NEW YORK STATE

NEW YORK STATE
DIVISION OF THE
BUDGET

FY 2015
ECONOMIC AND REVENUE OUTLOOK

ANDREW M. CUOMO, GOVERNOR

ROBERT L. MEGNA, BUDGET DIRECTOR

2014-15 EXECUTIVE BUDGET
ECONOMIC AND REVENUE OUTLOOK
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RECEIPTS OVERVIEW

RECEIPTS OVERVIEW

The Economic and Revenue Outlook is a volume designed to enhance the presentation and transparency of the FY 2015 Executive Budget. The book provides detailed information on the economic and receipt projections underlying the Executive Budget. The economic analysis and forecasts presented in this volume are also used in the development of the expenditure projections where spending trends are impacted by economic conditions.

Financial Plan receipts comprise a variety of taxes, fees, charges for State provided services, Federal grants, and other miscellaneous receipts. The Economic and Revenue Outlook includes receipt information required by Article VII of the State Constitution and Section 22 of the State Finance Law and provides information to supplement extensive reporting enhancements undertaken in recent years. The Division of the Budget (DOB) believes the information will aid the Legislature and the public in fully understanding and evaluating the economic assumptions and receipts estimates underlying the FY 2015 Executive Budget. The receipt estimates and projections have been prepared by the Division of the Budget with the assistance of the Department of Taxation and Finance and other agencies concerned with the collection of State receipts. To the extent they are material, sources of receipts not referenced in this volume are discussed in the presentations of the agencies primarily responsible for executing the programs financed by such receipts. The *Economic, Revenue and Spending Methodologies* are available at the Division of the Budget's website at www.budget.ny.gov. The Methodology volume provides a comprehensive review of the methods used in determining the economic and tax receipt projections.

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

- **Financial Plan Receipts and Projections:** Provides a summary of Financial Plan receipts for the current year and the FY 2015 Budget year by tax category and fund type.

- **FY 2015 Revenue Actions:** Summarizes the revenue actions proposed with the FY 2015 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.

ECONOMIC OUTLOOK

As 2014 begins, the national economy appears once again to be approaching an inflection point, finally producing the sustainable momentum that has been so elusive until now. Both the housing and labor markets have shown steady improvement, furthering the repair of household balance sheets. With households feeling wealthier and more certain about future job prospects, real household spending growth is expected to rise above the poor results to-date during the current expansion. At the same time, the euro-area's downward spiral appears to be abating. But even stagnation would represent an improvement over its recent past. Consistently stronger growth in both domestic and global demand is expected to stimulate private business investment, which has been virtually absent from this recovery despite flush corporate balance sheets. These forces are expected to more than compensate for ongoing weakness in the public sector that will continue to be a drag on growth, albeit a diminishing one, for some time. Real U.S. GDP is projected to grow 2.7 percent in 2014, following 1.9 percent growth in 2013.

Although the most recent data point toward a brighter outlook for 2014, the improvement implied by the Budget Division forecast does not represent a dramatic break from the recent past. A substantial degree of slack remains both in the U.S. and abroad, which is likely to keep inflation below the Federal Reserve's 2 percent target for much of this year. Thus, continued low inflation of 1.6 percent is projected for 2014, following a rate of 1.5 percent in 2013. The recent federal budget agreement signals a new tone coming out of Washington, but continued fiscal cooperation is required to keep the economy moving forward.

An improving labor market has given the Federal Reserve the confidence to begin the long road toward "normalization," while low inflation gives the central bank room to proceed slowly with that process. But no matter the pace, the pinch of higher long-term interest rates will be felt. Slack will also continue to put downward pressure on income growth, though we fully expect that pressure to diminish going forward. Europe's climb out of recession is likely to be slow and uneven. Recent research indicates that recoveries that follow financial crises are long and painful, particularly when combined with the collapse of a housing bubble. This recovery has sustained more than its share of negative events, ranging from weather and energy price shocks to true catastrophes like the Japanese earthquake and tsunami of 2011. While the economy's resiliency to such events is improving, substantial risks remain.

New York's private sector labor market continues to enjoy robust growth and was much stronger coming out of the recovery than that of the nation as a whole. Tourism continues to be a key source of strength, supporting leisure and hospitality's ongoing role as a leading sector. An accelerating national economy will continue to increase demand for New York's large business service sector. The State's real estate sector continues to be strong, particularly in New York City, supporting strong growth in construction jobs in 2014. Private sector job growth of 1.5 percent is projected for 2014, representing a fourth consecutive year of above average growth.

Surging equity market growth during the latter part of 2013 is likely to have contributed to solid gains in non-wage income for last year, including taxable capital gains, while finance and insurance bonus growth of about 8 percent is projected for the State fiscal year in progress. However, both government and financial sector employment are expected to continue to fall through 2014, putting downward pressure on wage growth despite healthy growth in bonuses. State wage growth of 5.4 percent is projected for 2014, accompanied by total personal income growth of 5.2 percent. Note that these growth rates are elevated – particularly for wages – due to the shifting of income from the beginning of 2013 into the end of 2012, in anticipation of a federal rate hike for high-income earners. As this effect runs its course, wage and personal income growth are expected to slow to 4.6 percent and 4.9 percent, respectively, in 2015. Growth rates for both 2014 and 2015 remain below historical averages.

THE REVENUE SITUATION

Receipts in 2013-14 have been highlighted by:

- A better than expected Tax Year 2012 personal income tax settlement, mainly the result of capital gains and income shifted from 2013 and other future years into 2012 in anticipation of higher Federal tax rates beginning in 2013;
- December 2013 and January 2014 personal income tax estimated payments that exceeded expectations, likely the result of the surging stock market;
- Strong estate tax collections, also likely due in some degree to the increase in net worth generated by stock market gains;
- Robust sales tax collection growth resulting from Superstorm Sandy recovery spending;
- An uptick in real estate transfer tax collections growth, generally from improved conditions downstate; and
- Disappointing business tax results, mainly from the banking sector, whose profits suffered from fines and increased mortgage rates that reduced taxable income.

Receipts in 2014-15 are expected to be characterized by:

- Personal income tax growth consistent with the estimated wage and personal income growth discussed above, but tempered by increased refunds generated by the payback of tax credits deferred in Tax Years 2010-2012, tax cuts proposed with this Budget.

- A return to trend taxable consumption growth after the above average growth experienced in 2013-14;

- Another decline in business tax receipts - due primarily to the credit deferral payback;

- A decline in estate tax receipts generated by proposed tax cuts; and

- A slowdown in real estate transfer tax receipt growth consistent with long-term averages.

The following table displays growth rates for actual and base (i.e. absent law changes) tax receipts for FY 1991 through FY 2018. The forecast growth rates assume continued economic growth. Should a recession occur prior to FY 2018, one or more of these forecast growth rates could be much lower or negative.

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

State Fiscal Year	Actual Receipts	Base Receipts	Inflation Adjusted Base Receipts
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	3.9
1998-99	7.2	7.9	6.0
1999-00	7.5	9.1	6.1
2000-01	7.9	10.1	7.0
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	6.2	2.0
2008-09	(0.8)	(3.3)	(3.7)
2009-10	(3.2)	(12.6)	(14.2)
2010-11	5.6	3.3	0.8
2011-12	5.6	8.0	5.7
2012-13	3.1	4.8	3.0
2013-14**	4.7	5.1	3.6
2014-15**	2.0	4.3	2.2
2015-16**	4.6	4.2	1.9
2016-17**	4.1	5.5	3.0
2017-18**	3.4	4.4	1.8

	Actual Change	Base Change	Adjusted Base Change
Historical Average (1990-91 to 2012-13)	**4.0**	**3.4**	**0.6**
Forecast Average (2013-14 to 2017-18)	**3.8**	**4.7**	**2.5**
Forecast Average (2014-15 to 2017-18)	**3.5**	**4.6**	**2.2**
Recessions	**(1.5)**	**(5.1)**	**(7.6)**
Expansions	**5.9**	**6.3**	**3.6**

*Estimated Receipts
**Projected Receipts

TOTAL RECEIPTS (millions of dollars)	FY 2013 Results	FY 2014 Current	Annual $ Change	Annual % Change	FY 2015 Proposed	Annual $ Change	Annual % Change
GENERAL FUND	**58,783**	**61,653**	**2,870**	**4.9%**	**63,503**	**1,850**	**3.0%**
Taxes	43,283	42,496	(787)	-1.8%	43,205	709	1.7%
Miscellaneous Receipts	3,504	3,251	(253)	-7.2%	3,857	606	18.6%
Federal Grants	62	2	(60)	-96.8%	0	(2)	-100.0%
Transfers	11,934	15,904	3,970	33.3%	16,441	537	3.4%
STATE FUNDS	**90,303**	**93,158**	**2,855**	**3.2%**	**96,002**	**2,844**	**3.1%**
Taxes	66,302	69,414	3,112	4.7%	70,794	1,380	2.0%
Miscellaneous Receipts	23,855	23,664	(191)	-0.8%	25,129	1,465	6.2%
Federal Grants	146	80	(66)	-45.2%	79	(1)	-1.3%
ALL FUNDS	**133,175**	**140,770**	**7,595**	**5.7%**	**141,901**	**1,131**	**0.8%**
Taxes	66,302	69,414	3,112	4.7%	70,794	1,380	2.0%
Miscellaneous Receipts	24,030	23,850	(180)	-0.7%	25,315	1,465	6.1%
Federal Grants	42,843	47,506	4,663	10.9%	45,792	(1,714)	-3.6%

All Funds FY 2014 tax receipts growth of 4.7 percent and FY 2015 growth of 2 percent are heavily influenced by timing factors. Growth in FY 2014 was driven up as a result of Superstorm Sandy recovery spending and the movement of realized capital gains and other non-wage income into Tax Year 2012 from future years in anticipation of higher federal tax rates in 2013. This manifested itself in a strong April 2013 personal income tax settlement. FY 2014 also marked the last year which contained higher revenue as the result of the tax credit deferral program. The slowdown in FY 2015 is the result of the first year of tax credit deferral payback, the non-recurring nature of Superstorm Sandy spending by consumers, and tax cuts proposed with this Budget.

FY 2014 OVERVIEW

- Total All Funds FY 2014 receipts are estimated to reach $140.8 billion, an increase of $7.6 billion (5.7 percent) from FY 2013. All Funds tax receipts are estimated to increase by $3.1 billion, or 4.7 percent. The majority of the increase in tax receipts is attributable to growth in personal income tax collections.

- Total State Funds FY 2014 receipts are estimated to reach $93.2 billion, an increase of $2.9 billion (3.2 percent).

- Total General Fund FY 2014 receipts are estimated at $61.7 billion, an increase of $2.9 billion (4.9 percent). General Fund tax receipts are estimated to decrease by 1.8 percent primarily as a result of the dedication of former General Fund sales tax revenue to the new Sales Tax Bond Fund. General Fund miscellaneous receipts are estimated to decrease by 7.2 percent, reflecting trends in motor vehicle fees receipts, the dissolution of the Monroe Medicaid Sales Tax Intercept, and reductions in abandoned property recoveries.

- Base tax FY 2014 receipts growth, which nets out the impact of law changes, will increase by an estimated 5.1 percent after a base increase of 4.8 percent in FY 2013.

FY 2015 OVERVIEW

- Total FY 2015 All Funds receipts are projected to reach $141.9 billion, an increase of $1.1 billion (0.8 percent) from FY 2014 estimates. All Funds tax receipts are projected to grow by $1.4 billion (2 percent). This increase is primarily attributable to continued positive economic growth.

- Total State Funds receipts are projected to be $96 billion, an increase of $2.8 billion (3.1 percent) from FY 2014 estimates.

- Total General Fund receipts are projected to be $63.5 billion, an increase of $1.9 billion, or 3 percent from FY 2014 estimates. General Fund tax receipts are projected to grow by 1.7 percent, while General Fund miscellaneous receipts are projected to increase by $606 million (18.6 percent) as the result of increased license and fee and abandoned property receipts, and a motor vehicle fee accounting change. Federal grants revenues are projected to decline by $2 million.

- After controlling for the impact of policy changes, base tax revenue growth is estimated to increase by 4.3 percent for FY 2015.

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

	FY 2014				FY 2015			
	Mid-Year Update	Executive Budget	Annual $ Change	Annual % Change	Mid-Year Update	Executive Budget	Annual $ Change	Annual % Change
GENERAL FUND[1]	**45,761**	**45,749**	**(12)**	**0.0%**	**46,753**	**47,062**	**309**	**0.7%**
Taxes	42,453	42,496	43	0.1%	43,158	43,205	47	0.1%
Miscellaneous Receipts	3,306	3,251	(55)	-1.7%	3,595	3,857	262	7.3%
Federal Grants	2	2	0	0.0%	0	0	0	0.0%
STATE FUNDS	**93,393**	**93,158**	**(235)**	**-0.3%**	**95,996**	**96,002**	**6**	**0.0%**
Taxes	69,324	69,414	90	0.1%	71,101	70,794	(307)	-0.4%
Miscellaneous Receipts	23,989	23,664	(325)	-1.4%	24,817	25,129	312	1.3%
Federal Grants	80	80	0	0.0%	78	79	1	1.3%
ALL FUNDS	**140,932**	**140,770**	**(162)**	**-0.1%**	**143,366**	**141,901**	**(1,465)**	**-1.0%**
Taxes	69,324	69,414	90	0.1%	71,101	70,794	(307)	-0.4%
Miscellaneous Receipts	24,175	23,850	(325)	-1.3%	25,003	25,315	312	1.2%
Federal Grants	47,433	47,506	73	0.2%	47,262	45,792	(1,470)	-3.1%

[1] Excludes Transfers.

Change from Mid-Year Update

Revised Estimates and Projections

- All funds FY 2014 receipts estimates have been reduced by $162 million from the Mid-Year Update. The upward tax revision of $90 million is due to stronger than expected personal income and other tax receipts partially offset by a negative business tax variance.

- All Funds miscellaneous receipts estimates in FY 2014 were revised downward by $325 million from the Mid-Year Update, which largely reflects reduced receipts from HCRA financing sources, including no longer assuming proceeds associated with conversion of a health insurance company from a not-for-profit entity to a for-profit entity; and lower abandoned property receipts.

- All Funds Federal grant projections have been revised upward by $73 million in FY 2014, reflecting year-to-date activity in Federal funds.

- General Fund FY 2014 receipts have been revised downward by $12 million, reflecting a downward miscellaneous receipts revision partially offset by an upward tax revision.

- All Funds receipts estimates have been decreased by $1.5 billion for fiscal year FY 2015 from the Mid-Year Update. The downward tax revision of $307 million and is largely a full-year translation of base changes to corporate taxes made to FY 2014.

- All Funds miscellaneous receipts projections in FY 2015 were revised upward by $312 million which largely reflects revenues from licensing fees associated with commercial gaming and increased bond proceeds to fund economic development projects.

- All Funds Federal grant projections have been revised downward by $1.5 billion in FY 2015, which reflects the continued impact of changes in Medicaid associated with the ACA and the timing of Federal disaster assistance.

- General Fund FY 2015 receipts have been revised upward by $309 million. Miscellaneous receipts revisions related to motor vehicle fees trends and financial audit recoveries account for a large portion of the increase and were bolstered by a $47 million increase in tax receipts.

Proposed Law Changes

The FY 2015 Executive Budget includes changes to tax law that would:

- Provide tax relief proposals to continue improving New York's business climate and provide relief for over-burdened families;
- Simplify the tax code;
- Ensure that taxpayers remit the proper amount of tax; and
- Close unintended tax loopholes to improve the equity of the tax code.

ALL FUNDS LEGISLATION ($ in millions)*				
	2014-15	2015-16	2016-17	2017-18
Personal Income Tax	**(325)**	**(735)**	**(1,248)**	**(1,658)**
Close the Resident Trust Loophole	75	225	150	150
Repeal the Personal Income Tax Add-On Minimum Tax	0	0	0	0
Modify Delivery of the Family Tax Relief Credit After Tax Year 2014	0	410	0	(410)
Increase Personal Income Tax Filing Threshhold	0	0	0	0
Establish the Real Property Tax Freeze Personal Income Tax Credit	(400)	(976)	(475)	0
Establish the Residential Real Property Personal Income Tax Credit	0	(200)	(525)	(1,000)
Establish a Renter's Personal Income Tax Credit	0	(200)	(400)	(400)
Extend the Non-Custodial Earned Income Tax Credit (EITC) For Two Years	0	0	(4)	(4)
Authorize a Professional and Business License Tax Clearance	0	3	3	3
Eliminate the Income Threshold Inflation Adjustment for Enhanced STAR	0	3	3	3
User Taxes and Fees	**(4)**	**(8)**	**(4)**	**0**
Repeal the Boxing and Wrestling Exhibitions Tax	0	0	0	0
Extend the Alternative Fuels Tax Exemptions For Two Years	(4)	(8)	(4)	0
Business Taxes	**67**	**(118)**	**(271)**	**(267)**
Streamline Corporate Audit Procedures (Administrative)	0	172	172	172
Reform the Investment Tax Credit	65	65	65	65
Repeal the Financial Services Investment Tax Credit	30	30	30	30
Repeal the Franchise Tax on Agricultural Cooperatives	0	0	0	0
START-UP NY Technical Amendment For Section 186-e Excise Tax	0	0	0	0
Corporate Tax Reform	0	(205)	(346)	(346)
Establish a 20 Percent Real Property Tax Credit For Manufacturers	0	(136)	(136)	(136)
Eliminate the Net Income Tax On Upstate Manufacturers	(24)	(24)	(25)	(25)
Enhance Youth Works Tax Credit	0	(4)	(4)	(4)
Expand the Low Income Housing Credit	0	(8)	(16)	(16)
Extend the Commercial Production Tax Credit for Two Years	0	0	(7)	(7)
Extend and Reform the Brownfields Clean-Up Program	0	0	0	0
Extend the Alternative Fuels Tax Exemptions For Two Years	(4)	(8)	(4)	0
Other Actions	**(36)**	**(175)**	**(371)**	**(612)**
Repeal the Boxing and Wrestling Exhibitions Tax	0	0	0	0
Modify Signature Requirements on e-Filed Returns Prepared by Tax Professionals	0	0	0	0
Align Mobility and Personal Income Tax Filings for the Self-Employed	0	0	0	0
Reform the Estate Tax	(33)	(175)	(371)	(612)
Repeal Article 12 of the Tax Law	0	0	0	0
Extend Monticello Video Lottery Terminal Rates For One Year	(3)	0	0	0
Extend Certain Pari-Mutuel Tax Rates and Authorization for Account Wagering For One Year	0	0	0	0
Extend the Video Lottery Gaming Vendor's Capital Awards Program For One Year	0	0	0	0
Total All Funds Legislation Change	**(298)**	**(1,036)**	**(1,894)**	**(2,537)**

*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 descriptions.

PERSONAL INCOME TAX

- Close the resident trust loophole;
- Repeal the personal income tax add-on minimum tax;
- Modify delivery of the family tax relief credit after Tax Year 2014;
- Increase personal income tax filing threshold;
- Establish the real property tax freeze personal income tax credit;
- Establish the residential real property personal income tax credit;
- Establish a renter's personal income tax credit;
- Extend the non-custodial earned income tax credit (EITC) for two years;
- Authorize a professional and business license tax clearance; and
- Eliminate the income threshold inflation adjustment for enhanced STAR.

USER TAXES AND FEES

- Repeal the boxing and wrestling exhibitions tax; and
- Extend the alternative fuels tax exemptions for two years.

BUSINESS TAXES

- Streamline corporate audit procedures (administrative);
- Reform the investment tax credit;
- Repeal the financial services investment tax credit;
- Repeal the franchise tax on agricultural cooperatives;
- START-UP NY technical amendment for section 186-e excise tax;
- Corporate tax reform;
- Establish a 20 percent real property tax credit for manufacturers;

- Eliminate the net income tax on upstate manufacturers;
- Enhance the youth works tax credit;
- Expand the low income housing credit;
- Extend the commercial production tax credit for two years;
- Extend and reform the Brownfields clean-up program; and
- Extend the alternative fuels tax exemptions for two years.

OTHER ACTIONS

- Repeal the boxing and wrestling exhibitions tax;
- Modify signature requirements on e-filed returns prepared by tax professionals;
- Align mobility and personal income tax filings for the self-employed;
- Reform the estate tax;
- Repeal Article 12 of the Tax Law;
- Extend Monticello Video Lottery Terminal rates for one year;
- Extend certain pari-mutuel tax rates and authorization for account wagering for one year; and
- Extend the Video Lottery gaming vendor's Capital Awards Program for one year.

FY 2016, FY 2017, AND FY 2018 OVERVIEW

TOTAL RECEIPTS
(millions of dollars)

	FY 2015 Proposed	FY 2016 Projected	Annual $ Change	FY 2017 Projected	Annual $ Change	FY 2018 Projected	Annual $ Change
General Fund	**63,503**	**65,339**	**1,836**	**67,426**	**2,087**	**69,136**	**1,710**
Taxes	43,205	45,408	2,203	47,296	1,888	48,893	1,597
State Funds	**96,002**	**98,855**	**2,853**	**100,827**	**1,972**	**102,454**	**1,627**
Taxes	70,794	74,077	3,283	77,148	3,071	79,740	2,592
All Funds	**141,901**	**145,849**	**3,948**	**149,134**	**3,285**	**152,485**	**3,351**
Taxes	70,794	74,077	3,283	77,148	3,071	79,740	2,592

Overall, tax receipts growth in the three fiscal years following FY 2015 is expected to remain in the range of 3.4 percent to 4.6 percent. This is consistent with projected trend economic growth in the New York economy during this period and the payback of deferred tax credits.

- Total All Funds FY 2016 receipts are projected to be $145.8 billion, an increase of $3.9 billion from the prior year. All Funds FY 2017 receipts are expected to increase by $3.3 billion from FY 2016 projections. In FY 2018, receipts are expected to increase by $3.4 billion from FY 2017 projections.

- Total State Funds receipts are projected to be $98.9 billion in FY 2016, $100.8 billion in FY 2017 and $102.5 billion in FY 2018.

- Total General Fund receipts are projected to reach $65.3 billion in FY 2016, $67.4 billion in FY 2017 and $69.1 billion in FY 2018.

Base Growth

Base growth, adjusted for law changes, in tax receipts is estimated to be 5.1 percent in FY 2014 and 4.3 percent in FY 2015. Overall base growth in tax receipts is dependent on a multitude of factors.

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

Personal Income Tax

PERSONAL INCOME TAX
(millions of dollars)

	FY 2013 Results	FY 2014 Current	Annual $ Change	Annual % Change	FY 2015 Proposed	Annual $ Change	Annual % Change
GENERAL FUND[1]	**26,884**	**28,745**	**1,861**	**6.9%**	**29,669**	**924**	**3.2%**
Gross Collections	47,443	51,482	4,039	8.5%	52,900	1,418	2.8%
Refunds (Includes State/City Offset)	(7,216)	(8,636)	(1,420)	19.7%	(8,769)	(133)	1.5%
STAR	(3,286)	(3,389)	(103)	3.1%	(3,429)	(40)	1.2%
RBTF	(10,057)	(10,712)	(655)	6.5%	(11,033)	(321)	3.0%
STATE/ALL FUNDS	**40,227**	**42,846**	**2,619**	**6.5%**	**44,131**	**1,285**	**3.0%**
Gross Collections	47,443	51,482	4,039	8.5%	52,900	1,418	2.8%
Refunds (Includes State/City Offset)	(7,216)	(8,636)	(1,420)	19.7%	(8,769)	(133)	1.5%

[1]Excludes Transfers.

All Funds FY 2014 receipts are estimated to be $42.8 billion, an increase of $2.6 billion (6.5 percent) from FY 2013 results. This primarily reflects robust growth in extension (i.e., prior year estimated) payments for Tax Year 2012, strong growth in final returns, moderate growth in current year estimated payments for Tax Year 2013, and modest growth in withholding, partially offset by substantial growth in prior year refunds related to Tax Year 2012, current year refunds related to Tax Year 2013, and state-city offsets.

Withholding in FY 2014 is projected to be $1.2 billion (3.8 percent) higher compared to the prior year. This reflects the net effect of modest wage growth, partially offset by lower withholding due to the first full fiscal year of inflation-indexed withholding tax tables. Total estimated payments are expected to increase $2.5 billion (20.8 percent). Estimated payments for Tax Year 2013 (i.e., current year estimated) are projected to be $547 million (6.1 percent) higher. Extension payments (i.e., prior year estimated) for Tax Year 2012 are projected to grow 62.2 percent ($2 billion) compared to extensions for Tax Year 2011, due to the widespread acceleration of capital gains realizations into Tax Year 2012. This acceleration occurred in anticipation of higher Federal income tax rates in Tax Year 2013, attributable to the American Taxpayer Relief Act, in addition to the imposition of the 3.8 percent net investment income tax associated with the ACA. Delinquent collections and final return payments are projected to be $74 million (6.4 percent) and $230 million (10.7 percent) higher, respectively.

The increase in total refunds of $1.4 billion reflects a combination of strong growth in prior year refunds related to Tax Year 2012 of $801 million (17.5 percent) due to greater than typical overpayment of extension payments for Tax Year 2012, a $310 million (17.7 percent) increase in current year refunds related to Tax Year 2013, and 107.5 percent ($332 million) growth in state-city offsets, stemming from the New York State income tax rate changes that took place between 2011 and 2012.

The following table summarizes, by component, actual receipts for FY 2013 and forecast amounts through FY 2017.

PERSONAL INCOME TAX FISCAL YEAR COLLECTION COMPONENTS ALL FUNDS (millions of dollars)	FY 2013 Results	FY 2014 Estimated	FY 2015 Projected	FY 2016 Projected	FY 2017 Projected
Receipts					
Withholding	31,958	33,160	35,049	37,260	39,290
Estimated Payments	12,193	14,727	14,274	15,744	16,926
Current Year	9,001	9,548	10,115	11,007	11,794
Prior Year*	3,192	5,179	4,159	4,737	5,132
Final Returns	2,148	2,378	2,316	2,478	2,680
Current Year	203	233	242	254	266
Prior Year*	1,945	2,145	2,074	2,224	2,414
Delinquent	1,144	1,217	1,261	1,311	1,356
Gross Receipts	47,443	51,482	52,900	56,793	60,252
Refunds					
Prior Year*	4,568	5,369	5,142	6,277	7,601
Previous Years	588	566	569	588	588
Current Year*	1,750	2,060	1,750	1,750	1,750
Advanced Credit Payment	0	0	810	976	475
State/City Offset*	309	641	498	498	498
Total Refunds	7,216	8,636	8,769	10,089	10,912
Net Receipts	**40,227**	**42,846**	**44,131**	**46,704**	**49,340**

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

All Funds FY 2015 receipts are projected to be $44.1 billion, an increase of $1.3 billion (3 percent) from FY 2014.

This increase primarily reflects increases of $1.9 billion (5.7 percent) in withholding, partially offset by the combination of a $452 million (3.1 percent) decline in total estimated payments and a $133 million (1.5 percent) increase in total refunds. The decline in total estimated payments results from a $1 billion decrease in extension (i.e., prior year estimated) payments for Tax Year 2013, following an inflated Tax Year 2012 amount due to substantial extension overpayment following end-of-year accelerated capital gains realizations. The majority of the decline, however, is offset by a $568 million increase in current estimated payments related to Tax Year 2014, partially reflecting $75 million in revenue from closing the resident trust loophole.

The increase in total refunds of $133 million reflects $400 million in additional credit attributable to new legislation (Real Property Tax Freeze credit), $410 million in credits for the first year of payments related to the Family Tax Relief credit, and $75 million due to the first repayment of previously deferred tax credits, largely offset by declines of $227 million (4.2 percent), $310 million (15.1 percent), and $143 million (22.3 percent) in prior year refunds related to Tax Year 2013, current year refunds related to Tax Year 2014, and state-city offsets, respectively. Payments from final returns are expected to decrease $62 million (2.6 percent), while delinquent collections are projected to increase by $44 million (3.6 percent) compared to the prior year.

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 FY 2014 receipts of $28.7 billion are expected to increase by $1.9 billion (6.9 percent) from the prior year, mainly reflecting the increase in All Funds receipts noted above. The RBTF deposit is estimated to be $10.7 billion while the STAR transfer is estimated to be $3.4 billion.

General Fund income tax FY 2015 receipts of $29.7 billion are projected to increase by $924 million (3.2 percent). The RBTF deposit is projected to be $11 billion while the STAR transfer is projected to be $3.4 billion.

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

	FY 2014				FY 2015			
	Mid-Year Update	Executive Budget	Annual $ Change	Annual % Change	Mid-Year Update	Executive Budget	Annual $ Change	Annual % Change
GENERAL FUND[1]	**28,488**	**28,745**	**257**	**0.9%**	**29,397**	**29,669**	**272**	**0.9%**
Gross Collections	50,496	51,482	986	2.0%	52,678	52,900	222	0.4%
Refunds (Includes State/City Offset)	(7,953)	(8,636)	(683)	8.6%	(8,679)	(8,769)	(90)	1.0%
STAR	(3,419)	(3,389)	30	-0.9%	(3,602)	(3,429)	173	-4.8%
RBTF	(10,636)	(10,712)	(76)	0.7%	(11,000)	(11,033)	(33)	0.3%
STATE/ALL FUNDS	**42,543**	**42,846**	**303**	**0.7%**	**43,999**	**44,131**	**132**	**0.3%**
Gross Collections	50,496	51,482	986	2.0%	52,678	52,900	222	0.4%
Refunds	(7,953)	(8,636)	(683)	8.6%	(8,679)	(8,769)	(90)	1.0%

[1]Excludes Transfers

Compared to the Mid-Year Update, FY 2014 All Funds income tax receipts are revised upward by $303 million. The increase reflects upward revisions in withholding ($94 million), total estimated payments ($839 million), and final returns ($67 million), partially offset by a $683 million upward revision of total refunds and a $14 million downward revision in delinquent receipts. The increase in withholding reflects a slightly improved bonus income outlook while the increase in current year estimated payments reflects stronger than expected performance in equity markets in 2013. Increased refunds reflect adjustments for substantial growth in prior year refunds related to Tax Year 2012 ($315 million), current year refunds related to Tax Year 2013 ($310 million) and state-city offset transfers ($143 million) to the City from the State, partially offset by smaller-than-expected prior year refund inventory ($85 million).

Compared to the Mid-Year Update, FY 2015 All Funds income tax receipts are revised upward by $132 million, reflecting $458 million in revenue-increasing re-estimates, partially offset by a $325 million total revenue reduction from legislation proposed with this Budget. The non-legislative re-estimate largely reflects a $465 million upward revision in total estimated payments and a $310 million downward revision in total refunds, partially offset by a $350 million downward revision in withholding due to a lower wage forecast. Other reestimates include a $40 million upward revision in final returns and a $7 million reduction in delinquent receipts. The adjustment to total refunds results from $485 million in lower prior year refunds related to Tax Year 2013, related to a reestimation of the cost of deferred tax credit repayments, as well as the increase in current year refunds that will be paid between January and

March 2014, partially offset by a $175 million increase in the state-city offset. Legislative proposals include a revenue gain of $75 million from closing the resident trust loophole and a $400 million revenue reduction attributable to the Real Property Tax Freeze credit.

PERSONAL INCOME TAX (millions of dollars)							
	FY 2015 Proposed	FY 2016 Projected	Annual $ Change	FY 2017 Projected	Annual $ Change	FY 2018 Projected	Annual $ Change
GENERAL FUND[1]	**29,669**	**31,555**	**1,886**	**33,437**	**1,882**	**34,861**	**1,424**
Gross Collections	52,900	56,793	3,893	60,252	3,459	62,701	2,449
Refunds (Includes State/City Offset)	(8,769)	(10,089)	(1,320)	(10,912)	(823)	(11,413)	(501)
STAR	(3,429)	(3,473)	(44)	(3,568)	(95)	(3,605)	(37)
RBTF	(11,033)	(11,676)	(643)	(12,335)	(659)	(12,822)	(487)
STATE/ALL FUNDS	**44,131**	**46,704**	**2,573**	**49,340**	**2,636**	**51,288**	**1,948**
Gross Collections	52,900	56,793	3,893	60,252	3,459	62,701	2,449
Refunds (Includes State/City Offset)	(8,769)	(10,089)	(1,320)	(10,912)	(823)	(11,413)	(501)

[1]Excludes Transfers.

All Funds income tax FY 2016 receipts of $46.7 billion are projected to increase $2.6 billion (5.8 percent) from the prior year. Gross receipts are projected to increase 7.4 percent ($3.9 billion), reflecting withholding that is projected to grow by $2.2 billion (6.3 percent) and total estimated payments that are projected to grow by $1.5 billion (10.3 percent).

The increase in withholding reflects moderate wage growth. The increase in estimated payments includes an additional $150 million compared to the prior year from closing the resident trust loophole. Payments from final returns are expected to increase $162 million (7 percent). Delinquencies are projected to increase $50 million (4 percent) from the prior year. Total refunds are projected to increase by $1.3 billion (15.1 percent) from the prior year, primarily the result of an additional $576 million compared to the prior year in advanced credit payment attributable to the Real Property Tax Freeze credit, an additional $200 million in prior year refunds from the Residential Real Property Tax credit, and another $200 million in prior year refunds from the Renter credit.

General Fund income tax FY 2016 receipts of $31.6 billion are projected to increase by $1.9 billion (6.4 percent). RBTF deposits are projected to be $11.7 billion and the STAR transfer is projected to be $3.5 billion.

All Funds income tax receipts are projected to be $49.3 billion in FY 2017 and $51.3 billion in FY 2018. General Fund receipts are projected at $33.4 billion and $34.9 billion, respectively.

User Taxes and Fees

USER TAXES AND FEES (millions of dollars)	FY 2013 Results	FY 2014 Current	Annual $ Change	Annual % Change	FY 2015 Proposed	Annual $ Change	Annual % Change
GENERAL FUND[1]	**9,112**	**6,525**	**(2,587)**	**-28.4%**	**6,714**	**189**	**2.9%**
Sales Tax	8,423	5,890	(2,533)	-30.1%	6,069	179	3.0%
Cigarette and Tobacco Taxes	443	384	(59)	-13.3%	389	5	1.3%
Alcoholic Beverage Taxes	246	251	5	2.0%	256	5	2.0%
STATE/ALL FUNDS	**14,615**	**15,107**	**492**	**3.4%**	**15,480**	**373**	**2.5%**
Sales Tax	11,989	12,595	606	5.1%	12,988	393	3.1%
Cigarette and Tobacco Taxes	1,551	1,421	(130)	-8.4%	1,374	(47)	-3.3%
Motor Fuel Tax	492	500	8	1.6%	502	2	0.4%
Highway Use Tax	145	140	(5)	-3.4%	141	1	0.7%
Alcoholic Beverage Taxes	246	251	5	2.0%	256	5	2.0%
Taxicab Surcharge	83	86	3	3.6%	100	14	16.3%
Auto Rental Tax	109	114	5	4.6%	119	5	4.4%

[1]Excludes Transfers.

All Funds user taxes and fees FY 2014 receipts are estimated to be $15.1 billion, an increase of $492 million (3.4 percent) from the prior year. Sales tax receipts are expected to increase by $606 million (5.1 percent) from the prior year. Contributing factors to a sales tax base growth (i.e., absent law changes) of 4.8 percent are estimated strong growth in vehicle sales, construction, utility expenditures, wholesale trade and food services. Cigarette and tobacco tax collections are estimated to decrease by $130 million (8.4 percent) due to lower consumption of cigarettes as well as increased refunds associated with a change in the way the wholesale cigar tax is administered.

General Fund user taxes and fees FY 2014 receipts are estimated to total $6.5 billion, a decrease of $2.6 billion (28.4 percent) from the prior year. This decrease reflects the General Fund share of sales tax revenues being reduced from 75 percent to 50 percent. Absent this law change, General Fund sales tax receipts would increase by over $400 million. Also, cigarette and tobacco taxes are estimated to fall $59 million (13.3 percent), consistent with All Funds changes.

All Funds user taxes and fees FY 2015 receipts are projected to be nearly $15.5 billion, an increase of $373 million (2.5 percent) from the prior year. The increase in sales tax receipts of $393 million (3.1 percent) reflects sales tax base growth of 3.6 percent. Cigarette and tobacco tax receipts are projected to decline as a result of larger than trend declines in stamp sales, slightly offset by the non-recurrence of prior year cigar tax refunds. The increase in taxicab surcharge receipts reflects a projected increase in the number of vehicles that will now be collecting the surcharge.

General Fund user taxes and fees FY 2015 receipts are projected to total $6.7 billion, an increase of $189 million (2.9 percent) from the prior year. This increase largely reflects the projected increases in All Funds sales tax receipts discussed above.

USER TAXES AND FEES: CHANGE FROM MID-YEAR UPDATE FORECAST (millions of dollars)	FY 2014				FY 2015			
	Mid-Year Update	Executive Budget	Annual $ Change	Annual % Change	Mid-Year Update	Executive Budget	Annual $ Change	Annual % Change
GENERAL FUND[1]	**6,548**	**6,525**	**(23)**	**-0.4%**	**6,806**	**6,714**	**(92)**	**-1.4%**
Sales Tax	5,866	5,890	24	0.4%	6,125	6,069	(56)	-0.9%
Cigarette and Tobacco Taxes	431	384	(47)	-10.9%	425	389	(36)	-8.5%
Alcoholic Beverage Taxes	251	251	0	0.0%	256	256	0	0.0%
STATE/ALL FUNDS	**15,116**	**15,107**	**(9)**	**-0.1%**	**15,674**	**15,480**	**(194)**	**-1.2%**
Sales Tax	12,530	12,595	65	0.5%	13,086	12,988	(98)	-0.7%
Cigarette and Tobacco Taxes	1,491	1,421	(70)	-4.7%	1,466	1,374	(92)	-6.3%
Motor Fuel Tax	500	500	0	0.0%	504	502	(2)	-0.4%
Highway Use Tax	140	140	0	0.0%	143	141	(2)	-1.4%
Alcoholic Beverage Taxes	251	251	0	0.0%	256	256	0	0.0%
Taxicab Surcharge	90	86	(4)	-4.4%	100	100	0	0.0%
Auto Rental Tax	114	114	0	0.0%	119	119	0	0.0%

[1]Excludes Transfers.

All Funds user taxes and fees FY 2014 receipts are revised down by $9 million from the Mid-Year Update as a result of weaker than expected to-date cigarette and tobacco tax collections and the aforementioned increase in refunds due to the change in the way the cigar tax is applied ($70 million), offset by an increase in sales tax collections ($65 million). All Funds FY 2015 user taxes and fees are revised down by $194 million due to anticipated lower sales tax collections ($98 million) and weaker than expected to-date cigarette and tobacco collections ($92 million). General Fund user taxes and fees are estimated to follow a similar trend as All Funds.

USER TAXES AND FEES (millions of dollars)	FY 2015 Proposed	FY 2016 Projected	Annual $ Change	FY 2017 Projected	Annual $ Change	FY 2018 Projected	Annual $ Change
GENERAL FUND[1]	**6,714**	**6,929**	**215**	**7,154**	**225**	**7,396**	**242**
Sales Tax	6,069	6,290	221	6,523	233	6,772	249
Cigarette and Tobacco Taxes	389	378	(11)	365	(13)	353	(12)
Alcoholic Beverage Taxes	256	261	5	266	5	271	5
STATE/ALL FUNDS	**15,480**	**15,938**	**458**	**16,403**	**465**	**16,910**	**507**
Sales Tax	12,988	13,470	482	13,976	506	14,514	538
Cigarette and Tobacco Taxes	1,374	1,327	(47)	1,276	(51)	1,226	(50)
Motor Fuel Tax	502	504	2	509	5	514	5
Highway Use Tax	141	151	10	147	(4)	149	2
Alcoholic Beverage Taxes	256	261	5	266	5	271	5
Taxicab Surcharge	100	101	1	101	0	101	0
Auto Rental Tax	119	124	5	128	4	135	7

[1]Excludes Transfers.

All Funds user taxes and fees receipts are projected to increase by $458 million (3 percent) in FY 2016, $465 million (2.9 percent) in FY 2017, and $507 million (3.1 percent) in FY 2018. This outyear growth represents a return to historical trends in taxable consumption growth and trend declines in cigarette consumption, respectively.

General Fund user taxes and fees receipts are projected to increase by $215 million (3.2 percent) in FY 2016, $225 million (3.2 percent) in FY 2017, and $242 million (3.4 percent) in FY 2018. This outyear growth is consistent with the same trends associated with All Funds, noted above.

Business Taxes

BUSINESS TAXES (millions of dollars)							
	FY 2013 Results	FY 2014 Current	Annual $ Change	Annual % Change	FY 2015 Proposed	Annual $ Change	Annual % Change
GENERAL FUND	**6,253**	**5,988**	**(265)**	**-4.2%**	**5,630**	**(358)**	**-6.0%**
Corporate Franchise Tax	2,624	3,078	454	17.3%	2,424	(654)	-21.2%
Corporation and Utilities Tax	686	606	(80)	-11.7%	622	16	2.6%
Insurance Tax	1,346	1,299	(47)	-3.5%	1,375	76	5.9%
Bank Tax	1,597	1,005	(592)	-37.1%	1,209	204	20.3%
Petroleum Business Tax	0	0	0	0.0%	0	0	0.0%
STATE/ALL FUNDS	**8,465**	**8,186**	**(279)**	**-3.3%**	**7,853**	**(333)**	**-4.1%**
Corporate Franchise Tax	3,009	3,561	552	18.3%	2,911	(650)	-18.3%
Corporation and Utilities Tax	895	794	(101)	-11.3%	814	20	2.5%
Insurance Tax	1,509	1,457	(52)	-3.4%	1,541	84	5.8%
Bank Tax	1,912	1,189	(723)	-37.8%	1,418	229	19.3%
Petroleum Business Tax	1,140	1,185	45	3.9%	1,169	(16)	-1.4%

All Funds business tax FY 2014 receipts are estimated at $8.2 billion, a decrease of $279 million (3.3 percent) from the prior year. This decrease is mainly driven by bank tax receipts. Liability year 2013 payments are weak compared to the previous year with an expected decline of 25 percent. Partially offsetting the decrease in the bank tax are higher corporate franchise tax receipts. This is mainly driven by higher estimated audit receipts ($429 million). Corporation and utilities tax and insurance tax receipts are also estimated to be lower than the previous year.

All Funds corporate franchise tax FY 2014 receipts are estimated to be $3.6 billion, an increase of $552 million (18.3 percent) from FY 2013. The year-to-year increase is mainly attributable to higher audit receipts. Non-audit receipts are estimated to increase $123 million from the prior year as the increase in gross receipts is larger than the increase in cash refunds expected to be paid.

All Funds corporation and utilities tax FY 2014 receipts are estimated to be $794 million, a decrease of $101 million (11.3 percent) from FY 2013. The main driver for the year-to-year decrease is a large telecommunications refund paid in October and lower audit receipts. Gross receipts for FY 2014 are estimated to decline slightly from

FY 2013 as the telecommunications sector continues to erode from consumers continuing to shift to internet based communication tools from landline telecommunications.

All Funds insurance tax FY 2014 receipts are estimated to be $1.5 billion, a decrease of $52 million (3.4 percent) from FY 2013. This decrease is driven by the State's transition of the medical portion of the Empire Plan to self-insurance, effective January 1, 2013. This results in lower 2013 liability since the State no longer remits the insurance tax as part of a premium payment.

All Funds bank tax FY 2014 receipts are estimated to be $1.2 billion, a decrease of $723 million (37.8 percent) from FY 2013. This decrease is mainly attributable to weak liability year 2013 payments from commercial banks and lower audit receipts. Throughout calendar year 2013 banks have reduced their estimated liability and accompanying estimated payments. Additionally, audits are expected to decline $249 million as fewer large cases are settled.

All Funds petroleum business tax FY 2014 receipts are estimated to be $1.2 billion, an increase of $45 million (3.9 percent) from FY 2013. This increase is mainly due to the 5 percent increase in the PBT index effective January 2013 offset by a 0.8 percent decrease effective January 2014. Motor and diesel fuel taxable consumption are projected to grow compared to the prior fiscal year.

General Fund business tax FY 2014 receipts of nearly $6 billion are estimated to decrease by $265 million (4.2 percent) from FY 2013. 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)					
	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Estimated	FY 2015 Projected
Corporate Franchise Tax	**2,846**	**3,176**	**3,009**	**3,561**	**2,911**
Audit	810	1,080	752	1,181	1,003
Non-Audit	2,036	2,096	2,257	2,380	1,908
Corporation and Utilities Taxes	**813**	**797**	**894**	**794**	**814**
Audit	13	30	100	72	54
Non-Audit	800	767	794	722	760
Insurance Taxes	**1,351**	**1,413**	**1,509**	**1,457**	**1,541**
Audit	38	21	34	21	21
Non-Audit	1,313	1,392	1,475	1,436	1,520
Bank Taxes	**1,179**	**1,392**	**1,912**	**1,189**	**1,418**
Audit	239	125	405	155	215
Non-Audit	940	1,267	1,507	1,034	1,203
Petroleum Business Taxes	**1,090**	**1,100**	**1,140**	**1,185**	**1,169**
Audit	7	6	5	6	6
Non-Audit	1,083	1,094	1,135	1,179	1,163
Total Business Taxes	**7,279**	**7,878**	**8,464**	**8,186**	**7,853**
Audit	1,107	1,262	1,296	1,435	1,299
Non-Audit	6,172	6,616	7,168	6,751	6,554

All Funds business tax FY 2015 receipts of roughly $7.9 billion are projected to decrease by $333 million (4.1 percent) from the prior year. Corporation franchise tax FY 2015 receipts are projected to decrease by $650 million (18.3 percent) from FY 2014, driven by lower audit receipts ($178 million) and an increase in refunds attributable to the first year of the credit deferral payback to taxpayers.

Corporation and utilities taxes are projected to increase by $20 million (2.5 percent). Gross receipts for FY 2015 are expected to show minimal growth compared to FY 2014. Lower refunds and lower audit receipts basically offset.

Insurance taxes are projected to increase $84 million (5.8 percent). The year-to-year increase reflects underlying growth in premiums, partially offset by the transition of additional portions of the Empire Plan to self-insurance, effective January 1, 2014.

Bank tax receipts are projected to increase by $229 million (19.3 percent) from the previous year. Tax Year 2014 liability payments are expected to rebound from the low levels seen in 2013. Additionally, audit receipts are expected to be higher than the previous year.

The projected petroleum business tax decrease of $16 million (1.4 percent) is due to a decrease in the petroleum business tax rate index of 0.8 percent effective in January 2014 and the projected decrease in the petroleum business tax rate index of 4 percent, effective in January 2015. Motor and diesel fuel taxable consumption are projected to grow compared to the prior fiscal year.

General Fund business tax FY 2015 receipts of $5.6 billion are projected to decrease $358 million (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)

	FY 2014				FY 2015			
	Mid-Year Update	Executive Budget	Annual $ Change	Annual % Change	Mid-Year Update	Executive Budget	Annual $ Change	Annual % Change
GENERAL FUND	**6,348**	**5,988**	**(360)**	**-5.7%**	**5,811**	**5,630**	**(181)**	**-3.1%**
Corporate Franchise Tax	2,914	3,078	164	5.6%	2,220	2,424	204	9.2%
Corporation and Utilities Tax	596	606	10	1.7%	620	622	2	0.3%
Insurance Tax	1,418	1,299	(119)	-8.4%	1,468	1,375	(93)	-6.3%
Bank Tax	1,420	1,005	(415)	-29.2%	1,503	1,209	(294)	-19.6%
Petroleum Business Tax	0	0	0	0.0%	0	0	0	0.0%
STATE/ALL FUNDS	**8,611**	**8,186**	**(425)**	**-4.9%**	**8,152**	**7,853**	**(299)**	**-3.7%**
Corporate Franchise Tax	3,359	3,561	202	6.0%	2,687	2,911	224	8.3%
Corporation and Utilities Tax	781	794	13	1.7%	807	814	7	0.9%
Insurance Tax	1,587	1,457	(130)	-8.2%	1,644	1,541	(103)	-6.3%
Bank Tax	1,694	1,189	(505)	-29.8%	1,789	1,418	(371)	-20.7%
Petroleum Business Tax	1,190	1,185	(5)	-0.4%	1,225	1,169	(56)	-4.6%

Compared to the Mid-Year Update, FY 2014 All Funds business tax receipts are estimated to decrease $425 million. Higher corporate franchise tax receipts partially offset lower insurance tax and bank tax receipts. Higher corporate franchise tax audit receipts partially offset lower 2013 liability year payments in the bank and insurance taxes.

All Funds business tax FY 2015 receipts are projected to be $299 million below the Mid-Year Update estimates. Higher corporate franchise tax receipts partially offset lower insurance, bank and petroleum business taxes. Higher corporate franchise tax receipts reflect $71 million in FY 2015 Executive Budget proposals as well as a positive adjustment to the credit deferral payback. Lower bank and insurance tax receipts reflect the downward revisions to FY 2014. The downward revision of $56 million to the petroleum business tax mainly reflects a 0.8 percent decrease in the petroleum business tax rate index effective in January 2014 and the projected 4 percent decrease in the petroleum business tax rate index in January 2015.

BUSINESS TAXES (millions of dollars)	FY 2015 Proposed	FY 2016 Projected	Annual $ Change	FY 2017 Projected	Annual $ Change	FY 2018 Projected	Annual $ Change
GENERAL FUND	**5,630**	**5,870**	**240**	**5,852**	**(18)**	**6,032**	**180**
Corporate Franchise Tax	2,424	2,506	82	2,430	(76)	2,529	99
Corporation and Utilities Tax	622	607	(15)	624	17	642	18
Insurance Tax	1,375	1,426	51	1,397	(29)	1,371	(26)
Bank Tax	1,209	1,331	122	1,401	70	1,490	89
Petroleum Business Tax	0	0	0	0	0	0	0
STATE/ALL FUNDS	**7,853**	**8,135**	**282**	**8,180**	**45**	**8,420**	**240**
Corporate Franchise Tax	2,911	3,029	118	2,976	(53)	3,100	124
Corporation and Utilities Tax	814	804	(10)	827	23	850	23
Insurance Tax	1,541	1,600	59	1,577	(23)	1,558	(19)
Bank Tax	1,418	1,564	146	1,651	87	1,754	103
Petroleum Business Tax	1,169	1,138	(31)	1,149	11	1,158	9

All Funds business tax FY 2016, FY 2017 and FY 2018 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 $8.1 billion (3.6 percent) in FY 2016, increase to $8.2 billion (0.6 percent) in FY 2017, and increase to $8.4 billion (2.9 percent) in FY 2018. General Fund business tax receipts projections reflect the factors outlined above, and are projected to increase to $5.9 billion (4.3 percent) in FY 2016, remain at $5.9 billion (0.3 percent) in FY 2017, and increase to $6 billion (3.1 percent) in FY 2018.

Other Taxes

OTHER TAXES (millions of dollars)	FY 2013 Results	FY 2014 Current	Annual $ Change	Annual % Change	FY 2015 Proposed	Annual $ Change	Annual % Change
GENERAL FUND[1]	**1,034**	**1,238**	**204**	**19.7%**	**1,192**	**(46)**	**-3.7%**
Estate Tax	1,014	1,220	206	20.3%	1,175	(45)	-3.7%
Gift Tax	1	0	(1)	-100.0%	0	0	0.0%
Pari-Mutuel Taxes	18	17	(1)	-5.6%	17	0	0.0%
All Other Taxes	1	1	0	0.0%	0	(1)	-100.0%
STATE/ALL FUNDS	**1,790**	**2,053**	**263**	**14.7%**	**2,047**	**(6)**	**-0.3%**
Estate Tax	1,014	1,220	206	20.3%	1,175	(45)	-3.7%
Gift Tax	1	0	(1)	-100.0%	0	0	0.0%
Real Estate Transfer Tax	756	815	59	7.8%	855	40	4.9%
Pari-Mutuel Taxes	18	17	(1)	-5.6%	17	0	0.0%
All Other Taxes	1	1	0	0.0%	0	(1)	-100.0%

[1]Excludes Transfers.

All Funds other tax FY 2014 receipts are estimated to be $2.1 billion, an increase of $263 million (14.7 percent) from FY 2013 receipts, reflecting an increase of $206 million (20.3 percent) in the estate tax, as a result of increase in the number of large payments and an increase of $59 million (7.8 percent) in real estate transfer tax receipts, driven by strong growth in the New York City real estate market.

General Fund other tax receipts are expected to total $1.2 billion in FY 2014, an increase of $204 million (19.7 percent), due to increases in the estate tax.

All Funds other tax FY 2015 receipts are projected to be $2.1 billion, a decrease of $6 million (0.3 percent) from FY 2014 reflecting growth in real estate transfer tax collections off-set by lower estate tax collections. A significant portion ($33 million) of the estimated decline in estate tax receipts is due to Executive Budget legislation that would reform the estate tax.

General Fund other tax receipts are expected to total $1.2 billion in FY 2015, a decrease of $46 million (3.7 percent), which is attributable to a projected decrease in estate tax receipts due to fewer large payments and the Executive Budget proposal.

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

	FY 2014				FY 2015			
	Mid-Year Update	Executive Budget	Annual $ Change	Annual % Change	Mid-Year Update	Executive Budget	Annual $ Change	Annual % Change
GENERAL FUND[1]	**1,069**	**1,238**	**169**	**15.8%**	**1,144**	**1,192**	**48**	**4.2%**
Estate Tax	1,050	1,220	170	16.2%	1,125	1,175	50	4.4%
Gift Tax	0	0	0	0.0%	0	0	0	0.0%
Pari-Mutuel Taxes	18	17	(1)	-5.6%	18	17	(1)	-5.6%
All Other Taxes	1	1	0	0.0%	1	0	(1)	-100.0%
STATE/ALL FUNDS	**1,809**	**2,053**	**244**	**13.5%**	**1,954**	**2,047**	**93**	**4.8%**
Estate Tax	1,050	1,220	170	16.2%	1,125	1,175	50	4.4%
Gift Tax	0	0	0	0.0%	0	0	0	0.0%
Real Estate Transfer Tax	740	815	75	10.1%	810	855	45	5.6%
Pari-Mutuel Taxes	18	17	(1)	-5.6%	18	17	(1)	-5.6%
All Other Taxes	1	1	0	0.0%	1	0	(1)	-100.0%

[1]Excludes Transfers.

All Funds other tax FY 2014 receipts are revised up by $244 million from the Mid-Year Update due to an upward revision to estate tax and real estate transfer tax receipts driven by stronger than-anticipated year-to-date results.

General Fund other tax FY 2014 receipts are revised up by $169 million from the Mid-Year Update due to an upward revision to estate tax receipts driven by stronger than anticipated year-to-date results.

All Funds other taxes for FY 2015 are revised up by $93 million in recognition of the increasing strength of the real estate market in Manhattan.

General Fund other taxes for FY 2015 receipts are revised up by $48 million from the Mid-Year Update which is attributable to an upward revision to estate tax receipts due to an expected increase in household net worth.

OTHER TAXES (millions of dollars)							
	FY 2015 Proposed	FY 2016 Projected	Annual $ Change	FY 2017 Projected	Annual $ Change	FY 2018 Projected	Annual $ Change
GENERAL FUND[1]	**1,192**	**1,054**	**(138)**	**853**	**(201)**	**604**	**(249)**
Estate Tax	1,175	1,037	(138)	836	(201)	587	(249)
Gift Tax	0	0	0	0	0	0	0
Pari-Mutuel Taxes	17	17	0	17	0	17	0
All Other Taxes	0	0	0	0	0	0	0
STATE/ALL FUNDS	**2,047**	**1,949**	**(98)**	**1,803**	**(146)**	**1,624**	**(179)**
Estate Tax	1,175	1,037	(138)	836	(201)	587	(249)
Gift Tax	0	0	0	0	0	0	0
Real Estate Transfer Tax	855	895	40	950	55	1,020	70
Pari-Mutuel Taxes	17	17	0	17	0	17	0
All Other Taxes	0	0	0	0	0	0	0

[1]Excludes Transfers.

All Funds other taxes FY 2016, FY 2017 and FY 2018 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), offset by reductions in estate tax receipts due to the impact of the aforementioned Executive Budget legislation. All Funds other taxes receipts are estimated to decrease to $1.9 billion (4.8 percent) in FY 2016, decrease to $1.8 billion (7.5 percent) in FY 2017, and decrease to just over $1.6 billion (9.9 percent) in FY 2018. General Fund other taxes receipts will reflect decreases due to the estate tax changes noted above, and are projected to decrease to $1.1 billion (11.6 percent) in FY 2016, decrease by $201 million (19.1 percent) in FY 2017, and decrease by $249 million (29.2 percent) in FY 2018.

Miscellaneous Receipts and Federal Grants

MISCELLANEOUS RECEIPTS AND FEDERAL GRANTS (millions of dollars)	FY 2013 Results	FY 2014 Current	Annual $ Change	Annual % Change	FY 2015 Proposed	Annual $ Change	Annual % Change
GENERAL FUND	**3,566**	**3,253**	**(313)**	**-8.8%**	**3,857**	**604**	**18.6%**
Miscellaneous Receipts	3,504	3,251	(253)	-7.2%	3,857	606	18.6%
Federal Grants	62	2	(60)	-96.8%	0	(2)	-100.0%
STATE FUNDS	**24,001**	**23,744**	**(257)**	**-1.1%**	**25,208**	**1,464**	**6.2%**
Miscellaneous Receipts	23,855	23,664	(191)	-0.8%	25,129	1,465	6.2%
Federal Grants	146	80	(66)	-45.2%	79	(1)	-1.3%
ALL FUNDS	**66,873**	**71,356**	**4,483**	**6.7%**	**71,107**	**(249)**	**-0.3%**
Miscellaneous Receipts	24,030	23,850	(180)	-0.7%	25,315	1,465	6.1%
Federal Grants	42,843	47,506	4,663	10.9%	45,792	(1,714)	-3.6%

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 estimated to decline in FY 2014, from $24 billion in FY 2013 to $23.9 billion in FY 2014, and then increase $1.5 billion in FY 2015 to $25.3 billion. The slight annual decline in FY 2014 is mainly due to fluctuations in the level of receipts for unclaimed and abandoned property. The FY 2015 All Funds annual increase is primarily due to the expected deposit of $1 billion from the State Insurance Fund reserve release in connection with Workers' Compensation law changes in the FY 2014 budget, as well as variations in the level of receipts for health care surcharges and other HCRA resources, licensing fees associated with commercial gaming, bond proceeds, atypical fines and the phase-out of the temporary utility assessment.

Aid from the Federal government helps pay for a variety of programs including Medicaid, temporary and disability assistance, mental hygiene, school aid, public health, and other activities. Annual changes to Federal grants generally correspond to changes in Federally-reimbursed spending. Accordingly, DOB typically projects Federal reimbursements will be received in the State fiscal year in which spending occurs, but due to the variable timing of Federal grant receipts, actual results often differ from the plan.

All Funds Federal grants are expected to grow by $4.7 billion in FY 2014 and then decline by $1.7 billion in FY 2015. The annual changes are mainly due to the timing of Federal disaster assistance aid, and the impact on spending associated with the ACA.

MISCELLANEOUS RECEIPTS AND FEDERAL GRANTS: CHANGE FROM MID-YEAR UPDATE FORECAST (millions of dollars)	FY 2014				FY 2015			
	Mid-Year Update	Executive Budget	Annual $ Change	Annual % Change	Mid-Year Update	Executive Budget	Annual $ Change	Annual % Change
GENERAL FUND	**3,308**	**3,253**	**(55)**	**-1.7%**	**3,595**	**3,857**	**262**	**7.3%**
Miscellaneous Receipts	3,306	3,251	(55)	-1.7%	3,595	3,857	262	7.3%
Federal Grants	2	2	0	0.0%	0	0	0	0.0%
STATE FUNDS	**24,069**	**23,744**	**(325)**	**-1.4%**	**24,895**	**25,208**	**313**	**1.3%**
Miscellaneous Receipts	23,989	23,664	(325)	-1.4%	24,817	25,129	312	1.3%
Federal Grants	80	80	0	0.0%	78	79	1	1.3%
ALL FUNDS	**71,608**	**71,356**	**(252)**	**-0.4%**	**72,265**	**71,107**	**(1,158)**	**-1.6%**
Miscellaneous Receipts	24,175	23,850	(325)	-1.3%	25,003	25,315	312	1.2%
Federal Grants	47,433	47,506	73	0.2%	47,262	45,792	(1,470)	-3.1%

Since the prior estimates, All Funds miscellaneous receipts estimates have been revised downward in FY 2014 to reflect changes in HCRA resource assumptions and lower abandoned property receipts. In FY 2015, miscellaneous receipts have been increased to account for revenues from licensing fees associated with commercial gaming, and increased bond proceeds expected to fund economic development projects.

Estimated Federal grants have been increased slightly in FY 2014 to reflect activity to date, and reduced by $1.5 billion in FY 2015 to reflect changes in Medicaid associated with the ACA.

MISCELLANEOUS RECEIPTS AND FEDERAL GRANTS (millions of dollars)	FY 2015 Proposed	FY 2016 Projected	Annual $ Change	FY 2017 Projected	Annual $ Change	FY 2018 Projected	Annual $ Change
GENERAL FUND	**3,857**	**3,072**	**(785)**	**2,646**	**(426)**	**2,149**	**(497)**
Miscellaneous Receipts	3,857	3,072	(785)	2,646	(426)	2,149	(497)
Federal Grants	0	0	0	0	0	0	0
STATE FUNDS	**25,208**	**24,778**	**(430)**	**23,679**	**(1,099)**	**22,714**	**(965)**
Miscellaneous Receipts	25,129	24,699	(430)	23,600	(1,099)	22,635	(965)
Federal Grants	79	79	0	79	0	79	0
ALL FUNDS	**71,107**	**71,772**	**665**	**71,986**	**214**	**72,745**	**759**
Miscellaneous Receipts	25,315	24,885	(430)	23,786	(1,099)	22,821	(965)
Federal Grants	45,792	46,887	1,095	48,200	1,313	49,924	1,724

All Funds miscellaneous receipts are projected to decrease annually from FY 2015 through FY 2018. The declines are mainly attributable to reduced transfers from SIF, the phase-out of the temporary utility assessment, and bond proceeds available to fund capital improvement projects.

All Funds Federal grants are expected to grow to $49.9 billion by FY 2018. This growth is mainly driven by growth in Medicaid spending associated with continued implementation of ACA.

REVENUE ACTIONS

REVENUE ACTIONS

The 2014-15 Budget includes a net negative increment of $1.2 billion in All Funds receipts reflecting the revenue actions contained in this budget. The accompanying table summarized the revenue proposals by type of action required and provides a short description of the proposal, the date that the proposal will become effective, the Fund type where revenue will be deposited, and the incremental revenue gain or loss from the proposed action. This table represents gross revenue adds and reductions without any adjustments for associated spending changes, movements across funds or General Fund spending offsets.

REVENUE ACTIONS LIST
(millions of dollars)

			General Fund		All Funds	
Agency	**Description and Effective Date**	**Fund Type**	**2014-15**	**2015-16**	**2014-15**	**2015-16**
	Tax Reform Actions					
Tax	Corporate Tax Reform - 1/1/15	GFTX	-	(205)	-	(205)
Tax	Establish a 20 Percent Real Property Tax Credit For Manufacturers - 1/1/14	GFTX	-	(136)	-	(136)
Tax	Eliminate the Net Income Tax On Upstate Manufacturers - 1/1/14	GFTX	(24)	(24)	(24)	(24)
DPS	Eliminate 18-a Temporary Assessment For Industrial Customers, Accelerate Phase Out For All Others - 4/1/14	GFMR	(200)	(200)	(200)	(200)
Tax	Establish the Real Property Tax Freeze Personal Income Tax Credit - 1/1/14	GFTX	(400)	(976)	(400)	(976)
Tax	Establish the Residential Real Property Personal Income Tax Credit - 1/1/14	GFTX	-	(200)	-	(200)
Tax	Establish a Renter's Personal Income Tax Credit - 1/1/14	GFTX	-	(200)	-	(200)
Tax	Reform the Estate Tax - 4/1/14	GFTX	(33)	(175)	(33)	(175)
Tax	Repeal the Personal Income Tax Add-On Minimum Tax - 1/1/14	GFTX	-	-	-	-
Tax	Repeal the Boxing and Wrestling Exhibitions Tax - 9/1/14	GFTX	-	-	-	-
Tax	Repeal the Franchise Tax On Agricultural Cooperatives - 1/1/15	GFTX	-	-	-	-
Tax	Repeal Article 12 of the Tax Law - 6/1/14	GFTX	-	-	-	-
Tax	Increase Personal Income Tax Filing Income Threshold - 1/1/14	GFTX	-	-	-	-
Tax	Modify Signature Requirements on e-Filed Returns Prepared by Tax Professionals - 1/1/14	GFTX	-	-	-	-
Tax	Align Mobility and Personal Income Tax Filings For the Self-Employed - 1/1/15	GFTX	-	-	-	-
Tax	Streamline Corporate Audit Procedures (Administrative) - 4/1/15	GFTX/SFTX	-	150	-	172
Tax	Reform The Investment Tax Credit - 1/1/14	GFTX	65	65	65	65
Tax	Repeal the Financial Services Investment Tax Credit - 1/1/14	GFTX	30	30	30	30
Tax	Close the Resident Trust Loophole - 1/1/14	GFTX	75	225	75	225
	Subtotal		**(487)**	**(1,646)**	**(487)**	**(1,624)**

Key:

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

REVENUE ACTIONS

Agency	Description and Effective Date	Fund Type	General Fund 2014-15	General Fund 2015-16	All Funds 2014-15	All Funds 2015-16
Tax Enforcement Actions						
Tax	Authorize a Professional and Business License Tax Clearance - 4/1/14	GFTX	-	3	-	3
Other Revenue Actions						
Tax	Expand the Low Income Housing Credit - 4/1/14	GFTX	-	(8)	-	(8)
Tax	Enhance the Youth Works Tax Credit - 1/1/14	GFTX	-	(4)	-	(4)
Tax	Modify Delivery of the Family Tax Relief Credit After Tax Year 2014 - 1/1/2015	GFTX	-	410	-	410
	Subtotal		**-**	**398**	**-**	**398**
Revenue Extenders						
Tax	Extend the Alternative Fuels Tax Exemptions For Two Years - 9/1/14	GFTX/SFTX CFTX	(2)	(4)	(8)	(16)
Tax	Extend the Non-Custodial EITC For Two Years - 1/1/15	GFTX	-	-	-	-
Tax	Extend the Commercial Production Tax Credit For Two Years - 1/1/15	GFTX	-	-	-	-
Tax	Extend and Reform the Brownfield Clean-Up Program - 1/1/16	GFTX	-	-	-	-
Gaming	Extend Monticello Video Lottery Terminal Rates For One Year - 4/1/14	SFMR	-	-	(3)	-
Tax	Extend Certain Tax Rates and Simulcast Provisions For One Year - 7/1/14	SFMR	-	-	-	-
Gaming	Extend the Video Lottery Gaming Vendor's Capital Awards Program For One Year - 4/1/14	SFMR	-	-	-	-
Tax	Extend Fees For the Establishment of Oil and Gas Unit of Production Value - 4/1/14	GFTX	-	-	-	-
	Subtotal		**(2)**	**(4)**	**(11)**	**(16)**
STAR Actions						
Tax	Eliminate the Income Threshold Inflation Adjustment For Enhanced STAR Benefits - 4/1/14	SFTX	-	-	-	3
Technical Corrections						
Tax	START-UP NY Technical Amendment - 1/1/14	GFTX	-	-	-	-
Tax	Simplify the Distribution of Motor Vehicle Fee Receipts - 4/1/14	GFTX/SFTX CFTX	-	-	-	-
Gaming	Make Technical Amendments to the Commercial Gaming Statute - Various	SFMR	-	-	-	-
Fees						
Gaming	Require Regulatory Racing Fee to Cover Cost of Regulation - 4/1/14	SFMR	-	-	2	2
	TOTAL REVENUE ACTIONS		**(489)**	**(1,249)**	**(496)**	**(1,234)**

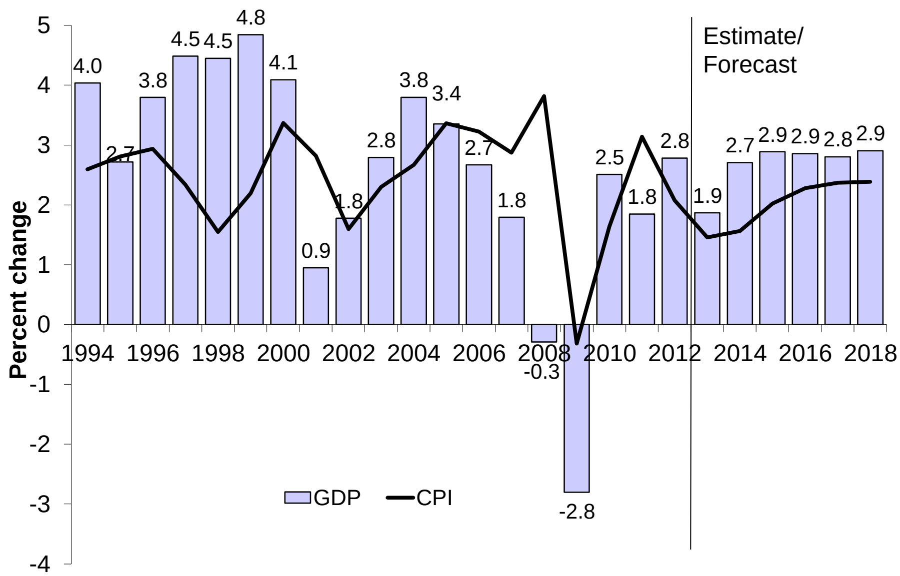
ECONOMIC BACKDROP

ECONOMIC BACKDROP

OVERVIEW

As 2014 begins, the national economy appears once again to be approaching an inflection point, finally producing the sustainable momentum that has been so elusive until now. Both the housing and labor markets have shown steady improvement, furthering the repair of household balance sheets. With households feeling wealthier and more certain about future job prospects, real household spending growth is expected to rise above the poor results to-date during the current expansion. At the same time, the euro-area's downward spiral appears to be abating. But even stagnation would represent an improvement over its recent past. Consistently stronger growth in both domestic and global demand is expected to stimulate private business investment, which has been virtually absent from this recovery despite flush corporate balance sheets. These forces are expected to more than compensate for ongoing weakness in the public sector that will continue to be a drag on growth, albeit a diminishing one, for some time. Real U.S. GDP is projected to grow 2.7 percent in 2014, following 1.9 percent growth in 2013 (see Figure 1).

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



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

Although the most recent data point toward a brighter outlook for 2014, the improvement implied by the Budget Division forecast does not represent a dramatic break from the recent past. A substantial degree of slack remains in both the U.S. and abroad, which is likely to keep inflation below the Federal Reserve's 2 percent target for much of this year. The recent federal budget agreement may signal a new tone coming out of Washington, but continued fiscal cooperation is required to keep the economy moving forward.

An improving labor market has given the Federal Reserve the confidence to begin the long road toward "normalization," while continued low inflation gives the central bank room to proceed with that process at a snail's pace. But no matter the pace, the pinch of higher long-term interest rates will be felt. Slack will also continue to put downward pressure on income growth, though we fully expect that pressure to diminish going forward. Europe's climb out of recession is likely to be slow and uneven. Recent research indicates that recoveries that follow financial crises are long and painful, particularly when combined with the collapse of a housing bubble. This recovery has sustained more than its share of negative events, ranging from weather and energy price shocks to true catastrophes like the Japanese earthquake and tsunami of 2011. While the economy's resiliency to such events is improving, substantial risks remain.

New York's private sector labor market continues to enjoy robust growth and was much stronger coming out of the recovery than that of the nation as a whole. Tourism continues to be a key source of strength, supporting leisure and hospitality's ongoing role as a leading sector. An accelerating national economy will continue to increase demand for New York's large business service sector. The State's real estate sector continues to be strong, particularly in New York City, supporting strong growth in construction jobs in 2014. Private sector job growth of 1.5 percent is projected for 2014, representing a fourth consecutive year of above average growth.

Surging equity market growth during the latter part of 2013 is likely to have contributed to solid gains in non-wage income last year, including taxable capital gains, while finance and insurance bonus growth of about 8 percent is projected for the State fiscal year in progress. However, both government and financial sector employment are expected to continue to fall through 2014, putting downward pressure on wage growth despite healthy growth in bonuses. State wage growth of 5.4 percent is projected for 2014, accompanied by total personal income growth of 5.2 percent. Note that these growth rates are elevated – particularly for wages – due to the shifting of income from the beginning of 2013 into the end of 2012, in anticipation of a federal tax hike for high-income earners. As this effect runs its course, wage and personal income growth are expected to slow to 4.6 percent and 4.9 percent, respectively, in 2015. Projected growth for both 2014 and 2015 remain below historical averages.

THE NATIONAL ECONOMY

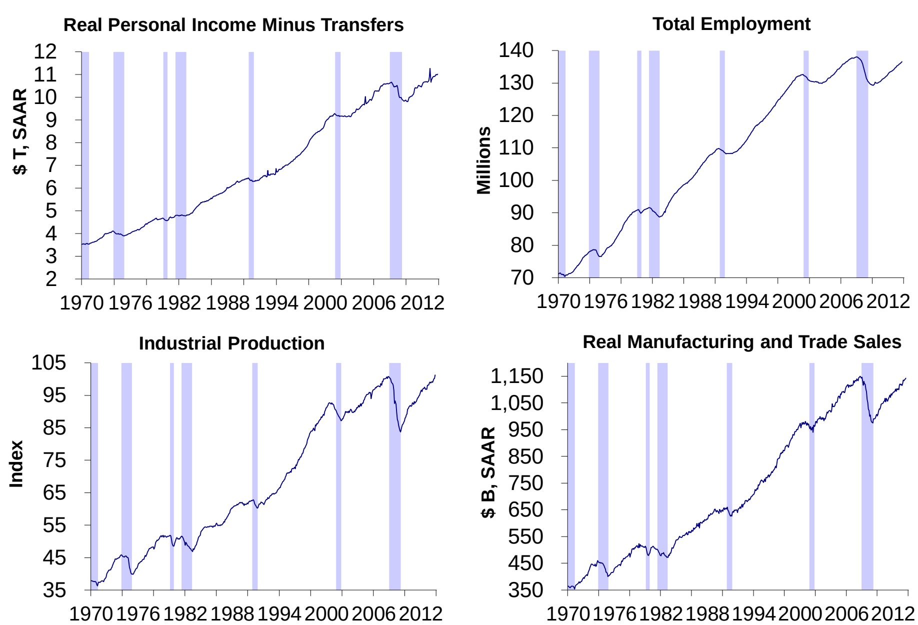
The national economy emerged from the Great Recession on a double dose of life support, in the form of historically expansive fiscal and monetary policy. But under political pressure to focus on the nation's long-term debt challenges, the federal government started to withdraw fiscal policy support as early as the final quarter of 2010, rather than bolstering aggregate demand and employment. Diminished support from the fiscal side left monetary policy as the sole source of countercyclical policy aid. Indeed, fiscal policy became an outright drag on economic growth, not only through declines in real spending, but also through the negative impact of political uncertainty on economic activity.

Nevertheless, the slowest recovery since the 1930s is making progress. Box 1 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. All four of these series exhibited their largest declines since the 1930s, proving that the Great Recession moniker was well earned. After 18 quarters, two of these key measures of activity – industrial production and real personal income minus transfers – have finally surpassed their pre-recession peaks, while real manufacturing and trade sales was on the verge of doing so by end of the third quarter, the most recent for which data are available. Employment remains the only significant laggard. These indicators signal that the economy has strengthened significantly in the last year.

