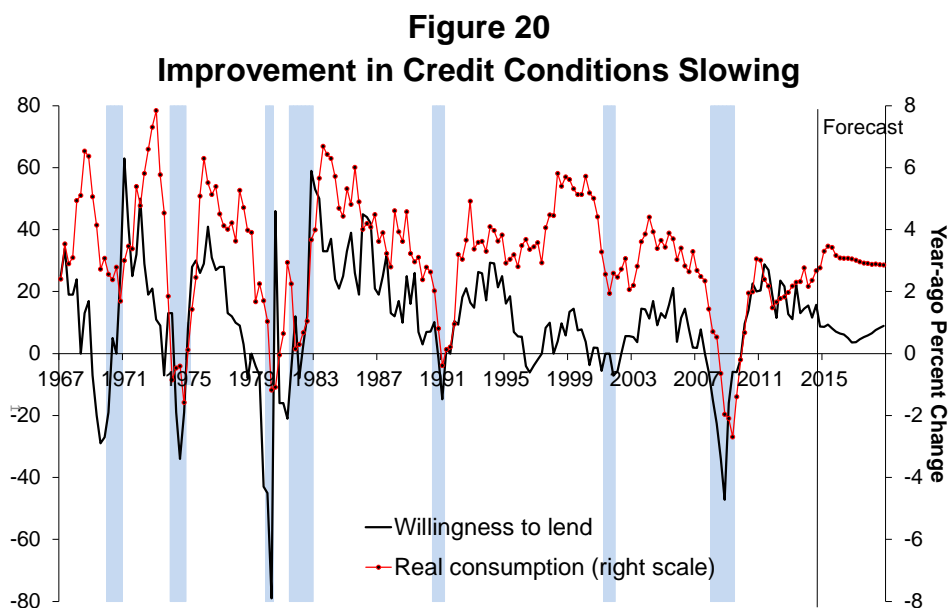
Consistent with a moderate pickup in the single family housing market, the Budget Division is projecting quarterly growth in residential fixed investment of about 7 percent through the beginning of 2016. This growth is from extremely low levels of spending. At the height of the housing boom in 2005, private residential construction represented 6.1 percent of total GDP. But since then housing's share has fallen to a mere 3.1 percent, based on the four quarters through 2014Q3. Given the delay with which the housing market has joined the recovery, this critical market can be expected to continue to provide future stimulus to the expansion as it matures, creating upside risk to the longer-term forecast.

The Budget Division forecast for new housing construction is consistent with a market that is still healing and continues to face some headwinds. Stricter requirements for mortgage approval by banks have been mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act, which passed in 2010. With more limited financing options and fewer potential first-time home buyers now qualifying, the low home prices that resulted from the housing collapse opened the door to investor who in some areas were responsible for up to 60 percent of all real estate transactions. Rising home prices have since reduced the role of investors in the market. In addition, Fannie Mae, Freddie Mac, and the Federal Housing Authority have all hinted at a loosening of eligibility standards, supporting continued, albeit moderate growth in 2015.

Although consumer spending will get only a modest boost from housing, it is expected to get a substantial boost from the decline in oil prices. The oil price slump which started the second half of 2014, and the associated decline in gasoline prices, appear to have further boosted the sales of light vehicles, especially SUVs and trucks. Figure 18 above shows that the growth of light truck sales, which include SUVs, surpassed the growth of passenger cars in both the third and fourth quarters of 2014. With gasoline prices dropping below \$3 per gallon at the pump, consumers are returning to lower-gas mileage vehicles again. The cheapest fuel cost in years is expected to act as a large tax cut that frees up funds for spending on other goods and services, such as leisure, transportation, and home improvement.

Moody's Analytics estimated that each penny change in the price of a gallon of motor fuel saves or costs consumers \$1 billion over the course of a year.⁷ The Budget Division estimates that average gasoline prices in 2015 will be \$1 per gallon lower than the 2014 averages, saving consumers nearly \$100 billion in 2015. The magnitude of the impact on disposable income would be comparable to the impact of the payroll tax holiday that expired at the end of 2012. Research on how consumers responded to that tax cut indicated that households spent 40 percent of their windfall. Similar behavior implies that consumer spending would rise by \$40 billion due to lower energy prices, raising annual nominal consumption by 0.35 percent. Moreover, low-income earners are likely to benefit the most from lower energy prices because they have the largest marginal propensity to consume.

⁷ <https://www.economy.com/dismal/analysis/todays-economy/251728/How-Cheaper-Gasoline-Will-Affect-US-Spending/>



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

Credit market conditions are improving but still tight for consumers. Figure 20 illustrates this fact by comparing real consumption growth to bank willingness to lend to consumers, as measured by the Federal Reserve Board's Senior Loan Officer Survey. Bank lending to households continued to improve in 2013 and 2014, but at a lesser pace than exhibited in the second half of 2012. We expect this trend to continue into 2015. The two most important determinants of banks' willingness to extend consumer credit are short-term interbank borrowing costs, which have remained at a low level, and default risk, which tends to be inversely related to economic growth. As the recovery progresses, default rates are expected to continue falling and credit conditions will get looser in 2015.

With all of these supports in place, real spending for services and nondurable goods is projected to rise 3.0 percent in 2015, following growth of 2.0 percent for 2014. Growth in real spending for the more cyclical durable goods component is projected to continue strong growth of 7.0 percent in 2015, following a 6.7 percent increase in 2014. This forecast is consistent with levels of light vehicle sales at an annualized level of about 17 million for every quarter of 2015.

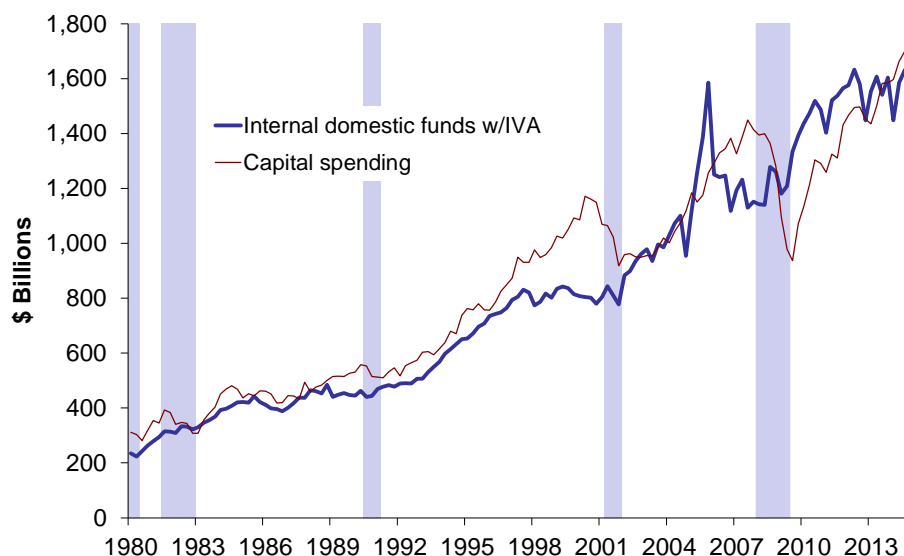
Business Spending Remains Tepid

The Budget Division expects only modest growth in total nonresidential fixed investment of 5.2 percent in for 2015, down from an estimated 6.2 percent rate of growth in 2014. Real growth in structures is expected to ease to 4.6 percent in 2015 from 8.0 percent growth in 2014, while growth in real equipment slows to 5.4 percent in 2015 from 6.5 percent in 2014. Real growth in intellectual property products is expected to increase to 5.5 percent in 2015 from 4.4 percent growth in 2014.

Business fixed investment was a leading component of final demand in the early phase of the recovery from the “Great Recession” as many factors – such as the global recovery that induced foreign demand for U.S. exports, low interest rates, tax incentives and the need to replace worn-out or outdated equipment – all combined to spur a surge in investment in 2011-12. Low borrowing costs and the implementation of bonus depreciation and accelerated business expensing helped to create a favorable environment for investment growth early in the recovery. However, outside of some volatility related to the expiration of temporary tax benefit programs, investment has been very weak in recent years.

Indeed, real fixed business investment in structures has failed to attain a new peak during the recovery. For the most recent full year of data available (2013), real business investment in structures remained 21.9 percent below its recent peak attained in 2008, and its level as of 2014’s third quarter was approximately the same as it was five and a half years earlier. In part this likely reflects a certain amount of “payback” for overbuilding associated with the real estate boom just prior to the Great Recession. Economists at the Federal Reserve Bank of Cleveland estimate that overbuilding of nonresidential structures accelerated in the first half of the 2000s and began to decline just before the start of the recession. But given the relatively long life of structures (which they estimate at 24 years) the high pre-recession levels are not likely to reappear.⁸

Figure 21
Finance Gap for Nonfinancial Corporations



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

⁸ Filippo Occhino and Margaret Jacobson, “The Overhang of Structures before and since the Great Recession,” *Economic Commentary*, 2014-04, Federal Reserve Bank of Cleveland. Available at <https://www.clevelandfed.org/Newsroom%20and%20Events/Publications/Economic%20Commentary/2014/The%20Overhang%20of%20Structures%20before%20and%20since%20the%20Great%20Recession.aspx>

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The slowdown in investment has not been for lack of resources. Strong earnings growth has allowed large businesses to accumulate funds that could potentially be used for capital spending. Figure 21 compares total internal domestic funds with outlays for capital spending for the nonfinancial corporate sector since 1980. The excess of the latter over the former is known as the financing gap. The financing gap typically grows during expansions as firms accelerate investment to keep up with growing demand. The gaps grew particularly wide during prior two expansions, which coincided with the high-tech investment boom of the 1990s and the commercial real estate boom of 2002-2007, respectively. For most of the current expansion, capital outlays failed to exceed internal domestic funds. Data for 2014 indicate that capital spending finally exceeded internal domestic funds, with cash holdings simultaneously falling. However, preliminary data for the fourth quarter of 2014 indicate that investment weakened after a period of volatility related to the expiration of favorable Federal tax treatment and the harsh winter weather.

However, the financial environment is only one component of the complex array of factors that firms consider when contemplating investment in structures, equipment and software. Standard economic theory posits that 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 for a given set of current and expected future input and output prices. In addition, decreases in the cost of acquiring and using capital goods (the “user cost of capital”) also induce firms to increase investment spending. Factors that reduce the user cost of capital include a decline in the prices of new investment goods, falling inflation-adjusted borrowing costs, increasing equity prices, and changes in the tax code, such as the creation of investment tax credits. Thus, low interest rates and favorable tax treatment programs support investment growth, but anticipated growth in sales is also necessary to induce investment. This helps to explain the relatively tepid growth of real investment recently – with weak and uneven growth coming out of the Great Recession, real investment has also generally been sluggish.

The link between real output growth and real investment growth was shown more rigorously in recent research at the Federal Reserve Bank of St. Louis based on use of the Granger causality test.⁹ Generally, one variable is said to “Granger cause” another variable if past values of the first variable are useful in predicting the second variable. Wen (2007) uses quarterly real U.S. GDP minus inventory investment for output; real business fixed investment as the investment concept; and real consumption of nondurable goods and services for real consumption. Using quarterly data from 1966 to 2014, the Budget Division finds that Wen’s results continue to hold, namely that 1) real consumption growth in the previous period “causes” current output growth in the Granger sense; 2) growth of real output in the previous period “Granger causes” real investment in the current period; 3) therefore, since the relationships are transitive, they imply that past real consumption growth also “Granger causes” contemporaneous real investment growth.

⁹ Li Wen, “Granger Causality and Equilibrium Business Cycle Theory,” Federal Reserve Bank of St. Louis *Review*, volume 89, number 3, 195-205, May/June 2007. Available at <http://research.stlouisfed.org/publications/review/07/05/Wen.pdf>

Additional testing also reaffirmed Wen's assessment that the Granger causation is one-way, i.e., investment does not Granger cause consumption. Applying Wen's methods to real consumption of durable goods finds that the same relationships hold for that series as well. While the decision to invest in nonresidential structures and equipment is a complex one, involving considerations of tax policy, interest rates, profitability and other factors, these results indicate that the macroeconomic environment also plays a key role in real business fixed investment growth.

The recent decline in world oil prices, while seen generally as a boon to consumers by providing a boost to incomes through lower gasoline prices, could have negative effects on real business fixed investment. Recent research posits that if oil prices remain as low as current forward contracts indicate, capital expenditures on mining could drop as much as 30 percent relative to their path consistent with forward prices from summer 2014.¹⁰ Capital expenditures on mining, defined as investment in equipment and structures used in oil and natural gas extraction and the supporting services, are estimated to have reached \$150 billion in the middle of 2014, a three-decade high. Since oil prices provide the incentive to undertake exploration for and development of this resource, a positive correlation exists between oil prices and capital expenditures. Research results imply that for 2015 the estimated reduction in mining-related investment could be large enough to offset about one-third of the gain to consumers from lower energy costs, thus shaving some growth from real GDP.

Outlook for Inflation and Monetary Policy

Despite the dramatic fall in energy prices during the latter half of last year (see Figure 4 above), inflation rose marginally to an annual rate of 1.6 percent in 2014 from 1.5 percent in the previous year. Continued low levels of energy prices are expected to drive price growth below the 2014 rate. Importantly, there are no indications that inflation expectations are becoming unmoored, thus giving the Federal Reserve Board space in which to continue its accommodative policies. The Budget Division projects inflation will drop to 1.0 percent for 2015, followed by 2.2 percent in 2016.

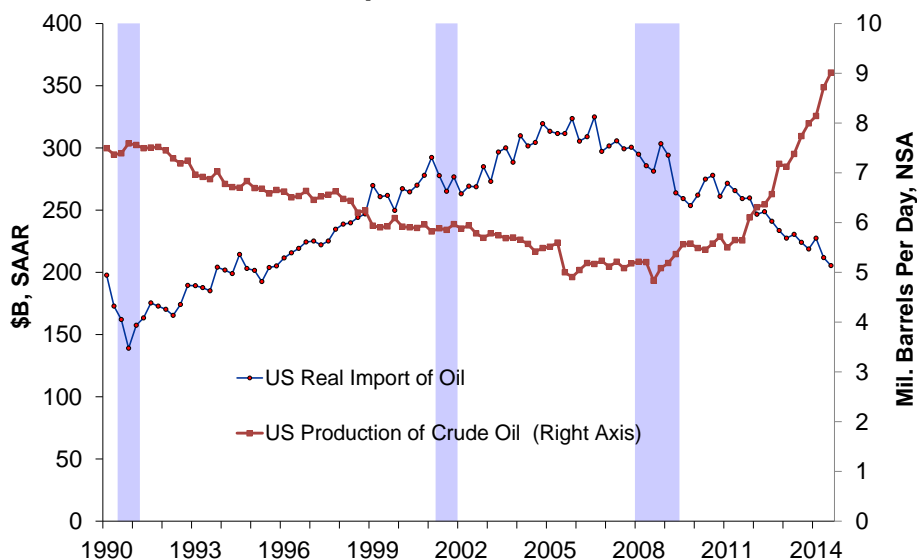
Energy markets in 2014 accelerated their prior year trends, with the producer price indexes for gasoline and home heating oil falling 5.2 percent and 5.6 percent, respectively, following declines of 3.9 percent and 3.2 percent in 2013. These movements largely reflect a diminishing of the risk premium generated by turmoil in the Middle East, together with increased oil production in the U.S. Figure 22 shows how domestic oil production soared and oil imports have plunged since the U.S. shale boom. The strong oil supply from the U.S. has resulted in a battle with the oil cartel OPEC since late 2014; oil prices, as measured by the refiners' acquisition cost of imported crude, have dropped from over \$100 per barrel to below \$70 per barrel within several months. Since OPEC has decided not to scale back production, oil prices are expected to continue to decline in 2015 before going up, resulting in a gradual increase to about \$80 per barrel in 2020. 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). Over the course of 2014, the futures curve turned from a downward slope to an upward tilt after the oil price

¹⁰ Macroeconomic Advisers, "Capital Spending on Mining: The Downside to Lower Oil Prices," *Macro Focus*, Volume 10, Number 1, January 8, 2015.

plunge. Natural gas prices, on the contrary, rose 8.6 percent in 2014, in addition to 7.3 percent growth in 2013. But even with recent high growth, natural gas prices remain low relative to the mid-2000s, also largely as a result of the shale-gas revolution in the U.S.

Figure 22

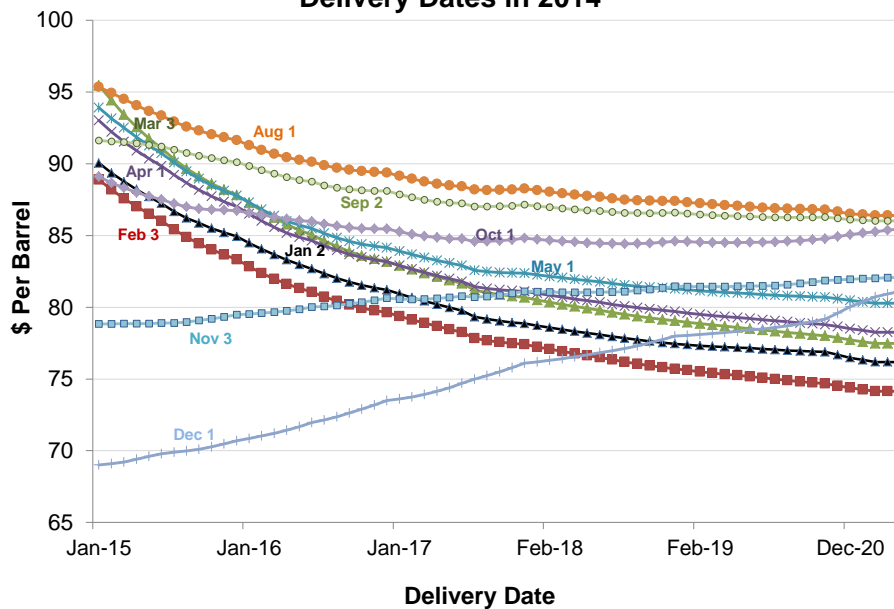
U.S. Oil Import and Oil Production



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

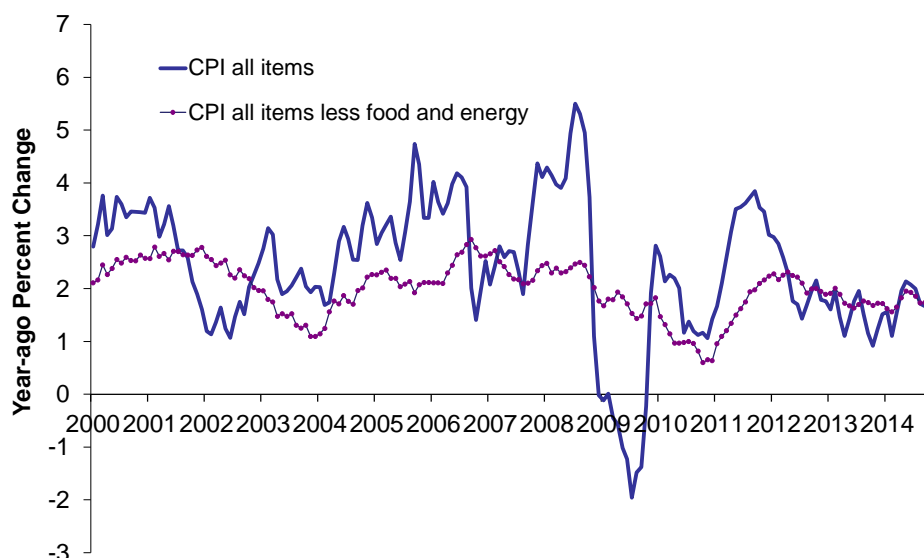
Figure 23

WTI Crude Oil Futures Prices for Selected Contract Delivery Dates in 2014



Source: Bloomberg.

Figure 24
General vs. Core Inflation

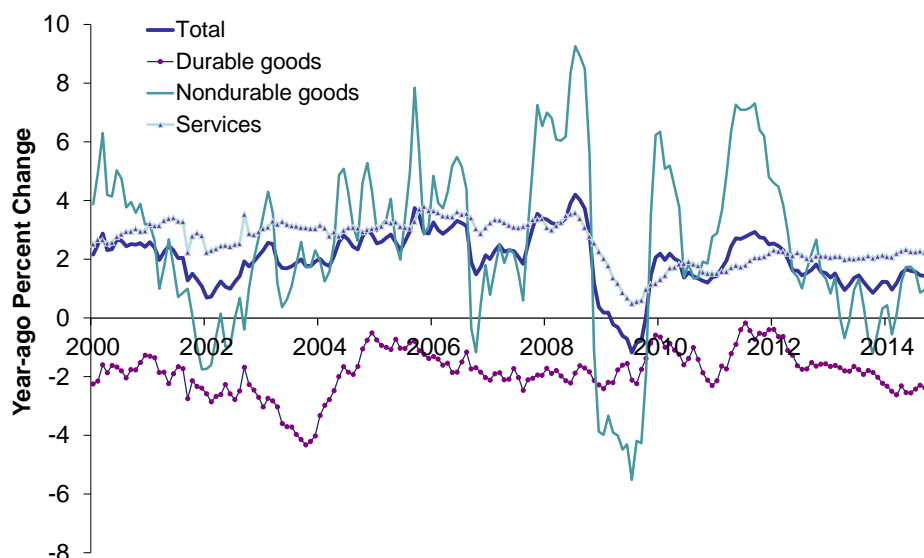


Source: Moody's Analytics.

Yet energy prices alone do not explain continued low inflation in 2014. The unadjusted all-item Consumer Price Index (CPI) fell from year-ago growth of over 3 percent in 2011 to 2 percent or less for most of the months of 2014 (see Figure 24). The core CPI – the all-items index minus the energy and food components – remained below 2 percent growth for each of the last eleven months of 2014. A closer look at the core CPI components indicates that slower growth of prices in new and used motor vehicles, apparel and medical care services offset faster growth of prices in shelter and medical care commodities.

Recent values of the price index for personal consumption expenditures (PCE), a measure of inflation closely watched by the Federal Reserve, likewise show a similar trend. Indeed, since April 2012, growth in this index has been receding from the central bank's 2.0 percent annual target. The latest reading, for November 2014, shows a year-over-year increase of 1.2 percent. The year-over-year changes have been falling since a 1.7 percent value in May; and a longer look back shows a declining trajectory for this measure since April 2012.

Decomposing PCE inflation into its three major components – consumer durable goods, consumer nondurable goods and services – indicates that several factors have contributed to the declining trend in inflation (see Figure 25). Consumer durable goods prices have been falling since the mid-1990s. Prices of nondurables have been the most volatile, particularly food and energy, which reflect in part the commodities price boom of the 2000s and the drought of 2011-2012, and the current oil price declines. The services component, which accounts for about two-thirds of total PCE, has typically risen at faster rates than the commodities groups, but has moderated since 2008.

Figure 25**Price Index for Personal Consumption Expenditures (PCE)**

Source: Moody's Analytics.

Outside of the factors that have affected the supply of food and energy, generalized weakness in the global economy is likely the most important factor keeping inflation low, with Federal Reserve policy having very little impact. During the last quantitative easing program, which lasted from September 2012 to October 2014, the average monthly year-ago change in the PCE index for durables was a 2.0 percent decline; the average change for the nondurable PCE index 0.7 percent growth, while the average change in the PCE index for services, which largely reflects domestic activity, was growth of 2.1 percent.

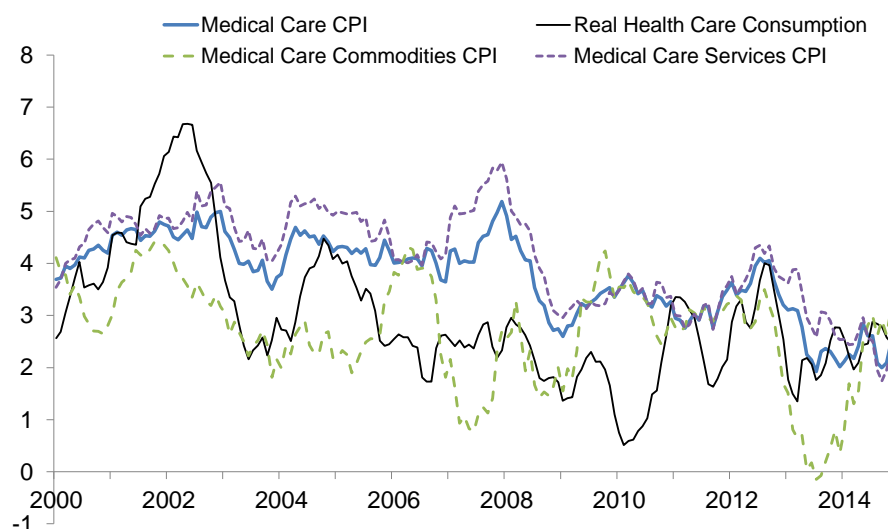
One of the most surprising inflation trends has emerged from the medical component of the CPI, where year-ago growth has fallen from above 4 percent as recently as the middle of 2012 to an average of 2.3 percent over the last six months of 2014. As indicated in Figure 26, the decline in price growth has been accompanied by a decline in utilization as well, as represented by the health care component of personal consumption expenditures adjusted for inflation. Real health care spending growth fell off during the Great Recession, started rising again over the course of 2010, but remains low by recent historical standards. With a large segment of the health care delivery system under construction due to the implementation of the Affordable Care Act (ACA), the trend toward lower health care inflation is likely to persist over the near-term. The Budget Division projects the medical component of the CPI to rise 2.2 percent in 2015, following 2.4 percent growth in 2014. However, among the two components of medical care CPI, the commodities part, including medicinal drugs, and medical equipment and supplies, accelerated significantly during the course of 2014 (see Figure 26), partly due to decreased supply and less competition. And a recent series of mergers and acquisitions may have pushed prices higher as well.¹¹

¹¹ <http://www.businessweek.com/articles/2014-05-08/why-prescription-drug-prices-keep-rising-higher>.

Figure 26

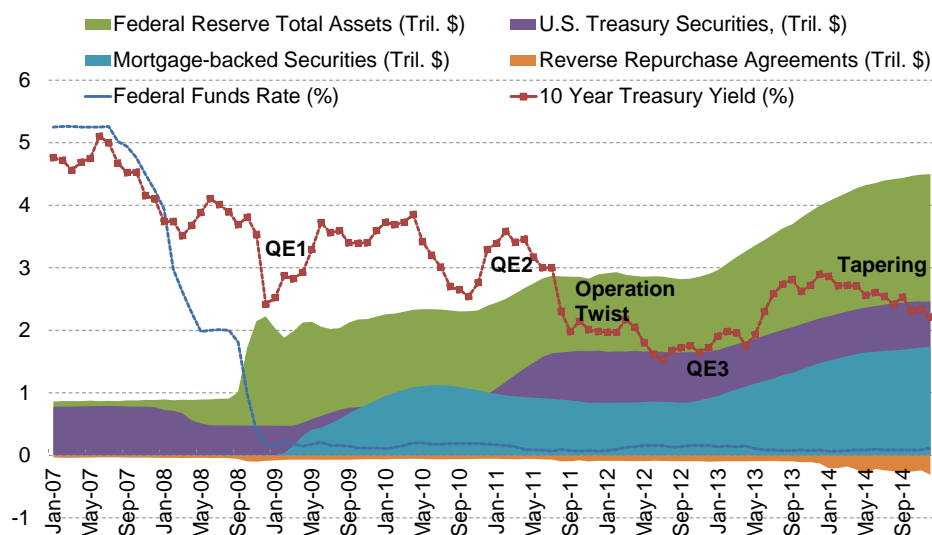
Medical Spending and Prices

Year over year growth (%)



Source: Moody's Analytics.

The Budget Division inflation forecast is consistent with long-term inflation expectations remaining anchored. Normally, the Budget Division uses a modified version of Taylor's monetary rule as a guide to forecast 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. Nevertheless, we expect that the Federal Reserve will move away from near zero interest rates and back toward a normal regime soon.

Figure 27**Monetary Policy, Federal Reserve Balance and Interest Rates**

Source: Moody's Analytics.

Figure 27 summarizes the two monetary policy tools that the Federal Reserve applied in order to stimulate the U.S. economy after the 2008 financial crisis. One is cutting short-term interest rates; the other is buying financial assets (e.g., mortgage-backed securities and treasuries) and thus lowering long-term interest rates. The target for the federal funds rate was lowered to essentially zero by the end of 2008; meanwhile, as the policy rate was reaching its zero bound the Federal Reserve initiated its first asset-purchase program, or quantitative easing (QE). During the next six years the Fed would engage in three bouts of QE with the last ending in October 2014, all the while maintaining the federal funds rate target within a band of zero to 25 basis points. The 10-year Treasury yield had fallen from 4 percent to below 2 percent during the QE period, but surprisingly, this interest rate did not rise after the Fed started to taper its asset purchases at the beginning of 2014; in fact, it fell further after the final QE program ended in October. One possible explanation is more overseas purchases of U.S. treasuries; another is downward pressure from the global bond market since European bond yields are even lower than those of U.S. treasuries.

The Fed plans to raise its target for the federal funds rate as soon as it sees some internally generated and sustained momentum in business hiring and also upward inflation expectations. In a statement called “Policy Normalization Principles and Plans,”¹² the Fed described its exit strategy as using an overnight reverse repurchase agreement facility and other supplementary tools as needed to help control the federal funds rate. After increasing the target range for the federal funds rate, it will cease or begin phasing out reinvestments of the assets it owns.

¹² <http://www.federalreserve.gov/newsevents/press/monetary/20140917c.htm>

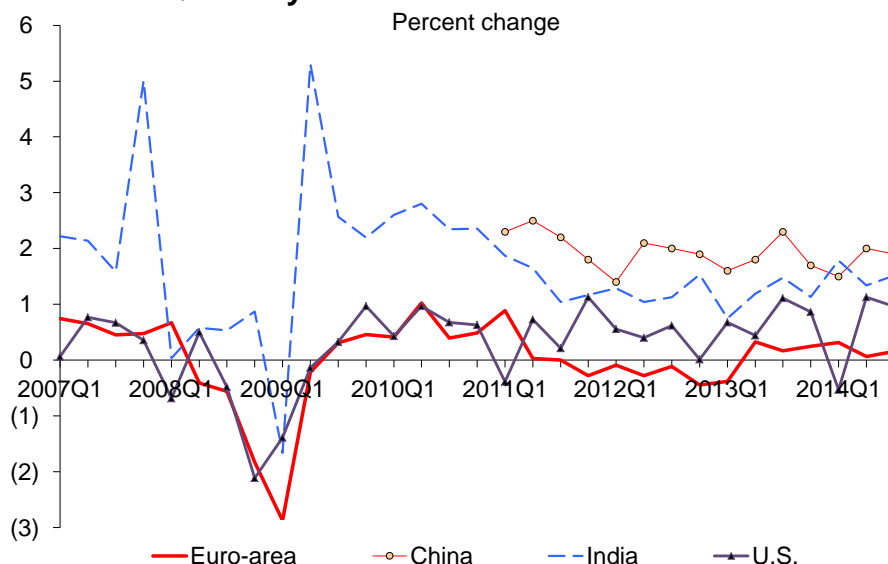
Since the unemployment rate already fell to 5.6 percent in December 2014, wage growth as well as price inflation become more crucial determinants of Fed actions. With average hourly earnings and core inflation not increasing, and low oil prices embedded in people's expectations, it is going to be hard to hit the Fed's 2 percent inflation target. The Budget Division expects the Fed to make its first move toward policy tightening sometime during the second quarter of 2015, when the unemployment rate is expected to cross the 5.5 percent threshold, average wage growth is close to 3 percent, and CPI inflation is running close to 2 percent. Based on the policy framework just described, and a relatively benign outlook for inflation over the near-term, the effective federal funds rate is projected to average 0.4 percent in 2015, rising to 1.6 percent in 2016. Meanwhile, an average 10-year Treasury yield of 2.7 percent is projected for 2015, up from the 2.5 percent average for 2014. The Budget Division expects the yield to climb to about 3.4 percent, on average, for 2016.

The International Economy

The health of the global economy remains a serious risk to the U.S. economy, particularly since the nation appears to be out of sync with the rest of the world. A year ago it appeared that most of the risk was concentrated in the euro-area, where the financial crisis of 2008-09 unveiled a fragile banking system laden with bloated government debt, and a monetary system that lacked the flexibility necessary to stimulate growth in the area's weakest economies. As a result, the euro-area went into a double-dip recession. At present it remains unclear what policy measures the European Central Bank (ECB) may undertake. While there has been discussion of the ECB beginning its own quantitative easing process by purchasing sovereign bonds, as of this writing that decision has not been made and with elections in Greece slated for late January speculation is that the decision may be delayed until March 2015. The ECB has been engaging in a kind of alternative quantitative easing program since September 2014, purchasing securities backed by bank lending to households (mortgages) and firms.

The euro area's growth in the aftermath of the second recession has been anything but robust, as can be seen in Figure 28, which illustrates co-movements in real GDP growth for the euro-zone, the U.S., China, and India. While India has been able to sustain growth, China's growth has also struggled. Japan's economy, the world's third largest, contracted in the second and third quarters of 2014. The ramifications for the global economy and the impact on the demand for U.S. exports are clearly portrayed in Figure 29. Year-ago growth in real world GDP fell from a peak of 5.7 percent in the second quarter of 2010 to 2.2 percent by the first quarter of 2013. Correspondingly, real U.S. export growth fell from 13.6 percent to 1.9 percent over the same period. By the third quarter of 2014 with real world GDP estimated to have increased 2.6 percent, real U.S. exports grew 3.8 percent.

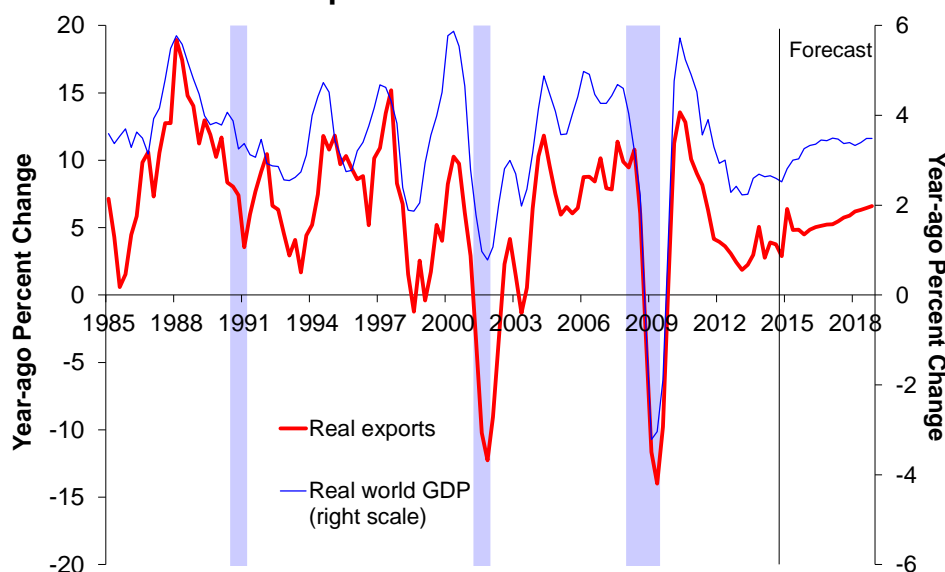
Figure 28
Quarterly GDP Growth for Selected Areas



Note: Growth rates are not annualized.

Source: OECD.

Figure 29
Real Export and World GDP Growth



Note: Shaded areas represent U.S. recessions.

Source: Moody's Analytics; IHS Global Insight; DOB staff estimates.

But as illustrated in both Figure 28 and Figure 29, any recovery in global growth will be more gradual than was envisioned a year ago. In part that is because of old problems that have not yet been solved completely, such as the fallout from the financial crisis in the euro zone and China's attempts to deal with its troubled financial sector. But new problems appeared in 2014, some geopolitical in nature: Russia's seizure of the Crimea and subsequent attempts to destabilize Ukraine; the sudden success of the Islamic State in

Syria and Iraq terror organization; and the collapse of world oil prices. Compounding the difficulties for Russia are the economic sanctions imposed by the U.S. and its allies in the wake of the capture of the Crimea. While declining oil prices present a boon to oil-importing nations, they represent a threat to countries such as Russia and Venezuela that are oil exporters. As was seen in the case of Greece a few years ago, severe financial problems in one nation can quickly reverberate throughout the world financial system.

Meanwhile, the economies of two of the United States' top three trading partners (by goods exports) – Canada and Mexico – have been mixed, with the Canadian economy continuing to expand at a steady pace. However, continued weakness in oil prices could pose a threat to Canada's growth, due to major contribution of oil to that nation's export sector. While the Mexican economy slowed substantially in the second half of 2013, continuing into the first half of 2014, more recently Mexico's economy appears to be on the upswing. Recent data appears to indicate that the Chinese economy appears to be on a slower growth path while economic difficulties in Japan, the fourth-largest U.S. export market, have already been noted.

Table 4 indicates that while the large emerging economies still represent a relatively small share of total U.S. export demand, their share is growing. Since 2007, the export shares of Brazil, China, and Mexico have grown, while those of Canada and the European Union have fallen. If the Eurozone can avoid recession, and if the economies of Canada, China and Mexico can maintain growth, the demand for U.S. exports is expected to improve over the course of this year, but only gradually. Real growth in exports of U.S. goods and services of 5.1 percent is projected for 2015 and 2016, following growth of 3.3 percent in 2014.

TABLE 4
THE CHANGING FACE OF US EXPORTS

	2007-2013 Percent Growth	2007 Share	2013 Share
Brazil	82.5%	2.1%	2.8%
Canada	21.2%	21.4%	19.1%
China	93.4%	5.4%	7.7%
European Union	7.4%	21.0%	16.6%
Mexico	66.3%	11.7%	14.3%
Total	35.9%	-	-

Source: U.S. Census Bureau, Foreign Trade Division.

Goods made up 69.7 percent of total U.S. exports in the first 11 months of 2014. It should be noted, however, that among the major world economies the export sector of the United States is one of the smallest as a share of gross domestic product (GDP). U.S. exports of goods and services were 13 percent of GDP in 2013, according to the latest data available from the World Bank; among the major global economies only Japan, at 16 percent, had a share nearly that small. In contrast South Korea's export sector was 54 percent of its GDP while Germany's was 46 percent. The shares of Canada, Mexico and the United Kingdom were at 30 percent or just over, while China's share was 26 percent.

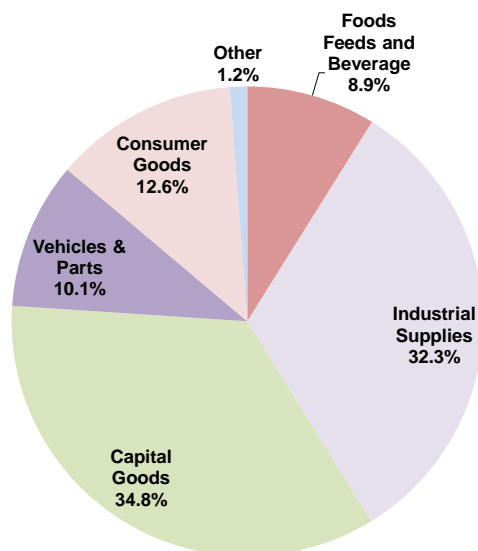
That said, certain sectors of the U.S. economy are more sensitive to changes in the world economy than others. Figure 30 decomposes U.S. goods exports by end-use

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category and makes clear that domestic manufacturing employment is particularly sensitive to the foreign demand for U.S. products. Exports of services are dominated by three categories: travel for all purposes; charges for the use of intellectual property; and other business services. Services exports have slowed, declining from a 5.2 percent pace for the first 11 months of 2013 to 3.3 percent growth over the comparable period in 2014.

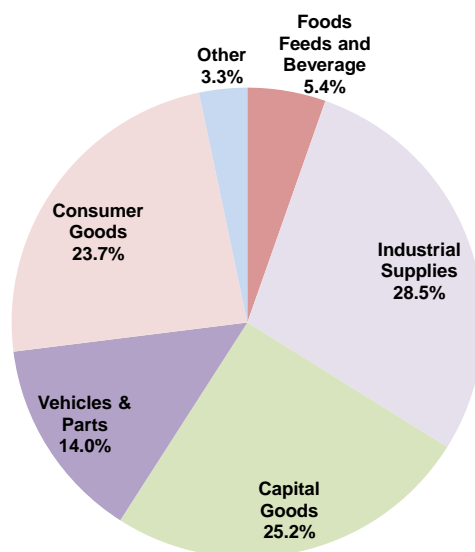
Elsewhere in the U.S., foreign sector import growth, which had outpaced export growth on a quarterly basis in the first four quarters of the recovery, slowed markedly by the third quarter of 2011 and fell 0.6 percent in 2012Q3, consistent with the then-struggling U.S. recovery. While imports are a subtraction from GDP, their growth represents an increase in domestic final sales and as such signals increasing household and business sector demand. Import growth remained weak in 2013, increasing just 1.1 percent for the year, but is projected to increase to 3.8 percent growth for 2014. With a strengthening U.S. economy, imports are expected to rise 5.3 percent in 2015 and 6.2 percent in 2016. Weakening import growth had a favorable impact on the current account trade deficit, which started to deteriorate with the beginning of the recovery in the third quarter of 2009. While the deficit reached a low point of 2.0 percent of nominal GDP in 2013Q4, its lowest point since the fourth quarter of 1997 and the first quarter of 1998 when it also stood at 2.0 percent, it has since averaged 2.3 percent over the first three quarters of 2014.

Figure 30
2014 Share of Exported Goods by End-Use Category



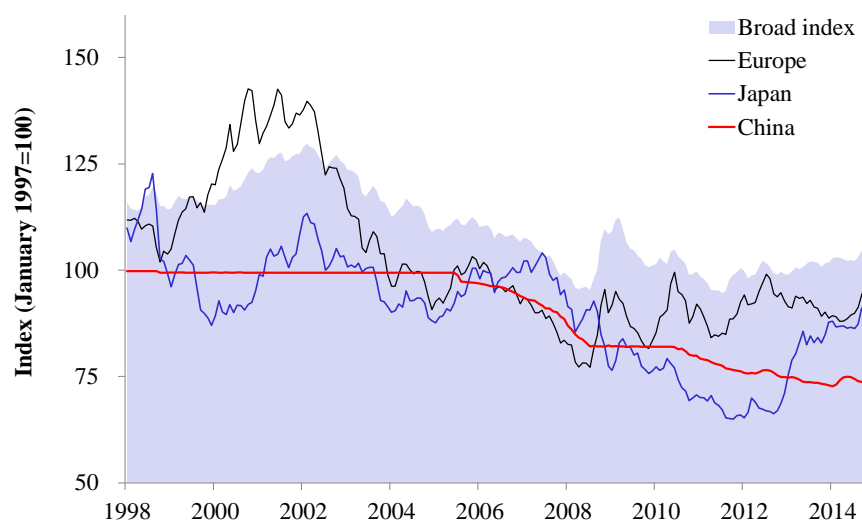
Note: Values are based on the first 11 months of data.
Source: Moody's Analytics.

Figure 31
2014 Share of Imported Goods by End-Use Category



Note: Values are based on the first 11 months of data.
Source: Moody's Analytics.

Figure 32
Foreign Exchange Value of U.S. Dollar



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

With low inflation rates and an economy that continues to strengthen relative to its major trading partners, the dollar generally has been appreciating since the start of 2013. The Broad Index, a trade-weighted index of the nation's major trading partners, shows that the dollar has risen 11.6 percent since its recent trough in January 2013, which coincided with the "fiscal cliff" drama that closed out 2012. In contrast the dollar fell 15.2 percent from its recent peak in March 2009 to April 2011, helping to buttress the

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global competitiveness of U.S. goods and services earlier in the recovery. However while the dollar remains 14.9 percent lower than its historical peak in February 2002, it is just 1.7 percent lower than its local peak in March 2009. With the dollar's strengthening having accelerated in 2014, a rising dollar and sluggish growth abroad present risks to the forecast for U.S. exports.

TABLE 5
MAJOR FOREIGN HOLDERS OF TREASURY SECURITIES*
(\$ Billions)

	Japan		Mainland China		Russia		Oil Exporters		Grand Total**	
	Level	Change	Level	Change	Level	Change	Level	Change	Level	Change
Jan-12	1,080.8	22.4	1,166.2	14.3	145.7	(3.8)	268.5	7.4	5,056.8	49.4
Feb-12	1,088.6	7.8	1,155.2	(11.0)	144.8	(0.9)	269.5	1.0	5,105.2	48.4
Mar-12	1,080.4	(8.2)	1,144.0	(11.2)	151.1	6.3	262.4	(7.1)	5,147.6	42.4
Apr-12	1,087.9	7.5	1,164.4	20.4	155.4	4.3	262.2	(0.2)	5,217.0	69.4
May-12	1,107.2	19.3	1,164.0	(0.4)	156.3	0.9	260.6	(1.6)	5,267.7	50.7
Jun-12	1,108.4	1.2	1,147.0	(17.0)	163.8	7.5	270.2	9.6	5,313.5	45.8
Jul-12	1,119.8	11.4	1,160.0	13.0	156.2	(7.6)	268.4	(1.8)	5,381.6	68.1
Aug-12	1,120.9	1.1	1,155.2	(4.8)	162.9	6.7	269.1	0.7	5,443.4	61.8
Sep-12	1,128.5	7.6	1,153.6	(1.6)	163.5	0.6	267.2	(1.9)	5,472.7	29.3
Oct-12	1,131.9	3.4	1,169.9	16.3	171.1	7.6	262.2	(5.0)	5,526.7	54.0
Nov-12	1,117.7	(14.2)	1,183.1	13.2	166.2	(4.9)	259.1	(3.1)	5,538.2	11.5
Dec-12	1,111.2	(6.5)	1,220.4	37.3	161.5	(4.7)	262.0	2.9	5,573.8	35.6
Jan-13	1,103.9	(7.3)	1,214.2	(6.2)	164.4	2.9	261.7	(0.3)	5,622.1	48.3
Feb-13	1,105.5	1.6	1,251.9	37.7	164.9	0.5	256.8	(4.9)	5,691.1	69.0
Mar-13	1,114.3	8.8	1,270.3	18.4	153.0	(11.9)	265.1	8.3	5,725.0	33.9
Apr-13	1,112.7	(1.6)	1,290.7	20.4	149.4	(3.6)	271.7	6.6	5,709.7	(15.3)
May-13	1,103.7	(9.0)	1,297.3	6.6	143.4	(6.0)	264.5	(7.2)	5,658.1	(51.6)
Jun-13	1,083.3	(20.4)	1,275.8	(21.5)	138.0	(5.4)	256.9	(7.6)	5,595.0	(63.1)
Jul-13	1,135.4	52.1	1,279.3	3.5	131.6	(6.4)	257.7	0.8	5,592.8	(2.2)
Aug-13	1,149.1	13.7	1,268.1	(11.2)	136.0	4.4	246.5	(11.2)	5,595.8	3.0
Sep-13	1,178.1	29.0	1,293.8	25.7	140.5	4.5	245.7	(0.8)	5,652.8	57.0
Oct-13	1,174.4	(3.7)	1,304.5	10.7	149.9	9.4	236.8	(8.9)	5,655.1	2.3
Nov-13	1,186.4	12.0	1,316.7	12.2	139.9	(10.0)	236.2	(0.6)	5,716.8	61.7
Dec-13	1,182.5	(3.9)	1,270.1	(46.6)	138.6	(1.3)	238.3	2.1	5,792.6	75.8
Jan-14	1,201.4	18.9	1,275.6	5.5	131.8	(6.8)	246.5	8.2	5,841.4	48.8
Feb-14	1,210.8	9.4	1,272.9	(2.7)	126.2	(5.6)	243.8	(2.7)	5,888.7	47.3
Mar-14	1,200.2	(10.6)	1,272.1	(0.8)	100.4	(25.8)	247.4	3.6	5,948.4	59.7
Apr-14	1,209.7	9.5	1,263.2	(8.9)	116.4	16.0	255.4	8.0	5,959.5	11.1
May-14	1,220.1	10.4	1,270.9	7.7	111.4	(5.0)	257.9	2.5	5,974.6	15.1
Jun-14	1,219.3	(0.8)	1,268.4	(2.5)	113.9	2.5	262.1	4.2	6,011.5	36.9
Jul-14	1,219.0	(0.3)	1,264.9	(3.5)	114.5	0.6	261.3	(0.8)	5,997.4	(14.1)
Aug-14	1,230.1	11.1	1,269.7	4.8	118.1	3.6	267.5	6.2	6,066.9	69.5
Sep-14	1,221.8	(8.3)	1,266.3	(3.4)	117.7	(0.4)	279.4	11.9	6,066.4	(0.5)
Oct-14	1,222.4	0.6	1,252.7	(13.6)	108.9	(8.8)	281.8	2.4	6,058.9	(7.5)
Nov-14	1,241.5	19.1	1,250.4	(2.3)	108.1	(0.8)	278.9	(2.9)	6,112.4	53.5

* 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.

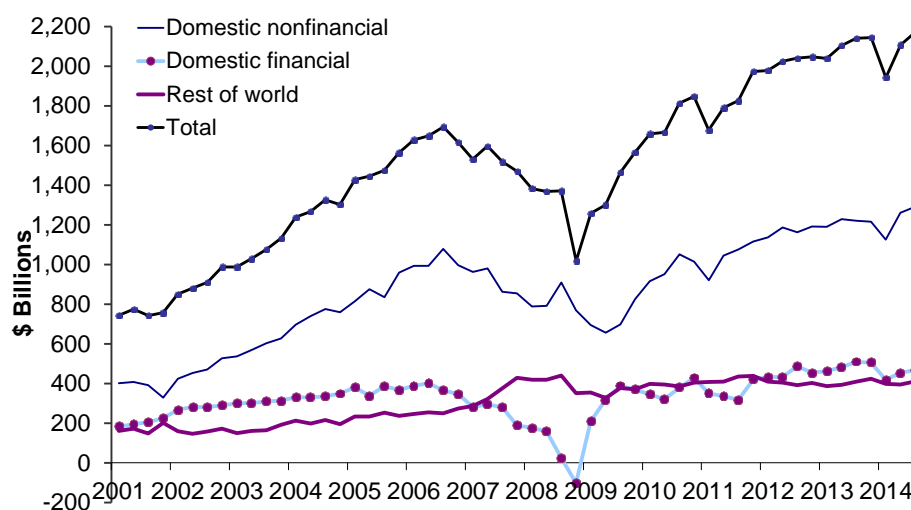
Recent data from the U.S. Treasury on foreign holdings of Treasury securities show a continued desire of foreign nations to hold these securities despite the rising dollar. Global holdings rose 6.0 percent in 2014, based on the first 11 months of data, after rising 6.2 percent in 2013. China, the largest single holder, cut its holdings 1.0 percent in 2014 (again based on partial-year data), while Japan, the second largest holder, saw an increase of 7.6 percent. In 2013 China's holdings grew 9.7 percent while Japan's were 2.6 percent higher. Treasury securities holdings by the oil exporting nations have grown 2.9 percent

so far in 2014 after falling 4.5 percent in 2013. While Russia is just outside the top 10 holders based on year-to-date 2014 information, its holdings are down 21.6 percent from January, in no small part likely due to political tensions over Ukraine and the Crimea.

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

U.S. corporate profits have exhibited remarkable strength during the recovery (see Figure 33), growing 80.7 percent between the recession trough in the second quarter of 2009 and the third quarter of 2014, the most recent quarter for which data are available. However, after 4.2 percent growth in 2013 and 11.4 percent in 2012, corporate profit declined 1.0 percent for the first three quarters of 2014. This decline is mainly caused by the sharp drop in the first quarter of 2014: a 4.8 percent decline over the same quarter a year ago. The earnings drop in the first quarter can partly be blamed on the cold winter weather. Following this decline were two strong quarters of growth, but annual growth is estimated to be only 0.5 percent. This slowdown of U.S. corporate profits growth in 2014 was mainly due to the financial sector, which fell 8.0 percent through the third quarter, following 8.5 percent growth in 2013. The “rest-of-world” profits, generated by activity outside of U.S. borders, experienced growth of 1.1 percent through the third quarter, following small growth of 0.3 percent for 2013, due to the global slowdown. Domestic nonfinancial profits grew 1.1 percent during the first three quarters of 2014, down from 3.8 percent in 2013.

Figure 33
U.S. Corporate Profits



Source: Moody's Analytics.

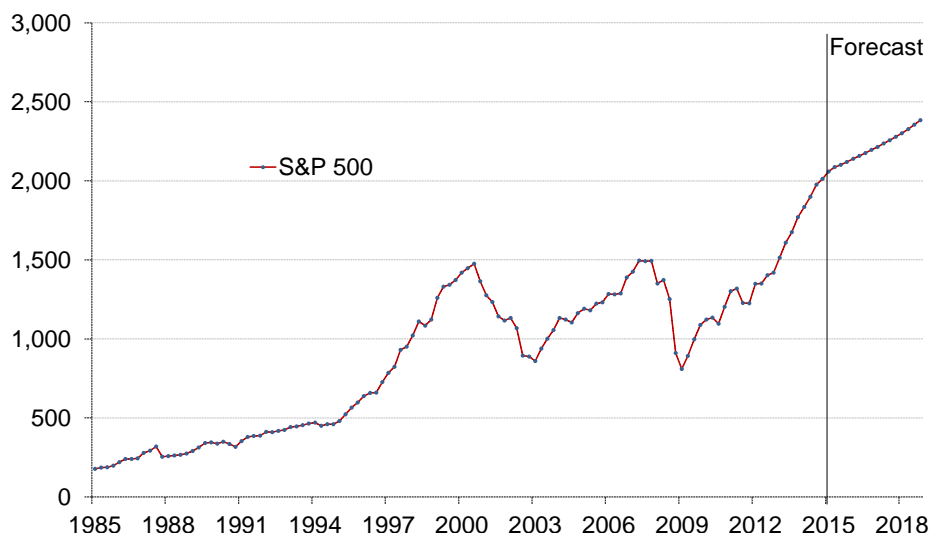
In 2015, U.S. corporate profits are expected to exhibit stronger growth. Improving growth in domestic final sales will put upward pressure on domestic nonfinancial profits, mitigated to some extent by rising employment growth and rising interest rates. The future of financial profits is perhaps the most precarious due to the swift rise in equity prices during the second half of 2014 that likely pulled forward finance activities, such as

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IPOs, that tend to be associated with rising equity markets, although the expected Federal Reserve rate hike in the second quarter of 2015 may curb financial sector profits growth in 2015. As a result, U.S. corporate profits from current production, which includes the inventory valuation and capital consumption adjustments, are projected to grow 8.4 percent in 2015, up from 0.5 percent in 2014.

Equity market turbulence has remained a constant throughout this recovery (see Figure 34). Although markets have generally risen since their March 2009 troughs, there have been two major corrections along the way: a 16 percent correction between April 23, 2010, and July 2, 2010; and a 19 percent correction between July 7, 2011, and October 3, 2011. Given that equity price fluctuations over much of the recovery have been more reflective of the fear surrounding both the euro-debt crisis and domestic political strife than the path of corporate earnings, much of the recent run-up likely reflects a diminishing risk aversion that plagued the market for so long.

Figure 34
Equity Market Growth

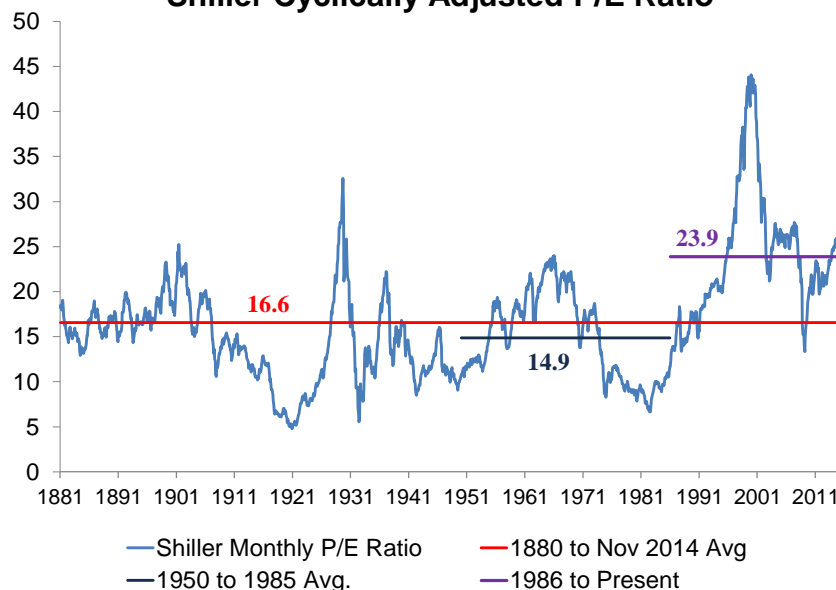


Source: Moody's Analytics; DOB staff estimates.

But over the long term, equity market price growth is expected to be consistent with growth in corporate earnings, discounted by the change in interest rates. This expectation begs the question as to what the market run-up during the first three quarters of 2014 implies for growth in 2015. Figure 35 presents the long-term history of the S&P 500 price-to-earnings ratio adjusted for inflation, where earnings are measured by the trailing 10-year moving average. The November 2014 level was above the 23.9 average from 1986 to that month, a period that contained the high-tech/Internet bubble of the late 1990s. This level compares to an average over the entire history of the series of 16.6, and an average over the early postwar period of 14.9. These results urge caution, particularly in an environment of rising interest rates. The Budget Division projects equity market growth of 8.3 percent for 2015 on an annual average basis, following growth of

17.5 percent in 2014. However, on a 2015Q4 over 2014Q4 basis, the Budget Division forecast is equivalent to growth of 5.3 percent.

Figure 35
Shiller Cyclically Adjusted P/E Ratio



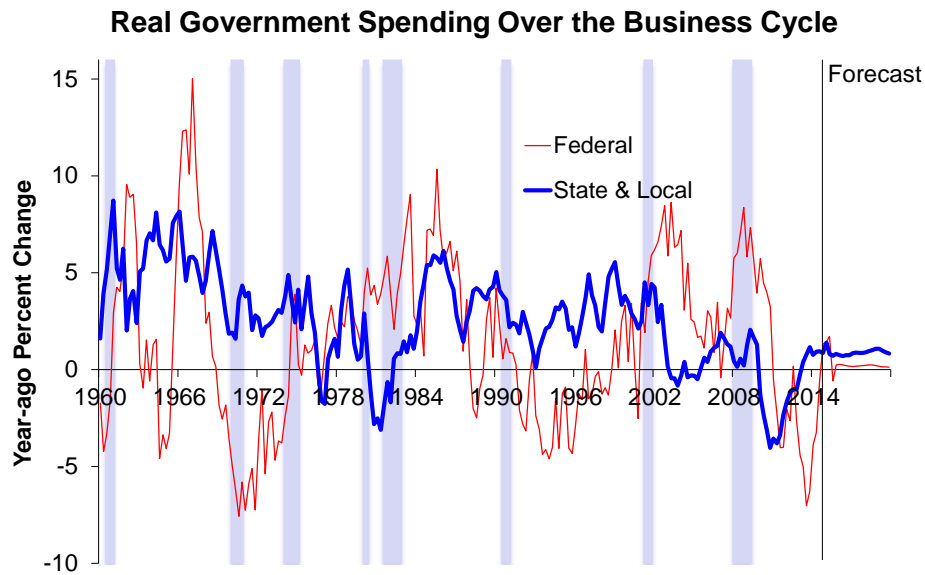
Source: Robert Shiller; DOB staff estimates.

Outlook for Government Spending

State and local government spending declines came to an end in the first quarter of 2013 after 13 consecutive negative growth quarters, though year-over-year growth has remained low over the past six quarters, averaging 0.8 percent. Unlike Federal government spending, state and local government expenditures are constrained by revenue flows, often by statutory balanced-budget requirements as well. Sales tax and withholding collections tend to be the most cyclically sensitive, and with large home price declines during the recession, property taxes only added to fiscal challenges faced by municipal governments. Thus, the declines in state and local spending stand in stark contrast to the elevated growth in Federal spending during and immediately subsequent to the recession (see Figure 36). The National Association of State Budget Officers (NASBO) reports moderate growth and stability for fiscal year 2015 as most states enacted higher aggregate spending levels, although spending growth remains below historical averages.¹³ State and local government spending is anticipated to grow 0.9 percent this year and 0.7 percent in 2016, similar to the 0.9 percent growth for 2014.

¹³ See The National Association of State Budget Officers, *The Fiscal Survey of States: Fall 2014*, <<http://www.nasbo.org/sites/default/files/NASBO%20Fall%202014%20Fiscal%20Survey%20of%20States.pdf>>, viewed January 14, 2015.

Figure 36



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

The Federal spending sequester and the pullback in the nation's military efforts resulted in a significant decline in the NIPA component of Federal spending. From the first quarter of 2008, the first quarter of the recession, through the fourth quarter of 2010, Federal NIPA spending growth averaged 5.6 percent, but that rate turned into an average decline of 3.5 percent from the first quarter of 2011 through 2014Q3 as the high budget deficit met with resistance from policymakers. As a consequence of the slowdown in Federal spending, the Federal budget deficit fell from \$1,296 billion in Federal fiscal year 2010-11, the equivalent of 8.7 percent of nominal GDP, to \$680 billion or 4.1 percent of nominal GDP two years later.

On December 16, 2014, President Obama signed the \$1.014 trillion federal budget bill which will fund the federal government through September 2015 with the exception of the Department of Homeland Security. The new GOP-led Congress intends to revisit the bill funding Homeland Security when funding runs out February 27, 2015, and tie it to President Obama's executive action on immigration. The discretionary spending levels for fiscal year 2015 were already set by the federal spending bill signed by President Obama on January 17, 2014, that raised the discretionary funding level by \$64 billion over Federal fiscal years 2014 and 2015 – \$45 billion more than the sequester level in 2014 and \$19 billion more in 2015, split evenly between defense and non-defense spending. To offset the extra discretionary spending, that bill also included \$85 billion in savings over the next 10 years: \$78.4 billion cuts to mandatory programs including Medicare, and small increases in revenues worth \$6.6 billion. On February 11, 2014, lawmakers suspended the debt ceiling, in effect raising the debt ceiling to \$712 trillion, a level that will last through March 15, 2015. It remains to be seen whether the negotiations concerning the Homeland Security funding bill and the debt ceiling this spring under a new GOP-led Congress will result in renewed fiscal drag from government dysfunction. The Budget Division estimates the NIPA definition of Federal government spending to grow 0.7 percent in 2015 and 0.2 percent in 2016, after declining 1.6 percent in 2014.

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Comparison with Other Forecasters

Table 6 compares the Budget Division's (DOB) forecast for a selection of U.S. indicators with those of other forecasting groups. The 2015 forecasts for real U.S. GDP growth fall into a relatively tight range, from a low of 3.1 percent (DOB, Global Insight) to a high of 3.3 percent (Macroeconomic Advisers). The DOB 2015 inflation forecast of 1.0 percent is slightly higher than the Blue Chip forecasts, but represents a higher level than the remaining two. DOB's unemployment rate forecast for 2015 is 5.5 percent, in line with Blue Chip and Global Insight, and slightly above Macroeconomic Advisers.

TABLE 6
U.S. ECONOMIC FORECAST COMPARISON

	2014	2015	2016
Real Gross Domestic Product (GDP)			
(2009 chained percent change)			
DOB	2.4	3.1	2.8
Blue Chip Consensus	NA	3.2	2.9
Global Insight	2.4	3.1	2.7
Macroeconomic Advisers	2.5	3.3	2.9
Consumer Price Index (CPI)			
(percent change)			
DOB	1.6	1.0	2.2
Blue Chip Consensus	NA	0.8	2.3
Global Insight	1.6	0.1	2.3
Macroeconomic Advisers	1.6	0.5	2.3
Unemployment Rate			
(percent)			
DOB	6.2	5.5	5.2
Blue Chip Consensus	NA	5.5	5.1
Global Insight	6.2	5.5	5.3
Macroeconomic Advisers	6.1	5.3	5.0

Source: New York State Division of the Budget, January 2015; *Blue Chip Economic Indicators*, January 2015; Global Insight, *US Forecast Summary*, January 2015; and Macroeconomic Advisers, *Economic Outlook*, January 2015.

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 2014.¹⁴

Risks to the U.S. Forecast

The Budget Division outlook calls for the recovery from the nation's worst recession since the 1930s to continue with steady improvements over the course of 2015, as the strengthening housing, labor, and equity markets have put U.S. households in the best financial position in years. But there are a number of significant risks to the forecast. The euro-area economy remains mired in near-recession conditions, with unemployment

¹⁴ See <<http://www.budget.ny.gov/pubs/supporting/MethodologyBook.pdf>>.

rates still rising in some areas, and fears of deflation. If the recovery is even more sluggish than expected, the implications for emerging markets and the global economy more generally will be negative, and will likely result in slower export and corporate profits growth than reflected in this forecast. The impact will reverberate through U.S. labor and financial markets, resulting in slower growth than anticipated. On the other hand, if the recovery in Europe is stronger than expected, the implications for the forecast will be quite positive.

The forecast rests on the assumption that the dysfunction that has plagued the U.S. government will not be a major stumbling block to growth, but if that hope becomes a bridge too far, the resulting additional uncertainty could affect both household and business sector confidence, and their willingness to spend and hire. On the positive side, if our divided government reconnects with the spirit of compromise that was achieved last year, the impact could be quite positive.

Oil prices are expected to remain on their downward trajectory as the U.S. energy revolution continues to put upward pressure on supply in the context of only tepid global growth. But global tensions could easily obstruct that trajectory as they have done many times in the past. Since energy price growth acts as a virtual tax on household spending, a sudden shift in the expected trajectory of oil and gasoline prices could result in lower consumption spending than anticipated.

Finally, the Federal Reserve has begun to execute its long awaited exit from six years of unconventional policy use and unprecedented balance sheet expansion. The central bank has confirmed that the future path of that strategy remains data dependent, and highly uncertain at this stage. If that exit is rockier than anticipated, and long-term interest rates start to rise more quickly than expected, the impact on the entire global economy – both real and financial – could be quite negative. Alternatively, a smooth exit could play a critical role in putting the current expansion on the road to becoming one of the longest since the middle of the 20th century. Either way, the experience will be one for the history books.

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

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

The Budget Division's U.S. macroeconomic model (DOB/U.S.) incorporates the theoretical advances described above in an econometric model used for forecasting and policy simulation. The model contains 132 core equations, of which 37 are behavioral. In addition, there are hundreds of auxiliary forecasting equations that incorporate the results from the core model as inputs. The current estimation period for the model is 1965:1 through 2014:3. Our analysis borrows heavily from the Federal Reserve Board model which was redesigned during the 1990s using the most up-to-date advances in modeling techniques. We are grateful to Federal Reserve Board economists for providing guidance and important insights as we developed the DOB/U.S. macroeconomic model.

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

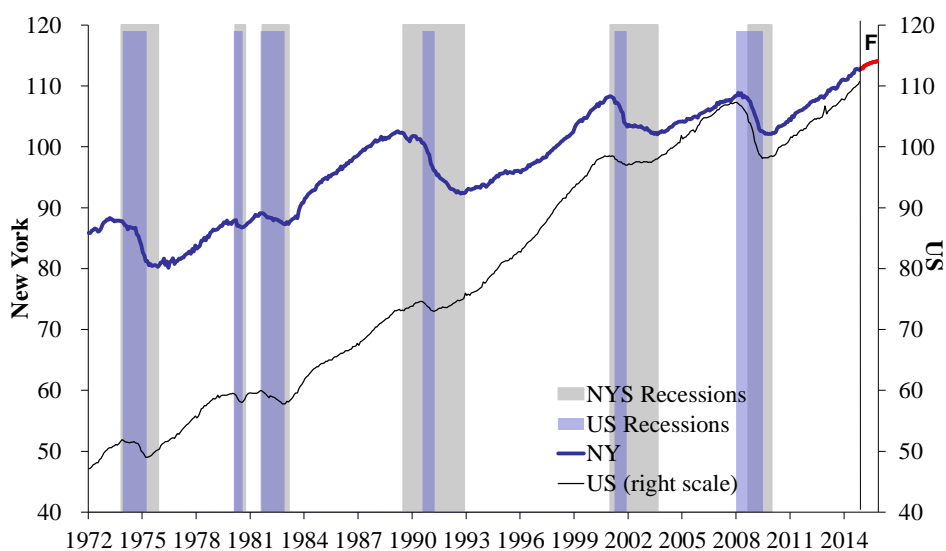
DOB/U.S. incorporates three key theoretical elements into this neoclassical framework: expectations formation, equilibrium relationships, and dynamic adjustments (movements toward equilibrium). The model addresses expectations formation by first assuming that expectations are rational and then specifying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

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

THE NEW YORK STATE ECONOMY

New York State's private labor market continues to enjoy robust growth. On a year-ago basis, private sector employment grew 2.2 percent in the second quarter of last year, the most recent for which detailed data are available. Growth was led by the leisure and hospitality sector, which benefits from strong domestic and international tourism, and the construction sector, fueled in turn by a thriving real estate market. The State's professional and business services sector continues to experience strong growth, consistent with robust U.S. corporate profits growth, which in turn supports demand for the services this sector provides. State finance and insurance sector growth and growth in the information sector – which includes social media – are both estimated to have exceeded growth at the national level in those industries for 2014. The Budget Division estimates private sector State employment growth of 2.0 percent for all of 2014 and 1.7 percent growth in 2015, representing five consecutive years of above-average employment growth.

Figure 37
New York State Index of Coincident Economic Indicators



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

Source: Moody's Analytics; DOB staff estimates.

In contrast with the State's private sector, the public sector has been shrinking, with the 0.3 percent loss of government jobs bringing overall State employment growth down to 1.8 percent in 2014Q2. The ongoing contraction of government has contributed to historically weak rates of wage growth. Wages grew 4.2 percent on a year-ago basis in the second quarter of last year, well below the average quarterly growth rate of 5.6 percent from 1983Q1 through 2007Q4, the 25-year period before the financial crisis. The Budget Division projects State wage growth of 4.7 percent in 2015, following growth of 5.7 percent in 2014 and 2.1 percent in 2013. Note that 2014 wage growth is elevated by the shifting of \$6 billion in wages and bonuses from early 2013 into the final quarter of 2012 in anticipation of higher federal tax rates for high-income households. Adjusting for that shift yields wage growth of 4.6 percent for 2014.

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. The last column of the table below reports the number of private sector jobs lost due to the recession, although labor market cycles do not always coincide precisely with the technical business cycle dates.

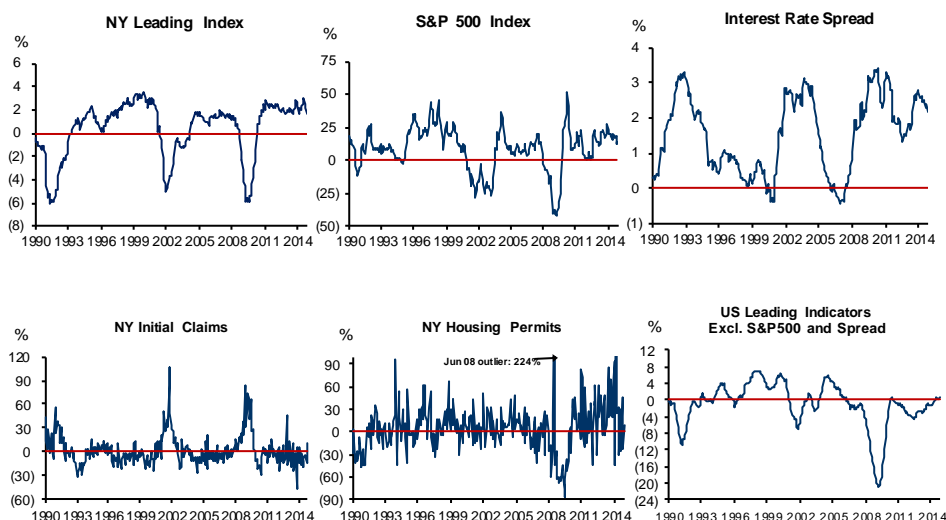
NEW YORK STATE BUSINESS CYCLES

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

Source: DOB staff estimates.

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

Variables Used in New York Index of Leading Indicators



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

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The long lag with which the New York economy entered the last recession contrasts sharply with the experience of the prior five downturns. As illustrated in Figure 37 on page 74, the State entered three of the five prior recessions earlier than the nation as a whole, and entered the remaining two only one month later. The State's estimated business cycle trough date is December 2009, which implies that New York's recession was two months shorter than that of the nation as a whole.

¹ R. Megna and Q. Xu (2003). "Forecasting the New York State Economy: The Coincident and Leading Indicators Approach," *International Journal of Forecasting*, Vol 19, pages 701-713.

² J.H. Stock and M.W. Watson (1991), "A Probability Model of the Coincident Economic Indicators," in K. Lahiri and G. H. Moore (eds.), *Leading Economic Indicators: New Approaches and Forecasting Records*, New York: Cambridge University Press, pages 63-85.

The Budget Division uses the State coincident economic index to determine the State's business cycle turning points (see Box 4). The index's level and growth are plotted in Figure 37 along with the turning points for both the New York and U.S. business cycles. Based on the index, the State economy is estimated to have experienced a business cycle peak in August 2008, fully eight months after the nation peaked as a whole. The index also indicates that the State recession ended in December 2009, implying a six-month lag, and that the State recession was just a bit shorter than the national downturn. Between January and November 2014, the index accelerated 2.0 percent from the same period in 2013, and up slightly from the 1.9 percent observed for all of 2013. Based on the leading index, State economic activity is projected to grow 1.5 percent in 2015. This pace of growth compares favorably with prior expansions, and as indicated in Figure 37, with the pace of national economic growth as well.

New York State is home to the world's financial capital, and while that status confers many benefits, it also imparts a high degree of employment and wage volatility. State wages fell 7.2 percent in 2009, the largest wage decline in the almost 30-year history of the Quarterly Census of Employment and Wage (QCEW) data, the most accurate source of state-level data available. Immediately thereafter, the implementation of the Troubled Asset Relief Program (TARP), combined with the Federal Reserve's historically expansive monetary policy both during and after the recession, dramatically reduced finance industry borrowing costs and put equity markets on a path to recovery. These developments resulted in finance and insurance sector bonus growth of 23.8 percent for 2010 and overall wage growth of 4.4 percent. However, since then equity market volatility and the evolving regulatory environment have altered the pattern of risk-taking behavior by Wall Street firms, with negative impacts on both employment and wage growth in that sector. Thus, the State economy appears to be undergoing a period of adjustment, one symptom of which is healthy, above-average private sector job growth, combined with below-average rates of wage growth and a more diversified wage base.

Outlook for Employment

Since the end of the recession, the New York State labor market has enjoyed strong private sector job growth. Table 7 presents a current profile of the State job market by comparing year-ago growth rates for the second quarter of 2014, the most recent quarter for which detailed QCEW data are available, against U.S. employment for the same period. U.S. private employment growth was 0.1 percentage point lower than for New York in 2014Q2. Table 7 reveals additional trends that differentiate New York from the nation. In the second quarter of 2014, New York led the nation in six sectors: utilities;

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information; construction; finance and insurance; leisure, hospitality and other services; and health and social assistance services. Job growth in the information sector reflects the growing attractiveness of the State's business climate. The growth in the construction industry benefited from a strong real estate market, particularly in New York City. The growth in the finance and insurance sector reflects New York State's status as home to the world's financial capital, and represents a reversal of fortune after seven consecutive quarters of year-ago declines ending in 2013Q4. Job growth in the leisure, hospitality and other services sector confirms New York City's status as a shopping and tourist destination. In contrast, the State's manufacturing, mining and government sectors experienced declines despite growth at the national level.

TABLE 7
YEAR-AGO PERCENT CHANGE IN EMPLOYMENT FOR 2014Q2: NYS v. US

	NYS	US
Total Private	2.2	2.1
Utilities	4.1	(0.4)
Construction	4.5	3.3
Manufacturing and Mining	(1.0)	0.9
Wholesale Trade	0.4	2.3
Retail Trade	1.7	2.1
Transportation and Warehousing	2.7	2.7
Information	1.3	(1.1)
Finance and Insurance	1.3	0.1
Real Estate and Rental and Leasing	2.2	2.4
Professional, Scientific, and Technical Services	2.2	2.7
Management, Administrative, and Support Services	1.5	4.2
Educational Services	1.0	1.5
Healthcare & Social Assistance Services	2.2	1.7
Leisure, Hospitality and Other Services	3.4	2.3
Government	(0.3)	0.1
Total	1.8	1.8

Note: Management, and administration and support services includes NAICS sectors 55 and 56; sum of sectors may not match the total due to the exclusion of unclassified.
Source: NYS Department of Labor; DOB staff estimates.

Going forward, the Budget Division projects total State employment growth of 1.4 percent for 2015, following growth of 1.7 percent for 2014. Private sector job growth of 1.7 percent is projected for 2015, after growth of 2.0 percent in 2014. The State's maturing labor market recovery compares to overall national job growth for 2015 of 2.1 percent and private growth of 2.5 percent. Table 8 shows projected changes in employment for 2015 by sector. Construction employment growth is expected to slow to a still healthy 2.5 percent based on an anticipated slowdown in State housing starts. An accelerating national economy will continue to increase demand for New York's large business service sector, thus professional and business services will continue to be a growth engine. Tourism will continue to be a key source of strength, supporting strong job growth in the leisure and hospitality sector.

After seven consecutive quarters of job losses, the finance and insurance sector finally started to add jobs starting in the first quarter of 2014. Employment in this sector grew 0.7 percent for the first quarter of last year, followed by 1.2 percent growth in the following quarter. In the wake of Superstorm Sandy, some firms in this sector temporarily transferred some employees out-of-State. The return of at least some of these

workers helped to boost job growth in this sector to 1.0 percent in 2014. Assuming this transfer is a one-time event, the Budget Division projects weaker 0.3 percent growth for 2015. After six consecutive years of decline, the government sector is expected to have its first year of positive, albeit low, growth since the start of the recession in 2015.

TABLE 8
CHANGE IN NEW YORK STATE EMPLOYMENT FOR 2015

	Percent	Levels
Total Private	1.7	124,660
Utilities	0.4	130
Construction	2.5	8,290
Manufacturing and Mining	(0.0)	(110)
Wholesale Trade	0.4	1,350
Retail Trade	1.3	12,400
Transportation and Warehousing	1.6	3,530
Information	0.5	1,220
Finance and Insurance	0.3	1,370
Real Estate and Rental and Leasing	1.0	1,910
Professional, Scientific, and Technical Services	2.3	14,500
Management, Administrative, and Support Services	2.5	15,090
Educational Services	2.2	7,220
Healthcare & Social Assistance Services	1.8	25,010
Leisure, Hospitality and Other Services	2.7	32,750
Government	0.0	450
Total	1.4	125,110

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

Source: NYS Department of Labor; DOB staff estimates.

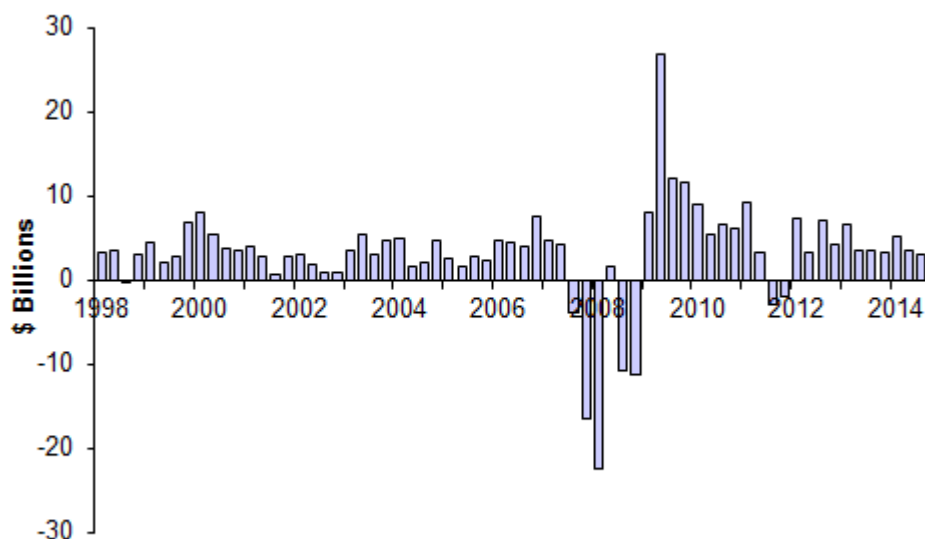
The Continuing Transformation of the Securities Industry

The historic transformation of the securities industry that was spurred by the events of 2007 and 2008 and culminated in the fall of two of the industry's largest investment banks continues to have a significant impact on Wall Street profitability, employee compensation, and State revenues. Figure 38 shows the unprecedented degree of volatility exhibited by securities industry profits in recent years, as represented by profits of New York Stock Exchange member firms. Some of this volatility is evident in two important drivers of industry revenues and profits: initial public offerings (IPOs) and corporate debt underwriting.

While debt underwriting is closely linked to interest rates and the overall level of economic activity, IPOs tend to rise and fall with the secondary equity market. The spikes that appear in Figure 39 correspond to the historically large offerings that have gained much attention in recent years, such as the \$15.8 billion General Motors IPO in November 2010, the notorious Facebook offering in May 2012, the public sale of Twitter in November 2013, and, most recently, the record-setting \$21.8 billion Alibaba IPO in September 2014. Both debt underwriting and IPOs show upward momentum since their lows of 2009. Indeed, with 275 IPOs, 2014 was the best year for the U.S. IPO market since 2000. Merger and acquisition (M&A) activity also surged to its highest level since 2000 in 2014, spurred by the stock market rally, low interest rates, speculation over the Federal Reserve's timing of interest rate hikes, and, prior to September 2014, the search

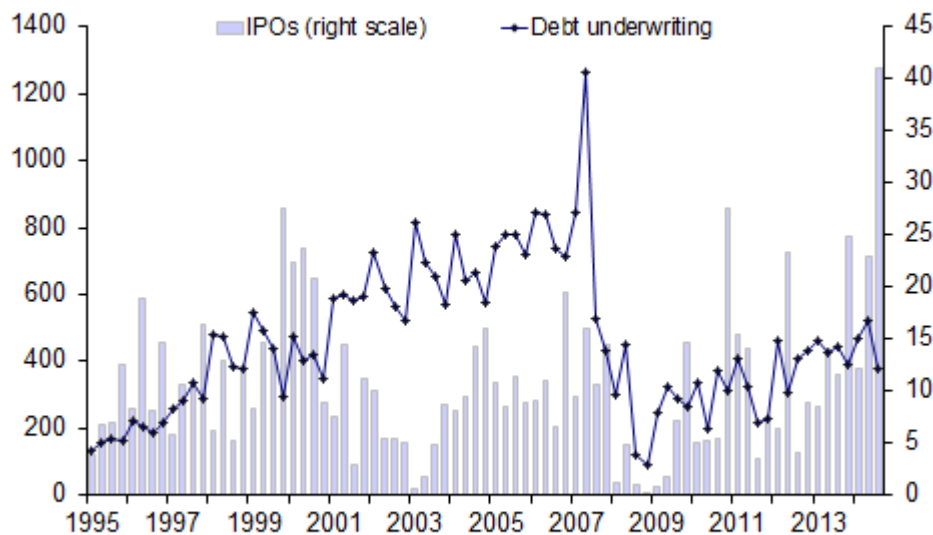
for tax inversion benefits.¹⁵ Newly enacted anti-inversion regulations and anti-trust laws are expected to reduce M&A activity in 2015, as are rising interest rates resulting from the anticipated shift in Federal Reserve policy in the middle of 2015.

Figure 38
Securities Industry Profits



Note: Profits represent those of NYSE-member firms only.
Source: SIFMA; NYSE Euronext.

Figure 39
Major Drivers of Financial Market Activity
\$ Billions



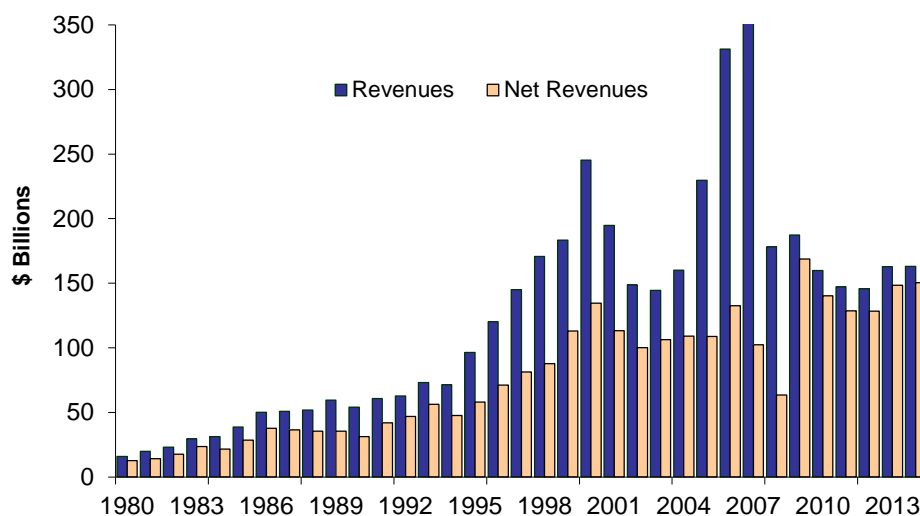
Source: Securities Industry and Financial Markets Association (SIFMA).

¹⁵ On September 22, 2014, the U.S. Treasury Department adopted several regulations to make tax inversion abroad more difficult or reduce the benefits to companies that had already done so.

Despite a strong IPO market and surging M&A activity, industry revenue and profits have largely been lackluster, exhibiting a definitive downward trend since 2009. This downward trend is in part attributable to the large legal settlements extracted from banks in the wake of the 2008 financial crisis. The securities industry has paid an estimated \$130 billion in settlement costs since the start of 2009.

Figure 40 shows New York Stock Exchange member firm revenues before and after subtracting interest costs. Total revenues are projected to rise 0.2 percent in 2014, following 0.6 percent growth in 2013. More generally, total revenues have been deteriorating since 2009. Estimated revenues for 2014 remain 11.9 percent below their 2009 levels and 53.7 percent below 2007 levels. Table 9 lists the primary sources of revenue and expenses for NYSE member firms for the last eight years. Clearly, the three greatest areas of improvement in industry balance sheets after 2008 are the decline in interest expenses, due to historically low interest rates; increasing gains from equity underwriting, including IPOs; and the upward trend of fee and asset management revenues.

Figure 40
NYSE Member Firm Revenues



Note: Estimate for 2014 is based on three quarters of actual data and one quarter estimated; net revenues exclude interest expenses.
Source: SIFMA.

Table 9 also highlights some of the sources of the recent weakening in securities industry revenues. Industry trading gains fell dramatically in 2010 and 2011, and have remained relatively low for the past three years due to several factors. Equity markets have been volatile from repeated cycles of panic in response to sovereign debt concerns both here and in the euro-zone. With the return of the interest rate conundrum alluded to above, long term interest rates have stayed stubbornly low, reducing gains from fixed-income trading and from lending. The evolving regulatory environment under the Dodd-Frank Wall Street Reform and Consumer Protection Act has also had a large impact on bank behavior since it was signed into law in July 2010.

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Some of the key goals of the Dodd-Frank reform were strengthening bank capital requirements, limiting counterparty risk and, ultimately, systemic risk. One of the major provisions of Dodd-Frank required the formulation of regulations to enforce the so-called “Volcker Rule,” which puts limits on proprietary trading on the banks’ own account. Final regulations were released and adopted by regulatory agencies in December 2013; however this past December the Federal Reserve decided to give banks two more years to conform investments made prior to December 2013 with the regulations. But banks still generally have to cease proprietary trading activities by July 2015. They will also have to divest themselves of any interest in private equity, venture capital funds and hedge funds made after December 2013 by July. Having to comply with the reform has had a large impact on the way Wall Street does business, as can be seen in Table 9.

TABLE 9
NYSE MEMBER FIRM FINANCIAL RESULTS
(\$ Billions)

	2007	2008	2009	2010	2011	2012	2013	2014*
Revenues	352.0	178.1	185.3	159.8	147.3	161.9	162.8	163.1
Commissions	28.8	30.2	26.5	25.0	25.7	22.1	23.1	22.0
Trading Gain (Loss)	(10.3)	(71.8)	28.4	16.7	1.5	14.8	11.1	14.7
Underwriting Revenue	23.2	16.5	19.6	20.3	18.3	22.2	24.9	25.2
All Other	310.4	203.2	123.5	97.7	101.8	102.7	103.8	101.3
Expenses	363.4	220.7	126.7	134.7	139.5	137.8	145.8	147.7
Total Compensation	69.6	59.8	61.3	66.9	68.0	67.5	70.4	72.1
Interest Expense	249.8	114.5	18.6	19.6	18.7	18.8	14.4	12.7
All Other Expenses	44.0	46.3	46.7	48.2	52.8	51.6	61.0	62.9
Pre Tax Net Income	(11.3)	(42.6)	58.6	25.1	7.7	24.0	17.0	15.4

* Estimate for 2014 is based on three quarters of actual data and one quarter estimated.

Source: SIFMA.

In addition to Dodd-Frank, implementation of Basel III, the third incarnation of the Basel Accords establishing global regulatory standards for managing bank risk, was to start in 2013, but the implementation date has since been extended to 2019. Basel III specifically aims at improving the ability of banks to withstand periods of systemic economic and financial stress through more stringent capital and liquidity requirements. But these strengthened requirements will tend to put further pressure on revenue-generating activity and bank profitability by reducing leverage ratios, thus intensifying the pressure that already exists in the current environment of low long-term interest rates.

While much room remains for interpretation, evidence suggests that the new regulatory environment is altering bank business practices in two fundamental ways. First, the composition of executive compensation appears to be evolving away from cash in favor of deferred compensation and stock grants, more closely tying pay to the long-term performance of the firm. As a result, the revenue growth estimated for 2014 may not translate into an equivalent rise in taxable bonus pay for the current 2014-15 bonus season. The deferral of compensation will tend to smooth out bonus payments, as the cash portion of current-year compensation packages combines with the deferred portions of prior years.

Secondly, to reinforce such long-term incentives, packages include claw-back provisions that allow firms to take back a portion of bonus pay if actions taken by an

employee are ultimately judged to have been too risky. Consistent with that principle, firms are expected to continue to alter their business practices in favor of less risky behavior both by reducing leverage and by engaging in fewer risky trades. The upward trend of revenue generated by less risky fees and asset management supports this claim. The revelation that a major Wall Street bank engaging in risky trades lost \$6.2 billion in a single quarter in 2012 served to reinforce the urgency surrounding regulatory reform.

Outlook for State Income

The Budget Division projects total personal income growth of 4.5 percent for 2015, slightly stronger than the 4.3 percent growth in 2014. These growth rates are driven largely by the largest component of personal income, wages. New York State wages are estimated to have risen 5.7 percent for 2014, with growth expected to fall to 4.7 percent this year.

