2009-10 EXECUTIVE BUDGET
ECONOMIC AND REVENUE OUTLOOK

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RECEIPTS OVERVIEW

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The Economic and Revenue Outlook is a volume designed to enhance the presentation and transparency of the 2009-10 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 2009-10 Executive Budget. The receipt estimates and projections have been prepared by the Division of the Budget with the assistance of the Department of Taxation and Finance and other agencies concerned with the collection of State receipts. To the extent they are material, sources of receipts not referenced in this volume are discussed in the presentations of the agencies primarily responsible for executing the programs financed by such receipts. The *Economic, Revenue and Spending Methodologies* and a *Data Appendix* for this volume are available at the Division of the Budget's website at www.budget.state.ny.us. 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 2009-10 Budget year by tax category and fund type.

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

- **2009-10 Revenue Actions**: Summarizes the revenue actions proposed with the 2009-10 Executive Budget.

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

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

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

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

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

THE NATIONAL ECONOMY

- The Budget Division expects the national economy to decline in 2009. Real U.S. GDP is projected to decline by 0.9 percent for 2009, following growth of 1.3 percent in 2008.

- The sub prime mortgage debacle is still unfolding and the housing market is still searching for a bottom. Corporate profits, particularly for the financial sector, are expected to decline. U.S. corporate profits are projected to fall by 5.9 percent in 2009, following a decline of 6.8 percent in 2008. These declines represent a significant change from average growth of 17 percent over the period from 2001 to 2006.

- The national labor market has deteriorated rapidly. For three months starting in September, the economy has lost almost 1.3 million jobs. The Budget Division projects a nonfarm job decline of 1.2 percent for 2009, following a decline of 0.2 percent for 2008. The unemployment rate is projected to rise from 5.7 percent in 2008 to 7.6 percent in 2009.

- Declining employment and wealth, combined with unfavorable credit market conditions, continue to put downward pressure on consumer spending. Real household spending is projected to decline by 0.8 percent in 2009, following a 0.3 percent increase in 2008.

- Government intervention has provided much needed stimulus to the economy. The Federal Reserve Board has extended its balance sheet close to $2 trillion just in the past few months, and is expected to lower its federal funds rate target below 1 percent. The Federal government is also expected to enact fiscal policy measures worth hundreds of billions of dollars.

- The Budget Division projects inflation, measured by growth in the Consumer Price Index (CPI) of 1.4 percent for 2009, following 4.1 percent in 2008.

- The housing market could take longer to recover with foreclosure rates expected to rise further. The equity prices, measured by the S&P 500 index, are expected to fall 21.3 percent in 2009, following a decline of 18.2 percent in 2008, on an annual average base.

- Financial sector write downs associated with the mortgage backed assets are still increasing, after reaching over $600 billion. Lending standards are still tightening and consumer and business loans are declining, which will result in lower household spending, as well as lower business investment in plant and equipment.

- Lower energy prices may provide some cushion for consumers who are facing massive losses in their financial wealth and house values.

THE NEW YORK STATE ECONOMY

- Given New York City's status as an international financial center, the current financial crisis is expected to have an especially devastating impact on the New York State economy. In the few months since the Lehman bankruptcy, the entire landscape of Wall Street has changed. As a result, the large investment banking business model no longer exists.

- Consistent with the decline of both the national and New York economies, the Budget Division projects a decline of 1.8 percent in private employment for 2009, following 0.3 percent growth in 2008.

- As a result of the mortgage-backed security debt write-downs, a decline in profits, and a large reduction in employment, the Budget Division projects a decline of over 50 percent of finance and insurance sector bonuses for the first quarter of 2009, representing a loss of about $19 billion in wages relative to the same quarter of 2008.

- Wages are projected to decline by 3.0 percent for 2009, following an increase of 1.2 percent for 2008. Declining in both the wage and non-wage components of income will result in a decline in total personal income of 1.3 percent for 2009, following 2.4 percent growth for 2008.

- The decline in the State's housing and commercial real estate markets are expected to accelerate in 2009, following mild reductions in both construction activity and housing prices for the current year.

- New York City vacancy rates have started to rise. Given the expected decline of employment, these rates are expected to rise substantially, causing further declines in real estate market-related activity.

- All of the risks to the U.S. forecast apply to the State forecast as well, although as the nation's financial capital, the current financial crisis poses a particularly large downside forecasting risk for New York.

THE REVENUE SITUATION

- Base receipt growth over the period 2005-06 to 2007-08, supported by a strong financial services sector and real estate market, averaged 9.5 percent. However, the current decline in economic activity is estimated to negatively impact receipt growth for 2008-09 and 2009-10. As a result, base tax receipts (correcting for law changes) are expected to fall 2.1 percent in 2008-09 and 2.9 percent in 2009-10.

- The negative impact of the sub-prime mortgage debacle and its aftermath on the State's economy in general and financial services industry in particular is expected to result in major declines in bonus payouts during the current fiscal year (down 46 percent from prior year) and reduced growth in business tax receipts over the remaining years of the Financial Plan.

- The risks stemming from the volatile real estate and financial markets represent even greater risks to revenues due to the high concentration of taxable income among a relatively small segment of the taxpaying population.

- The decline in the residential housing market is projected to largely eliminate the surge in taxable capital gains realizations associated with real estate sales that characterized the last few years.

- The economy is expected to continue to decline, and as a result, 2009-10 growth in personal income tax withholding and sales tax collections will be flat absent the legislation included with this Budget.

- The combined impact of the declining real estate and financial markets and the deepening recession results in estimated declines in personal income tax liability of 8.9 percent in 2008, and 7.3 percent in 2009.

- The large audit settlements associated with financial service industry firms continued into 2008-09 but are expected to be largely concluded before 2009-10, and this loss of resources must be compensated for by other tax compliance actions included with this Budget.

TOTAL RECEIPTS
(millions of dollars)

	2007-08 Actual	2008-09 Estimated	Annual $ Change	Annual % Change	2009-10 Projected	Annual $ Change	Annual % Change
General Fund	**53,094**	**54,121**	**1,027**	**1.9%**	**55,120**	**999**	**1.8%**
Taxes	38,395	38,603	208	0.5%	39,815	1,212	3.1%
Miscellaneous Receipts	2,458	2,999	541	22.0%	3,764	765	25.5%
Federal Grants	69	41	(28)	-40.6%	0	(41)	-100.0%
Transfers	12,172	12,478	306	2.5%	11,541	(937)	-7.5%
State Funds	**80,372**	**80,532**	**160**	**0.2%**	**84,179**	**3,647**	**4.5%**
Taxes	60,871	60,786	(85)	-0.1%	61,383	597	1.0%
Miscellaneous Receipts	19,432	19,704	272	1.4%	22,795	3,091	15.7%
Federal Grants	69	42	(27)	-39.1%	1	(41)	-97.6%
All Funds	**115,420**	**116,576**	**1,156**	**1.0%**	**120,121**	**3,545**	**3.0%**
Taxes	60,871	60,786	(85)	-0.1%	61,383	597	1.0%
Miscellaneous Receipts	19,640	19,812	172	0.9%	22,901	3,089	15.6%
Federal Grants	34,909	35,978	1,069	3.1%	35,837	(141)	-0.4%

FISCAL YEAR 2008-09 OVERVIEW

- Total All Funds receipts are estimated to reach nearly $117 billion, an increase of $1.2 billion, or 1.0 percent from 2007-08 results. All Funds tax receipts are estimated to decrease by $85 million, or 0.1 percent. The majority of the decrease in tax receipts is attributable to declines in business taxes.

- All Funds miscellaneous receipts are projected to total $19.8 billion in 2008-09, an increase of $172 million from 2007-08 largely driven by growth in the General

Fund, lottery revenues, including VLTs ($346 million) and SUNY tuition growth ($448 million) partially offset by a reduction in projected revenue from HCRA conversion proceeds ($778 million) and reductions in various reimbursement driven special revenue funds.).

- Total State Funds receipts are estimated to reach $81 billion, an increase of $160 million, or 0.2 percent.

- Total General Fund receipts are estimated at $54 billion, an increase of $1.0 billion, or 1.9 percent from 2007-08 results. General Fund tax receipts are estimated to increase by 0.5 percent, reflecting both slower economic growth and the impact of the large increase in the STAR transfer that is deducted from General Fund income tax receipts. General Fund miscellaneous receipts are estimated to increase by 22 percent, reflecting actions taken with this Budget.

- Receipts growth has slowed substantially from the prior three fiscal years, reflecting the housing sector induced slowdown in economic activity.

- Base tax receipts growth, which nets out the impact of law changes, will decrease by an estimated 2.1 percent in 2008-09 after base increases of 6.0 percent in 2007-08 and 12.9 percent in 2006-07.

FISCAL YEAR 2009-10 OVERVIEW

- Total All Funds receipts are expected to reach $120 billion, an increase of $3.5 billion, or 3.0 percent from 2008-09 estimates. All Funds tax receipts are projected to grow by $597 million or 1.0 percent. The majority of this increase is attributable to revenue-positive actions proposed with the 2009-10 Budget. All Funds Miscellaneous receipts are projected to increase by $3.1 billion, or 15.6 percent. All Funds Federal grants are expected to decrease by $141 million, or 0.4 percent.

- Total State Funds receipts are projected to be over $84 billion, an increase of $3.6 billion, or 4.5 percent from the 2008-09 estimate.

- Total General Fund receipts are projected at $55 billion, an increase of nearly $1.0 billion, or 1.8 percent from 2008-09 estimates. General Fund tax receipts are projected to grow by 3.1 percent, while General Fund miscellaneous receipts are projected to grow by 25.5 percent, reflecting actions taken with this Budget. Federal grants revenues from the loss of the Medicare Part D program are expected to shift to Miscellaneous receipts.

- After controlling for the impact of policy changes, base tax revenue growth is estimated to decline by 2.9 percent for fiscal year 2009-10. The current slowdown in economic activity is expected to reduce base growth in tax receipts below historical averages and significantly below growth exhibited in recent fiscal years.

Change from Mid-Year Update

Revised Estimates and Projections

CHANGE FROM MID-YEAR UPDATE FORECAST (millions of dollars)	2008-09 Mid-Year Update	2008-09 Executive Budget	$ Change	% Change	2009-10 Mid-Year Update	2009-10 Executive Budget	$ Change	% Change
General Fund*	**41,297**	**41,643**	**346**	**0.8**	**39,445**	**43,579**	**4,134**	**10.5%**
Taxes	38,705	38,603	(102)	(0.3)	37,046	39,815	2,769	7.5%
Miscellaneous Receipts	2,551	2,999	448	17.6	2,399	3,764	1,365	56.9%
Federal Grants	41	41	0	0.0	0	0	0	0.0%
State Funds	**80,682**	**80,532**	**(150)**	**(0.2)**	**80,884**	**84,179**	**3,295**	**4.1%**
Taxes	61,288	60,786	(502)	(0.8)	60,179	61,383	1,204	2.0%
Miscellaneous Receipts	19,352	19,704	352	1.8	20,703	22,795	2,092	10.1%
Federal Grants	42	42	0	0.0	1	1	0	0.0%
All Funds	**116,713**	**116,576**	**(137)**	**(0.1)**	**117,992**	**120,121**	**2,129**	**1.8%**
Taxes	61,288	60,786	(502)	(0.8)	60,179	61,383	1,204	2.0%
Miscellaneous Receipts	19,460	19,812	352	1.8	20,809	22,901	2,092	10.1%
Federal Grants	35,964	35,978	14	0.0	37,003	35,837	(1,166)	-3.2%

** Excludes Transfers*

All Funds receipts estimates have been revised downward by $137 million for fiscal year 2008-09 from the Mid-Year Financial Plan Update. The recent slowdown in economic activity began to negatively impact tax receipts after the release of the Mid-Year Update in early November. The large downward tax revision is due almost entirely to the impact of the slowing economy on receipts. In particular, a slowing housing market and the ancillary impact on capital gain realizations is a major factor in the expected decline in income tax liability growth of 8.9 percent for tax year 2008. The economic growth assumptions underlying this forecast are provided in extensive detail later in this volume.

The revision to General Fund receipts for fiscal year 2008-09 is $346 million, reflecting increased payments related to the New York Power Authority and increased receipts resulting from civil recoveries, slightly offset by reductions to the personal income tax and sales tax.

All Funds receipts have been revised upward by $2.1 billion for fiscal year 2009-10. The majority of this increase is attributable to revenue-positive actions proposed with the 2009-10 Budget.

The revision to General Fund receipts for fiscal year 2009-10 is $4.1 billion. Tax revisions account for an increase of $2.8 billion, while miscellaneous receipts increase by $1.4 billion.

Proposed Law Changes

The 2009-10 Executive Budget includes changes to tax law that would:

- reform certain components of our tax structure to ensure that tax burdens are fairly distributed, that our tax incentive programs are most efficiently utilized and that tax payers remit the proper amount of tax that is owed;
- close unintended tax loopholes to improve the equity of the tax code; and
- generate additional recurring revenues to help close the State's financial gaps in 2009-10 and beyond.

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

ALL FUNDS LEGISLATION ($ in millions)	2009-10	2010-11	2011-12	2012-13
REVENUE ENHANCEMENTS	**2,864**	**3,255**	**3,155**	**3,066**
PERSONAL INCOME TAX	**371**	**464**	**421**	**427**
Amend the Definition of Presence in New York	0	5	5	5
Gain from the Sale of Partnerships	0	10	10	10
Itemized Deduction Limitation	140	200	150	150
Non-LLC Partnership Fees	50	50	50	50
Nonresident Hedge Fund Income	60	60	60	60
Reciprocal Vendor Offset	3	15	15	15
Empire Zones Reform	118	124	131	137
USER TAXES AND FEES	**1,768**	**2,414**	**2,364**	**2,261**
Abusive Tax Avoidance	4	6	6	6
Affiliate Nexus	9	12	12	12
Allow the Sale of Wine in Grocery Stores	105	54	3	3
Cigar Tax Reform	10	15	15	15
Cigarette and Tobacco Retail Registration Fee	17	6	6	6
Digital Property Taxation	15	20	20	20
Eliminate Clothing Exemption	462	660	660	660
Flavored Malt Beverages	15	18	18	18
Impose Sales Tax on Entertainment-Related Spending	53	70	70	70
Impose Sales Tax on Luxury Goods	12	15	15	15
Impose Sales Tax on Transportation-Related Spending	45	60	60	60
Increase Auto Rental Tax	8	10	10	10
Increase Beer and Wine Tax Rates	63	63	63	63
Increase Highway Use Tax Renewal Fees	5	0	0	5
Increase Prepaid Sales Tax Rates on Cigarettes	14	0	0	0
License Plate Issuance	0	129	129	20
Limit Capital Improvement Exemption	120	160	160	160
Motor Vehicle License Fee Increases	22	38	38	38
Motor Vehicle Registration Fee Increases	61	104	104	104
NYC Personal and Credit Services	78	104	104	104
Repeal Bad Debt Provisions	8	10	10	10
Repeal the Sales Tax Cap on Fuel	90	120	120	120
Sales Tax on Cable and Satellite Television and Radio	136	180	180	180
Sales Tax on Soft Drinks	404	539	539	539
Treating Coupons Consistently	3	3	3	3
Empire Zones Reform	9	18	19	20
BUSINESS TAXES	**640**	**292**	**285**	**293**
Change Filing Requirement for Overcapitalized Captive Insurance Corporations	33	29	29	29
Disallow Utility Definition as Manufacturers	18	16	0	0
Eliminate Exemption for Large Cooperative Insurance Companies	19	15	15	15
Eliminate Underutilized Tax Credits	6	9	9	9
Increase Prepayment to 40 Percent	351	0	0	0
Reciprocal Vendor Offset	3	15	15	15
Restructure the Insurance Tax	65	58	58	58
Empire Zones Reform	145	150	159	167
IMPROVE NON-VOLUNTARY TAX COLLECTIONS	**85**	**85**	**85**	**85**
TAX REDUCTIONS	**(4)**	**(39)**	**(49)**	**(54)**
Expand the Low Income Housing Tax Credit Program	(4)	(4)	(4)	(4)
Create an Enhanced Research and Development Credit	0	(35)	(40)	(45)
Expand the Qualified Emerging Technology Company FOT Credit	0	0	(5)	(5)
ALL FUNDS LEGISLATION CHANGE	**2,860**	**3,216**	**3,106**	**3,012**

PERSONAL INCOME TAX

- Authorize the Urban Development Corporation to award tax credits to qualifying research and development projects and qualifying grants made to certain research colleges and universities based on strategic economic development criteria.

- Amend the definition of "presence in New York" for determining the residency of taxpayers who are usually outside the country by requiring that their spouses and children only be present in New York versus present at the taxpayers' permanent place of abode (PPA) in New York for 90 days.

- Close a loophole by including the gain from the sale of partnership interests as NY-source income to non-resident taxpayers to the extent that these gains are from sales of real property located in New York.

- Enact a reciprocal program with the U.S. Treasury Department to intercept vendor payments to satisfy tax debts.

- Increase the itemized deduction limitation applicable to high income taxpayers from 50 percent to 100 percent, except charitable contributions would remain unchanged from current law.

- Impose tax on the full amount of hedge fund management fees earned by nonresidents.

- Levy fees on non-LLC partnerships with NY-source income at or above $1 million at the same amounts currently applicable to LLC partnerships.

- Reform the Empire Zones program by ensuring that participants are providing a clear benefit to the State and disallowing certain static industries from prospective participation.

- Eliminate certain little used and narrowly targeted credits.

BUSINESS TAXES

- Reform the Empire Zones program by ensuring that participants are providing a clear benefit to the State and disallowing certain static industries from prospective participation.

- Provide a new credit for qualifying research and development expenditures and donations to certain research colleges and universities, which would be administered by the Urban Development Corporation and subject to an aggregate limitation amount.

- Expand the eligibility criteria for the Qualified Emerging Technology Company credit for Facilities, Operations and Training.

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

- Conform the definition of "manufacturer" under the capital base to the definition under the entire net income base.

- Change the mandatory first estimated tax payment for all business taxes from 30 percent to 40 percent.
- Eliminate a tax exemption intended for small, rural cooperative insurers for any large cooperatives receiving $25 million or more in annual premiums.
- Clarify that captive insurance companies receiving less than 50 percent of their gross receipts from insurance premiums would no longer meet the definition of an insurance business and would file a combined return with their closest affiliated taxpayer.
- Restructure the insurance franchise tax to eliminate the complex calculation of tax imposed on life insurers, and equalize the rate on taxable premiums imposed on all types of insurance at 2 percent.
- Clarify current administrative practice for sourcing receipts from the sale of digital products for purposes of calculating the corporation franchise tax.
- Eliminate underutilized tax credits (automated external defibrillator, fuel cell, security guards, QETC capital tax).

OTHER ACTIONS

- Prohibit certain sales tax avoidance schemes.
- Impose an 18 percent sales tax on certain non-dietetic soft drinks.
- Impose sales tax on cable and satellite TV radio services.
- Treat all discount coupons consistently for sales tax purposes.
- Replace the year-round sales tax exemption for clothing and footwear under $110 with two one-week exemption periods with a $500 threshold.
- Expand State and local sales tax base to cover miscellaneous personal services and credit reporting services now taxed in New York City.
- Increase the prepaid sales tax on cigarettes from 7 percent to 8 percent of the base retail price.
- Repeal the private label credit card provision.
- Repeal the sales tax cap on fuel.
- Impose sales tax on digital products.
- Modernize the definition of vendor to include an affiliate nexus provision.

- Impose sales tax on transportation-related consumer spending.
- Impose sales tax on entertainment-related consumer spending.
- Impose a 5 percent sales tax on certain luxury goods.
- Limit the capital improvement sales tax exemption.
- Increase beer and wine taxes.
- Allow the sale of wine in grocery stores.
- Modify the tax treatment of flavored malt beverages.
- Increase driver's license fees by 25 percent.
- Increase vehicle registration fees by 25 percent.
- Reissue license plates at a cost of $25.
- Modify the tax treatment of cigars.
- Increase the cigarette and tobacco products retail dealer registration fee.
- Allow the Department of Taxation and Finance to issue decals to commercial carriers liable for the truck mileage tax.
- Increase the highway use tax renewal fee to $15.
- Increase auto rental tax from 5 percent to 6 percent.
- Extend the pari-mutuel tax rates.
- Authorize a VLT facility at Belmont Park
- Eliminate the hour restrictions and sunset of the VLT program.
- Eliminate the sunset of Quick Draw and remove the location and hours restrictions.
- Authorize the participation in more than one multi-jurisdictional lottery game.
- Authorize alternative investments of the lottery prize fund.
- Provide the Department of Taxation and Finance with statutory tools that would complement additional staff provided in the Budget and result in a more comprehensive audit, compliance and tax enforcement program to ensure that taxpayers are remitting the taxes they owe.

FISCAL YEARS 2010-11, 2011-12, AND 2012-13 OVERVIEW

TOTAL RECEIPTS (millions of dollars)							
	2009-10 Projected	2010-11 Projected	Annual $ Change	2011-12 Projected	Annual $ Change	2012-13 Projected	Annual $ Change
General Fund	**55,120**	**57,368**	**2,248**	**59,917**	**2,549**	**62,721**	**2,804**
Taxes	39,815	42,431	2,616	44,519	2,088	47,080	2,561
State Funds	**82,076**	**85,830**	**3,754**	**89,330**	**3,500**	**92,647**	**3,317**
Taxes	61,383	65,023	3,640	68,114	3,091	71,762	3,648
All Funds	**120,121**	**125,430**	**5,309**	**130,629**	**5,199**	**133,374**	**2,745**
Taxes	61,383	65,023	3,640	68,114	3,091	71,762	3,648

Overall, tax receipts growth in the three fiscal years following 2009-10 is expected to remain in the range of 4.8 percent to 5.9 percent. This is consistent with a projected return to trend economic growth in the New York economy in the second half of 2008. Receipt growth is supported by proposals contained with this Budget that eliminate unintended tax loopholes, reform and simplify the Tax Law, and supplement Department of Taxation and Finance efforts to find non-compliant and fraudulent taxpayers. These factors are expected to continue to enhance expected receipt growth through 2012-13.

- Total All Funds receipts in 2010-11 are projected to reach $125 billion, an increase of $5.3 billion. All Funds receipts in 2011-12 are expected to increase by $5.2 billion over 2010-11 projections. In 2012-13, receipts are expected to increase by nearly $2.7 billion over 2011-12 projections.

- Total State Funds receipts are projected to be nearly $86 billion in 2010-11, $89 billion in 2011-12 and nearly $93 billion in 2012-13.

- Total General Fund receipts are projected to reach $57 billion in 2010-11, $60 billion in 2011-12 and nearly $63 billion in 2012-13.

- All Funds tax receipts are expected to increase by 5.9 percent in 2010-11, 4.8 percent in 2011-12 and 5.4 percent in 2012-13. Again, the growth pattern is consistent with an economic forecast of continued but slower economic growth.

Base Growth

Base growth, adjusted for law changes, in tax receipts for fiscal year 2008-09 is estimated to decline 2.1 percent and a further 2.9 percent in 2009-10. Overall base growth in tax receipts is dependent on a multitude of factors. Over the past several fiscal years, the most important factors explaining tax receipt growth have been related to:

- improvements in overall economic activity, especially in New York City and surrounding counties;

- continued profitability and compensation gains of financial services companies;

- continued growth in the downstate commercial real estate market; and

- continued positive impact of high-income taxpayers on personal income tax growth.

Each of these factors are now expected to retard growth in 2008-09 and 2009-10.

Personal Income Tax

PERSONAL INCOME TAX (millions of dollars)	2007-08 Actual	2008-09 Estimated	Annual $ Change	Annual % Change	2009-10 Projected	Annual $ Change	Annual % Change
General Fund*	**22,759**	**22,979**	**220**	**1.0%**	**22,662**	**(317)**	**-1.4%**
Gross Collections	43,170	43,753	583	1.4%	41,733	(2,020)	-4.6%
Refunds/Offsets	(6,606)	(7,194)	(588)	8.9%	(6,964)	230	-3.2%
STAR	(4,664)	(4,440)	224	-4.8%	(3,416)	1,024	-23.1%
RBTF	(9,141)	(9,140)	1	0.0%	(8,691)	449	-4.9%
State/All Funds	**36,564**	**36,559**	**(5)**	**0.0%**	**34,769**	**(1,790)**	**-4.9%**
Gross Collections	43,170	43,753	583	1.4%	41,733	(2,020)	-4.6%
Refunds	(6,606)	(7,194)	(588)	8.9%	(6,964)	230	-3.2%

** Excludes Transfers*

All Funds personal income tax receipts, which reflect the net of gross payments minus refunds, for 2008-09 are estimated at $36.6 billion, a slight $5 million drop from the prior year. This is primarily attributable to an increase in extension payments for tax year 2007 liabilities of $1.8 billion (58.3 percent), and an increase in final 2007 payments of $561 million (12.4 percent), offset by decreases in withholding of $814 million (2.9 percent) and estimated tax for tax year 2008 of $915 million (11.2 percent). Some of the $587 million (8.9 percent) growth in refunds is due to the $250 million increase in the capped amount paid between January and March. The following table summarizes, by component, actual receipts for 2007-08 and forecast amounts through 2011-12.

PERSONAL INCOME TAX FISCAL YEAR COLLECTION COMPONENTS ALL FUNDS (millions of dollars)	2007-08 Actual	2008-09 Estimated	2009-10 Projected	2010-11 Projected	2011-12 Projected
Receipts					
Withholding	28,440	27,626	28,125	29,236	31,175
Estimated Payments	11,640	12,452	10,106	11,750	12,411
Current Year	8,592	7,627	7,051	7,925	8,386
Prior Year*	3,048	4,825	3,055	3,825	4,025
Final Returns	2,167	2,728	2,386	2,543	2,709
Current Year	206	207	207	207	207
Prior Year*	1,961	2,521	2,179	2,336	2,502
Delinquent Collections	923	947	1,116	1,169	1,207
Gross Receipts	**43,170**	**43,753**	**41,733**	**44,698**	**47,502**
Refunds					
Prior Year*	4,286	4,485	4,320	4,785	5,193
Previous Years	341	330	310	330	330
Current Year*	1,500	1,750	1,750	1,750	1,750
State-City Offset*	479	629	584	658	741
Total Refunds	**6,606**	**7,194**	**6,964**	**7,523**	**8,014**
Net Receipts	**36,564**	**36,559**	**34,769**	**37,175**	**39,488**

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

All Funds income tax receipts for 2009-10 of $34.8 billion are projected to decrease $1.8 billion or 4.9 percent from the prior year. Gross receipts are projected to decline 4.6 percent and reflect a projected estimated payments decline of 18.8 percent ($2.3 billion), while withholding is expected to grow marginally by $499 million (1.8 percent). About half of this increase is due to proposed legislation, however. Payments from extensions and final returns for tax year 2008 are projected to decrease by 36.7 percent and 12.5 percent, respectively. Receipts from delinquencies are projected to increase $169 million over the prior year partially reflecting proposed legislation. Refunds are estimated to drop by $230 million or 3.2 percent, in part reflecting the $250 million spike in 2008-09 due to the cap increase, along with proposed legislation.

General Fund income tax receipts are net of deposits to the STAR Fund, which provides property tax relief, and the RBTF, which supports debt service payments on State personal income tax revenue bonds. General Fund income tax receipts for 2008-09 of $23.0 billion are expected to increase by $220 million or 1.0 percent from the prior year. This increase reflects both a decrease in STAR deposits of $223 million associated with downward re-estimates to base costs and a shift of some NYC reimbursements to 2009-10, and a $1 million decrease in deposits to the RBTF.

General Fund income tax receipts for 2009-10 of $22.7 billion are projected to decrease marginally by $317 million or 1.4 percent over the prior year. Along with the decline in All Funds receipts noted above, this decrease reflects a reduction of over $1 billion in the STAR transfer due to the proposed elimination of the rebate program and other minor law changes. Deposits to the RBTF are expected to decrease by 4.9 percent, the same percentage increase as projected for net collections since the transfer equals 25 percent of net collections.

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

	2008-09 Mid Year Update	2008-09 Executive Financial Plan	$ Change	% Change	2009-10 Mid Year Update	2009-10 Executive Financial Plan	$ Change	% Change
General Fund*	**22,987**	**22,979**	**(8)**	**0.0%**	**21,254**	**22,662**	**1,408**	**6.6%**
Gross Collections	44,119	43,753	(366)	-0.8%	42,596	41,733	(863)	-2.0%
Refunds/Offsets	(7,214)	(7,194)	20	-0.3%	(7,082)	(6,964)	118	-1.7%
STAR	(4,693)	(4,440)	253	-5.4%	(5,383)	(3,416)	1,967	-36.5%
RBTF	(9,225)	(9,140)	85	-0.9%	(8,877)	(8,691)	186	-2.1%
State/All Funds	**36,905**	**36,559**	**(346)**	**-0.9%**	**35,514**	**34,769**	**(745)**	**-2.1%**
Gross Collections	44,119	43,753	(366)	-0.8%	42,596	41,733	(863)	-2.0%
Refunds	(7,214)	(7,194)	20	-0.3%	(7,082)	(6,964)	118	-1.7%

** Excludes Transfers*

Compared to the Mid-Year Update, 2008-09 All Funds income tax receipts are revised down by $346 million or 0.9 percent. The decrease primarily reflects a decrease in current estimated tax payments related to the 2008 tax year of $400 million (3.1 percent), and a modest decrease in withholding of $106 million (0.4 percent), offset by an increase in final returns of $140 million (5.4 percent) reflecting strong actual payments.

Compared to the Mid-Year Update, 2009-10 All Funds income tax receipts are revised downward by $746 million or 2.1 percent. This reflects lower withholding of $343 million (1.2 percent) as a lower base estimate due to falling wage growth partly offset by the impact of proposed legislation, lower estimated tax payments related to tax year 2009 of $700 million (9.0 percent), and an increase in assessments of $129 million (14.6 percent) reflecting assumed increases resulting from new tax compliance initiatives.

PERSONAL INCOME TAX (millions of dollars)	2009-10 Projected	2010-11 Projected	Annual $ Change	2011-12 Projected	Annual $ Change	2012-13 Projected	Annual $ Change
General Fund*	**22,662**	**24,511**	**1,849**	**26,047**	**1,536**	**27,874**	**1,827**
Gross Collections	41,733	44,698	2,965	47,502	2,804	50,698	3,196
Refunds/Offsets	(6,964)	(7,523)	(559)	(8,014)	(491)	(8,539)	(525)
STAR	(3,416)	(3,371)	45	(3,569)	(198)	(3,745)	(176)
RBTF	(8,691)	(9,293)	(602)	(9,872)	(579)	(10,540)	(668)
State/All Funds	**34,769**	**37,175**	**2,406**	**39,488**	**2,313**	**42,159**	**2,671**
Gross Collections	41,733	44,698	2,965	47,502	2,804	50,698	3,196
Refunds	(6,964)	(7,523)	(559)	(8,014)	(491)	(8,539)	(525)

** Excludes Transfers*

All Funds income tax receipts for 2010-11 of $37.2 billion are projected to increase $2.4 billion or 6.9 percent over the prior year. Gross receipts are projected to increase 7.1 percent and reflect withholding that is projected to grow by 4.0 percent ($1.1 billion). Total estimated taxes on prior and current year liabilities reflect the expectation of growth in incomes of wealthy taxpayers and will increase by an estimated 16.3 percent ($1.6 billion). Payments from final returns are expected to increase 6.6 percent ($157 million). Delinquencies are projected to increase $54 million or 4.8 percent over the prior year. Growth in total refunds is projected to increase $559 million or 8 percent over the prior year.

General Fund income tax receipts for 2010-11 of $24.5 billion are projected to increase by $1.8 billion, or 8.2 percent. General Fund receipts for 2010-11 reflect a $44 million decrease in STAR deposits, and a $602 million increase in deposits to the RBTF.

All Funds income tax receipts for 2011-12 and 2012-13 are projected to reach $39.5 billion and $42.2 billion, respectively. General Fund receipts are projected at $26.0 billion and $27.9 billion, respectively.

User Taxes and Fees

USER TAXES AND FEES (millions of dollars)	2007-08 Actual	2008-09 Estimated	Annual $ Change	Annual % Change	2009-10 Projected	Annual $ Change	Annual % Change
General Fund*	**8,555**	**8,712**	**157**	**1.8%**	**10,022**	**1,310**	**15.0%**
Sales Tax	7,945	8,039	94	1.2%	9,097	1,058	13.2%
Cigarette and Tobacco Taxes	409	437	28	6.8%	439	2	0.5%
Motor Vehicle Fees	(51)	(15)	36	-70.6%	37	52	-346.7%
Alcoholic Beverage Taxes	205	206	1	0.5%	297	91	44.2%
ABC License Fees	47	45	(2)	-4.3%	152	107	237.8%
State/All Funds	**13,993**	**14,495**	**502**	**3.6%**	**16,792**	**2,297**	**15.8%**
Sales Tax	11,296	11,444	148	1.3%	13,300	1,856	16.2%
Cigarette and Tobacco Taxes	977	1,311	334	34.2%	1,384	73	5.6%
Motor Fuel	525	523	(2)	-0.4%	528	5	1.0%
Motor Vehicle Fees	748	766	18	2.4%	908	142	18.5%
Highway Use Tax	148	147	(1)	-0.7%	160	13	8.8%
Alcoholic Beverage Taxes	205	206	1	0.5%	297	91	44.2%
ABC License Fees	47	45	(2)	-4.3%	152	107	237.8%
Auto Rental Tax	47	53	6	12.8%	63	10	18.9%

** Excludes Transfers*

All Funds user taxes and fees receipts for 2008-09 are estimated to be $14.5 billion, an increase of $501 million or 3.6 percent from 2007-08. Sales tax receipts are expected to increase by $148 million from the prior year due to a base growth of 1.9 percent before the impact of law changes. Non-sales tax user taxes and fees are estimated to increase by $353 million from 2007-08 mainly due an increase in cigarette tax and motor vehicle fee collections.

General Fund user taxes and fees receipts are expected to total $8.7 billion in 2008-09, an increase of $157 million or 1.8 percent from 2007-08. The increase largely reflects an increase in sales tax receipts ($94 million), motor vehicle fees ($36 million) and cigarette tax collections ($28 million).

All Funds user taxes and fees receipts for 2009-10 are projected to be $16.8 billion, an increase of $2.3 billion, or 15.8 percent from 2008-09. This increase largely reflects fee and tax changes ($1.8 billion) proposed in this Budget. General Fund user taxes and fees receipts are projected to total $10.0 billion in 2009-10, an increase of $1.3 billion, or 15.0 percent from 2008-09. This increase largely reflects fee and tax changes ($1.0 billion) proposed in this Budget.

USER TAXES AND FEES CHANGE FROM MID-YEAR UPDATE FORECAST
(millions of dollars)

	2008-09 Mid Year Update	2008-09 Executive Financial Plan	$ Change	% Change	2009-10 Mid Year Update	2009-10 Executive Financial Plan	$ Change	% Change
General Fund*	**8,748**	**8,712**	**(36)**	**-0.4%**	**8,947**	**10,022**	**1,075**	**12.0%**
Sales Tax	8,076	8,039	(37)	-0.5%	8,221	9,097	876	10.7%
Cigarette and Tobacco Taxes	437	437	0	0.0%	430	439	9	2.1%
Motor Vehicle Fees	(15)	(15)	0	0.0%	37	37	0	0.0%
Alcoholic Beverage Taxes	206	206	0	0.0%	211	297	86	40.8%
ABC License Fees	44	45	1	2.3%	48	152	104	216.7%
State/All Funds	**14,544**	**14,495**	**(49)**	**-0.3%**	**14,897**	**16,792**	**1,895**	**12.7%**
Sales Tax	11,494	11,444	(50)	-0.4%	11,717	13,300	1,583	13.5%
Cigarette and Tobacco Taxes	1,311	1,311	0	0.0%	1,357	1,384	27	2.0%
Motor Fuel	523	523	0	0.0%	528	528	0	0.0%
Motor Vehicle Fees	766	766	0	0.0%	827	908	81	9.8%
Highway Use Tax	147	147	0	0.0%	155	160	5	3.2%
Alcoholic Beverage Taxes	206	206	0	0.0%	210	297	87	41.4%
ABC License Fees	44	45	1	2.3%	48	152	104	216.7%
Auto Rental Tax	53	53	0	0.0%	55	63	8	14.5%

** Excludes Transfers*

All Funds user taxes and fees in 2008-09 are revised down by $49 million from the Mid-Year Update. All Funds user taxes and fees are revised up by $1.9 billion for 2009-10; this revision is mainly due to proposed tax law changes.

USER TAXES AND FEES (millions of dollars)	2009-10 Projected	2010-11 Projected	Annual $ Change	2011-12 Projected	Annual $ Change	2012-13 Projected	Annual $ Change
General Fund*	**10,022**	**10,589**	**567**	**10,913**	**324**	**11,180**	**267**
Sales Tax	9,097	9,583	486	9,943	360	10,311	368
Cigarette and Tobacco Taxes	439	434	(5)	433	(1)	417	(16)
Motor Vehicle Fees	37	167	130	178	11	86	(92)
Alcoholic Beverage Taxes	297	306	9	311	5	315	4
ABC License Fees	152	99	(53)	48	(51)	51	3
State/All Funds	**16,792**	**17,703**	**911**	**18,155**	**452**	**18,537**	**382**
Sales Tax	13,300	14,096	796	14,571	475	15,089	518
Cigarette and Tobacco Taxes	1,384	1,362	(22)	1,359	(3)	1,305	(54)
Motor Fuel	528	529	1	532	3	534	2
Motor Vehicle Fees	908	1,091	183	1,107	16	1,010	(97)
Highway Use Tax	160	154	(6)	160	6	165	5
Alcoholic Beverage Taxes	297	306	9	311	5	315	4
ABC License Fees	152	99	(53)	48	(51)	51	3
Auto Rental Tax	63	66	3	67	1	68	1

** Excludes Transfers*

All Funds user taxes and fees in 2010-11 are projected to increase by $911 million and then increase by $452 million in 2011-12 and $382 million in 2012-13. This reflects the proposed fee and tax changes becoming fully effective.

Business Taxes

BUSINESS TAXES (millions of dollars)	2007-08 Actual	2008-09 Estimated	Annual $ Change	Annual % Change	2009-10 Projected	Annual $ Change	Annual % Change
General Fund	**6,017**	**5,645**	**(372)**	**-6.2%**	**6,084**	**439**	**7.8%**
Corporate Franchise Tax	3,446	3,166	(280)	-8.1%	3,475	309	9.8%
Corporation & Utilities Tax	603	650	47	7.8%	714	64	9.8%
Insurance Tax	1,088	1,100	12	1.1%	1,268	168	15.3%
Bank Tax	880	729	(151)	-17.2%	627	(102)	-14.0%
State/All Funds	**8,232**	**7,715**	**(517)**	**-6.3%**	**8,133**	**418**	**5.4%**
Corporate Franchise Tax	3,997	3,599	(398)	-10.0%	3,902	303	8.4%
Corporation & Utilities Tax	802	858	56	7.0%	928	70	8.2%
Insurance Tax	1,219	1,221	2	0.2%	1,397	176	14.4%
Bank Tax	1,058	894	(164)	-15.5%	731	(163)	-18.2%
Petroleum Business Tax	1,156	1,143	(13)	-1.1%	1,175	32	2.8%

All Funds business tax receipts for 2008-09 are estimated at $7.7 billion, a decrease of $517 million, or 6.3 percent from the prior year. The decrease is primarily due to reductions in corporate franchise tax receipts of 10 percent and bank tax receipts of 15.5 percent. The decrease in corporate franchise tax receipts is primarily due to a decline in tax year 2008 liability of 4 percent and higher than expected refunds on prior year payments. The majority of the impact from tax year 2008 liability is expected in the second half of the fiscal year since the bulk of the projected 7.6 percent decline in corporate profits from 2007 is expected to be reflected in payments made in the last half of the fiscal year. The change in current year estimated bank tax receipts is the result of an expected decline in tax year 2008 liability based on receipts-to-date. In addition, several sizeable refunds have been claimed on overpayments of 2006 liability. However, the 15.5 percent decline would be substantially greater in the absence of roughly $150 million, or a 97 percent increase in 2008-09 bank tax audit collections received as the result of allowing certain taxpayers a partial waiver of penalties and interest in exchange for disclosing the abusive use of tax-planning transactions in the current year. Absent this acceleration of audit receipts, the underlying tax base declined by roughly 45 percent.

Petroleum business tax receipts are expected to decline $13 million or 1.1 percent reflecting a 1.2 percent decrease in the PPI on January 1, 2008 and a 5.0 percent increase on January 1, 2009.

The decreases in All Funds corporate franchise tax, bank tax and petroleum business tax receipts are partially offset by increases in the All Funds receipts from the corporation and utilities tax and the insurance tax. An overall 7.0 percent increase in corporation and utilities taxes reflects strength in year-to-date payments received from telecommunication firms and regulated public utilities. Modestly higher estimated insurance tax receipts in 2008-09 reflect a slight decline in taxable premiums offset by an increase from a 25 percent to 30 percent March pre-payment for non-life insurers.

All Funds business tax receipts for 2009-10 of $8.1 billion are projected to increase by $419 million, or 5.4 percent over the prior year. Absent legislative proposals, All Funds business tax receipts would decrease $217 million or 2.8 percent in 2009-10. Legislation that increases the business tax March prepayment from 30 percent to 40 percent represents $351 million of the $635 million in legislative proposals that are included as part of the 2009-10 Executive Budget.

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

	2004-05 Actual	2005-06 Actual	2006-07 Actual	2007-08 Actual	2008-09 Estimated	2009-10 Projected
Corporate Franchise Tax	**2,110**	**3,053**	**4,228**	**3,998**	**3,599**	**3,902**
Audit	397	653	1,133	1,189	1,148	928
Non-Audit	1,713	2,400	3,095	2,809	2,451	2,974
Corporation and Utilities Taxes	**827**	**832**	**820**	**801**	**858**	**929**
Audit	43	101	52	35	24	24
Non-Audit	784	731	768	766	834	905
Insurance Taxes	**1,108**	**1,083**	**1,258**	**1,219**	**1,221**	**1,397**
Audit	32	33	56	44	48	48
Non-Audit	1,076	1,050	1,202	1,175	1,173	1,349
Bank Taxes	**675**	**975**	**1,210**	**1,058**	**894**	**731**
Audit	24	330	299	104	265	71
Non-Audit	651	645	911	954	629	660
Total Business Taxes (less PB	**4,720**	**5,943**	**7,516**	**7,076**	**6,572**	**6,959**
Audit	496	1,117	1,547	1,372	1,420	1,071
Non-Audit	4,224	4,826	5,969	5,704	5,152	5,888

Non-audit business tax receipts, including Executive Budget initiatives, are projected to increase by $736 million, or 14.3 percent. The overall increase reflects a projected increase in non-audit corporate franchise tax receipts of 21.3 percent, corporation and utilities taxes of 8.5 percent, insurance taxes of 15.0 percent and a 4.9 percent increase in non-audit bank tax receipts. Audit receipts related to All Funds business taxes are projected to decrease by approximately 24.6 percent or roughly $349 million from 2008-09 primarily the result of a 73 percent decrease in bank tax audits.

General Fund business tax receipts for 2008-09 of $5.6 billion are estimated to decrease by $372 million, or 6.2 percent below 2007-08. Business tax receipts deposited to the General Fund reflect the All Funds trends discussed above.

General Fund business tax receipts for 2009-10 of nearly $6.1 billion are projected to increase $439 million, or 7.8 percent over the prior year. Business tax receipts deposited to the General Fund reflect the All Funds trends and the Executive Budget initiatives discussed above.

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

	2008-09 Mid Year Update	2008-09 Executive Financial Plan	$ Change	% Change	2009-10 Mid Year Update	2009-10 Executive Financial Plan	$ Change	% Change
General Fund	**5,645**	**5,645**	**0**	**0.0%**	**5,670**	**6,084**	**414**	**7.3%**
Corporate Franchise Tax	3,166	3,166	0	0.0%	3,311	3,475	164	5.0%
Corporation & Utilities Tax	650	650	0	0.0%	666	714	48	7.2%
Insurance Tax	1,100	1,100	0	0.0%	1,112	1,268	156	14.0%
Bank Tax	729	729	0	0.0%	581	627	46	7.9%
State/All Funds	**7,715**	**7,715**	**0**	**0.0%**	**7,744**	**8,133**	**389**	**5.0%**
Corporate Franchise Tax	3,599	3,599	0	0.0%	3,761	3,902	141	3.7%
Corporation & Utilities Tax	858	858	0	0.0%	877	928	51	5.8%
Insurance Tax	1,221	1,221	0	0.0%	1,234	1,397	163	13.2%
Bank Tax	894	894	0	0.0%	686	731	45	6.6%
Petroleum Business Tax	1,143	1,143	0	0.0%	1,186	1,175	(11)	-0.9%

There was no change in the All Funds estimate for 2008-09 business tax receipts from the Mid-Year Update.

All Funds business tax receipts for 2009-10 are revised up by $390 million, or 5.0 percent from the Mid-Year Update. The increase reflects an estimated $635 million in additional revenues from the Executive Budget initiatives discussed above, partially offset by $235 million in downward revisions to baseline audit estimates as cases involving issues resulting in large, recent settlement payments are exhausted.

BUSINESS TAXES
(millions of dollars)

	2009-10 Projected	2010-11 Projected	Annual $ Change	2011-12 Projected	Annual $ Change	2012-13 Projected	Annual $ Change
General Fund	**6,084**	**6,236**	**152**	**6,405**	**169**	**6,805**	**400**
Corporate Franchise Tax	3,475	3,589	114	3,554	(35)	3,839	285
Corporation & Utilities Tax	714	695	(19)	726	31	759	33
Insurance Tax	1,268	1,258	(10)	1,354	96	1,459	105
Bank Tax	627	694	67	771	77	748	(23)
State/All Funds	**8,133**	**8,315**	**182**	**8,511**	**196**	**8,965**	**454**
Corporate Franchise Tax	3,902	4,051	149	4,011	(40)	4,333	322
Corporation & Utilities Tax	928	910	(18)	946	36	984	38
Insurance Tax	1,397	1,397	0	1,504	107	1,620	116
Bank Tax	731	816	85	906	90	879	(27)
Petroleum Business Tax	1,175	1,141	(34)	1,144	3	1,149	5

All Funds business tax receipts for 2010-11, 2011-12 and 2012-13 reflect trend growth that is determined in part by the expected level of corporate profits, the projected increase in taxable insurance premiums, estimated increases in electric utility consumption prices and the consumption of telecommunications services. In addition, the fully effective impact of the Executive Budget initiatives supplements out-year growth. Business tax receipts will increase to $8.3 billion (2.2 percent) in 2010-11, $8.5 billion (2.3 percent) in 2011-12, and nearly $9.0 billion (5.3 percent) in 2012-13.

Projected General Fund business tax receipts reflect the factors outlined above and the out-year impact of Executive Budget initiatives. General Fund business tax receipts over this period are expected to increase to $6.2 billion (2.5 percent) in 2010-11, $6.4 billion (2.7 percent) in 2011-12, and $6.8 billion (6.2 percent) in 2012-13.

Other Taxes

OTHER TAXES
(millions of dollars)

	2007-08 Actual	2008-09 Estimated	Annual $ Change	Annual % Change	2009-10 Projected	Annual $ Change	Annual % Change
General Fund*	**1,063**	**1,268**	**205**	**19.3%**	**1,048**	**(220)**	**-17.4%**
Estate Tax	1,037	1,242	205	19.8%	1,024	(218)	-17.6%
Gift Tax	1	2	1	100.0%	0	(2)	0.0%
Real Property Gains Tax	1	0	(1)	-100.0%	0	0	0.0%
Pari-Mutuel Taxes	23	23	0	0.0%	23	0	0.0%
All Other Taxes	1	1	0	0.0%	1	0	0.0%
State/All Funds	**2,084**	**2,018**	**(66)**	**-3.2%**	**1,688**	**(330)**	**-16.4%**
Estate Tax	1,037	1,242	205	19.8%	1,024	(218)	-17.6%
Gift Tax	1	2	1	100.0%	0	(2)	0.0%
Real Property Gains Tax	1	0	(1)	-100.0%	0	0	0.0%
Real Estate Transfer Tax	1,021	750	(271)	-26.5%	640	(110)	-14.7%
Pari-Mutuel Taxes	23	23	0	0.0%	23	0	0.0%
All Other Taxes	1	1	0	0.0%	1	0	0.0%

** Excludes Transfers*

All Funds other tax receipts for 2008-09 are estimated to be more than $2.0 billion, down $66 million or 3.2 percent from 2007-08 receipts, reflecting growth in the estate tax due to strong collections from estate taxpayers making payments in excess of $25 million during the first half of the fiscal year, offset by a nearly 27 percent decline in real estate transfer tax collections as a result of current conditions in the real estate and credit markets. General Fund other tax receipts are expected to total nearly $1.3 billion in fiscal year 2008-09, an increase of $205 million or 19.3 percent, due to the strength of estate tax collections to date.

All Funds other tax receipts for 2009-10 are projected to be $1.7 billion, down $330 million or 16.4 percent from 2008-09 reflecting declines in the estate tax due to lower household net worth and equities values and a return to a normal level of receipts from large estates, partially offset by growth in the real estate transfer tax. General Fund other tax receipts are expected to total over $1.0 billion in fiscal year 2009-10, a decrease of $220 million which is attributable to a projected decline in the estate tax.

OTHER TAXES CHANGE FROM MID-YEAR UPDATE FORECAST (millions of dollars)	2008-09 Mid Year Update	2008-09 Executive Financial Plan	$ Change	% Change	2009-10 Mid Year Update	2009-10 Executive Financial Plan	$ Change	% Change
General Fund*	**1,325**	**1,268**	**(57)**	**-4.3%**	**1,175**	**1,048**	**(127)**	**-10.8%**
Estate Tax	1,298	1,242	(56)	-4.3%	1,151	1,024	(127)	-11.0%
Gift Tax	3	2	(1)	0.0%	0	0	0	0.0%
Real Property Gains Tax	0	0	0	0.0%	0	0	0	0.0%
Pari-Mutuel Taxes	23	23	0	0.0%	23	23	0	0.0%
All Other Taxes	1	1	0	0.0%	1	1	0	0.0%
State/All Funds	**2,125**	**2,018**	**(107)**	**-5.0%**	**2,025**	**1,688**	**(337)**	**-16.6%**
Estate Tax	1,298	1,242	(56)	-4.3%	1,151	1,024	(127)	-11.0%
Gift Tax	3	2	(1)	0.0%	0	0	0	0.0%
Real Property Gains Tax	0	0	0	0.0%	0	0	0	0.0%
Real Estate Transfer Tax	800	750	(50)	-6.3%	850	640	(210)	-24.7%
Pari-Mutuel Taxes	23	23	0	0.0%	23	23	0	0.0%
All Other Taxes	1	1	0	0.0%	1	1	0	0.0%

** Excludes Transfers*

All Funds other tax receipts in 2008-09 are revised down by $107 million from the Mid-Year Update. All Funds other taxes are revised down by $337 million for 2009-10. These revisions are mainly due declines in equity prices and real estate markets resulting in downward revisions in the estate tax ($57 million in 2008-09 and $127 million in 2009-10) and real estate transfer tax ($50 million in 2008-09 and $210 million in 2009-10).

OTHER TAXES (millions of dollars)	2009-10 Projected	2010-11 Projected	Annual $ Change	2011-12 Projected	Annual $ Change	2012-13 Projected	Annual $ Change
General Fund*	**1,048**	**1,096**	**48**	**1,154**	**58**	**1,221**	**67**
Estate Tax	1,024	1,072	48	1,130	58	1,197	67
Gift Tax	0	0	0	0	0	0	0
Real Property Gains Tax	0	0	0	0	0	0	0
Pari-Mutuel Taxes	23	23	0	23	0	23	0
All Other Taxes	1	1	0	1	0	1	0
State/All Funds	**1,688**	**1,831**	**143**	**1,961**	**130**	**2,101**	**140**
Estate Tax	1,024	1,072	48	1,130	58	1,197	67
Gift Tax	0	0	0	0	0	0	0
Real Property Gains Tax	0	0	0	0	0	0	0
Real Estate Transfer Tax	640	735	95	807	72	880	73
Pari-Mutuel Taxes	23	23	0	23	0	23	0
All Other Taxes	1	1	0	1	0	1	0

** Excludes Transfers*

The 2010-11 All Funds receipts projection for other taxes is slightly more than $1.8 billion, up $143 million or 8.5 percent from 2009-10 receipts. Modest growth in the estate tax is projected to follow expected increases in household net worth and receipts from the real transfer tax are projected to increase to reflect the beginning of a rebound in the residential and commercial markets.

The 2011-12 All Funds receipts projection for other taxes of nearly $2.0 billion is up $130 million or 7.1 percent from 2010-11 receipts. The forecast reflects continued increases in household net worth as well as in the value of real property transfers.

The 2012-13 All Funds receipts projection for other taxes of $2.1 billion is up $140 million (7.1 percent) from 2011-12 as continued growth in estate tax collections is expected.

Miscellaneous Receipts and Federal Grants

MISCELLANEOUS RECEIPTS AND FEDERAL GRANTS (millions of dollars)	2007-08 Actual	2008-09 Estimated	Annual $ Change	Annual % Change	2009-10 Projected	Annual $ Change	Annual % Change
General Fund	**2,527**	**3,040**	**513**	**20.3%**	**3,764**	**724**	**23.8%**
Miscellaneous Receipts	2,458	2,999	541	22.0%	3,764	765	25.5%
Federal Grants	69	41	(28)	-40.6%	0	(41)	-100.0%
State Funds	**19,501**	**19,746**	**245**	**1.3%**	**22,796**	**3,050**	**15.4%**
Miscellaneous Receipts	19,432	19,704	272	1.4%	22,795	3,091	15.7%
Federal Grants	69	42	(27)	-39.1%	1	(41)	-97.6%
All Funds	**54,549**	**55,790**	**1,241**	**2.3%**	**58,738**	**2,948**	**5.3%**
Miscellaneous Receipts	19,640	19,812	172	0.9%	22,901	3,089	15.6%
Federal Grants	34,909	35,978	1,069	3.1%	35,837	(141)	-0.4%

Funds miscellaneous receipts include moneys received from HCRA financing sources, SUNY tuition and patient income, lottery receipts for education, assessments on regulated industries, and a variety of fees and licenses. All Funds miscellaneous receipts are projected to total $19.8 billion in 2008-09, an increase of $172 million from 2007-08 largely driven by growth in the General Fund, as described below, lottery revenues, including VLTs ($346 million) and SUNY tuition growth ($448 million) partially offset by a reduction in projected revenue from HCRA conversion proceeds ($778 million) and reductions in various reimbursement driven special revenue funds.

Federal grants help pay for State spending on Medicaid, temporary and disability assistance, mental hygiene, School Aid, public health, and other activities. Annual changes to Federal grants generally correspond to changes in federally-reimbursed spending. Accordingly, DOB typically plans that Federal reimbursement will be received in the State fiscal year in which spending occurs, but timing sometimes varies. All Funds Federal grants are projected to total $36.0 billion in 2008-09, an increase of $1.1 million from 2007-08. Federal spending is expected to increase for temporary and disability assistance ($284 million), public health ($204 million), Federal Medicaid ($153 million), educational programs ($119 million) and elections ($91 million).

General Fund miscellaneous receipts collections are estimated to be approximately $3.0 billion in 2008-09, up $541 million from 2007-08 receipts. This increase is primarily due to increased Monroe County Medicaid sales tax intercept payments, a New York Power Authority payment and receipts from civil recoveries. General Fund Federal grants are expected to decline by $28 million from the prior year, reflecting the loss of the Medicare Part D subsidy.

All Funds miscellaneous receipts are projected to total $22.9 billion in 2009-10, an increase of more than $3 billion from the current year, driven by: growth in: utility assessments ($652 million); programs financed with authority bond proceeds ($627 million), including spending for economic development, environment, and SUNY; projected first year receipts for the proposal to redirect all unclaimed bottle deposits to support spending in the Environmental Protection Fund ($118 million); growth in HCRA receipts ($1.2 billion); and insurance assessments ($421 million).

All Funds Federal grants are projected to total $35.8 billion in 2009-10, a decline of $141 million from the current year. Federal spending is expected to decrease for

Medicaid ($378 million), partially offset by increased spending for homeland security ($187 million). In most cases, the grant levels reflect projected changes in State spending levels and a corresponding change in estimated Federal reimbursement, not changes in aid levels for New York authorized by Congress.

General Fund miscellaneous receipts collections in 2009-10 are projected to reach approximately $3.8 billion, up $765 million from 2008-09 estimates, primarily due to increased receipts resulting from a utility assessment.

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

	2008-09 Mid Year Update	2008-09 Executive Financial Plan	$ Change	% Change	2009-10 Mid Year Update	2009-10 Executive Financial Plan	$ Change	% Change
General Fund	**2,592**	**3,040**	**448**	**17.3%**	**2,399**	**3,764**	**1,365**	**56.9%**
Miscellaneous Receipts	2,551	2,999	448	17.6%	2,399	3,764	1,365	56.9%
Federal Grants	41	41	0	0.0%	0	0	0	0.0%
State Funds	**19,394**	**19,746**	**352**	**1.8%**	**20,704**	**22,796**	**2,092**	**10.1%**
Miscellaneous Receipts	19,352	19,704	352	1.8%	20,703	22,795	2,092	10.1%
Federal Grants	42	42	0	0.0%	1	1	0	0.0%
All Funds	**55,424**	**55,790**	**366**	**0.7%**	**57,812**	**58,738**	**926**	**1.6%**
Miscellaneous Receipts	19,460	19,812	352	1.8%	20,809	22,901	2,092	10.1%
Federal Grants	35,964	35,978	14	0.0%	37,003	35,837	(1,166)	-3.2%

All Funds miscellaneous receipts are projected to total $19.8 billion in 2008-09, an increase of $352 million from the Mid-Year Update primarily driven by the General Fund changes detailed below. All Funds Federal grants are projected to total $36.0 billion in 2008-09, virtually unchanged from the Mid-Year Update.

General Fund miscellaneous receipts are projected to total $3.0 billion in 2008-09, an increase of $448 million from the Mid-Year Update. Revisions to the forecast reflect payments related to NYPA and increased receipts resulting from civil recoveries. Federal grants in 2008-09 have not been revised from the Mid-Year Update.

All Funds Federal grants are projected to total $35.8 billion in 2009-10, a downward revision of nearly $1.2 billion from the Mid-Year Update which reflects the Federal impact of Medicaid savings actions.

General Fund miscellaneous receipts and Federal grants projections for 2009-10 are revised up by $1.4 billion from the Mid-Year Update, primarily due an increase in utility assessments, sweeps of Battery Park funds, additional NYPA funding and several fee and penalty increases .

MISCELLANEOUS RECEIPTS AND FEDERAL GRANTS (millions of dollars)	2009-10 Projected	2010-11 Projected	Annual $ Change	2011-12 Projected	Annual $ Change	2012-13 Projected	Annual $ Change
General Fund	**3,764**	**3,193**	**(571)**	**3,161**	**(32)**	**2,790**	**(371)**
Miscellaneous Receipts	3,764	3,193	(571)	3,161	(32)	2,790	(371)
Federal Grants	0	0	0	0	0	0	0
State Funds	**22,796**	**22,886**	**90**	**23,002**	**116**	**22,346**	**(656)**
Miscellaneous Receipts	22,795	22,885	90	23,001	116	22,345	(656)
Federal Grants	1	1	0	1	0	1	0
All Funds	**58,738**	**60,405**	**1,667**	**62,514**	**2,109**	**61,612**	**(902)**
Miscellaneous Receipts	22,901	22,991	90	23,107	116	22,451	(656)
Federal Grants	35,837	37,414	1,577	39,407	1,993	39,161	(246)

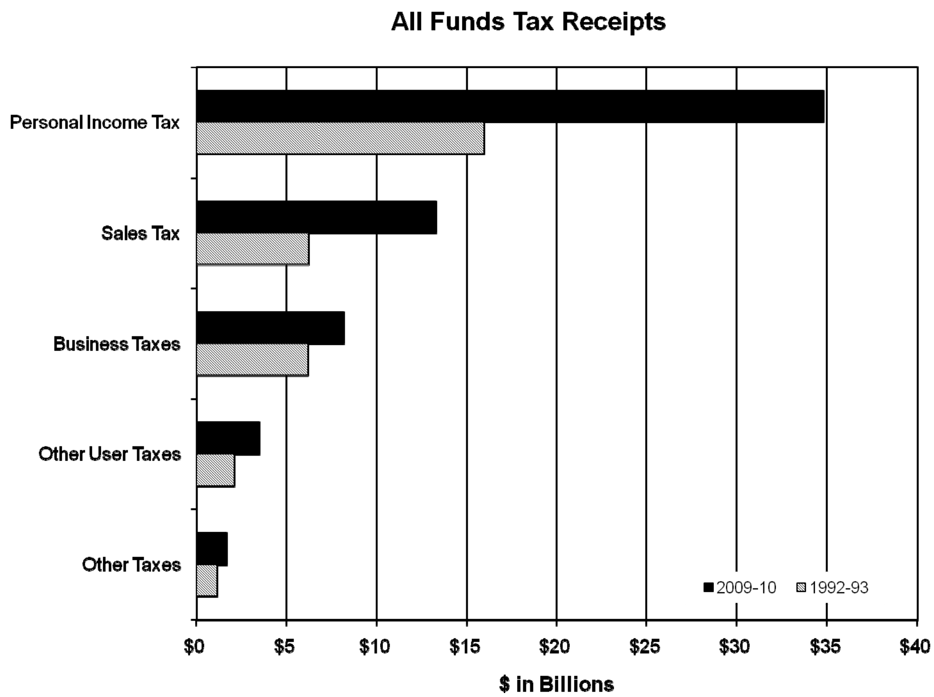
In 2010-11, General Fund miscellaneous receipts and Federal grants are projected to be nearly $3.2 billion, down $571 million from 2009-10. This decrease primarily results from the loss of the Battery Park fund sweep and NYPA payments.

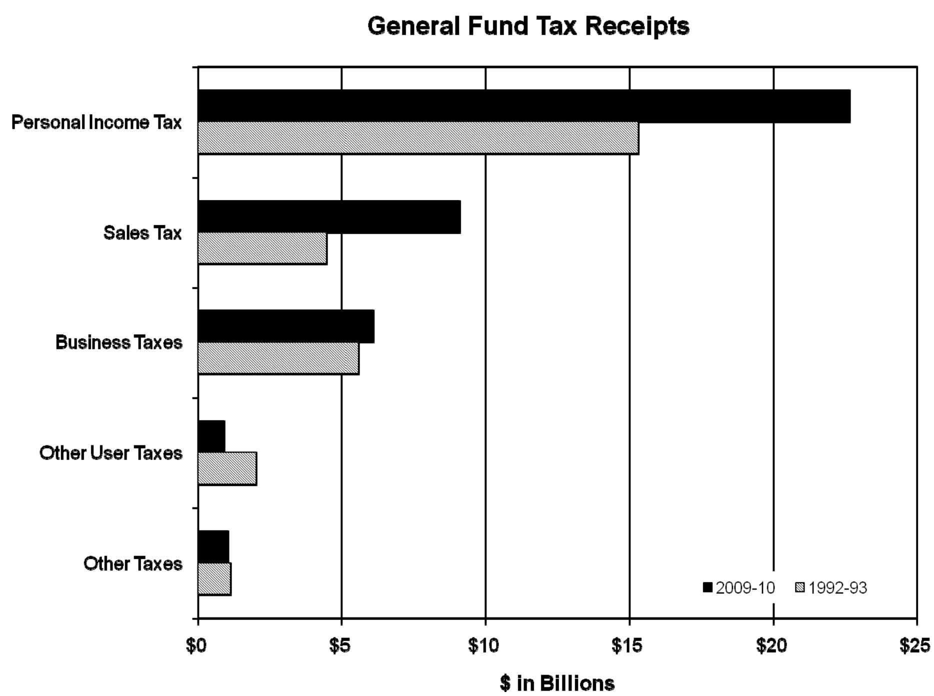
General Fund miscellaneous receipts in 2011-12 are projected to be almost $3.2 billion, virtually unchanged from the prior year.

General Fund miscellaneous receipts in 2012-13 are projected to be almost $2.8 billion, down $372 million from 2011-12. This decrease primarily results from the loss of utility assessment receipts.

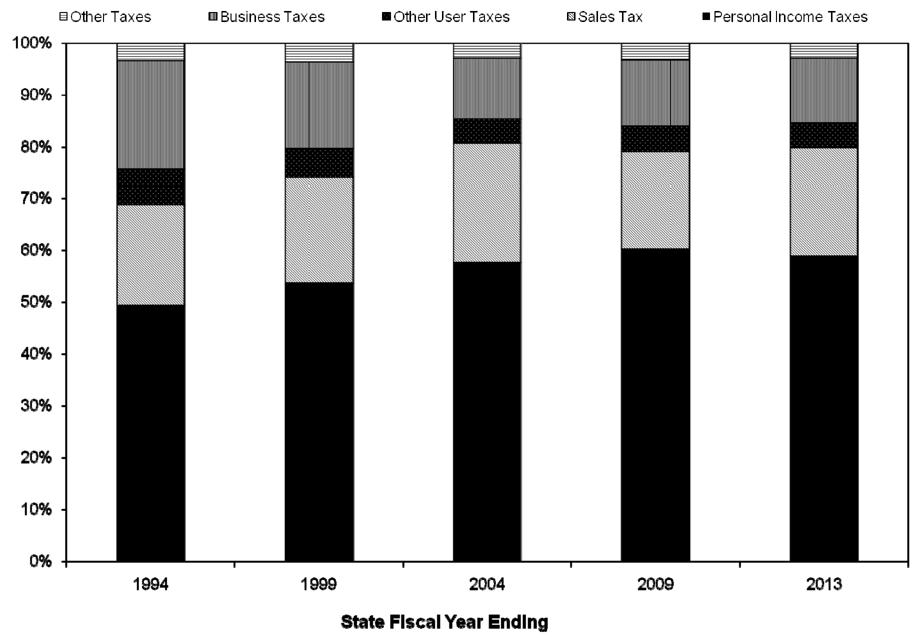
All funds miscellaneous receipts are projected to increase by roughly $100 million in 2010-11 and 2011-12 and decline by $656 million in 2012-13 reflecting increases in projected lottery receipts, including VLT's and HCRA revenues offset by a decline in capital projects spending financed by bond proceeds in 2012-13.

Federal Medicaid spending drives the All Funds Federal grant growth of $1.6 billion in 2010-11, $2.0 billion in 2011-12, as well as the $246 million decline in 2012-13.


All Funds Tax Receipts
Personal Income Tax
Sales Tax
Business Taxes
Other User Taxes
Other Taxes
2009-10
1992-93
$0
$5
$10
$15
$20
$25
$30
$35
$40
$ in Billions


General Fund Tax Receipts
Personal Income Tax
Sales Tax
Business Taxes
Other User Taxes
Other Taxes
2009-10
1992-93
$0
$5
$10
$15
$20
$25
$ in Billions

All Funds Tax Receipts Percent Share



CURRENT STATE RECEIPTS
ALL GOVERNMENTAL FUNDS
2008-2009 and 2009-2010
(millions of dollars)

	2008-2009 Current	2009-2010 Recommended	Annual Change
Taxes:			
Withholdings	27,626	28,125	499
Estimated Payments	12,452	10,106	(2,346)
Final Payments	2,728	2,386	(342)
Other Payments	947	1,116	169
Gross Collections	43,753	41,733	(2,020)
State/City Offset	(504)	(584)	(80)
Refunds	(6,690)	(6,380)	310
Reported Tax Collections	36,559	34,769	(1,790)
STAR (dedicated deposits)	0	0	0
RBTF (dedicated transfers)	10	1	(9)
Personal income tax	36,569	34,770	(1,799)
Sales and use tax	11,444	13,300	1,856
Cigarette and tobacco taxes	1,311	1,384	73
Motor fuel tax	523	528	5
Motor vehicle fees	766	908	142
Alcoholic beverages taxes	206	297	91
Highway Use tax	147	160	13
Alcoholic beverage control license fees	45	152	107
Auto rental tax	53	63	10
Gross Utility Taxes and fees	14,495	16,792	2,297
LGAC Sales Tax (dedicated transfers)	(1)	(1)	0
User Taxes and fees	14,494	16,791	2,297
Corporation franchise tax	3,599	3,902	303
Corporation and utilities tax	858	928	70
Insurance taxes	1,221	1,397	176
Bank tax	894	731	(163)
Petroleum business tax	1,143	1,175	32
Business taxes	7,715	8,133	418
Estate tax	1,242	1,024	(218)
Real estate transfer tax	750	640	(110)
Gift tax	2	0	(2)
Real property gains tax	0	0	0
Pari-mutuel taxes	23	23	0
Other taxes	1	1	0
Gross Other taxes	2,018	1,688	(330)
Real estate transfer tax (dedicated)	0	0	0
Other taxes	2,018	1,688	(330)
Total Taxes	60,796	61,382	586
Licenses, fees, etc.	598	780	182
Abandoned property	750	700	(50)
Reimbursements	174	172	(2)
Investment income	180	200	20
Other transactions	18,110	21,049	2,939
Miscellaneous receipts	19,812	22,901	3,089
Federal grants	35,978	35,837	(141)
Total	116,586	120,120	3,534

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2008-2009
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Taxes:					
Withholdings	27,626	0	0	0	27,626
Estimated Payments	12,452	0	0	0	12,452
Final Payments	2,728	0	0	0	2,728
Other Payments	947	0	0	0	947
Gross Collections	43,753	0	0	0	43,753
State/City Offset	(504)	0	0	0	(504)
Refunds	(6,690)	0	0	0	(6,690)
Reported Tax Collections	36,559	0	0	0	36,559
STAR (dedicated deposits)	(4,440)	4,440	0	0	0
RBTF (dedicated transfers)	(9,140)	0	0	9,150	10
Personal income tax	22,979	4,440	0	9,150	36,569
Sales and use tax	10,700	744	0	0	11,444
Cigarette and tobacco taxes	437	874	0	0	1,311
Motor fuel tax	0	110	413	0	523
Motor vehicle fees	(15)	226	555	0	766
Alcoholic beverages taxes	206	0	0	0	206
Highway Use tax	0	0	147	0	147
Alcoholic beverage control license fees	45	0	0	0	45
Auto rental tax	0	0	53	0	53
Gross Utility Taxes and fees	11,373	1,954	1,168	0	14,495
LGAC Sales Tax (dedicated transfers)	(2,662)	0	0	2,661	(1)
User Taxes and fees	8,711	1,954	1,168	2,661	14,494
Corporation franchise tax	3,166	433	0	0	3,599
Corporation and utilities tax	650	191	17	0	858
Insurance taxes	1,100	121	0	0	1,221
Bank tax	729	165	0	0	894
Petroleum business tax	0	509	634	0	1,143
Business taxes	5,645	1,419	651	0	7,715
Estate tax	1,242	0	0	0	1,242
Real estate transfer tax	750	0	0	0	750
Gift tax	2	0	0	0	2
Real property gains tax	0	0	0	0	0
Pari-mutuel taxes	23	0	0	0	23
Other taxes	1	0	0	0	1
Gross Other taxes	2,018	0	0	0	2,018
Real estate transfer tax (dedicated)	(750)	0	237	513	0
Other taxes	1,268	0	237	513	2,018
Total Taxes	38,603	7,813	2,056	12,324	60,796
Licenses, fees, etc.	598	0	0	0	598
Abandoned property	750	0	0	0	750
Reimbursements	174	0	0	0	174
Investment income	180	0	0	0	180
Other transactions	1,297	13,154	2,880	779	18,110
Miscellaneous receipts	2,999	13,154	2,880	779	19,812
Federal grants	41	34,031	1,906	0	35,978
Total	41,643	54,998	6,842	13,103	116,586

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Taxes:					
Withholdings	28,125	0	0	0	28,125
Estimated Payments	10,106	0	0	0	10,106
Final Payments	2,386	0	0	0	2,386
Other Payments	1,116	0	0	0	1,116
Gross Collections	41,733	0	0	0	41,733
State/City Offset	(584)	0	0	0	(584)
Refunds	(6,380)	0	0	0	(6,380)
Reported Tax Collections	34,769	0	0	0	34,769
STAR (dedicated deposits)	(3,416)	3,416	0	0	0
RBTF (dedicated transfers)	(8,691)	0	0	8,692	1
Personal income tax	22,662	3,416	0	8,692	34,770
Sales and use tax	12,127	1,173	0	0	13,300
Cigarette and tobacco taxes	439	945	0	0	1,384
Motor fuel tax	0	111	417	0	528
Motor vehicle fees	37	234	637	0	908
Alcoholic beverages taxes	297	0	0	0	297
Highway Use tax	0	0	160	0	160
Alcoholic beverage control license fees	152	0	0	0	152
Auto rental tax	0	0	63	0	63
Gross Utility Taxes and fees	13,052	2,463	1,277	0	16,792
LGAC Sales Tax (dedicated transfers)	(3,031)	0	0	3,030	(1)
User Taxes and fees	10,021	2,463	1,277	3,030	16,791
Corporation franchise tax	3,475	427	0	0	3,902
Corporation and utilities tax	714	197	17	0	928
Insurance taxes	1,268	129	0	0	1,397
Bank tax	627	104	0	0	731
Petroleum business tax	0	524	651	0	1,175
Business taxes	6,084	1,381	668	0	8,133
Estate tax	1,024	0	0	0	1,024
Real estate transfer tax	640	0	0	0	640
Gift tax	0	0	0	0	0
Real property gains tax	0	0	0	0	0
Pari-mutuel taxes	23	0	0	0	23
Other taxes	1	0	0	0	1
Gross Other taxes	1,688	0	0	0	1,688
Real estate transfer tax (dedicated)	(640)	0	80	560	0
Other taxes	1,048	0	80	560	1,688
Total Taxes	39,815	7,260	2,025	12,282	61,382
Licenses, fees, etc.	780	0	0	0	780
Abandoned property	700	0	0	0	700
Reimbursements	172	0	0	0	172
Investment income	200	0	0	0	200
Other transactions	1,912	14,682	3,625	830	21,049
Miscellaneous receipts	3,764	14,682	3,625	830	22,901
Federal grants	0	33,971	1,866	0	35,837
Total	43,579	55,913	7,516	13,112	120,120

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Taxes:					
Withholdings	29,236	0	0	0	29,236
Estimated Payments	11,750	0	0	0	11,750
Final Payments	2,543	0	0	0	2,543
Other Payments	1,169	0	0	0	1,169
Gross Collections	44,698	0	0	0	44,698
State/City Offset	(658)	0	0	0	(658)
Refunds	(6,865)	0	0	0	(6,865)
Reported Tax Collections	37,175	0	0	0	37,175
STAR (dedicated deposits)	(3,371)	3,371	0	0	0
RBTF (dedicated transfers)	(9,293)	0	0	9,294	1
Personal income tax	24,511	3,371	0	9,294	37,176
Sales and use tax	12,773	1,323	0	0	14,096
Cigarette and tobacco taxes	434	928	0	0	1,362
Motor fuel tax	0	111	418	0	529
Motor vehicle fees	167	233	691	0	1,091
Alcoholic beverages taxes	306	0	0	0	306
Highway Use tax	0	0	154	0	154
Alcoholic beverage control license fees	99	0	0	0	99
Auto rental tax	0	0	66	0	66
Gross Utility Taxes and fees	13,779	2,595	1,329	0	17,703
LGAC Sales Tax (dedicated transfers)	(3,190)	0	0	3,190	0
User Taxes and fees	10,589	2,595	1,329	3,190	17,703
Corporation franchise tax	3,589	462	0	0	4,051
Corporation and utilities tax	695	198	17	0	910
Insurance taxes	1,258	139	0	0	1,397
Bank tax	694	122	0	0	816
Petroleum business tax	0	509	632	0	1,141
Business taxes	6,236	1,430	649	0	8,315
Estate tax	1,072	0	0	0	1,072
Real estate transfer tax	735	0	0	0	735
Gift tax	0	0	0	0	0
Real property gains tax	0	0	0	0	0
Pari-mutuel taxes	23	0	0	0	23
Other taxes	1	0	0	0	1
Gross Other taxes	1,831	0	0	0	1,831
Real estate transfer tax (dedicated)	(735)	0	80	655	0
Other taxes	1,096	0	80	655	1,831
Total Taxes	42,432	7,396	2,058	13,139	65,025
Licenses, fees, etc.	772	0	0	0	772
Abandoned property	700	0	0	0	700
Reimbursements	172	0	0	0	172
Investment income	200	0	0	0	200
Other transactions	1,349	15,328	3,650	820	21,147
Miscellaneous receipts	3,193	15,328	3,650	820	22,991
Federal grants	0	35,646	1,768	0	37,414
Total	45,625	58,370	7,476	13,959	125,430

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Taxes:					
Withholdings	31,175	0	0	0	31,175
Estimated Payments	12,411	0	0	0	12,411
Final Payments	2,709	0	0	0	2,709
Other Payments	1,207	0	0	0	1,207
Gross Collections	47,502	0	0	0	47,502
State/City Offset	(741)	0	0	0	(741)
Refunds	(7,273)	0	0	0	(7,273)
Reported Tax Collections	39,488	0	0	0	39,488
STAR (dedicated deposits)	(3,569)	3,569	0	0	0
RBTF (dedicated transfers)	(9,872)	0	0	9,872	0
Personal income tax	26,047	3,569	0	9,872	39,488
Sales and use tax	13,224	1,347	0	0	14,571
Cigarette and tobacco taxes	433	926	0	0	1,359
Motor fuel tax	0	112	420	0	532
Motor vehicle fees	178	235	694	0	1,107
Alcoholic beverages taxes	311	0	0	0	311
Highway Use tax	0	0	160	0	160
Alcoholic beverage control license fees	48	0	0	0	48
Auto rental tax	0	0	67	0	67
Gross Utility Taxes and fees	14,194	2,620	1,341	0	18,155
LGAC Sales Tax (dedicated transfers)	(3,281)	0	0	3,281	0
User Taxes and fees	10,913	2,620	1,341	3,281	18,155
Corporation franchise tax	3,554	457	0	0	4,011
Corporation and utilities tax	726	203	17	0	946
Insurance taxes	1,354	150	0	0	1,504
Bank tax	771	135	0	0	906
Petroleum business tax	0	510	634	0	1,144
Business taxes	6,405	1,455	651	0	8,511
Estate tax	1,130	0	0	0	1,130
Real estate transfer tax	807	0	0	0	807
Gift tax	0	0	0	0	0
Real property gains tax	0	0	0	0	0
Pari-mutuel taxes	23	0	0	0	23
Other taxes	1	0	0	0	1
Gross Other taxes	1,961	0	0	0	1,961
Real estate transfer tax (dedicated)	(807)	0	80	727	0
Other taxes	1,154	0	80	727	1,961
Total Taxes	44,519	7,644	2,072	13,880	68,115
Licenses, fees, etc.	768	0	0	0	768
Abandoned property	700	0	0	0	700
Reimbursements	172	0	0	0	172
Investment income	200	0	0	0	200
Other transactions	1,321	15,435	3,672	839	21,267
Miscellaneous receipts	3,161	15,435	3,672	839	23,107
Federal grants	0	37,607	1,800	0	39,407
Total	47,680	60,686	7,544	14,719	130,629

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Taxes:					
Withholdings	33,459	0	0	0	33,459
Estimated Payments	13,106	0	0	0	13,106
Final Payments	2,887	0	0	0	2,887
Other Payments	1,246	0	0	0	1,246
Gross Collections	50,698	0	0	0	50,698
State/City Offset	(833)	0	0	0	(833)
Refunds	(7,706)	0	0	0	(7,706)
Reported Tax Collections	42,159	0	0	0	42,159
STAR (dedicated deposits)	(3,745)	3,745	0	0	0
RBTF (dedicated transfers)	(10,540)	0	0	10,540	0
Personal income tax	27,874	3,745	0	10,540	42,159
Sales and use tax	13,711	1,378	0	0	15,089
Cigarette and tobacco taxes	417	888	0	0	1,305
Motor fuel tax	0	112	422	0	534
Motor vehicle fees	86	236	688	0	1,010
Alcoholic beverages taxes	315	0	0	0	315
Highway Use tax	0	0	165	0	165
Alcoholic beverage control license fees	51	0	0	0	51
Auto rental tax	0	0	68	0	68
Gross Utility Taxes and fees	14,580	2,614	1,343	0	18,537
LGAC Sales Tax (dedicated transfers)	(3,400)	0	0	3,400	0
User Taxes and fees	11,180	2,614	1,343	3,400	18,537
Corporation franchise tax	3,839	494	0	0	4,333
Corporation and utilities tax	759	208	17	0	984
Insurance taxes	1,459	161	0	0	1,620
Bank tax	748	131	0	0	879
Petroleum business tax	0	513	636	0	1,149
Business taxes	6,805	1,507	653	0	8,965
Estate tax	1,197	0	0	0	1,197
Real estate transfer tax	880	0	0	0	880
Gift tax	0	0	0	0	0
Real property gains tax	0	0	0	0	0
Pari-mutuel taxes	23	0	0	0	23
Other taxes	1	0	0	0	1
Gross Other taxes	2,101	0	0	0	2,101
Real estate transfer tax (dedicated)	(880)	0	80	800	0
Other taxes	1,221	0	80	800	2,101
Total Taxes	47,080	7,866	2,076	14,740	71,762
Licenses, fees, etc.	770	0	0	0	770
Abandoned property	700	0	0	0	700
Reimbursements	172	0	0	0	172
Investment income	200	0	0	0	200
Other transactions	948	15,819	2,984	858	20,609
Miscellaneous receipts	2,790	15,819	2,984	858	22,451
Federal grants	0	37,317	1,844	0	39,161
Total	49,870	61,002	6,904	15,598	133,374

CURRENT STATE RECEIPTS
GENERAL FUND
2008-2009 and 2009-2010
(millions of dollars)

	2008-2009 Current	2009-2010 Recommended	Annual Change
Taxes:			
Withholdings	27,626	28,125	499
Estimated Payments	12,452	10,106	(2,346)
Final Payments	2,728	2,386	(342)
Other Payments	947	1,116	169
Gross Collections	43,753	41,733	(2,020)
State/City Offset	(504)	(584)	(80)
Refunds	(6,690)	(6,380)	310
Reported Tax Collections	36,559	34,769	(1,790)
STAR (dedicated deposits)	(4,440)	(3,416)	1,024
RBTF (dedicated transfers)	(9,140)	(8,691)	449
Personal income tax	22,979	22,662	(317)
Sales and use tax	10,700	12,127	1,427
Cigarette and tobacco taxes	437	439	2
Motor fuel tax	0	0	0
Motor vehicle fees	(15)	37	52
Alcoholic beverages taxes	206	297	91
Highway Use tax	0	0	0
Alcoholic beverage control license fees	45	152	107
Auto rental tax	0	0	0
Gross Utility Taxes and fees	11,373	13,052	1,679
LGAC Sales Tax (dedicated transfers)	(2,662)	(3,031)	(369)
User Taxes and fees	8,711	10,021	1,310
Corporation franchise tax	3,166	3,475	309
Corporation and utilities tax	650	714	64
Insurance taxes	1,100	1,268	168
Bank tax	729	627	(102)
Petroleum business tax	0	0	0
Business taxes	5,645	6,084	439
Estate tax	1,242	1,024	(218)
Real estate transfer tax	750	640	(110)
Gift tax	2	0	(2)
Real property gains tax	0	0	0
Pari-mutuel taxes	23	23	0
Other taxes	1	1	0
Gross Other taxes	2,018	1,688	(330)
Real estate transfer tax (dedicated)	(750)	(640)	110
Other taxes	1,268	1,048	(220)
Total Taxes	38,603	39,815	1,212
Licenses, fees, etc.	598	780	182
Abandoned property	750	700	(50)
Reimbursements	174	172	(2)
Investment income	180	200	20
Other transactions	1,297	1,912	615
Miscellaneous receipts	2,999	3,764	765
Federal grants	41	0	(41)
Total	41,643	43,579	1,936

GENERAL FUND
2009-2010 THROUGH 2012-2013
(millions of dollars)

	2009-2010 Projected	2010-2011 Projected	2011-2012 Projected	2012-2013 Projected
Taxes:				
Withholdings	28,125	29,236	31,175	33,459
Estimated Payments	10,106	11,750	12,411	13,106
Final Payments	2,386	2,543	2,709	2,887
Other Payments	1,116	1,169	1,207	1,246
Gross Collections	41,733	44,698	47,502	50,698
State/City Offset	(584)	(658)	(741)	(833)
Refunds	(6,380)	(6,865)	(7,273)	(7,706)
Reported Tax Collections	34,769	37,175	39,488	42,159
STAR (dedicated deposits)	(3,416)	(3,371)	(3,569)	(3,745)
RBTF (dedicated transfers)	(8,691)	(9,293)	(9,872)	(10,540)
Personal income tax	22,662	24,511	26,047	27,874
Sales and use tax	12,127	12,773	13,224	13,711
Cigarette and tobacco taxes	439	434	433	417
Motor fuel tax	0	0	0	0
Motor vehicle fees	37	167	178	86
Alcoholic beverages taxes	297	306	311	315
Highway Use tax	0	0	0	0
Alcoholic beverage control license fees	152	99	48	51
Auto rental tax	0	0	0	0
Gross Utility Taxes and fees	13,052	13,779	14,194	14,580
LGAC Sales Tax (dedicated transfers)	(3,031)	(3,190)	(3,281)	(3,400)
User Taxes and fees	10,021	10,589	10,913	11,180
Corporation franchise tax	3,475	3,589	3,554	3,839
Corporation and utilities tax	714	695	726	759
Insurance taxes	1,268	1,258	1,354	1,459
Bank tax	627	694	771	748
Petroleum business tax	0	0	0	0
Business taxes	6,084	6,236	6,405	6,805
Estate tax	1,024	1,072	1,130	1,197
Real estate transfer tax	640	735	807	880
Gift tax	0	0	0	0
Real property gains tax	0	0	0	0
Pari-mutuel taxes	23	23	23	23
Other taxes	1	1	1	1
Gross Other taxes	1,688	1,831	1,961	2,101
Real estate transfer tax (dedicated)	(640)	(735)	(807)	(880)
Other taxes	1,048	1,096	1,154	1,221
Total Taxes	39,815	42,432	44,519	47,080
Licenses, fees, etc.	780	772	768	770
Abandoned property	700	700	700	700
Reimbursements	172	172	172	172
Investment income	200	200	200	200
Other transactions	1,912	1,349	1,321	948
Miscellaneous receipts	3,764	3,193	3,161	2,790
Federal grants	0	0	0	0
Total	43,579	45,625	47,680	49,870

CASH RECEIPTS
SPECIAL REVENUE FUNDS
2008-2009 and 2009-2010
(millions of dollars)

	2008-2009 Current	2009-2010 Recommended	Annual Change
Personal income tax	4,440	3,416	(1,024)
User taxes and fees	1,954	2,463	509
Sales and use tax	744	1,173	429
Cigarette and tobacco taxes	874	945	71
Motor fuel tax	110	111	1
Motor vehicle fees	226	234	8
Highway Use Tax	0	0	
Business taxes	1,419	1,381	(38)
Corporation franchise tax	433	427	(6)
Corporation and utilities tax	191	197	6
Insurance taxes	121	129	8
Bank tax	165	104	(61)
Petroleum business tax	509	524	15
Total Taxes	7,813	7,260	(553)
Miscellaneous receipts	13,154	14,682	1,528
HCRA	3,634	4,306	672
State university income	3,192	3,268	76
Lottery	3,142	3,067	(75)
Medicaid	548	884	336
Industry assessments	660	995	335
All other	1,978	2,162	184
Federal grants	34,031	33,971	(60)
Total	54,998	55,913	915

CASH RECEIPTS
SPECIAL REVENUE FUNDS
2009-2010 THROUGH 2012-2013
(millions of dollars)

	2009-2010 Projected	2010-2011 Projected	2011-2012 Projected	2012-2013 Projected
Personal income tax	3,416	3,371	3,569	3,745
User taxes and fees	2,463	2,595	2,620	2,614
Sales and use tax	1,173	1,323	1,347	1,378
Cigarette and tobacco taxes	945	928	926	888
Motor fuel tax	111	111	112	112
Motor vehicle fees	234	233	235	236
Highway Use Tax	0	0	0	0
Business taxes	1,381	1,430	1,455	1,507
Corporation franchise tax	427	462	457	494
Corporation and utilities tax	197	198	203	208
Insurance taxes	129	139	150	161
Bank tax	104	122	135	131
Petroleum business tax	524	509	510	513
Total Taxes	7,260	7,396	7,644	7,866
Miscellaneous receipts	14,682	15,328	15,435	15,819
HCRA	4,306	4,256	4,358	4,438
State university income	3,268	3,323	3,361	3,401
Lottery	3,067	3,663	3,548	3,764
Medicaid	884	841	841	841
Industry assessments	995	986	990	990
All other	2,162	2,259	2,337	2,385
Federal grants	33,971	35,646	37,607	37,317
Total	55,913	58,370	60,686	61,002

CASH RECEIPTS
CAPITAL PROJECTS FUNDS
2008-2009 and 2009-2010
(millions of dollars)

	2008-2009 Current	2009-2010 Recommended	Annual Change
User taxes and fees	1,168	1,277	109
Motor fuel tax	413	417	4
Motor vehicle fees	555	637	82
Highway use tax	147	160	13
Auto rental tax	53	63	10
Business taxes	651	668	17
Corporation and utilities tax	17	17	0
Petroleum business tax	634	651	17
Other taxes	237	80	(157)
Real estate transfer tax	237	80	(157)
Total Taxes	2,056	2,025	(31)
Miscellaneous receipts	2,880	3,625	745
Authority bond proceeds	2,659	3,259	600
State park fees	105	48	(57)
Environmental revenues	51	77	26
All other	65	241	176
Federal grants	1,906	1,866	(40)
Total	6,842	7,516	674

CASH RECEIPTS
CAPITAL PROJECTS FUNDS
2009-2010 THROUGH 2012-2013
(millions of dollars)

	2009-2010 Projected	2010-2011 Projected	2011-2012 Projected	2012-2013 Projected
User taxes and fees	1,277	1,329	1,341	1,343
Motor fuel tax	417	418	420	422
Motor vehicle fees	637	691	694	688
Highway use tax	160	154	160	165
Auto rental tax	63	66	67	68
Business taxes	668	649	651	653
Corporation and utilities tax	17	17	17	17
Petroleum business tax	651	632	634	636
Other taxes	80	80	80	80
Real estate transfer tax	80	80	80	80
Total Taxes	2,025	2,058	2,072	2,076
Miscellaneous receipts	3,625	3,650	3,672	2,984
Authority bond proceeds	3,259	3,253	3,265	2,586
State park fees	48	24	24	24
Environmental revenues	77	103	103	103
All other	241	270	280	271
Federal grants	1,866	1,768	1,800	1,844
Total	7,516	7,476	7,544	6,904

CASH RECEIPTS
DEBT SERVICE FUNDS
2008-2009 and 2009-2010
(millions of dollars)

	2008-2009 Current	2009-2010 Recommended	Annual Change
Personal income tax	9,150	8,692	(458)
User taxes and fees	2,661	3,030	369
Sales and use tax	2,661	3,030	369
Motor fuel tax	0	0	0
Other taxes	513	560	47
Real estate transfer tax	513	560	47
Total Taxes	12,324	12,282	(42)
Miscellaneous receipts	779	830	51
Mental hygiene patient receipts	328	376	48
SUNY dormitory fees	335	338	3
Health patient receipts	98	98	0
All other	18	18	0
Total	13,103	13,112	9

CASH RECEIPTS
DEBT SERVICE FUNDS
2009-2010 THROUGH 2012-2013
(millions of dollars)

	2009-2010 Projected	2010-2011 Projected	2011-2012 Projected	2012-2013 Projected
Personal income tax	8,692	9,294	9,872	10,540
User taxes and fees	3,030	3,190	3,281	3,400
Sales and use tax	3,030	3,190	3,281	3,400
Motor fuel tax	0	0	0	0
Other taxes	560	655	727	800
Real estate transfer tax	560	655	727	800
Total Taxes	12,282	13,139	13,880	14,740
Miscellaneous receipts	830	820	839	858
Mental hygiene patient receipts	376	365	385	407
SUNY dormitory fees	338	341	341	341
Health patient receipts	98	98	98	98
All other	18	16	15	12
Total	13,112	13,959	14,719	15,598

CASH FLOW

CASH FLOW

The following tables report monthly cash flow for All Funds tax receipts. Actual results are provided for 2007-08 and the first eight months of the current State fiscal year, and estimates are reported for the remainder of 2008-09 and all of 2009-10 and 2010-11. The monthly estimates for 2008-09, 2009-10, and 2010-11 are primarily based on average shares from prior years adjusted for proposed and previously enacted law changes that will impact normal cash flow. This section contains sub-headings that detail cash flow results through November and compare them with Mid-Year estimates and the Enacted Budget estimates. This section also contains charts showing monthly General, Special Revenue, Capital Projects and Debt Service Funds cash flows for total taxes and major tax categories and General Fund miscellaneous receipts and Federal grants. Note that year-to-date collections through November are based upon preliminary November data.

PERSONAL INCOME TAX

The personal income tax cash flow through November has followed a fairly typical pattern in 2008-09, with prepayments in withholding and estimated tax in line with Tax Law requirements. The settlement for tax year 2007 returns was quite strong, with April extension payments being nearly 60 percent higher than in the prior year. Estimated tax for tax year 2008 has followed the normal quarterly patterns, with gradual weakening through the year as economic conditions have deteriorated. Refunds to be paid between January and March reflect the increase in the "capped" amount from $1,500 million to $1,750 million.

Cash flow for 2009-10 gross collections is expected to exhibit a normal cash flow pattern. One minor exception is that refunds paid between April and December will be $250 million less than in recent years due to the higher capped amount for refunds paid between January and March. Proposed Budget initiatives would not have an appreciable impact on overall cashflow patterns.

USER TAXES AND FEES

The cash flow pattern in user taxes and fees follows a quarterly pattern, with months at the conclusion of calendar quarters that are larger, reflecting the impact of quarterly taxpayers. The 2009-10 cash flow for sales tax is expected to be consistent with historical averages. Historically, the fourth-quarter share has been slightly smaller than the other quarters.

BUSINESS TAXES

General Fund cash flow for business taxes typically follows a pattern of large monthly collections in June, September, December and March. In 2008-09, this pattern has been affected by large audit and compliance collections as well as large refunds. These refunds are primarily the result of the overpayment of prior year tax liabilities but cash payments of refundable tax credits are also contributing to volatility in net cash flows.

CASH FLOW

Cash flow for 2009-10 should see a larger share of total collections in March 2010 as a result an Executive Budget proposal that would require certain taxpayers to remit a prepayment of 40 percent as opposed to 30 percent of the previous year's tax liabilities.

OTHER TAXES

General Fund cash flow for other taxes is dominated by the estate tax which comprises approximately 98 percent of the total. Unlike most taxes that have cash flow patterns determined by statute and possible seasonal influences, the estate tax follows no regular pattern during the year. Prior year cash flow gives little guidance to future cash flow patterns. As a working concept, monthly cash flow for the estate tax for 2009-10 is assumed to be uniform throughout the fiscal year. A minor portion of the tax category comes from pari-mutuel taxes on horse racing which display some seasonality but have little impact on overall cash flow.

GENERAL FUND 2007-08 MONTHLY CASHFLOW ACTUALS (millions of dollars)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	4,017	749	2,414	1,396	1,376	1,970	745	91	1,152	5,339	1,786	1,724	22,759
Gross collections	7,388	2,247	3,700	2,103	2,336	3,778	2,488	2,115	3,629	7,132	3,574	2,682	43,170
Refunds	(2,032)	(1,249)	(173)	(108)	(101)	(135)	(218)	(777)	(136)	(13)	(1,193)	(472)	(6,606)
STAR Fund deposit	0	0	(232)	(100)	(300)	(762)	(957)	(912)	(1,467)	0	0	67	(4,664)
DRRF deposit/RBTF	(1,339)	(249)	(882)	(499)	(559)	(911)	(567)	(335)	(873)	(1,780)	(595)	(552)	(9,141)
User taxes and fees	679	623	877	670	646	872	632	673	868	697	593	726	8,555
Sales and use taxes	618	570	817	608	588	814	576	616	812	638	550	737	7,945
Cigarette and tobacco taxes	37	33	38	37	39	34	36	36	34	34	27	24	409
Motor vehicle fees												(51)	(51)
Alcoholic beverage taxes	19	16	18	21	15	18	15	18	19	21	12	13	205
ABC license fees	5	5	4	4	4	5	4	3	3	4	4	3	48
Business taxes	58	146	1,103	98	139	1,209	124	64	1,145	120	490	1,322	6,018
Corporation franchise tax	44	126	481	82	114	562	126	41	645	141	480	605	3,446
Corp. & utilities taxes	(4)	1	119	5	4	147	0	1	155	(1)	5	172	603
Insurance taxes	3	8	250	13	4	251	(6)	9	229	1	(2)	330	1,088
Bank tax	16	11	254	(2)	18	249	4	13	117	(21)	7	215	880
Other taxes	81	80	107	100	64	81	80	82	118	103	74	92	1,063
Estate & gift tax	80	78	105	98	61	78	78	80	116	102	72	89	1,037
Real property gains tax	0	0	0	0	0	0	0	0	0	0	0	0	1
Pari-mutuel taxes	1	2	2	2	3	3	2	2	2	1	2	2	24
Other taxes	0	0	0	0	0	0	0	0	0	0	0	0	1
TOTAL	4,835	1,599	4,501	2,264	2,224	4,132	1,581	910	3,283	6,258	2,943	3,864	38,395
Miscellaneous Receipts	131	127	237	138	120	156	149	256	312	312	192	331	2,459
Licenses, Fees, etc.	38	98	20	45	67	50	33	70	45	55	44	41	605
Abandoned Property	5	0	0	18	9	33	22	135	25	190	103	153	694
Reimbursements	6	6	25	11	10	20	14	6	22	11	12	21	165
Investment Income	70	7	25	22	(11)	6	53	15	3	23	(2)	10	221
Other Transactions	13	15	167	41	44	47	27	30	217	32	35	106	774
Federal Grants	0	12	22	1	5	0	10	10	0	5	4	0	69
TOTAL RECEIPTS	4,967	1,738	4,759	2,403	2,349	4,288	1,739	1,177	3,595	6,575	3,139	4,194	40,922

SPECIAL REVENUE FUNDS 2007-08 MONTHLY CASHFLOW ACTUALS (millions of dollars)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	0	0	232	100	300	762	957	912	1,467	0	0	(67)	4,664
User taxes and fees	177	139	154	128	136	141	128	131	143	138	112	87	1,613
Sales and use taxes	103	53	71	54	53	74	53	56	73	59	50	7	705
Cigarette and tobacco taxes	51	47	51	52	54	46	50	50	47	48	38	34	567
Motor fuel tax	8	9	10	10	10	9	8	10	10	10	9	9	110
Motor vehicle fees	15	30	22	12	20	12	17	15	14	21	15	37	230
Business taxes	59	68	230	58	66	228	64	62	222	73	122	306	1,557
Corporation franchise tax	13	23	70	11	16	78	24	12	87	26	80	113	551
Corp. & utilities taxes	5	0	42	1	1	40	1	(0)	40	(0)	2	53	183
Insurance taxes	(1)	2	33	1	0	25	1	2	24	(1)	(1)	47	131
Bank tax	4	1	40	(0)	3	43	(1)	3	27	3	1	54	178
Petroleum business taxes	40	41	45	46	46	42	39	45	46	46	40	40	515
Other taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	236	206	616	285	502	1,131	1,149	1,105	1,833	211	233	326	7,834

CAPITAL PROJECTS FUND 2007-08 MONTHLY CASHFLOW ACTUALS (millions of dollars)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	0	0	0	0	0	0	0	0	0	0	0	0	0
User taxes and fees	91	102	125	76	118	99	98	80	122	93	80	78	1,161
Motor fuel tax	29	37	37	30	40	37	35	31	35	35	31	30	406
Motor vehicle fees	48	52	64	31	66	34	50	36	62	44	40	31	557
Highway use tax	13	13	13	15	13	13	13	13	13	13	10	11	153
Auto rental tax	3	0	11	0	0	14	0	0	12	0	0	6	46
Business taxes	44	48	54	54	52	57	50	50	47	60	47	58	621
Corp. & utilities taxes	0	0	3	0	0	3	0	0	3	0	0	7	17
Petroleum business taxes	44	48	51	54	52	54	50	50	43	60	47	51	604
Other taxes	0	0	14	14	14	14	14	14	14	14	14	24	147
Real estate transfer tax	0	0	14	14	14	14	14	14	14	14	14	24	147
TOTAL	135	150	193	143	184	170	162	144	182	166	141	160	1,929

DEBT SERVICE FUNDS 2007-08 MONTHLY CASHFLOW ACTUALS (millions of dollars)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	1,339	249	882	499	559	911	567	335	873	1,780	595	552	9,141
User taxes and fees	201	190	272	203	196	271	192	205	270	212	183	250	2,646
Sales and use taxes	201	190	272	203	196	271	192	205	270	212	183	250	2,646
Business taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
Other taxes	66	71	106	73	85	78	55	71	49	64	53	40	809
Real estate transfer tax	66	71	106	73	85	78	55	71	49	64	53	40	809
TOTAL	1,605	510	1,260	774	840	1,260	814	611	1,192	2,056	832	842	12,595

GENERAL FUND 2008-09 MONTHLY CASHFLOW ACTUAL AND ESTIMATES (millions of dollars)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	5,613	850	2,381	1,715	1,540	2,099	252	(54)	1,724	4,149	1,161	1,549	22,979
Gross collections	9,836	2,175	3,842	2,406	2,172	3,952	2,609	2,063	3,664	5,636	3,105	2,294	43,753
Refunds	(2,352)	(1,042)	(147)	(120)	(118)	(110)	(410)	(841)	(165)	(105)	(1,557)	(229)	(7,194)
STAR Fund deposit	0	0	(390)	0	0	(782)	(1,397)	(971)	(901)	0	0	0	(4,440)
DRRF deposit/RBTF	(1,871)	(283)	(924)	(572)	(513)	(960)	(550)	(306)	(875)	(1,383)	(387)	(516)	(9,140)
User taxes and fees	637	651	848	704	684	878	645	632	875	695	603	859	8,712
Sales and use taxes	576	595	810	624	625	811	586	574	810	640	557	831	8,039
Cigarette and tobacco taxes	38	36	16	56	40	45	40	36	42	33	30	26	437
Motor vehicle fees	0	0	0	0	0	0	0	0	0	0	0	(15)	(15)
Alcoholic beverage taxes	18	17	18	21	17	17	16	19	20	19	12	12	206
ABC license fees	4	3	4	3	3	4	3	4	4	4	4	5	44
Business taxes	104	(17)	948	59	85	1,218	36	71	1,367	58	87	1,631	5,645
Corporation franchise tax	117	(26)	436	50	57	526	53	65	865	64	84	875	3,166
Corp. & utilities taxes	(4)	2	135	1	3	153	13	(1)	167	2	2	180	650
Insurance taxes	(4)	6	245	2	9	212	12	(3)	215	(1)	6	399	1,100
Bank tax	(4)	1	132	6	15	327	(43)	10	120	(7)	(5)	177	729
Other taxes	102	134	80	294	82	64	89	80	86	86	86	86	1,268
Estate & gift tax	101	133	77	292	79	61	87	78	84	84	84	84	1,244
Real property gains tax	0	0	0	0	0	0	0	0	0	0	0	(0)	0
Pari-mutuel taxes	1	1	3	2	3	3	2	2	2	1	2	2	23
Other taxes	0	0	0	0	0	0	0	0	0	0	0	0	1
TOTAL	6,456	1,618	4,257	2,772	2,391	4,258	1,022	729	4,052	4,987	1,937	4,125	38,604
Miscellaneous Receipts	116	189	279	79	118	223	126	228	191	206	506	737	2,999
Licenses, Fees, etc.	43	65	43	17	42	57	38	49	50	55	55	80	592
Abandoned Property	0	5	4	0	16	50	30	114	41	74	63	353	750
Reimbursements	5	10	21	6	11	29	13	11	25	13	10	21	174
Investment Income	35	(0)	12	11	5	2	13	8	15	25	10	44	180
Other Transactions	33	109	199	46	44	86	32	46	61	39	368	239	1,303
Federal Grants	3	0	0	13	0	14	0	0	6	2	3	0	41
TOTAL RECEIPTS	6,575	1,807	4,536	2,865	2,509	4,496	1,148	957	4,249	5,195	2,445	4,863	41,644

SPECIAL REVENUE FUNDS 2008-09 MONTHLY CASHFLOW ACTUAL AND ESTIMATES (millions of dollars)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	0	0	390	0	0	782	1,397	971	901	0	0	0	4,440
User taxes and fees	208	119	183	147	169	192	164	149	193	160	140	129	1,953
Sales and use taxes	115	54	75	56	56	72	54	57	73	60	52	20	744
Cigarette and tobacco taxes	53	52	83	62	87	96	84	74	93	71	64	56	874
Motor fuel tax	8	9	8	10	10	8	9	10	10	10	9	8	110
Motor vehicle fees	33	4	17	20	16	17	17	8	17	19	15	44	226
Business taxes	59	38	211	62	63	256	27	55	265	54	51	280	1,419
Corporation franchise tax	25	(0)	75	12	11	76	8	11	124	4	3	84	433
Corp. & utilities taxes	(6)	(0)	43	0	1	51	4	(0)	36	1	1	61	191
Insurance taxes	1	(1)	27	(0)	1	20	(10)	(1)	26	1	4	54	121
Bank tax	1	1	24	(0)	5	73	(16)	2	34	1	1	40	165
Petroleum business taxes	38	40	41	50	45	35	41	43	46	48	43	41	509
Other taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	267	157	783	209	232	1,230	1,588	1,175	1,359	214	191	409	7,813

CAPITAL PROJECTS FUND 2008-09 MONTHLY CASHFLOW ACTUAL AND ESTIMATES (millions of dollars)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	0	0	0	0	0	0	0	0	0	0	0	0	0
User taxes and fees	99	97	103	100	91	65	122	77	105	93	87	128	1,168
Motor fuel tax	31	33	30	40	37	30	34	37	37	36	34	33	413
Motor vehicle fees	50	53	45	48	42	7	76	30	44	44	39	77	555
Highway use tax	13	11	14	12	12	12	12	11	14	13	13	10	147
Auto rental tax	5	0	13	0	0	17	0	0	10	0	0	8	53
Business taxes	47	49	55	62	56	50	51	52	55	61	55	59	651
Corp. & utilities taxes	0	(0)	4	(0)	(0)	5	0	0	3	0	0	5	17
Petroleum business taxes	47	49	52	62	56	44	50	52	52	61	55	54	634
Other taxes	0	0	21	26	24	24	24	24	24	24	24	24	237
Real estate transfer tax	0	0	21	26	24	24	24	24	24	24	24	24	237
TOTAL	146	146	179	188	170	139	196	153	184	178	165	211	2,056

DEBT SERVICE FUNDS 2008-09 MONTHLY CASHFLOW ACTUAL AND ESTIMATES (millions of dollars)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	1,871	283	924	572	513	960	550	306	875	1,383	387	516	9,140
User taxes and fees	188	198	270	208	208	270	195	191	270	213	186	263	2,661
Sales and use taxes	188	198	270	208	208	270	195	191	270	213	186	263	2,661
Business taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
Other taxes	64	64	62	48	62	42	38	26	34	21	25	25	513
Real estate transfer tax	64	64	62	48	62	42	38	26	34	21	25	25	513
TOTAL	2,123	546	1,256	828	784	1,273	784	523	1,179	1,617	598	804	12,314

GENERAL FUND 2009-10 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	4,098	793	1,790	1,785	1,583	2,599	954	240	1,770	4,146	1,304	1,600	22,662
Gross collections	7,710	2,160	3,487	2,502	2,211	3,878	2,550	2,036	3,881	5,636	3,303	2,379	41,733
Refunds	(2,246)	(1,102)	(189)	(122)	(101)	(106)	(378)	(616)	(188)	(108)	(1,564)	(245)	(6,964)
STAR Fund deposit	0	0	(683)	0	0	(230)	(676)	(826)	(1,001)	0	0	0	(3,415)
DRRF deposit/RBTF	(1,366)	(265)	(824)	(595)	(527)	(943)	(543)	(355)	(923)	(1,382)	(435)	(533)	(8,691)
User taxes and fees	691	712	950	792	786	986	744	794	998	808	751	1,009	10,022
Sales and use taxes	623	650	883	721	722	921	681	727	933	739	649	849	9,097
Cigarette and tobacco taxes	40	36	40	41	39	37	37	36	38	35	30	30	439
Motor vehicle fees	0	0	0	0	0	0	0	0	0	0	0	37	37
Alcoholic beverage taxes	25	22	24	26	21	24	22	28	23	30	22	30	297
ABC license fees	4	5	4	4	4	4	4	4	4	4	50	62	152
Business taxes	122	94	1,081	141	97	1,091	111	47	1,111	105	149	1,936	6,084
Corporation franchise tax	98	82	552	106	74	575	88	49	568	105	135	1,045	3,475
Corp. & utilities taxes	5	3	138	7	3	147	3	1	177	2	2	229	714
Insurance taxes	(5)	7	263	3	11	245	14	(3)	257	(1)	7	470	1,268
Bank tax	23	2	129	26	10	126	6	1	108	(1)	6	191	627
Other taxes	86	87	89	87	88	88	87	87	87	87	87	88	1,048
Estate & gift tax	85	85	85	85	85	85	85	85	85	85	85	86	1,024
Real property gains tax	0	0	0	0	0	0	0	0	0	0	0	0	0
Pari-mutuel taxes	1	1	3	2	3	3	2	2	2	1	2	2	23
Other taxes	0	0	0	0	0	0	0	0	0	0	0	0	1
TOTAL	4,997	1,686	3,910	2,806	2,554	4,764	1,896	1,168	3,965	5,146	2,291	4,633	39,816
Miscellaneous Receipts	171	134	183	132	145	959	193	299	171	183	179	1,015	3,764
Licenses, Fees, etc.	45	70	59	38	73	54	64	60	44	50	72	152	780
Abandoned Property	19	0	16	16	10	52	14	172	38	69	56	238	700
Reimbursements	4	9	23	5	13	20	10	11	24	6	11	37	172
Investment Income	60	7	25	22	(11)	6	53	15	3	14	0	6	200
Other Transactions	44	48	61	51	61	826	52	41	62	44	40	581	1,911
Federal Grants	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL RECEIPTS	5,168	1,819	4,093	2,937	2,700	5,723	2,089	1,468	4,137	5,330	2,470	5,647	43,580

SPECIAL REVENUE FUNDS 2009-10 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	0	0	683	0	0	230	676	826	1,001	0	0	0	3,415
User taxes and fees	229	172	192	212	215	237	204	203	227	208	182	182	2,463
Sales and use taxes	119	56	78	101	102	120	99	102	119	106	97	75	1,173
Cigarette and tobacco taxes	87	76	84	87	83	96	78	75	81	75	62	61	945
Motor fuel tax	8	9	8	11	10	8	9	10	10	10	9	9	111
Motor vehicle fees	15	31	23	12	21	13	18	15	17	18	14	37	234
Business taxes	60	53	207	65	61	204	40	56	217	57	49	313	1,381
Corporation franchise tax	16	10	75	12	8	75	7	5	78	10	7	125	427
Corp. & utilities taxes	3	1	36	0	1	38	1	1	41	1	1	74	197
Insurance taxes	0	1	27	0	2	28	1	1	29	1	0	39	129
Bank tax	1	0	25	(0)	3	26	(10)	1	21	1	1	35	104
Petroleum business taxes	40	42	44	52	47	37	41	48	48	46	41	40	524
Other taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	289	225	1,082	276	276	671	920	1,084	1,445	266	231	495	7,260

CAPITAL PROJECTS FUND 2009-10 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)													
	Apr	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Total**
Personal income tax	0	0	0	0	0	0	0	0	0	0	0	0	0
User taxes and fees	94	114	115	90	99	112	98	98	120	103	98	138	1,277
Motor fuel tax	31	34	31	40	38	30	32	38	38	37	35	33	417
Motor vehicle fees	42	67	54	37	48	48	53	49	53	52	49	87	637
Highway use tax	15	13	17	13	13	13	12	11	15	14	14	10	160
Auto rental tax	6	0	13	0	0	21	0	0	15	0	0	8	63
Business taxes	49	51	57	65	59	48	51	60	64	57	51	56	668
Corp. & utilities taxes	0	0	3	0	0	3	0	0	4	0	0	7	17
Petroleum business taxes	49	51	54	65	59	45	51	60	61	57	51	49	651
Other taxes	0	0	0	0	10	10	10	10	10	10	10	10	80
Real estate transfer tax	0	0	0	0	10	10	10	10	10	10	10	10	80
TOTAL	143	166	172	155	167	170	159	168	194	170	159	204	2,025

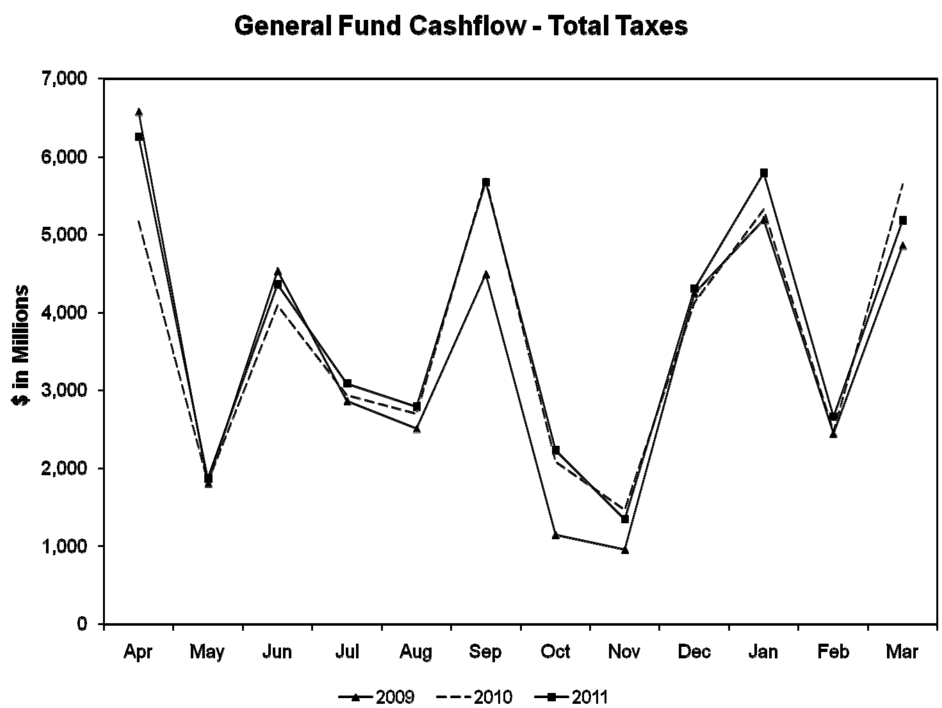
DEBT SERVICE FUNDS 2009-10 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)													
	Apr	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Total**
Personal income tax	1,366	265	824	595	527	943	543	355	923	1,382	435	533	8,691
User taxes and fees	208	217	294	240	241	307	227	242	311	246	216	281	3,030
Sales and use taxes	208	217	294	240	241	307	227	242	311	246	216	281	3,030
Business taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
Other taxes	45	45	45	55	40	45	42	45	50	48	50	50	560
Real estate transfer tax	45	45	45	55	40	45	42	45	50	48	50	50	560
TOTAL	1,619	527	1,163	890	808	1,295	812	642	1,284	1,676	701	865	12,282

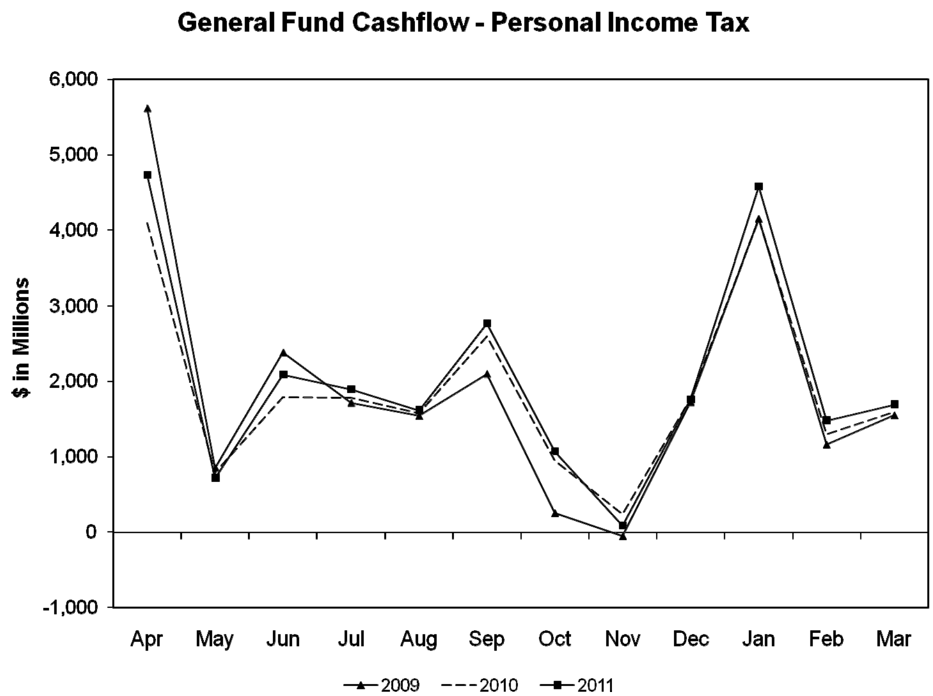
GENERAL FUND 2010-11 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	4,732	718	2,091	1,897	1,620	2,773	1,071	88	1,762	4,581	1,483	1,695	24,511
Gross collections	8,800	2,181	3,685	2,664	2,271	4,110	2,685	2,073	3,960	6,216	3,545	2,509	44,698
Refunds	(2,491)	(1,223)	(208)	(135)	(111)	(117)	(309)	(798)	(208)	(109)	(1,567)	(250)	(7,523)
STAR Fund deposit	0	0	(517)	0	0	(223)	(711)	(868)	(1,053)	0	0	0	(3,371)
DRRF deposit/RBTF	(1,577)	(240)	(869)	(632)	(540)	(998)	(594)	(319)	(938)	(1,527)	(494)	(565)	(9,293)
User taxes and fees	813	834	1,089	810	806	1,027	764	808	1,020	819	720	1,080	10,589
Sales and use taxes	741	768	1,001	736	736	936	696	741	948	754	663	864	9,583
Cigarette and tobacco taxes	41	36	38	41	41	34	39	36	38	34	32	26	434
Motor vehicle fees	0	0	0	0	0	0	0	0	0	0	0	167	167
Alcoholic beverage taxes	28	25	23	29	24	27	25	27	30	28	21	19	306
ABC license fees	4	5	28	4	4	31	4	4	4	4	4	4	99
Business taxes	135	96	905	150	130	1,257	119	51	1,253	114	161	1,865	6,236
Corporation franchise tax	111	84	406	115	107	678	96	53	671	114	146	1,009	3,589
Corp. & utilities taxes	5	3	90	7	3	174	3	1	201	2	2	205	695
Insurance taxes	(5)	7	251	3	11	253	14	(3)	255	(1)	7	467	1,258
Bank tax	24	2	158	26	10	153	6	1	126	(1)	6	183	694
Other taxes	90	91	93	91	92	92	91	91	91	91	91	92	1,096
Estate & gift tax	89	89	89	89	89	89	89	89	89	89	89	89	1,072
Real property gains tax	0	0	0	0	0	0	0	0	0	0	0	0	0
Pari-mutuel taxes	1	1	3	2	3	3	2	2	2	1	2	2	23
Other taxes	0	0	0	0	0	0	0	0	0	0	0	0	1
TOTAL	5,770	1,739	4,178	2,949	2,648	5,149	2,044	1,038	4,126	5,605	2,455	4,731	42,431
Miscellaneous Receipts	494	133	189	146	148	529	189	312	186	194	213	460	3,193
Licenses, Fees, etc.	47	70	59	49	76	54	64	70	58	62	75	90	772
Abandoned Property	19	0	16	16	10	52	14	172	38	69	56	238	700
Reimbursements	4	9	23	5	13	20	10	11	24	6	11	37	172
Investment Income	60	7	25	22	(11)	6	53	15	3	14	0	6	200
Other Transactions	365	48	66	54	60	397	48	44	64	43	71	90	1,349
Federal Grants	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL RECEIPTS	6,264	1,872	4,367	3,094	2,795	5,679	2,234	1,350	4,312	5,799	2,668	5,191	45,625

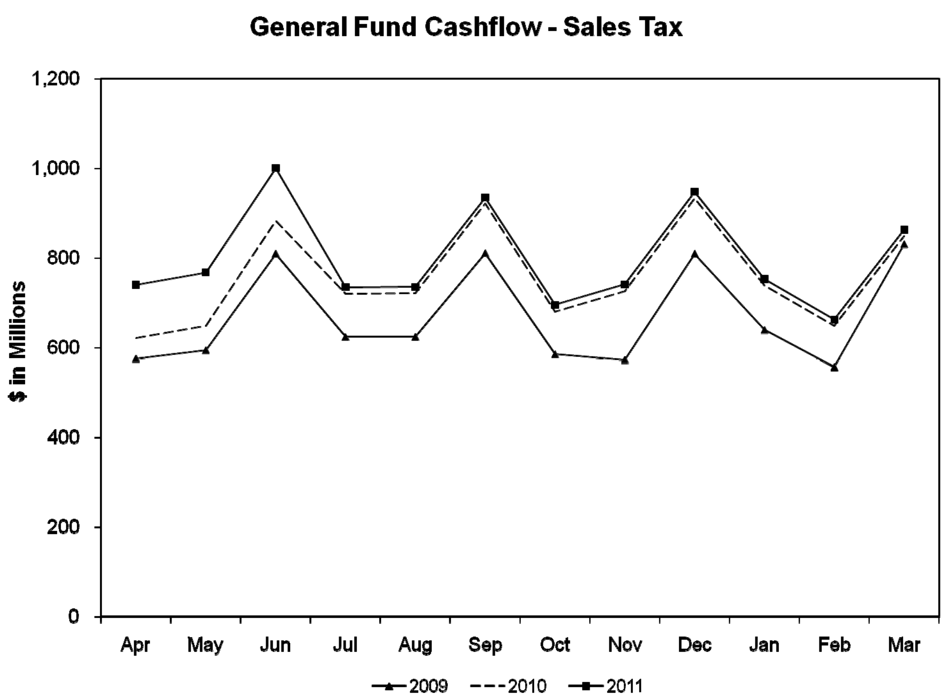
SPECIAL REVENUE FUNDS 2010-11 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	0	0	517	0	0	223	711	868	1,053	0	0	0	3,371
User taxes and fees	274	215	233	213	221	232	210	204	228	206	187	171	2,595
Sales and use taxes	165	102	124	103	103	122	101	104	121	107	99	74	1,323
Cigarette and tobacco taxes	86	74	79	88	87	89	83	75	80	71	66	52	928
Motor fuel tax	8	9	8	11	10	8	9	10	10	10	9	9	111
Motor vehicle fees	15	30	23	12	21	13	18	15	17	18	13	37	233
Business taxes	60	52	207	63	60	222	38	54	229	60	52	334	1,430
Corporation franchise tax	18	11	73	13	9	85	8	6	89	11	8	131	462
Corp. & utilities taxes	3	1	33	0	1	41	1	1	44	1	1	73	198
Insurance taxes	0	1	29	0	2	30	1	1	26	1	0	48	139
Bank tax	1	1	30	(0)	4	30	(12)	1	25	1	1	41	122
Petroleum business taxes	38	39	42	49	45	35	39	45	46	47	42	42	509
Other taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	334	267	957	276	280	676	958	1,126	1,510	266	239	505	7,396

CAPITAL PROJECTS FUND 2010-11 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)													
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	0	0	0	0	0	0	0	0	0	0	0	0	0
User taxes and fees	96	117	121	95	103	115	102	103	125	107	102	143	1,329
Motor fuel tax	31	34	31	40	38	30	32	38	38	37	35	34	418
Motor vehicle fees	46	71	59	41	52	52	58	54	58	57	53	91	691
Highway use tax	13	11	15	13	13	13	12	11	15	14	14	10	154
Auto rental tax	6	0	16	0	0	20	0	0	15	0	0	8	66
Business taxes	47	49	54	62	56	46	49	57	61	59	53	57	649
Corp. & utilities taxes	0	0	3	0	0	3	0	0	4	0	0	7	17
Petroleum business taxes	47	49	51	61	56	43	49	57	58	59	53	50	632
Other taxes	0	0	0	0	10	10	10	10	10	10	10	10	80
Real estate transfer tax	0	0	0	0	10	10	10	10	10	10	10	10	80
TOTAL	143	166	176	156	169	172	161	169	196	177	165	211	2,058

DEBT SERVICE FUNDS 2010-11 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)													
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	1,577	240	869	632	540	998	594	319	938	1,527	494	565	9,293
User taxes and fees	251	260	338	244	244	310	230	246	314	250	220	285	3,190
Sales and use taxes	251	260	338	244	244	310	230	246	314	250	220	285	3,190
Business taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
Other taxes	53	60	60	61	57	52	52	55	50	50	50	55	655
Real estate transfer tax	53	60	60	61	57	52	52	55	50	50	50	55	655
TOTAL	1,881	560	1,267	937	841	1,360	876	620	1,302	1,827	764	905	13,138




General Fund Cashflow - Personal Income Tax
6,000
5,000
4,000
3,000
2,000
1,000
0
-1,000
$ in Millions
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
2009
2010
2011


General Fund Cashflow - Sales Tax
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1,000
800
600
400
200
0
$ in Millions
Apr
May
Jun
Jul
Aug
Sep
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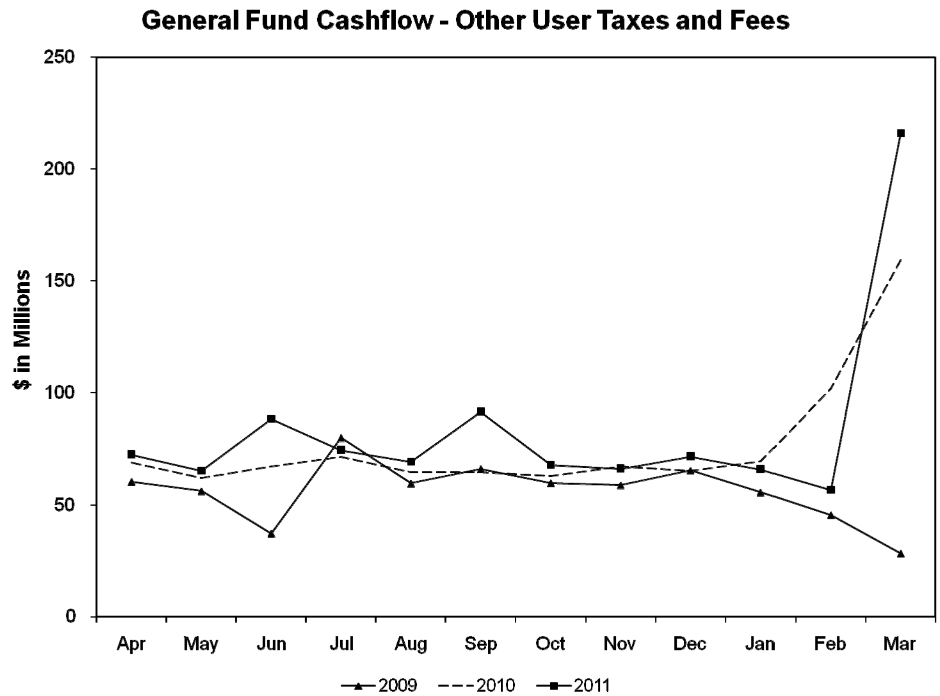
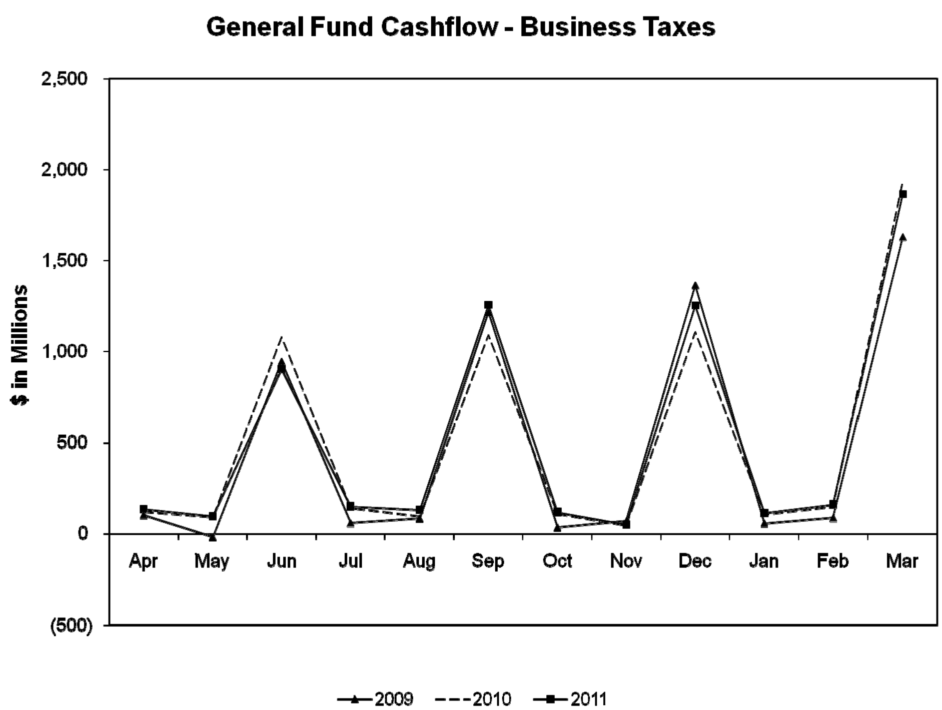
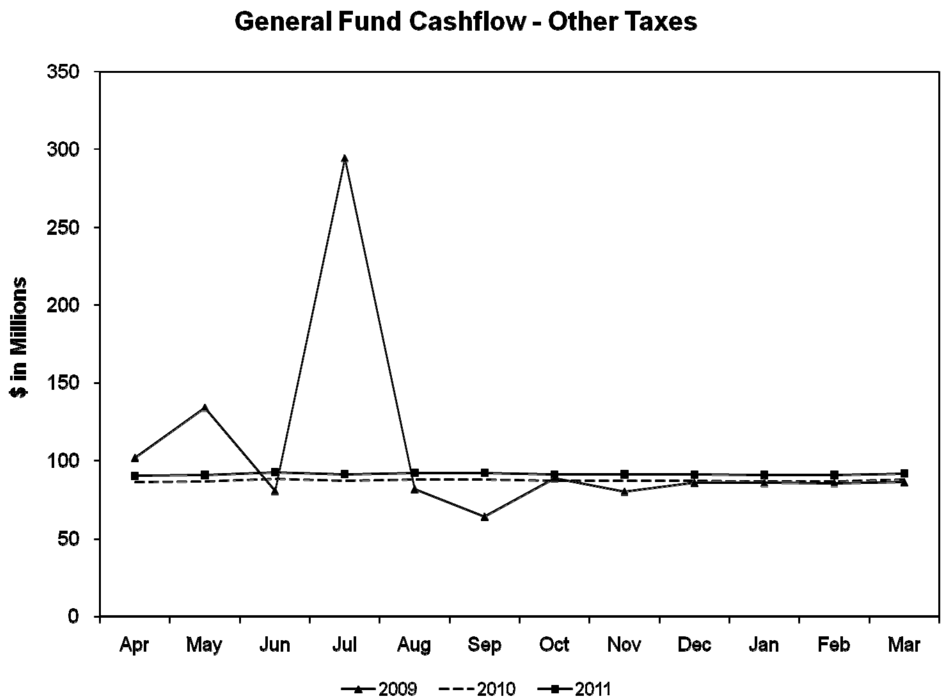
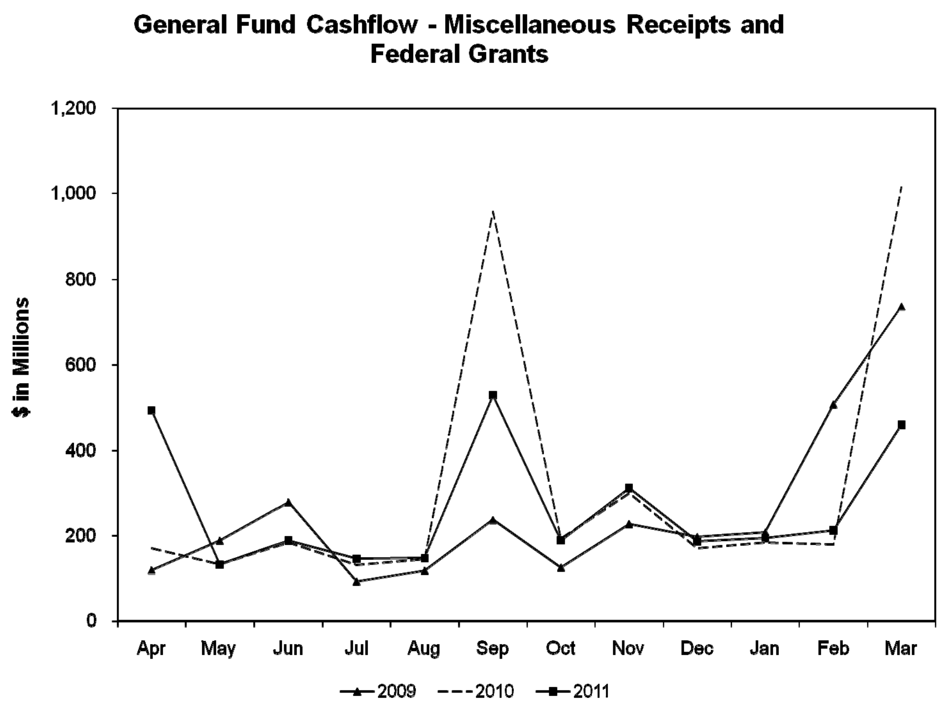
Nov
Dec
Jan
Feb
Mar
2009
2010
2011


General Fund Cashflow - Other User Taxes and Fees
250
200
150
100
50
0
$ in Millions
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
2009
2010
2011


General Fund Cashflow - Business Taxes
2,500
2,000
1,500
1,000
500
0
(500)
$ in Millions
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
2009
2010
2011





RESULTS TO DATE

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

Cumulative results for the April to November period are $151.5 million below the Mid-Year forecast on a General Fund basis, mainly due to lower-than-expected miscellaneous receipts and business tax collections.