BOX 1
RECOVERING FROM THE GREAT RECESSION

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

NBER Recession Indicators

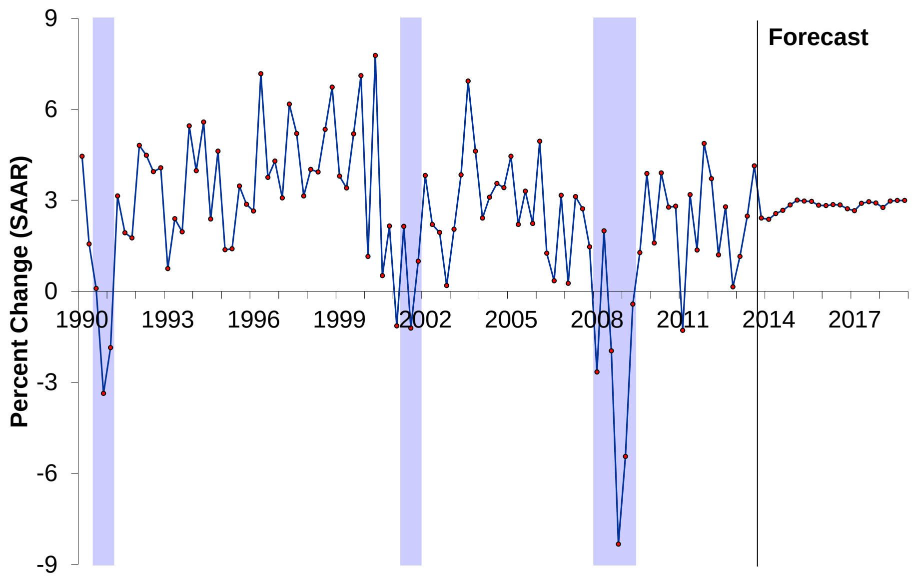


Note: Shaded areas represent U.S. recessions.
Source: Moody's Analytics.

As indicated in Figure 5 below, the current recovery has been the slowest since the 1930s. It took until the middle of the fourth year of the recovery for real personal income minus transfers and industrial production to finally surpass their pre-recession peaks. Real manufacturing and trade sales will likely have passed peak in the fourth quarter of 2013 or the first quarter of 2014. That leaves employment as the only series that remains significantly below where it was before the start of the recession. But as it is also the only indicator that directly relates to the Federal Reserve's dual mandate, it is likely that monetary policy will remain highly accommodative until employment has comfortably risen above where it was at the end of 2007. The Budget Division projects that employment will surpass its January 2008 peak by the end of the second quarter of this year.

Additional data lend hope that the national economy is achieving self-sustainability. Real U.S. GDP grew 4.1 percent in the third quarter of 2013, the fastest growth since 2011Q4 (see Figure 2). Third quarter growth was bolstered by inventory investment of $115.7 billion, the highest since the third quarter of 2010. This buildup appeared to have anticipated the surge in household spending and export growth that is estimated for the fourth quarter. The Budget Division projects real household spending growth of 3.7 percent during the last quarter of 2013, the first quarter above 3 percent since 2010Q4. Real U.S. GDP growth of 2.4 percent is estimated for the final quarter of 2013, following 4.1 percent growth in the third quarter and 2.5 percent in the second.

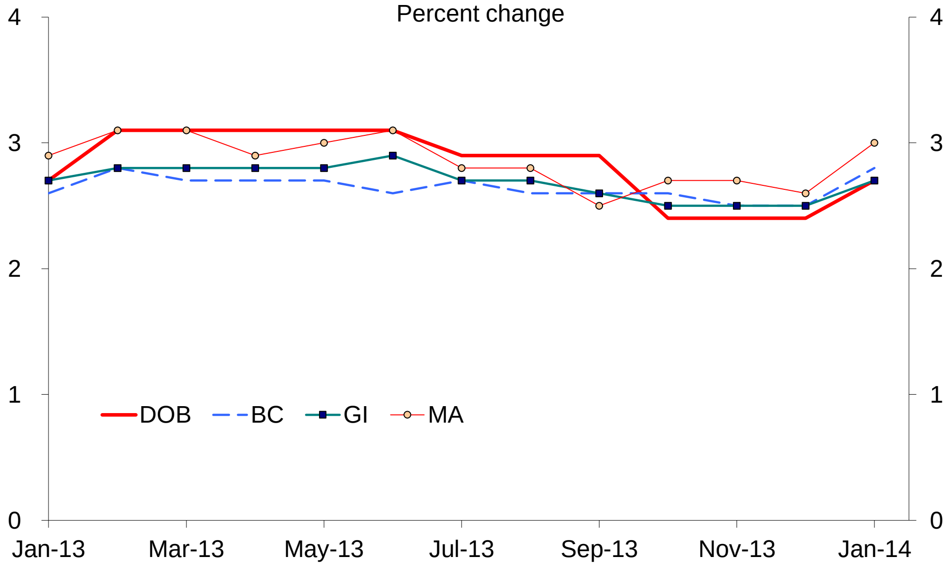
Figure 2
Real US GDP Quarterly Growth



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

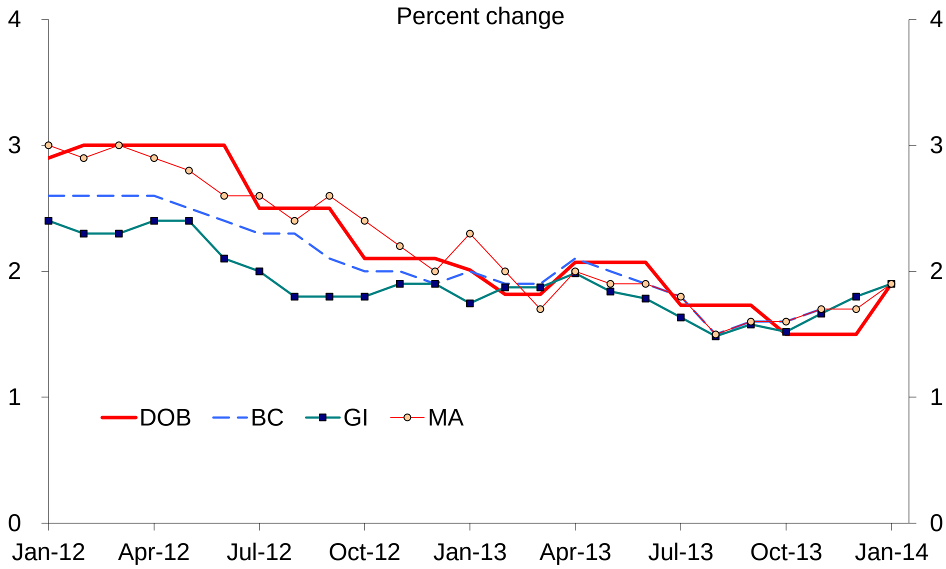
The approximately 3 percent estimated average rate over the latter three quarters of 2013 represents a significant improvement over the 2.2 percent average over the prior life of the recovery. There are good reasons to believe that this improvement can be sustained. Although the most recent jobs data indicates that the labor market has not yet achieved take-off velocity, it is getting stronger. Home prices and new residential construction are creating both real estate wealth and jobs, while equity market growth has supported strong growth in financial wealth. Consistently stronger household spending resulting from rising income and wealth should give private business more confidence to invest and hire. Demand for U.S. exports among the nation's largest trading partners – Canada and Mexico – has expanded, and the euro-area economy has stopped shrinking, which also bodes well for improved growth among emerging market economies in Latin America and Asia. In the meantime, the federal government is expected to be less of a drag on economic growth going forward, and the recent Congressional budget agreement lends hope that partisan rancor will be less of an impediment to growth in the near future.

Figure 3
Evolution of the GDP Forecast for 2014



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

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.

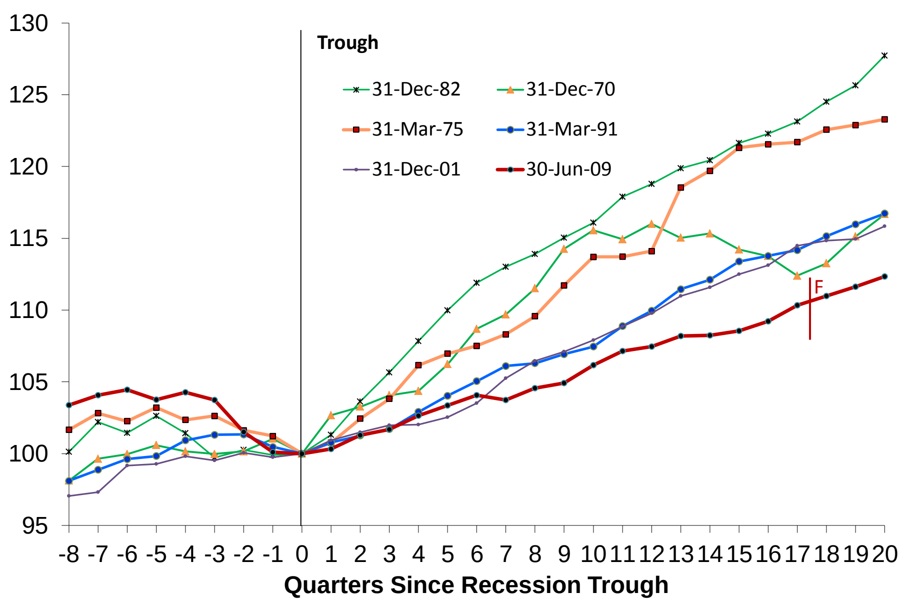
The factors listed above all support the Budget Division's optimistic outlook for 2014, and this optimism is shared in varying degrees by many other professional forecasters. Figure 3 illustrates how a selection of real U.S. GDP growth forecasts for 2014 has evolved over time. Overall the 2014 outlook has remained remarkably stable since January 2013, with 15 of the 56 Blue Chip forecasters currently projecting growth of 3.0 percent or above. But the history of the recovery from the Great Recession urges caution. At the conclusion of its December meeting, the Federal Open Market Committee finally announced that sufficient progress had been made to warrant at least a beginning to the end of its quantitative easing policies. While this action represented a vote of confidence in the U.S. economy, it also increased interest rate uncertainty. Interest rate-sensitive activity, such as home and auto purchases, could weaken.

The recent meteoric rise in equity prices is likely unsustainable and could signal increased volatility ahead, particularly if all of the optimism over future earnings prospects is priced in and interest rates rise by more than expected. Correspondingly, the finance activity that tends to accompany rising equities, such as IPOs, could also weaken. The dissolution of hope into disappointment has been a hallmark of this recovery. As illustrated in Figure 4, the originally optimistic outlook for 2013 deteriorated quickly over the course of 2012, when the activity resulting from unusually warm weather early in the year proved unsustainable.

Finally, there is an upside to the slow but steady pace of this recovery. Figure 5 compares the cumulative rate of output growth of the current recovery with the pace of the five previous recoveries. The current recovery is likely to retain its place as the weakest of the Postwar Era. But with the labor and housing market recoveries just beginning to pick up steam – and barring some unforeseen catastrophic event – the current expansion, now in the middle of its fourth year, could ultimately rival the record long expansions of the 1980s and1990s.

Figure 5

Cumulative Real GDP Growth Before and After the Recession Trough

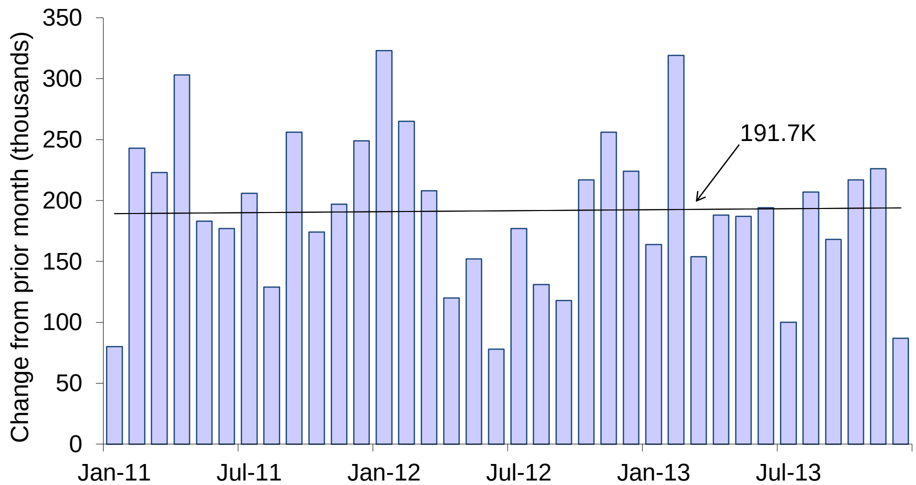


Note: Zero point represents the recession troughs.
Source: Moody's Analytics; DOB staff estimates.

Slow But Steady Labor Market Gains

Since the beginning of 2011, the nation's private sector labor market has reliably produced average monthly gains just below 200,000 (see Figure 6), with relatively short but volatile periods of interruption as various crises have arisen and abated. The list includes the euro-debt crisis, the Japanese earthquake and tsunami, spiking energy prices associated with upheaval in the Middle East, as well as the nation's own political and fiscal tumult. These private gains stand in stark contrast to a substantial contraction in the public sector where only recently have the monthly changes been fluctuating around zero (see Figure 7).

Figure 6
U.S. Private Sector Employment Gains



Source: Moody's Analytics.

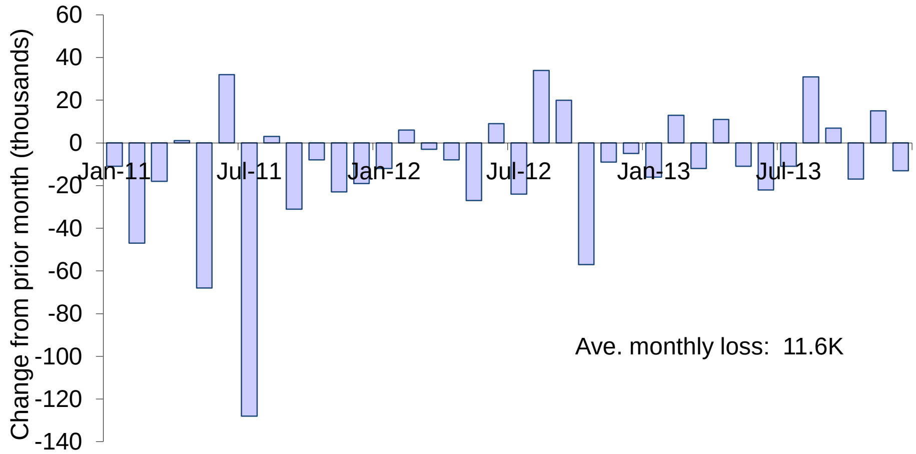
Barring any extraordinary events such as those we have witnessed in recent years, total employment growth of 1.7 percent is projected for 2014 on an annual average basis, following growth of 1.6 percent in 2013. The Budget Division forecast is consistent with average monthly employment growth in 2014 of 210,000 jobs, up from 182,000 last year. The 2014 projection reflects private sector growth of 2.1 percent projected for this year, following growth of 2.0 percent in 2013.[1] With diminishing fiscal drag due to the recent Federal budget agreement, government employment is expected to grow 0.1 percent in 2014, following a decline of 0.3 percent last year.

Since continued slow growth in the labor force is expected to accompany an improving job market, the national unemployment rate is projected to fall to an average of 6.8 percent for 2014, down from 7.4 percent in 2013. There remains a large pool of marginally attached workers that may be reluctant to enter the labor force due to doubt as to their employability. Given that the decline in the unemployment rate will be as much due to a stagnant labor force as to improving job gains, the Federal Reserve is likely to

[1] When BLS publishes its 2011 benchmark revision on February 3, 2014, the March 2013 level of employment will be revised up by 345,000 jobs, an apparent increase of 0.3 percent. However, this revision is more than accounted for by a change in methodology, rather than underlying labor market strength. In the absence of that change, employment would have been revised down by 124,000; see <http://www.bls.gov/ces/cesprelbmk.htm>, viewed January 14, 2014.

continue to portray its stated 6.5 percent unemployment rate benchmark as a soft target until it can be solidly concluded that the rate is falling for the right reasons.

Figure 7
U.S. Private Sector Employment Gains



Source: Moody's Analytics.

Table 1 shows the number of jobs expected to be added by sector over the course of 2014 by comparing projected employment for the fourth quarter of this year with the same quarter last year. Continued steady private-sector employment growth of 2.0 percent is expected for 2014 on a fourth quarter year-ago basis, but with some alteration in the composition of growth across industries. With the euro-area no longer shrinking and the global economy slowly improving, those sectors that are relatively more export-oriented will see faster growth in 2014 than in 2013. Continued strong domestic demand for autos should help job growth in manufacturing to accelerate from 0.6 percent in 2013 to a forecast 1.1 percent in 2014. An improved international economy is expected to increase jobs in business, professional, and technical services, a small but growing component of total exports which expanded 77.1 percent between 2006 and 2012, the most recent year of available data. Domestic demand for business services is also expected to be supported by the reduction in the federal budget spending sequestration, thanks to the recent budget agreement. Professional and technical services employment is projected to continue growing at 2.6 percent in 2014, with growth in management, administrative support, and waste management services projected at a still strong 3.2 percent.

TABLE 1
STEADY JOB GROWTH IN 2014
Q4 / Q4

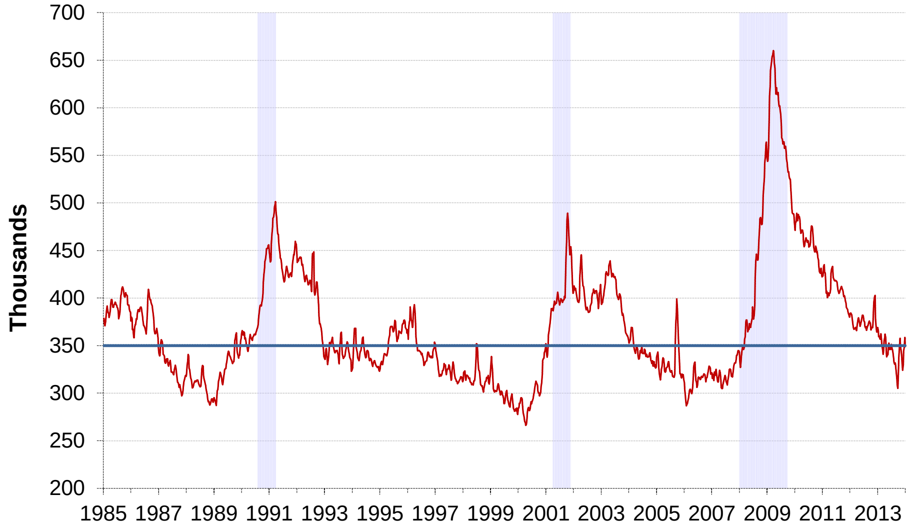
	2012 %Change	2013 %Change	2014 Jobs Added	2014 % Change
Total Private	2.0	2.0	2,337	2.0
Natural Resources and Mining	2.9	4.4	17	1.9
Utilities	0.5	0.3	1	0.3
Construction	1.5	3.1	220	3.7
Manufacturing	1.3	0.6	132	1.1
Wholesale Trade	2.1	1.4	100	1.7
Retail Trade	1.6	2.2	253	1.6
Transportation and Warehousing	2.8	1.7	101	2.2
Information	(0.1)	0.2	28	1.0
Finance and Insurance	1.4	0.6	62	1.0
Real Estate, Rental, and Leasing	1.2	2.4	39	2.0
Professional and Technical Services	3.1	2.6	210	2.6
Management, Admin. Support, and Waste Services	3.3	4.1	346	3.2
Education Services	1.7	1.1	113	3.2
Health Care and Social Assistance Services	2.1	1.9	300	1.7
Leisure, Hospitality, and Other Services	2.4	2.4	414	2.1
Government	(0.4)	(0.1)	41	0.2
Total	1.6	1.7	2,378	1.7

Source: Moody's Analytics; DOB staff estimates.

Changes in tax policy put substantial pressure on disposable income in early 2013, but with those pressures now in abeyance, and household balance sheets firming, sectors most closely tied to consumer demand are expected to continue to expand. Retail trade employment is projected to grow 1.6 percent over the course of 2014, while employment growth in wholesale trade is expected to accelerate to 1.7 percent. These projections are consistent with the explosive increase in Internet sales, particularly around the holidays. Leisure, hospitality, and other services is projected to grow a strong 2.1 percent. Both the trade and leisure and hospitality sectors are expected to benefit from continued strength in tourism. Government is expected to remain virtually flat, an improvement over the prior three years. Discounting the run-up in employment that accompanied the conduct of the Decennial Census, the government sector has shed 830,000 jobs since its April 2009 cyclical peak.

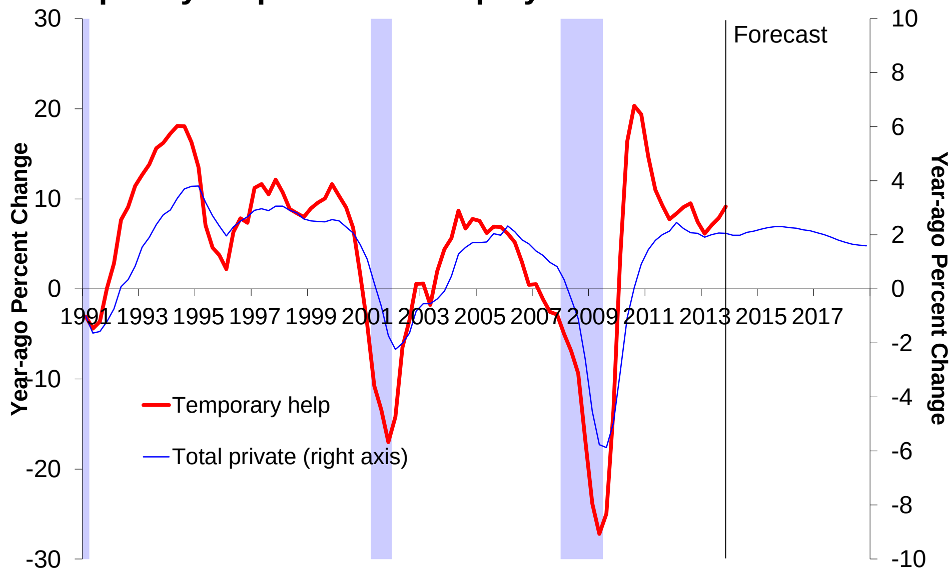
Construction sector employment is expected to advance a strong 3.7 percent over the course of 2014, following growth of 3.1 percent last year, with the nation’s housing sector recovery finally gaining traction. Multifamily housing starts continue to outpace single-family home construction, as many households make the choice to rent rather than own. But with new home prices rising over 30 percent since early 2009, single family housing starts are increasing as well, exceeding 700,000 on a seasonally adjusted basis in November, 2013, for the first time since March, 2008. Repairing damage caused by Superstorm Sandy also continues to increase the demand for construction workers in the Northeast.

Figure 8
Initial Claims
4-Week Moving Average



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

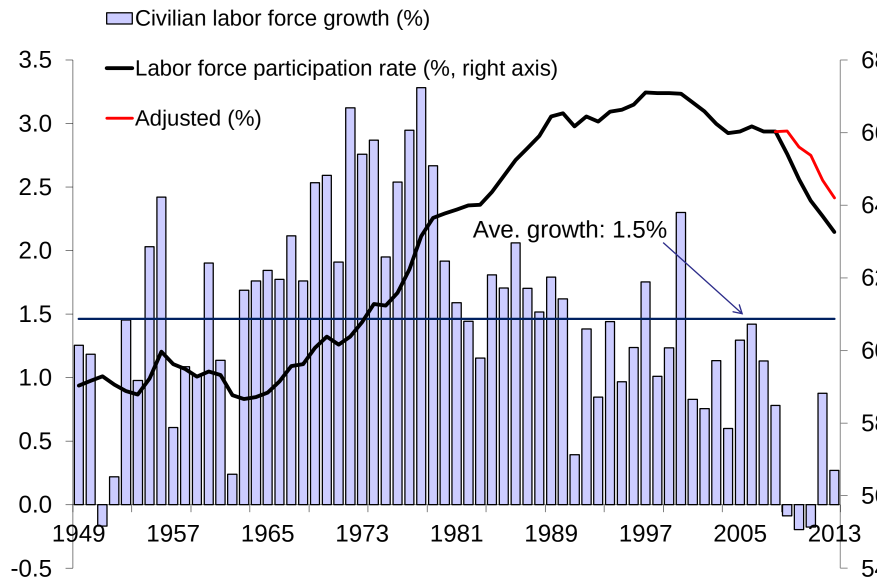
Figure 9
Temporary Help Services Employment Leads Total Private



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

Two leading labor market indicators support an outlook for a moderate acceleration in job growth for this year. Figure 8 indicates that the 4-week moving average for initial claims fell below 350,000 in March 2013 and -- allowing for some unusual weather , the timing of holidays, the October federal government shutdown and computer glitches in California's administration of its unemployment insurance program -- it has been fluctuating just below that level ever since. As illustrated in Figure 9, the demand for temporary help services is volatile, but otherwise is a reliable leading indicator of private sector hiring.[2] Recent trends in both claims and temporary services hiring are signaling the steady but slow improvement reflected in the Budget Division forecast.

Figure 10
U.S. Labor Force



Note: The red line adjusts for discouraged and disabled workers.
Source: Moody's Analytics.

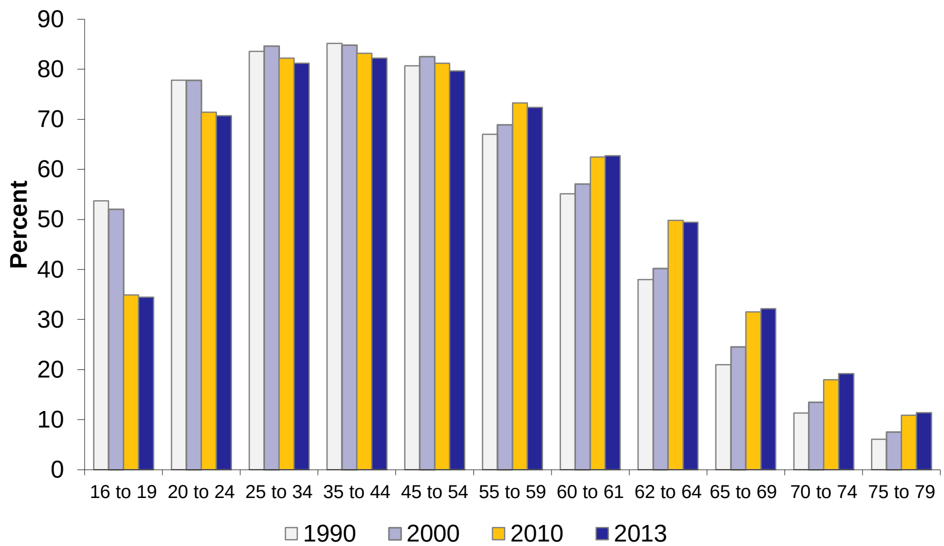
With job growth expected to continue at a steady pace just above 200,000 jobs per month, the Budget Division projects the unemployment rate will fall from 7.1 percent in the fourth quarter of 2013 to 6.6 percent by the fourth quarter of 2014. Despite only moderate monthly job growth, the unemployment rate has fallen thanks in part to weak growth in the nation's labor force, up only 0.3 percent in 2013. Figure 10 presents labor force growth rates since 1948, confirming that the current expansion is witnessing the weakest labor force growth of any postwar expansion. Figure 10 also shows a declining labor force participation rate since 1997, with the decline accelerating during the 2001 recession and again during the 2008-09 recession. The participation rate has continued to fall since the start of the recovery, perhaps as the long-term unemployed exhaust their extended benefits and join the ranks of the discouraged workers. As the recovery proceeds, we expect more gradual declines, reflecting the aging of the baby-boom population in the coming years.

The national labor force participation rate fell 1.45 percentage points between 2010 and 2013. But as demonstrated in Figure 11, it has moved in different directions for different age groups, falling for every age group below 55, but rising for all age groups 55 and above. Thus, the decline in the national participation rate has two sources: 1) the aging of the population, and 2) declining participation rates among younger workers. Decomposing the 2013 rate into its two component parts reveals that 55 basis points of

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

this decline is due to the aging of the population, while 90 basis points is due to the declining participation rate among younger workers. The latter trend is a major concern in the context of an aging population. According to Current Population Survey data, the number of individuals that reported not being in the labor force and having a disability in 2013 had risen 7.8 percent above the 19-month average from June 2008 (the first month for which these data are reported) to December 2009, an increase of 1.822 million workers. The data also reveal that the number of discouraged workers who report not being in the labor force but want to work had risen 481,000 above the average from 1994 to 2007. Adding those two groups to the 2013 labor force total would increase the labor force participation rate by 94 basis points, just slightly more than the decline attributable to workers below the age of 65 leaving the labor force. Thus it appears that the cyclical contribution to the decline in the labor force participation rate far exceeds the contribution from demographics.

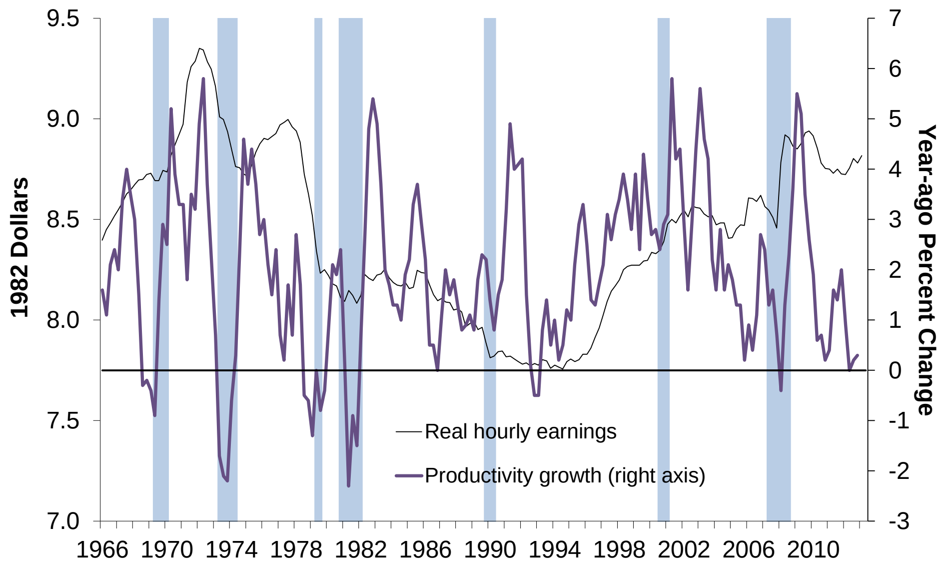
Figure 11
Labor Force Participation Rates by Age Group



Source: U.S. Bureau of Labor Statistics.

Although the projected unemployment rate for 2013Q4 is the lowest since the fourth quarter of 2008, it is still high from a historical standpoint, implying that a high degree of slack remains in the labor market. A consequence of that slack is continued weak income growth. As illustrated in Figure 12, labor income has historically tended to rise with productivity. Labor productivity was strong coming out of the recession as employment continued to fall even as output rose. But productivity has since waned, consistent with weak output and investment growth. Correspondingly, there has been very little real earnings growth since the technical end of the recession in mid-2009. By the fourth quarter of 2013, the most recent quarter for which data are available, real earnings were still down 1.0 percent from the second quarter of 2009. Productivity gains are expected to improve as both investment and output growth accelerate, accompanied by moderate gains in employment. Productivity growth bodes well for future wage growth, but the high degree of slack in the labor force will likely continue to limit the degree of pass-through in the form of higher earnings. The Budget Division projects wage growth of 4.5 percent for 2014, following growth of 3.1 percent for 2013. Although growth for 2013 is depressed, and that projected for 2014 elevated, due to the shifting of wages into the fourth quarter of 2012 in advance of federal rates increases for high-income earners, the growth rates for both years are below historical averages.

Figure 12
Productivity Growth and Real Private Average Hourly Earnings



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

Consistent with higher wage growth, total personal income growth is projected to accelerate to 4.3 percent for 2014 from 2.9 percent in 2013. The expiration of the payroll tax holiday that had been in place for two years had a depressing effect on the level of personal income for 2013. In addition, the shifting of both wages and dividend income in advance of federal rate hikes elevates personal income growth for this year. Strong dividend growth of 9.5 percent projected for 2014 will also be supported by the cash-rich U.S. corporate sector's apparent desire to continue returning profits to shareholders. Nevertheless, projected growth rates for both wages and total personal income are well below historical averages.

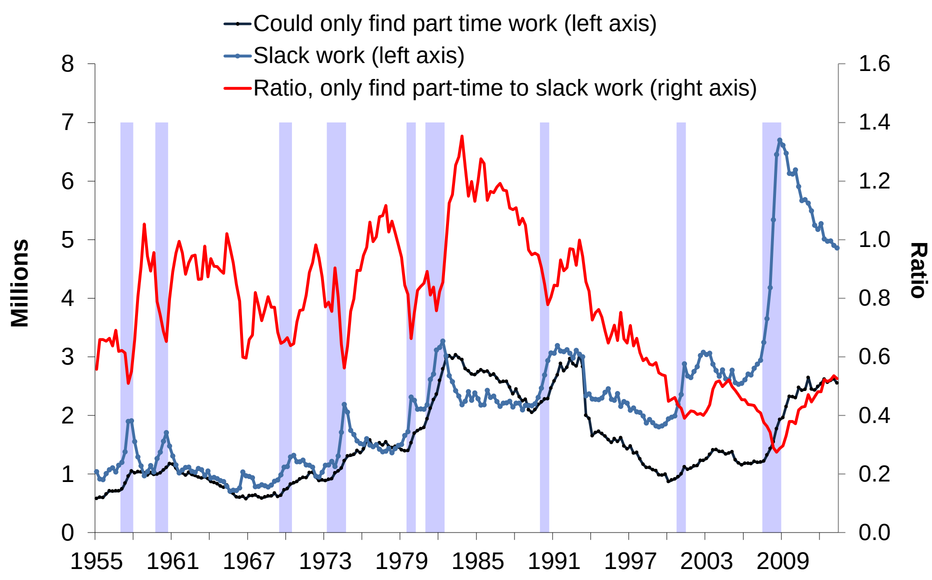
The Affordable Care Act (ACA, or "Obamacare") and the Labor Market

Given the relatively weak employment gains since the national economic recovery began in the third quarter of 2009, there has been much debate about the employment effects of a key policy change – the signing into law of the Patient Protection and Affordable Care Act (ACA) or "Obamacare" to friends and foes alike now – in March 2010. The law, initially passed in late 2009, surmounted a challenge in the U.S. Supreme Court in June 2012, but one of its major provisions, the "employer mandate" which requires all businesses with over 50 full-time equivalent employees to provide affordable health insurance coverage or else pay a monthly fee through the federal tax system, has been delayed until 2015. This delay notwithstanding, the program has been accused of depressing full-time hiring within the private sector.

Survey data fail to show evidence that employers are attempting to systematically shift employees to below-30 hour work weeks. Research based on Current Population Survey data by the Federal Reserve Bank of San Francisco finds that the reported levels of part-time work are not unusually high relative to levels reported in the past, once adjustments are made to compensate for changes in survey methodology – though the duration of time spent in part-time work is unusually high. Research results do find that the incidence of part-time work has been rising among certain groups, most notably among workers aged 16-24, but also among workers aged 25-54 ("prime-age workers"), particularly those with a high-school education or less. But predating the ACA is an Internal Revenue Service rule that prevents large firms from denying health-care coverage to full-time workers and which would have already provided an incentive to encourage the creation of part-time positions. The researchers conclude that the continuing relatively high incidence of people working part-time involuntarily is more likely due to the slow recovery of jobs lost in the recession, rather than due to a basic change in the structure of the workforce or the ACA (see Figure 13). Additional research by the University of California Berkeley Labor Center posits that full implementation of the ACA would likely increase part-time employment by at most 2.0 percent.[3]

Figure 13

Employed Part-time for Economic Reasons



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

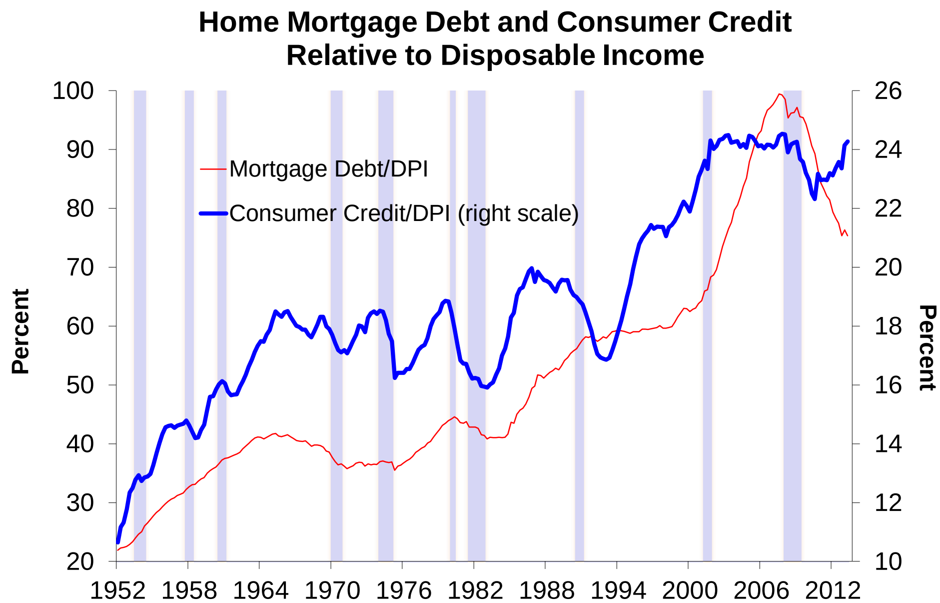
[3] Rob Valletta and Leila Bengali (2013). "What's Behind the Increase in Part-Time Work?" *FRBSF Economic Letter*, 2013-24 <viewed January 14, 2014>. Dave Graham-Squire and Ken Jacobs (2013). "Which Workers are Most at Risk of Reduced Hours under the Affordable Care Act?" UC Berkeley Labor Center Data Brief <http://laborcenter.berkeley.edu/healthcare/reduced_work_hours13.pdf> viewed January 14, 2014.

Household Deleveraging Winding Down and Housing Ramping Up

Employment growth and the revaluing of both financial and nonfinancial wealth may finally be jump-starting the mainstay of the U.S. economy, household spending. Spending growth accelerated over the course of the year from 2.3 percent in the first quarter to almost 4 percent by the fourth. The Budget Division projects significantly higher real consumption spending growth of 2.9 percent in 2014, following growth of 2.0 percent in the prior year. Though some of this improvement is due to continued growth in equity market prices, the greatest hope for 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 data. Spending growth gained some momentum over the course of 2010, peaking at 4.0 percent in the fourth quarter of 2010 as both labor and equity markets were beginning to pick up some steam. But without a revival of the housing market, that momentum was unsustainable.

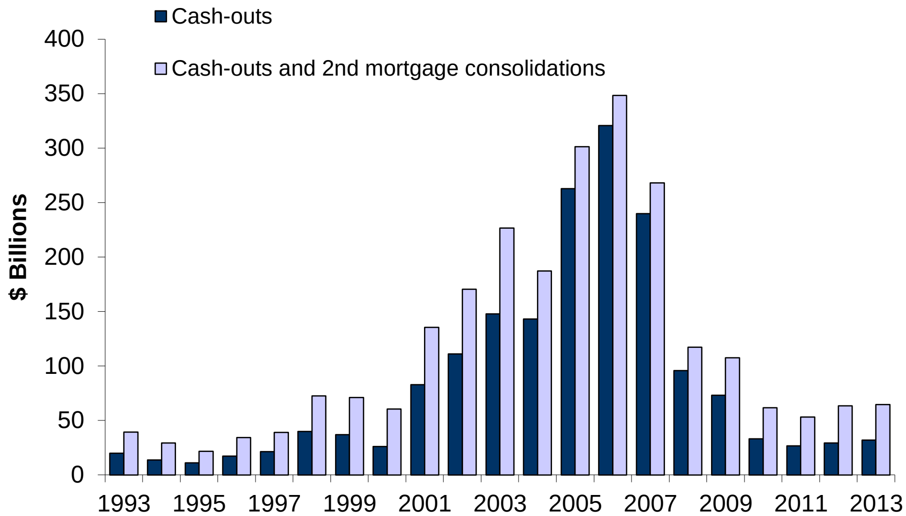
Figure 14



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

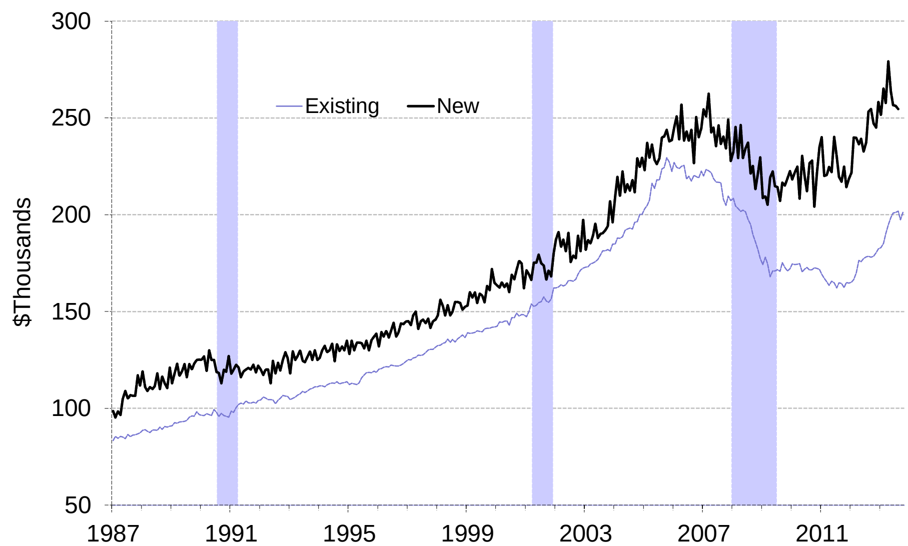
The importance of home values as a support for spending growth cannot be overstated. Mortgage debt and consumer debt as percentages of disposable income have increased over the years, particularly during expansions, suggesting that households are becoming ever more dependent on debt to fuel spending growth (see Figure 14). The rate of increase in mortgage debt during much of the 2002-2007 expansion was unprecedented, however, as was the rate of decline that followed. As home prices were peaking in 2006, homeowners were able to extract $350 billion in cash-outs from mortgage refinancing, fueling real consumption spending. Five years later, cash-outs totaled only $53 billion in 2011 (see Figure 15).

Figure 15
Home Equity Cash-Out Volume



Note: The first three quarters of 2013 are based on Freddie Mac estimates; the fourth quarter is assumed by DOB to be equal to the third.
Source: Freddie Mac.

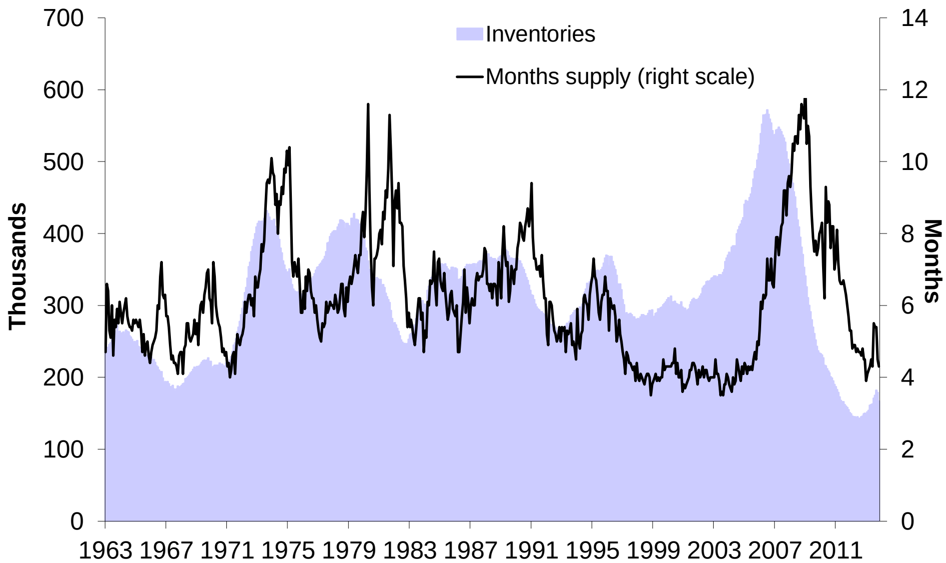
Figure 16
U.S. Median Home Prices Rebounding



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

A vast number of housing indicators suggest that the housing market turned the corner after 2011. Figure 16 depicts a very slow home price recovery, followed by a noticeable pickup in momentum in 2012 and 2013. By November 2013, the median existing home price had recovered $36,000 of the $67,000 lost between the October 2005 peak of $229,000 and the July 2011 trough of $162,000. Moreover, the median home price of new homes has surpassed its pre-recession peak.

Figure 17
Inventory of New Homes for Sale

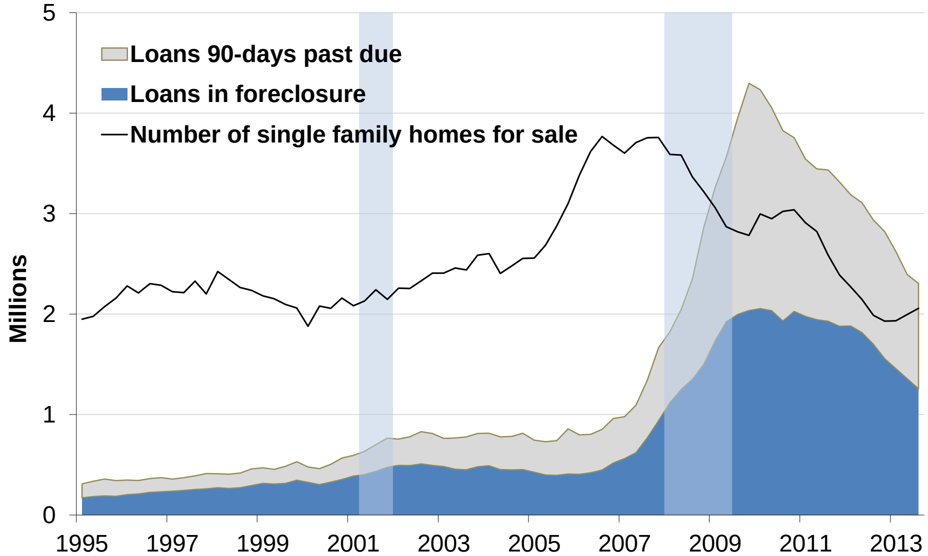


Source: Moody's Analytics.

Figure 17 shows that with the collapse of the housing bubble, the inventory of new homes for sale dropped to lows never before seen (the series begins in 1963). During normal times, a low inventory of homes for sale results in rising home prices. The reason this took so long to happen can be found in what is not measured by the Census Bureau, namely the shadow inventory. The Census Bureau inventory data do not include homes put on the market by banks at the end of foreclosure proceedings. Figure 18 below shows the number of seriously delinquent loans, both from homeowners in foreclosure and from homeowners who were delinquent on their mortgages for more than 90 days, thus putting them at a very high risk of foreclosure. 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 them to lending institutions, which in turn put them on the market, but often at a reduced price. Since these homes are not reported in the Census Bureau's official home inventory statistics they are often referred to as shadow inventory. The impact of a high volume of outstanding foreclosures on the housing market is certain: upward pressure on inventories and downward pressure on construction. Research conducted at the Federal Reserve Bank of New York indicates that the impact was substantial.[4] However, Figure 18 indicates that the number of seriously delinquent properties has fallen dramatically since 2010. The reduction in the shadow inventory together with the continued low level of Census Bureau inventory has finally resulted in upward pressure on home prices.

[4] 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.corelogic.com/about=us/researchtrends/negative-equity-report.aspx#>.

Figure 18
Seriously Delinquent Loans

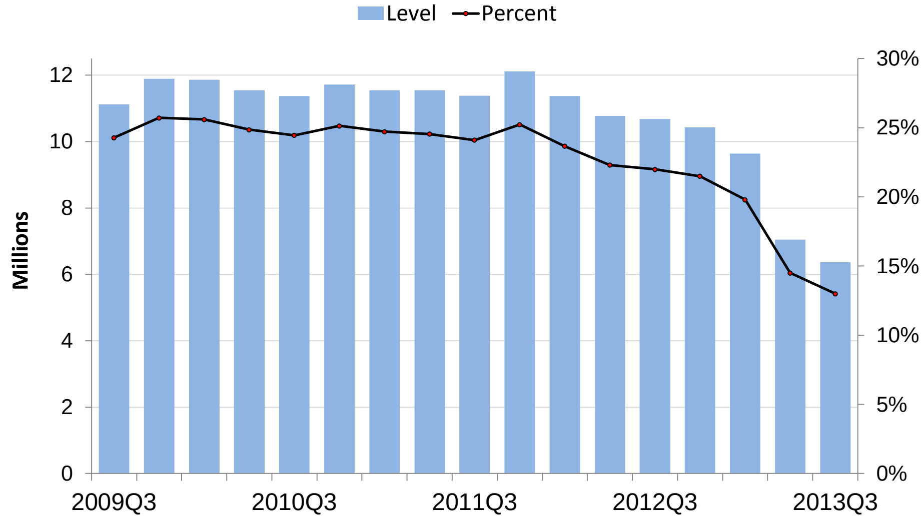


Note: Shaded areas represent U.S. recessions.
Source: Moody's Analytics.

Rising home prices reduce the number of residential properties with negative equity, i.e. properties where mortgage debt exceeds the market value. The number of mortgages "under water" fell from 12.1 million at the end of 2011 to 6.4 million in the third quarter of 2013, reducing the share of underwater mortgages from 25.2 percent to 13.0 percent (see Figure 19). Thus, more homeowners looking to sell their homes are able to do so without incurring a loss, increasing the inventory of homes for sale. Figure 20 shows that two additional sources of downward pressure on home prices are also on the decline. Both the home vacancy rate and the rate at which homes are entering foreclosure have fallen to their lowest levels since the mid-2000s.

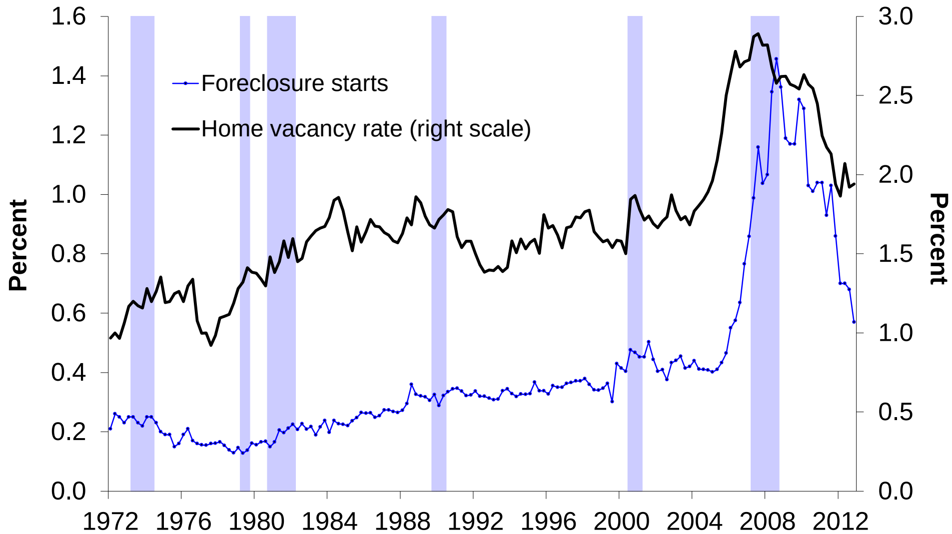
Other recent data support the notion of a housing market on the mend. Figure 21 compares the rate of personal savings out of disposable income with the ratio of household net wealth to disposable income. When household wealth was falling relative to current income, households saved more out of disposable income in order to begin to restore some of what had 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 5.7 percent for the period from the first quarter of 2008 through the third quarter of 2011. With the upturn in the housing market at the end of 2011, the saving rate turned downward, averaging 5.1 percent for the eight quarters from 2011Q4 through 2013Q3.

Figure 19
Negative Equity:
Number and Percentage of Mortgages "Under Water"



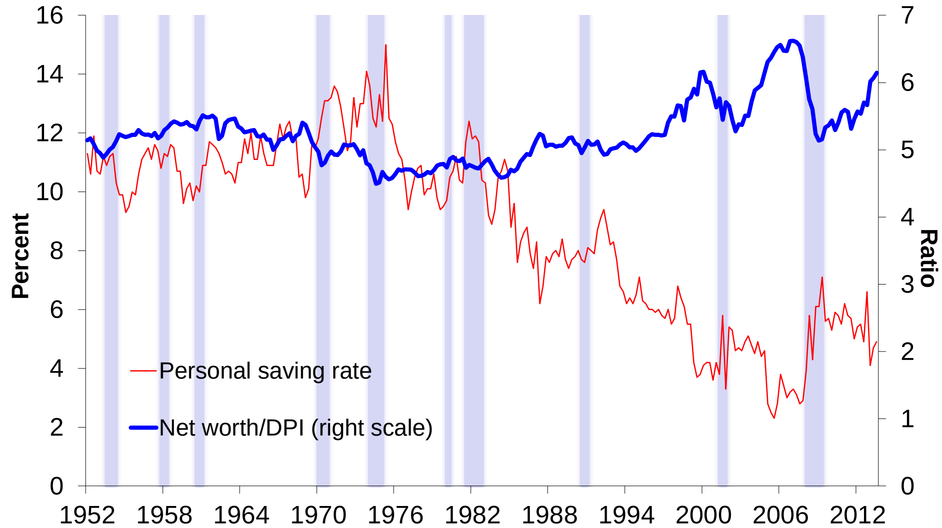
Source: Corelogic.

Figure 20
Percent of Loans Entering Foreclosure
and Home Vacancy Rates



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

Figure 21
Saving Rate and Household Net Worth Relative to Disposable Income



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

Real estate is the main source of wealth for many households in the United States. Households lost $12.7 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.[5] By the third quarter of 2013, households had gained $22.1 trillion in net worth, or $9.5 trillion more than the previous peak. But this buildup was almost entirely based on the recovery in financial wealth. Financial assets bottomed out in the first quarter of 2009 and by the first quarter of 2012 exceeded their prior peak in 2007. In contrast, real estate wealth declined continuously through the fourth quarter of 2011 and, by the third quarter of 2013, had only recovered $3.8 trillion of the $6.9 trillion lost between 2006 and 2011. By the time real estate wealth finally turned the corner in the first quarter of 2012, financial asset wealth had already recovered all its losses.

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 2 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, changes 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

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

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, in relation to the impact on aggregate spending in the economy, 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 2
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

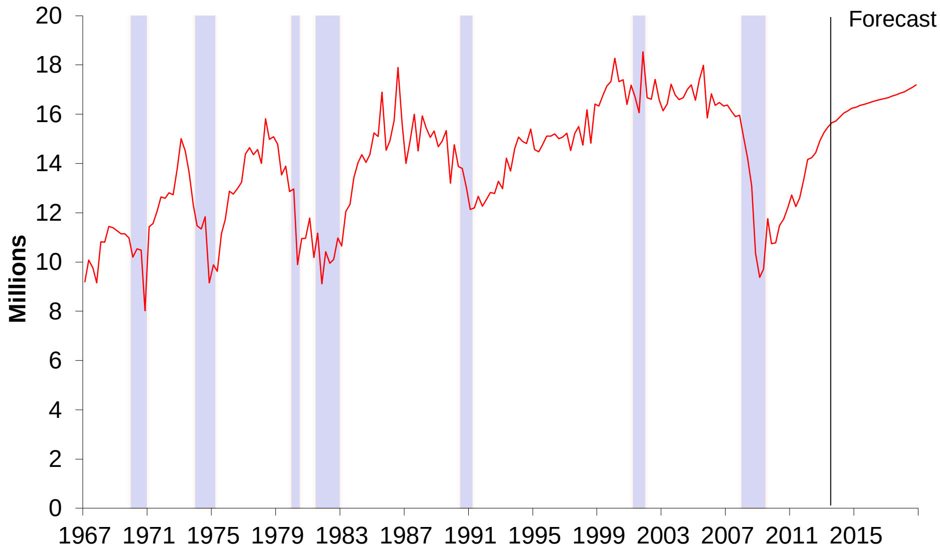
Source: *2010 Survey of Consumer Finances Chartbook* , Federal Reserve Board.

The increase in real estate wealth that started in the first quarter of 2012 thus bodes well for consumer spending. The upturn in the housing market is expected to fuel consumption growth not only through the wealth effect, but also by increasing the demand for complementary durable goods, such as autos, furniture, and appliances. Figure 22 shows the steep decline in light passenger car and light truck sales following the housing market decline, during which the average age of light vehicles on the road lengthened, rising from 9.5 years in 2005 to 10.8 years in 2011.[6] With an improving housing market, car sales have risen significantly over the past two years, almost returning to pre-recession highs. Rising housing starts are expected to have increased truck purchases among construction workers, who may had been delaying the replacement of aging vehicles in the wake of the housing collapse and the resulting lull in building activity.[7] The rebuilding and recovery from Superstorm Sandy that hit the East Coast at the end of October likely reinforced this trend. Similarly, Figure 23 shows the steep decline in nominal consumption of furnishings and durable household equipment following the housing market crisis. This spending has risen consecutively since March 2013 and has come back to its pre-crisis level by the end of the year.

[6] 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.

[7] See <http://www.edmunds.com/industry-center/commentary/the-housing-market-recovery-boosts-new-car-sales.html>.

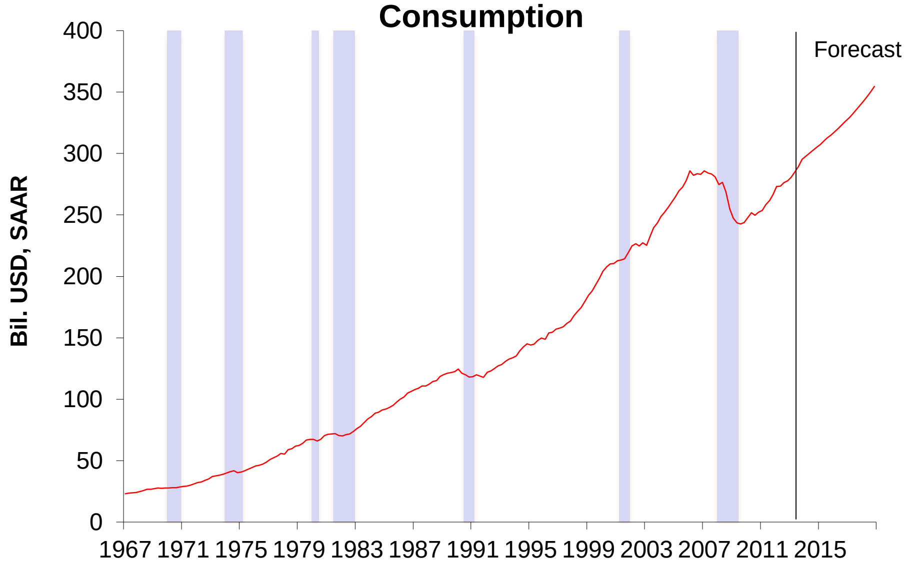
Figure 22
Passenger Car and Light Truck Sales



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

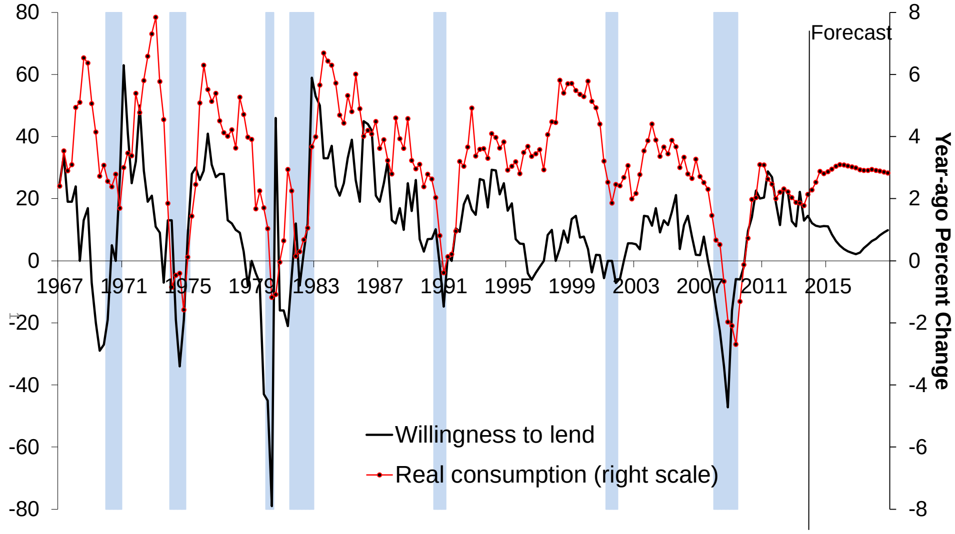
Figure 23

Furnishings and Durable Household Equipment Consumption



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

Figure 24
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.

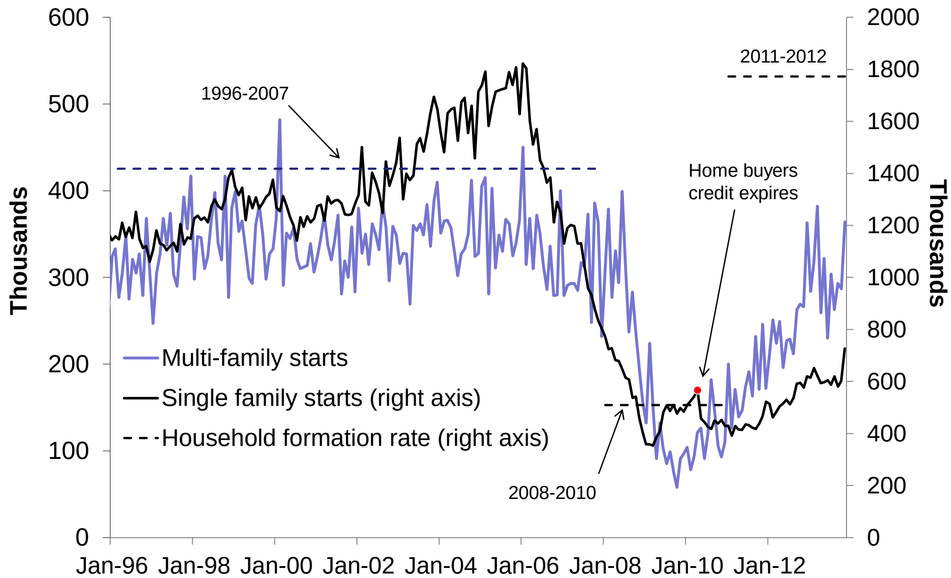
Credit market conditions are critical to spending growth as well. Figure 24 illustrates this fact by comparing real consumption growth to bank willingness to lend to consumers, as measured by the Federal Reserve Board's Senior Loan Officer Survey. Bank lending to households continued to improve in 2013, although at a lesser pace than exhibited in the second half of 2012. We expect this trend to continue into 2014 and 2015. The two most important determinants of banks' willingness to extend 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.

With all of these supports in place, real spending for services and nondurable goods is projected to rise 2.5 percent in 2014, following growth of 1.4 percent for 2013, a year weighed down by higher taxes, the sequester, and a government shutdown. Growth in real spending for the more cyclical durable goods component is projected to continue strong growth of 5.8 percent in 2014, following a 7.3 percent increase in 2013. This forecast is consistent with levels of light vehicle sales at an annualized value of about 16 million for every quarter of 2014.

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 a diminishing volume of negative equity. The Budget Division projects continued strong growth in real private residential investment of 9.5 percent for 2014, following an increase of 13.1 percent in 2013. The most recent Current Population Survey data indicate that there was a dramatic decline in the rate of household formation during the recession from the 1.4 million average over the period from 1996 to 2007 to about 500,000 for the 2008 to 2010 period (see Figure 25). Household formation has since rebounded, averaging 1.7 million over 2011 and 2012, the most recent years for which data are available. As employment and income prospects improve, household formation is expected to remain well above the recession lows, fueling the demand for new home construction.

Figure 25 shows an interesting divergence between the recoveries of single-family starts and multifamily starts. While much of the housing bubble originated from a building boom in single-family homes, the collapse and the ensuing tight credit market resulted in a significant decrease in both single-family and multi-family starts. The recovery, however, has been substantially stronger for multi-family units. As with existing home sales, housing starts appear to be linked strongly to investors rather than individual homebuyers. Since investors and renters are in general less likely to spend a lot on home improvement, consumer spending on furniture and household equipment (shown in the above Figure 24) did not rise together with housing starts until the end of 2013 when single family housing starts finally headed up.

Figure 25
Household Formation and New Home Construction Recovering From Low Levels



Source: Moody's Analytics.

With the single family housing market picking up, the Budget Division is projecting strong growth in residential fixed investment 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 only 3.1 percent based on the most recent four quarters of available data through 2013Q3. 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.

There are signs that the housing market is still in the healing process and is still facing some headwinds. Stricter requirements for mortgage approval by the banks and partly mandated by the Dodd–Frank Wall Street Reform and Consumer Protection Act passed in 2010 to stop banks from making loans to risky buyers who could not pay them back have limited financing options for potential home buyers. Homeowners are paying more for mortgages because of the new restrictions and requirements, resulting in investors gobbling up home sales, since fewer average Americans now qualify. Since 2009, cash sales to investors are reported to represent a third of all sales, and in some areas are responsible for up to 60 percent of all real estate transactions. More requirements will take effect in 2014.

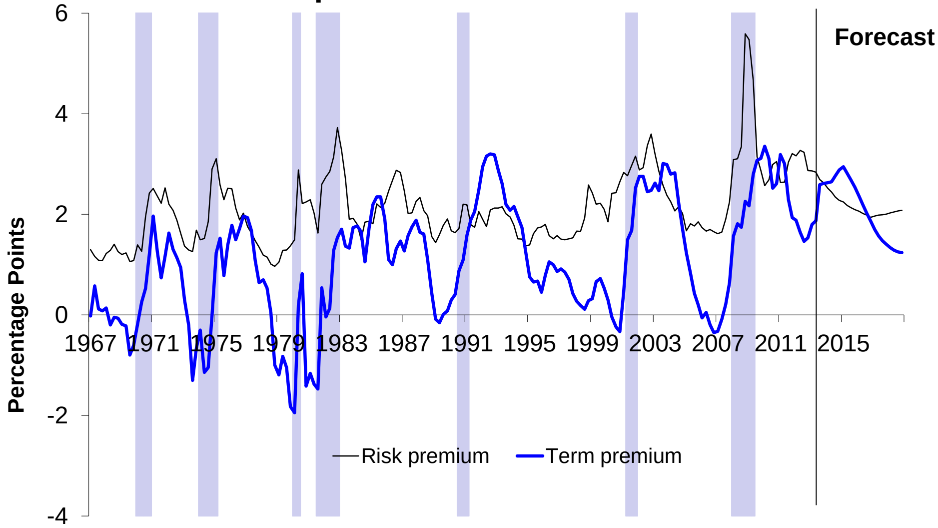
Steady but Modest Improvement in Business Spending Expected

A moderate increase in real business fixed investment, which includes investment in equipment and software, intellectual property and nonresidential structures such as office buildings and factories, is expected for 2014 and 2015. Coming out of the "Great Recession", nonresidential fixed investment grew 7.6 percent and 7.3 percent in 2011 and 2012, respectively. Following estimated growth of only 2.6 percent for all of 2013, stronger economic growth driven by strengthening consumer and export demand is expected to generate a moderate rebound in nonresidential fixed investment with 4.2 percent growth expected in 2014. The Budget Division investment projection for 2014 decomposes into 3.9 percent growth in real spending for producer durable equipment, 5.1 percent growth in nonresidential structures, and 4.1 percent growth in intellectual property and software. These growth rates represent stronger growth than in 2013.

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 and optimal long-run relationship between the expected level of sales and the stock of plant and equipment. In addition, decreases in the cost of acquiring and using capital goods (the "user cost of capital") also induce firms to increase investment spending. Factors that reduce the user cost of capital include a decline in the prices of new investment goods, falling inflation-adjusted borrowing costs, increasing equity prices, and changes in the tax code, such as the creation of investment tax credits.

Business fixed investment was a leading component of final demand in the early phase of the recovery from recession, as many of the above factors – such as the global recovery that induced foreign demand for U.S. exports, low interest rates, tax incentives and the need to replace worn-out or outdated equipment -- all combined to spur a surge in investment in 2011-12. The repair of the risk spread starting at the end of the recession (see Figure 26), and the implementation of bonus depreciation and accelerated business expensing, helped to create a favorable environment for investment growth early in the recovery.

Figure 26
The Risk Spread Returns to Historic Norms

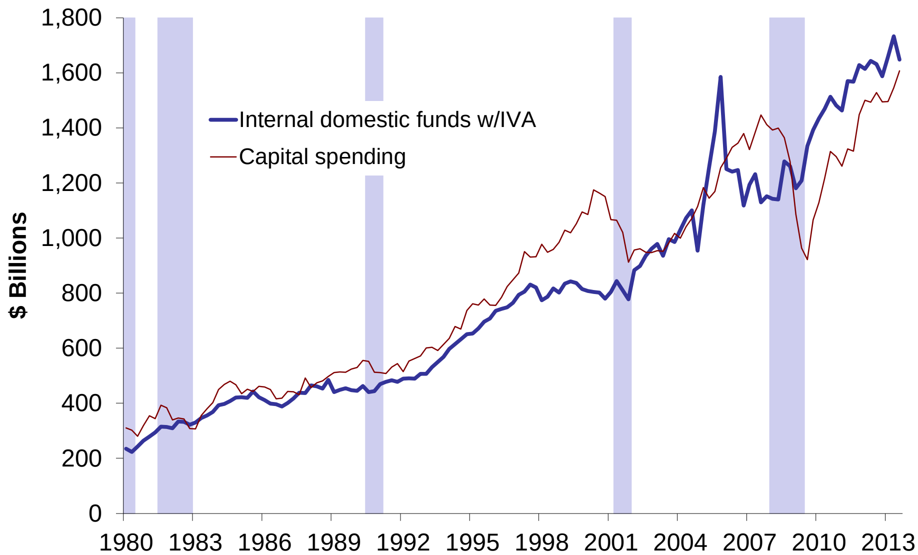


Note: The term premium is defined as the gap between the 10-year and one-year Treasury yields; the risk premium is defined as the gap between the BAA rated corporate bond and 10-year Treasury yields; shaded areas represent U.S. recessions.
Source: Moody's Analytics; DOB staff estimates.

As the profits of nonfinancial corporations rebounded strongly with 36.4 percent growth in 2010 and 10.9 percent in 2011, large businesses accumulated stockpiles of funds available for capital spending going forward. Figure 27 compares total internal domestic funds with outlays for capital spending for the nonfinancial corporate sector since 1980. The excess of the latter over the former is known as the financing gap. The financing gap typically growa during expansions as firms accelerate investment to keep up with growing demand. The gaps grew particularly wide during prior two expansions, coinciding with the high-tech investment boom of the 1990s and the commercial real estate boom of 2002-2007. However, the current expansion stands in contrast with prior expansions in that four years into the expansion, capital outlays have yet to exceed internal domestic funds. In the third quarter of 2013, the most recent period for which data are available, cash holdings by nonfarm nonfinancial corporations still totaled $1.65 trillion (not seasonally adjusted), barely shy of the previous quarter's record.

Recent data show a decline in the financing gap, particularly during 2013. Tax treatment of investment became less favorable beginning in 2013 when 100 percent bonus depreciation was reduced to 50 percent, and became even less so when bonus depreciation expired altogether on December 31, 2013. Both global and domestic demand are expected to improve in 2014, but long-term interest rates are expected to move up slowly as the tapering of the Federal Reserve's asset-purchasing program proceeds.

Figure 27
Finance Gap for Nonfinancial Corporations



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

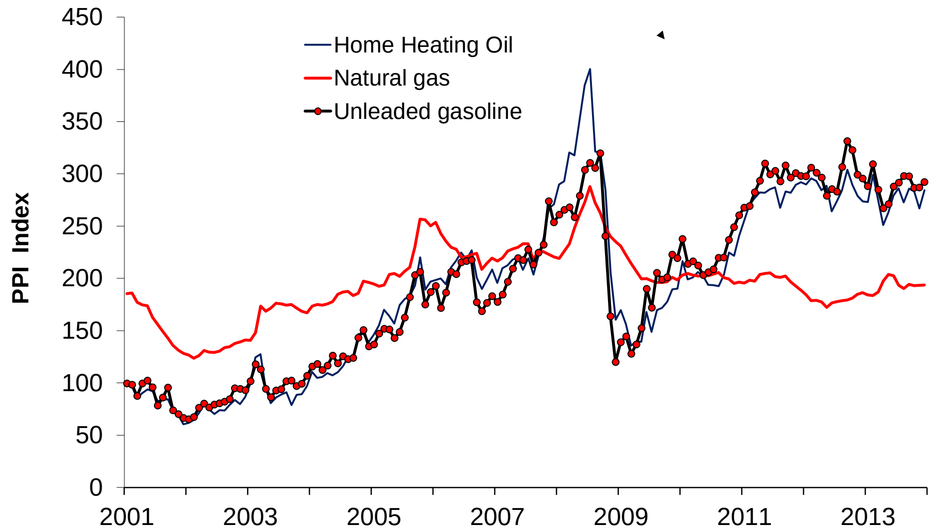
Outlook for Inflation and Monetary Policy

Despite energy price volatility during the year (see Figure 28) and the residual impact of the 2011-2012 drought in the U.S., inflation has remained subdued, running at an annual rate of 1.5 percent in 2013, down from a 2.1 percent pace in the previous year. Continued high levels of resource slack, both here and abroad are expected to keep price growth within the range observed in 2013. Importantly, there were no indications that inflation expectations were becoming unmoored, thus giving the Federal Reserve space in which to continue its accommodative policies. The Budget Division projects continued low inflation of 1.6 percent for 2014, followed by inflation of 2.0 percent in 2015.

Energy markets in 2013 reversed their prior year trends, with the producer price indexes for gasoline and home heating oil falling 4.0 percent and 2.9 percent, respectively, following growth of 2.4 percent and 2.0 percent in 2012. These movements largely reflect a diminishing of the risk premium generated by turmoil in the Middle East, together with increased oil production in the U.S. Meanwhile, natural gas prices rose 7.5 percent in 2013, compared with a 9.7 percent decline in 2012. Prices declines in 2012 resulted in reduced supply the following year, which in turn led to last year's price increases, although on balance, the shale-gas revolution here in the U.S. has resulted in lower prices relative to the mid-2000s. The current oil price risk premium is expected to continue to diminish over time, resulting in a very gradual decline in oil prices, as measured by the refiners' acquisition cost of imported crude, to about $90 per barrel in 2020. But that path is expected to be anything but smooth. 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 29).

