2013-14 EXECUTIVE BUDGET

ECONOMIC AND REVENUE OUTLOOK

CONTENTS

RECEIPTS OVERVIEW

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The Economic and Revenue Outlook is a volume designed to enhance the presentation and transparency of the 2013-14 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 2013-14 Executive Budget. The receipt estimates and projections have been prepared by the Division of the Budget with the assistance of the Department of Taxation and Finance and other agencies concerned with the collection of State receipts. To the extent they are material, sources of receipts not referenced in this volume are discussed in the presentations of the agencies primarily responsible for executing the programs financed by such receipts. The *Economic, Revenue and Spending Methodologies* are available at the Division of the Budget's website at www.budget.ny.gov. The Methodology volume provides a comprehensive review of the methods used in determining the economic and tax receipt projections.

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

- **Financial Plan Receipts and Projections:** Provides a summary of Financial Plan receipts for the current year and the 2013-14 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.

- **2013-14 Revenue Actions:** Summarizes the revenue actions proposed with the 2013-14 Executive Budget.

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

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

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

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

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

THE NATIONAL ECONOMY

Fourteen quarters into the recovery from the Great Recession, the national economy continues to struggle for momentum. Battered by events both at home and abroad, the current recovery clocks in as the slowest of the postwar era. Despite a strong start to 2012, buttressed by unusually warm weather, growth was stymied by a contagion triggered by the debt crisis and ensuing recession in the euro-zone, leading to a slowdown in the large emerging economies and ultimately the U.S., where growth slowed from 4.1 percent in 2011Q4 to 1.3 percent in 2012Q2. In addition to the global slowdown, national economic growth has been dampened by the worst drought since the late 1980s, energy price volatility, Superstorm Sandy, and finally the approach of the "fiscal cliff."

The central element of the fiscal cliff-hanger – the Bush tax cuts – was finally resolved on New Year's Day, substantially reducing the extent of the fiscal drag that could have resulted from a failure to compromise. Nevertheless, the economy will feel a substantial contractionary sting in 2013 from the American Taxpayer Relief Act of 2012 (ATRA) that is expected to subtract 0.5 percent from annual average growth. But a solid housing market recovery, the unwinding of the effects of the drought and the hurricane, the ongoing expansion of energy production, and a continued renaissance in U.S. manufacturing, led by strong demand for autos, should lead to gradually improving growth going forward. And while only modest improvement is expected in global growth going forward, the nation's foreign sector is expected to make a greater contribution to growth in 2013 than it did in 2012. Consequently, real U.S. GDP is now projected to grow 2 percent for 2013, following growth of 2.3 percent for 2012.

With fiscal policy putting downward pressure on the national economy, monetary policy support will continue to be important in 2013. The progress projected for demand for both housing and autos depends on continued low borrowing rates and the ongoing repair of the nation's credit markets, which in turn depends upon the central bank's expansive policy actions. However, monetary policy alone cannot sustain the current expansion without a simultaneous recovery in the U.S. labor market. U.S. nonagricultural employment is projected to continue to grow at a sluggish pace of 1.4 percent in 2013, virtually unchanged from 2012, with the unemployment rate falling to 7.6 percent in 2013 from 8.1 percent in 2012. A continued high rate of unemployment, combined with the drag from fiscal policy, will restrain income growth and inflation as well. A 2.1 percent rate of inflation, as measured by growth in the Consumer Price Index, is projected for 2013, almost unchanged from 2012 and personal income is forecast to grow 3 percent for 2013.

Risks to the U.S. Forecast

The Budget Division outlook calls for the recovery from the nation's worst recession since the 1930s to continue through 2013 at below-trend growth rates as the economy's domestic momentum struggles with fiscal contraction and slow global growth. But there are a number of significant risks to the forecast. The forecast rests on the assumption that the U.S. Congress will resolve the coming debt ceiling crisis without a major disruption to either financial markets or the real economy. Should this assumption turn out to be incorrect, and the confidence of the household and business sectors be significantly shaken, household spending and job growth could be weaker than expected. Sustained confidence in the recovery depends upon continued improvement in the pace of job growth over the coming quarters. If that improvement fails to materialize, households may pull back once again. Weaker household spending would ripple through the economy and likely result in lower investment growth as well. A substantial equity market correction could have a similar effect.

The housing sector is finally awakening from its slumber and is expected to make a greater contribution to the recovery going forward. Without a timely resolution to the foreclosure backlog, a complete housing market recovery could be further delayed, in turn delaying the recovery in household net worth and resulting in lower rates of household spending than projected. Alternatively, a large increase in household formation could result in stronger demand for housing and therefore a quicker recovery in home prices and construction employment than expected. Finally, oil prices are once again on the rise due to supply pressures and global tensions. If gasoline prices should start to rise again, household spending could be weaker than anticipated. In contrast, a faster global recovery could result in stronger export and employment growth than anticipated.

THE NEW YORK STATE ECONOMY

At the start of 2012, the New York State economy had been enjoying a broad-based recovery that encompassed the State's tourism, retail, high-tech, and the all-important professional and business services sectors. Even the manufacturing sector saw its secular decline interrupted by strong emerging market growth combined with a weak dollar that spurred foreign demand for the State's exports. However, a dismal 2011-12 bonus season, the global downturn, equity market volatility, and the destruction wrought by Superstorm Sandy, all took their toll on the State's economic momentum over the course of the year. Private sector job growth is projected to decelerate from 1.8 percent in 2012 to 1.5 percent in 2013. Total State wages are projected to rise 4.6 percent for the 2013 calendar year, up from 3 percent in 2012, though personal income growth is projected to be 2.9 percent for 2013, virtually flat from 2012 due to the impact of ATRA.

Risks to the New York Forecast

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

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

SELECTED ECONOMIC INDICATORS
(Calendar Year)

	2011 (actual[1])	2012 (estimate)	2013 (forecast)	2014 (forecast)	2015 (forecast)	2016 (forecast)
U.S. Indicators[2]						
Real Gross Domestic Product ($ B)	13,299	13,603	13,871	14,241	14,681	15,090
Percent Change	1.8	2.3	2.0	2.7	3.1	2.8
Personal Income ($ B)	12,947	13,397	13,804	14,665	15,557	16,386
Percent Change	5.1	3.5	3.0	6.2	6.1	5.3
Nonagricultural Employment (millions)	131.4	133.2	135.1	137.6	140.7	143.8
Percent Change	1.2	1.4	1.4	1.9	2.2	2.2
Unemployment Rate	8.9	8.1	7.6	7.1	6.4	6.0
CPI Inflation	3.1	2.1	2.1	2.2	2.4	2.4
New York State Indicators						
Personal Income[2] ($ B)	976.6	1,004.3	1,033.1	1,096.7	1,158.8	1,221.7
Percent Change	4.4	2.8	2.9	6.2	5.7	5.4
Wages and Salaries[2] ($ B)	520.8	531.4	555.8	583.2	613.3	645.6
Percent Change	3.7	2.0	4.6	4.9	5.2	5.3
Bonuses[3] ($ B)	69.9	66.8	69.7	73.7	77.9	82.5
Percent Change	2.5	(4.4)	4.3	5.8	5.7	6.0
Employment[2] (thousands)	8,420.0	8,530.8	8,641.8	8,743.5	8,863.0	8,980.1
Percent Change	1.2	1.3	1.3	1.2	1.4	1.3
Unemployment Rate (percent)	8.2	8.6	8.2	7.7	7.0	6.4
NYS Adjusted Gross Income (NYSAGI)						
Capital Gains[4] ($ millions)	53,321	75,036	66,030	69,091	76,670	82,346
Percent Change	9.4	40.7	(12.0)	4.6	11.0	7.4
Total NYSAGI ($ millions)	660,818	704,940	721,140	761,124	808,138	852,858
Percent Change	3.4	6.7	2.3	5.5	6.2	5.5

[1] For NYSAGI variables, 2011 is an estimate based on preliminary processing data.
[2] Nonagricultural employment, wage, and personal income numbers are based on QCEW data.
[3] Series created by the Division of the Budget.
[4] The swing from high growth in 2012 to a decline in 2013 assumes taxpayer anticipation of the expiration of the capital gains tax rate cut enacted in 2003.
Source: Moody's Analytics; NYS Department of Labor; NYS Department of Taxation and Finance; DOB staff estimates.

THE REVENUE SITUATION

Revenue results during the current fiscal year continue to defy historical experience for this point in a recovery. Despite being nearly four years removed from the end of the national recession, sluggish to-date revenue growth is consistent with the tepid year-over-year changes to New York economic indicators discussed above. The combination of slow economic growth and law changes that fully restored the clothing exemption and reformed the personal income tax (PIT), have resulted in a year-to-date decline in All Funds revenue (excluding the MTA payroll tax) of 1.4 percent. Annual 2012-13 growth for this measure is estimated to be 2.6 percent, however. The first quarter of 2013 will exhibit material growth over the same period in the prior fiscal year, particularly in the PIT, sales tax, and real estate transfer tax, primarily because the impact of law changes that were relevant during the first three quarters are nearly irrelevant in the fourth. The initial quarter of 2012 was the first quarter to contain the impacts of PIT reform and the proportion of clothing and shoes purchased during the first quarter is small, thereby blunting the impact of the partial clothing exemption still in effect in 2012. Finally, DOB expects to receive a New York City RETT payment in March that was delayed into April 2012. Financial sector bonus payments - while still important to growth in the first quarter - do not play the same role they did in recent years. Uncertainty surrounding Dodd-Frank regulations and financial sector firms behavioral changes that have spread bonus compensation across multiple months and years have diminished the importance of bonus payments on first quarter growth. DOB's forecast calls for a 2.6 percent year-to-year increase in bonus payments during the first quarter of 2013.

After slowing in 2012-13, average wage, total wage, and personal income growth are expected to recover and result in net growth in personal income tax receipts of 6.6 percent. Some of this increase can be attributed to capital gains realizations made in the face of Federal tax rate uncertainty heading into 2013. A decline in projected corporate profits growth for the 2013 calendar year combined with the impact of a corporate and utilities tax refund should provide a slowdown in business tax receipts growth in 2013-14. Improved income and employment growth, combined with the expected impact of third-party reporting on audit receipts, is expected to produce All Funds sales tax growth of 4.5 percent in 2013-14.

Governmental Funds Actual and Base Tax Receipts Growth (percent growth)			
State Fiscal Year	Actual Receipts	Base Receipts	Inflation Adjusted Base Receipts
1989-90	6.8	8.3	2.7
1990-91	(0.8)	(3.8)	(8.9)
1991-92	7.2	1.4	(1.9)
1992-93	6.1	5.0	1.7
1993-94	4.3	0.7	(1.8)
1994-95	0.1	1.5	(1.0)
1995-96	2.6	3.6	0.7
1996-97	2.0	2.5	(0.1)
1997-98	3.7	5.6	3.8
1998-99	7.2	7.9	6.0
1999-00	7.5	9.1	6.1
2000-01	7.9	10.1	7.1
2001-02	(4.9)	(4.2)	(6.1)
2002-03	(6.7)	(8.0)	(10.8)
2003-04	8.2	5.8	2.8
2004-05	13.4	11.5	7.8
2005-06	10.2	9.4	5.4
2006-07	9.7	12.9	10.4
2007-08	3.7	6.3	2.0
2008-09	(0.8)	(3.1)	(3.5)
2009-10	(3.2)	(12.3)	(14.0)
2010-11	5.6	2.9	0.3
2011-12	5.6	7.3	5.0
2012-13*	2.2	5.1	3.3
2013-14**	5.4	5.1	2.9
2014-15**	2.6	4.9	2.5
2015-16**	3.9	2.6	0.1
2016-17**	4.5	3.7	1.1
	Actual Change	**Base Change**	**Adjusted Base Change**
Historical Average (1989-90 to 2011-12)	**4.2**	**3.5**	**0.6**
Forecast Average (2012-13 to 2016-17)	**3.7**	**4.2**	**2.0**
Forecast Average (2013-14 to 2016-17)	**4.1**	**4.0**	**1.6**
Recessions	**1.3**	**(1.2)**	**(4.2)**
Expansions	**6.0**	**6.5**	**3.7**

*Estimated Receipts

**Projected Receipts

TOTAL RECEIPTS (millions of dollars)							
	2011-12 Results	2012-13 Current	Annual $ Change	Annual % Change	2013-14 Proposed	Annual $ Change	Annual % Change
General Fund	**56,900**	**58,841**	**1,941**	**3.4%**	**61,173**	**2,332**	**4.0%**
Taxes	41,754	42,953	1,199	2.9%	45,361	2,408	5.6%
Miscellaneous Receipts	3,162	3,724	562	17.8%	3,101	(623)	-16.7%
Federal Grants	60	60	0	0.0%	2	(58)	-96.7%
Transfers	11,924	12,104	180	1.5%	12,709	605	5.0%
State Funds	**88,111**	**90,654**	**2,543**	**2.9%**	**93,006**	**2,352**	**2.6%**
Taxes	64,297	65,695	1,398	2.2%	69,225	3,530	5.4%
Miscellaneous Receipts	23,669	24,814	1,145	4.8%	23,694	(1,120)	-4.5%
Federal Grants	145	145	0	0.0%	87	(58)	-40.0%
All Funds	**132,745**	**134,826**	**2,081**	**1.6%**	**142,463**	**7,637**	**5.7%**
Taxes	64,297	65,695	1,398	2.2%	69,225	3,530	5.4%
Miscellaneous Receipts	23,837	25,000	1,163	4.9%	23,880	(1,120)	-4.5%
Federal Grants	44,611	44,131	(480)	-1.1%	49,358	5,227	11.8%

FISCAL YEAR 2012-13 OVERVIEW

- Total All Funds 2012-13 receipts are estimated to reach $134.8 billion, an increase of nearly $2.1 billion (1.6 percent) from 2011-12. All Funds tax receipts are estimated to increase by $1.4 billion, or 2.2 percent. The majority of the increase in tax receipts is attributable to growth in personal income tax collections.

- Total State Funds 2012-13 receipts are estimated to reach nearly $90.7 billion, an increase of over $2.5 billion (2.9 percent).

- Total General Fund 2012-13 receipts are estimated at $58.8 billion, an increase of $1.9 billion (3.4 percent). General Fund tax receipts are estimated to increase by 2.9 percent. General Fund miscellaneous receipts are estimated to increase by 17.8 percent, reflecting an increase in one-time payments such as the settlement from Standard Chartered Bank and payments from the Manhattan District Attorney.

- Base tax 2012-13 receipts growth, which nets out the impact of law changes, will increase by an estimated 5.1 percent after a base increase of 7.3 percent in 2011-12.

FISCAL YEAR 2013-14 OVERVIEW

- Total 2013-14 All Funds receipts are projected to reach $142.5 billion, an increase of $7.6 billion (5.7 percent) from 2012-13 estimates. All Funds tax receipts are projected to grow by $3.5 billion (5.4 percent). This increase is attributable to continued positive economic growth.

- Total State Funds receipts are projected to be $93 billion, an increase of $2.4 billion (2.6 percent) from 2012-13 estimates.

- Total General Fund receipts are projected to be nearly $61.2 billion, an increase of $2.3 billion, or 4 percent from 2012-13 estimates. General Fund tax receipts are projected to grow by 5.6 percent, while General Fund miscellaneous receipts are projected to decline by $623 million (16.7 percent). Federal grants revenues are projected to decline by $58 million.

- After controlling for the impact of policy changes, base tax revenue growth is estimated to increase by 5.1 percent for fiscal year 2013-14.

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

	2012-13				2013-14			
	Mid-Year Update	Executive Budget	$ Change	% Change	Mid-Year Update	Executive Budget	$ Change	% Change
General Fund[1]	**47,014**	**46,737**	**(277)**	**-0.6%**	**48,618**	**48,464**	**(154)**	**-0.3%**
Taxes	43,213	42,953	(260)	-0.6%	45,829	45,361	(468)	-1.0%
Miscellaneous Receipts	3,741	3,724	(17)	-0.5%	2,787	3,101	314	11.3%
Federal Grants	60	60	0	0.0%	2	2	0	0.0%
State Funds	**90,807**	**90,654**	**(153)**	**-0.2%**	**93,949**	**93,006**	**(943)**	**-1.0%**
Taxes	66,140	65,695	(445)	-0.7%	70,012	69,225	(787)	-1.1%
Miscellaneous Receipts	24,522	24,814	292	1.2%	23,850	23,694	(156)	-0.7%
Federal Grants	145	145	0	0.0%	87	87	0	0.0%
All Funds	**133,351**	**134,826**	**1,475**	**1.1%**	**138,315**	**142,463**	**4,148**	**3.0%**
Taxes	66,140	65,695	(445)	-0.7%	70,012	69,225	(787)	-1.1%
Miscellaneous Receipts	24,708	25,000	292	1.2%	24,036	23,880	(156)	-0.6%
Federal Grants	42,503	44,131	1,628	3.8%	44,267	49,358	5,091	11.5%

[1]Excludes Transfers

Change from Mid-Year Update

Revised Estimates and Projections

- All funds 2012-13 receipts estimates have been revised upward by nearly $1.5 billion from the Mid-Year Update. The downward tax revision of $445 million is mostly due to weaker than expected withholding and sales tax receipts.

- All Funds miscellaneous receipts estimates in 2012-13 were revised upward by $292 million from the Mid-Year Update, to reflect revised estimates for receipts in programs financed with authority bond proceeds, including economic development ($153 million) and receipts revisions in various special revenue funds ($161 million), partly offset by a decrease in estimated General Fund miscellaneous receipts ($17 million).

- All Funds Federal grant projections have been revised upward by $1.6 billion in 2012-13, largely driven by the expected increase in Federal funding provided to the State for disaster assistance costs.

- General Fund 2012-13 receipts have been revised downward by $277 million, reflecting the All Funds tax changes noted above.

- All Funds receipts estimates have been increased by $4.1 billion for fiscal year 2013-14 from the Mid-Year Update. The downward tax revision of $787 million is largely a full-year translation of 2012-13 changes.

- All Funds miscellaneous receipts projections in 2013-14 were revised downward by $156 million which reflects $526 million less in projected debt service fund receipts, largely associated with the Executive Budget proposal to restructure the SUNY Dormitory bonding program. As part of the restructuring, lease revenue from the student dormitory program will no longer flow to the State's All Governmental Funds budget, and instead flow directly to the Dormitory Authority where it will be used to make debt service payments outside of the State's All Governmental Funds budget. Other revisions to the Mid-Year Update estimate include downward adjustments to projected miscellaneous receipts in various special revenue funds ($203 million); partially offset by increases in miscellaneous receipt projections to programs financed with authority bond proceeds, including economic development ($244 million) and increases in General Fund miscellaneous receipt projections ($314 million), as described in more detail below.

- All Funds Federal grant projections have been revised upward by $5.1 billion in 2013-14, largely driven by the expected increase in Federal funding provided to the State for disaster assistance costs.

- General Fund 2013-14 receipts have been revised downward by $154 million. Tax revisions account for more than the net decrease but were partially offset by a $314 million increase in miscellaneous receipts, largely resulting from the release of certain State Insurance Fund reserves.

Proposed Law Changes

The 2013-14 Executive Budget includes changes to tax law that would:

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

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

- Generate additional recurring revenues to help close the State's financial gaps in 2013-14 and beyond.

ALL FUNDS LEGISLATION ($ in millions)*	2013-14	2014-15	2015-16	2016-17
Revenue Enhancements	**142**	**260**	**260**	**190**
Personal Income Tax	**100**	**167**	**167**	**97**
Suspend Delinquent Taxpayers' Driver's Licenses	15	0	0	0
Allow Warrantless Wage Garnishment	10	10	10	10
Make Tax Modernization Provisions Permanent	4	16	16	16
Extend the High Income Charitable Contribution Deduction Limitation for Three Years	70	140	140	70
Establish a Statewide STAR Anti-Fraud Protection Program	1	1	1	1
User Taxes and Fees	**31**	**39**	**39**	**39**
Reform the IDA State Sales Tax Exemption	7	13	13	13
Expand the Cigarette and Tobacco Retailer Registration Clearance Process	1	1	1	1
Update Criteria for Refusal and Revocation of a Sales Tax Certificate of Authority	1	1	1	1
Increase the Civil Penalty for Possessing Unstamped Cigarettes	9	12	12	12
Suspend Delinquent Taxpayers' Driver's Licenses	11	6	6	6
Make Tax Modernization Provisions Permanent	2	6	6	6
Provide Local Autonomy for Sales Tax Rates	0	0	0	0
Business Taxes	**0**	**28**	**28**	**28**
Close Royalty Income Loophole	0	28	28	28
Extend the MTA Business Tax Surcharge for Five Years	0	0	0	0
Other Actions	**11**	**26**	**26**	**26**
Eliminate Remaining Square Footage Quick Draw Restriction	12	24	24	24
Make Certain Tax Rates and Authorizations for Account Wagering Permanent	0	0	0	0
Adjust the Percentage of Racing Purse Money Generated by VLTs	2	2	2	2
Extend Monticello VLT Rates	(3)	0	0	0
Tax Reductions	**0**	**(1)**	**(1)**	**(196)**
Extend and Enhance the Historic Commercial Rehabilitation Properties Tax Credit	0	0	0	(20)
Establish the New York Innovation Hot Spots Program	0	0	0	0
Make Technical Amendments to the Tax Classification of Uncompressed Natural Gas	0	0	0	0
Establish Tax-Free Sales at Taste-NY Facilities	0	0	0	0
New York Film Production Tax Credit - Extend, Enhance, and Improve Transparency	0	0	0	(173)
Establish the Charge-NY Electric Vehicle Recharging Equipment Credit	0	(1)	(1)	(3)
Total All Funds Legislation Change	**142**	**259**	**259**	**(6)**
*Rounded to the nearest million				

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

PERSONAL INCOME TAX

- Suspend delinquent taxpayers' driver's licenses;
- Allow warrantless wage garnishment;
- Make tax modernization provisions permanent;
- Extend the high income charitable contribution deduction limitation for three years;
- Establish a Statewide STAR Anti-Fraud Protection Program; and
- Extend and enhance the historic commercial properties rehabilitation tax credit.

USER TAXES AND FEES

- Reform the IDA state sales tax exemption;
- Expand the cigarette and tobacco retailer registration clearance process;
- Update criteria for refusal and revocation of a sales tax certificate of authority;
- Increase the civil penalty for possessing unstamped cigarettes;
- Suspend delinquent taxpayers' driver's licenses;
- Make tax modernization provisions permanent;
- Provide local autonomy for sales tax rates;
- Establish tax-free sales at Taste-NY facilities; and
- Make technical amendments to the tax classification of uncompressed natural gas.

BUSINESS TAXES

- Close royalty income loophole;
- Establish the New York Innovation Hot Spots program;
- Extend the MTA business tax surcharge for five years;
- Extend and enhance the historic commercial properties rehabilitation tax credit;
- New York film production tax credit- Extend, enhance, and improve transparency; and
- Establish the Charge-NY electric vehicle recharging equipment credit.

OTHER ACTIONS

- Eliminate remaining square footage Quick Draw restriction;
- Make certain tax rates and authorizations for account wagering permanent;
- Adjust the percentage of racing purse money generated by VLTs; and
- Extend Monticello VLT rates.

FISCAL YEARS 2014-15, 2015-16, AND 2016-17 OVERVIEW

TOTAL RECEIPTS (millions of dollars)							
	2013-14 Proposed	2014-15 Projected	Annual $ Change	2015-16 Projected	Annual $ Change	2016-17 Projected	Annual $ Change
General Fund	**61,173**	**62,204**	**1,031**	**64,111**	**1,907**	**66,820**	**2,709**
Taxes	45,361	46,215	854	48,140	1,925	50,440	2,300
State Funds	**93,006**	**95,139**	**2,133**	**98,155**	**3,016**	**100,781**	**2,626**
Taxes	69,225	71,026	1,801	73,801	2,775	77,136	3,335
All Funds	**142,463**	**143,839**	**1,376**	**147,070**	**3,231**	**152,371**	**5,301**
Taxes	69,225	71,026	1,801	73,801	2,775	77,136	3,335

Overall, tax receipts growth in the three fiscal years following 2013-14 is expected to remain in the range of 2.6 percent to 4.5 percent. This is consistent with projected modest economic growth in the New York economy during this period and the payback of deferred credits.

- Total All Funds 2014-15 receipts are projected to be $143.8 billion, an increase of $1.4 billion over the prior year. All Funds 2015-16 receipts are expected to increase by $3.2 billion over 2014-15 projections. In 2016-17, receipts are expected to increase by $5.3 billion over 2015-16 projections.

- Total State Funds receipts are projected to be $95.1 billion in 2014-15, $98.2 billion in 2015-16 and $100.8 billion in 2016-17.

- Total General Fund receipts are projected to reach $62.2 billion in 2014-15, $64.1 billion in 2015-16 and $66.8 billion in 2016-17.

Base Growth

Base growth, adjusted for law changes, in tax receipts for both fiscal years 2012-13 and 2013-14 is estimated to grow 5.1 percent. Overall base growth in tax receipts is dependent on a multitude of factors.

Estimated base receipts growth in 2012-13 results from:

- strong corporate profits growth and moderate insurance premium growth; and

- increased consumption resulting from improved wage and employment growth.

Projected base growth in 2013-14 results from:

- the impact of accelerating wage growth on PIT receipts;

- moderate corporate profits growth; and

- improved consumer spending growth resulting from faster wage and employment growth.

Personal Income Tax

PERSONAL INCOME TAX (millions of dollars)							
	2011-12 Results	2012-13 Current	Annual $ Change	Annual % Change	2013-14 Proposed	Annual $ Change	Annual % Change
General Fund[1]	**25,843**	**26,648**	**805**	**3.1%**	**28,471**	**1,823**	**6.8%**
Gross Collections	46,030	47,117	1,087	2.4%	49,848	2,731	5.8%
Refunds	(7,263)	(7,217)	46	-0.6%	(7,328)	(111)	1.5%
STAR	(3,233)	(3,276)	(43)	1.3%	(3,419)	(143)	4.4%
RBTF	(9,691)	(9,976)	(285)	2.9%	(10,630)	(654)	6.6%
State/All Funds	**38,767**	**39,900**	**1,133**	**2.9%**	**42,520**	**2,620**	**6.6%**
Gross Collections	46,030	47,117	1,087	2.4%	49,848	2,731	5.8%
Refunds	(7,263)	(7,217)	46	-0.6%	(7,328)	(111)	1.5%

[1]Excludes Transfers

All Funds 2012-13 receipts are estimated to be $39.9 billion, an increase of $1.1 billion (2.9 percent) from 2011-12 results. This primarily reflects modest increases in withholding, current estimated payments for tax year 2012, higher delinquent collections, and a decrease in total refunds, partially offset by a decrease in extension (i.e., prior year estimated) payments for tax year 2011.

Withholding in 2012-13 is projected to be $729 million (2.3 percent) higher compared to the prior year. This reflects the net impact of modest wage growth and additional withholding generated by the December 2011 reform, offset by lower withholding due to the expiration of the temporary high income surcharge in place for 2009 to 2011. Total estimated payments are expected to increase $234 million (2 percent). Estimated payments for tax year 2012 are projected to be $572 million (7.1 percent) higher. However, as noted above, extension payments (i.e., prior year estimated) for tax year 2011 are projected to fall 9.6 percent ($338 million) compared to the inflated base of extensions for tax year 2010, which reflected the one-time realization of capital gains caused by uncertainty surrounding the late extension of the lower Federal tax rates on capital gains and high-income taxpayers in December of 2010. Delinquent collections and final return payments are projected to be $87 million (8 percent) and $37 million (1.7 percent) higher, respectively.

The decrease in total refunds of $46 million mostly reflects a $98 million (26.8 percent) decrease in the State-city offset and a $92 million (2 percent) decrease in prior year refunds related to tax year 2011 partly reduced by a $143 million (31.5 percent) increase in previous years refunds related to tax years prior to 2011.

The following table summarizes, by component, actual receipts for 2011-12 and forecast amounts through 2015-16.

PERSONAL INCOME TAX FISCAL YEAR COLLECTION COMPONENTS ALL FUNDS (millions of dollars)	2011-12 (Actual)	2012-13 (Estimated)	2013-14 (Projected)	2014-15 (Projected)	2015-16 (Projected)
Receipts					
Withholding	31,199	31,928	33,666	35,111	37,051
Estimated Payments	11,628	11,862	12,708	13,542	13,500
Current Year	8,096	8,669	9,168	10,283	9,963
Prior Year*	3,532	3,193	3,541	3,259	3,537
Final Returns	2,116	2,153	2,266	2,151	2,251
Current Year	223	227	241	242	242
Prior Year*	1,893	1,926	2,025	1,909	2,009
Delinquent	1,087	1,174	1,208	1,245	1,295
Gross Receipts	46,030	47,117	49,848	52,049	54,097
Refunds					
Prior Year*	4,693	4,600	4,879	5,627	6,304
Previous Years	454	597	476	569	553
Current Year*	1,750	1,752	1,750	1,750	1,751
State-City Offset*	366	268	223	148	148
Total Refunds	7,263	7,217	7,328	8,093	8,755
Net Receipts	**38,767**	**39,900**	**42,520**	**43,956**	**45,342**

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

All Funds 2013-14 receipts are projected to be $42.5 billion, an increase of $2.6 billion (6.6 percent) from 2012-13.

This increase primarily reflects increases of $1.7 billion (5.4 percent) in withholding and $845 million (7.1 percent) in total estimated payments. The increase in total estimated payments includes $498 million (5.7 percent) in estimated payments related to tax year 2013, partially reflecting $70 million in revenue from the three year extension of the 25 percent itemized deduction limitation on the charitable contributions of high income taxpayers. Likewise, a $347 million (10.9 percent) increase in extension (i.e., prior year estimated) payments for tax year 2012 reflect a taxpayer response related to Federal law changes. The strong projection for extension payments for tax year 2012 reflects early realization of capital gains due to sunset of lower Federal tax marginal rates on capital gains and the scheduled increase in Federal tax rates on investment income starting with tax year 2013 as a part of the Federal Affordable Care Act.

Payments from final returns are expected to increase $113 million (5.3 percent). Likewise, delinquent collections are projected to increase by $35 million (3 percent) compared to the prior year with most of the increase ($25 million) coming from proposals to allow warrantless wage garnishment and the suspension of driver's licenses of taxpayers with past-due tax debts. The increase in total refunds of $112 million primarily reflects a $278 million (6 percent) increase in prior year refunds for tax year 2012 partially offset by $121 million (20.3 percent) drop in previous years refunds related to tax years prior to 2012 and a $45 million decrease in the state-city-offset.

General Fund income tax receipts are net of deposits to the STAR Fund, which provide property tax relief, and the RBTF, which supports debt service payments on State personal income tax revenue bonds. General Fund 2012-13 receipts of $26.6 billion are expected to increase by $806 million (3.1 percent), from the prior year, mainly reflecting the increase in All Funds receipts noted above. The RBTF deposit is projected to be nearly $10 billion while the STAR transfer is projected to be $3.3 billion.

General Fund income tax 2013-14 receipts of $28.5 billion are projected to increase by $1.8 billion (6.8 percent). The RBTF deposit is projected to be $10.6 billion while the STAR transfer is projected to be $3.4 billion.

PERSONAL INCOME TAX: CHANGE FROM MID-YEAR UPDATE FORECAST (millions of dollars)								
	2012-13				2013-14			
	Mid-Year Update	Executive Budget	$ Change	% Change	Mid-Year Update	Executive Budget	$ Change	% Change
General Fund[1]	**26,844**	**26,648**	**(196)**	**-0.7%**	**28,920**	**28,471**	**(449)**	**-1.6%**
Gross Collections	47,252	47,117	(135)	-0.3%	50,354	49,848	(506)	-1.0%
Refunds	(7,091)	(7,217)	(126)	1.8%	(7,182)	(7,328)	(146)	2.0%
STAR	(3,276)	(3,276)	0	0.0%	(3,459)	(3,419)	40	-1.2%
RBTF	(10,041)	(9,976)	65	-0.6%	(10,793)	(10,630)	163	-1.5%
State/All Funds	**40,161**	**39,900**	**(261)**	**-0.6%**	**43,172**	**42,520**	**(652)**	**-1.5%**
Gross Collections	47,252	47,117	(135)	-0.3%	50,354	49,848	(506)	-1.0%
Refunds	(7,091)	(7,217)	(126)	1.8%	(7,182)	(7,328)	(146)	2.0%

[1]Excludes Transfers

Compared to the Mid-Year Update, 2012-13 All Funds income tax receipts are revised downward by $261 million. The decrease primarily reflects a downward revision in withholding ($245 million) and projected higher total refunds ($125 million) partially offset by a $110 million upward revision of current year estimated payments for tax year 2012. The reduction in withholding reflects reduced bonus projections while an increase in current year estimated payments reflects an early realization of capital gains and dividends due to Federal law changes not embodied in the previous forecast. Increased refunds reflect adjustments for higher prior refund inventory ($105 million) and state-city-offset transfers ($20 million) to the City from the State.

Compared to the Mid-Year Update, 2013-14 All Funds income tax receipts are revised downward by $652 million, partially reflecting $99 million in new revenue from legislation proposed with this Budget. The non-legislative re-estimate largely reflects a $676 downward revision in withholding due to a combination of a lower wage forecast and an extension of Federal tax cuts benefitting lower income families. Other re-estimates include $150 million in higher total refunds partially offset by a $75 million upward revision in prior year extension payments reflecting early realization of capital gains and dividends in tax year 2012 as previously noted. Legislative proposals include $70 million from the three year extension of the 25 percent itemized deduction limitation on charitable contributions of high income taxpayers, $10 million from the proposal to allow warrantless wage garnishment of taxpayers with past-due tax debts, and $16 million from making tax modernization provisions permanent.

PERSONAL INCOME TAX (millions of dollars)							
	2013-14 Proposed	2014-15 Projected	Annual $ Change	2015-16 Projected	Annual $ Change	2016-17 Projected	Annual $ Change
General Fund[1]	**28,471**	**29,365**	**894**	**30,303**	**938**	**32,065**	**1,762**
Gross Collections	49,848	52,049	2,201	54,097	2,048	57,056	2,959
Refunds	(7,328)	(8,093)	(765)	(8,755)	(662)	(9,228)	(473)
STAR	(3,419)	(3,602)	(183)	(3,704)	(102)	(3,806)	(102)
RBTF	(10,630)	(10,989)	(359)	(11,335)	(346)	(11,957)	(622)
State/All Funds	**42,520**	**43,956**	**1,436**	**45,342**	**1,386**	**47,828**	**2,486**
Gross Collections	49,848	52,049	2,201	54,097	2,048	57,056	2,959
Refunds	(7,328)	(8,093)	(765)	(8,755)	(662)	(9,228)	(473)

[1]Excludes Transfers

All Funds income tax 2014-15 receipts of $44 billion are projected to increase $1.4 billion (3.4 percent) from the prior year. Gross receipts are projected to increase 4.3 percent ($2.2 billion) and reflect withholding that is projected to grow by $1.4 billion (4.3 percent) and current year estimated payments related to tax year 2014 that are projected to grow by $1.1 billion (12.2 percent).

The increase in withholding reflects moderate wage growth. The increase in estimated payments from tax year 2014 includes an additional $70 million compared to the prior year from the three year extension of the 25 percent itemized deduction limitation. Payments from final returns are expected to decrease $115 million (5.1 percent). Delinquencies are projected to increase $36 million (3 percent) from the prior year. Total refunds are projected to increase by $766 million (10.5 percent) from the prior year, mostly reflecting a $748 million increase in prior year refunds due to partial pay-back of the deferral of business tax credits.

General Fund income tax 2014-15 receipts of $29.4 billion are projected to increase by $894 million (3.1 percent). RBTF deposits are projected to be $11 billion and the STAR transfer is projected to be $3.6 billion.

All Funds income tax receipts are projected to be $45.3 billion in 2015-16 and $47.8 billion in 2016-17. General Fund receipts are projected at $30.3 billion and $32.1 billion, respectively.

User Taxes and Fees

USER TAXES AND FEES (millions of dollars)	2011-12 Results	2012-13 Current	Annual $ Change	Annual % Change	2013-14 Proposed	Annual $ Change	Annual % Change
General Fund[1]	**9,055**	**9,127**	**72**	**0.8%**	**9,492**	**365**	**4.0%**
Sales Tax	8,346	8,430	84	1.0%	8,802	372	4.4%
Cigarette and Tobacco Taxes	471	448	(23)	-4.9%	441	(7)	-1.6%
Alcoholic Beverage Taxes	238	249	11	4.6%	249	0	0.0%
State/All Funds	**14,571**	**14,630**	**59**	**0.4%**	**15,167**	**537**	**3.7%**
Sales Tax	11,876	11,994	118	1.0%	12,533	539	4.5%
Cigarette and Tobacco Taxes	1,633	1,561	(72)	-4.4%	1,535	(26)	-1.7%
Motor Fuel Tax	501	490	(11)	-2.2%	500	10	2.0%
Highway Use Tax	132	141	9	6.8%	140	(1)	-0.7%
Alcoholic Beverage Taxes	238	249	11	4.6%	249	0	0.0%
Taxicab Surcharge	87	86	(1)	-1.1%	96	10	11.6%
Auto Rental Tax	104	109	5	4.8%	114	5	4.6%

[1]Excludes Transfers

All Funds user taxes and fees 2012-13 receipts are estimated to be $14.6 billion, an increase of $59 million (0.4 percent) from the prior year. Sales tax receipts are expected to increase by $118 million (1 percent) from the prior year due to base growth (i.e., absent law changes) of 3.4 percent, offset partly by a return of the clothing exemption at a $110 per item threshold. Cigarette and tobacco tax and motor fuel tax collections are estimated to decrease by $72 million and $11 million, respectively, due to lower consumption.

General Fund user taxes and fees 2012-13 receipts are estimated to total $9.1 billion, an increase of $72 million (0.8 percent) from the prior year. The increase reflects growth in sales tax receipts ($84 million) and alcoholic beverage taxes ($11 million) offset slightly by a decline in cigarette and tobacco taxes ($23 million).

All Funds user taxes and fees 2013-14 receipts are projected to be nearly $15.2 billion, an increase of $537 million (3.7 percent) from the prior year. The increase in sales tax receipts of $539 million (4.5 percent) reflects sales tax base growth of 3.2 percent, proposed law changes of $21 million, and an estimated $83 million in incremental audit recoveries due to 2010 third party reporting legislation.

General Fund user taxes and fees 2013-14 receipts are projected to total $9.5 billion, an increase of $365 million (4 percent) from the prior year. This increase largely reflects the projected increases in All Funds sales tax receipts discussed above offset slightly by a decline in cigarette and tobacco tax receipts.

USER TAXES AND FEES: CHANGE FROM MID-YEAR UPDATE FORECAST (millions of dollars)	2012-13 Mid-Year Update	2012-13 Executive Budget	$ Change	% Change	2013-14 Mid-Year Update	2013-14 Executive Budget	$ Change	% Change
General Fund[1]	**9,188**	**9,127**	**(61)**	**-0.7%**	**9,562**	**9,492**	**(70)**	**-0.7%**
Sales Tax	8,483	8,430	(53)	-0.6%	8,863	8,802	(61)	-0.7%
Cigarette and Tobacco Taxes	461	448	(13)	-2.8%	454	441	(13)	-2.9%
Alcoholic Beverage Taxes	244	249	5	2.0%	245	249	4	1.6%
State/All Funds	**14,784**	**14,630**	**(154)**	**-1.0%**	**15,304**	**15,167**	**(137)**	**-0.9%**
Sales Tax	12,095	11,994	(101)	-0.8%	12,635	12,533	(102)	-0.8%
Cigarette and Tobacco Taxes	1,585	1,561	(24)	-1.5%	1,555	1,535	(20)	-1.3%
Motor Fuel Tax	515	490	(25)	-4.9%	517	500	(17)	-3.3%
Highway Use Tax	147	141	(6)	-4.1%	142	140	(2)	-1.4%
Alcoholic Beverage Taxes	244	249	5	2.0%	245	249	4	1.6%
Taxicab Surcharge	89	86	(3)	-3.4%	96	96	0	0.0%
Auto Rental Tax	109	109	0	0.0%	114	114	0	0.0%

[1]Excludes Transfers

All Funds user taxes and fees 2012-13 receipts are revised down by $154 million from the Mid-Year Update as a result of weaker than expected to-date sales tax receipts ($101 million), a reduction in cigarette and tobacco tax collections ($24 million) as a result of atypical year-to-year declines in stamp sales, especially in the City of New York, and lower-than-expected motor fuel tax collections ($25 million) due to weaker than expected growth in the consumption of gasoline and diesel motor fuel. All Funds user taxes and fees are revised down by $137 million for 2013-14, due to the 2012-13 reductions discussed above.

USER TAXES AND FEES (millions of dollars)	2013-14 Proposed	2014-15 Projected	Annual $ Change	2015-16 Projected	Annual $ Change	2016-17 Projected	Annual $ Change
General Fund[1]	**9,492**	**9,890**	**398**	**10,309**	**419**	**10,585**	**276**
Sales Tax	8,802	9,202	400	9,624	422	9,901	277
Cigarette and Tobacco Taxes	441	435	(6)	428	(7)	421	(7)
Alcoholic Beverage Taxes	249	253	4	257	4	263	6
State/All Funds	**15,167**	**15,730**	**563**	**16,315**	**585**	**16,684**	**369**
Sales Tax	12,533	13,104	571	13,697	593	14,089	392
Cigarette and Tobacco Taxes	1,535	1,508	(27)	1,478	(30)	1,448	(30)
Motor Fuel Tax	500	503	3	507	4	510	3
Highway Use Tax	140	143	3	151	8	149	(2)
Alcoholic Beverage Taxes	249	253	4	257	4	263	6
Taxicab Surcharge	96	100	4	101	1	101	0
Auto Rental Tax	114	119	5	124	5	124	0

[1]Excludes Transfers

All Funds user taxes and fees receipts are projected to increase by $563 million (3.7 percent) in 2014-15, $585 million (3.7 percent) in 2015-16, and $369 million (2.3 percent) in 2016-17. This outyear growth is due to trends in retail consumption growth and trend declines in cigarette consumption.

General Fund user taxes and fees receipts are projected to increase by $398 million (4.2 percent) in 2014-15, $419 million (4.2 percent) in 2015-16, and $276 million

(2.7 percent) in 2016-17. This outyear growth is consistent with the same trends associated with All Funds, noted above.

Business Taxes

BUSINESS TAXES (millions of dollars)							
	2011-12 Results	2012-13 Current	Annual $ Change	Annual % Change	2013-14 Proposed	Annual $ Change	Annual % Change
General Fund	**5,760**	**6,083**	**323**	**5.6%**	**6,244**	**161**	**2.6%**
Corporate Franchise Tax	2,724	2,615	(109)	-4.0%	2,881	266	10.2%
Corporation and Utilities Tax	617	655	38	6.2%	633	(22)	-3.4%
Insurance Tax	1,257	1,291	34	2.7%	1,364	73	5.7%
Bank Tax	1,161	1,522	361	31.1%	1,366	(156)	-10.2%
Petroleum Business Tax	1	0	(1)	-100.0%	0	0	0.0%
State/All Funds	**7,877**	**8,226**	**349**	**4.4%**	**8,460**	**234**	**2.8%**
Corporate Franchise Tax	3,176	2,991	(185)	-5.8%	3,310	319	10.7%
Corporation and Utilities Tax	797	839	42	5.3%	811	(28)	-3.3%
Insurance Tax	1,413	1,448	35	2.5%	1,531	83	5.7%
Bank Tax	1,391	1,823	432	31.1%	1,618	(205)	-11.2%
Petroleum Business Tax	1,100	1,125	25	2.3%	1,190	65	5.8%

All Funds business tax 2012-13 receipts are estimated at $8.2 billion, an increase of $349 million (4.4 percent) from the prior year. This increase is mainly driven by the bank tax. Growth in bank tax gross receipts and audits offset lower corporate franchise tax receipts. The decline in corporate franchise tax receipts is driven mainly by lower audit collections. The corporation and utilities, and insurance tax receipts are moderately higher than the prior year. All funds 2012-13 receipts include $384 million from the tax deferral of certain tax credits, an incremental increase of $71 million.

All Funds corporate franchise tax 2012-13 receipts are estimated to be $3 billion, a decrease of $185 million (5.8 percent) from 2011-12. The year-to-year decrease is mainly attributable to lower audit receipts. Fewer large cases are expected to be closed in 2012-13 compared to 2011-12. Non-audit receipts are expected to increase $150 million from the prior year as gross receipts increase from the prior year and fewer cash refunds are paid.

All Funds corporation and utilities tax 2012-13 receipts are estimated to be $839 million, an increase of $42 million (5.3 percent) from 2011-12. The main driver for the year-to-year increase is a large telecommunications audit that was received in April 2012. Gross receipts for 2012-13 are estimated to decline 1 percent from 2011-12 as the telecommunications sector continues to erode from consumers continuing to shift to internet based communication tools from landline telecommunications. Softness in the utilities sector is also apparent in 2012-13 as personal consumption expenditures for electricity and natural gas declined from 2011-12.

All Funds insurance tax 2012-13 receipts are estimated to be $1.4 billion, an increase of $35 million (2.5 percent) from last year. This increase is driven by higher calendar year 2012 liability. Gross receipts are expected to grow moderately (3.1 percent) as economic growth continues.

All Funds bank tax 2012-13 receipts are estimated to be $1.8 billion, an increase of $432 million (31.1 percent) from 2011-12. This increase is mainly attributable to strong liability year 2012 payments from commercial banks and higher audit receipts. Throughout calendar year 2012 banks have reported healthy profits from reductions in loan loss reserves and increased refinancing activity due to low mortgage rates. A large bank audit was received in December 2012 that contributed to higher year-to-year audit receipts.

All Funds petroleum business tax 2012-13 receipts are estimated to be $1.1 billion, an increase of $25 million (2.3 percent) above last year. This increase is mainly attributable to the 5 percent increase in the PBT index effective January 2012 and the 5 percent increase effective January 2013, offset by declines in gasoline and highway diesel fuel consumption.

General Fund business tax 2012-13 receipts of nearly $6.1 billion are estimated to increase by $323 million (5.6 percent) from 2011-12. Business tax receipts deposited to the General Fund reflect the All Funds trends discussed above.

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

	2009-10 (Actual)	2010-11 (Actual)	2011-12 (Actual)	2012-13 (Estimated)	2013-14 (Projected)
Corporate Franchise Tax	**2,511**	**2,846**	**3,176**	**2,991**	**3,310**
Audit	698	810	1,080	745	1,003
Non-Audit	1,813	2,036	2,096	2,246	2,307
Corporation and Utilities Taxes	**954**	**813**	**797**	**839**	**811**
Audit	52	13	30	60	76
Non-Audit	902	800	767	779	735
Insurance Taxes	**1,491**	**1,351**	**1,413**	**1,448**	**1,531**
Audit	35	38	21	32	21
Non-Audit	1,456	1,313	1,392	1,416	1,510
Bank Taxes	**1,399**	**1,179**	**1,391**	**1,823**	**1,618**
Audit	290	239	125	382	193
Non-Audit	1,109	940	1,266	1,441	1,425
Petroleum Business Taxes	**1,104**	**1,090**	**1,100**	**1,125**	**1,190**
Audit	10	7	6	6	6
Non-Audit	1,094	1,083	1,094	1,119	1,184
Total Business Taxes	**7,459**	**7,279**	**7,877**	**8,226**	**8,460**
Audit	1,085	1,107	1,262	1,225	1,299
Non-Audit	6,374	6,172	6,615	7,001	7,161

All Funds business tax 2013-14 receipts of roughly $8.5 billion are projected to increase by approximately $234 million (2.8 percent) from the prior year. Corporation franchise tax 2013-14 receipts are projected to increase by $319 million (10.7 percent) from the previous year, driven by growth in audit receipts ($258 million or 34.7 percent). Included in 2013-14 is an incremental increase of $14 million (from $384 million in 2012-13 to $394 million in 2013-14) in receipts from the deferral of certain tax credits.

Corporation and utilities taxes are projected to decline by $28 million (3.3 percent). Gross receipts for 2013-14 are expected to be flat compared to the prior year as lower 186-e receipts are offset with higher 186-a receipts. Receipts in 2013-14 include a large telecommunications refund ($30 million) and higher audit receipts (an incremental increase of $22 million) which largely offset.

Insurance taxes are forecast to increase $83 million (5.7 percent). The year-to-year increase reflects trend growth in the insurance tax as the economy registers steady growth.

Bank tax 2013-14 receipts are projected to decline by $205 million (11.2 percent) from the previous year. The unusually high commercial bank calendar year filer payments seen in 2012-13 are not expected to be repeated in 2013-14, resulting in a decline in projected gross receipts. Additionally, audit receipts are expected to be lower (a decrease of $189 million) in 2013-14 as fewer large cases are settled.

The projected petroleum business tax increase of $65 million (5.8 percent) is due to an increase in the petroleum business tax rate index of 5 percent effective in January 2013 and the projected increase in the petroleum business tax rate index of 3 percent effective in January 2014. Motor and diesel fuel taxable consumption are also projected to grow compared to the prior fiscal year.

General Fund business tax 2013-14 receipts of $6.2 billion are projected to increase $161 million (2.6 percent) from the prior year. Business tax receipts deposited to the General Fund reflect the All Funds trends discussed above.

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

	2012-13				2013-14			
	Mid-Year Update	Executive Budget	$ Change	% Change	Mid-Year Update	Executive Budget	$ Change	% Change
General Fund	**6,035**	**6,083**	**48**	**0.8%**	**6,208**	**6,244**	**36**	**0.6%**
Corporate Franchise Tax	2,635	2,615	(20)	-0.8%	2,836	2,881	45	1.6%
Corporation and Utilities Tax	660	655	(5)	-0.8%	638	633	(5)	-0.8%
Insurance Tax	1,301	1,291	(10)	-0.8%	1,364	1,364	0	0.0%
Bank Tax	1,439	1,522	83	5.8%	1,370	1,366	(4)	-0.3%
Petroleum Business Tax	0	0	0	0.0%	0	0	0	0.0%
State/All Funds	**8,210**	**8,226**	**16**	**0.2%**	**8,440**	**8,460**	**20**	**0.2%**
Corporate Franchise Tax	3,036	2,991	(45)	-1.5%	3,279	3,310	31	0.9%
Corporation and Utilities Tax	844	839	(5)	-0.6%	822	811	(11)	-1.3%
Insurance Tax	1,458	1,448	(10)	-0.7%	1,531	1,531	0	0.0%
Bank Tax	1,710	1,823	113	6.6%	1,608	1,618	10	0.6%
Petroleum Business Tax	1,162	1,125	(37)	-3.2%	1,200	1,190	(10)	-0.8%

Compared to the Mid-Year Update, 2012-13 All Funds business tax receipts are estimated to increase $16 million. Higher bank tax receipts primarily offset declines in the other business taxes. Higher 2012 liability year payments in the bank tax along with higher audits offset lower audit receipts in the corporate franchise tax. The changes for the corporation and utilities tax and the insurance tax reflect year-to-date collection trends. Estimated petroleum business tax receipts for 2012-13 were revised down $37 million due to unexpected declines in gasoline and highway diesel fuel consumption.

All Funds business tax 2013-14 receipts are projected to be $20 million above the Mid-Year Update estimates. Changes among all the business taxes are modest and reflect the outlook for corporate profits and expectations for the taxable portion of the telecommunications industry, residential energy consumption, insurance premiums and motor and diesel fuel taxable consumption.

BUSINESS TAXES (millions of dollars)							
	2013-14 Proposed	2014-15 Projected	Annual $ Change	2015-16 Projected	Annual $ Change	2016-17 Projected	Annual $ Change
General Fund	**6,244**	**5,736**	**(508)**	**6,294**	**558**	**6,546**	**252**
Corporate Franchise Tax	2,881	2,225	(656)	2,618	393	2,749	131
Corporation and Utilities Tax	633	660	27	679	19	700	21
Insurance Tax	1,364	1,408	44	1,484	76	1,499	15
Bank Tax	1,366	1,443	77	1,513	70	1,598	85
Petroleum Business Tax	0	0	0	0	0	0	0
State/All Funds	**8,460**	**8,039**	**(421)**	**8,665**	**626**	**8,982**	**317**
Corporate Franchise Tax	3,310	2,690	(620)	3,115	425	3,269	154
Corporation and Utilities Tax	811	838	27	863	25	895	32
Insurance Tax	1,531	1,580	49	1,662	82	1,683	21
Bank Tax	1,618	1,706	88	1,790	84	1,890	100
Petroleum Business Tax	1,190	1,225	35	1,235	10	1,245	10

All Funds business tax 2014-15, 2015-16 and 2016-17 receipts reflect trend growth that is determined, in part, by the expected level of corporate profits, the expected profitability of banks, the change in taxable insurance premiums, residential energy expenditures and the consumption of telecommunications services. Business tax receipts are estimated to decline to $8 billion (5 percent) in 2014-15, increase to $8.7 billion (7.8 percent) in 2015-16, and increase to $9 billion (3.7 percent) in 2016-17. The decline in 2014-15 reflects the first year of the credit deferral payback to taxpayers. General Fund business tax receipts projections reflect the factors outlined above, and are projected to decline to $5.7 billion (8.1 percent) in 2014-15, increase to $6.3 billion (9.7 percent) in 2015-16, and increase to $6.6 billion (4 percent) in 2016-17.

Other Taxes

OTHER TAXES (millions of dollars)							
	2011-12 Results	2012-13 Current	Annual $ Change	Annual % Change	2013-14 Proposed	Annual $ Change	Annual % Change
General Fund[1]	**1,096**	**1,094**	**(2)**	**-0.2%**	**1,154**	**60**	**5.5%**
Estate Tax	1,078	1,075	(3)	-0.3%	1,135	60	5.6%
Gift Tax	0	0	0	0.0%	0	0	0.0%
Real Property Gains Tax	0	0	0	0.0%	0	0	0.0%
Pari-Mutuel Taxes	17	18	1	5.9%	18	0	0.0%
All Other Taxes	1	1	0	0.0%	1	0	0.0%
State/All Funds	**1,706**	**1,779**	**73**	**4.3%**	**1,859**	**80**	**4.5%**
Estate Tax	1,078	1,075	(3)	-0.3%	1,135	60	5.6%
Gift Tax	0	0	0	0.0%	0	0	5.8%
Real Property Gains Tax	0	0	0	0.0%	0	0	0.0%
Real Estate Transfer Tax	610	685	75	12.3%	705	20	2.9%
Pari-Mutuel Taxes	17	18	1	5.9%	18	0	0.0%
All Other Taxes	1	1	0	0.0%	1	0	0.0%

[1]Excludes Transfers

All Funds other tax 2012-13 receipts are estimated to be $1.8 billion, an increase of $73 million (4.3 percent) from 2011-12 receipts, reflecting a decrease of $3 million (0.3 percent) in the estate tax, as a result of fewer large and extra-large payments and an increase of $75 million (12.3 percent) in real estate transfer tax receipts, as the real estate market continues to recover.

General Fund other tax receipts are expected to total $1.1 billion in 2012-13, a decrease of $2 million (0.2 percent), due to a decrease in the estate tax, partially off-set by higher pari-mutuel tax receipts.

All Funds other tax 2013-14 receipts are projected to be $1.9 billion, up $80 million (4.5 percent) from 2012-13 reflecting growth in both estate tax collections and real estate transfer tax collections.

General Fund other tax receipts are expected to total $1.2 billion in 2013-14, an increase of $60 million (5.5 percent), which is attributable to a projected increase in estate tax receipts due to an expected increase in household net worth.

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

	2012-13				2013-14			
	Mid-Year Update	Executive Budget	$ Change	% Change	Mid-Year Update	Executive Budget	$ Change	% Change
General Fund[1]	**1,146**	**1,094**	**(52)**	**-4.5%**	**1,139**	**1,154**	**15**	**1.3%**
Estate Tax	1,127	1,075	(52)	-4.6%	1,120	1,135	15	1.3%
Gift Tax	0	0	0	0.0%	0	0	0	0.0%
Real Property Gains Tax	0	0	0	0.0%	0	0	0	0.0%
Pari-Mutuel Taxes	18	18	0	0.0%	18	18	0	0.0%
All Other Taxes	1	1	0	0.0%	1	1	0	0.0%
State/All Funds	**1,806**	**1,779**	**(27)**	**-1.5%**	**1,874**	**1,859**	**(15)**	**-0.8%**
Estate Tax	1,127	1,075	(52)	-4.6%	1,120	1,135	15	1.3%
Gift Tax	0	0	0	0.0%	0	0	0	0.0%
Real Property Gains Tax	0	0	0	0.0%	0	0	0	0.0%
Real Estate Transfer Tax	660	685	25	3.8%	735	705	(30)	-4.1%
Pari-Mutuel Taxes	18	18	0	0.0%	18	18	0	0.0%
All Other Taxes	1	1	0	0.0%	1	1	0	0.0%

[1]Excludes Transfers

All Funds other tax 2012-13 receipts are revised down by $27 million from the Mid-Year Update due to a downward revision to estate tax receipts driven by weaker than-anticipated year-to-date results, partially offset by an upward revision to real estate transfer tax receipts driven by a higher than expected number of year-to-date residential conveyances.

General Fund other tax 2012-13 receipts are revised down by $52 million from the Mid-Year Update due to a downward revision to estate tax receipts driven by weaker than anticipated year-to-date results.

All Funds other taxes for 2013-14 are revised down by $15 million in recognition of the uncertainty surrounding the commercial real estate market in Manhattan.

General Fund other taxes for 2013-14 receipts are revised up by $15 million from the Mid-Year Update which is attributable to an upward revision to estate tax receipts due to an expected increase in the number of large and extra-large payments.

OTHER TAXES (millions of dollars)							
	2013-14 Proposed	2014-15 Projected	Annual $ Change	2015-16 Projected	Annual $ Change	2016-17 Projected	Annual $ Change
General Fund[1]	**1,154**	**1,224**	**70**	**1,234**	**10**	**1,244**	**10**
Estate Tax	1,135	1,205	70	1,215	10	1,225	10
Gift Tax	0	0	0	0	0	0	0
Real Property Gains Tax	0	0	0	0	0	0	0
Pari-Mutuel Taxes	18	18	0	18	0	18	0
All Other Taxes	1	1	0	1	0	1	0
State/All Funds	**1,859**	**1,984**	**125**	**2,069**	**85**	**2,134**	**65**
Estate Tax	1,135	1,205	70	1,215	10	1,225	10
Gift Tax	0	0	0	0	0	0	0
Real Property Gains Tax	0	0	0	0	0	0	0
Real Estate Transfer Tax	705	760	55	835	75	890	55
Pari-Mutuel Taxes	18	18	0	18	0	18	0
All Other Taxes	1	1	0	1	0	1	0

[1]Excludes Transfers

All Funds other taxes 2014-15, 2015-16 and 2016-17 receipts reflect growth driven by two major economic variables, household net worth (estate tax) and the value of real property transfers (real estate transfer tax). All Funds other taxes receipts are estimated to increase to $2 billion (6.7 percent) in 2014-15, increase to nearly $2.1 billion (4.3 percent) in 2015-16, and increase to just over $2.1 billion (3.1 percent) in 2016-17. General Fund other taxes receipts will reflect the expected increase in household net worth noted above, and are projected to increase to just over $1.2 billion (6.1 percent) in 2014-15, increase by $10 million (0.8 percent) in 2015-16, and increase by $10 million (0.8 percent) in 2016-17.

Miscellaneous Receipts and Federal Grants

MISCELLANEOUS RECEIPTS AND FEDERAL GRANTS (millions of dollars)							
	2011-12 Results	2012-13 Current	Annual $ Change	Annual % Change	2013-14 Proposed	Annual $ Change	Annual % Change
General Fund	**3,222**	**3,784**	**562**	**17.4%**	**3,103**	**(681)**	**-18.0%**
Miscellaneous Receipts[1]	3,162	3,724	562	17.8%	3,101	(623)	-16.7%
Federal Grants	60	60	0	0.0%	2	(58)	-96.7%
State Funds	**23,814**	**24,959**	**1,145**	**4.8%**	**23,781**	**(1,178)**	**-4.7%**
Miscellaneous Receipts[1]	23,669	24,814	1,145	4.8%	23,694	(1,120)	-4.5%
Federal Grants	145	145	0	0.0%	87	(58)	-40.0%
All Funds	**68,448**	**69,131**	**683**	**1.0%**	**73,238**	**4,107**	**5.9%**
Miscellaneous Receipts[1]	23,837	25,000	1,163	4.9%	23,880	(1,120)	-4.5%
Federal Grants	44,611	44,131	(480)	-1.1%	49,358	5,227	11.8%

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

All Funds miscellaneous receipts include monies received from HCRA financing sources, SUNY tuition and patient income, lottery receipts for education, assessments on regulated industries, and a variety of fees and licenses. All Funds miscellaneous receipts are projected to reach $25 billion in 2012-13, an increase of $1.2 billion from 2011-12. Augmenting General Fund growth of $562 million, as described in more detail below, are growth in SUNY income ($213 million), growth in HCRA financing sources ($171 million), and growth in bond proceed funding for several capital improvement projects ($212 million).

Federal grants help pay for State spending on Medicaid, temporary and disability assistance, mental hygiene, school aid, public health, and other activities. Annual changes to Federal grants generally correspond to changes in Federally-reimbursed spending. Accordingly, DOB typically plans that Federal reimbursements will be received in the State fiscal year in which spending occurs, but due to the variable timing of Federal grant receipts, actual results often differ from the plan. All Funds Federal grants are projected to total $44.1 billion in 2012-13, a decline of $480 million from the prior year, reflecting a decrease in Federal ARRA funding.

General Fund miscellaneous receipts and Federal grants collections are estimated to be nearly $3.8 billion in 2012-13, an increase of $562 million from 2011-12 receipts. This increase is primarily attributable to one-time payments including: a settlement from Standard Chartered Bank, payments from the Manhattan District Attorney, and payments from the State of New York Mortgage Agency.

All Funds miscellaneous receipts are projected to total $23.9 billion in 2013-14, a decrease of $1.1 billion from 2012-13, largely due to the decline in General Fund miscellaneous receipts ($623 million), described in more detail below, and the decline in debt service receipts that is largely associated with the proposed restructuring of the SUNY Dormitory bonding program which moves associated receipts and spending from the State's All Governmental Funds budget ($526 million).

All Funds Federal grants are projected to total nearly $49.4 billion in 2013-14, an increase of $5.2 billion over the current year driven by the timing of Federal funding for disaster assistance costs.

General fund miscellaneous receipts and Federal grants collections are projected to decrease by $681 million to be $3.1 billion in 2013-14, primarily due to the loss of one-time receipts in 2012-13 mentioned above.

MISCELLANEOUS RECEIPTS AND FEDERAL GRANTS: CHANGE FROM MID-YEAR UPDATE FORECAST (millions of dollars)	2012-13				2013-14			
	Mid-Year Update	Executive Budget	$ Change	% Change	Mid-Year Update	Executive Budget	$ Change	% Change
General Fund	**3,801**	**3,784**	**(17)**	**-0.4%**	**2,789**	**3,103**	**314**	**11.3%**
Miscellaneous Receipts[1]	3,741	3,724	(17)	-0.5%	2,787	3,101	314	11.3%
Federal Grants	60	60	0	0.0%	2	2	0	0.0%
State Funds	**24,667**	**24,959**	**292**	**1.2%**	**23,937**	**23,781**	**(156)**	**-0.7%**
Miscellaneous Receipts[1]	24,522	24,814	292	1.2%	23,850	23,694	(156)	-0.7%
Federal Grants	145	145	0	0.0%	87	87	0	0.0%
All Funds	**67,211**	**69,131**	**1,920**	**2.9%**	**68,303**	**73,238**	**4,935**	**7.2%**
Miscellaneous Receipts[1]	24,708	25,000	292	1.2%	24,036	23,880	(156)	-0.6%
Federal Grants	42,503	44,131	1,628	3.8%	44,267	49,358	5,091	11.5%

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

All Funds miscellaneous receipts estimates in 2012-13 were revised upward by $292 million from the Mid-Year Update, to reflect revised estimates for receipts in programs financed with authority bond proceeds, including economic development ($153 million) and receipts revisions in various special revenue funds ($161 million), partly offset slightly by a decrease in estimated General Fund miscellaneous receipts ($17 million).

All Funds miscellaneous receipts projections in 2013-14 were revised down by $156 million which reflects $526 million less in projected debt service fund receipts, largely associated with the Executive Budget proposal to restructure the SUNY Dormitory bonding program. As part of the restructuring, lease revenue from the student dormitory program will no longer flow to the State's All Governmental Funds budget, and instead flow directly to the Dormitory Authority where it will be used to make debt service payments outside of the State's All Governmental Funds budget. Other revisions to the Mid-Year Update estimate include downward adjustments to projected miscellaneous receipts in various special revenue funds ($203 million); partially offset by increases in miscellaneous receipt projections to programs financed with authority bond proceeds, including economic development ($244 million) and increases in General Fund miscellaneous receipt projections ($314 million), as described in more detail below.

General Fund miscellaneous receipts and Federal grants in 2012-13 have been revised down by $17 million from the Mid-Year Update forecast, reflecting downward revisions to abandoned property receipts which were partially offset by upward revisions to licenses and fees.

General Fund miscellaneous receipts in 2013-14 have been revised upward by $314 million, largely resulting from the release of certain State Insurance Fund reserves.

All Funds Federal grant projections have been revised upward by $1.6 billion in 2012-13, and by $5.1 billion in 2013-14, largely driven by the expected increase in Federal funding provided to the State for disaster assistance costs.

MISCELLANEOUS RECEIPTS AND FEDERAL GRANTS (millions of dollars)	2013-14 Proposed	2014-15 Projected	Annual $ Change	2015-16 Projected	Annual $ Change	2016-17 Projected	Annual $ Change
General Fund	**3,103**	**3,030**	**(73)**	**2,836**	**(194)**	**2,844**	**8**
Miscellaneous Receipts[1]	3,101	3,030	(71)	2,836	(194)	2,844	8
Federal Grants	2	0	(2)	0	0	0	0
State Funds	**23,781**	**24,113**	**332**	**24,354**	**241**	**23,645**	**(709)**
Miscellaneous Receipts[1]	23,694	24,028	334	24,269	241	23,560	(709)
Federal Grants	87	85	(2)	85	0	85	0
All Funds	**73,238**	**72,813**	**(425)**	**73,269**	**456**	**75,235**	**1,966**
Miscellaneous Receipts[1]	23,880	24,214	334	24,455	241	23,746	(709)
Federal Grants	49,358	48,599	(759)	48,814	215	51,489	2,675

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

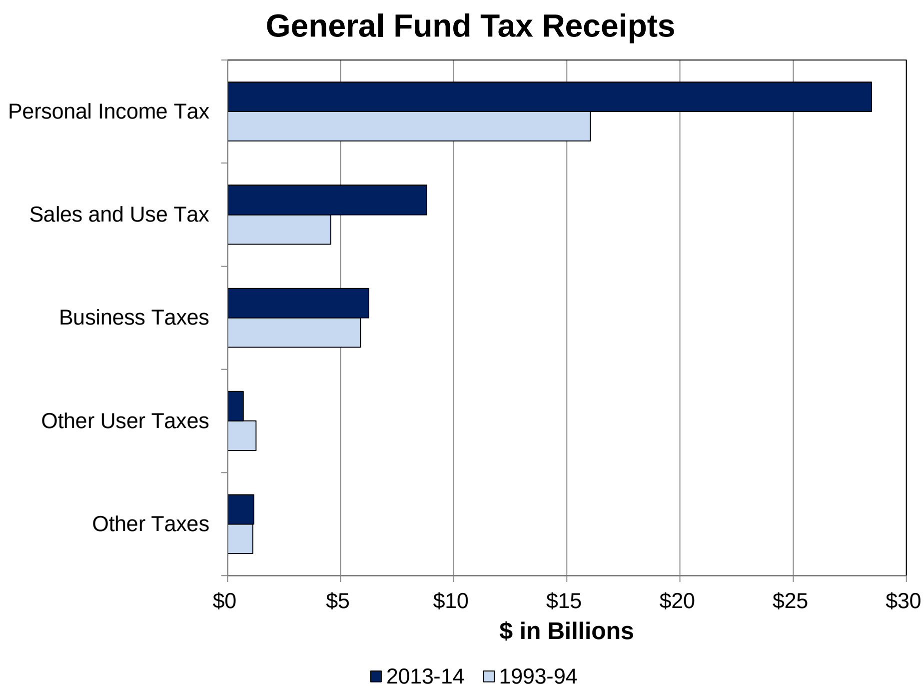
All Funds miscellaneous receipts are projected to total $24.2 billion in 2014-15, an increase of $334 million from 2013-14, driven by additional receipts from HCRA financing sources ($263 million) and growth in SUNY income ($144 million), partially offset by declines in other miscellaneous receipts. All Funds miscellaneous receipts are projected to total $24.5 billion in 2015-16, an increase of $241 million from 2014-15. All Funds miscellaneous receipts are projected to total $23.7 billion in 2016-17, a decline of $709 million from 2015-16, due largely to decreases in miscellaneous receipt projections for programs financed with authority bond proceeds.

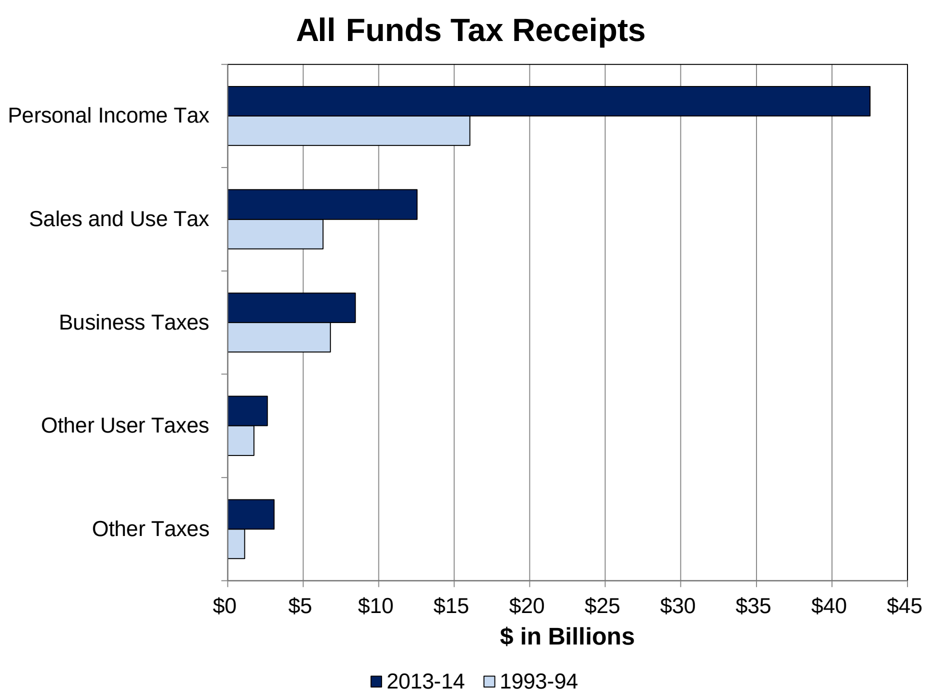
All Funds Federal grants are projected at $48.6 billion in 2014-15; $48.8 billion in 2015-16; and $51.5 billion in 2016-17. The multi-year projections for Federal grants is in part driven by the timing of Federal funding for disaster assistance costs, the largest part of which are expected to be received by the State during 2013-14. The larger-than-usual annual increase to Federal Grants in 2016-17, by $2.7 billion, primarily reflects increased Federal support for Medicaid due to the impact of the Affordable Care Act.

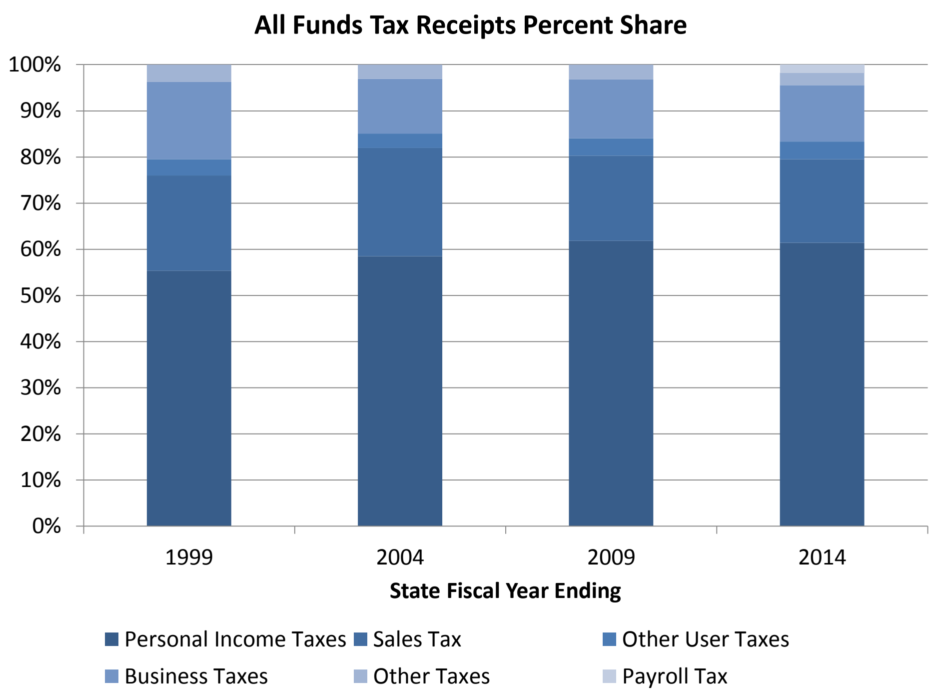
General Fund miscellaneous receipts and Federal grants are estimated to be $3 billion in 2014-15, down $73 million from 2013-14 projections, primarily due to the loss of one-time payments such as payments from the Manhattan District Attorney.

General Fund 2015-16 miscellaneous receipts and Federal grants are projected to be $2.8 billion, down $194 million from 2014-15, resulting from the loss of certain receipts from the State Insurance Fund which are partially offset by increased receipts from the New York Power Authority.

General Fund 2016-17 miscellaneous receipts and Federal grants remain virtually unchanged from the prior year.


General Fund Tax Receipts
Personal Income Tax
Sales and Use Tax
Business Taxes
Other User Taxes
Other Taxes
$0
$5
$10
$15
$20
$25
$30
$ in Billions
2013-14
1993-94


All Funds Tax Receipts
Personal Income Tax
Sales and Use Tax
Business Taxes
Other User Taxes
Other Taxes
$0
$5
$10
$15
$20
$25
$30
$35
$40
$45
$ in Billions
2013-14
1993-94


All Funds Tax Receipts Percent Share
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
1999
2004
2009
2014
State Fiscal Year Ending
Personal Income Taxes
Sales Tax
Other User Taxes
Business Taxes
Other Taxes
Payroll Tax

CURRENT STATE RECEIPTS
ALL GOVERNMENTAL FUNDS
FY 2013 and FY 2014
(millions of dollars)

	FY 2013 Current	FY 2014 Proposed	Annual $ Change
Taxes:			
Withholdings	31,928	33,666	1,738
Estimated Payments	11,862	12,708	846
Final Payments	2,153	2,266	113
Other Payments	1,174	1,208	34
Gross Collections	47,117	49,848	2,731
State/City Offset	(268)	(223)	45
Refunds	(6,948)	(7,105)	(157)
Reported Tax Collections	39,901	42,520	2,619
STAR (Dedicated Deposits)	0	0	0
RBTF (Dedicated Transfers)	(1)	0	1
Personal Income Tax	39,900	42,520	2,620
Sales and Use Tax	11,994	12,533	539
Cigarette and Tobacco Taxes	1,561	1,535	(26)
Motor Fuel Tax	490	500	10
Alcoholic Beverage Taxes	249	249	0
Highw ay Use Tax	141	140	(1)
Auto Rental Tax	109	114	5
Taxicab Surcharge	86	96	10
Gross Utility Taxes and Fees	14,630	15,167	537
LGAC Sales Tax (Dedicated Transfers)	0	0	0
User Taxes and Fees	14,630	15,167	537
Corporation Franchise Tax	2,991	3,310	319
Corporation and Utilities Tax	839	811	(28)
Insurance Taxes	1,448	1,531	83
Bank Tax	1,823	1,618	(205)
Petroleum Business Tax	1,125	1,190	65
Business Taxes	8,226	8,460	234
Estate Tax	1,075	1,135	60
Real Estate Transfer Tax	685	705	20
Gift Tax	0	0	0
Real Property Gains Tax	0	0	0
Pari-Mutuel Taxes	18	18	0
Other Taxes	1	1	0
Gross Other Taxes	1,779	1,859	80
Real Estate Transfer Tax (Dedicated)	0	0	0
Other Taxes	1,779	1,859	80
Payroll Tax	1,160	1,219	59
Total Taxes	65,695	69,225	3,530
Licenses, Fees, Etc.	763	680	(83)
Abandoned Property	715	650	(65)
Motor Vehicle Fees	1,380	1,318	(62)
ABC License Fee	56	54	(2)
Reimbursements	272	272	0
Investment Income	5	5	0
Other Transactions	21,809	20,901	(908)
Miscellaneous Receipts	25,000	23,880	(1,120)
Federal Grants	44,131	49,358	5,227
Total	134,826	142,463	7,637

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
FY 2013
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Taxes:					
Withholdings	31,928	0	0	0	31,928
Estimated Payments	11,862	0	0	0	11,862
Final Payments	2,153	0	0	0	2,153
Other Payments	1,174	0	0	0	1,174
Gross Collections	47,117	0	0	0	47,117
State/City Offset	(268)	0	0	0	(268)
Refunds	(6,948)	0	0	0	(6,948)
Reported Tax Collections	39,901	0	0	0	39,901
STAR (Dedicated Deposits)	(3,276)	3,276	0	0	0
RBTF (Dedicated Transfers)	(9,976)	0	0	9,975	(1)
Personal Income Tax	26,649	3,276	0	9,975	39,900
Sales and Use Tax	11,239	755	0	0	11,994
Cigarette and Tobacco Taxes	448	1,113	0	0	1,561
Motor Fuel Tax	0	103	387	0	490
Alcoholic Beverage Taxe	249	0	0	0	249
Highw ay Use Tax	0	0	141	0	141
Auto Rental Tax	0	41	68	0	109
Taxicab Surcharge	0	86	0	0	86
Gross Utility Taxes and Fees	11,936	2,098	596	0	14,630
LGAC Sales Tax (Dedicated Transfers)	(2,809)	0	0	2,809	0
User Taxes and Fees	9,127	2,098	596	2,809	14,630
Corporation Franchise Tax	2,615	376	0	0	2,991
Corporation and Utilities Tax	655	170	14	0	839
Insurance Taxes	1,291	157	0	0	1,448
Bank Tax	1,522	301	0	0	1,823
Petroleum Business Tax	0	501	624	0	1,125
Business Taxes	6,083	1,505	638	0	8,226
Estate Tax	1,075	0	0	0	1,075
Real Estate Transfer Tax	685	0	0	0	685
Gift Tax	0	0	0	0	0
Real Property Gains Tax	0	0	0	0	0
Pari-Mutuel Taxes	18	0	0	0	18
Other Taxes	1	0	0	0	1
Gross Other Taxes	1,779	0	0	0	1,779
Real Estate Transfer Tax (Dedicated)	(685)	0	119	566	0
Other Taxes	1,094	0	119	566	1,779
Payroll Tax	0	1,160	0	0	1,160
Total Taxes	42,953	8,039	1,353	13,350	65,695
Licenses, Fees, Etc.	763	0	0	0	763
Abandoned Property	715	0	0	0	715
Motor Vehicle Fees	99	482	799	0	1,380
ABC License Fee	56	0	0	0	56
Reimbursements	272	0	0	0	272
Investment Income	5	0	0	0	5
Other Transactions	1,814	15,432	3,567	996	21,809
Miscellaneous Receipts	3,724	15,914	4,366	996	25,000
Federal Grants	60	41,797	2,195	79	44,131
Total	46,737	65,750	7,914	14,425	134,826

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
FY 2014
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Taxes:					
Withholdings	33,666	0	0	0	33,666
Estimated Payments	12,708	0	0	0	12,708
Final Payments	2,266	0	0	0	2,266
Other Payments	1,208	0	0	0	1,208
Gross Collections	49,848	0	0	0	49,848
State/City Offset	(223)	0	0	0	(223)
Refunds	(7,105)	0	0	0	(7,105)
Reported Tax Collections	42,520	0	0	0	42,520
STAR (Dedicated Deposits)	(3,419)	3,419	0	0	0
RBTF (Dedicated Transfers)	(10,630)	0	0	10,630	0
Personal Income Tax	28,471	3,419	0	10,630	42,520
Sales and Use Tax	11,736	797	0	0	12,533
Cigarette and Tobacco Taxes	441	1,094	0	0	1,535
Motor Fuel Tax	0	105	395	0	500
Alcoholic Beverage Taxes	249	0	0	0	249
Highway Use Tax	0	0	140	0	140
Auto Rental Tax	0	43	71	0	114
Taxicab Surcharge	0	96	0	0	96
Gross Utility Taxes and Fees	12,426	2,135	606	0	15,167
LGAC Sales Tax (Dedicated Transfers)	(2,934)	0	0	2,934	0
User Taxes and Fees	9,492	2,135	606	2,934	15,167
Corporation Franchise Tax	2,881	429	0	0	3,310
Corporation and Utilities Tax	633	164	14	0	811
Insurance Taxes	1,364	167	0	0	1,531
Bank Tax	1,366	252	0	0	1,618
Petroleum Business Tax	0	530	660	0	1,190
Business Taxes	6,244	1,542	674	0	8,460
Estate Tax	1,135	0	0	0	1,135
Real Estate Transfer Tax	705	0	0	0	705
Gift Tax	0	0	0	0	0
Real Property Gains Tax	0	0	0	0	0
Pari-Mutuel Taxes	18	0	0	0	18
Other Taxes	1	0	0	0	1
Gross Other Taxes	1,859	0	0	0	1,859
Real Estate Transfer Tax (Dedicated)	(705)	0	119	586	0
Other Taxes	1,154	0	119	586	1,859
Payroll Tax	0	1,219	0	0	1,219
Total Taxes	45,361	8,315	1,399	14,150	69,225
Licenses, Fees, Etc.	680	0	0	0	680
Abandoned Property	650	0	0	0	650
Motor Vehicle Fees	26	481	811	0	1,318
ABC License Fee	54	0	0	0	54
Reimbursements	272	0	0	0	272
Investment Income	5	0	0	0	5
Other Transactions	1,414	15,480	3,490	517	20,901
Miscellaneous Receipts	3,101	15,961	4,301	517	23,880
Federal Grants	2	47,056	2,221	79	49,358
Total	48,464	71,332	7,921	14,746	142,463

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
FY 2015
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Taxes:					
Withholdings	35,111	0	0	0	35,111
Estimated Payments	13,542	0	0	0	13,542
Final Payments	2,151	0	0	0	2,151
Other Payments	1,245	0	0	0	1,245
Gross Collections	52,049	0	0	0	52,049
State/City Offset	(148)	0	0	0	(148)
Refunds	(7,945)	0	0	0	(7,945)
Reported Tax Collections	43,956	0	0	0	43,956
STAR (Dedicated Deposits)	(3,602)	3,602	0	0	0
RBTF (Dedicated Transfers)	(10,989)	0	0	10,989	0
Personal Income Tax	29,365	3,602	0	10,989	43,956
Sales and Use Tax	12,269	835	0	0	13,104
Cigarette and Tobacco Taxes	435	1,073	0	0	1,508
Motor Fuel Tax	0	105	398	0	503
Alcoholic Beverage Taxes	253	0	0	0	253
Highway Use Tax	0	0	143	0	143
Auto Rental Tax	0	45	74	0	119
Taxicab Surcharge	0	100	0	0	100
Gross Utility Taxes and Fees	12,957	2,158	615	0	15,730
LGAC Sales Tax (Dedicated Transfers)	(3,067)	0	0	3,067	0
User Taxes and Fees	9,890	2,158	615	3,067	15,730
Corporation Franchise Tax	2,225	465	0	0	2,690
Corporation and Utilities Tax	660	164	14	0	838
Insurance Taxes	1,408	172	0	0	1,580
Bank Tax	1,443	263	0	0	1,706
Petroleum Business Tax	0	545	680	0	1,225
Business Taxes	5,736	1,609	694	0	8,039
Estate Tax	1,205	0	0	0	1,205
Real Estate Transfer Tax	760	0	0	0	760
Gift Tax	0	0	0	0	0
Real Property Gains Tax	0	0	0	0	0
Pari-Mutuel Taxes	18	0	0	0	18
Other Taxes	1	0	0	0	1
Gross Other Taxes	1,984	0	0	0	1,984
Real Estate Transfer Tax (Dedicated)	(760)	0	119	641	0
Other Taxes	1,224	0	119	641	1,984
Payroll Tax	0	1,317	0	0	1,317
Total Taxes	46,215	8,686	1,428	14,697	71,026
Licenses, Fees, Etc.	647	0	0	0	647
Abandoned Property	655	0	0	0	655
Motor Vehicle Fees	26	481	811	0	1,318
ABC License Fee	50	0	0	0	50
Reimbursements	272	0	0	0	272
Investment Income	30	0	0	0	30
Other Transactions	1,350	15,860	3,493	539	21,242
Miscellaneous Receipts	3,030	16,341	4,304	539	24,214
Federal Grants	0	46,492	2,028	79	48,599
Total	49,245	71,519	7,760	15,315	143,839

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
FY 2016
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Taxes:					
Withholdings	37,051	0	0	0	37,051
Estimated Payments	13,500	0	0	0	13,500
Final Payments	2,251	0	0	0	2,251
Other Payments	1,295	0	0	0	1,295
Gross Collections	54,097	0	0	0	54,097
State/City Offset	(148)	0	0	0	(148)
Refunds	(8,607)	0	0	0	(8,607)
Reported Tax Collections	45,342	0	0	0	45,342
STAR (Dedicated Deposits)	(3,704)	3,704	0	0	0
RBTF (Dedicated Transfers)	(11,335)	0	0	11,335	0
Personal Income Tax	30,303	3,704	0	11,335	45,342
Sales and Use Tax	12,833	864	0	0	13,697
Cigarette and Tobacco Taxes	428	1,050	0	0	1,478
Motor Fuel Tax	0	106	401	0	507
Alcoholic Beverage Taxes	257	0	0	0	257
Highway Use Tax	0	0	151	0	151
Auto Rental Tax	0	47	77	0	124
Taxicab Surcharge	0	101	0	0	101
Gross Utility Taxes and Fees	13,518	2,168	629	0	16,315
LGAC Sales Tax (Dedicated Transfers)	(3,209)	0	0	3,209	0
User Taxes and Fees	10,309	2,168	629	3,209	16,315
Corporation Franchise Tax	2,618	497	0	0	3,115
Corporation and Utilities Tax	679	170	14	0	863
Insurance Taxes	1,484	178	0	0	1,662
Bank Tax	1,513	277	0	0	1,790
Petroleum Business Tax	0	549	686	0	1,235
Business Taxes	6,294	1,671	700	0	8,665
Estate Tax	1,215	0	0	0	1,215
Real Estate Transfer Tax	835	0	0	0	835
Gift Tax	0	0	0	0	0
Real Property Gains Tax	0	0	0	0	0
Pari-Mutuel Taxes	18	0	0	0	18
Other Taxes	1	0	0	0	1
Gross Other Taxes	2,069	0	0	0	2,069
Real Estate Transfer Tax (Dedicated)	(835)	0	119	716	0
Other Taxes	1,234	0	119	716	2,069
Payroll Tax	0	1,410	0	0	1,410
Total Taxes	48,140	8,953	1,448	15,260	73,801
Licenses, Fees, Etc.	638	0	0	0	638
Abandoned Property	655	0	0	0	655
Motor Vehicle Fees	26	481	811	0	1,318
ABC License Fee	55	0	0	0	55
Reimbursements	272	0	0	0	272
Investment Income	30	0	0	0	30
Other Transactions	1,160	15,986	3,810	531	21,487
Miscellaneous Receipts	2,836	16,467	4,621	531	24,455
Federal Grants	0	47,075	1,660	79	48,814
Total	50,976	72,495	7,729	15,870	147,070

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
FY 2017
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Taxes:					
Withholdings	39,352	0	0	0	39,352
Estimated Payments	14,013	0	0	0	14,013
Final Payments	2,351	0	0	0	2,351
Other Payments	1,340	0	0	0	1,340
Gross Collections	57,056	0	0	0	57,056
State/City Offset	(148)	0	0	0	(148)
Refunds	(9,080)	0	0	0	(9,080)
Reported Tax Collections	47,828	0	0	0	47,828
STAR (Dedicated Deposits)	(3,806)	3,806	0	0	0
RBTF (Dedicated Transfers)	(11,957)	0	0	11,957	0
Personal Income Tax	32,065	3,806	0	11,957	47,828
Sales and Use Tax	13,202	887	0	0	14,089
Cigarette and Tobacco Taxes	421	1,027	0	0	1,448
Motor Fuel Tax	0	106	404	0	510
Alcoholic Beverage Taxes	263	0	0	0	263
Highway Use Tax	0	0	149	0	149
Auto Rental Tax	0	47	77	0	124
Taxicab Surcharge	0	101	0	0	101
Gross Utility Taxes and Fees	13,886	2,168	630	0	16,684
LGAC Sales Tax (Dedicated Transfers)	(3,301)	0	0	3,301	0
User Taxes and Fees	10,585	2,168	630	3,301	16,684
Corporation Franchise Tax	2,749	520	0	0	3,269
Corporation and Utilities Tax	700	181	14	0	895
Insurance Taxes	1,499	184	0	0	1,683
Bank Tax	1,598	292	0	0	1,890
Petroleum Business Tax	0	554	691	0	1,245
Business Taxes	6,546	1,731	705	0	8,982
Estate Tax	1,225	0	0	0	1,225
Real Estate Transfer Tax	890	0	0	0	890
Gift Tax	0	0	0	0	0
Real Property Gains Tax	0	0	0	0	0
Pari-Mutuel Taxes	18	0	0	0	18
Other Taxes	1	0	0	0	1
Gross Other Taxes	2,134	0	0	0	2,134
Real Estate Transfer Tax (Dedicated)	(890)	0	119	771	0
Other Taxes	1,244	0	119	771	2,134
Payroll Tax	0	1,508	0	0	1,508
Total Taxes	50,440	9,213	1,454	16,029	77,136
Licenses, Fees, Etc.	644	0	0	0	644
Abandoned Property	655	0	0	0	655
Motor Vehicle Fees	26	481	811	0	1,318
ABC License Fee	51	0	0	0	51
Reimbursements	272	0	0	0	272
Investment Income	30	0	0	0	30
Other Transactions	1,166	16,196	2,920	494	20,776
Miscellaneous Receipts	2,844	16,677	3,731	494	23,746
Federal Grants	0	49,793	1,617	79	51,489
Total	53,284	75,683	6,802	16,602	152,371

CURRENT STATE RECEIPTS
GENERAL FUND
FY 2013 and FY 2014
(millions of dollars)

	FY 2013 Current	FY 2014 Proposed	Annual $ Change
Taxes:			
Withholdings	31,928	33,666	1,738
Estimated Payments	11,862	12,708	846
Final Payments	2,153	2,266	113
Other Payments	1,174	1,208	34
Gross Collections	47,117	49,848	2,731
State/City Offset	(268)	(223)	45
Refunds	(6,948)	(7,105)	(157)
Reported Tax Collections	39,901	42,520	2,619
STAR (Dedicated Deposits)	(3,276)	(3,419)	(143)
RBTF (Dedicated Transfers)	(9,976)	(10,630)	(654)
Personal Income Tax	26,649	28,471	1,822
Sales and Use Tax	11,239	11,736	497
Cigarette and Tobacco Taxes	448	441	(7)
Motor Fuel Tax	0	0	0
Alcoholic Beverage Taxes	249	249	0
Highw ay Use Tax	0	0	0
Auto Rental Tax	0	0	0
Taxicab Surcharge	0	0	0
Gross Utility Taxes and Fees	11,936	12,426	490
LGAC Sales Tax (Dedicated Transfers)	(2,809)	(2,934)	(125)
User Taxes and Fees	9,127	9,492	365
Corporation Franchise Tax	2,615	2,881	266
Corporation and Utilities Tax	655	633	(22)
Insurance Taxes	1,291	1,364	73
Bank Tax	1,522	1,366	(156)
Petroleum Business Tax	0	0	0
Business Taxes	6,083	6,244	161
Estate Tax	1,075	1,135	60
Real Estate Transfer Tax	685	705	20
Gift Tax	0	0	0
Real Property Gains Tax	0	0	0
Pari-Mutuel Taxes	18	18	0
Other Taxes	1	1	0
Gross Other Taxes	1,779	1,859	80
Real Estate Transfer Tax (Dedicated)	(685)	(705)	(20)
Other Taxes	1,094	1,154	60
Payroll Tax	0	0	0
Total Taxes	42,953	45,361	2,408
Licenses, Fees, Etc.	763	680	(83)
Abandoned Property	715	650	(65)
Motor Vehicle Fees	99	26	(73)
ABC License Fee	56	54	(2)
Reimbursements	272	272	0
Investment Income	5	5	0
Other Transactions	1,814	1,414	(400)
Miscellaneous Receipts	3,724	3,101	(623)
Federal Grants	60	2	(58)
Total	46,737	48,464	1,727

CASH RECEIPTS
CURRENT STATE RECEIPTS
GENERAL FUND
FY 2014 THROUGH FY 2017
(millions of dollars)

	FY 2014 Proposed	FY 2015 Projected	FY 2016 Projected	FY 2017 Projected
Taxes:				
Withholdings	33,666	35,111	37,051	39,352
Estimated Payments	12,708	13,542	13,500	14,013
Final Payments	2,266	2,151	2,251	2,351
Other Payments	1,208	1,245	1,295	1,340
Gross Collections	49,848	52,049	54,097	57,056
State/City Offset	(223)	(148)	(148)	(148)
Refunds	(7,105)	(7,945)	(8,607)	(9,080)
Reported Tax Collections	42,520	43,956	45,342	47,828
STAR (Dedicated Deposits)	(3,419)	(3,602)	(3,704)	(3,806)
RBTF (Dedicated Transfers)	(10,630)	(10,989)	(11,335)	(11,957)
Personal Income Tax	28,471	29,365	30,303	32,065
Sales and Use Tax	11,736	12,269	12,833	13,202
Cigarette and Tobacco Taxes	441	435	428	421
Motor Fuel Tax	0	0	0	0
Alcoholic Beverage Taxes	249	253	257	263
Highw ay Use Tax	0	0	0	0
Auto Rental Tax	0	0	0	0
Taxicab Surcharge	0	0	0	0
Gross Utility Taxes and Fees	12,426	12,957	13,518	13,886
LGAC Sales Tax (Dedicated Transfers)	(2,934)	(3,067)	(3,209)	(3,301)
User Taxes and Fees	9,492	9,890	10,309	10,585
Corporation Franchise Tax	2,881	2,225	2,618	2,749
Corporation and Utilities Tax	633	660	679	700
Insurance Taxes	1,364	1,408	1,484	1,499
Bank Tax	1,366	1,443	1,513	1,598
Petroleum Business Tax	0	0	0	0
Business Taxes	6,244	5,736	6,294	6,546
Estate Tax	1,135	1,205	1,215	1,225
Real Estate Transfer Tax	705	760	835	890
Gift Tax	0	0	0	0
Real Property Gains Tax	0	0	0	0
Pari-Mutuel Taxes	18	18	18	18
Other Taxes	1	1	1	1
Gross Other Taxes	1,859	1,984	2,069	2,134
Real Estate Transfer Tax (Dedicated)	(705)	(760)	(835)	(890)
Other Taxes	1,154	1,224	1,234	1,244
Payroll Tax	0	0	0	0
Total Taxes	45,361	46,215	48,140	50,440
Licenses, Fees, Etc.	680	647	638	644
Abandoned Property	650	655	655	655
Motor Vehicle Fees	26	26	26	26
ABC License Fee	54	50	55	51
Reimbursements	272	272	272	272
Investment Income	5	30	30	30
Other Transactions	1,414	1,350	1,160	1,166
Miscellaneous Receipts	3,101	3,030	2,836	2,844
Federal Grants	2	0	0	0
Total	48,464	49,245	50,976	53,284

CASH RECEIPTS
SPECIAL REVENUE FUNDS
FY 2013 and FY 2014
(millions of dollars)

	FY 2013 Current	FY 2014 Proposed	Annual $ Change
Personal Income Tax	3,276	3,419	143
User Taxes and Fees	2,098	2,135	37
Sales and Use Tax	755	797	42
Cigarette and Tobacco Taxes	1,113	1,094	(19)
Motor Fuel Tax	103	105	2
Auto Rental Tax	41	43	2
Taxicab Surcharge	86	96	10
Business Taxes	1,505	1,542	37
Corporation Franchise Tax	376	429	53
Corporation and Utilities Tax	170	164	(6)
Insurance Taxes	157	167	10
Bank Tax	301	252	(49)
Petroleum Business Tax	501	530	29
Payroll Tax	1,160	1,219	59
Total Taxes	8,039	8,315	276
Miscellaneous Receipts	15,914	15,961	47
HCRA	4,325	4,550	225
State University Income	4,041	4,239	198
Lottery	3,238	3,292	54
Medicaid	794	785	(9)
Industry Assessments	756	784	28
Motor Vehicle Fees	482	481	(1)
All Other	2,278	1,830	(448)
Federal Grants	41,797	47,056	5,259
Total	65,750	71,332	5,582

CASH RECEIPTS
SPECIAL REVENUE FUNDS
FY 2014 THROUGH FY 2017
(millions of dollars)

	FY 2014 Proposed	FY 2015 Projected	FY 2016 Projected	FY 2017 Projected
Personal Income Tax	3,419	3,602	3,704	3,806
User Taxes and Fees	2,135	2,158	2,168	2,168
Sales and Use Tax	797	835	864	887
Cigarette and Tobacco Taxes	1,094	1,073	1,050	1,027
Motor Fuel Tax	105	105	106	106
Auto Rental Tax	43	45	47	47
Taxicab Surcharge	96	100	101	101
Business Taxes	1,542	1,609	1,671	1,731
Corporation Franchise Tax	429	465	497	520
Corporation and Utilities Tax	164	164	170	181
Insurance Taxes	167	172	178	184
Bank Tax	252	263	277	292
Petroleum Business Tax	530	545	549	554
Payroll Tax	1,219	1,317	1,410	1,508
Total Taxes	8,315	8,686	8,953	9,213
Miscellaneous Receipts	15,961	16,341	16,467	16,677
HCRA	4,550	4,813	4,813	4,931
State University Income	4,239	4,383	4,383	4,546
Lottery	3,292	3,316	3,316	3,321
Medicaid	785	788	788	788
Industry Assessments	784	792	803	811
Motor Vehicle Fees	481	481	481	481
All Other	1,830	1,768	1,883	1,799
Federal Grants	47,056	46,492	47,075	49,793
Total	71,332	71,519	72,495	75,683

CASH RECEIPTS
CAPITAL PROJECTS FUNDS
FY 2013 and FY 2014
(millions of dollars)

	FY 2013 Current	FY 2014 Proposed	Annual $ Change
User Taxes and Fees	596	606	10
Motor Fuel Tax	387	395	8
Highway Use Tax	141	140	(1)
Auto Rental Tax	68	71	3
Business Taxes	638	674	36
Corporation and Utilities Tax	14	14	0
Petroleum Business Tax	624	660	36
Other Taxes	119	119	0
Real Estate Transfer Tax	119	119	0
Total Taxes	1,353	1,399	46
Miscellaneous Receipts	4,366	4,301	(65)
Authority Bond Proceeds	3,441	3,644	203
State Park Fees	78	78	0
Environmental Revenues	77	77	0
Motor Vehicle Fees	799	811	12
All Other	(28)	(309)	(281)
Federal Grants	2,195	2,221	26
Total	7,914	7,921	7

CASH RECEIPTS
CAPITAL PROJECTS FUNDS
FY 2014 THROUGH FY 2017
(millions of dollars)

	FY 2014 Proposed	FY 2015 Projected	FY 2016 Projected	FY 2017 Projected
User Taxes and Fees	606	615	629	630
Motor Fuel Tax	395	398	401	404
Highway Use Tax	140	143	151	149
Auto Rental Tax	71	74	77	77
Business Taxes	674	694	700	705
Corporation and Utilities Tax	14	14	14	14
Petroleum Business Tax	660	680	686	691
Other Taxes	119	119	119	119
Real Estate Transfer Tax	119	119	119	119
Total Taxes	1,399	1,428	1,448	1,454
Miscellaneous Receipts	4,301	4,304	4,621	3,731
Authority Bond Proceeds	3,644	3,696	3,977	3,390
State Park Fees	78	93	108	114
Environmental Revenues	77	77	77	77
Motor Vehicle Fees	811	811	811	811
All Other	(309)	(373)	(352)	(661)
Federal Grants	2,221	2,028	1,660	1,617
Total	7,921	7,760	7,729	6,802

CASH RECEIPTS
DEBT SERVICE FUNDS
FY 2013 and FY 2014
(millions of dollars)

	FY 2013 Current	FY 2014 Proposed	Annual $ Change
Personal Income Tax	9,975	10,630	655
User Taxes and Fees	2,809	2,934	125
Sales and Use Tax	2,809	2,934	125
Other Taxes	566	586	20
Real Estate Transfer Tax	566	586	20
Total Taxes	13,350	14,150	800
Miscellaneous Receipts	996	517	(479)
Mental Hygiene Patient Receipts	334	379	45
SUNY Dormitory Fees	505	0	(505)
Health Patient Receipts	128	128	0
All Other	29	10	(19)
Federal Grants	79	79	0
Total	14,425	14,746	321

CASH RECEIPTS
DEBT SERVICE FUNDS
FY 2014 THROUGH FY 2017
(millions of dollars)

	FY 2014 Proposed	FY 2015 Projected	FY 2016 Projected	FY 2017 Projected
Personal Income Tax	10,630	10,989	11,335	11,957
User Taxes and Fees	2,934	3,067	3,209	3,301
Sales and Use Tax	2,934	3,067	3,209	3,301
Other Taxes	586	641	716	771
Real Estate Transfer Tax	586	641	716	771
Total Taxes	14,150	14,697	15,260	16,029
Miscellaneous Receipts	517	539	531	494
Mental Hygiene Patient Receipts	379	401	395	389
SUNY Dormitory Fees	0	0	0	0
Health Patient Receipts	128	128	128	98
All Other	10	10	8	7
Federal Grants	79	79	79	79
Total	14,746	15,315	15,870	16,602

CASH FLOW

CASH FLOW

The following tables report monthly cash flow for All Funds tax receipts. Actual results are provided for the first nine months of the current State fiscal year, and estimates are reported for the remainder of 2012-13 and all of 2013-14. The monthly estimates for 2013-14 are primarily based on average shares from prior years adjusted for proposed and previously enacted law changes that will impact normal cash flow. This section contains sub headings that detail actual cash flow results through December and compare them with Mid-Year estimates and the Enacted Budget estimates. This section also contains charts showing monthly General, Special Revenue, Capital Projects and Debt Service Funds cash flows for total taxes and major tax categories and General Fund miscellaneous receipts and Federal grants.

PERSONAL INCOME TAX

The personal income tax cash flow for 2012-13 mostly reverted back to historical patterns. However, the April settlement in extensions was relatively weak following an inflated base for April 2011, contracting by nearly 10 percent from the previous year. Unlike earlier months of the fiscal year, current year estimated tax payments and withholding for December exceeded forecast expectations. The December results are most likely due to shifting of wage and non-wage income into December 2012 from 2013 to avoid higher Federal taxes resulting from the sunset of lower top Federal marginal tax rates (the Bush tax cuts) and the scheduled increase in Federal tax rates on investment income starting with tax year 2013 as a part of the Federal Affordable Care Act. For the final three months of 2012-13, withholding is projected to grow modestly reflecting nearly flat growth for financial sector bonuses.

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 2013-14 cash flow for sales tax and other taxes in this category are expected to be consistent with historical averages modified for tax law changes and audits. Historically, the fourth-quarter share has been slightly smaller than the other quarters.

BUSINESS TAXES

The cash flow for business taxes typically follows a pattern of large monthly collections in June, September, December and March. This pattern can be affected by large audit and compliance collections as well as large refunds. In 2012-13, the monthly cash flow pattern has been impacted by several large audit cases that occurred in year-to-date receipts in the corporation and utilities tax and the bank tax.