Personal Income Tax

Preliminary April through November General Fund Personal Income Tax receipts of $14.4 billion were $100.9 million above the Mid-Year forecast, due mainly to higher-than-expected final return payments on 2007 liability ($128 million) and withholding ($39 million), partly offset by higher-than-expected total refunds associated with 2007 liability ($43 million).

User Taxes and Fees

April through November General Fund User Taxes and Fees were $60.9 million less than the Mid-Year forecast.

Business Taxes

Year-to-date General Fund business tax receipts exceeded cash flow expectations by $44.6 million. The variance is attributable to higher-than-projected receipts from the corporate franchise tax ($17.6 million), bank tax ($14.0 million), corporation and utilities taxes ($9.0 million) and insurance taxes ($4.0 million).

Other Taxes

April through November General Fund tax receipts were $20.7 million less than the Mid-Year estimate due to lower estate tax payments.

Miscellaneous Receipts and Federal Grants

General Fund miscellaneous receipts and Federal grants were $133.1 million below Financial Plan estimates mainly due to lower-than-expected abandoned property transfers ($56.6 million), investment income revenue ($47.5 million) and license and fee receipts ($27.5 million).

All Other

The remainder of the change from the Mid-Year Update was due to decreases in transfers from other funds ($82.3 million).

April-November Results vs. Enacted Budget Projections

Cumulative results for the April to November period are $518.5 million below the Enacted Budget, mainly due to lower-than-expected user taxes, corporate franchise taxes and miscellaneous receipts collections, and higher-than-expected refunds of the personal income tax.

Personal Income Tax

Preliminary April through November General Fund Personal Income Tax receipts of $14.4 billion were $212 million above Enacted Budget projections. Higher estimated tax payments ($227 million) and final return payments ($178 million), along with lower refunds ($163 million) were largely offset by lower withholding ($100 million), higher STAR transfers ($119 million) and higher RBTF transfers ($113 million).

User Taxes and Fees

April through November General Fund user taxes and fees were $133.6 million below Enacted Budget projections, due to weaker economic conditions, a delay in the Western Hemisphere Travel initiative license rollout, as well as a delay in implementing enforcement on sales to non-Native Americans on New York reservations.

Business Taxes

Year-to-date General Fund business tax receipts fell substantially short of Enacted Budget projections by $763.8 million. The largest component of this shortfall, or $537.5 million, was in corporate franchise tax receipts, and resulted from a delay in the realization of audit recoveries relative to plan ($253.7 million) and higher-than-anticipated refunds of $149.2 million. Bank tax receipts were $203.3 million lower-than anticipated as a result of lower-than-expected payments on current year liabilities and higher refunds on prior year liability payments than anticipated, partially offset by stronger-than-expected audit receipts. Finally, insurance taxes were $51.9 million below Enacted Budget cash flow estimates while corporation and utilities taxes were higher-than-projected by $28.9 million due to strength in receipts from telecommunications and regulated public utilities.

Other Taxes

Year-to-date General Fund other taxes were $127.7 million above the Enacted Budget forecast largely due to strong estate tax receipts from taxpayers making payments in excess of $25 million.

Miscellaneous Receipts and Federal Grants

General Fund miscellaneous receipts and Federal grants were almost $76 million below Enacted Budget projections due mainly to lower-than-anticipated collections from abandoned property ($101 million), short-term investment income ($73 million), fee collections ($45 million) and Federal grants ($6 million). These losses were partially offset by an early payment from the New York Port Authority ($60 million) as well as higher-than-anticipated medical provider assessments ($52 million), fines collections ($12 million), bond issuance charges ($11 million) and receipts from the Monroe County sales tax intercept ($11 million).

All Other

The remainder of the change from the Enacted Budget projections was due to an increase in transfers from other funds ($107 million).

REVENUE ACTIONS

REVENUE ACTIONS

The 2009-10 Budget includes a net positive increment of nearly $5.2 billion in All Funds receipts reflecting the revenue actions contained in this budget. The accompanying table summarizes the revenue proposals by type of action required (legislative or administrative) and provides a short description of the proposal, the date that the proposal will become effective, the Fund type where revenue will be deposited, the last time an action was taken in the area and the incremental revenue gain or loss from the proposed action. This table represents gross revenue adds and reductions without any adjustments for associated spending changes, movements across funds or General Fund spending offsets.

FEE AND REVENUE ACTIONS LIST

Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	Annual Revenue SFY 2009-10 (000s)	Annual Revenue SFY 2011-12 (000s)
I. TAX REFORMS AND ACTIONS							
T&F	Restructure Clothing Exemption - 1/1/09	GFTX/DFTX	N/A	N/A	N/A	$462,000	$660,000
T&F	Extend NYC Personal and Credit Services Tax Statewide - 3/1/09	GFTX/DFTX	N/A	N/A	N/A	$78,000	$104,000
T&F	Extend Sales Tax to Entertainment-Related Spending - 3/1/09	GFTX/DFTX	N/A	N/A	N/A	$53,000	$70,000
T&F	Extend Sales Tax to Transportation-Related Spending - 3/1/09	GFTX/DFTX	N/A	N/A	N/A	$45,000	$60,000
T&F	Further Limit Itemized Deduction Limitation for Millionaires - 3/1/09	GFTX/DFTX	N/A	N/A	N/A	$140,000	$150,000
T&F	Limit Capital Improvement Exemption - 3/1/09	GFTX/DFTX	N/A	N/A	N/A	$120,000	$160,000
T&F	Repeal the Sales Tax Cap on Fuel - 3/1/09	GFTX/DFTX	N/A	N/A	N/A	$90,000	$120,000
T&F	Extend the Sales Tax to Cable and Satellite Television and Radio - 3/1/09	GFTX/DFTX	N/A	N/A	N/A	$136,000	$180,000
T&F	Repeal Bad Debt Provisions - 3/1/09	GFTX/DFTX	N/A	N/A	N/A	$8,000	$10,000
T&F	Reform the Cigar Tax - 4/1/09	GFTX	N/A	N/A	2002	$10,000	$15,000
T&F	Standardize Tax on Flavored Malt Beverages- 6/1/09	GFTX	N/A	N/A	N/A	$15,000	$18,000
T&F	Eliminate Underutilized Tax Credits - 1/1/09	GFTX	N/A	N/A	N/A	$5,900	$9,000
T&F	Restructure the Insurance Tax - 3/1/09	GFTX/SFTX	N/A	N/A	N/A	$65,000	$58,000
T&F	Treat Coupons Consistently- 3/1/09	GFTX/DFTX	N/A	N/A	N/A	$3,000	$3,000
T&F	Increase Sales Tax on Luxury Goods - 3/1/09	GFTX/DFTX	N/A	N/A	N/A	$12,000	$15,000
T&F	Include the Gain From the Sale of Partnership and Other Similar Business Interests as New York-Source Income to Nonresidents to the Extent the Gain is From the Sale of New York Real Property - 3/1/09	GFTX/DFTX	N/A	N/A	N/A	$0	$10,000

Key:

CF = Capital Projects Fund
DF = Debt Service Funds
GF = General Fund
MR = Miscellaneous Receipts
SF = Special Revenue Funds
TX = Tax

Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	Annual Revenue SFY 2009-10 (000s)	Annual Revenue SFY 2011-12 (000s)
T&F	Amend the Definition of Presence in New York - 1/1/09	GFTX/DFTX	N/A	N/A	N/A	$0	$5,000
T&F	Expand Tax on Nonresident Hedge Fund Income - 3/1/09	GFTX/DFTX	N/A	N/A	N/A	$60,000	$60,000
T&F	Address Abusive Tax Avoidance - 3/1/09	GFTX/DFTX	N/A	N/A	N/A	$4,000	$6,300
T&F	Expand Definition of Affiliate Nexus for Internet Sales - 3/1/09	GFTX/DFTX	N/A	N/A	N/A	$9,000	$12,000
T&F	Close Digital Property Taxation Loophole - 3/1/09	GFTX/DFTX	N/A	N/A	N/A	$15,000	$20,000
T&F	Disallow Utility Definition as Manufacturers - 1/1/09	GFTX/SFTX	N/A	N/A	N/A	$18,000	$16,000
T&F	Change Filing Requirement for Overcapitalized Captive Insurance Corporations - 1/1/09	GFTX/SFTX	N/A	N/A	N/A	$33,000	$29,000
T&F	Eliminate Exemption for Large Cooperative Insurance Companies - 1/1/09	GFTX	N/A	N/A	N/A	$19,000	$15,000
					Tax Reforms and Actions – Subtotal	**$1,400,900**	**$1,805,300**

II. NEW OR INCREASED FEES

Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	Annual Revenue SFY 2009-10 (000s)	Annual Revenue SFY 2011-12 (000s)
Ag&Mkts	Increase Feed Tonnage Fees - 3/1/09	SFMR	$0.05/ ton	$0.10/ ton	1996	$146	$146
Ag&Mkts	Double Food Processor Licensing Fees - 3/1/09	SFMR	$200 (Biennial)	$400 ($900 for larger, complex operations) (Biennial)	2002	$2,241	$2,241
Ag&Mkts	Increase Retail Food Store Licensing Fees - 3/1/09	SFMR	$100 (Biennial)	$250 (Biennial)	2003	$663	$663
Ag&Mkts	Increase Food Warehouse Licensing Fees - 3/1/09	SFMR	$200 (Biennial)	$400 (Biennial)	2003	$276	$276
Ag&Mkts	Establish Seed Dealer Licensing Fees - 3/1/09	SFMR	N/A	$100	N/A	$500	$500
CFS	Increase and Expand New Statewide Central Register Fees - 3/1/09	SFMR	$0 and $5	$25	N/A	$2,700	$2,500
CIV SVC	Expanded Local Centralized Written Exam Fees - 3/1/09	SFMR	Limited $5, $3	Expanded $5, $3	2000	$300	$300
CIV SVC	Open Competitive Exam Fee Schedule - 3/1/09	SFMR	$20, $30, $35, $40	$25, $35, $40, $45	2004	$210	$210
CIV SVC	Establish Promotion Exam Fee - 3/1/09	SFMR	N/A	$10, $15, $20, $25	N/A	$850	$871
CIV SVC	Establish a Local Fee for Hiring a Public Retiree - 3/1/09	SFMR	N/A	$200	N/A	$60	$60
CIV SVC	Increase Public Management Intern Placement Fee - 4/1/09	SFMR	$5,000	$7,600	2006	$175	$175
DCJS	Expand Insurance Fingerprinting Fee - 3/1/09	GFMR	N/A	$75	N/A	$6,250	$1,750
DCJS	Establish Security Guard Instructor Fee - 3/1/09	GFMR	N/A	New: $500 Renewal: $250	N/A	$120	$120

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Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	Annual Revenue SFY 2009-10 (000s)	Annual Revenue SFY 2011-12 (000s)
DCJS	Establish Security Guard Training School Fee - 3/1/09	GFMR	N/A	New: $1,000 Renewal: $500	N/A	$326	$326
DM&NA	Increase Nuclear Power Plant Fee - 3/1/09	SFMR	$550,000	$1,000,000	1994	$2,700	$2,700
DMV	Passenger Vehicle Registration Fee Increases - 6/1/09	CFTX	Various	Various	1998	$36,381	$62,077
DMV	Re- Registration Fee Increases - 6/1/09	CFTX	$7.75	$10.00	1990	$2,139	$3,667
DMV	Commercial Registration Fee Increases - 6/1/09	CFTX	Various	Various	1992	$12,010	$20,589
DMV	Trailer Registration Fee Increases - 6/1/09	CFTX	Various	Various	1992	$4,587	$7,863
DMV	Taxi and Bus Registration Fee Increases - 6/1/09	CFTX	Various	Various	1992	$2,395	$4,106
DMV	Motorcycle Registration Fee Increases - 6/1/09	CFTX	Various	Various	1998	$119	$204
DMV	Motorboat Registration Fee Increases - 6/1/09	CFTX	Various	Various	2003	$896	$1,536
DMV	All Terrain Vehicle (ATV) Registration Fee Increase - 6/1/09	CFTX	$10	$12.50	2004	$150	$267
DMV	Custom Vehicle Registration Fee Increases - 6/1/09	CFTX	Various	Various	1990	$1,520	$2,606
DMV	Intransit Permits Registration Fee Increase - 6/1/09	CFTX	$10	$12.50	1990	$116	$198
DMV	Heavy Vehicle Registration Fee Increases - 6/1/09	CFTX	Various	Various	1999	$187	$320
DMV	Original Motor Vehicle License Fee Registration Increases - 6/1/09	CFTX	Various	Various	1992	$2,165	$3,712
DMV	Renew Motor Vehicle License Fee Registration Increases - 6/1/09	CFTX	Various	Various	1992	$13,102	$22,517
DMV	Photo Document Motor Vehicle License Fee Increases - 6/1/09	CFTX	$10	$12.50	2005	$6,633	$11,371
DMV	Reissue License Plates - 6/1/09	GFTX	$15	$25	2001	$0	$129,000
DMV	Establish Fee for MV-278 Certificate - 3/1/09	GFMR	N/A	$50	N/A	$500	$500
ENCON	Increase State Pollutant Discharge Elimination System Fees: Phase II Storm - 3/1/09	SFMR	$50	$100	2003	$300	$300
ENCON	Increase State Pollutant Discharge Elimination System Fees: SW Initial Authorization Fee & New General Permit - 3/1/09	SFMR	Various	Various	2003	$2,000	$2,000
ENCON	Increase State Pollutant Discharge Elimination System Fees: GP for PCI & Industrial - 3/1/09	SFMR	Various	Various	2003	$2,700	$2,700
ENCON	Establish New Marine Fishing License - 3/1/09	SFMR	N/A	Various	N/A	$3,000	$6,000
ENCON	Establish Trout and Salmon Stamp - 3/1/09	SFMR	N/A	$10	N/A	$3,000	$4,000

Key:
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REVENUE ACTIONS

Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	Annual Revenue SFY 2009-10 (000s)	Annual Revenue SFY 2011-12 (000s)
ENCON	Increase Education Camp Fee - 3/1/09	SFMR	$250	$325	2005	$115	$115
Health	Increase Physician Fees - 3/1/09	SFMR	$600	$1,000	1996	$16,400	$16,400
Health	Establish Early Intervention Parent Fee - 3/1/09	SFMR	N/A	$15 - $150	N/A	$0	$27,500
Health	Assess Early Intervention Provider Fee - 3/1/09	SFMR	$0	Individual: $270 Agency: $345	N/A	$1,700	$3,600
Health	Restructure Clinical Lab Fees - 3/1/09	SFMR	Retrospective Flat	Prospective 1% of Gross Annual Receipts	N/A	$36,500	$36,500
Health	Increase Certificate of Need Fees - 3/1/09	SFMR	Various	Various	2001	$4,000	$4,000
Labor	Asbestos Handler Fee Increase - 3/1/09	SFMR	$50	$100	2004	$491	$453
Labor	Asbestos Air Sampling Tech Fee Increase - 3/1/09	SFMR	$75	$150	2004	$120	$111
Labor	Asbestos Inspector Certification Fee Increase - 3/1/09	SFMR	$100	$200	2004	$288	$266
Labor	Asbestos Management Planner Certification Fee Increase - 3/1/09	SFMR	$150	$300	2004	$107	$99
Labor	Asbestos Project Designer Certification Fee Increase - 3/1/09	SFMR	$150	$300	2004	$106	$98
Labor	Asbestos Project Monitor Certification Fee Increase - 3/1/09	SFMR	$150	$300	2004	$302	$279
Labor	Asbestos Supervisor Certification Fee Increase - 3/1/09	SFMR	$75	$150	2004	$378	$349
Labor	Asbestos Project Notification Fee Increase - 3/1/09	SFMR	$1,000	$2,000	2004	$6,988	$6,450
Labor	Asbestos License Fee Increases - 3/1/09	SFMR	Initial: $500 Renewal: $300	Initial: $1,000 Renewal: $600	2004	$372	$343
Labor	Boiler Inspection Fee Increases - 3/1/09	SFMR	$75	$150	2004	$1,076	$993
Labor	Insurance Company Boiler Inspection Report Fee Increase - 3/1/09	SFMR	$50	$100	2004	$1,091	$1,007
Labor	Establish Explosives Fees and Penalties - 3/1/09	GFMR/SFMR	N/A	Various	N/A	$294	$289
ORPS	Increase Real Property Transfer Fee - 6/1/09	GFMR	Residential: $75 Commercial: $165	Residential: $125 Commercial: $250	2004	$14,250	$19,250
PARKS	Parks Camping Fee Increases - 3/1/09	SFMR	Various	Various	2005	$1,200	$1,200
PARKS	Parks Cabin Fee Increases - 3/1/09	SFMR	Various	Various	2005	$750	$750
PARKS	Parks Golf Fee Increases - 3/1/09	SFMR	Various	Various	2006	$2,250	$2,250
PARKS	Parks Marina Fee Increases - 3/1/09	SFMR	Various	Various	2003	$350	$350
PARKS	Parks Empire Passports Fee Increases - 3/1/09	SFMR	Various	Various	2003	$400	$400

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Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	Annual Revenue SFY 2009-10 (000s)	Annual Revenue SFY 2011-12 (000s)
PARKS	Parks Access Pass Fee Increases - 3/1/09	SFMR	Various	Various	2003	$1,000	$1,000
PARKS	Parks Permit Fee Increases - 3/1/09	SFMR	Various	Various	2003	$300	$300
PARKS	Parks Golden Park Fee Increases - 3/1/09	SFMR	Various	Various	2003	$250	$250
Racing	Establish Horse Entrance Fee - 3/1/09	SFMR	N/A	$10	N/A	$1,000	$1,000
State	Increase Cosmetology Fee - 3/1/09	GFMR	$15	$75	1998	$219	$219
State	Increase Esthetics Fee - 3/1/09	GFMR	$15	$75	1998	$219	$219
State	Increase Nail Specialty Fee - 3/1/09	GFMR	$15	$75	1998	$219	$219
State	Increase Natural Hair Styling Fee - 3/1/09	GFMR	$15	$75	1998	$219	$219
State	Increase Waxing Fee - 3/1/09	GFMR	$15	$75	1998	$219	$219
State	Increase Bail Enforcement Agent Fee - 3/1/09	GFMR	$15	$75	2001	$219	$219
State	Increase Barbering Fee - 3/1/09	GFMR	$15	$75	1989	$219	$219
State	Increase Hearing Aid Dispenser Fee - 3/1/09	GFMR	$50	$75	1998	$219	$219
State	Increase Home Inspector Fee - 3/1/09	GFMR	$50	$75	2005	$219	$219
State	Increase Notary Public Fee - 3/1/09	GFMR	$50	$75	1967	$219	$219
State	Increase Private Investigator Fee - 3/1/09	GFMR	$15	$125	1981	$219	$219
State	Increase Real Estate Appraiser Fee - 3/1/09	GFMR	$50	$75	1992	$219	$219
State	Increase Real Estate Broker Fee - 3/1/09	GFMR	$15	$125	1989	$218	$218
State	Increase Real Estate Salesperson Fee - 3/1/09	GFMR	$15	$75	1989	$218	$218
State	Increase Security or Fire Alarm Installer Fee - 3/1/09	GFMR	$15	$75	1991	$218	$218
State	Increase Watch Guard or Patrol Agencies Fee - 3/1/09	GFMR	$15	$75	1981	$218	$218
St. Police	Increase in Surcharge on Auto Insurance - 6/1/09	SFMR	$5	$10	2003	$48,375	$64,500
T&F	Increase Beer and Wine Tax Rates - 4/1/09	GFTX	Beer: $0.11/gal. Wine: $0.19/gal.	Beer: $0.24/gal. Wine: $0.51/gal.	2003	$63,000	$63,000
T&F	Increase Auto Rental Tax - 3/1/09	CFTX	5%	6%	1990	$8,000	$10,000
T&F	Establish Processing Fee for Paper Tax Returns - 3/1/09	GFMR	N/A	$10	N/A	$6,800	$6,800
T&F	Establish Bad Check Fee - 3/1/09	GFMR	N/A	$50	N/A	$1,500	$1,500
T&F	Establish Installment Payment Fee - 3/1/09	GFMR	N/A	$75	N/A	$4,500	$4,500
T&F	Establish Tax Preparer Fee - 3/1/09	GFMR	N/A	$100	N/A	$6,000	$6,000
T&F	Increase Highway Use Tax Renewal Fees - 3/1/09	CFTX	$2/$4	$15	1984	$4,600	$0

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Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	Annual Revenue SFY 2009-10 (000s)	Annual Revenue SFY 2011-12 (000s)
T&F	Cigarette and Tobacco Retail Registration Fee - 1/1/10	GFTX	$100	Various	1990	$16,700	$6,200
T&F	Non-LLC Partnership Fee - 1/1/09	GFTX/DFTX	N/A	N/A	N/A	$50,000	$50,000
				New or Increased Fees – Subtotal		**$416,470**	**$639,973**

III. CHARGES AND ASSESSMENTS FOR SPECIFIC SECTORS

Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	Annual Revenue SFY 2009-10 (000s)	Annual Revenue SFY 2011-12 (000s)
PUB SVC	Increase Utility Assessment – 3/1/09	GFMR	0.33%	2.00%	1972	$651,600	$651,600
Health	Reinstitute Hospital Assessment - 3/1/09	SFMR	N/A	N/A	N/A	$316,400	$271,200
Health	Reinstitute Home Care Assessment - 3/1/09	SFMR	N/A	0.7%	2000	$19,100	$21,800
Health	Increase Hospital Surcharges - 1/1/09	SFMR	N/A	N/A	2006	$126,000	$108,000
Health	Increase Covered Lives Assessment - 1/1/09	SFMR	$920 million	$1,040 million	2008	$240,000	$120,000
Health	Extend the Covered Lives Assessment - 3/1/09	SFMR	N/A	N/A	2008	$5,000	$5,000
Health	Establish Physical Procedure Surcharge - 3/1/09	SFMR	N/A	N/A	N/A	$49,800	$98,500
Health	Increase Insurance Assessment for Public Health Programs - 3/1/09	SFMR	N/A	N/A	N/A	$99,800	$49,900
Health	Establish Timothy's Law Insurance Assessment - 3/1/09	SFMR	N/A	N/A	N/A	$179,000	$91,000
Health	Increase Insurance Assessment for Tobacco Control and Early Intervention - 3/1/09	SFMR	N/A	N/A	N/A	$92,600	$93,700
Health	Extend Insurance Assessment to Foreign Insurers - 1/1/09	SFMR	N/A	N/A	N/A	$0	$134,800
Health	Establish Third Party Administrator Fee - 10/1/09	SFMR	N/A	$1	N/A	$63,100	$126,200
T&F	Additional Sales Tax on Soft Drinks for Health Care Programs – 3/1/09	SFTX	N/A	18%	N/A	$404,000	$539,000
	Charges and Assessments for Specific Sectors – Subtotal					**$2,246,400**	**$2,310,700**

IV. NEW OR INCREASED FINES

Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	Annual Revenue SFY 2009-10 (000s)	Annual Revenue SFY 2011-12 (000s)
Ag&Mkts	Food Safety Violation Penalties - 3/1/09	GFMR	Various	1st Offense: $1,000 2nd Offense: $2,000	1990	$1,200	$1,200
DHR	Allow Civil Penalties for Non-Housing Cases - 3/1/09	GFMR	N/A	Various	N/A	$125	$156
DMV	Remove Cap on Surcharges - 3/1/09	GFMR	$100 Cap	No Cap	2003	$9,900	$9,900
DMV	Increase Vehicle and Safety Fines for Repair Shops and Inspection Stations- 3/1/09	GFMR	Various	Various	1993	$395	$395

Key:

CF = Capital Projects Fund	GF = General Fund	SF = Special Revenue Funds
DF = Debt Service Funds	MR = Miscellaneous Receipts	TX = Tax

Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	Annual Revenue SFY 2009-10 (000s)	Annual Revenue SFY 2011-12 (000s)
DMV	Increase Vehicle and Safety Fines for Dealers and Transporters - 3/1/09	GFMR	Various	Various	1993	$326	$326
DMV	Increase License Suspension Termination Fee - 3/1/09	GFMR	$25	$50	1992	$2,722	$2,722
DMV	Increase License Reinstatement Fee - 3/1/09	GFMR	$50	$100	1992	$747	$747
DMV	Increase Scofflaw Termination Fee - 3/1/09	GFMR	$35	$75	1992	$12,600	$12,600
Labor	Establish Uncertified Crane Operation Penalty - 3/1/09	GFMR	N/A	Various	N/A	$436	$436
St. Police	Automated Speed Enforcement Cameras - 3/1/09	GFMR	N/A	$50 Speed Zone $100 Work Zone	N/A	$50,000	$100,000
				New or Increased Fines – Subtotal		**$78,451**	**$128,482**

V. OTHER ACTIONS

Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	Annual Revenue SFY 2009-10 (000s)	Annual Revenue SFY 2011-12 (000s)
ENCON	Expand the Bottle Bill - 3/1/09	CFMR	N/A	N/A	1982	$118,000	$118,000
T&F	Reform the Empire Zones Program - 1/1/09	GFTX/SFTX/DFTX	N/A	N/A	N/A	$272,000	$309,000
T&F	Allow the Sale of Wine in Grocery Stores - 10/1/09	GFTX/DFTX	N/A	Various	N/A	$105,000	$3,000
T&F	Improve Non-Voluntary Tax Collections - 3/1/09	GFTX/DFTX	N/A	N/A	N/A	$85,000	$85,000
T&F	Reciprocal Vendor Offset - 3/1/09	GFTX/DFTX	N/A	N/A	N/A	$5,000	$30,000
T&F	Increase Prepaid Sales Tax Rates on Cigarettes - 3/1/09	GFTX/DFTX	7%	8%	2003	$14,000	$0
T&F	Allow Decals for TMT Carriers - 3/1/09	CFTX	N/A	N/A	N/A	$0	$0
T&F	Increase Prepayment to 40% - 1/1/10	GFTX/SFTX	30%	40%	2008	$351,000	$0
T&F	Pari-Mutuel Tax Extender - 3/1/09	GFTX	N/A	N/A	N/A	$0	$0
T&F	Eliminate Quick Draw Restrictions - 3/1/09	SFMR	N/A	N/A	N/A	$40,000	$59,000
T&F	Extend VLT Hours of Operation - 3/1/09	SFMR	N/A	N/A	N/A	$45,000	$45,000
T&F	Allow for Additional Multi-Jurisdictional Lottery Games - 3/1/09	SFMR	N/A	N/A	N/A	$11,000	$21,000
T&F	Lottery Prize Fund Investment - 3/1/09	SFMR	N/A	N/A	N/A	$37,000	$50,000
T&F	Authorize VLT's at Belmont Park - 3/1/09	SFMR	N/A	N/A	N/A	$0	$0
				Other Actions – Subtotal		**$1,083,000**	**$720,000**

Key:
CF = Capital Projects Fund
DF = Debt Service Funds
GF = General Fund
MR = Miscellaneous Receipts
SF = Special Revenue Funds
TX = Tax

Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	Annual Revenue SFY 2009-10 (000s)	Annual Revenue SFY 2011-12 (000s)
VI. NEW OR EXPANDED TAX CREDITS							
T&F	Expand the Low Income Housing Tax Credit Program - 1/1/09	GFTX	N/A	N/A	N/A	($4,000)	($4,000)
T&F	Create an Enhanced Research and Development Credit - 1/1/09	GFTX/DFTX	N/A	N/A	N/A	$0	($40,000)
T&F	Expand the Qualified Emerging Technology Company FOT Credit - 1/1/10	GFTX	N/A	N/A	N/A	$0	($5,000)
					New or Expanded Tax Credits – Subtotal	**($4,000)**	**($49,000)**
					ALL REVENUE ACTIONS – GRAND TOTAL	**$5,221,221**	**$5,555,455**

Key:
CF = Capital Projects Fund
DF = Debt Service Funds
GF = General Fund
MR = Miscellaneous Receipts
SF = Special Revenue Funds
TX = Tax

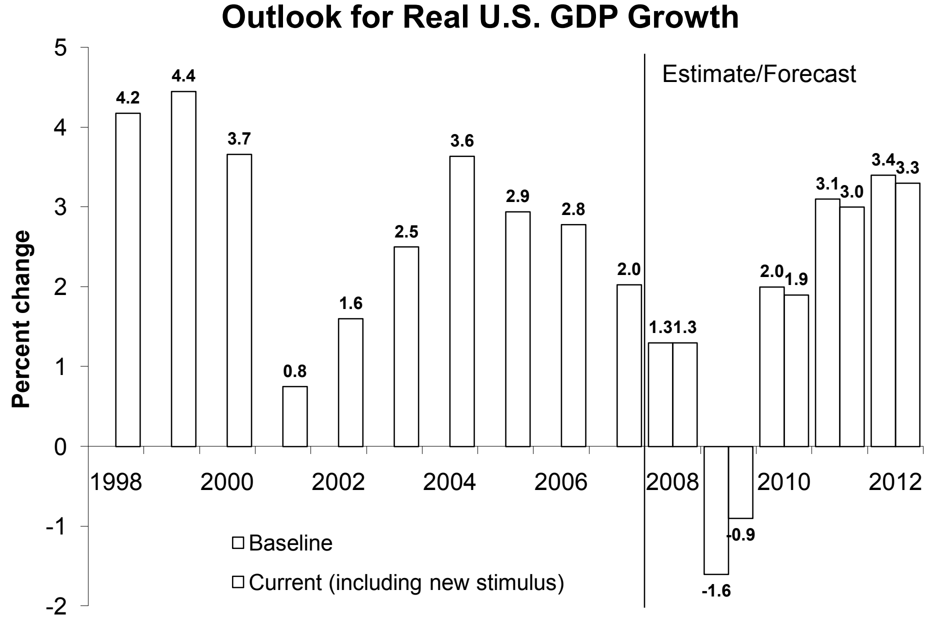
ECONOMIC BACKDROP

ECONOMIC BACKDROP

OVERVIEW

Since the end of October, evidence has mounted that the U.S. recession that began in December 2007 has deepened and the advance toward global recession has accelerated. The deleveraging process radiating from housing and credit markets has destroyed trillions of dollars of wealth, resulting in what may become the most severe economic contraction since the early 1980s and possibly since the Great Depression. Despite a massive government effort to restore the domestic banking system, and similar efforts around the world, the global economy's downward momentum continues unabated. Real U.S. GDP is now projected to decline for four consecutive quarters starting with the 0.5 percent decline already reported for 2008Q3, something never observed during the postwar period. However, the new administration has stated its intention to sponsor additional stimulus that is likely to prevent the current recession from extending beyond the second quarter of 2009. The Budget Division now projects the U.S. economy to contract by 0.9 percent in 2009, following growth of 1.3 percent in 2008 (see Figure 1). Without the anticipated passage of a new stimulus package early in 2009, the economy would be expected to contract 1.6 percent in the coming year.[1]

Figure 1
Outlook for Real U.S. GDP Growth



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

Since the summer, labor market conditions have deteriorated substantially, with the unemployment rate rising to 6.7 percent in November, the highest since October 1993. The combined loss of 1.3 million jobs in September, October, and November represents a

[1] The current forecast anticipates the passage of a stimulus package that adds about $220 billion in current dollars. Since the completion of the forecast, there have been reports of a larger package being discussed, but its precise size, composition, and timing remain unknown.

substantial acceleration in the labor market's rate of decline, with almost 2 million jobs lost since January 2008. Job losses are now expected to become more severe going forward, further weakening income growth. Home prices also continue to fall and equity markets remain more than 40 percent below their most recent October 2007 peaks, generating a reverse wealth effect.

Declining employment and wealth, combined with unfavorable credit market conditions, continue to put downward pressure on household spending. Consumer spending fell 3.7 percent for the third quarter of 2008, adjusted for inflation, the steepest such decline since the second quarter of 1980. On the positive side, the recent decline in energy prices has increased the purchasing power of household incomes, while at the same time reducing inflation expectations and increasing the Federal Reserve's policy options. But this favorable trend is expected only to cushion the blow induced by a falling labor market and a barely recovering financial system. Consequently, real consumption is projected to fall for a total of three consecutive quarters. Indeed, without the anticipated implementation of another round of economic stimulus, a fourth quarter of falling consumer spending would be in the forecast. Both projections dramatically distinguish the current outlook from the recession of 2001, when consumer spending growth never fell below 1 percent.

With the financial markets at the center of the economic storm, the New York State economy stands to be hard hit by the current recession. The financial market terrain looks very different than it looked just a few months ago. Indeed, the investment banking industry as we knew it before September 15, 2008, no longer exists. The resulting industry consolidation is likely to have grave implications for financial sector employment, particularly in New York City. Layoffs from the State's financial services sector are now expected to total approximately 60,000 as strained financial institutions seek to cut costs and newly merged banks seek to reduce duplication of services. These projected losses are approximately double those lost in the wake of September 11.

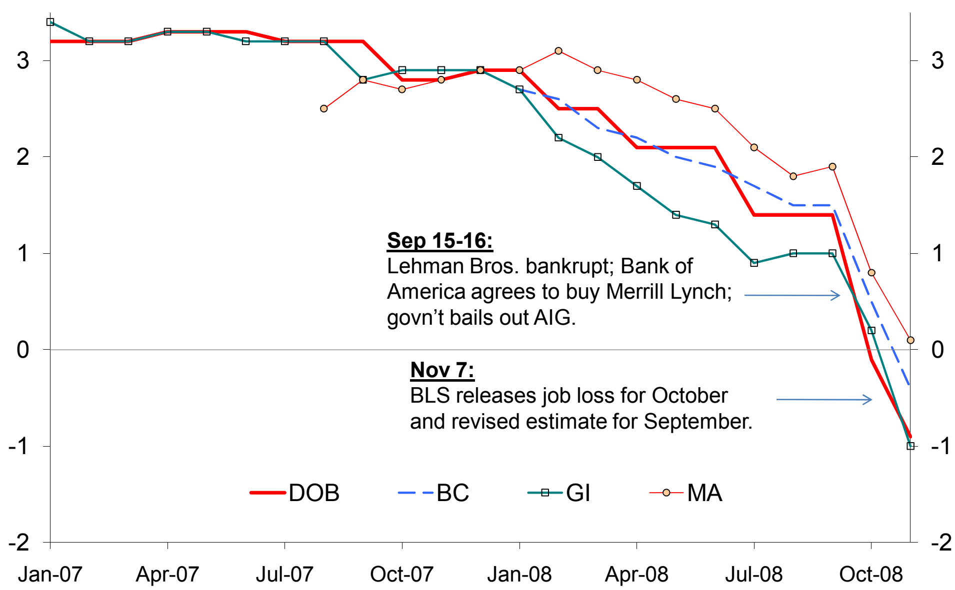
But the current downturn in the State economy is expected to extend far beyond Wall Street. A broad-based State recession is now projected to result in private sector job losses of about 180,000, with declines anticipated for all major industrial sectors except for health and education. The loss of manufacturing jobs is expected to accelerate going forward, particularly in auto-related industries. The State's real estate market will continue to weaken in 2009, with office vacancy rates expected to rise due to falling employment, tight credit market conditions, and completed construction coming online. In addition, a weak global economy and strong dollar are expected to negatively impact the State's export-related and tourism industries. State employment is now expected to fall 1.5 percent for 2009, with private sector jobs projected to fall 1.8 percent, following growth of 0.3 percent for both total and private employment for 2008.

THE NATIONAL ECONOMY

The National Bureau of Economic Research (NBER) Business Cycle Dating Committee has officially determined that national economic activity peaked in December 2007 (see Box 1). It remains to determine the length and severity of the current recession going forward. With the recession now in its twelfth month, it is already longer than the recessions of the early 1990s and 2001. Moreover, the economy appears to have downshifted as recently as September to a period of much more extensive job losses. Between December 2007 and August 2008, private sector job losses averaged 94,000 per month, but in the following three months, that average rose to 429,000. In addition, these accelerating job losses have coincided with the current downturn becoming much more broad-based.

Prior to September, much of the job loss was concentrated in the construction and manufacturing sectors, due to the weakness emanating from the housing and auto markets. Of the 850,000 private sector jobs lost during that period, about 80 percent were in construction and manufacturing and only 20 percent in service-producing industries. In contrast, of the 1.3 million private sector jobs lost in the three months starting in September, only 35 percent were in construction and manufacturing, while fully 65 percent were service producing jobs. This disquieting observation suggests that the current recession is likely to attain the depth of the 1981-82 downturn that lasted 16 months, making it the worst recession the U.S. has experienced since the Great Depression. The Budget Division projects that the current recession will last through much, if not all, of the second quarter of 2009 and thus will rival 1981-82 as the worst period for the national economy since the 1930s.

Figure 2
Evolution of Real U.S. GDP Growth Forecasts for 2009
Percent change



Source: Global Insight; Macroeconomic Advisors; Blue Chip; DOB staff estimates.

The Budget Division forecast for a decline in real U.S. GDP of 0.9 percent was completed before the release of the November employment report by BLS on December 5, 2008. Consequently, there is much uncertainty surrounding the 2009 forecast, as there always is near a business cycle turning point. Figure 2 shows how four forecasts for real GDP growth for 2009 have evolved over time since early 2007. These forecasts remained relatively flat at around 3 percent until early 2008 when indicators began to re-emerge that credit markets were seizing up for the first time since the previous August.

Prospects for 2009 continued to slide thereafter, but the events of the middle of September were clearly a turning point, with many forecasters lowering their projections substantially in their wake.

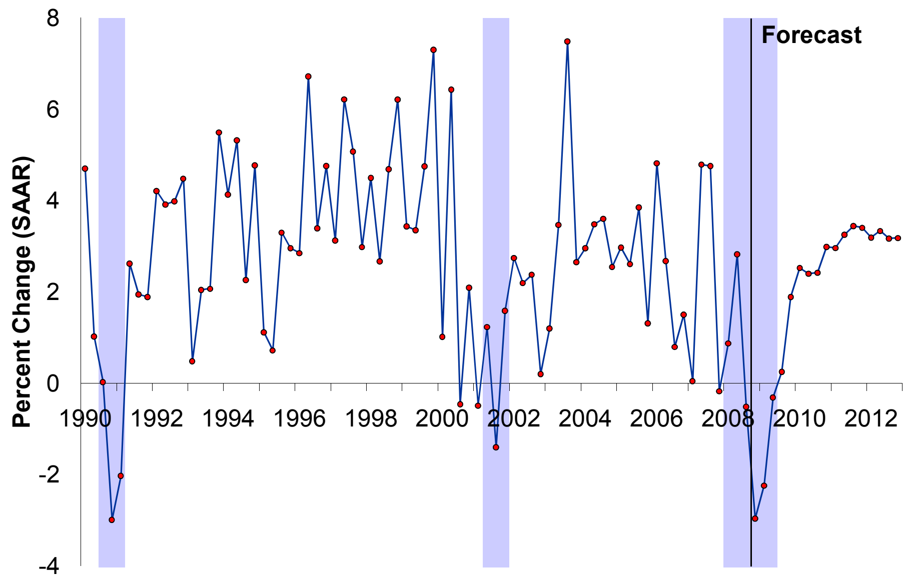
TABLE 1
RECENT MONTHLY EMPLOYMENT LOSSES AND REVISIONS
Numbers in thousands

	Initial Estimate	First Revision	Second Revision	Total Revision To-date
September	(159)	(284)	(403)	(244)
October	(240)	(320)	-	(80)
November	(533)	-	-	-

Source: Moody's economy.com.

In addition to the unfolding of events surrounding the credit crisis, the forecasts that appear in Figure 2 and elsewhere have also evolved in response to the most recent data releases, including revisions to data released in prior months, which in the case of employment have been substantial. Table 1 shows how extensive some of the most recent revisions to the employment data have been. The revised forecasts that appear in Figure 2 for November reflect in part not only BLS's initial October estimate of 240,000 jobs lost, but also the news that the national economy lost 284,000 jobs in September, and not the 159,000 jobs as per the initial estimate. Over a two-year period, projections for the 2009 performance of the national economy fell from growth of over 3 percent in January 2007 to an average decline of 0.6 percent in November 2008. Subsequently in early December it was learned that not only were 533,000 jobs lost in November, but that even more jobs were lost in both September and October than previously estimated. This news is expected to motivate forecasters' to lower their projections for 2009 yet again.

Figure 3
Real US GDP Growth



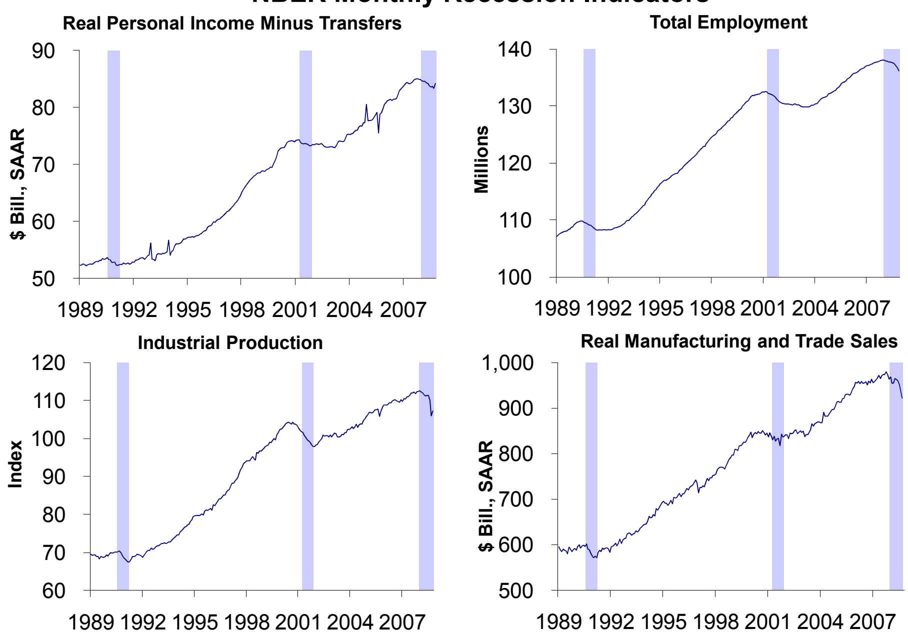
Note: Shaded areas represent US recessions. Current recession trough date is DOB staff estimate.
Source: Moody's Economy.com; DOB staff estimates.

BOX 1
DATING THE RECESSION

As anticipated, the National Bureau of Economic Research (NBER) Business Cycle Dating Committee announced that a business cycle peak occurred in December 2007[1]. The precise dating of a business cycle turning point is as much an art as a science, particularly given that high frequency economic data are subject to revision. This fact partially explains why the Committee often waits close to a year, as it did this time around, before declaring officially that the national business cycle has entered a new phase. The long wait not only allows time for data to be revised, but also helps to ensure that the downturn is deep enough to qualify for a recession.

Although the popular press typically defines a recession as two consecutive declines in real GDP, the Committee defines a recession as a significant and widespread decline in economic activity, lasting more than a few months, beginning when the economy reaches a peak of activity and ending when the economy reaches its trough. The Committee believes that domestic production and employment are the best "conceptual" measures of economic activity, but uses monthly data to determine business cycle peaks and troughs. Though the Committee considers nonfarm payroll employment to be the best monthly measure of economic activity, it focuses on three additional monthly indicators: real personal income minus transfers, industrial production, and real manufacturing and trade sales, all of which are shown below. The Committee also considers the quarterly estimates of real Gross Domestic Product and real Gross Domestic Income.

NBER Monthly Recession Indicators



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

The four monthly economic series that appear above are generally considered coincident indicators. Nonfarm payroll employment reached a peak in December 2007 and has fallen every month since then. Real personal income less transfers peaked in December 2007, though its decline since then has not been as steady as that of employment. Real manufacturing and wholesale-retail trade sales reached a defined peak in October 2007, while industrial production peaked in January 2008, though, like income,, has failed to follow a smooth downward path. Though the quarterly measures considered by the Committee do not point unambiguously to a specific business cycle peak, they note that their behavior is not inconsistent with a peak in late 2007.

[1] See Business Cycle Dating Committee, National Bureau of Economic Research, "Determination of the December 2007 Peak in Economic Activity," December 1, 2008.

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The table below gives a chronology of the nation's recessions starting with the Great Depression.

Chronology of U.S. Recessions

Peak	Trough	Duration in Months
Jan-29	Mar-33	43
May-37	Jun-39	13
Feb-45	Oct-45	8
Nov-48	Oct-49	11
Jul-53	May-54	10
Aug-57	Apr-58	8
Apr-60	Feb-61	10
Dec-69	Nov-70	11
Nov-73	Mar-75	16
Jan-80	Jul-80	6
Jul-81	Nov-82	16
Jul-90	Mar-91	8
Mar-01	Nov-01	8
Dec-07	-	-

Source: NBER.

The Budget Division's current projection for real U.S. GDP to fall 0.9 percent in 2009 implies continued declines on a quarterly basis through the second quarter of 2009 (see Figure 3). Those declines would be projected to be even deeper, were it not for a Federal government stimulus plan expected to be passed in late January 2009. The details of the plan incorporated into the Budget Division forecast are laid out in Box 2.

Although the current recession is turning out to be broad-based, it is being led by a downturn in household spending, which accounted for 71 percent of GDP during the first three quarters of 2008. By the third quarter of 2009, growing demand following three quarters of spending declines, persistently lower energy prices, and the impact of a massive global intervention effort to add liquidity and confidence to credit markets is expected to be the catalyst for an upturn in spending. However, we emphasize that there is a notoriously high degree of uncertainty surrounding a turning point forecast, and with virtually unprecedented credit market conditions, the uncertainty associated with projecting an end to the current recession is even greater.

BOX 2
IMPACT OF FISCAL STIMULUS ON U.S. FORECAST

The president-elect has announced that his first priority upon taking office will be to work on passage of a plan to stimulate the economy. According to reports available at the time the Executive Budget forecast was being developed, the primary focus of the plan was to provide funds to consumers and state and local governments, though the details of the plan, including the total value of the plan, were not available. The Budget Division forecast assumes that a fiscal stimulus plan totaling $220 billion will be passed at the end of January of the form laid out in the table below.

While payments for extended UI benefits and rebate checks are expected to provide an immediate and short-term boost to the economy, aid to state and local governments, especially investment in infrastructure, is expected to provide stimulus for both 2009 and 2010, with a small amount extending into 2011.

STIMULUS PACKAGE ASSUMPTIONS

	2009	2010	2011
Tax Rebate	$80	-	-
Extended UI Benefits	$15	-	-
Infrastructure	$33	$30	$2
Medicaid	$60	$10	-
Total	$178	$40	$2

Source: DOB staff estimates.

Most of the rebate checks are expected to be mailed during the second quarter of 2009 and, together with the rest of the economic stimulus package, boost personal income by one percent for 2009, which in turn is expected to boost consumption growth for 2009 by about a full percentage point, though there will be some leakage via imports. Without the stimulus package, real GDP for 2009 would be projected to contract as much as 1.6 percent, while the contribution of state and local governments to real output would have been expected to fall throughout 2009 and into early 2010. On the other hand, a weaker economy would have produced lower inflation.

IMPACT OF $220 BILLION STIMULUS PLAN ON GROWTH FOR 2009

	With Stimulus	Without Stimulus	Difference
Real GDP	-0.9	-1.6	0.7
Real Consumption	-0.8	-1.7	1.0
Personal Income	1.8	0.8	1.0
Employment	-1.2	-1.5	0.3

Source: DOB staff estimates.

Since the completion of the forecast, there have been reports that plans exceeding $500 billion in value are being considered. To the extent that the actual value of the plan ultimately passed exceeds the current assumption, there exists upside risk to the Budget Division forecast.

The Credit Crisis

The collapse of the housing bubble beginning in 2006 revealed the existence of yet another, perhaps more insidious, bubble in structured finance. The securitization of mortgages and other forms of debt, and the associated creation of "structured products" were intended to produce the benefits associated with the diversification and dispersal of risk. However, they also reduced the incentives to undertake "due diligence" in assessing borrowers' abilities to repay. In addition, the pricing of these assets failed to account for the systemic risk associated with the possibility of a nationwide housing market collapse, while the credit-rating agencies failed to do their own due diligence in rating these assets.

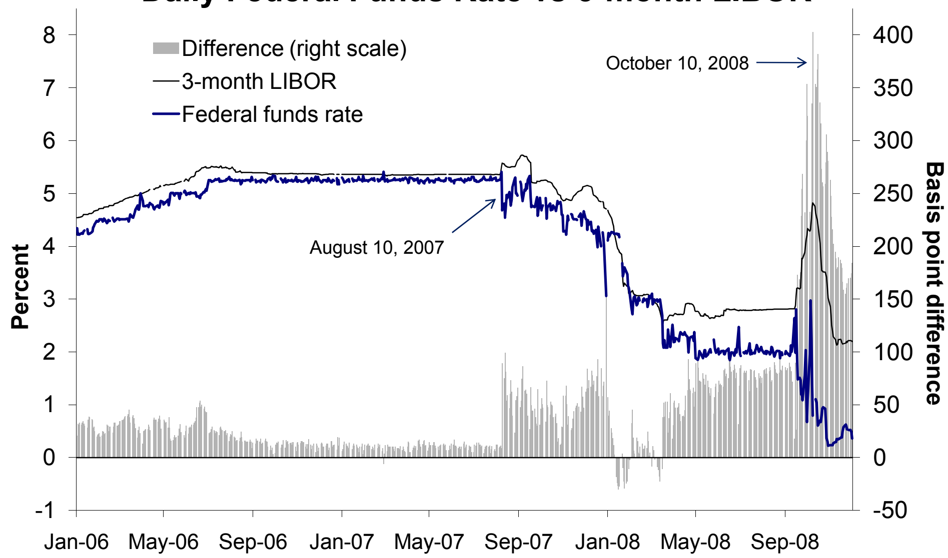
When the housing collapse did occur and homeowners began to default in large numbers on the mortgages underlying these structured products, their values plummeted and the market for these assets froze. So-called "mark-to-market" rules that require firms to value the assets on their balance sheets at market prices have forced firms to write-down large volumes of the mortgage-related assets on their books. With financial institutions looking risky, interbank lending rates shot up. Figure 4 shows how the 3-month Libor rate normally tracks the federal funds rate quite closely, but during the extraordinary times since August 2007, the difference between the two has widened to an unprecedented degree.

As demonstrated in Figure 4, liquidity pressures have eased since peaking on October 10. Another measure of credit market risk, commonly referred to as the TED spread, or the difference between the three-month Libor rate and the risk-free three-month Treasury yield, has also eased since early October. These indicators provide some reassurance that banks' willingness to lend to each other is recovering, an essential element to a healthy functioning of credit markets. Some of this improvement is likely due to efforts on the part of governments and central banks around the world to pump liquidity into global markets and rebuild their normal functioning. But despite the improvement in interbank lending conditions, there is little evidence of improvement in banks' willingness to lend to private nonfinancial businesses and households. Indeed, as discussed in more detail below, the most recent results from the Federal Reserve Board's survey of loan officer activity indicate a substantial deterioration in banks' willingness to lend in recent quarters.

The contraction of the asset-backed debt market provides additional evidence of the extent to which the unwinding of the credit bubble has disrupted U.S. capital markets (see Figure 5). If the volume of corporate debt underwriting for the current fourth quarter is equal to that of the third, the total volume for 2008 will represent a decline of 65.0 percent from the prior year. The volume of asset-backed debt will have fallen 80.4 percent between 2007 and 2008, to only 18.2 percent of the 2008 total, indicating a particular weakness in the demand for securitized debt. At its 2006 peak, asset-backed debt represented fully 39.8 percent of total corporate debt underwriting. More evidence of a growing aversion to securitized debt has emerged, from the commercial paper market, where the volume of asset-backed debt outstanding has fallen 39.4 percent between its peak in the week of August 7, 2007, and the week of November 19, 2008, despite an easing of interest rates in that market. The commercial paper market has been a critical source of short-term funding for financial firms and the fall in demand for this market's assets, combined with business cycle risks, has put upward pressure on corporate bond rates.

Figure 4

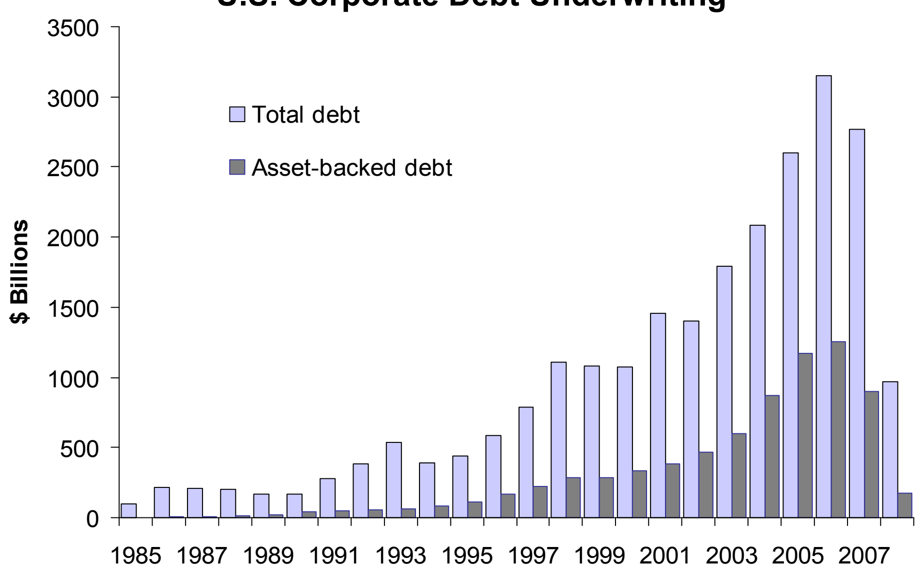
Daily Federal Funds Rate vs 3-month LIBOR



Source: Moody's Economy.com.

Figure 5

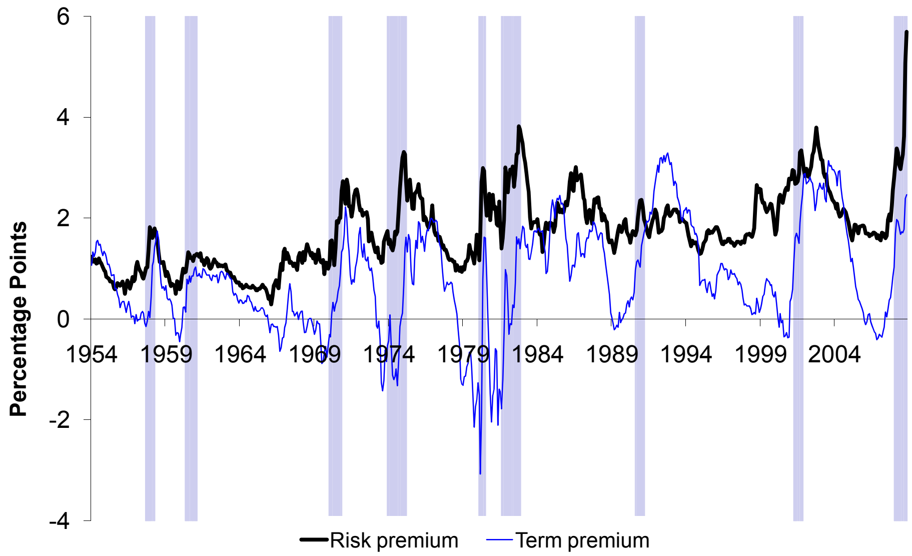
U.S. Corporate Debt Underwriting



Note: Data for 2008 are based on actual values through the third quarter and the assumption that the fourth quarter will match the third.
Source: SIFMA.

Figure 6 indicates that the risk spread, defined as the difference between Moody's seasoned Baa corporate bond yield and the risk-free 10-year Treasury yield, has been at historically high levels and is still rising. In the meantime, the flight to safety that has characterized the recent period has put downward pressure on all Treasury yields, but particularly on short-term yields as heightened aversion to risk has spread even to markets traditionally considered highly liquid, such as short-term money markets. As discussed further below, these developments are expected to continue to severely limit the options available to private sector businesses for financing investment over the near term.

Figure 6
The Risk Spread at Historic Highs



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

Promoting the orderly functioning of financial markets is one of the Federal Reserve's primary responsibilities and the evidence cited above indicates that this task has never been more challenging. A look at the central bank's balance sheet highlights the unprecedented steps the Federal Reserve has taken to return a measure of calm to the markets. Since August 2007, the central bank's balance sheet has more than doubled from about $900 billion to over $2 trillion due to efforts to add liquidity to the banking system and thereby increase the availability of credit. As of December 2, approximately $1.8 billion had been offered for auction to private sector banks through its Term Auction Facility (TAF), with another $300 billion scheduled to be auctioned before the end of 2008. In addition, another $1.5 trillion has been offered through the Term Securities Lending Facility (TSLF).

Additional recently created policy tools include the Commercial Paper Funding Facility (CPFF), created to fund purchases of highly rated, U.S.-dollar denominated, three-month, unsecured and asset-backed domestic commercial paper; the Asset Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF), created to extend loans to banking organizations to purchase asset-backed commercial paper from money market mutual funds; the Money Market Investor Funding Facility (MMIFF), created to improve liquidity in short-term money market markets; and the Term Asset-Backed Securities Loan Facility (TALF) created to help meet the credit needs of households and small businesses by supporting the issuance of asset-backed securities collateralized by student loans, auto loans, credit card loans, and loans guaranteed by the Small Business Administration. Finally, the central bank has initiated a program to purchase the direct obligations of housing-related government-sponsored enterprises (GSEs) — Fannie Mae, Freddie Mac, and the Federal Home Loan Banks — and mortgage-backed securities (MBS) backed by Fannie Mae, Freddie Mac, and Ginnie Mae, targeting credit conditions in the housing market directly.

All of the evidence indicates that only moderate success has been achieved so far in returning a sense of normalcy to the financial system.[2] Risk spreads remain high. The 10-year Treasury yield fell below 3 percent for the first time since 1958, reflecting the fervent desire for safety on the part of investors. The Federal Reserve brought its federal funds rate target back down to 1 percent at its policy meeting at the end of October 2008 and, as we discuss further below, is likely to go below that milestone for the first time at the conclusion of the Federal Open Market Committee's December 16 meeting.

The Housing Contraction Deepens

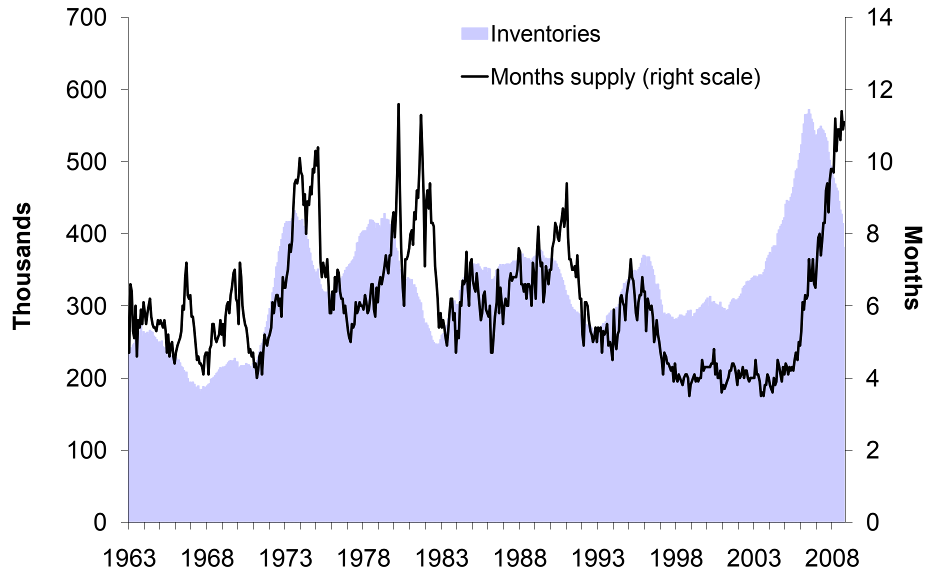
Even after 11 consecutive quarters of declining residential investment, the inventory of unsold new homes remains high, but is significantly below its July 2006 peak (see Figure 7). In contrast, the duration of time it takes to sell a home remains at historically high levels. Together, these developments suggest that while the decline in construction has made some progress toward reducing the overhang resulting from the housing boom, deteriorating credit market conditions, rising foreclosures, and the cyclical downturn in the economy have continued to depress housing market activity. Indeed, foreclosure rates in those areas of the country, such as the industrial Midwest, that have lost the most jobs appear to be among the highest. Thus, while the housing market collapse was a primary cause of the current downturn, the continuing adjustment in the housing market has become as much of a symptom as a cause of the nation's economic troubles.

Figure 8 shows housing starts falling from a seasonally adjusted high of 2.3 million in January 2006 to just under 800,000 in October 2008. The Budget Division estimates that the excesses of the construction boom have yet to fully unwind, particularly with homes entering foreclosure at unprecedented rates, homeowner vacancy rates at elevated levels (see Figure 9), and households being squeezed by declining employment and wealth. Consequently, quarterly declines in real residential investment spending are expected to continue through the third quarter of 2009, though at a decreasing rate. Real residential investment is now projected to fall 11.3 percent in 2009, following a decline of 20.6 percent in 2008. Falling construction spending will continue to be a drag on construction and real estate employment as well (see Figure 10).

[2] Results from a recent study based on data through May 2008 indicate that the wide risk spreads observed in credit markets may be more a result of counterparty risk than liquidity risk. An equation incorporating various measures of risk spreads on the left hand side, the median bank credit default swap rate on the right hand side as a measure of counterparty risk, and various dummy variables on the right hand side to capture the effect of the TAF finds that the TAF has no significant impact on spreads. Consequently, central bank efforts to add liquidity alone may have only a limited impact on credit market conditions. See John B. Taylor and John C. Williams, "Further Results on a Black Swan in the Money Market," http://www.stanford.edu/~johntayl/Taylor-Williams-Further%20Results%20on%20Black%20Swan.pdf>, viewed December 8, 2008.

Figure 7

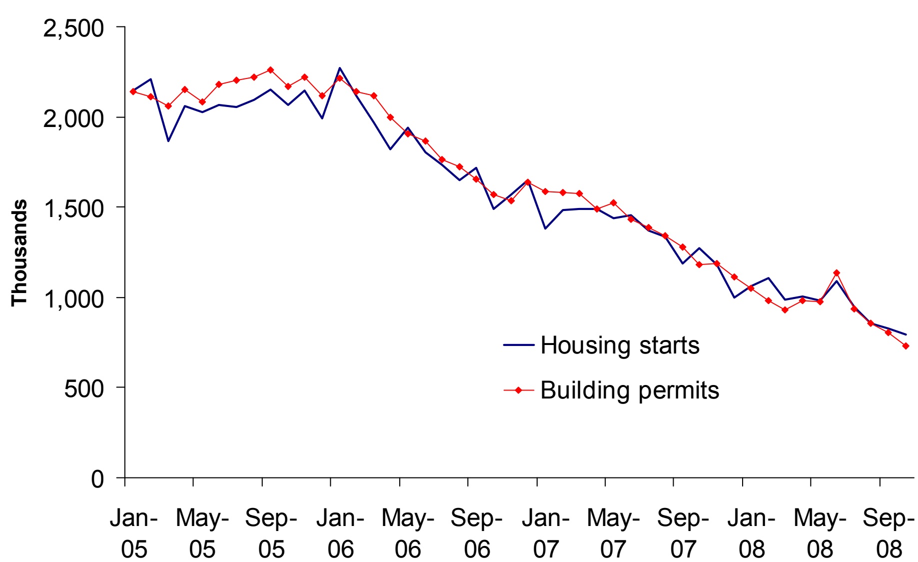
Inventory of New Homes for Sale



Source: Moody's Economy.com.

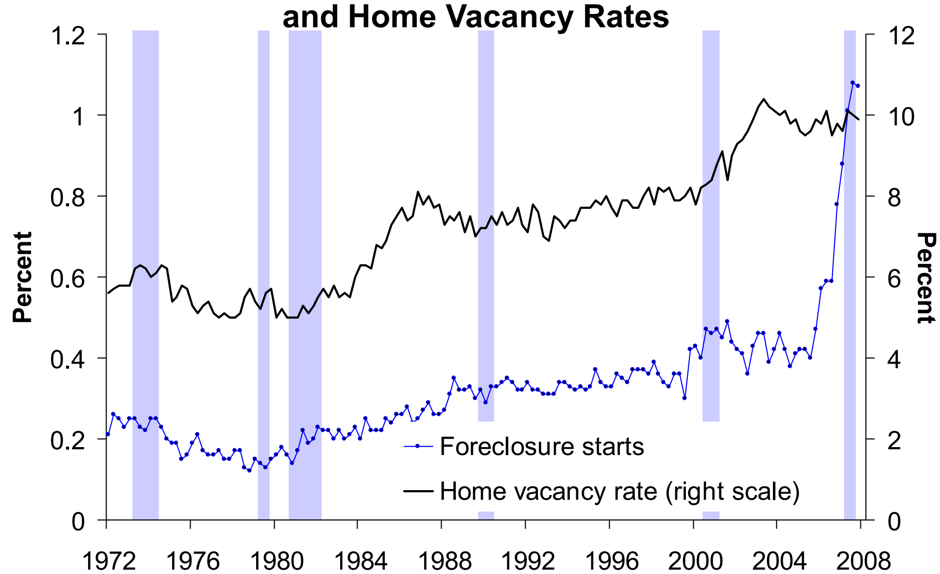
Figure 8

Housing Market Indicators Continue to Fall



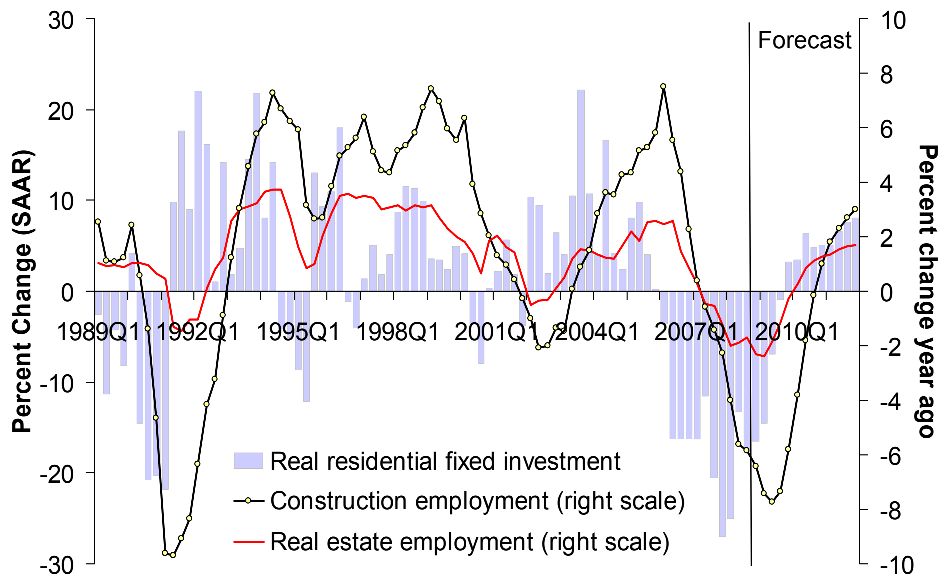
Source: Moody's Economy.com.

Figure 9
Percent of Loans Entering Foreclosure and Home Vacancy Rates



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

Figure 10
Housing Sector Remains a Drag on the Economy



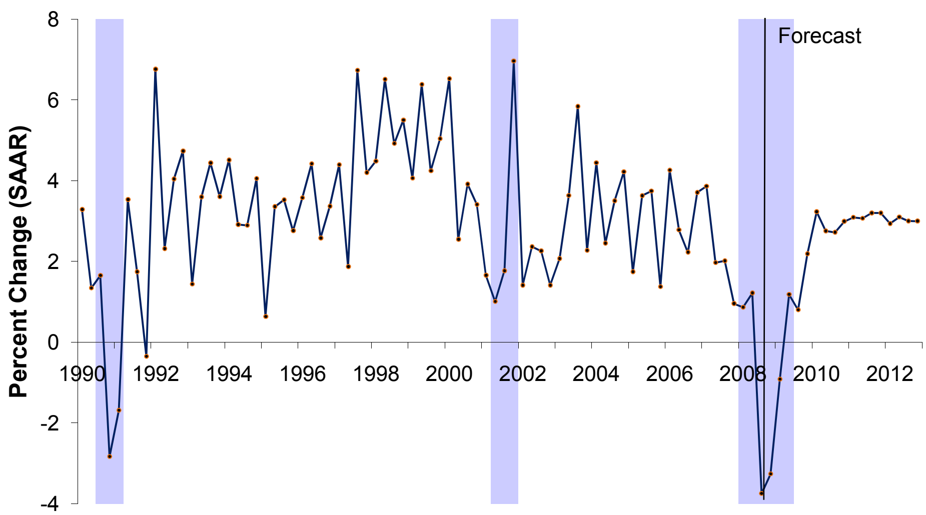
Source: Moody's Economy.com; DOB staff estimates.

The large expected number of foreclosures for the remainder of 2008 and 2009 represents a significant source of risk to the Budget Division residential investment forecast. As a fraction of these homes go back on the market, the inventory of homes for sale will increase, putting downward pressure on both prices and the demand for new construction. High rates of foreclosure also heighten credit market risks, compounding the uncertainty surrounding the forecast. In contrast, government and private efforts to reduce the number of foreclosures represents a source of positive risk.[3]

Deleveraging the American Consumer

Household spending is under pressure from several directions. The first is the weakness in the labor market. Through November 2008, 1.9 million jobs have been lost, with that number expected to increase further before the end of the recession in the second quarter of 2009. In addition, household wealth has suffered a decline of more than 40 percent in the value of equity prices as measured by the S&P 500, and a more than 20 percent decline in home prices, as measured by the Case-Shiller 10-city single-family home price index. Although energy prices have fallen substantially over the last couple of months, the reduced availability of credit, along with the destruction of more than $10 trillion in household wealth, have caused consumers to reduce spending. Consumption spending for the third quarter fell 3.7 percent after adjusting for inflation and is expected to fall again by more than 3 percent in the fourth quarter (see Figure 11).

Figure 11
Real Consumption Growth



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

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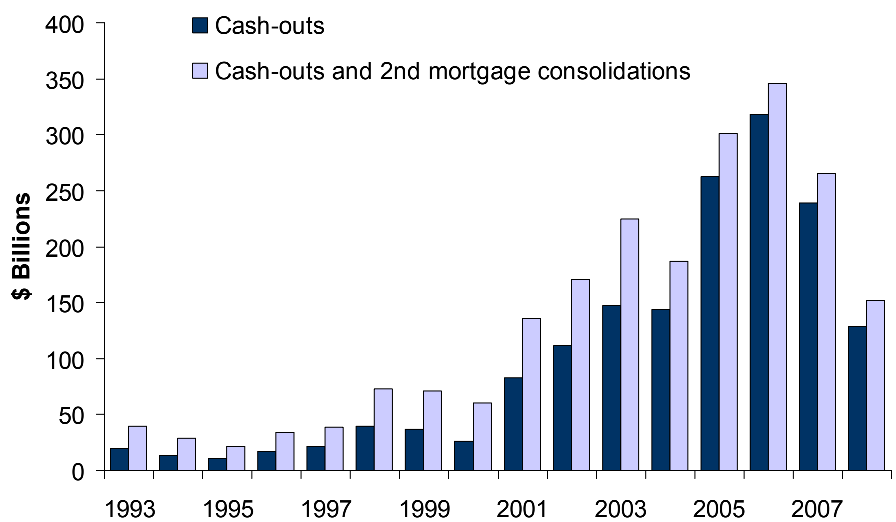
[3] Hope Now, a coalition of lenders, mortgage servicers, investors, and counselors, reported that a record 225,000 at-risk mortgages were restructured in October, up from 212,000 in September. The coalition claims to have helped 2.7 million homeowners keep their homes since July 2007, with 1.7 million of those coming in 2008. A reported 77,000 lost their homes during October, compared to 86,000 in September. In addition, the Federal Deposit Insurance Corp. announced in August that it would modify many of the loans it has been administering since taking over IndyMac Bank. Fannie Mae and Freddie Mac also have a plan to modify at-risk mortgages among the 31 million they either own or back, worth a combined $5 trillion. <http://money.cnn.com/2008/11/25/real_estate/October_Hope_Now_report/index.htm?postversion=2008112511>,<http://money.cnn.com/2008/11/11/news/economy/loan_modification/index.htm?postversion=2008111117>

The determination that consumer spending will continue to fall for an unprecedented two more quarters is based on the simultaneous withdrawal of several factors that had supported household spending since the 2001 recession. The first is the unwinding of the housing bubble and consequent decline in home prices. Homeowners had been tapping the increase in their wealth due to the rising value of their homes by refinancing and withdrawing equity. But, as shown in Figure 12, mortgage equity withdrawals fell 23.4 percent in 2007, are estimated to fall another 42.9 percent in 2008, and can be expected to fall further going forward as home prices continue to fall.

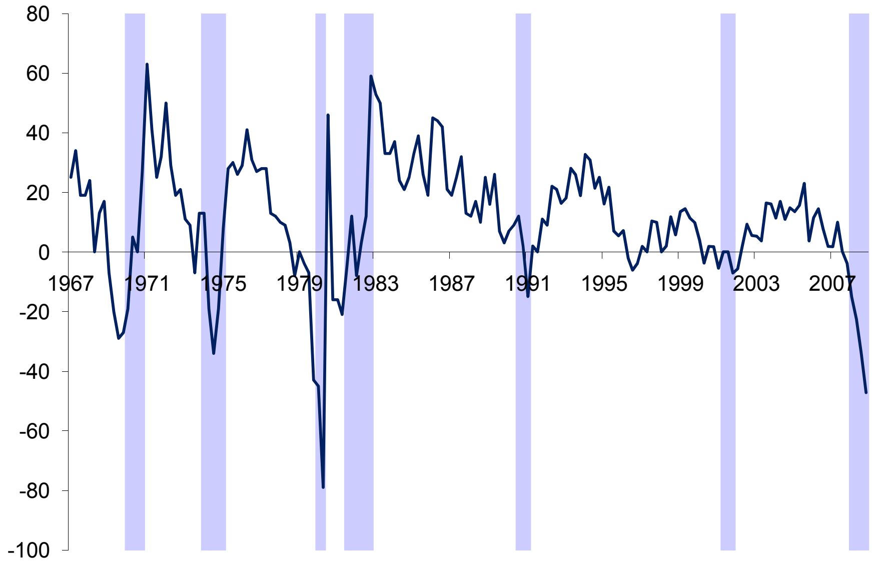
Another factor supporting household spending until the end of 2007 was the ample supply of consumer credit. As indicated in Figure 13, banks' willingness to lend to consumers started to fall in the fourth quarter of 2007 and by the fourth quarter of 2008, the net percentage of banks reporting an increased willingness to lend was down 47.2 percent, compared to a decline of 4.0 percent in fourth quarter 2007. The current credit crisis is having its greatest impact on interest rate sensitive sectors, such as housing, autos, and other durable goods. As indicated in Figure 14, the downward trend in the demand for passenger cars and light trucks that began in early 2005 has accelerated. Moreover, the percentage of sales represented by cars, which had fallen for many years in favor of gas-guzzling, sport-utility vehicles that tend to use more energy, has started rising with the rising cost of gasoline. By November 2008, the number of vehicles purchased dropped to an annualized rate of only 10.1 million, the lowest since 1982.

Figure 12
Home Equity Cash-Out Volume



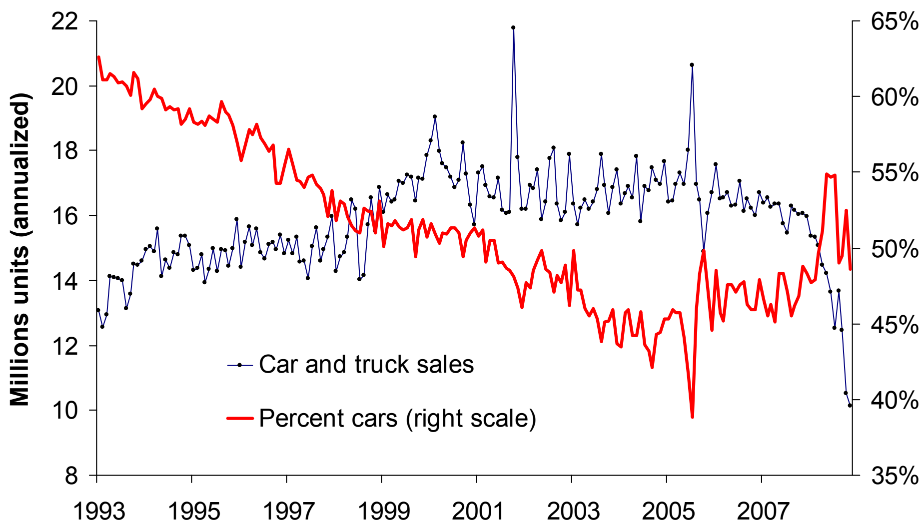
Note: The first three quarters of 2008 are Freddie Mac estimates; the fourth quarter is assumed by DOB to be equal to the third.
Source: Freddie Mac.

Figure 13
Bank Willingness to Lend to Consumers Falling



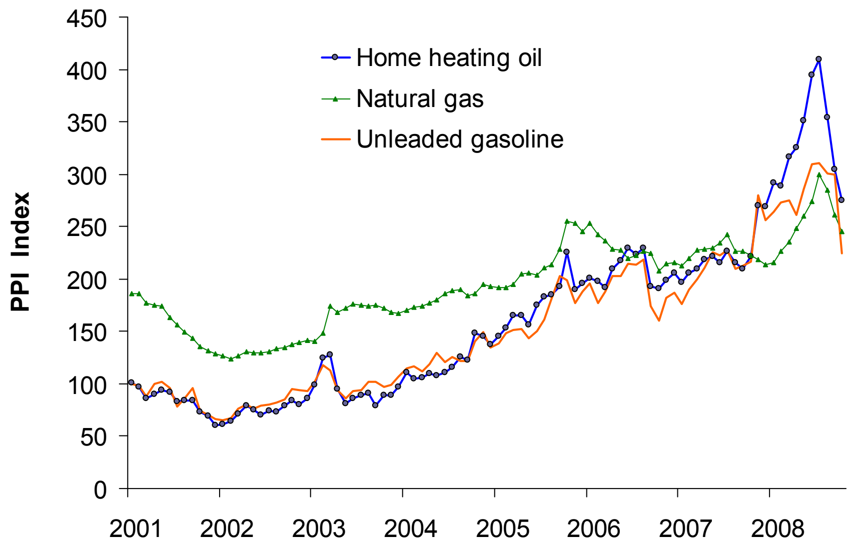
Note: Data represent the net percentage of banks reporting increased willingness to lend; shaded areas represent US recessions; current recession trough date is DOB staff estimate.
Source: Moody's Economy.com; DOB staff estimates.

Figure 14
U.S. Passenger Car and Truck Sales



Source: Moody's Economy.com.

Figure 15
Recent Trends in Energy Prices



Source: Moody's Economy.com.

Going forward, two factors are likely to produce more favorable conditions for household spending. First is the government stimulus package, which the Budget Division assumes will put $95 billion in the hands of consumers in the form of another tax rebate and an increase in unemployment insurance benefits (see Box 2). The second factor is the recent decline in energy prices. Along with the more than 50 percent decline in oil prices that has accompanied the global economic downturn, the prices of all energy-related products have been falling. As indicated in Figure 15, the wholesale price of gasoline fell 25.0 percent in October 2008, and has since fallen further. Consequently, the household sector is expected to lead the national economy out of recession by late next year, with growth in the more cyclical durable goods projected to rise 7.8 percent by the fourth quarter of 2009, with the less cyclical component, comprising services and nondurable goods, rising 1.6 percent.

The biggest risk to household spending comes from the labor market. As discussed below, the economy is expected to continue to lose jobs through much of the second quarter of 2009. But another risk to the household spending forecast is the condition of credit markets. If markets do not improve as expected, the more interest rate-sensitive component of consumption spending on durable goods could continue to fall through much of 2009. An analysis of banks' willingness to lend to consumers as measured by the Federal Reserve Board's survey of loan officer activity indicates that household borrowing is very sensitive to credit market conditions, though with a two-quarter lag (see Box 3). Consequently, even if banker sentiment should suddenly improve in the first quarter of 2009, the impact may not be felt until the third quarter.

BOX 3
BANKS' WILLINGNESS TO LEND AND PRIVATE SECTOR BORROWING

The credit market crisis exposed the fragility of many banks' balance sheets. The need to preserve capital, combined with a tighter regulatory environment, has increased risk aversion among lenders, causing a significant reduction in business and consumer lending. Despite the efforts of the Treasury and the Federal Reserve to support financial markets, the supply of loanable funds has remained restricted, although it might have been worse without those efforts.

The following analysis seeks to determine whether there is a significant impact of banker sentiment, as it pertains to the willingness to lend, on actual household and business borrowing. Data on household and business borrowing are obtained from Federal Reserve Board Flow of Funds. The data are seasonally adjusted at an annualized rate. The net percentage of banks reporting an increased willingness to lend to consumers and net percentage of banks reporting a tightening of lending standards for commercial and industrial loans to large and medium firms are obtained from the Federal Reserve Board's Survey of Loan Activity.

The results indicate that the growth in borrowing over time is quite persistent, as represented by the relatively large coefficients on the autoregressive terms on the right-hand-side, but banker sentiment is also significant, though with a lag. Extensive testing was performed to correctly specify the dynamics between the two variables. Test results determined that a lag length of two quarters best fits the data. The final model specification and parameter estimates are presented below:

$$\Delta_4 \ln HBOR_t = \underset{(0.03)}{0.04} + \underset{(0.001)}{0.006}\ \Delta_4 CONSC_{t-2} + \underset{(0.07)}{0.419}\ \Delta_4 \ln HBOR_{t-1}$$

$$\text{Adj. } R^2 = 0.37 \quad DW = 2.09$$

Estimation period : 1965Q1 - 2008Q2

$$\Delta_4 \ln BBOR_t = \underset{(0.06)}{0.04} - \underset{(0.003)}{0.0097}\ \Delta_4 CILMC_{t-2} + \underset{(0.106)}{0.511}\ \Delta_4 \ln BBOR_{t-1}$$

$$\text{Adj. } R^2 = 0.39 \quad DW = 2.29$$

Estimation period : 1993Q2 - 2008Q2

HBOR : Total household borrowing

BBOR : Total business borrowing

CONSC : Willingness to lend to consumers

CILMC : Net percentage of banks tightening standards for large and medium firms

Two alternative forecasts of lending standards are used to produce forecasts of borrowing for both consumers and businesses. The first scenario assumes that there is no improvement in willingness to lend either to consumer or to businesses from fourth quarter levels. In this case, the model forecasts that consumer borrowing will decline by 26 percent and 0.5 percent in 2009 and 2010, respectively, as shown in the figure below. Similarly, business borrowing will diminish by 58 percent and 16 percent in 2009 and 2010, respectively, as illustrated in the following figure.

In the second scenario, the willingness to lend to consumers and businesses is gradually restored to historical average levels by the end of 2010. This more optimistic scenario predicts that consumer borrowing will decline by only 23 percent in 2009 and rebound 26 percent in 2010. Business borrowing will diminish by 55 percent in 2009 and grow by 49 percent in 2010.

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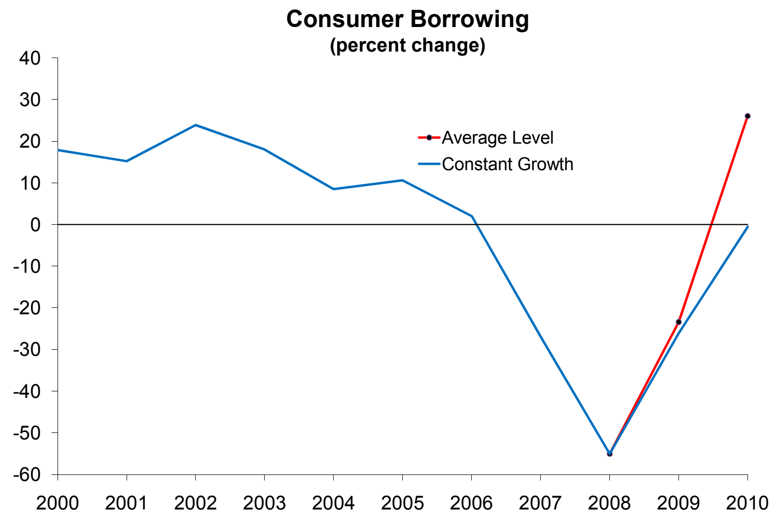
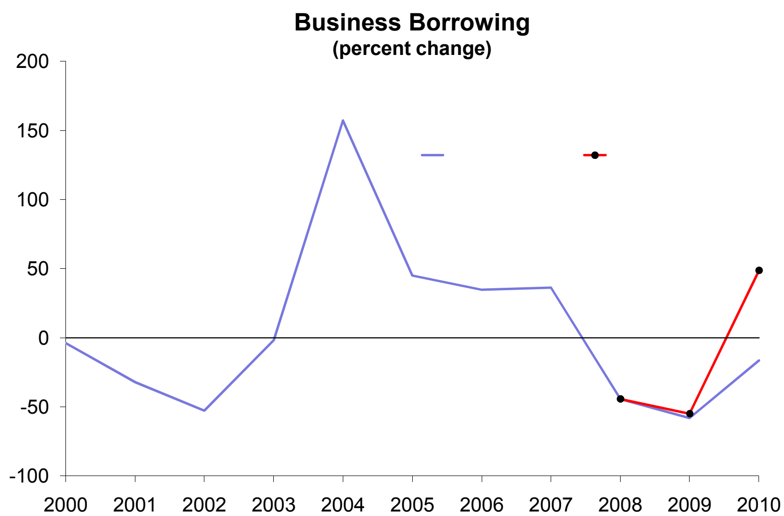


Source: Moody's Economy.com; DOB staff estimates.



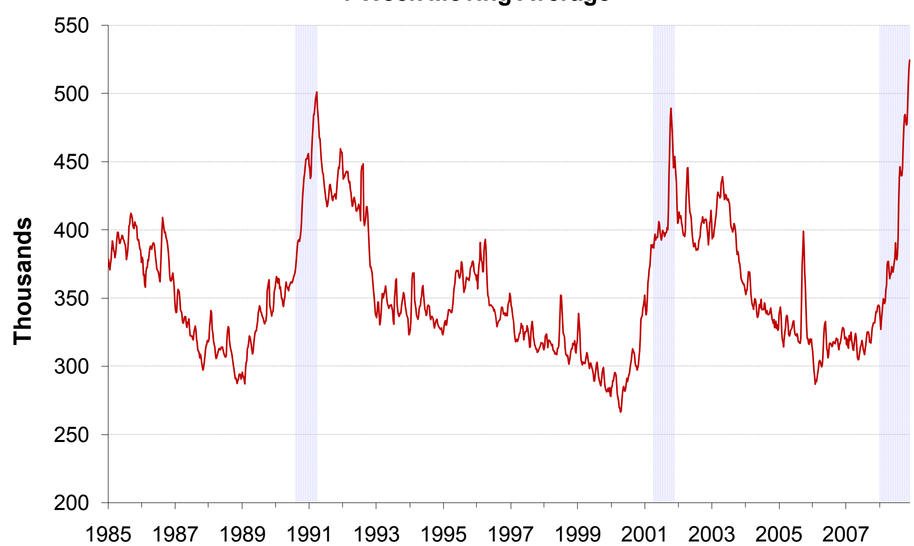
Source: Moody's Economy.com; DOB staff estimates.

The results of the above analysis indicate that there is a direct connection between credit market conditions and the volume of borrowing through banker sentiment. Thus, the failure of market conditions to improve will result in a delay in the economic recovery projected to begin in the third quarter of 2009. In addition, the analysis of the relationship between demand and supply of loans indicates that there is a lag between changes in banker sentiment and changes in the level of borrowing, possibly due to the duration of time required to apply for and process a loan application. The time is necessary for lenders to perform "due diligence" in verifying borrower qualifications. Anything that results in an extension of that lag, such as tighter regulations imposed either from within the bank itself or the regulatory authority, could also result in a delay of the recovery. These possibilities represent risks to the current forecast.

Job Losses Accelerating

As indicated above, the most recent labor market data are signaling that job losses are becoming more severe and more pervasive. Levels of initial claims for unemployment insurance benefits have finally reached recessionary levels. Claims rose to a 16-year high in the middle of November 2008 and even the 4-week moving average, which smoothes out some of the volatility in the series, rose to a level not seen in either of the two previous recessions (see Figure 16). Continuing claims hit a record high in November 2008. Revised data for September and October indicate a substantial acceleration in the pace of employment loss, while November saw a net loss of 533,000 jobs. Based on the recent pattern of employment revisions, November's losses may be revised down further (see Figure 17). Job losses had averaged only 82,000 per month from January through August 2008. However, the average monthly loss rose to 419,000 over the next three months. Furthermore, as discussed above, job losses have become more pervasive toward the end of 2008, with 839,000 service-producing jobs lost in September, October, and November alone (see Table 2).

Figure 16
Initial Claims
4-Week Moving Average



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

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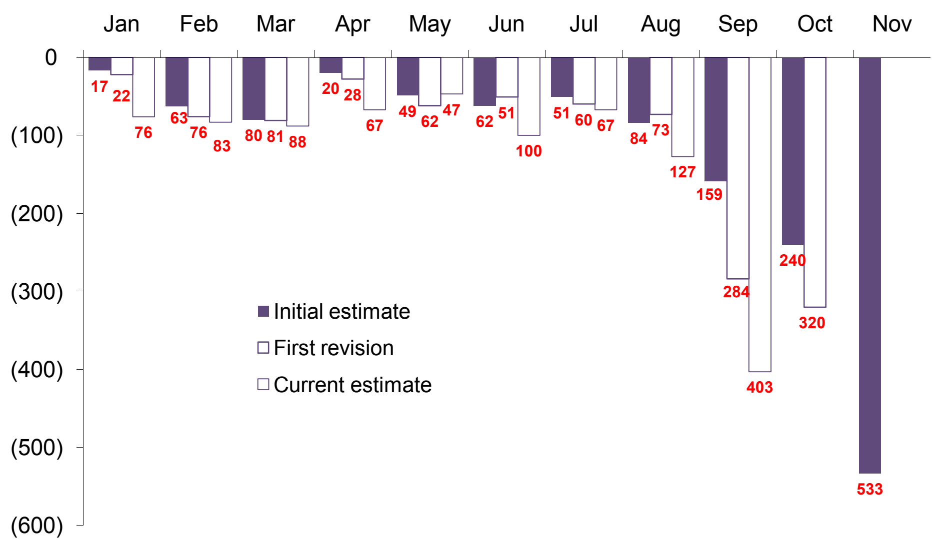
Some additional trends suggest that the downward momentum in the labor market will continue through the first half of 2009. Retail sector job losses are expected to climb further as consumer spending continues to fall. The employment decline in the financial activities sector is also projected to accelerate in early 2009 as announced layoffs from this sector come to pass. In addition, the combined impact of the global slowdown and the recent strengthening of the dollar is reducing the demand for manufactured U.S. exports, implying an accelerated decline in manufacturing employment for 2009. Those same factors will have a negative impact on the nation's tourist industries as well. The decline in commercial building and public-sector construction had been lagging the residential sector, but job losses in nonresidential construction have accelerated to about

230,000 over the 12 months between November 2007 and November 2008, compared with growth of 44,000 over the prior 12 months. Finally, the 2008 increase in natural resources and mining is likely in large part due to energy industry activity related to the dramatic increase in energy prices observed through the first seven months of the year. However, the recent falloff in those prices will likely result in falling profits for energy firms and a slowdown in job growth in that sector.

Figure 17
Job Losses for 2008 Continue to Be Revised Down



Source: Moody's Economy.com.

TABLE 2
2008 JOB LOSSES ACCELERATE AND BECOME MORE PERVASIVE

	Jan-Aug	Sep-Nov
Total Private	(836)	(1,286)
Natural Resources and Mining	49	12
Construction	(312)	(201)
Manufacturing	(346)	(258)
Trade, Transportation, and Utilities	(312)	(369)
Information	(34)	(31)
Financial Activities	(56)	(86)
Professional and Business Services	(277)	(264)
Educational and Health Services	429	76
Leisure and Hospitality	4	(153)
Other Services	19	(12)
Government	181	30
Total	(655)	(1,256)

Source: Moody's Economy.com.

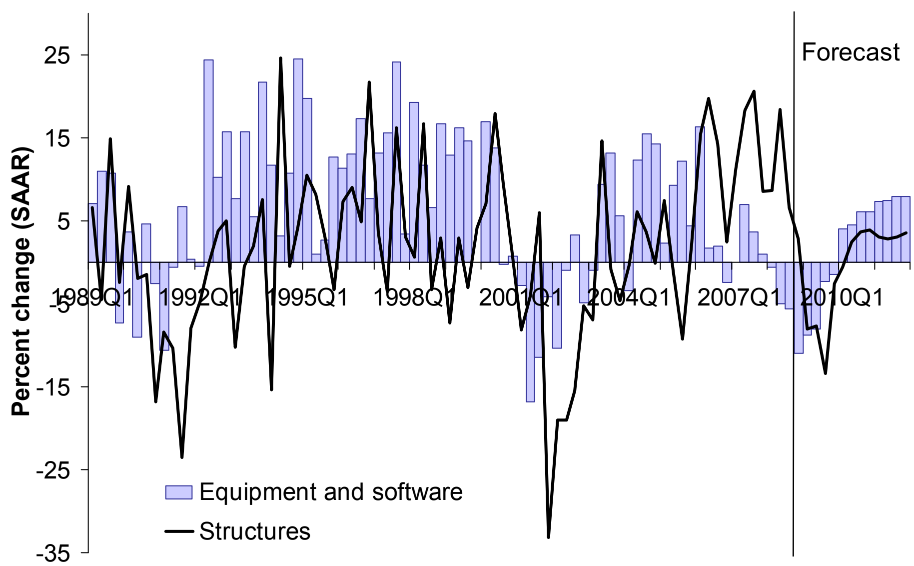
The Budget Division projects a decline in nonfarm jobs of 1.2 percent for 2009, following a decline of 0.2 percent for 2008. With the accelerated loss of jobs projected for 2009, wage growth is also expected to fall. The Budget Division projects wage growth of 1.3 percent for 2009, following growth of 2.9 percent for 2008. This forecast reflects the expectation that wages will actually fall in both the fourth quarter of 2008 and the first quarter of 2009, owing in part to a dismal bonus performance anticipated nationwide for these quarters. The substantial decline in wage growth is expected to pull down personal income growth from 3.8 percent in 2008 to 1.8 percent in 2009.

Business Spending Remains Tepid

Consistent with the pullback in consumer spending, the nation's private sector businesses have gradually reduced their rates of fixed nonresidential investment growth, which peaked at 10.3 percent in the second quarter of 2007. Figure 18 demonstrates that since the second quarter of 2006, much of the strength in private fixed nonresidential investment growth has been in structures, rather than in equipment and software. However, with the credit market tightening for commercial construction projects and the outlook for nonfinancial corporate profits darkening, this component of investment is expected to fall off as well. The Budget Division projects a decline of 5.8 percent in total private nonresidential fixed investment for 2009, following growth of 2.8 percent for 2008.

Figure 18

Real Nonresidential Fixed Investment



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

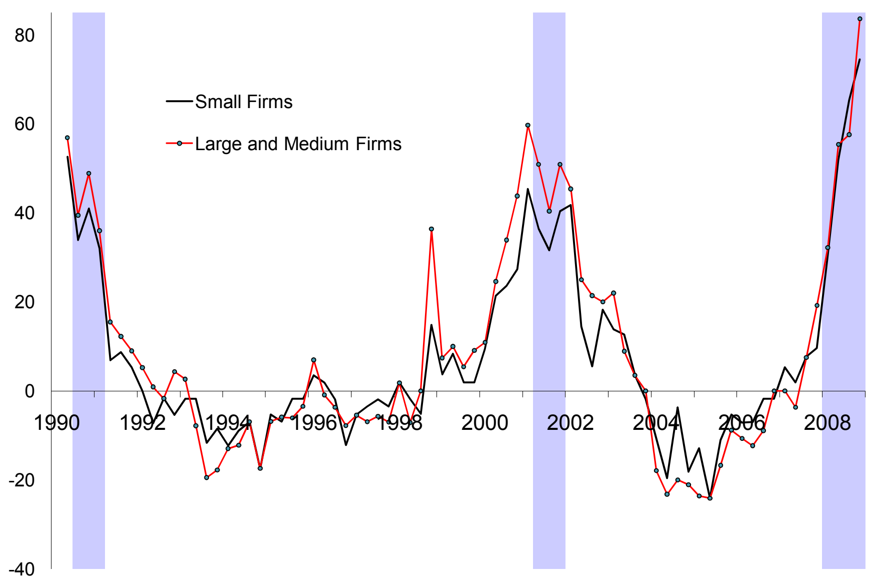
For a given set of current and expected future input and output prices, profit maximizing firms are assumed to choose a level of investment that achieves an optimal long-run relationship between the expected level of sales and the stock of plant and equipment.[4] With consumption falling, the incentive to expand and invest can be expected to diminish. In addition, an increase in the cost of acquiring and using capital

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

goods, commonly referred to as the user cost of capital, also induces firms to decrease investment spending. Factors that increase the user cost include an increase in the prices of new investment goods, rising inflation-adjusted borrowing costs, falling equity prices, and changes in the tax code, such as the elimination of an investment tax credit. Consequently, with risk spreads at historic highs, as indicated in Figure 6 above, the incentive to invest is yet further reduced.

With long-term bond rates up from their recent lows and credit availability in question, investment in structures is expected to fall from its recent highs going forward. At the same time, weak domestic demand due to falling consumption and weak foreign demand due to the global downturn and a strengthening dollar are expected to put downward pressure on domestic investment in equipment and software. Possibly the greatest risk to investment spending is tight credit market conditions. Figure 19 indicates that the net percentage of banks reporting tighter lending standards on loans to small firms rose to 74.5 in the fourth quarter of 2008, up from 9.6 percent in the same quarter in 2007. The percentage reporting tightening on loans to large- and medium-sized firms rose similarly to 83.6. The analysis reported in Box 3 finds that the volume of business borrowing responds to changes in bank loan officer sentiment with a lag of about two quarters. Consequently, even if lending standards were to ease now, we would not observe a significant impact until the middle of 2009. Thus, over the near term, credit market conditions will continue to put downward pressure on nonresidential investment spending, consistent with the Budget Division forecast.

Figure 19
US Businesses Face Tightening Credit Markets
Net % of banks tightening standards



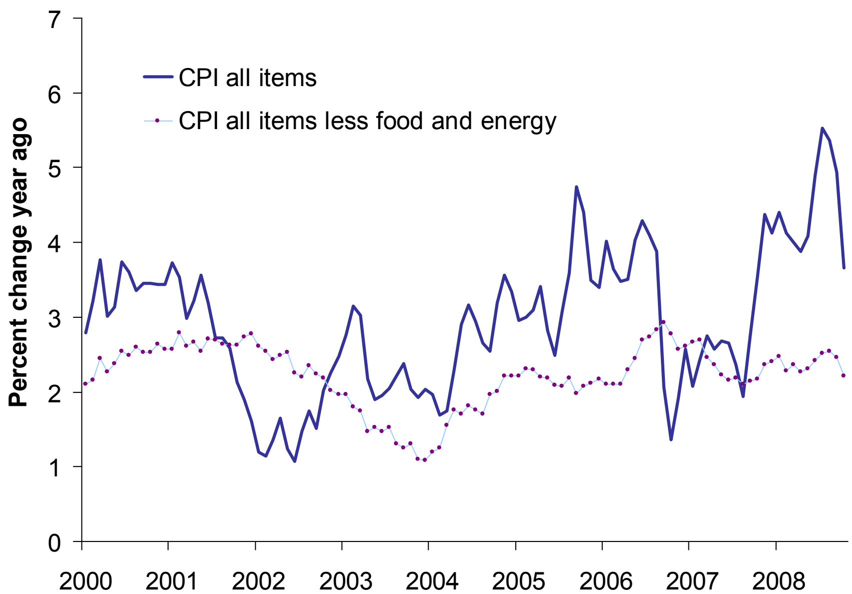
Note: Shaded areas represent US recessions.
Source: Moody's Economy.com; DOB staff estimates.

Outlook for Inflation and Monetary Policy

Since the end of the 2001 recession, inflation dynamics have been dominated by volatility in food and energy prices (see Figure 20). In contrast, core inflation, which excludes volatile food and energy prices, has remained relatively stable. As discussed in Box 4, oil futures prices have fluctuated greatly over the course of the last two years, and even over the last few months, as geopolitical events combined with tight energy supplies and fluctuating outlooks on demand have resulted in wide price swings that have been amplified by speculative activity. Oil prices, as measured by the spot price for West Texas Intermediate crude (WTI), began the year at about $100 per barrel after almost doubling over the course of 2007. Prices then rose continuously until July, when expectations for falling demand due to a U.S. slowdown, and then a broader global slowdown, began to dominate the market, putting the price of oil on its current downward path. The Budget Division projects that expectations for weak demand will continue to dominate energy prices through the first half of 2009, with WTI gradually returning to its long-term equilibrium value of about $80 by early 2010.

Figure 20

General vs. Core Inflation

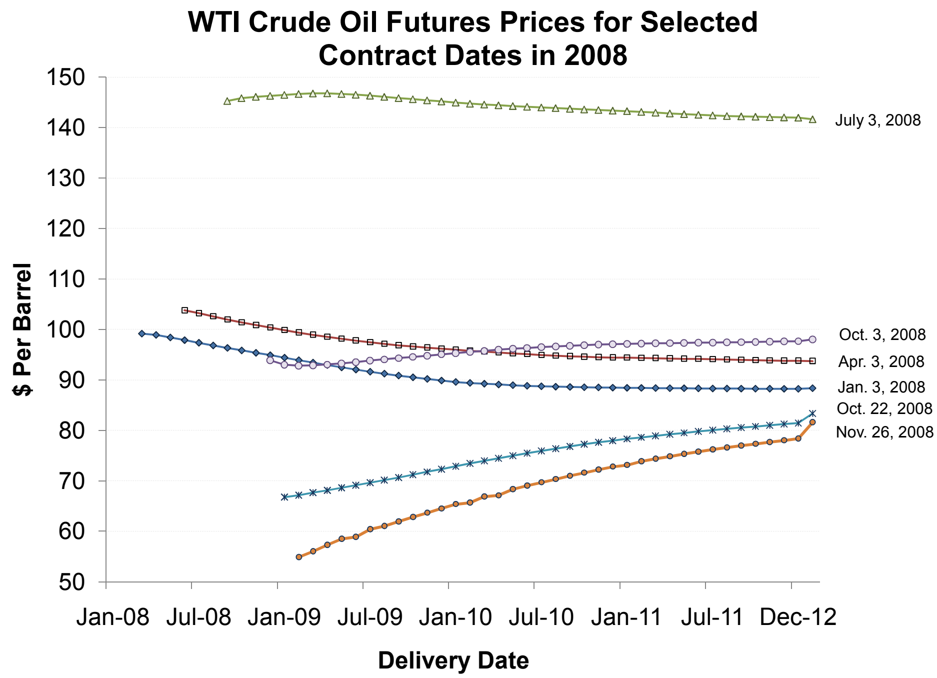


Source: Moody's Economy.com.