Although job growth is expected to fall modestly in 2015 as the State's labor market expansion matures, the falloff in wage growth is only partially related to that drop. Estimated wage growth for 2014 is somewhat elevated due to actions by employers and their high-income employees at the end of 2012 in anticipation of increases in the two top marginal Federal income tax rates at the end of that year. The Budget Division estimates that New York businesses shifted approximately \$6 billion of their cash bonus payouts from the first quarter of 2013 to the end of 2012 so that their employees could take advantage of the expiring lower tax rates. Absent this shifting, we estimate that wages would have grown 4.3 percent in 2013 and 4.6 percent in 2014. Compared with the latter estimate, the projected decline in growth in 2015 to 4.5 percent appears quite marginal.

The wage outlook for 2015 reflects 6.1 percent growth in finance and insurance sector bonuses for the 2014-15 bonus season in progress, as well as solid growth in some of the State's other high-wage industries, such as professional and business services. In addition, the government sector is expected to be less of a drag on wage growth than in past few years. Private sector wages are projected to grow 5.0 percent for 2015, while government sector wage growth is projected to improve to 2.8 percent in 2015 from 1.9 percent in 2014.

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.

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 year-ago percent-change basis, were 18.3 percent and 8.5 percent, respectively. The comparable growth rates originally published by the BEA were 2.4 percent and 5.4 percent. These estimates have since been revised up to 7.3 percent and 9.2 percent, respectively. However, the lack of timeliness in the revision process limits the usefulness of BEA data for state forecasting purposes.

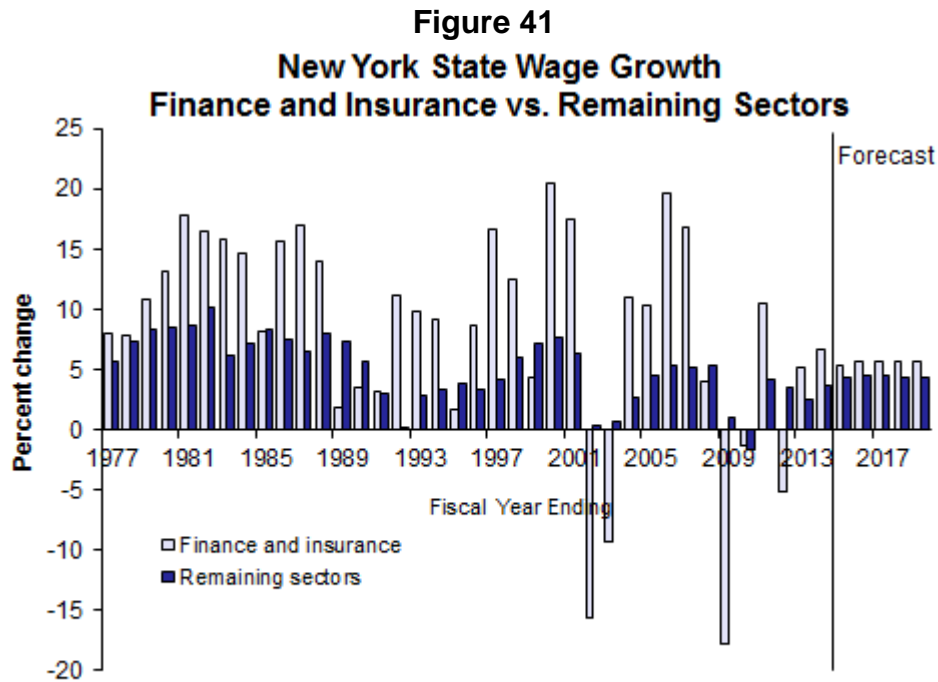
A comparison with yet another source of wage data also demonstrates the greater accuracy of the QCEW data. Since the amount of wages withheld for personal income tax purposes varies systematically with wages itself, withholding data provide a useful guide for estimating State wage growth. For example, 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.

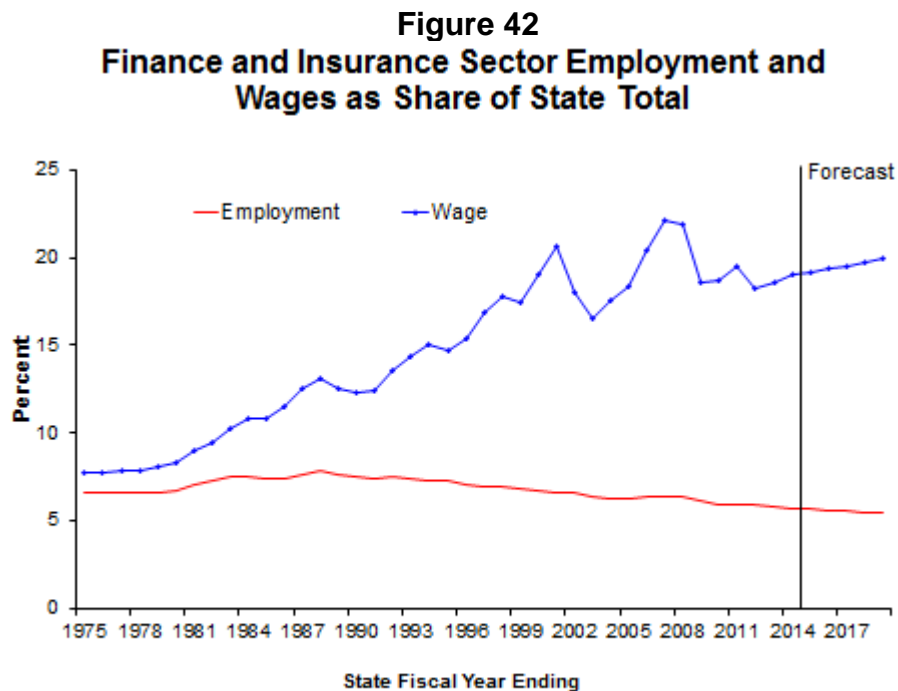
An increasing portion of New York State wages has been paid on a variable basis, in the form of either bonus payments or proceeds derived from the exercise of stock options. Because no government agency collects data on variable income as distinct from ordinary wages, it must be estimated. DOB derives 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.



Source: NYS Department of Labor; DOB staff estimates.



Source: NYS Department of Labor; DOB staff estimates.

New York State employment and incomes are profoundly affected by the fortunes of the financial markets. Figure 41 shows how much faster wages grew in the finance and insurance sector compared to the nonfinancial sectors for most of history. However, this trend is now much more muted, as the chart makes clear, with projected rates of finance and insurance sector wage growth averaging only 1.1 percentage points above that for the remaining sectors. Figure 42 shows how the substantially higher wage growth in the

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finance and insurance sector increased its share of State total wages over time on a State fiscal year basis to a peak of 22.1 percent in 2006-07, but it has since fallen and is unlikely to revisit that peak in the near future. The industry's employment share is substantially lower than its wage share at only 5.7 percent of total State employment in 2013-14 and is expected to continue its downward trend.

While we expect finance and insurance sector bonus growth to gradually improve going forward and hence wages to increase, we expect them to remain well below historical average growth rates as the restructuring of the insurance and finance industry increasingly moves compensation out of wages and bonuses into non-wage income. This trend may accelerate if laid-off workers from the banking sector are finding new homes in private equity firms and hedge funds where compensation comes in the form of carried interest, dividends, and capital gains rather than wages. As a result, financial sector wage growth is expected to be much more in line with nonfinancial sector wage growth and the industry's share of total wages is not projected to reach its prior 2006-07 peak at any point over the entire forecast horizon.

Despite recent declines, finance sector workers continue to be, on average, very highly compensated. Even after falling to \$174,000 in 2008-09 in the wake of the financial crisis, finance and insurance sector average wages were still 247 percent higher than the average wage for the rest of the State economy. By 2015-16, the industry's average wage is projected to rise to about \$238,000, which would be 306 percent above that of the remaining sectors. Financial market wages have an important effect on 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, and other goods and services.

Variable Income Growth

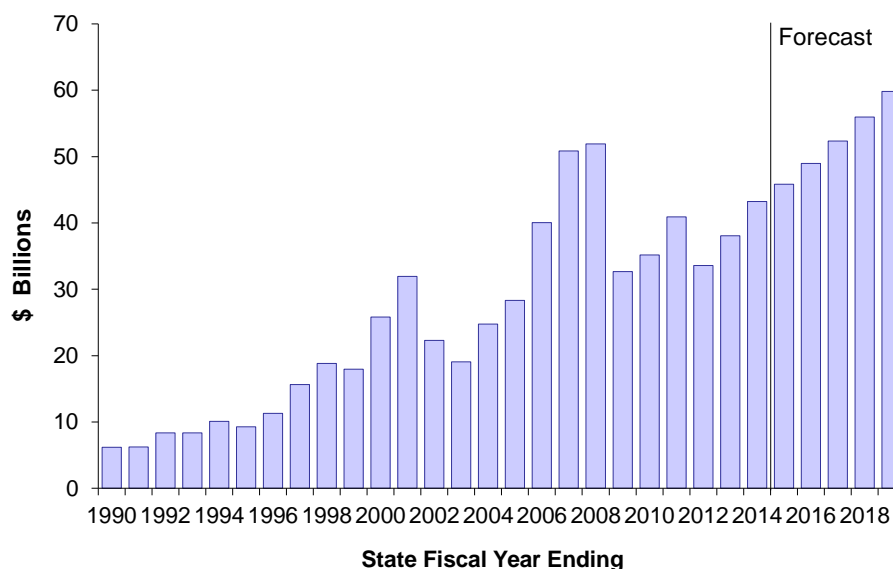
Variable income is defined as that portion of wages derived primarily from bonus payments, stock incentive income, and other one-time payments. Firms tend to grant employee bonus “packages” during either the fourth quarter of a given year or the first quarter of the following year as a form of performance incentive for the prior calendar year. Although the cash component of bonus income is unambiguously counted as wages (and taxes withheld) in the quarter in which it was granted by the firm, stock incentive income typically is not. Stock grants do not appear in the wage data until they are vested. Nevertheless, variable income payments are sufficiently concentrated in the fourth and first calendar-year quarters to make the State fiscal year a logical period of analysis for discussing the determinants of variable income growth.¹⁶

The Budget Division projects total State variable income to rise 6.2 percent in the current fiscal year, followed by an increase of 5.8 percent for 2015-16, led primarily by the finance and insurance sector. Figure 43 portrays how dramatically variable income paid to employees in the finance and insurance industry has grown since the early 1990s. An incentive-based payment structure allows employers to share with employees the

¹⁶ See Box 5 on page 83 for a more detailed discussion of bonus estimation.

risks of doing business and is particularly attractive to the securities industry, given the degree of volatility in industry profits.

Figure 43
New York State Finance and Insurance Sector Bonuses



Source: NYS Department of Labor; DOB staff estimates.

The cash portion of finance and insurance sector bonuses is estimated to rise 6.1 percent for the current 2014-15 bonus season, resulting in a payout of \$45.8 billion. This growth is well below the 13.5 percent estimated for 2013-14. The finance industry continued to benefit from low interest rates in 2014 on the expense side. But despite strong equity market growth last year on an annual average basis, extreme volatility appears to have negatively affected trading gains, resulting in very weak revenue growth for the third quarter, and likely even weaker growth in the fourth quarter. A similar degree of volatility in long-term interest rates slammed trading gains on the fixed income side as well. Interest rate compression resulting from falling long-term rates is also thought to be putting downward pressure on bank lending profits. These developments, combined with large fines paid out last year in association with legal settlements, will likely contribute to the decline in bonus growth for 2014-15.

Equity market growth is projected to be slower in 2015, as interest rates begin to rise with the onset of Federal Reserve rate hikes starting in June 2015. However, the Budget Division expects long-term rates to rise with short-term rates, making lending more profitable. A reduction in the intense volatility that characterized financial markets in 2014 is expected to result in improvement in NYSE member-firm revenue growth over the 0.2 percent growth estimated for 2014. The Budget Division projects finance and insurance sector bonus growth of 6.8 percent for 2015-16, representing a payout of \$49.0 billion, \$3.2 billion above the 2014-15 payout.

The Budget Division's model for finance and insurance sector bonuses is based on an underlying volume of revenue-generating activity that includes corporate equity and debt

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underwriting. As indicated in Figure 39 on page 79, the most recent available data suggest that 2014 was the best year for IPOs since 2000. However, debt underwriting volume was below the average for the last ten years. Growth both here and abroad should increase the demand for debt underwriting, mitigated somewhat by rising interest rates in the U.S. However, the volume of equity underwriting activity, which is typically closely correlated with growth in the secondary market for equities, is not expected to repeat its 2014 performance.

Given the pressures to re-incentivize and cap employee compensation, the income outlook for the finance industry is highly uncertain at present, producing a high degree of risk to the outlook for bonuses. Historically, there has been a close relationship between New York Stock Exchange (NYSE) member-firm revenues and finance and insurance sector bonus payouts. Though bonus payouts in the past have been evenly split between cash and stock incentive payments, the split has recently become more heavily weighted toward stocks as firms seek to reconstruct their compensation packages, with large portions of the total bonus package deferred over a multi-year period. This trend is expected to continue going forward, having substantial implications for Federal, State, and local tax revenues, since income derived from stock grants is not taxed until the stocks vest. In addition, with new regulations being developed pursuant to the Dodd-Frank Act, the business model that earned large profits from highly-leveraged assets is being transformed. This change appears to already be resulting in lower revenues for the industry and creates a substantial degree of uncertainty surrounding the Budget Division outlook.

Nonbonus Wages

Unlike the variable component of income, nonbonus wages are driven by changes in employment and the nonbonus average wage and are therefore 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 2015 calendar year, surpassing an estimated 2.4 percent increase in 2014. With the unemployment rate projected to decline from 6.4 percent in 2014 to 6.0 percent in 2015, total nonbonus wages are projected to grow 4.5 percent for 2015, following an increase of 4.1 percent for 2014.

Average Total Wages and Inflation

Average total wages are projected to increase 3.2 percent for 2015, following an estimated increase of 4.0 percent for 2014, which again is elevated due to the income shift from 2013 into 2012. Average total wage growth without the income shift is estimated at 2.8 percent for 2013 and 2.9 percent for 2014. The Budget Division projects growth in the composite CPI for New York of 1.1 percent for 2015, following 1.5 percent growth for 2014. Projected 2015 inflation for New York is consistent with that for the nation.

Nonwage Income

The Division of the Budget projects a 4.2 percent increase in the nonwage components of State personal income for 2015, higher than the increase of 2.7 percent for 2014. Property income is one of the largest components of nonwage income at the state level and includes interest, dividend, and rental income; dividend income is in turn estimated to be a large component of property income based on State income tax return data. Explosive growth in equity markets, growing corporate profitability and the resurgence of profitable sales by private equity firms are expected to boost U.S. dividend income in 2015. The Budget Division expects U.S. dividend income to grow 7.5 percent in 2015, implying comparable growth for New York. Interest income is also expected to accelerate in 2015 due to the anticipated shift in monetary policy, though at a much smaller pace. Consequently, New York property income is projected to grow 4.4 percent in 2015, up from 3.0 percent growth in 2014.

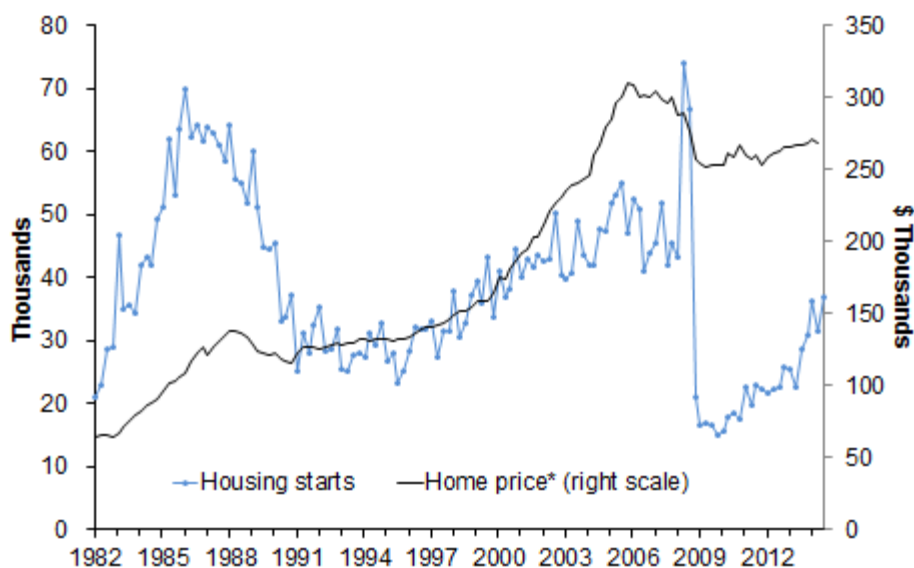
Proprietors' income is expected to accelerate at both the national and State level with the strengthening of the domestic economy, and is projected to rise 5.3 percent in 2015 in New York, following growth of 4.3 percent in 2014. The employee contribution to Social Security is expected to rise 5.3 percent in 2015, following growth of 6.5 percent in 2014. Transfer income is expected to grow 4.7 percent in 2015, following growth of 3.6 percent in 2014.

The Housing Market Recovery Takes a Breather

New York State's housing market exhibited healthy growth in the first three quarters of 2014 but hints of a slowdown had emerged by the end of the year. Figure 44 compares the recent trends in both housing starts and home prices in New York.¹⁷ With low mortgage rates and healthy employment growth, housing starts grew 28 percent for the first 11 months of 2014 over the same period a year ago, up from 17 percent in 2013. However, much of that growth was concentrated in the first part of the year; the two months of data available for the fourth quarter of 2014 show a year-ago decline of 2.6 percent. A similar trend appears in the residential permit data: after 32.9 percent growth for the first three quarters of last year, residential permits fell 3.3 percent in the fourth quarter, based on the first two months of data. Thus, State housing starts are projected to decline 7.8 percent in 2015, following 25.4 percent growth in 2014. The strong 2014 performance was the result of strong growth in both single-family and multifamily units (see Figure 45). In the wake of Superstorm Sandy, about 300,000 claims were filed by homeowners whose homes were either damaged or destroyed by the storm. The rebuilding and replacement of these homes elevated the growth in housing starts in 2013 and 2014. The near-term forecast is supported by the expected rise in mortgage interest rates, while credit conditions remain tight by recent historical standards. Despite double-digit growth in 2013 and continued healthy growth for much of 2014, housing starts remain at historically low levels.

¹⁷ A trough in the State housing starts series is hard to pinpoint due to a change in New York City building codes that took effect on July 1, 2008, requiring developers to add features such as sprinklers, smoke detectors, fire-resistant stairways, and on-site safety managers or coordinators for buildings larger than 10 stories. The change produced a rush to obtain building permits and start work in June of that year and resulted in growth of 11.2 percent multi-family starts in 2008.

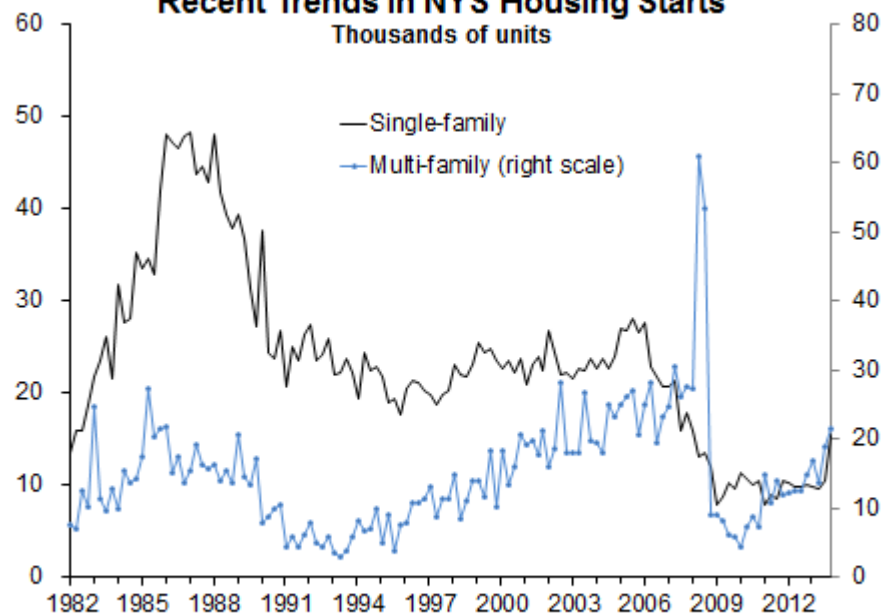
Figure 44
NYS Housing Market Stabilizing



*Average existing single family home price.

Source: Moody's Analytics.

Figure 45
Recent Trends in NYS Housing Starts
Thousands of units



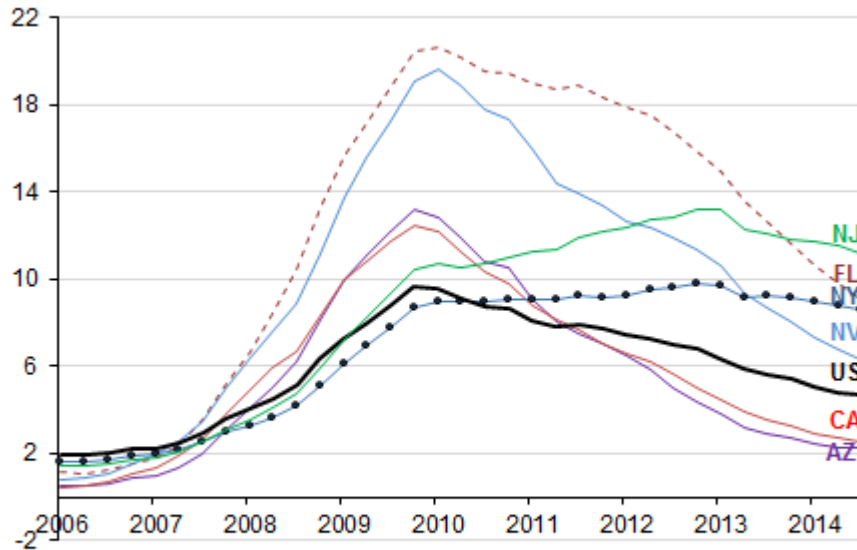
Note: Values for 2014Q4 are based the average of the first two months.

Source: Moody's Analytics.

As for the nation, prospects for the State's residential housing market also depend on the outlook for prices. New York State's average single-family home price is expected to rise 2.9 percent in 2015, following growth of 1.5 percent in 2014. The good news is that because New York's residential housing sector experienced less of a price and construction bubble than many other states, there was less of an overhang to unwind and

thus the rate at which New York mortgages were entering foreclosure had been consistently lower than the nation's since the home-price collapse in 2006. However, the State's foreclosure rate began to exceed that of the nation in 2013Q1, due largely to the impact of Superstorm Sandy. By the third quarter of 2014, the most recent period available, the State's foreclosure rate was 0.55 percent of all loans serviced, well above the national rate of 0.44.

Figure 46
Percent of Seriously Delinquent Mortgage Debt



Source: Moody's Analytics.

New York's percentage of homes in a state of delinquency is also higher than nation's. Figure 46 displays the percentage of total mortgage debt outstanding that is seriously delinquent, defined as mortgage debt that is either more than 90 days past due or in foreclosure. Based on the most recent data, New York continues to look worse than two of the states hit hardest by the housing market collapse, Arizona and California, as well as the nation. The buildup of homeowners in foreclosure or "pre-foreclosure" status in New York is emblematic of the long duration of the foreclosure process here and in other states commonly referred to as "judicial states," where a lender must file a lawsuit in order to initiate a foreclosure. Additional "judicial states" appearing in Figure 46 are Florida and New Jersey. This build up is likely delaying the full recovery of New York's housing market.

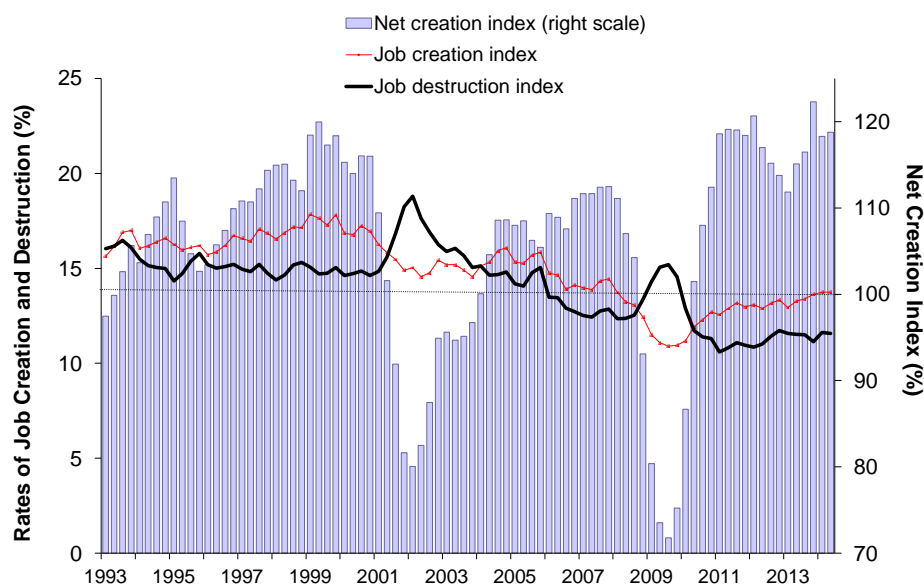
The focus in Figure 46 on statewide trends masks the regional disparity in foreclosure activity within the State. On average, price declines have been greater in the State's downstate counties than Upstate, where home values tend to be much lower. With so many high-value homes well below their values at the height of the bubble and many likely underwater, it is no surprise that the delinquency rate among high-value homes exceeds that of low-value homes and likely accounts for these regional imbalances (see Figure 47). Therefore, the loss of wealth from the decline in home prices and the risk

New York State Labor Market Dynamics

Figure 48 below summarizes the State's private labor-market dynamics from 1993 to 2014. When the State's economy was booming during the early part of the period, the gross number of jobs created well exceeded the gross number destroyed. However, the tide turned in 2001 with the onset of the 2001 national recession. Thus, the State labor market was already losing momentum when the September 11 attacks occurred. The full impact of that tragedy on an already weakened economy is seen during the first quarter of 2002, when the gap between the gross rates of job destruction and job creation was at its widest. The job gap began to close soon afterward, though pausing in early 2003, perhaps indicating the impact of the Iraq war on the business sector outlook. By late 2003, the economic stimulus provided by the expanding national economy was enough to bring the State's 2001-2003 recession to an end.

A strong U.S. economy combined with strong global growth helped to keep the State's net job creation index above 100 percent from the first quarter of 2004 through the third quarter of 2008. Because a significant portion of the State economy is export-oriented, particularly the manufacturing sector, there is a strong association between State export growth and private-sector job growth. But by the first quarter of 2008, a loss of momentum is discernible. Figure 48 shows the gross rate of job creation starting to fall in the first quarter of 2008 and the gross rate of job destruction rising by the following period. The third quarter of 2009 represents a peak in the rate of job destruction and a trough in the rate of job creation. From that point on, however, the State labor market shows improvement. The 2.2 percent rate of net job creation in the second quarter of 2014 is consistent with the Budget Division's 2.0 percent estimate for private sector job growth in 2014, followed by a slower 1.7 percent increase in 2015.

Figure 48
NYS Private Sector Employment Dynamics



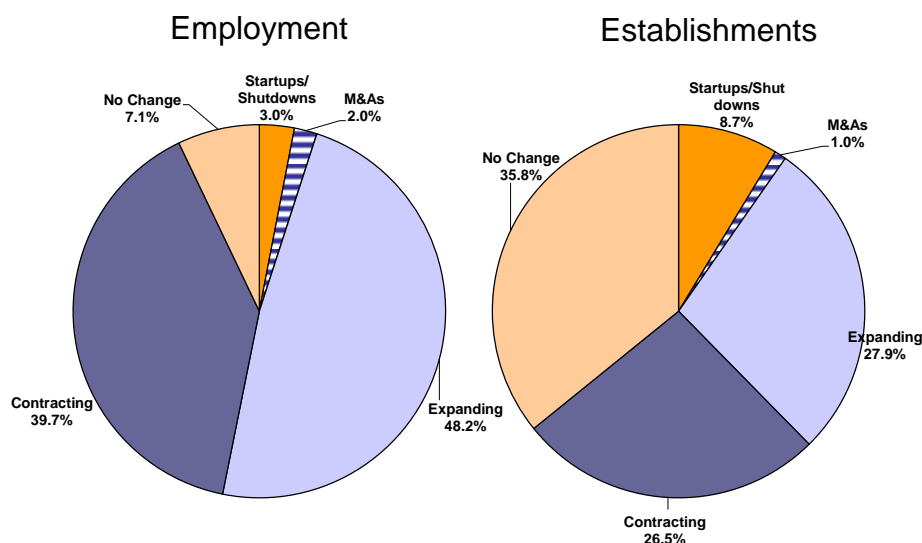
Source: NYS Department of Labor; DOB staff estimates.

The State's Employment and Establishment Base

Figure 49 shows the composition of the State's employment and establishment base for the second quarter of 2014 by type of establishment. Startups and shutdowns accounted for 8.7 percent of the establishment base in 2014Q2. Because these firms tend to be quite small, averaging only about four employees per firm, they accounted for only 3.0 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 24 employees and accounted for 2.0 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: 90.3 percent of the State's establishment base and 95.0 percent of the job base. As indicated in the right-hand panel of Figure 49, the three types of existing firms accounted for somewhat similar shares of establishments: 27.9 percent, 26.5 percent and 35.8 percent, respectively. This tends not to be the case for the shares of the total job base accounted for by expanding, contracting and "no change" firms, which are 48.2 percent, 39.7 percent, and 7.1 percent, respectively. That the job share of expanding firms is significantly higher than that of contracting firms is consistent with the healthy rate of net job creation for the quarter. The average size of existing firms also varies by firm type, with those firms experiencing no change in employment averaging less than three employees, expanding firms averaging 21 employees, and contracting firms averaging 19.

Figure 49
Composition of State's Employment and Establishment Base
2014Q2



Source: NYS Department of Labor; DOB staff estimates.

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 3.3 percent in 2009, about 23 percent of the State's business establishments created jobs. The data for this study derive from the Quarterly Census of Employment and Wages (QCEW) program.² These data include all establishments subject to Federal unemployment insurance laws and cover approximately 98 percent of all employment. For the second quarter of 2014, the most recent period for which data are available, the QCEW data covered 607,116 private sector establishments in New York State and 7,482,097 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 2014 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 2013 and the second quarter of 2014 is constructed by adding together the number of jobs created by firm startups (firms which existed during the second quarter of 2014 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 2013 and the second quarter of 2014, a total of 1,017,250 jobs were created from these three sources. Performing this calculation for the second quarter of 2014 produces the following:

$$\text{Gross rate of job gain} = \frac{\text{Startup gain} + \text{Existing firm gain} + \text{M\&A gain}}{\text{Base}} = \frac{1,017,250}{7,401,701} = 13.7\%$$

This result indicates that the State's gross rate of job creation for the second quarter of 2014 is 13.7 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 more than one million gross number of jobs created during the second quarter of 2014, 52.6 percent were created by firms with less than 50 employees. Another 25.6 percent were created by medium sized firms of between 50 and 250 workers, and the remaining 21.7 percent by large firms with workforces exceeding 250.

We similarly construct a gross rate of job destruction by adding together employment at firms that existed in the second quarter of 2013 but not in the second quarter of 2014, 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 2014 yields:

(continued on next page)

¹ For a similar analysis for the U.S., see U.S. Bureau of Labor Statistics (BLS), "Business Employment Dynamics: First Quarter 2014," <<http://www.bls.gov/news.release/pdf/cewbd.pdf>>.

² For a detailed description of DOB's use of QCEW data, see Box 5 on page 83.

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.

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(continued from previous page)

$$\text{Gross rate of job loss} = \frac{\text{Startup loss} + \text{Existing firm loss} + \text{M\&A loss}}{\text{Base}} = \frac{856,458}{7,401,701} = 11.6\%$$

This result states that the gross rate at which jobs were lost between the two quarters is 11.6 percent. Thus, for the second quarter of 2014, 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 2014, this calculation yields:

$$\text{Net index of job creation} = \frac{\text{Gross rate of job gain}}{\text{Gross rate of job loss}} = \frac{13.7\%}{11.6\%} = 118.8\%$$

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 2014, the construction sector and the transportation and warehousing sector had similar net indices of job creation of 124.9 percent and 122.2 percent, respectively. However, the construction sector has a much higher turnover rate than the transportation and warehousing sector. Understanding these differences has implications for fine-tuning the Budget Division employment forecast.

Employment Dynamics Comparison: 2013Q2

Sector (NAICS code)	Gross rate of job creation	Gross rate of job destruction	Net index of job creation
Construction (23)	21.8%	17.5%	124.9%
Transportation and Warehousing (48-49)	14.4%	11.8%	122.2%

Manufacturing

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

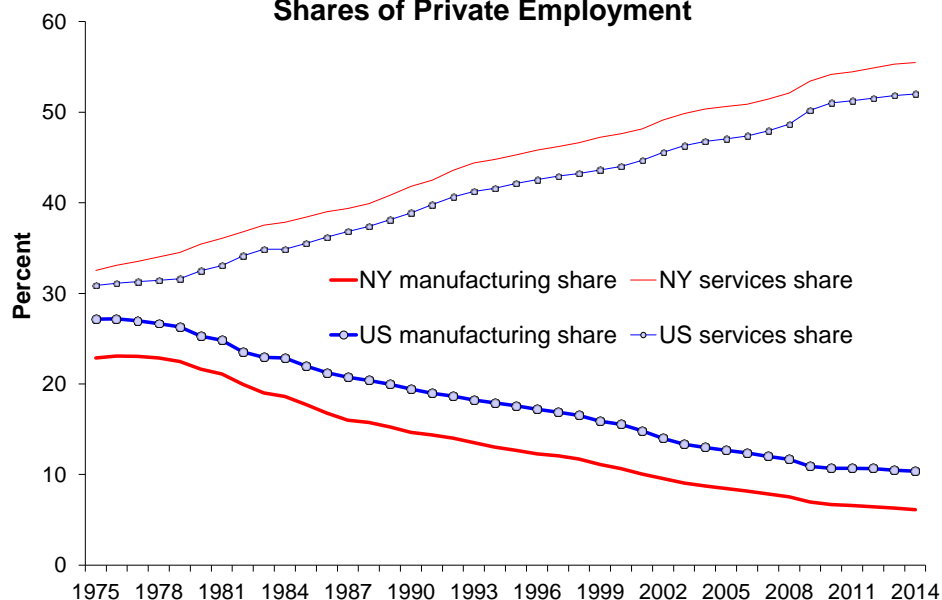
The Budget Division’s forecast for the manufacturing and mining sector represents the continuation of a long-term decline.¹⁹ Since the mid-1970s, New York’s comparative advantage has shifted away from manufacturing in favor of services (see Figure 50), and the manufacturing sector continues to experience significant job losses. Competitive pressures arising from increased globalization have resulted in the decline of State manufacturing employment virtually every year since 1984, with the rate of job loss accelerating during recessions.

The 0.6 percent decline in manufacturing jobs estimated for 2014 would keep sector employment 60 percent below its 1984 level of about 1.2 million workers. For 2015,

¹⁹ The Budget Division combines manufacturing and mining for forecasting purposes. As of the second quarter of 2014, mining accounted for less than 0.1 percent of total employment in this category and will be ignored for the remainder of the discussion.

employment is expected to fall 0.02 percent, to approximately 455,900 workers. These estimates correspond to projected job losses of 2,650 in 2014 and 110 in 2015 respectively. Although there has been a modestly positive impact from the comeback of the nation's auto industry, the State's manufacturing sector continues to be negatively affected by the less-than-robust national economic recovery, the continued globalization of production, and risks associated with the European debt crisis and the global slowdown more generally. Figure 51 suggests that slower growth in demand for State exports is likely to result in less demand for New York State manufacturing workers, with a pick-up expected in 2015 as global growth improves. Moreover, Figure 52 indicates that the demand for State exports is sensitive to the value of the U.S. dollar. Consequently, the recent strengthening of the U.S. dollar poses a risk to the State's manufacturing sector in 2015.

Figure 50
Manufacturing and Service Sector
Shares of Private Employment

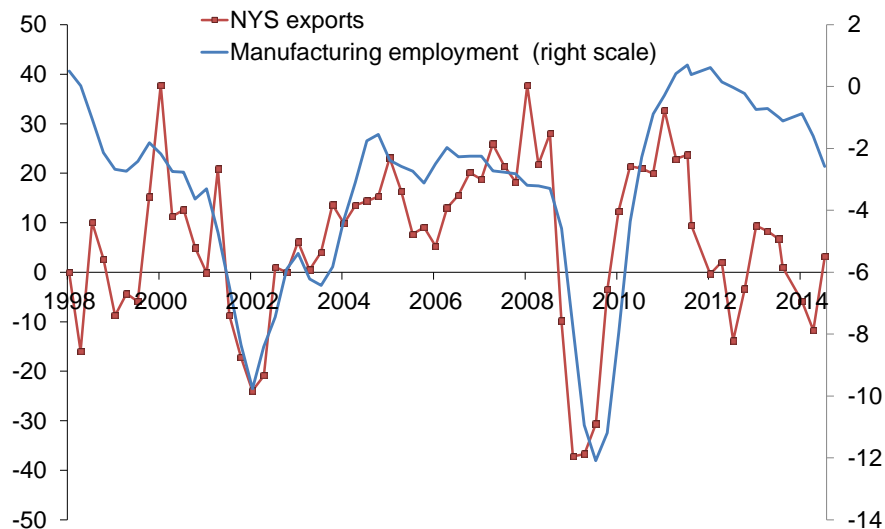


Source: Moody's Analytics; NYS Department of Labor.

In the wake of the 2001-03 State recession, job creation began to rise and job destruction continued to fall, leading to a net index of job creation of almost 90 percent by the end of 2004 (see Figure 53). The net index dropped back down to about 82 percent by the second quarter of 2007, consistent with the slowdown in manufacturing nationwide, in advance of the "official" start of the national recession in December 2007. Those losses accelerated starting in 2008 due to an increasing rate of job destruction and a falling job creation rate. Losses continued in 2009, as net creation index reached just 33 percent by the third quarter of 2009, resulting in a decline of 10.9 percent for the year, the largest in the history of the series. After a brief period of very low growth, the sector is expected to go back to declines, with a 0.6 percent employment decline in 2014 after an decline of about the same in 2013. Minor declines will continue in 2015, estimated around 0.02 percent.

Figure 51

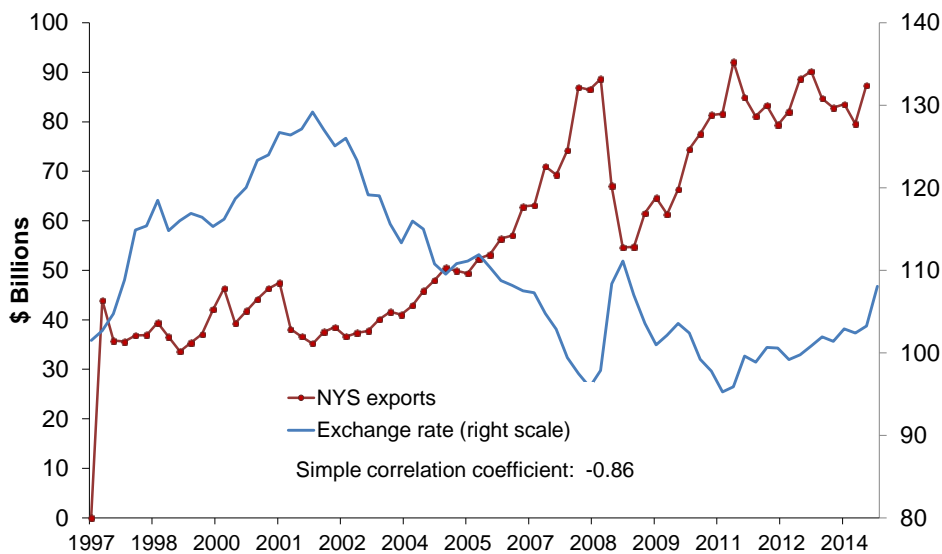
NY State Exports and Manufacturing Employment Year-ago percent change



Note: The two series have a simple correlation coefficient of 0.55.
Source: Moody's Analytics.

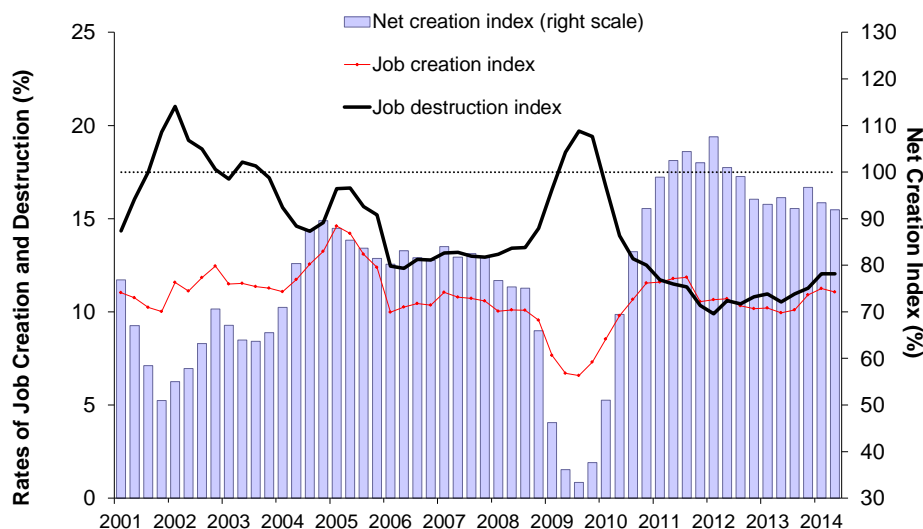
Figure 52

Dollar Exchange Rate Index and NYS Commodity Exports



Source: Moody's Analytics

Figure 53
Mining and Manufacturing



Source: NYS Department of Labor; DOB staff estimates.

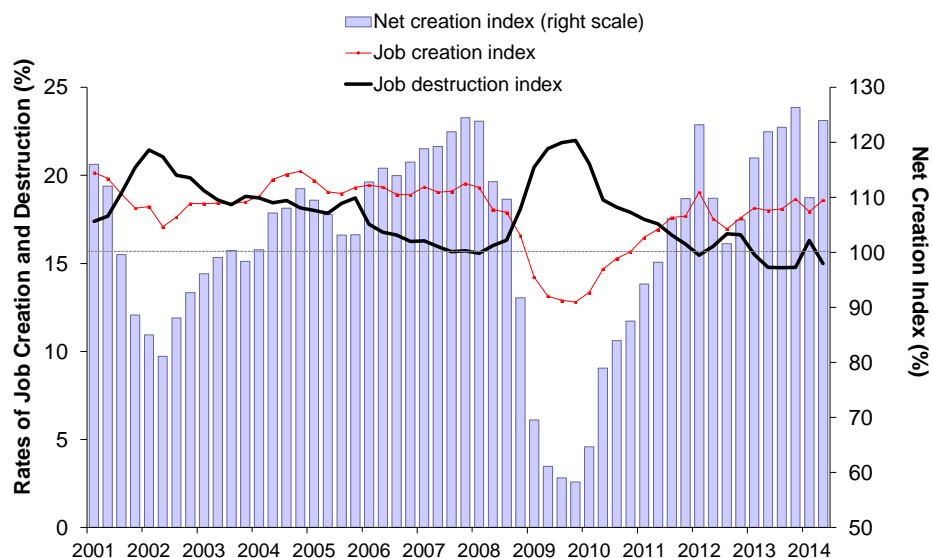
Construction and Real Estate

Despite the fact that New York's residential housing market experienced less of the bubble than the rest of the nation, the impact on the labor market was nonetheless severe. Commercial real estate was also hard hit in the last recession. As a result, the construction sector was the second hardest-hit during the downturn, after manufacturing. However, the Budget Division is projecting an increase in construction employment of 2.5 percent for 2015, after a 3.3 percent increase in 2014. Meanwhile, employment in the real estate, and rental and leasing sector is projected to increase 1.0 percent again in 2015 after an increase of 1.8 percent in 2014.

Underlying labor market dynamics indicate that the construction and real estate sectors started to weaken in the second quarter of 2008 with a decline in the rate of job creation that continued right through the fourth quarter of 2009 (see Figure 54). The rate of job destruction started to tick up in the second quarter of 2008 and continued unabated until 2009Q4, when it began to fall. Year-ago growth in State construction employment peaked in the first quarter of 2008, held up by strong levels of activity in the commercial building sector in 2007, particularly Downstate. Otherwise, construction employment in the State might have peaked earlier, as it did in the nation.

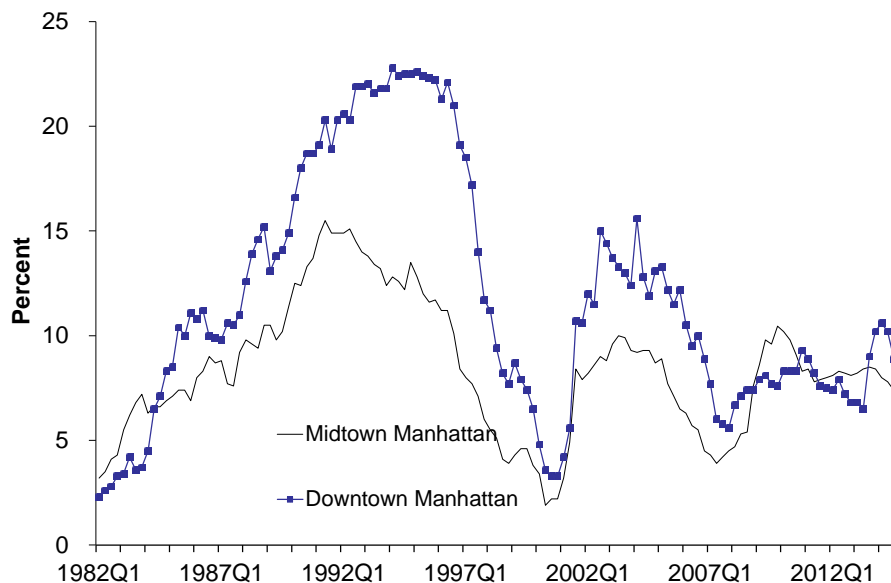
However, the credit crisis started just as new office space was coming online, resulting in increased office vacancy rates. For example, office vacancy rates for both downtown and midtown Manhattan turned upward starting in the first quarter of 2008, though they were still well below national office vacancy rates (see Figure 55). After increasing at the end of 2009 and 2010, Manhattan office vacancy rates started to come down in 2011.

Figure 54
Construction & Real Estate



Source: NYS Department of Labor; DOB staff estimates.

Figure 55
Office Vacancy Rates



Source: Moody's Analytics; CBRE.

The Budget Division outlook for modest construction employment growth in 2014 is supported by activity already in the pipeline, such as the ongoing reconstruction of the World Trade Center, a multi-year subway project, and the rebuilding after Superstorm Sandy. Projects financed by the waning American Recovery and Reconstruction Act may also help reduce net job losses. Finally, Figure 55 indicates that office vacancy rates may be leveling off. However, the overhang created by the high volume of activity that

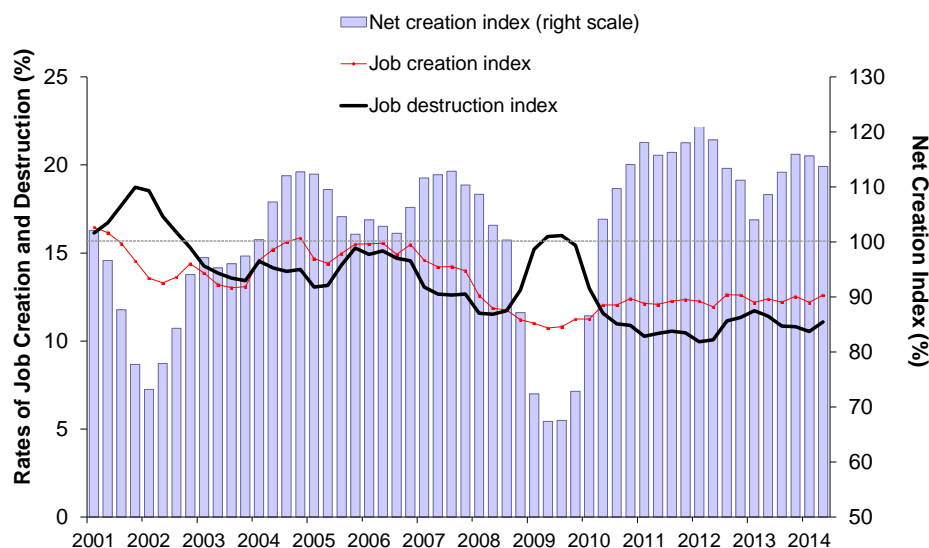
preceded the downturn remains a major source of risk to the recovery of the downstate real estate market.

Regional data indicate that the housing sector growth has positively impacted construction employment in most of the State's regions, with these regions reporting higher employment in the first half of 2014 compared to the same period in 2012. The greatest construction employment increases occurred in Hudson Valley (4.9 percent), Long Island (3.6 percent), Capital District (3.4 percent), Western New York (3.3 percent) and New York City (3.2 percent).

Trade, Transportation, and Warehousing

The Budget Division projects this sector will gain about 17,300 jobs in 2015, for an increase of 1.1 percent, after 1.6 percent growth in 2014. The retail trade, wholesale trade, and transportation and warehousing segments are among the more cyclically sensitive industrial sectors, experiencing large losses during the two most recent recessions (see Figure 56). During the Great Recession this sector lost jobs for six consecutive quarters, from the fourth quarter of 2008 through the first quarter of 2010. Although the gross job destruction rate took a huge dive during the first quarter of 2010, the net index turned positive in the following quarter. Growth did pick up over the course of 2010, reaching a 1.9 increase during the first quarter of 2011, later tailing off.

Figure 56
Trade, Transportation, and Warehousing



Source: NYS Department of Labor; DOB staff estimates.

For 2015, the Budget Division projects increases of 0.4 percent for wholesale trade, 1.3 percent for retail trade and 1.6 percent for transportation and warehousing. These increases represent a lower growth rate from what each subsector posted in 2014 but are still strong and consistent with both national and State income growth and the anticipated growth in international trade.

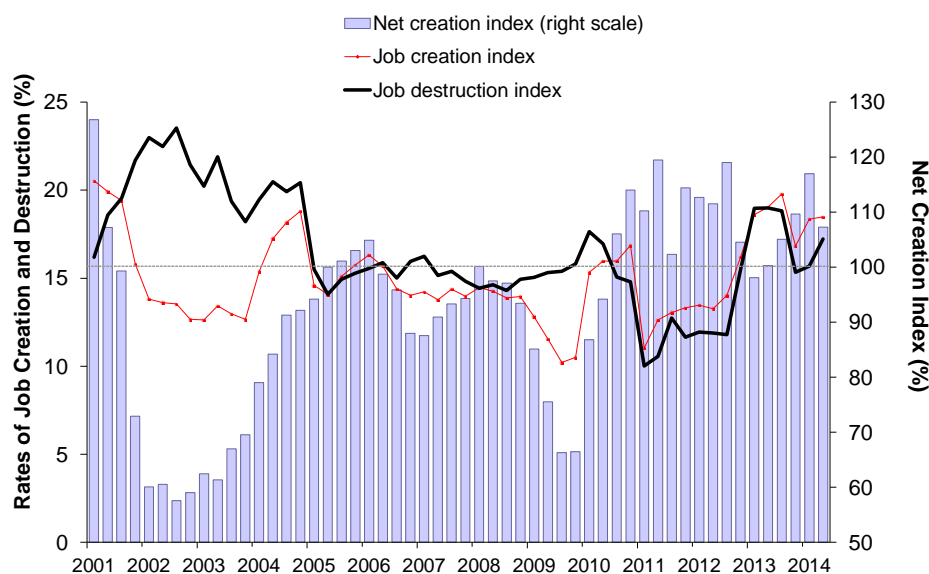
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Information (Media and Communications)

The information sector, which includes publishing, motion pictures, broadcasting, and telecommunications, is the most regionally concentrated industrial sector with almost 60 percent of statewide employment located in New York City. The information sector is estimated to have gained about 3,650 jobs in 2014, after experiencing an impressive increase in 2012 and a moderate increase in 2013. These gains appear to be related to the penetration of the New York City market by the social media industry and are not expected to be repeated at that scale going forward. Job gains of only 1,220, or 0.5 percent, are expected in 2015.

The information sector was among the hardest hit in the State during the 2001-2003 recession and was extremely negatively affected by the collapse of the internet/high-tech bubble. Employment in the sector, which reached its most recent peak in 2001, has to date failed to recover to that level, and had been trending downward even before the 2008-2009 State recession hit. In addition, this sector was once one of the most dynamic sectors in the State, exhibiting gross rates of job creation and destruction generally well above statewide averages. Although this dynamism waned with the contraction of the industry in the 2000s and further in the wake of the Great Recession, it has since made a comeback (see Figure 57).

Figure 57
Information



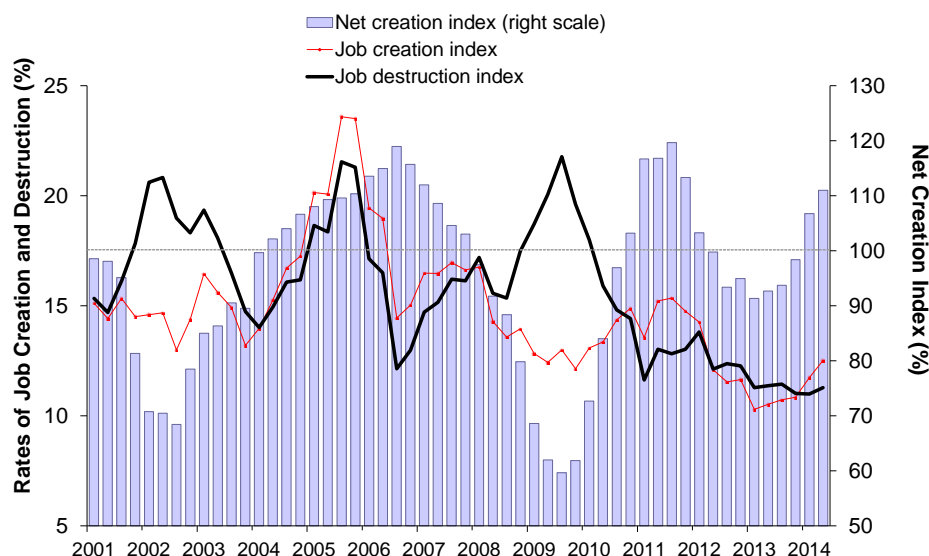
Source: NYS Department of Labor; DOB staff estimates.

Finance and Insurance

The finance and insurance sector, one of the State's leading sectors, shows slow growth. The Budget Division estimates that this sector gained 5,000 jobs in 2014, for a 1.0 percent annual increase. Some of these gains came from the return of firms that were relocated to New Jersey in the wake of Superstorm Sandy. As a result, a smaller gain of

1,370 jobs is projected for 2015, resulting in growth of only 0.3 percent. As has been the case in the past, it could take many years before Wall Street fully recovers from one of the most cataclysmic periods in its history. For example, after the stock market crash of 1987 and the national recession of 1990-91, it took ten years for the securities industry to recover its previous employment peak; this time it could take longer. The Budget Division does not project that the finance and insurance sector will reach its pre-recession 2007Q3 peak of 547,000 jobs before the end of the forecast horizon in 2022.

Figure 58
Finance and Insurance



Source: NYS Department of Labor; DOB staff estimates.

During the middle of the past decade, the finance and insurance sector had been a bright spot for the State's economy (see Figure 58). The jobs lost during the 2001-2003 recession lowered industry compensation costs and helped Wall Street firms to increase profits significantly by 2003. After three years of job losses, strong revenue and profit performances resulted in the sector's net job creation index rising above 100 in 2004; it remained there through 2007. During these years, employees received record salaries and bonuses and State personal income tax revenues soared. In addition, both job creation and job destruction rates climbed to about 20 percent in 2005, proving this sector to be one of the State's most dynamic. Between the middle of 2005 and the end of 2007 the rates of job creation and destruction moved in parallel, with the latter remaining above the former, implying net job growth.

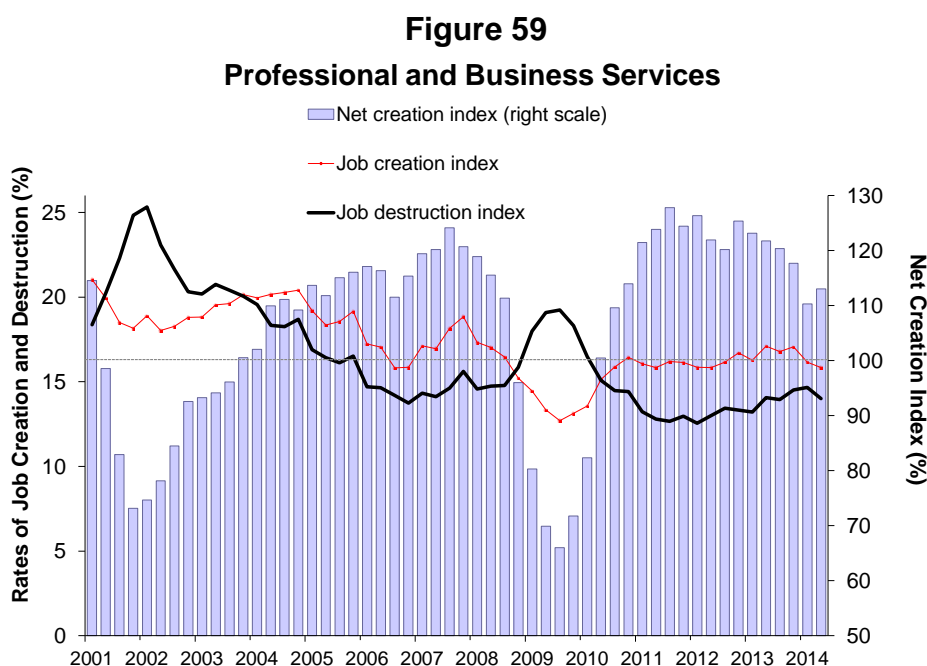
With the start of the credit crisis that began during the summer of 2007, the finance and insurance sector's rate of job creation began to fall, with the net creation index falling below 100 by the first quarter of 2008. The sector's rate of job destruction took a sharp upward turn in the fourth quarter of that year, coinciding with the shock to the global financial sector generated by the fall of Lehman Brothers. The sector lost 9,500 jobs in 2008, and a record 38,300 jobs were lost in 2009. During this period, the sector was facing the most severe downturn since the Great Depression. However the job

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destruction index started to decline at the end of 2009 and continued to do so until the second quarter of 2011. On the other hand, the job creation index started to increase during 2010, with the net index turning positive at the end of that year. Job losses faded to 9,200 during 2010. While the new recruitment efforts of 2011 kept the net index positive, it turned negative in 2012 and 2013, and came back to positive territory in 2014.

Professional and Business Services

This sector is expected to help lead State employment gains in 2015. It includes two groups of industries: the professional, scientific, and technical services sector (PST), which encompasses legal, accounting, architectural, engineering, advertising, and technical services; and the management, administrative, and other business support services group. The Budget Division estimates that the PST subsector saw an estimated gain of 2.2 percent, or 13,170 jobs, in 2014, to be followed by a gain of 2.3 percent, or 14,500 jobs, in 2015. The management, administrative, and support services sector is expected to follow a similar trend with a 2015 gain of 15,100 jobs, or 2.5 percent, after a 2014 gain of 11,200 jobs, or 1.9 percent. This sector includes temporary help services, which helps to explain its earlier recovery.



Source: NYS Department of Labor; DOB staff estimates.

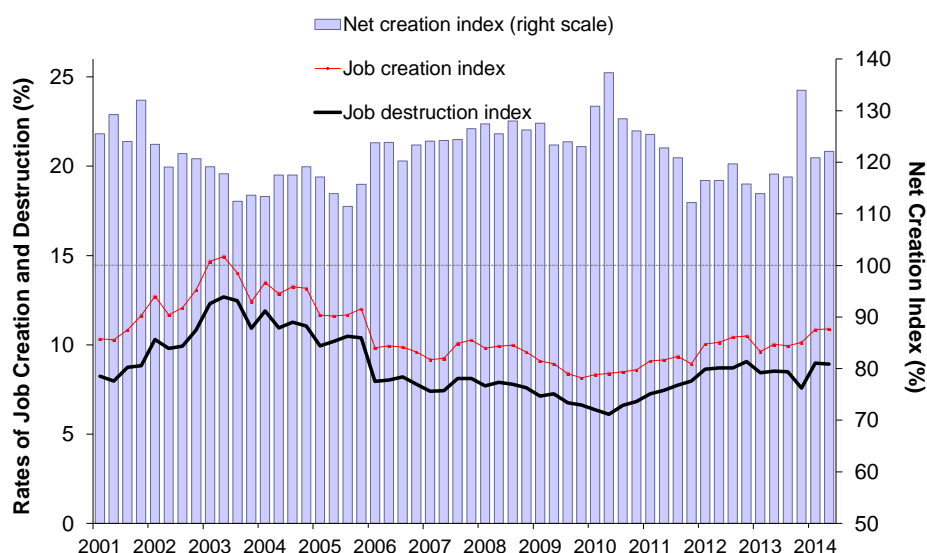
Temporary help services are one of the first employment classes to grow following a downturn, consistent with the substantial improvement in this sector coming out of recessions. Many firms hire temporary workers in the early months following a recession, being uncertain as to whether an increase in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

Meanwhile, in the PST subsector, the most recent recession led to a dramatic increase in the job destruction index, and decrease in job creation index, which in turn pushed down the net creation index down to a level even worse than in the 2001-2003 State recession (see Figure 59). Since the second quarter of 2010, the trends in those two indexes have reversed, leading to the highest rate of net job creation since the 2007 peak by the second quarter of 2011. The State's PST sector serves both a national and an international customer base; thus, growth in U.S. corporate profits and an improving global economy imply growth in this sector going forward in 2015.

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 60). Together, these two sectors are expected to add about 32,230 new jobs in 2015 for growth of 1.9 percent.

Figure 60
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 1.4 million workers in 2014. The private education sector is estimated to employ only about 321,800, as it excludes more than 600,000 workers employed at public educational institutions. Typically, neither of these sectors exhibits a significant degree of cyclical sensitivity. Although there is pressure on public sector spending, an important funding source for the private health care sector, State health industry employment saw some growth in the QCEW series in 2014. The demand for jobs within the health care and social assistance sector is expected strengthen further with the aging of the State's population going forward. Private education employment is projected to rise 2.2 percent for 2015, following estimated growth of 1.6 percent for 2014. Healthcare and social

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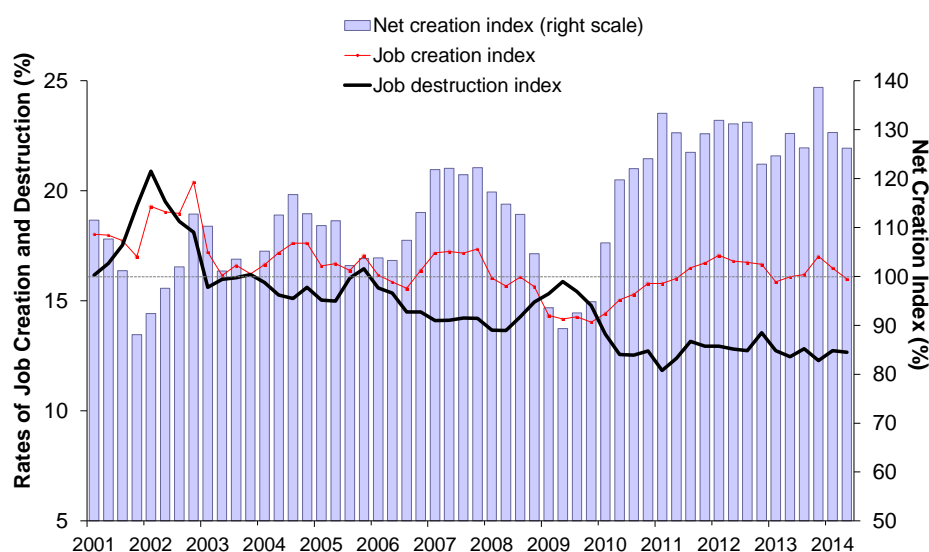
assistance employment is also projected to rise 1.8 percent in 2015, following estimated growth of 2.0 percent for 2014.

Leisure, Hospitality, and Other Services

The Budget Division expects leisure, hospitality, and other services employment to increase by 2.7 percent in 2015, following an increase of 3.3 percent in 2014. The national and global recessions had a severe impact on this sector, particularly in the arts, entertainment, and other tourism-related industries, not unlike the impact of the September 11 attacks (see Figure 61). In that case, the gross rate of job destruction increased considerably during the fourth quarter of 2001 and the first quarter of 2002, although the sector began to bounce back soon thereafter.

During the more recent State recession, the net index started falling in the first quarter of 2008 and was below 100 by the first quarter of 2009. The sector's rate of job destruction peaked early, in the second quarter of 2009, and the sector has been improving since, experiencing net growth by the first quarter of 2010. Since then this sector has experienced strong growth, mainly due to the improvement of the job destruction index, which led to the highest net creation index since 2001 in the first quarter of 2011. This sector is estimated to have added almost 38,510 jobs in 2014, and is expected to add another 32,750 jobs in 2015, with the gradual strengthening of the national and global economies favoring tourism.

Figure 61
Leisure, Hospitality, and Other Services



Source: NYS Department of Labor; DOB staff estimates.

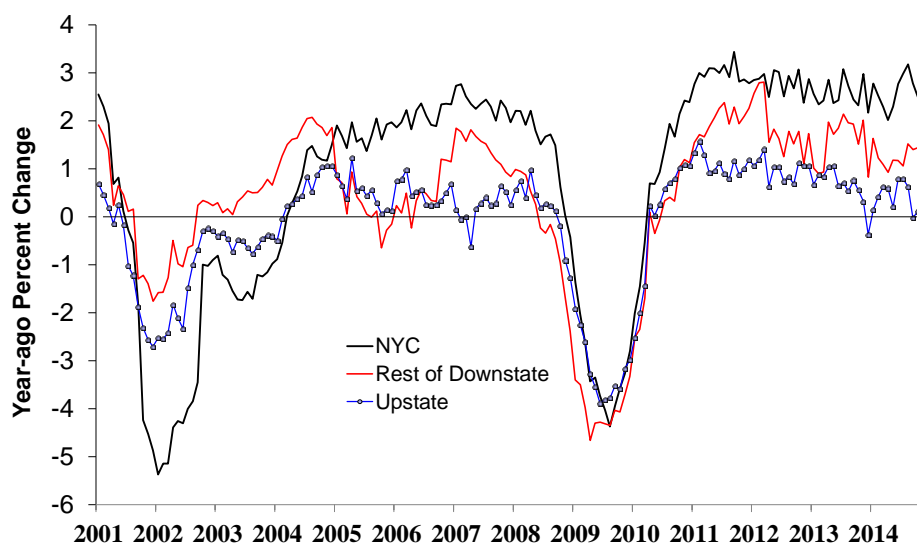
Regional Job Growth Disparity

Figure 62 indicates that since the start of the last State recovery in late 2003, employment growth has been quite variable across the State's regions. Between October

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

By the middle of 2008, the national recession and the housing market contraction began to hit New York. As shown in Figure 62, the downstate region outside of New York City was the first to be affected. But the New York City labor market took a big hit when the credit crisis intensified with the fall of Lehman Brothers in September 2008. Most of the job losses in the financial and business services sectors were in the City. In addition, the synchronized global economic recession put significant downward pressure on the City's tourism-related establishments, including airlines, hotels, and restaurants, resulting in severe job losses.

Figure 62
NYS Private Sector Employment by Region



Note: Upstate is defined as the State total minus the ten downstate counties.

Source: NYS Department of Labor (CES).

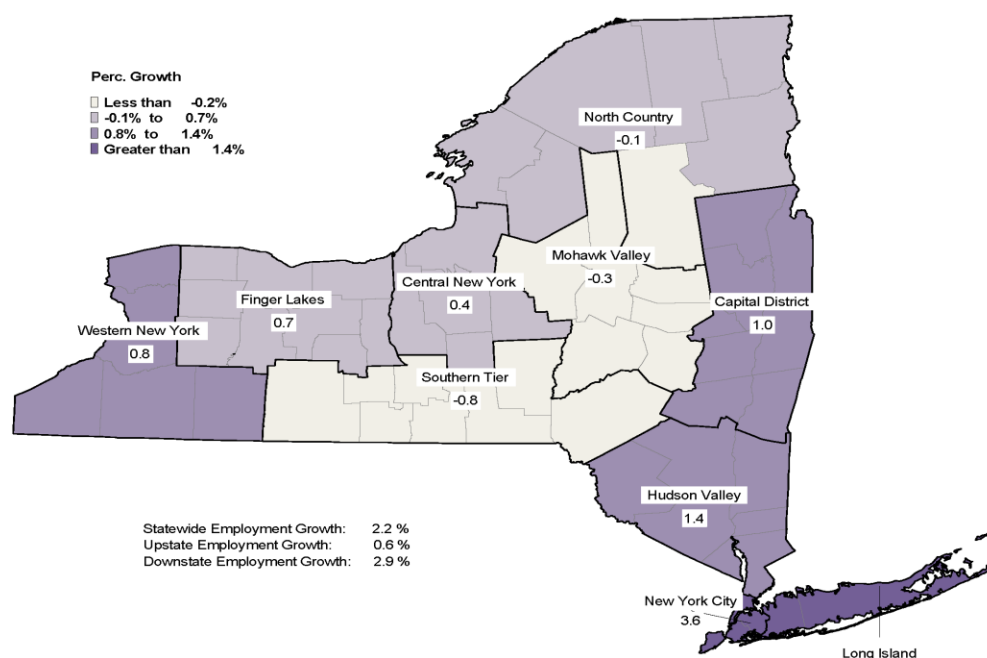
Meanwhile, the upstate economy's continued relative dependence on manufacturing, in particular the auto, machinery and equipment industries, meant that the weakening demand for cars and light trucks, and investment goods more generally, resulted in extensive layoffs, especially in the western part of the State. But as Figure 62 also shows, job losses turned to growth in 2010, starting in New York City and spreading to the remainder of the State later in the year, consistent with the beginning of recovery in January 2010. Job growth in the rest of downstate began to deteriorate close to the beginning of 2011, presumably negatively affected by the many setbacks that plagued the economy that year, particularly in the finance sector. By the end of the year, the region

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was experiencing either slow or no growth on a year-ago basis. Those same setbacks caused job growth in New York City to decelerate by the middle of the year. However, jobs in upstate are less concentrated in the financial sectors and thus kept growing in 2011. That trend reversed itself in 2012 with the intensification of the global slowdown. With upstate and rest of downstate employment growth decelerating, only New York City's labor market appeared to be strengthening over the course of 2012. However, both New York City and the rest of downstate experienced job losses in November in the wake of Superstorm Sandy, losses which turned out to be temporary. The job market in these areas started to pick up in 2013.

Figure 63 compares the relative performance of New York's 10 regions between the first half of 2013 and the first half of 2014, the most recent period for which the most accurate data – Quarterly Census of Employment and Wages (QCEW) data – are available. These data indicate that job growth over the period was broad-based. Private-sector employment for the State as a whole grew 2.2 percent, with the downstate regions showing faster growth of 2.9 percent. Meantime, the upstate region grew 0.6 percent. A more detailed analysis of regional employment trends can be found in Table 10 through Table 13 on pages 110-110.

Figure 63
Regional Employment Growth: 2013H1-2014H1



Risks to the New York Forecast

All of the risks to the U.S. forecast apply to the State forecast as well, although as the nation's financial capital, developments that have an impact on credit markets, such as rising (or falling) interest rates and equity market gyrations, pose a particularly large

degree of risk for New York. The ongoing realignment of energy prices has created yet another source of equity market volatility, as traders reassess the health of the global economy and the myriad additional factors that influence the demand and supply of energy. That volatility can be quite destabilizing to the financial sector and ultimately bonuses and State wages overall. The recent flattening of the yield curve represents yet another risk to finance industry revenues and profits. Any development that induces risk-averse investors to pile into U.S. Treasury securities can potentially force long-term interest rates even further downward, reducing the incentive for banks to lend and therefore the potential revenue from that source.

Financial market risks are compounded by the uncertainty surrounding the implementation of financial reform, which is already altering the composition of bonus packages in favor of stock grants with long-term payouts and claw-back provisions, thus affecting the forecast for taxable wages. As financial regulations evolve, it is becoming increasingly uncertain as to whether finance sector revenue generating activities such as trading, lending, and underwriting will ever return to pre-crisis levels, resulting in additional risk to the forecasts for bonuses and capital gains realizations.

There are, however, some upside risks to DOB's New York economic outlook as well. A stronger national or global economy than projected could increase the demand for New York goods and services, resulting in stronger job growth than projected. Such an outcome could lead to stronger levels of business activity and income growth than anticipated. If corporate earnings surprise to the upside, stock prices could regain their upward momentum earlier and more strongly, stimulating additional financial market activity and producing higher wage and bonus growth than currently projected. Of course, a stronger national economy could force the Federal Reserve to raise interest rates earlier or more rapidly than projected, which could negatively affect the State economy and the financial sector in particular. The Federal Reserve is in uncharted waters as it plans its exit from an extraordinary period in the history of monetary policy. The risks associated with the execution of that plan are particularly acute for New York.

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 2014, <<http://www.budget.ny.gov/pubs/supporting/MethodologyBook.pdf>>.

TABLE 10
NEW YORK STATE PRIVATE EMPLOYMENT BY INDUSTRY

INDUSTRY	Employment in Thousands					Percent Change				
	2010	2011	2012	2013	2014*	2010	2011	2012	2013	2014*
Mining and Manufacturing	460.5	461.5	461.6	458.7	453.2	(3.9)	0.2	0.0	(0.6)	(0.9)
Construction and Real Estate	481.9	483.6	491.1	507.6	504.6	(4.0)	0.4	1.6	3.4	2.7
Trade, Trans., and Warehousing	1,413.5	1,438.9	1,464.0	1,480.8	1,482.1	0.3	1.8	1.7	1.2	1.6
Information	251.3	254.5	258.2	259.6	261.9	(0.1)	1.3	1.5	0.5	2.0
Finance and Insurance	487.1	497.4	496.1	492.8	495.3	(1.9)	2.1	(0.3)	(0.7)	1.0
Business and Professional Svs.	1,095.9	1,131.0	1,166.1	1,200.1	1,202.9	0.2	3.2	3.1	2.9	1.7
Education and Health Care	1,579.9	1,604.2	1,628.5	1,656.1	1,685.7	2.0	1.5	1.5	1.7	1.9
Leisure, Hospitality, and Other Svs	1,052.7	1,092.0	1,134.4	1,177.4	1,189.2	2.4	3.7	3.9	3.8	3.6
Other **	84.2	86.2	81.8	84.8	96.0	(0.0)	2.4	(5.1)	3.6	28.1
Statewide	6,906.9	7,049.3	7,181.8	7,317.9	7,370.9	0.2	2.1	1.9	1.9	2.2

* Levels for 2014 are based on the first two quarters of the year; 2014 growth rates are relative to the same period in 2013.

** Includes agriculture, utilities, and unclassified firms.

TABLE 11
NEW YORK STATE PRIVATE EMPLOYMENT BY REGION

REGION	Employment in Thousands					Percent Change				
	2010	2011	2012	2013	2014*	2010	2011	2012	2013	2014*
New York City	3,042.8	3,130.4	3,217.0	3,307.7	3,382.7	0.9	2.9	2.8	2.8	3.6
Long Island	995.5	1,011.5	1,026.9	1,047.9	1,045.1	0.4	1.6	1.5	2.0	1.5
Hudson Valley	697.7	709.8	716.4	724.4	723.2	(0.3)	1.7	0.9	1.1	1.4
Capital District	374.9	380.1	387.2	390.9	389.0	(0.9)	1.4	1.9	1.0	1.0
Mohawk Valley	126.7	126.2	126.3	125.9	123.6	(0.8)	(0.4)	0.1	(0.3)	(0.3)
North Country	104.6	104.0	104.2	104.5	102.3	(0.1)	(0.6)	0.2	0.3	(0.1)
Central New York	272.6	274.9	275.9	276.4	274.6	(1.0)	0.9	0.4	0.2	0.4
Southern Tier	227.4	228.7	230.1	230.6	226.3	(0.5)	0.6	0.6	0.2	(0.8)
Western New York	498.8	504.6	508.5	511.3	509.0	0.0	1.2	0.8	0.6	0.8
Finger Lakes	442.8	449.6	453.2	454.1	451.1	0.0	1.5	0.8	0.2	0.7
Unclassified	123.1	129.5	136.0	144.2	143.9	(5.4)	5.2	5.0	6.0	3.6

* Levels for 2014 are based on the first two quarters of the year; 2014 growth rates are relative to the same period in 2013.

TABLE 12
REGIONAL EMPLOYMENT SHARES BY INDUSTRY

REGION	Mining/ Manuf.	Constr. & Real Estate	Trade, Trans. & Wareh.	Info.	Finance and Insurance	Bus. & Prof. Svs.	Educ. & Health Care	Leisure, Hosp. & Other Svs.	Other
New York City	2.3	7.1	17.2	5.0	9.3	18.6	23.2	16.4	0.9
Long Island	6.9	7.9	24.2	2.1	5.0	15.2	21.8	15.9	1.1
Mid Hudson	6.4	7.9	23.4	2.2	4.0	13.6	24.0	16.8	1.7
Capital Region	8.3	6.5	21.5	2.4	5.5	14.5	23.2	16.9	1.2
Mohawk Valley	13.1	4.3	24.8	1.8	5.6	7.7	26.5	15.2	1.0
North Country	10.4	6.2	26.1	1.7	2.1	7.0	24.1	19.2	3.1
Central New York	10.9	6.1	23.8	1.7	4.5	12.7	21.4	16.5	2.3
Southern Tier	15.9	4.9	20.1	1.9	3.5	10.2	26.3	15.7	1.5
Western New York	13.2	5.6	21.7	1.6	5.1	14.6	19.8	17.4	1.0
Finger Lakes	14.5	5.9	19.2	1.9	3.3	14.6	23.5	15.1	2.0
Statewide	6.2	7.0	20.2	3.5	6.7	16.4	22.6	16.2	1.3

Note: Shares are based on the period from 2013Q3 through 2014Q2.

TABLE 13

ECONOMIC BACKDROP

REGIONAL EMPLOYMENT TRENDS: 2010-2014

Region	Employment (000's)					Percent Change				
	2010	2011	2012	2013	2014*	2010	2011	2012	2013	2014*
Manufacturing and Mining										
New York City	76.3	74.8	76.0	75.9	75.3	(6.5)	(1.9)	1.5	(0.1)	0.0
Long Island	72.7	72.7	73.4	73.4	71.5	(2.3)	(0.1)	1.1	(0.1)	(2.3)
Hudson Valley	49.8	48.7	47.9	47.4	45.7	(4.0)	(2.1)	(1.6)	(1.0)	(4.1)
Capital District	28.9	30.2	31.5	32.6	32.4	(1.6)	4.4	4.3	3.4	(0.1)
Mohawk Valley	16.7	16.5	16.5	16.3	16.5	(2.1)	(1.3)	0.3	(1.1)	1.6
North Country	11.4	10.9	10.8	10.9	10.8	(4.9)	(3.7)	(1.0)	0.8	(0.7)
Central New York	32.3	32.3	30.9	30.4	30.2	(3.6)	(0.2)	(4.2)	(1.8)	(0.6)
Southern Tier	38.0	38.1	37.6	36.8	36.0	(5.2)	0.5	(1.3)	(2.3)	(1.6)
Western New York	65.8	67.7	67.7	67.1	67.9	(2.2)	2.8	0.1	(1.0)	1.5
Finger Lakes	67.7	68.5	68.0	66.5	65.7	(3.9)	1.2	(0.7)	(2.2)	(0.8)
Unclassified	0.9	1.1	1.1	1.4	1.2	(38.7)	21.3	5.6	27.0	(15.6)
Statewide	460.5	461.5	461.6	458.7	453.2	(3.9)	0.2	0.0	(0.6)	(0.9)
Construction and Real Estate										
New York City	225.3	224.3	228.6	236.8	240.6	(3.3)	(0.4)	1.9	3.6	3.2
Long Island	74.9	74.4	76.1	81.6	81.5	(5.2)	(0.6)	2.3	7.2	3.6
Hudson Valley	53.5	54.5	53.9	56.3	56.5	(7.2)	1.7	(1.0)	4.5	4.9
Capital District	24.2	24.4	24.8	25.3	24.8	(4.2)	0.9	1.9	1.7	3.4
Mohawk Valley	5.7	5.5	5.5	5.6	4.9	(4.6)	(2.4)	(0.9)	1.6	(4.7)
North Country	7.3	6.9	6.8	6.7	5.9	(4.0)	(5.0)	(1.6)	(2.1)	(5.6)
Central New York	16.9	16.6	17.2	17.2	15.9	(2.5)	(1.6)	3.8	0.0	(3.7)
Southern Tier	11.2	11.4	11.5	11.2	10.6	(1.2)	1.8	0.8	(2.0)	(1.2)
Western New York	27.7	28.4	28.1	28.1	27.3	(2.0)	2.6	(1.0)	(0.1)	3.3
Finger Lakes	25.1	25.4	26.3	26.6	25.5	(1.2)	0.9	3.7	1.2	1.4
Unclassified	10.1	11.8	12.2	12.1	11.1	(7.0)	16.5	3.3	(0.3)	(3.9)
Statewide	481.9	483.6	491.1	507.6	504.6	(4.0)	0.4	1.6	3.4	2.7
Trade, Transportation, and Warehousing										
New York City	529.1	544.1	558.7	572.3	576.7	1.9	2.8	2.7	2.4	2.3
Long Island	244.3	245.8	249.1	252.6	253.4	(0.1)	0.6	1.4	1.4	2.0
Hudson Valley	162.2	165.9	168.1	169.1	169.5	(0.6)	2.3	1.3	0.6	1.8
Capital District	82.1	82.8	84.0	84.0	83.8	(1.0)	0.8	1.5	0.1	1.3
Mohawk Valley	31.4	31.3	31.3	31.2	30.7	(2.1)	(0.4)	0.1	(0.5)	(0.1)
North Country	27.7	27.3	27.1	27.1	26.8	(0.5)	(1.5)	(0.8)	0.0	0.8
Central New York	64.0	64.9	66.0	65.9	65.3	(1.3)	1.4	1.7	(0.1)	0.3
Southern Tier	45.5	46.3	47.0	46.6	45.5	0.1	1.7	1.5	(0.9)	(1.3)
Western New York	108.5	109.9	111.4	110.6	111.0	(0.3)	1.2	1.4	(0.7)	1.5
Finger Lakes	88.3	88.9	89.2	87.7	86.7	0.6	0.7	0.3	(1.7)	(0.2)
Unclassified	30.3	31.8	32.1	33.8	32.7	(4.6)	4.9	0.8	5.2	(0.2)
Statewide	1,413.5	1,438.9	1,464.0	1,480.8	1,482.1	0.3	1.8	1.7	1.2	1.6
Information										
New York City	149.8	157.3	161.4	163.6	167.9	0.9	5.0	2.7	1.3	4.1
Long Island	24.0	23.4	23.1	22.8	21.5	(8.1)	(2.6)	(1.2)	(1.2)	(6.7)
Hudson Valley	18.5	17.7	17.8	16.9	15.8	(2.6)	(4.3)	0.7	(4.9)	(6.5)
Capital District	10.0	9.8	9.6	9.4	9.6	(4.8)	(2.0)	(1.9)	(2.0)	1.7
Mohawk Valley	2.8	2.6	2.5	2.3	2.3	(6.1)	(8.5)	(5.8)	(8.0)	(0.2)
North Country	1.9	1.8	1.8	1.8	1.8	(3.3)	(1.8)	(2.0)	(0.4)	0.2
Central New York	5.1	5.1	4.9	4.8	4.7	(3.8)	(1.8)	(3.8)	(1.8)	(2.2)
Southern Tier	3.9	3.9	3.9	4.1	4.5	(3.9)	(0.6)	(0.1)	5.4	10.0
Western New York	8.5	8.4	8.4	8.2	8.3	(4.6)	(1.1)	0.0	(2.5)	0.9
Finger Lakes	9.4	9.2	8.8	8.6	8.7	(5.1)	(3.0)	(4.2)	(1.5)	0.7
Unclassified	17.3	15.4	16.1	17.0	16.8	21.3	(11.0)	4.2	6.2	3.3
Statewide	251.3	254.5	258.2	259.6	261.9	(0.1)	1.3	1.5	0.5	2.0

(Cont'd on next page)

REGIONAL EMPLOYMENT TRENDS: 2010-2014 (cont'd)

Region	Employment (000's)					Percent Change				
	2010	2011	2012	2013	2014*	2010	2011	2012	2013	2014*
Finance and Insurance										
New York City	305.8	315.7	313.4	310.2	314.5	(1.4)	3.2	(0.7)	(1.0)	2.2
Long Island	52.1	52.2	52.5	52.8	52.7	0.1	0.1	0.6	0.5	0.4
Hudson Valley	29.7	30.0	29.4	29.2	28.9	(2.5)	1.0	(1.9)	(0.5)	(0.9)
Capital District	21.3	21.4	21.5	21.5	21.4	(1.4)	0.3	0.8	0.0	(0.7)
Mohawk Valley	7.1	7.1	7.0	7.0	7.0	(1.9)	0.8	(1.8)	0.5	0.0
North Country	2.5	2.5	2.5	2.3	2.2	(0.5)	0.0	(1.0)	(8.0)	(3.1)
Central New York	13.5	13.6	13.3	12.8	12.5	(2.5)	0.6	(1.9)	(4.1)	(3.4)
Southern Tier	8.7	8.7	8.5	8.2	8.0	(1.9)	0.1	(2.6)	(2.5)	(3.8)
Western New York	25.6	26.0	26.5	26.3	26.3	(2.8)	1.7	1.6	(0.5)	(0.3)
Finger Lakes	14.6	14.9	15.1	15.2	15.0	(0.9)	2.4	1.6	0.4	(1.8)
Unclassified	6.3	5.3	6.5	7.2	6.7	(25.7)	(14.9)	21.5	11.0	(5.7)
Statewide	487.1	497.4	496.1	492.8	495.3	(1.9)	2.1	(0.3)	(0.7)	1.0
Professional and Business Services										
New York City	553.8	573.1	593.9	615.3	626.1	0.8	3.5	3.6	3.6	3.0
Long Island	146.7	151.7	156.6	160.5	158.4	(0.6)	3.4	3.2	2.5	0.5
Hudson Valley	91.8	94.5	97.0	98.7	97.4	0.5	2.9	2.7	1.7	0.6
Capital District	54.9	55.6	56.9	56.9	56.5	(2.6)	1.2	2.3	0.1	(0.4)
Mohawk Valley	9.9	9.9	10.2	9.9	9.5	(0.7)	0.5	3.0	(2.9)	(4.1)
North Country	7.1	7.0	7.0	7.2	7.3	(0.3)	(0.9)	0.6	2.6	1.5
Central New York	34.7	35.2	35.0	35.1	35.0	(2.2)	1.3	(0.6)	0.4	0.6
Southern Tier	21.7	21.9	22.4	23.4	23.2	2.9	1.1	2.1	4.4	1.2
Western New York	74.0	74.3	74.9	76.0	72.9	1.9	0.4	0.8	1.5	(2.7)
Finger Lakes	60.9	63.0	65.4	66.4	66.0	1.4	3.5	3.8	1.4	0.6
Unclassified	40.4	44.6	46.7	50.6	50.5	(6.2)	10.3	4.7	8.4	3.4
Statewide	1,095.9	1,131.0	1,166.1	1,200.1	1,202.9	0.2	3.2	3.1	2.9	1.7
Education, Health Care, and Social Assistance										
New York City	714.4	727.3	746.2	768.3	793.0	1.8	1.8	2.6	3.0	3.5
Long Island	222.1	226.7	226.8	228.6	229.9	4.6	2.1	0.1	0.8	1.0
Hudson Valley	170.7	173.0	173.7	174.9	176.1	2.0	1.3	0.4	0.7	0.5
Capital District	87.4	88.9	90.3	90.9	91.3	1.3	1.7	1.6	0.7	0.2
Mohawk Valley	33.5	33.6	33.5	33.5	33.2	0.8	0.3	(0.4)	0.1	(0.9)
North Country	25.0	25.2	25.2	25.3	25.2	2.1	0.6	0.1	0.4	(0.6)
Central New York	56.6	57.3	58.3	58.9	59.4	0.8	1.2	1.7	1.0	1.1
Southern Tier	60.9	60.7	61.1	61.2	59.8	0.8	(0.4)	0.7	0.2	(2.6)
Western New York	100.3	100.6	101.2	101.5	101.8	1.3	0.3	0.6	0.3	0.3
Finger Lakes	104.1	105.2	105.3	106.0	107.7	1.7	1.0	0.1	0.7	1.8
Unclassified	4.8	5.7	6.9	6.9	8.3	(19.6)	19.8	21.7	(0.4)	15.6
Statewide	1,579.9	1,604.2	1,628.5	1,656.1	1,685.7	2.0	1.5	1.5	1.7	1.9
Leisure, Hospitality, and Other Services										
New York City	460.3	484.6	512.4	537.9	555.7	3.4	5.3	5.7	5.0	5.3
Long Island	147.9	153.7	158.8	165.0	164.3	2.0	3.9	3.3	3.9	3.2
Hudson Valley	110.3	114.3	117.8	120.6	121.3	2.4	3.6	3.0	2.4	3.7
Capital District	61.6	62.6	64.1	65.7	64.5	0.3	1.7	2.3	2.5	2.2
Mohawk Valley	18.4	18.4	18.6	18.9	18.5	2.3	0.2	1.2	1.7	1.8
North Country	18.9	19.5	20.0	20.0	19.3	2.5	3.1	2.5	0.2	0.2
Central New York	43.4	44.0	44.4	45.3	45.3	1.1	1.4	0.9	2.0	1.7
Southern Tier	34.2	34.4	34.9	35.7	35.3	1.6	0.5	1.5	2.1	1.7
Western New York	83.4	84.4	85.7	88.7	88.4	1.4	1.2	1.5	3.6	1.7
Finger Lakes	64.3	66.0	66.9	68.3	67.4	1.5	2.7	1.3	2.2	0.9
Unclassified	9.9	9.9	10.8	11.1	9.1	(7.9)	0.5	8.8	2.9	(15.1)
Statewide	1,052.7	1,092.0	1,134.4	1,177.4	1,189.2	2.4	3.7	3.9	3.8	3.6

* Levels for 2014 are based on the first two quarters of the year; 2014 growth rates are relative to the same period in 2013.

Source: NYS Department of Labor.