Figure 28

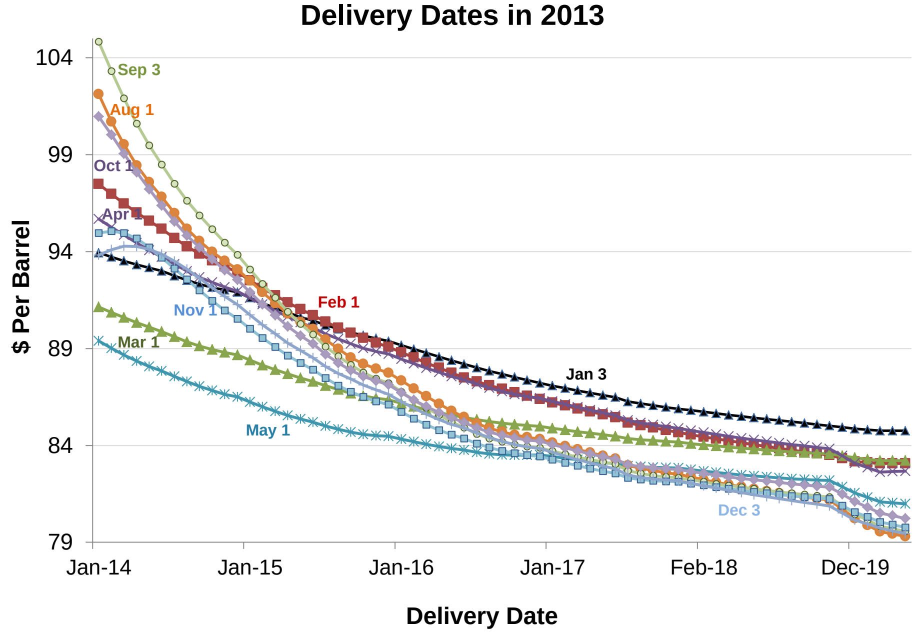
Recent Trends in Energy Prices



Source: Moody's Analytics.

Figure 29

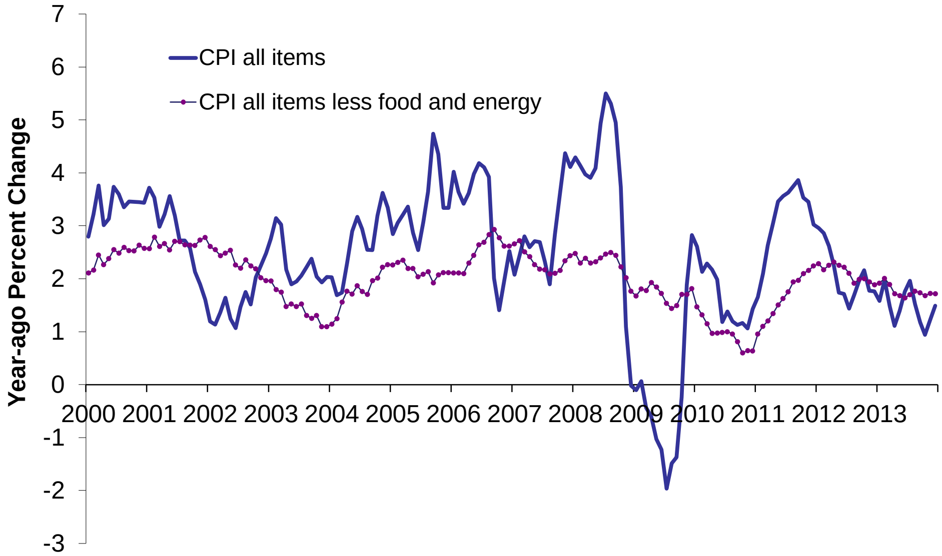
WTI Crude Oil Futures Prices for Selected Contract Delivery Dates in 2013



Source: Bloomberg.

Yet energy prices alone do not explain the remarkably low inflation witnessed during much of 2013. The unadjusted all-item CPI fell from year-ago growth of over 3 percent in 2011 to 1.5 percent or less for each of the last five months of 2013 (see Figure 30). The decline in core CPI – the all-items index minus the energy and food components – has been less pronounced, decreasing from over 2 percent in 2012 to 1.7 percent or less for each of the last nine months of 2013.

Figure 30
General vs. Core Inflation



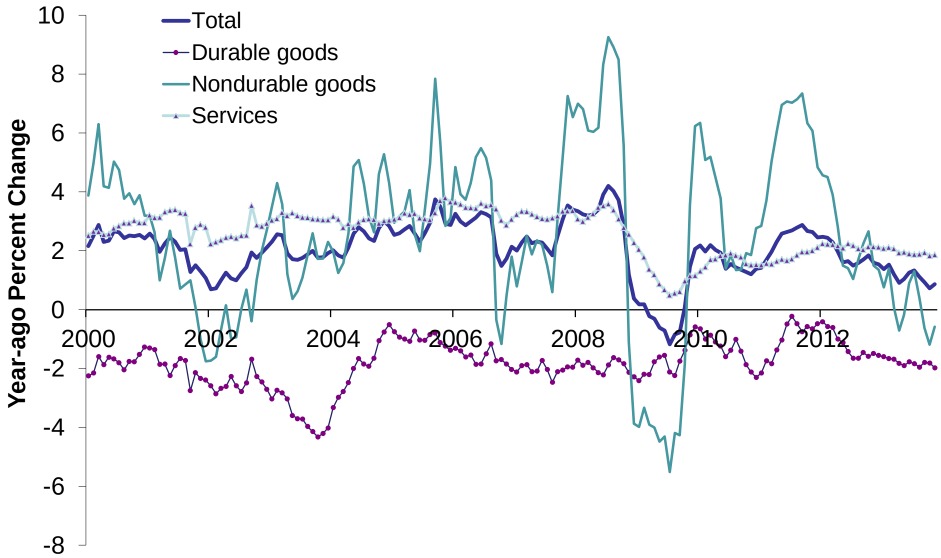
Source: Moody's Analytics.

Recent readings on the price index for personal consumption expenditures, a measure of inflation closely watched by the Federal Reserve, likewise show a similar trend. Indeed, since April 2012, growth in this index has been falling away from the central bank's 2.0 percent annualized target. The latest reading, for November 2013, shows a year-over-year increase of 0.9 percent. The year-over-year changes have been falling since a 1.3 percent value in July; and a longer look back shows a declining trajectory for this measure since October 2012.

Several factors appear to have contributed to the declining trend in inflation. An analysis of recent trends in U.S. inflation (as measured by the index for personal consumption expenditures or PCE) by the Federal Reserve Bank of St. Louis shows quite different behaviors among the three major PCE categories: consumer durable goods, consumer nondurable goods and services (see Figure 31). While consumer durable goods prices have been falling since the mid-1990s, prices of nondurables have increased, particularly food and energy prices. This reflects in part the commodities price boom of the 2000s, and more recently, the drought of 2011-2012. Services, which account for some two-thirds of total PCE, have also seen price growth at faster rates than the other commodities groups, though this has moderated since 2008.

Figure 31

Price Index for Personal Consumption Expenditures (PCE)

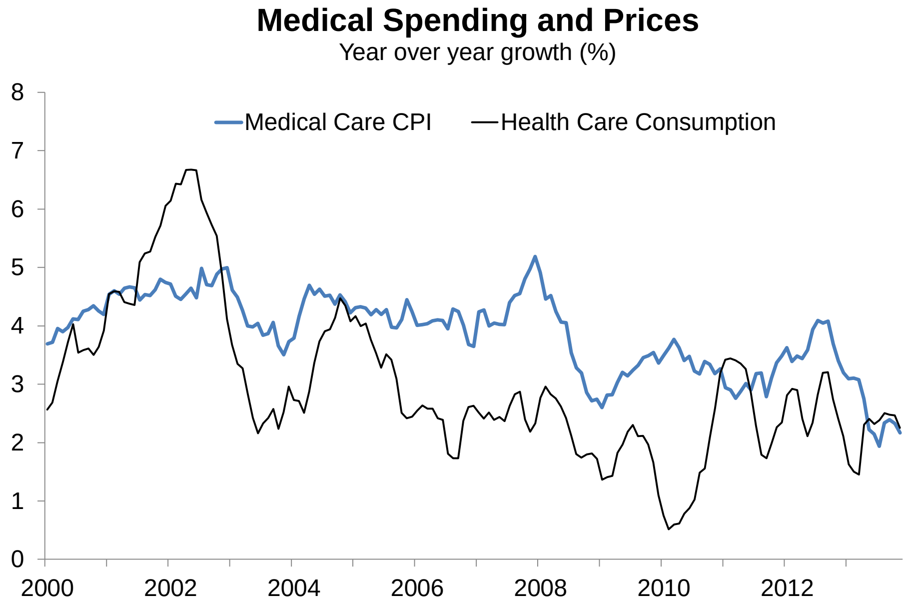


Source: Moody's Analytics.

For November, the latest month for which PCE price index data are available, the index for durables was down 2.0 percent on a year-ago basis while the index for nondurable goods was down 0.6 percent; the index for PCE on services was 1.9 percent higher than a year ago. Within the nondurables category the index for energy goods and services was down but the food index was up. Since the FOMC announced the current QE program in September 2012, the average 12-month change in the PCE index for durables has been a decline of 1.7 percent while the average change in the PCE index for services has been 2.0 percent; the average for the nondurable PCE index has been 0.6 percent. Only the latter has shown any volatility, as the index for durables has constantly fallen while the index for services has continued to increase, but at declining rates.

One of the most surprising inflation trends has emerged from the medical component of the CPI, where year-ago growth has fallen from above 4 percent as recently as the middle of 2012 to an average of 2.2 percent over the last six months of 2013. As indicated in Figure 32, the decline in price growth has been accompanied by a decline in utilization as well, as represented by the health care component of personal consumption expenditures, adjusted for inflation. Real health care spending growth fell off during the Great Recession, started rising again over the course of 2010, but remains low by recent historical standards. With a large segment of the health care delivery system under construction due to the implementation of the ACA, the trend toward lower health care inflation is likely to persist over the near-term. The Budget Division projects the medical component of the CPI to rise 2.6 percent in 2014, following 2.5 percent growth in 2013.

Figure 32



Source: Moody's Analytics.

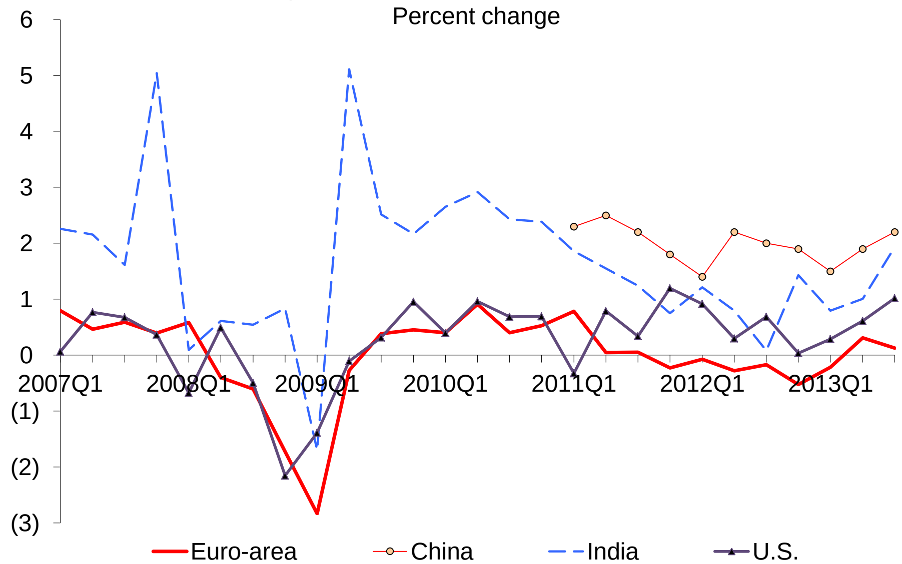
The Budget Division inflation forecast is consistent with long-term inflation expectations remaining anchored for now. Nevertheless, in order to keep inflation expectations stable, we expect that the Federal Reserve will want to move away from near-zero short-term interest rates as soon as it sees some internally generated momentum in business hiring, in order to keep inflation expectations stable. The Budget Division normally uses a modified version of Taylor's monetary rule as a guide to forecasting changes in the central bank's federal funds policy target. Taylor's rule is a federal funds rate reaction function that responds to both the deviation of inflation from its target level and the deviation of output growth from its potential level. We assume the Federal Reserve weighs deviations from its inflation target about twice as heavily as deviations from its output growth target, so the inflation deviation has a weight of unity while the output growth deviation has a weight of 0.5. In addition, the contemporaneous value of inflation is replaced by an average of actual inflation for the past three quarters, estimated inflation for the current quarter, and expected inflation for one quarter ahead. A similar term is constructed for output growth. However, given the zero bound on nominal interest rates, Taylor's rule has recently been limited in its guidance as to how the central bank will proceed.

The Budget Division expects the unemployment rate to cross the 6.5 percent threshold during the first quarter of 2015, with CPI inflation running just above 2 percent. The forecast for inflation and the output gap is consistent with a first move toward policy tightening sometime during the first half of next year. Based on the policy framework just described, and a relatively benign outlook for inflation over the near-term, the effective federal funds rate is projected to average 0.10 percent in 2014, rising to 0.88 in 2015. Meanwhile, an average 10-year Treasury yield of 3.23 percent is projected for 2014, up from the 2.35 percent average for 2013. The Budget Division expects the yield to climb to about 4 percent, on average, for 2015.

The International Economy

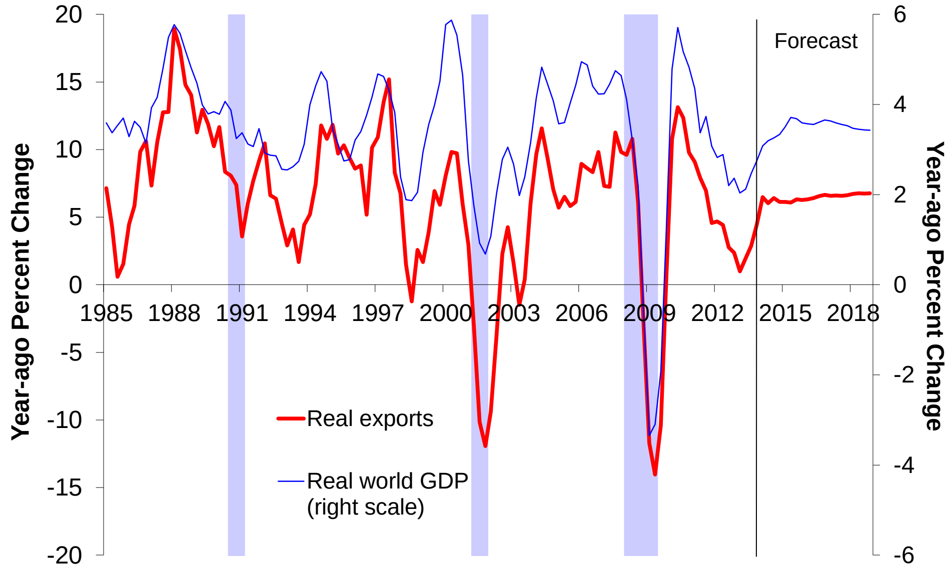
The 2008-2009 global financial crisis cast a long shadow that is only now starting to fade. At the center of the eclipse has been the euro-area, where the crisis unveiled a fragile banking system laden with bloated government debt, and a monetary system that lacked the flexibility necessary to stimulate growth in the area's weakest economies. As a result, the euro-area went into a double-dip recession that is only now ending, after no less than five quarters of decline through the first quarter of 2013. Figure 33 illustrates the co-movements in real GDP growth for the euro-zone, the U.S., China, and India, and illustrates that few areas of the global economy were immune to Europe's economic woes. The ramifications for the global economy as a whole, and their impact on the demand for U.S. exports are clearly portrayed in Figure 34. Year-ago growth in real world GDP fell from a peak of 5.7 percent in the second quarter of 2010 to 2.0 percent by the first quarter of 2013. Correspondingly, real U.S. export growth fell from 13.1 percent to 1.0 percent over the same period.

Figure 33
Quarterly GDP Growth for Selected Areas
Percent change



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

Figure 34
Real Export and World GDP Growth



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

But as illustrated in both Figure 33 and Figure 34, with Europe emerging from recession, global growth is rebounding. The European Central Bank's decision in 2012 to create an open-ended bond-purchase program, much like Federal Reserve's quantitative easing programs, appears to have successfully calmed financial markets and paved the way for growth. The euro-area posted two quarters of growth in the second and third quarters of last year, with real world GDP growth expected to accelerate to 3.2 percent growth in 2014 from 2.3 percent in 2013. However, there is reason to be cautious about Europe's growth prospects for the immediate future. The 1.1 percent annualized growth in the second quarter of last year was followed by growth of only 0.4 percent in Q3, indicating that activity in the region remains subdued. The aggregate real GDP growth rates also mask the fact that unemployment remains elevated, with France, Italy, Ireland, and Portugal above 10 percent, and Spain above 20 percent; and contraction persists in some countries, such as Italy and France, each exhibiting a 2013Q3 GDP contraction of 0.5 percent.

On the positive side, the economies of the United States' most important trading partners – Canada and Mexico – have been improving. Preliminary evidence suggests that the large emerging Asian economies of China and Korea can be expected to improve more quickly. Recent data for Chinese industrial production and inflation suggest that policies to stimulate domestic demand are already taking effect. Table 3 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 2007, 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 6.3 percent is projected for 2014, following growth of 2.6 percent in 2013.

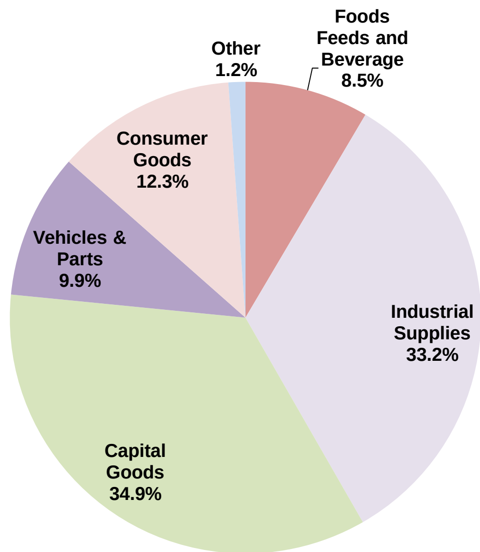
TABLE 3
THE CHANGING FACE OF US EXPORTS

	2007-2012 Percent Growth	2007 Share	2012 Share
Brazil	80.9%	2.1%	2.8%
Canada	17.5%	21.4%	18.9%
China	75.7%	5.4%	7.2%
European Union	8.6%	21.0%	17.1%
Mexico	59.2%	11.7%	14.0%
Total	33.0%	-	-

Source: Moody's Analytics.

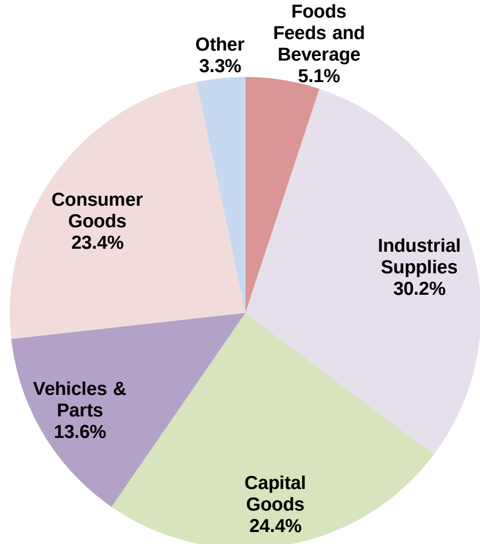
Goods made up 71.4 percent of total U.S. exports for the first 11 months of 2013. Figure 35 decomposes U.S. goods exports by end-use category and makes clear why domestic manufacturing employment is particularly sensitive to the foreign demand for U.S. products. Import growth has decelerated even more 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 to 0.9 percent in 2010Q4 and has remained weak since then, falling 3.1 percent in the fourth quarter of 2012, consistent with the struggling U.S. recovery. 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. Import growth is projected to gradually rise over the course of 2014 as domestic demand picks up momentum, rising 4.6 percent on an annual average basis in 2014, following very weak growth of 1.6 percent growth in 2013. 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. At 2.3 percent of nominal GDP for 2013Q3, the deficit is at its lowest point since the second quarter of 1998.

Figure 35
2013 Share of Exported Goods by End-Use Category



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

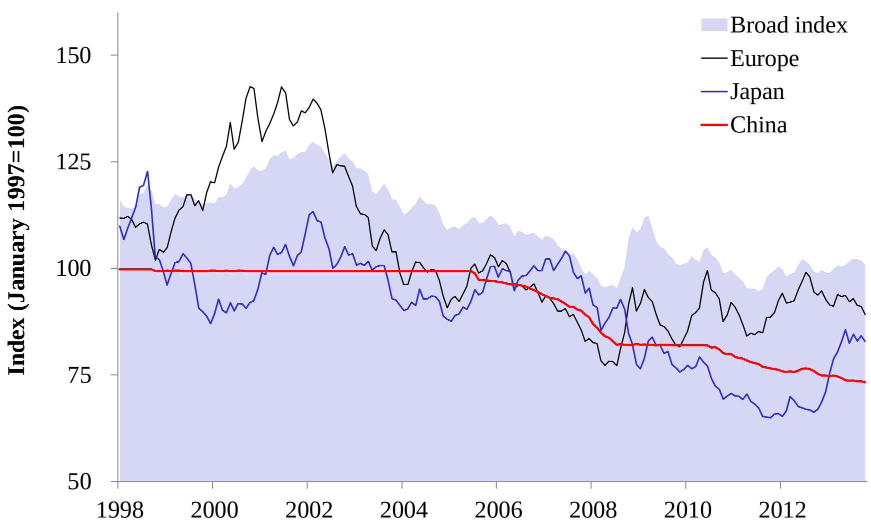
Figure 36
2013 Share of Imported Goods by End-Use Category



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

Figure 37

Foreign Exchange Value of U.S. Dollar



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

Although the nation's historically large Federal budget deficit has been shrinking, concern remains over the future value of the dollar. As illustrated in Figure 37, 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 21st century. The Broad Index, a trade-weighted index of the nation's major trading partners, is down 21.3 percent from its February 2002 historical peak. The dollar became a safe haven during the worst of the financial crisis at the end of 2008 and early 2009, but has lost 9.2 percent since its recent March 2009 peak. This more recent 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. The central bank's actions may have also contributed to volatility in those global commodity prices, which, like oil, are denominated in dollars.

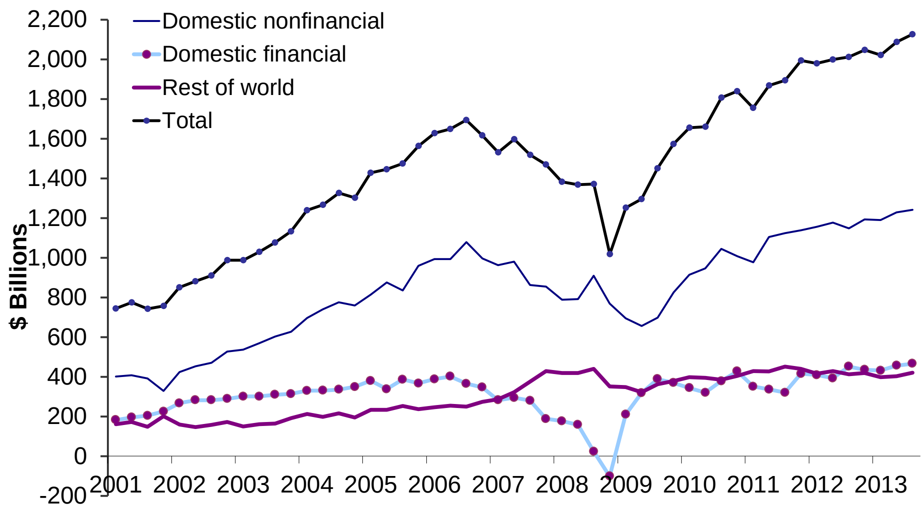
With the U.S. economy strengthening relative to its major trading partners, interest rates on the rise, and inflation remaining low, the value of the dollar has been on the rise. The Broad Index rose 3.0 percent over the course of 2013, an indication that the dollar's position as a global reserve currency and the safe haven status of U.S. Treasury securities are secure, at least for the moment. Recent data on the foreign holdings of U.S. Treasury securities show that the desire among foreign nations to hold these securities has been rising. Global holdings rose 6.4 percent in 2013, based on the first 11 months of data. China, the largest single holder, increased its holdings 10.2 percent in 2013, while Japan, the second largest holder, saw an increase of 2.3 percent. Of the other major holders, only the oil exporter bloc reduced their holdings, which were down 4.1 percent. The latter trend may also be an indication of fewer dollars flowing to those nations due to the reduction of U.S. energy imports. The dollar's increasing value can be expected to mitigate the rise in global demand for U.S. exports, supporting the Budget Division projection for only gradually improvement in real U.S. export growth.

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 38), growing 64.2 percent between the recession trough in the second quarter of 2009 and the third quarter of 2013, the most recent quarter for which data are available. However, in 2013, profits grew 4.1 percent through the third quarter, a slowdown from 7.0 percent in 2012 and 7.9 percent in 2011. U.S. corporate profits growth in 2013 was led by the financial sector, with growth of 8.1 percent through the third quarter, following even stronger growth of 18.7 percent in 2012. The laggard was "rest-of-world" profits, generated by activity outside of U.S. borders, which fell 2.9 percent, following a 2012 decline of 4.0 percent, as a result of the global slowdown. Domestic nonfinancial profits grew 5.1 percent during the first three quarters of 2013, a slowdown from 7.6 percent in 2012, in part due to the impact of Federal fiscal austerity on domestic final sales.

In 2014, U.S. corporate profits are expected to exhibit modestly stronger growth. With the global economy expected to improve, albeit only gradually, rest-of-world profits are expected to eke out positive growth. Although profits were down in 2013 on an annual average basis, they improved over the course of the year along with global economic conditions more generally. Improving growth in domestic final sales will put upward pressure on domestic nonfinancial profits, mitigated to some extent by rising employment growth and rising interest rates. The future of financial profits is perhaps the most precarious due to the swift rise in equity prices during the second half of 2013 that likely pulled forward finance activities, such as IPOs, that tend to be associated with rising equity markets. An increasingly challenging regulatory environment is also expected to curb financial sector profits growth in 2014. As a result, U.S. corporate profits from current production, which includes the inventory valuation and capital consumption adjustments, are projected to grow 6.3 percent in 2014, up from 4.4 percent in 2013.

Figure 38
U.S. Corporate Profits



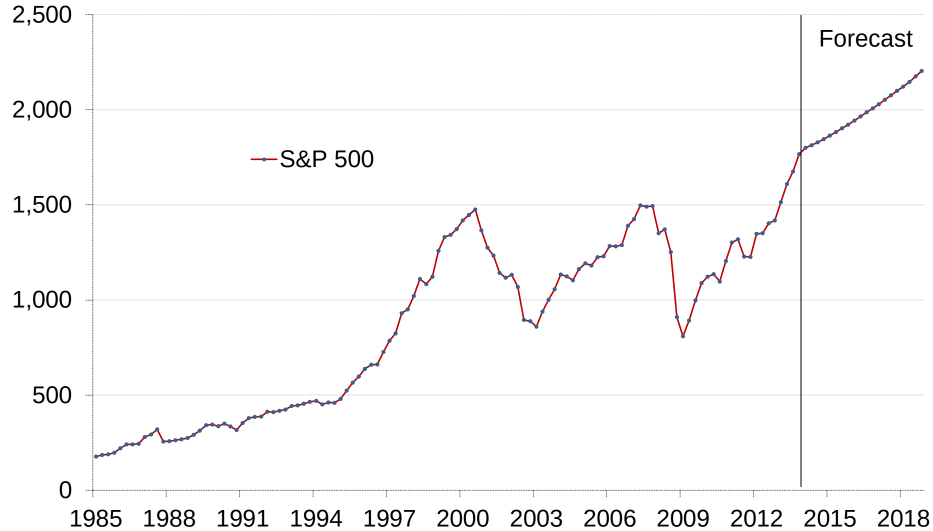
Source: Moody's Analytics.

Equity market turbulence has remained a constant throughout this recovery (see Figure 39. Although markets have generally risen since their March 2009 troughs, there have been two major corrections along the way: a 16 percent correction between April 23, 2010, and July 2, 2010; and a 19 percent correction between July 7, 2011 and October 3, 2011. Given that equity price fluctuations over much of the recovery have been more reflective of the fear surrounding both the euro-debt crisis and domestic political strife than the path of corporate earnings, much of the recent run-up likely reflects a deflation of the risk aversion that plagued the market for so long.

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. This expectation begs the question as to what the market run-up during the second half of 2013 implies for growth in 2014. Figure 40 presents the long-term history of the S&P 500 price-to-earnings ratio adjusted for inflation, where earnings are measured by the trailing 10-year moving average. The November 2013 level was just above the 23.8 average over the period from 1986 to that month, a period that contained the high-tech/Internet bubble of the late 1990s. This level compares to an average over the entire history of the series of 16.5, and an average over the early postwar period of 14.9. These results urge caution, particularly in an environment of rising interest rates. The Budget Division projects equity market growth of 11.0 percent for 2014 on an annual average basis, following growth of 19.0 percent in 2013. However, on a 2014Q4 over 2013Q4 basis, the Budget Division forecast is equivalent to growth of 4.4 percent.

Figure 39

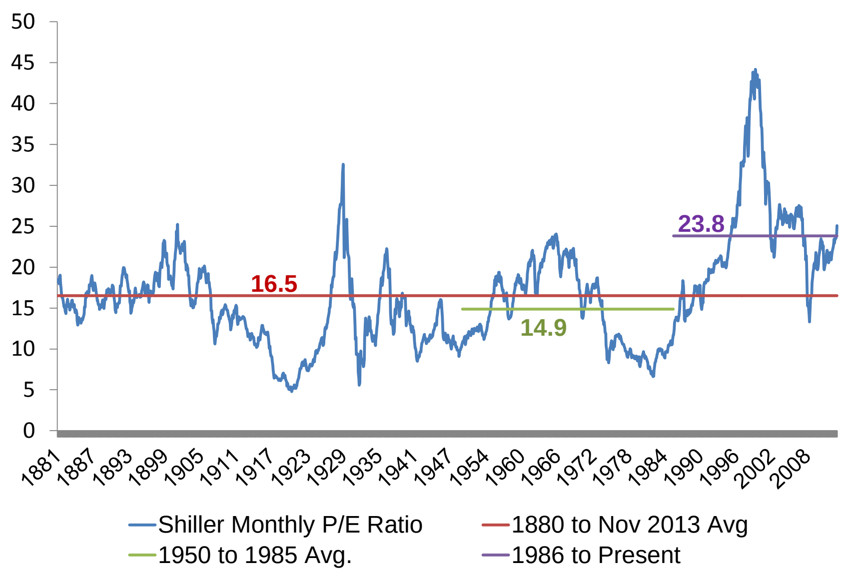
Equity Market Growth Returns to Normal



Source: Moody's Analytics; DOB staff estimates.

Figure 40

Shiller Cyclically Adjusted P/E Ratio



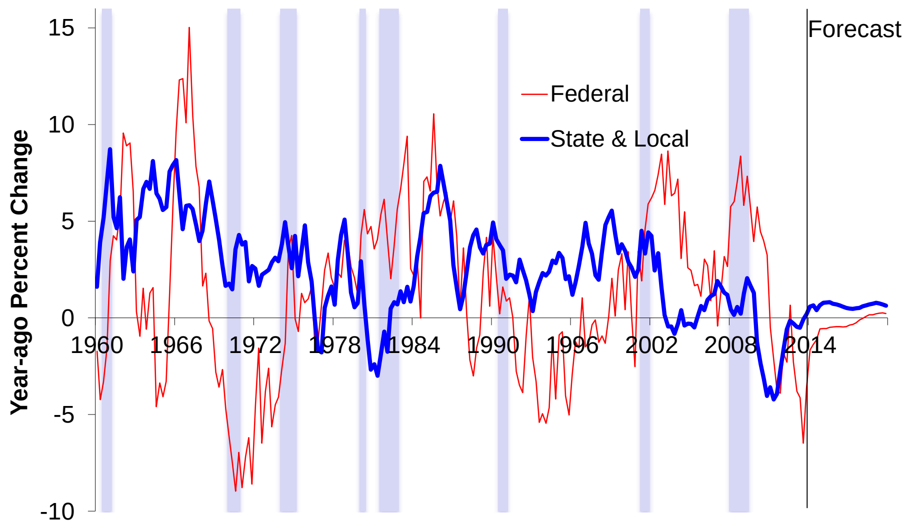
Source: Robert Shiller; DOB staff estimates.

Outlook for Government Spending

State and local government spending declines appear to have come to an end in the third quarter of 2013 with a decline of only 0.06 percent following 14 negative growth quarters since the beginning of 2010. Unlike Federal government spending, state and local government expenditures are constrained by revenue flows, often by statutory balanced-budget requirements. Sales tax and withholding collections tend to be the most cyclically sensitive, and with home prices still down 12 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 immediately subsequent to the recession (see Figure 41). The National Conference of State Legislatures (NCSL) reports that, generally, states' fiscal situations have stabilized, with nearly all states optimistic that they will meet their revenue targets for the rest of their current fiscal years.[8] State and local government spending is anticipated to grow 0.6 percent this year and 0.8 percent in 2015, compared to a small estimated decline of 0.2 percent for 2013.

Figure 41

Real Government Spending Over the Business Cycle



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

The Federal spending sequester and the pullback in the nation's military efforts are expected to continue to drive Federal spending trends. Beginning with the first quarter of 2011, there has been a significant slowdown in the NIPA component of Federal spending. From the first quarter of 2008, the first quarter of the recession, through the fourth quarter of 2010, Federal NIPA spending growth averaged 5.6 percent, but that rate dropped to an average decline of 2.8 percent from the first quarter of 2011 through 2013Q3 as the high budget deficit met with resistance from policymakers. As a consequence of the slowdown in Federal spending, the Federal budget deficit fell from $1,296 billion in Federal fiscal year 2010-11, the equivalent of 8.7 percent of nominal GDP, to $680 billion or 4.1 percent of nominal GDP two years later.

On January 17, 2014, President Barack Obama signed the $1.1 trillion federal spending bill, funding the government through September and taking the risk of another government shutdown off the table. According to the Congressional Budget Office

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8 See National Conference of State Legislatures, *State Budget Update: Fall 2013*, < http://www.ncsl.org/documents/fiscal/fallsbu2013free.pdf >,viewed January 15, 2014.

(CBO), this deal raises the discretionary funding level by $64 billion over Federal fiscal years 2014 and 2015 – $45 billion more than the sequester level in 2014 and $19 billion more in 2015, split evenly between defense and non-defense spending. This bill signals that the fiscal drag that plagued economic growth in the beginning of 2013 will be much less evident in the next couple of years. Nevertheless, the budget deal does not fully remove the sequester. Moreover, to offset the extra discretionary spending, the bill includes $85 billion in savings over the next 10 years: $78.4 billion cuts to mandatory programs including Medicare, and small increases in revenues worth $6.6 billion. Therefore, the Budget Division estimates the NIPA definition of Federal government spending to decline 1.2 percent in 2014 and 0.5 percent in 2015 after declining 4.5 percent in 2013. This small current-year decline contributes only a minor 0.1 percentage point reduction to GDP growth in 2014, and even less of a reduction in the out-years. Still unresolved as of this writing is how Congress will deal with the federal government's debt ceiling, which is suspended through February 7 under a measure passed by Congress in October.

Comparison with Other Forecasters

Table 4 compares the Budget Division's (DOB) forecast for a selection of U.S. indicators with those of other forecasting groups. The 2014 forecasts for real U.S. GDP growth fall into a relatively tight range, from a low of 2.7 percent (DOB, Global Insight) to a high of 3.0 percent (Macroeconomic Advisers). The DOB 2014 inflation forecast of 1.6 percent is in line with the Blue Chip forecasts, but represents a higher level than the remaining two. DOB's unemployment rate forecast for 2014 is 6.8 percent, in line with Blue Chip and Macroeconomic Advisers, and slightly above Global insight.

TABLE 4
U.S. ECONOMIC FORECAST COMPARISON

	2013	2014	2015
Real Gross Domestic Product (GDP)			
(2009 chained percent change)			
DOB	1.9	2.7	2.9
Blue Chip Consensus	NA	2.8	3.0
Global Insight	1.9	2.7	3.2
Macroeconomic Advisers	1.9	3.0	3.3
Consumer Price Index (CPI)			
(percent change)			
DOB	1.5	1.6	2.0
Blue Chip Consensus	NA	1.6	2.0
Global Insight	1.5	1.4	1.8
Macroeconomic Advisers	1.5	1.5	1.6
Unemployment Rate			
(percent)			
DOB	7.4	6.8	6.3
Blue Chip Consensus	NA	6.8	6.3
Global Insight	7.4	6.5	5.9
Macroeconomic Advisers	7.4	6.8	6.4

Source: New York State Division of the Budget, January 2014; *Blue Chip Economic Indicators*, January 2014; Global Insight, *US Forecast Summary*, January 2014; and Macroeconomic Advisers, *Economic Outlook,* January 2014.

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 2. For a more detailed description, see *New York State Economic, Revenue, and Spending Methodologies*, November, 2013.[9]

Risks to the U.S. Forecast

The Budget Division outlook calls for the recovery from the nation's worst recession since the 1930s to steadily improve over the course of 2014, as the strengthening housing, labor, and equity markets put U.S. households in the best financial position in years. But there are a number of significant risks to the forecast. While the euro-area economy is no longer contracting, unemployment rates are still rising in some areas and there are concerns about especially low rates of inflation. If the recovery is even more sluggish than expected, the implications for emerging markets and the global economy more generally will be negative, and will likely result in slower export and corporate profits growth than reflected in this forecast. The impact will reverberate through U.S. labor and financial markets, resulting in slower growth than anticipated. On the other hand, if the recovery in Europe is stronger than expected, the implications for the forecast will be quite positive.

The forecast rests on the assumption that the dysfunction that has plagued the U.S. government will not be a major stumbling block to growth, but if that hope becomes a bridge too far, the resulting additional uncertainty could affect both household and business sector confidence, and their willingness to spend and hire. On the positive side, if the Congress chooses to renew the UI extended benefits program that was scheduled to expire at the end of last year, household spending could be stronger than projected. A renewed confidence in the recovery depends upon the improvement in the pace of job growth over the coming quarters. If that improvement fails to materialize, households may pull back once again, resulting in lower consumption growth than expected. Weaker household spending would ripple through the economy and likely result in lower investment growth as well. A substantial equity market correction could have a similar effect.

Oil prices are expected to remain on their gently downward trajectory as the U.S. energy revolution continues to put upward pressure on supply in the context of only tepid global growth. But global tensions could easily obstruct that trajectory as they have done many times in the past. Since energy price growth acts as a virtual tax on household spending, faster growth in oil and gasoline prices than expected could result in lower consumption spending than anticipated. Finally, the Federal Reserve has begun to execute its long awaited exit from five years of unconventional policy use and unprecedented balance sheet expansion. If that exit is rockier that anticipated, and long-term interest rates should start to rise more quickly than expected, the impact on the entire global economy – both real and financial – could be quite negative. Alternatively, a smooth exit could play a critical role in putting the current expansion on the road to becoming one of the longest since the middle of the 20th century. Either way, the experience will be one for the history books.

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

BOX 2
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 2013:3. Our analysis borrows heavily from the Federal Reserve Board model which was redesigned during the 1990s using the most up-to-date advances in modeling techniques. We are grateful to Federal Reserve Board economists for providing guidance and important insights as we developed the DOB/U.S. macroeconomic model.

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

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

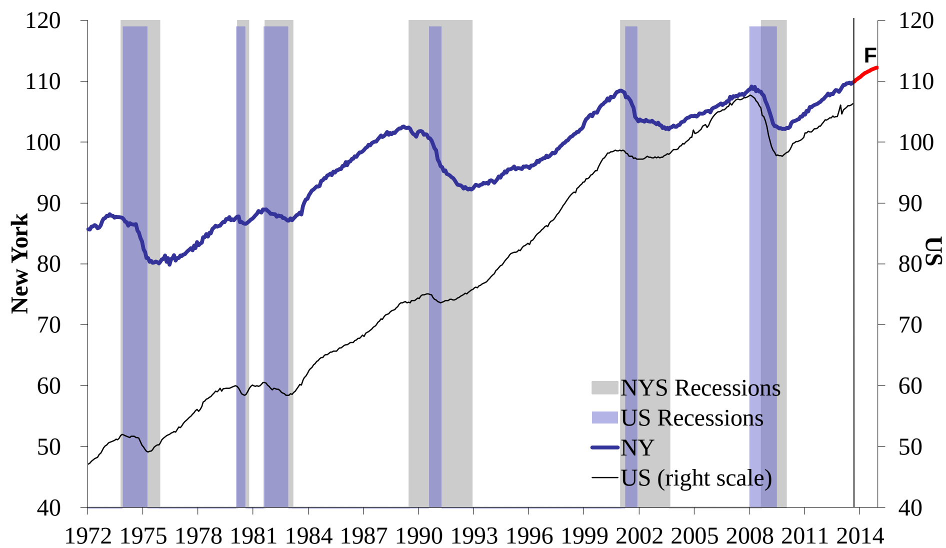
The model structure reflects the microeconomic foundations that govern optimizing behavior, but is sufficiently flexible to capture the short-run fluctuations in employment and output caused by economic imbalances (such as those caused by sticky prices and wages). DOB/U.S. incorporates dynamic adjustment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

THE NEW YORK STATE ECONOMY

New York State's private labor market continues to enjoy robust growth, exhibiting only a minor loss of the momentum it possessed coming out of the recovery. On a year-ago basis, private sector employment grew 1.8 percent in the second quarter of last year, the most recent for which detailed data are available. Growth was led by continued strength in the leisure and hospitality sector and strong job growth in the construction sector fueled in turn by a thriving real estate market. However, public sector job losses brought total employment growth down to 1.3 percent in the second quarter. The Budget Division estimates private sector State employment growth of 1.7 percent for all of 2013 and 1.5 percent growth in 2014, representing four consecutive years of above-average employment growth.

Despite strong job gains, ongoing downsizing in the financial sector, combined with a shrinking government sector continues to put downward pressure on total wage growth, which remains weak by historical standards. Wages grew 3.3 percent on a year-ago basis in the second quarter of last year, well below the average quarterly growth rate of 5.6 percent from 1983Q1 through 2007Q4, the 25-year period before the financial crisis,. The Budget Division projects State wage growth of 5.4 percent growth in 2014, following growth of 1.6 percent in 2013 and 2.9 percent in 2012. Note that the wage growth rates for all three years are affected by the shifting of $6 billion in wages and bonuses from early 2013 into the final quarter of 2012 in anticipation of higher federal tax rates. Adjusting for that shift yields wage growth of 1.8 percent in 2012, 3.9 percent in 2013, and 4.2 percent in 2014.

Figure 42
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.

1

The Budget Division uses the State coincident economic index to determine the State's business cycle turning points (see Box 3). The index's level and growth are plotted in Figure 42 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 2013, the index accelerated 1.6 percent from the same period in 2012, and down slightly from the 2.0 percent observed for all of 2012. Based on the leading index, State economic activity is projected to grow 1.7

percent in 2014. This pace of growth compares favorably with prior expansions, and as indicated in Figure 42, with the pace of national economic growth as well.

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

BOX 3
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

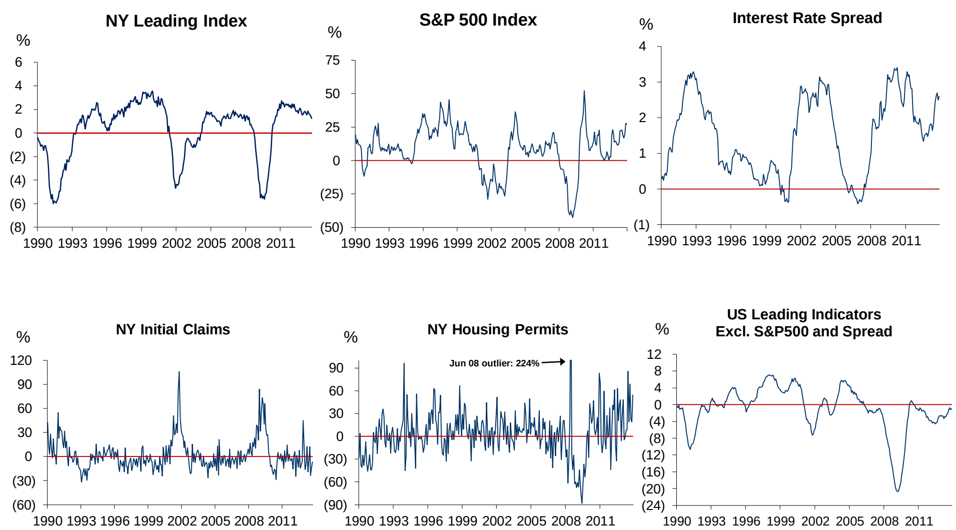
Source: DOB staff estimates.

(continued on next page)

(continued from previous page)

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

Variables Used in New York Index of Leading Indicators



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

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 42 on page 77, 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.

Outlook for Employment

Since the end of the recession, the New York State labor market has enjoyed strong private sector job growth. Table 5 presents a current profile of the State job market by comparing year-ago growth rates for the second quarter of 2013, the most recent quarter for which detailed QCEW data are available, against U.S. employment for the same period. Because the national labor market took much longer to generate the momentum exhibited by the State labor market as early as 2011, national private employment growth was 0.2 percentage point higher than for New York by 2013Q2. Table 5 reveals additional trends that differentiate New York from the nation. In the second quarter of 2013, New York led the nation in three sectors: leisure, hospitality and other services; construction; and educational services. The growth in the first sector confirms New York City's status as a shopping and tourist destination that was surely aided by a weaker dollar. Job growth in the construction industry benefited from a strong real estate market, particularly in New York City. In contrast, the State's utilities, manufacturing and mining, and finance and insurance sectors all experienced declines despite nationwide growth.

TABLE 5
YEAR-AGO PERCENT CHANGE IN EMPLOYMENT FOR 2013Q2: NYS v. US

	NYS	US
Total Private	**1.8**	**2.0**
Utilities	(1.7)	0.7
Construction	3.8	3.1
Manufacturing and Mining	(0.8)	0.4
Wholesale Trade	0.0	1.4
Retail Trade	1.2	1.8
Transportation and Warehousing	0.0	1.6
Information	(0.0)	0.5
Finance and Insurance	(0.9)	1.2
Real Estate and Rental and Leasing	1.2	1.8
Professional, Scientific, and Technical Services	2.3	3.1
Management, Administrative, and Support Services	3.6	3.6
Educational Services	0.6	0.5
Healthcare & Social Assistance Services	1.8	2.1
Leisure, Hospitality and Other Services	3.4	2.4
Government	**(1.0)**	**(0.3)**
Total	**1.3**	**1.6**

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

Going forward, the Budget Division projects total State employment growth of 1.2 percent for 2014, following growth of about the same for 2013. Private sector job growth of 1.5 percent is projected for 2014, after growth of 1.7 percent in 2013. The State's maturing labor market recovery compares to overall national job growth for 2014 of 1.7 percent and private growth of 2.1 percent. Table 6 shows projected changes in employment for 2014 by sector. Construction employment is expected to see strong growth of 2.5 percent based on projected continued strong growth in the housing market. An accelerating national economy will continue to increase demand for New York's large business service sector and thus professional and business services will continue to be a growth engine. Tourism will continue to be a key source of strength, supporting strong job growth in leisure and hospitality sector.

The Budget Division projects that the finance and insurance sector will continue to be a drag on State labor market trends since New York tends to be much more negatively affected than the nation as a whole by the fallout from job and income losses in that sector. There has been a large degree of consolidation in the banking sector since the financial crisis. Based on Federal Deposit Insurance Corporation data as of June 30, 2013, the top five commercial banks and savings institutions had 37.5 percent of all deposits, while the top 10 had 46.5 percent. These compare to 27.2 percent 36.2 percent, respectively, as of June 30, 2007, before the financial crisis. Consolidation of this magnitude creates the risk of worker layoffs, although that risk could be a positive one in the long-run if national assets are consolidated within New York. The government sector is also expected to continue losing jobs until the end of 2014.

TABLE 6
CHANGE IN NEW YORK STATE EMPLOYMENT FOR 2014

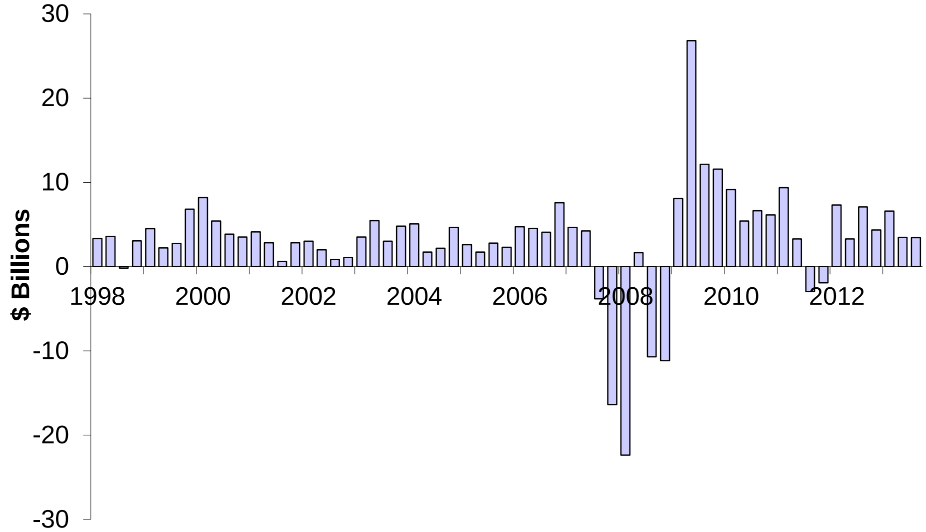
	Percent	Levels
Total Private	**1.5**	**110,940**
Utilities	(1.2)	(430)
Construction	2.5	8,050
Manufacturing and Mining	(0.2)	(1,070)
Wholesale Trade	0.6	1,960
Retail Trade	1.2	10,650
Transportation and Warehousing	1.0	2,250
Information	0.4	1,120
Finance and Insurance	(0.3)	(1,230)
Real Estate and Rental and Leasing	1.0	1,820
Professional, Scientific, and Technical Services	2.0	11,940
Management, Administrative, and Support Services	2.4	14,390
Educational Services	2.5	8,070
Healthcare & Social Assistance Services	1.7	23,150
Leisure, Hospitality and Other Services	2.6	30,260
Government	**(0.3)**	**(3,770)**
Total	**1.2**	**107,160**

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

The Continuing Transformation of the Securities Industry

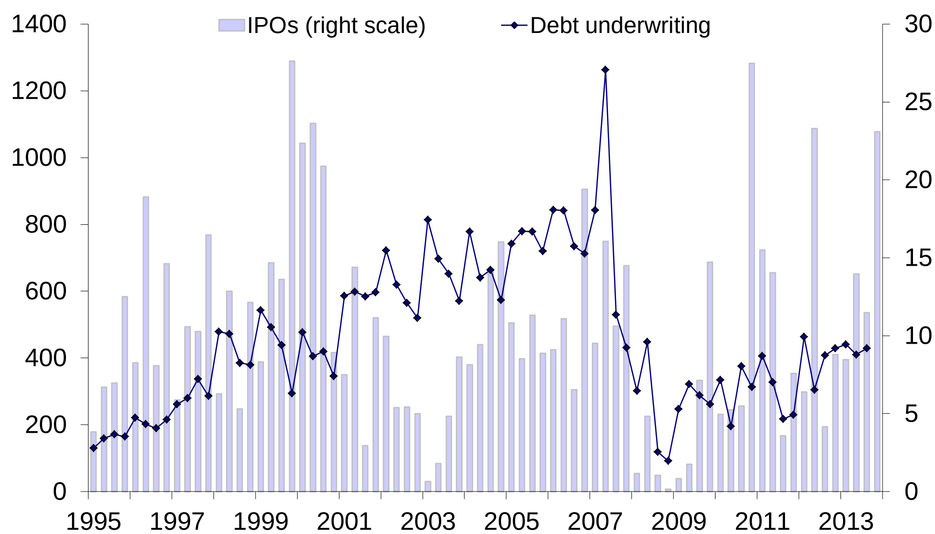
The historic transformation of the securities industry that was spurred by the events of 2007 and 2008 and culminated in the fall of two of the industry's largest investment banks continues to have a significant impact on Wall Street profitability, employee compensation, and State revenues. Figure 43 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: initial public offerings (IPOs) and corporate debt underwriting. While debt underwriting is closely linked to interest rates and the overall level of economic activity, IPOs tend to rise and fall with the secondary equity market. The spikes that appear in Figure 44 correspond to the historically large offerings that have gained much attention in recent years, such as the $15.8 billion General Motors IPO in November 2010, the notorious Facebook offering in May 2012, and most recently, the public sale of Twitter in November 2013. Both debt underwriting and IPOs show upward momentum since the low in 2009. Indeed, 2013 was the best year for the U.S. IPO market since 2000. In contrast, industry profits have largely been lackluster, exhibiting a definitive downward trend since 2009.

Figure 43
Securities Industry Profits



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

Figure 44
Major Drivers of Financial Market Activity
$ Billions

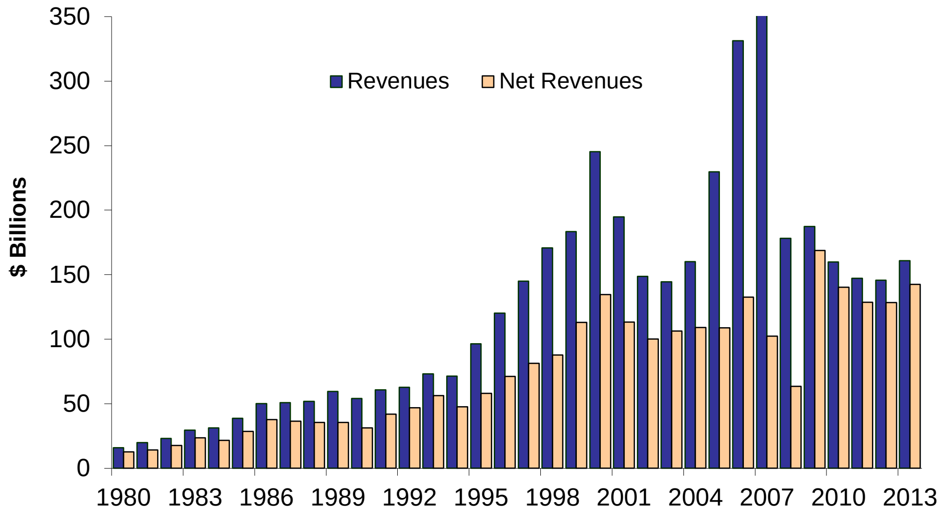


Source: Securities Industry and Financial Markets Association (SIFMA).

Figure 45 shows New York Stock Exchange member firm revenues before and after subtracting interest costs. With the major drivers on the rise, aided by a soaring equity market toward the end of the year, total revenues are projected to rise 10.4 percent in 2013, following two consecutive years of decline. More generally, total revenues have been deteriorating after 2009. Estimated revenues for 2013 remain 13.2 percent below their 2009 levels and 54.3 percent below 2007 levels. Table 7 lists the primary sources of revenue and expenses for NYSE member firms for the last seven years. Clearly the two greatest areas of improvement in industry balance sheets after 2008 are the decline in interest expenses, due to historically low interest rates, and increasing gains from equity underwriting, including IPOs. With rising equity markets and continued low interest rates, 222 companies went public and raised $55 billion in 2013.

Figure 45

NYSE Member Firm Revenues



Note: Estimate for 2013 is based on three quarters of actual data and one quarter estimated; net revenues exclude interest expenses.
Source: SIFMA; NYSE Euronext.

TABLE 7
NYSE MEMBER FIRM FINANCIAL RESULTS
($ Billions)

	2007	2008	2009	2010	2011	2012	2013*
Revenues	**352.0**	**178.1**	**185.3**	**159.8**	**147.3**	**145.7**	**160.8**
Commissions	28.8	30.2	26.5	25.0	25.7	19.4	23.1
Trading Gain (Loss)	(10.3)	(71.8)	28.4	16.7	1.5	14.0	10.9
Underwriting Revenue	23.2	16.5	19.6	20.3	18.3	20.8	24.4
All Other	310.4	203.2	123.5	97.7	101.8	91.5	102.4
Expenses	**363.4**	**220.7**	**126.7**	**134.7**	**139.5**	**123.6**	**142.8**
Total Compensation	69.6	59.8	61.3	66.9	68.0	60.2	71.5
Interest Expense	249.8	114.5	18.6	19.6	18.7	17.3	14.2
All Other Expenses	44.0	46.3	46.7	48.2	52.8	46.1	57.1
Pre Tax Net Income	**(11.3)**	**(42.6)**	**58.6**	**25.1**	**7.7**	**22.1**	**18.0**

* Estimate for 2013 is based on three quarters of actual data and one quarter estimated.
Source: SIFMA.

Although several of the major drivers of Wall Street revenues have been trending upward, revenues have been generally trending downward. The estimated rise for 2013 is based largely on fourth quarter year-ago growth of 62 percent, largely due to the impact of a surging equity market and the resulting increase in financial market activity.

However, based on the three quarters of revenue data currently available, revenues are virtually flat (down 0.2 percent).

One of sources of this general weakening in securities industry revenues is highlighted in Table 7, which lists the major sources of securities industry revenues and expenses. Industry trading gains have been falling off since 2009, marred by equity market volatility from repeated cycles of panic in response to sovereign debt concerns both here and in the euro-zone. The changing regulatory environment has further impacted trading gains. 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 4 outlines many of the key provisions of the Dodd-Frank reform and summarizes regulations recently proposed by the Federal Reserve that, consistent with the new regulatory framework, strengthen bank capital requirements and seek to limit counterparty risk, and, ultimately, systemic risk. The Volker Rule, which limits proprietary trading on own-account, was formally adopted in December, yet elements of its implementation are still being negotiated. Nevertheless, the anticipation of the finalization of the reform has had a large impact in the way Wall Street does business, based on the results presented in Table 7.

In addition to Dodd-Frank, implementation of Basel III, the third incarnation of the Basel Accords, which established global regulatory standards for managing bank risk began on January 1, 2013. Basel III specifically aims at improving the ability of banks to withstand periods of systemic economic and financial stress through more stringent capital and liquidity requirements. But these strengthened requirements will tend to put further pressure on revenue-generating activity and bank profitability by reducing leverage ratios, thus intensifying the pressure that already exists in the current environment of low long-term interest rates.

While much room remains left for interpretation, evidence suggests that the new regulatory environment is altering bank business practices in two fundamental ways. First, the composition of executive compensation appears to be evolving away from cash in favor of deferred compensation and stock grants, more closely tying pay to the long-term performance of the firm. As a result, the revenue growth estimated for 2013, may not translated into an equivalent rise in taxable bonus pay for the current 2013-14 bonus season. The deferral of compensation will tend to smooth out bonus payments, as the cash portion of current-year compensation packages combines with the deferred portions of prior years. And second, to reinforce such long-term incentives, packages include claw-back provisions that allow firms to take back a portion of bonus pay if actions taken by an employee are ultimately judged to have been too risky. 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 4
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

Total personal income growth of 5.2 is projected for 2014, following 1.9 percent growth in 2013. These growth rates are driven largely by growth in wages, which is the largest component of personal income. Wage growth of 1.6 percent and 5.4 percent growth are estimated for 2013 and 2014, respectively. The wage forecast assumes that firms shifted approximately $6 billion of their cash bonus payouts from the first quarter of 2013 to the end of 2012 to allow their employees to take advantage of the lower income tax rates that were scheduled to expire for high-income earners. Absent this shifting, we estimate that wages would have grown 3.9 percent for 2013, implying projected growth of 4.2 percent for 2014. The wage outlook for 2014 reflects solid 7.8 percent growth in finance and insurance sector bonuses for the 2013-14 bonus season, gradually improving global growth, which creates demand for the State's relatively high-wage business services, and improved prospects for public sector wages. Private sector wages are projected to grow 5.9 percent for 2014, following growth of 1.8 percent for 2013, while government sector wage growth is projected to improve from 1.0 percent in 2013 to 2.3 percent in 2014. Again, projected private sector wage growth for 2014 is elevated due to income shifting.

BOX 5
THE CONSTRUCTION OF NEW YORK STATE WAGES AND THE ESTIMATION OF VARIABLE INCOME

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

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

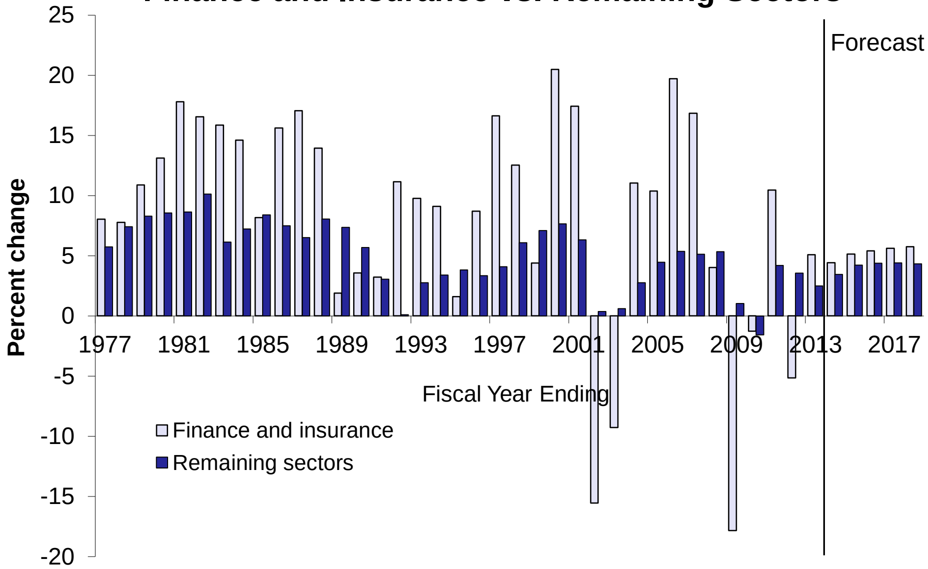
An increasing portion of New York State wages has been paid on a variable basis, in the form of either bonus payments or proceeds derived from the exercise of stock options. Because no government agency collects data on variable income as distinct from ordinary wages, it must be estimated. DOB derives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

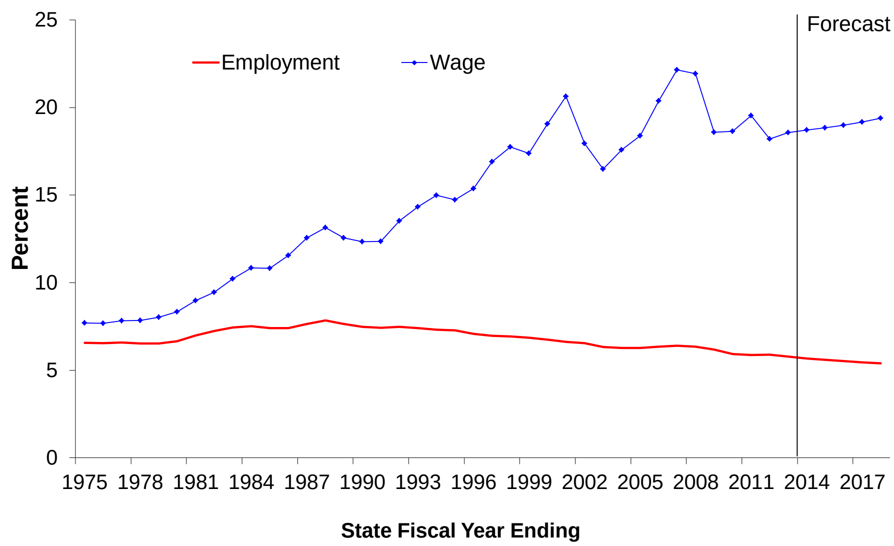
Because the state-level wage data published by the U.S. Bureau of Economic Analysis have proven unsatisfactory for the purpose of forecasting State tax liability, the Budget Division constructs its own wage and personal income series based on Quarterly Census of Employment and Wages (QCEW) data. Moreover, because of the importance of trends in variable income – composed of stock-related incentive income and other one-time bonus payments – to the understanding of trends in State wages overall, the Budget Division has developed a methodology for decomposing wages into bonus and nonbonus series. For a detailed discussion, see Box 5. The Budget Division's outlook for State income is based on these constructed series.

Figure 46
New York State Wage Growth
Finance and Insurance vs. Remaining Sectors



Source: NYS Department of Labor; DOB staff estimates.

Figure 47
Finance and Insurance Sector Employment and Wages as Share of State Total



Source: NYS Department of Labor; DOB staff estimates.

New York State employment and incomes are profoundly affected by the fortunes of the financial markets. Figure 46 shows how much faster wages grew in the finance insurance sector compared to the nonfinancial sectors for most of history. However, this trend is now much more muted, as the chart makes clear, with projected rates of finance insurance sector wage growth averaging only 1.1 percentage point above that for the remaining sectors. Figure 47 shows how the substantially higher wage growth in the finance and insurance sector increased its share of State total wages over time on a State fiscal year basis to a peak of 22.1 percent in 2006-07, but it has since fallen and is unlikely to revisit that peak in the near future. The industry's employment share is substantially lower than its wage share at only 5.8 percent of total State employment in 2012-13 and is expected to continue its downward trend going forward because of ongoing downsizing.

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

TABLE 8

State Wage Contribution of Growth By Sectors

	Non-Recession Year Mean (FY2001-FY2011)	FY 2013
Total Private	**94.6%**	**98.2%**
Utilities	0.3%	0.5%
Construction	3.6%	2.6%
Manufacturing and Mining	1.3%	2.5%
Wholesale Trade	4.9%	7.4%
Retail Trade	5.0%	7.2%
Transportation and Warehousing	1.5%	1.7%
Information	**5.1%**	**8.8%**
Finance and Insurance	**26.4%**	**6.3%**
Real Estate and Rental and Leasing	2.5%	3.1%
Professional, Scientific, and Technical Services	**15.3%**	**21.3%**
Management, Administrative, and Support Services	7.9%	8.8%
Educational Services	3.4%	4.9%
Healthcare & Social Assistance Services	10.2%	12.0%
Leisure, Hospitality and Other Services	6.9%	10.4%
Non-classified	0.3%	0.6%
Government	**5.4%**	**1.8%**
Total	**100.0%**	**100.0%**

One consequence of the finance and insurance sector's recent declining share of both employment and wages has been the diversification of the State's wage base. Table 8 shows how the contribution to overall State wage growth by each industry has changed in recent years by comparing the FY 2013 profile with the average over the non-recession years from FY 2001 through FY 2011, which excludes 2008-09 and 2009-10. Most notably, the contributions of both the government and the finance and insurance sectors have fallen dramatically. In the meantime, the contributions of both the information sector, which includes communications and social media, and the professional, scientific and technical services sector increased significantly.

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 2014-15, the industry average wage is projected to rise to about $223,000, which due to wage increases in other sectors, is only 237 percent above that of the remaining sectors. Thus financial market wages have an important effect on employment and income in New York City and its surrounding suburbs, both directly – through compensation paid to finance sector workers and purchases made by finance sector firms, and indirectly – as finance sector workers spend their incomes on housing, entertainment, and other goods and services.

Variable Income Growth

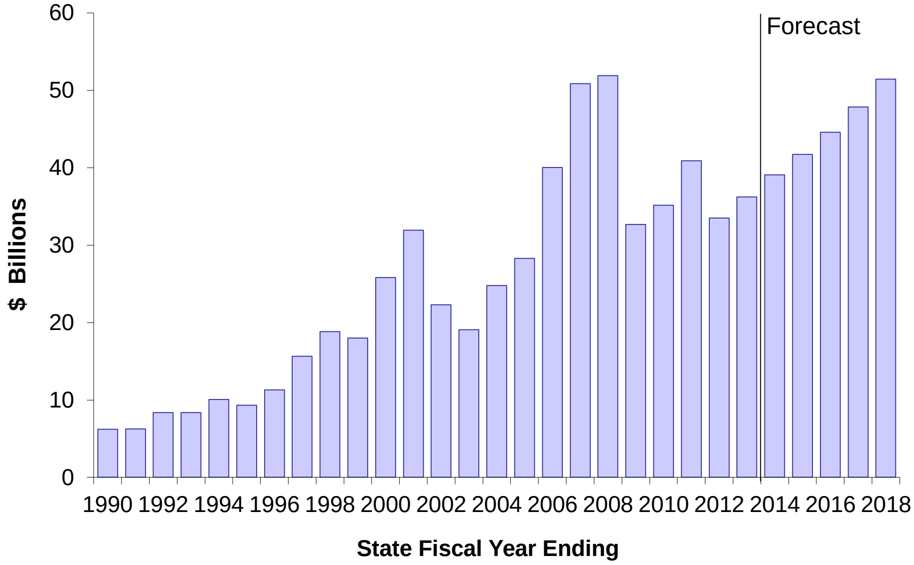
Variable income is defined as that portion of wages derived primarily from bonus payments, stock incentive income, and other one-time payments. As performance incentives for a given calendar year, firms tend to grant employee bonus "packages" during either the fourth quarter of that year or the first 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.[10]

Figure 48 portrays how variable income paid to employees in the finance and insurance industry has grown dramatically since the early 1990s. 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. The Budget Division projects total State variable income to rise 6.2 percent in the current fiscal year, followed by an increase of 5.8 percent for 2014-15, led primarily by the finance and insurance sector. The cash portion of finance and insurance sector bonuses is estimated to rise 7.8 percent for the current 2013-14 bonus season, resulting in a payout of $39.1 billion, $2.9 billion above 2012-13. For calendar year 2013, the finance industry benefited from the strong stock market as seen in a 19 percent increase of the Standard & Poor 500 index, as well as low interest rates, although with the rise in mortgage rates as a result of speculation surrounding Federal Reserve tapering, a fall-off in mortgage related business was felt industry-wide. Equity market growth is projected to be slower in 2014, as suggested by the Shiller adjusted price-to-earnings ratio discussed above, while interest rates are expected to continue creep up as central bank tapering proceeds. The Budget Division projects more modest growth of

[10] See Box 5 on page 87 for a more detailed discussion of bonus estimation.

6.8 percent for finance and insurance sector bonuses in 2014-15, representing a payout of $41.7 billion.

Figure 48
New York State Finance and Insurance Sector Bonuses



Source: NYS Department of Labor; DOB staff estimates.

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 44 on page 82, the most recent available data suggest that year 2013 has been the best year for IPOs since 2000. However, the debt underwriting volumes remained below the average over the last ten years. Growth both here and abroad should increase the demand for debt underwriting, mitigated somewhat by rising interest rates. However, the volume of equity underwriting activity, which is typically closely correlated with growth in the secondary market for equities, is not expected to repeat its 2013 performance.

Given the pressures to re-incentivize and cap employee compensation, the income outlook for the finance industry is highly uncertain at present, producing a high degree of risk to the outlook for bonuses. Historically, there has been a close relationship between New York Stock Exchange (NYSE) member-firm revenues and finance and insurance sector bonus payouts. Though bonus payouts in the past have been evenly split between cash and stock incentive payments, the split has recently become more heavily weighted toward stocks as firms seek to reconstruct their compensation packages, with large portions of the total bonus package deferred over a multi-year period. This trend is expected to continue going forward, having substantial implications for Federal, State, and local tax 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 2.8 percent for the 2014 calendar year, following an estimated increase of 2.0 percent for 2013. With the unemployment rate declining from 8.5 percent in 2012 to 7.7 percent in 2013, and further down to a projected rate of 7.5 percent in 2014, total nonbonus wages are projected to grow 4.1 percent for 2014, following an increase of 3.3 percent for 2013.

Average Total Wages and Inflation

Average total wages are projected to increase 4.1 percent for 2014, following a much smaller estimated increase of 0.4 percent for 2013, which was largely the result of an 11.8 percent decline in finance and insurance sector bonuses for the calendar year and the income shift from 2013 into 2012. Average total wage growth without the income shift is projected to be 3.0 percent in 2014, following 2.6 percent growth in 2013. The Budget Division projects growth in the composite CPI for New York of 1.7 percent for 2014, following the same growth for 2013. Projected 2014 inflation for New York is consistent with that for the nation.

Nonwage Income

The Division of the Budget projects a 5.1 percent increase in the nonwage components of State personal income for 2014, following an increase of 2.1 percent for 2013. Explosive growth in equity markets, growing corporate profitability and the resurgence of profitable sales by private equity firm have boosted U.S. dividend income 2013 and are expected to continue to do so in 2014. The Budget Division expects U.S. dividend income to grow 9.5 percent in 2014. Dividends are a large component of property income. Based on strong US dividend income growth, the New York property income is projected to grow 6.2 percent in 2014 following 3.6 percent growth in 2013. The 2013 growth in dividend income is depressed, and the 2014 growth correspondingly elevated, by the acceleration of dividend payouts from 2013 into 2012 in advance of the Federal tax hike.

As the traditional banking sector continues to downsize, and a portion of these laid off workers are absorbed by private equity firms and hedge funds, forms of non-wage income such as proprietors' income and dividends could rise at the expense of wage income. Proprietors' income is projected to rise 6.1 percent in 2014, following similar growth of 6.2 percent in 2013. Some of this income could also be earned as capital gains, which are not counted in the BEA definition of personal income. Recent reporting suggests that private equity payouts exceeded $100 billion in both 2012 and 2013, up from $80 billion in 2007 and $25 billion in 2009. It is believed that most of this income is reported as realized capital gains.

The Budget Division's forecast for 2013 shows 30.8 percent growth in employee contribution to Social Security following 2.3 percent growth in 2012 as the two-year payroll tax holiday expired on December 31, 2012. 2014 growth is expected to be at 6.8 percent. In contrast, extended unemployment insurance benefits were allowed for one more year, contributing to growth in transfer payments of 3.4 percent in 2013, following growth of 1.1 percent in 2012. Transfer income is projected to grow 4.4 percent for 2014.

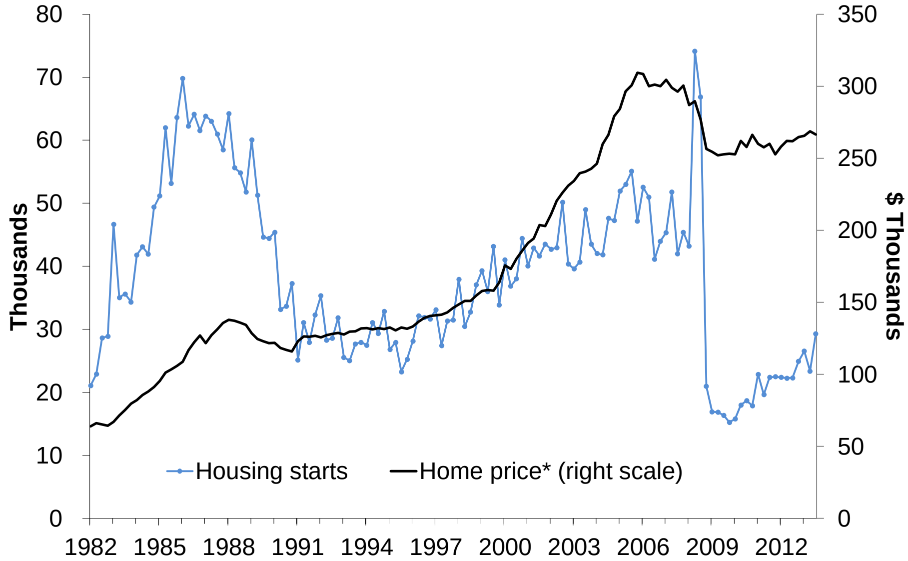
Housing Market Continues To Improve

New York State's housing market continues to improve. Figure 49 compares the recent trends in both housing starts and home prices in New York.[11] With low mortgage rates and healthy employment growth, housing starts grew 23 percent for the first 11 months of 2013 over the same period year ago, after growing of 5.1 percent in 2012. State housing starts are projected to grow 7.6 percent in 2014. The strong 2013 performance was the result of strong growth in both single-family and multifamily units (see. Figure 50). In the wake of Superstorm Sandy, about 300,000 claims were filed by homeowners whose homes were either damaged or destroyed by the storm. The rebuilding and replacement of these homes contributed to the growth in housing starts in 2013. The near-term forecast for continued growth is supported by both exceptionally low, albeit rising, mortgage interest rates and the continued strength of the rental market in the New York City metro area, although credit conditions remain tight by recent historical standards. Despite double-digit growth in 2013 and continued healthy growth projected for 2014, housing starts remain at historically low levels.