OTHER TAXES

General Fund cash flow for other taxes is dominated by the estate tax. Unlike most taxes that have cash flow patterns determined by statute and possible seasonal influences, the estate tax follows no regular pattern during the year. Prior year cash flow gives little guidance to future cash flow patterns. As a working concept, monthly cash flow for the estate tax for 2013-14 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 2012-13 MONTHLY CASHFLOW ACTUALS AND PROJECTIONS (millions of dollars)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	**3,851**	**1,236**	**2,487**	**1,768**	**1,823**	**2,774**	**1,908**	**1,339**	**2,871**	**2,952**	**1,894**	**1,748**	**26,649**
Gross collections	7,806	2,665	3,953	2,453	2,520	4,046	2,944	2,336	4,203	7,403	3,503	3,285	47,117
Refunds	(2,672)	(1,017)	(104)	(96)	(89)	(97)	(392)	(502)	(164)	(164)	(977)	(941)	(7,216)
STAR Fund deposit	0	0	(400)	0	0	(188)	(6)	(36)	(159)	(2,477)	0	(10)	(3,276)
RBTF deposit	(1,284)	(412)	(962)	(589)	(608)	(987)	(638)	(458)	(1,010)	(1,810)	(631)	(586)	(9,976)
User taxes and fees	**652**	**681**	**899**	**703**	**693**	**920**	**696**	**675**	**919**	**762**	**633**	**893**	**9,127**
Sales and use taxes	597	623	838	635	634	861	638	622	862	694	587	840	8,430
Cigarette and tobacco taxes	38	39	39	41	42	36	41	34	37	38	32	33	448
Alcoholic beverage taxes	18	19	23	27	17	23	17	19	20	30	15	21	249
Business taxes	**205**	**42**	**1,044**	**80**	**68**	**1,019**	**155**	**101**	**1,174**	**136**	**133**	**1,926**	**6,083**
Corporation franchise tax	171	33	415	37	55	392	108	29	377	98	120	780	2,615
Corporation and utilities taxes	25	1	99	1	8	134	(1)	1	154	4	1	229	655
Insurance taxes	13	8	250	(2)	5	249	1	3	255	5	8	497	1,291
Bank tax	(4)	(0)	281	45	(0)	245	47	68	388	30	4	419	1,522
Other taxes	**114**	**84**	**77**	**80**	**116**	**68**	**120**	**70**	**82**	**94**	**94**	**94**	**1,094**
Estate and gift taxes	113	83	75	79	114	65	119	69	81	92	93	92	1,075
Pari-mutuel taxes	1	1	2	1	2	3	1	1	1	1	1	2	18
Other taxes	0	0	0	0	0	0	0	0	0	0	0	0	1
TOTAL TAXES	**4,822**	**2,043**	**4,507**	**2,631**	**2,700**	**4,781**	**2,879**	**2,186**	**5,046**	**3,944**	**2,754**	**4,661**	**42,953**
Miscellaneous Receipts	**117**	**93**	**416**	**167**	**118**	**943**	**107**	**184**	**206**	**212**	**212**	**950**	**3,724**
Licenses and fees	40	35	85	65	54	109	2	4	49	95	100	125	763
Abandoned property	39	(21)	45	14	17	72	(1)	129	24	5	20	371	715
ABC license fees	6	6	5	5	5	4	5	4	5	4	5	3	56
Motor vehicle fees	6	(6)	(1)	13	(11)	0	0	4	13	17	17	48	99
Reimbursements	2	5	38	4	(14)	48	16	14	35	35	35	53	272
Investment Income	1	(0)	(0)	0	1	0	0	(0)	(0)	1	1	2	5
Other Transactions	24	74	244	67	66	710	84	28	81	55	34	348	1,815
Federal Grants	**4**	**14**	**0**	**0**	**16**	**0**	**0**	**13**	**0**	**0**	**0**	**14**	**60**
TOTAL RECEIPTS	**4,942**	**2,150**	**4,923**	**2,798**	**2,834**	**5,724**	**2,986**	**2,382**	**5,252**	**4,156**	**2,966**	**5,625**	**46,738**

SPECIAL REVENUE FUNDS 2012-13 MONTHLY CASHFLOW ACTUALS AND PROJECTIONS (millions of dollars)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	**0**	**0**	**400**	**0**	**0**	**188**	**6**	**36**	**159**	**2,477**	**0**	**10**	**3,276**
User taxes and fees	**196**	**167**	**189**	**194**	**172**	**183**	**190**	**156**	**186**	**191**	**140**	**136**	**2,098**
Sales and use taxes	71	58	73	58	58	75	60	59	75	69	58	40	755
Cigarette and tobacco taxes	97	99	97	106	104	86	102	87	92	94	73	77	1,113
Motor fuel tax	7	9	9	9	9	9	7	9	9	8	8	10	103
Taxicab surcharge	21	1	0	20	1	0	20	0	0	21	1	0	86
Auto rental tax	1	0	9	0	0	13	0	0	10	0	0	9	41
Business taxes	**58**	**57**	**214**	**60**	**62**	**227**	**61**	**72**	**238**	**62**	**60**	**336**	**1,505**
Corporation franchise tax	8	12	56	8	16	57	12	12	53	14	17	111	376
Corporation and utilities taxes	13	0	29	(2)	1	36	1	0	35	1	0	56	170
Insurance taxes	0	1	31	1	1	32	(1)	1	31	1	1	57	157
Bank tax	(0)	1	55	10	1	58	10	17	71	5	1	75	301
Petroleum business taxes	38	42	44	43	43	44	39	43	48	41	41	36	501
Other taxes	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
MCTD Payroll Tax	**140**	**116**	**67**	**90**	**81**	**65**	**96**	**83**	**88**	**123**	**133**	**78**	**1,160**
TOTAL TAXES	**393**	**340**	**870**	**344**	**314**	**663**	**352**	**347**	**671**	**2,853**	**332**	**560**	**8,039**

CAPITAL PROJECTS FUNDS 2012-13 MONTHLY CASHFLOW ACTUALS AND 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	**43**	**45**	**59**	**47**	**45**	**64**	**46**	**45**	**66**	**42**	**42**	**52**	**596**
Motor fuel tax	28	33	34	34	33	33	31	33	33	31	32	31	387
Highway use tax	13	12	10	13	11	9	16	12	16	11	10	7	141
Auto rental tax	1	0	15	0	0	21	0	0	17	0	0	14	68
Business taxes	**47**	**53**	**57**	**54**	**53**	**58**	**49**	**53**	**62**	**47**	**48**	**56**	**638**
Corporation and utilities taxes	(0)	0	3	(0)	0	3	0	0	3	0	0	6	14
Petroleum business taxes	47	53	55	54	53	55	49	53	60	47	48	50	624
Other taxes	**0**	**0**	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**119**
Real estate transfer tax	0	0	12	12	12	12	12	12	12	12	12	12	119
TOTAL TAXES	**90**	**98**	**128**	**113**	**110**	**134**	**108**	**110**	**140**	**101**	**101**	**120**	**1,353**

DEBT SERVICE FUNDS 2012-13 MONTHLY CASHFLOW ACTUALS AND PROJECTIONS (millions of dollars)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	**1,284**	**412**	**962**	**589**	**608**	**987**	**638**	**458**	**1,010**	**1,810**	**631**	**586**	**9,976**
User taxes and fees	**195**	**208**	**279**	**212**	**212**	**287**	**212**	**207**	**287**	**231**	**196**	**283**	**2,809**
Sales and use taxes	195	208	279	212	212	287	212	207	287	231	196	283	2,809
Business taxes	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Other taxes	**69**	**53**	**41**	**57**	**56**	**46**	**50**	**42**	**60**	**36**	**34**	**24**	**566**
Real estate transfer tax	69	53	41	57	56	46	50	42	60	36	34	24	566
TOTAL TAXES	**1,548**	**672**	**1,282**	**858**	**875**	**1,321**	**901**	**707**	**1,357**	**2,077**	**861**	**893**	**13,351**

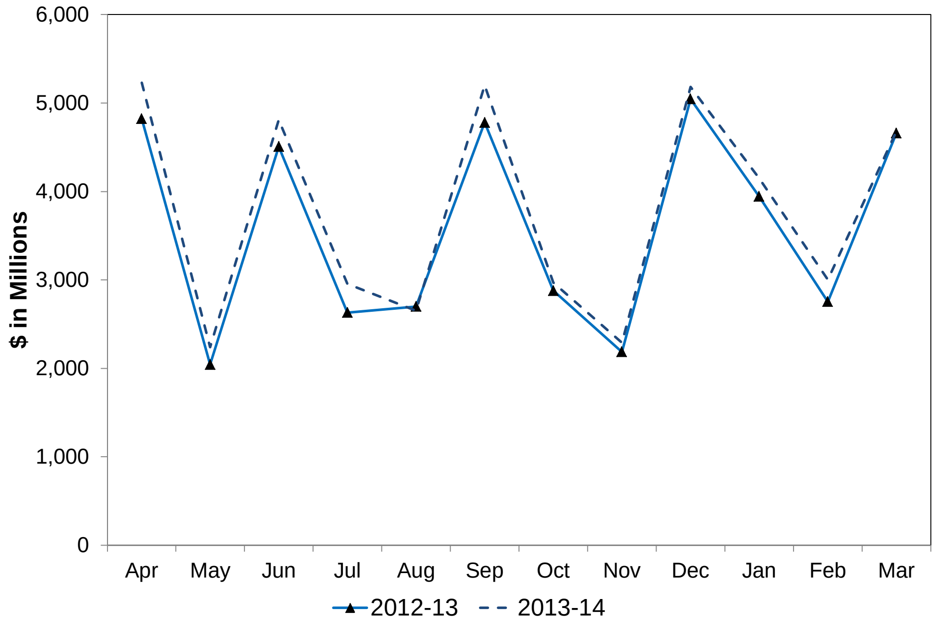
GENERAL FUND 2013-14 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	**4,269**	**1,346**	**2,614**	**2,010**	**1,770**	**2,974**	**2,049**	**1,342**	**2,961**	**3,095**	**2,151**	**1,890**	**28,471**
Gross collections	8,467	2,799	4,152	2,770	2,446	4,312	3,118	2,401	4,367	7,643	3,865	3,508	49,848
Refunds	(2,774)	(1,005)	(104)	(91)	(87)	(94)	(376)	(556)	(207)	(66)	(997)	(972)	(7,328)
STAR Fund deposit	0	0	(422)	0	0	(189)	(8)	(42)	(159)	(2,588)	0	(13)	(3,420)
RBTF deposit	(1,423)	(449)	(1,012)	(670)	(590)	(1,054)	(686)	(461)	(1,040)	(1,894)	(717)	(634)	(10,630)
User taxes and fees	**709**	**704**	**919**	**728**	**721**	**963**	**711**	**704**	**964**	**790**	**656**	**924**	**9,492**
Sales and use taxes	656	648	857	662	663	896	655	651	902	725	613	875	8,802
Cigarette and tobacco taxes	36	36	39	39	40	45	36	36	38	36	29	31	441
Alcoholic beverage taxes	18	20	23	27	18	22	21	17	23	28	15	18	249
Business taxes	**156**	**92**	**1,181**	**121**	**64**	**1,166**	**114**	**147**	**1,163**	**168**	**98**	**1,775**	**6,244**
Corporation franchise tax	120	76	482	99	64	481	91	88	486	106	77	712	2,881
Corporation and utilities taxes	8	3	114	6	(28)	146	2	24	159	3	2	194	633
Insurance taxes	3	5	284	(0)	12	266	5	8	265	23	7	486	1,364
Bank tax	26	8	301	16	16	273	17	28	253	37	11	382	1,366
Other taxes	**96**	**96**	**97**	**96**	**97**	**97**	**96**	**96**	**96**	**96**	**96**	**96**	**1,154**
Estate and gift taxes	95	95	95	95	95	95	95	95	95	95	95	95	1,135
Pari-mutuel taxes	1	1	2	1	2	3	1	1	1	1	1	2	18
Other taxes	0	0	0	0	0	0	0	0	0	0	0	0	1
TOTAL TAXES	**5,230**	**2,238**	**4,810**	**2,954**	**2,651**	**5,200**	**2,970**	**2,289**	**5,183**	**4,149**	**3,001**	**4,685**	**45,361**
Miscellaneous Receipts	**76**	**77**	**307**	**117**	**342**	**516**	**119**	**269**	**165**	**114**	**133**	**868**	**3,102**
Licenses and fees	40	45	80	45	45	75	45	50	75	45	50	86	681
Abandoned property	15	5	40	20	15	85	20	175	15	10	20	230	650
ABC license fees	5	6	4	4	5	5	4	4	4	4	5	4	54
Motor vehicle fees	0	0	0	0	0	0	0	0	0	0	13	13	26
Reimbursements	10	6	35	4	7	40	10	25	25	20	30	60	272
Investment Income	1	0	1	1	0	0	0	0	0	0	0	1	5
Other Transactions	5	14	147	43	269	311	39	14	45	35	15	475	1,414
Federal Grants	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**2**	**2**
TOTAL RECEIPTS	**5,306**	**2,315**	**5,116**	**3,071**	**2,993**	**5,716**	**3,089**	**2,557**	**5,349**	**4,263**	**3,134**	**5,555**	**48,464**

SPECIAL REVENUE FUNDS 2013-14 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	**0**	**0**	**422**	**0**	**0**	**189**	**8**	**42**	**159**	**2,588**	**0**	**13**	**3,420**
User taxes and fees	**195**	**161**	**197**	**192**	**173**	**201**	**183**	**160**	**194**	**194**	**137**	**147**	**2,135**
Sales and use taxes	78	60	79	60	60	78	62	61	77	71	60	51	797
Cigarette and tobacco taxes	89	91	99	99	103	101	90	90	97	91	69	75	1,094
Motor fuel tax	7	9	9	9	9	9	8	9	9	8	8	11	105
Taxicab surcharge	21	0	0	24	1	0	24	0	0	24	0	2	96
Auto rental tax	0	0	10	0	0	13	0	0	11	0	0	9	43
Business taxes	**65**	**59**	**237**	**65**	**52**	**239**	**58**	**70**	**243**	**70**	**59**	**326**	**1,542**
Corporation franchise tax	18	11	72	15	10	72	14	13	72	16	12	106	429
Corporation and utilities taxes	2	1	30	2	(7)	38	1	6	41	1	1	50	164
Insurance taxes	0	1	35	0	2	33	1	1	33	3	1	59	167
Bank tax	5	2	56	3	3	50	3	5	47	7	2	71	252
Petroleum business taxes	40	44	46	45	45	46	41	45	50	44	44	40	530
Other taxes	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
MCTD Payroll Tax	**146**	**121**	**71**	**95**	**85**	**68**	**101**	**87**	**94**	**129**	**143**	**79**	**1,219**
TOTAL TAXES	**406**	**340**	**928**	**352**	**309**	**696**	**350**	**359**	**690**	**2,981**	**339**	**564**	**8,316**

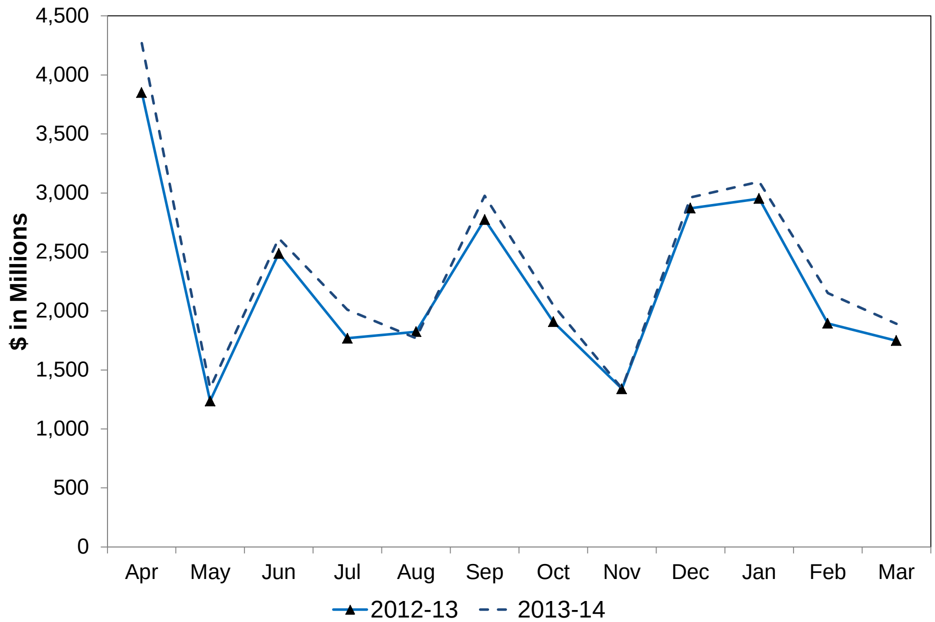
CAPITAL PROJECTS FUNDS 2013-14 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
User taxes and fees	**43**	**46**	**63**	**47**	**45**	**64**	**46**	**43**	**65**	**44**	**45**	**55**	**606**
Motor fuel tax	28	34	34	34	33	34	31	34	34	32	34	33	395
Highway use tax	14	12	11	13	12	10	15	10	13	12	10	8	140
Auto rental tax	0	0	18	0	0	21	0	0	18	0	0	14	71
Business taxes	**50**	**56**	**61**	**57**	**56**	**61**	**52**	**56**	**66**	**51**	**52**	**58**	**674**
Corporation and utilities taxes	0	0	3	0	0	3	0	0	3	0	0	4	14
Petroleum business taxes	50	56	57	57	56	58	52	56	63	51	52	54	660
Other taxes	**0**	**0**	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**12**	**119**
Real estate transfer tax	0	0	12	12	12	12	12	12	12	12	12	12	119
TOTAL TAXES	**92**	**101**	**135**	**116**	**113**	**138**	**109**	**111**	**142**	**107**	**108**	**125**	**1,399**

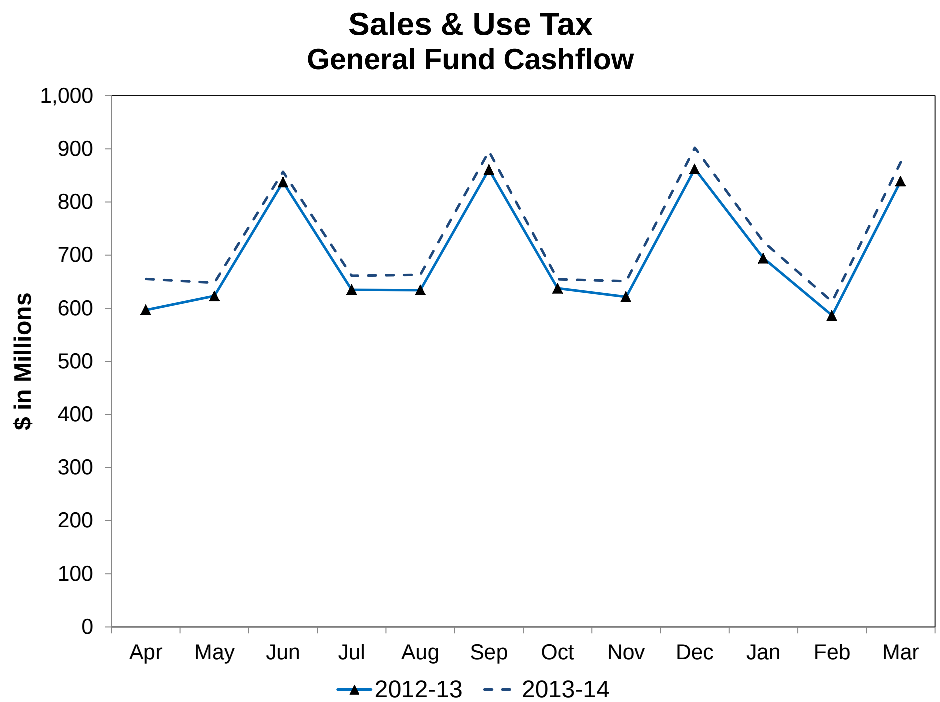
DEBT SERVICE FUNDS 2013-14 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	**1,423**	**449**	**1,012**	**670**	**590**	**1,054**	**686**	**461**	**1,040**	**1,894**	**717**	**634**	**10,630**
User taxes and fees	**219**	**216**	**286**	**221**	**221**	**299**	**218**	**217**	**301**	**242**	**204**	**292**	**2,934**
Sales and use taxes	219	216	286	221	221	299	218	217	301	242	204	292	2,934
Business taxes	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Other taxes	**58**	**61**	**52**	**51**	**76**	**52**	**56**	**37**	**43**	**41**	**39**	**21**	**586**
Real estate transfer tax	58	61	52	51	76	52	56	37	43	41	39	21	586
TOTAL TAXES	**1,699**	**726**	**1,350**	**941**	**887**	**1,405**	**960**	**715**	**1,384**	**2,177**	**960**	**947**	**14,150**

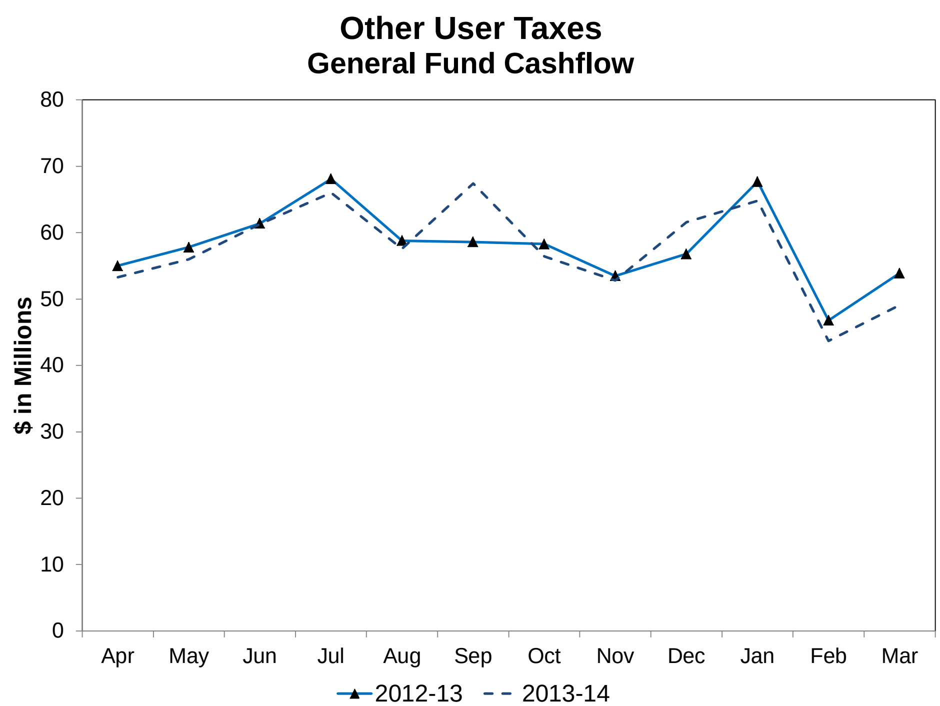
Total Taxes
General Fund Cashflow



Personal Income Taxes
General Fund Cashflow




Sales & Use Tax
General Fund Cashflow
$ in Millions
1,000
900
800
700
600
500
400
300
200
100
0
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
2012-13
2013-14


Other User Taxes
General Fund Cashflow
$ in Millions
80
70
60
50
40
30
20
10
0
Apr
May
Jun
Jul
Aug
Sep
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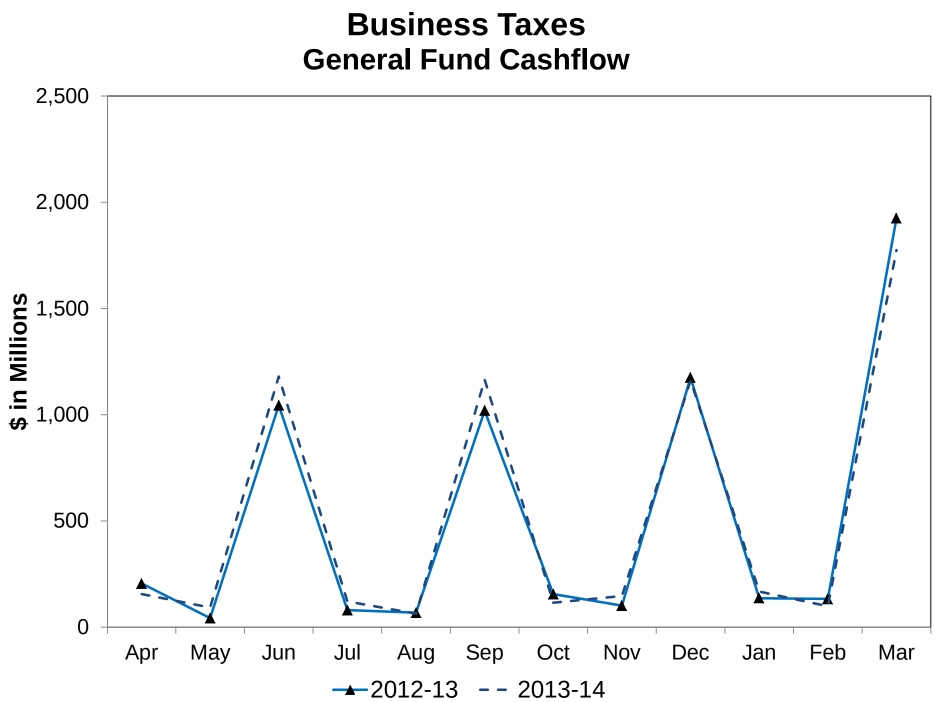
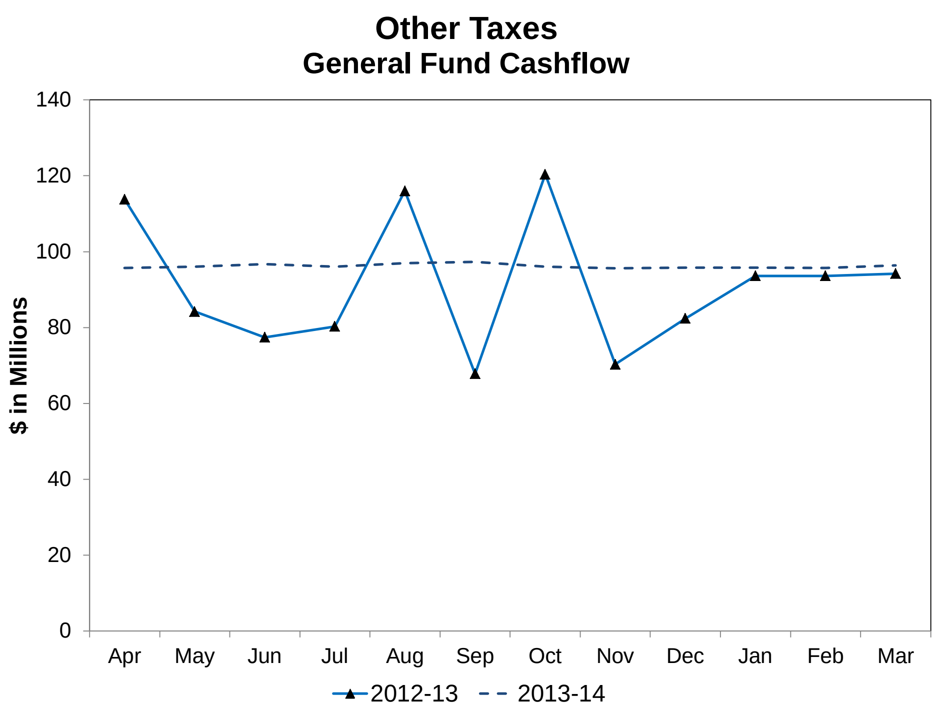
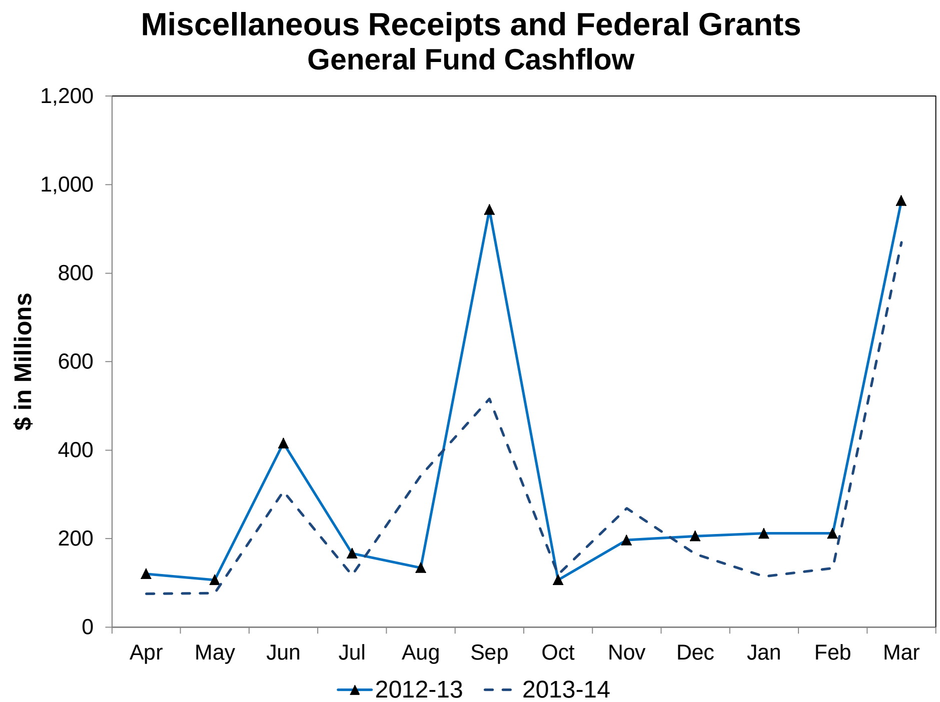
Nov
Dec
Jan
Feb
Mar
2012-13
2013-14


Business Taxes
General Fund Cashflow
$ in Millions
2,500
2,000
1,500
1,000
500
0
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
2012-13
2013-14


Other Taxes
General Fund Cashflow
$ in Millions
140
120
100
80
60
40
20
0
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
2012-13
2013-14



RESULTS TO DATE

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

Cumulative results for the April to December period are $284 million below the Mid-Year forecast on a General Fund basis.

Personal Income Tax

April through December General Fund personal income tax receipts of $20.1 billion were $79 million above the Mid-Year Update forecast, mainly due to stronger than expected December 2012 withholdings and estimated tax payments.

User Taxes and Fees

April through December General Fund user taxes and fees receipts of $6.8 billion were $15 million below the Mid-Year forecast, mainly due to declines in cigarette and tobacco tax receipts ($9 million) and sales and use tax receipts ($6 million).

Business Taxes

April through December General Fund business tax receipts of $3.9 billion were $89 million below the Mid-Year forecast. This variance was mainly due to lower gross receipts and lower audit collections in the corporate franchise tax.

Other Taxes

April through December General Fund other tax receipts of $813 million were $36 million below the Mid-Year forecast, mainly due to lower than expected estate tax receipts, which are attributable to a lower than projected number of payments received year-to-date, especially in the large and extra-large categories.

Miscellaneous Receipts and Federal Grants

April through December General Fund miscellaneous receipts and Federal grants of $2.4 billion were $237 million below the Mid-Year forecast, primarily reflecting lower than anticipated collections across a number of categories, including receipts related to licenses and fee collections ($113 million) and abandoned property collections ($112 million).

All Other

The remainder of the change from the Mid-Year Forecast was due to minor increases in transfers from other funds ($14 million).

April- December Results vs. Enacted Budget Projections

Cumulative results for the April to December period are $2 billion above the Enacted Budget, on a General Fund basis.

Personal Income Tax

April through December General Fund personal income tax receipts of $20.1 billion were $2.4 billion above the Enacted Budget projections, mainly due to a cash flow shift of $2.5 billion in STAR payments from December 2012 to January 2013, made after the Enacted Budget.

User Taxes and Fees

April through December General Fund user taxes and fees were $155 million below Enacted Budget projections. Due to weaker than expected consumer spending, sales tax receipts are down $175 million from Enacted Budget projections.

Business Taxes

April through December General Fund business tax receipts of $3.9 billion were $202 million below Enacted Budget projections. This variance was mainly due to lower gross receipts across all business taxes except the bank tax and higher refunds for all business taxes except the corporation and utilities tax. Audit receipts are on plan through December.

Other Taxes

April through December General Fund other taxes receipts of $813 million were $46 million below Enacted Budget projections, mainly due to lower than expected estate tax receipts, where the number of payments received year-to-date has been lower than expected, especially in the large and extra-large categories.

Miscellaneous Receipts and Federal Grants

April through December General Fund miscellaneous receipts and Federal grants of $2.4 billion were $170 million above Enacted Budget projections, mainly due to unanticipated receipts from the Standard Chartered Bank settlement ($344 million) which is partially offset by lower-than-expected abandoned property collections ($185 million).

All Other

The remainder of the change from Enacted Budget projections was due to a decrease in transfers from other funds ($127 million).

REVENUE ACTIONS

REVENUE ACTIONS

The 2013-14 Budget includes a net positive increment of $403 million in All Funds receipts reflecting the revenue actions contained in this budget. The accompanying table summarized the revenue proposals by type of action required and provides a short description of the proposal, the date that the proposal will become effective, the Fund type where revenue will be deposited, the last time an action was taken in the area, and the incremental revenue gain or loss from the proposed action. This table represents gross revenue adds and reductions without any adjustments for associated spending changes, movements across funds or General Fund spending offsets.

REVENUE ACTIONS LIST
($ in millions)

Agency	Description and Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	Annual Revenue SFY 2013-14	Annual Revenue SFY 2015-16
I. TAX AND ASSESSMENT ACTIONS							
					Subtotal	**$0**	**$0**
II. EXPANDED TAX CREDITS AND EXEMPTIONS							
Tax	Establish the New York Innovation Hot Spots program - 4.1.13	GFTX	N/A	N/A	N/A	$0	$0
Tax	Establish tax-free sales at Taste-NY facilities - 4.1.13	GFTX	N/A	N/A	N/A	$0	$0
Tax	Establish the Charge-NY electric vehicle recharging equipment credit - 1.1.13	GFTX	N/A	N/A	2006	$0	($1)
Tax	New York film production tax credit - Extend, enhance, and improve transparency - 4.1.13	GFTX	N/A	N/A	2012	$0	$0
Tax	Extend and enhance the historic commercial properties rehabilitation tax credit - 1.1.13	GFTX/DSTX	N/A	N/A	2010	$0	$0
					Subtotal	**$0**	**($1)**
III. REVENUE EXTENDERS							
Tax	Extend the high income charitable contribution deduction limitation for three years - 1.1.13	GFTX/DSTX	N/A	N/A	2010	$70	$140
DPS	Extend utility assessment - 4.1.13	GFMR	N/A	N/A	2009	$236	$472
Gaming Commission	Extend the Monticello VLT rates - 4.1.13	SRMR	Various	Various	2010	($3)	$0
Gaming Commission	Make certain tax rates and authorizations for account wagering permanent - 4.1.13	GFTX	N/A	N/A	2012	$0	$0
Tax	Extend the MTA business tax surcharge for five years - 4.1.13	SRTX	N/A	N/A	2008	$0	$0
ENCON	Make waste tire fee permanent - immediately upon enactment	SRMR	$2.50 per new tire	$2.50 per new tire	2010	$9	$24
					Subtotal	**$312**	**$636**

Key:

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

Agency	Description and Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	Annual Revenue SFY 2013-14	Annual Revenue SFY 2015-16
IV. LOOPHOLE CLOSING ACTIONS							
Tax	Close royalty income loophole - 1.1.13	GFTX/SRTX	N/A	N/A	2003	$0	$28
Tax	Reform the IDA State sales tax exemption - 4.1.13	GFTX/DSTX	N/A	N/A	N/A	$7	$13
					Subtotal	**$7**	**$41**
V. TAX ENFORCEMENT ACTIONS							
Tax	Expand the cigarette and tobacco retailer registration clearance process - 4.1.13	GFTX/DSTX	N/A	N/A	N/A	$1	$1
Tax	Increase the civil penalty for possessing unstamped cigarettes - 4.1.13	GFTX/SRTX	$150 per carton	$600 per carton	2000	$9	$12
Tax	Update criteria for refusal and revocation of a sales tax Certificate of Authority - 4.1.13	GFTX/DSTX	N/A	N/A	1997	$1	$1
Tax	Suspend delinquent taxpayers' driver's licenses - 4.1.13	GFTX/SRTX /DSTX	N/A	N/A	N/A	$26	$6
Tax	Allow warrantless wage garnishment - 4.1.13	GFTX/DSTX	N/A	N/A	N/A	$10	$10
					Subtotal	**$47**	**$30**
VI. OTHER REVENUE ACTIONS							
Tax	Make tax modernization provisions permanent - 1.1.14	GFTX/DSTX	N/A	N/A	2012	$6	$22
Gaming Commission	Eliminate remaining square footage Quick Draw restriction - 4.1.13	SRMR	N/A	N/A	2012	$12	$24
Gaming Commission	Adjust the percentage of racing purse money generated by VLTs - 4.1.13	SRMR	N/A	N/A	2008	$2	$2
DMV & State Police	Recover State revenue lost through vehicle and traffic ticket plea bargaining - 4.1.13	GFMR	Various	Various	2009	$16	$25
Tax	Establish a statewide STAR anti-fraud protection program - 4.1.13	GFTX/SRTX	N/A	N/A	N/A	$1	$1
					Subtotal	**$37**	**$74**
VII. TECHNICAL CORRECTIONS							
Tax	Make technical amendments to the tax classification of uncompressed natural gas - 4.1.13	GFTX	N/A	N/A	2012	$0	$0
					Subtotal	**$0**	**$0**
					TOTAL REVENUE ACTIONS	**$403**	**$780**

Key:

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

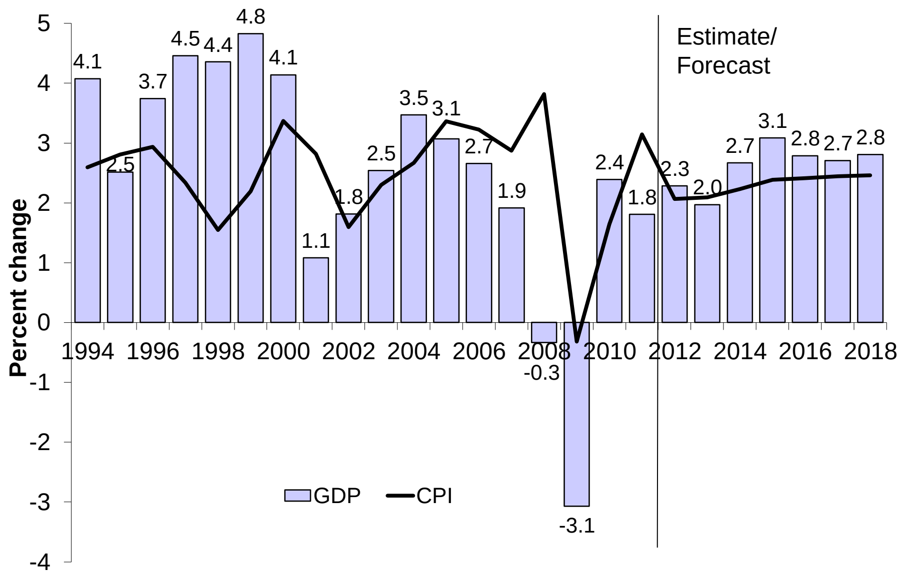
ECONOMIC BACKDROP

ECONOMIC BACKDROP

OVERVIEW

Fourteen quarters into the recovery from the Great Recession, the national economy continues to struggle for momentum. Battered by events both at home and abroad, the current recovery clocks in as the slowest of the postwar era. Despite a strong start to 2012, buttressed by unusually warm weather, growth was stymied by a contagion triggered by the debt crisis and ensuing recession in the euro-zone, leading to a slowdown in the large emerging economies and ultimately the U.S., where growth slowed from 4.1 percent in 2011Q4 to 1.3 percent in 2012Q2. In addition to the global slowdown, national economic growth has been dampened by the worst drought since the late 1980s, energy price volatility, Superstorm Sandy, and finally the approach of the "fiscal cliff."

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



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

The central element of the fiscal cliff-hanger – the Bush tax cuts – was finally resolved on New Year's Day, substantially reducing the extent of the fiscal drag that could have resulted from a failure to compromise. Nevertheless, the economy will feel a substantial contractionary sting in 2013 from the American Taxpayer Relief Act of 2012 (ATRA) that is expected to subtract 0.5 percent from annual average growth. But a solid housing market recovery, the unwinding of the effects of the drought and Sandy, the ongoing expansion of energy production, and a continued renaissance in U.S. manufacturing, led by strong demand for autos, should lead to gradually improving growth going forward. And while only modest improvement is expected in global growth for 2013, the nation's foreign sector is expected to make a greater contribution to growth this year than it did in 2012. Consequently, real U.S. GDP is now projected to grow 2.0 percent for 2013, following growth of 2.3 percent for 2012 (see Figure 1).

With fiscal policy putting downward pressure on the national economy, monetary policy support will continue to be important in 2013. The progress projected for demand for both housing and autos depends on continued low borrowing rates and the ongoing repair of the nation's credit markets, which in turn depends upon the central bank's expansive policy actions. However, monetary policy alone cannot sustain the current expansion without a simultaneous recovery in the U.S. labor market. U.S. nonagricultural employment is projected to continue to grow at a sluggish pace of 1.4 percent in 2013, virtually unchanged from 2012, with the unemployment rate falling to 7.6 percent in 2013 from 8.1 percent in 2012. A continued high rate of unemployment, combined with the drag from fiscal policy, will restrain income growth and inflation as well. A 2.1 percent rate of inflation, as measured by growth in the Consumer Price Index, is projected for 2013, almost unchanged from 2012, while personal income is forecast to grow 3.0 percent for 2013.

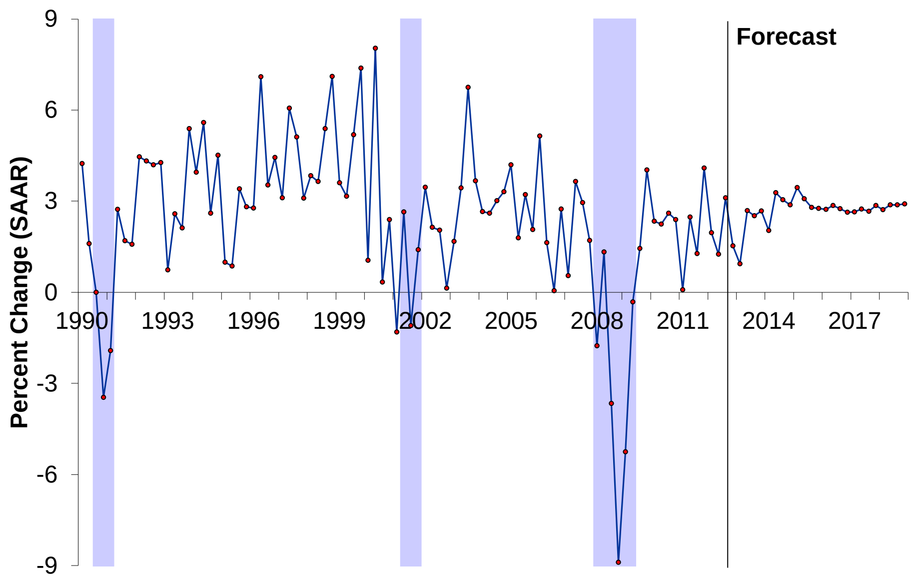
At the start of 2012, the New York State economy had been enjoying a broad-based recovery that encompassed the State's tourism, retail, high-tech, and the professional and business services sectors. Even the manufacturing sector's secular decline was interrupted by strong emerging market growth combined with a weak dollar that spurred foreign demand for the State's exports. However, a dismal 2011-12 bonus season, the global downturn, equity market volatility, and the destruction wrought by Superstorm Sandy, all took their toll on the State's economic momentum over the course of the year. Private sector job growth is projected to decelerate from 1.8 percent in 2012 to 1.5 percent in 2013. Total State wages are projected to rise 4.6 percent for the 2013 calendar year, up from 3.0 percent in 2012, while personal income growth is projected to be to be 2.9 percent for 2013, virtually flat from 2012 due to the impact of ATRA.

THE NATIONAL ECONOMY

The recession in Europe and the slowdown in emerging markets took a significant toll on the U.S. economy in 2012. As a result, the nation's export sector, which had been a leading sector during the early phase of the recovery, grew a meager 1.9 percent in the third quarter of 2012; a decline of 3.4 percent is estimated for the fourth. In addition to the global slowdown, drought conditions reduced the nation's agricultural exports and resulted in a severe drawdown of farm inventories over the course of last year.

Uncertainty pertaining to the "fiscal cliff" likely augmented weak demand from abroad, with the result that real business investment in plant and equipment fell 1.8 percent in the third quarter of 2012. Overall real U.S. GDP grew 3.1 percent in the third quarter, a substantial improvement from the first two quarters of the year, but two of the major contributors to that growth – nonfarm inventories and government spending – are likely to have weakened considerably in the final quarter of the year. Moreover, Superstorm Sandy is estimated to have taken a significant bite out of fourth quarter growth. Real U.S. GDP growth of 1.5 percent is estimated for the final quarter of 2012 (see Figure 2).

Figure 2
Real US GDP Quarterly Growth



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

BOX 1
THE IMPACT OF ATRA ON HOUSEHOLD SPENDING

On January 2, 2013, President Obama signed the American Taxpayer Relief Act of 2012 (ATRA), which reinstated many of the tax cuts that had been in place in 2012, effective retroactively to January 1. However, the payroll tax holiday and the "Bush tax cuts" on high-income households are two exceptions. The Budget Division estimates that these two items, along with the new "Obamacare" tax on investment income, which was unaffected by ATRA, will reduce total household income by approximately $197 billion in 2013 (see Table 1). DOB estimates the resulting decline in disposable income will reduce real consumer spending by $67 billion, but there is much uncertainty surrounding this estimate since it depends on household spending behavior, in particular, the household marginal propensity to consume (MPC).

The Bush tax cuts were not intended to be permanent when they were passed, a key feature since economic theory dictates that consumers respond differently to a temporary change in tax policy than to a permanent one. The existing research literature presents a wide range of estimates for the MPC out of a temporary increase in after-tax income. Early theorists posited the principle of Ricardian equivalence, which implies that there should be no spending response to a temporary tax cut at all, since individuals would anticipate higher future taxes to offset the lost revenue. Later theorists used Milton Friedman's permanent income hypothesis to reason that individuals would increase their spending by at most the present discounted value of the change in expected future income, or the annuitized value of the stimulus, which in the case of a temporary tax cut, would be very small indeed. However, some empirical studies do find large MPCs. For example, Souleles (2002) finds that consumption was particularly responsive to the Reagan tax cuts, estimating an overall MPC for nondurables between 60 percent and 90 percent.[1] However, studies of more recent tax cuts find consistently smaller MPCs. Shapiro and Slemrod (2003) find that the spending response to the 2001 Economic Growth and Tax Relief Reconciliation Act (EGTRRA) was only around 25 percent.[2] Coronado, Lupton and Sheiner (2005) find that the spending response to the 2003 Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) was between 25 percent and 35 percent.[3] A recent Federal Reserve Bank of New York report presents new survey evidence on workers' response specifically to the 2011 payroll tax cuts (Graziani, Klaauw, and Zafar, 2013).[4] The authors find that workers actually spent 36 percent of the increase in disposable income on average, while about 40 percent was used to pay off obligations, and the remaining 24 percent was saved.

This relatively high marginal propensity to consume out of the 2011 tax cut is arguably a consequence of the design of the payroll tax cut policy. Since workers received the extra income in installments – an additional $42 in each biweekly paycheck for the average household – rather than as a one-time lump sum payment, they were more likely to succumb to the illusion that the additional income was permanent and spend it. The FRBNY survey also asked respondents how they planned to alter their spending behavior if the payroll tax holiday is not extended. Respondents reported plans to reduce their spending, but the survey results revealed an interesting puzzle: of the total loss of income, respondents reported an intention to reduce consumption by 71.4 percent of the amount of the lost income, reduce savings by 26.1 percent, and increase their debt by 2.4 percent, a pattern that is clearly inconsistent with the share consumed out of the original value of the tax cut. This incongruity is likely a result of high historically levels of indebtedness leading up to the Great Recession and the consequent need to deleverage. But based on habit consistency theory, which plays an important role the Budget Division's forecasting models, households are unlikely to immediately reduce their consumption by the full desired amount. Based on these research results, an overall MPC of 40 percent is chosen, which averages over the results of Coronado, Lupton and Sheiner (2005) and Graziani, Klaauw, and Zafar (2013).

Interestingly, Graziani, Klaauw, and Zafar (2013) do not find evidence that low-income workers spend more of their tax cut than others. In fact, high-income workers spent the largest share of their additional income, while low-income workers reportedly used most of the increased income to pay down debt. This is in contradiction to the conventional wisdom regarding low-income households that the MPC out of the proceeds from the payroll tax holiday should be higher for low-income and low-education groups, since they tend to be more liquidity constrained. This surprising result further supports the choice of 40 percent, which is slightly above the range estimated by Coronado, Lupton and Sheiner (2005), since the expiration of the Bush tax cut will only affect high income households.

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[1] See Nicholas Souleles (2002). "Consumer Response to the Reagan Tax Cuts."" *Journal of Public Economics*, 85(1): 99-120.

[2] See Matthew Shapiro and Joel Slemrod (2003). ""Consumer Response to Tax Rebates,""*American Economic Review*, 93(1): 381-396.

[3] See Julia Lynn Coronado, Joseph P. Lupton, and Louise M. Sheiner (2005). "The Household Spending Response to the 2003 Tax Cut: Evidence from Survey Data" <http://www.federalreserve.gov/pubs/feds/2005/200532/200532pap.pdf> viewed January 19, 2013.

[4].See Grant Graziani, Wilbert van der Klaauw, and Basit Zafar (2013). "A Boost in the Paycheck: Survey Evidence on Workers' Response to the 2011 Payroll Tax Cuts" <http://www.newyorkfed.org/research/staff_reports/sr592.html> viewed January 19, 2013.

The eleventh hour enactment of ATRA helped the nation avert the notorious "fiscal cliff," allaying a good deal of the uncertainty that clouded the economic outlook toward the end of last year. And while the deal effectively cut the potential fiscal drag by about two thirds, the provisions that were allowed to expire are projected to subtract substantially from growth in early 2013. Growth of only 0.9 percent is projected for the first quarter of this year. Table 1 summarizes those measures that were set to sunset on December 31, 2012, and how they were resolved in the deal. Although a decision on the magnitude of the spending cuts related to the sequester has been postponed until March, the Budget Division forecast assumes that Federal spending for the 2013 calendar year will ultimately be reduced by $20 billion, although there is a great deal of uncertainty surrounding that estimate. In total, fiscal drag due to the four major components appearing in the table below is expected to subtract 0.5 percentage point from real U.S. GDP growth in 2013. Box 1 above describes how the provisions that directly affect disposable personal income are estimated to reduce household spending during the current year.

TABLE 1
ATRA REDUCES POTENTIAL FISCAL DRAG FOR 2013

Policy	Congressional Deal	CY 2013 Impact ($B) December 31, 2012 Law	CY 2013 Impact ($B) January 1, 2013 Law
The Payroll Tax Cut	Expired at the end of 2012	(116)	(116)
The Bush Tax Cuts	Expired for high-income households at the end of 2012	(221)	(60)
Depreciation Incentives.	Extended through the end of 2013	(59)	0
Emergency Unemployment Insurance Benefits	Extended through the end of 2013	(30)	0
Affordable Care Act of 2010 high-income tax on earned income (0.9%) and unearned income (3.8%)	Effective January 1, 2013	(21)	(21)
Sequester Spending Cuts, $1.2 trillion over nine years	To be determined	(78)	(20)
Medicare physician payment rate fix	Extended	(14)	0
Alternative minimum tax fix	Extended	(154)	0
Net Fiscal Drag		(693)	(217)

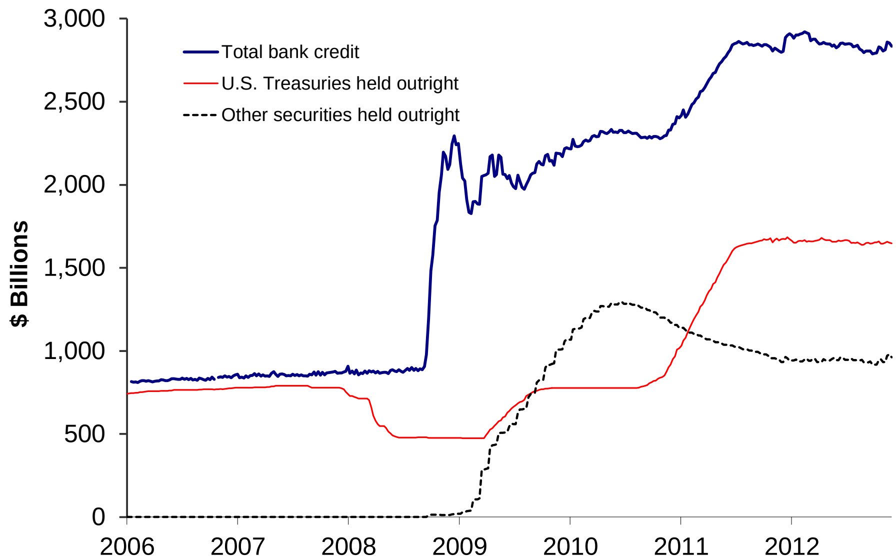
Source: Macroeconomic Advisors; DOB staff estimates.

Thus, with fiscal policy representing a net drag on the national economy this year, the burden remains on the Federal Reserve to provide policy support to buttress the recovery as necessary. The central bank has continued to make its case that its quiver is not yet empty should the economy fail to independently gather sufficient momentum. At the conclusion of its December meeting, the Federal Open Market Committee announced that it is prepared to further expand its balance sheet in order to support the broader economy by continuing to buy long-term U.S Treasury securities, and the housing market, in particular, by buying mortgage-backed securities.

Figure 3 illustrates how expansive the central bank's programs have been – the asset side of its balance sheet rising from $877 billion at the end of 2007 to $2.9 trillion at the end of 2011, which is roughly where it has stayed ever since (see Table 2). With the announcement in September of an open-ended quantitative easing policy, it is likely that balances will rise above $3 trillion during the first half of 2013. Five of the world's major central banks have recently extended their commitment to support the global financial system through currency swap arrangements through early 2014, potentially creating additional upward pressure on the balance sheet, as occurred toward the end of 2011.

In addition, the Federal Open Market Committee has assured markets that it would not begin the process of normalizing its federal funds rate target until economic conditions warrant, explicitly laying out what those conditions are. While this commitment has gone a long way toward building confidence in the financial markets over the near-term, it remains to be seen if the central bank can succeed in unwinding its unconventional policies without unleashing an inflationary storm.

Figure 3
The Expansion of the Federal Reserve Balance Sheet



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

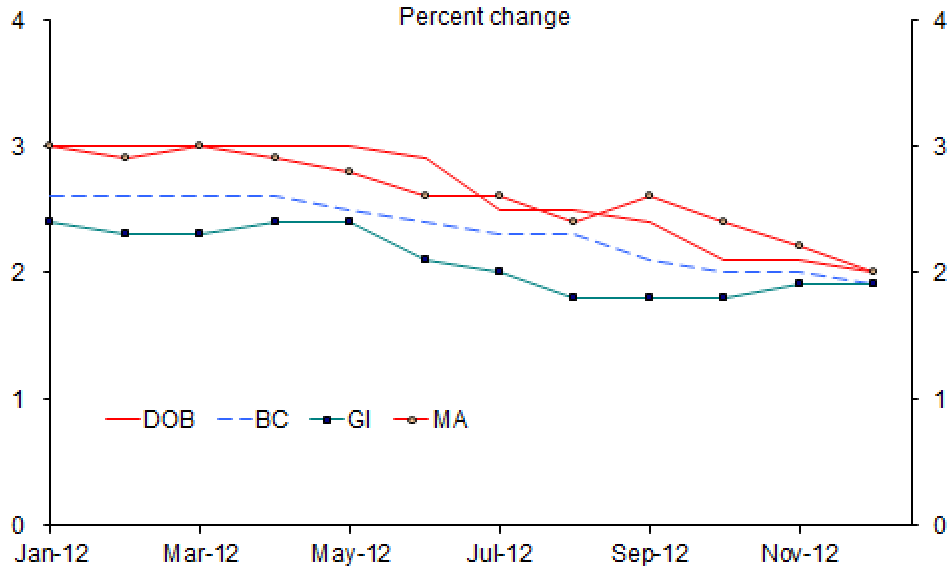
TABLE 2
Federal Reserve Balances - Bank Credit
Year-end Level in $ Billions

	2007	2008	2009	2010	2011	2012
Reserve bank credit - Total	**877.1**	**2,248.5**	**2,216.7**	**2,403.2**	**2,908.3**	**2,889.6**
Securities held outright	754.6	495.6	1,844.7	2,155.7	2,613.4	2,660.3
Repurchase agreements	42.5	80.0	-	-	-	-
Term auction credit	20.0	450.2	75.9	-	-	-
Other loans	4.5	193.9	89.7	45.1	9.1	0.6
Commercial Paper Funding Facility	-	334.1	14.1	-	-	-
Other Portfolio Holdings	(0.3)	72.4	88.4	91.4	33.9	1.7
Central bank liquidity swaps	-	553.7	10.3	0.1	99.8	8.9
Other Federal Reserve assets	53.8	41.4	91.4	108.7	150.1	215.9

Source: Moody's Analytics.

With the worst of the fiscal cliff averted, the Budget Division forecast implies that economic growth in 2013 will start out week, but gradually improve over the course of the year (see Figure 2). Although the labor market has been rattled by many of the negative events that have occurred over the course of the last few years, employment growth has remained positive. The housing market has turned, with home prices exhibiting sustained increases. Although Europe remains mired in recession, the large emerging economies have shown signs of improvement. Pent-up demand for autos has generated steady growth in sales, while the unwinding of the effects of the drought and Sandy should also contribute to growth in 2013.

Figure 4
Evolution of the GDP Forecast for 2013



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

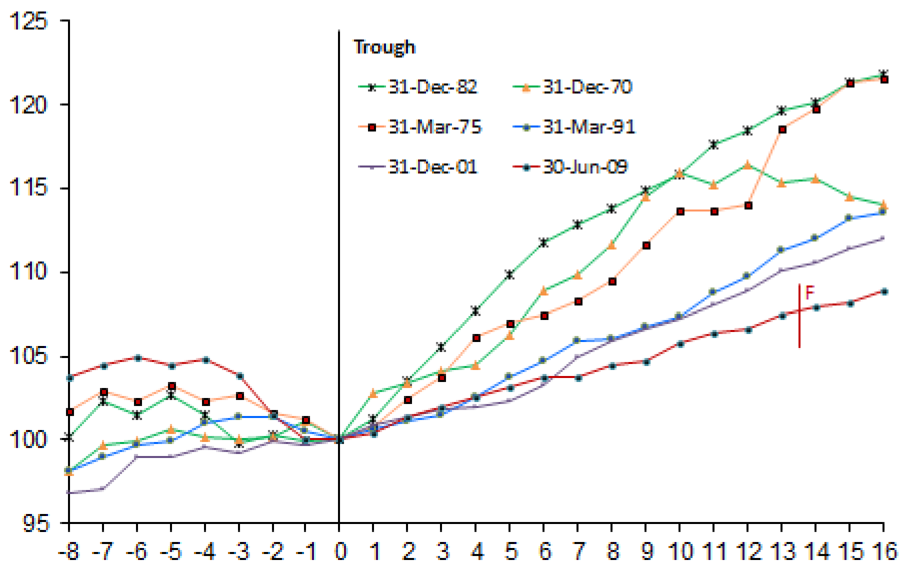
Though the list of potential tailwinds is encouraging, the outlook for the current year is for continued slow growth of about 2 percent. Figure 4 illustrates how a selection of real U.S. GDP growth forecasts for 2013 has evolved over time. The chart indicates that revisions have been virtually all downward, consistent with the acknowledgment that fiscal drag would represent a major headwind in 2013.

The Slowest Recovery

Box 2 displays the four coincident economic indicators that the National Bureau of Economic Research (NBER) Business Cycle Dating Committee gives the most weight to in determining business cycle turning points. These data make evident that even after 14 quarters of uninterrupted growth, the national economy has failed to reach its pre-recession peak by any one of these key measures of activity. These four series exhibited their steepest declines since the 1930s, proving that the moniker "the Great Recession" was indeed well earned. But data also indicate that output growth, as measured under the National Income and Product Accounts (NIPAs) by the U.S. Bureau of Economic Analysis, has been unusually weak. Figure 5 shows the cumulative rate of real U.S. GDP growth during the current recovery with the pace of the five previous recoveries. The current recovery is clearly the weakest of the six portrayed in the chart, with no prospect of catching up in the near future.

Figure 5

Real GDP Before and After the Recession Trough

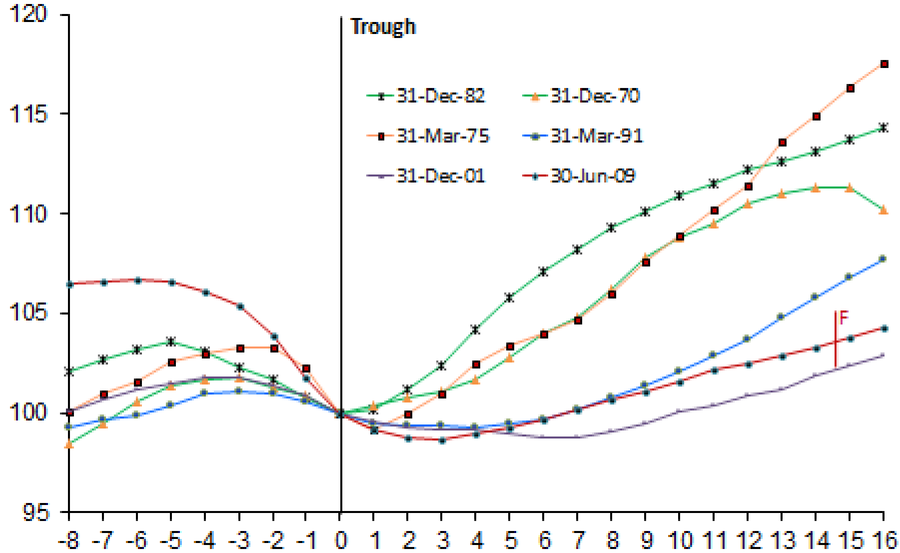


Note: Zero point represents the recession troughs.
Source: Moody's Economy.com; DOB staff estimates.

The events leading up to worst recession since the 1930s provide a key to understanding the weakness of the current recovery. The Great Recession was largely the result of a credit bubble that engulfed global financial markets and a housing price and construction bubble that engulfed large swaths of the nation and many major metro areas around the world. In its wake, large numbers of households found that their mortgages were worth more than their homes. Millions of jobs were lost, sending the unemployment rate up above 10 percent. The income and wealth effects from these developments put substantial downward pressure on household consumption, during both the recession and the subsequent recovery. This impact is most dramatically visible in what is generally the most stable component of household spending – services. Over its entire history since 1947, including recessions, quarterly growth in real services spending has averaged 3.5 percent, but during the 13-quarter period since the beginning of the current expansion, services consumption growth has only averaged 1.3 percent. Box 2 shows that residential fixed investment is the only other component of final demand that tracks consistently below the previous five recoveries. Indeed, as demonstrated in Figure 6, even employment growth, weak as it has been, tracks better than the recovery phase of the 2002-2007 expansion.

Figure 6

US Private Sector Employment
Before and After the Recession Trough



Note: Zero point represents the recession troughs.
Source: Moody's Economy.com; DOB staff estimates.

Recent research reinforces the central role the housing market has playing in the weakness of the current recovery relative to the past. Based on a sample of 18 advanced economies, the authors find that recessions associated with housing slumps tend to be longer and deeper, and the recoveries associated with these recessions, significantly slower.[1] As discussed in more detail below, for middle and lower income families who own their own homes, that home is their primary, and in many cases only, store of wealth. The dramatic depreciation in the value of that asset since the collapse of the housing bubble in early 2006 was likely a major contributor to the weak pace of household spending growth.

Fractured consumer credit markets have also played a role in weakening housing spending. Although interest rates are low and bank willingness to lend to consumers has improved, lending terms remain stringent. The loan-to-price ratio for conventional mortgage loans used to purchase single-family nonfarm homes fell from last decade's peak of 79.4 percent in 2007 to 74.0 percent in 2010, rising to 75.6 for the first 11 months

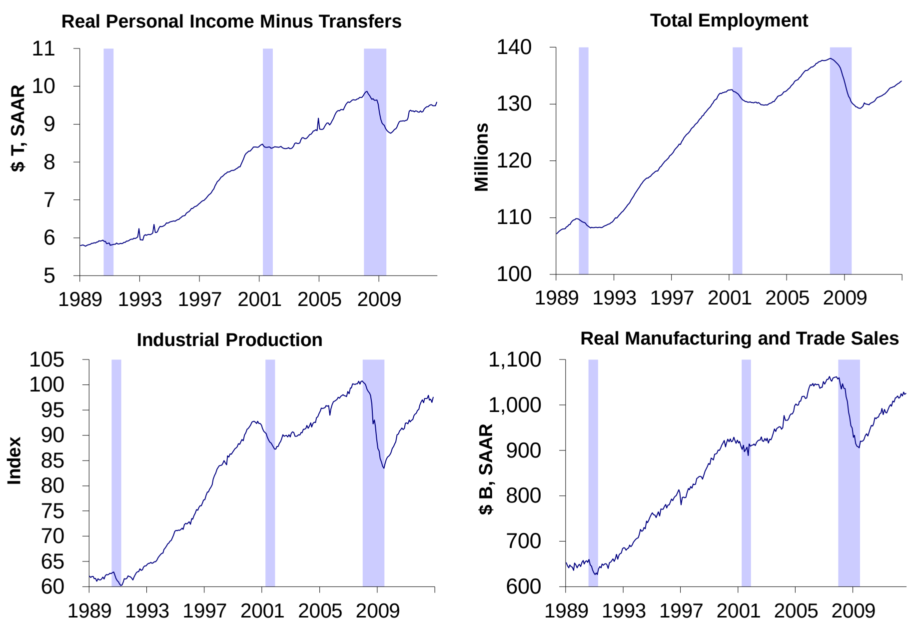
[1] See Greg Howard, Robert Martin, and Beth Anne Wilson (2011), "Are Recoveries from Banking and Financial Crises Really So Different?" International Finance Discussion Papers 2011-1037, Board of Governors of the Federal Reserve System, Washington, D.C. A brief summary of this paper appears in <http://publications.budget.ny.gov/eBudget1213/economicRevenueOutlook/economicRevenueOutlook.pdf>, *2012-13 Executive Budget Economic and Revenue Outlook,* page 73.

of 2012. Initial fees and charges as a portion of the size of mortgage loan rose from last decade's low of 0.38 percent in 2005 to 0.99 percent in 2012.

BOX 2
RECOVERING FROM THE GREAT RECESSION

Business cycles are defined by a group of private economists at the National Bureau of Economic Research (NBER) Business Cycle Dating Committee. The severity of the Great Recession is well illustrated by the monthly series the Dating Committee uses to determine business cycle peaks and troughs. These series include: real personal income minus transfers, nonfarm payroll employment, industrial production, and real manufacturing and trade sales. As indicated in the charts below, none of these indicators have surpassed their pre-recession peaks. The Dating Committee designated June 2009 as the trough of the 2007-2009 recession, but economic output, as defined by real U.S. GDP, failed to surpass its pre-recession peak until 2011Q4, a recovery period of unprecedented length during the postwar period.

NBER Recession Indicators



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

It is not surprising that the recovery from the steepest declines since the Great Depression would take time. But as indicated in Figure 5 above, the pace of output growth since the recession trough in June 2009 has been the slowest of the postwar era. A closer examination of final demand by its components helps to identify which sectors have contributed the most to this phenomenon. The chart below indicates that household spending is the chief culprit in dragging down final demand. Although the housing market is estimated to be finally turning the corner, through the third quarter of 2012, the most recent quarter for which actual data are available, real residential investment growth has been the slowest of the last six recoveries. Similarly, real growth in consumption spending has also exhibited the slowest recovery of the last six. Indeed, what has historically been the most stable component of household spending – services – has exhibited the greatest weakness. Moreover, both the housing and the non-housing components of total services spending have been weak.

(continued on next page)

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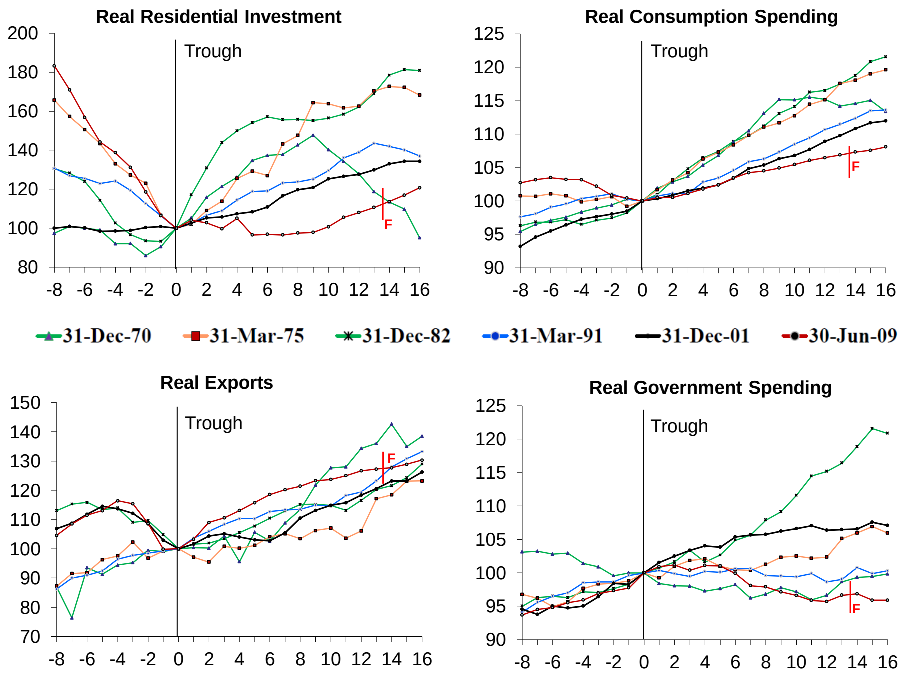
As indicated in the charts below, exports exhibited a strong rebound at the start of the recovery, after plummeting during the recession. But the rate of export growth decelerated as the euro-area debt crisis and the ensuing recession made headway, initiating a slowdown in emerging markets and eventually contributing to the slowing of the U.S. economy in 2012. Similarly, government spending was able to provide stimulus with the implementation of the American Recovery and Reinvestment Act of 2009 (ARRA), but as ARRA wound down, state and local governments could no longer provide countercyclical support to the struggling recovery. Indeed, government spending has become a drag on growth, with state and local governments shedding 624,000 jobs since the technical end of the recession in June 2009.

The Culprit: Household Spending

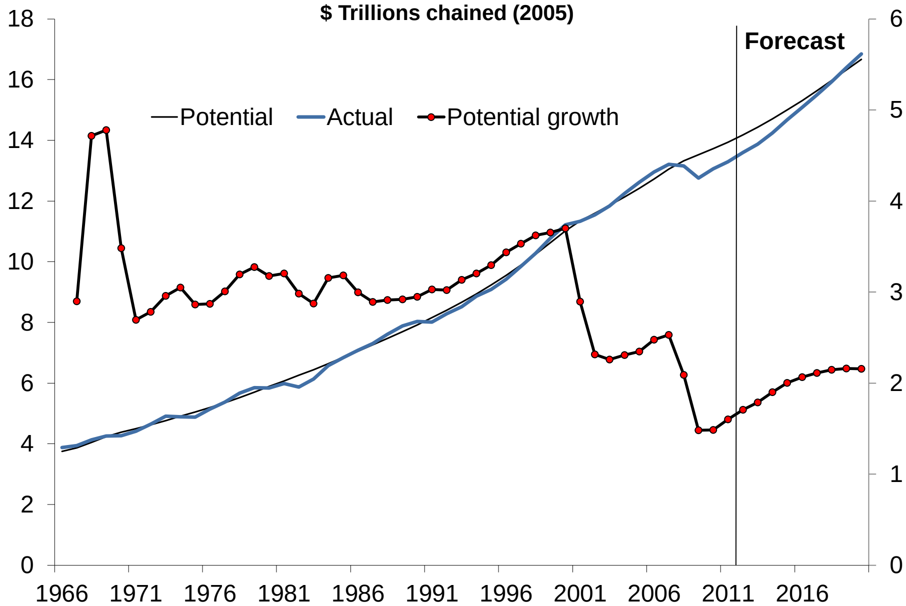


Source: Moody's Analytics.

Yet another impediment to growth during this recovery may be more long-term and therefore more enduring than the housing and credit market crises. The economy's "potential" level of output is defined as that which the economy has the capacity to produce for a prolonged period without accelerating inflation, given its labor force, capital stock, and technology. CBO attributes about two-thirds of the difference between the growth in real GDP in the current recovery and the average for other recoveries to sluggish growth in potential GDP.[2] More worrisome is that CBO finds much of this sluggishness to be the result of long-term trends that pre-date the recession, including the nation's changing demographics.

[2] See Congressional Budget Office, "What Accounts for the Slow Growth of the Economy After the Recession?" November 2012.

Figure 7
Real US GDP: Actual vs. Potential



Source: Moody's Analytics; DOB staff estimates.

The Budget Division estimates for potential GDP and its growth appear in Figure 7. Potential GDP growth tends to fall during recessions, but as indicated in the chart, growth downshifted dramatically during three of the past six recessions, that of 1970 and the most recent two. Robert J. Gordon, a member of the NBER Business Cycle Dating Committee, cites a deceleration in the growth rates of productivity, hours per employee, and the labor force participation rate as the leading causes of the slowdown since 2000.[3] CBO comes to a similar conclusion, attributing about one third of the slowdown in potential GDP growth to the slowdown in "potential employment." The forces that underlie earlier increases in the labor force, such as baby boomers coming of age and the rise in women's participation are now unwinding.

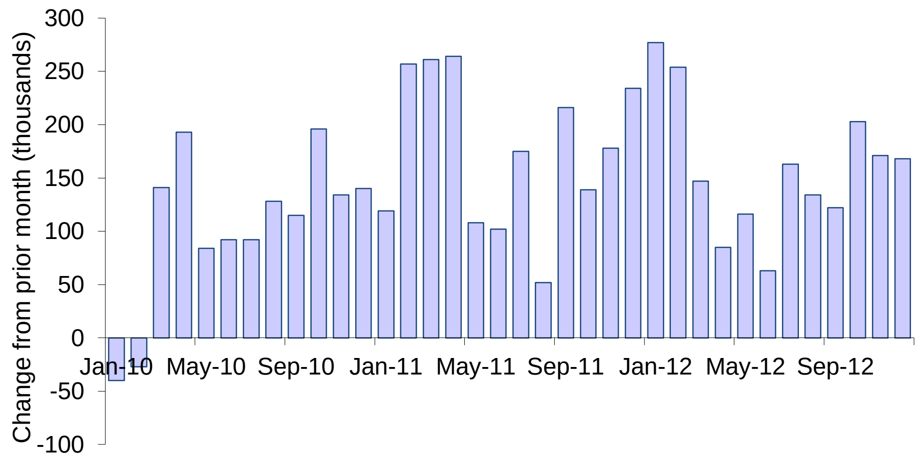
In addition to demographic factors, CBO attributes about one fifth of the slowdown to a downshifting of potential total factor productivity growth. This coincides with the long-term secular shift from a manufacturing to a services-based economy where both output and productivity growth are more difficult to measure. Finally, more than one third of the slowdown is attributed to slow growth in the capital stock, or equivalently, slow growth in net investment. Since net investment tends to track final demand, CBO attributes much of the investment slowdown to cyclical factors, namely the depth of the recession and the weakness of the recovery itself, which feeds back into potential growth. Figure 7 indicates that potential GDP growth is expected to accelerate as the recovery proceeds, but remain well below rates observed prior to 2001. At the pace implied by the Budget Division forecast, the national economy is not projected to reach its potential level until 2018.

[3] See Robert J. Gordon, "The Slowest Potential Output Growth in U. S. History: Measurement and Interpretation," for Presentation at CSIP Symposium on "The Outlook for Future Productivity Growth," Federal Reserve Bank of San Francisco, November 14, 2008.

The On-again Off-again Labor Market

Time and again the nation's labor market has appeared poised for a rebound, only to be set back by a string of deleterious events. These setbacks, clearly visible in Figure 8, include the emergence and reemergence of the euro-debt crisis, supply chain disruptions resulting from the earthquake and tsunami in Japan, spiking energy prices associated with unrest in the Middle East, and the nation's own fiscal tremors. The labor market's rocky road is also visible in the rise and fall of initial claims. Even the smoother four-week moving average rose above the benchmark 400,000 level in the weeks following Superstorm Sandy (see Figure 9). Volatility in the private labor market has been augmented by the continued hemorrhaging of public sector jobs since the winding down of ARRA.

Figure 8
U.S. Private Sector Employment Gains

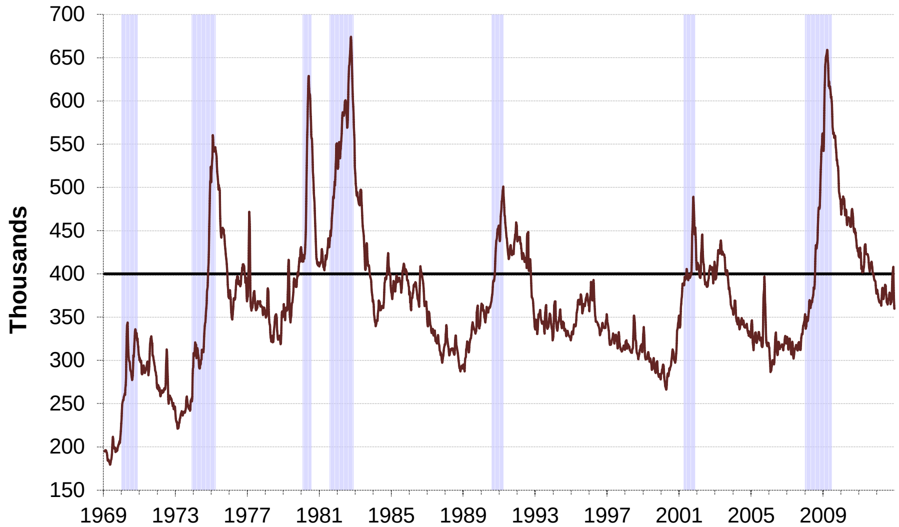


Source: Moody's Analytics.

As the economy moves beyond the turbulent events of 2012, the labor market appears once again to be on track for steady growth. As indicated in Figure 9, initial claims have remained below 400,000 since mid-November, and temporary help employment has showed consistent gains since a slowdown in the spring. Figure 10 shows that growth in temporary help employment tends to lead total private sector job growth.[4] Total employment growth of 1.4 percent is projected for this year on an annual average basis, following growth of about the same in 2012, with private sector growth of 1.8 percent projected for this year, following growth of 1.9 percent in 2012. With growth in the labor force expected to accompany an improving job market, the national unemployment rate is projected to average 7.6 percent for 2013, down from 8.1 percent in 2012.

[4] A Granger causality test was used to test whether temporary help services employment "Granger causes" private sector employment, using the Akaike Information Criterion to determine the model's optimal lag structure. The results indicate that when the former start to grow, the latter can be expected to start growing, on average, three quarters later. The results are statistically significant at a level below 1 percent.

Figure 9
Initial Claims
4-Week Moving Average

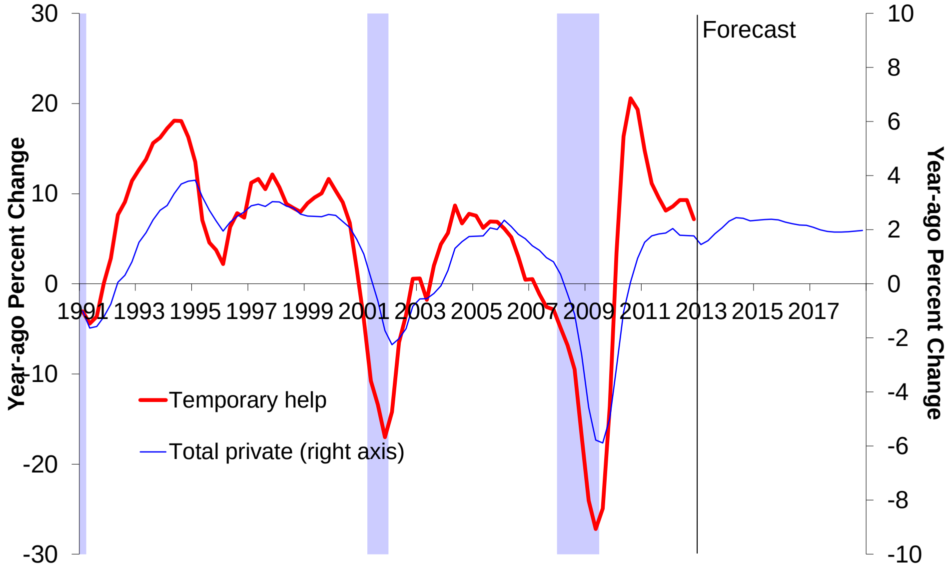


Note: Shaded areas represent U.S. recessions.
Source: Moody's Analytics.

1

A modest acceleration in employment growth is projected for 2013, with some alteration in the composition of growth across industries. Table 3 shows the number of jobs expected to be added by sector over the course of this year by comparing projected employment for the fourth quarter of 2013 with the same quarter of last year. With the global economy improving, those sectors that are relatively more export oriented will see faster growth in 2013 than in 2012. With some help from continued strong domestic demand for autos, job growth in manufacturing is expected to accelerate from 1.4 percent in 2012 to 1.6 percent in 2013. Business, professional, and technical services is a small but growing component of total exports, expanding 55.5 percent between 2006 and 2011, the most recent year for which data are available. A resolution of the uncertainty surrounding Federal fiscal policy is also expected to help bolster domestic demand for business services. Growth in professional and technical services employment is projected to accelerate to 3.6 percent in 2013, with growth in management, administrative support, and waste management services projected to grow 3.4 percent.

Figure 10
Temporary Help Services Employment Leads Total Private



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

TABLE 3
JOB GROWTH ACCELERATES IN 2013
Q4 / Q4

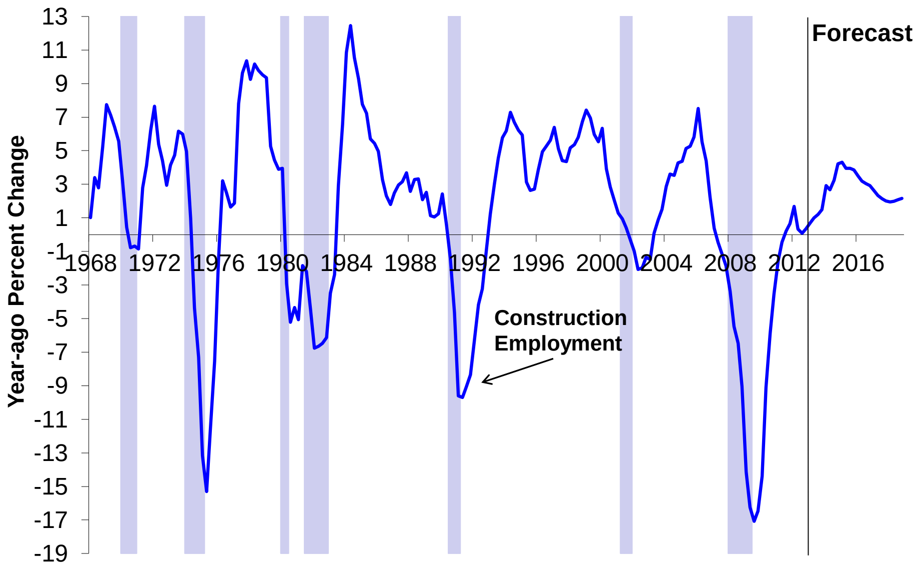
	2011	2012	2013	
	%Change	%Change	Jobs Added	% Change
Total Private	1.8	1.7	2,222	2.0
Natural Resources and Mining	11.1	1.8	(3)	(0.4)
Utilities	1.1	1.2	5	1.0
Construction	0.6	0.4	86	1.5
Manufacturing	1.8	1.4	198	1.6
Wholesale Trade	1.6	1.7	95	1.7
Retail Trade	1.5	1.4	195	1.3
Transportation and Warehousing	1.9	1.7	101	2.3
Information	(1.6)	(0.6)	(2)	(0.1)
Finance and Insurance	0.2	1.1	50	0.9
Real Estate, Rental, and Leasing	0.9	1.1	24	1.2
Professional and Technical Services	4.0	2.8	288	3.6
Management, Admin. Support, and Waste Services	3.1	2.7	342	3.4
Education Services	2.6	1.6	77	2.2
Health Care and Social Assistance Services	1.9	2.2	397	2.3
Leisure, Hospitality, and Other Services	1.6	2.0	368	1.9
Government	(1.2)	(0.3)	(154)	(0.7)
Total	1.3	1.4	2,068	1.5

Source: Moody's Analytics; DOB staff estimates.

Those sectors that are more closely tied to consumer demand are expected to see less of a boost due to pressure on disposable income from changes in tax policy. Retail trade employment is projected to grow 1.3 percent over the course of 2013, slightly lower than the rate of 1.4 percent in 2012, while leisure, hospitality, and other services is projected to grow 1.9 percent, just below its 2012 rate. Both sectors are expected to benefit from growth in tourism stemming from a stronger global economy. Government is expected to remain a drag on overall employment growth in 2013 due to the potential federal government spending cuts. State and local government employment has lost 681,000 jobs since peaking during the summer of 2008, with 624,000 of those jobs lost since the technical end of the recession in June 2009. In 2013, total government employment is expected to further decline 0.7 percent from a decline of 0.3 percent in 2012.

The construction sector is expected to show substantial improvement in 2013. The protracted process of healing from the housing boom and bust deprived the current recovery of a traditional support to cyclical growth. As indicated in both Box 2 and Figure 11, the construction sector has thus far been virtually absent from this expansion. Moreover, the housing sector is closely associated with other areas of consumer demand that have also been depressed during this expansion. Multifamily housing starts began to show improvement in 2010 as more and more households were making the choice to rent over homeownership. With home prices finally appearing to be on a stable upward path, single family housing starts are on the rise as well (see Figure 20, below). Rebuilding in the wake of Superstorm Sandy is also expected to increase the demand for construction workers in the Northeast. Construction employment growth is projected to accelerate to 1.5 percent over the course of 2013 from 0.4 percent growth in 2012.

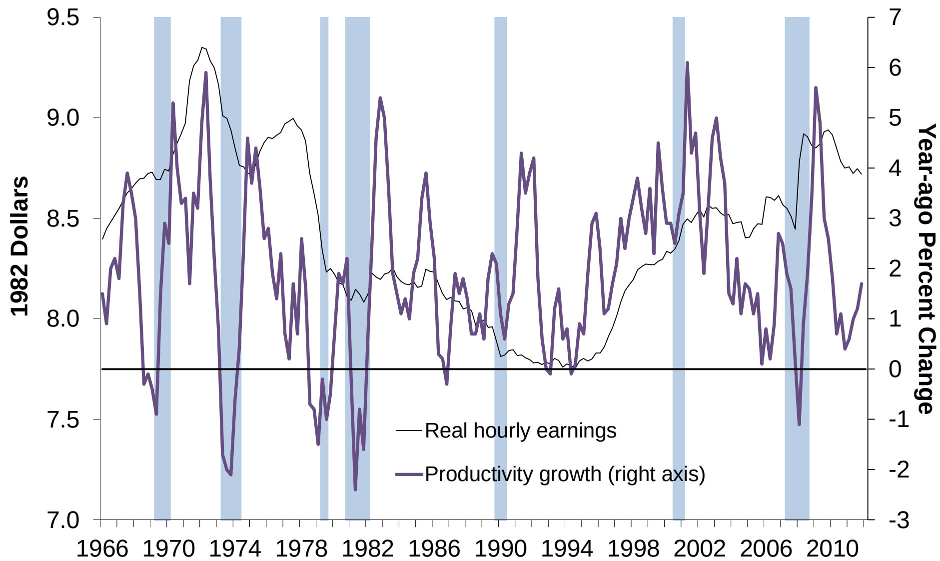
Figure 11
The Construction Sector Improving But Still Sluggish



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

With the pick-up in job growth, the unemployment rate is projected to fall from 7.8 percent in the fourth quarter of 2012 to 7.4 percent in the fourth quarter of 2013. Although the projected rate for 2013Q4 is the lowest since the fourth quarter of 2008, it is high from a historical standpoint, implying a high degree of slack remains in the labor market, a consequence of which is continued weak income growth. As illustrated in Figure 12, there has been very little real earnings growth since the end of the recession in mid-2009. In fact, by the third quarter of 2012, the most recent quarter for which data are available, real earnings had fallen 2.1 percent since the technical end of the recession in the second quarter of 2009. Although productivity growth fell with output growth earlier in the recovery, it has since been on the rise. Productivity gains typically bode well for future wage growth, but the high degree of slack in the labor force is likely delaying the average degree of pass-through, which has been particularly damaging to household purchasing power during a period of volatile gasoline prices. The Budget Division projects wage growth of 4.5 percent for 2013, following growth of 3.2 percent for 2012. Wage growth estimated for both this year and 2012 are well below historical averages.

Figure 12
Productivity Growth and Real Private Average Hourly Earnings



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

Despite the acceleration in wage growth, personal income growth is projected to fall to 3.0 percent for 2013 from 3.5 percent for 2012. Personal income growth for 2013 will be depressed by the expiration of the payroll tax holiday that had been in place for two years. In addition, in anticipation of rising marginal tax rates for high-income earners, many public corporations announced either distributions of special dividend payouts or an acceleration of dividend payouts from 2013 to the end of 2012. A modest amount of shifting of bonus wages and small business income is also assumed to have taken place. In the absence of income shifting and the expiration of the payroll tax cut, wage growth of 4.6 percent is projected for 2013, following 3.1 percent growth for 2012, and total personal income would be projected to grow 4.0 percent in 2013, following growth of 3.4 percent for 2012. Thus, even on a constant law basis, projected growth rates for both wages and total personal income are well below historical averages.

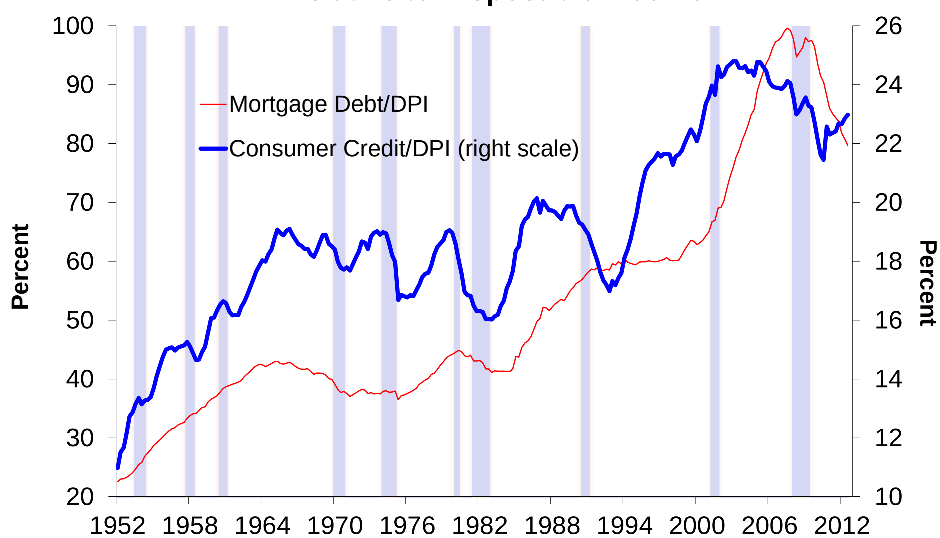
Household Deleveraging Winding Down and Housing Ramping Up

Continued tepid job growth and decelerating disposable income growth do not bode well for the mainstay of the U.S. economy, household spending. Contractionary fiscal policy portends a weak start to the year as consumers contend with shrinking paychecks. The Budget Division projects continued slow real consumption spending growth of 1.9 percent in 2013, following growth of 1.9 percent in the prior year. However, there is ample evidence that household balance sheets are on the mend, which will support spending growth accelerating over the course of the year from 1.1 percent in the first quarter to 3.1 percent by the fourth. Though some of this improvement is due to continued growth in equity market prices, the greatest hope for an end to household deleveraging and a return of household spending growth to historical norms lies in the recovery of the housing market.

Virtually every source of support for consumer spending collapsed during the recession, resulting in real consumption falling for six consecutive quarters from the first quarter of 2008 through the second quarter of 2009. This protracted decline in the level of real household spending is unprecedented in the history of the quarterly data. Spending growth gained some momentum over the course of 2010, peaking at 4.0 percent in the fourth quarter of 2010 as both job growth and equity markets were beginning to pick up some steam. But without a revival of the housing market, that momentum was unsustainable.

Figure 13

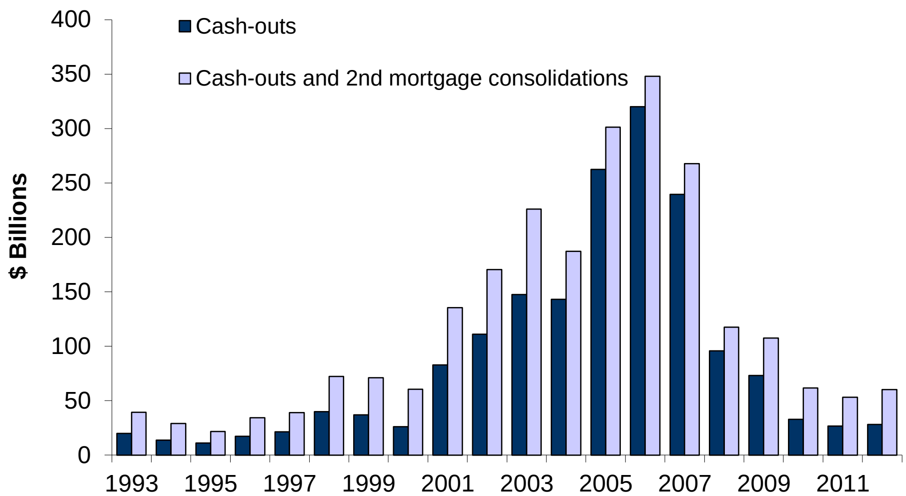
Home Mortgage Debt and Consumer Credit Relative to Disposable Income



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

The importance of home values as a support for spending growth cannot be overstated. Mortgage debt grew 72 percent between the end of the 2001 recession and the home price peak in 2006Q1, compared to growth of 28 percent over the first 17 quarters of the 1990s expansion. In contrast, nominal consumption grew at about the same rate over both periods, suggesting that households were becoming ever more dependent on debt to fuel spending growth. This development is illustrated in Figure 13, which compares mortgage debt and consumer debt, both as a percentage of disposable income. Although both tend to rise during expansions, the rate of increase in mortgage debt during much of the 2002-2007 expansion was unprecedented. As house prices briskly rose, homeowners extracted equity from their homes through mortgage refinancing in order to finance current spending, peaking at about $350 billion in 2006 (see Figure 14).

Figure 14
Home Equity Cash-Out Volume



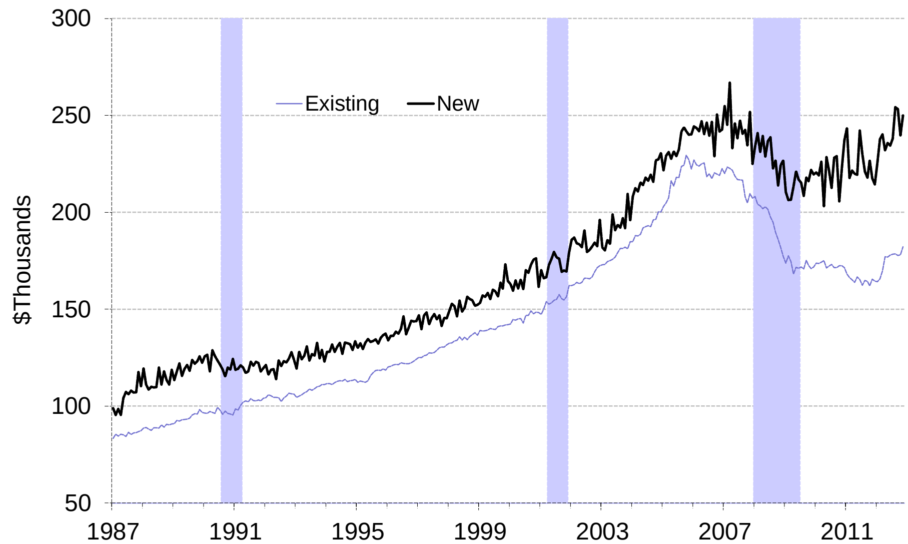
Note: The first three quarters of 2012 are based on Freddie Mac estimates; the fourth quarter is assumed by DOB to be equal to the third.
Source: Freddie Mac.

When the housing market bubble collapsed in 2006, the cycle of price appreciation and debt-fueled spending went into reverse. Figure 15 depicts the large drop in home prices during the recent recession and a very slow recovery afterwards. Median existing home price declined by $61,000 from the peak of $229,000 on October 2005 to the trough of $162,000 on October 2011. Many households found that they owed more than the market value of their homes. At the end of 2011, 12.1 million, or 25.2 percent, of all residential properties with a mortgage were "under water," representing negative equity for their owners (see Figure 16).[5] Households lost $14.8 trillion in total net worth between the second quarter of 2007 and the first quarter of 2009 as both their financial asset and real estate wealth declined in the wake of the collapse of the housing bubble.[6] By the first quarter of 2012, households had recovered $10.6 trillion of their net worth. However, this recovery was entirely based on a recovery of financial assets wealth. Financial assets bottomed out in the first quarter of 2009 and by the first quarter of 2012

[5]See <http://www.corelogic.com/about-us/researchtrends/negative-equity-report.aspx#>.
[6] Net worth data are based on Moody's Analytics smoothed estimates of the Federal Reserve flow of funds data.

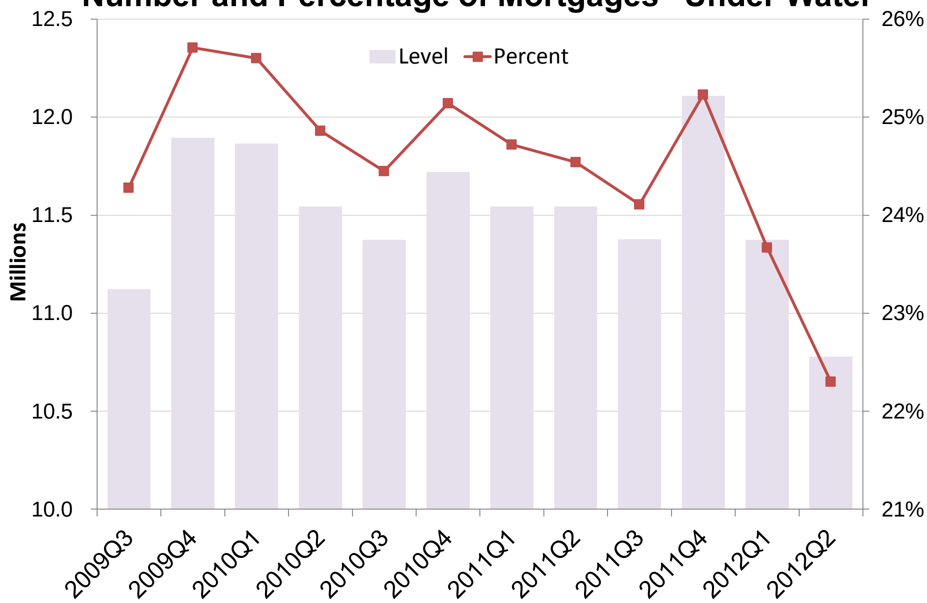
exceeded their prior peak in 2007. In contrast, real estate wealth declined continuously through the fourth quarter of 2011.

Figure 15
U.S. Median Home Prices



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

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



Source: Corelogic.

The protracted decline in the value of real estate wealth is estimated to have had a profound impact on household spending behavior, and is likely a critical factor in explaining the slow pace of the current recovery. Table 4 provides some evidence of how various types of asset holdings are distributed across the population by income. The ratios of top-decile median holdings to those of the bottom quintile give an indication of how relatively concentrated a given type of wealth is among the top 10 percent of households. For example, financial assets are the most concentrated, as the top decile's median family holdings are 501 times the value of those of the bottom 20 percent. Thus, the rise and fall in financial asset values accrue disproportionately to high-income households. In contrast, holdings related to home ownership appear relatively more evenly distributed, with a ratio of only five. Thus, declines in home values, and the resulting destruction of real estate wealth, is likely to have had its greatest impact on households with the lowest incomes and, thus, the highest marginal propensity to consume. Moreover, the rise in equity market values would not fully compensate for the loss of real estate wealth since financial assets tend to be much more concentrated among those households with the highest marginal propensities to save.

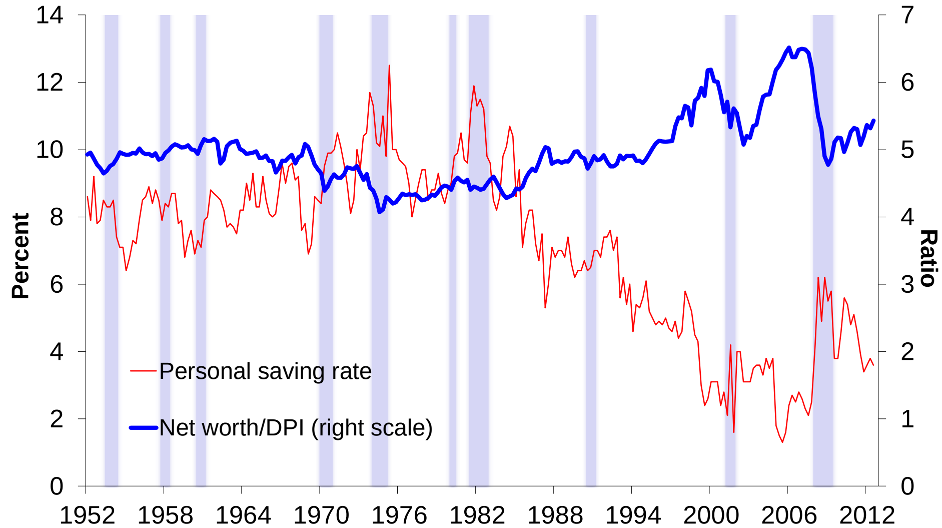
TABLE 4
MEDIAN VALUES FOR FAMILIES WITH ASSET HOLDINGS BY PERCENTILE OF INCOME
(Dollars in Thousands)

Asset type	Less than 20	20-39.9	40-59.9	60-79.9	80-89.9	90-100	Ratio of top decile to bottom quintile
Financial assets	$1	$5	$17	$40	$120	$551	501
Nonfinancial assets	$24	$74	$131	$198	$311	$756	32
Primary residence	$89	$110	$135	$175	$250	$475	5

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

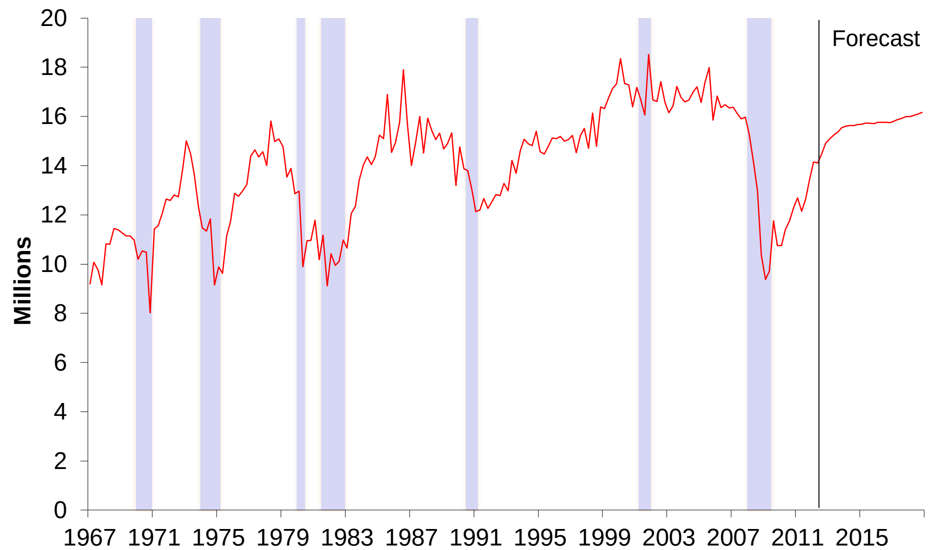
An array of recent data indicates that the housing market has turned the corner. Real estate wealth increased in each of the first three quarters of 2012, regaining $1.1 trillion out of a total of $6.7 trillion lost between the third quarter of 2006 and the fourth quarter of 2011. Figure 17 compares the rate of personal savings out of disposable income with the ratio of household net wealth to disposable income. When household wealth was falling relative to current income, households saved more out of disposable income in order to begin to restore some of what has been lost. As a result, the personal savings rate rose from an average of 2.9 percent during the 2002-2007 expansion to a quarterly average of 5.0 percent for the period from the first quarter of 2008 through the third quarter of 2011. However, with the upturn in the housing market at the end of 2011, the saving rate turned downward, averaging 3.6 percent for the four quarters from 2011Q4 through 2012Q3. Figure 14 above indicates that an estimated $60 billion in home equity was cashed out in 2012, representing the first year-ago increase since 2006. These data indicate that the household deleveraging process may be in its final stage.

Figure 17
Saving Rate and Household Net Worth Relative to Disposable Income



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

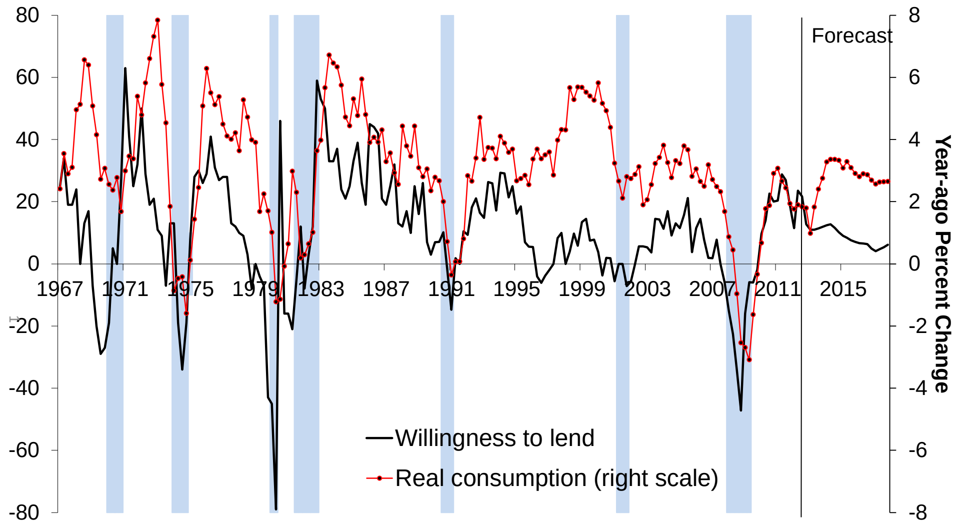
Figure 18
Passenger Car and Light Truck Sales



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

The upturn in the housing market is expected to fuel consumption growth not only through the wealth effect, but also by increasing the demand for complementary durable goods, such as autos, furniture, and appliances. Figure 18 shows the record levels of light vehicle sales attained during the 2002-2007 expansion and the steep period of decline that followed, during which the average age of light vehicles on the road accelerated, rising from 9.5 years in 2005 to 10.8 years in 2011.[7] In addition, rising housing starts are expected to increase truck purchases among of construction workers who may have been delaying the replacement of aging vehicles in the wake of the housing collapse and the resulting lull in building activity.[8] The rebuilding and recovery from Superstorm Sandy that hit the East Coast at the end of October can be expected to reinforce this trend going forward.

Figure 19
Improvement in Credit Conditions Slowing



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

In addition to labor income, credit market conditions are critical to spending growth. Figure 19 illustrates this fact by comparing real consumption growth to bank willingness to lend to consumers, as measured by the Federal Reserve Board's Senior Loan Officer Survey. Bank lending to households is expected to continue to improve in 2013, although at a lesser pace than exhibited in the second half of 2012. Indeed, the rate of improvement already began to fall off during the second half of last year. The two most important determinants of banks' willingness to expand consumer credit are short-term interbank borrowing costs and default risk, which tends to be inversely related to economic growth. Default rates are expected to continue falling as the recovery progresses, but interbank borrowing costs are projected to rise as the Federal Reserve shifts to a tighter monetary policy stance.

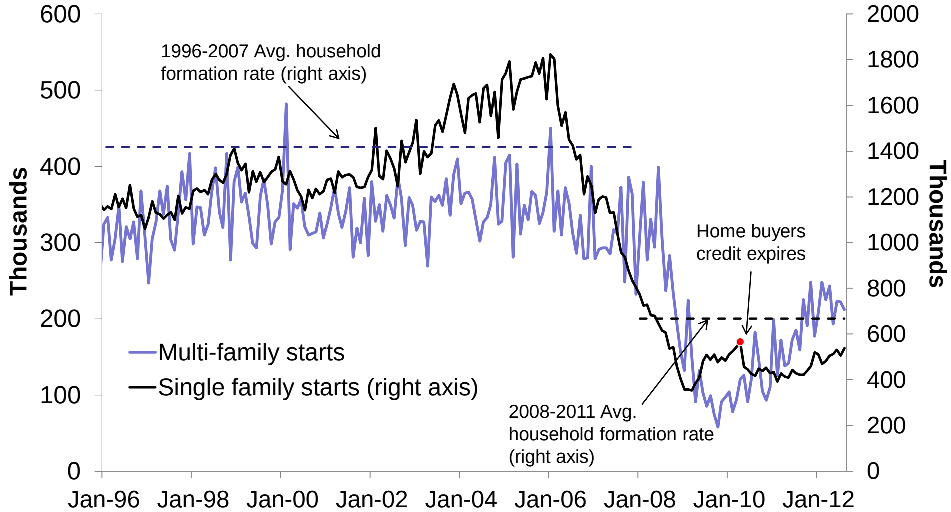
[7] Prior to the collapse of the housing market, it had taken light vehicles 10 years to age from 8.4 years in 1995 to 9.5 years in 2005. See <
https://www.polk.com/company/news/average_age_of_vehicles_reaches_record_high_according_to_polk
> viewed January 6, 2013.
[8] See <http://www.edmunds.com/industry-center/commentary/the-housing-market-recovery-boosts-new-car-sales.html>.

Although the deleveraging process may be coming to an end, only modest improvements are projected for the remaining fundamental supports for household spending – employment, income, and credit conditions. Consequently, consumer spending is expected to improve only gradually. Real spending for services and nondurable goods is projected to rise 1.3 percent in 2013, following growth of 1.2 percent for 2012. Consumers will see the impact of higher taxes right from the start of the year. Although the tax package passed by Congress to avert the fiscal cliff resolved some fiscal uncertainty, outstanding issues pertaining to the sequester and the debt ceiling could weigh on economic activity in the first quarter of 2013.[9] Growth in real spending for the more cyclical durable goods component is projected to slow to 6.6 percent in 2013, following a 7.7 percent increase in 2012. This forecast is consistent with levels of light vehicle sales above an annualized value of 15 million for every quarter of this year for the first time since 2007.

The Budget Division's outlook for a gradual improvement in both household spending and the demand for new residential construction is predicated on a sustained rise in home prices and the diminishing of the volume of negative equity. The Budget Division projects accelerating growth in real private residential investment of 15.6 percent for 2013, following an increase of 12.2 percent in 2012. The most recent Current Population Survey data indicates a substantial increase in the rate of household formation from a historic low of 357,000 in 2010 to over 1 million in 2011, the most recent year for which data are available. However, as indicated in Figure 20, this rate is still well below the 1.4 million average over the pre-recession period from 1996 to 2007. Although household formation is expected to continue to rise as the labor market improves, high unemployment represents a considerable downside risk to the demand for housing and household items going forward.

[9] Anecdotal evidence suggests that the 2012 holiday shopping season may have been weaker than expected; according to SpendingPulse, holiday sales grew by only 0.7 percent from October 28 through December 24, compared to a 2.0 percent gain over the same period last year. If this preliminary evidence is supported by more comprehensive data, it will remain unclear whether the uncertain fiscal outlook or the anticipation of higher taxes was the more important factor.

Figure 20
Household Formation and Single Family Construction Recovering From Low Levels

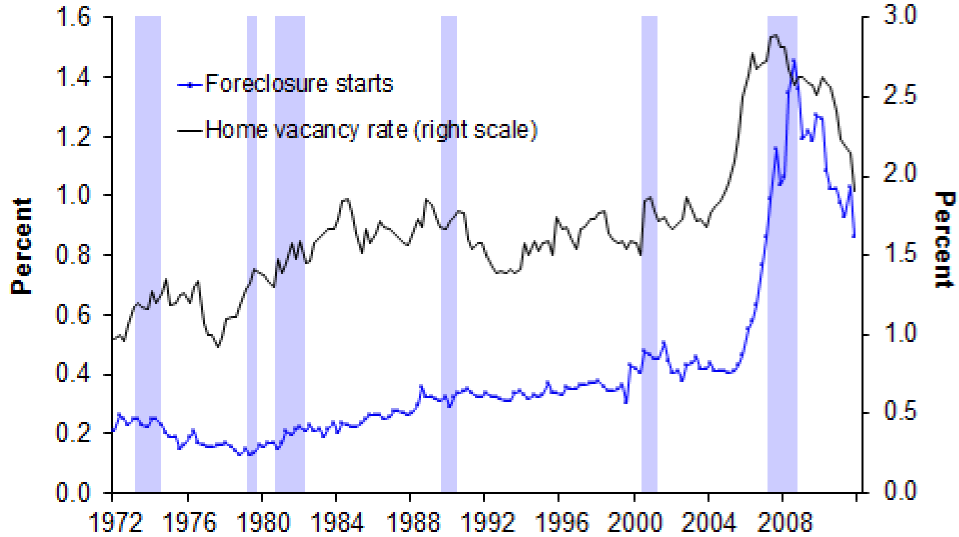


Source: Moody's Analytics.

Another positive sign for the housing market is the decline in the home vacancy rate to its lowest level since the second half of 2005, as depicted in Figure 21. The chart also shows that the rate at which homes are entering the foreclosure process has also fallen significantly, but remains high by historic standards. As a result, foreclosures represent yet another risk to the fledgling housing market recovery. Figure 22 indicates that much progress has been made toward reducing the overhang resulting from the housing boom and bust. According to the Census Bureau, the average number of months it takes to sell a new single family home at the current sales rate fell to 4.8 in November, the lowest since early 2006. However, the Census Bureau inventories data do not include homes put on the market by banks at the end of a foreclosure proceeding, so the precise inventory of homes for sale is uncertain. The impact of a high volume of outstanding foreclosures on the housing market is more certain: upward pressure on inventories and downward pressure on construction. A statistical analysis described in Box 3 indicates that the impact was substantial. In addition, because of the lag between the time a homeowner goes into arrears and the point at which a foreclosed home goes back on the market, particularly in those states that require a prolonged judicial process, foreclosures could continue to put upward pressure on inventories as the backlog resolves. But if the backlog resolves in a gradual manner, the market risks could be minimal.

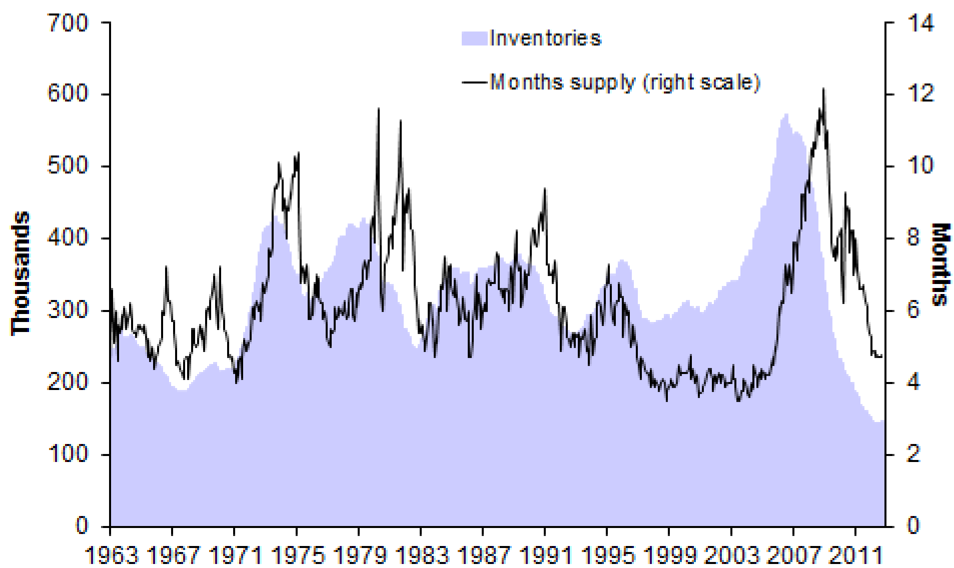
Although the Budget Division is projecting double-digit growth in residential fixed investment growth through the beginning of 2015, this growth is from extremely low levels of spending. At the height of the housing boom in 2005, private residential construction represented 6.1 percent of total GDP. This share is down to 2.4 percent based on the most recent four quarters of available data through 2012Q3. Given the delay with which the housing market has joined the recovery, this critical market can be expected to continue to provide future stimulus to the expansion as it matures, creating upside risk to the forecast longer-term.

Figure 21
Percent of Loans Entering Foreclosure and Home Vacancy Rates



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

Figure 22
Inventory of New Homes for Sale



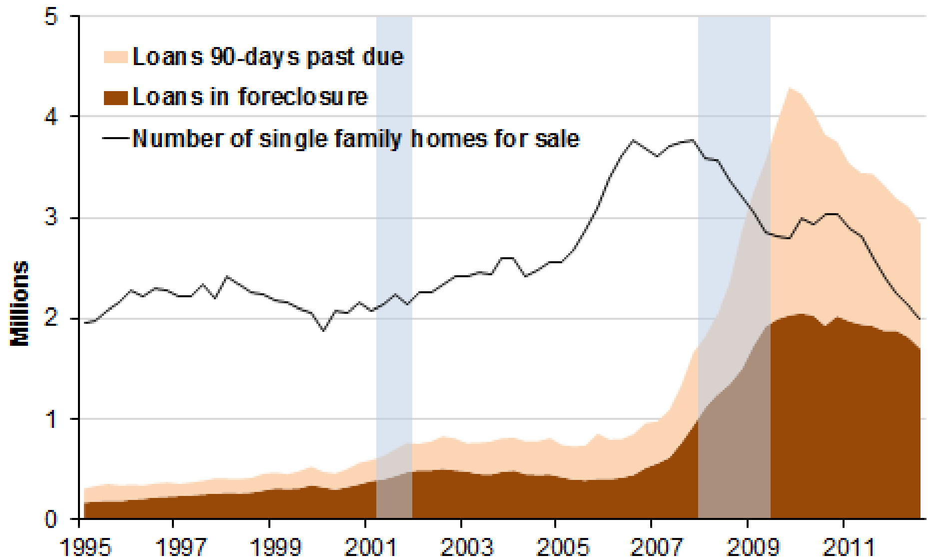
Source: Moody's Analytics.

BOX 3

FORECLOSURES, HOME PRICES, AND THE HOUSING MARKET RECOVERY

As of the third quarter of 2012, 1.7 million homeowners were in foreclosure and another 1.2 million were delinquent on their mortgages for more than 90 days, putting them at a very high risk of foreclosure. Together these two groups comprise the "seriously delinquent." A large fraction of these homeowners end up moving out of their homes, either by selling their homes at a steep discount or by losing their homes to lending institutions, which in turn put them on the market, but often at a reduced price. These homes are not reported in the Census Bureau's official home inventory statistics and consequently are often referred to as shadow inventory. A high level of inventory puts downward pressure on home prices, particularly when the seller is a bank looking for a quick sale. The figure below indicates that the number of seriously delinquent properties has risen significantly since 2006 and currently exceeds the combined number of new and existing homes for sales.

Seriously Delinquent Loans



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

Meanwhile, foreclosure activity has slowed down significantly since the "robo-signing" controversy that erupted in October 2010, when banks were found to have mailed tens of thousands of default notices based on deficient documentation. Major banks were forced to freeze foreclosures in multiple states. As a result, the data shows big declines in the number of foreclosures on a year ago basis ever since 2011, with the latest decline of 20 percent in Q3 2012. This decline may hide the potential wave of foreclosures that are in the pipeline waiting to be processed, but we do see other signals of housing recovery starting from early 2012 and continuing to gain momentum. According to CoreLogic inc., home prices increased 6.3 percent in October 2012 compared to October 2011, which represents the biggest increase since June 2006 and the eighth consecutive increase on a year-over-year basis.[1] Excluding distressed sales (short sales and REOs), home prices in October 2012 still had 5.8 percent growth year-over-year.

(Continued on next page)

[1] See <http://www.corelogic.com/research/hpi/october-2012-home-price-index-report.pdf>.

(Continued from previous page)

Rebounding home prices are essential to the recovery of housing market. When home prices were declining, more and more households found their mortgage loans to be "underwater", meaning they owe more than their homes are worth. Many of deeply underwater homeowners ended up going into foreclosure or "strategic defaults." The default probability of borrowers having negative equity is twice as much as those having positive equity (Haughwout and Okah, 2009; Nesmith, 2011).[2] But this situation has improved with the recent rise in home prices. According to the latest negative equity report from CoreLogic Inc., more than 1.3 million households have regained a positive equity position since the beginning of 2012.[3] Moreover, 10.8 million, or 22.3 percent, of all residential properties with a mortgage were underwater at the end of 2012Q2, down 25.2 percent from 12.1 million properties in 2011Q4. The total level of negative equity decreased from $742 billion at the end of Q4 2011 to $689 billion at the end of Q2 2012, a fall of $53 billion. With home prices continuing to trend upward, and negative equity trending down, we expect accelerating growth in housing starts, residential investment, and real consumption.

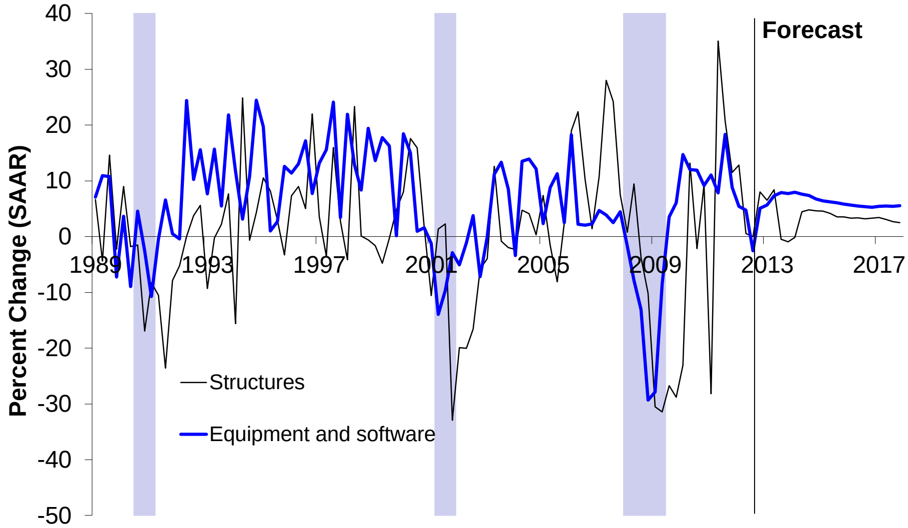
[2] See Haughwout, Andrew F. and Okah, Ebiere, Below the Line: Estimates of Negative Equity Among Nonprime Mortgage Borrowers. Economic Policy Review, Vol. 15, No. 1, pp. 32-43, July 2009; and <http://www.frbatlanta.org/documents/news/conferences/11rer/11rer_nesmith.pdf>.
[3] See <http://www.corelogic.com/about-us/researchtrends/negative-equity-report.aspx#>.

Business Spending Takes a Breather

Real business fixed investment, which includes investment in equipment and software, as well as nonresidential structures, is expected to continue to grow at a modest pace, expanding 4.6 percent on an annual average basis in 2013, following growth of 7.5 percent in 2012. As discussed in Box 2, nonresidential fixed investment was a leading component of final demand early in the recovery. Although domestic demand was soft, the global recovery induced foreign demand for U.S. exports, which combined with low interest rates, tax incentives, and the need to replace worn out equipment to spur investment (see Figure 23). However, the slowing of the global economy in 2012, and with it the demand for U.S. goods and services, led to a decline in investment growth as well. Anecdotal evidence suggests that the uncertainty surrounding fiscal policy also contributed to the slowdown. Over the course of 2012, quarterly growth slowed from 7.4 percent in the first quarter to a decline of 1.8 percent in the third.

Investment growth is expected to remain positive in 2013, but is not expected to attain the strong growth rates observed early in the recovery. The Budget Division projects that real growth in equipment and software spending will fall from 6.2 percent in 2012 to 4.8 percent in 2013, before a rebound to a 7.4 percent pace in 2014. Real growth in nonresidential structures spending is projected to fall from 9.8 percent in 2012 to 2.5 percent in 2013. The 2.0 percent growth estimated in nonresidential structure investment for the final quarter of 2012 is expected to improve substantially in the first half of 2013 due to rebuilding activity in the wake of Superstorm Sandy.

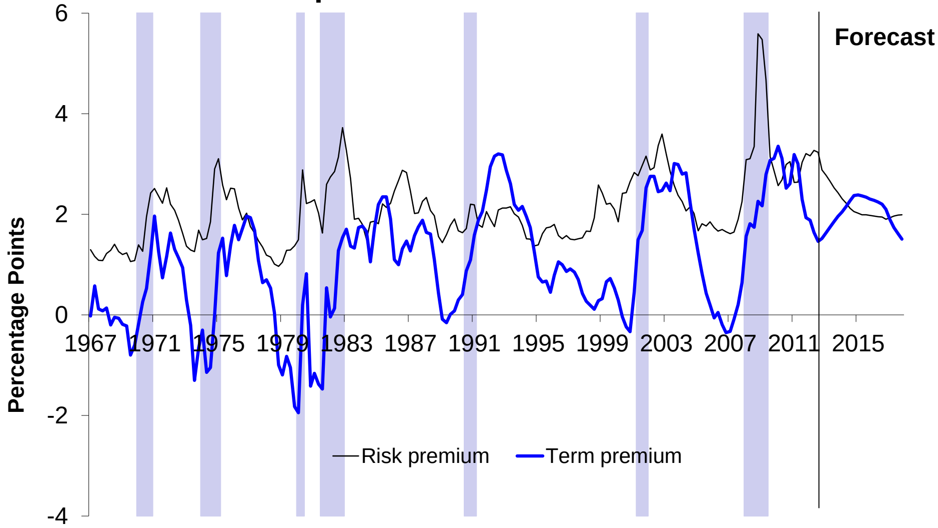
Figure 23
Real Nonresidential Fixed Investment



Source: Moody's Analytics; 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. Although domestic sales were growing slowly coming out of the Great Recession, strong global demand for U.S. exports strengthened the incentive to expand and invest. In addition, a decrease in the cost of acquiring and using capital goods, commonly referred to as the user cost of capital, also induces firms to increase investment spending. Factors that reduce the user cost include a decline in the prices of new investment goods, falling inflation-adjusted borrowing costs, rising equity prices, and changes in the tax code, such as the creation of an investment tax credit. Consequently, the repair of risk spreads starting at the end of the recession (see Figure 24) and the implementation of bonus depreciation and accelerated business expensing helped to create a favorable environment for investment growth early in the recovery. However, the reduction in the bonus depreciation rate from 100 percent to 50 percent at the end of 2011 appears to have blunted the power of this policy tool to promote growth. The Budget Division estimates that the extension of the 50 percent rate into 2013 will have a very small positive impact on investment spending this year.

Figure 24
The Risk Spread Returns to Historic Norms



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

Outlook for Inflation and Monetary Policy

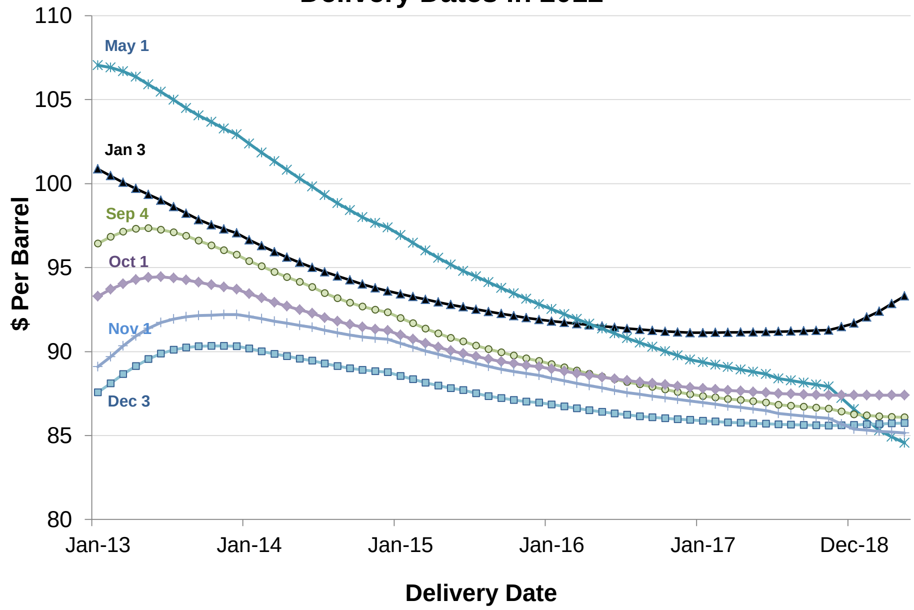
Despite energy price volatility during the year and widespread drought in the U.S., inflation remained relatively subdued, running at an annual rate of 2.1 percent for 2012, down from a 3.1 percent pace in the previous year. Importantly, there were no indications that inflation expectations were becoming unmoored, thus giving the Fed space in which to continue its accommodative policies. The Budget Division projects inflation of 2.1 percent for 2013, to be followed by inflation of 2.2 percent in 2014.