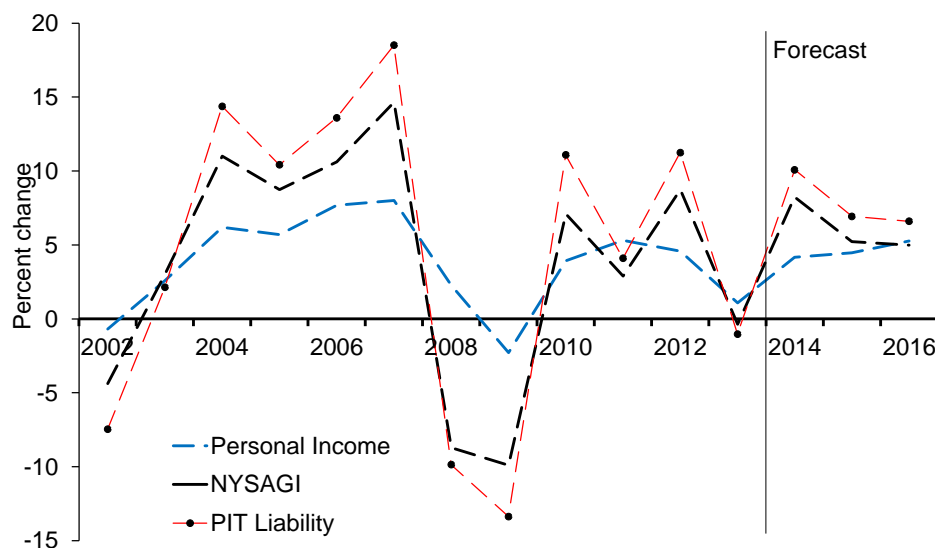
ECONOMIC BACKDROP

NEW YORK STATE ADJUSTED GROSS INCOME

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

NYSAGI growth coming out of the recession has been volatile and relatively low in accordance with a sustained but slow recovery at the State and national levels, robust equity market growth and, as will be discussed later in more detail, income shifting. NYSAGI growth fell to 2.9 percent in 2011 after 7.1 percent growth in 2010 largely because taxpayers realized capital gains early and employers distributed dividends and bonuses early in anticipation of the expiration of lower tax rate at the end of 2010 that never materialized after a last-minute political effort to postpone the sunset of the Bush tax cuts (see Figure 64). A pick-up in the recovery and income shifting in response to the sunset of the Bush tax cuts at the end of 2012 is estimated to have accelerated taxable income growth to 8.8 percent in 2012. Despite the increased strength of the economy and very bullish equity markets, the Budget Division expects much weaker 2.0 percent taxable income growth in 2013, mainly due to the income shifting (see Table 14).

Figure 64
The Indicators of New York State's Tax Base



Note: Personal income tax (PIT) liability is computed based on 2002 NY State tax law; 2013 liability and NYSAGI data are preliminary.

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

²⁰ Box 8 on page 124 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.

The Major Components of NYSAGI

Budget Division forecasts for the components of NYSAGI are based on detailed historical tax return data from samples of State taxpayers through the 2012 tax year, made available by the New York State Department of Taxation and Finance. For 2013, 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 2013 onward are based on the forecast of growth for total State wages derived from the Budget Division New York macroeconomic forecast, which is based on QCEW data. For a discussion of the Budget Division forecast for State wages, see Outlook for State Income beginning on page 82.

TABLE 14
CHANGES IN NYSAGI AND ITS MAJOR COMPONENTS

	2009	2010	2011	2012	2013*	2014	2015	2016
	----- Actual -----				----- Estimated -----			
NYSAGI								
Level (\$ Billions)	596.5	638.9	657.3	714.7	712.1	770.8	811.1	851.5
Change (\$ Billions)	(65.6)	42.4	18.4	57.4	(2.5)	58.6	40.3	40.4
% Change	(9.9)	7.1	2.9	8.7	(0.4)	8.2	5.2	5.0
Wages								
Level (\$ Billions)	463.9	482.4	499.4	515.6	527.1	557.2	583.2	610.8
Change (\$ Billions)	(29.0)	18.5	17.0	16.2	11.5	30.1	26.0	27.6
% Change	(5.9)	4.0	3.5	3.2	2.2	5.7	4.7	4.7
Capital Gains								
Level (\$ Billions)	33.9	48.7	52.8	80.9	70.0	90.7	96.1	100.8
Change (\$ Billions)	(23.1)	14.9	4.1	28.1	(10.9)	20.7	5.4	4.7
% Change	(40.6)	43.8	8.4	53.2	(13.4)	29.5	5.9	4.9
Partnership/S Corporation								
Level (\$ Billions)	70.4	71.0	71.5	79.4	79.1	86.4	93.1	99.2
Change (\$ Billions)	(5.4)	0.6	0.5	7.9	(0.2)	7.3	6.7	6.2
% Change	(7.1)	0.9	0.7	11.0	(0.3)	9.2	7.7	6.6

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

* 2013 Estimates are based on processing data except for wages.

Positive Capital Gains Realizations

The fate of NYSAGI is closely linked to the fate of capital gains realizations, both because of the relatively large share of income from positive capital gains realizations and because of the highly volatile nature of this income component. The Budget Division's forecasting model attempts to capture the inherent volatility in capital gains income by incorporating those factors that are most likely to influence realization

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behavior, such as expected and actual tax law changes, financial markets activity, and real estate market activity.²¹ The forecast predicts a 13.4 percent decline in 2013, followed by 29.5 percent growth for 2014 and slower growth of 5.9 percent growth in 2015 and 4.9 percent in 2016 (see Table 14).

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. Taxpayers may decide to realize capital gains earlier than planned if they expect taxes on capital gains to increase. The federal tax rate on capital gains income was originally scheduled to increase from 15 percent to 20 percent at the end of 2010 with the expiration of tax cuts established under the Economic Growth and Tax Relief Reconciliation Act of 2001. Negotiations late in 2010 led to a two-year extension of the lower tax rate. While economic factors influencing capital gains realizations were also more favorable in 2010, part of the strong 43.8 percent growth for 2010 and the much smaller 8.4 percent growth for 2011 is likely the result of strategic behavior by taxpayers who realized long-term gains early to avoid the anticipated higher capital gains tax rate in 2011.

The capital gains tax rate did increase from 15 percent to 20 percent at the end of 2012. Additionally, pursuant to a provision of the Affordable Care Act of 2010, a Medicare tax surcharge on investment income took effect in 2013, further raising the federal tax on capital gains realization by 3.8 percent. While negotiations were still under way as 2012 came to an end, it was highly anticipated that tax rates would go up for at least higher-income taxpayers, who account for most of the capital gains. Taxpayers responded by shifting gains realizations from 2013 into 2012, resulting in 53.2 percent realizations growth in 2012 and a projected realizations decline of 13.4 percent in 2013. As a result of this shift, the capital gains realizations base is low, artificially inflating the 2014 growth of 29.5 percent beyond what underlying economic drivers would imply.

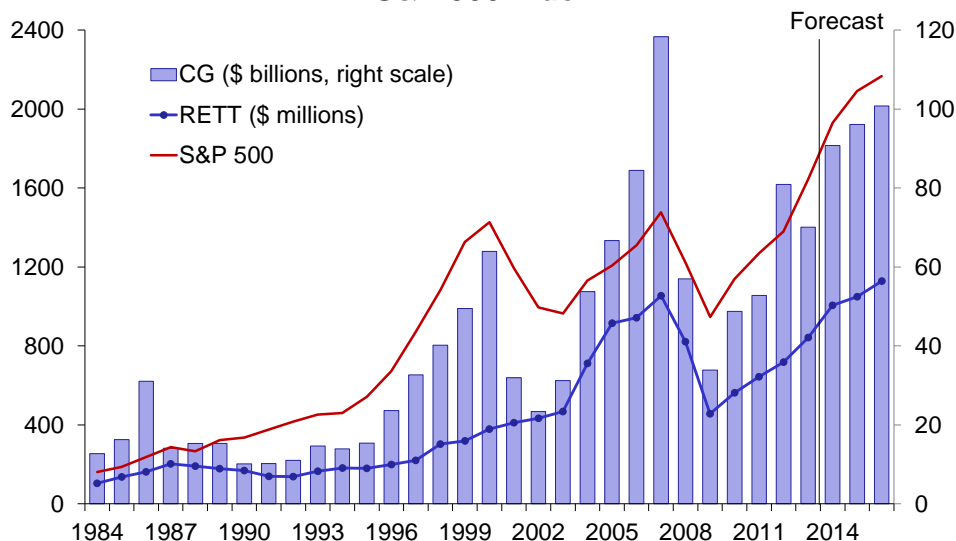
Figure 65 clearly shows how fluctuations in equity markets, as measured by the S&P 500 index, and real estate markets, as measured by State real estate transfer tax collections, help explain the magnitude of the fluctuations in capital gains realizations. Both markets grew strongly between 2003 and 2007, and both markets experienced precipitous declines in 2008 and 2009. While the declines in the S&P 500 in 2008 and 2009 were similar in magnitude to those experienced in the 2001-02 recession, the declines in capital gains realizations in 2001 and 2002 pale in comparison to those experienced in 2008 and 2009. The concurrent collapse of the real estate market clearly contributed to the unprecedented collapse in capital gains realizations. New York taxpayers lost a combined \$84.4 billion in capital gains realizations income between 2007 and 2009. Over the next five years, according to the Budget Division forecast, taxpayers are expected to have regained \$56.9 billion or only about two-thirds of these losses.

Equity markets are in their fifth year of solid growth with 17.6 percent growth in 2014, following 19.1 percent growth in 2013, which helped partially offset the decline in capital gains realizations resulting from the income shift in response to the anticipated tax

²¹ 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.

rate change. Going forward, we anticipate below-average S&P and capital gains realizations growth over the next two years.

Figure 65
Capital Gains Realizations, Real Estate Transfer Taxes and S&P 500 Index



Note: 2013 CG realizations are an estimate, 2014 RETT and S&P500 are actuals.
Source: Moody's Analytics; NYS Dept. of Taxation and Finance; DOB staff estimates.

The health of the real estate market also plays a critical role in determining capital gains realizations. Gains from both residential and commercial real estate transactions are taxable, though gains earned from the sale of a primary home are exempt up to a certain limit, for example, up to \$500,000 for married couples filing jointly.²² California data show that in 2009, 11.3 percent of positive capital gains realizations were generated by real estate transactions. That share has fluctuated from a low of 6.2 percent in 2010 to a high of 32.4 percent in 1990. A study based on national data indicates that in 1993, 22 percent of net capital gains realizations in the U.S. were generated by real estate transactions.²³

State real estate transfer tax (RETT) data provide a timely indicator of the strength of real estate sales and therefore of the possible impact of the real estate market on taxable gains. After five years of above-average growth in real estate transfer tax collections, collections recovered nearly all their losses from the 2008-09 collapse by the end of 2014 (see Figure 65). The Budget Division expects the real estate market to continue improving, albeit at a slower pace, as home prices are increasing more slowly and expected higher long-term interest rates make financing more expensive.

²² 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.

²³ 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.

Figure 66 shows that while changes in the median sales price of existing single-family homes in New York State between the second quarter of 2014 and the end of the recession in late 2009 differ markedly across New York counties, growth over the four years has been remarkably low with only a couple of exceptions. Only seven counties, largely in Western New York, show an annual average growth rates that exceeds 10 percent, and most of them just barely. Statewide, annual average growth was below 1.5 percent per year, and five counties faced median home sales prices in the second quarter of 2014 that were even lower than they were at the end of the recession. The recovery appears to have been very sluggish downstate where higher home prices make it more likely that a sale will generate sufficient capital gains to surpass the exemption threshold. Thus, the residential housing market's contributions to capital gains realization in the most recent year were most likely not substantial.

[illegible]

Fluctuating levels of private equity and hedge fund activity and profitability contribute to capital gains realizations. 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 (IPO). The returns on private equity investments are often not realized for several years, but the rate of return is generally high relative to returns on publicly held stocks in order to compensate for the higher degree of risk and the value added through the extraction of operating efficiencies. Though related to the performance of equity markets and real estate markets, capital gains from private equity funds exhibit their own dynamics.

Private equity funds hit hard times during the recent recession, but both 2013 and 2014 appear to have been prosperous years for private equity stakeholders. Federal Reserve monetary policies aimed at keeping interest rates low are considered to have boosted equity prices and other asset prices, and have greatly benefited private equity funds in the recent past. Higher valuations of companies to above what was paid for them at the 2007 industry peak have facilitated sales or IPOs for many of the deals, reducing the overhang of deals and generating revenues to investors in private equity funds. Additionally, as rising stock prices result in profits in a given fund that exceed certain levels, private equity executives are entitled to a share of these profits, referred to as carried interest. For the growing number of private equity firms that are publicly traded, shareholders are entitled to a share of such profits. Shareholders also benefit from large dividend payouts following high profits from sales, or exits, by publicly traded private equity investments.

At the end of the third quarter of 2014, private equity firms were holding \$1.19 trillion in unspent commitments, also known as ‘dry powder’, according to the research group Preqin, an increase of 8 percent over December 2013. These large uninvested funds result in a lot of competition for lucrative investment options, thus higher purchasing prices and lower returns to private equity in the near future. The Budget Division therefore does not expect the same large positive contributions from private equity investment returns on capital gains realizations of the past three years to continue going forward.

Hedge fund performance depends on relatively easy access to borrowed funds with which to leverage and on healthy financial institutions with which to trade. Consequently, these entities experienced serious difficulties when counterparty risk and the seize-up of financial markets made borrowing and leveraging those borrowed funds all but impossible in 2008. Additionally, few financial institutions have been hit as hard by the onslaught of new global regulation since 2008 as hedge funds. According to a survey by professional services company KPMG, hedge funds have spent \$3 billion since 2008 meeting compliance costs associated with new regulations – equating to roughly a 10 per cent increase in their annual operating costs.²⁴ Consequently, this once extremely lucrative industry has yet to outperform equity markets since posting unprecedented losses in 2008, leading investors to withdraw a record \$155 billion worth of investments and causing a large number of fund liquidations. By late 2014, hedge funds were going out of business in numbers not seen since the financial crisis, after producing an average return of only 2.0 percent in 2014, according to Bloomberg News, well shy of the 17.6 percent S&P 500 growth.

There are both downside and upside risks to the forecast for capital gains realizations. Continuing strength in the private equity sector rather than a leveling off in payouts pose the largest upside risk to the out-year capital gains forecast. Downside risk comes from a possible market correction in anticipation of or in response to a federal funds rate hike by the Federal Reserve in 2015. There is also downside risk from the impact of geopolitical instability and weak economic growth abroad on U.S. firms’ profitability and investor confidence. Recent larger volatility points to a degree of unease among investors. An

²⁴ <http://www.kpmg.com/global/en/issuesandinsights/articlespublications/press-releases/pages/hedge-fund-managers.aspx>

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undetermined risk to the capital gains forecast is the unusually low volume of transactions at U.S. equity markets. Though stock prices have continued to grow despite low trading volumes, the long-term implications of such low trading volumes are not well understood.

Rent, Royalty, Partnership, and S Corporation Gains

Partnership and S corporation income vies with capital gains income for the second largest income component after wages, however with considerably less volatility than capital gains. Historically growing at 10.5 percent annually, partnership and S corporation income has grown more slowly in the more recent past, averaging 7.2 percent between 2002 and 2012. Partnership and S corporation income is expected to have declined 0.3 percent in 2013, following strong 11.0 percent growth in 2012, consistent with an economy on the rebound, an upswing in equity and housing markets, but also indicative of some income shifting in response to the fiscal cliff. Based on a low expected 2013 base, the Budget Division predicts strong 9.2 percent growth for 2014, before returning to more average growth of 7.7 percent for 2015 and 6.6 percent for 2016.

The largest contributor to this component is partnership income, much of which originates within the finance and real estate industries. A second large contributor is income from S corporation ownership. Selection of S corporation status allows firms to pass earnings through to a limited number of shareholders and to avoid corporate taxation while still enjoying limited liability as afforded by corporate status.

New York State taxable partnership and S corporation average annual income growth of 10.5 percent is faster than the average annual rate of 6.5 percent for New York proprietors' income, as defined under NIPA and which includes partnership, S corporation, and sole proprietorship income. At the Federal level, partnerships and S corporations are the first- and second-fastest growing business entity forms, according to IRS Statistics of Income (SOI) data. Between 1998 and 2011, the latest year for which SOI data are available, the number of S corporations grew 60.7 percent while the number of partnerships grew 82.6 percent compared to 34.6 percent growth in non-farm sole proprietorships and a 19.6 percent decline in C corporations over the same thirteen years.

Growth in income from partnership and S corporations is related to both the economy and financial markets. Partnership and S corporation income gains and losses tend to rise and fall together, suggesting that the growth rates are linked at least in part to births and deaths of partnerships and S corporations. When equity markets fell, the economy contracted, and credit markets froze in 2008 and 2009, growth in partnership and S corporation gains first slowed with sharply increasing losses as entities struggled to stay alive, and then both fell as entities exited the market in 2009. With an improving economy and equity markets that are growing strongly, partnership and S corporation income has recently returned to about average growth, though annual growth rates reflect the distortions from income shifting in anticipation of higher tax rates starting in 2013. Both the strength of the equity markets and the strength of private equity firms, many of which are organized as partnerships, suggest that 2013 was a stronger year for partnership income than 2012, but taxpayers shifted income out of 2013 to avoid the higher tax burden, thus increasing the growth rates for 2012 and 2014 at the expense of 2013.

The Budget Division's partnership and S corporation income forecast contains both upside and downside risks. The real estate market is not captured independently in the forecast model. Since there is a high concentration of real estate partnerships in New York State, a better-than-predicted real estate market (due to the employment situation improving and a decline in foreclosures) could lead to higher-than-expected partnership and S corporation gains. Like capital gains income, partnership and S corporation income is also sensitive to the performance of the private equity sector.

Dividend Income

Taxable dividend income in New York has been particularly volatile over the past few years. After a 28.7 percent decline in 2009, dividend income rebounded nicely with 19.3 percent growth in 2010, leveled off to 2.6 percent growth in 2011, and grew strongly again in 2012 with 24.1 percent growth. Processing data suggests a decline of 10 percent for dividend income in 2013. The pattern confirms the notion that dividends were shifted in response to the fiscal cliff. Due to the shift-induced low base for 2013 the Budget Division predicts above-average 10.5 percent growth for 2014 followed by slower 5.8 percent growth for 2015, and 6.1 percent for 2016.

Taxable dividend income is expected to rise and fall with U.S. dividend income, a component of the NIPA definition of U.S. personal income; long-term interest rates as represented by the 10-year Treasury yield; and the performance of equity markets, with these fluctuations becoming exaggerated when the State is in a recession. Fluctuations in New York State taxpayers' dividend income have ranged from an estimated decline of 32.0 percent in 2009 to an increase of 28.7 percent in 2009. Taxable dividends thus prove even more variable than U.S. dividend income. State taxable dividend income grew at an average annual rate of 6.7 percent, with a standard deviation of 12.8 percentage points, between 1976 and 2012, while U.S. dividend income grew an average 9.1 percent annually, with a standard deviation of only 10.4 percentage points over the same period.

Declines in dividend income for 2008 and 2009 are consistent with the reduction or cancellation of dividend payouts by many struggling corporations during the long and severe recession. Firms started paying dividends again in 2010 as corporate profits and equity gains soared. Also adding to the large growth in dividend income was a shift in dividend payouts from 2011 to 2010 in response to the possibility that the top marginal tax rate of 15 percent enacted with the EGTRRA of 2001 would be allowed to sunset in 2010 and dividend income would again be taxed at the much higher rate of ordinary income. Because of this shift, dividend income is estimated to have leveled off in 2011. The Budget Division's forecast for 2012 and 2013 is based on the widely publicized spin-up of dividend payouts from 2013 into 2012, as well as the payout of special dividends, enabling high-income shareholders to avoid higher 2013 tax rates. The dividend tax rate in 2013 is 8.8 percentage points higher than the rate in 2012 due to an increase in the rate from 15 percent to 20 percent starting in 2013 and the onset of the 3.8 percent Medicare tax surcharge on investment income enacted with the Affordable Care Act of 2010. Dividend payouts in 2014 are expected to show considerable growth following the deflated 2013 dividend payouts and as a result of sizeable dividend payouts from publicly traded private equity firms and other businesses whose valuation improved greatly with

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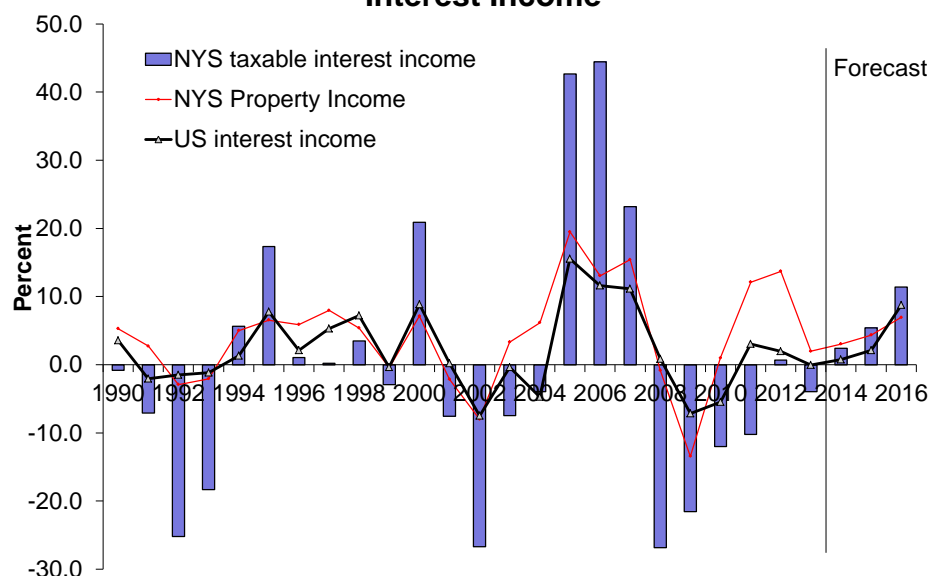
the recent surge in the equity markets. As these conditions are not expected to prevail, growth forecasts for 2015 and 2016 are considerably more moderate.

Risks to the dividend income forecast are closely linked to the risks embedded in the U.S. equity markets, corporate profitability and the performance of publicly traded private equity firms.

Interest Income

With an estimated 4.0 percent decline in 2013, taxable interest income declined or stayed flat for the six most recent years for which tax data are available. As long-term interest rates are slowly rising and US and State economies are improving, we expect interest income to increase slowly by 2.4 percent in 2014. The Budget Division forecast anticipates the Federal Reserve to start raising the federal funds rate in mid-2015, resulting in stronger expected interest income growth of 5.4 percent in 2015 and 11.4 percent in 2016.

Figure 67
Interest Income



Note: 2013 NYS taxable interest income is an estimate.

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

For a given amount of assets, an increase in interest rates will increase interest income. In addition, New York property income, a component of the NIPA definition of state personal income that includes interest income, is found to be a good indicator of the trend in taxable interest income for the State, although it is much less volatile. Taxable interest income for New York is however much more volatile than U.S. interest income, a component of the NIPA definition of U.S. personal income (see Figure 67). For the period from 1977 to 2012, the average growth rate for New York property income was 6.5 percent, with a standard deviation of 7.4 percentage points, and the average growth rate for U.S. interest income was 5.4 percent, with a standard deviation of 7.9 percentage points. In contrast, State taxable interest income averaged 3.9 percent growth over the same period, with a standard deviation of 18.0 percentage points. The additional

volatility in this component of NYSAGI could be related to the behavioral response of State taxpayers to past changes in the tax law.

In response to the conditions wrought by the Great Recession, the Federal Reserve ushered in a round of interest rate cuts starting in the second half of 2007. As the federal funds rate fell to close to zero and stayed low from December 2008 to the present, taxable interest income for the four years from 2008 to 2011 experienced large declines followed by essentially no growth in 2012 and another small estimated decline in 2013. The Budget Division does not anticipate much of an improvement for 2014 with the federal funds rate remaining close to zero. In response to a projected increase in the federal funds rate beginning in 2015, DOB predicts stronger growth in interest income for 2015 and 2016.

Small Business and Farm Income

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. After a rather large decline of 6.2 percent in 2008 and business income growth has been sluggish between 2009 and 2012. However, business income grew 5.3 percent in 2012, helped in part by income shifting, followed by estimated slow 2.2 percent growth in 2013. The Budget Division forecast predicts 5.6 percent growth in 2014, followed by above-average annual growth of 6.4 percent and 6.6 percent in 2015 and 2016, respectively.

The ongoing recovery of the national and State economies, and the gradual normalization of credit markets, are expected to foster improvements in taxable small business income. The contraction of credit as a result of the financial crisis was particularly hard for small businesses since credit availability is particularly critical. Because small businesses historically have a higher failure rate, small-business lending is the highest-risk lending for banks and thus the first to go as economic conditions worsen. In an environment of tight credit, obtaining loans to maintain or grow activity became difficult for many small businesses. As credit has become and continues to become more available in a slow but sustained economic recovery, business and farm income growth has been picking up speed.

Small business and farm income growth and volatility has shrunk over the years. This component of taxable income grew at an annual average rate of 11.8 percent from 1980 to 1990 with a standard deviation of 5.0 percent but, between 1991 and 2011, small business income has only grown at an annual average rate of 4.2 percent with a standard deviation of 4.8 percent. Proprietors' income, as defined under NIPA, experienced similar changes in growth, falling from 8.4 percent growth and a standard deviation of 8.3 percent to annual average growth of 4.3 percent and a standard deviation of 8.1 percent thereafter.

Risks to the forecast of business income are closely linked to the risks to the overall economic forecast as sole proprietors' income is particularly responsive to the progress of the business cycle.

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Pension Income

Pension income is estimated to have grown 4.3 percent in 2013, followed by 4.1 percent in 2014, 4.6 percent in 2015 and 4.8 percent in 2016.

Pension income includes payments from retirement plans, life insurance annuity contracts, profit-sharing plans, military retirement pay, and employee savings plans. Pension income is linked to prior year long-term interest rates, suggesting that firms base the level of pension and life-insurance benefits they offer to employees on their expectations of future profitability, which is in turn tied to the future strength of the economy. Pension income has grown steadily over the years, although the growth rate has declined considerably over time. The average annual growth rate between 1980 and 1990 was 12.6 percent, but it fell to 5.5 percent between 1991 and 2012. This coincides with a decline in the average 10-year Treasury yield from 10.4 percent in the former period to 5.0 percent in the latter. Both declines are likely the result of lower inflation rates in the later period.

Long-term Treasury yields have been at exceptionally low levels and have fallen continuously from a local high of 6.0 percent in 2006 to 1.8 percent in 2012 as a result of exceptionally low federal funds rates, the Federal Reserve's long-term asset purchasing program or quantitative easing, and the flight to safety engendered by the financial crises and subsequent sovereign debt. Long-term Treasury yields, which stood at 2.9 percent in December 2013, resumed their declines over 2014 and into early 2015, but are expected to begin a gradual rise over the course of the next two years and to reach 3.4 percent by the end of 2016. The risks to the forecast for pension income are related mainly to the risks to long-term interest rates.

Changes in the State Distribution of Income and Revenue Risk

As indicated in Figure 64 on page 113, 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 45.9 percent of adjusted gross income in 2012, they accounted for fully 82.2 percent of capital gains realizations (see Figure 68). 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.

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 personal income tax liability, NYSAGI, and State personal income, is presented in Figure 64 on page 113. For example in 2012, personal income grew 4.6 percent, while NYSAGI grew a stronger 8.7 percent and personal income tax liability at constant law grew an even stronger 11.2 percent.

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

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

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

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

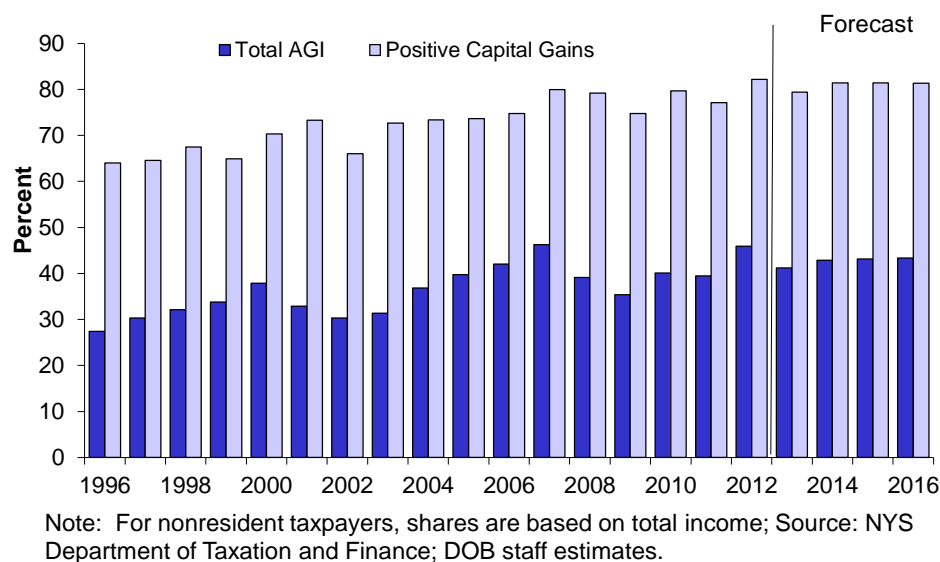
¹ For a detailed discussion of personal income tax liability, see Tax Receipt Section "Personal Income Tax."

² For a detailed explanation of how the Budget Division constructs State personal income, see **Box 5** on page 83.

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 2014, <<http://www.budget.ny.gov/pubs/supporting/MethodologyBook.pdf>>

Figure 68
Income Shares of the Top One Percent Taxpayers
AGI and Capital Gains Realizations



Between 1985 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 12.8 percent. During the same period, the liability generated by these taxpayers grew more rapidly at an annual average rate of 14.2 percent (see Figure 69). Liability was affected by a temporary surcharge that added two more tax brackets for wealthier taxpayers, raising the State’s top income tax rate from 6.85 percent to 8.97 percent for tax years 2009 to 2011.²⁵ As the economy recovered between 2009 and 2012, returns and tax liability for wealthier taxpayers rebounded, accounting for 34.1 percent of liability growth compared to lower 26.2 percent growth in returns over the period.

The large decline in capital gains realizations and thus NYSAGI temporarily unwound some of the concentration of income, but by 2012 the liability share of high-income taxpayers exceeded the 2007 peak, in part due to the income shifting that fell disproportionately onto the higher income taxpayers, but also helped by new high top marginal tax rates of 8.82 percent starting with the implementation of the tax reform in 2012 (see Figure 70). Without surcharges or tax reform rate increases, high income taxpayers’ share of liability would have remained short of the 2007 peak even by 2016.

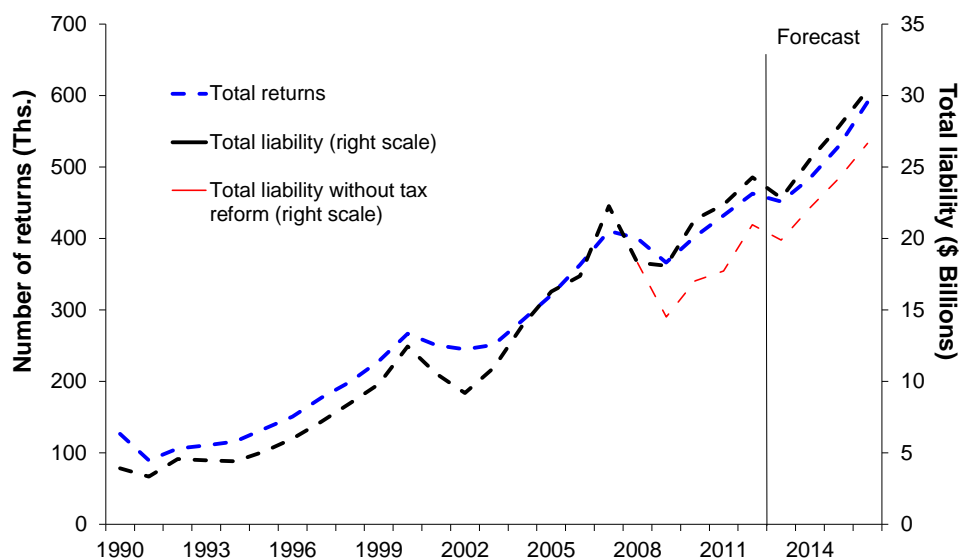
Table 15 shows the changes in the concentration of income and liability from the pre-recession peak in 2007 to 2012, the last year the PIT study file data. As a result of the recession, the share of nonwage income accruing to the top 10 percent of taxpayers fell by 7.2 percentage points between 2007 and 2009; by 2012, the group had regained 5 percentage points. Between 2007 and 2009, New York taxpayers lost \$84.4 billion in capital gains income which tends to accrue primarily to high-income filers, of which they regained \$47 billion by 2012. For wage income, which is more evenly distributed across

²⁵ See the “Personal Income Tax” section for more detail on the temporary income brackets and tax rates and the tax reform of 2011.

taxpayers, the share of the top 10 percent of taxpayers decreased 2.0 percentage points between 2007 and 2009, and increased 1.7 percentage points between 2009 and 2012.

Figure 69

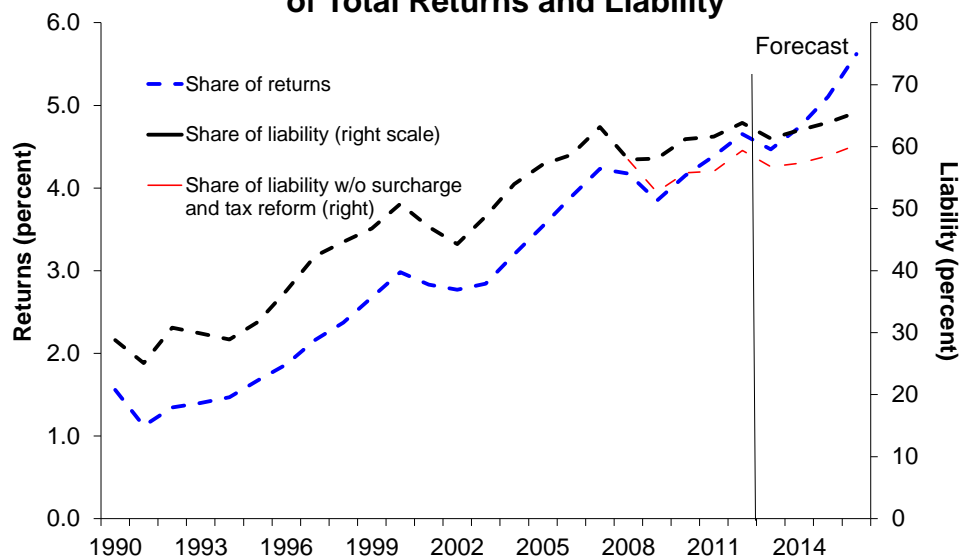
New York State High-Income Tax Returns



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

Figure 70

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.

Figure 71 and Figure 72 display the actual composition of NYSAGI for the 2009 trough year and for 2012, the last year for which we have detailed taxpayer information

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from the taxpayer sample, as well as the projected composition for 2013, both for all taxpayers and for high-income taxpayers, defined here as those reporting NYSAGI of \$200,000 or more.

TABLE 15
THE CONCENTRATION OF STATE INCOME AND LIABILITY
2007, 2009 and 2012

	Number of Returns	Gross Income	Wage Income	Nonwage Income	Liability
2007					
Total (\$ millions)	9,700,043	\$778,402	\$485,565	\$292,837	\$35,217
Share: Top 1%	—	34.4	19.5	59.2	46.4
Share: Top 5%	—	49.7	35.4	73.3	65.1
Share: Top 10%	—	59.2	46.7	79.8	75.2
Share: Top 25%	—	76.7	68.5	90.4	90.2
2009					
Total (\$ in millions)	9,524,621	\$646,935	\$463,939	\$182,995	\$31,168
Share: Top 1%	—	25.8	15.9	50.7	42.6
Share: Top 5%	—	41.6	32.3	65.2	61.5
Share: Top 10%	—	52.6	44.7	72.6	72.6
Share: Top 25%	—	73.5	67.8	87.8	89.5
2012					
Total (\$ in millions)	9,849,174	\$775,937	\$515,645	\$260,292	\$38,026
Share: Top 1%	—	30.4	17.4	56.3	46.5
Share: Top 5%	—	46.4	34.2	70.5	64.4
Share: Top 10%	—	56.9	46.4	77.6	74.5
Share: Top 25%	—	76.3	69.1	90.5	89.9

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

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

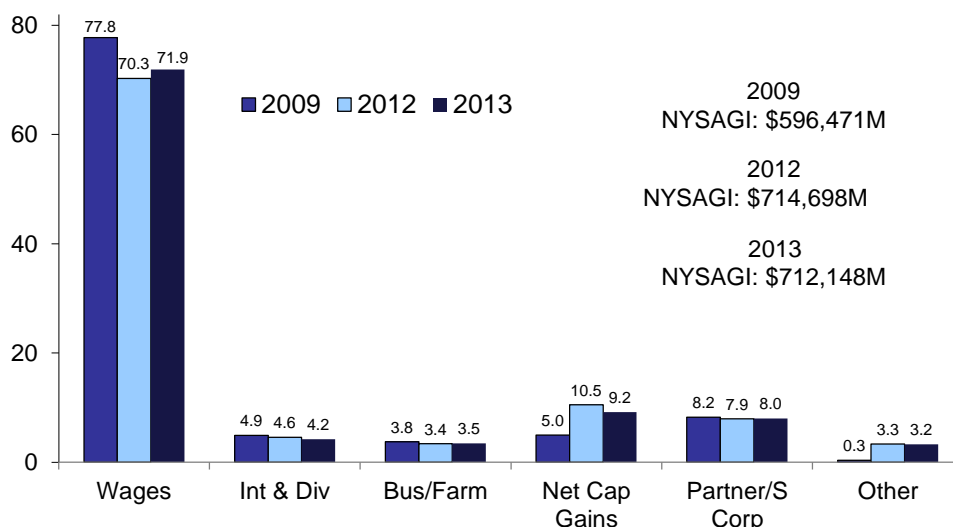
The figures show a substantial increase between 2009 and 2012 in the share of capital gains income and a decrease in the share of the other income components in response to equity market growth that far exceeded economic growth, and because the behavioral response to the higher 2013 tax rates was easiest and thus disproportionately large for capital gains realizations income. On the back side of the income shifting comes an estimated decline in the share of capital gains realizations income despite continued strong equity market growth in 2013. Given the larger share of capital gains income among wealthier taxpayers, the impact of the strong equity market growth and the income shifting is more pronounced for wealthier taxpayers.

Risks to the Forecast

The Budget Division's forecast for the personal income tax provides a balanced picture of upside and downside risks, particularly with respect to its most volatile components. As forecasts of the components of New York State's adjusted gross income are consistent with economic indicator variables from the Budget Divisions macroeconomic forecasting models, much of the risk to the personal income tax are the

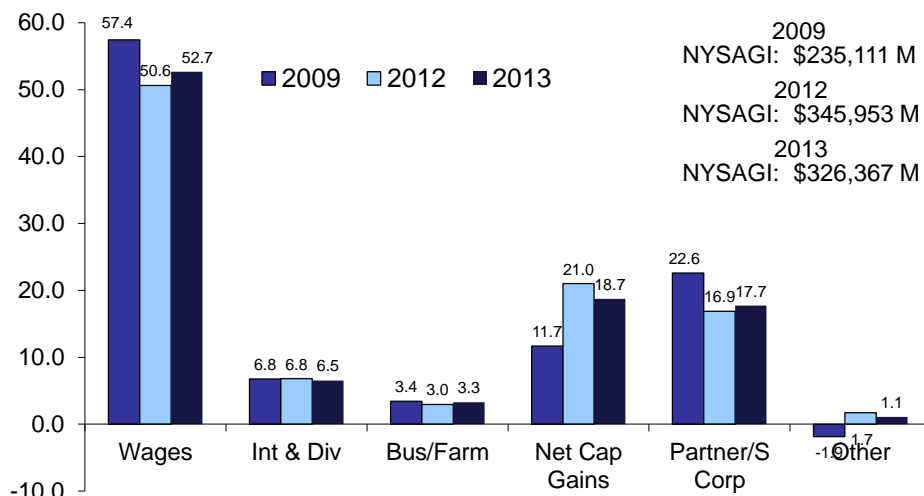
same as the risks to the New York and national economies. However, because of the prominence of bonus income and capital gains realizations in taxable income, the risks and uncertainties are heightened and, as a consequence of the progressive tax system, even more so for personal income tax revenues.

Figure 71
Composition of NYSAGI for All Taxpayers
(percent)



Note: Both capital gains and partnership/S corporation gains income are net of losses. 2013 numbers are projections based on processing information.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

Figure 72
Composition of NYSAGI for High-Income Taxpayers
(percent)



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. All 2013 numbers are projections.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

ECONOMIC BACKDROP

SELECTED ECONOMIC INDICATORS (Calendar Year)

	2013 (actual) ¹	2014 (estimate)	2015 (forecast)	2016 (forecast)	2017 (forecast)	2018 (forecast)	1977-2013 Average ²
U.S. Indicators³							
Gross Domestic Product (current dollars)	3.7	4.0	4.4	4.8	5.1	5.3	6.1
Gross Domestic Product	2.2	2.4	3.1	2.8	2.7	2.8	2.8
Consumption	2.4	2.5	3.3	3.1	3.0	2.9	3.0
Residential Fixed Investment	11.9	1.5	6.1	7.4	6.6	7.0	1.8
Nonresidential Fixed Investment	3.0	6.2	5.2	5.2	5.1	5.0	4.5
Change in Inventories (dollars)	63.6	70.7	57.7	51.7	48.1	47.0	30.6
Exports	3.0	3.3	5.1	5.1	5.6	6.4	5.7
Imports	1.1	3.8	5.3	6.2	6.4	6.3	5.8
Government Spending	(2.0)	(0.1)	0.8	0.5	0.6	0.7	1.8
Corporate Profits ⁴	4.2	0.5	8.4	5.7	6.0	6.0	7.5
Personal Income	2.0	3.9	4.5	5.4	5.3	5.2	6.3
Wages	2.8	4.3	4.6	5.1	5.0	5.0	5.8
Nonagricultural Employment	1.7	1.8	2.1	1.9	1.6	1.5	1.5
Unemployment Rate (percent)	7.4	6.2	5.5	5.2	5.0	5.0	6.5
S&P 500 Stock Price Index	19.1	17.5	8.3	3.6	3.7	4.2	8.7
Federal Funds Rate	0.1	0.1	0.4	1.6	2.9	3.5	5.6
10-year Treasury Yield	2.4	2.5	2.7	3.4	4.1	4.6	6.8
Consumer Price Index	1.5	1.6	1.0	2.2	2.4	2.6	3.9
New York State Indicators							
Personal Income ⁵	1.1	4.3	4.5	5.2	5.1	5.0	5.8
Wages and Salaries ⁵							
Total	2.1	5.7	4.7	4.7	4.7	4.6	5.4
Without Bonus ⁶	2.9	4.1	4.5	4.5	4.5	4.4	5.1
Bonus ⁶	(3.3)	16.6	5.6	5.9	6.0	5.9	9.2
Finance and Insurance Bonuses ⁶	(3.8)	21.0	6.5	6.8	6.9	6.9	14.1
Wage Per Employee	0.6	4.0	3.2	3.3	3.4	3.4	4.6
Property Income	2.0	3.0	4.4	6.9	6.4	5.5	6.6
Proprietors' Income	4.6	4.3	5.3	5.7	5.8	5.5	7.2
Transfer Income	1.1	3.6	4.7	5.1	5.2	5.7	6.2
Nonfarm Employment ⁵							
Total	1.5	1.7	1.4	1.3	1.3	1.1	0.7
Private	1.9	2.0	1.7	1.6	1.5	1.3	0.8
Unemployment Rate (percent)	7.7	6.4	6.0	5.7	5.6	5.6	6.6
Composite CPI of New York ⁶	1.6	1.5	1.1	2.3	2.5	2.6	4.0
New York State Adjusted Gross Income (NYSAGI)							
Capital Gains	(13.4)	29.5	5.9	4.9	6.2	10.7	15.7
Partnership/ S Corporation Gains	(0.3)	9.2	7.7	6.6	7.0	8.7	10.2
Business and Farm Income	2.2	5.6	6.4	6.6	6.6	6.8	6.4
Interest Income	(4.0)	2.4	5.4	11.4	10.0	7.5	3.8
Dividends	(10.0)	10.5	5.8	6.1	6.9	7.6	6.1
Total NYSAGI	(0.4)	8.2	5.2	5.0	5.1	5.9	5.4

¹ For NYSAGI variables, 2013 is an estimate.

² Partnership and S corporation gains data start in 1978, NYSAGI and Business and Farm data in 1980.

³ All indicators are percent changes except change in inventories, the unemployment rate, and interest rates; all GDP components refer to chained 2009 dollars, unless otherwise noted.

⁴ Includes inventory valuation and capital consumption adjustments.

⁵ Nonagricultural employment, wage, and personal income numbers are based on CEW data.

⁶ Series created by the Division of the Budget.

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

SELECTED ECONOMIC INDICATORS (State Fiscal Year)							
	2013-14 (actual)	2014-15 (estimate)	2015-16 (forecast)	2016-17 (forecast)	2017-18 (forecast)	2018-19 (forecast)	1977-78 - 2013-14 Average
U.S. Indicators¹							
Gross Domestic Product (current dollars)	3.7	4.4	4.3	4.9	5.2	5.4	6.1
Gross Domestic Product	2.3	2.9	2.8	2.8	2.7	2.9	2.8
Consumption	2.4	2.8	3.3	3.1	2.9	2.9	3.0
Residential Fixed Investment	9.8	2.1	6.6	7.3	6.7	7.0	1.6
Nonresidential Fixed Investment	3.6	6.6	4.9	5.2	5.1	5.0	4.4
Change in Inventories (dollars)	64.0	77.3	55.5	50.5	47.6	46.9	30.6
Exports	3.3	4.2	4.8	5.2	5.8	6.5	5.7
Imports	1.9	4.4	5.4	6.3	6.4	6.3	5.7
Government Spending	(1.8)	0.5	0.6	0.5	0.6	0.7	1.8
Corporate Profits ²	2.2	5.3	6.0	5.8	5.9	6.1	7.4
Personal Income	2.3	4.0	4.7	5.4	5.2	5.2	6.3
Wages	3.2	4.3	4.8	5.1	4.9	5.0	5.8
Nonagricultural Employment	1.7	2.0	2.1	1.8	1.6	1.5	1.5
Unemployment Rate (percent)	7.1	5.9	5.4	5.1	5.0	5.0	6.4
S&P 500 Stock Price Index	21.2	15.3	6.3	3.5	3.8	4.5	8.8
Federal Funds Rate	0.1	0.1	0.6	2.0	3.1	3.5	5.5
10-year Treasury Yield	2.6	2.5	2.9	3.6	4.3	4.7	6.8
Consumer Price Index	1.4	1.5	1.3	2.3	2.5	2.6	3.9
New York State Indicators							
Personal Income ³	2.1	4.0	4.6	5.3	5.0	5.0	5.9
Wages and Salaries ³							
Total	4.2	4.6	4.7	4.7	4.7	4.6	5.4
Without Bonus ⁴	3.1	4.3	4.6	4.5	4.4	4.4	5.2
Bonus ⁴	11.2	6.2	5.8	6.0	6.0	6.0	9.1
Finance and Insurance Bonuses ⁴	13.5	6.1	6.8	6.9	6.9	6.9	14.7
Wage Per Employee	2.5	3.0	3.3	3.4	3.4	3.4	4.7
Property Income	1.8	3.2	4.9	7.2	6.0	5.5	6.7
Proprietors' Income	3.4	4.8	5.4	5.8	5.7	5.5	7.4
Transfer Income	1.4	4.4	4.7	5.1	5.3	5.8	6.2
Nonfarm Employment ³							
Total	1.6	1.6	1.4	1.3	1.2	1.1	0.7
Private	2.1	1.9	1.7	1.5	1.4	1.3	0.8
Unemployment Rate (percent)	7.4	6.3	6.0	5.7	5.6	5.5	6.7
Composite CPI of New York ⁴	1.5	1.4	1.4	2.4	2.5	2.6	4.0

¹ All indicators are percent changes except change in inventories, the unemployment rate, and interest rates; all GDP components refer to chained 2009 dollars, unless otherwise noted.

² Includes inventory valuation and capital consumption adjustments.

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

⁴ Series created by the Division of the Budget.

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

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

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 four decades has modestly reduced the disparity between New York State tax rates and burdens and those of the rest of the nation. However, local taxes in New York State remain very high relative to other states.

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

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

In previous iterations of this Comparison, New York's tax-to-personal income ratio had been inherently overstated. The numerator included all New York tax receipts, whether paid by residents or non-residents. The denominator, as calculated by the U.S. Bureau of Economic Analysis, excluded the New York source income of non-New York residents. This year, an adjustment has been made to add the New York source income of non-New York residents to the denominator. This methodological shift has been applied to all years and states in this Comparison.

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.

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

- In general, it appears that the spread of state and local tax burdens across states has been narrowing over time. This may reflect both competitive pressures to keep taxes in line with other states, and the more widespread use of income taxes nationwide.
- The national average state and local tax-to-income ratio has remained remarkably stable over time and significantly below that of New York.
- The state and local tax-to-income ratio for New York exceeded the national average by \$4.37 per \$100 of personal income, or 41.4 percent in 1977, ranking New York second nationally. In 2012, the gap was \$3.58 (34.6 percent) above the national average, ranking New York third nationally.

State Taxes

- In previous iterations of this Comparison, New York's tax-to-personal income ratio had been inherently overstated. The numerator included all personal income tax receipts, whether from residents or non-residents. The denominator, as calculated by the U.S. Bureau of Economic Analysis, excluded the personal income of non-N.Y. residents. This year, an adjustment has been made to add the personal income of non-N.Y. residents that pay N.Y. personal income tax to the denominator.
- New York is a slightly above-average tax state when looking only at state taxes.
- New York's tax burden, as measured by taxes per \$100 of personal income, was 4 cents (0.6 percent) above the national average of \$6.53 in 2012.
- New York taxes per \$100 of personal income actually declined from \$7.13 in 1977 to \$6.57 in 2012.
- New York's state tax rank declined from fourteenth highest in 1977, to sixteenth highest in 2012.
- Legislation enacted in 2014 that reduced corporate and estate taxes should serve to lower New York's ranking in future years.

Local Taxes

- At least a portion of New York's significant local tax burden is due to the large portion of sales tax retained by New York localities. This contrasts sharply with other states and reflects, at least in part, the need at the local level in New York for receipts to pay for the local share of Medicaid.
- New York City uniquely imposes taxes which comprise a large portion of New York's total local burden. In 2012, nearly \$1.59 of New York's local burden of \$7.36

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

per \$100 of state personal income was due to New York City (NYC) personal and corporate income taxes. This accounted for approximately 21.7 percent of the total local burden.

Property Taxes in New York State

- Higher than average property taxes as a share of income (49.8 percent above the 2012 national average) in New York are tied, for the most part, to the rapid escalation in local Medicaid costs and capped growth in school property taxes through 2012. The property tax cap went into effect for local fiscal years beginning in 2012 for local governments and school districts.
- 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, four of the top ten highest property tax counties in the nation (and 11 of the top 20) in 2012 were in Upstate New York as measured by property taxes paid on the median-valued home in that county.¹ This is an improvement from 2011 when, according to this measure, seven of the top ten (and 12 of the top 20) counties were in Upstate New York.
- Long Island and suburban counties near NYC (Westchester, Rockland, Suffolk, and Nassau) experienced high property taxes as a percent of each county's respective median household income in 2012. Using this metric, four of the ten highest property tax counties in the nation in 2012 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 2012 when compared to other New York counties. This is the result of the more diverse tax structure in the City and a large and valuable commercial property tax base.
- Chapter 97 of the Laws of 2011 generally imposed a growth cap of 2 percent on the annual property tax levy of local taxing jurisdictions. With data through 2012 available, the impact of the property tax cap can be seen as the rankings of nearly all New York State counties based on taxes as a percentage of median home value improved compared to 2011. Also, New York's property taxes as a share of income dropped one percentage point compared to the national average in 2012 compared to 2011.
- Legislation enacted in 2014 provided tax credits to certain homeowners outside New York City who live in a jurisdiction that stays within the property tax cap. The tax

¹ Source: Moodysanalytics.com; DOB Staff Estimates

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

credits will be extended for a second year in jurisdictions which comply with the tax cap and have put forward a plan to save one percent of their tax levy per year, over three years. This legislation should serve to improve New York's local tax ranking.

TABLE CONSTRUCTION

This section compares the state and local tax structure in New York State with other states. Table 1 reports tax rates for the major tax sources utilized by state and local governments. The first and second data columns of the table show the top personal income tax rate by state, and the income level at which the top rate takes effect; the third column lists top corporate tax rates (most state corporate tax structures have relatively flat rate structures, so the rate reported often applies to all corporate income subject to tax); the fourth column reports state sales tax rates; and the final column reports the average combined state and local sales tax rates imposed by the various jurisdictions within such state. The rates are those in effect as of 2014. 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 2012, respectively. The New York rank in terms of state taxes fell from fourteenth highest to sixteenth highest over this period.

Tables 4 and 5 report local taxes as a share of state personal income by state in 1977 and in 2012. In 2012, New York had the highest local tax burden using this measure. New York fell from \$3.81 above the mean local tax burden in 1977 to \$3.54 in 2012, but some of this decrease is captured in the general decrease in variation amongst local taxes across states. The above-average local tax burden is caused by relatively high property taxes, the large sales tax burden imposed at the local level, and the high ratio in the other category that picks up the income and corporate taxes imposed by New York City.

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 2012, the latest year for which complete state and local tax information are available. The tax-to-income ratios included on table 7 are: state and local income taxes, state and local corporate taxes, state and local sales taxes, local property taxes, all other state and local taxes, and finally combined state and local taxes. Table 8a reports changes in only the state tax to income ratio over the 1977-2012 period. During this time, New York's state tax burden fell relative to the mean, and has been below the mean for all but four of the last eighteen recorded years. Table 8b reports changes in the state and local tax-to-income ratio over the 1977-2012 period. In 1977 New York State and local taxes as a percent of personal income were 4.37 percentage points above the national average. In 2012, New York was 3.58 percentage points above the national average. The average state and local tax-to-income ratio has remained relatively constant nationwide over the thirty-six year period, while the New York ratio has declined overall and should continue to decline in the years ahead due to the continued impact of the property tax cap

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

and related legislation. In every year since 1977, New York has been at least 2.33 percentage points above the mean.

The bottom of tables 1-7 report 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 for the 39 New York State counties, out of a total of 806 U.S. counties that had populations of at least 65,000 as of July 1, 2012. The data has been compiled and calculated by DOB based on the methodology used by the Tax Foundation in prior years' reports. 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 806 U.S. counties covered, and are not relative solely to the counties of New York State.

The Tax-to-Income Percentage

The tax-to-personal-income percentage offers one simple and commonly used way of comparing states with respect to relative tax burdens. It must be noted that the real effort of tax burden analysis should be to determine who actually faces the economic consequences of a tax, not who is legally required to pay the tax. All simple measures of tax burden across states are inadequate from this perspective. In general, any single indicator of burden will necessarily be limited in value. The following three additional issues should be taken into consideration when relying on this measure:

Tax Exportation

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

For example, in New York, a large number of workers from New Jersey and Connecticut pay tax on New York source income and on taxable sales while in New York. This means that, unless a portion of Connecticut's and New Jersey's personal income is also shifted to New York State; the actual burden on New Jersey residents will appear to be a burden on New York residents. Beginning with this year's Comparison, a residence adjustment has been made to the personal income calculation for each state. The denominator now includes New York source

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

income earned by non-New York residents. The same adjustment has been made for all 50 states.

One 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.

Another example is that 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. The inclusion of the residence adjustment this year has helped rectify one of the tax exportation issues facing New York.

Income Adjustments

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

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

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

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.

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

Table 1 Comparison of 2014 State Top Rates					
State	Top PIT Rate	Highest Tax Bracket (Married Filing Joint)	Top Corp. Rate	State Sales Rate	Combined Sales Tax Rate ¹
Alabama	5	\$6,000	6.5	4	8.85
Alaska	0	NA	9.4	0	1.69
Arizona	4.54	\$300,000	6.5	5.6	8.16
Arkansas	7	\$34,599	6.5	6.5	9.24
California	13.3	\$1,000,000	8.84	7.5	8.44
Colorado	4.63	Flat Rate	4.63	2.9	7.41
Connecticut	6.7	\$500,000	9	6.35	6.35
Delaware	6.6	\$60,000	8.7	0	0
Florida	0	NA	5.5	6	6.63
Georgia	6	\$10,000	6	4	6.99
Hawaii	11	\$400,000	6.4	4	4.35
Idaho	7.4	\$21,136	7.4	6	6.03
Illinois	5	Flat Rate	9.5	6.25	8.18
Indiana	3.4	Flat Rate	7.5	7	7
Iowa	8.98	\$68,175	12	6	6.78
Kansas	4.8	\$30,000	7	6.15	8.19
Kentucky	6	\$75,000	6	6	6
Louisiana	6	\$100,000	8	4	8.91
Maine	7.95	\$41,850	8.93	5.5	5.5
Maryland	5.75	\$300,000	8.25	6	6
Massachusetts	5.2	Flat Rate	8	6.25	6.25
Michigan	4.25	Flat Rate	6	6	6
Minnesota	9.85	\$254,240	9.8	6.875	7.19
Mississippi	5	\$10,000	5	7	7.07
Missouri	6	\$9,000	6.25	4.225	7.78
Montana	6.9	\$16,700	6.75	0	0
Nebraska	6.84	\$58,000	7.81	5.5	6.79
Nevada	0	NA	0	6.85	7.94
New Hampshire	State Income tax limited to Interest Income and Dividends only		8.5	0	0
New Jersey	8.97	\$500,000	9	7	6.97
New Mexico	4.9	\$24,000	7.3	5.125	7.3
New York	8.82	\$2,058,550	7.1	4	8.48
North Carolina	5.8	Flat Rate	6	4.75	6.9
North Dakota	3.22	\$405,100	4.53	5	6.62
Ohio	5.392	\$208,500	-	5.75	7.11
Oklahoma	5.25	\$15,000	6	4.5	8.76
Oregon	9.9	\$250,000	7.6	0	0
Pennsylvania	3.07	Flat Rate	9.99	6	6.34
Rhode Island	5.99	\$135,500	9	7	7
South Carolina	7	\$14,400	5	6	7.13
South Dakota	0	NA	0	4	5.83
Tennessee	State Income tax limited to Interest Income and Dividends only		6.5	7	9.45
Texas	0	NA	-	6.25	8.16
Utah	5	Flat Rate	5	5.95	6.68
Vermont	8.95	\$405,100	8.5	6	6.14
Virginia	5.75	\$17,000	6	5.3	5.63
Washington	0	NA	-	6.5	8.88
West Virginia	6.5	\$60,000	6.5	6	6.07
Wisconsin	7.65	\$320,250	7.9	5	5.43
Wyoming	0	NA	0	4	5.49
Mean Values	5.55		6.86	5.09	6.44
Standard Deviation	3.02		2.38	1.96	2.30
Coefficient of Variation	54.36		34.70	38.52	35.78
¹ Source: Tax Foundation. Reflects combined state and average local rate for each state.					

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

Table 2 - 1977 Components and Percentage of Total State Tax Burden per \$100 Personal Income														
State	Total State Taxes		Percent			Sales and Use			Percent			Percent		
	Rank		PIT	Rank	of Total	and Use	Rank	of Total	Corporate	Rank	of Total	Other	Rank	of Total
Alabama	6.48	25	1.21	33	18.7	4.19	10	64.7	0.35	39	5.4	0.73	28	11.2
Alaska	14.39	1	3.91	1	27.2	1.23	49	8.5	0.67	10	4.6	8.58	1	59.7
Arizona	7.20	10	1.18	34	16.4	4.41	6	61.2	0.32	40	4.5	1.29	10	17.9
Arkansas	6.43	27	1.31	28	20.4	3.93	14	61.1	0.54	21	8.4	0.65	32	10.1
California	6.57	24	1.89	18	28.8	3.13	32	47.7	0.86	5	13.0	0.69	31	10.5
Colorado	5.31	43	1.67	20	31.5	2.71	40	51.1	0.40	30	7.5	0.53	42	10.0
Connecticut	5.67	36	0.23	42	4.1	4.10	12	72.3	0.78	6	13.8	0.56	39	9.8
Delaware	8.10	5	3.48	2	43.0	1.43	48	17.6	0.60	14	7.4	2.59	4	31.9
Florida	5.29	44	0.00	45	0.0	3.90	16	73.8	0.31	41	5.9	1.07	14	20.3
Georgia	5.88	34	1.53	24	26.0	3.50	23	59.5	0.53	22	9.0	0.32	49	5.5
Hawaii	8.98	2	2.66	9	29.6	5.83	1	64.9	0.36	38	4.0	0.13	50	1.5
Idaho	6.47	26	1.98	16	30.6	3.09	35	47.8	0.55	20	8.4	0.85	21	13.2
Illinois	5.58	41	1.48	25	26.6	3.16	30	56.7	0.40	29	7.2	0.53	41	9.5
Indiana	5.64	38	1.25	31	22.2	3.74	20	66.2	0.22	44	4.0	0.43	47	7.6
Iowa	6.12	30	2.12	13	34.6	2.71	39	44.3	0.44	28	7.1	0.86	20	14.0
Kansas	5.94	33	1.28	30	21.6	3.19	29	53.7	0.75	7	12.7	0.71	30	12.0
Kentucky	7.18	12	1.56	22	21.7	3.86	18	53.7	0.60	13	8.4	1.16	13	16.2
Louisiana	6.97	17	0.54	40	7.8	3.45	25	49.5	0.39	34	5.5	2.59	3	37.1
Maine	6.90	19	1.11	37	16.0	4.36	8	63.2	0.52	23	7.5	0.92	18	13.3
Maryland	7.16	13	2.72	7	37.9	3.33	26	46.5	0.39	33	5.4	0.73	27	10.2
Massachusetts	6.68	22	2.71	8	40.6	2.67	41	40.1	0.90	2	13.5	0.39	48	5.8
Michigan	6.67	23	2.02	14	30.3	2.98	36	44.7	1.09	1	16.3	0.58	36	8.8
Minnesota	8.27	3	3.18	4	38.5	3.27	28	39.6	0.86	4	10.4	0.96	17	11.6
Mississippi	7.66	8	1.04	38	13.6	5.54	2	72.3	0.36	37	4.7	0.72	29	9.4
Missouri	4.59	47	1.12	36	24.4	2.67	42	58.2	0.30	42	6.6	0.50	44	10.8
Montana	6.12	31	2.19	12	35.8	1.63	47	26.6	0.49	26	8.0	1.81	7	29.6
Nebraska	5.59	40	1.56	23	27.8	3.13	33	56.0	0.38	35	6.8	0.52	43	9.3
Nevada	5.61	39	0.00	45	0.0	4.39	7	78.2	0.00	47	0.0	1.22	12	21.8
New Hampshire	3.64	50	0.13	43	3.5	2.07	46	56.9	0.59	16	16.3	0.85	23	23.3
New Jersey	5.42	42	1.24	32	22.9	2.75	37	50.8	0.58	17	10.7	0.85	22	15.6
New Mexico	8.04	6	0.36	41	4.5	5.06	5	62.9	0.40	31	4.9	2.22	5	27.7
New York	7.13	14	3.01	6	42.1	2.63	45	36.9	0.86	3	12.1	0.64	33	8.9
North Carolina	6.97	16	2.29	11	32.8	3.30	27	47.3	0.60	15	8.6	0.79	26	11.3
North Dakota	6.93	18	1.29	29	18.6	3.86	19	55.7	0.51	24	7.4	1.28	11	18.4
Ohio	4.42	49	0.76	39	17.2	2.64	44	59.7	0.39	32	8.8	0.63	34	14.2
Oklahoma	6.10	32	1.16	35	19.0	2.64	43	43.3	0.38	36	6.2	1.92	6	31.4
Oregon	5.28	45	3.05	5	57.7	0.86	50	16.4	0.49	25	9.4	0.87	19	16.5
Pennsylvania	6.27	29	1.32	27	21.1	3.15	31	50.2	0.75	8	11.9	1.06	15	16.8
Rhode Island	6.69	21	1.58	21	23.6	3.88	17	58.1	0.62	12	9.3	0.60	35	9.0
South Carolina	7.11	15	1.74	19	24.5	4.26	9	59.8	0.64	11	9.0	0.48	46	6.7
South Dakota	4.59	48	0.00	45	0.0	3.99	13	86.9	0.06	46	1.3	0.54	40	11.8
Tennessee	5.66	37	0.08	44	1.5	4.18	11	73.9	0.58	18	10.2	0.82	25	14.5
Texas	5.17	46	0.00	45	0.0	3.46	24	67.0	0.00	47	0.0	1.71	9	33.0
Utah	6.38	28	1.90	17	29.8	3.69	22	57.9	0.30	43	4.7	0.49	45	7.7
Vermont	7.58	9	2.32	10	30.6	3.72	21	49.1	0.56	19	7.4	0.98	16	12.9
Virginia	5.77	35	2.01	15	34.8	2.75	38	47.7	0.45	27	7.7	0.57	38	9.8
Washington	7.20	11	0.00	45	0.0	5.45	4	75.7	0.00	47	0.0	1.75	8	24.3
West Virginia	7.71	7	1.41	26	18.2	5.53	3	71.7	0.20	45	2.6	0.57	37	7.4
Wisconsin	8.11	4	3.39	3	41.9	3.12	34	38.5	0.75	9	9.2	0.84	24	10.4
Wyoming	6.89	20	0.00	45	0.0	3.92	15	56.8	0.00	47	0.0	2.98	2	43.2
Mean	6.57		1.52		22.4	3.45		54.1	0.48		7.5	1.12		16.1
Standard Deviation	1.55		1.01			1.04			0.24			1.23		
Coefficient of Variation	23.58		66.68			30.29			50.37			109.63		
NYS Diff. from Mean	0.56		1.49		19.7	(0.82)		(17.2)	0.38		4.6	(0.48)		(7.2)
Source: Moody's Economy.com, U.S. Census Bureau														

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

Table 3 - 2012 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	Corporate	Rank	Percent of Total	Other	Rank	Percent of Total
Alabama	5.29	38	1.76	36	33.3	2.70	29	51.1	0.24	36	4.6	0.58	29	11.0
Alaska	18.56	1	0.00	44	0.0	0.65	50	3.5	1.75	1	9.4	16.16	1	87.1
Arizona	5.48	37	1.31	40	23.8	3.41	15	62.2	0.27	31	5.0	0.49	34	9.0
Arkansas	7.91	8	2.29	20	29.0	3.80	9	48.1	0.39	15	4.9	1.43	8	18.1
California	6.51	17	3.11	6	47.8	2.34	39	35.9	0.45	8	6.9	0.61	28	9.4
Colorado	4.33	47	2.06	29	47.6	1.73	44	39.9	0.21	38	4.8	0.33	44	7.7
Connecticut	7.32	10	3.50	3	47.9	3.18	19	43.5	0.30	27	4.1	0.34	43	4.6
Delaware	7.79	9	3.05	7	39.2	1.14	48	14.7	0.61	3	7.8	2.98	5	38.3
Florida	4.18	48	0.00	44	0.0	3.45	14	82.6	0.25	35	6.1	0.47	36	11.3
Georgia	4.45	45	2.19	25	49.1	1.98	41	44.6	0.16	40	3.6	0.12	49	2.7
Hawaii	8.85	4	2.47	15	27.9	5.75	1	64.9	0.13	44	1.5	0.50	33	5.7
Idaho	6.25	22	2.25	23	36.0	3.08	23	49.3	0.35	20	5.6	0.57	30	9.1
Illinois	6.12	24	2.65	12	43.3	2.41	38	39.4	0.59	4	9.6	0.47	37	7.7
Indiana	6.42	18	1.95	30	30.3	4.04	6	62.9	0.39	14	6.1	0.04	50	0.6
Iowa	5.86	30	2.27	22	38.7	2.72	28	46.4	0.32	24	5.4	0.56	31	9.5
Kansas	6.04	27	2.35	18	39.0	3.00	25	49.7	0.26	33	4.3	0.43	38	7.1
Kentucky	6.64	15	2.22	24	33.4	3.18	20	47.9	0.36	18	5.5	0.87	17	13.2
Louisiana	4.87	41	1.34	39	27.5	2.65	32	54.4	0.16	42	3.2	0.73	20	14.9
Maine	7.24	11	2.76	9	38.2	3.35	18	46.3	0.45	9	6.1	0.68	22	9.4
Maryland	5.89	29	2.46	16	41.8	2.48	35	42.1	0.30	25	5.2	0.65	26	11.0
Massachusetts	6.02	28	3.15	4	52.3	1.93	43	32.1	0.53	6	8.8	0.41	40	6.8
Michigan	6.36	20	1.81	33	28.5	3.36	16	52.9	0.16	39	2.5	1.02	14	16.0
Minnesota	8.11	7	3.15	5	38.9	3.60	10	44.4	0.42	11	5.2	0.93	16	11.5
Mississippi	7.14	12	1.54	38	21.6	4.52	3	63.2	0.41	13	5.7	0.68	24	9.5
Missouri	4.48	44	2.13	28	47.5	1.98	42	44.1	0.13	45	2.8	0.25	47	5.6
Montana	6.36	21	2.33	19	36.6	1.41	47	22.1	0.34	21	5.4	2.28	6	35.9
Nebraska	5.12	39	2.17	27	42.4	2.47	36	48.3	0.28	30	5.4	0.20	48	3.8
Nevada	6.41	19	0.00	44	0.0	4.95	2	77.2	0.00	47	0.0	1.46	7	22.8
New Hampshire	3.71	50	0.14	42	3.7	1.47	46	39.6	0.88	2	23.6	1.23	11	33.1
New Jersey	6.14	23	2.49	14	40.5	2.68	31	43.7	0.43	10	7.0	0.53	32	8.7
New Mexico	6.88	13	1.55	37	22.6	3.58	11	52.1	0.38	16	5.5	1.36	9	19.8
New York	6.57	16	3.56	2	54.2	2.10	40	32.0	0.42	12	6.4	0.49	35	7.5
North Carolina	6.12	25	2.80	8	45.7	2.57	34	42.0	0.33	22	5.4	0.42	39	6.9
North Dakota	14.28	2	1.10	41	7.7	4.05	5	28.4	0.55	5	3.8	8.58	2	60.1
Ohio	5.58	36	1.94	31	34.8	2.82	27	50.6	0.03	46	0.5	0.79	18	14.1
Oklahoma	5.75	32	1.80	34	31.4	2.42	37	42.1	0.29	28	5.0	1.23	10	21.4
Oregon	5.59	35	3.74	1	67.0	0.90	49	16.1	0.28	29	5.0	0.67	25	12.0
Pennsylvania	5.79	31	1.77	35	30.7	3.01	24	52.1	0.32	23	5.6	0.68	23	11.7
Rhode Island	6.07	26	2.28	21	37.6	3.17	21	52.3	0.26	32	4.3	0.35	42	5.8
South Carolina	4.93	40	1.90	32	38.5	2.57	33	52.2	0.16	43	3.1	0.30	46	6.1
South Dakota	4.00	49	0.00	44	0.0	3.15	22	78.7	0.16	41	3.9	0.70	21	17.4
Tennessee	4.76	42	0.07	43	1.5	3.56	12	74.8	0.49	7	10.2	0.64	27	13.5
Texas	4.36	46	0.00	44	0.0	3.36	17	77.0	0.00	47	0.0	1.00	15	23.0
Utah	5.74	33	2.44	17	42.5	2.69	30	46.9	0.26	34	4.5	0.36	41	6.2
Vermont	10.07	3	2.19	26	21.7	3.54	13	35.1	0.35	19	3.5	3.99	4	39.7
Virginia	4.73	43	2.66	11	56.3	1.53	45	32.3	0.22	37	4.6	0.32	45	6.7
Washington	5.61	34	0.00	44	0.0	4.51	4	80.4	0.00	47	0.0	1.10	13	19.6
West Virginia	8.26	6	2.74	10	33.2	4.00	7	48.4	0.30	26	3.6	1.22	12	14.7
Wisconsin	6.74	14	2.64	13	39.1	2.95	26	43.8	0.37	17	5.6	0.77	19	11.5
Wyoming	8.75	5	0.00	44	0.0	3.84	8	43.9	0.00	47	0.0	4.91	3	56.1
Mean	6.53		1.92		31.0	2.92		47.6	0.33		5.1	1.36		16.3
Standard Deviation	2.45		1.04			1.01			0.26			2.53		
Coefficient of Variation	37.47		54.34			34.61			79.00			186.71		
NYS Diff. from Mean	0.04		1.64		23.2	(0.82)		(15.6)	0.09		1.3	(0.87)		(8.8)

Source: Moody's Economy.com, U.S. Census Bureau

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

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	2.18	46	0.88	50	40.6	0.91	4	41.6	0.39	8	17.9
Alaska	2.99	39	2.35	36	78.6	0.60	14	20.0	0.04	48	1.4
Arizona	4.74	15	3.88	18	81.8	0.76	9	16.0	0.11	31	2.3
Arkansas	2.03	48	1.85	44	90.9	0.12	29	6.1	0.06	41	3.0
California	5.89	5	5.02	8	85.2	0.65	13	11.0	0.22	16	3.8
Colorado	5.30	8	4.02	15	75.9	1.11	3	21.0	0.16	21	3.1
Connecticut	5.03	13	4.99	9	99.1	0.00	44	0.0	0.04	45	0.9
Delaware	1.91	50	1.62	46	85.0	0.00	42	0.2	0.28	12	14.7
Florida	3.30	35	2.79	31	84.4	0.40	20	12.1	0.12	28	3.5
Georgia	3.65	30	2.97	29	81.3	0.55	17	15.2	0.13	26	3.5
Hawaii	2.44	42	1.95	43	80.1	0.23	25	9.4	0.26	15	10.5
Idaho	3.14	37	3.06	27	97.3	0.02	37	0.8	0.06	40	2.0
Illinois	4.53	17	3.71	20	81.9	0.66	12	14.5	0.16	20	3.6
Indiana	3.37	33	3.25	25	96.6	0.01	41	0.1	0.11	30	3.3
Iowa	4.13	20	4.01	16	96.9	0.01	39	0.2	0.12	27	2.9
Kansas	4.41	18	4.15	14	94.1	0.17	27	3.8	0.09	33	2.1
Kentucky	2.39	43	1.60	47	66.9	0.11	31	4.6	0.68	5	28.5
Louisiana	3.16	36	1.53	49	48.5	1.49	1	47.1	0.14	24	4.4
Maine	3.66	29	3.63	21	99.3	0.00	45	0.0	0.03	50	0.7
Maryland	5.20	11	3.38	23	65.1	0.23	24	4.4	1.58	1	30.4
Massachusetts	6.50	3	6.46	1	99.4	0.00	45	0.0	0.04	49	0.6
Michigan	4.32	19	3.96	17	91.6	0.04	35	1.0	0.32	11	7.4
Minnesota	3.73	27	3.58	22	96.0	0.07	33	2.0	0.08	36	2.1
Mississippi	2.33	45	2.20	38	94.5	0.09	32	3.7	0.04	47	1.8
Missouri	3.82	26	2.67	34	69.8	0.77	8	20.2	0.38	9	9.9
Montana	5.28	9	5.08	7	96.1	0.00	45	0.0	0.21	17	3.9
Nebraska	5.54	6	5.17	6	93.3	0.24	22	4.4	0.13	25	2.3
Nevada	4.04	21	2.73	33	67.5	0.75	10	18.7	0.56	6	13.9
New Hampshire	5.93	4	5.82	3	98.1	0.00	45	0.0	0.11	29	1.9
New Jersey	6.60	2	5.95	2	90.1	0.56	15	8.5	0.09	35	1.3
New Mexico	1.95	49	1.59	48	81.7	0.21	26	11.0	0.14	23	7.4
New York	7.80	1	5.34	4	68.4	1.46	2	18.7	1.01	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	3.48	32	3.36	24	96.5	0.02	38	0.6	0.10	32	3.0
Ohio	3.97	23	3.03	28	76.3	0.14	28	3.5	0.80	4	20.3
Oklahoma	2.94	40	2.06	42	70.0	0.83	6	28.3	0.05	43	1.7
Oregon	5.03	14	4.64	12	92.3	0.11	30	2.2	0.28	13	5.5
Pennsylvania	3.90	25	2.59	35	66.2	0.03	36	0.9	1.28	2	32.9
Rhode Island	4.54	16	4.49	13	99.1	0.00	45	0.0	0.04	46	0.9
South Carolina	2.34	44	2.18	39	93.2	0.00	43	0.1	0.16	22	6.7
South Dakota	5.33	7	4.83	10	90.6	0.24	23	4.6	0.26	14	4.9
Tennessee	3.31	34	2.25	37	67.9	0.87	5	26.3	0.19	18	5.8
Texas	3.73	28	3.20	26	85.8	0.45	18	12.2	0.07	37	2.0
Utah	3.57	31	2.91	30	81.8	0.56	16	15.7	0.09	34	2.6
Vermont	5.25	10	5.19	5	98.7	0.00	45	0.0	0.07	39	1.3
Virginia	3.97	22	2.74	32	69.0	0.79	7	19.9	0.44	7	11.1
Washington	3.11	38	2.17	40	69.9	0.75	11	24.2	0.18	19	5.9
West Virginia	2.16	47	1.76	45	81.8	0.06	34	2.8	0.33	10	15.3
Wisconsin	3.93	24	3.88	19	98.7	0.01	40	0.1	0.05	44	1.2
Wyoming	5.05	12	4.65	11	92.0	0.33	21	6.6	0.07	38	1.4
Mean	3.99		3.39		83.8	0.36		9.6	0.25		6.6
Standard Deviation	1.33		1.33			0.39			0.31		
CV	33.29		39.29			109.02			126.56		
NYS Diff. from Mean	3.81		1.95		(15.3)	1.10		9.1	0.76		6.3
Source: Moody's Economy.com, U.S. Census Bureau											
Note: "Other" includes NYC imposed taxes and other categories.											

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

Table 5 - 2012 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	3.02	39	1.30	49	43.2	1.27	7	42.1	0.44	8	14.7
Alaska	4.26	16	3.40	13	79.7	0.77	19	18.1	0.09	31	2.2
Arizona	3.88	25	2.57	33	66.3	1.14	10	29.3	0.17	22	4.4
Arkansas	2.01	48	0.90	50	44.7	1.08	11	53.6	0.03	49	1.7
California	3.87	26	2.80	25	72.3	0.82	18	21.3	0.25	18	6.4
Colorado	4.61	6	2.93	22	63.6	1.48	2	32.1	0.20	20	4.2
Connecticut	4.54	7	4.48	5	98.8	0.00	49	0.0	0.05	45	1.2
Delaware	1.98	49	1.62	46	82.0	0.03	46	1.6	0.32	14	16.4
Florida	4.00	21	3.11	17	77.8	0.69	21	17.3	0.20	19	4.9
Georgia	4.18	19	2.76	27	66.0	1.32	6	31.6	0.10	30	2.4
Hawaii	3.04	38	2.10	40	69.2	0.63	26	20.8	0.31	15	10.1
Idaho	2.74	46	2.58	32	94.1	0.04	44	1.6	0.12	28	4.3
Illinois	5.10	5	4.30	7	84.3	0.68	23	13.4	0.12	27	2.4
Indiana	3.35	33	2.65	28	79.2	0.09	39	2.7	0.61	6	18.1
Iowa	4.21	18	3.39	14	80.6	0.69	22	16.4	0.13	26	3.0
Kansas	4.14	20	3.14	16	75.7	0.92	14	22.3	0.09	35	2.1
Kentucky	2.86	43	1.64	45	57.5	0.36	31	12.7	0.85	5	29.8
Louisiana	4.31	15	1.94	43	45.1	2.26	1	52.5	0.10	29	2.4
Maine	4.53	9	4.48	4	99.0	0.01	48	0.3	0.03	50	0.7
Maryland	4.53	8	2.52	34	55.7	0.26	32	5.8	1.75	1	38.5
Massachusetts	3.75	29	3.60	10	96.0	0.08	40	2.1	0.07	43	1.8
Michigan	3.27	35	3.02	18	92.3	0.07	41	2.2	0.18	21	5.5
Minnesota	2.98	41	2.78	26	93.4	0.12	37	4.0	0.08	41	2.6
Mississippi	2.83	44	2.64	31	93.1	0.11	38	3.8	0.09	33	3.1
Missouri	3.99	22	2.38	37	59.6	1.18	8	29.6	0.43	11	10.8
Montana	3.00	40	2.90	24	96.5	0.02	47	0.7	0.08	37	2.7
Nebraska	4.44	12	3.49	11	78.6	0.46	27	10.4	0.49	7	11.0
Nevada	3.64	31	2.47	35	67.8	0.89	15	24.5	0.28	16	7.7
New Hampshire	5.15	3	5.10	2	99.0	0.00	49	0.0	0.05	46	1.0
New Jersey	5.90	2	5.78	1	98.0	0.04	45	0.6	0.08	39	1.3
New Mexico	3.32	34	1.84	44	55.5	1.40	3	42.2	0.08	40	2.4
New York	7.36	1	4.37	6	59.3	1.40	4	19.0	1.59	2	21.7
North Carolina	3.16	37	2.40	36	75.8	0.68	24	21.5	0.09	34	2.7
North Dakota	2.56	47	2.01	42	78.4	0.46	28	18.0	0.09	32	3.6
Ohio	4.49	10	2.92	23	64.9	0.44	29	9.7	1.14	3	25.4
Oklahoma	2.89	42	1.49	48	51.6	1.35	5	46.7	0.05	47	1.7
Oregon	3.90	24	3.22	15	82.6	0.24	33	6.1	0.44	9	11.3
Pennsylvania	4.23	17	2.99	19	70.7	0.22	34	5.1	1.02	4	24.2
Rhode Island	5.15	4	5.03	3	97.6	0.05	43	1.0	0.07	44	1.3
South Carolina	3.82	27	2.99	20	78.2	0.40	30	10.5	0.43	10	11.3
South Dakota	3.61	32	2.65	29	73.4	0.88	16	24.3	0.08	36	2.3
Tennessee	3.18	36	2.04	41	64.2	0.98	12	30.7	0.16	24	5.1
Texas	4.41	14	3.62	9	82.0	0.71	20	16.2	0.08	38	1.8
Utah	3.70	30	2.65	30	71.5	0.93	13	25.1	0.13	25	3.5
Vermont	1.67	50	1.57	47	93.8	0.06	42	3.9	0.04	48	2.3
Virginia	3.92	23	2.95	21	75.2	0.64	25	16.3	0.33	13	8.5
Washington	3.76	28	2.33	38	62.0	1.18	9	31.3	0.25	17	6.7
West Virginia	2.77	45	2.23	39	80.5	0.19	35	7.0	0.35	12	12.5
Wisconsin	4.43	13	4.17	8	94.2	0.18	36	4.1	0.07	42	1.7
Wyoming	4.44	11	3.44	12	77.5	0.84	17	18.9	0.16	23	3.6
Mean	3.82		2.91		76.0	0.62		16.6	0.29		7.4
Standard Deviation	0.99		1.01			0.52			0.37		
CV	26.05		34.55			83.94			128.38		
NYS Diff. from Mean	3.54		1.45		(16.6)	0.78		2.4	1.31		14.3
Source: Moody's Economy.com, U.S. Census Bureau											
Note: "Other" includes NYC imposed taxes and all other categories.											