As for the nation, prospects for the State's residential housing market also depend on the outlook for prices. New York State's average single family home price is expected to rise 3.1 percent in 2014, following growth of 2.5 percent in 2013. 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, the State's foreclosure rate of 0.87 percent of all loans serviced during the third quarter of 2013, the most recent period available, was above the national rate of 0.61.

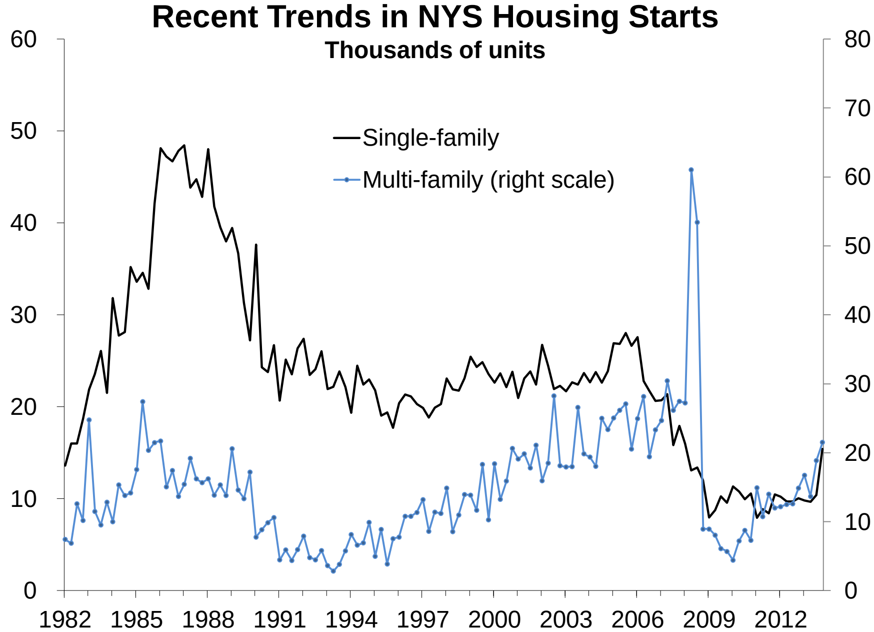
[11] A trough in the State housing starts series is hard to pinpoint due to a change in New York City building codes that took effect on July 1, 2008, requiring developers to add features such as sprinklers, smoke detectors, fire-resistant stairways, and on-site safety managers or coordinators for buildings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

Figure 49
NYS Housing Market Stabilizing



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

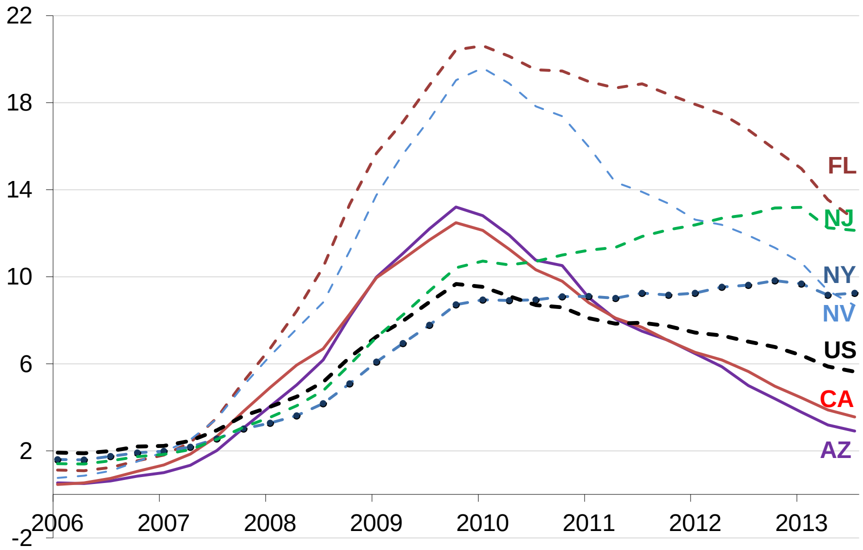
Figure 50
Recent Trends in NYS Housing Starts
Thousands of units



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

If the yardstick is the number of homes in a state of delinquency then New York's percentage is higher than the nation as well. Figure 51 displays the percentage of total mortgage debt outstanding that is seriously delinquent, defined as mortgage debt that is either more than 90 days past due or in foreclosure. Based on the most recent data, New York 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 51 are Florida and New Jersey. This build-up could delay a full recovery of New York's housing market.

Figure 51
Percent of Seriously Delinquent Mortgage Debt



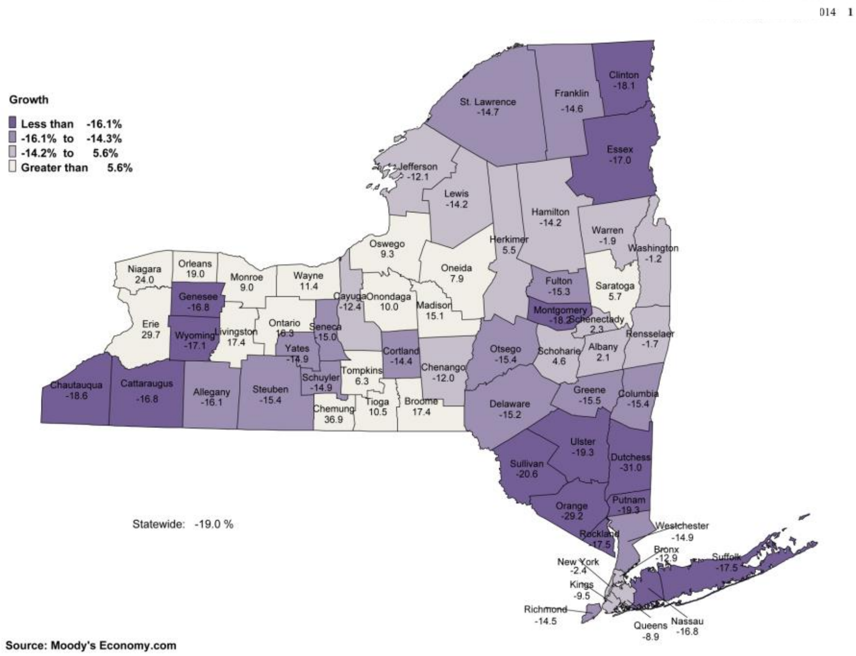
Source: Moody's Analytics.

Figure 51'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 52). 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 relatively cheap dollar, and the uniqueness of City real estate. Condo and co-op purchases rose 27 percent in the fourth quarter of 2013 from a year ago to the highest level in more than 25 years. The median sales price for the fourth quarter was $855,000, up 2.1 percent from 2012Q4. The increase was led by condominiums - largely accounting for the new developments that are the preferred choice of international buys.[12]

[12] See < http://www.millersamuel.com/files/2014/01/Manhattan_4Q_2013.pdf >, viewed January 19, 2014.

Figure 52
Home Values in Many Areas Still Well below Their Peaks

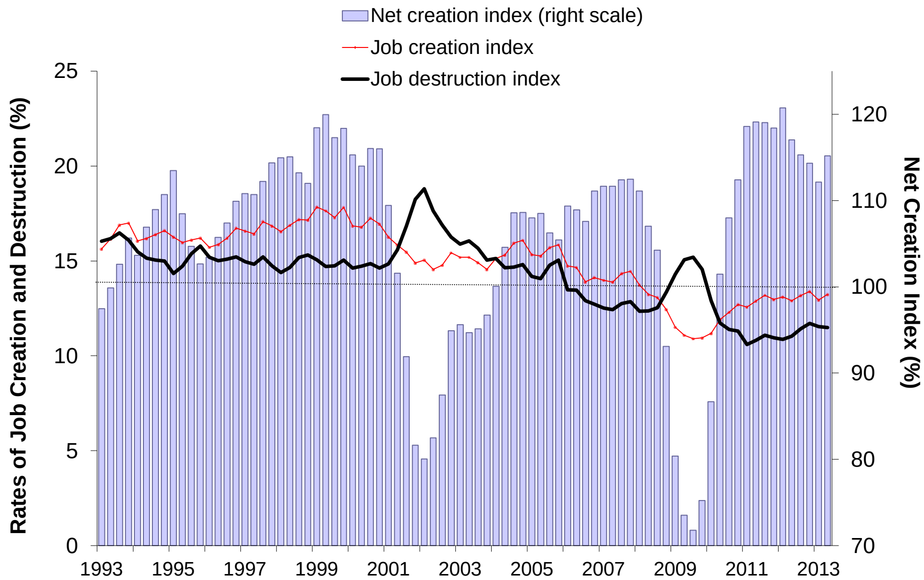


Source: Moody's Economy.com

New York State Labor Market Dynamics

Figure 53 below summarizes the State's private labor-market dynamics from 1993 to 2013. 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.

Figure 53
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 53 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 1.8 percent rate of net job creation in the second quarter of 2013 is consistent with the Budget Division's 1.7 percent estimate for private sector job growth in 2013, followed by a slower 1.5 percent increase in 2014.

BOX 6
ANALYZING PRIVATE SECTOR EMPLOYMENT DYNAMICS AT THE ESTABLISHMENT LEVEL

The expansion or contraction of an industry over time is usually measured by the net change or net growth in jobs. However, a look beneath the net numbers into the mechanics of job creation and destruction at the establishment level facilitates a deeper understanding of the underlying dynamics.[1] During times when State employment is growing slowly, or even falling, an examination of the underlying dynamics reveals an extremely active labor market – even in the worst of times, new firms are created and existing firms add jobs. For example, though private sector employment fell 3.3 percent in 2009, about 23 percent of the State's business establishments created jobs. The data for this study derive from the Quarterly Census of Employment and Wages (QCEW) program.[2] These data include all establishments subject to Federal unemployment insurance laws and cover approximately 98 percent of all employment. For the second quarter of 2013, the most recent period for which data are available, the QCEW data covered 600,653 private sector establishments in New York State and 7,322,060 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 2013 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 2012 and the second quarter of 2013 is constructed by adding together the number of jobs created by firm startups (firms which existed during the second quarter of 2013 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 2013, a total of 960,616 jobs were created from these three sources. Performing this calculation for the second quarter of 2013 produces the following:

$$\text{Gross rate of job gain} = \frac{\text{Startup gain} + \text{Existing firm gain} + \text{M\&A gain}}{\text{Base}} = \frac{960{,}616}{7{,}258{,}733} = 13.2\%$$

This result indicates that the State's gross rate of job creation for the second quarter of 2013 is 13.2 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 2013, 53.4 percent were created by firms with less than 50 employees. Another 25.2 percent were created by medium sized firms of between 50 and 250 workers, and the remaining 21.4 percent by large firms with workforces exceeding 250.

We similarly construct a gross rate of job destruction by adding together employment at firms that existed in the second quarter of 2012 but not in the second quarter of 2013, 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 2013 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)

$$\text{Gross rate of job loss} = \frac{\text{Startup loss} + \text{Existing firm loss} + \text{M\&A loss}}{\text{Base}} = \frac{833{,}962}{7{,}258{,}733} = 11.5\%$$

This result states that the gross rate at which jobs were lost between the two quarters is 11.5 percent. Thus, for the second quarter of 2013, 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 2013, this calculation yields:

$$\text{Net index of job creation} = \frac{\text{Gross rate of job gain}}{\text{Gross rate of job loss}} = \frac{13.2\%}{11.5\%} = 115.2\%$$

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 2013, the construction sector and the health and social assistance sector had similar net indices of job creation of 121.8 percent and 118.6 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.

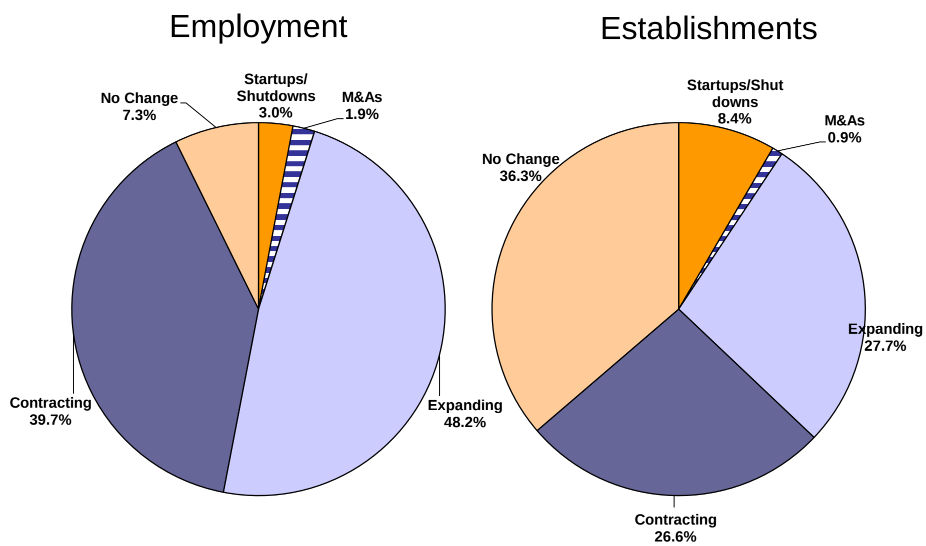
Employment Dynamics Comparison: 2013Q2

Sector (NAICS code)	Gross rate of job creation	Gross rate of job destruction	Net index of job creation
Construction (23)	21.0%	17.2%	121.8%
Health & Social Asssitance (62)	10.0%	8.5%	118.6%

The State's Employment and Establishment Base

Figure 54 shows the composition of the State's employment and establishment base for the second quarter of 2013 by type of establishment. Startups and shutdowns accounted for 8.4 percent of the establishment base in 2013Q2. Because these firms tend to be quite small, averaging only about four employees per firm, they accounted for only 3.0 percent of the State's private sector employment base. Firms that were either acquired or absorbed by other firms accounted for 0.9 percent of the establishment base. The average size of these firms was about 25 employees and accounted for 1.9 percent of employment.

Figure 54
Composition of State's Employment and Establishment Base
2013Q2



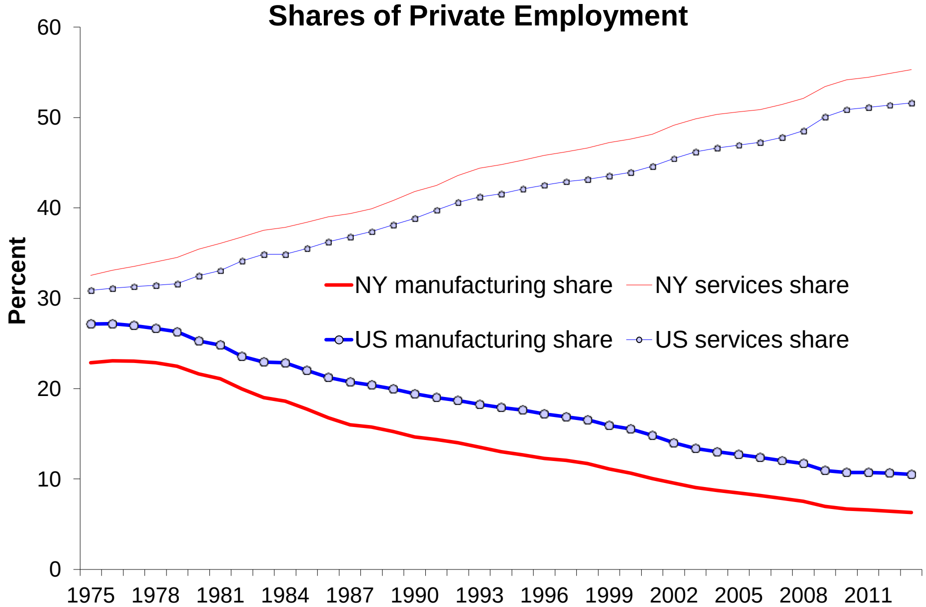
Source: NYS Department of Labor; DOB staff estimates.

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: 90.7 percent of the State's establishment base and 95.1 percent of the job base. As indicated in the right-hand panel of Figure 54, the three types of existing firms accounted for somewhat similar shares of establishments: 27.7 percent, 26.6 percent and 36.3 percent, respectively. This tends not to be the case for the shares of the total job base accounted for by expanding, contracting and "no change" firms, which are 48.2 percent, 39.7 percent, and 7.3 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 manufacturing than in finance and insurance; professional, scientific, and technical services; and trade, transportation and utilities. Nevertheless, the manufacturing sector is important Upstate, where it still accounts for a significant share of private employment.

Figure 55
Manufacturing and Service Sector Shares of Private Employment



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

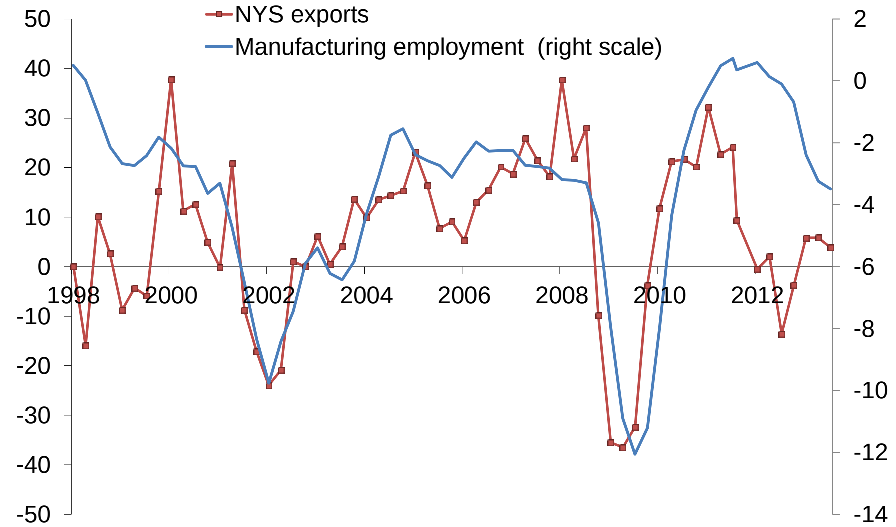
The Budget Division's forecast for the manufacturing and mining sector represents the continuation of a long-term decline.[13] Since the mid-1970s, New York's comparative advantage has shifted away from manufacturing in favor of services (see Figure 55), and the manufacturing sector continues to experience 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.

[13] The Budget Division combines manufacturing and mining for forecasting purposes. As of the second quarter of 2013, 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 56

NY State Exports and Manufacturing Employment

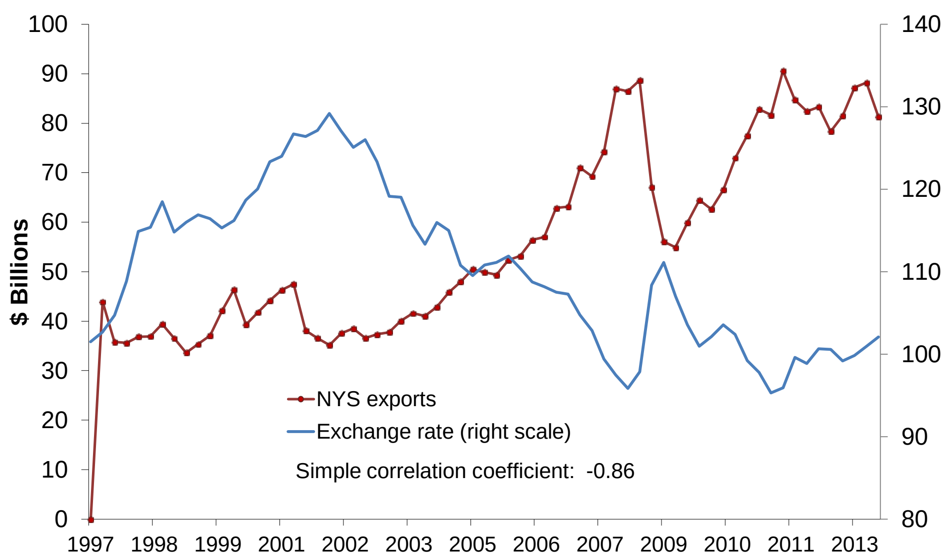
Year-ago percent change



Note: The two series have a simple correlation coefficient of 0.56.
Source: Moody's Analytics.

Figure 57

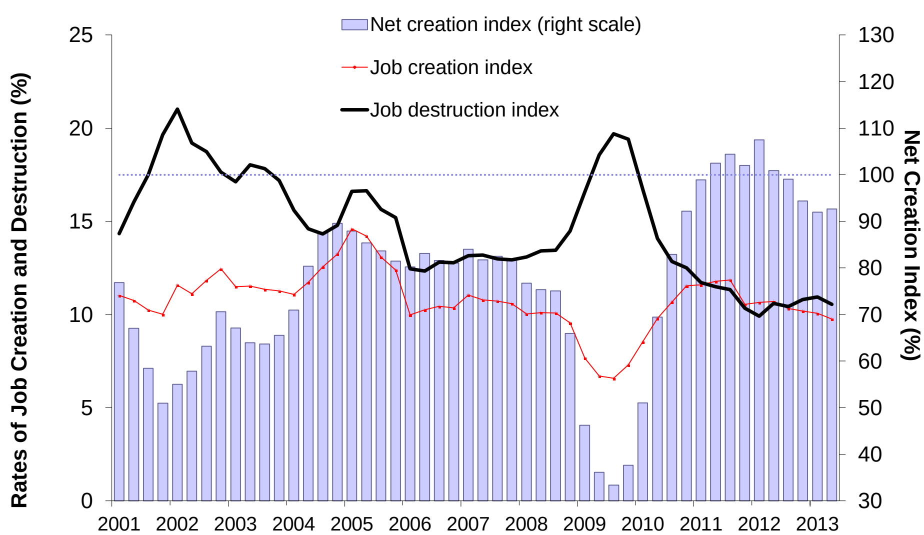
Dollar Exchange Rate Index and NYS Commodity Exports



Source: Moody's Analytics

The 0.7 percent decline in manufacturing jobs estimated for 2013 would keep sector employment 60 percent below its 1984 level of about 1.2 million workers. For 2014, employment is expected to fall 0.2 percent, to approximately 457,300 workers. These estimates correspond to projected job losses of 1,100 in 2014. 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 56 suggests that slower growth in demand for State exports is likely to result in less demand for New York State manufacturing workers, with a pick-up expected in 2015 as global growth improves. Moreover, Figure 57 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 2014.

Figure 58
Mining and Manufacturing



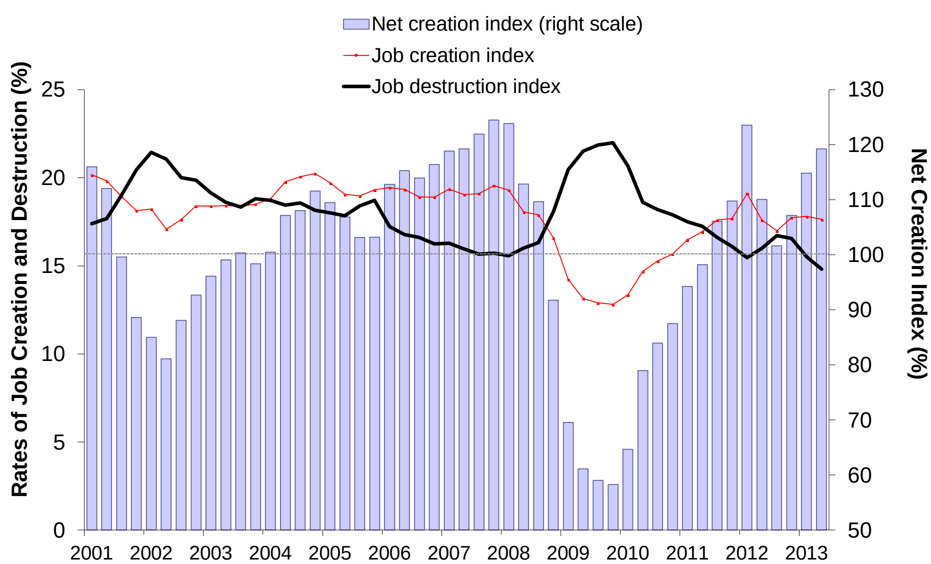
Source: NYS Department of Labor; DOB staff estimates.

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 58). 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 0.2 percent employment decline in 2014.

Construction and Real Estate

Despite the fact that New York's residential housing market experienced less of the bubble than the rest of the nation, the impact on the labor market was nonetheless severe. Commercial real estate was also hard hit in the last recession. As a result, the construction sector was the second hardest-hit during the downturn, after manufacturing. However, the Budget Division is projecting an increase in construction employment of 2.5 percent for 2014, after a 3.4 percent increase in 2013. Meanwhile, employment in the real estate, and rental and leasing sector is projected to increase 1.0 percent again in 2014 after an increase of about the same in 2013.

Figure 59
Construction & Real Estate

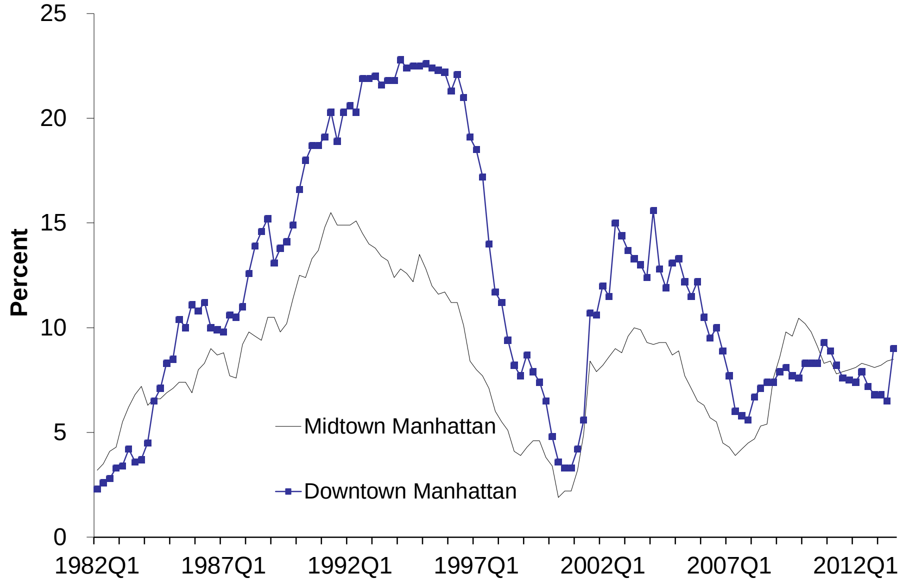


Source: NYS Department of Labor; DOB staff estimates.

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 59). 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 60). After increasing at the end of 2009 and 2010, Manhattan office vacancy rates started to come down in 2011.

Figure 60
Office Vacancy Rates



Source: Moody's Analytics; CBRE.

The Budget Division outlook for modest construction employment growth in 2013 is supported by activity already in the pipeline, such as the ongoing reconstruction of the World Trade Center, a multi-year subway project, and the rebuilding after Superstorm Sandy. Projects financed by the waning American Recovery and Reconstruction Act may also help reduce net job losses. Finally, Figure 60 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.

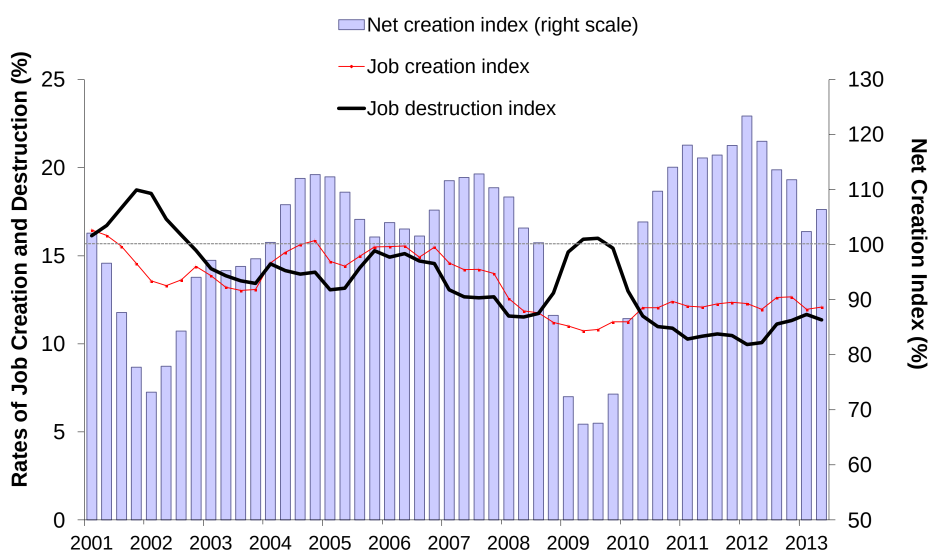
Regional data indicate that the housing sector growth has positively impacted construction employment in most of the State's regions, with these regions reporting higher employment in the first of half of 2013 compared to the same period in 2012. The greatest construction employment increases occurred in the Long Island (6.0 percent), New York City (3.2 percent), Central New York (2.5 percent) and Hudson Valley (2.0 percent).

Trade, Transportation, and Warehousing

The Budget Division projects this sector will gain about 15,000 jobs in 2014, for an increase of 1.0 percent, after 0.8 percent growth in 2013. 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 61 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 2014, the Budget Division projects increases of 0.6 percent for wholesale trade, 1.2 percent for retail trade and 1.0 percent for transportation and warehousing. These increases represent a stronger growth from what each subsector posted in 2013 and are consistent with both higher national and State income growth and the anticipated growth in international trade.

Figure 61
Trade, Transportation, and Warehousing



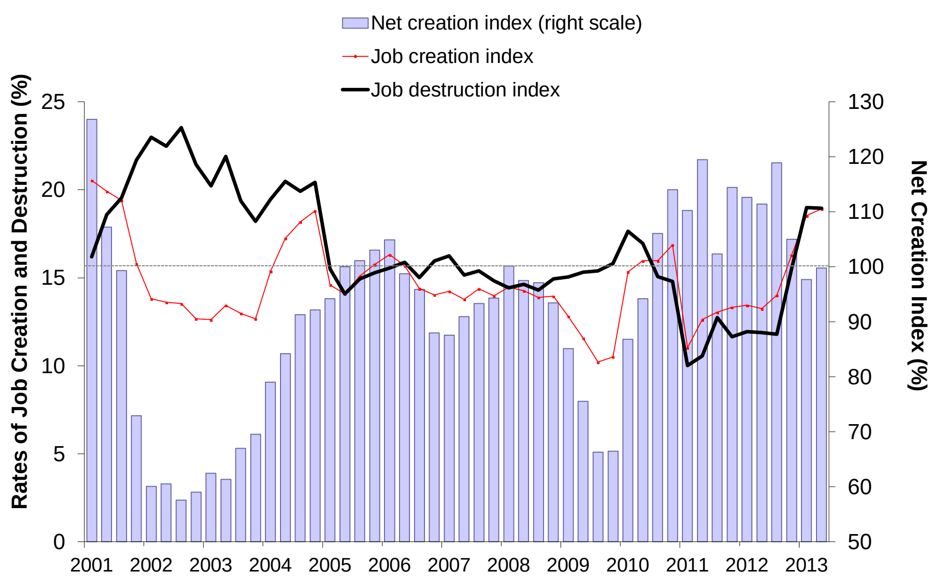
Source: NYS Department of Labor; DOB staff estimates.

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 460 jobs in 2013, after experiencing an impressive increase in 2012. The relatively outsized gains in 2012 appear to be related to the penetration of the New York City market by the social media industry and are not expected to be repeated at that scale going forward. Job gains of only 1,120, or 0.4 percent, are expected in 2014.

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 62).

Figure 62
Information

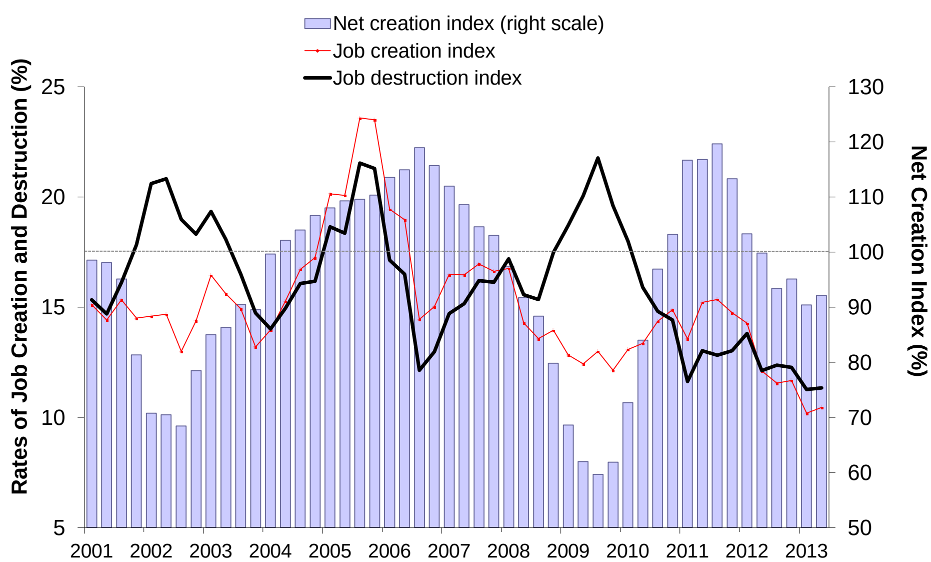


Source: NYS Department of Labor; DOB staff estimates.

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 3,700 jobs in 2013, for a 0.7 percent annual decline. Job cuts are expected to continue with a loss of 1,230 jobs in 2014, a 0.3 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 547,000 jobs before the end of the forecast horizon in 2022. 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 2014 as well.

Figure 63
Finance and Insurance



Source: NYS Department of Labor; DOB staff estimates.

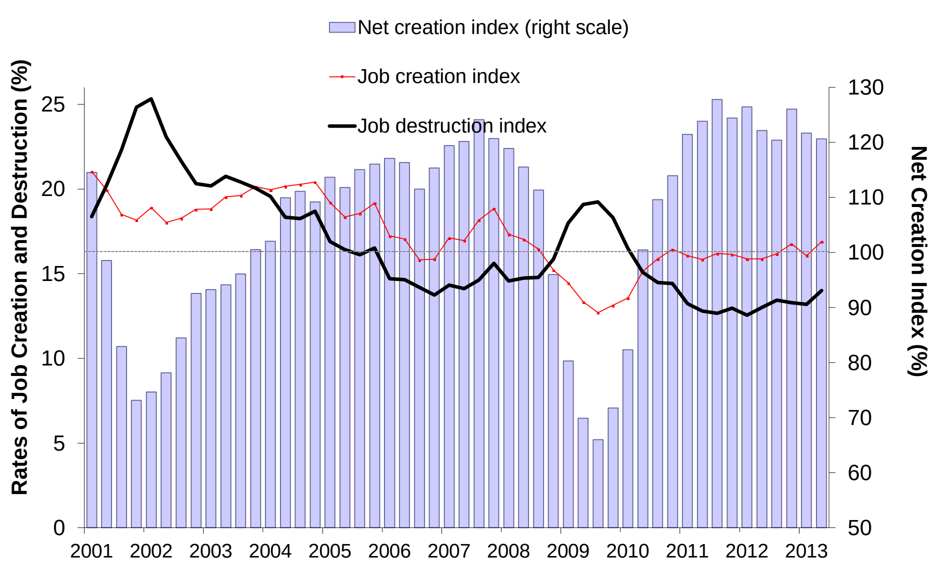
During the middle of the past decade, the finance and insurance sector had been a bright spot for the State's economy (see Figure 63). The jobs lost during the 2001-2003 recession lowered industry compensation costs and helped Wall Street firms to increase profits significantly by 2003. After three years 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 the net index turning positive at the end of that year. Job losses faded to 9,200 during 2010. While the new recruitment efforts of 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 2014. It includes two groups of industries: the professional, scientific, and technical services sector (PST), which encompasses legal, accounting, architectural, engineering, advertising, and technical services; and the management, administrative, and other business support services group. The Budget Division estimates that the PST subsector saw an estimated gain of 2.3 percent, or 13,940 jobs, in 2013, to be followed by a gain of 2.0 percent, or 11,940 jobs, in 2014. The management, administrative, and support services sector is expected to follow a similar trend with a 2014 gain of 14,390 jobs, or 2.4 percent, after a 2013 gain of 18,640 jobs, or 3.3 percent. This sector includes temporary help services, which helps to explain its earlier recovery.

Figure 64
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.

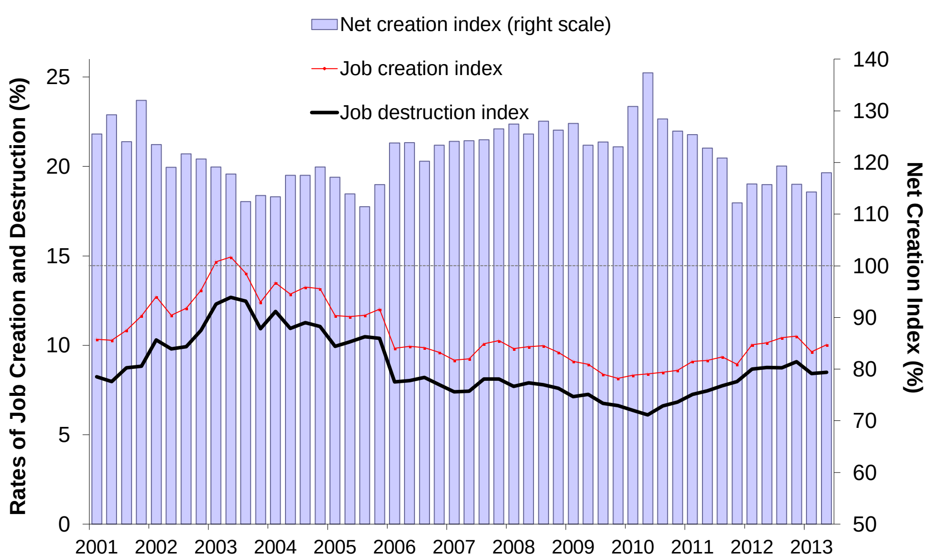
Meanwhile, in the PST subsector, the most recent recession led to a dramatic increase in the job destruction index, and decrease in job creation index, which in turn pushed down the net creation index down to a level even worse than in the 2001-2003 State recession (see Figure 64). Since the second quarter 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 an international customer base; thus, growth in U.S. corporate profits and an improving global economy imply growth in this sector going forward 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 65). Together, these two sectors are expected to add about 31,220 new jobs in 2014 for growth of 1.9 percent.

Figure 65

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 2013. The private education sector is estimated to employ only about 317,100, as it excludes more than 600,000 workers employed at public educational institutions. Typically, neither of these sectors exhibits a significant degree of cyclical sensitivity. Although there is the pressure on public sector spending, an important funding source for the private health care sector, State health industry employment saw some growth in the history of the QCEW series in 2013. The demand for jobs within the health care and social assistance sector is expected strengthen further with the aging of the State's population going forward. Private education employment is projected to rise 2.5 percent for 2014, following estimated growth of 1.4 percent for

2013. Healthcare and social assistance employment is also projected to rise 1.7 percent in 2014, following estimated growth of 1.6 percent for 2013.

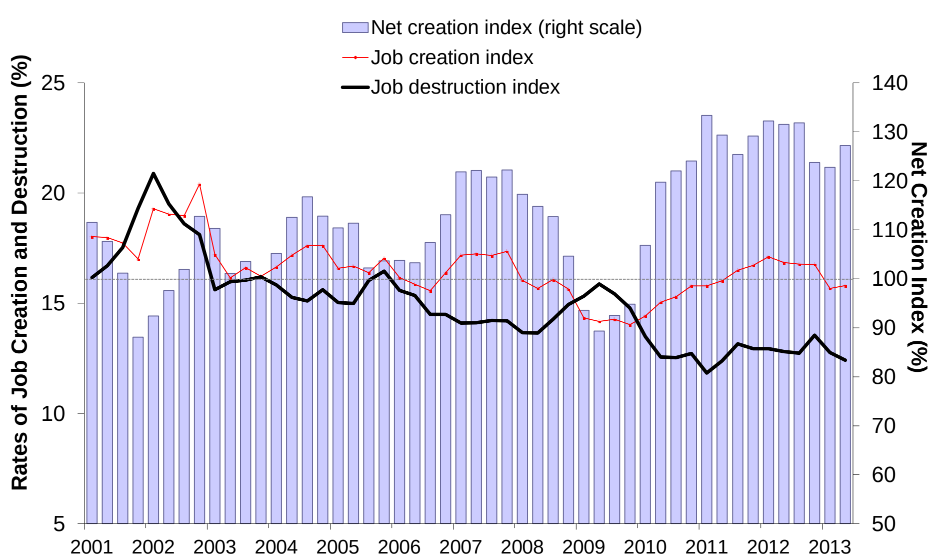
Leisure, Hospitality, and Other Services

The Budget Division expects leisure, hospitality, and other services employment to increase by 2.6 percent in 2014, following an increase of 3.3 percent in 2013. 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 66). In that case, the gross rate of job destruction increased considerably during the fourth quarter of 2001 and the first quarter of 2002, although the sector began to bounce back soon thereafter.

During the more recent State recession, the net index started falling in the first quarter of 2008 and was below 100 by the first quarter of 2009. The sector's rate of job destruction peaked early, in the second quarter of 2009, and the sector has been improving since, experiencing net growth by the first quarter of 2010. Since then this sector has experienced strong growth, mainly due to the improvement of the job destruction index, which led to the highest net creation index since 2001 in the first quarter of 2011. This sector is estimated to have added almost 36,930 jobs in 2013, and is expected to add another 30,260 jobs in 2014, with the gradual strengthening of the national and global economies favoring tourism.

Figure 66

Leisure, Hospitality, and Other Services



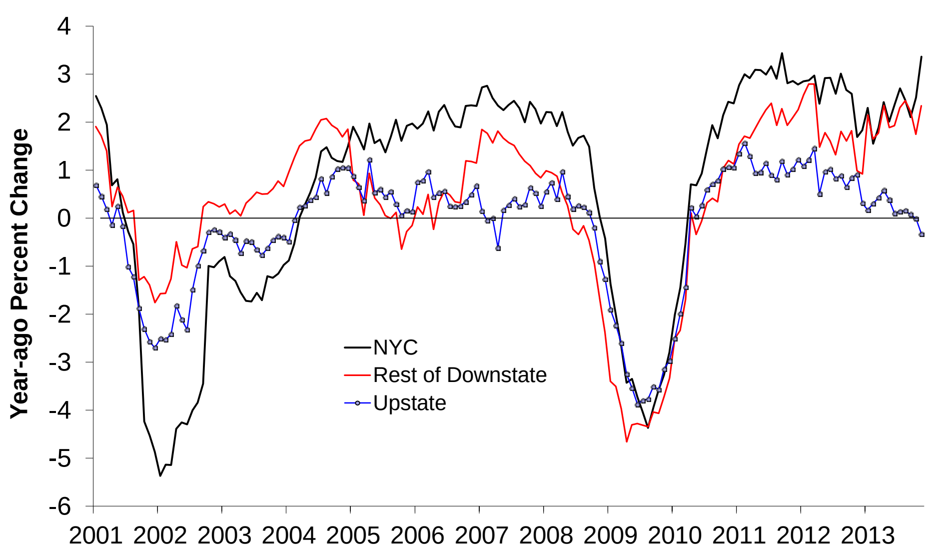
Source: NYS Department of Labor; DOB staff estimates.

Regional Job Growth Disparity

Figure 67 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 67, 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 67
NYS Private Sector Employment by Region

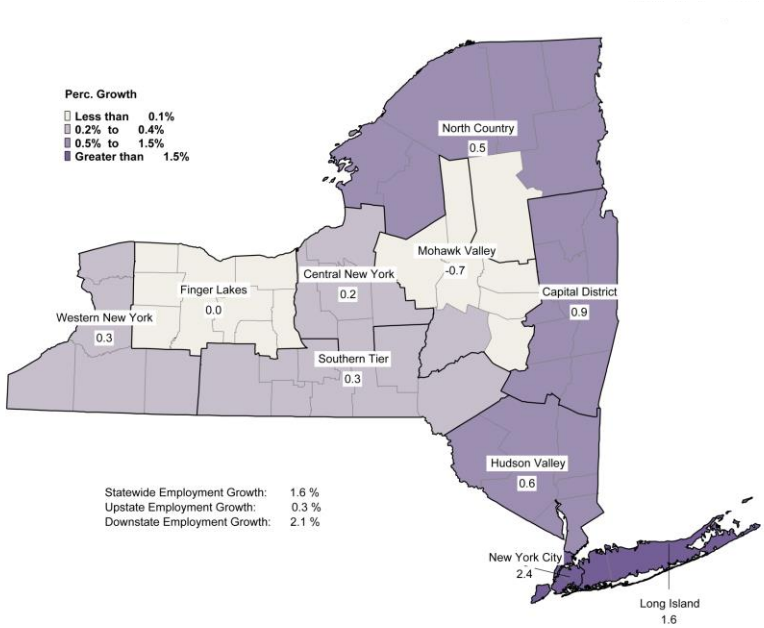


Note: Upstate is defined as the State total minus the ten downstate counties.
Source: NYS Department of Labor (CES).

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 67 also shows, job losses turned to growth in 2010, starting in New York City and spreading to the remainder of the State later in the year, consistent with the beginning of recovery in January 2010. Job growth in the rest of downstate began to deteriorate close to the beginning of 2011, presumably negatively affected by the many setbacks that plagued the economy that year, particularly in the finance sector. By the end of the year, the region was experiencing either slow or no growth on a year-ago basis. Those same setbacks caused job growth in New York City to decelerate by the middle of the year. However, jobs in upstate are less concentrated in the financial sectors and thus kept growing in 2011. That trend reversed itself in 2012 with the intensification of the global slowdown. With upstate and rest of downstate employment growth decelerating, only New York City's labor market appeared to be strengthening over the course of 2012. However, both New York City and the rest of Downstate experienced job losses in November in the wake of Superstorm Sandy, losses which turned out to be temporary. The job market in these areas started to pick up in 2013.

Figure 68 compares the relative performance of New York's 10 regions between the first half of 2012 and the first half of 2013, 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 1.6 percent over the period, with the downstate regions showing faster growth of 2.1 percent. Meantime, the upstate region grew 0.3 percent. A more detailed analysis of regional employment trends can be found in Table 9 through Table 12 on pages 116-117.

Figure 68
Regional Employment Growth: 2012H1-2013H1



Risks to the New York Forecast

All of the risks to the U.S. forecast apply to the State forecast as well, although as the nation's financial capital, developments that have an impact on credit markets, such as rising interest rates and equity market gyrations, pose a particularly large degree of risk for New York. As demonstrated above, the surge in equity markets during the second half of last year put prices at historic highs relative to earnings, creating the risk of an even greater dose of volatility than usual. That volatility can 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 whether finance sector revenue generating activities such as trading, lending, and underwriting will ever return to pre-crisis levels, resulting in additional risk to the forecasts for bonuses and 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. The Federal Reserve is in uncharted waters as it plans its exit from an extraordinary period in the history of monetary policy. The risks associated with the execution of that plan are particularly acute for New York.

BOX 7
THE NEW YORK STATE DIVISION OF THE BUDGET
NEW YORK MACROECONOMIC MODEL

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

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

Employment

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

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

Average Real Nonbonus Wages

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

Bonus Income

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

Nonwage Incomes and Other Variables

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

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

TABLE 9

NEW YORK STATE PRIVATE EMPLOYMENT BY INDUSTRY

	Employment in Thousands					Percent Change				
INDUSTRY	**2009**	**2010**	**2011**	**2012***	**2013**	**2009**	**2010**	**2011**	**2012***	**2013**
Mining and Manufacturing	479.0	460.5	461.5	461.6	456.4	(10.9)	(3.9)	0.2	0.0	(0.8)
Construction and Real Estate	501.7	481.9	483.6	491.5	489.8	(7.9)	(4.0)	0.4	1.6	2.6
Trade, Trans., and Warehousing	1,408.6	1,413.5	1,438.9	1,464.5	1,456.0	(4.6)	0.3	1.8	1.8	0.5
Information	251.5	251.3	254.5	258.3	256.6	(4.0)	(0.1)	1.3	1.5	(0.2)
Finance and Insurance	496.3	487.1	497.4	496.2	490.0	(7.2)	(1.9)	2.1	(0.2)	(1.0)
Business and Professional Svs.	1,094.2	1,095.9	1,131.0	1,166.6	1,181.2	(5.1)	0.2	3.2	3.1	2.9
Education and Health Care	1,549.0	1,579.9	1,604.2	1,627.9	1,653.1	1.7	2.0	1.5	1.5	1.4
Leisure, Hospitality, and Other Svs	1,028.4	1,052.7	1,092.0	1,135.0	1,145.7	(1.1)	2.4	3.7	3.9	3.2
Other **	84.2	84.2	86.2	81.9	87.1	6.1	(0.0)	2.4	(5.0)	13.9
Statewide	6,892.9	6,906.9	7,049.3	7,183.4	7,215.9	(3.6)	0.2	2.1	1.9	1.6

* Levels for 2013 are based on the first two quarters of the year; 2013 growth rates are relative to the same period in 2012.

** Includes agriculture, utilities, and unclassified firms.

TABLE 10

NEW YORK STATE PRIVATE EMPLOYMENT BY REGION

	Employment in Thousands					Percent Change				
REGION	**2009**	**2010**	**2011**	**2012***	**2013**	**2009**	**2010**	**2011**	**2012***	**2013**
New York City	3,015.9	3,042.8	3,130.4	3,217.8	3,267.9	(3.4)	0.9	2.9	2.8	2.4
Long Island	991.9	995.5	1,011.5	1,027.3	1,029.6	(4.0)	0.4	1.6	1.6	1.6
Hudson Valley	699.6	697.7	709.8	716.4	712.6	(4.2)	(0.3)	1.7	0.9	0.6
Capital District	378.1	374.9	380.1	387.3	385.1	(2.9)	(0.9)	1.4	1.9	0.9
Mohawk Valley	127.7	126.7	126.2	126.4	124.0	(2.8)	(0.8)	(0.4)	0.2	(0.7)
North Country	104.7	104.6	104.0	104.1	102.4	(3.5)	(0.1)	(0.6)	0.1	0.5
Central New York	275.2	272.6	274.9	275.9	273.4	(3.9)	(1.0)	0.9	0.4	0.2
Southern Tier	228.4	227.4	228.7	230.2	228.1	(4.4)	(0.5)	0.6	0.6	0.3
Western New York	498.6	498.8	504.6	508.6	504.4	(3.5)	0.0	1.2	0.8	0.3
Finger Lakes	442.6	442.8	449.6	453.3	448.3	(3.4)	0.0	1.5	0.8	0.0
Unclassified	130.1	123.1	129.5	136.1	140.1	(2.9)	(5.4)	5.2	5.1	7.4

* Levels for 2013 are based on the first two quarters of the year; 2013 growth rates are relative to the same period in 2012.

TABLE 11

REGIONAL EMPLOYMENT SHARES BY INDUSTRY

REGION	**Mining/ Manuf.**	**Constr. & Real Estate**	**Trade, Trans. & Wareh.**	**Info.**	**Finance and Insurance**	**Bus. & Prof. Svs.**	**Educ. & Health Care**	**Leisure, Hosp. & Other Svs.**	**Other**
New York City	2.3	7.1	17.3	5.0	9.5	18.6	23.2	16.1	0.9
Long Island	7.1	7.6	24.1	2.2	5.1	15.3	21.9	15.6	1.1
Mid Hudson	6.6	7.6	23.4	2.4	4.1	13.6	24.2	16.6	1.6
Capital Region	8.3	6.4	21.6	2.4	5.6	14.6	23.3	16.6	1.2
Mohawk Valley	13.0	4.4	24.7	1.9	5.5	8.0	26.6	14.9	1.0
North Country	10.4	6.5	25.9	1.7	2.3	6.9	24.1	19.2	2.9
Central New York	11.1	6.3	23.8	1.7	4.7	12.7	21.2	16.2	2.2
Southern Tier	16.1	4.9	20.3	1.7	3.6	9.9	26.6	15.3	1.4
Western New York	13.2	5.5	21.8	1.6	5.2	14.8	19.9	17.1	0.9
Finger Lakes	14.8	5.8	19.5	2.0	3.4	14.5	23.3	14.9	1.8
Statewide	6.3	6.9	20.3	3.6	6.8	16.3	22.6	15.9	1.2

Note: Shares are based on the period from 2012Q3 through 2013Q2.

TABLE 12

REGIONAL EMPLOYMENT TRENDS: 2009-2013										
Region	Employment (000's)					Percent Change				
	2009	2010	2011	2012*	2013	2009	2010	2011	2012*	2013
Manufacturing and Mining										
New York City	81.6	76.3	74.8	76.0	75.0	(14.4)	(6.5)	(1.9)	1.6	(1.0)
Long Island	74.4	72.7	72.7	73.4	73.0	(8.0)	(2.3)	(0.1)	1.1	(0.2)
Hudson Valley	51.8	49.8	48.7	47.9	47.6	(9.5)	(4.0)	(2.1)	(1.6)	(0.6)
Capital District	29.4	28.9	30.2	31.5	32.4	(8.9)	(1.6)	4.4	4.3	4.3
Mohawk Valley	17.0	16.7	16.5	16.5	16.3	(9.5)	(2.1)	(1.3)	0.3	(1.4)
North Country	11.9	11.4	10.9	10.8	10.8	(12.5)	(4.9)	(3.7)	(0.9)	0.9
Central New York	33.5	32.3	32.3	30.9	30.4	(11.1)	(3.6)	(0.2)	(4.2)	(2.0)
Southern Tier	40.0	38.0	38.1	37.6	36.6	(11.3)	(5.2)	0.5	(1.3)	(2.7)
Western New York	67.3	65.8	67.7	67.7	66.8	(12.1)	(2.2)	2.8	0.1	(1.0)
Finger Lakes	70.4	67.7	68.5	68.0	66.2	(9.9)	(3.9)	1.2	(0.8)	(2.6)
Unclassified	1.4	0.9	1.1	1.1	1.4	(9.6)	(38.7)	21.3	5.7	22.4
Statewide	479.0	460.5	461.5	461.6	456.4	(10.9)	(3.9)	0.2	0.0	(0.8)
Construction and Real Estate										
New York City	233.1	225.3	224.3	228.8	232.2	(6.1)	(3.3)	(0.4)	2.0	3.2
Long Island	79.0	74.9	74.4	76.3	78.4	(10.0)	(5.2)	(0.6)	2.5	6.0
Hudson Valley	57.7	53.5	54.5	53.9	53.7	(12.8)	(7.2)	1.7	(1.0)	2.0
Capital District	25.2	24.2	24.4	24.8	23.9	(7.0)	(4.2)	0.9	1.7	0.6
Mohawk Valley	6.0	5.7	5.5	5.5	5.1	(7.3)	(4.6)	(2.4)	(0.7)	(0.3)
North Country	7.6	7.3	6.9	6.8	6.2	(5.7)	(4.0)	(5.0)	(1.5)	(0.8)
Central New York	17.3	16.9	16.6	17.2	16.5	(7.3)	(2.5)	(1.6)	3.8	2.5
Southern Tier	11.3	11.2	11.4	11.5	10.7	(5.6)	(1.2)	1.8	0.9	(1.9)
Western New York	28.3	27.7	28.4	28.1	26.4	(5.6)	(2.0)	2.6	(1.0)	(1.8)
Finger Lakes	25.4	25.1	25.4	26.3	25.1	(6.7)	(1.2)	0.9	3.8	0.8
Unclassified	10.9	10.1	11.8	12.2	11.5	(16.4)	(7.0)	16.5	3.5	(1.3)
Statewide	501.7	481.9	483.6	491.5	489.8	(7.9)	(4.0)	0.4	1.6	2.6
Trade, Transportation, and Warehousing										
New York City	519.3	529.1	544.1	559.0	561.8	(4.2)	1.9	2.8	2.7	1.7
Long Island	244.6	244.3	245.8	249.2	248.1	(5.8)	(0.1)	0.6	1.4	0.3
Hudson Valley	163.2	162.2	165.9	168.1	166.2	(5.0)	(0.6)	2.3	1.4	(0.3)
Capital District	82.9	82.1	82.8	84.0	82.6	(3.5)	(1.0)	0.8	1.5	(0.4)
Mohawk Valley	32.1	31.4	31.3	31.3	30.7	(3.4)	(2.1)	(0.4)	0.1	(0.9)
North Country	27.9	27.7	27.3	27.1	26.5	(2.6)	(0.5)	(1.5)	(0.8)	(0.5)
Central New York	64.8	64.0	64.9	66.0	65.1	(4.2)	(1.3)	1.4	1.7	(0.4)
Southern Tier	45.4	45.5	46.3	47.0	46.0	(4.6)	0.1	1.7	1.6	(1.1)
Western New York	108.9	108.5	109.9	111.4	109.3	(4.9)	(0.3)	1.2	1.4	(0.6)
Finger Lakes	87.7	88.3	88.9	89.2	86.9	(4.0)	0.6	0.7	0.3	(1.5)
Unclassified	31.8	30.3	31.8	32.1	32.6	(6.0)	(4.6)	4.9	0.8	4.0
Statewide	1,408.6	1,413.5	1,438.9	1,464.5	1,456.0	(4.6)	0.3	1.8	1.8	0.5
Information										
New York City	148.4	149.8	157.3	161.5	161.2	(5.4)	0.9	5.0	2.7	0.2
Long Island	26.2	24.0	23.4	23.1	23.0	2.0	(8.1)	(2.6)	(1.2)	(0.5)
Hudson Valley	19.0	18.5	17.7	17.8	16.9	(9.6)	(2.6)	(4.3)	0.7	(6.9)
Capital District	10.5	10.0	9.8	9.6	9.4	(2.3)	(4.8)	(2.0)	(1.9)	(2.7)
Mohawk Valley	3.0	2.8	2.6	2.5	2.3	(4.8)	(6.1)	(8.5)	(5.5)	(6.5)
North Country	1.9	1.9	1.8	1.8	1.8	(3.6)	(3.3)	(1.8)	(2.0)	(2.6)
Central New York	5.3	5.1	5.1	4.9	4.7	(8.8)	(3.8)	(1.8)	(3.9)	(4.3)
Southern Tier	4.1	3.9	3.9	3.9	4.0	(6.9)	(3.9)	(0.6)	(0.1)	3.5
Western New York	8.9	8.5	8.4	8.4	8.3	(3.4)	(4.6)	(1.1)	(0.0)	(2.5)
Finger Lakes	9.9	9.4	9.2	8.8	8.8	(5.0)	(5.1)	(3.0)	(4.1)	2.4
Unclassified	14.3	17.3	15.4	16.1	16.2	11.9	21.3	(11.0)	4.2	6.8
Statewide	251.5	251.3	254.5	258.3	256.6	(4.0)	(0.1)	1.3	1.5	(0.2)

(Cont'd on next page)

REGIONAL EMPLOYMENT TRENDS: 2009-2013 (*cont'd*)

Region	Employment (000's)					Percent Change				
	2009	2010	2011	2012*	2013	2009	2010	2011	2012*	2013
Finance and Insurance										
New York City	310.3	305.8	315.7	313.4	307.5	(8.1)	(1.4)	3.2	(0.7)	(1.7)
Long Island	52.1	52.1	52.2	52.5	52.5	(7.9)	0.1	0.1	0.7	0.1
Hudson Valley	30.4	29.7	30.0	29.4	29.2	(6.4)	(2.5)	1.0	(1.9)	(1.5)
Capital District	21.6	21.3	21.4	21.5	21.6	(2.3)	(1.4)	0.3	0.8	0.8
Mohawk Valley	7.2	7.1	7.1	7.0	7.0	(5.5)	(1.9)	0.8	(1.8)	(0.9)
North Country	2.5	2.5	2.5	2.5	2.3	(2.3)	(0.5)	0.0	(0.9)	(7.0)
Central New York	13.9	13.5	13.6	13.3	12.9	(5.1)	(2.5)	0.6	(1.9)	(3.7)
Southern Tier	8.8	8.7	8.7	8.5	8.3	(3.5)	(1.9)	0.1	(2.6)	(1.6)
Western New York	26.4	25.6	26.0	26.5	26.3	(4.7)	(2.8)	1.7	1.6	(0.0)
Finger Lakes	14.7	14.6	14.9	15.1	15.3	(3.9)	(0.9)	2.4	1.6	0.8
Unclassified	8.4	6.3	5.3	6.5	7.2	(4.0)	(25.7)	(14.9)	21.5	22.7
Statewide	496.3	487.1	497.4	496.2	490.0	(7.2)	(1.9)	2.1	(0.2)	(1.0)
Professional and Business Services										
New York City	549.4	553.8	573.1	594.0	606.8	(5.5)	0.8	3.5	3.6	3.8
Long Island	147.6	146.7	151.7	156.8	157.3	(5.8)	(0.6)	3.4	3.3	2.3
Hudson Valley	91.4	91.8	94.5	97.1	96.8	(4.9)	0.5	2.9	2.7	1.7
Capital District	56.4	54.9	55.6	56.9	56.5	(5.6)	(2.6)	1.2	2.3	0.2
Mohawk Valley	10.0	9.9	9.9	10.2	9.9	(6.1)	(0.7)	0.5	3.1	(2.8)
North Country	7.1	7.1	7.0	7.0	7.2	(9.6)	(0.3)	(0.9)	0.7	3.3
Central New York	35.5	34.7	35.2	35.0	34.7	(3.5)	(2.2)	1.3	(0.5)	0.1
Southern Tier	21.1	21.7	21.9	22.4	23.0	(8.5)	2.9	1.1	2.2	3.5
Western New York	72.6	74.0	74.3	75.0	74.5	(2.1)	1.9	0.4	0.8	0.6
Finger Lakes	60.1	60.9	63.0	65.5	65.6	(5.0)	1.4	3.5	3.8	1.1
Unclassified	43.1	40.4	44.6	46.7	48.8	(1.7)	(6.2)	10.3	4.7	8.8
Statewide	1,094.2	1,095.9	1,131.0	1,166.6	1,181.2	(5.1)	0.2	3.2	3.1	2.9
Education, Health Care, and Social Assistance										
New York City	701.5	714.4	727.3	746.0	766.8	1.9	1.8	1.8	2.6	2.4
Long Island	212.2	222.1	226.7	226.8	227.4	1.7	4.6	2.1	0.0	0.4
Hudson Valley	167.3	170.7	173.0	173.4	174.5	1.5	2.0	1.3	0.2	0.8
Capital District	86.2	87.4	88.9	90.3	91.1	1.2	1.3	1.7	1.6	1.0
Mohawk Valley	33.3	33.5	33.6	33.5	33.5	2.9	0.8	0.3	(0.3)	0.0
North Country	24.5	25.0	25.2	25.1	25.3	1.4	2.1	0.6	(0.2)	0.8
Central New York	56.2	56.6	57.3	58.3	58.7	0.3	0.8	1.2	1.6	1.3
Southern Tier	60.4	60.9	60.7	61.1	61.4	0.3	0.8	(0.4)	0.7	0.8
Western New York	99.0	100.3	100.6	101.2	101.5	2.2	1.3	0.3	0.6	0.1
Finger Lakes	102.4	104.1	105.2	105.3	106.0	1.7	1.7	1.0	0.1	0.7
Unclassified	5.9	4.8	5.7	6.9	6.8	12.6	(19.6)	19.8	21.7	(9.5)
Statewide	1,549.0	1,579.9	1,604.2	1,627.9	1,653.1	1.7	2.0	1.5	1.5	1.4
Leisure, Hospitality, and Other Services										
New York City	445.0	460.3	484.6	512.7	526.6	(0.7)	3.4	5.3	5.8	4.2
Long Island	145.0	147.9	153.7	158.9	158.8	(1.8)	2.0	3.9	3.4	3.1
Hudson Valley	107.7	110.3	114.3	117.9	116.7	(2.3)	2.4	3.6	3.1	1.9
Capital District	61.4	61.6	62.6	64.1	63.0	(0.9)	0.3	1.7	2.3	1.7
Mohawk Valley	18.0	18.4	18.4	18.7	18.2	(0.6)	2.3	0.2	1.5	1.2
North Country	18.5	18.9	19.5	20.0	19.2	(2.5)	2.5	3.1	2.6	0.8
Central New York	42.9	43.4	44.0	44.4	44.5	(1.4)	1.1	1.4	0.9	1.8
Southern Tier	33.7	34.2	34.4	34.9	34.7	(0.3)	1.6	0.5	1.5	2.3
Western New York	82.2	83.4	84.4	85.7	86.6	(0.2)	1.4	1.2	1.5	3.1
Finger Lakes	63.4	64.3	66.0	66.9	66.7	(0.2)	1.5	2.7	1.3	1.7
Unclassified	10.8	9.9	9.9	10.8	10.7	(10.2)	(7.9)	0.5	8.8	6.6
Statewide	1,028.4	1,052.7	1,092.0	1,135.0	1,145.7	(1.1)	2.4	3.7	3.9	3.2

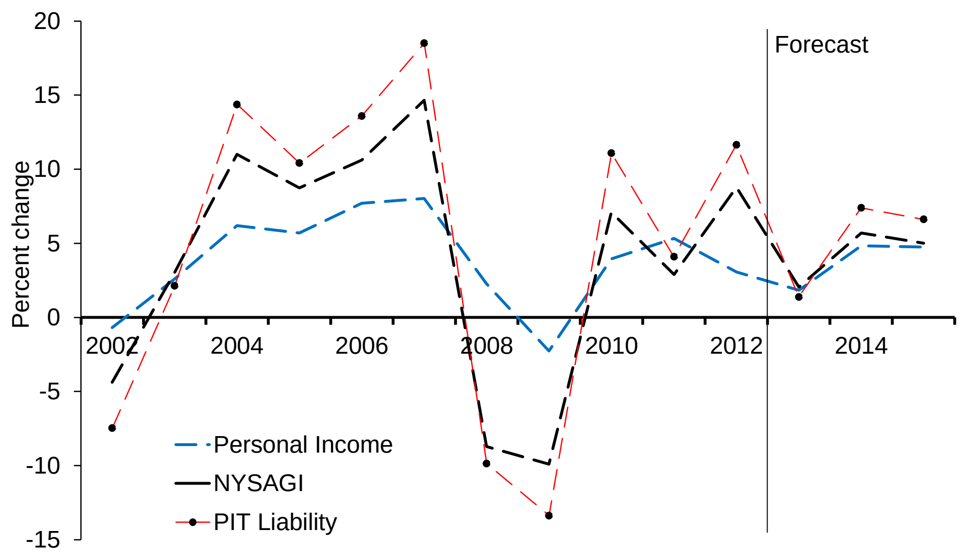
* Levels for 2013 are based on the first two quarters of the year; 2013 growth rates are relative to the same period in 2012.
Source: NYS Department of Labor.

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.[14] Detailed knowledge of the composition of this personal income tax base and its determinants is critical to accurately projecting New York's largest revenue source. At the aggregate level, the components of NYSAGI such as dividend income or capital gains income vary with State and Federal economic indicators. The Budget Division's forecast of the components of personal income forecast will thus depend on the linkages between NYSAGI and the outlook for both the national and State economies.

NYSAGI growth coming out of the recession has been volatile and relatively low in accordance with a sustained but slow recovery at the State and national levels, robust equity market growth and, as will be discussed later in more detail, income shifting. NYSAGI growth fell to 2.9 percent in 2011 after 7.1 percent growth in 2010 largely because taxpayers realized capital gains early and employers distributed dividends and bonuses early in anticipation of the expiration of lower tax rate at the end of 2010 that never materialized after a last-minute political effort to postpone the sunset of the Bush tax cuts (see Figure 69). A pick-up in the recovery and income shifting in response to the sunset of the Bush tax cuts at the end of 2012 is estimated to have accelerated taxable income growth to 8.8 percent in 2012. Despite the increased strength of the economy and very bullish equity markets, the Budget Division expects much weaker 2.0 percent taxable income growth in 2013, mainly due to the income shifting (see Table 13).

Figure 69
The Indicators of New York State's Tax Base



Note: Personal income tax (PIT) liability is computed based on 2002 NY State tax law; 2012 liability and NYSAGI data are preliminary.
Source: NYS Department of Taxation and Finance; Moody's Analytics; DOB staff estimates.

[14] Box 8 on page 130 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 2011 tax year, made available by the New York State Department of Taxation and Finance. For 2012, 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.

TABLE 13
CHANGES IN NYSAGI AND ITS MAJOR COMPONENTS

	2008	2009	2010	2011	2012*	2013	2014	2015
	------------------ Actual ---------------				--------------- Estimated ---------------			
NYSAGI								
Level ($ Billions)	662.1	596.5	638.9	657.3	715.0	729.6	771.3	809.8
Change ($ Billions)	(63.2)	(65.6)	42.4	18.4	57.7	14.6	41.6	38.6
% Change	(8.7)	(9.9)	7.1	2.9	8.8	2.0	5.7	5.0
Wages								
Level ($ Billions)	492.9	463.9	482.4	499.4	516.9	525.4	553.6	578.8
Change ($ Billions)	7.3	(29.0)	18.5	17.0	17.4	8.5	28.2	25.2
% Change	1.5	(5.9)	4.0	3.5	3.5	1.6	5.4	4.6
Capital Gains								
Level ($ Billions)	57.0	33.9	48.7	52.8	80.5	78.4	82.5	86.6
Change ($ Billions)	(61.3)	(23.1)	14.9	4.1	27.7	(2.1)	4.1	4.1
% Change	(51.8)	(40.6)	43.8	8.4	52.5	(2.6)	5.2	5.0
Partnership/S Corporation								
Level ($ Billions)	75.8	70.4	71.0	71.5	77.2	83.4	89.4	97.3
Change ($ Billions)	5.1	(5.4)	0.6	0.5	5.7	6.2	6.0	7.9
% Change	7.2	(7.1)	0.9	0.7	8.0	8.0	7.2	8.8

Source: NYS Department of Taxation and Finance; DOB staff estimates.
* 2012 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. New York taxpayers lost a combined $84.4 billion in capital gains realizations between 2007 and 2009, falling 51.8 percent in 2008 and another 40.6 percent in 2009 (see Table 13). At its peak in 2007, positive capital gains realizations had contributed 16.3 percent to NYSAGI, a share that fell to as low as 5.7 percent by 2009. In 2010, capital gains realizations experienced strong growth of 43.8 percent, followed by much lower 8.4 percent growth in 2011. The Budget Division's forecast implies 52.5 percent growth for 2012, followed by a 2.6 percent decline for 2013 and slow growth of 5.2 percent growth in 2014 and 5.0 percent in 2015.

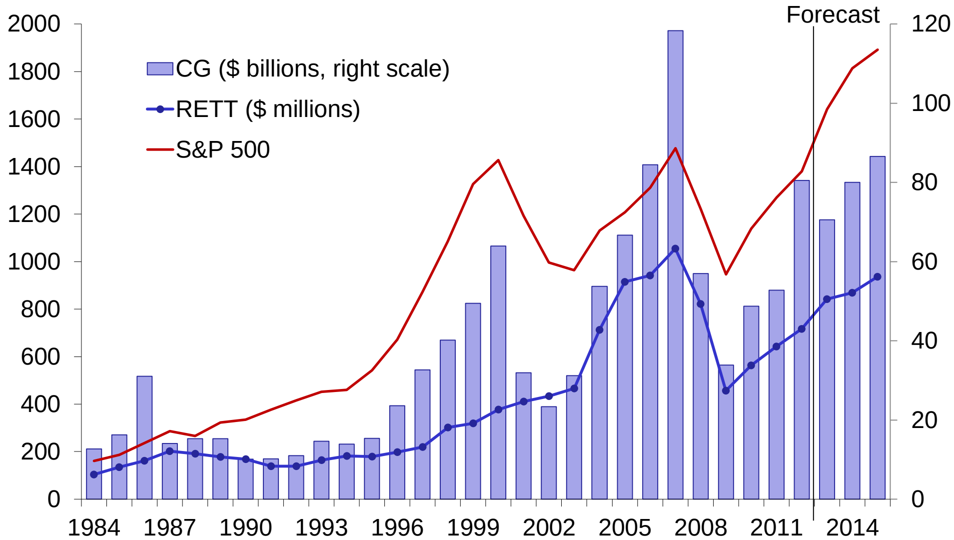
The Budget Division's forecasting model attempts to capture the inherent volatility in capital gains income by incorporating those factors that are most likely to influence realization behavior, such as expected and actual tax law changes, financial market activity, and real estate market activity.[15] 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. Negotiations late in 2010 led to a two-year extension of the lower tax rate. While economic factors influencing capital gains realizations were also more favorable in 2010, part of the strong 2010 growth and the much smaller 2011 growth is likely the result of strategic behavior by taxpayers who realized long-term gains early to avoid the anticipated higher capital gains tax rate in 2011.

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 took effect in 2013, further raising the federal tax on capital gains realization by 3.8 percent. Capital gains realizations are expected to have increased by $27.7 billion in 2012, a growth rate of 52.5 percent, as taxpayers realized gains early. Despite considerable underlying strength in 2013, the Budget Division forecasts a decline in capital gains realization for 2013 on account of this shift.

Figure 70 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 unprecedented collapse in capital gains realizations.

[15] 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 70
Capital Gains Realizations, Real Estate Transfer Taxes and S&P 500 Index



Note: 2012 capital gains realizations are an estimate.
Source: Moody's Economy.com; NYS Department of Taxation and Finance; DOB staff estimates.

Equity markets have experienced solid annual average growth, from a very low base, of 20.3 percent in 2010, 11.4 percent in 2011, 8.7 percent in 2012, contributing to the growth in capital gains realizations over those years. Equity market prices as represented by the S&P 500 grew a very strong 18.9 percent in 2013, contributing greatly to offsetting the expected decline in capital gains realizations resulting from the income shift in response to the anticipated tax rate change. The Budget Division forecast incorporates underlying capital gains realization growth that exceeds the strong equity market growth. As equity markets rallied, transactions resulted from investors seeking to become part of this rally and thereby fueling the fire. Thus, despite continued, though slower, annual average growth in the S&P 500 index we anticipate below-average capital gains realizations growth over the next two years.

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.[16] 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.[17]

[16] 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.
[17] 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.