Energy markets were rather stable by historical standards in 2012, with gasoline and home heating oil averaging, respectively, three and four percent price increases over the year prior on a monthly basis, as measured by the PPI. This contrasts with the analogous price growth seen in 2010 and 2011, when these indices exhibited changes nearer to 30 percent over the preceding year. Meanwhile, the rate of decline in natural gas prices increased, exhibiting an average monthly of 10 percent in 2012 on a year-ago basis. However, prices began to stabilize toward the end of last year.

These dynamics are largely attributable to supply-side factors, with new production technologies in the case of natural gas and revived production of crude oil in the United States. In fact, U.S. oil production grew at its fastest rate ever, according to the Energy Information Administration. Though well below its 1970's peak, 2009-2012 constitutes the first three-year span of production growth (on a year-ago basis) since 1968-1970. Also, at 10 percent, growth during the period from 2006 to 2011 marked the greatest five-year growth rate in production since the 1966 to 1971 period. Due to the extreme volatility in global energy prices, the Budget Division uses the futures contract curve to guide its oil price forecast (see Figure 25).

Figure 25

WTI Crude Oil Futures Prices for Selected Contract Delivery Dates in 2012



Source: Bloomberg.

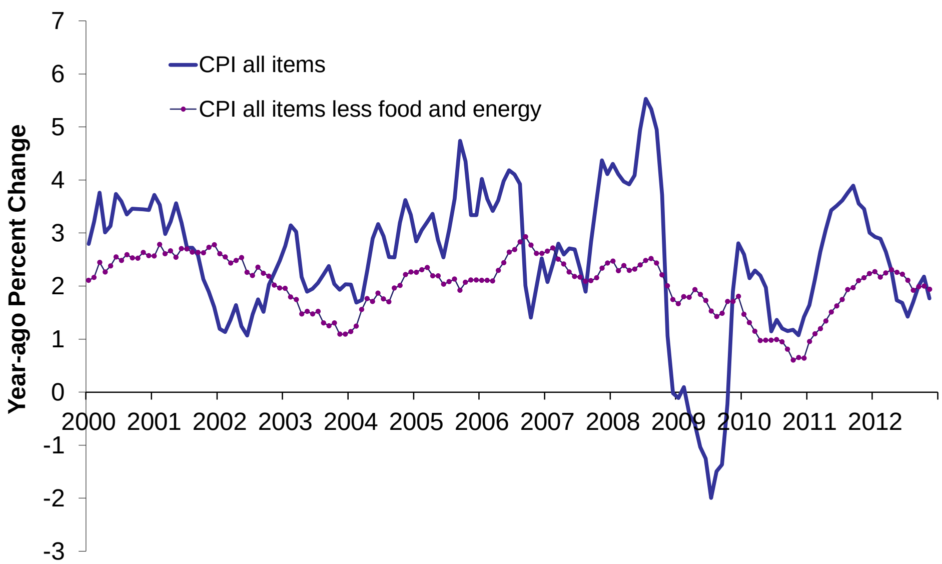
In the meantime, the worst drought conditions since the late 1980s are expected to have an impact on food prices through 2013. National weather conditions in 2012 were in some sense a continuation of a drought pattern that has continued since 2010. The steep 3.6 percent growth in food prices seen in 2011 – the highest pace of food inflation since 2008 – was partially attenuated in 2012, with the food component of the CPI rising 2.5 percent, closer but still above the overall CPI growth of 2.1 percent. However, this break will likely be short-lived, as the nationwide drought seen throughout the spring and summer of 2012 is expected to push the food CPI higher than its core CPI counterpart in 2013. Adverse weather conditions hit producer prices for feed corn and soybeans particularly hard, with corn, cottonseed, and soybean prepared-feed prices exhibiting 47 percent year-over-year growth in both October and November, the highest rates since the energy-induced increases of July 2008. Consumers are expected to see prices rise across an array of food categories throughout 2013.

One interesting component of the core CPI is the healthcare segment, where increases continued at an above-average pace; year-ago changes averaged 3.7 percent on a monthly basis. From June to September prices rose over four percent each month on a year-ago basis, the three highest rates since May 2008. Medical equipment and non-prescription goods prices have been rather steady, the latter averaging monthly increases of less than one percent on a year-ago basis while the former have averaged marginally higher growth. Prescription good prices, on the other hand, continue to grow quickly, hovering at three to four percent year-ago growth, though dipping and remaining just below the medical index since May 2012. The Budget Division projects the medical component of the CPI to rise 3.4 percent in 2013, following 3.7 percent growth in 2012.

As indicated in Figure 26, core CPI inflation, which excludes the volatile food and energy components and so is considered a better measure of the underlying trend in inflation, was moderate in 2012, ranging from 1.9 percent to 2.3 percent monthly growth on a year-ago basis. Although core CPI growth was greater than that of the all-items index for from April through September, neither measure exhibited sustained upward pressure. Surveys of households, professional forecasters, and measures of investor expectations derived from Treasury securities markets all tend to indicate that longer-term inflation expectations have remained reasonably anchored, freeing the Federal Reserve to continue to pursue an accommodative monetary policy.

Figure 26

General vs. Core Inflation



Source: Moody's Analytics.

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

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

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

$$INF_t^C = -\underset{(0.090)}{0.001}\left(U_t - U_t^{NAIRU}\right) - \underset{(0.16)}{0.75}\left(U_t - U_t^{NAIRU}\right)D1983Q4_t + \underset{(0.02)}{0.05}\left(INF_{t-1}^{IM} - INF_{t-1}^C\right) + \underset{(0.07)}{0.34}\, INF_{t-1}^C + \underset{(0.13)}{0.62}\, \hat{INF}_{t+4}$$

$$-0.03\ PDL(18,2,INF_{t-1}^E - INF_{t-1}^C) + 0.25\ PDL(18,2,(INF_{t-1}^E - INF_{t-1}^C)D1983Q4_t) - 0.37\,PDL(12,2,PROD_t)$$

$\bar{R}^2 = 0.84$ DW = 2.09 $\quad$ 1957Q2 − 2011Q3

INF_t^C = Core CPI inflation, current qtr.

U_t = Unemployment rate, current qtr.

U_t^{NAIRU} = NAIRU, current qtr.

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

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

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

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

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

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

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

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

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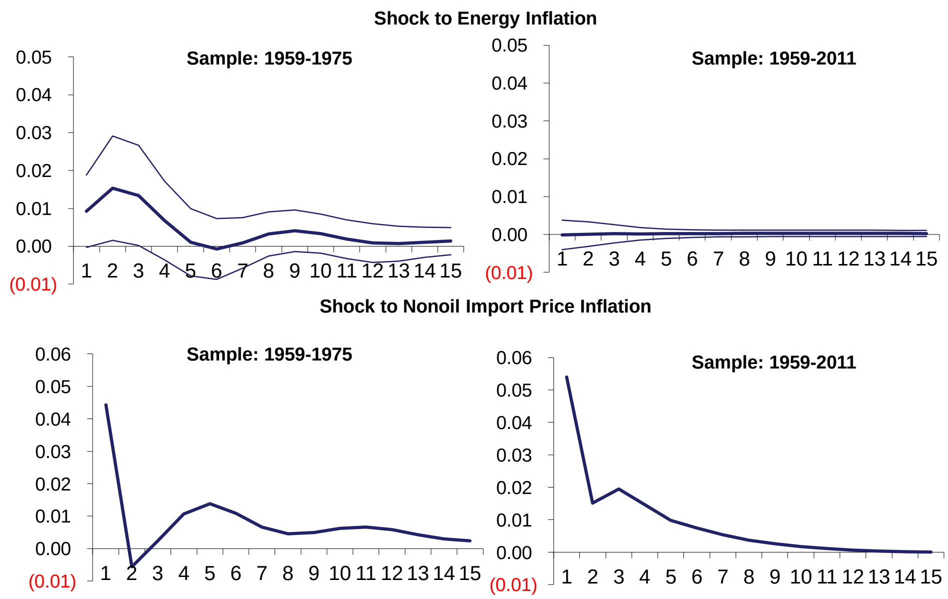
The results above are supported by an alternative model suggested in Clark and Terry (2009), who find that the pass through from energy inflation to core inflation has been virtually nonexistent since the mid 1980s.[1] Following their lead, we estimate a Bayesian vector-autoregression model (BVAR) that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

Impulse Response Functions for Core PCE Inflation



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

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

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

The Budget Division inflation forecast is consistent with long-term inflation expectations remaining anchored for now. However, accelerating domestic demand and emerging market growth could cause prices (particularly energy prices) to rise more quickly than anticipated, creating risk to the inflation forecast. With demand still generally weak, producers have been limited in their ability to pass increases in input prices onto consumers, other than those that are directly energy related, such as gasoline. But as the U.S. recovery gains strength, particularly later in 2013 and into 2014, the probability that volatile energy and food prices will spill over into core inflation is heightened. A statistical model presented in Box 4 that measures the sensitivity of core inflation to the change in oil prices suggests that we can expect very little pass-through in time. However, the results presented above also highlight the importance of well-anchored expectations in restraining that pass-thorough. If the Federal Reserve fails to unwind its expansive policy actions in an orderly manner, the re-emergence of a wage-price spiral similar to that of the 1970s may be possible.

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

Box 5 summarizes the evolution of monetary policy and the use of its unconventional policy tools under the extraordinary circumstances of the last few years. At its December meeting, the FOMC shifted from date-based guidance as to when it would shift to a tightening stance toward guidance based on economic conditions. The Budget Division forecast for the unemployment rate to fall from 7.6 percent in 2013 to 7.1 percent in 2014, and for inflation to remain above 2.0 percent throughout 2013 and 2014, is consistent with a first move toward policy tightening in the third quarter of 2014.

Based on the policy framework described above and a relatively benign outlook for inflation over the near-term, the effective federal funds rate is projected to average 0.16 percent in 2013, rising to 0.33 in 2014. Meanwhile, an average 10-year Treasury yield of 2.1 percent is projected for 2013, up from the 1.8 percent average for 2012. The Budget Division expects the yield to climb to 3.0 percent, on average, for 2014. Of course, a deterioration of economic and/or financial conditions could cause the Fed to once again undertake stimulative policies of some sort, driving interest rates down once more.

BOX 5
THE RECENT EVOLUTION OF MONETARY POLICY

With the economy in the fourth year of an anemic recovery from the December 2007-June 2009 recession by mid-2012, the Federal Open Market Committee (FOMC), which sets monetary policy for the central bank, found itself reaching for still more unconventional policy tools as the year progressed. Contentious battles over raising the nation's debt ceiling in 2011, coupled with presidential and congressional elections in the fall of 2012, combined to render fiscal policy inoperable as a policy tool, leaving monetary policy as "the only game in town." Once again, as in 2011, there was no public discussion of an "exit strategy" by the Fed, despite concerns over the size of the central bank's balance sheet.

Part of the Fed's policy predicament stems from the "zero bound" on nominal interest rates; since the FOMC meeting of December 16, 2008, it has kept the target for the federal funds rate in a band from zero to 25 basis points. But with the unemployment rate at or above nine percent from May 2009 to September 2011 and above eight percent until August 2012, and being unable to reduce short-term interest rates much further, the Fed needed other means to attempt to spur stronger economic growth.

The Fed began its unconventional methods in November 2008 when it announced a program to purchase mortgage-backed securities (and later included Treasury securities), in an effort to lower borrowing costs and stimulate investment. The program, which the Fed called "Large Scale Asset Purchases (LSAP)" but was popularly dubbed "QE," for "quantitative easing," was ended in March 2010 as the economy appeared to be improving. Discussion about how to wind down the Fed's ballooning asset portfolio began that year, but with the economy visibly slowing later in the year the FOMC launched a new Large Scale Asset Purchase program, nicknamed QE2, in November 2010. It continued until June 2011.

In August 2011 the FOMC tried yet another new tactic, in this case setting a temporal bound on its target federal funds rate band for the first time ever. Over the opposition of three FOMC members, it said that the zero-to-25 basis point band likely would be maintained at least until mid-2013. At its next meeting, in September, the FOMC implemented yet another new approach, the so-called "Operation Twist" in which it announced that it would rebalance the maturity structure of its portfolio, purchasing $400 billion of Treasury securities with remaining maturities of six to 30 years, while selling an equal amount of securities with remaining maturities of three years or less. Other things being equal, lower long-term interest rates should tend to increase demand for longer-term real assets, such as houses, durable consumer goods, and business investment in equipment and nonresidential structures. The program was to have ended in June 2012 with the completion of the target $400 billion in securities purchases, but was then extended to the end of the year during the FOMC's June meeting.

In the meantime, the FOMC extended (in March 2012) its guidance that the "exceptionally low" federal funds rate target would remain to at least late 2014. Earlier, in January, the FOMC said officially for the first time that its long-run goal for inflation was two percent, as measured by the annual change in the personal consumption expenditures (PCE) price index, while demurring on specifying a goal for employment.

With the economy appearing to slow once again in late spring and summer, the FOMC undertook still more accommodative moves in September. Besides maintaining "Operation Twist," it said that it would begin purchasing additional agency mortgage-backed securities (MBS) at a pace of $40 billion per month, without setting a termination date (some wags dubbed this "QE Unlimited"). The policy statement also added language stating that if the labor market did not improve "substantially" then the Fed would continued the current program, undertake additional asset purchases, and employ "its other policy tools as appropriate" until such improvement were seen. It also extended the forward guidance on the federal funds rate target to "through mid-2015."

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The FOMC saved its most dramatic steps for the end of the year. At the conclusion of its December meeting it announced that, besides maintaining the $40 billion per month MBS purchase program begun in September, it would begin a program of buying longer-term Treasury securities at a $45 billion a month pace after "Operation Twist" concluded. But the big news was the FOMC's dropping the date-based guidance on normalizing the federal funds rate target in favor of guidance based on economic conditions. Specifically, the FOMC remains committed to a near-zero federal funds rate target at least as long as the unemployment rate remains above 6.5 percent, projected inflation (at a one- to two-year horizon) remains no more than 0.5 percentage points above its long-term goal of 2.0 percent, and longer-term inflation expectations continue to be well anchored. Further, the FOMC said that it will take a "balanced approach" consistent with its long-run goals of "maximum employment" and a 2.0 percent inflation rate when it moves to begin the reversal of its accommodative policies.

The FOMC's December surprise was presaged in a paper by Columbia University economist Michael Woodford that was presented at the Fed's annual monetary policy conference in Jackson Hole, Wyoming.[1] Woodford argues that, contrary to the views expressed by the Fed, neither the LSAP programs nor "Operation Twist" have been effective, at least not for the reasons given by the Fed. Even on theoretical grounds the asset purchase programs have no effects at the zero bound, he says. However, if they have had effects, these have to do with their roles as signals from the FOMC. Woodford's paper argues that at the zero bound what really matters for monetary policy is the Fed's ability to communicate its future intentions. By stating its intentions to keep interest rates low in the future, the usual expectations-formation mechanism helps to lower interest rates now.

As noted above, the FOMC began by taking baby steps in this direction when it first reduced the target federal funds rate to a range of zero to 25 basis points. Besides being unprecedented in and of itself, the FOMC said it expected that "weak economic conditions are likely to warrant exceptionally low levels of the federal funds rate for some time." After two and three-quarters years of this language, the FOMC gave its first calendrical forward guidance, with the potential ending date extended twice subsequently. With December's policy statement the FOMC moved much closer to Woodford's advice to central bankers, by specifying a series of macroeconomic targets that must be achieved before it would begin to end its accommodative policies. For his part, Woodford proposes setting forth a nominal gross domestic product (GDP) target path instead.

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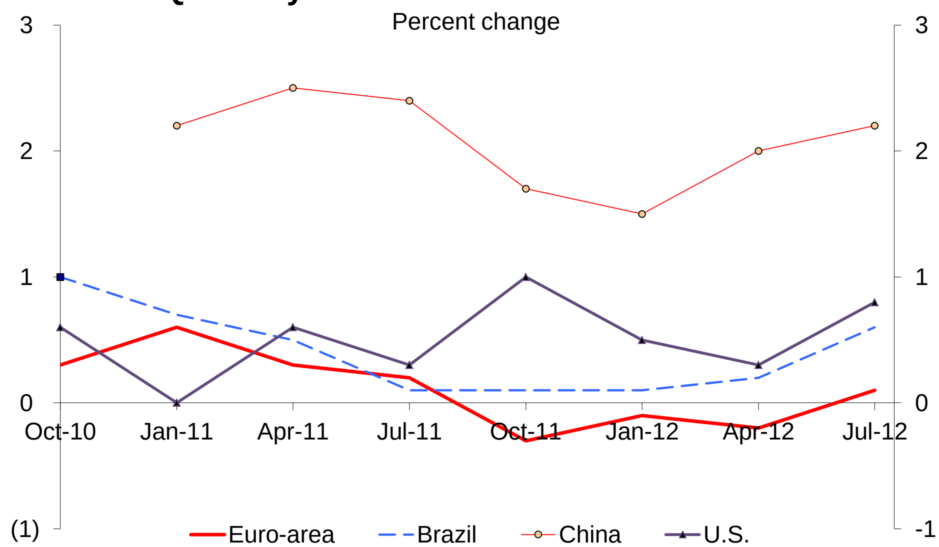
[1] See Michael Woodford, "Methods of Policy Accommodation at the Interest-Rate Lower Bound," August 20, 2012. < http://kansascityfed.org/publicat/sympos/2012/mw.pdf >.

The International Economy

Last year demonstrated yet again that by virtue of the interconnectedness of the global economy, it has become virtually impossible for any country to stay immune to the misfortunes of countries elsewhere in the world. The euro-area appears to have entered a recession toward the end of 2011, with output declining for three quarters through the second quarter of 2012. Figure 27 illustrates the co-movements in real GDP growth for the euro-zone, the U.S., China, and Brazil. The recession in Europe coincided with government efforts to cool the Chinese economy, resulting in a downshifting of that countries growth from the 10 percent range to the 7 percent range, which in turn had implications for major natural resource exporters, such as Australia, Brazil, and many African nations. The ramifications for the global economy as a whole are clearly portrayed in Figure 28. Year-ago growth in real world GDP fell from a peak of 6.1 percent in the second quarter of 2010 to 2.6 percent by the third quarter of 2012. Correspondingly, real U.S. export growth fell from 13.1 percent to 3.0 percent over the same period.

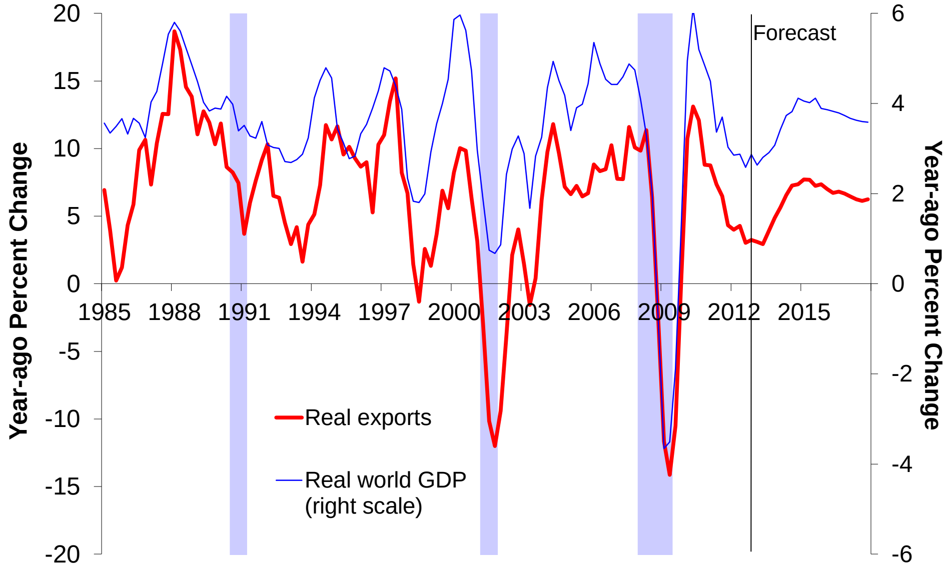
Figure 27
Quarterly GDP Growth for Selected Areas



Note: Growth rates are not annualized.
Source: OECD.

Outside of the core nations of Germany and France, austerity is the dominant trend in the euro-zone. Although the area eked out a small gain in 2012Q3, the unemployment rate has continued to rise, hitting a new high of 11.8 percent in November 2012, the most recent month for which data are available. The European Central Bank's decision in September to create an open-ended bond-purchase program, much like that of the Federal Reserve has done in the U.S., appears to have successfully calmed financial markets for the moment. This calm is represented in declining sovereign debt yields for the area's large economies considered most at risk, such as Spain and Italy. Although bond yields for these nations are now at their lowest levels since the crisis first erupted in the spring of 2010, it remains to be seen whether this calm will survive the spring of 2013.

Figure 28
Real Export and World GDP Growth



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

But given the lag with which monetary policy works, a decisive turnaround in real economic activity in the euro-zone may not develop until later in 2013. Moreover, the economies of the United States' most important trading partners – Canada and Mexico – have been slowing. Preliminary evidence suggests that the large emerging economies of China and Brazil can be expected to improve more quickly. Recent data for Chinese industrial production and inflation suggests that policies to stimulate domestic demand are already taking effect. Table 5 indicates that while the large emerging economies still represent a relatively small share of total U.S. export demand, they are a growing share. Since 2009, the export shares of Brazil, China, and Mexico have grown, while those of Canada and the European Union have fallen. As a result, the demand for U.S. exports is expected to improve over the course of this year, but only gradually. Real growth in exports of U.S. goods and services of 2.6 percent is projected for 2013, following growth of 3.4 percent in 2012. Stronger growth of 6.8 percent is forecast for 2014.

TABLE 5
THE CHANGING FACE OF US EXPORTS

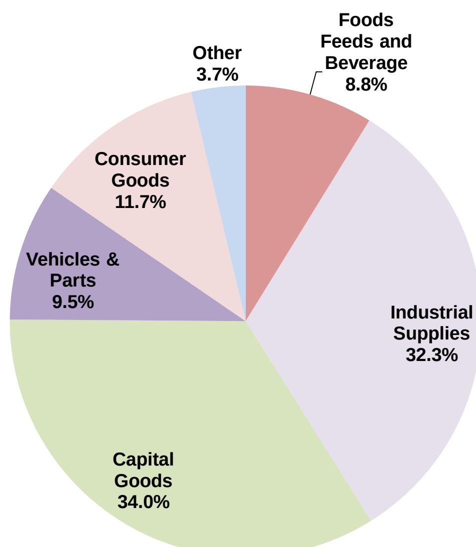
	2009-2012 Percent Growth	2009 Share	2012 Share
Brazil	70.2%	2.5%	2.8%
Canada	45.1%	19.4%	19.1%
China	63.8%	6.6%	7.1%
European Union	20.8%	20.9%	17.2%
Mexico	70.7%	12.2%	14.1%
Total	48.1%	-	-

Note: Growth rates are based on first 11 months of 2012.
Source: U.S. Census Bureau.

Goods comprised 71.4 percent of total U.S. exports for the first 11 months of 2012. Figure 29 decomposes U.S. goods exports by end-use category and makes clear why domestic manufacturing employment is particularly sensitive to the decline in foreign demand for U.S. products. Import growth has decelerated even more substantially than exports since the early phase of the recovery. After five quarters of double-digit growth at the start of the recovery, import growth fell below 5 percent starting in 2010Q4 and remained there until the third quarter of 2012 when imports actually fell after adjusting for inflation, consistent with the struggling U.S. recovery. Figure 30 presents a decomposition for U.S. imports similar to that of exports and suggests that imported goods satisfy demand that is roughly evenly split between the household and business sectors. Though imports are a subtraction from GDP, their growth represents an increase in domestic final sales and as such signals increasing household and business sector demand, a positive sign for the recovery. The real decline in imports is estimated to have continued into the fourth quarter of 2012. Import growth is projected to remain weak through much of 2013, rising only 1.9 percent on an annual average basis in 2013, following 2.6 percent growth for 2012. Weakening import growth has had a favorable impact on the current account trade deficit, which had started to deteriorate with the start of the recovery in the third quarter of 2009.

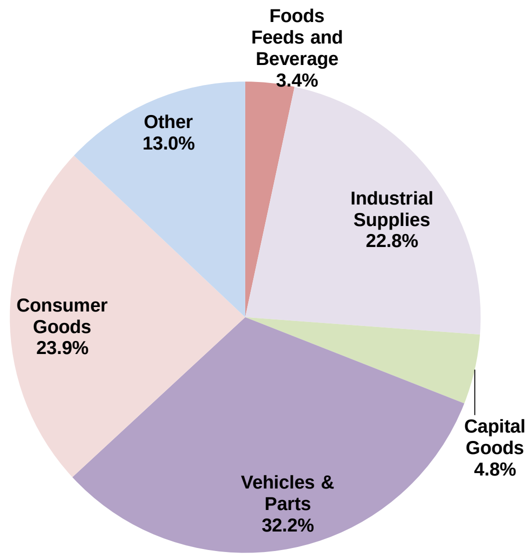
Figure 29

2012 Share of Exported Goods by End-Use Category



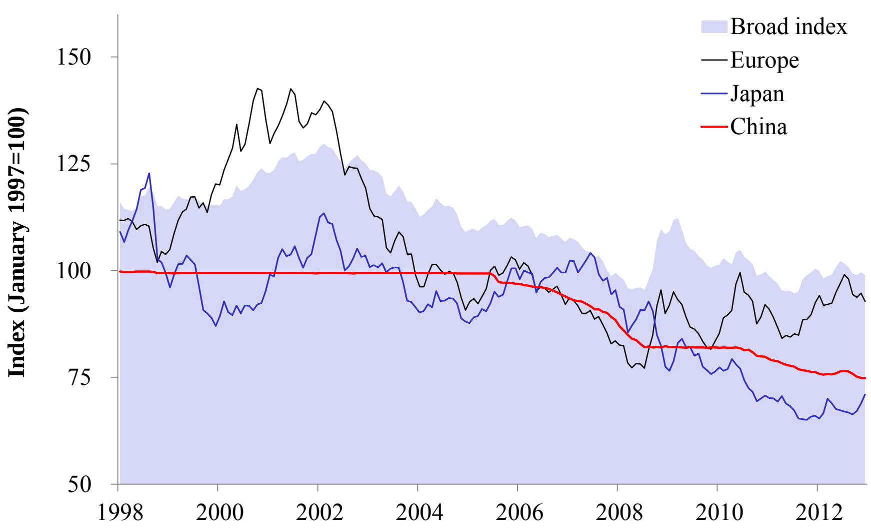
Note: Values are based on the first 10 months of data, before adjusting for inflation.
Source: Moody's Analytics.

Figure 30
2012 Share of Imported Goods by End-Use Category



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

Figure 31
Foreign Exchange Value of U.S. Dollar



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

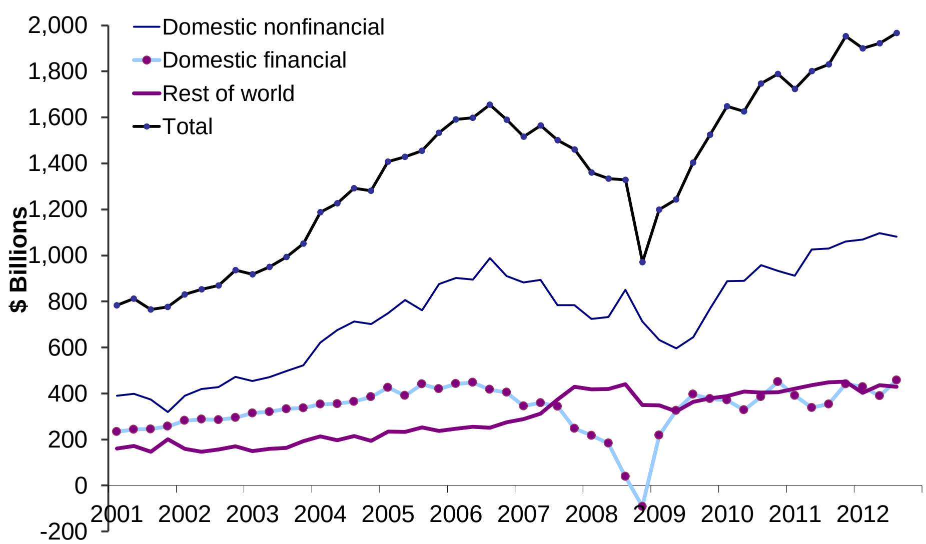
Given the nation's historically large Federal budget deficit, there is much concern over the future value of the dollar. As illustrated in Figure 31, the long-term trend in the value of the dollar against other world currencies has been down since peaking just after the turn of the century. The broad index, a trade-weighted index of the nation's major trading partners, is down 23.7 percent from its February 2002 historical peak and 11.9 percent since its most recent near-term peak in March 2009. The latter decline has buttressed the global competitiveness of U.S. goods and services during the recovery period and represents a key channel through which monetary policy has supported growth, although the central bank has insisted that it does not deliberately target the dollar.

Although the dollar's long-term trend is downward, the recent period has been characterized by volatility, not surprising given the degree of turmoil in global financial markets. Indeed, the Broad Index is up 2.8 percent for all of 2012, an indication of the strength of the U.S. economy relative to its major trading partners. The dollar is up 1.0 percent against the Canadian dollar and 5.7 percent against the Mexican peso. Thus, recent trends indicate that the safe haven statuses of both the dollar and U.S. Treasuries are relatively secure. Recent data on the foreign holdings of U.S. Treasury securities, show that the desire to hold these securities has generally been rising despite the dollar's loss of value. China, the largest single holder, had been reducing its holdings through the end of 2011, but that trend appears to have stabilized in 2012. Total global holdings exhibit year-ago growth through the first 10 months of 2012. However, once the current soft patch has past and global growth firms up, it is likely that investors will diversify away from the safety of U.S. Treasuries. Thus, the projected rise in the nation's trade deficit, combined with an increasing Federal debt, continues to be a risk to the dollar, and therefore to the inflation forecast, over the long run.

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

U.S. corporate profits have continued to exhibit remarkable strength during the recovery (see Figure 32), with profits more than doubling between the end of 2008 and the third quarter of 2012. As Figure 32 makes evident, the domestic financial sector has been the source of much of the recent volatility in profits, posting net losses of $92 billion in the fourth quarter of 2008. But the passage of TARP and other efforts to bring the global financial sector back from the brink made the finance industry a leading economic sector in the recovery from recession. Rest-of-world profits had been the most stable through the recession and early phase of the recovery, but with the global economic slowdown intensifying in 2012, rest-of-world profits deteriorated along with it, falling 2.8 percent on a year-ago basis for the first three quarters of the year. In contrast, financial sector profits grew 17.8 percent during that same period, following a dismal 0.7 percent drop in 2011.

Figure 32
U.S. Corporate Profits



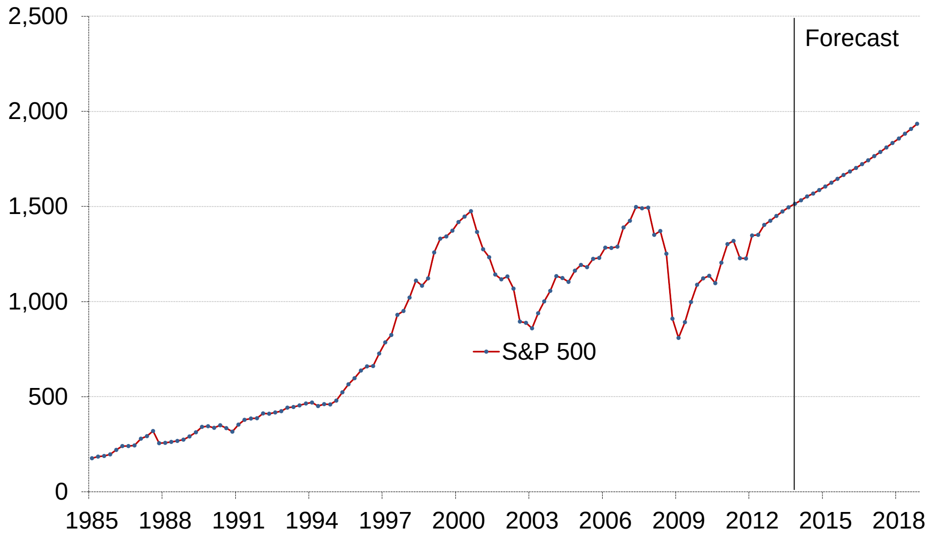
Source: Moody's Analytics.

In 2013, all three major sources of corporate profits are expected to yield slow growth. The global economy is expected to improve, but only gradually. Fiscal austerity will put downward pressure on growth in domestic final sales, which along with rising employment growth, will put downward pressure on domestic nonfinancial profits, while falling interest rate margins and an evolving regulatory environment are expected to curb financial sector profits as well. As a result, U.S. corporate profits from current production, which includes the inventory valuation and capital consumption adjustments, are expected to see much slower growth going forward. U.S. corporate profits are projected to grow 4.7 percent in 2013, down from 6.3 percent in 2012, and 7.3 percent in 2011.

Equity market turbulence has remained a constant throughout this recovery (see Figure 33. Although markets have generally risen since their March 2009 troughs, there have been two major corrections along the way: a 16 percent correction between April 23, 2010, and July 2, 2010; and a 19 percent correction between July 7, 2011 and October 3, 2011. Recent movements in equity prices have been more reflective of the fear surrounding both the euro-debt crisis and domestic political strife than the path of corporate earnings. But over the long term, equity market price growth is expected to be consistent with the growth in corporate earnings, discounted by the change in interest rates. As a result, growth in equity markets going forward will be determined by two countervailing forces: weak earnings growth and declining risk premiums as the domestic and foreign-based uncertainties become resolved. The Budget Division projects solid equity market growth of 7.8 percent for 2013, following growth of 8.8 percent in 2012.

Figure 33

The Equity Market Projected to Increase



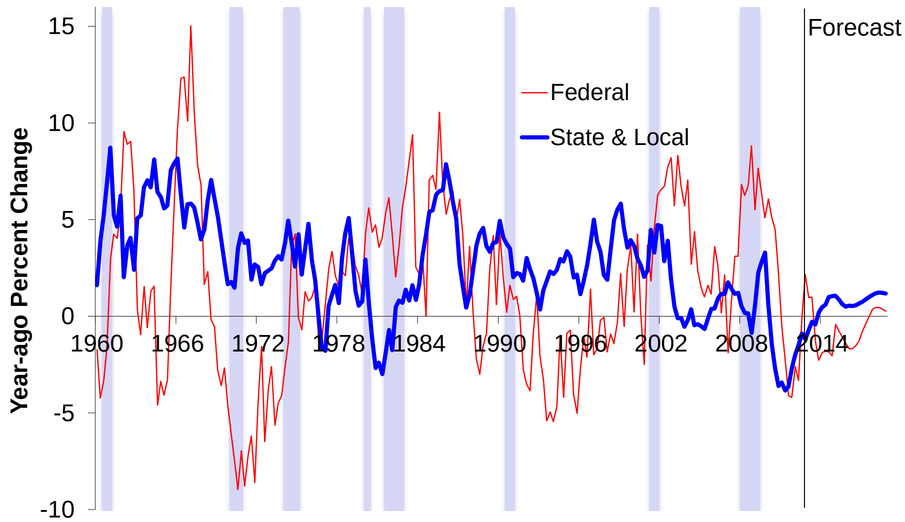
Source: Moody's Analytics; DOB staff estimates.

Outlook for Government Spending

State and local government spending eked out a small gain during the third quarter of 2012, the first such gain since the fourth quarter of 2008. Unlike Federal government spending, state and local government expenditures are constrained by revenue flows, often by statute. Sales tax and withholding collections tend to be the most cyclically sensitive, and with home prices still down 30 percent from their pre-recession peaks, property taxes have only added to fiscal challenges faced by municipal governments. Thus, the declines in state and local spending stand in stark contrast to the elevated growth in Federal spending during and subsequent to the recession (see Figure 34). The National Conference of State Legislatures (NCSL) reports that, generally, the fiscal situation for the states has stabilized, with 25 states either returning or projected to return to peak revenue collections by the close of their current fiscal years.[10] As a result, a smaller decline in state and local government spending is anticipated for this year than is estimated for 2012. However, states like New York and New Jersey that both depend on financial market performance for a significant portion of resources and face formidable recovery costs in the wake of Superstorm Sandy could be facing added revenue and spending uncertainty in planning for the 2014 fiscal year. The Budget Division projects a decline in the NIPA definition of real state and local government spending of 1.0 percent for 2013, following a decline of 1.4 percent for 2012.

Figure 34

Real Government Spending Over the Business Cycle



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

Stimulus spending and the nation's military involvement in both Iraq and Afghanistan have continued to be important drivers of Federal spending. Since the end of the 2001-02 Federal fiscal year, real Federal government expenditures have risen 32.9 percent, largely driven by a 37.0 percent increase in defense spending. Over the 36 quarters from the fourth quarter of 2002 through the third quarter of 2010, real defense spending grew at an average annualized rate of 5.0 percent, compared to an average rate of 3.6 percent for nondefense spending. However, beginning with the fourth quarter of 2010, there has been a significant slowdown recently in the NIPA component of Federal spending. From the first quarter of 2008, the first quarter of the recession, through the third quarter of 2010, Federal NIPA spending growth averaged 6.4 percent, but that rate dropped to a average decline of 3.5 percent over the eight quarters from 2010Q4 through 2012Q3; spending grew 9.5 percent in 2012Q3. With the end of the war in Iraq and pressure to restrain future growth in the Federal budget as concern over the deficit mounts, declines in spending are anticipated on an annual average basis through 2017. The Budget Division projects a decline of 0.7 percent in the NIPA definition of Federal government spending for 2013, following a decline of 1.0 percent in 2012.

[10] See National Conference of State Legislatures, *State Budget Update: Fall 2012*, < http://www.ncsl.org/documents/fiscal/sbu_fall2012_free.pdf >,viewed January 12, 2012.

Comparison with Other Forecasters

Table 6 compares the Budget Division's (DOB) forecast for a selection of U.S. indicators with those of other forecasting groups. The 2013 forecasts for real U.S. GDP growth range from a low of 1.9 percent (Global Insight) to a high of 2.3 percent (Macroeconomic Advisers). The DOB 2013 inflation forecast of 2.1 percent is in line with Moody's Analytics and Blue Chip forecasts, representing a higher level consensus than estimates from Global Insight (1.4 percent) and Macroeconomic Advisers (1.5 percent). DOB's unemployment rate forecast for 2013 is 7.6 percent, slightly lower than other forecasts of 7.7 percent.

TABLE 6
U.S. ECONOMIC FORECAST COMPARISON

	2012	2013	2014
Real Gross Domestic Product (GDP)			
(2005 chained percent change)			
DOB	2.3	2.0	2.7
Blue Chip Consensus	2.2	2.0	2.6
Moody's Analytics	2.3	2.1	NA
Global Insight	2.2	1.9	2.7
Macroeconomic Advisers	2.3	2.3	2.9
Consumer Price Index (CPI)			
(percent change)			
DOB	2.1	2.1	2.2
Blue Chip Consensus	2.1	1.9	2.1
Moody's Analytics	2.1	2.1	NA
Global Insight	2.1	1.4	1.8
Macroeconomic Advisers	2.1	1.5	1.8
Unemployment Rate			
(percent)			
DOB	8.1	7.6	7.1
Blue Chip Consensus	8.1	7.7	7.3
Moody's Analytics	8.1	7.7	NA
Global Insight	8.1	7.7	7.4
Macroeconomic Advisers	8.1	7.7	7.4

Source: New York State Division of the Budget, January 2013; *Blue Chip Economic Indicators*, January 2013; Moody's Analystics, *Macro Forecast*, January 2013; Global Insight, *US Forecast Summary*, January 2013; and Macroeconomic Advisers, *Economic Outlook,* January 2013.

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 6. For a more detailed description, see *New York State Economic, Revenue, and Spending Methodologies*, November, 2012.[11]

[11] See <https://www.budget.ny.gov/pubs/supporting/MethodologyBook.pdf>.

BOX 6
THE DIVISION OF THE BUDGET U.S. MACROECONOMIC MODEL

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

The Budget Division's U.S. macroeconomic model (DOB/U.S.) incorporates the theoretical advances described above in an econometric model used for forecasting and policy simulation. The model contains 132 core equations, of which 37 are behavioral. In addition, there are hundreds of auxiliary forecasting equations that incorporate the results from the core model as inputs. The current estimation period for the model is 1965:1 through 2012:3. Our analysis borrows heavily from the Federal Reserve Board model which was redesigned during the 1990s using the most up-to-date advances in modeling techniques. We are grateful to Federal Reserve Board economists for providing guidance and important insights as we developed the DOB/U.S. macroeconomic model.

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

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

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

Risks to the U.S. Forecast

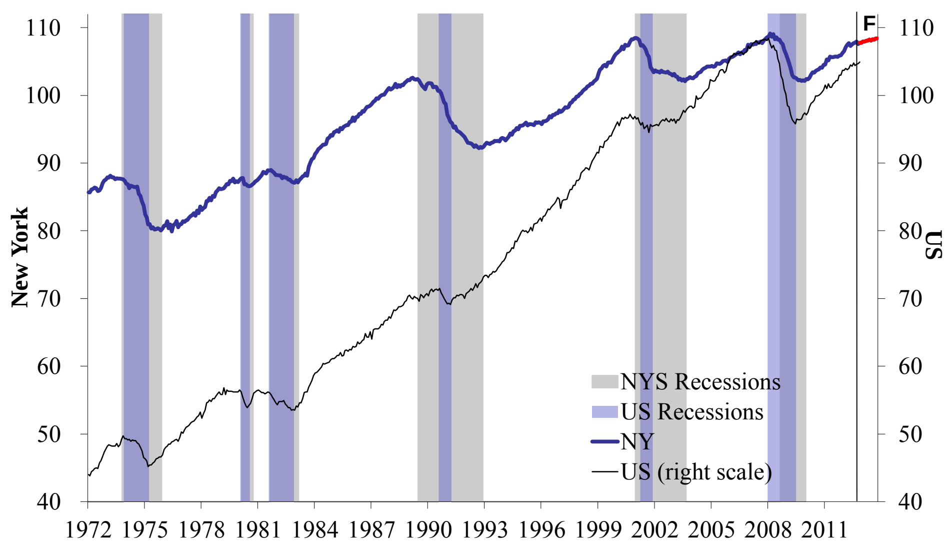
The Budget Division outlook calls for the recovery from the nation's worst recession since the 1930s to continue through 2013 at below-trend growth rates as the economy's domestic momentum struggles with fiscal contraction and slow global growth. But there are a number of significant risks to the forecast. The forecast rests on the assumption that the U.S. Congress will resolve the coming debt ceiling crisis without a major disruption to either financial markets or the real economy. Should this assumption turn out to be incorrect, and the confidence of the household and business sectors be significantly shaken, household spending and job growth could be weaker than expected. Sustained confidence in the recovery depends upon continued improvement in the pace of job growth over the coming quarters. If that improvement fails to materialize, households may pull back once again. Weaker household spending would ripple through the economy and likely result in lower investment growth as well. A substantial equity market correction could have a similar effect.

The housing sector is finally awakening from its slumber and is expected to make a greater contribution to the recovery going forward. Without a timely resolution to the foreclosure backlog, a complete housing market recovery could be further delayed, in turn delaying the recovery in household net worth and resulting in lower rates of household spending than projected. Alternatively, a large increase in household formation could result in stronger demand for housing and therefore a quicker recovery in home prices and construction employment than expected. Finally, oil prices are once again on the rise due to supply pressures and global tensions. If gasoline prices should start to rise again, household spending could be weaker than anticipated. In contrast, a faster global recovery could result in stronger export and employment growth than anticipated.

THE NEW YORK STATE ECONOMY

The New York State labor market entered 2012 – the third year of recovery from the Great Recession – with solid momentum. On a year-ago basis, the State saw private sector job growth of 2.3 percent in the first quarter of last year, the strongest pace of growth since the third quarter of 2000, just before the State entered the 2001 downturn. Because of the ongoing public sector contraction, total employment grew a slower, but still impressive 1.6 percent. However, wage trends tell a different story. The first quarter of 2012 posted total wage growth of only 0.9 percent, an improvement from the fourth quarter decline of 0.6 percent, but still weak by historical standards. Private sector wages grew an even weaker 0.6 percent, but excluding the finance and insurance sector, remaining private wages grew 7.0 percent. These data hint at the magnitude of the impact that the transformation of the State's finance sector is having on employment and wage trends. The Budget Division estimates that State wage growth fell from 3.7 percent in 2011 to only 2.0 percent in 2012, but is expected to rebound to 4.6 percent in 2013.

Figure 35
New York State Index of Coincident Economic Indicators



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

The Budget Division uses the State coincident economic index to determine the State's business cycle turning points (see Box 7). The index's level and growth are plotted in Figure 35 along with the turning points for both the New York and U.S. business cycles. Based on the index, the State economy is estimated to have experienced a business cycle peak in August 2008, fully eight months after the nation peaked as a whole. The index also indicates that the State recession ended in December 2009, implying a six-month lag, and that the State recession was just a bit shorter than the national downturn. Between January and October, 2012, the index accelerated 1.9 percent from the same period in 2011, and down only slightly from the 2.1 percent growth observed for all of 2011. However, based on the leading index, growth in State economic activity is projected to slow to 0.7 percent in 2013. The Budget Division estimates that private sector State employment growth will decelerate from 1.8 percent in 2012 to 1.5 percent in 2013.

BOX 7
NEW YORK STATE INDICES OF COINCIDENT AND LEADING ECONOMIC INDICATORS

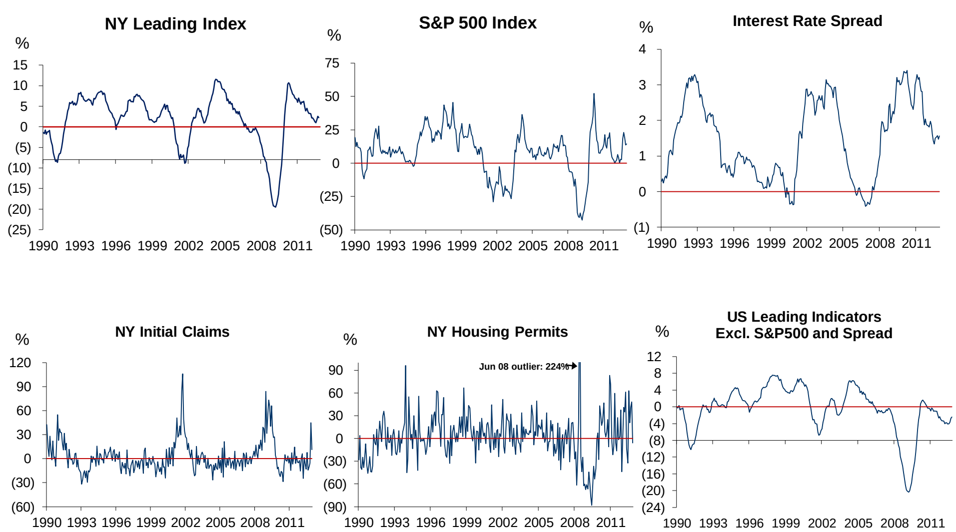
In the absence of an official mechanism for dating business cycles at the sub-national level, DOB staff constructed a New York State Index of Coincident Economic Indicators measuring overall economic conditions for New York.[1] The methodology used to construct the index is based on the Stock and Watson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

NEW YORK STATE BUSINESS CYCLES

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

Source: DOB staff estimates.

Variables Used in New York Index of Leading Indicators



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

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

The long lag with which the New York economy entered the last recession contrasts sharply with the experience of the prior five downturns. As illustrated in Figure 35 on page 108, the State entered three of the five prior recessions earlier than the nation as a whole, and entered the remaining two only one month later. The State's estimated business cycle trough date is December 2009, which implies that New York's recession was two months shorter than that of the nation as a whole.

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

The strength of the early phase of New York's recovery in 2010 coincided with the impact of the Federal Reserve's highly accommodative monetary policy – its near-zero interest rate policy target and the historic expansion of its balance sheet. As home to the world's financial capital, the State economy is especially sensitive to monetary policy shifts. The finance and insurance sector experienced solid wage and employment growth in 2011, providing stimulus which, along with the weak dollar and strong foreign demand for State-produced goods and services, particularly those related to tourism, helped to support strong private job growth of 2.0 percent or more during every quarter of that year. The State's private sector exhibited broad-based growth, not just in the mainstays of health and education, but also in professional and business services; leisure, hospitality and other services; finance and insurance; and wholesale and retail trade. Even manufacturing experienced positive year-ago growth in 2011. In contrast, government employment fell during each quarter of 2011 on a year-ago basis, and was down 2.8 percent for the year.

Although finance and insurance sector employment grew briskly on a year-ago basis during every quarter in 2011, financial markets themselves experienced historically turbulent years in both 2011 and 2012. The euro-debt crisis dominated equity market movements during the spring of each year, as it had first done in 2010. These events occurred against a backdrop of an evolving regulatory environment that has altered the pattern of risk-taking behavior by Wall Street firms. The result was steadily deteriorating revenues over the course of 2011, with NYSE member firms experiencing net losses in the third and fourth quarter, the first since the second half of 2008. Indeed, revenues were down on a year-ago basis from 2011Q3 through 2012Q2. As a result, finance and insurance industry bonus payouts for the 2011-12 bonus season fell 18.9 percent below their 2010-11 levels.

Revenues staged a substantial revival in the third quarter of 2012, and that revival is estimated to have continued into the fourth quarter as equity markets were succored by the shift in Federal Reserve policy to an open-ended asset purchase plan and the anticipation of a resolution to the "fiscal cliff." The finance and insurance sector is expected to have a weak but positive bonus season, growing 3.6 percent for the 2012-13

State fiscal year. Total State wages are projected to rise 4.6 percent for the 2013 calendar year, an improvement from 2012, but well below historical averages.

Outlook for Employment

The New York State labor market had been enjoying strong, broad-based growth in 2012 until the advent of Superstorm Sandy. Table 7 compares the percentage change in State employment for the second quarter of 2012, the most recent quarter for which detailed Quarterly Census of Employment and Wage (QCEW) data are available for New York, to the change in employment for the U.S. New York and the nation as a whole saw increases in private employment of a similar magnitude, but the State's public sector lost jobs at a considerably faster pace than the U.S. The State's government sector lost jobs at a rate of 1.4 percent, compared with a national decline of 0.9 percent.

Table 7 reveals some additional trends that differentiate New York from the nation. In the second quarter of 2012, the State labor market saw growth in the information sector on a year-ago basis, as social media companies looked to expand their presence in New York City; nationally, this sector saw a decline. New York led the nation in four more sectors: leisure, hospitality and other services; retail trade; construction; and professional, scientific, and technical services (PST). The growth in the first two sectors was likely related to New York City's status as a shopping and tourist destination, aided by a weaker dollar. The growth in the construction industry was related to the improving real estate market. The growth in PST was likely supported by strong growth in U.S. corporate profits and the demand for State business services from elsewhere in the global economy. In contrast, the State's utilities industry is seeing a 2.4 percent decline compared with 1.5 percent growth for the nation. The State's manufacturing and mining, and finance and insurance sectors are also seeing declines compared with growth for the nation.

TABLE 7
YEAR-AGO PERCENT CHANGE IN EMPLOYMENT FOR 2012Q2: NYS v. US

	NYS	US
Total Private	**1.9**	**1.8**
Utilities	(2.4)	1.5
Construction	1.7	0.3
Manufacturing and Mining	(0.1)	2.0
Wholesale Trade	1.0	1.7
Retail Trade	2.1	0.8
Transportation and Warehousing	0.3	1.8
Information	1.8	(1.5)
Finance and Insurance	(0.1)	0.3
Real Estate and Rental and Leasing	0.4	1.6
Professional, Scientific, and Technical Services	3.9	3.3
Management, Administrative, and Support Services	1.3	3.2
Educational Services	3.0	2.9
Healthcare & Social Assistance Services	0.7	2.2
Leisure, Hospitality and Other Services	3.9	1.7
Government	**(1.4)**	**(0.9)**
Total	**1.4**	**1.3**

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.

Superstorm Sandy slammed the Northeast on October 31, 2012, causing well over 100 deaths in the U.S. and more than $60 billion in damages; the Budget Division estimates that New York State alone experienced more than $20 billion in economic interruption costs. New York City virtually closed down for the first few days of November, depressing sales tax revenues and resulting in a net loss of 28,300 jobs during the month. Of the net number of jobs lost, fully 43.1 percent were in leisure, hospitality, and other services; 16.3 percent were in government; and 15.2 percent were in private education. Unemployment insurance benefit claims spiked 191 percent during the first full week of November on a year-ago basis, but the associated job losses proved to be only temporary. Indeed, the December Current Employment Statistics data indicate that a net 35,100 new jobs were added in December.

The Budget Division projects total State employment growth of 1.3 percent for 2013, with private sector jobs increasing 1.5 percent. This forecast compares to growth of 1.4 percent and 1.8 percent, respectively, for the nation. Table 8 reports projected changes in employment for 2013 by sector. Construction is projected to continue to grow, with a boost from the recovery effort from Sandy. The utilities, manufacturing and mining, and finance and insurance sectors are expected to decline further in 2013. Professional and business services are expected to continue to be a growth engine, despite growing at a reduced pace compared with 2012. The finance and insurance sector is expected to represent a drag on State labor market trends, with New York much more negatively affected than the nation as a whole by the fallout from job and income losses in that sector.

TABLE 8
CHANGE IN NEW YORK STATE EMPLOYMENT FOR 2013

	Percent	Levels
Total Private	**1.5**	**109,000**
Utilities	(0.6)	(200)
Construction	2.4	7,600
Manufacturing and Mining	(0.3)	(1,500)
Wholesale Trade	0.6	2,100
Retail Trade	1.5	13,200
Transportation and Warehousing	0.5	1,100
Information	0.7	1,900
Finance and Insurance	(0.1)	(600)
Real Estate and Rental and Leasing	0.5	800
Professional, Scientific, and Technical Services	2.5	14,800
Management, Administrative, and Support Services	2.4	13,600
Educational Services	3.0	9,400
Healthcare & Social Assistance Services	1.3	16,900
Leisure, Hospitality and Other Services	2.4	27,700
Government	**0.1**	**2,100**
Total	**1.3**	**111,100**

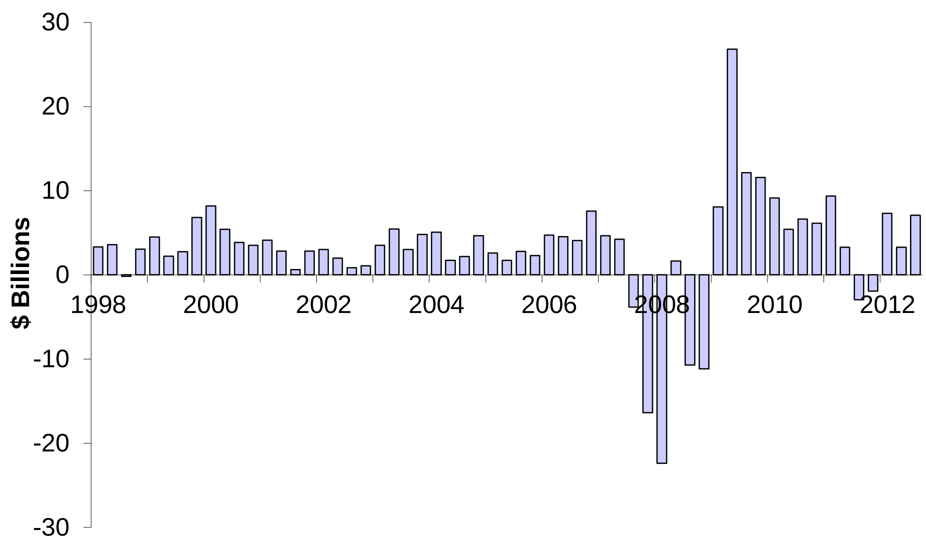
Note: Management, and administration and support services includes NAICS sectors 55 and 56; sum of sectors may not match the total due to the exclusion of unclassified.

Source: NYS Department of Labor; DOB staff estimates.

The Continuing Transformation of the Securities Industry

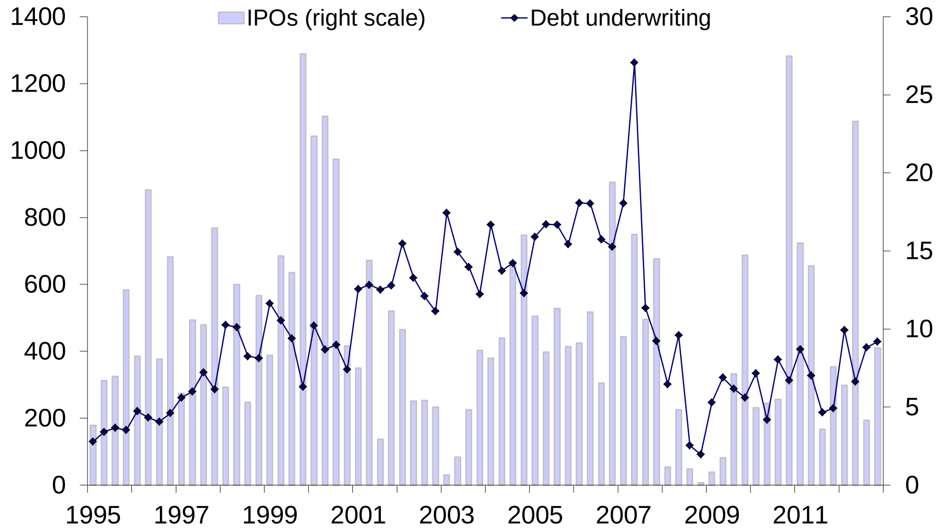
The historic transformation of the securities industry that was spurred by the events of 2007 and 2008 and culminated in the fall of two of the industry's largest investment banks is having a significant impact on Wall Street profitability, employee compensation, and State revenues. Figure 36 shows the unprecedented degree of volatility exhibited by securities industry profits in recent years, as represented by those of New York Stock Exchange member firms. Some of this volatility is evident in two important drivers of industry revenues and profits – corporate equity and debt underwriting – which are presented in Figure 37. Initial public offerings tend rise and fall with the secondary equity market, while the spikes correspond to some of the recent extraordinarily large offerings, such as the $15.8 billion General Motors IPO in November 2010, and the notorious Facebook offering in May 2012. But the overall trend of both indicators has been generally upward since the worst days of the financial crisis. In contrast profits have largely deteriorated since 2009.

Figure 36
Securities Industry Profits



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

Figure 37
Major Drivers of Financial Market Activity
$ Billions

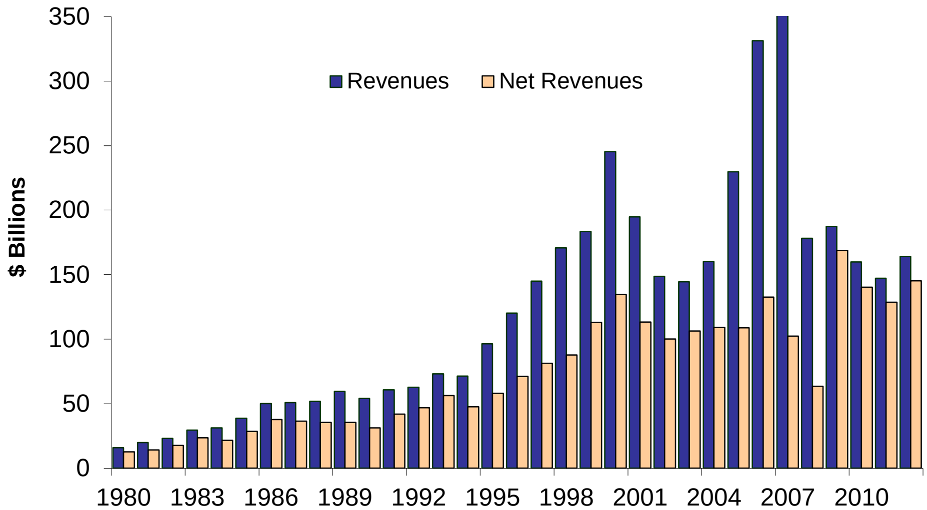


Source: Securities Industry and Financial Markets Association (SIFMA).

Figure 38 shows New York Stock Exchange member firm revenues before and after subtracting interest costs. Total revenues are estimated to have improved in 2012, growing 11.5 percent over 2011, but the deterioration since 2009 is evident. Last year's revenues are estimated to have been 11.4 percent below their 2009 levels and 53.4 percent below those of 2007. Table 9 lists the primary sources of revenue and expenses for NYSE member firms for the most recent six years. Clearly the two greatest areas of improvement in industry balance sheets in 2009 were the decline in interest expenses, thanks to the Federal Reserve's highly accommodative monetary policy, and the gains from proprietary trading. The improvement in underwriting revenue was relatively small and the industry saw declines in other major areas.

Figure 38

NYSE Member Firm Revenues



Note: Estimate for 2012 is based on three quarters of actual data and one quarter estimated; net revenues exclude interest expenses.
Source: SIFMA; NYSE Euronext.

TABLE 9
NYSE MEMBER FIRM FINANCIAL RESULTS
($ Billions)

	2007	2008	2009	2010	2011	2012*
Revenues	**352.0**	**178.1**	**185.3**	**159.8**	**147.3**	**164.2**
Commissions	28.8	30.2	26.5	25.0	25.7	22.3
Trading Gain (Loss)	(10.3)	(71.8)	28.4	16.7	1.5	17.0
Underwriting Revenue	23.2	16.5	19.6	20.3	18.3	20.9
All Other	310.4	203.2	123.5	97.7	101.8	103.9
Expenses	**363.4**	**220.7**	**126.7**	**134.7**	**139.5**	**137.9**
Total Compensation	69.6	59.8	61.3	66.9	68.0	69.3
Interest Expense	249.8	114.5	18.6	19.6	18.7	19.0
All Other Exppense	44.0	46.3	46.7	48.2	52.8	49.6
Pre Tax Net Income	**(11.3)**	**(42.6)**	**58.6**	**25.1**	**7.7**	**26.3**

* Estimate for 2012 is based on three quarters of actual data and one quarter estimated.
Source: SIFMA.

The industry's remarkable growth in trading gains in 2009 was largely the result of the dramatic rise in equity markets that started in March of that year and lasted until the end of the year. However, equity markets hit their first major speed bump of the recovery in April 2010, when the debt crisis in Europe first started making headlines, leading to an approximately 16 percent correction. Market activity revived at the end of August, coinciding with signals that the Federal Reserve might become more proactive in stimulating labor market growth; the launch of QE2 followed in early November. This pattern of global panic in response to sovereign debt concerns both here and in the euro-zone, followed by unconventional policy reactions from the U.S. central bank, was to repeat itself several times, leaving in its wake a remarkable period of equity market volatility. Moreover, this volatility negatively affected the real economy as well, engendering a feedback loop that had devastating consequences on the progress of the nation's struggling economic recovery. Table 9 demonstrates how these developments, through their impact on proprietary trading, negatively affected securities industry revenues, making the performances of the surviving large Wall Street banks more closely resemble those of hedge funds.

Equity market volatility may be only partially to blame for the falloff in trading gains since 2009. Since the president signed the Dodd-Frank Wall Street Reform and Consumer Protection Act into law in July 2010, the details of its implementation have been a work in progress. Box 8 outlines many of the key provisions of the reform and summarizes regulations recently proposed by the Federal Reserve that, consistent with the Dodd-Frank framework, strengthen bank capital requirements and seek to limit counterparty risk, and, ultimately, systemic risk. In addition, January 1, 2013, marks the start of the implementation of Basel III, the third incarnation of the Basel Accords, which establish global regulatory standards for managing bank risk. Basel III specifically aims at improving the ability of banks to withstand periods of systemic economic and financial stress through more stringent capital and liquidity requirements. By reducing leverage ratios, these strengthened requirements will tend to put further pressure on revenue generating activity and bank profitability, intensifying the pressure that already exists in the current environment of low long-term interest rates.

While much room remains left for interpretation, evidence suggests that the new regulatory environment is altering bank business practices in two fundamental ways. The composition of executive compensation appears to be evolving away from cash in favor of deferred compensation and stock grants, more closely tying pay to the long-term performance of the firm. To reinforce such long-term incentives, packages including claw-back provisions that allow the firm to take back a portion of bonus pay if actions taken by an employee are ultimately judged to have been too risky are being implemented. One large Wall Street investment bank is delaying its cash bonuses by an entire quarter to further disincentivize risky behavior. Consistent with that principle, firms are expected to continue to alter their business practices in favor of less risky behavior both by reducing leverage and by engaging in fewer risky trades. The revelation that risky trades engaged in by another major Wall Street bank resulted in $5.8 billion in losses during a single quarter served to reinforce the urgency surrounding regulatory reform.

BOX 8
THE DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT
KEY PROVISIONS

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

Executive compensation

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

Derivatives

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

Hedge funds

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

Bank regulation (the "Volker Rule")

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

Federal Reserve reform

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

Systemic risk

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

"Too big to fail"

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

(continued on next page)

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Mortgage reform

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

Other provisions

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

Regulations Proposed by the Federal Reserve

On December, 2011, the Federal Reserve proposed rules tied to the Dodd-Frank regulatory framework that would require large U.S. banks to hold more capital and to keep it more easily accessible. Banks are also required to have plans for a quick and orderly shutdown in the event that they become insolvent. To guard against risks that affect the entire financial industry, the act created the Financial Stability Oversight Council chaired by the Treasury secretary, and has nine members including the Federal Reserve, the Securities and Exchange Commission and the new Consumer Financial Protection Bureau. It also oversees non-bank financial firms like hedge funds. The central bank also proposed formal limits on the amount of credit exposure that a bank holding company can have to any single major borrower, be it another bank or a corporation

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

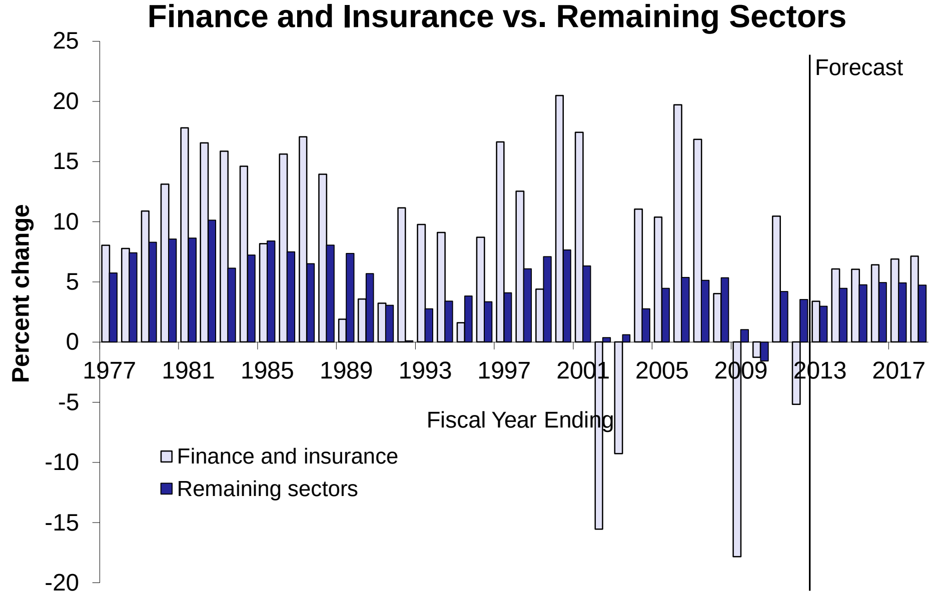
The Federal Reserve will also be requiring banks to adhere to significantly stricter international requirements, known as the Basel III accord, which was scheduled to be implemented starting in January 2013. The core of the accord is to have banks finance their operation with more capital and less borrowed money. The total capital requirement will be at 8 percent plus a capital conservation buffer of 2.5 percent.

Outlook for State Income

As illustrated in Figure 39, the Budget Division is projecting growth in financial sector wages that is much more in line with nonfinancial wage growth than it has been in the past. This outlook reflects the historic transformation of the finance industry as business and compensation practices evolve to conform with a changing regulatory environment. The Budget Division projects total wage growth of 4.6 percent for 2013, following much weaker 2.0 percent growth in 2012. The outlook for 2013 reflects a modest recovery in finance and insurance sector bonuses for the 2012-13 bonus season, gradually improving global growth, and improved prospects for public sector wages. Private sector wages are projected to grow 4.8 percent for 2013, following growth of 2.4 percent for 2012, while government sector wage growth is projected to improve to 3.3 percent for 2013, following a decline of 0.2 percent in 2012. Total personal income growth of 2.9 is projected for this year, following similar growth of 2.8 percent for 2013.

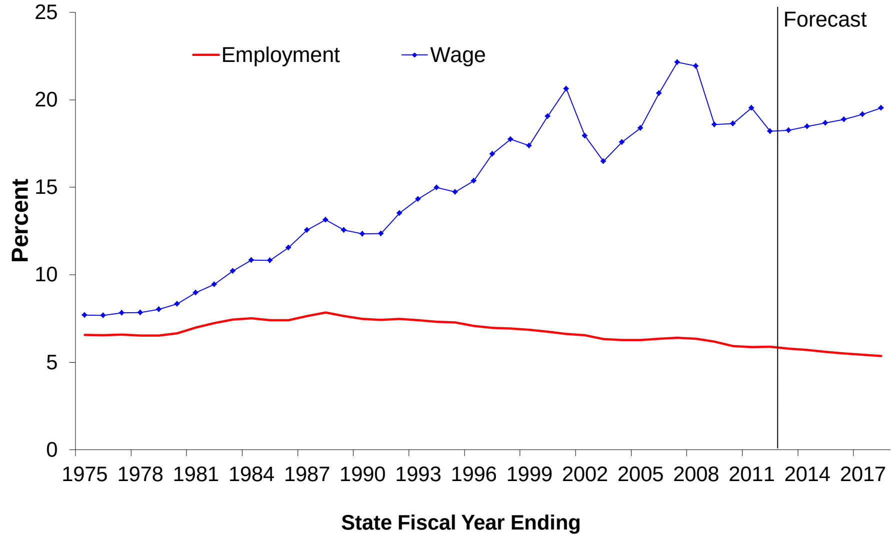
Due to the increase in marginal tax rates for high-income filers enacted at the end of 2012, it is estimated that financial sector firms shifted some of the cash portion of their bonus payouts from the first quarter of 2013 to the end of the prior year to allow their employees to take advantage of the lower expiring tax rates. In the absence of that shifting, total wage growth of 4.9 percent is projected for 2013, following growth of 1.9 percent for 2012. Projected growth for both State personal income growth and wages are significantly below historical averages.

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



Source: NYS Department of Labor; DOB staff estimates.

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



Source: NYS Department of Labor; DOB staff estimates.

Because the state-level wage data published by the U.S. Bureau of Economic Analysis have proven unsatisfactory for the purpose of forecasting State tax liability, the Budget Division constructs its own wage and personal income series based on Quarterly Census of Employment and Wages (QCEW) data. Moreover, because of the importance of trends in variable income – composed of stock-related incentive income and other one-time bonus payments – to the understanding of trends in State wages overall, the Budget Division has developed a methodology for decomposing wages into bonus and nonbonus series. For a detailed discussion, see Box 9 below. The Budget Division's outlook for State income is based on these constructed series.

Because of the prominence of New York City in the world of finance, New York State employment and incomes are profoundly affected by the fortunes of the financial markets. Figure 40 shows finance and insurance sector wages as a share of the State total have grown over time on a State fiscal year basis. That share is estimated to have peaked at 22.1 percent during the 2006-07 bonus season. Due to the large estimated declines in bonus payouts during 2008-09 and the 19.7 percent decline estimated for 2011-12, the finance and insurance sector's wage share is expected to have fallen to about 18.2 percent for the 2011-12 State fiscal year. In contrast to its large wage share, finance and insurance sector employment is estimated to have accounted for only 5.9 percent of total State employment in 2011-12. Finance and insurance sector bonus growth is expected to gradually recover going forward, but remain well below historical average growth rates. As a result, the industry's share of total wages is not projected to reach its prior 2006-07 peak at any point over the entire forecast horizon. The continued relative downsizing of the industry is projected to depress its employment share to 5.4 percent by 2016-17.

BOX 9
THE CONSTRUCTION OF NEW YORK STATE WAGES AND THE ESTIMATION OF VARIABLE INCOME

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

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

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

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

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

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

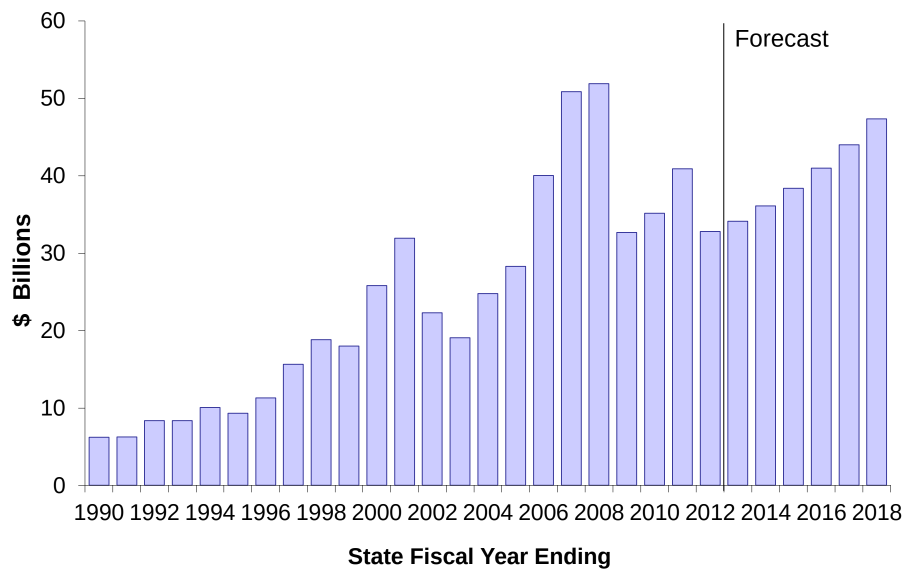
[1] The threshold adopted for this purpose was 25 percent. However, the variable income estimates are fairly robust to even a five-percentage-point swing in this criterion.

The financial markets affect employment and income in New York City and its surrounding suburbs, both directly – through compensation paid to finance sector workers and purchases made by finance sector firms, and indirectly – as finance sector workers spend their incomes on housing, entertainment, other purchases, and so on. Despite recent declines, finance sector workers continue to be, on average, very highly compensated. Even after falling to $174,000 in 2008-09 in the wake of the financial crisis, finance and insurance sector average wages were still 247 percent higher than the average wage for the rest of the State economy. By 2013-14, the industry average wage is projected to rise to about $211,000, or 275 percent above that of the remaining sectors.

Variable Income Growth

Variable income is defined as that portion of wages derived primarily from bonus payments, stock incentive income, and other one-time payments. As performance incentives for a given calendar year, firms tend to grant employee bonus "packages" during either the fourth quarter of that year or the first quarter of the following year. Although the cash component of bonus income is unambiguously counted (and taxes withheld) in the quarter in which it was granted by the firm, stock incentive income typically is not. Stock grants do not appear in the wage data until they are vested. Nevertheless, variable income payments are sufficiently concentrated in the fourth and first calendar-year quarters to make the State fiscal year a logical period of analysis for discussing the determinants of variable income growth.[12]

Figure 41
New York State Finance and Insurance Sector Bonuses



Source: NYS Department of Labor; DOB staff estimates.

A substantial shift in the State's corporate wage structure away from fixed-pay to performance-based pay started in about 1990. Figure 41 portrays how variable income paid to employees in the finance and insurance industry has grown dramatically 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

[12] See Box 9 on page 28 for a more detailed discussion of bonus estimation.

more than half of total bonuses paid in the State. An incentive-based payment structure allows employers to share with employees the risks of doing business and is particularly attractive to the securities industry, given the degree of volatility in industry profits. For example, the two-year decline in NYSE-member firm profits from $21.0 billion in 2000 to $6.9 billion in 2002 led to an estimated drop in finance and insurance sector bonuses of about 40 percent between State fiscal years 2000-01 and 2002-03. In contrast, nonbonus wages for this sector are estimated to have fallen about 13 percent during the same period.

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

The Budget Division projects total State variable income to rise 3.6 percent in the current fiscal year, followed by an increase of 5.5 percent for 2013-14, led primarily by the slow rebound in finance and insurance sector bonuses. As discussed above, finance industry executives are under tremendous pressure to cap the cash portion of bonus payouts and to restructure overall bonus packages to enhance incentives that favor long-term objectives over short-term gains. The cash portion of finance and insurance sector bonuses is projected to rise 4.0 percent for the current 2012-13 bonus season, resulting in a payout of $34.1 billion, a mere $1.3 billion above 2011-12, which saw a decline of almost 20 percent. The moderate growth of 5.7 percent projected for 2013-14 results in a payout of $36.1 billion. The 2013-14 projection would bring finance and insurance sector bonuses to a level that is still about $15.8 billion below the 2007-08 historical peak.

The Budget Division model for finance and insurance sector bonuses is based on an underlying volume of revenue-generating activity that includes corporate equity and debt underwriting. As indicated in Figure 37 on page 114, the most recent available data suggest that IPO and debt underwriting volumes remain low relative to prior peaks. Historically, the volume of underwriting activity has been closely correlated with growth in the secondary market for equities that drives this activity. But the high volume of activity in 2006 and 2007 was in part related to the financial engineering bubble that produced the subprime debt debacle that was at the root of the 2007-2008 financial crisis. Although solid equity market growth of 7.8 percent is projected for 2013, as represented by growth in the S&P 500 stock index, a return to those peak levels is not expected any time soon.

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

Nonbonus Wages

Unlike the variable component of income, nonbonus wages are driven by changes in employment and the nonbonus average wage and are therefore relatively more stable. After adjusting for inflation, the nonbonus average wage for each of the State's industrial sectors is believed to have a stable long-run relationship with the real U.S. average wage, which in turn is determined by labor productivity. However, State real average wages can deviate from their long-run trend due to short-term fluctuations related to business cycles, shocks to the regional economy, or shocks to a specific industrial sector that is relatively more important to the State economy, such as finance and insurance. Nonbonus average wages are projected to rise 3.3 percent for the 2013 calendar year, following an estimated increase of 1.7 percent for 2012. With the unemployment rate declining from 8.6 percent in 2012 to 8.2 percent in 2013, total nonbonus wages are projected to grow 4.6 percent for 2013, following an increase of 3.0 percent for 2012.

Average Total Wages and Inflation

Average total wages are projected to increase 3.3 percent for 2013, following a much smaller estimated increase of 0.7 percent for 2012, which was largely the result of a 12.0 percent decline in finance and insurance sector bonuses for the calendar year. The Budget Division projects growth in the composite CPI for New York of 1.8 percent for 2013, following growth of 2.0 percent for 2012. Projected 2013 inflation for New York is consistent with that for the nation.

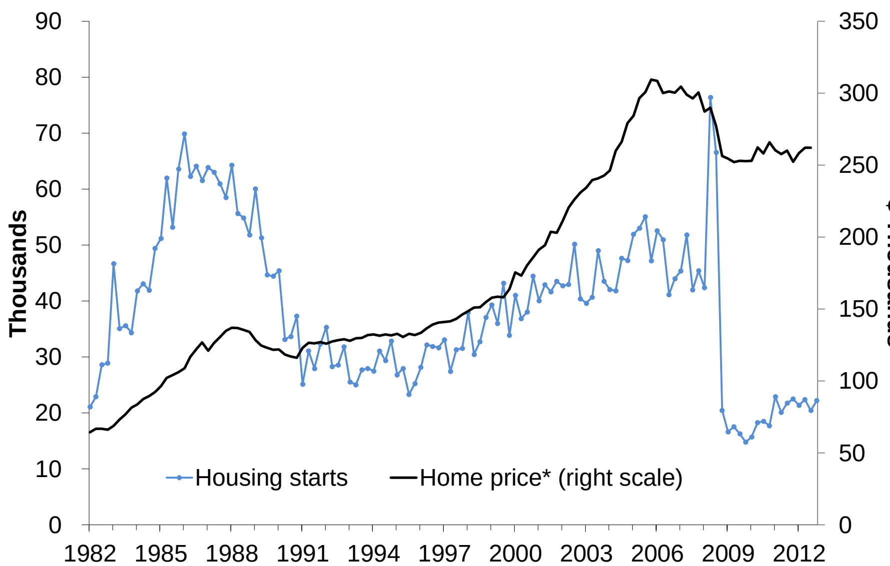
Nonwage Income

The Division of the Budget projects a 0.9 percent increase in the nonwage components of State personal income for 2013, following an increase of 3.8 percent for 2012. The small 2011 increase reflects multiple features of the fiscal cliff deal negotiated by Congress at year's end and described in detail in Table 1 on page 64. The largest piece of that deal was the expiration of the two-year payroll tax holiday on December 31, implying an increase in the employee contribution to Social Security of 35.6 percent for 2013, after a decline of 0.5 percent in 2012. In contrast, extended unemployment insurance benefits were allowed for one more year, contributing to growth in transfer payments of 3.2 percent in 2013, following growth of 2.8 percent in 2012. The increase in marginal income tax rates for upper-income filers is believed to have induced the owners of small businesses organized as sole proprietors or partnerships to pay themselves early in order to avoid the higher tax rate. This income shifting is projected to reduce proprietors' income growth for 2013 to 3.2 percent, following 3.4 percent growth for 2012.

Housing Market Stabilizing but Risks Remain

New York State's housing market continues to stabilize. Figure 42 compares the recent trends in both housing starts and home prices in New York. The State's residential housing market did not experience as severe a downturn in as the nation as a whole did in the wake of the recent bubble. The State's peak-to-trough decline in housing starts is estimated at less than 50 percent, compared to 79.0 percent for the nation.[13] New York State's average single-family existing home price peaked in the fourth quarter of 2005, falling 18.2 percent before reaching a trough during the second quarter of 2009; this compares to a 21.8 percent decline for the nation.

Figure 42
NYS Housing Market Stabilizing



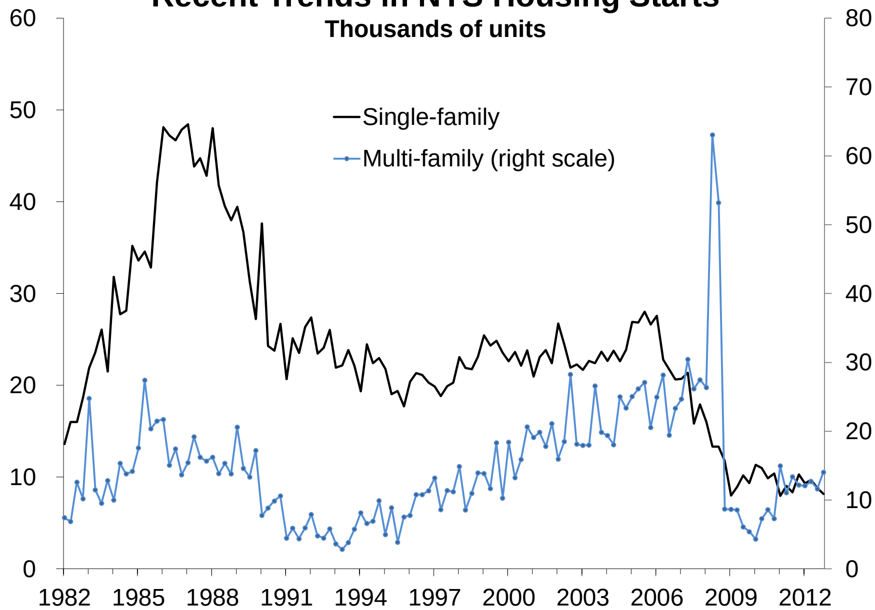
*Average existing single family home price.
Source: Moody's Analytics.

Despite low mortgage rates and healthy employment growth, housing starts were virtually flat in New York in 2012 (see Figure 42), growing only 1.6 percent, after growth of 24.3 percent in 2011. But as indicated in Figure 43, the flat 2012 performance was the result of divergent trends in single-family and multifamily units. As a result of the Federal home buyer's credit in the middle of 2010, State housing starts rallied in the spring of 2010, as they did at the national level, though as Figure 43 shows, the rally was entirely limited to single-family starts, which had been targeted by the credit. Indeed, single-family starts expanded 17.1 percent in 2010, while multifamily starts actually fell 2.9 percent. The following year, single-family starts fell 21.4 percent demonstrating that

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

the Federal credit had only succeeded in pulling forward future starts, without generating any self-sustaining momentum. In contrast, multifamily starts expanded 96.6 percent in 2011, as rising rents induced new construction, particularly downstate. This volatility extended into 2012 as well with multifamily starts cooling and single-family starts heating up again.

Figure 43
Recent Trends in NYS Housing Starts



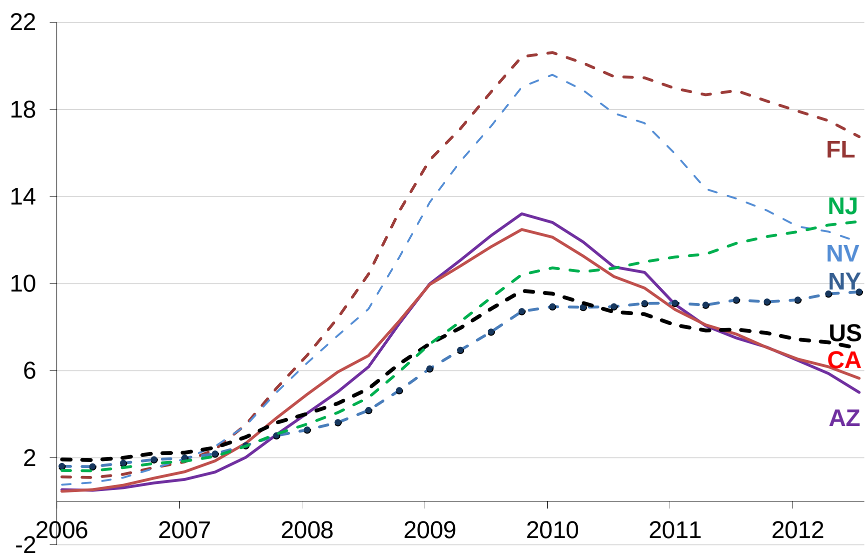
Note: Values for 2012Q4 are based the average of the first two months.
Source: Moody's Analytics.

State housing starts are projected to grow 12.2 percent in 2013, following virtually flat growth in 2012. We note that the recent trend in housing starts has been distorted by a building code change in 2008 (described in footnote 13) that drew forward an unknown number of starts as builders raced to beat the code change. This resulted in growth of 11.6 percent in 2008, at a time when starts were falling from the boom levels earlier in the decade. A decline of 68.3 percent followed in 2009, bringing starts to their lowest levels since the series began in 1981. As indicated in Figure 42, even the double-digit growth rates projected for 2012 and 2013 keep starts at historically low levels as the market continues to absorb the 2008 increase. The near-term forecast for continued growth is supported by both exceptionally low mortgage interest rates and the continued strength of the rental market in the New York City metro area, though moderated by tight credit conditions. In addition, in the wake of Superstorm Sandy, about 300,000 claims have been filed by homeowners whose homes were either damaged or destroyed by the storm. The rebuilding and replacement of these homes will also contribute to the growth in housing starts in 2013.

As with the nation, prospects for the State's residential housing market also depend on the outlook for prices. New York State's average single family home price is expected to rise 3.0 percent in 2013, following growth of 1.0 percent in 2012. The good news is that because New York's residential housing sector experienced less of a price and construction bubble than many other states, there was less of an overhang to unwind and thus New York's foreclosure rate since the house-price collapse in 2006 has been consistently lower than the nation's. However, at 0.88 percent of all loans serviced during the third quarter of 2012, the most recent period available, the State's foreclosure rate was barely below the national rate of 0.90.

However, if the yardstick is the number of homes in a state of delinquency then New York's situation appears differently. Figure 44 displays the percentage of total mortgage debt outstanding that seriously delinquent, defined as debt either more than 90 days past due or in foreclosure. Based on the most recent data, New York looks worse not only than the nation, but also worse than two of the states hit hardest by the housing market collapse, Arizona and California. The buildup of homeowners in foreclosure or "pre-foreclosure" status in New York may be representative of the long length of the foreclosure process here and in other states commonly referred to as "judicial states," where a lender must file a lawsuit in order to initiate a foreclosure. Additional "judicial states" appearing in Figure 44 are Florida and New Jersey. This build-up could be further delaying a full recovery of New York's housing market.

Figure 44
Percent of Seriously Delinquent Mortgage Debt

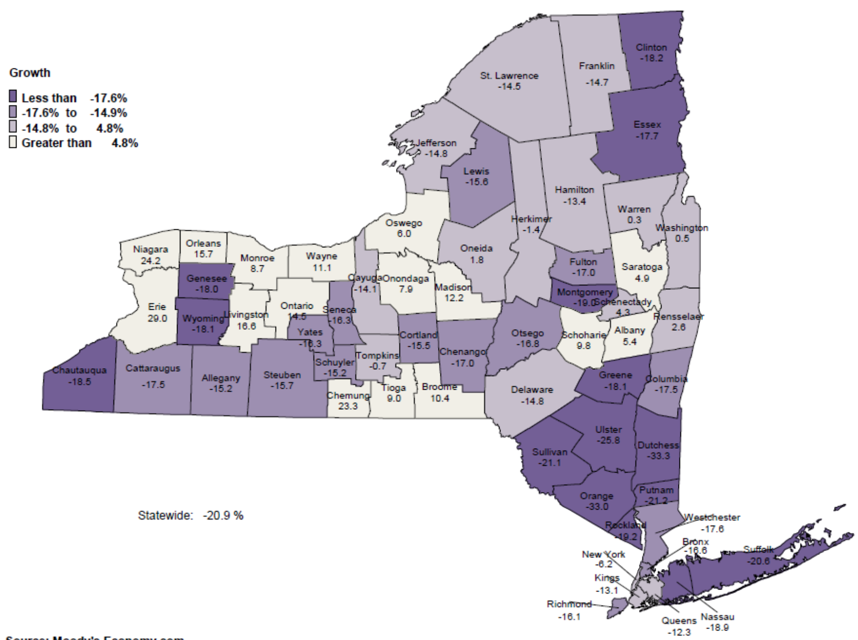


Source: Moody's Analytics.

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

One area of the State housing market not covered by the single family home data is the luxury apartment market in New York City. This market segment has been doing quite well, as significant support has come from foreign buyers attracted by low borrowing rates, the cheap dollar, and the uniqueness of City real estate. Condo and co-op purchases rose 29.2 percent in the fourth quarter of 2012 from a year ago to the highest level in more than 25 years, due at least in part to anticipation of Federal tax law changes. The median sales price for the fourth quarter was $837,500, down 2.0 percent from 2011Q4. However, the average sales price rose 1.1 percent to $1,461,500. This seeming divergence between the median and average price may simply indicate a rising share of activity among lower priced properties..[14]

Figure 45
Home Values in Many Areas Still Well Below Their Peaks



Source: Moody's Economy.com

New York State Labor Market Dynamics

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

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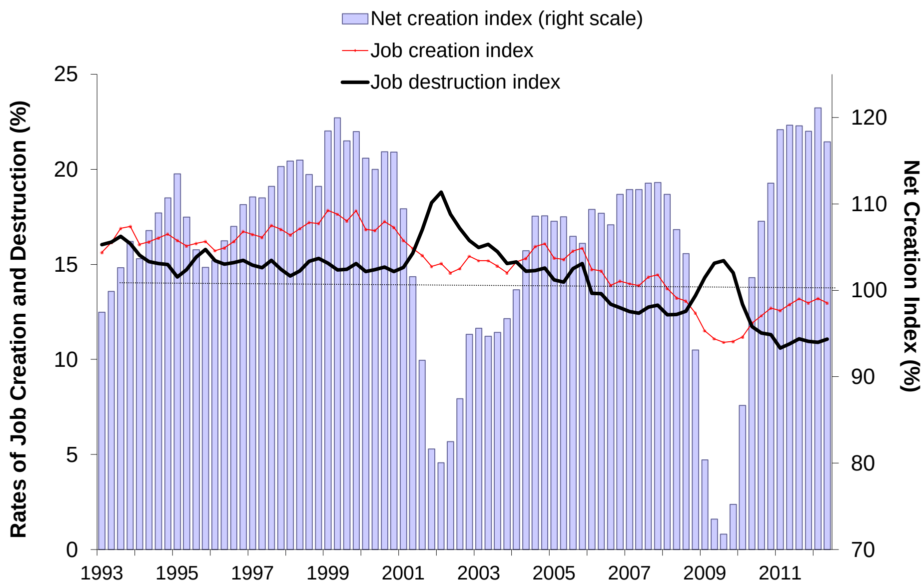
[14] See < http://www.millersamuel.com/files/2013/01/Manhattan_4Q_2012.pdf >, viewed January 19, 2013.

Figure 46
NYS Private Sector Employment Dynamics



Source: NYS Department of Labor; DOB staff estimates.

A strong U.S. economy combined with strong global growth helped to keep the State's net job creation index above 100 percent from the first quarter of 2004 through the third quarter of 2008. Because a significant portion of the State economy is export-oriented, particularly the manufacturing sector, there is a strong association between State export growth and private-sector job growth. But by the first quarter of 2008, a loss of momentum is discernible. Figure 46 shows the gross rate of job creation starting to fall in the first quarter of 2008 and the gross rate of job destruction rising by the following period. The third quarter of 2009 represents a peak in the rate of job destruction and a trough in the rate of job creation. From that point on, however, the State labor market shows improvement. The 1.9 percent rate of net job creation in the second quarter of 2012 is consistent with the Budget Division 1.8 percent estimate for private sector job growth in 2012, followed by a slower 1.5 percent increase in 2013.

BOX 10
ANALYZING PRIVATE SECTOR EMPLOYMENT DYNAMICS AT THE ESTABLISHMENT LEVEL

The expansion or contraction of an industry over time is usually measured by the net change or net growth in jobs. However, a look beneath the net numbers into the mechanics of job creation and destruction at the establishment level facilitates a deeper understanding of the underlying dynamics.[1] During times when State employment is growing slowly, or even falling, an examination of the underlying dynamics reveals an extremely active labor market – even in the worst of times, new firms are created and existing firms add jobs. For example, though private sector employment fell 3.3 percent in 2009, about 23 percent of the State's business establishments created jobs. The data for this study derive from the Quarterly Census of Employment and Wages (QCEW) program.[2] These data include all establishments subject to Federal unemployment insurance laws and cover approximately 98 percent of all employment. For the second quarter of 2012, the most recent period for which data are available, the QCEW data covered 590,454 private sector establishments in New York State and 7,197,112 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 2012 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 2011 and the second quarter of 2012 is constructed by adding together the number of jobs created by firm startups (firms which existed during the second quarter of 2012 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 2011 and the second quarter of 2012, a total of 924,719 jobs were created from these three sources. Performing this calculation for the second quarter of 2012 produces the following:

$$\text{Gross rate of job gain} = \frac{\text{Startup gain} + \text{Existing firm gain} + \text{M\&A gain}}{\text{Base}} = \frac{924{,}719}{7{,}129{,}295} = 13.0\%$$

This result indicates that the State's gross rate of job creation for the second quarter of 2012 is 13.0 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 2012, 55.5 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 20.6 percent by large firms with workforces exceeding 250.

We similarly construct a gross rate of job destruction by adding together employment at firms that existed in the second quarter of 2011 but not in the second quarter of 2012, 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 2012 yields:

(continued on next page)

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

(continued from previous page)

$$\text{Gross rate of job loss} = \frac{\text{Startup loss} + \text{Existing firm loss} + \text{M\&A loss}}{\text{Base}} = \frac{789{,}084}{7{,}129{,}295} = 11.1\%$$

This result states that the gross rate at which jobs were lost between the two quarters is 11.1 percent. Thus, for the second quarter of 2012, 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 2012, this calculation yields:

$$\text{Net index of job creation} = \frac{\text{Gross rate of job gain}}{\text{Gross rate of job loss}} = \frac{13.0\%}{11.1\%} = 117.2\%$$

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 2012, the construction sector and the education sector had similar net indices of job creation of 109.0 percent and 108.6 percent, respectively. However, the construction sector has a much higher turnover rate than the education sector. Understanding these differences has implications for fine-tuning the Budget Division employment forecast.

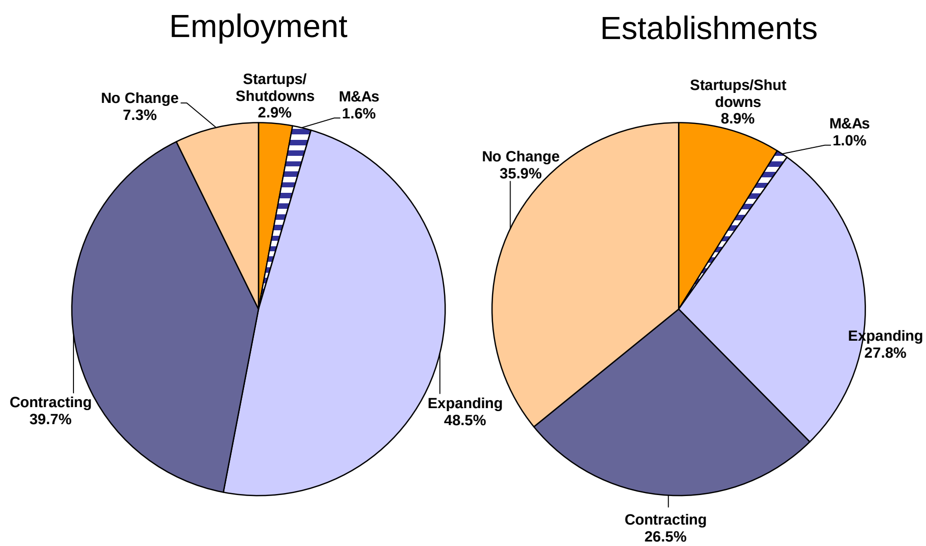
Employment Dynamics Comparison: 2012Q2

Sector (NAICS code)	Gross rate of job creation	Gross rate of job destruction	Net index of job creation
Construction (23)	20.5%	18.8%	109.0%
Education (61)	5.1%	4.7%	108.6%

The State's Employment and Establishment Base

Figure 47 shows the composition of the State's employment and establishment base for the second quarter of 2012 by type of establishment. Startups and shutdowns accounted for 8.9 percent of the establishment base in 2011Q2. Because these firms tend to be quite small, averaging only about four employees per firm, they accounted for only 2.9 percent of the State's private sector employment base. Firms that were either acquired or absorbed by other firms accounted for 1.0 percent of the establishment base. The average size of these firms was about 20 employees and accounted for 1.6 percent of employment.

Figure 47
Composition of State's Employment and Establishment Base
2012Q2



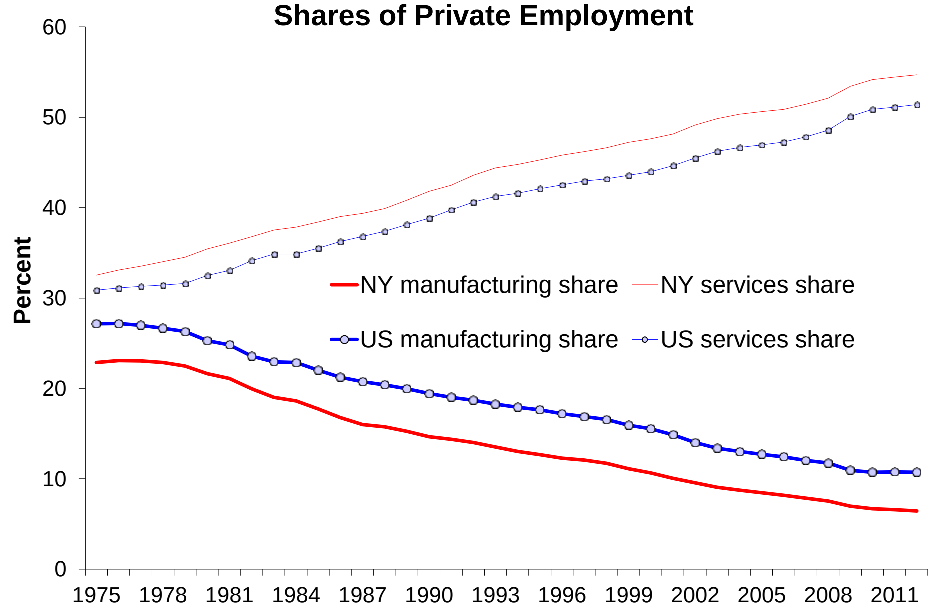
Source: NYS Department of Labor; DOB staff estimates.

Existing firms are classified according to whether their employment levels (a) expanded, (b) contracted, or (c) experienced no change relative to the same quarter of the prior year. Existing firms represent an overwhelming share of both establishments and employment: 90.1 percent of the State's establishment base and 95.5 percent of the job base. As indicated in the right-hand panel of Figure 47, the three types of existing firms accounted for somewhat similar shares of establishments: 27.8 percent, 26.5 percent and 5.9 percent, respectively. This tends not to be the case for the shares of the total job base accounted for by expanding, contracting and "no change" firms, which are 48.5 percent, 39.7 percent, and 7.3 percent, respectively. That the job share of expanding firms is a significantly higher than that of contracting firms is consistent with the healthy rate of net job creation for the quarter. The average size of existing firms also varies by firm type, with those firms experiencing no change in employment averaging less than three employees, expanding firms averaging 21 employees, and contracting firms averaging 18.

Manufacturing

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

Figure 48
Manufacturing and Service Sector
Shares of Private Employment



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

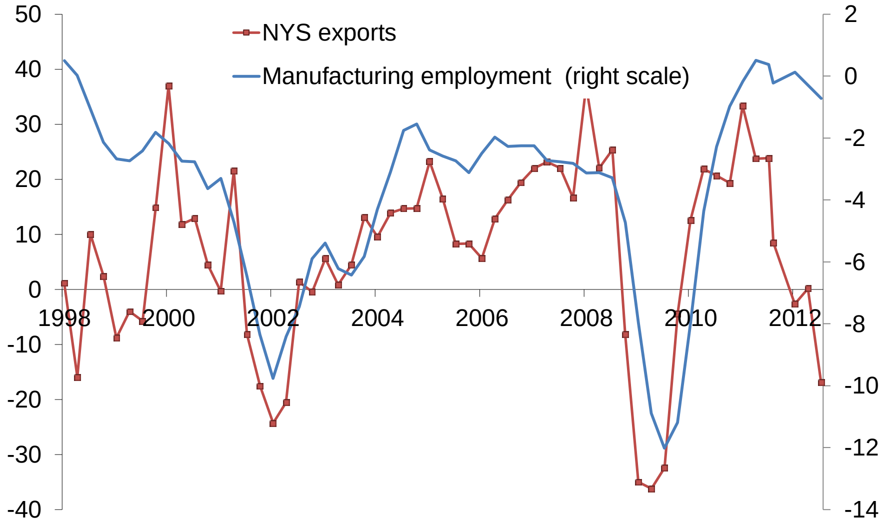
The Budget Division's forecast for the manufacturing and mining sector represents the continuation of a long-term decline.[15] Since the mid-1970s, New York's comparative advantage has shifted away from manufacturing in favor of services (see Figure 48), and the manufacturing sector continues to experience significant job losses. Competitive pressures arising from increased globalization have resulted in the decline of State manufacturing employment virtually every year since 1984, with the rate of job loss accelerating during recessions.

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

Figure 49

NY State Exports and Manufacturing Employment

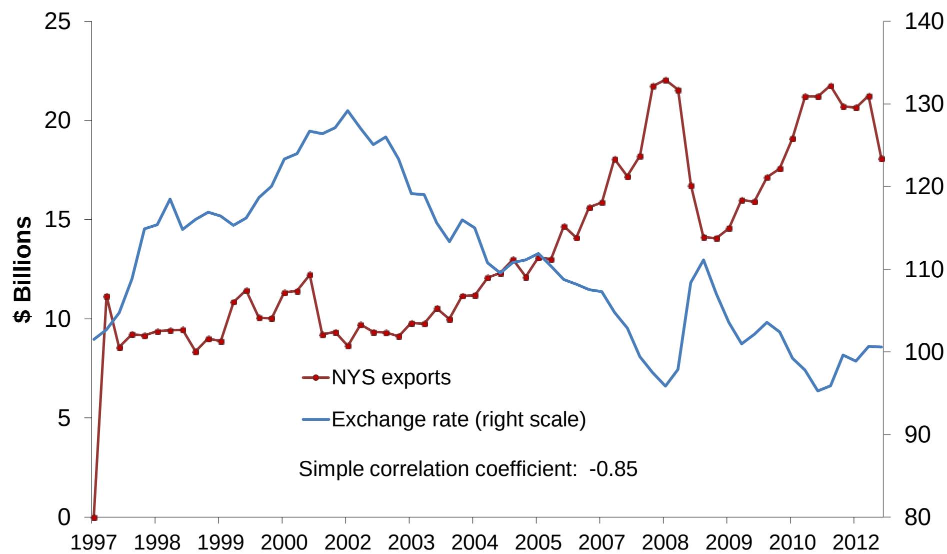
Year-ago percent change



Note: The two series have a simple correlation coefficient of 0.57.
Source: Moody's Analytics.

Figure 50

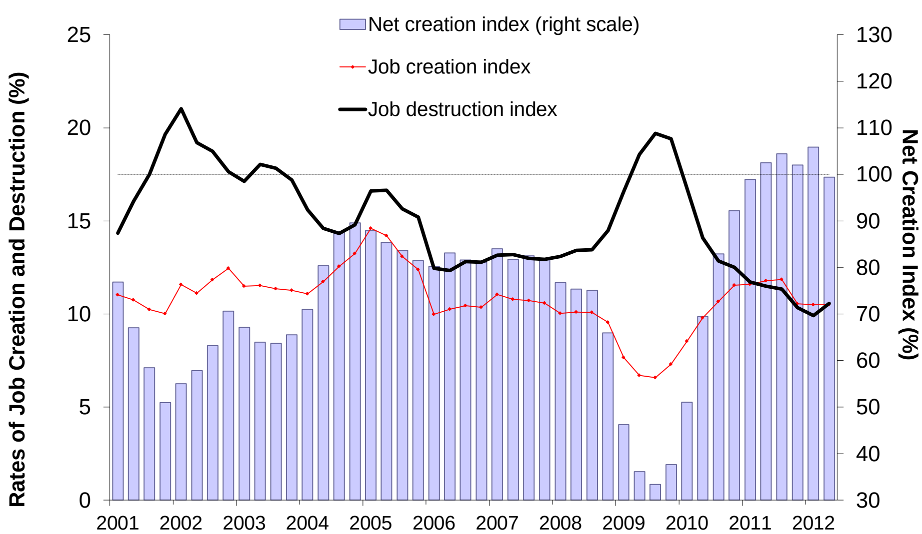
Dollar Exchange Rate Index and NYS Commodity Exports



Source: Moody's Analytics

The 0.1 percent decline in manufacturing jobs estimated for 2012 would keep sector employment 60.0 percent below its 1984 level of about 1.2 million workers. For 2013, employment is expected to fall 0.3 percent, to approximately 459,600 workers. These estimates correspond to projected job losses of 1,500 in 2013. Although there has been a modestly positive impact from the comeback of the nation's auto industry, the State's manufacturing sector continues to be negatively affected by the less-than-robust national economic recovery, the continued globalization of production, and risks associated with the European debt crisis and the global slowdown more generally. Figure 49 suggests that slower growth in demand for State exports is likely to result in less demand for New York State manufacturing workers, with a pick-up expected in 2014 as global growth improves. Moreover, Figure 50 indicates that the demand for State exports is sensitive to the value of the U.S. dollar. Consequently, the recent strengthening of the U.S. dollar, particularly against the Canadian dollar poses a risk to the State's manufacturing sector in 2013.

Figure 51
Mining and Manufacturing



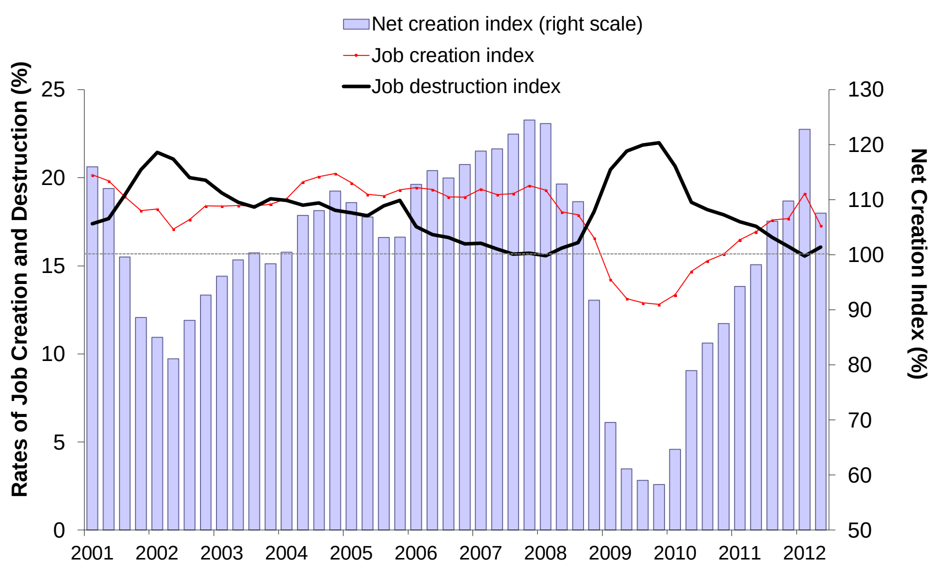
Source: NYS Department of Labor; DOB staff estimates.

In the wake of the 2001-03 State recession, job creation began to rise and job destruction continued to fall, leading to a net index of job creation of almost 90 percent by the end of 2004 (see Figure 51). The net index dropped back down to about 82 percent by the second quarter of 2007, consistent with the slowdown in manufacturing nationwide, in advance of the "official" start of the national recession in December 2007. Those losses accelerated starting in 2008 due to an increasing rate of job destruction and a falling job creation rate. Losses continued in 2009, as net creation index reached just 33 percent by the third quarter of 2009, resulting in a decline of 10.9 percent for the year, the largest in the history of the series. After a brief period of very low growth, the sector is expected to go back to declines, with a 0.3 percent employment decline in 2013.

Construction and Real Estate

Although the boom and bust cycle in the residential housing market was a bit less pronounced for New York than for the nation, its impact on the labor market was nonetheless severe. Commercial real estate was also hard hit in the last recession. As a result, the construction sector was the second hardest-hit during the downturn, after manufacturing. However, the Budget Division is projecting an increase in construction employment of 2.4 percent for 2013, after a 2.0 percent increase in 2012. Meanwhile, employment in the real estate, and rental and leasing sector is projected to increase 0.5 percent in 2013 after an increase of 0.7 percent in 2012.

Figure 52
Construction & Real Estate

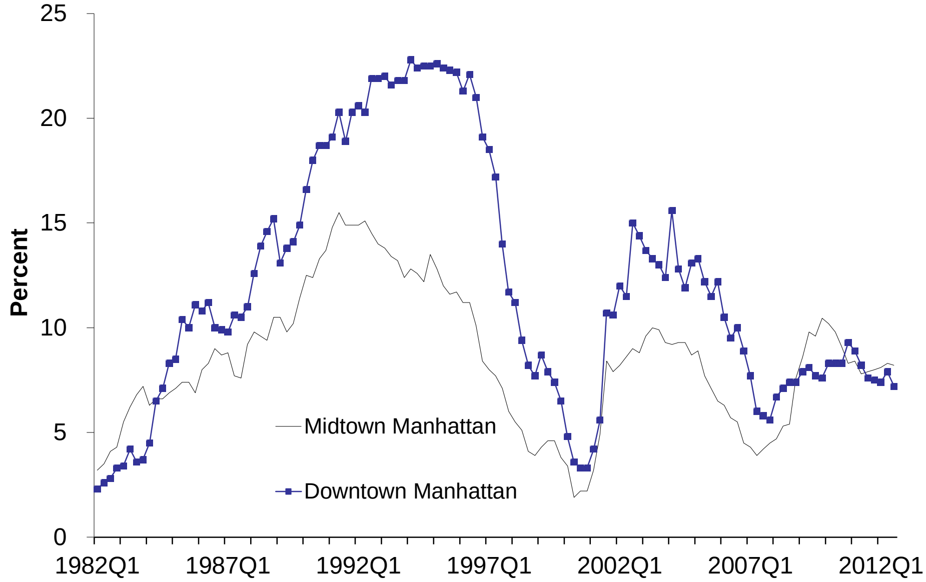


Source: NYS Department of Labor; DOB staff estimates.

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

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

Figure 53
Office Vacancy Rates



Source: Moody's Analytics; CBRE.

The Budget Division outlook for modest construction employment growth in 2012 is supported by activity already in the pipeline, such as the ongoing reconstruction of the World Trade Center and a multi-year subway project. Projects financed by the waning American Recovery and Reconstruction Act may also help reduce net job losses. Finally, Figure 53 indicates that office vacancy rates may be leveling off. However, the overhang created by the high volume of activity that preceded the downturn remains a major source of risk to the recovery of the downstate real estate market.

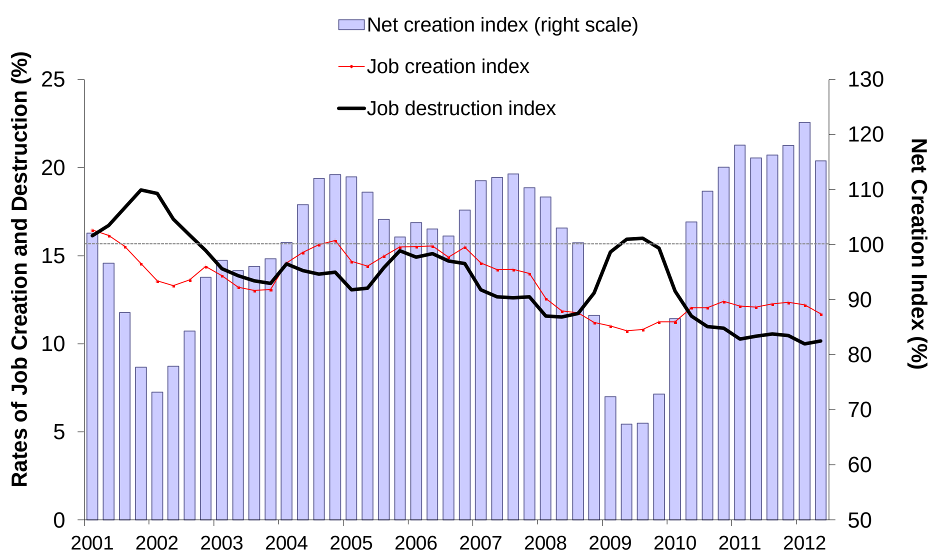
Regional data indicate that the housing sector growth has positively impacted construction employment in most of the State's regions, with these regions reporting higher employment in the first of half of 2012 compared to the same period in 2011. The greatest construction employment increases occurred in the Finger Lakes (5.7 percent), Southern Tier (5.0 percent), Central New York (3.5 percent), and Capital District (3.1 percent).

Trade, Transportation, and Warehousing

The Budget Division projects this sector will gain about 16,400 jobs in 2013, for an increase of 1.1 percent, after 1.5 percent growth in 2012. The retail trade, wholesale trade, and transportation and warehousing segments are among the more cyclically sensitive industrial sectors, and were hit hard by the recent recession. As Figure 54 shows, this sector experienced large "job gaps" in both State recessions of 2001-2003 and September 2008-December 2009. In the more recent recession the sector lost jobs for six consecutive quarters, from the fourth quarter of 2008 through the first quarter of 2010. Although the gross job destruction rate took a huge dive during the first quarter of 2010, the net index turned positive in the following quarter. Growth did pick up over the course of 2010, reaching a 1.9 increase during the first quarter of 2011, later tailing off.

For 2013, the Budget Division projects increases of 0.6 percent for wholesale trade, 1.5 percent for retail trade and 0.5 percent for transportation and warehousing. These increases represent a slowdown from the growth each subsector posted in 2012 and are consistent with both lower national and State income growth and the anticipated slowdown in international trade.

Figure 54
Trade, Transportation, and Warehousing



Source: NYS Department of Labor; DOB staff estimates.