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

Table 6a - State/Local Split of 1977 Tax-to-Income Ratio				
State	State Taxes	Local Taxes	State/Local Total	Total Rank
Alabama	6.48	2.18	8.66	46
Alaska	14.39	2.99	17.38	1
Arizona	7.20	4.74	11.94	11
Arkansas	6.43	2.03	8.46	48
California	6.57	5.89	12.46	5
Colorado	5.31	5.30	10.61	18
Connecticut	5.67	5.03	10.70	17
Delaware	8.10	1.91	10.00	28
Florida	5.29	3.30	8.59	47
Georgia	5.88	3.65	9.53	40
Hawaii	8.98	2.44	11.42	12
Idaho	6.47	3.14	9.61	36
Illinois	5.58	4.53	10.11	27
Indiana	5.64	3.37	9.01	43
Iowa	6.12	4.13	10.26	24
Kansas	5.94	4.41	10.35	21
Kentucky	7.18	2.39	9.57	37
Louisiana	6.97	3.16	10.12	26
Maine	6.90	3.66	10.56	19
Maryland	7.16	5.20	12.36	6
Massachusetts	6.68	6.50	13.17	3
Michigan	6.67	4.32	11.00	16
Minnesota	8.27	3.73	12.00	9
Mississippi	7.66	2.33	9.99	29
Missouri	4.59	3.82	8.41	49
Montana	6.12	5.28	11.40	13
Nebraska	5.59	5.54	11.13	15
Nevada	5.61	4.04	9.65	35
New Hampshire	3.64	5.93	9.57	39
New Jersey	5.42	6.60	12.03	8
New Mexico	8.04	1.95	9.99	30
New York	7.13	7.80	14.94	2
North Carolina	6.97	2.60	9.57	38
North Dakota	6.93	3.48	10.41	20
Ohio	4.42	3.97	8.39	50
Oklahoma	6.10	2.94	9.03	42
Oregon	5.28	5.03	10.31	22
Pennsylvania	6.27	3.90	10.17	25
Rhode Island	6.69	4.54	11.23	14
South Carolina	7.11	2.34	9.45	41
South Dakota	4.59	5.33	9.92	32
Tennessee	5.66	3.31	8.97	44
Texas	5.17	3.73	8.90	45
Utah	6.38	3.57	9.94	31
Vermont	7.58	5.25	12.84	4
Virginia	5.77	3.97	9.75	34
Washington	7.20	3.11	10.30	23
West Virginia	7.71	2.16	9.87	33
Wisconsin	8.11	3.93	12.03	7
Wyoming	6.89	5.05	11.95	10
Mean Values	6.57	3.99	10.56	
Standard Deviation	1.55	1.33	1.67	
Coefficient of Variation	23.58	33.29	15.80	
NYS Diff. from Avg.	0.56	3.81	4.37	
Source: Moody's Economy.com, U.S. Census Bureau				

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

Table 6b - State/Local Split of 2012 Tax-to-Income Ratio				
State	State Taxes	Local Taxes	State/Local Total	Total Rank
Alabama	5.29	3.02	8.30	47
Alaska	18.56	4.26	22.82	1
Arizona	5.48	3.88	9.36	34
Arkansas	7.91	2.01	9.92	24
California	6.51	3.87	10.38	16
Colorado	4.33	4.61	8.94	39
Connecticut	7.32	4.54	11.86	7
Delaware	7.79	1.98	9.77	27
Florida	4.18	4.00	8.18	48
Georgia	4.45	4.18	8.63	44
Hawaii	8.85	3.04	11.89	6
Idaho	6.25	2.74	9.00	38
Illinois	6.12	5.10	11.23	10
Indiana	6.42	3.35	9.77	26
Iowa	5.86	4.21	10.07	20
Kansas	6.04	4.14	10.18	18
Kentucky	6.64	2.86	9.50	30
Louisiana	4.87	4.31	9.18	37
Maine	7.24	4.53	11.77	8
Maryland	5.89	4.53	10.42	15
Massachusetts	6.02	3.75	9.77	25
Michigan	6.36	3.27	9.63	28
Minnesota	8.11	2.98	11.08	13
Mississippi	7.14	2.83	9.98	23
Missouri	4.48	3.99	8.47	46
Montana	6.36	3.00	9.36	35
Nebraska	5.12	4.44	9.56	29
Nevada	6.41	3.64	10.04	21
New Hampshire	3.71	5.15	8.87	40
New Jersey	6.14	5.90	12.04	5
New Mexico	6.88	3.32	10.20	17
New York	6.57	7.36	13.93	3
North Carolina	6.12	3.16	9.28	36
North Dakota	14.28	2.56	16.83	2
Ohio	5.58	4.49	10.07	19
Oklahoma	5.75	2.89	8.63	45
Oregon	5.59	3.90	9.49	31
Pennsylvania	5.79	4.23	10.02	22
Rhode Island	6.07	5.15	11.22	11
South Carolina	4.93	3.82	8.74	42
South Dakota	4.00	3.61	7.61	50
Tennessee	4.76	3.18	7.94	49
Texas	4.36	4.41	8.78	41
Utah	5.74	3.70	9.44	32
Vermont	10.07	1.67	11.74	9
Virginia	4.73	3.92	8.65	43
Washington	5.61	3.76	9.37	33
West Virginia	8.26	2.77	11.03	14
Wisconsin	6.74	4.43	11.17	12
Wyoming	8.75	4.44	13.19	4
Mean Values	6.53	3.82	10.35	
Standard Deviation	2.45	0.99	2.41	
Coefficient of Variation	37.47	26.05	23.25	
NYS Diff. from Avg.	0.04	3.54	3.58	
Source: Moody's Economy.com, U.S. Census Bureau				

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

Table 7 - 2012 Ratios of Tax Collections to Personal Income by Category									
State	State PIT	Local PIT	State Corporate	Local Corporate	State Sales	Local Sales	Local Property	All Other	Total State/Local
Alabama	1.76	0.06	0.24	0.00	2.70	1.27	1.30	0.96	8.30
Alaska	0.00	0.00	1.75	0.00	0.65	0.77	3.40	16.25	22.82
Arizona	1.31	0.00	0.27	0.00	3.41	1.14	2.57	0.66	9.36
Arkansas	2.29	0.00	0.39	0.00	3.80	1.08	0.90	1.46	9.92
California	3.11	0.00	0.45	0.00	2.34	0.82	2.80	0.86	10.38
Colorado	2.06	0.00	0.21	0.00	1.73	1.48	2.93	0.53	8.94
Connecticut	3.50	0.00	0.30	0.00	3.18	0.00	4.48	0.39	11.86
Delaware	3.05	0.13	0.61	0.01	1.14	0.03	1.62	3.17	9.77
Florida	0.00	0.00	0.25	0.00	3.45	0.69	3.11	0.67	8.18
Georgia	2.19	0.00	0.16	0.00	1.98	1.32	2.76	0.22	8.63
Hawaii	2.47	0.00	0.13	0.00	5.75	0.63	2.10	0.81	11.89
Idaho	2.25	0.00	0.35	0.00	3.08	0.04	2.58	0.69	9.00
Illinois	2.65	0.00	0.59	0.00	2.41	0.68	4.30	0.59	11.23
Indiana	1.95	0.54	0.39	0.00	4.04	0.09	2.65	0.10	9.77
Iowa	2.27	0.07	0.32	0.00	2.72	0.69	3.39	0.61	10.07
Kansas	2.35	0.00	0.26	0.00	3.00	0.92	3.14	0.51	10.18
Kentucky	2.22	0.71	0.36	0.07	3.18	0.36	1.64	0.94	9.50
Louisiana	1.34	0.00	0.16	0.00	2.65	2.26	1.94	0.83	9.18
Maine	2.76	0.00	0.45	0.00	3.35	0.01	4.48	0.71	11.77
Maryland	2.46	1.51	0.30	0.00	2.48	0.26	2.52	0.88	10.42
Massachusetts	3.15	0.00	0.53	0.00	1.93	0.08	3.60	0.48	9.77
Michigan	1.81	0.11	0.16	0.00	3.36	0.07	3.02	1.08	9.63
Minnesota	3.15	0.00	0.42	0.00	3.60	0.12	2.78	1.01	11.08
Mississippi	1.54	0.00	0.41	0.00	4.52	0.11	2.64	0.76	9.98
Missouri	2.13	0.13	0.13	0.03	1.98	1.18	2.38	0.52	8.47
Montana	2.33	0.00	0.34	0.00	1.41	0.02	2.90	2.36	9.36
Nebraska	2.17	0.00	0.28	0.00	2.47	0.46	3.49	0.69	9.56
Nevada	0.00	0.00	0.00	0.00	4.95	0.89	2.47	1.74	10.04
New Hampshire	0.14	0.00	0.88	0.00	1.47	0.00	5.10	1.28	8.87
New Jersey	2.49	0.00	0.43	0.00	2.68	0.04	5.78	0.61	12.04
New Mexico	1.55	0.00	0.38	0.00	3.58	1.40	1.84	1.44	10.20
New York	3.56	0.80	0.42	0.55	2.10	1.40	4.37	0.74	13.93
North Carolina	2.80	0.00	0.33	0.00	2.57	0.68	2.40	0.51	9.28
North Dakota	1.10	0.00	0.55	0.00	4.05	0.46	2.01	8.67	16.83
Ohio	1.94	0.95	0.03	0.05	2.82	0.44	2.92	0.93	10.07
Oklahoma	1.80	0.00	0.29	0.00	2.42	1.35	1.49	1.28	8.63
Oregon	3.74	0.00	0.28	0.03	0.90	0.24	3.22	1.08	9.49
Pennsylvania	1.77	0.74	0.32	0.05	3.01	0.22	2.99	0.91	10.02
Rhode Island	2.28	0.00	0.26	0.00	3.17	0.05	5.03	0.42	11.22
South Carolina	1.90	0.00	0.16	0.00	2.57	0.40	2.99	0.73	8.74
South Dakota	0.00	0.00	0.16	0.00	3.15	0.88	2.65	0.78	7.61
Tennessee	0.07	0.00	0.49	0.00	3.56	0.98	2.04	0.80	7.94
Texas	0.00	0.00	0.00	0.00	3.36	0.71	3.62	1.08	8.78
Utah	2.44	0.00	0.26	0.00	2.69	0.93	2.65	0.49	9.44
Vermont	2.19	0.00	0.35	0.00	3.54	0.06	1.57	4.03	11.74
Virginia	2.66	0.00	0.22	0.00	1.53	0.64	2.95	0.65	8.65
Washington	0.00	0.00	0.00	0.00	4.51	1.18	2.33	1.35	9.37
West Virginia	2.74	0.00	0.30	0.00	4.00	0.19	2.23	1.56	11.03
Wisconsin	2.64	0.00	0.37	0.00	2.95	0.18	4.17	0.85	11.17
Wyoming	0.00	0.00	0.00	0.00	3.84	0.84	3.44	5.07	13.19
Mean Values	1.92	0.12	0.33	0.02	2.92	0.62	2.91	1.51	10.35
Standard Deviation	1.04	0.30	0.26	0.08	1.01	0.52	1.01	2.52	2.41
Coefficient of Variation	54.34	261.93	79.00	483.29	34.61	83.94	34.55	166.24	23.25
NYS Diff. from Avg.	1.64	0.69	0.09	0.53	(0.82)	0.78	1.45	(0.78)	3.58
Source: Moody's Economy.com, U.S. Census Bureau									

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

Table 8a - State Tax Burdens as a Pct. Of Personal Inc., 1977 - 2012					
Year	Mean	NYS	Standard Deviation	Coefficient of Variation	NY difference from mean
1977	6.57	7.13	1.56	23.82	0.56
1978	6.44	6.66	1.28	19.81	0.21
1979	6.49	6.46	1.62	24.89	(0.03)
1980	6.47	6.32	2.55	39.43	(0.14)
1981	6.48	6.21	3.78	58.41	(0.27)
1982	6.61	6.33	3.38	51.16	(0.29)
1983	6.44	6.16	2.46	38.21	(0.27)
1984	6.62	6.49	2.22	33.47	(0.13)
1985	6.71	6.69	1.96	29.27	(0.02)
1986	6.67	6.89	1.92	28.86	0.22
77-86 avg.	6.55	6.53	2.27	34.73	(0.02)
1987	6.60	7.01	1.29	19.55	0.41
1988	6.69	6.79	1.37	20.43	0.10
1989	6.63	6.44	1.35	20.42	(0.19)
1990	6.61	6.49	1.38	20.89	(0.12)
1991	6.62	6.39	1.52	22.99	(0.23)
1992	6.58	6.44	1.26	19.20	(0.14)
1993	6.83	6.55	1.54	22.57	(0.28)
1994	6.71	6.75	1.18	17.61	0.04
1995	6.84	6.58	1.37	20.02	(0.26)
1996	6.69	6.19	1.29	19.34	(0.50)
87-96 avg.	6.68	6.57	1.36	20.30	(0.12)
1997	6.75	5.97	1.30	19.24	(0.78)
1998	6.64	5.86	1.24	18.73	(0.78)
1999	6.66	6.00	1.29	19.36	(0.66)
2000	6.67	6.04	1.18	17.74	(0.63)
2001	6.52	6.18	1.14	17.44	(0.34)
2002	6.17	6.01	1.07	17.43	(0.16)
2003	6.11	5.72	1.07	17.48	(0.39)
2004	6.22	5.83	1.10	17.61	(0.39)
2005	6.53	6.05	1.31	20.08	(0.48)
2006	6.73	6.41	1.39	20.66	(0.33)
97-06 avg.	6.50	6.01	1.21	18.58	(0.49)
2007	6.80	6.51	1.54	22.64	(0.29)
2008	6.99	6.58	3.15	45.14	(0.40)
2009	6.53	6.73	1.94	29.72	0.20
2010	6.17	6.36	1.69	27.34	0.18
2011	6.34	6.42	1.99	31.39	0.08
2012	6.53	6.57	2.47	37.85	0.04
Source: Moody's Economy.com, U.S. Census Bureau					

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

Table 8b - State/Local Tax Burdens as a Pct. Of Personal Inc., 1977 - 2012					
Year	Mean	NYS	Standard Deviation	Coefficient of Variation	NY Difference From Mean
1977	10.56	14.94	1.69	15.96	4.37
1978	10.26	14.13	1.43	13.98	3.88
1979	10.16	13.42	1.70	16.71	3.27
1980	9.99	13.05	2.61	26.08	3.06
1981	9.90	12.76	3.79	38.24	2.86
1982	10.10	12.89	3.42	33.89	2.79
1983	10.01	12.72	2.66	26.55	2.71
1984	10.14	13.03	2.44	24.06	2.89
1985	10.31	13.40	2.26	21.90	3.10
1986	10.33	13.67	2.26	21.90	3.34
77-86 avg.	10.17	13.40	2.42	23.93	3.23
1987	10.39	14.04	1.57	15.10	3.65
1988	10.48	13.64	1.54	14.67	3.16
1989	10.39	13.28	1.39	13.34	2.89
1990	10.43	13.33	1.41	13.56	2.90
1991	10.51	13.61	1.57	14.96	3.10
1992	10.47	13.70	1.37	13.05	3.23
1993	10.74	14.05	1.66	15.44	3.32
1994	10.62	14.20	1.18	11.09	3.58
1995	10.75	13.69	1.33	12.39	2.94
1996	10.49	13.15	1.16	11.04	2.66
87-96 avg.	10.53	13.67	1.42	13.46	3.14
1997	10.55	12.92	1.16	10.95	2.37
1998	10.39	12.72	1.11	10.70	2.33
1999	10.33	12.73	1.02	9.92	2.40
2000	10.23	12.57	1.03	10.04	2.34
2001	10.08	12.43	1.01	10.04	2.35
2002	9.84	12.34	0.96	9.73	2.50
2003	9.86	12.57	1.00	10.14	2.71
2004	9.98	12.91	1.06	10.63	2.93
2005	10.33	13.35	1.19	11.51	3.03
2006	10.53	13.74	1.26	11.96	3.21
97-06 avg.	10.21	12.83	1.08	10.56	2.62
2007	10.63	13.82	1.46	13.75	3.19
2008	10.85	13.94	3.15	29.02	3.09
2009	10.65	14.09	1.99	18.69	3.44
2010	10.24	13.58	1.71	16.67	3.34
2011	10.24	13.67	1.98	19.33	3.43
2012	10.35	13.93	2.43	23.49	3.58

Source: Moody's Economy.com, U.S. Census Bureau

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

Table 9 - 2012 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
Wayne County	\$3,312	131	\$103,800	3.2%	1	\$58,097	5.7%	52
Monroe County	\$4,170	77	\$136,900	3.0%	3	\$68,475	6.1%	47
Niagara County	\$3,236	140	\$107,600	3.0%	5	\$62,460	5.2%	70
Cattaraugus County	\$2,442	260	\$81,500	3.0%	6	\$51,028	4.8%	92
Broome County	\$3,004	164	\$109,000	2.8%	13	\$61,804	4.9%	90
Chautauqua County	\$2,331	280	\$84,800	2.7%	14	\$51,671	4.5%	118
Livingston County	\$3,397	121	\$123,900	2.7%	15	\$62,157	5.5%	58
Cayuga County	\$2,975	169	\$108,600	2.7%	16	\$62,414	4.8%	94
Steuben County	\$2,430	263	\$89,300	2.7%	17	\$53,831	4.5%	117
Onondaga County	\$3,602	102	\$133,500	2.7%	19	\$68,327	5.3%	66
Erie County	\$3,429	119	\$127,200	2.7%	20	\$66,704	5.1%	73
Schenectady County	\$4,418	64	\$169,300	2.6%	23	\$73,649	6.0%	49
Tompkins County	\$4,555	59	\$174,600	2.6%	24	\$73,412	6.2%	45
Oswego County	\$2,435	261	\$94,400	2.6%	26	\$58,355	4.2%	156
Oneida County	\$2,792	192	\$112,400	2.5%	36	\$60,617	4.6%	107
Orange County	\$6,426	21	\$263,200	2.4%	37	\$86,244	7.5%	18
Ontario County	\$3,291	133	\$134,800	2.4%	38	\$65,917	5.0%	83
Chemung County	\$2,321	282	\$95,500	2.4%	39	\$61,272	3.8%	218
Madison County	\$2,897	182	\$120,700	2.4%	40	\$57,262	5.1%	79
Putnam County	\$8,498	9	\$356,200	2.4%	41	\$108,195	7.9%	12
Rockland County	\$9,835	3	\$415,300	2.4%	43	\$104,743	9.4%	3
St. Lawrence County	\$2,088	334	\$89,500	2.3%	46	\$53,261	3.9%	192
Rensselaer County	\$4,232	71	\$181,800	2.3%	47	\$78,771	5.4%	62
Sullivan County	\$3,793	93	\$165,900	2.3%	51	\$57,323	6.6%	35
Nassau County	\$9,934	2	\$442,500	2.2%	54	\$107,053	9.3%	5
Ulster County	\$4,927	43	\$220,600	2.2%	58	\$72,205	6.8%	31
Suffolk County	\$8,226	12	\$374,800	2.2%	70	\$99,405	8.3%	9
Dutchess County	\$5,639	31	\$275,900	2.0%	97	\$84,412	6.7%	33
Westchester County	\$10,001	1	\$506,200	2.0%	109	\$112,579	8.9%	7
Albany County	\$3,990	83	\$206,900	1.9%	121	\$78,757	5.1%	77
Clinton County	\$2,512	241	\$131,400	1.9%	128	\$64,773	3.9%	206
Jefferson County	\$2,136	322	\$128,500	1.7%	185	\$60,609	3.5%	268
Warren County	\$3,034	160	\$185,000	1.6%	193	\$64,086	4.7%	96
Saratoga County	\$3,635	101	\$228,200	1.6%	206	\$80,915	4.5%	122
Bronx County	\$3,281	135	\$357,700	0.9%	518	\$70,936	4.6%	106
New York County	\$6,310	22	\$742,700	0.8%	565	\$121,902	5.2%	71
Richmond County	\$3,503	109	\$434,000	0.8%	598	\$88,783	3.9%	188
Queens County	\$3,472	111	\$439,400	0.8%	611	\$74,354	4.7%	104
Kings County	\$3,445	117	\$537,500	0.6%	713	\$74,110	4.6%	105
United States	\$2,075	N/A	\$171,900	1.2%	N/A	\$65,514	3.2%	N/A
Source: U.S. Census Bureau, DOB Staff Estimates								

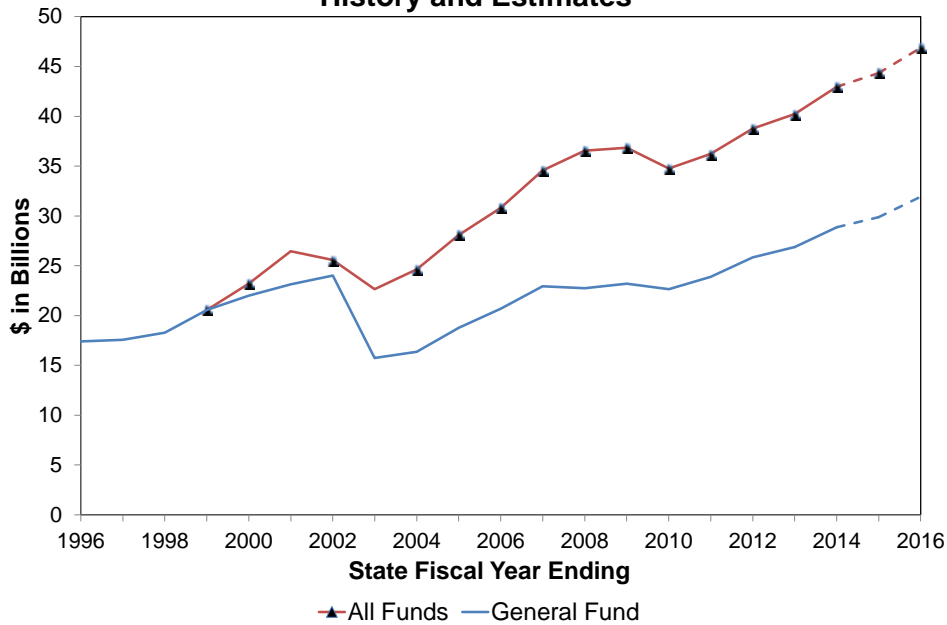
TAX RECEIPTS

PERSONAL INCOME TAX

PERSONAL INCOME TAX (millions of dollars)							
	FY 2014 Actual	FY 2015 Estimated	Change	Percent Change	FY 2016 Projected	Change	Percent Change
General Fund	28,863.8	29,879.1	1,015.3	3.5	31,935.3	2,056.2	6.9
Other Funds	14,097.0	14,458.9	361.9	2.6	14,952.7	493.8	3.4
All Funds	42,960.8	44,338.0	1,377.2	3.2	46,888.0	2,550.0	5.8

Note: Totals may differ due to rounding.

Personal Income Tax Receipts History and Estimates



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
FY 2006	26,431	5,731	20,700	3,213	6,900	30,813
FY 2007	28,450	5,510	22,940	3,994	7,646	34,580
FY 2008	29,365	6,606	22,759	4,664	9,141	36,564
FY 2009	30,367	7,171	23,196	4,434	9,210	36,840
FY 2010	29,296	6,642	22,654	3,409	8,688	34,751
FY 2011	31,687	7,792	23,894	3,263	9,053	36,210
FY 2012	33,106	7,263	25,843	3,233	9,692	38,768
FY 2013	34,100	7,216	26,884	3,286	10,057	40,227
FY 2014	37,478	8,614	28,864	3,357	10,740	42,961
Estimated						
FY 2015	38,255	8,376	29,879	3,374	11,085	44,338
FY 2016						
Current Law	40,959	9,237	31,722	3,424	11,715	46,861
Proposed Law	41,172	9,237	31,935	3,231	11,722	46,888

¹ School Tax Relief Fund.

² Debt Reduction Reserve Fund and Revenue Bond Tax Fund.

PERSONAL INCOME TAX

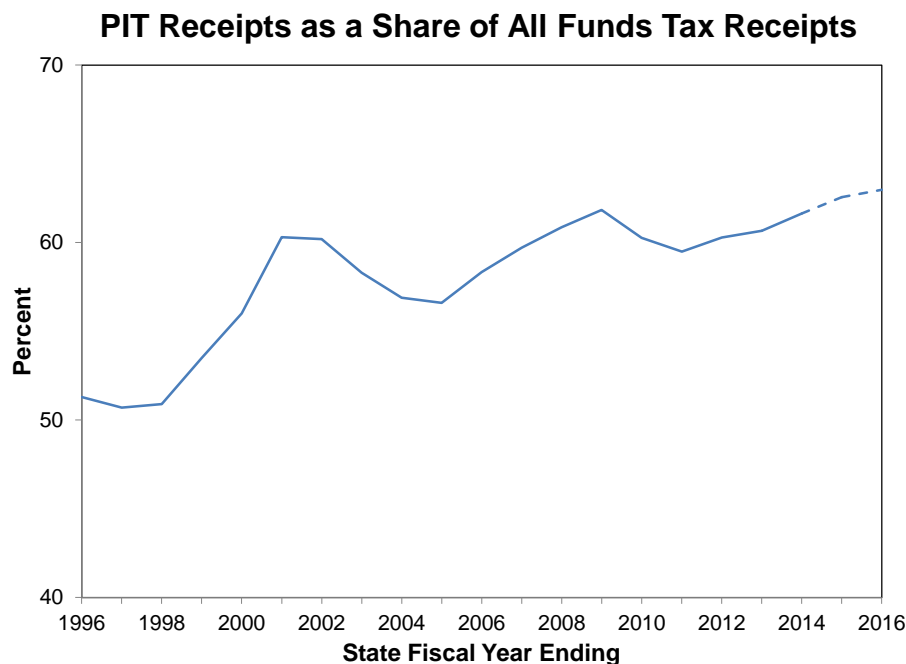
PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Make permanent the limitation on charitable contribution deductions for high income New York State and New York City personal income taxpayers;
- Lower the outstanding tax debt threshold required to suspend delinquent taxpayers' driver's licenses;
- Make warrantless wage garnishment permanent;
- Allow New York to enter reciprocal tax collection agreements with other states;
- Extend and reform the Brownfield Cleanup Program;
- Establish the Education Tax Credit;
- Reform the Investment Tax Credit provided for master tapes;
- Authorize a professional and business license tax clearance;
- Require new State employees to be compliant with State tax obligations;
- Require practitioners to be compliant with State tax obligations before receiving excess medical malpractice coverage;
- Convert the STAR benefit into a tax credit;
- Allow the OCFS to share child care data with the DTF;
- Amend the personal income tax, MTA mobility tax, and Credit for Disabled Workers statutes for technical changes;
- Create the Urban Youth Jobs Program Tax Credit;
- Establish the Residential Real Property Tax Credit;
- Create the Employee Training Incentive Program (ETIP) Tax Credit; and
- Make various changes to the STAR program.

DESCRIPTION

The personal income tax (PIT) is by far New York State's largest source of tax receipts. The PIT accounted for approximately 62 percent of All Funds tax receipts in FY 2014.



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

Tax Base

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

New York allows either a standard deduction or itemized deductions, whichever is greater. Although New York generally conforms to Federal rules pertaining to itemized deductions, the State imposes some additional limitations. New York limits itemized deductions for taxpayers with New York State Adjusted Gross Incomes (NYSAGI) between \$525,000 and \$1 million to only 50 percent of federally allowed deductions, and for taxpayers with incomes above \$1 million to only 50 percent of charitable contributions. For tax years 2010 to 2015, itemized deductions are limited to only 25 percent of charitable contributions for taxpayers with NYSAGI above \$10 million.

Tax Rates and Structure

As partially shown in Table 1, in tax years 2003, 2004, and 2005, a temporary PIT 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

PERSONAL INCOME TAX

surcharge, and the standard deduction for married taxpayers filing jointly increased from \$14,600 to \$15,000. For tax years 2009 through 2011, two new tax brackets and rates were added, applicable to taxpayers with taxable incomes over \$300,000 for married filing jointly returns (with lower levels for other filing categories) and taxable incomes over \$500,000 for all filers, and the top bracket tax rates were increased to 8.97 percent.

For tax years 2012 to 2014, four new tax brackets and rates replaced the former bracket and rate applicable to taxpayers with taxable income above \$40,000 for married filing jointly returns (with lower levels for other filing categories). The tax rate for taxpayers (married filing jointly returns) with taxable income in the \$40,000 to \$150,000 and \$150,000 to \$300,000 brackets was lowered to 6.45 percent and 6.65 percent respectively, while the rate on the \$300,000 to \$2 million tax bracket remained unchanged from 2008 law at 6.85 percent. The top rate for those earning \$2 million and above (married filing jointly returns) was increased (compared to 2008 law) to 8.82 percent. The tax brackets and standard deduction amounts were also indexed to the Consumer Price Index (CPIU) starting in tax year 2013. These brackets and rates, as well as indexing, were extended through tax year 2017 as part of the FY 2014 Enacted Budget.

TABLE 1									
PERSONAL INCOME TOP TAX RATES, STANDARD DEDUCTIONS, AND DEPENDENT EXEMPTIONS									
	2001	2002	2003-2005	2006-2008	2009-2011	2012	2013*	2014*	2015*
Top Rate (Percent)	6.85	6.85	7.70	6.85	8.97	8.82	8.82	8.82	8.82
Thresholds									
Married Filing Jointly	40,000	40,000	500,000	40,000	500,000	2,000,000	2,058,550*	2,092,800*	2,125,450*
Single	20,000	20,000	500,000	20,000	500,000	1,000,000	1,029,250*	1,046,350*	1,062,650*
Head of Household	30,000	30,000	500,000	30,000	500,000	1,500,000	1,543,900*	1,569,550*	1,594,050*
Standard Deduction									
Married Filing Jointly	13,400	14,200	14,600	15,000	15,000	15,000	15,400	15,650	15,850
Single	7,500	7,500	7,500	7,500	7,500	7,500	7,700	7,800	7,900
Head of Household	10,500	10,500	10,500	10,500	10,500	10,500	10,800	10,950	11,100
Dependent Exemption	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
* Tax Brackets and standard deductions are subject to indexing based on the CPIU									

TABLE 2 TAX SCHEDULES FOR 2015 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 16,950	\$0 +4.00%	0	0 to 8,400	\$0 +4.00%	0	0 to 12,700	\$0 +4.00%	0
16,950 to 23,300	\$678 +4.50%	16,950	8,400 to 11,600	\$336 +4.50%	8,400	12,700 to 17,450	\$508 +4.50%	12,700
23,300 to 27,550	\$964 +5.25%	23,300	11,600 to 13,750	\$480 +5.25%	11,600	17,450 to 20,650	\$722 +5.25%	17,450
27,550 to 42,450	\$1,187 +5.90%	27,550	13,750 to 21,150	\$593 +5.90%	13,750	20,650 to 31,800	\$890 +5.90%	20,650
42,450 to 159,350	\$2,066 +6.45%	42,450	21,150 to 79,600	\$1,029 +6.45%	21,150	31,800 to 106,200	\$1,548 +6.45%	31,800
159,350 to 318,750	\$9,606 +6.65%	159,350	79,600 to 212,500	\$4,800 +6.65%	79,600	106,200 to 265,600	\$6,346 +6.65%	106,200
318,750 to 2,125,450	\$20,206 +6.85%	318,750	212,500 to 1,062,650	\$13,637 +6.85%	212,500	265,600 to 1,594,050	\$16,947 +6.85%	265,600
2,125,450 and over	\$143,965 +8.82%	2,125,450	1,062,650 and over	\$71,873 +8.82%	1,062,650	1,594,050 and over	\$107,945 +8.82%	1,594,050

* Benefits of graduated tax rates recaptured for taxpayers with adjusted gross incomes above \$106,200.

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 PIT 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 PIT liability. The major individual credits are:

Credit	Description
Earned Income Tax Credit (EITC)	Allowed at a rate of 7.5 percent of the Federal credit in 1994, 10 percent in 1995, and 20 percent in 1996 and thereafter. Starting in 1996, the EITC was 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.

PERSONAL INCOME TAX

Credit	Description
Child and Dependent Care Credit	<p>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 equaled 110 percent for incomes up to \$25,000, phased down from 110 percent to 100 percent for incomes between \$25,000 and \$40,000, equaled 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 equaled 20 percent for incomes over \$65,000. The credit is fully refundable for New York residents whose credit amount exceeds tax liability.</p> <p>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.</p>
College Tuition Tax Credit	<p>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).</p>
Empire State Child Credit	<p>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.</p>
Long Term Care Insurance Credit	<p>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.</p>
Middle-Class Family Tax Credit	<p>Permitted for each taxpayer who, on his or her personal income tax return filed for the taxable year two years prior to the taxable year that the credit is claimed, a) was a resident of New York State; b) claimed one or more dependent children who were under age 17 at the end of the taxable year, c) had NYSAGI of between \$40,000 and \$300,000; and d) had tax liability that was greater than or equal to \$0. Worth \$350, the credit is fully refundable and is effective for tax years 2014 through 2016.</p>
Real Property Tax Freeze Credit	<p>A refundable credit that offsets up to two years of school and local municipal property taxes for taxpayers in eligible districts. To be eligible, the school district or taxing jurisdiction must be in compliance with the NYS Property Tax Cap. Taxpayers must be STAR exemption-eligible and may not reside in New York City in order to receive the credit. Eligible taxpayers receive a benefit equal to the greater of the actual increase in the property tax bill or the previous year's tax bill multiplied by an inflation factor. In tax year 2014, the credit is calculated based on one year of school district property tax increases. In tax year 2015, the credit is calculated based on up to two years of school district property tax increases and one year of municipal property tax increases. In tax year 2016, the credit is calculated based on up to two years of municipal district property tax increases.</p>
Enhanced Real Property Tax Credit	<p>Available to residents of New York City, a refundable credit based on household gross income (HGI) and qualified property taxes paid (homeowners) or the property tax equivalent (renters). For taxpayers that rent, the property tax equivalent is equal to 15.75 percent of the rental amount paid, excluding charges for heat, gas, electricity, furnishings, and board. For taxpayers with household gross income (HGI) under \$100,000, the credit is equal to 4.5 percent of real property taxes or the real property tax equivalent paid in excess of 4 percent of HGI. For taxpayers with HGI between \$100,000 and \$150,000, the credit is equal to 3 percent of real property taxes or the real property tax equivalent paid in excess of 5 percent of HGI. For taxpayers with HGI between \$150,000 and \$200,000, the credit is equal to 1.5 percent of real property taxes or the real property tax equivalent paid in excess of 6 percent of HGI.</p>

Additionally, credits are allowed for investment in production facilities, film production, Brownfields, for PIT paid to other states, and for job-producing investments. Other minor credits also apply.

Significant Legislation

Significant statutory changes made to the State PIT since 2000 are summarized below.

Subject	Description	Effective Date
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 PIT 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 PIT 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.	2006 and after

PERSONAL INCOME TAX

Subject	Description	Effective Date
Empire State Child Credit	Created a refundable credit for children ages 4-16 which equals the greater of \$100 times the number of children qualifying for Federal credit or 33 percent of the Federal credit.	2006 and after
Marriage Penalty	Increased the married filing joint standard deduction from \$14,600 to \$15,000 in order to eliminate the marriage penalty.	2006 and after
Earned Income Credit	Extended the credit to noncustodial parents who satisfy their child support obligations.	2006 and after; sunsets January 1, 2013
Legislation Enacted in 2007		
Loophole Closers	Required certain Federal S corporations to become New York S corporations if they form New York C corporations to avoid tax and granted the Tax Department authority to disregard personal service or S corporations formed primarily to avoid tax.	2007 and after
STAR	Created a new "middle class rebate" program, increased enhanced rebate amounts and New York City STAR credits.	2007 and after
Legislation Enacted in 2008		
LLC and other Flow-Through Entity Fees	Restructured and reformed the fees and minimum taxes imposed on limited liability companies, and S and C corporations.	2008 and after
STAR	Delayed scheduled increases in the Basic Middle Class STAR Rebates and NYC PIT credit by one year and scaled down other STAR program components.	2008 and after
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 Zone Reform	Reformed the Empire Zones program. All companies that had been certified for at least three years were subjected to a performance review focusing on cost/benefit ratios.	2008 and after
	The QEZE real property tax credit was reduced by 25 percent and firms were disqualified for the QEZE sales tax refund/credit unless the sale qualified for a refund or credit of the local sales and use tax.	2009 and after
	Moved current program sunset date from December 30, 2011, to June 30, 2010.	
Legislation Enacted in 2010		
Limited Itemized Deduction	Temporarily further limited the use of itemized deductions to 25 percent of Federal deduction for charitable contribution for taxpayers with NYSAGI over \$10 million.	2010-2012
Tax Credit Deferral	Capped aggregate business related tax credit claims at \$2 million per taxpayer for each of tax years 2010, 2011 and 2012. The total amount of credits deferred can be claimed by affected taxpayers on returns for tax years 2013, 2014 and 2015.	January 1, 2010

PERSONAL INCOME TAX

Subject	Description	Effective Date
Loophole Closers	Required certain S corporation gains to be treated as New York source income by nonresident shareholders, made certain termination payments, covenants not to compete and other compensation for past services taxable to nonresidents, and equalized maximum bio-fuel and QETC facilities, operations and training credit caps for corporations and unincorporated businesses.	2010 and after
Limited High Income NYC STAR Benefit	Limited New York City PIT STAR rate reduction credit by eliminating benefits on taxable income in excess of \$500,000.	2010 and thereafter
Legislation Enacted in 2011		
Offset Lottery Winnings with Outstanding Tax	Permitted the crediting of lottery prizes exceeding \$600 against prize winner's liabilities for taxes owed to the State.	August 1, 2011
STAR	Limited exemption growth to 2 percent annually.	2011-12 school year and after
Excelsior Jobs Program Amendments	Modified the credit to make it more widely available and attractive and created a new energy incentive. It also lengthened the benefit period from five to ten years.	2011 and after
Economic Transformation and Facility Redevelopment Program	Provided tax incentives to businesses to stimulate redevelopment in targeted communities where certain correctional or juvenile facilities are closed (economic transformation areas).	2011 to 2021
PIT Reform	Reformed the PIT by lowering rates for middle income taxpayers and adding three new brackets on taxable income above \$150,000 for tax years 2012 through 2014. Also indexed to the CPIU the tax brackets and standard deduction starting in tax year 2013.	January 1, 2012
New York Youth Works Tax Credit Program	Provided a tax credit to businesses that employ at risk youth in part-time or full-time positions in 2012 and 2013.	January 1, 2012
Empire State Jobs Retention Program	Provided a jobs tax credit to businesses that are at risk of leaving the State due to the negative impact on their business from a natural disaster. The tax credit is 6.85 percent of gross wages of jobs that are retained in New York.	January 1, 2012
Legislation Enacted in 2012		
Residential Solar Equipment Credit	The Residential Solar Equipment Credit was extended to leases and purchase power agreements.	2012 and after
Legislation Enacted in 2013		
Empire State Film Production Credit	Extended the Empire State film production tax credit of \$420 million per year for an additional five years (2015 - 2019). For the period 2015 through 2019 certain upstate counties will receive an additional 10 percent credit for wages and salaries paid.	January 1, 2015
	Restrictions on the post production portion of the credit were reduced and additional reporting will be required to document the effectiveness of the credit in creating jobs.	March 28, 2013
New York State Business Incubator and Innovation Hot Spot Program	Created a new high tech incubator program in which start-up businesses will be free of property, sales and business income taxes for the first five years. Hot spots must demonstrate an affiliation with, and the support of, at least one college, university or independent research institution and offer programs consistent with regional economic development strategies.	March 28, 2013
Limitation on Itemized Deductions	Extended the limitation on itemized deductions for taxpayers with adjusted gross income over \$10 million, which restricts the total value of the itemized deduction to 25 percent of otherwise eligible charitable contributions. The limitation sunsets December 31, 2015.	January 1, 2013

PERSONAL INCOME TAX

Subject	Description	Effective Date
Royalty Income Loophole	Closed a loophole that allowed New York companies that earn royalty income to avoid paying taxes on that income. New York taxpayers must show on their tax return that the taxpayer's non-New York parent company included the royalty income in its tax liability. The demonstration absolves taxpayers of the obligation to pay tax on their royalty income.	January 1, 2013
Historic Preservation Tax Credit	Extended for five years the Historic Preservation Tax Credit \$5 million cap, which had previously been scheduled to revert to \$100,000 following the conclusion of tax year 2014, and permanently made the credit refundable for tax years beginning on or after January 1, 2015.	January 1, 2015
Charge NY Electric Vehicle Recharging Equipment Credit	Created a credit equal to 50 percent or \$5,000 per station, whichever is less, of the cost of electric vehicle recharging or alternative fuel vehicle refueling equipment. The credit sunsets December 31, 2017.	January 1, 2013
Suspension of Drivers' Licenses of Delinquent Persons	Provided for the suspension of New York State driver's licenses of taxpayers who owe taxes in excess of \$10,000.	March 28, 2013
Warrantless Wage Garnishment	Allowed the Department of Taxation and Finance to garnish wages of delinquent taxpayers without filing a warrant and replaced the warrant requirement with a faster public notification requirement. The authority to act without warrant sunsets March 31, 2015.	March 28, 2013
Credit for Rehabilitation of Historic Homes	Extended for five years the maximum credit amount of \$50,000 (scheduled to revert to \$25,000), and the refundability of the credit for filers with income less than \$60,000.	January 1, 2015
Small Business and Small Farm Income Subtraction	Provided a Federal Adjusted Gross Income (FAGI) modification equal to a percentage of business or farm income for taxpayers with business or farm income not exceeding \$250,000. The modification reduces FAGI by 3 percent in tax year 2014, 3.75 percent in tax year 2015, and 5 percent for tax years 2016 and beyond.	January 1, 2014
Veterans Tax Credit	Provided a refundable tax credit for tax years 2015 and 2016 equaling 10 percent of the wages paid to a qualified veteran (capped at \$5,000) and 15 percent of wages paid to a qualified veteran (capped at \$15,000).	January 1, 2015
Middle-Class Family Tax Credit	Provided a refundable \$350 credit in each of tax years 2014 through 2016 to taxpayers with dependents under the age of 17, zero or positive tax liability, and income between \$40,000 and \$300,000.	January 1, 2014
Youth Works Tax Credit	Provided a four year refundable tax credit capped at \$6 million per year for tax years 2014 through 2017 for hiring unemployed, low-income or at risk youth ages 16-24 in cities with populations greater than 55,000 or towns with populations greater than 480,000.	January 1, 2014
Minimum Wage Reimbursement Credit	Provided a refundable tax credit for tax years 2014 through 2018 equal to the product of the number of hours worked by qualifying minimum wage-earning employees and 1) \$0.75 in tax year 2014; 2) \$1.31 in tax year 2015; or 3) \$1.35 in tax years 2016 through 2018. Qualifying employees must be students aged 16 to 19, and the credit is reduced if the federal minimum wage is increased to a level in excess of 85 percent of the New York minimum wage.	January 1, 2014
PIT Reform Extension	Extended the December 2011 PIT reform program for three additional tax years, 2015 through 2017.	January 1, 2015

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Subject	Description	Effective Date
START-UP NY	Established tax-free zones on or near qualifying university and college campuses. Qualifying businesses operating within such zones are exempt from taxation for a ten-year period under the personal income tax. During the first five years of the exemption period, qualifying new employees are fully exempt from New York State and New York City personal income tax on wages earned while working in a tax-free zone. During the last five years of the exemption period, qualifying employees are exempt from taxation on wages up to \$200,000 for single filers, \$250,000 for head-of-household filers, and \$300,000 for joint filers.	January 1, 2014
Excelsior Jobs Program	Changed the job requirement parameters for the Excelsior Jobs Program and allowed a portion of the unallocated tax credits from any taxable year to be used to award tax credits in another taxable year.	May 27, 2013
Legislation Enacted in 2014		
Trust Taxation Loophole Closer	Closed a loophole that allowed resident taxpayers to completely avoid New York income tax through the creation of an incomplete gift, non-grantor trust. Also taxes the accumulated distribution income of New York resident beneficiaries when the income is distributed by an exempt resident trust.	January 1, 2014
Middle-Class Family Tax Credit	Modified the delivery of the Middle-Class Family Tax Credit to eliminate the prepayment element for tax years 2015 and 2016.	January 1, 2015
Real Property Tax Freeze Credit	Established, through the use of a refundable credit, a two-year tax relief program to offset school and municipal property tax increases for New York State homeowners. The credit is limited to properties that have STAR property tax exemption eligibility and are located within a New York State Property Tax Cap-compliant school/municipal district.	January 1, 2014
Enhanced Real Property Tax Credit	Established a refundable credit for residents of New York City based on qualifying real property taxes paid or the real property tax equivalent. For taxpayers with household gross income (HGI) under \$100,000, the credit is equal to 4.5 percent of real property taxes or the real property tax equivalent paid in excess of 4 percent of HGI. For taxpayers with HGI between \$100,000 and \$150,000, the credit is equal to 3 percent of real property taxes or the real property tax equivalent paid in excess of 5 percent of HGI. For taxpayers with HGI between \$150,000 and \$200,000, the credit is equal to 1.5 percent of real property taxes or the real property tax equivalent paid in excess of 6 percent of HGI.	January 1, 2014
Modification of Signature Requirements on E-filing	Allowed taxpayers to use electronic signatures when authorizing their tax preparers to e-file their tax returns and related documents.	January 1, 2014
Enhanced Earned Income Tax Credit	Extended the noncustodial parent earned income tax credit for two years, through and including tax year 2016.	January 1, 2015
Minimum PIT Repeal	Repealed the additional minimum personal income tax.	January 1, 2014
Length of Service Awards	Provided for an AGI subtraction modification equal to the amount of awards paid to volunteer firefighter or volunteer ambulance worker from a length of service defined contribution plan or defined benefit plan.	January 1, 2014
Property Tax Credit for Manufacturers	Made qualified New York manufacturers eligible for a new tax credit equal to 20 percent of the real property taxes paid.	January 1, 2014

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Subject	Description	Effective Date
Enhance the Youth Works Tax Credit	Enhanced the credit by providing additional credit for youth retained in either a full-time or part-time status for one additional year, lowered the part-time hourly threshold from 20 hours to 10 hours for full-time high school students and increased the allocation from \$6 million to \$10 million for programs two through five (2014-2018).	January 1, 2014
Expand the Upstate Counties Eligible for the Enhanced Film Production Tax Credit	Added the counties of Albany and Schenectady to the list of upstate counties eligible for the additional 10 percent credit on wages and salaries.	January 1, 2015
Workers with Disabilities Tax Credit	Provided a non-refundable tax credit for tax years 2015 through 2019 equaling 15 percent of wages paid to a developmentally disabled individual employed full time (capped at \$5,000) and 10 percent of wages paid if the individual is employed part time (capped at \$2,500). This credit has an annual allocation of \$6 million.	January 1, 2015
Musical and Theatrical Production Credit	Provided a refundable tax credit for tax years 2015 through 2018 equaling 25 percent of qualified expenses for qualified musical and theatrical productions in certain upstate theaters. This credit has an annual allocation of \$4 million annually.	January 1, 2015
START-UP NY Amendments	Provided a refundable tax credit equal to the excise tax paid on telecommunications services paid by businesses in START-UP NY areas.	January 1, 2014
	Added four correctional facilities owned by the State of New York to be included as START-UP NY areas	July 26, 2014
Empire State Commercial Production Tax Credit	Extended the annual allocation of \$7 million for two years through tax year 2016. Also, lowered the minimum required production costs for upstate productions from \$200,000 to \$100,000.	March 31, 2014

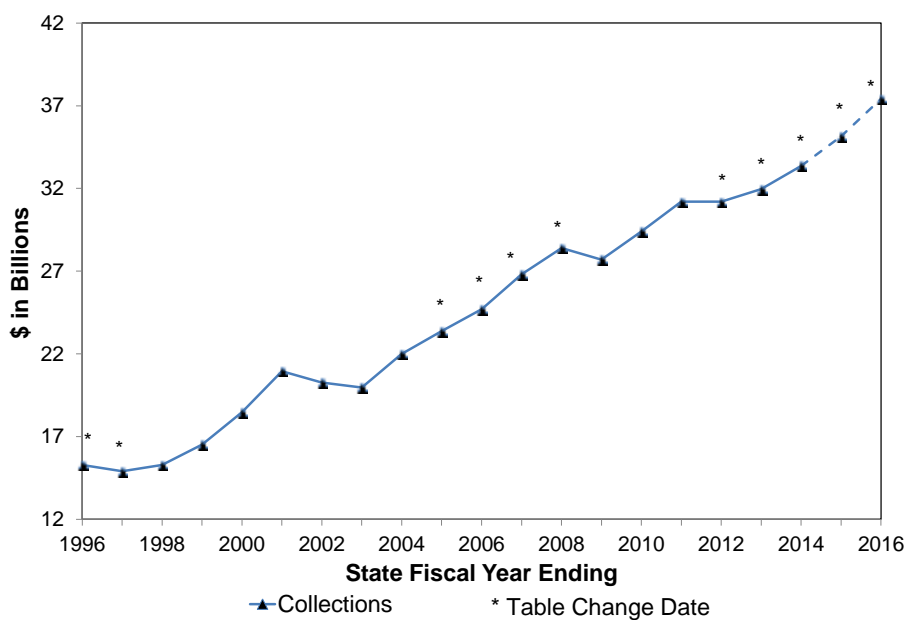
Withholding Changes

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

Effective Date	Feature	Changes
7/1/95	Deduction Allowance	Increased to \$5,650 for single individuals, \$6,150 for married couples.
	Rate Schedule	Lowered the maximum rate to 7.59 percent and reduced the number of tax brackets.
4/1/96	Deduction Allowance	Increased to \$6,300 for single individuals, \$6,800 for married couples.
	Rate Schedule	Lowered the maximum rate to 7 percent and broadened the wage brackets to which the rates apply.
1/1/97	Deduction Allowance	Increased to \$6,975 for single individuals, \$7,475 for married couples.
	Rate Schedule	Lowered the maximum rate to 6.85 percent and broadened the wage brackets to which the rates apply.
7/1/03	Rate Schedule	Raised maximum rate to 8.55 percent and added two new wage brackets.
1/1/04	Rate Schedule	Decreased maximum rate to 7.7 percent and lowered rate for second highest bracket from 7.5 percent to 7.375 percent.
1/1/05	Rate Schedule	Lowered rate for second highest bracket from 7.375 to 7.25 percent.
1/1/06	Rate Schedule	Eliminated top two rates to reflect expiration of the temporary tax surcharge.
5/1/09	Rate Schedule	Raised maximum rate to 8.97 percent and added two new wage

		brackets; added new higher rate to reflect phase out of itemized deductions.
1/1/12	Rate Schedule	Lowered rates for middle income taxpayers and created a new 8.82 percent tax rate and bracket for tax years through 2014.
1/1/13	Deduction Allowance	Increased to \$7,150 for single individuals, \$7,650 for married couples.
	Rate Schedule	Adjusted tax brackets to reflect indexing.
1/1/14	Deduction Allowance	Increased to \$7,250 for single individuals, \$7,750 for married couples.
	Rate Schedule	Adjusted tax brackets to reflect indexing.
1/1/15	Deduction Allowance	Increased to \$7,350 for single individuals, \$7,850 for married couples.
	Rate Schedule	Adjusted tax brackets to reflect indexing.

Personal Income Tax Withholding



The above graph shows the history of withholding collections beginning in FY 1996. 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 PIT.

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. Filing fees for the tax year are due no later than January 30 of the following year. Table 3 shows historical and estimated (for FY 2015) LLC fees. Fee amounts were temporarily increased for 2003 through 2006, which explains the higher collections in FY 2006 and FY 2007.

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The FY 2009 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 FY 2010 Enacted Budget further levied fees on non-LLC partnerships with NY-source income at or above \$1 million at the same rates applicable to LLC partnerships.

Table 3 Limited Liability Company and Partnership Fees (thousands of dollars)	
SFY	Amount
2006	70,755
2007	78,036
2008	50,973
2009	56,219
2010	67,469
2011	68,667
2012	71,589
2013	71,690
2014	84,129
2015 Estimated	88,000

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 administratively managed in accordance with cash flow expectations and to minimize potential year-end imbalances in the State's General Fund. From FYs 2001 through 2005, 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 FY 2006 and to \$1,500 million for FY 2007 and FY 2008. The refund "cap" was further increased to \$1,750 million for FY 2009 to more closely match the estimate of refunds payable during this three-month period. The refund "cap" was reduced to \$1,250 million for FY 2010 for cash management purposes, but reverted to \$1,750 million for FYs 2011 through 2013. A one-time increase in the three-month allocation to \$2,078 million took place in FY 2014 in response to previously unanticipated strong January 2013 current year estimated tax receipts. The "cap" is scheduled to revert, once again, to \$1,750 million for FY 2015 and beyond.

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 PIT. To reimburse school districts and New York City for the costs of the program, a portion of State PIT receipts are deposited to the STAR Fund. Pursuant to State Finance Law, payments are currently made to school districts in October through March and to New York City in September and June.

Revenue Bond Tax Fund

Legislation enacted in 2001 authorized the issuance of State PIT Revenue Bonds and provided a source of payment for the debt service on those Bonds by earmarking a portion of PIT 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 PIT 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 PIT receipts, RBTF deposits in excess of debt service requirements are transferred back to the General Fund.

Taxpayer Characteristics

Personal income tax liability and NYSAGI, the income base that determines personal income tax liability, differ noticeably across taxpayer groups. Table 4 examines the changes in NYSAGI and in liability over a span from 2005 to 2012, with a breakdown by taxpayer characteristics. While both NYSAGI and liability showed considerable growth over this period (NYSAGI growing 26.5 percent while liability grew 33.5 percent), the outsized growth in liability can be accounted for in part by changes in the State personal income tax law enacted in December 2011. The tax reform law replaced the temporary brackets and rates for high-income filers of the 2009-2011 law with new brackets and generally lower tax rates but retained a restriction on the itemized deductions of millionaires to a fraction of their charitable contributions. While the highest rate of the December 2011 reform applied only to millionaires, it was higher than the highest rate under the 2003-05 temporary brackets and rates, which took effect at incomes of \$500,000. Some of the effect of the reformed tax structure can be gauged by noting that in the span from 2004 to 2011 while NYSAGI increased 26.9 percent, comparable to the 2005-2012 span, liability grew 40.9 percent in that period.

Both 2005 and 2012 were years of economic expansion for the State. While in 2005 New York State was in its second full year of expansion following the State recession that came after the national recession of 2001, 2012 was the third year of the State's recovery from its August 2008-December 2009 recession (which was thus eight months shorter than the national recession). The years differ in that temporary higher tax rates and additional brackets were in their final year in 2005 while a reformed tax structure was in force for the first time in 2012.

The share of both returns and liability accounted for by nonresidents continued its slow upward trend between 2005 and 2012, with the nonresident share of returns rising from 10 percent to 11 percent, though the liability share slipped from 16.6 percent to 16.2 percent. Unlike in previous such comparisons, residents and nonresidents had fairly similar growth in both wages and nonwage income. Wages increased 23.2 percent from 2005 to 2012 for residents while nonresident wages increased somewhat faster, 26.1 percent. But nonwage income (which includes items of income such as dividends, interest received, and capital gains) were up 33.6 percent for residents, just a bit higher than the 32.6 percent increase experienced by nonresidents. As a consequence liability

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derived from resident taxpayers was 34.1 percent higher in 2012 than in 2005 while the increase from nonresidents was 30.2 percent.

With respect to filing status, a comparison of the two years shows that the slow decline in taxpayers filing as “married filing jointly” continued. Despite a 4.8 percent rise in the number of returns filed under this status from 2005 to 2012, the share dipped below 35 percent, down from the 36 percent share in 2005. Returns filed as “head of household” increased 5 percent but the share nonetheless slid to 15.6 percent from 16.3 percent in 2005. “Single” returns, though, posted growth of nearly 15 percent over the eight years, helping to drive the share up to 50 percent in 2012 from 47.7 percent in the base year. Despite the rising share of single filers, the money is still with the married filers: in 2005 they accounted for just over 70 percent of all liability, slipping to 69.3 percent in 2012, while the liability share of single filers rose from 26.3 percent to 27.3 percent by 2012.

Taxpayers who itemized their deductions made up 25.7 percent of all filers in 2005, sliding to 24.1 percent in 2012. In 2005, standard deduction returns accounted for 74.3 percent of all returns and 33.6 percent of all liability, while the remaining returns that were itemized made up 66.4 percent of all liability. By 2012 the itemizer share of liability had slipped to 57.1 percent while standard-deduction takers accounted for 42.8 percent of liability. Note that with the continuing limitation on itemized deductions for millionaires many of these high-liability taxpayers found themselves better off taking the standard deduction rather than itemizing.

With liability slipping from its traditional two-thirds/one-third split between itemizers and standard deduction takers, it is perhaps not surprising that income components also moved toward equality between 2005 and 2012. In 2005 itemizers had 58.1 percent of NYSAGI while standard deduction takers had 41.9 percent; by 2012 the proportions were nearly equal: 51.1 percent for the itemizers and 48.9 percent for the standard deduction filers. While nonwage income still overwhelmingly accrued to the itemizers (71.8 percent in 2005 and 63.5 percent in 2012), the wage shares flipped, with standard deduction filers getting 54.6 percent of wages in 2012 (up from 47.8 percent in 2005) while the itemizer wage share fell to 45.3 percent in 2012 from 52.2 percent in 2005.

TABLE 4 PERCENT SHARES OF STATE AGI, WAGES, NONWAGE INCOME AND LIABILITY BY VARIOUS TAXPAYER CHARACTERISTICS, 2005 AND 2012 (Values for AGI, wages, nonwage income and liability in millions of dollars)										
	2005					2012				
	Returns	NYSAGI	Wages	Nonwage Income	Liability	Returns	NYSAGI	Wages	Nonwage Income	Liability
Total	9,063,735	580,223	416,988	170,928	28,489	9,936,703	734,186	515,645	228,201	38,026
percent change						9.6	26.5	23.7	33.5	33.5
Residents	8,156,057	503,177	357,623	152,531	23,766	8,847,666	636,286	440,770	203,798	31,878
percent share	90.0	86.7	85.8	89.2	83.4	89.0	86.7	85.5	89.3	83.8
percent change						8.5	26.5	23.2	33.6	34.1
Nonresidents	907,678	77,046	59,366	18,397	4,723	1,089,037	97,900	74,875	24,403	6,148
percent share	10.0	13.3	14.2	10.8	16.6	11.0	13.3	14.5	10.7	16.2
percent change						20.0	27.1	26.1	32.6	30.2
Married Filing Jointly	3,265,368	373,017	256,589	120,874	20,118	3,420,971	466,784	310,925	161,438	26,358
percent share	36.0	64.3	61.5	70.7	70.6	34.4	63.6	60.3	70.7	69.3
percent change						4.8	25.1	21.2	33.6	31.0
Head of Household	1,473,844	48,631	43,014	6,504	878	1,547,330	60,183	52,048	9,104	1,270
percent share	16.3	8.4	10.3	3.8	3.1	15.6	8.2	10.1	4.0	3.3
percent change						5.0	23.8	21.0	40.0	44.6
Single Filers	4,324,523	158,575	117,385	43,550	7,492	4,968,402	207,219	152,672	57,658	10,397
percent share	47.7	27.3	28.2	25.5	26.3	50.0	28.2	29.6	25.3	27.3
percent change						14.9	30.7	30.1	32.4	38.8
Itemized Deduction	2,328,174	336,977	217,544	122,747	18,913	2,391,480	375,132	233,643	145,020	21,710
percent share	25.7	58.1	52.2	71.8	66.4	24.1	51.1	45.3	63.5	57.1
percent change						2.7	11.3	7.4	18.1	14.8
Standard Deduction	6,733,032	243,116	199,353	48,141	9,567	7,538,921	358,707	281,766	83,067	16,293
percent share	74.3	41.9	47.8	28.2	33.6	75.9	48.9	54.6	36.4	42.8
percent change						12.0	47.5	41.3	72.5	70.3

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

Recent Liability History

New York State Adjusted Gross Income, NYSAGI, is the income base that determines PIT liability. Table 5 lists the major components, their growth rates and their respective shares of NYSAGI (see also Economic Backdrop - New York State Adjusted Gross Income section). NYSAGI growth has seen a fair amount of volatility during the years following the recession with strong growth of 7.1 percent and 8.7 percent in 2010 and 2012, respectively, low 2.9 percent growth in 2011, and an estimated small 0.4 percent decline in 2013. The recent growth rates belie the impact of underlying economic drivers and are affected by a considerable amount of income shifting. Lower tax rates established under the Economic Growth and Tax Relief Reconciliation Act of 2001 were originally expected to sunset at the end of 2010. Though the sunset was moved to the end of 2012, evidence suggests that taxpayers shifted income from 2011 to 2010 in anticipation of a possible increase. With the actual tax rates increase at the close of 2012 came a more substantial income shift out of 2013 into 2012.

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TABLE 5 DISTRIBUTION OF THE MAJOR COMPONENTS OF NEW YORK ADJUSTED GROSS INCOME (NYSAGI) (millions of dollars)									
Component of Income	2008	2009	2010	2011	2012	2013*	2014	2015	2016
	-----Actual-----					-----Estimate-----			
NYSAGI									
Amount	662,053	596,471	638,855	657,298	714,698	712,148	770,793	811,087	851,508
Percent Change	(8.7)	(9.9)	7.1	2.9	8.7	(0.4)	8.2	5.2	5.0
Wages									
Amount	492,900	463,939	482,433	499,425	515,645	527,103	557,179	583,153	610,794
Percent Change	1.5	(5.9)	4.0	3.5	3.2	2.2	5.7	4.7	4.7
Share of NYSAGI	74.5	77.8	75.5	76.0	72.1	74.0	72.3	71.9	71.7
Net Capital Gains									
Amount	53,401	29,689	44,669	48,800	77,248	67,186	87,787	93,165	97,787
Percent Change	(54.1)	(44.4)	50.5	9.2	58.3	(13.0)	30.7	6.1	5.0
Share of NYSAGI	8.1	5.0	7.0	7.4	10.8	9.4	11.4	11.5	11.5
Interest and Dividends									
Amount	39,205	29,358	30,200	29,240	33,433	30,827	33,109	34,972	37,779
Percent Change	(18.7)	(25.1)	2.9	(3.2)	14.3	(7.8)	7.4	5.6	8.0
Share of NYSAGI	5.9	4.9	4.7	4.4	4.7	4.3	4.3	4.3	4.4
Taxable Pension									
Amount	31,070	32,167	35,583	37,052	39,040	40,726	42,395	44,336	46,463
Percent Change	(0.5)	3.5	10.6	4.1	5.4	4.3	4.1	4.6	4.8
Share of NYSAGI	4.7	5.4	5.6	5.6	5.5	5.7	5.5	5.5	5.5
Net Business and Partnership Income									
Amount	73,560	71,447	74,368	74,148	84,363	83,949	91,258	98,330	104,740
Percent Change	(1.1)	(2.9)	4.1	(0.3)	13.8	(0.5)	8.7	7.7	6.5
Share of NYSAGI	11.1	12.0	11.6	11.3	11.8	11.8	11.8	12.1	12.3
All Other Incomes and Adjustments¹									
Amount	(28,083)	(30,128)	(28,397)	(31,367)	(35,031)	(37,643)	(40,934)	(42,868)	(46,055)
Percent Change	(8.0)	7.3	(5.7)	10.5	11.7	7.5	8.7	4.7	7.4
* Estimates for 2013 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.									

Wages are the largest contributor to NYSAGI and one of the most stable. At the end of the recession in 2009, wages made up 77.8 percent of NYSAGI. Since wage growth is relatively slower during recoveries than that of other major components, particularly capital gains realizations income, that share fell to an estimated 74.0 percent in 2013.

As one of the larger and most volatile components of total taxable income, capital gains realizations contribute prominently to changes in NYSAGI. Net capital gains realizations grew 50.5 percent in 2010, dwarfing the strong underlying growth in equity and real estate markets, but experienced a much lower 9.2 percent growth in 2010 when equity and real estate markets were both growing at a faster clip. Growth in 2012 was even stronger than in 2010 at 58.3 percent, followed by an estimated 13 percent decline in 2013, a year with strong real estate market growth and moderate equity market growth. Clearly, high income taxpayers realized gains early to avoid higher rates on their long

term gains both in 2010 and in 2012. After four years of solid underlying equity and real estate market growth, however, net capital gains' contribution to NYSAGI has increased from 5 percent at the end of the recession in 2009 to 10.8 percent in 2012 and an estimated 9.4 percent in 2013.

Other income components exhibit the same pattern, though to a lesser extent. Firms announced at the end of 2012 that they were paying out dividends early to save their investors money, and the strong 13.8 percent partnership, S corp and business income growth in 2012, followed by a 0.5 percent estimated decline in 2013, suggests that businesses were able to shift some of their income as well.

As a result of income shifting, the base for several of the larger income components and hence NYSAGI is estimated to be low in 2013. Growth rates are thus artificially inflated for 2014 before returning to rates that are more in line with the underlying economic drivers in 2015 and 2016. For 2014, DOB predicts NYSAGI growth of 8.2 percent, followed by 5.2 percent growth in 2015, and 5.0 percent in 2016.



Note: Values above bars indicate the amount of additional liability due to temporary brackets and rates for those tax years. "Current law" for 2006-2017 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.

PERSONAL INCOME TAX

TABLE 6 LIABILITY AND EFFECTIVE TAX RATES* Current Law 2002-2016 (millions of dollars)					
	NYSAGI		Liability		Effective Tax Rate (percent)
	Amount	Growth Rate	Amount	Growth Rate	
2002	459,919	-4.4	20,731	-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	29,587	3.9	4.68
2007	725,245	14.6	35,215	19.0	4.86
2008	662,053	-8.7	31,621	-10.2	4.78
2009	596,471	-9.9	31,162	-1.5	5.22
2010	638,855	7.1	34,836	11.8	5.45
2011	657,298	2.9	36,296	4.2	5.52
2012	714,698	8.7	38,017	4.7	5.32
2013**	712,148	-0.4	37,194	-2.2	5.22
2014**	770,793	8.2	40,696	9.4	5.28
2015**	811,087	5.2	43,524	6.9	5.37
2016**	851,508	5.0	46,342	6.5	5.44
* Liability divided by AGI.					
** Estimate/Forecast					
Source: NYS Department of Taxation and Finance; DOB staff estimates.					

Risks to the Liability Forecast

The collapse of the financial markets and the resulting large declines in income from bonus payments and capital gains in 2001 and 2002 caused the share of liability originating with the top one percent of taxpayers to fall from 39 percent in 2000 to 32.2 percent in 2002 (see Table 8). The same thing – more exaggerated, given the near-collapse of the financial system not only in this country but also in other nations – happened just a few years later, as the liability share of the top one percent fell from 43.1 percent in 2007 to 33.2 percent in 2009 on a constant-law basis. Over time the State has become increasingly reliant on its high-income taxpayers as a source of income tax revenues. This has happened even in spite of the sunset of the 2003-05 high-income brackets and rates; note that in 2006 the top taxpayers accounted for 39 percent of all liability, climbing to just over 43 percent in 2007. The reformed State tax law enacted in December 2011 and effective with the 2012 tax year increased this proportion to 43.2 in its first year, a recent high. While income shifting in conjunction with federal tax law changes in December 2012 helped bring the estimated proportion for 2013 down to 41.2 percent, the Budget Division expects the proportion to be over 42 percent in both 2014

and 2015 under the current tax regime. But this implies that changes in the economy, or in the institutional practices of firms (i.e., the timing and types, not to mention the size, of bonus payments), that affect a small number of taxpayers in the high-income groups can have disproportionately large effects on State tax revenues.

TABLE 7
PERCENT DISTRIBUTION OF RETURNS, LIABILITY
AND AGI BY INCOME GROUPS UNDER CURRENT LAW

Income Group	2012 (Actual)			2015 (Forecast)		
	Returns	Liability	AGI	Returns	Liability	AGI
0 - \$50,000	66.3	3.4	13.8	62.5	2.8	14.3
\$50,000 - \$100,000	18.9	14.4	18.6	20.2	13.8	17.8
\$100,000 - \$200,000	10.2	18.3	19.3	12.2	19.5	20.6
\$200,000 - \$1,000,000	4.1	23.2	20.7	4.5	23.1	20.2
\$1,000,000 and above	0.5	40.7	27.5	0.6	40.8	27

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

TABLE 8
CHANGES IN THE SHARE OF LIABILITY ORIGINATING WITH
THE TOP ONE PERCENT OF NYS TAXPAYERS

Year	1995-2002, 2006-08 Tax Law			2003-05, 2009-11 Brackets and Rates; New Law Begins in 2012		
	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)
2002	6,681	20,731	32.2	--	--	--
2003	7,146	21,173	33.8	8,079	22,456	36
2004	8,487	24,218	35	9,607	25,769	37.3
2005	9,794	26,741	36.6	11,093	28,484	38.9
2006	11,539	29,587	39	--	--	--
2007	15,195	35,215	43.1	--	--	--
2008	11,890	31,621	37.6	--	--	--
2009	9,138	27,522	33.2	12,194	31,162	39.1
2010	10,548	30,349	34.8	14,282	34,836	41
2011	10,733	31,596	34	14,513	36,296	40
2012	12,976	35,258	36.8	16,408	38,017	43.2
2013*	12,278	35,041	35	15,310	37,194	41.2
2014*	13,746	38,638	35.6	17,241	40,696	42.4
2015*	14,740	41,373	35.6	18,514	43,524	42.5
2016*	15,787	44,205	35.7	19,704	46,341	42.5

* Estimated

Note: The 2003-2005 surcharges expired at the end of the 2005 tax year.

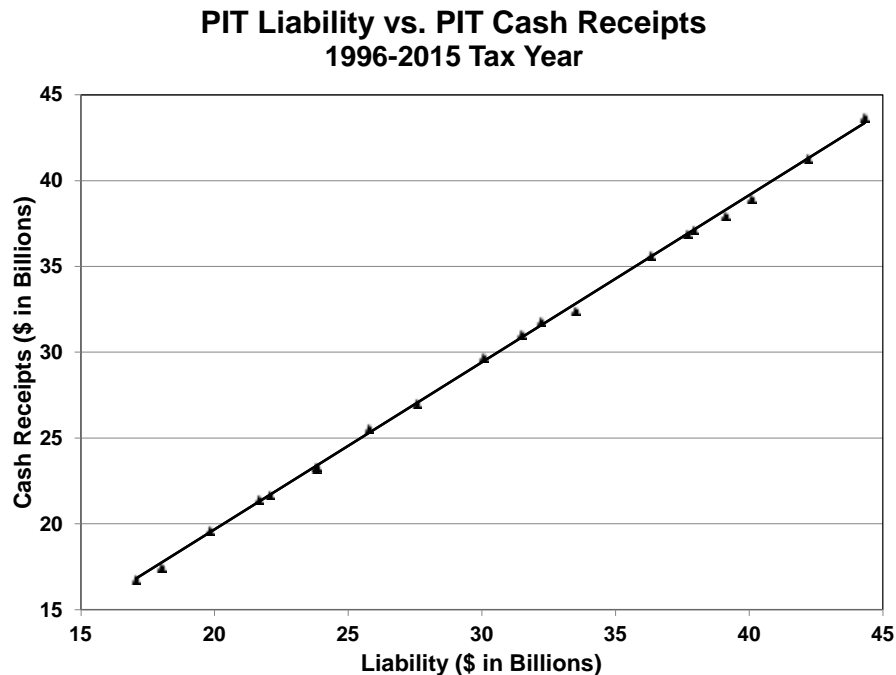
Note 2: The 2009-2011 brackets and rates expired at the end of the 2011 tax year.

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

PERSONAL INCOME TAX

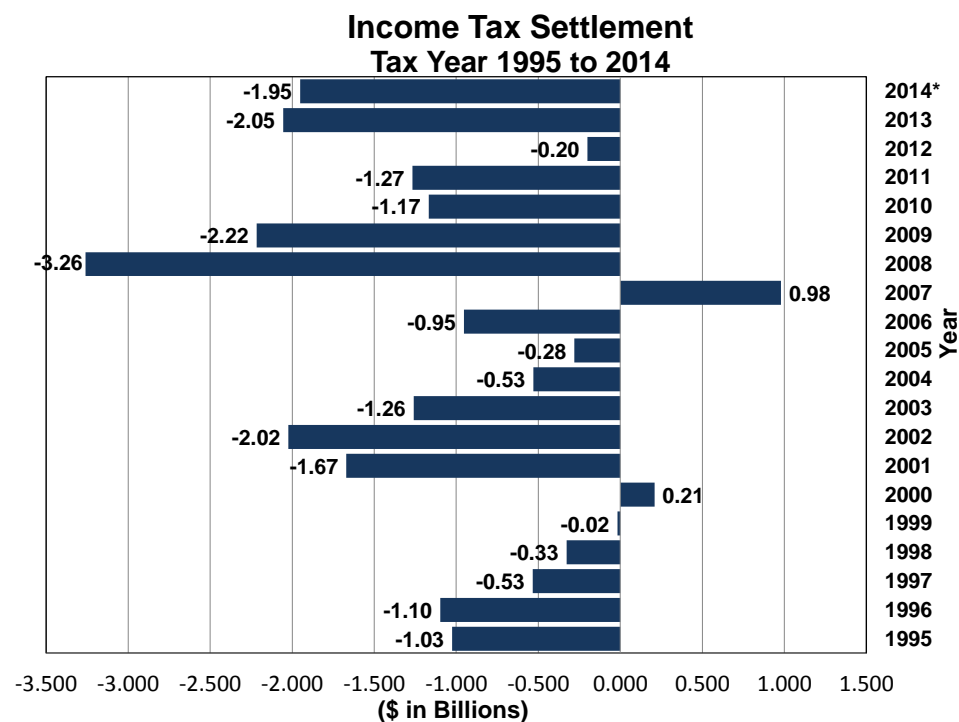
TAX LIABILITY AND CASH PAYMENTS

Although significant risks necessarily remain in any estimates of income tax liability, the estimation of the level of tax liability for a particular tax year leads, with a high degree of confidence, to the approximate level of cash receipts that can be expected for the particular tax year. The consistency in this relationship is shown in the graph below, which shows a trend line for the history of liability and cash receipts beginning in 1996, and data points to denote actual liability and cash results or estimates.



Despite the strong relationship between tax-year liability and cash receipts, estimation of cash payments is subject to an important complication that pervades forecasts for the Executive Budget and other State Financial Plan updates. This complication is determining the portions of tax-year liability that will occur in particular State fiscal years. Income tax prepayments – withholding tax and quarterly estimated tax payments – tend to be received not long after income is earned. For example, most withholding tax payments and quarterly estimated tax payments for the 2013 tax year will be received before the end of FY 2014. 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 2013 tax year will be received largely in FY 2015.

As is evident in the following graph showing net settlement payments for the 1995 through 2014 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.



* Projection

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 in 2003, the net settlement payout by the State was negative by \$530 million for the 2004 tax year and \$280 million for tax year 2005. However, the 2006 settlement was negative by \$950 million, due mainly to refund claims for the new child credit. Due to strength of the 2007 tax year, the 2007 settlement was highly positive at \$980 million. Due to the subsequent recessionary economic environment, the 2008 settlement turned negative again (\$3.26 billion), while the 2009 settlement was a significantly less negative \$2.22 billion. Due to strong extension payments, the 2010 settlement ended at a smaller negative \$1.17 billion. Extension payments declined in 2011, leading to a slightly more negative net settlement of \$1.27 billion. In 2012, strong end-of-year capital gains realizations led to record-high April extension payments, improving the settlement to negative \$200 million. The net settlement for tax year 2013 shifted to a firmly negative \$2.06 billion, the result of a nearly 35 percent decline in extension payments following an inflated 2012 base. Due to a rebound in extension payments, resulting from strong equities market performance, and the payment of new State credits prior to the conclusion of the tax year (advanced credit payment), the net settlement for tax year 2014 is projected to improve slightly to negative \$1.95 billion.

For tax years 2009, 2010 and 2011, New York temporarily added two new tax rates: 7.85 percent on taxable income over \$300,000 for married joint filers (lower level

PERSONAL INCOME TAX

for others) and 8.97 percent on taxable income over \$500,000 for all filers. Further, laws enacted in 2009 completely disallowed the use of itemized deductions (except for charitable contributions) for taxpayers with NYSAGI over \$1 million. For tax years 2010, 2011, and 2012, the itemized deduction for charitable contributions was further reduced from 50 percent to 25 percent for taxpayers with NYSAGI over \$10 million. The 25 percent limitation was subsequently extended to apply to tax years 2013, 2014, and 2015.

For tax years 2012 to 2014, four new tax brackets and rates replaced the former bracket and rate applicable to taxpayers with taxable income above \$40,000 for married filing jointly returns (with lower levels for other filing categories). The tax rate for taxpayers (married filing jointly returns) with taxable income in the \$40,000 to \$150,000 and \$150,000 to \$300,000 brackets were lowered to 6.45 percent and 6.65 percent respectively, while the rates on the \$300,000 to \$2 million tax bracket remained unchanged from 2008 law at 6.85 percent. The top rate for those earning \$2 million and above (married filing jointly returns) were increased to 8.82 percent. The tax brackets and standard deduction amounts were also indexed to the CPIU starting in tax year 2013. These brackets and rates, including CPIU indexing, were subsequently extended through the end of tax year 2017 as part of the FY 2014 Enacted Budget.

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

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

FY 2015 Estimates

All Funds receipts through December are \$30,174 million, an increase of \$337 million (1.1 percent) from the comparable period in the prior fiscal year.

All Funds FY 2015 receipts are estimated to be \$44.3 billion, an increase of \$1.4 billion (3.2 percent) from FY 2014. This primarily reflects moderate growth in withholding, strong growth in current estimated payments for tax year 2014, and a modest decline in total refunds, partially offset by sharp declines in both extension (i.e., prior year estimated) payments for tax year 2013 and final returns.

Withholding in FY 2015 is projected to be \$35.1 billion (5.3 percent) higher compared to the prior year. This reflects the net effect of moderate wage growth offset by reduced revenue attributable to the withholding table inflation adjustment. Total estimated payments are expected to decline by \$529 million (3.6 percent). Estimated payments for tax year 2014 are projected to increase by \$1.3 billion (13.5 percent) in response to strong equities market performance. Extension payments (i.e., prior year estimated) for tax year 2013 are estimated to decline substantially (\$1.8 billion or 34.9 percent) following a tax year 2012 extension payments base that was inflated by accelerated realization of capital gains in anticipation of rising federal income tax rates in

2013. Delinquent collections are projected to be \$91 million (7.7 percent) higher, while final return payments are projected to decline by \$204 million (8.5 percent).

The decrease in total refunds of \$238 million (2.8 percent) reflects declines of \$405 million (7.5 percent) in prior refunds related to tax year 2013, \$328 million (15.8 percent) in current year refunds related to tax year 2014, \$27 million (4.4 percent) in the state-city offset, and \$90 million (16.3 percent) in refunds related to tax years prior to 2013, partially offset by \$612 million in advanced credit payments attributable to tax year 2014.

Table 9 shows the components of the PIT from FY 2014 through FY 2016.

TABLE 9 FISCAL YEAR COLLECTION COMPONENTS ALL FUNDS (millions of dollars)			
	FY 2014 (Actual)	FY 2015 (Estimated)	FY 2016 (Projected)
Receipts			
Withholding	33,368	35,149	37,410
Estimated Payments	14,637	14,108	14,996
Current Year	9,454	10,734	11,348
Prior Year*	5,183	3,374	3,648
Final Returns	2,395	2,191	2,378
Current Year	250	239	254
Prior Year*	2,145	1,952	2,124
Delinquent Collections	1,175	1,266	1,341
Gross Receipts	51,575	52,714	56,125
Refunds			
Prior Year*	5,367	4,962	5,678
Previous Years	554	464	488
Current Year*	2,078	1,750	1,750
Advanced Credit Payment	0	612	783
State-City Offset*	615	588	538
Total Refunds	8,614	8,376	9,237
Net Receipts	42,961	44,338	46,888
* These components, collectively, are known as the "settlement" on the prior year's tax liability.			

The primary risk to the FY 2015 receipts estimate results from uncertainty surrounding bonus payments paid by financial services companies. A large portion of these financial sector bonuses are typically paid in the last quarter of the state fiscal year. Consequently, complete information about such payments is not available when Budget estimates are constructed.

FY 2016 Projections

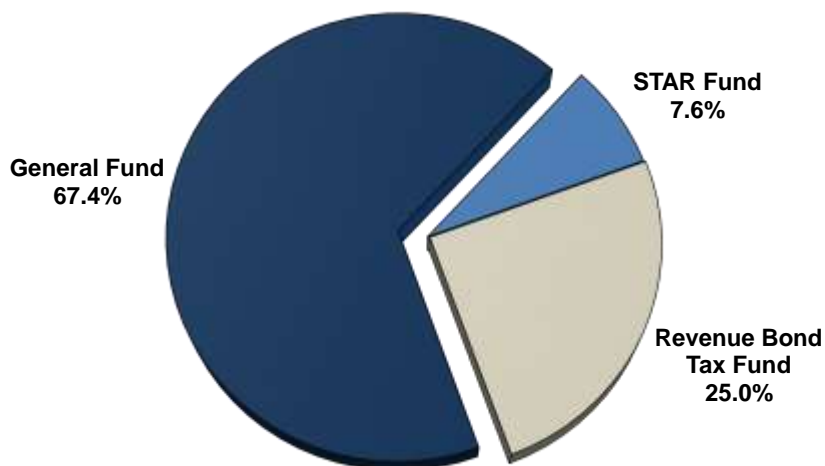
All Funds FY 2016 receipts are projected to be \$46.9 billion, an increase of \$2.6 billion (5.8 percent) from FY 2015.

PERSONAL INCOME TAX

This increase primarily reflects increases of \$2.3 billion (6.4 percent) in withholding and \$888 million (6.3 percent) in total estimated payments, partially offset by an \$861 million (10.3 percent) increase in total refunds. The increase in total refunds is primarily attributable to the timing of tax year 2014-related refunds (\$328 million) and a \$272 million year-over-year increase due to legislation included as part of the FY 2015 Enacted Budget (the Enhanced Real Property Tax Circuit Breaker Credit, the Manufacturing Property Tax Credit, and the AGI reduction for length of service awards for volunteer firefighters and volunteer ambulance workers) and reduced estimates of FY 2015 advanced credit payments. The growth in withholding is driven by projected FY 2016 wage growth of 4.7 percent. The growth in total estimated payments includes increases of \$614 million (5.7 percent) in estimated payments related to tax year 2015 and \$274 million (8.1 percent) in extension (i.e., prior year estimated) payments for tax year 2014. The robust growth in extension payments is in response to estimated 2014 net capital gains growth of 30.7 percent.

Payments from final returns are expected to increase \$187 million (8.5 percent), also benefitting from the capital gains growth in 2014, and delinquent collections are projected to increase by \$75 million (5.9 percent) compared to the prior year. The projected growth in delinquent collections is inclusive of \$27 million in increases attributable to proposed legislation. The aforementioned increase in total refunds of \$861 million reflects increases of \$716 million (14.4 percent) in prior year refunds for tax year 2014, \$171 million (27.9 percent) in advanced credit payments for tax year 2015, and \$24 million (5.2 percent) in previous years refunds related to tax years prior to 2014, partially offset by a \$50 million (8.5 percent) decline in the state-city offset.

**Fund Shares of Net Receipts
2014-15**



General Fund

General Fund net PIT receipts are estimated to be \$29,879 million in FY 2015 and are projected to be \$31,935 million in FY 2016.

Other Funds

In FY 2015 and FY 2016, respectively, dedicated PIT receipts of \$3,374 million and \$3,231 million will be deposited into the School Tax Relief Fund. The decline in FY 2016 deposits is attributable to legislative proposals that provide for \$193 million in reduced deposits.

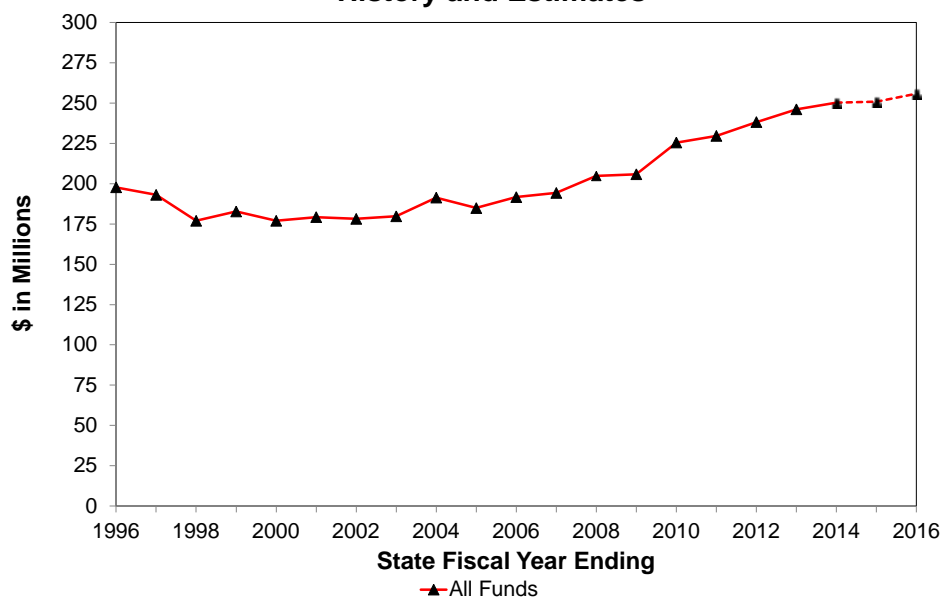
In FY 2015 and FY 2016, respectively, dedicated receipts of \$11,085 million and \$11,722 million will be deposited into the Revenue Bond Tax Fund (RBTF). This increase reflects the growth in net income tax collections upon which the RBTF is based.

ALCOHOLIC BEVERAGE TAXES

ALCOHOLIC BEVERAGE TAXES (millions of dollars)							
	FY2014 Actual	FY2015 Estimated	Change	Percent Change	FY2016 Projected	Change	Percent Change
General Fund	250.3	251.0	0.7	0.3	256.0	5.0	2.0
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	250.3	251.0	0.7	0.3	256.0	5.0	2.0

Note: Totals may differ due to rounding.

Alcoholic Beverage Tax Receipts History and Estimates



ALCOHOLIC BEVERAGE TAXES BY FUND (thousands of dollars)				
	Gross General Fund	Refunds	General Fund	All Funds Receipts
FY 2006	191,696	22	191,674	191,674
FY 2007	194,379	83	194,296	194,296
FY 2008	205,375	546	204,829	204,829
FY 2009	205,913	5	205,908	205,908
FY 2010	225,647	87	225,560	225,560
FY 2011	229,698	0	229,698	229,698
FY 2012	238,379	116	238,263	238,263
FY 2013	246,240	23	246,217	246,217
FY 2014	250,312	6	250,306	250,306
Estimated				
FY 2015	251,100	100	251,000	251,000
FY 2016				
Current Law	256,100	100	256,000	256,000
Proposed Law	256,100	100	256,000	256,000

ALCOHOLIC BEVERAGE TAXES

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

Tax Base and Rate

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

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

Administration

Generally, the tax is remitted by licensed distributors and noncommercial importers of such beverages in the month following the month of delivery. Small taxpayers file the tax annually.

Significant Legislation

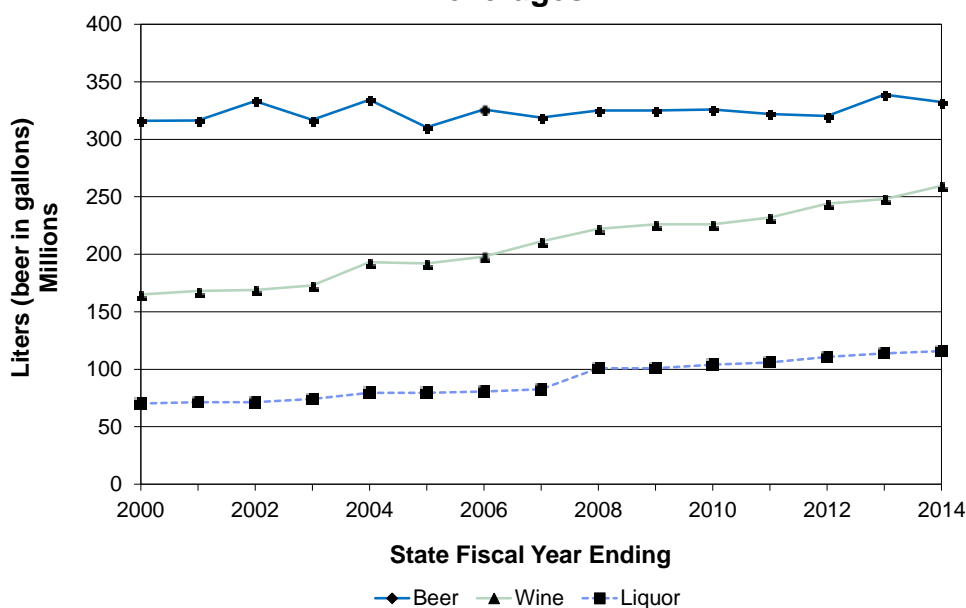
Significant statutory changes to this tax since 2000 are summarized below.

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

ALCOHOLIC BEVERAGE TAXES

Subject	Description	Effective Date
Legislation Enacted in 2012		
Small Brewers' Tax Credit	Repealed the exemption for certain small brewers, and replaced the benefit with personal income and business tax credits.	March 28, 2012

Total Consumption of Alcoholic Beverages



TAX LIABILITY

Generally, consumption of taxed wine and liquor has increased annually since FY 2008, while taxable beer consumption (with the exception of the last two fiscal years) has remained relatively flat during the same period.

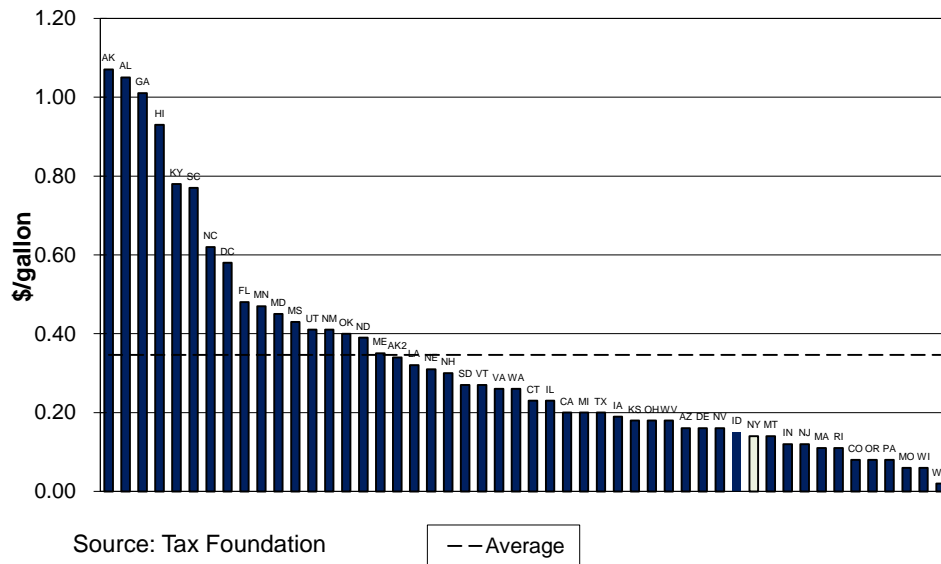
Other States

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

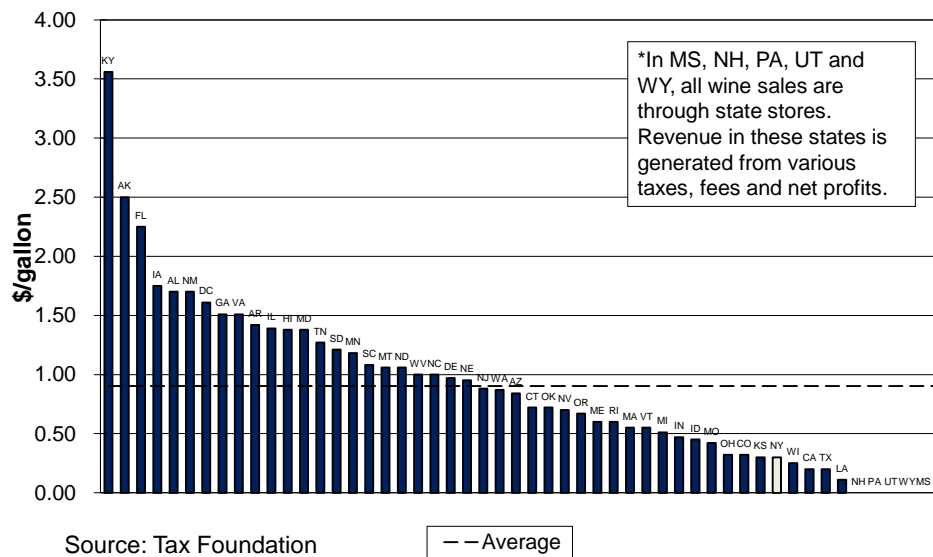
- The twelfth lowest beer tax;
- The fifth lowest wine tax (of those participating states); and
- The twentieth highest liquor tax (of those participating states).

ALCOHOLIC BEVERAGE TAXES

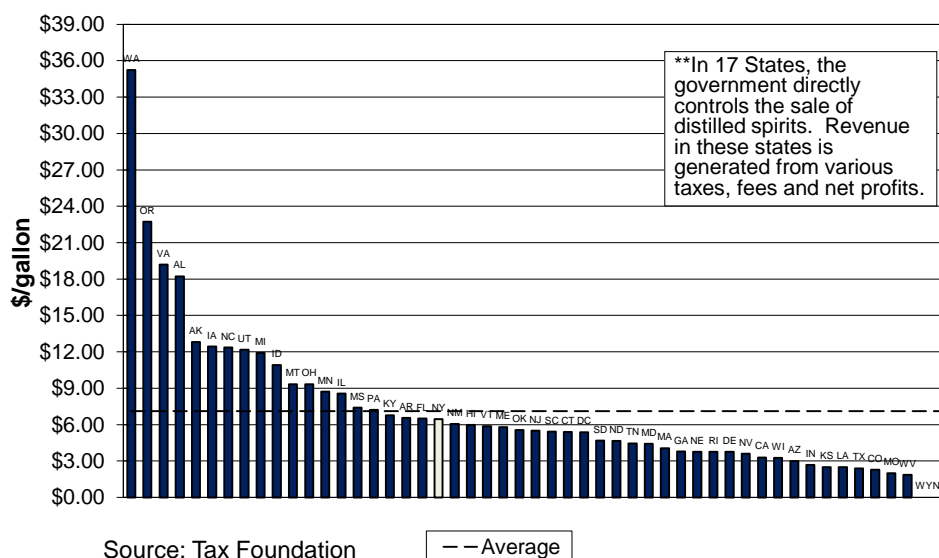
**Beer Tax Rates by State
(January 2014)**



**Wine Tax Rates By State
(January 2014)**



Liquor Tax Rates by State (January 2014)



*Note: 18 States have direct control over the sale of distilled spirits. The implied Excise Tax rate is calculated using methodology designed by the Distilled Spirits Council of the United States (DISCUS).

The New York State tax on liquor is relatively high compared to other forms of alcohol but still below the average of all states. The alcoholic beverage enforcement provisions summarized below have provided some protection to the State's liquor industry and tax base, thereby improving State alcoholic beverage tax receipts.

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

ALCOHOLIC BEVERAGE TAX ENFORCEMENT PROVISIONS

Violations	Volume	Penalties
Import liquor without registration		Class A misdemeanor
Produce, distill, manufacture, compound, mix or ferment liquors without registration or tax payments		Class A misdemeanor
Cause liquor covered by a warehouse receipt to be removed from a warehouse		Class A misdemeanor
Three or more above violations in a five-year period		Class E felony
Import liquor without registration	More than 360 liters within one year	Class E felony
Produce, distill, manufacture, compound, mix or ferment liquors without registration or tax payments	More than 360 liters within one year	Class E felony
Cause liquor covered by a warehouse receipt to be removed from a warehouse	More than 360 liters within one year	Class E felony

ALCOHOLIC BEVERAGE TAXES

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

FY 2015 Estimates

All Funds receipts through December are \$188.8 million, the same as the comparable period in the prior fiscal year.

All Funds FY 2015 receipts are estimated to be \$251 million, an increase of \$0.7 million (0.3 percent) from FY 2014. Estimated growth is primarily based on the continuation of recent wine and liquor consumption trends.

Of the total estimated receipts, \$184.7 million is projected to be derived from liquor, \$45.9 million from beer and \$20.4 million from wine and other taxed beverages.

COMPONENTS OF ALCOHOLIC BEVERAGE TAXES RECEIPTS (millions of dollars)							
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Estimated FY 2015	Projected FY 2016
Beer	44.0	45.0	45.0	47.6	46.7	45.9	46.0
Liquor	163.0	167.0	174.0	179.5	183.8	184.7	189.1
Wine & Other	17.0	18.0	19.0	19.1	19.8	20.4	20.9
Total	224.0	230.0	238.0	246.2	250.3	251.0	256.0

FY 2016 Projections

All Funds FY 2016 receipts are projected to be \$256 million, an increase of \$5 million (2 percent) from FY 2015.

Liquor and wine receipts are expected to grow modestly. Beer consumption is expected to experience marginal growth as craft beer interest continues to revive the beer market to an extent.

ALCOHOLIC BEVERAGE TAXES

Of total projected alcoholic beverage tax receipts, \$189.1 million is projected to be derived from liquor, \$46 million from beer, and \$20.9 million from wine and other specialty beverages.