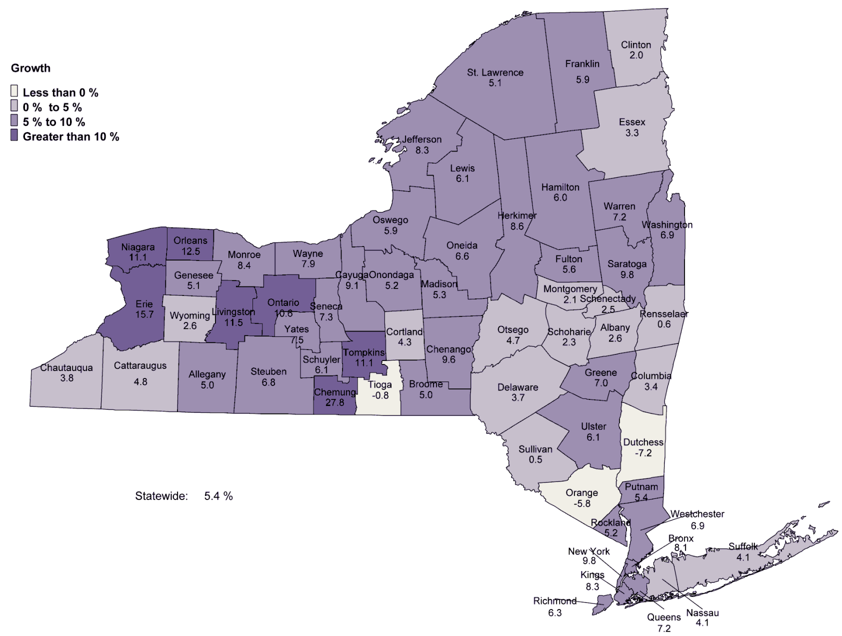
State real estate transfer tax (RETT) data provide a timely indicator of the strength of real estate sales and therefore of the possible impact of the real estate market on taxable gains. After a two-year drop of $598 million from the 2007 record level of $1,054 million, real estate transfer tax receipts rebounded with strong 23.3 percent growth in 2010, 14.2 percent in 2011, 11.6 percent growth in 2012, and 17.3 percent in 2013 (see Figure 70). After four years of growth, however, real estate transfer tax collections are still $172 million below their 2007 peak. The Budget Division expects the real estate market to continue improving, albeit at a slower pace, as home prices are continuing to increase but higher long-term interest rates make financing more expensive.

Figure 71 shows that while changes in the median sales price of existing single-family homes in New York State between the third quarter of 2013 and the end of the recession in late 2009 differ markedly across New York counties, growth over the four years has been remarkably low with only a couple of exceptions. Only seven counties, largely in Western New York, show an annual average growth rates that exceeds 2.5 percent, and most of them just barely. Statewide, annual average growth were below one-and-a-half percent per year, and three counties faced median home sales prices in the third quarter of 2013 that were even lower than they were at the end of the recession. 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 year were most likely not substantial.

Fluctuating levels of private equity and hedge fund activity and profitability contribute to capital gains realizations. Private equity firms own stakes in companies that are not listed on a public stock exchange and generally receive a return on their investment through a sale or merger of the company, a recapitalization, or by selling shares back to the public through an initial public offering (IPO). The returns on private equity investments are often not realized for several years, but the rate of return is generally high relative to returns on publicly held stocks 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 were hit hard times by the recent recession, but 2013 is expected to have been an exceptionally prosperous year for private equity stakeholders. Federal Reserve Board policy that has kept interest rates low and is considered to have boosted equity prices and other asset prices, has greatly benefited private equity funds in the recent past. Higher valuations of companies to above what was paid for them in the 2007 industry peak have facilitated sales or IPOs for many of the deals, reducing the overhang of deals and generating revenues to investors in private equity funds. Additionally, as rising stock prices result in profits in a given fund that exceed certain levels, private equity executives are entitled to a share of these profits, referred to as carried interest. For the growing number of private equity firms that are publicly traded, shareholders are entitled to a share of such profits. Shareholders also benefit from large dividend payout following high profits from sales, or exits, by publicly traded private equity investments.

Figure 71
Growth in Median Sales Price of Existing Single-Family Homes
2009 Q3 - 2013 Q3



Source: Moody's Economy.com

At the end of 2013, private equity firms were holding $789 billion in unspent commitments, also known as 'dry powder', according to the research group Preqin, an increase of 12 percent over December 2012. Recent higher returns have resulted in increased fundraising by private equity funds while the deal volume decreased in 2013. A large amount of dry powder at a time of relatively low deal volume could pose problems. If private equity firms cannot invest funds in the 5-7 year investment window specified, they need to return the capital to the investors. A considerable share of the dry powder is reaching the end of the investment window. There is concern among analysts that the high volume of dry powder chasing lucrative investment options will result in a sellers' market and lower returns to private equity in the near future. The Budget Division therefore does not expect the same positive impact of private equity investment returns on capital gains realizations in 2014 or 2015.

Hedge fund performance depends on relatively easy access to borrowed funds with which to leverage and on healthy financial institutions with which to trade. Consequently, these entities experienced serious difficulties when counterparty risk and the seize-up of financial markets made borrowing and leveraging those borrowed funds all but impossible in 2008. Additionally, few financial institutions have been hit as hard by the onslaught of new global regulation since 2008 as hedge funds. According to a survey by professional services company KPMG, hedge funds had spent $3 billion meeting compliance costs associated with new regulations since 2008 – equating to, roughly, a 10 percent increase in their annual operating costs.[18] Consequently, this once extremely lucrative industry has yet to outperform equity markets ever since posting

[18] http://www.kpmg.com/global/en/issuesandinsights/articlespublications/press-releases/pages/hedge-fund-managers.aspx

unprecedented losses in 2008, leading investors to withdraw a record $155 billion worth of investments and causing a large number of fund liquidations. Hedge fund returns of 11.2 percent in 2013 were shy of the S&P 500 growth of 18.9 percent.

There are both downside and upside risks to the forecast for capital gains realizations. If less of the strong capital gains growth in 2012 is due to the income shifting that allowed taxpayers to avoid higher 2013 tax rates and more to the strength of the private equity sector in 2012, or if returns from private equity funds to New York State taxpayers are higher than anticipated, then 2013 capital gains realizations could be higher than predicted. Likewise, continuing strength in this sector rather than a leveling off in returns pose the largest upside risk to our out-year capital gains forecast. On the other hand, if the magnitude of capital gains realized early to avoid the higher tax rate in 2013 exceeds our expectations, we could see a larger decline in capital gains. Currently, other states as well as the Congressional Budget Office have capital gains forecasts with larger declines for 2013 based on a larger implied income shift. An undetermined risk to the capital gains forecast is the unusually low volume of transactions at U.S. equity markets. Though stock prices have continued to grow despite 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 10.5 percent annually, partnership and S corporation income have performed poorly in the more recent past, growing at an annual average rate of 6.0 percent between 2001 and 2011. Partnership and S corporation had its largest decline ever in 2009, declining 7.1 percent. After growing a disappointing 0.9 percent and 0.7 percent in 2010 and 2011, respectively, partnership and S corporation income is expected to grow by 8.0 percent in 2012, consistent with an economy on the rebound, an upswing in equity and housing markets, and some income shifting in the effort to avoid higher marginal taxes in 2013. The Budget Division predicts 8.0 percent growth for 2013, 7.2 percent for 2014 and 8.8 percent for 2015.

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

New York State taxable partnership and S corporation average annual income growth of 10.5 percent is faster than the average annual rate of 7.6 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 2010, the latest year for which SOI data are available, the number of S corporations grew 59.5 percent while the number of partnerships grew 75.1 percent compared to 32.1 percent growth in non-farm sole proprietorships and a 18.4 percent decline in C corporations over the same twelve years.

Growth in income from partnership and S corporations is linked to both the economy and financial markets. Partnership and S corporation income gains and losses tend to rise and fall together, suggesting that the growth rates are linked at least in part to births and deaths of partnership and S corporations. When equity markets fell, the economy contracted, and credit markets froze in 2008 and 2009, growth in partnership and S corporation gains first slowed and then fell. Partnership and S corporation income continued to perform poorly in 2010 and 2011 despite signs of strength in equity markets and slow growth in GDP. Processing data for 2012 suggest rather strong 8.0 percent growth in 2012 which we attribute in part to an incentive for partnerships and S corporations to shift income payouts from 2013 to 2012 in an effort to avoid the higher marginal tax rates for 2013. The Budget Division predicts equally strong 8.0 percent growth for 2013 despite this income shift because of stronger underlying growth for 2013. Both the strength of the equity markets and the strength of private equity firms, many of which are organized as partnership, suggest that 2013 was a strong year for partnership income. As we expect returns from equity markets and private equity funds to taper, we also predict somewhat lower growth of 7.2 percent for 2014. Economic growth as measured by real GDP is predicted to gain speed in 2015, resulting in larger 8.8 percent growth forecast for 2015.

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. Like capital gains income, partnership and S corporation income is also sensitive to the performance of the private equity sector.

Dividend Income

Taxable dividend income in New York has been particularly volatile over the past few years. After a 28.7 percent decline in 2009, dividend income rebounded nicely with 19.3 percent growth in 2010 before leveling off to 2.6 percent growth in 2011. The Budget Division expects this volatility to continue with a forecast of 24.6 percent growth for 2012 followed by a slower 9.5 percent growth in 2013, 7.8 percent in 2014 and 4.6 percent in 2015.

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 6.1 percent, with a standard deviation of 12.7 percentage points between 1976 and 2011, while U.S. dividend income grew an average 9.3 percent annually, with a standard deviation of only 10.4 percentage points over the same period.

Declines in dividend income for 2008 and 2009 are consistent with the reduction or cancellation of dividend payouts by many struggling corporations during the long and severe recession. Firms started paying dividends again in 2010 as corporate profits and equity gains soared. Also adding to the large growth in dividend income was a shift in dividend payouts from 2011 to 2010 in response to the possibility that the top marginal tax rate of 15 percent enacted with the 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 2013 into 2012, as well as the payout of special dividends, enabling high-income shareholders to avoid higher 2013 tax rates. The dividend tax rate in 2013 is 8.8 percentage points higher than the rate in 2012 due to an increase in the rate from 15.0 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. Despite the relatively large income shift, 2013 dividend payouts are expected to show some additional growth over 2012 based on sizeable dividend payouts from publicly traded private equity firms and other firms whose valuation improved greatly with the recent surge in the equity markets. As these conditions are not expected to prevail, growth forecasts for 2014 and 2015 are considerably more moderate.

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

Interest Income

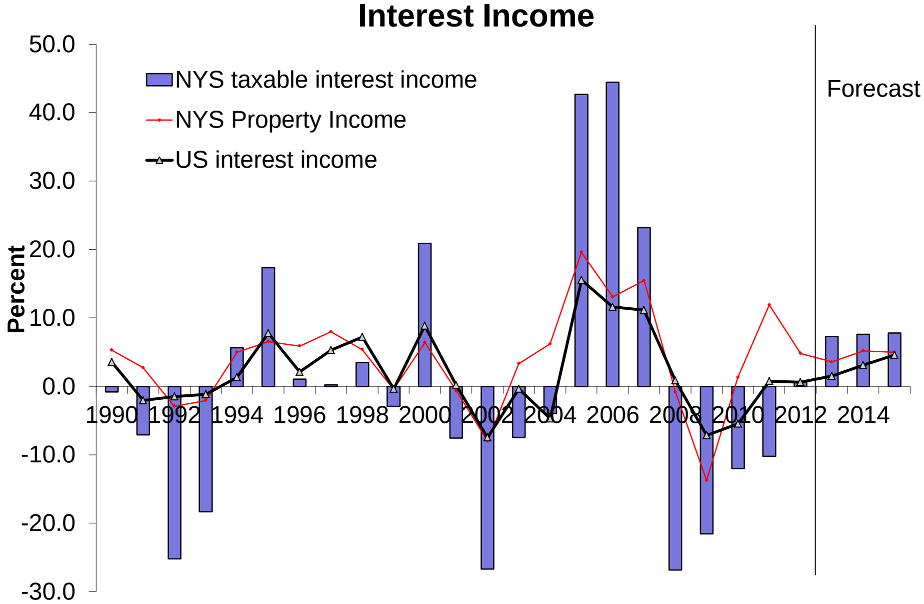
Taxable interest income has been declining for the past four years and is expected to remain essentially unchanged in 2012 with expected growth of only 0.7 percent. With improving US and State economies and slowly rising interest rates in the forecast, we expect interest income to increase moderately by 7.3 percent in 2013, followed by 7.6 percent and 7.8 percent growth in 2014 and 2015, respectively.

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 72). For the period from 1977 to 2011, the average growth rate for New York property income was 6.8 percent, with a standard deviation of 7.8 percentage points, and the average growth rate for U.S. interest income was 6.0 percent, with a standard deviation of 8.1 percentage points. In contrast, State taxable interest income averaged 4.1 percent growth over the same period, with a standard deviation of 18.3 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 followed by essentially no growth in 2012. Though the Budget Division expects the Federal Reserve to keep rates low until the beginning of 2015, the continued moderate growth of New York property income is expected to foster moderate growth in taxable interest income for 2013 and 2014. With an increase in the federal funds rate starting in 2015, DOB predicts stronger growth in interest income for that year.

Figure 72

Interest Income



Note: 2012 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 6.2 percent in 2008 and business income growth has been sluggish between 2009 and 2011. However, business income is expected to have grown 6.8 percent in 2012, helped in part by income shifting, followed by predicted 6.8 percent growth in 2013, 7.4 percent in 2014 and 7.3 percent in 2015, in line with improving economic conditions for small businesses.

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 11.5 percent from 1980 to 1990 with a standard deviation of 10.8 percent but, between 1991 and 2011, small business income has only grown at an annual average rate of 4.2 percent and a standard deviation of 4.9 percent. Proprietors' income, as defined under NIPA, experienced similar changes in growth, falling from 10.7 percent growth and a standard deviation of 8.1 percent to annual average growth of 4.1 percent and a standard deviation of 7.7 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 5.9 percent in 2012, followed by 4.8 percent in 2013, 3.6 percent in 2014 and 4.6 percent in 2015. 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 6.5 percent between 1991 and 2011. This coincides with a decline in the average 10-year Treasury yield from 10.5 percent in the former period to 5.7 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 4.8 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 continue their gradual rise over the course of 2014 and to increase to 4.3 percent by then end of 2015. 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 8
INCOME TAX LIABILITY AND ALTERNATIVE MEASURES OF INCOME

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

Personal income tax liability is the amount which State taxpayers actually owe for a given tax year and thus measures the State's tax base.[1] Personal income tax liability is derived from taxpayers' New York State adjusted gross income (NYSAGI), in conformity with State tax law. A measure that is closely related to NYSAGI is State personal income, a U.S. Bureau of Economic Analysis national income and product accounts (NIPA) concept that measures income derived from value added to current production.[2] This widely available data source is often used as a proxy for NYSAGI. The relative volatility of personal income tax liability, NYSAGI, and State personal income, is presented in Figure 69 on page 119. For example in 2010, personal income grew 4.0 percent, while NYSAGI grew a stronger 7.1 percent and personal income tax liability at constant law grew an even stronger 11.8 percent.

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

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

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

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

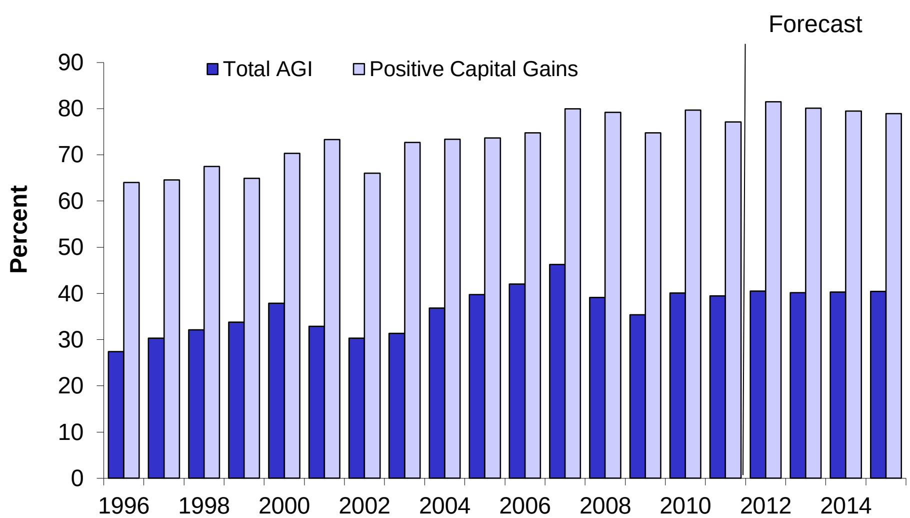
[1] For a detailed discussion of personal income tax liability, see Tax Receipt Section "Personal Income Tax."
[2] For a detailed explanation of how the Budget Division constructs State personal income, see **Box 5** on page 87.
[3] However, any transaction cost generated by such a sale would add value 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 69 on page 119, NYSAGI exhibits more volatility than other indicators of the State's tax base, such as State personal income, while tax liability is more volatile still. Box 8 compares these three important indicators of the size of the State's personal income tax base and discusses their respective volatilities. The most volatile components of taxable income, such as bonuses and capital gains realizations, are highly concentrated among the State's highest-income taxpayers. While the top one percent of taxpayers, as determined by their NYSAGI, accounted for 40.1 percent of adjusted gross income in 2010, they accounted for fully 79.7 percent of capital gains realizations (see Figure 73). 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 73

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



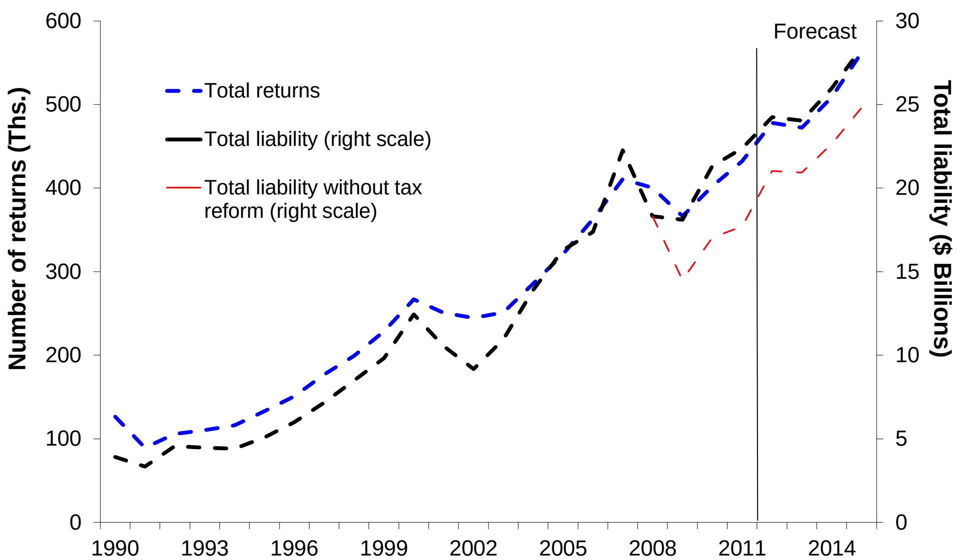
Note: For nonresident taxpayers, shares are based on total income; Source: NYS Department of Taxation and Finance; DOB staff estimates.

Between 1985 and 2007, the number of returns generated by high-income taxpayers – those reporting NYSAGI of $200,000 or more – grew substantially at an average annual rate of 12.8 percent. During the same period, the liability generated by these taxpayers grew more rapidly at an annual average rate of 14.2 percent (see Figure 74). 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.[19] With the economic recovery, returns and tax liability for wealthier taxpayers rebounded, again showing a faster growth of 34.0 percent for liability compared to 30.4 percent growth for the number of returns between 2009 and 2012. The large decline in capital

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

gains realizations and thus NYSAGI temporarily unwound some of the concentration of income. However, after the share of returns filed by high income taxpayers had dropped from 4.2 percent in 2007 to 3.9 percent in 2009, high-income taxpayers' share of returns surpassed its prior peak with an estimated value of 4.8 percent in 2012. High-income taxpayers slowly rebounded from the drop in their liability share from 63.2 percent in 2007 to 57.9 percent in 2009 in 2010 and 2011, and are expected to exceed the 2007 peak by 2012, in part due to the income shifting that fell disproportionately onto the higher income taxpayers and helped by new high top marginal tax rates of 8.82 percent starting with the implementation of the tax reform in 2012 (see Figure 75). Without surcharges or tax reform rate increases, high income taxpayers' share of liability would not exceed the 2007 peak until 2015.

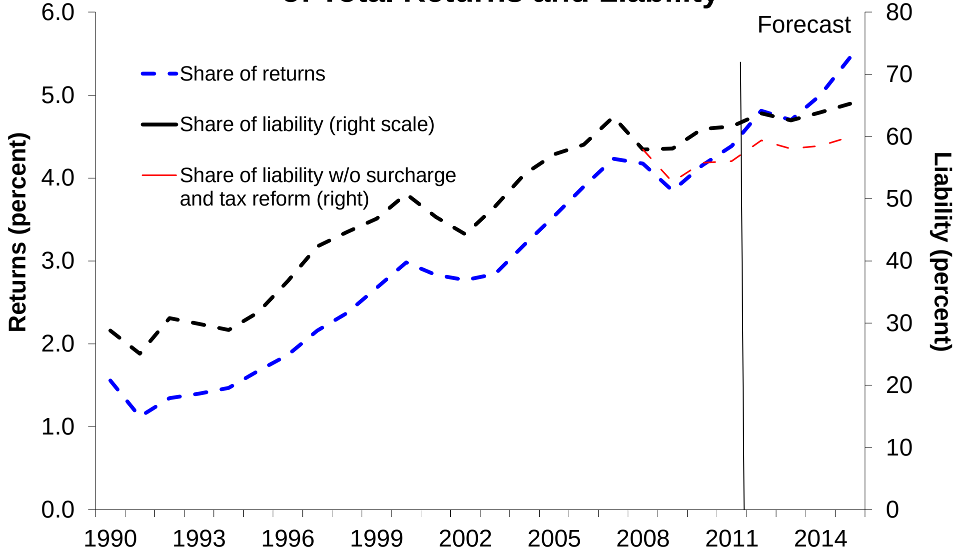
Figure 74
New York State High-Income Tax Returns



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

Figure 75

High-Income Taxpayers as Percent of Total Returns and Liability



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

TABLE 14
THE CONCENTRATION OF STATE INCOME AND LIABILITY
2001, 2007, and 2011

	Number of Returns	Gross Income	Wage Income	Nonwage Income	Liability
		2001			
Total ($ in millions)	8,860,413	$517,885	$376,158	$141,727	$22,406
Share: Top 1%	–	25.0	17.7	44.2	35.0
Share: Top 5%	–	40.5	32.7	61.0	54.9
Share: Top 10%	–	51.0	44.1	69.1	66.5
Share: Top 25%	–	71.0	66.6	82.8	85.1
		2007			
Total ($ millions)	9,700,043	$778,402	$485,565	$292,837	$35,217
Share: Top 1%	–	34.4	19.5	59.2	46.4
Share: Top 5%	–	49.7	35.4	73.3	65.1
Share: Top 10%	–	59.2	46.7	79.8	75.2
Share: Top 25%	–	76.7	68.5	90.4	90.2
		2011			
Total ($ in millions)	9,849,174	$714,182	$499,425	$214,757	$36,307
Share: Top 1%	–	27.4	17.2	51.1	43.8
Share: Top 5%	–	43.7	34.0	66.3	63.0
Share: Top 10%	–	54.7	46.2	74.6	73.6
Share: Top 25%	–	75.1	69.1	89.2	89.7

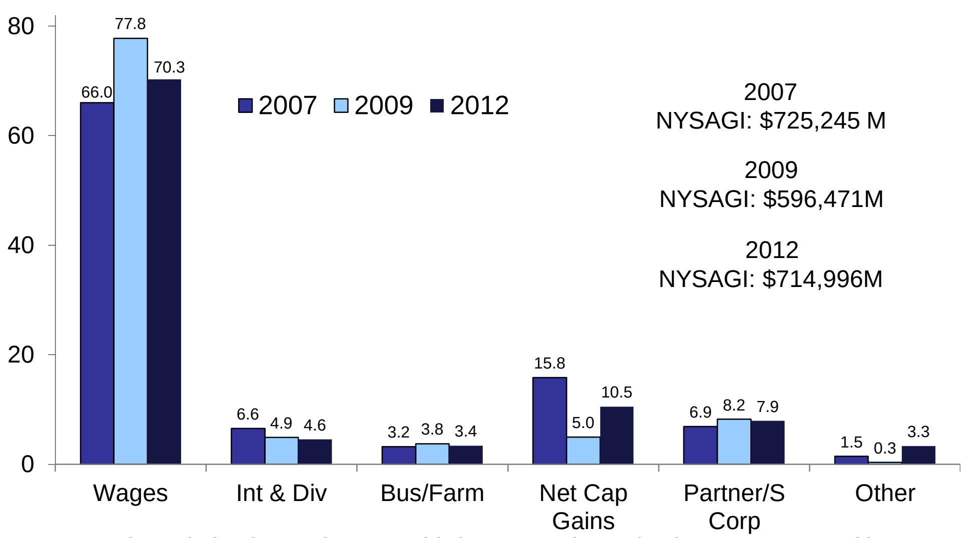
Note: Returns are ranked on the basis of gross income and based on a weighted statistical sample of all tax returns in the State.

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

Table 14 shows the changes in the concentration of income and liability over the ten-year span from 2001 to 2011. The share of nonwage income accruing to the top 25 percent of taxpayers had increased by 7.6 percentage points between 2000 and 2007 but grew only 6.4 percentage points over the decade as recent gains have only partially offset 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 1.9 percentage points between 2000 and 2007, and 2.5 percentage points over the decade.

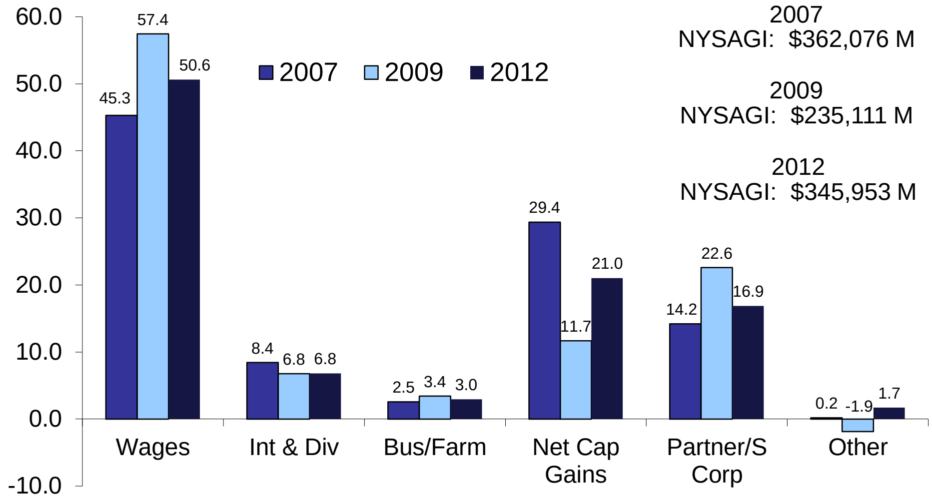
Figure 76 and Figure 77 display the actual composition of NYSAGI for the 2007 peak year and the 2009 trough year, as well as the projected composition for 2012, both for all taxpayers and for high-income taxpayers, defined here as those reporting NYSAGI of $200,000 or more. The figures show a substantial decline between 2007 and 2009 in the share of net capital gains realizations and an increase in the share of wages and partnership and S corporation income for both groups, as capital gains realizations experienced considerably larger declines than other income components. Three years after the trough in the State's personal income tax base, the share of wages and partnership and S corporation income 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 less reliant on capital gains income than it was in 2007.

Figure 76
Composition of NYSAGI for All Taxpayers
(percent)



Note: Both capital gains and partnership/S corporation gains income are net of losses.
2012 numbers are projections.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

Figure 77
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 2012 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)

	2012 (actual[1])	2013 (estimate)	2014 (forecast)	2015 (forecast)	2016 (forecast)	2017 (forecast)	1977-2012 Average[2]
U.S. Indicators[3]							
Gross Domestic Product (current dollars)	4.6	3.3	4.2	4.7	5.1	5.3	6.3
Gross Domestic Product	2.8	1.9	2.7	2.9	2.9	2.8	2.8
Consumption	2.2	2.0	2.9	3.1	3.1	2.9	3.1
Residential Fixed Investment	12.9	13.1	9.5	10.1	7.3	5.5	1.2
Nonresidential Fixed Investment	7.3	2.6	4.2	4.5	4.6	4.7	4.4
Change in Inventories (dollars)	57.6	74.0	46.9	39.5	40.3	38.6	28.8
Exports	3.5	2.6	6.3	6.2	6.5	6.6	5.9
Imports	2.2	1.6	4.6	5.9	6.3	5.9	6.0
Government Spending	(1.0)	(2.0)	(0.1)	0.3	0.2	0.2	2.0
Corporate Profits[4]	7.0	4.4	6.3	5.7	6.3	6.4	7.6
Personal Income	4.2	2.9	4.3	5.3	5.3	5.1	6.5
Wages	4.3	3.1	4.5	5.6	5.4	4.9	5.9
Nonagricultural Employment	1.7	1.6	1.7	2.0	1.9	1.7	1.5
Unemployment Rate (percent)	8.1	7.4	6.8	6.3	5.9	5.7	6.4
S&P 500 Stock Price Index	8.7	19.0	11.0	3.9	4.4	4.5	8.4
Federal Funds Rate	0.1	0.1	0.1	0.9	2.9	4.3	5.9
10-year Treasury Yield	1.8	3.3	3.2	4.0	4.9	5.6	7.1
Consumer Price Index	2.1	1.5	1.6	2.0	2.3	2.4	4.0
New York State Indicators							
Personal Income[5]	3.1	1.9	5.2	4.9	5.0	5.1	6.0
Wages and Salaries[5]							
Total	2.9	1.6	5.4	4.6	4.6	4.6	5.5
Without Bonus[6]	2.9	3.3	4.1	4.4	4.4	4.3	5.2
Bonus[6]	3.2	(9.0)	14.9	5.8	6.0	6.2	9.7
Finance and Insurance Bonuses[6]	(0.9)	(11.8)	20.0	6.8	7.0	7.4	15.1
Wage Per Employee	1.5	0.4	4.1	3.3	3.3	3.4	4.8
Property Income	4.8	3.6	6.2	5.7	5.7	5.8	6.8
Proprietors' Income	4.1	6.2	6.1	6.6	6.8	6.7	7.3
Transfer Income	1.1	3.4	4.4	5.0	4.6	4.9	6.4
Nonfarm Employment[5]							
Total	1.3	1.2	1.2	1.2	1.2	1.1	0.7
Private	1.9	1.7	1.5	1.5	1.4	1.3	0.7
Unemployment Rate (percent)	8.5	7.7	7.5	6.8	6.2	5.8	6.6
Composite CPI of New York[6]	2.0	1.7	1.7	2.1	2.4	2.5	4.1
New York State Adjusted Gross Income (NYSAGI)							
Capital Gains	52.5	(2.6)	5.2	5.0	7.6	5.1	15.5
Partnership/ S Corporation Gains	8.0	8.0	7.2	8.8	8.8	7.3	10.5
Business and Farm Income	6.8	6.8	7.4	7.3	7.3	7.2	6.5
Interest Income	0.7	7.3	7.6	7.8	12.5	9.6	4.1
Dividends	24.6	9.5	7.8	4.6	7.0	7.4	6.1
Total NYSAGI	8.8	2.0	5.7	5.0	5.4	5.0	5.5

[1] For NYSAGI variables, 2012 is an estimate.
[2] Averages for NYSAGI variables are based on data through 2011. Partnership and S corporation gains data start in 1978, NYSAGI and Business and Farm data in 1980.
[3] All indicators are percent changes except change in inventories, the unemployment rate, and interest rates; all GDP components refer to chained 2009 dollars, unless otherwise noted.
[4] Includes inventory valuation and capital consumption adjustments.
[5] Nonagricultural employment, wage, and personal income numbers are based on QCEW 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)

	2012-13 (actual)	2013-14 (estimate)	2014-15 (forecast)	2015-16 (forecast)	2016-17 (forecast)	2017-18 (forecast)	1977-78 - 2012-13 Average
U.S. Indicators[1]							
Gross Domestic Product (current dollars)	4.0	3.6	4.2	4.8	5.1	5.3	6.2
Gross Domestic Product	2.3	2.2	2.7	2.9	2.8	2.8	2.8
Consumption	2.1	2.2	3.0	3.1	3.0	2.9	3.0
Residential Fixed Investment	13.4	12.3	9.6	9.6	6.6	5.5	1.1
Nonresidential Fixed Investment	5.3	3.1	4.2	4.5	4.6	4.7	4.4
Change in Inventories (dollars)	45.9	78.0	42.3	39.1	40.0	38.6	29.2
Exports	2.6	3.9	6.2	6.2	6.6	6.6	5.9
Imports	1.5	2.7	4.8	6.1	6.2	5.9	5.9
Government Spending	(1.0)	(1.6)	0.0	0.3	0.2	0.3	2.0
Corporate Profits[2]	4.4	5.9	5.7	5.8	6.4	6.4	7.6
Personal Income	3.9	3.2	4.6	5.4	5.2	5.2	6.4
Wages	4.0	3.3	4.9	5.7	5.2	4.8	5.9
Nonagricultural Employment	1.6	1.7	1.8	2.0	1.9	1.7	1.5
Unemployment Rate (percent)	7.9	7.2	6.7	6.2	5.9	5.7	6.4
S&P 500 Stock Price Index	11.0	20.5	7.3	4.1	4.4	4.5	8.3
Federal Funds Rate	0.2	0.1	0.1	1.4	3.3	4.4	5.8
10-year Treasury Yield	1.8	2.6	3.4	4.2	5.1	5.7	7.1
Consumer Price Index	1.8	1.3	1.7	2.1	2.3	2.4	4.0
New York State Indicators							
Personal Income[3]	2.9	3.3	4.8	4.9	5.0	5.1	6.1
Wages and Salaries[3]							
Total	3.0	3.6	4.4	4.6	4.6	4.6	5.6
Without Bonus[4]	2.8	3.2	4.2	4.4	4.4	4.3	5.3
Bonus[4]	4.4	6.2	5.8	5.9	6.2	6.3	9.7
Finance and Insurance Bonuses[4]	8.2	7.8	6.8	6.8	7.3	7.6	15.7
Wage Per Employee	1.7	2.3	3.2	3.3	3.4	3.4	4.9
Property Income	4.2	4.8	5.8	5.7	5.7	5.8	6.7
Proprietors' Income	4.4	6.0	6.5	6.7	6.8	6.6	7.5
Transfer Income	1.8	3.4	4.8	4.9	4.6	5.1	6.5
Nonfarm Employment[3]							
Total	1.2	1.3	1.2	1.2	1.2	1.1	0.6
Private	1.7	1.7	1.5	1.5	1.4	1.3	0.7
Unemployment Rate (percent)	8.4	7.6	7.3	6.6	6.1	5.8	6.6
Composite CPI of New York[4]	1.9	1.5	1.9	2.2	2.4	2.5	4.1

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

[2] Includes inventory valuation and capital consumption adjustments.

[3] Nonagricultural employment, w age, and personal income numbers are based on QCEW 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 2011, the gap was $4.10 (40.2 percent) above the national average, ranking New York third nationally. In 2010, New York ranked second.

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 taxes per $100 of personal income, was 39 cents (6.2 percent) above the national average of $6.32 in 2011.

- New York taxes per $100 of personal income actually declined from $7.39 in 1977 to $6.71 in 2011.

- New York's state tax rank declined from tenth highest in 1977, to fifteenth highest in 2011. In 2010, New York ranked twelfth.

- Legislation included with this Budget that would reduce corporate and estate taxes would serve to lower New York's ranking further in future years if enacted.

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 2011, nearly $1.43 of New York's local burden of $7.58 per $100 of state personal income was due to New York City (NYC) personal and corporate income taxes. This accounted for approximately 18.9 percent of the total local burden.

Property Taxes in New York State

- Higher than average property taxes as a share of income (50.8 percent above the 2011 national average) in New York are tied, for the most part, to the rapid escalation in school property taxes and local Medicaid costs through 2011.

- 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, seven of the top ten highest property tax counties in the nation (and 12 of the top 20) in 2011 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 2011. Using this metric, four of the ten highest property tax counties in the nation in 2011 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 2011 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 2012 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.

- Legislation included with this Budget that would (1) provide a permanent real property tax credit to taxpayers whose local jurisdictions remain under the aforementioned property tax cap and (2) provide a two-year property tax freeze tax credit to taxpayers whose local jurisdictions remain under the property tax cap and agree to implement a shared services or administrative consolidation plan would serve to reduce average property taxes in New York and improve New York's ranking in the future if enacted.

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 2013. The

[1] Source: Moodysanalytics.com; DOB Staff Estimates

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 2011, respectively. The New York rank in terms of state taxes fell 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 2011. In 2011, 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 $3.71 in 2011, but some of this decrease is captured in the general decrease in variation amongst local taxes across states. The above-average local tax burden is caused by relatively high property taxes, the large sales tax burden imposed at the local level, and the high ratio in the other category that picks up the income and corporate taxes imposed by New York City.

Tables 6a, 6b and 7 report state and locally imposed taxes as a percentage of state personal income. The data used in the calculations are for fiscal years ending in 1977 and 2011, 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 1977-2011 period. During this time, New York's state tax burden fell relative to the mean, and has been below the mean for all but five of the last seventeen recorded years. In three of those instances (2009-11) 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 1977-2011 period. In 1977 New York State and local taxes as a percent of personal income were 4.96 percentage points above the national average. In 2011, New York was 4.10 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 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 for the 39 New York State counties, out of a total of 806 U.S. counties, that had populations of at least 65,000 as of July 1, 2011. The data has been compiled and calculated by DOB based on the methodology used by the Tax Foundation in prior years' reports. Table 9 is sorted by county, in descending order of median property taxes paid on homes in that county as a percentage of the same county's median home value. Median values report the data point for which half of the data set values are higher and half lower. They differ from mean values (the sum of all observations divided by the number of observations) in that outlying values, such as particularly expensive homes, do not skew the computation. The rankings reported indicate the relative ordering of the counties with respect to the 806 U.S. counties covered, and are not relative solely to the counties of New York State.

The Tax-to-Income Percentage

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

Tax Exportation

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

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

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 2013 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	8.45
Alaska	0	NA	9.4	0	1.69
Arizona	4.54	$300,000	6.968	6.6	9.16
Arkansas	7	$33,999	6.5	6	8.61
California	13.3	$1,000,000	8.84	7.5	8.38
Colorado	4.63	Flat Rate	4.63	2.9	7.39
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	6.99
Hawaii	11	$400,000	6.4	4	4.35
Idaho	7.4	$20,700	7.4	6	6.02
Illinois	5	Flat Rate	9.5	6.25	8.13
Indiana	3.4	Flat Rate	8	7	7
Iowa	8.98	$67,230	12	6	6.82
Kansas	4.9	$30,000	7	6.3	8.25
Kentucky	6	$75,000	6	6	6
Louisiana	6	$100,000	8	4	8.87
Maine	7.95	$41,850	8.93	5	5
Maryland	5.75	$300,000	8.25	6	6
Massachusetts	5.25	Flat Rate	8	6.25	6.25
Michigan	4.25	Flat Rate	6	6	6
Minnesota	7.85	$140,960	9.8	6.875	7.16
Mississippi	5	$10,000	5	7	7
Missouri	6	$9,000	6.25	4.225	7.46
Montana	6.9	$16,400	6.75	0	0
Nebraska	6.84	$54,000	7.81	5.5	6.78
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	5.125	7.26
New York	**8.82**	**$2,058,550**	**7.1**	**4**	**8.48**
North Carolina	7.75	$100,000	6.9	4.75	6.87
North Dakota	3.99	$398,350	5.15	5	6.52
Ohio	5.925	$204,200	-	5.5	6.8
Oklahoma	5.25	$15,000	6	4.5	8.67
Oregon	9.9	$250,000	7.6	0	0
Pennsylvania	3.07	Flat Rate	9.99	6	6.34
Rhode Island	5.99	$133,250	9	7	7
South Carolina	7	$14,250	5	6	7.08
South Dakota	0	NA	0	4	5.82
Tennessee	State Income tax limited to Interest Income and Dividends only		6.5	7	9.44
Texas	0	NA	-	6.25	8.14
Utah	5	Flat Rate	5	5.95	6.67
Vermont	8.95	$398,350	8.5	6	6.14
Virginia	5.75	$17,000	6	5	5
Washington	0	NA	-	6.5	8.86
West Virginia	6.5	$60,000	7	6	6.04
Wisconsin	7.75	$315,460	7.9	5	5.43
Wyoming	0	NA	0	4	5.3
Mean Values	**5.58**		**6.93**	**5.09**	**6.39**
Standard Deviation	**2.98**		**2.37**	**1.97**	**2.30**
Coefficient of Variation	**53.36**		**34.19**	**38.65**	**36.06**

[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	Corporate	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**

Sources: Moodysanalytics.com, DOB Staff Estimates

Table 3 - 2011 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	39	1.67	35	32.4	2.73	29	53.0	0.18	39	3.5	0.57	29	11.2
Alaska	15.90	1	0.00	44	0.0	0.74	50	4.6	2.07	1	13.0	13.10	1	82.4
Arizona	5.35	35	1.25	41	23.3	3.33	16	62.2	0.24	31	4.6	0.53	32	9.9
Arkansas	7.95	8	2.27	14	28.5	3.88	6	48.7	0.38	15	4.7	1.43	8	18.0
California	6.93	11	3.00	7	43.3	2.68	31	38.7	0.57	4	8.2	0.68	21	9.8
Colorado	4.19	47	2.01	27	48.0	1.68	44	40.1	0.17	40	4.1	0.33	43	7.9
Connecticut	6.47	17	3.12	4	48.2	2.67	32	41.2	0.32	21	5.0	0.36	40	5.5
Delaware	8.39	5	3.03	6	36.1	1.27	48	15.1	0.88	3	10.5	3.21	5	38.3
Florida	4.28	46	0.00	44	0.0	3.57	11	83.4	0.25	30	5.7	0.46	36	10.9
Georgia	4.48	44	2.15	23	47.9	1.99	42	44.4	0.19	38	4.2	0.16	50	3.5
Hawaii	8.08	7	2.08	25	25.7	5.55	1	68.7	0.11	43	1.4	0.34	41	4.3
Idaho	6.16	24	2.21	19	35.8	3.05	22	49.6	0.32	22	5.2	0.58	27	9.4
Illinois	5.40	34	1.98	29	36.7	2.40	37	44.5	0.53	6	9.9	0.48	35	9.0
Indiana	6.30	20	1.94	31	30.7	3.73	7	59.2	0.30	27	4.8	0.33	44	5.2
Iowa	5.56	32	2.19	20	39.4	2.56	33	46.0	0.19	37	3.5	0.62	25	11.2
Kansas	5.63	30	2.23	17	39.6	2.76	28	49.0	0.20	34	3.6	0.44	37	7.8
Kentucky	6.76	13	2.27	15	33.5	3.24	18	48.0	0.34	19	5.1	0.91	16	13.4
Louisiana	5.02	40	1.36	39	27.1	2.90	25	57.9	0.11	44	2.2	0.64	23	12.8
Maine	7.12	10	2.75	10	38.7	3.26	17	45.8	0.40	12	5.7	0.70	20	9.9
Maryland	5.24	37	2.17	21	41.5	2.17	40	41.5	0.25	29	4.8	0.64	24	12.2
Massachusetts	6.17	23	3.24	3	52.5	1.98	43	32.2	0.54	5	8.7	0.41	39	6.6
Michigan	6.43	18	1.75	34	27.2	3.53	13	54.9	0.20	35	3.1	0.96	14	14.9
Minnesota	7.85	9	3.10	5	39.5	3.41	14	43.5	0.42	11	5.3	0.92	15	11.8
Mississippi	6.83	12	1.46	38	21.3	4.40	4	64.4	0.36	17	5.3	0.61	26	9.0
Missouri	4.43	45	1.99	28	44.9	2.03	41	45.8	0.14	41	3.2	0.27	48	6.2
Montana	6.29	21	2.22	18	35.3	1.46	46	23.2	0.34	20	5.4	2.28	6	36.2
Nebraska	5.16	38	2.14	24	41.5	2.53	36	48.9	0.19	36	3.7	0.30	47	5.9
Nevada	6.23	22	0.00	44	0.0	4.61	3	74.1	0.00	47	0.0	1.62	7	25.9
New Hampshire	3.74	49	0.13	42	3.6	1.44	47	38.6	0.93	2	24.9	1.23	10	32.9
New Jersey	5.77	27	2.25	16	39.1	2.53	35	43.9	0.47	9	8.2	0.52	34	8.9
New Mexico	6.76	14	1.52	37	22.5	3.58	10	52.9	0.32	24	4.7	1.35	9	19.9
New York	**6.71**	**15**	**3.58**	**2**	**53.3**	**2.21**	**38**	**32.9**	**0.40**	**13**	**5.9**	**0.53**	**33**	**7.9**
North Carolina	6.36	19	2.80	8	44.1	2.82	27	44.3	0.31	26	4.9	0.43	38	6.7
North Dakota	11.82	2	1.34	40	11.3	3.62	8	30.6	0.50	7	4.2	6.37	2	53.9
Ohio	5.61	31	1.98	30	35.3	2.82	26	50.3	0.05	45	0.9	0.76	18	13.5
Oklahoma	5.27	36	1.62	36	30.7	2.20	39	41.7	0.24	32	4.6	1.22	11	23.0
Oregon	5.56	33	3.76	1	67.7	0.75	49	13.5	0.32	23	5.8	0.73	19	13.1
Pennsylvania	5.79	26	1.76	33	30.4	3.01	23	51.9	0.35	18	6.1	0.67	22	11.6
Rhode Island	5.88	25	2.17	22	36.9	3.12	20	53.2	0.32	25	5.4	0.27	49	4.6
South Carolina	4.81	41	1.82	32	37.8	2.55	34	52.9	0.14	42	2.8	0.31	46	6.5
South Dakota	3.74	50	0.00	44	0.0	3.12	21	83.6	0.04	46	1.1	0.57	30	15.3
Tennessee	4.72	42	0.08	43	1.7	3.61	9	76.5	0.45	10	9.5	0.58	28	12.3
Texas	4.10	48	0.00	44	0.0	3.21	19	78.3	0.00	47	0.0	0.89	17	21.7
Utah	5.69	29	2.39	13	42.0	2.71	30	47.6	0.26	28	4.5	0.34	42	5.9
Vermont	10.00	3	2.07	26	20.7	3.36	15	33.6	0.39	14	3.9	4.18	4	41.8
Virginia	4.56	43	2.50	12	54.7	1.53	45	33.6	0.21	33	4.6	0.32	45	7.1
Washington	5.74	28	0.00	44	0.0	4.65	2	81.0	0.00	47	0.0	1.09	13	19.0
West Virginia	8.31	6	2.66	11	32.0	3.97	5	47.7	0.49	8	5.9	1.20	12	14.4
Wisconsin	6.61	16	2.77	9	41.9	2.93	24	44.4	0.37	16	5.5	0.54	31	8.2
Wyoming	8.82	4	0.00	44	0.0	3.54	12	40.1	0.00	47	0.0	5.28	3	59.9
Mean	**6.32**		**1.85**		**30.5**	**2.87**		**48.0**	**0.34**		**5.2**	**1.26**		**16.3**
Standard Deviation	**2.07**		**1.01**			**0.96**			**0.31**			**2.08**		
Coefficient of Variation	**32.74**		**54.58**			**33.55**			**93.37**			**164.73**		
NYS Diff. from Mean	**0.39**		**1.72**		**22.8**	**(0.66)**		**(15.1)**	**0.06**		**0.8**	**(0.74)**		**(8.5)**

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

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

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

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

Table 5 - 2011 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	3.12	39	1.35	49	43.3	1.24	7	39.7	0.53	7	17.1
Alaska	5.04	5	3.76	10	74.6	1.19	9	23.5	0.10	32	1.9
Arizona	4.10	24	2.77	28	67.6	1.16	10	28.3	0.17	22	4.1
Arkansas	2.00	49	0.85	50	42.7	1.11	12	55.7	0.03	49	1.6
California	4.07	25	2.99	23	73.4	0.83	18	20.5	0.25	18	6.1
Colorado	5.45	3	3.68	12	67.5	1.48	2	27.2	0.29	16	5.3
Connecticut	4.52	11	4.46	6	98.7	0.00	49	0.0	0.06	45	1.3
Delaware	2.09	48	1.71	45	82.2	0.03	45	1.6	0.34	13	16.2
Florida	4.30	16	3.41	15	79.3	0.69	21	16.0	0.20	20	4.7
Georgia	4.24	18	2.88	27	67.9	1.26	6	29.7	0.10	30	2.4
Hawaii	2.85	43	2.20	41	77.2	0.33	31	11.5	0.32	15	11.3
Idaho	2.74	47	2.58	34	94.4	0.05	43	1.8	0.11	29	3.9
Illinois	5.10	4	4.25	7	83.3	0.72	20	14.2	0.13	26	2.5
Indiana	3.48	33	2.67	29	76.6	0.07	41	1.9	0.75	6	21.5
Iowa	4.16	21	3.36	17	80.7	0.68	23	16.2	0.13	27	3.0
Kansas	4.11	22	3.18	19	77.5	0.86	16	20.8	0.07	42	1.7
Kentucky	2.89	41	1.65	46	57.1	0.38	30	13.1	0.86	5	29.8
Louisiana	4.38	14	1.97	43	45.0	2.30	1	52.6	0.11	28	2.5
Maine	4.60	8	4.56	4	99.0	0.01	48	0.3	0.03	50	0.7
Maryland	4.25	17	2.49	36	58.6	0.23	33	5.4	1.53	2	35.9
Massachusetts	3.84	27	3.71	11	96.6	0.07	42	1.7	0.07	44	1.7
Michigan	3.44	34	3.19	18	92.8	0.07	39	2.1	0.17	21	5.0
Minnesota	3.26	37	3.07	20	94.1	0.12	37	3.6	0.08	37	2.3
Mississippi	2.84	44	2.63	33	92.7	0.11	38	3.9	0.10	31	3.4
Missouri	4.18	20	2.56	35	61.4	1.19	8	28.5	0.42	9	10.1
Montana	3.09	40	2.99	22	96.9	0.02	47	0.8	0.07	40	2.4
Nebraska	4.54	9	3.57	13	78.8	0.47	26	10.3	0.49	8	10.9
Nevada	3.82	28	2.65	32	69.3	0.89	15	23.4	0.28	17	7.2
New Hampshire	4.74	7	4.67	3	98.4	0.00	49	0.0	0.08	36	1.6
New Jersey	5.51	2	5.41	1	98.2	0.03	46	0.6	0.07	43	1.2
New Mexico	3.27	36	1.80	44	55.0	1.39	4	42.5	0.08	34	2.5
New York	**7.58**	**1**	**4.49**	**5**	**59.1**	**1.43**	**3**	**18.9**	**1.66**	**1**	**21.9**
North Carolina	3.21	38	2.45	37	76.4	0.66	24	20.7	0.09	33	2.9
North Dakota	2.74	46	2.25	39	82.1	0.45	27	16.3	0.04	48	1.6
Ohio	4.51	12	2.95	25	65.4	0.43	28	9.6	1.12	3	24.9
Oklahoma	2.87	42	1.51	48	52.5	1.31	5	45.7	0.05	46	1.8
Oregon	4.10	23	3.45	14	84.0	0.25	32	6.1	0.41	10	9.9
Pennsylvania	4.19	19	2.97	24	70.7	0.21	34	5.0	1.02	4	24.3
Rhode Island	4.96	6	4.84	2	97.7	0.04	44	0.9	0.07	38	1.5
South Carolina	3.79	29	3.00	21	79.2	0.39	29	10.3	0.40	11	10.5
South Dakota	3.57	32	2.66	30	74.3	0.85	17	23.7	0.07	41	1.9
Tennessee	3.31	35	2.15	42	64.8	1.00	13	30.3	0.16	23	4.9
Texas	4.52	10	3.76	9	83.1	0.69	22	15.2	0.08	35	1.7
Utah	3.72	30	2.65	31	71.2	0.93	14	24.9	0.14	25	3.9
Vermont	1.68	50	1.56	47	92.9	0.07	40	4.0	0.05	47	3.0
Virginia	3.86	26	2.90	26	75.0	0.63	25	16.3	0.34	14	8.7
Washington	3.63	31	2.25	40	62.0	1.13	11	31.2	0.25	19	6.8
West Virginia	2.81	45	2.27	38	80.6	0.20	35	6.9	0.35	12	12.4
Wisconsin	4.42	13	4.17	8	94.4	0.18	36	4.0	0.07	39	1.7
Wyoming	4.34	15	3.39	16	78.1	0.79	19	18.3	0.16	24	3.6
Mean	**3.88**		**2.97**		**76.5**	**0.61**		**16.1**	**0.29**		**7.4**
Standard Deviation	**1.00**		**0.97**			**0.52**			**0.36**		
CV	**25.84**		**32.63**			**85.68**			**124.76**		
NYS Diff. from Mean	**3.71**		**1.51**		**(17.3)**	**0.82**		**2.8**	**1.37**		**14.5**

Sources: 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 Mean	**0.83**	**4.13**	**4.96**	

Sources: Moodysanalytics.com, DOB Staff Estimates

Table 6b - State/Local Split of 2011 Tax-to-Income Ratio				
State	**State Taxes**	**Local Taxes**	**State/Local Total**	**Total Rank**
Alabama	5.15	3.12	8.27	47
Alaska	15.90	5.04	20.94	1
Arizona	5.35	4.10	9.45	34
Arkansas	7.95	2.00	9.95	22
California	6.93	4.07	11.00	11
Colorado	4.19	5.45	9.64	31
Connecticut	6.47	4.52	10.99	12
Delaware	8.39	2.09	10.48	16
Florida	4.28	4.30	8.57	44
Georgia	4.48	4.24	8.72	40
Hawaii	8.08	2.85	10.94	13
Idaho	6.16	2.74	8.90	39
Illinois	5.40	5.10	10.50	15
Indiana	6.30	3.48	9.78	24
Iowa	5.56	4.16	9.72	26
Kansas	5.63	4.11	9.73	25
Kentucky	6.76	2.89	9.65	30
Louisiana	5.02	4.38	9.40	36
Maine	7.12	4.60	11.72	5
Maryland	5.24	4.25	9.49	33
Massachusetts	6.17	3.84	10.01	20
Michigan	6.43	3.44	9.87	23
Minnesota	7.85	3.26	11.11	9
Mississippi	6.83	2.84	9.67	28
Missouri	4.43	4.18	8.60	42
Montana	6.29	3.09	9.38	37
Nebraska	5.16	4.54	9.70	27
Nevada	6.23	3.82	10.04	18
New Hampshire	3.74	4.74	8.48	45
New Jersey	5.77	5.51	11.28	7
New Mexico	6.76	3.27	10.03	19
New York	**6.71**	**7.58**	**14.30**	3
North Carolina	6.36	3.21	9.56	32
North Dakota	11.82	2.74	14.57	2
Ohio	5.61	4.51	10.11	17
Oklahoma	5.27	2.87	8.15	48
Oregon	5.56	4.10	9.66	29
Pennsylvania	5.79	4.19	9.99	21
Rhode Island	5.88	4.96	10.84	14
South Carolina	4.81	3.79	8.60	43
South Dakota	3.74	3.57	7.31	50
Tennessee	4.72	3.31	8.03	49
Texas	4.10	4.52	8.62	41
Utah	5.69	3.72	9.42	35
Vermont	10.00	1.68	11.68	6
Virginia	4.56	3.86	8.42	46
Washington	5.74	3.63	9.37	38
West Virginia	8.31	2.81	11.12	8
Wisconsin	6.61	4.42	11.03	10
Wyoming	8.82	4.34	13.16	4
Mean Values	**6.32**	**3.88**	**10.20**	
Standard Deviation	**2.07**	**1.00**	**2.09**	
Coefficient of Variation	**32.74**	**25.84**	**20.48**	
NYS Diff. from Mean	**0.39**	**3.71**	**4.10**	
Sources: U.S. Census Bureau, DOB Staff Estimates				

Table 7 - 2011 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	1.67	0.07	0.18	0.00	2.73	1.24	1.35	1.04	8.27
Alaska	0.00	0.00	2.07	0.00	0.74	1.19	3.76	13.19	20.94
Arizona	1.25	0.00	0.24	0.00	3.33	1.16	2.77	0.70	9.45
Arkansas	2.27	0.00	0.38	0.00	3.88	1.11	0.85	1.46	9.95
California	3.00	0.00	0.57	0.00	2.68	0.83	2.99	0.93	11.00
Colorado	2.01	0.00	0.17	0.00	1.68	1.48	3.68	0.62	9.64
Connecticut	3.12	0.00	0.32	0.00	2.67	0.00	4.46	0.42	10.99
Delaware	3.03	0.13	0.88	0.01	1.27	0.03	1.71	3.41	10.48
Florida	0.00	0.00	0.25	0.00	3.57	0.69	3.41	0.67	8.57
Georgia	2.15	0.00	0.19	0.00	1.99	1.26	2.88	0.26	8.72
Hawaii	2.08	0.00	0.11	0.00	5.55	0.33	2.20	0.67	10.94
Idaho	2.21	0.00	0.32	0.00	3.05	0.05	2.58	0.68	8.90
Illinois	1.98	0.00	0.53	0.00	2.40	0.72	4.25	0.61	10.50
Indiana	1.94	0.68	0.30	0.00	3.73	0.07	2.67	0.39	9.78
Iowa	2.19	0.07	0.19	0.00	2.56	0.68	3.36	0.68	9.72
Kansas	2.23	0.00	0.20	0.00	2.76	0.86	3.18	0.50	9.73
Kentucky	2.27	0.72	0.34	0.07	3.24	0.38	1.65	0.98	9.65
Louisiana	1.36	0.00	0.11	0.00	2.90	2.30	1.97	0.75	9.40
Maine	2.75	0.00	0.40	0.00	3.26	0.01	4.56	0.73	11.72
Maryland	2.17	1.29	0.25	0.00	2.17	0.23	2.49	0.87	9.49
Massachusetts	3.24	0.00	0.54	0.00	1.98	0.07	3.71	0.47	10.01
Michigan	1.75	0.11	0.20	0.00	3.53	0.07	3.19	1.02	9.87
Minnesota	3.10	0.00	0.42	0.00	3.41	0.12	3.07	1.00	11.11
Mississippi	1.46	0.00	0.36	0.00	4.40	0.11	2.63	0.71	9.67
Missouri	1.99	0.13	0.14	0.03	2.03	1.19	2.56	0.54	8.60
Montana	2.22	0.00	0.34	0.00	1.46	0.02	2.99	2.35	9.38
Nebraska	2.14	0.00	0.19	0.00	2.53	0.47	3.57	0.80	9.70
Nevada	0.00	0.00	0.00	0.00	4.61	0.89	2.65	1.89	10.04
New Hampshire	0.13	0.00	0.93	0.00	1.44	0.00	4.67	1.31	8.48
New Jersey	2.25	0.00	0.47	0.00	2.53	0.03	5.41	0.58	11.28
New Mexico	1.52	0.00	0.32	0.00	3.58	1.39	1.80	1.43	10.03
New York	**3.58**	**0.82**	**0.40**	**0.61**	**2.21**	**1.43**	**4.49**	**0.76**	**14.30**
North Carolina	2.80	0.00	0.31	0.00	2.82	0.66	2.45	0.52	9.56
North Dakota	1.34	0.00	0.50	0.00	3.62	0.45	2.25	6.41	14.57
Ohio	1.98	0.96	0.05	0.02	2.82	0.43	2.95	0.90	10.11
Oklahoma	1.62	0.00	0.24	0.00	2.20	1.31	1.51	1.27	8.15
Oregon	3.76	0.00	0.32	0.03	0.75	0.25	3.45	1.10	9.66
Pennsylvania	1.76	0.73	0.35	0.05	3.01	0.21	2.97	0.90	9.99
Rhode Island	2.17	0.00	0.32	0.00	3.12	0.04	4.84	0.34	10.84
South Carolina	1.82	0.00	0.14	0.00	2.55	0.39	3.00	0.71	8.60
South Dakota	0.00	0.00	0.04	0.00	3.12	0.85	2.66	0.64	7.31
Tennessee	0.08	0.00	0.45	0.00	3.61	1.00	2.15	0.74	8.03
Texas	0.00	0.00	0.00	0.00	3.21	0.69	3.76	0.96	8.62
Utah	2.39	0.00	0.26	0.00	2.71	0.93	2.65	0.48	9.42
Vermont	2.07	0.00	0.39	0.00	3.36	0.07	1.56	4.23	11.68
Virginia	2.50	0.00	0.21	0.00	1.53	0.63	2.90	0.66	8.42
Washington	0.00	0.00	0.00	0.00	4.65	1.13	2.25	1.34	9.37
West Virginia	2.66	0.00	0.49	0.00	3.97	0.20	2.27	1.54	11.12
Wisconsin	2.77	0.00	0.37	0.00	2.93	0.18	4.17	0.62	11.03
Wyoming	0.00	0.00	0.00	0.00	3.54	0.79	3.39	5.44	13.16
Mean Values	**1.85**	**0.11**	**0.34**	**0.02**	**2.87**	**0.61**	**2.97**	**1.42**	**10.20**
Standard Deviation	**1.01**	**0.29**	**0.31**	**0.09**	**0.96**	**0.52**	**0.97**	**2.07**	**2.09**
Coefficient of Variation	**54.58**	**252.77**	**93.37**	**515.11**	**33.55**	**85.68**	**32.63**	**145.02**	**20.48**
NYS Diff. from Mean	**1.72**	**0.71**	**0.06**	**0.59**	**(0.66)**	**0.82**	**1.51**	**(0.66)**	**4.10**

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

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
2011	6.32	6.71	2.07	32.74	0.39

Table 8a - State Tax Burdens as a Pct. Of Personal Inc., 1977 - 2011

Sources: Moodysanalytics.com; 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
2011	10.20	14.30	2.09	20.48	4.10

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

Table 9 - 2011 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	$3,294	126	$106,900	3.1%	1	$63,665	5.2%	74
Niagara County	$3,091	150	$102,300	3.0%	2	$59,350	5.2%	73
Monroe County	$4,052	75	$135,100	3.0%	3	$68,960	5.9%	51
Cattaraugus County	$2,444	250	$81,600	3.0%	4	$50,470	4.8%	91
Steuben County	$2,393	261	$85,700	2.8%	7	$51,806	4.6%	107
Chautauqua County	$2,266	291	$81,500	2.8%	9	$50,283	4.5%	115
Livingston County	$3,273	132	$118,400	2.8%	10	$62,685	5.2%	70
Onondaga County	$3,643	99	$134,000	2.7%	11	$70,756	5.1%	75
Cayuga County	$2,738	191	$102,300	2.7%	13	$60,594	4.5%	114
Erie County	$3,277	131	$124,400	2.6%	17	$62,594	5.2%	69
Schenectady County	$4,424	59	$169,200	2.6%	19	$70,332	6.3%	43
Madison County	$3,193	136	$122,500	2.6%	20	$58,969	5.4%	59
Oswego County	$2,379	263	$94,700	2.5%	23	$55,388	4.3%	150
Broome County	$2,683	207	$109,400	2.5%	27	$57,983	4.6%	106
Ontario County	$3,354	118	$137,100	2.4%	28	$64,031	5.2%	68
Oneida County	$2,717	198	$111,300	2.4%	29	$61,450	4.4%	128
Chemung County	$2,350	271	$96,900	2.4%	30	$61,603	3.8%	217
Rensselaer County	$4,325	63	$178,600	2.4%	31	$76,011	5.7%	54
Tompkins County	$4,034	76	$168,500	2.4%	36	$77,304	5.2%	71
Sullivan County	$3,889	84	$168,100	2.3%	44	$58,996	6.6%	37
Orange County	$6,235	22	$272,400	2.3%	46	$82,790	7.5%	15
St. Lawrence County	$1,960	355	$86,800	2.3%	48	$53,062	3.7%	241
Rockland County	$9,376	3	$426,800	2.2%	53	$102,124	9.2%	5
Putnam County	$7,851	12	$359,900	2.2%	57	$105,709	7.4%	19
Ulster County	$5,007	38	$235,200	2.1%	68	$71,886	7.0%	27
Nassau County	$9,510	2	$450,200	2.1%	73	$102,542	9.3%	3
Clinton County	$2,426	258	$115,800	2.1%	76	$60,756	4.0%	189
Suffolk County	$7,942	11	$383,400	2.1%	84	$97,755	8.1%	9
Dutchess County	$5,692	29	$287,400	2.0%	101	$85,137	6.7%	35
Westchester County	$10,001	1	$518,800	1.9%	112	$113,425	8.8%	7
Albany County	$3,852	87	$207,800	1.9%	136	$78,147	4.9%	85
Saratoga County	$3,800	90	$226,100	1.7%	171	$77,539	4.9%	89
Jefferson County	$2,139	320	$127,800	1.7%	173	$56,362	3.8%	222
Warren County	$2,710	200	$195,000	1.4%	259	$61,997	4.4%	142
Bronx County	$3,015	155	$372,100	0.8%	582	$71,545	4.2%	159
New York County	$6,581	20	$856,700	0.8%	613	$139,526	4.7%	99
Richmond County	$3,371	115	$441,000	0.8%	618	$86,109	3.9%	203
Queens County	$3,301	124	$440,700	0.7%	634	$74,439	4.4%	127
Kings County	$3,307	123	$563,200	0.6%	733	$75,250	4.4%	137
United States	$2,057	NA	$173,600	1.2%	NA	$64,063	3.2%	NA

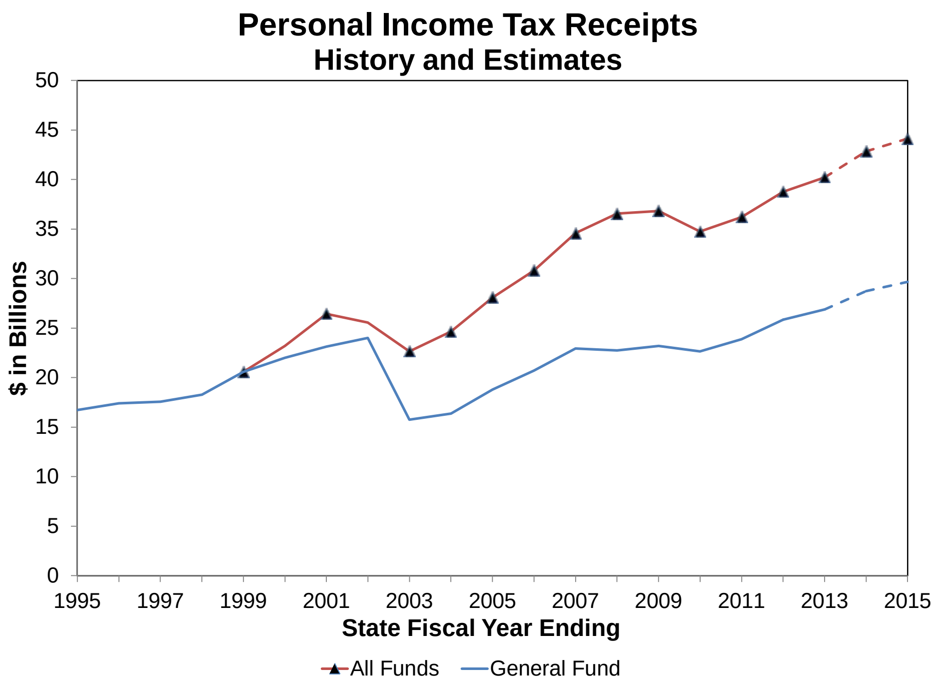
Source: Moodysanalytics.com; DOB Staff Estimates

TAX RECEIPTS

PERSONAL INCOME TAX

PERSONAL INCOME TAX (millions of dollars)	2012-13 Actual	2013-14 Estimated	Change	Percent Change	2014-15 Projected	Change	Percent Change
General Fund	26,883.9	28,745.6	1,861.7	6.9	29,669.4	923.8	3.2
Other Funds	13,342.9	14,100.9	758.0	5.7	14,462.4	361.5	2.6
All Funds	40,226.8	42,846.5	2,619.7	6.5	44,131.8	1,285.3	3.0

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
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
2012-13	34,100	7,216	26,884	3,286	10,057	40,227
Estimated						
2013-14	37,381	8,636	28,746	3,389	10,712	42,847
2014-15						
Current Law	38,282	8,369	29,913	3,429	11,114	44,457
Proposed Law	38,438	8,769	29,669	3,429	11,033	44,132

[1] School Tax Relief Fund.

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

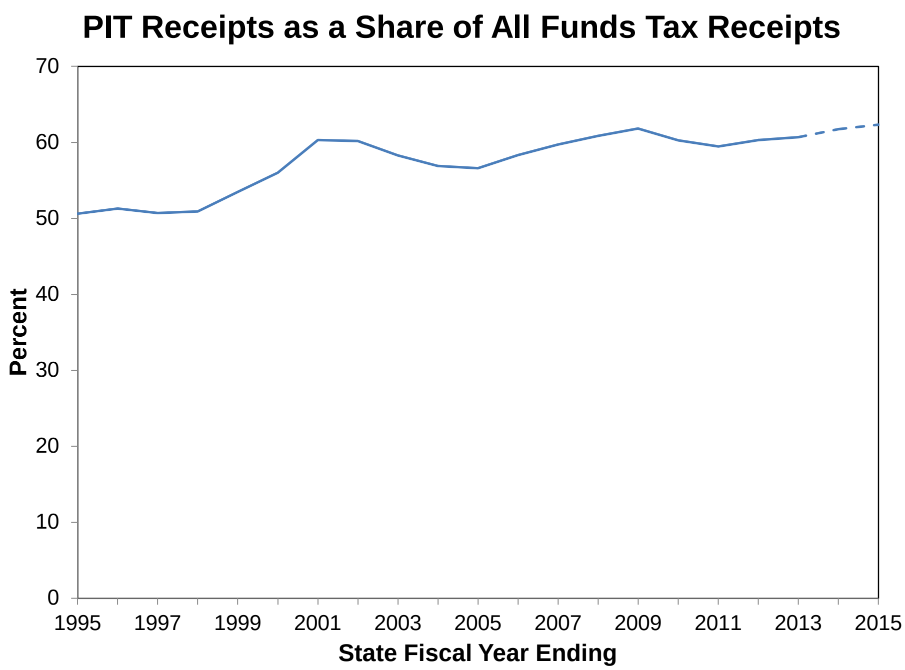
PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Establish the real property tax freeze personal income tax credit;
- Establish the residential real property personal income tax credit;
- Establish a renter's personal income tax credit;
- Close the resident trust loophole;
- Repeal the personal income tax add-on minimum tax;
- Increase the personal income tax filing income threshold;
- Extend the non-custodial earned income tax credit for two years;
- Extend the commercial television production tax credit for two years;
- Expand the low income housing credit;
- Reform the investment tax credit;
- Extend and reform the Brownfield Clean-Up program;
- Repeal the financial services investment tax credit;
- Enhance the Youth Works tax credit;
- Create a 20 percent real property tax credit for manufacturers;
- Amend the START-UP NY statute for a Section 186-e excise tax technical change;
- Authorize a professional and business license tax clearance;
- Modify Delivery of family tax relief credit after Tax Year 2014
- Align mobility and personal income tax filings for the self-employed; and
- Eliminate the income threshold inflation adjustment for enhanced STAR benefits.

DESCRIPTION

The personal income tax (PIT) is by far New York State's largest source of tax receipts. The PIT accounted for approximately 61 percent of All Funds tax receipts in 2012-13.



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

Tax Base

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

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

Tax Rates and Structure

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

For tax years 2012 to 2014, four new tax brackets and rates replaced the former bracket and rate applicable to taxpayers with taxable income above $40,000 for married filing jointly returns (with lower levels for other filing categories). The tax rate for taxpayers (married filing jointly returns) with taxable income in the $40,000 to $150,000 and $150,000 to $300,000 brackets was lowered to 6.45 percent and 6.65 percent respectively, while the 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) was 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. These brackets and rates, as well as indexing, were extended through tax year 2017 as part of the 2013-14 Enacted Budget.

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

	1997-2000	2001	2002	2003-2005	2006-2008	2009-2011	2012	2013*	2014*
Top Rate (Percent)	6.85	6.85	6.85	7.70	6.85	8.97	8.82	8.82	8.82
Thresholds									
Married Filing Jointly	40,000	40,000	40,000	500,000	40,000	500,000	2,000,000	2,058,550*	2,092,800*
Single	20,000	20,000	20,000	500,000	20,000	500,000	1,000,000	1,029,250*	1,046,350*
Head of Household	30,000	30,000	30,000	500,000	30,000	500,000	1,500,000	1,543,900*	1,569,550*
Standard Deduction									
Married Filing Jointly	13,000	13,400	14,200	14,600	15,000	15,000	15,000	15,400	15,650
Single	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,700	7,800
Head of Household	10,500	10,500	10,500	10,500	10,500	10,500	10,500	10,800	10,950
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 2014 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 16,700	$0 +4.00%	0	0 to 8,300	$0 +4.00%	0	0 to 12,550	$0 +4.00%	0
16,700 to 22,950	$668 +4.50%	16,700	8,300 to 11,450	$332 +4.50%	8,300	12,550 to 17,200	$502 +4.50%	12,550
22,950 to 27,150	$949 +5.25%	22,950	11,450 to 13,550	$474 +5.25%	11,450	17,200 to 20,350	$711 +5.25%	17,200
27,150 to 41,800	$1,170 +5.90%	27,150	13,550 to 20,850	$584 +5.90%	13,550	20,350 to 31,350	$877 +5.90%	20,350
41,800 to 156,900	$2,034 +6.45%	41,800	20,850 to 78,400	$1,015 +6.45%	20,850	31,350 to 104,600	$1,526 +6.45%	31,350
156,900 to 313,850	$9,458 +6.65%	156,900	78,400 to 209,250	$4,727 +6.65%	78,400	104,600 to 261,550	$6,250 +6.65%	104,600
313,850 to 2,092,800	$19,895 +6.85%	313,850	209,250 to 1,046,350	$13,428 +6.85%	209,250	261,550 to 1,569,550	$16,687 +6.85%	261,550
2,092,800 and over	$141,753 +8.82%	2,092,800	1,046,350 and over	$70,770 +8.82%	1,046,350	1,569,550 and over	$106,285 +8.82%	1,569,550

* Benefits of graduated tax rates recaptured for taxpayers with adjusted gross incomes above $104,600.

Tax Expenditures

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

Credits

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

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

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 equaled 110 percent for incomes up to $25,000, phased down from 110 percent to 100 percent for incomes between $25,000 and $40,000, equaled 100 percent for incomes between $40,000 and $50,000, phased down from 100 percent to 20 percent for incomes between $50,000 and $65,000, and equaled 20 percent for incomes over $65,000. The credit is fully refundable for New York residents whose credit amount exceeds tax liability. 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.
Middle-Class Family Tax Credit	Permitted for each taxpayer who, on his or her personal income tax return filed for the taxable year two years prior to the taxable year that the credit is claimed, a) was a resident of New York State; b) claimed one or more dependent children who were under age 17 at the end of the taxable year, c) had NYSAGI of between $40,000 and $300,000; and d) had tax liability that was greater than or equal to $0. Worth $350, the credit is fully refundable and is effective for tax years 2014 through 2016.