The recent slowdown in consumer spending has had a substantial impact on the prices of goods that compete with imports. As illustrated in Figure 21, the long-term trends in the prices of these goods tend to reflect the trend in the dollar's value. For example, deflation in prices of home furnishings, apparel, and consumer durables accelerated until 2002 when the value of the dollar began to fall against most currencies. Indeed, deflation turned into temporary periods of inflation until, by early 2007, softening demand put downward pressure on prices yet again. An acceleration in the decline of the dollar that accompanied rising energy prices slowed these deflationary pressures but this trend has reversed itself more recently. The period since July has been dominated by a strengthening dollar and falling energy and other import prices. Given that the global downturn and eventual recovery appear to be lagging the U.S cycle, the dollar is likely to remain strong over the near-term, producing a favorable outlook for inflation. The Budget Division projects inflation as measured by growth in the Consumer Price Index of 1.4 percent for 2009, following 4.1 percent for 2008.

BOX 4
EXPLAINING OIL PRICE VOLATILITY

Oil prices have been extremely volatile and so more difficult to predict. The figure below shows how much prices per barrel for future delivery have changed since January 3, 2008. For each of the contract dates that appears on the right, there is a path of prices that change depending on the delivery date. These paths have shifted substantially just over the course of the last 11 months. For a barrel scheduled to be delivered in December 2012, the price shifted from about $88 for the January 3, 2008 contract, up to $142 for the July 3, 2008 contract, then back down to $82 for the November 26, 2008 contract. The fundamentals of supply and demand explain a portion but not all of these shifts. Market fundamentals tend to change gradually, but the rise in the price of oil over the last few years has been anything but gradual. For example, world demand for oil is estimated to have increased 17.8 percent over the period from 1996 to 2006, from 71.9 million barrels per day to 84.7 million barrels per day. Demand from China and India alone has increased 81.5 percent, from 5.4 million barrels per day to 9.8 million barrels per day, while demand by the oil-exporting nations has also increased. However, the price of West Texas Intermediate Crude tripled over the same period. Thus, the connection between oil prices and market fundamentals is tenuous at best.



Source: Bloomberg.

Two factors are thought to be primarily responsible for the recent increase in oil price volatility. Since oil trade transactions are denominated in U.S. dollars, when the U.S. dollar depreciates against other currencies, the dollar price of oil will tend to rise to prevent the oil exporting nations (and the purchasers of derivative contracts) from sustaining losses. As the figure below shows, the value of the dollar fell more than 25 percent against a trade-weighted basket of global currencies between February 2002 and July 2008, while the price of oil rose over 560 percent. Moreover, since July, the value of the dollar has strengthened by about 13 percent while the price of oil has fallen 57 percent. Clearly, changes in the value of the dollar leave a wide explanatory gap, which the fundamentals of supply and demand cannot fill.

It has been observed by many that the degree of speculation in the energy market has risen substantially over the last few years. Indeed, it is estimated that investment banks have invested billions of dollars in the energy market and have even purchased storage facilities. Similarly, hedge funds, pension funds, commodity-centered mutual funds, and insurance companies are also reported to be participating in the market.[1] In responding to changes in expectations pertaining to market fundamentals, speculative activity could be exaggerating the effects of geopolitical events that either have threatened or could potentially threaten the supply of oil. Similarly, speculation may now be exaggerating the impact of the global slowdown on demand.

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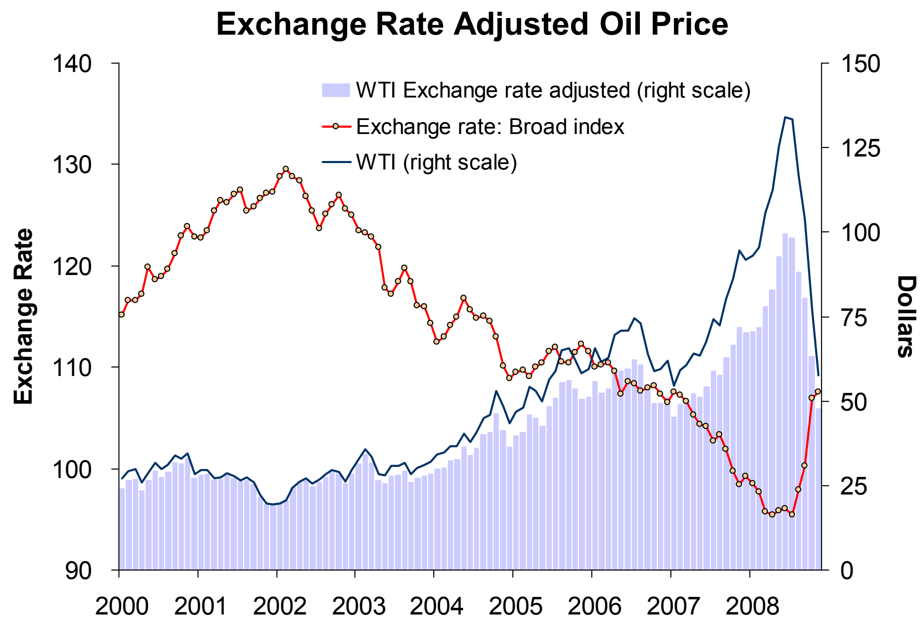

Source: Moody's Economy.com.

In summary, the fundamental price of oil is difficult to pin down. One analyst has noted that, historically, the price of oil has been roughly triple its extraction cost, currently estimated at between $15 and $19 a barrel, implying that for much of 2008, prices strayed significantly from their historical norm.[2] Given all of these factors, the Budget Division uses futures contracts to guide its oil price forecast, though (as is evident from the figure above), these contracts provide a moving target at best.

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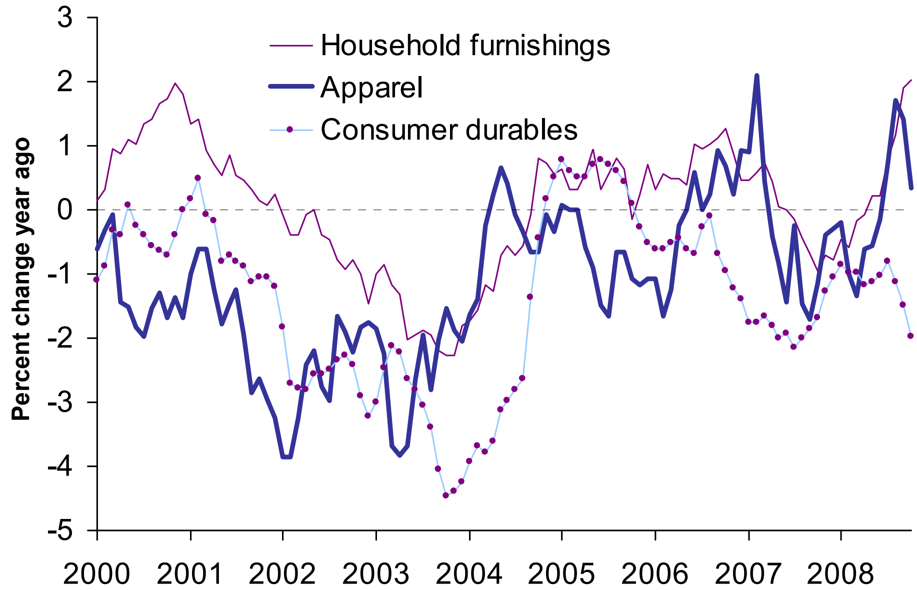
[1] See "$100 oil and the 'S' word: Is it growing demand and tight supply, or merely rampant speculation that has pushed crude to record highs?" <http://money.cnn.com/2007/11/27/markets/oil_speculation/index.htm>, viewed January 2, 2008.

[2] See "The oil speculator premium: There is such a thing as a rational price for oil -- but world markets are far above it, because price bets have become self-fulfilling." <http://www.latimes.com/news/opinion/la-oeroberts10dec10,0,7648253.story?coll=la-opinion-rightrail>, viewed January 2, 2008.

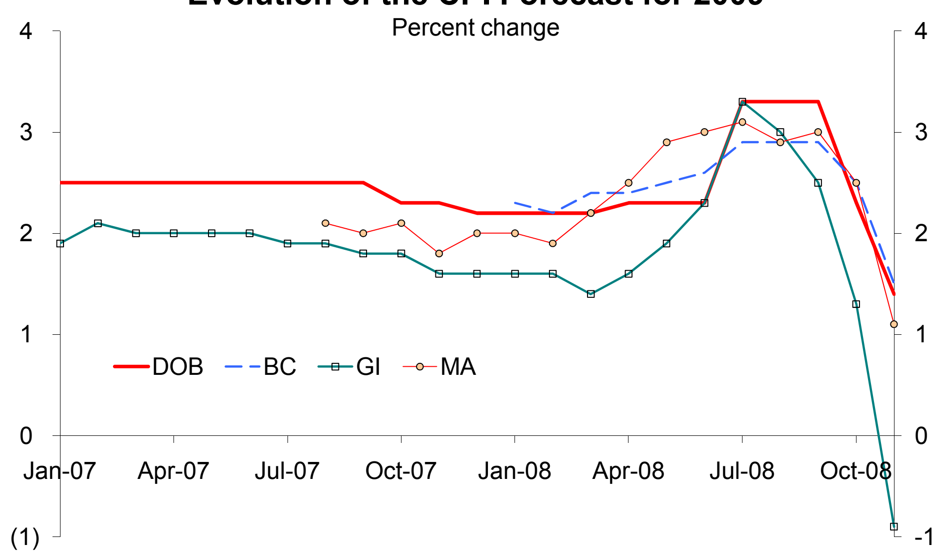
The greatest risk to the inflation forecast is undoubtedly energy prices. As explained in Box 4, speculative forces have amplified the market response to any news that may appear to affect the fundamentals of supply and demand. The result has been a dramatic increase in price volatility. Figure 22 shows the impact this volatility has had on the evolution of the Budget Division forecast for inflation for 2009 since early 2007, as well as those of others. The rise and subsequent fall in expected inflation coincides precisely with the rise and fall in oil prices, which peaked in July at close to $150 per barrel. With oil prices now approaching $40, the uncertainty surrounding future inflation is as great as ever. For that reason, the Budget Division uses the futures contract curve to guide its oil price forecast during turbulent times such as these.

Figure 21
Consumer Prices for Goods Facing Foreign Competition



Source: Moody's Economy.com.

Figure 22
Evolution of the CPI Forecast for 2009



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

A favorable near-term outlook for inflation gives the Federal Reserve a freer hand to use all of the policy tools at its disposal to stimulate growth, including its short-term interest rate target. The Budget Division uses a modified version of Taylor's monetary rule as a guide to forecasting changes in the central bank's federal funds policy target. Taylor's rule is a federal funds rate reaction function that responds to both the deviation of inflation from its target level and the deviation of output growth from its potential level. We assume the Federal Reserve weighs deviations from its inflation target about twice as heavily as deviations from its output growth target, so the inflation deviation has a weight of 1 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.

The Federal Reserve is expected to lower its federal funds policy target 50 basis points at its December meeting and hold steady at that rate through much of 2009. Based on that policy framework, the effective federal funds rate is projected to average 0.76 percent in 2009, after averaging 1.95 percent for 2008. However, there is a considerable amount of risk surrounding this forecast given that the Federal Reserve Board has pledged to do whatever it deems necessary to stimulate growth. With the implementation of the federal stimulus package and the expectation of a strengthening economy and a growing government deficit, the 10-year Treasury yield is projected to rise from its current historically low level, with an average yield of 3.65 percent projected for 2009, following 3.80 percent for 2008.

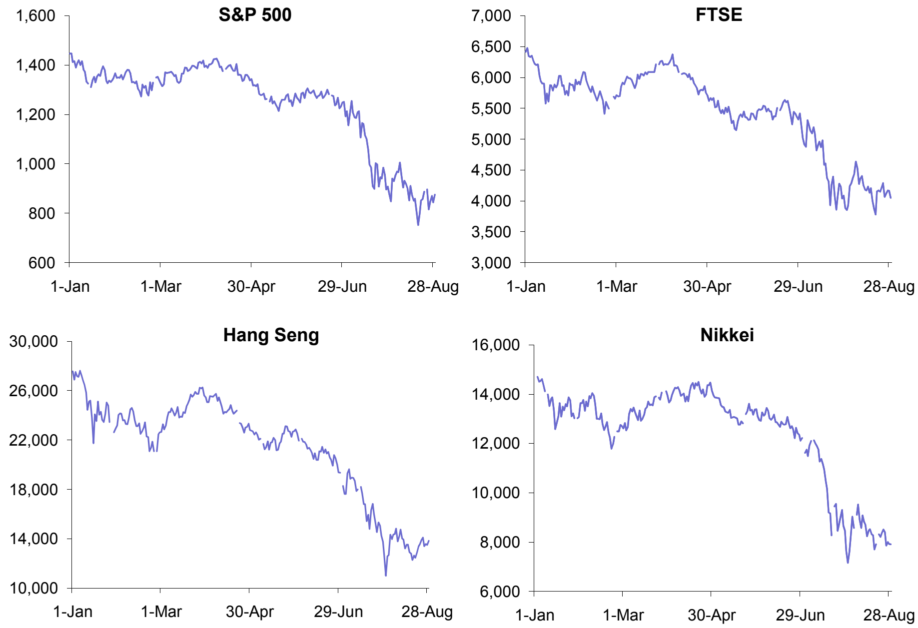
The International Economy

The events of 2008 have proven to be a stark reminder of the degree of integration among the world's economies. A year ago it was not uncommon to hear talk of "decoupling" and a reduced probability that a U.S. economic slowdown would be transmitted worldwide. Such thinking has been undermined by the reality that the integration of the global financial system is so complete that the real economy of a distant country such as Iceland can be profoundly affected by a financial shock originating here in the U.S. Figure 23 shows how closely equity markets from across the globe moved together in 2008. Table 3 compares the IMF's 2008 growth estimates with projections for 2009, and indicates that not a single area of the world can be expected to elude the downturn. The slowdown has already resulted in a slowing of U.S export growth (see Figure 24).

In addition to a slowing global economy, recent trends in the value of the dollar have also proved unfavorable for export growth. When it became clear in July 2008 that the rest of the world would follow the U.S. into recession, the dollar began to appreciate against most trading partner currencies, gaining about 18 percent against a trade-weighted basket of European currencies, 11 percent against similar basket of Asian currencies excluding the Japanese yen, and 20 percent against a basket of North and Latin American currencies. Given that relatively large interest rate cuts are anticipated for the euro area and elsewhere to promote growth, additional appreciation of the dollar can be expected going forward. Consequently, global demand for U.S. goods and services is projected to diminish in 2009. The Budget Division projects the real value of U.S. exports to fall 3.8 percent in 2009, following growth of 7.2 percent for 2008.

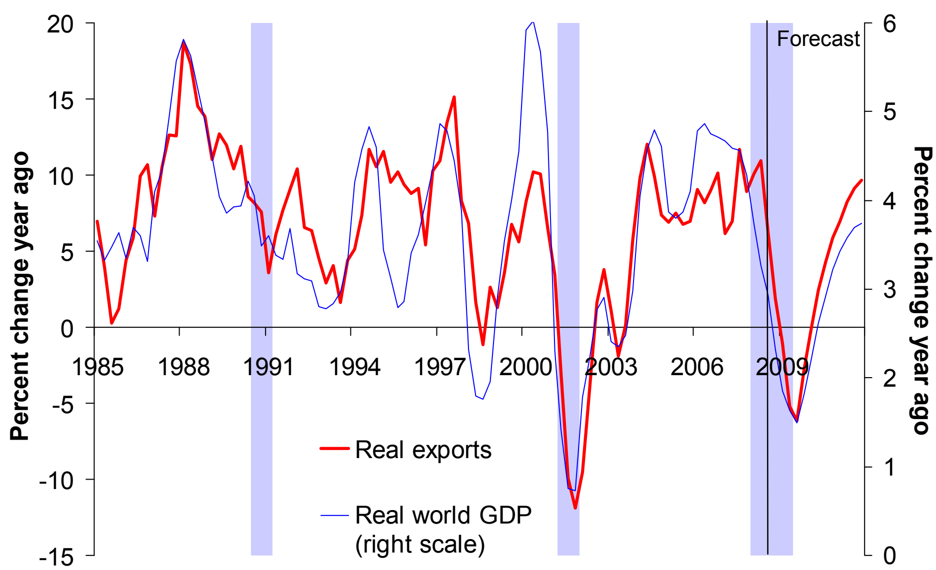
The continued contraction of the domestic economy is expected to continue to put downward pressure on import demand as well. The Budget Division projects the value of real U.S. imports to fall 4.2 percent for 2009, following a decline of 2.9 percent for 2008. The recent excess of export growth over imports has reduced the size of the trade deficit. A commonly cited measure of the nation’s trade balance, the current account deficit, has averaged 4.9 percent of U.S. GDP since the third quarter of 2007, representing a substantial decline from its 2005Q4 peak of 6.4 percent. However, given the recent appreciation of the dollar, and the gradual improvement in the U.S. economy over the course of 2009, the trade balance is not expected to shrink significantly going forward.

Figure 23
The Synchronicity of Global Equity Markets in 2008



Source: Yahoo Finance.

Figure 24
Real Export and World GDP Growth



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

TABLE 3
IMF GLOBAL ECONOMIC PROJECTIONS

	2006 Actual	2007 Actual	2008 Est.	2009 Proj.
World output	5.1	5.0	3.7	2.2
Advanced economies	3.0	2.6	1.4	-0.3
United States	2.8	2.0	1.4	-0.7
Euro area	2.8	2.6	1.2	-0.5
Germany	3.0	2.5	1.7	-0.8
France	2.2	2.2	0.8	-0.5
Italy	1.8	1.5	-0.2	-0.6
Spain	3.9	3.7	1.4	-0.7
Japan	2.4	2.1	0.5	-0.2
United Kingdom	2.8	3.0	0.8	-1.3
Canada	3.1	2.7	0.6	0.3
Other advanced economies	4.5	4.7	2.9	1.5
Newly industrialized Asian economies	5.6	5.6	3.9	2.1
Emerging and developing economies	7.9	8.0	6.6	5.1
Africa	6.1	6.1	5.2	4.7
Sub-Sahara	6.6	6.8	5.5	5.1
Central and Eastern Europe	6.7	5.7	4.2	2.5
Commonwealth of Independent States	8.2	8.6	6.9	3.2
Russia	7.4	8.1	6.8	3.5
Excluding Russia	10.2	9.8	6.9	1.6
Developing Asia	9.8	10.0	8.3	7.1
China	11.6	11.9	9.7	8.5
India	9.8	9.3	7.8	6.3
ASEAN-5	5.7	6.3	5.4	4.2
Middle East	5.7	6.0	6.1	5.3
Western Hemisphere	5.5	5.6	4.5	2.5
Brazil	3.8	5.4	5.2	3.0
Mexico	4.9	3.2	1.9	0.9

Source: IMF, *World Economic Outlook Update*, Nov. 6, 2008.

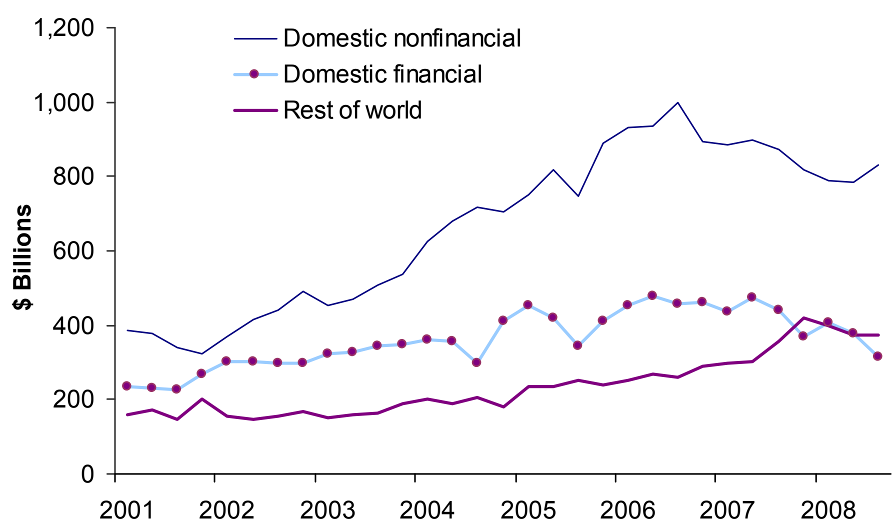
Although the Budget Division forecast includes the impact of a modestly sized fiscal stimulus package, it does not include the impact of stimulus plans implemented abroad. However, such plans have been announced and are likely to be timed to coincide with similar efforts here in the U.S. For example, the European Commission approved a 200 billion euro, or approximately $260 billion, spending plan worth about 1.5 percent of euro area GDP. The United Kingdom has announced a stimulus plan worth 20 billion pounds, or about $30 billion, while the Chinese government has also announced a large stimulus package. The successful implementation of these plans represents an upside risk to the Budget Division forecast for U.S. exports and, thus, GDP.

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

The slowdown in the national economy and the troubles in the financial sector, in particular, have produced a dramatic deterioration in corporate profits (see Figure 25). U.S. corporate profits from current production, which includes the inventory valuation and capital consumption adjustments, more than doubled following the 2001 recession before peaking in the second half of 2006. Profits then fell 1.6 percent in 2007, led by the domestic nonfinancial sector, which fell 7.6 percent, while the domestic financial sector fell close to 7.0 percent. But with growth elsewhere in the world not yet contaminated by the unwinding of the U.S. housing market, profits earned overseas grew an impressive 28.9 percent in 2007. By the second half of 2007, subprime mortgage related problems had begun to take their toll on the large financial firms, forcing them to take steep write-downs against assets for which the market had all but disappeared. Domestic financial profits for the fourth quarter of 2007 were down 19.7 percent from the same quarter of the prior year.

Not surprisingly, profits have deteriorated further in 2008, led by the financial sector. For the first three quarters of 2008, domestic financial profits were down 18.5 percent compared to the same period in 2007, while domestic nonfinancial profits fell 9.5 percent. Profits earned from the rest of the world grew 19.6 percent, but as shown in Figure 25, appear to be on a downward trend, consistent with the spreading of the global slowdown. And as the recession deepens here and abroad, the profit outlook for the fourth quarter of 2008 and the first half of 2009 remains quite dim. But with the federal stimulus package beginning to kick in during the second quarter, the outlook for the second half of next year is a bit brighter. The Budget Division projects U.S. corporate profits from current production to fall 5.9 percent in 2009, following a decline of 6.8 percent in 2008.

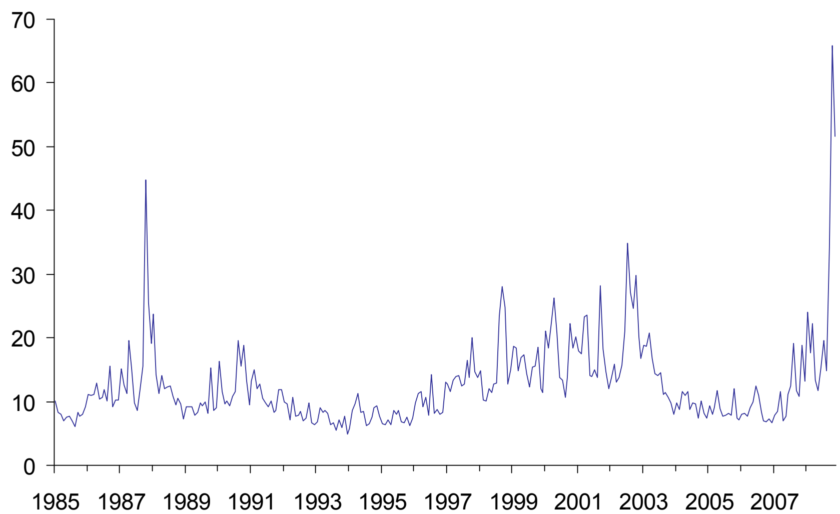
Figure 25
U.S. Corporate Profits



Source: Moody's Economy.com.

On November 20, 2008, equity prices as measured by the S&P 500 fell below the October 9, 2002, trough of the bear market that followed the high-tech/Internet bust and September 11. That decline represented a loss of more than half of the market's value since the most recent October 9, 2007 peak. Since then, the market has risen, but remains more than 40 percent below its 2007 peak and still appears to be searching for a bottom. That search has been characterized by an extraordinary degree of volatility, as illustrated in Figure 26. However, the negotiation and passage of a new stimulus package sometime in late January is expected to have a favorable impact on investor expectations. Forward looking market participants are expected to anticipate the coming recovery and initiate an upward trend in the market. On an annual average basis, the Budget Division projects equity markets, as represented by the S&P 500, to fall 21.3 percent in 2009, following a decline of 18.2 percent in 2008, but on a quarterly basis, equity markets are projected to rise starting in the first quarter of next year. There is, however, much risk to this forecast, particularly if corporate earnings remain weaker than expected.

Figure 26
Equity Market Volatility



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

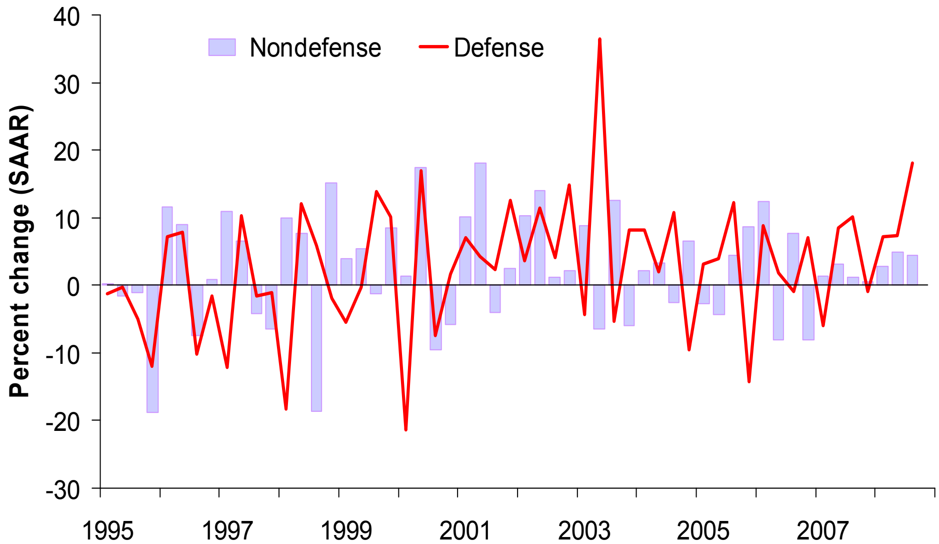
Outlook for Government Spending

Unlike Federal government spending, state and local government expenditures are constrained by revenue flows, often by statute. Since most states and many local governments rely on revenue sources that are affected by the business cycle, such as sales and income taxes, the current recession is putting a severe strain on municipal government resources. It has been reported that 20 states have cut $7.6 billion from their 2009 fiscal year budgets, while 30 states have identified additional shortfalls totaling more than $30 billion.[5] The Budget Division projects growth in the NIPA definition of real state and local government spending of 0.3 percent for 2009, following growth of 1.1 percent for 2008. Without the anticipated stimulus package, a decline of 1.6 percent would be expected for 2009.

[5] See < http://www.ncsl.org/programs/press/2008/pr12012008RecoveryNewsRelease.htm>, viewed December 1, 2008.

Figure 27

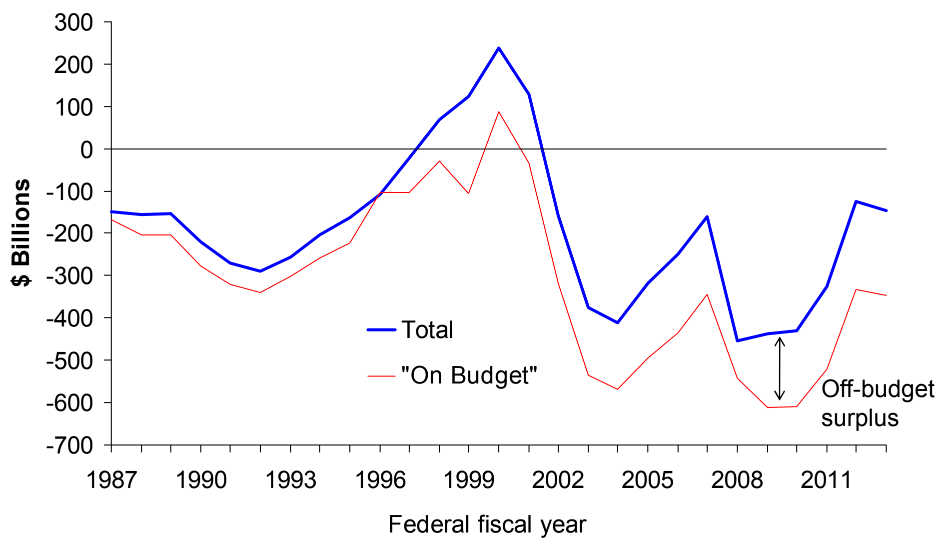
Real Federal Government Spending



Source: Moody's Economy.com.

Figure 28

Federal Budget Surplus or Deficit



Note: Values for 2008-2013 are Congressional Budget Office (CBO) estimates; off-budget surplus includes Social Security trust fund and Postal Service.
Source: Moody's Economy.com; Congressional Budget Office (CBO), *The Budget and Economic Outlook: An Update*, September 2008.

The Iraq war continues to be an important driver of Federal government spending in 2008. Between the first quarter of 2003 and the third quarter of 2008, real Federal government expenditures rose 22.3 percent, largely driven by a 29.8 percent rise in defense spending. During the 22 intervening quarters, real defense spending grew at an average annualized rate of 5.3 percent, compared to an average rate of 1.7 percent for nondefense spending (see Figure 27). However, during the first three quarters of 2008, nondefense spending grew a brisk 2.4 percent, after falling 0.1 percent for all of 2007, while defense spending grew a strong 6.6 percent in the first three quarters after growing 2.5 percent in 2007. In anticipation of a winding down of the troop surge in Iraq, the Budget Division projects slower growth of 3.2 percent in the NIPA definition of Federal government spending for 2009, following growth of 6.0 percent in 2008.

Although the 2008 Federal stimulus package is not detectable in the NIPA definition of Federal government spending, it is very visible in the Federal government budget deficit for the Federal fiscal year (FFY) ending September 30, 2008. The "on-budget" deficit increased to $542.8 billion for FFY 2007-08 from $344.3 billion for the prior year, an increase of $198.5 billion (see Figure 28). The total deficit increased by an even larger $293.3 billion due to the shrinking of the off-budget surplus. According to Congressional Budget Office (CBO) estimates as of September 2008, the on-budget deficit is projected to rise by $68.2 billion for FFY 2008-09.

By mandate, CBO's estimates presume no changes in law, implying they do not incorporate the impact of a new stimulus package. Consequently, the passage of a stimulus package of $220 billion in current dollars can be expected to result in a much larger deficit than CBO's estimate. Should an even larger stimulus package pass, the deficit could be larger still. Although the currently large demand for long-term U.S. government securities has recently been putting downward pressure on long-term yields, the nation's growing national debt remains a risk to the Budget Division interest rate and inflation forecasts for the out-years.

Comparison with Other Forecasters

Table 4 compares the Budget Division's (DOB) forecast for a selection of U.S. indicators with those of other forecasting groups. Forecasts for the 2009 real U.S. GDP growth range from a low of a 1.0 percent decline (Global Insight) to a high of 0.1 percent (Macroeconomic Advisers). The DOB 2009 inflation forecast of 1.4 percent represents the median of the forecast range. Unemployment rate forecasts for 2009 range from 7.3 percent to 7.7 percent, with DOB at neither extreme.

TABLE 4
U.S. ECONOMIC FORECAST COMPARISON

	2008	2009	2010
Real Gross Domestic Product (GDP)			
(percent change)			
DOB	1.3	(0.9)	1.9
Blue Chip Consensus	1.4	(0.4)	N/A
Moody's Economy.com	1.4	0.0	N/A
Global Insight	1.2	(1.0)	1.7
Macroeconomic Advisers	1.3	0.1	3.5
Consumer Price Index (CPI)			
(percent change)			
DOB	4.1	1.4	2.1
Blue Chip Consensus	4.2	1.5	N/A
Moody's Economy.com	4.3	1.8	N/A
Global Insight	3.8	(0.9)	2.4
Macroeconomic Advisers	4.2	1.1	1.9
Unemployment Rate			
(percent)			
DOB	5.7	7.6	7.4
Blue Chip Consensus	5.7	7.4	N/A
Moody's Economy.com	5.6	7.3	N/A
Global Insight	5.8	7.7	8.2
Macroeconomic Advisers	5.7	7.5	7.4

Source: New York State Division of the Budget, Dec 2008; *Blue Chip Economic Indicators,* Nov 2008; Moody's Economy.com, *Macro Forecast*, Nov 2008; Global Insight, *US Forecast Summary*, Nov 2008; Macroeconomic Advisers, *Economic Outlook*, Nov 2008.

For a brief description of the methodology used by the Budget Division to construct its macroeconomic model for the national economy (DOB/US), see Box 5. For a more detailed description, see *New York State Economic, Revenue, and Spending Methodologies*, November 4, 2008.[6]

Risk to the U.S. Forecast

The Budget Division outlook calls for an end to the current recession during the middle of 2009, but there are a number of significant risks to the forecast. The credit crunch is far from over, and there remains an unknown volume of overvalued assets yet to be recognized by financial firms, possibly resulting in further write-downs. That uncertainty could imply continued high levels of default risk within the financial sector, implying continued high risk spreads. High risk spreads could delay the anticipated pickup in consumption, production, and employment by the third quarter of 2009.

Should the housing market contraction last longer than reflected in the current forecast, residential investment could take even longer to recover. Moreover, if housing prices fall further than anticipated, the rate of foreclosure could jump even higher than expected, negatively affecting both construction spending and household net worth, which combined would result in less consumption spending than anticipated.

[6] See http://www.budget.state.ny.us/pubs/supporting/2008-09ForecastMethodologies.pdf.

Although currently it does not appear that the oil-producing nations will be able to effectively coordinate a sufficient reduction in output to significantly raise energy prices, that risk is always present. Resurgence in the growth of energy and food prices could result in higher inflation than expected, which, in turn, would further impinge upon the Federal Reserve's ability to stimulate the economy by lowering interest rates.

Though the current forecast reflects the implementation of a stimulus package worth approximately $220 billion in current dollars, there has been much discussion of a package worth much more. At this writing it is unknown what the ultimate value or structure of such a package would be. In addition, it also possible that such a package would be coordinated with similar plans of the nation's major trading partners, possibly resulting in a pickup in the demand for U.S. exports sooner than projected. Such an eventuality represents an upside risk to the forecast.

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

Macroeconomic modeling has undergone a number of important changes during the last 25 years, primarily as a result of developments in economic and econometric theory. These developments include the incorporation of both rational expectations and micro-foundations based on the long-run optimizing behavior of firms and households. In addition, analysts now employ more flexible specifications of behavioral relations within a vector autoregressive (VAR) model framework. Recent developments also include a more rigorous analysis of the time series properties of commonly used macroeconomic data series, as well as the implications of these properties for model specification and statistical inference. There has also been a significant improvement in the understanding of the long-run equilibrium relationships among macroeconomic data series and the predictive power of these relationships in constraining economic dynamics.

The Budget Division's U.S. macroeconomic model (DOB/U.S.) incorporates the theoretical advances described above in an econometric model used for forecasting and policy simulation. The model contains 98 core equations, of which 29 are behavioral. In addition, there are hundreds of auxiliary forecasting equations that incorporate the results from the core model as inputs. The current estimation period for the model is 1965:1 through 2008:3. Our analysis borrows heavily from the Federal Reserve Board model which was redesigned during the 1990s using the most up-to-date advances in modeling techniques.[1] We are grateful to Federal Reserve Board economists for providing guidance and important insights as we developed the DOB/U.S. macroeconomic model.

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

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

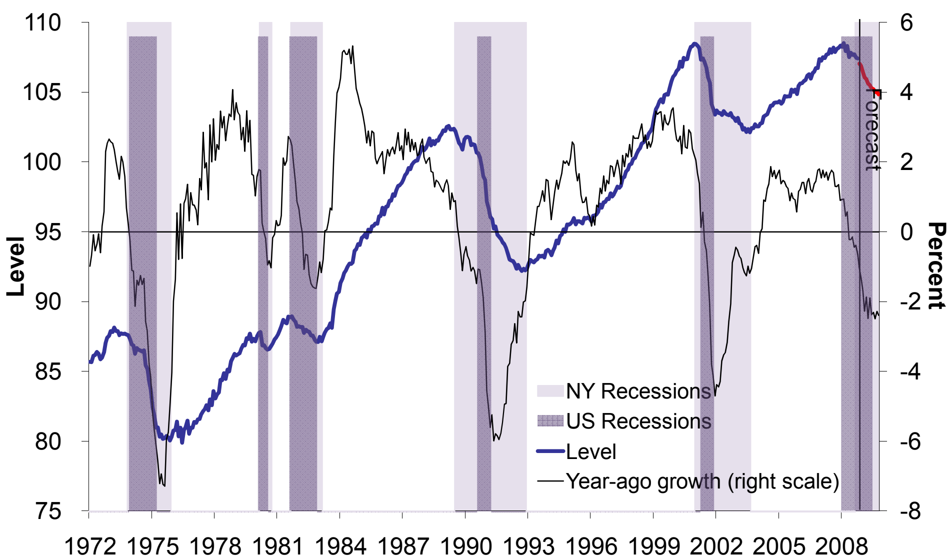
The model structure reflects the microeconomic foundations that govern optimizing behavior, but is sufficiently flexible to capture the short-run fluctuations in employment and output caused by economic imbalances (such as those caused by sticky prices and wages). DOB/U.S. incorporates dynamic adjustment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

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

THE NEW YORK STATE ECONOMY

As the national economy entered the current recession last December, the New York State economy was still riding the momentum from a very strong 2007 that was sustained through the beginning of 2008. Indeed, State employment grew a robust 1.2 percent during the first half of 2008 on a year-ago basis, not far below the 1.4 percent growth for all of 2007, and far above the 0.3 percent growth for the nation. However, that momentum dissipated by the end of the second quarter. With the national labor market continuing to lose jobs, credit markets tightening, and the depth of Wall Street's problems becoming more evident, the State was well on a path toward recession. According to the Budget Division's recession dating methodology, three to five consecutive declines in the New York coincident economic index indicates that a business cycle peak has occurred (see Box 6). Based on actual data through October 2008, we find only two consecutive declines in the index in September and October (see Figure 29). But the leading index signals that the October decline will be followed by at least 12 additional consecutive declines. Consequently, the Budget Division estimates that the State economy peaked in August 2008, fully eight months after the nation as a whole.

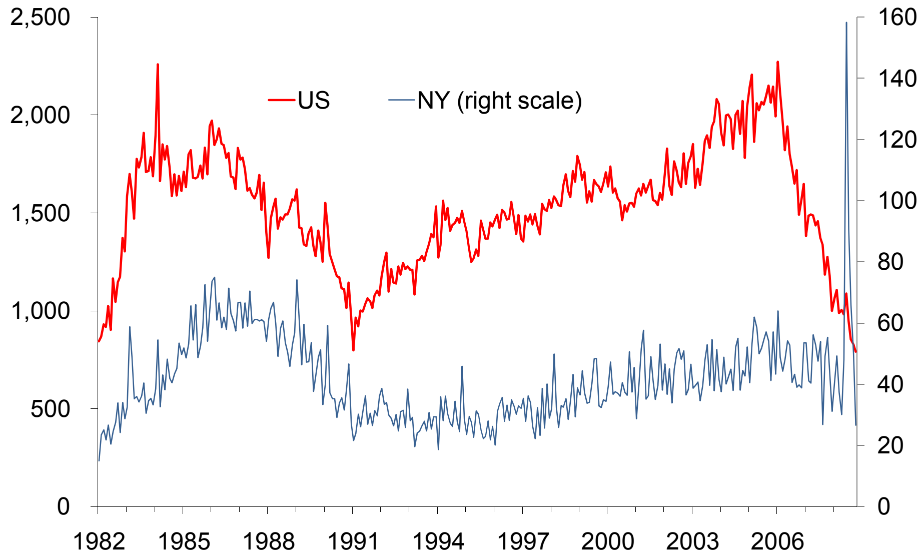
Figure 29
New York State Index of Coincident Economic Indicators



Note: Shaded areas represent NY recessions; current recession dates are DOB staff estimates; forecast is derived from the New York State Leading Index.
Source: Moody's Economy.com; DOB staff estimates.

As indicated in Figure 29, the New York economy entered three of the last five recessions earlier than the nation as a whole, and entered the remaining two only one month later. But the 2008 recession breaks with this pattern due to trends in several key sectors. First, the downturn in the State's housing market has lagged that of the nation. Figure 30 compares the recent trend in housing starts in New York with the steep decline that has occurred for the nation. Starts fell 30.6 percent during the first 10 months of 2008 for the nation as a whole but actually increased 25.4 percent for New York, though the increase was largely due to a law change.[7] Figure 31 compares the decline in State home prices, as measured by the S&P Case-Shiller home price index, with that of the nation. The State's year-ago decline for September 2008, the most recent month for which data are available, was 7.3 percent, compared with an 18.6 percent drop in the national 10-city index. These divergent trends are consistent with the State's 4.1 percent gain in construction jobs during the first half of 2008 compared with a loss of 4.8 percent for the nation. Similarly, employment in the State's real estate and leasing industries grew 0.9 percent in the first half of the year, compared to a loss of 1.9 percent for the nation. A relatively weak dollar helped to support the State's relatively large retail trade sector, where employment grew 0.9 percent in the first half, compared to a loss of 0.7 percent for the nation. And finally, the State's management and administrative support services sector grew a strong 2.0 percent in the first half of 2008, compared to a loss of 1.2 percent for the nation.

Figure 30
Housing Starts
Thousands of units



Source: Moody's Economy.com.

[7] On July 1, 2008, new building codes took effect requiring developers in New York 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 start construction in June.

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

In the absence of an official mechanism for dating business cycles at the sub-national level, DOB staff constructed a New York State Index of Coincident Economic Indicators measuring overall economic conditions for New York.[1] The methodology used to construct the index is based on the Stock and Watson methodology and rests on the notion that co-movements in many macroeconomic time series can be captured by a single unobserved variable representing the overall state of the economy.[2] Four State data series – private sector employment, hours worked in the manufacturing sector, the unemployment rate, and sales tax receipts (as a proxy for retail sales) – are combined into a single index using the Kalman filter, a common approach to the estimation of unobserved variables. Based on the DOB Coincident Index, five business cycles have been identified for New York since the early 1970s, as reported in the table below. A recession is judged to have begun if the DOB Coincident Index sustains three to five consecutive declines of significant depth. A similar approach is used to date business cycle troughs.

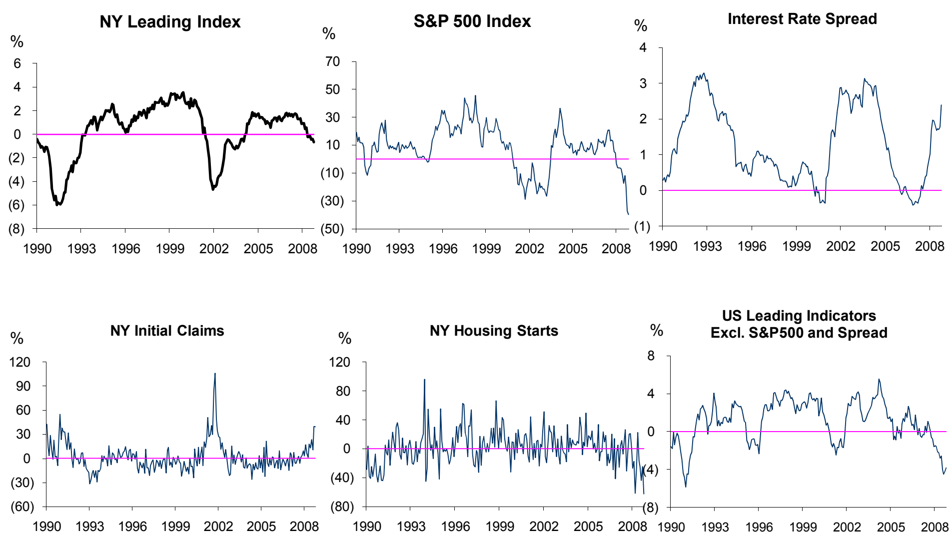
NEW YORK STATE BUSINESS CYCLES

Peak Date	Trough Date	Recession Length (in months)	Private Sector Job Losses
October 1973	November 1975	25	384,800
February 1980	September 1980	7	54,800
August 1981	February 1983	18	76,600
June 1989	November 1992	41	551,700
December 2000	August 2003	32	324,600
August 2008	-	-	-

Source: DOB staff estimates.

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

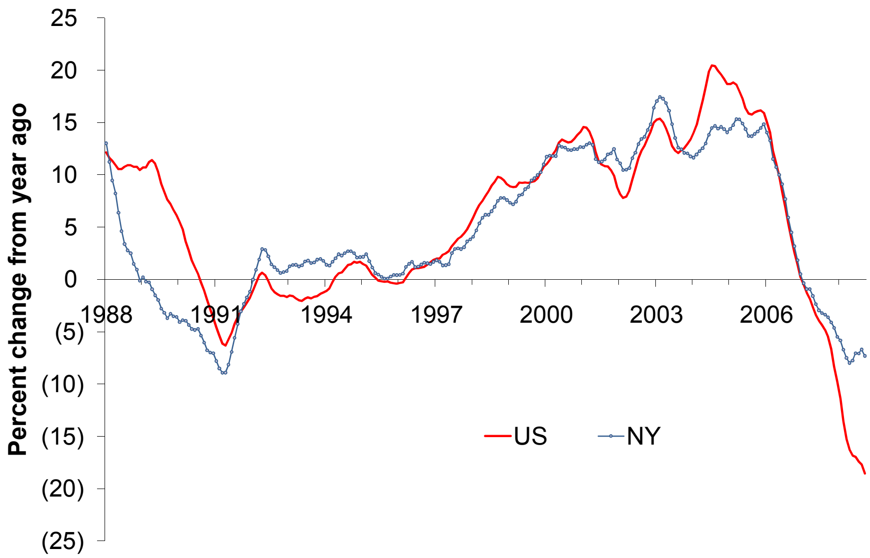
Variables Used in New York Index of Leading Indicators



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

[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.

Figure 31
S&P/Case-Shiller Home Price Index



Source: Moody's Economy.com.

Although the first signs of a brewing credit crisis emerged in August 2007, the finance industry's fortunes hit a critical juncture in March 2008 with the collapse of Bear Stearns and its subsequent government-sponsored acquisition by a large national bank, an event that was accompanied by a dramatic seizing of credit markets. The next seismic jolt occurred with the demise of Lehman Brothers the following September, deemed at the time not to be "too big to fail." In that same week, Merrill Lynch announced it was being purchased by another large national bank, and both Goldman Sachs and Morgan Stanley announced their reorganization as bank holding companies, putting them under closer regulatory scrutiny. Within the span of five months, the entire landscape of Wall Street had changed. The State's finance and insurance sector lost 0.7 percent of its jobs in the first half of 2008 on a year-ago basis, but since then, layoff announcements have mounted precipitously.

The stress on the State economy has not been confined to Wall Street. The 30 percent increase in initial claims for unemployment insurance benefits for the month of October suggests a broad-based economic slowdown, even for those sectors that traditionally do well during a recession, such as health care and education. The Budget Division currently projects a decline in private sector employment of 1.8 percent for 2009, followed by no growth for 2010. The anticipated job losses are expected to push the State's unemployment rate to an average of 7.1 percent for 2009 and 7.0 percent for 2010. Total State wages are projected to fall 3.0 percent for 2009, followed by a small increase of 2.4 percent for 2010. Personal income, of which wages are the largest component, is expected to fall 1.3 percent in 2009, followed by an increase of 2.8 percent for 2010.

As for the current U.S. economic forecast, the above projections are consistent with the implementation of a Federal stimulus package early in 2009, as described in Box 2, in the National Economy Section. Without the increment to growth projected to result from the stimulus, both the national and State recessions would be expected to be more severe. For example, in the absence of the anticipated stimulus plan, total State employment would be expected to fall 2.0 percent in 2009, rather than the 1.5 percent currently projected, and would be expected to fall further by 0.4 percent in 2010. Similarly, State wages would be expected to fall 4.2 percent in 2009, rather than the 3.0 percent decline currently projected. A more detailed description of the estimated impacts of the Federal stimulus package on the New York forecast is presented in Box 7. Again we point out that the precise form, size, and timing of the stimulus were unknown at the time that the forecast was completed. Substantial differences between the assumptions pertaining to the package and the plan ultimately signed into law represent risks to the current forecast.

BOX 7
THE IMPACT OF THE ANTICIPATED FISCAL STIMULUS PLAN ON THE NEW YORK FORECAST

The Executive Budget New York forecast is also affected by the fiscal stimulus plan described in Box 2 in the National Economy section, since the State economic forecast is mainly driven by the national economic outlook. The exact size, composition, and timing of the plan were not known at the time of the completion of the forecast, though some of its likely features have been discussed in the press. The following table compares the current forecast with an alternative that excludes the impact of the stimulus plan, based on U.S. forecast variables under the same two scenarios, including real GDP, employment, and income.

As shown in the table below, without the aid of the Federal government, the State economy could be expected to deteriorate further. For example, a job decline of 2 percent would be expected, rather than the 1.5 percent decline reflected in the current forecast for 2009. Wages and personal income would be expected to fall 1.1 percentage points and 1.2 percentage points more, respectively, than currently projected.

2009 IMPACT OF STIMULUS PLAN ASSUMPTIONS ON NEW YORK FORECAST

	With Stimulus (Percent change)	Without Stimulus (Percent change)	Difference
Employment			
Total	-1.5	-2.0	0.5
Private	-1.8	-2.3	0.5
Personal Income	-1.3	-2.4	1.1
Wages	-3.0	-4.2	1.2
Finance and Insurance Bonuses	-48.2	-50.2	2.0

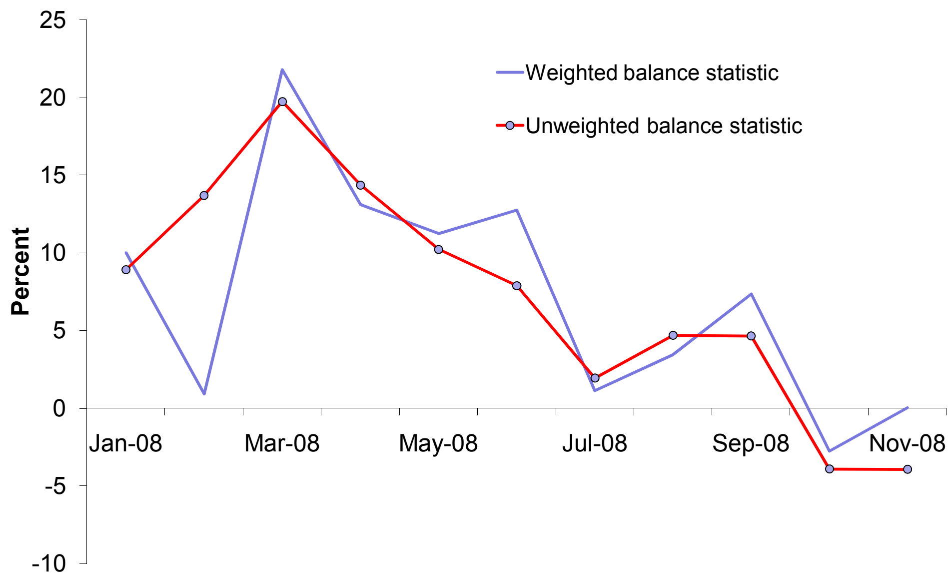
Source: DOB staff estimates.

The New York State Establishment Survey

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

Figure 32

Outlook for Employment Over the Next Three Months



Source: Survey Research Institute; DOB staff estimates.

The most recent results of the Establishment Survey indicate how the employment outlook of survey participants has deteriorated over the course of 2008. Figure 32 plots both the weighted and unweighted balance statistics for 2008 through November. The employment outlook was relatively favorable during the first half of 2008, consistent with actual private sector employment growth of 1.2 percent. However, results for the remainder of the year support the conclusion that State employment began to fall during the second half of 2008, and can be expected to fall further in 2009

The Securities Industry and the Credit Crunch

The finance industry is likely experiencing its most troubled year since the Great Depression. A period of creative financial engineering resulted in a large volume of highly leveraged debt, much of which was backed by mortgage-related assets. However, the value of these assets proved unable to withstand the degree of systemic risk posed by the collapse of a nationwide housing market bubble. As a result, the market for these assets virtually disappeared, while "mark-to-market" accounting rules forced financial firms to write down their values.

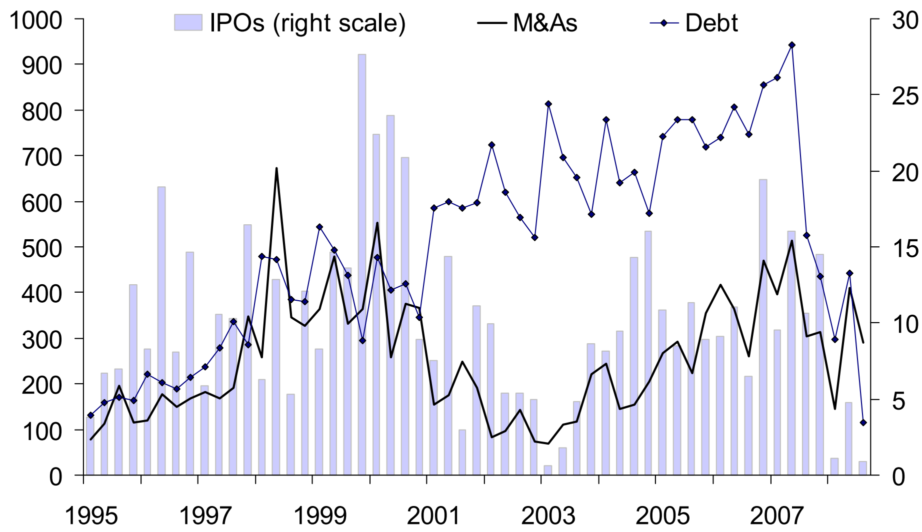
As of November 2008, a volume of more than $1.2 trillion in mortgage assets had already been downgraded just for the fourth quarter alone. And thus far, over $600 billion in asset write-downs have been announced by the global financial community. With the decline in U.S. home prices now approaching 20 percent, according to the S&P/Case-Shiller index, the foreclosure rate can be expected to increase, sending up the mortgage default rate. Rising defaults further degrade the values of mortgage-backed securities and collateralized debt obligations (CDOs) that remain on the balance sheets of financial institutions. Commercial real-estate debt is yet another asset class that has incurred record price declines in recent weeks. Many financial institutions hold large volumes of loans used to finance office buildings, shopping malls and other commercial properties, or securities backed by these commercial mortgages. In last year's Executive Budget presentation, it was anticipated that the value of these write-downs would total in the hundreds of billions of dollars, but the number has turned out to be much larger, than anticipated then. It remains uncertain what the ultimate total will be.

The global financial system is under pressure not seen since the 1930s. However, one key difference between then and now is the coordinated effort by governments across the globe to reduce interest rates, add trillions of dollars of liquidity, and re-instill confidence in the system. But even if the bottom of the credit crisis is forming, its full impact has yet to be felt. For example, though layoffs in the tens of thousands have been announced, it is quite common for laid-off employees to remain on the firm's payroll for weeks, or even months. In addition, government bail-out plans have included restrictions on employee pay, particularly bonuses for top managers, which have come to symbolize Wall Street "greed" in the mind of the public. The impact of these restrictions will not be known until bonuses are paid out, typically in the first quarter.

The credit crisis has caused financial sector equity prices to plummet along with their revenue generating activity and profits. The major drivers of securities industry profits, such as initial public offerings (IPOs) and debt underwriting, have fallen to their lowest levels in decades. As discussed above, the market for securitized debt has virtually shut down. Investor aversion to risk is historically high, resulting in high levels of secondary market volatility for virtually all financial securities. Consequently, corporate underwriting activity, including both debt and equity underwriting, has all but dried up. Even less risky municipal bond issuances have fallen off.

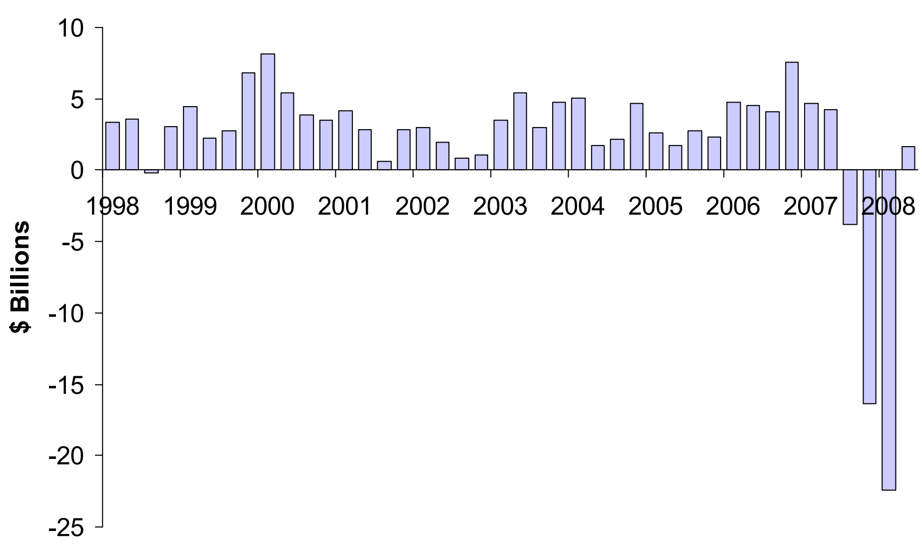
As is evident in Figure 33, all of Wall Street's major revenue generating engines have cooled, if not entirely shut down. Corporate debt issuances for the third quarter of 2008 fell 74 percent from the second quarter and 78 percent from the same quarter in 2007. Similarly, third quarter "true" IPOs, which exclude closed-end funds, were down more than 81 percent from the previous quarter and 92 percent from the same quarter last year. True IPOs raised a mere $0.9 billion in the third quarter, the lowest since 2003Q1. In addition, announced U.S. mergers and acquisitions fell 29 percent from the prior quarter. As a result of declining revenues and the large volume of write-downs, the industry has experienced unprecedented losses (see Figure 34).

Figure 33
Major Drivers of Financial Market Activity
$ Billions



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

Figure 34
Securities Industry Profits



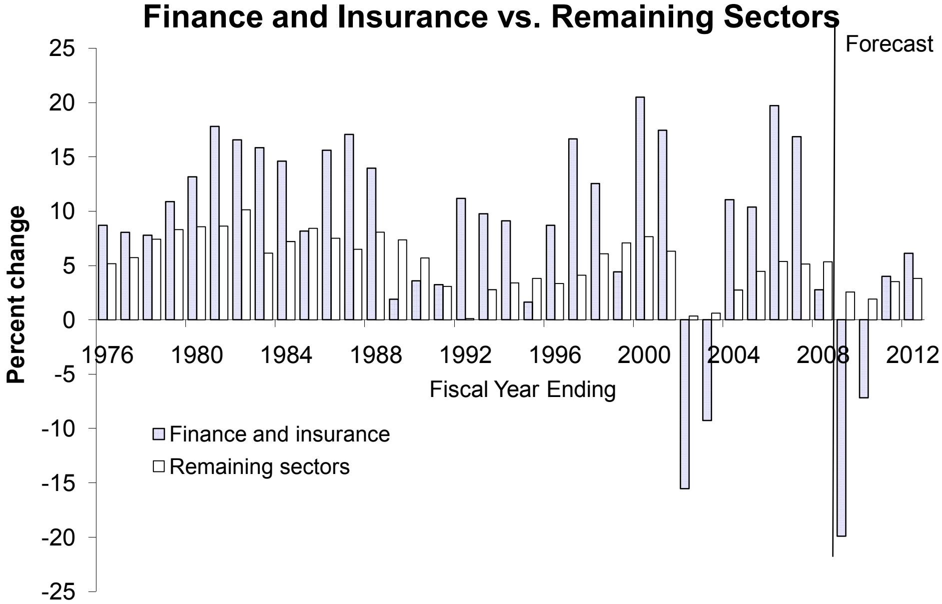
Source: Securities Industry and Financial Markets Association (SIFMA).

Outlook for State Income

The current financial crisis is expected to result in a record decline in finance and insurance sector bonuses for the 2008-09 bonus season. This decline, combined with large anticipated job losses, is expected to result in a significant decline in wages for 2009. Indeed, State wage growth largely has been led by the finance and insurance sector in recent years (see Figure 35). The Budget Division projects a decline in total State wages of 3.0 percent for 2009, following an estimated increase of 1.2 percent for 2008. Declines in both the wage and non-wage components of income will result in a decline in total personal income of 1.3 percent for 2009, following 2.4 percent growth for 2008.

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

Figure 35
New York State Wage Growth
Finance and Insurance vs. Remaining Sectors



Source: NYS Department of Labor; DOB staff estimates.

Because of the prominence of New York City in the world of finance, New York State employment and incomes are profoundly affected by the fortunes of the financial markets. Figure 36 shows how finance and insurance sector wages as a share of the State total have grown over time on a State fiscal year basis. That share is estimated to have peaked at 22.0 percent during the 2006-07 bonus season, finally surpassing at last the 2000-01 peak that was reached just as the stock market was collapsing earlier in the decade. Due to the large projected declines in bonuses, the finance and insurance sector's wage share is expected to decline to 17.8 percent in 2008-09 and further to 16.5 percent in 2009-10. In contrast to its large wage share, finance and insurance sector employment is estimated to account for only 6.2 percent of total State employment for the current fiscal year, with that share projected to fall to 6.0 percent in 2009-10.

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

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

The DOB uses only New York data to construct its State wage series. The primary source is data collected under the Quarterly Census of Employment and Wages (QCEW) Program. In contrast, the BEA uses national information to adjust the quarterly values for seasonal variation, as well as to ensure that state-level wages add up to national estimates. The consequence is often a significant difference between the two series in both the quarterly pattern and the annualized growth rates. For example, according to staff estimates based on the QCEW data, wage growth rates for the first and second quarters of 2000, on a percent-change-year-ago basis, were 18.3 percent and 8.5 percent, respectively. The comparable growth rates originally published by the BEA were 2.4 percent and 5.4 percent. These estimates have since been revised up to 6.1 percent and 9.9 percent, respectively. However, the lack of timeliness in the revision process limits the usefulness of BEA data for state forecasting purposes.

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

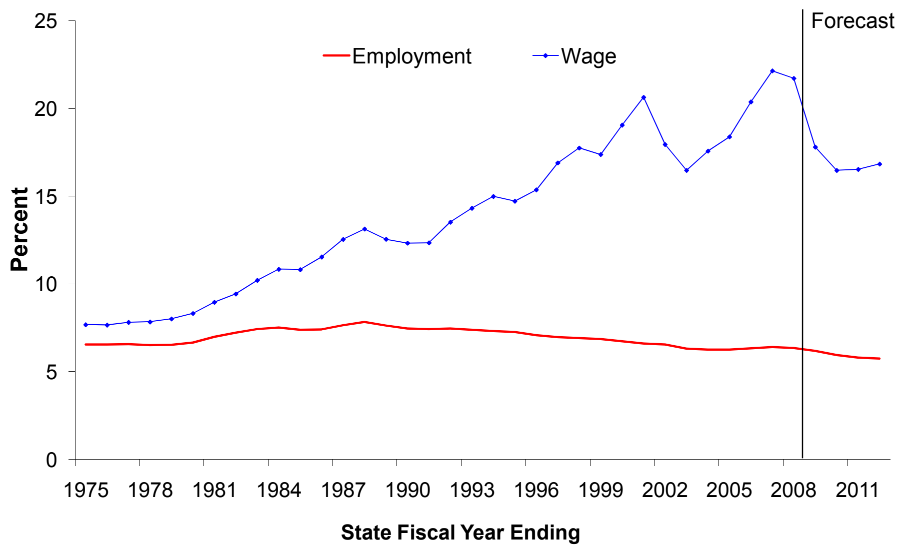
Once an entire year of QCEW data becomes available, the BEA revises its state-level wage data to be more consistent with that data source. For this reason, DOB's method performs well in anticipating the BEA's revised estimates of annual growth in New York wages. To make the actual magnitudes of the Division's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

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

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

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

Figure 36
Finance and Insurance Sector Employment and Wages as Share of State Total



Source: NYS Department of Labor; DOB staff estimates.

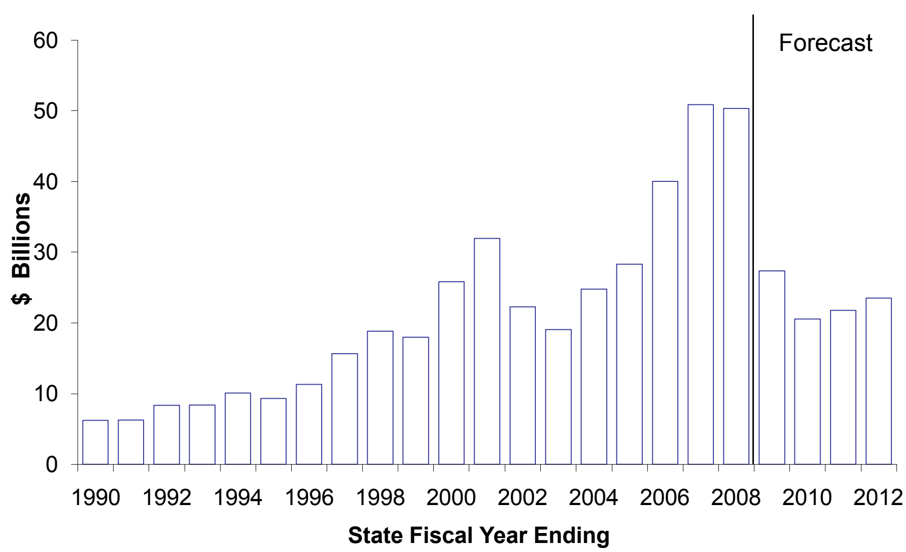
The financial markets affect employment and income in New York City and its surrounding suburbs, both directly – through compensation paid to finance sector workers and purchases made by finance sector firms, and indirectly – as finance sector workers spend their incomes on housing, entertainment, other purchases, and so on. Finance sector workers are, on average, very highly compensated. In the 1979-80 State fiscal year, the average finance and insurance sector wage was only 25 percent higher than the average wage for the rest of the State economy. For 2006-07, that gap is estimated to have grown to 246 percent. Between 1979-80 and 2006-07, total finance and insurance industry wages increased more than tenfold, while employment rose by only 14 percent. For the rest of the economy, total wages in 2006-07 were not even four times what they were in 1979-80, while employment grew 19 percent. However, with finance and insurance sector wages falling faster than employment, the average sector wage is projected to fall to $168,000 for 2008-09, a decline of 19 percent from its 2007-08 peak of $203,000, but still 188 percent higher than the average wage for the rest of the State economy.

Variable Income Growth

Variable income is defined as that portion of wages derived primarily from bonus payments, stock incentive income, and other one-time payments. As performance incentives for a given calendar year, firms tend to grant employee bonus "packages" during either the fourth quarter of that year or the first quarter of the following year. Although the cash component of bonus income is unambiguously counted (and taxes withheld) in the quarter in which it was granted by the firm, stock incentive income typically is not. Stock options income does not appear in the wage data (and therefore is not taxed) until the options are exercised. Similarly, restricted stock grants do not appear in the wage data until they are vested. Nevertheless, variable income payments are sufficiently concentrated in the fourth and first calendar-year quarters to make the State fiscal year a logical period of analysis for discussing the determinants of variable income growth.[8]

Since 1990, there has been a substantial shift in the State's corporate wage structure away from fixed-pay to performance-based pay. Figure 37 portrays how dramatically variable income paid to employees in the finance and insurance industry has grown since the early 1990s. The robust performance of security industry profits during 1999 and 2000 resulted in finance and insurance sector bonus growth of 43.5 percent and 23.7 percent in the 1999-2000 and 2000-01 State fiscal years, respectively, to levels that accounted for more than half of total bonuses paid in the State. An incentive-based payment structure allows employers to share with employees the risks of doing business and is particularly attractive to the securities industry, given the degree of volatility in industry profits. For example, when NYSE-member firm profits fell from $21 billion in 2000 to $6.9 billion in 2002, finance and insurance sector bonus income is estimated to have fallen 40 percent from State fiscal year 2000-01 to 2002-03. In contrast, nonbonus wages for this sector are estimated to have fallen about 13 percent during the same period. Changes in nonbonus wages are largely determined by changes in employment and inflation.

Figure 37
New York State Finance and Insurance Sector Bonuses



Source: NYS Department of Labor; DOB staff estimates.

The Budget Division projects total State variable income to fall 26.7 percent in the current fiscal year, and another 9.4 percent for the 2009-10, primarily due to large projected declines in finance and insurance sector bonuses and more generally, the recession. Consistent with a large decline in securities industry profits for 2008, the

[8] See Box 8 on page 118 for a more detailed discussion of bonus estimation.

Budget Division is projecting a decline in finance and insurance sector bonuses of 45.6 percent for the 2008-09 bonus season now in progress. This decline represents a level of $27.4 billion, which is about $23 billion below 2007-08. The Budget Division projects another decline of 24.9 percent for 2009-10 to $20.5 billion, which represents a loss of an additional $7 billion in wages. The projection for 2009-10 brings the level of finance and insurance sector bonuses down to just above the 2002-03 level.

The Budget Division model for finance and insurance sector bonuses is based on the underlying volume of activity that generates industry earnings, such as IPOs and corporate debt underwriting. As indicated in Figure 33 above, the most recent data available suggest that the volumes of debt underwriting and IPOs are expected to remain low, reflecting projected declines of 18.2 percent and 21.3 percent for 2008 and 2009, respectively, for the secondary market for equities, as represented by the S&P 500 stock index that underlies the drivers of financial market activity. In addition, the forecast reflects the impact of both the ongoing credit market crisis and an unprecedented amount of political pressure to reduce bonus payouts in light of the large size of the taxpayer-sponsored bailout plan.

While the most recent information supports the anticipation of a significant decline in finance and insurance sector bonuses, the outlook for the finance industry is highly uncertain at present, producing a great degree of risk to the Budget Division bonus forecast. Historically, there has been a close relationship between New York Stock Exchange (NYSE) member-firm profits and finance and insurance sector bonus payouts. Although official estimates of third and fourth quarter NYSE-member firm profits are not yet available, third quarter earnings reports have been discouraging, and based on preliminary earnings announcements, fourth quarter profits could be even weaker, due mainly to continued large volumes of write-downs and investment losses.

With three of the five largest former Wall Street investment banks now owned by commercial banks, and the remaining two reorganized as commercial bank holding companies, the business model that earned large profits from highly-leveraged assets may be forced to change given the tighter regulatory environment they will be subject to. This change could result in much lower profits for the industry going forward. In addition, though bonus payouts have historically been evenly split between cash and stock incentive payments, the split is expected to be more heavily weighted toward stocks for the current bonus season, given that all firms are trying to preserve cash in support of their capital base. This shift could have substantial implications for Federal, State, and local tax revenues, since income derived from stock options is not taxed until the option is exercised. Given current global economic conditions and the significant restructuring taking place within the industry, there remains a substantial degree of uncertainty surrounding this outlook.

Nonbonus Wages

Unlike the variable component of income, nonbonus wages are driven by changes in employment and the nonbonus average wage and, therefore, are relatively more stable. After adjusting for inflation, the nonbonus average wage for each of the State's industrial sectors is believed to have a stable long-run relationship with the real U.S. average wage, which 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 2.9 percent for the 2009 calendar year, following estimated growth of about the same for 2008. With declining employment, total nonbonus wages are projected to grow 1.4 percent for 2009, following an increase of 3.2 percent for 2008.

Average Wages and Inflation

Average wages are projected to fall 1.5 percent for 2009, largely as a result of falling bonuses, following estimated growth of 0.9 percent for 2008. The Budget Division projects growth in the composite CPI for New York of 1.4 percent for 2009, following growth of 4.1 percent for 2008. Projected 2009 inflation for New York is consistent with that for the nation.

Nonwage Income

The Division of the Budget projects a 1.0 percent increase in the nonwage components of State personal income for 2009, following growth of 3.9 percent for 2008. For 2009, stronger growth in transfer income of 7.2 percent will be offsetting declines in property and proprietors' incomes (see Table 12 on page 160 for details).

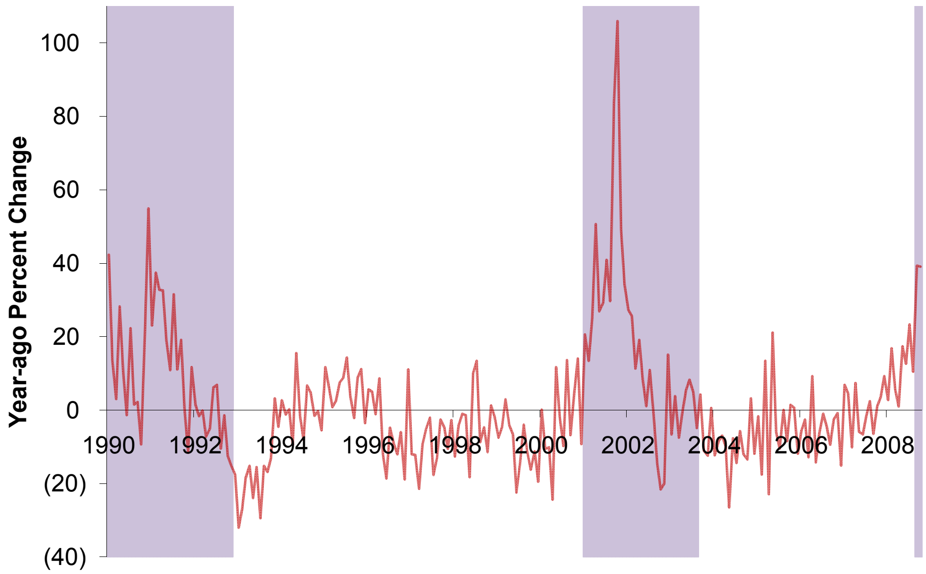
Outlook for Employment

As discussed above, the State labor market entered 2008 with some positive momentum, despite the national recession that was just getting underway. The State's housing market downturn had been lagging the nation's, while a still weak dollar was helping to boost the State's retail and other tourism-related industries. However, as Wall Street's problems mounted and the national and global economies weakened, State labor market conditions began to deteriorate. Figure 38 shows the recent increase in initial claims for employment benefits rose to levels comparable to the early stages of the State's last two recessions, with claims for both September and October up almost 40 percent from a year ago; this compares with an increase of only about 8 percent for the first half of the year. Job losses during the second half of 2008 are estimated to bring down both total and private sector job growth to 0.3 percent for the year, following growth of 1.4 percent and 1.5 percent for 2006 and 2007, respectively.

The Budget Division projects a decline in total State employment of 1.5 percent for 2009, with private sector jobs falling 1.8 percent. Table 5 reports projected changes in employment for selected groups of North American Industry Classification System (NAICS) sectors. The finance and insurance sector is expected to see the largest employment decline of any industrial sector at 5.2 percent, similar to the 5.4 percent loss experienced in 2002 in the wake of the September 11 attacks. Moreover, the industry is not expected to recover any time soon with the traditional Wall Street business model now in flux and the ongoing deleveraging process. Consequently, downgrades and write-downs, are expected to continue in the future. Given the current pace of industry consolidation, layoffs are expected to remain at an elevated level.

Figure 38

New York State Initial Claims



Note: Shaded areas represent New York State recessions.
Source: NYS Department of Labor; DOB staff estimates.

TABLE 5
CHANGE IN NEW YORK STATE EMPLOYMENT FOR 2009

	Percent	Levels
Total Private	**(1.8)**	**(129,322)**
Utilities	(1.2)	(478)
Construction	(3.4)	(12,244)
Manufacturing and Mining	(3.8)	(20,226)
Wholesale Trade	(0.7)	(2,512)
Retail Trade	(2.4)	(21,331)
Transportation and Warehousing	(2.7)	(6,178)
Information	(1.6)	(4,092)
Finance and Insurance	(5.2)	(27,841)
Real Estate and Rental and Leasing	(2.0)	(3,702)
Professional, Scientific, and Technical Services	(3.5)	(20,299)
Management, Administrative, and Support Services	(3.4)	(19,363)
Educational Services	1.8	5,138
Healthcare & Social Assistance Services	1.5	18,281
Leisure, Hospitality and Other Services	(1.5)	(15,488)
Government	**(0.2)**	**(2,826)**
Total	**(1.5)**	**(132,149)**

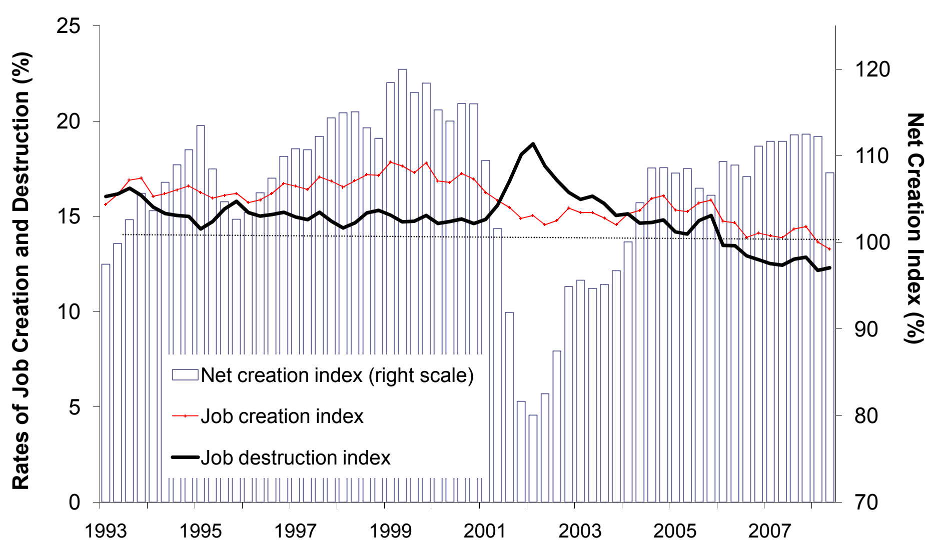
Note: Management, and administration and support services includes NAICS sectors 55 and 56; sum of sectors may not match the total due to the exclusion of unclassified.
Source: NYS Department of Labor; DOB staff estimates.

As discussed above, the State's labor market malaise is expected to spread well beyond Wall Street. Construction sector jobs are expected to fall 3.4 percent due to poor credit market conditions and declining real estate values. The manufacturing sector is expected to fall 3.8 percent, due to declining demand in the troubled auto and auto-related industries, as well as weakening global demand more generally. Declining corporate profits suggest declining demand for New York business and professional services industries, which are projected to lose about 40,000 jobs next year. In addition, the global recession and strengthening dollar bode poorly for the State's tourism-related industries, with leisure, hospitality, and other services expected to lose more than 15,000 jobs in 2009.

An examination of current labor market dynamics supports the Budget Division forecast for a decline in the State's labor market. Box 9 describes the methodology used to perform the analysis. Figure 39 shows the gross rates of job creation and job destruction for the period from the first quarter of 1993 through the second quarter of 2008. The percentage rates of gross job creation and destruction are represented by lines and measured on the left-hand axis, while the net percentage of jobs created is represented by bars and measured on the right-hand axis.

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

Figure 39
NYS Private Sector Employment Dynamics



Source: NYS Department of Labor; DOB staff estimates.

BOX 9
ANALYZING PRIVATE SECTOR EMPLOYMENT DYNAMICS AT THE ESTABLISHMENT LEVEL

The expansion or contraction of an industry over time is usually measured by the net change or net growth in jobs. However, a look beneath the net numbers into the mechanics of job creation and destruction at the establishment level facilitates a deeper understanding of the underlying dynamics.[1] During times when State employment is growing slowly, or even falling, an examination of the underlying dynamics reveals an extremely active labor market – even in the worst of times, new firms are created and existing firms add jobs. For example, though private sector employment fell 2.4 percent in 2002, about 39.7 percent of the State's business establishments created jobs. The data for this study derive from the Quarterly Census of Employment and Wages (QCEW) program.[2] These data include all establishments subject to Federal unemployment insurance laws and cover approximately 98 percent of all employment. For the second quarter of 2008, the most recent period for which data are available, the QCEW data covered 573,236 private sector establishments in New York State and 7,194,527 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 2008 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 2007 and the second quarter of 2008 is constructed by adding together the number of jobs created by firm startups (firms which existed during the second quarter of 2008 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 2007 and the second quarter of 2008, a total of 950,441 jobs were created from these three sources. Performing this calculation for the second quarter of 2008 produces the following:

$$\text{Gross rate of job gain} = \frac{\text{Startup gain + Existing firm gain + M\&A gain}}{\text{Base}} = \frac{950{,}441}{7{,}159{,}209} = 13.3\%$$

This result indicates that the State's gross rate of job creation for the second quarter of 2008 is 13.3 percent. An analysis of job creation at the establishment level also confirms the conventional wisdom that small firms are the State economy's primary growth engine. For example, of the nearly one million gross number of jobs created during the second quarter of 2008, 56.8 percent were created by firms with less than 50 employees. Another 23.9 percent were created by medium sized firms of between 50 and 250 workers, and the remaining 19.3 percent by large firms with workforces exceeding 250.

(continued on next page)

[1] For a similar analysis for the U.S., see U.S. Bureau of Labor Statistics (BLS), "Business Employment Dynamics: First Quarter 2005," <http://www.bls.gov/news.release/pdf/cewbd.pdf>.
[2] For a detailed description of QCEW data, see 2003-04 *New York State Executive Budget, Appendix II*, page 100.
[3] See R. Jason Faberman, "Job Flows and Labor Dynamics in the U.S. Rust Belt." Monthly Labor Review, September 2002, Vol. 125, No. 9, pages 3-10.

(continued from previous page)

We similarly construct a gross rate of job destruction by adding together employment at firms that existed in the second quarter of 2007 but not in the second quarter of 2008, 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 2008 yields:

$$\text{Gross rate of job loss} = \frac{\text{Shutdown loss + Existing firm loss + M\&A loss}}{\text{Base}} = \frac{879{,}805}{7{,}159{,}209} = 12.3\%$$

This result states that the gross rate at which jobs were lost between the two quarters is 12.3 percent. Thus, for the second quarter of 2008, 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 2008, this calculation yields:

$$\text{Net index of job creation} = \frac{\text{Gross Rate of Job Gain}}{\text{Gross Rate of job loss}} = \frac{13.3\%}{12.3\%} = 108.0\%$$

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."

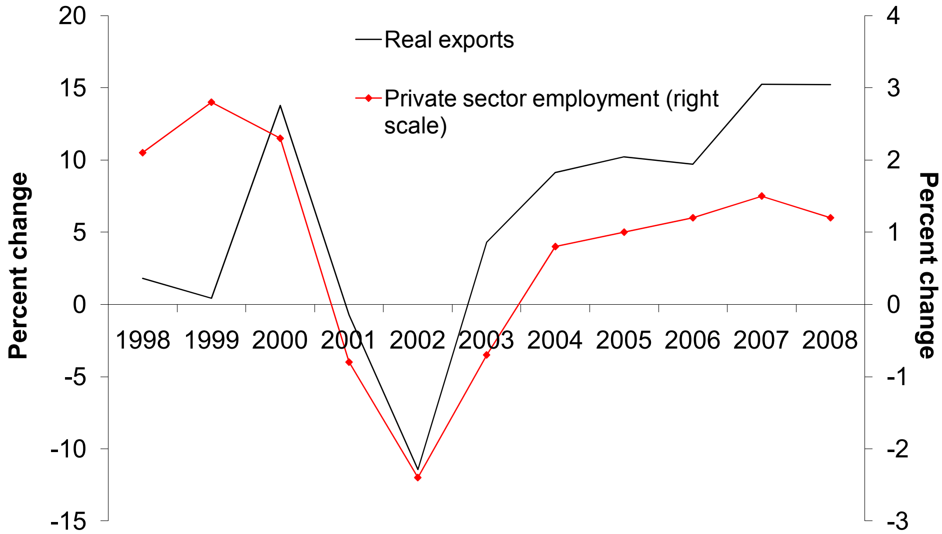
As illustrated in the table below, two industries can have similar values for the net index but have very different underlying dynamics. For example, for the second quarter of 2008, the construction sector and the transportation and warehousing sector had similar net indices of job creation of 115.9 percent and 118.0 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: 2008Q2

Sector (NAICS code)	Gross rate of job creation	Gross rate of job destruction	Net index of job creation
Construction(23)	20.4%	17.6%	115.9%
Transportation and Warehousing (54)	11.1%	9.4%	118.0%

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 second quarter of 2008. Figure 40 helps to illustrate the impact of global demand on the State labor market. Because a significant portion of the State economy is export-oriented, there is a strong association between State export growth and private sector job growth. However, by the second quarter of 2008, a loss of momentum is clearly discernible in Figure 39. The gross rate of job creation fell in the second quarter of 2008, while the gross rate of job destruction rose in the same period. With the U.S. economy in recession and the finance sector in trouble, the State's net rate of job creation is expected to fall going forward, consistent with the Budget Division view that job growth in the private sector will fall to 0.3 percent in 2008 and decline by 1.8 percent in 2009.

Figure 40
Growth in Real Exports from New York and Private Sector Employment



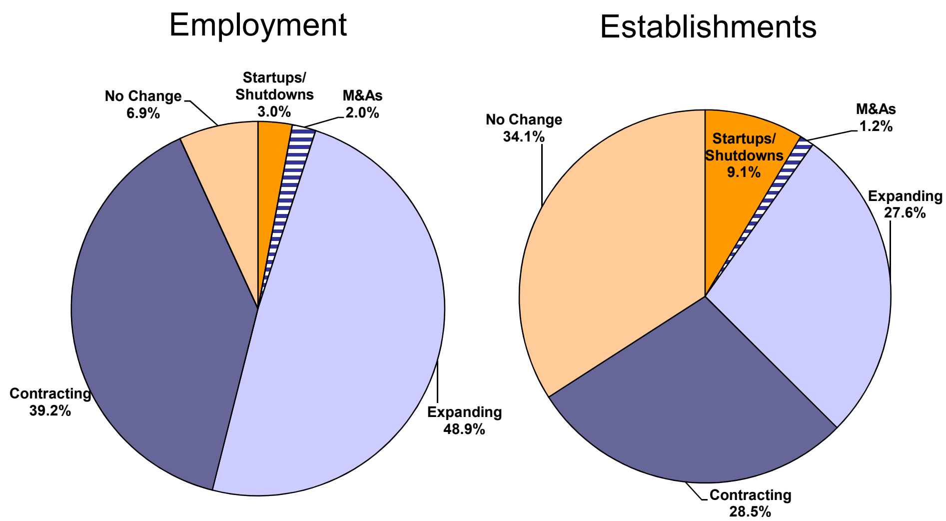
Note: For 2008, real export growth is based on the first 9 months of data, while employment growth is based on the first six months of QCEW data.
Source: Moody's Economy.com; NYS Department of Labor.

The State's Employment and Establishment Base

Figure 41 shows the composition of the State's employment and establishment base for the second quarter of 2008 by type of establishment. Startups and shutdowns accounted for 9.1 percent of the establishment base for 2008Q2. 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 1.2 percent of the establishment base. The average size of these firms was about 22 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 proportion of both establishments and employment, 89.7 percent of the State's establishment base and 95.0 percent of the job base. As indicated in the right hand panel of Figure 41, the three types of existing firms accounted for roughly equal shares of establishments: 27.6 percent, 28.5 percent and 34.1 percent, respectively. However, they accounted for very different shares of the job base: 48.9 percent, 39.2 percent, and 6.9 percent. The average size of existing firms also varies by firm type, with those firms experiencing no change in employment averaging less than three employees, expanding firms averaging 22 employees, and contracting firms averaging 17.

Figure 41
Composition of State's Employment and Establishment Base
2008Q2



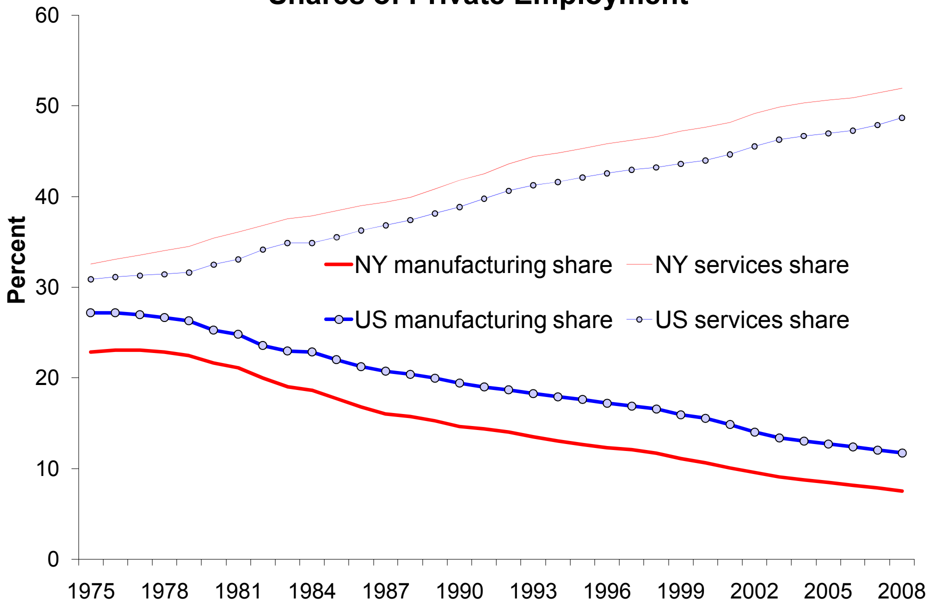
Source: NYS Department of Labor; DOB staff estimates.

Manufacturing

The Budget Division's forecast for the manufacturing and mining sector represents a continuation of a long-term downward trend.[9] Since the mid-1970s, New York's comparative advantage has shifted away from manufacturing in favor of services (see Figure 42), and the manufacturing sector continues to experience significant job losses. Competitive pressures arising from increased globalization have resulted in the decline of State manufacturing employment each year since 1984, with the rate of job loss accelerating during recessions. The total number of manufacturing employees is expected to fall 53.8 percent in 2008 from its 1984 level of about 1.2 million workers. For 2009, employment is expected to fall another 3.8 percent to approximately 514,000 workers. These estimates correspond to projected job losses of 23,200 in 2008 and 20,200 in 2009. The State's manufacturing sector continues to be negatively affected by the ongoing stress in the nation's auto industry and the increasing globalization of production.

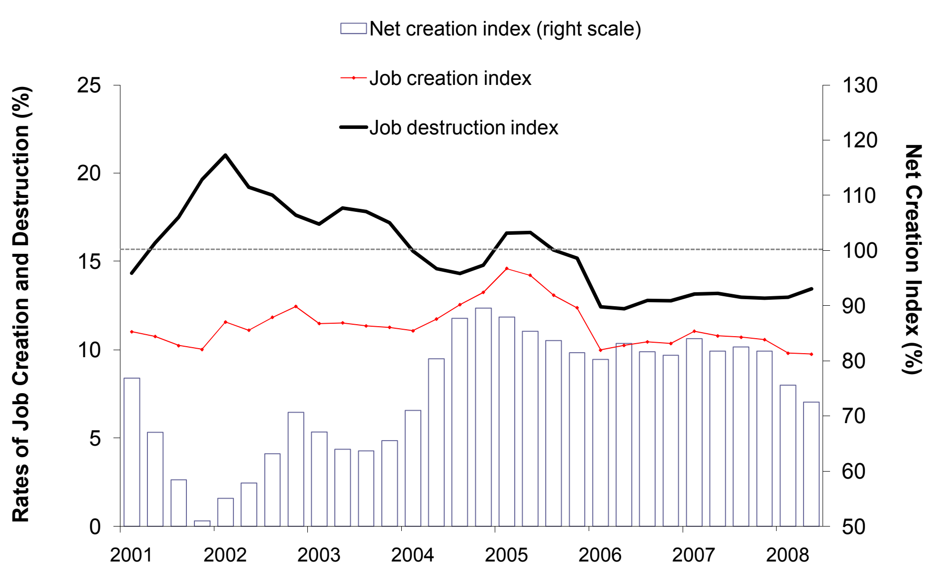
[9] The Budget Division combines manufacturing and mining for forecasting purposes. As of the second quarter of 2008, mining accounted for less than 0.1 percent of total employment in this category and will be ignored for the remainder of the discussion.

Figure 42
Manufacturing and Service Sector Shares of Private Employment



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

Figure 43
Mining and Manufacturing



Source: NYS Department of Labor; DOB staff estimates.

Although the economic trend has been negative for manufacturing for a long time, it still employed about the same number of workers as did the finance and insurance sector through the first half of 2008. The manufacturing sector is most important in the upstate regions, where it still accounts for a significant share of private employment.

In 2002, the second year of the 2001-03 State recession, manufacturing lost over 50,000 jobs, representing a decline of 7.2 percent. That was the greatest rate of decline since the beginning of 1975 when QCEW data started. However, there was a temporary improvement in net job creation beginning in 2003. Net job losses eased due to a decline in the gross rate of job destruction, while the gross rate of job creation remained flat (see Figure 43). In 2004, job creation began to rise and job destruction continued to fall, leading to a net index of job creation of almost 90 percent by the end of that year. The net index dropped back down to about 82 percent by the second quarter of 2007 consistent with the slowdown in manufacturing nationwide. Since then, the manufacturing sector has continued to lose jobs. Losses are projected to continue for the remainder of 2008 and to accelerate in 2009, consistent with the national recession that officially began in December 2007.

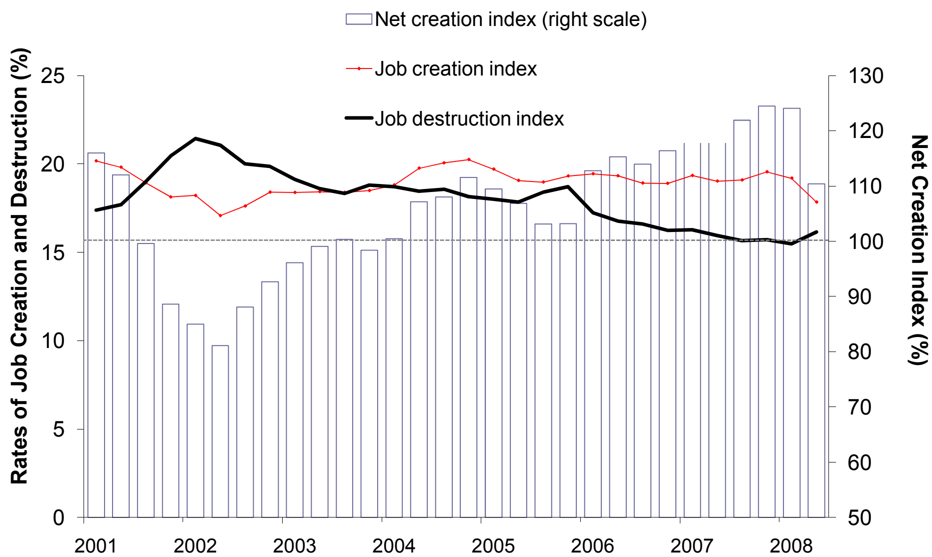
Construction and Real Estate

The Budget Division is projecting a decline in construction employment of 3.4 percent for 2009, following a 1.6 percent increase in 2008. Recent labor market dynamics indicate that the construction and real estate sectors were still strong through the first half of 2008 (see Figure 44). However, growth in State construction employment is estimated to have peaked at the end of 2007, due to the deceleration of housing market activity earlier that year. An even greater weakening of construction employment growth might have been expected were it not for strong levels of activity in the commercial building sector in 2007, particularly downstate. The housing market slowdown is estimated to have negatively impacted real estate, rental, and leasing employment starting in 2006. Job growth in this sector is projected to decline by 2.0 percent in 2009 after a very small decline of 0.1 percent in 2008, which compares to a national 2008 decline of 2.2 percent.

Construction employment had been increasing steadily since the second quarter of 2004, pushing this sector's index of net job creation above 100 percent through the first half of 2008. However, significantly tighter credit conditions can be expected to slow the pace of construction spending in the near term. Long-term positive prospects include reconstruction of the World Trade Center, as well as a multi-year subway project. Low office vacancy rates for both downtown and midtown Manhattan (see Figure 45) had been supporting commercial construction, although both vacancy rates have risen since the second half of 2007. Consequently, the 2008 growth in State construction employment is expected to drop to less than half of what it was in 2007, and to become negative in 2009.

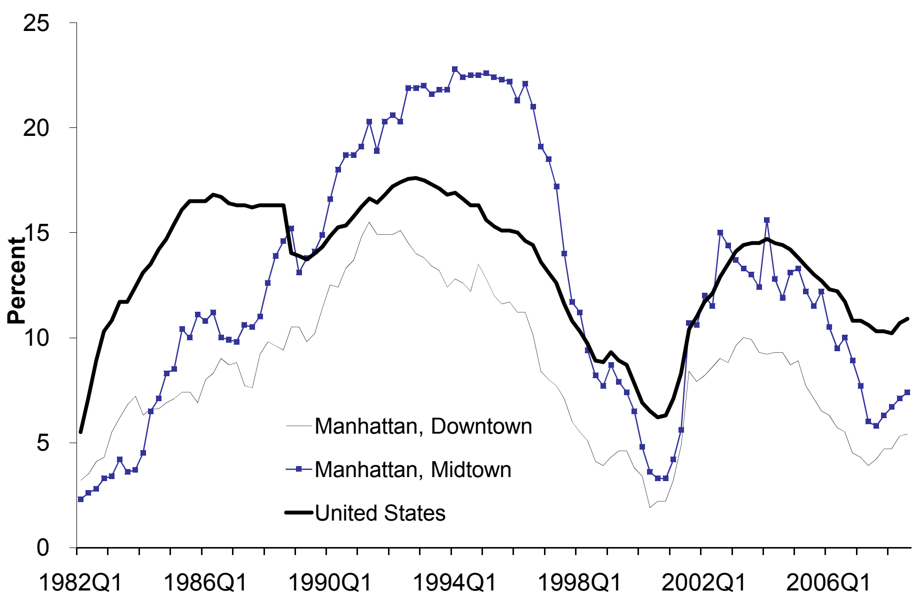
Regional data indicate that the recent housing sector boom did not affect construction and real estate employment uniformly across the State's regions. Indeed, for all of the upstate regions except the Capital District and the North Country, construction employment for the first half of 2008 was still below the level for the same period in 2000. For the three downstate regions of New York City, Long Island, and the Hudson Valley, the regional shares of total State construction employment were greater than the regional shares of total employment through the second half of 2008, but this is expected to change as the downstate real estate market continues to cool.

Figure 44
Construction & Real Estate



Source: NYS Department of Labor; DOB staff estimates.

Figure 45
Office Vacancy Rates



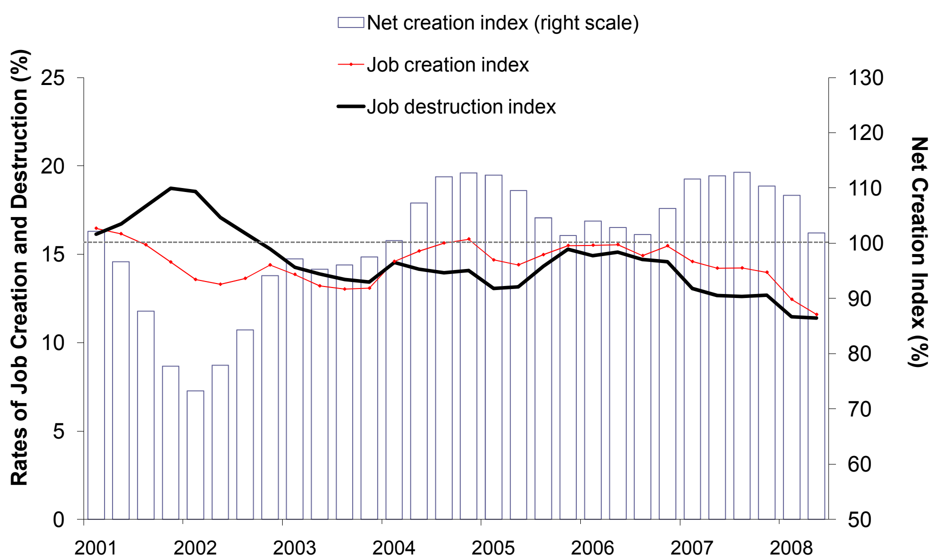
Source: Moody's Economy.com.

Trade, Transportation, and Warehousing

The Budget Division projects this sector to lose about 30,000 jobs in 2009, for a decline of 2.0 percent, after a 0.1 percent gain of 1,300 jobs, in 2008. The retail trade, wholesale trade, and transportation and warehousing sectors are among the more cyclically sensitive industrial sectors and were hit hard during the 2001-2003 recession.

In 2006, these sectors began to show the effects of the national slowdown, but employment growth picked up toward the end of that year and through much of 2007. Figure 46 shows this was primarily due to declines in the gross rate of job destruction. Despite this growth, employment in both the wholesale trade, and transportation and warehousing sectors was still below pre-recession peaks in the first half of 2008. In addition, momentum has been slowing; by the second quarter of 2008, the net creation index was only barely above 100.

Figure 46
Trade, Transportation, and Warehousing



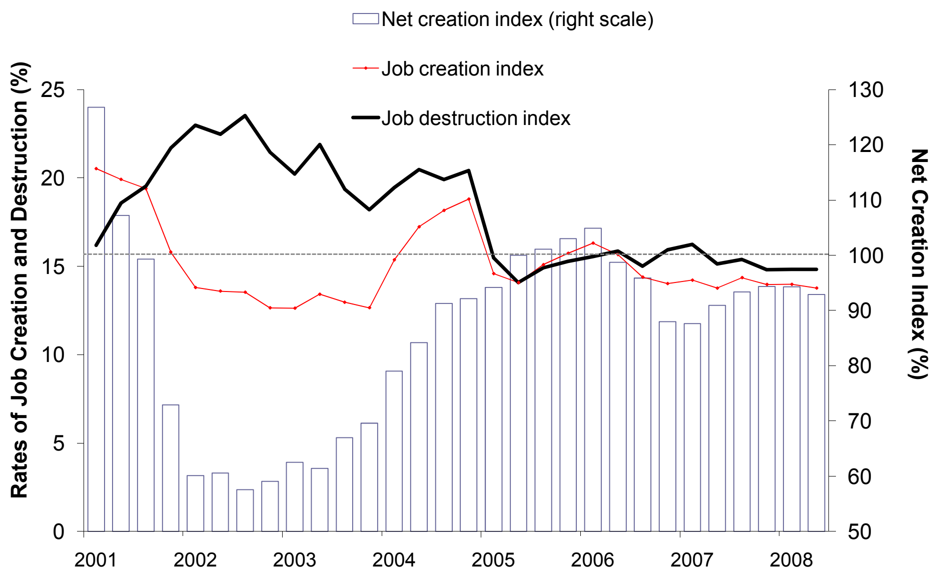
Source: NYS Department of Labor; DOB staff estimates.

The aftermath of September 11 had the most dramatic impact in the transportation and warehousing portion of this sector. The job gap was at its maximum during the first quarter of 2002, but has gradually narrowed with job growth most recently peaking at 2.1 percent in 2006. High energy costs were a restraining factor for much of 2008, as the overall slowdown in the national and State economies will be going forward. The projected 2009 declines are expected to break out as a 0.7 percent decline for wholesale trade, a 2.4 percent decline for retail trade and a 2.7 percent decline for transportation and warehousing.

Information (Media and Communications)

The information sector includes publishing, motion pictures, broadcasting, and telecommunications, and is projected to lose about 4,100 jobs in 2009 following the loss of 3,000 in 2008, declines of 1.6 percent and 1.2 percent, respectively. This sector was among the hardest hit in the State during the last recession and among the last to recover (see Figure 47). The State and national slowdowns are expected to contribute to making 2009 the ninth consecutive year of job losses, with the industry losing a total of 68,200 jobs since 2000.

Figure 47
Information



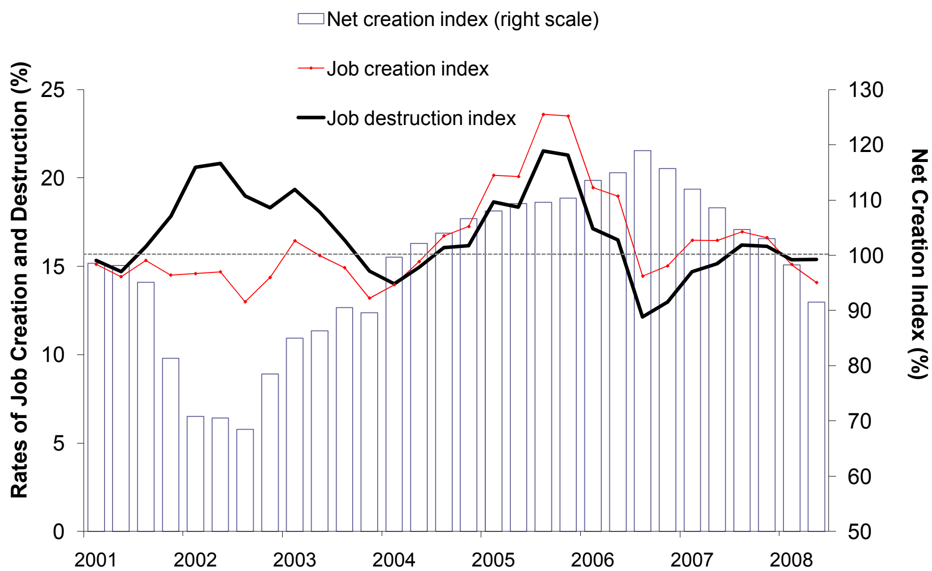
Source: NYS Department of Labor; DOB staff estimates.

The information sector is one of the most dynamic sectors in the State, exhibiting gross rates of job creation and destruction generally well above statewide averages. It is also the most regionally concentrated, with almost 60 percent of State employment in this sector located in New York City.

Finance and Insurance

It may be said that when Wall Street sneezes New York State catches a cold, and the financial and insurance sector took a turn for the worse toward the end of 2008. The Budget Division estimates that the financial and insurance sector lost 10,300 jobs in 2008 and will lose another 27,800 more in 2009, representing declines of 1.9 percent and 5.2 percent, respectively. We expect this to be the hardest hit sector in 2009, comparable to difficult financial periods in the past. The attacks of September 11, the 2001 national recession, and subsequent corporate governance scandals resulted in losses of 29,800 jobs in 2002 and 11,000 more in 2003. And as in the past, it could took take many years before Wall Street recovers from one of the most cataclysmic periods in its history. After the stock market crash of 1987 and the national recession of 1990-91, it took ten years for the securities industry to recover its previous employment peak; this time it could take longer. As might be expected, an overwhelming proportion of the sector's losses are estimated to have occurred in New York City, and we expect that to be the case in 2009 as well (see Figure 48).

Figure 48
Finance and Insurance



Source: NYS Department of Labor; DOB staff estimates.

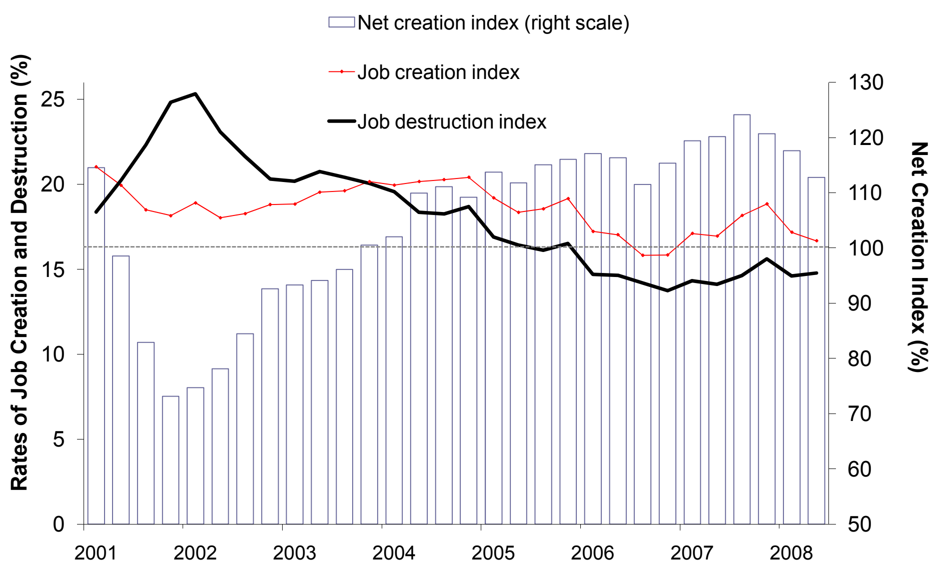
Until recently, the finance and insurance sector had been a bright spot for the State's economy. After three years of job losses, the sector's net job creation index rose above 100 in 2004 and remained there for four years through 2007. Ironically, the jobs lost during the last recession lowered industry compensation costs and helped Wall Street firms to increase profits significantly in 2003. Strong revenue and profit performances on Wall Street resulted in high rates of job growth: 1.9 percent in 2005, 2.3 percent in 2006 and 1.1 percent in 2007. However, the Budget Division is projecting an employment decline of 1.9 percent for 2008. 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. During the recovery years, employees received record salaries and bonuses and the State personal income tax revenues soared. The sector is currently facing the most severe downturn since the Great Depression, and the fiscal impacts on the State and New York City are expected to be substantial.

The present crisis has been described above in detail. The exotic assets that earned extraordinary high profits for many Wall Street firms are no longer in demand, and the major insurers of those instruments have either been acquired or become dependent on Federal loans. Every major independent investment bank that existed before the financial crisis has either been acquired, gone bankrupt, or reorganized as a bank holding company. What remains of Wall Street will be operating under a new regulatory environment. As a result, it is difficult to predict what Wall Street's future will look like, though it is virtually certain that the days of explosive profits derived from highly leveraged debt, backed by complex, risky assets are gone.

Professional and Business Services

The State's professional and business services sector includes two groups of industries. The first is the professional, scientific, and technical services sector (PST), which includes legal, accounting, architectural, engineering, advertising, and technical services. The second is the management, administrative, and other business support services. The downturn in national output and profits are projected to lead to a PST sector loss of 3.5 percent, or 20,300 jobs, in 2009, following a 1.1 percent gain of 6,500 jobs in 2008. This sector was one of the State's strongest from 2005 through the first half of 2008, benefiting greatly from the strength of the national economy (see Figure 49). The management, administrative, and support services sector is expected to follow a similar trend with a 2009 loss of 19,400 jobs, or 3.4 percent, following a 2008 gain of 1,700 jobs, or 0.3 percent.

Figure 49
Professional and Business Services



Source: NYS Department of Labor; DOB staff estimates.

With the collapse of the high-tech bubble, the State's professional, scientific, and technical services industries saw a significant increase in the rate of gross job destruction during 2001 and early 2002. However, the job gap in this sector narrowed substantially during the first three quarters of 2003, with the net index rising above 100 percent by the fourth quarter and net job growth continuing into 2008. Employment in this sector has surpassed its pre-recession peaks for every region except New York City, the Mohawk Valley, and the Southern Tier. New York City still retains a disproportionately large share of the State's jobs in this sector, 50.6 percent. Though PST had become an area of labor market strength during the expansion that ended earlier this year, it appears to be getting hit hard in the current recession.

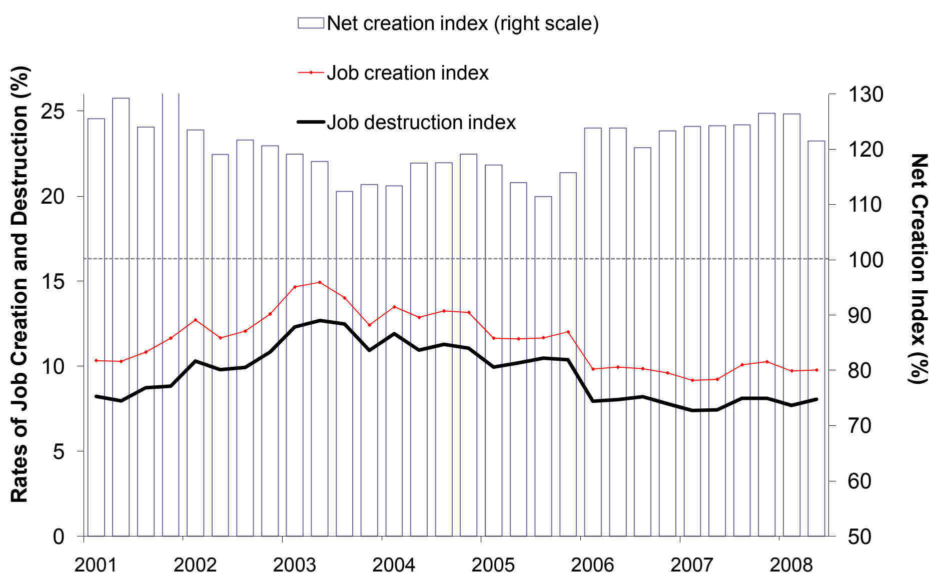
The gross rate of job destruction rose swiftly in the management, administrative, and support services sector in 2001, but the job gap had narrowed significantly by the fourth quarter of 2002. The job gap continued to narrow in 2003 which resulted in positive net job creation in 2004 and 2005. This sector contains temporary help services, one of the first employment classes to grow following a downturn, and helps to explain the substantial improvement in this sector between 2003 and 2004. Many firms hire temporary workers coming out of a recession, uncertain as to whether an increase in the demand for their products will be sustained. This contributes to the high job turnover rate in this sector, as well as its cyclical sensitivity.

Education and Health Care

The private education and healthcare and social assistance sectors have exhibited consistent strength and remain the one bright spot in the employment forecast (see Figure 50). Together, these two sectors are expected to add 23,400 new jobs in 2009 after adding 26,200 jobs in 2008, an increase of 1.5 percent following an increase of 1.8 percent.

Figure 50

Education, Health Care, and Social Assistance



Source: NYS Department of Labor; DOB staff estimates.

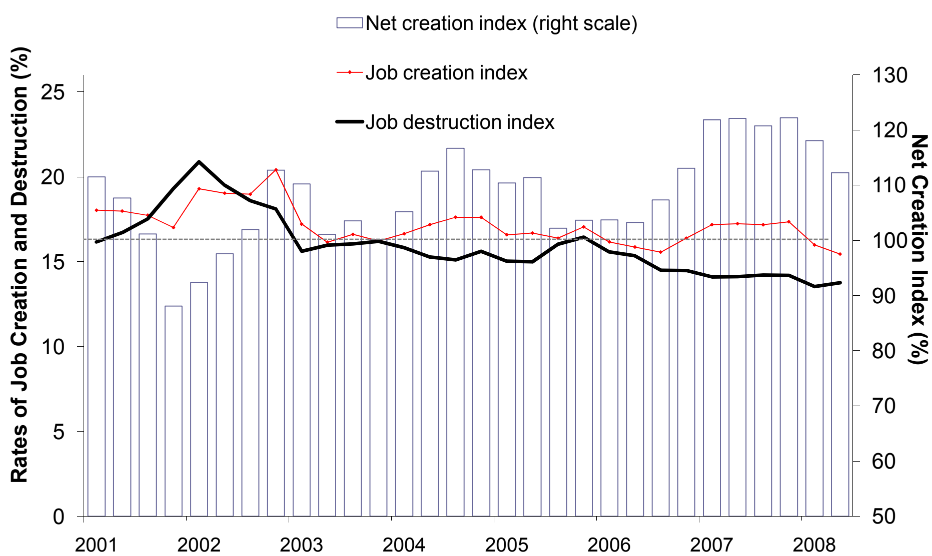
The health care industry is the larger of the two, employing an estimated total of over 1.2 million workers in 2008. The private education sector is estimated to employ about 290,000, as it excludes more than 600,000 workers employed at public educational institutions. Neither of these sectors exhibits a significant degree of cyclical sensitivity, and both are expected to exhibit growth in 2009 despite a decline in the private sector as a whole. Private education employment is projected to rise 1.8 percent for 2009, following estimated growth of 2.3 percent for 2008. Healthcare and social assistance employment is projected to rise 1.5 percent in 2009, following estimated growth of 1.6 percent for 2008.

Leisure, Hospitality, and Other Services

The Budget Division expects leisure, hospitality, and other services employment to decline by 1.5 percent in 2009, following a growth of 1.1 percent in 2008. The September 11 attacks had a severe impact on this sector, particularly the arts, entertainment, and other tourism-related industries. 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 (see Figure 51).

The net job creation index has remained above 100 percent since the first quarter of 2004, even as growth fell off at the end of 2004 and early 2005. Beginning in the third quarter of 2006, growth in this sector took off due to both increases in the rate of job creation and consistent decreases in the rate of job destruction. However, the expected slowdown in the national and global economies will contribute to a decline in this sector, with about 15,500 jobs expected to be lost in 2009.

Figure 51
Leisure, Hospitality and Other



Source: NYS Department of Labor; DOB staff estimates.

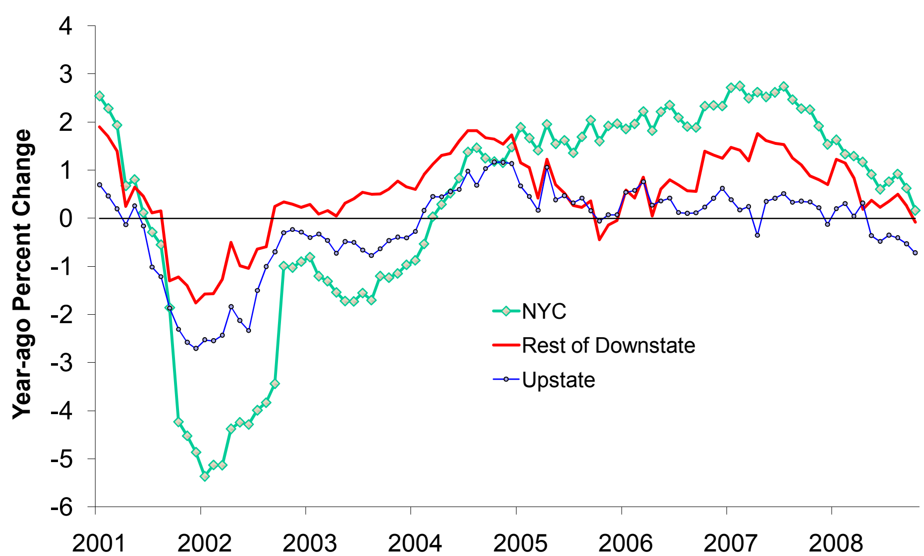
Regional Job Growth Disparity

Figure 52 indicates that since the start of the last recovery in late 2003, employment growth has been quite variable across the State's regions. The State's private sector added 308,000 jobs, a 4.4 percent increase, from October 2003 to October 2008. More than three quarters of these jobs were added in New York City, which saw a private sector increase of 232,000, or 7.8 percent. This strong growth is no surprise given the robust performance of the City's services industries for which the market is not only national but global. Employment growth in the downstate region excluding New York

City was weaker, with growth of 3.4 percent, or 52,000 jobs. However, growth in the upstate region was weaker still, with the private sector adding only about 24,000 jobs during the period, for growth of less than 1 percent.