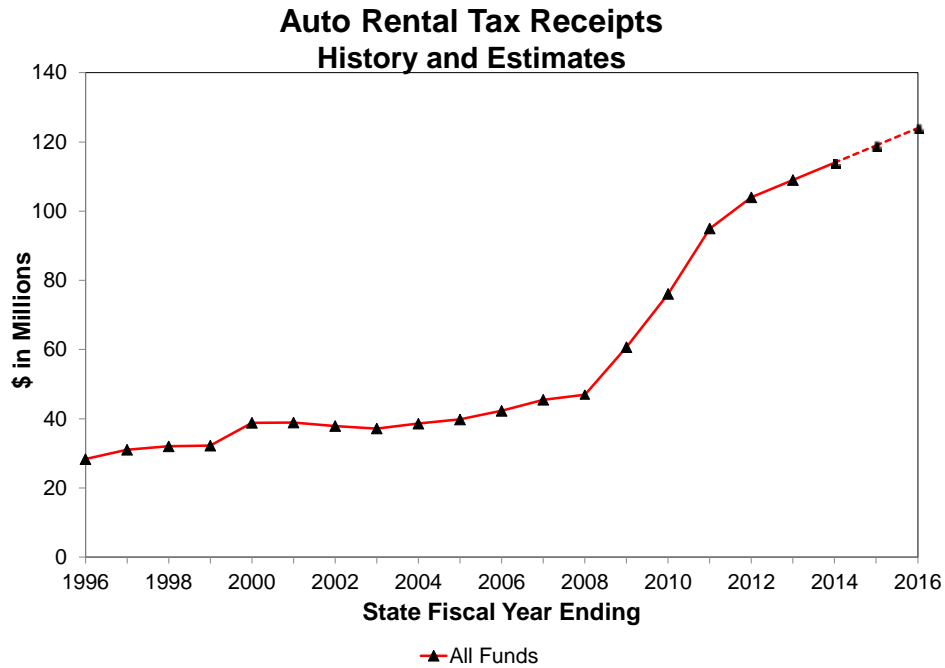
General Fund

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

AUTO RENTAL TAX

AUTO RENTAL TAX (millions of dollars)							
	FY 2014 Actual	FY 2015 Estimated	Change	Percent Change	FY 2016 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	114.0	119.0	5.0	4.4	124.0	5.0	4.2
All Funds	114.0	119.0	5.0	4.4	124.0	5.0	4.2

Note: Totals may differ due to rounding.



AUTO RENTAL TAX BY FUND (millions of dollars)			
	Capital Project Funds ¹	Special Revenue Funds ²	All Fund Receipts
FY 2006	42.3	0.0	42.3
FY 2007	45.5	0.0	45.5
FY 2008	47.0	0.0	47.0
FY 2009	60.7	0.0	60.7
FY 2010	51.7	24.4	76.1
FY 2011	60.0	35.0	95.0
FY 2012	65.0	39.0	104.0
FY 2013	68.0	41.0	109.0
FY 2014	71.0	43.0	114.0
Estimated			
FY 2015	74.0	45.0	119.0
FY 2016			
Current Law	77.0	47.0	124.0
Proposed Law	77.0	47.0	124.0

¹ Dedicated Highway and Bridge Trust Fund.

² MTA Aid Trust Account.

AUTO RENTAL TAX

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

Tax Base and Rate

On June 1, 1990, the State imposed a 5 percent tax on charges for the rental or use in New York State of a passenger car with a gross vehicle weight of 9,000 pounds or less. On June 1, 2009, the rate was increased to 6 percent and a supplemental tax at the rate of 5 percent was imposed on the receipts from the rental of a passenger car within the Metropolitan Commuter Transportation District (MCTD). For more information, please see the Metropolitan Transportation Authority (MTA) Financial Assistance Fund Receipts Section.

The auto rental tax applies to a vehicle rented by a resident or a nonresident, regardless of where the vehicle is registered. The tax does not apply to a car lease covering a period of one year or more.

Administration

The auto rental tax is remitted quarterly by the vendor on the vendor's sales tax return to the Department of Taxation and Finance.

TAX LIABILITY

Receipts from the auto rental tax are influenced by the overall health of the economy, particularly consumer and business spending on travel. Unusual events that affect travel have had a significant influence on receipts.

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

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

FY 2015 Estimates

All Funds receipts through December are \$99.3 million, an increase of \$4.6 million (4.9 percent) from the comparable period in the prior fiscal year.

All Funds FY 2015 receipts are estimated to be \$119 million, an increase of \$5 million (4.4 percent) from FY 2014. This growth reflects the continuing increase in New York tourism spending.

FY 2016 Projections

All Funds FY 2016 receipts are projected to be \$124 million, an increase of \$5 million (4.2 percent) from FY 2015. This increase reflects projected growth in New York tourism spending.

General Fund

No auto rental tax receipts are deposited into the General Fund.

Other Funds

All receipts from the State auto rental tax are deposited to the Dedicated Highway and Bridge Trust Fund. Receipts are estimated to be \$74 million in FY 2015 and \$77 million in FY 2016.

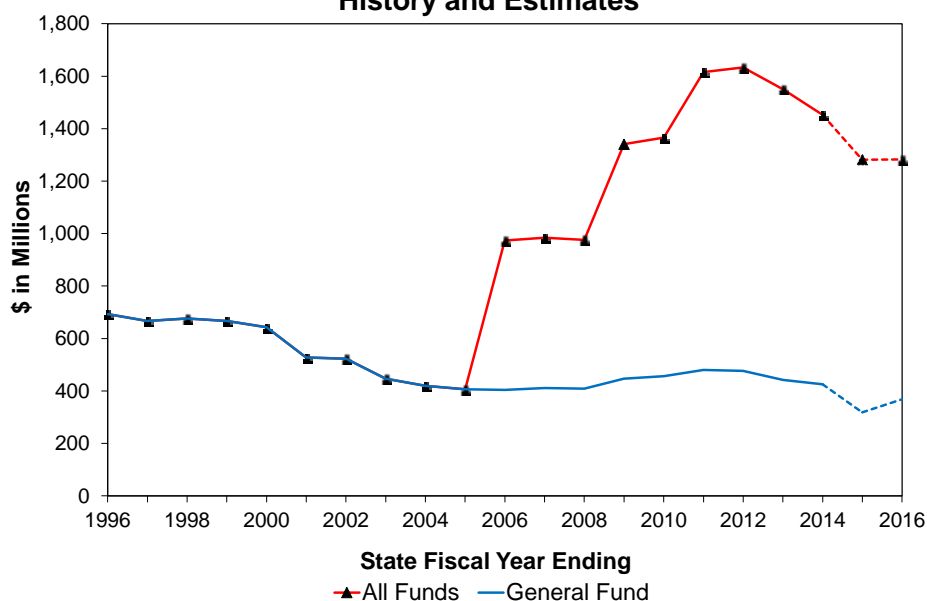
All receipts from the supplemental tax on passenger cars in the MCTD are deposited to the MTA Aid Trust Account of the MTA Financial Assistance Fund. Receipts are estimated to be \$45 million in FY 2015 and \$47 million in FY 2016.

CIGARETTE AND TOBACCO TAXES

CIGARETTE AND TOBACCO TAXES (millions of dollars)							
	FY2014 Actual	FY2015 Estimated	Change	Percent Change	FY2016 Projected	Change	Percent Change
General Fund	426.2	319.0	(107.2)	(25.2)	368.0	49.0	15.4
Other Funds	1,027.1	963.0	(64.1)	(6.2)	915.0	(48.0)	(5.0)
All Funds	1,453.3	1,282.0	(171.3)	(11.8)	1,283.0	1.0	0.1

Note: Totals may differ due to rounding.

Cigarette and Tobacco Taxes Receipts History and Estimates



CIGARETTE AND TOBACCO TAXES BY FUND (millions of dollars)					
	Gross General Fund	Refunds	General Fund	Special Revenue Funds*	All Funds Receipts
FY 2006	406	2	404	571	974
FY 2007	412	1	411	574	985
FY 2008	410	1	409	567	976
FY 2009	447	1	446	894	1,340
FY 2010	457	1	456	910	1,366
FY 2011	481	1	480	1,136	1,616
FY 2012	472	1	471	1,162	1,633
FY 2013	447	4	443	1,108	1,551
FY 2014	430	4	426	1,027	1,453
Estimated					
FY 2015	392	73	319	963	1,282
FY 2016					
Current Law	373	5	368	915	1,283
Proposed Law	373	5	368	915	1,283

*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 Health 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.

CIGARETTE AND TOBACCO TAXES

PROPOSED LEGISLATION

No new legislation is proposed with this budget.

Tax Base and Rate

The New York State cigarette excise tax is imposed by Article 20 of the Tax Law on the sale or use of cigarettes within the State. The current tax rate is \$4.35 per package of 20 cigarettes.

The Federal government imposes a cigarette excise tax at a rate of \$1.01 per pack on manufacturers and first importers of cigarettes. New York City also levies a separate cigarette excise tax of \$1.50 per pack.

STATE, FEDERAL AND NEW YORK CITY CIGARETTE EXCISE TAX RATES PER PACK OF 20 CIGARETTES (since 1950)					
State	Rate	Federal	Rate	New York City	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		
June1 1990	39				
June 1, 1993	56				
March 1, 2000	111				
April 3, 2002	150				
June 3, 2008	275				
July 1, 2010	435				

The State also imposes a tax on other tobacco products, such as chewing tobacco, snuff, cigars, pipe tobacco and roll-your-own cigarette tobacco, at a rate of 75 percent of their wholesale price except for snuff products, which are taxed at a rate of \$2.00 per ounce. Cigars with a weight of less than 4 pounds per 1,000 are taxed at a rate equivalent to the state cigarette tax. The Federal government also imposes an excise tax on manufacturers and importers of tobacco products at various rates, depending on the type of product.

Retail establishments that sell cigarettes are required to register with the Department of Taxation and Finance. Vending machine owners are required to purchase stickers from the Department.

The following table provides a comparison of state cigarette tax rates.

CIGARETTE AND TOBACCO TAXES

CIGARETTE TAX RATES			
Cents Per Pack Ranked by State Tax Rate			
As of January 1, 2015			
Rank (High to Low)	State Rate	Rank (High to Low)	State Rate
New York	435.0	U. S. Median	136.0
Massachusetts	351.0	Florida	133.9
Rhode Island	350.0	Oregon	131.0
Connecticut	340.0	Ohio	125.0
Hawaii	320.0	Arkansas	115.0
Washington	302.5	Oklahoma	103.0
Minnesota	290.0	Indiana	99.5
Vermont	275.0	California	87.0
New Jersey	270.0	Colorado	84.0
Wisconsin	252.0	Nevada	80.0
Dist. of Columbia	250.0	Kansas	79.0
Alaska	200.0	Mississippi	68.0
Arizona	200.0	Nebraska	64.0
Maine	200.0	Tennessee	62.0
Maryland	200.0	Kentucky	60.0
Michigan	200.0	Wyoming	60.0
Illinois	198.0	Idaho	57.0
New Hampshire	178.0	South Carolina	57.0
Montana	170.0	West Virginia	55.0
Utah	170.0	North Carolina	45.0
New Mexico	166.0	North Dakota	44.0
Delaware	160.0	Alabama	42.5
Pennsylvania	160.0	Georgia	37.0
South Dakota	153.0	Louisiana	36.0
Texas	141.0	Virginia	30.0
Iowa	136.0	Missouri	17.0

Source: Compiled by FTA from state sources.

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. The most significant area of concern is the importation of cigarettes from low-tax states. 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. These efforts may lead to less severe declines in taxable cigarette consumption than otherwise would have occurred.

CIGARETTE AND TOBACCO TAXES

In 2013, legislation was enacted that increased the penalty for possession of unstamped or unlawfully stamped cigarettes from \$150 per carton to \$600 per carton to reflect increases in the excise tax on cigarettes and to strengthen the deterrent effect in the current environment.

In 2014, a multi-agency task force was formed to reduce illegal tobacco trafficking and sales. The multi-agency Cigarette Strike Force is composed of state, local and federal agencies dedicated to stopping the influx of counterfeit and untaxed tobacco products into New York. The Strike Force also focuses on tracing any illicit financial earnings from that criminal activity.

Significant Legislation

Significant statutory changes to cigarette and tobacco taxes since 2000 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 2000		
Underage Smoking	Increased penalties for illegal sales of tobacco products to minors.	September 1, 2000
Enforcement Provisions	Created civil and criminal penalties for persons who sell and ship cigarettes to persons who are not licensed or registered cigarette dealers or agents.	November 16, 2000
Enforcement Provisions	Created civil and criminal penalties for carriers who transport cigarettes to persons who are not licensed or registered cigarette dealers or agents.	January 1, 2001
Safe Cigarettes	Required the promulgation and imposition of fire-safety standards for cigarettes and rolled tobacco products sold in New York.	July 1, 2004
Legislation Enacted in 2002		
Cigarette Tax Increase	Increased the cigarette excise tax from \$1.11 per pack to \$1.50 per pack.	April 3, 2002
Tobacco Tax Increase	Increased the other tobacco products tax from 20 percent of the wholesale price to 37 percent.	July 3, 2002
Enforcement Provisions	Increased the number of enforcement agents.	May 29, 2002
Legislation Enacted in 2005		
Enforcement Provisions	Required collection of tax on sales to non-Native Americans on New York reservations.	March 1, 2006
Legislation Enacted in 2008		
Cigarette Tax Increase	Increased the cigarette excise tax from \$1.50 per pack to \$2.75 per pack.	June 3, 2008
Tobacco Tax	Imposed a tax on snuff products at a rate of 96 cents per ounce.	July 1, 2008
Legislation Enacted in 2009		
Cigarette Tax	Increased retail registration fees from \$100 to \$1,000 for retail locations with less than \$1 million in annual sales, \$2,500 for retail locations with annual sales of at least \$1 million but less than \$10 million, and \$5,000 for retail locations with sales of \$10 million or more.	January 1, 2010
Tobacco Tax	Increased the other tobacco products tax from 37 percent of the wholesale price to 46 percent.	April 7, 2009

CIGARETTE AND TOBACCO TAXES

Subject	Description	Effective Date
Legislation Enacted in 2010		
Cigarette Tax Increase	Increased the cigarette excise tax from \$2.75 per pack to \$4.35 per pack.	July 1, 2010
Enforcement Provisions	Required all cigarettes sold to Native American nations or tribes and reservation cigarette sellers to bear a tax stamp, established a prior approval system for sales of untaxed, stamped cigarettes to reservation retailers, and allowed the governing body of an Native American nation or tribe to opt to use the coupon system for the purchase of tax exempt cigarettes for sales to its members.	September 1, 2010
Tobacco Tax	Increased the tobacco products tax to 75 percent of the wholesale price from 46 percent; increased the tax on snuff to \$2.00 per ounce from \$0.96 per ounce; and created a new category under the tobacco products tax imposing a tax on "little cigars" at a rate equivalent to the cigarette tax rate.	August 1, 2010
Legislation Enacted in 2011		
Cigarette Tax	Repealed the graduated annual retail registration fee of between \$1,000 and \$5,000 annually and replaced it with a flat \$300 annual fee.	January 1, 2010
Legislation Enacted in 2013		
Cigarette Tax	Increased the penalty for possession of unstamped or unlawfully stamped cigarettes from a maximum of \$150 per carton or fraction of a carton to a maximum of \$600 per carton or fraction of a carton.	June 1, 2013

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.

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

TOBACCO MSA PAYMENTS

Under the Tobacco Master Settlement Agreement (MSA) reached between states and manufacturers in 1998, manufacturers are required to make payments to New York. The amounts of these payments are subject to various adjustments. The adjustment for the volume of packs shipped is based on national shipments, and changes in New York consumption will have only a minor impact. In 2003 and 2004, New York State issued \$4.2 billion in tobacco bonds and continues to use these payments to pay debt service.

CIGARETTE AND TOBACCO TAXES

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

FY 2015 Estimates

All Funds receipts through December are \$1,045.5 million, a decrease of \$108.4 million (9.4 percent) from the comparable period in the prior fiscal year.

All Funds FY 2015 receipts are estimated to be \$1,282 million, a decrease of \$171.3 million (11.8 percent) from FY 2014. The large decrease is due, in part, to cigar tax refunds (see "General Fund" below).

FY 2016 Projections

All Funds FY 2016 receipts are projected to be \$1,283 million, an increase of \$1 million (0.1 percent) from FY 2015.

Health Care Reform Act (HCRA)

Currently, 76 percent of the proceeds from the State cigarette tax of \$4.35 are deposited in the HCRA Resources Pool.

HCRA receipts through December are \$761.6 million, a decrease of \$49.9 million (6.1 percent) from the comparable period in the prior fiscal year. HCRA FY 2015 receipts are estimated to be \$963 million, a decrease of \$64.1 million (6.2 percent) from FY 2014.

HCRA FY 2016 receipts are projected to be \$915 million, a decrease of \$48 million (5 percent) from FY 2015.

As part of the agreement allowing New York City to increase its cigarette tax from eight cents to \$1.50 per pack in July 2002, the City provides the State with 46 percent of the receipts generated through its tax. These receipts are deposited into the HCRA Resources Pool. The New York State share of the City's cigarette tax is projected to be \$43 million in FY 2015 and \$39 million in FY 2016.

General Fund

General Fund receipts through December are \$283.9 million, a decrease of \$58.5 million (17.1 percent) from the comparable period in the prior fiscal year.

General Fund FY 2015 receipts are estimated to be \$319 million, a decrease of \$107.2 million (25.2 percent) from FY 2014. Receipts from the cigarette tax are projected to be \$304 million, a decrease of \$20 million (6.3 percent) from FY 2014. This decrease reflects atypical declines in taxable consumption observed during the current fiscal year, at least in part due to bootlegging. Receipts from the tobacco products tax are projected to be \$7 million due to the impact of a change in the way the wholesale cigar

CIGARETTE AND TOBACCO TAXES

tax is administered as a result of a Department of Taxation and Finance technical memorandum issued December 5, 2013, which allows that wherever the manufacturer's price cannot be directly established by invoice it is deemed to be 40 percent of the wholesale price. This effectively amounts to a 60 percent tax cut from the manner in which the tax had been previously administered. The fiscal impact is \$82 million in FY 2015, the result of: 1) an estimated \$18 million annual reduction in receipts as a result of the change in price calculation; and 2) accumulated refunds from periods prior to the issuance of the technical memorandum estimated at \$64 million.

Receipts from retail cigarette registrations are estimated to be \$8 million in FY 2015, an increase of \$0.8 million from FY 2014. Legislation enacted in 2011 repealed the graduated fee structure that had been enjoined, allowing retailers to register for \$100, and implemented a \$300 annual fee. In FY 2012, the increased revenue from the \$300 fee, imposed retroactively to 2010 registrations, was offset by refunds of fees for retailers who paid the full graduated fee for 2010 and 2011 registrations.

General Fund FY 2016 receipts are projected to be \$368 million, an increase of \$49 million (15.4 percent) from FY 2015. Cigarette tax receipts are expected to be \$289 million, or \$15 million below FY 2015. The cigarette tax decrease reflects greater than trend declines in cigarette consumption, though a gradual return to trend declines is ultimately expected through implementation of enforcement efforts of the Cigarette Strike Force. Tobacco products tax receipts are estimated to be \$71 million, an increase of \$64 million from FY 2015 as the issuance of refunds is non-recurring. Receipts from retail registrations are projected to be \$8 million in FY 2015.

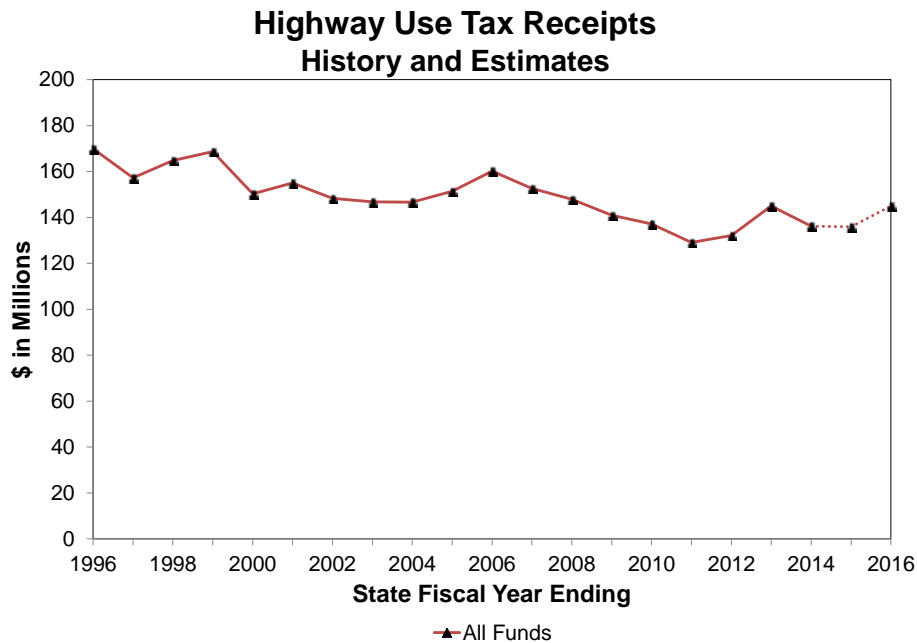
CIGARETTE AND TOBACCO TAXES RECEIPTS (millions of dollars)						
Fiscal Year	General Fund				HCRA	General
	Cigarette Tax	Tobacco Tax	Other	Total	Cigarette Tax*	Fund Plus HCRA
FY2006	361	39	3	404	571	974
FY2007	364	44	3	411	574	985
FY2008	359	47	3	409	567	976
FY2009	395	48	3	446	894	1,340
FY2010	378	64	14	456	910	1,366
FY2011	382	96	3	481	1,136	1,616
FY2012	367	103	2	471	1,162	1,633
FY2013	348	91	3	443	1,108	1,551
FY2014	324	95	7	426	1,027	1,453
Estimated						
FY2015	304	7	8	319	963	1,282
FY2016	289	71	8	368	915	1,283

Note: Components may not add to total due to rounding.

HIGHWAY USE TAX

HIGHWAY USE TAX (millions of dollars)							
	FY 2014 Actual	FY 2015 Estimated	Change	Percent Change	FY 2016 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	136.2	136.0	(0.2)	(0.1)	145.0	9.0	6.6
All Funds	136.2	136.0	(0.2)	(0.1)	145.0	9.0	6.6

Note: Totals may differ due to rounding.



HIGHWAY USE TAX COLLECTIONS BY FUND (millions of dollars)				
	Gross Capital Projects Funds ¹	Refunds	Net Capital Projects Funds ¹	Net All Funds Receipts
FY 2006	162	2	160	160
FY 2007	155	2	153	153
FY 2008	150	2	148	148
FY 2009	143	2	141	141
FY 2010	139	2	137	137
FY 2011	131	2	129	129
FY 2012	134	2	132	132
FY 2013	147	2	145	145
FY 2014	138	2	136	136
Estimated				
FY 2015	138	2	136	136
FY 2016				
Current Law	147	2	145	145
Proposed Law	147	2	145	145

¹ Dedicated Highway and Bridge Trust Fund.

HIGHWAY USE TAX

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

Articles 21 and 21-A of the Tax Law impose a highway use tax on commercial vehicles using the public highways of the State. Highway use tax revenues are derived from three sources: the truck mileage tax, the fuel use tax and registration fees.

Truck Mileage Tax

The truck mileage tax (TMT) is levied on commercial vehicles having a loaded gross weight of more than 18,000 pounds, or an unloaded weight in excess of 8,000 pounds for trucks and 4,000 pounds for tractors. The tax is imposed at rates graduated according to 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.

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 0.5 mill per ton and fraction therof	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 0.5 mills per ton and fraction thereof		

Fuel Use Tax

The fuel use tax is a complement to the motor fuel tax and the sales tax, and is levied on commercial vehicles: (1) having two axles and a gross vehicle weight of more than 26,000 pounds; (2) having three or more axles, regardless of weight; or (3) used in combination when the gross vehicle weight exceeds 26,000 pounds. In contrast to the sales tax and motor fuel tax, which are imposed upon the amount of fuel purchased

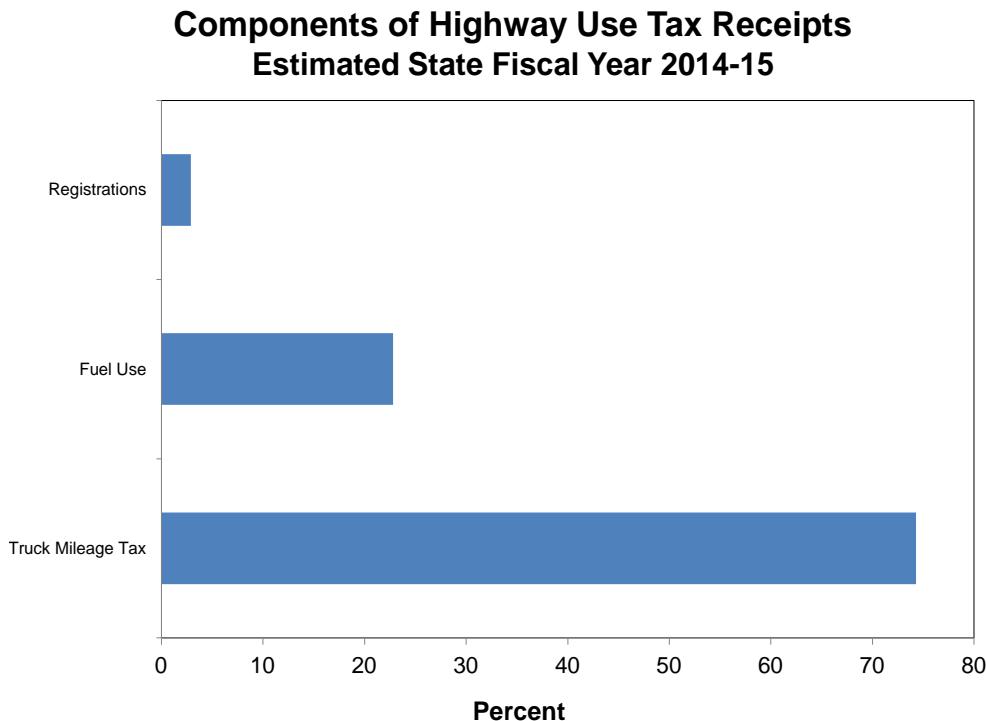
within the State, the fuel use tax is imposed on fuel purchased outside but used within New York. This tax is based on the number of miles traveled on the public highways of the State.

The aggregate fuel use tax rate is the sum of the appropriate motor fuel tax rate and the sales tax rate. The motor fuel tax component is eight cents per gallon. The sales tax component is derived by adding the amount from the State sales tax rate and the amount from the lowest county sales tax rate. A credit or refund is allowed for motor fuel tax, petroleum business tax or sales tax paid on fuels purchased in New York, but not used within the State.

Registration System

The current registration system is based on the license plate number of each vehicle and a registration decal. The Commissioner can 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. 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.

The application fee for a certificate of registration for any vehicle subject to HUT is \$15. The cost of a decal is \$4.



HIGHWAY USE TAX

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

Significant statutory changes to the highway use tax since 2000 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 2000		
Supplemental Tax	Reduced the truck mileage supplemental tax by 20 percent.	April 1, 2001
Legislation Enacted in 2006		
Alternative Fuels	Exempted or partially exempted fuel use tax on alternative fuels, including E85 and B20.	September 1, 2006
Fuel Use Tax Cap	Capped the statewide rate for the sales tax component at 8 cents per gallon for motor fuel and diesel motor fuel for the State rate, plus the lowest county sales tax rate.	June 1, 2006
Legislation Enacted in 2007		
HUT - Permit	Replaced the permit system with a registration system.	July 1, 2007
Legislation Enacted in 2009		
HUT - Fee Increase	Increased the replacement fee for a certificate of registration to \$15.	April 7, 2009
Legislation Enacted in 2011		
Alternative Fuel	Extended the exemption on alternative fuels through August 31, 2012.	September 1, 2011
Legislation Enacted in 2012		
Alternative Fuel	Extended the exemption on alternative fuels through August 31, 2014.	September 1, 2012
Legislation Enacted in 2014		
Alternative Fuel	Extended the exemption on alternative fuels through August 31, 2016.	September 1, 2014

TAX LIABILITY

Highway use tax receipts are a function of the demand for trucking, which fluctuates with national and State economic conditions.

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

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

FY 2015 Estimates

All Funds receipts through December are \$108.2 million, an increase of \$1.5 million (1.4 percent) from the comparable period in the prior fiscal year.

All Funds FY 2015 receipts are estimated to be \$136 million, a decrease of \$0.2 million (0.1 percent) from FY 2014. Net truck mileage tax receipts are estimated at \$101 million, fuel use tax receipts at \$31 million and registration fees at \$4 million.

FY 2016 Projections

All Funds FY 2016 receipts are projected to be \$145 million, an increase of \$9 million (6.6 percent) from FY 2015. The increase is primarily attributable to triennial registration renewals due in FY 2016.

General Fund

No highway use tax receipts are deposited into the General Fund.

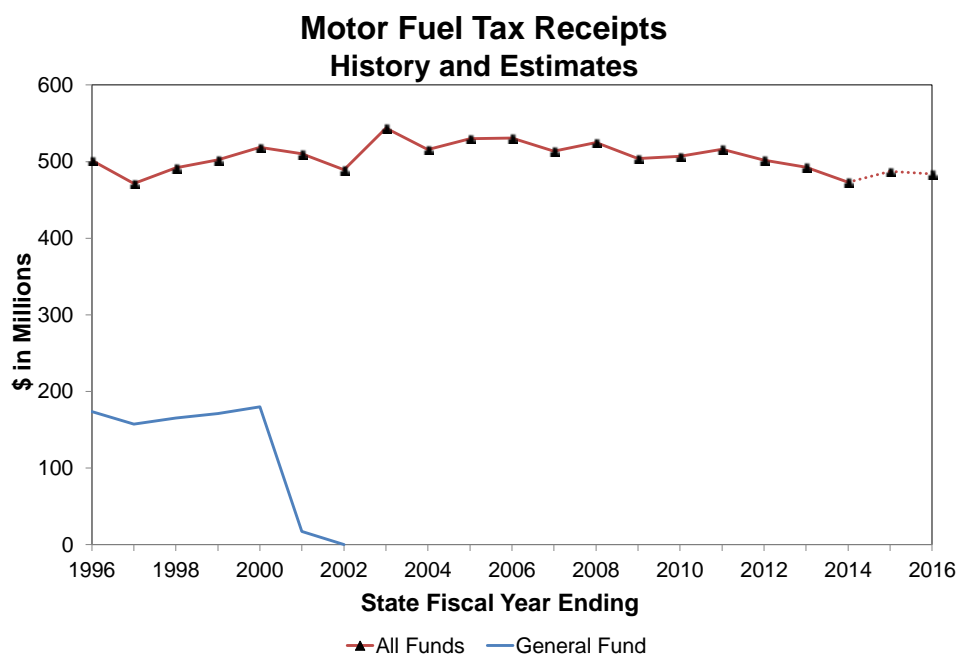
Other Funds

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)							
	FY 2014 Actual	FY 2015 Estimated	Change	Percent Change	FY 2016 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	473.2	487.0	13.8	2.9	484.0	(3.0)	(0.6)
All Funds	473.2	487.0	13.8	2.9	484.0	(3.0)	(0.6)

Note: Totals may differ due to rounding.



MOTOR FUEL TAX BY FUND (millions of dollars)					
	Gross All Funds Receipts	Special Revenue Funds ¹	Capital Projects Funds ²	All Funds Refunds	All Funds Receipts
FY 2006	546	111	420	15	531
FY 2007	526	107	406	13	513
FY 2008	543	110	415	18	525
FY 2009	528	106	398	24	504
FY 2010	523	106	401	16	507
FY 2011	540	108	408	24	516
FY 2012	527	105	396	25	502
FY 2013	513	103	389	21	492
FY 2014	495	99	375	22	473
Estimated					
FY 2015	509	102	385	22	487
FY 2016					
Current Law	505	102	381	22	483
Proposed Law	506	102	382	22	484

¹ Dedicated Mass Transportation Trust Fund.

² Dedicated Highway and Bridge Trust Fund.

MOTOR FUEL TAX

PROPOSED LEGISLATION

Legislation proposed with this Budget would enhance motor fuel tax enforcement.

DESCRIPTION

Tax Base

Gasoline motor fuel and diesel motor fuel taxes are imposed by Article 12-A of the Tax Law upon the sale, generally for highway use, of motor fuel and diesel motor fuel, respectively. The motor fuel tax is levied primarily on fuel used in motor vehicles operating on the public highways of the State or on fuel used in recreational motorboats operating on the State's waterways. Exemptions, credits and refunds are allowed for certain other uses of gasoline and diesel motor fuel.

Tax Rate

The motor fuel tax on gasoline motor fuel and diesel fuel is eight cents. A motor fuel tax of two cents was imposed on gasoline motor fuel in 1929. The tax on gasoline was increased to 3 cents in 1932, to four cents in 1937, to six cents in 1956, to seven cents in 1959 and to eight cents in 1972. A motor fuel tax of two cents was imposed on diesel motor fuel in 1936. The tax on diesel fuel was increased to four cents in 1947, to six cents in 1956, to nine cents in 1959 and to ten cents in 1972. The tax on diesel fuel was reduced to eight cents in 1996.

MOTOR FUEL TAX

RANKING OF STATE TAXES PER GALLON (January 1, 2015) ¹		
<u>State</u>	<u>State Motor Fuel Tax (cents per gallon)</u>	<u>Total State Tax ² (cents per gallon)</u>
PENNSYLVANIA	0.0	50.5
CONNECTICUT**	25.0	45.3
CALIFORNIA*	36.0	41.6
ILLINOIS *	19.0	38.3
WASHINGTON	37.5	37.5
N. CAROLINA	37.5	37.5
INDIANA *	18.0	35.5
W. VIRGINIA	20.5	34.6
NEW YORK *	8.0	34.0
MICHIGAN *	19.0	33.9
RHODE ISLAND	32.0	32.0
VERMONT	12.1	31.0
WISCONSIN	30.9	30.9
MARYLAND	30.3	30.3
MAINE	30.0	30.0
OREGON	30.0	30.0
MINNESOTA	28.5	28.5
OHIO	28.0	28.0
MONTANA	27.0	27.0
HAWAII *	17.0	27.0
KENTUCKY	21.2	26.2
NEBRASKA	11.1	25.6
IDAHO	25.0	25.0
UTAH	24.5	24.5
KANSAS	24.0	24.0
WYOMING	23.0	24.0
MASSACHUSETTS	24.0	24.0
DIST. OF COLUMBIA	23.5	23.5
DELAWARE	23.0	23.0
N. DAKOTA	23.0	23.0
NEVADA	23.0	23.0
NEW HAMPSHIRE	22.2	22.2
S. DAKOTA	22.0	22.0
COLORADO	22.0	22.0
ARKANSAS	21.5	21.5
IOWA	21.0	21.0
TENNESSEE	20.0	21.0
LOUISIANA	20.0	20.0
TEXAS	20.0	20.0
GEORGIA *	7.5	19.3
ARIZONA	18.0	18.0
MISSISSIPPI	18.0	18.0
FLORIDA	4.0	17.3
NEW MEXICO	17.0	17.0
MISSOURI	17.0	17.0
VIRGINIA	16.2	16.2
ALABAMA	16.0	16.0
OKLAHOMA	16.0	16.0
S. CAROLINA	16.0	16.0
NEW JERSEY	10.5	14.5
ALASKA	8.0	8.0
NOTES:		
(1) Assumes a base price of \$2.50.		
(2) Includes applicable State taxes (local taxes not included)		
* State sales tax applies on sales of gasoline in these states		
** Includes petroleum gross receipts tax - 8.1% wholesale gasoline price		
Source: OTPA compilation from various sources including CCH Tax Guides & FTA		

MOTOR FUEL TAX

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 previously involved bootlegging from other states and successions of tax-free sales among “dummy” corporations masked by erroneous record keeping and reporting.

Prior to 1988, the diesel motor fuel tax was collected at the time of retail sale or use by a bulk user. Since 1988, taxes on diesel motor fuel have been collected upon the first non-exempt sale in the State. Interdistributor sales of highway diesel motor fuel sold below the rack are considered tax-exempt.

The tax is generally remitted monthly, although vendors whose average monthly tax is less than \$200 may remit quarterly. Chapter 55 of the Laws of 1992 required accelerated remittance of the tax by taxpayers with annual liability of more than \$5 million for motor fuel and petroleum business tax (PBT) combined. These taxpayers are required to remit taxes electronically or by certified check by the third business day following the first 22 days of each month. Taxpayers can choose to make either a minimum payment of three-fourths of the comparable month’s tax liability for the preceding year, or 90 percent of actual liability for the first 22 days. Taxes for the balance of the month are remitted by the twentieth of the following month.

Tax Expenditures

Exemptions from the motor fuel tax include:

- kerosene and crude oil;
- fuel not used in motor vehicles. “Motor vehicle” is defined as any vehicle propelled by power, except muscular power. However, vehicles such as boats (other than pleasure craft), road building machinery and tractors used exclusively for agricultural purposes are excluded from the definition of motor vehicles;
- fuel used in tanks of vehicles entering New York State;
- sales to state, local and Federal governments, the United Nations and qualifying Native American nations; and
- certain exempt organizations.

Other exemptions apply only to the diesel motor fuel tax, including certain sales for heating purposes and sales of kero-jet fuel for use in airplanes.

Full and partial refunds and credits for tax paid are available for fuel used by:

- omnibus carriers or taxicabs;

- nonpublic school vehicle operators, exclusively for education-related purposes; and
- volunteer ambulance services.

Significant Legislation

Significant statutory changes to the motor fuel tax since 2000 are summarized below.

Subject	Description	Effective Date
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, through August 31, 2011.	September 1, 2006
Legislation Enacted in 2011		
Modernize Fuel Definitions	Modernized fuel definitions to conform with changes in Federal and State Law.	September 1, 2011
Alternative Fuel	Extended the exemption on alternative fuels through August 31, 2012.	September 1, 2011
Legislation Enacted in 2012		
Alternative Fuel	Extended the exemptions on alternative fuels through August 31, 2014.	September 1, 2012
Legislation Enacted in 2013		
Interdistributor Sales	Allowed for tax free interdistributor sales of highway diesel motor fuel sold below the rack (i.e., not delivered by truck).	August 1, 2013
Legislation Enacted in 2014		
Alternative Fuel	Extended the exemption on alternative fuels through August 31, 2016.	September 1, 2014

TAX LIABILITY

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

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

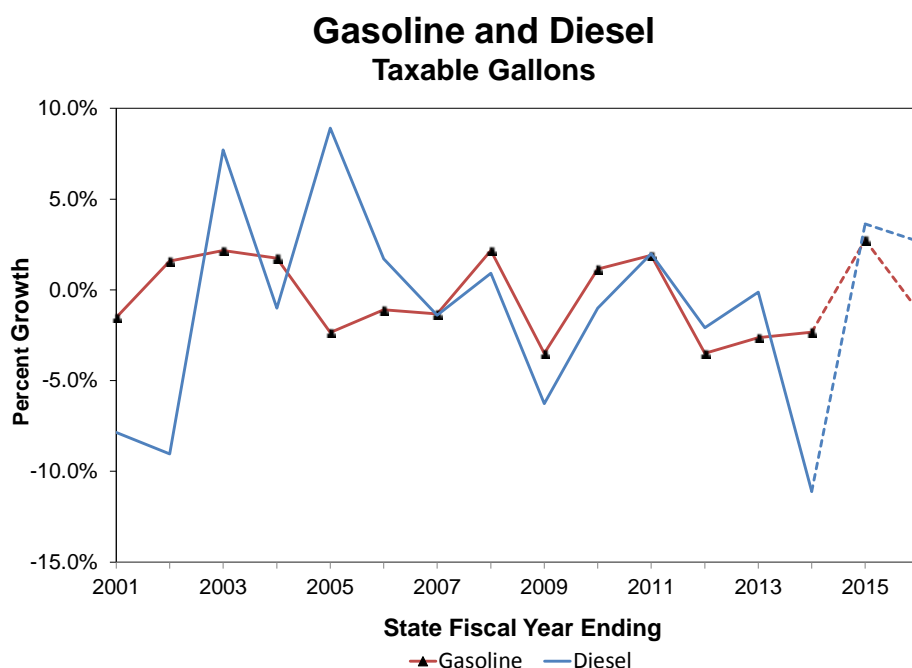
Taxable Gallons

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

MOTOR FUEL TAX

In FY 2014, gasoline taxable gallonage and diesel fuel taxable gallonage decreased by 2.4 percent and 11.1 percent, respectively, when compared to FY 2013. This was mainly due to extreme winter conditions, as well as lower travel demand. In FY 2015, gasoline taxable gallonage is estimated to increase by 2.8 percent while diesel taxable gallonage is estimated to increase by 3.5 percent as both gallonage bases rebound from the impact of the prior winter.

In FY 2016, it is projected that there will be a decrease in gasoline gallonage and an increase in diesel fuel taxable gallonage. The decrease in gasoline gallonage is due to the expectation that the increase in average fuel economy will outpace the growth in driving age population and miles traveled. The increase in diesel fuel gallonage is due to the expectation that growth in heavy-duty vehicle miles traveled will exceed growth in heavy-duty vehicle fuel economy.

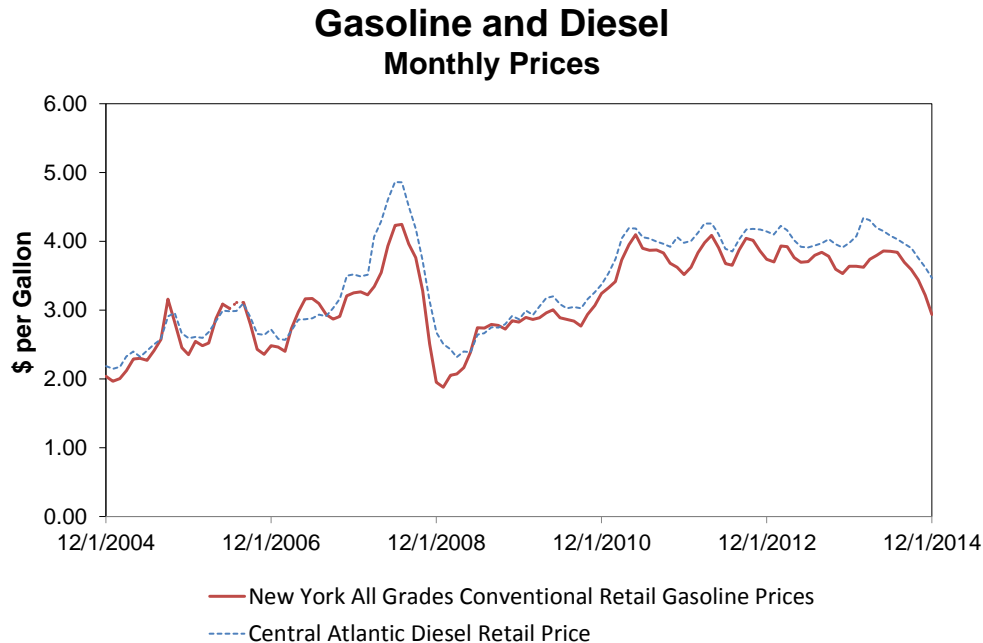


GASOLINE AND DIESEL TAXABLE GALLONS				
Fiscal Year	Gasoline (millions of gallons)	Percent Change	Diesel (millions of gallons)	Percent Change
FY 2011	5,625	1.8	866	2.1
FY 2012	5,428	(3.5)	848	(2.1)
FY 2013	5,286	(2.6)	847	(0.1)
FY 2014 (Est.)	5,161	(2.4)	753	(11.1)
FY 2015 (Est.)	5,304	2.8	780	3.5
FY 2016 (Proj.)	5,240	(1.2)	801	2.8

Reduced fuel demand at the beginning of the Great Recession caused fuel prices to drop, with NY gasoline prices falling from a peak of \$4.25 per gallon in July 2008 to \$1.89 in January 2009. Since then, improving economic conditions and increased oil demand in the developing world have generally allowed fuel prices to recover, although

they still remain below peak and have recently fallen significantly. As of December 2014, the NY gasoline price average is \$2.94 per gallon.

Since the motor fuel tax is capped, State tax revenues have not been directly affected by fuel price volatility. The following chart shows historical monthly prices through December 2014



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

A further discussion of energy prices can be found in the Economic Backdrop section of this volume.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

FY 2015 Estimates

All Funds receipts through December are \$373 million, an increase of \$10.5 million (2.9 percent) from the comparable period in the prior fiscal year.

All Funds FY 2015 receipts are estimated to be \$487 million, an increase of \$13.8 million (2.9 percent) from FY 2014.

FY 2016 Projections

All Funds FY 2016 receipts are projected to be \$484 million, a decrease of \$3 million (0.6 percent) from FY 2015.

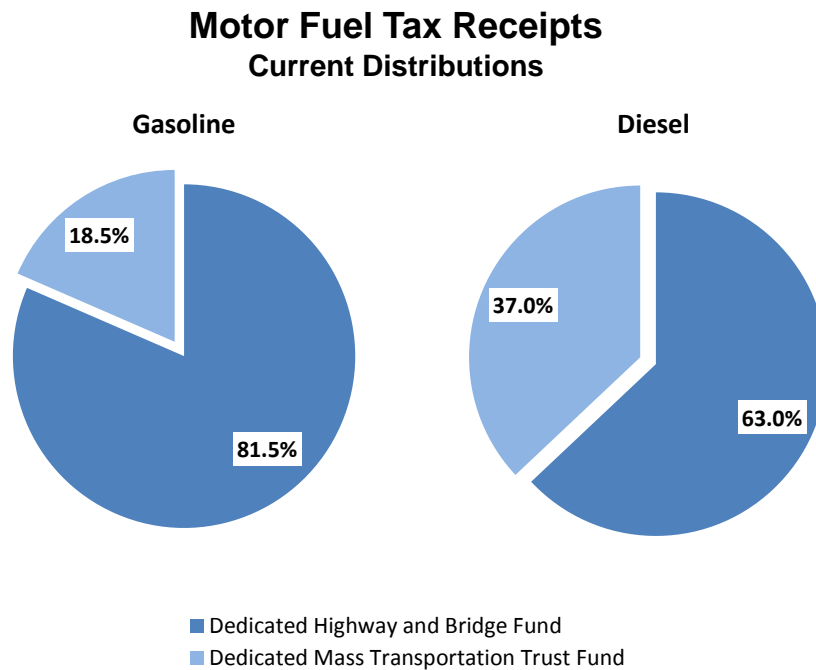
MOTOR FUEL TAX

General Fund

No motor fuel tax receipts are deposited into the General Fund.

Other Funds

The current law distribution of motor fuel tax receipts is shown below.

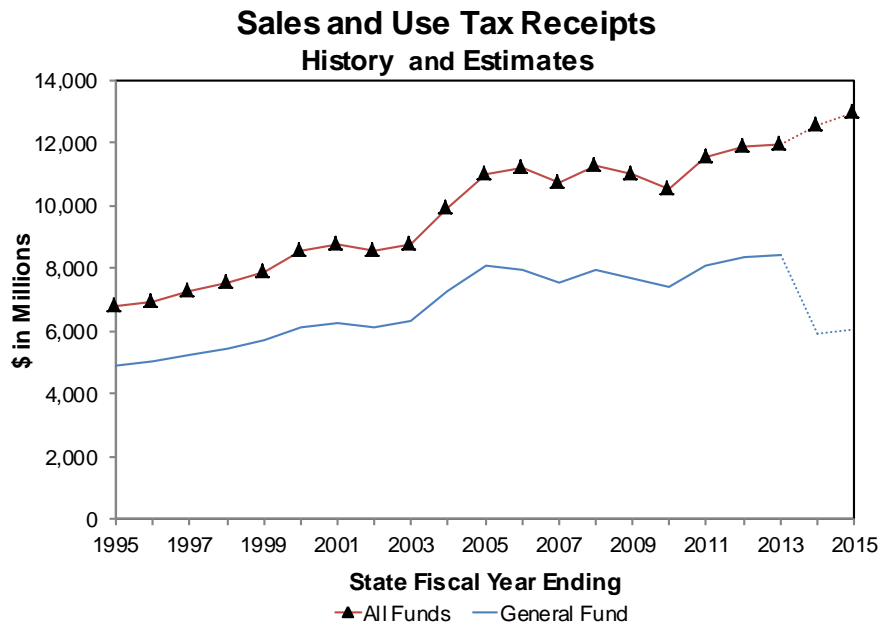


Motor fuel tax receipts in FY 2015 are estimated to be \$384.7 million for the DHBTF and \$102.3 million for the DMTTF. Motor fuel tax receipts in FY 2016 are projected to be \$382.4 million for DHBTF and \$101.6 million for the DMTTF.

SALES AND USE TAX

SALES AND USE TAX (millions of dollars)							
	FY 2014 Actual	FY 2015 Estimated	Change	Percent Change	FY 2016 Projected	Change	Percent Change
General Fund	5,884.9	6,100.0	215.1	3.7	6,355.0	255.0	4.2
Debt Service	5,901.1	6,080.0	178.9	3.0	6,354.0	274.0	4.5
MTOAF	801.7	854.0	52.3	6.5	894.0	40.0	4.7
All Funds	12,587.7	13,034.0	446.3	3.5	13,603.0	569.0	4.4

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 Fund Receipts
FY 2006	8,048	70	7,978	603	2,615	11,196
FY 2007	7,593	54	7,539	688	2,512	10,739
FY 2008	8,009	64	7,945	705	2,646	11,296
FY 2009	7,771	64	7,707	711	2,567	10,985
FY 2010	7,457	53	7,404	656	2,467	10,527
FY 2011	8,168	83	8,085	756	2,697	11,538
FY 2012	8,448	102	8,346	750	2,780	11,875
FY 2013	8,487	64	8,423	758	2,809	11,989
FY 2014	5,947	62	5,885	802	5,901	12,588
Estimated						
FY 2015	6,180	80	6,100	854	6,080	13,034
FY 2016						
Current Law	6,410	60	6,350	894	6,349	13,593
Proposed Law	6,415	60	6,355	894	6,354	13,603

¹ Mass Transportation Operating Assistance Fund.
² Local Government Assistance Corporation Fund and Sales Tax Revenue Bond Fund.

SALES AND USE TAX

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Expand sales tax collection requirements for marketplace providers;
- Reform the Industrial Development Authority program;
- Extend the wine tasting sales and use tax exemption to other alcoholic beverages;
- Impose local sales tax on prepaid wireless based on retail location;
- Close certain sales and use tax avoidance strategies;
- Exempt solar power purchase agreements from state and local sales tax; and
- Enhance motor fuel tax enforcement.

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.

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.

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 \$42.6 million from this program in FY 2013 and \$38.1 million in FY 2014.

Tax Rate

The sales and compensating use tax was enacted in 1965 at the rate of 2 percent. The tax rate was increased to 3 percent in 1969, to 4 percent in 1971 and temporarily to 4.25 percent in 2003. The rate reverted to 4 percent on June 1, 2005.

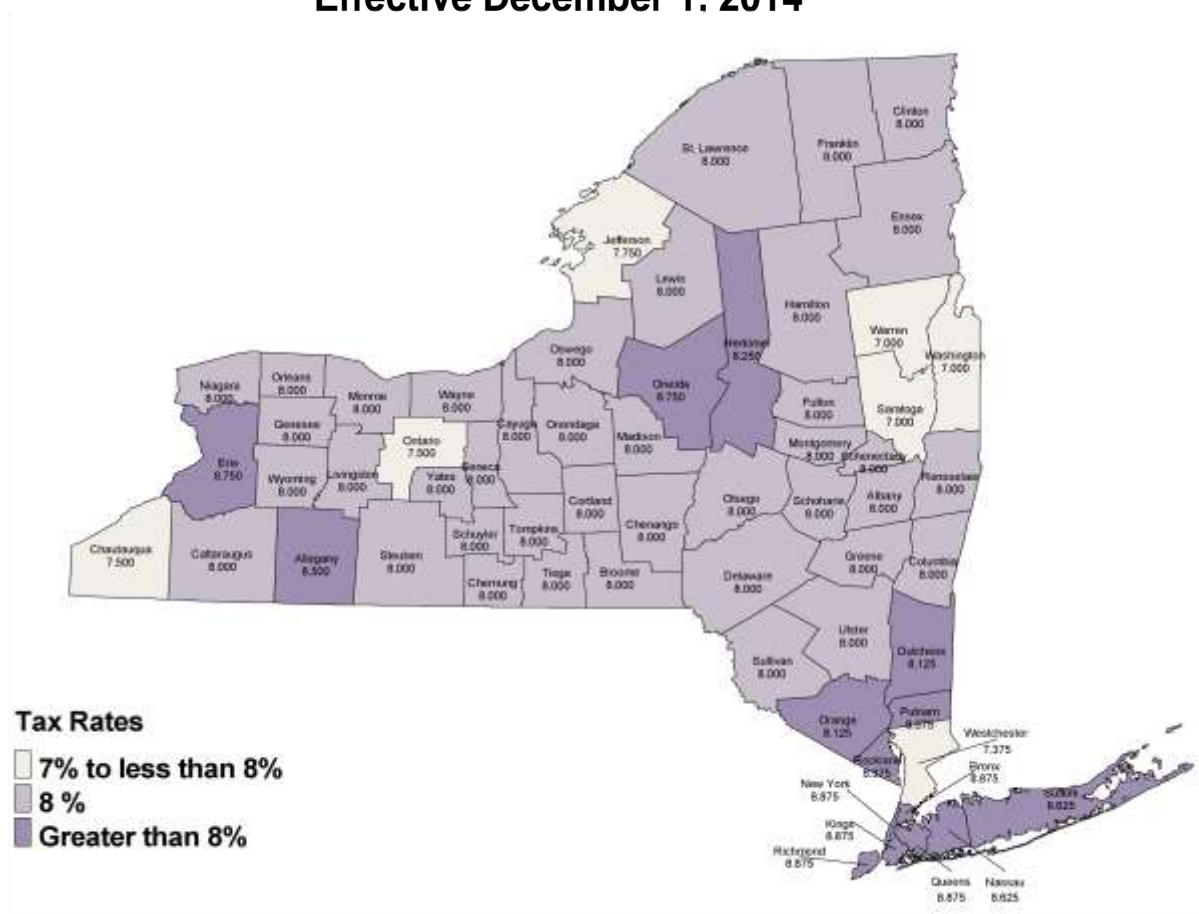
Effective June 1, 2006, the State sales tax rate on motor fuel and diesel motor fuel was capped at 8 cents per gallon.

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 that impose the general sales tax, only four counties (Saratoga, Warren, Washington and Westchester) impose at the statutory 3 percent maximum general sales tax rate. Of the 20 cities that impose the general sales tax, only three cities (New York City, Oswego and Yonkers) received legislative authority to 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.

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

Combined State and Local Sales Tax Rate Effective December 1, 2014



Administration

There are currently 541,221 sales tax vendors selling taxable property or services who are required to register with the Department of Taxation and Finance. Vendors generally are required to remit the tax quarterly. However, vendors with more than \$300,000 of taxable sales and purchases 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.

Monthly vendors with an annual sales and use tax liability exceeding \$500,000 or with an annual liability for prepaid sales tax on motor fuel and diesel motor fuel exceeding \$5 million are required to file using the Tax Department's PromptTax program. The payment schedule requires tax for the first 22 days of a month to be paid within three business days thereafter. Roughly 66 percent of sales tax receipts are remitted by the 6,263 vendors that are required to remit by PromptTax. Effective May 30, 2011, all filers are subject to a \$50 penalty for each failure to e-file unless the taxpayer can show that the failure was due to reasonable cause.

SALES TAX VENDORS AND TAXABLE SALES			
Filing Status	Number of Active Vendors*	Percent of Total Vendors	Percent of State and Local Receipts
Monthly Prompt Tax	6,263	1.2	66.0
Monthly Other	40,994	7.6	20.9
Quarterly	249,664	46.1	12.6
Annual	244,300	45.1	0.5
Total	541,221	100.0	100.0
*Vendors identified as of November 18, 2014			
Selling period March 1, 2012 through February 28, 2013			
Source: New York State Department of Taxation and Finance			

Quarterly and annual sales tax filers are allowed to retain a portion of the sales tax that they have collected, both as partial compensation for the administrative costs of collecting and remitting the tax and as an incentive for timely payment of the tax to the State. The vendor allowance applies to non-monthly filers and is 5 percent of tax liability, up to a maximum of \$200 per quarter for returns filed on time.

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. Effective June 1, 2014, there are three regions for computing the prepaid sales tax. Region 1 (MCTD, excluding Long Island) is 17.5 cents per gallon; Region 2 (Long Island) is 21 cents per gallon; and Region 3 (all other counties) is 16 cents per gallon. The cigarette prepayment rate is 8 percent and is prepaid by cigarette agents at the same time as payment for cigarette excise tax stamps.

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 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.

SALES AND USE TAX

Significant Legislation

Significant statutory changes to the sales and use tax since 2000 are summarized below.

Subject	Description	Effective Date
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, 2003
Legislation Enacted in 2003		
Surcharge	Raised the State sales tax rate from 4 to 4.25 percent through May 31, 2005.	June 1, 2003

SALES AND USE TAX

Subject	Description	Effective Date
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. The exemption for the Murray Street area expires on December 1, 2010, and the exemption for the lower Manhattan area expires on December 1, 2012.	September 1, 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

SALES AND USE TAX

Subject	Description	Effective Date
Electricity	Exempted electricity, refrigeration and steam services produced by a cogeneration facility owned by certain cooperative corporations.	March 1, 2006
Legislation Enacted in 2006		
Clothing	Permanently exempted clothing and footwear priced under \$110.	April 1, 2006
Vendor Allowance	Increased vendor credit from 3.5 percent to 5 percent and increased the cap from \$150 to \$175. The cap increased to \$200 on March 1, 2007.	September 1, 2006
Amusement Parks	Exempted admissions to amusement parks permanently.	October 1, 2006
Motor Fuel Cap	Limited the amount of state sales tax imposed on motor fuels to 8 cents per gallon. Localities imposing a sales tax had the option either to continue to use the percentage rate method or to change to a cents-per-gallon method of computing sales tax.	June 1, 2006
Alternative Fuels	Exempted or partially exempted sales tax on alternative fuels, including E85 and B20, through August 31, 2011.	September 1, 2006
Cabaret	Exempted admissions to cabarets.	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 was \$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 and enforcement efforts.	June 1, 2009
Prepaid Rate Cigarettes	Increased prepaid sales tax rate on cigarettes from 7 percent to 8 percent of the base retail price.	June 1, 2009
Affiliate Nexus	Expanded the definition of vendor to preclude certain retailers from avoiding the tax.	June 1, 2009
Abusive Schemes	Narrowed the exemption for commercial aircraft and the use tax exemption for motor vehicles, vessels and aircraft.	June 1, 2009
Empire Zones	Converted the QEZE sales tax exemption to a refundable credit.	April 1, 2009
Lower Manhattan	The exemption for the Murray Street area is extended to December 1, 2014, and the exemption for the lower Manhattan area is extended to December 1, 2016.	June 30, 2009
Legislation Enacted in 2010		
Sales - Clothing and Footwear Exemption	Repealed the \$110 clothing and footwear exemption until March 31, 2012 and provided a temporary \$55 exemption from April 1, 2011, to March 31, 2012.	October 1, 2010
Sales - Vendor Credit	Repealed the vendor credit for monthly filers.	September 1, 2010

SALES AND USE TAX

Subject	Description	Effective Date
Sales - Room Remarketer	Clarified that room remarketers must collect sales and NYC occupancy taxes.	September 1, 2010
Transportation	Exempted livery service in NYC from the sales tax.	June 1, 2009
Affiliate Nexus	Narrowed affiliate nexus provisions.	June 1, 2009
PLC	Repealed private label credit card provisions.	June 1, 2010
Legislation Enacted in 2011		
Electronic News Exemption	Provided an exemption for certain electronic news services and electronic periodicals.	March 1, 2012
Alternative Fuels	Extended alternative fuel exemptions through August 31, 2012.	September 1, 2011
Economic Transformation and Facility Redevelopment Program	Provided tax incentives to businesses to stimulate redevelopment in targeted communities where certain correctional or juvenile facilities are closed (economic transformation areas). This program will expire on December 31, 2021.	March 31, 2011
Legislation Enacted in 2012		
Alternative Fuels	Extended alternative fuel exemptions through August 31, 2014.	September 1, 2012
Flag exemption	Tax exemption for blue star and gold star banners and prisoner of war flags.	December 1, 2012
Segregated Bank Accounts	Extension of the requirement to deposit sales tax into a separate bank account until December 31, 2013.	January 1, 2012
Legislation Enacted in 2013		
New York Innovation Hot Spots Program	Created a new high tech incubator program in which start-up businesses will be free of property, sales and business income taxes for the first five years. Hot spots must demonstrate an affiliation with, and the support of, at least one college, university or independent research institution and offer programs consistent with regional economic development strategies.	March 28, 2013
Segregated Bank Accounts	Extension of the requirement to deposit sales tax into a separate bank account until December 31, 2016.	January 1, 2014
IDA reform	Placed restrictions on Industrial Development Agencies (IDAs) ability to provide assistance for retail projects and added new clawback requirements.	March 28, 2013
Drivers' License Suspension	Ability to suspend drivers' licenses of taxpayers with a past-due tax liability of \$10k or more.	April 1, 2013
START-UP NY	Established tax-free zones on or near qualifying university and college campuses. Qualifying businesses operating within such zones are exempt from taxation.	January 1, 2014
Protection Programs	Tax exemption for water and sewer service line protection programs sold to residential property owners.	October 21, 2013
Vehicles Sold To Military Members	Tax exemption for vehicles purchased out-of-State by an active military member.	December 18, 2013
Legislation Enacted in 2014		
Vending Machine	Increased the sales tax exemption from \$0.75 to \$1.50 on certain food and drink items sold through vending machines.	June 1, 2014
Fuel Prepaid	Established three regions for the prepaid sales tax on fuel to reduce evasion at retail.	June 1, 2014

SALES AND USE TAX

Lower Manhattan	Retroactively extended the lease period for commercial office space for the Murray Street area. The exemption for the Murray Street area is extended to December 1, 2016, and the lower Manhattan area is extended to December 1, 2018.	March 31, 2014
Alternative Fuels	Extended alternative fuel exemptions through August 31, 2016.	September 1, 2014

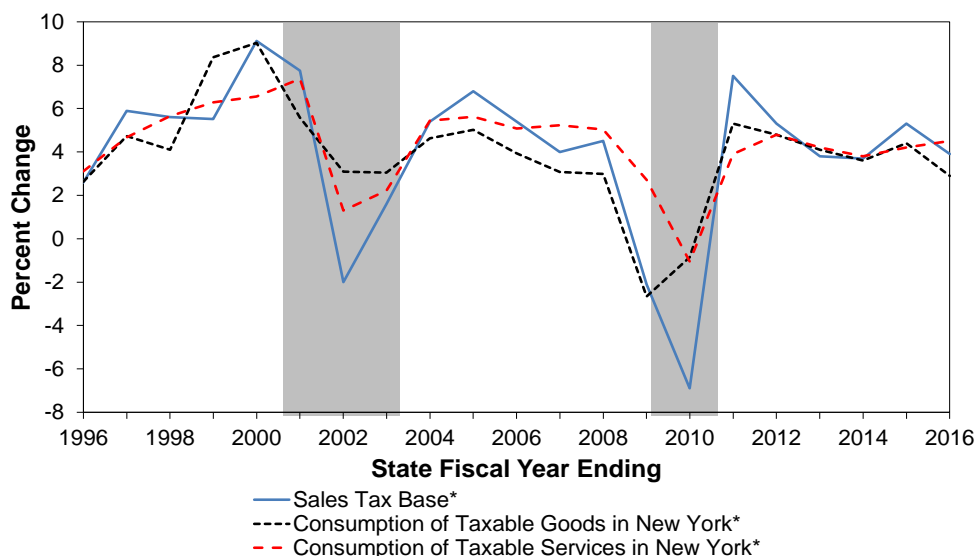
TAX LIABILITY

The sales and compensating use tax, which accounted for 18.1 percent of FY 2014 All Funds tax receipts, is the second largest State tax revenue source (the personal income tax is the largest).

In the long run, sales tax receipts are a function of changes in the tax rate and economic activity, as measured by such factors as disposable income and employment. Short-run fluctuations in receipts can result from rapid changes in consumer prices, auto sales, and home sales. The following table and graphs show the growth rate of major economic factors affecting the sales tax. For a more detailed discussion of the methods and models used to develop estimates and projections for the sales and use tax, please see the *Economic, Revenue, and Spending Methodologies* at www.budget.ny.gov.

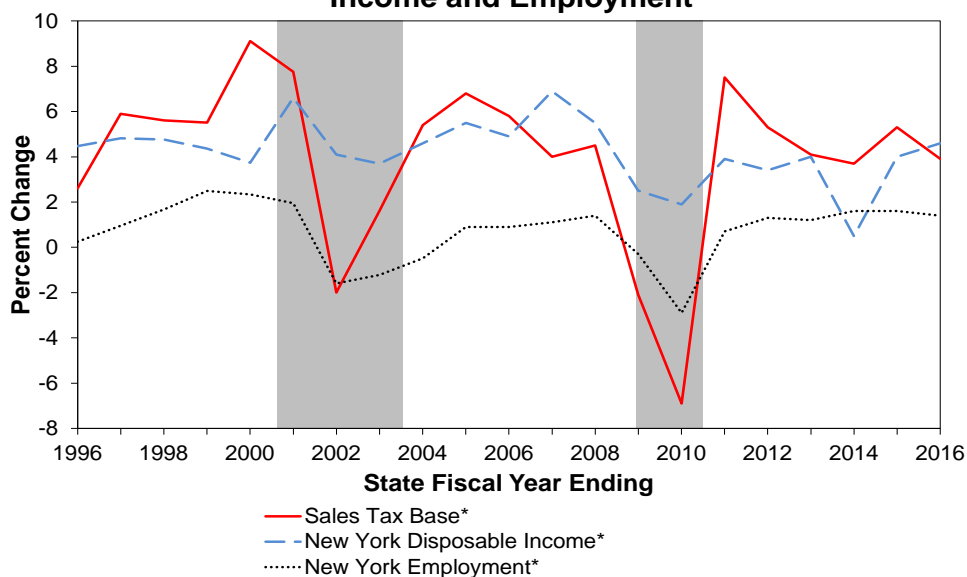
MAJOR ECONOMIC FACTORS AFFECTING SALES TAX RECEIPTS										
FY 2007 to FY 2016										
Percent Change										
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Estimated FY 2015	Projected FY 2016
Consumption of Taxable Goods in NY	3.1	3.0	(2.7)	(0.9)	5.3	4.8	4.1	3.6	4.4	2.9
Consumption of Taxable Services in NY	5.2	5.0	2.7	(1.2)	3.9	4.8	4.2	3.8	4.2	4.5
NY Employment	1.1	1.4	(0.3)	(2.9)	0.7	1.3	1.2	1.6	1.6	1.4
NY Disposable Income	6.9	5.5	2.5	1.9	3.9	3.4	4.0	0.5	4.0	4.6
NY Nominal Value of New Auto and Light Truck Sales	(2.6)	8.0	(20.3)	(1.7)	21.8	4.8	11.8	6.3	7.3	4.1
Sales Tax Base	4.0	4.5	(2.1)	(6.9)	7.5	5.3	3.8	3.7	5.3	3.9

Historical Growth in State Sales Tax Base and Taxable Consumption



*Based on Division of the Budget estimate (Shading represents State economic recessions)

Historical Growth in State Sales Tax Base Income and Employment



*Based on Division of the Budget estimate (Shading represents State economic recessions)

Although numerous exemptions from tax on the sales of tangible personal property have been enacted (see *Tax Expenditure Report*), roughly 47 percent of total sales and purchases subject to the sales and use tax are reported by the retail trade industry. The increase in the retail trade share after 2008 reflects repeal of the clothing exemption from October 2010 to April 2012 and the increase in online sales tax collections. In addition, there has been a shift of industry share from wholesalers to

SALES AND USE TAX

retailers due to gasoline wholesalers' divesting of their convenience stores and gasoline stations. The service industry (including accommodations, food and administrative services) reports roughly 27 percent of the statewide total and accounts for the next largest share of taxable sales and purchases.

History of Industry Shares of New York Sales Tax Receipts									
FYE ¹	Retail Trade	Services	Wholesale Trade	Information	Other ²	Utilities	Manufacturing	Construction	Unclassified
2004	51.7	20.4	7.8	7.4	4.2	3.3	2.4	2.1	0.8
2005	52.0	20.4	8.0	7.2	4.0	3.1	2.4	2.1	0.9
2006	50.0	21.0	8.6	7.1	4.2	3.5	2.4	2.1	1.2
2007	45.8	23.4	8.7	7.5	4.7	3.4	2.7	2.4	1.4
2008	44.1	25.0	8.8	7.6	4.8	3.5	2.8	2.5	1.0
2009	44.2	25.1	9.0	7.7	4.6	3.6	2.7	2.5	0.7
2010	45.1	25.4	8.4	7.8	4.6	3.5	2.5	2.3	0.4
2011 ³	48.2	25.7	5.0	6.4	4.5	3.5	4.3	2.3	0.2
2012	48.4	26.2	5.2	6.0	4.5	3.1	4.2	2.4	0.0
2013 ⁴	47.2	27.0	5.6	6.0	4.4	3.0	4.2	2.5	0.1
¹ March to February									
² Includes Agriculture, Mining, Transportation, FIRE (Finance, Insurance and Real Estate), Education, and Government.									
³ The shift in industry shares in 2011 reflects the updating of NAICS code during the re-registration process and suspension of the clothing exemption.									
⁴ Preliminary									
Source: New York State Department of Taxation and Finance.									

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

FY 2015 Estimates

All Funds receipts through December are \$9,888.5 million, an increase of \$335.7 million (3.5 percent) from the comparable period in the prior fiscal year.

All Funds FY 2015 receipts are estimated to be \$13,034 million, an increase of \$446.3 million (3.5 percent) from FY 2014. Through December, there has been year-over-year taxable sales growth in most of the industries measured. The three largest sales tax collection industries, food services, motor vehicles and wholesale trade, exhibited growth of 6.5 percent, 7.6 percent and 9.8 percent, respectively. The heightened need for building materials after Superstorm Sandy caused a surge in receipts from this category in FY 2014 and a subsequent 4.1 percent decline in FY 2015. Due to the sales tax cap on motor fuel, the State does not experience any increase or decrease in receipts when fuel prices are above \$2 per gallon. These factors help to explain base growth rates (i.e., growth absent law changes) during the first three quarters of 6.4 percent, 6 percent and 5.7 percent, respectively.

Base growth during the final quarter of FY 2015 is estimated to be 3.2 percent. This equates to total base growth of 5.3 percent for FY 2015.

FY 2016 Projections

All Funds FY 2016 receipts are projected to be \$13,603 million, an increase of \$569 million (4.4 percent) from FY 2015. This projected growth is based on the economic factors noted earlier. IDA reform, fuel tax enforcement, and tax avoidance loophole closing legislation included in this Budget account for \$10 million of this total.

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

Effective April 1, 2013, the distribution of sales tax receipts to the General Fund was reduced from 75 percent to 50 percent. Direct deposits to the General Fund for FY 2015 are estimated to be \$6,100 million, an increase of \$215.1 million (3.7 percent) from FY 2014 receipts. General Fund receipts for FY 2016 are projected to be \$6,355 million, an increase of \$255 million (4.2 percent) from FY 2015 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 are estimated to be \$3,040 million in FY 2015, and \$3,177 million in FY 2016. LGATF receipts in excess of debt service requirements on LGAC bonds are transferred to the General Fund.

Sales Tax Revenue Bond Fund

Effective April 1, 2013, receipts from one percent of the State's four percent sales tax rate are directed to the Sales Tax Revenue Bond Fund (STBF). This increases to a two percent rate when LGAC bonds have been retired or defeased. Sales tax deposits to the STBF are estimated to be \$3,040 million in FY 2015 and \$3,177 million in FY 2016. STBF receipts in excess of debt service requirements on STBF bonds are transferred to the General Fund.

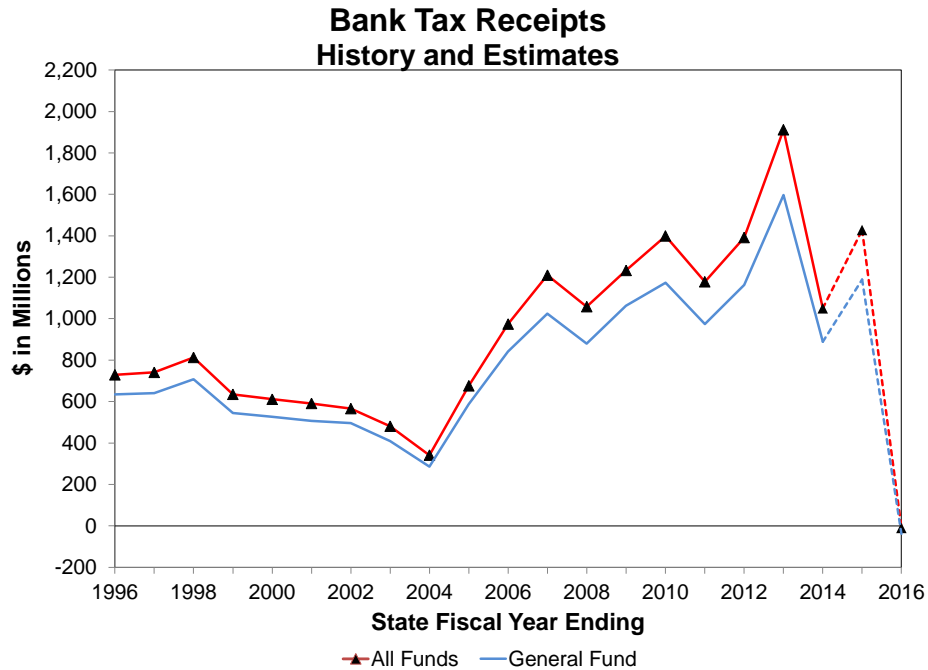
Mass Transportation Operating Assistance Fund

The 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 will receive an estimated \$854 million in FY 2015 and \$894 million in FY 2016. All proceeds from the MCTD tax are earmarked for MTOAF.

BANK TAX

BANK TAX (millions of dollars)							
	FY 2014 Actual	FY 2015 Estimated	Change	Percent Change	FY 2016 Projected	Change	Percent Change
General Fund	888.3	1,188.0	299.7	33.7	(38.0)	(1,226.0)	(103.2)
Other Funds	161.7	240.0	78.3	48.4	28.0	(212.0)	(88.3)
All Funds	1,050.0	1,428.0	378.0	36.0	(10.0)	(1,438.0)	(100.7)

Note: Totals may differ due to rounding.



BANK TAX BY FUND (millions of dollars)							
	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds	Refunds	Special Revenue Funds¹	All Funds Receipts
FY 2006	941	99	842	150	17	133	975
FY 2007	1,098	74	1,024	193	7	186	1,210
FY 2008	1,002	122	880	196	18	178	1,058
FY 2009	1,296	234	1,062	208	36	172	1,234
FY 2010	1,243	70	1,173	241	15	226	1,399
FY 2011	1,199	226	973	245	40	205	1,178
FY 2012	1,280	117	1,163	254	25	229	1,392
FY 2013	1,741	144	1,597	326	11	315	1,912
FY 2014	991	103	888	178	16	162	1,050
Estimated							
FY 2015	1,388	200	1,188	288	48	240	1,428
FY 2016 ²							
Current Law	96	134	(38)	34	6	28	(10)
Proposed Law	96	134	(38)	34	6	28	(10)

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

² Corporate tax reform merged the bank tax with the corporate franchise tax.

BANK TAX

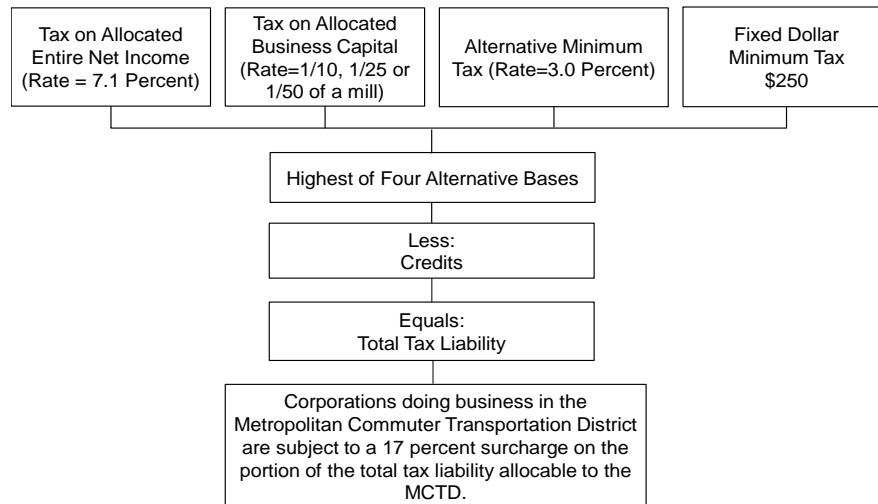
DESCRIPTION

Tax Base and Rate through Tax Year 2014

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, 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).

Article 32 Current Law

Effective with tax years beginning on and after January 1, 2015, the bank tax (Article 32) is merged with the corporate franchise tax (Article 9-A). Chapter 59 of the Laws of 2014 enacted corporate tax reform which established a single modern system of taxation for general business corporations and banking corporations by repealing the separate provisions of the Tax Law for banking corporations (Article 32) and amending the business corporation tax under Article 9-A to accommodate changes in the financial services industry and make other modernization changes.

Administration

Banks that reasonably expect their tax liability to exceed \$1,000 for the current tax year are required to make a mandatory first installment of estimated tax and three additional estimated payments. The mandatory first installment is due 75 days from the end date of a taxpayer's fiscal year. The remaining three estimated tax payments are due on the fifteenth day of the third month of the fiscal year quarter. The majority of the taxpayers have a fiscal year that ends December 31. The mandatory first installment for these taxpayers is due March 15 with the remaining three estimated payments due on June 15, September 15 and December 15. A final payment is also required of all taxpayers. This payment is due with the mandatory first installment. Taxpayers that expect their tax liability to exceed \$100,000 for the current tax year are required to make a mandatory first installment equal to 40 percent of their prior year liability. Taxpayers with expected liability greater than \$1,000 and less than \$100,000 must make a mandatory first installment equal to 25 percent of their prior year liability.

There is no change to the required payment schedule or liability threshold for former bank taxpayers for tax years beginning on and after January 1, 2015.

BANK TAX

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

Significant statutory changes to the bank tax since 2000 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 2000		
Empire Zones (EZ)	Transformed Economic Development Zones (EDZ) to Empire Zones, effectively providing virtual "tax free" zones for certain businesses. The enhanced benefits include a tax credit for real property taxes, a tax reduction credit, and a sales and use tax exemption. The tax reduction credit may be applied against the fixed dollar minimum tax, which may reduce the taxpayer's liability to zero.	January 1, 2001
Transitional Provision for Federal <i>Gramm-Leach-Bliley Act</i> of 1999	Created transitional provisions relating to the enactment and implementation of the Federal <i>Gramm-Leach-Bliley Act</i> of 1999 to allow certain corporations that were taxed under the corporate franchise tax or bank tax in 1999 to maintain that taxable status in 2000. Also permitted certain corporations that are owned by financial holding companies or are financial subsidiaries of banks to elect to be taxed under either the corporate franchise tax or bank tax for the 2000 taxable year.	January 1, 2000
Legislation Enacted in 2001		
Bank Tax and GLB Provisions	Provided an extension of the Bank Tax that had expired for commercial banks. The tax did not apply to tax years beginning on or after January 1, 2001. Sunset for tax years beginning on or after January 1, 2003. Also, extended for two years, until January 1, 2003, the provisions relating to the Federal <i>Gramm-Leach-Bliley Act</i> .	January 1, 2001
Legislation Enacted in 2002		
Mandatory First Installment Percentage	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 exceeded \$100,000. 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. Sunset for tax years beginning on or after January 1, 2006, and expired January 1, 2007.	January 1, 2003

BANK TAX

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 and GLB Provisions	Provided an extension of the Bank Tax that had expired for commercial banks. The tax did not apply to tax years beginning on or after January 1, 1997. Sunset for tax years beginning on or after January 1, 2005. Also, extended on or after January 1, 2004, the provisions relating to the Federal <i>Gramm-Leach-Bliley Act</i> .	January 1, 2003
Modification for Decoupling from Federal Bonus Depreciation	Required taxpayers to make modifications to Federal taxable income for property placed in service on or after June 1, 2003, that qualified for the special bonus depreciation allowance allowed by the Federal Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003. The modifications do not apply to qualified resurgence zone property or qualified New York Liberty Zone property.	June 1, 2003
Intangible Holding Companies	Required taxpayers to modify Federal taxable income relating to certain royalty and interest payments made with respect to the use of intangible property by related members or royalty and interest payments received from related members.	January 1, 2003
Superfund-Brownfield Tax Credits	Created tax incentives for the redevelopment of brownfields through three refundable tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. There are three components in the redevelopment tax credit: a site preparation component; a tangible property component; and an onsite groundwater remediation component.	April 1, 2005
Legislation Enacted in 2004		
Bank Tax and GLB Provisions	Extended for one year, until January 1, 2006, certain provisions of the Tax Law and the Administrative Code of the City of New York relating to the taxation of commercial banks. Also extended for two years, until January 1, 2006, the provisions relating to the Federal <i>Gramm-Leach-Bliley Act</i> .	January 1, 2004
Empire Zones Program Extensions	Extended the Empire Zones (EZ) Program to March 31, 2005.	January 1, 2004
Legislation Enacted in 2005		
Single Sales Apportionment	Changed the computation used to allocate income and assets to New York by banking corporations taxed under Article 32 that are owned by a bank or bank holding company and are substantially engaged in providing services to an investment company from a three-factor formula of receipts, deposits, and wages to a single receipts factor.	These provisions were phased in over a three-year period starting in tax year 2006, and were fully effective for tax years beginning on or after January 1, 2008
Legislation Enacted in 2006		
Empire Zones/Significant Investments	Provided that a Qualifying Empire Zone Enterprise (QEZE) with fewer than 200 existing jobs that makes an investment of \$750 million or more and creates 500 new jobs is deemed a "new business," qualifying the taxpayer for a 50 percent refund of its EZ Investment Tax Credits and EZ Employment Incentive Credits. Also authorized such taxpayers to select their program benefit period to start either upon certification (current law), or when the qualifying investment is placed in service.	January 1, 2006

BANK TAX

Subject	Description	Effective Date
Eliminate S Corporation Differential Tax Base	Eliminated the tax base imposed on S Corporations that was calculated using the difference between the corporate franchise tax rate and the top personal income tax rate. The rate had been changed, and the base was also suspended during tax years 2003 through 2005 when the PIT surcharge was in effect. Elimination of this base conformed the State tax code with Federal treatment of S corporations.	January 1, 2003 (note that the differential had already been suspended - eff. date reflected first instance of non-imposition)
Bank Tax and GLB Provisions	Extended for two years, until January 1, 2008, certain provisions of the Tax Law and the Administrative Code of the City of New York relating to the taxation of commercial banks. Also extended for two years, until January 1, 2008, the provisions relating to the Federal <i>Gramm-Leach-Bliley Act</i> .	January 1, 2006
Legislation Enacted in 2007		
Entire Net Income (ENI) Tax Rate	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	<p>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 <i>Gramm-Leach-Bliley Act</i> transitional provisions, will become taxable under Article 32 of the Tax Law.</p> <p>These conditions included: ceasing to be a taxpayer under Article 9-A; becoming subject to the \$800 fixed dollar minimum tax for inactive corporations; having no wages or receipts allocable to New York or otherwise becoming inactive; being acquired by an unaffiliated corporation in a transaction under Section 338(h)(3) of the Internal Revenue Code; or becoming engaged in a different line of business as a result of acquiring a certain amount of assets.</p> <p>Meeting any one of these conditions resulted in the corporation becoming taxable as a bank under Article 32. The legislation also provided that an investment subsidiary of a bank or bank holding company was included in the definition of a banking corporation and taxable under Article 32.</p>	January 1, 2007
Bank Tax and GLB Provisions	Extended for two years, until January 1, 2010, certain provisions of the Tax Law and the Administrative Code of the City of New York relating to the taxation of commercial banks. Also extended for two years, until January 1, 2010, the provisions relating to the Federal <i>Gramm Leach-Bliley Act</i> . 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

BANK TAX

Subject	Description	Effective Date
Amendment to Add-Back Provisions Related to Certain Intangible Income	Eliminated the add-back of certain intangible income and related interest for bank taxpayers, if the corporation receiving the income from the bank is included in a New York State combined return.	January 1, 2007
GLB Conforming Provision Amendments	Amended the Enacted Budget provisions that required bank taxpayers no longer meeting the definition of doing a banking business to file under the corporation franchise tax to delay the effect of those provisions by clarifying that taxpayers no longer meeting the definition of doing a banking business as a result of transactions which occurred prior to January 1, 2008 would not be subject to the said amended provisions for tax years 2008 and 2009. Also provided language notifying potentially affected taxpayers of the prospective 2010 law change.	June 29, 2007
Legislation Enacted in 2008		
Taxation of Credit Card Banks	Imposed the bank tax on banks with credit card operations in New York State that exceeded 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	Increased the first quarterly installment of estimated tax from 25 percent to 30 percent of the prior year's liability for those corporate taxpayers whose liability exceeds \$100,000. 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
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 Reforms	Amended the tangible property credit component to impose a limit of the lesser of \$35 million or three times the qualifying costs used in calculating the site preparation and on-site groundwater components for projects accepted into the Brownfields program after June 22, 2008. Qualifying manufacturers accepted after this date would be subject to a tangible property credit component limitation equal to the lesser of \$45 million or six times the qualifying costs used in calculating the site preparation and on-site groundwater components. Several other changes were effected, including increasing the credit percentages awarded under the site preparation and on-site groundwater components to as much as fifty percent.	June 23, 2008

BANK TAX

Subject	Description	Effective Date
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
Mandatory First Installment Percentage	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. 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, 2010
Empire Zones Reform	Reformed the Empire Zones program. All companies that had been certified for at least three years were subjected to a performance review focusing on cost/benefit ratios.	January 1, 2008
	Reduced the QEZE real property tax credit by 25 percent and disqualified firms for the State QEZE sales tax refund/credit unless the sale qualified for a local sales and use tax refund or credit.	April 1, 2009
	Moved program sunset from December 30, 2011 to June 30, 2010.	April 7, 2009
Legislation Enacted in 2010		
Conform to Federal Bad Debt Provisions	Conformed the State bank tax deduction for bad debts to the calculations provided for in the Internal Revenue Code for Federal tax purposes.	January 1, 2010
Historic Properties Tax Credits	Allowed banks to claim the nonresidential tax credit for historic properties.	January 1, 2010
Make REITs/RICs Loophole Closer Permanent	Made permanent the provisions that address the closely-held Real Estate Investment trusts and Regulated Investment Companies loophole, which would have otherwise expired on December 31, 2010.	August 11, 2010
REIT Technical Amendments	Clarified that certain publicly traded REITs with fractional ownership shares in non-related U.S. REITs are not subject to provisions relating to "closely-held" REITs that were enacted in 2008-09.	August 11, 2010
Technical Changes to Empire Zones Program	Made technical corrections to the 2009-10 Enacted Budget Empire Zones Program changes. Clarified that the Legislature intended to decertify certain businesses retroactively to the 2008 tax year, clarified reporting provisions, and allowed qualified investment projects to claim the investment tax credit and employee incentive tax credit after June 30, 2010.	August 11, 2010
Bank Tax and GLB Provisions	Extended for one year bank tax reform provisions from 1985 and 1987, as well as provisions that were intended to temporarily address regulatory changes from the Federal <i>Gramm-Leach-Bliley Act</i> .	January 1, 2010
Excelsior Jobs Program	Established a new economic development program to provide incentives based on job creation, investment and research and development expenditures in New York State.	July 1, 2010
Tax Credit Deferral	Capped aggregate business related tax credit claims at \$2 million per taxpayer for each of tax years 2010, 2011 and 2012. The total amount of credits deferred can be claimed by affected taxpayers on returns for tax years 2013, 2014 and 2015.	January 1, 2010

BANK TAX

Subject	Description	Effective Date
Legislation Enacted in 2011		
Excelsior Jobs program Amendments	Modified the credit to make it more widely available and attractive and created a new energy incentive. It also lengthened the benefit period from five to ten years.	March 31, 2011
Economic Transformation and Facility Redevelopment Program	Provided tax incentives to businesses to stimulate redevelopment in targeted communities where certain correctional or juvenile facilities are closed (economic transformation areas).	March 31, 2011
Bank Tax and GLB Provisions	Made permanent the bank tax reform provisions from 1985 and 1987. Extended the provisions that were intended to temporarily address regulatory changes from the Federal <i>Gramm-Leach-Bliley Act</i> for two years to tax years beginning on or after January 1, 2013.	January 1, 2011
Legislation Enacted in 2012		
GLB Provisions	Extended for one year the provisions that were intended to temporarily address regulatory changes from the Federal <i>Gramm-Leach-Bliley Act</i> .	January 1, 2013
	Furthermore, under the new law, only corporations that meet the definition of a banking corporation in section 1452(a) of the Tax Law during the taxable year will be allowed to remain an Article 32 taxpayer under the transitional provisions.	March 31, 2012
Legislation Enacted in 2013		
Royalty Income Loophole	Closed a loophole that allowed New York companies that earn royalty income to avoid paying taxes on that income. New York taxpayers must show on their tax return that the taxpayer's Non-New York parent company included the royalty income in its tax liability. The demonstration absolves taxpayers of the obligation to pay tax on their royalty income.	January 1, 2013
Historic Properties Tax Credit	Extended for five years the maximum Historic Preservation Tax Credit amount of \$5 million, which had previously been scheduled to revert to \$100,000 following the conclusion of tax year 2014, and permanently made the credit refundable for tax years beginning on or after January 1, 2015.	January 1, 2015
Veterans Tax Credit	Provided a refundable tax credit for tax years 2015 and 2016 equaling 10 percent of the wages paid to a qualified veteran (capped at \$5,000) and 15 percent of wages paid to a qualified veteran (capped at \$15,000).	January 1, 2015
Minimum Wage Reimbursement Credit	Provided a refundable tax credit for tax years 2014 through 2018 equal to the product of the number of hours worked by qualifying minimum wage-earning employees and 1) \$0.75 in tax year 2014; 2) \$1.31 in tax year 2015; and 3) \$1.35 in tax years 2016 through 2018. Qualifying employees must be students aged 16 to 19, and the credit is reduced if the federal minimum wage is increased to a level in excess of 85 percent of the New York minimum wage.	January 1, 2014
Excelsior Jobs Program	Changed the job requirement parameters for the Excelsior Jobs Program and allowed a portion of the unallocated tax credits from any taxable year to be used to award tax credits in another taxable year.	May 27, 2013

BANK TAX

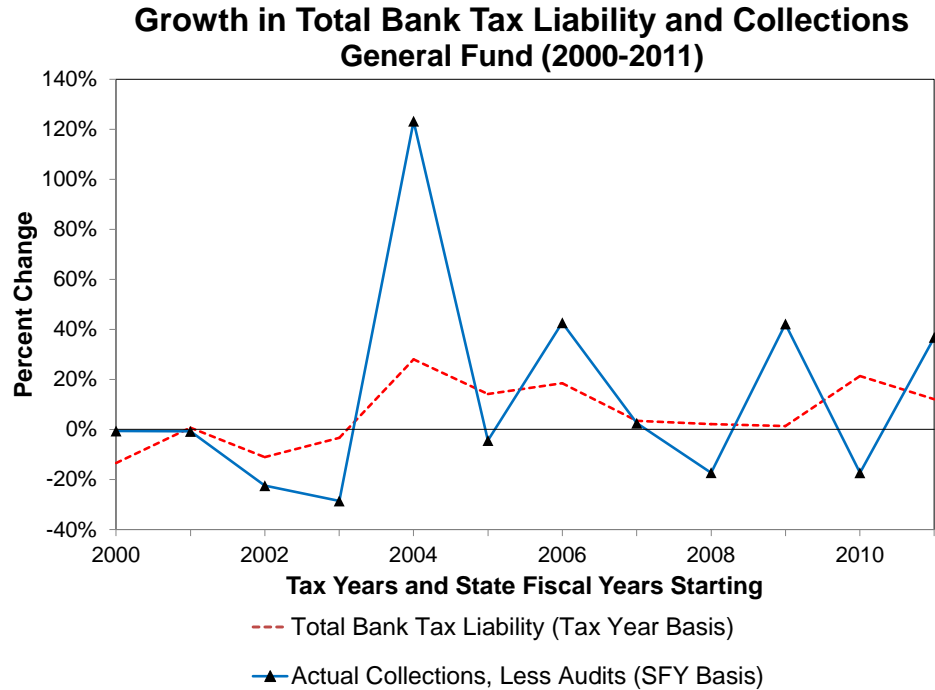
Subject	Description	Effective Date
Legislation Enacted in 2014		
Corporate Tax Reform	Merged the bank tax with the corporate franchise tax. Repealed the separate provisions of the bank tax and amended the corporate franchise tax to accommodate changes in the financial services industry and make other modernization changes.	January 1, 2015
	Lowered the entire net income tax rate from 7.1 percent to 6.5 percent for non-manufacturers.	January 1, 2016
	Phased out the capital base over a 6-year period.	January 1, 2016
	Made the MTA surcharge permanent.	January 1, 2015

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 2011 tax year. The tax year 2011 Study File liability includes an impact from the 2010 legislation that deferred certain tax credit claims for tax years 2010 through 2012. The annual study of bank tax returns indicates that 698 taxpayers filed tax returns as banking corporations for 2011, a 2.9 percent decrease from the previous year.