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

Significant Legislation

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

Subject	Description	Effective Date
Legislation Enacted in 2000		
Earned Income Tax Credit	Increased the EITC to 30 percent of the Federal credit over a two-year period, beginning in 2002. The expansion first increased the EITC to 27.5 percent of the Federal credit in 2002 and then to 30 percent of the Federal credit in 2003 and after.	2002 and after

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

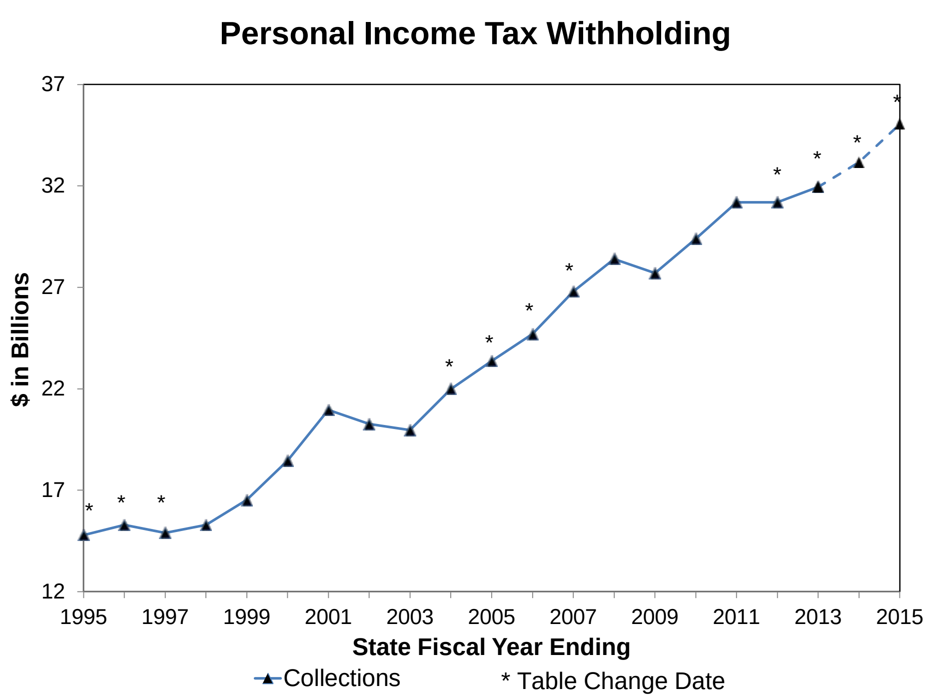
Subject	Description	Effective Date
Economic Transformation and Facility Redevelopment Program	Provided tax incentives to businesses to stimulate redevelopment in targeted communities where certain correctional or juvenile facilities are closed (economic transformation areas).	2011 to 2021
PIT Reform	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
Legislation Enacted in 2013		
Empire State Film Production Credit	Extended the Empire State film production tax credit of $420 million per year for an additional five years (2015 - 2019). For the period 2015 through 2019 certain upstate counties will receive an additional 10 percent credit for wages and salaries paid.	January 1, 2015
	Restrictions on the post production portion of the credit were reduced and additional reporting will be required to document the effectiveness of the credit in creating jobs.	March 28, 2013
New York State Business Incubator and Innovation Hot Spot Program	Created a new high tech incubator program in which start-up businesses will be free of property, sales and business income taxes for the first five years. Hot spots must demonstrate an affiliation with, and the support of, at least one college, university or independent research institution and offer programs consistent with regional economic development strategies.	March 28, 2013
Limitation on Itemized Deductions	Extended the limitation on itemized deductions for taxpayers with adjusted gross income over $10 million, which restricts the total value of the itemized deduction to 25 percent of otherwise eligible charitable contributions. The limitation sunsets December 31, 2015.	January 1, 2013
Royalty Income Loophole	Closed a loophole that allowed New York companies that earn royalty income to avoid paying taxes on that income. New York taxpayers must show on their tax return that the taxpayer's non-New York parent company included the royalty income in its tax liability. The demonstration absolves taxpayers of the obligation to pay tax on their royalty income.	January 1, 2013
Historic Preservation Tax Credit	Extended for five years the Historic Preservation Tax Credit $5 million cap, which had previously been scheduled to revert to $100,000 following the conclusion of tax year 2014, and permanently made the credit refundable for tax years beginning on or after January 1, 2015.	January 1, 2015
Charge NY Electric Vehicle Recharging Equipment Credit	Created a credit equal to 50 percent or $5,000 per station, whichever is less, of the cost of electric vehicle recharging or alternative fuel vehicle refueling equipment. The credit sunsets December 31, 2017.	January 1, 2013
Suspension of Drivers' Licenses of Delinquent Persons	Provided for the suspension of New York State driver's licenses of taxpayers who owe taxes in excess of $10,000.	March 28, 2013

Subject	Description	Effective Date
Warrantless Wage Garnishment	Allowed the Department of Taxation and Finance to garnish wages of delinquent taxpayers without filing a warrant and replaced the warrant requirement with a faster public notification requirement. The authority to act without warrant sunsets March 31, 2015.	March 28, 2013
Credit for Rehabilitation of Historic Homes	Extended for five years the maximum credit amount of $50,000 (scheduled to revert to $25,000), and the refundability of the credit for filers with income less than $60,000.	January 1, 2015
Small Business and Small Farm Income Subtraction	Provided a Federal Adjusted Gross Income (FAGI) modification equal to a percentage of business or farm income for taxpayers with business or farm income not exceeding $250,000. The modification reduces FAGI by 3 percent in tax year 2014, 3.75 percent in tax year 2015, and 5 percent for tax years 2016 and beyond.	January 1, 2014
Veterans Tax Credit	Provided a refundable tax credit for tax years 2015 and 2016 equaling 10 percent of the wages paid to a qualified veteran (capped at $5,000) and 15 percent of wages paid to a qualified veteran (capped at $15,000).	January 1, 2015
Middle-Class Family Tax Credit	Provided a refundable $350 credit in each of tax years 2014 through 2016 to taxpayers with dependents under the age of 17, zero or positive tax liability, and income between $40,000 and $300,000.	January 1, 2014
Youth Works Tax Credit	Provided a four year refundable tax credit capped at $6 million per year for tax years 2014 through 2017 for hiring unemployed, low-income or at risk youth ages 16-24 in cities with populations greater than 55,000 or towns with populations greater than 480,000.	January 1, 2014
Minimum Wage Reimbursement Credit	Provided a refundable tax credit for tax years 2014 through 2018 equal to the product of the number of hours worked by qualifying minimum wage-earning employees and 1) $0.75 in tax year 2014; 2) $1.31 in tax year 2015; or 3) $1.35 in tax years 2016 through 2018. Qualifying employees must be students aged 16 to 19, and the credit is reduced if the federal minimum wage is increased to a level in excess of 85 percent of the New York minimum wage.	January 1, 2014
PIT Reform Extension	Extended the December 2011 PIT reform program for three additional tax years, 2015 through 2017.	January 1, 2015
START-UP NY	Established tax-free zones on or near qualifying university and college campuses. Qualifying businesses operating within such zones are exempt from taxation for a ten-year period under the personal income tax. During the first five years of the exemption period, qualifying new employees are fully exempt from New York State and New York City personal income tax on wages earned while working in a tax-free zone. During the last five years of the exemption period, qualifying employees are exempt from taxation on wages up to $200,000 for single filers, $250,000 for head-of-household filers, and $300,000 for joint filers.	January 1, 2014
Excelsior Jobs Program	Changed the job requirement parameters for the Excelsior Jobs Program and allowed a portion of the unallocated tax credits from any taxable year to be used to award tax credits in another taxable year.	May 27, 2013

Withholding Changes

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

Effective Date	Feature	Changes
7/1/95	Deduction Allowance	Increased to $5,650 for single individuals, $6,150 for married couples.
	Rate Schedule	Lowered the maximum rate to 7.59 percent and reduced the number of tax brackets.
4/1/96	Deduction Allowance	Increased to $6,300 for single individuals, $6,800 for married couples.
	Rate Schedule	Lowered the maximum rate to 7 percent and broadened the wage brackets to which the rates apply.
1/1/97	Deduction Allowance	Increased to $6,975 for single individuals, $7,475 for married couples.
	Rate Schedule	Lowered the maximum rate to 6.85 percent and broadened the wage brackets to which the rates apply.
7/1/03	Rate Schedule	Raised maximum rate to 8.55 percent and added two new wage brackets.
1/1/04	Rate Schedule	Decreased maximum rate to 7.7 percent and lowered rate for second highest bracket from 7.5 percent to 7.375 percent.
1/1/05	Rate Schedule	Lowered rate for second highest bracket from 7.375 to 7.25 percent.
1/1/06	Rate Schedule	Eliminated top two rates to reflect expiration of the temporary tax surcharge.
5/1/09	Rate Schedule	Raised maximum rate to 8.97 percent and added two new wage brackets; added new higher rate to reflect phase out of itemized deductions.
1/1/12	Rate Schedule	Lowered rates for middle income taxpayers and created a new 8.82 percent tax rate and bracket for tax years through 2014.
1/1/13	Deduction Allowance	Increased to $7,150 for single individuals, $7,650 for married couples.
	Rate Schedule	Adjusted tax brackets to reflect indexing.
1/1/14	Deduction Allowance	Increased to $7,250 for single individuals, $7,750 for married couples.
	Rate Schedule	Adjusted tax brackets to reflect indexing.



The above graph shows the history of withholding collections beginning in 1994-95. Asterisks denote the dates of withholding table changes.

Limited Liability Companies

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

The annual filing fee has been imposed since 1994 and applies to any LLC that has any income, gain, loss or deduction attributable to New York sources in the taxable year. Filing fees for the tax year are due no later than January 30 of the following year. The following table shows historical LLC fees and estimated for 2013-14. 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
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	71,690
2013-14 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 administratively 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 for fiscal years 2010-11 through 2012-13. A one-time increase in the three-month allocation to $2,060 million will occur in fiscal year 2013-14, in response to previously unanticipated strong January 2013 current year estimated tax receipts. The “cap” will revert, once again, to $1,750 million for fiscal years 2014-15 and beyond.

School Tax Relief Fund

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

Revenue Bond Tax Fund

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

Taxpayer Characteristics

Personal income tax liability and NYSAGI, the income base that determines personal income tax liability, differ noticeably across taxpayer groups. Table 3 examines the changes in NYSAGI and in liability over an eight-year span from 2004 to 2011, with a breakdown by taxpayer characteristics. While both NYSAGI and liability showed considerable growth over this period (NYSAGI growing 26.9 percent but liability rising 40.9 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.

Both 2004 and 2011 were expansion years for the State. While in 2004 New York State was in its first full year of expansion following the State recession that came after the national recession of 2001, 2011 was the second year of the State’s recovery from its August 2008-December 2009 recession (which was thus eight months shorter than the nation recession). Both years also featured temporary higher tax rates – higher rates were in place for State taxpayers for tax years 2003-05, while (as noted above) temporary brackets and rates were enacted for the 2009-11 tax years as well.

The share of both returns and liability accounted for by nonresidents continued to trend upward between 2004 and 2011, with the nonresident share of returns rising from 9.7 percent to 10.7 percent, while the liability share rose from 16.3 percent to 17 percent. Wages and nonwage income (such as dividends, interest received and capital gains) increased faster than for residents during this period, allowing nonresident liability to grow 47 percent between 2004 and 2011 while resident liability rose 39.7 percent. While resident wages grew 24.5 percent, nonresident wages were up 32.8 percent. However, residents and nonresidents had similar growth of nonwage income, with 31 and 33.1 percent gains, respectively.

TABLE 3

PERCENT SHARES OF STATE AGI, WAGES, NONWAGE INCOME AND LIABILITY BY VARIOUS TAXPAYER CHARACTERISTICS, 2004 AND 2011

(Values for AGI, wages, nonwage income and liability in millions of dollars)

	2004					2011				
	Returns	NYSAGI	Wages	Nonwage Income	Liability	Returns	NYSAGI	Wages	Nonwage Income	Liability
Total	8,929,346	533,539	397,431	143,840	25,766	9,849,174	677,235	499,425	188,778	36,307
percent change						10.3	26.9	25.7	31.2	40.9
Residents	8,063,721	464,065	343,184	127,958	21,565	8,794,942	584,930	427,389	167,641	30,131
percent share	90.3	87	86.4	89	83.7	89.3	86.4	85.6	88.8	83
percent change						9.1	26	24.5	31	39.7
Nonresidents	865,624	69,475	54,247	15,882	4,201	1,054,232	92,305	72,036	21,138	6,176
percent share	9.7	13	13.6	11	16.3	10.7	13.6	14.4	11.2	17
percent change						21.8	32.9	32.8	33.1	47
Married Filing Jointly	3,236,764	341,372	244,831	101,203	18,196	3,363,049	425,624	300,469	131,404	25,250
percent share	36.2	64	61.6	70.4	70.6	34.1	62.8	60.2	69.6	69.5
percent change						3.9	24.7	22.7	29.8	38.8
Head of Household	1,568,231	48,981	43,569	6,333	848	1,572,377	59,376	51,907	8,513	1,286
percent share	17.6	9.2	11	4.4	3.3	16	8.8	10.4	4.5	3.5
percent change						0.3	21.2	119.1	34.4	51.7
Single Filers	4,124,351	143,186	109,032	36,305	6,722	4,913,747	192,235	147,049	48,862	9,771
percent share	46.2	26.8	27.4	25.2	26.1	49.9	28.4	29.4	25.9	26.9
percent change						19.1	34.3	34.9	34.6	45.3
Itemized Deduction	2,188,651	294204	199,220	98,734	16,388	2,400,570	343,369	228,803	118,391	20,546
percent share	24.5	55.1	50.1	68.6	63.6	24.4	50.7	45.8	62.7	56.6
percent change						9.7	16.7	14.8	19.9	25.4
Standard Deduction	6,738,106	239,241	198,129	45,087	9,373	7,443,922	333,530	270,368	70,304	15,738
percent share	75.5	44.8	49.9	31.3	36.4	75.6	49.2	54.1	37.2	43.3
percent change						10.5	39.4	36.5	55.9	67.9

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" continued. Despite a 3.9 percent rise in the number of returns filed under this status from 2004 to 2011, the share dipped below 35 percent, down from the 36.2 percent share in 2004. Returns filed as "head of household" barely increased, and the share fell to 16 percent from 17.6 percent in 2004. "Single" returns, though, posted growth of 19.1 percent over the eight years, helping to drive the share up to 49.9 percent in 2011 from 46.2 percent in the base year. Despite the rising share of single filers, the money is still with the married filers: in 2004 they accounted for just over 70 percent of all liability, slipping to 69.5 percent in 2011, while the liability share of single filers rose from 26.1 percent to just under 27 percent by 2011.

Taxpayers who itemized their deductions made up 24.5 percent of all filers in 2004, remaining essentially the same in 2011. In 2004, standard deduction returns accounted for 75.2 percent of all returns and 36.4 percent of all liability, while the remaining returns that were itemized made up 63.6 percent of all liability. By 2011 the itemizer share of liability had slipped to 56.6 percent while standard-deduction takers accounted for 43.3 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 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 2.9 percent in 2011, reflecting anemic economic growth and rather stagnant equity markets. NYSAGI growth in 2012 is expected to be stronger with 8.8 percent despite continued anemic economic growth largely because of a considerable amount of income shifting to avoid higher tax rates in 2013. Because of the income shifting, the Budget Division expects weaker growth of 2 percent for 2013, despite stronger equity and real estate markets.

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

Component of Income	2007	2008	2009	2010	2011	2012*	2013	2014	2015
	Actual					Estimate			
NYSAGI									
Amount	725,245	662,053	596,471	638,855	657,298	714,996	729,623	771,260	809,835
Percent Change	14.6	(8.7)	(9.9)	7.1	2.9	8.8	2.0	5.7	5.0
Wages									
Amount	485,565	492,900	463,939	482,433	499,425	516,871	525,370	553,574	578,795
Percent Change	9.1	1.5	(5.9)	4.0	3.5	3.5	1.6	5.4	4.6
Share of NYSAGI	67.0	74.5	77.8	75.5	76.0	72.3	72.0	71.8	71.5
Net Capital Gains									
Amount	116,436	53,401	29,689	44,669	48,800	77,261	74,719	78,788	82,780
Percent Change	41.3	(54.1)	(44.4)	50.5	9.2	58.3	(3.3)	5.4	5.1
Share of NYSAGI	16.1	8.1	5.0	7.0	7.4	10.8	10.2	10.2	10.2
Interest and Dividends									
Amount	48,204	39,205	29,358	30,200	29,240	33,528	36,445	39,255	41,525
Percent Change	22.5	(18.7)	(25.1)	2.9	(3.2)	14.7	8.7	7.7	5.8
Share of NYSAGI	6.6	5.9	4.9	4.7	4.4	4.7	5.0	5.1	5.1
Taxable Pension									
Amount	31,216	31,070	32,167	35,583	37,052	39,229	41,093	42,590	44,531
Percent Change	3.2	(0.5)	3.5	10.6	4.1	5.9	4.8	3.6	4.6
Share of NYSAGI	4.3	4.7	5.4	5.6	5.6	5.5	5.6	5.5	5.5
Net Business and Partnership Income									
Amount	74,345	73,560	71,447	74,368	74,148	83,376	89,824	96,061	104,342
Percent Change	10.6	(1.1)	(2.9)	4.1	(0.3)	12.4	7.7	6.9	8.6
Share of NYSAGI	10.3	11.1	12.0	11.6	11.3	11.7	12.3	12.5	12.9
All Other Incomes and Adjustments/[1]									
Amount	(30,521)	(28,083)	(30,128)	(28,397)	(31,367)	(35,269)	(37,829)	(39,009)	(42,138)
Percent Change	(4.3)	(8.0)	7.3	(5.7)	10.5	12.4	7.3	3.1	8.0

* Estimates for 2012 are based on processing data.

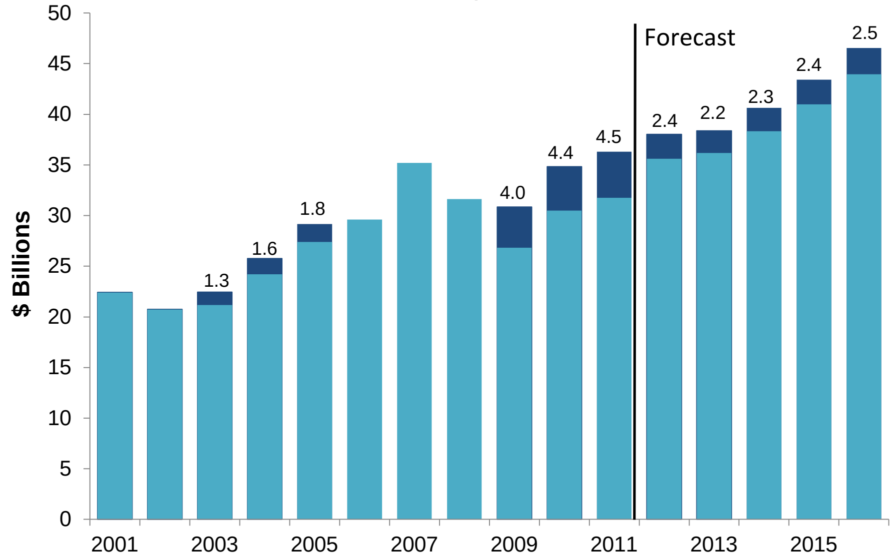
/[1] includes alimony received, unemployment income, IRA income, and other incomes. This number is negative due to Federal and New York adjustments to income, which together reduce final NYSAGI.

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 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 9.2 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 to an expected 72.3 percent share in 2012.

Total Liability 2001-2016



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 2006-2016 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 last two recessions are clearly reflected in State tax liability, which fell in 2001 and 2002 and without 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. Total 2011 liability was $36.3 billion, up 4.2 percent in the final year of the 2009-11 brackets and rates, as the slow State and national recoveries continued. Preliminary processing data for 2012 shows about $38 billion in liability, an increase of 4.8 percent despite a tax cut provided to a large proportion of State taxpayers by the December 2011 tax reform.

With a slow start to 2013 due to the "fiscal cliff" drama that ended 2012, automatic Federal spending cuts and Federal tax increases, 2013 NYS liability is forecast to barely increase, rising just 0.9 percent to $38.4 billion. Liability for 2014 is currently seen as growing to $40.6 billion (up 5.9 percent), as both State and national economies improve.

TABLE 5
LIABILITY AND EFFECTIVE TAX RATES*
Current Law
2000-2015
(millions of dollars)

	NYSAGI		Liability		
	Amount	Growth Rate	Amount	Growth Rate	Effective Tax Rate (percent)
2001	481,001	-5.5	22,406	-9.4	4.66
2002	459,919	-4.4	20,731	-7.5	4.51
2003	473,778	3.0	22,456	8.3	4.74
2004	525,964	11.0	25,769	14.8	4.90
2005	571,916	8.7	28,484	10.5	4.98
2006	632,601	10.6	29,838	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**	657,298	2.9	36,296	4.2	5.52
2012**	714,996	8.8	38,046	4.8	5.32
2013**	729,623	2.0	38,394	0.9	5.26
2014**	771,260	5.7	40,645	5.9	5.27
2015**	809,828	5.0	43,416	6.8	5.36

* 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 reformed State tax law enacted in December 2011 and effective with the 2012 tax year is estimated to have increased this proportion to 42.9 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

	2011 (Actual)			2014 (Forecast)		
Income Group	**Returns**	**Liability**	**AGI**	**Returns**	**Liability**	**AGI**
0 - $50,000	66.7	3.7	17.5	60.1	2.6	14.6
$50,000 - $100,000	19	15.4	19.6	21.4	13.9	19.1
$100,000 - $200,000	9.9	19.3	19.6	12.1	18.3	19.5
$200,000 - $1,000,000	3.9	26.2	20.5	5.5	23.9	20.5
$1,000,000 and above	0.5	35.4	22.8	0.9	41.3	26.2

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

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

	1995-2002, 2006-08 Tax Law			2003-05, 2009-11 Brackets and Rates; Reformed 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)**
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	29,587	39	--	--	--
2007	15,195	35,215	43.1	--	--	--
2008	11,890	31,621	37.6	--	--	--
2009	9,138	27,522	33.2	12,194	31,162	39.1
2010	10,548	30,349	34.8	14,282	34,836	41
2011	10,733	31,596	34	14,513	36,296	40
2012*	12,983	35,397	36.7	16,314	38,046	42.9
2013*	13,017	36,043	36.1	16,239	38,394	42.3
2014*	13,849	38,677	35.8	17,328	40,645	42.6
2015*	14,759	41,362	35.7	18,492	43,416	42.6

* Estimated

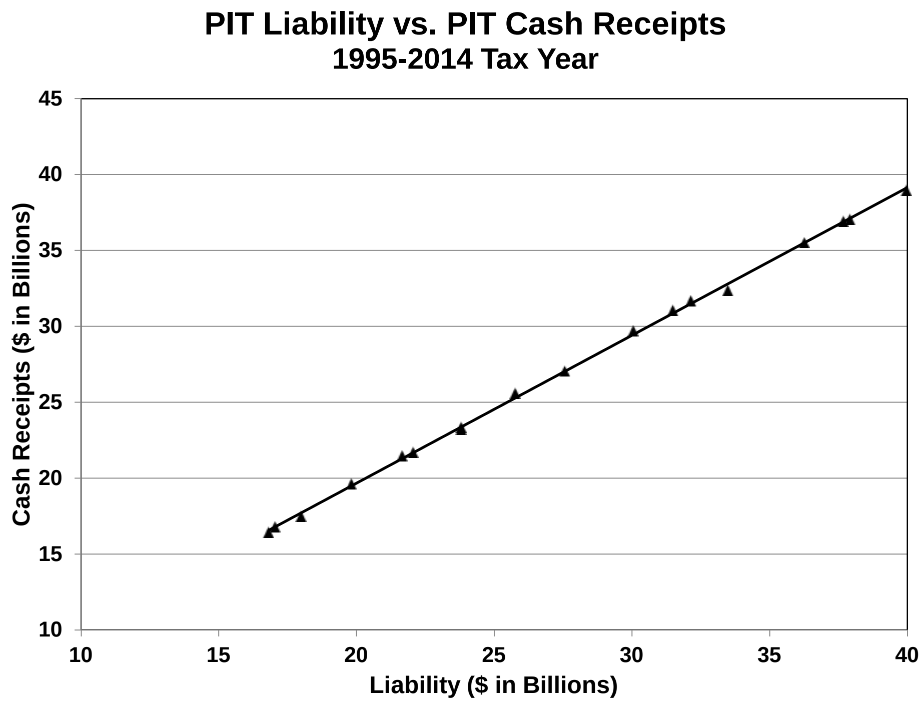
Note: The 2003-2005 surcharges expired at the end of the 2005 tax year.

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.

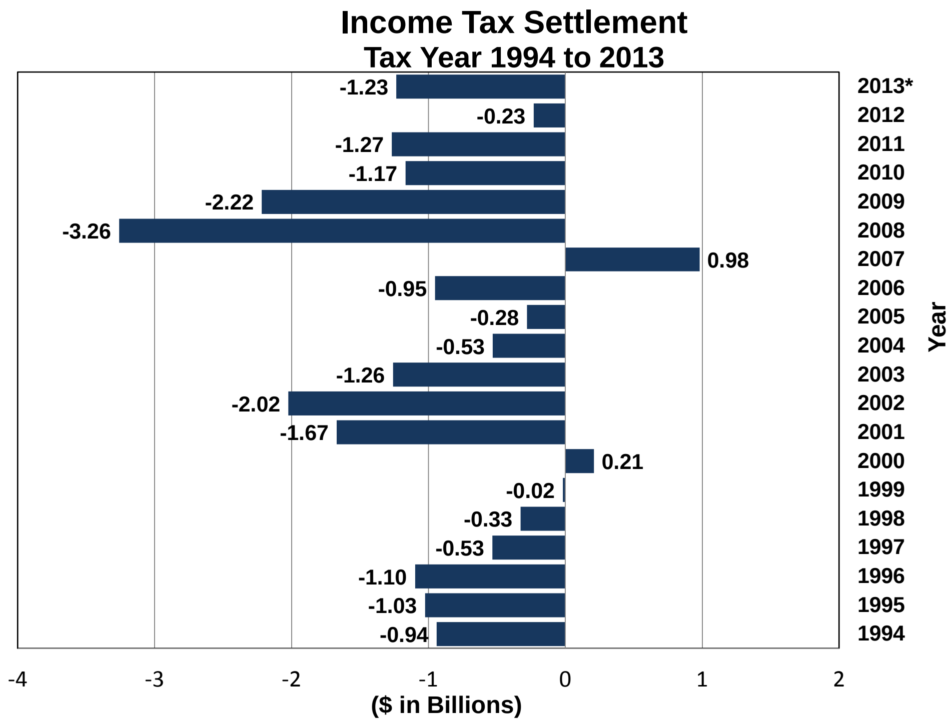
TAX LIABILITY AND CASH PAYMENTS

Although significant risks necessarily remain in any estimates of income tax liability, the estimation of the level of tax liability for a particular tax year leads, with a high degree of confidence, to the approximate level of cash receipts that can be expected for the particular tax year. The consistency in this relationship is shown in the graph below, which shows a trend line for the history of liability and cash receipts beginning in 1995, 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 2013 tax year will be received before the end of the 2013-14 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 2013 tax year will be received largely in the 2014-15 fiscal year.

As is evident in the following graph showing net settlement payments for the 1994 through 2013 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 $1.17 billion. Extension payments declined in 2011, leading to a slightly more negative net settlement of $1.27 billion. In 2012, strong end-of-year capital gains realizations led to record-high April extension payments, improving the settlement to negative $230 million. The net settlement for tax year 2013 is projected to swing to a firmly negative $1.23 billion, the result of a significant decline in extension payments following an inflated base.

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 2011, and 2012, the itemized deduction for charitable contributions was further reduced from 50 percent to 25 percent for taxpayers with NYSAGI over $10 million. The 25 percent limitation was subsequently extended to apply to tax years 2013, 2014, and 2015.

For tax years 2012 to 2014, four new tax brackets and rates replaced the former bracket and rate applicable to taxpayers with taxable income above $40,000 for married filing jointly returns (with lower levels for other filing categories). The tax rate for taxpayers (married filing jointly returns) with taxable income in the $40,000 to $150,000 and $150,000 to $300,000 brackets 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. These brackets and rates, including CPIU indexing, were subsequently extended through the end of tax year 2017 as part of 2013-14 Enacted Budget legislation. The same legislation also extended the limitation of itemized deductions for taxpayers with NYSAGI over $10 million for an additional three years.

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

2013-14 Estimates

All Funds receipts through December are $29,838 million, an increase of $2 billion (7.4 percent) from the comparable period in the prior fiscal year.

All Funds 2013-14 receipts are estimated to be $42.8 billion, an increase of $2.6 billion (6.5 percent) from 2012-13. This primarily reflects robust growth in extension (i.e., prior year estimated) payments for tax year 2012, modest growth in withholding, moderate growth in current estimated payments for tax year 2013, and strong growth in final payments, partially offset by substantial growth in total refunds.

Withholding in 2013-14 is projected to be $1.2 billion (3.8 percent) higher compared to the prior year. This reflects the net effect of modest wage growth offset by reduced revenue attributable to the first full fiscal year of withholding table inflation adjustment. Total estimated payments are expected to increase $2.5 billion (20.8 percent). Estimated payments for tax year 2013 are projected to increase by $547 million (6.1 percent), while extension payments (i.e., prior year estimated) for tax year 2012 are estimated to grow substantially ($2 billion or 62.2 percent) due to the one-time accelerated realization of capital gains in anticipation of rising federal income tax rates in 2013 and an atypical overestimation of liability that resulted in significant extension overpayment. Delinquent collections and final return payments are projected to be $74 million (6.5 percent) and $230 million (10.7 percent) higher, respectively.

The increase in total refunds of $1.4 billion reflects an $801 million (17.5 percent) increase in prior refunds related to tax year 2012, a $310 million (17.7 percent) increase in current year refunds related to tax year 2013, and a $332 million (107.4 percent) increase in the State-city offset, partially offset by a $23 million (4 percent) decline in refunds related to tax years prior to 2012.

Table 8 shows the components of the PIT from 2011-12 through 2015-16.

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

	2011-12 (Actual)	2012-13 (Actual)	2013-14 (Estimated)	2014-15 (Projected)	2015-16 (Projected)
Receipts					
Withholding	31,199	31,958	33,160	35,049	37,260
Estimated Payments	11,628	12,193	14,727	14,274	15,744
Current Year	8,097	9,001	9,548	10,115	11,007
Prior Year*	3,532	3,192	5,179	4,159	4,737
Final Returns	2,117	2,148	2,378	2,316	2,478
Current Year	224	203	233	242	254
Prior Year*	1,893	1,945	2,145	2,074	2,224
Delinquent Collections	1,086	1,144	1,217	1,261	1,311
Gross Receipts	46,030	47,443	51,482	52,900	56,792
Refunds					
Prior Year*	4,693	4,568	5,369	5,142	6,277
Previous Years	454	588	566	569	588
Current Year*	1,750	1,750	2,060	1,750	1,750
Advanced Credit Payment	0	0	0	810	976
State-City Offset*	366	309	641	498	498
Total Refunds	7,263	7,216	8,636	8,769	10,089
Net Receipts	38,768	40,227	42,846	44,131	46,704

* These components, collectively, are known as the “settlement” on the prior year’s tax

The primary risk to the 2013-14 receipts estimate results from uncertainty surrounding bonus payments paid by financial services companies. A large portion of these financial sector bonuses are typically paid in the last quarter of the state fiscal year. Consequently, complete information about such payments is not available when Budget estimates are constructed. Furthermore, in anticipation of higher Federal marginal tax rates in tax year 2013 relative to tax year 2012, bonus payments were made in 2012 that would have otherwise been made in 2013. This creates uncertainty with regard to withholding receipts for the final quarter of the 2013-14 fiscal year; if the shifting of bonus payments is not reversed to the anticipated extent, downside risk exists for the final quarter. Likewise, a stronger-than-expected shift back to historical norms would create upside risk, as this would indicate that wage growth between October and December was higher than expected.

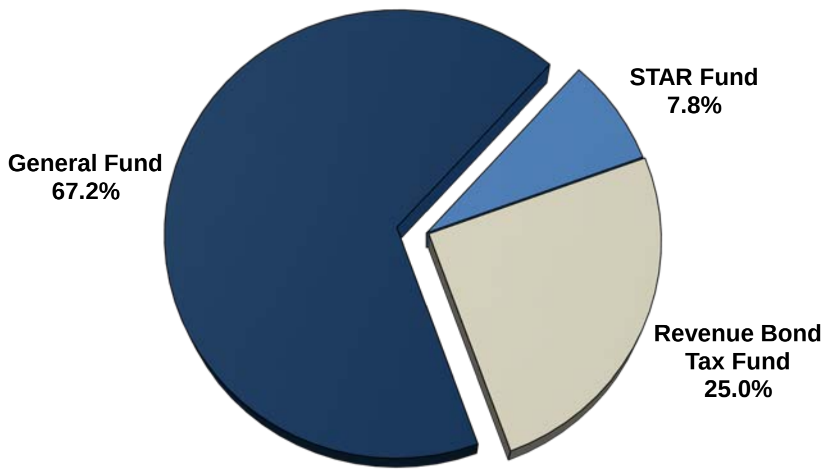
2014-15 Projections

All Funds 2014-15 receipts are projected to be $44.1 billion, an increase of $1.3 billion (3 percent) from 2013-14.

This increase primarily reflects increases of $1.9 billion (5.7 percent) in withholding, partially offset by a $133 million (1.5 percent) increase in total refunds and a $452 million (3.1 percent) decline in total estimated payments. The increase in total refunds is primarily attributable to the first year of business tax credit deferral payback, which is projected to increase tax year 2013-related refunds by $75 million in 2014-15, and the first year of payments for two credits: the Middle Class Family Tax Relief credit and the proposed Real Property Tax Freeze Credit. The additional refunds associated with these credits are largely offset by declines in both prior year refunds related to tax year 2013 and current refunds related to tax year 2014. The decline in total estimated payments includes growth of $568 million (5.9 percent) in estimated payments related to tax year 2014, entirely offset by a $1 billion (19.7 percent) decline in extension (i.e., prior year estimated) payments for tax year 2013. The dramatic downturn in extension payments for tax year 2013 relates to the accelerated realization of capital gains into tax year 2012, primarily at the expense of tax year 2013, due to the sunset of lower marginal Federal tax rates on capital gains and the imposition of the 3.8 percent Net Investment Income Tax as part of the Health Care and Education Reconciliation Act of 2010. Taxpayers significantly overpaid with their extensions for tax year 2012, and this overpayment is not expected for extensions for tax year 2013.

Payments from final returns are expected to decline $62 million (2.6 percent), also suffering from the capital gains acceleration into tax year 2012, and delinquent collections are projected to increase by $44 million (3.6 percent) compared to the prior year. The aforementioned increase in total refunds of $133 million reflects a $227 million (4.2 percent) decline in prior year refunds for tax year 2013, a $310 million (15.1 percent) decline in current year refunds for tax year 2014, a $3 million (0.5 percent) increase in previous years refunds related to tax years prior to 2013, the addition of the estimated $410 million cost of the Middle Class Family Tax Relief credit, and $400 million attributable to the proposed Real Property Tax Freeze credit, partially offset by a $143 million decrease in the state-city-offset.

Fund Shares of Net Receipts
2014-15



General Fund

General Fund net PIT receipts are estimated to be $28,746 million in 2013-14 and are projected to be $29,669 million in 2014-15.

Other Funds

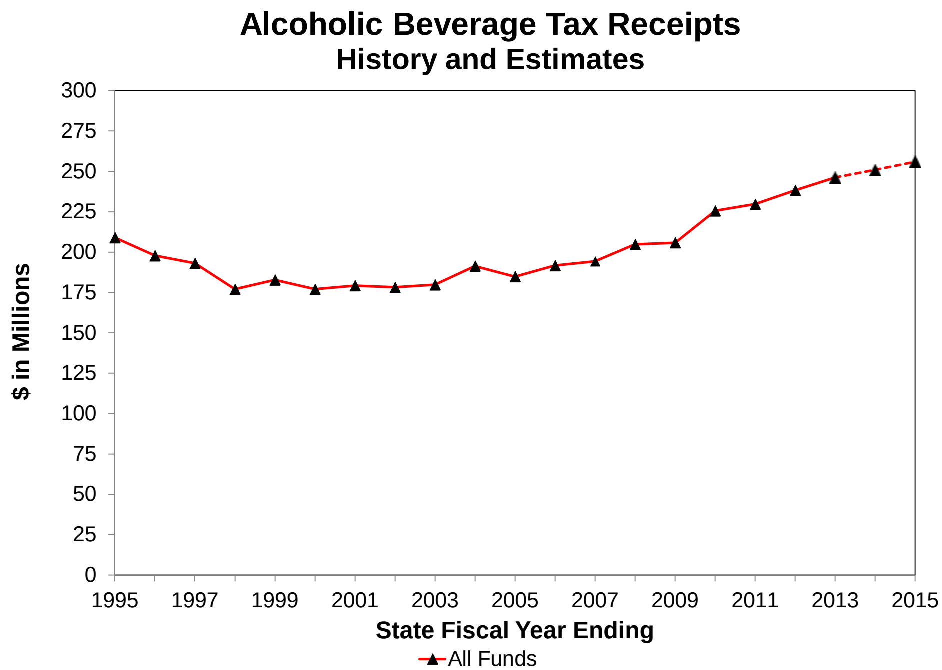
In 2013-14 and 2014-15, respectively, dedicated PIT receipts of $3,389 million and $3,429 million will be deposited into the School Tax Relief Fund.

In 2013-14 and 2014-15, respectively, dedicated receipts of $10,712 million and $11,033 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)							
	2012-13 Actual	2013-14 Estimated	Change	Percent Change	2014-15 Projected	Change	Percent Change
General Fund	246.2	251.0	4.8	1.9	256.0	5.0	2.0
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	246.2	251.0	4.8	1.9	256.0	5.0	2.0

Note: Totals may differ due to rounding.



ALCOHOLIC BEVERAGE TAXES BY FUND (thousands of dollars)				
	Gross General Fund	Refunds	General Fund	All Funds Receipts
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
2012-13	246,240	23	246,217	246,217
Estimated				
2013-14	251,100	100	251,000	251,000
2014-15				
Current	256,100	100	256,000	256,000
Proposed	256,100	100	256,000	256,000

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

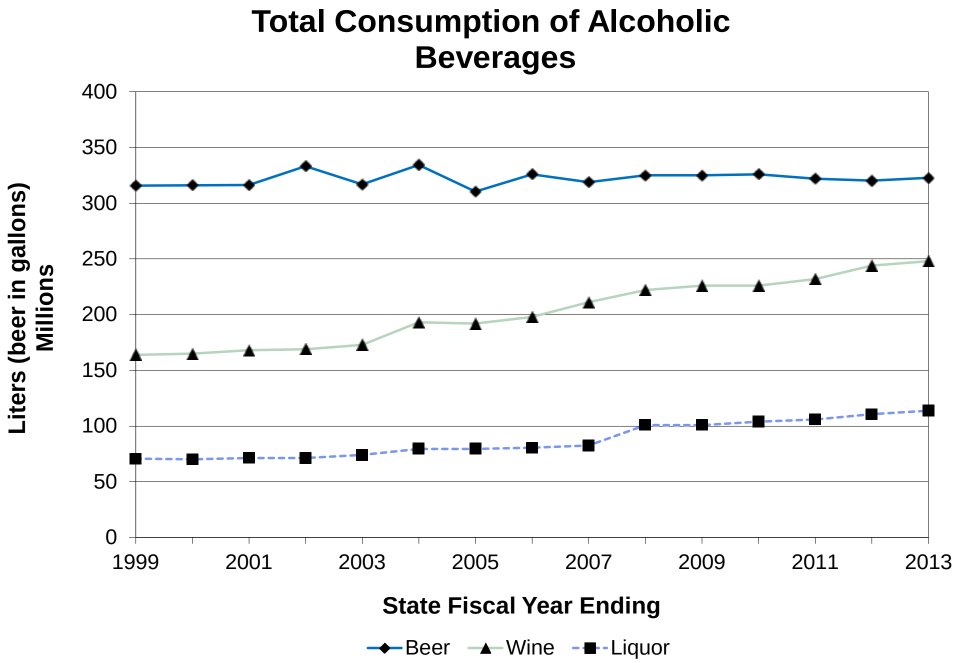
The tax is remitted by licensed distributors and noncommercial importers of such beverages in the month following the month of delivery.

Significant Legislation

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

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

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



TAX LIABILITY

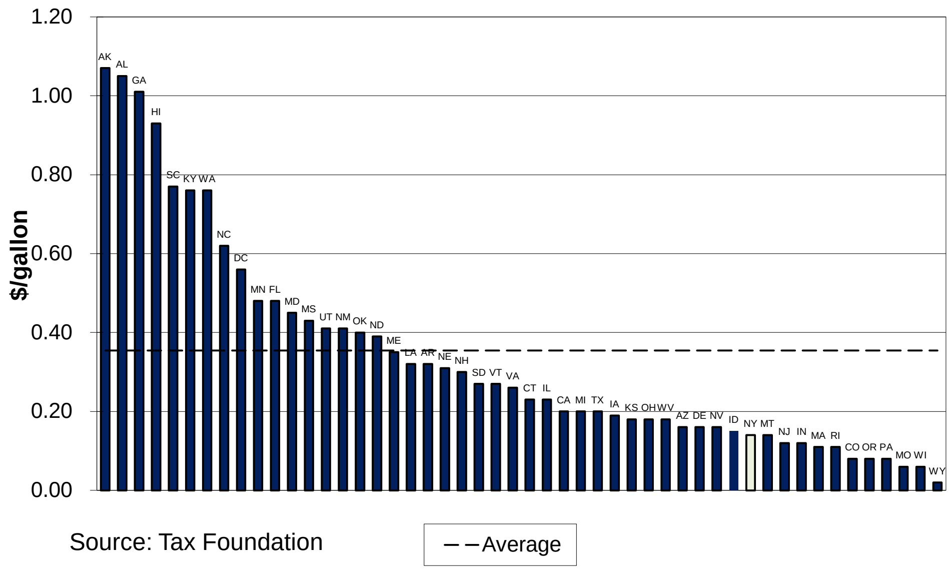
Overall, consumption of taxed wine and liquor has increased annually since 2007-08, while taxable beer consumption has remained relatively flat during the same period.

Other States

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

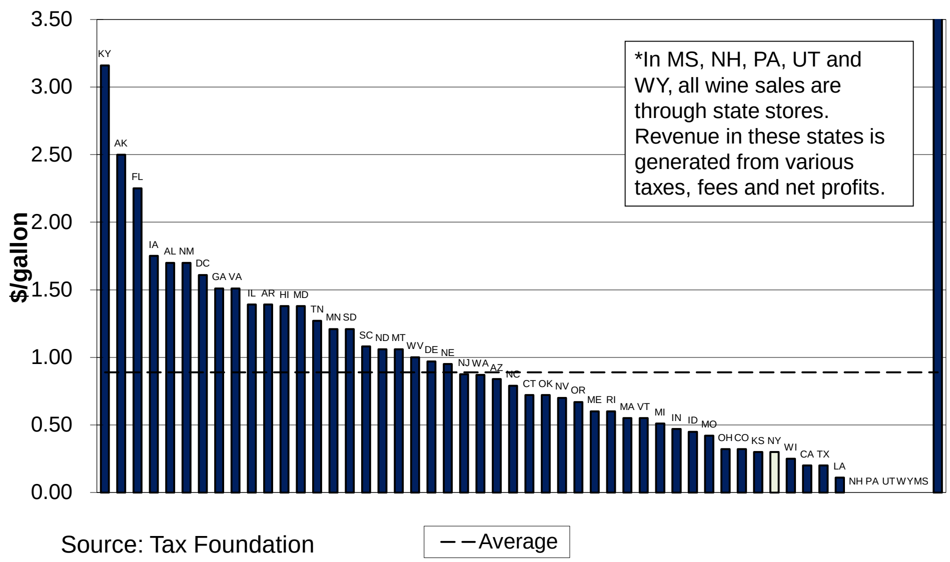
- The twelfth lowest beer tax;
- The fifth lowest wine tax (of those participating states); and
- The twentieth highest liquor tax (of those participating states).

Beer Tax Rates by State
(January 2013)



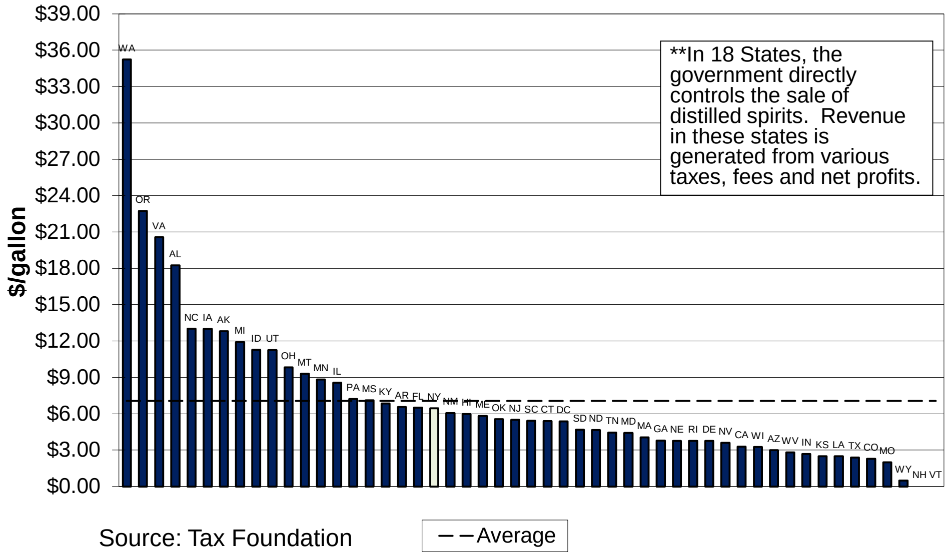
Source: Tax Foundation

Wine Tax Rates By State
(January 2013)



Source: Tax Foundation

Liquor Tax Rates by State
(January 2013)



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. The alcoholic beverage enforcement provisions summarized below 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. 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

2013-14 Estimates

All Funds receipts through December are $189 million, an increase of $6 million (3.3 percent) from the comparable period in the prior fiscal year.

All Funds 2013-14 receipts are estimated to be $251 million, an increase of $4.8 million (1.9 percent) from 2012-13. Estimated growth is primarily based on the continuation of recent wine and liquor consumption trends, as well as the recent surge in craft beer popularity.

Of the total estimated receipts, $183.4 million is projected to be derived from liquor, $48 million from beer and $19.6 million from wine and other taxed beverages.

COMPONENTS OF ALCOHOLIC BEVERAGE TAXES RECEIPTS
(millions of dollars)

	2008-09	2009-10	2010-11	2011-12	2012-13	Estimated 2013-14	Projected 2014-15
Beer	36.0	44.0	45.0	45.0	47.6	48.0	48.5
Liquor	159.0	163.0	167.0	174.0	179.5	183.4	187.4
Wine & Other	11.0	17.0	18.0	19.0	19.1	19.6	20.1
Total	206.0	224.0	230.0	238.0	246.2	251.0	256.0

2014-15 Projections

All Funds 2014-15 receipts are projected to be $256 million, an increase of $5 million (2 percent) from 2013-14.

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

Of total projected alcoholic beverage tax receipts, $187.4 million is projected to be derived from liquor, $48.5 million from beer, and $20.1 million from wine and other specialty beverages.

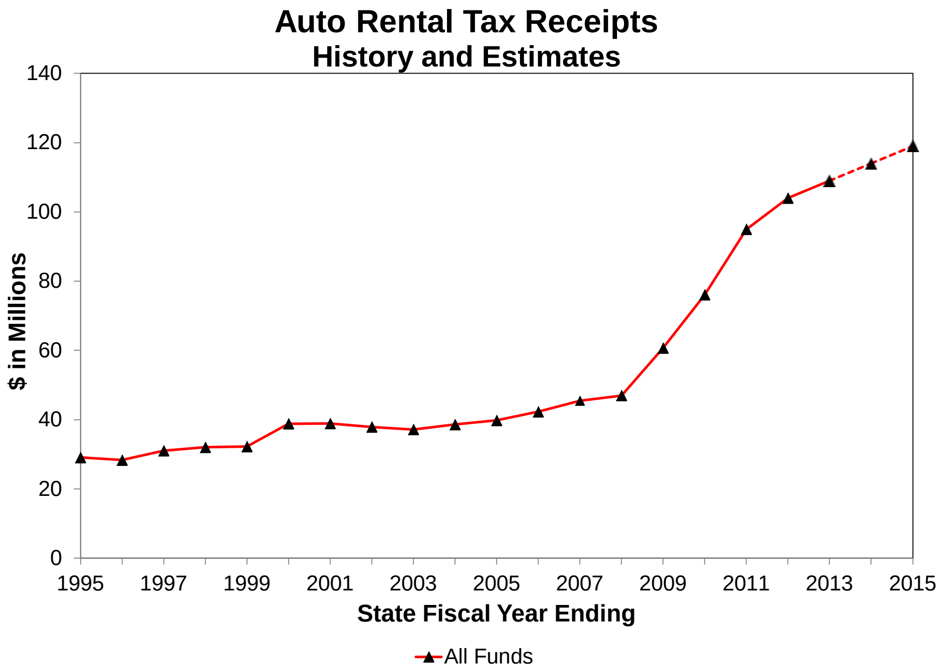
General Fund

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

AUTO RENTAL TAX

AUTO RENTAL TAX (millions of dollars)							
	2012-13 Actual	2013-14 Estimated	Change	Percent Change	2014-15 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	109.0	114.0	5.0	4.6	119.0	5.0	4.4
All Funds	109.0	114.0	5.0	4.6	119.0	5.0	4.4

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
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
2012-13	68.0	41.0	109.0
Estimated			
2013-14	71.0	43.0	114.0
2014-15			
Current Law	74.0	45.0	119.0
Proposed Law	74.0	45.0	119.0

[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

2013-14 Estimates

All Funds receipts through December are $95 million, an increase of $9 million (10.5 percent) from the comparable period in the prior fiscal year.

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

2014-15 Projections

All Funds 2014-15 receipts are projected to be $119 million, an increase of $5 million (4.4 percent) from 2013-14. This increase reflects projected growth in New York tourism spending.

General Fund

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

Other Funds

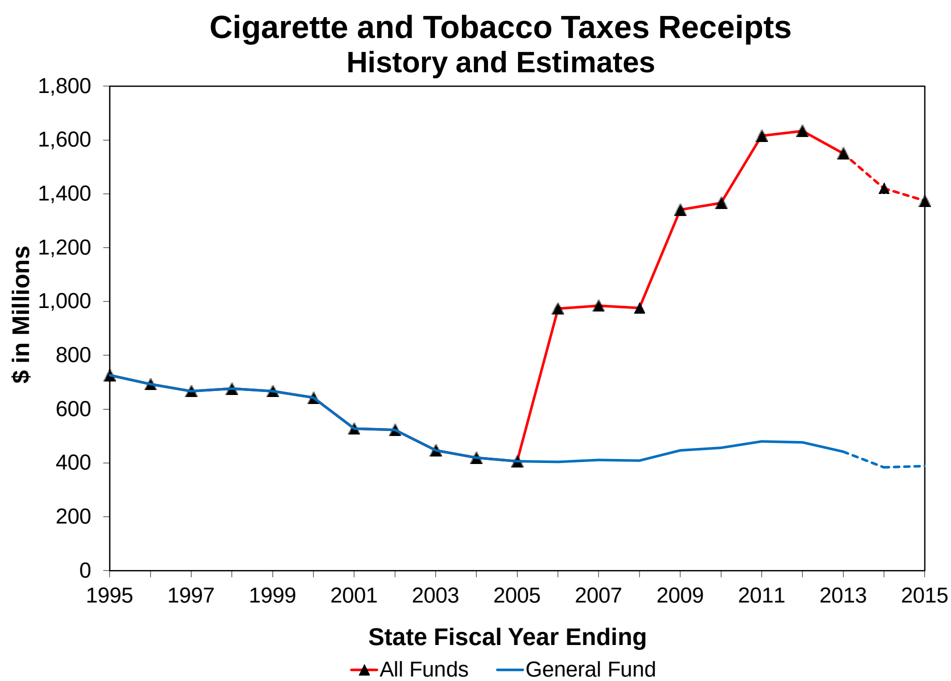
All receipts from the State auto rental tax are deposited to the Dedicated Highway and Bridge Trust Fund.

All receipts from the supplemental tax on passenger cars in the MCTD are deposited to the MTA Aid Trust Account of the MTA Financial Assistance Fund.

CIGARETTE AND TOBACCO TAXES

CIGARETTE AND TOBACCO TAXES (millions of dollars)							
	2012-13 Actual	2013-14 Estimated	Change	Percent Change	2014-15 Projected	Change	Percent Change
General Fund	442.7	384.0	(58.7)	(13.3)	389.0	5.0	1.3
Other Funds	1,107.9	1,037.0	(70.9)	(6.4)	985.0	(52.0)	(5.0)
All Funds	1,550.6	1,421.0	(129.6)	(8.4)	1,374.0	(47.0)	(3.3)

Note: Totals may differ due to rounding.



CIGARETTE AND TOBACCO TAXES BY FUND (millions of dollars)					
	Gross General Fund	Refunds	General Fund	Special Revenue Funds*	All Funds Receipts
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
2012-13	447	4	443	1,108	1,551
Estimated					
2013-14	433	49	384	1,037	1,421
2014-15					
Current Law	390	1	389	985	1,374
Proposed Law	390	1	389	985	1,374

*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

No new legislation is proposed with this budget.

Tax Base and Rate

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

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

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

State	Rate (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 December 3, 2013

Rank (High to Low)	State Rate	Rank (High to Low)	State Rate
New York	**435.0**	Iowa	136.0
Massachusetts	351.0	Florida	133.9
Rhode Island	350.0	Oregon	131.0
Connecticut	340.0	Ohio	125.0
Hawaii	320.0	Arkansas	115.0
Washington	302.5	Oklahoma	103.0
Minnesota	283.0	Indiana	99.5
New Jersey	270.0	California	87.0
Vermont	262.0	Colorado	84.0
Wisconsin	252.0	Nevada	80.0
District of Columbia	250.0	Kansas	79.0
Alaska	200.0	Mississippi	68.0
Arizona	200.0	Nebraska	64.0
Maine	200.0	Tennessee	62.0
Maryland	200.0	Kentucky	60.0
Michigan	200.0	Wyoming	60.0
Illinois	198.0	Idaho	57.0
New Hampshire	178.0	South Carolina	57.0
Montana	170.0	West Virginia	55.0
Utah	170.0	North Carolina	45.0
New Mexico	166.0	North Dakota	44.0
Delaware	160.0	Alabama	42.5
Pennsylvania	160.0	Georgia	37.0
South Dakota	153.0	Louisiana	36.0
National Average	**153.3**	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.

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 have only been limited transactions using the prior approval system. Also in 2010, the Federal government prohibited the shipment of cigarettes through the U.S. Postal Service.

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

Significant Legislation

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

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

Subject	Description	Effective Date
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
Legislation Enacted in 2013		
Cigarette Tax	Increased the penalty for possession of unstamped or unlawfully stamped cigarettes from a maximum of $150 per carton or fraction of a carton to a maximum of $600 per carton or fraction of a carton.	June 1, 2013

TAX LIABILITY

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

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

TOBACCO MSA PAYMENTS

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

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2013-14 Estimates

All Funds receipts through December are $1,154 million, a decrease of $60 million (4.9 percent) from the comparable period in the prior fiscal year.

All Funds 2013-14 receipts are estimated to be $1,421 million, a decrease of $129.6 million (8.4 percent) from 2012-13. The large decrease is due, in part, to cigar tax refunds (see "General Fund" below).

2014-15 Projections

All Funds 2014-15 receipts are projected to be $1,374 million, a decrease of $47 million (3.3 percent) from 2013-14.

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 $812 million, a decrease of $57 million (6.6 percent) from the comparable period in the prior fiscal year. HCRA 2013-14 receipts are estimated to be $1,037 million, a decrease of $70.9 million (6.4 percent) from 2012-13.

HCRA 2014-15 receipts are projected to be $985 million, a decrease of $52 million (5 percent) from 2013-14.

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 $45 million in 2013-14 and $43 million in 2014-15.

General Fund

General Fund receipts through December are $342 million, a decrease of $3 million (0.9 percent) from the comparable period in the prior fiscal year.

General Fund 2013-14 receipts are estimated to be $384 million, a decrease of $58.7 million (13.3 percent) from 2012-13. Receipts from the cigarette tax are projected to be $327.4 million, a decrease of $21 million (6 percent) from 2012-13. This decrease reflects atypical declines in taxable consumption observed during the current fiscal year. Receipts from the tobacco products tax are projected to be $49.1 million, $42.2 million (46.2 percent) lower than in 2012-13. This is due to a change in the way the wholesale cigar tax is administered, effective December 1, 2013. The Department of Tax and Finance released a TSB-M, which allows that wherever the manufacturer's price cannot be directly established by invoice it is deemed to be 40 percent of the wholesale price. This effectively amounts to a 60 percent tax cut from the manner in which the tax had been previously administered. The fiscal impact is $54 million in 2013-14, the result of: 1) two years of accumulated refunds estimated at $18 million per year; and 2) $18 million in reduced liability in the current year. Also, cigar tax receipts will be reduced by $18 million annually going forward.

Receipts from retail cigarette registrations are estimated to be $7.5 million in 2013-14, a decrease of $0.1 million from 2012-13. 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 2014-15 receipts are projected to be $389 million, an increase of $5 million (1.3 percent) from 2013-14. Cigarette tax receipts are expected to be $310.7 million, or $16.7 million lower than in 2013-14. The cigarette tax decrease reflects greater than trend declines in cigarette consumption, though a gradual return to trend declines is ultimately expected. Tobacco products tax receipts are estimated to be $70.8 million, an increase of $21.7 million (44.2 percent) from 2013-14 as the issuance of refunds is non-recurring. Receipts from retail registrations are projected to be $7.5 million in 2014-15.

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**
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
2012-13	348	91	3	443	1,108	1,551
Estimated						
2013-14	327	49	8	384	1,037	1,421
2014-15	311	71	8	389	985	1,374

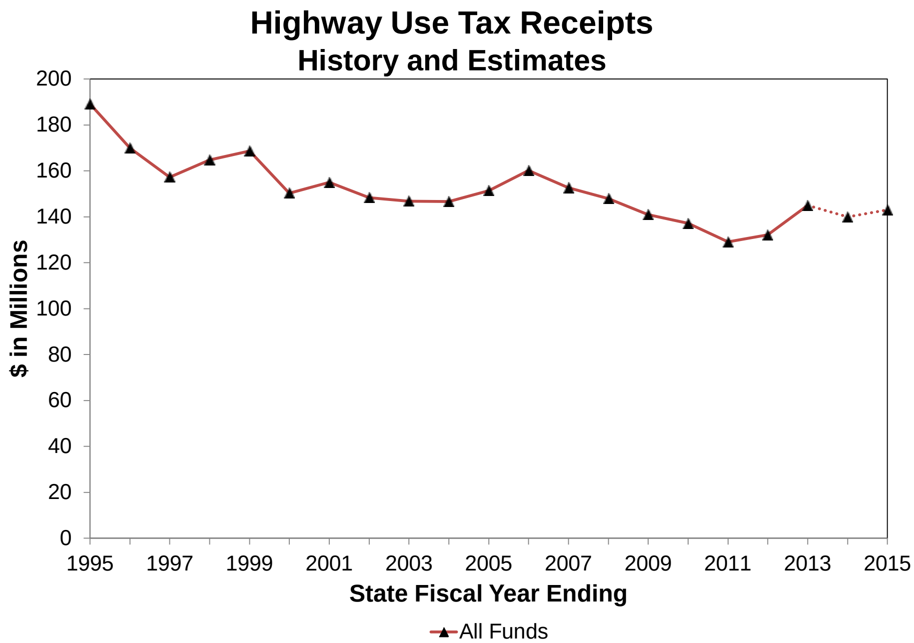
Note: Components may not add to total due to rounding.
* Prior to 2005-06, HCRA Cigarette Tax receipts were deposited to the off-budget Tobacco Control and Insurance Incentive Pool established in the Health Care Reform Act of 2000.

HIGHWAY USE TAX

HIGHWAY USE TAX
(millions of dollars)

	2012-13 Actual	2013-14 Estimated	Change	Percent Change	2014-15 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	145.0	140.0	(5.0)	(3.4)	141.0	1.0	0.7
All Funds	145.0	140.0	(5.0)	(3.4)	141.0	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
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
2012-13	147	2	145	145
Estimated				
2013-14	142	2	140	140
2014-15				
Current Law	143	2	141	141
Proposed Law	143	2	141	141

[1] Dedicated Highway and Bridge Trust Fund.

PROPOSED LEGISLATION

Legislation proposed with this Budget would extend the alternative fuels tax exemptions for two years.

DESCRIPTION

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

Truck Mileage Tax

The truck mileage tax (TMT) is levied on commercial vehicles having a loaded gross weight of more than 18,000 pounds, or an unloaded weight in excess of 8,000 pounds for trucks and 4,000 pounds for tractors. The tax is imposed at rates graduated according to gross vehicle weight. Under the gross weight method, the tax is calculated by multiplying the number of "laden" or "unladen" miles traveled on public highways of the State by the appropriate tax rate.

BASE TRUCK MILEAGE TAX RATES

Gross Weight Method		Unloaded Weight Method	
Laden Miles **Gross Weight of Vehicle**	**Mills Per Mile**	**Unloaded Weight of Truck**	**Mills Per Mile**
18,001 to 20,000	6.0	8,001 to 9,000	4.0
20,001 to 22,000	7.0	9,001 to 10,000	5.0
(increased gradually to)		(increased gradually to)	
74,001 to 76,000	35.0	22,501 to 25,000	22.0
76,001 and over	add 2 mills per ton and fraction thereof	25,001 and over	27.0
Unladen Miles **Unloaded Weight of Truck**		**Unloaded Weight of Tractor**	
18,001 to 20,000	6.0	4,001 to 5,500	6.0
20,001 to 22,000	7.0	5,501 to 7,000	10.0
(increased gradually to)		(increased gradually to)	
28,001 to 30,000	10.0	10,001 to 12,000	25.0
30,001 and over	add 0.5 mill per ton and fraction therof	12,001 and over	33.0
Unloaded Weight of Tractor			
7,001 to 8,500	6.0		
8,501 to 10,000	7.0		
(increased gradually to)			
16,001 to 18,000	10.0		
18,001 and over	add 0.5 mills per ton and fraction thereof		

Fuel Use Tax

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

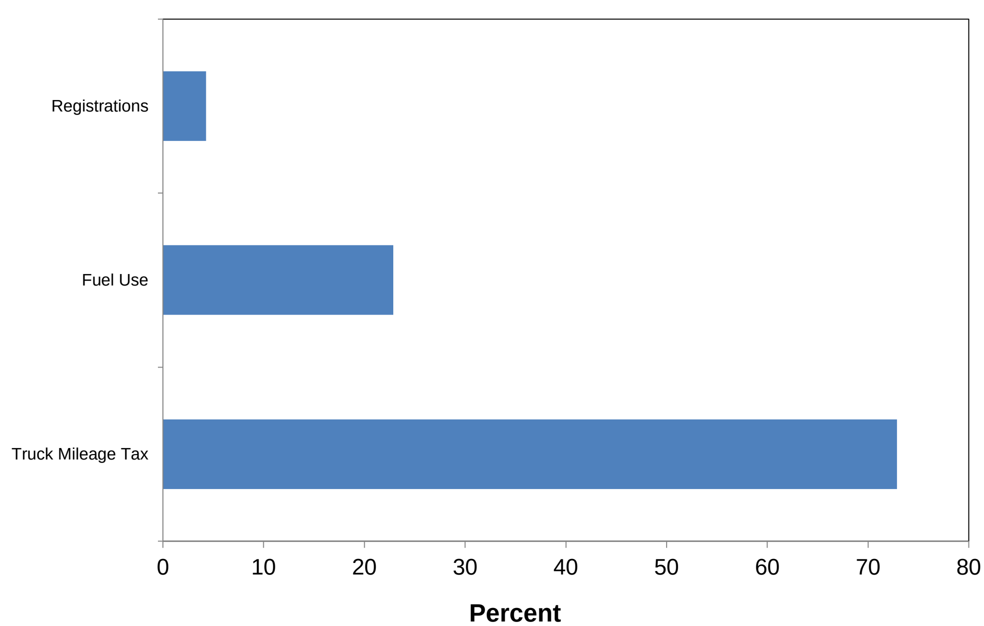
The aggregate fuel use tax rate is the sum of the appropriate motor fuel tax rate and the sales tax rate. The motor fuel tax component is eight cents per gallon. The sales tax component is derived by adding the amount from the State sales tax rate and the amount from the lowest county sales tax rate.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

Registration System

The current registration system is based on the license plate number of each vehicle. 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 vehicle subject to HUT is $15. The cost of a decal is $4.

Components of Highway Use Tax Receipts
Estimated State Fiscal Year 2013-14



Administration

Most taxpayers remit the truck mileage tax on a monthly basis. The tax is remitted on or before the last day of each month for the preceding month. Fuel use taxpayers file quarterly with their home state under the rules of the International Fuel Tax Agreement (IFTA). The home state subsequently distributes the funds to the state where the liability occurred.

Significant Legislation

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

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

2013-14 Estimates

All Funds receipts through December are $107 million, a decrease of $6 million (5.3 percent) from the comparable period in the prior fiscal year.

All Funds 2013-14 receipts are estimated to be $140 million, a decline of $5 million (3.4 percent) from 2012-13. This decrease is primarily due to lower estimated registration collections, as this is not a triennial renewal year.

Net truck mileage tax receipts are estimated at $102 million, fuel use tax receipts at $32 million and registration fees at $6 million.

2014-15 Projections

All Funds 2014-15 receipts are projected to be $141 million, an increase of $1 million (0.7 percent) from 2013-14.

General Fund

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

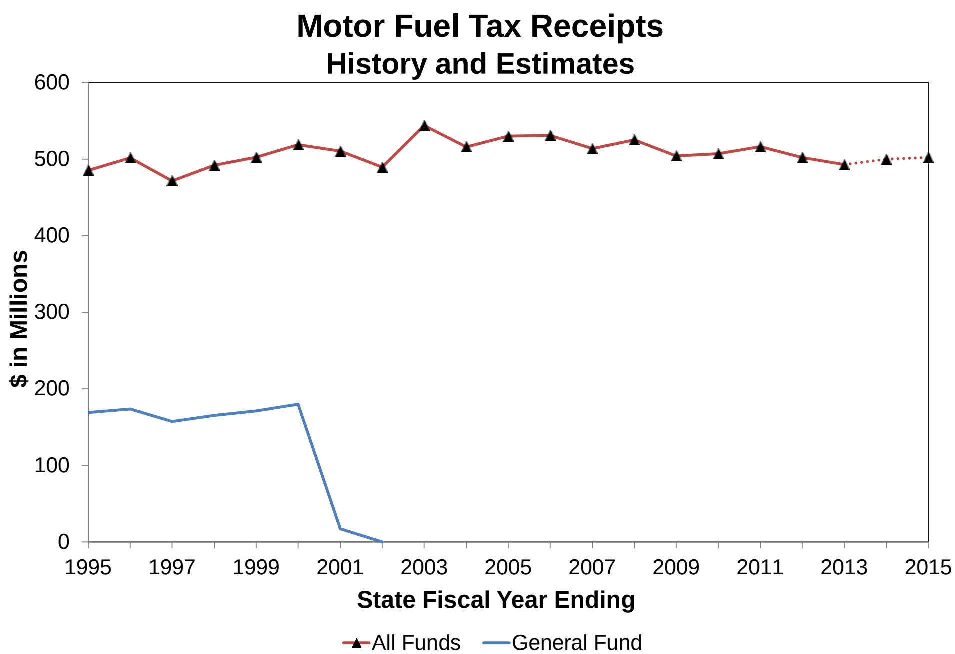
Other Funds

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)	2012-13 Actual	2013-14 Estimated	Change	Percent Change	2014-15 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	492.5	500.0	7.5	1.5	502.0	2.0	0.4
All Funds	492.5	500.0	7.5	1.5	502.0	2.0	0.4

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
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
2012-13	513	103	389	21	492
Estimated					
2013-14	520	105	395	20	500
2014-15					
Current Law	524	106	398	20	504
Proposed Law	522	105	397	20	502

[1] Dedicated Mass Transportation Trust Fund.

[2] Dedicated Highway and Bridge Trust Fund.

PROPOSED LEGISLATION

Legislation proposed with this Budget would extend the alternative fuels tax exemptions for two years.

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, 2014) [1]

State	State Motor Fuel Tax (cents per gallon)	Total State Tax [2] (cents per gallon)
CONNECTICUT**	25.0	47.0
CALIFORNIA*	39.5	45.5
PENNSYLVANIA	0.0	40.7
MICHIGAN *	19.0	40.3
ILLINOIS *	19.0	39.0
WASHINGTON	37.5	38.5
N. CAROLINA	37.5	37.5
INDIANA *	18.0	35.7
W. VIRGINIA	20.5	34.7
NEW YORK *	8.0	34.6
RHODE ISLAND	32.0	33.0
WISCONSIN	30.9	32.9
KENTUCKY	30.9	32.3
VERMONT	18.2	32.2
MAINE	30.0	31.5
OREGON	30.0	31.0
MINNESOTA	28.5	30.5
HAWAII *	17.0	30.0
OHIO	28.0	28.0
MONTANA	27.0	27.8
NEBRASKA	26.3	27.2
MARYLAND	27.0	27.0
IDAHO	25.0	26.0
UTAH	24.5	24.5
KANSAS	24.0	24.0
S. DAKOTA	22.0	24.0
WYOMING	24.0	24.0
MASSACHUSETTS	24.0	24.0
DIST. OF COLUMBIA	23.5	23.5
COLORADO	22.0	23.3
DELAWARE	23.0	23.0
N. DAKOTA	23.0	23.0
NEVADA	23.0	23.0
IOWA	21.0	22.0
ARKANSAS	21.5	21.7
TENNESSEE	20.0	21.4
LOUISIANA	20.0	20.0
TEXAS	20.0	20.0
GEORGIA *	7.5	19.5
NEW HAMPSHIRE	18.0	19.5
ARIZONA	18.0	19.0
NEW MEXICO	17.0	18.9
MISSISSIPPI	18.0	18.8
MISSOURI	17.0	17.3
FLORIDA	17.1	17.2
ALABAMA	16.0	17.0
OKLAHOMA	16.0	17.0
S. CAROLINA	16.0	16.8
NEW JERSEY	10.5	14.5
VIRGINIA	11.1	11.1
ALASKA	8.0	8.0

NOTES:
(1) Assumes a base price of $2.70.
(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 - 8.1% 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 2000 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 2005		
Enforcement Provisions	Required collection of taxes on sales to non-Native Americans on New York reservations.	March 1, 2006
Legislation Enacted in 2006		
Alternative Fuel	Exempted or partially exempted motor fuel tax on alternative fuels, including E85 and B20, 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
Legislation Enacted in 2013		
Interdistributor Sales	Allowed for tax free interdistributor sales of highway diesel motor fuel sold below the rack (i.e., not delivered by truck).	August 1, 2013

TAX LIABILITY

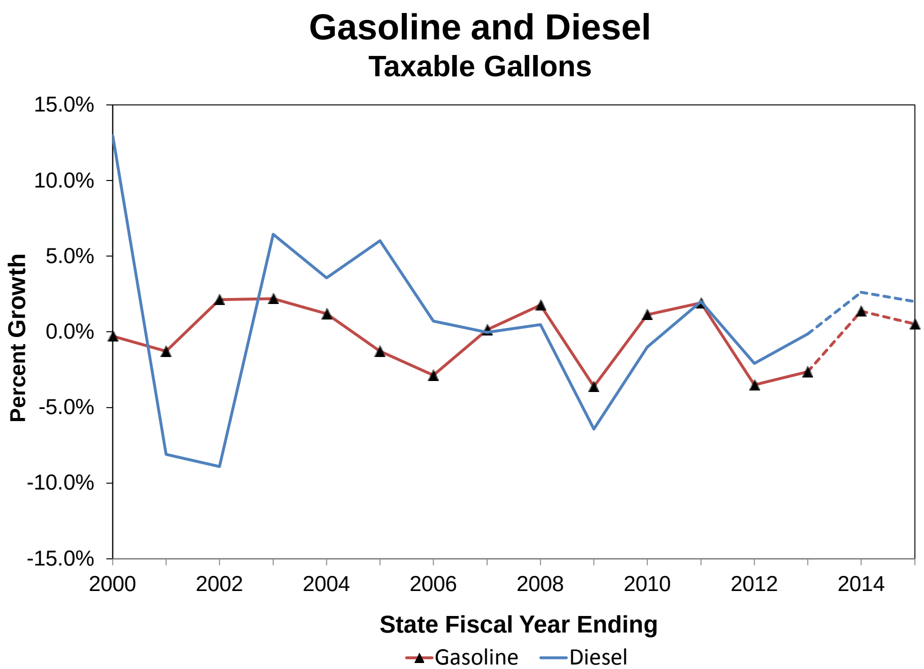
Motor fuel tax collections are a function of the number of gallons of fuel imported into the State by distributors. Gallonage is determined in large part by fuel prices, the amount of fuel held in inventories, the fuel efficiency of motor vehicles and overall state economic performance.

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.

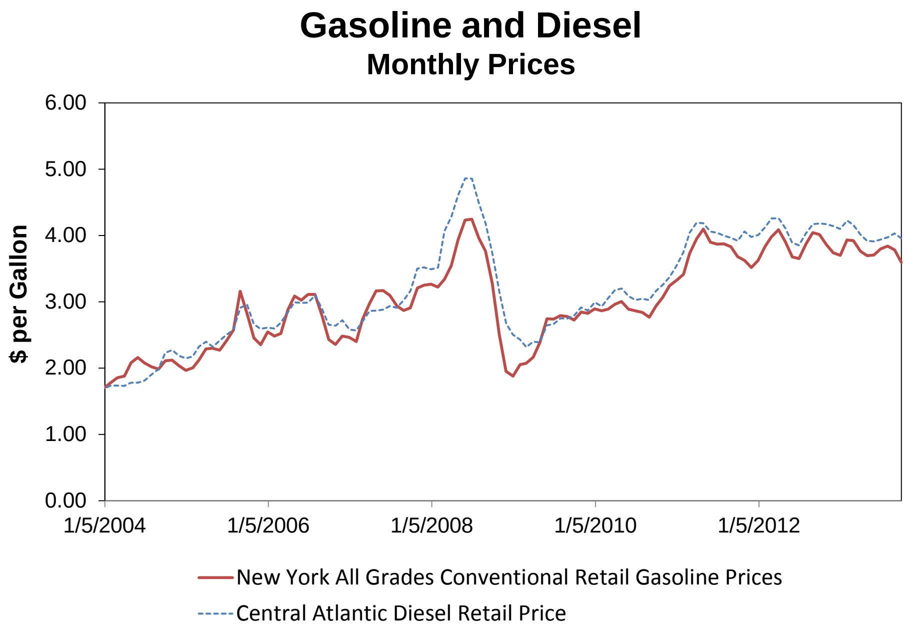
In 2012-13, gasoline taxable gallonage and diesel fuel taxable gallonage decreased by 2.6 percent and 0.1 percent, respectively, when compared to 2011-12. This was mainly due to lower travel demand. In 2013-14, gasoline taxable gallonage is estimated to increase by 1.4 percent while diesel taxable gallonage is estimated to increase by 2.6 percent due to lower energy prices and stronger industrial production. In 2014-15, 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 1999-2000.