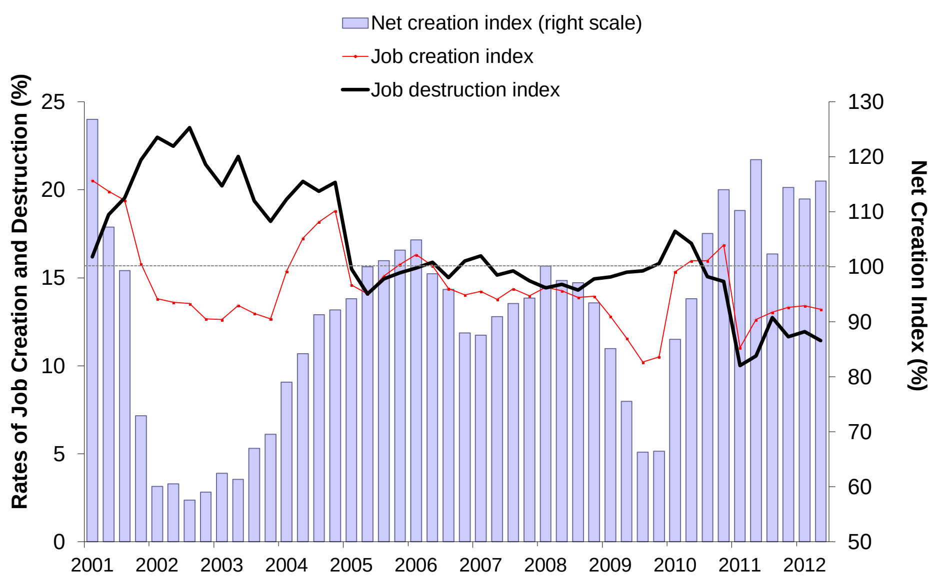
Information (Media and Communications)

The information sector, which includes publishing, motion pictures, broadcasting, and telecommunications, is the most regionally concentrated industrial sector with almost 60 percent of State employment located in New York City. The information sector is estimated to have gained about 3,300 jobs in 2012, after experiencing an annual increase in 2011 which ended the annual declines since 2001. The relatively outsized gains in 2012 appear to be related to a penetration of the New York City market by the social media industry and are not expected to be repeated at that scale going forward. Job gains of only 1,900, or 0.7 percent, are expected in 2013.

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

Figure 55

Information



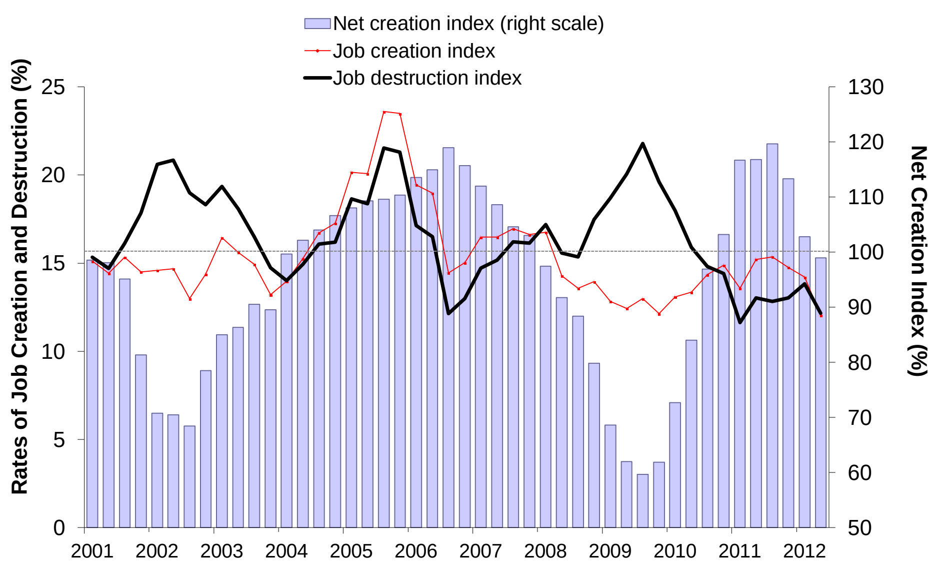
Source: NYS Department of Labor; DOB staff estimates.

Finance and Insurance

Another volatile year in the financial markets has had its impact on employment in one of the State's leading sectors, finance and insurance. The Budget Division estimates that this sector lost 2,000 jobs in 2012, for a 0.4 percent annual decline. Job cuts are expected to continue with a loss of 600 jobs in 2013, a 0.1 percent decline. As has been the case in the past, it could take many years before Wall Street fully recovers from one of the most cataclysmic periods in its history. For example, after the stock market crash of 1987 and the national recession of 1990-91, it took ten years for the securities industry to recover its previous employment peak; this time it could take longer. The Budget Division does not project that the finance and insurance sector will reach its pre-recession 2007Q3 peak of 548,000 jobs before the end of the forecast horizon in 2018. As might be expected, most of the sector's losses from 2008-2010 period occurred in New York City, and that is expected to be the case in 2013 as well.

Figure 56

Finance and Insurance



Source: NYS Department of Labor; DOB staff estimates.

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

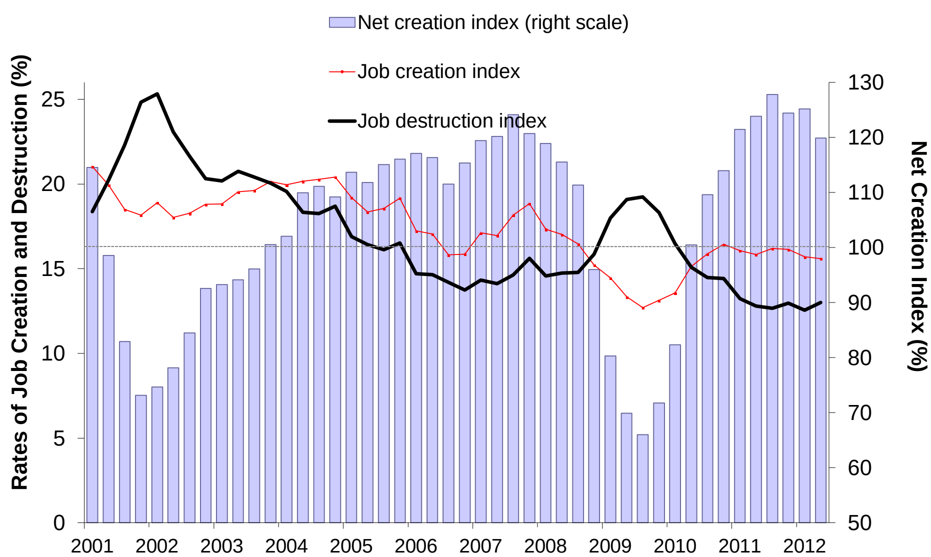
With the start of the credit crisis that began during the summer of 2007, the finance and insurance sector's rate of job creation began to fall, with the net creation index falling below 100 by the first quarter of 2008. The sector's rate of job destruction took a sharp upward turn in the fourth quarter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

Professional and Business Services

This sector is expected to help lead State employment gains in 2013. It includes two groups of industries: the professional, scientific, and technical services sector (PST), which encompasses legal, accounting, architectural, engineering, advertising, and technical services; and the management, administrative, and other business support services group. The Budget Division estimates that the PST subsector saw an estimated gain of 3.8 percent, or 21,700 jobs, in 2012, to be followed by a gain of 2.5 percent, or 14,800 jobs, in 2013. The management, administrative, and support services sector is expected to follow a similar trend with a 2013 gain of 13,600 jobs, or 2.4 percent, after a 2012 gain of 8,100 jobs, or 1.5 percent. This sector includes temporary help services, which helps to explain its earlier recovery.

Figure 57

Professional and Business Services



Source: NYS Department of Labor; DOB staff estimates.

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

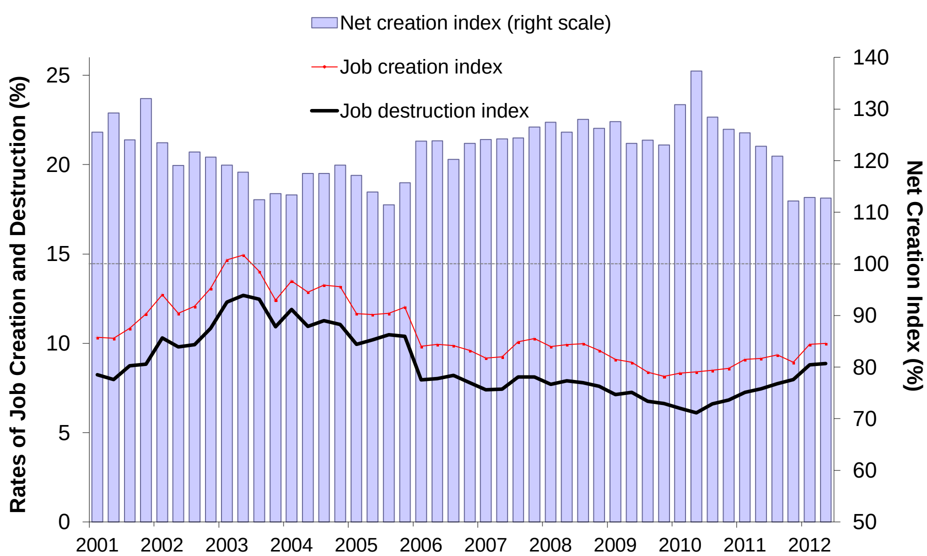
Meanwhile, in the PST subsector, the most recent recession led to a dramatic increase in the job destruction index, and decrease in job creation index, which in turn pushed down the net creation index down to a level even worse than in the 2001-2003 State recession (see Figure 57). Since the second quarter of 2010, the trends in those two indexes have reversed, leading to the highest rate of net job creation since the 2007 peak level by the second quarter of 2011. The State's PST sector serves both a national and international customer base; thus, slower growth in U.S. corporate profits and an only gradually improving global economy imply slower growth in this sector going forward, but picking up in 2014.

Education and Health Care

The private education and healthcare and social assistance sectors have exhibited consistent strength and remain the brightest spots in the employment forecast (see Figure 58). Together, these two sectors are expected to add about 26,300 new jobs in 2013 for growth of 1.6 percent.

Figure 58

Education, Health Care, and Social Assistance



Source: NYS Department of Labor; DOB staff estimates.

The health care industry is the larger of the two, employing an estimated total of almost 1.3 million workers in 2012. The private education sector is estimated to employ only about 312,700, as it excludes more than 600,000 workers employed at public educational institutions. Typically, neither of these sectors exhibits a significant degree of cyclical sensitivity. However, given the recent pressure on public sector spending, an important funding source for the private health care sector, State health industry employment saw some of its weakest growth in the history of the QCEW series in 2012. However, the demand for jobs within the health care and social assistance sector is expected strengthen further with the aging of the State's population going forward. Private education employment is projected to rise 3.0 percent for 2013, following estimated growth of 3.1 percent for 2012. Healthcare and social assistance employment is also projected to rise 1.3 percent in 2013, following estimated growth of 0.7 percent for 2012.

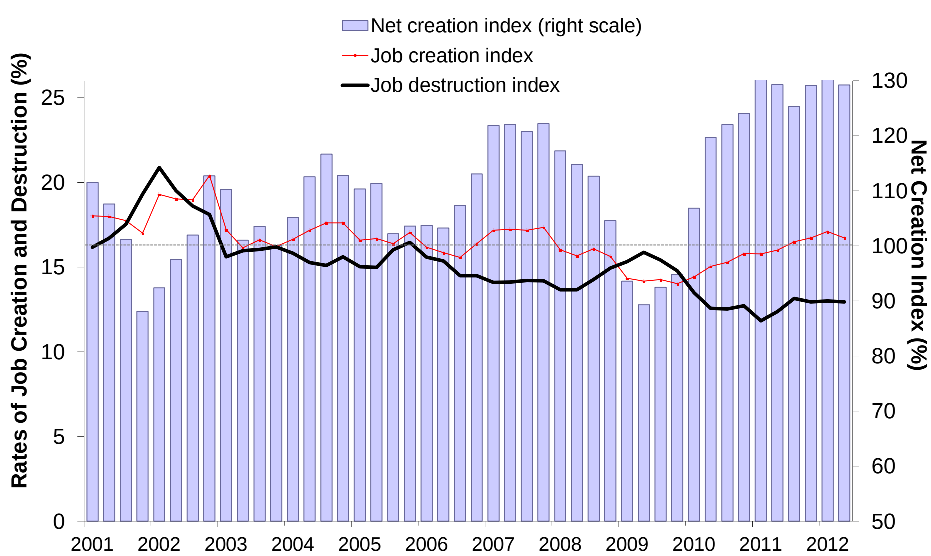
Leisure, Hospitality, and Other Services

The Budget Division expects leisure, hospitality, and other services employment to increase by 2.4 percent in 2013, following an increase of 3.5 percent in 2012. The national and global recessions had a severe impact on this sector, particularly in the arts, entertainment, and other tourism-related industries, not unlike the impact of the September 11 attacks (see Figure 59). In that case, the gross rate of job destruction increased considerably during the fourth quarter of 2001 and the first quarter of 2002, although the sector began to bounce back soon thereafter.

During the more recent State recession, the net index started falling in the first quarter of 2008 and was below 100 by the first quarter of 2009. The sector's rate of job destruction peaked early, in the second quarter of 2009, and the sector has been improving since, experiencing net growth by the first quarter of 2010. Since then this sector has experienced strong growth, mainly due to the improvement of the job destruction index, which led to the highest net creation index since 2001 in the first quarter of 2012. This sector is estimated to have added almost 38,000 jobs in 2012, and is expected to add another 27,700 jobs in 2013, with the gradual strengthening of the national and global economies favoring tourism.

Figure 59

Leisure, Hospitality, and Other Services



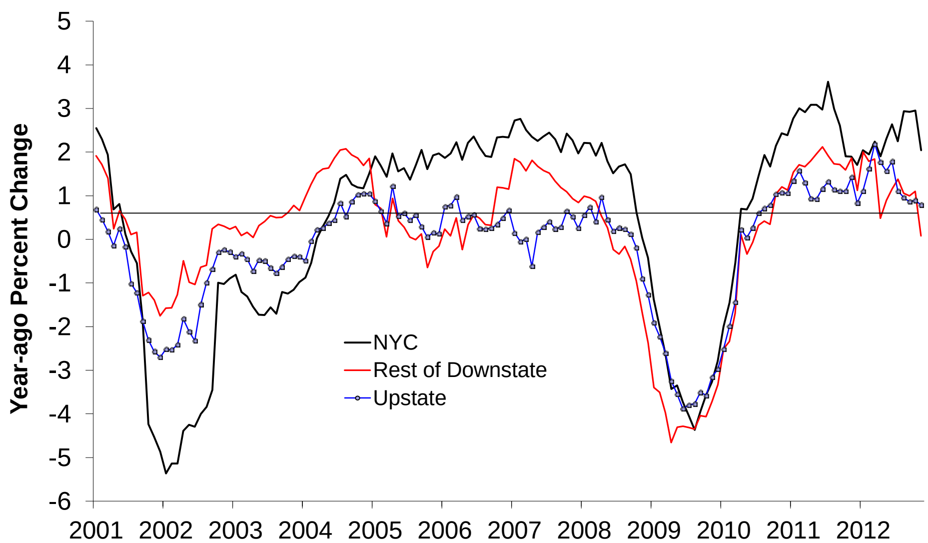
Source: NYS Department of Labor; DOB staff estimates.

Regional Job Growth Disparity

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

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

Figure 60
NYS Private Sector Employment by Region

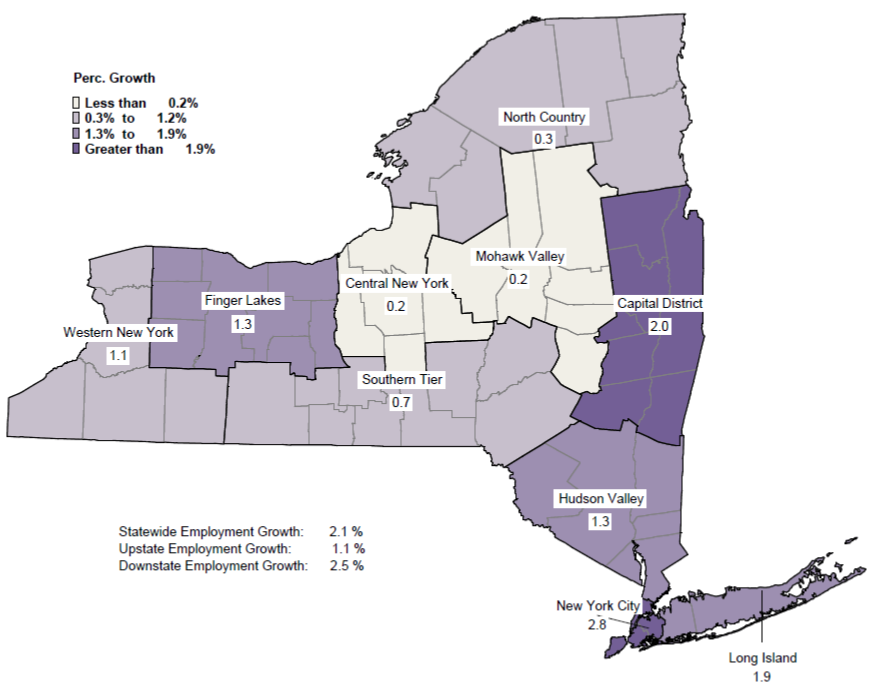


Note: Upstate is defined as the State total minus the ten downstate counties.
Source: NYS Department of Labor (CES).

Meanwhile, the upstate economy's continued relative dependence on manufacturing, in particular the auto, machinery and equipment industries, meant that the weakening demand for cars and light trucks, and investment goods more generally, resulted in extensive layoffs, especially in the western part of the State. But as Figure 60 also shows, job losses turned to growth in 2010, starting in New York City and spreading to the remainder of the State later in the year, consistent with the beginning of recovery in January 2010. Job growth in the rest of downstate began to deteriorate close to the beginning of 2011, presumably negatively affected by the many setbacks that plagued the economy last year, particularly the finance sector. By the end of the year, the region was experiencing either slow or no growth on a year-ago basis. Those same setbacks caused job growth in New York City to decelerate by the middle of the year. However, jobs in upstate are less concentrated in the financial sectors and thus kept growing in 2011. That trend reversed itself in 2012 with the intensification of the global slowdown. With upstate and rest of downstate employment growth decelerating, only New York City's labor market appeared to be strengthening over the course of last year. However, both New York City and the rest of Downstate experienced job losses in November in the wake of Superstorm Sandy, losses which turned out to be temporary.

Figure 61 compares the relative performance of New York's 10 regions between the first half of 2011 and the first half of 2012, the most recent period for which the most accurate data – Quarterly Census of Employment and Wages (QCEW) data – are available. These data indicate that job growth over the period, was broad-based. Private-sector employment for the State as a whole grew 2.1 percent over the period, with the downstate regions showing faster growth of 2.5 percent. Meantime, the upstate region grew 1.0 percent. A more detailed analysis of regional employment trends can be found in Table 12 through Table 15 on pages 148-149.

Figure 61
Regional Employment Growth: 2011H1-2012H1



Risks to the New York Forecast

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

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

BOX 11
THE NEW YORK STATE DIVISION OF THE BUDGET
NEW YORK MACROECONOMIC MODEL

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

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

Employment

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

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

Average Real Nonbonus Wages

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

Bonus Income

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

Nonwage Incomes and Other Variables

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

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

TABLE 10

NEW YORK STATE PRIVATE EMPLOYMENT BY INDUSTRY										
	Employment in Thousands					Percent Change				
INDUSTRY	**2008**	**2009**	**2010**	**2011**	**2012***	**2008**	**2009**	**2010**	**2011**	**2012***
Mining and Manufacturing	537.4	479.0	460.5	461.5	459.5	(3.6)	(10.9)	(3.9)	0.2	0.3
Construction and Real Estate	544.7	501.7	481.9	483.6	476.1	1.4	(7.9)	(4.0)	0.4	2.4
Trade, Trans., and Warehousing	1,476.3	1,408.6	1,413.5	1,438.9	1,445.3	(0.1)	(4.6)	0.3	1.8	1.9
Information	262.1	251.5	251.3	254.5	257.7	(0.4)	(4.0)	(0.1)	1.3	1.6
Finance and Insurance	534.6	496.3	487.1	497.4	494.5	(1.7)	(7.2)	(1.9)	2.1	0.1
Business and Professional Svs.	1,153.3	1,094.2	1,095.9	1,131.0	1,145.1	1.5	(5.1)	0.2	3.2	2.9
Education and Health Care	1,522.9	1,549.0	1,579.9	1,604.2	1,626.7	2.1	1.7	2.0	1.5	1.1
Leisure, Hospitality, and Other Svs	1,040.3	1,028.4	1,052.7	1,092.0	1,108.3	1.7	(1.1)	2.4	3.7	4.0
Other **	79.4	84.2	84.2	86.2	92.6	(10.9)	6.1	(0.0)	2.4	12.3
Statewide	7,150.9	6,892.9	6,906.9	7,049.3	7,105.8	0.5	(3.6)	0.2	2.1	2.1

* Levels for 2012 are based on the first two quarters of the year; 2012 growth rates are relative to the same period in 2011.

** Includes agriculture, utilities, and unclassified firms.

TABLE 11

NEW YORK STATE PRIVATE EMPLOYMENT BY REGION										
	Employment in Thousands					Percent Change				
REGION	**2008**	**2009**	**2010**	**2011**	**2012***	**2008**	**2009**	**2010**	**2011**	**2012***
New York City	3,123.1	3,015.9	3,042.8	3,130.4	3,189.4	1.0	(3.4)	0.9	2.9	2.8
Long Island	1,033.6	991.9	995.5	1,011.5	1,014.6	(0.5)	(4.0)	0.4	1.6	1.9
Hudson Valley	730.6	699.6	697.7	709.8	708.5	(0.8)	(4.2)	(0.3)	1.7	1.3
Capital District	389.5	378.1	374.9	380.1	381.8	0.3	(2.9)	(0.9)	1.4	2.0
Mohawk Valley	131.4	127.7	126.7	126.2	124.7	(0.9)	(2.8)	(0.8)	(0.4)	0.2
North Country	108.5	104.7	104.6	104.0	102.0	(0.4)	(3.5)	(0.1)	(0.6)	0.3
Central New York	286.5	275.2	272.6	274.9	272.8	(0.2)	(3.9)	(1.0)	0.9	0.2
Southern Tier	238.8	228.4	227.4	228.7	227.3	(0.1)	(4.4)	(0.5)	0.6	0.7
Western New York	516.6	498.6	498.8	504.6	503.0	0.5	(3.5)	0.0	1.2	1.1
Finger Lakes	458.2	442.6	442.8	449.6	447.9	(0.0)	(3.4)	0.0	1.5	1.3
Unclassified	134.0	130.1	123.1	129.5	133.9	9.5	(2.9)	(5.4)	5.2	8.1

* Levels for 2012 are based on the first two quarters of the year; 2012 growth rates are relative to the same period in 2011.

TABLE 12

REGIONAL EMPLOYMENT SHARES BY INDUSTRY									
REGION	**Mining/ Manuf.**	**Constr. & Real Estate**	**Trade, Trans. & Wareh.**	**Info.**	**Finance and Insurance**	**Bus. & Prof. Svs.**	**Educ. & Health Care**	**Leisure, Hosp. & Other Svs.**	**Other**
New York City	2.4	7.1	17.4	5.0	9.9	18.3	23.1	15.7	1.0
Long Island	7.2	7.4	24.3	2.3	5.1	15.1	22.2	15.3	1.1
Mid Hudson	6.8	7.7	23.4	2.5	4.2	13.4	24.2	16.2	1.7
Capital Region	8.0	6.4	21.7	2.5	5.6	14.7	23.3	16.5	1.2
Mohawk Valley	13.1	4.4	24.8	2.0	5.6	8.0	26.5	14.6	1.0
North Country	10.4	6.6	26.1	1.7	2.4	6.8	24.2	19.0	2.8
Central New York	11.5	6.1	23.8	1.8	4.9	12.8	20.9	16.0	2.2
Southern Tier	16.5	5.1	20.4	1.7	3.7	9.7	26.4	15.0	1.4
Western New York	13.4	5.6	21.8	1.7	5.2	14.7	19.9	16.7	1.0
Finger Lakes	15.1	5.8	19.7	2.0	3.3	14.3	23.2	14.7	1.9
Statewide	6.5	6.9	20.4	3.6	7.0	16.1	22.7	15.6	1.3

Note: Shares are based on the period from 2011Q3 through 2012Q2.

TABLE 13

REGIONAL EMPLOYMENT TRENDS: 2008-2012

Region	Employment (000's) 2008	2009	2010	2011	2012*	Percent Change 2008	2009	2010	2011	2012*
Manufacturing and Mining										
New York City	95.3	81.6	76.3	74.8	75.4	(5.4)	(14.4)	(6.5)	(1.9)	1.4
Long Island	80.8	74.4	72.7	72.7	73.2	(3.1)	(8.0)	(2.3)	(0.1)	1.4
Hudson Valley	57.2	51.8	49.8	48.7	47.8	(3.9)	(9.5)	(4.0)	(2.1)	(1.3)
Capital District	32.3	29.4	28.9	30.2	31.0	(1.4)	(8.9)	(1.6)	4.4	4.4
Mohawk Valley	18.8	17.0	16.7	16.5	16.5	(3.2)	(9.5)	(2.1)	(1.3)	1.3
North Country	13.7	11.9	11.4	10.9	10.8	(3.8)	(12.5)	(4.9)	(3.7)	(1.7)
Central New York	37.7	33.5	32.3	32.3	31.0	(2.5)	(11.1)	(3.6)	(0.2)	(4.4)
Southern Tier	45.1	40.0	38.0	38.1	37.5	(1.5)	(11.3)	(5.2)	0.5	(1.3)
Western New York	76.6	67.3	65.8	67.7	67.5	(3.4)	(12.1)	(2.2)	2.8	0.6
Finger Lakes	78.1	70.4	67.7	68.5	67.6	(4.8)	(9.9)	(3.9)	1.2	(0.4)
Unclassified	1.6	1.4	0.9	1.1	1.1	15.4	(9.6)	(38.7)	21.3	16.2
Statewide	537.4	479.0	460.5	461.5	459.5	(3.6)	(10.9)	(3.9)	0.2	0.3
Construction and Real Estate										
New York City	248.2	233.1	225.3	224.3	223.9	2.1	(6.1)	(3.3)	(0.4)	1.5
Long Island	87.8	79.0	74.9	74.4	73.6	0.5	(10.0)	(5.2)	(0.6)	2.8
Hudson Valley	66.2	57.7	53.5	54.5	52.8	(2.6)	(12.8)	(7.2)	1.7	1.6
Capital District	27.1	25.2	24.2	24.4	23.6	(0.3)	(7.0)	(4.2)	0.9	3.1
Mohawk Valley	6.4	6.0	5.7	5.5	5.0	(3.4)	(7.3)	(4.6)	(2.4)	(1.4)
North Country	8.1	7.6	7.3	6.9	6.2	3.4	(5.7)	(4.0)	(5.0)	(1.7)
Central New York	18.7	17.3	16.9	16.6	16.1	0.7	(7.3)	(2.5)	(1.6)	3.5
Southern Tier	12.0	11.3	11.2	11.4	10.9	1.4	(5.6)	(1.2)	1.8	5.0
Western New York	29.9	28.3	27.7	28.4	27.0	1.9	(5.6)	(2.0)	2.6	1.6
Finger Lakes	27.3	25.4	25.1	25.4	25.0	2.0	(6.7)	(1.2)	0.9	5.7
Unclassified	13.0	10.9	10.1	11.8	12.0	25.0	(16.4)	(7.0)	16.5	13.8
Statewide	544.7	501.7	481.9	483.6	476.1	1.4	(7.9)	(4.0)	0.4	2.4
Trade, Transportation, and Warehousing										
New York City	542.0	519.3	529.1	544.1	550.6	0.4	(4.2)	1.9	2.8	2.7
Long Island	259.7	244.6	244.3	245.8	246.8	(0.4)	(5.8)	(0.1)	0.6	1.8
Hudson Valley	171.8	163.2	162.2	165.9	166.3	(0.9)	(5.0)	(0.6)	2.3	1.6
Capital District	86.0	82.9	82.1	82.8	82.9	(1.7)	(3.5)	(1.0)	0.8	1.6
Mohawk Valley	33.2	32.1	31.4	31.3	31.0	0.3	(3.4)	(2.1)	(0.4)	0.2
North Country	28.6	27.9	27.7	27.3	26.7	0.1	(2.6)	(0.5)	(1.5)	(1.0)
Central New York	67.7	64.8	64.0	64.9	65.3	0.0	(4.2)	(1.3)	1.4	2.0
Southern Tier	47.6	45.4	45.5	46.3	46.5	(0.9)	(4.6)	0.1	1.7	2.3
Western New York	114.5	108.9	108.5	109.9	109.9	(0.3)	(4.9)	(0.3)	1.2	1.8
Finger Lakes	91.4	87.7	88.3	88.9	88.0	(0.6)	(4.0)	0.6	0.7	0.1
Unclassified	33.8	31.8	30.3	31.8	31.5	5.3	(6.0)	(4.6)	4.9	0.8
Statewide	1,476.3	1,408.6	1,413.5	1,438.9	1,445.3	(0.1)	(4.6)	0.3	1.8	1.9
Information										
New York City	156.8	148.4	149.8	157.3	161.2	0.8	(5.4)	0.9	5.0	3.2
Long Island	25.6	26.2	24.0	23.4	23.1	(4.6)	2.0	(8.1)	(2.6)	(2.3)
Hudson Valley	21.0	19.0	18.5	17.7	18.1	(1.9)	(9.6)	(2.6)	(4.3)	0.9
Capital District	10.7	10.5	10.0	9.8	9.7	(3.5)	(2.3)	(4.8)	(2.0)	(1.6)
Mohawk Valley	3.2	3.0	2.8	2.6	2.5	(8.6)	(4.8)	(6.1)	(8.5)	(5.8)
North Country	2.0	1.9	1.9	1.8	1.8	(3.2)	(3.6)	(3.3)	(1.8)	(1.8)
Central New York	5.9	5.3	5.1	5.1	4.9	(3.3)	(8.8)	(3.8)	(1.8)	(3.9)
Southern Tier	4.4	4.1	3.9	3.9	3.9	(3.5)	(6.9)	(3.9)	(0.6)	(0.5)
Western New York	9.3	8.9	8.5	8.4	8.5	(1.1)	(3.4)	(4.6)	(1.1)	(0.7)
Finger Lakes	10.5	9.9	9.4	9.2	8.6	(2.1)	(5.0)	(5.1)	(3.0)	(5.7)
Unclassified	12.7	14.3	17.3	15.4	15.4	5.1	11.9	21.3	(11.0)	4.5
Statewide	262.1	251.5	251.3	254.5	257.7	(0.4)	(4.0)	(0.1)	1.3	1.6

(Cont'd on next page)

REGIONAL EMPLOYMENT TRENDS: 2008-2012 (*cont'd*)

Region	Employment (000's)					Percent Change				
	2008	2009	2010	2011	2012*	2008	2009	2010	2011	2012*
	Finance and Insurance									
New York City	337.8	310.3	305.8	315.7	312.4	(1.1)	(8.1)	(1.4)	3.2	(0.1)
Long Island	56.6	52.1	52.1	52.2	52.4	(5.1)	(7.9)	0.1	0.1	0.8
Hudson Valley	32.5	30.4	29.7	30.0	29.6	(5.1)	(6.4)	(2.5)	1.0	(1.1)
Capital District	22.1	21.6	21.3	21.4	21.4	(0.9)	(2.3)	(1.4)	0.3	0.4
Mohawk Valley	7.6	7.2	7.1	7.1	7.0	(7.4)	(5.5)	(1.9)	0.8	(1.4)
North Country	2.6	2.5	2.5	2.5	2.5	(2.9)	(2.3)	(0.5)	0.0	(1.2)
Central New York	14.6	13.9	13.5	13.6	13.3	(0.2)	(5.1)	(2.5)	0.6	(2.3)
Southern Tier	9.2	8.8	8.7	8.7	8.5	(1.3)	(3.5)	(1.9)	0.1	(2.6)
Western New York	27.7	26.4	25.6	26.0	26.4	(1.4)	(4.7)	(2.8)	1.7	1.5
Finger Lakes	15.3	14.7	14.6	14.9	15.2	(2.6)	(3.9)	(0.9)	2.4	2.8
Unclassified	8.8	8.4	6.3	5.3	5.8	10.6	(4.0)	(25.7)	(14.9)	13.2
Statewide	534.6	496.3	487.1	497.4	494.5	(1.7)	(7.2)	(1.9)	2.1	0.1
	Professional and Business Services									
New York City	581.2	549.4	553.8	573.1	582.2	1.7	(5.5)	0.8	3.5	2.9
Long Island	156.7	147.6	146.7	151.7	153.6	(1.0)	(5.8)	(0.6)	3.4	3.2
Hudson Valley	96.1	91.4	91.8	94.5	95.0	(0.5)	(4.9)	0.5	2.9	2.3
Capital District	59.7	56.4	54.9	55.6	56.3	2.4	(5.6)	(2.6)	1.2	2.5
Mohawk Valley	10.6	10.0	9.9	9.9	10.1	0.0	(6.1)	(0.7)	0.5	3.0
North Country	7.8	7.1	7.1	7.0	7.0	(0.0)	(9.6)	(0.3)	(0.9)	1.2
Central New York	36.8	35.5	34.7	35.2	34.7	(0.7)	(3.5)	(2.2)	1.3	(0.2)
Southern Tier	23.0	21.1	21.7	21.9	22.1	(0.5)	(8.5)	2.9	1.1	2.6
Western New York	74.2	72.6	74.0	74.3	74.0	3.6	(2.1)	1.9	0.4	0.7
Finger Lakes	63.2	60.1	60.9	63.0	64.8	1.8	(5.0)	1.4	3.5	5.2
Unclassified	43.9	43.1	40.4	44.6	45.3	12.6	(1.7)	(6.2)	10.3	7.0
Statewide	1,153.3	1,094.2	1,095.9	1,131.0	1,145.1	1.5	(5.1)	0.2	3.2	2.9
	Education, Health Care, and Social Assistance									
New York City	688.6	701.5	714.4	727.3	745.3	1.9	1.9	1.8	1.8	1.9
Long Island	208.6	212.2	222.1	226.7	226.5	2.5	1.7	4.6	2.1	0.2
Hudson Valley	164.8	167.3	170.7	173.0	173.0	2.0	1.5	2.0	1.3	0.0
Capital District	85.2	86.2	87.4	88.9	90.4	2.1	1.2	1.3	1.7	1.7
Mohawk Valley	32.3	33.3	33.5	33.6	33.4	1.7	2.9	0.8	0.3	(0.7)
North Country	24.2	24.5	25.0	25.2	25.2	0.0	1.4	2.1	0.6	0.2
Central New York	56.0	56.2	56.6	57.3	58.0	0.9	0.3	0.8	1.2	0.6
Southern Tier	60.3	60.4	60.9	60.7	60.9	2.2	0.3	0.8	(0.4)	(0.1)
Western New York	97.0	99.0	100.3	100.6	101.3	2.0	2.2	1.3	0.3	0.4
Finger Lakes	100.7	102.4	104.1	105.2	105.3	3.5	1.7	1.7	1.0	0.0
Unclassified	5.3	5.9	4.8	5.7	7.5	20.0	12.6	(19.6)	19.8	33.4
Statewide	1,522.9	1,549.0	1,579.9	1,604.2	1,626.7	2.1	1.7	2.0	1.5	1.1
	Leisure, Hospitality, and Other Services									
New York City	448.3	445.0	460.3	484.6	505.2	3.0	(0.7)	3.4	5.3	6.1
Long Island	147.6	145.0	147.9	153.7	153.6	0.6	(1.8)	2.0	3.9	3.6
Hudson Valley	110.2	107.7	110.3	114.3	114.0	0.5	(2.3)	2.4	3.6	2.8
Capital District	62.0	61.4	61.6	62.6	61.6	1.1	(0.9)	0.3	1.7	1.9
Mohawk Valley	18.1	18.0	18.4	18.4	17.9	(0.2)	(0.6)	2.3	0.2	1.1
North Country	18.9	18.5	18.9	19.5	19.1	(0.1)	(2.5)	2.5	3.1	3.3
Central New York	43.5	42.9	43.4	44.0	43.6	1.2	(1.4)	1.1	1.4	0.7
Southern Tier	33.8	33.7	34.2	34.4	33.8	(0.3)	(0.3)	1.6	0.5	0.1
Western New York	82.4	82.2	83.4	84.4	83.8	1.6	(0.2)	1.4	1.2	1.3
Finger Lakes	63.5	63.4	64.3	66.0	65.4	(0.0)	(0.2)	1.5	2.7	1.8
Unclassified	12.0	10.8	9.9	9.9	10.2	7.4	(10.2)	(7.9)	0.5	6.1
Statewide	1,040.3	1,028.4	1,052.7	1,092.0	1,108.3	1.7	(1.1)	2.4	3.7	4.0

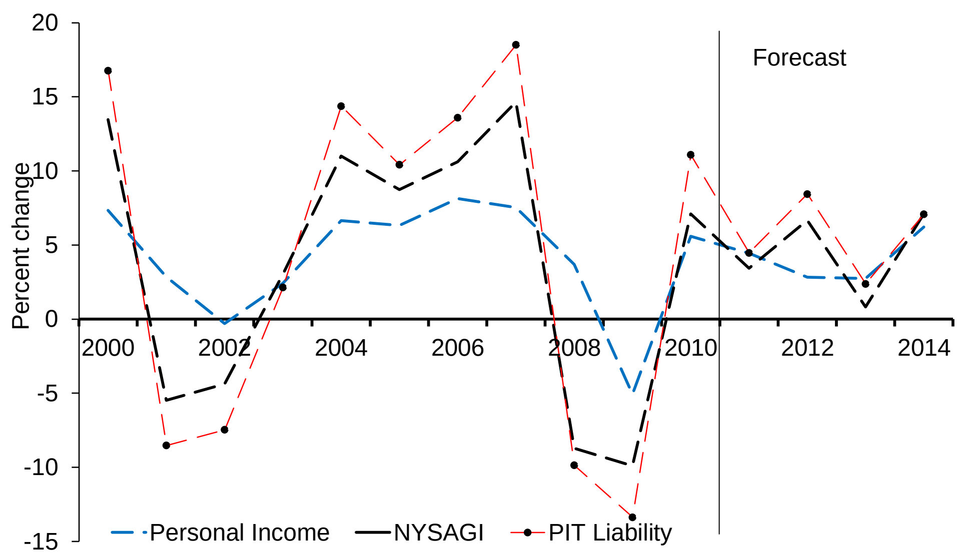
* Levels for 2012 are based on the first two quarters of the year; 2012 growth rates are relative to the same period in 2011.
Source: NYS Department of Labor.

NEW YORK STATE ADJUSTED GROSS INCOME

Receipts from the personal income tax account for almost 60 percent of the State's total tax revenue stream. New York State adjusted gross income (NYSAGI) is the measure of taxable income from which taxpayers' personal income tax liability is computed in conformity with New York State tax laws.[16] Detailed knowledge of the composition of this personal income tax base and its determinants is critical to accurately projecting New York's largest revenue source. At the aggregate level, the components of NYSAGI such as dividend income or capital gains income vary with State and Federal economic indicators. The Budget Division's forecast of the components of personal income forecast will thus depend on the linkages between NYSAGI and the outlook for both the national and State economies.

Following two years of severe declines consistent with national and State recessions that were both more severe and longer than any before, NYSAGI experienced above average growth of 7.1 percent in 2010 in response to a slow but sustained recovery at the State and national levels, robust equity market growth and, as will be discussed later in more detail, income shifting in anticipation of higher tax rates in 2011 that never materialized after a last-minute political effort to postpone the sunset of the Bush tax cuts (see Figure 62). A continued slow recovery, lackluster equity markets and the income shift are estimated to have resulted in lower-than-average 3.4 percent growth for State taxable income in 2011. With the anticipated sunset of the Bush tax cuts for high-income taxpayers at the end of 2012, the Budget Division expects strong 6.7 percent growth for 2012 followed by weak 2.3 percent growth for 2013 (see Table 14).

Figure 62
The Indicators of New York State's Tax Base



Note: Personal income tax (PIT) liability is computed based on 2002 NY State tax law; 2011 liability and NYSAGI data are preliminary.
Source: NYS Department of Taxation and Finance; Moody's Economy.com; DOB staff estimates.

[16] Box 12 on page 161 discusses in detail the relationship between three important indicators of the size of the State's personal income tax base, personal income tax liability, NYSAGI, and state personal income.

The Major Components of NYSAGI

Budget Division forecasts for the components of NYSAGI are based on detailed historical tax return data from samples of State taxpayers through the 2010 tax year, made available by the New York State Department of Taxation and Finance. For 2011, preliminary processing data based on the entire population of tax returns are used to construct estimates for all of the income components.

Although the measure of taxable wages derived from State tax returns does not precisely match the dollar amount derived from Quarterly Census Employment and Wages (QCEW) data, they tend to follow a similar trend. Therefore, projected growth rates for taxable wages from 2012 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 119.

TABLE 14
CHANGES IN NYSAGI AND ITS MAJOR COMPONENTS

	2007	2008	2009	2010	2011*	2012	2013	2014
	Actual				Estimated			
NYSAGI								
Level ($ Billions)	725.2	662.1	596.5	638.9	660.8	704.9	721.1	761.1
Change ($ Billions)	92.6	(63.2)	(65.6)	42.4	22.0	44.1	16.2	40.0
% Change	14.6	(8.7)	(9.9)	7.1	3.4	6.7	2.3	5.5
Wages								
Level ($ Billions)	485.6	492.9	463.9	482.4	500.8	510.6	534.1	561.1
Change ($ Billions)	40.4	7.3	(29.0)	18.5	18.4	9.8	23.5	27.0
% Change	9.1	1.5	(5.9)	4.0	3.8	2.0	4.6	5.1
Capital Gains								
Level ($ Billions)	118.3	57.0	33.9	48.7	53.3	75.0	66.0	69.1
Change ($ Billions)	33.9	(61.3)	(23.1)	14.9	4.6	21.7	(9.0)	3.1
% Change	40.1	(51.8)	(40.6)	43.8	9.4	40.7	(12.0)	4.6
Partnership/S Corporation								
Level ($ Billions)	70.7	75.8	70.4	71.0	70.5	81.5	86.4	94.6
Change ($ Billions)	9.5	5.1	(5.4)	0.6	(0.5)	10.9	4.9	8.3
% Change	15.5	7.2	(7.1)	0.9	(0.7)	15.5	6.0	9.6

Source: NYS Department of Taxation and Finance; DOB staff estimates.
* 2011 Estimates are based on processing data except for wages.

Positive Capital Gains Realizations

The fate of NYSAGI is closely linked to the fate of capital gains realizations, both because of the relatively large share of income from positive capital gains realizations and because of the highly volatile nature of this income component. After adding a combined $87.1 billion to New York's taxable income during four years of exceptionally high growth from 2004 to 2007, capital gains realizations eliminated $84.4 billion from NYSAGI between 2007 and 2009, falling 51.8 percent in 2008 and another 40.6 percent in 2009 (see Table 14). At its peak in 2007, positive capital gains realizations contributed 16.3 percent to NYSAGI, a share that fell to 5.7 percent in 2009. In 2010, capital gains realizations experienced strong growth of 43.8 percent, contributing 7.6 percent to NYSAGI. The Budget Division's forecast implies slower growth of 9.4 percent for 2011, strong 40.7 percent growth for 2012 and a 12.0 percent decline for 2013.

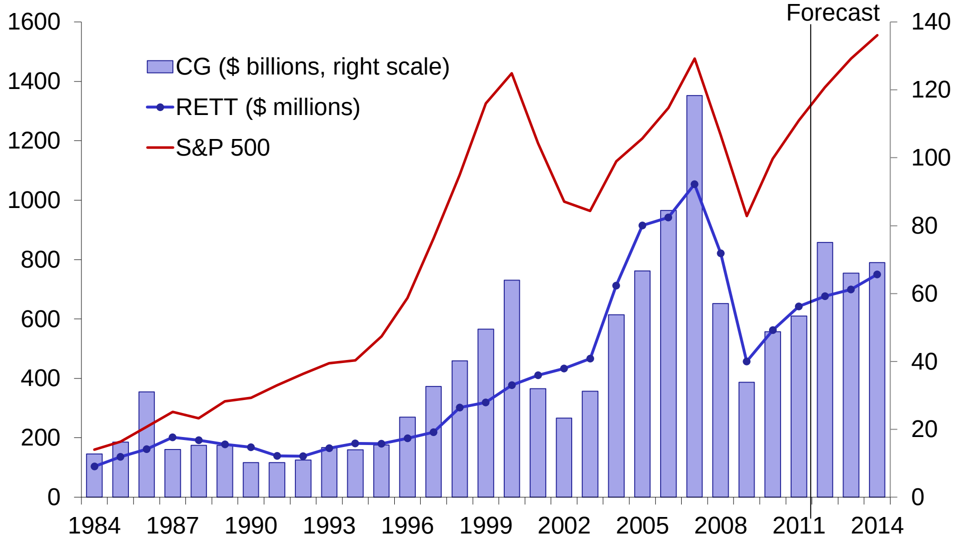
The Budget Division's forecasting model attempts to capture the inherent volatility in capital gains income by incorporating those factors that are most likely to influence realization behavior, such as expected and actual tax law changes, financial market activity, and real estate market activity.[17] Federal and state taxes on capital gains income constitute a cost associated with the buying and selling of capital assets and, therefore, can greatly affect realization behavior. Taxpayers may decide to realize capital gains earlier than planned if they expect taxes on capital gains to increase. The federal tax rate on capital gains income was originally scheduled to increase from 15.0 percent to 20.0 percent at the end of 2010 with the expiration of tax cuts established under the Economic Growth and Tax Relief Reconciliation Act of 2001. Though negotiations late in 2010 led to a two-year extension of the lower tax rate, the strong growth of 43.8 percent in capital gains realizations in 2010 followed by much smaller expected growth in realizations of 9.4 percent in 2011 under similar economic conditions lends support to the notion that at least some taxpayers realized gains early to avoid the possibility of a higher tax burden.

Negotiations were still under way as 2012 came to an end, but it was highly anticipated that the tax cuts would be allowed to expire at least for higher-income taxpayers who account for most of the capital gains. Additionally, pursuant to a provision of the Affordable Care Act of 2010, a Medicare tax surcharge on investment income is taking effect in 2013, further raising the federal tax on capital gains realization by 3.8 percent. Consequently, the Budget Division estimate another year of strong capital gains realizations with growth of 40.7 percent in 2012 followed by an expected decline of 12.0 percent in 2013, as taxpayers shifted some of their gains realizations from 2013 to 2012.

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

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

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



Note: 2011 capital gains realizations are an estimate.
Source: Moody's Economy.com; NYS Department of Taxation and Finance; DOB staff estimates.

Equity markets began to turn around after the first quarter of 2009 and experienced solid annual average growth, from a very low base, of 20.3 percent in 2010 and 11.4 percent in 2011, contributing to strong underlying capital gains realizations growth for those two years. On an annual average basis, equity market prices as represented by the S&P 500 grew at a somewhat lower rate of 8.8 percent in 2012.

The health of the real estate market also plays a critical role in determining capital gains realizations. Gains from both residential and commercial real estate transactions are taxable, though gains earned from the sale of a primary home are exempt up to a certain limit, for example, up to $500,000 for married couples filing jointly.[18] California data show that in 2009, 11.3 percent of positive capital gains realizations were generated by real estate transactions. That share has fluctuated from a low of 6.2 percent in 2010, to a high of 32.4 percent in 1990. A study based on national data indicates that in 1993, 22 percent of net capital gains realizations in the U.S. were generated by real estate transactions.[19]

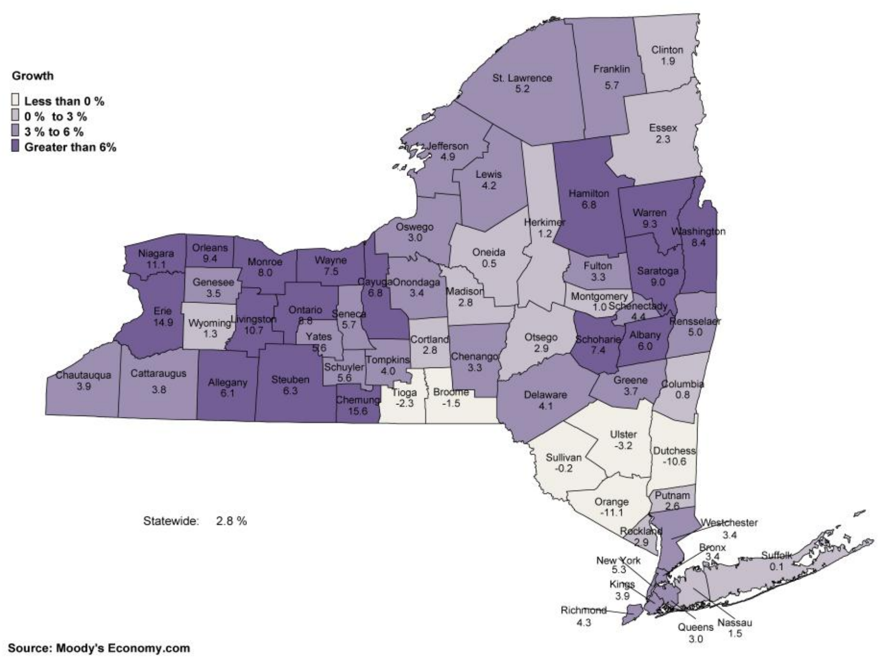
State real estate transfer tax (RETT) data provide a timely indicator of the strength of real estate sales and therefore of the possible impact of the real estate market on taxable gains. After falling 22.1 percent in 2008 and another 44.4 percent in 2009, resulting in a two-year drop of $598 million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

[18] 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.
[19] 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.

14.2 percent and 5.3 percent growth in 2011 and 2012, respectively (see Figure 63). After three years of positive growth, however, real estate transfer tax collections have only regained $220 million, remaining below their 2004 level and far below their 2007 peak.

Figure 64 shows that changes in the median sales price of existing single-family homes in New York State between the third quarter of 2012 and the end of the recession in late 2009 differ markedly across New York counties. While some upstate counties, particularly in Western New York, approached and even exceeded ten percent growth in median home sales prices, most mid-Hudson Valley counties as well as Broome and Tioga counties faced median sales prices that were even lower than they were at the end of the recession. Long Island's counties experienced a very slow recovery. In general, the recovery appears to have been most sluggish where higher home prices make it more likely that a sale will generate sufficient capital gains to surpass the exemption threshold. Thus, the residential housing market's contributions to capital gains realization in the most recent three year were most likely not very substantial.

Figure 64
Growth in Median Sales Price of Existing Single-Family Homes
2009 Q3 - 2012 Q3



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

Private equity funds hit hard times in the recent past, both in terms of fund-raising activity and in terms of deals and returns. According to data provider Private Equity Intelligence Ltd., or Preqin, the global volume of capital raised by the private equity firms fell 65 percent in 2009, with the average fund size decreasing by 13 percent. The private equity sector appeared to have turned the corner in 2010, and in 2011 showed return growth of 10.9 percent according to the Cambridge Associates LLC U.S. Private Equity Index, followed by 5.5 percent in the first half of 2012.

Hedge fund performance depends on relatively easy access to borrowed funds with which to leverage and on healthy financial institutions with which to trade. Consequently, these entities experienced serious difficulties when counterparty risk and the seize-up of financial markets made borrowing and leveraging those borrowed funds all but impossible in 2008. Hedge funds around the world posted unprecedented losses in 2008, leading investors to withdraw a record $155 billion worth of investments, and to a large number of fund liquidations. Hedge funds had much better years in 2009 and 2010 with 25.2 percent growth in returns in 2009 and another 9.0 percent in 2010, according to the Hennessee Hedge Fund Index. After another challenging year with returns decreasing 4.6 percent in 2011, hedge funds returns showed modest growth of 7.0 percent in 2012.

There are both downside and upside risks to the forecast for capital gains realizations. Poor performances of private equity and hedge fund firms may mean lower capital gains realizations in 2012 than the 40.7 percent we currently estimate based on the moderate year-over-year growth in real estate and equity market transactions. Downward pressure on equity markets from a worsening of the European sovereign debt crisis could have had a large negative effect on realizations in 2012. On the other hand, increases in the marginal tax rate on capital gains realizations from the Medicare tax surcharge and the sunset of the low rates established in the Economic Growth and Tax Relief Reconciliation Act of 2001 may result in a much larger shift of realizations from 2013 to 2012 and hence much higher realizations growth in 2012 than currently predicted. The downside risk would then be higher for 2013. Another risk to the capital gains forecast is the unusually low volume of transactions at U.S. equity markets. Though stock prices have continued to grow despite the low trading volume, the long-term implications of such low trading volume are not well understood.

Rent, Royalty, Partnership, and S Corporation Gains

Partnership and S corporation income vies with capital gains income for the second largest income component after wages, however with considerably less volatility than capital gains. Historically growing at 11.0 percent annually, partnership and S corporation income has performed poorly over the past few years, declining 7.1 percent in 2009, growing a disappointing 0.9 percent in 2010, and declining an estimated 0.7 percent in 2011. Consistent with an economy on the rebound, and an upswing in equity and housing markets, DOB estimates a brighter future for partnership and S corporation income with 15.5 percent growth for 2012, followed by growth of 6.0 percent for 2013 and 9.6 percent for 2014. Contributing to the strong growth in 2012 is an income shift from 2013 to 2012 aimed at avoiding the higher tax rates for high-income taxpayers now in place for this year.

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

New York State taxable partnership and S corporation income grew at an annual average rate of 11.0 percent between 1980 and 2010, faster than the average annual rate of 6.9 percent for New York proprietors' income, as defined under NIPA and which includes partnership, S corporation, and sole proprietorship income. At the Federal level, partnerships and S corporations are the first and second fastest growing business entity forms, according to IRS Statistics of Income (SOI) data. Between 1998 and 2008, the latest year for which SOI data are available, the number of S corporations grew 56.5 percent while the number of partnerships grew 69.6 percent compared to 29.9 percent growth in non-farm sole proprietorships and a 12.8 percent decline in C corporations over the same ten years.

Growth in income from partnership and S corporations is linked to both the economy and financial markets. Strong growth in this component from 2004 to 2007 coincided with the exceptional performance of financial markets and robust national economic growth. When equity markets fell, the economy contracted, and credit markets froze in 2008 and 2009, growth in partnership and S corporation gains first slowed and then fell. Partnership and S corporation income continued to perform poorly in 2010 despite signs of strength in equity markets and slow growth in GDP. Processing data for 2011 suggest another small decline which we attribute to income shifting by firms that anticipated tax rates to increase at the end of 2010 and thus moved income from 2011 to 2010. If that was the case, then partnership and S corporation income would have declined in 2010 in the absence of the income shifting. We find support for this hypothesis when looking at losses from partnership and S corporations which fell by 12.6 percent in 2009 and by 8.2 percent in 2010. Partnership and S corporation income gains and losses tend to rise and fall together, suggesting that the growth rates are linked at least in part to births and deaths of partnership and S corporations. With rates increasing in 2013, a similar incentive exists for partnerships and S corporations to shift income payouts from 2013 to 2012. We thus expect their incomes to grow by 15.5 percent in 2012, followed by considerably smaller 6.0 percent growth in 2013.

The Budget Division's partnership and S corporation income forecast contains both upside and downside risks. The real estate market is not captured independently in the forecast model. Since there is a high concentration of real estate partnerships in New York State, a better than predicted real estate market as the employment situation improves and foreclosures start winding down could lead to higher than expected partnership and S corporation gains. Downside risks are associated with the poor performance in 2011 by hedge fund firms, some of which are partnerships and whose longer-term survival may be at risk, as well as the possibility that a spillover of the European sovereign debt crisis or failed fiscal policy negotiations may nudge the economy into another tailspin.

Dividend Income

Taxable dividend income in New York has been particularly volatile over the past few years. After a 28.7 percent decline in 2009, dividend income rebounded nicely with 19.3 percent growth in 2011 before leveling off in 2011 with an estimated 0.7 percent growth. The Budget Division expects this volatility to continue with a forecast of 19.0 percent growth for 2012 followed by a decline of 9.0 percent in 2013.

Taxable dividend income is expected to rise and fall with U.S. dividend income, a component of the NIPA definition of U.S. personal income, long-term interest rates as represented by the 10-year Treasury yield, and the performance of equity markets, with these fluctuations becoming exaggerated when the State is in a recession. Fluctuations in New York State taxpayers' dividend income have ranged from an estimated decline of 32.0 percent in 2009 to an increase of 28.7 percent in 2009. Taxable dividends thus prove even more variable than U.S. dividend income. State taxable dividend income grew at an average annual rate of 6.2 percent, with a standard deviation of 12.9 percentage points between 1976 and 2010, while U.S. dividend income grew an average 9.1 percent annually, with a standard deviation of only 10.1 percentage points over the same period.

Declines in dividend income for 2008 and 2009 are consistent with the reduction or cancellation of dividend payouts by many struggling corporations during the long and severe recession. Firms started paying dividends again in 2010 as corporate profits and equity gains soared. Also adding to the large growth in dividend income was a shift in dividend payouts from 2011 to 2010 in response to the possibility that the top marginal tax rate of 15 percent enacted with the Growth and Tax Relief Reconciliation Act of 2001 would be allowed to sunset in 2010 and dividend income would again be taxed at the much higher rate of ordinary income. Because of this shift, dividend income is estimated to have leveled off in 2011. The Budget Division's forecast for 2012 and 2013 is based on the widely publicized spin-up of dividend payouts from this year into last year, as well as the payout of special dividends, enabling high-income shareholders to avoid higher 2013 tax rates. The dividend tax rate in 2013 is 8.8 percentage points higher than the rate in 2012 due to an increase in the rate from 15.0 percent to 20.0 percent starting in 2013 and the onset of the 3.8 percent Medicare tax surcharge on investment income enacted with the Affordable Care Act of 2010. In addition, more modest equity market growth is projected for 2013. As a result of all these factors, a 9.0 percent decline in dividend income is expected for 2013, followed by 11.2 percent growth in 2014.

Risks to the dividend income forecast are closely linked to the risks embedded in the U.S. equity markets and to risks to corporate profitability.

Interest Income

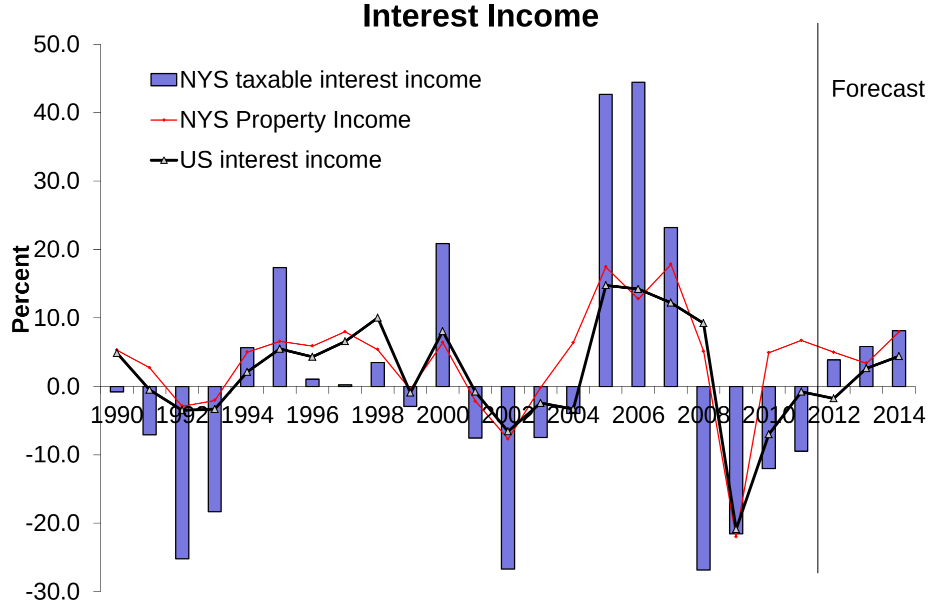
Taxable interest income has been declining for the past three years and is expected to show 9.5 percent decline in 2011 following declines of 12.0 percent in 2010, 21.5 percent in 2009 and 26.8 percent in 2008. DOB predicts that this income component will return to moderate growth starting with 3.9 percent for 2012, 5.8 percent for 2013 and 8.1 percent for 2014 as the US and State economies continue to recover.

For a given amount of assets, an increase in interest rates will increase interest income. In addition, New York property income, a component of the NIPA definition of state personal income that includes interest income, is found to be a good indicator of the trend in taxable interest income for New York, although it is much less volatile. Taxable interest income for New York is also much more volatile than U.S. interest income, a component of the NIPA definition of U.S. personal income (see Figure 65). For the period from 1977 to 2011, the average growth rate for New York property income was 6.5 percent, with a standard deviation of 8.4 percentage points, and the average growth rate for U.S. interest income was 6.3 percent, with a standard deviation of 9.8 percentage points. In contrast, State taxable interest income averaged 4.1 percent growth over the same period, with a standard deviation of 18.2 percentage points. The additional volatility in this component of NYSAGI could be related to the behavioral response of State taxpayers to past changes in the tax law.

In response to the conditions wrought by the Great Recession, the Federal Reserve ushered in a round of interest rate cuts starting in the second half of 2009. As the federal funds rate fell to close to zero and stayed low from 2009 to the present, taxable interest income for the four years from 2008 to 2011 experienced large declines. Though the Budget Division expects the Federal Reserve to keep rates low until the second half of 2014, the continued moderate growth of New York property income is expected to foster slow growth in taxable interest income for 2012 and 2013. With an increase in the federal funds rate starting in 2014, DOB predicts stronger growth in interest income for that year.

Figure 65

Interest Income



Note: 2011 NYS taxable interest income is an estimate.
Source: Moody's Economy.com; NYS Department of Taxation and Finance; DOB staff estimates.

Small Business and Farm Income

Small business and farm income combines income reported as a result of operating a business, practicing a profession as a sole proprietor, or operating a farm. Such income is expected to vary with the overall strength of the national and State economies. After a rather large decline of 6.7 percent in 2008 and near-flat growth of 0.7 percent in 2009, small business and farm income growth has picked up momentum, growing 2.5 percent in 2010 and an estimated 3.8 percent in 2011. The Budget Division forecast assumes a continuation of this trend with projected growth also affected by taxpayer shifting of income from 2013 to 2012. Growth of 7.6 percent is estimated for 2012, followed by slower growth of 4.0 percent for 2013, and 7.9 percent for 2014.

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

Small business and farm income growth and volatility has shrunk over the years. This component of taxable income grew at an annual average rate of 10.2 percent from 1980 to 1990 with a standard deviation of 11.1 percent but, since 1991, small business income this component of income has only grown at an annual average rate of 4.6 percent and a standard deviation of 4.7 percent. Proprietors' income, as defined under NIPA, experienced similar changes in growth, falling from 8.5 percent growth and a standard deviation of 11.8 percent to annual average growth of 5.9 percent prior to 1990 and a standard deviation of 6.3 percent thereafter.

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

Pension Income

Pension income is estimated to have grown 5.7 percent in 2011, following 10.6 percent and 3.5 percent in 2010 and 2009, respectively. The Budget Division projects 4.0 percent growth for both 2012 and 2013, followed by 2.6 percent growth in 2014.

Pension income includes payments from retirement plans, life insurance annuity contracts, profit-sharing plans, military retirement pay, and employee savings plans. Pension income is linked to prior year long-term interest rates, suggesting that firms base the level of pension and life-insurance benefits they offer to employees on their expectations of future profitability, which is in turn tied to the future strength of the economy. Pension income has grown steadily over the years, although the growth rate has declined considerably over time. The average annual growth rate between 1980 and 1990 was 12.6 percent, but it fell to 6.6 percent between 1991 and 2011. This coincides with a decline in the average 10-year Treasury yield from 10.3 percent in the former period to 5.2 percent in the latter. Both declines are likely the result of lower inflation rates in the later period.

Long-term Treasury yields have been at exceptionally low levels and have fallen continuously from a local high of 6.0 percent in 2006 to 1.8 percent in 2012 as a result of exceptionally low federal funds rates, the Federal Reserve's long-term asset purchasing program or quantitative easing, and the flight to safety engendered by the financial crises and subsequent sovereign debt. Long-term Treasury yields are expected to gradually rise over the course of 2013 and to increase to 3.0 percent by 2014. The risks to the forecast for pension income are related mainly to the risks to long-term interest rates. If the Federal Reserve Board maintains its quantitative easing program for longer than anticipated, pension income will likely be lower as well.

BOX 12
INCOME TAX LIABILITY AND ALTERNATIVE MEASURES OF INCOME

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

Personal income tax liability is the amount which State taxpayers actually owe for a given tax year and thus measures the State's tax base.[1] Personal income tax liability is derived from taxpayers' New York State adjusted gross income (NYSAGI), in conformity with State tax law. A measure that is closely related to NYSAGI is State personal income, a U.S. Bureau of Economic Analysis national income and product accounts (NIPA) concept that measures income derived from value added to current production.[2] This widely available data source is often used as a proxy for NYSAGI. The relative volatility of personal income tax liability, NYSAGI, and State personal income, is presented in Figure 62 on page 151. For example in 2010, personal income grew 5.6 percent, while NYSAGI grew a stronger 7.1 percent and personal income tax liability at constant law grew an even stronger 11.1 percent.

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

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

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

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

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

[2] For a detailed explanation of how the Budget Division constructs State personal income, see **Box 9** on page 121.

[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 2012, pp. 63-67, <http://www.budget.state.ny.us/pubs/supporting/MethodologyBook.pdf>.

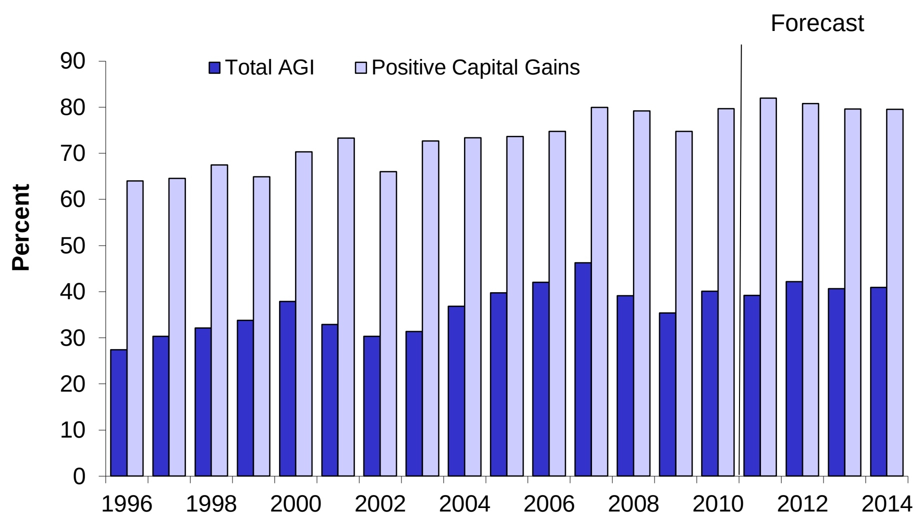
Changes in the State Distribution of Income and Revenue Risk

As indicated in Figure 62 on page 151, NYSAGI exhibits more volatility than other indicators of the State's tax base, such as State personal income, while tax liability is more volatile still. Box 12 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 40.1 percent of adjusted gross income in 2010, they accounted for fully 79.7 percent of capital gains realizations (see Figure 66). Since the income of wealthy taxpayers is taxed at the highest rate, an accurate projection of these income components is critical to an accurate projection of personal income tax liability.

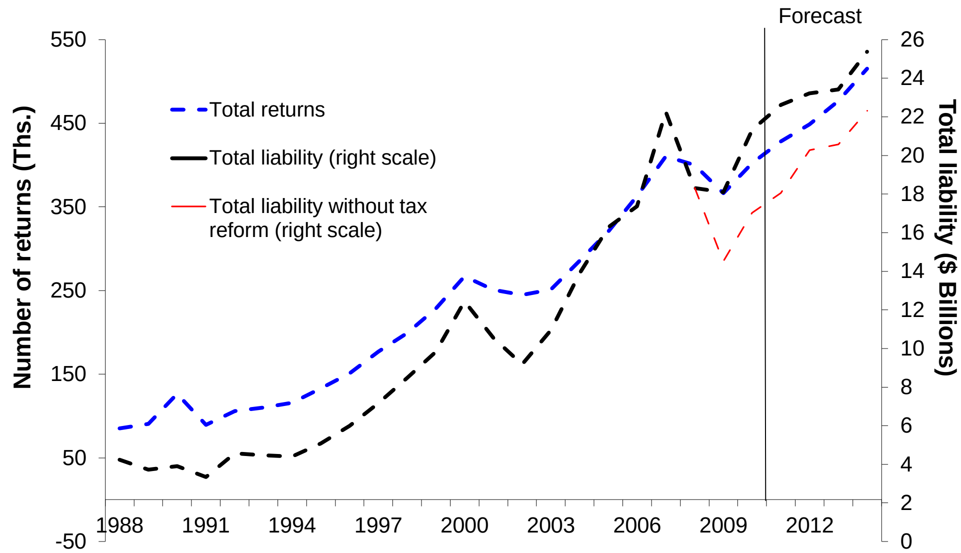
Figure 66

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



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

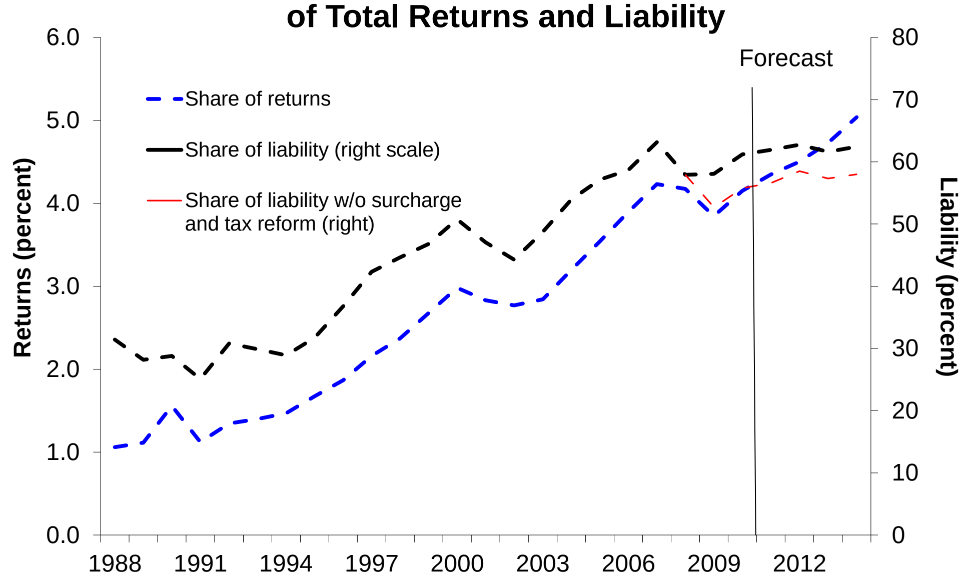
Figure 67
New York State High-Income Tax Returns



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

Figure 68

High-Income Taxpayers as Percent of Total Returns and Liability



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

Between 1985 and 2007, the number of returns generated by high-income taxpayers – those reporting NYSAGI of $200,000 or more – grew substantially at an average annual rate of 12.8 percent. During the same period, the liability generated by these taxpayers grew more rapidly at an annual average rate of 30.1 percent (see Figure 67). While the number of returns of high-income taxpayers fell 10.8 percent between 2007 and 2009, their liability fell by 18.7 percent and would have fallen 34.8 percent if not for a temporary surcharge that added two more tax brackets for wealthier taxpayers, raising the State's top income tax rate from 6.85 percent to 8.97 percent for tax years 2009 to 2011.[20] With the economic recovery, returns and tax liability for wealthier taxpayers rebounded, again showing a faster growth of 25.0 percent for liability compared to 16.9 percent growth for the number of returns over those two years. However, the large decline in NYSAGI and capital gains realizations partially unwound the concentration of income, at least temporarily. The share of returns filed by high income taxpayers dropped from 4.2 percent in 2007 to 3.9 percent in 2009 returning to 4.2 percent by 2010. But, their share of liability is not expected to return to its 2007 peak of 63.2 percent even by 2014, despite a top marginal tax rate of 8.82 percent starting with implementation of the tax reform in 2012 (see Figure 68).

Table 15 shows the changes in the concentration of income and liability over the ten-year span from 2000 to 2010. The share of nonwage income accruing to the top 25 percent of taxpayers had increased by 4.1 percentage points between 2000 and 2007 but grew only 1.2 percentage points over the decade due in large part to the substantial declines in 2008 and 2009 of capital gains realizations and partnership and S corporation income, which tend to accrue primarily to high-income filers. For wage income, which is more evenly distributed across taxpayers, the share of the top 25 percent of taxpayers increased 2.0 percentage points between 2000 and 2007, and 2.5 percentage points over the decade.

[20] See the "Personal Income Tax" section for more detail on the temporary income brackets and tax rates and the tax reform of 2011.

TABLE 15
THE CONCENTRATION OF STATE INCOME AND LIABILITY
2000, 2007, and 2010

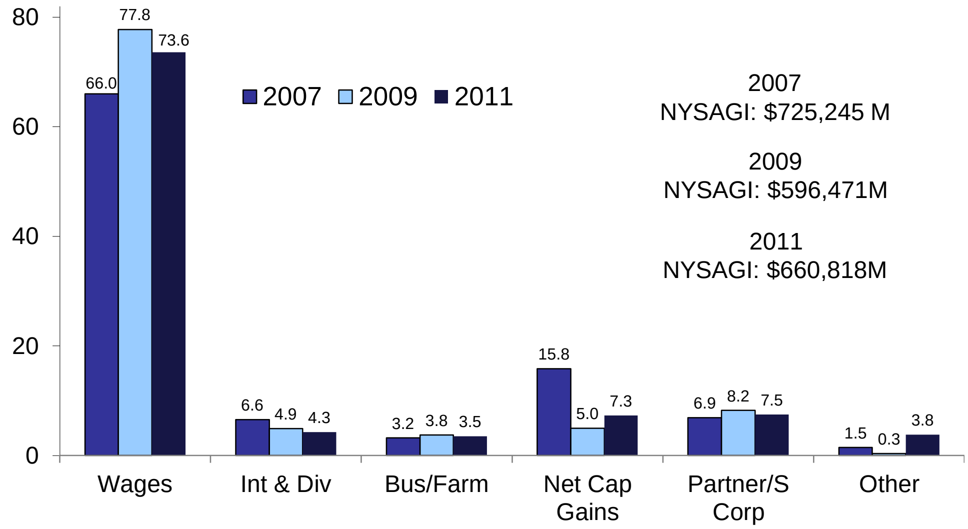
	Number of Returns	Gross Income	Wage Income	Nonwage Income	Liability
			2000		
Total ($ in millions)	8,963,399	$548,670	$373,177	$175,493	$24,733
Share: Top 1%	–	28.5	18.5	49.8	39.0
Share: Top 5%	–	43.8	33.2	66.4	58.1
Share: Top 10%	–	53.9	44.3	74.4	68.9
Share: Top 25%	–	72.9	66.6	86.3	86.1
			2007		
Total ($ millions)	9,700,043	$778,402	$485,565	$292,837	$35,217
Share: Top 1%	–	34.4	19.5	59.2	46.4
Share: Top 5%	–	49.7	35.4	73.3	65.1
Share: Top 10%	–	59.2	46.7	79.8	75.2
Share: Top 25%	–	76.7	68.5	90.4	90.2
			2010		
Total ($ in millions)	9,695,218	$694,517	$482,433	$212,085	$34,836
Share: Top 1%	–	27.7	17.2	51.4	44.7
Share: Top 5%	–	43.6	33.8	65.9	63.3
Share: Top 10%	–	54.5	46.1	73.4	73.8
Share: Top 25%	–	74.7	69.0	87.6	89.7

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

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

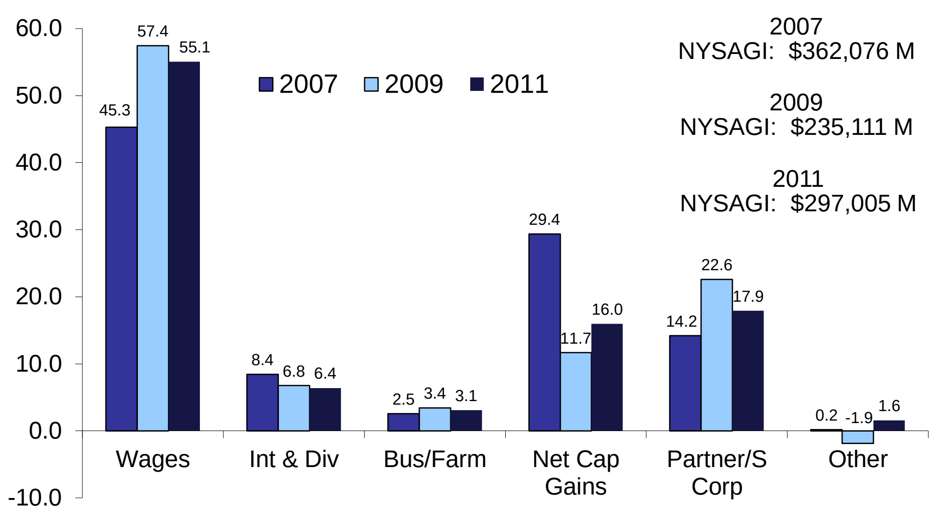
Figure 69 and Figure 70 display the actual composition of NYSAGI for the 2007 peak year and the 2009 trough year, as well as the projected composition for 2011, both for all taxpayers and for high-income taxpayers, defined here as those reporting NYSAGI of $200,000 or more. The figures show a substantial decline between 2007 and 2009 in the share of net capital gains realizations and an increase in the share of wages for both groups. After two years of sluggish recovery, the share of wages declined somewhat while the share of capital gains income increased, yet for all taxpayers and for high-income taxpayers alike, their taxable income is still much less reliant on capital gains income than it was in 2007.

Figure 69
Composition of NYSAGI for All Taxpayers
(percent)



Note: Both capital gains and partnership/S corporation gains income are net of losses. 2011 numbers are projections.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

Figure 70
Composition of NYSAGI for High-Income Taxpayers
(percent)



Note: Both capital gains and partnership/S corporation gains income are net of losses. High-income taxpayers are those reporting NYSAGI of $200,000 or more. All 2011 numbers are projections.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

Summary

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

SELECTED ECONOMIC INDICATORS
(Calendar Year)

	2011 (actual[1])	2012 (estimate)	2013 (forecast)	2014 (forecast)	2015 (forecast)	2016 (forecast)	1977-2011 Average[2]
U.S. Indicators[3]							
Gross Domestic Product (current dollars)	4.0	4.1	3.7	4.8	5.3	5.2	6.3
Gross Domestic Product	1.8	2.3	2.0	2.7	3.1	2.8	2.8
Consumption	2.5	1.9	1.9	2.5	3.0	2.9	3.0
Residential Fixed Investment	(1.4)	12.2	15.6	13.4	11.2	7.3	0.9
Nonresidential Fixed Investment	8.6	7.5	4.6	5.6	5.7	4.9	4.5
Change in Inventories (dollars)	31.0	46.6	35.1	39.2	38.5	40.3	25.2
Exports	6.7	3.4	2.6	6.8	7.6	7.0	5.9
Imports	4.8	2.6	1.9	5.1	6.0	6.1	6.0
Government Spending	(3.1)	(1.2)	(0.9)	(0.9)	0.0	(0.1)	2.0
Corporate Profits[4]	7.3	6.3	4.7	5.0	5.7	6.2	7.7
Personal Income	5.1	3.5	3.0	6.2	6.1	5.3	6.5
Wages	4.0	3.2	4.5	6.2	6.4	5.6	5.9
Nonagricultural Employment	1.2	1.4	1.4	1.9	2.2	2.2	1.5
Unemployment Rate (percent)	8.9	8.1	7.6	7.1	6.4	6.0	6.4
S&P 500 Stock Price Index	11.4	8.8	7.8	5.2	5.1	4.8	8.4
Federal Funds Rate	0.1	0.1	0.2	0.3	1.3	2.4	5.9
10-year Treasury Yield	2.8	3.3	2.1	3.0	3.9	4.6	7.1
Consumer Price Index	3.1	2.1	2.1	2.2	2.4	2.4	4.0
New York State Indicators							
Personal Income[5]	4.4	2.8	2.9	6.2	5.7	5.4	6.0
Wages and Salaries[5]							
Total	3.7	2.0	4.6	4.9	5.2	5.3	5.5
Without Bonus[6]	3.9	3.0	4.6	4.8	5.1	5.2	5.2
Bonus[6]	2.5	(4.4)	4.3	5.8	5.7	6.0	9.7
Finance and Insurance Bonuses[6]	2.0	(12.0)	3.4	6.6	6.5	7.0	15.1
Wage Per Employee	2.5	0.7	3.3	3.7	3.8	3.9	4.8
Property Income	6.7	5.0	3.4	8.0	6.8	6.1	6.5
Proprietors' Income	3.4	3.4	3.2	8.8	7.5	7.1	7.7
Transfer Income	1.5	2.8	3.2	5.9	5.0	4.3	6.5
Nonfarm Employment[5]							
Total	1.2	1.3	1.3	1.2	1.4	1.3	0.7
Private	2.1	1.8	1.5	1.5	1.6	1.5	0.7
Unemployment Rate (percent)	8.2	8.6	8.2	7.7	7.0	6.4	6.5
Composite CPI of New York[6]	3.0	2.0	1.8	2.2	2.4	2.5	4.1
New York State Adjusted Gross Income (NYSAGI)							
Capital Gains	9.4	40.7	(12.0)	4.6	11.0	7.4	15.7
Partnership/ S Corporation Gains	(0.7)	15.5	6.0	9.6	10.1	7.9	10.8
Business and Farm Income	3.8	7.6	4.0	7.9	7.9	7.1	6.7
Interest Income	(9.5)	3.9	5.8	8.1	10.2	9.8	4.5
Dividends	0.7	19.0	(9.0)	11.2	9.1	7.5	6.1
Total NYSAGI	3.4	6.7	2.3	5.5	6.2	5.5	5.5

[1] For NYSAGI variables, 2011 is an estimate.
[2] Averages for NYSAGI variables are based on data through 2010. Partnership and S corporation gains data start in 1978, NYSAGI and Business and Farm data in 1980.
[3] All indicators are percent changes except change in inventories, the unemployment rate, and interest rates; all GDP components refer to chained 2005 dollars, unless otherwise noted.
[4] Includes inventory valuation and capital consumption adjustments.
[5] Nonagricultural employment, wage, and personal income numbers are based on CEW data.
[6] Series created by the Division of the Budget.
Source: Moody's Analytics; NYS Department of Labor; NYS Department of Taxation and Finance; DOB staff estimates.

SELECTED ECONOMIC INDICATORS
(State Fiscal Year)

	2011-12 (actual)	2012-13 (estimate)	2013-14 (forecast)	2014-15 (forecast)	2015-16 (forecast)	2016-17 (forecast)	1977-78 - 2011-12 Average
U.S. Indicators[1]							
Gross Domestic Product (current dollars)	4.1	3.8	4.0	5.0	5.3	5.2	6.2
Gross Domestic Product	2.0	2.1	2.2	2.8	3.0	2.8	2.8
Consumption	2.2	1.8	2.1	2.6	3.0	2.9	3.0
Residential Fixed Investment	1.7	13.5	15.5	13.3	10.0	6.8	0.8
Nonresidential Fixed Investment	10.1	5.2	5.2	5.7	5.4	4.8	4.5
Change in Inventories (dollars)	37.7	41.8	35.8	38.6	38.6	40.0	25.4
Exports	5.5	2.8	3.7	7.3	7.5	6.9	5.9
Imports	3.3	2.0	2.8	5.3	6.2	5.9	5.9
Government Spending	(3.1)	(0.7)	(1.2)	(0.5)	(0.1)	(0.0)	2.0
Corporate Profits[2]	8.7	5.2	4.6	5.1	5.9	6.4	7.8
Personal Income	4.2	3.2	4.1	6.2	5.9	5.2	6.4
Wages	3.5	3.1	5.2	6.4	6.2	5.4	5.9
Nonagricultural Employment	1.3	1.4	1.5	2.0	2.3	2.1	1.5
Unemployment Rate (percent)	8.7	8.0	7.5	6.9	6.3	5.9	6.4
S&P 500 Stock Price Index	8.1	10.0	7.3	4.9	5.1	4.7	8.3
Federal Funds Rate	0.1	0.2	0.2	0.5	1.6	2.7	5.8
10-year Treasury Yield	2.4	1.8	2.2	3.2	4.1	4.8	7.1
Consumer Price Index	3.3	1.8	2.2	2.3	2.4	2.4	4.0
New York State Indicators							
Personal Income[3]	2.9	3.0	4.1	5.9	5.6	5.4	6.0
Wages and Salaries[3]							
Total	1.8	3.1	4.8	5.0	5.2	5.3	5.6
Without Bonus[4]	3.8	3.0	4.7	4.9	5.1	5.1	5.3
Bonus[4]	(10.3)	3.6	5.5	5.6	5.8	6.2	9.7
Finance and Insurance Bonuses	(19.7)	4.0	5.7	6.3	6.8	7.3	15.7
Wage Per Employee	0.5	1.8	3.5	3.7	3.8	3.9	4.9
Property Income	4.9	4.7	5.7	7.1	6.6	6.0	6.6
Proprietors' Income	2.3	2.4	6.3	7.9	7.4	7.1	8.0
Transfer Income	1.4	3.1	3.8	5.9	4.7	4.4	6.5
Nonfarm Employment[3]							
Total	1.3	1.2	1.2	1.2	1.4	1.3	0.6
Private	2.1	1.6	1.5	1.5	1.6	1.4	0.7
Unemployment Rate (percent)	8.3	8.5	8.1	7.5	6.8	6.3	6.6
Composite CPI of New York[4]	3.1	1.8	1.9	2.2	2.4	2.6	4.1

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

[2] Includes inventory valuation and capital consumption adjustments.

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

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

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

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

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

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

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

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

TOTAL STATE AND LOCAL TAXES

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

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

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

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

- The state and local tax-to-income ratio for New York exceeded the national average by $4.96 per $100 of personal income, or 47.1 percent in 1977, ranking New York second nationally. In 2010, the gap was $4.33, or 41.7 percent above the national average, ranking New York third nationally.

State Taxes

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

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

- New York's tax burden, as measured by the ratio of state taxes to income, was sixty cents or 9.4 percent above the national average in 2010.

- New York taxes per $100 of personal income actually declined from $7.39 in 1977 to $6.96 in 2010.

- New York's state tax rank declined from tenth highest in 1977, to twelfth highest in 2010.

Local Taxes

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

- New York City uniquely imposes taxes which comprise a large portion of New York's total local burden. In 2010, nearly $1.42 of New York's local burden of $7.75 per $100 of state personal income was due to New York City (NYC) personal and corporate income taxes. This accounted for over 18 percent of the total local burden.

Property Taxes in New York State

- Higher than average property taxes as a share of income (49.1 percent above the 2010 national average) in New York are tied, for the most part, to the rapid escalation in school property taxes and local Medicaid costs through 2010.

- 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 top ten highest property tax counties in the nation (and 14 of the top 20) in 2010 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 2010. Using this metric, 5 of the 10 highest property tax counties in the nation in 2010 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 2010 when compared to other New York counties. This is the result of the more diverse tax structure in the City and a large and valuable commercial property tax base.

- Chapter 97 of the Laws of 2011 generally imposed a growth cap of 2 percent on the annual property tax levy of local taxing jurisdictions. Although data for 2011 are not yet available, it is expected that the cap will reduce property tax growth with respect to its average of 5.3 percent annually from 2000 to 2010.

TABLE CONSTRUCTION

This section compares the state and local tax structure in New York State with other states. Table 1 reports tax rates for the major tax sources utilized by state and local governments. The first and second data columns of the table show the top personal income tax rate by state, and the income level at which the top rate takes effect; the third column lists top corporate tax rates (most state corporate tax structures have relatively flat rate structures, so the rate reported often applies to all corporate income subject to tax); the fourth column reports state sales tax rates; and the final column reports the average combined state and local sales tax rates imposed by the various jurisdictions within such state. The rates are those in effect as of 2012. 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 2010, respectively. The New York rank in terms of state taxes moved from tenth highest to twelfth highest over this period.

Tables 4 and 5 report local taxes as a share of state personal income by state in 1977 and in 2010. In 2010, New York had the highest local tax burden using this measure. New York fell from $4.13 above the mean local tax burden in 1977 to $3.73 in 2010, but some of this decrease is captured in the general decrease in variation amongst local taxes across states. The above-average local tax burden is caused by relatively high

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

property taxes, the large sales tax burden imposed at the local level, and the high ratio in the other category that picks up the income and corporate taxes imposed by New York City.

Tables 6a, 6b and 7 report state and locally imposed taxes as a percentage of state personal income. The data used in the calculations are for fiscal years ending in 1977 and 2010, the latest year for which complete state and local tax information are available. The tax-to-income ratios included on table 7 are: state and local income taxes, state and local corporate taxes, state and local sales taxes, local property taxes, all other state and local taxes, and finally combined state and local taxes. Table 8a reports changes in only the state tax to income ratio over the 1977-2010 period. During this time, New York's state tax burden fell relative to the mean, and has been below the mean for all but four of the last fifteen recorded years. In two of those instances (2009, 2010) New York had a temporary personal income tax surcharge in effect on high income taxpayers. Table 8b reports changes in the state and local tax-to-income ratio over the 1977-2010 period. In 1977 state and local taxes as a percent of personal income were 4.96 percentage points above the national average. In 2010, New York was 4.33 percentage points above the national average. The average state and local tax-to-income ratio has remained relatively constant nationwide over the thirty-one year period, while the New York ratio has declined overall in spite of a recent increase and should continue to decline in the years ahead due to the property tax cap noted earlier. In every year since 1977, New York has been at least 2.74 percentage points above the mean.

The bottom of tables 1-7 report the mean for each tax category, as well as the standard deviation and the Coefficient of Variation (CV). Additionally, the difference between the national average and New York values is reported. While the standard deviation provides a sense of how the data are dispersed around the average value for all states, the CV allows comparisons of spread for data with different averages and is defined simply as the standard deviation divided by the average and is reported as a percentage. It essentially provides a normalized, unit-free measure of dispersion.

Table 9 reports U.S. Census Bureau data on county-level property tax collections on owner-occupied housing across the U.S., as compiled and calculated by the Tax Foundation, for the 39 New York State counties that appeared in the Tax Foundation report.[2] The source report covered the 806 counties in 2010 that had populations of at least 65,000 as of July 1, 2010. Table 9 is sorted by county, in descending order of median property taxes paid on homes in that county as a percentage of the same county's median home value. Median values report the data point for which half of the data set values are higher and half lower. They differ from mean values (the sum of all observations divided by the number of observations) in that outlying values, such as particularly expensive homes, do not skew the computation. The rankings reported indicate the relative ordering of the counties with respect to the 806 U.S. counties covered, and are not relative solely to the counties of New York State.

[2] *Property Taxes on Owner-Occupied Housing by County, 2010.* Tax Foundation, July 27, 2012.

The Tax-to-Income Percentage

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

Tax Exportation

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

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

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

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

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

Income Adjustments

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

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

Federal Offsets

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

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

Table 1 Comparison of 2012 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	8.33
Alaska	0	NA	9.4	0	1.77
Arizona	4.54	$300,000	6.97	6.6	9.12
Arkansas	7	$33,200	6.5	6	8.58
California	10.3	$1,000,000	8.84	7.25	8.11
Colorado	4.63	Flat Rate	4.63	2.9	7.44
Connecticut	6.7	$500,000	9	6.35	6.35
Delaware	6.75	$60,000	8.7	0	0
Florida	0	NA	5.5	6	6.62
Georgia	6	$10,000	6	4	6.84
Hawaii	11	$400,000	6.4	4	4.35
Idaho	7.4	$20,700	7.6	6	6.02
Illinois	5	Flat Rate	9.5	6.25	8.2
Indiana	3.4	Flat Rate	8.5	7	7
Iowa	8.98	$66,105	12	6	6.81
Kansas	6.45	$60,000	7	6.3	8.26
Kentucky	6	$75,000	6	6	6
Louisiana	6	$100,000	8	4	8.85
Maine	8.5	$40,700	8.93	5	5
Maryland	5.75	$300,000	8.25	6	6
Massachusetts	5.3	Flat Rate	8	6.25	6.25
Michigan	4.35	Flat Rate	6	6	6
Minnesota	7.85	$137,430	9.8	6.88	7.18
Mississippi	5	$10,000	5	7	7
Missouri	6	$9,000	6.25	4.23	7.49
Montana	6.9	$16,000	6.75	0	0
Nebraska	6.84	$54,000	7.81	5.5	6.77
Nevada	0	NA	0	6.85	7.93
New Hampshire	State Income tax limited to Interest Income and Dividends only		8.5	0	0
New Jersey	8.97	$500,000	9	7	6.97
New Mexico	4.9	$24,000	7.6	5.13	7.24
New York	**8.82**	**$2,000,000**	**7.1**	**4**	**8.48**
North Carolina	7.75	$100,000	6.9	4.75	6.85
North Dakota	3.99	$388,350	5.2	5	6.39
Ohio	5.925	$204,200	-	5.5	6.75
Oklahoma	5.25	$15,000	6	4.5	8.66
Oregon	9.9	$250,000	7.6	0	0
Pennsylvania	3.07	Flat Rate	9.99	6	6.34
Rhode Island	5.99	$129,900	9	7	7
South Carolina	7	$14,000	5	6	7.13
South Dakota	0	NA	0	4	5.39
Tennessee	State Income tax limited to Interest Income and Dividends only		6.5	7	9.45
Texas	0	NA	-	6.25	8.14
Utah	5	Flat Rate	5	5.95	6.68
Vermont	8.95	$388,350	8.5	6	6.14
Virginia	5.75	$17,000	6	5	5
Washington	0	NA	-	6.5	8.8
West Virginia	6.5	$60,000	7.75	6	6
Wisconsin	7.75	$310,210	7.9	5	5.43
Wyoming	0	NA	0	4	5.34
Mean Values	**5.57**		**6.99**	**5.08**	**6.37**
Standard Deviation	**2.86**		**2.40**	**1.96**	**2.29**
Coefficient of Variation	**51.30**		**34.36**	**38.57**	**36.04**

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

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 - 2010 Components and Percentage of Total State Tax Burden per $100 Personal Income

State	Total State Taxes	Rank	PIT	Rank	Percent of Total	Sales and Use	Rank	Percent of Total	Corporate	Rank	Percent of Total	Other	Rank	Percent of Total
Alabama	5.15	38	1.63	35	31.7	2.66	33	51.7	0.27	26	5.2	0.59	28	11.5
Alaska	14.86	1	0.00	44	0.0	0.86	49	5.8	2.11	1	14.2	11.88	1	79.9
Arizona	4.78	42	1.13	40	23.6	2.90	26	60.7	0.19	37	4.0	0.55	31	11.5
Arkansas	8.18	7	2.26	19	27.6	4.01	5	49.0	0.42	7	5.1	1.49	8	18.2
California	6.87	14	2.99	5	43.5	2.53	36	36.8	0.60	3	8.7	0.75	21	10.9
Colorado	4.16	49	1.98	28	47.6	1.70	44	40.9	0.17	39	4.1	0.30	48	7.2
Connecticut	6.4	20	3.01	4	47.0	2.80	29	43.8	0.26	27	4.1	0.33	44	5.2
Delaware	8	8	2.46	14	30.8	1.34	48	16.8	0.41	9	5.1	3.79	5	47.4
Florida	4.52	45	0.00	44	0.0	3.77	9	83.4	0.26	30	5.8	0.50	36	11.1
Georgia	4.5	46	2.14	24	47.6	1.98	43	44.0	0.21	34	4.7	0.17	50	3.8
Hawaii	8.86	4	2.80	8	31.6	5.57	1	62.9	0.15	42	1.7	0.34	43	3.8
Idaho	6.1	24	2.21	21	36.2	3.11	22	51.0	0.20	36	3.3	0.57	30	9.3
Illinois	4.84	41	1.61	36	33.3	2.45	37	50.6	0.26	29	5.4	0.52	33	10.7
Indiana	6.38	21	1.79	32	28.1	3.93	7	61.6	0.28	25	4.4	0.39	41	6.1
Iowa	6.01	26	2.34	17	38.9	2.81	28	46.8	0.17	40	2.8	0.69	24	11.5
Kansas	6.02	25	2.49	13	41.4	2.75	31	45.7	0.33	18	5.5	0.45	38	7.5
Kentucky	6.87	13	2.28	18	33.2	3.37	18	49.1	0.28	24	4.1	0.95	16	13.8
Louisiana	5.35	37	1.40	39	26.2	2.96	25	55.3	0.24	31	4.5	0.76	20	14.2
Maine	7.25	10	2.71	10	37.4	3.46	16	47.7	0.36	13	5.0	0.71	23	9.8
Maryland	5.53	33	2.25	20	40.7	2.28	40	41.2	0.32	20	5.8	0.68	25	12.3
Massachusetts	6.14	22	3.10	3	50.5	2.08	42	33.9	0.56	4	9.1	0.40	40	6.5
Michigan	6.75	16	1.64	34	24.3	3.81	8	56.4	0.21	35	3.1	1.09	14	16.1
Minnesota	7.85	9	2.95	6	37.6	3.60	12	45.9	0.33	16	4.2	0.98	15	12.5
Mississippi	6.99	11	1.51	37	21.6	4.54	3	64.9	0.35	14	5.0	0.59	29	8.4
Missouri	4.52	44	2.02	26	44.7	2.11	41	46.7	0.10	45	2.2	0.30	49	6.6
Montana	6.44	19	2.15	23	33.4	1.60	46	24.8	0.28	23	4.3	2.41	6	37.4
Nebraska	5.41	35	2.15	22	39.7	2.70	32	49.9	0.22	33	4.1	0.34	42	6.3
Nevada	6.11	23	0.00	44	0.0	4.47	4	73.2	0.00	47	0.0	1.63	7	26.7
New Hampshire	3.75	50	0.15	42	4.0	1.42	47	37.9	0.88	2	23.5	1.31	11	34.9
New Jersey	5.94	29	2.37	16	39.9	2.59	35	43.6	0.47	5	7.9	0.52	34	8.8
New Mexico	6.51	18	1.44	38	22.1	3.52	13	54.1	0.19	38	2.9	1.37	9	21.0
New York	**6.96**	**12**	**3.81**	**1**	**54.7**	**2.29**	**39**	**32.9**	**0.43**	**6**	**6.2**	**0.44**	**39**	**6.3**
North Carolina	6.61	17	2.81	7	42.5	2.90	27	43.9	0.40	12	6.1	0.51	35	7.7
North Dakota	9.73	3	1.12	41	11.5	3.49	14	35.9	0.32	19	3.3	4.80	3	49.3
Ohio	5.81	31	1.94	29	33.4	3.02	24	52.0	0.04	46	0.7	0.82	18	14.1
Oklahoma	5.52	34	1.74	33	31.5	2.30	38	41.7	0.17	41	3.1	1.32	10	23.9
Oregon	5.41	36	3.67	2	67.8	0.71	50	13.1	0.26	28	4.8	0.77	19	14.2
Pennsylvania	6.01	27	1.86	30	30.9	3.08	23	51.2	0.33	17	5.5	0.74	22	12.3
Rhode Island	5.94	28	2.11	25	35.5	3.25	20	54.7	0.28	22	4.7	0.31	47	5.2
South Carolina	5	39	1.83	31	36.6	2.75	30	55.0	0.10	43	2.0	0.32	45	6.4
South Dakota	4.23	47	0.00	44	0.0	3.46	17	81.8	0.10	44	2.4	0.67	26	15.8
Tennessee	4.86	40	0.08	43	1.6	3.71	10	76.3	0.42	8	8.6	0.65	27	13.4
Texas	4.17	48	0.00	44	0.0	3.29	19	78.9	0.00	47	0.0	0.88	17	21.1
Utah	5.85	30	2.42	15	41.4	2.60	34	44.4	0.28	21	4.8	0.55	32	9.4
Vermont	10.29	2	2.00	27	19.4	3.46	15	33.6	0.35	15	3.4	4.47	4	43.4
Virginia	4.75	43	2.51	12	52.8	1.70	45	35.8	0.23	32	4.8	0.32	46	6.7
Washington	5.79	32	0.00	44	0.0	4.62	2	79.8	0.00	47	0.0	1.17	13	20.2
West Virginia	8.27	6	2.64	11	31.9	4.00	6	48.4	0.41	10	5.0	1.22	12	14.8
Wisconsin	6.79	15	2.74	9	40.4	3.16	21	46.5	0.40	11	5.9	0.49	37	7.2
Wyoming	8.73	5	0.00	44	0.0	3.61	11	41.4	0.00	47	0.0	5.13	2	58.8
Mean	**6.36**		**1.84**		**29.9**	**2.94**		**48.5**	**0.31**		**4.8**	**1.26**		**16.8**
Standard Deviation	**1.87**		**1.01**			**0.96**			**0.30**			**1.89**		
Coefficient of Variation	**29.48**		**54.93**			**32.72**			**97.10**			**149.95**		
NYS Diff. from Mean	**0.60**		**1.97**		**24.8**	**(0.65)**		**(15.6)**	**0.12**		**1.4**	**(0.82)**		**(10.5)**

Source: U.S. Census Bureau, 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	**4.13**		**2.17**		**(16.4)**	**1.15**		**9.7**	**0.80**		**6.7**

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

Note: "Other" includes NYC imposed taxes and other categories.

Table 5 - 2010 Components and Percentage of Total Local Taxes Per $100 of Personal Income

State	Total	Rank	Property	Rank	Percent of Total	Sales	Rank	Percent of Total	Other	Rank	Percent of Total
Alabama	3.03	41	1.42	49	46.8	1.12	6	37.1	0.49	8	16.2
Alaska	5.17	5	3.94	13	76.2	1.12	7	21.7	0.11	29	2.1
Arizona	4.28	23	3.07	29	71.8	1.04	9	24.2	0.18	22	4.0
Arkansas	1.90	49	0.88	50	46.1	0.99	10	52.2	0.03	49	1.6
California	4.13	24	3.31	21	80.1	0.57	20	13.7	0.26	18	6.2
Colorado	5.63	3	3.89	14	69.0	1.43	2	25.3	0.32	16	5.6
Connecticut	4.76	13	4.69	6	98.6	0.00	34	0.0	0.07	47	1.4
Delaware	2.31	48	1.92	44	83.1	0.00	34	0.0	0.39	12	16.9
Florida	4.44	16	4.05	11	91.3	0.18	29	4.0	0.21	20	4.7
Georgia	4.36	18	3.20	26	73.4	1.06	8	24.3	0.11	30	2.3
Hawaii	2.86	44	2.55	38	89.2	0.00	34	0.0	0.31	17	10.8
Idaho	2.82	45	2.70	34	95.8	0.00	34	0.0	0.11	28	4.2
Illinois	4.88	8	4.43	9	90.8	0.32	25	6.5	0.13	26	2.7
Indiana	4.34	21	3.54	20	81.5	0.00	34	0.0	0.80	6	18.5
Iowa	4.36	20	3.67	16	84.1	0.54	21	12.5	0.14	25	3.4
Kansas	4.36	19	3.57	19	81.9	0.70	16	16.0	0.09	33	2.1
Kentucky	2.66	47	1.77	47	66.4	0.00	34	0.0	0.89	5	33.6
Louisiana	4.33	22	2.04	43	47.0	2.17	1	50.2	0.12	27	2.8
Maine	4.86	9	4.83	5	99.4	0.00	34	0.0	0.03	50	0.6
Maryland	4.46	15	2.79	33	62.5	0.00	34	0.0	1.67	1	37.5
Massachusetts	4.04	26	3.97	12	98.3	0.00	34	0.0	0.07	45	1.8
Michigan	3.82	32	3.65	17	95.5	0.00	34	0.0	0.18	23	4.5
Minnesota	3.19	39	3.06	30	96.0	0.05	32	1.5	0.08	40	2.5
Mississippi	2.89	43	2.79	32	96.7	0.00	34	0.0	0.10	32	3.3
Missouri	3.98	27	2.66	35	66.8	0.88	12	22.1	0.44	9	11.0
Montana	3.21	38	3.13	28	97.6	0.00	34	0.0	0.08	41	2.4
Nebraska	4.83	11	3.85	15	79.7	0.42	22	8.6	0.56	7	11.7
Nevada	3.91	29	3.28	22	83.8	0.29	27	7.5	0.34	14	8.7
New Hampshire	5.11	7	5.03	3	98.4	0.00	34	0.0	0.08	39	1.6
New Jersey	5.74	2	5.67	1	98.8	0.00	34	0.0	0.07	44	1.2
New Mexico	3.19	40	1.86	46	58.4	1.24	5	38.9	0.08	38	2.7
New York	**7.75**	**1**	**4.84**	**4**	62.4	**1.27**	**4**	16.4	**1.64**	**2**	**21.2**
North Carolina	3.37	36	2.63	37	78.2	0.64	18	19.1	0.09	35	2.7
North Dakota	3.00	42	2.52	39	84.1	0.41	24	13.6	0.07	46	2.3
Ohio	4.83	10	3.21	25	66.5	0.41	23	8.5	1.21	3	25.0
Oklahoma	3.22	37	1.87	45	58.1	1.27	3	39.5	0.07	43	2.3
Oregon	4.06	25	3.65	18	89.8	0.00	34	0.0	0.42	11	10.2
Pennsylvania	4.41	17	3.17	27	72.0	0.12	31	2.6	1.12	4	25.4
Rhode Island	5.16	6	5.07	2	98.3	0.00	34	0.0	0.08	36	1.7
South Carolina	3.86	31	3.22	24	83.4	0.22	28	5.6	0.42	10	10.9
South Dakota	3.97	28	2.97	31	74.7	0.90	11	22.7	0.10	31	2.6
Tennessee	3.37	35	2.32	42	68.9	0.88	13	26.0	0.17	24	5.0
Texas	4.80	12	4.14	10	86.2	0.57	19	12.0	0.09	34	1.8
Utah	3.38	34	2.64	36	78.2	0.65	17	19.4	0.08	37	2.4
Vermont	1.78	50	1.69	48	94.9	0.04	33	2.2	0.05	48	2.9
Virginia	3.88	30	3.25	23	83.7	0.30	26	7.6	0.34	15	8.7
Washington	3.44	33	2.37	41	69.0	0.81	14	23.6	0.26	19	7.4
West Virginia	2.74	46	2.38	40	86.9	0.00	34	0.0	0.36	13	13.1
Wisconsin	4.71	14	4.49	8	95.4	0.14	30	2.9	0.08	42	1.7
Wyoming	5.48	4	4.55	7	83.0	0.73	15	13.3	0.20	21	3.7
Mean	**4.02**		**3.24**		**80.4**	**0.47**		**12.0**	**0.31**		**7.6**
Std. Dev.	**1.07**		**1.04**			**0.51**			**0.38**		
CV	**26.63**		**32.04**			**108.32**			**123.87**		
NYS Diff.	**3.73**		**1.59**		**(18.0)**	**0.80**		**4.4**	**1.34**		**13.6**

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

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

Table 6b - State/Local Split of 2010 Tax-to-Income Ratio				
State	**State Taxes**	**Local Taxes**	**State/Local Total**	**Total Rank**
Alabama	5.15	3.03	8.18	50
Alaska	14.86	5.17	20.03	1
Arizona	4.78	4.28	9.06	38
Arkansas	8.18	1.90	10.08	24
California	6.87	4.13	11.00	14
Colorado	4.16	5.63	9.79	29
Connecticut	6.40	4.76	11.16	10
Delaware	8.00	2.31	10.31	21
Florida	4.52	4.44	8.96	40
Georgia	4.50	4.36	8.86	42
Hawaii	8.86	2.86	11.72	7
Idaho	6.10	2.82	8.92	41
Illinois	4.84	4.88	9.72	30
Indiana	6.38	4.34	10.72	15
Iowa	6.01	4.36	10.37	20
Kansas	6.02	4.36	10.38	19
Kentucky	6.87	2.66	9.53	34
Louisiana	5.35	4.33	9.68	32
Maine	7.25	4.86	12.11	5
Maryland	5.53	4.46	9.99	26
Massachusetts	6.14	4.04	10.18	23
Michigan	6.75	3.82	10.57	17
Minnesota	7.85	3.19	11.04	12
Mississippi	6.99	2.89	9.88	28
Missouri	4.52	3.98	8.50	47
Montana	6.44	3.21	9.65	33
Nebraska	5.41	4.83	10.24	22
Nevada	6.11	3.91	10.02	25
New Hampshire	3.75	5.11	8.86	42
New Jersey	5.94	5.74	11.68	8
New Mexico	6.51	3.19	9.70	31
New York	**6.96**	**7.75**	**14.71**	2
North Carolina	6.61	3.37	9.98	27
North Dakota	9.73	3.00	12.73	4
Ohio	5.81	4.83	10.64	16
Oklahoma	5.52	3.22	8.74	45
Oregon	5.41	4.06	9.47	35
Pennsylvania	6.01	4.41	10.42	18
Rhode Island	5.94	5.16	11.10	11
South Carolina	5.00	3.86	8.86	42
South Dakota	4.23	3.97	8.20	49
Tennessee	4.86	3.37	8.23	48
Texas	4.17	4.80	8.97	39
Utah	5.85	3.38	9.23	36
Vermont	10.29	1.78	12.07	6
Virginia	4.75	3.88	8.63	46
Washington	5.79	3.44	9.23	36
West Virginia	8.27	2.74	11.01	13
Wisconsin	6.79	4.71	11.50	9
Wyoming	8.73	5.48	14.21	3
Mean Values	**6.36**	**4.02**	**10.38**	
Standard Deviation	**1.87**	**1.07**	**1.95**	
Coefficient of Variation	**29.48**	**26.63**	**18.83**	
NYS Diff. from Avg.	**0.60**	**3.73**	**4.33**	
Sources: U.S. Census Bureau, DOB Staff Estimates				

Table 7 - 2010 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	1.63	0.07	0.27	0.00	2.66	1.12	1.42	1.01	8.18
Alaska	0.00	0.00	2.11	0.00	0.86	1.12	3.94	12.00	20.03
Arizona	1.13	0.00	0.19	0.00	2.90	1.04	3.07	0.73	9.06
Arkansas	2.26	0.00	0.42	0.00	4.01	0.99	0.88	1.52	10.08
California	2.99	0.00	0.60	0.00	2.53	0.57	3.31	1.00	11.00
Colorado	1.98	0.00	0.17	0.00	1.70	1.43	3.89	0.63	9.79
Connecticut	3.01	0.00	0.26	0.00	2.80	0.00	4.69	0.40	11.16
Delaware	2.46	0.16	0.41	0.01	1.34	0.00	1.92	4.01	10.31
Florida	0.00	0.00	0.26	0.00	3.77	0.18	4.05	0.70	8.96
Georgia	2.14	0.00	0.21	0.00	1.98	1.06	3.20	0.27	8.86
Hawaii	2.80	0.00	0.15	0.00	5.57	0.00	2.55	0.65	11.72
Idaho	2.21	0.00	0.20	0.00	3.11	0.00	2.70	0.70	8.92
Illinois	1.61	0.00	0.26	0.00	2.45	0.32	4.43	0.65	9.72
Indiana	1.79	0.72	0.28	0.00	3.93	0.00	3.54	0.46	10.72
Iowa	2.34	0.09	0.17	0.00	2.81	0.54	3.67	0.75	10.37
Kansas	2.49	0.00	0.33	0.00	2.75	0.70	3.57	0.54	10.38
Kentucky	2.28	0.75	0.28	0.07	3.37	0.00	1.77	1.02	9.53
Louisiana	1.40	0.00	0.24	0.00	2.96	2.17	2.04	0.87	9.68
Maine	2.71	0.00	0.36	0.00	3.46	0.00	4.83	0.75	12.11
Maryland	2.25	1.38	0.32	0.00	2.28	0.00	2.79	0.97	9.99
Massachusetts	3.10	0.00	0.56	0.00	2.08	0.00	3.97	0.47	10.18
Michigan	1.64	0.11	0.21	0.00	3.81	0.00	3.65	1.15	10.57
Minnesota	2.95	0.00	0.33	0.00	3.60	0.05	3.06	1.05	11.04
Mississippi	1.51	0.00	0.35	0.00	4.54	0.00	2.79	0.69	9.88
Missouri	2.02	0.13	0.10	0.03	2.11	0.88	2.66	0.57	8.50
Montana	2.15	0.00	0.28	0.00	1.60	0.00	3.13	2.49	9.65
Nebraska	2.15	0.00	0.22	0.00	2.70	0.42	3.85	0.91	10.24
Nevada	0.00	0.00	0.00	0.00	4.47	0.29	3.28	1.98	10.02
New Hampshire	0.15	0.00	0.88	0.00	1.42	0.00	5.03	1.38	8.86
New Jersey	2.37	0.00	0.47	0.00	2.59	0.00	5.67	0.58	11.68
New Mexico	1.44	0.00	0.19	0.00	3.52	1.24	1.86	1.45	9.70
New York	**3.81**	**0.85**	**0.43**	**0.57**	**2.29**	**1.27**	**4.84**	**0.65**	**14.71**
North Carolina	2.81	0.00	0.40	0.00	2.90	0.64	2.63	0.59	9.98
North Dakota	1.12	0.00	0.32	0.00	3.49	0.41	2.52	4.87	12.73
Ohio	1.94	1.02	0.04	0.03	3.02	0.41	3.21	0.97	10.64
Oklahoma	1.74	0.00	0.17	0.00	2.30	1.27	1.87	1.38	8.74
Oregon	3.67	0.00	0.26	0.03	0.71	0.00	3.65	1.15	9.47
Pennsylvania	1.86	0.80	0.33	0.06	3.08	0.12	3.17	1.00	10.42
Rhode Island	2.11	0.00	0.28	0.00	3.25	0.00	5.07	0.39	11.10
South Carolina	1.83	0.00	0.10	0.00	2.75	0.22	3.22	0.74	8.86
South Dakota	0.00	0.00	0.10	0.00	3.46	0.90	2.97	0.77	8.20
Tennessee	0.08	0.00	0.42	0.00	3.71	0.88	2.32	0.82	8.23
Texas	0.00	0.00	0.00	0.00	3.29	0.57	4.14	0.97	8.97
Utah	2.42	0.00	0.28	0.00	2.60	0.65	2.64	0.63	9.23
Vermont	2.00	0.00	0.35	0.00	3.46	0.04	1.69	4.53	12.07
Virginia	2.51	0.00	0.23	0.00	1.70	0.30	3.25	0.65	8.63
Washington	0.00	0.00	0.00	0.00	4.62	0.81	2.37	1.42	9.23
West Virginia	2.64	0.00	0.41	0.00	4.00	0.00	2.38	1.58	11.01
Wisconsin	2.74	0.00	0.40	0.00	3.16	0.14	4.49	0.57	11.50
Wyoming	0.00	0.00	0.00	0.00	3.61	0.73	4.55	5.32	14.21
Mean Values	**1.84**	**0.12**	**0.31**	**0.02**	**2.94**	**0.47**	**3.24**	**1.43**	**10.38**
Standard Deviation	**1.01**	**0.31**	**0.30**	**0.08**	**0.96**	**0.51**	**1.04**	**1.87**	**1.95**
Coefficient of Variation	**54.93**	**252.61**	**97.10**	**500.68**	**32.72**	**108.32**	**32.04**	**131.39**	**18.83**
NYS Diff. from Avg.	**1.97**	**0.73**	**0.12**	**0.55**	**(0.65)**	**0.80**	**1.59**	**(0.77)**	**4.33**

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

Table 8a - State Tax Burdens as a Pct. Of Personal Inc., 1977 - 2010

Year	Mean	NYS	Standard Deviation	Coefficient of Variation	NY difference from mean
1977	6.56	7.39	1.17	26.08	0.83
1978	6.42	6.91	1.34	20.80	0.49
1979	6.47	6.71	1.70	36.32	0.24
1980	6.45	6.57	2.72	42.21	0.12
1981	6.47	6.43	4.03	62.33	(0.04)
1982	6.62	6.55	3.67	55.48	(0.07)
1983	6.41	6.41	2.58	40.20	0.00
1984	6.58	6.69	2.34	35.55	0.12
1985	6.64	6.89	2.05	30.93	0.26
1986	6.61	7.10	2.02	30.52	0.49
77-86 avg.	**6.52**	**6.77**	**2.36**	**38.04**	**0.24**
1987	6.53	7.22	1.32	20.25	0.69
1988	6.64	7.02	1.41	21.26	0.38
1989	6.57	6.63	1.40	21.31	0.06
1990	6.54	6.75	1.42	21.73	0.21
1991	6.58	6.52	1.59	24.08	(0.07)
1992	6.55	6.64	1.32	20.14	0.09
1993	6.82	6.77	1.62	23.76	(0.05)
1994	6.73	6.99	1.21	18.05	0.26
1995	6.88	6.84	1.44	20.91	(0.04)
1996	6.74	6.46	1.33	19.80	(0.28)
87-96 avg.	**6.66**	**6.78**	**1.41**	**21.13**	**0.13**
1997	6.81	6.26	1.34	19.73	(0.55)
1998	6.71	6.11	1.28	19.01	(0.60)
1999	6.73	6.25	1.31	19.53	(0.49)
2000	6.76	6.29	1.22	18.09	(0.47)
2001	6.69	6.60	1.17	17.53	(0.10)
2002	6.35	6.39	1.12	17.66	0.05
2003	6.31	6.12	1.11	17.61	(0.19)
2004	6.42	6.21	1.14	17.79	(0.21)
2005	6.75	6.35	1.38	20.41	(0.40)
2006	6.95	6.78	1.48	21.31	(0.17)
97-06 avg.	**6.65**	**6.34**	**1.25**	**18.87**	**(0.31)**
2007	7.00	7.01	1.64	23.39	0.02
2008	7.17	7.07	3.38	47.15	(0.10)
2009	6.49	6.95	2.00	30.84	0.46
2010	6.36	6.96	1.87	29.48	0.60

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

Table 8b - State/Local Tax Burdens as a Pct. of Personal Inc., 1977 - 2010					
Year	**Mean**	**NYS**	**Standard Deviation**	**Coefficient of Variation**	**NY Difference From Mean**
1977	10.52	15.48	1.82	17.34	4.96
1978	10.21	14.68	1.48	14.51	4.47
1979	10.11	13.95	1.80	17.79	3.84
1980	9.94	13.56	2.81	28.29	3.62
1981	9.86	13.21	4.07	41.30	3.35
1982	10.07	13.33	3.74	37.15	3.26
1983	9.95	13.22	2.79	28.03	3.27
1984	10.05	13.43	2.58	25.63	3.39
1985	10.19	13.82	2.37	23.28	3.63
1986	10.23	14.09	2.41	23.52	3.86
77-86 avg.	**10.11**	**13.88**	**2.59**	**25.68**	**3.77**
1987	10.28	14.47	1.65	16.04	4.19
1988	10.38	14.10	1.62	15.63	3.72
1989	10.28	13.67	1.47	14.34	3.39
1990	10.31	13.86	1.49	14.49	3.55
1991	10.43	13.87	1.65	15.81	3.44
1992	10.40	14.11	1.40	13.42	3.71
1993	10.70	14.53	1.72	16.08	3.82
1994	10.63	14.71	1.18	11.07	4.08
1995	10.79	14.22	1.41	13.03	3.43
1996	10.55	13.72	1.20	11.34	3.17
87-96 avg.	**10.48**	**14.13**	**1.48**	**14.13**	**3.65**
1997	10.63	13.55	1.21	11.35	2.92
1998	10.48	13.26	1.12	10.66	2.78
1999	10.45	13.26	1.01	9.68	2.80
2000	10.36	13.10	1.05	10.10	2.74
2001	10.24	13.12	0.97	9.48	2.88
2002	10.12	13.13	0.95	9.42	3.02
2003	10.18	13.45	0.99	9.76	3.27
2004	10.29	13.75	1.05	10.24	3.46
2005	10.66	14.06	1.26	11.80	3.40
2006	10.89	14.61	1.35	12.40	3.72
97-06 avg.	**10.43**	**13.53**	**1.10**	**10.49**	**3.10**
2007	10.92	14.88	1.58	14.46	3.96
2008	10.91	14.74	3.42	31.36	3.83
2009	10.32	14.33	2.02	19.60	4.01
2010	10.38	14.71	1.95	18.83	4.33
Sources: Moody's Economy.com, U.S. Census Bureau, DOB Staff Estimates					

Table 9 - 2010 Property Taxes on Owner-Occupied Housing, by County

County	Median Property Taxes Paid on Homes	Rank	Median Home Value	Taxes as % of Home Value	Rank	Median Income for Home Owners	Taxes as % of Income	Rank
Wayne County	$3,142	135	$104,200	3.0%	1	$60,054	5.2%	68
Monroe County	$4,035	72	$134,600	3.0%	2	$66,297	6.1%	47
Cattaraugus County	$2,257	283	$77,800	2.9%	3	$49,559	4.6%	111
Livingston County	$3,136	136	$110,400	2.8%	4	$64,230	4.9%	88
Oswego County	$2,605	209	$92,700	2.8%	5	$54,006	4.8%	93
Niagara County	$3,023	149	$107,700	2.8%	6	$59,650	5.1%	76
Chautauqua County	$2,275	280	$84,300	2.7%	8	$50,653	4.5%	118
Steuben County	$2,318	272	$86,300	2.7%	10	$55,307	4.2%	168
Erie County	$3,278	121	$123,700	2.7%	11	$60,403	5.4%	60
Schenectady County	$4,383	55	$168,000	2.6%	12	$65,917	6.7%	33
Cayuga County	$2,632	203	$102,400	2.6%	13	$55,797	4.7%	101
Onondaga County	$3,439	112	$134,700	2.6%	14	$66,549	5.2%	70
Chemung County	$2,340	264	$92,100	2.5%	15	$58,610	4.0%	194
Ontario County	$3,291	120	$134,500	2.4%	20	$61,885	5.3%	64
Oneida County	$2,578	217	$105,600	2.4%	21	$60,985	4.2%	163
St. Lawrence County	$2,017	344	$85,300	2.4%	25	$51,269	3.9%	206
Broome County	$2,533	230	$107,300	2.4%	26	$55,213	4.6%	109
Madison County	$2,781	181	$118,900	2.3%	29	$57,282	4.9%	90
Tompkins County	$3,856	81	$167,600	2.3%	34	$70,039	5.5%	55
Rensselaer County	$3,804	87	$177,200	2.1%	49	$67,387	5.6%	52
Orange County	$5,940	22	$286,600	2.1%	60	$82,036	7.2%	20
Sullivan County	$3,806	86	$183,800	2.1%	61	$57,950	6.6%	36
Putnam County	$7,841	11	$390,400	2.0%	75	$94,471	8.3%	8
Nassau County	$9,289	2	$463,200	2.0%	77	$105,441	8.8%	5
Suffolk County	$7,768	12	$390,800	2.0%	81	$93,768	8.3%	9
Rockland County	$8,861	4	$448,300	2.0%	86	$106,167	8.3%	7
Clinton County	$2,567	219	$131,100	2.0%	90	$66,367	3.9%	216
Ulster County	$4,468	52	$234,300	1.9%	98	$65,030	6.9%	27
Westchester County	$9,945	1	$526,000	1.9%	102	$106,892	9.3%	3
Albany County	$3,914	80	$213,300	1.8%	120	$78,896	5.0%	82
Dutchess County	$5,282	32	$299,100	1.8%	138	$84,214	6.3%	41
Jefferson County	$2,139	309	$128,200	1.7%	160	$54,639	3.9%	208
Saratoga County	$3,562	102	$236,200	1.5%	201	$79,105	4.5%	116
Warren County	$2,608	208	$205,600	1.3%	283	$67,507	3.9%	217
New York County	$6,402	20	$825,900	0.8%	569	$132,024	4.8%	91
Bronx County	$2,885	164	$388,900	0.7%	602	$66,957	4.3%	149
Richmond County	$3,158	133	$452,300	0.7%	643	$89,381	3.5%	283
Queens County	$3,180	130	$464,800	0.7%	654	$74,704	4.3%	157
Kings County	$3,112	141	$566,700	0.5%	734	$70,990	4.4%	128
National Average	$2,127	NA	$186,786	1.2%	NA	$63,321	3.2%	NA

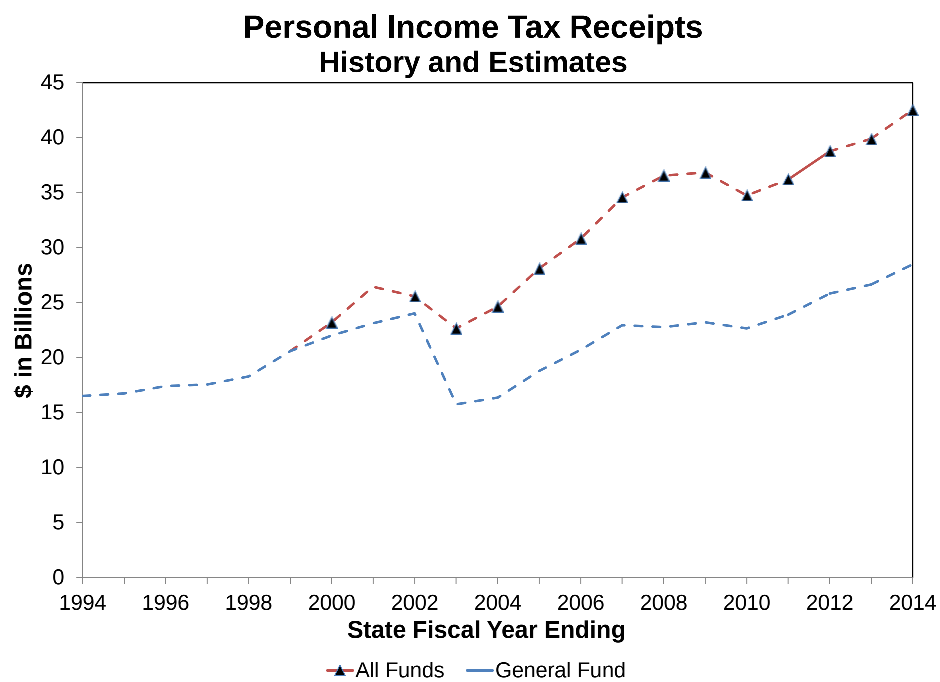
Source: U.S. Census Bureau; Tax Foundation calculations.