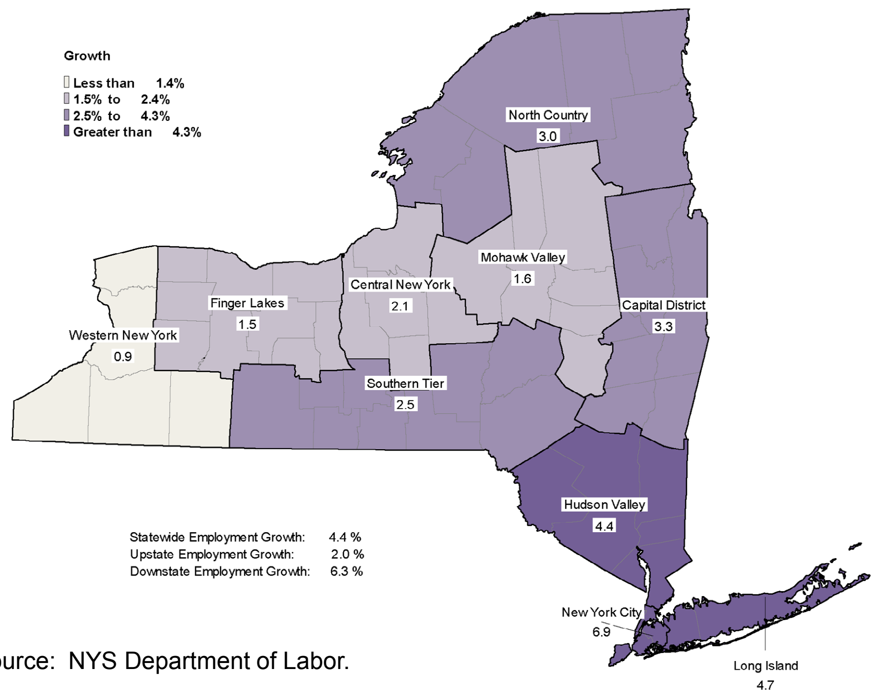
However, the outlook for New York City has been deteriorating ever since the credit crisis began. Most of the job losses projected for the financial and business services sectors are expected to be realized in the City. In addition, a more synchronized global economic recession will put significant downward pressure on the City's tourism-related establishments, including airlines, hotels, and restaurants, resulting in severe job losses. For the upstate economy, the outlook is also bleak. With the continued relative dependence of the upstate economy on manufacturing, in particular the auto, machinery and equipment industries, the current weakening demand for cars and light trucks, and investment goods more generally, is expected to result in more layoffs, especially in the western part of the State.

Figure 52
New York Private Sector Employment



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

Figure 53
Regional Job Growth Disparity 2003H1-2008H1



Source: NYS Department of Labor.

Figure 53 compares the relative performance of New York's 10 regions between the first half of 2003 and the first half of 2008. This period covers virtually the entire length of the State's most recent expansion. Employment for the State as a whole grew 4.4 percent between the first half of 2003 and the first half of 2008, the most recent period for which the most accurate data — Quarterly Census of Employment and Wages (QCEW) data — are available. The downstate regions, led by New York City, grew a robust 6.3 percent, while the upstate region grew a much weaker 2.0 percent. Employment growth was particularly weak in the Western New York region, growing only 0.9 percent over the period. The Finger Lakes and Mohawk Valley regions each exhibited growth of about 1.5 percent. Manufacturing still accounts for a significant portion of employment in many of the upstate regions, but has suffered from weakness in the auto industry as well as longer term trends such as corporate restructuring and the transfer of production to other regions of the country and overseas.

The most recent data indicate that the New York City economy experienced very strong year-ago growth of 1.7 percent during the first half of 2008, though this represented a slowdown relative to 2007. In contrast, the Capital District and Western New York regions grew faster during the first half of 2008 than during the prior year. The rest of the State's regions also saw a deceleration in employment growth during the first half of 2008. A more detailed analysis of regional employment trends can be found in Table 6 through Table 9 on pages 141-142. A slowdown in job growth is expected for all of the State's regions going forward.

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, the current credit crisis and the remaking of Wall Street pose a particularly large degree of uncertainty for New York. As long as home prices continue to fall and the foreclosure rate continues to rise, mortgage-backed security downgrades and financial sector write-downs can be expected to continue. In addition, commercial property vacancy rates can also be expected to rise, increasing debt default rates and further degrading the values of commercial-backed securities. These developments can be expected to filter through to some unknown degree to the balance sheets of financial sector firms, including banks, hedge funds, and private equity firms, which in turn would create further uncertainty surrounding bonus payouts. This uncertainty is only compounded by the current political climate, which could alter the composition of bonus packages in favor of stock options that are not immediately taxable. In addition, it is also uncertain when the lending and underwriting activity related to such transactions as IPOs, mergers and acquisitions, private equity buyouts, and commercial real estate deals will return to prior levels, resulting in additional risk to the forecasts for bonuses and personal capital gains.

There are, however, some upside risks as well. The fiscal and monetary policies now being considered by the Federal government may be more aggressive than reflected in the current forecast and may result in a faster improvement in financial market conditions than expected. Such an outcome could lead to stronger levels of business activity and thus stronger employment and income growth than anticipated. A Federal stimulus package of greater value than currently incorporated into the forecast, in coordination with those of our major trading partners, could result in stronger national and global growth than expected, also resulting in a quicker recovery for the State economy. Such an outcome could also result in a stronger and earlier upturn in stock prices, stimulating additional financial market activity, and producing higher wage and bonus growth than currently projected.

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

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

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

Employment

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

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

Average Real Nonbonus Wages

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

Bonus Income

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

Nonwage Incomes and Other Variables

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

[1] For more information, see *New York State Economic, Revenue and Spending Methodologies*, November 4, 2008, < http://www.budget.state.ny.us/pubs/supporting/2008-09ForecastMethodologies.pdf>.

TABLE 6

NEW YORK STATE PRIVATE EMPLOYMENT BY INDUSTRY

INDUSTRY	Employment in Thousands 2004	2005	2006	2007	2008*	Percent Change 2004	2005	2006	2007	2008*
Mining and Manufacturing	598.2	583.7	570.3	557.4	540.7	(2.6)	(2.4)	(2.3)	(2.3)	(3.2)
Construction and Real Estate	501.6	506.7	519.3	537.0	532.8	1.3	1.0	2.5	3.4	3.0
Trade, Trans., and Warehousing	1,434.2	1,447.6	1,455.5	1,477.5	1,470.5	1.2	0.9	0.5	1.5	0.7
Information	268.2	268.0	266.7	263.2	259.9	(2.6)	(0.1)	(0.5)	(1.3)	(0.8)
Finance and Insurance	516.3	526.1	538.2	544.1	537.8	0.5	1.9	2.3	1.1	(0.7)
Business and Professional Svs.	1,052.9	1,077.7	1,101.3	1,136.0	1,147.3	1.5	2.4	2.2	3.2	2.5
Education and Health Care	1,415.4	1,436.7	1,463.1	1,491.6	1,517.9	1.9	1.5	1.8	1.9	2.0
Leisure, Hospitality, and Other Svs	971.5	981.7	991.7	1,022.7	1,023.0	1.9	1.0	1.0	3.1	2.3
Other **	97.9	98.1	104.7	89.0	87.6	(6.3)	0.1	6.8	(15.0)	5.5
Statewide	6,856.3	6,926.3	7,010.8	7,118.4	7,117.6	0.8	1.0	1.2	1.5	1.2

* Levels for 2008 are based on the first two quarters of the year; 2008 growth rates are relative to the same period in 2007.

** Includes agriculture, utilities, and unclassified firms.

TABLE 7

NEW YORK STATE PRIVATE EMPLOYMENT BY REGION

REGION	Employment in Thousands 2004	2005	2006	2007	2008*	Percent Change 2004	2005	2006	2007	2008*
New York City	2,896.5	2,947.8	3,010.6	3,092.6	3,119.9	0.7	1.8	2.1	2.7	1.8
Long Island	1,008.6	1,014.8	1,026.6	1,038.4	1,029.6	1.4	0.6	1.2	1.1	0.5
Hudson Valley	716.0	721.9	726.7	736.3	728.7	1.7	0.8	0.7	1.3	0.4
Capital District	381.8	385.3	387.6	388.5	386.3	1.2	0.9	0.6	0.2	0.9
Mohawk Valley	131.6	132.1	132.4	132.6	130.1	0.3	0.3	0.3	0.2	(0.4)
North Country	105.8	106.7	108.3	108.9	106.4	0.3	0.9	1.5	0.5	0.1
Central New York	283.0	284.5	283.7	287.1	284.5	0.7	0.5	(0.3)	1.2	0.5
Southern Tier	233.4	234.3	236.9	239.1	237.2	0.2	0.4	1.1	0.9	0.7
Western New York	514.5	513.4	512.8	514.2	510.7	0.7	(0.2)	(0.1)	0.3	0.6
Finger Lakes	454.0	457.3	456.3	458.4	453.6	0.5	0.7	(0.2)	0.5	0.2
Unclassified	131.2	128.1	128.9	122.4	130.5	(1.7)	(2.3)	0.6	(5.0)	11.7

* Levels for 2008 are based on the first two quarters of the year; 2008 growth rates are relative to the same period in 2007.

TABLE 8

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	3.1	7.9	17.4	5.0	11.0	18.6	21.9	14.2	1.0
Long Island	7.9	8.5	25.1	2.5	5.6	15.3	19.8	14.2	1.2
Mid Hudson	8.0	9.2	23.6	2.9	4.5	13.1	22.1	15.0	1.6
Capital Region	8.3	7.0	22.3	2.8	5.7	15.2	21.7	15.8	1.2
Mohawk Valley	14.5	5.0	25.2	2.5	6.0	8.0	24.2	13.7	1.0
North Country	12.9	7.4	26.2	1.8	2.4	7.2	22.2	17.4	2.5
Central New York	13.4	6.5	23.6	2.1	5.1	12.8	19.5	15.0	2.0
Southern Tier	19.0	5.1	20.0	1.9	3.8	9.7	24.8	14.2	1.5
Western New York	15.1	5.7	22.3	1.8	5.4	14.1	18.6	15.9	1.1
Finger Lakes	17.4	5.9	20.1	2.3	3.4	13.6	21.5	13.9	1.9
Statewide	7.7	7.6	20.7	3.7	7.6	16.1	21.0	14.4	1.3

Note: Shares are based on the period from 2007Q3 through 2008Q2.

TABLE 9

REGIONAL EMPLOYMENT TRENDS: 2004-2008

Region	Employment (000's)					Percent Change				
	Manufacturing and Mining									
	2004	**2005**	**2006**	**2007**	**2008***	**2004**	**2005**	**2006**	**2007**	**2008***
New York City	119.9	113.5	105.4	100.8	96.3	(5.0)	(5.3)	(7.1)	(4.4)	(5.1)
Long Island	87.2	86.3	85.1	83.4	81.5	(0.1)	(1.0)	(1.4)	(1.9)	(2.6)
Hudson Valley	62.7	61.6	60.6	59.6	57.9	(2.7)	(1.8)	(1.7)	(1.6)	(2.8)
Capital District	33.2	33.3	33.1	32.7	32.3	0.6	0.5	(0.7)	(1.1)	(1.3)
Mohawk Valley	21.4	20.7	20.2	19.5	19.0	(0.3)	(3.2)	(2.3)	(3.9)	(3.0)
North Country	15.2	14.6	14.6	14.2	13.9	(6.3)	(3.5)	(0.1)	(2.9)	(1.8)
Central New York	39.4	39.2	38.7	38.7	38.0	(4.2)	(0.7)	(1.1)	(0.1)	(1.1)
Southern Tier	44.2	44.0	45.2	45.8	44.9	0.5	(0.4)	2.5	1.4	(0.8)
Western New York	85.8	82.8	81.1	79.3	76.9	(2.8)	(3.5)	(2.1)	(2.2)	(3.2)
Finger Lakes	87.9	86.5	85.1	82.0	78.6	(3.7)	(1.6)	(1.6)	(3.6)	(4.8)
Unclassified	1.3	1.1	1.2	1.4	1.4	19.7	(15.9)	5.1	18.1	1.2
Statewide	598.2	583.7	570.3	557.4	540.7	(2.6)	(2.4)	(2.3)	(2.3)	(3.2)
	Construction and Real Estate									
New York City	221.9	225.6	231.0	243.2	246.4	0.1	1.7	2.4	5.3	3.5
Long Island	81.4	82.0	85.2	87.3	86.3	3.4	0.7	3.9	2.4	2.6
Hudson Valley	61.8	63.6	65.4	67.9	65.9	1.2	2.9	2.9	3.8	0.8
Capital District	26.4	26.6	27.0	27.2	26.0	2.9	0.7	1.6	0.7	0.7
Mohawk Valley	6.4	6.4	6.4	6.7	6.1	1.0	0.1	0.0	3.6	(0.2)
North Country	6.9	7.0	7.5	7.8	7.6	3.4	0.6	6.9	4.6	7.7
Central New York	17.6	17.6	18.2	18.5	17.8	0.2	0.1	3.4	1.7	2.2
Southern Tier	11.3	11.5	11.7	11.8	11.5	0.3	1.6	1.9	0.9	5.7
Western New York	30.0	29.6	29.9	29.4	27.9	3.9	(1.5)	1.1	(1.7)	0.2
Finger Lakes	26.5	26.7	26.0	26.7	25.8	2.3	0.6	(2.5)	2.8	1.9
Unclassified	11.3	10.2	10.9	10.4	11.7	(0.8)	(9.9)	6.5	(4.4)	22.5
Statewide	501.6	506.7	519.3	537.0	532.8	1.3	1.0	2.5	3.4	3.0
	Trade, Transportation, and Warehousing									
New York City	507.7	514.0	524.1	539.7	539.2	1.6	1.2	1.9	3.0	1.0
Long Island	257.0	257.1	256.3	260.7	259.5	0.6	0.0	(0.3)	1.7	0.6
Hudson Valley	169.1	171.3	171.8	173.3	172.2	1.8	1.3	0.3	0.9	0.5
Capital District	88.2	89.0	88.7	87.5	85.5	0.8	0.9	(0.3)	(1.4)	(1.2)
Mohawk Valley	31.4	32.3	32.7	33.1	33.0	0.4	2.8	1.2	1.3	1.3
North Country	27.2	27.7	28.1	28.5	28.1	4.4	1.8	1.6	1.6	(0.0)
Central New York	67.7	68.4	67.4	67.7	67.3	0.9	1.0	(1.4)	0.4	1.0
Southern Tier	47.6	47.9	47.7	48.0	47.4	0.3	0.6	(0.3)	0.7	(0.2)
Western New York	112.9	114.2	113.4	114.8	113.6	(0.1)	1.2	(0.7)	1.3	0.4
Finger Lakes	90.1	91.2	90.6	92.0	91.1	0.6	1.1	(0.6)	1.5	0.3
Unclassified	35.3	34.6	34.9	32.2	33.5	1.9	(2.1)	0.7	(7.7)	6.1
Statewide	1,434.2	1,447.6	1,455.5	1,477.5	1,470.5	1.2	0.9	0.5	1.5	0.7
	Information									
New York City	149.7	151.0	152.9	155.5	155.4	(2.0)	0.9	1.3	1.7	0.6
Long Island	27.5	28.0	28.4	26.9	25.8	(2.3)	1.8	1.6	(5.4)	(4.8)
Hudson Valley	23.5	22.7	22.0	21.4	21.0	(5.4)	(3.6)	(3.0)	(3.0)	(1.7)
Capital District	12.0	12.1	11.8	11.1	10.7	(7.9)	0.4	(2.8)	(5.6)	(4.0)
Mohawk Valley	4.5	4.3	3.9	3.5	3.2	(2.7)	(4.0)	(9.9)	(10.1)	(10.1)
North Country	2.0	1.9	2.1	2.1	2.0	(3.1)	(5.1)	5.8	0.0	(3.8)
Central New York	7.3	6.6	6.2	6.1	5.9	0.4	(8.4)	(6.3)	(2.7)	(2.9)
Southern Tier	4.9	4.8	4.7	4.6	4.5	(2.4)	(1.7)	(1.8)	(3.5)	(1.5)
Western New York	10.8	10.4	10.0	9.4	9.2	(0.9)	(3.2)	(4.2)	(6.5)	(2.0)
Finger Lakes	12.4	11.8	11.3	10.7	10.5	(8.0)	(5.1)	(4.2)	(5.2)	(1.8)
Unclassified	13.6	14.3	13.4	12.1	11.9	2.1	5.6	(6.7)	(9.3)	1.0
Statewide	268.2	268.0	266.7	263.2	259.9	(2.6)	(0.1)	(0.5)	(1.3)	(0.8)

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REGIONAL EMPLOYMENT TRENDS: 2004-2008 (*cont'd*)

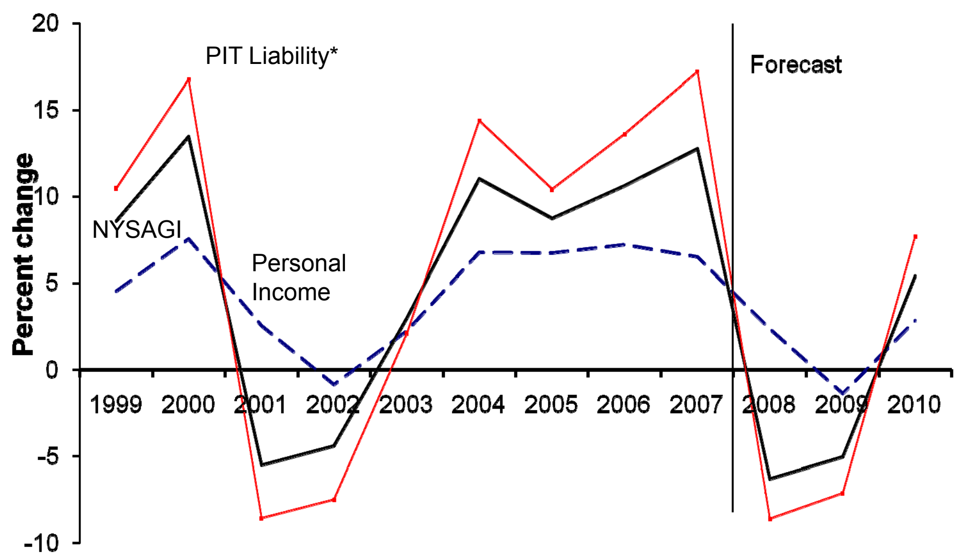
Region	Employment (000's)					Percent Change				
	Finance and Insurance									
	2004	**2005**	**2006**	**2007**	**2008***	**2004**	**2005**	**2006**	**2007**	**2008***
New York City	313.0	321.8	331.7	341.5	339.6	0.4	2.8	3.1	3.0	0.6
Long Island	63.8	62.0	59.8	59.6	57.3	0.4	(2.8)	(3.5)	(0.4)	(5.2)
Hudson Valley	32.4	34.1	34.8	34.2	32.9	3.4	5.3	2.0	(1.6)	(5.4)
Capital District	21.9	22.2	22.7	22.3	22.2	2.0	1.3	2.3	(1.8)	(1.0)
Mohawk Valley	7.9	8.0	8.2	8.2	7.7	4.3	1.6	2.2	(0.1)	(6.7)
North Country	2.7	2.8	2.9	2.6	2.6	1.0	2.0	3.9	(8.3)	(2.6)
Central New York	13.7	14.0	14.4	14.6	14.6	(0.6)	2.2	2.8	1.7	0.2
Southern Tier	9.5	9.5	9.5	9.3	9.2	0.1	0.1	(0.5)	(2.0)	(1.7)
Western New York	28.8	28.7	29.3	28.0	27.7	2.2	(0.2)	2.2	(4.4)	(1.1)
Finger Lakes	15.5	15.3	15.8	15.7	15.4	1.7	(1.1)	3.0	(0.6)	(2.4)
Unclassified	7.1	7.7	9.2	7.9	8.7	(17.1)	7.1	19.9	(13.6)	9.9
Statewide	516.3	526.1	538.2	544.1	537.8	0.5	1.9	2.3	1.1	(0.7)
	Business and Professional Services									
New York City	519.4	533.0	548.6	571.4	580.0	0.8	2.6	2.9	4.2	2.7
Long Island	148.8	152.7	156.6	158.3	156.7	2.6	2.7	2.5	1.1	0.8
Hudson Valley	93.9	94.4	94.8	96.6	95.5	4.9	0.5	0.4	1.9	0.4
Capital District	53.9	55.5	57.2	58.3	59.6	2.6	2.9	3.1	1.9	3.4
Mohawk Valley	11.1	10.6	10.7	10.6	10.5	(3.6)	(4.7)	1.4	(0.9)	(0.7)
North Country	6.2	7.0	7.5	7.8	7.7	(8.6)	13.3	6.7	4.5	(0.3)
Central New York	35.3	35.9	36.0	37.0	36.4	2.7	1.8	0.4	2.7	(0.3)
Southern Tier	21.3	21.7	22.6	23.2	23.0	(1.3)	1.9	4.2	2.4	1.0
Western New York	66.5	68.1	70.0	71.6	72.9	2.5	2.3	2.9	2.3	3.6
Finger Lakes	58.1	60.0	60.9	62.1	62.4	2.3	3.4	1.4	2.0	1.3
Unclassified	38.4	38.9	36.3	39.0	42.8	(1.3)	1.3	(6.6)	7.3	16.4
Statewide	1,052.9	1,077.7	1,101.3	1,136.0	1,147.3	1.5	2.4	2.2	3.2	2.5
	Education, Health Care, and Social Assistance									
New York City	636.5	649.2	664.4	675.9	688.6	1.6	2.0	2.3	1.7	1.8
Long Island	188.3	191.6	197.5	203.5	207.1	1.8	1.7	3.1	3.0	2.3
Hudson Valley	152.4	154.7	157.2	161.6	163.8	2.1	1.5	1.6	2.8	1.9
Capital District	81.2	81.4	81.5	83.5	85.3	2.0	0.2	0.1	2.4	2.9
Mohawk Valley	29.2	30.0	30.7	31.8	32.0	1.0	2.5	2.3	3.7	1.5
North Country	24.2	24.4	24.4	24.2	24.0	5.6	0.6	0.1	(1.0)	0.2
Central New York	52.6	53.8	54.3	55.6	56.2	3.8	2.3	1.0	2.3	1.6
Southern Tier	57.8	58.0	58.4	59.0	60.1	0.9	0.4	0.6	1.1	2.1
Western New York	94.5	94.9	94.4	95.1	96.2	3.2	0.4	(0.5)	0.7	1.4
Finger Lakes	92.8	94.4	95.4	97.2	99.7	3.6	1.8	1.1	1.9	3.1
Unclassified	5.8	4.3	4.9	4.4	4.9	(16.8)	(25.1)	12.7	(10.2)	23.2
Statewide	1,415.4	1,436.7	1,463.1	1,491.6	1,517.9	1.9	1.5	1.8	1.9	2.0
	Leisure, Hospitality, and Other Services									
New York City	396.5	407.1	416.0	435.2	444.7	2.2	2.7	2.2	4.6	3.6
Long Island	141.5	141.7	143.3	146.7	143.7	3.0	0.1	1.2	2.4	0.8
Hudson Valley	107.5	106.7	106.6	109.7	108.3	2.6	(0.7)	(0.1)	2.9	1.6
Capital District	59.8	60.1	60.5	61.3	60.3	0.8	0.4	0.7	1.3	1.4
Mohawk Valley	18.4	18.4	18.2	18.1	17.5	1.3	0.1	(1.0)	(0.6)	0.8
North Country	18.7	18.6	18.6	19.0	18.0	(3.7)	(0.4)	(0.2)	1.9	(0.4)
Central New York	42.8	42.7	42.2	43.0	42.7	1.5	(0.3)	(1.2)	2.1	1.0
Southern Tier	33.0	33.2	33.4	33.9	33.1	0.9	0.3	0.6	1.7	0.5
Western New York	79.1	78.8	78.8	81.1	81.0	0.1	(0.4)	(0.0)	2.9	1.9
Finger Lakes	61.8	62.5	62.3	63.5	62.3	0.9	1.2	(0.3)	1.9	0.8
Unclassified	12.3	12.0	11.9	11.1	11.5	5.1	(2.4)	(0.5)	(6.5)	9.5
Statewide	971.5	981.7	991.7	1,022.7	1,023.0	1.9	1.0	1.0	3.1	2.3

* Levels for 2008 are based on the first two quarters of the year; 2008 growth rates are relative to the same period in 2007.
Source: NYS Department of Labor.

NEW YORK STATE ADJUSTED GROSS INCOME

In light of the fact that personal income tax receipts account for almost 60 percent of the State's total tax receipts, detailed knowledge of the composition of the State's personal income tax base and its determinants is critical to accurately projecting receipts. New York State adjusted gross income (NYSAGI) is the measure of income from which taxpayers' personal income tax liability is computed in conformity with New York State tax laws. At the aggregate level, the components of NYSAGI vary with State and Federal economic indicators. The Budget Division's personal income tax liability forecast will thus depend on the linkages between NYSAGI and the outlook for both the State economy and the US economy.[10] NYSAGI exhibited strong growth of 10.6 percent in 2006, the last year for which detailed taxpayer data are available (see Figure 54). Preliminary data suggest even stronger growth of 12.8 percent in NYSAGI for 2007, before the national recession, tight credit market and a struggling housing market are estimated to lead to declines in NYSAGI of 6.3 percent in 2008 and 5.0 percent in 2009 (see Table 10 below).

Figure 54
The Indicators of New York State's Tax Base



*Personal income tax (PIT) liability is computed based on 2002 tax law.
Source: NYS Department of Taxation and Finance; Moody's Economy.com; DOB staff estimates.

The Major Components of NYSAGI

The Budget Division forecasts for the components of NYSAGI are based on detailed historical tax return data from samples of State taxpayers through the 2006 tax year, made available by the New York State Department of Taxation and Finance. For 2007, preliminary processing data based on the entire population of tax returns are used to construct estimates for all of the income components.

[10] Box 11 on page 156 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.

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 2008 onward are based on the forecast of growth for total State wages derived from the Budget Division New York macroeconomic forecast, which is based on QCEW data. For a discussion of the Budget Division forecast for State wages, see "Outlook for State Income" on page 116.[11]

TABLE 10
CHANGES IN NYSAGI AND ITS MAJOR COMPONENTS

	2003	2004	2005	2006	2007*	2008	2009	2010
	------------------ Actual			---------------	--------------- Estimated			---------------
NYSAGI								
Level ($ Billions)	473.8	526.0	571.9	632.6	713.3	668.5	635.0	669.4
Change ($ Billions)	13.9	52.2	46.0	60.7	80.7	(44.8)	(33.5)	34.4
% Change	3.0	11.0	8.7	10.6	12.8	(6.3)	(5.0)	5.4
Wages								
Level ($ Billions)	373.3	397.4	417.0	445.2	486.2	492.3	477.5	489.0
Change ($ Billions)	4.6	24.1	19.6	28.2	41.0	6.1	(14.7)	11.4
% Change	1.2	6.5	4.9	6.8	9.2	1.3	(3.0)	2.4
Capital Gains								
Level ($ Billions)	31.2	53.8	66.7	84.4	111.4	65.9	48.9	64.6
Change ($ Billions)	7.8	22.6	12.9	17.8	27.0	(45.5)	(17.0)	15.6
% Change	33.6	72.5	24.0	26.6	32.0	(40.9)	(25.8)	32.0
Partnership/S Corporation								
Level ($ Billions)	41.1	45.9	53.8	61.2	67.0	63.7	61.2	65.6
Change ($ Billions)	2.0	4.8	7.9	7.4	5.8	(3.3)	(2.5)	4.4
% Change	5.2	11.6	17.3	13.8	9.5	(5.0)	(3.9)	7.2

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

* 2007 Estimates are based on processing data except for wages.

Positive Capital Gains Realizations

The Budget Division's near-term outlook for NYSAGI is dominated by the estimated fluctuation in capital gains realizations. Preliminary data indicate that capital gains realizations grew a strong 32.0 percent in 2007, to a record level of $111.4 billion. However, in 2008, this component of income is estimated to have fallen 40.9 percent, resulting in the evaporation of $45.5 billion in taxable income, with another 25.8 percent decline projected for 2009. Current credit market conditions, the real estate market downturn, and the national recession more generally, have depressed all of the major sources of capital gains, including equity markets, both residential and commercial real

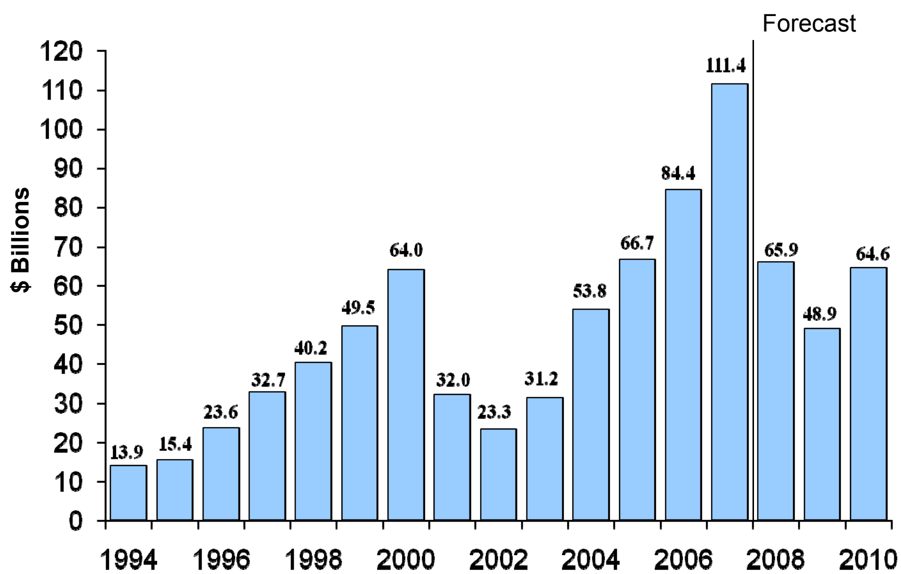
[11] *New York State Economic, Revenue, and Spending Methodologies*, November 4, 2008, pp. 49-54, http://www.budget.state.ny.us/pubs/supporting/2008-09ForecastMethodologies.pdf.

estate market transactions, and hedge fund and private equity buyout activity. This development places the current environment in sharp contrast to conditions in 2001, when the high-tech/Internet collapse caused equity markets to plunge, but the real estate market continued to hold up due to low interest rates. Nevertheless, capital gains realizations fell 50 percent that year and another 35 percent in 2002. Given the "perfect storm" represented by the current environment, there is a great degree of risk surrounding the Budget Division forecast.

The volatility in capital gains realizations has accounted for a large share of the fluctuation in total NYSAGI in recent years. Positive capital gains income is estimated to have increased sharply from $84.4 billion in 2006 to $111.4 billion by 2007, but is expected to decline to $65.9 billion in 2008 and $48.9 in 2009 (see Figure 55). While the estimated capital gains realizations accounted for 15.6 percent of NYSAGI in 2007, this share is expected to decline to 7.7 percent by 2009. For 2010, the Budget Division predicts 32.0 percent growth in capital gains realizations.

Figure 55

Capital Gains Realizations



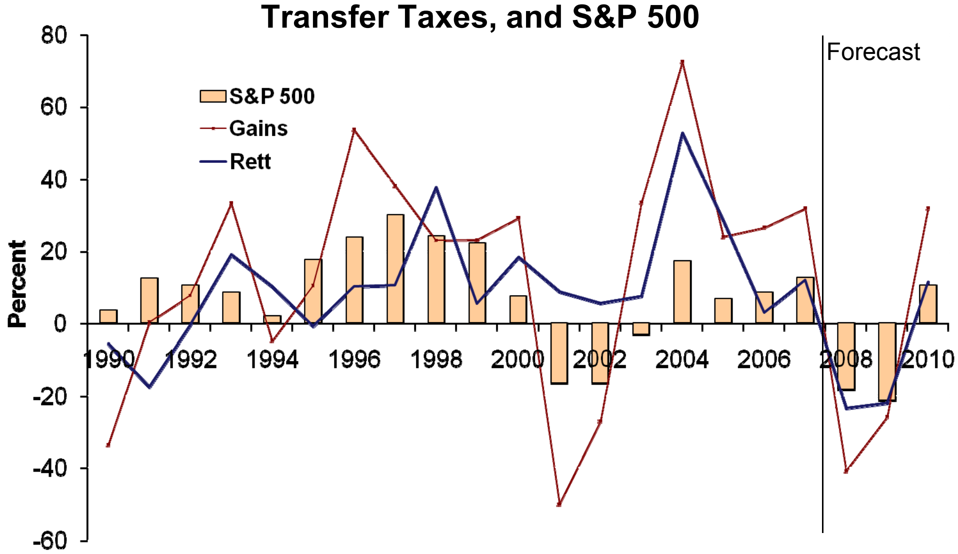
Source: NYS Department of Taxation and Finance; DOB staff estimates.

The Budget Division's forecasting model has attempted to capture the inherent volatility in capital gains income by incorporating those factors that are most likely to influence realization behavior, such as expected and actual tax law changes, financial market activity, and real estate market activity.[12] Federal and state taxes on capital gains income constitute a cost associated with the buying and selling of capital assets and, therefore, can greatly affect realization behavior. For example, the Tax Reform Act of 1986 raised the capital gains tax rate from 20 percent to 28 percent, effective January 1, 1987. Because the tax increase was anticipated by taxpayers when the law was enacted

[12] 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.

in 1986, taxpayers increased realizations by 90.7 percent that year to take advantage of the lower rate, and reduced realizations by 54.6 percent in the following year. Similarly, the lowering of the capital gains tax rate from 20 percent to 15 percent with the passage of the Jobs and Growth Tax Relief and Reconciliation Act (JGTRRA) of 2003 in June of that year contributed to the strong rebound in capital gains realizations in 2003 and 2004. Since JGTRRA was implemented retroactively, no anticipatory realization behavior on the part of taxpayers was observed. The favorable capital gains tax rate of 15 percent is scheduled to sunset at the end of 2010 and return to 20 percent. Since this increase in the tax rate will be anticipated, we expect an unlocking of capital gains realizations in 2010 to benefit from the lower rate.

Figure 56
Growth in Capital Gains Realizations, Real Estate Transfer Taxes, and S&P 500



Note: Forecast period for the S&P 500 and the real estate transfer tax starts in 2008.
2007 capital gains are based on processing data.
Source: Moody's Economy.com; NYS Department of Taxation and Finance;
DOB staff estimates.

Fluctuations in equity market prices strongly influence capital gains realizations which tend to be even more volatile than the equity markets that drive them, as seen in Figure 56. Mirroring the fluctuation in the S&P 500, capital gains realizations experienced strong growth between 1995 and 2000, followed by steep declines in 2001 and 2002 and a remarkable recovery thereafter all through 2007. Equity markets, as measured by the Standard & Poor 500 index, have been declining rapidly since the middle of 2008 and are expected to continue their bearish tendencies through the end of 2008, followed by modest growth throughout 2009 and 2010. On an annual average basis, DOB expects declines in the index for both 2008 and 2009, contributing to the declines in realizations projected for both years.

The health of the real estate market plays an additional role in capital gains realizations. Gains from both residential and commercial real estate transactions are taxable as capital gains, 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.[13] Real estate related gains are estimated to represent a large component of capital gains realizations. Although no direct evidence of this assertion exists for New York, its validity is supported by evidence from national studies and from other states. Historical data for California show that in 2005, 20.7 percent of positive capital gains realizations were generated by real estate transactions. That share has fluctuated from a low of 8.3 percent in 1996, to a high of 32.4 percent in 1990.[14] 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.[15]

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. Very strong growth in cash collections related to real estate transactions of 52.6 percent in 2004 and 28.5 percent in 2005 contributed considerably to the strong growth in capital gains realizations during those years (see Figure 56). More recently, the growth in RETT collections has slowed to 3.0 percent in 2006 and 12.0 percent in 2007, indicating a shrinking contribution by the real estate sector to capital gains realizations. Collections data through October show a substantial drop in real estate transfer taxes for 2008, suggesting an estimated decline of 23.3 percent. DOB projects additional year over year declines in 2009.

Additional State real estate market indicators lend support to the severity of the decline in the real estate market. Figure 57 shows the percentage change in the median prices of existing homes sold between the third quarter of 2007 and the third quarter of 2008 by county for New York State. Though some counties including the Capital Region experienced modest growth, all the counties in New York City as well as most of the Hudson Valley experienced declines in median home values, some of them close to ten percent. Home prices tend to be quite high in the New York City area. Therefore, strong growth combined with high prices make it more likely that New York City sales generate taxable capital gains by surpassing the exemption threshold than in areas where prices are lower. Consequently, the decline in the State's real estate market will contribute to the declines in capital gains realizations projected for both 2008 and 2009.

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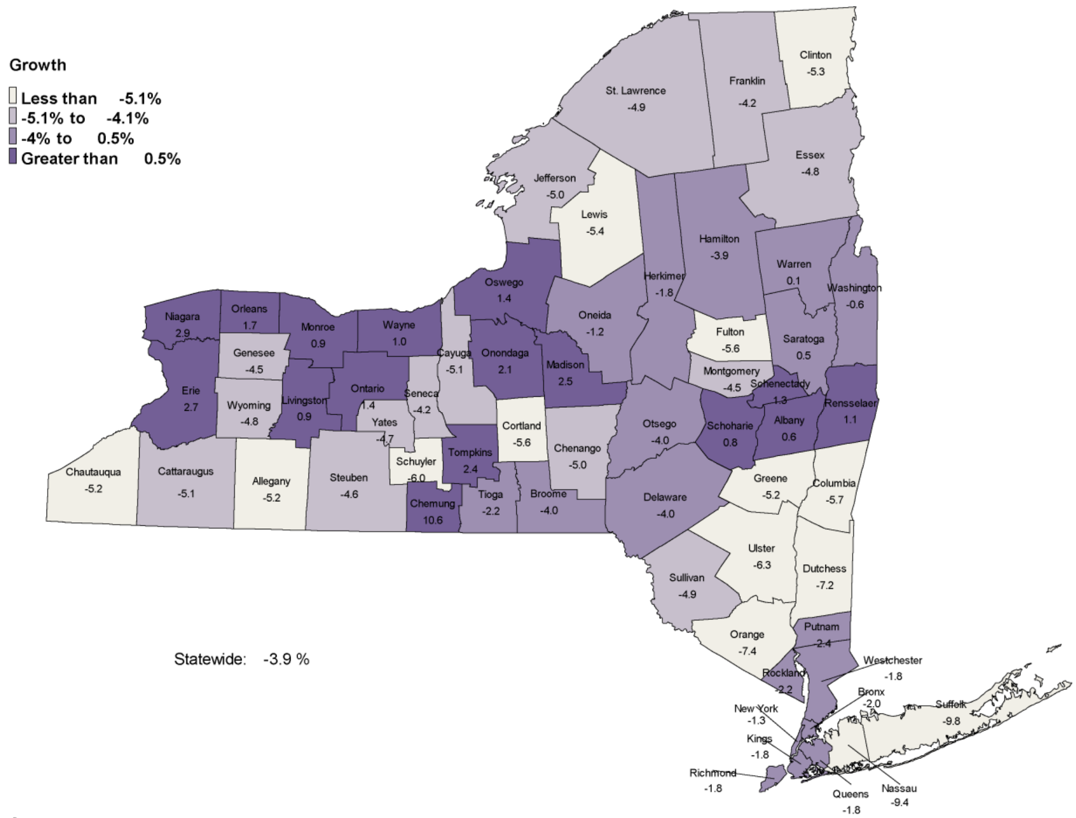
[13] Taxpayers can claim this exclusion if they have lived in their home for a total of two years within the 5-year period ending on the date they sold or exchanged their home and if they have not sold or exchanged another home within the 2-year period ending on the date they sold or exchanged their home.
[14] Unpublished Study, Economics and Statistical Research Bureau, California Franchise Tax Board.
[15] 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 57
Growth in Median Sales Price of Existing Single-Family Homes
2007Q3 – 2008Q3



Source: Moody's Economy.com

Neither the performance of the real estate market nor the equity markets appear to explain fully the high volatility in capital gains realizations, particularly over the past several years. Increasing levels of private equity and hedge funds activity and profitability likely explain at least some of the extraordinary fluctuations. Private equity firms own stakes in companies that are not listed on a public stock exchange and generally receive a return on their investment through a sale or merger of the company, a recapitalization, or by selling shares back to the public through an initial public offering. The return to private equity investments is often not realized for several years, but the rate of return is generally high relative to the return to publicly held stocks to compensate for the higher degree of risk and the value added through the extraction of operating efficiencies. Though related to the performance of equity markets and real estate markets, capital gains from private equity funds exhibit their own dynamics. The last few years have seen a large increase in lucrative returns to investments earned or extracted by private equity firms, contributing to the very high growth rates in capital gains realizations following the last recession through 2007. Hedge funds, whose performance depends on relatively easy access to borrowed funds for leveraging and healthy financial institutions with which to trade, have also been very profitable during the recent years of low interest rates and strong equity markets.

Hedge funds have been experiencing serious trouble as tight credit has made leveraging all but impossible. Borrowing rates faced by hedge funds are now five to ten percentage points higher than they were a year ago, and banks are increasingly hesitant to lend to hedge funds for long periods.[16] The average hedge fund had lost more than 4 percent by the third quarter of 2008, according to Hedge Fund Research Inc, putting the industry on course for its worst year on record. Hedge Fund Research Inc also reports that more than 350 hedge funds closed in the first half of 2008. At this rate, about 7 percent of the funds in the industry will have closed in 2008, a significant increase over 2007.

Activity by private equity firms has dried up as a consequence of the credit crisis. Between April and May, the number of buyout funds opening hit their lowest point in 18 months, according to data provider Private Equity Intelligence Ltd., or Preqin. A third of the total investments made in the industry's history, after adjusting for inflation, consisted of buyout activity in the run up to the credit crunch. This record buyout activity, worth $1.4 trillion in 2006 and 2007, contributed to the declines in realizations projected for 2008 and 2009. Current market conditions might make it less likely for private-equity funds to sustain the 25 percent annual returns they have historically delivered. Indeed, flat or negative returns are expected for 2008.

Equity markets and real estate markets are expected to emerge from their recessionary slumps, and private equity firm and hedge funds are expected to reap the benefits from the expanding markets. The combination of factors leads the Budget Division to forecast strong growth of 32.0 percent in capital gains realizations for 2010, following two years of declines.

The downside risks to the forecast for capital gains realizations are large. The declines projected for 2008 and 2009 are similar in magnitude to those of 2001 and 2002, yet while the observed decline in the equity markets for 2008 resembles that of 2001, the decline in the real estate market in 2008 contrasts sharply with a 2001 real estate market that was gaining strength despite the national recession.

Rent, Royalty, Partnership, and S Corporation Gains

Positive rent, royalty, estate, trust, partnership and S corporation income grew 13.8 percent in 2006 and an estimated 9.5 percent in 2007, accounting for 9.4 percent of NYSAGI in 2007, up from 5.5 percent in 1990 and 7.6 percent in 2000. The largest contributor to this component is partnership income, much of which originates within the finance and real estate industries and is therefore linked to the performances of both the economy and financial markets. A second large contributor to this component is income from S corporation ownership. Selection of S corporation status allows firms to pass earnings through to a limited number of shareholders and to avoid corporate taxation. Over the years, the number of S corporations has increased dramatically, as rules governing which businesses can form S corporations have become less stringent. Tax incentives for forming S corporations as opposed to C corporations arise from avoiding double taxation of earnings at the corporate level and the individual level.

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[16] See Louise Story, "Hedge Fund Glory Days Fading Fast," *New York Times*, September 11, 2008, page C1.

While New York proprietors' income (as defined under NIPA and which includes partnership, S corporation, and sole proprietorship income) grew at an average annual rate of 6.8 percent between 1980 and 2007, taxable partnership and S corporation income grew at a significantly faster rate of 12.4 percent. Some of this growth is due to past tax law changes and to an easing of the Federal and State requirements for forming S corporations. Strong growth from 2004 to 2007 coincides with the exceptional performance of the real estate market, a robust performance of the US economy, and recovering financial markets.

Consistent with the downturn in State economic activity, estimated to have begun in September 2008, a decline in positive partnership and S corporation income of 5.0 percent is projected for 2008, followed by a decline of 3.9 percent for 2009. Improving national and state economic conditions are expected to translate to 7.2 percent growth for 2010.

The Budget Division considers the risks to the model forecast to be on the downside, partly because the real estate market is not captured independently in the forecast model despite a high concentration of real estate partnerships in New York State. Though downward adjustments were made to the model forecasts for 2008 to account for real estate market risk, those adjustments may not reflect the potential downside risks. The Budget Division also views the decline in the profitability of hedge funds as a source of downside risk from this source.

Dividend Income

Taxable dividend income is expected to rise with the fortunes of publicly held U.S. firms, which, in turn, are expected to vary with the business cycle as measured by growth in real U.S. GDP, long-term interest rates as represented by the 10-year Treasury yield, the performance of equity markets, and with dividend payouts by Standard and Poor 500 firms. Fluctuations in New York State taxpayers' dividend income have ranged from a decline of 19.3 percent in 2001 to an increase of 26.6 percent in 2004, proving much more variable than U.S. dividend income, a component of the NIPA definition of U.S. personal income, or dividend payouts by Standard and Poor 500 firms. While State taxable dividend income grew at an average annual rate of 7.2 percent with a standard deviation of 11.2 percentage points between 1976 and 2007, US dividend income grew an average 10.6 percent annually with a standard deviation of 6.6 percentage points over the same period, and dividend payouts by Standard and Poor 500 firms at a rate of 6.6 percent with a standard deviation of 5.1 percentage points.

Preliminary data show that dividend income grew a strong 16.9 percent in 2007, following even stronger growth of exceeding 20 percent in the three previous years. The strong growth in 2004 reflects a number of one-time dividend payouts, most notably the $32 billion dividend distribution by Microsoft. The strong growth from 2004 to 2007 can also be attributed to strong economic growth and a lower tax rate for dividend income starting in the second half of 2003. Consistent with a contracting economy and the reduction or cancellation of dividend payouts by many struggling corporations, the Budget Division projects a 12.3 percent decline in 2008, followed by a 4.8 percent decline for 2009. In contrast, growth of 9.9 percent is expected for 2010, consistent with projected economic growth of 3.7 percent bolstering corporate earnings and the capacity to pay dividends.

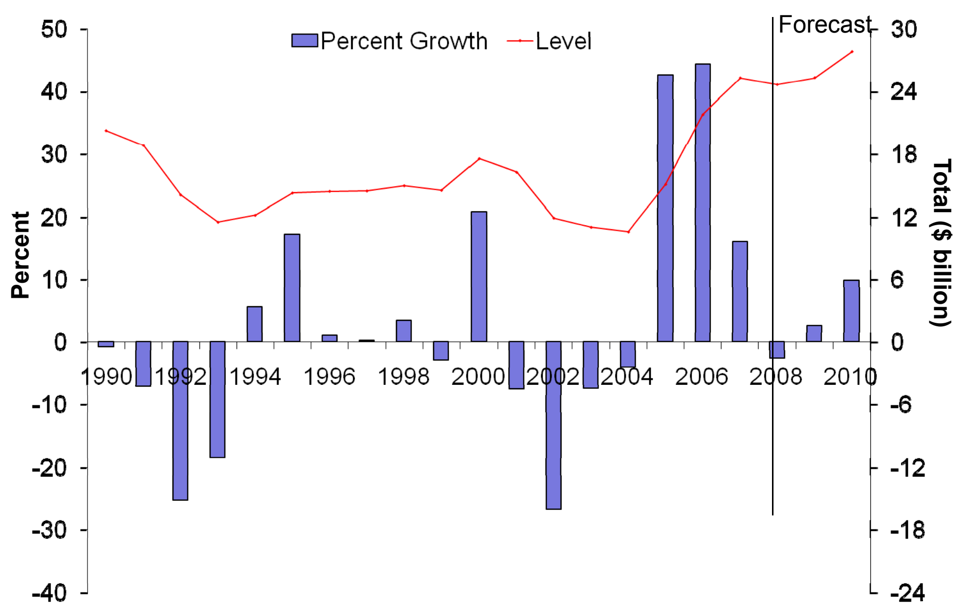
The current economic recession, high equity market volatility, and declines in U.S. corporate profits, particularly within the financial sector, create considerable downside risk to the model forecast for dividend income. Larger declines in dividend income are possible if credit-constrained firms curtail their dividend payouts more than expected.

Interest Income

For a given amount of assets, an increase in interest rates will increase interest income. In addition, the overall trend in taxable interest income for New York is found to closely track that of U.S. interest income, another component of the NIPA definition of U.S. personal income. However, taxable interest income for New York is much more volatile than the latter measure. For the period from 1978 to 2007, the average growth rate for U.S. interest income was 7.3 percent, with a standard deviation of 8.5 percentage points. In contrast, New York's interest income over the same period averaged 6.7 percent growth, with a standard deviation of over 17.5 percentage points. The additional volatility in the New York series could be related to the behavioral response of State taxpayers to past changes in the tax law.

Figure 58

Interest Income



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

Taxable interest income increased by 42.7 percent in 2005, and 44.4 percent in 2006, while preliminary data suggest additional growth of 16.2 percent for 2007 (see Figure 58). U.S. interest income for the same three years experienced increases of 14.2 percent, 10.1 percent and 7.9 percent respectively. The remarkable growth in New York State taxpayers' interest income reflects a rebound from four years of declines between

2001 and 2004 due to the sharp drop in interest rates engineered by the Federal Reserve as the national economy was slipping into recession. The growth may also reflect the explosion of debt related to the housing market bubble, as well as growth in the national debt. The Federal Reserve ushered in a new round of interest rate cuts starting in the second half of 2007, leading to a forecast of a 2.5 percent decline in interest income for 2008. The Budget Division expects the Federal Reserve to start increasing rates as the economy comes out of the recession in the second half of 2009 and consequently forecasts a slight increase in interest income of 2.7 in 2009 and 9.9 percent in 2010.

Close inspection of Figure 58 reveals that the projected period of decline for 2008 is shorter and considerably shallower than the declines observed in the period from 2001 to 2004 or the early nineties. Consequently, there is considerable downside risk to the forecast for 2008 and 2009.

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. The inclusion in the model of State proprietors' income, a component of the NIPA definition of New York personal income, which is forecast within DOB/N.Y., insures consistency between the Budget Division's New York forecast and the forecast of this component of NYSAGI. Real U.S. GDP captures the impact of the national business cycle, which might not be captured by the NIPA definition of State proprietors' income.

Small business and farm income growth has shrunk over the years. While it grew at an annual rate of 10.0 percent from 1978 to 1990, since 1991, this component of income has only grown at an annual average rate of 5.5 percent. Proprietors' income, as defined under NIPA, experienced similar changes in growth, growing at annual average rates of 10.1 percent and 5.3 percent for those two periods, respectively. Differences in inflation rates play a role in the declining growth rates. Both 2006 and 2007 were strong years for small business and farm income, with 10.6 percent growth observed for 2006 and 8.4 percent growth estimated for 2007. Given the weakening national and New York economies, the Budget Division estimates slower growth of 2.0 percent for 2008, followed by a 3.6 percent decline for 2009. Growth of 6.5 percent is projected for 2010, consistent with recoveries in both the national and State economies from the current recession.

Pension Income

Pension income includes payments from retirement plans, life insurance annuity contracts, profit-sharing plans, military retirement pay, and employee savings plans. Pension income grew 4.4 percent in 2006, followed by growth of 5.9 percent for 2007, based on preliminary data. The Budget Division estimates 5.2 percent growth for 2008, followed by growth of 5.4 percent in 2009 and 4.2 percent in 2010.

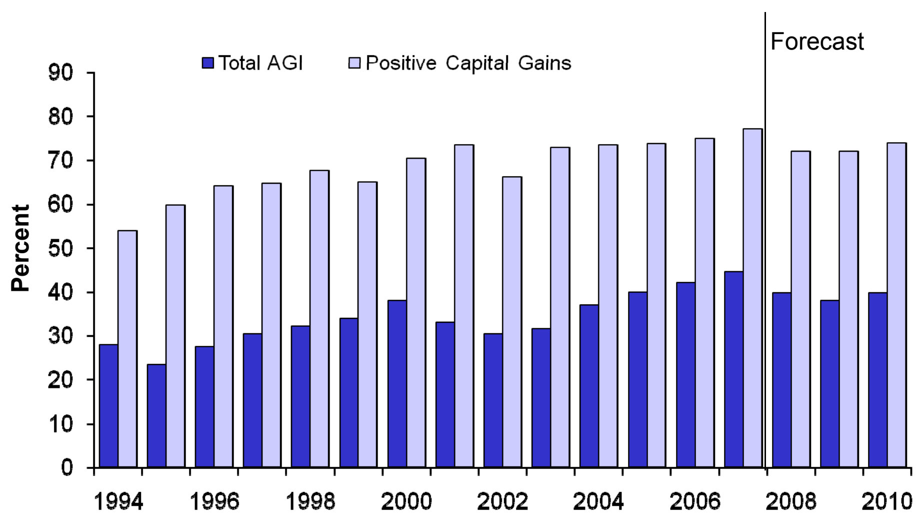
Pension income is linked to long-term interest rates, suggesting that firms base the level of pension and life-insurance benefits they offer to employees on their expectations of future profitability, which is in turn tied to the future strength of the economy. Pension income has grown steadily over the years, although the growth rate has declined considerably over time. While the average annual growth rate between 1978 and 1990 was 12.8 percent, it fell to 7.2 percent between 1991 and 2007. This coincides with a decline in the 10-year Treasury rate from 10.2 percent in the former period to 6.0 percent in the latter. Both declines are likely the result of lower inflation rates in the later period.

Changes in the State Distribution of Income and Revenue Risk

As indicated in Figure 54 on page 144, NYSAGI exhibits more volatility than other indicators of the State's tax base, such as State personal income, while personal income tax liability is more volatile still. Box 11 compares these three important indicators of the size of the State's personal income tax base and discusses their respective volatilities. 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 42.0 percent of adjusted gross income in 2006 and 44.5 percent in 2007, they accounted for fully 74.8 percent and 77.0 percent of capital gains realizations in those years, respectively (see Figure 59). Since the income of wealthy taxpayers is taxed at the highest rate, an accurate projection of these income components is critical to an accurate projection of personal income tax liability.

Figure 59

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



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

BOX 11
INCOME TAX LIABILITY AND ALTERNATIVE MEASURES OF INCOME

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

Personal income tax liability is the amount which State taxpayers actually owe for a given tax year and thus measures the State's tax base.[1] Personal income tax liability is derived from taxpayers' New York State adjusted gross income (NYSAGI), in conformity with State tax law. A measure that is closely related to NYSAGI is State personal income, a U.S. Bureau of Economic Analysis national income and product accounts (NIPA) concept that measures income derived from value added to current production.[2] This widely available data source is often used as a proxy for NYSAGI. The relative volatility of these three concepts – personal income tax liability, NYSAGI, and State personal income – is presented in Figure 54 on page 144. For example in 2006, personal income experienced solid growth of 7.2 percent, while NYSAGI grew a stronger 10.6 percent and personal income tax liability an even stronger 14.3 percent, holding tax rates constant at their 2002 values.

Economists use the concept of elasticity to measure the sensitivity of one economic indicator to another. Thus, elasticity is defined as the percentage change in one economic indicator when another changes by one percent. Since tax revenues tend to vary with the business cycle, we are often interested in the elasticity of the tax base with respect to a broad measure of economic conditions, such as GDP. For example, if GDP increases one percent and personal income responds to that improvement in economic conditions by growing two percent, the elasticity would be two. The more sensitive a particular tax base measure is to a change in GDP, the higher the elasticity.

Typically, the elasticity of NYSAGI tends to be higher than that of personal income because NYSAGI measures the taxable components of income, which include realized capital gains and losses. Gains and losses earned on changes in asset prices are not included in the NIPA concept of personal income since they do not represent additions or subtractions to the value of current production.[3] Unlike the primary drivers of personal income – employment and wages, which have relatively stable bases – income from capital gains realizations can rise and fall dramatically. When asset market conditions are depressed, taxpayers can refrain from selling, which can result in dramatic declines in taxable capital gains, such as the 27.0 percent decline in 2002. Likewise, taxpayers can respond to upturns in market conditions by accelerating trading activity, similarly resulting in dramatic growth, such as the 72.5 percent growth in taxable capital gains income experienced in 2004, and 26.6 percent in 2006. In addition to behavioral responses to changes in market conditions, NYSAGI fluctuations can result from statutory changes and taxpayers' strategic responses to such changes.

Personal income tax liability is even more elastic than NYSAGI, primarily because of the progressivity of the State tax system. The volatile components of taxable income, such as bonuses and capital gains realizations, tend to be concentrated among the State's high-income taxpayers, who are also taxed at the highest marginal tax rate. Growth in those components usually increases the average effective tax rate and contributes to the higher elasticity of personal income tax liability. It is evident from Table 10 that the volatility of positive capital gains is much greater than that of wages, positive partnership/S corporation income, and total NYSAGI. In 2004, taxable wages grew 6.5 percent, NYSAGI 11.0 percent, and capital gains realizations as much as 72.5 percent. Indeed, the $22.6 billion increase in capital gains realizations constituted 43.3 percent of the $52.2 billion increase in NYSAGI. For 2007, NYSAGI growth of 12.8 percent was accompanied by 32.0 percent growth in capital gains and 9.5 percent growth in the other large component, partnership/S corporation income.

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.

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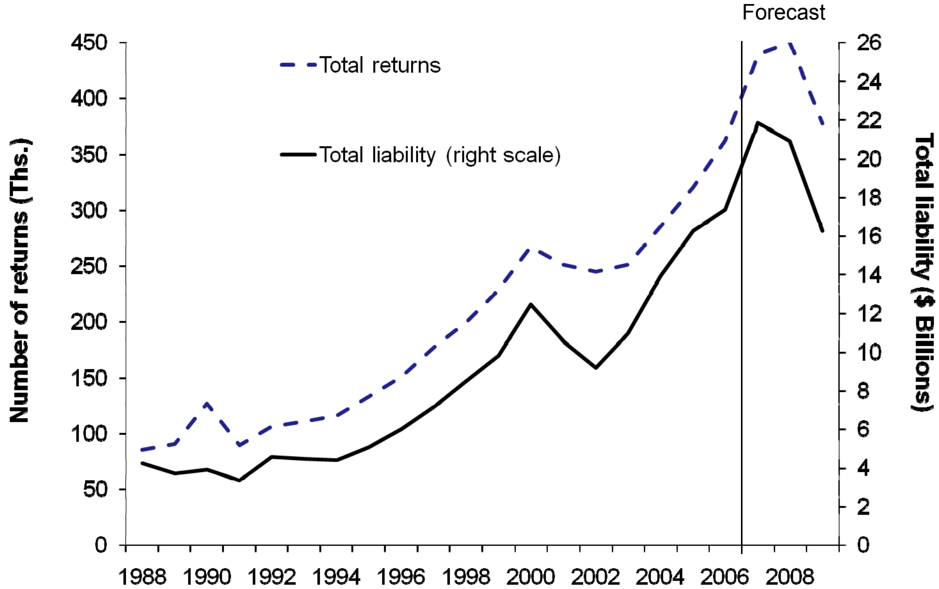
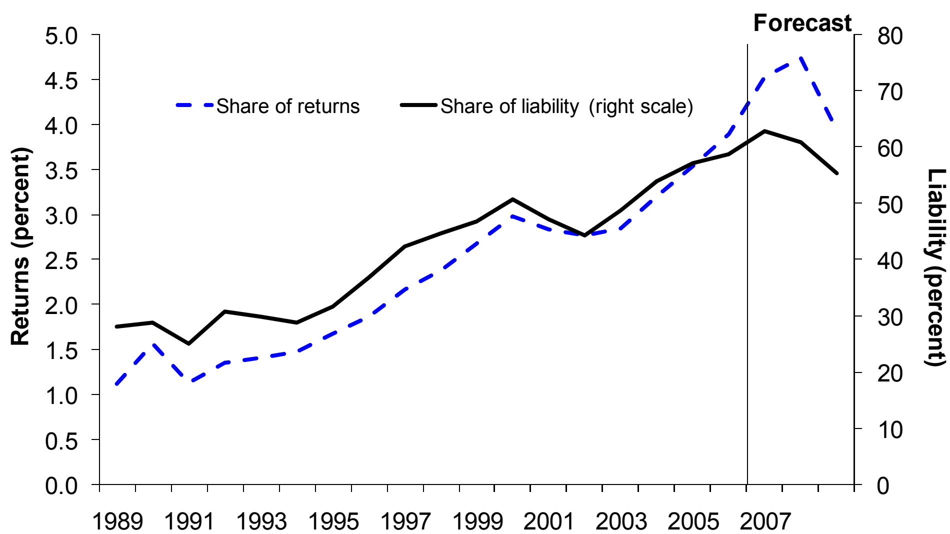
[1] For a detailed discussion of personal income tax liability, see Tax Receipt Section "Personal Income Tax."
[2] For a detailed explanation of how the Budget Division constructs State personal income, see Box 8 on page 117.
[3] However, any transaction cost generated by such a sale would add value 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 4, 2008, pages 55-58, < http://www.budget.state.ny.us/pubs/supporting/2008-09ForecastMethodologies.pdf>.

Figure 60
New York State High-Income Tax Returns



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

Figure 61
High-Income Taxpayers as Percent of Total Returns and Liability



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

Out-year estimation of the income distribution is fraught with uncertainty since the share of income earned among the wealthiest taxpayers can fluctuate dramatically with such factors as the business cycle, financial markets, and changes in Federal and State tax treatment. As incomes rise, some taxpayers move into higher income tax brackets, increasing the effective tax rate and the amount of liability generated from a given amount of adjusted gross income. The opposite occurs as incomes fall. 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 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. The effective tax rate for 2007 is estimated at 4.88 percent, surpassing the previous peak in 2000.

The share of total personal income tax liability accounted for by high-income taxpayers – those reporting NYSAGI of $200,000 or more – grew considerably between 1995 and 2007 (see Figure 60). The 11.1 percent average annual growth rate in high-income returns between 1995 and 2007 far outpaced the 1.6 percent growth in the entire taxpayer population. Despite this growth, high-income taxpayers represented a mere 4.5 percent of all taxpayers but accounted for 62.8 percent of personal income tax liability (see Figure 61), and 49.0 percent of NYSAGI in 2007. The increasing concentration of NYSAGI among high-income taxpayers increases the elasticity of total liability with respect to changes in the highest marginal tax rate. However, the large declines projected for 2008 in NYSAGI and, particularly, in capital gains realizations are expected to partially unwind the recent growth in the concentration of income, at least temporarily.

Table 11 indicates that trends in both wage and nonwage income are responsible for the increasing concentration of liability since the mid-1990s. The share of nonwage income accruing to the top 25 percent of taxpayers grew 14.6 percentage points between 1996 and 2006, while the wage share grew 13.6 percentage points. Much of the growth in nonwage income during the 1990s was in capital gains realizations and partnership and S corporation income, which tend to accrue primarily to high-income filers. Although wage income is more evenly distributed across taxpayers than nonwage income, the gains in wages earned since 1996 have gone disproportionately to the top filers.

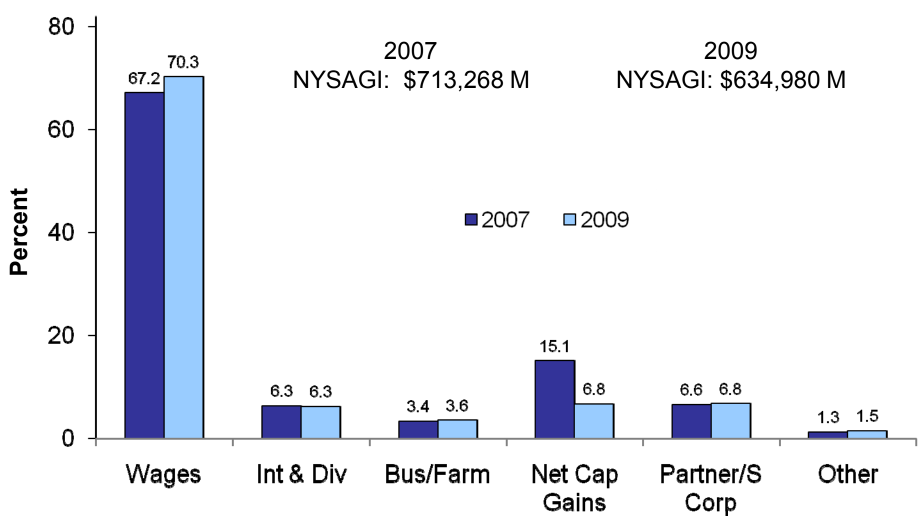
TABLE 11
THE CONCENTRATION OF STATE INCOME AND LIABILITY
1996 and 2006

	Number of Returns	Gross Income	Wage Income	Nonwage Income	Liability
			1996		
Total ($ in millions)	8,078,337	$372,195	$266,334	$105,862	$16,319
Share: Top 1%	–	22.0	14.3	41.4	31.4
Share: Top 5%	–	37.6	29.5	57.9	51.2
Share: Top 10%	–	48.2	41.3	65.3	62.8
Share: Top 25%	–	69.1	65.1	79.2	83.1
			2006		
Total ($ in millions)	9,316,507	$685,180	$445,210	$239,970	$29,594
Share: Top 1%	–	38.4	25.3	62.7	52.5
Share: Top 5%	–	58.8	48.3	78.1	75.6
Share: Top 10%	–	69.5	61.1	84.9	85.0
Share: Top 25%	–	84.0	78.7	93.8	96.2

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

Figure 62 and Figure 63 display the estimated composition of NYSAGI for 2007 based on preliminary data, and the projected composition for 2009, both for all taxpayers and for high-income taxpayers, defined as those reporting NYSAGI of $200,000 or more. The figures show a substantial shift in income from net capital gains realizations to wages over the two-year period.[17] With a 10.6 percent decline in NYSAGI over the two years for all taxpayers, net capital gains income is projected to fall from 15.1 percent to 6.8 percent of NYSAGI, and the share of wages to increase from 67.2 percent to 70.3 percent. High-income taxpayers are expected to experience a much larger 23.3 percent decline in NYSAGI over the two years and to see their share of capital gains income drop from 28.2 percent to 13.4 percent of NYSAGI. The wage share is expected to increase from 47.0 percent to 48.8 percent for high-income taxpayers. High-income taxpayers have a much higher concentration of capital gains income and partnership and S corporation income, and a much smaller concentration of wage income.

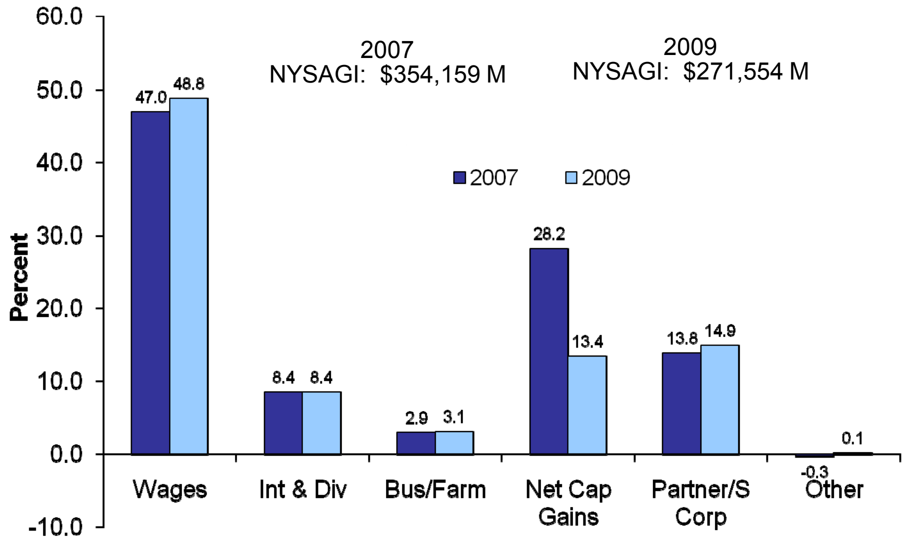
Figure 62
Composition of NYSAGI for All Taxpayers



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

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

Figure 63
Composition of NYSAGI for High-Income Taxpayers



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

Summary

In summary, given the uncertainty surrounding such volatile components as capital gains realizations and bonuses, and the small number of taxpayers who account for the majority of the income from these realizations, there exists significant risk to the Division of the Budget's personal income tax forecast. The fallout from the large declines in both equity markets and real estate markets, as well as from the current recession could be substantially larger for all of the component of taxable income. Should GDP growth for 2009 be weaker than projected, small business and farm income and partnership and S corporation income could also be lower than expected. Statistical evidence suggests that a one percentage point reduction in GDP growth translates into a decline in NYSAGI of about $1 billion and a decline in personal income tax liability of about $50 million.

TABLE 12
SELECTED ECONOMIC INDICATORS
(Calendar Year)

	2007 (actual[1])	2008 (estimate)	2009 (forecast)	2010 (forecast)	2011 (forecast)	2012 (forecast)	1976-2007 Average[2]
U.S. Indicators[3]							
Gross Domestic Product (current dollars)	4.8	3.6	0.8	3.7	5.3	5.5	6.9
Gross Domestic Product	2.0	1.3	(0.9)	1.9	3.0	3.3	3.1
Consumption	2.8	0.3	(0.8)	2.4	3.0	3.1	3.4
Residential Fixed Investment	(17.9)	(20.6)	(11.3)	3.0	5.9	7.5	3.4
Nonresidential Fixed Investment	4.9	2.8	(5.8)	0.5	5.6	6.4	5.1
Change in Inventories (dollars)	(2.5)	(28.1)	(11.8)	24.2	30.6	29.4	27.9
Exports	8.4	7.2	(3.8)	3.1	8.5	9.8	6.1
Imports	2.2	(2.9)	(4.2)	3.3	7.1	8.2	7.2
Government Spending	2.1	2.9	1.4	(0.2)	1.1	2.0	2.1
Corporate Profits[4]	(1.6)	(6.8)	(5.9)	2.8	4.9	5.4	8.6
Personal Income	6.1	3.8	1.8	4.8	5.7	5.4	7.0
Wages	5.6	2.9	1.3	5.1	5.6	5.5	6.7
Nonagricultural Employment	1.1	(0.2)	(1.2)	1.3	1.6	1.5	1.8
Unemployment Rate (percent)	4.6	5.7	7.6	7.4	7.0	6.6	6.2
S&P 500 Stock Price Index	12.7	(18.2)	(21.3)	10.5	6.7	8.5	10.0
Federal Funds Rate	5.0	2.0	0.8	3.6	4.6	4.5	6.5
10-year Treasury Yield	4.6	3.8	3.6	5.1	5.6	5.5	7.6
Consumer Price Index	2.9	4.1	1.4	2.1	2.7	2.7	4.3
New York State Indicators							
Personal Income[5]	6.5	2.4	(1.3)	2.8	4.8	5.1	6.4
Wages and Salaries[5]							
Total	8.8	1.2	(3.0)	2.4	4.1	4.4	6.1
Without Bonus[6]	5.7	3.2	1.4	3.1	3.9	4.2	5.7
Bonus[6]	26.6	(8.3)	(26.8)	(3.2)	5.3	6.0	11.1
Wage Per Employee	7.3	0.9	(1.5)	2.3	3.5	3.7	5.3
Property Income	6.9	1.2	(2.5)	2.3	4.1	4.8	7.1
Proprietors' Income	1.5	4.9	(1.9)	4.2	7.1	6.9	8.2
Transfer Income	4.4	6.9	7.2	4.0	5.8	5.7	6.5
Nonfarm Employment[5]							
Total	1.4	0.3	(1.5)	0.1	0.6	0.7	0.8
Private	1.5	0.3	(1.8)	(0.0)	0.7	0.8	0.9
Unemployment Rate (percent)	4.5	5.4	7.1	7.0	6.6	6.3	6.5
Composite CPI of New York[6]	2.9	4.1	1.4	2.6	2.9	3.2	4.4
New York State Adjusted Gross Income (NYSAGI)							
Capital Gains	32.0	(40.9)	(25.8)	32.0	(32.4)	11.9	18.0
Partnership/ S Corporation Gains	9.5	(5.0)	(3.9)	7.2	8.0	9.0	12.6
Business and Farm Income	8.4	2.0	(3.6)	6.5	4.6	5.7	7.0
Interest Income	16.2	(2.5)	2.7	9.9	7.9	2.7	6.6
Dividends	16.9	(12.3)	(4.8)	9.9	6.4	1.4	6.9
Total NYSAGI	12.8	(6.3)	(5.0)	5.4	0.8	5.1	6.3

[1] For NYSAGI variables, 2007 is an estimate.
[2] For the NYSAGI variables, averages are calculated using data through 2006. Partnership and S corporation gains data start in 1978, NYSAGI data in 1980.
[3] All indicators are percent changes except change in inventories, the unemployment rate, and interest rates; all GDP components refer to chained 2000 dollars, unless otherwise noted.
[4] Includes inventory valuation and capital consumption adjustments.
[5] Nonagricultural employment, wage, and personal income numbers are based on CEW data.
[6] Series created by the Division of the Budget.

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

TABLE 13
SELECTED ECONOMIC INDICATORS
(State Fiscal Year)

	2007-08 (actual)	2008-09 (estimate)	2009-10 (forecast)	2010-11 (forecast)	2011-12 (forecast)	2012-13 (forecast)	1976-77 - 2007-08 Average
U.S. Indicators[1]							
Gross Domestic Product (current dollars)	4.9	2.7	1.1	4.4	5.4	5.5	6.9
Gross Domestic Product	2.3	0.5	(0.5)	2.3	3.2	3.3	3.1
Consumption	2.4	(0.5)	0.1	2.7	3.1	3.1	3.3
Residential Fixed Investment	(18.6)	(19.3)	(7.6)	4.4	6.5	7.2	2.9
Nonresidential Fixed Investment	5.6	0.4	(5.8)	2.7	5.9	6.4	5.2
Change in Inventories (dollars)	(1.3)	(33.6)	0.3	27.5	30.8	29.2	27.6
Exports	9.4	4.4	(3.6)	4.9	9.2	9.6	6.2
Imports	1.1	(4.2)	(2.4)	4.7	7.5	8.1	7.1
Government Spending	2.4	2.9	0.6	0.0	1.4	2.0	2.1
Corporate Profits[2]	(1.7)	(8.7)	(3.4)	3.7	5.0	5.5	8.2
Personal Income	5.5	3.2	2.3	5.3	5.6	5.4	7.0
Wages	5.0	2.2	2.2	5.5	5.6	5.4	6.6
Nonagricultural Employment	0.9	(0.7)	(0.6)	1.6	1.6	1.5	1.8
Unemployment Rate (percent)	4.7	6.3	7.7	7.4	6.9	6.5	6.1
S&P 500 Stock Price Index	8.3	(24.8)	(10.4)	8.6	7.1	8.7	9.7
Federal Funds Rate	4.5	1.3	1.2	4.1	4.6	4.5	6.5
10-year Treasury Yield	4.4	3.8	3.8	5.4	5.6	5.4	7.6
Consumer Price Index	3.3	3.6	1.2	2.4	2.7	2.6	4.3
New York State Indicators							
Personal Income[3]	4.5	(0.2)	0.8	3.8	4.9	5.1	6.4
Wages and Salaries[3]							
Total	4.8	(2.3)	0.3	3.6	4.2	4.5	6.1
Without Bonus[4]	5.2	2.5	1.7	3.5	4.0	4.3	5.6
Bonus[4]	2.5	(26.7)	(9.4)	4.7	5.7	6.1	12.3
Wage Per Employee	3.3	(1.9)	1.6	3.3	3.6	3.7	5.3
Property Income	6.7	(1.3)	(1.4)	3.1	4.3	5.0	6.9
Proprietors' Income	3.1	2.8	(1.3)	5.5	7.2	6.7	8.3
Transfer Income	4.1	7.8	6.6	4.0	5.9	5.7	6.7
Nonfarm Employment[3]							
Total	1.4	(0.4)	(1.3)	0.3	0.6	0.7	0.7
Private	1.5	(0.5)	(1.6)	0.3	0.8	0.8	0.9
Unemployment Rate (percent)	4.7	5.9	7.2	6.9	6.6	6.2	6.6
Composite CPI of New York[4]	3.1	3.8	1.3	2.7	3.0	3.2	4.4

[1] All indicators are percent changes except change in inventories, the unemployment rate, and interest rates; all GDP components refer to chained 2000 dollars, unless otherwise noted.

[2] Includes inventory valuation and capital consumption adjustments.

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

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

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

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

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

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.

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

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

TOTAL STATE AND LOCAL TAXES

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

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

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

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

- The tax-to-income ratio for New York exceeded the national average by $4.96 per $100 of personal income, or 47.1 percent in 1977. In 2006, the gap was $3.72, or 34.1 percent above the national average.

State Taxes

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

- New York taxes per $100 of personal income actually declined from $7.39 in 1977 to $6.78 in 2006.

- The New York ranking in terms of state taxes went from 10th highest in 1977, to 23rd highest in 2006.

- New York's tax burden as measured by the ratio of state taxes to income was $0.17 below the national average in 2006.

- New York's status as a higher-than-average state and local combined tax burden state is due to higher-than-average local tax burdens.

Local Taxes

- At least a portion of the significant local tax burden in New York is due to the large portion of sales tax retained by New York localities. This contrasts sharply with other states and reflects, at least in part, the need at the local level in New York for receipts to pay for the local share of Medicaid. The local Medicaid share in New York was addressed as part of the local Medicaid relief program enacted with the 2005-06 Budget. The cost of the Medicaid program is gradually being shifted to the State and should act to reduce taxing pressures at the local level over time.

- New York City uniquely imposes taxes which comprise a large portion of New York's total local burden. In 2006, $1.45 of New York's local burden of $7.83 per $100 of state personal income was due to the New York City (NYC) personal and corporate income taxes. This accounted for nearly 19 percent of the total local burden.

- Higher than average property taxes as a share of income (46.0 percent above the 2006 national average) in New York are tied, for the most part, to rapidly escalating school property taxes over the past several years.

Property Taxes in New York State

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

- Property tax burdens as a percent of median home value are felt most heavily in Upstate counties due to relative weakness in home value appreciation and other demographic factors. In fact, eight of the ten highest property tax counties in the nation (and 17 of the top 30) in 2007 were in Upstate New York as measured by property taxes paid on the median-valued home in that county.[1]

- Long Island and suburban counties near NYC (Westchester, Rockland, Putnam and Orange) experienced high property taxes as a percent of each county's respective median household income in 2007. Using this metric, 4 of the 10 highest property tax counties in the nation (and 6 of the top 25) in 2007 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 2007 when compared to other New York counties. This is the result of the more diverse tax structure in the City and a large and valuable commercial property tax base.

TABLE CONSTRUCTION

This section compares the state and local tax structure in New York State with other states. Table 1 reports tax rates for the major tax sources utilized by state and local governments. The first and second columns of the table show the top personal income tax rate by state, and the income level at which the top rate takes effect; the third column lists top corporate tax rates (most state corporate tax structures have relatively flat rate structures, so the rate reported often applies to all corporate income subject to tax); the fourth column reports state sales tax rates; and the final column reports the average combined state and local sales tax rates imposed by the various jurisdictions within such state. The rates are those in effect as of 2008. 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 2006, respectively. The New York rank in terms of state taxes went from 10th highest to 23rd highest over this period.

Tables 4 and 5 report local taxes as a share of state personal income by state in 1977 and in 2006. In 2006, New York had the highest local tax burden using this measure. New York fell from $4.12 above the local tax burden in 1977 to $3.89 in 2006, but some of this decrease is captured in the general decrease in variation amongst local taxes across states. The remaining above-average local tax burden is caused by relatively high property taxes, the large sales tax burden imposed at the local level, and the high ratio in the other category that picks up the income and corporate taxes imposed by New York City.

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

Tables 6a and 6b 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 2006, the latest year for which complete state and local tax information is available. The tax-to-income ratios included on table 7 are: state and local income taxes, state and local corporate taxes, state and local sales taxes, local property taxes, all other state and local taxes, and finally combined state and local taxes. Table 8a reports changes in only the state tax-to-income ratio over the 1977-2006 period. During this time, New York's state tax burden fell relative to the mean, and has been below the mean for all but one of the last ten recorded years. Table 8b reports changes in the state and local tax-to-income ratio over the 1977-2006 period. The average state and local tax-to-income ratio has remained relatively constant nationwide over the twenty-nine year period, while the New York ratio has declined overall in spite of a recent increase. In every year since 1977, New York has been at least 2.74 percent points above the mean.

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

Table 9 reports U.S. Census Bureau data on county-level property tax collections on owner-occupied housing across the U.S., as compiled and calculated by the Tax Foundation, for the 38 New York State counties that appeared in the Tax Foundation report[2]. The source report covered the 788 counties in 2007 that had populations of at least 65,000 as of July 1, 2007. 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 788 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 additional issues should be taken into consideration when relying on this measure:

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[2] *Property Taxes Surged with Housing Boom. Will Localities Respond to Dip with Higher Rates?* Tax Foundation, October 2006.

Tax Exportation

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

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

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

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

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

Income Adjustments

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

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

Federal Offsets

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

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

Table 1 Comparison of 2008 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	8.1
Alaska	0	NA	9.4	0	1.45
Arizona	4.54	$300,000	6.97	5.6	7.15
Arkansas	7	$31,000	6.5	6	8.2
California	9.3	$89,670	8.84	6.25	8
Colorado	4.63	Flat Rate	4.63	2.9	6.35
Connecticut	5	$20,000	7.5	6	6
Delaware	5.95	$60,000	8.7	0	0
Florida	0	NA	5.5	6	6.7
Georgia	6	$10,000	6	4	6.95
Hawaii	8.25	$96,000	6.4	4	4.35
Idaho	7.8	$49,472	7.6	6	6.05
Illinois	3	Flat Rate	7.3	6.25	8.4
Indiana	3.4	Flat Rate	8.5	7	7
Iowa	8.98	$62,055	12	6	6.75
Kansas	6.45	$60,000	4	5.3	6.9
Kentucky	6	$75,000	6	6	6
Louisiana	6	$50,000	8	4	8.7
Maine	8.5	$38,900	8.93	5	5
Maryland	5.5	$500,000	8.3	6	6
Massachusetts	5.3	Flat Rate	9.5	5	5
Michigan	3.9	Flat Rate	4.95	6	6
Minnesota	7.85	$126,581	9.8	6.5	6.85
Mississippi	5	$10,000	5	7	7
Missouri	6	$9,000	6.25	4.225	7.05
Montana	6.9	$13,900	6.75	0	0
Nebraska	6.84	$54,000	7.81	5.5	6
Nevada	0	NA	0	6.5	7.5
New Hampshire	State Income tax limited to Interest Income and Dividends only		8.5	0	0
New Jersey	8.97	$500,000	9	7	7
New Mexico	5.3	$32,000	7.6	5	6.35
New York[2]	**6.85**	**$40,000**	**7.1**	**4**	**8.25**
North Carolina	8.25	$200,000	6.9	4.5	6.8
North Dakota	5.54	$349,701	6.5	5	5.7
Ohio	6.24	$200,000	8.5	5.5	6.8
Oklahoma	5.5	$20,000	6	4.5	8.05
Oregon	9	$14,600	6.6	0	0
Pennsylvania	3.07	Flat Rate	9.99	6	6.25
Rhode Island	25% of federal tax rates		9	7	7
South Carolina	7	$13,350	5	6	6.9
South Dakota	0	NA	0	4	5.5
Tennessee	State Income tax limited to Interest Income and Dividends only		6.5	7	9.4
Texas	0	NA	0	6.25	8
Utah	5	Flat Rate	5	4.65	6.6
Vermont	9.5	$357,700	8.5	6	6.05
Virginia	5.75	$17,000	6	4	5
Washington	0	NA	0	6.5	8.5
West Virginia	6.5	$60,000	8.5	6	6
Wisconsin	6.75	$190,920	7.9	5	5.4
Wyoming	0	NA	0	4	5.35
Mean Values	**5.37**		**6.61**	**4.85**	**5.99**
Standard Deviation	**2.73**		**2.70**	**1.87**	**2.20**
Coefficient of Variation	**50.83**		**40.85**	**38.56**	**36.73**

[1] **Source:** Sales Tax Clearinghouse. Reflects average combined state and local rates for state.

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

Table 2 - 1977 Components and Percentage of Total State Tax Burden per $100 Personal Income

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

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

Table 3 - 2006 Components and Percentage of Total State Tax Burden per $100 Personal Income

State	Total State Taxes	Rank	PIT	Rank	Percent of Total	Sales and Use	Rank	Percent of Total	Cor-porate	Rank	Percent of Total	Other	Rank	Percent of Total
Alabama	6.02	37	1.95	35	32.4	2.99	31	49.6	0.39	31	6.6	0.69	28	11.4
Alaska	9.58	3	0.00	50	0.0	0.81	49	8.4	3.17	1	33.1	5.61	2	58.5
Arizona	5.96	39	1.63	39	27.4	3.48	20	58.4	0.45	23	7.5	0.40	40	6.8
Arkansas	8.79	7	2.52	22	28.7	4.62	5	52.6	0.46	19	5.3	1.18	14	13.5
California	7.70	13	3.54	3	46.0	2.76	35	35.9	0.71	6	9.3	0.68	24	8.9
Colorado	4.53	48	2.26	30	50.0	1.73	46	38.2	0.24	44	5.4	0.29	49	6.5
Connecticut	6.74	25	3.21	9	47.6	2.76	36	41.0	0.35	35	5.2	0.42	37	6.2
Delaware	8.62	9	3.07	11	35.6	1.30	48	15.1	0.89	4	10.3	3.36	3	39.0
Florida	5.56	44	0.00	50	0.0	4.13	8	74.1	0.36	33	6.5	1.08	16	19.4
Georgia	5.66	42	2.67	15	47.2	2.47	38	43.7	0.30	38	5.2	0.22	50	3.9
Hawaii	10.39	2	3.28	7	31.5	6.36	1	61.2	0.31	37	3.0	0.44	44	4.2
Idaho	7.08	20	2.75	14	38.9	3.30	24	46.5	0.45	22	6.3	0.58	29	8.2
Illinois	5.74	41	1.76	38	30.7	2.89	33	50.4	0.49	15	8.5	0.60	30	10.4
Indiana	6.76	24	2.17	31	32.2	3.76	13	55.6	0.52	14	7.7	0.31	48	4.6
Iowa	6.30	35	2.48	25	39.4	2.81	34	44.7	0.29	39	4.7	0.71	22	11.2
Kansas	6.59	29	2.52	23	38.3	3.08	28	46.8	0.40	29	6.1	0.59	33	8.9
Kentucky	8.02	11	2.35	29	29.3	3.75	14	46.8	0.81	5	10.1	1.11	13	13.8
Louisiana	6.92	21	1.79	37	25.9	3.81	11	55.1	0.36	32	5.2	0.95	20	13.7
Maine	8.49	10	3.23	8	38.0	3.93	10	46.4	0.44	24	5.2	0.88	25	10.4
Maryland	5.93	40	2.50	24	42.1	2.32	41	39.1	0.34	36	5.8	0.77	26	13.0
Massachusetts	6.50	30	3.51	4	54.1	1.99	43	30.6	0.62	8	9.6	0.37	42	5.7
Michigan	7.13	19	1.87	36	26.3	3.49	19	48.9	0.57	11	8.0	1.20	11	16.8
Minnesota	8.65	8	3.43	5	39.6	3.61	16	41.7	0.54	12	6.2	1.08	15	12.5
Mississippi	7.64	14	1.60	40	20.9	5.00	4	65.5	0.40	28	5.3	0.63	32	8.3
Missouri	5.37	46	2.37	27	44.1	2.46	39	45.9	0.18	46	3.4	0.36	43	6.6
Montana	7.24	15	2.62	16	36.2	1.75	45	24.2	0.52	13	7.2	2.35	5	32.4
Nebraska	6.62	28	2.58	19	39.0	3.11	26	46.9	0.44	25	6.6	0.49	39	7.4
Nevada	6.38	33	0.00	50	0.0	5.18	3	81.1	0.00	47	0.0	1.20	12	18.9
New Hampshire	3.99	50	0.16	42	3.9	1.36	47	34.0	1.04	3	26.1	1.44	6	36.0
New Jersey	6.49	32	2.60	18	40.0	2.59	37	39.9	0.62	9	9.6	0.68	34	10.5
New Mexico	8.99	6	1.98	34	22.0	4.20	7	46.7	0.66	7	7.4	2.15	8	23.9
New York	**6.78**	**23**	**3.64**	**2**	**53.7**	**2.27**	**42**	**33.5**	**0.47**	**17**	**7.0**	**0.40**	**45**	**5.9**
North Carolina	7.22	17	3.32	6	46.0	2.93	32	40.6	0.46	21	6.3	0.51	36	7.1
North Dakota	7.90	12	1.34	41	17.0	3.60	17	45.6	0.59	10	7.4	2.37	9	30.0
Ohio	6.49	31	2.61	17	40.2	3.00	30	46.2	0.29	40	4.5	0.59	35	9.1
Oklahoma	6.69	26	2.36	28	35.3	2.32	40	34.7	0.26	42	3.9	1.75	7	26.1
Oregon	6.14	36	4.38	1	71.4	0.62	50	10.2	0.35	34	5.8	0.78	23	12.7
Pennsylvania	6.38	34	1.98	33	31.1	3.02	29	47.4	0.46	18	7.3	0.91	17	14.2
Rhode Island	6.87	22	2.55	21	37.2	3.50	18	51.0	0.43	26	6.2	0.38	46	5.6
South Carolina	5.98	38	2.10	32	35.1	3.23	25	54.1	0.23	45	3.8	0.41	41	6.9
South Dakota	4.68	47	0.00	50	0.0	3.81	12	81.4	0.24	43	5.2	0.63	27	13.4
Tennessee	5.46	45	0.10	43	1.8	4.11	9	75.3	0.48	16	8.7	0.77	21	14.2
Texas	4.45	49	0.00	50	0.0	3.45	21	77.4	0.00	48	0.0	1.01	18	22.6
Utah	7.23	16	3.01	12	41.7	3.35	23	46.4	0.46	20	6.4	0.40	47	5.5
Vermont	11.03	1	2.48	26	22.5	3.67	15	33.3	0.39	30	3.6	4.48	4	40.6
Virginia	5.61	43	2.96	13	52.8	1.87	44	33.3	0.28	41	5.0	0.50	38	8.9
Washington	6.67	27	0.00	50	0.0	5.25	2	78.6	0.00	49	0.0	1.42	10	21.4
West Virginia	9.03	5	2.57	20	28.5	4.34	6	48.0	1.06	2	11.7	1.07	19	11.8
Wisconsin	7.18	18	3.08	10	42.8	3.10	27	43.2	0.42	27	5.9	0.59	31	8.2
Wyoming	9.55	4	0.00	50	0.0	3.36	22	35.2	0.00	50	0.0	6.18	1	64.8
Mean	**6.95**		**2.14**		**30.9**	**3.17**		**46.6**	**0.48**		**6.9**	**1.16**		**15.6**
Standard Deviation	**1.48**		**1.14**			**1.11**			**0.44**			**1.25**		
Coefficient of Variation	**21.31**		**53.50**			**35.01**			**91.55**			**107.64**		
NYS Diff. from Mean	**(0.17)**		**1.50**		**22.8**	**(0.90)**		**(13.1)**	**(0.01)**		**0.1**	**(0.76)**		**(9.8)**

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

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	2.16	47	0.87	50	40.6	0.90	4	41.6	0.39	9	17.9
Alaska	3.26	36	2.57	36	78.6	0.65	13	20.0	0.04	45	1.4
Arizona	4.75	14	3.88	18	81.8	0.76	9	16.0	0.11	30	2.3
Arkansas	2.03	48	1.85	44	90.9	0.12	29	6.1	0.06	41	3.0
California	5.89	4	5.02	8	85.2	0.65	14	11.0	0.22	16	3.8
Colorado	5.29	8	4.01	15	75.9	1.11	3	21.0	0.16	21	3.1
Connecticut	4.82	13	4.77	10	99.1	0.00	44	0.0	0.04	46	0.9
Delaware	1.96	49	1.67	46	85.0	0.00	42	0.2	0.29	12	14.7
Florida	3.29	35	2.78	31	84.4	0.40	20	12.1	0.12	28	3.5
Georgia	3.66	30	2.97	28	81.3	0.56	16	15.2	0.13	26	3.5
Hawaii	2.44	42	1.95	43	80.1	0.23	24	9.4	0.26	15	10.5
Idaho	3.13	38	3.04	26	97.3	0.02	37	0.8	0.06	40	2.0
Illinois	4.53	15	3.71	20	81.9	0.66	12	14.5	0.16	20	3.6
Indiana	3.34	34	3.22	24	96.6	0.01	41	0.2	0.11	29	3.3
Iowa	4.13	20	4.00	16	96.9	0.01	39	0.2	0.12	27	2.9
Kansas	4.27	19	4.02	14	94.1	0.16	27	3.8	0.09	34	2.1
Kentucky	2.39	43	1.60	47	66.9	0.11	31	4.7	0.68	5	28.5
Louisiana	3.17	37	1.54	49	48.5	1.49	2	47.1	0.14	24	4.4
Maine	3.67	29	3.64	21	99.3	0.00	45	0.0	0.03	50	0.7
Maryland	4.50	16	2.93	29	65.1	0.20	26	4.4	1.37	1	30.4
Massachusetts	6.52	2	6.48	1	99.4	0.00	46	0.0	0.04	49	0.6
Michigan	4.31	18	3.95	17	91.6	0.04	35	1.0	0.32	11	7.4
Minnesota	3.74	27	3.59	22	96.0	0.07	33	2.0	0.08	36	2.1
Mississippi	2.29	45	2.17	38	94.5	0.08	32	3.7	0.04	48	1.8
Missouri	3.93	23	2.75	33	69.8	0.80	7	20.2	0.39	8	10.0
Montana	5.28	9	5.08	7	96.1	0.00	47	0.0	0.21	17	3.9
Nebraska	5.62	5	5.24	5	93.3	0.25	22	4.4	0.13	25	2.3
Nevada	4.09	21	2.76	32	67.5	0.76	8	18.7	0.57	6	13.9
New Hampshire	5.45	6	5.35	4	98.1	0.00	48	0.0	0.11	32	1.9
New Jersey	6.10	3	5.50	3	90.2	0.52	17	8.5	0.08	35	1.3
New Mexico	1.95	50	1.59	48	81.7	0.21	25	11.0	0.14	23	7.4
New York	**8.09**	**1**	**5.53**	**2**	**68.4**	**1.51**	**1**	**18.7**	**1.04**	**3**	**12.9**
North Carolina	2.60	41	2.14	41	82.4	0.40	19	15.5	0.05	42	2.0
North Dakota	3.58	31	3.45	23	96.5	0.02	38	0.6	0.11	31	3.0
Ohio	3.97	22	3.03	27	76.3	0.14	28	3.5	0.81	4	20.3
Oklahoma	2.91	40	2.04	42	70.0	0.82	6	28.3	0.05	43	1.8
Oregon	5.05	12	4.65	12	92.3	0.11	30	2.3	0.28	13	5.5
Pennsylvania	3.92	24	2.59	35	66.2	0.03	36	0.9	1.29	2	32.9
Rhode Island	4.46	17	4.42	13	99.1	0.00	49	0.0	0.04	47	0.9
South Carolina	2.31	44	2.15	40	93.2	0.00	43	0.1	0.15	22	6.7
South Dakota	5.33	7	4.82	9	90.6	0.24	23	4. 6	0.26	14	4.9
Tennessee	3.34	33	2.27	37	68.0	0.88	5	26.3	0.19	18	5.8
Texas	3.74	28	3.21	25	85.8	0.46	18	12.2	0.07	37	2.0
Utah	3.55	32	2.91	30	81.8	0.56	15	15.7	0.09	33	2.6
Vermont	5.26	10	5.19	6	98.7	0.00	50	0.0	0.07	39	1.3
Virginia	3.78	26	2.60	34	69.0	0.75	10	19.9	0.42	7	11.1
Washington	3.08	39	2.15	39	70.0	0.74	11	24.2	0.18	19	5.9
West Virginia	2.20	46	1.80	45	81.8	0.06	34	2.8	0.34	10	15.3
Wisconsin	3.88	25	3.83	19	98.7	0.01	40	0.1	0.05	44	1.2
Wyoming	5.10	11	4.69	11	92.0	0.34	21	6.6	0.07	38	1.4
Mean	**3.96**		**3.36**		**84.8**	**0.36**		**9.0**	**0.24**		**6.2**
Standard Deviation	**1.31**		**1.30**			**0.40**			**0.30**		
CV	**33.18**		**38.66**			**111.00**			**123.72**		
NYS Diff. from Mean	**4.12**		**2.17**		**(16.4)**	**1.15**		**9.7**	**0.80**		**6.7**

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

Table 5 - 2006 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	2.99	41	1.18	49	39.6	1.34	6	44.7	0.47	10	15.7
Alaska	4.55	14	3.53	13	77.5	0.87	17	19.2	0.15	31	3.3
Arizona	4.04	26	2.57	32	63.7	1.21	9	29.9	0.26	20	6.4
Arkansas	2.17	49	0.93	50	43.0	1.19	10	55.0	0.04	50	2.0
California	3.63	33	2.42	36	66.7	0.84	18	23.0	0.37	16	10.2
Colorado	4.62	12	2.80	28	60.6	1.57	2	34.1	0.25	22	5.4
Connecticut	4.30	21	4.21	6	97.8	0.00	49	0.0	0.10	41	2.2
Delaware	2.28	48	1.60	44	70.1	0.03	45	1.2	0.66	7	28.8
Florida	4.41	17	3.42	16	77.5	0.71	22	16.1	0.28	19	6.4
Georgia	4.65	10	2.95	26	63.4	1.52	3	32.8	0.18	28	3.8
Hawaii	2.71	45	2.08	42	76.7	0.33	30	12.2	0.30	18	11.1
Idaho	3.06	39	2.79	29	91.1	0.08	40	2.5	0.20	27	6.4
Illinois	4.90	5	3.97	9	81.2	0.76	21	15.5	0.16	30	3.4
Indiana	4.63	11	4.17	7	90.1	0.04	43	0.9	0.42	13	9.0
Iowa	4.26	23	3.49	14	82.0	0.63	25	14.7	0.14	34	3.3
Kansas	4.39	19	3.37	18	76.8	0.93	15	21.1	0.09	43	2.0
Kentucky	2.91	43	1.54	46	53.1	0.34	29	11.8	1.02	5	35.1
Louisiana	4.35	20	1.74	43	39.9	2.47	1	56.8	0.14	32	3.3
Maine	5.20	2	5.12	1	98.3	0.00	48	0.1	0.08	46	1.6
Maryland	4.53	15	2.18	38	48.2	0.20	33	4.5	2.14	1	47.3
Massachusetts	3.77	28	3.63	12	96.3	0.05	41	1.4	0.09	44	2.3
Michigan	3.70	31	3.39	17	91.7	0.08	39	2.1	0.23	23	6.2
Minnesota	2.58	47	2.35	37	91.2	0.11	37	4.1	0.12	36	4.7
Mississippi	2.79	44	2.59	31	92.7	0.09	38	3.1	0.12	37	4.2
Missouri	4.29	22	2.62	30	61.0	1.27	8	29.6	0.40	14	9.4
Montana	3.04	40	2.94	27	96.8	0.01	47	0.4	0.09	45	2.8
Nebraska	4.87	6	3.73	11	76.6	0.55	26	11.3	0.59	8	12.1
Nevada	3.74	29	2.43	35	65.0	0.78	19	20.9	0.53	9	14.2
New Hampshire	4.68	9	4.60	4	98.3	0.00	50	0.0	0.08	48	1.7
New Jersey	5.20	3	5.08	2	97.6	0.03	44	0.5	0.09	42	1.8
New Mexico	3.28	38	1.58	45	48.2	1.44	5	44.0	0.25	21	7.8
New York	**7.83**	**1**	**4.30**	**5**	**55.0**	**1.46**	**4**	**18.7**	**2.06**	**2**	**26.3**
North Carolina	3.30	37	2.45	34	74.2	0.68	24	20.8	0.17	29	5.0
North Dakota	3.63	32	3.08	21	84.8	0.47	27	13.0	0.08	47	2.2
Ohio	4.95	4	3.32	19	67.1	0.43	28	8.7	1.19	3	24.1
Oklahoma	2.94	42	1.54	47	52.4	1.30	7	44.1	0.10	40	3.5
Oregon	3.89	27	2.96	25	76.1	0.25	31	6.4	0.68	6	17.6
Pennsylvania	4.39	18	3.11	20	70.7	0.11	36	2.4	1.18	4	26.8
Rhode Island	4.86	7	4.73	3	97.3	0.02	46	0.3	0.11	38	2.3
South Carolina	3.61	34	3.04	22	84.3	0.22	32	6.1	0.34	17	9.5
South Dakota	4.14	25	3.02	23	72.9	0.98	14	23.6	0.14	33	3.4
Tennessee	3.38	36	2.11	40	62.6	1.06	11	31.5	0.20	26	5.9
Texas	4.76	8	3.95	10	83.0	0.70	23	14.8	0.11	39	2.2
Utah	3.73	30	2.48	33	66.5	1.03	12	27.7	0.22	24	5.8
Vermont	1.59	50	1.48	48	93.5	0.04	42	2.8	0.06	49	3.7
Virginia	4.20	24	3.01	24	71.6	0.77	20	18.4	0.42	11	10.0
Washington	3.56	35	2.15	39	60.3	1.02	13	28.6	0.39	15	11.1
West Virginia	2.62	46	2.09	41	79.7	0.12	35	4.4	0.42	12	15.9
Wisconsin	4.43	16	4.12	8	93.0	0.17	34	3.9	0.14	35	3.1
Wyoming	4.56	13	3.45	15	75.7	0.90	16	19.6	0.21	25	4.7
Mean	**3.94**		**2.95**		**74.7**	**0.62**		**16.2**	**0.37**		**9.1**
Std. Dev.	**1.01**		**1.00**			**0.56**			**0.44**		
CV	**25.74**		**33.87**			**89.94**			**120.96**		
NYS Diff.	**3.89**		**1.36**		**(19.7)**	**0.84**		**2.5**	**1.69**		**17.2**

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

Table 6a - State/Local Split of 1977 Tax-to-Income Ratio			
State	**State Taxes**	**Local Taxes**	**State/Local**
Alabama	6.41	2.16	8.56
Alaska	15.69	3.26	18.96
Arizona	7.21	4.75	11.97
Arkansas	6.43	2.03	8.47
California	6.57	5.89	12.46
Colorado	5.30	5.29	10.58
Connecticut	5.43	4.82	10.24
Delaware	8.32	1.96	10.28
Florida	5.28	3.29	8.57
Georgia	5.90	3.66	9.56
Hawaii	8.96	2.44	11.40
Idaho	6.44	3.13	9.56
Illinois	5.57	4.53	10.10
Indiana	5.59	3.34	8.92
Iowa	6.11	4.13	10.24
Kansas	5.74	4.27	10.01
Kentucky	7.19	2.39	9.58
Louisiana	7.00	3.17	10.17
Maine	6.92	3.67	10.59
Maryland	6.20	4.50	10.70
Massachusetts	6.70	6.52	13.23
Michigan	6.65	4.31	10.96
Minnesota	8.29	3.74	12.03
Mississippi	7.53	2.29	9.82
Missouri	4.72	3.93	8.66
Montana	6.12	5.28	11.41
Nebraska	5.67	5.62	11.29
Nevada	5.69	4.09	9.78
New Hampshire	3.34	5.45	8.79
New Jersey	5.01	6.10	11.10
New Mexico	8.04	1.95	10.00
New York	**7.39**	**8.09**	**15.48**
North Carolina	6.97	2.60	9.57
North Dakota	7.12	3.58	10.70
Ohio	4.42	3.97	8.40
Oklahoma	6.04	2.91	8.95
Oregon	5.30	5.05	10.34
Pennsylvania	6.29	3.92	10.21
Rhode Island	6.58	4.46	11.04
South Carolina	7.01	2.31	9.31
South Dakota	4.58	5.33	9.91
Tennessee	5.71	3.34	9.05
Texas	5.18	3.74	8.92
Utah	6.36	3.55	9.91
Vermont	7.59	5.26	12.85
Virginia	5.48	3.78	9.26
Washington	7.13	3.08	10.21
West Virginia	7.86	2.20	10.06
Wisconsin	8.01	3.88	11.89
Wyoming	6.95	5.10	12.05
Mean Values	**6.56**	**3.96**	**10.52**
Standard Deviation	**1.71**	**1.30**	**1.82**
Coefficient of Variation	**26.08**	**32.85**	**17.34**
NYS Diff. from Avg.	**0.83**	**4.12**	**4.96**
Sources: Moody's Economy.com, DOB Staff Estimates			

Table 6b - State/Local Split of 2006 Tax-to-Income Ratio			
State	**State Taxes**	**Local Taxes**	**State/Local**
Alabama	6.02	2.99	9.01
Alaska	9.58	4.55	14.14
Arizona	5.96	4.04	10.00
Arkansas	8.79	2.17	10.96
California	7.70	3.63	11.33
Colorado	4.53	4.62	9.15
Connecticut	6.74	4.30	11.04
Delaware	8.62	2.28	10.90
Florida	5.56	4.41	9.98
Georgia	5.66	4.65	10.31
Hawaii	10.39	2.71	13.10
Idaho	7.08	3.06	10.14
Illinois	5.74	4.90	10.63
Indiana	6.76	4.63	11.39
Iowa	6.30	4.26	10.56
Kansas	6.59	4.39	10.97
Kentucky	8.02	2.91	10.93
Louisiana	6.92	4.35	11.27
Maine	8.49	5.20	13.69
Maryland	5.93	4.53	10.46
Massachusetts	6.50	3.77	10.27
Michigan	7.13	3.70	10.83
Minnesota	8.65	2.58	11.23
Mississippi	7.64	2.79	10.43
Missouri	5.37	4.29	9.66
Montana	7.24	3.04	10.29
Nebraska	6.62	4.87	11.48
Nevada	6.38	3.74	10.12
New Hampshire	3.99	4.68	8.67
New Jersey	6.49	5.20	11.69
New Mexico	8.99	3.28	12.27
New York	**6.78**	**7.83**	**14.61**
North Carolina	7.22	3.30	10.51
North Dakota	7.90	3.63	11.53
Ohio	6.49	4.95	11.44
Oklahoma	6.69	2.94	9.63
Oregon	6.14	3.89	10.03
Pennsylvania	6.38	4.39	10.77
Rhode Island	6.87	4.86	11.73
South Carolina	5.98	3.61	9.58
South Dakota	4.68	4.14	8.81
Tennessee	5.46	3.38	8.83
Texas	4.45	4.76	9.22
Utah	7.23	3.73	10.96
Vermont	11.03	1.59	12.62
Virginia	5.61	4.20	9.81
Washington	6.67	3.56	10.23
West Virginia	9.03	2.62	11.66
Wisconsin	7.18	4.43	11.61
Wyoming	9.55	4.56	14.11
Mean Values	**6.95**	**3.94**	**10.89**
Standard Deviation	**1.48**	**1.01**	**1.35**
Coefficient of Variation	**21.31**	**25.74**	**12.40**
NYS Diff. from Avg.	**(0.17)**	**3.89**	**3.72**
Sources: Moody's Economy.com, DOB Staff Estimates			

Table 7 - 2006 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	1.95	0.08	0.39	0.00	2.99	1.34	1.18	1.08	9.01
Alaska	0.00	0.00	3.17	0.00	0.81	0.87	3.53	5.76	14.14
Arizona	1.63	0.00	0.45	0.00	3.48	1.21	2.57	0.66	10.00
Arkansas	2.52	0.00	0.46	0.00	4.62	1.19	0.93	1.23	10.96
California	3.54	0.00	0.71	0.00	2.76	0.84	2.42	1.05	11.33
Colorado	2.26	0.00	0.24	0.00	1.73	1.57	2.80	0.54	9.15
Connecticut	3.21	0.00	0.35	0.00	2.76	0.00	4.21	0.51	11.04
Delaware	3.07	0.17	0.89	0.00	1.30	0.03	1.60	3.84	10.90
Florida	0.00	0.00	0.36	0.00	4.13	0.71	3.42	1.36	9.98
Georgia	2.67	0.00	0.30	0.00	2.47	1.52	2.95	0.40	10.31
Hawaii	3.28	0.00	0.31	0.00	6.36	0.33	2.08	0.74	13.10
Idaho	2.75	0.00	0.45	0.00	3.30	0.08	2.79	0.78	10.14
Illinois	1.76	0.00	0.49	0.00	2.89	0.76	3.97	0.76	10.63
Indiana	2.17	0.30	0.52	0.00	3.76	0.04	4.17	0.42	11.39
Iowa	2.48	0.07	0.29	0.00	2.81	0.63	3.49	0.78	10.56
Kansas	2.52	0.00	0.40	0.00	3.08	0.93	3.37	0.68	10.97
Kentucky	2.35	0.81	0.81	0.00	3.75	0.34	1.54	1.32	10.93
Louisiana	1.79	0.00	0.36	0.00	3.81	2.47	1.74	1.09	11.27
Maine	3.23	0.00	0.44	0.00	3.93	0.00	5.12	0.96	13.69
Maryland	2.50	1.50	0.34	0.00	2.32	0.20	2.18	1.41	10.46
Massachusetts	3.51	0.00	0.62	0.00	1.99	0.05	3.63	0.46	10.27
Michigan	1.87	0.14	0.57	0.00	3.49	0.08	3.39	1.29	10.83
Minnesota	3.43	0.00	0.54	0.00	3.61	0.11	2.35	1.20	11.23
Mississippi	1.60	0.00	0.40	0.00	5.00	0.09	2.59	0.75	10.43
Missouri	2.37	0.17	0.18	0.00	2.46	1.27	2.62	0.59	9.66
Montana	2.62	0.00	0.52	0.00	1.75	0.01	2.94	2.44	10.29
Nebraska	2.58	0.00	0.44	0.00	3.11	0.55	3.73	1.08	11.48
Nevada	0.00	0.00	0.00	0.00	5.18	0.78	2.43	1.73	10.12
New Hampshire	0.16	0.00	1.04	0.00	1.36	0.00	4.60	1.51	8.67
New Jersey	2.60	0.00	0.62	0.00	2.59	0.03	5.08	0.78	11.69
New Mexico	1.98	0.00	0.66	0.00	4.20	1.44	1.58	2.40	12.27
New York	**3.64**	**0.92**	**0.47**	**0.53**	**2.27**	**1.46**	**4.30**	**1.00**	**14.61**
North Carolina	3.32	0.00	0.46	0.00	2.93	0.68	2.45	0.68	10.51
North Dakota	1.34	0.00	0.59	0.00	3.60	0.47	3.08	2.45	11.53
Ohio	2.61	1.03	0.29	0.00	3.00	0.43	3.32	0.75	11.44
Oklahoma	2.36	0.00	0.26	0.00	2.32	1.30	1.54	1.85	9.63
Oregon	4.38	0.10	0.35	0.00	0.62	0.25	2.96	1.36	10.03
Pennsylvania	1.98	0.73	0.46	0.00	3.02	0.11	3.11	1.36	10.77
Rhode Island	2.55	0.00	0.43	0.00	3.50	0.02	4.73	0.50	11.73
South Carolina	2.10	0.00	0.23	0.00	3.23	0.22	3.04	0.76	9.58
South Dakota	0.00	0.00	0.24	0.00	3.81	0.98	3.02	0.77	8.81
Tennessee	0.10	0.00	0.48	0.00	4.11	1.06	2.11	0.97	8.83
Texas	0.00	0.00	0.00	0.00	3.45	0.70	3.95	1.11	9.22
Utah	3.01	0.00	0.46	0.00	3.35	1.03	2.48	0.62	10.96
Vermont	2.48	0.00	0.39	0.00	3.67	0.04	1.48	4.54	12.62
Virginia	2.96	0.00	0.28	0.00	1.87	0.77	3.01	0.92	9.81
Washington	0.00	0.00	0.00	0.00	5.25	1.02	2.15	1.82	10.23
West Virginia	2.57	0.00	1.06	0.00	4.34	0.12	2.09	1.49	11.66
Wisconsin	3.08	0.00	0.42	0.00	3.10	0.17	4.12	0.72	11.61
Wyoming	0.00	0.00	0.00	0.00	3.36	0.90	3.45	6.40	14.11
Mean Values	**2.14**	**0.12**	**0.48**	**0.01**	**3.17**	**0.62**	**2.95**	**1.39**	**10.89**
Standard Deviation	**1.14**	**0.31**	**0.44**	**0.07**	**1.11**	**0.56**	**1.00**	**1.24**	**1.35**
Coefficient of Variation	**53.50**	**257.25**	**91.55**	**700.00**	**35.01**	**89.94**	**33.87**	**89.05**	**12.40**
NYS Diff. from Avg.	**1.50**	**0.80**	**(0.01)**	**0.52**	**(0.90)**	**0.84**	**1.36**	**(0.39)**	**3.72**

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

Table 8a - State Tax Burdens as a Pct. Of Personal Inc., 1977 - 2006					
Year	**Mean**	**NYS**	**Standard Deviation**	**Coefficient of Variation**	**NY difference from mean**
1977	6.56	7.39	1.17	26.08	0.83
1978	6.42	6.91	1.34	20.80	0.49
1979	6.47	6.71	1.70	36.32	0.24
1980	6.45	6.57	2.72	42.21	0.12
1981	6.47	6.43	4.03	62.33	(0.04)
1982	6.62	6.55	3.67	55.48	(0.07)
1983	6.41	6.41	2.58	40.20	0.00
1984	6.58	6.69	2.34	35.55	0.12
1985	6.64	6.89	2.05	30.93	0.26
1986	6.61	7.10	2.02	30.52	0.49
77-86 avg.	**6.52**	**6.77**	**2.36**	**38.04**	**0.24**
1987	6.53	7.22	1.32	20.25	0.69
1988	6.64	7.02	1.41	21.26	0.38
1989	6.57	6.63	1.40	21.31	0.06
1990	6.54	6.75	1.42	21.73	0.21
1991	6.58	6.52	1.59	24.08	(0.07)
1992	6.55	6.64	1.32	20.14	0.09
1993	6.82	6.77	1.62	23.76	(0.05)
1994	6.73	6.99	1.21	18.05	0.26
1995	6.88	6.84	1.44	20.91	(0.04)
1996	6.74	6.46	1.33	19.80	(0.28)
87-96 avg.	**6.66**	**6.78**	**1.41**	**21.13**	**0.13**
1997	6.81	6.26	1.34	19.73	(0.55)
1998	6.71	6.11	1.28	19.01	(0.60)
1999	6.73	6.25	1.31	19.53	(0.49)
2000	6.76	6.29	1.22	18.09	(0.47)
2001	6.69	6.60	1.17	17.53	(0.10)
2002	6.35	6.39	1.12	17.66	0.05
2003	6.31	6.12	1.11	17.61	(0.19)
2004	6.42	6.21	1.14	17.79	(0.21)
2005	6.75	6.35	1.38	20.41	(0.40)
2006	6.95	6.78	1.48	21.31	(0.17)
97-06 avg.	**6.65**	**6.34**	**1.25**	**18.87**	**(0.31)**

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

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

Table 9 - 2007 Property Taxes on Owner-Occupied Housing, by County

County	Median Property Taxes Paid on Homes	Rank	Median Home Value	Taxes as % of Home Value	Rank	Median Income for Home Owners	Taxes as % of Income	Rank
Niagara County	$2,802	139	$95,800	2.9%	1	$56,386	5.0%	55
Monroe County	$3,629	75	$128,500	2.8%	2	$65,152	5.6%	42
Chautauqua County	$2,184	254	$79,300	2.8%	3	$49,641	4.4%	101
Wayne County	$2,690	160	$102,000	2.6%	4	$60,118	4.5%	88
Oswego County	$2,189	253	$85,500	2.6%	5	$54,061	4.0%	145
Onondaga County	$3,056	113	$120,000	2.5%	6	$64,401	4.7%	66
Erie County	$2,822	132	$112,000	2.5%	7	$59,887	4.7%	69
Steuben County	$2,039	280	$82,500	2.5%	9	$48,283	4.2%	119
Cayuga County	$2,443	209	$103,000	2.4%	11	$53,614	4.6%	81
Schenectady County	$3,728	71	$159,400	2.3%	12	$67,905	5.5%	46
Madison County	$2,548	193	$109,000	2.3%	13	$60,969	4.2%	126
Cattaraugus County	$1,785	355	$76,700	2.3%	14	$48,546	3.7%	195
Chemung County	$1,890	323	$81,900	2.3%	16	$55,546	3.4%	243
Broome County	$2,210	249	$97,600	2.3%	17	$57,207	3.9%	166
Tompkins County	$3,564	78	$159,600	2.2%	19	$64,782	5.5%	45
Oneida County	$2,243	241	$102,300	2.2%	23	$54,829	4.1%	139
Ontario County	$2,773	143	$126,900	2.2%	24	$66,303	4.2%	125
St. Lawrence County	$1,451	450	$74,800	1.9%	42	$48,510	3.0%	334
Rensselaer County	$3,212	107	$166,100	1.9%	47	$69,542	4.6%	76
Clinton County	$2,122	263	$114,900	1.8%	70	$54,679	3.9%	164
Sullivan County	$3,328	100	$181,900	1.8%	74	$57,711	5.8%	35
Albany County	$3,321	102	$197,900	1.7%	111	$74,789	4.4%	92
Orange County	$5,164	22	$320,200	1.6%	125	$81,988	6.3%	24
Nassau County	$8,153	3	$508,000	1.6%	130	$101,558	8.0%	4
Putnam County	$6,860	11	$441,800	1.6%	150	$89,307	7.7%	8
Ulster County	$3,926	57	$254,200	1.5%	155	$71,516	5.5%	47
Jefferson County	$1,686	379	$109,600	1.5%	157	$57,235	2.9%	343
Suffolk County	$6,763	12	$447,800	1.5%	165	$93,442	7.2%	11
Rockland County	$7,535	6	$503,100	1.5%	166	$97,290	7.7%	7
Westchester County	$8,422	1	$582,300	1.4%	181	$108,580	7.8%	5
Saratoga County	$3,000	116	$209,700	1.4%	186	$74,328	4.0%	147
Warren County	$2,425	214	$182,800	1.3%	215	$55,352	4.4%	105
Dutchess County	$4,365	38	$343,900	1.3%	239	$77,407	5.6%	39
Bronx County	$2,196	252	$392,100	0.6%	626	$62,826	3.5%	220
Richmond County	$2,627	170	$472,300	0.6%	630	$82,628	3.2%	299
Queens County	$2,614	178	$506,900	0.5%	665	$70,858	3.7%	191
Kings County	$2,610	180	$589,300	0.4%	718	$70,270	3.7%	187
New York County	$3,523	81	$808,200	0.4%	725	$130,339	2.7%	402
National Average	$1,838		$194,300	1.0%	NA	$63,059	2.9%	NA

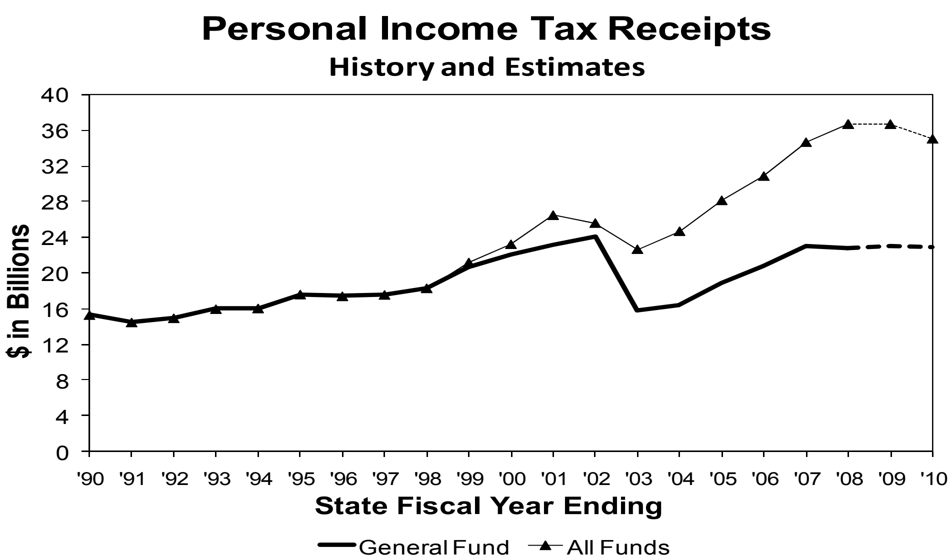
Source: U.S. Census Bureau; Tax Foundation calculations.