GASOLINE AND DIESEL TAXABLE GALLONS				
Fiscal Year	Gasoline (millions of gallons)	Percent Change	Diesel (millions of gallons)	Percent Change
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	5,286	(2.6)	847	(0.2)
2013-14 (Est.)	5,358	1.4	869	2.6
2014-15 (Proj.)	5,386	0.5	886	2.0

The average monthly price of gasoline and diesel fuel sold in NY generally increased from mid-2002 until mid-2008. Reduced fuel demand at the beginning of the Great Recession caused fuel prices to drop, with NY gasoline prices falling from a peak of $4.25 in July 2008 to $1.89 in January 2009. Since then, improving economic conditions and increased oil demand in the developing world have allowed fuel prices to recover, although they still remain below peak.

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 historical monthly prices.



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

2013-14 Estimates

All Funds receipts through December are $362 million, a decrease of $8 million (2.2 percent) from the comparable period in the prior fiscal year.

All Funds 2013-14 receipts are estimated to be $500 million, an increase of $7.5 million (1.5 percent) from 2012-13.

2014-15 Projections

All Funds 2014-15 receipts are projected to be $502 million, an increase of $2 million (0.4 percent) from 2013-14.

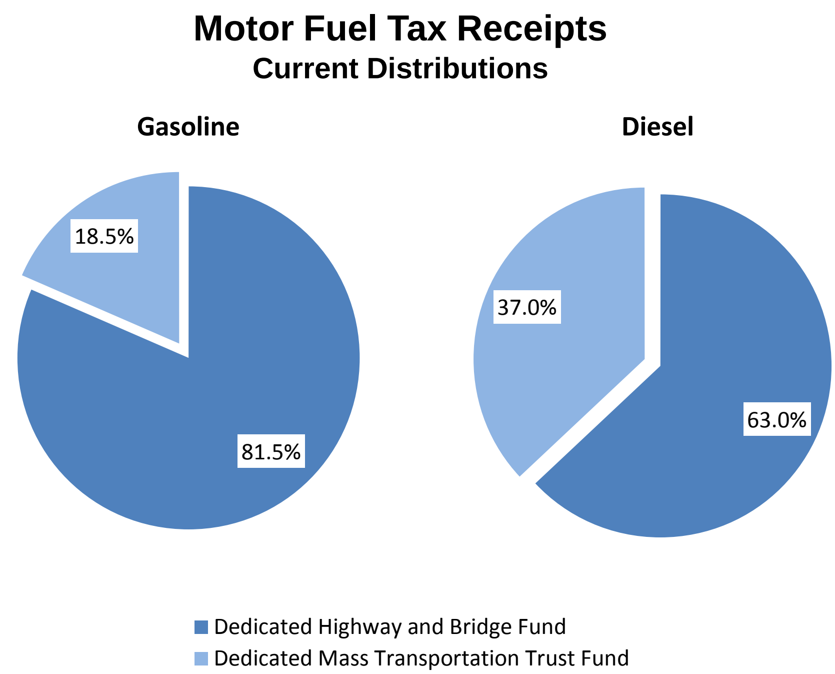
General Fund

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.

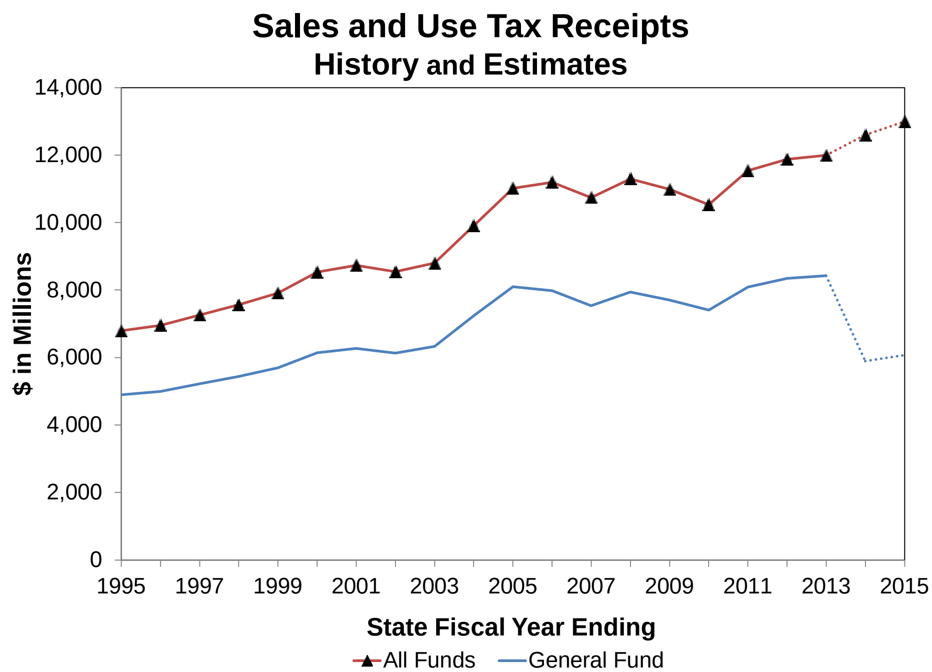


Motor fuel tax receipts in 2013-14 are estimated to be $395 million for the DHBTF and $105 million for the DMTTF. Motor fuel tax receipts in 2014-15 are projected to be $396.6 million for DHBTF and $105.4 million for the DMTTF.

SALES AND USE TAX

SALES AND USE TAX (millions of dollars)	2012-13 Actual	2013-14 Estimated	Change	Percent Change	2014-15 Projected	Change	Percent Change
General Fund	8,423.1	5,890.0	(2,533.1)	(30.1)	6,069.2	179.2	3.0
Debt Service	2,808.6	5,890.0	3,081.4	109.7	6,069.2	179.2	3.0
MTOAF	757.5	815.0	57.5	7.6	850.0	35.0	4.3
All Funds	11,989.3	12,595.0	605.8	5.1	12,988.4	393.4	3.1

Note: Totals may differ due to rounding.



SALES AND USE TAX BY FUND (millions of dollars)	Gross General Fund	Refunds	General Fund	Special Revenue Funds[1]	Debt Service Funds[2]	All Fund Receipts
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
2012-13	8,487	64	8,423	758	2,809	11,989
Estimated						
2013-14	5,950	60	5,890	815	5,890	12,595
2014-15						
Current Law	6,130	60	6,070	850	6,070	12,990
Proposed Law	6,129	60	6,069	850	6,069	12,988

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

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Extend the alternative fuel exemptions for two years; and
- Repeal the Boxing and Wrestling Exhibitions Tax.

DESCRIPTION

Tax Base

In general, all retail sales of tangible personal property are taxed under Article 28 of the Tax Law unless specifically exempt, but services are taxable only if they are enumerated in the Tax Law.

Specifically, the sales tax is applied to receipts from the retail sale of:

- Tangible personal property (unless specifically exempt);
- Certain gas, electricity, refrigeration and steam and telephone service;
- Selected services;
- Food and beverages sold by restaurants, taverns and caterers;
- Hotel occupancy; and
- Certain admission charges and dues.

Examples of taxable services include installing or maintaining tangible personal property and protective and detective services.

States are currently constrained by United States Supreme Court decisions limiting which out-of-state vendors can be required to collect the sales tax on a state's behalf. In general, a vendor must have some physical presence or nexus in a state to be required to collect that particular state's sales tax. Thus, a compensating use tax complements the sales tax, and is imposed on the use of taxable property or services in-state, if the transaction has not already been subject to tax. This will include, for example, taxable items purchased via mail order or on the Internet if the vendor has no taxable nexus with New York. The use tax also applies to certain uses of self-produced property or services. With some exceptions, the base of the use tax mirrors the base of the sales tax. The use tax is remitted by the purchaser directly to the New York State Department of Taxation and Finance.

Effective with the 2003 personal income tax filing year, the New York State personal income tax return contains a line on which taxpayers may enter the amount of use tax owed for the preceding calendar year. New York State collected $38 million from this program in 2011-12 and $42.6 million in 2012-13.

Tax Rate

The sales and compensating use tax was enacted in 1965 at the rate of 2 percent. The tax rate was increased to 3 percent in 1969, to 4 percent in 1971 and temporarily to 4.25 percent in 2003. The rate reverted to 4 percent on June 1, 2005. Please see the "Comparison of New York State Tax Structure with Other States" section for further information on the tax rate.

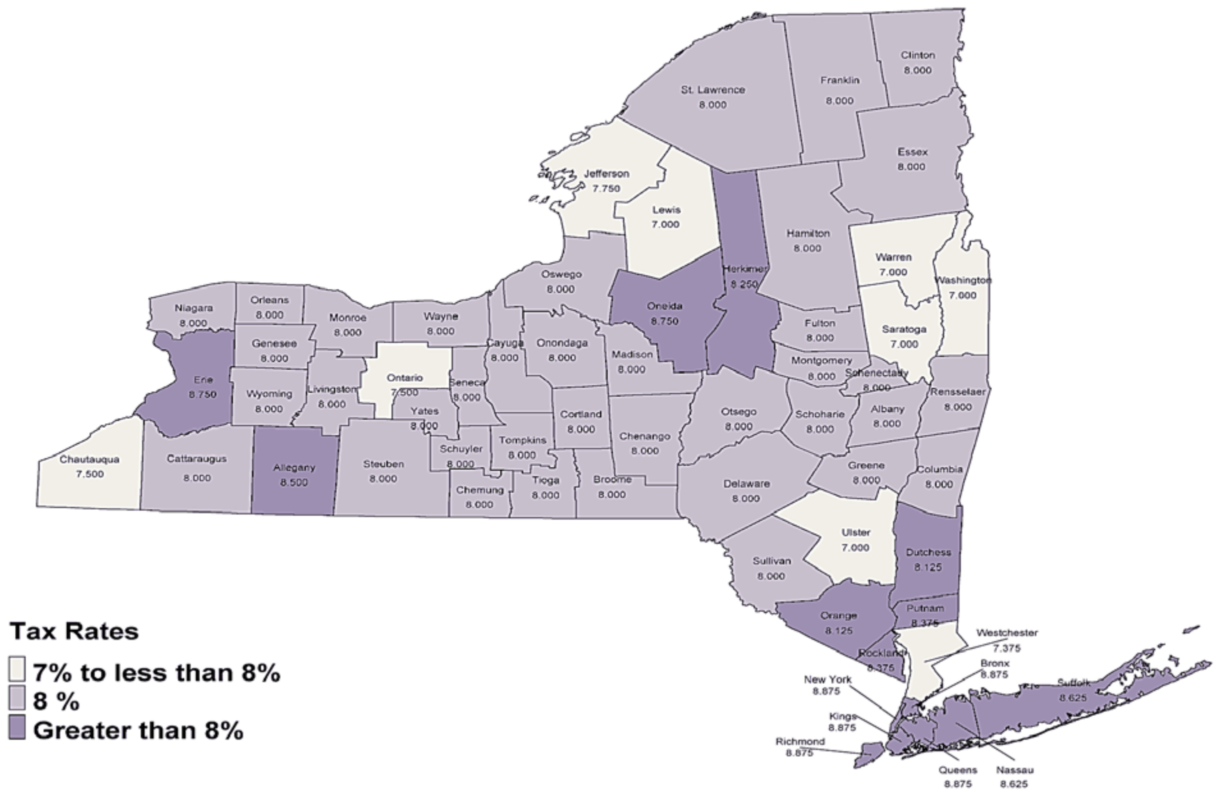
Effective June 1, 2006, the State sales tax rate on motor fuel and diesel motor fuel was capped at 8 cents per gallon.

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, 52 counties and 3 cities received legislative authority to impose additional rates of tax above the statutory 3 percent general sales tax rate. Over 93 percent of the State's population resides in an area where the tax rate equals or exceeds 8 percent. Four counties (Lewis, Hamilton, Essex, and St. Lawrence) increased their sales tax rate effective in 2013-14. Ulster County did not extend their additional rate; therefore, the current rate is 3 percent, effective December 1, 2013.

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

Combined State and Local Sales Tax Rate
Effective December 1, 2013



Administration

There are currently 558,527 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. Nearly 64 percent of sales tax receipts are remitted by the 6,068 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	6,068	1.1	63.9
Monthly Other	39,778	7.1	22.8
Quarterly	252,733	45.3	12.8
Annual	259,948	46.5	0.5
Total	558,527	100.0	100.0

*Vendors identified as of November 6, 2013
Selling period March 1, 2011 through February 28, 2012
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 2000 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 2000		
Farm Production	Exempted property, building materials and utility services used in farm production. Expanded definition of farms to include commercial horse boarding operations.	September 1, 2000
Internet Data Centers	Exempted computer hardware and software purchased by Internet Data Centers (web site hosting facilities) operating in New York. Included required equipment such as air conditioning systems, power systems, raised flooring, cabling, and the services related to the exempted property.	September 1, 2000

Subject	Description	Effective Date
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 weeks at the same $110 threshold.	June 1, 2003
Use tax line on PIT return	Required a line on PIT returns for taxpayers to report use tax owed.	May 24, 2003
Legislation Enacted in 2004		
Extend Temporary Repeal of Clothing Exemption	Extended the expiration date to May 31, 2005, for the temporary repeal of the exemption on items of clothing and footwear priced under $110 and created two exemption weeks at the same $110 threshold.	August 20, 2004
Aircraft Parts and Services	Exempted parts used exclusively to maintain, repair, overhaul or rebuild aircraft parts or aircraft services.	December 1, 2004
Vessels Providing Local Transit	Provided refunds and credits for certain vessels used to provide transit service and certain related property and services.	December 1, 2004
Contractors and Affiliates	Required contractors, subcontractors and their affiliates who make deliveries of taxable services or tangible personal	August 20, 2004

Subject	Description	Effective Date
	property valued at more than $300,000 to New York locations to register as sales tax vendors.	
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
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

Subject	Description	Effective Date
Legislation Enacted in 2008		
Sales - Exempt Organizations	Required nonprofit charitable, educational, religious and other organizations to collect sales tax on retail sales of certain property and services.	September 1, 2008
SUT - Vendor Registration	Required all vendors to register with the Department of Taxation and Finance. The registration fee was $50.	November 1, 2008
Sales Tax Nexus	Created an evidentiary presumption that certain sellers using New York residents to solicit sales in the State are vendors required to collect tax.	April 23, 2008
Sales - Voluntary Disclosure and Compliance (VDC) Program	Allowed eligible taxpayers to voluntarily disclose and pay certain underreported tax liabilities and interest.	April 23, 2008
Legislation Enacted in 2009		
Transportation	Imposed a sales tax on certain transportation services (specifically black cars, limousines, and livery vehicles).	June 1, 2009
Compliance	Increased tax compliance and enforcement efforts.	June 1, 2009
Prepaid Rate Cigarettes	Increased prepaid sales tax rate on cigarettes from 7 percent to 8 percent of the base retail price.	June 1, 2009
Affiliate Nexus	Expanded the definition of vendor to preclude certain retailers from avoiding the tax.	June 1, 2009
Abusive Schemes	Narrowed the exemption for commercial aircraft and the use tax exemption for motor vehicles, vessels and aircraft.	June 1, 2009
Empire Zones	Converted the QEZE sales tax exemption to a refundable credit.	April 1, 2009
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
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

Legislation Enacted in 2013

New York Innovation Hot Spots Program	Created a new high tech incubator program in which start-up businesses will be free of property, sales and business income taxes for the first five years. Hot spots must demonstrate an affiliation with, and the support of, at least one college, university or independent research institution and offer programs consistent with regional economic development strategies.	March 28, 2013
IDA Reform	Placed restrictions on certain IDA retail projects and included a benefit clawback provision.	April 1, 2013
Driver's License Suspension	Provided for the suspension or restriction of a taxpayer's NYS driver's license for certain tax delinquencies.	April 1, 2013
START-UP NY	Established tax-free zones on or near qualifying university and college campuses. Qualifying businesses operating within such zones are exempt from taxation of their otherwise taxable purchases.	January 1, 2014

TAX LIABILITY

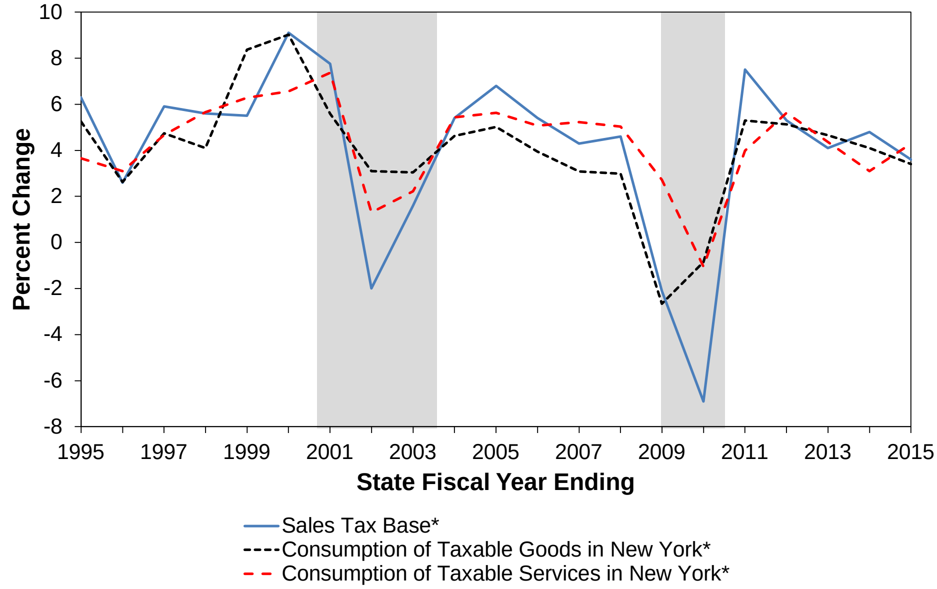
The sales and compensating use tax, which accounted for 18.1 percent of 2012-13 All Funds tax receipts, is the second largest State tax revenue source (the personal income tax is the largest).

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 2005-06 to 2014-15
Percent Change

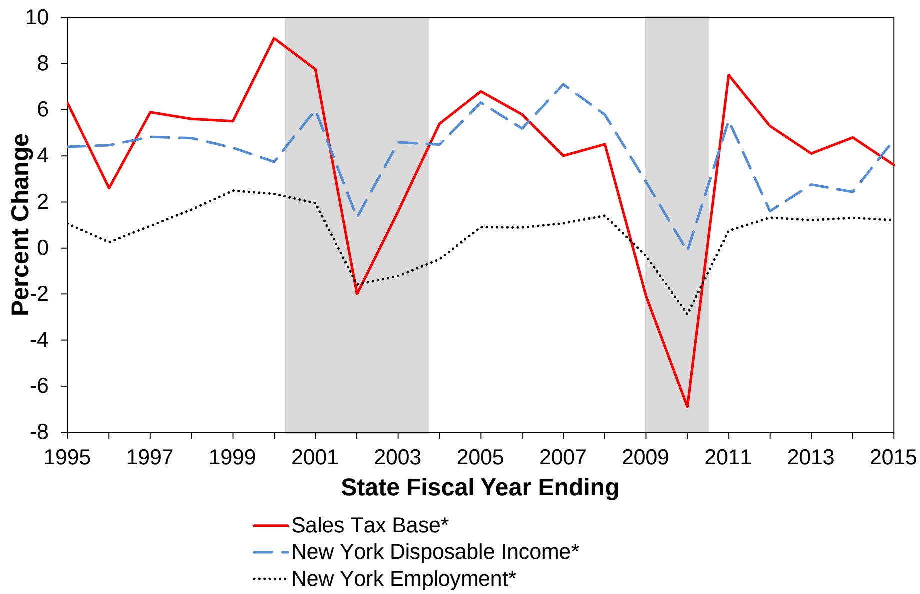
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	Estimated 2013-14	Projected 2014-15
Consumption of Taxable Goods in NY	3.9	3.1	3.0	(2.7)	(0.9)	5.3	5.1	4.7	4.1	3.4
Consumption of Taxable Services in NY	5.1	5.2	5.0	2.7	(1.1)	4.0	5.6	4.4	3.1	4.3
NY Employment	0.9	1.1	1.4	(0.3)	(2.9)	0.7	1.3	1.2	1.3	1.2
NY Disposable Income	5.2	7.1	5.8	2.9	(0.1)	5.5	1.6	2.7	2.4	4.7
NY Nominal Value of New Auto and Light Truck Sales	0.3	(2.6)	8.0	(20.3)	(1.7)	21.9	4.6	11.7	6.1	4.2
Sales Tax Base	5.8	4.0	4.5	(2.1)	(6.9)	7.5	5.3	4.1	4.8	3.6

Historical Growth in State Sales Tax Base and Taxable Consumption



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

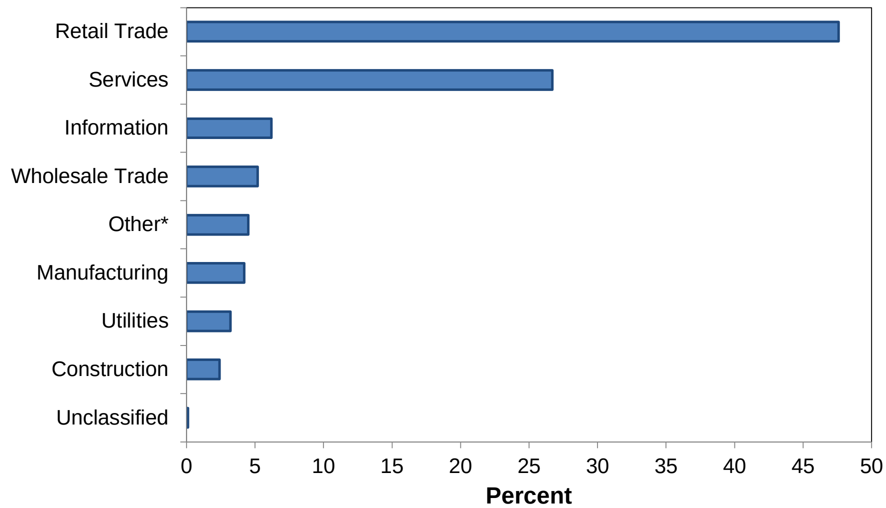
Historical Growth in State Sales Tax Base Income and Employment



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

Although numerous exemptions from tax on the sales of tangible personal property have been enacted (see *Tax Expenditure Report*), roughly 48 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 27 percent of the statewide total and accounts for the next largest share of taxable sales and purchases.

Industry Shares of Taxable Sales and Purchases
March 2011 to February 2012



*Includes Agriculture, Mining, Transportation, FIRE, Education and Government.
Source: New York State Department of Taxation and Finance.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2013-14 Estimates

All Funds receipts through December are $9,552 million, an increase of $555 million (6.2 percent) from the comparable period in the prior fiscal year.

All Funds 2013-14 receipts are estimated to be $12,595 million, an increase of $605.8 million (5.1 percent) from 2012-13. Through December, there has been year-over-year sales tax growth in most of the industries measured. There has been strong growth in vehicle sales (8.2 percent), construction (16.2 percent) and utility expenditures (9.1 percent), some of which is attributable to rebuilding after Superstorm Sandy. Wholesale trade and food services, the other two large sales tax collection industries, exhibited growth of 6.2 and 5.3 percent, respectively. Due to the sales tax cap on motor fuel, the State does not experience any increase in receipts when fuel prices are above $2 per gallon. These factors help to explain base growth rates (i.e., growth absent law changes) during the first three quarters of 6 percent, 6.2 percent and 2.5 percent, respectively.

Base growth during the final quarter of 2013-14 is estimated to be 4.6 percent. This equates to total base growth of 4.8 percent for 2013-14.

2014-15 Projections

All Funds 2014-15 receipts are projected to be $12,988.4 million, an increase of $393.4 million (3.1 percent) from 2013-14. Tax law changes proposed with Budget will reduce receipts by $1.6 million.

The primary risk factor for the sales and use tax estimate is the economic forecast, which provides the basis for the sales tax estimates. Unexpected slowdowns in income, employment, auto sales, and the associated consumption of taxable goods would adversely impact the level of taxable sales.

General Fund

Effective April 1, 2013, the distribution of sales tax receipts to the General Fund was reduced from 75 percent to 50 percent. Direct deposits to the General Fund for 2013-14 are estimated to be $5,890 million, a decrease of $2,533.1 million (30.1 percent) from 2012-13 receipts. General Fund receipts for 2014-15 are projected to be $6,069.2 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 $2,945 million in 2013-14, and $3,034.6 million in 2014-15. LGATF receipts in excess of debt service requirements on LGAC bonds are transferred to the General Fund.

Sales Tax Revenue Bond Fund

Effective April 1, 2013, receipts from one percent of the State's four percent sales tax rate are directed to the Sales Tax Revenue Bond Fund (STBF). This increases to a two percent rate when LGAC bonds have been retired or defeased. Sales tax deposits to the STBF are estimated to be $2,945 million in 2013-14 and $3,034.6 million in 2014-15. STBF receipts in excess of debt service requirements on STBF bonds are transferred to the General Fund.

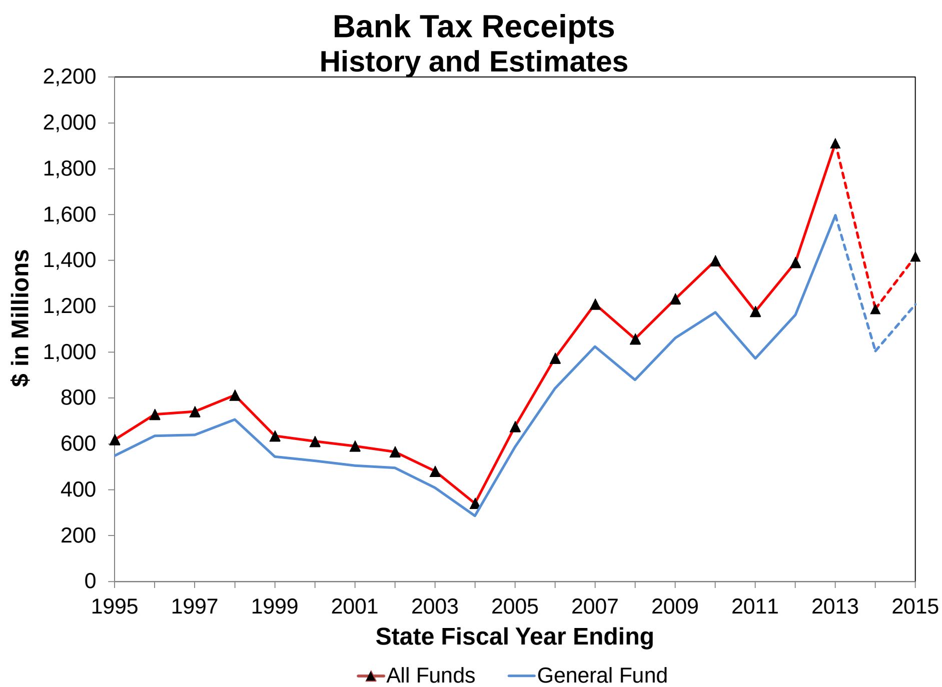
Mass Transportation Operating Assistance Fund

The MTOAF was created in 1981 to finance State public transportation needs. MTOAF derives part of its revenues from the 0.375 percent sales and compensating use tax imposed in the MCTD. MTOAF will receive an estimated $815 million in 2013-14 and $850 million in 2014-15. The entire proceeds from the MCTD tax are earmarked for MTOAF.

BANK TAX

BANK TAX (millions of dollars)	2012-13 Actual	2013-14 Estimated	Change	Percent Change	2014-15 Projected	Change	Percent Change
General Fund	1,596.9	1,005.0	(591.9)	(37.1)	1,209.0	204.0	20.3
Other Funds	315.0	184.0	(131.0)	(41.6)	209.0	25.0	13.6
All Funds	1,911.9	1,189.0	(722.9)	(37.8)	1,418.0	229.0	19.3

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
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
2012-13	1,741	144	1,597	326	11	315	1,912
Estimated							
2013-14	1,145	140	1,005	209	25	184	1,189
2014-15							
Current Law	1,349	140	1,209	234	25	209	1,418
Proposed Law	1,349	140	1,209	234	25	209	1,418

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

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Authorize additional credits of $8 million for the low income housing credit for each of the next two fiscal years;
- Extend and reform the Brownfield Clean-Up program;
- Repeal the financial services investment tax credit; and
- Combine the corporate franchise and bank taxes as part of corporate tax reform.

DESCRIPTION

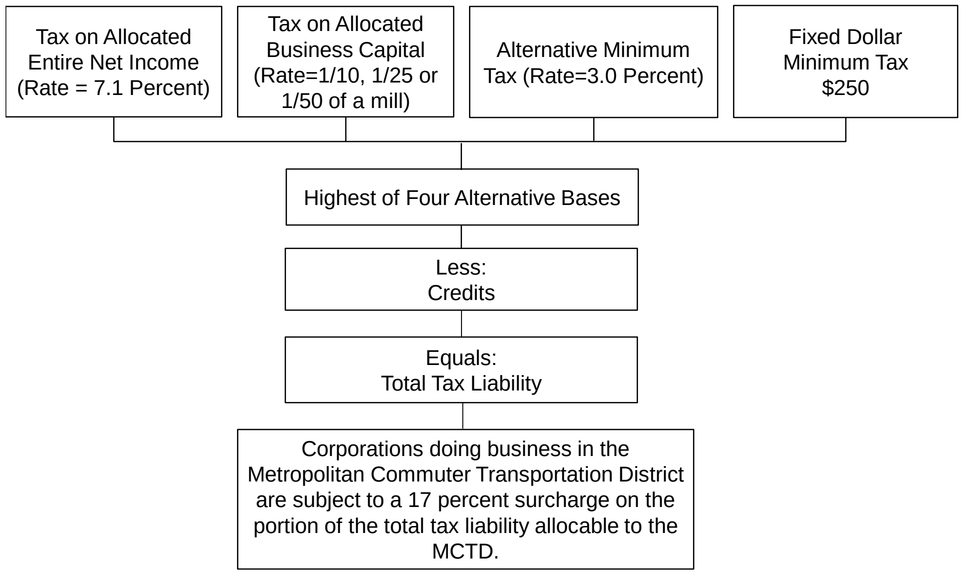
Tax Base and Rate

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

Tax Expenditures

Tax expenditures are defined as features of the Tax Law that by exclusion, exemption, deduction, allowance, credit, deferral, preferential tax rate or other statutory provision reduce the amount of a taxpayer’s liability to the State by providing either economic incentives or tax relief to particular entities to achieve a public purpose. The major tax expenditure items for the bank tax include: the deduction of 60 percent of dividends, gains, and losses from subsidiary capital, the deduction of 22.5 percent of interest income from government obligations, and the international banking facility formula allocation election. For a more detailed discussion of tax expenditures, see the *Annual Report on New York State Tax Expenditures*, prepared by the Department of Taxation and Finance and the Division of the Budget.

Significant Legislation

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

Subject	Description	Effective Date
Legislation Enacted in 2000		
Empire Zones (EZ)	Transformed Economic Development Zones (EDZ) to Empire Zones, effectively providing virtual "tax free" zones for certain businesses. The enhanced benefits include a tax credit for real property taxes, a tax reduction credit, and a sales and use tax exemption. The tax reduction credit may be applied against the fixed dollar minimum tax, which may reduce the taxpayer's liability to zero.	January 1, 2001
Transitional Provision for Federal *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
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

Subject	Description	Effective Date
Superfund-Brownfield Tax Credits	Created tax incentives for the redevelopment of brownfields through three refundable tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. There are three components in the redevelopment tax credit: a site preparation component; a tangible property component; and an onsite groundwater remediation component.	April 1, 2005
Legislation Enacted in 2004		
Bank Tax and GLB Provisions	Extended for one year, until January 1, 2006, certain provisions of the Tax Law and the Administrative Code of the City of New York relating to the taxation of commercial banks. Also extended for two years, until January 1, 2006, the provisions relating to the Federal *Gramm-Leach-Bliley Act*.	January 1, 2004
Empire Zones Program 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
Eliminate S Corporation Differential Tax Base	Eliminated the tax base imposed on S Corporations that was calculated using the difference between the corporate franchise tax rate and the top personal income tax rate. The rate had been changed, and the base was also suspended during tax years 2003 through 2005 when the PIT surcharge was in effect. Elimination of this base conformed the State tax code with Federal treatment of S corporations.	January 1, 2003 (note that the differential had already been suspended - eff. date reflected first instance of non-imposition)
Bank Tax and GLB Provisions	Extended for two years, until January 1, 2008, certain provisions of the Tax Law and the Administrative Code of the City of New York relating to the taxation of commercial banks. Also extended for two years, until January 1, 2008, the provisions relating to the Federal *Gramm-Leach-Bliley Act*.	January 1, 2006
Legislation Enacted in 2007		
Rate Reduction - ENI	Lowered the rate imposed on the ENI base from 7.5 percent to 7.1 percent.	January 1, 2007
REIT/RIC Loophole Closer	Closed a loophole and conformed to Federal rules by eliminating, over a five-year period, the deduction for certain dividends received by a parent company from a Real Estate Investment Trust (REIT) or Regulated Investment Company (RIC) to ensure that either the REIT or RIC or its shareholders pay tax on the income earned by the REIT or RIC. Banks with taxable assets of $8 billion or less were excluded from these provisions.	January 1, 2007

Subject	Description	Effective Date
Taxation of Certain Banking Corporations	Established conditions under which certain corporations that elected to be taxable under Article 9-A of the Tax Law, or are required to be taxed under Article 9-A pursuant to the *Gramm-Leach-Bliley Act* transitional provisions, will become taxable under Article 32 of the Tax Law. These conditions included: ceasing to be a taxpayer under Article 9-A; becoming subject to the $800 fixed dollar minimum tax for inactive corporations; having no wages or receipts allocable to New York or otherwise becoming inactive; being acquired by an unaffiliated corporation in a transaction under Section 338(h)(3) of the Internal Revenue Code; or becoming engaged in a different line of business as a result of acquiring a certain amount of assets. Meeting any one of these conditions resulted in the corporation becoming taxable as a bank under Article 32. The legislation also provided that an investment subsidiary of a bank or bank holding company was included in the definition of a banking corporation and taxable under Article 32.	January 1, 2007
Bank Tax and GLB Provisions	Extended for two years, until January 1, 2010, certain provisions of the Tax Law and the Administrative Code of the City of New York relating to the taxation of commercial banks. Also extended for two years, until January 1, 2010, the provisions relating to the Federal *Gramm Leach-Bliley Act*. This extension also amended the provisions so that bank taxpayers no longer meeting the definition of doing a banking business would be moved to taxation under the corporation franchise tax.	January 1, 2008
Acceleration of Single Sales Apportionment Phase-In	Accelerated, by one year, the final phase-in of the move to sales-only apportionment of income and assets for certain banking corporations.	January 1, 2007
Amendment to Add-Back Provisions Related to Certain Intangible Income	Eliminated the add-back of certain intangible income and related interest for bank taxpayers, if the corporation receiving the income from the bank is included in a New York State combined return.	January 1, 2007
GLB Conforming Provision Amendments	Amended the Enacted Budget provisions that required bank taxpayers no longer meeting the definition of doing a banking business to file under the corporation franchise tax to delay the effect of those provisions by clarifying that taxpayers no longer meeting the definition of doing a banking business as a result of transactions which occurred prior to January 1, 2008 would not be subject to the said amended provisions for tax years 2008 and 2009. Also provided language notifying potentially affected taxpayers of the prospective 2010 law change.	June 29, 2007
Legislation Enacted in 2008		
Taxation of Credit Card Banks	Imposed the bank tax on banks with credit card operations in New York State that 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

Subject	Description	Effective Date
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
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
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

Subject	Description	Effective Date
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
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
Legislation Enacted in 2013		
Royalty Income Loophole	Closed a loophole that allowed New York companies that earn royalty income to avoid paying taxes on that income. New York taxpayers must show on their tax return that the taxpayer's Non-New York parent company included the royalty income in its tax liability. The demonstration absolves taxpayers of the obligation to pay tax on their royalty income.	January 1, 2013
Historic Properties Tax Credit	Extended for five years the maximum Historic Preservation Tax Credit amount of $5 million, which had previously been scheduled to revert to $100,000 following the conclusion of tax year 2014, and permanently made the credit refundable for tax years beginning on or after January 1, 2015.	January 1, 2015
Veterans Tax Credit	Provided a refundable tax credit for tax years 2015 and 2016 equaling 10 percent of the wages paid to a qualified veteran (capped at $5,000) and 15 percent of wages paid to a qualified veteran (capped at $15,000).	January 1, 2015

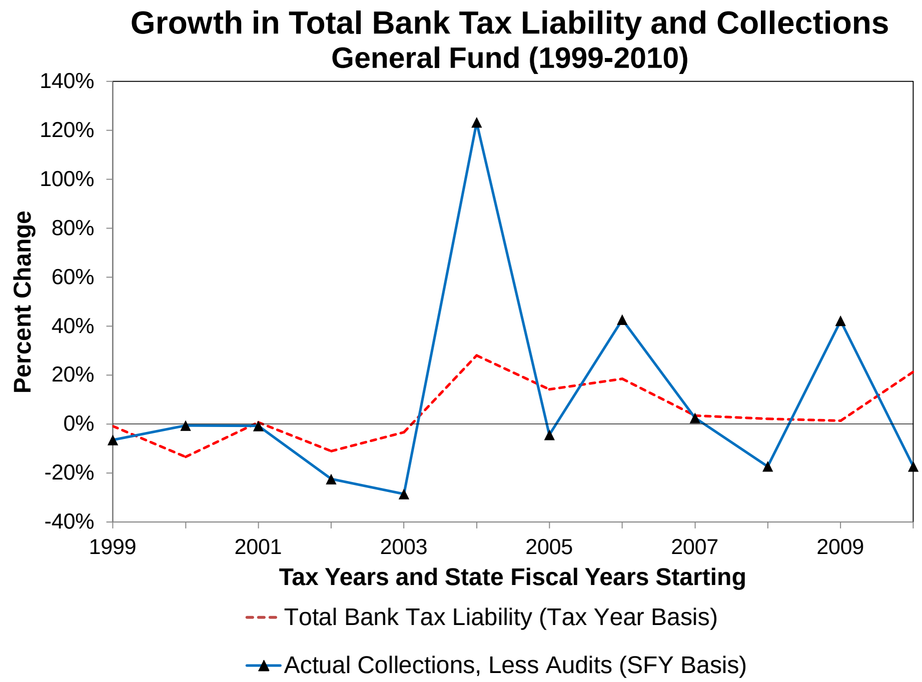
Subject	Description	Effective Date
Minimum Wage Reimbursement Credit	Provided a refundable tax credit for tax years 2014 through 2018 equal to the product of the number of hours worked by qualifying minimum wage-earning employees and 1) $0.75 in tax year 2014; 2) $1.31 in tax year 2015; and 3) $1.35 in tax years 2016 through 2018. Qualifying employees must be students aged 16 to 19, and the credit is reduced if the federal minimum wage is increased to a level in excess of 85 percent of the New York minimum wage.	January 1, 2014
Excelsior Jobs Program	Changed the job requirement parameters for the Excelsior Jobs Program and allowed a portion of the unallocated tax credits from any taxable year to be used to award tax credits in another taxable year.	May 27, 2013

TAX LIABILITY

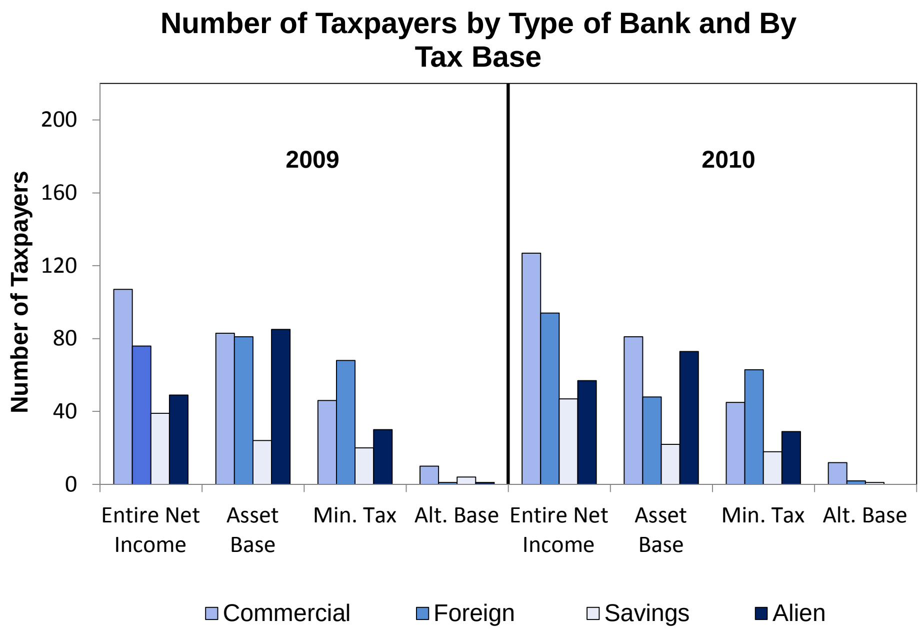
The Bank Tax Study File, which is compiled by the Department of Taxation and Finance's Office of Tax Policy Analysis (OTPA), contains the most recent tax data available on all banks filing under Article 32. The most current liability information is for the 2010 tax year. The tax year 2010 Study File liability includes a favorable impact from the 2010 legislation that deferred certain tax credits for tax years 2010 through 2012. The annual study of bank tax returns indicates that 719 taxpayers filed tax returns as banking corporations for 2010, a 0.7 percent decrease from the previous year.

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

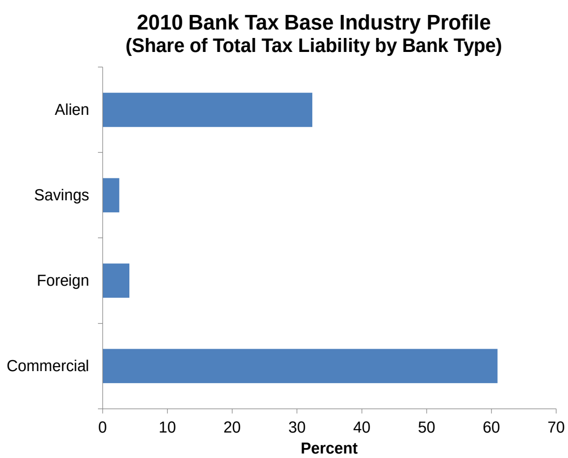
The following graph compares historical bank tax liability and collections. Since taxpayers must pay estimated taxes months in advance of knowing actual liability, it is difficult for taxpayers to determine the proper level of payments needed over the course of a year. This is especially true if business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

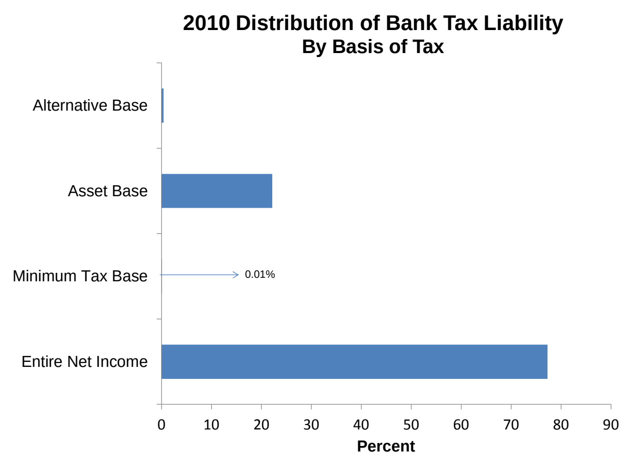


The number of taxpayers decreased by 0.7 percent from 2009 to 2010. Decreases occurred in the number of foreign banks (19 banks, 8.4 percent) and alien banks (six banks, 3.6 percent). Increases occurred in commercial banks (19 banks, 7.7 percent) and savings banks (one bank, 1.1 percent). From 2009 to 2010 there was a large increase in the number of taxpayers that paid under the ENI base (54 banks, 19.9 percent) with a corresponding decrease in the number of taxpayers that paid under the asset base (49 banks, 17.9 percent). The number of taxpayers in the fixed dollar minimum (nine banks, 5.5 percent) and alternative minimum income (one bank, 6.3 percent) bases declined slightly from 2009 to 2010.



The following charts show that commercial banking institutions accounted for 60.9 percent of total tax liability in 2010, and alien banking institutions accounted for 32.4 percent of total liability, while foreign banking institutions and savings banks together accounted for the remaining 6.7 percent of total liability. On a tax base concept, payments under the ENI base comprised over 77 percent of total tax liability. This compares to a share of 71 percent in 2009. In contrast, the share of liability under the asset base declined to 22 percent in 2010 from 28 percent in 2009.





RECEIPTS: ESTIMATES AND PROJECTIONS

BANK TAX (millions of dollars)							
	2012-13 Actual	2013-14 Estimated	Change	Percent Change	2014-15 Projected	Change	Percent Change
General Fund							
Non-Audit Receipts	1,256	875	(381)	(30.3)	1,026	151	17.3
Audit Receipts	341	130	(211)	(61.9)	183	53	40.8
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**1,597**	**1,005**	**(592)**	**(37.1)**	**1,209**	**204**	**20.3**
Other Funds							
Non-Audit Receipts	251	159	(92)	(36.7)	177	18	11.3
Audit Receipts	64	25	(39)	(60.9)	32	7	28.0
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**315**	**184**	**(131)**	**(41.6)**	**209**	**25**	**13.6**
All Funds							
Non-Audit Receipts	1,507	1,034	(473)	(31.4)	1,203	169	16.3
Audit Receipts	405	155	(250)	(61.7)	215	60	38.7
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**1,912**	**1,189**	**(723)**	**(37.8)**	**1,418**	**229**	**19.3**

Note: Totals may differ due to rounding.

All Funds

2013-14 Estimates

All Funds receipts through December are $721.5 million, a decrease of $567.5 million (44 percent) from the comparable period in the prior fiscal year. This decrease is primarily driven by weakness in 2013 liability year payments. Additionally, several large audits were received in the April through December 2012 period.

All Funds 2013-14 receipts are estimated to be $1,189 million, a decrease of $722.9 million (37.8 percent) from 2012-13. The year-over-year decrease is driven by weak 2013 liability payments mainly from calendar year filers as well as a decline in audit receipts ($250 million).

2014-15 Projections

All Funds 2014-15 receipts are projected to be $1,418 million, an increase of $229 million (19.3 percent) from 2013-14. Tax year 2014 liability payments are expected to rebound from the low levels seen in 2013-14.

General Fund

General Fund 2013-14 receipts are expected to be $1,005 million, a decrease of $591.9 million (37.1 percent) from 2012-13. General Fund collections reflect the same trends impacting 2013-14 All Funds receipts.

For 2014-15, General Fund receipts are projected to be $1,209 million, an increase of $204 million (20.3 percent) from 2013-14. General Fund collections reflect the trends described above for 2014-15 All Funds receipts.

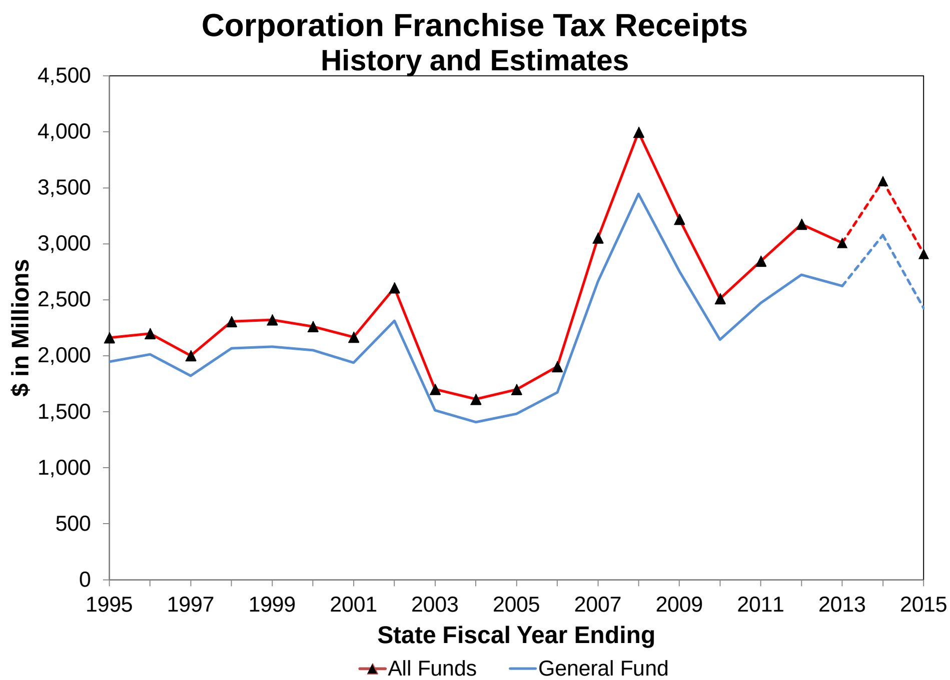
Other Funds

Bank tax receipts from the business tax surcharge deposited to MTOAF generally reflect the All Funds trends described above. MTOAF bank tax receipts for 2013-14 reflect year-to-date trends and are estimated at $184 million. Surcharge receipts for 2014-15 are projected to be $209 million.

CORPORATE FRANCHISE TAX

CORPORATION FRANCHISE TAX (millions of dollars)							
	2012-13 Actual	2013-14 Estimated	Change	Percent Change	2014-15 Projected	Change	Percent Change
General Fund	2,623.7	3,078.0	454.3	17.3	2,424.0	(654.0)	(21.2)
Other Funds	385.1	483.0	97.9	25.4	487.0	4.0	0.8
All Funds	3,008.7	3,561.0	552.3	18.4	2,911.0	(650.0)	(18.3)

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
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
2012-13	3,283	659	2,624	434	49	385	3,009
Estimated							
2013-14	3,799	721	3,078	543	60	483	3,561
2014-15							
Current Law	3,552	1,199	2,353	547	60	487	2,840
Proposed Law	3,528	1,104	2,424	547	60	487	2,911

[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 commercial television production tax credit for two years;
- Authorize additional credits of $8 million for the low income housing credit for each of the next two fiscal years;
- Reform the investment tax credit;
- Extend and reform the Brownfield Clean-Up program;
- Repeal the financial services investment tax credit;
- Establish a 20 percent real property tax credit for manufacturers;
- Enhance the Youth Works tax credit;
- Amend the START-UP NY statute for a Section 186-e excise tax technical change;
- Eliminate the net income tax on upstate manufacturers; and
- Combine the Corporate Franchise and Bank taxes as part of corporate tax reform.

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. Additionally, the ENI rate will be reduced by 9.2 percent in tax year 2014, 12.3 percent in 2015, 15.4 percent in 2016 and 2017, and 25 percent in tax year 2018 and thereafter for qualified New York manufacturers.

- An alternative minimum tax (AMT) base imposed at a rate of 1.5 percent of the ENI (as calculated above) further adjusted to reflect certain Federal tax preference items and adjustments and State-specific net operating loss (NOL) modifications. Eligible qualified New York manufacturers are subject to a rate of 0.75 percent for tax years 2012, 2013, and 2014. Additionally, the AMT base tax rate will be reduced by 9.2 percent in tax year 2014, 12.3 percent in 2015, 15.4 percent in 2016 and 2017, and 25 percent in tax year 2018 and thereafter for qualified New York manufacturers.

- A capital base, imposed at a rate of 0.15 percent on business and investment capital allocated to New York. For most taxpayers, the maximum annual tax is $1 million. Additionally, the capital base tax rate will be reduced by 9.2 percent in tax year 2014, 12.3 percent in 2015, 15.4 percent in 2016 and 2017, and 25 percent in tax year 2018 and thereafter for qualified New York manufacturers.

- A fixed dollar minimum tax, which is based on a taxpayer's NY source gross income as shown in the following schedule. Eligible qualified New York manufacturers will pay one-half of the rates shown in the schedule below for tax years 2012, 2013 and 2014. Additionally, the fixed dollar minimum tax will be reduced by 9.2 percent in tax year 2014, 12.3 percent in 2015, 15.4 percent in 2016 and 2017, and 25 percent in tax year 2018 and thereafter for qualified New York manufacturers.

C AND S CORPORATIONS
FIXED DOLLAR MINIMUM TAXES

Gross Income	C Corp Min Tax	S Corp Min Tax
$100,000 or less	$25	$25
$100,001 - $250,000	$75	$50
$250,001 - $500,000	$175	$175
$500,001 - $1,000,000	$500	$300
$1,000,001 - $5,000,000	$1,500	$1,000
$5,000,001 - $25,000,000	$3,500	$3,000
Over $25,000,000	$5,000	$4,500

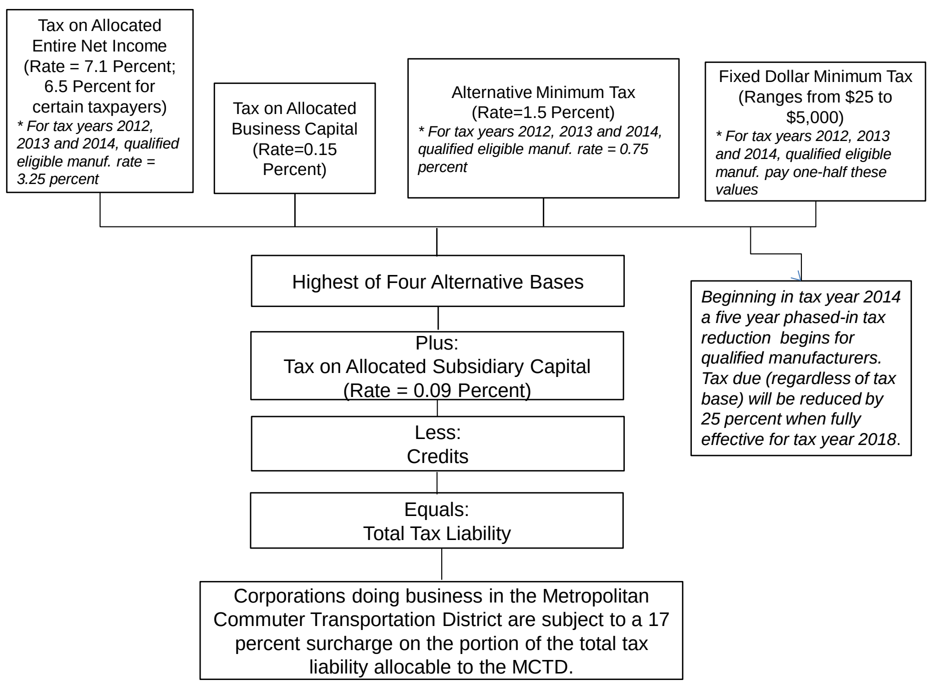
In addition to the tax paid on the highest of the four alternative bases, C corporations also pay a tax of 0.9 mills of each dollar of subsidiary capital allocated to New York State.

S corporations are also subject to a fixed dollar minimum tax imposed at the rates shown in the table above.

Additionally, corporations conducting business in the Metropolitan Commuter Transportation District (MCTD) are subject to a 17 percent surcharge on the portion of the total 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, Empire Zones, the Excelsior Jobs Program, Brownfields and Film Production tax credits, and the preferential tax rates for qualifying small business corporations. For a more detailed discussion of tax expenditures, see the *Annual Report on New York State Tax Expenditures*, prepared by the Department of Taxation and Finance and the Division of the Budget.

Significant Legislation

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

Subject	Description	Effective Date
Legislation Enacted in 2000		
Energy Reform and Reduction	Reformed energy taxation for energy companies, previously taxed under section 186 of Article 9, to pay tax under the Article 9-A corporate franchise tax.	January 1, 2000
Securities and Commodities Brokers or Dealers Customer Sourcing	Allowed securities broker/dealers to allocate receipts, which constitute commissions, margin interest or account maintenance fees, as a service performed at the customer's mailing address.	January 1, 2001
Empire Zones (EZ)	Transformed Economic Development Zones (EDZ) to Empire Zones, effectively providing for virtual "tax free" zones for certain businesses. The enhanced benefits included a tax credit for real property taxes, a tax reduction credit, and a sales and use tax exemption. The tax reduction credit may be applied against the fixed dollar minimum tax, which may reduce the taxpayer's liability to zero.	January 1, 2001
Rate Reduction - S Corporations	Reduced the differential tax rate imposed on S corporations by 45 percent.	June 20, 2003
Rate Reduction - Small Businesses	Reduced the tax rate for small businesses with entire net income of $200,000 or less to 6.85 percent.	June 30, 2003
Legislation Enacted in 2002		
Mandatory First Installment Percentage	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year's liability for those corporate taxpayers whose prior year's liability exceeds $100,000.	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

Subject	Description	Effective Date
Intangible Holding Companies	Required taxpayers to modify Federal taxable income relating to certain royalty and interest payments made with respect to the use of intangible property by related members or royalty and interest payments received from related members.	January 1, 2003
S Corporation Tax Change	Taxed S corporations on a fixed dollar minimum amount for tax years 2003, 2004 and 2005 only. The fixed dollar minimum amounts are those imposed under Article 9-A, ranging from $100 to $1,500.	January 1, 2003
Superfund-Brownfield Tax Credits	Created tax incentives for the redevelopment of brownfields through three tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. There are three components in the redevelopment tax credit: a site preparation component, a tangible property component, and an onsite groundwater remediation component.	April 1, 2005
Legislation Enacted in 2004		
Fixed Dollar Minimum	Provided a temporary adjustment to the corporate franchise tax fixed dollar minimum tax schedule, with tax amounts ranging from $100 to $10,000. Applicable to tax years 2004 and 2005.	January 1, 2004
Empire State Film Production Credit	Provided a new tax credit for film production activity in New York State. The credit was originally scheduled to sunset August 20, 2008.	January 1, 2004
Legislation Enacted in 2005		
Single Sales Apportionment	Changed the computation of a corporation's business allocation percentage from a three-factor formula of payroll, property and receipts to a single receipts factor.	These provisions were phased in over a three year period starting in tax year 2006, and were fully effective for tax years beginning on or after January 1, 2008
Empire Zones Amendments/Twelve New Zones	Made significant changes to the Empire Zone/Qualified Empire Zone Enterprise program with respect to zone boundaries, zone designations, taxpayer eligibility, and benefits. Also authorized twelve new Empire Zones.	Changes to eligibility and benefits apply to taxpayers certified on or after April 1, 2005
Small Business Rate Reduction	Lowered the tax rate from 6.85 percent to 6.5 percent for small businesses and expanded the definition of a qualifying small business.	January 1, 2005
Capital Base Increase	Increased the maximum tax due under the capital base alternative from $350,000 to $1 million for all taxpayers, excluding manufacturers.	January 1, 2005
Legislation Enacted in 2006		
Empire Zones/Significant Investments	Provided that a Qualifying Empire Zone Enterprise (QEZE) with fewer than 200 existing jobs that makes an investment of $750 million or more and creates 500 new jobs is deemed a "new business," qualifying the taxpayer for a 50 percent refund of its EZ Investment Tax Credits and EZ Employment Incentive Credits. Also authorized such taxpayers to select their program benefit period to start either upon certification (current law), or when the qualifying investment is placed in service.	January 1, 2006
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

Subject	Description	Effective Date
Legislation Enacted in 2007		
Rate Reduction - ENI	Reduced the rate on the ENI base from 7.5 percent to 7.1 percent, and amended the recapture rate for the small business rate to conform to the general rate change.	January 1, 2007
Rate Reduction - ENI (Manufacturers and QETCs)	Reduced the rate on the ENI base from 7.5 percent to 6.5 percent for qualifying manufacturers and emerging technology companies.	January 31, 2007
Rate Reduction - AMT	Reduced the rate applicable to the alternative minimum taxable income base from 2.5 percent to 1.5 percent.	January 1, 2007
Combined Filing Requirement	Required taxpayers operating several corporations on a unitary basis to file a combined return if there are substantial inter-corporate transactions between them.	January 1, 2007
REITs/RICs Loophole Closer	Required combining a Real Estate Investment Trust (REIT) or Regulated Investment Company (RIC) held as a subsidiary with its parent company. In computing combined entire net income, the deduction available to REITs for dividends paid are not allowed. In addition, such a combined report must include the combined capital of the REIT or RIC subsidiary.	January 1, 2007
Acceleration of Single Sales Apportionment Phase-In	Accelerated, by one year, the final phase-in of the move to sales-only apportionment of income and capital.	January 1, 2007
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

CORPORATION FRANCHISE TAX

Subject	Description	Effective Date
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. The QEZE real property tax credit was reduced by 25 percent and firms were disqualified for the QEZE sales tax refund/credit unless the sale qualified for a refund or credit of the local sales and use tax. Moved program sunset date from December 30, 2011 to June 30, 2010.	January 1, 2008 April 1, 2009
Empire State Film Production Tax Credit	Authorized an additional $350 million for calendar year 2009. For taxable years beginning January 1, 2009, the utilization of the credit was spread across several years based on the dollar amount of the credit.	January 1, 2009
Change to the Tax Classification of HMOs	Subjected for-profit HMOs to the franchise tax on insurance corporations under Article 33 of the Tax Law.	January 1, 2009
Legislation Enacted in 2010		
Make REITs/RICs Loophole Closer Permanent	Made permanent the provisions that address the closely-held REIT and RIC loophole, which would have otherwise expired on December 31, 2010.	August 11, 2010
Tax Credit Deferral	Capped aggregate business related tax credit claims at $2 million per taxpayer for each of tax years 2010, 2011 and 2012. The total amount of credits deferred can be claimed by affected taxpayers on returns for tax years 2013, 2014 and 2015.	January 1, 2010
Technical Changes to Empire Zones Program	Made technical corrections to the 2009-10 Enacted Budget Empire Zones Program changes. Clarified that the Legislature intended to decertify certain businesses retroactively to the 2008 tax year, clarified reporting provisions, and allowed qualified investment projects to claim the investment tax credit and employee incentive tax credit after June 30, 2010.	August 11, 2010
Empire State Film Production Tax Credit	Authorized an additional $420 million for calendar years 2010 through 2014, $7 million of which is dedicated to a new post production tax credit. This measure also imposed various reforms to enhance the State's return on investment.	August 11, 2010
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	January 1, 2012

Subject	Description	Effective Date
	directing tax relief to economic regions with special economic challenges.	
New York Youth Works Tax Credit Program	Provided a tax credit to businesses that employ at-risk youth in part-time or full-time positions in 2012 and 2013.	January 1, 2012
Empire State Jobs Retention Program	Provided a jobs tax credit to businesses that are at risk of leaving the State due to the negative impact on their business from a natural disaster. The tax credit is 6.85 percent of gross wages of jobs that are retained in New York.	January 1, 2012
Legislation Enacted in 2012		
Empire State Commercial Production Tax Credit	Extended the annual allocation of $7 million in tax credits for two years through 2014. Also, changed the distribution of the tax credits between the MTA district and the rest of the State.	January 1, 2012
New York Youth Works Tax Credit Program	Extended the deadline for participation in the program and for youths to commence employment by an additional six months to November 30, 2012 and December 31, 2012, respectively.	January 1, 2012
Empire State Post Production Tax Credit	Increased post-production credit percentage from 10 percent to 30 percent within the MTA region and to 35 percent in areas outside the MTA region.	July 24, 2012
Legislation Enacted in 2013		
Film Production Credit	Extended the Empire State film production tax credit allocation of $420 million per year for an additional five years (2015 - 2019). For the period 2015 through 2019 certain upstate counties will receive an additional 10 percent credit for wages and salaries paid.	January 1, 2015
	Restrictions on the post production portion of the credit were reduced and additional reporting will be required to document the effectiveness of the credit in creating jobs.	March 28, 2013
Royalty Income Loophole	Closed a loophole that allowed New York companies that earn royalty income to avoid paying taxes on that income. New York taxpayers must show on their tax return that the taxpayer's Non-New York parent company included the royalty income in its tax liability. The demonstration absolves taxpayers of the obligation to pay tax on their royalty income.	January 1, 2013
New York Innovation Hot Spots Program	Created a new high tech incubator program in which start-up businesses will be free of property, sales and business income taxes for the first five years. Hot spots must demonstrate an affiliation with, and the support of, at least one college, university or independent research institution and offer programs consistent with regional economic development strategies.	March 28, 2013
Veterans Tax Credit	Provided a refundable tax credit for tax years 2015 and 2016 equaling 10 percent of the wages paid to a qualified veteran (capped at $5,000) and 15 percent of wages paid to a qualified veteran (capped at $15,000).	January 1, 2015
Youth Works Tax Credit	Provided a four year refundable tax credit capped at $6 million per year for tax years 2014 through 2017 for hiring unemployed, low-income or at risk youth ages 16-24 in cities with populations greater than 55,000 or towns with populations greater than 480,000.	January 1, 2014
Excelsior Jobs Program	Changed the job requirement parameters for the Excelsior Jobs Program and allowed a portion of the unallocated tax credits from any taxable year to be used to award tax credits in another taxable year.	May 27, 2013
Manufacturer Tax Reduction	Provided a phased in manufacturing tax reduction of 9.2 percent in tax year 2014, 12.3 percent in 2015, 15.4 percent in 2016 and 2017, and 25 percent effective for tax years beginning in 2018.	January 1, 2014

Subject	Description	Effective Date
Historic Properties Tax Credit	Extended for five years the maximum Historic Preservation Tax Credit amount of $5 million, which had previously been scheduled to revert to $100,000 following the conclusion of tax year 2014, and permanently made the credit refundable for tax years beginning on or after January 1, 2015.	January 1, 2015
Charge NY Electric Vehicle Recharging Equipment Credit	Created a credit equal to 50 percent or $5,000 per station, whichever is less, of the cost of electric vehicle recharging or alternative fuel vehicle refueling equipment. The credit sunsets December 31, 2017.	January 1, 2013
Minimum Wage Reimbursement Credit	Provided a refundable tax credit for tax years 2014 through 2018 equal to the product of the number of hours worked by qualifying minimum wage-earning employees and 1) $0.75 in tax year 2014; 2) $1.31 in tax year 2015; and 3) $1.35 in tax years 2016 through 2018. Qualifying employees must be students aged 16 to 19, and the credit is reduced if the federal minimum wage is increased to a level in excess of 85 percent of the New York minimum wage.	January 1, 2014
START-UP NY	Established tax-free zones on or near qualifying university and college campuses. Qualifying businesses operating within such zones are exempt from taxation under the Corporate Franchise Tax.	January 1, 2014

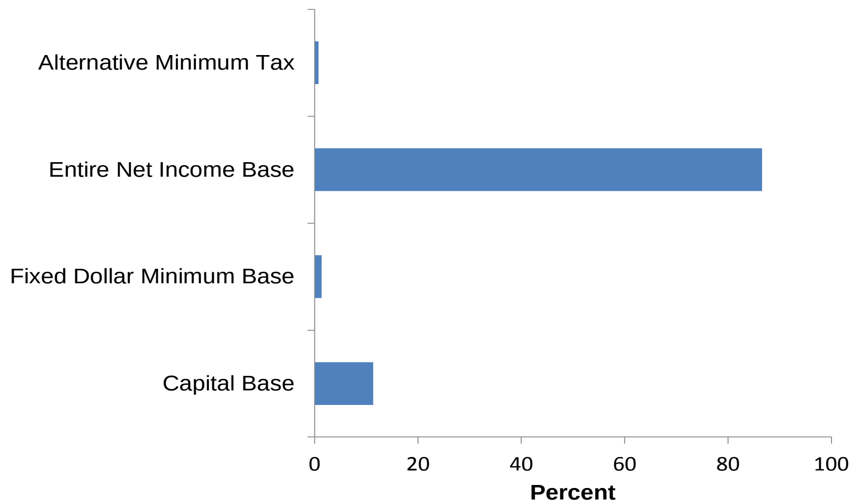
TAX LIABILITY

The Corporate Franchise Tax Study File, which is compiled by the Department of Taxation and Finance's Office of Tax Policy Analysis (OTPA), contains the most recent tax liability data available for corporations filing under Article 9-A. The most current liability information is for the 2010 tax year. The tax year 2010 Study File liability includes a favorable impact from the 2010 legislation that deferred certain tax credits for tax years 2010 through 2012.

Although the Study File does not include information on non-allocating fixed dollar minimum tax filers and S corporations, OTPA compiles corporate tax return data relating to the total number of C and S corporations and tax liability for these entities. The 2009 New York State Corporate Tax Statistical Report, the most recent data available, indicates that 262,077 taxpayers filed as C corporations, while 389,330 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.

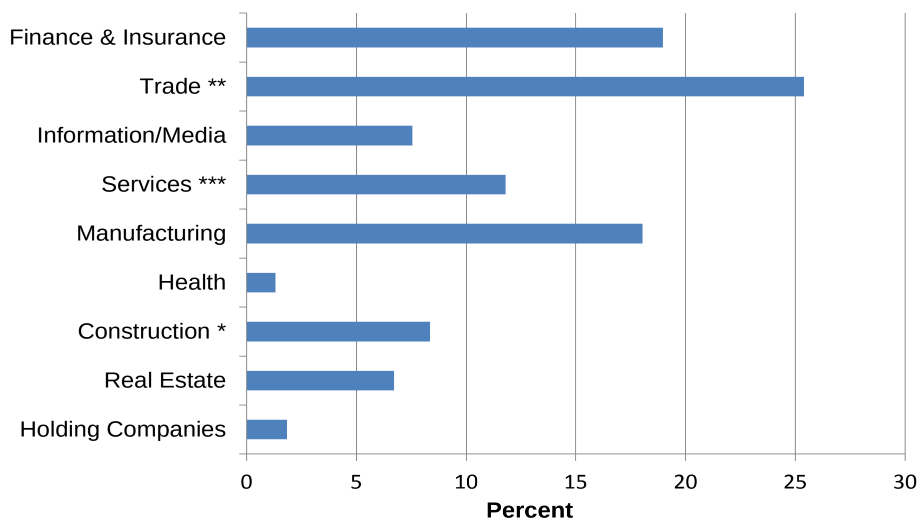
As noted above, C corporations pay under the highest of four alternative bases. In 2010, 87 percent of liability was paid under the entire net income base (see graph below). The capital base was the second largest liability base, at 11 percent. For the past several years, both the alternative minimum tax and the fixed dollar minimum tax bases have been a minimal percentage of total tax liability.

2010 Distribution of C Corporation Tax Liability
By Tax Base



The next chart shows the distribution of tax liability by major industry sector. The 2010 Study File indicates that nearly 20 percent of total C corporation liability was paid by the finance and insurance sector, 25.4 percent by the trade sector and 18 percent by the manufacturing sector. These three sectors have represented the majority of total liability over the last several years.

2010 Tax Base Industry Profile
(Share of Total Tax Liability of
C Corporation Taxpayers)



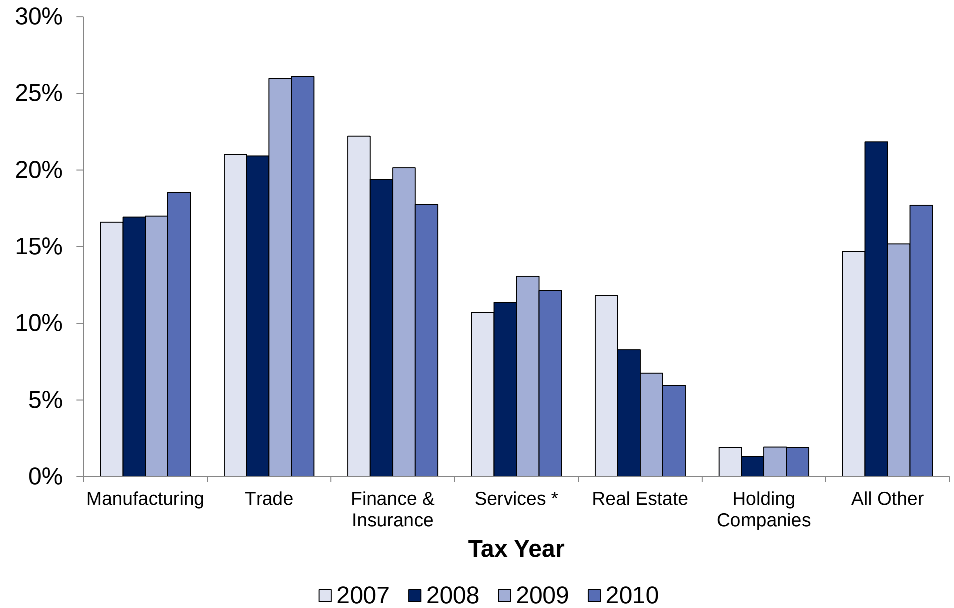
* Construction, agriculture, mining, and utilities. (NAICS Sectors 11, 21, 22, and 23)

** 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 between 2007 and 2010. Liability for the finance and insurance, manufacturing and trade sectors represent the largest share of liability paid over this period. Trade, and to a lesser extent services, has become an increasing share of liability over this time period. Finance and insurance along with real estate have steadily declined as a share of liability over the last four tax years while, manufacturing has been a fairly consistent share of liability.

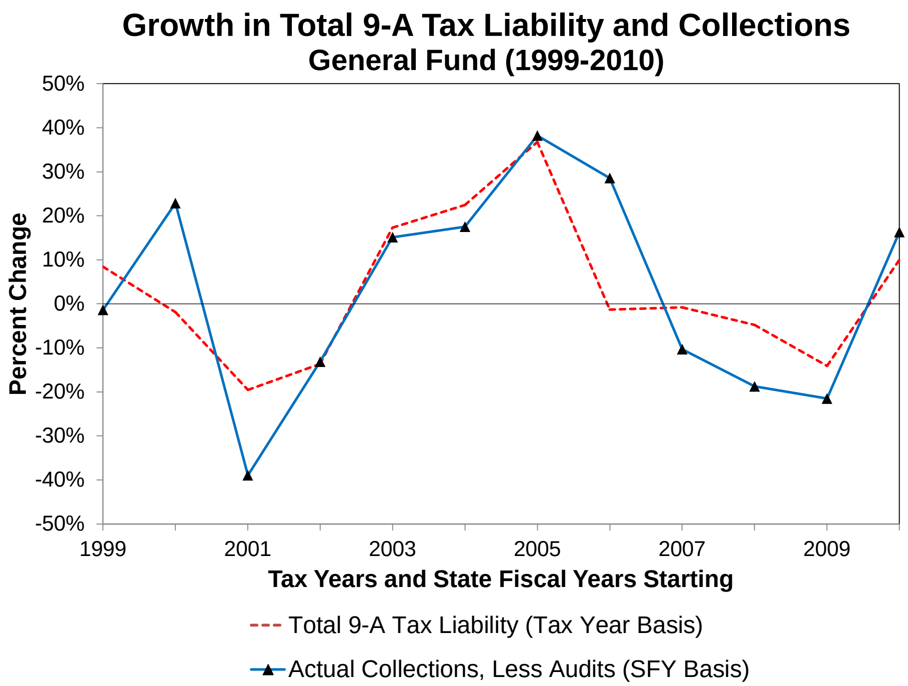
Industry Profile: Percent of Total Liability (2007-2010)



* 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)

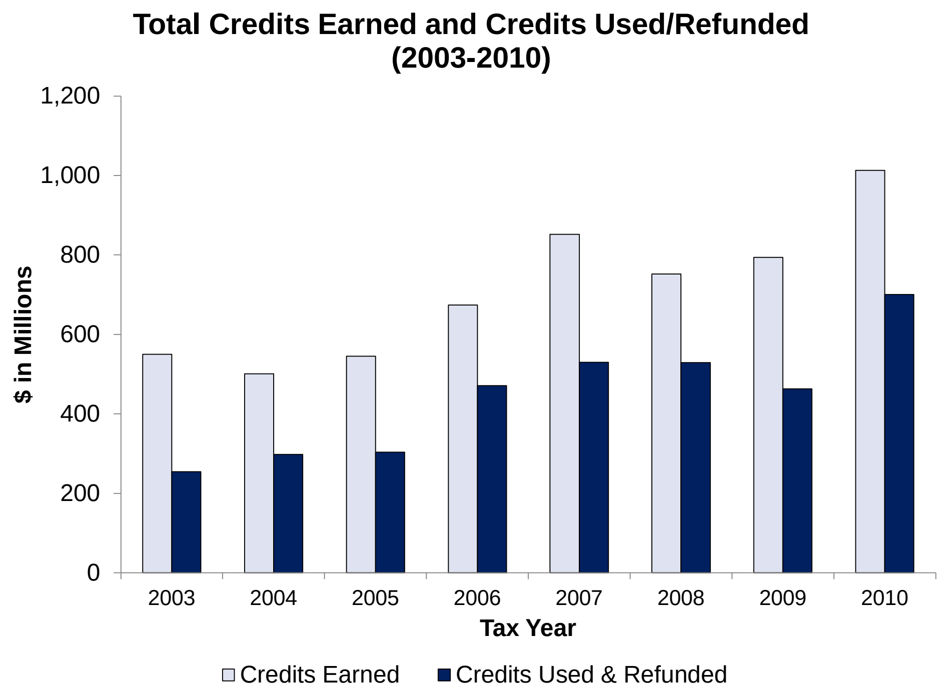
The link between underlying corporate tax liability and cash receipts in any given State fiscal year is often obscured by the timing of payments, the carry forward of prior year losses or credits and the reconciliation of prior year liabilities. Tax collections are the net payments and adjustments made 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, for many taxpayers, is often compounded by the difference between a taxpayer's tax year and the State fiscal year.