TAX RECEIPTS

PERSONAL INCOME TAX

PERSONAL INCOME TAX (millions of dollars)	2011-12 Actual	2012-13 Estimated	Change	Percent Change	2013-14 Projected	Change	Percent Change
General Fund	25,843.0	26,649.4	806.4	3.1	28,470.6	1,821.2	6.8
Other Funds	12,924.8	13,251.6	326.8	2.5	14,049.9	798.3	6.0
All Funds	38,767.8	39,901.0	1,133.2	2.9	42,520.5	2,619.5	6.6

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
2003-04	20,813	4,442	16,371	2,819	5,457	24,647
2004-05	23,448	4,668	18,781	3,059	6,260	28,100
2005-06	26,431	5,731	20,700	3,213	6,900	30,813
2006-07	28,450	5,510	22,940	3,994	7,646	34,580
2007-08	29,365	6,606	22,759	4,664	9,141	36,564
2008-09	30,367	7,171	23,196	4,434	9,210	36,840
2009-10	29,296	6,642	22,654	3,409	8,688	34,751
2010-11	31,687	7,792	23,894	3,263	9,053	36,210
2011-12	33,106	7,263	25,843	3,233	9,692	38,768
Estimated						
2012-13	33,865	7,215	26,649	3,276	9,976	39,901
2013-14						
Current Law	35,723	7,328	28,396	3,420	10,606	42,422
Proposed Law	35,799	7,328	28,471	3,419	10,630	42,521

[1] School Tax Relief Fund.

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

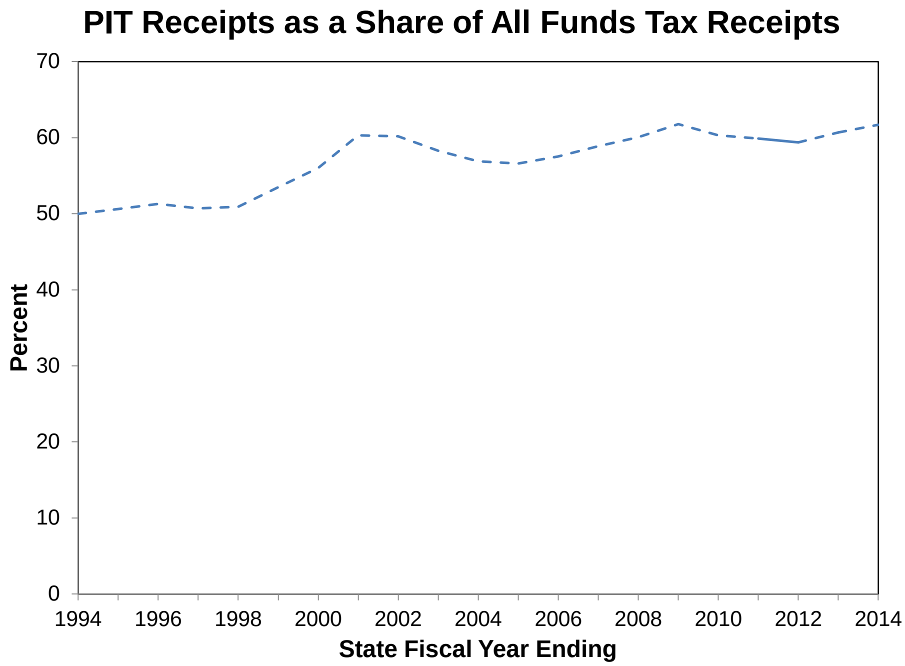
PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Extend the high income charitable contribution deduction limitation for three years;
- Make tax modernization provisions permanent;
- Suspend delinquent taxpayers' driver's licenses;
- Allow warrantless wage garnishment;
- Extend and enhance the historic commercial properties rehabilitation tax credit;
- New York Film Production tax credit - extend for five years, enhance, and improve transparency;
- Close royalty income loophole;
- Establish the New York Innovation Hot Spots program; and
- Establish the Charge NY electric vehicle recharging equipment credit.

DESCRIPTION

The personal income tax (PIT) is by far New York State's largest source of tax receipts. It is estimated that the PIT will account for approximately 61 percent of All Funds tax receipts in 2012-13 and 2013-14.



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

Tax Base

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

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

Tax Rates and Structure

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

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

TABLE 1

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

	1996	1997-2000	2001	2002	2003-2005	2006-2008	2009-2011	2012	2013*
Top Rate (Percent)	7.125	6.85	6.85	6.85	7.70	6.85	8.97	8.82	8.82
Thresholds									
Married Filing Jointly	26,000	40,000	40,000	40,000	500,000	40,000	500,000	2,000,000	2,058,550*
Single	13,000	20,000	20,000	20,000	500,000	20,000	500,000	1,000,000	1,029,250*
Head of Household	17,000	30,000	30,000	30,000	500,000	30,000	500,000	1,500,000	1,543,900*
Standard Deduction									
Married Filing Jointly	12,350	13,000	13,400	14,200	14,600	15,000	15,000	15,000	15,400
Single	7,400	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,700
Head of Household	10,000	10,500	10,500	10,500	10,500	10,500	10,500	10,500	10,800
Dependent Exemption	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000

* Tax Brackets and standard deductions are subject to indexing based on the CPIU

TABLE 2
TAX SCHEDULES FOR 2013 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 16,450	$0 +4.00%	0	0 to 8,200	$0 +4.00%	0	0 to 12,350	$0 +4.00%	0
16,450 to 22,600	$658 +4.50%	16,450	8,200 to 11,300	$328 +4.50%	8,200	12,350 to 16,950	$494 +4.50%	12,350
22,600 to 26,750	$1,017 +5.25%	22,600	11,300 to 13,350	$508 +5.25%	11,300	16,950 to 20,050	$763 +5.25%	16,950
26,750 to 41,150	$1,404 +5.90%	26,750	13,350 to 20,550	$701 +5.90%	13,350	20,050 to 30,850	$1,053 +5.90%	20,050
41,150 to 154,350	$2,428 +6.45%	41,150	20,550 to 77,150	$1,212 +6.45%	20,550	30,850 to 102,900	$1,820 +6.45%	30,850
154,350 to 308,750	$9,956 +6.65%	154,350	77,150 to 205,850	$4,976 +6.65%	77,150	102,900 to 257,300	$6,637 +6.65%	102,900
308,750 to 2,058,550	$20,532 +6.85%	308,750	205,850 to 1,029,250	$13,689 +6.85%	205,850	257,300 to 1,543,900	$17,110 +6.85%	257,300
2,058,550 and over	$141,011 +8.82%	2,058,550	1,029,250 and over	$70,504 +8.82%	1,029,250	1,543,900 and over	$105,757 +8.82%	1,543,900

* 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 PIT structure includes various exclusions, exemptions, tax credits, and other statutory devices designed to adjust State tax liability. For a more detailed discussion of tax expenditures, see the Annual Report on New York State Tax Expenditures, prepared by the Department of Taxation and Finance and the Division of the Budget.

Credits

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

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

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

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

Significant Legislation

Significant statutory changes made to the State PIT since 1987 are summarized below.

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

Subject	Description	Effective Date
Legislation Enacted in 1993		
Limited Liability Companies	Authorized the formation of LLCs and imposed a fee.	1994 and after
Legislation Enacted in 1994		
Earned Income Tax Credit	Enacted a new State credit equal to a percentage of the Federal credit. The rates were set at 7.5 percent of the Federal credit in 1994, 10 percent in 1995, 15 percent in 1996, and 20 percent in 1997 and thereafter.	1994 and after
Legislation Enacted in 1995		
Standard Deduction	Increased the standard deduction over three years.	1995 and after
Tax Rate Schedule	Reduced the top tax rate from 7.875 percent to 6.85 percent and raised bracket thresholds over three years.	1995 and after
Earned Income Tax Credit	Accelerated into 1996 from 1997 the credit of 20 percent of the Federal amount, but offset it by the household credit.	1996
Legislation Enacted in 1996		
Child and Dependent Care Credit	Increased the credit for taxpayers with adjusted gross incomes of less than $14,000 and made the credit refundable for residents.	1996 and after
Agricultural Property Tax Credit	Created a credit for school property tax that farmers pay on their farm property.	1997 and after
Legislation Enacted in 1997		
Child and Dependent Care Credit	Increased credit to 100 percent of the Federal credit for incomes up to $17,000, phasing down to 20 percent for incomes of $30,000 or more.	1998 and after
College Choice Tuition Savings Program	Authorized taxpayers to deduct from Federal AGI (FAGI) up to $5,000 ($10,000 for married couples filing jointly) of contributions made to family tuition accounts.	1998 and after
School Tax Relief Program (STAR)	Created the STAR program for school property exemptions and NYC income tax reductions, financed by PIT receipts.	
Legislation Enacted in 1998		
Child and Dependent Care Credit	Increased the credit to 100 percent of the Federal credit for incomes up to $35,000, phasing down to 20 percent for incomes of $50,000 or more.	1999 and after
School Tax Relief Program (STAR)	Accelerated the fully effective senior citizens' school property tax exemption and began the deposit of a portion PIT 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	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

Subject	Description	Effective Date
Child and Dependent Care Credit	Increased the credit to 110 percent of the Federal credit for those with incomes up to $25,000, phased down from 110 percent to 100 percent for incomes between $25,000 and $40,000, equal to 100 percent for incomes between $40,000 and $50,000, phased down from 100 percent to 20 percent for incomes between $50,000 and $65,000, and equal to 20 percent for incomes greater than $65,000.	2000 and after
Long-Term Care Insurance Credit	Created a long-term care insurance credit equal to 10 percent of a taxpayer's long-term care insurance premium.	2002 and after
Marriage Penalty	Reduced the marriage penalty by increasing the standard deduction for taxpayers who are married filing jointly from $13,000 to $14,600 in three stages.	2001 and after
College Tuition Deduction/Credit	Authorized taxpayers to deduct from FAGI up to $10,000 for attendance at a qualified higher education institution.	2001 and after
Petroleum Tank Credit	Created a two-year PIT credit of up to $500 for homeowners who remove and/or replace a residential fuel oil storage tank.	2001 and 2002
Legislation Enacted in 2003		
LLC Fees	Temporarily increased fees for 2003 and 2004.	2003 to 2004
Three-Year PIT Surcharge	Created two new tax brackets applicable to taxpayers with incomes over $150,000 and over $500,000.	2003 to 2005
Legislation Enacted in 2004		
Long-Term Care Insurance Credit	Increased the credit for long-term care insurance from 10 percent to 20 percent of premium expense.	2004 and after
Military Pay Exemption	Exempted pay of members of the New York National Guard for services performed in New York as part of the "War on Terror."	2004 and after
Legislation Enacted in 2005		
Nursing Home Assessment Tax Credit	Created a refundable nursing home assessment tax credit for residents of a residential health care facility who directly paid any assessment.	2005 and after
Limited Liability Company Fees	Extended the higher fees to tax years 2005 and 2006.	2005 and 2006
Legislation Enacted in 2006		
STAR	Created a new STAR rebate paid in 2006 and increased NYC STAR credit amounts and indexed the enhanced STAR benefit for the 2006-07 school year.	2006 and after
Empire State Child Credit	Created a refundable credit for children ages 4-16 which equals the greater of $100 times the number of children qualifying for Federal credit or 33 percent of the Federal credit.	2006 and after
Marriage Penalty	Increased the married filing joint standard deduction from $14,600 to $15,000 in order to eliminate the marriage penalty.	2006 and after
Earned Income Credit	Extended the credit to noncustodial parents who satisfy their child support obligations.	2006 and after; sunsets January 1, 2013
Legislation Enacted in 2007		
Loophole Closers	Required certain Federal S corporations to become New York S corporations if they form New York C corporations to avoid tax and granted the Tax Department authority to disregard personal service or S corporations formed primarily to avoid tax.	2007 and after
STAR	Created a new "middle class rebate" program, increased enhanced rebate amounts and New York City STAR credits.	2007 and after

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

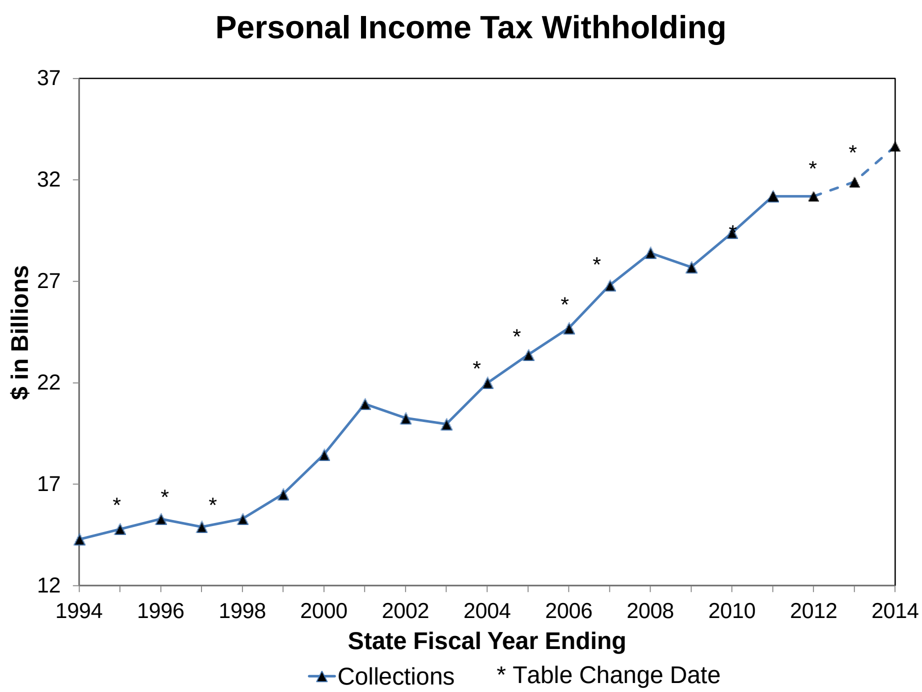
Subject	Description	Effective Date
Economic Transformation and Facility Redevelopment Program	Provided tax incentives to businesses to stimulate redevelopment in targeted communities where certain correctional or juvenile facilities are closed (economic transformation areas).	2011 to 2021
PIT Reform	Reformed the PIT by lowering rates for middle income taxpayers and adding three new brackets on taxable income above $150,000 for tax years 2012 through 2014. Also indexed to the CPIU the tax brackets and standard deduction starting in tax year 2013.	January 1, 2012
New York Youth Works Tax Credit Program	Provided a tax credit to businesses that employ at risk youth in part-time or full-time positions in 2012 and 2013.	January 1, 2012
Empire State Jobs Retention Program	Provided a jobs tax credit to businesses that are at risk of leaving the State due to the negative impact on their business from a natural disaster. The tax credit is 6.85 percent of gross wages of jobs that are retained in New York.	January 1, 2012
Legislation Enacted in 2012		
Residential Solar Equipment Credit	The Residential Solar Equipment Credit was extended to leases and purchase power agreements.	2012 and after

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	Increased to $5,650 for single individuals, $6,150 for married couples.
	Rate Schedule	Lowered the maximum rate to 7.59 percent and reduced the number of tax brackets.
4/1/96	Deduction Allowance	Increased to $6,300 for single individuals, $6,800 for married couples.
	Rate Schedule	Lowered the maximum rate to 7 percent and broadened the wage brackets to which the rates apply.
1/1/97	Deduction Allowance	Increased to $6,975 for single individuals, $7,475 for married couples.
	Rate Schedule	Lowered the maximum rate to 6.85 percent and broadened the wage brackets to which the rates apply.
7/1/03	Rate Schedule	Raised maximum rate to 8.55 percent and added two new wage brackets.
1/1/04	Rate Schedule	Decreased maximum rate to 7.7 percent and lowered rate for second highest bracket from 7.5 percent to 7.375 percent.
1/1/05	Rate Schedule	Lowered rate for second highest bracket from 7.375 to 7.25 percent.
1/1/06	Rate Schedule	Eliminated top two rates to reflect expiration of the temporary tax surcharge.
5/1/09	Rate Schedule	Raised maximum rate to 8.97 percent and added two new wage brackets; added new higher rate to reflect phase out of itemized deductions.
1/1/12	Rate Schedule	Lowered rates for middle income taxpayers and created a new 8.82 percent tax rate and bracket for tax years through 2014.

1/1/13	Deduction Allowance	Increased to $7,150 for single individuals, $7,650 for married couples.
	Rate Schedule	Adjusted tax brackets to reflect indexing.



The above graph shows the history of withholding collections beginning in 1993-94. Asterisks denote the dates of withholding table changes.

Limited Liability Companies

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

The annual filing fee has been imposed since 1994 and applies to any LLC that has any income, gain, loss or deduction attributable to New York sources in the taxable year. For 2007, the fee was $50 per member, the minimum fee was $325 and the maximum was $10,000. Filing fees for the tax year are due no later than January 30 of the following year. The following table shows historical LLC fees and estimated for 2012-13. Fee amounts were temporarily increased for 2003 through 2006, which explains the higher collections for 2003-04 through 2006-07.

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

Limited Liability Company and Partnership Fees (thousands of dollars)	
SFY	Amount
2003-04	71,419
2004-05	64,104
2005-06	70,755
2006-07	78,036
2007-08	50,973
2008-09	56,219
2009-10	67,469
2010-11	68,667
2011-12	71,589
2012-13 Estimated	73,000

Administration

Timing of the Payment of Refunds

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

School Tax Relief Fund

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

Revenue Bond Tax Fund

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

Taxpayer Characteristics

Personal income tax liability and NYSAGI, the income base that determines personal income tax liability, differ noticeably across taxpayer groups. Table 3 examines the changes in NYSAGI and in liability over an eight-year span from 2003 to 2010, with a breakdown by taxpayer characteristics. While both NYSAGI and liability showed considerable growth over this period (NYSAGI growing 36.5 percent but liability rising 55.1 percent), the much more rapid growth in liability can be accounted for in part by changes in the State personal income tax law enacted in 2009. The 2009 law created new temporary brackets and rates for high-income filers (these expired at the end of 2011), and enacted a restriction on the itemized deductions of millionaires to a fraction of their charitable contributions.

But the national and State economies were also in different positions in the two tax years. In 2003 the national economy was in its second year of recovery from the 2000 recession; the State economy however would not bottom out until August 2003, considerably lagging the rest of the country. While in 2010 the State would again be lagging the U.S., it was from a different base: the national recession lasted from December 2007 to June 2009, while the State's recession started later, in August 2008, with recovery also beginning later, in December 2009. Thus in 2010 the State business cycle was closer to the national cycle than in 2003.

The share of both returns and liability accounted for by nonresidents continued to trend upward between 2003 and 2010, with the nonresident share of returns rising from 9.0 percent to 10.6 percent, while the liability share edged up from 15.7 percent to 16.9 percent. Wages and nonwage income (such as dividends, interest received and capital gains) increased much faster than for residents during this period, allowing nonresident liability to grow 66.6 percent between 2003 and 2010 while resident liability rose 52.9 percent. While resident wages grew 27.3 percent, nonresident wages were up 42 percent. Resident nonwage income growth of nearly 60 percent from 2003 was outstripped by nonresident nonwage income expansion of 74.8 percent.

TABLE 3
PERCENT SHARES OF STATE AGI, WAGES, NONWAGE INCOME AND LIABILITY
BY VARIOUS TAXPAYER CHARACTERISTICS, 2003 AND 2010
(Values for AGI, wages, nonwage income and liability in millions of dollars)

	2003					2010				
	Returns	NYSAGI	Wages	Nonwage Income	Liability	Returns	NYSAGI	Wages	Nonwage Income	Liability
Total	8,836,584	481,479	373,313	114,877	22,465	9,695,218	657,202	482,433	185,385	34,836
percent change						9.7	36.5	29.2	61.4	55.1
Residents	8,038,588	422,154	325,306	102,966	18,937	8,671,248	569,280	414,274	164,566	28,958
percent share	91	87.7	87.1	89.6	84.3	89.4	86.6	85.9	88.8	83.1
percent change						7.9	34.9	27.3	59.8	52.9
Nonresidents	797,996	59,325	48,007	11,911	3,529	1,023,970	87,922	68,159	20,819	5,878
percent share	9	12.3	12.9	10.4	15.7	10.6	13.4	14.1	11.2	16.9
percent change						28.3	48.2	42	74.8	66.6
Married Filing Jointly	3,232,437	305,481	229,194	80,333	15,828	3,396,669	416,464	293,008	129,947	24,522
percent share	36.6	63.4	61.4	69.9	70.5	35	63.4	60.7	70.1	70.4
percent change						5.1	36.3	27.8	61.8	54.9
Head of Household	1,521,609	46,321	41,559	5,462	764	1,564,188	58,095	50,891	8,276	1,163
percent share	17.2	9.6	11.1	4.8	3.4	16.1	8.8	10.5	4.5	3.3
percent change						2.8	25.4	22.5	51.5	52.2
Single Filers	4,082,538	129,676	102,560	29,082	5,873	4,734,361	182,643	138,534	47,162	9,151
percent share	46.2	26.9	27.5	25.3	26.1	48.8	27.8	28.7	25.4	26.3
percent change						16	40.8	35.1	62.2	55.8
Itemized Deduction	2,014,430	248,288	175,888	75,344	13,603	2,421,644	338,422	225,597	117,432	20,054
percent share	22.8	51.6	47.1	65.6	60.6	25	51.5	46.8	63.3	57.6
percent change						30.2	36.3	26.3	55.9	47.4
Standard Deduction	6,819,897	233,120	197,367	39,520	8,858	7,270,137	318,574	256,678	67,904	14,769
percent share	77.2	48.4	52.9	34.4	39.4	75	48.5	53.2	36.6	42.4
percent change						6.6	36.7	30.1	71.8	66.7

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

With respect to filing status, a comparison of the two years shows that the slow decline in taxpayers filing as "married filing jointly" continues. Despite a 5.1 percent rise in the number of returns filed under this status from 2003 to 2010, the share remained at 35 percent, the same as in tax year 2009, and lower than the 36.6 percent share in 2003. While returns filed as "head of household" increased 2.8 percent from 2003-2010, the share slipped to 16.1 percent from 17.2 percent in 2003. "Single" returns though posted growth of 16 percent over the eight years, helping to drive the share up to 48.8 percent in 2010 from 46.2 percent in the base year. Despite the rising share of single filers, the money is still with the married filers: in both 2003 and 2010 they accounted for just over 70 percent of all liability, while about 26 percent of liability came from the single filers.

Taxpayers who itemized their deductions made up nearly 23 percent of all filers in 2003, rising to 25 percent in 2010, largely reflecting the continuing influence of rising local property taxes and other itemized deduction categories. In 2003 standard deduction returns accounted for 77.2 percent of all returns and 39.4 percent of all liability, while the remaining returns that were itemized made up 60.6 percent of all liability. By 2010 the itemizer share of liability had slipped to 57.6 percent while standard-deduction takers accounted for 42.4 percent of liability. Note that with the new limitation on itemized deductions for millionaires many of these high-liability taxpayers found themselves better off taking the standard deduction rather than itemizing.

Recent Liability History

New York State adjusted gross income, NYSAGI, is the income base that determines PIT liability. Table 4 lists the major components, their growth rates and their respective shares of NYSAGI (see also Economic Backdrop – New York State Adjusted Gross Income section). NYSAGI fell by 8.7 percent in 2008 and 9.9 percent in 2009 as equity markets and real estate markets tumbled. NYSAGI grew 7.1 percent in 2010 as State and national economies were coming out of the long and severe recession and equity markets in particular experienced a strong rebound. Processing data suggests slower growth at 3.4 percent in 2011, reflecting anemic economic growth and rather stagnant equity markets. NYSAGI growth in 2012 is expected to be stronger with 6.7 percent despite continued anemic economic growth largely because of a considerable amount of income shifting to avoid higher tax rates in 2013.

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

Component of Income	2006	2007	2008	2009	2010	2011*	2012	2013	2014
	Actual					Estimate			
NYSAGI									
Amount	632,601	725,245	662,053	596,471	638,855	660,818	704,940	721,140	761,124
Percent Change	10.6	14.6	(8.7)	(9.9)	7.1	3.4	6.7	2.3	5.5
Wages									
Amount	445,210	485,565	492,900	463,939	482,433	500,807	510,587	534,090	561,072
Percent Change	6.8	9.1	1.5	(5.9)	4.0	3.8	2.0	4.6	5.1
Share of NYSAGI	70.4	67.0	74.5	77.8	75.5	75.8	72.4	74.1	73.7
Net Capital Gains									
Amount	82,412	116,436	53,401	29,689	44,669	49,678	71,468	61,918	64,871
Percent Change	27.9	41.3	(54.1)	(44.4)	50.5	11.2	43.9	(13.4)	4.8
Share of NYSAGI	13.0	16.1	8.1	5.0	7.0	7.5	10.1	8.6	8.5
Interest and Dividends									
Amount	39,366	48,204	39,205	29,358	30,200	29,033	32,689	31,636	34,769
Percent Change	32.7	22.5	(18.7)	(25.1)	2.9	(3.9)	12.6	(3.2)	9.9
Share of NYSAGI	6.2	6.6	5.9	4.9	4.7	4.4	4.6	4.4	4.6
Taxable Pension									
Amount	30,257	31,216	31,070	32,167	35,583	37,613	39,104	40,669	41,709
Percent Change	4.4	3.2	(0.5)	3.5	10.6	5.7	4.0	4.0	2.6
Share of NYSAGI	4.8	4.3	4.7	5.4	5.6	5.7	5.5	5.6	5.5
Net Business and Partnership Income									
Amount	67,249	74,345	73,560	71,447	74,368	74,739	86,337	90,230	98,520
Percent Change	10.8	10.6	(1.1)	(2.9)	4.1	0.5	15.5	4.5	9.2
Share of NYSAGI	10.6	10.3	11.1	12.0	11.6	11.3	12.2	12.5	12.9
All Other Incomes and Adjustments/[1]									
Amount	(31,894)	(30,521)	(28,083)	(30,128)	(28,397)	(31,052)	(35,245)	(37,402)	(39,818)
Percent Change	10.6	(4.3)	(8.0)	7.3	(5.7)	9.3	13.5	6.1	6.5

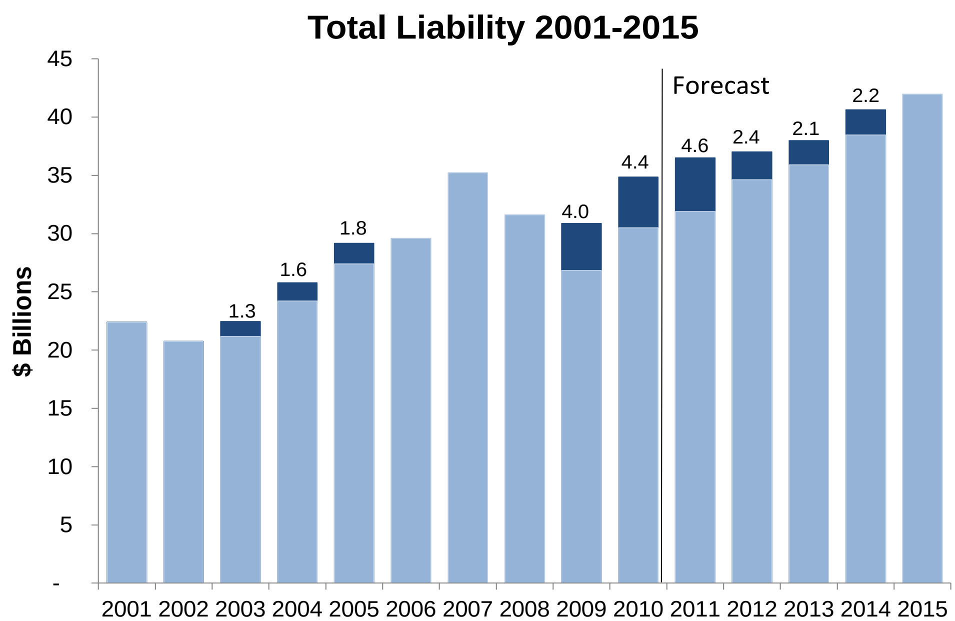
* Estimates for 2011 are based on processing data.

/[1] includes alimony received, unemployment income, IRA income, and other incomes. This number is negative due to Federal and New York adjustments to income, which together reduce final NYSAGI.

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

Changes in capital gains' share of total taxable income contribute prominently to changes in NYSAGI. The declines in 2008 and 2009 are characterized by substantial drops in capital gains' share of total taxable income from 16.1 percent in 2007 to an estimated 5 percent in 2009. Capital gains realizations experienced strong growth in 2010, albeit off a low base, improving their share of taxable income to 7 percent. The large growth in 2010 followed by projected slower growth of 11.2 percent in 2011 reflect the sensitivity of capital gains realizations to tax rates. High-income taxpayers shifted some of their realizations from 2011 to 2010 in anticipation of higher tax rates as the tax cuts established under the Economic Growth and Tax Relief Reconciliation Act of 2001 were originally set to expire at the end of 2010. A similar shift is expected for 2012 and 2013. To a lesser extent, income shifting in response to higher tax rates can also be observed for dividend income and net business and partnership income.

Though wages also fell in 2009, the drop was smaller than the declines in some of the other components and, as a result, the share of wage income increased from 67 percent in 2007 to an estimated 77.8 percent in 2009. As many other components experienced relatively stronger growth in 2010 and 2011 than wages, the wage share is declining.



Note: Values above bars indicate additional liability due to temporary brackets and rates for those tax years as represented by the dark blue shading; "current law" for 2006-2014 includes changes in State and Federal Tax Law that are effective with the 2006 tax year and beyond.
Source: New York State Department of Taxation and Finance; DOB staff estimates.

The effects of the State's most recent recessions are clearly reflected in State tax liability, which fell in 2001 and 2002 and, absent the surcharge of 2003-05, barely grew in 2003, rising just 2.1 percent when the effects of the surcharge are removed. Liability fell again in 2008 and would have declined 13 percent in 2009 without the temporary high-income tax brackets and rates, and the limitation of millionaire itemized deductions, in force for tax years 2009-2011. Even with the new law in place liability still declined 1.5 percent, unlike 2003 when the tax surcharge resulted in an overall liability increase. Based on preliminary processing data total liability was about $36.5 billion in 2011, up 4.8 percent from 2010, as both the State and national economies continued their sputtering recoveries from their most recent downturns. Despite an expected 6.7 percent increase in NYSAGI in 2012, liability is expected to rise just 1.4 percent as the tax reform enacted in December 2011 provides a tax cut to a large proportion of State taxpayers. Liability currently is anticipated to grow 2.6 percent, just about in line with NYSAGI growth of 2.3 percent, in 2013

TABLE 5
LIABILITY AND EFFECTIVE TAX RATES*
Current Law
2000-2014
(millions of dollars)

	NYSAGI		Liability		
	Amount	Growth Rate	Amount	Growth Rate	Effective Tax Rate (percent)
2000	508,934	13.5	24,494	16.8	4.81
2001	481,001	-5.5	22,406	-8.5	4.66
2002	459,919	-4.4	20,729	-7.5	4.51
2003	473,778	3.0	22,456	8.3	4.74
2004	525,964	11.0	25,769	14.8	4.90
2005	571,916	8.7	28,484	10.5	4.98
2006	632,601	10.6	29,838	4.8	4.72
2007	725,245	14.6	35,215	18.0	4.86
2008	662,053	-8.7	31,621	-10.2	4.78
2009	596,471	-9.9	31,162	-1.5	5.22
2010	638,855	7.1	34,836	11.8	5.45
2011**	660,818	3.4	36,501	4.8	5.52
2012**	704,940	6.7	37,017	1.4	5.25
2013**	721,142	2.3	37,980	2.6	5.27
2014**	761,127	5.5	40,624	7.0	5.34

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

Risks to the Liability Forecast

The collapse of the financial markets and the resulting large declines in income from bonus payments and capital gains in 2001 and 2002 caused the share of liability originating with the top one percent of taxpayers to fall from 39 percent in 2000 to 32.2 percent in 2002 (see Table 7). The same thing – more exaggerated, given the near-collapse of the financial system not only in this country but also in other nations – happened just a few years later, as the liability share of the top one percent fell from 43.1 percent in 2007 to 33.2 percent in 2009 on a constant-law basis. Over time the State has become increasingly reliant on its high-income taxpayers as a source of income tax revenues. This has happened even despite the sunset of the 2003-05 high-income brackets and rates; note that in 2006 the top taxpayers accounted for 39 percent of all liability, climbing to just over 43 percent the next year. The new State tax law enacted in December 2011 and effective with the 2012 tax year, is estimated to have increased this proportion to 43.1 percent for 2012. For 2013 and 2014 the proportion of liability from this group is estimated to remain just above 40 percent. But this implies that changes in the economy, or in the institutional practices of firms (i.e., the timing and types, not to mention the size, of bonus payments), that affect a small number of taxpayers in the high-income groups can have disproportionately large effects on State tax revenues.

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

	2010 (Actual)			2013 (Forecast)		
Income Group	**Returns**	**Liability**	**AGI**	**Returns**	**Liability**	**AGI**
0 - $50,000	67	3.9	18	64.9	3.9	16
$50,000 - $100,000	19.2	15.8	20.1	19.7	15.2	18.9
$100,000 - $200,000	9.7	19.1	19.3	10.6	19.3	19.6
$200,000 - $1,000,000	3.7	25.4	19.6	4.2	23.7	20.4
$1,000,000 and above	0.4	35.8	23	0.5	37.9	25.1

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

TAX LIABILITY AND CASH PAYMENTS

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

	1995-2002, 2006-08 Tax Law			2003-05, 2009-11 Brackets and Rates; New Law Begins in 2012		
Year	**Liability, top 1 Percent (millions)**	**Liability, all taxpayers (millions)**	**Share of total liability, top 1 (Percent)**	**Liability, top 1 Percent (millions)**	**Liability, all taxpayers (millions)**	**Share of total liability, top 1 (Percent)**
2000	9,644	24,733	39	--	--	--
2001	7,864	22,406	35.1	--	--	--
2002	6,681	20,731	32.2	--	--	--
2003	7,146	21,173	33.8	8,079	22,456	36
2004	8,487	24,218	35	9,607	25,769	37.3
2005	9,794	26,741	36.6	11,093	28,484	38.9
2006	11,539	29,605	39	--	--	--
2007	15,195	35,215	43.1	--	--	--
2008	11,890	31,621	37.6	--	--	--
2009	9,138	27,522	33.2	12,194	31,162	39.1
2010	10,548	30,349	34.8	14,282	34,836	41
2011*	10,965	32,160	33.9	14,977	36,501	41
2012*	12,708	34,455	36.9	15,943	37,017	43.1
2013*	12,586	35,881	35.1	15,555	37,980	41
2014*	13,416	38,447	34.9	16,619	40,624	40.9

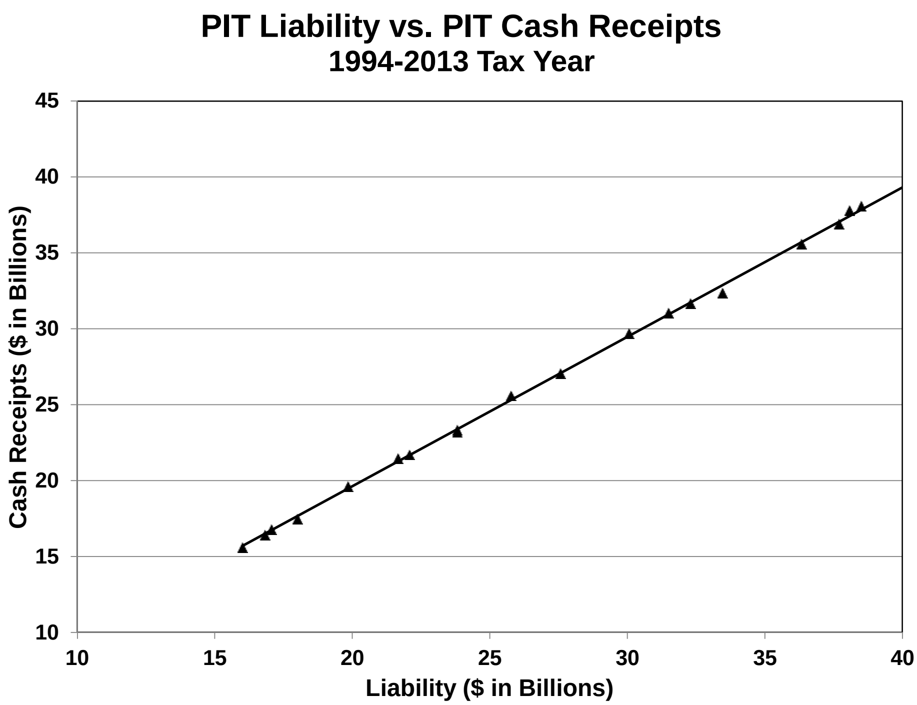
* Estimated

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

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

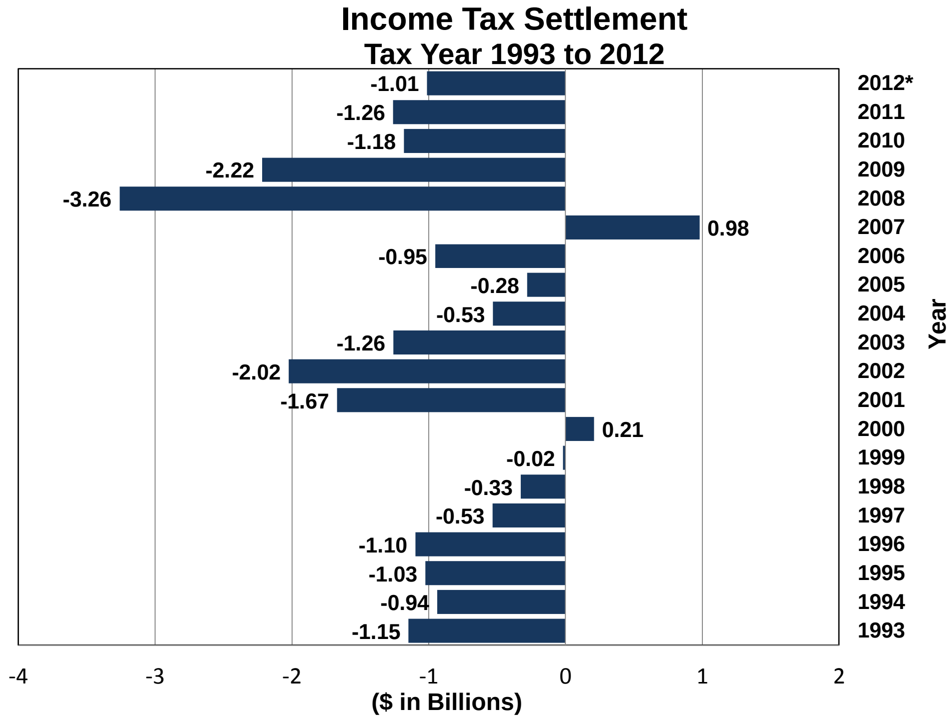
Source: NYS Department of Taxation and Finance, DOB staff estimates.

Although significant risks necessarily remain in any estimates of income tax liability, the estimation of the level of tax liability for a particular tax year leads, with a high degree of confidence, to the approximate level of cash receipts that can be expected for the particular tax year. The consistency in this relationship is shown in the graph below, which shows a trend line for the history of liability and cash receipts beginning in 1994, and dots to denote actual liability and cash results or estimates.



Despite the strong relationship between tax-year liability and cash receipts, estimation of cash payments is subject to an important complication that pervades forecasts for the Executive Budget and other State Financial Plan updates. This complication is determining the portions of tax-year liability that will occur in particular State fiscal years. Income tax prepayments – withholding tax and quarterly estimated tax payments – tend to be received not long after income is earned. For example, most withholding tax payments and quarterly estimated tax payments for the 2012 tax year will be received before the end of the 2012-13 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 2012 tax year will be received largely in the 2013-14 fiscal year.

As is evident in the graph below showing net settlement payments for the 1993 through 2012 tax years, the amount of liability received in the settlement can vary widely from year to year. In most years, the net settlement has been very negative, with State settlement outlays (such as refunds and offsets) far exceeding taxpayer settlement payments (such as those sent with returns and extension requests). There have been some important exceptions to this pattern – most notably during times of tax reform and rapid economic growth, and during periods with large increases in non-wage income.



* Projection

Several different settlement patterns have occurred in recent years. With the rapid growth of the New York economy in the late 1990s, the settlement became much less negative than it traditionally had been. This pattern resulted generally from prepayment growth rates that fell short of liability growth rates, leading to the need for increased settlement payments with final returns. With the weak economy of 2001 and 2002, taxpayers, in aggregate, dramatically reduced their settlement payments and the total settlement became very negative again, with the net amount paid out by the State exceeding $2 billion for the 2002 tax year. Due to the temporary tax increases enacted by the Legislature in 2003, the net settlement payout by the State was negative by $530 million for the 2004 tax year and $280 million for tax year 2005. However, the 2006 settlement was negative by $950 million, due mainly to refund claims for the new child credit. Due to strength of the 2007 tax year, the 2007 settlement was highly positive at $980 million. Due to the subsequent recessionary economic environment, the 2008 settlement turned negative again ($3.26 billion), while the 2009 settlement was a significantly less negative $2.22 billion. Due to strong extension payments, the 2010 settlement ended at a smaller negative $1.18 billion. The 2011 settlement increased slightly to negative $1.26 billion while the 2012 settlement is projected to improve to negative $1.01 billion.

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

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

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

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2012-13 Estimates

All Funds receipts through December are $27,792 million, an increase of $475 million (1.7 percent) from the comparable period in the prior fiscal year.

All Funds 2012-13 receipts are estimated to be $ 39.9 billion an increase of $1.1 billion (2.9 percent) from 2011-12. This primarily reflects modest increases in withholding, current estimated payments for tax year 2012, higher delinquent collections and a decrease in total refunds, partially offset by a decrease in extension (i.e., prior year estimated) payments for tax year 2011.

Withholding in 2012-13 is projected to be $729 million (2.3 percent) higher compared to the prior year. This reflects the net impact of modest wage growth and additional withholding generated by the December 2011 reform, offset by lower withholding due to the expiration of the temporary high income surcharge in place for 2009 to 2011. Total estimated payments are expected to increase $234 million (2 percent). Estimated payments for tax year 2012 are projected to be $572 million (7.1 percent) higher. However, as noted above, extension payments (i.e., prior year estimated) for tax year 2011 are estimated to fall 9.6 percent ($338 million) compared to the inflated base of extensions for tax year 2010, which reflected the one-time realization of capital gains caused by uncertainty surrounding the late extension of the lower Federal tax rates on capital gains and high-income taxpayers in December of 2010. Delinquent collections and final return payments are projected to be $88 million (8.1 percent) and $35 million (1.7 percent) higher, respectively.

The decrease in total refunds of $48 million mostly reflects a $98 million (26.8 percent) decrease in the State-city offset and a $92 million (2 percent) decrease in prior year refunds related to tax year 2011 partly reduced by a $143 million (31.5 percent) increase in previous years refunds related to tax years prior to 2011.

Table 8 shows the components of the PIT from 2010-11 through 2014-15.

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

	2010-11 (Actual)	2011-12 (Actual)	2012-13 (Estimated)	2013-14 (Projected)	2014-15 (Projected)
Receipts					
Withholding	31,240	31,199	31,928	33,666	35,111
Estimated Payments	9,735	11,628	11,862	12,708	13,542
Current Year	7,386	8,097	8,669	9,167	10,283
Prior Year*	2,349	3,532	3,194	3,541	3,259
Final Returns	1,964	2,117	2,153	2,266	2,151
Current Year	215	224	227	241	242
Prior Year*	1,749	1,893	1,926	2,025	1,909
Delinquent Collections	1,063	1,086	1,174	1,209	1,245
Gross Receipts	44,002	46,030	47,117	49,848	52,049
Refunds					
Prior Year*	5,170	4,693	4,600	4,879	5,627
Previous Years	772	454	597	476	569
Current Year*	1,750	1,750	1,750	1,750	1,750
State-City Offset*	100	366	268	223	148
Total Refunds	7,792	7,263	7,215	7,328	8,094
Net Receipts	36,210	38,768	39,901	42,520	43,956

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

The primary risk to the 2012-13 receipts estimate results from uncertainty surrounding bonus payments paid by financial services companies. A large portion of these financial sector bonuses are typically paid in the first quarter of the calendar year. Consequently, complete information about such payments is not available when Budget estimates are constructed.

Likewise, the forecast assumes a 40.7 percent increase in capital gains and a 19 percent increase in dividend income for tax year 2012 anticipating early capital gains realizations and dividend payouts in response to sunset of lower Federal tax marginal rates on capital gains and scheduled increase in tax rates on investment income starting with tax year 2013 as a part of the Federal Affordable Care Act. The spin-up of income into tax year 2012 could create 2013-14 downside risk to the extent taxpayers would have declared the income in 2013. The predominance of those income components that are tied to the volatile areas of the economy, i.e., real estate, equity, etc. and the concentration of such income in the hands of a relatively small number of high-income taxpayers pose significant risks to the PIT forecast

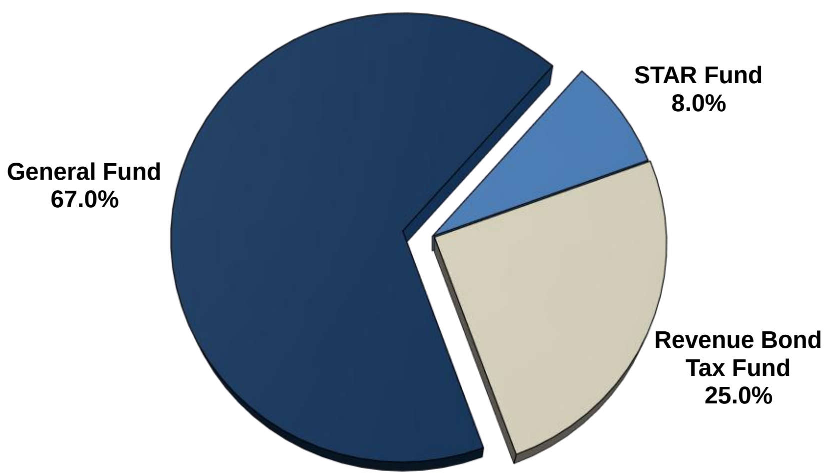
2013-14 Projections

All Funds 2013-14 receipts are projected to be $42.5 billion, an increase of $ 2.6 billion (6.6 percent) from 2012-13.

This increase primarily reflects increases of $1.7 billion (5.4 percent) in withholding and $845 million (7.1 percent) in total estimated payments. The increase in total estimated payments includes $498 million (5.7 percent) in estimated payments related to tax year 2013, partially reflecting $70 million in revenue from the three year extension of the 25 percent itemized deduction limitation on the charitable contributions of high income taxpayers. Likewise, a $347 million (10.9 percent) increase in extension (i.e., prior year estimated) payments for tax year 2012 reflect a taxpayer response related to Federal law changes. The strong projection for extension payments for tax year 2012 reflects early realization of capital gains due to sunset of lower Federal tax marginal rates on capital gains and the scheduled increase in Federal tax rates on investment income starting with tax year 2013 as a part of the Federal Affordable Care Act.

Payments from final returns are expected to increase $113 million (5.3 percent). Likewise, delinquent collections are projected to increase by $35 million (3 percent) compared to the prior year with most of the increase ($25 million) coming from proposals to allow warrantless wage garnishment and the suspension of driver's licenses of taxpayers with past-due tax debts. The increase in total refunds of $112 million primarily reflects a $278 million (6 percent) increase in prior year refunds for tax year 2012 partially offset by $121 million (20.3 percent) drop in previous years refunds related to tax years prior to 2012 and a $45 million decrease in the state-city-offset.

Fund Shares of Net Receipts
2013-14



General Fund

General Fund net PIT receipts are estimated to be $26,649 million in 2012-13 and are projected to be $28,471 million in 2013-14.

Other Funds

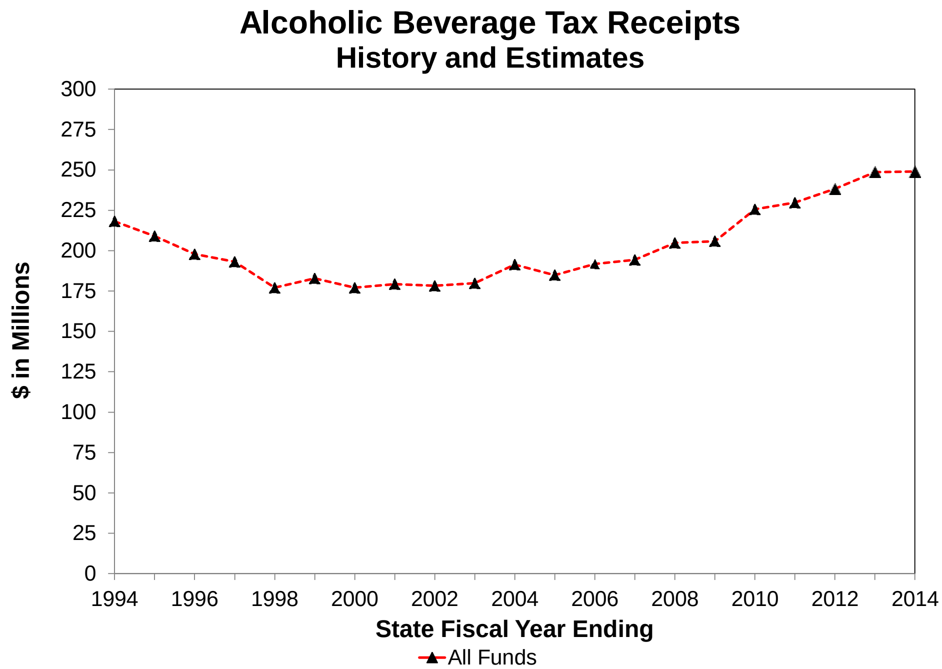
In 2012-13 and 2013-14, respectively, dedicated PIT receipts of $3,276 million and $3,419 million will be deposited into the School Tax Relief Fund.

In 2012-13 and 2013-14, respectively, dedicated receipts of $9,976 million and $10,630 million will be deposited into the Revenue Bond Tax Fund (RBTF). This increase reflects the growth in net income tax collections upon which the RBTF is based.

ALCOHOLIC BEVERAGE TAXES

ALCOHOLIC BEVERAGE TAXES (millions of dollars)	2011-12 Actual	2012-13 Estimated	Change	Percent Change	2013-14 Projected	Change	Percent Change
General Fund	238.3	248.7	10.4	4.4	249.0	0.3	0.1
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	238.3	248.7	10.4	4.4	249.0	0.3	0.1

Note: Totals may differ due to rounding.



ALCOHOLIC BEVERAGE TAXES BY FUND (thousands of dollars)	Gross General Fund	Refunds	General Fund	All Funds Receipts
2003-04	191,380	23	191,357	191,357
2004-05	184,955	68	184,887	184,887
2005-06	191,696	22	191,674	191,674
2006-07	194,379	83	194,296	194,296
2007-08	205,375	546	204,829	204,829
2008-09	205,913	5	205,908	205,908
2009-10	225,647	87	225,560	225,560
2010-11	229,698	0	229,698	229,698
2011-12	238,379	116	238,263	238,263
Estimated				
2012-13	248,800	100	248,700	248,700
2013-14				
Current	249,100	100	249,000	249,000
Proposed	249,100	100	249,000	249,000

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

Tax Base and Rate

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

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

Administration

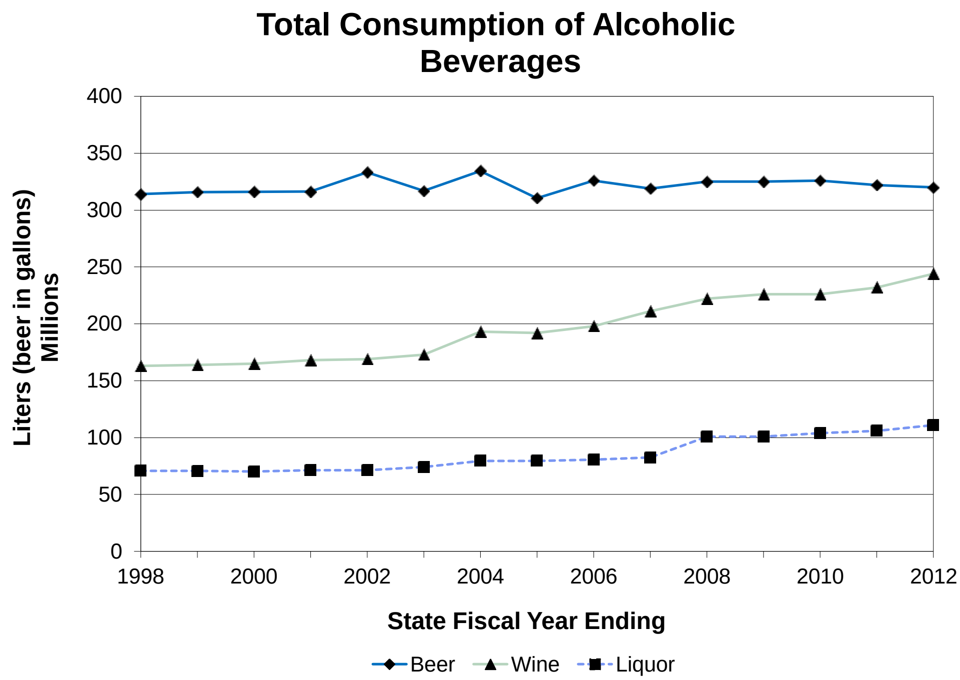
The tax is remitted by licensed distributors and noncommercial importers of such beverages in the month following the month of delivery.

Significant Legislation

Significant statutory changes to this tax since 1989 are summarized below.

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

Subject	Description	Effective Date
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	Authorized the sale of privately held liquors to persons licensed by the State Liquor Authority to conduct auctions.	October 15, 2007
Legislation Enacted in 2008		
Seven Day Sales	Authorization made permanent.	April 1, 2008
Enforcement Provisions	Various enforcement and penalty provisions made permanent.	October 31, 2009
Legislation Enacted in 2009		
Beer Tax Increase	Increased the State excise tax rate on beer from 11 cents per gallon to 14 cents per gallon.	May 1, 2009
Wine Tax Increase	Increased the State excise tax rate on wine from 19 cents per gallon to 30 cents per gallon.	May 1, 2009
Enforcement Provisions	New third party reporting requirements imposed.	May 1, 2009
Legislation Enacted in 2012		
Small Brewers' Tax Credit	Repealed the exemption for certain small brewers, and replaced the benefit with personal income and business tax credits.	March 28, 2012



TAX LIABILITY

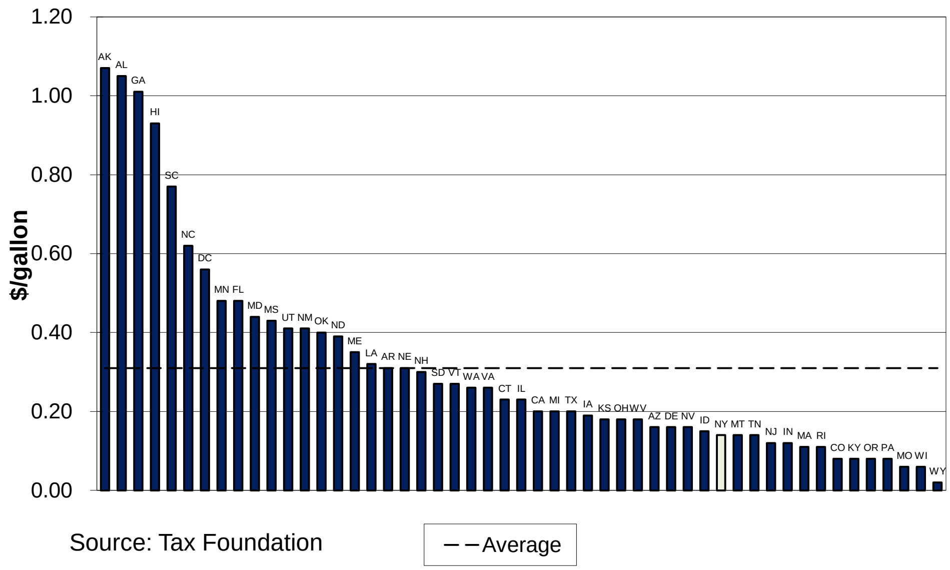
Overall, consumption of taxed wine and liquor has increased annually since 2007-08, while taxable beer consumption has experienced marginal declines during the same period.

Other States

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

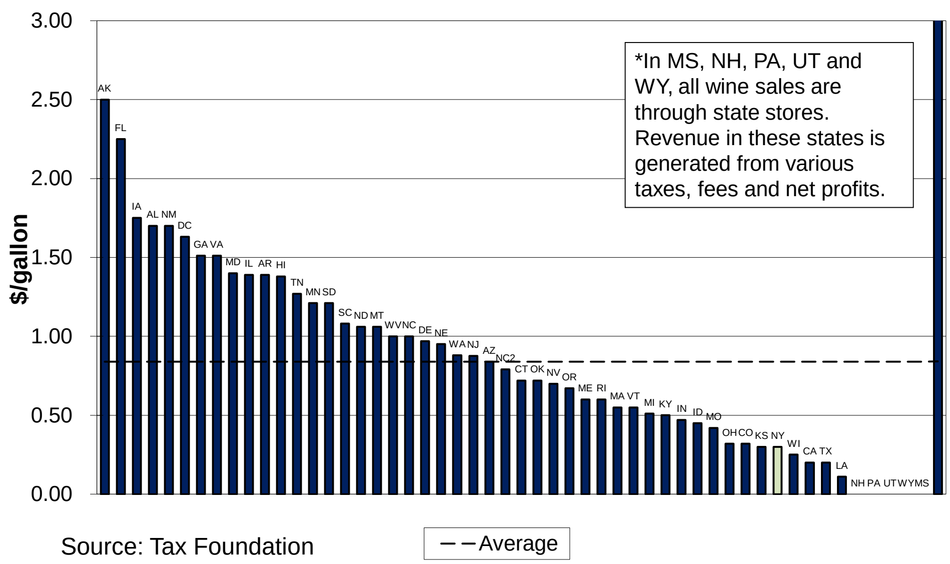
- The fourteenth lowest beer tax;
- The fifth lowest wine tax (of those participating states); and
- The twenty-first highest liquor tax (of those participating states).

Beer Tax Rates by State
(September 2011)



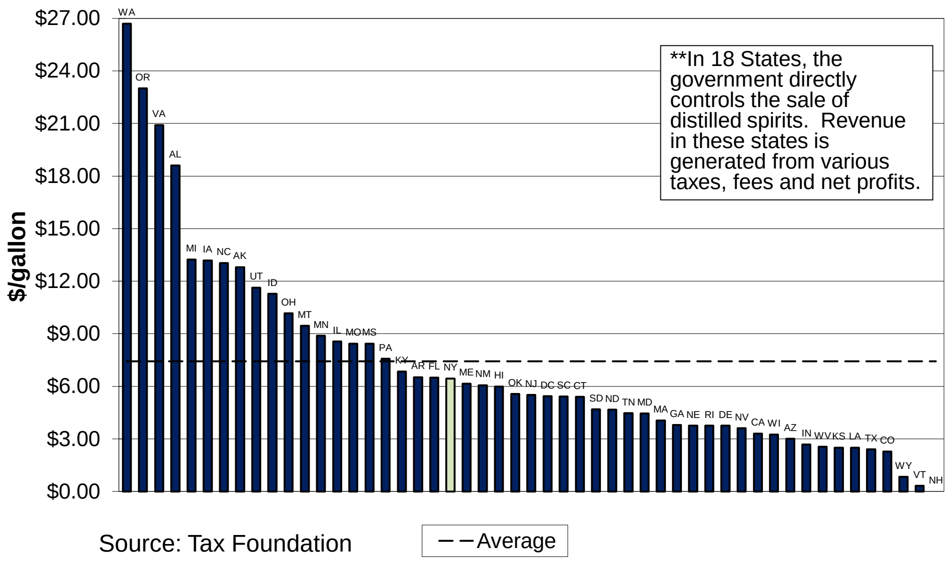
Source: Tax Foundation

Wine Tax Rates By State
(January 2012)



Source: Tax Foundation

Liquor Tax Rates by State
(September 2011)



Source: Tax Foundation

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

The New York State tax on liquor is relatively high compared to other forms of alcohol but still below the average of all states. Enforcement legislation enacted in 1993 added registration, invoice and manifest requirements, as well as seizure and forfeiture provisions. Additionally, the legislation provided higher fines for the bootlegging of varying volumes of liquor. These alcoholic beverage enforcement provisions have provided some protection to the State's liquor industry and tax base, thereby moderating year-over-year declines in State alcoholic beverage tax receipts. Other provisions were extended on a number of occasions and were made permanent in 2008. In 2009, new third party reporting requirements were imposed on wholesalers. It is expected that retailers will have an increased incentive to fully report sales.

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

ALCOHOLIC BEVERAGE TAX ENFORCEMENT PROVISIONS

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

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

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2012-13 Estimates

All Funds receipts through December are $183.2 million, an increase of $4.3 million (2.4 percent) from the comparable period in the prior fiscal year.

All Funds 2012-13 receipts are estimated to be $248.7 million, an increase of $10.4 million (4.4 percent) from 2011-12. Estimated growth is primarily based on the removal of the small brewer's exemption in June 2012 and the continuation of recent wine and liquor consumption trends.

Of the total estimated receipts, $180.4 million is projected to be derived from liquor, $48.5 million from beer and $19.8 million from wine and other taxed beverages.

COMPONENTS OF ALCOHOLIC BEVERAGE TAXES RECEIPTS (millions of dollars)

	2007-08	2008-09	2009-10	2010-11	2011-12	Estimated 2012-13	Projected 2013-14
Beer	38.0	36.0	44.0	45.0	45.0	48.5	48.5
Liquor	154.0	159.0	163.0	167.0	174.0	180.4	180.7
Wine & Other	13.0	11.0	17.0	18.0	19.0	19.8	19.8
Total	205.0	206.0	224.0	230.0	238.0	248.7	249.0

2013-14 Projections

All Funds 2013-14 receipts are projected to be $249 million, an increase of $0.3 million (0.1 percent) from 2012-13.

Liquor and wine receipts are expected to grow modestly. Beer consumption is expected to remain relatively flat as more consumers switch to liquor and wine.

Of total projected alcoholic beverage tax receipts, $180.7 million is projected to be derived from liquor, $48.5 million from beer, and $19.8 million from wine and other specialty beverages.

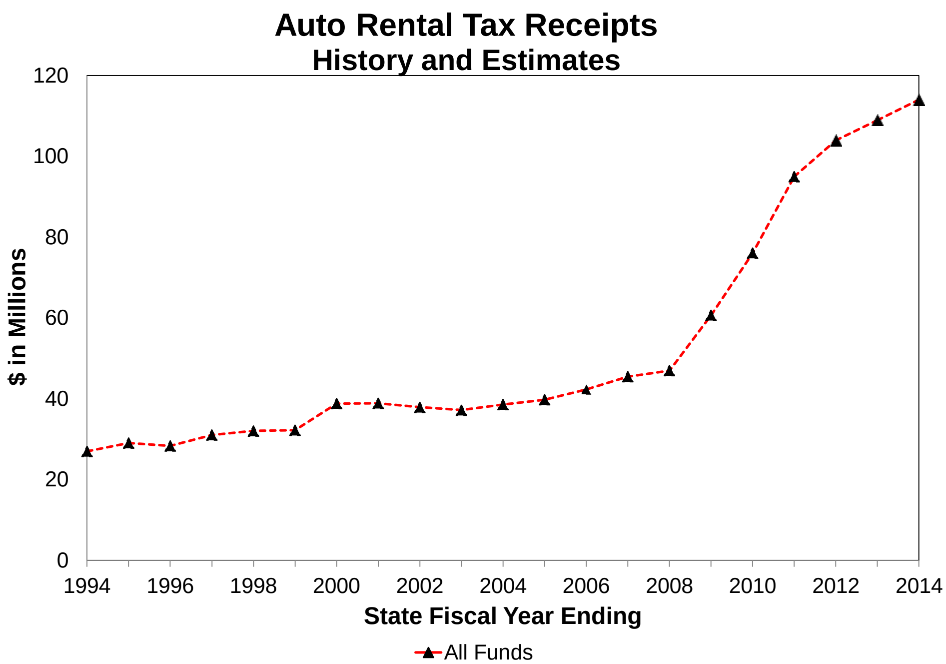
General Fund

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

AUTO RENTAL TAX

AUTO RENTAL TAX (millions of dollars)	2011-12 Actual	2012-13 Estimated	Change	Percent Change	2013-14 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0%	0.0	0.0	0.0
Other Funds	104.0	109.0	5.0	4.8%	114.0	5.0	4.6%
All Funds	104.0	109.0	5.0	4.8%	114.0	5.0	4.6%

Note: Totals may differ due to rounding.



AUTO RENTAL TAX BY FUND (millions of dollars)	Capital Project Funds[1]	Special Revenue Funds[2]	All Fund Receipts
2003-04	38.6	0.0	38.6
2004-05	39.8	0.0	39.8
2005-06	42.3	0.0	42.3
2006-07	45.5	0.0	45.5
2007-08	47.0	0.0	47.0
2008-09	60.7	0.0	60.7
2009-10	51.7	24.4	76.1
2010-11	60.0	35.0	95.0
2011-12	65.0	39.0	104.0
Estimated			
2012-13	68.0	41.0	109.0
2013-14			
Current Law	71.0	43.0	114.0
Proposed Law	71.0	43.0	114.0

[1] Dedicated Highway and Bridge Trust Fund.
[2] MTA Aid Trust Account.

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

Tax Base and Rate

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

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

Administration

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

TAX LIABILITY

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

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

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2012-13 Estimates

All Funds receipts through December are $86.4 million, an increase of $2.4 million (2.9 percent) from the comparable period in the prior fiscal year.

All Funds 2012-13 receipts are estimated to be $109 million, an increase of $5 million (4.8 percent) from 2011-12. This growth reflects the continuing recovery in tourism and business spending.

2013-14 Projections

All Funds 2013-14 receipts are projected to be $114 million, an increase of $5 million (4.6 percent) from 2012-13. This increase reflects projected growth in New York tourism spending.

General Fund

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

Other Funds

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

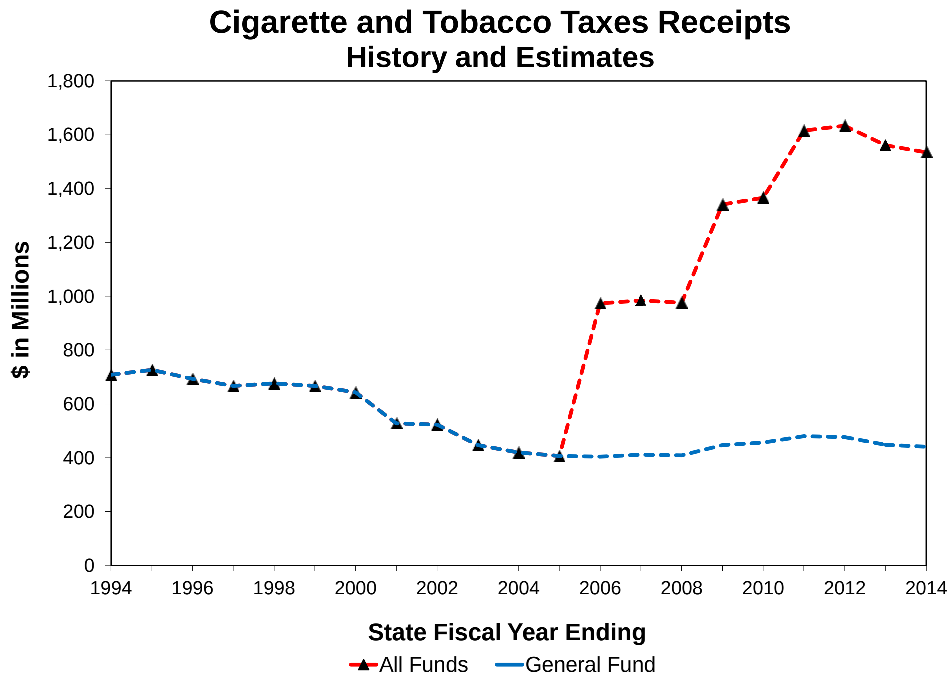
Legislation enacted in 2009 dedicated all receipts from the supplemental tax on passenger cars in the MCTD to the MTA Aid Trust Account of the MTA Financial Assistance Fund, effective June 1, 2009.

CIGARETTE AND TOBACCO TAXES

CIGARETTE AND TOBACCO TAXES
(millions of dollars)

	2011-12 Actual	2012-13 Estimated	Change	Percent Change	2013-14 Projected	Change	Percent Change
General Fund	471.4	448.0	(23.4)	(5.0)	441.0	(7.0)	(1.6)
Other Funds	1,162.1	1,113.0	(49.1)	(4.2)	1,094.0	(19.0)	(1.7)
All Funds	1,633.5	1,561.0	(72.5)	(4.4)	1,535.0	(26.0)	(1.7)

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
2003-04	428	9	419	0	419
2004-05	409	3	406	0	406
2005-06	406	2	404	571	974
2006-07	412	1	411	574	985
2007-08	410	1	409	567	976
2008-09	447	1	446	894	1,340
2009-10	457	1	456	910	1,366
2010-11	481	1	480	1,136	1,616
2011-12	472	1	471	1,162	1,633
Estimated					
2012-13	449	1	448	1,113	1,561
2013-14					
Current Law	440	1	439	1,087	1,526
Proposed Law	442	1	441	1,094	1,535

*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:

- Increase the civil penalty for possessing unstamped cigarettes; and
- Expand the cigarette and tobacco retailer registration process.

Tax Base and Rate

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

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

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

State	Rate (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	April 1, 2009	101		
June1 1990	39				
June 1, 1993	56				
March 1, 2000	111				
April 3, 2002	150				
June 3, 2008	275				
July 1, 2010	435				

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

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

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

CIGARETTE TAX RATES
Cents Per Pack Ranked by State Tax Rate
As of January 1, 2013

Rank (High to Low)	State Rate	Rank (High to Low)	State Rate
New York	**435.0**	Iowa	136.0
Rhode Island	350.0	Florida	133.9
Connecticut	340.0	Ohio	125.0
Hawaii	320.0	Oregon	118.0
Washington	302.5	Arkansas	115.0
District of Columbia	286.0	Oklahoma	103.0
New Jersey	270.0	Indiana	99.5
Vermont	262.0	California	87.0
Wisconsin	252.0	Colorado	84.0
Massachusetts	251.0	Nevada	80.0
Alaska	200.0	Kansas	79.0
Arizona	200.0	Mississippi	68.0
Maine	200.0	Nebraska	64.0
Maryland	200.0	Tennessee	62.0
Michigan	200.0	Kentucky	60.0
Illinois	198.0	Wyoming	60.0
Montana	170.0	Idaho	57.0
Utah	170.0	South Carolina	57.0
New Hampshire	168.0	West Virginia	55.0
New Mexico	166.0	North Carolina	45.0
Delaware	160.0	North Dakota	44.0
Pennsylvania	160.0	Alabama	42.5
Minnesota	160.0	Georgia	37.0
South Dakota	153.0	Louisiana	36.0
National Average	**149.2**	Virginia	30.0
Texas	141.0	Missouri	17.0

Source: Campaign for Tobacco-Free Kids

Administration

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

Tax Evasion

Cigarette tax evasion is a serious problem in New York and throughout the Northeast. Widespread evasion not only reduces State and local revenues, but also reduces the income of legitimate wholesalers and retailers. The Department of Taxation and Finance has acted vigorously to curb cigarette bootlegging through investigatory and enforcement efforts. These efforts may lead to less severe declines in taxable cigarette consumption than otherwise would have occurred.

Legislation enacted between 1996 and 2000 substantially increased penalties for selling unstamped or illegally stamped cigarettes, increased the number of enforcement agents, and prohibited the delivery by common carrier of cigarettes to individual consumers in New York. Further legislation enacted in 2002 increased the number of enforcement agents.

In 2005, legislation was enacted requiring the collection of tax on cigarettes sold on Native American reservations to non-Native Americans through the use of a coupon system to provide an adequate supply of untaxed cigarettes for consumption by the nation or tribe. In January 2007, a preliminary injunction was issued in State Supreme Court enjoining the enforcement of these statutes until certain actions are taken by the Tax Department, including the issuance of enabling regulations and the distribution of Indian tax-exempt coupons. This injunction was lifted in 2010 following the adoption of regulations.

In 2010, legislation was enacted providing for a prior-approval system that allows for the sale of untaxed, stamped cigarettes to be sold to reservation retailers in an amount that will provide an adequate supply of untaxed cigarettes for consumption by the nation or tribe. The Indian nation or tribe can opt to use the coupon system in place of the prior approval system. The prior-approval/coupon system was implemented in 2011 after a Federal Court injunction was lifted. To date, no tribes have participated in the coupon system and there has only been limited transaction using the prior approval system. Also in 2010, the Federal government prohibited the shipment of cigarettes through the U.S. Postal Service.

Significant Legislation

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

CIGARETTE AND TOBACCO TAXES

Subject	Description	Effective Date
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
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.	July 1, 1993
Legislation Enacted in 1996		
Enforcement Provisions	Increased penalties and fines for selling unstamped cigarettes, violation of retail dealer and vending machine registration provisions, and providing inaccurate registration information.	December 3, 1996
Legislation Enacted in 1999		
Cigarette Tax Increase	Increased the cigarette excise tax from 56 cents to $1.11 per pack, as part of the Health Care Reform Act (HCRA) of 2000.	March 1, 2000
Legislation Enacted in 2000		
Underage Smoking	Increased penalties for illegal sales of tobacco products to minors.	September 1, 2000
Enforcement Provisions	Created civil and criminal penalties for persons who sell and ship cigarettes to persons who are not licensed or registered cigarette dealers or agents.	November 16, 2000
Enforcement Provisions	Created civil and criminal penalties for carriers who transport cigarettes to persons who are not licensed or registered cigarette dealers or agents.	January 1, 2001
Safe Cigarettes	Required the promulgation and imposition of fire-safety standards for cigarettes and rolled tobacco products sold in New York.	July 1, 2004
Legislation Enacted in 2002		
Cigarette Tax Increase	Increased the cigarette excise tax from $1.11 per pack to $1.50 per pack.	April 3, 2002
Tobacco Tax Increase	Increased the other tobacco products tax from 20 percent of the wholesale price to 37 percent.	July 3, 2002
Enforcement Provisions	Increased the number of enforcement agents.	May 29, 2002
Legislation Enacted in 2005		
Enforcement Provisions	Required collection of tax on sales to non-Native Americans on New York reservations.	March 1, 2006
Legislation Enacted in 2008		
Cigarette Tax Increase	Increased the cigarette excise tax from $1.50 per pack to $2.75 per pack.	June 3, 2008
Tobacco Tax	Imposed a tax on snuff products at a rate of 96 cents per ounce.	July 1, 2008

Subject	Description	Effective Date
Legislation Enacted in 2009		
Cigarette Tax	Increased retail registration fees from $100 to $1,000 for retail locations with less than $1 million in annual sales, $2,500 for retail locations with annual sales of at least $1 million but less than $10 million, and $5,000 for retail locations with sales of $10 million or more.	January 1, 2010
Tobacco Tax	Increased the other tobacco products tax from 37 percent of the wholesale price to 46 percent.	April 7, 2009
Legislation Enacted in 2010		
Cigarette Tax Increase	Increased the cigarette excise tax from $2.75 per pack to $4.35 per pack.	July 1, 2010
Enforcement Provisions	Required all cigarettes sold to Native American nations or tribes and reservation cigarette sellers to bear a tax stamp, established a prior approval system for sales of untaxed, stamped cigarettes to reservation retailers, and allowed the governing body of an Native American nation or tribe to opt to use the coupon system for the purchase of tax exempt cigarettes for sales to its members.	September 1, 2010
Tobacco Tax	Increased the tobacco products tax to 75 percent of the wholesale price from 46 percent; increased the tax on snuff to $2.00 per ounce from $0.96 per ounce; and created a new category under the tobacco products tax imposing a tax on "little cigars" at a rate equivalent to the cigarette tax rate.	August 1, 2010
Legislation Enacted in 2011		
Cigarette Tax	Repealed the graduated annual retail registration fee of between $1,000 and $5,000 annually and replaced it with a flat $300 annual fee.	January 1, 2010

TAX LIABILITY

Taxable cigarette consumption is a function of retail cigarette prices and a long-term downward trend in consumption. The decline in consumption reflects the impact of increased public awareness of the adverse health effects of smoking, smoking restrictions imposed by governments, anti-smoking education programs, and changes in consumer preferences toward other types of tobacco. Recent declines in taxable consumption are consistent with an unexpected increase in the rate of smoking cessation, particularly in the context of increased enforcement efforts.

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

TOBACCO MSA PAYMENTS

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

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2012-13 Estimates

All Funds receipts through December are $1,213.6 million, a decrease of $77.5 million (6.0 percent) from the comparable period in the prior fiscal year.

All Funds 2012-13 receipts are estimated to be $1,561 million, a decrease of $72.5 million (4.4 percent) from 2011-12.

2013-14 Projections

All Funds 2013-14 receipts are projected to be $1,535 million, a decrease of $26 million (1.7 percent) from 2012-13 under proposed law. Under current law, All Funds 2013-14 receipts are projected to be $1,526 million, a decrease of $35 million (2.2 percent) from 2012-13. The difference results from $9 million in expected penalty revenue from the unstamped cigarette proposal noted earlier.

Health Care Reform Act (HCRA)

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

HCRA receipts through December are $869.0 million, a decrease of $49.0 million (5.3 percent) from the comparable period in the prior fiscal year. HCRA 2012-13 receipts are estimated to be $1,113 million, a decrease of $49.1 million (4.2 percent) from 2011-12.

HCRA 2013-14 receipts are projected to be $1,094 million, a decrease of $19 million (1.7 percent) from 2012-13 under proposed law. Legislation proposed with this Budget would increase civil penalties for possessing unstamped or unlawfully stamped cigarettes, increasing HCRA receipts by $7 million in 2012-13. Under current law, HCRA 2013-14 receipts are projected to be $1,087 million, a decrease of $26 million (2.3 percent) from 2012-13.

As part of the agreement allowing New York City to increase its cigarette tax from eight cents to $1.50 per pack in July 2002, the City provides the State with 46 percent of the receipts generated through its tax. These receipts are deposited into the HCRA Resources Pool. The New York State share of the City's cigarette tax is projected to be $52 million in 2012-13 and $51 million in 2013-14.

General Fund

General Fund receipts through December are $344.6 million, a decrease of $28.5 million (7.6 percent) from the comparable period in the prior fiscal year.

General Fund 2012-13 receipts are estimated to be $448 million, a decrease of $23.4 million (5 percent) from 2011-12. Receipts from the cigarette tax are projected to be $351.5 million, a decrease of $15.5 million (4.2 percent) from 2011-12. This decrease reflects atypical declines in taxable consumption observed during the current fiscal year. Receipts from the tobacco products tax are projected to be $89 million, $13.6 million (13.3 percent) lower than in 2011-12, due to declines in the wholesale price of tobacco products.

Receipts from retail cigarette registrations are estimated to be $7.5 million in 2012-13, an increase of $5.7 million from 2011-12. Legislation enacted in 2011 repealed the graduated fee structure that had been enjoined, allowing retailers to register for $100, and implemented a $300 annual fee. In 2011-12, the increased revenue from the $300 fee, imposed retroactively to 2010 registrations, was offset by refunds of fees for retailers who paid the full graduated fee for 2010 and 2011 registrations.

General Fund 2013-14 receipts are projected to be $441 million, a decrease of $7 million (1.6 percent) from 2012-13 under proposed law. Cigarette tax receipts are expected to be $345.3 million, or $6.2 million lower than in 2012-13. The cigarette tax decrease reflects trend declines in cigarette consumption, partially offset by proposed legislation increase civil penalties for possessing unstamped or unlawfully stamped cigarettes that would increase General Fund receipts by $2 million in 2012-13. Tobacco products tax receipts are estimated to be $88.2 million, a decrease of $0.8 million (0.9 percent) from 2012-13. Receipts from retail registrations are projected to be $7.5 million in 2013-14. Under current law, General Fund 2013-14 receipts are projected to be $439 million, a decrease of $9 million (2 percent) from 2012-13.

CIGARETTE AND TOBACCO TAXES RECEIPTS
(millions of dollars)

	General Fund				HCRA	General
Fiscal Year	Cigarette Tax	Tobacco Tax	Other	Total	Cigarette Tax*	Fund Plus HCRA
2003-04	376	40	3	419	593	1,013
2004-05	363	40	3	406	573	979
2005-06	361	39	3	404	571	974
2006-07	364	44	3	411	574	985
2007-08	359	47	3	409	567	976
2008-09	395	48	3	446	894	1,340
2009-10	378	64	14	456	910	1,366
2010-11	382	96	3	481	1,136	1,616
2011-12	367	103	2	471	1162	1,633
Estimated						
2012-13	351	89	8	448	1,113	1,561
2013-14	345	88	8	441	1,094	1,535

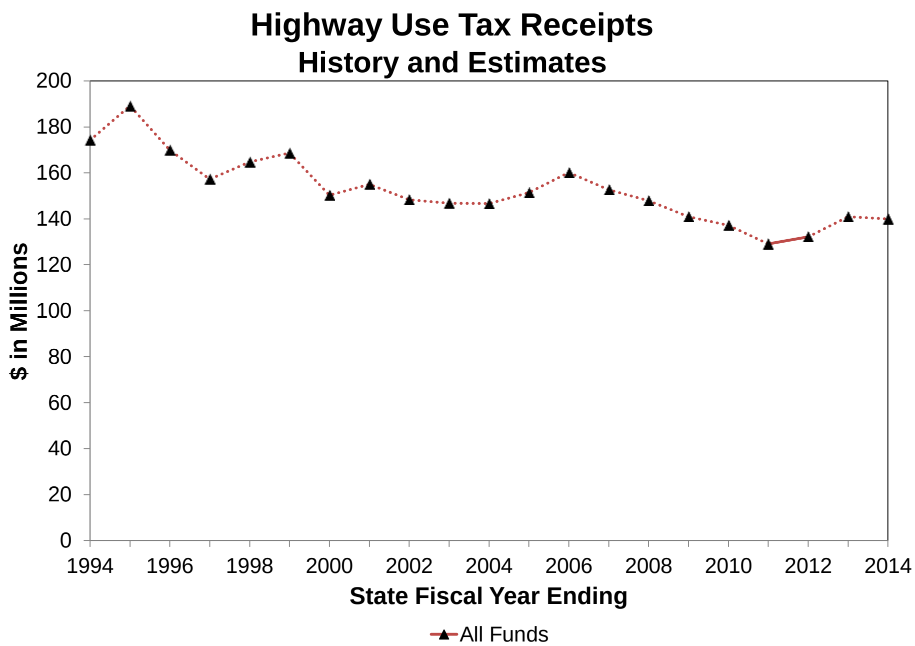
Note: Components may not add to total due to rounding.

* Prior to 2005-06, HCRA Cigarette Tax receipts were deposited to the off-budget Tobacco Control and Insurance Incentive Pool established in the Health Care Reform Act of 2000.

HIGHWAY USE TAX

HIGHWAY USE TAX (millions of dollars)							
	2011-12 Actual	2012-13 Estimated	Change	Percent Change	2013-14 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	132.1	141.0	8.9	6.7	140.0	(1.0)	(0.7)
All Funds	132.1	141.0	8.9	6.7	140.0	(1.0)	(0.7)

Note: Totals may differ due to rounding.



HIGHWAY USE TAX COLLECTIONS BY FUND (millions of dollars)				
	Gross Capital Projects Funds [1]	Refunds	Net Capital Projects Funds [1]	Net All Funds Receipts
2003-04	149	2	147	147
2004-05	153	2	151	151
2005-06	162	2	160	160
2006-07	155	2	153	153
2007-08	150	2	148	148
2008-09	143	2	141	141
2009-10	139	2	137	137
2010-11	131	2	129	129
2011-12	134	2	132	132
Estimated				
2012-13	143	2	141	141
2013-14				
Current Law	142	2	140	140
Proposed Law	142	2	140	140

[1] Dedicated Highway and Bridge Trust Fund.

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

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

Truck Mileage Tax

The truck mileage tax (TMT) is levied on commercial vehicles having a loaded gross weight of more than 18,000 pounds, or an unloaded weight in excess of 8,000 pounds for trucks and 4,000 pounds for tractors. The tax is imposed at rates graduated according to the gross vehicle weight. Under the gross weight method, the tax is calculated by multiplying the number of "laden" or "unladen" miles traveled on public highways of the State by the appropriate tax rate.

BASE TRUCK MILEAGE TAX RATES

Gross Weight Method		Unloaded Weight Method	
Laden Miles			
Gross Weight of Vehicle	**Mills Per Mile**	**Unloaded Weight of Truck**	**Mills Per Mile**
18,001 to 20,000	6.0	8,001 to 9,000	4.0
20,001 to 22,000	7.0	9,001 to 10,000	5.0
(increased gradually to)		(increased gradually to)	
74,001 to 76,000	35.0	22,501 to 25,000	22.0
76,001 and over	add 2 mills per ton and fraction thereof	25,001 and over	27.0
Unladen Miles			
Unloaded Weight of Truck		**Unloaded Weight of Tractor**	
18,001 to 20,000	6.0	4,001 to 5,500	6.0
20,001 to 22,000	7.0	5,501 to 7,000	10.0
(increased gradually to)		(increased gradually to)	
28,001 to 30,000	10.0	10,001 to 12,000	25.0
30,001 and over	add 0.5 mill per ton and fraction therof	12,001 and over	33.0
Unloaded Weight of Tractor			
7,001 to 8,500	6.0		
8,501 to 10,000	7.0		
(increased gradually to)			
16,001 to 18,000	10.0		
18,001 and over	add 0.5 mills per ton and fraction thereof		

Fuel Use Tax

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

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

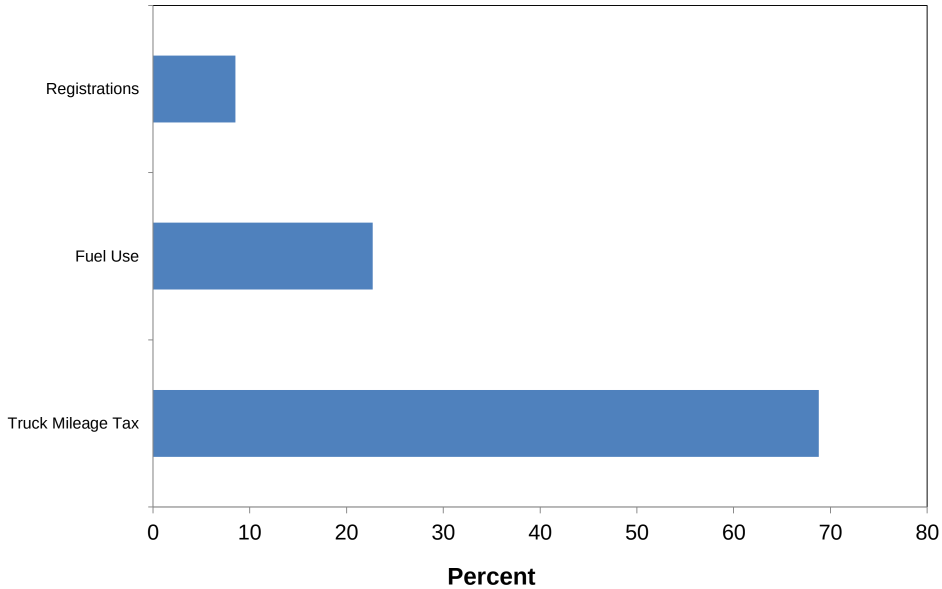
Registration System

On August 10, 2005, a Federal law was enacted that restricted the ability of States to require motor carriers to display a permit sticker. This Federal law was repealed on September 6th, 2008. On July 1, 2007, New York State replaced the permit system with a registration system to adhere to this Federal transportation law.

The current registration system is based on the license plate number of each vehicle. The Commissioner could deny registration if the carrier has not paid monies due from any other tax and there is a civil penalty for any person who fails to obtain a certificate of registration when it is required. The Commissioner of the Department of Taxation and Finance is requiring the use of decals effective January 1 2013. Special permits are issued for the transportation of motor vehicles, for automotive fuel carriers, and for trips into New York State not to exceed 72 hours.

Effective April 7, 2009, the application fee for a certificate of registration for any trailer, semi-trailer, dolly, or other attached device used for transporting automotive fuel was increased from $5 to $15. The renewal fee for any truck, tractor, or other self-propelled vehicle was increased from $4 to $15, and the renewal fee for any trailer, semi-trailer, dolly, or other attached device used for transporting automotive fuel was increased from $2 to $15. Based on these amendments, the initial cost and the renewal fee for all certificates of registration are both $15. The cost of a decal is $4.

Components of Highway Use Tax Receipts
Estimated State Fiscal Year 2012-13



Administration

Most taxpayers remit the truck mileage tax on a monthly basis. The tax is remitted on or before the last day of each month for the preceding month. Fuel use taxpayers file quarterly with their home state under the rules of the International Fuel Tax Agreement (IFTA). The home state subsequently distributes the funds to the state where the liability occurred.

Significant Legislation

Significant statutory changes to the highway use tax since 1951 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1951		
Truck Mileage Tax	Imposed a truck mileage tax based on weight and miles driven in New York (Mileage on State Thruway was exempted).	1951 and after
Legislation Enacted in 1960		
Tax Calculation	Created an optional method introduced for determining tax, based on unloaded weight and mileage.	1960 and after
Legislation Enacted in 1968		
Fuel Use Tax	Added the fuel use tax (rate equaled the motor fuel excise tax rate) and applied to fuel purchased out of State but used in New York State.	1968 and 1970
Legislation Enacted in 1977		
Sales Tax Component	Added an 8 percent sales tax component to the fuel use tax.	1978 and after
Legislation Enacted in 1978		
FUT Rate Change	Reduced the sales tax component from 8 percent to 7 percent.	1977 and after

Subject	Description	Effective Date
Legislation Enacted in 1982		
Fuel Carrier Permit	Required that every automotive fuel carrier must have a special Automotive Fuel Carrier permit and distinctively colored sticker for each motor vehicle, required to be registered under the Highway Use Tax Law.	September 1, 1982
Legislation Enacted in 1987		
Trip Permit	Established a 72-hour “trip permit.”	October 1, 1987
Legislation Enacted in 1990		
Thruway Miles and Supplemental Tax	Applied the truck mileage tax to Thruway miles. Imposed a supplemental tax equal to the base mileage tax.	July 1, 1990
Legislation Enacted in 1993		
Trust Fund	Earmarked receipts to the Dedicated Highway and Bridge Trust Fund.	April 1, 1993
Legislation Enacted in 1994		
Thruway Mileage	Reduced the truck mileage tax rates imposed on New York State Thruway mileage by one-half and eliminated such rates on and after January 1, 1996.	January 1, 1995
Refunds	Permitted taxpayers who purchase more fuel in New York State than they consume in the State to claim refunds or credits for all excess payments of State fuel use taxes (prior to January 1, 1995, taxpayers could only obtain a refund or credit for the motor fuel tax portion of the fuel use tax).	January 1, 1995
International Fuel Tax	Authorized the State to join the federally mandated International Fuel Tax Agreement (IFTA) on January 1, 1996. This agreement provided for the uniform reporting and collection of fuel-use-related taxes among IFTA jurisdictions. Under IFTA, jurisdictions may only impose a fuel use tax on vehicles with loaded gross weights of more than 26,000 pounds or with three or more axles. Therefore, since January 1, 1996, vehicles with loaded gross weights between 18,000 pounds and 26,000 pounds and with fewer than three axles that had been taxed in New York were excluded from the fuel use tax.	January 1, 1996
Legislation Enacted in 1995		
Fuel Use Tax Rate Cut	Reduced the diesel fuel excise tax rate from ten cents per gallon to eight cents per gallon. As a result, the diesel fuel tax component of the fuel use tax was also reduced to eight cents per gallon.	January 1,1996
Legislation Enacted in 1998		
Supplemental Tax	Reduced the truck mileage supplemental tax by 50 percent.	January 1, 1999
Legislation Enacted in 2000		
Supplemental Tax	Reduced the truck mileage supplemental tax by 20 percent.	April 1, 2001
Legislation Enacted in 2006		
Alternative Fuels	Exempted or partially exempted fuel use tax on alternative fuels, including E85 and B20.	September 1, 2006
Fuel Use Tax Cap	Capped the statewide rate for the sales tax component at 8 cents per gallon for motor fuel and diesel motor fuel for the State rate, plus the lowest county sales tax rate.	June 1, 2006
Legislation Enacted in 2007		
HUT - Permit	Replaced the permit system with a registration system.	July 1, 2007
Legislation Enacted in 2009		
HUT - Fee Increase	Increased the replacement fee for a certificate of registration to $15.	April 7, 2009

Subject	Description	Effective Date
Legislation Enacted in 2011		
Alternative Fuel	Extended the exemption on alternative fuels until September 1, 2012.	September 1, 2011
Legislation Enacted in 2012		
Alternative Fuel	Extended the exemption on alternative fuels until September 1, 2014.	September 1, 2012

TAX LIABILITY

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

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

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2012-13 Estimates

All Funds receipts through December are $112.7 million, an increase of $9.4 million (9.1 percent) from the comparable period in the prior fiscal year. This increase is primarily due to re-registration and the mailing of decals. As of December 31, 2012, the State has collected roughly $8 million in registration and decal fees.

All Funds 2012-13 receipts are estimated to be $141 million, an increase of $8.9 million (6.7 percent) from 2011-12.

Net truck mileage tax receipts are estimated at $97 million, fuel use tax receipts at $32 million and registration fees at $12 million.

2013-14 Projections

All Funds 2013-14 receipts are projected to be $140 million, a decrease of $1 million (0.7 percent) from 2012-13.

General Fund

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

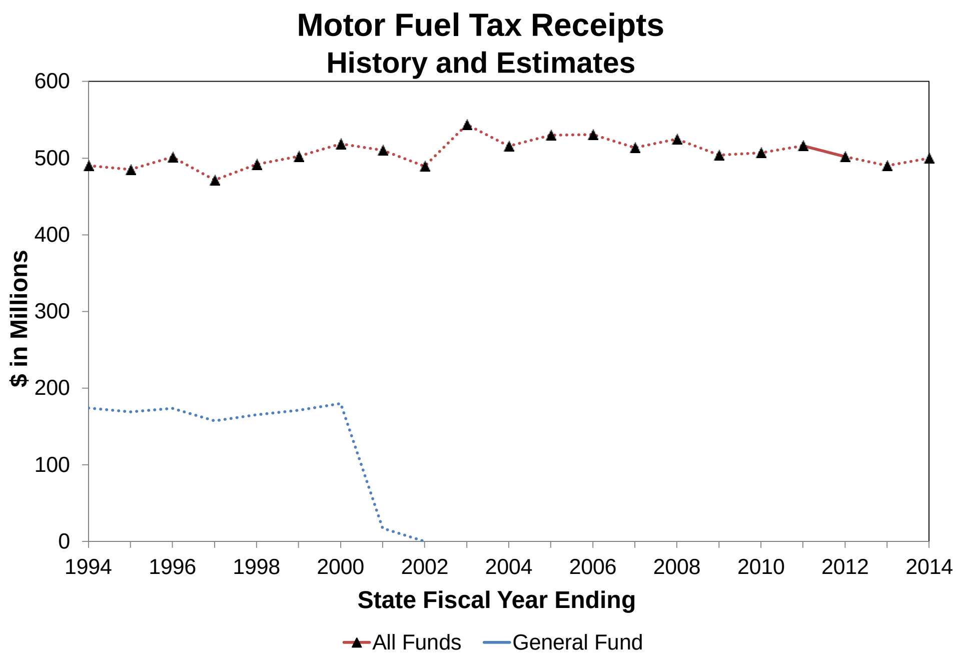
Other Funds

Currently, all highway use tax receipts are directed to the Dedicated Highway and Bridge Trust Fund.

MOTOR FUEL TAX

MOTOR FUEL TAX (millions of dollars)							
	2011-12 Actual	2012-13 Estimated	Change	Percent Change	2013-14 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	501.6	490.0	(11.6)	(2.3)	500.0	10.0	2.0
All Funds	501.6	490.0	(11.6)	(2.3)	500.0	10.0	2.0

Note: Totals may differ due to rounding.



MOTOR FUEL TAX BY FUND (millions of dollars)					
	Gross All Funds Receipts	Special Revenue Funds[1]	Capital Projects Funds[2]	All Funds Refunds	All Funds Receipts
2003-04	528	105	411	12	516
2004-05	542	110	420	12	530
2005-06	546	111	420	15	531
2006-07	526	107	406	13	513
2007-08	543	110	415	18	525
2008-09	528	106	398	24	504
2009-10	523	106	401	16	507
2010-11	540	108	408	24	516
2011-12	527	105	396	25	502
Estimated					
2012-13	510	103	387	20	490
2013-14					
Current Law	520	105	395	20	500
Proposed Law	520	105	395	20	500

[1] Dedicated Mass Transportation Trust Fund.

[2] Dedicated Highway and Bridge Trust Fund.

PROPOSED LEGISLATION

No new legislation is proposed in this Budget.

DESCRIPTION

Tax Base

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

Tax Rate

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

RANKING OF STATE TAXES PER GALLON (January 1, 2013) [1]		
State	State Motor Fuel Tax (cents per gallon)	Total State Tax [2] (cents per gallon)
1. CONNECTICUT**	25.0	44.0
2. CALIFORNIA*	36.0	42.0
3. MICHIGAN *	19.0	40.3
4. ILLINOIS *	19.0	39.0
5. WASHINGTON	37.5	38.5
6. N. CAROLINA	37.5	37.5
7. INDIANA *	18.0	35.2
8. **NEW YORK ***	8.0	34.8
9. W. VIRGINIA	20.5	33.4
10. RHODE ISLAND	32.0	33.0
11. WISCONSIN	30.9	32.9
12. MAINE	30.0	31.5
13. PENNSYLVANIA	12.0	31.2
14. OREGON	30.0	31.0
15. MINNESOTA	28.5	30.5
16. HAWAII *	17.0	30.0
17. KENTUCKY	28.5	29.9
18. OHIO	28.0	28.0
19. MONTANA	27.0	27.8
20. IDAHO	25.0	26.0
21. VERMONT	19.0	25.8
22. NEBRASKA	24.6	25.5
23. UTAH	24.5	24.5
24. KANSAS	24.0	24.0
25. S. DAKOTA	22.0	24.0
26. DIST. OF COLUMBIA	23.5	23.5
27. MARYLAND	23.5	23.5
28. MASSACHUSETTS	21.0	23.5
29. COLORADO	22.0	23.3
30. DELAWARE	23.0	23.0
31. N. DAKOTA	23.0	23.0
32. NEVADA	23.0	23.0
33. IOWA	21.0	22.0
34. ARKANSAS	21.5	21.7
35. TENNESSEE	20.0	21.4
36. LOUISIANA	20.0	20.0
37. TEXAS	20.0	20.0
38. GEORGIA *	7.5	19.5
39. NEW HAMPSHIRE	18.0	19.5
40. ARIZONA	18.0	19.0
41. NEW MEXICO	17.0	18.9
42. MISSISSIPPI	18.0	18.8
43. VIRGINIA	17.5	17.5
44. MISSOURI	17.0	17.3
45. ALABAMA	16.0	17.0
46. OKLAHOMA	16.0	17.0
47. FLORIDA	16.9	16.9
48. S. CAROLINA	16.0	16.8
49. NEW JERSEY	10.5	14.5
50. WYOMING	13.0	14.0
51. ALASKA	8.0	8.0

NOTES:
(1) Assumes a pump price of $3.00.
(2) Includes applicable State sales tax--(local taxes not included)
* State sales tax applies on sales of gasoline in these states
** Includes petroleum gross receipts tax --7% of 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 required accelerated remittance of the tax by taxpayers with annual liability of more than $5 million for motor fuel and petroleum business tax (PBT) combined. These taxpayers are required to remit taxes electronically or by certified check by the third business day following the first 22 days of each month. Taxpayers can choose to make either a minimum payment of three-fourths of the comparable month's tax liability for the preceding year, or 90 percent of actual liability for the first 22 days. Taxes for the balance of the month are remitted by the twentieth of the following month.

Tax Expenditures

Exemptions from the motor fuel tax include:

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

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

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

- omnibus carriers or taxicabs;

- nonpublic school vehicle operators, exclusively for education-related purposes; and

- volunteer ambulance services.

Significant Legislation

Significant statutory changes to the motor fuel tax since 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, until September 1, 2011.	September 1, 2006
Legislation Enacted in 2011		
Modernize Fuel Definitions	Modernized fuel definitions to conform with changes in Federal and State Law.	September 1, 2011
Alternative Fuel	Extended the exemption on alternative fuels until September 1, 2012.	September 1, 2011
Legislation Enacted in 2012		
Alternative Fuel	Extended the exemptions on alternative fuels until September 1, 2014.	September 1, 2012

TAX LIABILITY

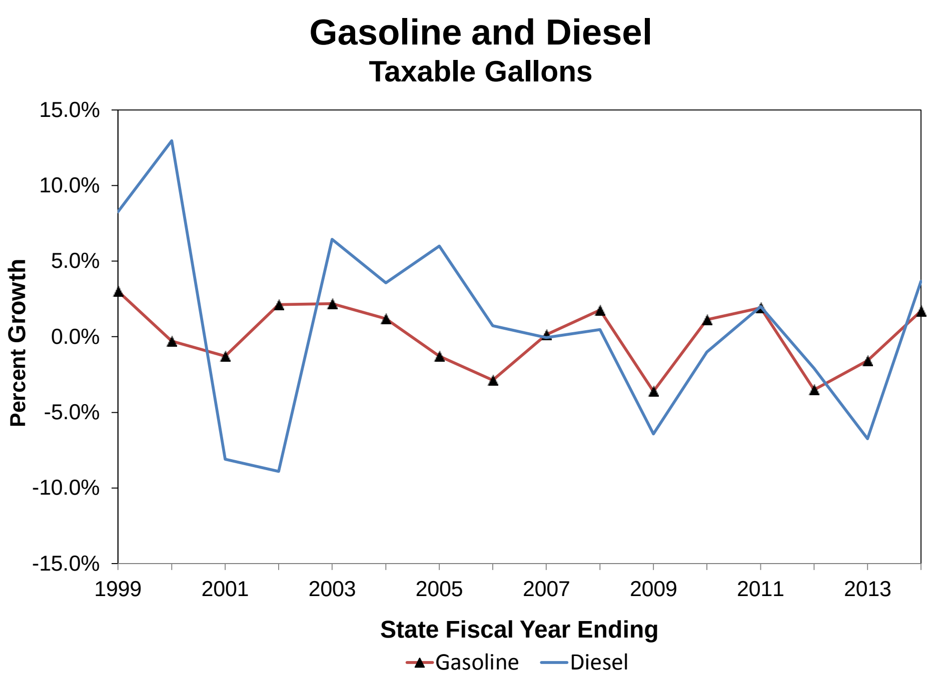
Motor fuel tax collections are a function of the number of gallons of fuel imported into the State by distributors. Gallonage is determined in large part by fuel prices, the amount of fuel held in inventories, the fuel efficiency of motor vehicles and overall state economic performance.

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

Taxable Gallons

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

In 2011-12, gasoline taxable gallonage and diesel fuel taxable gallonage decreased by 3.5 percent and 2.1 percent, respectively, when compared to 2010-11. This was mainly due to higher energy prices. In 2012-13, gasoline taxable gallonage is estimated to decrease by 1.6 percent while diesel taxable gallonage is estimated to decrease by 6.8 percent due to weak travel demand and weaker industrial production. In 2013-14, it is projected that there will be an increase in gasoline and diesel fuel taxable gallonage due to lower projected energy prices. The following chart shows taxable gallonage trends since 1998-99.

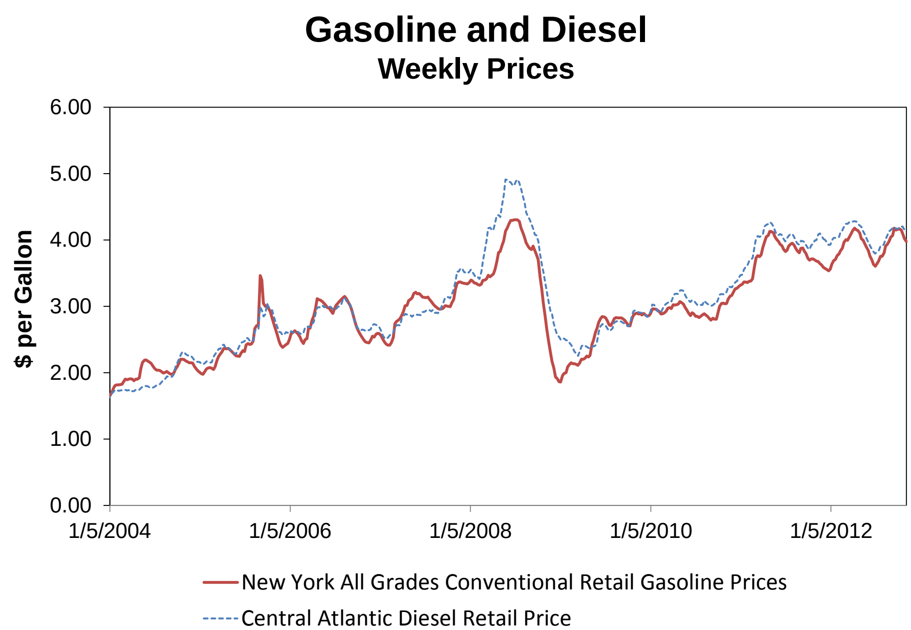


GASOLINE AND DIESEL TAXABLE GALLONS				
Fiscal Year	Gasoline (millions of gallons)	Percent Change	Diesel (millions of gallons)	Percent Change
2008-09	5,458	(3.6)	858	(6.4)
2009-10	5,520	1.1	849	(1.0)
2010-11	5,625	1.9	866	2.0
2011-12	5,428	(3.5)	848	(2.1)
2012-13 (Est.)	5,343	(1.6)	791	(6.8)
2013-14 (Proj.)	5,434	1.7	820	3.6

The average monthly price of gasoline sold in New York generally increased, on a year-over-year basis, from August 2002 until July 2008. This includes a sharp acceleration in gasoline price growth from October 2007 until September 2008. Higher energy prices and a severe national recession reduced travel demand and caused gasoline prices to drop from a peak of $4.27 in July 2008 to a low of $1.95 in January 2009. Recent trends, including the loss of some Iranian crude oil due to sanctions, the temporary loss of Libyan crude oil supplies, and recovering oil demand in emerging economies have resulted in near continuous year-over-year increases in gasoline prices since January 2010.

The average monthly price of diesel peaked in July 2008 at $4.86 per gallon, roughly 250 percent higher than the July 2002 price. Similar to gasoline prices, diesel prices experienced year-over-year declines for 13 consecutive months starting with November 2008. Diesel fuel prices have displayed near steady increases in monthly year-over-year growth rates since January 2010.

Since the motor fuel tax and sales tax on motor fuel and diesel motor fuel are capped, State tax revenues have not been directly affected by fuel price volatility. The following chart shows a history of weekly price changes.