TAX RECEIPTS

PERSONAL INCOME TAX

PERSONAL INCOME TAX (millions of dollars)	2007-08 Actual	2008-09 Estimated	Change	Percent Change	2009-10 Projected	Change	Percent Change
General Fund	22,759.4	22,979.2	219.8	1.0	22,662.0	(317.2)	(1.4)
Other Funds	13,804.5	13,579.8	(224.7)	(1.6)	12,106.5	(1,473.3)	(10.8)
All Funds	36,563.8	36,559.0	(4.8)	(0.0)	34,768.5	(1,790.5)	(4.9)

Note: Totals may differ due to rounding.



PERSONAL INCOME TAX BY FUND (millions of dollars)	Gross General Fund	Refunds	General Fund Receipts	Special Revenue Funds[1]	Debt Service Funds[2]	All Funds Receipts
1999-2000	25,041	3,041	22,000	1,195	0	23,195
2000-01	26,744	3,629	23,115	3,077	250	26,442
2001-02	27,529	3,515	24,014	1,310	250	25,574
2002-03	20,037	4,296	15,741	2,664	4,243	22,648
2003-04	20,813	4,442	16,371	2,819	5,457	24,647
2004-05	23,448	4,668	18,781	3,059	6,260	28,100
2005-06	26,431	5,731	20,700	3,213	6,900	30,813
2006-07	28,450	5,510	22,940	3,994	7,646	34,580
2007-08	29,365	6,606	22,759	4,664	9,141	36,564
Estimated						
2008-09	30,173	7,194	22,979	4,440	9,140	36,559
2009-10						
Current Law	27,792	7,082	20,710	5,083	8,598	34,391
Proposed Law	29,626	6,964	22,662	3,416	8,691	34,769

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

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- authorize the Urban Development Corporation to award tax credits to qualifying research and development projects and qualifying grants made to certain research colleges and universities based on strategic economic development criteria;

- amend the definition of "presence in New York" for determining the residency of taxpayers who are usually outside the country by requiring that their spouses and children only be present in New York versus present at the taxpayers' permanent place of abode (PPA) in New York for 90 days;

- close a loophole by including the gain from the sale of partnership interests as NY-source income to non-resident taxpayers to the extent that these gains are from sales of real property located in New York;

- enact a reciprocal program with the U.S. Treasury Department to intercept vendor payments to satisfy tax debts;

- increase the itemized deduction limitation applicable to high income taxpayers from 50 percent to 100 percent except that charitable contributions would remain unchanged from current law;

- impose tax on the full amount of hedge fund management fees earned by nonresidents;

- levy fees on non-LLC partnerships with NY-source income at or above $1 million at the same rates currently applicable to LLC partnerships;

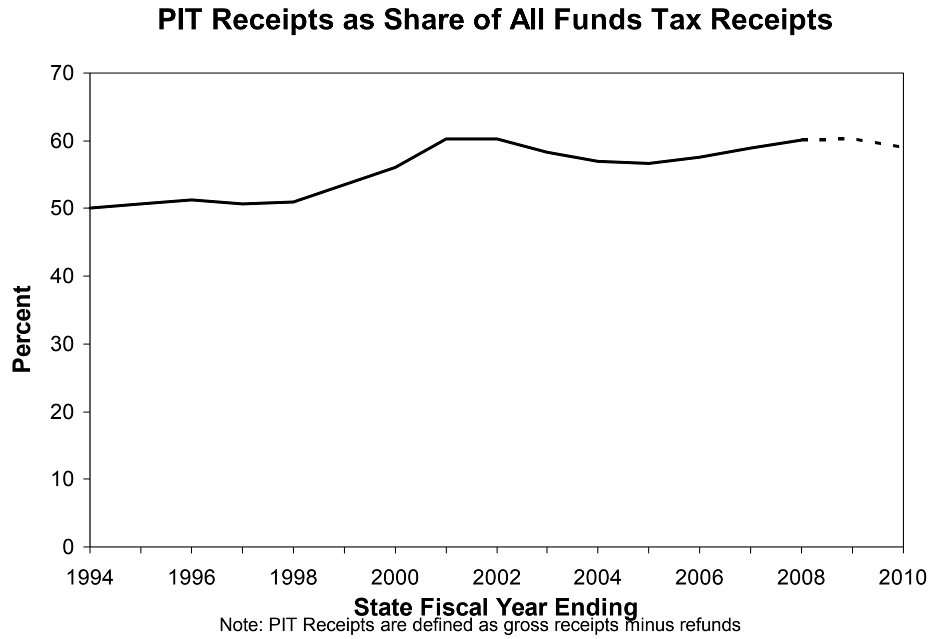
- reform the Empire Zones program by ensuring that participants are providing a clear benefit to the State and disallowing certain static industries from prospective participation;

- eliminate certain little used and narrowly targeted credits; and

- eliminate the Middle Class STAR Rebates and the corresponding NYC PIT credit increases, and decrease the STAR "floor," both of which are financed by transfers from the personal income tax to the STAR Fund.

DESCRIPTION

The personal income tax is by far New York State's largest source of tax receipts. It is estimated that the personal income tax will account for approximately 60 percent of All Funds tax receipts in 2008-09 and 2009-10.



Tax Base

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

Since 1991, the Federal limit on itemized deductions for taxpayers with Federal adjusted gross income (AGI) above a certain threshold has been applied to itemized deductions under the State personal income tax. This threshold amount, set at \$100,000 (\$50,000 for married couples filing separately) in 1991, is indexed for inflation. For 2009, the threshold is \$159,950 (79,975 for married couples filing separately). Allowable itemized deductions, except for medical expenses, casualty and theft losses, and interest payments, are reduced by the lower of either 3 percent of Federal adjusted gross income in excess of the threshold amount or 80 percent of allowable itemized deductions, and further reduced by up to 50 percent for upper-income taxpayers.

The Federal Economic Growth and Tax Relief Reconciliation Act of 2001 provided that the limitation on itemized deductions will be phased out over four years beginning in 2006. The limitation will be eliminated for 2010 and thereafter. New York law automatically adopts this phaseout.

Tax Rates and Structure

As shown in the Table 1, for the 1989 through 1994 tax years, the tax was imposed at rates ranging from 4 percent to 7.875 percent on the taxable income of individuals, estates and trusts. In 1991, a supplemental tax was applied to taxpayers with $100,000 or more of AGI to recapture the benefit of the marginal tax rates in the lower brackets. In 1995, personal income tax rates were gradually reduced over three years. These reductions reduced the top tax rates from 7.875 to its current rate of 6.85 percent, increased the income thresholds applicable to various tax brackets, and increased the standard deduction. In tax years 2003, 2004, and 2005, a temporary personal income tax surcharge added two new brackets applicable to taxpayers with AGI over $150,000 and AGI over $500,000, and increased the top rate to 7.7 percent. In 2006, the top rate returned to 6.85 percent, reflecting the sunset of the temporary surcharge, and the standard deduction for married taxpayers filing jointly increased from $14,600 to $15,000.

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

	1989-1994	1995	1996	1997-2000	2001	2002	2003-2005	2006 and After
Top Rate (percent)	7.875	7.59375	7.125	6.85	6.85	6.85	7.70	6.85
Thresholds								
Married Filing Jointly	26,000	25,000	26,000	40,000	40,000	40,000	500,000	40,000
Single	13,000	12,500	13,000	20,000	20,000	20,000	500,000	20,000
Head of Household	17,000	19,000	17,000	30,000	30,000	30,000	500,000	30,000
Standard Deduction								
Married Filing Jointly	9,500	10,800	12,350	13,000	13,400	14,200	14,600	15,000
Single	6,000	6,600	7,400	7,500	7,500	7,500	7,500	7,500
Head of Household	7,000	8,150	10,000	10,500	10,500	10,500	10,500	10,500
Dependent Exemption	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000

TABLE 2
TAX SCHEDULES FOR 2009 LIABILITY YEAR*
(dollars)

Married - Filing Jointly			Single			Head of Household		
Taxable Income	Tax Rate Percent	Of Amt. Over	Taxable Income	Tax Rate Percent	Of Amt. Over	Taxable Income	Tax Rate Percent	Of Amt. Over
0 to 16,000	0 +4.00	0	0 to 8,000	0 +4.00	0	0 to 11,000	0 +4.00	0
16,000 to 22,000	640 +4.50	16,000	8,000 to 11,000	320 +4.50	8,000	11,000 to 15,000	440 +4.50	11,000
22,000 to 26,000	910 +5.25	22,000	11,000 to 13,000	455 +5.25	11,000	15,000 to 17,000	620 +5.25	15,000
26,000 to 40,000	1,120 +5.90	26,000	13,000 to 20,000	560 +5.90	13,000	17,000 to 30,000	725 +5.90	17,000
40,000 and over	1,946 +6.85	40,000	20,000 and over	973 +6.85	20,000	30,000 and over	1,492 +6.85	30,000

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

Tax Expenditures

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

Credits

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

Credit	Description
Earned Income Tax Credit (EITC)	Allowed at a rate of 7.5 percent of the Federal credit in 1994, 10 percent in 1995, and 20 percent in 1996 and thereafter. Starting in 1996, the EITC is offset by the amount of the household credit. The EITC was raised to 22.5 percent of the Federal credit in 2000, 25 percent in 2001, 27.5 percent in 2002, and 30 percent in 2003 and thereafter. The credit is fully refundable for New York residents whose credit amount exceeds tax liability. The Federal Economic Growth and Tax Relief Reconciliation Act of 2001 provided marriage penalty relief for married taxpayers filing jointly by increasing the phase-out range for the credit beginning in 2002.
Household Credit	Permitted for single taxpayers in amounts declining from $75 to $20, as their household income rises to $28,000, and for married couples and heads of households, in amounts declining from $90 to $20, as their household income rises to $32,000. This latter category is also eligible for additional amounts based on the number of eligible exemptions and income level.
Child and Dependent Care Credit	Allowed at a rate of 20 percent or more of the comparable Federal credit. In 1997, the credit became refundable and equal to 60 percent of the Federal credit for those with incomes under $10,000, with a phase-down until it was 20 percent for incomes of $14,000 and above. In 1998, the percentage of the Federal credit increased to 100 percent for those with incomes less than $17,000, with this percentage gradually phasing down to 20 percent for those with incomes of $30,000 or more. For 1999, the phase-down from 100 percent to 20 percent began at incomes of $35,000 and ended at incomes of $50,000. For 2000 and later years, the credit as a share of the Federal credit equals 110 percent for incomes up to $25,000, phases down from 110 percent to 100 percent for incomes between $25,000 and $40,000, equals 100 percent for incomes between $40,000 and $50,000, phases down from 100 percent to 20 percent for incomes between $50,000 and $65,000, and equals 20 percent for incomes over $65,000. The credit is fully refundable for New York residents whose credit amount exceeds tax liability. Federal legislation enacted in 2001 and effective in 2003 increased maximum allowable expenses from $2,400 to $3,000 for one dependent ($4,800 to $6,000 for two or more dependents); the maximum credit rate from 30 percent to 35 percent; and the income at which the credit begins to phase down from $10,000 to $15,000.
College Tuition Tax Credit	Available as an alternative to the college tuition deduction, this refundable credit equals the applicable percentage of allowed tuition expenses multiplied by 4 percent. It was phased in over a four-year period with applicable percentages of allowed tuition expenses beginning at 25 percent in tax year 2001, 50 percent in 2002, 75 percent in tax year 2003, and 100 percent in 2004 and thereafter. For 2004 and thereafter the minimum credit is the lesser of tuition paid or $200 and the maximum credit is $400 (4 percent of expenses up to $10,000).
Real Property Tax Circuit Breaker Credit	Based on a more inclusive definition of income than that used generally in the income tax. For eligible taxpayers over the age of 65, the credit ranges downward from $375 as income rises to $18,000; for other taxpayers, the credit can be as high as $75.
Agricultural Property Tax Credit	Permitted for allowable school district property taxes paid by an eligible farmer on qualified agricultural property.
Empire State Child Credit	Effective in 2006, this refundable credit for children ages 4-16 equals the greater of $100 times the number of children qualifying for the Federal credit or 33 percent of the Federal credit.
Long Term Care Insurance Credit	A non-refundable credit equal to 10 percent of a taxpayer’s long-term care insurance premium became effective in 2002. The credit amount was increased to 20 percent in 2004. Unused amounts may be carried forward to future tax years.
NYC STAR Credit	A refundable credit is allowed to all New York City residents as part of the State’s STAR program. For 2008, the amounts of STAR credit against NYC income tax are $145 for singles and $290 for married couples.

In addition, credits are allowed for investment in production facilities, for investment in economic development zones, and for personal income taxes paid to other states. The Economic Development Zone Program for Qualified Empire Zone Enterprise (QEZEs) is discussed in more detail in the "Corporate Franchise Tax" section.

Significant Legislation

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

Subject	Description	Effective Date
Legislation Enacted in 1987		
Tax Reform and Reduction	In response to Federal tax reform, the State reduced the top rate from 9 percent on earned income and 13 percent on unearned income to 7 percent on all income and increased standard deduction amounts. The reductions were implemented over a five-year period.	1987 and after
Legislation Enacted in 1990-1994		
Tax Reduction Program	Annually delayed the final two years of the 1987 legislation that would have reduced to the top rate from 7.875 percent to 7.593575 percent and then to 6.85 percent.	1990-1994
Legislation Enacted in 1991		
Rate Recapture	Enacted the "supplemental tax" to recapture the value of marginal tax rates below the top rate.	1991 and after
Legislation Enacted in 1993		
Limited Liability Companies	Authorized the formation of LLCs and imposed a fee.	1994 and after
Legislation Enacted in 1994		
Earned Income Tax Credit	Enacted a new State credit equal to a percentage of the Federal credit. The rates were set at 7.5 percent of the Federal credit in 1994, 10 percent in 1995, 15 percent in 1996, and 20 percent in 1997 and thereafter.	1994 and after
Legislation Enacted in 1995		
Standard Deduction	Increased the standard deduction over three years.	1995 and after
Tax Rate Schedule	Reduced the top tax rate from 7.875 percent to 6.85 percent and raised bracket thresholds over three years.	1995 and after
Earned Income Tax Credit	Accelerated into 1996 from 1997 the credit of 20 percent of the Federal amount, but offset it by the household credit.	1996
Legislation Enacted in 1996		
Child and Dependent Care Credit	Increased the credit for taxpayers with adjusted gross incomes of less than $14,000 and made the credit refundable for residents.	1996 and after
Agricultural Property Tax Credit	Created a credit for school property tax that farmers pay on their farm property.	1997 and after
Legislation Enacted in 1997		
Child and Dependent Care Credit	Increased credit to 100 percent of the Federal credit for incomes up to $17,000, phasing down to 20 percent for incomes of $30,000 or more.	1998 and after
College Choice Tuition Savings Program	Authorized taxpayers to deduct from Federal AGI (FAGI) up to $5,000 ($10,000 for married couples filing jointly) of contributions made to family tuition accounts.	1998 and after
Legislation Enacted in 1998		
Child and Dependent Care Credit	Increased the credit to 100 percent of the Federal credit for incomes up to $35,000, phasing down to 20 percent for incomes of $50,000 or more.	1999 and after

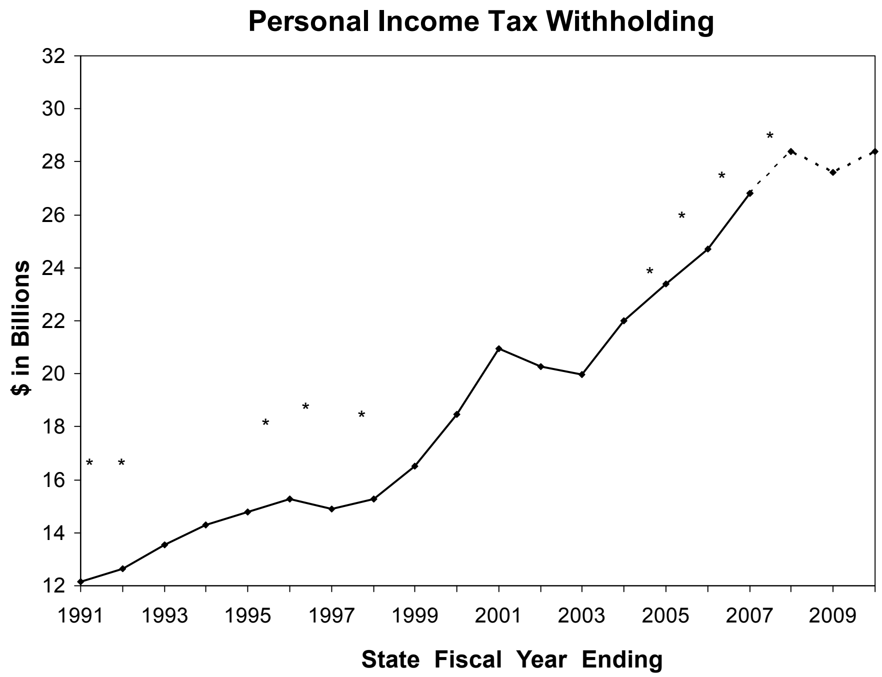
Subject	Description	Effective Date
School Tax Relief Program (STAR)	Accelerated the fully effective senior citizens' school property tax exemption and began the deposit of a portion of personal income tax receipts into the STAR fund.	1998-99 school year
Alternative Fuels Vehicle Credit	Created a credit for vehicles powered by electricity and alternative fuels; clean fuel refueling property; and qualified hybrid vehicles.	Extended in 2004
Legislation Enacted in 1999		
Earned Income Tax Credit	Increased the EITC to 22.5 percent of the Federal credit in 2000 and 25 percent of the Federal credit for subsequent tax years.	2000 and after
Legislation Enacted in 2000		
Earned Income Tax Credit	Increased the EITC to 30 percent of the Federal credit over a two-year period, beginning in 2002. The expansion first increased the EITC to 27.5 percent of the Federal credit in 2002 and then to 30 percent of the Federal credit in 2003 and after.	2002 and after
Child and Dependent Care Credit	Increased the credit to 110 percent of the Federal credit for those with incomes up to $25,000, phased down from 110 percent to 100 percent for incomes between $25,000 and $40,000, equal to 100 percent for incomes between $40,000 and $50,000, phased down from 100 percent to 20 percent for incomes between $50,000 and $65,000, and equal to 20 percent for incomes greater than $65,000.	2000 and after
Long-Term Care Insurance Credit	Created a long-term care insurance credit equal to 10 percent of a taxpayer's long-term care insurance premium.	2002 and after
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 tax payers to deduct from FAGI up to $10,000 for attendance at a qualified higher education institution.	2001 and after
Petroleum Tank Credit	Created a two-year personal income tax credit of up to $500 for homeowners who remove and/or replace a residential fuel oil storage tank.	2001 and 2002
Legislation Enacted in 2003		
LLC Fees	Temporarily increased fees for 2003 and 2004.	2003 to 2004
Three-Year Personal Income Tax Surcharge	Created two new tax brackets applicable to taxpayers with incomes over $150,000 and over $500,000.	2003 to 2005
Legislation Enacted in 2004		
Long-Term Care Insurance Credit	Increased the credit for long-term care insurance from 10 percent to 20 percent of premium expense.	2004 and after
Military Pay Exemption	Exempted pay of members of the New York National Guard for services performed in New York as part of the "War on Terror."	2004 and after
Legislation Enacted in 2005		
Nursing Home Assessment Tax Credit	Created a refundable nursing home assessment tax credit for residents of a residential health care facility who directly paid any assessment.	2005 and after
Limited Liability Company Fees	Extended the higher fees to tax years 2005 and 2006.	2005 and 2006
Legislation Enacted in 2006		
STAR	Created a new STAR rebate paid in 2006 and increased NYC STAR credit amounts and indexed the enhanced STAR benefit for the 2006-07 school year. In the event that the enacted State budget does not appropriate moneys to pay STAR rebates authorized in 2006, a refundable personal income tax credit to lower school property taxes takes effect.	2006 and after
Empire State Child Credit	Created a refundable credit for children ages 4-16 which equals the greater of $100 times the number of children qualifying for Federal credit or 33 percent of the Federal credit.	2006 and after
Marriage Penalty	Increased the married filing joint standard deduction from $14,600 to $15,000 in order to eliminate the marriage penalty.	2006 and after
Earned Income Credit	Extended the credit to noncustodial parents who satisfy their child support obligations.	2006 and after; sunsets January 1, 2013

Subject	Description	Effective Date
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 & 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

Withholding Changes

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

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



The above graph shows the history of withholding collections beginning in 1990-91. Asterisks denote the dates of withholding table changes.

Limited Liability Companies

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

The annual filing fee has been imposed since 1994 and applies to any LLC that has any income, gain, loss or deduction attributable to New York sources in the taxable year. For 2007, the fee was $50 per member, the minimum fee was $325 and the maximum was $10,000. Filing fees for the tax year are due no later than January 30 of the following year. The following table shows historical LLC fees and estimated and projected fees for 2008-09 and 2009-10. Fee amounts were temporarily increased for 2003 through 2006, which explains the higher collections for 2003-04 through 2006-07.

The 2008-09 Enacted Budget restructured the flow through entity level LLC fees such that the existing LLC fees and corporate franchise tax minimum taxes were replaced with new fees/minimum taxes applicable to all LLC partnerships, C corporations, and S corporations based on New York source income.

Limited Liability Company Fees (thousands of dollars)	
SFY	Amount
1995-96	764
1996-97	3,925
1997-98	7,677
1998-99	12,305
1999-2000	16,680
2000-01	21,267
2001-02	24,869
2002-03	26,517
2003-04	71,419
2004-05	64,104
2005-06	70,755
2006-07	78,036
2007-08	50,973
2008-09 Estimated	42,000
2009-10 Projected	45,000

Administration

Timing of the Payment of Refunds

The payment of refunds during the final quarter of the State's fiscal year (i.e., the January-March period) has been managed in accordance with cash flow expectations and to minimize potential year-end imbalances in the State's General Fund. From fiscal years 200-01 through 2004-05, refunds of $960 million were paid during January through March. The amount of refunds paid during this three-month period was increased to $1,512 million in fiscal year 2005-06 and to $1,500 million for 2006-07 and 2007-08. The refund "cap" was further increased to $1,750 for 2008-09 to more closely match the estimate of refunds payable during this three-month period.

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, rebates and personal income tax credits against school property taxes. In addition to school property tax exemptions, New York City residents with relatively low homeownership rates are provided State-funded STAR credits and rate reductions against the New York City personal income tax. To reimburse school districts and New York City for the costs of the program, a portion of State personal income tax receipts are deposited to the STAR Fund. Pursuant to the State Finance Law, payments are currently made to school districts in October, November and December and to New York City in September, December and June.

Revenue Bond Tax Fund

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

Although this decreases General Fund personal income tax receipts, RBTF deposits in excess of debt service requirements are transferred back to the General Fund.

Taxpayer Characteristics

Personal income tax liability and New York State adjusted gross income (NYSAGI), the income base that determines personal income tax liability, differ noticeably among taxpayer groups. Table 3 examines the changes in NYSAGI and liability over a seven-year span from 1999 to 2006 with a breakdown by taxpayer characteristics. Both NYSAGI and liability showed considerable growth over these seven years with liability growth of 41.1 percent and NYSAGI growth of 41.6 percent. The State and national economies were vigorous in both years with 1999 still enjoying the long expansion that would end with a recession in 2001, and 2006 enjoying the expansion that would end with the current recession. There was a noticeable change in tax regime between the two years. The final phase of a multiyear tax cut had gone into effect in 1997. Temporary higher tax rates and additional brackets enacted in 2003 expired at the end of 2005.

While the relatively small share of returns filed by nonresidents increased slightly over this period from 8.9 percent to 10.3 percent, their somewhat larger share of liability experienced an increase from 14.5 percent to 16.4 percent. Growth in nonresident liability of 58.8 percent from 1999 to 2006 far exceeded resident liability growth of 38.1 percent. While resident wages and salaries rose 33.1 percent, nonresidents experienced stronger wage growth of 50.3 percent. The difference is even more pronounced for nonwage income, including dividends, interest and especially capital gains income. Resident nonwage income growth of 57.0 percent fell short of the 86.2 percent growth for nonresident nonwage income.

TABLE 3
PERCENT SHARES OF STATE AGI, WAGES, NONWAGE INCOME AND LIABILITY
BY VARIOUS TAXPAYER CHARACTERISTICS, 1998 AND 2005
(Values for AGI, wages, nonwage income and liability in millions of dollars)

	1999					2006				
	Returns	NYSAGI	Wages	Nonwage Income	Liability	Returns	NYSAGI	Wages	Nonwage Income	Liability
Total	8,532,282	453,130	328,851	128,250	20,977	9,316,507	641,807	445,210	204,549	29,594
percent change						9.2	41.6	35.4	59.5	41.1
Residents	7,770,811	399,263	285,598	117,190	17,928	8,352,599	557,134	380,202	183,956	24,753
percent share	91.1	88.1	86.8	91.4	85.5	89.7	86.8	85.4	89.9	83.6
percent change						7.5	39.5	33.1	57.0	38.1
Nonresidents	761,471	53,867	43,252	11,060	3,049	963,908	84,673	65,009	20,593	4,841
percent share	8.9	11.9	13.2	8.6	14.5	10.3	13.2	14.6	10.1	16.4
percent change						26.6	57.2	50.3	86.2	58.8
Married filing jointly	3,183,892	291,650	205,010	89,001	14,611	3,297,935	411,789	272,994	143,440	20,655
percent share	37.3	64.4	62.3	69.4	69.7	35.4	64.2	61.3	70.1	69.8
percent change						3.6	41.2	33.2	61.2	41.4
Head of Household	1,346,134	38,056	33,699	4,766	828	1,529,362	53,383	46,736	7,499	763
percent share	15.8	8.4	10.2	3.7	3.9	16.4	8.3	10.5	3.7	2.6
percent change						13.6	40.3	38.7	57.3	-7.8
Single Filers	4,002,256	123,424	90,142	34,484	5,538	4,489,210	176,635	125,481	53,610	8,176
percent share	46.9	27.2	27.4	26.9	26.4	48.2	27.5	28.2	26.2	27.6
percent change						12.2	43.1	39.2	55.5	47.6
Itemized Deduction	1,669,535	224,500	144,425	81,687	12,002	2,412,986	385,070	236,328	152,315	20,150
percent share	19.6	49.5	43.9	63.7	57.2	25.9	60.0	53.1	74.5	68.1
percent change						44.5	71.5	63.6	86.5	67.9
Standard Deduction	6,862,746	228,628	184,424	46,562	8,975	6,901,749	256,652	208,804	52,227	9,439
percent share	80.4	50.5	56.1	36.3	42.8	74.1	40.0	46.9	25.5	31.9
percent change						0.6	12.3	13.2	12.2	5.2

Note: NYSAGI in this table is different from that in other tables due to different treatment of negative NYSAGI.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

With respect to filing status, an interesting development is the slow decline in the share of returns from taxpayers filing as “married filing jointly.” These taxpayers increased by only 3.6 percent from 1999 to 2006, leading to a decline in the share of taxpayers claiming this status from 37.3 percent to 35.4 percent. Meanwhile, returns filed as “head of household” increased 13.6 percent over the period, and filers claiming single status increased 12.2 percent. Married filing jointly taxpayers account for the bulk of nonwage income, about 70 percent, while single filers account for about 26 percent. Married taxpayers account for about 70 percent of the liability in both years despite the decline in the share of married taxpayers, while single filers’ share is about 26 percent.

Taxpayers who itemized their deductions made up 19.6 percent of taxpayers in 1999, rising to 25.9 percent by 2006, largely reflecting the influence of the economic boom of the 1990s on incomes, and increases in local property taxes and other itemized deduction amounts. In 1999, standard deduction returns accounted for 80.4 percent of all returns and 42.8 percent of liability, while the remaining 19.6 percent itemized returns accounted for 57.2 percent of liability. By 2006, itemizers made up 68.1 percent of liability while standard deduction takers’ share of liability had fallen to 31.9 percent.

Recent Liability History

New York State adjusted gross income, NYSAGI, is the income base that determines personal income tax liability. Table 4 lists the major components, their growth rates and their respective shares of NYSAGI (see also Economic Backdrop – New York State Adjusted Gross Income section). Strong growth in the State economy accompanied by strong equity and real estate markets following the 2001-2003 recession resulted in above-average growth in NYSAGI of 11.0 percent in 2004, 8.7 percent in 2005, 10.5 percent in 2006, and an estimated 12.8 percent in 2007.

TABLE 4
DISTRIBUTION OF THE MAJOR COMPONENTS OF
(millions of dollars)

Component of Income	2002	2003	2004	2005	2006	2007*	2008	2009	2010
	Actual					Estimate			
NYSAGI									
Amount	459,919	473,778	525,964	571,916	632,601	713,269	668,480	634,980	669,355
Percent Change	(4.4)	3.0	11.0	8.7	10.6	12.8	(6.3)	(5.0)	5.4
Wages									
Amount	368,720	373,313	397,431	416,988	445,210	486,179	492,277	477,542	488,985
Percent Change	(2.0)	1.2	6.5	4.9	6.8	9.2	1.3	(3.0)	2.4
Share of NYSAGI	80.2	78.8	75.6	72.9	70.4	68.2	73.6	75.2	73.1
Net Capital Gains									
Amount	20,398	28,455	51,196	64,411	82,412	109,465	63,482	46,041	61,804
Percent Change	(30.7)	39.5	79.9	25.8	27.9	32.8	(42.0)	(27.5)	34.2
Share of NYSAGI	4.4	6.0	9.7	11.3	13.0	15.3	9.5	7.3	9.2
Interest and Dividends									
Amount	20,465	20,417	22,485	29,673	39,366	45,865	42,702	42,504	46,708
Percent Change	(22.8)	(0.2)	10.1	32.0	32.7	16.5	(6.9)	(0.5)	9.9
Share of NYSAGI	4.4	4.3	4.3	5.2	6.2	6.4	6.4	6.7	7.0
Taxable Pension									
Amount	24,406	25,127	26,432	28,974	30,257	32,053	33,727	35,549	37,058
Percent Change	5.4	3.0	5.2	9.6	4.4	5.9	5.2	5.4	4.2
Share of NYSAGI	5.3	5.3	5.0	5.1	4.8	4.5	5.0	5.6	5.5
Net Business and Partnership Income									
Amount	46,763	48,157	53,686	60,718	67,249	72,547	71,649	70,462	74,079
Percent Change	3.5	3.0	11.5	13.1	10.8	7.9	(1.2)	(1.7)	5.1
Share of NYSAGI	10.2	10.2	10.2	10.6	10.6	10.2	10.7	11.1	11.1
All Other Incomes/ Adjustments /1									
Amount	(20,833)	(21,690)	(25,266)	(28,849)	(31,894)	(32,840)	(35,358)	(37,117)	(39,279)
Percent Change	7.0	4.1	16.5	14.2	10.6	3.0	7.7	5.0	5.8

* Estimates for 2007 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.

The recent years of strong NYSAGI growth starting in 2003 were characterized by a growing share of capital gains related income at the expense of wage income. Based on very strong growth in capital gains net of losses between 2002 and 2007, the share of net capital gains income increased from 4.4 percent of NYSAGI to an estimated 15.3 percent in 2007. During the same interval, the share of wage income fell from 80.2 percent in 2002 to an estimated 68.2 percent in 2007. The shares of other components of NYSAGI are more stable or have shown consistent long-run growth patterns. The share of interest and dividend income also increased over those years from 4.4 percent to 6.4 percent.

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

The State's recovery from the 2001-2003 recession is reflected in the State's tax liability. Based on the approximately 9.3 million returns reflected in the annual study file of personal income tax returns prepared by the New York State Department of Taxation and Finance, total liability was about $29.8 billion in 2006, up from $28.5 billion in 2005. Additional personal income tax liability worth approximately $1.5 billion in 2006 was received from fiduciary returns, late-filed returns and other transactions not included in the annual study file.

TABLE 5
LIABILITY AND EFFECTIVE TAX RATES*
Current Law
1997 - 2010
(millions of dollars)

	NYSAGI		Liability		Effective
	Amount	Growth Rate	Amount	Growth Rate	Tax Rate (percent)
1997	379,179	10.0	16,950	3.9	4.47
1998	413,128	9.0	18,986	12.0	4.60
1999	448,531	8.6	20,977	10.5	4.68
2000	508,934	13.5	24,494	16.8	4.81
2001	481,001	(5.5)	22,406	(8.5)	4.66
2002	459,919	(4.4)	20,729	(7.5)	4.51
2003	473,778	3.0	22,456	8.3	4.74
2004	525,964	11.0	25,769	14.8	4.90
2005	571,916	8.7	28,484	10.5	4.98
2006	632,601	10.6	29,838	4.8	4.72
2007**	713,269	12.8	34,819	16.7	4.88
2008**	668,480	(6.3)	31,705	(8.9)	4.74
2009**	634,980	(5.0)	29,403	(7.3)	4.63
2010**	669,355	5.4	31,651	7.6	4.73

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

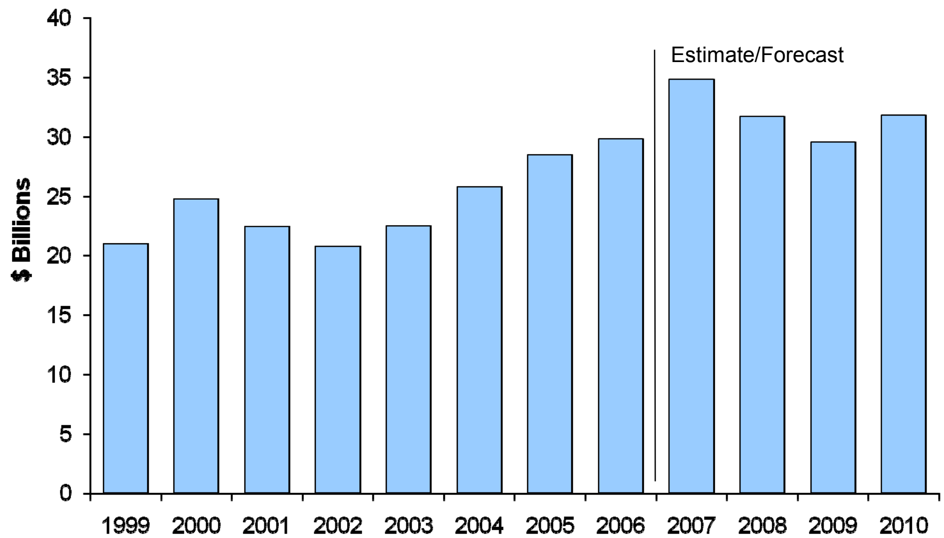
Also, as indicated in Table 5, given $632 billion in NYSAGI in 2006, the average effective tax rate was 4.72 percent (based on study file liability), up from 4.51 percent in 2002. Between 2002 and 2006, NYSAGI grew 37.5 percent, while liability grew 43.9 percent. The greater increase in liability can largely be attributed to four years of strong growth in net capital gains income which grew 262.0 percent over the four years. Capital gains income tends to occur mainly for taxpayers in the highest tax bracket. Dividend and interest income also experienced substantial increases between 2002 and 2006. More broadly distributed wages and salaries experienced much more modest growth of 20.7 percent over the same four years. However, bonus payments, the part of wages accounted for by taxpayers in the highest income tax bracket grew a much stronger 55.4 percent between 2002 and 2006.

Liability growth in 2006 was substantially lower than NYSAGI growth because of several changes in the State tax regime for 2006: the temporary surcharge enacted by the legislature in 2003 expired, lowering the tax rate for the highest income bracket; the standard deduction for married filers was increased; and the Empire State Child Credit for eligible children aged 4-16 became effective. Furthermore, the Federal limitation on itemized deduction was reduced by one-third. For 2007, estimated growth in liability exceeds growth in NYSAGI due to strong growth in capital gains and bonus income.

Liability Forecast Summary: 2008-2010

In line with collapsing equity and real estate markets and a national recession, the Division of the Budget predicts NYSAGI to decline 6.3 percent in 2008, followed by a 5.0 percent decline in 2009. In 2010, the economy is expected to recover and NYSAGI is expected to grow 0.8 percent. Liability growth is expected to follow the same pattern, coming in at an 8.9 percent decline for 2008, with a 6.8 percent projected decline in 2009 and a 7.7 percent growth projected for 2010. Absent proposed legislation, liability is projected to decline 7.3 percent in 2009 and to grow 7.6 percent in 2010.

Total Liability 1999-2010



Source: New York State Department of Taxation and Finance; DOB staff estimates.

Risks to the Liability Forecast

Liability estimates are subject to significant risks from both unanticipated shifts in economic conditions and changes in taxpayer behavior. For example, slower than expected economic growth would put downward pressure on tax liability, holding other factors constant. The stock market and the entire financial services industry may do much better or much worse than envisioned, with consequent positive or negative impacts on State tax liability. As discussed in "New York State Adjusted Gross Income" under the "Economic Backdrop" section, income sources that are most closely tied to the fate of the financial sector, capital gains and bonus payments, always exhibit a high degree of volatility and are difficult to forecast with precision. These most volatile components of NYSAGI fall most heavily on the wealthiest taxpayers who, in turn, contribute the lion share of liability. As seen in Table 6, the State's taxpayers with NYSAGI exceeding $1 million only represented 0.5 percent of all tax returns while contributing 26.4 percent of NYSAGI and 35.1 percent of liability.

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

	2006 (Actual)			2009 (Forecast)		
Income Group	**Returns**	**Liability**	**AGI**	**Returns**	**Liability**	**AGI**
0 - $50,000	68.0	4.9	18.6	67.9	4.8	19.1
$50,000 - $100,000	19.4	17.4	19.9	18.5	18.2	19.9
$100,000 - $200,000	8.7	19.0	16.9	9.6	21.8	19.0
$200,000 - $1,000,000	3.4	23.6	18.2	3.5	24.5	18.8
$1,000,000 and above	0.5	35.1	26.4	0.5	30.8	23.2

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

The collapse of the financial markets and the resulting large declines in income from bonus payments and capital gains in 2001 and 2002 caused the share of liability originating with the top one percent of taxpayers to fall from 39 percent in 2000 to 32.2 percent in 2002 (see Table 7). Over time the State has become increasingly reliant on its high-income taxpayers as a source of income tax revenues. Note that even following the expiration of the 2003-2005 temporary tax brackets, the share of liability coming from the top one percent of taxpayers grew from 35.0 percent in 2005 to 39.0 percent in 2006. With the economic downturn, their share is forecast to decline to 35.2 percent by 2009. This means changes in the economy that affect a small number of taxpayers in the high-income group can have disproportionate effects on State tax revenues.

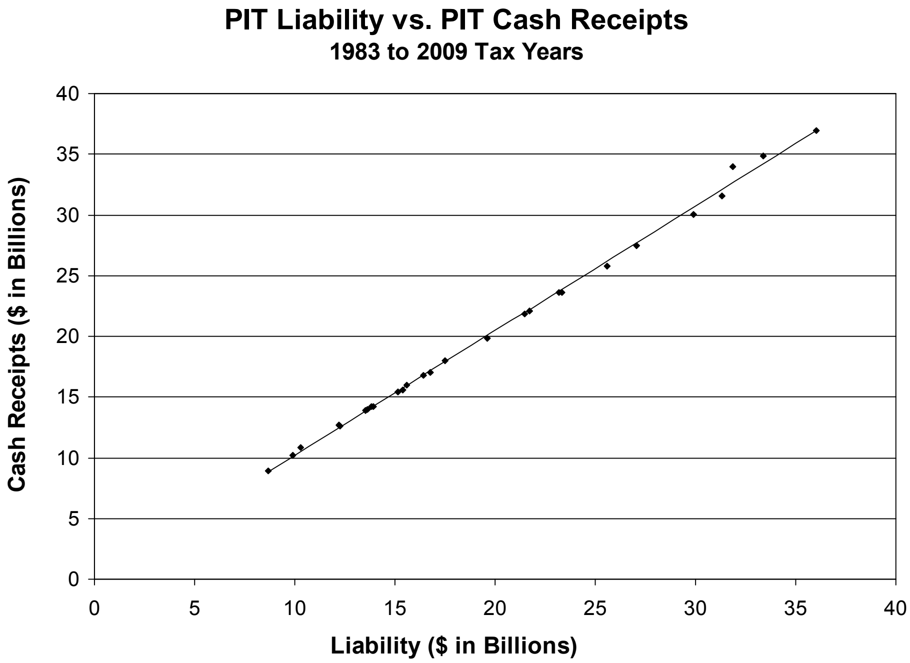
TABLE 7
CHANGES IN THE SHARE OF LIABILITY ORIGINATING WITH THE TOP ONE PERCENT OF NYS TAXPAYERS

	1995-2002, 2006 Tax Law			2003-2005 Surcharges		
Year	**Liability, top 1 Percent (millions)**	**Liability, all taxpayers (millions)**	**Share of total liability, top 1 (Percent)**	**Liability, top 1 Percent (millions)**	**Liability, all taxpayers (millions)**	**Share of total liability, top 1 (Percent)**
1996	4,935	16,319	30.2	--	--	--
1997	5,705	16,950	33.7	--	--	--
1998	6,654	18,986	35.0	--	--	--
1999	7,462	20,977	35.6	--	--	--
2000	9,644	24,494	39.0	--	--	--
2001	7,864	22,406	35.1	--	--	--
2002	6,681	20,729	32.2	--	--	--
2003	7,146	21,173	33.8	8,079	22,456	36.0
2004	8,487	24,218	35.0	9,607	25,769	37.3
2005	9,794	26,741	36.6	11,093	28,484	38.9
2006	11,539	29,605	39.0	--	--	--
2007*	14,206	34,819	40.8	--	--	--
2008*	11,587	31,705	36.5	--	--	--
2009*	10,357	29,403	35.2	--	--	--
2010*	11,430	31,651	36.1	--	--	--

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

TAX LIABILITY AND CASH PAYMENTS

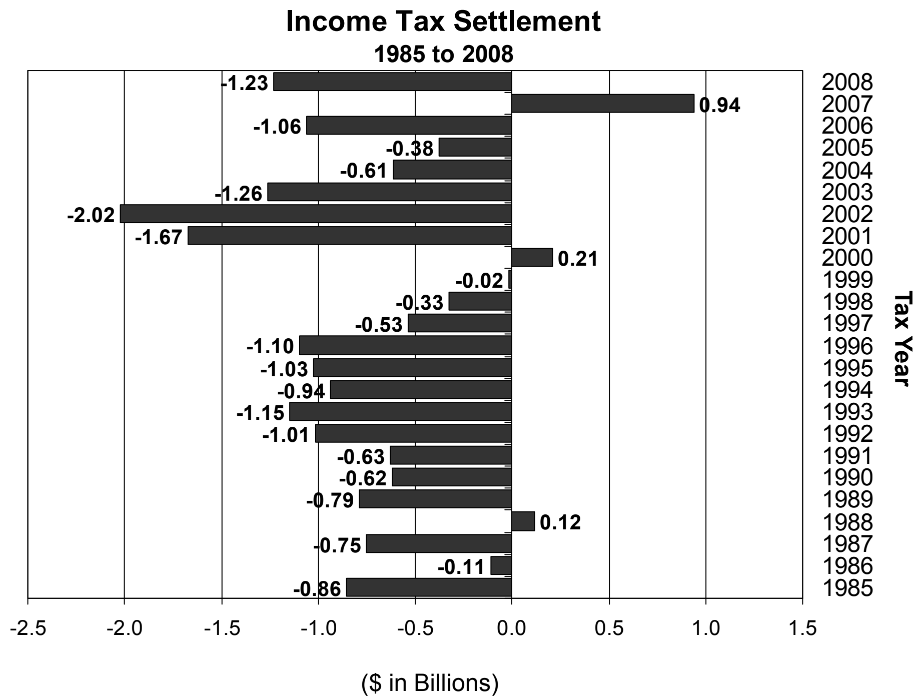
Although significant risks necessarily remain in any estimates of income tax liability, estimation of the level of tax liability for a particular tax year leads, with a high degree of confidence, to the approximate level of cash receipts that can be expected for the particular tax year. The consistency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



The above graph shows a trend line for the history of liability and cash receipts beginning in 1983, and dots denote actual liability and cash results or estimates.

Despite the strong relationship between tax-year liability and cash receipts, estimation of cash payments is subject to an important complication that pervades forecasts for the Executive Budget and other State Financial Plan updates. This complication is determining the portions of tax-year liability that will occur in particular State fiscal years. Income tax prepayments – withholding tax and quarterly estimated tax payments – tend to be received not long after income is earned. For example, most withholding tax payments and quarterly estimated tax payments for the 2007 tax year will be received before the end of the 2007-08 State fiscal year. Settlement payments – those payments received when taxpayers file final returns for a tax year – tend to be received in the next State fiscal year after the end of a tax year. Thus, settlement payments for the 2007 tax year will be received largely in the 2008-09 fiscal year.

As is evident in the graph below showing net settlement payments for the 1985 through 2008 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 (in 1986 and 1988), in times of rapid economic growth, and during periods with large increases in non-wage income.



Several different settlement patterns have occurred in recent years. With the rapid growth of the New York economy in the late 1990s, the settlement became much less negative than it traditionally had been. This pattern, accompanying strong economic growth, resulted generally from prepayment growth rates that fell short of liability growth rates, leading to the need for increased settlement payments with final returns. With the weak economy of 2001 and 2002, taxpayers, in aggregate, dramatically reduced their settlement payments and the total settlement became very negative again, with the net amount paid out by the State exceeding $2 billion for the 2002 tax year. Due to the temporary tax increases enacted by the Legislature in 2003, the net settlement payout by the State was negative by about $600 million for the 2004 tax year and only $380 million for tax year 2005. However, the 2006 estimated settlement was a negative $1,062 million, due mainly to refund claims for the new child credit. Due to strength of the 2007 tax year, the 2007 settlement is estimated to be highly positive at $940 million. However, due to the current recessionary economic environment, the 2008 settlement is expected to return to return to the negative range again.

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

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2008-09 Estimates

All Funds collections to date through November are approximately $23,915 million, an increase of $2,552 million, or approximately 11.9 percent above the comparable period in the prior fiscal year. The strong growth to date is primary the result of payments related to tax year 2007 liability. To date withholding collections have increased 4.1 percent compared to the same period in 2007-08.

All Funds receipts for 2008-09 are estimated to be approximately $36,559 million, a decrease of $5 million from the prior year. This reflects a decrease in withholding as a result of a contraction in underlying wages over the second half of the fiscal year that is expected to accelerate significantly during the coming bonus payout season. The forecast assumes that current estimated payments on 2008 liability will be 11.2 percent lower than comparable payments on 2007 liability. The decrease in estimated tax payments largely reflects strong prior year extension payments on 2007 liability. However, continued weakness in commercial real estate markets and the negative impact of the credit crunch are expected to significantly lower current year payments on 2008 liability.

Table 8 shows the components of the personal income tax from 2005-06 through 2009-10.

Table 8
FISCAL YEAR COLLECTION COMPONENTS
ALL FUNDS
(millions of dollars)

	2005-06 (Actual)	2006-07 (Actual)	2007-08 (Actual)	2008-09 (Estimated)	2009-10 (Projected)
Receipts					
Withholding	24,761	26,802	28,440	27,626	28,125
Estimated Payments	9,158	10,355	11,640	12,452	10,106
Current Year	6,684	7,572	8,592	7,627	7,051
Prior Year*	2,474	2,783	3,048	4,825	3,055
Final Returns	1,849	2,102	2,167	2,728	2,386
Current Year	199	194	206	207	207
Prior Year*	1,650	1,907	1,961	2,521	2,179
Delinquent Collections	776	831	923	947	1,116
Gross Receipts	36,544	40,090	43,170	43,753	41,733
Refunds					
Prior Year*	3,481	3,231	4,286	4,485	4,320
Previous Years	272	257	341	330	310
Current Year*	1,512	1,500	1,500	1,750	1,750
State-City Offset*	466	522	479	629	584
Total Refunds	5,731	5,510	6,606	7,194	6,964
Net Receipts	30,813	34,580	36,564	36,559	34,769

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

The primary risk to the estimate of 2008-09 receipts results from the timing of bonus payments paid by financial services companies. A large portion of financial sector bonuses are typically paid in the first quarter of the calendar year. Consequently, complete information about such payments is not available when Budget estimates are constructed. However, the forecast assumes a sharp 16.3 percent reduction in withholding during that first quarter of 2009, explaining in large part, the 2.9 percent annual decline in withholding.

Total refunds are expected to increase by $587 million (8.9 percent) from 2007-08 due to the aforementioned increase in the refund cap, along with the expectation that many taxpayers will substitute refunds for credit-forwards as their 2008 liabilities decline.

2009-10 Projections

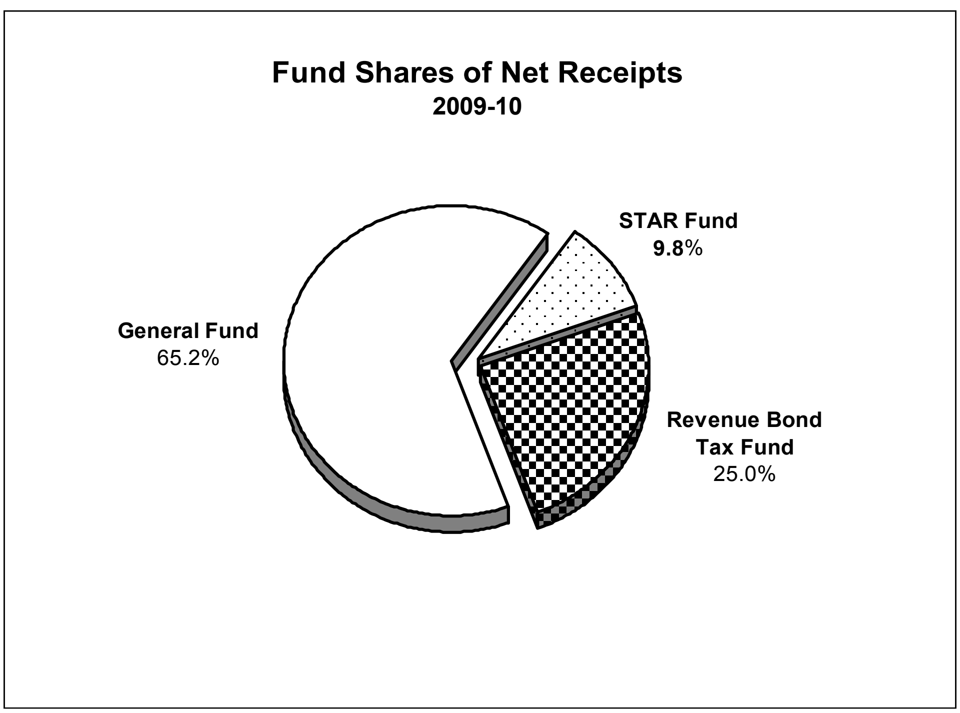
All Funds receipts are projected to be $34,769 million, a decrease of $1,791 million, or 4.9 percent from 2008-09.

Withholding receipts are projected to increase by 1.8 percent and reflect very modest forecast wage growth and the impact of proposed legislation related to itemized deduction limits and hedge fund managers. Absent this legislation, the increase would be just 1.1 percent. The other major component of collections, estimated payments on 2009 income, are projected to decrease by 7.6 percent. This is consistent with the projected contraction in non-wage income.

Extension and final payments related to 2008 returns are expected to decrease significantly, by $2,112 million (28.7 percent), from 2007 returns reflecting strong non-wage income for the 2007 tax year and the dramatic weakness forecasted for the 2008 tax year.

Total refunds for 2009-10 are projected to decrease by $230 million (3.2 percent). This reflects both the impact of the additional $250 million refund cap in 2008-09, and proposed legislation relating to Empire Zones.

General Fund



Under proposed law, General Fund net personal income tax receipts are estimated at $22,979 million in 2008-09 and are projected at $22,662 million in 2009-10, a 1.4 percent decrease from 2008-09.

Other Funds

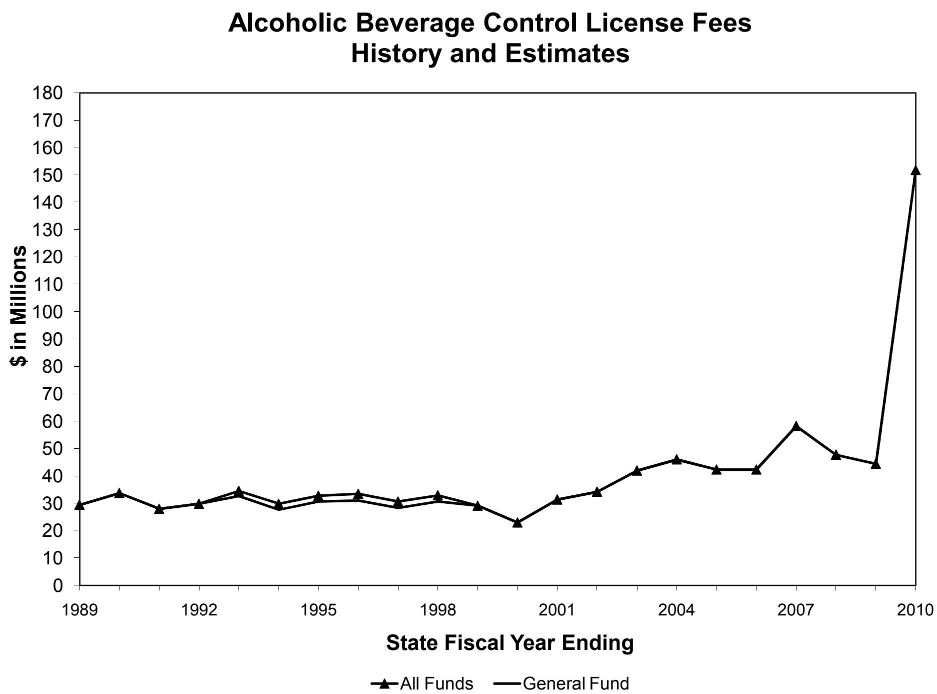
In 2008-09 and 2009-10, respectively, dedicated personal income tax receipts of $4,440.3 million and $3,415.5 million will be deposited into the School Tax Relief Fund. The large decline in 2009-10 largely reflects proposed legislation that would eliminate the middle class rebate program.

In 2008-09 and 2009-10, respectively, dedicated receipts of $9,139.5 million and $8,691 million will be deposited into the Revenue Bond Tax Fund (RBTF), the decline reflecting the economy-related drop in net income tax collections upon which the RBTF is based.

ALCOHOLIC BEVERAGE CONTROL LICENSE FEES

ALCOHOLIC BEVERAGE CONTROL LICENSE FEES (millions of dollars)							
	2007-08 Actual	2008-09 Estimated	Change	Percent Change	2009-10 Projected	Change	Percent Change
General Fund	47.7	44.4	(3.3)	(6.9)	151.8	107.4	241.9
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	47.7	44.4	(3.3)	(6.9)	151.8	107.4	241.9

Note: Totals may differ due to rounding.



ALCOHOLIC BEVERAGE CONTROL LICENSE FEES BY FUND (thousands of dollars)					
	Gross General Fund	Refunds	General Fund	Special Revenue Funds	All Funds Receipts
1999-2000	25,566	2,615	22,951	0	22,951
2000-01	33,140	1,787	31,353	0	31,353
2001-02	35,495	1,251	34,244	0	34,244
2002-03	43,124	1,183	41,941	0	41,941
2003-04	47,187	1,796	45,391	0	45,391
2004-05	44,543	2,179	42,364	0	42,364
2005-06	44,934	2,608	42,326	0	42,326
2006-07	60,700	2,500	58,200	0	58,200
2007-08	50,200	2,500	47,700	0	47,700
Estimated					
2008-09	46,900	2,500	44,400	0	44,400
2009-10 current	50,800	2,500	48,300	0	48,300
2009-10 proposed	154,300	2,500	151,800	0	151,800

ALCOHOLIC BEVERAGE CONTROL LICENSE FEES

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- allow the sale of wine in grocery and drug stores with the payment of a one-time franchise fee.

DESCRIPTION

Fee Base and Rate

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

Administration

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

NUMBER OF LICENSES BY CATEGORY
(calendar year)

		Bars and Restaurants						
	Liquor Stores	Beer, Wine and Liquor	Beer and Wine	Beer Only	Subtotal	Grocery Stores	Wholesale	Total
1998	2,596	19,853	3,712	1,950	25,515	19,417	1,142	48,670
1999	2,560	20,325	3,640	1,883	25,848	19,202	1,031	48,587
2000	2,491	20,694	3,748	1,877	26,319	19,167	1,201	49,178
2001	2,482	20,545	3,991	1,942	26,478	18,994	1,181	49,135
2002	2,494	21,192	4,256	2,066	27,514	19,051	1,202	50,261
2003	2,501	19,666	4,470	1,977	26,113	18,726	1,233	48,573
2004	2,525	19,772	4,606	1,984	26,362	18,496	1,254	48,637
2005	2,558	19,686	4,825	1,984	26,495	18,270	1,294	48,617
2006	2,628	19,497	4,929	1,964	26,390	18,878	1,640	49,536
2007	2,654	19,801	5,030	2,260	27,091	18,291	1,371	49,407
2008	2,702	19,858	5,108	2,245	27,211	18,171	1,432	49,516

Significant Legislation

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

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

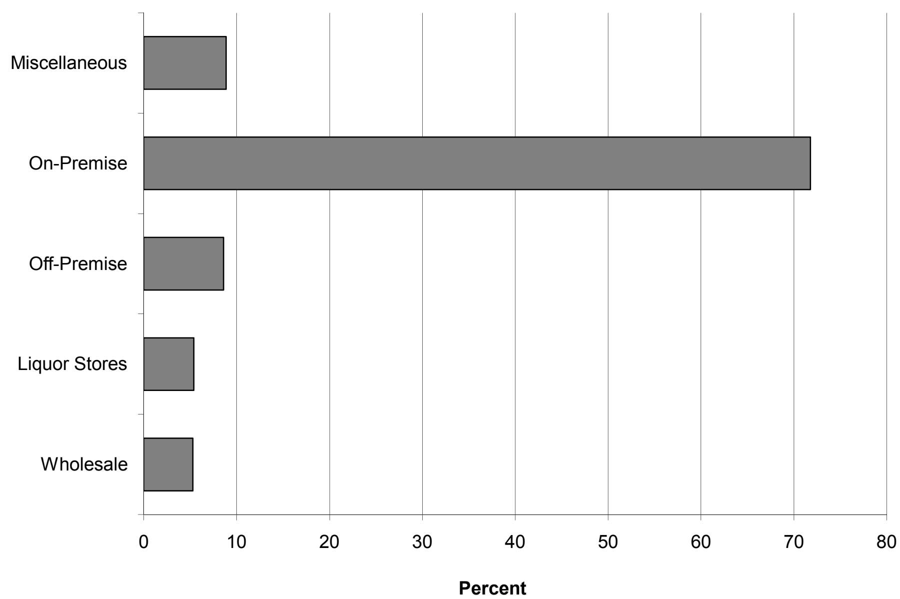
Subject	Description	Effective Date
Legislation Enacted in 2005		
Direct Shipments	Allowed the direct shipment of wine to individual consumers in New York State.	August 11, 2005
Legislation Enacted in 2007		
Auction Licenses	Allowed auctions of distilled spirits and licensing of auctioneers.	October 15,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

FEE LIABILITY

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

It is anticipad that the vast majority of current beer license holders will apply for wine licenses.

Alcoholic Beverage Control License Fees
Share of 2008 Receipts by License Category



TAX LIABILITY

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

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2008-09 Estimates

All Funds collections to date are $28.7 million, a decrease of $4.7 million, or 14.1 percent below the comparable period in the prior fiscal year.

All Funds receipts for 2008-09 are estimated to be $44.4 million, a decrease of $3.3 million, or 7 percent below last year.

2009-10 Projections

All Funds receipts are projected to be $151.8 million, a increase of $107.4 million, or 242 percent above 2008-09. This increase is attributed to the new wine licenses and franchise fees for grocery and drug stores, as well as the normal license renewal cycle.

General Fund

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

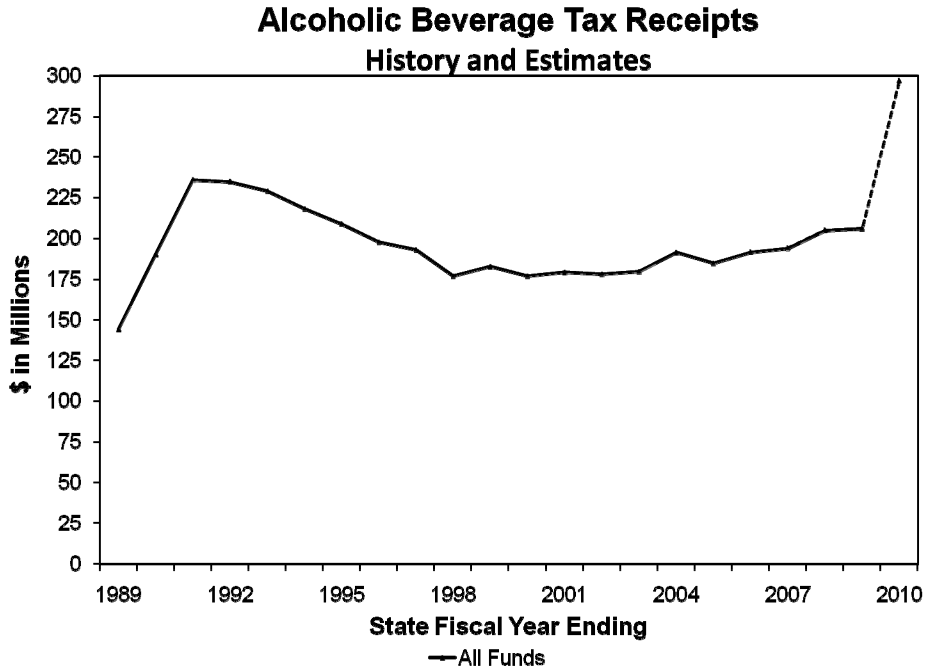
Other Funds

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

ALCOHOLIC BEVERAGE TAXES

ALCOHOLIC BEVERAGE TAXES (millions of dollars)	2007-08 Actual	2008-09 Estimated	Change	Percent Change	2009-10 Projected	Change	Percent Change
General Fund	204.8	206.0	1.2	0.6	297.2	91.2	44.3
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	204.8	206.0	1.2	0.6	297.2	91.2	44.3

Note: Totals may differ due to rounding.



ALCOHOLIC BEVERAGE TAXES BY FUND (thousands of dollars)	Gross General Fund	Refunds	General Fund	All Funds Receipts
1998-99	183,087	316	182,771	182,771
1999-2000	177,093	55	177,038	177,038
2000-01	179,407	67	179,340	179,340
2001-02	178,146	1	178,145	178,145
2002-03	180,686	931	179,755	179,755
2003-04	191,380	23	191,357	191,357
2004-05	184,955	68	184,887	184,887
2005-06	191,696	22	191,674	191,674
2006-07	194,400	100	194,300	194,300
2007-08	204,900	100	204,800	204,800
Estimated				
2008-09	206,100	100	206,000	206,000
2009-10				
Current Law	210,600	100	210,500	210,500
Proposed Law	297,300	100	297,200	297,200

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- increase the beer tax from 11 cents per gallon to 24 cents per gallon;
- increase the wine tax from 19 cents per gallon to 51 cents per gallon;
- allow the sale of wine in grocery stores;
- change the tax rate on flavored malt beverages; and
- impose certain reporting requirements which will enhance tax compliance and enforcement.

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	0.19	per gallon
Artificially carbonated sparkling wine	0.19	per gallon
Still wine	0.19	per gallon
Beer with 0.5 percent or more alcohol	0.11	per gallon
Cider with more than 3.2 percent alcohol	0.04	per gallon

Administration

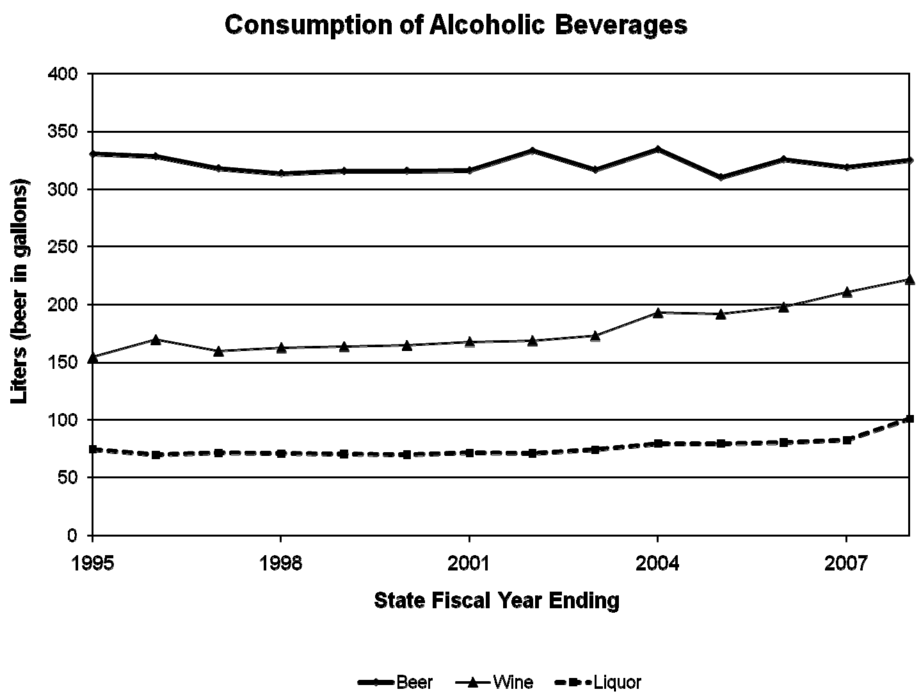
The tax is remitted by licensed distributors and noncommercial importers of such beverages in the month following the month of delivery.

Significant Legislation

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

Subject	Description	Effective Date
Legislation Enacted in 1989		
Various Tax Increases	Increased the State excise tax rate on: beer with at least 0.5 percent alcohol from 5.5 cents to 11 cents per gallon; liquor with at least 24 percent alcohol from $1.08 to $1.40 per liter; liquor with between 2 and 24 percent alcohol from 26.4 cents to 55 cents per liter; wine from 3.2 cents to 5 cents per liter; and cider with at least 3.2 percent alcohol from 0.4 cents to 1 cent per liter.	May 1, 1989
Legislation Enacted in 1991		
Various Tax Increases	Increased the State excise tax rate on: beer with at least 0.5 percent alcohol from 11 cents to 21 cents per gallon; liquor with at least 24 percent alcohol from $1.40 to $1.70 per liter; and liquor with between 2 and 24 percent alcohol from 55 cents to 66.8 cents per liter.	June 1, 1991

Subject	Description	Effective Date
Legislation Enacted in 1995		
Beer Tax Cut	Reduced the State excise tax rate on beer with at least 0.5 percent alcohol from 21 cents to 16 cents per gallon.	January 1, 1996
Legislation Enacted in 1998		
Beer Tax Cut	Reduced the State excise tax rate on beer with at least 0.5 percent alcohol from 16 cents to 13.5 cents per gallon.	January 1, 1999
Legislation Enacted in 1999		
Beer Tax Cut	Reduced the State excise tax rate on beer with at least 0.5 percent alcohol from 13.5 cents to 12.5 cents per gallon.	April 1, 2001
Exemption	Increased the small brewers' tax exemption from the first 100,000 barrels of domestically brewed beer to 200,000 barrels.	April 1, 2001
Legislation Enacted in 2000		
Exemption	Accelerated the small brewers exemption increase by moving the effective date from April 1, 2001, to January 1, 2000.	January 1, 2000
Beer Tax Cut	Reduced the State excise tax rate on beer with at least 0.5 percent alcohol from 12.5 cents to 11 cents per gallon.	September 1, 2003
Legislation Enacted in 2007		
Auction Licenses	Authorizes 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 (immediately)



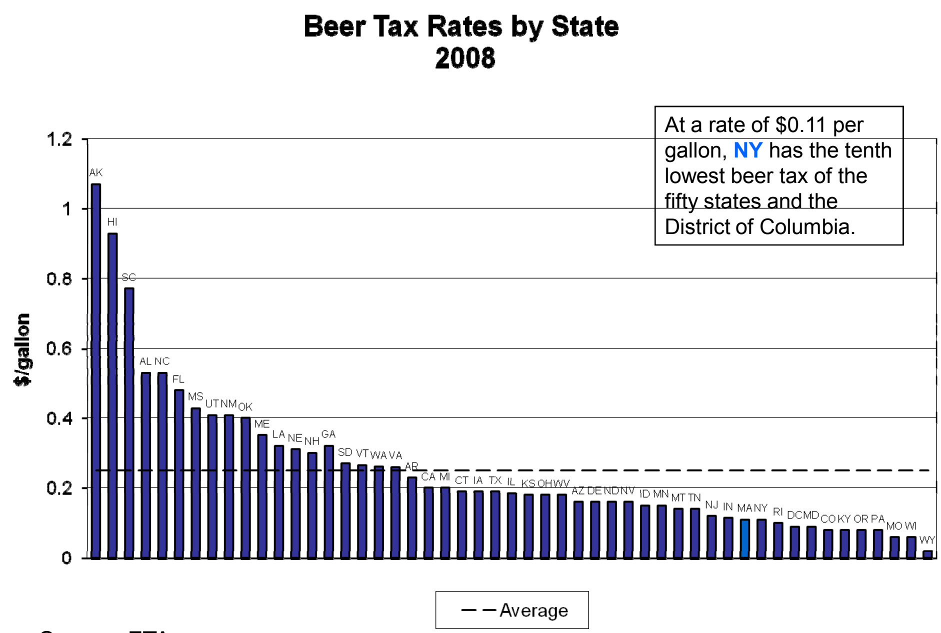
TAX LIABILITY

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

Other States

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

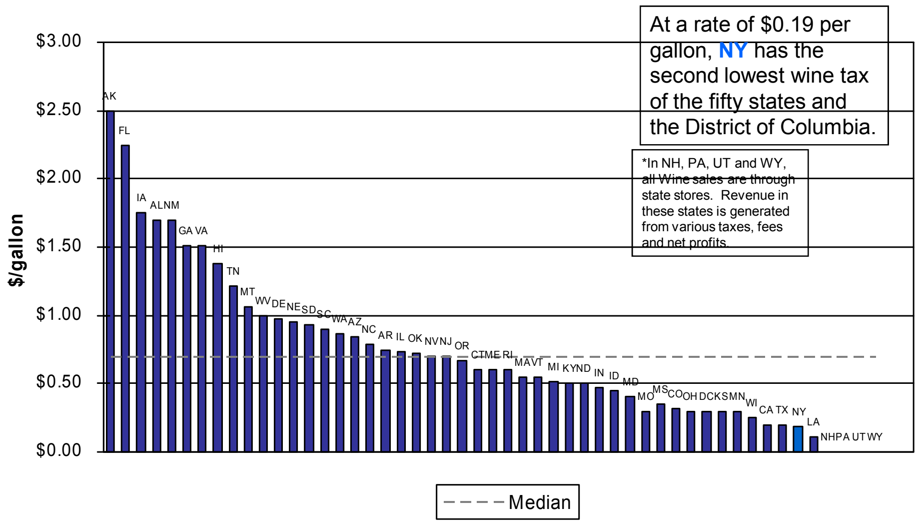
- The tenth lowest beer tax in the nation;
- The second lowest wine tax in the nation (of those participating states[3]); and
- The third highest liquor tax in the nation (of those participating states[4]).



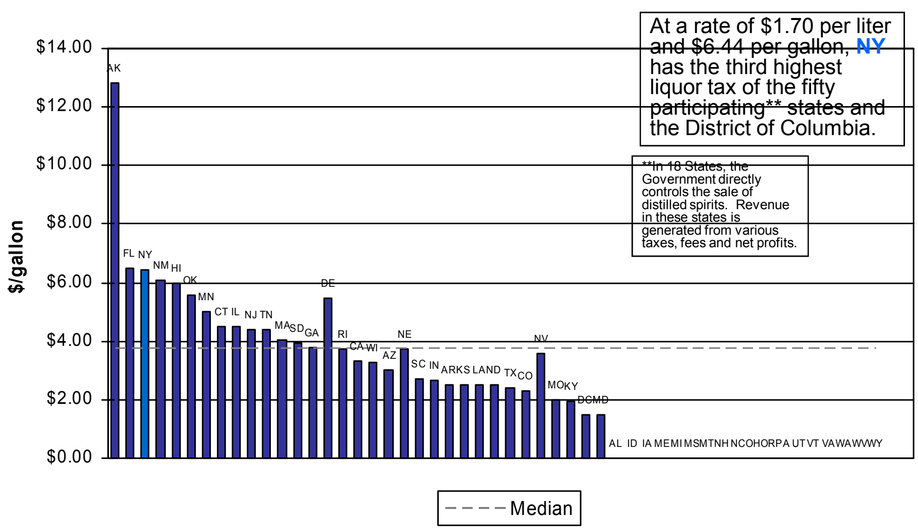
Source: FTA

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

Wine Tax Rates by State
2008



Liquor Tax Rates by State
2008



The State continues to suffer tax avoidance and evasion due to the bootlegging of liquor from other states. Enforcement legislation enacted in 1993 added registration, invoice and manifest requirements, as well as seizure and forfeiture provisions. Additionally, the legislation provided higher fines for the bootlegging of varying volumes of liquor. These alcoholic beverage enforcement provisions have provided some protection to the State's liquor industry and tax base, thereby moderating year-over-year declines in State alcoholic beverage tax receipts. Other provisions were extended on a number of occasions and were made permanent in 2008.

ALCOHOLIC BEVERAGE TAXES

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.state.ny.us.

ALCOHOLIC BEVERAGE TAX ENFORCEMENT PROVISIONS

Violations	Volume	Penalties
Import liquor without registration		Class A misdemeanor
Produce, distill, manufacture, compound, mix or ferment liquors without registration or tax payments		Class A misdemeanor
Cause liquor covered by a warehouse receipt to be removed from a warehouse		Class A misdemeanor
Three or more above violations in a five-year period		Class E felony
Import liquor without registration	More than 360 liters within one year	Class E felony
Produce, distill, manufacture, compound, mix or ferment liquors without registration or tax payments	More than 360 liters within one year	Class E felony
Cause liquor covered by a warehouse receipt to be removed from a warehouse	More than 360 liters within one year	Class E felony
Custody, possession or control of liquor without registration or tax payments		Class B misdemeanor
Custody, possession or control of liquor without registration or tax payments	Exceeds 360 liters	Class E felony
Import liquor without registration	More than 90 liters	Seize transportation vehicles and liquor.
Distribute or hold liquor for sale without paying alcoholic beverage taxes	More than 90 liters	Seize transportation vehicles and liquor.
Failure by a distributor to pay the tax		10 percent of the tax amount due, plus 1 percent each month after the expiration. The penalty shall not be less than $100 but shall not exceed 30 percent in aggregate.
Failure by any other person to pay the tax		50 percent of the tax amount due, plus 1 percent each month after the expiration. The penalty shall not be less than $100.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2008-09 Estimates

All Funds collections through November 2008 are $143.2 million, an increase of $3.4 million, or 2.4 percent above the comparable period in the prior fiscal year.

All Funds receipts for 2008-09 are estimated to be $206 million, an increase of $1.2 million, or 5.4 percent above last year.

Of the total estimated receipts, $157 million is derived from liquor, $38 million from beer and $11 million from wine and other taxed beverages.

COMPONENTS OF ALCOHOLIC BEVERAGE TAX RECEIPTS (millions of dollars)							
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09 Estimated	2009-10 Projected
Beer	39	34	36	37	38	38	89
Liquor	143	141	145	147	154	157	175
Wine and Othe	10	10	11	12	13	11	33
Total	191	185	192	196	205	206	297

2009-10 Projections

All Funds receipts are projected to be $297.2 million, an increase of $91.2 million, or 44 percent above 2008-09.

Based on recent trends, the consumption of beer and liquor are expected to grow modestly. The increase in the number of wine outlets is expected to increase wine consumption by approximately 18 percent.

Of the total projected alcoholic beverage tax receipts, $175 million is derived from liquor, $89 million from beer, and $33 million from wine and other specialty beverages.

General Fund

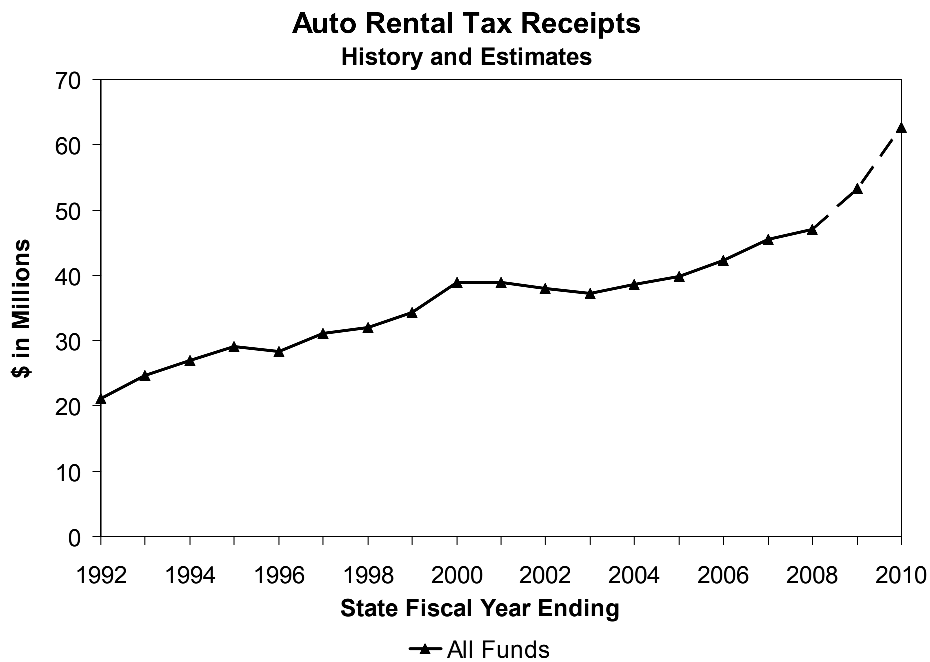
Currently, all receipts from the alcoholic beverage tax are deposited in the General Fund.

AUTO RENTAL TAX

AUTO RENTAL TAX
(millions of dollars)

	2007-08 Actual	2008-09 Estimated	Change	Percent Change	2009-10 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	47.0	53.3	6.3	13.4	62.7	9.4	17.6
All Funds	47.0	53.3	6.3	13.4	62.7	9.4	17.6

Note: Totals may differ due to rounding.



AUTO RENTAL TAX BY FUND
(thousands of dollars)

	General Fund	Capital Projects Funds[1]	All Funds Receipts
1999-2000	38,843	0	38,843
2000-01	38,916	0	38,916
2001-02	37,914	0	37,914
2002-03	0	37,191	37,191
2003-04	0	38,593	38,593
2004-05	0	39,824	39,824
2005-06	0	42,303	42,303
2006-07	0	45,500	45,500
2007-08	0	46,973	46,973
Estimated			
2008-09	0	53,300	53,300
2009-10			
Current Law	0	54,700	54,700
Proposed Law	0	62,700	62,700

[1] Dedicated Highway and Bridge Trust Fund.

PROPOSED LEGISLATION

Legislation proposed with this Budget would increase the auto rental tax from 5 percent to 6 percent.

DESCRIPTION

Tax Base and Rate

Since June 1, 1990, the State has 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. If the Budget proposal is enacted, this rate would increase to 6 percent.

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.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2008-09 Estimates

All Funds collections through November are estimated to be $34.8 million, an increase of $6.0 million, or 21.0 percent above the comparable period in the prior fiscal year.

All Funds receipts for 2008-09 are estimated to be $53.3 million, an increase of $6.3 million, or 13.4 percent above last year.

2009-10 Projections

All Funds receipts are projected to be $62.7 million, an increase of $9.4 million, or 17.6 percent above 2008-09. The Executive Budget proposal to increase the rate from 5 percent to 6 percent is estimated to increase revenues by $8 million in 2009-10.

General Fund

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

Other Funds

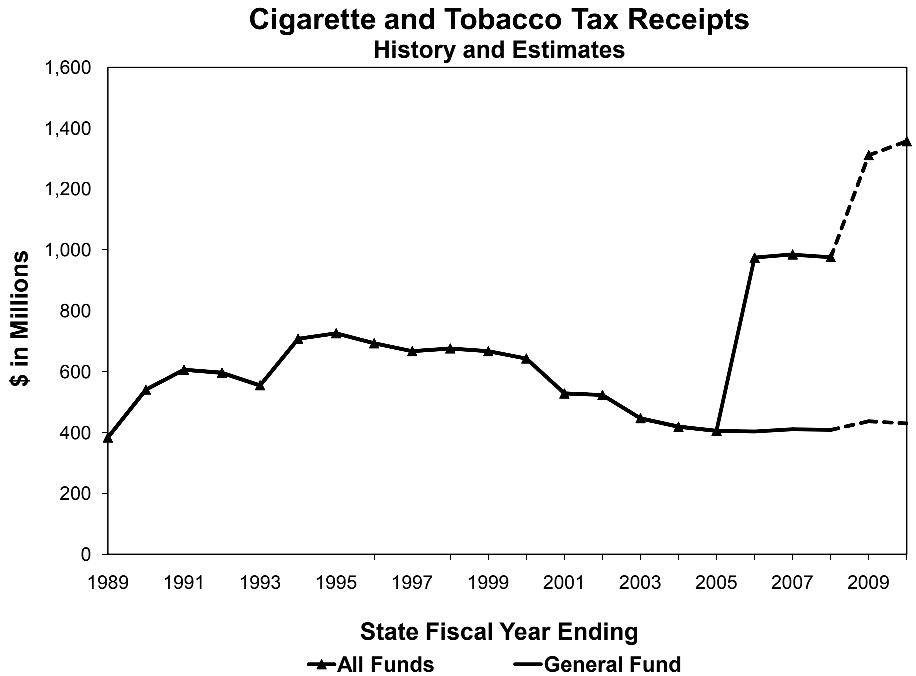
Legislation enacted in 2002 dedicated all receipts from the auto rental tax to the Dedicated Highway and Bridge Trust Fund, effective April 1, 2002.

CIGARETTE AND TOBACCO TAXES

CIGARETTE AND TOBACCO TAXES
(millions of dollars)

	2007-08 Actual	2008-09 Estimated	Change	Percent Change	2009-10 Projected	Change	Percent Change
General Fund	408.8	437.2	28.4	6.9	438.6	1.4	0.3
Other Funds	567.4	873.5	306.1	53.9	945.3	71.8	8.2
All Funds	976.2	1,310.7	334.5	34.3	1,383.9	73.2	5.6

Note: Totals may differ due to rounding.



CIGARETTE AND TOBACCO TAXES BY FUND
(millions of dollars)

	Gross General Fund	Refunds	General Fund	Special Revenue Funds*	All Funds Receipts
1998-99	672	5	667	0	667
1999-2000	648	5	643	0	643
2000-01	532	4	528	0	528
2001-02	530	7	523	0	532
2002-03	454	8	446	0	446
2003-04	428	9	419	0	419
2004-05	409	3	406	0	406
2005-06	406	2	404	571	974
2006-07	412	1	411	574	985
2007-08	410	1	409	567	976
Estimated					
2008-09	438	1	437	874	1,311
2009-10					
Current Law	431	1	430	927	1,357
Proposed Law	440	1	439	945	1,384

*Between March 2000 and March 2005, a portion of the State's cigarette tax receipts was deposited in the off-budget Tobacco Control and Insurance Initiatives Pool established in the Heath Care Reform Act of 2000. After March 2005, that portion is deposited in the HCRA Resources Pool which is a Special Revenue Fund within the State's Fund structure.

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- modify the taxation of cigars to impose a tax of fifty cents per cigar to simplify administration and improve compliance; and
- increase retail dealer registration fees.

Tax Base and Rate

The New York State cigarette excise tax is imposed by Article 20 of the Tax Law on the sale or use of cigarettes within the State. The current tax rate is $2.75 per package of 20 cigarettes.

The Federal government imposes a cigarette excise tax on manufacturers and first importers of cigarettes. The Federal tax rate was increased from 24 cents to 34 cents per pack on January 1, 2000, and again to 39 cents per pack on January 1, 2002. Effective March 1, 2000, New York raised its tax by 55 cents to $1.11 per pack and effective April 3, 2002, by 39 cents to $1.50 per pack. On June 3, 2008, the State's tax was increased by $1.25 to $2.75 per pack. New York City also levies a separate cigarette excise tax of $1.50 per pack.

STATE, FEDERAL AND NEW YORK CITY CIGARETTE EXCISE TAX RATES PER PACK OF 20 CIGARETTES (since 1950)

State	Rate (cents)	Federal	Rate (cents)	New York City	Rate (cents)
July 1, 1939	2	Before November 1, 1951	7	Before May 1, 1959	1
January 1, 1948	3	November 1, 1951	8	May 1, 1959	2
April 1, 1959	5	January 1, 1983	16	June 1, 1963	4
April 1, 1965	10	January 1, 1991	20	January 1, 1976	8
June 1, 1968	12	January 1, 1993	24	July 2, 2002	150
February 1, 1972	15	January 1, 2000	34		
April 1, 1983	21	January 1, 2002	39		
May 1, 1989	33				
June 1, 1990	39				
June 1, 1993	56				
March 1, 2000	111				
April 3, 2002	150				
June 3, 2008	275				

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 37 percent of their wholesale price except for snuff products, which are taxed at a rate of $0.96 cents per ounce. Legislation included in the Executive Budget will change the tax on cigars to be $0.50 per cigar. The Federal government also imposes an excise tax on manufacturers and importers of tobacco products at various rates, depending on the type of product.

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

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

CIGARETTE TAX RATES
Cents Per Pack Ranked by State Tax Rate
As of December 1, 2008

Rank (High toLow)	State Rate	Rank (High toLow)	State Rate
New York	**275.0**	Oklahoma	103.0
New Jersey	257.5	Indiana	99.5
Massachusetts	251.0	Illinois	98.0
Rhode Island	246.0	New Mexico	91.0
Washington	202.5	California	87.0
Alaska	200.0	Colorado	84.0
Arizona	200.0	Nevada	80.0
Connecticut	200.0	Kansas	79.0
District of Columbia	200.0	Utah	69.5
Hawaii	200.0	Nebraska	64.0
Maine	200.0	Tennessee	62.0
Maryland	200.0	Wyoming	60.0
Michigan	200.0	Arkansas	59.0
Vermont	199.0	Idaho	57.0
Wisconsin	177.0	West Virginia	55.0
Montana	170.0	North Dakota	44.0
South Dakota	153.0	Alabama	42.5
Minnesota	150.4	Georgia	37.0
Texas	141.0	Louisiana	36.0
Iowa	136.0	North Carolina	35.0
Pennsylvania	135.0	Florida	33.9
New Hampshire	133.0	Kentucky	30.0
Ohio	125.0	Virginia	30.0
National Average	**118.9**	Mississippi	18.0
Oregon	118.0	Missouri	17.0
Delaware	115.0	South Carolina	7.0

Source: Campaign for Tobacco-Free Kids

Administration

State-registered stamping agents, who are mostly wholesalers, purchase tax stamps from the State and affix the stamps to cigarette packages to be sold by New York State registered retailers. The excise tax is paid by the stamping agent and is passed on. Purchasers of non-State stamped cigarettes, such as cigarettes sold out-of-State or on Native American lands, must remit the cigarette excise tax directly to the Department of Taxation and Finance. An individual may bring two cartons into the State without being subject to the excise tax.

Tax Evasion

Cigarette tax evasion is a serious problem in New York and throughout the Northeast. Widespread evasion not only reduces State and local revenues, but also reduces the income of legitimate wholesalers and retailers. The Department of Taxation and Finance has acted vigorously to curb cigarette bootlegging through investigatory and enforcement efforts. Legislation enacted in 1996, substantially increased penalties for retailers and wholesalers who sell unstamped or illegally stamped packages of cigarettes. Further legislation enacted in 2002 increased the number of enforcement agents.

The positive effects of the 1996 enforcement legislation were realized later that year, with an increase in the number of new retailer license applications. This increase, as well as an enhanced State enforcement presence, may have led to less severe declines in taxable cigarette consumption than otherwise would have occurred.

In 2000, comprehensive legislation was enacted to combat cigarette bootlegging and reduce youth and adult smoking by banning Internet sales and the delivery by common carrier of cigarettes to individual consumers in New York. This law, however, cannot apply to the U.S. Postal Service. After a lawsuit by Brown and Williamson Tobacco, this legislation was ruled unconstitutional by the U.S. District Court of the Southern District of New York and enjoined from going into effect. The State's appeal was heard in June 2002 and the law became effective in March 2003 when the U.S. Circuit Court of Appeals ruled for the State. Appeals in this case have been exhausted. In April 2003, trucking associations from New York, New Jersey and Connecticut filed a separate suit to have the statute declared unconstitutional. The case was decided in favor of the State by the U.S. District Court of the Southern District of New York in December 2004.

In 2005, legislation was enacted requiring the collection of tax on cigarettes sold on Native-American reservations to non-Native-Americans. In January 2007, a preliminary injunction was issued in the State Supreme Court enjoining the enforcement of these statutes until certain actions are taken by the Tax Department, including the issuance of enabling regulations and the distribution of Indian tax exempt coupons, are taken. Further litigation may be brought upon the implementation of the statutes.

Significant Legislation

The significant statutory changes to cigarette and tobacco taxes since 1939 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1939		
Cigarettes – Imposition	Imposed a "temporary" tax on the sale of cigarettes at the rate of $0.02 per pack.	July 1, 1939
Legislation Enacted in 1947		
Cigarettes – Permanent	Made the $0.02 per pack tax on cigarettes permanent.	March 8, 1947
Cigarettes – Additional Tax	Imposed an additional $0.01 per pack tax (0.5 cents per 10 cigarettes) to finance the "war bonus account."	January 1, 1948
Legislation Enacted in 1949		
Cigarettes – Use Tax	Enacted a cigarette use tax.	May 1, 1949
Legislation Enacted in 1959		
Cigarettes – Increase	Increased the cigarette tax to $0.05 per pack from $0.03.	April 1, 1959
Tobacco – Imposition	Enacted a tobacco products tax equal to 15 percent of the wholesale price of tobacco products.	July 1, 1959
Legislation Enacted in 1961		
Tobacco – Repeal	Repealed the tobacco products tax.	July 1, 1961
Legislation Enacted in 1985		
Cigarettes - CMSA	Enacted the Cigarette Marketing Standards Act (CMSA) as Article 20-A of the Tax Law.	November 1, 1985

Subject	Description	Effective Date
Legislation Enacted in 1989		
Tobacco – Imposition	Enacted a tobacco products tax equal to 15 percent of the wholesale price of tobacco products.	July 1, 1989
Legislation Enacted in 1993		
Tobacco – Rate Increase	Increased the tobacco products tax to 20 percent of the wholesale price from 15 percent.	June 1, 1993
Legislation Enacted in 1996		
Enforcement Provisions	Increased penalties and fines for selling unstamped cigarettes, violation of retail dealer and vending machine registration provisions, and providing inaccurate registration information.	December 3, 1996
Legislation Enacted in 1999		
Cigarette Tax Increase	Increased the cigarette excise tax from 56 cents to $1.11 per pack, as part of the Health Care Reform Act (HCRA) of 2000.	March 1, 2000
Legislation Enacted in 2000		
Underage Smoking	Increased penalties for illegal sales of tobacco products to minors.	September 1, 2000
Enforcement Provisions	Created civil and criminal penalties for persons who sell and ship cigarettes to persons who are not licensed or registered cigarette dealers or agents.	November 16, 2000
Enforcement Provisions	Created civil and criminal penalties for carriers who transport cigarettes to persons who are not licensed or registered cigarette dealers or agents.	January 1, 2001
Safe Cigarettes	Required the promulgation and imposition of fire-safety standards for cigarettes and rolled tobacco products sold in New York.	July 1, 2004
Legislation Enacted In 2002		
Cigarette Tax Increase	Increased the cigarette excise tax from $1.11 per pack to $1.50 per pack.	April 3, 2002
Tobacco Tax Increase	Increased the other tobacco products tax from 20 percent of the wholesale price to 37 percent.	July 3, 2002
Enforcement Provisions	Increased the number of enforcement agents.	May 29, 2002
Legislation Enacted In 2005		
Enforcement Provisions	Required collection of tax on sales to non-Native Americans on New York reservations.	March 1, 2006
Legislation Enacted In 2008		
Cigarette Tax Increase	Increased the cigarette excise tax from $1.50 per pack to $2.75 per pack.	June 3, 2008
Tobacco Tax	Imposes a tax on snuff products at a rate of $0.96 cents per once.	July 1, 2008

TAX LIABILITY

Taxable cigarette consumption is a function of retail cigarette prices and a long-term downward trend in consumption. The decline in consumption reflects the impact of increased public awareness of the adverse health effects of smoking, smoking restrictions imposed by governments, anti-smoking education programs, and changes in consumer preferences toward other types of tobacco. Recently, declines in taxable consumption have been exacerbated by evasion.

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

TOBACCO MSA PAYMENTS

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

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2008-09 Estimates

Total collections (including HCRA) to date are $895.4 million, an increase of $204.5 million from the comparable period in the prior fiscal year. Total receipts for 2008-09 are estimated to be $1,310.7 million, an increase of $334.5 million, or 34.3 percent above last year. This increase reflects the impact of the increase in the cigarette excise tax rate from $1.50 per pack to $2.75 per pack, effective June 3, 2008.

2009-10 Projections

All Funds receipts are projected to be $1,383.9 million, an increase of $73.2 million, or 5.6 percent above 2008-09. Implementation of statutes requiring the collection of tax on sales by Native American retailers to non-native Americans and enforcement of these regulations is anticipated to result in an increase in receipts of $85 million in 2009-10. Legislation included with the Executive Budget will increase the retailer registration fee and redirect all but the first $3 million in revenue from the fee to HCRA, resulting in a net increase of $17 million in 2009-10.

Health Care Reform Act (HCRA)

Legislation passed in 2002 established a percentage distribution of cigarette tax receipts to HCRA. The following table shows the historic distributions since then.

CIGARETTE TAX DISTRIBUTION (percent)	
April 1, 2002, to April 30, 2002	
General Fund	56.30
HCRA	43.70
May 1, 2002, to March 31, 2003	
General Fund	35.45
HCRA	64.55
April 1, 2003, to June 2, 2008	
General Fund	38.78
HCRA	61.22
Beginning June 3, 2008	
General Fund	29.37
HCRA	70.63

Currently, 70.63 percent of the proceeds from the State cigarette tax of $2.75 are deposited in the Tobacco Control and Insurance Initiatives Pool established in the Health Care Reform Act of 2000.

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

Based on the percentage distribution of cigarette tax, the pool will receive an estimated $873.5 million in 2008-09 and is projected to receive $945.3 million in 2009-10 from State cigarette tax receipts. Receipts to date are $589.1 million, $188.9 million or 32.1 percent above receipts for the first 8 months of 2008-09. Receipts in 2008-09 have grown as a result of the June 3, 2008 tax increase. Collections are expected to also increase in 2009-10 as a result of the full year impact of the tax increase and enforcement of the taxation of packs sold on Indian reservations to non-Indians.

As part of the agreement allowing New York City to increase its cigarette tax from eight cents to $1.50 per pack in July 2002, the City provides the State with 46 percent of the receipts generated through its tax. These receipts are deposited into the Tobacco Control and Insurance Initiatives Pool. New York State share of the City's cigarette tax is projected to be $75 million in 2008-09 and $70 million in 2009-10.

General Fund

General Fund cigarette and tobacco tax receipts for 2008-09 are estimated at $387.2 million, an increase of 27.8 million, or 27.8 percent, from 2007-08. To date, General Fund cigarette and tobacco tax receipts are an estimated $306.3 million, an increase of $15.6 million, or 5.1 percent above the comparable period in the prior fiscal year. Receipts from the tobacco products tax have increased by $0.7 million year-to-date, and are projected to be $47.0 million for the year.

For 2009-10, General Fund cigarette tax receipts are projected at $378.6 million, a decrease of $8.6 million. This decline reflects the loss of revenue from pre-buying in advance of the June 3, 2008 tax increase and a decline in cigarette consumption. The tax on tobacco products is expected to total $57 million, an increase of $10 million from 2008-09, due to legislation submitted with the Executive Budget that would modify the method of taxation on cigars to impose a tax of 50 cents per cigar.

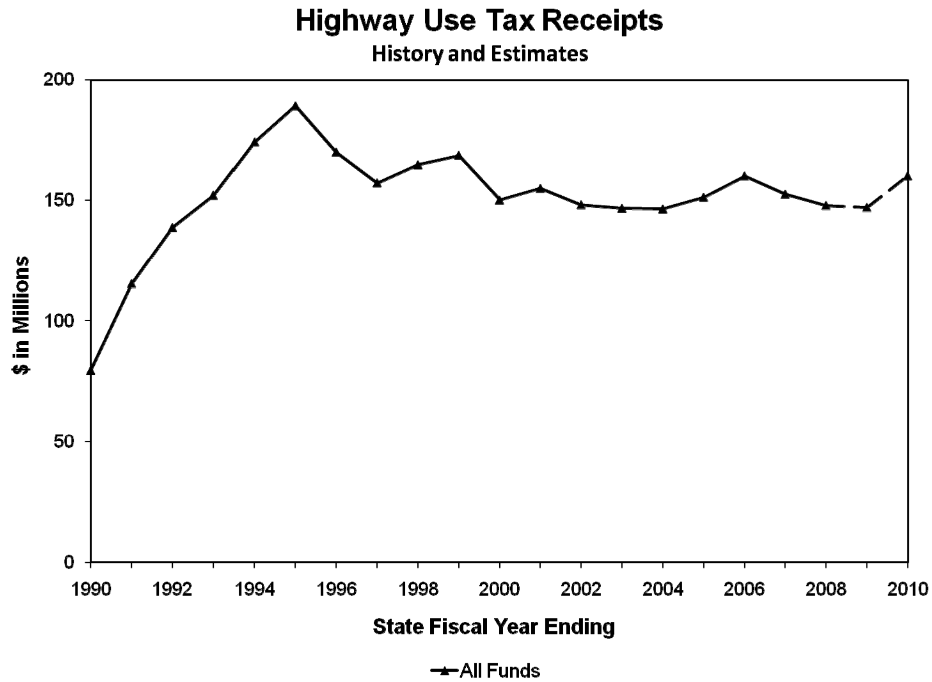
CIGARETTE AND TOBACCO TAX RECEIPTS (millions of dollars)							
	General Fund				HCRA		General
Fiscal Year	Cigarette Tax	Tobacco Tax	Other	Total	Cigarette Tax*	HCRA Other	Fund Plus HCRA
1998-99	644	19	3	667	0		667
1999-2000	620	20	3	643	28		672
2000-01	504	21	4	528	495		1,024
2001-02	499	22	2	523	481		1,005
2002-03	404	38	5	446	675		1,121
2003-04	376	40	3	419	593		1,013
2004-05	363	40	3	406	573		979
2005-06	361	39	3	404	571		974
2006-07	364	44	3	411	574		985
2007-08	359	47	3	409	567		976
2008-09**	387	47	3	437	874		1,311
2009-10**	379	57	3	439	918	27	1,384

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

HIGHWAY USE TAX

HIGHWAY USE TAX (millions of dollars)	2007-08 Actual	2008-09 Estimated	Change	Percent Change	2009-10 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	148.0	147.2	(0.8)	(0.5)	160.2	13.0	8.8

Note: Totals may differ due to rounding.



HIGHWAY USE TAX BY FUND (millions of dollars)	Gross Capital Projects Funds[1]	Refunds	Capital Projects Funds[1]	Special Revenue Funds[2]	All Funds Receipts
1999-2000	152	2	150		150
2000-01	157	2	155		155
2001-02	150	2	148		148
2002-03	149	2	147		147
2003-04	149	2	147		147
2004-05	153	2	151		151
2005-06	162	2	160		160
2006-07	155	2	153		153
2007-08	150	2	148		148
Estimated					
2008-09	149	2	147		147
2009-10					
Current Law	157	2	155		155
Proposed Law	162	2	160		160

[1] Dedicated Highway and Bridge Trust Fund.
[2] Dedicated Mass Transportation Trust Fund.

PROPOSED LEGISLATION

Legislation proposed in this Budget would:

- increase the replacement fee for a certificate of registration from $4 to $15 for a motor vehicle and from $2 to $15 for a trailer, semi-trailer, dolly or other device drawn; and

- reauthorize the Commissioner of the Department of Taxation and Finance to require the use of decals.

DESCRIPTION

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

Truck Mileage Tax

The truck mileage tax (TMT) is levied on commercial vehicles having a loaded gross weight of more than 18,000 pounds, or an unloaded weight in excess of 8,000 pounds for trucks and 4,000 pounds for tractors. The tax is imposed at rates graduated according to the gross vehicle weight. Under the gross weight method, the tax is calculated by multiplying the number of "laden" or "unladen" miles traveled on public highways of the State by the appropriate tax rate.

In addition, a supplemental tax equal to the base truck mileage tax was imposed in 1990. Effective January 1, 1999, the supplemental tax was reduced by 50 percent, and effective April 1, 2001, the supplemental tax was reduced by an additional 20 percent of the remaining tax.

BASE TRUCK MILEAGE TAX RATES

Gross Weight Method		Unloaded Weight Method	
Laden Miles Gross Weight of Vehicle	**Mills Per Mile**	**Unloaded Weight of Truck**	**Mills Per Mile**
18,001 to 20,000	6.0	8,001 to 9,000	4.0
20,001 to 22,000	7.0	9,001 to 10,000	5.0
(increased gradually to)		(increased gradually to)	
74,001 to 76,000	35.0	22,501 to 25,000	22.0
76,001 and over	add 2 mills per ton and fraction thereof	25,001 and over	27.0
Unladen Miles Unloaded Weight of Truck		**Unloaded Weight of Tractor**	
18,001 to 20,000	6.0	4,001 to 5,500	6.0
20,001 to 22,000	7.0	5,501 to 7,000	10.0
(increased gradually to)		(increased gradually to)	
28,001 to 30,000	10.0	10,001 to 12,000	25.0
30,001 and over	add 5/10 of a mill per ton and fraction thereof	12,001 and over	33.0
Unloaded Weight of Tractor			
7,001 to 8,500	6.0		
8,501 to 10,000	7.0		
(increased gradually to)			
16,001 to 18,000	10.0		
18,001 and over	add 5/10 of a mill per ton and fraction thereof		

Fuel Use Tax

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

The aggregate fuel use tax rate is the sum of the appropriate motor fuel tax rate and the sales tax rate. The motor fuel tax component is $0.08 per gallon. The sales tax component is derived by adding the amount from the State sales tax rate and the amount from the lowest county sales tax rate. A credit or refund is allowed for motor fuel tax, petroleum business tax or sales tax paid on fuels purchased in New York but not used within the State.

Highway Use Registration

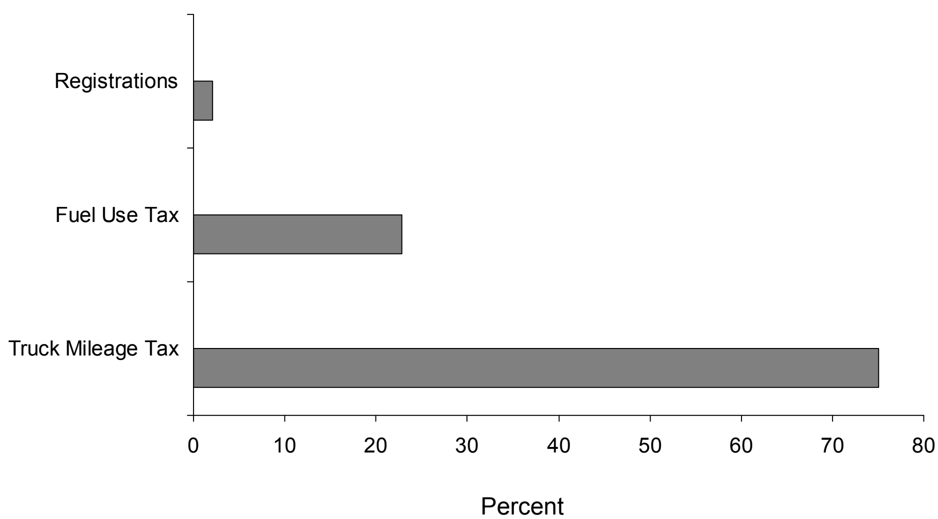
Prior to July 1, 2007, commercial carriers liable for the truck mileage tax would purchase a highway use permit/sticker for each qualifying vehicle. Permits were issued triennially at an initial cost of $15 with subsequent renewals of $4 for motor vehicles and $2 for trailers. With the enactment of the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

On August 10, 2005, a Federal law was enacted that restricted the ability of States to require motor carriers to display a permit sticker. (This law was later repealed on

September 6th, 2008, in a technical corrections bill). On July 1, 2007, New York State replaced the permit system with a registration system to adhere to this Federal transportation law.

The current registration system is based on the license plate number of each vehicle. Under the Budget proposal, the Commissioner of the Department of Taxation and Finance would be authorized to mail out decals to TMT carriers. The use of decals would enhance enforcement and encourage compliance with the tax. The Commissioner could deny registration if the carrier has not paid monies due from any other tax. There is now 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.

Components of Highway Use Tax Receipts
Estimated State Fiscal Year 2008-09



Administration

Most taxpayers remit the truck mileage tax on a monthly basis. The tax is remitted on or before the last day of each month for the preceding month. Fuel use taxpayers file quarterly with their home state under the rules of the International Fuel Tax Agreement (IFTA). The home state subsequently distributes the funds to the state where the liability occurred.

Significant Legislation

The significant statutory changes to this tax source since 1951 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1951		
Truck Mileage Tax	Imposed a truck mileage tax based on weight and miles driven in New York (Mileage on State Thruway was exempted).	1951 and after

Subject	Description	Effective Date
Legislation Enacted in 1960		
Tax Calculation	Created an optional method introduced for determining tax, based on unloaded weight and mileage.	1960 and after
Legislation Enacted in 1968		
Fuel Use Tax	Added the fuel use tax (rate equaled the motor fuel excise tax rates) and applied to fuel purchased out of State but used in New York State.	1968 and 1970
Legislation Enacted in 1977		
Sales Tax Component	Added an eight percent sales tax component to the fuel use tax.	1977 and after
Legislation Enacted in 1978		
FUT Rate Change	Reduced the sales tax component from eight to seven percent.	1978 and after
Legislation Enacted in 1982		
Fuel Carrier Permit	Every automotive fuel carrier must have a special Automotive Fuel Carrier permit and distinctively colored sticker for each motor vehicle, required to be registered under the Highway Use Tax Law.	September 1, 1982
Legislation Enacted in 1987		
Trip Permit	Established a 72-hour “trip permit.”	October 1, 1987
Legislation Enacted in 1990		
Thruway Miles and Supplemental Tax	Applied the truck mileage tax to Thruway miles. Imposed a supplemental tax equal to the base mileage tax.	July 1, 1990
Legislation Enacted in 1993		
Trust Fund	Earmarked receipts to the Dedicated Highway and Bridge Trust Fund.	April 1, 1993
Legislation Enacted in 1994		
Thruway Mileage	Reduced the truck mileage tax rates imposed on New York State Thruway mileage by one-half and eliminated such rates on and after January 1, 1996.	January 1, 1995
Refunds	Permitted taxpayers who purchase more fuel in New York State than they consume in the State to claim refunds or credits for all excess payments of State fuel use taxes (prior to January 1, 1995, taxpayers could only obtain a refund or credit for the motor fuel tax portion of the fuel use tax).	January 1, 1995
International Fuel Tax Agreement	Authorized the State to join the federally mandated International Fuel Tax Agreement (IFTA) on January 1, 1996. This agreement provides for the uniform reporting and collection of fuel-use-related taxes among IFTA jurisdictions. Under IFTA, jurisdictions may only impose a fuel use tax on vehicles with loaded gross weights of more than 26,000 pounds or with three or more axles. Therefore, since January 1, 1996, vehicles with loaded gross weights between 18,000 pounds and 26,000 pounds and with fewer than three axles that had been taxed in New York were excluded from the fuel use tax.	January 1, 1996
Legislation Enacted in 1995		
Fuel Use Tax Rate Cut	Reduced the diesel fuel excise tax rate from ten cents per gallon to eight cents per gallon. As a result, the diesel fuel tax component of the fuel use tax was also reduced to eight cents per gallon.	January 1,1996
Legislation Enacted in 1998		
Supplemental Tax	Reduced the truck mileage supplemental tax by 50 percent.	January 1, 1999
Legislation Enacted in 2000		
Supplemental Tax	Reduced the truck mileage supplemental tax by 20 percent.	April 1, 2001
Legislation Enacted in 2006		
Alternative Fuels	Exempted or partially exempted fuel use tax on alternative fuels, including E85 and B20.	September 1, 2006
Fuel Use Tax Cap	Capped the statewide rate for the sales tax component at 8 cents per gallon for motor fuel and diesel motor fuel for the State rate, plus the lowest county sales tax rate.	June 1, 2006
Legislation Enacted in 2007		
HUT – Permit	Replaced the permit system with a registration system in order to comply with Federal law.	July 1, 2007

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.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2008-09 Estimates

All Funds collections through November are estimated to be $96.8 million, a decrease of $4.4 million, or 4.3 percent below the comparable period in the prior fiscal year.

All Funds receipts for 2008-09 are estimated to be $147.2 million, a decrease of $0.8 million, or 0.5 percent below last year.

Net truck mileage tax receipts are estimated at $110.6 million, fuel use tax receipts at $33.6 million and registration fees at $3 million. The re-registration program has been placed on hold until the Budget proposals are enacted.

2009-10 Projections

All Funds receipts are projected to be $160.2 million, an increase of $13.0 million, or 8.8 percent above 2008-09.

The Budget proposal to increase the registration fee is projected to increase revenues by $4.6 million. By delaying the re-registration program until the Budget proposals are enacted in 2009-10, roughly $4 million will be shifted from 2008-09 into 2009-10. The truck mileage tax is projected to increase by 1.3 percent and fuel use tax is projected to increase by 8.9 percent. The increase in fuel use tax receipts is due to the increase in the lowest local sales tax rate from six cents to eight cents.

General Fund

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

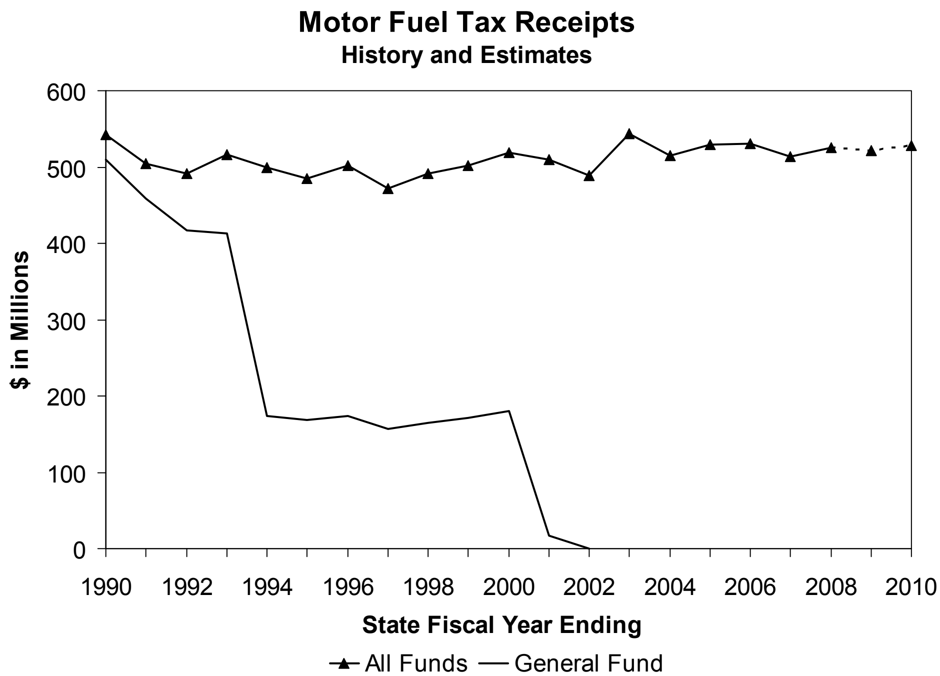
Other Funds

Currently, all highway use tax receipts are directed to the Dedicated Highway and Bridge Trust Fund.

MOTOR FUEL TAX

MOTOR FUEL TAX (millions of dollars)	2007-08 Actual	2008-09 Estimated	Change	Percent Change	2009-10 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	524.9	522.7	(2.2)	(0.4)	527.9	5.2	1.0
All Funds	524.9	522.7	(2.2)	(0.4)	527.9	5.2	1.0

Note: Totals may differ due to rounding.



MOTOR FUEL TAX BY FUND (millions of dollars)	Gross All Funds Receipts	General Fund	Special Revenue Funds[1]	Capital Projects Funds[2]	Debt Service Funds[3]	All Funds Refunds	All Funds Receipts
1999-2000	534	180	0	225	114	15	519
2000-01	524	17	58	323	112	14	510
2001-02	502	0	62	320	107	13	489
2002-03	560	0	69	356	119	16	544
2003-04	528	0	105	411	0	12	516
2004-05	542	0	110	420	0	12	530
2005-06	546	0	111	420	0	15	531
2006-07	526	0	107	406	0	13	513
2007-08	543	0	110	415	0	18	525
Estimated							
2008-09	541	0	110	413	0	18	523
2009-10	546	0	111	417	0	18	528

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

MOTOR FUEL TAX

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

Tax Base

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

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

Ranking of State Taxes Per Gallon (July 1, 2008) [1]

State	State Motor Fuel Tax (cents per gallon)	Total State Tax [2] (cents per gallon)
1. CONNECTICUT**	25.0	42.0
2. WASHINGTON	34.0	36.0
3. MICHIGAN *	19.0	35.2
4. CALIFORNIA *	18.0	35.0
5. ILLINOIS *	19.0	34.3
6. INDIANA *	18.0	34.2
7. WISCONSIN	30.9	32.9
8. **NEW YORK ***	8.0	32.7
9. W. VIRGINIA	20.5	32.2
10. PENNSYLVANIA	12.0	31.2
11. RHODE ISLAND	30.0	31.0
12. N. CAROLINA	26.6	29.9
13. MAINE	28.4	28.4
14. OHIO	28.0	28.0
15. MONTANA	27.0	27.8
16. HAWAII *	16.0	27.5
17. NEBRASKA	27.0	27.0
18. IDAHO	25.0	26.0
19. KANSAS	24.0	25.0
20. UTAH	24.5	24.5
21. NEVADA	24.0	24.0
22. OREGON	24.0	24.0
23. S. DAKOTA	22.0	24.0
24. MINNESOTA	22.0	24.0
25. MARYLAND	23.5	23.5
26. DELAWARE	23.0	23.0
27. N. DAKOTA	23.0	23.0
28. COLORADO	22.0	22.0
29. ARKANSAS	21.5	21.7
30. TENNESSEE	20.0	21.4
31. MASSACHUSETTS	21.0	21.0
32. IOWA	19.7	21.0
33. KENTUCKY	19.6	21.0
34. DIST. OF COLUMBIA	20.0	20.0
35. LOUISIANA	20.0	20.0
36. TEXAS	20.0	20.0
37. VERMONT	19.0	20.0
38. GEORGIA *	7.5	20.0
39. NEW HAMPSHIRE	18.0	19.5
40. ARIZONA	18.0	19.0
41. NEW MEXICO	17.0	18.9
42. MISSISSIPPI	18.0	18.4
43. ALABAMA	16.0	18.0
44. MISSOURI	17.0	17.6
45. VIRGINIA	17.5	17.5
46. OKLAHOMA	16.0	17.0
47. S. CAROLINA	16.0	16.8
48. FLORIDA	15.0	15.3
49. NEW JERSEY	10.5	14.5
50. WYOMING	13.0	14.0
51. ALASKA	8.0	8.0

NOTES:
(1) Includes applicable State sales tax (local taxes not included)
(2) Assumes a pump price of $3
* State sales tax applies on sales of gasoline in these states
** Includes petroleum gross receipts tax --7%of wholesale gasoline price
Source: OTPA compilation from various sources including CCH Tax Guides & FTA

Administration

Although the motor fuel tax is imposed on the consumer, the tax is remitted upon importation into New York. This tax-on-first-import system is designed to reduce gasoline tax evasion, which has involved bootlegging from other states and successions of tax-free sales among "dummy" corporations masked by erroneous record keeping and reporting.

Since 1988, taxes on diesel motor fuel have been collected upon the first non-exempt sale in the State. Prior to that time, the diesel motor fuel tax was collected at the time of retail sale or use by a bulk user.

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

Tax Expenditures

Exemptions from the motor fuel tax include:

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

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

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

- omnibus carriers or taxicabs;
- nonpublic school vehicle operators, exclusively for education-related purposes; and

- volunteer ambulance services.