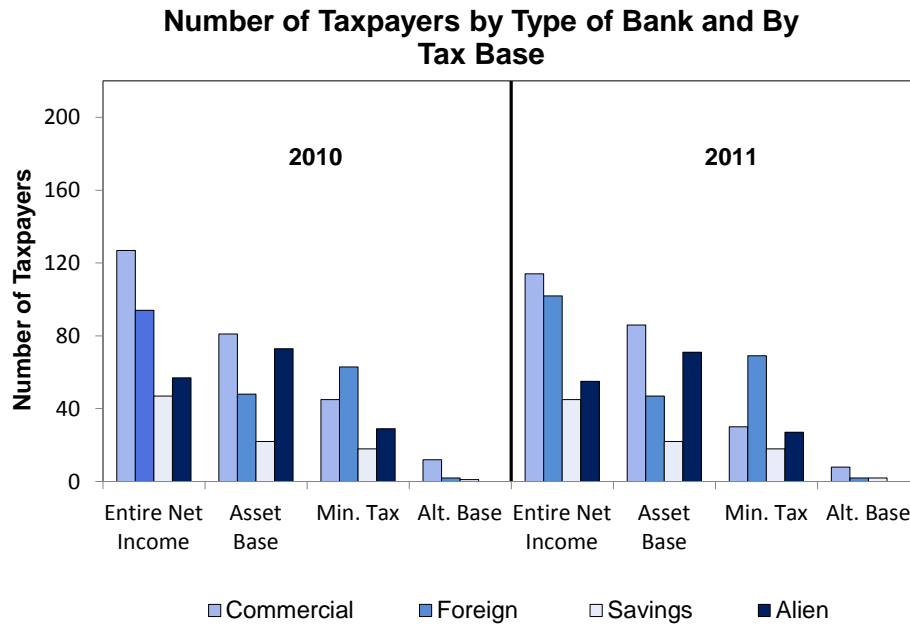
The link between underlying bank tax liability and collections in any given State fiscal year is often obscured by the timing of payments, the carry forward of prior year losses or credits, and the reconciliation of prior year liabilities. Tax collections are the net payments and adjustments made by taxpayers on returns and extensions over the course of a State fiscal year. 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. For taxpayers with a fiscal year ending December 31, the majority of the tax base, collections include a mandatory first installment payment that is paid in March and is based on 40 percent of the prior year's liability. In addition, these taxpayers are required to make estimated payments, based on projected liability for the current tax year, in June, September, and December. A final payment is made in March of the subsequent year. 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. Additionally, the Tax Law grants taxpayers extensions that allow the filing of returns up to two years after the end of their tax year.

The following graph compares historical bank tax liability and collections. Since taxpayers must pay estimated taxes months in advance of knowing actual liability, it is difficult for taxpayers to determine the proper level of payments needed over the course of a year. This is especially true if business or economic conditions change. The graph illustrates the volatility in the underlying relationship between payments and liability, which is further compounded by the potential difference between a taxpayer's tax year and the State fiscal year.

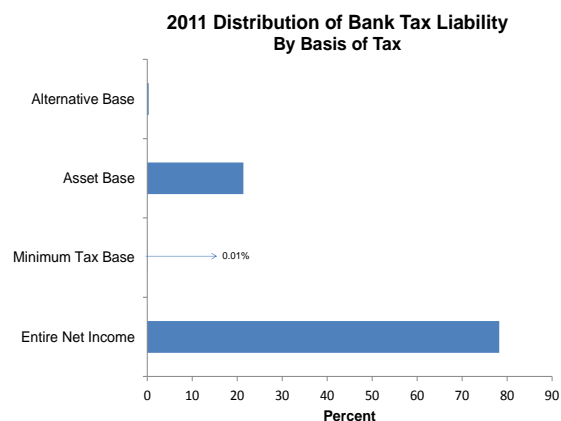
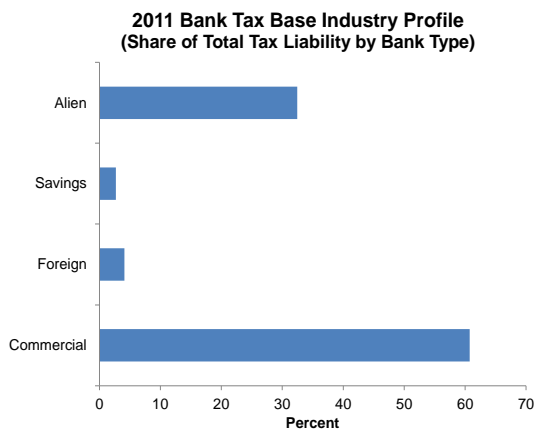


The number of taxpayers decreased by 2.9 percent from 2010 to 2011. Decreases occurred in the number of commercial banks (27 banks, 10.2 percent), alien banks (six banks, 3.8 percent) and savings banks (one bank, 1.1 percent). An increase occurred in foreign banks (13 banks, 6.3 percent). Foreign banks are defined as commercial banks headquartered outside New York State. From 2010 to 2011 there were decreases in the number of taxpayers that paid under the ENI base (nine banks, 2.8 percent), fixed dollar minimum base (11 banks, 7.1 percent) and the alternative minimum income base (three banks, 20 percent). The only base that saw an increase in the number of taxpayers was the asset base (two banks, 0.9 percent).

BANK TAX



The following charts show that commercial banking institutions accounted for 60.7 percent of total tax liability in 2011, and alien banking institutions accounted for 32.5 percent of total liability, while foreign banking institutions and savings banks together accounted for the remaining 6.8 percent of total liability. The share of liability by type of bank in 2011 was virtually unchanged from 2010. On a tax base concept, payments under the ENI base comprised over 78 percent of total tax liability. This compares to a share of 77 percent in 2010. In contrast, the share of liability under the asset base declined to 21 percent in 2011 from 22 percent in 2010.



RECEIPTS: ESTIMATES AND PROJECTIONS

BANK TAX (millions of dollars)							
	FY 2014	FY 2015		Percent	FY 2016 ¹		Percent
	Actual	Estimated	Change	Change	Projected	Change	Change
General Fund							
Non-Audit Receipts	801	516	(285)	(35.6)	(281)	(797)	(154.5)
Audit Receipts	87	672	585	672.4	243	(429)	(63.8)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	888	1,188	300	33.8	(38)	(1,226)	(103.2)
Other Funds							
Non-Audit Receipts	146	134	(12)	(8.2)	(13)	(147)	(109.7)
Audit Receipts	16	106	90	562.5	41	(65)	(61.3)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	162	240	78	48.1	28	(212)	(88.3)
All Funds							
Non-Audit Receipts	947	650	(297)	(31.4)	(294)	(944)	(145.2)
Audit Receipts	103	778	675	655.3	284	(494)	(63.5)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	1,050	1,428	378	36.0	(10)	(1,438)	(100.7)
Note: Totals may differ due to rounding.							
¹ Corporate tax reform merged the bank tax into the corporate franchise tax.							

All Funds**FY 2015 Estimates**

All Funds receipts through December are \$1,262.6 million, an increase of \$541.3 million (75 percent) from the comparable period in the prior fiscal year.

All Funds FY 2015 receipts are estimated to be \$1,428 million, an increase of \$378 million (36 percent) from FY 2014. The year-over-year increase is the result of an increase in audit receipts.

FY 2016 Projections

All Funds FY 2016 receipts are projected to be negative \$10 million, a decrease of \$1,438 million (100.7 percent) from FY 2015. This decrease is attributable to the repeal of the bank tax and the resultant imposition of the corporate franchise tax on bank taxpayers, effective for Tax Year 2015.

General Fund

General Fund FY 2015 receipts are expected to be \$1,188 million, an increase of \$299.7 million (33.7 percent) from FY 2014. General Fund collections reflect the same trends impacting FY 2015 All Funds receipts.

BANK TAX

For FY 2016, General Fund receipts are projected to be negative \$38 million, a decrease of \$1,226 million (103.2 percent) from FY 2015. General Fund collections reflect the trends described above for FY 2016 All Funds receipts.

Other Funds

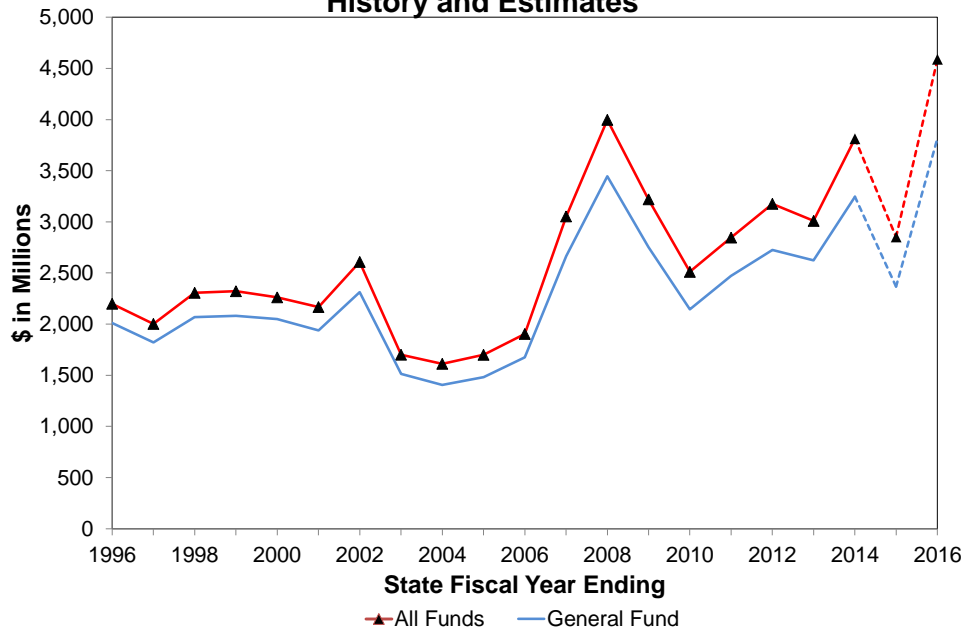
Bank tax receipts from the business tax surcharge deposited to MTOAF generally reflect the All Funds trends described above. The MCTD business tax surcharge will result in MTOAF deposits of an estimated \$240 million in FY 2015 and a projected \$28 million in FY 2016.

CORPORATE FRANCHISE TAX

CORPORATION FRANCHISE TAX (millions of dollars)							
	FY 2014 Actual	FY 2015 Estimated	Change	Percent Change	FY 2016 Projected	Change	Percent Change
General Fund	3,245.1	2,368.0	(877.1)	(27.0)	3,820.0	1,452.0	61.3
Other Funds	566.6	484.0	(82.6)	(14.6)	769.0	285.0	58.9
All Funds	3,811.7	2,852.0	(959.7)	(25.2)	4,589.0	1,737.0	60.9

Note: Totals may differ due to rounding.

Corporation Franchise Tax Receipts History and Estimates



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
FY 2006	3,070	405	2,665	415	27	388	3,053
FY 2007	4,010	333	3,677	576	25	551	4,228
FY 2008	4,035	589	3,446	592	41	551	3,997
FY 2009	3,579	824	2,755	541	76	465	3,220
FY 2010	2,942	797	2,145	442	76	366	2,511
FY 2011	3,234	762	2,472	458	84	374	2,846
FY 2012	3,432	708	2,724	495	43	452	3,176
FY 2013	3,283	659	2,624	434	49	385	3,009
FY 2014	3,878	633	3,245	613	46	567	3,812
Estimated							
FY 2015	3,488	1,120	2,368	534	50	484	2,852
FY 2016 ²							
Current Law	4,882	1,063	3,819	848	79	769	4,588
Proposed Law	4,883	1,063	3,820	848	79	769	4,589

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

²Corporate tax reform merged the bank tax into the corporate franchise tax.

CORPORATION FRANCHISE TAX

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Extend and reform the Brownfield Cleanup Program;
- Reform the Investment Tax Credit provided for master tapes;
- Combine the DOS biennial information statement and tax return filings and repeal \$9 DOS fee;
- Amend Excelsior Tax Credit qualifying business language;
- Require Commercial Production Tax Credit economic impact report;
- Create the Urban Youth Jobs Program Tax Credit;
- Reduce the net income tax on small businesses;
- Amend the corporate tax reform statute for technical changes;
- Require grantees to be compliant with State tax obligations before receiving a grant from a State authority;
- Establish the Education Tax Credit; and
- Create the Employee Training Incentive Program (ETIP) Tax Credit.

DESCRIPTION

Tax Base and Rate through Tax Year 2014

The corporation franchise tax is levied by Articles 9-A and 13 of the Tax Law. Article 9-A imposes a franchise tax on domestic and foreign corporations for the privilege of exercising their corporate franchise or doing business, employing capital, owning or leasing property, or maintaining an office in New York. The Article 9-A tax is made up of business entities classified as either C corporations or S corporations. Article 13 of the Tax Law imposes a 9 percent tax on certain not-for-profit entities on business income earned from activities not related to their exempt purpose.

For C corporations, current law requires corporation franchise tax liability to be computed under four alternative bases, with tax due based on the highest tax calculated under the four alternative bases. The four alternative bases are:

- An entire net income (ENI) base, which begins with Federal taxable income before net operating loss deductions and special deductions, and is further adjusted by the exclusion, deduction or addition of certain items. The resulting base is allocated to New York and subject to a tax rate of 7.1 percent. Qualifying small businesses with an ENI of \$290,000 or less, certain

CORPORATION FRANCHISE TAX

manufacturers and qualified emerging technology companies are subject to a rate of 6.5 percent. Qualified New York manufacturers are subject to a zero percent rate beginning with tax year 2014. The ENI rate for qualified emerging technology companies was reduced from 6.5 percent in tax year 2013 to 5.9 percent in tax year 2014.

- An alternative minimum tax (AMT) base imposed at a rate of 1.5 percent of the ENI (as calculated above) further adjusted to reflect certain Federal tax preference items and adjustments and State-specific net operating loss (NOL) modifications. Eligible qualified New York manufacturers are subject to a rate of 0.75 percent for tax years 2012, 2013, and 2014. Additionally, the AMT base tax rate was reduced from 1.5 percent in tax year 2013 to 1.36 percent in tax year 2014 for qualified New York manufacturers.
- A capital base, imposed at a rate of 0.15 percent on business and investment capital allocated to New York. For most taxpayers, the maximum annual tax is \$1 million. Additionally, the capital base tax rate was reduced from 0.15 percent in tax year 2013 to 0.136 percent in tax year 2014 for qualified New York manufacturers.
- A fixed dollar minimum tax, which is based on a taxpayer's NY source gross income as shown in the following schedule. Eligible qualified New York manufacturers paid one-half of the rates shown in the schedule below for tax years 2012, 2013 and 2014. Additionally, the fixed dollar minimum tax was reduced from a range of \$25 to \$5,000 in tax year 2013 to a range of \$23 to \$4,540 in tax year 2014 for qualified New York manufacturers.

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.

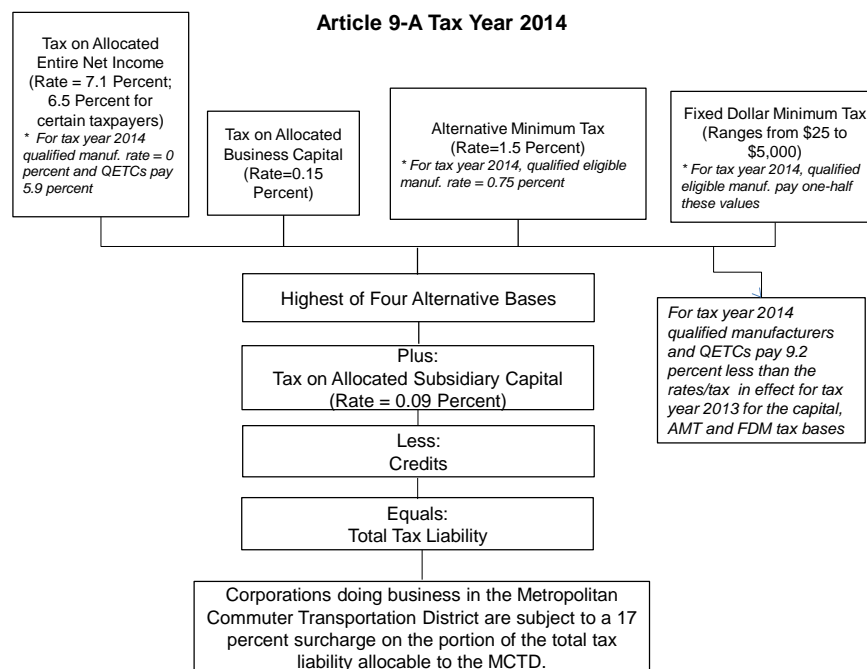
S corporations are also subject to a fixed dollar minimum tax imposed at the rates shown in the table above.

Additionally, corporations conducting business in the Metropolitan Commuter Transportation District (MCTD) are subject to a 17 percent surcharge on the portion of the total State tax liability computed using the franchise tax rates in effect for the period July 1, 1997, through June 30, 1998, and allocable to the MCTD. The collections from

CORPORATION FRANCHISE TAX

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.



Tax Base and Rate for Tax Years Beginning On and After January 1, 2015

Chapter 59 of the Laws of 2014 enacted corporate tax reform which established a single modern system of taxation for general business corporations and banking corporations by repealing the separate provisions of the Tax Law for banking corporations (Article 32) and amending the business corporation tax under Article 9-A to accommodate changes in the financial services industry and make other modernization changes. This was accomplished by replacing the entire net income base with a similar business income base subject to the lower, fully effective tax rate of 6.5 percent (versus the existing 7.1 percent), effective January 1, 2016.

The corporation franchise tax is levied by Articles 9-A and 13 of the Tax Law. Article 9-A imposes a franchise tax on domestic and foreign corporations for the privilege of exercising their corporate franchise or doing business, employing capital, owning or leasing property, or maintaining an office in New York. The Article 9-A tax is made up of business entities classified as either C corporations or S corporations. Article 13 of the Tax Law imposes a 9 percent tax on certain not-for-profit entities on business income earned from activities not related to their exempt purpose.

For C corporations, current law requires corporation franchise tax liability to be computed under three alternative bases, with tax due based on the highest tax calculated under three alternative bases. The three alternative bases are:

CORPORATION FRANCHISE TAX

- A business income 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 (dropping to 6.5 percent effective with tax year 2016). Qualifying small businesses with a business income base of \$290,000 or less, certain manufacturers and qualified emerging technology companies are subject to the rates as shown in the table below.

Type of Business	Tax Year 2015	Tax Year 2016	Tax Year 2017	Tax Year 2018 and Thereafter
Qualified New York Manufacturers	0%	0%	0%	0%
Qualified Emerging Technology Companies (QETCs)	5.7%	5.5%	5.5%	4.875%
Small Businesses	6.5%	6.5%	6.5%	6.5%
Remaining Taxpayers	7.1%	6.5%	6.5%	6.5%

- A capital base, imposed at a rate of 0.15 percent on business and investment capital allocated to New York. For most taxpayers, the maximum annual tax is \$1 million. Beginning with tax year 2016 the capital base will be phased-out over six years according to the schedule shown below.

Type of Business	Tax Year 2015	Tax Year 2016	Tax Year 2017	Tax Year 2018	Tax Year 2019	Tax Year 2020	Tax Year 2021 and Thereafter
Qualified New York Manufacturers & QETCs	0.132%	0.106%	0.085%	0.056%	0.038%	0.019%	0%
Cooperative Housing Corporations	0.040%	0.040%	0.040%	0.040%	0.040%	0.025%	0%
Remaining Taxpayers	0.150%	0.125%	0.100%	0.075%	0.050%	0.025%	0%

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

QUALIFIED NEW YORK MANUFACTURER C CORPORATIONS AND QETCS FIXED DOLLAR MINIMUM TAXES				
Gross Income	Tax Year 2015	Tax Year 2016	Tax Year 2017	Tax Year 2018 and Thereafter
\$100,000 or less	\$22	\$21	\$21	\$19
\$100,001 - \$250,000	\$66	\$63	\$63	\$56
\$250,001 - \$500,000	\$153	\$148	\$148	\$131
\$500,001 - \$1,000,000	\$439	\$423	\$423	\$375
\$1,000,001 - \$5,000,000	\$1,316	\$1,269	\$1,269	\$1,125
\$5,000,001 - \$25,000,000	\$3,070	\$2,961	\$1,961	\$2,625
Over \$25,000,000	\$4,385	\$4,230	\$4,230	\$3,750

CORPORATION FRANCHISE TAX

REMAINING C CORPORATION TAXPAYERS FIXED DOLLAR MINIMUM TAXES	
Gross Income	Tax Year 2015 and Thereafter
\$100,000 or less	\$25
\$100,001 - \$250,000	\$75
\$250,001 - \$500,000	\$175
\$500,001 - \$1,000,000	\$500
\$1,000,001 - \$5,000,000	\$1,500
\$5,000,001 - \$25,000,000	\$3,500
\$25,000,001 - \$50,000,000	\$5,000
\$50,000,001 - \$100,000,000	\$10,000
\$100,000,001 - \$250,000,000	\$20,000
\$250,000,001 - \$500,000,000	\$50,000
\$550,000,001 - \$1,000,000,000	\$100,000
Over \$1 billion	\$200,000

S corporations will also be subject to a fixed dollar minimum tax imposed at the rates shown in the table below.

S CORPORATIONS FIXED DOLLAR MINIMUM TAXES	
Gross Income	S Corp Min Tax
\$100,000 or less	\$25
\$100,001 - \$250,000	\$50
\$250,001 - \$500,000	\$175
\$500,001 - \$1,000,000	\$300
\$1,000,001 - \$5,000,000	\$1,000
\$5,000,001 - \$25,000,000	\$3,000
Over \$25,000,000	\$4,500

Additionally, corporations conducting business in the Metropolitan Commuter Transportation District (MCTD) are subject to a surcharge on the portion of the total State tax liability allocated to the MCTD region. The tax rate for tax year 2015 is 25.6 percent. The Department of Taxation and Finance will compute the surcharge tax rate for each subsequent tax year with the goal of achieving revenue neutrality for the MCTD based on the most recent Enacted Budget forecast. Additionally, the MCTD surcharge is now permanent. The collections from the surcharge are deposited into the Mass Transportation Operating Assistance Fund (MTOAF).

Administration

Corporations that reasonably expect their tax liability to exceed \$1,000 for the current tax year are required to make a mandatory first installment of estimated tax and three additional estimated payments. The mandatory first installment is due 75 days from the end date of a taxpayer's fiscal year. The remaining three estimated tax payments are due on the 15th day of the third month of the fiscal year quarter. The majority of taxpayers have a fiscal year that ends December 31. The mandatory first installment for these taxpayers is due March 15 with the remaining three estimated payments due on June 15, September 15 and December 15. A final payment is also required of all taxpayers. This payment is due with the mandatory first installment. Taxpayers that expect their tax liability to exceed \$100,000 for the current tax year are required to make a mandatory first installment equal to 40 percent of their prior year liability. Taxpayers

with expected liability greater than \$1,000 and less than \$100,000 must make a mandatory first installment equal to 25 percent of their prior year liability.

Tax Expenditures

Tax expenditures are defined as features of the Tax Law that by exclusion, exemption, deduction, allowance, credit, deferral, preferential tax rate or other statutory provisions reduce the amount of a taxpayer's liability to the State by providing either economic incentives or tax relief to particular entities to achieve a public purpose. The corporate franchise tax structure includes various tax expenditures, and the distribution of these benefits varies widely among firms and industries. Among the major tax expenditure items for the corporate franchise tax are the exclusion of interest, dividends and capital gains from subsidiary capital, the investment tax credit, Empire Zones, the Excelsior Jobs Program, Brownfields and Film Production tax credits, and the preferential tax rates for qualifying small business corporations and manufacturers. 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 2000 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 2000		
Energy Reform and Reduction	Reformed energy taxation for energy companies, previously taxed under section 186 of Article 9, to pay tax under the Article 9-A corporate franchise tax.	January 1, 2000
Securities and Commodities Brokers or Dealers Customer Sourcing	Allowed securities broker/dealers to allocate receipts, which constitute commissions, margin interest or account maintenance fees, as a service performed at the customer's mailing address.	January 1, 2001
Empire Zones (EZ)	Transformed Economic Development Zones (EDZ) to Empire Zones, effectively providing for virtual "tax free" zones for certain businesses. The enhanced benefits included a tax credit for real property taxes, a tax reduction credit, and a sales and use tax exemption. The tax reduction credit may be applied against the fixed dollar minimum tax, which may reduce the taxpayer's liability to zero.	January 1, 2001
Rate Reduction - S Corporations	Reduced the differential tax rate imposed on S corporations by 45 percent.	June 20, 2003
Rate Reduction - Small Businesses	Reduced the tax rate for small businesses with entire net income of \$200,000 or less to 6.85 percent.	June 30, 2003
Legislation Enacted in 2002		
Mandatory First Installment Percentage	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. 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. Sunset for tax years beginning on or after January 1, 2006, and expired January 1, 2007.	January 1, 2003

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Subject	Description	Effective Date
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 did 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	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 were phased in over a three year period starting in tax year 2006, and were fully effective for tax years beginning on or after January 1, 2008
Empire Zones Amendments/Twelve New Zones	Made significant changes to the Empire Zone/Qualified Empire Zone Enterprise program with respect to zone boundaries, zone designations, taxpayer eligibility, and benefits. Also authorized twelve new Empire Zones.	Changes to eligibility and benefits apply to taxpayers certified on or after April 1, 2005
Small Business Rate Reduction	Lowered the tax rate from 6.85 percent to 6.5 percent for small businesses and expanded the definition of a qualifying small business.	January 1, 2005
Capital Base Increase	Increased the maximum tax due under the capital base alternative from \$350,000 to \$1 million for all taxpayers, excluding manufacturers.	January 1, 2005
Legislation Enacted in 2006		
Empire Zones/Significant Investments	Provided that a Qualifying Empire Zone Enterprise (QEZE) with fewer than 200 existing jobs that makes an investment of \$750 million or more and creates 500 new jobs is deemed a "new business," qualifying the taxpayer for a 50 percent refund of its EZ Investment Tax Credits and EZ Employment Incentive Credits. Also authorized such taxpayers to select their program benefit period to start either upon certification (current law), or when the qualifying investment is placed in service.	January 1, 2006

CORPORATION FRANCHISE TAX

Subject	Description	Effective Date
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		
Entire Net Income (ENI) Tax Rate	Lowered the rate imposed on the ENI base from 7.5 percent to 7.1 percent, and amended the recapture rate for the small business rate to conform to the general rate change.	January 1, 2007
Rate Reduction - ENI (Manufacturers and QETCs)	Reduced the rate on the ENI base from 7.5 percent to 6.5 percent for qualifying manufacturers and emerging technology companies.	January 31, 2007
Rate Reduction - AMT	Reduced the rate applicable to the alternative minimum taxable income base from 2.5 percent to 1.5 percent.	January 1, 2007
Combined Filing Requirement	Required taxpayers operating several corporations on a unitary basis to file a combined return if there are substantial inter-corporate transactions between them.	January 1, 2007
REITs/RICs Loophole Closer	Required combining a Real Estate Investment Trust (REIT) or Regulated Investment Company (RIC) held as a subsidiary with its parent company. In computing combined entire net income, the deduction available to REITs for dividends paid are not allowed. In addition, such a combined report must include the combined capital of the REIT or RIC subsidiary.	January 1, 2007
Acceleration of Single Sales Apportionment Phase-In	Accelerated, by one year, the final phase-in of the move to sales-only apportionment of income and capital.	January 1, 2007
Legislation Enacted in 2008		
Restructure Fixed Dollar Minimum Tax	Changed minimum tax from a tax based on gross payroll to one based on gross income.	January 1, 2008
Change Capital Base	Increased the capital base cap for non-manufacturers from \$1 million to \$10 million for a three year period. The cap reverted to \$1 million effective January 1, 2011. Reduced the capital base rate from 0.178 percent to 0.15 percent.	January 1, 2008
Decouple from the Federal Qualifying Production Activities Income Deduction	Decoupled New York State Entire Net Income determination from Federal QPAI deduction. The Internal Revenue Code allows an above the line deduction of 6 percent (rising to 9 percent in 2010) for manufacturing activities.	January 1, 2008
Technical correction to REITs/RICs Loophole Closer	For a period of three tax years, required all captive REITS and RICS to file a combined return with the closest corporation that directly or indirectly owns or controls the captives.	January 1, 2008
Mandatory First Installment Percentage	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. 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.	January 1, 2009

CORPORATION FRANCHISE TAX

Subject	Description	Effective Date
Brownfields Program Reform	Amended the tangible property credit component to impose a limit of the lesser of \$35 million or three times the qualifying costs used in calculating the site preparation and on-site groundwater components for projects accepted into the Brownfields program after June 22, 2008. Qualifying manufacturers accepted after this date would be subject to a tangible property credit component limitation equal to the lesser of \$45 million or six times the qualifying costs used in calculating the site preparation and on-site groundwater components. Several other changes were effected, including increasing the credit percentages awarded under the site preparation and on-site groundwater components to as much as fifty percent.	June 23, 2008
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
Mandatory First Installment Percentage	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. 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.	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. The QEZE real property tax credit was reduced by 25 percent and firms were disqualified for the QEZE sales tax refund/credit unless the sale qualified for a refund or credit of the local sales and use tax. Moved program sunset date from December 30, 2011 to June 30, 2010.	January 1, 2008 April 1, 2009
Empire State Film Production Tax Credit	Authorized an additional \$350 million for calendar year 2009. For taxable years beginning January 1, 2009, the utilization of the credit was spread across several years based on the dollar amount of the credit.	January 1, 2009
Change to the Tax Classification of HMOs	Subjected for-profit HMOs to the franchise tax on insurance corporations under Article 33 of the Tax Law.	January 1, 2009
Legislation Enacted in 2010		
Make REITs/RICs Loophole Closer Permanent	Made permanent the provisions that address the closely-held REIT and RIC loophole, which would have otherwise expired on December 31, 2010.	August 11, 2010
Tax Credit Deferral	Capped aggregate business related tax credit claims at \$2 million per taxpayer for each of tax years 2010, 2011 and 2012. The total amount of credits deferred can be claimed by affected taxpayers on returns for tax years 2013, 2014 and 2015.	January 1, 2010
Technical Changes to Empire Zones Program	Made technical corrections to the 2009-10 Enacted Budget Empire Zones Program changes. Clarified that the Legislature intended to decertify certain businesses retroactively to the 2008 tax year, clarified reporting provisions, and allowed qualified investment projects to claim the investment tax credit and employee incentive tax credit after June 30, 2010.	August 11, 2010
Empire State Film Production Tax Credit	Authorized an additional \$420 million for calendar years 2010 through 2014, \$7 million of which is dedicated to a new post production tax credit. This measure also imposed various reforms to enhance the State's return on investment.	August 11, 2010

CORPORATION FRANCHISE TAX

Subject	Description	Effective Date
REIT Technical Amendments	Clarified that certain publicly traded REITs with fractional ownership shares in non-related U.S. REITs are not subject to provisions relating to "closely-held" REITs that were enacted in 2008-09.	July 1, 2010
Legislation Enacted in 2011		
Excelsior Jobs Program Amendments	Modified the credit to make it more widely available and attractive and created a new energy incentive. It also lengthened the benefit period from five to ten years.	March 31, 2011
Economic Transformation and Facility Redevelopment Program	Provided tax incentives to businesses to stimulate redevelopment in targeted communities where certain correctional or juvenile facilities are closed (economic transformation areas). This program will expire on December 31, 2021.	March 31, 2011
Manufacturing Tax Reduction	Reduced the rate on the entire net income base, the rate on the alternative minimum taxable income base and the fixed dollar minimum tax by 50 percent for eligible qualified manufacturers for tax years 2012, 2013, and 2014. The Tax Department will administer an annual total tax benefit limit of \$25 million by directing tax relief to economic regions with special economic challenges.	January 1, 2012
New York Youth Works Tax Credit Program	Provided a tax credit to businesses that employ at-risk youth in part-time or full-time positions in 2012 and 2013.	January 1, 2012
Empire State Jobs Retention Program	Provided a jobs tax credit to businesses that are at risk of leaving the State due to the negative impact on their business from a natural disaster. The tax credit is 6.85 percent of gross wages of jobs that are retained in New York.	January 1, 2012
Legislation Enacted in 2012		
Empire State Commercial Production Tax Credit	Extended the annual allocation of \$7 million in tax credits for two years through 2014. Also, changed the distribution of the tax credits between the MTA district and the rest of the State.	January 1, 2012
New York Youth Works Tax Credit Program	Extended the deadline for participation in the program and for youths to commence employment by an additional six months to November 30, 2012 and December 31, 2012, respectively.	January 1, 2012
Empire State Post Production Tax Credit	Increased post-production credit percentage from 10 percent to 30 percent within the MTA region and to 35 percent in areas outside the MTA region.	July 24, 2012
Legislation Enacted in 2013		
Film Production Credit	Extended the Empire State film production tax credit allocation of \$420 million per year for an additional five years (2015 - 2019). For the period 2015 through 2019 certain upstate counties will receive an additional 10 percent credit for wages and salaries paid.	January 1, 2015
	Restrictions on the post production portion of the credit were reduced and additional reporting will be required to document the effectiveness of the credit in creating jobs.	March 28, 2013
Royalty Income Loophole	Closed a loophole that allowed New York companies that earn royalty income to avoid paying taxes on that income. New York taxpayers must show on their tax return that the taxpayer's Non-New York parent company included the royalty income in its tax liability. The demonstration absolves taxpayers of the obligation to pay tax on their royalty income.	January 1, 2013
New York Innovation Hot Spots Program	Created a new high tech incubator program in which start-up businesses will be free of property, sales and business income taxes for the first five years. Hot spots must demonstrate an affiliation with, and the support of, at least one college,	March 28, 2013

CORPORATION FRANCHISE TAX

Subject	Description	Effective Date
	university or independent research institution and offer programs consistent with regional economic development strategies.	
Veterans Tax Credit	Provided a refundable tax credit for tax years 2015 and 2016 equaling 10 percent of the wages paid to a qualified veteran (capped at \$5,000) and 15 percent of wages paid to a qualified veteran (capped at \$15,000).	January 1, 2015
Youth Works Tax Credit	Provided a four year refundable tax credit capped at \$6 million per year for tax years 2014 through 2017 for hiring unemployed, low-income or at risk youth ages 16-24 in cities with populations greater than 55,000 or towns with populations greater than 480,000.	January 1, 2014
Excelsior Jobs Program	Changed the job requirement parameters for the Excelsior Jobs Program and allowed a portion of the unallocated tax credits from any taxable year to be used to award tax credits in another taxable year.	May 27, 2013
Manufacturer Tax Reduction	Provided a phased in manufacturing tax reduction of 9.2 percent in tax year 2014, 12.3 percent in 2015, 15.4 percent in 2016 and 2017, and 25 percent effective for tax years beginning in 2018.	January 1, 2014
Historic Properties Tax Credit	Extended for five years the maximum Historic Preservation Tax Credit amount of \$5 million, which had previously been scheduled to revert to \$100,000 following the conclusion of tax year 2014, and permanently made the credit refundable for tax years beginning on or after January 1, 2015.	January 1, 2015
Charge NY Electric Vehicle Recharging Equipment Credit	Created a credit equal to 50 percent or \$5,000 per station, whichever is less, of the cost of electric vehicle recharging or alternative fuel vehicle refueling equipment. The credit sunsets December 31, 2017.	January 1, 2013
Minimum Wage Reimbursement Credit	Provided a refundable tax credit for tax years 2014 through 2018 equal to the product of the number of hours worked by qualifying minimum wage-earning employees and 1) \$0.75 in tax year 2014; 2) \$1.31 in tax year 2015; and 3) \$1.35 in tax years 2016 through 2018. Qualifying employees must be students aged 16 to 19, and the credit is reduced if the federal minimum wage is increased to a level in excess of 85 percent of the New York minimum wage.	January 1, 2014
START-UP NY	Established tax-free zones on or near qualifying university and college campuses. Qualifying businesses operating within such zones are exempt from taxation under the Corporate Franchise Tax.	January 1, 2014
Legislation Enacted in 2014		
Corporate Tax Reform	Merged the bank tax with the corporate franchise tax. Repealed the separate provisions of the bank tax and amended the corporate franchise tax to accommodate changes in the financial services industry and make other modernization changes.	January 1, 2015
	Lowered the entire net income tax rate from 7.1 percent to 6.5 percent for non-manufacturers.	January 1, 2016
	Phased out the capital base over a 6-year period.	January 1, 2016
	Made the MTA surcharge permanent.	January 1, 2015
Property Tax Credit for Manufacturers	Made qualified New York manufacturers eligible for a new tax credit equal to 20 percent of the real property taxes paid.	January 1, 2014
Enhance the Youth Works Tax Credit	Enhanced the credit by providing additional credit for youth retained in either a full-time or part-time status for one additional year, lowered the part-time hourly threshold from 20 hours to 10 hours for full-time high school students and increased the	January 1, 2014

CORPORATION FRANCHISE TAX

Subject	Description	Effective Date
	allocation from \$6 million to \$10 million for programs two through five (2014-2018).	
Expand the Upstate Counties Eligible for the Enhanced Film Production Tax Credit	Added the counties of Albany and Schenectady to the list of upstate counties eligible for the additional 10 percent credit on wages and salaries.	January 1, 2015
Workers with Disabilities Tax Credit	Provided a non-refundable tax credit for tax years 2015 through 2019 equaling 15 percent of wages paid to a developmentally disabled individual employed full time (capped at \$5,000) and 10 percent of wages paid if the individual is employed part time (capped at \$2,500). This credit has an annual allocation of \$6 million.	January 1, 2015
Musical and Theatrical Production Credit	Provided a refundable tax credit for tax years 2015 through 2018 equaling 25 percent of qualified expenses for qualified musical and theatrical productions in certain upstate theaters. This credit is capped at \$4 million annually.	January 1, 2015
START-UP NY Amendments	Provided a refundable tax credit equal to the excise tax paid on telecommunications services paid by businesses in START-UP NY areas.	January 1, 2014
	Added four correctional facilities owned by the State of New York to be included as START-UP NY areas	January 1, 2014
Entire Net Income Tax Rate for Qualified Manufacturers	Lowered the entire net income tax rate to zero percent.	January 1, 2014
Empire State Commercial Production Tax Credit	Extended the annual allocation of \$7 million for two years through tax year 2016. Also, lowered the minimum required production costs for upstate productions from \$200,000 to \$100,000.	March 31, 2014

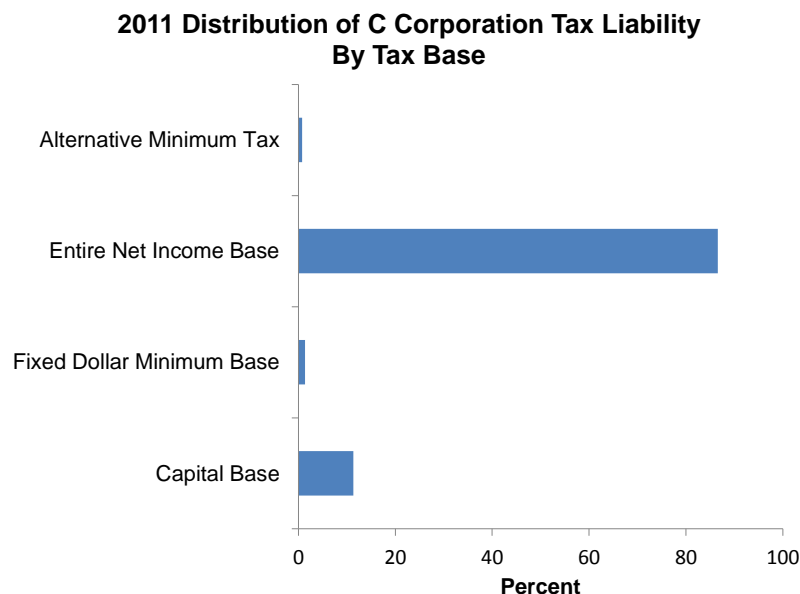
TAX LIABILITY

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 tax liability data available for corporations filing under Article 9-A. The most current liability information is for the 2011 tax year. The tax year 2011 Study File liability includes an impact from the 2010 legislation that deferred certain tax credit claims for tax years 2010 through 2012.

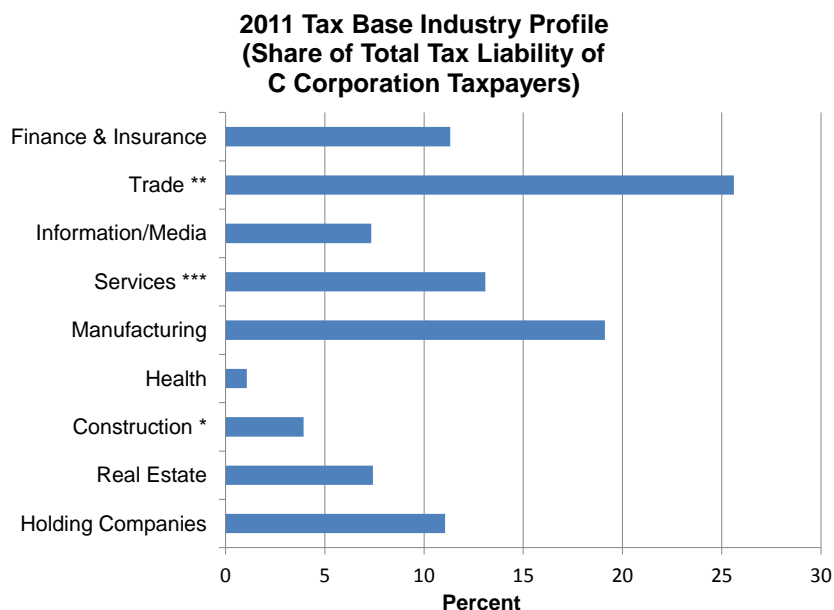
Although the Study File does not include information on non-allocating fixed dollar minimum tax filers and S corporations, OTPA compiles corporate tax return data relating to the total number of C and S corporations and tax liability for these entities. The 2010 New York State Corporate Tax Statistical Report, the most recent data available, indicates that 264,392 taxpayers filed as C corporations, while 393,143 taxpayers filed as S corporations. With the exception of 2009, when the number of C corporations and S corporations grew 2.8 percent and 1.6 percent, respectively, annual growth has been 1 percent or less for each group of taxpayers over the last few years.

As noted above, C corporations pay under the highest of four alternative bases. In 2011, 87 percent of liability was paid under the entire net income base (see graph below). The capital base was the second largest liability base, at 11 percent. For the past several years, both the alternative minimum tax and the fixed dollar minimum tax bases have been a minimal percentage of total tax liability.

CORPORATION FRANCHISE TAX



The next chart shows the distribution of tax liability by major industry sector. The 2011 Study File indicates that nearly 26 percent of total C corporation liability was paid by the trade sector and 19 percent by the manufacturing sector. The trade sector has consistently been the largest sector since 2008 while manufacturing has become an increasingly larger share of total liability over the last several years.



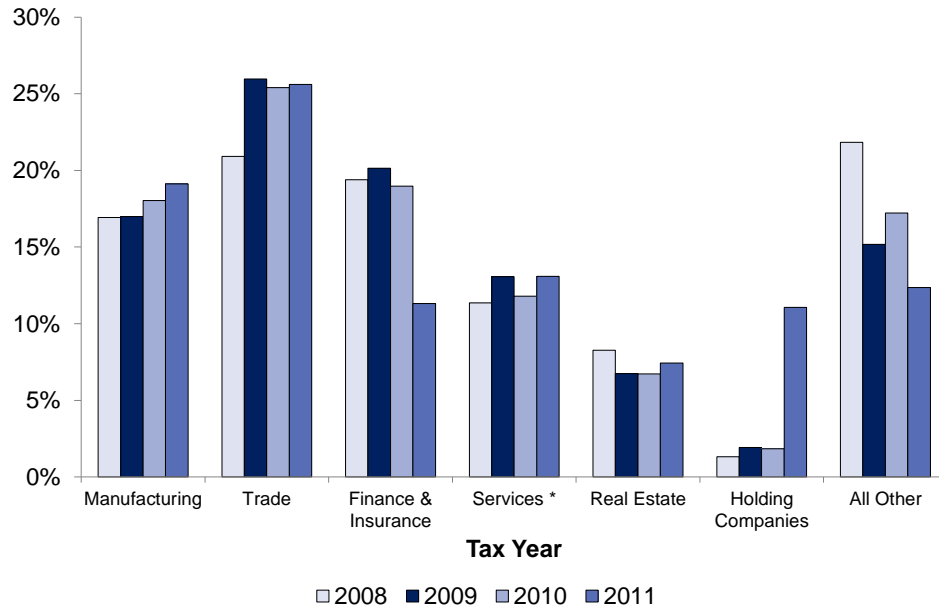
* Construction, agriculture, mining, and utilities. (NAICS Sectors 11, 21, 22, and 23)

** 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 between 2008 and 2011. Liability for the finance and insurance, manufacturing and trade sectors represent the largest share of liability paid over this period. Within this group, trade and manufacturing have become an increasing share of liability over this time period. Services and real estate have been a fairly consistent share of liability.

**Industry Profile: Percent of Total Liability
(2008-2011)**



Starting with 2011, the study file contains NAICS codes as reported by the taxpayer.

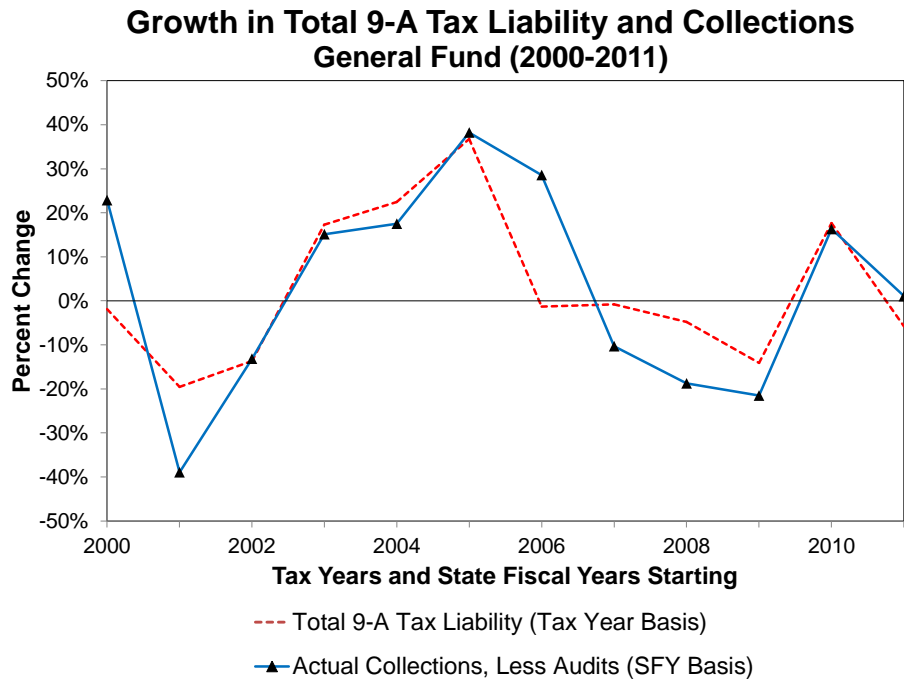
* Services consist of: professional, scientific, and technical services; administrative and support and waste management and remediation services; art, entertainment, and recreation services; accommodation and food services; and other services. (NAICS Sectors 53, 54, 55, 56, 71, 72, and 81)

The link between underlying corporate tax liability and cash receipts in any given State fiscal year is often obscured by the timing of payments, the carry forward of prior year losses or credits and the reconciliation of prior year liabilities. Tax collections are the net payments and adjustments made by taxpayers on returns and extensions over the course of a State fiscal year. For taxpayers with a fiscal year ending December 31, current year liability collections include a mandatory first installment payment that is paid in March and is based on 40 percent of the prior year's liability. In addition, calendar year corporations are required to make estimated payments, based on projected liability for the current tax year, in June, September and December. A final payment is made in March of the subsequent year. Calendar year taxpayers make up the majority of the tax base. Taxpayers may make periodic adjustments to these payments after the close of the tax year as their actual liability for a given tax year becomes more definite.

Tax liability in the current year is based on estimated performance for the same year. It is generally calculated by using tax bases, tax rates, special deductions and additions, losses and tax credits. Since taxpayers must pay estimated taxes months in advance of knowing actual liability, it is difficult for taxpayers to determine the proper

CORPORATION FRANCHISE TAX

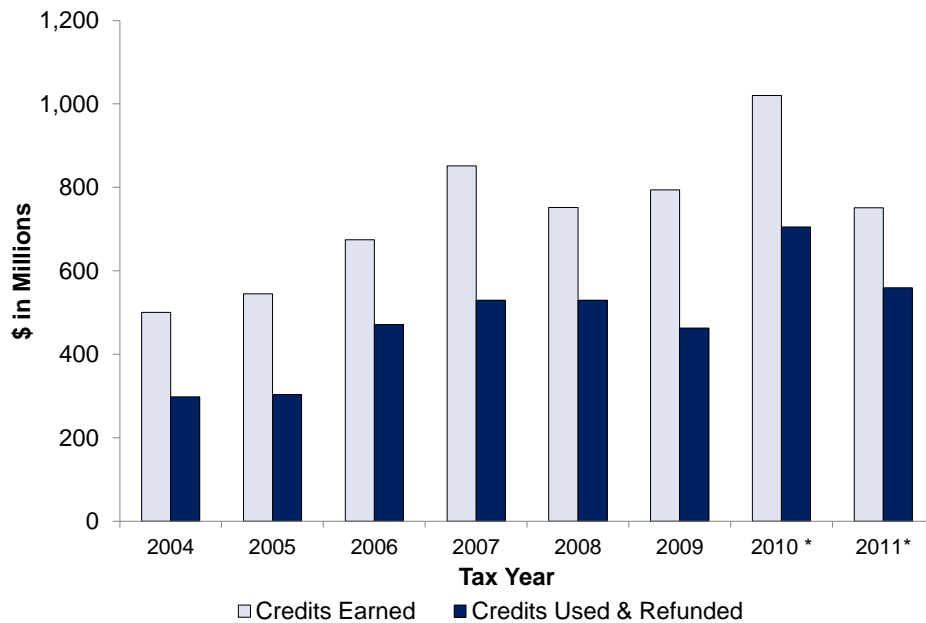
level of payments needed over the course of a year. This is especially true if business or economic conditions change. The accompanying graph compares historical corporate tax liability and fiscal year cash receipts. It illustrates the volatility in the underlying relationship between payments and liability, which, for many taxpayers, is often compounded by the difference between a taxpayer's tax year and the State fiscal year.



Credits

The following graph shows all available credits earned and used by Article 9-A taxpayers, and illustrates that the amount of credits earned significantly exceeds the amount of credits used. 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 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. These credits can be used to more than offset tax liability through requests for cash refunds or credit carry forwards. The four largest tax credit programs in terms of credit earned and used and refunded over the period shown in the following chart are the investment tax credit (including the financial services investment tax credit), Empire Zones, the Film Production Tax Credit and the Brownfield Clean-Up program. These four credits have comprised over 90 percent of credits earned and credits used and refunded in recent years.

**Total Credits Earned and Credits Used/Refunded
(2004-2011)**



* Credit amounts shown do not include the impact of the tax credit deferral program.

As seen above, credits earned and credits used and refunded increased consistently from 2004 through 2007. Over the next three tax years (2007 through 2009) credits earned remained consistent while credits used and refunded increased modestly. In 2010, both credits earned and credits used and refunded increased significantly compared to 2009 levels due to significant increases in Brownfield credits. Both credits earned and credits used and refunded dropped in 2011 when compared to 2010 as a result of a decrease in Brownfield credits. Brownfield credits have been volatile over the 2006 through 2011 period. Both credits earned and credits used and refunded for the investment tax credit and Empire Zones have been relatively stable each year. Credits earned and credits used and refunded for the Film Production tax credit have increased steadily over this period. Beginning in tax year 2010, the annual allocation for the Film Production Tax credit was increased to \$420 million and will remain at that level through tax year 2019. This makes the Film Production Tax credit the largest tax credit program in the State's economic development portfolio. Entry into the Empire Zone program expired June 30, 2010, and the program was replaced by the Excelsior Jobs program. There are no new entrants into the Empire Zone program, but current participants will be claiming credits for the remainder of their benefit period which will result in credits earned and credits used and refunded continuing for several more years.

CORPORATION FRANCHISE TAX

RECEIPTS: ESTIMATES AND PROJECTIONS

CORPORATION FRANCHISE TAX (millions of dollars)							
	FY 2014 Actual	FY 2015 Estimated	Change	Percent Change	FY 2016 ¹ Projected	Change	Percent Change
General Fund							
Non-Audit Receipts	2,261	1,923	(338)	(14.9)	2,868	945	49.1
Audit Receipts	984	445	(539)	(54.8)	951	506	113.7
Executive Budget Initiatives	0	0	0	--	1	1	--
Total	3,245	2,368	(877)	(27.0)	3,820	1,452	61.3
Other Funds							
Non-Audit Receipts	394	404	10	2.5	614	210	52.0
Audit Receipts	173	80	(93)	(53.8)	155	75	93.8
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	567	484	(83)	(14.6)	769	285	58.9
All Funds							
Non-Audit Receipts	2,655	2,327	(328)	(12.4)	3,482	1,155	49.6
Audit Receipts	1,157	525	(632)	(54.6)	1,106	581	110.7
Executive Budget Initiatives	0	0	0	--	1	1	--
Total	3,812	2,852	(960)	(25.2)	4,589	1,737	60.9
Note: Totals may differ due to rounding.							
¹ Corporate tax reform merged the bank tax into the corporate franchise tax.							

All Funds

FY 2015 Estimates

All Funds receipts through December are \$1,768.6 million, a decrease of \$465.8 million (20.8 percent) from the comparable period in the prior fiscal year.

All Funds FY 2015 receipts are estimated to be \$2,852 million, a decrease of \$959.7 million (25.2 percent) from FY 2014. This decrease is attributable to manufacturing tax reductions enacted in 2013 and 2014, lower audit receipts and higher refunds due to the payback of tax credit claims deferred in tax years 2010-2012.

FY 2016 Projections

All Funds FY 2016 receipts are projected to be \$4,589 million, an increase of \$1,737 million (60.9 percent) from FY 2015. This increase is mainly attributable to the repeal of the bank tax and the resultant imposition of the corporate franchise tax on bank taxpayers effective for Tax Year 2015.

General Fund

General Fund FY 2015 receipts are estimated to be \$2,368 million, a decrease of \$877.1 million (27.0 percent) from FY 2014. The decrease reflects the same trends impacting FY 2015 All Fund receipts.

CORPORATION FRANCHISE TAX

General Fund FY 2016 receipts are projected to be \$3,820 million, an increase of \$1,452 million (61.3 percent) from FY 2015. The increase reflects the same trends impacting All Funds receipts for FY 2016.

Other Funds

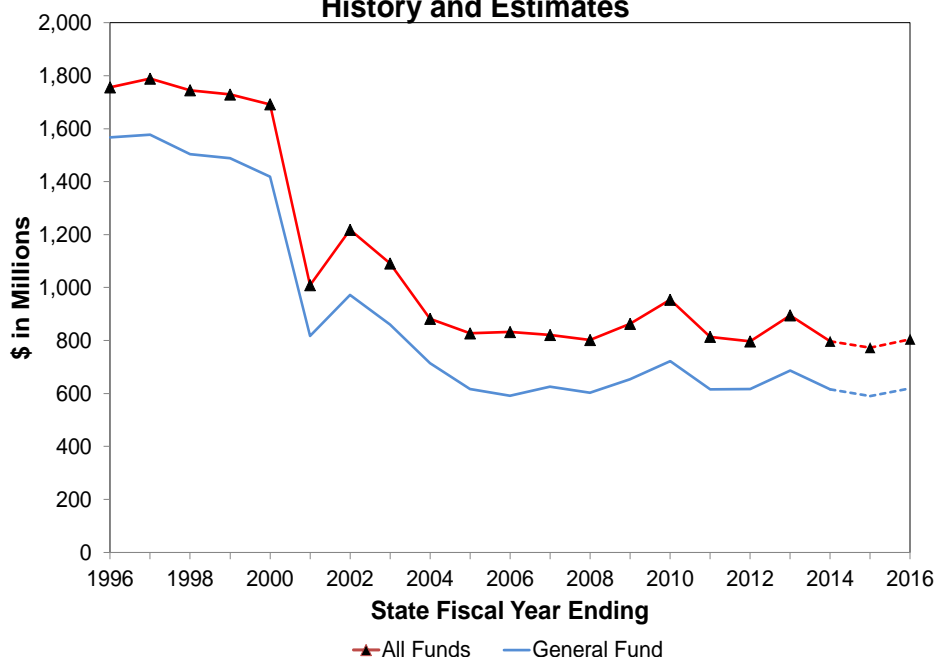
Corporation franchise tax receipts from the business tax surcharge deposited to MTOAF generally reflect the All Funds trends described above. The MCTD business tax surcharge (17 percent in tax year 2015 and 25.1 percent in tax year 2016) will result in MTOAF deposits of an estimated \$484 million in FY 2015 and a projected \$769 million in FY 2016.

CORPORATION AND UTILITIES TAXES

CORPORATION AND UTILITIES TAXES (millions of dollars)							
	FY 2014 Actual	FY 2015 Estimated	Change	Percent Change	FY 2016 Projected	Change	Percent Change
General Fund	614.5	590.0	(24.5)	(4.0)	619.0	29.0	4.9
Other Funds	182.8	183.0	0.2	0.1	186.0	3.0	1.6
All Funds	797.3	773.0	(24.3)	(3.0)	805.0	32.0	4.1

Note: Totals may differ due to rounding.

Corporation and Utilities Tax Receipts History and Estimates



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
FY 2006	608	17	591	229	6	223	19	1	18	832
FY 2007	639	13	626	182	4	178	18	1	17	821
FY 2008	618	15	603	189	6	183	16	1	15	802
FY 2009	666	12	654	198	7	191	19	2	18	863
FY 2010	741	19	722	225	13	212	21	2	20	954
FY 2011	635	19	616	200	19	181	19	3	16	814
FY 2012	642	25	617	185	18	167	16	3	13	797
FY 2013	691	5	686	201	8	194	16	2	15	895
FY 2014	657	43	615	187	18	169	15	2	14	797
Estimated										
FY 2015	610	20	590	175	7	168	16	1	15	773
FY 2016										
Current Law	639	20	619	183	12	171	16	1	15	805
Proposed Law	639	20	619	183	12	171	16	1	15	805

¹ Receipts from the MTA 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).

CORPORATION AND UTILITIES TAXES

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Extend and reform the Brownfield Cleanup Program;
- Impose Sales Tax Refund Requirements on Article 9 Taxpayers; and
- Impose Tax Law Section 184 Tax on Wireless Telecommunications.

DESCRIPTION

Tax Base and Rate through Tax Year 2014

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. The telecommunications industry and regulated utilities are the primary collection sources.

Section 180 (organization tax on In-State corporations) and Section 181 (license and maintenance fees on Out-of-State corporations) are repealed for tax years beginning on or after January 1, 2015.

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. 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.

CORPORATION AND UTILITIES TAXES

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:

- One mill per dollar of the net value of capital stock allocated to New York State;
- 0.25 mill per dollar of par value for each one percent of dividends paid on capital stock if dividends amount to 6 percent or more; or
- A minimum tax of \$10.

Section 185 is repealed for tax years beginning on or after January 1, 2018.

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 for residential customers.

Section 186-e imposes a 2.5 percent gross receipts tax on charges for telecommunications services.

Article 9 taxpayers that conduct business in the Metropolitan Commuter Transportation District (MCTD) are subject to a 17 percent surcharge on their liability attributable to the MCTD.

Administration

Taxpayers subject to Sections 184, 186, 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 mandatory first installment equal to 40 percent of their prior year liability. This is paid in March along with the final payment.

All receipts from the 17 percent surcharge imposed on Article 9 taxpayers that conduct business in the MCTD are deposited in the Mass Transportation Operating Assistance Fund (MTOAF).

Significant Legislation

Significant statutory changes to the corporation and utilities taxes since 2000 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 2000		
Utility Tax Reform	Repealed the section 186 tax. The section 186-a and section 189 taxes were phased out over a five year period. Eliminated the gross receipts tax for manufacturers and industrial energy customers retroactive to January 1, 2000; eliminated the tax for all other business customers over a five year period. For residential consumers, the commodity tax was eliminated and the	January 1, 2000

CORPORATION AND UTILITIES TAXES

Subject	Description	Effective Date
	transmission/distribution rate of the 186-a tax was reduced from 2.5 percent to 2 percent.	
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
Mandatory First Installment Percentage	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. Sunset for tax years beginning on or after January 1, 2006, and expired January 1, 2007.	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 Extension	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	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		
Mandatory First Installment Percentage	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. 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.	January 1, 2009
Power for Jobs Program Extension	Extended the Power for Jobs program through June 30, 2009.	April 1, 2008
Brownfields Program Reform	Amended the tangible property credit component to impose a limit of the lesser of \$35 million or three times the qualifying costs used in calculating the site preparation and on-site groundwater components for projects accepted into the Brownfields program	June 23, 2008

CORPORATION AND UTILITIES TAXES

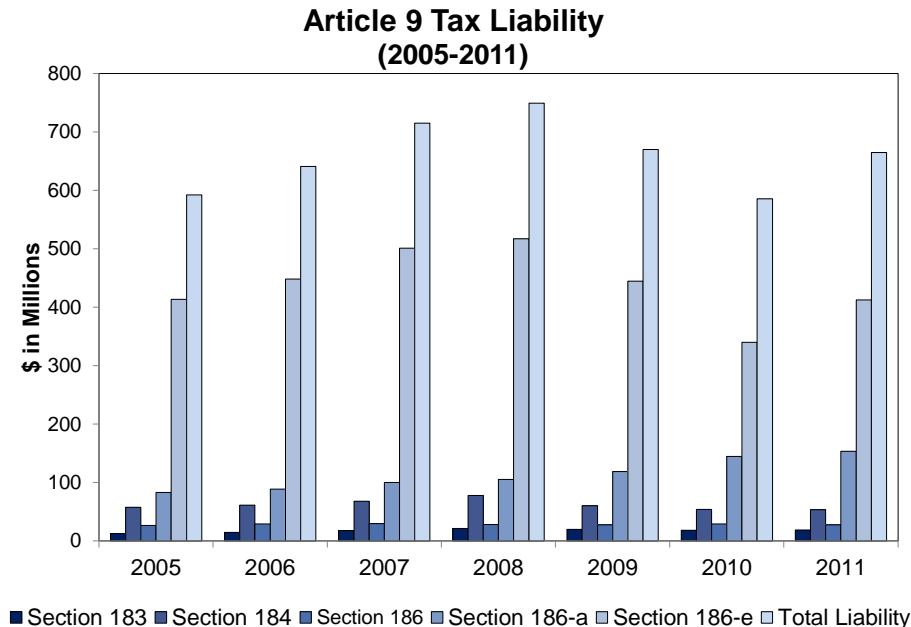
Subject	Description	Effective Date
	after June 22, 2008. Qualifying manufacturers accepted after this date would be subject to a tangible property credit component limitation equal to the lesser of \$45 million or six times the qualifying costs used in calculating the site preparation and on-site groundwater 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.	
Legislation Enacted in 2009		
Mandatory First Installment Percentage	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 exceeded \$100,000. 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.	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 new Tax Law Section 186-f.	April 7, 2009
Telecommunications Study	Directed the Department of Taxation and Finance, in consultation with the Public Services Commission, to conduct a study of assessments, fees, tax rates, and associated policies of the State of New York relating to the telecommunications industry.	October 1, 2009
Power for Jobs Program Extension	Extended the power for Jobs Program through May 15, 2010.	July 11, 2009
Legislation Enacted in 2010		
Power for Jobs Program Extension	Extended the Power for Jobs Program through May 15, 2011.	August 4, 2010
Tax Credit Deferral	Capped aggregate business related tax credit claims at \$2 million per taxpayer for each of tax years 2010, 2011 and 2012. The total amount of credits deferred can be claimed by affected taxpayers on returns for tax years 2013, 2014 and 2015.	January 1, 2010
Legislation Enacted in 2011		
Power for Jobs Program Extension	Extended the Power for Jobs Program through June 30, 2012. This program expired on June 30, 2012 and was replaced with the Recharge New York program enacted in 2011.	March 31, 2011
Legislation Enacted in 2012		
Sections 183 & 184	Lowered the distribution to the Metropolitan Mass Transportation Operating Assistance account to 54 percent from 80 percent. The remaining 26 percent is distributed to the Public Transportation Systems Operating Assistance account. This distribution is in effect for one year, through March 31, 2013.	April 1, 2012
Legislation Enacted in 2013		
Charge NY Electric Vehicle Recharging Equipment Credit	Created a credit equal to 50 percent or \$5,000 per station, whichever is less, of the cost of electric vehicle recharging or alternative fuel vehicle refueling equipment. The credit sunsets December 31, 2017.	January 1, 2013
LIPA Restructuring	Eliminated the requirement for LIPA to pay tax under Section 186. LIPA is still liable for the MTA surcharge.	January 1, 2014
Sections 183 & 184	Extended the distribution to the Metropolitan Mass Transportation Operating Assistance account of 54 percent of receipts and the Public Transportation Systems Operating Assistance account's distribution of 26 percent of receipts through March 30, 2018.	April 1, 2013
START-UP NY	Established tax-free zones on or near qualifying university and college campuses. Qualifying businesses operating within such zones are exempt from taxation under Sections 180 and 181.	January 1, 2014

CORPORATION AND UTILITIES TAXES

Subject	Description	Effective Date
Minimum Wage Reimbursement Credit	Provided a refundable tax credit for tax years 2014 through 2018 equal to the product of the number of hours worked by qualifying minimum wage-earning employees and 1) \$0.75 in tax year 2014; 2) \$1.31 in tax year 2015; and 3) \$1.35 in tax years 2016 through 2018. Qualifying employees must be students aged 16 to 19, and the credit is reduced if the federal minimum wage is increased to a level in excess of 85 percent of the New York minimum wage.	January 1, 2014
Legislation Enacted in 2014		
Repeal the franchise tax on agricultural cooperatives (Section 185)	Repeals the Article 9, Section 185 tax on agricultural cooperatives effective for tax years beginning on or after January 1, 2018.	January 1, 2018
Corporate Tax Reform	Repealed the organization tax on In-State corporations (Section 180) and the license and maintenance fees on Out-of-State corporations (Section 181).	January 1, 2015
	Made the MTA surcharge permanent.	January 1, 2015

TAX LIABILITY

The chart below shows Article 9 liability by tax section over the most recent seven available years, from 2005 through 2011. Data for 2011, the most recent data available, is from the Article 9 Tax Study File compiled by the Department of Taxation and Finance's Office of Tax Policy Analysis (OTPA). The tax year 2011 Study File liability includes an impact from the 2010 legislation that deferred certain tax credit claims for tax years 2010 through 2012.



The steady increase in liability from 2005 through 2008 is primarily attributable to sections 183, 184, and 186-e as the telecommunications industry experienced significant revenue growth due to a net increase in new wireless subscribers. The overall decline since tax year 2008 marked the beginning of several significant changes to the telecommunications industry. An increasing share of monthly bills consist of non-taxable data plans. Households with both mobile and landline phones increasingly opted to

CORPORATION AND UTILITIES TAXES

discontinue their use of landlines, customers began moving towards inexpensive prepaid plans instead of postpaid plans, and use of internet-based communication tools such as Twitter, Facebook and Skype became more widespread.

The table below shows significant events in the telecommunications industry that have impacted tax liability as described above. Additional changes to the telecommunications industry since 2011 could negatively impact the tax liability going forward because they shift revenue from the taxable base to the non-taxable base.

SIGNIFICANT EVENTS IN THE TELECOMMUNICATIONS INDUSTRY	
YEAR	EVENT
2006	Blackberry Messenger released
2006	Twitter website launched
2007	First iPhone sold with AT&T as the sole carrier
2008	Peak household ownership of landline and wireless telephone service in US
2010	First 4G LTE phone sold in US
2011	Verizon starts selling the iPhone, the first time a carrier other than AT&T carries the iPhone
2011	Facebook Messenger introduced
2011	iMessage released
2012	Smartphones account for more than half of active cell phones in the US for the first time
2012	Verizon begins offering new shared data plans
2012	Average text messages per month per person in the US declines for the first time
2012	Over one billion active users on Facebook
2012	Republic Wireless offers plans to the public where Wi-Fi is the primary network
2013	Major carriers offer unsubsidized phone plans
2013	Data revenue exceeds voice revenue for the first time in the US

Industry Profile

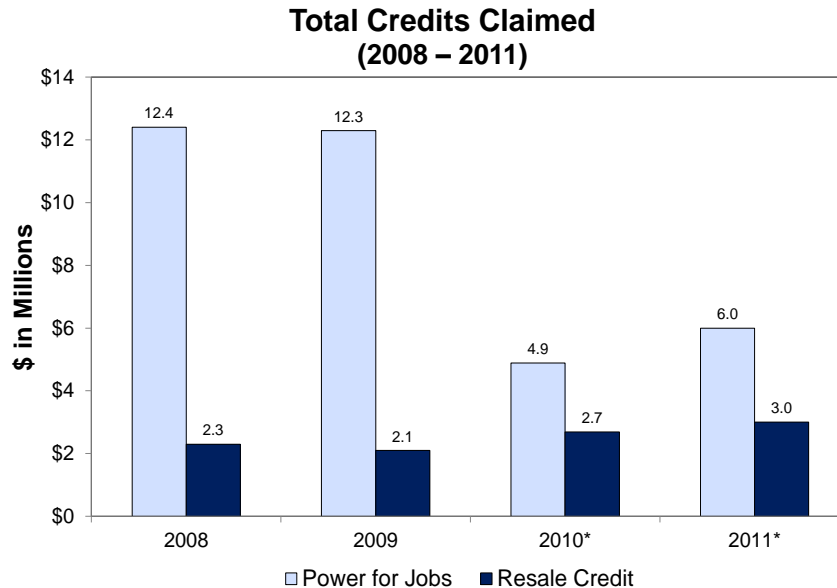
For tax year 2011, sections 186-a and 186-e represented the largest share of tax liability under Article 9 at approximately 85 percent of total liability. Sections 183 and 184 represented just under 11 percent of total liability. Although a broad range of industries are represented on the study file for sections 183 and 184, the overwhelming portion of the tax is paid by the telecommunications industry, which represented approximately 48 percent of total tax paid for section 183 and approximately 95 percent for section 184. For section 183, management of companies and enterprises made up the second largest industry (approximately 31 percent). In section 184, truck transportation represented approximately three percent of total liability. The same pattern is exhibited by section 186-e, the excise tax on telecommunications services. Over 98 percent of total 186-e tax liability was paid by the telecommunications industry. Section 186-a is the gross receipts tax paid on the furnishing of utility services and the majority of that tax was paid by the utilities industry.

Credits

The following graph shows major credits used by Article 9 taxpayers in tax years 2008 through 2011. Taxpayers claimed the resale credit for telecommunications services under section 186-e and the Power for Jobs credit under section 186-a. The decline in the

CORPORATION AND UTILITIES TAXES

Power for Jobs tax credit claimed from 2009 to 2011 can be partly attributed to the 2010 legislation that limited tax credit claims to a maximum of \$2 million per taxpayer in tax years 2010 through 2012 and defer any claim amounts greater than \$2 million to no earlier than tax year 2013. Additionally, tax year 2011 was the last full year of the Power for Jobs tax credit. The credit expired June 30, 2012, and was replaced by Recharge NY which does not include a tax credit.

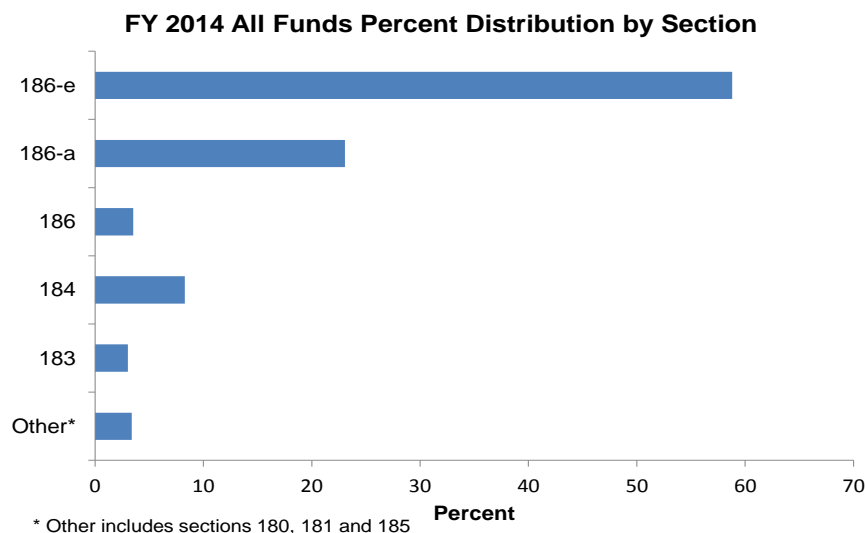


*Power for Jobs tax credit impacted by deferral

The bar graph below depicts the share of total FY 2014 Article 9 All Funds attributable to each section of Article 9. Section 186-e, the gross receipts tax on telecommunications services, represents nearly 59 percent of All Funds receipts. The next largest section, 186-a, the gross receipts tax on utility services, represents approximately 23 percent.

CORPORATION AND UTILITIES TAXES

RECEIPTS: BY SECTION



The table below reflects the tax collections attributable to each section of Article 9 for FY 2014, FY 2015, and FY 2016. 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 BY TAX LAW SECTION (millions of dollars)				
Section of Law	Type of Companies	FY 2014 Actual	FY 2015 Estimated	FY 2016 Projected
180 ¹	Organization tax on New York (domestic) corporations	0.2	1.0	0.0
181 ¹	License and maintenance fees on out-of-State (foreign) corporations	27.2	28.0	29.0
183	Franchise tax on transportation and transmission companies	22.7	22.5	22.5
184	Additional franchise tax on transportation and transmission companies	44.9	52.5	52.5
185	Franchise tax on agricultural cooperatives	(0.3)	0.1	0.1
186 ²	Franchise tax on water, steam, gas, electric, light and power companies	24.3	6.0	(4.0)
186a	Gross receipts tax on public utilities	162.7	173.0	183.0
186e	Excise tax on telecommunications	400.4	382.0	411.0
Other	186-a (non-PSC) and 189	0.0	(0.1)	(0.1)
Various	MTA Surcharge	115.2	108.0	111.0
	All Funds Total	797.3	773.0	805.0
	Less Other Funds			
	MTA Surcharge	115.2	108.0	111.0
	MTOAF	54.1	60.0	60.0
	DHBTF	13.5	15.0	15.0
	General Fund	614.5	590.0	619.0

1 Repealed for tax years beginning on or after January 1, 2015.
2 Tax was repealed January 1, 2000 for energy utilities, at which time such companies generally became taxable under the corporation franchise tax. After this date only certain independent power producers are subject to section 186. Legislation passed in 2013 that restructured LIPA eliminated the requirement that LIPA pay tax under section 186 effective January 1, 2014.

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

CORPORATION AND UTILITIES TAXES

RECEIPTS: ESTIMATES AND PROJECTIONS

CORPORATION AND UTILITIES TAX (millions of dollars)							
	FY 2014 Actual	FY 2015 Estimated	Change	Percent Change	FY 2016 Projected	Change	Percent Change
General Fund							
Non-Audit Receipts	580	575	(5)	(0.9)	589	14	2.4
Audit Receipts	34	15	(19)	(56.4)	30	15	100.0
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	615	590	(25)	(4.0)	619	29	4.9
Other Funds							
Non-Audit Receipts	161	173	12	7.2	172	(1)	(0.6)
Audit Receipts	21	10	(11)	(53.3)	14	4	40.0
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	183	183	0	0.1	186	3	1.6
All Funds							
Non-Audit Receipts	742	748	7	0.9	761	13	1.7
Audit Receipts	56	25	(31)	(55.2)	44	19	76.0
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	797	773	(24)	(3.0)	805	32	4.1
Note: Totals may differ due to rounding.							

All Funds

FY 2015 Estimates

All Funds receipts through December are \$475.5 million, a decrease of \$10.3 million (2.1 percent) from the comparable period in the prior fiscal year.

All Funds FY 2015 receipts are estimated to be \$773 million, a decrease of \$24.3 million (3 percent) from FY 2014. The decrease is mainly attributable to the loss of revenue from payments imposed by Section 186 of the Tax Law due to the Long Island Power Authority (LIPA) restructuring that was enacted in 2013.

FY 2016 Projections

All Funds FY 2016 receipts are projected to be \$805 million, an increase of \$32 million (4.1 percent) from FY 2015. It is expected that tax year 2015 liability payments will grow modestly from the prior year.

General Fund

General Fund FY 2015 receipts are estimated to be \$590 million, a decrease of \$24.5 million (4 percent) from FY 2014. The decrease reflects the same trends impacting FY 2015 All Fund receipts.

General Fund FY 2016 receipts are projected to be \$619 million, an increase of \$29 million (4.9 percent) from FY 2015. The increase reflects the same trends impacting All Funds receipts for FY 2015.

Other Funds

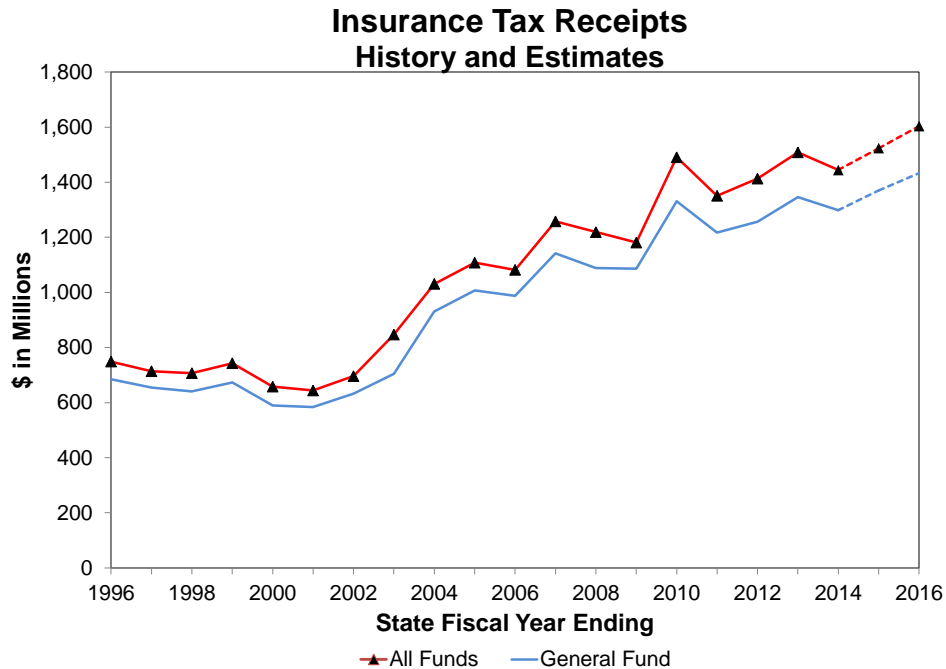
Eighty percent of Section 183 and 184 collections are deposited into the MTOAF and will total an estimated \$60 million for FY 2015 and \$60 million for FY 2016. The remaining portion of section 183 and 184 collections (20 percent) is earmarked for the DHBTF. DHBTF receipts are estimated at \$15 million in FY 2015 and projected at \$15 million in FY 2016.

Corporation and utilities tax receipts from the business tax surcharge deposited to MTOAF generally reflect the All Funds trends described above. The MCTD 17 percent business tax surcharge will result in MTOAF deposits of an estimated \$108 million in FY 2015 and a projected \$111 million in FY 2016.

INSURANCE TAXES

INSURANCE TAXES (millions of dollars)							
	FY 2014 Actual	FY 2015 Estimated	Change	Percent Change	FY 2016 Projected	Change	Percent Change
General Fund	1,298.0	1,370.0	72.0	5.5	1,433.0	63.0	4.6
Other Funds	146.4	154.0	7.6	5.2	171.0	17.0	11.0
All Funds	1,444.4	1,524.0	79.6	5.5	1,604.0	80.0	5.2

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
FY 2006	1,022	35	987	103	7	96	1,083
FY 2007	1,176	34	1,142	122	6	116	1,258
FY 2008	1,122	34	1,088	139	8	131	1,219
FY 2009	1,135	49	1,086	106	11	95	1,181
FY 2010	1,360	29	1,331	167	7	160	1,491
FY 2011	1,248	31	1,217	140	6	134	1,351
FY 2012	1,290	33	1,257	163	6	157	1,414
FY 2013	1,397	51	1,346	171	8	163	1,509
FY 2014	1,335	37	1,298	154	8	146	1,444
Estimated							
FY 2015	1,400	30	1,370	166	12	154	1,524
FY 2016							
Current Law	1,463	30	1,433	178	7	171	1,604
Proposed Law	1,463	30	1,433	178	7	171	1,604

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

INSURANCE TAXES

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Extend and reform the Brownfield Cleanup Program; and
- Establish the Education Tax Credit.

DESCRIPTION

Tax Base and Rate

Under Article 33 of the Tax Law and the Insurance Law, the State imposes taxes on insurance corporations, insurance brokers and certain insured for the privilege of conducting business or otherwise exercising a corporate franchise in New York.

Tax Rate on Non-Life Insurers

Non-life insurers are subject to a premiums-based tax. Accident and health premiums received by non-life insurers are taxed at the rate of 1.75 percent and all other premiums received by non-life insurers are taxed at the rate of 2 percent. A \$250 minimum tax applies to all non-life insurers.

Tax Rate on Life Insurers

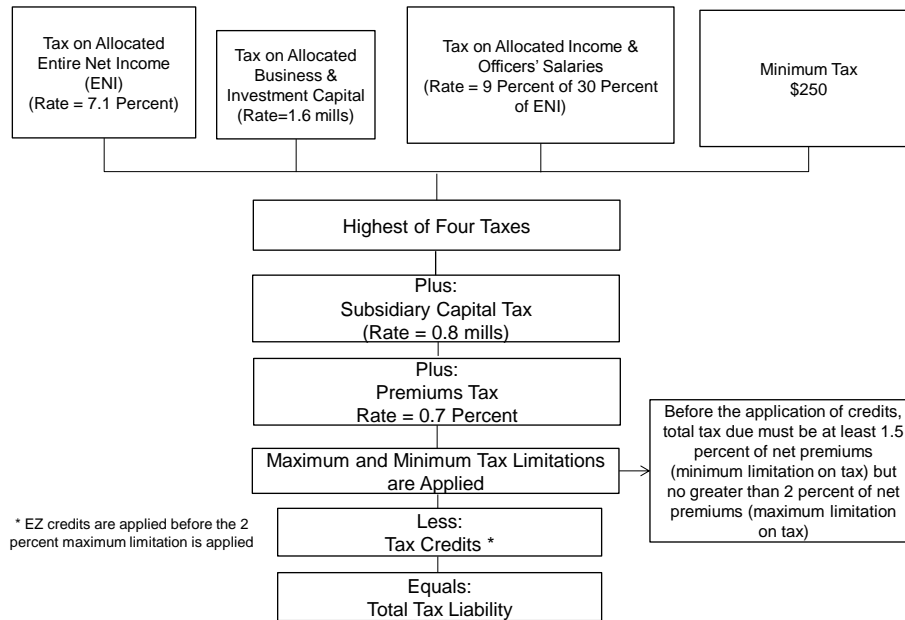
The franchise tax on life insurers has two components. The first component is a franchise tax computed under four alternative bases, with tax due based on the highest tax calculated under the four alternative bases. In addition, a 0.8 of one mill tax rate applies to each dollar of subsidiary capital allocated to New York.

RATES FOR THE INCOME BASE OF THE FRANCHISE TAX ON LIFE INSURERS	
Base	Rate
Allocated entire net income	7.1 percent
Allocated business and investment capital	1.6 mills for each dollar
Allocated income and officers' salaries	9.0 percent of 30 percent of ENI
Minimum tax	\$250

Tax is allocated to New York under the entire net income (ENI) base by a formula that apportions ENI based on weighted ratios of premiums (with a weight of nine) and wages (with a weight of one) earned or paid in New York, to total premiums and total wages for all employees for the tax year.

The second component is an additional franchise tax on gross premiums, less returned premiums. The tax rate on premiums is 0.7 percent and applies to premiums written on risks located or resident in New York. This tax is added to the sum of the tax due on the highest of the alternatives from the income base plus the tax imposed on subsidiary capital.

Maximum and minimum tax limitations are computed based on net premiums. Life insurers determine their maximum limitation by multiplying net premiums by 2 percent and their minimum limitation by multiplying net premiums by 1.5 percent. Under these limitations, the total tax calculated under the highest of the four alternative bases plus the tax imposed on subsidiary capital plus the 0.7 percent tax on net premiums must be at least as high as the minimum tax or “floor” (1.5 percent of net premiums) but no greater than the maximum limitation (2 percent of net premiums).

Computation of Article 33 Tax on Life Insurance Companies

Generally, taxpayers with a tax liability that exceeds the floor may not reduce their liability with tax credits to a level below the floor. However, taxpayers may use Empire Zone and Zone Equivalent Area tax credits to do so.

Article 33 taxpayers conducting business in the Metropolitan Commuter Transportation District (MCTD) are subject to a 17 percent surcharge on the portion of their tax liability which is attributable to the MCTD area.

Article 33 of the Tax Law also imposes a premiums tax on captive insurance companies licensed by the Superintendent of the Department of Financial Services 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 MTA business tax surcharge.

INSURANCE TAXES

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 insured purchasing or renewing an insurance contract covering certain property and casualty risks from an unauthorized insurer where the home state of the insured is New York. An unauthorized insurer is an insurer not authorized to transact business in New York under a certificate of authority from the Superintendent of the Department of Financial Services.

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 risk where the home state of the insured is New York is procured through such broker from an unauthorized insurer. Transactions involving a licensed excess lines broker and an insurer not authorized to do business in New York are permissible under limited circumstances delineated in Article 21 of the Insurance Law. The tax is imposed at a rate of 3.6 percent of premiums covering risks located in New York.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 gave the “home state” of the insured the sole authority to regulate and collect taxes on these transactions. Generally, the insured’s home state is the state where it is headquartered, or in the case of individuals, their place of residence.

The Insurance Law authorizes the Superintendent of the Department of Financial Services to assess and collect retaliatory taxes from a foreign insurance corporation when the overall tax rate imposed by its home jurisdiction on New York companies exceeds the comparable tax rate imposed by New York on such foreign insurance companies.

Retaliatory taxes have been employed by the states since the nineteenth century to ensure a measure of fairness in the interstate taxation of insurance corporations. Retaliatory taxes deter other states from discriminating against foreign corporations and effectively require states with a domestic insurance industry to maintain an overall tax rate on insurance corporations that is generally consistent with other states.

Nevertheless, there are a variety of mechanisms for taxing insurance corporations throughout the states, and differences in overall tax rates among the states are inevitable. New York provides an additional measure of protection for its domestic insurance industry by allowing domestic corporations to claim a credit under Article 33 of the Tax Law for 90 percent of the retaliatory taxes legally required to be paid to other states.

Receipts from the 17 percent business tax surcharge imposed on insurance companies conducting business in the MCTD are deposited in the Mass Transportation Operating Assistance Fund (MTOAF).

Administration

Insurance companies that reasonably expect their tax liability to exceed \$1,000 for the current tax year are required to make a mandatory first installment of estimated tax and three additional estimated payments. The mandatory first installment is due 75 days from the end date of a taxpayer's fiscal year. The remaining three estimated tax payments are due on the 15th day of the third month of the fiscal year quarter. The majority of taxpayers have a fiscal year that ends December 31. The mandatory first installment for these taxpayers is due March 15 with the remaining three estimated payments due on June 15, September 15 and December 15. A final payment is also required of all taxpayers. This payment is due with the mandatory first installment. Taxpayers that expect their tax liability to exceed \$100,000 for the current tax year are required to make a mandatory first installment equal to 40 percent of their prior year liability. Taxpayers with expected liability greater than \$1,000 and less than \$100,000 make a mandatory first installment equal to 25 percent of their prior year liability. Life insurance companies with expected liability less than \$1,000 make no mandatory first installment.

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 investment tax credit (ITC), the long-term care insurance credit, and the Excelsior Jobs program tax 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.

INSURANCE TAXES

Significant Legislation

Significant statutory changes to insurance taxes since 2000 are summarized below.