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

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

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2012-13 Estimates

All Funds receipts through December are $370.3 million, a decrease of $14.9 million (3.9 percent) from the comparable period in the prior fiscal year.

All Funds 2012-13 receipts are estimated to be $490 million, a decrease of $11.6 million (2.3 percent) from 2011-12.

2013-14 Projections

All Funds 2013-14 receipts are projected to be $500 million, an increase of $10 million (2 percent) from 2012-13.

General Fund

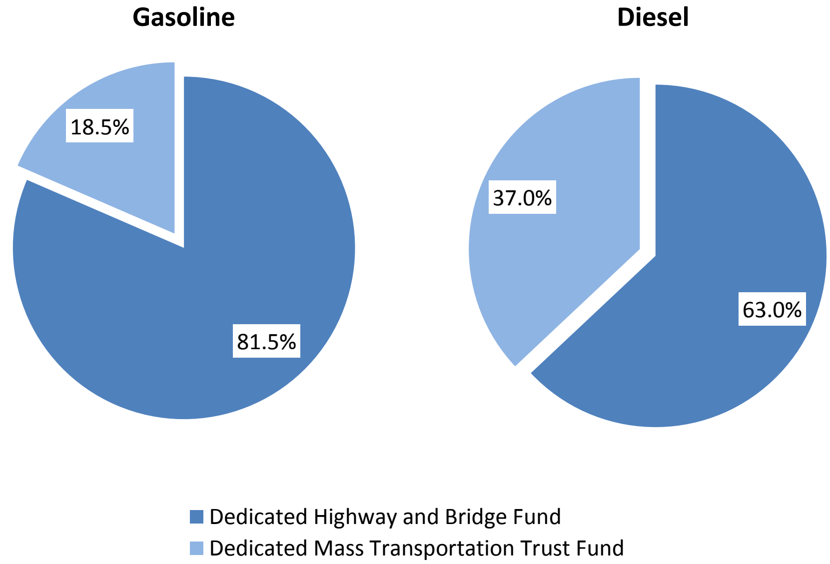
No motor fuel tax receipts are deposited into the General Fund.

Other Funds

Since 2003, motor fuel tax receipts have been distributed by law to two funds: the Dedicated Highway and Bridge Trust Fund (DHBTF) and the Dedicated Mass Transportation Trust Fund (DMTTF).

For gasoline, 81.5 percent of receipts are deposited to the DHBTF and 18.5 percent of receipts are deposited to the DMTTF. For diesel, 63 percent of receipts are deposited to the DHBTF and 37 percent of receipts are deposited to the DMTTF.

Motor Fuel Tax Receipts
Current Distributions

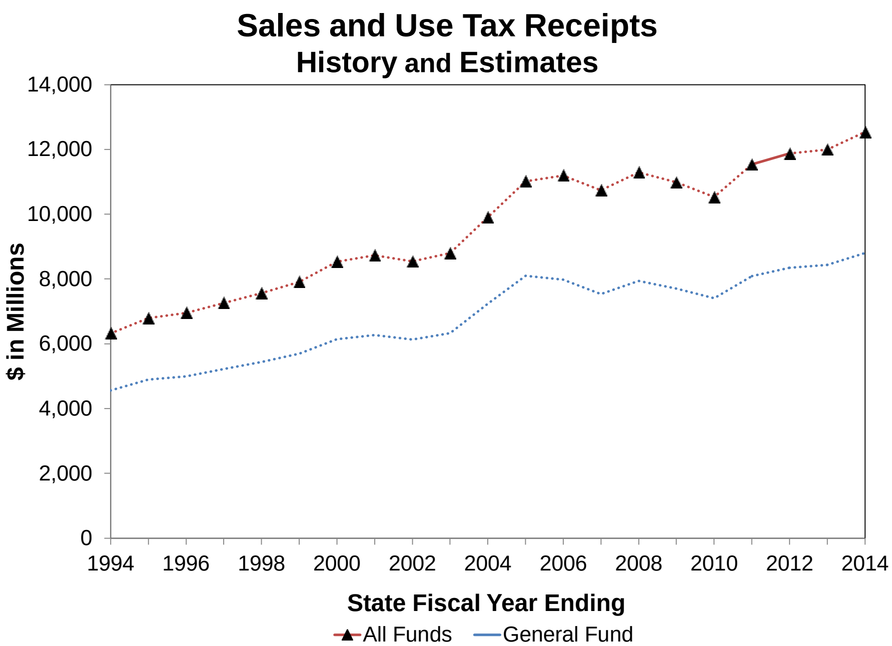


Motor fuel tax receipts in 2012-13 are estimated to be $387 million for the DHBTF and $103 million for the DMTTF. Motor fuel tax receipts in 2013-14 are projected to be $395 million for DHBTF and $105 million for the DMTTF.

SALES AND USE TAX

SALES AND USE TAX (millions of dollars)							
	2011-12 Actual	2012-13 Estimated	Change	Percent Change	2013-14 Projected	Change	Percent Change
General Fund	8,345.5	8,430.0	84.5	1.0%	8,801.8	371.8	4.4%
LGAC	2,779.5	2,809.0	29.5	1.1%	2,934.2	125.2	4.5%
MTOAF	749.5	755.0	5.5	0.7%	797.0	42.0	5.6%
All Funds	11,874.6	11,994.0	119.5	1.0%	12,533.0	539.0	4.5%

Note: Totals may differ due to rounding.



SALES AND USE TAX BY FUND (millions of dollars)						
	Gross General Fund	Refunds	General Fund	Special Revenue Funds[1]	Debt Service Funds[2]	All Fund Receipts
2003-04	7,300	59	7,241	399	2,267	9,907
2004-05	8,143	49	8,094	429	2,493	11,016
2005-06	8,048	70	7,978	603	2,615	11,196
2006-07	7,593	54	7,539	688	2,512	10,739
2007-08	8,009	64	7,945	705	2,646	11,296
2008-09	7,771	64	7,707	711	2,567	10,985
2009-10	7,457	53	7,404	656	2,467	10,527
2010-11	8,168	83	8,085	756	2,697	11,538
2011-12	8,448	102	8,346	750	2,780	11,875
Estimated						
2012-13	8,505	75	8,430	755	2,809	11,994
2013-14						
Current Law	8,861	75	8,786	796	2,929	12,511
Proposed Law	8,877	75	8,802	797	2,934	12,533

[1] Mass Transportation Operating Assistance Fund.

[2] Local Government Assistance Corporation Fund.

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Expand the cigarette and tobacco retailer registration clearance process;
- Make technical amendments to the tax classification of uncompressed natural gas;
- Reform the IDA State sales tax exemption;
- Establish the New York Innovation Hot Spot program;
- Make tax modernization provisions permanent;
- Expand the sales tax registration clearance process;
- Suspend delinquent taxpayers' driver's licenses;
- Provide local autonomy for sales tax rates;
- Establish Taste-NY facilities; and
- Dedicate one quarter of the four percent State sales tax to a new sales tax revenue bond tax fund.

DESCRIPTION

Tax Base

In general, all retail sales of tangible personal property are taxed under Article 28 of the Tax Law unless specifically exempt, but services are taxable only if they are enumerated in the Tax Law.

Specifically, the sales tax is applied to receipts from the retail sale of:

- Tangible personal property (unless specifically exempt);
- Certain gas, electricity, refrigeration and steam and telephone service;
- Selected services;
- Food and beverages sold by restaurants, taverns and caterers;
- Hotel occupancy; and
- Certain admission charges and dues.

Examples of taxable services include installing or maintaining tangible personal property and protective and detective services.

States are currently constrained by United States Supreme Court decisions limiting which out-of-state vendors can be required to collect the sales tax on a state's behalf. In general, a vendor must have some physical presence or nexus in a state to be required to collect that particular state's sales tax. Thus, a compensating use tax complements the sales tax, and is imposed on the use of taxable property or services in-state, if the transaction has not already been subject to tax. This will include, for example, taxable items purchased via mail order or on the Internet if the vendor has no taxable nexus with New York. The use tax also applies to certain uses of self-produced property or services. With some exceptions, the base of the use tax mirrors the base of the sales tax. The use tax is remitted by the purchaser directly to the New York State Department of Taxation and Finance, but low compliance for certain transactions remains an ongoing concern.

Effective with the 2003 personal income tax filing year, the New York State personal income tax return contains a line on which taxpayers may enter the amount of use tax owed for the preceding calendar year. New York State collected $24.6 million from this program in 2010-11 and $38 million in 2011-12.

Tax Rate

The sales and compensating use tax was enacted in 1965 at the rate of 2 percent. The tax rate was increased to 3 percent in 1969, to 4 percent in 1971 and to 4.25 percent in 2003. The rate reverted to 4 percent on June 1, 2005. Please see the "Comparison of New York State Tax Structure with Other States" section for further information on the tax rate.

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

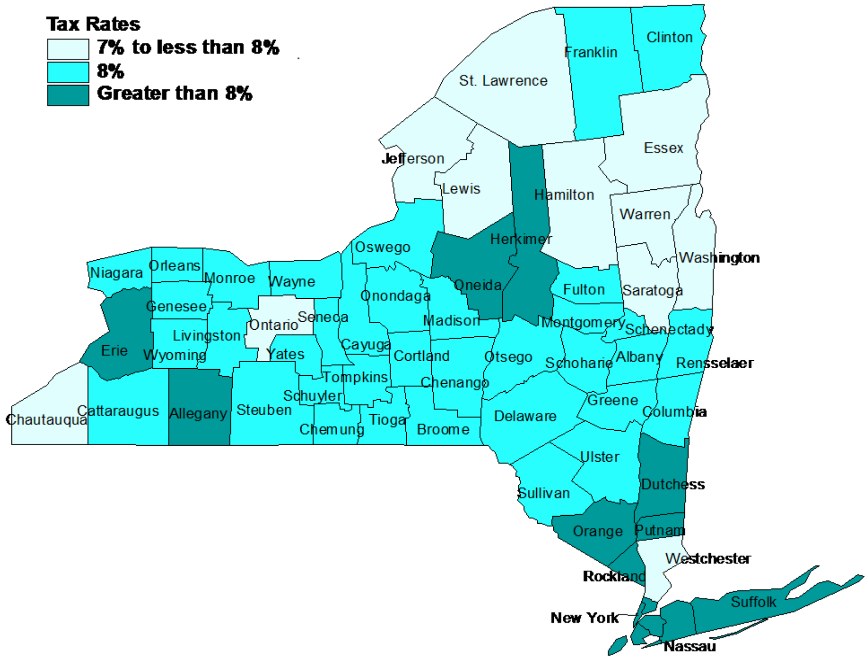
An additional 5 percent sales tax is imposed on the receipts from the sale of telephone entertainment services that are exclusively delivered aurally.

Counties and cities are authorized to impose general sales tax rates up to 3 percent. Of the 57 counties and the 20 cities (including New York City) that impose the general sales tax, 51 counties and 3 cities received legislative authority to impose additional rates of tax above the statutory 3 percent general sales tax rate. Over 90 percent of the State's population resides in an area where the tax rate equals or exceeds 8 percent. Since almost all counties have an additional rate, an Executive Budget proposal would require localities, not the State, to renew this rate every two years by a majority vote of the county legislative body.

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

Combined State and Local Sales Tax Rates

Effective December, 1 2012



Administration

There are currently 550,783 sales tax vendors selling taxable property or services who are required to register with the Department of Taxation and Finance. Vendors generally are required to remit the tax quarterly. However, vendors with more than \$300,000 of taxable sales and purchases in one of the immediately preceding four quarters must remit the tax monthly by the twentieth of the month following the month of collection. Vendors collecting less than \$3,000 yearly may elect to file annually, in March.

Monthly vendors with an annual sales and use tax liability exceeding \$500,000 or with an annual liability for prepaid sales tax on motor fuel and diesel motor fuel exceeding \$5 million are required to file using the Tax Department's PrompTax program. The payment schedule requires tax for the first 22 days of a month to be paid within three business days thereafter. Roughly 65 percent of sales tax receipts are remitted by the approximately 6,000 vendors that are required to remit by PrompTax. Effective May 30, 2011, all filers are subject to a \$50 penalty for each failure to e-file unless the taxpayer can show that the failure was due to reasonable cause.

To reduce tax evasion, special provisions for remitting the sales tax on motor fuel and cigarettes have been enacted. Since 1985, the sales tax on gasoline has been remitted by the first importer of the fuel into New York. Prior to 2006, the tax was prepaid at a per gallon rate based on regional prices. Currently, the pre-payment is fixed at 14 cents per gallon for upstate and 14¾ cents in the MCTD region. The cigarette prepayment rate is 8 percent and is prepaid by cigarette agents at the same time as payment for cigarette excise tax stamps.

SALES TAX VENDORS AND TAXABLE SALES			
Filing Status	Number of Active Vendors*	Percent of Total Vendors	Percent of State and Local Receipts
Monthly PrompTax	5,988	1.1	65.1
Monthly Other	37,668	6.8	23.0
Quarterly	240,590	43.7	11.4
Annual	266,537	48.4	0.5
Total	550,783	100.0	100.0

*Vendors identified as of November 6, 2012
Selling period March 1, 2010 through February 28, 2011
Source: New York State Department of Taxation and Finance

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

Tax Expenditures

A myriad of exemptions from the sales tax have been enacted over the life of the tax. Broad exemptions have been provided for sales for resale and for machinery and equipment used in production or in research and development. These particular exemptions prevent multiple taxation of the same property, a situation known as tax pyramiding.

Other exemptions, such as sales to exempt organizations, certain vending machine sales and certain other coin-operated sales, are also provided. Legal, medical and other professional services, sales of real property, and rental payments are also excluded from the base of the sales tax. For further details, please see the Tax Expenditure Report.

Significant Legislation

Significant statutory changes to the sales and use tax since 1965 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1965		
Imposition	Imposed a 2 percent sales and use tax on retail sales or use of tangible personal property.	August 1, 1965
Legislation Enacted in 1969		
Rate Increase	Increased the sales tax rate to 3 percent.	April 1, 1969
Legislation Enacted in 1971		
Rate Increase	Increased the sales tax rate to 4 percent.	June 1, 1971
Legislation Enacted in 1975		
March Prepayment	Imposed a sales tax March prepayment.	1975 and after

SALES AND USE TAX

Subject	Description	Effective Date
Legislation Enacted in 1977		
Fuel Use Tax	Added an 8 percent sales tax component to the fuel use tax.	1977 and after
Legislation Enacted in 1978		
Residential Fuel	Phased in a State exemption for residential energy use, which was fully exempted on October 1, 1980.	January 1, 1979
Fuel Use Tax	Reduced the sales tax component from 8 percent to 7 percent.	1978 and after
Legislation Enacted in 1981		
MTA	Imposed the MTA sales tax at 0.25 percent.	1981 and after
Legislation Enacted in 1985		
Gasoline Tax Payment	Required sales tax on gasoline to be pre-paid upon importation of fuel into the State. (The same requirement applied to diesel fuel in 1988.)	June 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 the March prepayment.	1993 and after
Legislation Enacted in 1992		
EFTs	Established Electric funds transfer (EFT) for large vendors.	1992 and after
Alternative Fuel Vehicles	Exempted the additional cost of new alternative fuel vehicles above the sales price of comparable gasoline or diesel powered vehicles from tax.	September 1, 1992
Legislation Enacted in 1993		
Information and Entertainment	Imposed the tax on information and entertainment services (5 percent).	1993 and after
Legislation Enacted in 1994		
Racehorses	Exempted certain registered racehorses used in authorized pari-mutuel events.	June 1, 1994
Vendor Allowance	Enacted the vendor allowance credit for timely filed quarterly or annual returns at the rate of 1.5 percent of State sales tax collected up to a maximum of $100 per return.	September 1, 1994
Legislation Enacted in 1995		
Homeowners' Associations	Exempted dues paid to homeowners' associations operating social or athletic facilities for their members.	September 1, 1995
Meteorological Services	Exempted the sale of meteorological information services.	September 1, 1995
Legislation Enacted in 1996		
Clothing and Footwear	Exempted clothing and footwear priced under $500 for the one-week period of January 18-24, 1997.	January 18-24, 1997
Promotional Materials	Expanded the exemption for certain printed promotional materials distributed by mail to customers in New York State.	March 1, 1997

Subject	Description	Effective Date
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	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 the 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
Alternative Fuel Vehicle Refueling Equipment	Exempted receipts from the sale and installation of alternative fuel vehicle refueling equipment. Sunset February 29, 2004.	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	March 1, 2001

Subject	Description	Effective Date
	motor vehicles to an exemption.	
Telecommunications Equipment	Exempted machinery and equipment used to upgrade cable television systems to provide telecommunications services for sale and to provide Internet access service for sale.	March 1, 2001
Theater	Exempted certain tangible personal property and services used in the production of live dramatic or musical arts performances.	March 1, 2001
Legislation Enacted in 2000		
Farm Production	Exempted property, building materials and utility services used in farm production. Expanded definition of farms to include commercial horse boarding operations.	September 1, 2000
Internet Data Centers	Exempted computer hardware and software purchased by Internet Data Centers (web site hosting facilities) operating in New York. Included required equipment such as air conditioning systems, power systems, raised flooring, cabling, and the services related to the exempted property.	September 1, 2000
Vending Machines	Exempted food and drink sold through a vending machine that costs 75 cents or less.	September 1, 2000
Telecommunications Equipment and Communications Services	Exempted property used to provide telecommunications services, Internet access services, or a combination thereof. Also, exempted certain services to the exempted property, such as installation and maintenance. Provided a three-year exemption for machinery and equipment used to upgrade cable television systems to a digital-based technology.	September 1, 2000
Radio and Television Broadcasting	Exempted machinery and equipment (including parts, tools and supplies) and certain services used for production and transmission of live or recorded programs. A broadcaster includes Federal communications licensed radio and television stations, television networks, and cable television networks.	September 1, 2000
Pollution Abatement	Exempted manufacturing and industrial pollution control equipment and machinery.	March 1, 2001
Transmission and Distribution of Electricity and Gas	Phased out over three years the sales tax on the separately purchased transmission of electricity and gas.	September 1, 2000
Empire Zones	Exempted property and services used or consumed by qualified businesses within Empire Zones.	March 1, 2001
Purchase of Gas or Electricity from Outside of New York	Imposed a compensating use tax on purchases of gas or electricity from vendors located outside of New York.	June 1, 2000
Legislation Enacted in 2001		
Empire Zones	Added eight new Empire Zones, for a total of 66 zones throughout the State. Four of the eight new Empire Zones became effective immediately.	October 29, 2001
Legislation Enacted in 2002		
Temporary Exemption in Liberty Zone	Temporarily exempted most tangible personal property priced under $500 sold in the Liberty and Resurgence Zones in New York City for the periods of June 9-11, July 9-11 and August 20-22, 2002.	June 1, 2002
EFT Threshold Change	Lowered the Electronic Fund Transfer threshold from $1 million to $500,000.	September 1, 2003
Legislation Enacted in 2003		
Surcharge	Raised the State sales tax rate from 4 to 4.25 percent through May 31, 2005.	June 1, 2003
Temporary repeal of clothing exemption	Temporarily repealed the exemption on items of clothing and footwear priced under $110 and created two clothing exemption	June 1, 2003

Subject	Description	Effective Date
	weeks at the same $110 threshold.	
Use tax line on PIT return	Required a line on PIT returns for taxpayers to report use tax owed.	May 24, 2003
Legislation Enacted in 2004		
Extend Temporary Repeal of Clothing Exemption	Extended the expiration date to May 31, 2005, for the temporary repeal of the exemption on items of clothing and footwear priced under $110 and created two exemption weeks at the same $110 threshold.	August 20, 2004
Aircraft Parts and Services	Exempted parts used exclusively to maintain, repair, overhaul or rebuild aircraft parts or aircraft services.	December 1, 2004
Vessels Providing Local Transit	Provided refunds and credits for certain vessels used to provide transit service and certain related property and services.	December 1, 2004
Contractors and Affiliates	Required contractors, subcontractors and their affiliates who make deliveries of taxable services or tangible personal property valued at more than $300,000 to New York locations to register as sales tax vendors.	August 20, 2004
Legislation Enacted in 2005		
Extend Temporary Repeal of Clothing Exemption	Extended the expiration date to March 31, 2007, for the temporary repeal of the exemption on items of clothing and footwear priced under $110 and created two exemption weeks at the same $110 threshold. If the 2006-07 Executive Budget included tax cut proposals, the year-round exemption for such items takes effect on April 1, 2006.	April 12, 2005
Manhattan Parking Vendors	Made permanent the sales tax enforcement provisions relating to parking vendors in Manhattan.	April 12, 2005
Metropolitan Commuter Transportation District Sales Tax Rate	Increased the sales and use tax rate in the Metropolitan Commuter Transportation District (MTCD) from 0.25 percent to 0.375 percent.	June 1, 2005
Sales Tax Medicaid Intercept	Provided for the State to calculate an optional local “Medicaid amount”, and for such amount to be intercepted from local sales tax distributions and directed to the State.	April 12, 2005
Amusement Park Admissions	Extended until October 1, 2006, the 75 percent sales tax exemption of the amount charged for admission to a qualifying place of amusement.	April 12, 2005
Lower Manhattan Office Space	Provided sales tax exemption for property used to furnish or equip lower Manhattan office space.	August 30, 2005
Residential Solar Energy	Exempted the sale and installation of residential solar energy systems equipment from sales and use taxes.	July 26, 2005
In Bay Car Washes	Exempted coin-operated or fully automated car washing, waxing or vacuuming from sales and use taxes.	December 1, 2005
Marine Terminal Facilities	Exempted certain machinery and equipment for marine container terminals in New York City from State sales and use taxes.	December 1, 2005
Waste Transfer Stations	Exempted certain waste transfer services from State and local sales and use taxes.	December 1, 2005
State Charter Credit Unions	Exempted State charter credit unions from sales and use taxes.	March 1, 2006
Electricity	Exempted electricity, refrigeration and steam services produced by a cogeneration facility owned by certain cooperative corporations.	March 1, 2006

Subject	Description	Effective Date
Legislation Enacted in 2006		
Clothing	Permanently exempted clothing and footwear priced under $110.	April 1, 2006
Vendor Allowance	Increased vendor credit from 3.5 percent to 5 percent and increased the cap from $150 to $175. The cap increased to $200 on March 1, 2007.	September 1, 2006
Amusement Parks	Exempted admissions to amusement parks permanently.	October 1, 2006
Motor Fuel Cap	Limited the amount of state sales tax imposed on motor fuels to 8 cents per gallon. Localities imposing a sales tax had the option either to continue to use the percentage rate method or to change to a cents-per-gallon method of computing sales tax.	June 1, 2006
Alternative Fuels	Exempted or partially exempted sales tax on alternative fuels, including E85 and B20, and sunset September 1, 2011.	September 1, 2006
Cabaret	Exempted admissions to cabarets.	December 1, 2006
Credit Card	Allowed refund of sales tax paid on certain credit card accounts.	January 1, 2007
Legislation Enacted in 2008		
Sales - Exempt Organizations	Required nonprofit charitable, educational, religious and other organizations to collect sales tax on retail sales of certain property and services.	September 1, 2008
SUT - Vendor Registration	Required all vendors to register with the Department of Taxation and Finance. The registration fee was $50.	November 1, 2008
Sales Tax Nexus	Created an evidentiary presumption that certain sellers using New York residents to solicit sales in the State are vendors required to collect tax.	April 23, 2008
Sales - Voluntary Disclosure and Compliance (VDC) Program	Allowed eligible taxpayers to voluntarily disclose and pay certain underreported tax liabilities and interest.	April 23, 2008
Legislation Enacted in 2009		
Transportation	Imposed a sales tax on certain transportation services (specifically black cars, limousines, and livery vehicles).	June 1, 2009
Compliance	Increased tax compliance efforts (i.e., third-party reporting).	June 1, 2009
Prepaid Rate Cigarettes	Increased prepaid sales tax rate on cigarettes from 7 percent to 8 percent of the base retail price.	June 1, 2009
Affiliate Nexus	Expanded the definition of vendor to preclude certain retailers from avoiding the tax.	June 1, 2009
Abusive Schemes	Narrowed the exemption for commercial aircraft and the use tax exemption for motor vehicles, vessels and aircraft.	June 1, 2009
Empire Zones	Converted the QEZE sales tax exemption to a refundable credit.	April 1, 2009
Legislation Enacted in 2010		
Sales - Clothing and Footwear Exemption	Repealed the $110 clothing and footwear exemption until March 31, 2012 and provided a temporary $55 exemption from April 1, 2011, to March 31, 2012.	October 1, 2010
Sales - Vendor Credit	Repealed the vendor credit for monthly filers.	September 1, 2010
Sales - Room Remarketer	Clarified that room remarketers must collect sales and NYC occupancy taxes.	September 1, 2010
Transportation	Exempted livery service in NYC from the sales tax.	June 1, 2009
Affiliate Nexus	Narrowed affiliate nexus provisions.	June 1, 2009

Subject	Description	Effective Date
PLC	Repealed private label credit card provisions.	June 1, 2010
Legislation Enacted in 2011		
Electronic News Exemptions	Provided an exemption for certain electronic news services and electronic periodicals.	March 1, 2012
Alternative Fuels	Extended alternative fuel exemptions through September 1, 2012.	September 1, 2011
Legislation Enacted in 2012		
Alternative Fuels	Extended alternative fuel exemptions through September 1, 2014.	September 1, 2012

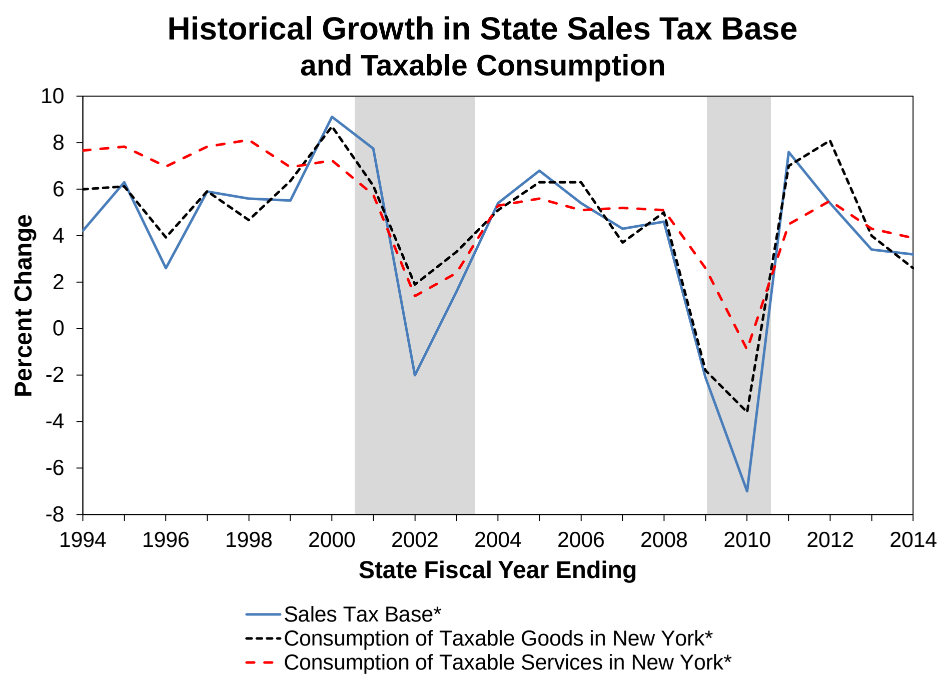
TAX LIABILITY

The sales and compensating use tax, which accounted for nearly 19 percent of 2011-12 All Funds tax receipts, is the second largest State tax revenue source (the personal income tax is the largest).

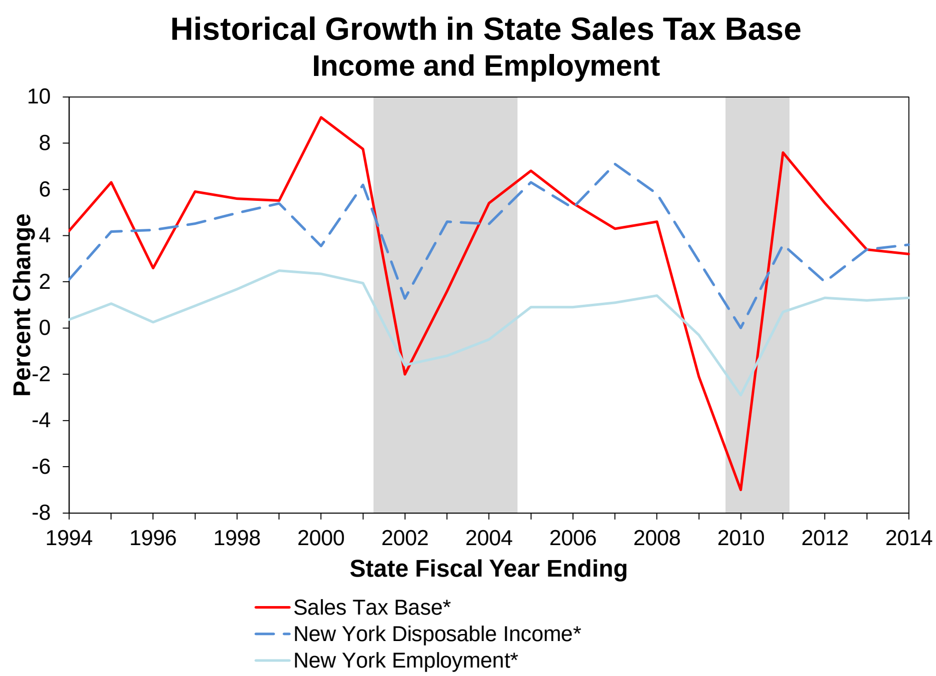
In the long run, sales tax receipts are a function of changes in the tax rate and economic activity, as measured by such factors as disposable income and employment. Short-run fluctuations in receipts can result from rapid changes in consumer prices, auto sales, and home sales. The following table and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

MAJOR ECONOMIC FACTORS AFFECTING SALES TAX RECEIPTS
STATE FISCAL YEARS 2004-05 to 2013-14
Percent Change

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Estimated 2012-13	Projected 2013-14
Consumption of Taxable Goods in NY	6.3	6.3	3.7	5.0	(1.8)	(3.6)	7.0	8.1	4.0	2.6
Consumption of Taxable Services in NY	5.6	5.1	5.2	5.1	2.6	(0.9)	4.5	5.5	4.3	3.9
NY Employment	0.9	0.9	1.1	1.4	(0.3)	(2.9)	0.7	1.3	1.2	1.3
NY Disposable Income	6.3	5.2	7.1	5.8	2.9	0.0	3.6	2.0	3.4	3.6
NY Nominal Value of New Auto and Light Truck Sales	(1.8)	0.3	(2.6)	8.0	(20.2)	(2.1)	19.3	4.9	11.4	5.9
Sales Tax Base	6.8	5.4	4.3	4.6	(2.1)	(7.0)	7.6	5.4	3.4	3.2

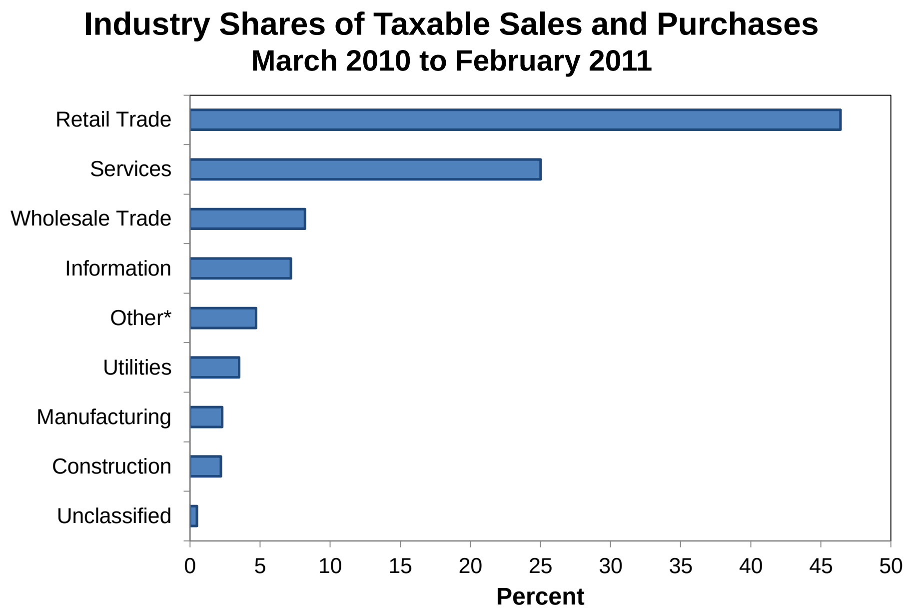


*Based on Division of the Budget estimate (Shading represents State economic recessions)



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

Although numerous exemptions from tax on the sales of tangible personal property have been enacted (see *Tax Expenditure Report*), roughly 46 percent of total taxable sales and purchases subject to the sales and use tax are remitted by the retail trade industry. This includes, for example, automobile dealers and general merchandise stores. The service industry (including accommodations, food and administrative services) remits roughly 25 percent of the statewide total and accounts for the next largest share of taxable sales and purchases.



*Includes Agriculture, Mining, Transportation, FIRE, Education and Government.
Source: New York State Department of Taxation and Finance.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2012-13 Estimates

All Funds receipts through December are $8,997.1 million, an increase of $42.1 million (0.5 percent) from the comparable period in the prior fiscal year.

All Funds 2012-13 receipts are estimated to be $11,994 million, an increase of $119.5 million (1 percent) from 2011-12. The base growth (i.e., growth absent law changes) in the first three quarters was 2.6 percent, 4.2 percent and 3.1 percent, respectively. During this period, there was strong growth in vehicles sales (13.7 percent) and total durable goods (5.7 percent), including durable household equipment (4.9 percent). The return to the permanent $110 clothing and footwear exemption level in 2012-13 diminishes the impact of strong growth in retail sales of clothing (4.7 percent) on the growth rate of cash receipts. Similarly, higher fuel prices did not increase sales tax receipts due to the $0.08 per gallon sales tax cap on motor fuel.

The base growth in the last quarter is estimated to be 3.7 percent. This equates to a total base growth rate of 3.4 percent for 2012-13.

2013-14 Projections

All Funds 2013-14 receipts are projected to be $12,533 million, an increase of $539 million (4.5 percent) from 2012-13. This includes $22 million in proposed tax initiatives. The rate of growth in the sales tax base in 2013-14 is projected to be 3.2 percent. Projected cash growth exceeds projected base growth due mostly to the impact of prior-year legislation requiring clearinghouse banks to report the value of credit card transactions, by vendor, to the Department of Taxation and Finance. This is expected to increase enforcement collections by $88 million in 2012-13

The primary risk factor for the sales and use tax estimate is the economic forecast, which provides the basis for the sales tax estimates. Unexpected slowdowns in income, employment, auto sales, and the associated consumption of taxable goods would adversely impact the level of taxable sales.

General Fund

Direct deposits to the General Fund for 2012-13 are estimated to be $8,430 million, an increase of $84.5 million (1 percent) from 2011-12 receipts. General Fund receipts for 2013-14 are projected to be $8,801.8 million.

Local Government Assistance Corporation Fund

The Local Government Assistance Corporation (LGAC) was created in 1990 to help the State eliminate its annual spring borrowing. To pay the debt service on the bonds issued by LGAC, the State has diverted an amount equal to the yield of one-fourth of net sales and use tax collections from the 4 percent statewide sales tax to the Local Government Assistance Tax Fund (LGATF). Sales tax deposits to LGATF are estimated to be $2,809 million in 2012-13, and $2,934.2 million in 2013-14. LGATF receipts in excess of debt service requirements on LGAC bonds are transferred to the General Fund.

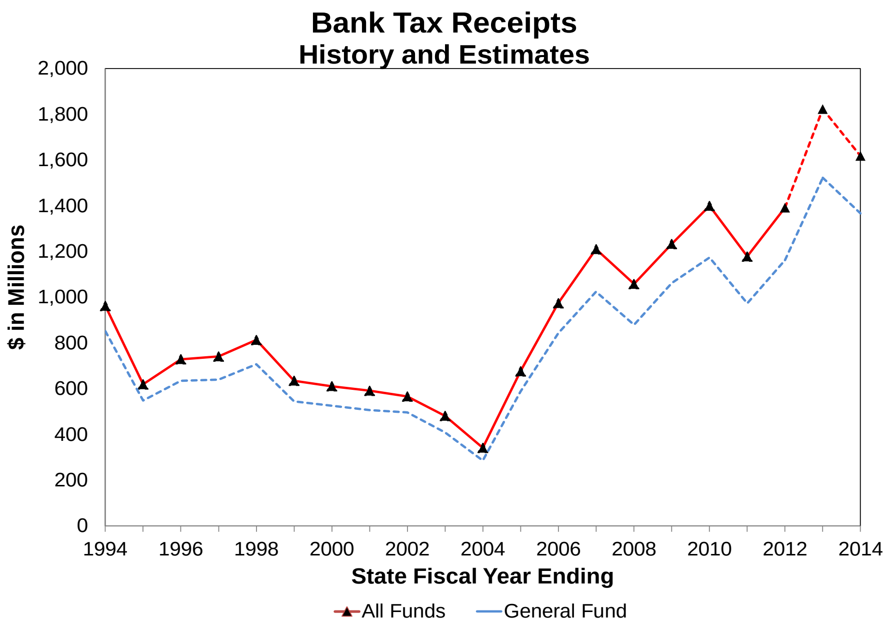
Mass Transportation Operating Assistance Fund

The MTOAF was created in 1981 to finance State public transportation needs. MTOAF derives part of its revenues from the 0.375 percent sales and compensating use tax imposed in the MCTD. MTOAF will receive an estimated $755 million in 2012-13 and $797 million in 2013-14. The entire proceeds from the MCTD tax are earmarked for MTOAF.

BANK TAX

BANK TAX (millions of dollars)							
	2011-12 Actual	2012-13 Estimated	Change	Percent Change	2013-14 Projected	Change	Percent Change
General Fund	1,162.7	1,522.0	359.3	30.9	1,366.0	(156.0)	(10.2)
Other Funds	229.0	301.0	72.0	31.4	252.0	(49.0)	(16.3)
All Funds	1,391.7	1,823.0	431.3	31.0	1,618.0	(205.0)	(11.2)

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
2003-04	431	145	286	71	15	56	342
2004-05	662	75	587	100	11	89	676
2005-06	941	99	842	150	17	133	975
2006-07	1,098	74	1,024	193	7	186	1,210
2007-08	1,002	122	880	196	18	178	1,058
2008-09	1,296	234	1,062	208	36	172	1,234
2009-10	1,243	70	1,173	241	15	226	1,399
2010-11	1,199	226	973	245	40	205	1,178
2011-12	1,280	117	1,163	254	25	229	1,392
Estimated							
2012-13	1,650	128	1,522	317	16	301	1,823
2013-14							
Current Law	1,491	125	1,366	277	25	252	1,618
Proposed Law	1,491	125	1,366	277	25	252	1,618

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

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Extend the MTA business tax surcharge for an additional five years; and
- Extend and enhance the historic commercial properties rehabilitation tax credit.

DESCRIPTION

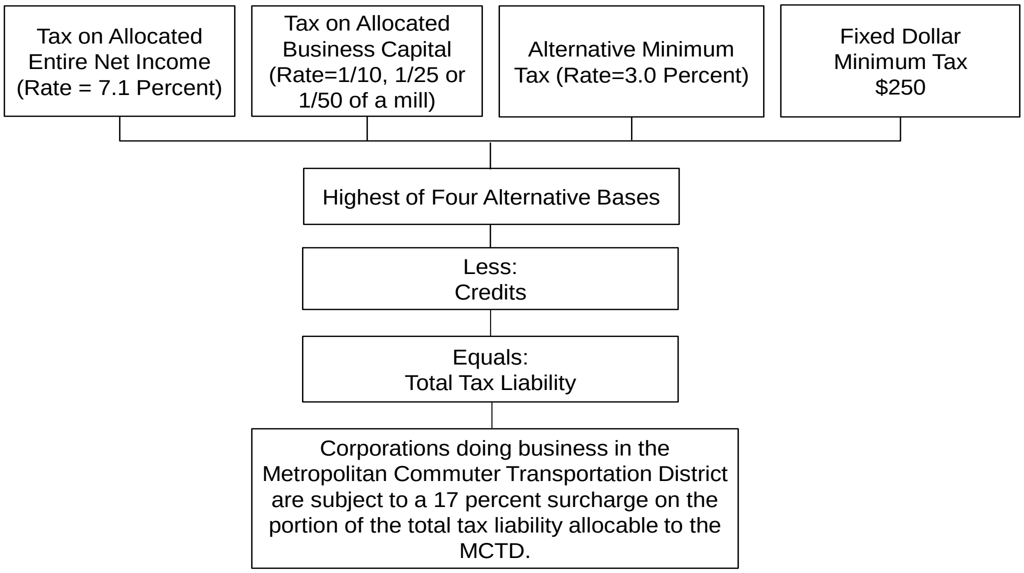
Tax Base and Rate

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, foreign banks and alien banks. Foreign banks are those formed under the laws of another state, whereas alien banks consist of banks formed under the laws of another country. Article 32 bank tax liability is computed under four alternative bases, with tax due based on the highest tax calculated under the four alternative bases. The four alternative bases are:

- An entire net income (ENI) base, which begins with Federal taxable income before net operating loss deductions and special deductions, and is further adjusted by the exclusion, deduction or addition of certain items. The resulting base is allocated to New York and subject to a tax rate of 7.1 percent.
- An alternative minimum tax (AMT) base imposed at a rate of 3 percent of entire net income (as calculated above) and further adjusted to reflect certain Federal tax preference items and adjustments, and State-specific net operating loss (NOL) modifications.
- An assets base imposed at the rate of 1/10, 1/25, or 1/50 of a mill of taxable assets allocated to New York. The applicable rate depends on the size of the bank's net worth relative to assets and mortgages as a percent of total assets.
- A fixed dollar minimum tax of $250.

Banks conducting business in the Metropolitan Commuter Transportation District (MCTD) are also subject to a 17 percent surcharge on the portion of the total tax liability allocated to the MCTD. The collections from the surcharge are deposited into the Mass Transportation Operating Assistance Fund (MTOAF).

Article 32 Current Law



Administration

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

Tax Expenditures

Tax expenditures are defined as features of the Tax Law that by exclusion, exemption, deduction, allowance, credit, deferral, preferential tax rate or other statutory provision reduce the amount of a taxpayer's liability to the State by providing either economic incentives or tax relief to particular entities to achieve a public purpose. The major tax expenditure items for the bank tax include: the deduction of 60 percent of dividends, gains, and losses from subsidiary capital, the deduction of 22.5 percent of interest income from government obligations, and the international banking facility formula allocation election. For a more detailed discussion of tax expenditures, see the *Annual Report on New York State Tax Expenditures*, prepared by the Department of Taxation and Finance and the Division of the Budget.

Significant Legislation

Significant statutory changes to the bank tax since 1981 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1981		
Metropolitan Transportation Business Tax Surcharge	Imposed a temporary 17 percent surcharge on business taxpayers on tax liability allocated to the Metropolitan Commuter Transportation District (MCTD). Collections are dedicated in support of the Metropolitan Transportation Authority.	January 1, 1982
Legislation Enacted in 1985		
Omnibus Tax Equity and Enforcement Act of 1985	Provided several new enforcement tools in enhancing tax compliance, including new penalties for tax evaders, enhancement of existing penalties, and broader investigatory power for the Department of Taxation and Finance.	Various dates in 1985
Bank Tax Restructuring	Significant Changes were made to the Bank Tax under the Tax Law and the New York City administrative code in 1985 that created the current bank tax structure in Article 32 of the Tax Law.	January 1, 1985
Legislation Enacted in 1986		
Economic Development Zones	Authorized the designation of selected towns, counties, cities and villages as Economic Development Zones (EDZs), which provided certain tax benefits to qualifying businesses.	January 1, 1986
Legislation Enacted in 1987		
Business Tax Reform and Rate Reduction Act of 1987	Reformed the tax by lowering the rate, restructuring the alternative bases to include a broader range of items of income, limited the usefulness of the ITC, and decoupled from the Federal bad debt deduction.	January 1, 1987
Legislation Enacted in 1989		
Bank Tax Extension	Provided an extension of the Bank Tax that had expired for commercial banks. The tax did not apply to tax years beginning on or after January 1, 1990. Sunsets for tax years beginning on or after January 1, 1992.	January 1, 1990
Legislation Enacted in 1990		
Temporary Business Tax Surcharge	Imposed a temporary 15 percent tax surcharge on the tax liability of certain business taxpayers. The surcharge was extended twice.	January 1, 1990
Legislation Enacted in 1992		
Bank Tax Extension	Provided an extension of the Bank Tax that had expired for commercial banks. The tax did not apply to tax years beginning on or after January 1, 1992. Sunsets for tax years beginning on or after January 1, 1994.	January 1, 1992
Legislation Enacted in 1994		
Subsidiary Capital	Specified subsidiary capital taxation rules to allow deduction of 60 percent of the amount by which gains exceed losses from such capital, to the extent such gains and losses were taken into account in determining taxable income.	January 1, 1994
Bank Tax Extension	Provided an extension of the bank tax that had expired for commercial banks. The tax did not apply to tax years beginning on or after January 1, 1994. Sunsets for tax years beginning on or after January 1, 1995.	January 1, 1994

Subject	Description	Effective Date
Legislation Enacted in 1995		
Bank Tax Extension	Provided an extension of the Bank Tax that had expired for commercial banks. The tax did not apply to tax years beginning on or after January 1, 1995. Sunsets for tax years beginning on or after January 1, 1997.	January 1, 1995
Legislation Enacted in 1996		
Bank Tax Extension	Provided an extension of the Bank Tax that had expired for commercial banks. The tax did not apply to tax years beginning on or after January 1, 1997. Sunsets for tax years beginning on or after January 1, 2001.	January 1, 1997
Legislation Enacted in 1997		
Net Operating Loss	Allowed banks to claim a net operating loss deduction (NOLD) for losses incurred on or after January 1, 2001.	January 1, 2001
Legislation Enacted in 1998		
Investment Tax Credit	Allowed bank taxpayers that are brokers/dealers in securities to claim a credit for equipment used in broker/dealer activities and in activities connected with broker/dealer operations.	October 1, 1998
Legislation Enacted in 1999		
Rate Reduction - ENI	Reduced the ENI tax rate from 9 percent to 7.5 percent in phases over three years.	June 30, 2000
Legislation Enacted in 2000		
Empire Zones (EZ)	Transformed Economic Development Zones (EDZ) to Empire Zones, effectively providing for virtual "tax free" zones for certain businesses. The enhanced benefits include a tax credit for real property taxes, a tax reduction credit, and a sales and use tax exemption. The tax reduction credit may be applied against the fixed dollar minimum tax, which may reduce the taxpayer's liability to zero.	January 1, 2001
Transitional Provision for Federal *Gramm-Leach-Bliley Act* of 1999	Created transitional provisions relating to the enactment and implementation of the Federal *Gramm-Leach-Bliley Act* of 1999 to allow certain corporations that were taxed under the corporate franchise tax or bank tax in 1999 to maintain that taxable status in 2000. Also permitted certain corporations that are owned by financial holding companies or are financial subsidiaries of banks to elect to be taxed under either the corporate franchise tax or bank tax for the 2000 taxable year.	January 1, 2000
Legislation Enacted in 2001		
Bank Tax and GLB Provisions	Provided an extension of the Bank Tax that had expired for commercial banks. The tax did not apply to tax years beginning on or after January 1, 2001. Sunset for tax years beginning on or after January 1, 2003. Also, extended for two years, until January 1, 2003, the provisions relating to the Federal *Gramm-Leach-Bliley Act*.	January 1, 2001
Legislation Enacted in 2002		
Mandatory First Installment Percentage	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year's liability for those corporate taxpayers whose prior year's liability exceeded $100,000.	January 1, 2003
Empire Zones Program	Amended to clarify certain provisions and implement new components for several credit calculations.	Various

Subject	Description	Effective Date
Legislation Enacted in 2003		
Bank Tax and GLB Provisions	Provided an extension of the Bank Tax that had expired for commercial banks. The tax did not apply to tax years beginning on or after January 1, 1997. Sunset for tax years beginning on or after January 1, 2005. Also, extended on or after January 1, 2004, the provisions relating to the Federal *Gramm-Leach-Bliley Act*.	January 1, 2003
Modification for Decoupling from Federal Bonus Depreciation	Required taxpayers to make modifications to Federal taxable income for property placed in service on or after June 1, 2003, that qualified for the special bonus depreciation allowance allowed by the Federal Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003. The modifications do not apply to qualified resurgence zone property or qualified New York Liberty Zone property.	June 1, 2003
Intangible Holding Companies	Required taxpayers to modify Federal taxable income relating to certain royalty and interest payments made with respect to the use of intangible property by related members or royalty and interest payments received from related members.	January 1, 2003
Superfund-Brownfield Tax Credits	Created tax incentives for the redevelopment of brownfields through three refundable tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. There are three components in the redevelopment tax credit: a site preparation component; a tangible property component; and an onsite groundwater remediation component.	April 1, 2005
Legislation Enacted in 2004		
Bank Tax and GLB Provisions	Extended for one year, until January 1, 2006, certain provisions of the Tax Law and the Administrative Code of the City of New York relating to the taxation of commercial banks. Also extended for two years, until January 1, 2006, the provisions relating to the Federal *Gramm Leach-Bliley Act*.	January1, 2004
Empire Zones Program Extensions	Extended the Empire Zones (EZ) Program to March 31, 2005.	January 1, 2004
Legislation Enacted in 2005		
Single Sales Apportionment	Changed the computation used to allocate income and assets to New York by banking corporations taxed under Article 32 that are owned by a bank or bank holding company and are substantially engaged in providing services to an investment company from a three-factor formula of receipts, deposits, and wages to a single receipts factor.	These provisions were phased in over a three-year period starting in tax year 2006, and were fully effective for tax years beginning on or after January 1, 2008
Legislation Enacted in 2006		
Empire Zones/Significant Investments	Provided that a Qualifying Empire Zone Enterprise (QEZE) with fewer than 200 existing jobs that makes an investment of $750 million or more and creates 500 new jobs is deemed a "new business," qualifying the taxpayer for a 50 percent refund of its EZ Investment Tax Credits and EZ Employment Incentive Credits. Also authorized such taxpayers to select their program benefit period to start either upon certification (current law), or when the qualifying investment is placed in service.	January 1, 2006

Subject	Description	Effective Date
Eliminate S Corporation Differential Tax Base	Eliminated the tax base imposed on S Corporations that was calculated using the difference between the corporate franchise tax rate and the top personal income tax rate. The rate had been changed, and the base was also suspended during tax years 2003 through 2005 when the PIT surcharge was in effect. Elimination of this base conformed the State tax code with Federal treatment of S corporations.	January 1, 2003 (note that the differential had already been suspended - eff. date reflected first instance of non-imposition)
Bank Tax and GLB Provisions	Extended for two years, until January 1, 2008, certain provisions of the Tax Law and the Administrative Code of the City of New York relating to the taxation of commercial banks. Also extended for two years, until January 1, 2008, the provisions relating to the Federal Gramm Leach-Bliley Act.	January 1, 2006
Legislation Enacted in 2007		
Rate Reduction - ENI	Lowered the rate imposed on the ENI base from 7.5 percent to 7.1 percent.	January 1, 2007
REIT/RIC Loophole Closer	Closed a loophole and conformed to Federal rules by eliminating, over a five-year period, the deduction for certain dividends received by a parent company from a Real Estate Investment Trust (REIT) or Regulated Investment Company (RIC) to ensure that either the REIT or RIC or its shareholders pay tax on the income earned by the REIT or RIC. Banks with taxable assets of $8 billion or less were excluded from these provisions.	January 1, 2007
Taxation of Certain Banking Corporations	Established conditions under which certain corporations that elected to be taxable under Article 9-A of the Tax Law, or are required to be taxed under Article 9-A pursuant to the *Gramm-Leach Bliley Act* transitional provisions, will become taxable under Article 32 of the Tax Law. These conditions included: ceasing to be a taxpayer under Article 9-A; becoming subject to the $800 fixed dollar minimum tax for inactive corporations; having no wages or receipts allocable to New York or otherwise becoming inactive; being acquired by an unaffiliated corporation in a transaction under Section 338(h)(3) of the Internal Revenue Code; or becoming engaged in a different line of business as a result of acquiring a certain amount of assets. Meeting any one of these conditions resulted in the corporation becoming taxable as a bank under Article 32. The legislation also provided that an investment subsidiary of a bank or bank holding company was included in the definition of a banking corporation and taxable under Article 32.	January 1, 2007
Bank Tax and GLB Provisions	Extended for two years, until January 1, 2010, certain provisions of the Tax Law and the Administrative Code of the City of New York relating to the taxation of commercial banks. Also extended for two years, until January 1, 2010, the provisions relating to the Federal *Gramm Leach-Bliley Act*. This extension also amended the provisions so that bank taxpayers no longer meeting the definition of doing a banking business would be moved to taxation under the corporation franchise tax.	January 1, 2008
Acceleration of Single Sales Apportionment Phase-In	Accelerated, by one year, the final phase-in of the move to sales-only apportionment of income and assets for certain banking corporations.	January 1, 2007
Amendment to Add-Back Provisions Related to Certain Intangible Income	Eliminated the add-back of certain intangible income and related interest for bank taxpayers, if the corporation receiving the income from the bank is included in a New York State combined return.	January 1, 2007

Subject	Description	Effective Date
GLB Conforming Provision Amendments	Amended the Enacted Budget provisions that required bank taxpayers no longer meeting the definition of doing a banking business to file under the corporation franchise tax to delay the effect of those provisions by clarifying that taxpayers no longer meeting the definition of doing a banking business as a result of transactions which occurred prior to January 1, 2008 would not be subject to the said amended provisions for tax years 2008 and 2009. Also provided language notifying potentially affected taxpayers of the prospective 2010 law change.	June 29, 2007
Legislation Enacted in 2008		
Taxation of Credit Card Banks	Imposed the bank tax on banks with credit card operations in New York State that exceeded 1,000 customers or accepting vendors, or $1 million in receipts from customers or vendors.	January 1, 2008
REITs/RICs Provisions Technical and Substantive Amendments	Amended the 2007 REITs/RICs provisions to make closely-held REIT and RIC subsidiaries includable in a combined return with the closest affiliate in the corporate group that is a New York State taxpayer, regardless of the article under which that taxpayer files its New York return. Previously, REITs and RICs were treated as Article 9-A corporation franchise taxpayers by definition. This legislation also made other technical and conforming changes.	January 1, 2008
Qualified Production Activity Income (QPAI) Deduction	Decoupled New York State from Internal Revenue Code (IRC) Section 199 and required taxpayers to add back the qualified production activities income (QPAI) deduction when computing New York taxable income.	January 1, 2008
Mandatory First Installment Percentage	Required taxpayers with a prior year tax liability over $100,000 to calculate their mandatory first installment payment of franchise tax and MTA surcharge at 30 percent, instead of the previous 25 percent, of the prior year's tax liability. Taxpayers with a prior year liability between $1,000 and $100,000 would continue to use the 25 percent amount to calculate their mandatory first installment.	January 1, 2009
MTA Surcharge Extender	Extended the temporary MTA surcharge imposed on bank taxpayers which was scheduled to sunset for taxable years ending before December 31, 2009. The legislation extended the sunset date for four years to taxable years ending before December 31, 2013.	April 23, 2008
GLB Provision Amendments	Eliminated language notifying taxpayers of a potential law change that would prospectively tax corporations no longer meeting the definition of doing a banking business under the corporation franchise tax instead of the bank tax.	September 25, 2008
Brownfields Program Reforms	Amended the tangible property credit component to impose a limit of the lesser of $35 million or three times the qualifying costs used in calculating the site preparation and on-site groundwater components for projects accepted into the Brownfields program after June 22, 2008. Qualifying manufacturers accepted after this date would be subject to a tangible property credit component limitation equal to the lesser of $45 million or six times the qualifying costs used in calculating the site preparation and on-site groundwater components. Several other changes were effected, including increasing the credit percentages awarded under the site preparation and on-site groundwater components to as much as fifty percent.	June 23, 2008
Legislation Enacted in 2009		
Tax Treatment of Overcapitalized Insurance Companies	Required overcapitalized captive insurance companies to file a combined report with the corporation that directly owns or controls over 50 percent of the voting stock of the captive if that corporation is a bank taxpayer.	January 1, 2009

Subject	Description	Effective Date
Mandatory First Installment Percentage	Increased the first quarterly installment of estimated tax from 30 percent to 40 percent of the prior year's liability for those corporate taxpayers whose liability exceeds $100,000.	January 1, 2010
Empire Zones Reform	Reformed the Empire Zones program. All companies that had been certified for at least three years were subjected to a performance review focusing on cost/benefit ratios.	January 1, 2008
	Reduced the QEZE real property tax credit by 25 percent and disqualified firms for the State QEZE sales tax refund/credit unless the sale qualified for a local sales and use tax refund or credit.	April 1, 2009
	Moved program sunset from December 30, 2011 to June 30, 2010.	April 7, 2009
Legislation Enacted in 2010		
Conform to Federal Bad Debt Provisions	Conformed the State bank tax deduction for bad debts to the calculations provided for in the Internal Revenue Code for Federal tax purposes.	January 1, 2010
Historic Properties Tax Credits	Allowed banks to claim the nonresidential tax credit for historic properties.	January 1, 2010
Make REITs/RICs Loophole Closer Permanent	Made permanent the provisions that address the closely-held Real Estate Investment trusts and Regulated Investment Companies loophole, which would have otherwise expired on December 31, 2010.	August 11, 2010
REIT Technical Amendments	Clarified that certain publicly traded REITs with fractional ownership shares in non-related U.S. REITs are not subject to provisions relating to "closely-held" REITs that were enacted in 2008-09.	August 11, 2010
Technical Changes to Empire Zones Program	Made technical corrections to the 2009-10 Enacted Budget Empire Zones Program changes. Clarified that the Legislature intended to decertify certain businesses retroactively to the 2008 tax year, clarified reporting provisions, and allowed qualified investment projects to claim the investment tax credit and employee incentive tax credit after June 30, 2010.	August 11, 2010
Bank Tax and GLB Provisions	Extended for one year bank tax reform provisions from 1985 and 1987, as well as provisions that were intended to temporarily address regulatory changes from the Federal *Gramm-Leach-Bliley Act*.	January 1, 2010
Excelsior Jobs Program	Established a new economic development program to provide incentives based on job creation, investment and research and development expenditures in New York State.	July 1, 2010
Tax Credit Deferral	Capped aggregate business related tax credit claims at $2 million per taxpayer for each of tax years 2010, 2011 and 2012. The total amount of credits deferred can be claimed by affected taxpayers on returns for tax years 2013, 2014 and 2015.	January 1, 2010
Legislation Enacted in 2011		
Excelsior Jobs program Amendments	Modified the credit to make it more widely available and attractive and created a new energy incentive. It also lengthened the benefit period from five to ten years.	March 31, 2011
Economic Transformation and Facility Redevelopment Program	Provided tax incentives to businesses to stimulate redevelopment in targeted communities where certain correctional or juvenile facilities are closed (economic transformation areas).	March 31, 2011

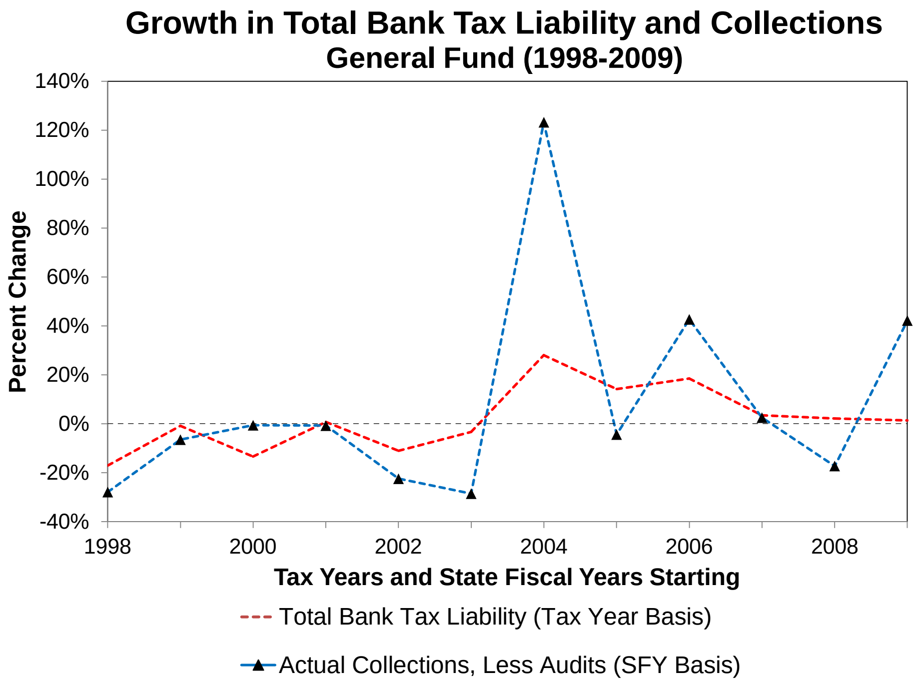
Subject	Description	Effective Date
Bank Tax and GLB Provisions	Made permanent the bank tax reform provisions from 1985 and 1987. Extended the provisions that were intended to temporarily address regulatory changes from the Federal Gramm-Leach-Bliley Act for two years to tax years beginning on or after January 1, 2013.	January 1, 2011
Legislation Enacted in 2012		
GLB Provisions	Extended for one year the provisions that were intended to temporarily address regulatory changes from the Federal *Gramm-Leach-Bliley Act*.	January 1, 2013
	Furthermore, under the new law, only corporations that meet the definition of a banking corporation in section 1452(a) of the Tax Law during the taxable year will be allowed to remain an Article 32 taxpayer under the transitional provisions.	March 31, 2012

TAX LIABILITY

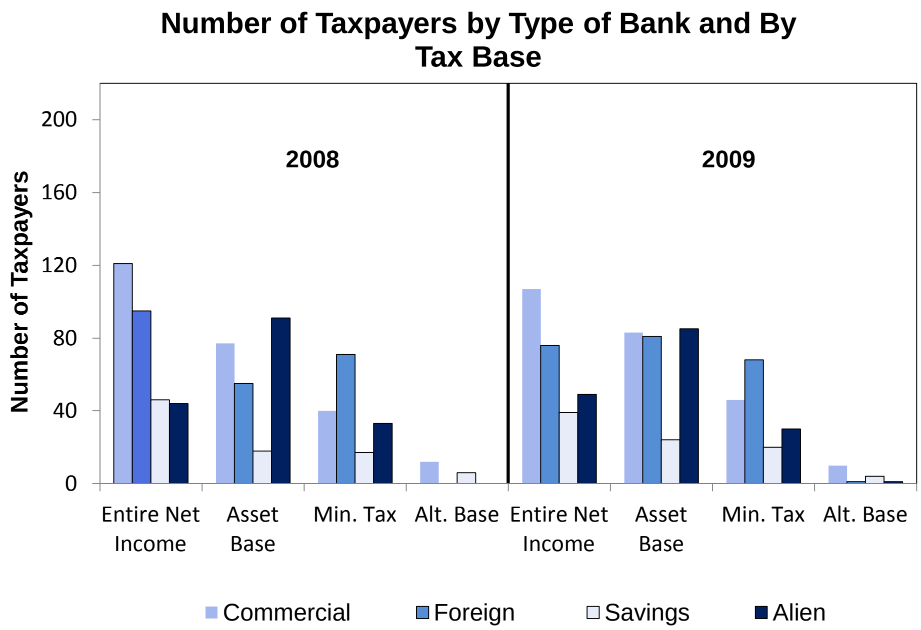
The Bank Tax Study File, which is compiled by the Department of Taxation and Finance's Office of Tax Policy Analysis (OTPA), contains the most recent tax data available on all banks filing under Article 32. The most current liability information is for the 2009 tax year. The annual study of bank tax returns indicates that 724 taxpayers filed tax returns as banking corporations for 2009, a 0.3 percent decrease from the previous year.

The link between underlying bank tax liability and collections in any given State fiscal year is often obscured by the timing of payments, the carry forward of prior year losses or credits, and the reconciliation of prior year liabilities. Tax collections are the net payments and adjustments made by taxpayers on returns and extensions over the course of a State fiscal year. For taxpayers with a fiscal year ending December thirty-one, collections include a mandatory first installment payment that is paid in March and is based on 40 percent of the prior year's liability. In addition, these taxpayers are required to make estimated payments, based on projected liability for the current tax year, in June, September, and December. A final payment is made in March of the subsequent year. Calendar year taxpayers make up the majority of the tax base. Taxpayers may make periodic adjustments to these payments after the close of the tax year as their actual liability for a given tax year becomes more definite. Tax liability in the current year is based on estimated performance for that year. It is generally calculated by tax bases, tax rates, special deductions and additions, losses and tax credits. The Tax Law grants taxpayers extensions that allow the filing of returns up to two years after the end of their tax year.

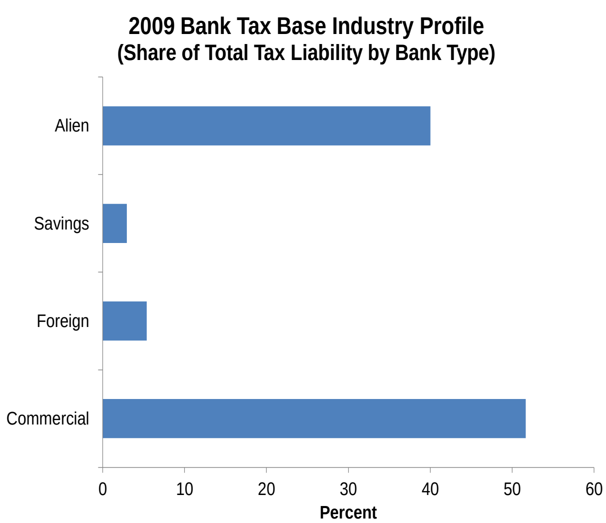
The following graph compares historical bank tax liability and collections. Since taxpayers must pay estimated taxes months in advance of knowing actual liability, it is difficult for taxpayers to determine the proper level of payments needed over the course of a year. This is especially true if business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

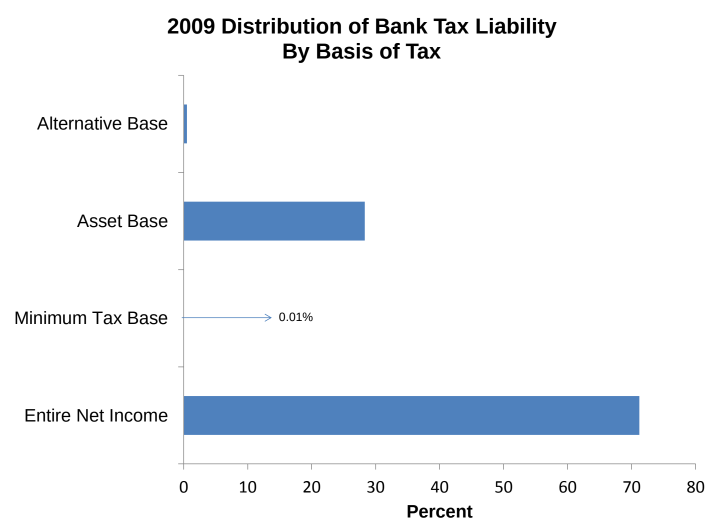


The number of taxpayers decreased by 0.3 percent from 2008 to 2009. Decreases occurred in the number of commercial banks (four banks, 1.6 percent) and alien banks (three banks, 1.8 percent). Increases occurred in foreign banks (five banks, 2.3 percent) while savings banks remain unchanged from 2008. Though not easily visible in the following graph, from 2008 to 2009 the number of taxpayers that paid under the entire net income and alternative minimum income bases declined by 11.4 and 11.1 percent, respectively. The number of taxpayers in the asset and fixed dollar minimum bases grew by 13.3 and 1.9 percent from 2008 to 2009, respectively.



The following charts show that commercial banking institutions accounted for 51.7 percent of total tax liability in 2009, and alien banking institutions accounted for 40 percent of total liability, while foreign banking institutions and savings banks together accounted for the remaining 8.3 percent of total liability. On a tax base concept, payments under the ENI base comprised over 71 percent of total tax liability.





RECEIPTS: ESTIMATES AND PROJECTIONS

BANK TAX (millions of dollars)							
	2011-12 Actual	**2012-13 Estimated**	**Change**	**Percent Change**	**2013-14 Projected**	**Change**	**Percent Change**
General Fund							
Non-Audit Receipts	1,053	1,202	149	14.2	1,203	1	0.1
Audit Receipts	110	320	210	190.9	163	(157)	(49.1)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**1,163**	**1,522**	**359**	**30.9**	**1,366**	**(156)**	**(10.2)**
Other Funds							
Non-Audit Receipts	214	239	25	11.7	222	(17)	(7.1)
Audit Receipts	15	62	47	313.3	30	(32)	(51.6)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**229**	**301**	**72**	31.4	**252**	**(49)**	**(16.3)**
All Funds							
Non-Audit Receipts	1,267	1,441	174	13.7	1,425	(16)	(1.1)
Audit Receipts	125	382	257	205.6	193	(189)	(49.5)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**1,392**	**1,823**	**431**	**31.0**	**1,618**	**(205)**	**(11.2)**

Note: Totals may differ due to rounding.

All Funds

2012-13 Estimates

All Funds receipts through December are $1,289 million, an increase of $323.3 million (33.5 percent) from the comparable period in the prior fiscal year. The majority of the year-to-date increase is attributable to strong collections for commercial bank estimated payments on 2012 liability and a large audit received in December 2012.

All Funds 2012-13 receipts are estimated to be $1,823 million, an increase of $431.3 million (31 percent) from 2011-12. This increase is mainly attributable to strong collections in commercial bank 2012 liability and an increase in audit receipts. Audit receipts are estimated to increase by $257 million (205.6 percent) from 2011-12, driven by one large case received in December 2012.

2013-14 Projections

All Funds 2013-14 receipts are projected to be $1,618 million, a decrease of $205 million (11.2 percent) from 2012-13. Audit receipts are projected to significantly decline from the prior fiscal year and the large growth in commercial bank payments seen in 2012-13 is not expected to be repeated in 2013-14.

General Fund

General Fund 2012-13 receipts are expected to be $1,522 million, an increase of $359.3 million (30.9 percent) from 2011-12. General Fund collections reflect the same trends impacting 2012-13 All Funds receipts.

For 2013-14, General Fund receipts are projected to be $1,366 million, a decrease of $156 million (10.2 percent) from 2012-13. General Fund collections reflect the trends described above for 2013-14 All Funds receipts.

Other Funds

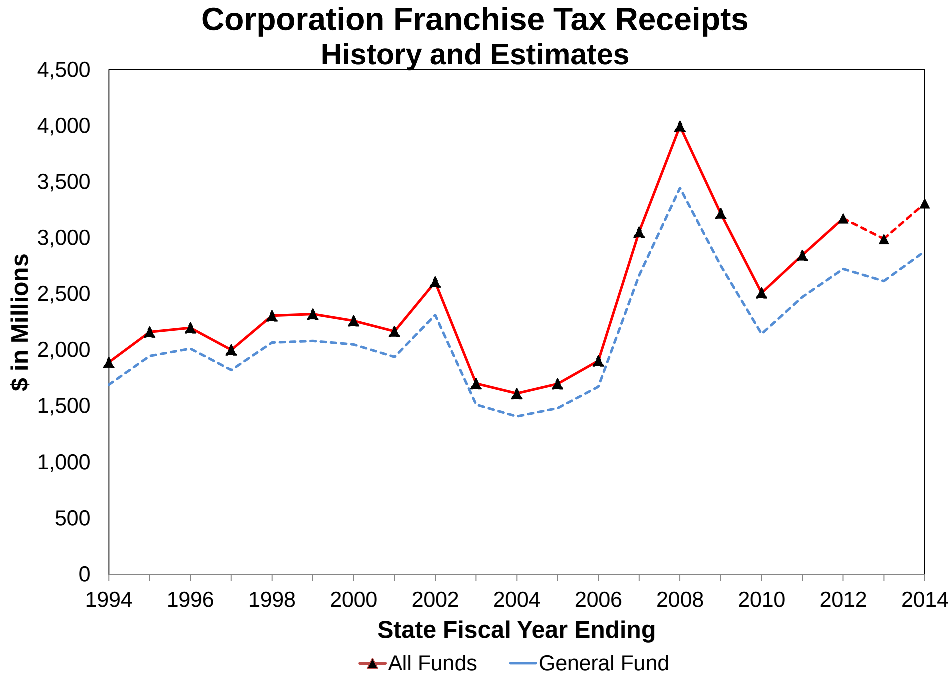
Bank tax receipts from surcharges deposited to MTOAF generally reflect the All Funds trends described above. MTOAF bank tax receipts for 2012-13 reflect year-to-date trends and are estimated at $301 million. Surcharge receipts for 2013-14 are projected to be $252 million.

CORPORATE FRANCHISE TAX

CORPORATION FRANCHISE TAX
(millions of dollars)

	2011-12 Actual	2012-13 Estimated	Change	Percent Change	2013-14 Projected	Change	Percent Change
General Fund	2,723.8	2,615.0	(108.8)	(4.0)	2,881.0	266.0	10.2
Other Funds	452.5	376.0	(76.5)	(16.9)	429.0	53.0	14.1
All Funds	3,176.2	2,991.0	(185.2)	(5.8)	3,310.0	319.0	10.7

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
2003-04	2,006	524	1,482	266	48	218	1,700
2004-05	2,289	431	1,858	293	40	253	2,111
2005-06	3,070	405	2,665	415	27	388	3,053
2006-07	4,010	333	3,677	576	25	551	4,228
2007-08	4,035	589	3,446	592	41	551	3,997
2008-09	3,579	824	2,755	541	76	465	3,220
2009-10	2,942	797	2,145	442	76	366	2,511
2010-11	3,234	762	2,472	458	84	374	2,846
2011-12	3,432	708	2,724	495	43	452	3,176
Estimated							
2012-13	3,216	601	2,615	439	63	376	2,991
2013-14							
Current Law	3,582	701	2,881	514	85	429	3,310
Proposed Law	3,582	701	2,881	514	85	429	3,310

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

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Extend the MTA business tax surcharge for an additional five years;
- Extend and enhance the Empire State Film Production tax credit;
- Establish the electric vehicle recharging equipment credit;
- Close royalty income loophole;
- Establish the New York Innovation Hot Spot Program; and
- Extend and enhance the historic commercial properties rehabilitation tax credit.

DESCRIPTION

Tax Base and Rate

The corporation franchise tax is levied by Articles 9-A and 13 of the Tax Law. Article 9-A imposes a franchise tax on domestic and foreign corporations for the privilege of exercising their corporate franchise or doing business, employing capital, owning or leasing property, or maintaining an office in New York. The Article 9-A tax is made up of business entities classified as either C corporations or S corporations. Article 13 of the Tax Law imposes a 9 percent tax on certain not-for-profit entities on business income earned from activities not related to their exempt purpose.

For C corporations, current law requires corporation franchise tax liability to be computed under four alternative bases, with tax due based on the highest tax calculated under the four alternative bases. The four alternative bases are:

- An entire net income (ENI) base, which begins with Federal taxable income before net operating loss deductions and special deductions, and is further adjusted by the exclusion, deduction or addition of certain items. The resulting base is allocated to New York and subject to a tax rate of 7.1 percent. Qualifying small businesses with an ENI of $290,000 or less, certain manufacturers and qualified emerging technology companies are subject to a rate of 6.5 percent. Eligible qualified New York manufacturers are subject to a rate of 3.25 percent for tax years 2012, 2013 and 2014.
- An alternative minimum tax (AMT) base imposed at a rate of 1.5 percent of the ENI (as calculated above) further adjusted to reflect certain Federal tax preference items and adjustments and State-specific net operating loss (NOL) modifications. Eligible qualified New York manufacturers are subject to a rate of 0.75 percent for tax years 2012, 2013, and 2014.

- A capital base, imposed at a rate of 0.15 percent on business and investment capital allocated to New York. For most taxpayers, the maximum annual tax is $1 million.

- A fixed dollar minimum tax, which is based on a taxpayer's NY source gross income as shown in the following schedule. Eligible qualified New York manufacturers will pay one-half of the rates shown in the schedule below for tax years 2012, 2013 and 2014.

C AND S CORPORATIONS
FIXED DOLLAR MINIMUM TAXES

Gross Income	C Corp Min Tax	S Corp Min Tax
$100,000 or less	$25	$25
$100,001 - $250,000	$75	$50
$250,001 - $500,000	$175	$175
$500,001 - $1,000,000	$500	$300
$1,000,001 - $5,000,000	$1,500	$1,000
$5,000,001 - $25,000,000	$3,500	$3,000
Over $25,000,000	$5,000	$4,500

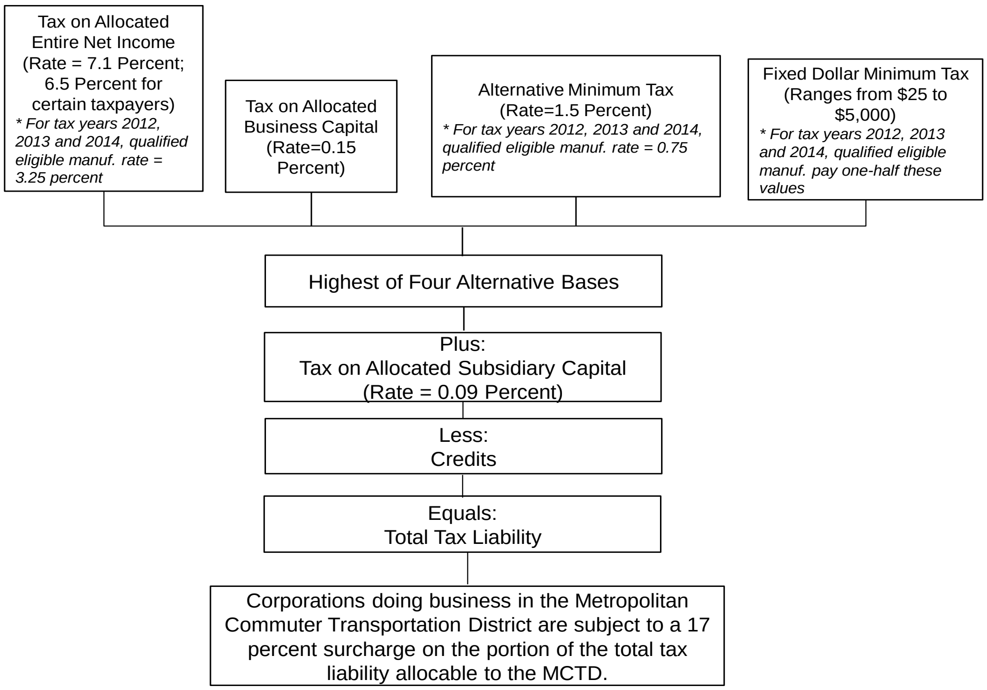
In addition to the tax paid on the highest of the four alternative bases, C corporations also pay a tax of 0.9 mills of each dollar of subsidiary capital allocated to New York State.

S corporations are also subject to a fixed dollar minimum tax imposed at the rates shown in the table above.

Additionally, corporations conducting business in the Metropolitan Commuter Transportation District (MCTD) are subject to a 17 percent surcharge on the portion of the total tax liability computed using the franchise tax rates in effect for the period July 1, 1997, through June 30, 1998, and allocable to the MCTD. The collections from the surcharge are deposited into the Mass Transportation Operating Assistance Fund (MTOAF).

The following flow chart shows how Article 9-A tax liability is computed under the four alternative bases.

Article 9-A Current Law



Administration

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

Tax Expenditures

Tax expenditures are defined as features of the Tax Law that by exclusion, exemption, deduction, allowance, credit, deferral, preferential tax rate or other statutory provisions reduce the amount of a taxpayer’s liability to the State by providing either economic incentives or tax relief to particular entities to achieve a public purpose. The corporate franchise tax structure includes various tax expenditures, and the distribution of these benefits varies widely among firms and industries. Among the major tax expenditure items for the corporate franchise tax are the exclusion of interest, dividends and capital gains from subsidiary capital, the investment tax credit, the Excelsior Jobs

Program, Brownfields and Film Production tax credits, and the preferential tax rates for qualifying small business corporations and Empire Zones. For a more detailed discussion of tax expenditures, see the *Annual Report on New York State Tax Expenditures*, prepared by the Department of Taxation and Finance and the Division of the Budget.

Significant Legislation

Significant statutory changes to the corporate franchise tax since 1981 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1981		
Metropolitan Transportation Business Tax Surcharge	Imposed on business taxpayers a temporary 17 percent surcharge on tax liability allocated to the Metropolitan Commuter Transportation District (MCTD). Collections are dedicated in support of the Metropolitan Transportation Authority.	January 1, 1982
Legislation Enacted in 1985		
Omnibus Tax Equity and Enforcement Act of 1985	Provided several new enforcement tools for enhancing tax compliance, including new penalties for tax evaders, enhancement of existing penalties, and broader investigatory power for the Department of Taxation and Finance.	Various dates in 1985
Legislation Enacted in 1986		
Economic Development Zones	Authorized the designation of selected towns, counties, cities and villages as Economic Development Zones (EDZs), which provided certain tax benefits to qualifying businesses.	January 1, 1986
Legislation Enacted in1987		
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 limiting the usefulness of the ITC.	January 1, 1987
Legislation Enacted in 1990		
Temporary Business Tax Surcharge	Imposed a temporary 15 percent tax surcharge on the tax liability of certain business taxpayers. The surcharge was extended twice.	January 1, 1990
Legislation Enacted in 1994		
Depreciation	Changed the Modified Accelerated Cost Recovery System (MACRS) depreciation rule for non-New York property to conform to provisions of the Federal Tax Reform Act of 1986.	January 1, 1994
Limited Liability Companies (LLC) and Limited Liability Partnerships (LLP)	Provided New York State authority for formation of LLCs and LLPs, which are business organizations that provide many of the tax benefits associated with partnerships and the liability protection afforded to corporations.	October 24, 1994
Rate Reduction - Alternative Minimum Tax (AMT)	Reduced rate from 5 percent to 3.5 percent.	January 1, 1995
Legislation Enacted in 1997		
Alternative Fuel Vehicle Credit	Provided corporations and individuals with a tax credit for a portion of the cost of purchasing or converting vehicles to operate on alternative fuels.	January 1, 1998
Legislation Enacted in 1998		
Rate Reduction - AMT	Reduced rate from 3.5 percent to 3 percent phased in over two years.	June 30, 1998
Investment Tax Credit	Allowed brokers/dealers in securities to claim a credit for	October 1, 1998

Subject	Description	Effective Date
	equipment or buildings used in broker/dealer activity and in activities connected with broker/dealer operations.	
Rate Reduction - ENI	Reduced the tax rate from 9 percent to 7.5 percent over a three year period beginning after June 30, 1999.	June 30, 1999
Legislation Enacted in 1999		
Rate Reduction - AMT	Reduced rate from 3 percent to 2.5 percent.	June 30, 2000
EDZ/ZEA Wage Tax Credit	Doubled the existing Economic Development Zone (EDZ) and Zone Equivalent Area (ZEA) wage tax credits.	January 1, 2001
Legislation Enacted in 2000		
Energy Reform and Reduction	Reformed energy taxation for energy companies, previously taxed under section 186 of Article 9, to pay tax under the Article 9-A corporate franchise tax.	January 1, 2000
Securities and Commodities Brokers or Dealers Customer Sourcing	Allowed securities broker/dealers to allocate receipts, which constitute commissions, margin interest or account maintenance fees, as a service performed at the customer's mailing address.	January 1, 2001
Empire Zones (EZ)	Transformed Economic Development Zones (EDZ) to Empire Zones, effectively providing for virtual "tax free" zones for certain businesses. The enhanced benefits included a tax credit for real property taxes, a tax reduction credit, and a sales and use tax exemption. The tax reduction credit may be applied against the fixed dollar minimum tax, which may reduce the taxpayer's liability to zero.	January 1, 2001
Rate Reduction - S Corporations	Reduced the differential tax rate imposed on S corporations by 45 percent.	June 20, 2003
Rate Reduction - Small Businesses	Reduced the tax rate for small businesses with entire net income of $200,000 or less to 6.85 percent.	June 30, 2003
Legislation Enacted in 2002		
Mandatory First Installment Percentage	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year's liability for those corporate taxpayers whose prior year's liability exceeds $100,000.	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 did not apply to qualified resurgence zone property or qualified New York Liberty Zone property.	June 1, 2003
Intangible Holding Companies	Required taxpayers to modify Federal taxable income relating to certain royalty and interest payments made with respect to the use of intangible property by related members or royalty and interest payments received from related members.	January 1, 2003
S Corporation Tax Change	Taxed S corporations on a fixed dollar minimum amount for tax years 2003, 2004 and 2005 only. The fixed dollar minimum amounts are those imposed under Article 9-A, ranging from $100 to $1,500.	January 1, 2003
Superfund-Brownfield Tax Credits	Created tax incentives for the redevelopment of brownfields through three tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. There are three components in the redevelopment tax credit: a site preparation component, a tangible property component, and an onsite groundwater remediation component.	April 1, 2005

Subject	Description	Effective Date
Legislation Enacted in 2004		
Fixed Dollar Minimum	Provided a temporary adjustment to the corporate franchise tax fixed dollar minimum tax schedule, with tax amounts ranging from $100 to $10,000. Applicable to tax years 2004 and 2005.	January 1, 2004
Empire State Film Production Credit	Provided a new tax credit for film production activity in New York State. The credit was originally scheduled to sunset August 20, 2008.	January 1, 2004
Legislation Enacted in 2005		
Single Sales Apportionment	Changed the computation of a corporation's business allocation percentage from a three-factor formula of payroll, property and receipts to a single receipts factor.	These provisions were phased in over a three year period starting in tax year 2006, and were fully effective for tax years beginning on or after January 1, 2008
Empire Zones Amendments/Twelve New Zones	Made significant changes to the Empire Zone/Qualified Empire Zone Enterprise program with respect to zone boundaries, zone designations, taxpayer eligibility, and benefits. Also authorized twelve new Empire Zones.	Changes to eligibility and benefits apply to taxpayers certified on or after April 1, 2005
Small Business Rate Reduction	Lowered the tax rate from 6.85 percent to 6.5 percent for small businesses and expanded the definition of a qualifying small business.	January 1, 2005
Capital Base Increase	Increased the maximum tax due under the capital base alternative from $350,000 to $1 million for all taxpayers, excluding manufacturers.	January 1, 2005
Legislation Enacted in 2006		
Empire Zones/Significant Investments	Provided that a Qualifying Empire Zone Enterprise (QEZE) with fewer than 200 existing jobs that makes an investment of $750 million or more and creates 500 new jobs is deemed a "new business," qualifying the taxpayer for a 50 percent refund of its EZ Investment Tax Credits and EZ Employment Incentive Credits. Also authorized such taxpayers to select their program benefit period to start either upon certification (current law), or when the qualifying investment is placed in service.	January 1, 2006
Eliminate S Corporation Differential Tax Base	Eliminated the tax base imposed on S Corporations that was calculated using the difference between the corporate franchise tax rate and the top personal income tax rate. The rate had been changed, and the base was also suspended during tax years 2003 through 2005 when the PIT surcharge was in effect. Elimination of this base conforms the State tax code with Federal treatment of S corporations.	January 1, 2003 (note that the differential had already been suspended - eff. date reflects first instance of non-imposition)
Empire State Film Production Tax Credit	Increased the annual credit limitation from $25 million to $60 million annually for 2006 through 2011. Extended credit to December 31, 2011.	June 6,2006
Legislation Enacted in 2007		
Rate Reduction - ENI	Reduced the rate on the ENI base from 7.5 percent to 7.1 percent, and amended the recapture rate for the small business rate to conform to the general rate change.	January 1, 2007
Rate Reduction - ENI (Manufacturers and QETCs)	Reduced the rate on the ENI base from 7.5 percent to 6.5 percent for qualifying manufacturers and emerging technology companies.	January 31, 2007
Rate Reduction - AMT	Reduced the rate applicable to the alternative minimum taxable income base from 2.5 percent to 1.5 percent.	January 1, 2007
Combined Filing Requirement	Required taxpayers operating several corporations on a unitary basis to file a combined return if there are substantial inter-corporate transactions between them.	January 1, 2007

Subject	Description	Effective Date
REITs/RICs Loophole Closer	Required combining a Real Estate Investment Trust (REIT) or Regulated Investment Company (RIC) held as a subsidiary with its parent company. In computing combined entire net income, the deduction available to REITs for dividends paid are not allowed. In addition, such a combined report must include the combined capital of the REIT or RIC subsidiary.	January 1, 2007
Acceleration of Single Sales Apportionment Phase-In	Accelerated, by one year, the final phase-in of the move to sales-only apportionment of income and capital.	January 1, 2007
Legislation Enacted in 2008		
Restructure Fixed Dollar Minimum Tax	Changed minimum tax from a tax based on gross payroll to one based on gross income.	January 1, 2008
Change Capital Base	Increased the capital base cap for non-manufacturers from $1 million to $10 million for a three year period. The cap reverted to $1 million effective January 1, 2011. Reduced the capital base rate from 0.178 percent to 0.15 percent.	January 1, 2008
Decouple from the Federal Qualifying Production Activities Income Deduction	Decoupled New York State Entire Net Income determination from Federal QPAI deduction. The Internal Revenue Code allows an above the line deduction of 6 percent (rising to 9 percent in 2010) for manufacturing activities.	January 1, 2008
Technical correction to REITs/RICs Loophole Closer	For a period of three tax years, required all captive REITS and RICS to file a combined return with the closest corporation that directly or indirectly owns or controls the captives.	January 1, 2008
Mandatory First Installment Percentage	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year's liability for those corporate taxpayers whose prior year liability exceeds $100,000.	January 1, 2009
Brownfields Program Reform	Amended the tangible property credit component to impose a limit of the lesser of $35 million or three times the qualifying costs used in calculating the site preparation and on-site groundwater components for projects accepted into the Brownfields program after June 22, 2008. Qualifying manufacturers accepted after this date would be subject to a tangible property credit component limitation equal to the lesser of $45 million or six times the qualifying costs used in calculating the site preparation and on-site groundwater components. Several other changes were effected, including increasing the credit percentages awarded under the site preparation and on-site groundwater components to as much as fifty percent.	June 23, 2008
Empire State Film Production Tax Credit	Increased the credit rate from 10 percent of qualified production costs to 30 percent. Extended the sunset to December 31, 2013 and increased the annual allocation each year from 2008 through 2013.	April 23, 2008
Legislation Enacted in 2009		
Tax Treatment of Overcapitalized Insurance Companies	Required an overcapitalized captive insurance company to file a combined report with the corporation that directly owns or controls over 50 percent of the voting stock of the captive if that corporation is an Article 9-A taxpayer.	January 1, 2009
Mandatory First Installment Percentage	Increased the first quarterly installment of estimated tax from 30 percent to 40 percent of the prior year's liability for those corporate taxpayers whose liability exceeds $100,000.	January 1, 2010
Empire Zones Reform	Reformed the Empire Zones program. All companies that had been certified for at least three years were subjected to a performance review focusing on cost/benefit ratios.	January 1, 2008
	The QEZE real property tax credit was reduced by 25 percent and firms were disqualified for the QEZE sales tax refund/credit unless the sale qualified for a refund or credit of the local sales and use tax.	April 1, 2009

Subject	Description	Effective Date
	Moved program sunset date from December 30, 2011 to June 30, 2010.	
Empire State Film Production Tax Credit	Authorized an additional $350 million for calendar year 2009. For taxable years beginning January 1, 2009, the utilization of the credit was spread across several years based on the dollar amount of the credit.	January 1, 2009
Change to the Tax Classification of HMOs	Subjected for-profit HMOs to the franchise tax on insurance corporations under Article 33 of the Tax Law.	January 1, 2009
Legislation Enacted in 2010		
Make REITs/RICs Loophole Closer Permanent	Made permanent the provisions that address the closely-held REIT and RIC loophole, which would have otherwise expired on December 31, 2010.	August 11, 2010
Tax Credit Deferral	Capped aggregate business related tax credit claims at $2 million per taxpayer for each of tax years 2010, 2011 and 2012. The total amount of credits deferred can be claimed by affected taxpayers on returns for tax years 2013, 2014 and 2015.	January 1, 2010
Technical Changes to Empire Zones Program	Made technical corrections to the 2009-10 Enacted Budget Empire Zones Program changes. Clarified that the Legislature intended to decertify certain businesses retroactively to the 2008 tax year, clarified reporting provisions, and allowed qualified investment projects to claim the investment tax credit and employee incentive tax credit after June 30, 2010.	August 11, 2010
Empire State Film Production Tax Credit	Authorized an additional $420 million for calendar years 2010 through 2014, $7 million of which is dedicated to a new post production tax credit. This measure also imposed various reforms to enhance the State's return on investment.	August 11, 2010
REIT Technical Amendments	Clarified that certain publicly traded REITs with fractional ownership shares in non-related U.S. REITs are not subject to provisions relating to "closely-held" REITs that were enacted in 2008-09.	July 1, 2010
Legislation Enacted in 2011		
Excelsior Jobs Program Amendments	Modified the credit to make it more widely available and attractive and created a new energy incentive. It also lengthened the benefit period from five to ten years.	March 31, 2011
Economic Transformation and Facility Redevelopment Program	Provided tax incentives to businesses to stimulate redevelopment in targeted communities where certain correctional or juvenile facilities are closed (economic transformation areas). This program will expire on December 31, 2021.	March 31, 2011
Manufacturing Tax Reduction	Reduced the rate on the entire net income base, the rate on the alternative minimum taxable income base and the fixed dollar minimum tax by 50 percent for eligible qualified manufacturers for tax years 2012, 2013, and 2014. The Tax Department will administer an annual total tax benefit limit of $25 million by directing tax relief to economic regions with special economic challenges.	January 1, 2012
New York Youth Works Tax Credit Program	Provided a tax credit to businesses that employ at-risk youth in part-time or full-time positions in 2012 and 2013.	January 1, 2012
Empire State Jobs Retention Program	Provided a jobs tax credit to businesses that are at risk of leaving the State due to the negative impact on their business from a natural disaster. The tax credit is 6.85 percent of gross wages of jobs that are retained in New York.	January 1, 2012
Legislation Enacted in 2012		
Empire State Commercial Production Tax Credit	Extended the annual allocation of $7 million in tax credits for two years through 2014. Also, changed the distribution of the tax credits between the MTA district and the rest of the State.	January 1, 2012

Subject	Description	Effective Date
New York Youth Works Tax Credit Program	Extended the deadline for participation in the program and for youths to commence employment by an additional six months to November 30, 2012 and December 31, 2012, respectively.	January 1, 2012
Empire State Post Production Tax Credit	Increased post-production credit percentage from 10 percent to 30 percent within the MTA region and to 35 percent in areas outside the MTA region.	July 24, 2012

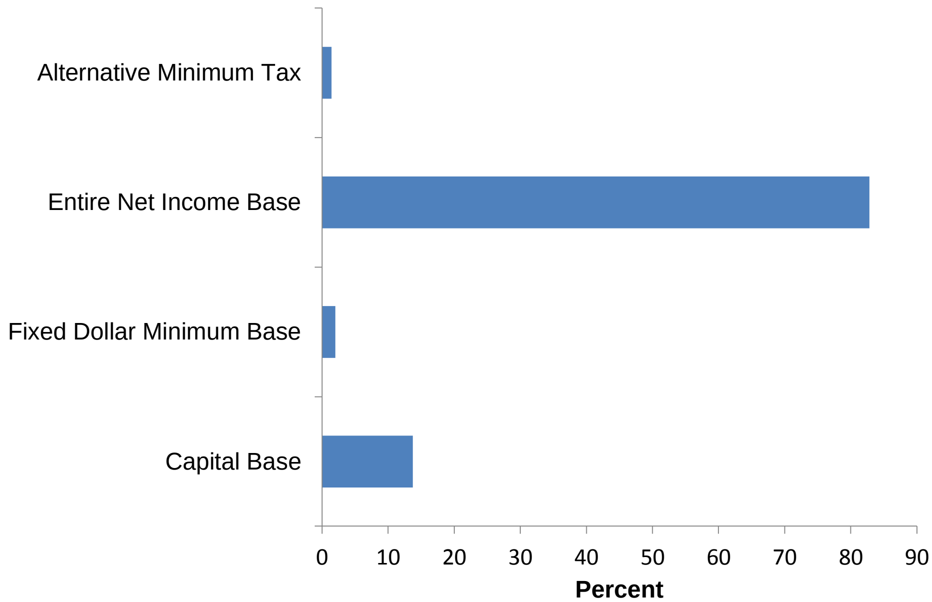
TAX LIABILITY

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 2009 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 2008 New York State Corporate Tax Statistical Report, the most recent data available, indicates that 254,942 taxpayers filed as C corporations, while 383,192 taxpayers filed as S corporations. During the last several years, the number of C corporations has been flat and the number of S corporations has exhibited low single digit growth. In 2009 however, neither C nor S corporations showed any growth in the number of taxpayers.

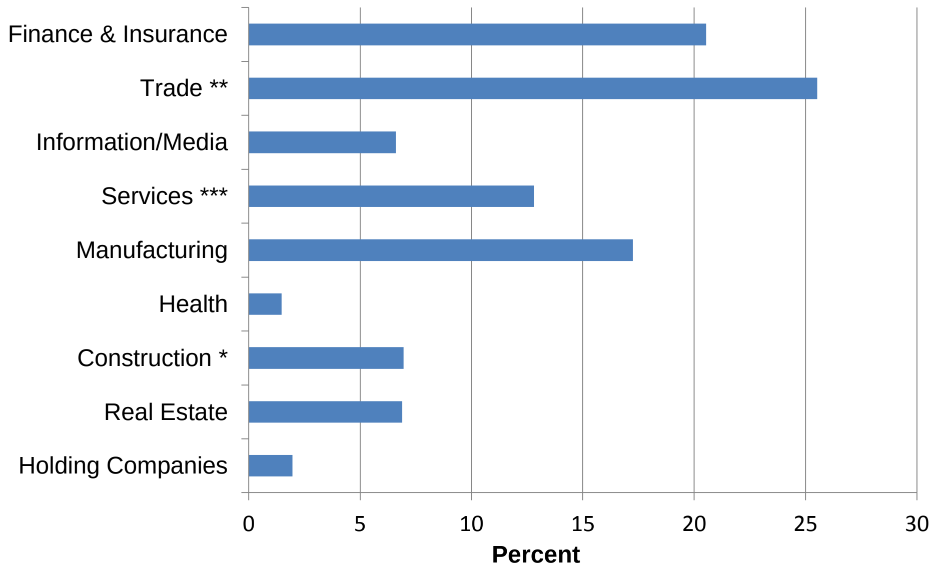
As noted above, C corporations pay under the highest of four alternative bases. In 2009, 83 percent of liability was paid under the entire net income base (see graph below). The capital base was the second largest liability base, at 14 percent. For the past several years, both the alternative minimum tax and the fixed dollar minimum tax bases have been a minimal percentage of total tax liability.

2009 Distribution of C Corporation Tax Liability
By Tax Base



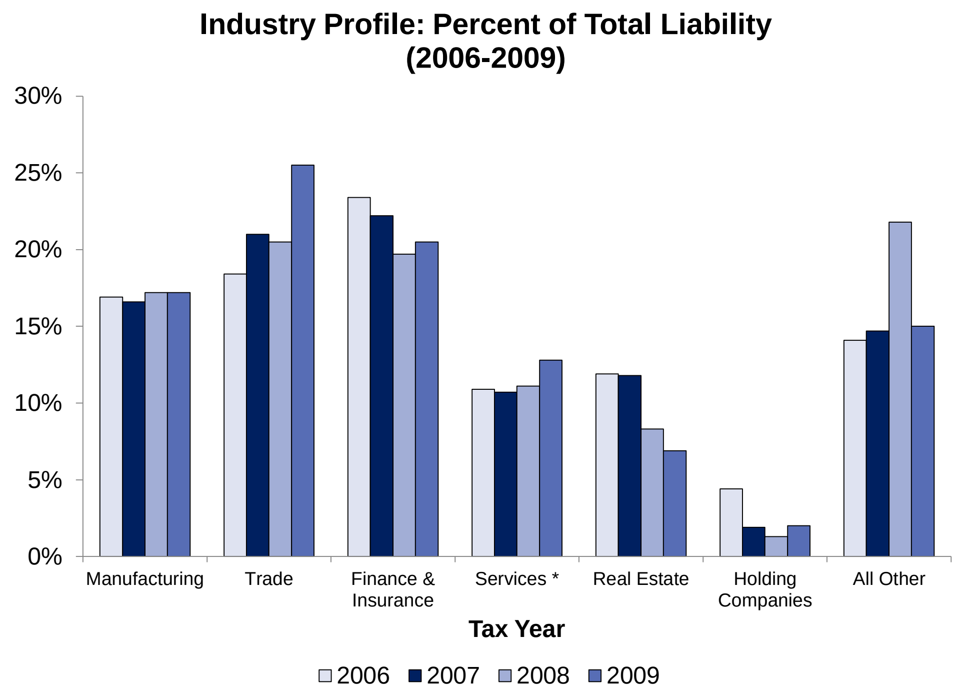
The next chart shows the distribution of tax liability by major industry sector. The 2009 study file indicates that 20.5 percent of total C corporation liability was paid by the finance and insurance sector, 25.5 percent by the trade sector and 17.2 percent by the manufacturing sector. These three sectors have represented the majority of total liability over the last several years.

2009 Tax Base Industry Profile (Share of Total Tax Liability of C Corporation Taxpayers)



* Construction, agriculture, mining, and utilities. (NAICS Sectors 11, 21, 22, and 23)
** Wholesale trade, retail trade and Transportation and warehousing. (NAICS Sectors 42, 44, 45, 48 and 49)
*** Services consist of: professional, scientific, and technical services; administrative and support and waste management and remediation services; art, entertainment, and recreation services; accommodation and food services; and other services. (NAICS Sectors 54, 56, 71, 72, and 81)

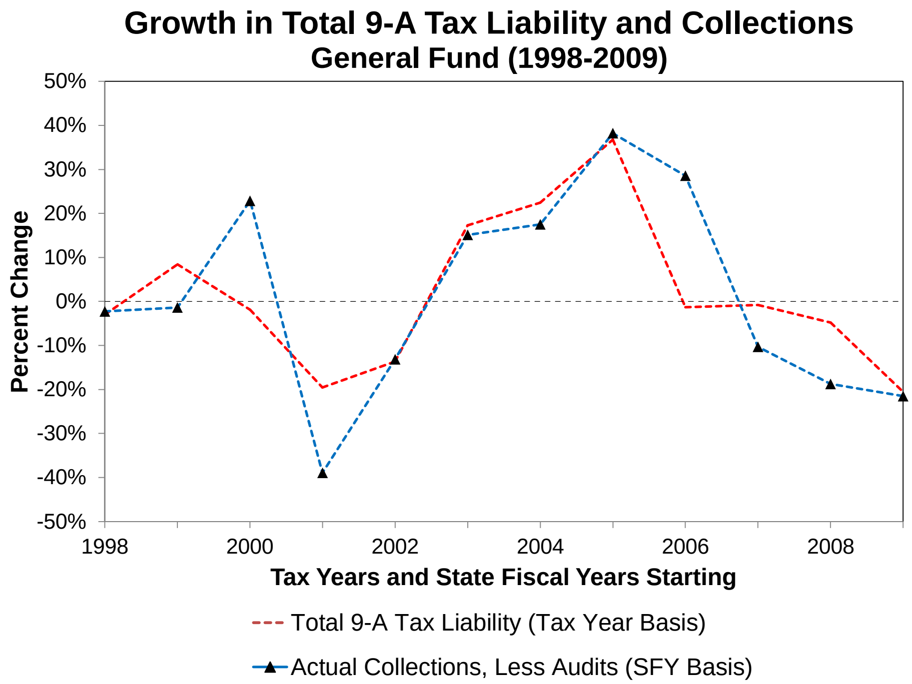
The following chart illustrates the percentage of liability paid by the industry groups of the State's tax base. Liability for the finance and insurance, manufacturing and trade sectors represent the largest share of liability paid over the 2006 to 2009 period. Trade has become an increasing share of liability over the last several years, displacing Finance and Insurance. Manufacturing has consistently represented approximately 17 percent of total liability since 2006. The services sector share has been relatively stable, the real estate share declined in 2008 and 2009 after reaching a high of nearly 12 percent in 2006 and 2007.



* These services consist of: professional, scientific, and technical services; administrative and support and waste management and remediation services; art, entertainment, and recreation services; accommodation and food services; and other services. (NAICS Sectors 53, 54, 55, 56, 71, 72, and 81)

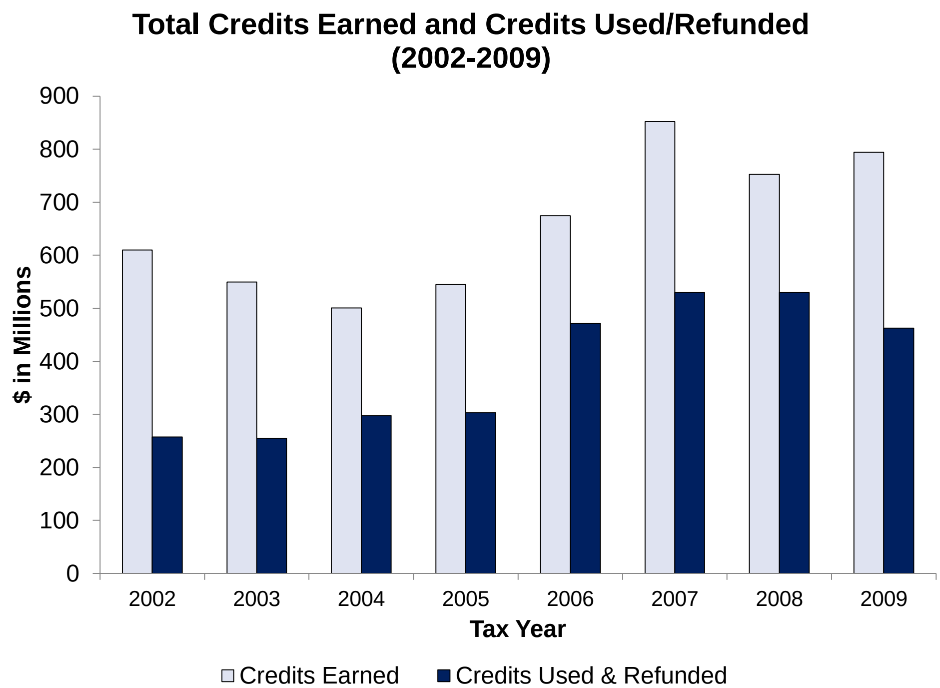
The link between underlying corporate tax liability and cash receipts in any given State fiscal year is often obscured by the timing of payments, the carry forward of prior year losses or credits and the reconciliation of prior year liabilities. Tax collections are the net payments and adjustments made by taxpayers on returns and extensions over the course of a State fiscal year. For taxpayers with a fiscal year ending December 31, current year liability collections include a mandatory first installment payment that is paid in March and is based on 40 percent of the prior year's liability. In addition, calendar year corporations are required to make estimated payments, based on projected liability for the current tax year, in June, September and December. A final payment is made in March of the subsequent year. Calendar year taxpayers make up the majority of the tax base. Taxpayers may make periodic adjustments to these payments after the close of the tax year as their actual liability for a given tax year becomes more definite.

Tax liability in the current year is based on estimated performance for the same year. It is generally calculated by using tax bases, tax rates, special deductions and additions, losses and tax credits. Since taxpayers must pay estimated taxes months in advance of knowing actual liability, it is difficult for taxpayers to determine the proper level of payments needed over the course of a year. This is especially true if business or economic conditions change. The accompanying graph compares historical corporate tax liability and fiscal year cash receipts. It illustrates the volatility in the underlying relationship between payments and liability, which is often compounded by the difference between a taxpayer's tax year and the State fiscal year for many taxpayers.



Credits

The following graph shows major credits earned and used by Article 9-A taxpayers, and illustrates that the amount of credits earned significantly exceeds the amount of credits used. These credits include the investment tax credit (ITC), Empire Zone credits, Brownfield credits, Film Production tax credit, the alternative minimum tax (AMT) credit, the agricultural property tax credit, and the special additional mortgage recording tax credit. Credit earned is the amount of credit earned by a taxpayer in the current tax year. This is prior to any credit recapture, and does not include credits earned in or carried over from any prior years.



Generally, Tax Law provisions prevent taxpayers from using tax credits to reduce final liability below the fixed dollar minimum tax or the AMT. This has resulted in taxpayers carrying forward a significant amount of tax credits into subsequent tax years. It is expected that the use of refundable credits, especially the Excelsior Jobs Program, Brownfields and the Film Production Tax credits, will significantly increase the total amount of credits used in future years. These credits can be used to more than offset tax liability through requests for cash refunds or credit carry forwards.

As seen in the chart above, credits earned and credits used and refunded were relatively stable through 2005. In 2006 and 2007 both credits earned and credits used and refunded increased. In 2008 credits earned declined, but credits used and refunded were at the same level as 2007. In 2009, credits earned increased over 2008, but credits used and refunded decreased from 2008 levels. In 2009, taxpayers used fewer credits for all major tax credit programs, with the exception of the investment tax credit. Tax year 2009 reflects the first year of the change in the payout of credit claims for the film production tax credit (i.e., credit claims larger than $1 million are paid out over multiple years). Additionally, credits earned and used for Brownfields declined to $11 million from $35 million in 2008 and $128 million in 2007. This may be attributable to the financial crisis and the lack of credit available to fund these large scale projects. Based on data from the Department of Environmental Conservation, the number of certificates of completion issued for 2008 and 2009 were 15 and 11, respectively, indicating projects are underway and tax credit claims for these projects will be forthcoming.

RECEIPTS: ESTIMATES AND PROJECTIONS

CORPORATION FRANCHISE TAX (millions of dollars)	2011-12 Actual	2012-13 Estimated	Change	Percent Change	2013-14 Projected	Change	Percent Change
General Fund							
Non-Audit Receipts	1,805	1,979	174	9.6	2,020	41	2.1
Audit Receipts	919	636	(283)	(30.8)	861	225	35.4
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**2,724**	**2,615**	**(109)**	**(4.0)**	**2,881**	**266**	**10.2**
Other Funds							
Non-Audit Receipts	292	267	(25)	(8.6)	287	20	7.5
Audit Receipts	161	109	(52)	(32.3)	142	33	30.3
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**453**	**376**	**(77)**	(17.0)	**429**	**53**	**14.1**
All Funds							
Non-Audit Receipts	2,097	2,246	149	7.1	2,307	61	2.7
Audit Receipts	1,080	745	(335)	(31.0)	1,003	258	34.6
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**3,177**	**2,991**	**(186)**	**(5.9)**	**3,310**	**319**	**10.7**

Note: Totals may differ due to rounding.

All Funds

2012-13 Estimates

All Funds receipts through December are $1,850.6 million, a decrease of $207.9 million (10.1 percent) from the comparable period in the prior fiscal year.

All Funds 2012-13 receipts are estimated to be $2,991 million, a decrease of $185.2 million (5.8 percent) from 2011-12. The decrease from the prior fiscal year is primarily driven by lower audit collections. Audit receipts in 2012-13 are expected to decline by $335 million as fewer large cases are settled. Non-audit receipts are expected to increase by $149 million (7.1 percent) as gross collections grow 2.2 percent and fewer cash refunds are paid.

2013-14 Projections

All Funds 2013-14 receipts are projected to be $3,310 million, an increase of $319 million (10.7 percent) from 2012-13. A projected rebound in audit receipts ($258 million or 34.6 percent) accounts for the majority of the growth. Non-audit receipts are expected to grow 2.7 percent as the economy shows modest growth.

General Fund

General Fund 2012-13 receipts are estimated to be $2,615 million, a decrease of $108.8 million (4 percent) from 2011-12. General Fund collections reflect the same trends impacting 2012-13 All Funds receipts.

General Fund 2013-14 receipts are projected to be $2,881 million, an increase of $266 million (10.2 percent) from 2012-13. General Fund collections reflect the trends described above for 2013-14 All Funds receipts.

Other Funds

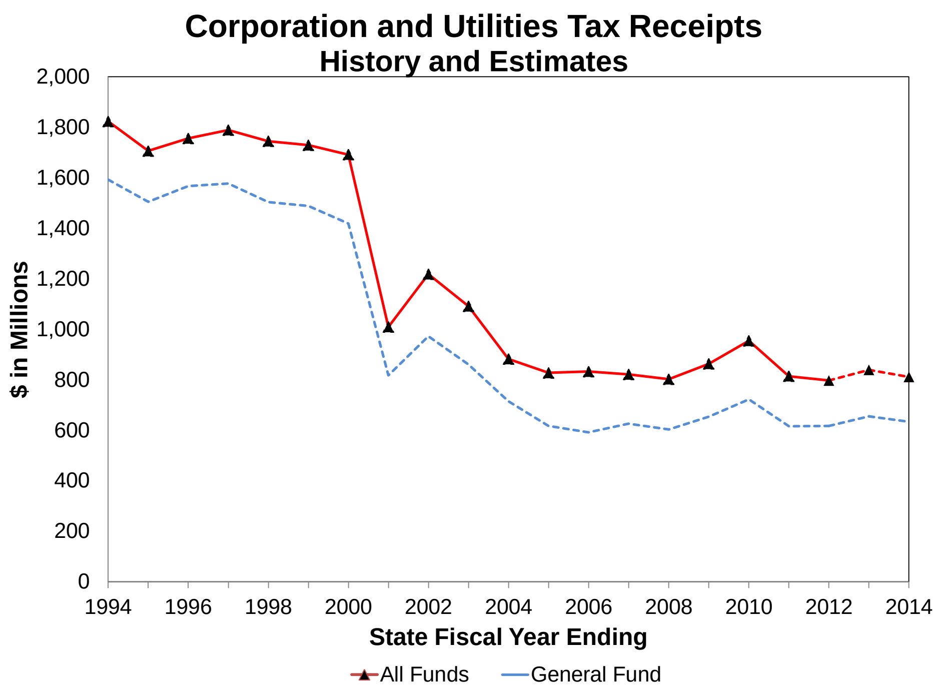
The MCTD 17 percent business tax surcharge will result in MTOAF deposits of an estimated $376 million in 2012-13 and a projected $429 million in 2013-14.

The voluntary remitted portion of MTOAF receipts is estimated to be $267 million in 2012-13 and projected to be $287 million in 2013-14. Audit collections are expected to be $109 million in 2012-13 and $142 million in 2013-14 based on the current audit caseload.

CORPORATION AND UTILITIES TAXES

CORPORATION AND UTILITIES TAXES (millions of dollars)							
	2011-12 Actual	2012-13 Estimated	Change	Percent Change	2013-14 Projected	Change	Percent Change
General Fund	616.7	655.0	38.3	6.2	633.0	(22.0)	(3.4)
Other Funds	179.9	184.0	4.1	2.3	178.0	(6.0)	(3.3)
All Funds	796.5	839.0	42.5	5.3	811.0	(28.0)	(3.3)

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
2003-04	729	14	715	173	6	167	0	0	0	882
2004-05	650	34	617	203	9	194	17	1	16	827
2005-06	608	17	591	229	6	223	19	1	18	832
2006-07	639	13	626	182	4	178	18	1	17	821
2007-08	618	15	603	189	6	183	16	1	15	802
2008-09	666	12	654	198	7	191	19	2	18	863
2009-10	741	19	722	225	13	212	21	2	20	954
2010-11	635	19	616	200	19	181	19	3	16	814
2011-12	642	25	617	185	18	167	16	3	13	797
Estimated										
2012-13	671	16	655	177	7	170	15	1	14	839
2013-14										
Current Law	683	50	633	176	12	164	15	1	14	811
Proposed Law	683	50	633	176	12	164	15	1	14	811

[1] Receipts from the MTA surcharge and a portion of receipts from the taxes imposed by sections 183 and 184 of the Tax Law deposited in accounts of the Mass Transportation Operating Assistance Fund (MTOAF).

[2] A portion of receipts from taxes imposed by sections 183 and 184 of the Tax Law deposited to Dedicated Highway and Bridge Trust Fund (DHBTF).

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Permanently redistribute the statewide collected transmission tax between the upstate and downstate transit accounts; and

- Extend the MTA business tax surcharge for an additional five years.

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. The telecommunications industry and regulated utilities are the primary collection sources.

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. 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:

- One mill per dollar of the net value of capital stock allocated to New York State;
- 0.25 mill per dollar of par value for each one percent of dividends paid on capital stock if dividends amount to 6 percent or more; or
- A minimum tax of $10.

Section 186-a imposes a two percent gross receipts tax on charges for the transportation, transmission, distribution, or delivery of electric and gas utility services for residential customers.

Section 186-e imposes a 2.5 percent gross receipts tax on charges for telecommunications services.

Article 9 taxpayers that conduct business in the Metropolitan Commuter Transportation District (MCTD) are subject to a 17 percent surcharge on their liability attributable to the MCTD.