Significant Legislation

The significant statutory changes to this tax source since 1985 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1985		
First Import	Motor fuel is taxed on a "first import" system.	June 1, 1985
Legislation Enacted in 1988		
First Sale	Diesel motor fuel is taxed on a "first sale" system.	September 1, 1988
Legislation Enacted in 1995		
Diesel Rate	Reduced the diesel motor fuel tax from 10 cents to 8 cents per gallon.	January 1, 1996
Aviation Fuel	Provided an up-front exemption from the motor fuel excise tax for retail sales of aviation gasoline.	September 1, 1995
Legislation Enacted in 2005		
Enforcement Provisions	Required collection of taxes on sales to non-Native Americans on New York reservations.	March 1, 2006
Legislation Enacted in 2006		
Alternative Fuel	Exempted or partially exempted motor fuel tax on alternative fuels, including E85 and B20.	September 1, 2006

TAX LIABILITY

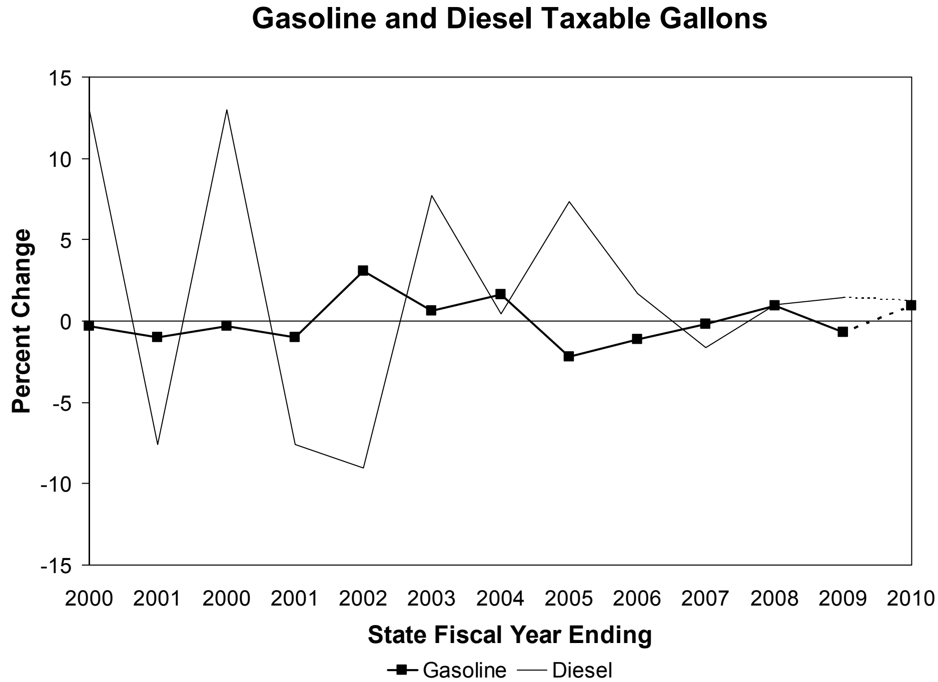
Motor fuel tax collections are a function of the number of gallons of fuel imported into the State by distributors. Gallonage is determined in large part by fuel prices, the amount of fuel held in inventories, the fuel efficiency of motor vehicles and overall state economic performance.

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

History of Taxable Gallons

Diesel fuel consumption is more susceptible to economic events, while gasoline consumption is driven more heavily by fuel prices. Due to the higher fuel prices and a slowing of the economy, diesel fuel gallons decreased in 2006-07. In 2007-08, diesel fuel gallons increased slightly and are estimated to decrease in 2008-09.

Taxable gasoline gallons declined slightly in 2000-01 due in part to price increases, and increased in 2001-02 due to price declines. In 2002-03 and 2003-04, taxable gasoline gallons increased more slowly since the effect of the economic recovery was offset by high gasoline prices. In 2004-05 and 2005-06, taxable gasoline gallons declined 2.2 and 1.1 percent, respectively, due to a sharp increase in gasoline prices. Gasoline gallons decreased slightly for 2006-07, increased slightly in 2007-08 and are estimated to decrease slightly in 2008-09.



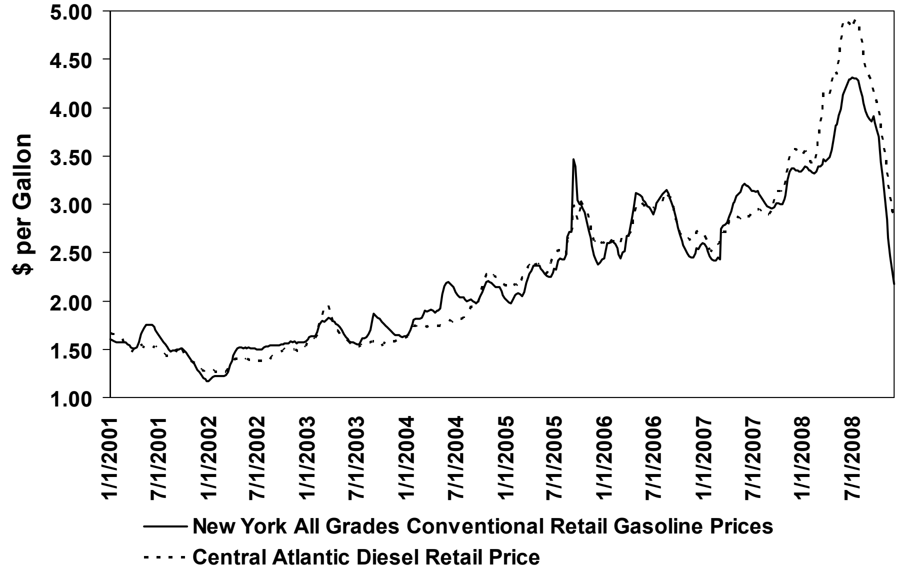
RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2008-09 Estimates

All Funds collections through November are estimated to be $345.0 million, a decrease of $2.9 million, or 0.8 percent below the comparable period in the prior fiscal year.

All Funds receipts for 2008-09 are estimated to be $522.7 million, a decrease of $2.2 million, or 0.4 percent below last year. The decline is related to reduced gasoline consumption due to higher fuel prices and a decrease in diesel consumption due to economic conditions. The following chart shows a history of weekly price changes.



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

2009-10 Projections

All Funds receipts are projected to be $527.9 million, an increase of $5.2 million, or 1.0 percent above 2008-09.

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

Gasoline and Diesel Gallons				
Fiscal Year	Gasoline (millions of gallons)	Percent Change	Diesel (millions of gallons)	Percent Change
2005-06	5,607	(1.10)	920	1.72
2006-07	5,597	(0.17)	907	(1.63)
2007-08	5,652	0.97	916	0.98
2008-09 (Est.)	5,612	(0.72)	902	(1.47)
2009-10 (Proj.)	5,665	0.95	913	1.24

General Fund

Motor fuel tax receipts are no longer deposited in the General Fund.

Other Funds

Since 2000, motor fuel tax receipts have been distributed by law to four funds: the Dedicated Highway and Bridge Trust Fund (DHBTF), the Dedicated Mass Transportation Trust Fund (DMTTF), the Emergency Highway Reconditioning and Preservation Fund and the Emergency Highway Construction and Reconstruction Fund.

Currently, all motor fuel receipts are deposited into the DHBTF and DMTTF. The fund distribution since 1993 is shown in the following table.

MOTOR FUEL TAX FUND DISTRIBUTION
(percent)

Effective Date	General Fund	DHBTF[1]	EHF[2]	DMTTF[3]
Prior to April 1, 1993				
Gasoline	78.1	0.0	21.9	0.0
Diesel	78.1	0.0	21.9	0.0
Prior to April 1, 2000				
Gasoline	28.1	50.0	21.9	0.0
Diesel	78.1	0.0	21.9	0.0
Prior to April 1, 2001				
Gasoline	0.0	67.7	21.9	10.4
Diesel	28.1	31.5	21.9	18.5
Prior to April 1, 2003				
Gasoline	0.0	67.7	21.9	10.4
Diesel	0.0	49.2	21.9	28.9
April 1, 2003 and After				
Gasoline	0.0	81.5	0.0	18.5
Diesel	0.0	63.0	0.0	37.0

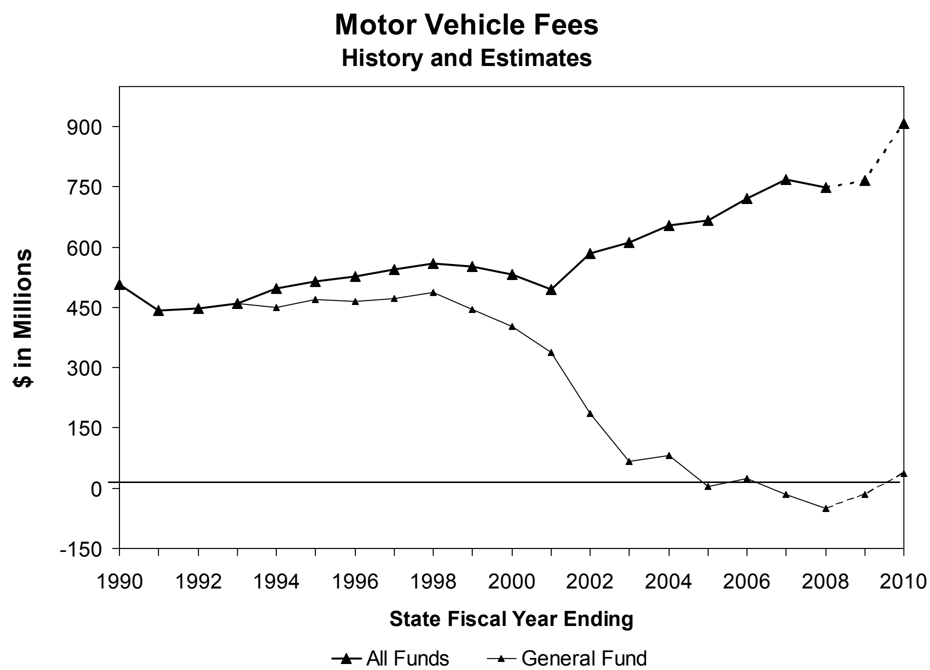
[1] Dedicated Highway and Bridge Trust Fund.
[2] Emergency Highway Reconditioning and Preservation Fund and the Emergency Highway Construction and Reconstruction Fund.
[3] Dedicated Mass Transportation Trust Fund.

Motor fuel tax receipts in 2008-09 are estimated to be $412.9 million for DHBTF and $109.8 million for DMTTF. Motor fuel tax receipts in 2009-10 are projected to be $417.1 million for DHBTF and $110.8 million for the DMTTF.

MOTOR VEHICLE FEES

MOTOR VEHICLE FEES (millions of dollars)							
	2007-08 Actual	2008-09 Estimated	Change	Percent Change	2009-10 Projected	Change	Percent Change
General Fund	(50.9)	(14.6)	36.3		37.4	52.0	
Other Funds	799.1	780.5	(18.6)	(2.3)	871.6	91.1	11.7
All Funds	748.2	765.9	17.7	2.4	909.0	143.1	18.7

Note: Totals may differ due to rounding.



MOTOR VEHICLE FEES BY FUND (millions of dollars)									
	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds[1]	Refunds	Special Revenue Funds[1]	Gross Capital Projects Funds[2]	Refunds	Capital Projects Funds[2]	All Funds Receipts
1998-99	438	14	424	0	0	0	108	0	108	532
1999-2000	419	18	401	0	0	0	130	0	130	531
2000-01	356	19	337	0	0	0	157	0	157	494
2001-02	208	23	185	28	0	28	371	0	371	584
2002-03	92	25	67	76	0	76	470	0	470	613
2003-04	100	18	82	105	0	105	468	0	468	655
2004-05	33	29	4	138	0	138	525	0	525	666
2005-06	24	0	24	206	5	201	571	15	495	720
2006-07	(17)	0	(17)	234	5	229	572	15	557	770
2007-08	(51)	0	(51)	235	5	230	584	15	569	748
Estimated										
2008-09	(15)	0	(15)	231	5	226	570	15	555	766
2009-10										
Current Law	38	0	38	239	5	234	570	15	555	827
Proposed Law	38	0	38	239	5	234	652	15	637	909

[1]Dedicated Mass Transportation Trust Fund
[2]Dedicated Highway and Bridge Trust Fund

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- increase most registration fees by 25 percent;
- increase original and renewal license fees by 25 percent; and
- require license plate reissuance upon registration renewal at a cost of $25.

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 2007, almost 10.7 million vehicles were registered in New York State, including 902,332 commercial vehicles. Vehicles owned by nonresidents and registered with a political jurisdiction outside the State are not usually required to be registered in New York. New York State Vehicle and Traffic Law requires drivers to be licensed by the Department of Motor Vehicles. The current license renewal period is eight years. In 2007 New York State had over 11 million licensed drivers. Numerous other fees, related to the processes of registration or licensing, are also components of motor vehicle fees. Examples are: fees for inspection and emission stickers; repair shop certificates; and insurance civil penalties.

Fee Schedules

Most vehicle registration fees in New York are based on weight. Two important exceptions are buses, which are charged according to seating capacity, and semi-trailers, which are charged a flat fee. Registration for vehicles weighing less than 18,000 pounds is biennial. 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.	0.645
	Plus: for each 100 lbs or major fraction thereof above 3,500 lbs.	0.97
Passenger vehicle – minimum fee		10.35
Passenger vehicle – maximum fee		56.06
Passenger vehicle propelled by electricity		12.94
Auto truck and light delivery vehicle	Each 500 lbs. maximum gross weight or fraction thereof	2.88
Tractors (registered separately from semi-trailers)	Each 100 lbs. maximum gross weight or fraction thereof	1.21
Trailers	Each 500 lbs. maximum gross weight or fraction thereof	4.31
Semi-trailers – pre-1989 model year		23.00 per year
Semi-trailers – model year 1989 or later		69.00 for period of 5.5 years to 6.5 years
Bus – seating capacity 15 to 20 passengers		59.80

*These fees will increase by 25 percent under a proposal in the Executive Budget.

The main licensing fees are listed below:

MAIN LICENSING FEES	
Type of License	**Fee* (dollars)**
Initial application	10.00
Learner's permit	2.50 – for each six months
Learner's permit – commercial driver's license	7.50 – for each six months
License renewal	2.50 – for each six months
License renewal – commercial driver's license	7.50 – for each six months
License renewal – chauffeur's driver's license	

*These fees will increase by 25 percent under a proposal in the Executive Budget.

Administration

Registration and licensing occur in person or by mail at the central and district offices of the Department of Motor Vehicles, and county clerks' offices in most counties. Many transactions can also be completed via the Internet. The county clerks were historically compensated with a fixed portion of each fee, but, since April 1, 1999, they have received 12.7 percent of gross receipts. This totaled $33.2 million in 2007-08.

COUNTY CLERKS' RETENTION SCHEDULE	
Type of Retention	**Period**
Fixed portion of each fee.	Until December 31, 1996
8.1 percent of gross receipts.	From January 1, 1997
9.3 percent of gross receipts.	From July 1, 1998
12.7 percent of gross receipts.	From April 1, 1999

Fee Exemptions

Certain vehicles registered in New York are exempt from registration fees. The exemptions include: vehicles owned by the State or municipalities; passenger vehicles owned by consular offices, provided reciprocity is granted; and vehicles owned and used for the transportation of animals by societies for the prevention of cruelty to animals. The revenue loss from these exemptions is minimal.

MOTOR VEHICLE FEES

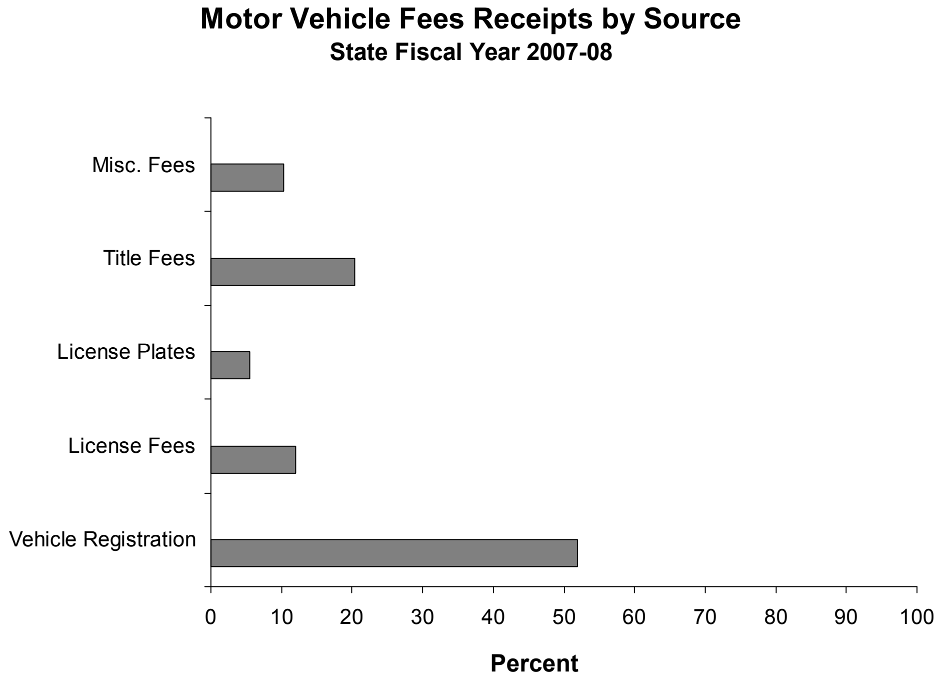
Significant Legislation

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

Subject	Description	Effective Date
Legislation Enacted in 1989		
Registrations	Biennialization of registration for vehicles weighing less than 18,000 pounds.	June 16, 1989
Administrative Changes in 1996		
Licenses	License renewal period extended to five years.	April 1, 1996
Legislation Enacted in 1997		
Licenses	Original license period extended to five years.	September 1, 1997
Motorcycles	Added $2.50 to annual fee for registration and $0.50 for each six months to license or permit and earmarked both to Motorcycle Safety Fund.	January 1, 1998
Administrative Changes in 1997		
Photo image fee	Photo image fee raised to $3.00.	April 1, 1997
Legislation Enacted in 1998		
Registration fees	Fees on passenger vehicle registration reduced 25 percent.	July 1, 1998
Administrative Changes in 2000		
License plates	Reissuance (January 2001-January 2003).	January 1, 2001
Licenses	License renewal period extended to eight years.	April 1, 2000
Administrative Changes in 2003		
Photo Image Fee	Photo image fee raised to $5.00.	February 1, 2003
Legislation Enacted in 2005		
Title Fees	Title fees raised from $10 to $20 and $30.	October 1, 2005
Insurance Buyback	Expanded the insurance buyback program.	October 1, 2005
Dealer Registration	Dealer/transporter registration fees raised 50 percent.	October 1, 2005
Temporary Registration	Dealer issued temporary registration fees raised from $2 to $5.	October 1, 2005
Salvaged Vehicle Inspection	Salvaged vehicle inspection fees raised from $100 to $150.	October 1, 2005
Legislation Enacted in 2008		
Enhanced License	Western Hemisphere Travel Initiative (WHTI) licenses made available for an additional $30.	June 1, 2008

Fee Liability

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



Vehicle registration and driver licensing fees are a function of the fee schedules, the number of licensed drivers and registered vehicles, and the number of years between license and vehicle registration renewals. Historically, these motor vehicle fees fluctuate little as a result of economic conditions. In general, collections change when fee or renewal schedules change.

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

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

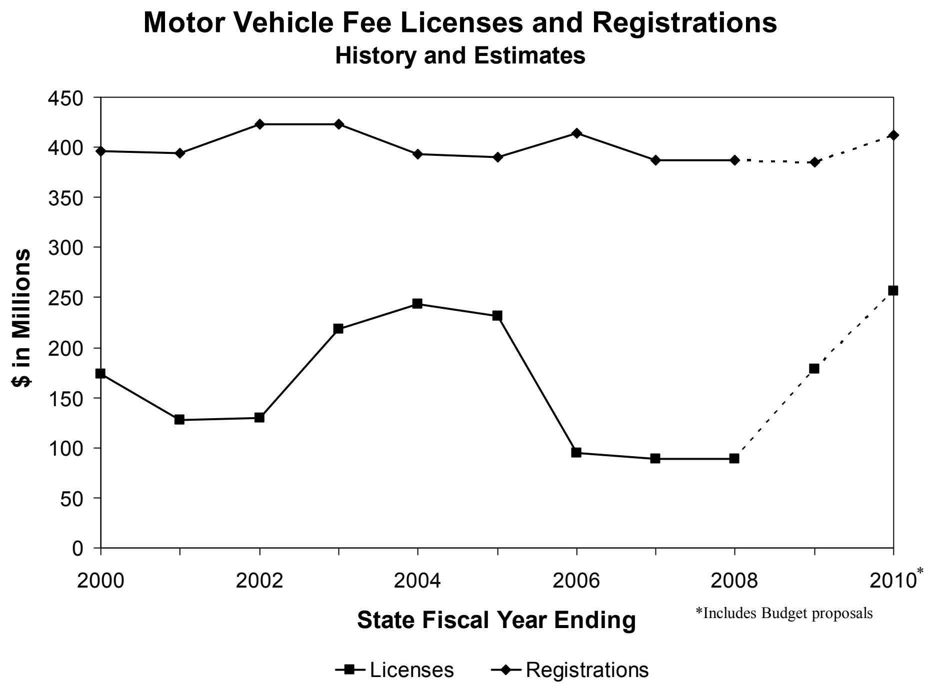
2008-09 Estimates

All Funds collections through November are estimated to be $481.1 million, a decrease of $33.4 million, or 6.5 percent below the comparable period in the prior fiscal year.

All Funds receipts for 2008-09 are estimated to be $765.9 million, an increase of $17.7 million, or 2.4 percent above last year. The estimate of net receipts from registrations is $385.5 million, and the estimate of net receipts from licenses and other fees is $179.1 million.

This increase largely reflects the additional revenue from allowing New York State residents to obtain a Western Hemisphere Travel Institute (WHTI)-compliant driver's license and an increase in license renewals. The WHTI proposal is estimated to increase revenues by $29.9 million in 2008-09.

It is estimated that registrations will remain relatively flat year to year. However, license renewals follow an eight-year renewal pattern illustrated in the graph below. The license renewal process is currently approaching the portion of the cycle that will produce an increase in receipts.

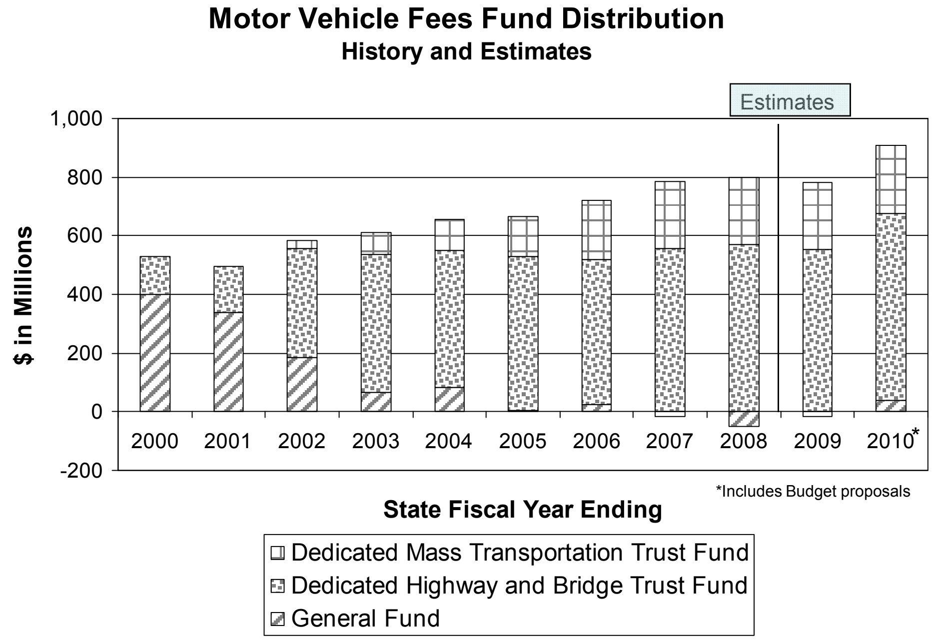


2009-10 Projections

All Funds receipts are projected to be $909.0 million, an increase of $143.1 million, or 18.7 percent above 2007-08. Before statutory changes, license renewals are projected to increase by roughly $60 million. The proposals to increase licenses and most registration fees by 25 percent are projected to increase receipts by an additional $82.4 million. The increase in receipts from these two proposals is directed to the Dedicated Highway and Bridge Trust Fund. The proposal to reissue license plates requires a one year start up, so no revenues are anticipated until 2010-11.

General Fund

Effective in 2006 and every year thereafter, of the amount of otherwise non-dedicated motor vehicle fees, $169,354,000 will be deposited in the Dedicated Funds. If there is a shortfall, revenues from the General Fund are transferred to the Dedicated Funds to cover the shortfall and any surplus monies remain in the General Fund. The General Fund covered a shortfall of $16.5 million in 2006-07 and $50.9 million in 2007-08. In 2008-09, it is estimated that the General Fund will cover a shortfall of $14.6 million. The following charts show the estimated fund distribution from all sources of motor vehicle fees.



Other Funds

Since April 1, 1993, a percentage of registration fees have been deposited in the Dedicated Highway and Bridge Trust Fund. The percentage dedicated to the fund has been adjusted several times.

Pursuant to Chapter 63, of the Laws of 2000, in 2001-02 an additional 23.5 percent of registration fees were earmarked to (1) the Dedicated Highway and Bridge Trust Fund and (2) the Dedicated Mass Transportation Trust Fund. Of these additional receipts, 63.0 percent is allocated to highways and 37.0 percent to mass transportation.

Also pursuant to Chapter 63, of the Laws of 2000, beginning in 2002-03, an additional 31 percent of registration fees are earmarked to the same funds and in the same proportion as stated above. Thus, the total percentage of additional registration fees dedicated pursuant to Chapter 63, of the Laws of 2000, amounts to 54.5 percent. Since previous legislation had already earmarked 45.5 percent, all registration fees are earmarked to the two trust funds.

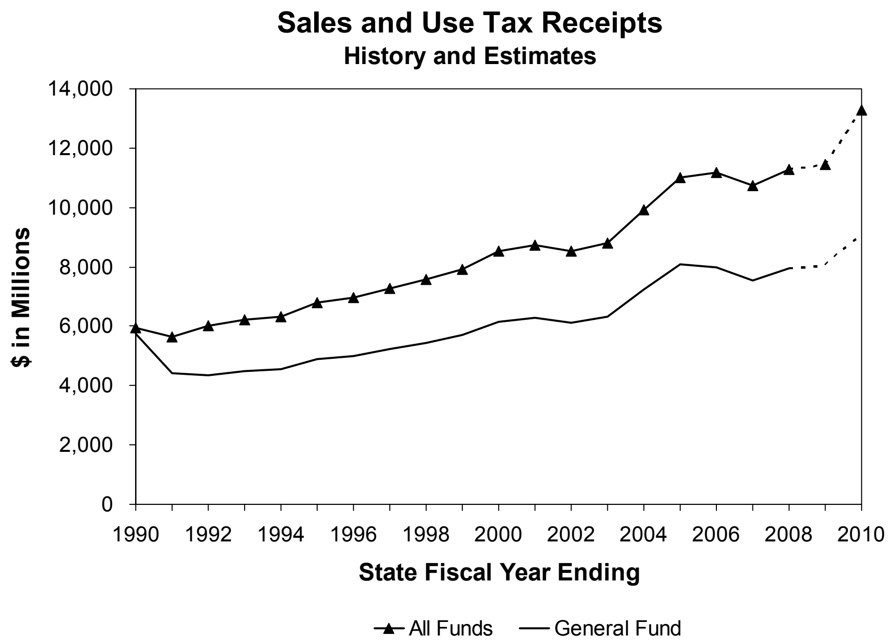
In State fiscal year 2008-09, the Dedicated Highway and Bridge Trust Fund will receive a projected $554.6 million and the Dedicated Mass Transportation Trust Fund will receive a projected $185.2 million. Various other dedicated funds will receive a portion of the remaining $40.7 million.

In State fiscal year 2009-10, the Dedicated Highway and Bridge Trust Fund will receive an estimated $637.4 million and the Dedicated Mass Transportation Trust Fund will receive an estimated $193.0 million. Various other dedicated funds will receive a portion of the remaining $41.2 million.

SALES AND USE TAX

SALES AND USE TAX (millions of dollars)							
	2007-08 Actual	2008-09 Estimated	Change	Percent Change	2009-10 Projected	Change	Percent Change
General Fund	7,944.9	8,038.3	93.4	1.2	9,096.6	1,058.3	13.2
LGAC	2,645.6	2,661.7	16.1	0.6	3,030.7	369.0	13.9
MTOAF	705.4	743.9	38.5	5.5	768.2	24.3	3.3
HCRA	0.0	0.0	0.0	0.0	404.0	404.0	
All Funds	11,295.9	11,443.9	148.0	1.3	13,299.5	1,855.6	16.2

Note: Totals may differ due to rounding.



SALES AND USE TAX BY FUND (millions of dollars)						
	Gross General Fund	Refunds	General Fund	Special Revenue Funds[1]	Debt Service Funds[2]	All Funds Receipts
1999-2000	6,182	41	6,141	345	2,046	8,532
2000-01	6,311	39	6,272	368	2,092	8,732
2001-02	6,174	43	6,131	365	2,044	8,540
2002-03	6,390	62	6,328	362	2,106	8,796
2003-04	7,300	59	7,241	399	2,267	9,907
2004-05	8,143	49	8,094	429	2,493	11,016
2005-06	8,048	70	7,978	603	2,615	11,196
2006-07	7,593	54	7,539	688	2,512	10,739
2007-08	7,999	54	7,945	705	2,646	11,296
Estimated						
2008-09	8,101	63	8,038	744	2,662	11,444
2009-10						
Current Law	8,306	63	8,243	757	2,746	11,746
Proposed Law	9,160	63	9,097	1,172	3,031	13,299

[1] Mass Transportation Operating Assistance Fund (and HCRA under Proposed Law)
[2] Local Government Assistance Corporation Fund.

PROPOSED LEGISLATION

Legislation submitted with this Budget would:

- impose sales tax on digital property;
- impose sales tax on cable and satellite television/radio services;
- replace the year round sales tax exemption for clothing and footwear under $110 with two one week exemption periods with a $500 threshold;
- expand sales tax base to cover miscellaneous personal and credit reporting services that are now taxed in New York City;
- increase the prepaid sales tax on cigarettes from 7 percent to 8 percent of the base retail price;
- prohibit certain sales tax avoidance schemes;
- repeal private label credit card provisions;
- repeal the sales tax cap on motor fuel and diesel motor fuel;
- modernize definition of vendor to include an affiliate nexus provision;
- impose an 18 percent sales tax on certain non-dietetic soft drinks and fruit juices (revenues directed to HCRA);
- limit the capital improvement exemption;
- impose sales tax on entertainment and transportation related spending;
- impose an additional 5 percent sales tax on certain luxury goods;
- reform the Empire Zones program by ensuring that participants are providing a clear benefit to the State and disallowing certain static industries from prospective participation; and
- treat all coupons consistently for sales tax purposes.

DESCRIPTION

Tax Base

In general, all retail sales of tangible personal property are taxed under Article 28 of the Tax Law unless specifically exempt, but services are taxable only if they are enumerated in the Tax Law.

Specifically, the sales tax is applied to receipts from the retail sale of:

- tangible personal property (unless specifically exempt);
- certain gas, electricity, refrigeration and steam and telephone service;
- selected services;
- food and beverages sold by restaurants, taverns and caterers;
- hotel occupancy; and
- certain admission charges and dues.

Examples of taxable services include installing or maintaining tangible personal property and protective and detective services.

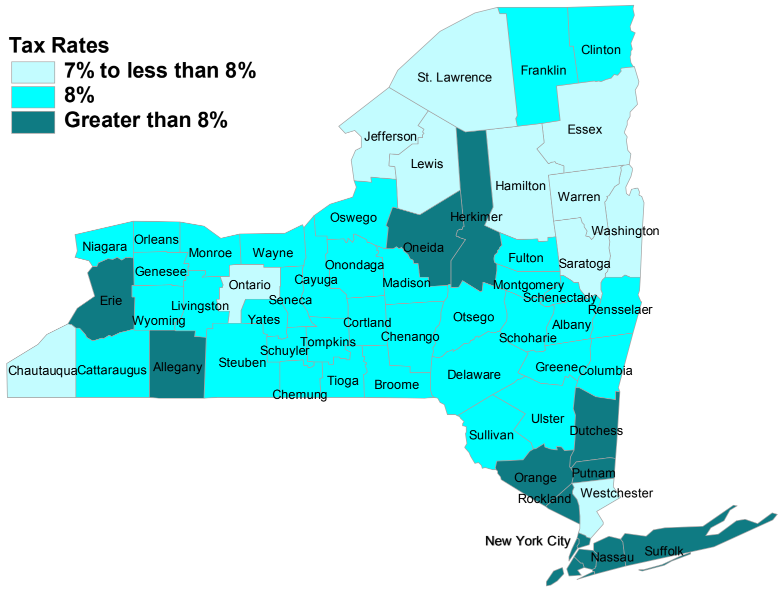
Tax Rate

The sales and compensating use tax was enacted in 1965 at the rate of 2 percent. The tax rate was increased to 3 percent in 1969, to 4 percent rate in 1971 and to 4.25 percent in 2003. The rate reverted to 4 percent on June 1, 2005. Effective June 1, 2006, the State sales tax rate on motor fuel and diesel motor fuel was capped at 8 cents per gallon. Under the Executive Budget proposal, the State sales tax cap on fuel would be repealed on June 1, 2009.

An additional 5 percent sales tax is imposed on the receipts from the sale of telephone entertainment services that are exclusively delivered aurally.

Counties and cities are authorized to impose general sales tax rates up to 3 percent. Of the 57 counties and the 19 cities (including New York City) that impose the general sales tax, 51 counties and 3 cities received legislative authority to temporarily impose additional rates of tax above the statutory 3 percent general sales tax rate. Over 93 percent of the State's population resides in an area where the tax rate equals or exceeds 8 percent. An additional 0.375 percent sales and use tax is imposed in the 12-county Metropolitan Commuter Transportation District (MCTD). The entire proceeds from the additional MCTD tax are earmarked for the Mass Transportation Operating Assistance Fund (MTOAF).

Combined State and Local Sales Tax Rates by County
Effective September 1, 2008



Administration

There are over 592,000 persons selling taxable property or services who are required to register with the Department of Taxation and Finance as sales tax vendors. The 2008-09 Budget provided for a sales tax vendor registration program. This registration program provides a means to update taxpayer information, delete obsolete registrations, and collect new data to support administration of the sales tax. A $50 vendor registration application fee is to be paid by existing monthly and quarterly vendors.

Vendors generally are required to remit the tax quarterly. However, vendors who collect more than $300,000 of tax in one of the immediately preceding four quarters must remit the tax monthly by the twentieth of the month following the month of collection. Vendors collecting less than $3,000 yearly may elect to file annually, in March.

Vendors collecting more than $500,000 annually in State and local tax are required to remit the tax by electronic funds transfer (EFT). Collections for the first 22 days of the month must be remitted electronically or by certified check within three business days thereafter. Legislation enacted in 1992 started the EFT program, originally with the threshold for mandatory participation at $5 million in annual tax liability. Legislation in 1994, 1995, and 2002 reduced the threshold to $4 million, $1 million and to the current $500,000 threshold, respectively. Over 63 percent of sales tax receipts are remitted by vendors that participate in the EFT programs.

To reduce tax evasion, special provisions for remitting the sales tax on motor fuel and cigarettes have been enacted. Since 1985, the sales tax on gasoline has been remitted by the first importer of the fuel into New York. Prior to 2006, the tax was prepaid at a per gallon rate based on regional prices. Currently, the pre-payment is fixed at 14 cents for upstate and 14¾ cents in the MCTD region. Legislation enacted in 1995 required prepayment of the sales tax on cigarettes. The tax is prepaid by cigarette agents at the same time as payment for cigarette excise tax stamps. A Budget proposal would increase the cigarette prepayment from seven percent to eight percent.

SALES TAX VENDORS AND TAXABLE SALES

Filing Status	Number of Active Vendors*	Percent of Total Vendors	Percent of State and Local Receipts
Monthly EFT	5,285	0.9	63.1
Monthly Non-EFT	36,239	6.1	22.4
Quarterly	271,263	45.8	14.2
Annual	279,633	47.2	0.4
Total	592,420	100.0	100.0

* Vendors identified for quarter ending February 28, 2008.
** Selling period March 1, 2003 through February 28, 2007.
Source: New York State Department of Taxation and Finance.

Sales tax vendors are allowed to retain a portion of the sales tax that they have collected, both as partial compensation for the administrative costs of collecting and remitting the tax and as an incentive for timely payment of the tax to the State. Effective September 1, 2006, the vendor allowance has been increased to 5 percent of tax liability, up to a maximum of $175 per quarter for returns filed on time. This cap increased to $200 on March 1, 2007.

Effective with the 2003 personal income tax filing year, the New York State personal income tax return contains a line on which taxpayers may enter the amount of use tax owed for the preceding calendar year. New York State collected $16.9 million from this program for calendar year 2006 and $22.6 million in calendar year 2007.

Tax Expenditures

A myriad of exemptions from the sales tax have been enacted over the life of the tax. Broad exemptions have been provided for sales for resale and for machinery and equipment used in production or in research and development. These particular exemptions prevent multiple taxation of the same property, a situation known as tax pyramiding.

Other exemptions, such as sales to exempt organizations, certain vending machine sales and certain other coin-operated sales, are also provided. Legal, medical and other professional services, sales of real property, and rental payments are also beyond the current scope of the sales tax. For further details, please see the Tax Expenditure Report.

Significant Legislation

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

Subject	Description	Effective Date
Legislation Enacted in 1965		
Reimpose	Imposed a 2 percent sales and use tax on retail sales or use of tangible personal property.	August 1, 1965

Subject	Description	Effective Date
Legislation Enacted in 1970		
Rate Increase	Increased the sales tax rate to 3 percent.	April 1, 1969
Legislation Enacted in 1971		
Rate Increase	Increased the sales tax rate to 4 percent.	June 1, 1971
Legislation Enacted in 1975		
March Prepayment	Imposed a March prepayment under the sales tax.	1975 and after
Legislation Enacted in 1977		
Fuel Use Tax	Added an eight percent sales tax component to the fuel use tax.	1977 and after
Legislation Enacted in 1978		
Residential Fuel	Provided phasing in exemption for residential energy use. It was fully exempted on October 1, 1980.	January 1, 1979
Fuel Use Tax	Reduced the sales tax component from eight to seven percent.	1978 and after
Legislation Enacted in 1981		
MTA	Imposed MTA sales tax at 0.25 percent.	1981 and after
Legislation Enacted in 1985		
Gasoline Tax Payment	Required sales tax on gasoline pre-paid upon importation of fuel into the State. (The same requirement applied to diesel fuel in 1988.)	June 1, 1985
MTA	The Mass Transportation and Operating Assistance Fund (MTOAF) was created. The rate was one-quarter of one percent.	September 1, 1985
Legislation Enacted in 1989		
Base Broadening	Broadened the sales tax base to impose tax on parking, protective and detective services, building maintenance, interior design services, auto leasing, and 900 numbers.	1989 and after
Legislation Enacted in 1990		
Cable Television	Exempted cable television service from the tax.	September 1, 1990
LGAC	Created the Local Government Assistance Corporation (LGAC). One-fourth of State four-cent sales tax collections were earmarked to the LGAC.	1990 and after
Legislation Enacted in 1991		
March prepayment	Ended March prepayment.	1993 and after
Legislation Enacted in 1992		
EFTs	Established Electric funds transfer (EFT) for large vendors.	1992 and after
Alternative Fuel Vehicles	The additional cost of new alternative fuel vehicles above the sales price of comparable gasoline or diesel powered vehicles is exempt from tax. Expired February 29, 2005.	September 1, 1992
Legislation Enacted in 1993		
Information and Entertainment	Tax imposed on information and entertainment services (5%)	1993 and after
Legislation Enacted in 1994		
Racehorses	Exempted certain registered racehorses used in authorized pari-mutuel events.	June 1, 1994
Vendor Allowance	Enacted the vendor allowance credit for timely filed quarterly or annual returns at the rate of 1.5 percent of State sales tax collected up to a maximum of $100 per return.	September 1,1994
Legislation Enacted in 1994		
Racehorses	Exempted certain registered racehorses used in authorized pari-mutuel events.	June 1, 1994
Vendor Allowance	Enacted the vendor allowance credit for timely filed quarterly or annual returns at the rate of 1.5 percent of State sales tax collected up to a maximum of $100 per return.	September 1, 1994
Legislation Enacted in 1995		
Homeowners' Associations	Exempted dues paid to homeowners' associations operating social or athletic facilities for their members.	September 1, 1995
Meteorological Services	Exempted the sale of meteorological information services.	September 1, 1995

Subject	Description	Effective Date
Legislation Enacted in 1996		
Clothing and Footwear	Exempted clothing and footwear priced under $500 for the one-week period of January 18-24, 1997.	January 18-24, 1997
Promotional Materials	Expanded the exemption for certain printed promotional materials distributed by mail to customers in New York State.	March 1, 1997
Legislation Enacted in 1997		
Buses	Provided an exemption for buses used to transport persons for hire, and related parts and services.	December 1, 1997
Clothing and Footwear	Exempted clothing priced under $100 for the one-week periods of September 1-7, 1997, and September 1-7, 1998.	September 1-7, 1997 September 1-7, 1998
	Permanently exempted clothing priced under $100.	December 1, 1999
Homeowner Association Parking	Exempted parking services sold by a homeowners' association to its members.	December 1, 1997
Various Coin-Operated Devices	Raised the exemption threshold for bulk vending machine sales to 50 cents from 25 cents, exempted coin-operated car washes, exempted coin-operated photocopying costing under 50 cents, and exempted certain hot food and beverages sold through vending machines.	December 1, 1997
Vendor Allowance	Increased the sales tax vendor allowance from 1.5 percent to 3.5 percent of State tax collected, capped at $150 per quarter.	March 1, 1999
Legislation Enacted in 1998		
Clothing and Footwear	Included footwear in the September 1-7, 1998, temporary clothing exemption and raised exemption threshold to $500 from $100.	September 1-7, 1998
	Exempted clothing and footwear priced under $500 during the January 17-24, 1999 period.	January 17-24, 1999
	Included footwear in the permanent clothing exemption beginning on December 1, 1999, and raised exemption threshold from $100 to $110.	December 1, 1999
Coin Telephones	Increased the exemption threshold for coin-operated telephone calls to 25 cents from 10 cents.	September 1, 1998
College Textbooks	Exempted textbooks purchased by college students that are required for their courses.	June 1, 1998
Computer Hardware	Exempted computer system hardware used to design and develop computer software for sale.	June 1, 1998
Internet Access Service	Codified State policy of exempting charges for Internet access services.	February 1, 1997
Materialmen	Allowed certain materialmen (i.e., building materials suppliers) to remit sales tax returns on either a cash or an accrual basis.	June 1, 1999
Telephone Central Office Equipment	Expanded existing exemption for telephone central office equipment to include such equipment or apparatus used in amplifying, receiving, processing, transmitting, and re-transmitting telephone signals.	September 1, 1998
Alternate Fuel Vehicle Refueling Equipment	Receipts from the sale and installation of alternative fuel vehicle refueling equipment is exempt from tax. Expired February 29, 2005.	March 1, 1998
Legislation Enacted in 1999		
Clothing and Footwear	Changed the effective date of the permanent exemption for clothing and footwear priced under $110 from December 1, 1999, to March 1, 2000.	March 1, 2000
	Temporarily exempted clothing and footwear priced under $500 for the periods of September 1-7, 1999, and January 15-21, 2000.	September 1-7, 1999 January 15-21, 2000
Computer Hardware	Provided an exemption for computer system hardware used to design and develop Internet web sites for sale.	March 1, 2001
Farm Production	Expanded the farm production exemption to include fencing and certain building materials. Converted the refund for tax paid on motor vehicles to an exemption.	March 1, 2001
Telecommunications Equipment	Exempted machinery and equipment used to upgrade cable television systems to provide telecommunications services for sale and to provide Internet access service for sale.	March 1, 2001
Theater	Exempted certain tangible personal property and services used in the production of live dramatic or musical arts performances.	March 1, 2001

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, 2002
Legislation Enacted in 2003		
Surcharge	Raised the State sales tax rate from 4 to 4.25 percent through May 31, 2005.	June 1, 2003
Temporary repeal of clothing exemption	Temporarily repealed the exemption on items of clothing and footwear priced under $110 and created two clothing exemption weeks at the same $110 threshold.	June 1, 2003
Use tax line on PIT return	Required a line on PIT returns for taxpayers to report use tax owed.	May 24, 2003
Legislation Enacted in 2004		
Extend Temporary Repeal of Clothing Exemption	Extended the expiration date to May 31, 2005, for the temporary repeal of the exemption on items of clothing and footwear priced under $110 and created two exemption weeks at the same $110 threshold.	August 20, 2004
Aircraft Parts and Services	Exempted parts used exclusively to maintain, repair, overhaul or rebuild aircraft parts or aircraft services.	December 1, 2004
Vessels Providing Local Transit	Provided refunds and credits for certain vessels used to provide transit service and certain related property and services.	December 1, 2004

Subject	Description	Effective Date
Contractors and Affiliates	Required contractors, subcontractors and their affiliates who make deliveries of taxable services or tangible personal property valued at more than $300,000 to New York locations to register as sales tax vendors.	August 20, 2004
Legislation Enacted in 2005		
Extend Temporary Repeal of Clothing Exemption	Extended the expiration date to March 31, 2007, for the temporary repeal of the exemption on items of clothing and footwear priced under $110 and created two exemption weeks at the same $110 threshold. If the 2006-07 Executive Budget included tax cut proposals, the year-round exemption for such items takes effect on April 1, 2006.	April 12, 2005
Manhattan Parking Vendors	Made permanent the sales tax enforcement provisions relating to parking vendors in Manhattan.	April 12, 2005
Metropolitan Commuter Transportation District Sales Tax Rate	Increased the sales and use tax rate in the Metropolitan Commuter Transportation District (MTCD) from 0.25 percent to 0.375 percent.	June 1, 2005
Sales Tax Medicaid Intercept	Provided for the State to calculate an optional local “Medicaid amount”, and for such amount to be intercepted from local sales tax distributions and directed to the State.	April 12, 2005
Amusement Park Admissions	Extended until October 1, 2006, the 75 percent sales tax exemption of the amount charged for admission to a qualifying place of amusement.	April 12, 2005
Lower Manhattan Office Space	Provided sales tax exemption for property used to furnish or equip lower Manhattan office space.	August 30, 2005
Residential Solar Energy	Exempted the sale and installation of residential solar energy systems equipment from sales and use taxes.	July 26, 2005
In Bay Car Washes	Exempted coin-operated or fully automated car washing, waxing or vacuuming from sales and use taxes.	December 1, 2005
Marine Terminal Facilities	Exempted certain machinery and equipment for marine container terminals in New York City from State sales and use taxes.	December 1, 2005
Waste Transfer Stations	Exempted certain waste transfer services from State and local sales and use taxes.	December 1, 2005
State Charter Credit Unions	Exempted State charter credit unions from sales and use taxes.	March 1, 2006
Direct Shipment of Wine	Provided for certain limited direct interstate shipments of wine.	August 11, 2005
Electricity	Exempted electricity, refrigeration and steam services produced by a cogeneration facility owned by certain cooperative corporations.	March 1, 2006
Legislation Enacted in 2006		
Clothing	Permanently exempted clothing and footwear priced under $110.	April 1, 2006
Vendor Allowance	Increased vendor credit from 3.5 percent to 5 percent and increased the cap from $150 to $175. The cap increased to $200 on March 1, 2007.	September 1, 2006
Amusement Parks	Exempted admissions to amusement parks permanently.	October 1, 2006
Motor Fuel Cap	Limits the amount of sales tax imposed on motor fuels to 8 cents per gallon. Localities imposing a sales tax have the option either to continue to use the percentage rate method or to change to a cents-per-gallon method of computing sales tax. The localities also have options to cap the tax amount at $2 or $3 per gallon under the cents-per-gallon method. Effective December 1, 2007, only 8 counties and 2 cities are imposing the $2 cap on motor fuel and diesel motor fuel.	June 1, 2006
Alternative Fuels	A full exemption for E85, CNG and Hydrogen and a partial exemption for B20 from September 1, 2006 through September 1, 2011.	September 1, 2006
Cabaret	Exempted admissions to cabaret.	December 1, 2006
Credit Card	Allowed refund of sales tax paid on certain credit card accounts.	January 1, 2007
Legislation Enacted in 2008		
Sales – Exempt Organizations	Nonprofit charitable, educational, religious and other organizations are required to collect sales tax on retail sales of certain property and services.	September 1, 2008
SUT – Vendor Registration	All vendors must register with the Department of Taxation and Finance. The registration fee is $50.	November 1, 2008

Subject	Description	Effective Date
Sales Tax Nexus	Creates 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	The VCD Program allows eligible taxpayers to voluntary disclose and pay certain underreported tax liabilities and interest.	April 23, 2008

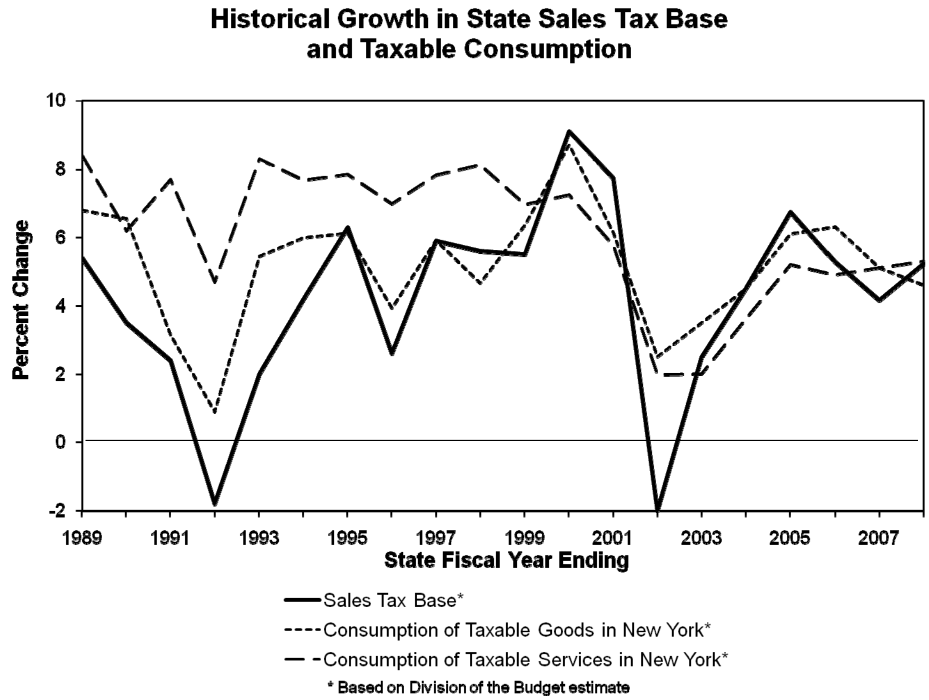
TAX LIABILITY

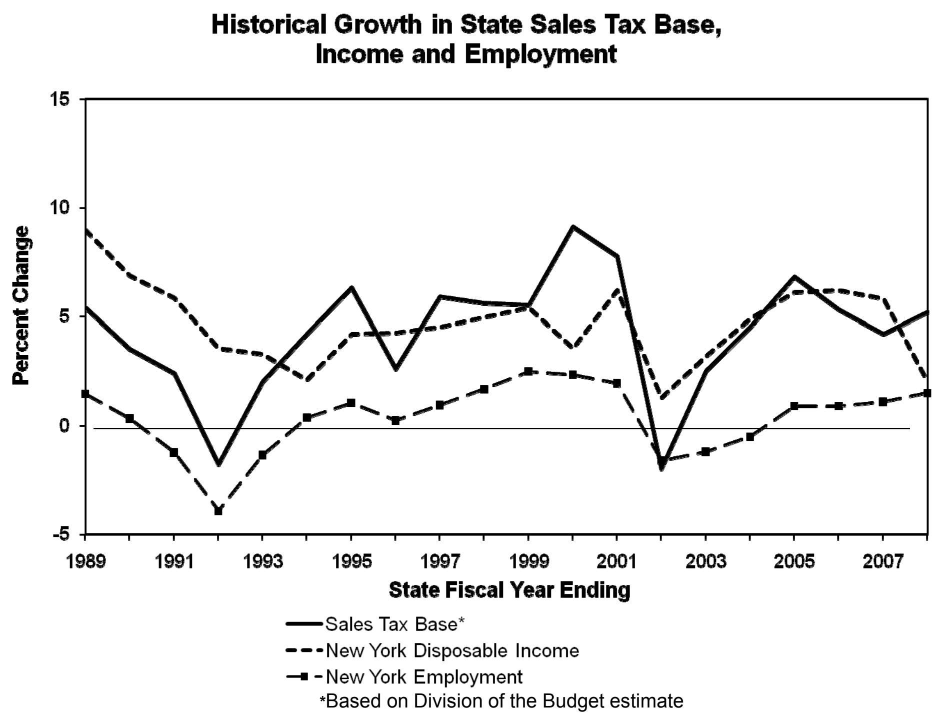
The sales and compensating use tax, which accounted for about 18.6 percent of 2007-08 All Funds tax receipts, is the second largest State tax revenue source (the personal income tax is the largest).

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.state.ny.us.

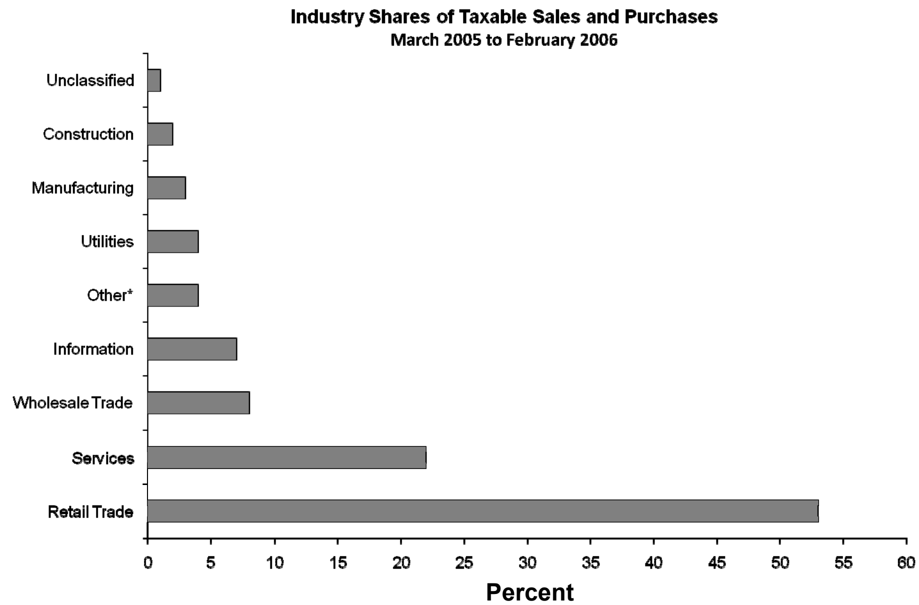
MAJOR ECONOMIC FACTORS AFFECTING SALES TAX RECEIPTS
STATE FISCAL YEARS 2000-01 to 2009-10
Percent Change

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	Estimated 2008-09	Projected 2009-10
Consumption of Taxable Goods in NY	6.1	2.5	3.5	4.5	6.1	6.3	5.1	4.6	0.3	(2.9)
Consumption of Taxable Services in NY	5.8	2.0	2.0	3.6	5.2	4.9	5.1	5.3	4.3	1.6
NY Employment	1.9	(1.6)	(1.2)	(0.5)	0.9	0.9	1.1	1.5	(0.5)	(1.2)
NY Disposable Income	6.2	1.3	3.2	4.9	6.1	6.2	5.8	2.0	(0.6)	2.2
NY Nominal Value of New Auto and Light Truck Sales	(5.3)	8.3	3.2	2.9	(1.7)	0.4	(2.9)	7.7	(14.4)	0.5
Sales Tax Base	7.8	(2.0)	2.5	4.5	6.8	5.3	4.2	5.2	1.9	0.9





Although numerous exemptions from tax on the sales of tangible personal property have been enacted (see *Tax Expenditure Report*), roughly 53 percent of total taxable sales and purchases subject to the sales and use tax are accounted for by the retail trade industry. This includes, for example, automobile dealers and general merchandise stores. The service industry (including accommodations, food and administrative services) at roughly 22 percent of the statewide total accounts for the next largest share of taxable sales and purchases.



*Includes Agriculture, Mining, Transportation, FIRE, Education and Government.
Source: New York State Department of Taxation and Finance.

States are currently constrained by United States Supreme Court decisions limiting which out-of-state vendors can be required to collect the sales tax on a state's behalf. In general, a vendor must have some physical presence or nexus in a state to be required to collect that particular state's sales tax. Thus, a compensating use tax complements the sales tax, and is imposed on the use of taxable property or services in-state, if the transaction has not already been subject to tax. This will include, for example, taxable items purchased via mail order or on the Internet if the vendor has no taxable nexus with New York. The use tax also applies to certain uses of self-produced property or services. With some exceptions, the base of the use tax mirrors the base of the sales tax. The use tax is remitted by the purchaser directly to the New York State Department of Taxation and Finance, but low compliance for certain transactions remains an ongoing concern.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2008-09 Estimates

All Funds collections through November are estimated to be $7,468.2 million, an increase of $13.8 million, or 0.2 percent above the comparable period in the prior fiscal year.

All Funds receipts for 2008-09 are estimated to be $11,443.9 million, an increase of $148.0 million, or 1.3 percent above last year.

Consumption of New York taxable services is expected to grow 4.3 percent while disposable income and employment are both estimated to decline by 0.6 and 0.5 percent respectively; light truck sales are estimated to decline by over 14 percent. These factors help to explain the reduction in the rate of growth in the sales tax base from 5.2 percent in 2007-08 to 1.9 percent in 2008-09. The cap on motor fuel and diesel motor fuel, which was imposed in 2006, will cost the State over $200 million in 2008-09.

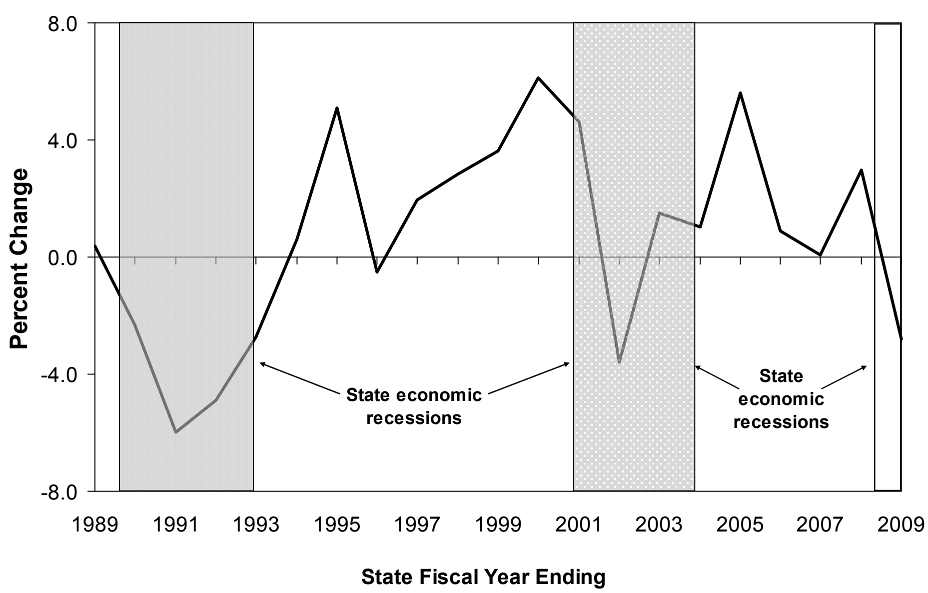
2009-10 Projections

All Funds receipts are projected to be $13,299.5 million, an increase of $1,855.6 million, or 16.2 percent above 2008-09.

Without tax law changes, sales tax revenues are projected to increase by roughly $300 million from 2008-09. The sales tax base in 2009-10 is projected to grow by 0.9 percent. With tax law changes, sales tax receipts are projected to grow an additional $1,553 million.

The primary risk factor for the sales and use tax estimate is the economic forecast, which provides the basis for the sales tax estimates. Unexpected slowdowns in income, employment, auto sales, and the associated consumption of taxable goods impact the level of taxable sales.

Real Sales Tax Constant Law Growth
1988-89 to 2008-09



General Fund

Direct deposits to the General Fund for 2008-09 are estimated to be $8,038.3 million, an increase of $93.4 million, or 1.2 percent above 2007-08 receipts. With tax law changes, General Fund receipts in 2009-10 are projected to be $9,096.6 million, a 13.2 percent increase from 2008-09. Without tax law changes, General Fund receipts are projected to be $8,242.8 million.

Other Funds

The Local Government Assistance Corporation (LGAC) was created in 1990 to help the State eliminate its annual spring borrowing. To pay the debt service on the bonds issued by LGAC, the State has diverted an amount equal to the yield of one-fourth of net sales and use tax collections from the 4 percent statewide sales tax to the Local Government Assistance Tax Fund (LGATF). Sales tax deposits to LGATF were $2,645.6 million in 2007-08 and are estimated at $2,661.7 million in 2008-09, and $3,030.7 million in 2009-10. LGATF receipts in excess of debt service requirements on LGAC bonds are transferred to the General Fund. Of the deposits to LGATF, $2,266.7 million and $2,634.1 million are scheduled to be transferred back to the General Fund in 2008-09 and 2009-10, respectively.

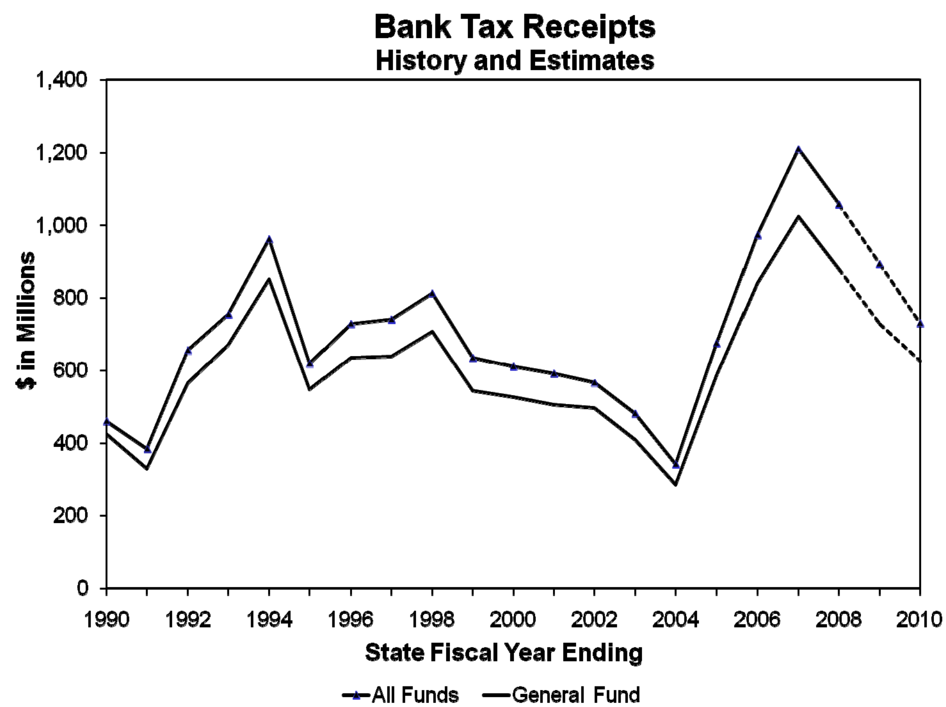
The Mass Transportation Operating Assistance Fund (MTOAF) was created in 1981 to finance State public transportation needs. MTOAF derives part of its revenues from the 0.375 percent sales and compensating use tax imposed in the MCTD. MTOAF, which received $705.4 million in sales and use tax receipts in 2007-08, will receive an estimated $743.9 million in 2008-09 and $768.2 million in 2009-10. The entire proceeds from the MCTD tax are earmarked for the Mass Transportation Operating Assistance Fund.

Receipts from the additional 18 percent sales tax on non-dietetic soft drinks will be directed to the HCRA Fund. Receipts are projected to be $404 million in 2009-10.

BANK TAX

BANK TAX (millions of dollars)	2007-08 Actual	2008-09 Estimated	Change	Percent Change	2009-10 Projected	Change	Percent Change
General Fund	880.0	729.0	(151.0)	(17.2)	627.0	(102.0)	(14.0)
Other Funds	177.5	165.0	(12.5)	(7.0)	104.0	(61.0)	(37.0)
All Funds	1,057.5	894.0	(163.5)	(15.5)	731.0	(163.0)	(18.2)

Note: Totals may differ due to rounding.



BANK TAX BY FUND (millions of dollars)	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds	Refunds	Special Revenue Funds[1]	All Funds Receipts
1999-2000	598	72	526	94	9	85	611
2000-01	598	92	506	97	11	86	591
2001-02	565	69	496	80	10	70	566
2002-03	523	114	409	84	12	72	481
2003-04	428	142	286	71	15	56	342
2004-05	662	75	587	100	11	89	676
2005-06	941	99	842	150	17	133	975
2006-07	1,098	74	1,024	193	7	186	1,210
2007-08	1,002	122	880	196	18	178	1,058
Estimated							
2008-09	979	250	729	215	50	165	894
2009-10							
Current Law	819	250	569	152	50	102	671
Proposed Law	877	250	627	154	50	104	731

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

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- change the first quarterly payment of estimated tax for certain bank taxpayers from 30 percent to 40 percent of the prior year's liability; and
- reform the Empire Zones program by ensuring that participants are providing a clear benefit to the state and disallowing certain static industries from prospective participation.

DESCRIPTION

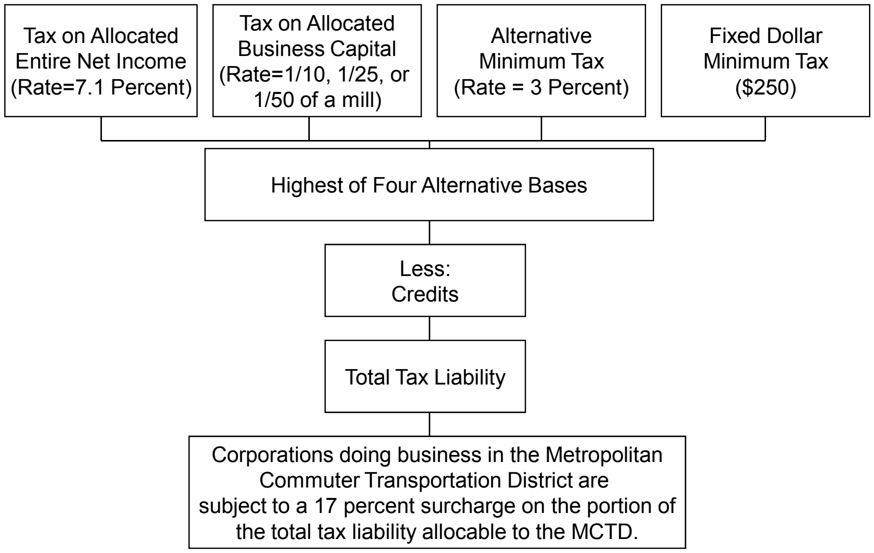
Tax Base and Rate

The bank tax is levied by Article 32 of the Tax Law on banking corporations conducting business in New York State. Banking corporations are classified as commercial banks, savings banks, savings and loan associations, foreign banks and alien banks. Foreign banks are those formed under the laws of another state, whereas alien banks consist of banks formed under the laws of another country. Article 32 bank tax liability is computed under four alternative bases, with tax due based on the highest tax calculated under the four alternative bases. The four alternative bases are:

- An entire net income (ENI) base, which begins with Federal taxable income before net operating loss deductions and special deductions, and is further adjusted by the exclusion, deduction or addition of certain items. The resulting base is allocated to New York and subject to a tax rate of 7.1 percent.
- An alternative minimum tax (AMT) base imposed at a rate of 3 percent of entire net income (as calculated above) and further adjusted to reflect certain Federal tax preference items and adjustments, and State-specific net operating loss (NOL) modifications.
- An assets base imposed at the rate of 1/10, 1/25, or 1/50 of a mill of taxable assets allocated to New York. The applicable rate depends on the size of the bank's net worth relative to assets and mortgages as a percent of total assets.
- A fixed dollar minimum tax of $250.

Banks conducting business in the Metropolitan Commuter Transportation District (MCTD) are also subject to a 17 percent surcharge on the portion of the total tax liability allocated in the MCTD. The collections from the surcharge are deposited into the Mass Transportation Operating Assistance Fund (MTOAF).

Bank Tax Article 32 – Current Law



Administration

Banks that reasonably expect their tax liability to exceed $100,000 for the current year are required to make a pre-payment equal to 30 percent of their previous year's tax liability, and quarterly tax installment payments on an estimated basis in March, June, September, and December. A final payment is made in March.

Tax Expenditures

Tax expenditures are defined as features of the Tax Law that by exclusion, exemption, deduction, allowance, credit, deferral, preferential tax rate or other statutory provision reduce the amount of a taxpayer's liability to the State by providing either economic incentives or tax relief to particular entities to achieve a public purpose. The major tax expenditure items for the bank tax include: the deduction of 60 percent of dividends, gains, and losses from subsidiary capital, the deduction of 22.5 percent of interest income from government obligations, and the international banking facility formula allocation election. For a more detailed discussion of tax expenditures, see the *Annual Report on New York State Tax Expenditures*, prepared by the Department of Taxation and Finance and the Division of the Budget.

Subject	Description	Effective Date
Legislation Enacted in 1981		
Metropolitan Transportation Business Tax Surcharge	Imposed on business taxpayers a temporary 17 percent surcharge on tax liability allocated to the Metropolitan Commuter Transportation District (MCTD). Collections are dedicated in support of the Metropolitan Transportation Authority.	January 1, 1982

Subject	Description	Effective Date
Legislation Enacted in 1985		
Omnibus Tax Equity and Enforcement Act of 1985	Provided several new enforcement tools in enhancing tax compliance, including new penalties for tax evaders, enhancement of existing penalties, and broader investigatory power for the Department of Taxation and Finance.	Various dates in 1985
Legislation Enacted in 1986		
Economic Development Zones	Authorized the designation of selected towns, counties, cities and villages as Economic Development Zones (EDZs), which provided certain tax benefits to qualifying businesses.	January 1, 1986
Legislation Enacted in 1987		
Business Tax Reform and Rate Reduction Act of 1987	Reformed the tax by lowering the rate, restructuring the alternative bases to include a broader range of items of income, and limited the usefulness of the ITC.	January 1, 1987
Legislation Enacted in 1990		
Temporary Business Tax Surcharge	Imposed a temporary 15 percent tax surcharge on the tax liability of certain business taxpayers. The surcharge was extended twice.	January 1, 1990
Legislation Enacted in 1994		
Subsidiary Capital	Specified subsidiary capital taxation rules to allow deduction of 60 percent of the amount by which gains exceed losses from such capital, to the extent such gains and losses were taken into account in determining taxable income.	January 1, 1994
Legislation Enacted in 1997		
Net Operating Loss	Allowed banks to claim a net operating loss deduction (NOLD) for losses incurred on or after January 1, 2001.	January 1, 2001
Legislation Enacted in 1998		
Investment Tax Credit	Allowed bank taxpayers that are brokers/dealers in securities to claim a credit for equipment used in broker/dealer activities and in activities connected with broker/dealer operations.	October 1, 1998
Legislation Enacted in 1999		
Rate Reduction — ENI	Reduced the ENI tax rate from 9 percent to 7.5 percent in phases over three years.	June 30, 2000
Legislation Enacted in 2000		
Empire Zones (EZ)	Transformed Economic Development Zones (EDZ) to Empire Zones, effectively providing for virtual "tax free" zones for certain businesses. The enhanced benefits include a tax credit for real property taxes, a tax reduction credit, and a sales and use tax exemption. The tax reduction credit may be applied against the fixed dollar minimum tax, which may reduce the taxpayer's liability to zero.	January 1, 2001
Legislation Enacted in 2001		
Bank Tax Extension	Provided an extension of the bank tax that had expired for commercial banks. The tax did not apply to tax years beginning on or after January 1, 2001. Sunsets for tax years beginning on or after January 1, 2003.	January 1, 2001
Legislation Enacted in 2002		
Estimated Payment Requirement	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year's liability for those corporate taxpayers whose prior year's liability exceeds $100,000.	January 1, 2003
Empire Zones Program	Amended to clarify certain provisions and implement new components for several credit calculations.	Various
Legislation Enacted in 2003		
Bank Tax Extension	Provided an extension of the Bank Tax that had expired for commercial banks. The tax did not apply to tax years beginning on or after January 1, 2003. Sunsets for tax years beginning on or after January 1, 2005.	January 1, 2003

Subject	Description	Effective Date
Modification for Decoupling from Federal Bonus Depreciation	Required taxpayers to make modifications to Federal taxable income for property placed in service on or after June 1, 2003, that qualified for the special bonus depreciation allowance allowed by the Federal Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003. The modifications do not apply to qualified resurgence zone property or qualified New York Liberty Zone property.	2003
Intangible Holding Companies	Required taxpayers to modify Federal taxable income relating to certain royalty and interest payments made with respect to the use of intangible property by related members or royalty and interest payments received from related members.	January 1, 2003
Superfund-Brownfield Tax Credits	Created tax incentives for the redevelopment of brownfields through three refundable tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. There are three components in the redevelopment tax credit: a site preparation component; a tangible property component; and an onsite groundwater remediation component.	April 1, 2005
Legislation Enacted in 2004		
Bank Tax Extension	Extended for one year, until January 1, 2006, certain provisions of the Tax Law and the Administrative Code of the City of New York relating to the taxation of commercial banks. Also extended for two years, until January 1, 2006, the provisions relating to the Federal *Gramm-Leach-Bliley Act.*	January 1, 2004
Empire Zones Program Extension	Extended the Empire Zones (EZ) Program to March 31, 2005.	January 1, 2004
Legislation Enacted in 2005		
Single Sales Apportionment	Changed the computation used to allocate income and assets to New York by banking corporations taxed under Article 32 that are owned by a bank or bank holding company and are substantially engaged in providing services to an investment company from a three-factor formula of receipts, deposits, and wages to a single receipts factors.	These provisions will be phased in over a three-year period starting in tax year 2006, and be fully effective for tax years beginning on or after January 1, 2008
Legislation Enacted in 2006		
Empire Zones / Significant Investments	Provided that a Qualifying Empire Zone Enterprise (QEZE) with fewer than 200 existing jobs that makes an investment of $750 million or more and creates 500 new jobs is deemed a "new business," qualifying the taxpayer for a 50 percent refund of its EZ Investment Tax Credits and EZ Employment Incentive Credits. Also authorized such taxpayers to select their program benefit period to start either upon certification (current law), or when the qualifying investment is placed in service.	January 1, 2006
Eliminate S Corporation Differential Tax Base	Eliminated the tax base imposed on S Corporations that was calculated using the difference between the corporate franchise tax rate and the top personal income tax rate. The rate had been changed, and the base was also suspended during tax years 2003 through 2005 when the PIT surcharge was in effect. Elimination of this base conforms the State tax code with Federal treatment of S corporations.	January 1, 2003 (note that the differential had already been suspended - eff. date reflects first instance of non-imposition)
Bank Tax Extension	Extended for two years, until January 1, 2008, certain provisions of the Tax Law and the Administrative Code of the City of New York relating to the taxation of commercial banks. Also extended for two years, until January 1, 2008, the provisions relating to the Federal *Gramm-Leach-Bliley Act.*	January 1, 2006
Legislation Enacted in 2007		
Rate Reduction - ENI	Lowered the rate imposed on the ENI base from 7.5 percent to 7.1 percent.	January 1, 2007
REIT/RIC Loophole Closer	Closed a loophole and conformed to Federal rules by eliminating, over a five-year period, the deduction for certain dividends received by a parent company from a Real Estate Investment Trust (REIT) or Regulated Investment Company (RIC) to ensure that either the REIT or RIC or its shareholders pay tax on the income earned by the REIT or RIC. Banks with taxable assets of $8 billion or less were excluded from these provisions.	January 1, 2007

Subject	Description	Effective Date
Taxation of Certain Banking Corporations	Established conditions under which certain corporations that elected to be taxable under Article 9-A of the Tax Law, or are required to be taxed under Article 9-A pursuant to the Gramm-Leach Bliley transitional provisions, will become taxable under Article 32 of the Tax Law. These conditions include: ceasing to be a taxpayer under Article 9-A; becoming subject to the $800 fixed dollar minimum tax for inactive corporations; having no wages or receipts allocable to New York or otherwise becoming inactive; being acquired by an unaffiliated corporation in a transaction under Section 338(h)(3) of the Internal Revenue Code; or becoming engaged in a different line of business as a result of acquiring a certain amount of assets. Meeting any one of these conditions results in the corporation becoming taxable as a bank under Article 32. The legislation also provides that an investment subsidiary of a bank or bank holding company is included in the definition of a banking corporation and taxable under Article 32.	January 1, 2007
Bank Tax Extension	Extended for two years, until January 1, 2010, certain provisions of the Tax Law and the Administrative Code of the City of New York relating to the taxation of commercial banks. Also extended for two years, until January 1, 2010, the provisions relating to the Federal *Gramm-Leach-Bliley Act.* This extension also amended the provisions so that bank taxpayers no longer meeting the definition of doing a banking business would be moved to taxation under the corporation franchise tax.	January 1, 2008
Acceleration of Single Sales Apportionment Phase-In	Accelerated, by one year, the final phase-in of the move to sales-only apportionment of income and assets for certain banking corporations.	January 1, 2007
Amendment to Add-Back Provisions Related to Certain Intangible Income	Eliminated the add-back of certain intangible income and related interest for bank taxpayers, if the corporation receiving the income from the bank is included in a New York State combined return.	January 1, 2007
GLB Conforming Provision Amendments	Amended the Enacted Budget provisions that required bank taxpayers no longer meeting the definition of doing a banking business to file under the corporation franchise tax to delay the effect of those provisions by clarifying that taxpayers no longer meeting the definition of doing a banking business as a result of transactions which occurred prior to January 1, 2008 would not be subject to the changes for tax years 2008 and 2009. Also provided language notifying potentially affected taxpayers of the prospective 2010 law change.	June 29, 2007
Legislation Enacted in 2008		
Taxation of Credit Card Banks	Imposed the bank tax on banks with credit card operations in New York State that exceed 1,000 customers or accepting vendors, or $1million 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 taxpayers files their 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	Taxpayers with a prior year tax liability over $100,000 must calculate their mandatory first installment payment of franchise tax and MTA surcharge at 30 percent, instead of the previous 25 percent, of the prior year's tax liability. Taxpayers with a prior year liability between $1,000 and $100,000 will continue to use the 25 percent amount to calculate their mandatory first installment.	January 1, 2009

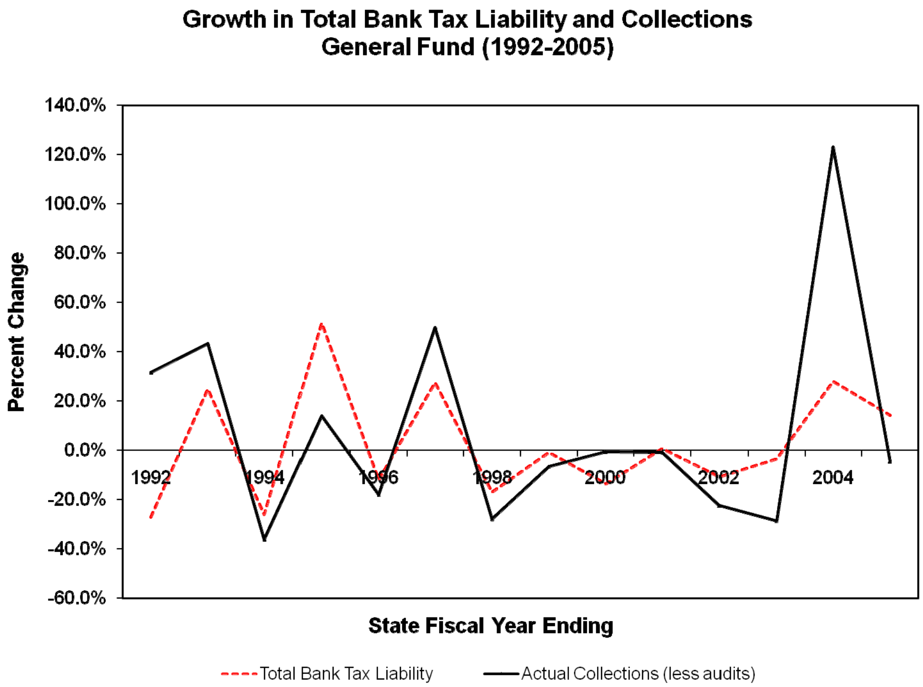
Subject	Description	Effective Date
MTA Surcharge Extender	Extended the temporary MTA surcharge imposed on bank taxpayers which was scheduled to sunset for taxable years ending before December 31, 2009. The legislation extends the sunset date for four years to taxable years ending before December 31, 2013.	April 23, 2008
GLB Provision Amendments	Eliminated language notifying taxpayers of a potential law change that would prospectively tax corporations no longer meeting the definition of doing a banking business under the corporation franchise tax instead of the bank tax.	September 25, 2008
Brownfields Program Reform	Amended the tangible property credit component to impose a limit of the lesser of $35 million or three times the qualifying costs used in calculating the site preparation and on-site groundwater components for projects accepted into the program after June 22, 2008. Qualifying manufacturers accepted after this date would be subject to a tangible property credit component limitation equal to the lesser of $45 million or six times the qualifying costs used in calculating the site preparation and on-site groundwater components. Several other changes were effected, including increasing the credit percentages awarded under the site preparation and on-site groundwater components to as much as fifty percent.	June 23, 2008

TAX LIABILITY

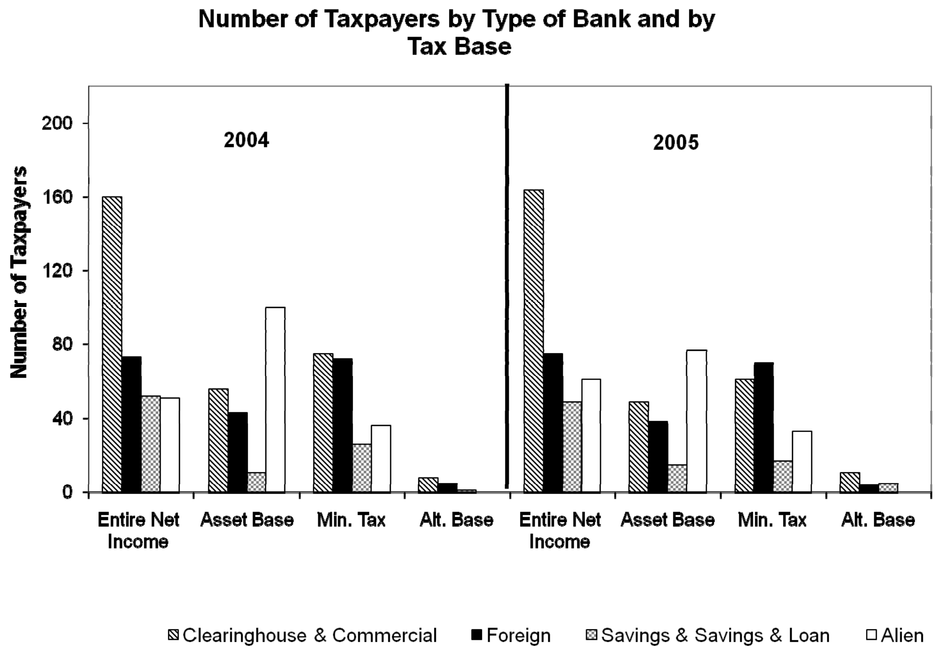
The Bank Tax Study File, which is compiled by the Department of Taxation and Finance's Office of Tax Policy Analysis (OTPA), contains the most recent tax data available on all banks filing under Article 32. The most current liability information is for the 2005 tax year. The annual study of bank tax returns indicates that 729 taxpayers filed tax returns as banking corporations for 2005, a 5.2 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. Collections include a mandatory first installment payment that is paid in March and is based on 30 percent of the prior year's liability. In addition, banks are required to make estimated payments, based on projected liability for the current tax year, in June, September, and December. A final payment is made in March. Taxpayers may make periodic adjustments to these payments after the close of the tax year as their actual liability for a given tax year becomes more definite. Tax liability in the current year is based on estimated performance for that year. It is generally calculated by tax bases, tax rates, special deductions and additions, losses and tax credits. The Tax Law grants taxpayers extensions that allow the filing of returns many months after the end of their tax year.

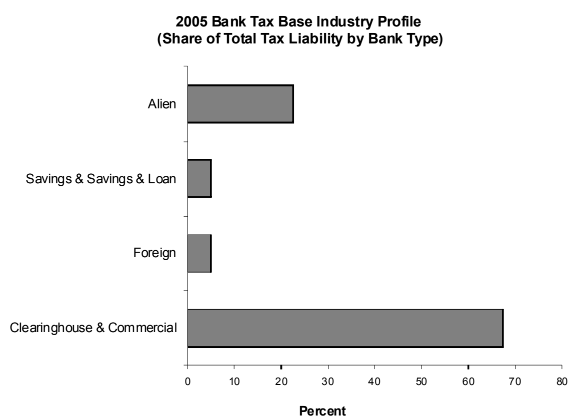
The accompanying graph compares historical bank tax liability and collections. Since taxpayers must pay estimated taxes months in advance of knowing actual liability, it is difficult for taxpayers to determine the proper level of payments needed over the course of a year. This is especially true if business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

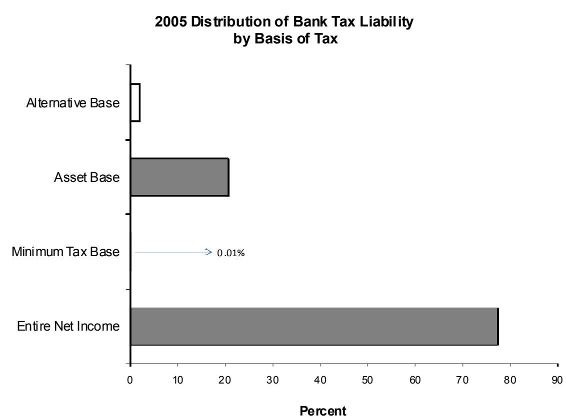


Between 2004 and 2005 (2005 representing the latest year for which complete tax liability data are available), total General Fund tax liability increased by more than 14 percent, from $507 million to $579 million. The number of taxpayers decreased by 5.2 percent, with the majority of the decrease occurring in alien (i.e. domiciled in another country) banks (16 banks, 8.6 percent decline) and clearinghouse and commercial banks (14 banks, 4.7 percent decline). The following graph illustrates that from 2004 to 2005 the asset and minimum taxable income bases had 31 and 28 fewer taxpayers, respectively. The entire net income and minimum tax bases had 13 and 6 more taxpayers respectively in 2005 than 2004.



The following charts show that clearinghouse and commercial banking institutions accounted for 67.4 percent of total tax liability in 2005, and alien banking institutions accounted for 22.6 percent of total liability, while foreign banking institutions and savings banks and savings and loan institutions together accounted for the remaining 10.0 percent of total liability. Additionally, payments under the ENI base comprised over 77 percent of total tax liability.





RECEIPTS: ESTIMATES AND PROJECTIONS

BANK TAX (millions of dollars)							
	Actual 2007-08	Estimated 2008-09	Change	Percent Change	Projected 2009-10	Change	Percent Change
General Fund							
Non-Audit Receipts	793	504	(289)	(36.4)	508	4	0.8
Audit Receipts	87	225	138	158.6	61	(164)	(72.9)
Executive Budget Initiative	0	0	0	--	58	58	--
Total	**880**	**729**	**(151)**	**(17.2)**	**627**	**(102)**	**(14.0)**
Other Funds							
Non-Audit Receipts	162	125	(37)	(22.8)	92	(33)	(26.4)
Audit Receipts	16	40	24	150.0	10	(30)	(75.0)
Executive Budget Initiative	0	0	0	--	2	2	--
Total	**178**	**165**	**(13)**	**(7.0)**	**104**	**(61)**	**(37.0)**
All Funds							
Non-Audit Receipts	955	629	(326)	(34.1)	600	(29)	(4.6)
Audit Receipts	103	265	162	157.3	71	(194)	(73.2)
Executive Budget Initiative	0	0	0	--	60	60	--
Total	**1,058**	**894**	**(164)**	**(15.5)**	**731**	**(163)**	**(18.2)**

All Funds

2008-09 Estimates

All Funds preliminary collections through November were approximately $533 million, a decrease of $121.7 million, or 18.6 percent below the comparable period in the prior fiscal year. The year-to-date decline is attributable to a decrease in non-audit receipts over the prior year of approximately $315 million, or more than 54 percent. Year-to-date payments on 2008 tax year liabilities are over 23 percent lower than payments on 2007 liability through the comparable period. In addition, cash refunds through November 2008 are nearly $163 million, or roughly 230 percent higher than through the same period in the previous fiscal year. These refunds are principally due to overpayments of estimated tax on 2006 tax year liabilities. These declines have been partially offset by a significant increase in audit receipts of roughly $193 million, or nearly 250 percent. The increase in audit recoveries is principally attributable to an initiative in the 2008-09 Enacted Budget that generally waived penalties and interest for certain taxpayers that voluntarily acknowledged they had previously engaged in transactions to shelter taxable income, as a means of accelerating the settlement of those audits. (See the “Audits and Compliance” section for a more detailed discussion of audit receipts).

All Funds receipts for 2008-09 are estimated to be $894 million, a decrease of $164 million, or 15.5 percent below last year. The non-audit base is expected to decline by $326 million, or 34.1 percent, from 2007-08 as a result of substantial declines resulting from mortgage losses and the ensuing credit crunch. Taxpayers are also claiming large cash refunds of overpaid 2006 tax year estimated payments. This large decline in non-audit receipts is being partly offset by an estimated $162 million, or 157.3 percent increase in audit recoveries. This estimated increase is largely the result of the Enacted Budget initiative described above.

2009-10 Projections

All Funds receipts are projected to decrease by 18.2 percent, or $163 million, to $731 million. Non-audit receipts are projected to decline by $29 million or 4.6 percent as a result of an expected continued lack of profitability for many banks, the application of net operating losses against earnings for any banks that are profitable, and the expected continuation of overpayment refunds as taxpayers file their 2007 returns in 2009. Additionally, audit receipts are projected to decrease by $194 million, or 73.2 percent, as certain audit cases that were expected to settle in 2009-10 were accelerated into 2008-09 as discussed above.

General Fund

General Fund collections for 2008-09 are estimated to decline by $151 million to $729 million. This decrease is largely the result of a $289 million, or 36.4 percent decrease in non-audit receipts, partially offset by a $138 million, or 158.6 percent increase in audit receipts.

General Fund collections for 2009-10 are projected to decrease by $102 million, or 14 percent, to $627 million. This reflects a projected decrease in audit receipts and essentially flat non-audit receipts, resulting from the same factors influencing the all funds bank tax projections discussed above.

Other Funds

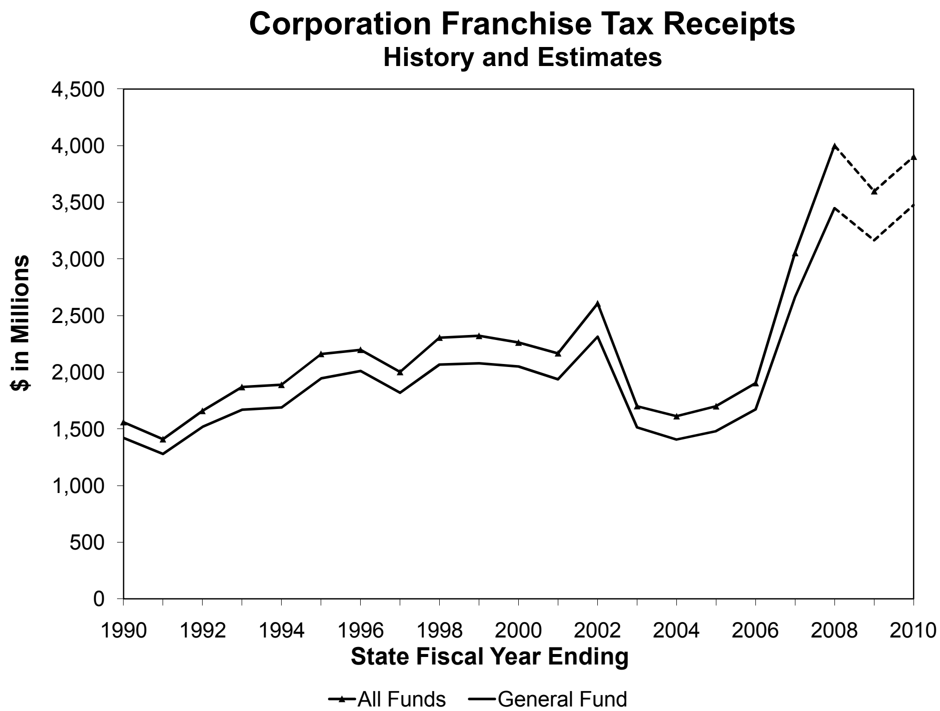
Bank tax receipts from surcharges deposited to MTOAF generally reflect the All Funds and General Fund trends described above. MTOAF bank tax receipts for 2008-09 reflect year-to-date trends and are estimated at $165 million, including $40 million in audit receipts. Surcharge receipts for 2009-10 of $104 million reflect a concentration of losses in banking operations occurring within the MCTD relative to the State as a whole, and include $10 million in audit receipts.

CORPORATION FRANCHISE TAX

CORPORATION FRANCHISE TAX
(millions of dollars)

	2007-08 Actual	2008-09 Estimated	Change	Percent Change	2009-10 Projected	Change	Percent Change
General Fund	3,446.0	3,166.0	(280.0)	(8.1)	3,475.4	309.4	9.8
Other Funds	551.4	433.0	(118.4)	(21.5)	427.0	(6.0)	(1.4)
All Funds	3,997.4	3,599.0	(398.4)	(10.0)	3,902.4	303.4	8.4

Note: Totals may differ due to rounding.



CORPORATION FRANCHISE TAX BY FUND
(millions of dollars)

	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds	Refunds	Special Revenue Funds[1]	All Funds Receipts
1999-2000	2,422	483	1,939	272	43	229	2,168
2000-01	2,817	482	2,335	316	21	295	2,630
2001-02	2,012	497	1,515	236	48	188	1,703
2002-03	1,940	533	1,407	247	42	205	1,612
2003-04	2,005	523	1,482	266	48	218	1,700
2004-05	2,285	427	1,858	293	40	253	2,111
2005-06	3,070	405	2,665	415	27	388	3,053
2006-07	4,010	333	3,677	576	25	551	4,228
2007-08	4,035	589	3,446	592	41	551	3,997
Estimated							
2008-09	3,937	771	3,166	472	39	433	3,599
2009-10							
Current Law	3,772	646	3,126	450	35	415	3,541
Proposed Law	4,121	646	3,475	462	35	427	3,902

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

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- change the mandatory first installment of tax due from 30 percent to 40 percent of the taxpayer's previous year's liability;
- clarify that electric generation facilities do not meet the definition of "manufacturer" under the capital base;
- clarify that captive insurance companies receiving less than 50 percent of their gross receipts from insurance premiums would no longer meet the definition of an insurance business, and would file a combined return with their closest affiliated taxpayer;
- eliminate underutilized tax credits (automated external defibrillator, fuel cell, security guards, alternative fuels, QETC capital tax, transportation improvement contributions);
- clarify current administrative practice for sourcing receipts from the sale of digital products for the purpose of allocating New York source income;
- enact a reciprocal program with the US Treasury to intercept vendor payments to satisfy tax debts;
- reform the Empire Zones program by ensuring that participants are providing a clear benefit to the state and disallowing certain static industries from prospective participation;
- increase the aggregate amount of low-income housing tax credits the Commissioner of Housing and Community Renewal may allocate by $4 million;
- authorize the Urban Development Corporation to award tax credits to qualifying research and development projects and qualifying grants made to certain research colleges and universities based on strategic economic development criteria; and
- expand the eligibility criteria for the Qualified Emerging Technologies Companies credit program by allowing firms with more than 100 qualifying employees to continue to receive benefits and not considering employment outside NYS in determining initial eligibility.

DESCRIPTION

Tax Base and Rate

The corporation franchise tax is levied by Articles 9-A and 13 of the Tax Law. Article 9-A imposes a tax on domestic and foreign corporations for the privilege of exercising their corporate franchise or doing business, employing capital, owning or leasing property, or maintaining an office in New York. The Article 9-A tax is made up of business entities classified as either C corporations or S corporations. Article 13 of the Tax Law imposes a 9 percent tax on certain not-for-profit entities on business income earned from activities not related to their exempt purpose.

For C corporations, current law requires corporation franchise tax liability to be computed under four alternative bases, with tax due based on the highest tax calculated under the four alternative bases. The four alternative bases are:

- An entire net income (ENI) base, which begins with Federal taxable income before net operating loss deductions and special deductions, and is further adjusted by the exclusion, deduction or addition of certain items. The resulting base is allocated to New York and subject to a tax rate of 7.1 percent. Qualifying small businesses with an ENI of $290,000 or less, certain manufacturers and qualified emerging technology companies are subject to a rate of 6.5 percent.

- An alternative minimum tax (AMT) base imposed at a rate of 1.5 percent of the ENI (as calculated above) further adjusted to reflect certain Federal tax preference items and adjustments and State-specific net operating loss (NOL) modifications.

- A capital base, imposed at a rate of 0.15 percent on business and investment capital allocated to New York. For most taxpayers, the maximum annual tax is $10 million.

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

C AND S CORPORATIONS
FIXED DOLLAR MINIMUM TAXES

Gross Income	C Corp Min Tax	S Corp Min Tax
$100,000 or less	$25	$25
$100,001 - $250,000	$75	$50
$250,001 - $500,000	$175	$175
$500,001 - $1,000,000	$500	$300
$1,000,001 - $5,000,000	$1,500	$1,000
$5,000,001 - $25,000,000	$3,500	$3,000
Over $25,000,000	$5,000	$4,500

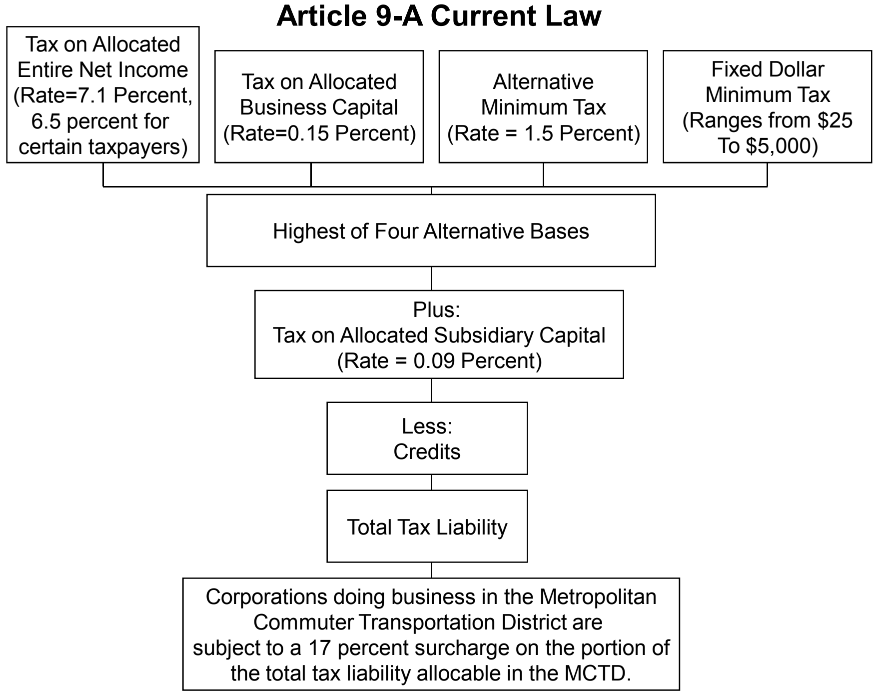
In addition to the tax paid on the highest of the four alternative bases, C corporations also pay a tax of 0.9 mills of each dollar of subsidiary capital allocated to New York State.

S corporations are also subject to a fixed dollar minimum tax imposed at the rates shown in the table above.

Additionally, corporations conducting business in the Metropolitan Commuter Transportation District (MCTD) are subject to a 17 percent surcharge on the portion of the total tax liability computed using the franchise tax rates in effect for the period July 1, 1997 through June 30, 1998, and allocable in the MCTD. The collections from the surcharge are deposited into the Mass Transportation Operating Assistance Fund (MTOAF).

The following flow chart shows how Article 9-A tax liability is computed under the four alternative bases.

Article 9-A Current Law



Administration

Corporations that reasonably expect their tax liability to exceed $1,000 for the current year are required to make quarterly tax payments on an estimated basis in June, September, and December. A final payment is made in March. Additionally, taxpayers are required to make a first installment of tax equal to 30 percent of their prior year's liability. This is paid in March along with the final payment.

Tax Expenditures

Tax expenditures are defined as features of the Tax Law that by exclusion, exemption, deduction, allowance, credit, deferral, preferential tax rate or other statutory provisions reduce the amount of a taxpayer's liability to the State by providing either economic incentives or tax relief to particular entities to achieve a public purpose. The corporate franchise tax structure includes various tax expenditures, and the distribution of these benefits varies widely among firms and industries. Among the major tax expenditure items for the corporate franchise tax are the exclusion of interest, dividends and capital gains from subsidiary capital, the investment tax credit, the Empire Zone credits, and the preferential tax rates for qualifying small business corporations. For a more detailed discussion of tax expenditures, see the Annual Report on New York State Tax Expenditures, prepared by the Department of Taxation and Finance and the Division of the Budget.

Significant Legislation

Subject	Description	Effective Date
Legislation Enacted in 1981		
Metropolitan Transportation Business Tax Surcharge	Imposed on business taxpayers a temporary 17 percent surcharge on tax liability allocated to the Metropolitan Commuter Transportation District (MCTD). Collections are dedicated in support of the Metropolitan Transportation Authority.	January 1, 1982
Legislation Enacted in 1985		
Omnibus Tax Equity and Enforcement Act of 1985	Provided several new enforcement tools for enhancing tax compliance, including new penalties for tax evaders, enhancement of existing penalties, and broader investigatory power for the Department of Taxation and Finance.	Various dates in 1985
Legislation Enacted in 1986		
Economic Development Zones	Authorized the designation of selected towns, counties, cities and villages as Economic Development Zones (EDZs), which provided certain tax benefits to qualifying businesses.	January 1, 1986
Legislation Enacted in 1987		
Business Tax Reform and Rate Reduction Act of 1987	Reformed the tax by lowering the rate, restructuring the alternative bases to include a broader range of items of income, and limited the usefulness of the ITC.	January 1, 1987
Legislation Enacted in 1990		
Temporary Business Tax Surcharge	Imposed a temporary 15 percent tax surcharge on the tax liability of certain business taxpayers. The surcharge was extended twice.	January 1, 1990
Legislation Enacted in 1994		
Depreciation	Changed the Modified Accelerated Cost Recovery System (MACRS) depreciation rule for non-New York property to conform to provisions of the Federal Tax Reform Act of 1986.	January 1, 1994
Limited Liability Companies (LLC) and Limited Liability Partnerships (LLP)	Provided New York State authority for formation of LLCs and LLPs, which are business organizations that provide many of the tax benefits associated with partnerships and the liability protection afforded to corporations.	October 24, 1994
Rate Reduction – Alternative Minimum Tax (AMT)	Reduced rate from 5.0 percent to 3.5 percent.	January 1, 1995
Legislation Enacted in 1997		
Alternative Fuel Vehicle Credit	Provided corporations and individuals with a tax credit for a portion of the cost of purchasing or converting vehicles to operate on alternative fuels.	January 1, 1998
Legislation Enacted in 1998		
Rate Reduction – AMT	Reduced rate from 3.5 percent to 3.0 percent phased in over two years.	June 30, 1998
Investment Tax Credit	Allowed brokers/dealers in securities to claim a credit for equipment or buildings used in broker/dealer activity and in activities connected with broker/dealer operations.	October 1, 1998
Rate Reduction – ENI	Reduced the tax rate from 9 percent to 7.5 percent over a three-year period beginning after June 30, 1999.	June 30, 1999
Legislation Enacted in 1999		
Rate Reduction – AMT	Reduced rate from 3.0 percent to 2.5 percent.	June 30, 2000
EDZ/ZEA Wage Tax Credit	Doubled the existing Economic Development Zone (EDZ) and Zone Equivalent Area (ZEA) wage tax credits.	January 1, 2001

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 include a tax credit for real property taxes, a tax reduction credit, and a sales and use tax exemption. The tax reduction credit may be applied against the fixed dollar minimum tax, which may reduce the taxpayer's liability to zero.	January 1, 2001
Rate Reduction – S Corporations	Reduced the differential tax rate imposed on S corporations by 45 percent.	June 20, 2003
Rate Reduction – Small Businesses	Reduced tax rate for small businesses with entire net income of $200,000 or less to 6.85 percent.	June 30, 2003
Legislation Enacted in 2002		
Estimated Payment Requirement	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year's liability for those corporate taxpayers whose prior year's liability exceeds $100,000.	January 1, 2003
Legislation Enacted in 2003		
Modification for Decoupling from Federal Bonus Depreciation	Decoupled from Federal depreciation allowances for property placed in service on or after June 1, 2003, that qualified for the special bonus depreciation allowance allowed by the Federal Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003. The modifications do not apply to qualified resurgence zone property or qualified New York Liberty Zone property.	June 1, 2003
Intangible Holding Companies	Required taxpayers to modify Federal taxable income relating to certain royalty and interest payments made with respect to the use of intangible property by related members or royalty and interest payments received from related members.	January 1, 2003
S Corporation Tax Change	Taxed S corporations on a fixed dollar minimum amount for tax years 2003, 2004 and 2005 only. The fixed dollar minimum amounts are those imposed under Article 9-A, ranging from $100 to $1,500.	January 1, 2003
Superfund-Brownfield Tax Credits	Created tax incentives for the redevelopment of brownfields through three tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. There are three components in the redevelopment tax credit: a site preparation component, a tangible property component, and an onsite groundwater remediation component.	April 1, 2005
Legislation Enacted in 2004		
Fixed Dollar Minimum Tax	Provided a temporary adjustment to the corporate franchise tax fixed dollar minimum tax schedule, with tax amounts ranging from $100 to $10,000. Applicable to tax years 2004 and 2005.	January 1, 2004
Empire State Film Production Credit	Provided a new tax credit for film production activity in New York State. The credit was originally scheduled to sunset August 20, 2008.	January 1, 2004
Legislation Enacted in 2005		
Single Sales Apportionment	Changed the computation of a corporation's business allocation percentage from a three-factor formula of payroll, property and receipts to a single receipts factor.	These provisions will be phased in over a three-year period starting in tax year 2006, and fully effective for tax years beginning on or after January 1, 2008

Subject	Description	Effective Date
Empire Zones Amendments / Twelve New Zones	Made significant changes to the Empire Zone/Qualified Empire Zone Enterprise program with respect to zone boundaries, zone designations, taxpayer eligibility, and benefits. Also authorized twelve new Empire Zones.	Changes to eligibility and benefits apply to taxpayers certified on or after April 1, 2005
Small Business Rate Reduction	Lowered the tax rate from 6.85 percent to 6.5 percent for small businesses and expanded the definition of a qualifying small business.	January 1, 2005
Capital Base Increase	Increased the maximum tax due under the capital base alternative from $350,000 to $1 million for all taxpayers, excluding manufacturers.	January 1, 2005
Legislation Enacted in 2006		
Empire Zones / Significant Investments	Provided that a Qualifying Empire Zone Enterprise (QEZE) with fewer than 200 existing jobs that makes an investment of $750 million or more and creates 500 new jobs is deemed a "new business," qualifying the taxpayer for a 50 percent refund of its EZ Investment Tax Credits and EZ Employment Incentive Credits. Also authorized such taxpayers to select their program benefit period to start either upon certification (current law), or when the qualifying investment is placed in service.	January 1, 2006
Eliminate S Corporation Differential Tax Base	Eliminated the tax base imposed on S Corporations that was calculated using the difference between the corporate franchise tax rate and the top personal income tax rate. The rate had been changed, and the base was also suspended during tax years 2003 through 2005 when the PIT surcharge was in effect. Elimination of this base conforms the State tax code with Federal treatment of S corporations.	January 1, 2003 (note that the differential had already been suspended - eff. date reflects first instance of non-imposition)
Legislation Enacted in 2007		
Rate Reduction - ENI	Reduced the rate on the ENI base from 7.5 percent to 7.1 percent, and amended the recapture rate for the small business rate to conform to the general rate change.	January 1, 2007
Rate Reduction - ENI (Manufacturers and QETCs)	Reduced the rate on the ENI base from 7.5 percent to 6.5 percent for qualifying manufacturers and emerging technology companies.	January 31, 2007
Rate Reduction - AMT	Reduced the rate applicable to the alternative minimum taxable income base from 2.5 percent to 1.5 percent.	January 1, 2007
Combined Filing Requirement	Required taxpayers operating several corporations on a unitary basis to file a combined return if there are substantial inter-corporate transactions between them.	January 1, 2007
REITS/RICS Loophole Closer	Required the combination of a REIT or RIC held as a subsidiary with its parent company. In computing combined entire net income, the deduction available to REITs for dividends paid are not allowed. In addition, such a combined report must include the combined capital of the REIT or RIC subsidiary.	January 1, 2007
Acceleration of Single Sales Apportionment Phase-In	Accelerated, by one year, the final phase-in of the move to sales-only apportionment of income and capital.	January 1, 2007
Legislation Enacted in 2008		
Restructure Fixed Dollar Minimum Tax	Changed 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-manufacturer's from $1 million to $10 million for a three year period. Reduced the capital base rate from 0.178 percent to 0.15 percent.	January 1, 2008
Decouple from the Federal Qualifying Production Activities Income Deduction	Decoupled New York State Entire Net Income determination from Federal QPAI deduction. The Internal Revenue Code allows an above the line deduction of 6 percent (rising to 9 percent in 2010) for manufacturing activities.	January 1, 2008
Technical correction to REITS/RICS Loophole Closer	For a period of three years, requires 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

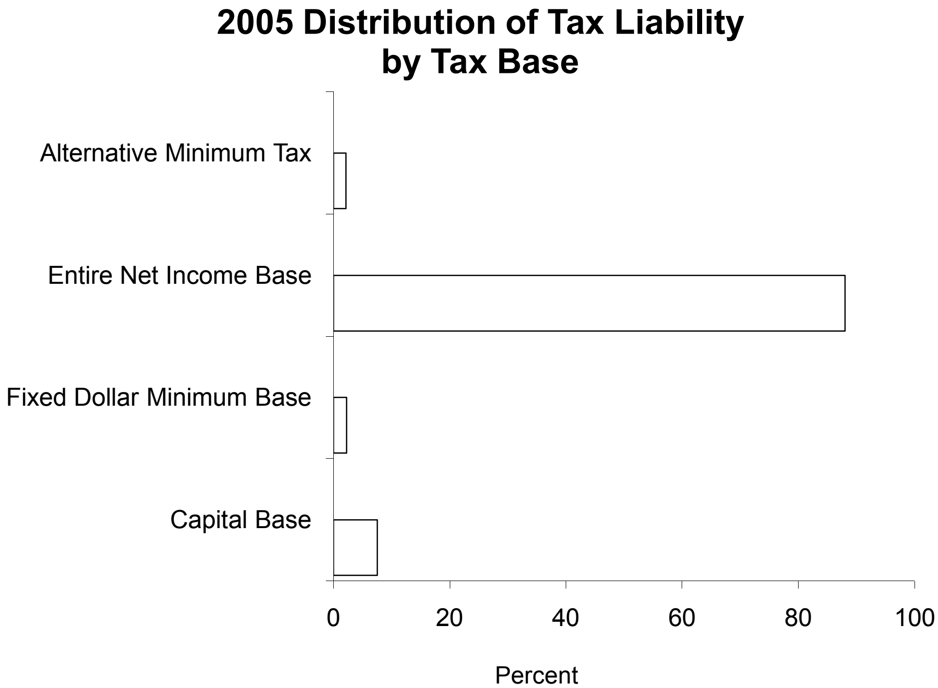
Subject	Description	Effective Date
Estimated Payment Requirement	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year's liability for those corporate taxpayers whose prior year liability exceeds $100,000.	January 1, 2009
Brownfields Program Reform	Amended the tangible property credit component to impose a limit of the lesser of $35 million or three times the qualifying costs used in calculating the site preparation and on-site groundwater components for projects accepted into the 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

TAX LIABILITY

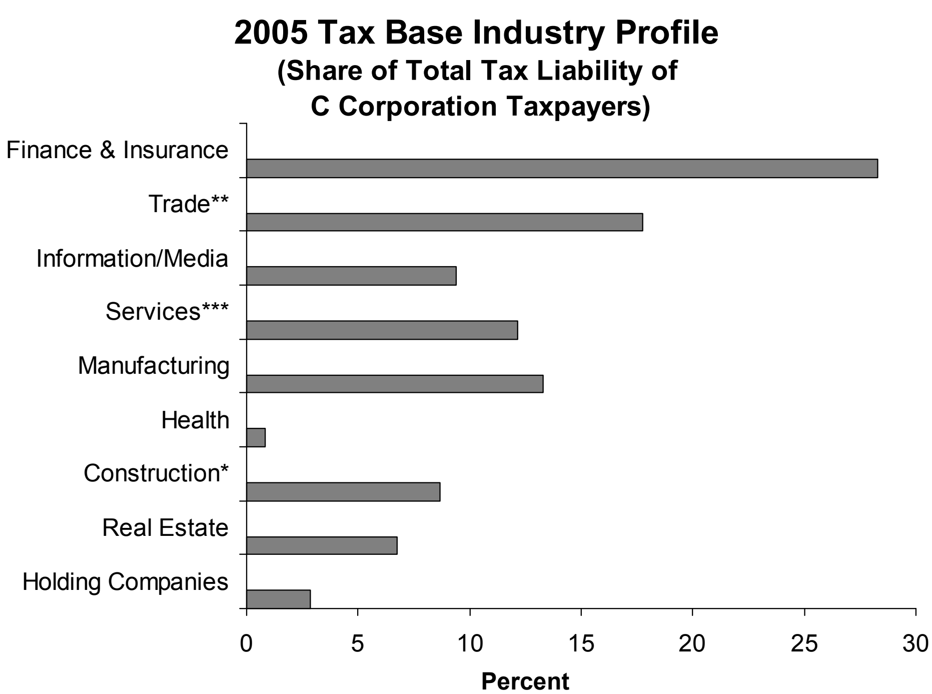
The Corporate Franchise Tax Study File, which is compiled by the Department of Taxation and Finance's Office of Tax Policy Analysis (OTPA), contains the most recent data available on Article 9-A liability for corporations filing under Article 9-A. The most current liability information is for the 2005 tax year.

Although the study file does not include information on non-allocating fixed dollar minimum tax filers and S corporations, OTPA compiles corporate tax return data relating to the total number of C and S corporations and tax liability for these entities. The 2004 New York State Corporate Tax Statistical Report, the most recent data available, indicates that 257,538 taxpayers filed as C corporations, while 344,312 taxpayers filed as S corporations. The number of C corporations increased by 0.2 percent from the prior year, while the number of S corporations increased by 2.7 percent. From 1990 to 2004, the number of S corporations increased by roughly 78 percent while the number of C corporations grew by approximately 8 percent.

As noted above, C corporations pay under the highest of four alternative bases. In 2005, roughly 88 percent of liability was paid under the entire net income base. The capital base was the second largest base, at 7.6 percent of liability. These percentages have been fairly constant over time with the exception of the AMT base, which has begun to diminish due to Tax Law changes that have reduced the AMT rate.



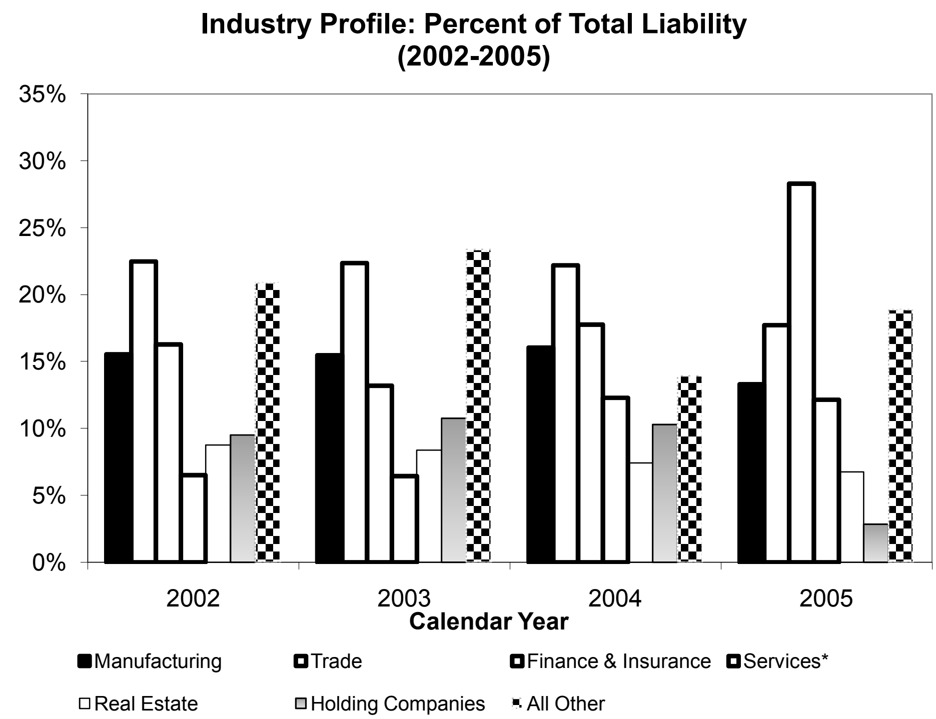
The next chart shows the distribution of tax liability by major industry sector. The 2005 study file indicates that 28.3 percent of total C corporation liability was paid by the finance and insurance sector and 13.3 percent by the manufacturing sector. The share of total C corporation liability attributable to the services sector has become an increasing share of liability over the last few 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 fluctuation in the percentage of liability paid by the industry groups of the State's tax base. These industry groups accounted for the vast majority of total tax liability from 2002 to 2005. Liability for the finance and insurance sector was 16.3 percent in 2002, 13.2 percent in 2003, 17.8 percent in 2004 and jumped to 28.3 in 2005. In comparison, the manufacturing industry's share of total liability remained relatively constant for the 2002-2004 period at roughly 16 percent but declined to 13.3 in 2005. The services sector represented only 6.5 percent of total 2002 liability, but 12.2 percent of 2005 liability. Both the services and finance and insurance sectors have increased as a percent of total liability, while the contribution from manufacturing has decreased over the 2002 to 2005 period. This is consistent with national trends. The healthcare industry's share of total liability declined from 8.7 percent in 2002 to less than 1 percent in 2005. The trade industries (wholesalers, retailers, transportation and warehousing), real estate and holding companies represent approximately 30 percent of total liability in 2005.