Subject	Description	Effective Date
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 included a tax credit on real property taxes paid, tax reduction credit, and sales and use tax exemption.	January 1, 2001
Legislation Enacted in 2002		
Mandatory First Installment Percentage	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 were not affected. Taxpayers whose prior year's liability exceeded \$100,000 were affected. Taxpayers whose prior year's liability was between \$1,000 and \$100,000 continued to make a first quarterly payment of 25 percent of the prior year's liability. Sunset for tax years beginning on or after January 1, 2006, and expired January 1, 2007.	January 1, 2003
Legislation Enacted in 2003		
Insurance Tax Structure	Changed the tax base for insurance taxpayers as follows: <ul style="list-style-type: none"> • Life and Health insurance taxpayers covering life and accident/health premiums were taxed on the four tax bases and were subjected to a minimum tax of 1.5 percent of premiums. • Non-life insurers covering accident & health premiums were subjected to tax on 1.75 percent of premiums. • All other non-life insurers were subjected to tax on 2 percent of premiums. 	January 1, 2003
Modification for Decoupling from Federal Bonus Depreciation	Required modifications to Federal taxable income for property placed in service on or after June 1, 2003 that qualified for the special bonus depreciation allowance allowed by the Federal Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003. The modifications did not apply to qualified resurgence zone property or qualified New York Liberty Zone property.	June 1, 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. Three components were established in the redevelopment tax credit: a site preparation component, a tangible property component, and an onsite groundwater remediation component.	April 1, 2005

INSURANCE TAXES

Subject	Description	Effective Date
Legislation Enacted in 2004		
CAPCOs	Established CAPCO Program Four. Increased the Statewide cap from \$280 million to \$340 million.	January 1, 2006
Legislation Enacted in 2005		
CAPCOs	Established CAPCO Program Five. Provided an additional allocation of \$60 million that was made available over a ten year period beginning in 2007.	April 1, 2005
Legislation Enacted in 2006		
Annuity Premiums	Amended the tax limitation applicable to certain insurance companies to provide that it is computed by using the amount of annuity premiums 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	Lowered the rate imposed 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	Increased the first quarterly installment of estimated tax from 25 percent to 30 percent of the prior year's liability for non-life insurance companies with a prior year tax liability over \$100,000. Taxpayers with a prior year liability between \$1,000 and \$100,000 continued 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 continued to use the 40 percent amount to calculate their mandatory first installment.	January 1, 2009
Brownfields Program Reform	Amended the tangible property credit component to impose a limit of the lesser of \$35 million or three times the qualifying costs used in calculating the site preparation and on-site groundwater components for projects accepted into the Brownfields program after June 22, 2008. Qualifying manufacturers accepted after this date would be subject to a tangible property credit component limitation equal to the lesser of \$45 million or six times the qualifying costs used in calculating the site preparation and on-site groundwater components. Several other changes were effected; including increasing the credit percentages awarded under the site preparation and on-site groundwater components to as much as fifty percent.	June 23, 2008
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 owned or controlled over 50 percent of the voting stock of the captive if that corporation was an Article 9-A taxpayer.	January 1, 2009

INSURANCE TAXES

Subject	Description	Effective Date
Mandatory First Installment Percentage	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 exceeded \$100,000. Taxpayers with a prior year liability between \$1,000 and \$100,000 continued to use the 25 percent amount to calculate their mandatory first installment.	January 1, 2010
Empire Zones Reform	Reformed the Empire Zones program. All companies that had been certified for at least three years were subjected to a performance review focusing on cost/benefit ratios.	January 1, 2008
	The QEZE real property tax credit was reduced by 25 percent and firms were no longer eligible for the QEZE sales tax refund/credit unless the sale qualified for a refund or credit of the county or city sales and use tax.	April 1, 2009
	Moved program sunset from December 30, 2011 to June 30, 2010.	April 7, 2009
Change to the Tax Classification of HMOs	Subjected for-profit HMOs to the franchise tax on insurance corporations under Article 33 of the Tax Law.	January 1, 2009
Legislation Enacted in 2010		
Historic Properties Tax Credits	Allowed insurance companies to claim the nonresidential tax credit for historic property.	January 1, 2010
Tax Credit Deferral	Capped aggregate business related tax credit claims at \$2 million per taxpayer for each of tax years 2010, 2011 and 2012. The total amount of credits deferred can be claimed by affected taxpayers on returns for tax years 2013, 2014 and 2015.	January 1, 2010
Technical Changes to Empire Zones Program	Made technical corrections to the 2009-10 Enacted Budget Empire Zones Program changes. Clarified that the Legislature intended to decertify certain businesses retroactively to the 2008 tax year, clarified reporting provisions, and allowed qualified investment projects to claim the investment tax credit and employee incentive tax credit after June 30, 2010.	August 11, 2010
Excelsior Jobs Program	Established a new economic development program to provide incentives based on job creation, investment and research and development expenditures in New York State.	July 1, 2010
Legislation Enacted in 2011		
Conformity with Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010	Conformed New York's taxation of excess lines and independently procured insurance to this Federal change. The Dodd-Frank legislation gave the "home state" of the insured the sole authority to regulate and collect taxes on these transactions.	July 21, 2011
Excelsior Jobs Program Amendments	Modified the credit to make it more widely available and attractive and created a new energy incentive. It also lengthened the benefit period from five to ten years.	March 31, 2011
Economic Transformation and Facility Redevelopment Program	Provided tax incentives to businesses to stimulate redevelopment in targeted communities where certain correctional or juvenile facilities are closed (economic transformation areas). This program will expire on December 31, 2021.	March 31, 2011
Legislation Enacted in 2013		
Royalty Income Loophole	Closed a loophole that allowed New York companies that earn royalty income to avoid paying taxes on that income. New York taxpayers must show on their tax return that the taxpayer's Non-New York parent company included the royalty income in its tax liability. The demonstration absolves taxpayers of the obligation to pay tax on their royalty income.	January 1, 2013

INSURANCE TAXES

Subject	Description	Effective Date
Historic Properties Tax Credit	Extended for five years the maximum Historic Preservation Tax Credit amount of \$5 million, which had previously been scheduled to revert to \$100,000 following the conclusion of tax year 2014, and permanently made the credit refundable for tax years beginning on or after January 1, 2015.	January 1, 2015
Veterans Tax Credit	Provided a refundable tax credit for tax years 2015 and 2016 equaling 10 percent of the wages paid to a qualified veteran (capped at \$5,000) and 15 percent of wages paid to a qualified veteran (capped at \$15,000).	January 1, 2015
Minimum Wage Reimbursement Credit	Provided a refundable tax credit for tax years 2014 through 2018 equal to the product of the number of hours worked by qualifying minimum wage-earning employees and 1) \$0.75 in tax year 2014; 2) \$1.31 in tax year 2015; and 3) \$1.35 in tax years 2016 through 2018. Qualifying employees must be students aged 16 to 19, and the credit is reduced if the federal minimum wage is increased to a level in excess of 85 percent of the New York minimum wage.	January 1, 2014
Excelsior Jobs Program	Changed the job requirement parameters for the Excelsior Jobs Program and allowed a portion of the unallocated tax credits from any taxable year to be used to award tax credits in another taxable year.	May 27, 2013
Legislation Enacted in 2014		
Corporate Tax Reform	Made the MTA surcharge permanent.	January 1, 2015

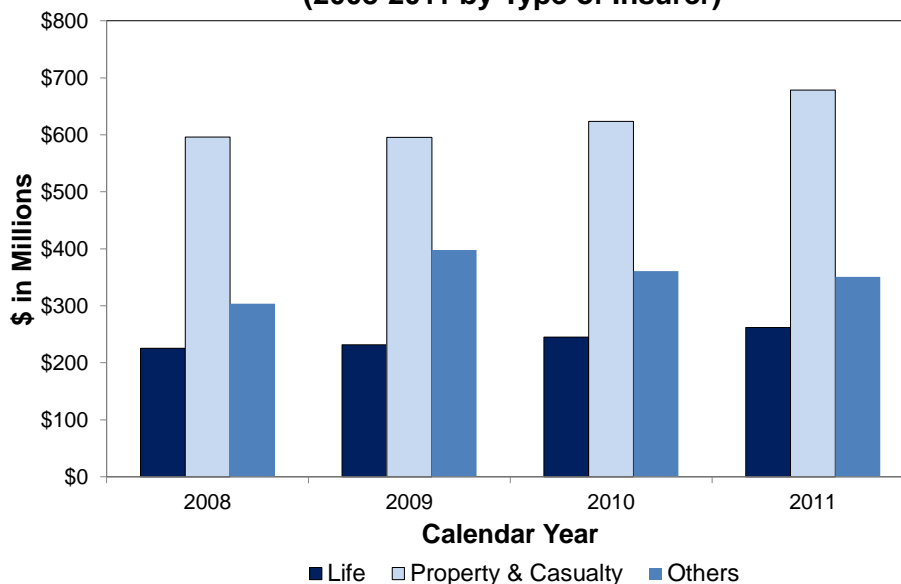
TAX LIABILITY

The Department of Taxation and Finance's Insurance Franchise Tax Study File contains tax liability data for the 2011 tax year, the most recent year for which such data are available. The tax year 2011 Study File liability includes an impact from the 2010 legislation that deferred certain tax credit claims for tax years 2010 through 2012. The most recent Study File indicates that the property and casualty sector is the largest sector, accounting for 51 percent of total tax liability. Other insurers, which include accident and health insurers, are the second largest, with 30 percent of total liability. The 19 percent balance is attributable to life insurers. With the exception of 2009 (explained below), these shares of liability are relatively stable.

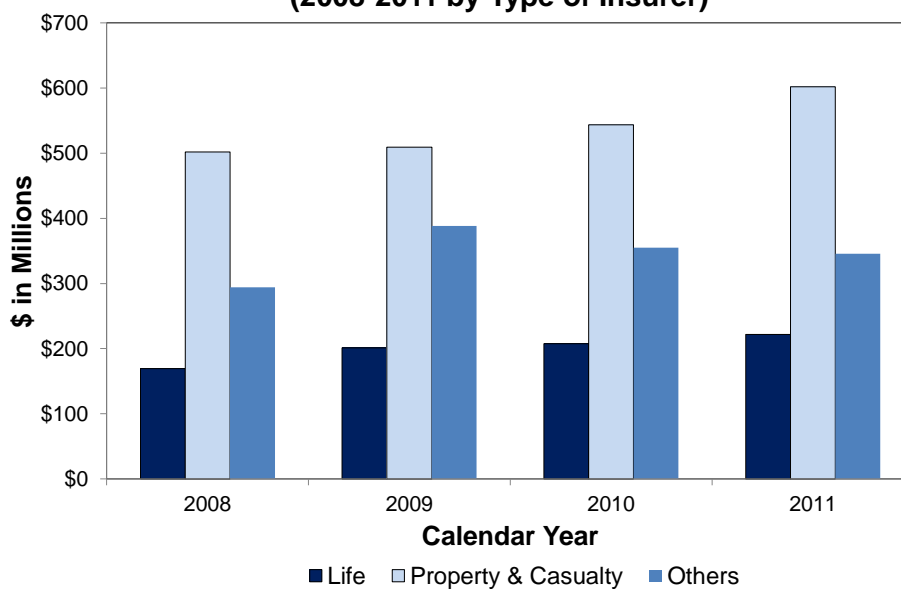
The following graphs show insurance tax liability for life insurers, property and casualty insurers and all other insurers from 2008 through 2011 before and after the application of the limitation of tax due as determined by taxable premiums and credits. The increase in the other insurers category in 2009 is attributable to legislation enacted for tax year 2009 that subjected for-profit HMOs to the franchise tax under Article 33 of the Tax Law. Previously these taxpayers were subject to tax under Article 9-A.

INSURANCE TAXES

**Article 33 Tax Liability *before* Limitation and Credits
(2008-2011 by Type of Insurer)**



**Article 33 Tax Liability *after* Limitation and Credits
(2008-2011 by Type of Insurer)**



Property and Casualty and Life Companies

According to data from the New York State Department of Financial Services, the three largest lines of business under the property and casualty sector in 2013 were automobile, general liability and worker's compensation. The table below reports actual property and casualty premiums and growth from 2007 through 2013 for New York State. Total premiums for property and casualty companies grew by 5.7 percent in 2013,

INSURANCE TAXES

the second consecutive year of greater than five percent growth. In 2013, all lines of insurance showed growth from 2012 with general liability, commercial multi-peril and worker's compensation showing strong growth for the second consecutive year. Additionally, both automobile and homeowner's multi-peril appear to be returning to higher growth after several years of modest growth.

PROPERTY AND CASUALTY INSURANCE PREMIUMS NEW YORK CALENDAR YEAR (millions of dollars/percent)							
	2007	2008	2009	2010	2011	2012	2013
Lines of Insurance							
Automobile	11,769.5	11,709.5	11,744.2	11,895.0	12,148.3	12,636.8	13,074.0
percent change	(2.2)	(0.5)	0.3	1.3	2.1	4.0	3.5
Worker's Compensation	4,227.6	3,501.0	3,423.1	3,623.2	4,157.4	4,754.7	5,191.5
percent change	2.3	(17.2)	(2.2)	5.8	14.7	14.4	9.2
Commercial Multi-Peril	3,071.6	3,058.0	3,025.6	2,986.5	3,056.9	3,249.5	3,487.5
percent change	(0.1)	(0.4)	(1.1)	(1.3)	2.4	6.3	7.3
General Liability	4,306.1	4,487.9	4,154.6	4,137.6	4,089.0	4,466.1	4,977.7
percent change	(1.8)	4.2	(7.4)	(0.4)	(1.2)	9.2	11.5
Homeowner's Multi-Peril	3,908.4	4,079.1	4,219.3	4,336.1	4,499.7	4,704.4	4,901.5
percent change	8.1	4.4	3.4	2.8	3.8	4.5	4.2
Other	7,048.4	7,059.0	6,314.0	6,036.0	6,196.3	6,133.0	6,373.1
percent change	9.7	0.2	(10.6)	(4.4)	2.7	(1.0)	3.9
TOTAL P/C PREMIUMS	34,331.6	33,894.5	32,880.8	33,014.4	34,147.6	35,944.4	38,005.2
percent change	2.0	(1.3)	(3.0)	0.4	3.4	5.3	5.7

Source: New York State Department of Financial Services Annual Report to the Governor and the Legislature and the and the NAIC's I-site for 2012, 2013.

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

RECEIPTS: ESTIMATES AND PROJECTIONS

INSURANCE TAXES (millions of dollars)							
	FY 2014 Actual	FY 2015 Estimated	Change	Percent Change	FY 2016 Projected	Change	Percent Change
General Fund							
Non-Audit Receipts	1,283	1,354	71	5.5	1,412	58	4.3
Audit Receipts	15	16	1	6.7	21	5	31.3
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	1,298	1,370	72	5.5	1,433	63	4.6
Other Funds							
Non-Audit Receipts	139	144	5	3.6	161	17	11.8
Audit Receipts	7	10	3	42.9	10	0	0.0
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	146	154	8	5.5	171	17	11.0
All Funds							
Non-Audit Receipts	1,422	1,498	76	5.3	1,573	75	5.0
Audit Receipts	22	26	4	18.2	31	5	19.2
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	1,444	1,524	80	5.5	1,604	80	5.2

Note: Totals may differ due to rounding.

INSURANCE TAXES

All Funds

FY 2015 Estimates

All Funds receipts through December are \$898.6 million, an increase of \$46.4 million (5.4 percent) from the comparable period in the prior fiscal year.

All Funds FY 2015 receipts are estimated to be \$1,524 million, an increase of \$79.6 million (5.5 percent) from FY 2014. Strong premiums growth is being partially offset by the impact of the State's transition of the prescription drug, hospital and mental health portion of the Empire Plan to self-insurance on January 1, 2014.

FY 2016 Projections

All Funds FY 2016 receipts are projected to be \$1,604 million, an increase of \$80 million (5.2 percent) from FY 2015. Receipts in FY 2016 assume continuing premiums growth.

General Fund

General Fund FY 2015 receipts are estimated to be \$1,370 million, an increase of \$72 million (5.5 percent) from FY 2014. The increase reflects the same trends impacting FY 2015 All Fund receipts.

General Fund FY 2016 receipts are projected to be \$1,433 million, an increase of \$63 million (4.6 percent) from FY 2015. The increase reflects the same trends impacting All Funds receipts for FY 2016.

Other Funds

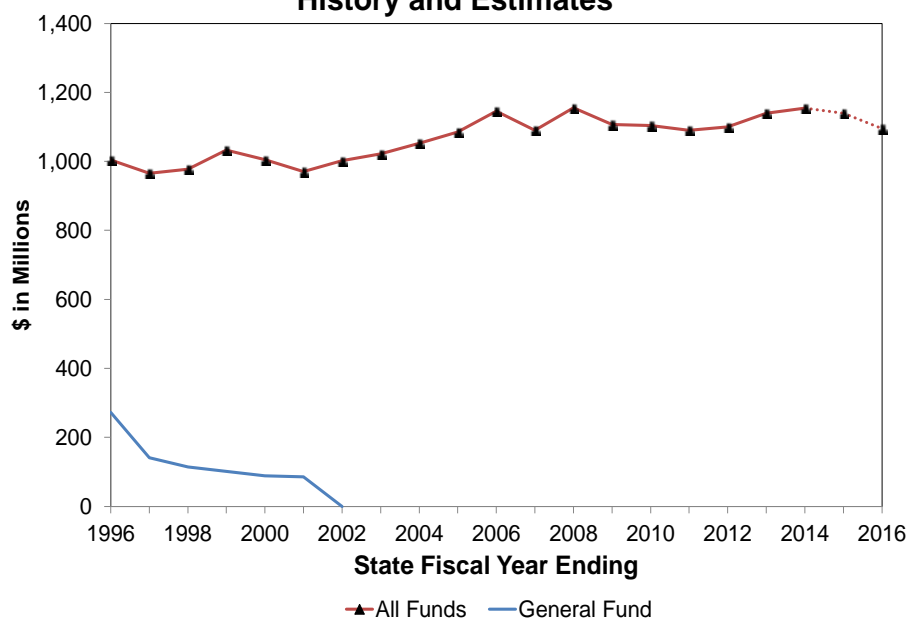
Insurance tax receipts from the business tax surcharge deposited to MTOAF generally reflect the All Funds trends described above. The MCTD 17 percent business tax surcharge will result in MTOAF deposits of an estimated \$154 million in FY 2015 and a projected \$171 million in FY 2016.

PETROLEUM BUSINESS TAXES

PETROLEUM BUSINESS TAXES (millions of dollars)							
	FY 2014 Actual	FY 2015 Estimated	Change	Percent Change	FY 2016 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	1,154.5	1,140.0	(14.5)	(1.3)	1,095.0	(45.0)	(3.9)
All Funds	1,154.5	1,140.0	(14.5)	(1.3)	1,095.0	(45.0)	(3.9)

Note: Totals may differ due to rounding.

Petroleum Tax Receipts History and Estimates



PETROLEUM BUSINESS TAXES BY FUND (millions of dollars)								
	Net General Fund	Gross Special Revenue Funds	Refunds	Net Special Revenue Funds ¹	Gross Capital Projects Funds	Refunds	Net Capital Projects Funds ²	Net All Funds Receipts
FY 2006	0	523	9	514	642	10	632	1,146
FY 2007	0	493	7	486	613	9	604	1,090
FY 2008	0	525	11	514	659	18	641	1,155
FY 2009	0	508	15	493	639	25	614	1,107
FY 2010	0	502	11	491	631	18	613	1,104
FY 2011	0	497	13	484	626	20	606	1,090
FY 2012	1	505	17	488	638	27	611	1,100
FY 2013	0	521	15	506	658	24	634	1,140
FY 2014	0	531	17	514	668	27	641	1,155
Estimated								
FY 2015	0	524	17	507	660	27	633	1,140
FY 2016								
Current Law	0	503	17	486	633	27	606	1,092
Proposed Law	0	504	17	487	635	27	608	1,095

¹ Dedicated Mass Transportation Trust Fund and Mass Transportation Operating Assistance Fund.

² Dedicated Highway and Bridge Trust Fund.

PETROLEUM BUSINESS TAXES

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Allow petroleum business tax refunds for farm use of highway diesel motor fuel; and
- Enhance motor fuel tax enforcement.

DESCRIPTION

Tax Base and Rate

Article 13-A of the Tax Law imposes a tax on petroleum businesses for the privilege of operating in the State, based upon the quantity of various petroleum products imported for sale or use in the State. Petroleum business tax (PBT) rates have two components: the base tax, whose rates vary by product type; and the supplemental tax, which is imposed, in general, at a uniform rate.

Tax rates are indexed with annual adjustments made on January 1 of each year to the base and supplemental tax rates to reflect the percent change in the producer price index (PPI) for refined petroleum products for the 12 months ending August 31 of the preceding year. To prevent significant changes in tax rates resulting from large changes in the petroleum PPI, tax rates cannot increase or decrease by more than 5 percent per year. In addition to the 5 percent cap on tax rate changes, the statute requires, in general (i.e., excluding diesel), 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.

Based on changes in the petroleum PPI, the PBT rate index decreased by 0.8 percent on January 1, 2014, and decreased by 3.2 percent on January 1, 2015. The petroleum PPI is estimated to decrease by 15.4 percent through August 2015, resulting in a 5 percent decrease in PBT rates on January 1, 2016.

PETROLEUM BUSINESS TAXES

PETROLEUM BUSINESS NET TAX RATES FOR 2014 - 2016 (cents per gallon)									
Petroleum Product	2014			2015			2016		
	Base	Supp	Total	Base	Supp	Total	Base	Supp	Total ¹
Automotive fuel									
Gasoline and other non diesel	11.10	7.30	18.40	10.70	7.10	17.80	10.20	6.80	17.00
Highway Use Diesel	11.10	5.55	16.65	10.70	5.35	16.05	10.20	5.10	15.30
Aviation gasoline or Kero-Jet Fuel	7.30	0.00	7.30	7.10	0.00	7.10	6.80	0.00	6.80
Non-Highway Use diesel fuels									
Commercial Gallonage	10.00	0.00	10.00	9.70	0.00	9.70	9.20	0.00	9.20
Nonresidential heating	5.40	0.00	5.40	5.20	0.00	5.20	4.90	0.00	4.90
Residual petroleum products									
Commercial gallonage	7.60	0.00	7.60	7.40	0.00	7.40	7.00	0.00	7.00
Nonresidential heating	4.10	0.00	4.10	4.00	0.00	4.00	3.80	0.00	3.80
Railroad diesel fuel	9.80	0.00	9.80	9.40	0.00	9.40	9.00	0.00	9.00

¹ Projected — The projected petroleum producer price index decrease of 15.4 percent through August 2015 will result in a projected decrease of 5 percent in the PBT tax rates on January 1, 2016.

PETROLEUM PPI AND PETROLEUM BUSINESS TAX RATE INDEX (percent change)		
Year	Petroleum PPI	PBT Rate Index
2005	12.9	5.0
2006	35.1	5.0
2007	35.9	5.0
2008	(1.2)	(1.2)
2009	42.1	5.0
2010	(34.9)	(5.0)
2011	18.6	5.0
2012	29.8	5.0
2013	9.2	5.0
2014	(0.8)	(0.8)
2015	(3.2)	(3.2)
2016*	(15.4)	(5.0)
* Estimated		

The Motor Fuel Tax section contains a table showing New York's combined fuel tax rank among the 50 states and the District of Columbia.

Administration

The tax is collected monthly in conjunction with the State motor fuel tax (Article 12-A). Article 13-A also imposes the petroleum business carrier tax on fuel purchased outside New York and consumed within the State. The carrier tax is collected quarterly along with the fuel use tax portion of the highway use tax (see section titled Highway Use Tax).

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

PETROLEUM BUSINESS TAXES

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), certain bunker fuel, and motor fuels sold to volunteer ambulance and volunteer fire departments. For a complete list of tax expenditure items related to the PBT, see the *New York State Tax Expenditure Report*.

Significant Legislation

Significant statutory changes to petroleum business taxes since 2000 are summarized below.

Subject	Description	Effective Date
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
Fund Distributions	Dedicated base tax receipts to the MTOAF (19.7 percent) and the Dedicated Funds Pool (80.3 percent).	April 1, 2001
Legislation Enacted in 2004		
Aviation Fuel	Eliminated PBT on fuels used for aircraft overflight and landing.	November 1, 2004
	Exempted fuel burned on takeoff by airlines operating non-stop flights between at least four cities in New York.	June 1, 2005
Legislation Enacted in 2005		
Enforcement Provisions	Required collection of taxes on sales to non-Native Americans on New York reservations.	March 1, 2006
Legislation Enacted in 2006		
Alternative Fuels	Exempted or partially exempted PBT on alternative fuels, including E85 and B20, through August 31, 2011.	September 1, 2006
Legislation Enacted in 2011		
Alternative Fuels	Extended PBT exemptions on alternative fuels through August 31, 2012.	September 1, 2011
Modernize Fuel Definitions	Modernized fuel definitions to conform with changes in Federal and State Law.	September 1, 2011
Legislation Enacted in 2012		
Alternative Fuels	Extended PBT exemptions on alternative fuels through August 31, 2014.	September 1, 2012
Legislation Enacted in 2013		
Volunteer First Responders	Provides a reimbursement for motor fuel and diesel motor fuel used by volunteer ambulance and fire departments.	June 1, 2013
Interdistributor Sales	Allowed for tax free interdistributor sales of highway diesel motor fuel sold below the rack (i.e., not delivered by truck).	August 1, 2013

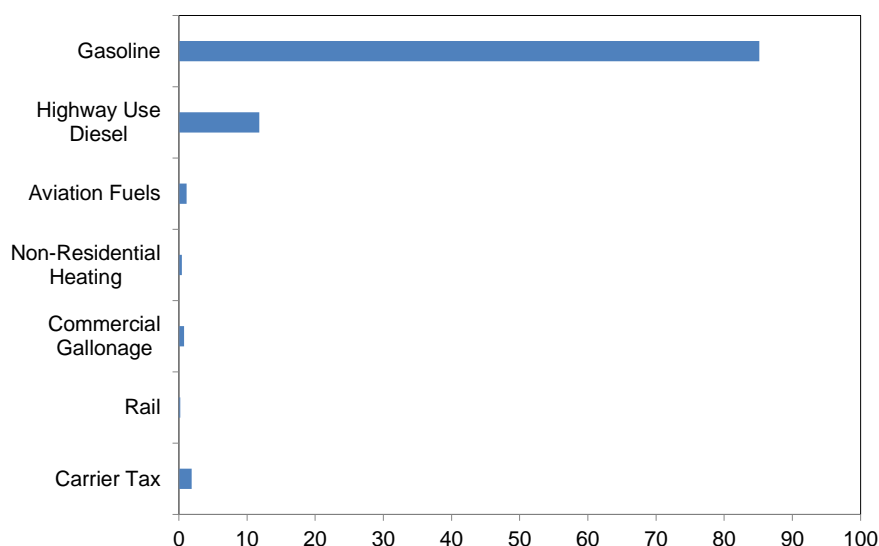
PETROLEUM BUSINESS TAXES

Subject	Description	Effective Date
Legislation Enacted in 2014		
Alternative Fuel	Extended the exemption on alternative fuels through August 31, 2016.	September 1, 2014

TAX LIABILITY

Petroleum business tax receipts are primarily a function of the number of gallons of fuel imported into the State by distributors. Taxable gallonage is largely determined by overall fuel prices, the number of gallons held in inventories, the fuel efficiency of motor vehicles and State economic performance. The following chart displays the composition of PBT receipts by fuel type.

**PBT Components
Share of FY 2014 Receipts**



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

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

FY 2015 Estimates

All Funds receipts through December are \$883.2 million, a decrease of \$3.6 million (0.4 percent) from the comparable period in the prior fiscal year.

All Funds FY 2015 receipts are estimated to be \$1,140 million, a decrease of \$14.5 million (1.3 percent) from FY 2014. The decrease in receipts is primarily due to the 0.8 percent decrease in the PBT index on January 1, 2014, paired with the 3.2 percent decrease in the PBT index on January 1, 2015.

PETROLEUM BUSINESS TAXES

Petroleum business tax receipts derived from motor fuel and diesel motor fuel are assumed to follow the same consumption trends as fuel subject to the motor fuel excise tax (see section titled Motor Fuel Tax). Gasoline taxable gallonage is estimated to increase by 2.8 percent and diesel taxable gallonage is estimated to increase by 3.5 percent.

FY 2016 Projections

All Funds FY 2016 receipts are projected to be \$1,095 million, a decrease of \$45 million (3.9 percent) from FY 2015. Fuel tax enforcement legislation included in this budget accounts for \$3 million of this total. The decrease in receipts is primarily due to the 3.2 percent decrease in the PBT index, effective January 1, 2015, paired with a projected 5 percent decrease in the PBT index on January 1, 2016.

General Fund

No PBT receipts are deposited into the General Fund.

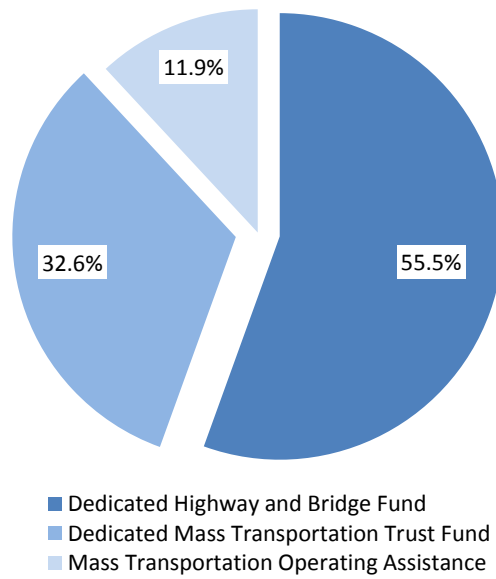
Other Funds

The base and supplemental tax are split as follows:

PBT BASE AND SUPPLEMENTAL TAX FUND DISTRIBUTION (percent)		
Effective Date	MTOAF¹	Dedicated Funds Pool²
Base Tax	19.7	80.3
Supplemental Tax	0.0	100.0
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 FY 2015 are estimated to be \$135.1 million for MTOA, \$633.2 million for the DHBTF, and \$371.7 million for the DMTTF. Petroleum business tax receipts in FY 2016 are projected to be \$129.8 million for MTOA, \$608.1 million for the DHBTF, and \$357.1 million for DMTTF.

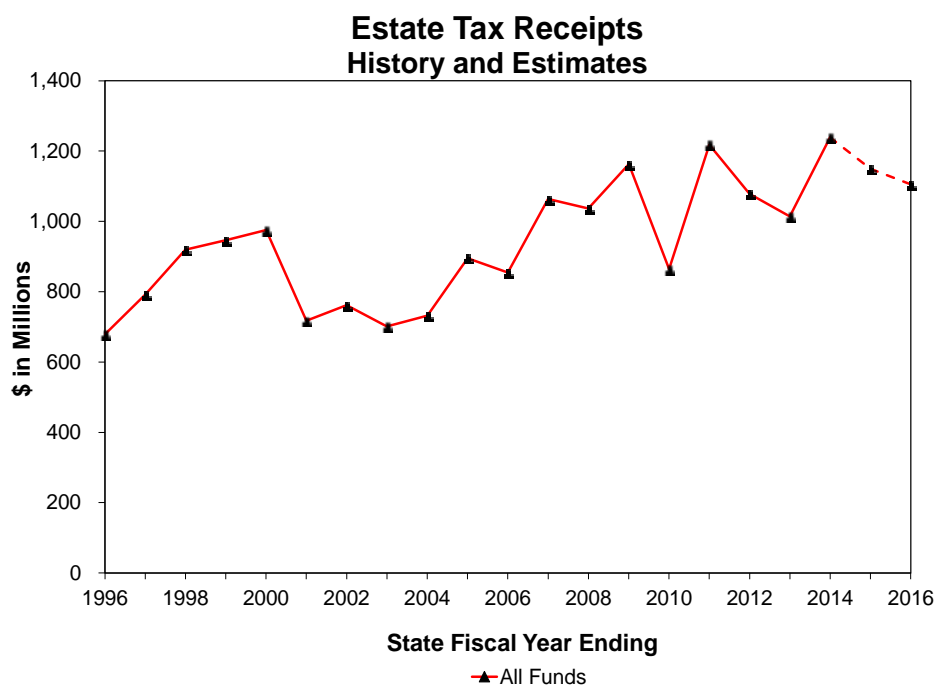
Estimated PBT Receipts FY 2015



ESTATE TAX

ESTATE TAX (millions of dollars)							
	FY 2014 Actual	FY 2015 Estimated	Change	Percent Change	FY 2016 Projected	Change	Percent Change
General Fund	1,238.3	1,149.0	(89.3)	(7.2)	1,105.0	(44.0)	(3.8)
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	1,238.3	1,149.0	(89.3)	(7.2)	1,105.0	(44.0)	(3.8)

Note: Totals may differ due to rounding. Excludes gift tax residual payments.



ESTATE TAX BY FUND (millions of dollars)				
	Gross General Fund	Refunds	General Fund	All Funds Receipts
FY 2006	892	37	857	857
FY 2007	1,122	59	1,053	1,053
FY 2008	1,079	42	1,037	1,037
FY 2009	1,279	114	1,165	1,165
FY 2010	911	45	866	866
FY 2011	1,270	51	1,219	1,219
FY 2012	1,148	69	1,079	1,079
FY 2013	1,070	56	1,014	1,014
FY 2014	1,294	56	1,238	1,238
Estimated				
FY 2015	1,209	60	1,149	1,149
FY 2016				
Current Law	1,165	60	1,105	1,105
Proposed Law	1,165	60	1,105	1,105

ESTATE TAX

PROPOSED LEGISLATION

Legislation proposed with this Budget would amend the estate tax for technical corrections.

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, 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 taxable estate to New York.

The computation of New York State estate taxes is a graduated schedule with rates that range from 3.06 percent on adjusted taxable estates not in excess of \$500,000, to 16 percent on adjusted taxable estates for New York State of \$10,100,000 or more. Practically however, the tax is not imposed below the threshold as noted in the following paragraph.

The FY 2014 Enacted Budget replaced the unified threshold of \$1 million (associated with the State's prior "pick-up tax" methodology) with an applicable credit equal to the tax on a basic threshold amount equal to \$2,062,500 for those dying in FY 2015; \$3,125,000 in FY 2016; \$4,187,500 in FY 2017; and \$5,250,000 from April 1, 2017 to December 31, 2018. The basic threshold will equal the Federal basic threshold amount with annual indexing for those dying on or after January 1, 2019. The credit, similar to the results under the pick-up tax, phases out in the range from the threshold

amount to 5 percent above the threshold amount (i.e., taxable estates at more than 105 percent of the threshold pay the full tax calculated on the rate table).

Administration

The Surrogate Court has jurisdiction of the probate of the estate and the authority to finalize the amount of the tax. The tax due is required to be paid on or before the date fixed for filing the return, nine months after the decedent's date of death. A twelve-month extension may be granted by the Commissioner of Taxation and Finance.

If the payment of the tax will cause undue hardship, the Commissioner may authorize a payment extension for up to four years from the decedent's date of death. It may be necessary for the taxpayer to provide a bond in an amount of no more than twice the amount due if an extension is approved for payment of the tax.

If the payment of the tax due is not made within nine months of the decedent's date of death, additional interest is charged to the remaining payments of the tax. The interest for extended payments is computed and compounded daily on the portion remaining from the first day of the tenth month following the decedent's date of death to the date of the payment. There is no discount for early payment of the estate tax.

The executor and the beneficiaries who have received property are personally liable for the payment of the estate tax. If there is no will, the Federal, New York and foreign death taxes paid or payable by the estate's representatives are apportioned among the beneficiaries.

There is reciprocity with other states with the collection of inheritance and estate taxes in nonresident estates. Refund claims of an overpayment of the tax must be filed by the executor within three years from the time the return was filed or two years from the time the tax was paid, whichever is later.

Tax Expenditures

The principal policy tool used to relieve the estate tax burden is the tax threshold, which effectively exempts otherwise taxable estates under such amounts. The increased amounts were intended to provide relief to small business and farmers, and the eventual conformity to the Federal exclusion amount (in 2019) should lead to simplified estate planning and compliance.

Significant Legislation

Significant statutory changes to the estate tax since 2010 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 2010		
Unified Credit	Set the State's unified credit to provide a \$1,000,000 exemption level independent of the Federal Credit.	January 1, 2010

ESTATE TAX

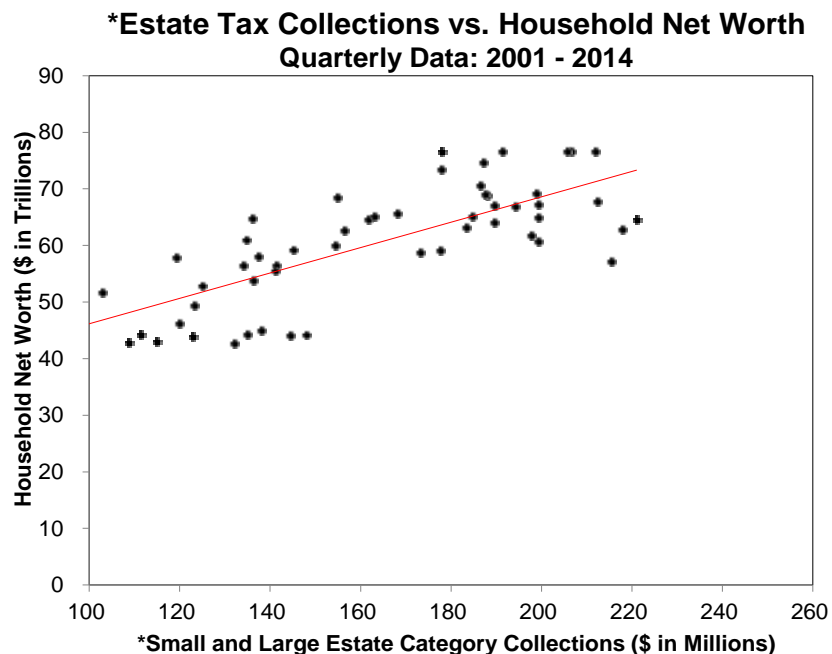
Subject	Description	Effective Date
Legislation Enacted in 2014		
Reform Estate Tax	Creates a "stand-alone" NYS estate tax with a basic threshold amount that increases over four years and equals the Federal basic exemption starting January 1, 2019.	April 1, 2014

TAX LIABILITY

The recent yield of this tax has been heavily influenced by two factors: 1) annual variations in the relatively small number of large estates, and 2) the value of the equity market, given the large component of corporate stock in large taxable estates. As a result, volatility is expected to remain a characteristic of this revenue source.

In developing projections for estate tax receipts, the value of household net worth is used to forecast receipts from estates that make payments of less than \$4 million. In addition to the value of equities, a distributional analysis is utilized to estimate receipts and the number of estates where payments exceed \$4 million.

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



RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

FY 2015 Estimates

All Funds receipts through December are \$852.5 million, a decrease of \$120.1 million (12.3 percent) from the comparable period in the prior fiscal year.

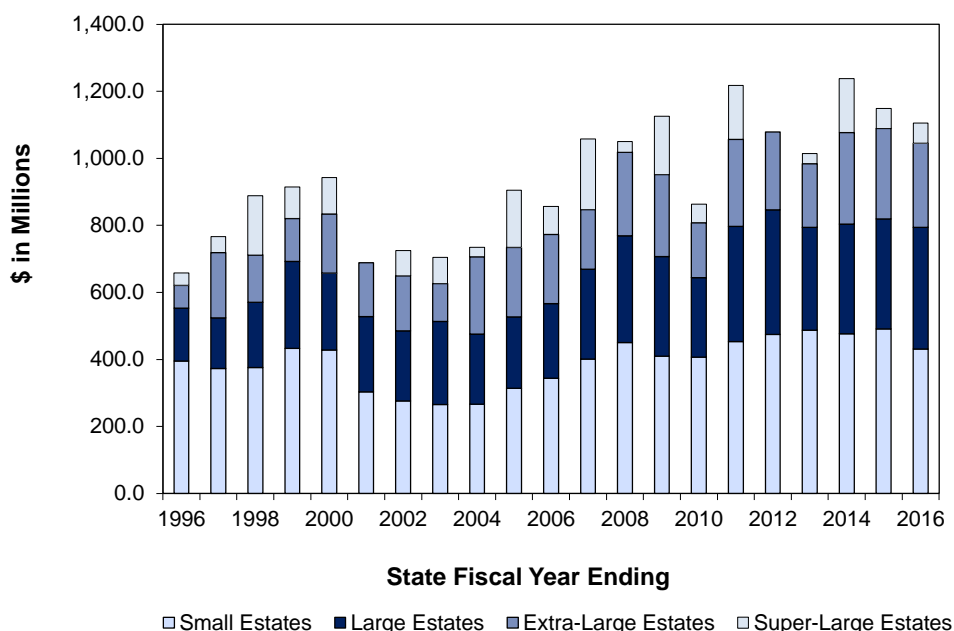
All Funds FY 2015 receipts are estimated to be \$1,149 million, a decrease of \$89.3 million (7.2 percent) from FY 2014. The decrease is mainly the result of a to-date lack of super-large payments and 2014 legislation that raised the estate tax threshold.

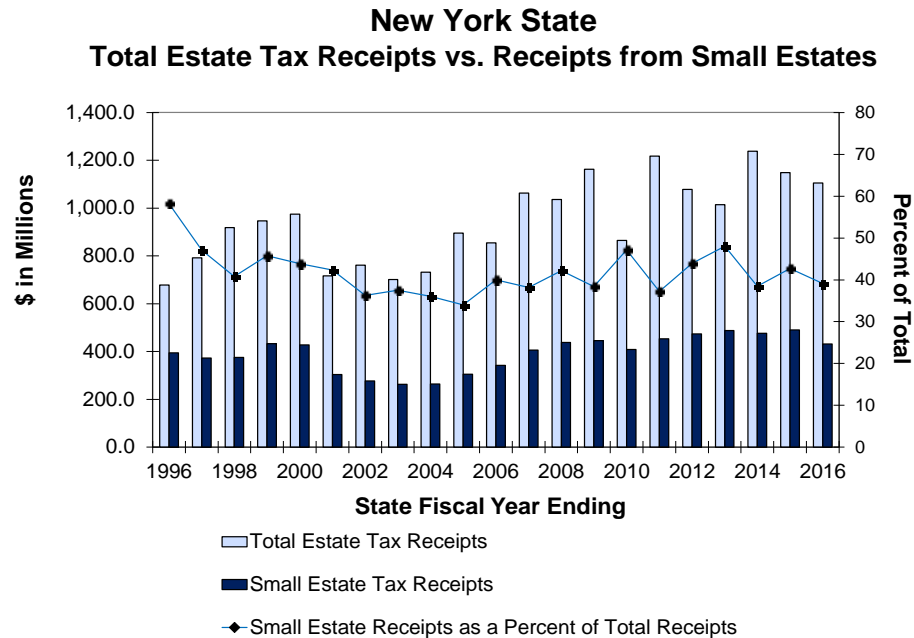
Small estate (less than \$0.5 million in payments) collections through December are \$387 million, a decrease of \$24.6 million from the comparable period in the prior fiscal year. Small estate FY 2015 receipts are estimated to be \$491 million, an increase of \$14.6 million (3.1 percent) from FY 2014.

Large estate (payments between \$0.5 and \$4 million) payments through December are \$248.7 million, a decrease of \$12.4 million (4.7 percent) below the comparable period in the prior fiscal year. Large estate FY 2015 receipts are estimated to be \$328 million, an increase of \$0.9 million (0.3 percent) from FY 2014.

Extra-large (payments between \$4 million and \$25 million) and super-large (payments greater than \$25 million) estate collections through December are \$217.8 million, a decrease of \$131.4 million (37.6 percent) from the same period in the prior fiscal year. Extra-large estate and super-large estate FY 2015 payments are estimated to be \$330 million, a decrease of \$104.8 million (24.1 percent) from FY 2014.

New York State Estate Tax Receipts





FY 2016 Projections

All Funds FY 2016 receipts are projected to be \$1,105 million, a decrease of \$44 million (3.8 percent) from FY 2015. This decrease is mainly the result of 2014 legislation that raised the estate tax threshold.

Large estate FY 2016 receipts are projected to be \$363 million, an increase of \$35 million (10.7 percent), and collections from small estate payments are projected to be \$432 million, a decrease of \$59 million (12 percent) from FY 2015.

Super-large and extra-large estate FY 2016 receipts are projected to be \$310 million, a decrease of \$20 million (6.1 percent) from FY 2015.

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
FY 2006	25	289.7	173	223.1	342.0	854.8
FY 2007	28	389.5	217	267.8	406.0	1,063.3
FY 2008	31	280.9	264	318.3	437.5	1,036.7
FY 2009	30	418.9	246	297.4	446.3	1,162.6
FY 2010	23	220.2	197	236.4	408.0	864.6
FY 2011	34	420.8	279	344.1	453.2	1,218.1
FY 2012	30	232.1	306	371.9	474.4	1,078.4
FY 2013	25	219.8	273	306.9	487.3	1,014.0
FY 2014	36	434.8	285	327.1	476.4	1,238.3
Estimated						
FY 2015	39	330.0	286	328.0	491.0	1,149.0
FY 2016	34	310.0	316	363.0	432.0	1,105.0

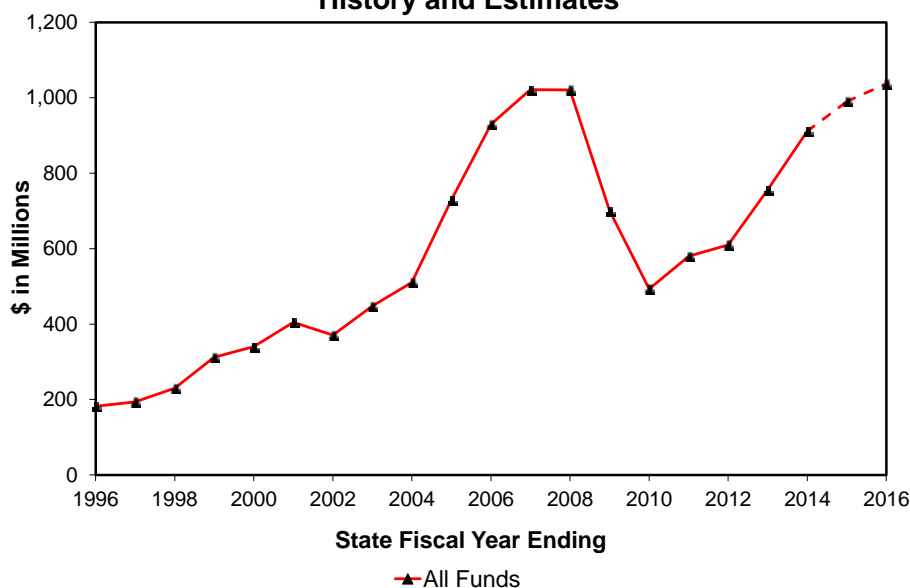
¹ Payment of at least \$25 million.
² Payment of at least \$4 million, but less than \$25 million.
³ Payment of at least \$0.5 million, but less than \$4 million.
⁴ Payment less than \$0.5 million. (Small estates include all CARTS less all refunds.)

REAL ESTATE TRANSFER TAX

REAL ESTATE TRANSFER TAX (millions of dollars)							
	FY2014 Actual	FY2015 Estimated	Change	Percent Change	FY2016 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	911.4	990.0	78.6	8.6	1,037.0	47.0	4.7
All Funds	911.4	990.0	78.6	8.6	1,037.0	47.0	4.7

Note: Totals may differ due to rounding.

**Real Estate Transfer Tax Receipts
History and Estimates**



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
FY2006	112	827	1	826	938
FY2007	147	876	1	875	1,022
FY2008	212	810	1	809	1,021
FY2009	237	465	1	464	701
FY2010	199	295	1	294	493
FY2011	119	461	0	461	580
FY2012	119	492	1	491	610
FY2013	119	637	0	637	756
FY2014	119	793	1	792	911
Estimated					
FY2015	119	872	1	871	990
FY2016					
Current Law	119	919	1	918	1,037
Proposed Law	119	919	1	918	1,037

¹ Environmental Protection Fund.
² Clean Water/Clean Air Bond Debt Service Fund.

REAL ESTATE TRANSFER TAX

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

Tax Base and Rate

The New York State real estate transfer tax (RETT) is imposed by Article 31 of the Tax Law on each conveyance of real property or interest therein, when the consideration exceeds \$500, at a rate of \$4 per \$1,000 of consideration (price). The tax became effective August 1, 1968. Prior to May 1983, the rate was \$1.10 per \$1,000 of consideration. Effective July 1, 1989, an additional 1 percent tax was imposed on residential conveyances for which the consideration is \$1 million or more.

Administration

Typically, the party conveying the property (grantor) is responsible for payment of the tax, either through the purchase of adhesive documentary stamps, by the use of a metering machine, or through other approaches provided by the Commissioner of Taxation and Finance.

For deeded transfers, the tax is paid to a recording agent (generally the county clerk). For non-deeded transactions, payments are made directly to the Commissioner of Taxation and Finance ("central office" collections). All payments are due to the recording agent within 15 days of the transfer. For counties with more than \$1.2 million in liability during the previous calendar year, payments received between the first and fifteenth day of the month are due to the Commissioner by the twenty-fifth day of the same month. Payments received in such counties between the sixteenth and the final day of the month are due to the Commissioner by the tenth day of the following month. Payments from all other counties are due to the Commissioner by the tenth day of the month following their receipt. Although the county payment schedule is statutory, it is not useful for predicting monthly cash flows, due to the unpredictable payment behavior of some large counties.

Tax Expenditures

The tax rate imposed on conveyances into new or existing real estate investment trusts (REITs) is \$2 per \$1,000 of consideration. New York State (including agencies, instrumentalities, subdivisions, and public corporations), the United States (including agencies and instrumentalities), and the United Nations are exempt. If an exempt entity is the grantor in a transfer, the tax burden falls upon the grantee. Other significant exemptions from the tax are: conveyances pursuant to the Federal bankruptcy act and mere change of identity conveyances. A deduction from taxable consideration is allowed for any lien or encumbrance remaining at the time of sale involving a one, two, or three-family house or individual residential condominium unit.

Significant Legislation

Significant statutory changes to the real estate transfer tax since 2000 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 2013		
START-UP NY	Established tax-free zones on or near qualifying university and college campuses. Qualifying businesses operating within such zones are exempt from taxation under the real estate transfer tax.	January 1, 2014

TAX LIABILITY

Real estate transfer tax receipts are a function of the number and type of conveyances and the consideration per conveyance. Conveyances and prices are largely determined by mortgage rates, vacancy rates and inflation. The Manhattan commercial real estate market, which has historically been subject to large swings in demand and capacity, can have a significant impact on receipts.

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

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

FY 2015 Estimates

All Funds receipts through December are \$776 million, an increase of \$93.8 million (13.7 percent) from the comparable period in the prior fiscal year.

All Funds FY 2015 receipts are estimated to be \$990 million, an increase of \$78.6 million (8.6 percent) from FY 2014.

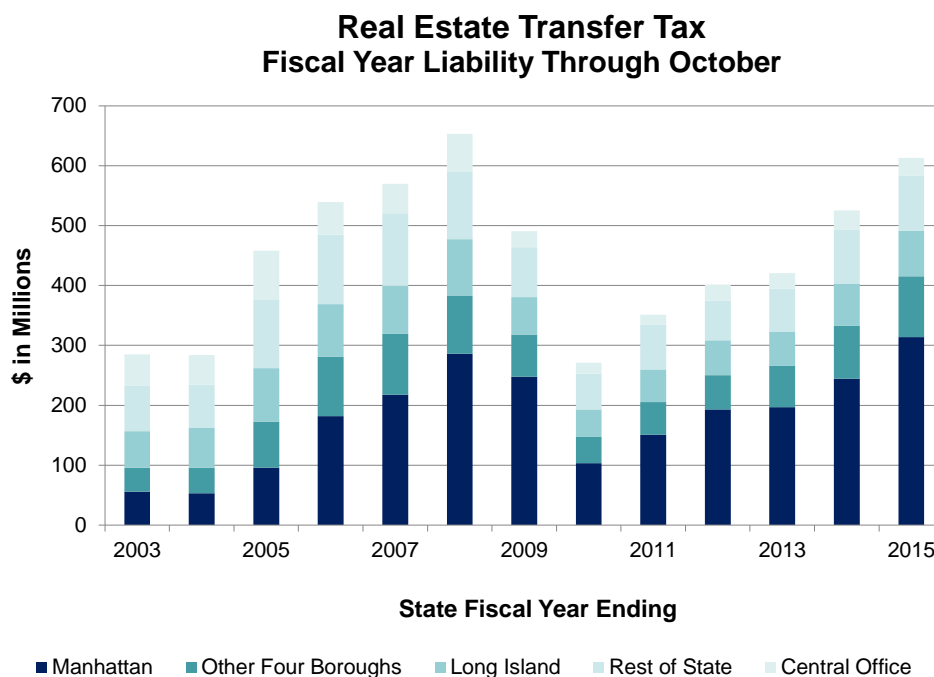
New York's recent residential real estate experience has largely followed nationwide trends, though at a more accelerated pace, driven by the New York City market. Through November 2014, both pending and closed sales have exhibited continuous growth compared to the same period in the prior year. New York City in particular has seen strong growth in housing prices. The combination of lower mortgage rates and low inventory levels has caused transaction volumes and prices to increase in New York City, and in some cases reach or exceed pre-recession levels. Statewide, the expectation for the remainder of the fiscal year is that market growth will moderate somewhat when compared to the same period in FY 2014.

The mansion tax has played an important role in the receipts growth that has characterized recent fiscal years. In FY 2008, mansion tax receipts were \$316 million (31 percent of total receipts). In FY 2014, the mansion tax share of total receipts was

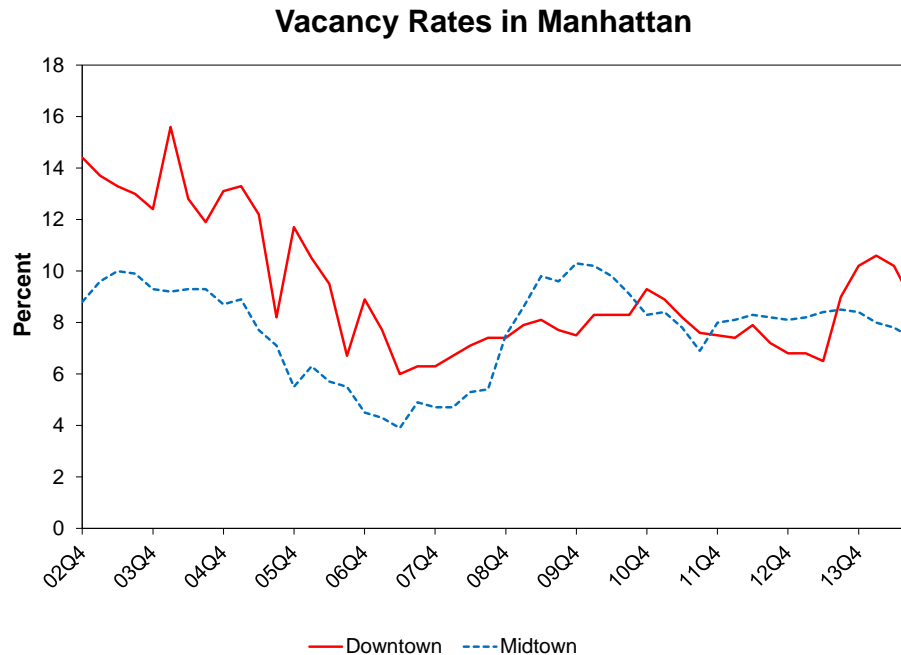
REAL ESTATE TRANSFER TAX

34.5 percent (\$314 million) marking a partial recovery to pre-recession levels. Mansion tax receipts are expected to total \$345 million (34.8 percent share) in FY 2015.

The following chart compares tax liability by location through October since FY 2003.



In New York City, commercial RETT collections and transactions have increased year-over-year. A strong local economy, surging stock market and steady foreign interest helped bolster demand for Manhattan's commercial real estate market in 2014. Currently, the Manhattan commercial market has slightly lower vacancies when compared to the prior year. Downtown's vacancy rate was 8.9 percent during the third quarter of 2014 compared to 9 percent during the same period in 2013. The Midtown rate decreased from 8.5 percent to 7.4 percent during the same period. Still, Midtown and Downtown Manhattan currently have two of the five lowest Downtown office vacancy rates in the nation.



Source: C.B. Richard Ellis

FY 2016 Projections

All Funds FY 2016 receipts are projected to be \$1,037 million, an increase of \$47 million (4.7 percent) from FY 2015.

The short term outlook for the housing market is based upon a number of factors, including mortgage rates continuing to slowly rise, a re-examination of credit standards in the face of expected Federal Reserve "tapering," and continued slow and steady recovery of the overall economy. Average existing home prices are expected to grow compared to FY 2015.

In FY 2016 there should be a leveling off of REIT and other commercial activity following substantial price increases and record sales volumes. The continuing diversification of the NYC economy is likely to positively impact the commercial market and demand for office space in the coming years.

General Fund

The General Fund will receive no direct deposit of real estate transfer tax receipts in FY 2015 or FY 2016. However, the balance of the Clean Water/Clean Air Fund, not needed for debt service, is transferred into the General Fund.

Other Funds

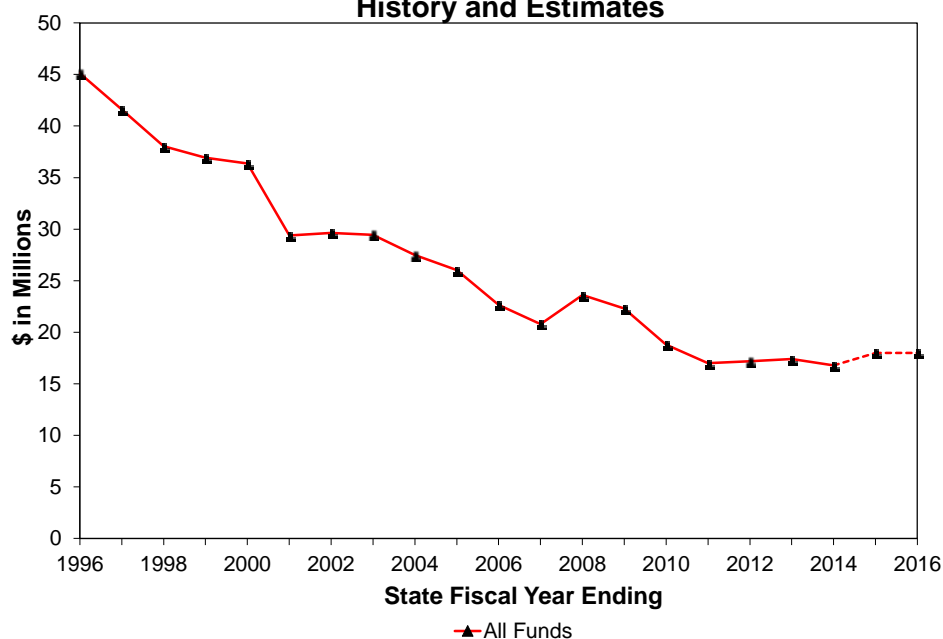
The statutory annual amount of real estate transfer tax receipts deposited into the Environmental Protection Fund is \$119.1 million.

PARI-MUTUEL TAXES

PARI-MUTUEL TAXES (millions of dollars)							
	FY 2014 Actual	FY 2015 Estimated	Change	Percent Change	FY 2016 Projected	Change	Percent Change
General Fund	16.8	18.0	1.2	7.1	18.0	0.0	0.0
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	16.8	18.0	1.2	7.1	18.0	0.0	0.0

Note: Totals may differ due to rounding.

**Pari-Mutuel Taxes Receipts
History and Estimates**



PARI-MUTUEL TAXES BY FUND (thousands of dollars)				
	General Fund			All Funds Receipts
	Flat	Harness	OTB	
FY 2006	5,736	258	16,673	22,667
FY 2007	7,152	450	13,208	20,810
FY 2008	8,287	672	14,621	23,580
FY 2009	7,602	589	14,110	22,301
FY 2010	6,710	669	11,439	18,818
FY 2011	7,355	661	9,024	17,040
FY 2012	10,903	589	5,706	17,197
FY 2013	11,407	593	5,416	17,417
FY 2014	11,039	538	5,244	16,821
Estimated				
FY 2015	12,400	400	5,200	18,000
FY 2016				
Current Law	12,700	400	4,900	18,000
Proposed Law	12,700	400	4,900	18,000

PARI-MUTUEL TAXES

PROPOSED LEGISLATION

Legislation proposed with this Budget would extend certain tax rates and certain simulcasting provisions for one year.

DESCRIPTION

Tax Base and Rate

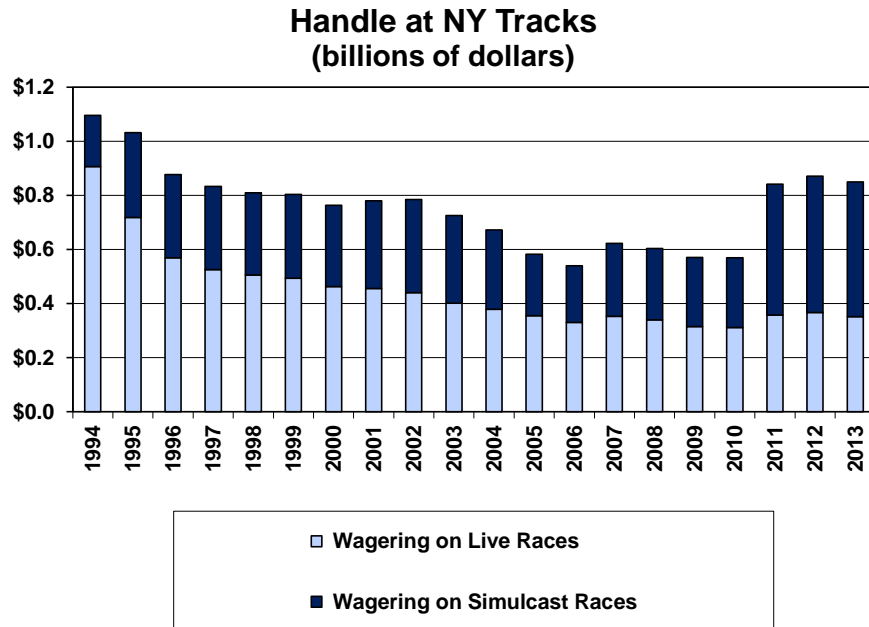
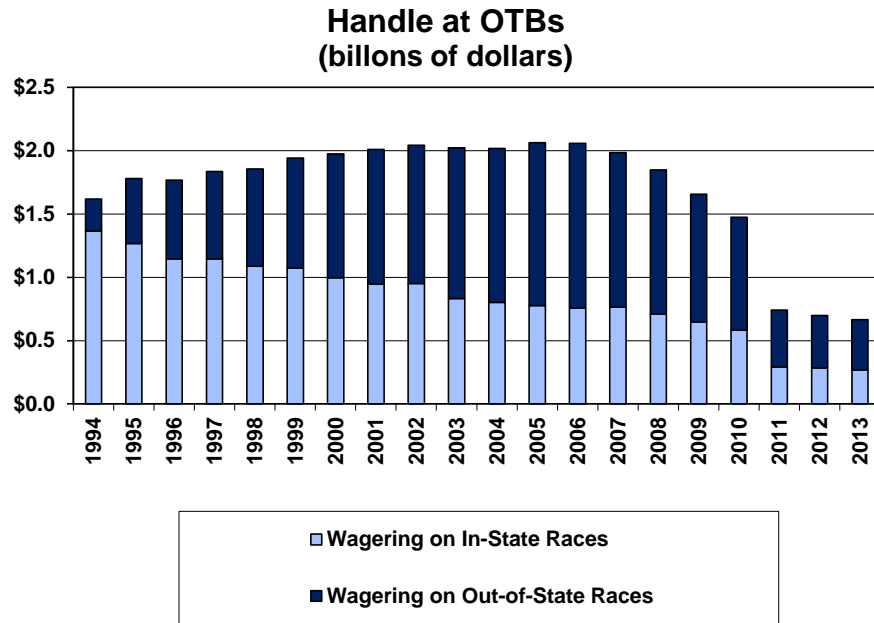
The State has levied taxes on pari-mutuel wagering activity conducted at horse racetracks since 1940. Off-track betting (OTB) parlors were first authorized in 1970 and simulcasting was first authorized in 1984. Each racing association or corporation and Off-track Betting Corporation pays the State a 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 1.1 percent of the handle in 2013.

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.

The expansion of OTBs has contributed, in part, to the corresponding decline in handle and attendance at racetracks. At its peak, off-track bets had grown to account for over 76 percent of the statewide handle. However, the statewide handle from OTBs has declined to 44 percent of total handle following the closure of New York City OTB.

To promote industry growth, the State has authorized higher takeouts to support capital improvements at non-New York Racing Association (NYRA) tracks and, more importantly, reduced its on-track tax rates by as much as 90 percent at thoroughbred and harness tracks, authorized the expansion of simulcasting at racetracks and OTB facilities, allowed in-home simulcasting experiments and telephone betting, lowered the tax rates on simulcast wagering, reduced tax rates on NYRA bets, and directed a portion of video lottery gaming receipts to be used for purse enhancements and for the breeder’s funds.

In 2008, the State awarded a 25-year license to operate the Aqueduct, Belmont, and Saratoga Racetracks to the New York Racing Association. In December 2010, the New York City Off-track Betting Corporation ceased pari-mutuel wagering operations after the failure to reach an agreement on a restructuring plan to bring the corporation out of bankruptcy.



PARI-MUTUEL TAXES

Administration

The New York State Gaming Commission 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. 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

Significant statutory changes to pari-mutuel taxes since 2000 are summarized below.

Subject	Description	Effective Date
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 commenced 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 became operational at the Aqueduct raceway on or before March 1, 2004. If NYRA was unable to initiate VLT operation by that date, then the NYRA franchise would 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 0.5 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 were lowered by 0.2 percentage points and the distribution from wagers on these races to the thoroughbred breeder's fund was increased by 0.2 percentage points.	April 1, 2006

PARI-MUTUEL TAXES

Subject	Description	Effective Date
Legislation Enacted in 2008		
NYRA Franchise	Awarded the NYRA 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
Legislation Enacted in 2013		
Market Origin Fee	Provided for the regulation of out-of-state advanced deposit wagering (ADW) and imposed a Market Origin Fee equal to 5 percent of wagers taken by out-of-state ADWs from New York residents. 5 percent of the Market Origin Fee is transferred to the Department of Taxation and Finance to be treated as pari-mutuel taxes.	January 1, 2014

TAX LIABILITY

The primary factors that affect pari-mutuel tax liability are: the handle and attendance at racetracks and OTB parlors, the number of simulcasts, and competition from other forms of gambling.

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

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

FY 2015 Estimates

All Funds receipts through December are \$15 million, an increase of \$1.6 million (11.9 percent) from the comparable period in the prior fiscal year.

All Funds FY 2015 receipts are estimated to be \$18 million, an increase of \$1.2 million (7.1 percent) from FY 2014.

Receipts from OTBs are estimated at \$5.2 million for 2014-15, equal to receipts during the prior fiscal year. These receipts reflect trend declines in industry handle offset by a full-year of receipt from the market origin fee paid by out-of-state ADWs. Receipts through December from off-track betting are \$4.1 million, an increase of \$0.1 million (0.4 percent) from FY 2014.

PARI-MUTUEL TAXES

Receipts through December from thoroughbred on-track handle, including simulcasts, are \$10.6 million, an increase of \$1.7 million (18.9 percent) from the same period last year. Receipts for the fiscal year are estimated at \$12.4 million, an increase of \$1.4 million (12.7 percent).

Pari-mutuel tax receipts from on-track harness wagering are estimated to be \$0.4 million in FY 2015, a decline of \$0.1 million (20 percent) from FY 2014 levels.

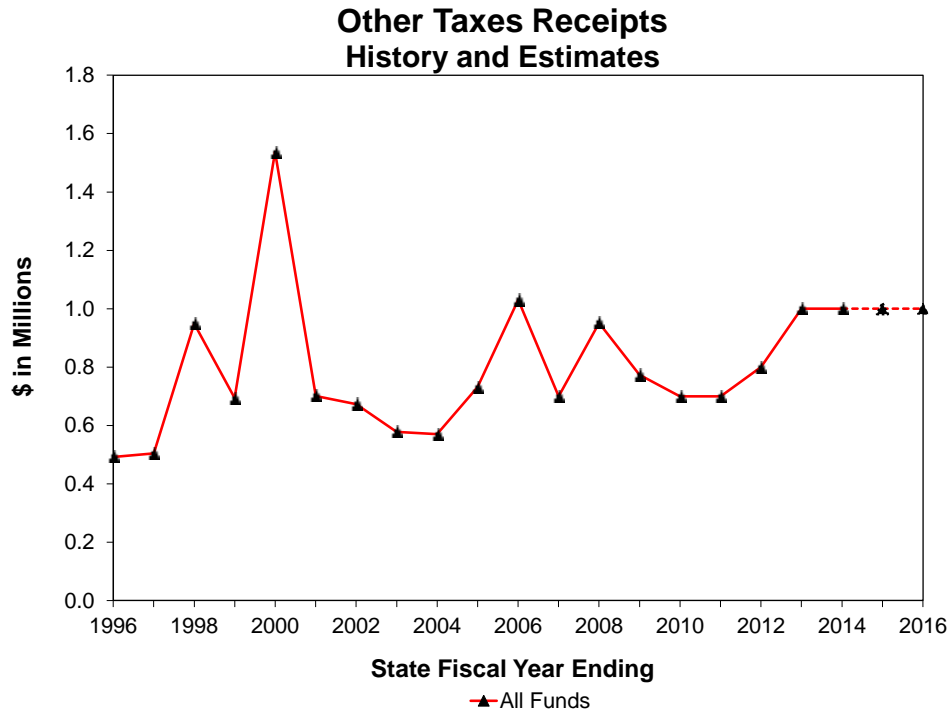
FY 2016 Projections

All Funds FY 2016 receipts are projected to be \$18 million, no change from FY 2015. OTB handle is estimated to continue to decline off-set by increase in in-state track ADW handle.

OTHER TAXES

OTHER TAXES (millions of dollars)							
	FY 2014 Actual	FY 2015 Estimated	Change	Percent Change	FY 2016 Projected	Change	Percent Change
General Fund	1.0	1.0	0.0	0.0	1.0	0.0	0.0
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	1.0	1.0	0.0	0.0	1.0	0.0	0.0

Note: Totals may differ due to rounding.



OTHER TAXES BY FUND (thousands of dollars)			
	General Fund		All Funds Receipts
	Admissions	Exhibitions	
FY 2006	474	556	1,030
FY 2007	364	307	671
FY 2008	370	581	951
FY 2009	369	404	773
FY 2010	340	350	690
FY 2011	352	361	713
FY 2012	355	413	768
FY 2013	371	658	1,029
FY 2014	350	645	995
Estimated			
FY 2015	200	800	1,000
FY 2016			
Current Law	200	800	1,000
Proposed Law	200	800	1,000

OTHER TAXES

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

Tax Base and Rate

Racing Admissions Tax – A tax is levied on the charge for admissions to racetracks and simulcast theaters throughout the State. The increase in simulcasts at off-track betting locations within New York, expanded interstate competition, and the growth of casino activity in close proximity to New York residents have led to declines in total paid attendance at tracks and in receipts from this source. In addition, the introduction of video lottery terminals at tracks has led many facilities to eliminate their admission charges.

Boxing and Wrestling Exhibitions Tax – A tax is levied on gross receipts from boxing and wrestling exhibitions, including receipts from broadcast and motion picture rights. A pay-per-view event with high spectator interest can impact the yield of the tax substantially, causing receipts to vary considerably from year to year. Legislation proposed with this Budget would repeal the Boxing and Wrestling Exhibitions Tax. Boxing and wrestling exhibitions would then be subject to the Sales Tax.

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.

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 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

FY 2015 Estimates

All Funds receipts through December are \$703,000 a decrease of \$173,000 (19.7 percent) from the comparable period in the prior fiscal year. All Funds FY 2015 receipts are estimated to be \$1 million, consistent with receipts in FY 2014.

FY 2016 Projections

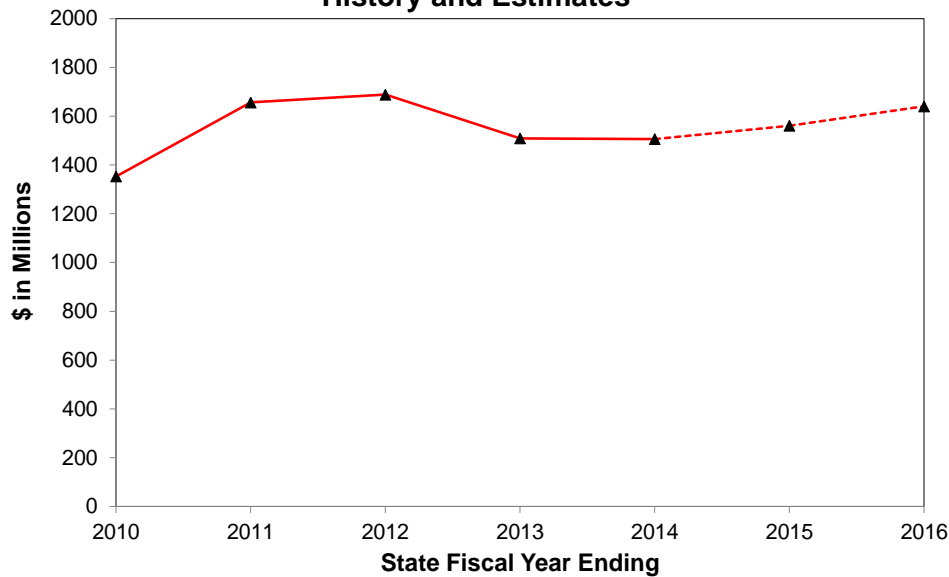
All Funds FY 2016 receipts are projected to be \$1 million, unchanged from FY 2015.

METROPOLITAN TRANSPORTATION AUTHORITY FINANCIAL ASSISTANCE FUND RECEIPTS

METROPOLITAN FINANCIAL ASSISTANCE FUND RECEIPTS							
(millions of dollars)							
	FY 2014 Actual	FY 2015 Estimated	Change	Percent Change	FY 2016 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	1,506.0	1,561.0	55.0	3.7	1,640.0	79.0	5.1
All Funds	1,506.0	1,561.0	55.0	3.7	1,640.0	79.0	5.1

Note: Totals may differ due to rounding.

**Metropolitan Financial Assistance Fund Receipts
History and Estimates**



METROPOLITAN FINANCIAL FUND					
(millions of dollars)					
	Mobility Tax	MVF	ART (MCTD)	Taxicab	All Funds Receipts
FY 2009	0	0	0	0	0
FY 2010	1,228	88	24	13	1,353
FY 2011	1,360	180	35	81	1,656
FY 2012	1,376	186	39	87	1,688
FY 2013	1,205	180	41	83	1,509
FY 2014	1,204	174	43	85	1,506
Estimated					
FY 2015	1,260	171	45	85	1,561
FY 2016					
Current Law	1,337	171	47	85	1,640
Proposed Law	1,337	171	47	85	1,640

METROPOLITAN TRANSPORTATION AUTHORITY FINANCIAL ASSISTANCE FUND RECEIPTS

PROPOSED LEGISLATION

Legislation proposed with this Budget would amend the personal income tax and MTA mobility tax statutes for technical changes.

DESCRIPTION

The Metropolitan Transportation Authority Financial Assistance Fund (MTAFAF) is under the joint custody of the Commissioner of Taxation and Finance and the State Comptroller. Monies in this special fund are to be kept separately from and not be commingled with any other monies in the joint or sole custody of the State Comptroller or the Commissioner of Taxation and Finance. The fund contains all monies collected, credited or transferred to it from any other fund, account or source, including the revenues derived from the following sources:

- The metropolitan commuter transportation mobility tax;
- The supplemental tax on passenger car rentals in the Metropolitan Commuter Transportation District (MCTD);
- The tax on New York City taxicab and hail vehicle trips; and
- Supplemental motor vehicle fees: a supplemental learner permit/license fee and registration fee 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 supplemental motor vehicle fees, the 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.

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. The MCTD consists of New York City (NYC) and the counties of Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk, and Westchester. Article 23 applies to:

- Employers (other than exemptions noted below); and
- Self-employed individuals (other than exemptions noted below).

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

METROPOLITAN TRANSPORTATION AUTHORITY FINANCIAL ASSISTANCE FUND RECEIPTS

earnings from self-employment, the tax is 0.34 percent of the net earnings from self-employment allocated to the MCTD for the tax year.

Exemptions: an employer that is an agency or instrumentality of the United States, the United Nations, or an interstate agency or public corporation created under an agreement or compact with another state or Canada is not subject to the mobility tax. (For example, the Port Authority of New York and New Jersey is exempt.) Effective April 1, 2012, all elementary and secondary schools are also exempt.

Credits: no tax credit may be used to reduce the amount of mobility tax due.

No mobility tax is due from employers with a quarterly payroll of \$312,500 or less; individuals with net earnings from self-employment allocated to the MCTD of \$50,000 or less; and the non-wage portion of S corporation member income. Employers with quarterly payroll greater than \$312,500, but no greater than \$375,000 are taxed at a reduced rate of 0.11 percent and employers with a quarterly payroll greater than \$375,000 but no greater than \$437,500 are taxed at a reduced rate of 0.23 percent.

Administration

Taxpayers who make electronic withholding tax payments must make their mobility tax payments at the same time. These payments are due within three days of the respective payroll date. Taxpayers who make quarterly withholding payments and those with self-employment income must make quarterly payments. For employers, 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 (e.g., January 31 for the calendar quarter ending December 31). Taxpayers with self-employment income must make quarterly estimated MCTMT payments in conjunction with personal income tax quarterly vouchers.

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.

METROPOLITAN TRANSPORTATION AUTHORITY FINANCIAL ASSISTANCE FUND RECEIPTS

Significant Legislation

Significant statutory changes to the mobility tax since 2011 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 2011		
Tax Rate and Exemption Changes	Expanded the annual tax exemption threshold for self-employment from \$10,000 to \$50,000 annually.	January 1, 2012
	Exempted all elementary and secondary schools from the tax; exempted employers with quarterly payroll not greater than \$312,500; lowered the rate on employers with quarterly payroll greater than \$312,500 but no greater than \$375,000 to 0.11 percent; and lowered the rate on employers with quarterly payroll greater than \$375,000 but no greater than \$437,500 to 0.23 percent.	April 1, 2012
Legislation Enacted in 2014		
Filing Due Date Alignment with PIT for Self Employed	Changed the due dates for filing returns and making estimated tax payments for self-employed individuals subject to the MCTMT to the same due dates as PIT estimated payments and final returns.	January 1, 2015

FY 2015 Estimates and FY 2016 Projections

MTAF AF collections through December are \$867.7 million, an increase of \$51 million (6.2 percent) from the comparable period in the prior fiscal year. MTAF AF FY 2015 receipts are estimated to be \$1,260 million, an increase of \$56 million (4.6 percent) from FY 2014, reflecting moderate wage and self-employment income growth. MTAF AF FY 2016 receipts are projected to be \$1,337 million, an increase of \$77 million (6.1 percent) from FY 2015.

SUPPLEMENTAL TAX ON PASSENGER CAR RENTALS

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.

FY 2015 Estimates and FY 2016 Projections

MTAF AF collections through December are \$37.5 million, an increase of \$1.6 million (4.5 percent) from the comparable period in the prior fiscal year. MTAF AF FY 2015 receipts are estimated to be \$45 million, an increase of \$2 million (4.7 percent) from FY 2014. MTAF AF FY 2016 receipts are projected to be \$47 million, an increase of \$2 million (4.4 percent) from FY 2015.

METROPOLITAN TRANSPORTATION AUTHORITY FINANCIAL ASSISTANCE FUND RECEIPTS

TAX ON NEW YORK CITY TAXICAB AND HAIL VEHICLE TRIPS

Significant Legislation

Significant statutory changes to the tax on NYC taxicabs and hail vehicle trips are summarized below:

Subject	Description	Effective Date
Legislation Enacted in 2009		
Tax Rate	A tax of 50 cents is imposed on taxicab rides that originate in NYC and end within the MCTD.	November 1, 2009
Legislation Enacted in 2010		
Tax Incidence	The tax incidence was statutorily shifted to medallion owners from taxicab vehicle owners.	July 1, 2010
HAIL Act	Authorized the sale of 2,000 wheelchair-accessible taxicab licenses and 18,000 Street Hail Livery licenses. The 50 cent tax was expanded to include hail vehicle trips. The NYS Court of Appeals upheld the constitutionality of this Act on June 6, 2013.	June 1, 2012

Tax Base and Rate

A tax of 50 cents is now imposed on all NYC taxicab and hail vehicle trips that originate in NYC and end in the MCTD. The quarterly period and filing due dates are:

Quarterly period	Due date for filing return
January through March	April 20
April through June	July 20
July through September	October 20
October through December	January 20

FY 2015 Estimates and FY 2016 Projections

MTAF AF collections through December are \$62.6 million, a decrease of \$0.9 million (1.4 percent) from the comparable period in the prior fiscal year.

MTAF AF FY 2015 receipts are estimated to be \$85 million, a decrease of \$0.2 million (0.2 percent) from FY 2014. The number of hailed livery trips has been much lower than estimated.

MTAF AF FY 2016 receipts are projected to be \$85 million, unchanged from FY 2015.

SUPPLEMENTAL MOTOR VEHICLE FEES

There is a supplemental motor vehicle license fee of one dollar per six month interval and a supplemental registration fee of \$25 in the MCTD. The timing and administration of these fees are the same as the State fee.

METROPOLITAN TRANSPORTATION AUTHORITY FINANCIAL ASSISTANCE FUND RECEIPTS

FY 2015 Estimates and FY 2016 Projections

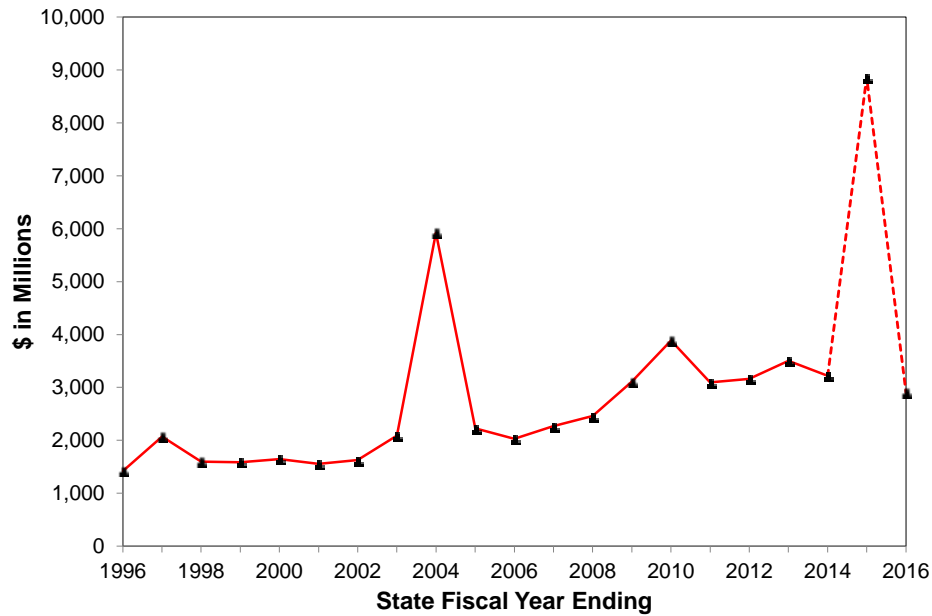
MTAFAF collections through December are \$132.2 million, a decrease of \$2.5 million (1.9 percent) from the comparable period in the prior fiscal year. MTAFAF FY 2015 receipts are estimated to be \$171 million, a decrease of \$3.1 million (1.8 percent) from FY 2014. MTAFAF FY 2016 receipts are projected to be \$171 million, unchanged from FY 2015.

MISCELLANEOUS RECEIPTS GENERAL FUND

MISCELLANEOUS RECEIPTS - GENERAL FUND						
(millions of dollars)						
	FY 2014 Actual	FY 2015 Estimated	Change	Percent Change	FY 2016 Projected	Percent Change
General Fund	3,219.4	8,861.0	5,641.6	175.2	2,903.0	(5,958.0)

Note: Totals may differ due to rounding.

Miscellaneous Receipts History and Estimates



MISCELLANEOUS RECEIPTS - GENERAL FUND					
(millions of dollars)					
	FY 2012 Actual	FY 2013 Actual	FY 2014 Actual	FY 2015 Estimated	FY 2016 Projected
Licenses, Fees, Etc.	653.6	583.6	622.3	647.0	638.0
Abandoned Property	756.7	714.0	532.8	655.0	655.0
Reimbursements	238.7	231.2	281.0	284.0	279.0
Investment Income	5.3	1.7	0.7	4.0	4.0
ABC License Fees	59.1	61.2	64.6	56.0	65.0
Motor Vehicle Fees	110.8	129.3	1.7	170.0	170.0
Other Transactions	1,337.2	1,783.1	1,716.3	7,045.0	1,092.0
Total	3,161.4	3,504.1	3,219.4	8,861.0	2,903.0

Note: Totals may differ due to rounding.

MISCELLANEOUS RECEIPTS - GENERAL FUND

PROPOSED LEGISLATION

Legislation proposed with this Budget would repeal 15 small statutory General Fund fees.

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, reported receipts may be significantly impacted by various nonrecurring transactions.

Significant Legislation

Significant statutory changes to General Fund Miscellaneous Receipts since 2000 are summarized below.

Subject	Description	Effective Date
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 Surcharge	Extended for two years the mandatory surcharges pertaining largely to standing or moving violations of the Vehicle and Traffic Law.	October 31, 2001
Legislation Enacted in 2002		
Supplemental Wireless Service Surcharge	Increased from \$0.70 to \$1.20 monthly the State wireless communication service surcharge.	August 1, 2002
Alcohol Beverage Control License Fees	Increased alcohol beverage license fees for most licensees by 28 percent.	September 1, 2002
Legislation Enacted in 2003		
Abandoned Property	Reduced the time period for collecting abandoned property related to the demutualization of insurance companies, from five years to two.	January 1, 2003
Assessments	Increased cost recovery assessments' cap from \$20 million to \$40 million.	April 1, 2003
Criminal Fines	Increased criminal fines deposited into the Justice Court Fund from between \$100 and \$1,500 to \$150 and \$2,250.	April 1, 2003
Lobbyist Fee	Increased annual lobbyist registration fees to \$100 in 2004 and \$200 in 2005.	April 1, 2003
Uncashed Checks	Reduced the dormancy period of uncashed checks from three years to one year.	April 1, 2003
Background Checks	Required holders of HAZMAT license endorsement to undergo criminal background check for a fee of \$75.	May 15, 2003
Sex Offender Fee	Required sex offenders to pay a DNA databank fee of \$50, a sex offender registration fee of \$50, and a sex offender registration change fee of \$10.	May 15, 2003
Data Search Fee	Increased data search fee by \$1.	July 1, 2003
Court Motion Fees	Imposed a \$45 motion fee on Supreme/County and Appellate Courts, a stipulation of Discontinuance Fee of \$35 and increased all Civil Court Fees by 25 percent.	July 14, 2003

MISCELLANEOUS RECEIPTS - GENERAL FUND

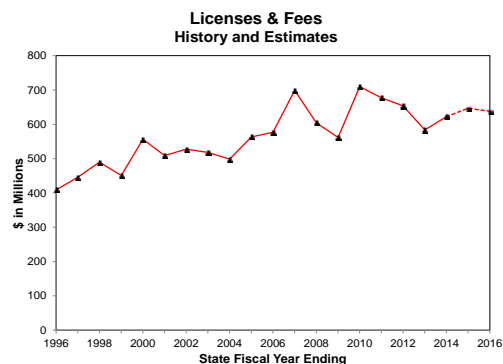
Subject	Description	Effective Date
Oil and Gas Depth Fees	Increased Oil and Gas Depth fees by 50 percent.	August 1, 2003
Penal Bonds	Increased fee on penal bonds from \$1,000 to \$2,500.	October 1, 2003
DWI or DWAI Surcharge	Imposed a \$25 surcharge on DWI or DWAI convictions.	November 12, 2003
Parking Surcharge	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
Alcohol Beverage Control License Fees	Allowed liquor stores to open seven days per week.	August 20, 2004
Legislation Enacted in 2005		
Food Inspection Violations	Imposed a fine of \$300 for the first food inspection violation.	January 1, 2005
Agents License Fee	Increased insurance agent license fee from \$20 to \$40.	April 1, 2005
Service of Process Fee	Increased service of process fee from \$20 to \$40.	April 1, 2005
Reinsurance License Fee	Increased reinsurance license fee from \$100 to \$500.	April 1, 2005
Alcohol Beverage Control License Fees	Allowed the direct shipment of wine to individual consumers in New York State.	August 11, 2005
Legislation Enacted in 2006		
Abandoned Property	Reduced the dormancy period on uncashed checks from five years to three years and added foreign securities as abandoned property.	April 1, 2006
Banking Fines and Penalties	Reorganized the fee and fine structure of the Banking Department, including eliminating all annual license fees, increasing and simplifying application fees to match the Department's work processes, and raising fine levels to encourage industry compliance.	April 1, 2006
Point Insurance Reduction	Allowed drivers to reduce points on their license via internet defensive driving courses for a fee of \$8 for students and \$7,500 for insurance providers.	April 16, 2006
Driver Responsibility Program	Dedicated the remaining funds from the Driver Responsibility Program to the Dedicated Highway and Bridge Trust Fund.	April 1, 2006
ATV Registration Fee	Repealed the \$15 ATV train maintenance portion of the fee while maintaining the basic ATV registration fee of \$10.	April 1, 2006
Legislation Enacted in 2007		
Alcohol Beverage Control License Fees	Allowed auctions of distilled spirits and licensing of auctioneers.	October 15, 2007

MISCELLANEOUS RECEIPTS - GENERAL FUND

Subject	Description	Effective Date
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 driver's license termination fees.	April 1, 2009
Real Property Transfer Fees	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
Bottle Bill	Expanded the 5 cent minimum bottle deposit to water bottles, increased the handling fee to 3.5 cents, and allowed the state to collect 80 percent of unclaimed deposits.	October 31, 2009
Legislation Enacted in 2010		
Abandoned Property	Reduced dormancy periods on undelivered goods from five to three years, and on money orders from seven to five years.	August 3, 2010
Judiciary	Increased various civil court filing fees.	July 1, 2010
Legislation Enacted in 2011		
Abandoned Property	Reduced dormancy periods on various abandoned property items from 5 or 6 years to 3 years.	March 31, 2011
Legislation Enacted in 2012		
18-a Utility Assessment	Lowered and phased out the temporary PSL Article 18-a utility assessment.	March 29, 2013
Traffic Ticket Plea Bargaining	Established \$25 State surcharge to a series of lesser violations that speeding tickets are frequently pled down to, and increased the State surcharge on most other vehicle and traffic violations by \$8.	March 29, 2013
Legislation Enacted in 2013		
Extended 18-a Utility Assessment	Extended the temporary PSL Article 18-a utility assessment.	April 1, 2013
Legislation Enacted in 2014		
Simplified Distribution of Motor Vehicle Fee Receipts	Simplified the fund distribution of Motor Vehicle Fee Receipts	March 31, 2014

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 FY 2015 and FY 2016, revenues are expected to remain relatively constant.