Administration

Taxpayers subject to sections 182, 182-a, 184, 186-a and 186-e make quarterly tax payments of equal installments on an estimated basis in June, September and December. A final payment is made in March. Additionally, taxpayers are required to make a first installment of tax equal to 40 percent of their prior year's liability. This is paid in March along with the final payment.

All receipts from the 17 percent surcharge imposed on Article 9 taxpayers that conduct business in the MCTD are deposited in the Mass Transportation Operating Assistance Fund (MTOAF).

Significant Legislation

Significant statutory changes to the corporation and utilities taxes since 1990 are summarized below.

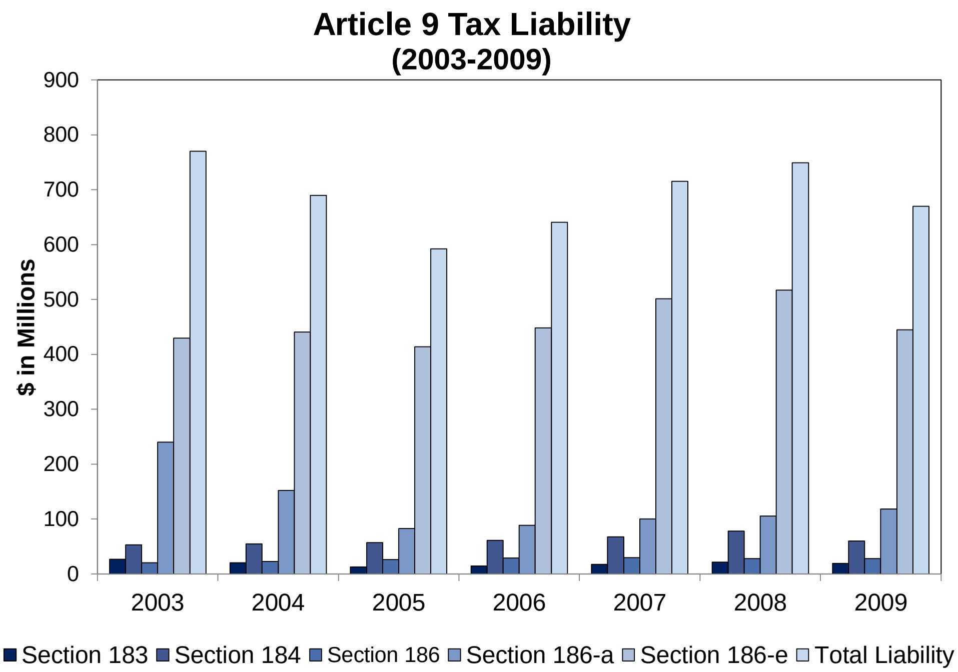
Subject	Description	Effective Date
Legislation Enacted in 1990		
Temporary Tax	Imposed a temporary 15 percent surcharge on taxpayers liable for tax under Sections 183, 184, 186 and 186-a of the Article 9 Corporations and Utilities Tax. The surcharge was phased-out over a three-year period starting in 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 were allocated to New York if the call originates or terminates in this State and was charged to a service address in this State, regardless of where the charges for such services were 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 made low-cost power available to businesses, small businesses and not for profit corporations for job retention and creation. The credit was allowed to the utility providing low cost power to retail customers selected by the Power Allocation Board. Program sunset December 31, 2003.	July 29, 1997
Rate Reductions	Reduced the section 184 tax rate from 0.75 percent to 0.375 percent.	January 1, 1998
	Reduced section 186-a and section 186-e tax rates from 3.5 percent to 3.25 percent as of October 1, 1998, and to 2.5 percent on January 1, 2000.	
Legislation Enacted in 1999		
MTOA Fund	Increased the percent of collections from section 183 and section 184 to be distributed to the MTOA Fund from 54 percent to 64 percent on January 1, 2000, and to 80 percent on January 1, 2001.	January 1, 2000 January 1, 2001
Legislation Enacted in 2000		
Utility Tax Reform	Repealed the section 186 tax. The section 186-a and section 189 taxes were phased out over a five year period. Eliminated the gross receipts tax for manufacturers and industrial energy customers retroactive to January 1, 2000; eliminated the tax for all other business customers over a five year period. For	January 1, 2000

Subject	Description	Effective Date
	residential consumers, the commodity tax was eliminated and the transmission/distribution rate of the 186-a tax was reduced from 2.5 percent to 2 percent.	
Power for Jobs	Provided an additional 300 megawatts of low-cost power to businesses across New York through the Power for Jobs program. Changed program sunset to December 31, 2005.	January 1, 2001
Legislation Enacted in 2001		
Section 189	Created a prospective and retroactive credit for taxes paid to other states where natural gas was purchased.	Retroactive to August 1, 1991
Legislation Enacted in 2002		
Power for Jobs	Provided low cost power for economic development through phase five of the Power for Jobs Program and provided an energy service company option for recipients under the program.	July 30, 2002
Mandatory First Installment Percentage	Increased the first quarterly payment of estimated tax, for taxpayers paying under sections 182, 182-a, 184, 186-a, and 186-e, from 25 percent to 30 percent of the prior year's liability. Taxpayers whose prior year's liability exceeds $100,000 are affected. Taxpayers whose prior year's liability is between $1,000 and $100,000 will continue to make a first quarterly payment of 25 percent of the prior year's liability. 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	Extended the Power for Jobs program through December 31, 2006.	April 1, 2005
Legislation Enacted in 2006		
Power for Jobs Program Extension	Extended the Power for Jobs program through June 30, 2007.	April 1, 2006
Legislation Enacted in 2007		
Power for Jobs Program Extension	Extended the Power for Jobs program through June 30, 2008.	April 1, 2007
Legislation Enacted in 2008		
Mandatory First Installment Percentage	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year's liability for tax sections 182, 182-a, 184, 186-a and 186-e.	January 1, 2009
Power for Jobs Program Extension	Extended the Power for Jobs program through June 30, 2009.	April 1, 2008
Brownfields Program Reform	Amended the tangible property credit component to impose a limit of the lesser of $35 million or three times the qualifying costs used in calculating the site preparation and on-site groundwater components for projects accepted into the Brownfields program after June 22, 2008. Qualifying manufacturers accepted after this date would be subject to a tangible property credit component	June 23, 2008

Subject	Description	Effective Date
	limitation equal to the lesser of $45 million or six times the qualifying costs used in calculating the site preparation and on-site groundwater components. Several other changes were effected; including increasing the credit percentages awarded under the site preparation and on-site groundwater components to as much as fifty percent.	
Legislation Enacted in 2009		
Mandatory First Installment Percentage	Increased the first quarterly installment of estimated tax from 30 percent to 40 percent of the prior year's liability for those corporate taxpayers whose liability exceeded $100,000.	January 1, 2010
Replace County Law Wireless Surcharge with New Tax Law Section 186-f	Moved the imposition of the surcharge on wireless communication from the County Law Section 309 to new Tax Law Section 186-f.	April 7, 2009
Telecommunications Study	Directed the Department of Taxation and Finance, in consultation with the Public Services Commission, to conduct a study of assessments, fees, tax rates, and associated policies of the State of New York relating to the telecommunications industry.	October 1, 2009
Power for Jobs Program Extension	Extended the power for Jobs Program through May 15, 2010.	July 11, 2009
Legislation Enacted in 2010		
Power for Jobs Program Extension	Extended the Power for Jobs Program through May 15, 2011.	August 4, 2010
Tax Credit Deferral	Capped aggregate business related tax credit claims at $2 million per taxpayer for each of tax years 2010, 2011 and 2012. The total amount of credits deferred can be claimed by affected taxpayers on returns for tax years 2013, 2014 and 2015.	January 1, 2010
Legislation Enacted in 2011		
Power for Jobs Program Extension	Extended the Power for Jobs Program through June 30, 2012. This program expired on June 30, 2012 and was replaced with the Recharge New York program enacted in 2011.	March 31, 2011
Legislation Enacted in 2012		
Sections 183 & 184	Lowered the distribution to the Metropolitan Mass Transportation Operating Assistance account to 54 percent from 80 percent. The remaining 26 percent is distributed to the Public Transportation Systems Operating Assistance account.	April 1, 2012 - March 31, 2013

TAX LIABILITY

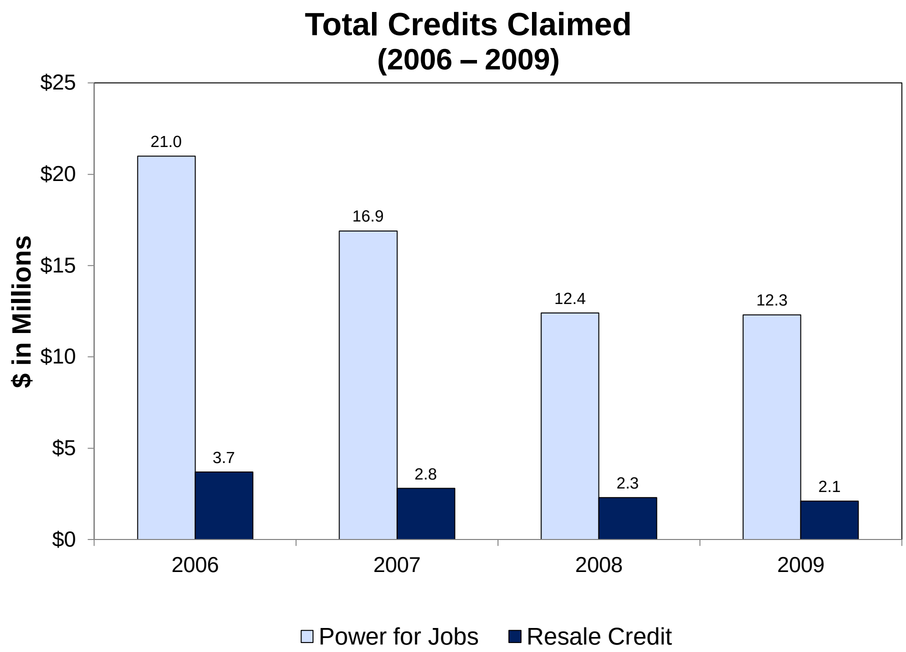
The chart below shows Article 9 liability by tax section over the most recent seven available years, from 2003 through 2009. Data for 2009, the most recent data available, is from the Article 9 tax study file compiled by the Department of Taxation and Finance's Office of Tax Policy Analysis (OTPA). The decline in liability through 2005 is attributable to the repeal of the section 186 franchise tax imposed on water, gas, electric and power companies on January 1, 2000, and phased-in reductions in the tax rates imposed under section 186-a on commodities and transmission and distribution that began in tax year 2000. The final year of the phase-in was calendar year 2005. The increase in liability from 2006 through 2008 is primarily attributable to section 186-e, the tax on telecommunications and resulted from the net increase in new wireless subscribers. The decline from tax year 2008 to tax year 2009 marked the beginning of a market shift whereby households with both mobile and landline phones opted to discontinue their use of landlines. At the same time, many customers who purchased cell phones opted for more inexpensive prepaid plans instead of postpaid plans.



For tax year 2009, Sections 186-a and 186-e represented the largest share of tax liability under Article 9 with approximately 84 percent of total liability. Sections 183 and 184 represented just over 13 percent of total liability. Although a broad range of industries are represented on the study file for sections 183 and 184, the overwhelming portion of the tax is paid by the telecommunications industry, which represented approximately 64 percent of total tax paid for section 183 and nearly 95 percent for section 184. For section 183, management of companies and enterprises made up the second largest industry (approximately 29 percent). In section 184, truck transportation represented approximately two percent of total liability. The same pattern is seen in section 186-e, the excise tax on telecommunications services. Over 90 percent of the total 186-e tax liability was paid by the telecommunications industry. Section 186-a is the gross receipts tax paid on the furnishing of utility services and the majority of that tax was paid by the utilities industry.

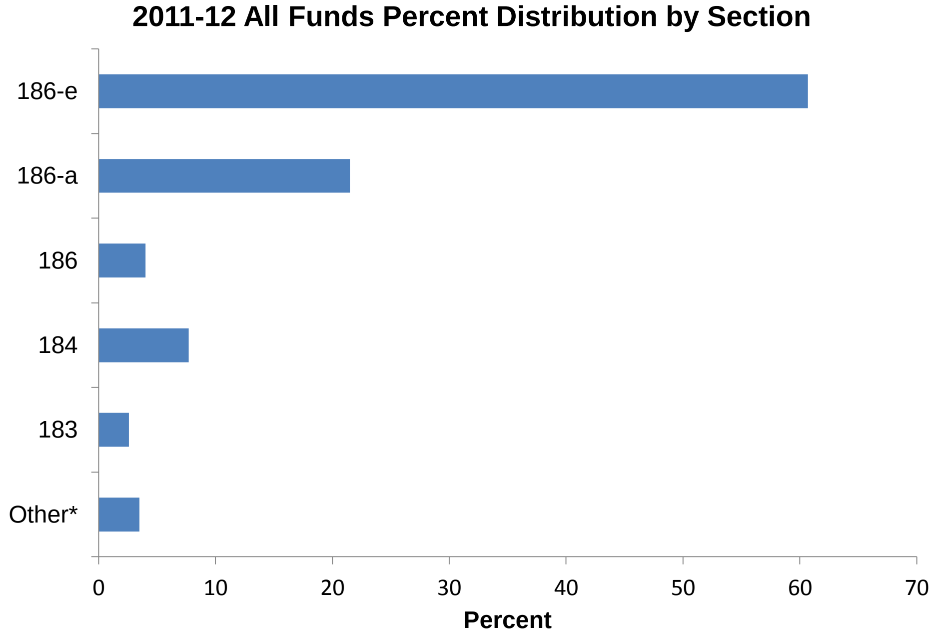
Credits

The following graph shows major credits used by Article 9 taxpayers in tax years through 2009. Taxpayers claimed the resale credit for telecommunications services under section 186-e and the power for jobs credit under section 186-a. The reduction in the Power For Jobs tax credit from the 2006 level was due to a reduction in the number of businesses opting for the discounted power rates instead of a cash rebate from the New York Power Authority, resulting in less tax credits claimed by utilities.



The bar graph below depicts the share of total 2011-12 Article 9 All Funds attributable to each section of Article 9. Section 186-e, the gross receipts tax on telecommunications services, represents nearly 65 percent of All Funds receipts. The next largest section, 186-a, gross receipts tax on utility services, represents approximately 20 percent.

RECEIPTS: BY SECTION



* Other includes sections 180, 181 and 185

The table below reflects the tax collections attributable to each section of Article 9 for 2011-12, 2012-13, and 2013-14. The All Funds total reflects taxes from the various sections prior to the distribution of receipts from sections 183 and 184 to MTOAF and DHBTF.

CORPORATION AND UTILITIES BY TAX LAW SECTION
(millions of dollars)

Section of Law	Type of Companies	2011-12 Actual	2012-13 Estimated	2013-14 Projected
180	Organization tax on New York (domestic) corporations	0.6	1.0	1.0
181	License and maintenance fees on out-of-State (foreign) corporations	27.8	27.0	27.0
183	Franchise tax on transporation and transmission companies	19.4	21.0	20.0
184	Additional franchise tax on transportation and transmission companies	47.0	48.0	48.0
185	Franchise tax on agricultural cooperatives	(0.3)	0.1	0.1
186 [1]	Franchise tax on water, steam, gas, electric, light and power companies	27.3	28.0	28.0
186a	Gross receipts tax on public utilities	151.0	168.0	173.2
186e	Excise tax on telecommunications	410.4	430.8	403.4
Other	186-a (non-PSC) and 189	(0.2)	0.1	0.3
Various	MTA Surcharge	113.5	115.0	110.0
	All Funds Total	796.5	839.0	811.0
	Less Other Funds			
	MTA Surcharge	113.5	115.0	110.0
	MTOAF	53.1	55.2	54.4
	DHBTF	13.3	13.8	13.6
	General Fund	616.7	655.0	633.0

[1] Tax was repealed January 1, 2000 for energy utilities, at which time such companies generally became taxable under the corporation franchise tax. After this date only certain independent power producers are subject to section 186.

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

RECEIPTS: ESTIMATES AND PROJECTIONS

CORPORATION AND UTILITIES TAX
(millions of dollars)

	2011-12 Actual	2012-13 Estimated	Change	Percent Change	2013-14 Projected	Change	Percent Change
General Fund							
Non-Audit Receipts	593	615	22	3.7	573	(42)	(6.8)
Audit Receipts	24	40	16	66.7	60	20	50.0
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**617**	**655**	**38**	**6.2**	**633**	**(22)**	**(3.4)**
Other Funds							
Non-Audit Receipts	174	164	(10)	(5.7)	162	(2)	(1.2)
Audit Receipts	6	20	14	233.3	16	(4)	(20.0)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**180**	**184**	**4**	2.2	**178**	**(6)**	**(3.3)**
All Funds							
Non-Audit Receipts	767	779	12	1.6	735	(44)	(5.6)
Audit Receipts	30	60	30	100.0	76	16	26.7
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**797**	**839**	**42**	**5.3**	**811**	**(28)**	**(3.3)**

Note: Totals may differ due to rounding.

All Funds

2012-13 Estimates

All Funds receipts through December are $541.9 million, an increase of $46.1 million (9.3 percent) from the comparable period in the prior fiscal year. This increase is mainly attributable to a large audit received in April 2012 and a decrease in refunds to date.

All Funds 2012-13 receipts are estimated to be $839 million, an increase of $42.5 million (5.3 percent) from 2011-12. This increase is mainly attributable to the large audit received in April 2012. Non-audit receipts are estimated to grow modestly (1.6 percent).

2013-14 Projections

All Funds 2013-14 receipts are projected to be $811 million, a decrease of $28 million (3.3 percent) from 2012-13. This is due to a large telecommunications refund ($30 million) expected to be paid in 2013-14 that is partly offset by an increase in audit receipts ($16 million) and modest growth in sections 186-e and 186-a based on revenue growth expectations for the telecommunications and residential energy sectors.

General Fund

General Fund 2012-13 receipts are expected to be $655 million, an increase of $38.3 million (6.2 percent) from 2011-12. General Fund collections reflect the same trends impacting 2012-13 All Funds receipts.

General Fund 2013-14 receipts are projected to be $633 million, a decrease of $22 million (3.4 percent) from 2012-13. General Fund collections reflect the trends described above for 2013-14 All Funds receipts.

Other Funds

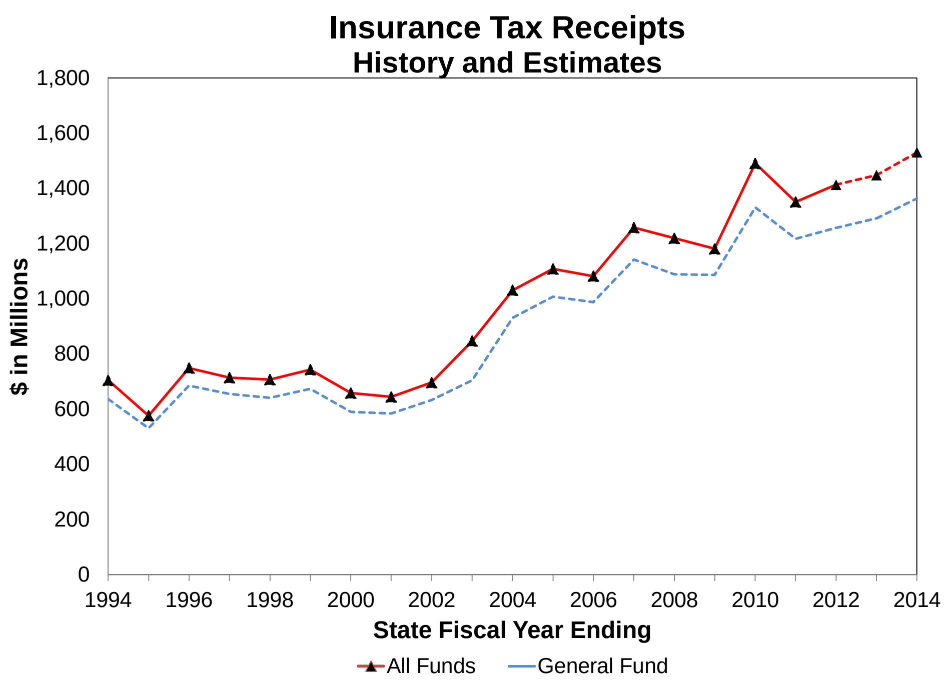
Eighty percent of Section 183 and 184 collections are deposited into the MTOAF and will total an estimated $55 million for 2012-13 and $54 million for 2013-14. The remaining portion of section 183 and 184 collections (20 percent) is earmarked for the DHBTF. DHBTF receipts are estimated at $14 million in 2012-13 and projected at $14 million in 2013-14.

The MCTD 17 percent business tax surcharge will result in MTOAF deposits of an estimated $115 million in 2012-13 and a projected $110 million in 2013-14.

INSURANCE TAXES

INSURANCE TAXES (millions of dollars)	2011-12 Actual	2012-13 Estimated	Change	Percent Change	2013-14 Projected	Change	Percent Change
General Fund	1,256.5	1,291.0	34.5	2.7	1,364.0	73.0	5.7
Other Funds	156.6	157.0	0.4	0.3	167.0	10.0	6.4
All Funds	1,413.1	1,448.0	34.9	2.5	1,531.0	83.0	5.7

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
2003-04	983	53	930	109	8	101	1,031
2004-05	1,058	51	1,007	119	18	101	1,108
2005-06	1,022	35	987	103	7	96	1,083
2006-07	1,176	34	1,142	122	6	116	1,258
2007-08	1,122	34	1,088	139	8	131	1,219
2008-09	1,135	49	1,086	106	11	95	1,181
2009-10	1,360	29	1,331	167	7	160	1,491
2010-11	1,248	31	1,217	140	6	134	1,351
2011-12	1,290	33	1,257	163	6	157	1,413
Estimated							
2012-13	1,340	49	1,291	168	11	157	1,448
2013-14							
Current Law	1,394	30	1,364	174	7	167	1,531
Proposed Law	1,394	30	1,364	174	7	167	1,531

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

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Extend the MTA business tax surcharge for an additional five years; and
- Extend and enhance the historic commercial properties rehabilitation tax credit.

DESCRIPTION

Tax Base and Rate

Under Article 33 of the Tax Law and the Insurance Law, the State imposes taxes on insurance corporations, insurance brokers and certain insured for the privilege of conducting business or otherwise exercising a corporate franchise in New York.

Tax Rate on Non-Life Insurers

Non-life insurers are subject to a premiums-based tax. Accident and health premiums received by non-life insurers are taxed at the rate of 1.75 percent and all other premiums received by non-life insurers are taxed at the rate of 2 percent. A $250 minimum tax applies to all non-life insurers.

Tax Rate on Life Insurers

The franchise tax on life insurers has two components. The first component is a franchise tax computed under four alternative bases, with tax due based on the highest tax calculated under the four alternative bases. In addition, a 0.8 of one mill tax rate applies to each dollar of subsidiary capital allocated to New York.

RATES FOR THE INCOME BASE OF THE FRANCHISE TAX ON LIFE INSURERS

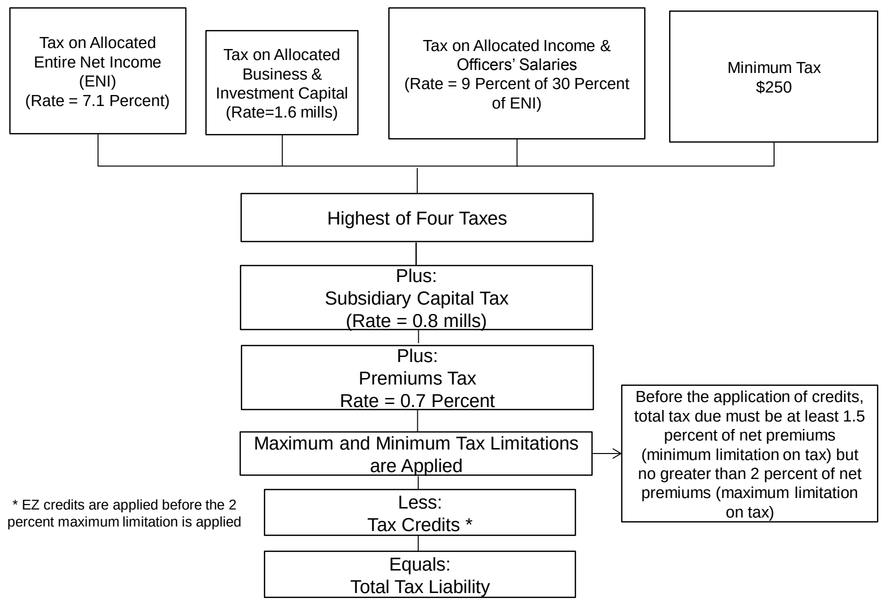
Base	Rate
Allocated entire net income	7.1 percent
Allocated business and investment capital	1.6 mills for each dollar
Allocated income and officers' salaries	9.0 percent of 30 percent of ENI
Minimum tax	$250

Tax is allocated to New York under the entire net income (ENI) base by a formula that apportions ENI based on weighted ratios of premiums (with a weight of nine) and wages (with a weight of one) earned or paid in New York, to total premiums and total wages for all employees for the tax year.

The second component is an additional franchise tax on gross premiums, less returned premiums. The tax rate on premiums is 0.7 percent and applies to premiums written on risks located or resident in New York. This tax is added to the sum of the tax due on the highest of the alternatives from the income base plus the tax imposed on subsidiary capital.

Maximum and minimum tax limitations are computed based on net premiums. Life insurers determine their maximum limitation by multiplying net premiums by 2 percent and their minimum limitation by multiplying net premiums by 1.5 percent. Under these limitations, the total tax calculated under the highest of the four alternative bases plus the tax imposed on subsidiary capital plus the 0.7 percent tax on net premiums must be at least as high as the minimum tax or “floor” (1.5 percent of net premiums) but no greater than the maximum limitation (2 percent of net premiums).

Computation of Article 33 Tax on Life Insurance Companies



Generally, taxpayers with a tax liability that exceeds the floor may not reduce their liability with tax credits to a level below the floor. However, taxpayers may use Empire Zone and Zone Equivalent Area tax credits to do so.

Article 33 taxpayers conducting business in the Metropolitan Commuter Transportation District (MCTD) are subject to a 17 percent surcharge on the portion of their tax liability which is attributable to the MCTD area.

Article 33 of the Tax Law also imposes a premiums tax on captive insurance companies licensed by the Superintendent of Insurance for the privilege of conducting business or otherwise exercising a corporate franchise in New York. The tax is imposed on net premiums and net reinsurance premiums (gross premiums less return premiums) written on risks located or resident in the State at rates which vary with the amount of net premiums. The top rate is 0.4 percent on direct premiums and 0.225 percent on reinsurance premiums. Captive (i.e. affiliates that insure the risks of the other corporate members) insurers are subject to a minimum tax of $5,000. Tax credits are not allowed against the tax imposed on captive insurance companies and these companies are not subject to the business tax surcharge.

Other Taxes Imposed on Insurers

Article 33-A of the Tax Law imposes a tax at the rate of 3.6 percent of premiums on independently procured insurance. This tax is imposed on any individual, corporation or other entity purchasing or renewing an insurance contract covering certain property and casualty risks located in New York from an unauthorized insurer (an unauthorized insurer is an insurer not authorized to transact business in New York under a certificate of authority from the Superintendent of the Insurance Department).

The Insurance Law imposes a premiums tax on a licensed excess line (i.e. covering unique or very large risks) insurance broker when a policy covering a New York risk is procured through such broker from an unauthorized insurer. Transactions involving a licensed excess lines broker and an insurer not authorized to do business in New York are permissible under limited circumstances delineated in Article 21 of the Insurance Law. The tax is imposed at a rate of 3.6 percent of premiums covering risks located in New York.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 included legislation that superseded New York's taxation of excess lines and independently procured insurance. The Dodd-Frank legislation gave the "home state" of the insured the sole authority to regulate and collect taxes on these transactions. Generally, the insured's home state is the state where it is headquartered, or in the case of individuals, their place of residence.

The Insurance Law authorizes the Superintendent of Insurance to assess and collect retaliatory taxes from a foreign insurance corporation when the overall tax rate imposed by its home jurisdiction on New York companies exceeds the comparable tax rate imposed by New York on such foreign insurance companies.

Retaliatory taxes have been employed by the states since the nineteenth century to ensure a measure of fairness in the interstate taxation of insurance corporations. Retaliatory taxes deter other states from discriminating against foreign corporations and effectively require states with a domestic insurance industry to maintain an overall tax rate on insurance corporations that is generally consistent with other states.

Nevertheless, there are a variety of mechanisms for taxing insurance corporations throughout the states, and differences in overall tax rates among the states are inevitable. New York provides an additional measure of protection for its domestic insurance industry by allowing domestic corporations to claim a credit under Article 33 of the Tax Law for 90 percent of the retaliatory taxes legally required to be paid to other states.

Receipts from the 17 percent business tax surcharge imposed on insurance companies conducting business in the MCTD are deposited in the Mass Transportation Operating Assistance Fund (MTOAF).

Administration

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

Tax Expenditures

Tax expenditures are defined as features of the Tax Law that by exclusion, exemption, deduction, allowance, credit, deferral, preferential tax rate or other statutory provision reduce the amount of a taxpayer’s liability to the State by providing either economic incentives or tax relief to particular entities to achieve a public purpose. Article 33 taxpayers are eligible for several targeted tax credits, including the investment tax credit (ITC), the long-term care insurance credit, and the Excelsior Jobs program tax credits. For a more detailed discussion of tax expenditures, see the *Annual Report on New York State Tax Expenditures*, prepared by the Department of Taxation and Finance and the Division of the Budget.

There are also several types of insurance contracts that are exempt from the franchise tax. These include, but are not limited to, certain annuity contracts, certain reinsurance premiums and certain health insurance contracts for insured’s aged 65 years and older. Certain corporations and other entities that provide insurance are exempt from State franchise taxes and the regional business surcharge. Non-profit medical expense indemnity corporations and other health service corporations, organized under Article 43 of the Insurance Law, are exempt from these State taxes. In addition, cooperative insurance companies in effect (operation) prior to January 1, 1974, are exempt from taxation while those formed on or after that date are subject to the tax.

Significant Legislation

Significant statutory changes to insurance taxes since 1990 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1990		
Temporary Business Tax Surcharge	Imposed a temporary 15 percent surcharge on insurance tax liability otherwise due. Subsequent legislation eliminated the surcharge over a three-year period starting in 1994.	January 1, 1990
Legislation Enacted in 1997		
Premium Tax Rate for Life Insurers	Reduced the premium tax rate from 0.8 percent to 0.7 percent.	January 1, 1998
Cap on Liability	Reduced the limitation on tax liability for life insurers from 2.6 percent to 2 percent.	January 1, 1998
Credit for Investment in Certified Capital Companies (CAPCOs)	Established the CAPCO program. Provided a tax credit to insurance companies that made investments in CAPCOs. Provided $50 million in tax credit incentives for calendar year 1999 and calendar year 2000 for a total statewide cap of $100 million. Tax credits were claimed over a ten year period.	January 1, 1999
Captive Insurance Companies	Allowed the formation of captive insurance companies. Subject to a special premiums tax with a top rate of 0.4 percent or $5,000. This was in lieu of the premiums and income based tax.	January 1, 1998
Legislation Enacted in 1999		
CAPCOs	Established CAPCO Program Two. Increased Statewide cap from $100 million to $130 million.	January 1, 2001
State Insurance Fund	Conformed the State Insurance Fund tax treatment to the regular insurance tax.	January 1, 2001
Entire Net Income (ENI) Tax Rate	Reduced ENI tax rate over a three-year period: • 8.5 percent for taxable years beginning after June 30, 2000 and before July 1, 2001. • 8 percent for taxable years beginning after June 30, 2001 and before July 1, 2002. • 7.5 percent for taxable years beginning on or after July 1, 2002.	June 30, 2000
Cap on Tax Liability	Reduced the limitation on tax liability for non-life insurers over a three-year period: • 2.4 percent for taxable years beginning after June 30, 2000 and before July 1, 2001. • 2.2 percent for taxable years beginning after June 30, 2001 and before July 1, 2002. • 2 percent for taxable years beginning on or after July 1, 2002.	June 30, 2000
Legislation Enacted in 2000		
CAPCOs	Established CAPCO Program Three. Increased the statewide cap from $130 million to $280 million.	January 1, 2002
Investment Tax Credit	Allowed insurance taxpayers that are brokers/dealers in securities to claim a credit for equipment or buildings used in broker/dealer activity and in activities connected with broker/dealer operations.	Available for property placed in service between January 1, 2002 and October 1, 2003

Subject	Description	Effective Date
Empire Zones Program	Provided Qualified Empire Zone Enterprises (QEZE) tax incentives in Empire Zones. Transformed the current Economic Development Zones into virtual "tax free" zones for certain businesses. The enhanced benefits of this program included a tax credit on real property taxes paid, tax reduction credit, and sales and use tax exemption.	January 1, 2001
Legislation Enacted in 2002		
Mandatory First Installment Percentage	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year's liability for non-life insurance companies under Article 33. Life insurance companies were not affected. Taxpayers whose prior year's liability exceeded $100,000 were affected. Taxpayers whose prior year's liability was between $1,000 and $100,000 continued to make a first quarterly payment of 25 percent of the prior year's liability. Sunset for tax years beginning on or after January 1, 2006, and expired January 1, 2007.	January 1, 2003
Legislation Enacted in 2003		
Insurance Tax Structure	Changed the tax base for insurance taxpayers as follows: • Life and Health insurance taxpayers covering life and accident/health premiums were taxed on the four tax bases and were subjected to a minimum tax of 1.5 percent of premiums. • Non-life insurers covering accident & health premiums were subjected to tax on 1.75 percent of premiums. • All other non-life insurers were subjected to tax on 2 percent of premiums.	January 1, 2003
Modification for Decoupling from Federal Bonus Depreciation	Required modifications to Federal taxable income for property placed in service on or after June 1, 2003 that qualified for the special bonus depreciation allowance allowed by the Federal Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003. The modifications did not apply to qualified resurgence zone property or qualified New York Liberty Zone property.	June 1, 2003
Intangible Holding Companies	Required modifications to Federal taxable income relating to certain royalty and interest payments made with respect to the use of intangible property by related members or royalty and interest payments received from related members.	January 1, 2003
Superfund-Brownfield Credits	Created tax incentives for the redevelopment of brownfields through three tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. Three components were established in the redevelopment tax credit: a site preparation component, a tangible property component, and an onsite groundwater remediation component.	April 1, 2005
Legislation Enacted in 2004		
CAPCOs	Established CAPCO Program Four. Increased the Statewide cap from $280 million to $340 million.	January 1, 2006
Legislation Enacted in 2005		
CAPCOs	Established CAPCO Program Five. Provided an additional allocation of $60 million that was made available over a ten year period beginning in 2007.	April 1, 2005
Legislation Enacted in 2006		
Annuity Premiums	Amended the tax limitation applicable to certain insurance companies to provide that it is computed by using the amount of annuity premiums of the insurance company that are in excess of 95 percent of total premiums.	January 1, 2006

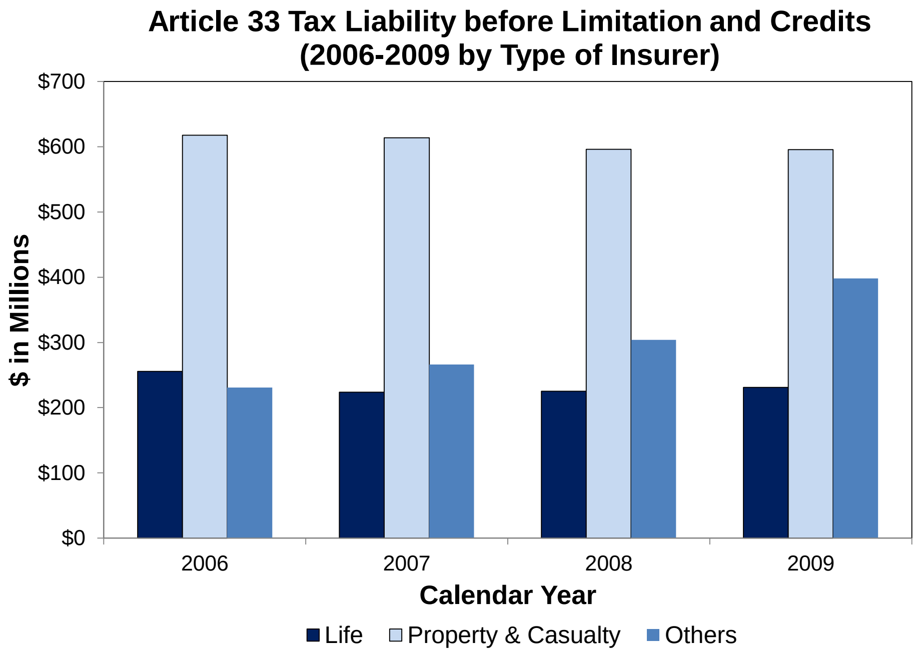
Subject	Description	Effective Date
Legislation Enacted in 2007		
Entire Net Income (ENI) Tax Rate	Provided an extension of the Bank Tax that had expired for commercial banks. The tax did not apply to tax years beginning on or after January 1, 1997. Sunset for tax years beginning on or after January 1, 2001.	January 1, 1997
Legislation Enacted in 2008		
REITs/RICs Provisions Technical and Substantive Amendments	Amended the 2007 REITs/RICs provisions to make closely-held REIT and RIC subsidiaries includable in a combined return with the closest affiliate in the corporate group that is a New York State taxpayer, regardless of the article under which that taxpayer files its New York return. Previously, REITs and RICs were treated as Article 9-A corporation franchise taxpayers by definition. This legislation also made other technical and conforming changes.	January 1, 2008
Qualified Production Activity Income (QPAI) Deduction	Decoupled New York State from Internal Revenue Code (IRC) Section 199 and required taxpayers to add back the qualified production activities income (QPAI) deduction when computing New York taxable income.	January 1, 2008
Mandatory First Installment Percentage	Provided that non-life insurance companies with a prior year tax liability over $100,000 must calculate their mandatory first installment payment of franchise tax and MTA surcharge at 30 percent, instead of the previous 25 percent, of the prior year's tax liability. Taxpayers with a prior year liability between $1,000 and $100,000 continued to use the 25 percent amount to calculate their mandatory first installment. Life insurance taxpayers with a prior year liability between $1,000 and $100,000 continued to use the 40 percent amount to calculate their mandatory first installment.	January 1, 2009
MTA Surcharge	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 Brownfields program after June 22, 2008. Qualifying manufacturers accepted after this date would be subject to a tangible property credit component limitation equal to the lesser of $45 million or six times the qualifying costs used in calculating the site preparation and on-site groundwater components. Several other changes were effected; including increasing the credit percentages awarded under the site preparation and on-site groundwater components to as much as fifty percent.	June 23, 2008
Legislation Enacted in 2009		
Tax Treatment of Overcapitalized Insurance Companies	Required an overcapitalized captive insurance company to file a combined report with the corporation that directly owned or controlled over 50 percent of the voting stock of the captive if that corporation was an Article 9-A taxpayer.	January 1, 2009
Mandatory First Installment Percentage	Increased the first quarterly installment of estimated tax from 30 percent to 40 percent of the prior year's liability for those corporate taxpayers whose liability exceeded $100,000.	January 1, 2010

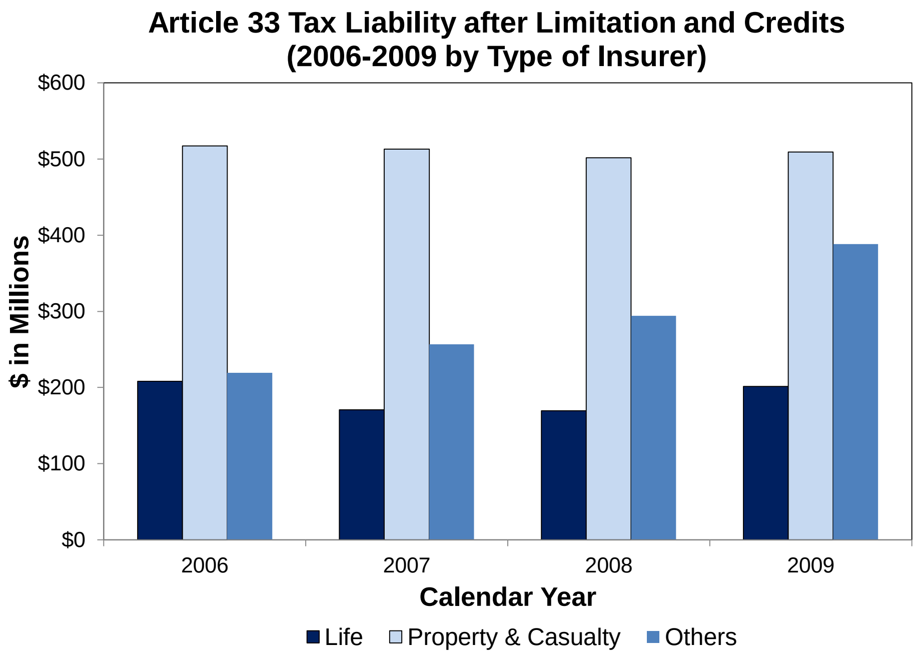
Subject	Description	Effective Date
Empire Zones Reform	Reformed the Empire Zones program. All companies that had been certified for at least three years were subjected to a performance review focusing on cost/benefit ratios.	January 1, 2008
	The QEZE real property tax credit was reduced by 25 percent and firms were no longer eligible for the QEZE sales tax refund/credit unless the sale qualified for a refund or credit of the county or city sales and use tax.	April 1, 2009
	Moved program sunset from December 30, 2011 to June 30, 2010.	April 7, 2009
Change to the Tax Classification of HMOs	Subjected for-profit HMOs to the franchise tax on insurance corporations under Article 33 of the Tax Law.	January 1, 2009
Legislation Enacted in 2010		
Historic Properties Tax Credits	Allowed insurance companies to claim the nonresidential tax credit for historic property.	January 1, 2010
Tax Credit Deferral	Capped aggregate business related tax credit claims at $2 million per taxpayer for each of tax years 2010, 2011 and 2012. The total amount of credits deferred can be claimed by affected taxpayers on returns for tax years 2013, 2014 and 2015.	January 1, 2010
Technical Changes to Empire Zones Program	Made technical corrections to the 2009-10 Enacted Budget Empire Zones Program changes. Clarified that the Legislature intended to decertify certain businesses retroactively to the 2008 tax year, clarified reporting provisions, and allowed qualified investment projects to claim the investment tax credit and employee incentive tax credit after June 30, 2010.	August 11, 2010
Excelsior Jobs Program	Established a new economic development program to provide incentives based on job creation, investment and research and development expenditures in New York State.	July 1, 2010
Legislation Enacted in 2011		
Conformity with Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010	Conformed New York's taxation of excess lines and independently procured insurance to this Federal change. The Dodd-Frank legislation gave the "home state" of the insured the sole authority to regulate and collect taxes on these transactions.	July 21, 2011
Excelsior Jobs Program Amendments	Modified the credit to make it more widely available and attractive and created a new energy incentive. It also lengthened the benefit period from five to ten years.	March 31, 2011
Economic Transformation and Facility Redevelopment Program	Provided tax incentives to businesses to stimulate redevelopment in targeted communities where certain correctional or juvenile facilities are closed (economic transformation areas). This program will expire on December 31, 2021.	March 31, 2011

TAX LIABILITY

The Department of Taxation and Finance's Insurance Franchise Tax Study File contains tax liability data for the 2009 tax year, the most recent year for which such data are available. The 2009 Study File indicates that the property and casualty sector is the largest sector, accounting for 46 percent of total tax liability. Other insurers, which include accident and health insurers, are the second largest, with 35 percent of total liability. The 19 percent balance is attributable to life insurers. Over the last several years, the other insurers category has gained in importance as a share of total tax liability.

The following graphs show insurance tax liability for life insurers, property and casualty insurers and all other insurers from 2006 through 2009 before and after the application of the limitation of tax due as determined by taxable premiums and credits. The increase in the other insurers category in 2009 is attributable to legislation enacted for tax year 2009 that subjected for-profit HMOs to the franchise tax under Article 33 of the Tax Law. Previously these taxpayers were subject to tax under Article 9-A.





Property and Casualty and Life Companies

According to data from the New York State Insurance Department, the three largest lines of business under the property and casualty sector in 2011 are automobile, homeowners' multi-peril and worker's compensation. The table below reports actual property and casualty premiums and growth from 2005 through 2011 for New York State. Total premiums for property and casualty companies grew by 3.4 percent in 2011, the most robust growth since 2006. In 2011, the increase in worker's compensation premiums was a major driver of overall growth and worker's compensation premiums were at their highest level since 2007.

PROPERTY AND CASUALTY INSURANCE PREMIUMS
NEW YORK CALENDAR YEAR
(millions of dollars/percent)

Lines of Insurance	2005	2006	2007	2008	2009	2010	2011
Automobile	12,342.1	12,039.2	11,769.5	11,709.5	11,744.2	11,895.0	12,148.3
percent change	(4.1)	(2.5)	(2.2)	(0.5)	0.3	1.3	2.1
Worker's Compensation	3,759.2	4,132.8	4,227.6	3,501.0	3,423.1	3,623.2	4,157.4
percent change	94.9	9.9	2.3	(17.2)	(2.2)	5.8	14.7
Commercial Multi-Peril	2,964.2	3,074.0	3,071.6	3,058.0	3,025.6	2,986.5	3,056.9
percent change	2.1	3.7	(0.1)	(0.4)	(1.1)	(1.3)	2.4
General Liability	3,996.6	4,386.8	4,306.1	4,487.9	4,154.6	4,137.6	4,089.0
percent change	(0.5)	9.8	(1.8)	4.2	(7.4)	(0.4)	(1.2)
Homeowner's Multi-Peril	3,429.0	3,614.5	3,908.4	4,079.1	4,219.3	4,336.1	4,499.7
percent change	8.0	5.4	8.1	4.4	3.4	2.8	3.8
Other	5,892.6	6,426.8	7,048.4	7,059.0	6,314.0	6,036.0	6,196.3
percent change	0.8	9.1	9.7	0.2	(10.6)	(4.4)	2.7
TOTAL P/C PREMIUMS	32,383.7	33,674.1	34,331.6	33,894.5	32,880.8	33,014.4	34,147.6
percent change	5.3	4.0	2.0	(1.3)	(3.0)	0.4	3.4

Source: New York State Department of Financial Services

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

RECEIPTS: ESTIMATES AND PROJECTIONS

INSURANCE TAXES
(millions of dollars)

	2011-12 Actual	2012-13 Estimated	Change	Percent Change	2013-14 Projected	Change	Percent Change
General Fund							
Non-Audit Receipts	1,245	1,269	24	1.9	1,353	84	6.6
Audit Receipts	11	22	11	100.0	11	(11)	(50.0)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**1,256**	**1,291**	**35**	**2.8**	**1,364**	**73**	**5.7**
Other Funds							
Non-Audit Receipts	147	147	0	0.0	157	10	6.8
Audit Receipts	10	10	0	0.0	10	0	0.0
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**157**	**157**	**0**	**0.0**	**167**	**10**	**6.4**
All Funds							
Non-Audit Receipts	1,392	1,416	24	1.7	1,510	94	6.6
Audit Receipts	21	32	11	52.4	21	(11)	(34.4)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**1,413**	**1,448**	**35**	**2.5**	**1,531**	**83**	**5.7**

Note: Totals may differ due to rounding.

All Funds

2012-13 Estimates

All funds receipts through December are $879.8 million, an increase of $24.8 million (2.9 percent) from the comparable period in the prior fiscal year. The year-to-date increase is driven by trend growth for calendar year 2012 liability, which results from a continued recovery in covered assets and activity.

All Funds 2012-13 receipts are estimated to be $1,448 million, an increase of $34.9 million (2.5 percent) from 2011-12. The increase is attributable to the factors described above.

2013-14 Projections

All Funds 2013-14 receipts are projected to be $1,531 million, an increase of $83 million (5.7 percent) from 2012-13. The year-over-year increase reflects trend growth in 2013 liability.

General Fund

General Fund 2012-13 receipts reflect year-to-date trends and are estimated to be $1,291 million, an increase of $34.5 million (2.7 percent) from 2011-12. The increase reflects the same trends impacting 2012-13 All Fund receipts.

General Fund 2013-14 receipts are projected to be $1,364 million, an increase of $73 million (5.7 percent) from 2012-13. The increase reflects the same trends impacting All Funds receipts for 2013-14.

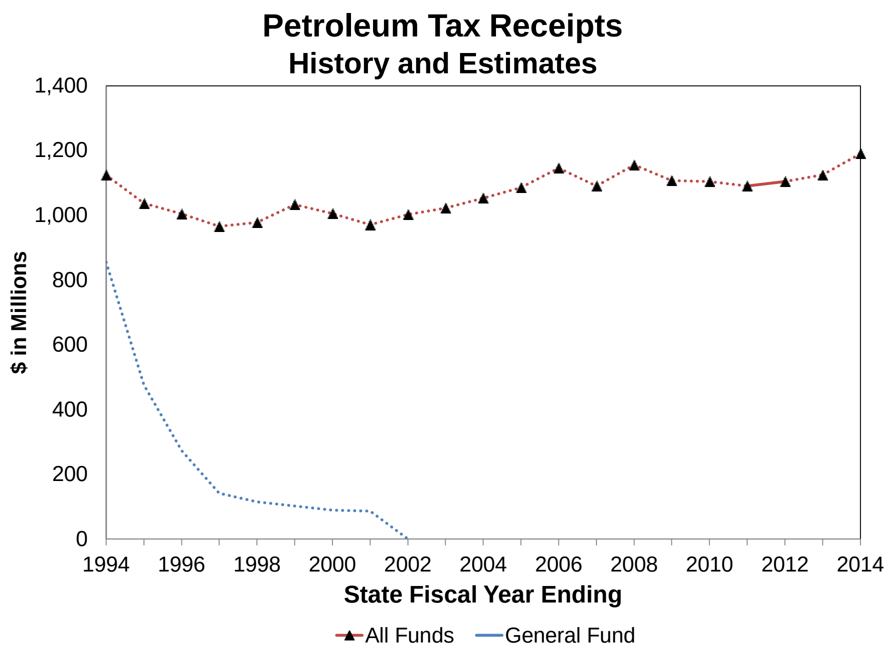
Other Funds

The MCTD 17 percent business tax surcharge will result in MTOAF deposits of an estimated $157 million in 2012-13 and a projected $167 million in 2013-14.

PETROLEUM BUSINESS TAXES

PETROLEUM BUSINESS TAXES (millions of dollars)	2011-12 Actual	2012-13 Estimated	Change	Percent Change	2013-14 Projected	Change	Percent Change
General Fund	0.5	0.0	(0.5)	(100.0)	0.0	0.0	0.0
Other Funds	1,099.9	1,125.0	25.1	2.3	1,190.0	65.0	5.8
All Funds	1,100.4	1,125.0	24.6	2.2	1,190.0	65.0	5.8

Note: Totals may differ due to rounding.



PETROLEUM BUSINESS TAXES BY FUND (millions of dollars)	Net General Fund	Gross Special Revenue Funds	Refunds	Net Special Revenue Funds[1]	Gross Capital Projects Funds	Refunds	Net Capital Projects Funds[2]	Net All Funds Receipts
2003-04	0	478	6	472	587	7	580	1,052
2004-05	0	492	6	486	607	8	599	1,085
2005-06	0	523	9	514	642	10	632	1,146
2006-07	0	493	7	486	613	9	604	1,090
2007-08	0	525	11	514	659	18	641	1,155
2008-09	0	508	15	493	639	25	614	1,107
2009-10	0	502	11	491	631	18	613	1,104
2010-11	0	497	13	484	626	20	606	1,090
2011-12	1	505	17	488	638	27	611	1,100
Estimated								
2012-13	0	515	14	501	645	21	624	1,125
2013-14								
Current Law	0	544	14	530	681	21	660	1,190
Proposed Law	0	544	14	530	681	21	660	1,190

[1] Dedicated Mass Transportation Trust Fund and Mass Transportation Operating Assistance Fund.
[2] Dedicated Highway and Bridge Trust Fund.

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Equalize fuel tax treatment for volunteer ambulance services, fire companies, fire departments and rescue squads.

DESCRIPTION

Tax Base and Rate

Article 13-A of the Tax Law imposes a tax on petroleum businesses for the privilege of operating in the State, based upon the quantity of various petroleum products imported for sale or use in the State. Petroleum business tax (PBT) rates have two components: the base tax, whose rates vary by product type; and the supplemental tax, which is imposed, in general, at a uniform rate.

Tax rates are indexed with annual adjustments made on January 1 of each year to the base and supplemental tax rates to reflect the percent change in the producer price index (PPI) for refined petroleum products for the 12 months ending August 31 of the preceding year. To prevent significant changes in tax rates resulting from large changes in the petroleum PPI, tax rates cannot increase or decrease by more than 5 percent per year. In addition to the 5 percent cap on tax rate changes, the statute requires, in general (i.e., excluding diesel), that the base and supplemental tax rates each be rounded to the nearest tenth of one cent. As a result, the percentage change in tax rates is usually less than the 5 percent limit on the change in the index.

Based on changes in the petroleum PPI, the PBT rate index increased by 5 percent on January 1, 2012, and increased by 5 percent on January 1, 2013. The petroleum PPI is estimated to increase by 3 percent through August 2013, triggering an estimated PBT rate increase of 3 percent on January 1, 2014.

PETROLEUM BUSINESS NET TAX RATES FOR 2012 - 2014 (cents per gallon)									
	2012			2013			2014		
Petroleum Product	**Base**	**Supp**	**Total**	**Base**	**Supp**	**Total**	**Base**	**Supp**	**Total[1]**
Automotive fuel									
Gasoline and other non diesel	10.7	7.1	**17.8**	11.2	7.4	**18.6**	11.5	7.6	**19.1**
Highway Use Diesel	10.70	5.35	**16.05**	11.20	5.65	**16.85**	11.5	5.85	**17.35**
Aviation gasoline or Kero-Jet Fuel	7.1	0.0	**7.1**	7.4	0.0	**7.4**	7.6	0.0	**7.6**
Non-Highway Use diesel fuels									
Commercial Gallonage	9.7	0.0	**9.7**	10.1	0.0	**10.1**	10.4	0.0	**10.4**
Nonresidential heating	5.2	0.0	**5.2**	5.5	0.0	**5.5**	5.6	0.0	**5.6**
Residual petroleum products									
Commercial gallonage	7.4	0.0	**7.4**	7.7	0.0	**7.7**	7.9	0.0	**7.9**
Nonresidential heating	4.0	0.0	**4.0**	4.2	0.0	**4.2**	4.3	0.0	**4.3**
Railroad diesel fuel	9.4	0.0	**9.4**	9.9	0.0	**9.9**	10.1	0.0	**10.1**

1 Projected — The projected petroleum producer price index increase of 3 percent through August 2013 will result in an increase of 3 percent in the PBT tax rates on January 1, 2014.

PETROLEUM PPI AND PETROLEUM BUSINESS TAX RATE INDEX (percent change)		
Year	**Petroleum PPI**	**PBT Rate Index**
2003	(19.5)	(5.0)
2004	27.0	5.0
2005	12.9	5.0
2006	35.1	5.0
2007	35.9	5.0
2008	(1.2)	(1.2)
2009	42.1	5.0
2010	(34.9)	(5.0)
2011	18.6	5.0
2012	29.8	5.0
2013	9.2	5.0
2014*	3.0	3.0

* Estimated

The Motor Fuel Tax section contains a table showing New York's combined fuel tax rank among the 50 states and the District of Columbia.

Administration

The tax is collected monthly in conjunction with the State motor fuel tax (Article 12-A). Article 13-A also imposes the petroleum business carrier tax on fuel purchased outside New York and consumed within the State. The carrier tax is collected quarterly along with the fuel use tax portion of the highway use tax (see section titled Highway Use Tax).

Businesses with yearly motor fuel and petroleum business tax liability of more than $5 million are required to remit, using electronic funds transfer, their tax liability for the first 22 days of the month within three business days after that date. Taxpayers can choose to make either a minimum payment of three-fourths of the comparable month's 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

Significant statutory changes to petroleum business taxes since 1990 are summarized below.

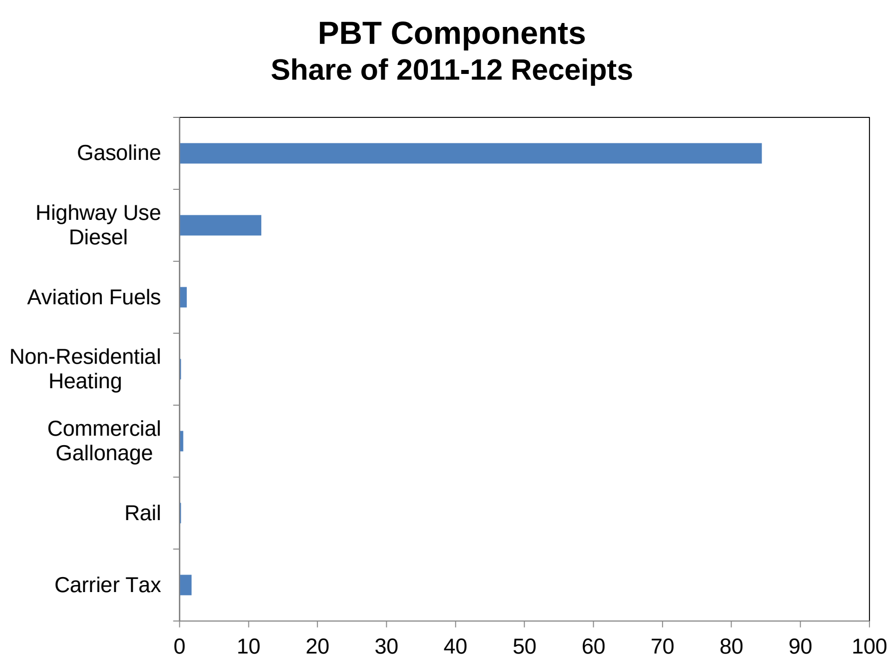
Subject	Description	Effective Date
Legislation Enacted in 1990		
Replace gross receipts tax	Converted the tax from a gross receipts basis to a cents-per-gallon basis. The tax no longer applied to kerosene, bunker fuel or liquid petroleum gasoline.	September 1, 1990
Business Tax Surcharge	Imposed a business surcharge at a rate of 15 percent for two years and 10 percent for one year.	June 1, 1990
Lubricating Oil Tax	Imposed a tax of 10 cents per quart on lubricating oil.	September 1, 1990
Legislation Enacted in 1991		
Fund Distributions	Dedicated base tax receipts to the GF (28.3 percent), MTOAF (17.7 percent) and Dedicated Funds Pool (54 percent). Dedicated all supplemental tax receipts to the Dedicated Funds Pool.	April 1, 1993
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 could 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.	December 1, 1992
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
Fund Distribution	Dedicated base tax receipts to the GF (22.4 percent), MTOAF (18.6 percent), and Dedicated Funds Pool (59 percent).	September 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 was equivalent to the statutory supplemental tax rate. To maintain the first import system, which imposed 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 were required to remit the full tax imposed on that product and	September 1, 1995

Subject	Description	Effective Date
	may subsequently take a credit for the difference between the full rate and the reduced rate.	
Not-for-profit Organizations	Provided a full exemption for heating fuel that was for the exclusive use and consumption of certain not-for-profit organizations.	January 1, 1996
Fund Distribution	Dedicated base tax receipts to the GF (18 percent), MTOAF (19.2 percent), and Dedicated Funds Pool (62.8 percent).	September 1, 1995
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 a 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
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
Fund Distribution	Dedicated base tax receipts to the GF (17.4 percent), MTOAF (19.3 percent), and Dedicated Funds Pool (63.3 percent).	April 1, 1996
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
Fund Distributions	Dedicated base tax receipts to the GF(14.5 percent), MTOAF(19.3 percent) and the Dedicated Funds Pool(66.2 percent)	January 1, 1997
Legislation Enacted in 1998		
Fund Distributions	Dedicated base tax receipts to the GF (12.4 percent), MTOAF (19.5 percent) and the Dedicated Funds Pool (68.1 percent).	January 1, 1998
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
Fund Distributions	Dedicated base tax receipts to the GF (10.7 percent), MTOAF (19.5 percent) and the Dedicated Funds Pool (69.8 percent).	April 1, 1999
Legislation Enacted in 2000		
Minimum Tax	Eliminated the minimum taxes on petroleum businesses and aviation fuel businesses under the PBT.	March 1, 2001
Commercial Heating	Reduced by 33 percent the petroleum business tax rates on commercial gallons for space heating.	September 1, 2002
Fund Distributions	Dedicated base tax receipts to the MTOAF (19.7 percent) and the Dedicated Funds Pool (80.3 percent).	April 1, 2001
Legislation Enacted in 2004		
Aviation Fuel	Eliminated PBT on fuels used for aircraft overflight and landing.	November 1, 2004
	Exempted fuel burned on takeoff by airlines operating non-stop	June 1, 2005

Subject	Description	Effective Date
	flights between at least four cities in New York.	
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, sunset September 1, 2011.	September 1, 2006
Legislation Enacted in 2011		
Alternative Fuels	Extended PBT exemptions on alternative fuels until September 1, 2012.	September 1, 2011
Modernize Fuel Definitions	Modernized fuel definitions to conform with changes in Federal and State Law.	September 1, 2011
Legislation Enacted in 2012		
Alternative Fuels	Extended PBT exemptions on alternative fuels until September 1, 2014.	September 1, 2012

TAX LIABILITY

Petroleum business tax receipts are primarily a function of the number of gallons of fuel imported into the State by distributors. Taxable gallonage is largely determined by overall fuel prices, the number of gallons held in inventories, the fuel efficiency of motor vehicles and State economic performance. The following chart displays the composition of PBT receipts by fuel type.



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

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2012-13 Estimates

All Funds receipts through December are $862.2 million, an increase of $43.9 million (5.4 percent) from the comparable period in the prior fiscal year.

All Funds 2012-13 receipts are estimated to be $1,125 million, an increase of $24.6 million (2.2 percent) from 2011-12. The increase in receipts is primarily due to the 5 percent increases in the PBT index on January 1, 2012 and January 1, 2013.

Petroleum business tax receipts derived from motor fuel and diesel motor fuel are assumed to follow the same consumption trends as fuel subject to the motor fuel excise tax (see section titled Motor Fuel Tax). Gasoline taxable gallonage is estimated to decrease by 1.6 percent and diesel taxable gallonage is estimated to decrease by 6.8 percent.

2013-14 Projections

All Funds 2013-14 receipts are projected to be $1,190 million, an increase of $65 million (5.8 percent) from 2012-13. The increase in receipts is generated primarily by the 5 percent increase in the PBT Index effective January 1, 2013, and the projected 3 percent increase effective January 1, 2014.

General Fund

No PBT receipts are deposited into the General Fund.

Other Funds

The base and supplemental tax are split as follows:

PBT BASE AND SUPPLEMENTAL TAX FUND DISTRIBUTION (percent)

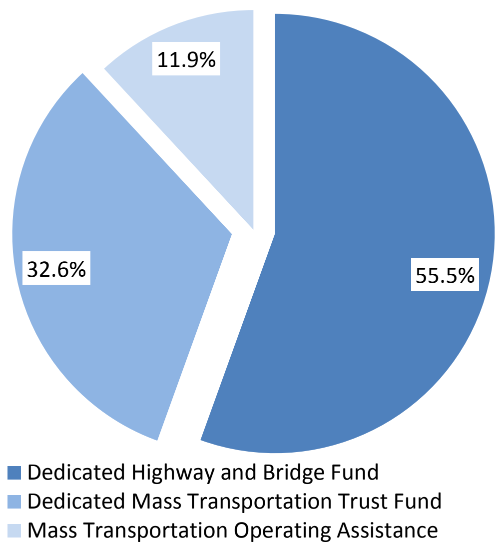
Effective Date	MTOAF[1]	Dedicated Funds Pool[2]
Base Tax	19.7	80.3
Supplemental Tax	0.0	100.0

[1] This fund is split between the Public Transportation System Operating Assistance Account and the Metropolitan Mass Transportation Operating Assistance Account.

[2] This pool is split between the Dedicated Mass Transportation Trust Fund (37 percent) and the Dedicated Highway and Bridge Trust Fund (63 percent).

Petroleum business tax receipts in 2012-13 are estimated to be $134 million for MTOA, $624 million for the DHBTF, and $367 million for the DMTTF. Petroleum business tax receipts in 2013-14 are projected to be $142 million for MTOA, $660 million for the DHBTF, and $388 million for DMTTF.

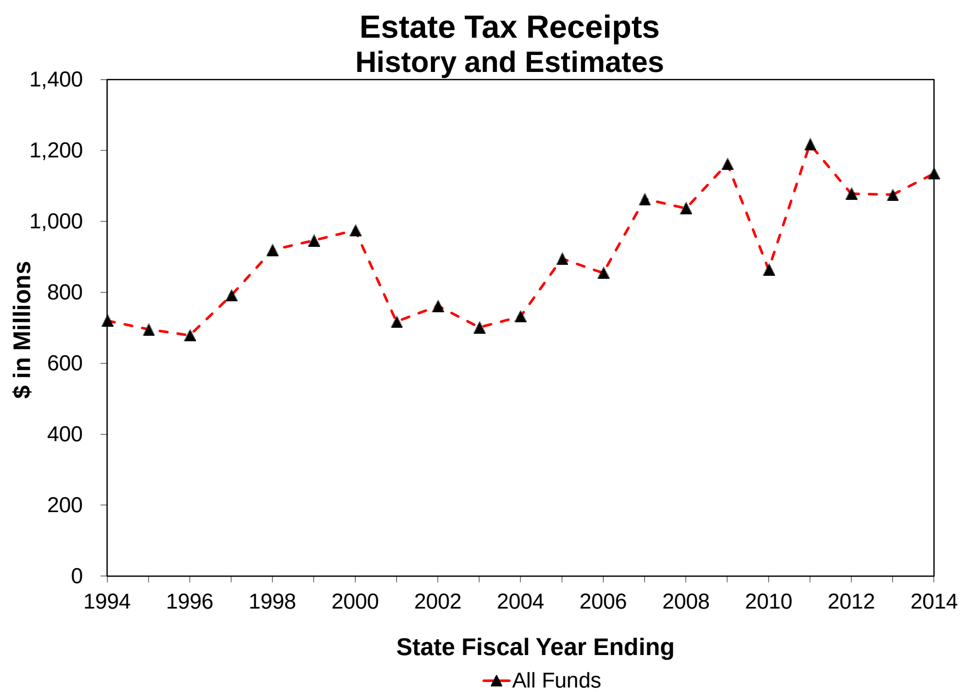
Estimated PBT Receipts 2012-13



ESTATE TAX

ESTATE TAX (millions of dollars)							
	2011-12 Actual	2012-13 Estimated	Change	Percent Change	2013-14 Projected	Change	Percent Change
General Fund	1,078.4	1,075.0	(3.4)	(0.3)	1,135.0	60.0	5.6
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	1,078.4	1,075.0	(3.4)	(0.3)	1,135.0	60.0	5.6

Note: Totals may differ due to rounding.



ESTATE TAX BY FUND (millions of dollars)				
	Gross General Fund	Refunds	General Fund	All Funds Receipts
2003-04	760	28	732	732
2004-05	936	41	895	895
2005-06	892	37	855	855
2006-07	1,122	59	1,063	1,063
2007-08	1,079	42	1,037	1,037
2008-09	1,277	114	1,163	1,163
2009-10	909	45	864	864
2010-11	1,269	51	1,218	1,218
2011-12	1,147	69	1,078	1,078
Estimated				
2012-13	1,130	55	1,075	1,075
2013-14				
Current	1,190	55	1,135	1,135
Proposed	1,190	55	1,135	1,135

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

Tax Base and Rate

New York imposes a tax on the estates of deceased State residents and on the part of a nonresident's estate made up of real and tangible personal property located within New York State. The New York estate tax is based on the estate tax provisions of the Federal Internal Revenue Code as amended through July 22, 1998, with New York modifications.

The tax base is calculated by first determining the value of the gross estate using Federal estate tax provisions. The Federal gross estate comprises the total amount of real estate, stocks and bonds, mortgages, notes, cash, insurance on the decedent's life, jointly owned property, other miscellaneous property, transfers during the decedent's life, powers of appointment, and annuities that the decedent owned.

The Federal gross estate is reduced by the Qualified Conservation Easement Exclusion and the following deductions: funeral expenses and expenses incurred in administering property subject to claims; debts of the decedent; mortgages and liens; net losses during administration, and expenses incurred in administration of the property not subject to claims; bequests to a surviving spouse (marriage deduction); charitable, public, and similar gifts; and a qualified family-owned business interest deduction. This yields the taxable estate for New York and becomes the basis for calculating New York's estate tax.

The total value of all items of real and tangible personal property of the taxpayer located outside of New York State is divided by the taxpayer's Federal gross estate to arrive at the proportion of the estate outside New York State. This proportion is then used to allocate the Federal credit for state death taxes to New York to arrive at the New York State estate tax.

New York's estate tax is calculated by using the Unified Rate Table and the table for computing the maximum New York State credit for state death taxes as they were in effect on July 22, 1998. The New York estate tax is equal to the amount of the credit for state death taxes which cannot exceed the amount of the Federal tax based on the July 22, 1998 rates and the current State unified credit. The computation of maximum New York State credit for state death taxes is a graduated schedule with rates that range from 0.8 percent on adjusted taxable estates in excess of $40,000 but less than $90,000, to 16 percent on adjusted taxable estates for New York State of $10,040,000 or more.

New York allows a Unified Credit that provides an exemption level of $1 million.

Administration

The Surrogate Court has jurisdiction of the probate of the estate and the authority to finalize the amount of the tax. The tax due is required to be paid on or before the date fixed for filing the return, nine months after the decedent's date of death. A twelve-month extension may be granted by the Commissioner of Taxation and Finance.

If the payment of the tax will cause undue hardship, the Commissioner may authorize a payment extension for up to four years from the decedent's date of death. It may be necessary for the taxpayer to provide a bond in an amount of no more than twice the amount due if an extension is approved for payment of the tax.

If the payment of the tax due is not made within nine months of the decedent's date of death, additional interest is charged to the remaining payments of the tax. The interest for extended payments is computed and compounded daily on the portion remaining from the first day of the tenth month following the decedent's date of death to the date of the payment. There is no discount for early payment of the estate tax.

The executor and the beneficiaries who have received property are personally liable for the payment of the estate tax. If there is no will, the Federal, New York and foreign death taxes paid or payable by the estate's representatives are apportioned among the beneficiaries.

There is reciprocity with other states with the collection of inheritance and estate taxes in nonresident estates. Refund claims of an overpayment of the tax must be filed by the executor within three years from the time the return was filed or two years from the time the tax was paid, whichever is later.

Tax Expenditures

Since the tax is equal to the Federal credit for state death taxes, as it existed on July 22, 1998, there is only one New York specific tax expenditure, the Qualified Family Owned Business Interest Deduction which has been eliminated from the Federal estate tax but is still allowed in New York.

Significant Legislation

Significant statutory changes to the estate tax since 1925 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

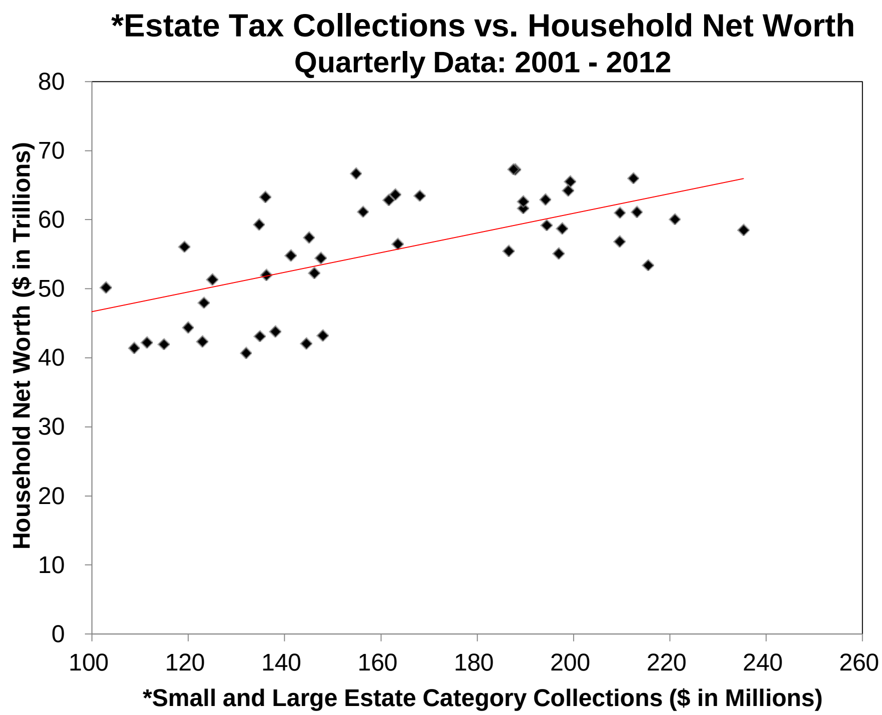
Subject	Description	Effective Date
Legislation Enacted in 1982		
Estate and Gift - Unification	Unified the estate tax and the gift tax rates and credit.	January 1, 1983
Legislation Enacted in 1994		
Unified Credit for Estate and Gift Taxes	Increased credit from $2,750 to $2,950, thereby eliminating the tax on taxable gifts/estates of $115,000 or below, up from $108,600.	June 9, 1994
Legislation Enacted in 1995		
Deduction	Authorized a principal residence deduction of $250,000 (maximum).	June 7, 1995
Legislation Enacted in 1997		
Unified Credit for Estate and Gift Taxes	Increased credit from $2,950 to $10,000, thereby eliminating the tax on taxable estates of $300,000 or below.	October 1, 1998
	Increased credit from $2,950 to $10,000, thereby eliminating the tax on taxable gifts of $300,000 or below.	January 1, 1999
	Set the State's unified credit to equal the Federal credit, but capped the maximum credit to exempt the first $1,000,000 of the estate.	February 1, 2000
Estate Tax Rate	Set the New York estate tax rates equal to the Federal credit for State estate taxes paid.	February 1, 2000
Gift Tax	Repealed.	January 1, 2000
Tax Liability Due Date	Increased from six to seven months.	October 1, 1998
	Increased from seven to nine months (same as Federal).	February 1, 2000
Legislation Enacted in 1998		
Closely-Held Business	Reduced the interest rate from 4 percent to 2 percent on deferred payments of estate tax where the estate consists largely of a closely-held business.	January 1, 1998
Legislation Enacted in 1999		
Federal Conformity	Conformed New York State law to Federal law as of July 22, 1998, except for unified credit provisions.	August 9, 1999
Family-Owned Business Deduction	Repealed the family-owned business exclusion and replaced it with the family-owned business deduction, conforming to Federal law changes.	December 31, 1997
Penalty and Interest	Waived penalty and interest on estate tax associated with a cause of action that was pending on the date of death, or which was associated with the decedent's death. The waiver is applicable from the date of the return disclosing the cause of action if filed.	July 13, 1999
Legislation Enacted in 2010		
Unified Credit	Set the State's unified credit to provide a $1,000,000 exemption level independent of the Federal Credit.	January 1, 2010

TAX LIABILITY

The recent yield of this tax has been heavily influenced by three factors: 1) tax law changes, 2) annual variations in the relatively small number of large estates, and 3) the value of the equity market, given the large component of corporate stock in large taxable estates. Tax law changes have reduced estate tax collections and thousands of the smallest estates have been effectively exempted from the tax. As a result, the volatility in receipts from this source is expected to increase, due to the random nature of collections from large estates.

In developing projections for estate tax receipts, the value of household net worth is used to forecast receipts from estates that make payments of less than $4 million. In addition to the value of equities, a distributional analysis is utilized to estimate receipts and the number of estates where payments exceed $4 million.

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



RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2012-13 Estimates

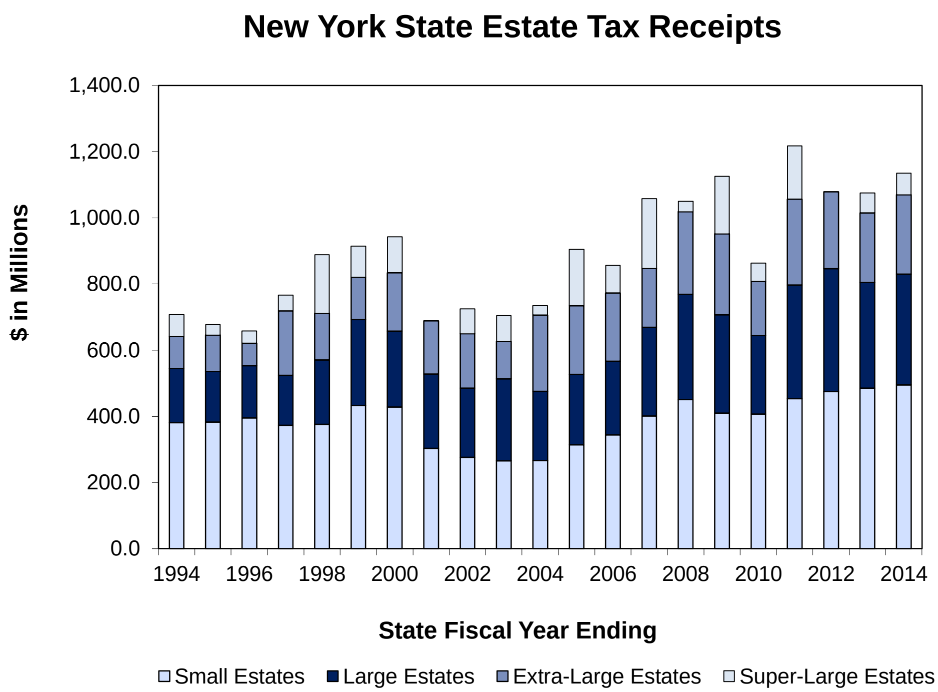
All Funds receipts through December are $797.8 million, a decrease of $56.9 million (6.7 percent) from the comparable period in the prior fiscal year.

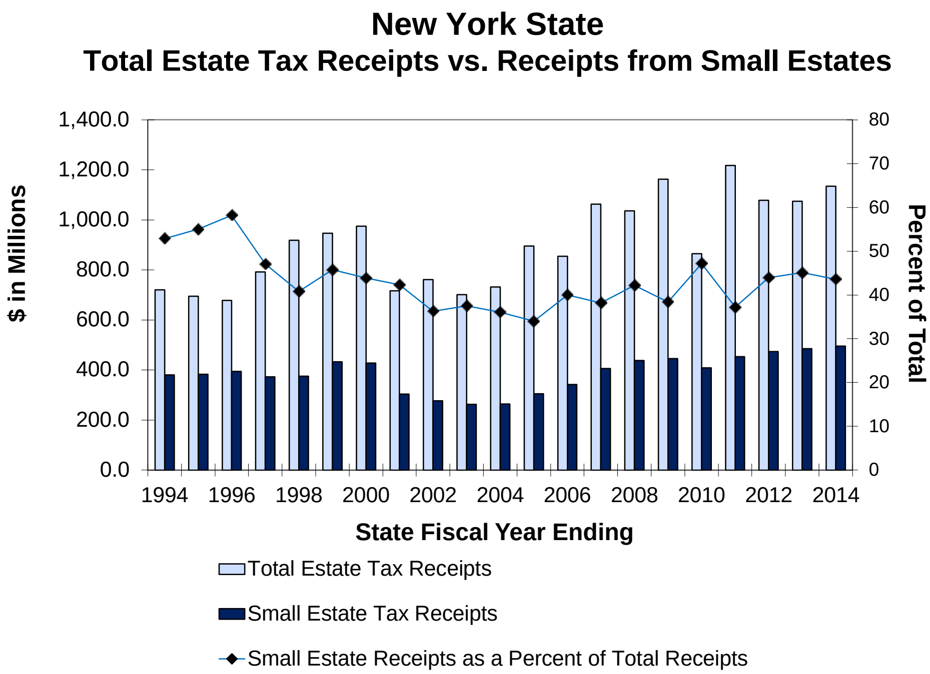
All Funds 2012-13 receipts are estimated to be $1,075 million, a decrease of 3.4 million (0.3 percent) from 2011-12.

Small estate (less than $0.5 million in payments) collections through December are $375.1 million, an increase of $19.2 million above the comparable period in the prior fiscal year. Small estate 2012-13 receipts are estimated to be $485 million, an increase of $10.6 million (2.2 percent) from 2011-12.

Large estate (payments between $0.5 and $4 million) payments through December are $231.2 million, a decrease of $57 million (19.8 percent) above the comparable period in the prior fiscal year. Large estate 2012-13 receipts are estimated to be $320 million, a decrease of $51.9 million (14 percent) from 2011-12, reflecting substantial declines during the first half of the year.

Extra-large (payments between $4 million and $25 million) and super-large (payments greater than $25 million) estate collections through December are $160.6 million, a decrease of $50 million (23.7 percent) from the same period in the prior fiscal year. Extra-large estate and super-large estate 2012-13 payments are estimated to be $270 million, an increase of $37.9 million (16.3 percent) from 2011-12.





2013-14 Projections

All Funds 2013-14 receipts are projected to be $1,135 million, an increase of $60 million (5.6 percent) from 2012-13. This increase is a result of expected growth in household net worth.

Large estate 2013-14 receipts are projected to be $335 million, an increase of $15 million (4.7 percent), and collections from small estate payments are projected to increase by $10 million (2.1 percent) to $495 million.

Super-large and extra-large estate 2013-14 receipts are projected to be $305 million, an increase of $35 million (13 percent) from 2012-13.

ESTATE TAX RECEIPTS BY SIZE OF ESTATE
(millions of dollars)

	Super-Large[1] and Extra-Large[2] Estates		Large Estates[3]		Small Estates[4]	Grand Total
	Number	Taxes	Number	Taxes	Taxes	Taxes
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	342.0	854.8
2006-07	28	389.5	217	267.8	406.0	1,063.3
2007-08	31	280.9	264	318.3	437.5	1,036.7
2008-09	30	418.9	246	297.4	446.3	1,162.6
2009-10	23	220.2	197	236.4	408.0	864.6
2010-11	34	420.8	279	344.1	453.2	1,218.1
2011-12	30	232.1	306	371.9	474.4	1,078.4
Estimated						
2012-13	26	270.0	287	320.0	485.0	1,075.0
2013-14	29	305.0	295	335.0	495.0	1,135.0

[1] Payment of at least $25 million.

[2] Payment of at least $4 million, but less than $25 million.

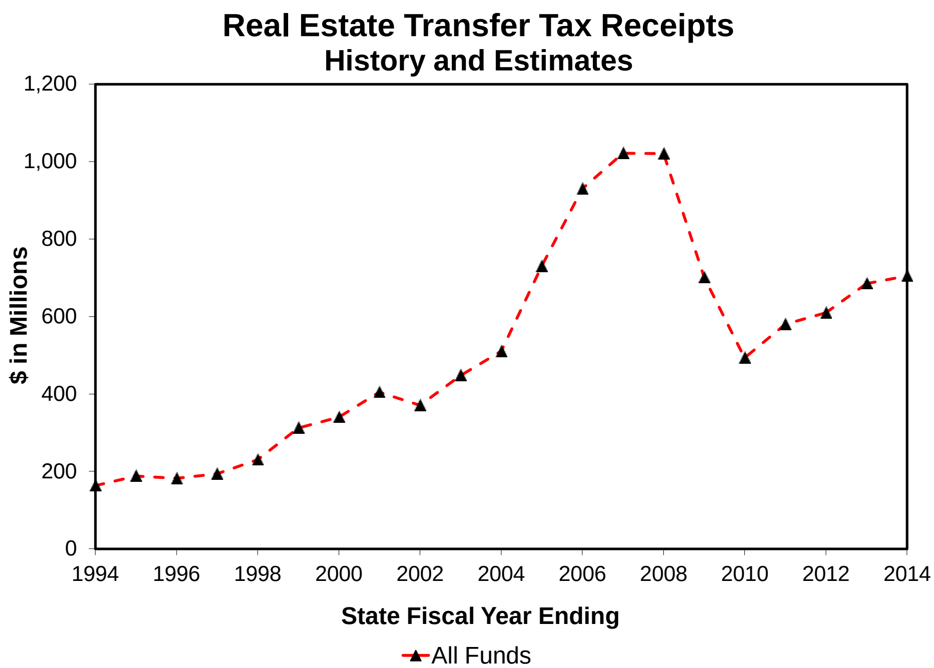
[3] Payment of at least $0.5 million, but less than $4 million.

[4] Payment less than $0.5 million. (Small estates include all CARTS less all refunds.)

REAL ESTATE TRANSFER TAX

REAL ESTATE TRANSFER TAX (millions of dollars)							
	2011-12 Actual	2012-13 Estimated	Change	Percent Change	2013-14 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	610.0	685.0	75.0	12.3	705.0	20.0	2.9
All Funds	610.0	685.0	75.0	12.3	705.0	20.0	2.9

Note: Totals may differ due to rounding.



REAL ESTATE TRANSFER TAX BY FUND (millions of dollars)					
	Capital Projects Funds[1]	Gross Debt Service Funds[2]	Refunds	Net Debt Service Funds[2]	All Funds Receipts
2003-04	112	399	1	398	510
2004-05	112	618	1	618	730
2005-06	112	827	1	826	938
2006-07	147	876	1	875	1,022
2007-08	212	810	1	809	1,021
2008-09	237	465	1	464	701
2009-10	199	295	1	294	493
2010-11	119	461	0	461	580
2011-12	119	492	1	491	610
Estimated					
2012-13	119	567	1	566	685
2013-14					
Current law	119	587	1	586	705
Proposed law	119	587	1	586	705

[1] Enviornmental Protection Fund.
[2] Clean Water/Clean Air Bond Debt Sevice Fund.

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

Tax Base and Rate

The New York State real estate transfer tax (RETT) is imposed by Article 31 of the Tax Law on each conveyance of real property or interest therein, when the consideration exceeds $500, at a rate of $4 per $1,000 of consideration (price). The tax became effective August 1, 1968. Prior to May 1983, the rate was $1.10 per $1,000 of consideration. Effective July 1, 1989, an additional 1 percent tax was imposed on residential conveyances for which the consideration is $1 million or more.

Administration

Typically, the party conveying the property (grantor) is responsible for payment of the tax, either through the purchase of adhesive documentary stamps, by the use of a metering machine, or through other approaches provided by the Commissioner of Taxation and Finance.

For deeded transfers, the tax is paid to a recording agent (generally the county clerk). For non-deeded transactions, payments are made directly to the Commissioner of Taxation and Finance ("central office" collections). All payments are due to the recording agent within 15 days of the transfer. For counties with more than $1.2 million in liability during the previous calendar year, payments received between the first and fifteenth day of the month are due to the Commissioner by the twenty-fifth day of the same month. Payments received in such counties between the sixteenth and the final day of the month are due to the Commissioner by the tenth day of the following month. Payments from all other counties are due to the Commissioner by the tenth day of the month following their receipt. Although the county payment schedule is statutory, it is not useful for predicting monthly cash flows, due to the unpredictable payment behavior of some large counties.

Tax Expenditures

The tax rate imposed on conveyances into new or existing real estate investment trusts (REITs) is $2 per $1,000 of consideration. New York State (including agencies, instrumentalities, subdivisions, and public corporations), the United States (including agencies and instrumentalities), and the United Nations are exempt. If an exempt entity is the grantor in a transfer, the tax burden falls upon the grantee. Other significant exemptions from the tax are: conveyances pursuant to the Federal bankruptcy act and mere change of identity conveyances. A deduction from taxable consideration is allowed for any lien or encumbrance remaining at the time of sale involving a one, two, or three-family house or individual residential condominium unit.

TAX LIABILITY

Real estate transfer tax receipts are a function of the number and type of conveyances and the consideration per conveyance. Conveyances and prices are largely determined by mortgage rates, vacancy rates and inflation. The Manhattan commercial real estate market, which has historically been subject to large swings in demand and capacity, can have a significant impact on receipts.

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

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2012-13 Estimates

All Funds receipts through December are $555.9 million, an increase of $67.3 million (13.8 percent) from the comparable period in the prior fiscal year.

All Funds 2012-13 receipts are estimated to be $685 million, an increase of $75 million (12.3 percent) from 2011-12.

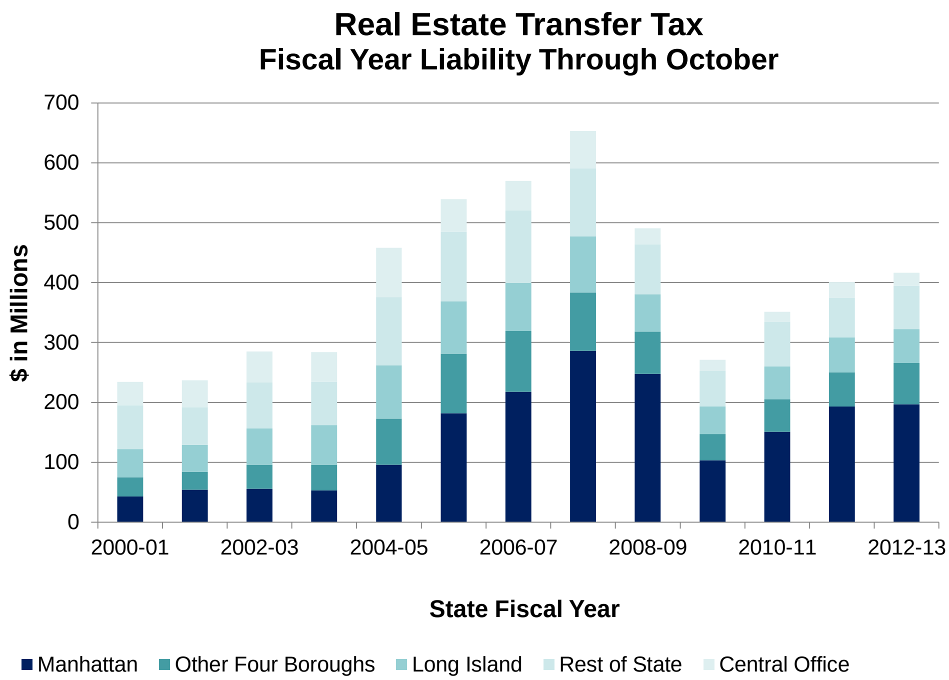
New York's recent real estate market experience has generally followed national trends. Home sales, both existing and new, have grown year-over-year through December. Building permits and housing starts have also experienced increases compared to the prior year.

The number of both pending and closed sales are up year-to-date in 2012 compared to the prior year. While prices have risen in many areas, increases for the most part have been relatively modest. New York City has in fact seen its housing prices decline year-over-year as of October. Mortgage rates are acting as a stimulator as they sit at historically low levels. However, strict credit standards are serving as an offset. Housing inventory is continuing to shrink and the number of foreclosures is also declining. Most measures currently seem to point toward the long-awaited recovery of the real estate market.

State RETT collections for New York City residential properties have increased approximately 2 percent, year-over-year through October, as the number of transactions has increased, more than offsetting decreases in average conveyance values.

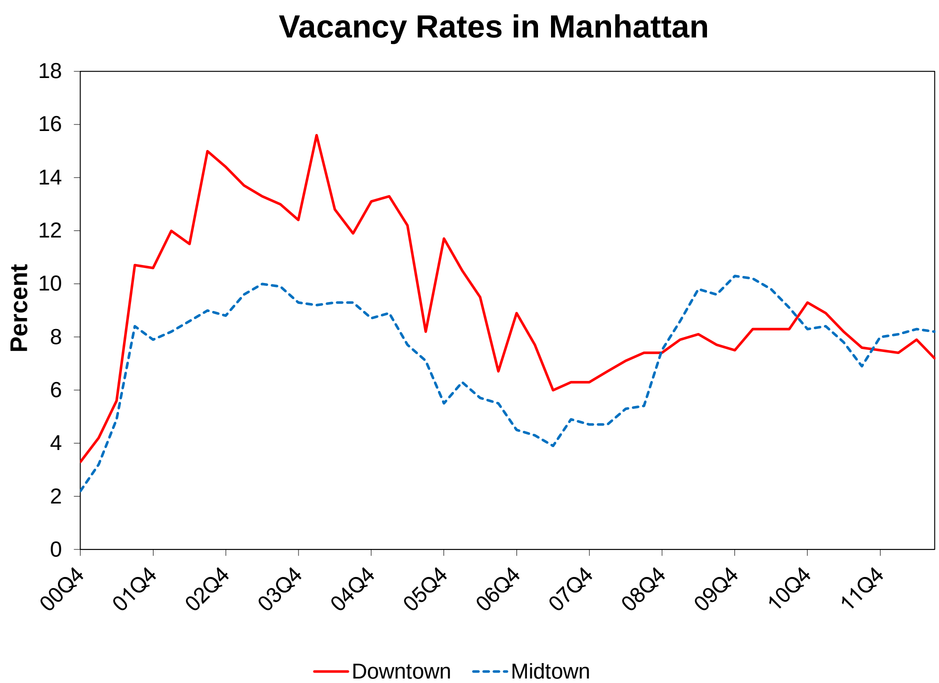
The mansion tax has played an important role in the receipts growth that has characterized recent fiscal years. In 2007-08, the mansion tax share was 31 percent, with total receipts reaching $316 million. In 2011-12, the mansion tax share was 34 percent, but totaled only $209 million, well below its peak. Mansion tax receipts are expected to total $233 million (34 percent share) in 2012-13.

The following chart compares tax liability by location through October since 2000-01.



Nationally, the number of homes sold to foreign nationals declined following the recession. However, in a resurgence of foreign investment, residential sales to foreigners in NYC have increased in 2012 compared to the prior year. New York has historically been a major attraction for foreign investment in commercial property and this has continued at an increasing pace due to the weak US dollar and New York's reputation as a good commercial investment.

In New York City, commercial RETT collections and transactions have increased year-over-year, but remain well below the peak numbers of 2007. Currently, the Manhattan commercial market faces significant uncertainty as the economic climate continues to be plagued with uncertainty itself. Downtown's vacancy rate was 7.2 percent during the third quarter of 2012 compared to 7.6 percent during the same period in 2011. The Midtown rate increased from 7.9 percent to 8.2 percent during the same period.



Source: C.B. Richard Ellis

2013-14 Projections

All Funds 2013-14 receipts are projected to be $705 million, an increase of $20 million (2.9 percent) from 2012-13.

The short term outlook for the housing market is based upon a number of factors, including low interest rates, continued tight credit standards, and health of the financial sector. Average existing home prices are expected to increase modestly in 2013.

An increase in REITs and commercial activity is expected to occur in 2013-14 as investor optimism in New York City real estate increases and prices remain low. The diversifying of industry in NYC is expected to positively impact the commercial market and demand for office space in the coming years.

General Fund

The General Fund will receive no direct deposit of real estate transfer tax receipts in 2012-13 or 2013-14. However, the balance of the Clean Water/Clean Air Fund, not needed for debt service, is transferred into the General Fund.

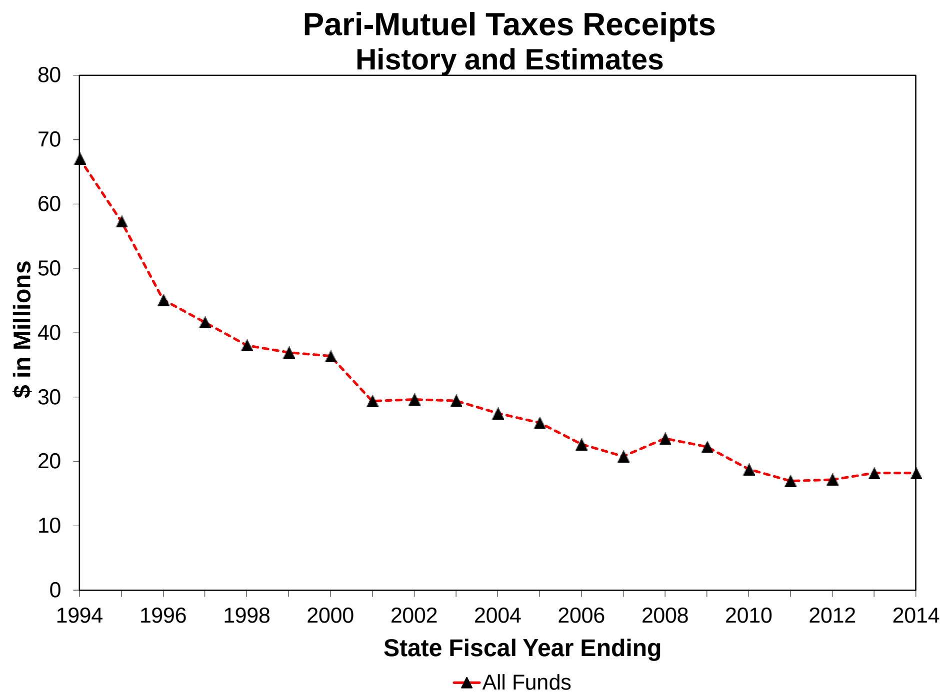
Other Funds

The statutory annual amount of real estate transfer tax receipts deposited into the Environmental Protection Fund is $119.1 million.

PARI-MUTUEL TAXES

PARI-MUTUEL TAXES (millions of dollars)							
	2011-12 Actual	2012-13 Estimated	Change	Percent Change	2013-14 Projected	Change	Percent Change
General Fund	17.2	18.2	1.0	5.8	18.2	0.0	0.0
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	17.2	18.2	1.0	5.8	18.2	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
2003-04	9,999	796	16,694	27,489
2004-05	9,257	426	16,346	26,029
2005-06	5,736	258	16,673	22,667
2006-07	7,152	450	13,208	20,810
2007-08	8,287	672	14,621	23,580
2008-09	7,602	589	14,110	22,301
2009-10	6,710	669	11,439	18,818
2010-11	7,355	661	9,024	17,040
2011-12	10,903	589	5,706	17,197
Estimated				
2012-13	12,100	600	5,500	18,200
2013-14				
Current Law	12,300	600	5,300	18,200
Proposed Law	12,300	600	5,300	18,200

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Make certain tax rates and the authorization for account wagering permanent.

DESCRIPTION

Tax Base and Rate

The State has levied taxes on pari-mutuel wagering activity conducted at horse racetracks since 1940. Off-track betting (OTB) parlors were first authorized in 1970 and simulcasting was first authorized in 1984. Each racing association or corporation and Off-track Betting Corporation pays the State a portion of the commission (the "takeout") withheld from wagering pools (the "handle") as a tax for the privilege of conducting pari-mutuel wagering on horse races. There are numerous tax rates imposed on wagering on horse races. The rates vary depending upon the type of racing (thoroughbred or harness), the type of wager (regular, multiple, or exotic) and location at which it is placed (at the track, or off-track through simulcasting or at an Off-track Betting Corporation). The average effective pari-mutuel tax rate was 1 percent of the handle in 2011.

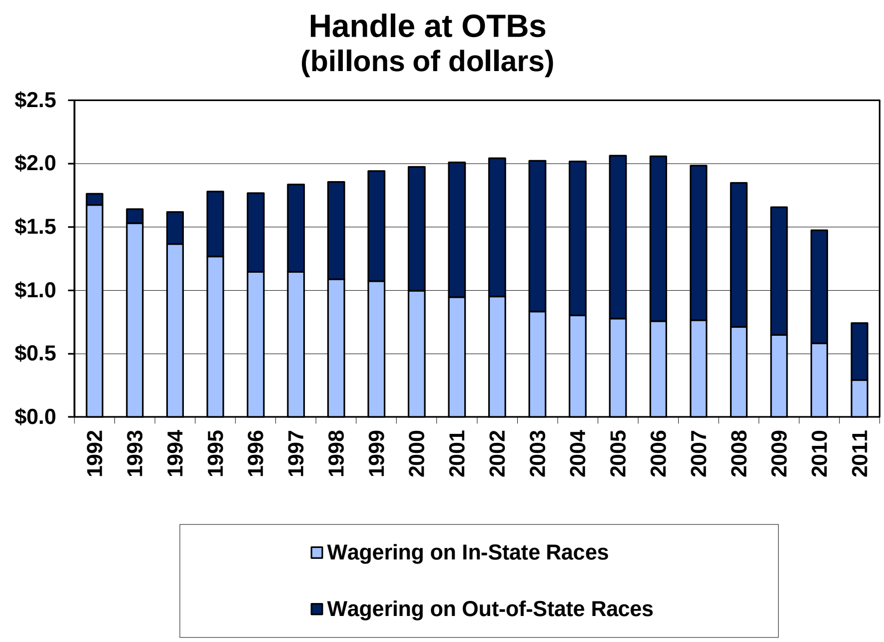
In an effort to support the New York agricultural and breeding industries, a portion of the takeout is allocated to the State's thoroughbred and standard bred (harness) horse breeding and development funds.

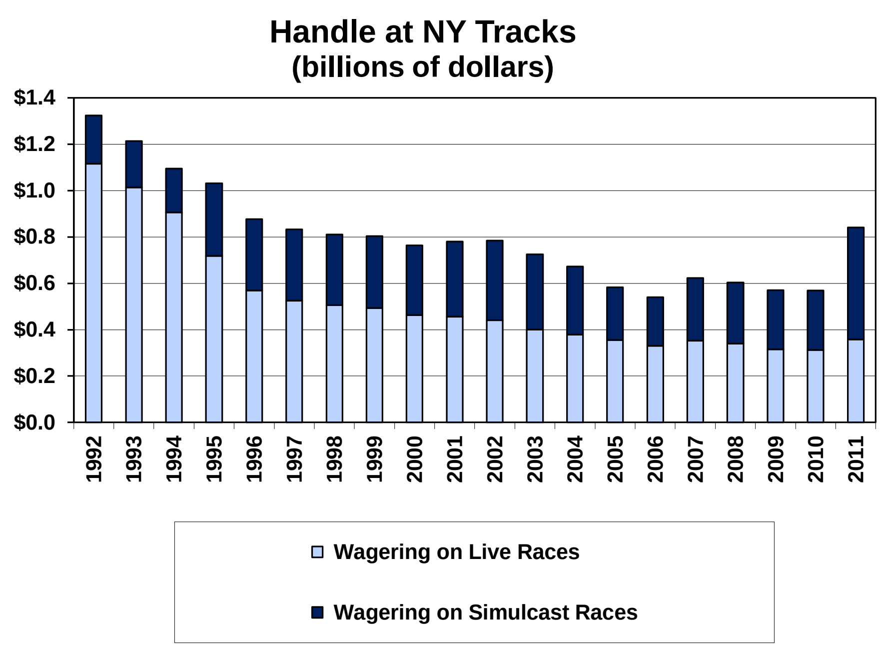
With the increase in OTB activity and simulcasting over the last 20 years, off-track bets grew to account for over 76 percent of the statewide handle. The expansion of OTBs has contributed, in part, to the corresponding decline in handle and attendance at racetracks. Following the closure of New York City OTB, statewide handle from OTBs has declined to 47 percent of total handle in 2011

To promote industry growth, the State has authorized higher takeouts to support capital improvements at non-New York Racing Association (NYRA) tracks and, more importantly, reduced its on-track tax rates by as much as 90 percent at thoroughbred and harness tracks, authorized the expansion of simulcasting at racetracks and OTB facilities, allowed in-home simulcasting experiments and telephone betting, lowered the tax rates on simulcast wagering, redirected the State franchise fee on nonprofit racing associations to repay loans from the New York State Thoroughbred Capital Investment Fund, and reduced tax rates on NYRA bets. In 2001, the State authorized the operation of video lottery terminals, at authorized racetracks, and directed a portion of VLT receipts to be used for purse enhancements and for the breeder's funds.

In 2008, the State awarded a 25-year license to operate the Aqueduct, Belmont, and Saratoga Racetracks to the New York Racing Association. Also, in 2008, the State took over operation of the New York City Off-track Betting Corporation.

In December 2010, the New York City Off-track Betting Corporation ceased pari-mutuel wagering operations after the failure to reach an agreement on a restructuring plan to bring the corporation out of bankruptcy.





Administration

As of February 1, 2013, the New York State Gaming Commission has general jurisdiction over all horse racing activities and all pari-mutuel betting activities, both on-track and off-track, in the State and over the corporations, associations, and persons engaged in gaming activities. 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

Significant statutory changes to pari-mutuel taxes 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
	Allotted the State's share of all OTB breakage to horse breeding funds.	July 6, 1994
Legislation Enacted in 1995		
Takeout	Lowered the 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
	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 percent for later races, if NYRA is running. If NYRA is not racing, the rate on these races are 1 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.	

Subject	Description	Effective Date
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 commenced video lottery gaming on April 1, 2003.	January 28, 2002
Legislation Enacted in 2003		
NYRA Franchise	Extended franchise to December 31, 2013, provided that VLTs became operational at the Aqueduct raceway on or before March 1, 2004. If NYRA was unable to initiate VLT operation by that date, then the NYRA franchise would expire on December 31, 2007.	January 29, 2003
Regulatory Fee	Instituted a regulatory fee to directly fund the State's regulation of racing, authorized tracks to set their own takeout rates within a narrow range, allowed unlimited simulcasts, and eliminated mandatory fund balances for telephone betting accounts.	May 16, 2003
Legislation Enacted in 2005		
Regulatory Fee	Increased the amount of the fee from 0.39 percent to 0.5 percent of handle.	July 11, 2005
OTB Tax Credit	Allowed a credit equal to 45 percent of the pari-mutuel tax attributable to increased handle at regional off-track betting corporations for races which are conducted at tracks located within the State.	July 1, 2005
Legislation Enacted in 2006		
Rate Reduction	Lowered the tax rate on regular, multiple and exotic bets for wagering on NYRA races at OTBs and wagering on thoroughbred races at simulcast theaters by 0.2 percentage points. The tax rates on all regular, multiple and exotic bets on out-of-state simulcasts placed between April 1, 2006 and March 31, 2007 were lowered by 0.2 percentage points and the distribution from wagers on these races to the thoroughbred breeder's fund was increased by 0.2 percentage points.	April 1, 2006
Legislation Enacted in 2008		
NYRA Franchise	Awarded the NYRA a 25-year franchise to operate the Aqueduct, Belmont, and Saratoga Racetracks.	February 19, 2008
NYC OTB	Provided for the State to take over the operations of New York City's Off-track Betting. Established a task force to study needed changes to the State's OTB structure.	June 17, 2008
Takeout	Increased the takeout on wagering on in-state thoroughbred races by one percentage point.	September 15, 2008
Takeout	Increased the takeout on wagering on out-of-state thoroughbred races by one percentage point.	March 15, 2009

Subject	Description	Effective Date
Legislation Enacted in 2009		
Takeout	Repealed the one percentage point increase in takeout on wagering on out-of-state thoroughbred races.	March 13, 2009

TAX LIABILITY

The primary factors that affect pari-mutuel tax liability are: the handle and attendance at racetracks and OTB parlors, the number of simulcasts, and competition from other forms of gambling.

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

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2012-13 Estimates

All Funds receipts through December are $14.2 million, an increase of $0.6 million (4.4 percent) from the comparable period in the prior fiscal year. All Funds 2012-13 receipts are estimated to be $18.2 million, an increase of $1 million (5.8 percent) from 2011-12.

Receipts from OTBs are estimated at $5.5 million for 2012-13, a decrease of $0.2 million (3.5 percent) below the prior fiscal year. This decline reflects trend declines in industry handle. Receipts through December from off-track betting are $4.3 million, a decrease of $0.2 million (4.4 percent) from 2011-12.

Receipts through December from thoroughbred on-track handle, including simulcasts, are $9.4 million, an increase of $0.8 million (9.3 percent) from the same period last year. Receipts for the fiscal year are estimated at $12.1 million, an increase of $1.2 million (11 percent). This growth in on-track thoroughbred handle reflects increased handle at the New York Racing Association (NYRA).

Pari-mutuel tax receipts from on-track harness wagering are estimated to be $600,000 in 2012-13, a slight increase from 2011-12.

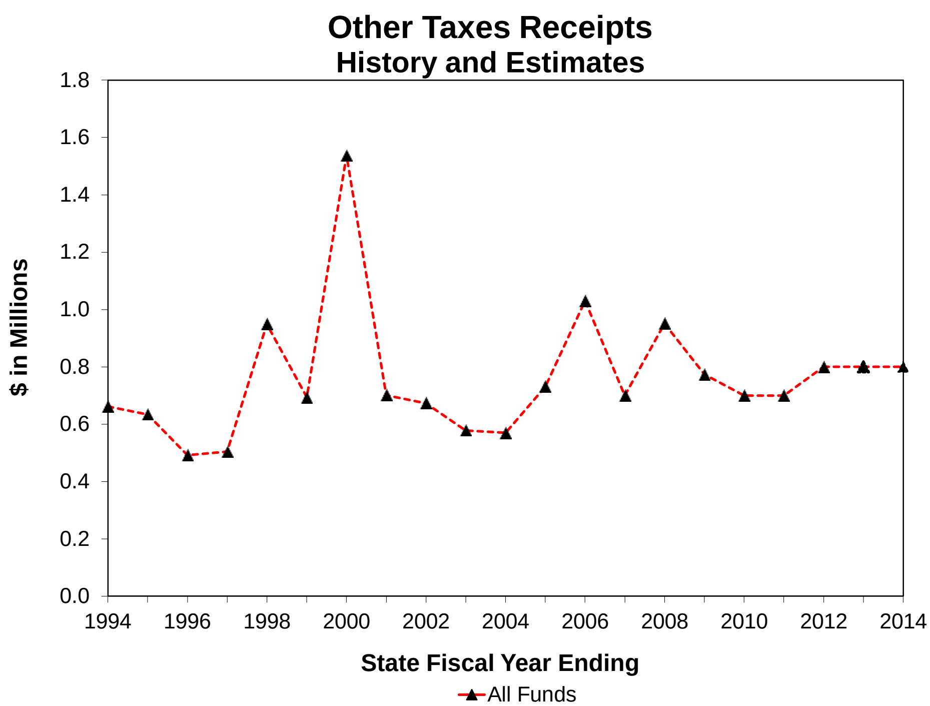
2013-14 Projections

All Funds 2013-14 receipts are projected to be $18.2 million, no change from 2012-13. On-track handle on thoroughbred racing is projected to increase slightly, as the NYRA handle continues to grow. However, this increase is estimated to be offset by continued declines in handle at OTBs. On-track harness handle is expected to remain flat.

OTHER TAXES

OTHER TAXES (millions of dollars)							
	2011-12 Actual	2012-13 Estimated	Change	Percent Change	2013-14 Projected	Change	Percent Change
General Fund	0.8	0.8	0.0	0.0	0.8	0.0	0.0
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	0.8	0.8	0.0	0.0	0.8	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
2003-04	344	226	570
2004-05	379	352	731
2005-06	474	556	1,030
2006-07	364	307	671
2007-08	370	581	951
2008-09	369	404	773
2009-10	340	350	690
2010-11	352	361	713
2011-12	355	413	768
Estimated			
2012-13	375	425	800
2013-14			
Current Law	375	425	800
Proposed Law	375	425	800

PROPOSED LEGISLATION

No new legislation proposed with this Budget:

DESCRIPTION

Tax Base and Rate

Racing Admissions Tax – A tax is levied on the charge for admissions to racetracks and simulcast theaters throughout the State. The increase in simulcasts at off-track betting locations within New York, expanded interstate competition, and the growth of casino activity in close proximity to New York residents have led to declines in total paid attendance at tracks and in receipts from this source. In addition, the introduction of video lottery terminals at tracks has led many facilities to eliminate their admission charges.

Boxing and Wrestling Exhibitions Tax – A tax is levied on gross receipts from boxing and wrestling exhibitions, including receipts from broadcast and motion picture rights. A pay-per-view event with high spectator interest can impact the yield of the tax substantially, causing receipts to vary considerably from year to year.

The racing admissions tax rate is 4 percent of the admissions charge and the boxing and wrestling exhibitions tax rate is 3 percent.

Administration

The Department of Taxation and Finance is responsible for collecting the receipts of the racing admissions tax and the boxing and wrestling exhibitions tax.

Significant Legislation

In 1999, the tax rate on boxing and wrestling exhibitions was reduced from 5.5 percent to 3 percent with a $100,000 cap per exhibition ($50,000 from admissions and $50,000 from broadcast rights).

TAX LIABILITY

The major factor that affects racing admissions tax liability is the number of customers who attend on-track races; this is dependent on factors such as the weather and competition from other types of 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

2012-13 Estimates

All Funds receipts through December are $740,000, an increase of $29,000 (4.1 percent) from the comparable period in the prior fiscal year. All Funds 2012-13 receipts are estimated to be $800,000, an increase of $32,000 (4.2 percent) from 2011-12.

2013-14 Projections

All Funds 2013-14 receipts are projected to be $800,000, no change from 2012-13. Both the number of boxing and wrestling exhibitions in New York State, and paid attendance at race tracks are expected to remain at levels consistent with 2012-13 levels.

METROPOLITAN TRANSPORTATION AUTHORITY FINANCIAL ASSISTANCE FUND RECEIPTS

METROPOLITAN FINANCIAL ASSISTANCE FUND RECEIPTS (millions of dollars)							
	2011-12 Actual	2012-13 Estimated	Change	Percent Change	2013-14 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	1,687.3	1,468.0	(219.3)	(13.0)	1,539.0	71.0	4.8
All Funds	1,687.3	1,468.0	(219.3)	(13.0)	1,539.0	71.0	4.8

Note: Totals may differ due to rounding.

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

Chapter 25, Laws of 2009, created the Metropolitan Transportation Authority Financial Assistance Fund under the joint custody of the Commissioner of Taxation and Finance and the State Comptroller. Monies in this special fund are to be kept separately from and not be commingled with any other monies in the joint or sole custody of the State Comptroller or the Commissioner of Taxation and Finance. The fund contains all monies collected, credited or transferred to it from any other fund, account or source, including the revenues derived from sources imposed by Chapter 25, Laws of 2009. These revenue sources are:

- The metropolitan commuter transportation mobility tax;
- Supplemental motor vehicle fees: a supplemental learner permit/license fee in the MCTD and a supplemental registration fee in the MCTD;
- The supplemental tax on passenger car rentals in the MCTD; and
- The tax on medallion taxicabs in the MCTD.

Revenues generated from the mobility tax are directed to the Mobility Tax Trust Account of the MTA Financial Assistance Fund. Revenues generated from the supplemental motor vehicle fees, supplemental tax on car rentals, and the tax on taxicab rides are directed to the MTA Aid Trust Account of the MTA Financial Assistance Fund.

ALL FUNDS RECEIPTS BY TAX
(millions of dollars)

	2011-12 Actual	2012-13 Estimated	Change	Percent Change	2013-14 Projected	Change	Percent Change
Mobility Tax	1,375.7	1,160.0	(215.7)	(15.7)	1,219.0	59.0	5.1
Motor Vehicle Fees	185.8	181.0	(4.8)	(2.6)	181.0	0.0	0.0
Passenger Car Rentals Tax	39.0	41.0	2.0	5.1	43.0	2.0	4.9
Taxicab Surcharge	86.8	86.0	(0.8)	(0.9)	96.0	10.0	11.6
Total	1,687.3	1,468.0	(219.3)	(13.0)	1,539.0	71.0	4.8

METROPOLITAN COMMUTER TRANSPORTATION MOBILITY TAX

Tax Base and Rate

Article 23 of the Tax Law imposes the metropolitan commuter transportation mobility tax on certain employers and self-employed individuals engaging in business within the Metropolitan Commuter Transportation District (MCTD). The MCTD consists of New York City and the counties of Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk, and Westchester. Article 23 applies to:

- Employers (other than public school districts) beginning on or after March 1, 2009;
- Employers that are public school districts within the MCTD beginning on or after September 1, 2009; and
- Self-employed individuals for tax years beginning on or after January 1, 2009.

The mobility tax is imposed at a rate of 0.34 percent of an employer's payroll expense for all covered employees for each calendar quarter. For individuals with net earnings from self-employment, the tax is 0.34 percent of the net earnings from self-employment allocated to the MCTD for the tax year.

Exemptions: an employer that is an agency or instrumentality of the United States, the United Nations, or an interstate agency or public corporation created under an agreement or compact with another state or Canada is not subject to the mobility tax. (For example, the Port Authority of New York and New Jersey is exempt.) Effective April 1, 2012, all elementary and secondary schools are also exempt.

Credits: no tax credit may be used to reduce the amount of mobility tax due.

No mobility tax is due from employers with a quarterly payroll of $2,500 or less ($312,500 or less effective April 1, 2012); individuals with net earnings from self-employment allocated to the MCTD of $10,000 or less for a tax year ($50,000 or less for tax years beginning January 1, 2012); and the non-wage portion of S corporation member income. Effective April 1, 2012 employers with quarterly payroll greater than $312,500 but no greater than $375,000 will be taxed at a reduced rate of 0.11 percent and employers with a quarterly payroll greater than $375,000 but no greater than $437,500 will be taxed at a reduced rate of 0.23 percent. The State agreed to compensate the MTA for the estimated revenue loss associated with this legislation.