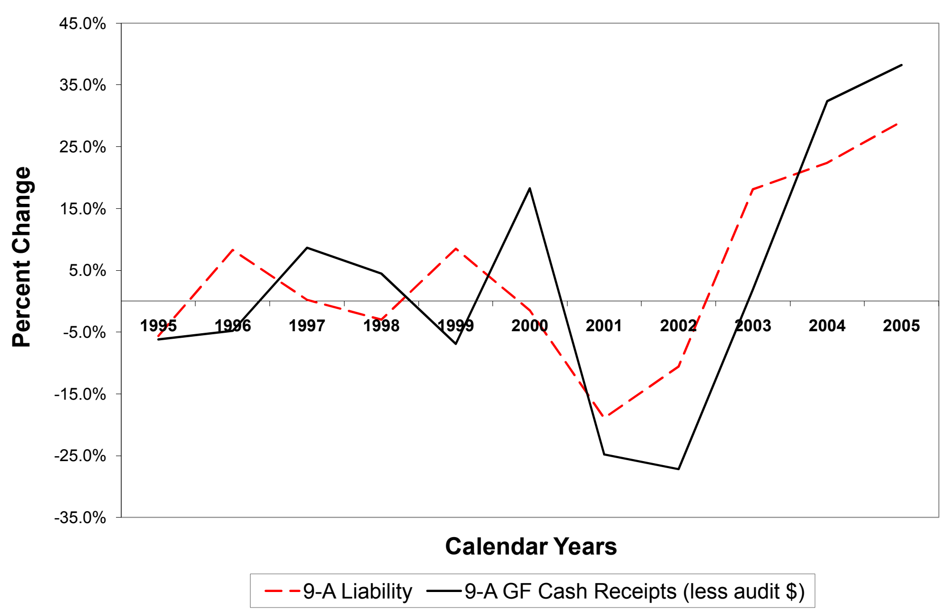


* These services consist of: professional, scientific, and technical services; administrative and support and waste management and remediation services; art, entertainment, and recreation services; accommodation and food services; and other services. (NAICS Sectors 53, 54, 55, 56, 71, 72, and 81)

The link between underlying corporate tax liability and cash receipts in any given State fiscal year is often obscured by the timing of payments, the carry forward of prior year losses or credits and the reconciliation of prior year liabilities. Tax collections are the net payments and adjustments made by taxpayers on returns and extensions over the course of a State fiscal year. Collections include a mandatory first installment payment that is paid in March and is based on 30 percent of the prior year's liability. In addition, corporations are required to make estimated payments, based on projected liability for the current tax year, in June, September and December. A final payment is made in March.

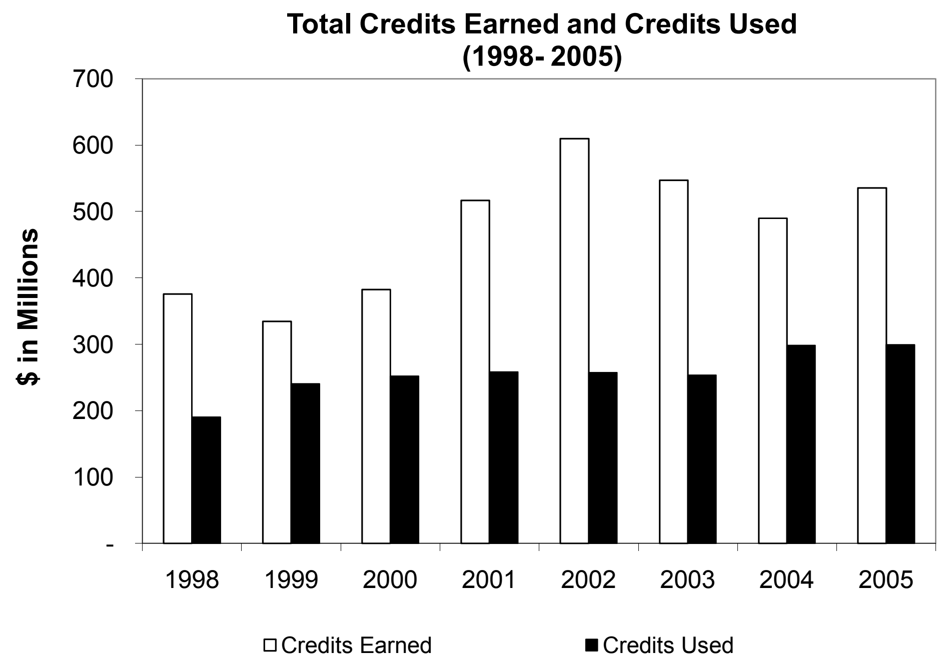
Taxpayers may make periodic adjustments to these payments after the close of the tax year as their actual liability for a given tax year becomes more definite. Tax liability in the current year is based on estimated performance for that year. It is generally calculated by tax bases, tax rates, special deductions and additions, losses and tax credits. The Tax Law grants taxpayers extensions that allow the filing of returns many months after the end of their tax year. The accompanying graph compares historical corporate tax liability and cash receipts. 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 following graph illustrates the significant volatility in the underlying relationship between payments and liability, which is compounded by the potential difference between a taxpayer's tax year and the State fiscal year.

Growth in Corporate Liability and Cash Receipts



Credits

The following graph shows major credits earned and used by Article 9-A taxpayers, and illustrates that the amount of credits earned significantly exceeds the amount of credits used. These credits include the investment tax credit (ITC), Empire Zone credits, the alternative minimum tax (AMT) credit, the agricultural property tax credit, and the special additional mortgage recording tax credit. Credit earned is the amount of credit earned by a taxpayer in the current tax year. This is prior to any credit recapture, and does not include credits earned in or carried over from any prior years.



Generally, Tax Law provisions prevent taxpayers from using tax credits to reduce final tax liability below the fixed dollar minimum tax or the AMT. This has resulted in taxpayers carrying forward a significant amount of tax credits into subsequent tax years. It is expected that the use of refundable credits, especially Empire Zones, Brownfields and Film credits, will significantly increase the total amount of credits used.

RECEIPTS: ESTIMATES AND PROJECTIONS

CORPORATION FRANCHISE TAX
(millions of dollars)

	Actual 2007-08	Estimated 2008-09	Change	Percent Change	Projected 2009-10	Change	Percent Change
General Fund							
Non-Audit Receipts	2,418	2,203	(215)	(8.9)	2,344	141	6.4
Audit Receipts	1,028	963	(65)	(6.3)	778	(185)	(19.2)
Executive Budget Initiative	0	0	0	--	353	353	--
Total	**3,446**	**3,166**	**(280)**	**(8.1)**	**3,475**	**309**	**9.8**
Other Funds							
Non-Audit Receipts	390	248	(142)	(36.5)	265	17	6.9
Audit Receipts	161	185	24	14.9	150	(35)	(18.9)
Executive Budget Initiative	0	0	0	--	12	12	--
Total	**551**	**433**	**(118)**	**(21.5)**	**427**	**(6)**	**(1.4)**
All Funds							
Non-Audit Receipts	2,808	2,451	(357)	(12.7)	2,609	158	6.4
Audit Receipts	1,189	1,148	(41)	(3.4)	928	(220)	(19.2)
Executive Budget Initiative	0	0	0	--	365	365	--
Total	**3,997**	**3,599**	**(398)**	**(10.0)**	**3,902**	**303**	**8.4**

All Funds

2008-09 Estimates

All Funds collections through November are $1,496.2 million, a decrease of $326.0 million, or approximately 17.9 percent below the comparable period in the prior fiscal year. This year-to-year decrease is primarily attributable to steep declines in audit collections and an increase in refund requests. Through November, audit collections are $361.0 million, a decrease of $148.4 million or 29.1 percent. Refunds are nearly double the prior year as taxpayers are claiming refunds on 2007 and 2006 liability as returns are finalized. Refunds paid to-date are $542.0 million, an increase of 42.1 percent over 2007-08. Gross collections, the majority of which are calendar year filer estimated payments, total an estimated $1,677.1 million in 2008-09 compared to $1,694.2 million in 2007-08, a decrease of $17.0 million or a 1.0 percent decline.

All Funds receipts are estimated for 2008-09 to be $3,599 million, a decrease of $398.4 million or 10.0 percent from last year. The 10 percent decrease in estimated 2008-09 corporate franchise tax receipts is primarily due to a decline in tax year 2008 liability of 4 percent and higher than anticipated refunds on prior year liability. The majority of the decline in tax year 2008 liability is expected in the second half of the fiscal year since the bulk of the projected 7.6 percent decline in corporate profits from 2007 is expected to occur in the final quarter of calendar year 2008. Audit collections are expected to rebound in the remainder of 2008-09 as the Department of Taxation and Finance (DTF) settles pending cases. Refunds are expected to remain at approximately the same level as 2007-08 for the remainder of the fiscal year.

2009-10 Projections

All Funds receipts are projected to be $3,902.4 million, an increase of $303.4 million, or 8.4 percent above 2008-09. Corporate profits are expected to remain weak in the first half of the fiscal year, with an expected recovery beginning in the second half of 2009-10. This is projected to generate growth in current law, non-audit collections of roughly 6.6 percent. Audit collections are expected to decrease $220.0 million from 2008-09 to $928 million in 2009-10.

General Fund

General Fund collections for 2008-09 are expected to be $3,166 million, a decrease of $280 million, or 8.1 percent below 2007-08. Lower audit collections, higher refunds and weak growth in current year liability as a result of the economic slowdown are the drivers for the decline in year-over-year tax receipts. Audit collections are estimated at $963 million and refunds are projected to be $771 million in 2008-09.

For 2009-10, General Fund receipts are projected to be $3,475.4 million, an increase of $309.4 million, or 9.8 percent over 2008-09. The estimate reflects improvement in corporate profits beginning in the second half of 2009-10 as the economy begins to recover. The estimate for 2009-10 audit collections is $778 million, a decrease of $185 million over the prior year and refunds are expected to be slightly lower in 2009-10 at $646 million. Excluding Executive Budget proposals, General Fund receipts would be $3,126 million, a decrease of $40 million, or 1.3 percent.

Other Funds

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

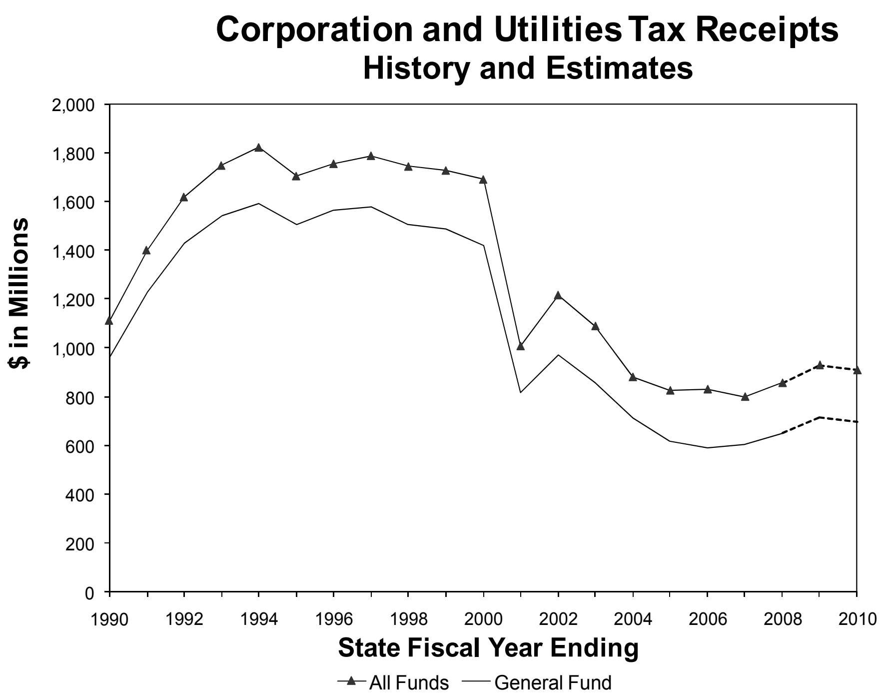
The Article 9-A contribution to the MTOAF for 2008-09 is estimated to fall 21.5 percent relative to the prior year to $432.5 million. The voluntarily remitted portion of receipts is estimated to decline 36.5 percent over 2007-08 due to the concentration of the financial services industry in the MCTD region. Audit collections are expected to increase from $161.3 million to $185.0 million as DTF settles cases involving financial service transactions from previous tax years.

Collections for 2009-10 are expected to decrease 1.4 percent as voluntary collections improve, but audit collections decline year-over-year.

CORPORATION AND UTILITIES TAXES

CORPORATION AND UTILITIES TAXES (millions of dollars)							
	2007-08 Actual	2008-09 Estimated	Change	Percent Change	2009-10 Projected	Change	Percent Change
General Fund	603.1	650.0	46.9	7.8	714.0	64.0	9.8
Other Funds	198.4	208.0	9.6	4.8	215.0	7.0	3.4
All Funds	801.5	858.0	56.5	7.0	929.0	71.0	8.3

Note: Totals may differ due to rounding.



CORPORATION AND UTILITIES TAXES BY FUND (millions of dollars)										
	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds	Refunds	Special Revenue Funds[1]	Gross Capital Project Funds	Refunds	Capital Projects Funds[2]	All Funds Receipts
1999-2000	1,450	32	1,418	276	2	274	0	0	0	1,692
2000-01	847	30	817	193	1	192	0	0	0	1,009
2001-02	999	27	972	247	1	246	0	0	0	1,218
2002-03	909	49	860	232	1	231	0	0	0	1,091
2003-04	732	17	715	170	3	167	0	0	0	882
2004-05	655	38	617	195	1	194	195	0	195	1,006
2005-06	608	17	591	229	6	223	19	1	18	832
2006-07	639	13	626	182	4	178	18	1	17	821
2007-08	618	15	603	189	6	183	16	1	15	802
Estimated										
2008-09	664	14	650	197	6	191	18	1	17	858
2009-10										
Current Law	680	14	666	199	6	193	18	1	17	876
Proposed Law	728	14	714	204	6	198	18	1	17	929

[1] Receipts from the MTA business tax surcharge and a portion of receipts from the taxes imposed by sections 183 and 184 of the Tax Law deposited in accounts of the Mass Transportation Operating Assistance Fund (MTOAF).
[2] A portion of receipts from taxes imposed by sections 183 and 184 of the Tax Law deposited to Dedicated Highway and Bridge Trust Fund (DHBTF).

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- change the mandatory first installment of tax due from 30 percent to 40 percent of the taxpayer's previous year's liability; and
- reform the Empire Zones program by ensuring that participants are providing a clear benefit to the state and disallowing certain static industries from prospective participation.

DESCRIPTION

Tax Base and Rate

Article 9 of the Tax Law imposes taxes and fees on a number of specialized industries, including public utilities, newly organized or reorganized corporations, out-of-State corporations doing business in New York State, transportation and transmission companies, and agricultural cooperatives. Historically, Article 9 receipts have come primarily from the public utility, telecommunications, and transportation industries. However, statutory and regulatory changes enacted in 2000 have reduced the percentage share of General Fund corporation and utilities tax receipts attributable to utilities from 56.5 percent in 1999-2000 to 14.6 percent in 2007-08. In recent years, the telecommunications industry has become the primary source of collections, accounting for more than 73 percent of 2007-08 General Fund corporation and utilities tax receipts.

Section 180 assesses an organization tax upon newly incorporated or reincorporated domestic (in-State) corporations. The tax is imposed at a rate of 1/20th of one percent of the total amount of the par value (the nominal or face value of a security) of the stock that the corporation is authorized to issue. The tax rate for stocks with "no-par" value is five cents per share. The tax also applies to any subsequent changes in the share of stocks, including changes to the number of par value and "no-par" value stocks or newly authorized stock. The minimum tax imposed by section 180 is $10.

Section 181 imposes a license fee on foreign (out-of-State) corporations for the privilege of exercising a corporate franchise or conducting business in a corporate or organized capacity in New York State. The fee is assessed at a rate equivalent to the organization tax imposed by section 180 and attributable to the amount of capital stock employed in the State. Foreign corporations are also subject to an annual maintenance fee of $300. Foreign corporations may claim a credit for the fee paid against the tax due under Article 9, the corporate franchise tax or the bank tax.

Section 183 provides for a franchise tax on the capital stock of transportation and transmission companies, including telecommunications, trucking, railroad, and other transportation companies. The tax is imposed at the highest of the following three alternatives:

- 1.5 mills per dollar of the net value of capital stock allocated to New York State;

- 0.375 mills per dollar of par value for each one percent of dividends paid on capital stock if dividends amount to 6 percent or more; or

- A minimum tax of $75.

Section 184 levies an additional franchise tax of 0.375 percent on the gross receipts of transportation and transmission companies. As of July 1, 2000, gross receipts from international, interstate, and inter-Local Access Transport Areas (LATAs) services and 30 percent of intra-LATA gross receipts are excluded from the tax. Railroad and trucking companies that elected to remain subject to Article 9 taxes (rather than to become subject to the corporate franchise tax imposed under Article 9-A) pay the tax at a rate of 0.375 percent of gross earnings, including an allocated portion of receipts from interstate transportation-related transactions.

Section 185 imposes a franchise tax on farmers, fruit-growers and other agricultural cooperatives. The tax is imposed at the highest of the following three alternatives:

- 1.0 mills per dollar of the net value of capital stock allocated to New York State;

- 0.25 mills per dollar of par value for each one percent of dividends paid on capital stock if dividends amount to 6 percent or more; or

- A minimum tax of $10.

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

Section 186-a imposes a two percent gross receipts tax on charges for the transportation, transmission, distribution, or delivery of electric and gas utility services. As shown in the following tables, between January 1, 2000 and January 1, 2005 the gross receipts tax imposed on:

- Charges for transmission/distribution services to residential customers was gradually reduced from 3.25 percent to its current rate of 2 percent;

- Charges for transmission/distribution services to nonresidential customers was gradually eliminated; and

- The sale of the energy commodity was gradually eliminated, declining from 3.25 percent to zero.

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

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

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

Article 9 taxpayers that conduct business in the Metropolitan Commuter Transportation District (MCTD) are subject to a 17 percent surcharge on their liability attributable to the MCTD.

Administration

Taxpayers subject to sections 182, 182-a, 184, 186-a and 186-e make quarterly tax payments of equal installments on an estimated basis June, September and December. A final payment is made in March. Additionally, taxpayers are required to make a first installment of tax equal to 30 percent of their prior year's liability. This is paid in March along with the final payment.

As shown in the following table, the Tax Law has been amended from time-to-time to provide various formulas for the deposit and disposition of receipts from the taxes imposed by sections 183 and 184 of the Tax Law to the Mass Transportation Operating Assistance Fund (MTOAF) and more recently the Dedicated Highway and Bridge Trust Fund (DHBTF).

SECTIONS 183 AND 184 DISTRIBUTION TO FUNDS SINCE 1982 (percentage)			
Effective Date	General Fund	MMTOAA	DHBTF
July 1, 1982	60.0	40.0	0.0
April 1, 1996	52.0	48.0	0.0
January 1, 1997	50.5	49.5	0.0
January 1, 1998	46.0	54.0	0.0
January 1, 2000	36.0	64.0	0.0
January 1, 2001	20.0	80.0	0.0
April 1, 2004	0.0	80.0	20.0

All receipts from the 17 percent surcharge imposed on Article 9 taxpayers that conduct business in the MCTD are deposited in the MTOAF.

Significant Legislation

Significant statutory changes to the corporation and utilities taxes since 1990 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1990		
Temporary Tax Surcharge	Imposed a temporary 15 percent surcharge on taxpayers liable for tax under Sections 183, 184, 186 and 186-a of the Article 9 Corporations and Utilities Tax. The surcharge was phased-out over a three-year period starting in 1994.	January 1, 1990
Legislation Enacted in 1995		
Telecommunications Act of 1995	Restructured the transmission portion of section 184 to apply to only local telecommunication services. Also, all toll revenues from interstate, and inter-LATAs services were exempted.	January 1, 1995
	Enacted section 186-e, which imposed a 3.5 percent excise tax on receipts from telecommunications services.	
	Replaced the property factor with a new allocation mechanism. Under the "Goldberg" allocation method, receipts are allocated to New York if the call originates or terminates in this State and is charged to a service address in this State, regardless of where the charges for such services are billed or ultimately paid.	
	Shifted the access deduction from inter-exchange carriers and local carriers who are ultimate sellers to initial sellers.	
Section 184	Exempted 30 percent of intra-LATA toll receipts.	January 1, 1996
Legislation Enacted in 1996		
Trucking and Railroad Companies	Allowed these companies the option of being taxed under the general corporate franchise tax (Article 9-A).	January 1, 1997
	Reduced the tax rate on section 184 for these companies from 0.75 percent to 0.6 percent.	
Legislation Enacted in 1997		
Power for Jobs Program	Created a tax credit against section 186-a to compensate utilities for revenue losses associated with participation in the program. The program makes low-cost power available to businesses, small businesses and not-for-profit corporations for job retention and creation. The credit is allowed to the utility providing low cost power to retail customers selected by the Power Allocation Board.	1997
Rate Reductions	Reduced the section 184 tax rate from 0.75 percent to 0.375 percent.	January 1, 1998
	Reduced section 186-a and section 186-e tax rates from 3.5 percent to 3.25 percent as of October 1, 1998, and to 2.5 percent on January 1, 2000.	

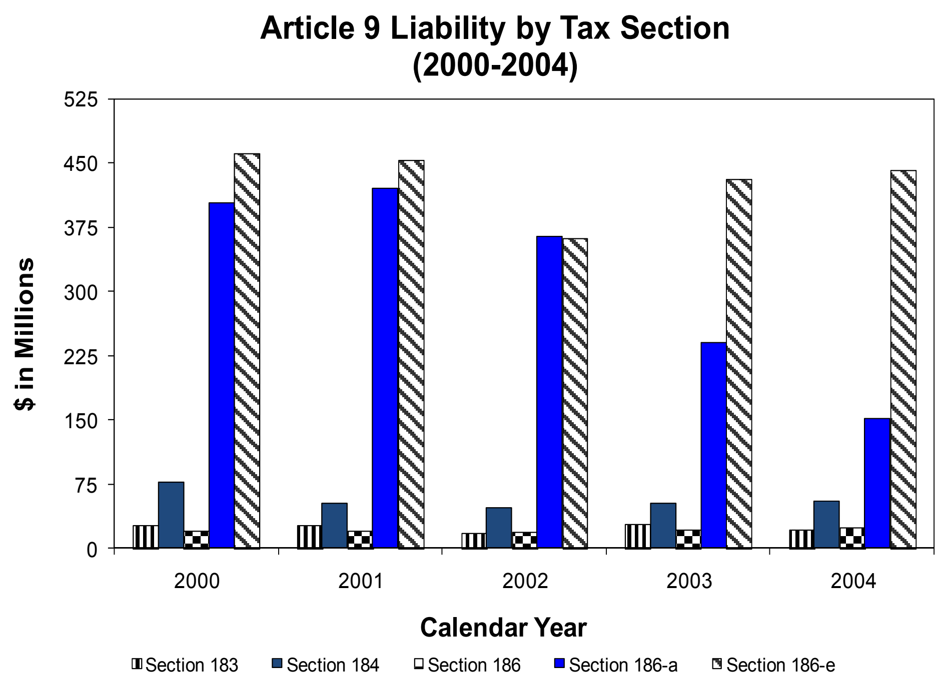
Subject	Description	Effective Date
Legislation Enacted in 1999		
MTOA Fund	Increased the percent of collections from section 183 and section 184 to be distributed to the MTOA Fund from 54 percent to 64 percent on January 1, 2000, and to 80 percent on January 1, 2001.	January 1, 2000 January 1, 2001
Legislation Enacted in 2000		
Utility Tax Reform	Repealed the section 186 tax. Section 186-a and section 189 tax are phased-out over a five-year period. Elimination of the gross receipts tax for manufacturers and industrial energy customers retroactive to January 1, 2000; elimination of the tax for all other business customers over a five-year period. For residential consumers, the commodity tax is eliminated and the transmission/distribution rate of the 186-a tax is reduced from 2.5 percent to 2.0 percent.	January 1, 2000
Power for Jobs	Provided an additional 300 megawatts of low-cost power to businesses across New York through the Power for Jobs program.	January 1, 2001
Legislation Enacted in 2001		
Section 189	Created a prospective and retroactive credit for taxes paid to other states where natural gas was purchased.	Retroactive to August 1, 1991
Legislation Enacted in 2002		
Power for Jobs	Provided low cost power for economic development through phase five of the Power for Jobs Program and provided an energy service company option for recipients under the program.	July 30, 2002
Estimated Payments	Increased the first quarterly payment of estimated tax, for taxpayers paying under sections 182, 182-a, 184, 186-a, and 186-e, from 25 percent to 30 percent of the prior year's liability. Taxpayers whose prior year's liability exceeds $100,000 are affected. Taxpayers whose prior year's liability is between $1,000 and $100,000 will continue to make a first quarterly payment of 25 percent of the prior year's liability. Sunsets for tax years beginning on or after January 1, 2006.	January 1, 2003
Legislation Enacted in 2003		
Superfund-Brownfield Credits	Created tax incentives for the redevelopment of brownfields through three tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. There are three components in the redevelopment tax credit: a site preparation component, a tangible property component, and an onsite groundwater remediation component.	April 1, 2005
Sections 183 & 184	Allocated the remaining 20 percent of section 183 and 184 collections to the Dedicated Highway and Bridge Trust Fund (DHBTF).	April 1, 2004
Legislation Enacted in 2004		
Power for Jobs Program	Modified the Power for Jobs Program to allow prior recipients of low cost power an option of a credit or rebate.	March 1, 2004
Legislation Enacted in 2005		
Power for Jobs Program Extension	Extended the Power for Jobs program through 2006.	April 1, 2005
Legislation Enacted in 2006		
Power for Jobs Program Extension	Extended the Power for Jobs program through June 2007.	April 1, 2006
Legislation Enacted in 2007		
Power for Jobs Program Extension	Extended the Power for Jobs program through June 2008.	April 1, 2007
Legislation Enacted in 2008		
Estimated Payment Requirement	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year's liability for tax sections 182, 182-a, 184, 186-a and 186-e.	January 1, 2009
Power for Jobs Program Extension	Extended the Power for Jobs program through June 2009.	April 1, 2008

Subject	Description	Effective Date
Brownfields Program Reform	Amended the tangible property credit component to impose a limit of the lesser of $35 million or three times the qualifying costs used in calculating the site preparation and on-site groundwater components for projects accepted into the program after June 22, 2008. Qualifying manufacturers accepted after this date would be subject to a tangible property credit component limitation equal to the lesser of $45 million or six times the qualifying costs used in calculating the site preparation and on-site groundwater components. Several other changes were effected, including increasing the credit percentages awarded under the site preparation and on-site groundwater components to as much as fifty percent.	June 23, 2008

TAX LIABILITY

The *2004 New York State Corporate Tax Statistical Report* contains the most recent data available on Article 9 tax liability. The corporation and utilities tax represented almost 18 percent of total New York State corporate tax liability in 2004.

The chart below shows Article 9 liability by tax section as shown in the *2004 New York State Corporate Tax Statistical Report*. Total tax liability for Article 9 was $985 million in 2000, $970 million in 2001, $808 million in 2002, $770 million in 2003 and $690 million in 2004. The declines in liability over this period are attributable to the repeal of the section 186 franchise tax imposed on water, gas, electric and power companies on January 1, 2000, and phased-in reductions in the tax rates imposed under section 186-a on commodities and transmission and distribution that began in tax year 2000.



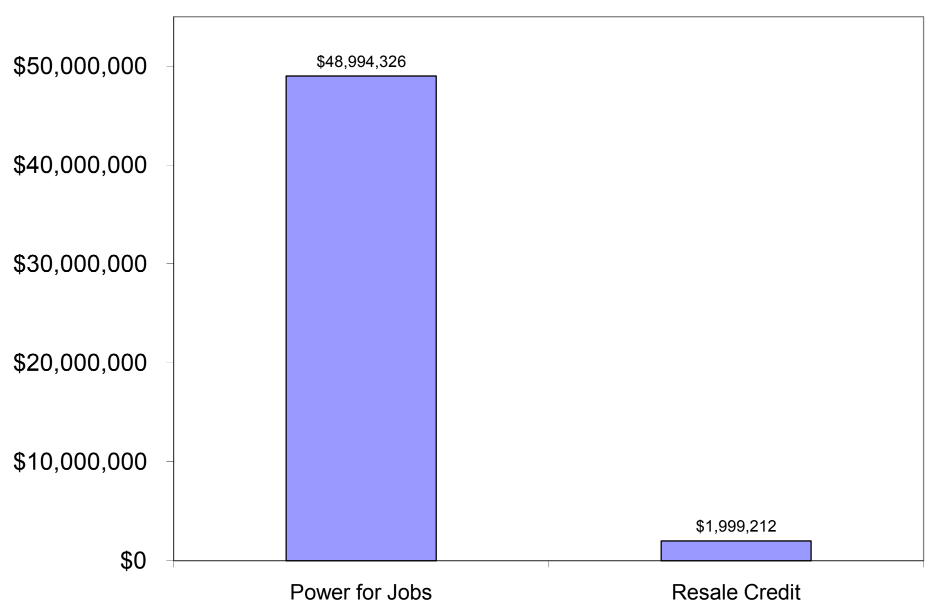
For tax year 2004 an Article 9 Tax Study File was provided by the Department of Taxation and Finance's Office of Tax Policy Analysis (OTPA). This is the first time a study file for Article 9 is available and is currently the most recent.

Sections 183 and 184 and sections 186-a and 186-e represent the largest share of tax liability under Article 9. Although a broad range of industries are represented on the study file for sections 183 and 184, the overwhelming portion of the tax is paid by the telecommunications industry which represented 78.1 percent of total tax paid for section 183 and 95.3 percent for section 184. For section 183, air, rail and water transportation made up the second largest industry, at 20.5 percent of total liability. The same pattern is seen in section 186-e, the excise tax on telecommunications services. In tax year 2004, 98.7 percent of the total tax liability was paid by the telecommunications industry. Section 186-a is the gross receipts tax paid on the furnishing of utility services and the majority of that tax is paid by the utilities industry.

Credits

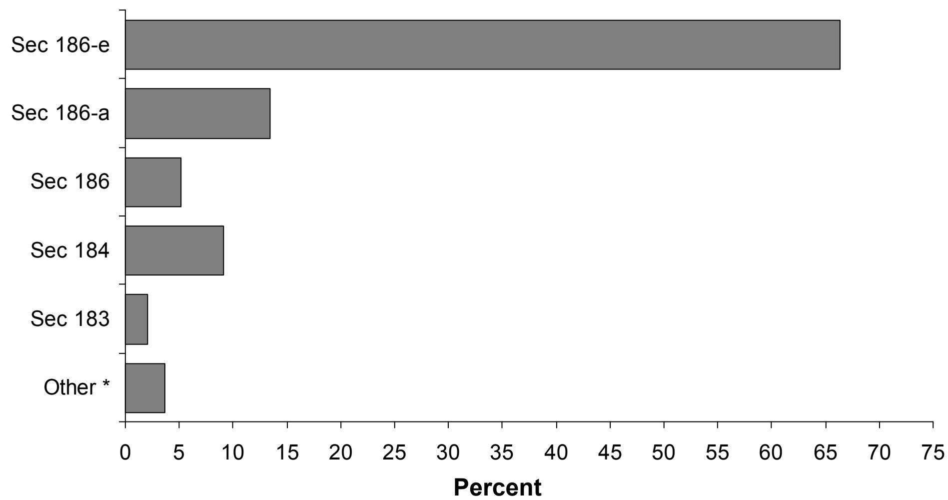
The following graph shows major credits used by Article 9 taxpayers in tax year 2004. Taxpayers filing under sections 186-a and 186-e claimed tax credits in the amount of $49 million and $2 million, respectively for tax year 2004. No taxpayers in the other sections claimed tax credits in 2004. Taxpayers claimed the resale credit for telecommunications services under section 186-e and the power for jobs credit under section 186-a.

Total Credits Claimed
Tax Year 2004



The bar graph below depicts the share of total 2007-08 Article 9 All Funds and General Fund collections attributable to each section of Article 9 of the Tax Law. The All Funds graph reflects collections attributable to each section of the Tax Law before the distribution of section 183 and 184 collections to MTOAF and DHBTF.

2007-08 All Funds Percent Distribution by Section



* Other includes sections 180, 181, and 185

The table below reflects the tax collections attributable to each section of Article 9 of the Tax Law for 2007-08, 2008-09 and 2009-10. The All Funds total reflects taxes from the various sections prior to the distribution of receipts from sections 183 and 184 to MTOAF and DHBTF.

CORPORATION AND UTILITIES TAXES BY TAX LAW SECTION
(millions of dollars)

Section of Law	Type of Companies	2007-08 Actual	2008-09 Estimated	2009-10 Projected
180	Organization tax on New York (domestic) corporations	0.8	0.7	0.7
181	License and maintenance fees on out-of-State (foreign) corporations	23.7	27.0	27.0
183	Franchise tax on transportation and transmission companies	14.5	17.0	17.0
184	Additional franchise tax on transportation and transmission companies	60.9	68.0	68.0
185	Franchise tax on agricultural cooperatives	(0.5)	0.1	0.1
186 [1]	Franchise tax on water, steam, gas, electric, light and power companies	37.8	28.0	28.0
186a & e	Gross receipts tax on public utilities and excise tax on telecommunicatior	541.3	593.9	657.8
Various	MTA Surcharge	122.9	123.5	130.4
	All Funds Total	801.5	858.2	929.0
	Less Other Funds			
	MTA Surcharge	122.9	123.5	130.4
	MTOAF	60.3	68.0	68.0
	DHBTF	15.2	17.0	17.0
	General Fund	603.1	649.7	713.6

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

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

RECEIPTS: ESTIMATES AND PROJECTIONS

CORPORATION AND UTILITIES TAXES (millions of dollars)	Actual 2007-08	Estimated 2008-09	Change	Percent Change	Projected 2009-10	Change	Percent Change
General Fund							
Non-Audit Receipts	578	636	59	10.1	652	16	2.5
Audit Receipts	26	14	(12)	(45.3)	14	0	0.0
Executive Budget Initiative	0	0	0	--	48	48	--
Total	**603**	**650**	**47**	**7.8**	**714**	**64**	**9.8**
Other Funds							
Non-Audit Receipts	193	198	5	2.6	201	3	1.5
Audit Receipts	6	10	5	81.8	10	0	0.0
Executive Budget Initiative	0	0	0	--	4	4	--
Total	**198**	**208**	**10**	**4.8**	**215**	**7**	**3.4**
All Funds							
Non-Audit Receipts	770	834	64	8.3	853	19	2.3
Audit Receipts	31	24	(7)	(22.8)	24	0	0.0
Executive Budget Initiative	0	0	0	--	52	52	--
Total	**802**	**858**	**57**	**7.0**	**929**	**71**	**8.3**

All Funds

2008-09 Estimates

All Funds collections through November are $402 million, an increase of $34.4 million, or approximately 9.4 percent above the comparable period in the prior fiscal year. This year-to-year increase is attributable to higher payments from telecommunication firms and regulated public utility companies as well as transportation and transmission companies. The strength is driven by underlying gross collections and audits. Refunds are basically at the same level as the prior year through November.

All Funds receipts are estimated for 2008-09 to be $858 million, an increase of $56.5 million, or 7.0 percent above last year. This increase reflects continued strength in collections from telecommunications and regulated public utilities in the second half of the fiscal year. Telecommunication revenue has been bolstered by customers continuing to cancel their land lines and using wireless as their primary form of communication. Customer’s wireless bills on average are higher than comparable bills for land lines, driving telecommunication tax receipts higher. Overall, non-audit receipts are projected to increase $63.6 million, or 8.3 percent over 2007-08, while audit collections are estimated to decrease by $7.1 million to $24 million in 2008-09.

2009-10 Projections

All Funds receipts are projected to be $929 million, an increase of $71 million, or 8.3 percent above 2008-09. Collections from telecommunications and regulated public utilities are projected to grow 7.9 percent and 10.1 percent, respectively, in 2009-10 based on revenue expectations for the telecommunications industry and projected residential energy revenues. Audit collections are expected to remain at the 2008-09 level of $24 million. Excluding Executive proposals included in this budget, All Funds receipts would be $876 million, an increase of $18 million, or 2.1 percent above 2008-09.

General Fund

General Fund collections for 2008-09 are expected to be $650 million, an increase of $46.9 million, or 7.8 percent above 2007-08. The increase is attributable to the same factors noted under All Funds.

For 2009-10, General Fund receipts are projected to be $714 million, an increase of $64 million, or 9.8 percent over 2008-09. The estimate reflects the same factors noted under All Funds.

Other Funds

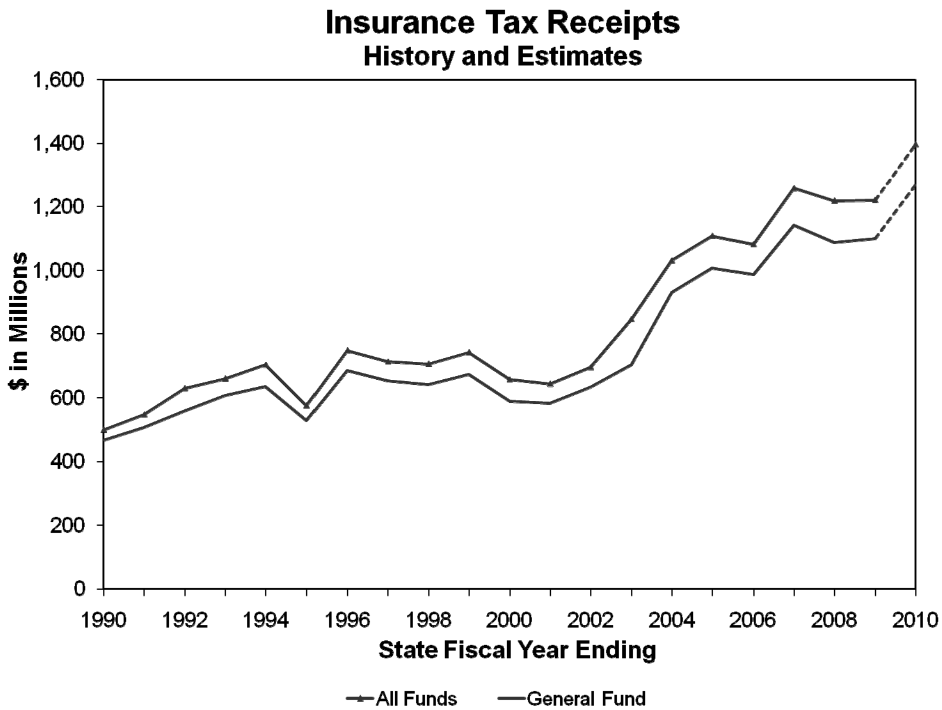
As previously discussed, a portion of Article 9 receipts is deposited into special revenue funds. Sections 183 and 184 collections deposited into the MTOAF will total an estimated $68 million for 2008-09. The remaining portion of sections 183 and 184 collections, or $17 million, is earmarked for the DHBTF. In 2009-10, receipts deposited into the MTOAF and the DHBTF are projected at $68 million and $17 million, respectively.

The MCTD business tax surcharge will result in deposits of an estimated $123 million for 2008-09 and $130 million in 2009-10 into the MTOAF.

INSURANCE TAXES

INSURANCE TAXES (millions of dollars)							
	2007-08 Actual	2008-09 Estimated	Change	Percent Change	2009-10 Projected	Change	Percent Change
General Fund	1,088.4	1,100.0	11.6	1.1	1,268.0	168.0	15.3
Other Funds	130.7	121.0	(9.7)	(7.4)	129.0	8.0	6.6
All Funds	1,219.1	1,221.0	1.9	0.2	1,397.0	176.0	14.4

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
1999-2000	634	45	589	79	10	69	658
2000-01	648	64	584	70	10	60	644
2001-02	667	34	633	69	6	63	696
2002-03	763	59	704	82	10	72	776
2003-04	983	53	930	109	8	101	1,031
2004-05	1,058	51	1,007	119	18	101	1,108
2005-06	1,022	35	987	103	7	96	1,083
2006-07	1,176	34	1,142	122	6	116	1,258
2007-08	1,123	35	1,088	137	6	131	1,219
Estimated							
2008-09	1,133	33	1,100	127	6	121	1,221
2009-10							
Current Law	1,143	31	1,112	128	6	122	1,234
Proposed Law	1,299	31	1,268	135	6	129	1,397

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

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- close a tax loophole involving the use of overcapitalized, closely-held captive insurance subsidiaries to shelter excessive amounts of investment income from tax;
- remove the comparative advantage afforded to certain large cooperative insurance companies that write $25 million or more in annual premiums by eliminating their exemption from taxation;
- restructure tax rates and bases such that all types of taxable insurance written on New York risks would essentially be taxed at 2 percent of premiums;
- change the first quarterly payment of estimated tax for certain non-life insurance taxpayers from 30 percent to 40 percent of the prior year's liability; and
- reform the Empire Zones program by ensuring that participants are providing a clear benefit to the state and disallowing certain static industries from prospective participation.

DESCRIPTION

Tax Base and Rate

Under Article 33 of the Tax Law and the Insurance Law, the State imposes taxes on insurance corporations, insurance brokers and certain insured for the privilege of conducting business or otherwise exercising a corporate franchise in New York.

Tax Rate on Non-Life Insurers

Non-life insurers are subject to a premiums-based tax. Accident and health premiums received by non-life insurers are taxed at the rate of 1.75 percent and all other premiums received by non-life insurers are taxed at the rate of 2 percent. A $250 minimum tax applies to all non-life insurers.

Tax Rate on Life Insurers

The franchise tax on life insurers has two components. The first component is a franchise tax computed under four alternative bases, with tax due based on the highest tax calculated under the four alternative bases. In addition, a 0.8 of one mill tax rate applies to each dollar of subsidiary capital allocated to New York.

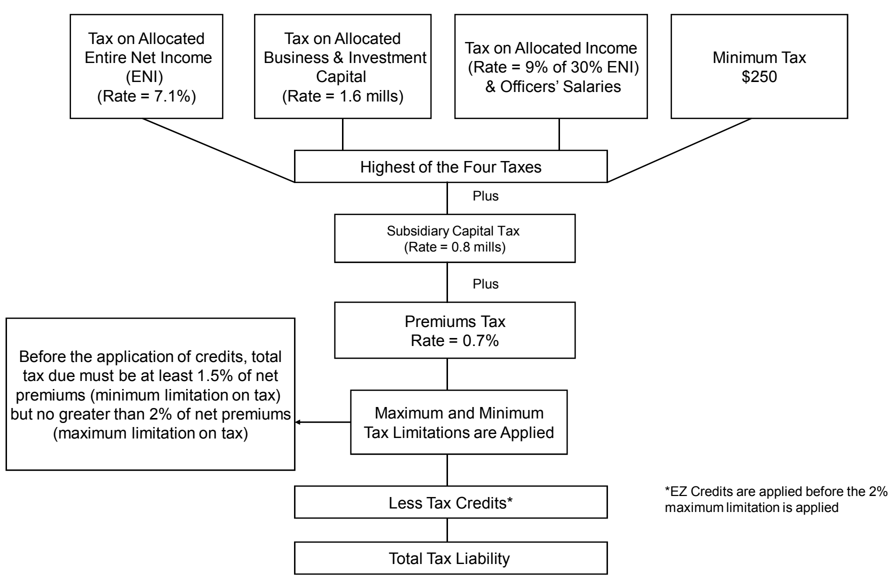
RATES FOR THE INCOME BASE OF THE FRANCHISE TAX ON LIFE INSURERS	
Base	**Rate**
Allocated entire net income	7.1 percent
Allocated business and investment capital	1.6 mills for each dollar
Allocated income and officers' salaries	9.0 percent
Minimum tax	$250

Tax is allocated to New York under the entire net income (ENI) base by a formula that apportions ENI based on weighted ratios of premiums (with a weight of nine) and wages (with a weight of one) earned or paid in New York, to total premiums and total wages for all employees for the tax year.

The second component is an additional franchise tax on gross premiums, less returned premiums. The tax rate on premiums is 0.7 percent and applies to premiums written on risks located or resident in New York. This tax is added to the sum of the tax due on the highest of the alternatives from the income base plus the tax imposed on subsidiary capital.

Maximum and minimum tax limitations are computed based on net premiums. Life insurers determine their maximum limitation by multiplying net premiums by 2.0 percent and their minimum limitation by multiplying net premiums by 1.5 percent. Under these limitations, the total tax calculated under the highest of the four alternative bases plus the tax imposed on subsidiary capital plus the 0.7 percent tax on net premiums must be at least as high as the minimum tax or "floor" (1.5 percent of net premiums) but no greater than the maximum limitation (2.0 percent of net premiums).

Computation of Article 33 Tax on Life Insurance Companies



Generally, taxpayers with a tax liability that exceeds the floor may not reduce their liability with tax credits to a level below the floor. However, taxpayers may use Empire Zone and Zone Equivalent Area tax credits to do so.

Article 33 taxpayers conducting business in the Metropolitan Commuter Transportation District (MCTD) are subject to a 17 percent surcharge on the portion of their tax liability which is attributable to the MCTD area.

Article 33 of the Tax Law also imposes a premiums tax on captive insurance companies licensed by the Superintendent of Insurance for the privilege of conducting business or otherwise exercising a corporate franchise in New York. The tax is imposed on net premiums and net reinsurance premiums (gross premiums less return premiums) written on risks located or resident in the State at rates which vary with the amount of net premiums. The top rate is 0.4 percent on direct premiums and 0.225 percent on reinsurance premiums. Captive insurers are subject to a minimum tax of $5,000. Tax credits are not allowed against the tax imposed on captive insurance companies and these companies are not subject to the business tax surcharge.

Other Taxes Imposed on Insurers

Article 33-A of the Tax Law imposes a tax at the rate of 3.6 percent of premiums on independently procured insurance. This tax is imposed on any individual, corporation or other entity purchasing or renewing an insurance contract covering certain property and casualty risks located in New York from an unauthorized insurer (an unauthorized insurer is an insurer not authorized to transact business in New York under a certificate of authority from the Superintendent of the Insurance Department).

The Insurance Law imposes a premiums tax on a licensed excess line insurance broker when a policy covering a New York risk is procured through such broker from an unauthorized insurer. Transactions involving a licensed excess lines broker and an insurer not authorized to do business in New York are permissible under limited circumstances delineated in Article 21 of the Insurance Law. The tax is imposed at a rate of 3.6 percent of premiums covering risks located in New York.

The Insurance Law authorizes the Superintendent of Insurance to assess and collect retaliatory taxes from a foreign insurance corporation when the overall tax rate imposed by its home jurisdiction on New York companies exceeds the comparable tax rate imposed by New York on such foreign insurance companies.

Retaliatory taxes have been employed by the states since the nineteenth century to ensure a measure of fairness in the interstate taxation of insurance corporations. Retaliatory taxes deter other states from discriminating against foreign corporations and effectively require states with a domestic insurance industry to maintain an overall tax rate on insurance corporations that is generally consistent with other states.

Nevertheless, there are a variety of mechanisms for taxing insurance corporations throughout the states, and differences in overall tax rates among the states are inevitable. New York provides an additional measure of protection for its domestic insurance industry by allowing domestic corporations to claim a credit under Article 33 of the Tax Law for 90 percent of the retaliatory taxes legally required to be paid to other states.

Receipts from the 17 percent business tax surcharge imposed on insurance companies conducting business in the MCTD are deposited in the Mass Transportation Operating Assistance Fund (MTOAF).

Administration

Insurance companies make quarterly tax payments on an estimated basis in installments in June, September, and December. Under current law, the first tax payment for non-life insurance companies is required to be 30 percent of prior year liabilities, and 40 percent for life insurers. A final payment is due in March.

Tax Expenditures

Tax expenditures are defined as features of the Tax Law that by exclusion, exemption, deduction, allowance, credit, deferral, preferential tax rate or other statutory provision reduce the amount of a taxpayer’s liability to the State by providing either economic incentives or tax relief to particular entities to achieve a public purpose. Article 33 taxpayers are eligible for several targeted tax credits, including the certified capital companies (CAPCOs) credit, the investment tax credit (ITC), the long-term care insurance credit, and Empire Zones credits. For a more detailed discussion of tax expenditures, see the *Annual Report on New York State Tax Expenditures*, prepared by the Department of Taxation and Finance and the Division of the Budget.

There are also several types of insurance contracts that are exempt from the franchise tax. These include, but are not limited to, certain annuity contracts, certain reinsurance premiums and certain health insurance contracts for insured’s aged 65 years and older. Certain corporations and other entities that provide insurance are exempt from State franchise taxes and the regional business surcharge. Non-profit medical expense indemnity corporations and other health service corporations, organized under Article 43 of the Insurance Law, are exempt from these State taxes. Health maintenance organizations (HMOs) are examples of such exempt entities; however, such entities may be subject to tax under other articles of the Tax Law. In addition, cooperative insurance companies in effect (operation) prior to January 1, 1974, are exempt from taxation while those formed on or after that date are subject to the tax.

Significant Legislation

Subject	Description	Effective Date
Legislation Enacted in 1990		
Temporary Business Tax Surcharge	Imposed a temporary 15 percent surcharge on insurance tax liability otherwise due. Subsequent legislation eliminated the surcharge over a three-year period starting in 1994.	January 1, 1990
Legislation Enacted in 1997		
Premium Tax Rate for Life Insurers	Reduced the premium tax rate from 0.8 percent to 0.7 percent.	January 1, 1998
Cap on Tax Liability	Reduced the limitation on tax liability for life insurers from 2.6 percent to 2.0 percent.	January 1, 1998
Credit for Investment in Certified Capital Companies (CAPCOs)	Changed credit to equal 100 percent of amount invested in CAPCO’s for taxable years beginning after 1998. The rate was changed to equal 10 percent per year for ten years. The statewide cap was set at $100 million.	January 1, 1999

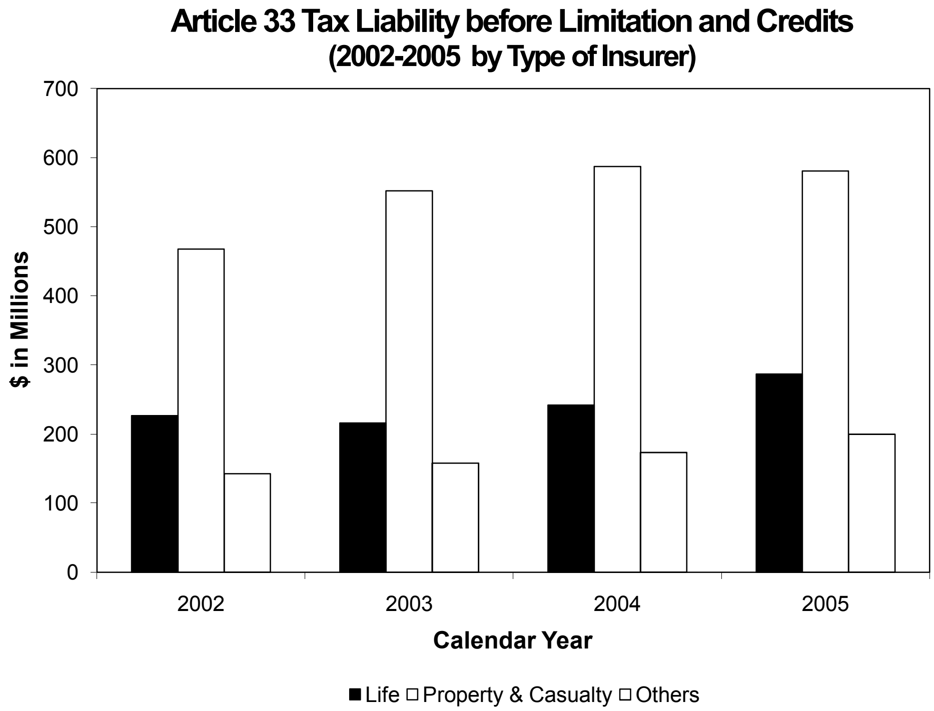
Subject	Description	Effective Date
Captive Insurance Companies	Allowed the formation of captive insurance companies. Subject to a special premiums tax with a top rate of 0.4 percent or $5,000. This is in lieu of the premiums and income-based tax.	January 1, 1998
Legislation Enacted in 1999		
CAPCOs	Established CAPCO Program Two. Increased Statewide cap from $100 million to $130 million.	January 1, 2001
State Insurance Fund	Conformed the State Insurance Fund tax treatment to the regular insurance tax.	January 1, 2001
Entire Net Income (ENI) Tax Rate	Reduced ENI tax rate over a three-year period: • 8.5 percent for taxable years beginning after June 30, 2000 and before July 1, 2001. • 8.0 percent for taxable years beginning after June 30, 2001 and before July 1, 2002. • 7.5 percent for taxable years beginning on or after July 1, 2002.	June 30, 2000
Cap on Tax Liability	Reduced the limitation on tax liability for non-life insurers over a three-year period: • 2.4 percent for taxable years beginning after June 30, 2000 and before July 1, 2001. • 2.2 percent for taxable years beginning after June 30, 2001 and before July 1, 2002. • 2.0 percent for taxable years beginning on or after July 1, 2002.	June 30, 2000
Legislation Enacted in 2000		
CAPCOs	Established CAPCO Program Three. Increased the statewide cap from $130 million to $280 million.	January 1, 2002
Investment Tax Credit	Allowed insurance taxpayers that are brokers/dealers in securities to claim a credit for equipment or buildings used in broker/dealer activity and in activities connected with broker/dealer operations.	Available for property placed in service between January 1, 2002 and October 1, 2003.
Empire Zones Program	Provided Qualified Empire Zone Enterprises (QEZE) tax incentives in Empire Zones. Transformed the current Economic Development Zones into virtual "tax-free" zones for certain businesses. The enhanced benefits of this program include a tax credit on real property taxes paid, tax reduction credit, and sales and use tax exemption.	January 1, 2001
Legislation Enacted in 2002		
Estimated Payments	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year's liability for non-life insurance companies under Article 33. Life insurance companies, which currently pay a first quarterly payment of 40 percent, are not affected. Taxpayers whose prior year's liability exceeds $100,000 are affected. Taxpayers whose prior year's liability is between $1,000 and $100,000 will continue to make a first quarterly payment of 25 percent of the prior year's liability. Sunsets for tax years beginning on or after January 1, 2006, and expires January 1, 2007.	January 1, 2003
Legislation Enacted in 2003		
Insurance Tax Structure	Changed the tax base for insurance taxpayers as follows: • Life and Health insurance taxpayers covering life and accident/health premiums are taxed on the four tax bases and are now subject to a minimum tax of 1.5 percent of premiums. • Non-life insurers covering accident & health premiums are subject to tax on 1.75 percent of premiums. • All other non-life insurers are subject to tax on 2.0 percent of premiums.	January 1, 2003
Modification for Decoupling from Federal Bonus Depreciation	Required modifications to Federal taxable income for property placed in service on or after June 1, 2003 that qualified for the special bonus depreciation allowance allowed by the Federal Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003. The modifications do not apply to qualified resurgence zone property or qualified New York Liberty Zone property.	2003
Intangible Holding Companies	Required modifications to Federal taxable income relating to certain royalty and interest payments made with respect to the use of intangible property by related members or royalty and interest payments received from related members.	January 1, 2003

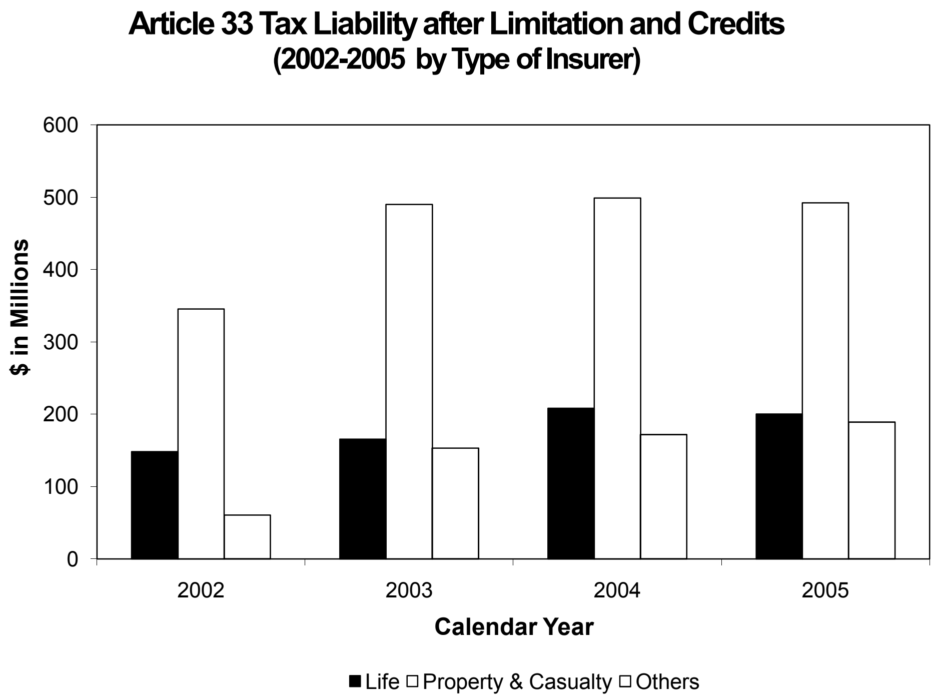
Subject	Description	Effective Date
Superfund-Brownfield Credits	Created tax incentives for the redevelopment of brownfields through three tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. There are three components in the redevelopment tax credit: a site preparation component, a tangible property component, and an onsite groundwater remediation component.	April 1, 2005
Legislation Enacted in 2004		
Fourth Certified Capital Company (CAPCO) Credit	Established CAPCO Program Four. Increased the Statewide cap from $280 million to $340 million.	January 1, 2006
Legislation Enacted in 2005		
Fifth Certified Capital Company (CAPCO) Program	Established CAPCO Program Five. Provided an additional allocation of $60 million that is made available over a ten year period beginning in 2007.	April 1, 2005
Legislation Enacted in 2006		
Annuity Premiums	Amended the tax limitation applicable to certain insurance companies to provide that it is computed by using the amount of annuity premium of the insurance company that are in excess of 95 percent of total premiums.	January 1, 2006
Legislation Enacted in 2007		
Entire Net Income (ENI) Tax Rate	Reduced the rate on the ENI base from 7.5 percent to 7.1 percent	January 1, 2007
Legislation Enacted in 2008		
REITs/RICs Provisions Technical and Substantive Amendments	Amended the 2007 REITs/RICs provisions to make closely-held REIT and RIC subsidiaries includable in a combined return with the closest affiliate in the corporate group that is a New York State taxpayer, regardless of the article under which that taxpayer files its New York return. Previously, REITs and RICs were treated as Article 9-A corporation franchise taxpayers by definition. This legislation also made other technical and conforming changes.	January 1, 2008
Qualified Production Activity Income (QPAI) Deduction	Decoupled New York State from Internal Revenue Code (IRC) Section 199 and required taxpayers to add back the qualified production activities income (QPAI) deduction when computing New York taxable income.	January 1, 2008
Mandatory First Installment Percentage	Non-life insurance companies with a prior year tax liability over $100,000 must calculate their mandatory first installment payment of franchise tax and MTA surcharge at 30 percent, instead of the previous 25 percent, of the prior year's tax liability. Taxpayers with a prior year liability between $1,000 and $100,000 will continue to use the 25 percent amount to calculate their mandatory first installment. Life insurance taxpayers with a prior year liability between $1,000 and $100,000 will continue to use the 40 percent amount to calculate their mandatory first installment.	January 1, 2009
MTA Surcharge Extender	Extended the temporary MTA surcharge imposed on certain insurance taxpayers which was scheduled to sunset for taxable years ending before December 31, 2009. The legislation extends the sunset date for four years to taxable years ending before December 31, 2013.	April 23, 2008
Brownfields Program Reform	Amended the tangible property credit component to impose a limit of the lesser of $35 million or three times the qualifying costs used in calculating the site preparation and on-site groundwater components for projects accepted into the program after June 22, 2008. Qualifying manufacturers accepted after this date would be subject to a tangible property credit component limitation equal to the lesser of $45 million or six times the qualifying costs used in calculating the site preparation and on-site groundwater components. Several other changes were effected, including increasing the credit percentages awarded under the site preparation and on-site groundwater components to as much as fifty percent.	June 23, 2008

TAX LIABILITY

The Department of Taxation and Finance's Insurance Franchise Tax Study File contains tax liability data for the 2005 tax year, the most recent year for which such data are available. The 2005 Study File indicates that the property and casualty sector is the largest sector, accounting for 55.8 percent of total tax liability. Life insurers are the second largest, with 22.7 percent of total liability, with the 21.5 percent balance attributable to other insurers.

The following graphs show insurance tax liability for life insurers, property and casualty insurers and all other insurers from 2002 through 2005 before and after the application of the limitation of tax due as determined by taxable premiums and credits.





Property and Casualty and Life Companies

According to data from the New York State Insurance Department, the five largest lines of business under the property and casualty sector are automobile, workers' compensation, commercial multi-peril, general liability, and homeowners' multi-peril. In 2006, these lines accounted for more than 81 percent of total premiums. The table below reports actual property and casualty premiums and growth from 2001 through 2007 for New York State. Total premiums for property and casualty companies overall grew by 2 percent in 2007.

PROPERTY AND CASUALTY INSURANCE PREMIUMS NEW YORK CALENDAR YEAR (millions of dollars/percent)							
Lines of Insurance	2001	2002	2003	2004	2005	2006	2007
Automobile	10,773	11,898	12,721	12,875	12,344	12,039	11,533
percent change	*11.5*	*10.4*	*6.9*	*1.2*	*(4.1)*	*(2.3)*	*(4.2)*
Workers' Compensation	3,282	3,412	3,403	1,928	3,759	4,133	4,229
percent change	*4.1*	*4.0*	*(0.3)*	*(43.3)*	*95.0*	*10.0*	*2.3*
Commercial Multi-Peril	2,352	2,688	2,779	2,897	2,958	3,074	3,071
percent change	*12.8*	*14.3*	*3.4*	*4.3*	*2.1*	*3.9*	*(0.1)*
General Liability	2,455	3,478	3,741	4,018	3,997	4,387	4,308
percent change	*14.3*	*41.7*	*7. 6*	*7.4*	*(0.5)*	*9.8*	*(1.8)*
Homeowners' Multi-Peril	2,469	2,661	2,901	3,183	3,427	3,615	3,799
percent change	*6.1*	*7.8*	*9.0*	*9.4*	*8.0*	*5.5*	*5.1*
Other	4,476	5,432	5,785	5,841	5,886	6,426	7,407
percent change	*20.3*	*21.4*	*6.5*	*1.0*	*0.8*	*9.2*	*15.3*
TOTAL P/C PREMIUMS	25,808	29,570	31,330	30,733	32,371	33,674	34,347
percent change	*11.7*	*14.6*	*6.0*	*(1.9)*	*5.3*	*4.0*	*2.0*
Source: New York State Insurance Department							

The Federal Gramm-Leach-Bliley Act of 1999, which permits insurance companies, banks and brokerages to form consolidated companies offering a full range of financial services, has broken down the barriers that once separated the various sectors of the financial services industry.

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.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

INSURANCE TAX RECEIPTS (millions of dollars)							
	Actual 2007-08	Estimated 2008-09	Change	Percent Change	Projected 2009-10	Change	Percent Change
General Fund							
Non-Audit Receipts	1,054	1,065	11	1.0	1,071	6	0.6
Audit Receipts	34	35	1	2.9	41	6	17.1
Executive Budget Initiative	0	0	0	--	156	156	--
Total	**1,088**	**1,100**	**12**	**1.1**	**1,268**	**168**	**15.3**
Other Funds							
Non-Audit Receipts	121	115	(6)	(5.0)	115	0	0.0
Audit Receipts	10	6	(4)	(40.0)	7	1	16.7
Executive Budget Initiative	0	0	0	--	7	7	--
Total	**131**	**121**	**(10)**	(7.4)	**129**	**8**	**6.6**
All Funds							
Non-Audit Receipts	1,175	1,180	5	0.4	1,186	6	0.5
Audit Receipts	44	41	(3)	(6.8)	48	7	17.1
Executive Budget Initiative	0	0	0	--	163	163	--
Total	**1,219**	**1,221**	**2**	**0.2**	**1,397**	**176**	**14.4**

All Funds

2008-09 Estimates

All Funds preliminary collections through November of $517.4 million are $75.1 million or 12.7 percent below the comparable period in the prior fiscal year. The year-to-date decline is the result of several factors: gross collections to-date are $45.7 million, or nearly 8 percent lower; refunds have increased by $20.8 million, or almost 80 percent; audit receipts have decreased by $9.9 million, or 27 percent; offset by a modest increase of $1.3 million in taxes collected by the State Insurance Department, all with respect to the same period through the prior fiscal year.

All Funds receipts estimated for 2008-09 are estimated to increase by $2 million from the prior year to $1,221 million. The modest 0.2 percent increase is attributable to a 0.4 percent, or $5 million increase in non-audit receipts, offset by a decline in audit receipts of $3 million, or 6.8 percent. Audit timing and last year's Enacted Budget provision that increased the pre-payment of tax owed by certain non-life insurance taxpayers from 25 percent to 30 percent account for the difference between to-date receipts growth and full-year estimated growth.

2009-10 Projections

All Funds receipts for 2009-10 are projected to increase by $176 million, or 14.4 percent, to $1,397 million. The large projected growth in receipts is due almost entirely to the $163 million in initiatives proposed with this Budget. These include restructuring the insurance tax so that all taxpayers subject to the tax would pay at 2 percent of premiums, and eliminating the exemption from tax for all cooperative insurers that write more than $25 million annually in premiums. Absent the estimated impact of these initiatives, growth would be nearly flat due to a corresponding projection of stagnation in premiums pricing in 2009.

General Funds

General Fund collections for 2008-09 reflect year-to-date trends and are estimated to increase roughly $12.0 million over the prior year to $1,100 million. The 1.1 percent increase is attributable to a nearly 3 percent increase in audit receipts ($1.0 million) from last year's levels and modest growth of 1.0 percent in non-audit receipts as a result of stagnating premiums pricing. General Fund receipts for 2008-09 also include an estimated $80 million in receipts collected by the Insurance Department.

General Fund collections for 2009-10 are projected to increase $168 million, or 15.3 percent, to $1,268 million. The increase reflects the impact of $156 million in Executive Budget initiatives described above, a $6 million increase in baseline non-audit collections, and a $6 million increase in audit receipts from the prior year. Receipts for 2009-10 also include $80 million in anticipated receipts from the Insurance Department.

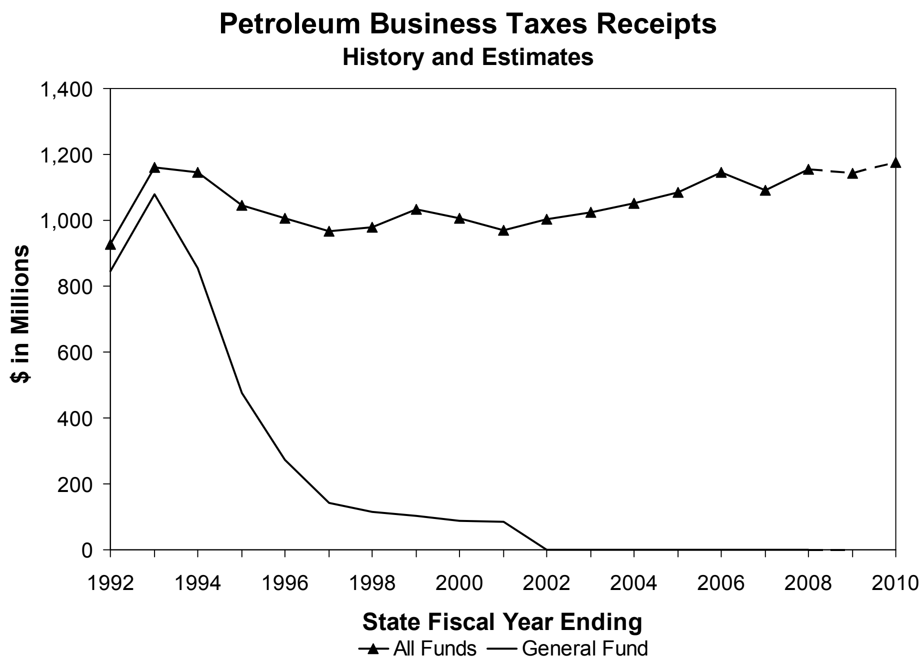
Other Funds

Insurance tax receipts from the surcharge that is deposited to MTOAF generally reflect the All Funds and General Fund trends described above. MTOAF insurance tax receipts for 2008-09 reflect year-to-date trends and are estimated at $121 million (including $7 million in audit receipts). Surcharge receipts for 2009-10 of $129 million reflect the trends described above, and include $7 million from the Executive Budget proposals previously mentioned.

PETROLEUM BUSINESS TAXES

PETROLEUM BUSINESS TAXES (millions of dollars)							
	2007-08 Actual	2008-09 Estimated	Change	Percent Change	2009-10 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	1,155.3	1,142.8	(12.5)	(1.1)	1,174.7	31.9	2.8
All Funds	1,155.3	1,142.8	(12.5)	(1.1)	1,174.7	31.9	2.8

Note: Totals may differ due to rounding.



PETROLEUM BUSINESS TAXES BY FUND (millions of dollars)										
	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds	Refunds	Special Revenue Funds[1]	Gross Capital Projects Funds[2]	Refunds	Capital Projects Funds[2]	All Funds Receipts
1999-2000	90	1	89	415	5	410	512	6	506	1,005
2000-01	88	2	86	405	9	396	501	12	489	971
2001-02	0	0	0	459	10	449	566	12	554	1,003
2002-03	1	0	1	462	8	454	578	10	568	1,023
2003-04	0	0	0	478	6	472	587	7	580	1,052
2004-05	0	0	0	492	6	486	607	8	599	1,085
2005-06	0	0	0	523	9	514	642	10	632	1,146
2006-07	0	0	0	493	7	486	613	9	604	1,090
2007-08	0	0	0	525	11	514	659	18	641	1,155
Estimated										
2008-09	0	0	0	514	5	509	640	6	634	1,143
2009-10	0	0	0	534	10	524	661	10	651	1,175

[1] Dedicated Mass Transportation Trust Fund and Mass Transportation Operating Assistance Fund.
[2] Dedicated Highway and Bridge Trust Fund.

PROPOSED LEGISLATION

No new legislation for this tax is proposed in this Budget.

DESCRIPTION

Tax Base and Rate

Article 13-A of the Tax Law imposes a tax on petroleum businesses for the privilege of operating in the State, based upon the quantity of various petroleum products imported for sale or use in the State. Petroleum business tax (PBT) rates have two components: the base tax, whose rates vary by product type; and the supplemental tax, which is imposed, in general, at a uniform rate.

Tax rates indexed with annual adjustments made on January 1 of each year to the base and supplemental tax rates to reflect the change in the producer price index (PPI) for refined petroleum products for the 12 months ending August 31 of the preceding year. Tax rates cannot increase or decrease by more than 5 percent per year. In addition to the 5 percent cap on tax rate changes, the statute requires, in general, that the base and supplemental tax rates each be rounded to the nearest tenth of one cent. As a result, the percentage change in tax rates is usually less than the percentage change in the index.

Based on changes in the petroleum PPI, the PBT rate index for 2007 decreased by 1.2 percent on January 1, 2008, and will increase by 5 percent on January 1, 2009. The petroleum PPI is projected to decrease by at least 5.0 percent through August 2009, triggering a PBT rate decrease of not more than 5.0 percent on January 1, 2010.

PETROLEUM BUSINESS NET TAX RATES FOR 2008 - 2010
(cents per gallon)

	2008			2009			2010 [2]		
Petroleum Products	**Base**	**Supp**	**Total[1]**	**Base**	**Supp**	**Total[1]**	**Base**	**Supp**	**Total[1]**
Automotive fuel									
Gasoline and other non diesel	9.90	6.50	**16.40**	10.30	6.80	**17.10**	9.90	6.50	**16.30**
Diesel	9.90	4.75	**14.65**	10.30	5.05	**15.35**	9.90	4.75	**14.55**
Aviation gasoline or Kero-Jet Fuel	6.50	0.00	**6.50**	6.80	0.00	**6.80**	6.50	0.00	**6.50**
Non-automotive diesel fuels									
Commercial gallonage	8.90	0.00	**8.90**	9.30	0.00	**9.30**	8.90	0.00	**8.90**
Nonresidential heating	4.80	0.00	**4.80**	5.00	0.00	**5.00**	4.80	0.00	**4.80**
Residual petroleum products									
Commercial gallonage	6.80	0.00	**6.80**	7.10	0.00	**7.10**	6.80	0.00	**6.80**
Nonresidential heating	3.70	0.00	**3.70**	3.80	0.00	**3.80**	3.70	0.00	**3.70**
Railroad diesel fuel	8.60	0.00	**8.60**	9.00	0.00	**9.00**	8.60	0.00	**8.50**

[1] *The Tax rates represent the net tax rate after credits.*

[2] *Projected — A projected petroleum producer price index decrease of 24.7 percent through August 2009 will result in a decrease of not more than 5.0 percent in the PBT tax rates on January 1, 2010.*

FUEL PRICE AND PETROLEUM BUSINESS TAX RATE (percent change)		
Year	Petroleum PPI	PBT Rate Index
2000	(7.85)	(5.00)
2001	55.84	5.00
2002	13.08	5.00
2003	(19.51)	(5.00)
2004	27.01	5.00
2005	12.94	5.00
2006	35.10	5.00
2007	36.01	5.00
2008	(1.20)	(1.20)
2009	24.70	5.00
2010*	(24.70)	(5.00)

* Estimated

The Motor Fuel Tax section contains a table showing New York's combined fuel tax rank among the 50 states and the District of Columbia.

Administration

The tax is collected monthly in conjunction with the State motor fuel taxes (Article 12-A). Article 13-A also imposes the petroleum business carrier tax on fuel purchased outside New York and consumed within the State. The carrier tax is collected quarterly along with the fuel use tax portion of the highway use tax (see section titled Highway Use Tax).

Under 1992 legislation, businesses with yearly motor fuel and petroleum business tax liability of more than $5 million are required to remit, using electronic funds transfer, their tax liability for the first 22 days of the month within three business days after that date. Taxpayers can choose to make either a minimum payment of three-fourths of the comparable month's tax liability for the preceding year, or 90 percent of actual liability for the first 22 days. The tax for the balance of the month is paid with the monthly returns filed by the twentieth of the following month.

Tax Expenditures

Specifically exempted from Article 13-A taxes are fuels used for manufacturing, residential or not-for-profit organization heating purposes, fuel sold to governments, sales for export from the State, kerosene other than kero-jet fuel, crude oil, liquefied petroleum gas (LPG), and certain bunker fuel. For a complete list of tax expenditure items related to the PBT, see the New York State Tax Expenditure Report.

Significant Legislation

The significant statutory changes to this tax source since 1990 are summarized below.

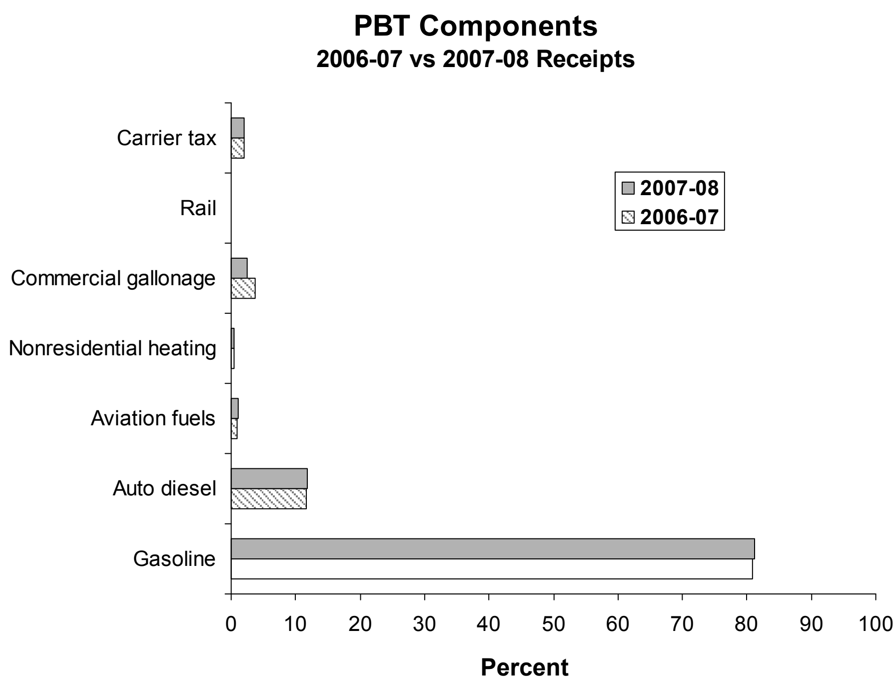
Subject	Description	Effective Date
Legislation Enacted in 1990		
Replace gross receipts tax	Converted the tax from a gross receipts basis to a cents-per-gallon basis. The tax no longer applied to kerosene, bunker fuel or liquid petroleum gasoline.	September 1, 1990

Business Tax Surcharge	Imposed a business surcharge at a rate of 15 percent for two years and ten percent for one year.	June 1, 1990
Lubricating Oil Tax	Imposed a tax of 10 cents per quart on lubricating oil.	September 1, 1990
Legislation Enacted in 1992		
Tax Liability	Required businesses with yearly motor fuel and petroleum business tax liability of more than $5 million to remit, using electronic funds transfer, their tax liability for the first 22 days of the month, within three business days after that date. Taxpayers can choose to make either a minimum payment of three fourths of the comparable month's tax liability for the preceding year, or 90 percent of actual liability for the 22 days. The tax for the balance of the month is paid with the monthly returns filed by the twentieth of the following month.	December 1, 1992
Legislation Enacted in 1993		
Fund Distribution	The majority of PBT receipts were primarily directed to the General Fund in years past. Since 2001, none of these receipts was directed to this Fund. The majority of funds are directed to the Dedicated Funds Pool, which is split between the Dedicated Mass Transportation Fund (37 percent) and the Dedicated Highway Bridge Trust Fund (63 percent). A smaller portion is directed to the Mass Transportation Operating Assistance Fund.	1993 and after
Legislation Enacted in 1994		
Indexing	Enacted tax rate indexing.	January 1, 1996
Business Tax Surcharge	The business tax surcharge was slowly phased out and eliminated on June 1, 1997.	January 1, 1994
Legislation Enacted in 1995		
Aviation Fuels	Effectively eliminated the supplemental tax imposed on aviation gasoline and kero-jet fuel and reduced the base tax rate for those products to a rate that is equivalent to the statutory supplemental tax rate. To maintain the first import system, which imposes the petroleum business tax on aviation gasoline upon importation, and still allow retail sellers of aviation gasoline to sell such product at a reduced rate, distributors of aviation gasoline must remit the full tax imposed on that product and may subsequently take a credit for the difference between the full rate and the reduced rate.	September 1, 1995
Not-for-profit Organizations	Provided full exemption for heating fuel that is for the exclusive use and consumption of certain not-for-profit organizations.	January 1, 1996
Legislation Enacted in 1996		
Railroads	Exempted diesel motor fuel used for railroads from the supplemental portion of the tax and reduced the base rate by 1.33 cents per gallon.	January 1, 1997
Commercial Heating	Provided full exemption from the supplemental tax imposed on distillate and residual fuels used by the commercial sector for heating.	March 1, 1997
Manufacturing	Expanded to a full exemption, the partial exemption provided for residual and distillate fuels used in manufacturing.	January 1, 1998
Diesel Supplemental Tax	Reduced by three-quarters of one cent per gallon the supplemental tax imposed on diesel motor fuel.	January 1, 1998
	Reduced by an additional one cent per gallon the supplemental tax imposed on diesel motor fuel.	April 1, 1999
Utilities	Increased by one-half cent per gallon the base tax credit for residual and distillate fuels used by utilities to generate electricity.	April 1, 1999
Legislation Enacted in 1997		
Vessels	Created a credit or refund for fuel used in vessels that was purchased in the State and consumed outside the State; clarified that the export credit/refund applies to export for use, as well as sale; stated that the legal incidence of the tax is on consumers; and limited the judicial remedies available to taxpayers.	April 1, 1984
Legislation Enacted in 1999		
Commercial Heating	Reduced by 20 percent the petroleum business tax rates on commercial gallons for space heating.	April 1, 2001
Mining and Extraction	Provided for reimbursement of petroleum business tax imposed on fuels used for mining and extraction.	April 1, 2001

Legislation Enacted in 2000		
Minimum Tax	Eliminated the minimum taxes on petroleum businesses and aviation fuel businesses under the PBT.	March 1, 2001
Commercial Heating	Reduced by 33 percent the petroleum business tax rates on commercial gallons for space heating.	September 1, 2002
Legislation Enacted in 2004		
Aviation Fuel	Eliminated PBT on fuels used for aircraft over flight and landing.	November 1, 2004
	Exempted fuel burned on takeoff by airlines operating non-stop flights between at least four cities in New York.	June 1, 2005
Legislation Enacted in 2005		
Enforcement Provisions	Required collection of taxes on sales to non-Native Americans on New York reservations.	March 1, 2006
Legislation Enacted in 2006		
Alternative Fuels	Exempted or partially exempted PBT on alternative fuels, including E85 and B20.	September 1, 2006

TAX LIABILITY

Petroleum business tax receipts are primarily a function of the number of gallons of fuel imported into the State by distributors. Gallonage is largely determined by overall fuel prices, the number of gallons held in inventories, the fuel efficiency of motor vehicles and State economic performance. The following chart displays the composition of PBT receipts by fuel type.



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

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2008-09 Estimates

All Funds collections through November are $744.1 million, a decrease of $26.5 million, or 3.4 percent below the comparable period in the prior fiscal year.

All Funds receipts for 2008-09 are estimated to be $1,142.8 million, a decrease of $12.5 million, or 1.1 percent below last year.

Petroleum business tax receipts derived from motor fuel and diesel motor fuel are estimated to follow the same consumption trends as fuel subject to the motor fuel excise tax (see section titled Motor Fuel Tax).

Gasoline and diesel receipts are expected to remain flat. Gasoline gallonage is estimated to decrease by 0.72 percent and diesel gallonage is estimated to decrease by 1.47 percent.

2009-10 Projections

All Funds receipts are projected to be $1,174.7 million, an increase of $31.9 million, or 2.8 percent above 2008-09. The increase in receipts is generated primarily by the 5 percent increase in the PBT Index effective January 1, 2009, offset by the projected 5 percent decrease in January 2010.

General Fund

Legislation enacted in 2000 provided that all remaining PBT receipts deposited in the General Fund be deposited in the Dedicated Funds Pool, effective April 1, 2001. As a result, no PBT receipts will be deposited in the General Fund in 2008-09.

Other Funds

In past years, revenues from the PBT have been shared by the General Fund and the Mass Transportation Operating Assistance Fund (MTOAF). Prior to the 1990 revisions, the General Fund received 72.7 percent and MTOAF received 27.3 percent or a guaranteed amount. The 1990 statute converted the tax from a gross receipts tax to a cents-per-gallon tax, expanded the tax yield, and limited the MTOAF share to slightly more than 17.7 percent of the nonsurcharge revenues – the dollar equivalent of its share prior to the expansion. Carrier tax receipts were deposited in the General Fund until April 1, 2001.

Separate 1991 transportation legislation provided that, effective April 1, 1993, 100 percent of the supplemental tax and a portion of the base tax, were to be split between the Dedicated Mass Transportation Trust Fund (DMTTF) and the Dedicated Highway and

Bridge Trust Fund (DHBTF). Numerous pieces of legislation were enacted in subsequent years that reduced General Fund deposits and increased the amount deposited in the dedicated transportation funds.

Legislation enacted in 2000 significantly increased the flow of PBT funds to the Dedicated Funds Pool. Effective April 1, 2001, all PBT receipts previously deposited in the General Fund, including the balance of the basic tax and the carrier tax, were redistributed to the DHBTF and the DMTTF.

Statutory changes to the allocation of the PBT base tax by fund type are reported in the following table.

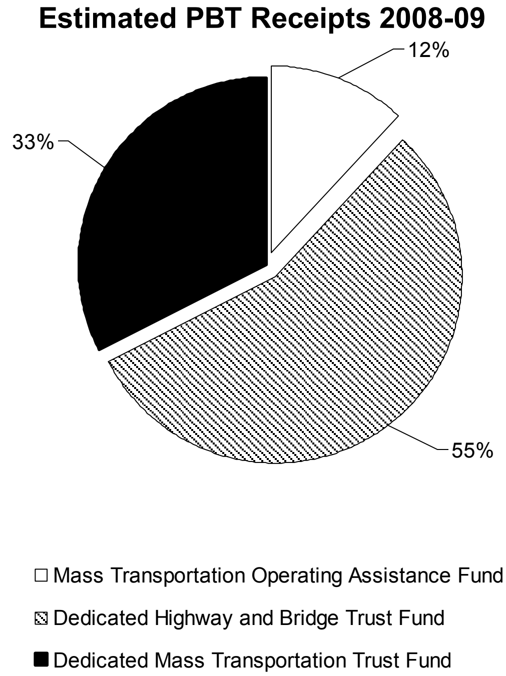
PBT BASE TAX FUND DISTRIBUTION (percent)

Effective Date	General Fund	MTOAF[1]	Dedicated Funds Pool[2]
Prior to April 1, 1993	82.3	17.7	0.0
April 1, 1993	28.3	17.7	54.0
September 1, 1994	22.4	18.6	59.0
September 1, 1995	18.0	19.2	62.8
April 1, 1996	17.4	19.3	63.3
January 1, 1997	14.5	19.3	66.2
January 1, 1998	12.4	19.5	68.1
April 1, 1999	10.7	19.5	69.8
April 1, 2001 and thereafter	0.0	19.7	80.3

[1] This fund is split between the Public Transportation System Operating Assistance Account and the Metropolitan Mass Transportation Operating Assistance Account.

[2] This pool is split between the Dedicated Mass Transportation Trust Fund (37 percent) and the Dedicated Highway and Bridge Trust Fund (63 percent).

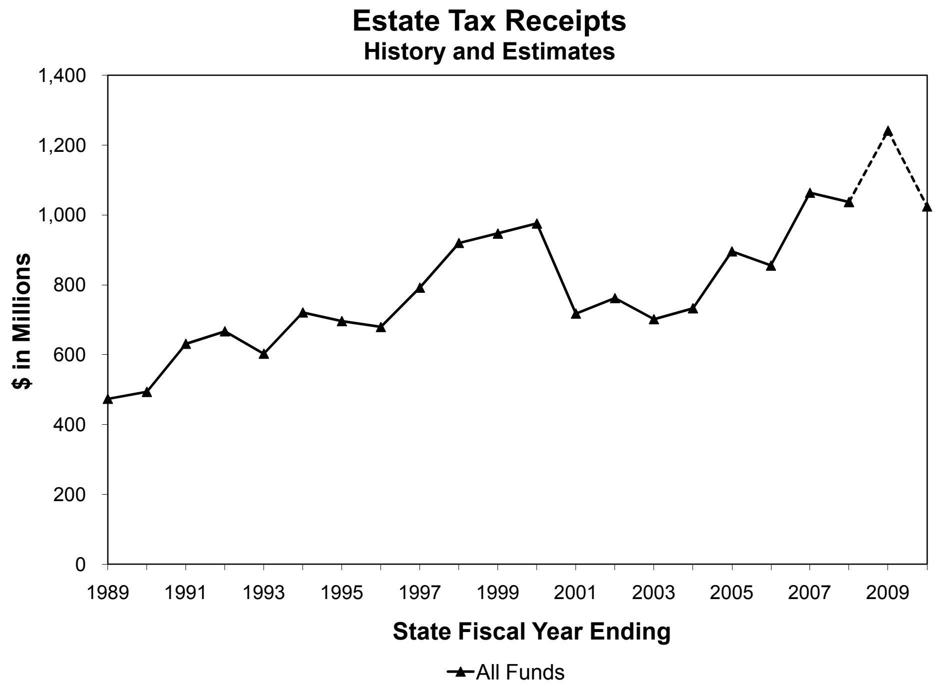
Petroleum business tax receipts in 2008-09 are estimated to be $137.2 million for MTOAF, $633.6 million for the DHBTF, and $372.0 million for the DMTTF. Petroleum business tax receipts in 2009-10 are projected to be $141.7 million for MTOAF, $650.8 million for the DHBTF, and $382.2 million for the DMTTF.


Estimated PBT Receipts 2008-09
12%
33%
55%
Mass Transportation Operating Assistance Fund
Dedicated Highway and Bridge Trust Fund
Dedicated Mass Transportation Trust Fund

ESTATE TAX

ESTATE TAX (millions of dollars)							
	2007-08 Actual	2008-09 Estimated	Change	Percent Change	2009-10 Projected	Change	Percent Change
General Fund	1,036.7	1,241.5	204.8	19.8	1,024.0	(217.5)	(17.5)
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	1,036.7	1,241.5	204.8	19.8	1,024.0	(217.5)	(17.5)

Note: Totals may differ due to rounding.



ESTATE TAX BY FUND (millions of dollars)				
	Gross General Fund	Refunds	General Fund	All Funds Receipts
1998-99	993	47	946	946
1999-2000	1,029	54	975	975
2000-01	777	60	717	717
2001-02	791	30	761	761
2002-03	736	35	701	701
2003-04	760	28	732	732
2004-05	936	41	895	895
2005-06	892	37	855	855
2006-07	1,122	59	1,063	1,063
2007-08	1,079	42	1,037	1,037
Estimated				
2008-09	1,297	55	1,242	1,242
2009-10	1,079	55	1,024	1,024

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

Tax Base and Rate

New York imposes a tax on the estates of deceased State residents and on the part of a nonresident's estate made up of real and tangible personal property located within New York State. The New York estate tax is based on the estate tax provisions of the Federal Internal Revenue Code as amended through July 22, 1998, with New York modifications.

The tax base is calculated by first determining the value of the gross estate using Federal estate tax provisions. The Federal gross estate comprises the total amount of real estate, stocks and bonds, mortgages, notes, cash, insurance on the decedent's life, jointly owned property, other miscellaneous property, transfers during the decedent's life, powers of appointment, and annuities that the decedent owned.

The Federal gross estate is reduced by the Qualified Conservation Easement Exclusion and the following deductions: funeral expenses and expenses incurred in administering property subject to claims; debts of the decedent; mortgages and liens; net losses during administration, and expenses incurred in administration of the property not subject to claims; bequests to a surviving spouse (marriage deduction); charitable, public, and similar gifts; and a qualified family-owned business interest deduction. This yields the taxable estate for New York and becomes the basis for calculating New York's estate tax.

The total value of all items of real and tangible personal property of the taxpayer located outside of New York State is divided by the taxpayer's Federal gross estate to arrive at the proportion of the estate outside New York State. This proportion is then used to allocate the Federal credit for state death taxes to New York to arrive at the New York State estate tax.

New York's estate tax is calculated by using the Unified Rate Table and the table for computing the maximum New York State credit for state death taxes as they were in effect on July 22, 1998. The New York estate tax is equal to the amount of the credit for state death taxes which cannot exceed the amount of the Federal tax based on the July 22, 1998 rates and the current State unified credit. The computation of maximum New York State credit for state death taxes is a graduated schedule with rates that range from 0.8 percent on adjusted taxable estates in excess of $40,000 but less than $90,000, to 16 percent on adjusted taxable estates for New York State of $10,040,000 or more.

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 estate representatives are apportioned among the beneficiaries.

There is reciprocity with other states with the collection of inheritance and estate taxes in nonresident estates. Refund claims of an overpayment of the tax must be filed by the executor within three years from the time the return was filed or two years from the time the tax was paid, whichever is later.

Tax Expenditures

Since the tax is equal to the Federal credit for state death taxes, as it existed on July 22, 1998, there is only one New York specific tax expenditure, the Qualified Family Owned Business Interest Deduction which has been eliminated from the Federal estate tax but is still allowed in New York.

Significant Legislation

The significant statutory changes since 1925 to the estate tax are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1925		
Estate Tax	Imposed an estate tax.	April 2, 1925
Legislation Enacted in 1963		
Estate Tax – Conformity	Adopted applicable Federal rules for determining gross estate and allowable deductions.	April 1, 1963
Legislation Enacted in 1971		
Estate and Gift - Gift Imposition	Imposed a gift tax as Article 26-A of the Tax Law.	January 1, 1972
Legislation Enacted in 1982		
Estate and Gift – Unification	Unified the estate tax and the gift tax rates and credit.	January 1, 1983
Legislation Enacted in 1994		
Unified Credit for Estate and Gift Taxes	Increased credit from $2,750 to $2,950, thereby eliminating the tax on taxable gifts/estates of $115,000 or below, up from $108,600.	June 9, 1994
Legislation Enacted in 1995		
Deduction	Authorized a principal residence deduction of $250,000 (maximum).	June 7, 1995

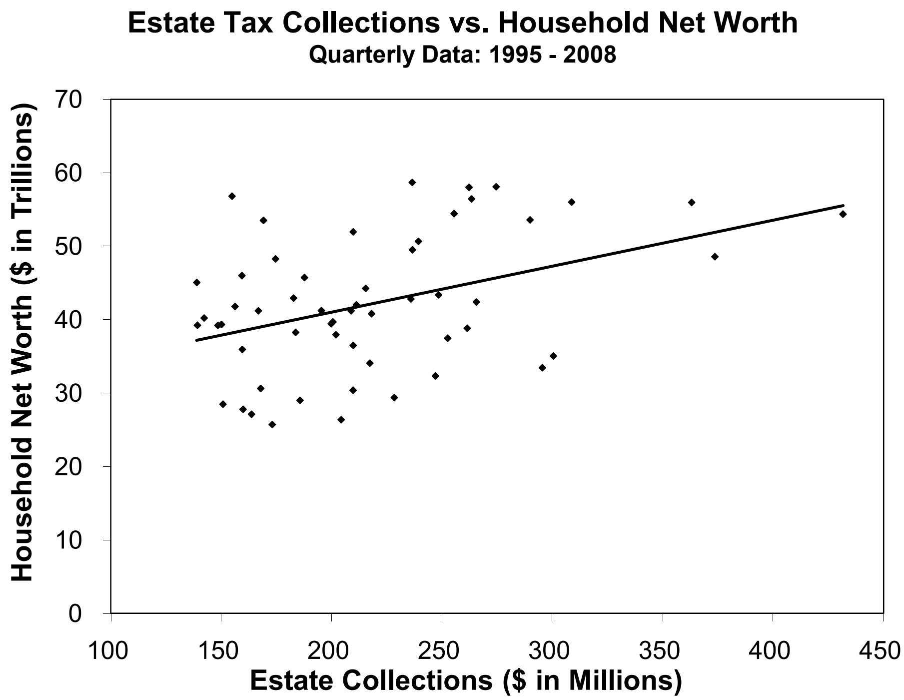
Subject	Description	Effective Date
Legislation Enacted in 1997		
Unified Credit for Estate and Gift Taxes	Increased credit from $2,950 to $10,000, thereby eliminating the tax on taxable estates of $300,000 or below.	October 1, 1998
	Increased credit from $2,950 to $10,000, thereby eliminating the tax on taxable gifts of $300,000 or below.	January 1, 1999
	Set the State's unified credit to equal the Federal credit, but capped the maximum credit to exempt the first $1,000,000 of the estate.	February 1, 2000
Estate Tax Rate	Set the New York estate tax rates equal to the Federal credit for State estate taxes paid.	February 1, 2000
Gift Tax	Repealed.	January 1, 2000
Tax Liability Due Date	Increased from six to seven months.	October 1, 1998
	Increased from seven to nine months (same as Federal).	February 1, 2000
Legislation Enacted in 1998		
Closely-Held Business	Reduced interest on deferred payments of estate tax, where estate consists largely of a closely-held business, from 4 percent to 2 percent.	January 1, 1998
Legislation Enacted in 1999		
Federal Conformity	Conformed New York State law to Federal law as of July 22, 1998, except for the unified credit provisions.	August 9, 1999
Family-Owned Business Deduction	Repealed family-owned business exclusion and replaced with family-owned business deduction, conforming to Federal law changes.	December 31, 1997
Penalty and Interest	Waived penalty and interest on estate tax associated with a cause of action that was pending on the date of death, or which was associated with the decedent's death. The waiver is applicable from the date of the return disclosing the cause of action if filed.	July 13, 1999

TAX LIABILITY

The recent yield of this tax has been heavily influenced by three factors: 1) tax law changes, 2) annual variations in the relatively small number of large estates, and 3) the value of the equity market, given the large component of corporate stock in large taxable estates. Tax law changes have reduced estate tax collections across the board and thousands of the smallest estates have been effectively exempt from the tax. As a result, the volatility in receipts from this source is expected to increase, due to the more random nature of collections from large estates.

In developing projections for estate tax receipts, the value of household net worth is used to forecast receipts from estates that make payments of less than $4 million. In addition to the value of equities, a distributional analysis is utilized to estimate receipts and the number of estates where payments exceed $4 million.

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



RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2008-09 Estimates

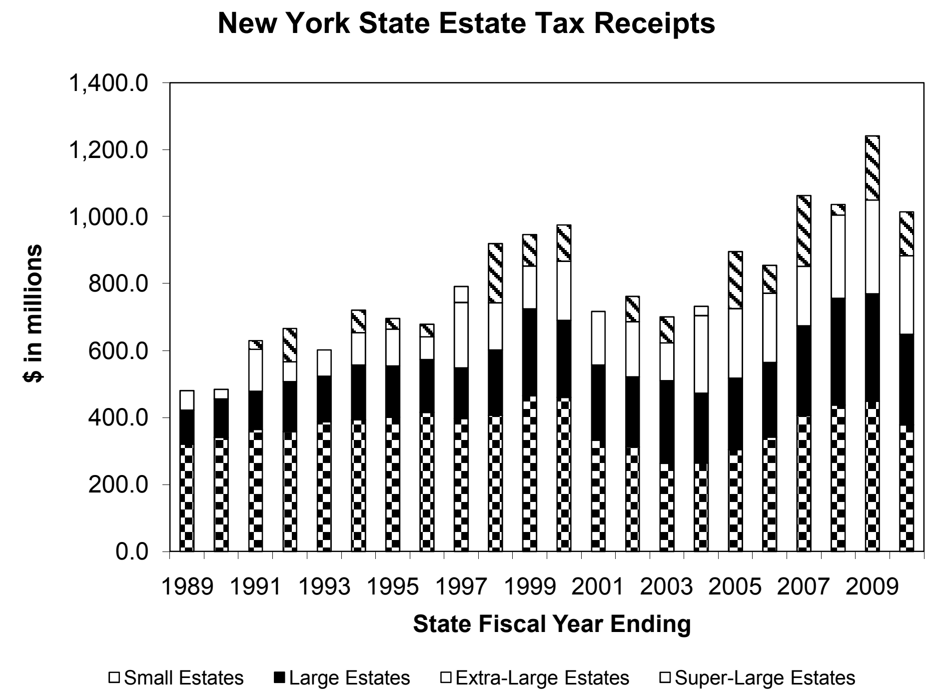
All Funds receipts through November 2008 are $905.7 million, an increase of $248.5 million, or 27.4 percent above the comparable period in the prior fiscal year.

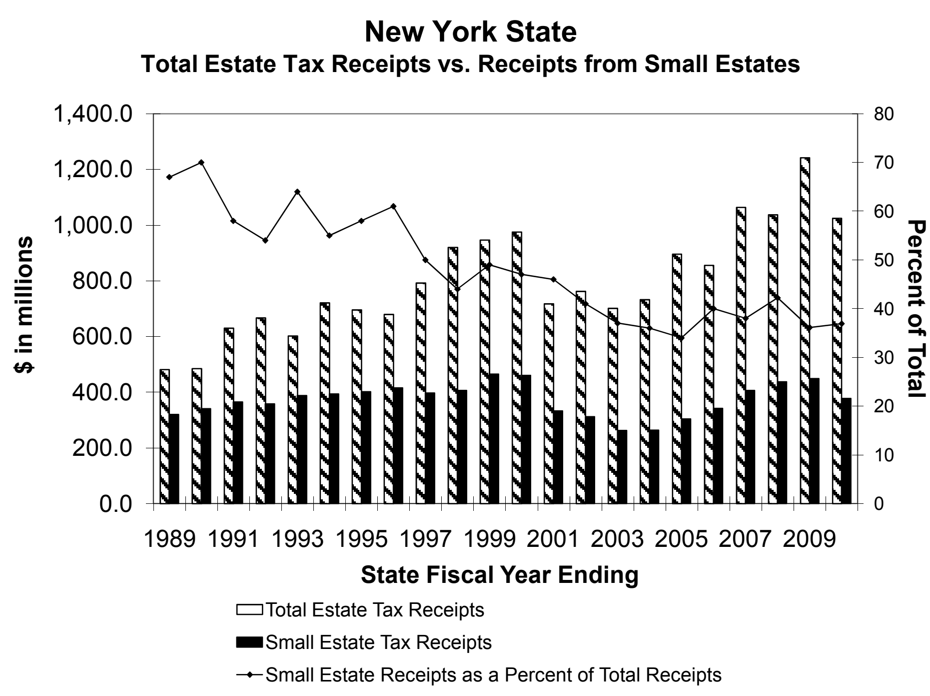
All Funds receipts for 2008-09 are estimated to be $1,241.5 million, an increase of $204.8 million, or 19.8 percent above last year.

Small estate (less than $0.5 million in payments) collections through November 2008 are $312.3 million, an increase of $10.2 million, or 3.4 percent from the comparable period in 2007-08. Small estate receipts for 2008-09 are estimated at $448.5 million, an increase of $11.0 million, or 2.5 percent above 2007-08. Receipts from small estates grew during the first half of 2008-09, but that growth is expected to be largely off-set by declines in the second half of the year.

Large estates (less than $4 million in payments) are estimated to increase to $321.0 million, reflecting modest growth during the first half of the year. Large estate collections through November 2008 are $222.5 million, an increase of $7.5 million, or 3.5 percent from the comparable period in 2007-08.

Receipts from extra-large estates (payments between $4 million and $25 million) and super-large payments (payments greater than $25 million) are estimated to increase $191 million from 2007-08 levels to $472.0 million. Receipts in this category were boosted by large receipts in July and an increase in the average size of payments during the first half of the year. Receipts through November 2008 are $370.9 million, $230.8 million more than through the first 8 months of 2007-08.





2009-10 Projections

All Funds receipts are projected to be $1,024 million, a decrease of $217.5 million, or 17.5 percent below 2008-09.

The sharp declines in the stock market suffered during 2008, along with declines in housing values will result in lower estate tax collections in 2009-10. Large estate tax payments are projected to decline by 15.6 percent to $271 million, while collections from small estate payments are projected to decline by $70.5 million, to $378 million.

Super-large estate payments are projected to be $136 million in 2009-10. The payments from extra-large estates are expected to decrease to $239 million. The projections for the super-large and extra-large estates are based upon a distributional analysis, which suggests an increase in the number of super-large estate payments.

ESTATE TAX RECEIPTS BY SIZE OF ESTATE
(millions of dollars)

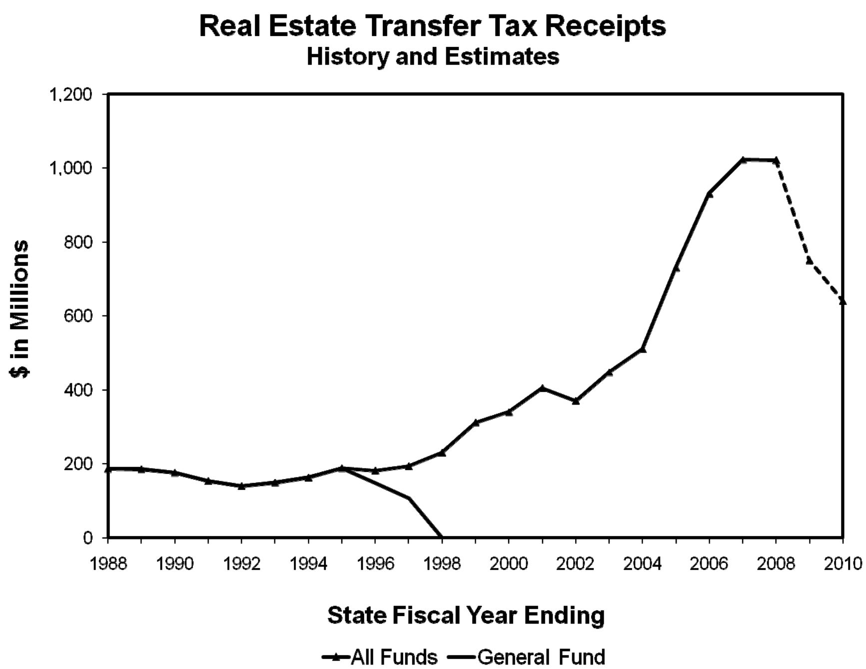
	Super-Large[1] and Extra-Large[2] Estates		Large Estates[3]		Small Estates[4]	Grand Total
	Number	Taxes	Number	Taxes	Taxes	Taxes
1997-98	23	317.4	160	195.5	406.4	919.3
1998-99	19	221.8	215	259.5	465.1	946.4
1999-2000	24	285.0	192	229.6	460.6	975.2
2000-01	22	160.0	179	224.7	332.4	717.1
2001-02	21	240.1	167	208.8	312.5	761.4
2002-03	16	190.5	200	247.6	262.8	700.9
2003-04	26	259.1	169	209.1	264.1	732.3
2004-05	25	377.9	191	212.9	304.5	895.3
2005-06	25	289.7	173	223.1	342.1	854.9
2006-07	28	389.5	217	267.8	406.0	1,063.3
2007-08	31	280.9	264	318.3	437.5	1,036.7
Estimated						
2008-09	31	472.0	274	321.0	448.5	1,241.5
2009-10	28	375.0	230	271.0	378.0	1,024.0

[1] Payment of at least $25.0 million.
[2] Payment of at least $4.0 million, but less than $25.0 million.
[3] Payment of at least $0.5 million, but less than $4.0 million.
[4] Payment less than $0.5 million. (Small estates include all CARTS less all refunds.)

REAL ESTATE TRANSFER TAX

REAL ESTATE TRANSFER TAX (millions of dollars)	2007-08 Actual	2008-09 Estimated	Change	Percent Change	2009-10 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	1,020.7	750.0	(270.7)	(26.5)	640.0	(110.0)	(14.7)
All Funds	1,020.7	750.0	(270.7)	(26.5)	640.0	(110.0)	(14.7)

Note: Totals may differ due to rounding.



REAL ESTATE TRANSFER TAX BY FUND (millions of dollars)	Capital Projects Funds[1]	Gross Debt Service Funds[2]	Refunds	Debt Service Funds[2]	All Funds Receipts
1998-99	112	200	0	200	312
1999-2000	112	229	1	228	340
2000-01	112	293	0	293	405
2001-02	112	259	0	259	371
2002-03	112	336	0	336	448
2003-04	112	398	1	397	509
2004-05	112	618	1	618	730
2005-06	112	827	1	826	938
2006-07	147	875	1	874	1,022
2007-08	212	809	1	808	1,021
Estimated					
2008-09	237	513	1	512	750
2009-10 current	287	353	1	352	640
2009-10 proposed	80	560	1	559	640

[1] Enviornmental Protection Fund.

[2] Clean Water/Clean Air Bond Debt Sevice Fund.

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- change the amount deposited into the Environmental Protection Fund.

DESCRIPTION

Tax Base and Rate

The New York State real estate transfer tax 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, due to the unpredictable payment behavior of some large counties, it is not useful for predicting monthly cash flows.

Tax Expenditures

The tax rate imposed on conveyances into new or existing real estate investment trusts (REITs) is \$2 per \$1,000 of consideration. New York State (including agencies, instrumentalities, subdivisions, and public corporations), the United States (including agencies and instrumentalities), and the United Nations are exempt. If an exempt entity is the grantor in a transfer, the tax burden falls upon the grantee. Other significant exemptions from the tax are: conveyances pursuant to the Federal bankruptcy act and mere change of identity conveyances. A deduction from taxable consideration is allowed for any lien or encumbrance remaining at the time of sale involving a one-, two-, or three-family house or individual residential condominium unit.

TAX LIABILITY

Real estate transfer tax receipts are a function of the number 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.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2008-09 Estimates

All Funds receipts to date are $549.1 million, a decrease of $181.6 million, or 25 percent below the comparable period in the prior fiscal year.

All Funds receipts for 2008-09 are estimated to be $750 million, a decrease of $270.7 million, or 26.5 percent below the prior fiscal year.

The growth in receipts between 2002 and 2007 has closely followed the acceleration in housing values as well as the large number of commercial property sales, especially in New York City. Subsequent to this period, the growth in the residential market has slowed or reversed in many areas of the State. New York City commercial sales have fallen by about 50 percent in 2008 from 2007 levels. The rapid escalation of rents in prime Manhattan locations that were typical over the past few years has ended as demand wanes.

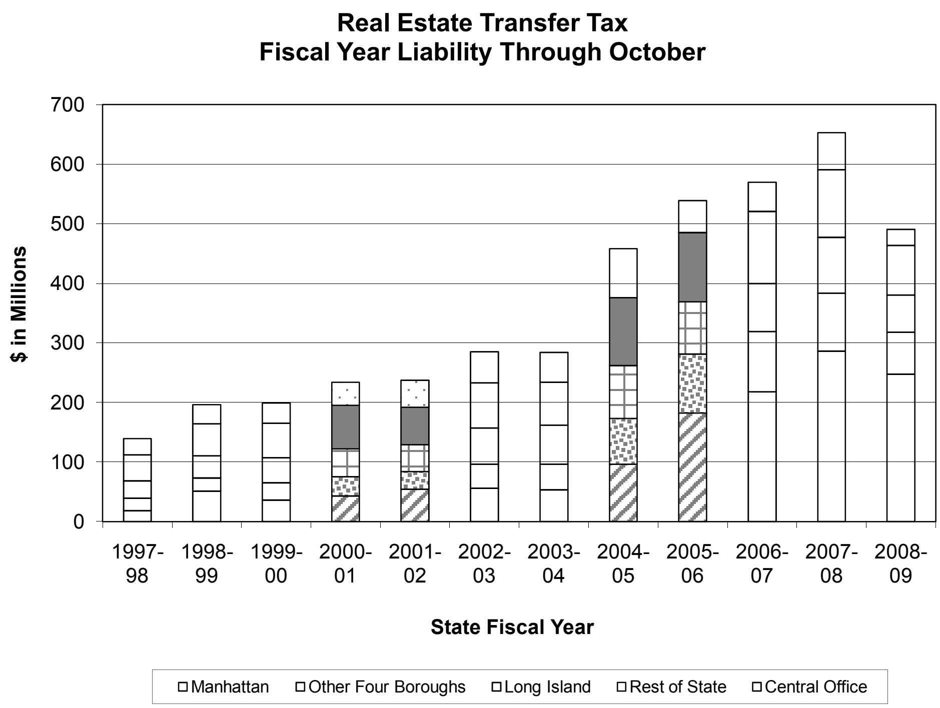
New York City residential RETT collections have declined by approximately 20 percent year over year as the number and value of transactions has declined. In New York City, commercial RETT collections are projected to decline after years of rapid growth. The number of extraordinarily large parcels (valued over $25 million each) is expected to fall dramatically from its peak of 80 to 90 sales per quarter in 2006 and 2007 to fewer than 40 per quarter in 2008. The volatility of the financial markets has resulted in a decline in the financial sector employment levels and this will have a negative impact on the demand for office space.

The mansion tax has played an important role in the receipts growth that has characterized recent fiscal years. As residential home prices increased, especially downstate, so too has the proportion of homes priced in excess of $1 million. In State fiscal year 1998-99, the mansion tax accounted for 11.3 percent of all real estate transfer tax receipts. By State Fiscal Year 2004-05, this share had increased to 26 percent. In 2006-07 the mansion tax generated 24 percent of total RETT collections. In 2007-08 the percent total was 31 per cent. The growth in collections from this segment of the market is expected to level off.

In 2002-03 there were approximately 5,200 mansion tax conveyances. In both 2005-06 and 2006-07 there were approximately 11,400. The total reached 13,500 in 2007-08. The amount of tax collected more than tripled from $100 million in 2002-03 to about $316 million in 2007-08. Thus far in 2008-09 the mansion tax collections (through October) were $148 million from 6,254 transactions.

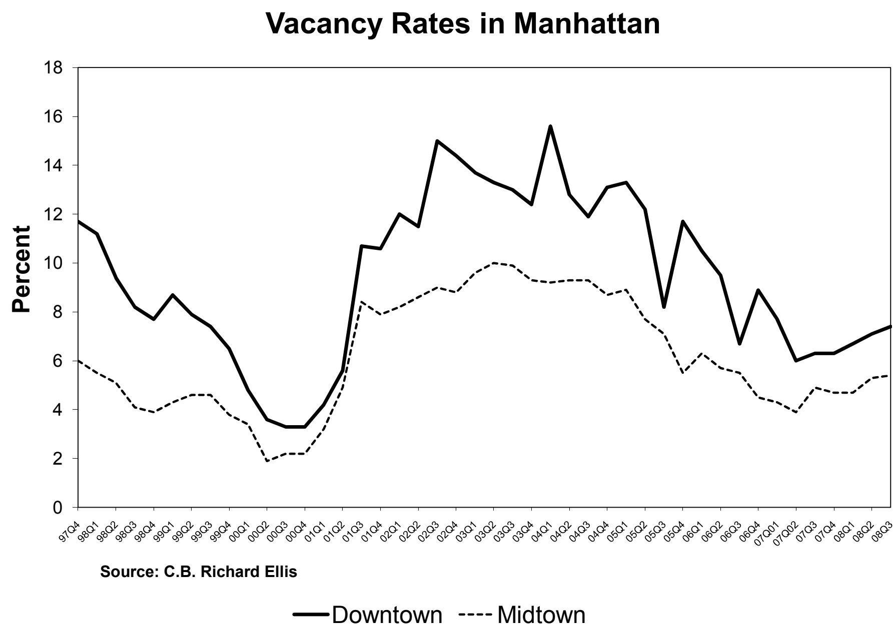
The number of real estate transfer tax transactions peaked at over 574,000 in 2005-06. The expected total for 2008-09 is now approximately 415,000 or about 28 percent less than that peak.

The following chart compares tax liability by location through October since 1997-98.



Over the past six years, much of the strength in the transfer tax receipts has come in the increased volume and value of downstate commercial real estate sales. It is estimated that approximately one third of receipts were a result of commercial real estate sales. Much of this activity was generated by foreign investors. The weak U.S. dollar had stimulated the foreign sales activity. However, since 2007-08 the worldwide financial crisis has caused much of this international investment to decline.

Currently, the Manhattan commercial market faces significant uncertainty as the credit markets reevaluate risks. Credit availability is being restricted by tightening lending standards. Vacancy rates are rising as new buildings are completed and become available while demand slackens. Downtown, the vacancy rate was 7.4 percent during the third quarter of 2008 compared to 5.8 percent during the same period last year. The midtown rate rose from 4.2 percent to 5.4 percent during the same period.



2009-10 Projections

All Funds receipts for 2009-10 are estimated to be $640 million, a decrease of $110 million, or 14.7 percent below the prior fiscal year. Due to the volatile nature of the current residential housing and commercial markets, this receipts estimate contains a high degree of risk.

The recent boom in the housing market, which was spurred by record-low mortgage rates and easy credit terms, has ended. The weakness in the residential market showed in both declines in housing starts as well as falling or flat average sales prices of existing homes. Outside of New York City, existing home sales, at midyear, were down 14 percent year over year. Problems in the sub-prime mortgage market, as evidenced by increased delinquencies and bankruptcy filings, are expected to continue.

Nationally, new home sales have fallen significantly from the 2005 peak and have hit the lowest point since 1991. Existing home sales have also lagged. New York has followed a similar pattern for existing home sales. The supply of new homes has grown to a point that prices and construction activity are slowing considerably. In New York, regional markets have been mixed with sales prices showing somewhat less volatility than other parts of the county.

In the New York City area, the Federal Reserve Board reports that housing markets remain mixed, with Manhattan co-op and condo markets showing continued resilience but single family housing sales and prices becoming increasingly soft. The decline in the financial services sector profitability is not only impacting the number of commercial transactions but also is likely reduce the future demand and prices in the condo and co-op markets. Recent data show that Manhattan housing transactions are down 22 percent year over year.

It is expected that the number of extremely high value commercial sales which have occurred in the last few years will fall back to historical levels. Strong demand in recent years for Manhattan office space had driven up rent prices and pushed down vacancy rates. While some market reports still have a positive outlook for the Manhattan real estate market, the full economic impact of the sub-prime mortgage market problems and credit standards tightening on important employers in the City's financial services sector, has yet to be fully seen. Corporate profits, employment growth and the decline of the bonus pool will likely impact demand for office space as well high-end residential units.

General Fund

The General Fund will receive no direct deposit of real estate transfer tax receipts in 2008-09 or 2009-10. However, the balance of the Clean Water/Clean Air Fund, not needed for debt service, is transferred to the General Fund. In 2008-09 and 2009-10, it is expected that $390.1 million and $442.5 million, respectively, will be transferred to the General Fund.

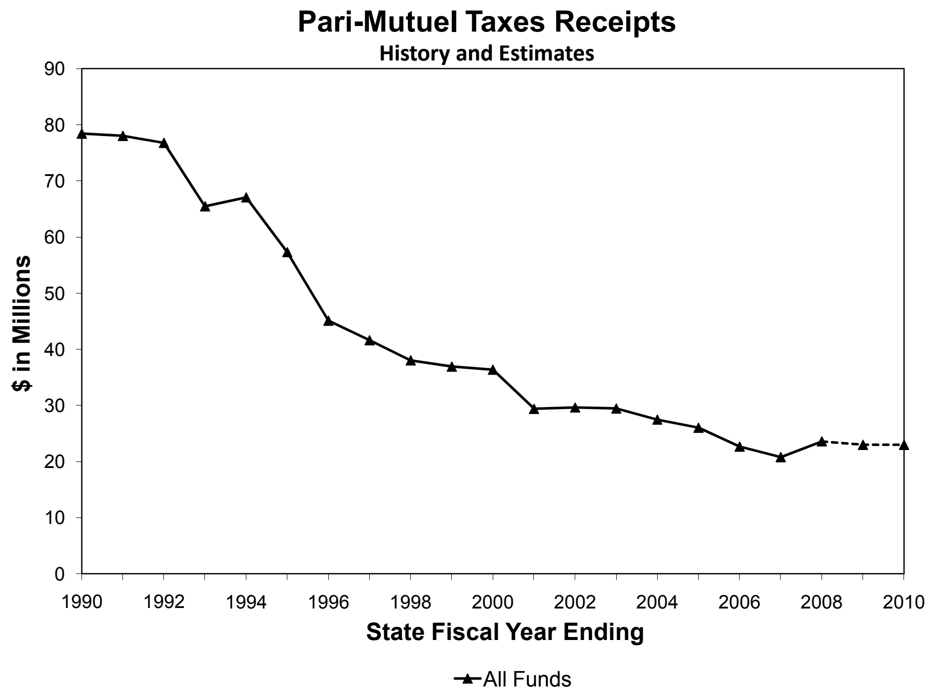
Other Funds

During 2008-09, the statutory amount of real estate transfer tax receipts to be deposited in the Environmental Protection Fund will be $237 million. It is proposed that the amount to be deposited into the Environmental Protection Fund for 2009-10 be reduced to $80 million and remain at that level going forward. The remainder of the Real Estate Transfer Tax receipts, estimated at $513 million in 2008-09 and $560 million in 2009-10, is to be deposited in the Clean Water/Clean Air Bond debt service fund.