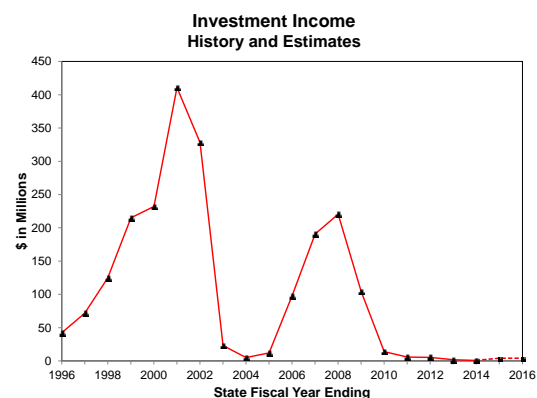
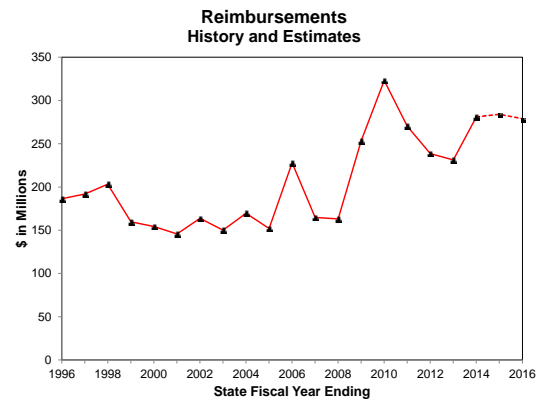
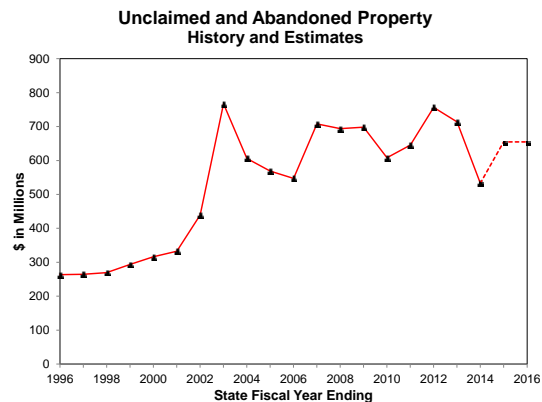


MISCELLANEOUS RECEIPTS - GENERAL FUND

Historically, unclaimed and abandoned property revenue has remained relatively stable with minimal growth, aside from spikes in FY 2003 and FY 2004 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 increased significantly in FY 2012 due to 2011 legislation that reduced dormancy periods on several items, then decreased in FY 2013 and FY 2014 as more claims were paid. It is expected to increase in FY 2015 and to remain unchanged in FY 2016.

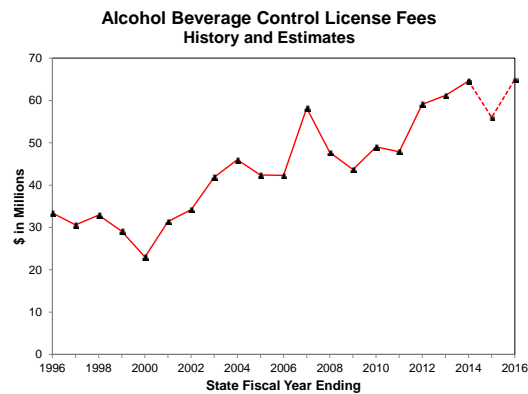
Historically, reimbursements of General Fund expenses and revenue advances have remained relatively constant with occasional exceptions. In FY 2015 and FY 2016 receipts are expected to maintain historical trends. In FY 2006, a portion of General Fund Federal Grants was reclassified to this category.

Trends in investment income are directly related to General Fund account balances and interest rates. For example, the large increases in FY 2001 and FY 2007 followed by the severe drops in FY 2003 and FY 2010 were the result of the impact of economic growth and subsequent recession on State finances; balances declined and interest rates declined sharply. The forecast for investment income is expected to remain relatively low and constant in FY 2015 and FY 2016 as both balances as interest rates slowly rise.

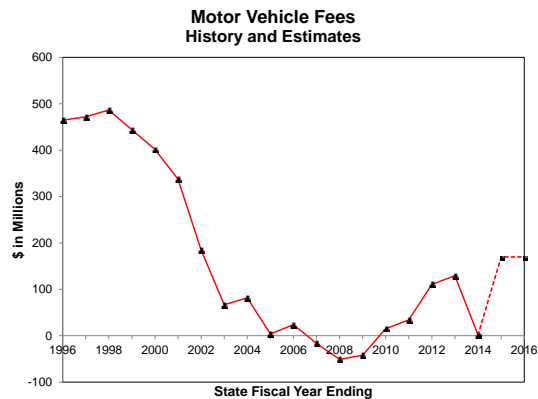


MISCELLANEOUS RECEIPTS - GENERAL FUND

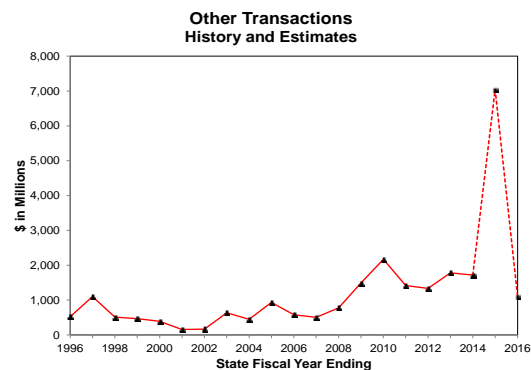
Historically, the number of alcoholic beverage control licenses has remained relatively constant. However, changes in license fees and length of licenses have caused variation in receipts. An accounting error uncovered in FY 2007 revealed that internet renewals hadn't been deposited properly. This caused a one-time payment of \$13 million in FY 2007. Overall this revenue is cyclical based on license renewal patterns. In FY 2015 revenue is expected to decrease slightly then increase in FY 2016.



From FY 2006 to FY 2014, \$169.4 million of General Fund receipts were swept into the Dedicated Transportation Funds. Effective FY 2015, this fund sweep was replaced with generic transfers to these Dedicated Funds. In addition, all revenue from the Driver Responsibility Assessment is now directed to the Dedicated Highway and Bridge Trust Fund. This law change had no net impact on the Financial Plan. For a further discussion of motor vehicle fees, please see the *Motor Vehicle Fees* section of this document.



Other transactions are an unrelated grouping of transactions and payments, which do not fall under the other miscellaneous receipts categories. Differences in collections year-to-year are the result of large, unusual payments to the State of New York, including: bond issuance charges; a supplemental wireless surcharge; SONYMA, timing-of-payments pursuant to Section 18a of Public Service Law, and atypical fines. The State expects to receive a General Fund total of \$5.4 billion in FY 2015 from financial settlements reached by the Department of Financial Services (DFS), Department of Law, and Manhattan District Attorney's Office.



MISCELLANEOUS RECEIPTS - GENERAL FUND

FY 2015 ESTIMATES

General Fund FY 2015 receipts are estimated to be \$8.861 billion, an increase of over \$5.6 billion (175.2 percent) from FY 2014 collections. The estimate includes: \$5,389 million in atypical fines and civil recoveries; \$1,000 million in released State Insurance Fund reserves; \$655 million in unclaimed and abandoned property; \$647 million in fees, licenses, fines, royalties, and rents; \$284 million in reimbursements; \$277 million in receipts from the temporary utility assessment; \$170 million in receipts from motor vehicle fees; \$91 million in additional bond issuance charges and cost recovery assessments; \$81 million in medical provider assessments; \$79 million in Bottle Bill proceeds; \$79 million from the supplemental wireless surcharge; \$56 million in receipts from alcohol beverage control license fees; \$25 million for certain health care revenues, pursuant to the proposed consolidation of operations from the DOH offset accounts to the General Fund as part of an ongoing effort to simplify the State accounting structure; \$23 million in payments from the New York Power Authority; \$4 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); and \$1 million from the New York State Energy Research and Development Authority.

FY 2016 PROJECTIONS

Miscellaneous receipts are projected to be \$2.903 billion in fiscal year FY 2016, a decrease of nearly \$6 billion (67.2 percent) from FY 2015 estimates. The FY 2016 projection includes: \$655 million in unclaimed and abandoned property; \$638 million in fees, licenses, fines, royalties, and rents; \$279 million in reimbursements; \$250 million in released State Insurance Fund reserves; \$250 million in potential financial settlement proceeds; \$173 million in receipts from the temporary utility assessment; \$170 million in receipts from motor vehicle fees; \$90 million in additional bond issuance charges and cost recovery assessments; \$81 million in medical provider assessments; \$79 million in Bottle Bill proceeds; \$79 million from the supplemental wireless surcharge; \$65 million in receipts from alcohol beverage control license fees; \$36 million in resources transferred from the New York State Energy Research and Development Authority (NYSERDA) to the General Fund from proceeds collected from the auction or sale of carbon dioxide emissions under the Regional Greenhouse Gas Initiative (RGGI); \$25 million for certain health care revenues, pursuant to the proposed consolidation of operations from the DOH offset accounts to the General Fund as part of an ongoing effort to simplify the State accounting structure; \$20 million in payments from the New York Power Authority; \$7 million in atypical fines and civil recoveries; \$4 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); \$1 million from the New York State Energy Research and Development Authority; and \$1 million from the Higher Education Services Corporation.

MISCELLANEOUS RECEIPTS SPECIAL REVENUE FUNDS

MISCELLANEOUS RECEIPTS - SPECIAL REVENUE FUNDS (millions of dollars)							
	FY 2014 Results	FY 2015 Estimated	Change	Percent Change	FY 2016 Projected	FY 2016 Change	Percent Change
State Fund	16,603	16,160	(443)	(0.0)	16,033	(127)	(0.0)
Federal Funds	173	112	(61)	(0.4)	111	(1)	(0.0)
All Funds	16,776	16,272	(504)	(0.0)	16,144	(128)	(0.0)

Miscellaneous receipts deposited to special revenue funds represent approximately 20 percent of total special revenue receipts, excluding transfers from other funds. These receipts include: SUNY tuition, fees, and patient income; revenues from lottery ticket sales and Video Lottery Terminals (VLTs) for supplemental education aid; 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 FY 2014 results through projected FY 2016.

MISCELLANEOUS RECEIPTS - SPECIAL REVENUE FUNDS (millions of dollars)			
	FY 2014	Estimated	
		FY 2015	FY 2016
HCRA	4,293	4,459	4,592
State University Income	4,428	4,386	4,475
Lottery and VLTs	3,303	3,228	3,335
Medicaid (non-HCRA)	790	803	803
Industry Assessments	785	786	807
Motor Vehicle Fees	485	408	408
All Other	2,692	2,202	1,724
Total	16,776	16,272	16,144

HCRA FINANCING

HCRA receipts include recurring surcharges and assessments on hospital revenues, physician procedures, a “covered lives” assessment paid by insurance carriers, a portion of cigarette tax revenues, and other revenues dedicated by statute, as well as proceeds from insurance company conversions. These resources help finance the State’s Medicaid program, Family Health Plus, workforce recruitment and retention, the Elderly Pharmaceutical Insurance Coverage (EPIC) program, Child Health Plus (CHP), Graduate Medical Education, AIDS programs, disproportionate share payments to hospitals and other various public health initiatives. The FY 2006 Enacted Budget created a new HCRA Resources Fund to include all HCRA financed programs, including those that were previously excluded from the State’s Financial Plan.

MISCELLANEOUS RECEIPTS - SPECIAL REVENUE FUNDS

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; including students, faculty, staff, and the public. Other receipts primarily include interest earnings and fringe benefit recoveries from SUNY's other special revenue accounts.

LOTTERY

Receipts from the sale of lottery tickets and proceeds from VLTs at racetracks are used to support public education, as well as administrative costs associated with Lottery operations. The State Lottery is discussed in detail in a separate section.

MEDICAID

In addition to the General Fund, State Medicaid costs are financed by various Special Revenue Funds which include the HCRA Resources Fund (described above) and the Provider Assessments Fund, which is currently supported by a partially-reimbursable assessment of 6.8 percent on nursing home revenues and a 0.35 percent assessment on hospital and home care revenues.

INDUSTRY ASSESSMENTS

State agencies funded entirely from assessments include the Department of Financial Services, the Public Service Commission, and the Workers' Compensation Board.

MOTOR VEHICLE FEES

Motor vehicle fees are imposed by the Vehicle and Traffic Law. In general, motor vehicles, motorcycles, trailers, semi-trailers, buses, and other types of vehicles operating in New York are required to be registered with the Department of Motor Vehicles. Numerous other fees, related to the processes of registration or licensing, are also components of motor vehicle fees. Examples are: fees for inspection and emission stickers; repair shop certificates; and insurance civil penalties. Motor Vehicle Fees are discussed in more detail in a separate section.

MISCELLANEOUS RECEIPTS - SPECIAL REVENUE FUNDS

ALL OTHER

All Other Components of Miscellaneous Receipts (millions of dollars)		
	Estimated	
	FY 2015	FY 2016
Environmental Conservation	190	205
Gaming Administration	186	220
Tribal State Compact	189	196
Labor	137	139
Health	88	120
Education	119	119
Homeland Security	119	119
Housing	141	116
State Police	123	113
HESC	109	93
CUNY	82	84
Parks and Recreation	81	79
Children and Family Services	61	61
All Other	577	60
Total Miscellaneous Receipts	2,202	1,724

The remaining revenues in this category include fees, licenses, and other assessments collected by State agencies, primarily to support all or specific components of their operations. The major sources of all other miscellaneous receipts are detailed below.

- 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.
- Gaming administration receipts include receipts from the sale of lottery tickets, proceeds from VLTs at racetracks, and commercial gaming fees that are used to support administrative costs associated with Lottery and commercial gaming operations.
- Tribal State Compact receipts consist of all revenues resulting from tribal state compacts executed pursuant to Executive Law.
- Labor receipts reflect fees received by the Department of Labor associated with the implementation of labor laws and regulations.
- 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.
- 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.

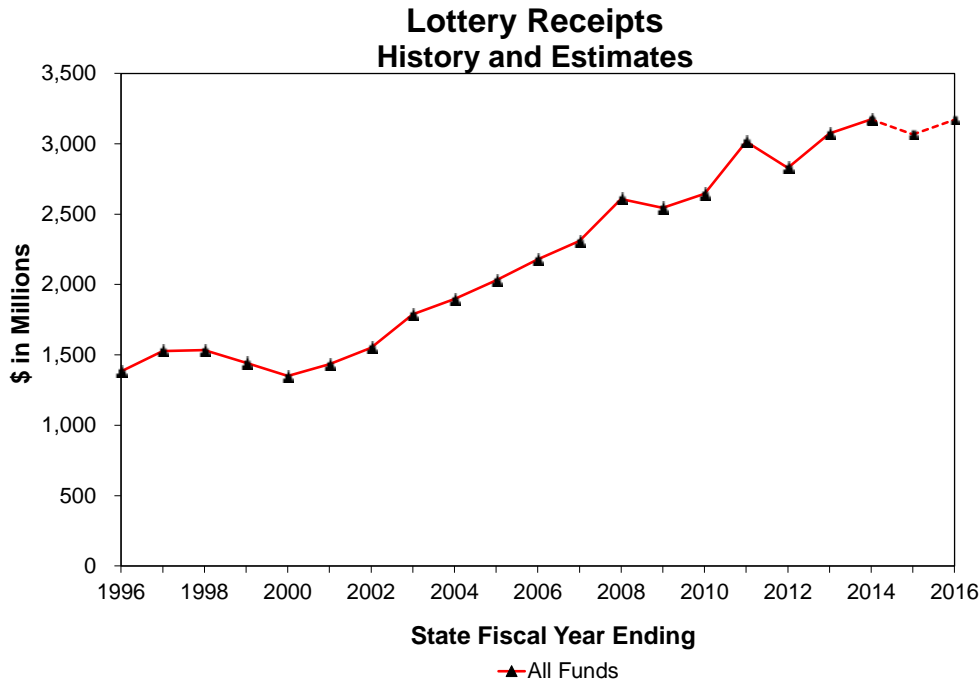
MISCELLANEOUS RECEIPTS - SPECIAL REVENUE FUNDS

- Homeland Security and Emergency Services miscellaneous receipts consist of wireless telephone surcharge revenues collected by telephone companies pursuant to Tax Law.
- Housing receipts include income received from New York City and other cities associated with enforcement of housing laws and regulations.
- State Police miscellaneous revenue sources include seized assets, 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.
- 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.
- Parks and Recreation receipts include monies received as gifts and donations for specific State Park activities.
- Children and Family Services miscellaneous receipts primarily consist of reimbursements from social services districts for their youth in OCFS facilities made pursuant to Executive Law.

LOTTERY

MISCELLANEOUS RECEIPTS - LOTTERY							
(millions of dollars)							
	FY 2014 Actual	FY 2015 Estimated	Change	Percent Change	FY 2016 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	3,172.7	3,067.0	(105.7)	(3.3)	3,171.0	104.0	3.4
All Funds	3,172.7	3,067.0	(105.7)	(3.3)	3,171.0	104.0	3.4

Note: Totals may differ due to rounding.



LOTTERY RECEIPTS BY COMPONENT														
(millions of dollars)														
	Instant Games	Numbers	Win 4	Lotto	Pick 10	Take 5	Quick Draw	Mega Millions	Power Ball	Cash for Life	Other*	VLTs	Admin. Surplus**	Total Receipts
FY 2006	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
FY 2007	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
FY 2008	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
FY 2009	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
FY 2010	665.9	300.8	272.7	81.0	11.5	109.4	105.2	198.1	12.1		15.9	492.5	379.6	2,644.7
FY 2011	636.6	297.8	270.8	59.5	10.6	98.8	105.3	162.3	70.4		20.1	906.6	376.0	3,014.8
FY 2012	625.2	306.5	283.2	54.1	10.7	98.7	124.5	129.8	103.5		17.8	681.7	393.4	2,829.1
FY 2013	637.3	295.8	277.0	49.4	10.5	93.2	143.9	121.2	164.0		15.8	857.0	408.9	3,074.0
FY 2014	626.8	305.1	289.9	42.7	10.3	89.5	163.3	140.1	162.2		15.1	925.7	402.0	3,172.7
Estimated														
FY 2015	616.0	302.0	293.0	37.0	10.0	83.0	170.0	110.0	102.0	42.0	5.0	903.0	394.0	3,067.0
FY 2016														
Current Law	620.0	310.0	303.0	35.0	10.0	78.0	175.0	125.0	116.0	47.0	0.0	932.0	400.0	3,151.0
Proposed Law	620.0	310.0	303.0	35.0	10.0	78.0	175.0	125.0	116.0	47.0	0.0	952.0	400.0	3,171.0

Note: Totals may differ due to rounding.

* Other includes: King Kong (FY 2006), Raffle games (FY 2007, FY 2008, FY 2009, FY 2010, FY 2014), Sweet Millions (FY 2010 through FY 2015) and Monopoly Millionaire Club (FY 2015).

** Any unused portion of Lottery's administrative allowance and other miscellaneous income used for aid to education.

LOTTERY

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Expand electronic gaming offerings at Video Lottery Gaming (VLG) facilities; and
- Extend the Video Lottery Gaming (VLG) vendor's capital awards program for one year.

DESCRIPTION

The Gaming Commission, as an independent agency within the Executive Department, manages the operation and sales of the State's Lottery games (The Lottery). There are five types of games authorized:

- Instant games, sold as scratch-off tickets in which most prizes are won immediately (approximately 45 games are currently being offered for sale with prices ranging from \$1 to \$30);
- Lotto games, which are games offering large pari-mutuel top prizes, with drawings conducted 15 times weekly: seven 5-of-39 draws (Take-5), two 6-of-59 draws (Lotto), two 6-of-40 draws (Sweet Million), and four multi-jurisdictional drawings (Mega Millions and Powerball). For the Lotto, Mega Millions and Powerball games, the value of any top prize not won is added to the top prize in the subsequent drawing;
- Daily numbers games, which are fixed payout games with twice daily drawings where players select either a three-digit number (Daily Numbers), or a four-digit number (Win 4). Instant Win and Lucky Sum are offered as add-on games to Daily Numbers and Win 4;
- Keno-like games, which offer prizes that are of a fixed amount with drawings conducted either daily (Pick 10) or every few minutes (Quick Draw). The Lottery Division currently pays base top prizes of \$500,000 in Pick 10 and \$100,000 in Quick Draw; and
- Video lottery games, which are lottery games played on VLTs, which are authorized at selected thoroughbred and harness tracks; and at Nassau and Suffolk OTB with each authorized to have one site with up to 1,000 terminals.

The Lottery periodically offers short-run promotional lottery games. The latest were the Raffle to Riches game in both 2006-07 and 2007-08, the Turkey Raffle held in November 2008, and the Halloween Millions Raffle in October 2013.

The table below shows the statutory distribution of lottery sales among prizes, revenue for education and the allowance for expenses related to administration of the games. Any unused administration revenue is earmarked for education.

DISTRIBUTION OF LOTTERY SALES (Percent)			
	Prizes	Education	Admin. Allowance
Lotto	40	45	15
Sweet Million	40	45	15
Mega Millions*	55	30	15
Power Ball*	55	30	15
Cash 4 Life	55	30	15
Numbers	50	35	15
Win 4	50	35	15
Take 5	50	35	15
Pick 10	50	35	15
Quick Draw	60	25	15
Instant	65	20	15
Five Instant Games at 75%	75	10	15

* Mega Millions and Power Ball currently offer a 50% prize payout.

FREQUENCY OF LOTTERY DRAWINGS		
Game	Date of Inception	Frequency of Drawings
Lotto	1976	Wednesday and Saturday at 11:21 PM
Numbers	1980	Twice Daily
Win 4	1981	Twice Daily
Pick 10	1988	Once Daily
Take 5	1992	Once Daily
Quick Draw	1995	Every four minutes
Mega Millions	2002	Tuesday and Friday at 11:00 PM
Sweet Million	2009 (discontinued)	Monday and Thursday at 9:30 PM
Power Ball	2010	Wednesday and Saturday at 10:59 PM
Cash 4 Life	2014	Monday and Thursday at 9:30 PM

The following table shows the current distribution 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.

LOTTERY

DISTRIBUTION OF VLT RECEIPTS AFTER PRIZES* IN FY 2016 (Percent)					
<u>Tracks with 1,100 or more machines (Saratoga, Finger Lakes)</u>					
Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to \$62.5 million	45	10	31	10	4
More than \$62.5 million up to \$100 Million	49	10	31	10	0
Over \$100 million	51	10	31	8	0
<u>Tracks with less than 1,100 machines (Batavia)</u>					
Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to \$50 million	41	10	35	10	4
More than \$50 million to \$62.5 million	48	10	28	10	4
More than \$62.5 million up to \$100 Million	52	10	28	10	0
More than \$100 million up to \$150 Million	54	10	28	8	0
Over \$150 million	57	10	25	8	0
<u>Tracks with a population less than 1 million within 40 mile radius (Tioga)</u>					
Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to \$50 million	37	10	39	10	4
More than \$50 million to \$62.5 million	48	10	28	10	4
More than \$62.5 million up to \$100 Million	52	10	28	10	0
More than \$100 million up to \$150 Million	54	10	28	8	0
Over \$150 million	57	10	25	8	0
<u>Tracks within 15 miles of a Class III Native American Casino (Vernon, Buffalo Fairgrounds)</u>					
Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to \$62.5 million	35	10	41	10	4
More than \$62.5 million to \$100 million	39	10	41	10	0
Over \$100 million	41	10	41	8	0
<u>Tracks located in Sullivan County within 60 miles of Gaming Facility in a Contiguous State (Monticello)</u>					
Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to \$50 million	41	10	39	10	0
More than \$50 million up to \$100 Million	52	10	28	10	0
More than \$100 million up to \$150 Million	54	10	28	8	0
Over \$150 million	57	10	25	8	0
<u>Tracks with 1,100 or more machines located in Westchester County (Yonkers)</u>					
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
<u>Facilities located in Nassau or Suffolk County operated by an Off-Track Betting Corporation</u>					
	Education	Lottery Administration	Commission	Marketing	Capital
Up to \$100 million	45	10	35	10	0
Over \$100 million	47	10	35	8	0
<u>Aqueduct Racetrack</u>					
	Education	Lottery Administration	Commission	Marketing	Racing Support Payment
All Net Machine Income	44	10	31	8	7
*Not less than 90 percent of sales must be used for prizes. Net Machine Income is gross receipts minus prize payments. Free-play allowance amounts are excluded from the calculation of NMI.					

Administration

The Gaming Commission develops new lottery games, markets and advertises, distributes games, provides terminals and computer programming, regulatory oversight and otherwise performs all functions necessary to operate an effective State lottery. The Comptroller, pursuant to an appropriation, distributes all net receipts from the Lottery directly to school districts. This aid includes special allowances for textbooks for all school children and additional amounts for pupils in approved State-supported schools for the deaf and the blind.

The Lottery game vendor notifies sales agents of the State's share of sales proceeds by the Monday following the liability week. The agent has until Tuesday to deposit sufficient funds into a specified bank account, at which time the operations vendor sweeps the funds and transfers them to the Lottery by Wednesday morning. For VLTs, the Commission sweeps the accounts daily. All gaming funds are transferred to the State on Wednesday.

History

In 1966, New York State voters approved a referendum authorizing a State Lottery, and ticket sales commenced under the auspices of the Lottery Commission. Under the original lottery legislation, a passive draw game was offered with 12 drawings a year, 30 percent of gross receipts earmarked to prizes, 55 percent to education, and the remaining 15 percent representing an upper limit on administrative expenses. Since its inception, numerous games have been introduced with varying prize payout schedules to make them attractive to the consumer. In 1973, the New York State Racing and Wagering Board took over operation of the Lottery from the Lottery Commission, but Lottery operations were subsequently shut down in 1975. The New York State Division of the Lottery was established in 1976, and assumed the operation of the State's Lottery. In 2013, the Division of the Lottery was merged with the Racing and Wagering Board to create the New York State Gaming Commission.

Significant Legislation

Significant lottery legislation enacted since 2000 is summarized below.

Subject	Description	Effective Date
Legislation Enacted in 2001		
Multi-jurisdictional	Allowed the Lottery Division to enter into agreements to conduct multi-jurisdictional lotto games with a 50 percent prize payout (Mega Millions).	October 29, 2001
Video Lottery Gaming	Allowed the Lottery Division to license video lottery gaming at selected New York State racetracks.	October 29, 2001
Legislation Enacted in 2002		
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

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Subject	Description	Effective Date
Video Lottery Gaming	Provided that of the total amount wagered on video lottery terminals, not less than 90 percent is paid out for prizes. Of the balance, the Lottery Division retained 10 percent for administration, 29 percent was paid to the racetracks as a commission, and 61 percent was dedicated to education. Of the commission paid to the tracks, the amount allocated to purses in years one through three was 25.9 percent; in years four and five, 26.7 percent; and in subsequent years, 34.5 percent. The Breeders' funds received 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 were allowed to enter into agreements, not to exceed five years, with the horsemen to reduce the percentage of the vendor fee allocated to purses. The program expires ten years after the start of the program.	May 2, 2003
Legislation Enacted in 2004		
Quick Draw	Extended the operation of Quick Draw until May 31, 2005.	August 20, 2004
Legislation Enacted in 2005		
Quick Draw	Extended the operation of Quick Draw until May 31, 2006.	April 12, 2005
Video Lottery Gaming	Provided a graduated vendor's fee that allows participating tracks to receive 32 percent of the first \$50 million of revenue after prizes, 29 percent of the next \$100 million, and 26 percent of net revenue over \$150 million. In addition, a marketing allowance of 8 percent of the first \$100 million in net revenue and 5 percent thereafter was established. The marketing allowance is limited to 4 percent of net revenue for tracks located in Westchester or Queens Counties. The expiration of the program was extended until December 31, 2017.	April 12, 2005
Legislation Enacted in 2006		
Quick Draw	Extended the operation of Quick Draw until May 31, 2007.	April 28, 2006
Legislation Enacted in 2007		
Quick Draw	Extended the operation of Quick Draw until May 31, 2008.	May 31, 2007
Legislation Enacted in 2008		
Quick Draw	Extended the operation of Quick Draw until May 31, 2010.	April 23, 2008
Video Lottery Gaming	Revised the distribution of video lottery receipts to provide different commissions to tracks based on factors including: size of the facility; population surrounding the facility; and proximity to Native American and out-of-state casinos. In addition, tracks were provided a capital allowance for capital expenditures to enhance their facilities.	April 1, 2008
Video Lottery Gaming	Provided a commission rate of 75 percent to a facility located in Sullivan County that had 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 was required to provide a minimum contribution to education of \$38 million plus an amount equal to the Lottery's administrative costs, not to exceed 7 percent of net machine income.	July 7, 2008
Legislation Enacted in 2009		
Multi-jurisdictional	Authorized the Lottery to enter more than one multi-jurisdictional lottery association.	April 7, 2009
Video Lottery Gaming	Reduced capital investment and employment requirements for a facility located in Sullivan County to qualify for a 75 percent commission rate.	August 11, 2009
Legislation Enacted in 2010		
Quick Draw	Made the Lottery's authorization to operate the Quick Draw lottery game permanent and removed the restrictions on the number of hours Quick Draw can be operated.	July 1, 2010

Subject	Description	Effective Date
Video Lottery Gaming	Removed the sunset on the Video Lottery Gaming Program. Increased the hours that VLTs may be operated to 20 hours from 16 hours, but no later than 4 am. Reduced the vendor commission by one percent of net machine income.	August 11, 2010
Legislation Enacted in 2011		
Multi-jurisdictional	Increased the maximum prize payout from 50 to 55 percent of sales of multi-jurisdictional lottery games.	March 31, 2011
Instant Games	Increased the number of 75 percent prize payout Instant ticket games to be offered during the fiscal year from three to five.	March 31, 2011
Video Lottery Gaming	Authorized the Lottery to participate in Multi-Jurisdictional progressive video lottery games. Provided a free-play allowance that excluded free-play credits up to 10 percent of net machine income at each track from the calculation of NMI.	March 31, 2011
Legislation Enacted in 2012		
Gaming Commission	Established the Gaming Commission by merging the Division of the Lottery and the Racing and Wagering Board.	February 1, 2013
Quick Draw	Eliminated the restriction requiring minimum food sales at locations that have a license for on-premises liquor consumption.	March 30, 2012
Legislation Enacted in 2013		
Video Lottery Gaming	Authorized two video lottery facilities with up to 1,000 terminals each in Nassau and Suffolk Counties operated by Off-Track Betting Corporations.	January 1, 2014
Commercial Gaming	Authorized up to four resort destination gaming facilities.	January 1, 2014
Legislation Enacted in 2014		
Video Lottery Gaming	Increased the free-play allowance from 10 to 15 percent	March 31, 2014

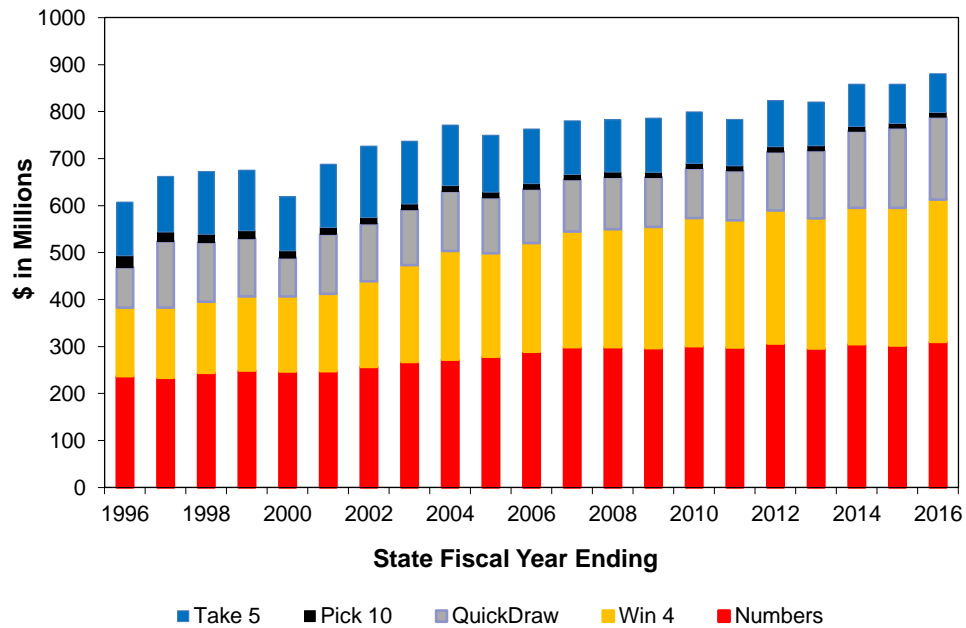
Lottery Demand

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' attitudes towards Lottery games; and competition from other gambling venues.

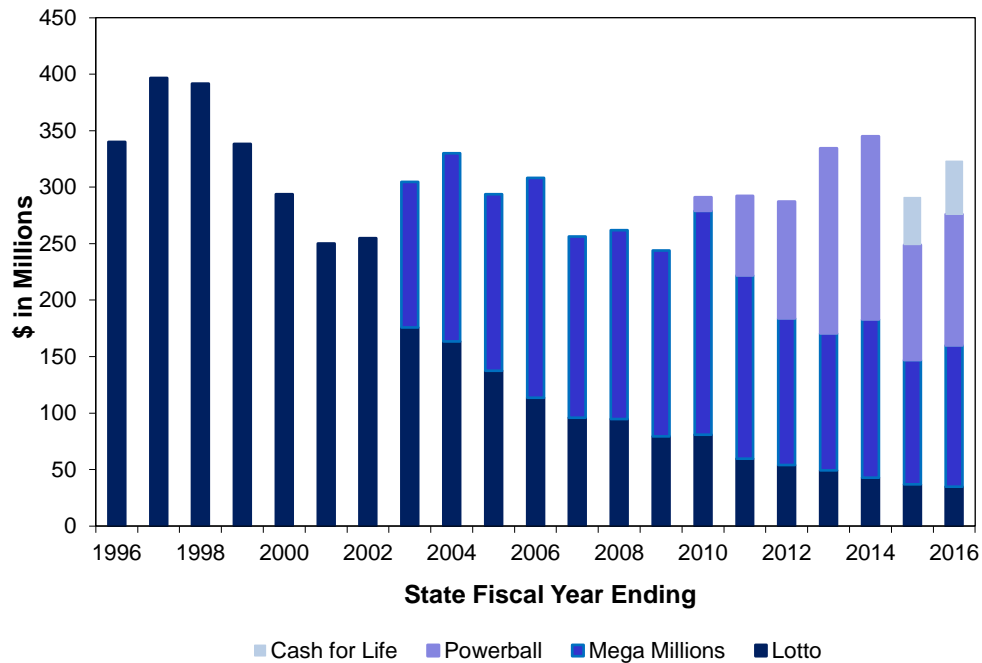
For a more detailed discussion of the methods and models used to develop estimates and projections for Lottery receipts, please see the *Economic, Revenue, and Spending Methodologies* at www.budget.ny.gov.

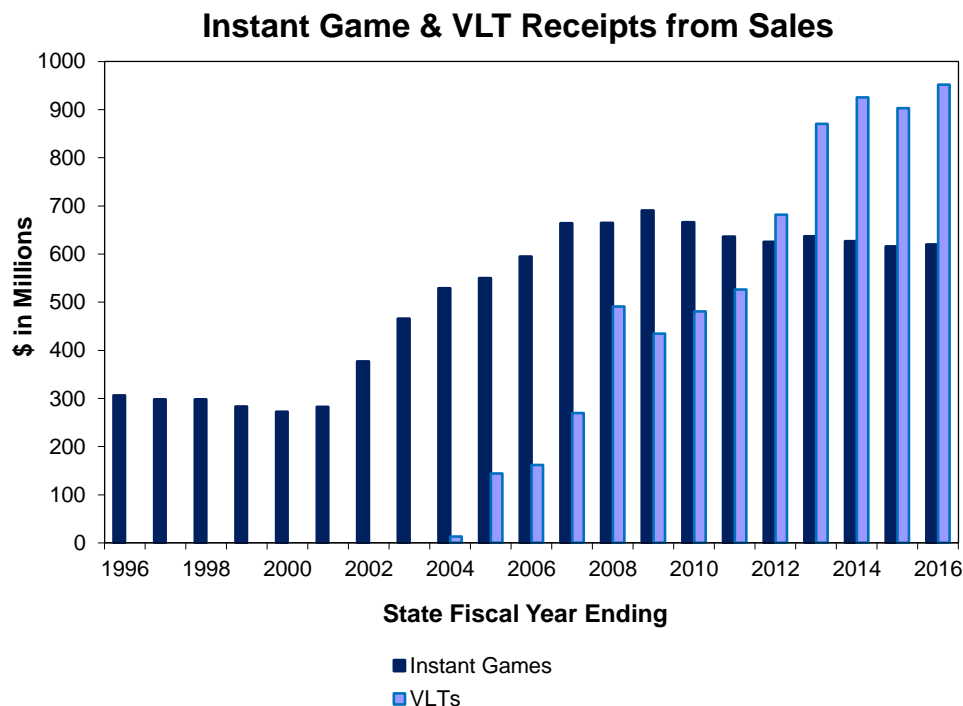
The following graphs show the receipts history and projections for various games since 1995.

Daily Drawing Games Receipts from Sales



Jackpot Game Receipts from Sales





RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

FY 2015 Estimates

All Funds receipts through December are \$2,008.3 million, a decrease of \$92.3 million (4.4 percent) from the comparable period in the prior fiscal year.

All Funds FY 2015 receipts are estimated to be \$3,067 million, a decrease of \$105.7 million (3.3 percent) from FY 2014. Unspent administrative allowances and miscellaneous income account for \$394 million of receipts. A game-by-game profile follows.

Instant Games and Video Lottery Gaming

Year-to-date, sales of 65 percent prize-payout instant games have declined while 75 percent prize payout instant games have grown sharply. Revenue to support education from the sale of Instant Games is estimated to be \$616 million, a decrease of \$10.8 million (1.7 percent) from FY 2014.

VLT machines are currently in operation at Aqueduct, Saratoga, Finger Lakes, Monticello, Buffalo, Batavia, Tioga, Vernon, and Yonkers racetracks. Receipts from gaming operations at VLT facilities are estimated at \$903 million for FY 2015, a decrease of \$22.7 million (2.5 percent) from the prior year. This decrease reflects

LOTTERY

declines in handle at all facilities with the exception of the Resorts World Casino at Aqueduct Racetrack and Batavia Downs.

Jackpot Games

Mega Millions receipts from sales in FY 2015 are estimated to be \$110 million, a decrease of \$30.1 million (21.5 percent) from 2013-14. In October 2013, Mega Millions implemented changes to the game matrix which decreased the overall odds of hitting the jackpot. These changes resulted in the jackpot running up to \$636 million in December 2013. However, Mega Millions has only rolled-up to over \$200 million on one occasion year-to-date.

Powerball receipts from sales are estimated to decrease by \$60.2 million (37.1 percent) to \$102 million. To date, the Powerball jackpot roll-ups have underperformed the roll-ups that occurred in FY 2014, when the jackpot rolled to close to \$400 million or above on four occasions.

Trend declines in sales of Lotto continued in FY15 as customers migrated to the higher jackpots offered by Mega Millions and Powerball, with sales of Lotto estimated to decline by 13.3 percent. The Sweet Millions game was discontinued in June 2014 and replaced with Cash for Life. Receipts from sales of Cash for Life are estimated to be \$42 million.

Daily Drawing Games

Quick Draw is estimated to generate \$170 million in receipts from sales, an increase of \$6.7 million (4.1 percent). Quick Draw continues to benefit from 2012 legislation that removed the food sales requirement for establishments with a liquor license for on-premises consumption. This has resulted in growth the number of locations that offer the game.

Sales of Numbers and Win 4 have been negatively impacted by increased promotion of the launch of the Cash for Life Game. For the entire fiscal year, receipts from sales of Numbers are estimated to decrease by \$3.1 million (1 percent) while the growth rate of Win 4 declined to just 1.1 percent down from 4.7 percent in FY 2014.

FY 2016 Projections

All Funds FY 2016 receipts are projected to be \$3,171 million, an increase of \$104 million (3.4 percent) from FY 2015. Unspent administrative allowances and miscellaneous income account for \$400 million of receipts. All games will benefit from an extra week of sales deposits in FY 2016.

Instant Games and Video Lottery Gaming

Receipts from Instant Games sales are projected to increase by \$4 million (0.6 percent) to \$620 million. Recent trends in the instant games market are projected to moderate in FY 2016.

Receipts from the State's VLT operations are projected to total \$952 million, an increase of \$49 million (5.4 percent). This growth is reflects modest growth at the Resorts World and Empire City Casinos, the opening of a new VLT facility operated by a Long Island OTB late in the year, and the impact of proposed legislation expanding electronic gaming offerings.

Jackpot Games

Receipts for education from Powerball are projected to increase by \$14 million (13.7 percent), while sales of Mega Millions are expected to increase by \$15 million (13.6 percent) as a result of expected roll-up patterns more in line with historical trends. Full-year receipts from sales of Cash for Life are projected at \$47 million, an increase of \$5 million (11.9 percent).

Daily Drawing Games

Receipts for education from Numbers and Win 4 are estimated to increase by \$8 million (2.6 percent) and \$10 million (3.4 percent) respectively as the impact of Cash for Life is reduced in FY 2016. The rate of growth in Quick Draw is expected to decline as the impact of the expansion in retail locations is fully phased in, resulting in increased receipts of \$5 million (2.9 percent). Take 5 receipts from sales are estimated to decline by \$5 million (6 percent), reflecting trend declines in the game.

COMMERCIAL GAMING

MISCELLANEOUS RECEIPTS - COMMERCIAL GAMING							
(millions of dollars)							
	FY 2014 Actual	FY 2015 Estimated	Change	Percent Change	FY 2016 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	0.0	0.0	0.0	0.0	171.0	171.0	N/A
All Funds	0.0	0.0	0.0	0.0	171.0	171.0	N/A

Note: Totals may differ due to rounding.

COMMERCIAL GAMING TAX BY FUND		
(millions of dollars)		
	Special Revenue Funds	All Fund Receipts
FY 2011	N/A	N/A
FY 2012	N/A	N/A
FY 2013	N/A	N/A
FY 2014	N/A	N/A
Estimated		
FY 2015	0.0	0.0
FY 2016		
Current Law	171.0	171.0
Proposed Law	171.0	171.0

PROPOSED LEGISLATION

No new legislation is proposed with this budget.

DESCRIPTION

Commercial Gaming is authorized in three development regions of New York State. Those regions are:

Region One comprised of the Counties of Columbia, Delaware, Dutchess, Greene, Orange, Sullivan and Ulster;

Region Two comprised of the Counties of Albany, Fulton, Montgomery, Rensselaer, Saratoga, Schenectady, Schoharie and Washington; and

Region Five comprised of the Counties of Broome, Chemung (east of State Route 14), Schuyler (east of State Route 14), Seneca, Tioga, Tompkins and Wayne (east of State Route 14).

On December 17, 2014, the New York Gaming Facility Location Board recommended three applicants to the New York State Gaming Commission to be eligible to apply for a gaming license. Those applicants are Montreign in Sullivan County, Rivers in Schenectady County and Lago in Seneca County. Additionally, on January 13, 2015, the Gaming Facility Location Board approved the preparation of a request for

COMMERCIAL GAMING

applications for a fourth facility to be located in the Southern Tier. If awarded licenses, these four facilities would pay a total of at least \$171 million in licensing fees.

Administration

The Gaming Commission regulates commercial gaming facilities and administers the tax on gaming revenues. The Commission also collects license fees as established by the New York State Resort Gaming Facility Location Board.

All commercial gaming tax (see below) and license revenue collected by the Gaming Commission is deposited into the Commercial Gaming Revenue Fund. From that Fund, tax and license revenue is distributed as follows: 80 percent of all commercial gaming revenue (less an amount transferred to the Video Lottery Education account required to maintain base year revenue in that account) for elementary and secondary education or property tax relief; 10 percent of the revenue generated by any commercial gaming facility in a gaming region is provided equally to the host county and municipality in that region and 10 percent of the revenue generated by any commercial gaming facility in a gaming region is provided on a per capita basis to non-host counties within such region.

History

In 2013, New York State voters approved a referendum allowing no more than seven commercial gaming facilities as authorized and prescribed by the legislature. The “Upstate New York Gaming Economic Development Act of 2013” authorized up to four commercial gaming facilities within three development zones. In December 2014, licenses were awarded based upon a competitive process conducted by the New York State Resort Gaming Facility Location Board.

Significant Legislation

Significant lottery legislation enacted since 2013 is summarized below.

Subject	Description	Effective Date
Legislation Enacted in 2013		
Commercial Gaming	Authorized up to four resort destination gaming facilities.	January 1, 2014

Tax Liability

Commercial gaming taxes are paid as a percent of gaming revenue generated at each licensed facility. Factors that affect the commercial gaming revenue include proximity to population centers, regional income variations, proximity to and competition from existing facilities, and the applicable tax rates in the gaming regions. Those rates are: 10 percent on table game receipts in all regions; 39 percent on slot machine receipts in Region One; 45 percent on slots in Region Two; and 37 percent on slots in Region Three.

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

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

FY 2015 Estimates

No receipts are anticipated in the current fiscal year.

FY 2016 Projections

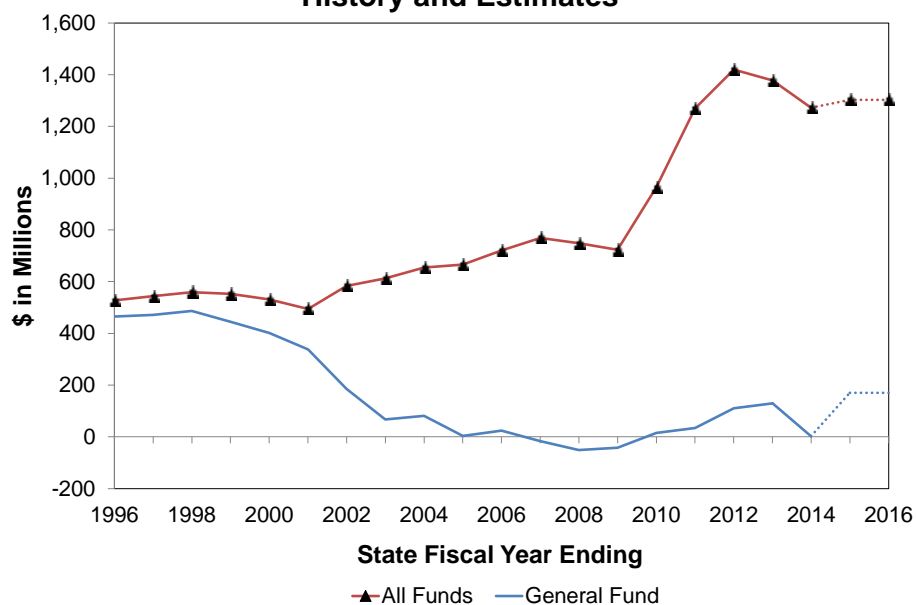
FY 2016 receipts are projected to be \$171 million, reflecting the receipt of license fee revenue following the awarding of commercial gaming licenses.

MOTOR VEHICLE FEES

MOTOR VEHICLE FEES (millions of dollars)							
	FY 2014 Actual	FY 2015 Estimated	Change	Percent Change	FY 2016 Projected	Change	Percent Change
General Fund	1.7	170.0	168.3	9,900.0	170.0	0.0	0.0
Capital Funds	785.3	725.0	(60.3)	(7.7)	725.0	0.0	0.0
SR Funds	484.7	408.0	(76.7)	(15.8)	408.0	0.0	0.0
All Funds	1,271.7	1,303.0	31.3	2.5	1,303.0	0.0	0.0

Note: Totals may differ due to rounding.

Motor Vehicle Fee Receipts History and Estimates



MOTOR VEHICLE FEES BY FUND (millions of dollars)								
	Gross General Fund	Refunds	General Fund	Special Revenue Funds ¹	Gross Capital Projects Funds	Refunds	Capital Projects Funds ²	All Fund Receipts
FY 2006	30	6	24	201	511	17	494	719
FY 2007	-12	5	-17	229	573	16	557	769
FY 2008	-46	5	-51	230	585	16	569	748
FY 2009	-37	5	-42	218	562	16	546	722
FY 2010	20	5	15	322	643	15	628	965
FY 2011	39	5	34	422	830	17	813	1,269
FY 2012	116	5	111	496	837	25	812	1,419
FY 2013	134	5	129	453	821	25	796	1,378
FY 2014	7	5	2	485	810	25	785	1,272
Estimated								
FY 2015	175	5	170	408	750	25	725	1,303
FY 2016								
Current Law	175	5	170	408	750	25	725	1,303
Proposed Law	175	5	170	408	750	25	725	1,303

¹ Dedicated Mass Transportation Trust Fund (DMTTF), the MTA Aid Trust Account and other SR Accounts.
² Dedicated Highway and Bridge Trust Fund (DHBTF).

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 2013, 10.9 million vehicles were registered in New York State, including 9.2 million standard series vehicles and 784,349 commercial vehicles. The Vehicle and Traffic Law also requires drivers to be licensed by the Department of Motor Vehicles. The current license renewal period is eight years. In 2013, New York State had 11.4 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
		1.21
	Plus: for each 100 lbs. or major fraction thereof above 3,500 lbs.	
Passenger vehicle - minimum fee		12.94
Passenger vehicle - maximum fee		70.08
Passenger vehicle propelled by electricity		16.18
Auto truck and light delivery vehicle	Each 500 lbs. maximum gross weight or fraction thereof	3.60
Tractors (registered separately from semi-trailers)	Each 100 lbs. maximum gross weight or fraction thereof	1.51
Trailers	Each 500 lbs. maximum gross weight or fraction thereof	5.39
Semi-trailers - pre-1989 model year		28.75 per year
Semi-trailers - model year 1989 or later		28.75 per year or 86.25 for a period of 5.5 to 6.5 years
Bus - seating capacity 15 to 20 passengers		74.75

*This does not include the \$25 supplemental fee imposed on registrations in the Metropolitan Commuter Transportation District (MCTD).

MOTOR VEHICLE FEES

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. County clerks receive 12.7 percent of gross receipts as compensation. This totaled \$42.4 million in FY 2014.

Fee Exemptions

Certain vehicles registered in New York are exempt from registration fees. The exemptions include: vehicles owned by the State or municipalities; passenger vehicles owned by consular offices; and vehicles owned and used for the transportation of animals by societies for the prevention of cruelty to animals. Vehicles owned by nonresidents and registered with a political jurisdiction outside the State are not usually required to be registered in New York. The revenue loss from these exemptions is minimal.

Significant Legislation

Significant statutory changes to motor vehicle fees since 2000 are summarized below.

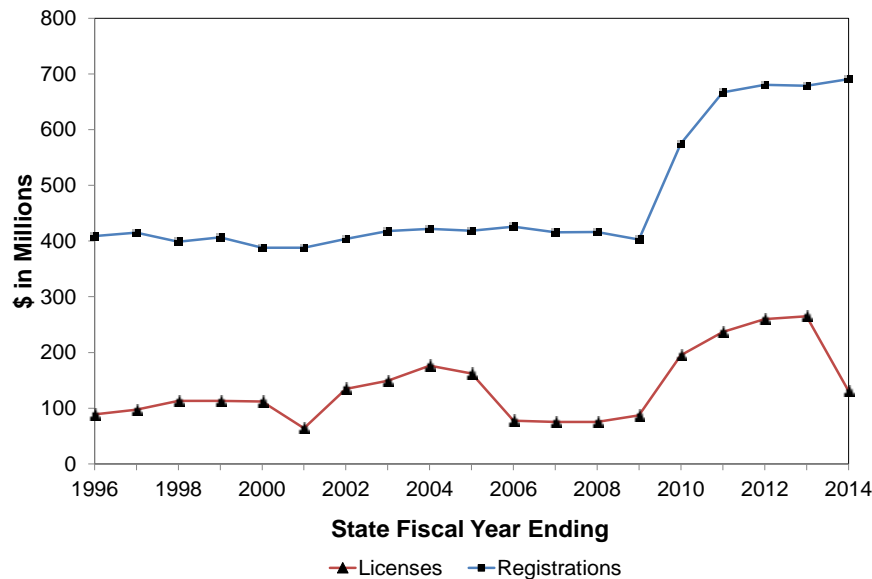
Subject	Description	Effective Date
Administrative Changes in 2000		
License Plates	Reissuance (January 2001-January 2003).	January 1, 2001
Licenses	License renewal period extended to eight years.	April 1, 2000
Administrative Changes in 2003		
Photo Image Fee	Increased photo image fee to \$5.00.	February 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

MOTOR VEHICLE FEES

Subject	Description	Effective Date
Legislation Enacted in 2008		
Enhanced License	Western Hemisphere Travel Initiative (WHTI) licenses are 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 license 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 license plate issuance fee from \$15 to \$25.	April 1, 2010
Legislation Enacted in 2011		
General Fund	Included fines and assessments in the definition of General Fund receipts.	April 1, 2011
Legislation Enacted in 2014		
GF MVF Transfer	General Fund transfers to the DMTTF and DHBTF that are specifically sourced from General Fund motor vehicle fee receipts were replaced with generic General Fund transfers to these two funds.	April 1, 2014
DRA Receipts	The first \$40.7 million in Driver Responsibility Assessment (DRA) receipts that remained in the General Fund instead flows directly to the DHBTF. Now all revenues from this Assessment are directed to the DHBTF.	April 1, 2014

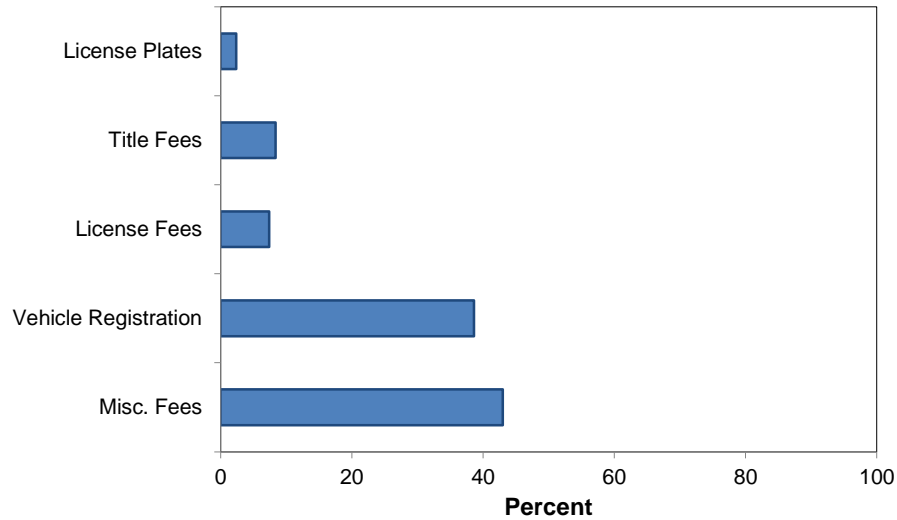
FEE LIABILITY

Motor Vehicle Fee Licenses and Registrations



Vehicle registration and driver licensing fee totals are a function of fee schedules, the number of licensed drivers and registered vehicles, and the number of years between license and vehicle registration renewals. These motor vehicle fees have fluctuated little as a result of economic conditions, but law changes in 2000 and in 2009 altered revenue collections. In 2000, the license renewal period was extended to eight years. In 2009, most registration and license fees were increased by 25 percent.

**Motor Vehicle Fees Receipts by Source
FY 2014**



RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

FY 2015 Estimates

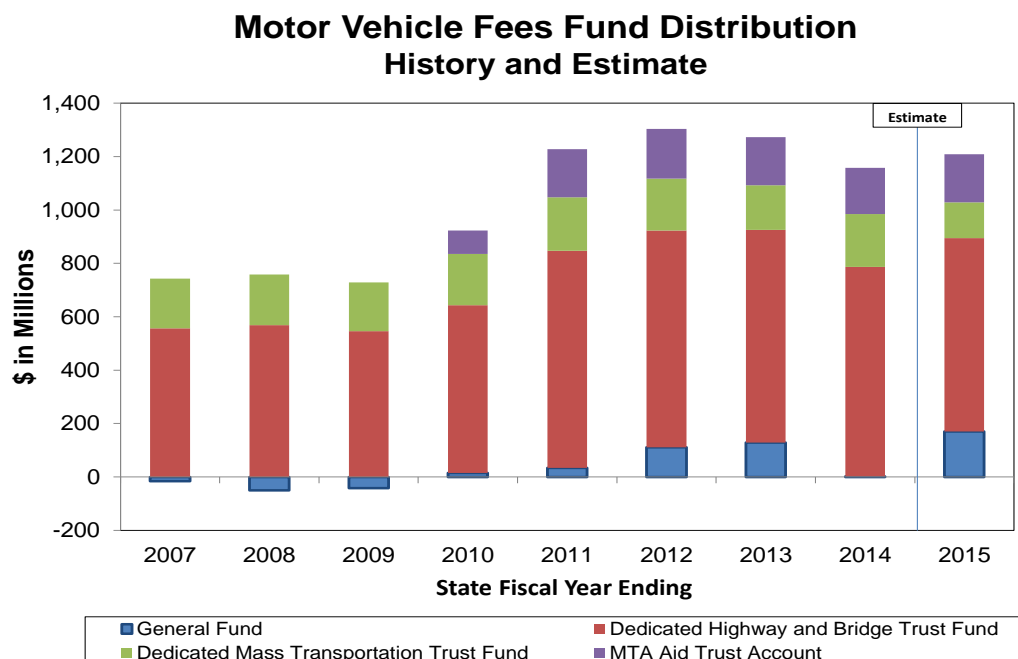
All Funds receipts through December are \$1,012 million, an increase of \$58 million (6.1 percent) from the comparable period in the prior fiscal year.

All Funds FY 2015 receipts are estimated to be \$1,303 million, an increase of \$31.3 million (2.5 percent) from FY 2014. This increase is primarily due to proper accounting of monies from the Driver Responsibility Act (DRA) as motor vehicle fees.

FY 2016 Projections

All Funds FY 2016 receipts are projected to be \$1,303 million, unchanged from FY 2015.

MOTOR VEHICLE FEES



General Fund

General Fund motor vehicle fees in FY 2015 and FY 2016 are estimated to be \$170 million.

Other Funds

Since April 1, 1993, a percentage of registration fees has been deposited in the Dedicated Highway and Bridge Trust Fund (DHBTF). The percentage dedicated to the fund has been adjusted several times.

Revenues from the 25 percent registration and license fee increase, effective September 1, 2009, are directed solely to the DHBTF. The balance of registration and license fees is dedicated as follows: 80 percent to the DHBTF and 20 percent to the Dedicated Mass Transportation Trust Fund (DMTTF).

Since 2009, all receipts from the supplemental fee on registrations and licenses are dedicated to the MTA Aid Trust Account of the MTA Special Assistance Fund.

In both FY 2015 and FY 2016, the DHBTF will receive an estimated \$725 million and the DMTTF will receive an estimated \$133 million. The MTA Aid Trust Account is estimated to receive \$171 million. Various other dedicated funds (Special Revenue Other) will receive a portion of the remaining \$104 million.

MISCELLANEOUS RECEIPTS CAPITAL PROJECTS FUNDS

MISCELLANEOUS RECEIPTS - CAPITAL PROJECTS FUNDS (millions of dollars)							
	FY 2014 Actual	FY 2015 Estimated	Change	Percent Change	FY 2016 Projected	Change	Percent Change
State Funds	3,537	4,724	1,187	0.3	5,559	835	0.2
Federal Funds	2,308	2,042	(266)	(0.1)	1,668	(374)	(0.2)
All Funds	5,845	6,766	921	0.2	7,227	460	0.1

Note: Totals may differ due to rounding.

MISCELLANEOUS RECEIPTS - CAPITAL PROJECTS FUNDS (millions of dollars)			
	FY 2014	FY 2015	FY 2016
Authority Bond Proceeds			
Transportation	1,205	1,219	1,508
Public Protection	170	279	333
Health and Social Welfare	267	129	525
Education	1,479	1,606	1,640
Mental Hygiene	263	329	359
Economic Development/ Government Oversight	139	511	651
General Government	40	104	199
Other	342	470	210
State Park Fees	25	24	26
Environmental Revenues	60	54	55
All Other	900	910	1,065
Total	4,891	5,636	6,571
Accounting Adjustment	(1,353)	(911)	(1,012)
Financial Plan Total	3,537	4,724	5,559

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.

State Funds receipts 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) finance State Pay-As-You-Go spending. Federal Funds receipts (Federal Grants) finance Federal Pay-As-You-Go spending.

CAPITAL PROJECTS FUNDS

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 \$24 million in FY 2015 and \$26 million in FY 2016, 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. 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)							
	FY 2014 Actual	FY 2015 Estimated	Change	Percent Change	FY 2016 Projected	Change	Percent Change
General Fund	0	0	0	0.0	0	0	0.0
Other Funds	698	471	(227)	(32.5)	449	(23)	(4.8)
All Funds	698	471	(227)	(32.5)	449	(23)	(4.8)

Note: Totals may differ due to rounding.

MISCELLANEOUS RECEIPTS - DEBT SERVICE FUNDS (millions of dollars)			
	FY 2014	FY 2015	FY 2016
Mental Hygiene Patient Receipts	313	323	299
Health Patient Receipts	120	139	142
All Other	265	9	8
Total	698	471	449

Miscellaneous receipts in the Debt Service fund type include patient revenues, rental fees, medical insurance payments, interest income on investments, and other revenues. These revenues are typically first dedicated for the payment of lease-purchase agreements, contractual obligations, and debt service. These revenues support about 8 percent of the State's debt service payments and have been pledged as security for bonds issued for Mental Hygiene facilities and Department of Health facilities. Starting in FY 2015, receipts from State University of New York (SUNY) dormitories were reclassified into a special revenue fund. 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

HEALTH PATIENT RECEIPTS

Patient care reimbursements from the Department of Health's hospitals and the veterans' homes (Oxford, New York City and Western New York) are deposited into the Health Income Fund to make lease-purchase rental payments to DASNY. Similar to the Mental Hygiene Services Fund, the receipts are pledged for debt service of bonds issued by DASNY to finance the construction and rehabilitation of State hospitals and veteran's homes. These receipts are composed of payments from Medicaid, Medicare, insurance, and individuals.

ALL OTHER

The all other miscellaneous receipts category primarily includes investment income receipts from the Local Government Assistance Corporation, and payments from local housing agencies to finance the debt service costs on general obligation bonds.

FEDERAL GRANTS

To qualify to receive Federal grants, the State must comply with guidelines established by the Federal government. Each Federal grant must be used pursuant to Federal laws and regulations. Additionally, the State is required to follow specific cash management practices regarding the timing of cash draws from the Federal government pursuant to regulations for each grant award. In most cases, the State finances spending in the first instance, then receives reimbursement from the Federal government.

Total receipts from the Federal government are projected at \$46.9 billion in FY 2015 and \$49.8 billion in FY 2016. These revenues represent approximately one-third of total receipts in governmental funds, excluding general obligation bond proceeds, and are deposited into the General Fund, Special Revenue, Capital Projects and the Debt Service fund types.

FEDERAL GRANTS BY FUND (millions of dollars)								
	General Fund	Special Revenue Funds				Capital Projects Funds	Debt Service Funds	Total All Funds
		Medicaid	Welfare	All Other	Total			
FY 2003	6	17,297	2,542	11,847	31,686	1,567	0	33,259
FY 2004	654	21,435	2,018	11,668	35,121	1,548	0	37,323
FY 2005	9	22,666	1,998	9,828	34,492	1,721	0	36,222
FY 2006	0	21,524	2,097	9,741	33,362	1,767	0	35,129
FY 2007	151	22,906	2,243	8,540	33,689	1,738	0	35,578
FY 2008	69	22,417	2,184	8,494	33,095	1,745	0	34,909
FY 2009	45	24,844	2,597	9,466	36,907	1,882	0	38,834
FY 2010	71	30,054	2,721	10,605	43,380	2,061	13	45,525
FY 2011	55	31,423	2,674	12,596	46,693	2,499	57	49,304
FY 2012	60	28,195	2,520	11,640	42,355	2,115	80	44,610
FY 2013	62	27,043	2,583	10,950	40,576	2,126	79	42,843
FY 2014	0	24,848	3,168	13,389	41,405	2,313	71	43,789
Estimated								
FY 2015	0	28,002	3,027	13,787	44,816	2,047	73	46,936
FY 2016	0	30,724	2,627	14,665	48,016	1,673	73	49,762

GENERAL FUND

Federal grants are deposited into the General Fund only in limited instances. The Federal subsidiary payment related to Medicare Part D was the main Federal grant in the General Fund in recent years, however, beginning in FY 2014, the State will receive this payment through a different reimbursement mechanism.

SPECIAL REVENUE FUNDS

Federal grants account for nearly two-thirds of all special revenue receipts and are used to support a wide range of programs at the State and local government level. Medicaid is the single largest program supported by Federal funds, and helps finance health care, medical supplies, and professional services for eligible persons. The State receives funds from the Federal government to make payments to providers for both State-operated and non-State-operated facilities. The State-operated category includes facilities of the Offices of Mental Health and Mental Retardation and Developmental Disabilities. These facilities receive Medicaid funds for the delivery of eligible services to patients.

FEDERAL GRANTS

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 Public Assistance, Foster Care, Food and Nutrition Services, and Supplementary Educational Services. The State also receives Federal grants to support extraordinary costs associated with disaster assistance.

CAPITAL PROJECTS FUNDS

Federal grants in Capital Projects Funds finance transportation planning, engineering, and construction projects. Federal grants also support local wastewater treatment projects financed through the State's Revolving Loan Fund. Other Federal grants are for the rehabilitation of State armories, eligible housing programs, and other environmental purposes.

DEBT SERVICE FUNDS

Federal grants in the Debt Service fund type reflect interest subsidies received on Build America Bonds (BABs), pursuant to a financing option provided to the State through the American Recovery and Reinvestment Act (ARRA).

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 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.

SCHOOL TAX RELIEF FUND (STAR) (millions of dollars)						
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
	Actual	Estimated	Recommended	Recommended	Recommended	Recommended
Personal Income Tax	3,357	3,374	3,231	3,216	3,157	3,098
Total STAR	3,357	3,374	3,231	3,216	3,157	3,098

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. Revenue shown below does not include an annual General Fund transfer of \$66 million, effective FY 2015.

DEDICATED MASS TRANSPORTATION TRUST FUND (DMTTF) (millions of dollars)						
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
	Actual	Estimated	Recommended	Recommended	Recommended	Recommended
Petroleum Business Tax	376	372	357	344	343	340
Motor Fuel Tax	99	102	102	102	101	100
Motor Vehicle Fees	198	133	133	133	133	133
Total DMTTF	673	607	592	579	577	573

Metropolitan Transportation Authority Financial Assistance Fund (“MTAF” Fund-225)

The Metropolitan Transportation Authority Financial Assistance Fund was established by Section 92-ff of the State Finance Law under the joint custody of the

DEDICATED FUND TAX RECEIPTS

Commissioner of Taxation and Finance and the State Comptroller. Moneys in this 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 the following sources:

- The metropolitan commuter transportation mobility tax;
- Supplemental motor vehicle fees: a supplemental learner permit/license fee and registration fee in the Metropolitan Commuter Transportation District (MCTD);
- The supplemental tax on passenger car rentals in the MCTD; and
- The tax on New York City taxicab and Hail vehicle trips.

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.

METROPOLITAN TRANSPORTATION AUTHORITY FINANCIAL ASSISTANCE FUND (MTAF AF) (millions of dollars)						
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
	Actual	Estimated	Recommended	Recommended	Recommended	Recommended
Payroll Tax	1,204	1,260	1,337	1,397	1,467	1,544
Motor Vehicle Fees	174	171	171	182	182	182
Auto Rental Tax	43	45	47	48	51	53
Taxicab Surcharge	85	85	85	85	85	85
Total MTAF AF	1,506	1,561	1,640	1,712	1,785	1,864

Mass Transportation Operating Assistance Fund ("MTOA" 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 business tax surcharge levied on the portion of the State general business corporation tax, corporations and utilities tax, and the insurance tax allocated to the Metropolitan Commuter Transportation District (MCTD), a 0.375 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); and
- Metropolitan Mass Transportation Operating Assistance Account (MMTOA - Fund 313-02).

DEDICATED FUND TAX RECEIPTS

The PTOA receives:

- 45 percent of the 19.7 percent of the basic petroleum business tax that is dedicated to the MTOAF; and
- 26 percent of the receipts collected from the tax imposed on transportation and transmission companies by Sections 183 and 184 of Article 9 of the Tax Law for FY 2013 through FY 2018.

The MMTOA receives:

- 54 percent of the receipts collected from the taxes imposed on transportation and transmission companies by Sections 183 and 184 of Article 9 of the Tax Law for FY 2013 through FY 2018;
- All tax receipts from the business tax surcharge imposed on taxpayers that are subject to the corporation franchise tax, corporations and utilities tax, and the insurance tax and that conduct business in the MCTD. The FY 2015 Enacted Budget made the MTA business tax surcharge permanent;
- 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.

MASS TRANSPORTATION OPERATING ASSISTANCE FUND (MTOA)						
(millions of dollars)						
	FY 2014	FY 2015	FY 2016*	FY 2017	FY 2018	FY 2019
	Actual	Estimated	Recommended	Recommended	Recommended	Recommended
Corporate Surcharges						
Corporate Franchise Tax	567	484	769	807	849	899
Corporation and Utilities	115	108	111	117	121	129
Insurance Tax	146	154	171	176	183	192
Bank Tax	162	240	28	30	28	21
Other						
Sales and Use Tax	802	854	894	930	959	993
Petroleum Business Tax	137	135	130	125	125	124
Transmission Tax	54	60	60	60	60	60
Total MTOA	1,983	2,035	2,163	2,245	2,325	2,418
* The FY 2015 Enacted Budget merged the bank tax into the corporation franchise tax effective with tax year 2015. This accounts for the reduction in bank tax and the subsequent increase in the corporation franchise tax beginning in FY 2016.						

Health Care Reform Act Resources Fund ("HCRA" Fund-061)

The Health Care Reform Act (HCRA) Resources Fund was established by Section 92-dd of the State Finance Law and receives 76 percent of total State cigarette tax revenues. Other revenues dedicated to this Fund include hospital surcharges and assessments, a Covered Lives Assessment on commercial insurers and a portion of cigarette revenue from New York City's locally imposed cigarette tax. These resources support numerous public health, Medicaid and insurance programs for the uninsured/underinsured; including Family Health Plus, Healthy NY, Child Health Plus, anti-tobacco initiatives, graduate medical education, working disabled, and indigent care.

DEDICATED FUND TAX RECEIPTS

HEALTH CARE REFORM ACT RESOURCE FUND (HCRA) (millions of dollars)						
	FY 2014 Actual	FY 2015 Estimated	FY 2016 Recommended	FY 2017 Recommended	FY 2018 Recommended	FY 2019 Recommended
Cigarette Tax	1,027	963	915	877	847	817
Total HCRA	1,027	963	915	877	847	817

State Lottery Fund ("SLF" Fund-160)

The State Lottery Fund was established by Section 92-c of the State Finance Law. Fund receipts 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 Gaming Commission, 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 (SLF) (millions of dollars)						
	FY 2014 Actual	FY 2015 Estimated	FY 2016 Recommended	FY 2017 Recommended	FY 2018 Recommended	FY 2019 Recommended
Lottery	2,235	2,164	2,220	2,181	2,173	2,167
VLTs	937	903	952	996	915	915
Total SLF	3,172	3,067	3,172	3,177	3,088	3,082

Commercial Gaming Revenue Fund ("CGRF")

The Commercial Gaming Revenue Fund was established by Section 97-nnn of the State Finance Law. Fund receipts are derived from the taxes and fees imposed on commercial gaming facilities. The moneys of the Fund are used to pay the expenses incurred in the regulation of commercial gaming by the Gaming Commission, problem gambling education and treatment, support for elementary and secondary education or real property relief, host municipality and host county aid, and aid to non-host counties within host gaming regions. The table below summarizes the receipts for education or property tax relief and local assistance generated from commercial gaming tax. Commercial gaming receipts are classified as Special Revenue miscellaneous receipts.

COMMERCIAL GAMING REVENUE FUND (CGRF) (millions of dollars)						
	FY 2014 Actual	FY 2015 Estimated	FY 2016 Recommended	FY 2017 Recommended	FY 2018 Recommended	FY 2019 Recommended
Casino	0	0	171	25	268	268
Total CGRF	0	0	171	25	268	268

DEDICATED FUND TAX RECEIPTS

Special Revenue Funds - Other ("SRFO")

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.

SPECIAL REVENUE FUNDS - OTHER (SRFO) (millions of dollars)						
	FY 2014 Actual	FY 2015 Estimated	FY 2016 Recommended	FY 2017 Recommended	FY 2018 Recommended	FY 2019 Recommended
Motor Vehicle Fees	113	104	104	104	104	104
Total SRFO	113	104	104	104	104	104

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.

REVENUE BOND TAX FUND (RBTF) (millions of dollars)						
	FY 2014 Actual	FY 2015 Estimated	FY 2016 Recommended	FY 2017 Recommended	FY 2018 Recommended	FY 2019 Recommended
Personal Income Tax	10,740	11,085	11,722	12,407	12,969	13,301
Total RBTF	10,740	11,085	11,722	12,407	12,969	13,301

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.

CLEAN WATER/CLEAN AIR FUND (CWCAF) (millions of dollars)						
	FY 2014 Actual	FY 2015 Estimated	FY 2016 Recommended	FY 2017 Recommended	FY 2018 Recommended	FY 2019 Recommended
Real Estate Transfer Tax	792	871	918	977	1,032	1,093
Total CWCAF	792	871	918	977	1,032	1,093

DEDICATED FUND TAX RECEIPTS

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 dedicated 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.

LOCAL GOVERNMENT ASSISTANCE TAX FUND (LGATF)						
(millions of dollars)						
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
	Actual	Estimated	Recommended	Recommended	Recommended	Recommended
Sales and Use Tax	2,951	3,040	3,177	3,323	3,453	3,593
Total LGATF	2,951	3,040	3,177	3,323	3,453	3,593

Sales Tax Bond Fund ("STBF" Fund-311)

The Sales Tax Revenue Bond Fund was established by Section 92-h 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 one percent rate of taxation. This will increase to a two percent rate when LGAC bonds have been retired or defeased. Payments from the Fund are dedicated to pay the debt service on State Sales Tax Revenue Bonds which, along with State PIT Revenue Bonds, are used to finance various State capital purposes. The Comptroller is required to pay over to the General Fund all money in the STBF in excess of the aggregate amount required to be set aside for debt service.

SALES TAX BOND FUND (STBF)						
(millions of dollars)						
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
	Actual	Estimated	Recommended	Recommended	Recommended	Recommended
Sales and Use Tax	2,951	3,040	3,177	3,323	3,453	3,593
Total STBF	2,951	3,040	3,177	3,323	3,453	3,593

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

DEDICATED FUND TAX RECEIPTS

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 pledged to support the debt service on State-supported Dedicated Highway and Bridge Trust Fund Bonds. Revenue listed below does not include an annual General Fund transfer of \$62.7 million, effective FY 2015.

DEDICATED HIGHWAY AND BRIDGE TRUST FUND (DHBTF)						
(millions of dollars)						
	FY 2014 Actual	FY 2015 Estimated	FY 2016 Recommended	FY 2017 Recommended	FY 2018 Recommended	FY 2019 Recommended
Petroleum Business Tax	641	633	608	586	584	579
Motor Fuel Tax	375	385	382	383	381	378
Motor Vehicle Fees	785	725	725	725	725	725
Highway Use Tax	136	136	145	139	141	150
Transmission Tax	14	15	15	15	15	15
Auto Rental Tax	71	74	77	80	84	88
Total DHBTF	2,022	1,968	1,952	1,928	1,930	1,935

Environmental Protection Fund ("EPF" Fund-078)

The Environmental Protection Fund was established by Section 92-s of the State Finance Law. The Fund currently receives real estate transfer taxes in the amount of \$119 million. Moneys in the Fund are deposited to the following accounts:

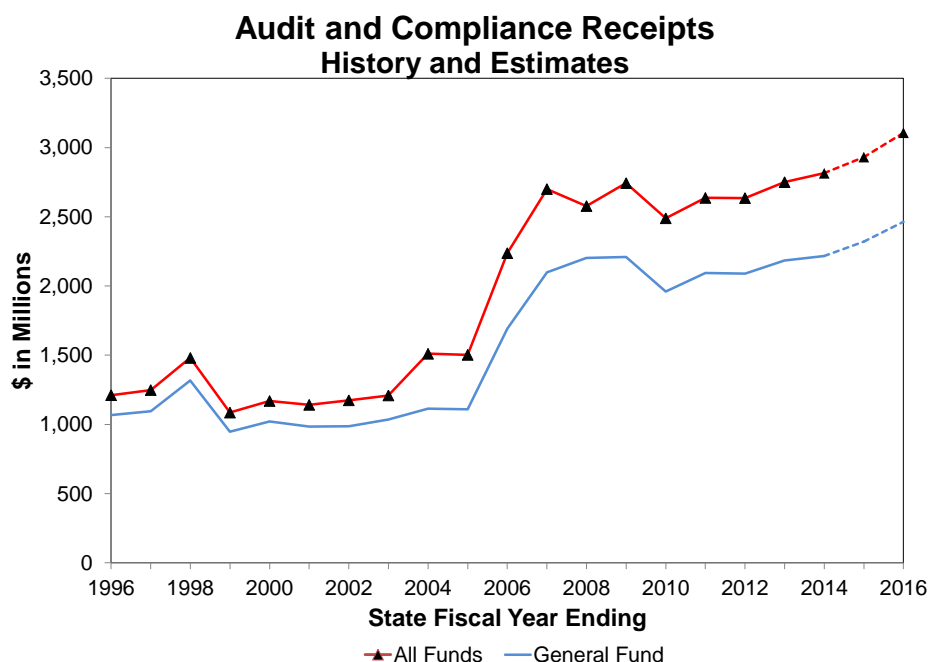
- The Solid Waste Account for any non-hazardous municipal landfill closure project, municipal waste reduction or recycling project, or local solid waste management plans.
- The Parks, Recreation and Historic Preservation Account for any municipal park project, historic preservation project, urban cultural park project, waterfront revitalization program, or coastal rehabilitation project.
- The Open Space Account for any open space land conservation project, bio-diversity stewardship and research, non-point source abatement and control projects, upon the request of the Director of the Division of the Budget.

ENVIRONMENTAL PROTECTION FUND (EPF)						
(millions of dollars)						
	FY 2014 Actual	FY 2015 Estimated	FY 2016 Recommended	FY 2017 Recommended	FY 2018 Recommended	FY 2019 Recommended
Real Estate Transfer Tax	119	119	119	119	119	119
Total EPF	119	119	119	119	119	119

AUDIT AND COMPLIANCE RECEIPTS

AUDIT AND COMPLIANCE RECEIPTS (millions of dollars)							
	FY2014 Actual	FY2015 Estimated	Change	Percent Change	FY2016 Projected	Change	Percent Change
General Fund	2,216	2,321	105	4.7	2,464	143	6.2
Other Funds	598	610	12	2.0	643	33	5.4
All Funds	2,814	2,931	117	4.2	3,107	176	6.0

Note: Totals may differ due to rounding.



PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Lower the outstanding tax debt threshold required to suspend delinquent taxpayers' driver's licenses;
- Make warrantless wage garnishment permanent;
- Allow New York to enter reciprocal tax collection agreements with other states;
- Reform the Industrial Development Authority program;
- Authorize a professional and business license tax clearance;
- Require new State employees to be compliant with State tax obligations;

AUDIT AND COMPLIANCE RECEIPTS

- Require practitioners to be compliant with State tax obligations before receiving excess medical malpractice coverage;
- Require grantees to be compliant with State tax obligations before receiving a State grant from a State or local authority; and
- Enhance motor fuel tax enforcement.

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. 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.

AUDIT AND COMPLIANCE RECEIPTS

Growth in Recent Collections

TABLE 1			
Growth All Funds Audit and Compliance Collections (millions of dollars)			
	All Funds Audit and Compliance Collections	Change from Prior Year	Percent Change from Prior Year
FY1998	1,085		
FY1999	1,169	84	7.7
FY2000	1,141	(28)	(2.4)
FY2001	1,174	33	2.9
FY2002	1,209	35	3.0
FY2003	1,510	301	24.9
FY2004	1,232	(278)	(18.4)
FY2005	1,503	271	22.0
FY2006	2,237	734	48.8
FY2007	2,700	463	20.7
FY2008	2,577	(123)	(4.5)
FY2009	2,743	166	6.4
FY2010	2,489	(254)	(9.3)
FY2011	2,513	24	1.0
FY2012	2,635	122	4.9
FY2013	2,750	115	4.4
FY2014	2,814	64	2.3
Estimated			
FY2015	2,931	181	6.6
FY2016	3,107	176	6.0

Collectively, it is estimated that the portion of All Funds receipts attributable to enforcement activities and reflected in the estimates and projections of the individual taxes will be roughly \$3 billion in both FY 2015 and FY 2016. The dramatic rise to current collection levels, which began in FY 2006, can be attributed to a combination of policy actions and improved performance by the Department of Taxation and Finance in identifying and concluding productive audits. These factors have included: (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, (3) the settlement of audit issues with a significant number of financial service and other large multi-state taxpayers, (4) the Voluntary Disclosure Program enacted in 2008, and (5) improved data matching with data from the IRS and other sources.

AUDIT AND COMPLIANCE RECEIPTS

Estimated Receipts for FY 2015

TABLE 2 ALL FUNDS AUDIT AND COMPLIANCE COLLECTIONS BY TAX TYPE (millions of dollars)				
	FY2014	FY2015	Change from Prior Year	Percent Change from Prior Year
Personal Income Tax	1,070	1,131	61	5.7
User Taxes and Fees	370	394	24	6.5
Business Taxes	1,344	1,372	28	2.1
Corporation and Utilities Taxes	56	25	(31)	(55.2)
Corporate Franchise Tax	1,158	525	(633)	(54.6)
Bank Tax	102	778	676	660.5
Insurance Tax	22	26	4	20.4
Petroleum Business Taxes	7	18	11	157.1
Other Taxes	30	34	4	13.3
Total	2,814	2,931	117	4.2

Audit and compliance receipts for FY 2015 are estimated to be \$2,931 million, an increase of \$117 million (4.2 percent) from FY 2014. The increase is composed of: \$61 million (5.7 percent) from the personal income tax, \$24 million (6.5 percent) from user taxes and fees, \$28 million (2.1 percent) from business taxes, and \$4 million (13.3 percent) from other taxes.

Estimated Receipts for FY 2016

TABLE 3 ALL FUNDS AUDIT AND COMPLIANCE COLLECTIONS BY TAX TYPE (millions of dollars)				
	FY2015	FY2016	Change from Prior Year	Percent Change from Prior Year
Personal Income Tax	1,131	1,198	67	5.9
User Taxes and Fees	394	400	6	1.5
Business Taxes	1,372	1,475	103	7.5
Corporation and Utilities Taxes	25	44	19	76.0
Corporate Franchise Tax	525	1,107	582	110.9
Bank Tax	778	284	(494)	(63.5)
Insurance Tax	26	31	5	19.2
Petroleum Business Taxes	18	9	(9)	(50.0)
Other Taxes	34	34	0	0.0
Total	2,931	3,107	176	6.0

Audit and compliance receipts for FY 2016 are projected to be \$3,107 million, an increase of \$176 million (6 percent) from FY 2015. The overall increase results from increases of \$103 million from business taxes, \$68 million (6 percent) from the personal income tax, and \$6 million (1.5 percent) from user taxes and fees. Legislation proposed with this Budget is expected to generate \$35 million in FY 2016.

AUDIT AND COMPLIANCE RECEIPTS

Trends in All Funds Audit and Tax Receipts

Table 4 below reports All Funds audit and compliance collections, All Funds tax receipts, and All Funds audit and compliance collections as a percent of All Funds tax receipts. Although All Funds audit and compliance receipts have fluctuated over time, they have consistently comprised roughly 3 percent to 5 percent of total All Funds tax receipts. Since FY 2011, audit and compliance receipts have represented just over four percent of All Funds tax receipts and are expected to continue this trend in both FY 2015 and FY 2016.

TABLE 4 All Funds Audit and Compliance Collections As A Percent of All Funds Tax Receipts* (millions of dollars)			
	All Funds Audit and Compliance Collections	All Funds Tax Receipts	Audit and Compliance As a Percent of All Funds
FY1998	1,085	35,921	3.0
FY1999	1,169	38,495	3.0
FY2000	1,141	41,389	2.8
FY2001	1,174	44,658	2.6
FY2002	1,209	42,475	2.8
FY2003	1,510	39,626	3.8
FY2004	1,232	42,851	2.9
FY2005	1,503	48,598	3.1
FY2006	2,237	53,578	4.2
FY2007	2,700	58,740	4.6
FY2008	2,577	60,871	4.2
FY2009	2,743	60,338	4.5
FY2010	2,489	56,440	4.4
FY2011	2,513	59,511	4.2
FY2012	2,635	62,923	4.2
FY2013	2,750	65,095	4.2
FY2014	2,814	68,486	4.1
Estimated			
FY2015	2,931	69,607	4.2
FY2016	3,107	73,406	4.2

* Excludes Metropolitan Commuter Transportation Mobility Tax receipts.

As shown in Table 5 below, the historical distribution of audit and compliance receipts by broad tax categories (i.e., personal income tax, business taxes, user taxes and fees, and miscellaneous/other taxes) differs significantly from the distribution of voluntary receipts by tax category. 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 accounted for between 51 percent and 57 percent of total audit receipts, between FY 2006 and FY 2009. In FY 2010 through FY 2014, the percentage share of total audit receipts from business taxes fell in the 44 to 48 percent range. In contrast, business taxes accounted for between 12 to 15 percent of All Funds receipts during the FY 2006 to FY 2014 period. In FY 2015 and FY 2016, the share of audit receipts from the business taxes category is expected to remain below the FY 2006 to FY 2009 level at 47 percent. This percentage share reduction was mainly due to a decline in large case settlements and an increase in the personal income tax share.

AUDIT AND COMPLIANCE RECEIPTS

Table 5								
Percent of All Funds Audit and Compliance Collections By Tax Category					Percent of All Funds* Collections By Tax Category			
	Business Taxes	Other Taxes and Fees	User Taxes and Fees	Personal Income Tax	Business Taxes	Other Taxes and Fees	User Taxes and Fees	Personal Income Tax
FY1998	39	6	20	35	18	11	20	51
FY1999	40	5	19	36	17	10	20	53
FY2000	34	6	20	40	15	10	20	55
FY2001	31	4	22	43	13	8	19	60
FY2002	32	5	20	43	12	8	19	61
FY2003	31	4	20	45	13	8	22	57
FY2004	27	4	23	46	12	8	23	57
FY2005	34	3	21	42	12	8	23	57
FY2006	51	3	15	31	12	8	21	59
FY2007	57	3	13	27	15	3	23	59
FY2008	53	1	14	32	14	3	23	60
FY2009	53	2	14	31	13	3	23	61
FY2010	44	2	15	39	13	2	23	62
FY2011	44	2	17	37	12	3	24	61
FY2012	48	1	15	36	12	3	23	62
FY2013	47	2	14	37	13	3	22	62
FY2014	48	1	13	38	12	3	22	63
Estimated								
FY2015	47	1	13	39	11	3	22	64
FY2016	47	1	13	39	11	3	22	64

* Excludes Metropolitan Commuter Transportation Mobility Tax receipts.

Similarly, the total share of audit and compliance receipts attributable to the personal income tax does not match its share of total taxes. As a result of the high level of business tax audit receipts during the FY 2006 through FY 2009 period, the audit and compliance shares of audit receipts for user taxes and fees and the personal income tax fell, but their respective shares of total tax receipts remained consistent with history. The FY 2015 and FY 2016 audit and compliance share for the personal income tax is expected to remain above FY 2006 through FY 2009 levels.

Risk to the Forecast

The audit and compliance plan in the forecast period contains risk. Even though the share of audit and compliance receipts received from business taxes is expected to remain below from the high levels of FY 2006 through FY 2009, these taxes still represent nearly 50 percent of total expected audit and compliance receipts. Audit and compliance receipts for the FY 2006 through FY 2009 period were driven by voluntary compliance programs and the settlement of several large financial services and multi-state taxpayer cases. Any changes of enforcement programs and audit and compliance staff focused on these tax areas may lead to instability of the audit receipts. Corporate tax reform legislation enacted in the FY 2014 Budget is expected to improve voluntary tax compliance which would, in the long run, reduce audit collections.

Significant Legislation Impacting Historical Audit Receipts

Significant statutory changes that have had an impact on audit and compliance activities are summarized below.

Tax Amnesty – 2003

Taxpayers with outstanding liabilities were given a limited opportunity to settle those liabilities without penalties and with a reduction in the appropriate rate of interest. The tax amnesty applied to the personal income tax, sales and compensating use tax, corporate franchise taxes other than the bank and insurance taxes, and various excise taxes. The amnesty applied to taxable periods ending on or before December 31, 2000, or in the case of the sales tax or excise taxes with quarterly returns, periods ending on or before February 28, 2001. Under the estate tax, amnesty applied to estates of decedents dying on or before February 1, 2000.

Amnesty participants received a waiver of certain penalties and a two-percent reduction in the applicable interest rate relating to unpaid liabilities. Amnesty was not granted to taxpayers under criminal investigation, taxpayers who had been convicted of a tax-related crime, taxpayers who were parties to administrative proceedings with the Department of Taxation and Finance, or taxpayers with more than 500 employees.

Intangible Assets

Legislation enacted in 2003 required taxpayers (with some exceptions) who deduct interest or royalty expenses for amounts paid to a related member for the use of intangible assets to add those deductions back to their taxable income.

Temporary Tax-Shelter Disclosure and Voluntary Compliance Initiative

Legislation enacted in 2005 created a tax-shelter disclosure requirement for taxpayers or advisors engaging in abusive tax shelters to provide copies of their Federal reports to the Commissioner of Taxation and Finance. The legislation also allowed taxpayers a limited period of time (from October 1, 2005, through March 1, 2006) to avoid substantial new penalties by voluntarily disclosing participation in such a shelter by filing amended returns for the liability periods affected. The Voluntary Compliance Initiative was available for tax liabilities under Articles 9, 9-A, 22, 30, 32 and 33. The disclosure reporting requirements mirror the permanent Federal requirements and were to sunset in July 2007. Chapter 60, Laws of 2007, extended the provisions by two years, to July, 2009. Legislation enacted in 2008 extended these provisions by an additional two years and re-opened the Voluntary Compliance Initiative from November 1, 2008, through January 31, 2009.

AUDIT AND COMPLIANCE RECEIPTS

Penalty and Interest Discount Program (PAID)

As part of the Deficit Reduction Package enacted in November 2009, PAID was designed to increase tax audit and compliance collections by temporarily reducing the penalties and interest owed on many overdue tax liabilities for which the taxpayer had been issued an assessment or final determination by the Department of Taxation and Finance. Specifically, the assessment or final determination must have been issued on or before December 31, 2006. Penalties and interest were reduced by either 20 percent or 50 percent (depending on the age of the assessment) if the tax had been paid in full by the end of PAID, which was open for collections from January 15, 2010, through March 15, 2010. This program increased All Funds audit and compliance receipts by \$50 million in FY 2010.