Administration

Taxpayers who make electronic withholding tax payments must make their mobility tax payments at the same time. These payments are due within three days of the respective payroll date. Taxpayers who make quarterly withholding payments and those with self-employment income must make quarterly payments. These payments are due on the last business day of the month following the end of the calendar quarter in which the taxpayer made the payroll or earned the self-employment income (e.g. January 31 for the calendar quarter ending December 31).

Those with self-employment income are also required to file an annual reconciliation return by the last business day of the month four months after the close of their fiscal year.

Significant Legislation

Significant statutory changes to the mobility tax since 2011 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 2011		
Tax Rate and Exemption Changes	Expanded the annual tax exemption threshold for self-employment from $10,000 to $50,000 annually.	January 1, 2012
	Exempted all elementary and secondary schools from the tax; exempted employers with quarterly payroll not greater than $312,500; lowered the rate on employers with quarterly payroll greater than $312,500 but no greater than $375,000 to 0.11 percent; and lowered the rate on employers with quarterly payroll greater than $375,000 but no greater than $437,500 to 0.23 percent.	April 1, 2012

2012-13 Estimates and 2013-14 Projections

All Funds collections through December are $826.2 million, a decrease of $134.4 million (14 percent) from the comparable period in the prior fiscal year. All Funds 2012-13 receipts are estimated to be $1,160 million, a decrease of $215.7 million (15.7 percent) from 2011-12. The decline in both year-to-date and estimated annual receipts is due to the tax cuts which took effect April 1, 2012. All Funds 2013-14 receipts are projected to be $1,219 million, an increase of $59 million (5.1 percent) from 2012-13.

SUPPLEMENTAL TAX ON PASSENGER CAR RENTALS

Effective June 1, 2009, a supplemental tax of 5 percent was imposed on the rental of a passenger vehicle in the MCTD. The tax base and administration of this tax are the same as the State Auto Rental Tax.

2012-13 Estimates and 2013-14 Projections

All Funds collections through December are $32.4 million, an increase of $0.9 million (2.9 percent) from the comparable period in the prior fiscal year. All Funds 2012-13 receipts are estimated to be $41 million, an increase of $2 million (5.1 percent) from 2011-12. All Funds 2013-14 receipts are projected to be $43 million, an increase of $2 million (4.9 percent) from 2012-13.

TAX ON MEDALLION TAXICABS IN THE MCTD

Tax Base and Rate

Effective November 1, 2009, a tax of 50 cents was imposed on taxicab rides that originate in New York City and end within the MCTD. On July 1, 2010, the incidence of the tax was statutorily shifted to medallion owners from taxicab vehicle owners. The quarterly period and filing due dates are:

Quarterly period	Due date for filing return
January through March	April 20
April through June	July 20
July through September	October 20
October through December	January 20

2012-13 Estimates and 2013-14 Projections

All Funds collections through December are $63.7 million, a decrease of $1.7 million (2.6 percent) from the comparable period in the prior fiscal year. All Funds 2012-13 receipts are estimated to be $86 million, a decrease of $0.8 million (0.9 percent) from 2011-12. All Funds 2013-14 receipts are projected to be $96 million, an increase of $10 million (11.6 percent) from 2012-13. The growth in 2013-14 is due to the projected impact of expanded medallion ownership, which has been delayed from 2012-13 due to litigation.

MOTOR VEHICLE FEES IN THE MCTD

Effective September 1, 2009, there is a supplemental motor vehicle license fee of one dollar per six month interval and a supplemental registration fee of $25 in the MCTD. The timing and administration of these fees are the same as the State fee.

2012-13 Estimates and 2013-14 Projections

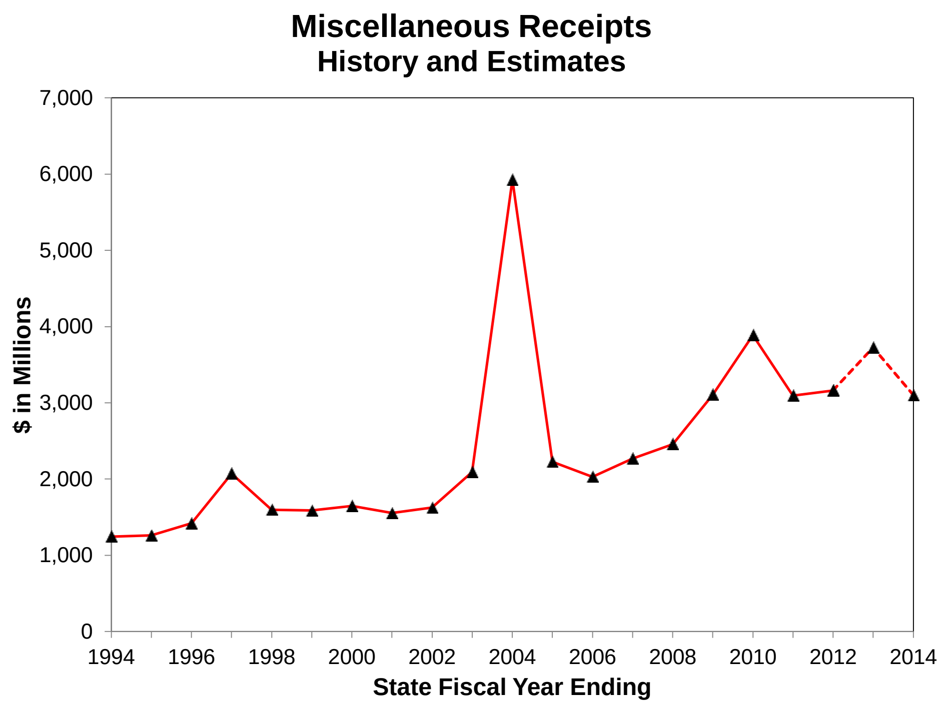
All Funds collections through December are $139.1 million, a decrease of $4.7 million (3.3 percent) from the comparable period in the prior fiscal year. All Funds 2012-13 receipts are estimated to be $181 million, a decrease of $4.8 million (2.6 percent) from 2011-12. All Funds 2013-14 receipts are projected to be the same as 2012-13.

MISCELLANEOUS RECEIPTS
GENERAL FUND

MISCELLANEOUS RECEIPTS - GENERAL FUND
(millions of dollars)

	2011-12 Actual	2012-13 Estimated	Change	Percent Change	2013-14 Projected	Change	Percent Change
General Fund	3,161.4	3,724.4	563.0	17.8%	3,101.6	(622.8)	-16.7%

Note: Totals may differ due to rounding.



MISCELLANEOUS RECEIPTS - GENERAL FUND
(millions of dollars)

	2009-10 Actual	2010-11 Actual	2011-12 Actual	2012-13 Estimated	2013-14 Projected
Licenses, Fees, Etc.	709.9	677.4	653.6	763.4	680.7
Abandoned Property	608.1	645.4	756.7	715.0	650.0
Reimbursements	323.1	270.3	238.7	271.5	271.5
Investment Income	14.0	5.7	5.3	5.0	5.0
ABC License Fees	49.0	47.9	59.1	56.0	54.0
Motor Vehicle Fees	15.2	33.8	110.8	99.0	26.3
Other Transactions	2,168.6	1,414.7	1,337.2	1,814.5	1,414.1
Total	3,887.9	3,095.2	3,161.4	3,724.4	3,101.6

Note: Totals may differ due to rounding.

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- extend the temporary utility assessment; and
- amend surcharges associated with vehicle and traffic ticket pleas.

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

Significant statutory changes to General Fund Miscellaneous Receipts 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 Fine	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

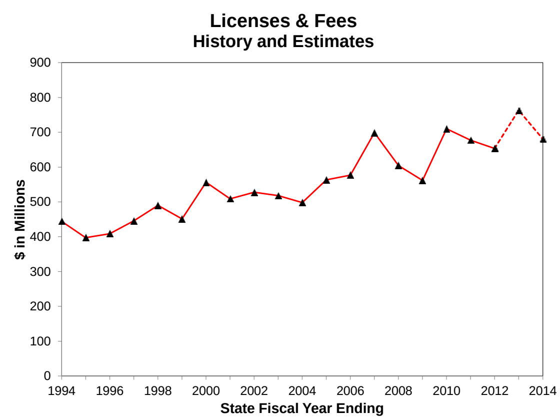
Subject	Description	Effective Date
Alcohol Beverage Control License Fees	Changed the required purchase of a triennial alcohol beverage license to allow licensees to continue to purchase a triennial license or optionally purchase an annual or biennial license at a prorated cost.	December 1, 1998
Legislation Enacted in 1998		
Assessments	Accelerated the phase-out of assessments on private health facility providers.	April 1, 1998
Legislation Enacted in 1999		
Assessments	Further accelerated the phase-out of assessments on private health facility providers.	April 1, 1999
Mandatory Surcharges	Extended for two years the mandatory surcharges pertaining largely to standing or moving violations of the Vehicle and Traffic Law.	October 31, 1999
Legislation Enacted in 2000		
Assessments	Provided amnesty on interest and penalties for private health facilities that paid any outstanding assessments by March 31, 2001.	April 1, 2000
Legislation Enacted in 2001		
Mandatory Surcharge	Extended for two years the mandatory surcharges pertaining largely to standing or moving violations of the Vehicle and Traffic Law.	October 31, 2001
Legislation Enacted in 2002		
Supplemental Wireless Service Surcharge	Increased from $0.70 to $1.20 monthly the State wireless communication service surcharge.	August 1, 2002
Alcohol Beverage Control License Fees	Increased alcohol beverage license fees for most licensees by 28 percent.	September 1, 2002
Legislation Enacted in 2003		
Abandoned Property	Reduced the time period for collecting abandoned property related to the demutualization of insurance companies, from five years to two.	January 1, 2003
Assessments	Increased cost recovery assessments' cap from $20 million to $40 million.	April 1, 2003
Criminal Fines	Increased criminal fines deposited into the Justice Court Fund from between $100 and $1,500 to $150 and $2,250.	April 1, 2003
Lobbyist Fee	Increased annual lobbyist registration fees to $100 in 2004 and $200 in 2005.	April 1, 2003
Uncashed Checks	Reduced the dormancy period of uncashed checks from three years to one year.	April 1, 2003
Background Checks	Required holders of HAZMAT license endorsement to undergo criminal background check for a fee of $75.	May 15, 2003
Sex Offender Fee	Required sex offenders to pay a DNA databank fee of $50, a sex offender registration fee of $50, and a sex offender registration change fee of $10.	May 15, 2003
Data Search Fee	Increased data search fee by $1.	July 1, 2003
Court Motion Fees	Imposed a $45 motion fee on Supreme/County and Appellate Courts, a stipulation of Discontinuance Fee of $35 and increased all Civil Court Fees by 25 percent.	July 14, 2003
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

Subject	Description	Effective Date
Parking Surcharge	Increased parking ticket surcharges to provide relief to the General Fund and Big 6 cities from $5 to $15.	November 12, 2003
Legislation Enacted in 2004		
Filing Fees	Increased Filing Fees for Alcoholic Beverage Control License applications.	April 1, 2004
Local Prosecution Program	Imposed various fees related to the Vehicle and Traffic Local Prosecution Program.	August 20, 2004
Driver Responsibility	Created the Driver Responsibility Program with fees of $100 and $250.	August 20, 2004
Federal Bed Contracts	Imposed State Correctional Facility Bed Rental Fee of $30,000 per year to the Federal Government.	April 1, 2004
Waste Tire Fee	Extended the current Waste Tire Fee of $2.50.	October 20, 2004
Stormwater Fees	Increased Stormwater Fees from $50 to $50-$350.	April 1, 2004
Snowmobile Fee	Increased Snowmobile Fee from $5 to $10.	August 20, 2004
Alcohol Beverage Control License Fees	Allowed liquor stores to open seven days per week.	August 20, 2004
Legislation Enacted in 2005		
Food Inspection Violations	Imposed a fine of $300 for the first food inspection violation.	January 1, 2005
Agents License Fee	Increased insurance agent license fee from $20 to $40.	April 1, 2005
Service of Process Fee	Increased service of process fee from $20 to $40.	April 1, 2005
Reinsurance License Fee	Increased reinsurance license fee from $100 to $500.	April 1, 2005
Alcohol Beverage Control License Fees	Allowed the direct shipment of wine to individual consumers in New York State.	August 11, 2005
Legislation Enacted in 2006		
Abandoned Property	Reduced the dormancy period on uncashed checks from five years to three years and added foreign securities as abandoned property.	April 1, 2006
Banking Fines and Penalties	Reorganized the fee and fine structure of the Banking Department, including eliminating all annual license fees, increasing and simplifying application fees to match the Department's work processes, and raising fine levels to encourage industry compliance.	April 1, 2006
Point Insurance Reduction	Allowed drivers to reduce points on their license via internet defensive driving courses for a fee of $8 for students and $7,500 for insurance providers.	April 16, 2006
Driver Responsibility Program	Dedicated the remaining funds from the Driver Responsibility Program to the Dedicated Highway and Bridge Trust Fund.	April 1, 2006
ATV Registration Fee	Repealed the $15 ATV train maintenance portion of the fee while maintaining the basic ATV registration fee of $10.	April 1, 2006
Legislation Enacted in 2007		
Alcohol Beverage Control License Fees	Allowed auctions of distilled spirits and licensing of auctioneers.	October 15, 2007
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

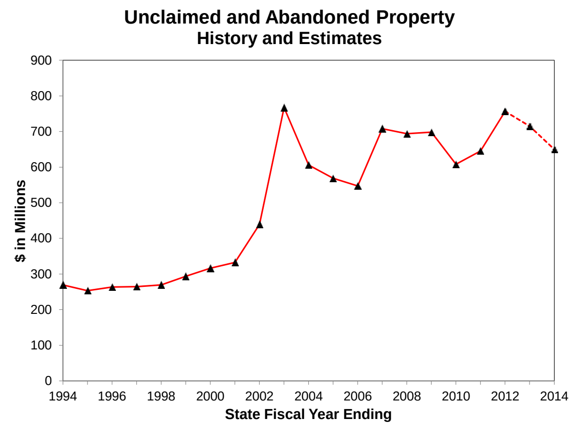
Subject	Description	Effective Date
Legislation Enacted in 2009		
DMV Surcharge Caps	Removed the cap on surcharges for DMV fines and penalties.	April 1, 2009
License Termination Fees	Increased driver's license termination fees.	April 1, 2009
Real Property Transfer Fees	Increased the real property transfer fee from $75 to $125 for residential properties, from $165 to $250 for commercial properties, and from $50 to $100 for co-ops.	April 1, 2009
18-A Utility Assessment	Increased the 18-A utility assessment.	April 1, 2009
Asbestos Project Notification Fees	Increased the notification fee for asbestos projects from $1,000 to $2,000.	April 1, 2009
Bottle Bill	Expanded the 5 cent minimum bottle deposit to water bottles, increased the handling fee to 3.5 cents, and allowed the state to collect 80 percent of unclaimed deposits.	October 31, 2009
Legislation Enacted in 2010		
Abandoned Property	Reduced dormancy periods on undelivered goods from five to three years, and on money orders from seven to five years.	August 3, 2010
Judiciary	Increased various civil court filing fees.	July 1, 2010
Legislation Enacted in 2011		
Abandoned Property	Reduced dormancy periods on various abandoned property items from 5 or 6 years to 3 years.	March 31, 2011

Components of Miscellaneous Receipts

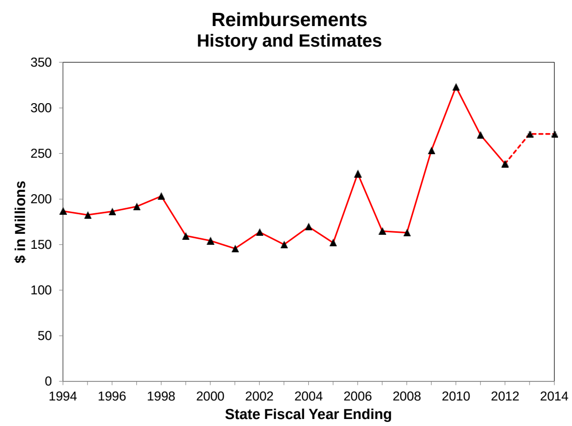
Historically, General Fund license and fee revenues have grown modestly and fairly consistently, aside from minimal peaks and troughs associated with law changes. In 2012-13, revenues are expected to increase from the prior year. In 2013-14, these revenues are projected to decrease from the current year.



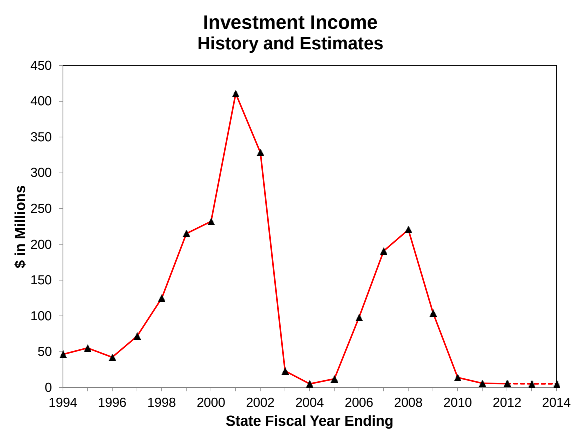
Historically, unclaimed and abandoned property revenue has remained relatively stable with minimal growth, aside from spikes in 2002-03 and 2003-04 resulting from a large amount of abandoned property released to the State of New York by the Office of the State Comptroller. This property was associated with the sale of stocks as well as a reduction in the dormancy period of uncashed checks. Unclaimed and abandoned property revenue increased significantly in 2011-12 due to 2011 legislation that reduced dormancy periods on several items. It is expected to decrease slightly in 2012-13 and continue to decline in 2013-14.



Historically, reimbursements of General Fund expenses and revenue advances have remained relatively constant with 2009-10 and 2010-11 being exceptions. In 2012-13 and 2013-14 receipts are expected to return to historical trends. In 2006, a portion of General Fund Federal Grants was reclassified to this category of General Fund Miscellaneous Receipts.

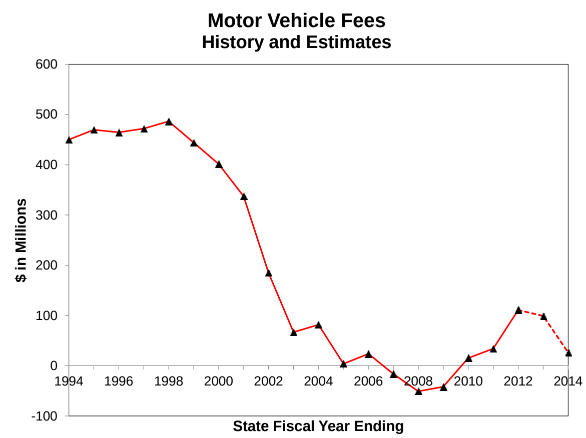


The trends in investment income are directly related to General Fund account balances and interest rates. For example, the large increases in 2000-01 and 2006-07 followed by the severe drops in 2002-03 and 2009-10 were the result of the impact of economic growth and subsequent recession on State finances; balances declined and interest rates declined sharply. The forecast for investment income is expected to remain relatively low as both General Fund account balances and interest rates are expected to remain low.

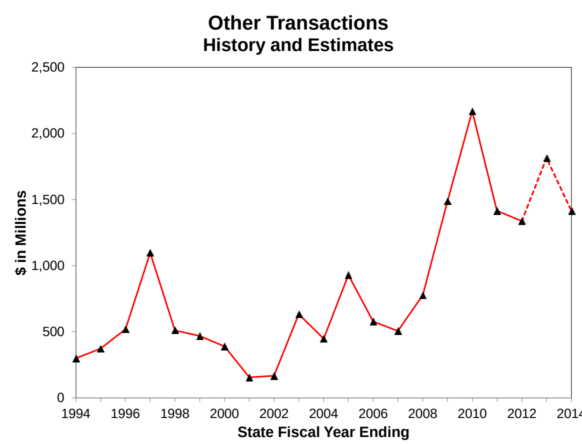


Historically, the number of alcoholic beverage control licenses has remained relatively constant. However, changes in license fees and length of licenses have caused variation in receipts. An accounting error uncovered in 2006-07 revealed that internet renewals hadn't been deposited properly. This caused a one-time payment of $13 million in 2006-07. Overall this revenue is cyclical based on license renewal patterns. In both 2012-13 and 2013-14 this revenue is expected to decline slightly.

In 2004-05, almost all motor vehicle fee revenue was redirected from the General Fund to Dedicated Transportation Funds. Since 2006, of the amount of otherwise non-dedicated motor vehicle fees, $169.4 million is deposited into these Dedicated Funds. Surplus monies above $169.4 million remain in the General Fund while other General Fund revenue must cover any shortfall below $169.4 million.



Other transactions are an unrelated grouping of transactions and payments, which do not fall under the other miscellaneous receipts categories. Differences in collections year-to-year are the result of large, unusual payments to the State of New York, including: bond issuance charges; a supplemental wireless surcharge; SONYMA, and timing-of-payments pursuant to Section 18a of Public Service Law.



2012-13 ESTIMATES

Miscellaneous receipts are estimated to be $3.7 billion for fiscal year 2012-13. Miscellaneous receipts are estimated to increase $563 million (17.8 percent) from 2011-

12 collections. The estimate includes: $763 million in fees, licenses, fines, royalties, and rents; $715 million in unclaimed and abandoned property; $509 million in receipts from the temporary utility assessment; $344 million payments from the Standard Chartered Bank Settlement; $272 million in reimbursements; $194 million in medical provider assessments; $171 million from Monroe County's Medicaid sales tax intercept payments; $150 million in payments from the Manhattan DA; $115 million in Bottle Bill proceeds; $112 million in additional bond issuance charges; $100 million in payments from the State of New York Mortgage Authority; $99 million in receipts from motor vehicle fees; $86 million from the supplemental wireless surcharge; $56 million in receipts from alcohol beverage control license fees; $15 million in payments from the New York Power Authority; $13 million in atypical fines and civil recoveries; $5 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); $4 million from the Housing Finance Agency; and $1 million from the New York State Energy Research and Development Agency.

2013-14 PROJECTIONS

Miscellaneous receipts are projected to be $3.1 billion in fiscal year 2013-14, a decrease of $623 million (16.7 percent) from 2012-13 estimates. The 2013-14 projection includes: $681 million in fees, licenses, fines, royalties, and rents; $650 million in unclaimed and abandoned property; $509 million in receipts from the temporary utility assessment; $272 million in reimbursements; $250 million in released State Insurance Fund reserves; $106 million in additional bond issuance charges; $100 million in Bottle Bill proceeds; $100 million in payments from the State of New York Mortgage Authority; $100 million in payments from the Manhattan DA; $86 million from the supplemental wireless surcharge; $81 million in medical provider assessments; $54 million in receipts from alcohol beverage control license fees; $26 million in receipts from motor vehicle fees; $25 million for certain health care revenues, pursuant to the proposed consolidation of operations from the DOH offset accounts to the General Fund as part of an ongoing effort to simplify the State accounting structure; $20 million in payments from the New York Power Authority; $17 million in atypical fines and civil recoveries; $16 million from the New York State Energy Research and Development Agency; $5 million in interest earnings on short-term investments and bank accounts (this amount is net of certain expenses incurred in providing banking services to various State agencies); and $4 million from the Housing Finance Agency.

MISCELLANEOUS RECEIPTS
SPECIAL REVENUE FUNDS

MISCELLANEOUS RECEIPTS - SPECIAL REVENUE FUNDS (millions of dollars)							
	FY 2012 Results	FY 2013 Estimated	Change	Percent Change	FY 2014 Projected	FY 2014 Change	Percent Change
State Fund	15,399	15,728	329	2.1	15,775	47	0.3
Federal Funds	166	186	20	12.0	186	0	0.0
All Funds	15,565	15,914	349	2.2	15,961	47	0.3

Miscellaneous receipts deposited to special revenue funds represent approximately 22 percent of total special revenue receipts, excluding transfers from other funds. These receipts include SUNY tuition and patient income, lottery and Video Lottery Terminal (VLT) 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 FY 2012 results through projected FY 2014.

MISCELLANEOUS RECEIPTS - SPECIAL REVENUE FUNDS (millions of dollars)			
		Estimated	
	FY 2012	FY 2013	FY 2014
HCRA	4,155	4,325	4,550
State University Income	3,828	4,041	4,239
Lottery and VLTs	2,975	3,238	3,292
Medicaid (non-HCRA)	827	794	785
Industry Assessments	772	756	784
Motor Vehicle Fees	496	482	481
All Other	2,512	2,278	1,830
Total	**15,565**	**15,914**	**15,961**

HCRA FINANCING

HCRA receipts include recurring surcharges and assessments on hospital revenues, physician procedures, a "covered lives" assessment paid by insurance carriers, a portion of cigarette tax revenues, and other revenues dedicated by statute, as well as proceeds from insurance company conversions. These resources help finance the State's Medicaid program, Family Health Plus, workforce recruitment and retention, the Elderly Pharmaceutical Insurance Coverage (EPIC) program, Child Health Plus (CHP), Graduate Medical Education, AIDS programs, disproportionate share payments to hospitals and other various public health initiatives. The FY 2006 Enacted Budget created a new HCRA Resources Fund to include all HCRA financed programs, including those that were previously excluded from the State's Financial Plan.

MEDICAID

In addition to the General Fund, State Medicaid costs are financed by various Special Revenue Funds which include the HCRA Resources Fund (described above) and the Provider Assessments Fund discussed in more detail below.

Provider Assessments

The Provider Assessments Fund is currently supported by a partially-reimbursable assessment of 9 percent on nursing home revenues and a 0.75 percent assessment on hospital and home care revenues.

STATE UNIVERSITY INCOME

The majority of special revenue receipts that support SUNY's operations are provided by tuition, patient revenue, and user fees. SUNY's three teaching hospitals at Brooklyn, Stony Brook and Syracuse, as well as the Long Island Veterans' Home, receive patient revenue from third-party payers including Medicare, Medicaid, insurance companies, and individuals. User fees, which include fees for food, parking, career placement and recreation, are generated from service users; including students, faculty, staff, and the public. Other receipts primarily include interest earnings and fringe benefit recoveries from SUNY's other special revenue accounts.

LOTTERY

Receipts from the sale of lottery tickets and proceeds from VLTs at racetracks are used to support public education, as well as administrative costs associated with Lottery operations. The State Lottery is discussed in detail in a separate section.

MOTOR VEHICLE FEES

Motor vehicle fees are imposed by the Vehicle and Traffic Law. In general, motor vehicles, motorcycles, trailers, semi-trailers, buses, and other types of vehicles operating in New York are required to be registered with the Department of Motor Vehicles. Numerous other fees, related to the processes of registration or licensing, are also components of motor vehicle fees. Examples are: fees for inspection and emission stickers; repair shop certificates; and insurance civil penalties. Motor Vehicle Fees are discussed in more detail is a separate section.

ALL OTHER

All Other
Components of Miscellaneous Receipts
(millions of dollars)

	Estimated	
	FY 2013	**FY 2014**
Health	129	86
Environmental Conservation	189	191
Tribal State Compact	129	133
State Police	165	122
HESC	112	99
Education	121	120
CUNY	107	108
Children and Family Services	163	150
Homeland Security	125	126
All Other	1,038	695
Total Miscellaneous Receipts	**2,278**	**1,830**

The remaining revenues in this category include fees, licenses, and assessments collected by State agencies, primarily to support all or specific components of their operations. Receipts from assessments primarily reflect reimbursements from regulated industries, which fund the administrative costs of State agencies charged with their oversight. State agencies funded entirely from assessments include the Department of Financial Regulation, the Public Service Commission, and the Workers' Compensation Board.

In addition to agency industry assessments, various fines and fees are collected to support agency operations and programs. The major sources of miscellaneous receipts by agency are detailed below.

- Health receipts include reimbursement for patient care provided at the Department's health care facilities, regulatory fees, audit recoveries, and registration, testing and certification fees for various public health services.

- Environmental Conservation fees include vehicle emission inspection fees and fees on regulated pollutants, sporting license fees, revenues from the sale of forest products, and recreational user fees.

- Tribal State Compact receipts consist of all revenues resulting from tribal state compacts executed pursuant to Executive Law.

- State Police miscellaneous revenue sources include seized assets, fees for accident reports and an annual fee on insurance policies of all registered motor vehicles.

- HESC receipts include administrative fees paid by the Federal government and collections on defaulted loans.

- Education miscellaneous revenue sources include professional licensing fees and disciplinary fines, teacher certification fees and filing fees on certain documents filed in county clerks' offices.

- CUNY miscellaneous receipts include income derived from excess tuition revenue and collections from self-supporting activities such as application fees, continuing education, and dormitory fees.

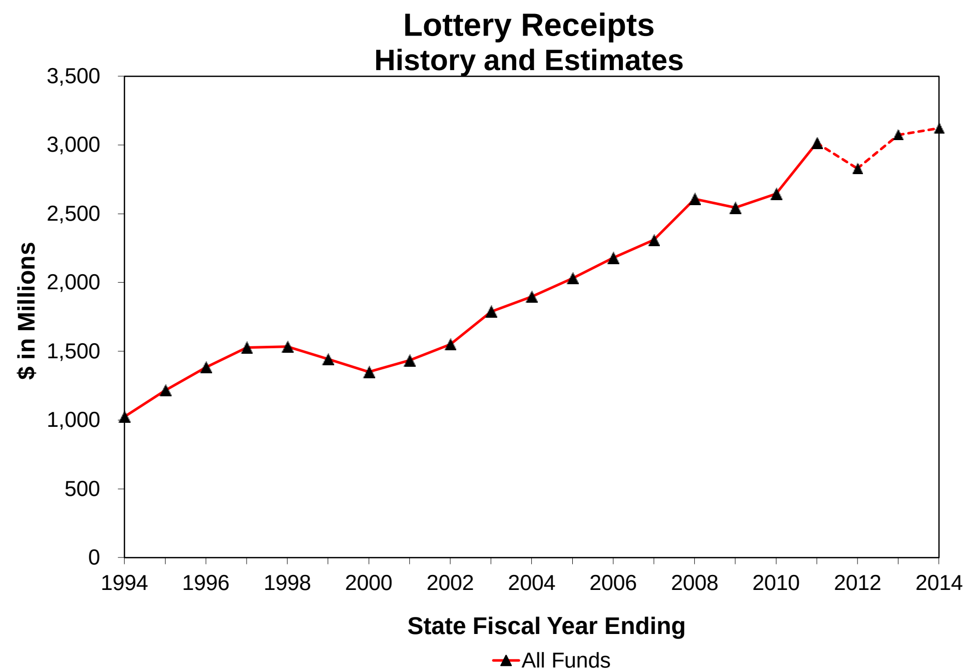
- Children and Family Services miscellaneous receipts primarily consist of reimbursements from social services districts for their youth in OCFS facilities made pursuant to Executive Law.

- Homeland Security and Emergency Services miscellaneous receipts consist of wireless telephone surcharge revenues collected by telephone companies pursuant to Tax Law.

LOTTERY

MISCELLANEOUS RECEIPTS - LOTTERY (millions of dollars)							
	2011-12 Actual	2012-13 Estimated	Change	Percent Change	2013-14 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	2,829.1	3,074.0	244.9	8.7	3,122.8	48.8	1.6
All Funds	2,829.1	3,074.0	244.9	8.7	3,122.8	48.8	1.6

Note: Totals may differ due to rounding.



LOTTERY RECEIPTS BY COMPONENT (millions of dollars)														
	Instant Games	Numbers	Win 4	Lotto	Pick 10	Take 5	Quick Draw	Mega Millions	Power Ball	Sweet Millions	Other*	VLTs	Admin. Surplus**	Total Receipts
2003-04	529.0	271.9	213.1	163.4	12.1	128.9	127.1	166.6			0.0	12.6	272.3	1,897.1
2004-05	550.0	278.5	220.0	137.5	11.8	121.3	118.0	156.3			0.0	141.2	296.0	2,030.7
2005-06	594.9	288.9	231.4	113.7	11.4	116.9	114.7	194.4			9.5	161.7	341.8	2,179.4
2006-07	664.2	298.8	245.6	95.9	11.1	114.1	110.8	160.6			11.9	269.7	326.5	2,309.2
2007-08	665.4	298.7	250.6	94.6	11.2	111.5	110.7	167.3			8.0	490.8	398.9	2,607.7
2008-09	690.8	296.8	257.7	79.5	11.2	114.7	105.7	164.4			3.8	434.9	384.5	2,544.0
2009-10	665.9	300.8	272.7	81.0	11.5	109.4	105.2	198.1	12.1	15.9	0.0	492.5	379.6	2,644.7
2010-11	636.6	297.8	270.8	59.5	10.6	98.8	105.3	162.3	70.4	20.1	0.0	906.6	376.0	3,014.8
2011-12	625.2	306.5	283.2	54.1	10.7	98.7	124.5	129.8	103.5	17.8	0.0	681.7	393.4	2,829.1
Estimated														
2012-13	647.0	299.0	278.0	49.0	10.0	94.0	139.0	130.0	153.0	16.0	0.0	862.0	397.0	3,074.0
2013-14														
Current Law	667.0	299.0	280.0	45.0	10.0	91.0	153.0	131.0	135.0	16.0	0.0	883.8	403.0	3,113.8
Proposed Law	667.0	299.0	280.0	45.0	10.0	91.0	162.0	131.0	135.0	16.0	0.0	880.8	406.0	3,122.8

** Other includes: King Kong (2005-06) and Raffle games (2006-07, 2007-08, 2008-09 and 2009-10).*

*** Any unused portion of Lottery's administrative allowance and other miscellaneous income used for aid to education.*

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Eliminate the remaining Quick Draw restriction; and

- Extend Monticello VLT rates for one year.

DESCRIPTION

As of February 1, 2013, the Gaming Commission, as an independent agency within the Executive Department, manages the operation and sales of the State's Lottery games (The Lottery). There are five types of games authorized:

- Instant games, sold as scratch-off tickets in which most prizes are won immediately (approximately 45 games are currently being offered for sale with prices ranging from $1 to $30);

- Lotto games, which are games offering large pari-mutuel top prizes, with drawings conducted 15 times weekly: seven 5-of-39 draws (Take-5), two 6-of-59 draws (Lotto), two 6-of-40 draws (Sweet Million), and four multi-jurisdictional drawings (Mega Millions and Powerball). For the Lotto, Mega Millions and Powerball games, the value of any top prize not won is added to the top prize in the subsequent drawing;

- Daily numbers games, which are fixed payout games with twice daily drawings where players select either a three-digit number (Daily Numbers), or a four-digit number (Win 4). Instant Win and Lucky Sum are offered as add-on games to Daily Numbers and Win 4;

- Keno-like games, which offer prizes that are of a fixed amount with drawings conducted either daily (Pick 10) or every few minutes (Quick Draw). The Lottery Division currently pays base top prizes of $500,000 in Pick 10 and $100,000 in Quick Draw; and

- Video lottery games, which are lottery games played on Video Lottery Terminals (VLTs), which are authorized only at selected thoroughbred and harness tracks.

The Lottery periodically offers short-run promotional lottery games. The latest were the Raffle to Riches game, 2006-07 and again in 2007-08, and the Turkey Raffle held in November 2008.

The table below shows the statutory distribution of lottery sales among prizes, revenue for education and the allowance for expenses related to administration of the games. Any unused administration revenue is earmarked for education.

DISTRIBUTION OF LOTTERY SALES (Percent)			
	Prizes	Education	Admin. Allowance
Lotto	40	45	15
Sweet Million	40	45	15
Mega Millions*	55	30	15
Power Ball*	55	30	15
Numbers	50	35	15
Win 4	50	35	15
Take 5	50	35	15
Pick 10	50	35	15
Quick Draw	60	25	15
Instant	65	20	15
Five Instant Games at 75%	75	10	15

* Mega Millions and Power Ball currently offer a 50% prize payout.

FREQUENCY OF LOTTERY DRAWINGS

Game	Date of Inception	Frequency of Drawings
Lotto	1976	Wednesday and Saturday at 11:21 PM
Numbers	1980	Twice Daily
Win 4	1981	Twice Daily
Pick 10	1988	Once Daily
Take 5	1992	Once Daily
Quick Draw	1995	Every four minutes
Mega Millions	2002	Tuesday and Friday at 11:00 PM
Sweet Million	2009	Monday and Thursday at 9:30 PM
Power Ball	2010	Wednesday and Saturday at 10:59 PM

The following table shows the current distributions of VLT receipts (after prizes) among revenue for education, administration, operator commission, and funds available for promotions and capital. Distributions to purses and breeders funds are made from the operator's commissions, and are not separately shown.

DISTRIBUTION OF VLT RECEIPTS AFTER PRIZES* IN 2013-14
(Percent)

Tracks with 1,100 or more machines (*Saratoga, Finger Lakes*)

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $62.5 million	45	10	31	10	4
More than $62.5 million up to $100 Million	49	10	31	10	0
Over $100 million	51	10	31	8	0

Tracks with less than 1,100 machines (*Batavia*)

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $50 million	41	10	35	10	4
More than $50 million to $62.5 million	48	10	28	10	4
More than $62.5 million up to $100 Million	52	10	28	10	0
More than $100 million up to $150 Million	54	10	28	8	0
Over $150 million	57	10	25	8	0

Tracks with a population less than 1 million within 40 mile radius (*Tioga*)

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $50 million	37	10	39	10	4
More than $50 million to $62.5 million	48	10	28	10	4
More than $62.5 million up to $100 Million	52	10	28	10	0
More than $100 million up to $150 Million	54	10	28	8	0
Over $150 million	57	10	25	8	0

Tracks within 15 miles of a Class III Native American Casino (*Vernon, Buffalo Fairgrounds*)

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $62.5 million	35	10	41	10	4
More than $62.5 million to $100 million	39	10	41	10	0
Over $100 million	41	10	41	8	0

Tracks Located in Sullivan County within 60 miles of Gaming Facility in a Contiguous State (*Monticello*)**

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $100 million	39	10	41	10	0
Over $100 million	41	10	41	8	0

Tracks with 1,100 or more machines located in Westchester County (*Yonkers*)

Net Machine Income	Education	Lottery Administration	Commission	Marketing	Capital
Up to $62.5 million	47	10	31	8	4
Over $62.5 million	51	10	31	8	0

Aqueduct Racetrack

	Education	Lottery Administration	Commission	Marketing	Racing Support Payment
All Net Machine Income	44	10	31	8	7

*Not less than 90 percent of sales must be used for prizes.
Net Machine Income is gross receipts minus prize payments. Free-play allowance amounts are excluded from the calculation of NMI.
** Based on legislation proposed in the Executive Budget extending for one year the current distribution for Monticello.

Administration

The Gaming Commission develops new lottery games, markets and advertises, distributes games, provides terminals and computer programming, regulatory oversight and otherwise performs all functions necessary to operate an effective State lottery. The Comptroller, pursuant to an appropriation, distributes all net receipts from the Lottery directly to school districts. This aid includes special allowances for textbooks for all school children and additional amounts for pupils in approved State-supported schools for the deaf and the blind.

The Lottery game vendor notifies sales agents of the State's share of sales proceeds by the Monday following the liability week. The agent has until Tuesday to deposit sufficient funds into a specified bank account, at which time the operations vendor sweeps the funds and transfers them to the Lottery by Wednesday morning. For

VLTs, the Commission sweeps the accounts daily. All gaming funds are transferred to the State on Wednesday.

History

In 1966, New York State voters approved a referendum authorizing a State Lottery, and ticket sales commenced under the auspices of the Lottery Commission. Under the original lottery legislation, a passive draw game was offered with 12 drawings a year, 30 percent of gross receipts earmarked to prizes, 55 percent to education, and the remaining 15 percent representing an upper limit on administrative expenses. Since its inception, numerous games have been introduced with varying prize payout schedules to make them attractive to the consumer. In 1973, the New York State Racing and Wagering Board took over operation of the Lottery from the Lottery Commission, but Lottery operations were subsequently shut down in 1975. The New York State Division of the Lottery was established in 1976, and assumed the operation of the State's Lottery. In 2012, the Division of the Lottery was merged with the Racing and Wagering Board to create the New York State Gaming Commission.

Significant Legislation

Significant lottery legislation enacted since 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 in1976		
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. Authorized a 40 percent prize payout for "Win 10" and other State-operated lottery games.	July 19, 1998

Subject	Description	Effective Date
Legislation Enacted in 1991		
Prize Payout	Increased the prize payout for instant games from 50 percent to 55 percent and lowered the minimum amount of revenue for education to 30 percent. Increased the prize payout for “Pick 10” from 40 percent to 50 percent and lowered the minimum amount of revenue for education to 35 percent.	June 12, 1991
Legislation Enacted in 1994		
Limit on Draws per Day	Required that the drawings for Pick 10, Take 5, and Lotto games were to be offered no more than once daily.	April 1, 1994
Unclaimed Prize Money	Limited the use of unclaimed prize money for the promotional supplementation of games other than Lotto by the Division to 16 weeks per year.	April 1, 1994
Annual Plan	Required the Division to submit an annual report to the Legislature, the Governor, and the Division of the Budget each year.	April 1, 1994
Legislation Enacted in 1995		
Quick Draw	Authorized Quick Draw.	April 1, 1995
	Authorized a 60 percent prize payout.	
	Limited drawings for the game to no more than 13 hours each day, of which only eight hours can be consecutive.	
	Required that if there is no license for the sale of alcohol for on premises consumption, then the premises have to be a minimum of 2,500 square feet.	
	Required that if there is a license to sell alcohol for on premises consumption, then at least 25 percent of the gross sales must be from sales of food.	
Legislation Enacted in 1999		
Instant Games	Authorized a 65 percent prize payout.	April 1, 1999
	Reduced the percent dedicated to education from 30 percent to 20 percent.	
Legislation Enacted in 2001		
Multi-jurisdictional	Allowed the Lottery Division to enter into agreements to conduct multi-jurisdictional lotto games with a 50 percent prize payout (Mega Millions).	October 29, 2001
Video Lottery Gaming	Allowed the Lottery Division to license video lottery gaming at selected New York State racetracks.	October 29, 2001
Legislation Enacted in 2002		
Instant Games	Authorized up to three 75 percent prize payout Instant ticket games to be offered during the fiscal year.	January 28, 2002
Legislation Enacted in 2003		
Quick Draw	Extended the operation of Quick Draw until May 31, 2004.	January 28, 2002
Video Lottery Gaming	Provided that of the total amount wagered on video lottery terminals, not less than 90 percent is paid out for prizes. Of the balance, the Lottery Division retained 10 percent for administration, 29 percent was paid to the racetracks as a commission, and 61 percent was dedicated to education. Of the commission paid to the tracks, the amount allocated to purses in years one through three was 25.9 percent; in years four and five, 26.7 percent; and in subsequent years, 34.5 percent. The Breeders’ funds received 4.3 percent of the commission paid to racetracks in the first through fifth years and 5.2 percent in the following years. The racetracks were allowed to enter into agreements, not to exceed five years, with the horsemen to reduce the percentage of the vendor fee allocated to purses. The program expires ten years after the start of the	May 2, 2003

Subject	Description	Effective Date
	program.	
Legislation Enacted in 2004		
Quick Draw	Extended the operation of Quick Draw until May 31, 2005.	August 20, 2004
Legislation Enacted in 2005		
Quick Draw	Extended the operation of Quick Draw until May 31, 2006.	April 12, 2005
Video Lottery Gaming	Provided a graduated vendor's fee that allows participating tracks to receive 32 percent of the first $50 million of revenue after prizes, 29 percent of the next $100 million, and 26 percent of net revenue over $150 million. In addition, a marketing allowance of 8 percent of the first $100 million in net revenue and 5 percent thereafter was established. The marketing allowance is limited to 4 percent of net revenue for tracks located in Westchester or Queens Counties. The expiration of the program was extended until December 31, 2017.	April 12, 2005
Legislation Enacted in 2006		
Quick Draw	Extended the operation of Quick Draw until May 31, 2007.	April 28, 2006
Legislation Enacted in2007		
Quick Draw	Extended the operation of Quick Draw until May 31, 2008.	May 31, 2007
Legislation Enacted in 2008		
Quick Draw	Extended the operation of Quick Draw until May 31, 2010.	April 23, 2008
Video Lottery Gaming	Revised the distribution of video lottery receipts to provide different commissions to tracks based on factors including: size of the facility; population surrounding the facility; and proximity to Native American and out-of-state casinos. In addition, tracks were provided a capital allowance for capital expenditures to enhance their facilities.	April 1, 2008
Video Lottery Gaming	Provided a commission rate of 75 percent to a facility located in Sullivan County that had made a capital investment of at least one billion dollars and has no fewer than 2,000 full-time permanent employees. However, the qualifying facility was required to provide a minimum contribution to education of $38 million plus an amount equal to the Lottery's administrative costs, not to exceed 7 percent of net machine income.	July 7, 2008
Legislation Enacted in 2009		
Multi-jurisdictional	Authorized the Lottery to enter more than one multi-jurisdictional lottery association.	April 7, 2009
Video Lottery Gaming	Reduced capital investment and employment requirements for a facility located in Sullivan County to qualify for a 75 percent commission rate.	August 11, 2009
Legislation Enacted in 2010		
Quick Draw	Made the Lottery's authorization to operate the Quick Draw lottery game permanent and removed the restrictions on the number of hours Quick Draw can be operated.	July 1, 2010
Video Lottery Gaming	Removed the sunset on the Video Lottery Gaming Program.	August 11, 2010
	Increased the hours that VLTs may be operated to 20 hours from 16 hours, but no later than 4 am.	
	Reduced the vendor commission by one percent of net machine income.	
Legislation Enacted in 2011		
Multi-jurisdictional	Increased the maximum prize payout from 50 to 55 percent of sales of multi-jurisdictional lottery games.	March 31, 2011
Instant Games	Increased the number of 75 percent prize payout Instant ticket games to be offered during the fiscal year from three to five.	March 31, 2011

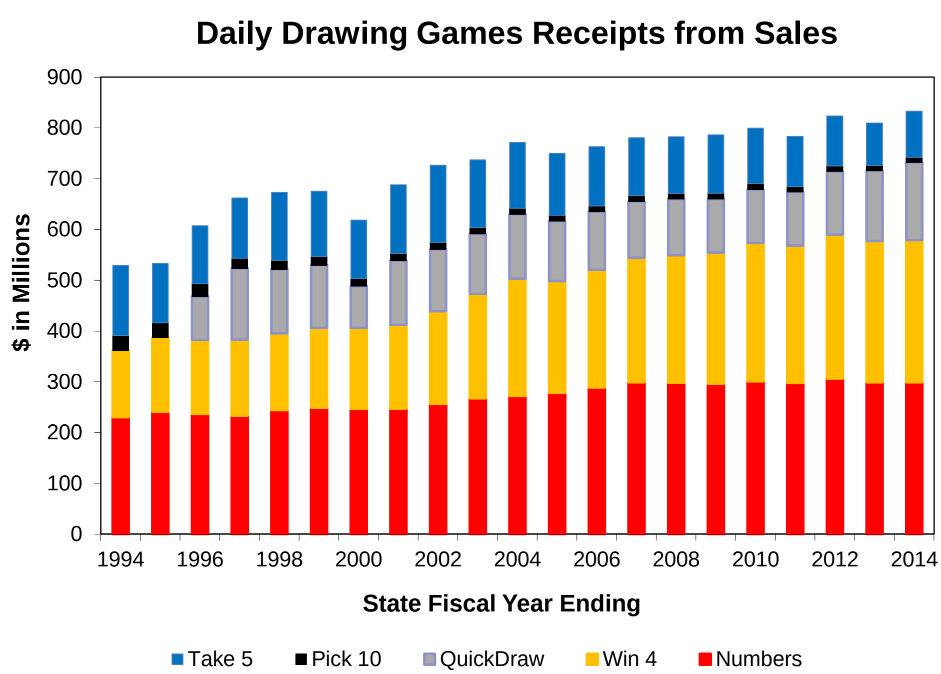
Subject	Description	Effective Date
Video Lottery Gaming	Authorized the Lottery to participate in Multi-Jurisdictional progressive video lottery games.	March 31, 2011
	Provided a free-play allowance that excluded free-play credits up to 10 percent of net machine income at each track from the calculation of NMI.	
Legislation Enacted in 2012		
Gaming Commission	Established the Gaming Commission by merging the Division of the Lottery and the Racing and Wagering Board.	February 1, 2013
Quick Draw	Eliminated the restriction requiring minimum food sales at locations that have a license for on-premises liquor consumption.	March 30, 2012

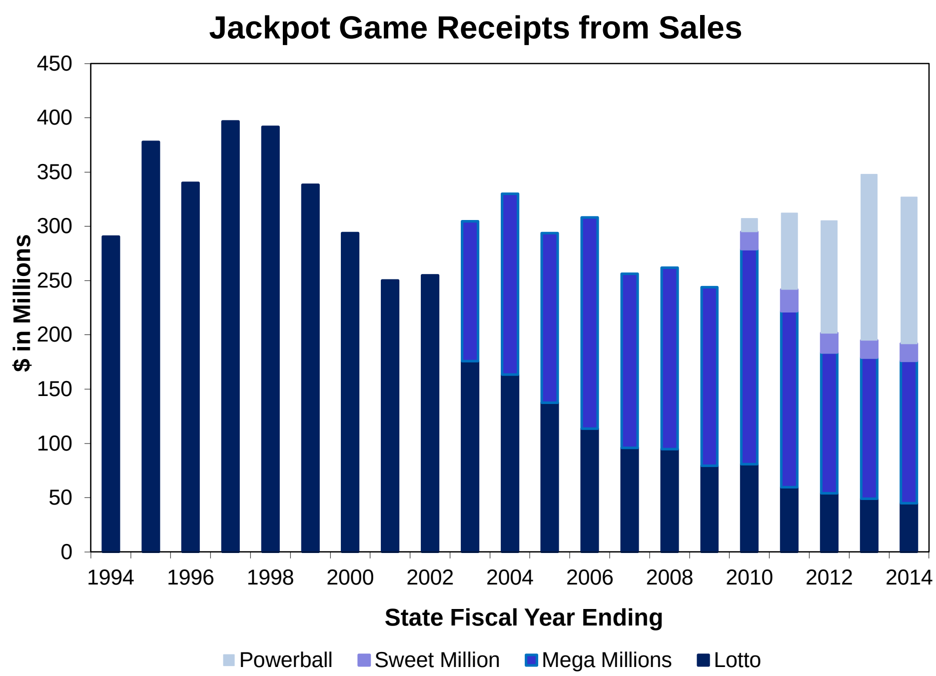
Lottery Demand

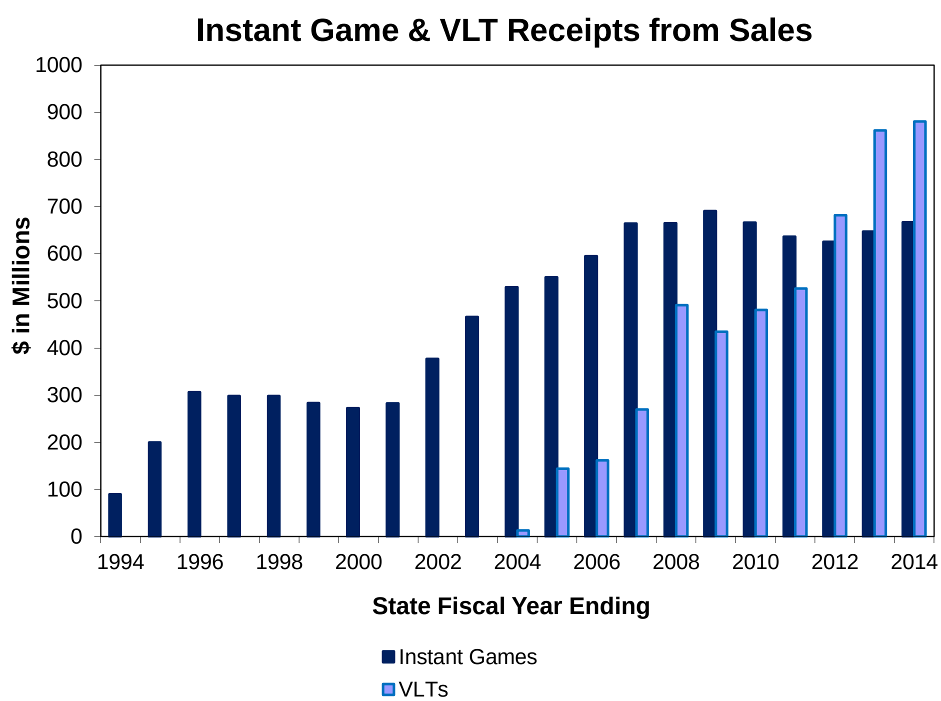
Factors that affect the demand for Lottery games include: the size of jackpots, the price of lottery tickets; the amount spent on advertising and marketing; the prize payout percentage; the development of new games that generate increased sales; the potential customers' attitudes towards Lottery games; and competition from other gambling venues.

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

The following graphs show the receipts history of the various games since 1994.




Jackpot Game Receipts from Sales
$ in Millions
450
400
350
300
250
200
150
100
50
0
1994
1996
1998
2000
2002
2004
2006
2008
2010
2012
2014
State Fiscal Year Ending
Powerball
Sweet Million
Mega Millions
Lotto


Instant Game & VLT Receipts from Sales
$ in Millions
1000
900
800
700
600
500
400
300
200
100
0
1994
1996
1998
2000
2002
2004
2006
2008
2010
2012
2014
State Fiscal Year Ending
Instant Games
VLTs

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2012-13 Estimates

All Funds receipts through December are $1,968.7 million, an increase of $232.8 million (13.4 percent) from the comparable period in the prior fiscal year.

All Funds 2012-13 receipts are estimated to be $3,074 million, an increase of $244.9 million (8.7 percent) from 2011-12. Unspent administrative allowances and miscellaneous income account for $397 million of receipts. A game-by-game profile follows.

Instant Games and Video Lottery Gaming

Year-to-date, sales of 65 percent prize-payout instant games have declined, while sales of 75 percent prize payout instant games have had strong grown. Revenue to support education from the sale of Instant Games is estimated to be $647 million, an increase of $21.8 million (3.5 percent) from 2011-12. Sales of 75 percent prize payout-games have been positively impacted by the full year impact of 2011 Enacted Budget Legislation authorizing two additional games annually. Sales of 65 percent prize payout-games continue to be negatively impacted by economic conditions and the introduction of additional 75 percent games.

VLT machines are currently in operation at Aqueduct, Saratoga, Finger Lakes, Monticello, Buffalo, Batavia, Tioga, Vernon, and Yonkers racetracks. Receipts from gaming operations at VLT facilities are estimated at $862 million for 2012-13, an increase of $180.3 million (26.4 percent) from the prior year. This increase reflects the first full year of operations at the Resorts World Casino at Aqueduct Racetrack (which began operations on October 28, 2011) and growth at other facilities, partially offset by lower revenue at Yonkers.

Jackpot Games

Mega Millions receipts from sales in 2012-13 are estimated to be $130 million, an increase of $0.2 million from 2011-12. After entering the fiscal year with a record jackpot roll-up of $656 million, Mega Millions has subsequently only rolled up over $100 million on two occasions, neither one rising above $120 million. This relatively low number of roll-ups has offset higher receipts from the $656 million jackpot and resulted in flat growth for the year.

In January 2012, the Multi-State Lottery Association (MUSL) implemented changes to the Powerball game which included increasing the price from $1 to $2. These changes have resulted in increased revenue from sales as a result of both the higher price and from increased jackpot levels. To date, the Powerball jackpot has rolled-up to over $200 million on four occasions, including a $587 million jackpot. Powerball receipts from sales are estimated to increase by $49.5 million (47.8 percent) to $153 million in 2012-13.

Trend declines in sales of Lotto and Sweet Million continued in 2012-13 as customers migrated to the higher jackpots offered by Mega Millions and Powerball. Sales of Lotto are estimated to decline by 9.4 percent, while Sweet Millions sales are projected to drop by 10.1 percent.

Daily Drawing Games

Quick Draw is estimated to generate $139 million in receipts from sales, an increase of $14.5 million (11.6 percent). The continued impact of 2011 legislation that extended hours of play combined with 2012 legislation that removed the food sales requirement for establishments with a liquor license for on-premises consumption, has resulted in strong growth in the game.

Sales of Numbers and Win 4 have been negatively impacted by customers shifting play away from these games and into Quick Draw. For the entire fiscal year, receipts from sales of Numbers and Win 4 are estimated to decrease by $7.5 million (2.4 percent) and $5.2 million (1.8 percent) respectively.

2013-14 Projections

All Funds 2013-14 receipts are projected to be $3,122.8 million, an increase of $48.8 million (1.6 percent) from 2012-13 under proposed law. Unspent administrative allowances and miscellaneous income account for $406 million of receipts. Under current law, All Funds 2013-14 receipts are projected to be $3,113.8 million, an increase of $39.8 million (1.3 percent) from 2012-13.

Instant Games and Video Lottery Gaming

Receipts from Instant Games sales are projected to increase by $20 million (3.1 percent) to $667 million. Improving economic conditions, combined with better retailer support through Lottery's workforce plan, are expected to result in the growth in both 65 percent and 75 percent games.

Under current law, receipts from the State's VLT operations are projected to total $883.8 million in 2013-14, an increase of $21.8 million (2.5 percent). All facilities are expected to experience modest net machine income growth during 2013-14, particularly at Aqueduct due to the second full year of operations at the Resorts World Casino. Legislation proposed in this Budget extending Monticello's current commission rate would reduce revenue to support education by $3 million.

Jackpot Games

Receipts for education from Powerball are projected to decrease by $18 million (11.8 percent), reflecting the loss of sales from the $587 million jackpot achieved in

2012. Sales of Mega Millions are expected to remain flat due to an expected return to a historical roll-up pattern.

Daily Drawing Games

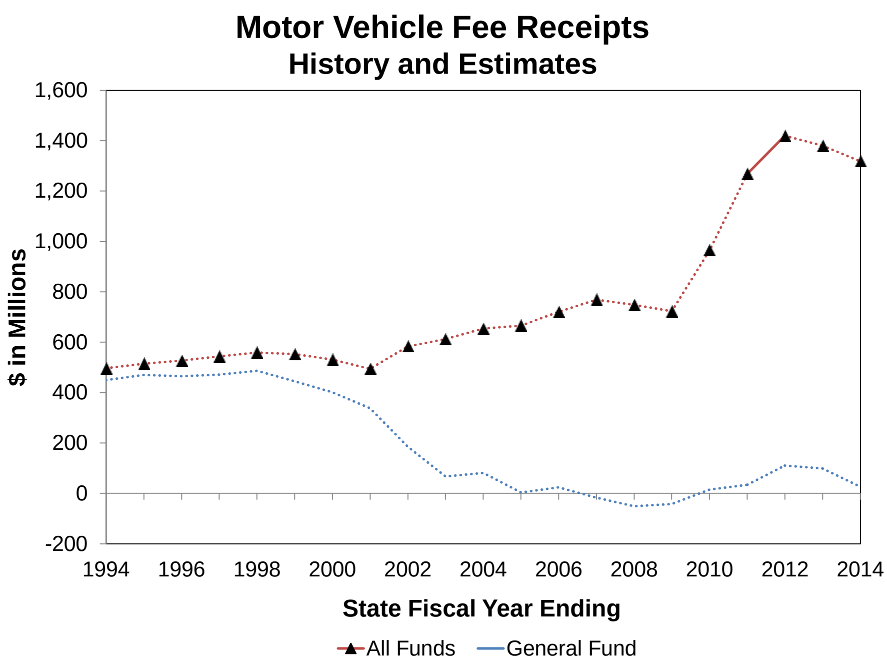
Sales of Numbers is projected to be flat while Win 4 is projected to increase by $2 million (0.7 percent) as continued competition from the expansion Quick Draw is offset by the impact of improved retailer support. Take 5 sales are estimated to decline by $3 million (3.2 percent).

Under current law, receipts from Quick Draw are projected to increase by $14 million (10.1 percent) as a result of the full year impact of 2012 legislation removing the food sales requirement for establishments with a liquor license for on-premises consumption and improved retailer support. Legislation proposed in this Budget removing the space restriction on retailers offering the Quick Draw game is projected to generate an additional $9 in revenue from sales and an additional $3 million in administrative surplus.

MOTOR VEHICLE FEES

MOTOR VEHICLE FEES (millions of dollars)							
	2011-12 Actual	2012-13 Estimated	Change	Percent Change	2013-14 Projected	Change	Percent Change
General Fund	110.8	99.0	-11.8	-10.6%	26.3	-72.7	-73.4%
Capital Funds	811.6	799.0	-12.6	-1.6%	811.0	12.0	1.5%
SR Funds	496.3	482.0	-14.3	-2.9%	481.0	-1.0	-0.2%
All Funds	1,418.7	1,380.0	-38.7	-2.7%	1,318.3	-61.7	-4.5%

Note: Totals may differ due to rounding.



MOTOR VEHICLE FEES BY FUND (millions of dollars)								
	Gross General Fund	Refunds	General Fund	Special Revenue Funds[1]	Capital Projects Funds	Refunds	Capital Projects Funds[2]	All Fund Receipts
2003-04	87	5	82	105	484	16	468	655
2004-05	9	5	4	138	542	16	526	668
2005-06	30	6	24	201	511	17	494	719
2006-07	-12	5	-17	229	573	16	557	769
2007-08	-46	5	-51	230	585	16	569	748
2008-09	-37	5	-42	218	562	16	546	722
2009-10	20	5	15	322	643	15	628	965
2010-11	39	5	34	422	830	17	813	1,269
2011-12	116	5	111	496	837	25	812	1,419
Estimated								
2012-13	104	5	99	482	824	25	799	1,380
2013-14								
Current Law	31	5	26	481	836	25	811	1,318
Proposed Law	31	5	26	481	824	25	811	1,318

[1] Dedicated Mass Transportation Trust Fund (DMTTF), the MTA Aid Trust Account and other SR Accounts.
[2] Dedicated Highway and Bridge Trust Fund (DHBTF).

PROPOSED LEGISLATION

No new legislation is proposed in this Budget.

DESCRIPTION

Fee Base

Motor vehicle fees are imposed by the Vehicle and Traffic Law. In general, motor vehicles, motorcycles, trailers, semi-trailers, buses, and other types of vehicles operating in New York are required to be registered with the Department of Motor Vehicles. In 2011, 10.7 million vehicles were registered in New York State, including 808,806 commercial vehicles. The Vehicle and Traffic Law also requires drivers to be licensed by the Department of Motor Vehicles. The current license renewal period is eight years. In 2011, New York State had 11.2 million licensed drivers. Numerous other fees, related to the processes of registration or licensing, are also components of motor vehicle fees. Examples are: fees for inspection and emission stickers; repair shop certificates; and insurance civil penalties.

Fee Schedules

Most vehicle registration fees in New York are based on weight. Two important exceptions are buses, which are charged according to seating capacity, and semi-trailers, which are charged a flat fee. Registration fees for vehicles weighing less than 18,000 pounds are imposed biennially. The main registration fees are as follows:

MAIN REGISTRATION FEES

Type of Vehicle	Weight of Vehicle	Annual Fee* (dollars)
Passenger vehicle	Each 100 lbs. or major fraction thereof up to 3,500 lbs.	0.81
	Plus: for each 100 lbs. or major fraction thereof above 3,500 lbs.	1.21
Passenger vehicle - minimum fee		12.94
Passenger vehicle - maximum fee		70.08
Passenger vehicle propelled by electricity		16.18
Auto truck and light delivery vehicle	Each 500 lbs. maximum gross weight or fraction thereof	3.60
Tractors (registered separately from semi-trailers	Each 100 lbs. maximum gross weight or fraction thereof	1.51
Trailers	Each 500 lbs. maximum gross weight or fraction thereof	5.39
Semi-trailers - pre-1989 model year		28.75 per year
Semi-trailers - model year 1989 or later		28.75 per year or 86.25 for a period of 5.5 to 6.5 years
Bus - seating capacity 15 to 20 passengers		74.75

*This does not include the $25 supplemental fee imposed on registrations in the Metropolitan Commuter Transportation District (MCTD).

The main licensing fees are listed below:

MAIN DRIVER LICENSING FEES	
Type of License	Fee* (dollars)
Photo Fee	12.50
Original/Renewal	
• A, B, CDL, or C (Commercial	9.50 - for each six months
• Non CDL/C or E	6.25 - for each six months
• D (Passenger)	3.25 - for each six months
• M (Motorcycle)	3.75 - for each six months

*This does not include the $1 supplemental fee per six months imposed on licenses in the MCTD.

Administration

Registration and licensing occur in person or by mail at the central and district offices of the Department of Motor Vehicles, and county clerks' offices in most counties. Many transactions can also be completed via the Internet. County clerks receive 12.7 percent of gross receipts as compensation. This totaled $46.6 million in 2011-12.

Fee Exemptions

Certain vehicles registered in New York are exempt from registration fees. The exemptions include: vehicles owned by the State or municipalities; passenger vehicles owned by consular offices; and vehicles owned and used for the transportation of animals by societies for the prevention of cruelty to animals. Vehicles owned by nonresidents and registered with a political jurisdiction outside the State are not usually required to be registered in New York. The revenue loss from these exemptions is minimal.

Significant Legislation

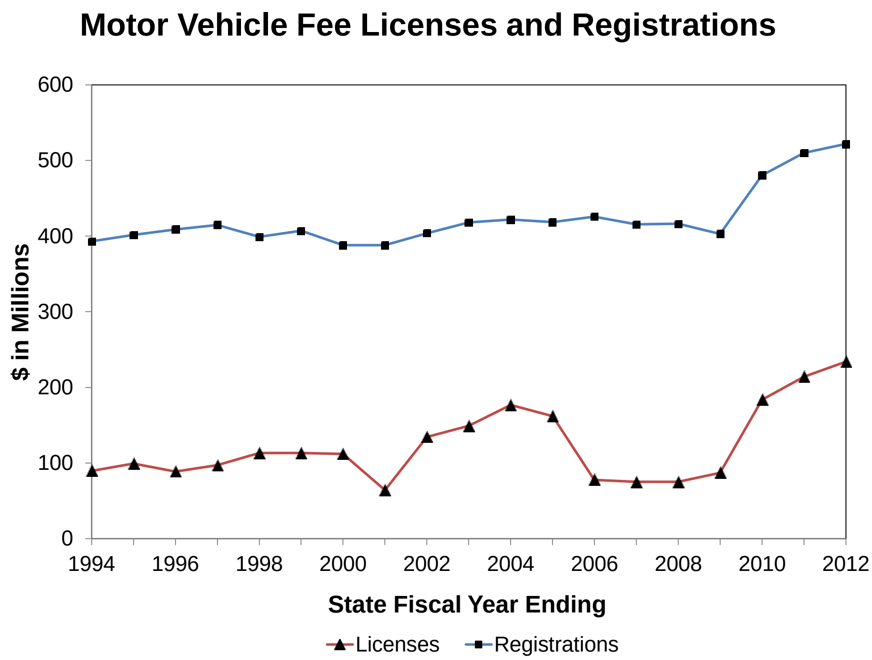
Significant statutory changes to motor vehicle fees since 1989 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1989		
Registrations	Biennialization of registration for vehicles weighing less than 18,000 pounds.	June 16, 1989
Legislation Enacted in 1996		
Licenses	License renewal period extended to five years.	April 1, 1996
Legislation Enacted in 1997		
Licenses	Original license period extended to five years.	September 1, 1997
Motorcycles	Added $2.50 to annual fee for registration and $0.50 for each six months to license or permit and earmarked both to the Motorcycle Safety Fund.	January 1, 1998
Administrative Changes in 1997		
Photo Image Fee	Photo image fee increased to $3.	April 1, 1997
Legislation Enacted in 1998		
Registration Fees	Fees on passenger vehicle registration reduced 25 percent.	July 1, 1998

MOTOR VEHICLE FEES

Subject	Description	Effective Date
Administrative Changes in 2000		
License Plates	Reissuance (January 2001-January 2003).	January 1, 2001
Licenses	License renewal period extended to eight years.	April 1, 2000
Administrative Changes in 2003		
Photo Image Fee	Increase photo image fee to $5.00.	February 1, 2003
Legislation Enacted in 2005		
Title Fees	Raised title fees from $10 to $20 and $30.	October 1, 2005
Insurance Buyback	Expanded the insurance buyback program.	October 1, 2005
Dealer Registration	Raised dealer/transporter registration fees by 50 percent.	October 1, 2005
Temporary Registration	Raised dealer issued temporary registration fees from $2 to $5.	October 1, 2005
Salvaged Vehicle Inspection	Raised salvaged vehicle inspections fees from $100 to $150.	October 1, 2005
Legislation Enacted in 2008		
Enhanced License	Western Hemisphere Travel Initiative (WHTI) licenses made available for an additional $30	June 1, 2008
Legislation Enacted in 2009		
Registration Fee	Increased most registration fees by 25 percent.	September 1, 2009
License Fee	Increase licenses fees and the photo fee by 25 percent.	September 1, 2009
Supplemental Fee	Imposed a supplemental fee of $25 on registrations and $1 per six months on licenses in the MCTD.	September 1, 2009
License Plates	Increased the fee for license plate issuance from $15 to $25.	April 1, 2010
Legislation Enacted in 2011		
General Fund	Included fines and assessments in the definition of General Fund receipts.	April 1, 2011

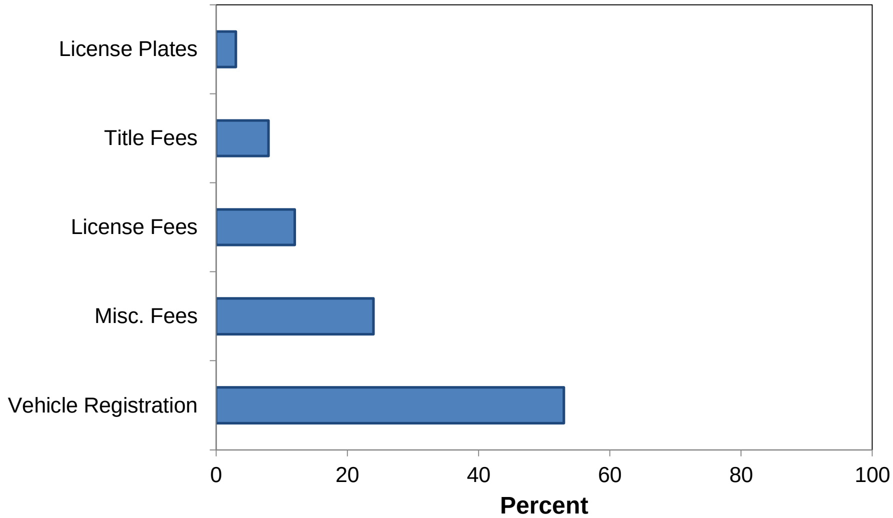
FEE LIABILITY



Vehicle registration and driver licensing fee totals are a function of fee schedules, the number of licensed drivers and registered vehicles, and the number of years between license and vehicle registration renewals. Historically, these motor vehicle fees have fluctuated little as a result of economic conditions. In general, collections change when fee or renewal schedules change.

The number of registrations has remained relatively flat year to year. The increase in registration fee receipts in the last three years is due to the 25 percent fee increase and the supplemental MCTD motor vehicle fees imposed in 2009. Effective in 2000, license renewals follow an eight-year renewal pattern and are currently at the peak of the license renewal cycle.

Motor Vehicle Fees Receipts by Source
SFY 2011-12



RECEIPTS: ESTIMATES AND PROJECTIONS

Motor Vehicle Fee (MVF) Receipts are reported as a sub category of Miscellaneous Receipts by the Office of the State Comptroller (OSC). However, OSC reports some MVF receipts in various other sub categories (e.g., fines and penalties) in Miscellaneous Receipts. The Division of the Budget began categorizing all DMV collected fees as motor vehicle fees with regard to the State's Financial Plan. Therefore, the DOB MVF estimate and actual receipts will be higher than reported by OSC, and other Miscellaneous Receipts categories will be lower by an off-setting amount.

All Funds

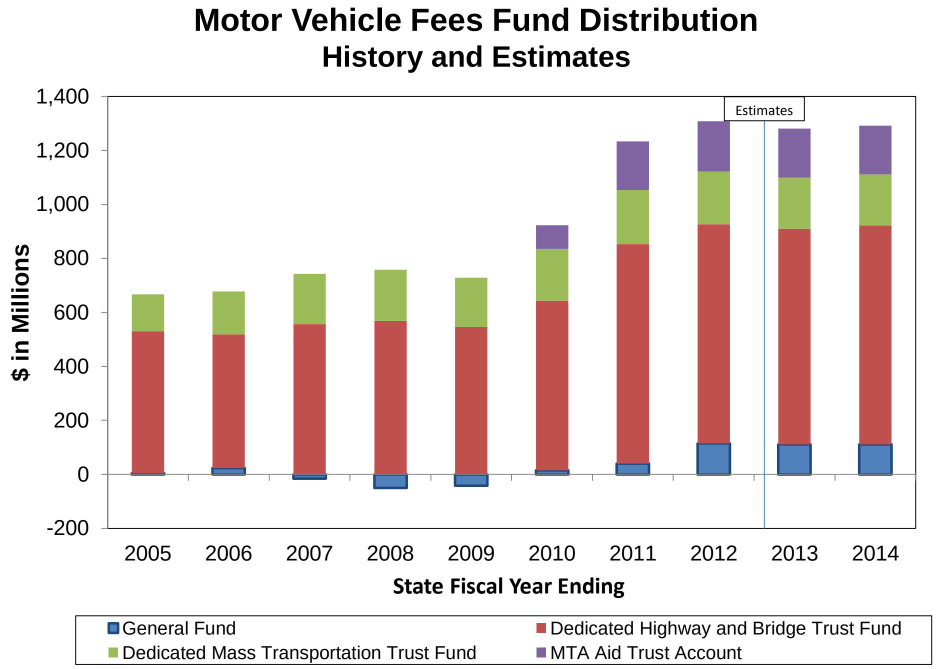
2012-13 Estimates

All Funds receipts through December are $1,012.5 million, a decrease of $55.6 million (5.2 percent) from the comparable period in the prior fiscal year.

All Funds 2012-13 receipts are estimated to be $1,380 million, a decrease of $38.7 million (2.7 percent) from 2011-12. The decrease reflects a decline in the General Fund of roughly $12 million due to lower license renewals after the cycle peak in 2011-12.

2013-14 Projections

All Funds 2013-14 receipts are projected to be $1,318 million, a decrease of $61.7 million (4.5 percent) from 2012-13. This decrease is due mainly to the non-uniform distribution in the eight-year cycle of license renewals.



General Fund

Current law requires an annual transfer of $169.4 million from the General Fund to the Dedicated Funds. If less than $169.4 million is collected in General Fund motor vehicle fees in any given year, other General Fund receipts must be substituted to meet the $169.4 million transfer requirement. If more than $169.4 million is collected in General Fund motor vehicle fees in any given year, the amount collected in excess of $169.4 million remains in the General Fund. The General Fund in 2012-13 and 2013-14 is estimated to receive $99 million and $26.3 million, respectively.

Other Funds

Since April 1, 1993, a percentage of registration fees have been deposited in the Dedicated Highway and Bridge Trust Fund (DHBTF). The percentage dedicated to the fund has been adjusted several times.

Revenues from the 25 percent registration and license fee increase, effective September 1, 2009, are directed solely to the DHBTF. The balance of registration and license fees are dedicated as follows: 80 percent to the DHBTF and 20 percent to the Dedicated Mass Transportation Trust Fund (DMTTF).

Legislation in 2009 dedicated all receipts from the supplemental fee on registrations and licenses to the MTA Aid Trust Account of the MTA Special Assistance Fund.

In 2012-13, the DHBTF will receive an estimated $799 million and the DMTTF will receive an estimated $190 million. The MTA Aid Trust Account is estimated to receive $181 million. Various other dedicated funds (Special Revenue Other) will receive a portion of the remaining $111 million, which now includes all DMV receipts as motor vehicle fees.

In 2013-14, the DHBTF will receive a projected $811 million and the DMTTF will receive a projected $189 million. The MTA Aid Trust Account is projected to receive $181 million. Various other dedicated funds (Special Revenue Other) will receive a portion of the remaining $111 million.

MISCELLANEOUS RECEIPTS CAPITAL PROJECTS FUNDS

MISCELLANEOUS RECEIPTS - CAPITAL PROJECTS FUNDS (millions of dollars)							
	2011-12 Actual	2012-13 Estimated	Change	Percent Change	2013-14 Projected	Change	Percent Change
State Funds	4,153	4,366	214	5.2%	4,301	(66)	-1.5%
Federal Funds	2,110	2,190	80	3.8%	2,216	26	1.2%
All Funds	6,262	6,556	294	4.7%	6,517	(39)	-0.6%

Note: Totals may differ due to rounding.

MISCELLANEOUS RECEIPTS - CAPITAL PROJECTS FUNDS (State Funds) (millions of dollars)			
	2011-12	2012-13	2013-14
Authority Bond Proceeds			
Transportation	1,007	1,290	1,165
Public Protection	201	256	333
Health and Social Welfare	207	219	152
Education	1,720	1,916	1,742
Mental Hygiene	271	563	561
Economic Development/ Government Oversight	1,097	635	826
General Government	3	14	45
Other	121	305	346
State Park Fees	22	24	24
Environmental Revenues	52	28	47
All Other	843	874	586
Total	5,543	6,123	5,826
Accounting Adjustment	(1,391)	(1,757)	(1,525)
Financial Plan Total	4,153	4,366	4,301

Miscellaneous receipts in the Capital Projects Fund type include reimbursements from the proceeds of bonds sold by public authorities, fees, and other sources of revenue dedicated to specific capital projects funds, primarily for environmental or transportation capital purposes. The Miscellaneous Receipts table reflects an accounting adjustment for spending made directly from bonds sold by public authorities for State projects. This capital activity, commonly referred to as "Off-Budget Spending," is not reflected in the Comptroller's accounting system, but is included in the Five-Year Capital Program and Financial Plan estimates and projections. Although Federal Funds are included in the first table, in order to provide a more complete picture of non-tax receipts, a fuller discussion of Federal Funds is included in a separate section.

State Funds receipts finance two types of capital spending. Authority bond proceeds are used for spending financed with Authority Bonds, while Other Miscellaneous Receipts (Parks, Environmental, and Other receipts) finance State Pay-As-You-Go spending. Federal Funds receipts (Federal Grants) finance Federal Pay-As-You-Go spending.

REIMBURSEMENT FROM AUTHORITY BOND PROCEEDS

Pursuant to statutory authorizations, State agencies enter into contractual arrangements with public authorities to provide for the financing of State capital projects. Such contractual arrangements for financing capital project spending exist with the Empire State Development Corporation, the Dormitory Authority of the State of New York, the Environmental Facilities Corporation, the New York State Housing Finance Authority, and the New York State Thruway Authority. Currently, the primary functional areas for which authority bond proceeds finance capital projects spending are transportation, higher education, and economic development. After the State makes payments directly from appropriations for project costs, it is reimbursed by the public authority from the proceeds of bonds sold previously, except for the" Off-Budget Spending" mentioned previously. The amount of reimbursements received annually reflects the level of bondable capital spending in that year and may fluctuate depending upon when the spending occurs and the timing of related bond sales. As bondable spending fluctuates to reflect the progress of capital programs across all areas, so do the bond receipts received as reimbursements.

STATE PARKS, ENVIRONMENTAL, AND OTHER REVENUES

The following miscellaneous receipts do not include reimbursements from authority bond proceeds.

State Parks user fees and related revenues are deposited into the State Parks Infrastructure Fund and the Miscellaneous Capital Projects Fund. These revenues, which are projected at $24 million in 2012-13 and $24 million in 2013-14, will be used to finance improvements at various facilities across the State's park system.

Other miscellaneous environmental revenues include receipts primarily from the sale of surplus State lands, the leases of coastal State property, and the sale of environmental license plates. These are deposited into the Environmental Protection Fund. Other environmental revenues from settlements with individuals and other parties who are liable for damage caused to State environmental properties are deposited in the Natural Resource Damages Fund.

Other moneys and fees are received in the various Capital Projects Funds to support capital programs at State facilities. Finally, certain receipts reimburse the State for capital spending on behalf of municipalities, public authorities, and private corporations, primarily for transportation and environmental projects. A major portion of these receipts reflect repayments pursuant to previously negotiated agreements.

MISCELLANEOUS RECEIPTS
DEBT SERVICE FUNDS

MISCELLANEOUS RECEIPTS - DEBT SERVICE FUNDS
(millions of dollars)

	2011-12 Actual	2012-13 Estimated	Change	Percent Change	2013-14 Projected	Change	Percent Change
General Fund	0	0	0	0	0	0	0
Other Funds	955	996	41	4.3	517	-479	(48.1)
All Funds	955	996	41	4.3	517	-479	(48.1)

Note: Totals may differ due to rounding.

MISCELLANEOUS RECEIPTS - DEBT SERVICE FUNDS
(millions of dollars)

	2011-12	2012-13	2013-14
Mental Hygiene Patient Receipts	334	352	379
SUNY Dormitory Fees	490	505	0
Health Patient Receipts	121	128	128
All Other	10	11	10
Total	955	996	517

Miscellaneous receipts in the Debt Service fund type include patient revenues, rental fees, medical insurance payments, interest income on investments, and other revenues. These revenues are typically first dedicated for the payment of lease-purchase agreements, contractual obligations, and debt service. These revenues have supported about 17 percent of the State's debt service payments and have been pledged as security for bonds issued for Mental Hygiene facilities, Department of Health facilities and the State University of New York (SUNY) dormitories. In addition, the revenues are used by the State to pay debt service on general obligation housing bonds. After such requirements are satisfied, the balance of most miscellaneous receipts, together with other receipts and transfers, flow back to the General Fund or to Special Revenue funds to offset the cost of State operations.

MENTAL HYGIENE PATIENT RECEIPTS

Payments from patients and various third-party payers, including Medicare and insurance companies, for services provided by the mental hygiene agencies are deposited in the Mental Health Services Fund as miscellaneous receipts. The revenues received are used to make lease-purchase payments to the Dormitory Authority of the State of New York (DASNY) for debt service on mental health services bonds. Additionally, portions of State and local assistance and Federal Medicaid payments to not-for-profit community facilities are earmarked to pay their share of debt service. These are also deposited as miscellaneous receipts in the Mental Health Services Fund. DASNY makes loans to eligible not-for-profit agencies providing mental health services and, in return, the voluntary agencies make rental payments equal to the amount of debt service on bonds issued to finance their projects.

DORMITORY FEES

Miscellaneous receipts in the SUNY Dormitory Fund are composed primarily of fees charged to SUNY students for dormitory room rentals and other associated fees. The receipts of the Fund are pledged for debt service on bonds issued by DASNY for the construction and rehabilitation of SUNY dormitories. These payments are made pursuant to a lease-purchase agreement. Consistent with legislation proposed in the Executive Budget, starting in 2013-14 these receipts will be deposited directly to a DASNY-held fund under a new bonding structure.

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 $44.1 billion in FY 2013 and $49.4 billion in FY 2014. These revenues represent approximately one-third of total receipts in governmental funds, excluding general obligation bond proceeds, and are deposited into the General Fund, Special Revenue, Capital Projects and the Debt Service fund types.

GENERAL FUND

Federal grants are deposited into the General Fund only in limited instances. The Federal subsidiary payment related to Medicare Part D is the main Federal grant in the General Fund.

SPECIAL REVENUE FUNDS

Federal grants account for nearly two-thirds of all special revenue receipts and are used to support a wide range of programs at the State and local government level. Medicaid is the single largest program supported by Federal funds, and helps finance health care, medical supplies, and professional services for eligible persons. The State receives funds from the Federal government to make payments to providers for both State-operated and non-State-operated facilities. The State-operated category includes facilities of the Offices of Mental Health and Mental Retardation and Developmental Disabilities. These facilities receive Medicaid funds for the delivery of eligible services to patients.

Other Federal grants in the Special Revenue Funds support programs administered primarily by the departments of Education, Family Assistance, Health, and Labor. These programs include Welfare, Foster Care, Food and Nutrition Services, and Supplementary Educational Services.

CAPITAL PROJECTS FUNDS

Federal grants in the Capital Projects fund type finance transportation planning, engineering, and construction projects. Federal grants also support local wastewater treatment projects financed through the State's Revolving Loan Fund. Other Federal grants are for the rehabilitation of State armories, eligible housing programs, and other environmental purposes.

DEBT SERVICE FUNDS

Federal grants in the Debt Service fund type reflect interest subsidies received on Build America Bonds (BABs), pursuant to a financing option provided to the State through the American Recovery and Reinvestment Act (ARRA).

FEDERAL GRANTS BY FUND
(millions of dollars)

	General Fund	Special Revenue Funds			Total Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total All Funds
		Medicaid	Welfare	All Other				
FY 2003	6	17,297	2,542	11,847	31,686	1,567	0	33,259
FY 2004	654	21,435	2,018	11,668	35,121	1,548	0	37,323
FY 2005	9	22,666	1,998	9,828	34,492	1,721	0	36,222
FY 2006	0	21,524	2,097	9,741	33,362	1,767	0	35,129
FY 2007	151	22,906	2,243	8,540	33,689	1,738	0	35,578
FY 2008	69	22,417	2,184	8,494	33,095	1,745	0	34,909
FY 2009	45	24,844	2,597	9,466	36,907	1,882	0	38,834
FY 2010	71	30,054	2,721	10,605	43,380	2,061	13	45,525
FY 2011	55	31,423	2,674	12,596	46,693	2,499	57	49,304
FY 2012	60	28,195	2,520	11,640	42,355	2,115	80	44,610
Estimated								
FY 2013	60	27,175	2,577	12,045	41,797	2,195	79	44,131
FY 2014	2	29,104	2,577	15,375	47,056	2,221	79	49,358

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 2011-12 and estimated to be deposited in 2012-13 to 2016-17. The estimates reflect Executive Budget recommendations.

DEDICATED FUND TAX RECEIPTS

DEDICATED FUND TAX AND FEE RECEIPTS ($ in millions)	2011-12 Actual	2012-13 Estimated	2013-14 Recommended
SPECIAL REVENUE FUNDS			
School Tax Relief Fund (STAR)			
Personal Income Tax	3,233	3,276	3,419
Dedicated Mass Transportation Trust Fund	659	660	683
Petroleum Business Tax	359	367	388
Motor Fuel Tax	105	103	105
Motor Vehicle Fees	195	190	190
Metropolitan Transportation Authority Financial Assistance Fund	1,688	1,468	1,539
MCTD Payroll Tax	1,376	1,160	1,219
Motor Vehicle Fees	186	181	181
Auto Rental Tax	39	41	43
Taxicab Surcharge	87	86	96
Mass Trans. Operating Assistance Fund	1,883	1,893	1,951
Corporate Surcharges			
Corporation Franchise Tax	452	376	429
Corporation and Utilities Tax	114	115	110
Insurance Tax	157	157	167
Bank Tax	229	301	252
Other			
Sales and Use Tax	749	755	797
Petroleum Business Tax	129	134	142
Transmission Tax	53	55	54
HCRA Resources Fund	1,162	1,113	1,094
Cigarette Tax	1,162	1,113	1,094
Other Special Revenue Funds			
Motor Vehicle Fees	115	111	111
Total Tax Receipts: Special Revenue Funds-Other	8,740	8,521	8,797
DEBT SERVICE FUNDS			
Revenue Bond Tax Fund			
Personal Income Tax	9,692	9,976	10,630
Clean Water/Clean Air Fund			
Real Estate Transfer Tax	491	566	586
Local Government Assistance Tax Fund			
Sales and Use Tax	2,780	2,809	2,934
Total Tax Receipts: Debt Service Funds	12,963	13,351	14,150
CAPITAL PROJECTS FUNDS			
Dedicated Highway and Bridge Trust Fund	2,030	2,033	2,091
Petroleum Business Taxes	612	624	660
Motor Fuel Tax	396	387	395
Motor Vehicle Fees	812	799	811
Highway Use Tax	132	141	140
Transmission Tax	13	14	14
Auto Rental Tax	65	68	71
Environmental Protection Fund			
Real Estate Transfer Tax	119	119	119
Total Tax Receipts: Capital Projects Funds	2,149	2,152	2,210
Total Tax Receipts: Other Funds	**23,852**	**24,024**	**25,157**

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

DEDICATED FUND TAX AND FEE RECEIPTS ($ in millions)	2014-15 Recommended	2015-16 Recommended	2016-17 Recommended
SPECIAL REVENUE FUNDS			
School Tax Relief Fund (STAR)			
Personal Income Tax	3,602	3,704	3,805
Dedicated Mass Transportation Trust Fund	694	697	701
Petroleum Business Tax	399	402	406
Motor Fuel Tax	106	106	106
Motor Vehicle Fees	189	189	189
Metropolitan Transportation Authority Financial Assistance Fund	1,643	1,739	1,837
MCTD Payroll Tax	1,317	1,410	1,508
Motor Vehicle Fees	181	181	181
Auto Rental Tax	45	47	47
Taxicab Surcharge	100	101	101
Mass Trans. Operating Assistance Fund	2,045	2,133	2,212
Corporate Surcharges			
Corporation Franchise Tax	465	497	520
Corporation and Utilities Tax	110	116	127
Insurance Tax	172	178	184
Bank Tax	263	277	292
Other			
Sales and Use Tax	835	864	887
Petroleum Business Tax	146	147	148
Transmission Tax	54	54	54
HCRA Resources Fund	1,073	1,050	1,027
Cigarette Tax	1,073	1,050	1,027
Other Special Revenue Funds			
Motor Vehicle Fees	111	111	111
Total Tax Receipts: Special Revenue Funds-Other	9,168	9,434	9,693
DEBT SERVICE FUNDS			
Revenue Bond Tax Fund			
Personal Income Tax	11,097	11,831	12,571
Clean Water/Clean Air Fund			
Real Estate Transfer Tax	641	716	771
Local Government Assistance Tax Fund			
Sales and Use Tax	3,068	3,209	3,301
Total Tax Receipts: Debt Service Funds	14,806	15,756	16,643
CAPITAL PROJECTS FUNDS			
Dedicated Highway and Bridge Trust Funds	2,120	2,140	2,146
Petroleum Business Taxes	680	686	691
Motor Fuel Tax	398	401	404
Motor Vehicle Fees	811	811	811
Highway Use Tax	143	151	149
Transmission Tax	14	14	14
Auto Rental Tax	74	77	77
Environmental Protection Fund			
Real Estate Transfer Tax	119	119	119
Total Tax Receipts: Capital Projects Funds	2,239	2,259	2,265
Total Tax Receipts: Other Funds	**26,213**	**27,449**	**28,601**

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

The following discussion identifies the statutory provisions which establish the dedicated funds, the source of dedicated tax receipts and the formula used to allocate tax receipts to the funds, and the purposes for which those deposits may be used.

SPECIAL REVENUE FUNDS

School Tax Relief Fund ("STAR" Fund-053)

The School Tax Relief Fund was established by Section 97 of the State Finance Law. The Fund consists of all moneys credited or transferred thereto from the General Fund or from any other fund or sources. The moneys of the Fund are appropriated for school property tax exemptions granted pursuant to the Real Property Tax Law and for payments to the city of New York pursuant to State Finance Law and Tax Law.

Dedicated Mass Transportation Trust Fund ("DMTTF" Fund-073)

The Dedicated Mass Transportation Trust Fund was established by Section 89-c of the State Finance Law. State tax receipts of the DMTTF are derived from the State's motor fuel tax, motor vehicle fees, and a portion of the petroleum business tax. The moneys of the DMTTF, pursuant to an appropriation, are used for the reconstruction, replacement, purchase, modernization, improvement, reconditioning, preservation and maintenance of mass transit facilities, vehicles, and rolling stock, or the payment of debt service or operating expenses incurred by mass transit operating agencies, and for rail projects.

Metropolitan Transportation Authority Financial Assistance Fund (Fund-225)

Chapter 25, Laws of 2009, created the Metropolitan Transportation Authority Financial Assistance Fund under the joint custody of the Commissioner of Taxation and Finance and the State Comptroller. Moneys in this special fund are to be kept separately from and not be commingled with any other moneys in the joint or sole custody of the State Comptroller or the Commissioner of Taxation and Finance. The fund contains all moneys collected, credited or transferred to it from any other fund, account or source, including the revenues derived from sources imposed by Chapter 25, Laws of 2009. These revenue sources are:

- The metropolitan commuter transportation mobility tax;
- Supplemental motor vehicle fees: a supplemental learner permit/license fee in the Metropolitan Commuter Transportation District (MCTD) and a supplemental registration fee in the MCTD;
- The supplemental tax on passenger car rentals in the MCTD; and
- The tax on medallion taxicabs in the MCTD.

Revenues generated from the mobility tax are directed to the Mobility Tax Trust Account of the MTA Financial Assistance Fund. Revenues generated from the supplemental motor vehicle fees, supplemental tax on car rentals, and the tax on taxicab rides are directed to the MTA Aid Trust Account of the MTA Financial Assistance Fund.

Mass Transportation Operating Assistance Fund ("MTOAF" Fund-313)

The Mass Transportation Operating Assistance Fund was established by Section 88-a of the State Finance Law. Tax receipts dedicated to the fund are comprised of a 17 percent surcharge levied on the portion of the State general business corporation tax, bank tax, the corporations and utilities tax, and the insurance tax allocated to the Metropolitan Commuter Transportation District (MCTD), a 0.375 percent sales tax levied in the MCTD, a portion of the petroleum business tax, and a portion of the taxes on transportation and transmission companies. The moneys of the MTOAF are subject to appropriation and are allocated among two accounts within the Fund. The moneys in each account must be used for the transportation assistance purposes for which each account was established. The accounts of MTOAF include:

- Public Transportation Systems Operating Assistance Account (PTOA - Fund 313 01)

- 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

- 26 percent of the receipts collected from the tax imposed on transportation and transmission companies by section 183 and 184 of Article 9 of the Tax Law. This change is in effect for State fiscal year (SFY) 2012-13 only. Included in the 2013-14 Executive Budget is a proposal to make this distribution permanent.

The MMTOA receives:

- 54 percent of the receipts collected from the taxes imposed on transportation and transmission companies by sections 183 and 184 of Article 9 of the Tax Law. This change is in effect for SFY 2012-13 only. Included in the 2013-14 Executive Budget is a proposal to make this distribution permanent;

- 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"). Included in the 2013-14 Executive Budget is a proposal to extend the MTA business tax surcharge for five years;

- Tax receipts from the 0.375 percent sales and use tax imposed in the MCTD; and
- 55 percent of the 19.7 percent of the basic petroleum business tax that is dedicated to the MTOAF.

Health Care Reform Act Resources Fund ("HCRA" Fund-061)

The Health Care Reform Act (HCRA) Resources Fund was established by section 92-dd of the State Finance Law and receives 76 percent of total State cigarette tax revenues. Other revenues dedicated to this Fund include hospital surcharges and assessments, a Covered Lives Assessment on commercial insurers and a portion of cigarette revenue from New York City's locally imposed cigarette tax. These resources support numerous public health, Medicaid and insurance programs for the uninsured/underinsured; including Family Health Plus, Healthy NY, Child Health Plus, anti-tobacco initiatives, graduate medical education, working disabled, and indigent care.

State Lottery Fund (Fund-160)

The State Lottery Fund was established by Section 92-c of the State Finance Law. Receipts of the Fund are derived from the sale of lottery tickets and from video gaming machines. The moneys of the Fund are used to pay the expenses incurred in the operation of the State Lottery and for the purchase of machinery or other capital equipment by the Gaming Commission, and to provide aid to all school children, including pupils with special educational needs and handicapping conditions. The table below summarizes the receipts for education generated from lottery and video lottery terminals (VLTs). Lottery receipts are classified as Special Revenue miscellaneous receipts.

STATE LOTTERY FUND
(millions of dollars)

	2011-12 Actual	2012-13 Estimated	2013-14 Recommended	2014-15 Recommended	2015-16 Recommended	2016-17 Recommended
Lottery	2,147	2,212	2,242	2,249	2,251	2,249
VLTs	682	862	881	894	897	897
Total Lottery	2,829	3,074	3,123	3,143	3,148	3,146

Other Special Revenue Funds

Since 2006, certain motor vehicle fees have been reclassified from special revenue miscellaneous receipts to special revenue motor vehicle fees. Though these receipts have moved from one category to another; they still remain dedicated to the same funds.

DEBT SERVICE FUNDS

Revenue Bond Tax Fund ("RBTF" Fund 311-02)

The Revenue Bond Tax Fund was established by Section 92-z of the State Finance Law. The Fund receives 25 percent of the receipts from the State personal income tax imposed by Article 22 of the Tax Law. Payments from the Fund are pledged to pay the debt service on State-supported Personal Income Tax Revenue Bonds, which support a variety of capital projects. No later than the fifteenth day of each month, the Comptroller is required to pay over to the General Fund all money in the RBTF in excess of the aggregate amount required to be set aside for debt service.

Clean Water/Clean Air Fund ("CWCAF" Fund-361)

The Clean Water Clean Air Fund was established by Section 97-bbb of the State Finance Law. The Fund receives all real estate transfer taxes in excess of the deposit to the Environmental Protection Fund. The moneys in the Fund are used to reimburse the General Fund for transfers made to the General Debt Service Fund to pay the debt service on 1996 Clean Water/Clean Air general obligations bonds. At the end of each month, the Comptroller is required to pay over to the General Fund all moneys in the CWCAF in excess of the aggregate amount required for such reimbursements.

Local Government Assistance Tax Fund ("LGATF" Fund-364)

The Local Government Assistance Tax Fund was established by Section 92-r of the State Finance Law. The Fund receives moneys collected from the imposition of the State sales and compensating use taxes in an amount attributable to a 1 percent rate of taxation. Payments from the Fund are pledged to pay the debt service on State-supported Local Government Assistance Corporation Bonds originally issued in the early 1990s to finance payments to local governments previously financed by the State. The Comptroller is required to pay over to the General Fund all money in the LGATF in excess of the aggregate amount required to be set aside for debt service. In addition, local aid payments due to New York City and assigned by the City to the Sales Tax Asset Receivable Corporation (STARC) are appropriated from the LGATF.

CAPITAL PROJECTS FUNDS

Dedicated Highway and Bridge Trust Fund ("DHBTF" Fund-072)

The Dedicated Highway and Bridge Trust Fund was established by Section 89-b of the State Finance Law. The DHBTF receives moneys from the motor fuel tax, motor vehicle fees, highway use tax, auto rental tax, petroleum business tax and a portion of the transportation and transmission tax imposed under the corporations and utilities tax. The moneys of the Fund, pursuant to an appropriation, are used to support transportation, including the reconstruction, replacement, reconditioning, restoration, rehabilitation and preservation of State, county, town, city and village roads, aviation projects, matching Federal highway grants, snow and ice removal, acquisition of real property, bus safety inspection, rail freight facilities, intercity rail passenger facilities, state, municipal and private ports, ferry lines, and certain DMV expenses. Payments from the Fund are also pledge to support the debt service on State-supported Dedicated Highway and Bridge Trust Fund Bonds.

Environmental Protection Fund ("EPF" Fund-078)

The Environmental Protection Fund was established by Section 92-s of the State Finance Law. The Fund currently receives real estate transfer taxes in the amount of $119 million. Moneys in the Fund are deposited to the following accounts:

- The Solid Waste Account for any non-hazardous municipal landfill closure project, municipal waste reduction or recycling project or local solid waste management plans.

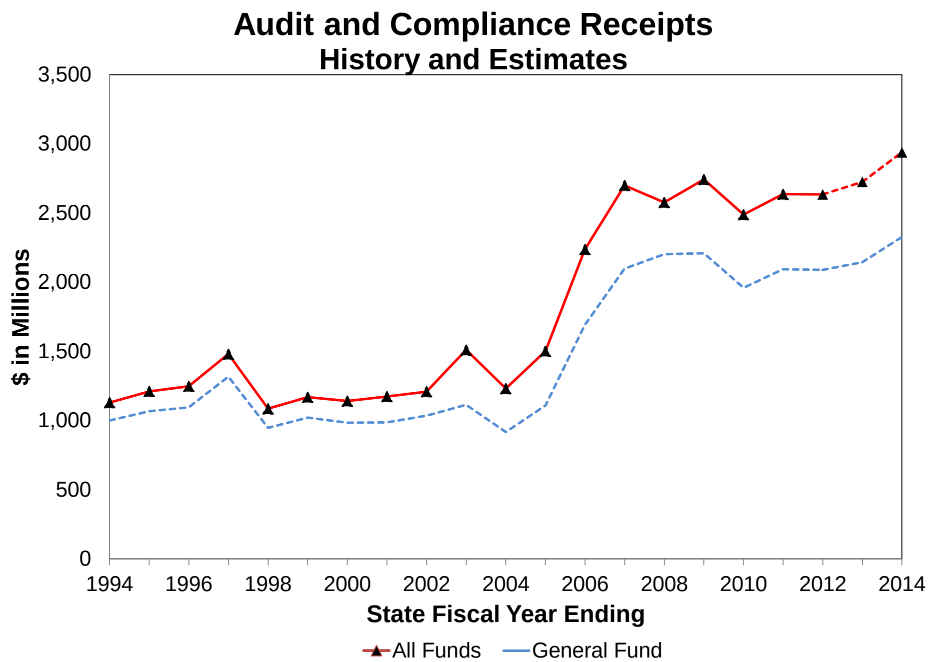
- The Parks, Recreation and Historic Preservation Account for any municipal park project, historic preservation project, urban cultural park project, waterfront revitalization program, or coastal rehabilitation project.

- The Open Space Account for any open space land conservation project, bio-diversity stewardship and research, non-point source abatement and control projects, upon the request of the Director of the Division of the Budget.

AUDIT AND COMPLIANCE RECEIPTS

AUDIT AND COMPLIANCE RECEIPTS (millions of dollars)							
	2011-12 Actual	2012-13 Estimated	Change	Percent Change	2013-14 Projected	Change	Percent Change
General Fund	2,088	2,144	56	2.7	2,327	183	8.5
Other Funds	547	582	35	6.4	612	30	5.2
All Funds	2,635	2,726	91	3.5	2,939	213	7.8

Note: Totals may differ due to rounding.



PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Expand the cigarette and tobacco retailer registration clearance process;
- Expand the sales tax registration clearance process;
- Increase the civil penalty for possessing unstamped cigarettes;
- Suspend delinquent taxpayers' driver's licenses; and
- Allow warrantless wage garnishment.

AUDIT AND COMPLIANCE RECEIPTS

DESCRIPTION

This section summarizes the cash collected by the Department of Taxation and Finance related to its audit and compliance activities. The amounts reported are already reflected in the estimates of individual tax receipts contained in this volume.

The Department of Taxation and Finance's Office of Tax Enforcement (OTE) is composed of the Audit Division, the Division of Collections and Civil Enforcement ("Collections") and the Criminal Division. The Audit Division is responsible for verifying that the correct tax has been paid and the Compliance Division is responsible for collecting the correct tax.

The collections base of OTE activities is the correct amount of taxes legally required to be paid, which is verified through the audit process. 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
(millions of dollars)

	All Funds Audit and Compliance Collections	Change from Prior Year	Percent Change from Prior Year
1995-96	1,247		
1996-97	1,480	233	18.7
1997-98	1,085	(395)	(26.7)
1998-99	1,169	84	7.7
1999-00	1,141	(28)	(2.4)
2000-01	1,174	33	2.9
2001-02	1,209	35	3.0
2002-03	1,510	301	24.9
2003-04	1,232	(278)	(18.4)
2004-05	1,503	271	22.0
2005-06	2,237	734	48.8
2006-07	2,700	463	20.7
2007-08	2,577	(123)	(4.5)
2008-09	2,743	166	6.4
2009-10	2,489	(254)	(9.3)
2010-11	2,513	24	1.0
2011-12	2,635	122	4.9
Estimated			
2012-13	2,726	91	3.5
2013-14	2,939	213	7.8

Collectively, it is estimated that the portion of All Funds receipts attributable to enforcement activities and reflected in the estimates and projections of the individual taxes will be roughly $2.7 billion in 2012-13 and $2.9 billion in 2013-14. The dramatic rise to current collection levels, which began in 2005-06, can be attributed to a combination of policy actions and improved performance by the Department of Taxation and Finance in identifying and concluding productive audits. These factors have included: (1) the Voluntary Compliance Initiative (VCI) enacted in 2005, which provided for reduced penalties for the voluntary reporting of tax shelter activities, (2) several audits involving back years that were closed following a favorable Tax Tribunal decision, (3) the settlement of audit issues with a significant number of financial service and other large multi-state taxpayers, (4) the Voluntary Disclosure Program enacted in 2008, and (5) improved data matching with data from the IRS and other sources.

Estimated Receipts for 2012-13

TABLE 2
ALL FUNDS AUDIT AND COMPLIANCE COLLECTIONS BY TAX TYPE
(millions of dollars)

	2011-12	2012-13	Change from Prior Year	Percent Change from Prior Year
Personal Income Tax	**956**	**1,046**	**90**	**9.4**
User Taxes and Fees	**387**	**421**	**34**	**8.8**
Business Taxes	**1,261**	**1,225**	**(36)**	**(2.9)**
Corporation and Utilities Taxes	29	60	31	106.2
Corporate Franchise Tax	1,080	745	(335)	(31.0)
Bank Tax	125	382	257	205.9
Insurance Tax	21	32	11	52.4
Petroleum Business Taxes	6	6	0	0.0
Other Taxes	**31**	**34**	**3**	**9.7**
Total	**2,635**	**2,726**	**91**	**3.5**

Audit and compliance receipts for 2012-13 are estimated to be $2,726 million, an increase of $91 million (3.5 percent) from 2011-12. The increase is composed of: $90 million (9.4 percent) from the personal income tax, and $34 million (8.8 percent) from user taxes and fees, partially offset by a $36 million (2.9 percent) decline in business taxes.

Estimated Receipts for 2013-14

TABLE 3
ALL FUNDS AUDIT AND COMPLIANCE COLLECTIONS BY TAX TYPE
(millions of dollars)

	2012-13	2013-14	Change from Prior Year	Percent Change from Prior Year
Personal Income Tax	**1,046**	**1,074**	**28**	**2.7**
User Taxes and Fees	**421**	**522**	**101**	**24.0**
Business Taxes	**1,225**	**1,299**	**74**	**6.0**
Corporation and Utilities Taxes	60	76	16	27.1
Corporate Franchise Tax	745	1,003	258	34.7
Bank Tax	382	193	(189)	(49.5)
Insurance Tax	32	21	(11)	(34.4)
Petroleum Business Taxes	6	6	0	0.0
Other Taxes	**34**	**44**	**10**	**29.4**
Total	**2,726**	**2,939**	**213**	**7.8**

Audit and compliance receipts for 2013-14 are projected to be $2,939 million, an increase of $213 million (7.8 percent) from 2012-13. The increase in audit and compliance receipts is mainly due to the projected impact of third party reporting on sales tax collections and additional resources devoted to business tax cases. The overall increase results from increases of $101 million from user taxes and fees, $74 million from business taxes, $28 million from the personal income tax, and $10 million from other taxes.

Trends in All Funds Audit and Tax Receipts

Table 4 below reports All Funds audit and compliance collections, All Funds tax receipts, and All Funds audit and compliance collections as a percent of All Funds tax receipts. Although All Funds audit and compliance receipts have fluctuated over time, they have consistently comprised roughly 3 percent to 5 percent of total All Funds tax receipts. In 2010-11 and 2011-12, audit and compliance receipts were 4.2 percent of All Funds tax receipts. In 2012-13 and 2013-14, audit and compliance receipts are expected to be 4.2 percent and 4.3 percent of total All Funds tax receipts, respectively.

TABLE 4

**All Funds Audit and Compliance Collections
As A Percent of All Funds Tax Receipts***
(millions of dollars)

	All Funds Audit and Compliance Collections	All Funds Tax Receipts	Audit and Compliance As a Percent of All Funds
1995-96	1,247	33,927	3.7
1996-97	1,480	34,620	4.3
1997-98	1,085	35,921	3.0
1998-99	1,169	38,495	3.0
1999-00	1,141	41,389	2.8
2000-01	1,174	44,658	2.6
2001-02	1,209	42,475	2.8
2002-03	1,510	39,626	3.8
2003-04	1,232	42,851	2.9
2004-05	1,503	48,598	3.1
2005-06	2,237	53,578	4.2
2006-07	2,700	58,740	4.6
2007-08	2,577	60,871	4.2
2008-09	2,743	60,338	4.5
2009-10	2,489	56,440	4.4
2010-11	2,513	59,511	4.2
2011-12	2,635	62,923	4.2
Estimated			
2012-13	2,726	64,536	4.2
2013-14	2,939	68,008	4.3

* Excludes Metropolitan Commuter Transportation Mobility Tax receipts.

As shown in Table 5 below, the historical distribution of audit and compliance receipts by broad tax categories (i.e., personal income tax, business taxes, user taxes and fees, and miscellaneous/other taxes) differs significantly from the distribution of voluntary receipts by tax category. For example, the share of total audit and compliance receipts attributable to the business tax category ranged from about 27 percent to 41 percent over the ten-year period beginning in 1995-96. However, the business taxes share of total taxes ranged from 12 percent to 19 percent over that same period. As a result of significant audit collections in the bank and corporate franchise taxes discussed earlier, the percentage share of audit receipts from business taxes deviated from these historical trends and accounted for 51 percent, 57 percent, 53 percent and 53 percent, respectively, of total 2005-06, 2006-07, 2007-08 and 2008-09 audit receipts. In 2009-10 through 2011-12, the percentage share of total audit receipts from business taxes fell to 44 percent. This percentage share reduction was mainly due to a decline in large case settlements and increases in the personal income tax and user tax and fees shares. In 2012-13 and 2013-14, the share of audit receipts from the business taxes category is expected to remain below the 2005-06 to 2008-09 level at 45 percent and 44 percent, respectively.

Table 5								
	Percent of All Funds Audit and Compliance Collections By Tax Category				Percent of All Funds* Collections By Tax Category			
	Business Taxes	Other Taxes and Fees	User Taxes and Fees	Personal Income Tax	Business Taxes	Other Taxes and Fees	User Taxes and Fees	Personal Income Tax
1995-96	37	7	19	37	18	11	20	51
1996-97	41	5	20	34	19	10	20	51
1997-98	39	6	20	35	18	11	20	51
1998-99	40	5	19	36	17	10	20	53
1999-00	34	6	20	40	15	10	20	55
2000-01	31	4	22	43	13	8	19	60
2001-02	32	5	20	43	12	8	19	61
2002-03	31	4	20	45	13	8	22	57
2003-04	27	4	23	46	12	8	23	57
2004-05	34	3	21	42	12	8	23	57
2005-06	51	3	15	31	12	8	21	59
2006-07	57	3	13	27	15	3	23	59
2007-08	53	1	14	32	14	3	23	60
2008-09	53	2	14	31	13	3	23	61
2009-10	44	2	15	39	13	2	23	62
2010-11	44	2	17	37	12	3	24	61
2011-12	44	2	17	37	12	3	24	61
Estimated								
2012-13	45	1	16	38	12	3	23	62
2013-14	44	1	18	37	12	3	22	63

* Excludes Metropolitan Commuter Transportation Mobility Tax receipts.

Similarly, the total share of audit and compliance receipts attributable to the personal income tax does not match its share of total taxes. However, during this ten-year period, the percent shares of audit and compliance receipts and total tax receipts attributable to the user taxes and fees category were more consistent with one another, with both the audit and compliance percentage and the tax receipts percentage ranging from 19 percent to 23 percent. As a result of the high level of business tax audit receipts during the 2005-06 through 2008-09 period, the audit and compliance shares of audit receipts for user taxes and fees and the personal income tax deviated from these historical trends, but their respective shares of total tax receipts remained consistent with history. With the estimated increases in personal income tax and sales tax receipts, the 2012-13 and 2013-14 audit and compliance shares for personal income tax and user taxes and fees are expected to remain higher than the level of 2005-06 through 2008-09.

Risk to the Forecast

The audit and compliance plan in the forecast period contains risk. Even though the share of audit and compliance receipts received from business taxes is expected to remain below from the high levels of 2005-06 through 2008-09, these taxes still represent more than 40 percent of total expected audit and compliance receipts. Audit and compliance receipts for the 2005-06 through 2008-09 period were driven by voluntary compliance programs and the settlement of several large financial services and multi-state taxpayer cases. Although 2012-13 audit and compliance receipts are expected to receive a boost from business tax large cases, the recent-years trend of receipts being driven more by routine audits and less by the large cases is expected to continue. Any changes of enforcement programs and audit and compliance staff focused on these tax areas may lead to instability of the audit receipts. Requiring certain financial institutions to file information returns with the State annually regarding amounts of credit/debit card settlements and third party network transactions is expected to increase sales tax audit collections starting in 2013-14.

Significant Legislation Impacting Historical Audit Receipts

Significant statutory changes that have had an impact on audit and compliance activities are summarized below.

Tax Amnesty – 1994

In 1994, New York State authorized a three-month tax amnesty program that focused on three types of taxpayers. The income tax component focused on non-residents required to file a New York return. The business tax component also focused on out-of-State taxpayers whose activities in New York State make them taxpayers, and the compensating use tax component focused on resident individuals and small businesses. This amnesty program required eligible taxpayers to pay any taxes owed in addition to all applicable interest, in exchange for the waiver of any related criminal prosecution or other administrative penalties.

Tax Amnesty – 1996

The legislation established a three-month tax amnesty program. Between November 1, 1996, and January 31, 1997, certain taxpayers could apply for a waiver of penalty relating to certain unpaid tax liabilities for taxable periods ending, or transactions or uses occurring, on or before December 31, 1994. The taxes covered by this amnesty program were the same taxes that were included under the 1985 program. These taxes were the personal income tax, the corporate franchise tax imposed under Article 9-A, certain taxes imposed under Article 9, the sales and use tax and the estate and gift tax. Three additional taxes that did not exist in 1985 were also covered by the program: the beverage container tax, the auto rental tax and the hotel occupancy tax.

The amnesty program excluded several groups of taxpayers. The excluded groups included those with outstanding liabilities owed under “sin” taxes (i.e., the alcoholic beverage tax and cigarette and tobacco products taxes), the real estate transfer tax, the real property gains tax, corporate franchise taxes imposed on banks and insurance companies, large corporations (those with more than 500 employees in the United States), regulated utilities and entities principally engaged in the conduct of aviation (with a tax liability under Article 9 of the Tax Law). Taxpayers involved in a criminal investigation or civil or criminal litigation relating to the penalty for which amnesty is sought were also excluded. Finally, taxpayers that received benefits under New York State’s 1985 and 1994 amnesty programs were ineligible for amnesty for those taxes for which they already received benefits.

Tax Amnesty – 2003

Taxpayers with outstanding liabilities were given a limited opportunity to settle those liabilities without penalties and with a reduction in the appropriate rate of interest. The tax amnesty applied to the personal income tax, sales and compensating use tax, corporate franchise taxes other than the bank and insurance taxes, and various excise taxes. The amnesty applied to taxable periods ending on or before December 31, 2000, or in the case of the sales tax or excise taxes with quarterly returns, periods ending on or before February 28, 2001. Under the estate tax, amnesty applied to estates of decedents dying on or before February 1, 2000.

Amnesty participants received a waiver of certain penalties and a two-percent reduction in the applicable interest rate relating to unpaid liabilities. Amnesty was not granted to taxpayers under criminal investigation, taxpayers who had been convicted of a tax-related crime, taxpayers who were parties to administrative proceedings with the Department of Taxation and Finance, or taxpayers with more than 500 employees.

Intangible Assets

Legislation enacted in 2003 required taxpayers (with some exceptions) who deduct interest or royalty expenses for amounts paid to a related member for the use of intangible assets to add those deductions back to their taxable income.

Temporary Tax-Shelter Disclosure and Voluntary Compliance Initiative

Legislation enacted in 2005 created a tax-shelter disclosure requirement for taxpayers or advisors engaging in abusive tax shelters to provide copies of their Federal reports to the Commissioner of Taxation and Finance. The legislation also allowed taxpayers a limited period of time (from October 1, 2005, through March 1, 2006) to avoid substantial new penalties by voluntarily disclosing participation in such a shelter by filing amended returns for the liability periods affected. The Voluntary Compliance Initiative was available for tax liabilities under Articles 9, 9-A, 22, 30, 32 and 33. The disclosure reporting requirements mirror the permanent Federal requirements and were to sunset in July 2007. Chapter 60, Laws of 2007, extended the provisions by two years, to July, 2009. Legislation enacted in 2008 extended these provisions by an additional two years and re-opened the Voluntary Compliance Initiative from November 1, 2008, through January 31, 2009.

Penalty and Interest Discount Program (PAID)

As part of the Deficit Reduction Package enacted in November 2009, PAID was designed to increase tax audit and compliance collections by temporarily reducing the penalties and interest owed on many overdue tax liabilities for which the taxpayer had been issued an assessment or final determination by the Department of Taxation and Finance. Specifically, the assessment or final determination must have been issued on or before December 31, 2006. Penalties and interest were reduced by either 20 percent or 50 percent (depending on the age of the assessment) if the tax had been paid in full by the end of PAID, which was open for collections from January 15, 2010, through March 15,

2010. This program increased All Funds audit and compliance receipts by $50 million in 2009-10.