PARI-MUTUEL TAXES

PARI-MUTUEL TAXES (millions of dollars)	2007-08 Actual	2008-09 Estimated	Change	Percent Change	2009-10 Projected	Change	Percent Change
General Fund	23.6	23.0	(0.6)	(2.5)	23.0	0.0	0.0
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	23.6	23.0	0.0	0.0	23.0	0.0	0.0

Note: Totals may differ due to rounding.



PARI-MUTUEL TAXES BY FUND (thousands of dollars)	General Fund			All Funds
	Flat	Harness	OTB	Receipts
1999-2000	17,218	795	18,356	36,369
2000-01	14,152	750	14,444	29,346
2001-02	10,525	852	18,269	29,646
2002-03	10,559	803	18,094	29,456
2003-04	9,999	796	16,694	27,489
2004-05	9,257	426	16,346	26,029
2005-06	5,736	258	16,673	22,667
2006-07	7,152	450	13,208	20,810
2007-08	8,287	672	14,621	23,580
Estimated				
2008-09	7,900	600	14,500	23,000
2009-10	8,200	600	14,200	23,000

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- extend certain tax rates and authorize account wagering for a period of one year.

DESCRIPTION

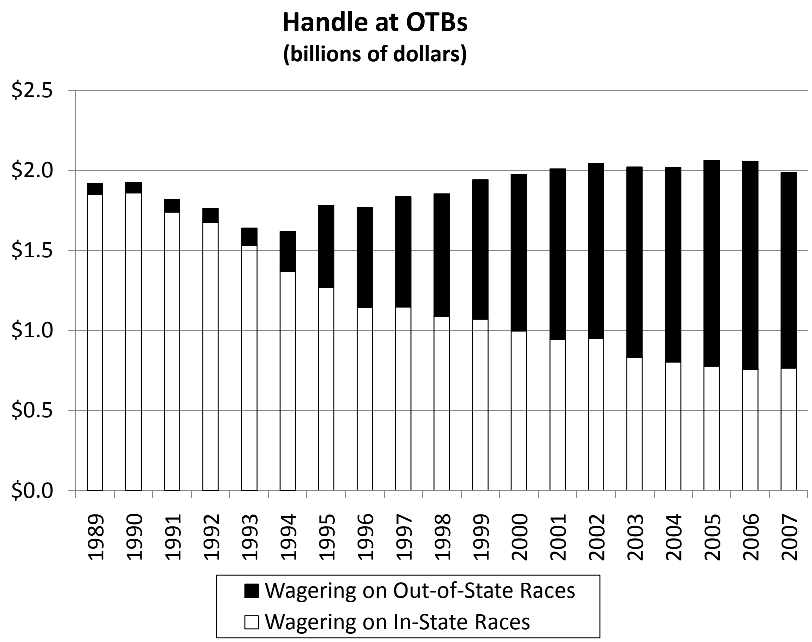
Tax Base and Rate

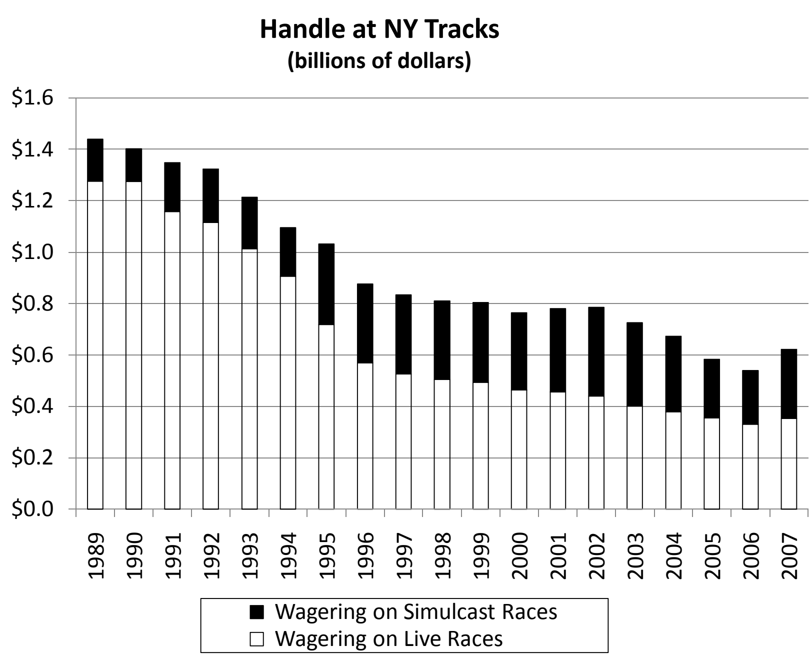
The State has levied taxes on pari-mutuel wagering activity conducted at horse racetracks since 1940. Off-track betting (OTB) parlors were first authorized in 1970 and simulcasting was first authorized in 1984. Each racing association or corporation and Off-Track Betting Corporation pays the State a portion of the commission (the "takeout") withheld from wagering pools (the "handle") as a tax for the privilege of conducting pari-mutuel wagering on horse races. There are numerous tax rates imposed on wagering on horse races. The rates vary depending upon the type of racing (thoroughbred or harness), the type of wager (regular, multiple, or exotic) and location at which it is placed (at the track, or off-track through simulcasting or at an Off-Track Betting Corporation). The average effective pari-mutuel tax rate was 0.89 percent of the handle in 2007.

In an effort to support the New York agricultural and breeding industries, a portion of the takeout is allocated to the State's thoroughbred and standard bred (harness) horse breeding and development funds.

With the increase in OTB activity and simulcasting over the last 20 years, off-track bets now account for 76 percent of the statewide handle. The expansion of OTBs has contributed, in part, to the corresponding decline in handle and attendance at racetracks.

To promote growth of the industry, the State has authorized higher takeouts to support capital improvements at non-New York Racing Association (NYRA) tracks and, more importantly, reduced its on-track tax rates by as much as 90 percent at thoroughbred and harness tracks, authorized the expansion of simulcasting at racetracks and OTB facilities, allowed in-home simulcasting experiments and telephone betting, lowered the tax rates on simulcastwagering, redirected the State franchise fee on nonprofit racing associations to repay loans from the New York State Thoroughbred Capital Investment Fund, and reduced tax rates on NYRA bets. In 2001, the State authorized the operation of video lottery terminals, at authorized racetracks, and directed a portion of VLT receipts to be used for purse enhancements and for the breeders funds.





Administration

The New York State Racing and Wagering Board has general jurisdiction over all horse racing activities and all pari-mutuel betting activities, both on-track and off-track, in the State and over the corporations, associations, and persons engaged in gaming activities. The racetracks and OTBs calculate the pari-mutuel tax owed to the State based upon the handle, then remit the taxes to the Department of Taxation and Finance as prescribed by law.

Significant Legislation

The significant statutory changes to this tax source since 1940 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1940		
Imposed Pari-Mutuel Tax	Authorized pari-mutuel betting and imposed a pari-mutuel tax.	March 31, 1940
Legislation Enacted in 1973		
Off-Track Betting	Authorized off-track betting and the creation of regional off-track betting corporations.	July 1, 1973
Legislation Enacted in 1984		
Simulcasting	Authorized the simulcasting of horse racing.	July 1, 1984
Legislation Enacted in 1994		
Expanded Betting	Authorized widespread in-home simulcasting experiments, simulcasts of flat racing bridging the time gap between the end of New York flat racing and the beginning of harness racing, and tripled the number of out-of-State harness track simulcasts.	July 6, 1994
Breakage	Allotted the State's share of all OTB breakage to horse breeding funds.	July 6, 1994
Legislation Enacted in 1995		
Tax Rates	Lowered rate on regular bets (involving one horse) at NYRA from 5 percent to 4 percent and reduced the tax on NYRA wagers at OTBs: from 1.1 percent to 0.5 percent on regular and multiple (involving two horses) bets, and from 3.1 percent to 1.5 percent on exotic (involving three or more) bets.	June 1, 1995
Takeout	Increased the takeout on NYRA wagers involving two horses (multiple bet) from 17 percent to 20 percent, while lowering the takeout on NYRA wagers involving one horse (regular bet) from 17 percent to 15 percent.	June 1, 1995
Legislation Enacted in 1997		
Franchise Fee	Redirected the payment of NYRA franchise fee to repay debts owed to the New York State Thoroughbred Racing Capital Improvement Fund.	January 1, 1998
Legislation Enacted in 1998		
Tax Rates	Established the rate on all simulcast races at 1.5 percent for the initial race of the day and at 1.0 percent for later races, if NYRA is running. If NYRA is not racing, the rate on these races are 1.0 percent and 0.5 percent, respectively.	January 1, 1998
	Extended authorizations for lower tax rates for on-track and off-track bets on NYRA through June 30, 2002.	
Legislation Enacted in 1999		
Tax Rates	Cut the rate on all NYRA bets to 2.6 percent.	September 10, 1999
	Cut the rate on all NYRA bets to 1.6 percent.	April 1, 2001
Legislation Enacted in 2001		
Expanded Simulcasting	Lowered the takeout on NYRA races, decreased the percentage of takeout going to purses, allowed a "pick six" wager, provided two contemporaneous out-of-State simulcast signals during the Saratoga meeting, and provided a third out-of-State contemporaneous simulcast signal during the winter months and provided lower State tax rates for the additional simulcast racing.	June 12, 2001
Legislation Enacted in 2002		
Extended Expiring Laws	Extended to July 1, 2007, simulcasts for thoroughbred and harness racing, in-home simulcasts, telephone accounts and telephone wagering, simulcasts of out-of-State races, and current tax rates for off-track betting corporations.	June 17, 2002
	Extended the NYRA franchise to December 31, 2012, provided that Aqueduct racetrack commences video lottery gaming on April 1, 2003.	January 28, 2002

Subject	Description	Effective Date
Legislation Enacted in 2003		
NYRA Franchise	Extended franchise to December 31, 2013, provided that VLTs are in operation at the Aqueduct raceway on or before March 1, 2004. If NYRA is not able to initiate VLT operation by that date, then the NYRA franchise will expire on December 31, 2007.	January 29, 2003
Regulatory Fee	Instituted a regulatory fee to directly fund the State's regulation of racing, authorized tracks to set their own takeout rates within a narrow range, allowed unlimited simulcasts, and eliminated mandatory fund balances for telephone betting accounts.	May 16, 2003
Legislation Enacted in 2005		
Regulatory Fee	Increased the amount of the fee from 0.39 percent to 0.50 percent of handle.	July 11, 2005
OTB Tax Credit	Allowed a credit equal to 45 percent of the pari-mutuel tax attributable to increased handle at regional off-track betting corporations for races which are conducted at tracks located within the State.	July 1, 2005
Legislation Enacted in 2006		
Rate Reduction	Lowered the tax rate on regular, multiple and exotic bets for wagering on NYRA races at OTBs and wagering on thoroughbred races at simulcast theaters by 0.2 percentage points. The tax rates on all regular, multiple and exotic bets on out-of-state simulcasts placed between April 1, 2006 and March 31, 2007 are lowered by 0.2 percentage points and the distribution from wagers on these races to the thoroughbred breeder's fund is increased by 0.2 percentage points.	April 1, 2006
Legislation Enacted in 2008		
NYRA Franchise	Awarded the New York Racing Association with 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

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.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2008-09 Estimates

All Funds receipts through November 2008 are $16.8 million, a decrease of $0.6 million, or 3.3 percent below the comparable period in the prior fiscal year. All Funds receipts for 2008-09 are estimated to be $23 million, a decrease of $0.6 million, or 2.5 percent below last year.

Receipts through November 2008 from off-track betting have increased by $0.1 million or 0.8 percent from the comparable period in 2007-08. Receipts from OTBs are estimated at $14.5 million for 2008-09, a decrease of $0.1 million or 0.8 percent over the prior fiscal year.

Receipts through November 2008 from thoroughbred on-track handle, including simulcasts, is $6.0 million, a decrease of $0.6 million or 8.6 percent from the same period last year. Receipts for the fiscal year are estimated at $7.9 million, a decline of $0.4 million.

Receipts of pari-mutuel taxes from on-track harness wagering are estimated to be $600,000 in 2008-09, down $72,000, or 10.7 percent from 2007-08.

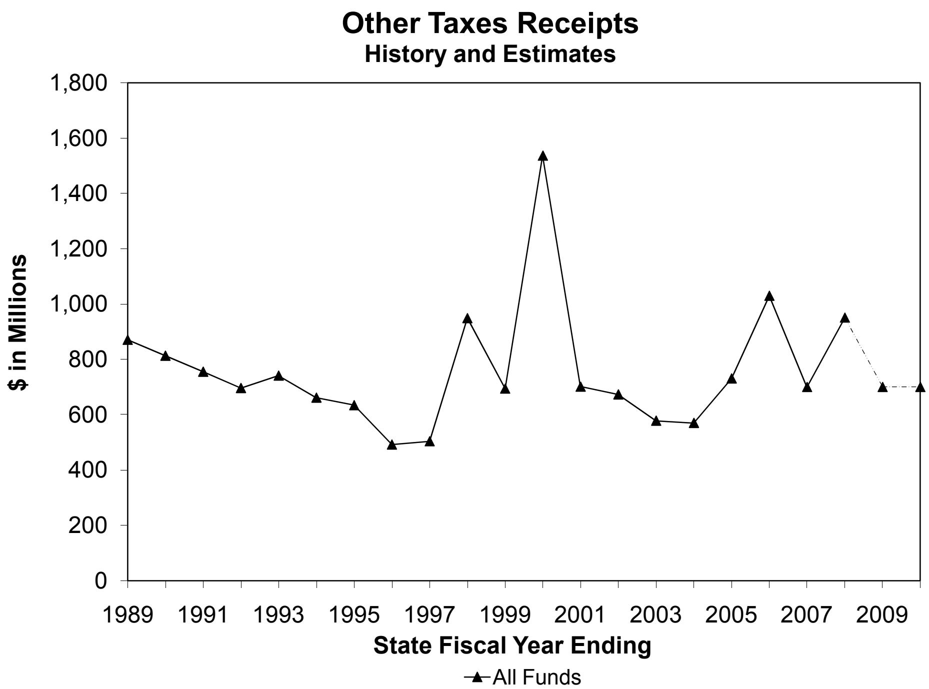
2009-10 Projections

Pari-Mutuel tax receipts are projected to remain at $23.0 million in 2009-10. A projected decline in receipts from OTBs is projected to be offset by an increase in on-track handle at flat tracks. The current estimates assume the extension of the current rate structure and authorization of account wagering, as proposed in the Executive Budget.

OTHER TAXES

OTHER TAXES (millions of dollars)	2007-08 Actual	2008-09 Estimated	Change	Percent Change	2009-10 Projected	Change	Percent Change
General Fund	1.0	0.7	(0.3)	(30.0)	0.7	0.0	0.0
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	1.0	0.7	(0.3)	(30.0)	0.7	0.0	0.0

Note: Totals may differ due to rounding.



OTHER TAXES BY FUND (thousands of dollars)

	General Fund		All Funds
	Admissions	Exhibitions	Receipts
1998-99	294	400	694
1999-2000	299	1,238	1,537
2000-01	289	412	701
2001-02	285	388	673
2002-03	319	259	578
2003-04	344	226	570
2004-05	379	352	731
2005-06	474	556	1,030
2006-07	364	307	671
2007-08	370	581	951
Estimated			
2008-09	375	325	700
2009-10	350	350	700

PROPOSED LEGISLATION

No new legislation for these taxes 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 heavyweight championship fight, which is an event of high spectator interest, can impact the yield of the tax substantially, causing receipts to vary considerably from year to year.

The racing admissions tax rate is 4 percent of the admissions charge and the boxing and wrestling exhibitions tax rate is 3 percent.

Administration

The Department of Taxation and Finance is responsible for collecting the receipts of the racing admissions tax and the boxing and wrestling exhibitions tax.

Significant Legislation

In 1999, the tax rate on boxing and wrestling exhibitions was reduced from 5.5 percent to 3 percent with a $100,000 cap per exhibition.

TAX LIABILITY

The major factor that affects racing admissions tax liability is the number of customers who attend on-track races; this is dependent on factors such as the weather and competition from other types of gambling or non-gambling entertainment.

The wrestling and boxing exhibitions tax can be affected by the importance of the events staged in a given fiscal year and by the degree of competition at other types of entertainment venues.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2008-09 Estimates

All Funds collections through November 2008 are $577,200, an increase of $21,200, or 3.8 percent above the comparable period in the prior fiscal year.

All Funds receipts for 2008-09 are estimated to be $700,000, a decrease of $251,000 from 2007-08. Receipts from the wrestling and boxing exhibitions tax were above average during the last quarter of 2007-08.

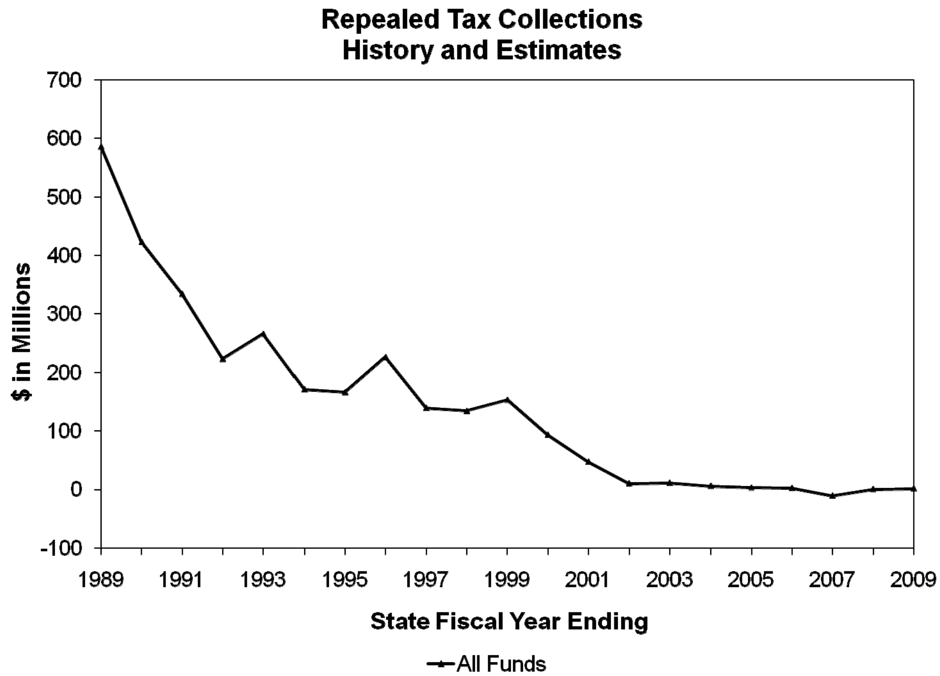
2009-10 Projections

All Funds receipts are projected to remain at $700,000, the same total as for 2008-09. The number of boxing and wrestling exhibitions in New York State is expected to remain at historic levels. Paid attendance at race tracks is expected to remain at a level consistent with 2008-09 levels.

REPEALED TAXES

REPEALED TAXES (millions of dollars)	2007-08 Actual	2008-09 Estimated	Change	Percent Change	2009-10 Projected	Change	Percent Change
General Fund	1.5	2.5	1.0	66.7	0.0	(2.5)	(100.0)
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Note: Totals may differ due to rounding.



REPEALED TAXES BY FUND (thousands of dollars)	Gross General Funds	Refunds	General Fund	All Funds Receipts
1998-99	184,301	11,309	154,033	154,033
1999-2000	109,442	15,107	94,327	94,327
2000-01	53,183	5,548	47,628	47,628
2001-02	11,120	1,120	10,000	10,000
2002-03	12,623	732	11,891	11,891
2003-04	7,676	275	7,401	7,401
2004-05	5,000	1,200	3,800	3,800
2005-06	2,937	1	2,936	2,936
2006-07	2,279	12,176	(9,896)	(9,896)
2007-08	1,746	300	1,446	1,446
Estimated				
2008-09	2,475	0	2,475	2,475
2009-10	0	0	0	0

GIFT TAX

Until it was repealed on January 1, 2000, New York imposed a gift tax as a complement to the transfer tax on estates to equalize the tax burden on lifetime transfers. Like the estate tax, the base of this levy was derived from the Federal tax base, with exclusions for transfers of property located outside the State. The tax was imposed on a lifetime basis. Taxable gifts made during a taxpayer's lifetime, after allowable exclusions, were taxed in aggregate as one gift.

2008-09 Receipts and 2009-10 Projections

All Funds collections to date are $2.4 million with no refunds paid. Given results to date, All Funds receipts for 2008-09 are estimated to be $2.4 million. No receipts are expected for 2009-10 or for any subsequent fiscal year.

REAL PROPERTY GAINS TAX

The real property gains tax, enacted in 1983, was repealed on July 13, 1996. All property transferred after June 15, 1996, is exempt from the provisions of the real property gains tax. This tax was levied at a rate of 10 percent of the gain from sales of New York commercial property of $1 million or greater, including anything of value arising from land ownership, such as air rights or zoning credits. Remaining collections stem primarily from assessments on prior year tax liability and from deferred installment payments for tax liability arising from sales of condominium and cooperative housing for projects that were still being sold at the time of the gains tax repeal.

2008-09 Receipts and 2009-10 Projections

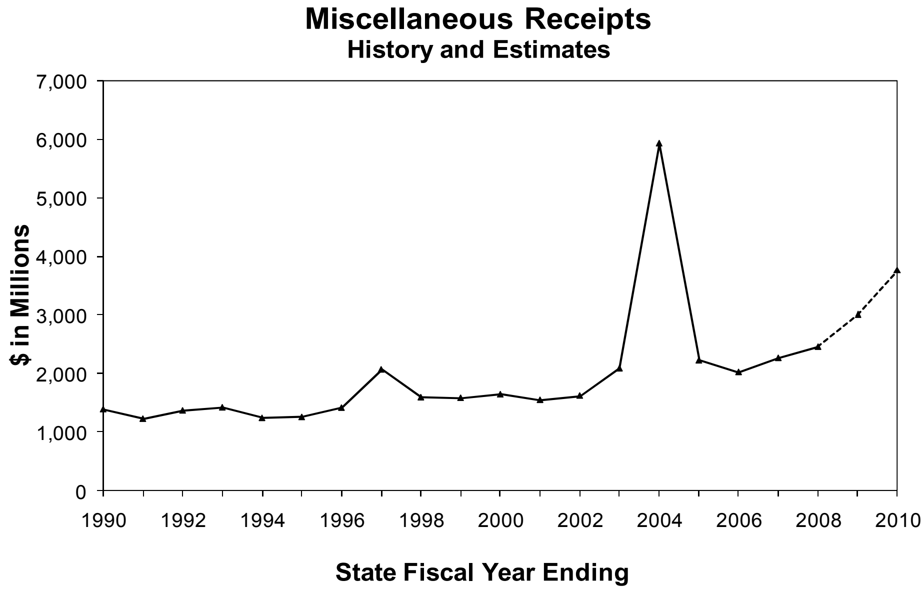
To date, All Funds collections are $74,000 with no refunds paid. As a result, net real property gains tax collections for 2008-09 are estimated to be $75,000.

No receipts are expected for 2009-10 or for any subsequent fiscal year.

MISCELLANEOUS RECEIPTS
GENERAL FUND

MISCELLANEOUS RECEIPTS - GENERAL FUND (millions of dollars)							
	2007-08 Actual	2008-09 Estimated	Change	Percent Change	2009-10 Projected	Change	Percent Change
General Fund	2,458.1	2,999.2	541.1	22.0	3,762.9	763.7	25.5

Note: Totals may differ due to rounding.



MISCELLANEOUS RECEIPTS - GENERAL FUND (millions of dollars)					
	2005-06	2006-07	2007-08	2008-09 Estimated	2009-10 Projected
Licenses, Fees, Etc.	577.1	698.7	604.5	598.4	779.5
Abandoned Property	547.4	708.2	693.8	750.0	700.0
Reimbursements	227.8	164.8	163.1	173.9	172.0
Investment Income	97.9	190.7	220.6	180.0	200.0
Other Transactions	578.2	505.1	776.1	1,296.9	1,911.4
Total	2,028.4	2,267.5	2,458.1	2,999.2	3,762.9

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- increase various food safety violation penalties;
- establish an insurance fingerprinting fee of $75;
- establish security guard instructing and training fees ranging from $250 to $1,000;
- establish civil penalties for violations of Human Rights Law;

- establish a fee of $50 for a book of MV-278 driver pre-licensing classroom certificates;
- eliminate the $100 cap on surcharges for motor vehicle law violators with two or more convictions arising out of the same incident;
- increase fees for driver's license suspension termination fees from $25 to $50 for non-alcohol and $100 to $200 for alcohol suspensions, increase scofflaw termination fee from $35 to $70, and increase the license reinstatement fee from $50 to $100;
- increase the civil penalty for motor vehicle repair shops, inspection stations, and certified inspectors from a maximum of $350 to a minimum of $350 and a maximum of $1,500, and increase the civil penalty for dealers from a maximum penalty of $1,000 to a maximum of $1,500;
- establish penalties for owners and operators of unlicensed cranes;
- add explosives handling and pyrotechnics to explosives licensing requirements, and add new civil penalties for violation of these requirements;
- increase the real property transfer fee from $75 to $125 for residential property, from $165 to $250 for commercial property, and from $50 to $100 for non-deeded transfers;
- increase the current regulatory fee on public utilities throughout the state, including electric, gas, water and telephone;
- establish the use of automated speed cameras for vehicle and traffic safety;
- increase licensing examination fees for 16 disciplines licensed by the Department of State;
- establish a $10 processing fee for filing a paper personal income tax return;
- establish a $100 fee for persons who are compensated for the preparation of ten or more tax returns;
- establish a $75 fee for taxpayers wishing to establish installment payment agreements to satisfy outstanding tax liabilities; and
- establish a $50 fee for checks returned due to insufficient funds.

DESCRIPTION

Miscellaneous receipts cover a broad range of unrelated revenue sources with significant recurring income derived from abandoned property, investment earnings, fees, licenses, fines, and various reimbursements to the State's General Fund. Each year, the reported receipts may be significantly impacted by various nonrecurring transactions.

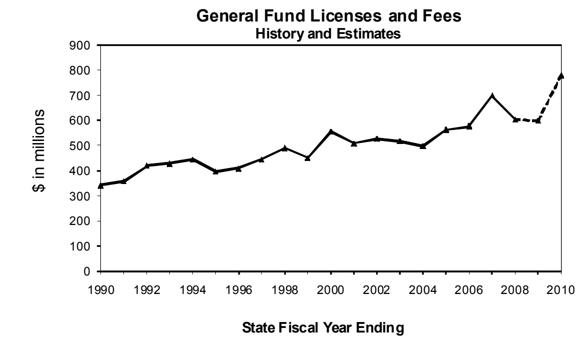
Significant Legislation

The significant statutory changes since 1994 are summarized below.

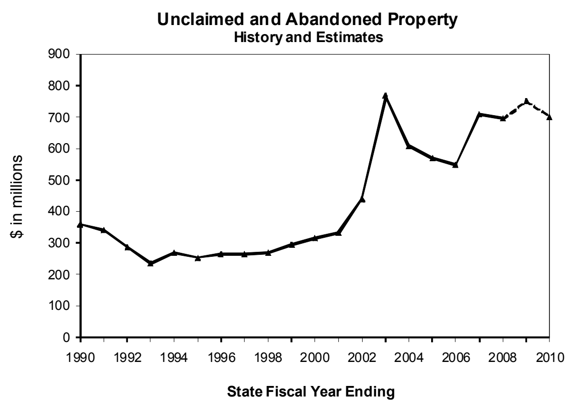
Subject	Description	Effective Date
Legislation Enacted in 1994		
Assessments	Extended for one year the assessments on health facility providers.	April 1, 1994
Mandatory Surcharges	Extended for two years the mandatory surcharges pertaining largely to standing or moving violations of the Vehicle and Traffic Law.	October 31, 1994
Legislation Enacted in 1995		
Assessments	Extended for one year the assessments on health facility providers.	April 1, 1995
Love Canal Claims	Provided for the deposit into the General Fund of moneys received from settlement of Love Canal claims.	April 1, 1995
Power Authority of NY	Provided for the one-time payment to the General Fund of $15.9 million in lieu of annual payments.	April 1, 1995
Legislation Enacted in 1996		
Assessments	Extended for one year the current assessments on health facility providers and imposed new assessments.	April 1, 1996
Power Authority, MMIA, Workers Compensation	Provided for the deposit into the General Fund of moneys from these entities, respectively: $50 million, $481 million, and $97 million.	April 1, 1996
Fees and Fines	Moved into the General Fund receipts previously deposited into various special revenue accounts.	August 31, 1996
Legislation Enacted in 1997		
Assessments	Provided for the collection of assessments for prior years from certain health facilities.	January 1, 1995
	Initiated a phase-out of the assessments on private health facility providers.	April 1, 1997
Mandatory Surcharges	Extended for two years the mandatory surcharges pertaining largely to standing or moving violations of the Vehicle and Traffic Law.	October 31, 1997
Legislation Enacted in 1998		
Assessments	Accelerated the phase-out of assessments on private health facility providers.	April 1, 1998
Legislation Enacted in 1999		
Assessments	Further accelerated the phase-out of assessments on private health facility providers.	April 1, 1999
Mandatory Surcharges	Extended for two years the mandatory surcharges pertaining largely to standing or moving violations of the Vehicle and Traffic Law.	October 31, 1999
Legislation Enacted in 2000		
Assessments	Provided amnesty on interest and penalties for private health facilities that paid any outstanding assessments by March 31, 2001.	April 1, 2000
Legislation Enacted in 2001		
Mandatory Surcharges	Extended for two years the mandatory surcharges pertaining largely to standing or moving violations of the Vehicle and Traffic Law.	October 31, 2001
Legislation Enacted in 2002		
Supplemental Wireless Service Surcharge	Increased from $0.70 to $1.20 monthly the State wireless communication service surcharge.	August 1, 2002
Legislation Enacted in 2003		
Abandoned Property	Reduced the time period for collecting abandoned property related to the demutualization of insurance companies, from five years to two.	January 1, 2003
Assessments	Increased cost recovery assessments' cap from $20 million to $40 million.	April 1, 2003
Criminal Fines	Increased criminal fines deposited into the Justice Court Fund from between $100 and $1,500 to $150 and $2,250.	April 1, 2003
Lobbyist Fee	Increased annual lobbyist registration fees to $100 in 2004 and $200 in 2005.	April 1, 2003

Subject	Description	Effective Date
Uncashed Checks	Reduced the dormancy period of uncashed checks from three years to one year.	April 1, 2003
Background Checks	Required holders of HAZMAT license endorsement to undergo criminal background check for a fee of $75.	May 15, 2003
Sex Offender Fee	Required sex offenders to pay a DNA databank fee of $50, a sex offender registration fee of $50, and a sex offender registration change fee of $10.	May 15, 2003
Data Search Fee	Increased data search fee by $1.	July 1, 2003
Court Motion Fees	Imposed a $45 motion fee on Supreme/County and Appellate Courts, a stipulation of Discontinuance Fee of $35 and increased all Civil Court Fees by 25 percent.	July 14, 2003
Oil and Gas Depth Fees	Increased Oil and Gas Depth fees by 50 percent.	August 1, 2003
Penal Bonds	Increased fee on penal bonds from $1,000 to $2,500.	October 1, 2003
DWI or DWAI Surcharge	Imposed a $25 surcharge on DWI or DWAI convictions.	November 12, 2003
Parking Surcharges	Increased parking ticket surcharges to provide relief to the General Fund and Big 6 cities from $5 to $15.	November 12, 2003
Legislation Enacted in 2004		
Filing Fees	Increased Filing Fees for Alcoholic Beverage Control License applications.	April 1, 2004
Local Prosecution Program	Imposed various fees related to the Vehicle and Traffic Local Prosecution Program.	August 20, 2004
Driver Responsibility	Created the Driver Responsibility Program with fees of $100 and $250.	August 20, 2004
Federal Bed Contracts	Imposed State Correctional Facility Bed Rental Fee of $30,000 per year to the Federal Government.	April 1, 2004
Waste Tire Fee	Extended the current Waste Tire Fee of $2.50.	October 20, 2004
Stormwater Fees	Increased Stormwater Fees from $50 to $50-$350.	April 1, 2004
Snowmobile Fee	Increased Snowmobile Fee from $5 to $10.	August 20, 2004
Legislation Enacted in 2005		
Food Inspection Violations	Imposed a fine of $300 for the first food inspection violation.	January 1, 2005
Agent License Fee	Increased insurance agent license fee from $20 to $40.	April 1, 2005
Service of Process Fee	Increased service of process fee from $20 to $40.	April 1, 2005
Reinsurance License Fee	Increased reinsurance license fee from $100 to $500.	April 1, 2005
Legislation Enacted in 2006		
Abandoned Property	Reduced the dormancy period on uncashed checks from five years to three years and added foreign securities as abandoned property.	April 1, 2006
Banking Fines and Penalties	Reorganized the fee and fine structure of the Banking Department, including eliminating all annual license fees, increasing and simplifying application fees to match the Department's work processes, and raising fine levels to encourage industry compliance.	April 1, 2006
Point Insurance Reduction	Allowed drivers to reduce points on their license via internet defensive driving courses for a fee of $8 for students and $7,500 for insurance providers.	April 16, 2006
Driver Responsibility Program	Dedicated the remaining funds from the Driver Responsibility Program to the Dedicated Highway and Bridge Trust Fund.	April 1, 2006
ATV Registration Fee	Repealed the $15 ATV train maintenance portion of the fee while maintaining the basic ATV registration fee of $10.	April 1, 2006
Legislation Enacted in 2008		
Vendor Service Fee	Created a vendor service fee to capture a portion of the benefit of centralized contracting and low prices leveraged through state aggregate purchases.	April 1, 2008

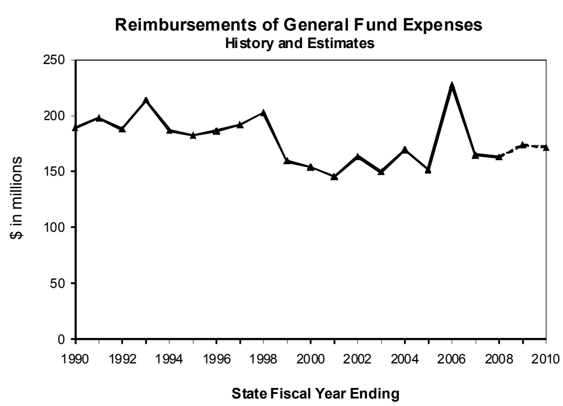
Components of Miscellaneous Receipts



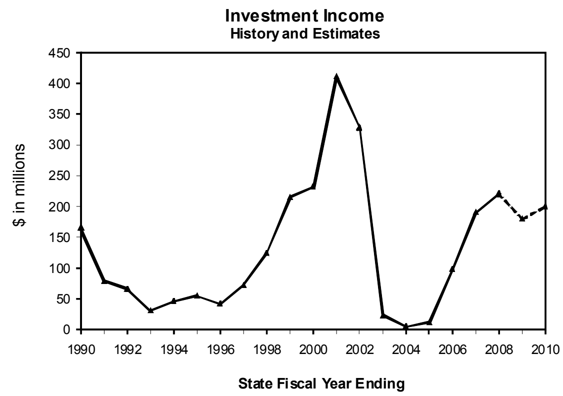
Historically, General Fund license and fee revenues have grown modestly and fairly consistently, aside from minimal peaks and troughs associated with law changes. In 2008-09, these revenues are projected to decrease as a result of lower fines and penalty collections. In 2009-10, these revenues are expected to increase as a result of increased revenue from several fee and penalty increases proposed with this Budget. The Revenue Actions section of this volume provides more detail on this category.



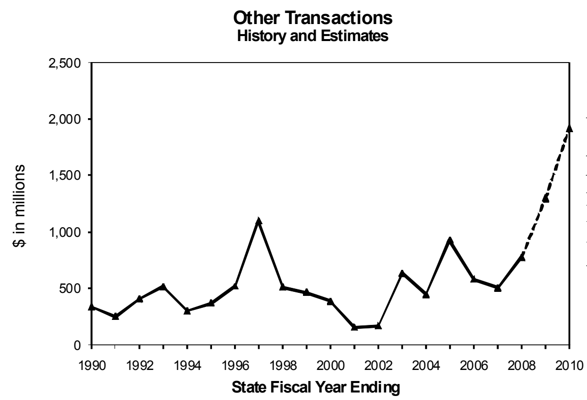
Historically, unclaimed and abandoned property revenue has remained relatively stable with minimal growth, aside from spikes in 2002-03 and 2003-04 resulting from a large amount of abandoned property released to the State of New York by the Office of the State Comptroller. This property was associated with the sale of stocks as well as a reduction in the dormancy period of uncashed checks. Unclaimed and abandoned property revenue is expected to remain relatively constant in the forecast period.



Historically, reimbursements of General Fund expenses and revenue advances have remained relatively constant, and are expected to remain so over the forecast period. In 2006, a portion of General Fund Federal Grants was reclassified to this category of General Fund Miscellaneous Receipts. For more information on this reclassification, please see the Federal Grants section of this volume.



The trends in investment income are directly related to General Fund account balances and interest rates. For example, the large increase in 2000-01 followed by the severe drop in 2002-03 was a result of the impact of economic growth and subsequent recession on State finances; balances declined and interest rates declined sharply. The forecast for investment income is expected to remain flat as General Fund account balances are expected to drop slightly and interest rates are expected to rise slowly.



Other transactions, excluding tobacco securitization proceeds (which are not included in the accompanying graph), are an unrelated grouping of transactions and payments, which do not fall under the other miscellaneous receipts categories. Differences in collections year-to-year are the result of large, unusual payments to the State of New York including: bond issuance charges; a supplemental wireless surcharge; and SONYMA.

2007-08 RECEIPTS

In State fiscal year 2007-08, miscellaneous receipts totaled $2,458 million. Major revenue sources included: $694 million in unclaimed and abandoned property; $605 million in fees, licenses, fines, royalties, and rents; $177 million in medical provider assessments; $163 million in reimbursements; $101 million from the State of New York Mortgage Agency; $120 million in additional bond issuance charges; and $81 million from the supplemental wireless surcharge. In addition, receipts included $221 million in interest earnings on short-term investments and bank accounts, an amount that is net of certain expenses incurred in providing banking services to various State agencies; $4 million in collections from the drivers responsibility program; $31 million from Monroe County's Medicaid sales tax intercept payment; and $20 million from the Hartford Financial Services settlement.

2008-09 ESTIMATES

Miscellaneous receipts are estimated at $2,999 million for fiscal year 2008-09. Miscellaneous receipts are estimated to increase $541 million from the prior year primarily due to increased Monroe County Medicaid sales tax intercept payments, a New York Power Authority payment and receipts from civil recoveries. The estimate includes: $750 million in unclaimed and abandoned property; $598 million in fees, licenses, fines, royalties, and rents; $386 million in payments from the New York Power

Authority, a portion of which offsets revenue losses resulting from the "Power for Jobs" program; $214 million in medical provider assessments; $180 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); $174 million in reimbursements; $159 million from Monroe County's Medicaid sales tax intercept payments; $139 in atypical fines and civil recoveries; $125 million from the State of New York Mortgage Agency; $107 million in additional bond issuance charges; $81 million from the supplemental wireless surcharge; $41 million from the Driver's Responsibility program; $23 million from hurricane Katrina Revenue (ie. – the State receives reimbursement from the Federal Emergency Management Agency for services provided by state agencies after the disaster); $15 million from the Medicare Part D Subsidy; and $9 million from other miscellaneous revenue.

2009-10 PROJECTIONS

Miscellaneous receipts are projected at $3,763 million in fiscal year 2009-10, an increase of $764 million from 2008-09. This increase is primarily due to increased receipts resulting from a utility assessment. The 2009-10 projection includes: $780 million in fees, licenses, fines, royalties, and rents; $700 million in unclaimed and abandoned property; $652 million from increased utility assessments; $270 million in funds sweeps from the Battery Park City Authority; $210 million in payments from the New York Power Authority, a portion of which offsets revenue losses resulting from the "Power for Jobs" program; $202 million in medical provider assessments; $200 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); $172 million in reimbursements; $162 million from Monroe County's Medicaid sales tax intercept payments; $108 million in additional bond issuance charges; $81 million from the supplemental wireless surcharge; $60 million from the Medicare Part D Subsidy; $60 million from a Port Authority fund sweep; $41 million from the Driver's Responsibility program; $30 million from civil recoveries; $28 million from shifting Office of Real Property Services funds to the General Fund; and $7 million from other miscellaneous revenue.

MISCELLANEOUS RECEIPTS
SPECIAL REVENUE FUNDS

MISCELLANEOUS RECEIPTS - SPECIAL REVENUE FUNDS (millions of dollars)							
	2007-08 Actual	2008-09 Estimated	Change	Percent Change	2009-10 Projected	Change	Percent Change
State Fund	13,403.0	13,046.0	(357.0)	-2.7	14,576.0	1,530.0	11.7
Federal Funds	202.0	108.0	(94.0)	-46.5	106.0	(2.0)	1.9
All Funds	13,605.0	13,154.0	(451.0)	-3.3	14,682.0	1,528.0	11.6

Note: Totals may differ due to rounding.

Miscellaneous receipts deposited to special revenue funds represent approximately 25 percent of total special revenue receipts, excluding transfers from other funds. These receipts include SUNY tuition and patient income, lottery receipts for education, health care surcharges, assessments, and conversion proceeds used to finance Health Care Reform Act (HCRA) programs, assessments on regulated industries, and a variety of fees and licenses, all of which are dedicated to support specific programs. The following table summarizes miscellaneous receipts for 2007-08 through projected 2009-10.

MISCELLANEOUS RECEIPTS - SPECIAL REVENUE FUNDS (millions of dollars)			
		Estimated	
	2007-08	2008-09	2009-10
HCRA	4,187	3,634	4,306
State University Income	2,789	3,192	3,268
Lottery	2,767	3,142	3,067
Medicaid	526	548	884
Industry Assessments	527	660	995
All Other	2,809	1,978	2,162
Total	13,605	13,154	14,682

HCRA FINANCING

HCRA receipts include recurring surcharges and assessments on hospital revenues, a "covered lives" assessment paid by insurance carriers, a portion of cigarette tax revenues, and other revenues dedicated by statute, as well as proceeds from insurance company conversions. These resources help finance the State's Medicaid program, Family Health Plus, workforce recruitment and retention, the Elderly Pharmaceutical Insurance Coverage Program (EPIC), Child Health Plus (CHP), Healthy New York, Graduate Medical Education, AIDS programs, disproportionate share payments to hospitals and other various public health initiatives. The 2005-06 Enacted Budget created a new HCRA Resources Fund that includes all HCRA financed programs including those that were previously excluded from the State's Financial Plan.

MEDICAID

In addition to the General Fund, State Medicaid costs are financed by various Special Revenue Funds which include the HCRA Resources Fund (described above), the Provider Assessments Fund and the Indigent Care account. These resources are discussed in more detail below.

Provider Assessments

Prior nursing home assessments were eliminated as of April 1, 2000. A new Provider Assessments Fund was established with the 2002-03 Enacted Budget and is currently supported by a partially-reimbursable 5.5 percent assessment as of January 1, 2008, on nursing home revenues and a 0.35 percent assessment on hospital revenue.

STATE UNIVERSITY INCOME

The majority of special revenue receipts that support SUNY's operations are provided by tuition, patient revenue, and user fees. SUNY's three teaching hospitals at Brooklyn, Stony Brook and Syracuse, as well as the Long Island Veterans' Home, receive patient revenue from third-party payers including Medicare, Medicaid, insurance companies, and individuals. User fees, which include fees for food, parking, career placement and recreation, are generated from service users; includes students, faculty, staff, and the public. Other receipts primarily include interest earnings and fringe benefit recoveries from SUNY's other special revenue accounts.

LOTTERY

Receipts from the sale of lottery tickets and proceeds from Video Lottery Terminals (VLT) at racetracks are used to support public education, as well as administrative costs associated with Lottery operations. The Lottery is discussed in detail in a separate section.

INDUSTRY ASSESSMENTS/ALL OTHER

All Other
Components of Miscellaneous Receipts
(millions of dollars)

	Estimated	
	2008-09	**2009-10**
Health	343	379
Environmental Conservation	225	224
Tribal State Compact	130	144
State Police	138	187
HESC	139	138
Education	129	126
CUNY	90	95
Motor Vehicles	76	77
All Other	708	792
Total Miscellaneous Receipts	**1,978**	**2,162**

The remaining revenues in this category include fees, licenses, and assessments collected by State agencies, primarily to support all or specific components of their operations. Receipts from assessments primarily reflect reimbursements from regulated industries, which fund the administrative costs of State agencies charged with their oversight. State agencies funded entirely from assessments include the Banking Department, the Insurance Department, the Public Service Commission, and the Workers' Compensation Board.

In addition to agency industry assessments, various fines and fees are collected to support agency operations and programs. The major sources of miscellaneous receipts by agency are detailed below.

Health receipts include reimbursement for patient care provided at the Department's health care facilities, regulatory fees, audit recoveries, and registration, testing and certification fees for various public health services.

Environmental Conservation fees include vehicle emission inspection fees and fees on regulated pollutants, sporting license fees, revenues from the sale of forest products, and recreational user fees.

Tribal State Compact receipts consist of all revenues resulting from tribal state compacts executed pursuant to Executive Law.

State Police miscellaneous revenue sources include seized assets, a portion of the State's monthly surcharge on cellular telephone bills, fees for accident reports and an annual fee on insurance policies of all registered motor vehicles.

HESC receipts include administrative fees paid by the Federal government and collections on defaulted loans

Education miscellaneous revenue sources include professional licensing fees and disciplinary fines, teacher certification fees and filing fees on certain documents filed in county clerks' offices.

CUNY miscellaneous receipts include income derived from excess tuition revenue and collections from self-supporting activities such as application fees, continuing education, and dormitory fees.

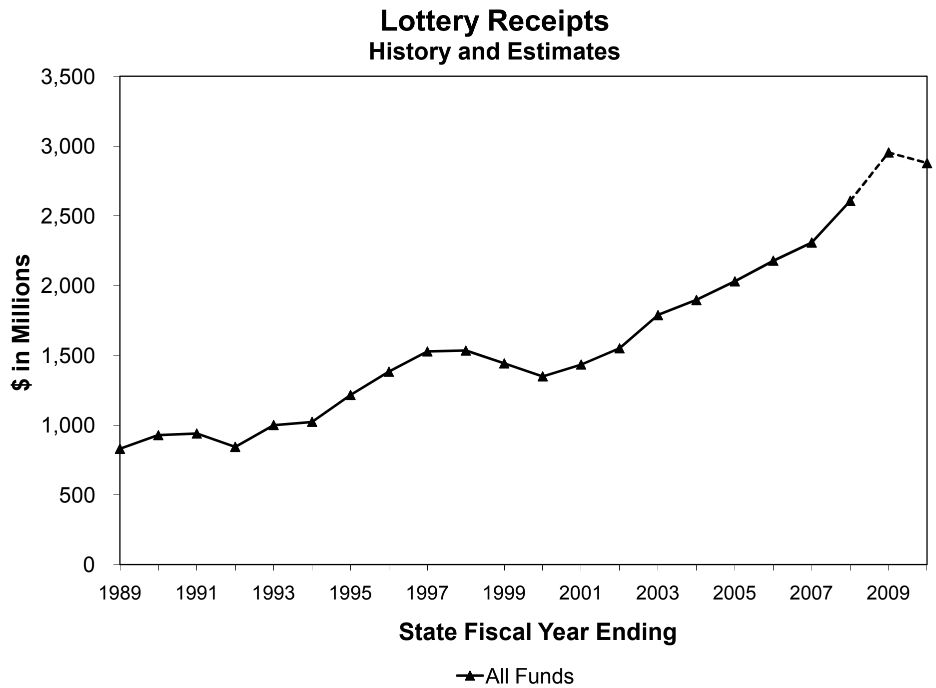
Motor Vehicles fees include, assessments against insurers, surcharges on traffic violations and suspended licenses and vehicle registration fees.

Interest on Lawyer Account miscellaneous revenue comes from the transfer of interest from certain escrow accounts held by attorneys for their clients.

LOTTERY

MISCELLANEOUS RECEIPTS - LOTTERY (millions of dollars)							
	2007-08 Actual	2008-09 Estimated	Change	Percent Change	2009-10 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	2,607.7	2,954.0	346.3	13.3	2,879.0	(75.0)	(2.5)
All Funds	2,607.7	2,954.0	346.3	13.3	2,879.0	(75.0)	(2.5)

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	Other*	VLTs	Admin. Surplus**	Total Receipts
1998-99	283.2	249.2	157.0	338.3	17.0	128.9	123.5		0.0		145.4	1,442.4
1999-00	272.7	246.7	159.6	293.8	15.1	114.8	82.2		45.7		119.1	1,349.8
2000-01	282.7	247.4	164.5	250.2	14.5	135.0	126.7		54.5		159.8	1,435.5
2001-02	377.1	256.8	182.4	254.8	13.2	152.2	121.9		0.0		193.2	1,551.5
2002-03	465.7	267.3	205.3	175.7	11.9	133.5	118.6	129.0	0.0		281.9	1,789.0
2003-04	529.0	271.9	213.1	163.4	12.1	128.9	127.1	166.6	0.0	12.6	272.3	1,897.1
2004-05	550.0	278.5	220.0	137.5	11.8	121.3	118.0	156.3	0.0	141.2	296.0	2,030.7
2005-06	594.9	288.9	231.4	113.7	11.4	116.9	114.7	194.4	9.5	161.7	341.8	2,179.4
2006-07	664.2	298.8	245.6	95.9	11.1	114.1	110.8	160.6	11.9	269.7	326.5	2,309.2
2007-08	665.4	298.7	250.6	94.6	11.2	111.5	110.7	167.3	8.0	490.8	398.9	2,607.7
Estimated												
2008-09	702.0	301.0	258.0	82.0	11.0	117.0	109.0	150.0	14.0	835.0	375.0	2,954.0
2009-10												
Current Law	741.0	315.0	273.0	85.0	11.0	130.0	113.0	173.0	14.0	478.0	413.0	2,746.0
Proposed Law	741.0	315.0	273.0	85.0	11.0	130.0	144.0	173.0	25.0	523.0	459.0	2,879.0

** Other includes: Lucky Day (1996-97 and 1997-98), Local Lotto (1999-2000), Millennium Millions (1999-2000 and 2000-01), King Kong (2005-06), Raffle games (2006-07, 2007-08, 2008-09 and 2009-10) and a new multi-jurisdiction game (2009-10)*

*** Any unused portion of Lottery's 15 percent administrative allowance and other miscellaneous income used for aid to education.*

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- make permanent the authorization to operate Quick Draw. The Quick Draw game authorization expires on May 31, 2010;
- eliminate restrictions on the QuickDraw game related to the hours of operation, food sales, and the size of establishments;
- authorize the Division of the Lottery to join more than one multi-jurisdictional game;
- allow the Division of the Lottery to invest the Lottery Prize Fund in additional asset categories;
- authorize video lottery gaming at Belmont Park;
- eliminate the restriction on the number of hours per day the Video Lottery Terminals may be operated; and
- eliminate the sunset of the Video Lottery Gaming program.

DESCRIPTION

In 1966, New York State voters approved a referendum authorizing a State lottery, and ticket sales commenced under the auspices of the Lottery Commission. Under the original lottery legislation, a lotto-type game was offered with 12 drawings a year, 30 percent of gross receipts earmarked to prizes, 55 percent to education, and the remaining 15 percent representing an upper limit on administrative expenses. Since its inception, numerous games have been introduced with varying prize payout schedules to make them attractive to the consumer. In 1973, the New York State Racing and Wagering Board took over operation of the Lottery from the Lottery Commission. The New York State Division of the Lottery was established in 1976, and assumed the operation of the State's Lottery.

The Lottery Division, as an independent agency within the Department of Taxation and Finance, manages the operation and sales of the State's Lottery games. The Lottery Division is authorized to operate five types of games:

- Instant games, sold as scratch-off tickets in which most prizes are won immediately (approximately 60 games are currently being offered for sale with prices ranging from $1 to $30);
- Lotto games, which are pari-mutuel, pick-your-own-numbers games offering large top prizes with drawings conducted 11 times weekly: seven 5-of-39 draws (Take 5), two 6-of-59 draws (Lotto 59) and two multi-jurisdictional drawings (Mega Millions). For the Lotto 59 game and the Mega Millions game, the value of any top prize not won is added to the top prize in the subsequent drawing;

- Daily numbers games, which are fixed-odds games with daily drawings where players select either a three-digit number (Daily Numbers), or a four-digit number (Win 4), and Instant Win, an add-on game to Daily Numbers and Win 4;

- Keno-like games, which are pick-your-own numbers games offering prizes that are of a fixed amount with drawings conducted either daily (Pick 10) or every few minutes (Quick Draw). The Lottery Division currently pays base top prizes of $500,000 in Pick 10 and $100,000 in Quick Draw; and

- Video lottery games, which are lottery games played on video gaming devices. Video Lottery Terminals (VLTs) are currently authorized only at selected thoroughbred and harness tracks.

The Division of the Lottery periodically offers short-run promotional lottery games. In 1999-2000 and 2000-01 the Lottery Division operated the Millennium Millions game. In 2005-06, the Lottery offered a King Kong promotional game in conjunction with the release of the King Kong movie. The Raffle to Riches game was held in 2006-07 and again in 2007-08. The Lottery conducted the Turkey Raffle in November of 2008 and another raffle is planned for March 2009.

The table below shows the distribution of lottery sales among prizes, revenue for education and the allowance for expenses related to administration of the games. Any unused administration revenue is earmarked for education.

DISTRIBUTION OF LOTTERY SALES (Percent)

	Prizes	Education	Admin. Allowance
Lotto	40	45	15
Mega Millions	50	35	15
Numbers	50	35	15
Win 4	50	35	15
Take 5	50	35	15
Pick 10	50	35	15
Quick Draw	60	25	15
Instant	65	20	15
Three Instant Games at 75%	75	10	15

FREQUENCY OF LOTTERY DRAWINGS

Game	Date of Inception	Frequency of Drawings
Lotto	1967	Saturday and Wednesday at 11:21 PM
Numbers	1980	Twice Daily
Win 4	1981	Twice Daily
Pick 10	1988	Once Daily
Take 5	1992	Once Daily
Quick Draw	1995	Every four minutes daily from 10 a.m. to 3 p.m. and 4 p.m. to midnight
Mega Millions	2002	Tuesday and Friday at 11:00 PM

The following table shows the current distributions of VLT receipts (after prizes) among revenue for education, administration, operator commission, and funds available for promotions and capital. Distributions to purses and breeders funds are made from the operator's commissions, and are not separately shown.

DISTRIBUTION OF VLT RECEIPTS AFTER PRIZES IN 2009-10
(Percent)

Tracks with 1,100 or more machines

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $62.5 million	44	10	32	10	4
More than $62.5 million up to $100 Million	48	10	32	10	0
Over $100 million	50	10	32	8	0

Tracks with less than 1,100 machines

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $50 million	40	10	36	10	4
More than $50 million to $62.5 million	47	10	29	10	4
More than $62.5 million up to $100 Million	51	10	29	10	0
More than $100 million up to $150 Million	53	10	29	8	0
Over $150 million	56	10	26	8	0

Tracks with a population less than 1 million within 40 mile radius

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $50 million	36	10	40	10	4
More than $50 million to $62.5 million	47	10	29	10	4
More than $62.5 million up to $100 Million	51	10	29	10	0
More than $100 million up to $150 Million	53	10	29	8	0
Over $150 million	56	10	26	8	0

Tracks within 15 miles of a Class III Native American Casino

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $62.5 million	34	10	42	10	4
More than $62.5 million to $100 million	38	10	42	10	0
Over $100 million	40	10	42	8	0

Tracks Located in Sullivan County within 60 miles of Gaming Facility in a Contiguous State

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $100 million	38	10	42	10	0
Over $100 million	40	10	42	8	0

Tracks with 1,100 or more machines located in Westchester County

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $62.5 million	44	10	34	8	4
Over $62.5 million	48	10	34	8	0

Aqueduct Racetrack

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Racing Support Payment
All Net Machine Income	44	10	31	8	7

*Not less than 90 percent of sales must be used for prizes.
Net Machine Income is gross receipts minus prize payments.

Administration

The Lottery Division develops new lottery games, markets and advertises, distributes games, provides terminals and computer programming, regulatory oversight and otherwise performs all functions necessary to operate an effective State lottery. The Comptroller, pursuant to an appropriation, distributes all net receipts from the Lottery directly to school districts. This aid includes special allowances for textbooks for all school children and additional amounts for pupils in approved State-supported schools for the deaf and the blind.

Sales agents are notified electronically by the Lottery Division's operations vendor by Monday of each week of the amount due the State from sales during the previous week. The agent has until Tuesday to deposit sufficient funds in specified joint bank accounts at which time the operations vendor sweeps the receipts and transfers them to the Lottery Division by Wednesday morning. For VLTs, deposits are required within two days of sales, and payments are wired into the Lottery Division accounts daily.

Significant Legislation

The significant lottery legislation enacted since 1967 is summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1967		
Authorization	Authorized a State Lottery to be operated by the Lottery Commission. The lottery may not have more than 12 draws in a fiscal year, and may not have a prize payout of more than 30 percent, with a minimum of 55 percent of revenue for education.	April 18, 1967
Legislation Enacted in 1968		
Number of Drawings	Increased the number of allowable drawings to not more than one regular drawing per week, and authorized special or bonus drawings.	March 12, 1968
Legislation Enacted in 1970		
Number of Drawings	Eliminated the restriction on the number of drawings allowed.	April 22, 1970
Prize Payout	Increased the prize payout to not more than 40 percent and lowered the minimum revenue for education to 45 percent.	April 22, 1970
Legislation Enacted in 1973		
Operation	Transferred the operation of the State Lottery to the New York State Racing and Wagering Board.	July 1, 1973
Legislation Enacted in 1976		
Operation	Established the New York State Division of the Lottery, which replaced the Racing and Wagering Board as the operator of the State Lottery.	March 31, 1976
Legislation Enacted in 1980		
Prize Payout	Authorized prize payouts of up to 50 percent for daily numbers games and a minimum of 35 percent of revenue to education.	April 1, 1980
Legislation Enacted in 1988		
Prize Payout	Authorized a 50 percent prize payout for Instant games, "Daily Numbers Games" and "Win 4" with a minimum of 35 percent of revenue to education. Authorizes a 40 percent prize payout for "Win 10" and other State-operated lottery games.	July 19, 1998
Legislation Enacted in 1991		
Prize Payout	Increased the prize payout for instant games from 50 percent to 55 percent and lowered the minimum amount of revenue for education to 30 percent. Increased the prize payout for "Pick 10" from 40 percent to 50 percent and lowered the minimum amount of revenue for education to 35 percent.	June 12, 1991

Subject	Description	Effective Date
Legislation Enacted in 1994		
Limit on Draws per Day	The drawings for Pick 10, Take 5, and Lotto games are to be offered no more than once daily.	April 1, 1994
Unclaimed Prize Money	The use of unclaimed prize money for the promotional supplementation of games other than Lotto by the Division is limited to 16 weeks per year.	April 1, 1994
Annual Plan	The Division is required to submit an annual report to the Legislature, the Governor, and the Division of the Budget each year.	April 1, 1994
Legislation Enacted in 1995		
Quick Draw	Authorized Quick Draw.	April 1, 1995
	Authorized a 60 percent prize payout.	
	Drawings for the game can be held no more than 13 hours each day, of which only eight hours can be consecutive.	
	If there is no license for the sale of alcohol, then the premises have to be a minimum of 2,500 square feet.	
	If there is a license to sell alcohol, then at least 25 percent of the gross sales must be from sales of food.	
Legislation Enacted in 1999		
Instant Games	Authorized a 65 percent prize payout.	April 1, 1999
	Reduced the percent dedicated to education from 30 percent to 20 percent.	
Legislation Enacted in 2001		
Multi-jurisdictional	Allowed the Lottery Division to enter into agreements to conduct multi jurisdictional lotto games with a 50 percent prize payout (Mega Millions).	October 29, 2001
Video Lottery Terminals	Allowed the Lottery Division to license the operation of video lottery machines at selected New York State racetracks.	October 29, 2001
Legislation Enacted in 2002		
Instant Games	Authorized up to three 75 percent prize payout Instant ticket games to be offered during the fiscal year.	January 28, 2002
Legislation Enacted in 2003		
Quick Draw	Extended the operation of Quick Draw until May 31, 2004.	January 28, 2002
Video Lottery Terminals	Provided that of the total amount wagered on video lottery terminals, not less than 90 percent is paid out for prizes. Of the balance, the Lottery Division retains 10 percent for administration, 29 percent is paid to the racetracks as a commission, and 61 percent is dedicated to education. Of the commission paid to the tracks, the amount allocated to purses in years one through three is 25.9 percent; in years four and five, 26.7 percent; and in subsequent years, 34.5 percent. The Breeders' funds receive 4.3 percent of the commission paid to racetracks in the first through fifth years and 5.2 percent in the following years. The racetracks are allowed to enter into agreements, not to exceed five years, with the horsemen to reduce the percentage of the vendor fee allocated to purses. The program expires ten years after the start of the program.	May 2, 2003
Legislation Enacted in 2004		
Quick Draw	Extended the operation of Quick Draw until May 31, 2005.	August 20, 2004
Legislation Enacted in 2005		
Quick Draw	Extended the operation of Quick Draw until May 31, 2006.	April 12, 2005
Video Lottery Terminals	Provides a graduated vendor's fee that allows participating tracks to receive 32 percent of the first $50 million of revenue after prizes, 29 percent of the next $100 million, and 26 percent of net revenue over $150 million. In addition, a marketing allowance of 8 percent of the first $100 million in net revenue and 5 percent thereafter was established. The marketing allowance is limited to 4 percent of net revenue for tracks located in Westchester or Queens Counties. The expiration of the program is extended until December 31, 2017.	April 12, 2005
Legislation Enacted in 2006		
Quick Draw	Extended the operation of Quick Draw until May 31, 2007.	April 28, 2006

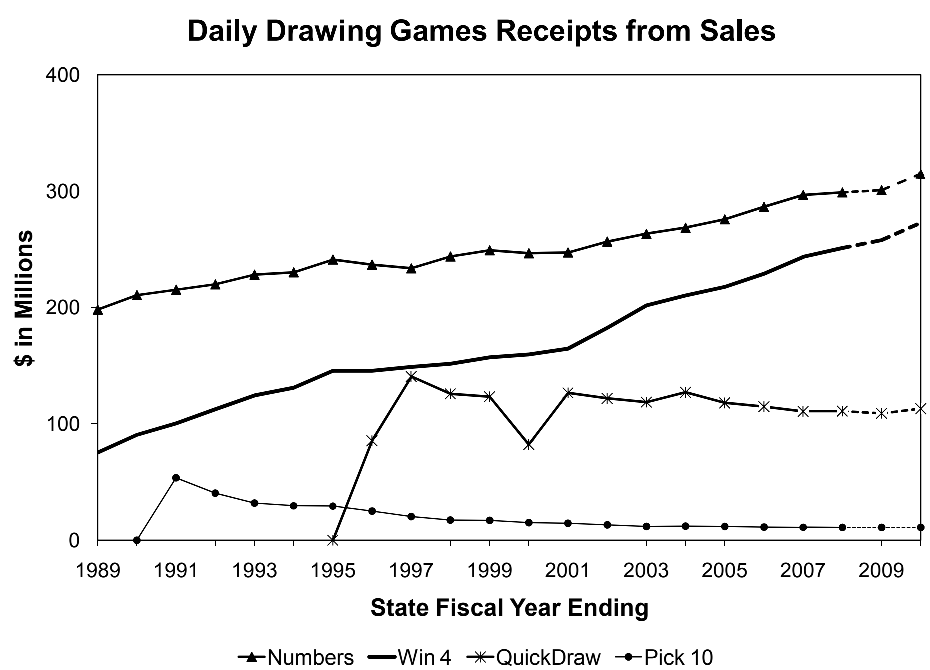
Subject	Description	Effective Date
Legislation Enacted in 2007		
Quick Draw	Extended the operation of Quick Draw until May 31, 2008.	May 31, 2007
Legislation Enacted in 2008		
Quick Draw	Extended the operation of Quick Draw until May 31, 2010.	
Video Lottery Terminals	Revised the distribution of VLT receipts to provide different commissions to tracks based on factors including: size of the facility; population surrounding the facility; and proximity to Indian and out-of-state casinos. In addition, tracks were provided a capital allowance for capital expenditures to enhance the facilities.	
Video Lottery Terminals	Provides a commission rate of 75 percent to a facility located in Sullivan County that has made a capital investment of at least one billion dollars and has no fewer than 2,000 full-time permanent employees. However, the qualifying facility is required to provide a minimum contribution to education of $38 million plus an amount equal to the Lottery's administrative costs, not to exceed 7 percent of net machine income.	

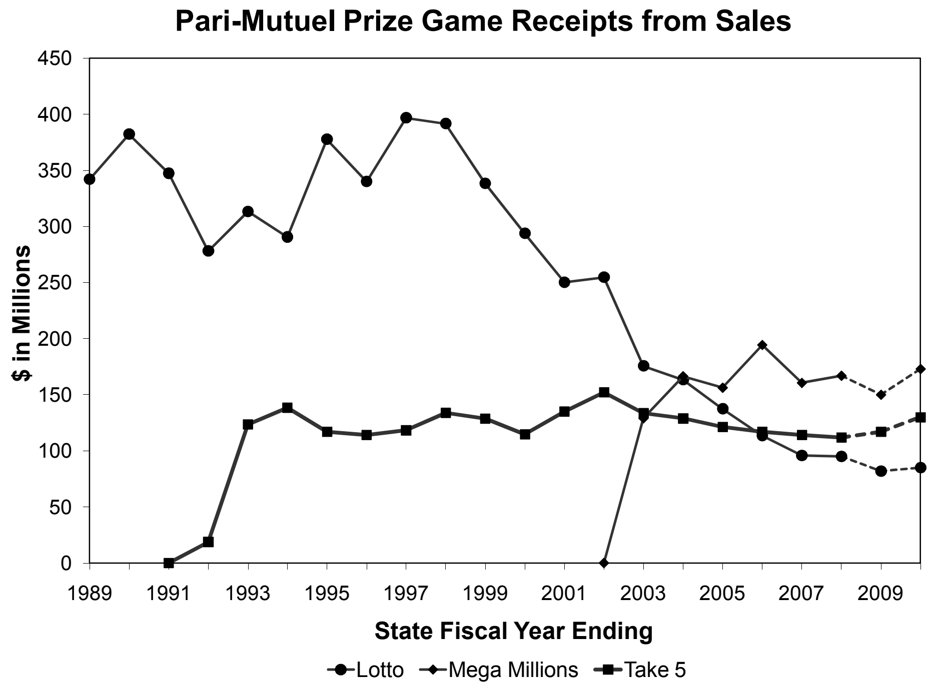
Lottery Demand

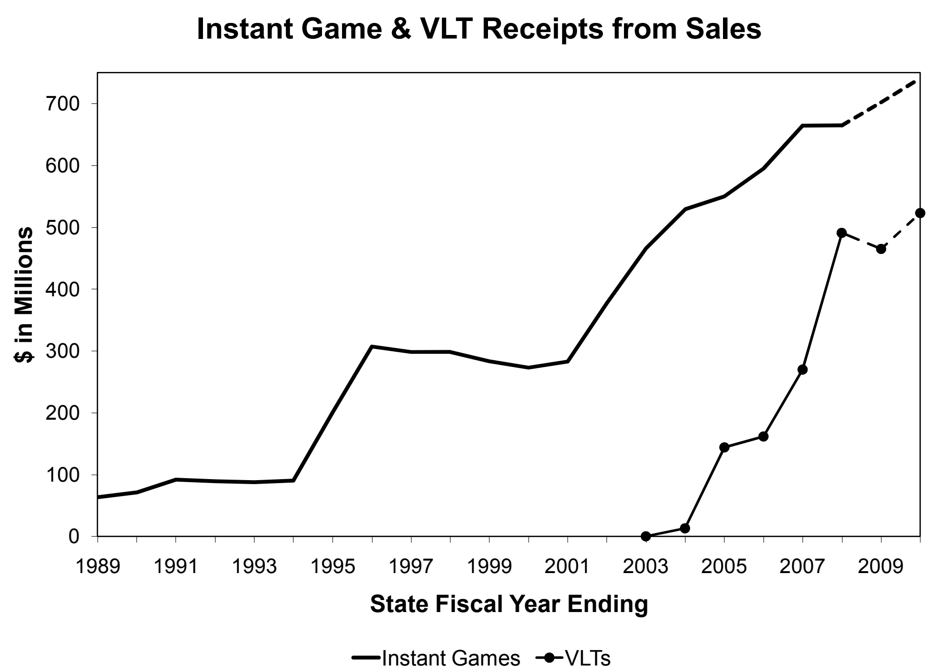
Factors that affect the demand for Lottery games include: the size of jackpots, the price of lottery tickets, the amount spent on advertising and marketing, the prize payout percentage, the development of new games that generate increased sales, the potential customers' attitude towards Lottery games and competition from other gambling venues.

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

The following graphs show the receipts history of the various games since 1989.







RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2008-09 Estimates

Receipts for education from sales of Lottery games for 2008-09 are estimated to be $2.95 billion, an increase of $346 million, or 13.3 percent above last year. Unspent administrative allowances and miscellaneous income account for $375 million of receipts. Net receipts for education also include $835 million from the operation of video lottery terminals, including $370 million in receipts for the right to operate VLTs at Aqueduct. A game-by-game profile follows.

Receipts from Instant Games sales are expected to post moderate growth in 2008-09, following a year of minimal growth in 2007-08. Sales of 75 percent games have experienced strong growth during 2008-09, boosted by the introduction of a $30 ticket. However, the sale of 65 percent games have remained flat from the prior year level.

Lotto receipts from sales are expected to decline from $95 million in 2007-08 to $82 million, a drop of 13.3 percent. This decline reflects the impact of loss in sales in comparison to 2007-08, which contained a to $65 million jackpot rollup in June 2007. In addition, Lotto revenue has declined over the past several years due to competition from the larger jackpots offered in the Mega Millions game and the associated decline in customer interest in small jackpot sizes. This trend is expected to continue to have an impact on Lotto receipts.

Mega Millions receipts from sales in 2008-09 is estimated to be $150 million, a decrease of $17 million from 2007-08. This decline reflects few large jackpot roll-ups and lower average roll-ups in 2008-09. The jackpot rolled-up to $325 million in August 2007 and $275 million in February 2008. The largest roll-up in 2008-09 has been $196 million in May.

STATES PARTICIPATING IN MEGA MILLIONS	
California	New Jersey
Georgia	New York
Illinois	Ohio
Maryland	Texas
Massachusetts	Virginia
Michigan	Washington

Receipts from Take 5 sales are estimated to increase by 4.9 percent in 2008-09 to $117 million. Take 5 sales have received a boost primarily from an effective advertising campaign (Little Bit of Luck) that began at the end of 2007-08. Take 5 sales also benefited from the introduction of an instant win add-on game, which was offered for part of the year. Sales of Take 5 had been on the decline for many years prior to the increase in 2008-09.

The rate of growth in Numbers and Win 4, while up slightly in 2008-09 compared to 2007-08 remains below the 10 year historical rates of growth. Receipts from Numbers are projected to increase by just 0.8 percent while Win 4 is projected to grow 3.0 percent.

Quick Draw is estimated to generate $109 million in receipts from sales, a decline of $2 million. Although Quick Draw sales continue to decline, the rate of decline has slowed to a projected drop of only 1.6 percent in 2008-09.

The Lottery is planning to offer two raffle games during 2008-09. These raffles are projected to generate $14 million in revenue for education.

VLT machines are currently in operation at Saratoga, Finger Lakes, Monticello, Buffalo, Batavia, Tioga, Vernon, and Yonkers racetracks. Receipts from VLT sales are estimated at $465 million for 2008-09, down $26.8 million from the prior year. This decline reflects the impact of legislation which increased operator commissions and provided capital allowances to tracks. The State is also expected to receive a $370 million payment in 2008-09 from Delaware North for the right to operate VLTs at Aqueduct Racetrack.

2009-10 Projections

Under current law, receipts for education from the Lottery in 2009-10 are projected to be $2.75 billion, a decrease of $208 million, or 7.0 percent below 2008-09. Adjusting for the one-time payment received in 2008-09 for the right to operate VLTs at Aqueduct, receipts for education are projected to increase by $162 million, or 6.2 percent. Receipts from all traditional lottery games will benefit from an additional week of collections in 2009-10.

Under proposed law, receipts for education from Lottery games are projected to decline from the prior fiscal year by $75 million, or 2.5 percent, to $2.88 billion.

In 2009-10, the Lottery Division will continue to implement an initiative begun in 2008-09 to increase the number of Lottery vendors. This initiative is anticipated to increase sales of all traditional Lottery games, excluding QuickDraw. The Executive Budget includes legislation to allow the Division to increase the investment options for the Lottery prize fund. This legislation would increase the miscellaneous income by $37 million in 2009-10, bringing the administrative surplus and miscellaneous income to $459 million for the year.

Instant games receipts from sales are projected to increase by $39 million, or 5.6 percent. Following the strong growth in 75 percent prize games in 2008-09, sales growth is projected to shift back to the 65 percent prize games in 2009-10.

Net receipts from Mega Millions sales are projected to increase by $23 million, to $173 million, as roll-ups are expected to increase based on historical patterns. Collection experience shows a direct correlation between the size of the jackpots and the amount of revenue received. Lotto game receipts from sales are projected to increase by $3 million, reflecting an extra week of collections and efforts to revitalize the game.

Legislation included in the Executive Budget would authorize the Division of the Lottery to join additional multi-jurisdictional lottery associations. While additional multi-state games are still in development, the introduction of a new game is expected to generate an additional $11 million in 2009-10.

Receipts from Take 5 sales are projected to grow by $13 million in 2009-10 to $130 million. Continued promotion of Take 5 is expected to result in a repeat of the growth experienced in 2008-09.

Growth in Daily Numbers and Win 4 receipts from sales are projected to continue to improve in 2009-10 from growth in the prior fiscal year, although remaining below historical trend levels. In addition, the Lottery Division plans an advertising campaign to renew interest in these games. Revenue from sales attributable to the Numbers game is projected to increase by 4.7 percent in 2009-10, to $315 million. Win 4 receipts from sales are projected to grow by $15 million, an increase of 5.8 percent.

Receipts from sales of the Quick Draw game are projected to increase by $35 million. The removal of restrictions on the operation of the game is projected to increase revenue from QuickDraw by $31 million in 2009-10 and increase the administrative surplus by $9 million.

The VLT program is projected to generate $523 million for education in 2009-10, a decrease of $312 million. This decrease represents the loss of the one-time $370 million payment for the right to operator VLT's at Aqueduct. Adjusting for the Aqueduct payment, VLT receipts are projected to increase by $58 million. Legislation included in the Executive Budget to remove the restrictions in the number of hours that VLTs can be operated is expected to increase revenue by $45 million in 2009-10.

MISCELLANEOUS RECEIPTS
CAPITAL PROJECTS FUNDS

MISCELLANEOUS RECEIPTS - CAPITAL PROJECTS FUNDS (millions of dollars)							
	2007-08 Actual	2008-09 Estimated	Change	Percent Change	2009-10 Projected	Change	Percent Change
State Funds	2,729	2,880	151	5.5	3,625	745	25.9
Federal Funds	1,745	1,906	161	9.7	1,866	(40)	(2.1)
All Funds	4,474	4,786	312	7.0	5,491	705	14.7

Note: Totals may differ due to rounding.

MISCELLANEOUS RECEIPTS - CAPITAL PROJECTS FUNDS (millions of dollars)			
	2007-08	2008-09	2009-10
Authority Bond Proceeds			
Transportation	1,049	980	899
Public Protection	221	296	339
Health and Social Welfare	61	117	150
Education	1,367	1,863	1,643
Mental Hygiene	124	402	500
Economic Development/ Government Oversight	720	751	1,176
General Government	58	79	74
Other	203	469	144
State Park Fees	9	24	24
Environmental Revenues	29	19	141
All Other	288	178	201
Total	4,129	5,178	5,291
Accounting Adjustment	(1,400)	(2,298)	(1,666)
Financial Plan Total	2,729	2,880	3,625

Miscellaneous receipts in the Capital Projects Fund type include reimbursements from the proceeds of bonds sold by public authorities, fees, and other sources of revenue dedicated to specific capital projects funds, primarily for environmental or transportation capital purposes. The Miscellaneous Receipts table reflects an accounting adjustment for spending made directly from bonds sold by public authorities for State projects. This capital activity, commonly referred to as “Off-Budget Spending”, is not reflected in the Comptroller’s accounting system, but is included in the Five-Year Capital Program and Financial Plan estimates and projections. Although Federal Funds are included in the first table, in order to provide a more complete picture of non-tax receipts, a fuller discussion of Federal Funds is included in a separate section.

Regarding capital projects spending activity in the Capital Program and Financing Plan, State Funds receipts are utilized to finance two types of capital spending. Authority bond proceeds are used for spending financed with Authority Bonds, while Other Miscellaneous Receipts (Parks, Environmental, and Other receipts) are used to finance State Pay-As-You-Go spending. Federal Funds receipts (Federal Grants) are utilized to finance Federal Pay-As-You-Go spending.

REIMBURSEMENT FROM AUTHORITY BOND PROCEEDS

Pursuant to statutory authorizations, State agencies enter into contractual arrangements with public authorities to provide for the financing of State capital projects. Such contractual arrangements for financing capital project spending exist with the Empire State Development Corporation, the Dormitory Authority of the State of New York, the Environmental Facilities Corporation, the New York State Housing Finance Authority, and the New York State Thruway Authority. Currently, the primary functional areas for which authority bond proceeds finance capital projects spending are transportation, higher education, and economic development. After the State makes payments directly from appropriations for project costs, it is reimbursed by the public authority from the proceeds of bonds sold previously, except for the" Off-Budget Spending" mentioned previously. The amount of reimbursements received annually reflects the level of bondable capital spending in that year and may fluctuate depending upon when the spending occurs and the timing of related bond sales. As bondable spending fluctuates to reflect the progress of capital programs across all areas, so do the bond receipts received as reimbursements.

STATE PARKS, ENVIRONMENTAL, AND OTHER REVENUES

The following miscellaneous receipts do not include reimbursements from authority bond proceeds.

State Parks user fees and related revenues are deposited into the State Parks Infrastructure Fund and the Miscellaneous Capital Projects Fund. These revenues, which are projected at $25 million in 2008-09 and $30 million in 2009-10, 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. The Executive Budget contains a proposal to expand the Bottle Bill to include all non-carbonated beverages and redirect all unclaimed deposits to the State to support spending in the Environmental Protection Fund (EPF). These modifications will begin as of January 1, 2009.

Other moneys and fees are received in the various Capital Projects Funds to support capital programs at State facilities. Finally, certain receipts reimburse the State for capital spending on behalf of municipalities, public authorities, and private corporations, primarily for transportation and environmental projects. A major portion of these receipts reflect repayments pursuant to previously negotiated agreements.

MISCELLANEOUS RECEIPTS
DEBT SERVICE FUNDS

MISCELLANEOUS RECEIPTS - DEBT SERVICE FUNDS (millions of dollars)							
	2007-08 Actual	2008-09 Estimated	Change	Percent Change	2009-10 Projected	Change	Percent Change
General Fund	0	0	0	0	0	0	0
Other Funds	842	779	(63)	(7.48)	830	51	6.5
All Funds	842	779	(63)	(7.48)	830	51	6.5

Note: Totals may differ due to rounding.

MISCELLANEOUS RECEIPTS - DEBT SERVICE FUNDS (millions of dollars)			
	2007-08	2008-09	2009-10
Mental Hygiene Patient Receipts	296	328	376
SUNY Dormitory Fees	416	335	338
Health Patient Receipts	113	98	98
All Other	17	18	18
Total	842	779	830

Miscellaneous receipts in the Debt Service fund type include patient revenues, rental fees, medical insurance payments, interest income, and other revenues. These revenues are first dedicated for the payment of lease-purchase agreements, contractual obligations, and debt service. These revenues support about 16 percent of the State's debt service payments and have been pledged as security for bonds issued for Mental Hygiene facilities, Department of Health facilities and the State University of New York (SUNY) dormitories. In addition, the revenues are used by the State to pay debt service on general obligation housing bonds. After such requirements are satisfied, the balance of most miscellaneous receipts, together with other receipts and transfers, flow back to the General Fund or to Special Revenue funds to offset the cost of State operations.

MENTAL HYGIENE PATIENT RECEIPTS

Payments from patients and various third-party payers, including Medicare and insurance companies, for services provided by the mental hygiene agencies are deposited in the Mental Health Services Fund as miscellaneous receipts. The revenues received are used to make lease-purchase payments to the Dormitory Authority of the State of New York (DASNY) for debt service on mental health services bonds. Additionally, portions of State and local assistance and Federal Medicaid payments to not-for-profit community facilities are earmarked to pay their share of debt service. These are also deposited as miscellaneous receipts in the Mental Health Services Fund. DASNY makes loans to eligible not-for-profit agencies providing mental health services and, in return, the voluntary agencies make rental payments equal to the amount of debt service on bonds issued to finance their projects.

DORMITORY FEES

Miscellaneous receipts in the SUNY Dormitory Fund are composed primarily of fees charged to SUNY students for dormitory room rentals and other associated fees. The receipts of the Fund are pledged for debt service on bonds issued by DASNY in the construction and rehabilitation of SUNY dormitories. These payments are made pursuant to a lease-purchase payment agreement.

HEALTH PATIENT RECEIPTS

Patient care reimbursements from the Department of Health's hospitals and the veterans' homes (Oxford, New York City and Western New York) are deposited into the Health Income Fund to make lease-purchase rental payments to DASNY. Similar to the Mental Hygiene Services Fund, the receipts are pledged for debt service of bonds issued by DASNY to finance the construction and rehabilitation of State hospitals and veteran's homes. These receipts are composed of payments from Medicaid, Medicare, insurance, and individuals.

ALL OTHER

The all other miscellaneous receipts category primarily includes investment income receipts from the Local Government Assistance Corporation 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 $36.0 billion in 2008-09 and $35.8 billion in 2009-10. These revenues represent approximately 30 percent of total receipts in governmental funds, excluding general obligation bond proceeds, and are deposited into the General Fund, Special Revenue and the Capital Projects fund types.

GENERAL FUND

In 2006-07, Federal grants were reclassified to the Refunds and Reimbursements category of Miscellaneous Receipts, while Medicare Part D payments were classified as Federal grants. This resulted in baseline Federal grants collections of $68.9 million in 2007-08. Since then the Medicare Part D program, was reclassified as miscellaneous receipts, resulting in a loss to Federal grants, though not to the General Fund at large.

In 2008-09, Federal grants are expected to be $41.3 million, a decrease of $28 million from the prior year due to the loss of the Medicare Part D subsidiary. In 2009-10, Federal grants are projected to drop to $0, reflecting the full loss of the Medicare Part D subsidiary.

SPECIAL REVENUE FUNDS

Federal grants account for approximately three-quarters of all special revenue receipts and are used to support a wide range of programs at the State and local government level. Medicaid is the single largest program supported by Federal funds, and helps finance health care, medical supplies, and professional services for eligible persons. The State receives funds from the Federal government to make payments to providers for both State-operated and non-State-operated facilities. The State-operated category includes facilities of the Offices of Mental Health and Mental Retardation and Developmental Disabilities. These facilities receive Medicaid funds for the delivery of eligible services to patients. Receipts for State-operated facilities represent 12 percent of total Federal Medicaid reimbursements, while receipts for non-State-operated facilities represent the remaining 88 percent.

Other Federal grants in the Special Revenue Funds support programs administered primarily by the departments of Education, Family Assistance, Health, and Labor. These programs include Welfare, Foster Care, Food and Nutrition Services, and Supplementary Educational Services.

CAPITAL PROJECTS FUNDS

Federal grants in the Capital Projects fund type finance transportation planning, engineering, and construction projects. Federal grants also support local wastewater treatment projects financed through the State's Revolving Loan Fund. Other Federal grants are for the rehabilitation of State armories, eligible housing programs, and other environmental purposes.

Federal Grants								
		Special Revenue Funds			Total	Capital Project	Debt Service	Total
	General Fund	Medicaid	Wefare	All Other	SRF	Funds	Funds	All Funds
2007-08	69	22,167	2,184	8,744	33,095	1,745	0	34,909
2008-09	41	22,556	2,334	9,141	34,031	1,906	0	35,978
2009-10	0	22,212	2,334	9,425	33,971	1,866	0	35,837

DEDICATED FUND TAX RECEIPTS

All or portions of several tax sources, including the personal income tax, transportation-related taxes and fees, cigarette taxes, sales and use taxes, and corporate taxes are statutorily dedicated to various Special Revenue, Debt Service and Capital Projects Funds. The tables below identify each dedicated fund by Fund type, the source and amount of dedicated tax receipts deposited in 2007-08 and estimated to be deposited in 2008-09 to 2012-13. The estimates reflect Executive Budget recommendations.

DEDICATED FUND TAX RECEIPTS (millions of dollars)			
	2007-08 Actual	2008-09 Estimated	2009-10 Recommended
SPECIAL REVENUE FUNDS			
School Tax Relief Fund (STAR)			
Personal income tax	4,664	4,440	3,416
Dedicated Mass Transportation Trust Fund	675	667	686
Petroleum business tax	376	372	382
Motor fuel tax	110	110	111
Motor vehicle fees	189	185	193
Mass Trans. Operating Assistance Fund	1,886	1,791	1,768
Corporate Surcharges			
Corporation franchise tax	551	433	427
Corporation and utilities tax	115	123	130
Insurance tax	131	121	129
Bank tax	178	165	104
Other			
Sales and use tax	705	744	768
Petroleum business tax	138	137	142
Corporation and utilities — sections 183 & 184	68	68	68
HCRA Resources Fund	567	874	1,349
Cigarette tax	567	874	945
Sales and use tax	0	0	404
Other Special Revenue Funds			
Motor vehicle fees	41	41	41
Total Tax Receipts: Special Revenue Funds-Other	7,833	7,813	7,260
DEBT SERVICE FUNDS			
Revenue Bond Tax Fund			
Personal income tax	9,141	9,138	8,690
Clean Water/Clean Air Fund			
Real estate transfer tax	809	513	560
Local Government Assistance Tax Fund			
Sales and use tax	2,646	2,662	3,031
Total Tax Receipts: Debt Service Funds	12,596	12,313	12,281
CAPITAL PROJECTS FUNDS			
Dedicated Highway and Bridge Trust Funds	1,835	1,819	1,945
Petroleum business taxes	641	634	651
Motor fuel tax	415	413	417
Motor vehicle fees	569	555	637
Highway use tax	148	147	160
Transmission tax	15	17	17
Auto rental tax	47	53	63
Environmental Protection Fund			
Real estate transfer tax	212	237	80
Total Tax Receipts: Capital Projects Funds	2,047	2,056	2,025
Total Tax Receipts: Other Funds	**22,476**	**22,182**	**21,566**

DEDICATED FUND TAX RECEIPTS (millions of dollars)	2010-11 Recommended	2011-12 Recommended	2012-13 Recommended
SPECIAL REVENUE FUNDS			
School Tax Relief Fund (STAR)			
Personal income tax	3,371	3,569	3,745
Dedicated Mass Transportation Trust Fund	674	678	681
Petroleum business tax	371	372	374
Motor fuel tax	111	112	112
Motor vehicle fees	192	194	195
Mass Trans. Operating Assistance Fund	1,843	1,891	1,972
Corporate Surcharges			
Corporation franchise tax	462	457	494
Corporation and utilities tax	130	135	140
Insurance tax	139	150	161
Bank tax	122	135	131
Other			
Sales and use tax	784	808	839
Petroleum business tax	138	138	139
Corporation and utilities — sections 183 & 184	68	68	68
HCRA Resources Fund	1,467	1,465	1,427
Cigarette tax	928	926	888
Sales and use tax	539	539	539
Other Special Revenue Funds			
Motor vehicle fees	41	41	41
Total Tax Receipts: Special Revenue Funds-Other	7,396	7,644	7,866
DEBT SERVICE FUNDS			
Revenue Bond Tax Fund			
Personal income tax	9,293	9,870	10,540
Clean Water/Clean Air Fund			
Real estate transfer tax	655	727	800
Local Government Assistance Tax Fund			
Sales and use tax	3,190	3,281	3,400
Total Tax Receipts: Debt Service Funds	13,138	13,878	14,740
CAPITAL PROJECTS FUNDS			
Dedicated Highway and Bridge Trust Funds	1,978	1,992	1,996
Petroleum business taxes	632	634	636
Motor fuel tax	418	420	422
Motor vehicle fees	691	694	688
Highway use tax	154	160	165
Transmission tax	17	17	17
Auto rental tax	66	67	68
Environmental Protection Fund			
Real estate transfer tax	80	80	80
Total Tax Receipts: Capital Projects Funds	2,058	2,072	2,076
Total Tax Receipts: Other Funds	**22,592**	**23,594**	**24,682**

DEDICATED FUND TAX RECEIPTS

The following discussion identifies the statutory provisions which establish the dedicated funds, the source of dedicated tax receipts and the formula used to allocate tax receipts to the funds, and the purposes for which those deposits may be used.

SPECIAL REVENUE FUNDS

School Tax Relief Fund ("STAR" Fund-053)

The School Tax Relief Fund was established by Section 97-rrr 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.

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.

Mass Transportation Operating Assistance Fund ("MTOAF" Fund-313)

The Mass Transportation Operating Assistance Fund was established by Section 88-a of the State Finance Law. Tax receipts dedicated to the fund are comprised of a 17 percent surcharge levied on the portion of the State general business corporation tax, bank tax, the corporations and utilities tax, and the insurance tax allocated to the Metropolitan Transportation Commuter District (MTCD), a .375 percent sales tax levied in the MCTD, a portion of the petroleum business tax, and a portion of the taxes on transportation and transmission companies. The moneys of the MTOAF are subject to appropriation and are allocated among two accounts within the Fund. The moneys in each account must be used for the transportation assistance purposes for which each account was established. This Budget proposes several business tax initiatives which would increase MTOAF receipts by $25 million in State Fiscal Year 2009-10 and $12 million when fully implemented. The accounts of MTOAF include:

- Public Transportation Systems Operating Assistance Account (PTOA - Fund 313-01)

- Metropolitan Mass Transportation Operating Assistance Account (MMTOA - Fund 313-02)

The PTOA receives:

- 45 percent of the 19.7 percent of the basic petroleum business tax that is dedicated to the MTOAF; and

- A $16.7 million transfer from the MMTOA and a 14.2 million transfer from the General Fund, as recommended in the Executive Budget.

The MMTOA receives:

- Receipts collected from the taxes imposed on transportation and transmission companies by sections 183 and 184 of Article 9 of the Tax Law;

- All tax receipts from the 17 percent surcharge imposed on taxpayers that are subject to the corporation franchise tax, corporations and utilities tax, the insurance taxes, and the bank tax and that conduct business in the Metropolitan Commuter Transportation District ("MCTD");

- Tax receipts from the 0.375 percent sales and use tax imposed in the MCTD; and

- 55 percent of the 19.7 percent of the basic petroleum business tax that is dedicated to the MTOAF.

Health Care Reform Act Resources Fund ("HCRA" Fund-061)

The Health Care Reform Act (HCRA) Resources Fund was established by section 92-dd of the State Finance Law and receives slightly more than 70 percent of total State cigarette tax revenues. Other revenues dedicated to this Fund include hospital surcharges and assessments, a Covered Lives Assessment on commercial insurers and a portion of cigarette revenue from New York City's locally imposed cigarette tax. These resources support numerous public health, Medicaid and insurance programs for the uninsured/underinsured; including Family Health Plus, Healthy NY, Child Health Plus, anti-tobacco initiatives, graduate medical education, working disabled, and indigent care. This Budget proposes legislation to impose an additional 18 percent sales tax on soft drinks and an increase in the license fee for cigarette retailers, which will be dedicated to the HCRA resources fund.

State Lottery Fund (Fund-160)

The State Lottery Fund was established by Section 92-c of the State Finance Law. Receipts of the Fund are derived from the sale of lottery tickets and from video gaming machines. The moneys of the Fund are used to pay the expenses incurred in the operation of the State Lottery and for the purchase of machinery or other capital equipment by the Division of the Lottery, and to provide aid to all school children, including pupils with special educational needs and handicapping conditions. The table below summarizes the receipts for education generated from lottery and video lottery terminals (VLTs). Lottery receipts are classified as Special Revenue miscellaneous receipts.

STATE LOTTERY FUND (millions of dollars)						
	2007-08 Actual	2008-09 Estimated	2009-10 Recommended	2010-11 Recommended	2011-12 Recommended	2012-13 Recommended
Lottery	2,117	2,119	2,356	2,415	2,482	2,588
VLTs	491	835	523	1,061	878	989
Total Lottery	2,608	2,954	2,879	3,476	3,360	3,577

Other Special Revenue Funds

Since 2006, certain motor vehicle fees have been reclassified from special revenue miscellaneous receipts to special revenue motor vehicle fees. Though these receipts have moved from one category to another; they still remain dedicated to the same funds.

DEBT SERVICE FUNDS

Revenue Bond Tax Fund ("RBTF" Fund 311-02)

The Revenue Bond Tax Fund was established by Section 92-z of the State Finance Law. The Fund receives 25 percent of the receipts from the State personal income tax imposed by Article 22 of the Tax Law. Payments from the Fund are pledged to pay the debt service on State-supported Personal Income Tax Revenue Bonds, which support a variety of capital projects. No later than the fifteenth day of each month, the Comptroller is required to pay over to the General Fund all money in the RBTF in excess of the aggregate amount required to be set aside for debt service.

Clean Water/Clean Air Fund ("CWCAF" Fund-361)

The Clean Water Clean Air Fund was established by Section 97-bbb of the State Finance Law. The Fund receives all real estate transfer taxes in excess of the deposit to the Environmental Protection Fund. The moneys in the Fund are used to reimburse the General Fund for transfers made to the General Debt Service Fund to pay the debt service on 1996 Clean Water/Clean Air general obligations bonds. At the end of each month, the Comptroller is required to pay over to the General Fund all moneys in the CWCAF in excess of the aggregate amount required for such reimbursements.

Local Government Assistance Tax Fund ("LGATF" Fund-364)

The Local Government Assistance Tax Fund was established by Section 92-r of the State Finance Law. The Fund receives moneys collected from the imposition of the State sales and compensating use taxes in an amount attributable to a 1 percent rate of taxation. Payments from the Fund are pledged to pay the debt service on State-supported Local Government Assistance Corporation Bonds originally issued in the early 1990s to finance payments to local governments previously financed by the State. The Comptroller is required to pay over to the General Fund all money in the LGATF in excess of the aggregate amount required to be set aside for debt service. In addition, local aid payments due to New York City and assigned by the City to the Sales Tax Asset Receivable Corporation (STARC) are appropriated from the LGATF.

CAPITAL PROJECTS FUNDS

Dedicated Highway and Bridge Trust Fund ("DHBTF" Fund-072)

The Dedicated Highway and Bridge Trust Fund was established by Section 89-b of the State Finance Law. The DHBTF receives moneys from the motor fuel tax, motor vehicle fees, highway use tax, auto rental tax, petroleum business tax and a portion of the transportation and transmission tax imposed under the corporations and utilities tax. The moneys of the Fund, pursuant to an appropriation, are used to support transportation, including the reconstruction, replacement, reconditioning, restoration, rehabilitation and preservation of State, county, town, city and village roads, aviation projects, matching Federal highway grants, snow and ice removal, acquisition of real property, bus safety inspection, rail freight facilities, intercity rail passenger facilities, state, municipal and private ports, and ferry lines. Payments from the Fund are also pledge to support the debt service on State-supported Dedicated Highway and Bridge Trust Fund Bonds.

Environmental Protection Fund ("EPF" Fund-078)

The Environmental Protection Fund was established by Section 92-s of the State Finance Law. The Fund currently receives real estate transfer taxes in the amount of $237 million. Legislation proposed in the Executive Budget would set the deposit at $80 million. Moneys in the Fund are deposited to the following accounts:

- The Solid Waste Account for any non-hazardous municipal landfill closure project, municipal waste reduction or recycling project or local solid waste management plans.

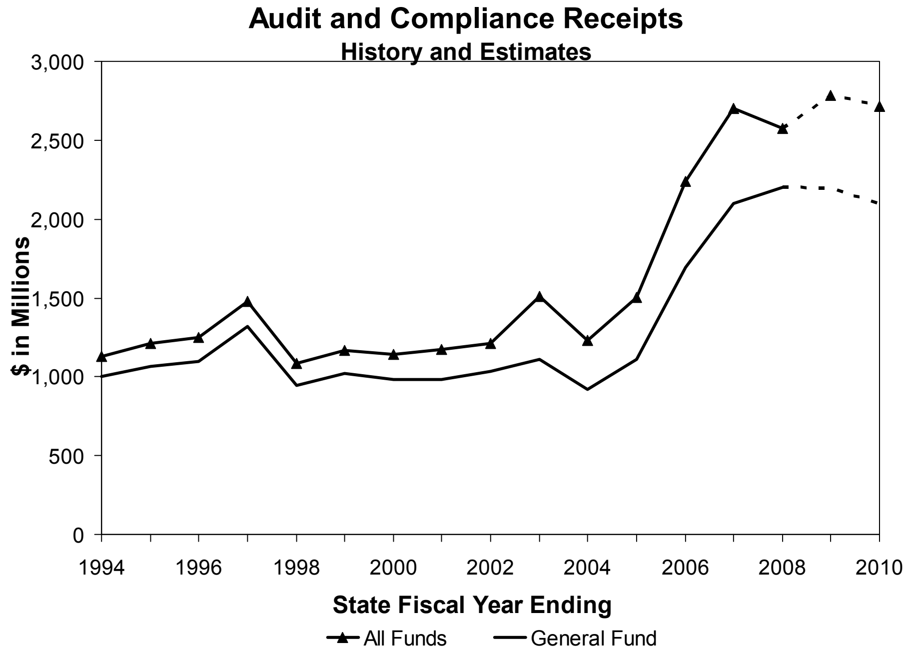
- The Parks, Recreation and Historic Preservation Account for any municipal park project, historic preservation project, urban cultural park project, waterfront revitalization program, or coastal rehabilitation project.

- The Open Space Account for any open space land conservation project, bio-diversity stewardship and research, non-point source abatement and control projects, upon the request of the Director of the Division of the Budget.

AUDIT AND COMPLIANCE RECEIPTS

AUDIT AND COMPLIANCE RECEIPTS (millions of dollars)							
	2007-08 Actual	2008-09 Estimated	Change	Percent Change	2009-10 Projected	Change	Percent Change
General Fund	2,203	2,194	(9)	(0.4)	2,095	(99)	(4.5)
Other Funds	374	593	219	58.6	622	29	4.9
All Funds	2,577	2,787	210	8.1	2,717	(70)	(2.5)

Note: Totals may differ due to rounding.



PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- provide the Department of Taxation and Finance with statutory tools that would complement additional staff provided in the Budget and result in a more comprehensive audit, compliance and tax enforcement program to ensure that taxpayers are remitting the taxes they owe.

DESCRIPTION

This section summarizes the cash collected by the Department of Taxation and Finance related to its audit and compliance activities. The amounts reported are already reflected in the estimates of individual tax receipts contained in this volume.

The Department of Taxation and Finance's Office of Tax Enforcement (OTE) is composed of the Audit Division, the Division of Collections and Civil Enforcement ("Collections") and the Criminal Division. The Audit Division is responsible for verifying that the correct tax has been paid and the Compliance Division is responsible for collecting the correct tax.

The collections base of OTE activities is the correct amount of taxes legally required to be paid, which is verified through the audit process. The receipts from enforcement activities are the result of incorrect tax payments, including filing returns with math errors; filing past due returns or the incorrect return; the improper interpretation of Tax Law, regulations or instructions; and tax evasion that results in a gap between the amount that is legally due and required to be paid and the amount that was voluntarily paid. In certain instances, taxpayers may also be subject to penalties and interest.

Growth in Recent Collections

TABLE 1
Growth All Funds Audit and Compliance Collections
(in millions)

	All Funds Audit and Compliance Collections	Change from Prior Year	Percent Change from Prior Year
1993-94	1,130		
1994-95	1,211	81	7.2
1995-96	1,247	36	3.0
1996-97	1,480	233	18.7
1997-98	1,085	(395)	(26.7)
1998-99	1,169	84	7.7
1999-00	1,141	(28)	(2.4)
2000-01	1,174	33	2.9
2001-02	1,209	35	3.0
2002-03	1,510	301	24.9
2003-04	1,232	(278)	(18.4)
2004-05	1,503	271	22.0
2005-06	2,237	734	48.8
2006-07	2,700	463	20.7
2007-08	2,577	(123)	(4.5)
Estimated			
2008-09	2,787	210	8.1
2009-10	2,717	(70)	(2.5)

Collectively, it is estimated that the portion of All Funds receipts attributable to enforcement activities and reflected in the estimates and projections of the individual taxes, will reach $2.8 billion in 2008-09 and decrease to $2.7 billion in 2009-10. This source of receipts has grown dramatically in recent years, having more than doubled since 2001-02. This growth can be attributed to a combination of policy actions adopted over the past few years and improved performance of the Department of Taxation and Finance in identifying and concluding productive audits. Collections for 2007-08 fell 4.5 percent, following robust growth of 21 percent in 2006-07, 49 percent in 2005-06 and 22 percent in 2004-05. Prior to 2002-03, enforcement receipts were relatively stable in the range of $1.1 billion to $1.2 billion annually.

Historic Growth in 2005-06 Audit Receipts

TABLE 2
ALL FUNDS AUDIT COLLECTIONS BY TAX TYPE
(in millions)

	2004-05	2005-06	Change from Prior Year	Percent Change from Prior Year
Personal Income Tax	**630**	**701**	**71**	**11.3**
User Taxes and Fees	**331**	**350**	**19**	**5.8**
Business Taxes	**504**	**1,144**	**640**	**126.8**
Corporation and Utilities Taxes	43	101	58	132.8
Corporate Franchise Tax	397	653	256	64.5
Bank Tax	24	330	306	1,271.3
Insurance Tax	32	33	1	1.7
Petroleum Business Tax	7	27	20	273.5
Other Taxes	**38**	**41**	**4**	**10.0**
Total	**1,503**	**2,237**	**734**	**48.8**

The historic growth in 2005-06 audit receipts of $734 million (49 percent) over the prior year was attributable to growth in audit collections from business taxes of 127 percent or $640 million. The balance of the increase was attributable to the audit receipts from the personal income tax (an increase of 11.3 percent or $71 million), user taxes and fees (5.8 percent or $19 million) and other taxes (an increase of 10 percent or $4 million).

Bank tax audit receipts, which increased from just $24 million in 2004-05 to almost $330 million, accounted for more than one-half of the $640 million increase in business tax audit collections. The increase was largely attributable to the Voluntary Compliance Initiative (VCI) that was enacted in 2005 and provided the temporary authority for the Department of Taxation and Finance to require the reporting and disclosure of Federal and New York reportable transactions and gave 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 transactions. The VCI initiative resulted in the collection of approximately $200 million in bank tax audit receipts in 2005-06.

Audit receipts from the corporate franchise tax accounted for $256 million of the $640 million increase and were the result of significant collections received in April and May 2005, when several audits involving back years were closed following a favorable Tax Tribunal decision. The balance of the 2005-06 increase in business tax collections from the prior year was attributable to audit collections from the telecommunications industry collected under the corporation and utilities taxes (a 133 percent increase or $58 million), and the petroleum business tax (a 274 percent increase or $20 million).

Growth in 2006-07 Receipts Continued to be Robust

TABLE 3
ALL FUNDS AUDIT COLLECTIONS BY TAX TYPE
(in millions)

	2005-06	2006-07	Change from Prior Year	Percent Change from Prior Year
Personal Income Tax	**701**	**732**	**31**	**4.4**
User Taxes and Fees	**350**	**352**	**1**	**0.4**
Business Taxes	**1,144**	**1,546**	**402**	**35.2**
Corporation and Utilities Taxes	101	52	(49)	(48.8)
Corporate Franchise Tax	653	1,133	480	73.5
Bank Tax	330	299	(31)	(9.3)
Insurance Tax	33	56	23	70.9
Petroleum Business Tax	27	6	(21)	(78.9)
Other Taxes	**41**	**70**	**29**	**69.5**
Total	**2,237**	**2,700**	**463**	**20.7**

Audit receipts for 2006-07 increased from $2,237 million in 2005-06 to $2,700 million. The continued robust growth in 2006-07 audit receipts of $463 million (20 percent) over 2005-06 was again primarily attributable to growth in audit collections from business taxes of 35 percent or $402 million. The balance of the increase was attributable to the audit receipts from the personal income tax (an increase of 4.4 percent or $31 million), other taxes (an increase of nearly 70 percent or $29 million) and user taxes and fees (0.4 percent or $1 million). The significant increase in audit receipts from other taxes was due to the receipt of $24 million in estate tax audits in November 2006.

Corporate franchise tax audit receipts increased from $653 million in 2005-06 to $1,133 million, a jump of $480 million. The increase was attributable to the settlement of audit issues with a significant number of financial service and other large multi-state taxpayers. Insurance tax audit receipts increased by $23 million or 71 percent over the prior year. These increases in audit collections from business taxes were offset by declines in receipts from corporation and utilities taxes from $101 million to $52 million (49 percent); the bank tax from $330 million to $299 million (9 percent) and the petroleum business tax from $27 million to $6 million (79 percent). Although these were sharp declines from prior-year results, receipts continued to exceed average collections over the ten-year period beginning in 1993-94 of $29 million for the corporation and utilities taxes and $66 million for the bank tax.

Receipts for 2007-08

TABLE 4 ALL FUNDS AUDIT COLLECTIONS BY TAX TYPE (in millions)	2006-07	2007-08	Change from Prior Year	Percent Change from Prior Year
Personal Income Tax	**732**	**817**	**85**	**11.6**
User Taxes and Fees	**352**	**353**	**1**	**0.4**
Business Taxes	**1,546**	**1,371**	**(175)**	**(11.3)**
Corporation and Utilities Taxes	52	35	(17)	(32.3)
Corporate Franchise Tax	1,133	1,181	48	4.2
Bank Tax	299	104	(195)	(65.2)
Insurance Tax	56	44	(12)	(22.0)
Petroleum Business Tax	6	7	1	23.6
Other Taxes	**70**	**36**	**(34)**	**(48.6)**
Total	**2,700**	**2,577**	**(123)**	**(4.6)**

Audit receipts for 2007-08 decreased from $2,700 million in 2006-07 to $2,577 million. Although receipts declined from the prior year's historically high levels that included collections for audits that spanned far more than the normal three years, they remained significantly above average All Funds collections over the ten-year period beginning in 1993-94 of $1,235 million. Estimated audit receipts for 2007-08 benefited from additional receipts attributable to resources provided with the 2007-08 Budget for the Department of Taxation and Finance. The decline in 2007-08 audit receipts of $123 million (4.5 percent) from 2006-07 was the result of a moderation in audit collections from business taxes from the previous year's historic levels. The bulk of the $175 million (11 percent) decrease in audit receipts from business taxes in 2007-08 was due to decreases in receipts from the bank tax of $195 million, insurance tax of $12 million and corporation and utilities taxes of $17 million, partially offset by an increase of $48 million in corporate franchise tax receipts. The balance of the decrease was attributable to reduced audit receipts from other taxes ($34 million, or 49 percent), offset by increases in audit receipts from personal income taxes ($85 million, or 11.6 percent) and user taxes and fees ($1 million, or 0.4 percent).

Estimated Receipts for 2008-09

TABLE 5 ALL FUNDS AUDIT COLLECTIONS BY TAX TYPE (in millions)	2007-08	2008-09	Change from Prior Year	Percent Change from Prior Year
Personal Income Tax	**817**	**847**	**30**	**3.7**
User Taxes and Fees	**353**	**383**	**30**	**8.5**
Business Taxes	**1,371**	**1,507**	**136**	**9.9**
Corporation and Utilities Taxes	35	24	(11)	(31.4)
Corporate Franchise Tax	1,181	1,148	(33)	(2.8)
Bank Tax	104	265	161	154.8
Insurance Tax	44	48	4	9.1
Petroleum Business Tax	7	22	15	214.3
Other Taxes	**36**	**50**	**14**	**38.9**
Total	**2,577**	**2,787**	**210**	**8.1**

Audit receipts for 2008-09 are estimated to increase from $2,577 million in 2007-08 to $2,787 million. Overall, audit receipts are estimated to remain significantly above average All Funds collections over the ten-year period beginning in 1993-94 of $1,235 million. Estimated audit receipts for 2008-09 include an expectation of added receipts from a voluntary disclosure program, the reopening of the Voluntary Compliance Initiative (VCI) from November 1, 2008, through January 31, 2009, and the closure of multi-year financial sector audits. The increase in projected 2008-09 audit receipts of $210 million (8.1 percent) results from an increase of 9.9 percent, or $136 million, in audit collections from business taxes, including an increase in bank tax receipts of $161 million, and additional audit receipts from personal income taxes ($30 million, or 3.7 percent), user taxes and fees ($30 million, or 8.5 percent) and other taxes ($14 million), offset by decreases in audit receipts from corporation and utilities taxes and the corporate franchise tax.

Projected Receipts for 2009-10

TABLE 6
ALL FUNDS AUDIT COLLECTIONS BY TAX TYPE
(in millions)

	2008-09	2009-10	Change from Prior Year	Percent Change from Prior Year
Personal Income Tax	**847**	**1,013**	**166**	**19.6**
User Taxes and Fees	**383**	**577**	**194**	**50.7**
Business Taxes	**1,507**	**1,093**	**(414)**	**(27.5)**
Corporation and Utilities Taxes	24	24	0	0.0
Corporate Franchise Tax	1,148	928	(220)	(19.2)
Bank Tax	265	71	(194)	(73.2)
Insurance Tax	48	48	0	0.0
Petroleum Business Tax	22	22	0	0.0
Other Taxes	**50**	**34**	**(16)**	**(32.0)**
Total	**2,787**	**2,717**	**(70)**	**(2.5)**

Audit receipts for 2009-10 are projected to decrease from $2,787 million in 2008-09 to $2,717 million. Overall, audit receipts are projected to continue to remain significantly above average collections for the period before 2005-06. The receipts decrease from 2008-09 is mainly due to the expiration of the Voluntary Compliance Initiative (VCI) on January 31, 2009 and the decline in proceeds from the financial sector audits noted above, offset by the additional receipts expected from the enhanced tax enforcement tools and new targeted resources for the Department of Taxation and Finance included in this Budget. The decrease in projected 2009-10 audit receipts of $70 million (2.5 percent) results from a decrease, of 27.5 percent or $414 million, in audit collections from business taxes from the previous year’s high level, due to expected 73 percent and 19.2 percent decreases, respectively, in bank tax and corporate franchise tax audit receipts, and a $16 million decrease in audit receipts for other taxes. Largely offsetting these decreases are a $166 million, or 19.6 percent, increase in audit receipts from personal income taxes and a $194 million increase in user taxes and fees audit receipts.

Trends in All Funds Audit and Tax Receipts

Table 7 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 4 percent of total All Funds tax receipts. In 2006-07 and 2007-08, audit and compliance receipts were 4.6 percent and 4.2 percent, respectively, of All Funds tax receipts. In 2008-09 and 2009-10, audit and compliance receipts are expected to again be slightly more than 4 percent of total All Funds tax receipts.

TABLE 7
All Funds Audit and Compliance Collections
As A Percent of All Funds Tax Receipts
(in millions)

	All Funds Audit and Compliance Collections	All Funds Tax Receipts	Audit and Compliance As a Percent of All Funds
1993-94	1,130	33,026	3.4
1994-95	1,211	33,050	3.7
1995-96	1,247	33,927	3.7
1996-97	1,480	34,620	4.3
1997-98	1,085	35,921	3.0
1998-99	1,169	38,495	3.0
1999-00	1,141	41,389	2.8
2000-01	1,174	44,658	2.6
2001-02	1,209	42,475	2.8
2002-03	1,510	39,626	3.8
2003-04	1,232	42,851	2.9
2004-05	1,503	48,598	3.1
2005-06	2,237	53,578	4.2
2006-07	2,700	58,740	4.6
2007-08	2,577	60,871	4.2
Estimated			
2008-09	2,787	60,786	4.6
2009-10	2,717	61,383	4.4

As is shown in the Table 8 below, the historical distribution of audit and compliance receipts by broad tax categories (i.e., personal income tax, business taxes, user taxes and fees, and miscellaneous/other taxes) differs significantly from the distribution of voluntary receipts by tax category. For example, the share of total audit and compliance receipts attributable to the business tax category ranged from about 27 percent to 41 percent over the ten-year period beginning in 1993-94. However, the business share of total taxes ranged from 12 percent to 21 percent over that same period. As a result of significant audit collections in the bank and corporate franchise taxes discussed earlier, the percentage share of audit receipts from business taxes deviated, and is estimated to continue to deviate from these historical trends and account for 51 percent, 57 percent, 53 percent and 54 percent, respectively, of total 2005-06, 2006-07, 2007-08 and 2008-09 audit receipts. In 2009-10, the share of audit receipts from the business taxes category is projected to fall to 40 percent due to the same factors contributing to the decline in 2009-10 current law receipts described above.

Table 8

	Percent of All Funds Audit and Compliance Collections By Tax Category				Percent of All Funds Collections By Tax Category			
	Business Taxes	Other Taxes and Fees	User Taxes and Fees	Personal Income Tax	Business Taxes	Other Taxes and Fees	User Taxes and Fees	Personal Income Tax
1993-94	30	5	22	43	21	11	18	50
1994-95	29	6	25	40	19	11	20	50
1995-96	37	7	19	37	18	11	20	51
1996-97	41	5	20	34	19	10	20	51
1997-98	39	6	20	35	18	11	20	51
1998-99	40	5	19	36	17	10	20	53
1999-00	34	6	20	40	15	10	20	55
2000-01	31	4	22	43	13	8	19	60
2001-02	32	5	20	43	12	8	19	61
2002-03	31	4	20	45	13	8	22	57
2003-04	27	4	23	46	12	8	23	57
2004-05	34	3	21	42	12	8	23	57
2005-06	51	3	15	31	12	8	21	59
2006-07	57	3	13	27	15	3	23	59
2007-08	53	1	14	32	14	3	23	60
2008-09(e)	54	2	14	30	13	3	24	60
2009-10(e)	40	1	21	38	13	3	27	57

Similarly, the total share of audit and compliance receipts attributable to the personal income tax does not match its share of total taxes. However, during this ten-year period, the percent shares of audit and compliance receipts and total tax receipts attributable to the user taxes and fees category were more consistent with one another, with the audit and compliance percentage ranging from 19 percent to 25 percent and the tax receipts percentage ranging from 18 percent to 23 percent. As a result of the high level of business tax audit receipts during the 2005-06 through 2009-10 period, the shares of user taxes and fees and personal income tax audit receipts deviate from these historical trends, but their respective shares of total tax receipts remain consistent with history.

Significant Legislation Impacting Historical Audit Receipts

Significant statutory changes that have had an impact on audit and compliance activities are summarized below.

Tax Amnesty – 1994

In 1994, New York State authorized a three-month tax amnesty program that focused on three types of taxpayers. The income tax component focused on non-residents required to file a New York return. The business tax component also focused on out-of-State taxpayers whose activities in New York State make them taxpayers, and the compensating use tax component focused on resident individuals and small businesses. This amnesty program required eligible taxpayers to pay any taxes owed in addition to all applicable interest, in exchange for the waiver of any related criminal prosecution or other administrative penalties.

Tax Amnesty – 1996

The legislation established a three-month tax amnesty program. Between November 1, 1996, and January 31, 1997, certain taxpayers could apply for a waiver of penalty relating to certain unpaid tax liabilities for taxable periods ending, or transactions or uses occurring, on or before December 31, 1994. The taxes covered by this amnesty program were the same taxes that were included under the 1985 program. These taxes were the personal income tax, the corporate franchise tax imposed under Article 9-A, certain taxes imposed under Article 9, the sales and use tax and the estate and gift tax. Three additional taxes that did not exist in 1985 were also covered by the program: the beverage container tax, the auto rental tax and the hotel occupancy tax.

The amnesty program excluded several groups of taxpayers. The excluded groups included those with outstanding liabilities owed under "sin" taxes (i.e., the alcoholic beverage tax and cigarette and tobacco products taxes), the real estate transfer tax, the real property gains tax, corporate franchise taxes imposed on banks and insurance companies, large corporations (those with more than 500 employees in the United States), regulated utilities and entities principally engaged in the conduct of aviation (with a tax liability under Article 9 of the Tax Law). Taxpayers involved in a criminal investigation or civil or criminal litigation relating to the penalty for which amnesty is sought were also excluded. Finally, taxpayers that received benefits under New York State's 1985 and 1994 amnesty programs were ineligible for amnesty for those taxes for which they already received benefits.

Tax Amnesty – 2003

Taxpayers with outstanding liabilities were given a limited opportunity to settle those liabilities without penalties and with a reduction in the appropriate rate of interest. The tax amnesty applied to the personal income tax, sales and compensating use tax, corporate franchise taxes other than the bank and insurance taxes, and various excise taxes. The amnesty applied to taxable periods ending on or before December 31, 2000, or in the case of the sales tax or excise taxes with quarterly returns, periods ending on or before February 28, 2001. Under the estate tax, amnesty applied to estates of decedents dying on or before February 1, 2000.

Amnesty participants received a waiver of certain penalties and a two-percent reduction in the applicable interest rate relating to unpaid liabilities. Beginning April 1, 2003, the interest rate computation applied to all liabilities increased by two percent for all taxpayers. Amnesty was not granted to taxpayers under criminal investigation, taxpayers who had been convicted of a tax-related crime, taxpayers who were parties to administrative proceedings with the Department of Taxation and Finance, or taxpayers with more than 500 employees.

Intangible Assets

Legislation enacted in 2003 required taxpayers (with some exceptions) who deduct interest or royalty expenses for amounts paid to a related member for the use of intangible assets to add back those deductions to their taxable income.

Temporary Tax-Shelter Disclosure and Voluntary Compliance Initiative

Legislation enacted in 2005 created a tax-shelter disclosure requirement for taxpayers or advisors engaging in abusive tax shelters to provide copies of their Federal reports to the Commissioner of Taxation and Finance. The legislation also allowed taxpayers a limited period of time (from October 1, 2005, through March 1, 2006) to avoid substantial new penalties by voluntarily disclosing participation in such a shelter by filing amended returns for the liability periods affected. The Voluntary Compliance Initiative was available for tax liabilities under Articles 9, 9-A, 22, 30, 32 and 33. The disclosure reporting requirements mirror the permanent Federal requirements and were to sunset in July 2007. Chapter 60, Laws of 2007, extended the provisions by two years, to July 2009. Legislation enacted in 2008 extended these provisions by an additional two years and re-opened the Voluntary Compliance Initiative from November 1, 2008 through January 31, 2009.