Credits

The following graph shows all available credits earned and used by Article 9-A taxpayers, and illustrates that the amount of credits earned significantly exceeds the amount of credits used. Credit earned is the amount of credit earned by a taxpayer in the current tax year. This is prior to any credit recapture, and does not include credits earned in or carried over from prior years. Generally, Tax Law provisions prevent taxpayers from using tax credits to reduce final liability below the fixed dollar minimum tax or the AMT. This has resulted in taxpayers carrying forward a significant amount of tax credits into subsequent tax years. It is expected that the use of refundable credits, especially the Excelsior Jobs Program, Brownfield 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. The four largest tax credit programs in terms of credit earned and used and refunded over the period shown in the following chart are the investment tax credit (including the financial services investment tax credit), Empire Zones, the Film Production Tax Credit and the Brownfield Clean-Up program. These four credits have comprised over 90 percent of credits earned and credits used and refunded in recent years.



As seen above, credits earned and credits used and refunded were relatively stable through 2005. In 2006, both credits earned and credits used and refunded increased significantly over prior year amounts. Over the next three tax years (2007 through 2009) credits earned remained consistent while credits used and refunded increased modestly. In 2010 both credits earned and credits used and refunded increased significantly compared to 2009 levels. Brownfield and Film Production Tax credits were responsible for the majority of the increase. Both credits earned and credits used and refunded for the investment tax credit and Empire Zones are relatively stable each year. The increase in Brownfield credits may be attributed to the economy rebounding from the financial crisis that ended in 2009 and an increase in credit available for funding these large scale projects. Brownfield tax credits will likely remain one of the larger tax credit programs in the future since demand for the program remains strong. The average number of certificates of completion issued over the 2005 through 2009 period was 13.6 compared to 21 for the 2010 through 2012 calendar year. Beginning in tax year 2010 the annual allocation for the Film Production Tax credit was increased to $420 million and remains at that level through tax year 2019. This makes the Film Production Tax credit the largest tax credit program in the State's economic development portfolio.

RECEIPTS: ESTIMATES AND PROJECTIONS

CORPORATION FRANCHISE TAX (millions of dollars)							
	2012-13 Actual	2013-14 Estimated	Change	Percent Change	2014-15 Projected	Change	Percent Change
General Fund							
Non-Audit Receipts	1,965	2,061	96	4.9	1,492	(569)	(27.6)
Audit Receipts	659	1,017	358	54.3	861	(156)	(15.3)
Executive Budget Initiatives	0	0	0	--	71	71	--
Total	**2,624**	**3,078**	**454**	**17.3**	**2,424**	**(654)**	**(21.2)**
Other Funds							
Non-Audit Receipts	292	319	27	9.2	345	26	8.2
Audit Receipts	93	164	71	76.3	142	(22)	(13.4)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**385**	**483**	**98**	**25.5**	**487**	**4**	**0.8**
All Funds							
Non-Audit Receipts	2,257	2,380	123	5.4	1,837	(543)	(22.8)
Audit Receipts	752	1,181	429	57.0	1,003	(178)	(15.1)
Executive Budget Initiatives	0	0	0	--	71	71	--
Total	**3,009**	**3,561**	**552**	**18.3**	**2,911**	**(650)**	**(18.3)**

Note: Totals may differ due to rounding.

All Funds

2013-14 Estimates

All Funds receipts through December are $2,234.1 million, an increase of $383.5 million (20.7 percent) from the comparable period in the prior fiscal year. This increase is primarily driven by the receipt of several large audit cases in the first quarter of the current fiscal year.

All Funds 2013-14 receipts are estimated to be $3,561 million, an increase of $552.3 million (18.4 percent) from 2012-13. The increase is mostly attributable to an increase in audits of $428.9 million (57 percent).

2014-15 Projections

All Funds 2014-15 receipts are projected to be $2,911 million, a decrease of $650 million (18.3 percent) from 2013-14. This decrease is primarily attributable to the first year of the credit deferral payback to taxpayers as well as lower expected audit receipts.

General Fund

General Fund 2013-14 receipts are estimated to be $3,078 million, an increase of $454.3 million (17.3 percent) from 2012-13. The increase reflects the same trends impacting 2013-14 All Fund receipts.

General Fund 2014-15 receipts are projected to be $2,424 million, a decrease of $654 million (21.2 percent) from 2013-14. The decrease reflects the same trends impacting All Funds receipts for 2014-15.

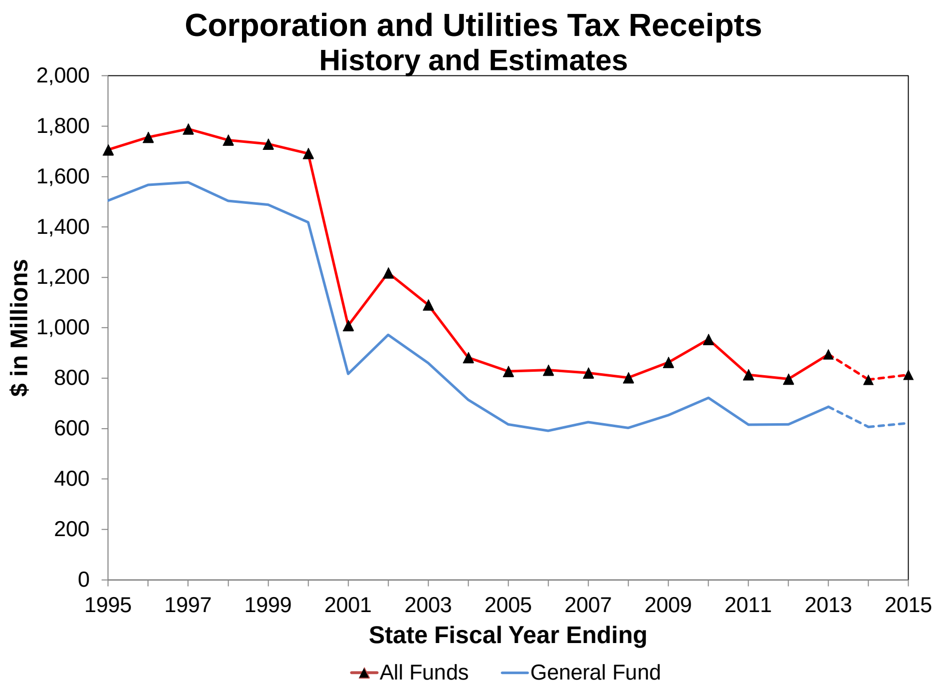
Other Funds

The MCTD 17 percent business tax surcharge will result in MTOAF deposits of an estimated $483 million in 2013-14 and a projected $487 million in 2014-15.

CORPORATION AND UTILITIES TAXES

CORPORATION AND UTILITIES TAXES (millions of dollars)							
	2012-13 Actual	2013-14 Estimated	Change	Percent Change	2014-15 Projected	Change	Percent Change
General Fund	686.3	606.0	(80.3)	(11.7)	622.0	16.0	2.6
Other Funds	208.2	188.0	(20.2)	(9.7)	192.0	4.0	2.1
All Funds	894.5	794.0	(100.5)	(11.2)	814.0	20.0	2.5

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
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
2012-13	691	5	686	201	8	194	16	2	15	895
Estimated										
2013-14	656	50	606	185	12	173	17	2	15	794
2014-15										
Current Law	642	20	622	189	12	177	17	2	15	814
Proposed Law	642	20	622	189	12	177	17	2	15	814

[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:

- Repeal the franchise tax on agriculture cooperatives;
- Repeal the organization tax on In-State corporations (Section 180) and the license and maintenance fees on Out-of-State corporations (Section 181) as part of corporate tax reform; and
- Extend and reform the Brownfield Clean-Up program.

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 184, 186, 186-a and 186-e make quarterly tax payments of equal installments on an estimated basis in June, September and December. A final payment is made in March. Additionally, taxpayers are required to make a mandatory first installment equal to 40 percent of their prior year liability. This is paid in March along with the final payment.

All receipts from the 17 percent surcharge imposed on Article 9 taxpayers that conduct business in the MCTD are deposited in the Mass Transportation Operating Assistance Fund (MTOAF).

Significant Legislation

Significant statutory changes to the corporation and utilities taxes since 2000 are summarized below.

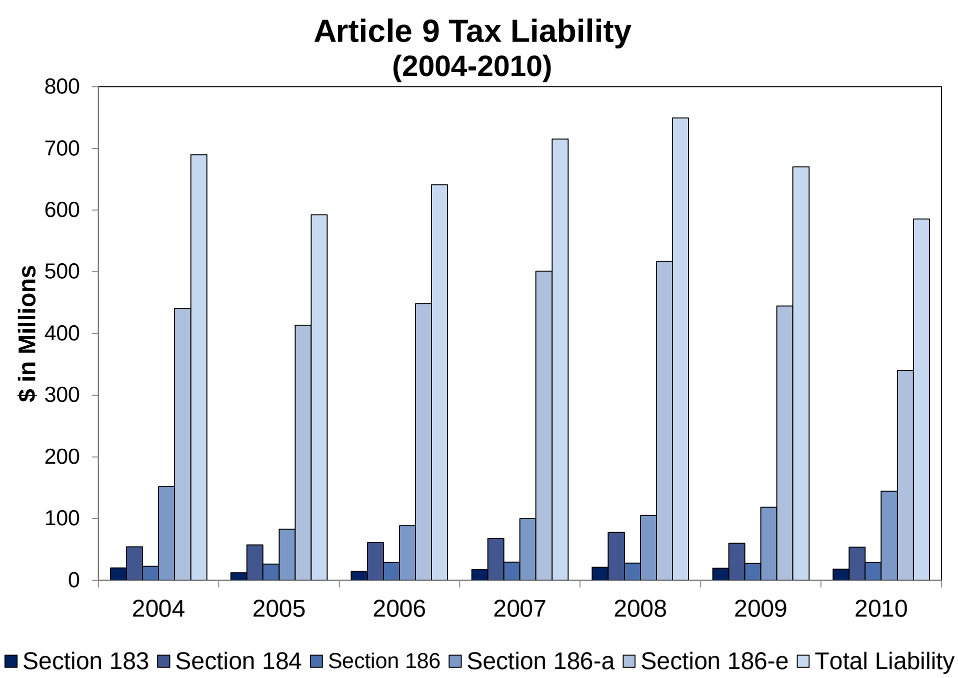
Subject	Description	Effective Date
Legislation Enacted in 2000		
Utility Tax Reform	Repealed the section 186 tax. The section 186-a and section 189 taxes were phased out over a five year period. Eliminated the gross receipts tax for manufacturers and industrial energy customers retroactive to January 1, 2000; eliminated the tax for all other business customers over a five year period. For residential consumers, the commodity tax was eliminated and the transmission/distribution rate of the 186-a tax was reduced from 2.5 percent to 2 percent.	January 1, 2000
Power for Jobs	Provided an additional 300 megawatts of low-cost power to businesses across New York through the Power for Jobs program. Changed program sunset to December 31, 2005.	January 1, 2001
Legislation Enacted in 2001		
Section 189	Created a prospective and retroactive credit for taxes paid to other states where natural gas was purchased.	Retroactive to August 1, 1991
Legislation Enacted in 2002		
Power for Jobs	Provided low cost power for economic development through phase five of the Power for Jobs Program and provided an energy service company option for recipients under the program.	July 30, 2002
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

Subject	Description	Effective Date
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 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		
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. This distribution is in effect for one year, through March 31, 2013.	April 1, 2012
Legislation Enacted in 2013		
Charge NY Electric Vehicle Recharging Equipment Credit	Created a credit equal to 50 percent or $5,000 per station, whichever is less, of the cost of electric vehicle recharging or alternative fuel vehicle refueling equipment. The credit sunsets December 31, 2017.	January 1, 2013
LIPA Restructuring	Eliminated the requirement for LIPA to pay tax under Section 186. LIPA is still liable for the MTA surcharge.	January 1, 2014

Subject	Description	Effective Date
Sections 183 & 184	Extended the distribution to the Metropolitan Mass Transportation Operating Assistance account of 54 percent of receipts and the Public Transportation Systems Operating Assistance account's distribution of 26 percent of receipts for an additional five years.	April 1, 2013
START-UP NY	Established tax-free zones on or near qualifying university and college campuses. Qualifying businesses operating within such zones are exempt from taxation under Sections 180 and 181.	January 1, 2014
Minimum Wage Reimbursement Credit	Provided a refundable tax credit for tax years 2014 through 2018 equal to the product of the number of hours worked by qualifying minimum wage-earning employees and 1) $0.75 in tax year 2014; 2) $1.31 in tax year 2015; and 3) $1.35 in tax years 2016 through 2018. Qualifying employees must be students aged 16 to 19, and the credit is reduced if the federal minimum wage is increased to a level in excess of 85 percent of the New York minimum wage.	January 1, 2014

TAX LIABILITY

The chart below shows Article 9 liability by tax section over the most recent seven available years, from 2004 through 2010. Data for 2010, the most recent data available, is from the Article 9 Tax Study File compiled by the Department of Taxation and Finance's Office of Tax Policy Analysis (OTPA). The tax year 2010 Study File liability includes a favorable impact from the 2010 legislation that deferred certain tax credits for tax years 2010 through 2012.



The decline in liability from tax year 2004 to tax year 2005 is attributable to 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 sections 183, 184, and 186-e as the telecommunications industry experienced significant revenue growth due to a net increase in new wireless subscribers. The decline from tax year 2008 to tax year 2010 marked the beginning of several significant changes to the telecommunications industry. An increasing share of monthly bills consist of non-taxable data plans. Households with both mobile and landline phones increasingly opted to discontinue their use of landlines, customers began moving towards inexpensive prepaid plans instead of postpaid plans, and internet-based communication tools such as Twitter and Facebook became more widespread. These changes negatively impacted revenue from the telecommunications sector since they either reduce or eliminate the base subject to the excise tax.

The table below shows significant events in the telecommunications industry that have impacted tax liability as described above. Additional changes to the telecommunications industry since 2010 could negatively impact the tax liability going forward because they shift revenue from voice and text (taxable) to data (non-taxable).

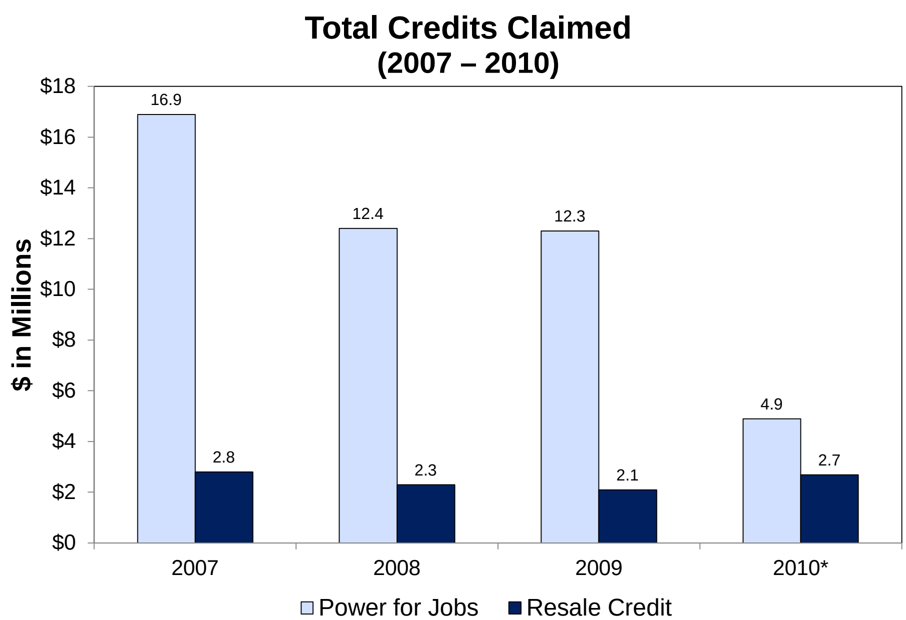
SIGNIFICANT EVENTS IN THE TELECOMMUNICATIONS INDUSTRY	
YEAR	**EVENT**
2006	Blackberry Messenger released
2006	Twitter website launched
2007	First iPhone sold with AT&T as the sole carrier
2008	Peak household ownership of landline and wireless telephone service in US
2010	First 4G LTE phone sold in US
2011	Verizon starts selling the iPhone, the first time a carrier other than AT&T carries the iPhone
2011	Facebook Messenger introduced
2011	iMessage released
2012	Smartphones account for more than half of active cell phones in the US for the first time
2012	Verizon begins offering new shared data plans
2012	Average text messages per month per person in the US declines for the first time
2012	Over one billion active users on Facebook
2012	Republic Wireless offers plans to the public where Wi-Fi is the primary network
2013	T-Mobile begins offering unsubsidized phone plans

Industry Profile

For tax year 2010, sections 186-a and 186-e represented the largest share of tax liability under Article 9 at approximately 83 percent of total liability. Sections 183 and 184 represented just over 12 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 56 percent of total tax paid for section 183 and approximately 95 percent for section 184. For section 183, management of companies and enterprises made up the second largest industry (approximately 29 percent). In section 184, truck transportation represented approximately three percent of total liability. The same pattern is exhibited by section 186-e, the excise tax on telecommunications services. Over 98 percent of total 186-e tax liability was paid by the telecommunications industry. Section 186-a is the gross receipts tax paid on the furnishing of utility services and the majority of that tax was paid by the utilities industry.

Credits

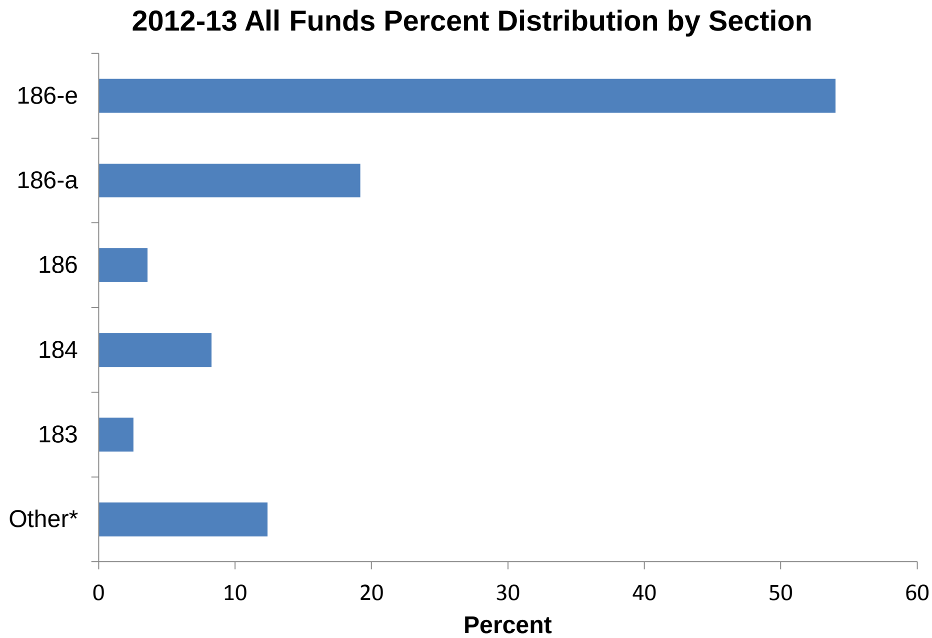
The following graph shows major credits used by Article 9 taxpayers in tax years 2007 through 2010. Taxpayers claimed the resale credit for telecommunications services under section 186-e and the Power for Jobs credit under section 186-a. The reduction in the Power for Jobs tax credit from the 2007 level 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 decline in the Power for Jobs tax credit claimed from 2009 to 2010 can be partly attributed to the 2010 legislation that allowed taxpayers to claim a maximum of $2 million in tax credits in tax year 2010 and defer any amounts greater than $2 million to tax year 2013.



*Power for Jobs tax credit deferral impact

The bar graph below depicts the share of total 2012-13 Article 9 All Funds attributable to each section of Article 9. Section 186-e, the gross receipts tax on telecommunications services, represents nearly 54 percent of All Funds receipts. The next largest section, the 186-a, the gross receipts tax on utility services, represents approximately 19 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 2012-13, 2013-14, and 2014-15. 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	2012-13 Actual	2013-14 Estimated	2014-15 Projected
180	Organization tax on New York (domestic) corporations	0.4	1.0	1.0
181	License and maintenance fees on out-of-State (foreign) corporations	31.5	28.0	28.0
183	Franchise tax on transporation and transmission companies	20.8	22.0	22.0
184	Additional franchise tax on transportation and transmission companies	52.5	51.0	51.0
185	Franchise tax on agricultural cooperatives	(0.6)	0.1	0.1
186 [1]	Franchise tax on water, steam, gas, electric, light and power companies	27.1	20.0	1.0
186a	Gross receipts tax on public utilities	168.7	175.9	183.0
186e	Excise tax on telecommunications	459.2	381.0	408.9
Other	186-a (non-PSC) and 189	0.0	0.0	0.0
Various	MTA Surcharge	135.0	115.0	119.0
	All Funds Total	894.5	794.0	814.0
	Less Other Funds			
	MTA Surcharge	135.0	115.0	119.0
	MTOAF	58.6	58.0	58.0
	DHBTF	14.6	15.0	15.0
	General Fund	686.3	606.0	622.0

[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. Legislation passed in 2013 that restructured LIPA eliminated the requirement that LIPA pay tax under section 186 effective January 1, 2014.

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

RECEIPTS: ESTIMATES AND PROJECTIONS

CORPORATION AND UTILITIES TAX
(millions of dollars)

	2012-13 Actual	2013-14 Estimated	Change	Percent Change	2014-15 Projected	Change	Percent Change
General Fund							
Non-Audit Receipts	622	556	(66)	(10.6)	582	26	4.7
Audit Receipts	64	50	(14)	(21.9)	40	(10)	(20.0)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**686**	**606**	**(80)**	**(11.7)**	**622**	**16**	**2.6**
Other Funds							
Non-Audit Receipts	172	166	(6)	(3.5)	178	12	7.2
Audit Receipts	36	22	(14)	(38.9)	14	(8)	(36.4)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**208**	**188**	**(20)**	**(9.6)**	**192**	**4**	**2.1**
All Funds							
Non-Audit Receipts	794	722	(72)	(9.1)	760	38	5.3
Audit Receipts	100	72	(28)	(28.0)	54	(18)	(25.0)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**894**	**794**	**(100)**	**(11.2)**	**814**	**20**	**2.5**

Note: Totals may differ due to rounding.

All Funds

2013-14 Estimates

All Funds receipts through December are $484.9 million, a decrease of $57 million (10.5 percent) from the comparable period in the prior fiscal year. The decrease is attributable to a large telecommunications refund ($30 million) that was paid in October 2013. Additionally, a large telecommunications audit was received in April 2012.

All Funds 2013-14 receipts are estimated to be $794 million, a decrease of $100.5 million (11.2 percent) from 2012-13. The decrease is attributable to significantly higher refunds (resulting from previous overpayments by a single taxpayer) and lower audit receipts.

2014-15 Projections

All Funds 2014-15 receipts are projected to be $814 million, an increase of $20 million (2.5 percent) from 2013-14. It is expected that tax year 2014 liability payments will grow modestly from the prior year.

General Fund

General Fund 2013-14 receipts are estimated to be $606 million, a decrease of $80.3 million (11.7 percent) from 2012-13. The decrease reflects the same trends impacting 2013-14 All Fund receipts.

General Fund 2014-15 receipts are projected to be $622 million, an increase of $16 million (2.6 percent) from 2013-14. The increase reflects the same trends impacting All Funds receipts for 2014-15.

Other Funds

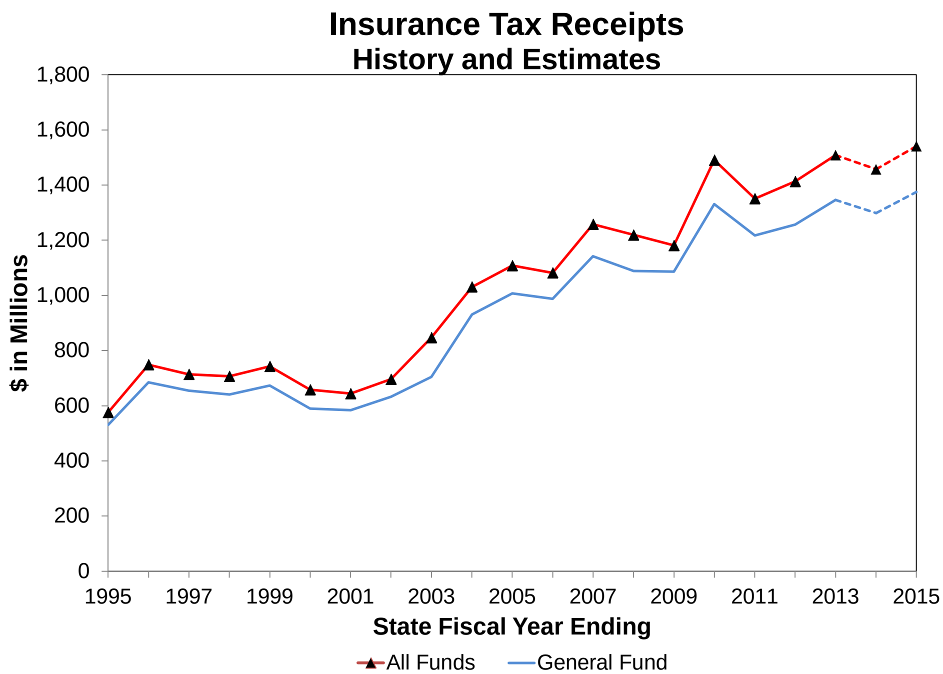
Eighty percent of Section 183 and 184 collections are deposited into the MTOAF and will total an estimated $58 million for 2013-14 and $58 million for 2014-15. The remaining portion of section 183 and 184 collections (20 percent) is earmarked for the DHBTF. DHBTF receipts are estimated at $15 million in 2013-14 and projected at $15 million in 2014-15.

The MCTD 17 percent business tax surcharge will result in MTOAF deposits of an estimated $115 million in 2013-14 and a projected $119 million in 2014-15.

INSURANCE TAXES

INSURANCE TAXES (millions of dollars)	2012-13 Actual	2013-14 Estimated	Change	Percent Change	2014-15 Projected	Change	Percent Change
General Fund	1,345.7	1,299.0	(46.7)	(3.5)	1,375.0	76.0	5.9
Other Funds	162.9	158.0	(4.9)	(3.0)	166.0	8.0	5.1
All Funds	1,508.6	1,457.0	(51.6)	(3.4)	1,541.0	84.0	5.8

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
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	1,414
2012-13	1,397	51	1,346	171	8	163	1,509
Estimated							
2013-14	1,329	30	1,299	165	7	158	1,457
2014-15							
Current Law	1,405	30	1,375	173	7	166	1,541
Proposed Law	1,405	30	1,375	173	7	166	1,541

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

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

DESCRIPTION

Tax Base and Rate

Under Article 33 of the Tax Law and the Insurance Law, the State imposes taxes on insurance corporations, insurance brokers and certain insured for the privilege of conducting business or otherwise exercising a corporate franchise in New York.

Tax Rate on Non-Life Insurers

Non-life insurers are subject to a premiums-based tax. Accident and health premiums received by non-life insurers are taxed at the rate of 1.75 percent and all other premiums received by non-life insurers are taxed at the rate of 2 percent. A $250 minimum tax applies to all non-life insurers.

Tax Rate on Life Insurers

The franchise tax on life insurers has two components. The first component is a franchise tax computed under four alternative bases, with tax due based on the highest tax calculated under the four alternative bases. In addition, a 0.8 of one mill tax rate applies to each dollar of subsidiary capital allocated to New York.

RATES FOR THE INCOME BASE OF THE FRANCHISE TAX ON LIFE INSURERS

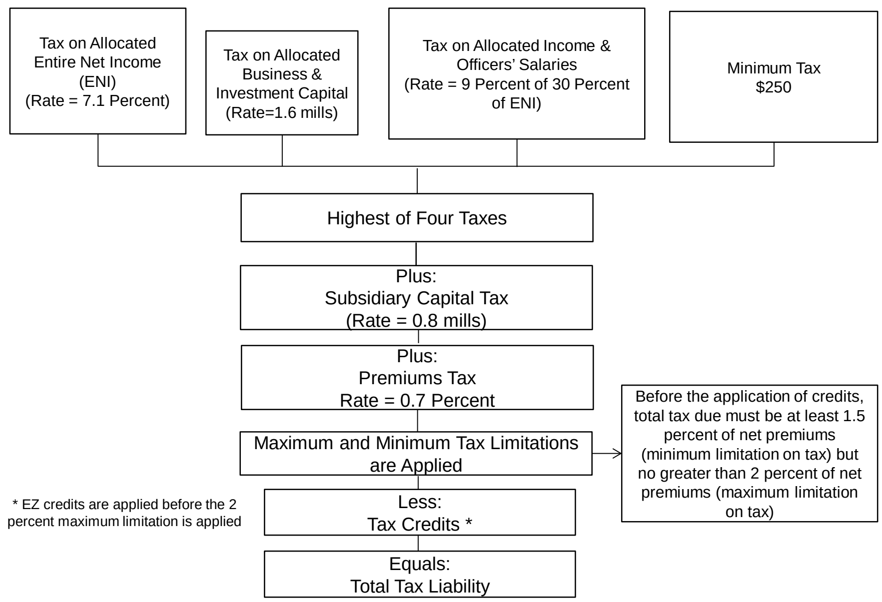
Base	Rate
Allocated entire net income	7.1 percent
Allocated business and investment capital	1.6 mills for each dollar
Allocated income and officers' salaries	9.0 percent of 30 percent of ENI
Minimum tax	$250

Tax is allocated to New York under the entire net income (ENI) base by a formula that apportions ENI based on weighted ratios of premiums (with a weight of nine) and wages (with a weight of one) earned or paid in New York, to total premiums and total wages for all employees for the tax year.

The second component is an additional franchise tax on gross premiums, less returned premiums. The tax rate on premiums is 0.7 percent and applies to premiums written on risks located or resident in New York. This tax is added to the sum of the tax due on the highest of the alternatives from the income base plus the tax imposed on subsidiary capital.

Maximum and minimum tax limitations are computed based on net premiums. Life insurers determine their maximum limitation by multiplying net premiums by 2 percent and their minimum limitation by multiplying net premiums by 1.5 percent. Under these limitations, the total tax calculated under the highest of the four alternative bases plus the tax imposed on subsidiary capital plus the 0.7 percent tax on net premiums must be at least as high as the minimum tax or "floor" (1.5 percent of net premiums) but no greater than the maximum limitation (2 percent of net premiums).

Computation of Article 33 Tax on Life Insurance Companies



Generally, taxpayers with a tax liability that exceeds the floor may not reduce their liability with tax credits to a level below the floor. However, taxpayers may use Empire Zone and Zone Equivalent Area tax credits to do so.

Article 33 taxpayers conducting business in the Metropolitan Commuter Transportation District (MCTD) are subject to a 17 percent surcharge on the portion of their tax liability which is attributable to the MCTD area.

Article 33 of the Tax Law also imposes a premiums tax on captive insurance companies licensed by the Superintendent of the Department of Financial Services for the privilege of conducting business or otherwise exercising a corporate franchise in New York. The tax is imposed on net premiums and net reinsurance premiums (gross premiums less return premiums) written on risks located or resident in the State at rates which vary with the amount of net premiums. The top rate is 0.4 percent on direct premiums and 0.225 percent on reinsurance premiums. Captive (i.e., affiliates that insure the risks of the other corporate members) insurers are subject to a minimum tax of $5,000. Tax credits are not allowed against the tax imposed on captive insurance companies and these companies are not subject to the MTA business tax surcharge.

Other Taxes Imposed on Insurers

Article 33-A of the Tax Law imposes a tax at the rate of 3.6 percent of premiums on independently procured insurance. This tax is imposed on any insured purchasing or renewing an insurance contract covering certain property and casualty risks from an unauthorized insurer where the home state of the insured is New York. An unauthorized insurer is an insurer not authorized to transact business in New York under a certificate of authority from the Superintendent of the Department of Financial Services.

The Insurance Law imposes a premiums tax on a licensed excess line (i.e., covering unique or very large risks) insurance broker when a policy covering a risk where the home state of the insured is New York is procured through such broker from an unauthorized insurer. Transactions involving a licensed excess lines broker and an insurer not authorized to do business in New York are permissible under limited circumstances delineated in Article 21 of the Insurance Law. The tax is imposed at a rate of 3.6 percent of premiums covering risks located in New York.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 gave the “home state” of the insured the sole authority to regulate and collect taxes on these transactions. Generally, the insured’s home state is the state where it is headquartered, or in the case of individuals, their place of residence.

The Insurance Law authorizes the Superintendent of the Department of Financial Services to assess and collect retaliatory taxes from a foreign insurance corporation when the overall tax rate imposed by its home jurisdiction on New York companies exceeds the comparable tax rate imposed by New York on such foreign insurance companies.

Retaliatory taxes have been employed by the states since the nineteenth century to ensure a measure of fairness in the interstate taxation of insurance corporations. Retaliatory taxes deter other states from discriminating against foreign corporations and effectively require states with a domestic insurance industry to maintain an overall tax rate on insurance corporations that is generally consistent with other states.

Nevertheless, there are a variety of mechanisms for taxing insurance corporations throughout the states, and differences in overall tax rates among the states are inevitable. New York provides an additional measure of protection for its domestic insurance industry by allowing domestic corporations to claim a credit under Article 33 of the Tax Law for 90 percent of the retaliatory taxes legally required to be paid to other states.

Receipts from the 17 percent business tax surcharge imposed on insurance companies conducting business in the MCTD are deposited in the Mass Transportation Operating Assistance Fund (MTOAF).

Administration

Insurance companies that reasonably expect their tax liability to exceed $1,000 for the current tax year are required to make a mandatory first installment of estimated tax and three additional estimated payments. The mandatory first installment is due 75 days from the end date of a taxpayer's fiscal year. The remaining three estimated tax payments are due on the 15th day of the third month of the fiscal year quarter. The majority of 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 less than $1,000 make no mandatory first installment.

Tax Expenditures

Tax expenditures are defined as features of the Tax Law that by exclusion, exemption, deduction, allowance, credit, deferral, preferential tax rate or other statutory provision reduce the amount of a taxpayer’s liability to the State by providing either economic incentives or tax relief to particular entities to achieve a public purpose. Article 33 taxpayers are eligible for several targeted tax credits, including the investment tax credit (ITC), the long-term care insurance credit, and the Excelsior Jobs program tax credits. For a more detailed discussion of tax expenditures, see the *Annual Report on New York State Tax Expenditures*, prepared by the Department of Taxation and Finance and the Division of the Budget.

There are also several types of insurance contracts that are exempt from the franchise tax. These include, but are not limited to, certain annuity contracts, certain reinsurance premiums and certain health insurance contracts for insured’s aged 65 years and older. Certain corporations and other entities that provide insurance are exempt from State franchise taxes and the regional business surcharge. Non-profit medical expense indemnity corporations and other health service corporations, organized under Article 43 of the Insurance Law, are exempt from these State taxes. In addition, cooperative insurance companies in effect (operation) prior to January 1, 1974, are exempt from taxation while those formed on or after that date are subject to the tax.

Significant Legislation

Significant statutory changes to insurance taxes since 2000 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 2000		
CAPCOs	Established CAPCO Program Three. Increased the statewide cap from $130 million to $280 million.	January 1, 2002
Investment Tax Credit	Allowed insurance taxpayers that are brokers/dealers in securities to claim a credit for equipment or buildings used in broker/dealer activity and in activities connected with broker/dealer operations.	Available for property placed in service between January 1, 2002 and October 1, 2003
Empire Zones Program	Provided Qualified Empire Zone Enterprises (QEZE) tax incentives in Empire Zones. Transformed the current Economic Development Zones into virtual “tax free” zones for certain businesses. The enhanced benefits of this program included a tax credit on real property taxes paid, tax reduction credit, and sales and use tax exemption.	January 1, 2001
Legislation Enacted in 2002		
Mandatory First Installment Percentage	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year’s liability for non-life insurance companies under Article 33. Life insurance companies were not affected. Taxpayers whose prior year’s liability exceeded $100,000 were affected. Taxpayers whose prior year’s liability was between $1,000 and $100,000 continued to make a first quarterly payment of 25 percent of the prior year’s liability. Sunset for tax years beginning on or after January 1, 2006, and expired January 1, 2007.	January 1, 2003
Legislation Enacted in 2003		
Insurance Tax Structure	Changed the tax base for insurance taxpayers as follows: • 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

Subject	Description	Effective Date
Legislation Enacted in 2004		
CAPCOs	Established CAPCO Program Four. Increased the Statewide cap from $280 million to $340 million.	January 1, 2006
Legislation Enacted in 2005		
CAPCOs	Established CAPCO Program Five. Provided an additional allocation of $60 million that was made available over a ten year period beginning in 2007.	April 1, 2005
Legislation Enacted in 2006		
Annuity Premiums	Amended the tax limitation applicable to certain insurance companies to provide that it is computed by using the amount of annuity premiums of the insurance company that are in excess of 95 percent of total premiums.	January 1, 2006
Legislation Enacted in 2007		
Entire Net Income (ENI) Tax Rate	Reduced the rate on the ENI base from 7.5 percent to 7.1 percent.	January 1, 2007
Legislation Enacted in 2008		
REITs/RICs Provisions Technical and Substantive Amendments	Amended the 2007 REITs/RICs provisions to make closely-held REIT and RIC subsidiaries includable in a combined return with the closest affiliate in the corporate group that is a New York State taxpayer, regardless of the article under which that taxpayer files its New York return. Previously, REITs and RICs were treated as Article 9-A corporation franchise taxpayers by definition. This legislation also made other technical and conforming changes.	January 1, 2008
Qualified Production Activity Income (QPAI) Deduction	Decoupled New York State from Internal Revenue Code (IRC) Section 199 and required taxpayers to add back the qualified production activities income (QPAI) deduction when computing New York taxable income.	January 1, 2008
Mandatory First Installment Percentage	Provided that non-life insurance companies with a prior year tax liability over $100,000 must calculate their mandatory first installment payment of franchise tax and MTA surcharge at 30 percent, instead of the previous 25 percent, of the prior year's tax liability. Taxpayers with a prior year liability between $1,000 and $100,000 continued to use the 25 percent amount to calculate their mandatory first installment. Life insurance taxpayers with a prior year liability between $1,000 and $100,000 continued to use the 40 percent amount to calculate their mandatory first installment.	January 1, 2009
Brownfields Program Reform	Amended the tangible property credit component to impose a limit of the lesser of $35 million or three times the qualifying costs used in calculating the site preparation and on-site groundwater components for projects accepted into the Brownfields program after June 22, 2008. Qualifying manufacturers accepted after this date would be subject to a tangible property credit component limitation equal to the lesser of $45 million or six times the qualifying costs used in calculating the site preparation and on-site groundwater components. Several other changes were effected; including increasing the credit percentages awarded under the site preparation and on-site groundwater components to as much as fifty percent.	June 23, 2008
Legislation Enacted in 2009		
Tax Treatment of Overcapitalized Insurance Companies	Required an overcapitalized captive insurance company to file a combined report with the corporation that directly owned or controlled over 50 percent of the voting stock of the captive if that corporation was an Article 9-A taxpayer.	January 1, 2009
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

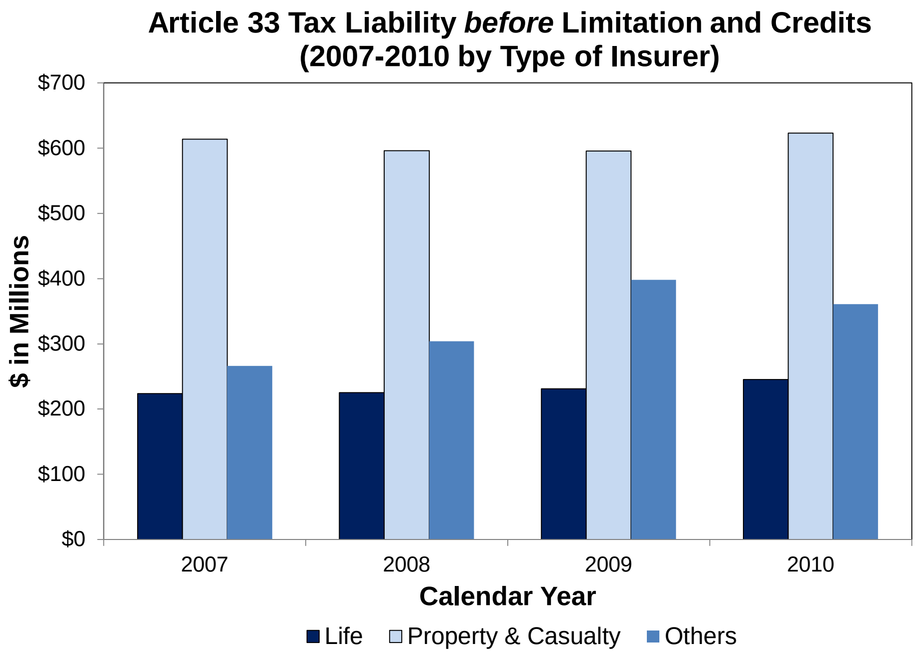
Subject	Description	Effective Date
Empire Zones Reform	Reformed the Empire Zones program. All companies that had been certified for at least three years were subjected to a performance review focusing on cost/benefit ratios.	January 1, 2008
	The QEZE real property tax credit was reduced by 25 percent 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
Legislation Enacted in 2013		
Royalty Income Loophole	Closed a loophole that allowed New York companies that earn royalty income to avoid paying taxes on that income. New York taxpayers must show on their tax return that the taxpayer's Non-New York parent company included the royalty income in its tax liability. The demonstration absolves taxpayers of the obligation to pay tax on their royalty income.	January 1, 2013
Historic Properties Tax Credit	Extended for five years the maximum Historic Preservation Tax Credit amount of $5 million, which had previously been scheduled to revert to $100,000 following the conclusion of tax year 2014, and permanently made the credit refundable for tax years beginning on or after January 1, 2015.	January 1, 2015

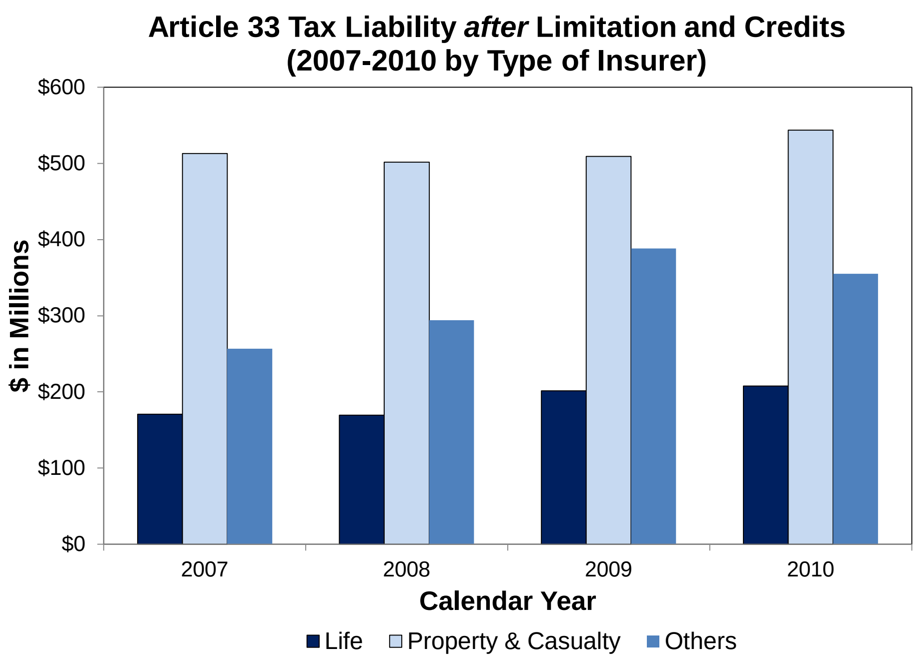
Subject	Description	Effective Date
Veterans Tax Credit	Provided a refundable tax credit for tax years 2015 and 2016 equaling 10 percent of the wages paid to a qualified veteran (capped at $5,000) and 15 percent of wages paid to a qualified veteran (capped at $15,000).	January 1, 2015
Minimum Wage Reimbursement Credit	Provided a refundable tax credit for tax years 2014 through 2018 equal to the product of the number of hours worked by qualifying minimum wage-earning employees and 1) $0.75 in tax year 2014; 2) $1.31 in tax year 2015; and 3) $1.35 in tax years 2016 through 2018. Qualifying employees must be students aged 16 to 19, and the credit is reduced if the federal minimum wage is increased to a level in excess of 85 percent of the New York minimum wage.	January 1, 2014
Excelsior Jobs Program	Changed the job requirement parameters for the Excelsior Jobs Program and allowed a portion of the unallocated tax credits from any taxable year to be used to award tax credits in another taxable year.	May 27, 2013

TAX LIABILITY

The Department of Taxation and Finance's Insurance Franchise Tax Study File contains tax liability data for the 2010 tax year, the most recent year for which such data are available. The tax year 2010 Study File liability includes a favorable impact from the 2010 legislation that deferred certain tax credits for tax years 2010 through 2012. The most recent Study File indicates that the property and casualty sector is the largest sector, accounting for 49 percent of total tax liability. Other insurers, which include accident and health insurers, are the second largest, with 32 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 2007 through 2010 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 Department of Financial Services, the three largest lines of business under the property and casualty sector in 2012 were automobile, homeowners' multi-peril and worker's compensation. The table below reports actual property and casualty premiums and growth from 2006 through 2012 for New York State. Total premiums for property and casualty companies grew by 5.3

percent in 2012, the most robust growth over this period. In 2012, all lines of insurance showed strong growth over 2011 with the exception of the other category. For the second year in a row, worker's compensation grew double digits and general liability grew year-over-year, after three consecutive years of decline.

PROPERTY AND CASUALTY INSURANCE PREMIUMS NEW YORK CALENDAR YEAR (millions of dollars/percent)							
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Lines of Insurance							
Automobile	12,039.2	11,769.5	11,709.5	11,744.2	11,895.0	12,148.3	12,636.8
percent change	(2.5)	(2.2)	(0.5)	0.3	1.3	2.1	4.0
Worker's Compensation	4,132.8	4,227.6	3,501.0	3,423.1	3,623.2	4,157.4	4,754.7
percent change	9.9	2.3	(17.2)	(2.2)	5.8	14.7	14.4
Commercial Multi-Peril	3,074.0	3,071.6	3,058.0	3,025.6	2,986.5	3,056.9	3,249.5
percent change	3.7	(0.1)	(0.4)	(1.1)	(1.3)	2.4	6.3
General Liability	4,386.8	4,306.1	4,487.9	4,154.6	4,137.6	4,089.0	4,466.1
percent change	9.8	(1.8)	4.2	(7.4)	(0.4)	(1.2)	9.2
Homeowner's Multi-Peril	3,614.5	3,908.4	4,079.1	4,219.3	4,336.1	4,499.7	4,704.4
percent change	5.4	8.1	4.4	3.4	2.8	3.8	4.5
Other	6,426.8	7,048.4	7,059.0	6,314.0	6,036.0	6,196.3	6,133.0
percent change	9.1	9.7	0.2	(10.6)	(4.4)	2.7	(1.0)
TOTAL P/C PREMIUMS	33,674.1	34,331.6	33,894.5	32,880.8	33,014.4	34,147.6	35,944.4
percent change	4.0	2.0	(1.3)	(3.0)	0.4	3.4	5.3

Source: New York State Department of Financial Services Annual Report to the Governor and the Legislature and the and the NAIC's I-site for 2012.

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)							
	2012-13 Actual	**2013-14 Estimated**	**Change**	**Percent Change**	**2014-15 Projected**	**Change**	**Percent Change**
General Fund							
Non-Audit Receipts	1,323	1,288	(35)	(2.6)	1,364	76	5.9
Audit Receipts	23	11	(12)	(52.2)	11	0	0.0
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**1,346**	**1,299**	**(47)**	**(3.5)**	**1,375**	**76**	**5.9**
Other Funds							
Non-Audit Receipts	152	148	(4)	(2.6)	156	8	5.4
Audit Receipts	11	10	(1)	(9.1)	10	0	0.0
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**163**	**158**	**(5)**	**(3.1)**	**166**	**8**	**5.1**
All Funds							
Non-Audit Receipts	1,475	1,436	(39)	(2.6)	1,520	84	5.8
Audit Receipts	34	21	(13)	(38.2)	21	0	0.0
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**1,509**	**1,457**	**(52)**	**(3.4)**	**1,541**	**84**	**5.8**

Note: Totals may differ due to rounding.

All Funds

2013-14 Estimates

All Funds receipts through December are $853 million, a decrease of $26.8 million (3 percent) from the comparable period in the prior fiscal year. The State transitioned the medical portion of the Empire Plan to self-insurance, effective January 1, 2013. This resulted in lower tax year 2013 liability since the State no longer remits the insurance tax as part of a premium payment.

All Funds 2013-14 receipts are estimated to be $1,457 million, a decrease of $51.6 million (3.4 percent) from 2012-13. The decrease is attributable to the factors described above.

2014-15 Projections

All Funds 2014-15 receipts are projected to be $1,541 million, an increase of $84 million (5.8 percent) from 2013-14. Receipts in 2014-15 assume underlying growth in premiums partially offset by the transition of additional portions of the Empire Plan to self-insurance, effective January 1, 2014.

General Fund

General Fund 2013-14 receipts are estimated to be $1,299 million, a decrease of $46.7 million (3.5 percent) from 2012-13. The decrease reflects the same trends impacting 2013-14 All Fund receipts.

General Fund 2014-15 receipts are projected to be $1,375 million, an increase of $76 million (5.9 percent) from 2013-14. The increase reflects the same trends impacting All Funds receipts for 2014-15.

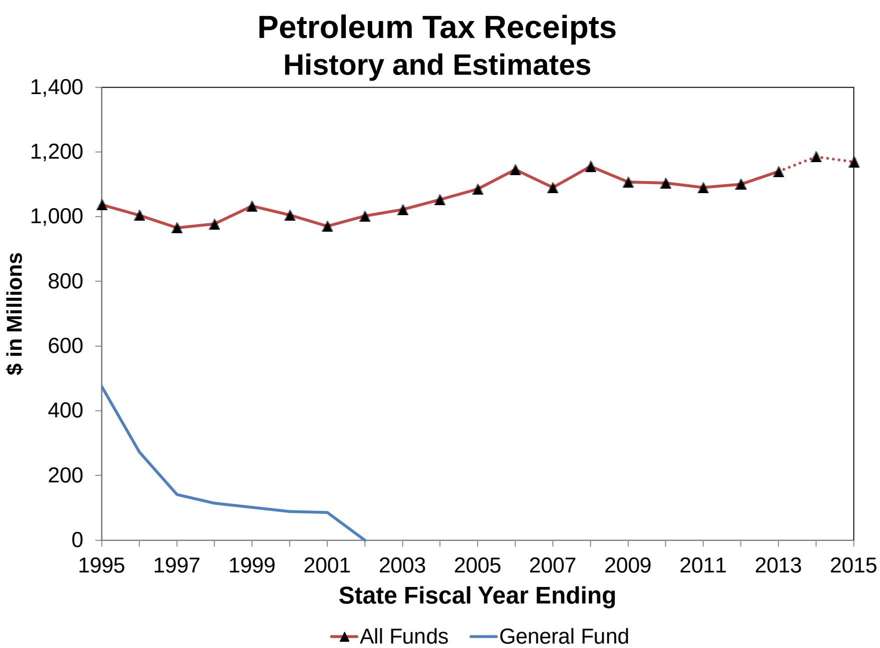
Other Funds

The MCTD 17 percent business tax surcharge will result in MTOAF deposits of an estimated $158 million in 2013-14 and a projected $166 million in 2014-15.

PETROLEUM BUSINESS TAXES

PETROLEUM BUSINESS TAXES (millions of dollars)	2012-13 Actual	2013-14 Estimated	Change	Percent Change	2014-15 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	1,139.8	1,185.0	45.2	4.0	1,169.0	(16.0)	(1.4)
All Funds	1,139.8	1,185.0	45.2	4.0	1,169.0	(16.0)	(1.4)

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
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
2012-13	0	521	15	506	658	24	634	1,140
Estimated								
2013-14	0	542	15	527	682	24	658	1,185
2014-15								
Current Law	0	537	15	522	675	24	651	1,173
Proposed Law	0	535	15	520	673	24	649	1,169

[1] Dedicated Mass Transportation Trust Fund and Mass Transportation Operating Assistance Fund.
[2] Dedicated Highway and Bridge Trust Fund.

PROPOSED LEGISLATION

Legislation proposed with this Budget would extend the alternative fuels tax exemptions for two years.

DESCRIPTION

Tax Base and Rate

Article 13-A of the Tax Law imposes a tax on petroleum businesses for the privilege of operating in the State, based upon the quantity of various petroleum products imported for sale or use in the State. Petroleum business tax (PBT) rates have two components: the base tax, whose rates vary by product type; and the supplemental tax, which is imposed, in general, at a uniform rate.

Tax rates are indexed with annual adjustments made on January 1 of each year to the base and supplemental tax rates to reflect the percent change in the producer price index (PPI) for refined petroleum products for the 12 months ending August 31 of the preceding year. To prevent significant changes in tax rates resulting from large changes in the petroleum PPI, tax rates cannot increase or decrease by more than 5 percent per year. In addition to the 5 percent cap on tax rate changes, the statute requires, in general (i.e., excluding diesel), that the base and supplemental tax rates each be rounded to the nearest tenth of one cent. As a result, the percentage change in tax rates is usually less than the 5 percent limit.

Based on changes in the petroleum PPI, the PBT rate index increased by 5 percent on January 1, 2013, and decreased by 0.8 percent on January 1, 2014. The petroleum PPI is estimated to decline 4 percent through August 2014, resulting in a 4 percent decline in PBT rates on January 1, 2015.

PETROLEUM BUSINESS NET TAX RATES FOR 2013 - 2015
(cents per gallon)

Petroleum Product	2013 Base	2013 Supp	2013 Total	2014 Base	2014 Supp	2014 Total	2015 Base	2015 Supp	2015 Total[1]
Automotive fuel									
Gasoline and other non diesel	11.20	7.40	**18.60**	11.10	7.30	**18.40**	10.70	7.00	**17.70**
Highway Use Diesel	11.20	5.65	**16.85**	11.10	5.55	**16.65**	10.70	5.25	**15.95**
Aviation gasoline or Kero-Jet Fuel	7.40	0.00	**7.40**	7.30	0.00	**7.30**	7.00	0.00	**7.00**
Non-Highway Use diesel fuels									
Commercial Gallonage	10.10	0.00	**10.10**	10.00	0.00	**10.00**	9.60	0.00	**9.60**
Nonresidential heating	5.50	0.00	**5.50**	5.40	0.00	**5.40**	5.20	0.00	**5.20**
Residual petroleum products									
Commercial gallonage	7.70	0.00	**7.70**	7.60	0.00	**7.60**	7.30	0.00	**7.30**
Nonresidential heating	4.20	0.00	**4.20**	4.10	0.00	**4.10**	3.90	0.00	**3.90**
Railroad diesel fuel	9.90	0.00	**9.90**	9.80	0.00	**9.80**	9.40	0.00	**9.40**

[1] Projected — The projected petroleum producer price index decrease of 4 percent through August 2014 will result in an decrease of 4 percent in the PBT tax rates on January 1, 2015.

PETROLEUM PPI AND PETROLEUM BUSINESS TAX RATE INDEX (percent change)		
Year	Petroleum PPI	PBT Rate Index
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	(0.8)	(0.8)
2015*	(4.0)	(4.0)

* 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), certain bunker fuel, and motor fuels sold to volunteer ambulance and volunteer fire departments. For a complete list of tax expenditure items related to the PBT, see the *New York State Tax Expenditure Report*.

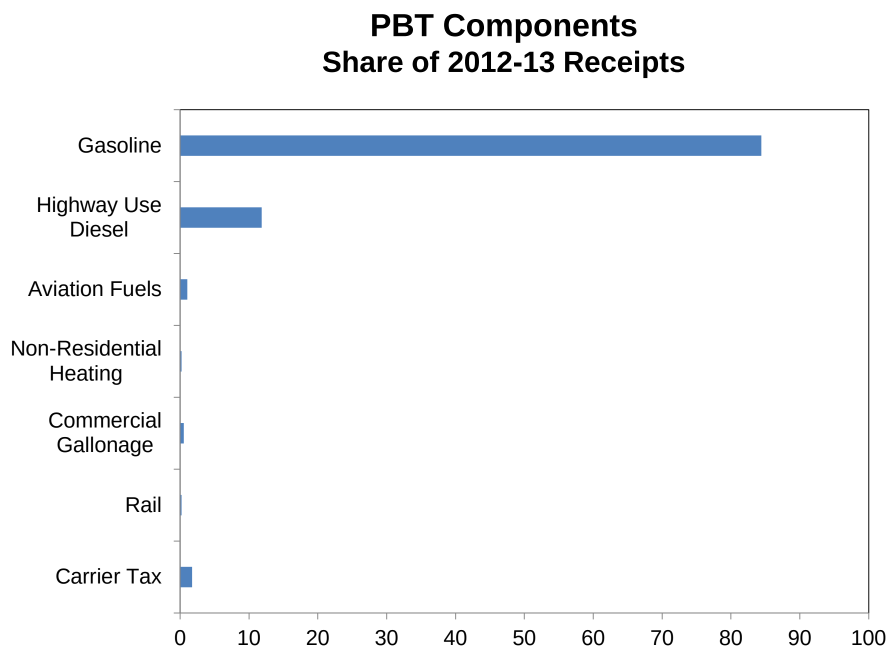
Significant Legislation

Significant statutory changes to petroleum business taxes since 2000 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 2000		
Minimum Tax	Eliminated the minimum taxes on petroleum businesses and aviation fuel businesses under the PBT.	March 1, 2001
Commercial Heating	Reduced by 33 percent the petroleum business tax rates on commercial gallons for space heating.	September 1, 2002
Fund Distributions	Dedicated base tax receipts to the MTOAF (19.7 percent) and the Dedicated Funds Pool (80.3 percent).	April 1, 2001
Legislation Enacted in 2004		
Aviation Fuel	Eliminated PBT on fuels used for aircraft overflight and landing.	November 1, 2004
	Exempted fuel burned on takeoff by airlines operating non-stop flights between at least four cities in New York.	June 1, 2005
Legislation Enacted in 2005		
Enforcement Provisions	Required collection of taxes on sales to non-Native Americans on New York reservations.	March 1, 2006
Legislation Enacted in 2006		
Alternative Fuels	Exempted or partially exempted PBT on alternative fuels, including E85 and B20, 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
Legislation Enacted in 2013		
Volunteer First Responders	Provides a reimbursement for motor fuel and diesel motor fuel used by volunteer ambulance and fire departments.	June 1, 2013
Interdistributor Sales	Allowed for tax free interdistributor sales of highway diesel motor fuel sold below the rack (i.e., not delivered by truck).	August 1, 2013

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

2013-14 Estimates

All Funds receipts through December are $887 million, an increase of $25 million (2.9 percent) from the comparable period in the prior fiscal year.

All Funds 2013-14 receipts are estimated to be $1,185 million, an increase of $45.2 million (4 percent) from 2012-13. The increase in receipts is primarily due to the 5 percent increase in the PBT index on January 1, 2013, offset by the 0.8 percent decrease in the PBT index on January 1, 2014.

Petroleum business tax receipts derived from motor fuel and diesel motor fuel are assumed to follow the same consumption trends as fuel subject to the motor fuel excise tax (see section titled Motor Fuel Tax). Gasoline taxable gallonage is estimated to increase by 1.4 percent and diesel taxable gallonage is estimated to increase by 2.6 percent.

2014-15 Projections

All Funds 2014-15 receipts are projected to be $1,169 million, a decrease of $16 million (1.4 percent) from 2013-14. The decrease in receipts is primarily due to the 0.8

percent decrease in the PBT index, effective January 1, 2014, and the projected 4 percent decrease on January 1, 2015.

General Fund

No PBT receipts are deposited into the General Fund.

Other Funds

The base and supplemental tax are split as follows:

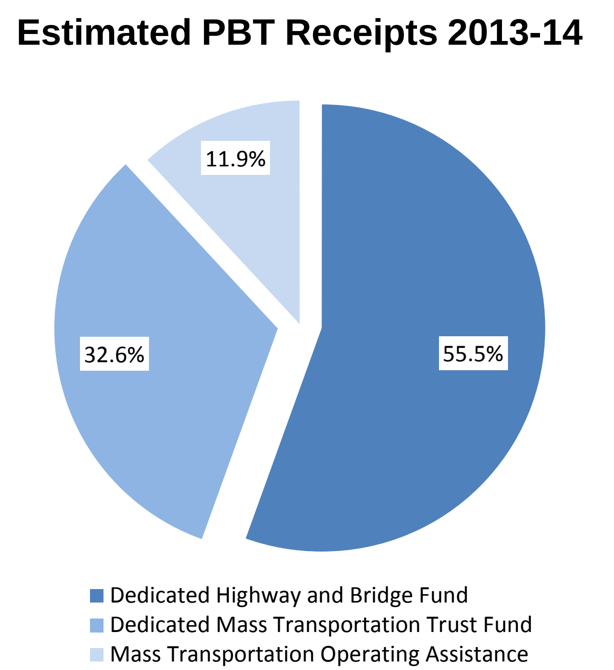
PBT BASE AND SUPPLEMENTAL TAX FUND DISTRIBUTION (percent)

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).

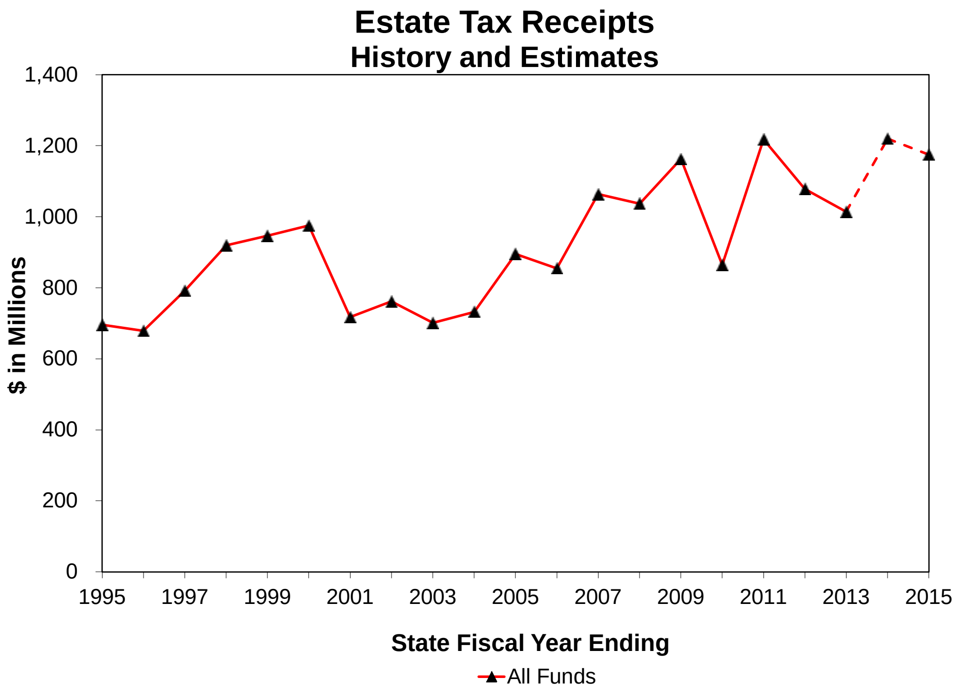
Petroleum business tax receipts in 2013-14 are estimated to be $140.4 million for MTOA, $658.2 million for the DHBTF, and $386.4 million for the DMTTF. Petroleum business tax receipts in 2014-15 are projected to be $138.5 million for MTOA, $649.3 million for the DHBTF, and $381.2 million for DMTTF.



ESTATE TAX

ESTATE TAX (millions of dollars)							
	2012-13 Actual	2013-14 Estimated	Change	Percent Change	2014-15 Projected	Change	Percent Change
General Fund	1,014.0	1,220.0	206.0	20.3	1,175.0	(45.0)	(3.7)
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	1,014.0	1,220.0	206.0	20.3	1,175.0	(45.0)	(3.7)

Note: Totals may differ due to rounding. Excludes gift tax residual payments.



ESTATE TAX BY FUND (millions of dollars)				
	Gross General Fund	Refunds	General Fund	All Funds Receipts
2004-05	936	41	899	899
2005-06	892	37	857	857
2006-07	1,122	59	1,053	1,053
2007-08	1,079	42	1,037	1,037
2008-09	1,279	114	1,165	1,165
2009-10	911	45	866	866
2010-11	1,270	51	1,219	1,219
2011-12	1,148	69	1,079	1,079
2012-13	1,070	56	1,014	1,014
Estimated				
2013-14	1,285	65	1,220	1,220
2014-15				
Current	1,268	60	1,208	1,208
Proposed	1,235	60	1,175	1,175

PROPOSED LEGISLATION

Legislation proposed with this Budget would reform the estate tax.

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 2010 are summarized below.

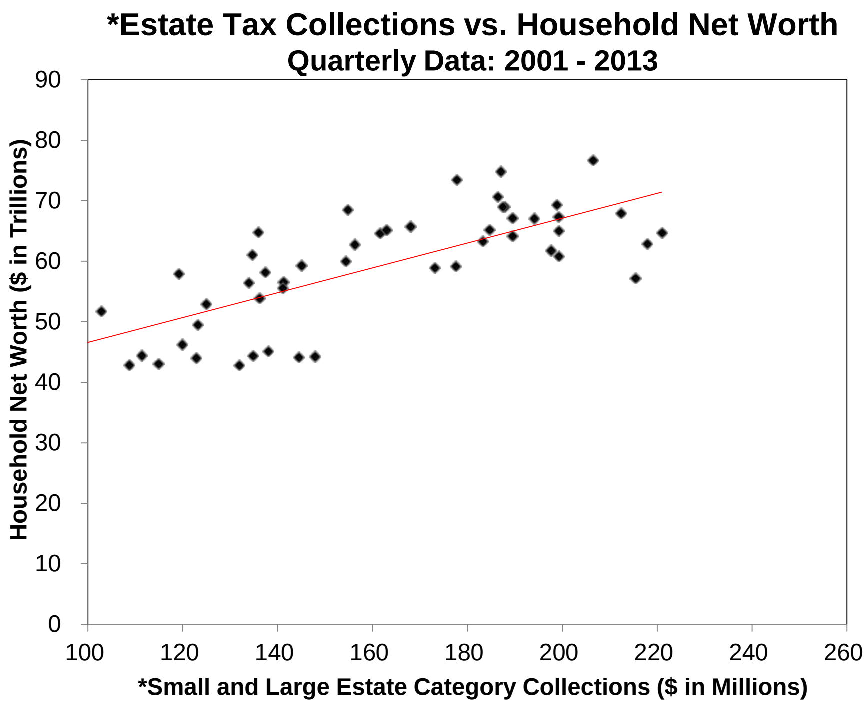
Subject	Description	Effective Date
Legislation Enacted in 2010		
Unified Credit	Set the State's unified credit to provide a $1,000,000 exemption level independent of the Federal Credit.	January 1, 2010

TAX LIABILITY

The recent yield of this tax has been heavily influenced by two factors: 1) annual variations in the relatively small number of large estates, and 2) the value of the equity market, given the large component of corporate stock in large taxable estates. As a result, volatility is expected to remain a characteristic of this revenue source.

In developing projections for estate tax receipts, the value of household net worth is used to forecast receipts from estates that make payments of less than $4 million. In addition to the value of equities, a distributional analysis is utilized to estimate receipts and the number of estates where payments exceed $4 million.

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



RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2013-14 Estimates

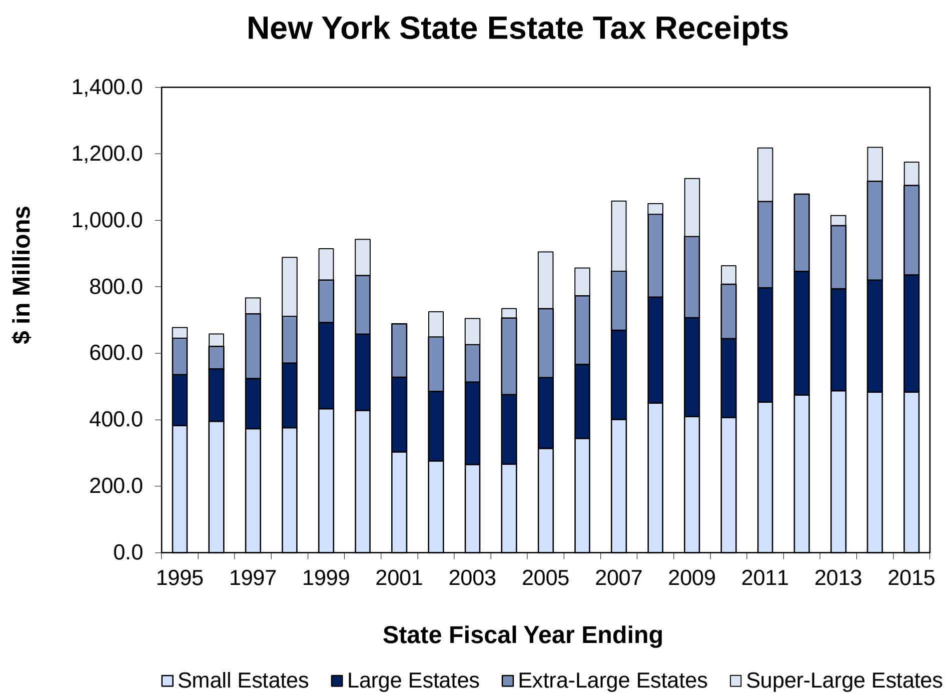
All Funds receipts through December are $973 million, an increase of $175 million (21.9 percent) from the comparable period in the prior fiscal year.

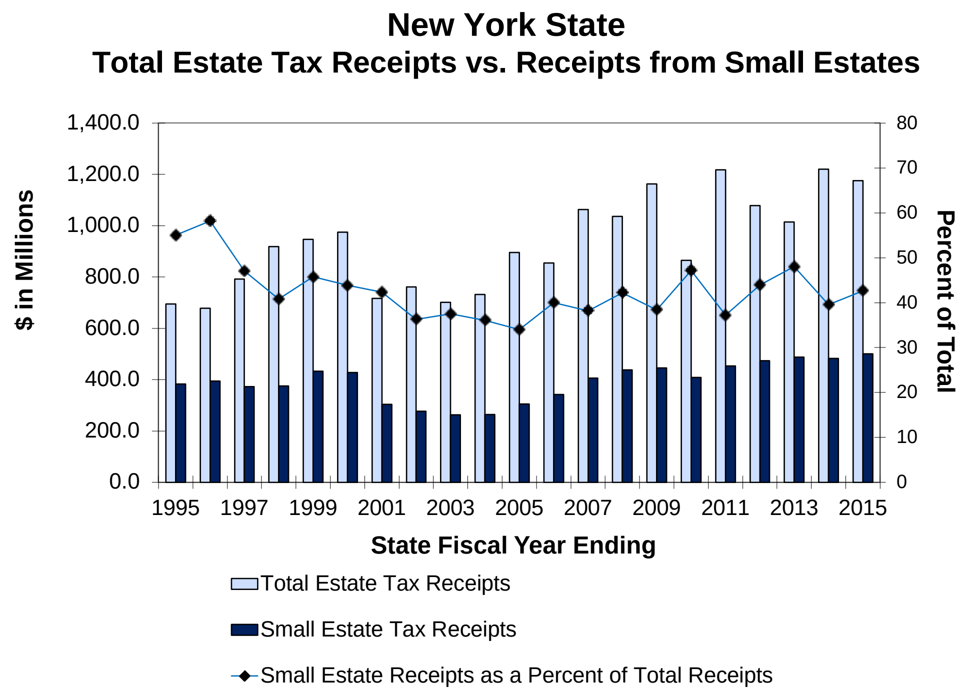
All Funds 2013-14 receipts are estimated to be $1,220 million, an increase of $206 million (20.3 percent) from 2012-13.

Small estate (less than $0.5 million in payments) collections through December are $362.4 million, a decrease of $12.7 million from the comparable period in the prior fiscal year. Small estate 2013-14 receipts are estimated to be $483 million, a decrease of $4.3 million (0.9 percent) from 2012-13.

Large estate (payments between $0.5 and $4 million) payments through December are $261.1 million, an increase of $29.9 million (12.9 percent) above the comparable period in the prior fiscal year. Large estate 2013-14 receipts are estimated to be $337 million, an increase of $30.1 million (9.8 percent) from 2012-13.

Extra-large (payments between $4 million and $25 million) and super-large (payments greater than $25 million) estate collections through December are $349.1 million, an increase of $158.5 million (83.2 percent) from the same period in the prior fiscal year. Extra-large estate and super-large estate 2013-14 payments are estimated to be $400 million, an increase of $180.2 million (82 percent) from 2012-13.





2014-15 Projections

All Funds 2014-15 receipts are projected to be $1,175 million, a decrease of $45 million (3.7 percent) from 2013-14. This decrease is mainly the result of Executive Budget legislation that would raise the estate tax threshold and cut the rate.

Large estate 2014-15 receipts are projected to be $353 million, an increase of $16 million (4.7 percent), and collections from small estate payments are projected to remain level at $483 million.

Super-large and extra-large estate 2014-15 receipts are projected to be $339 million, a decrease of $61 million (15.3 percent) from 2013-14.

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
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
2012-13	24	219.8	273	306.9	487.3	1,014.0
Estimated						
2013-14	36	400.0	289	337.0	483.0	1,220.0
2014-15						
Current	33	345.0	304	355.0	508.0	1,208.0
Proposed	33	339.0	304	353.0	483.0	1,175.0

[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.

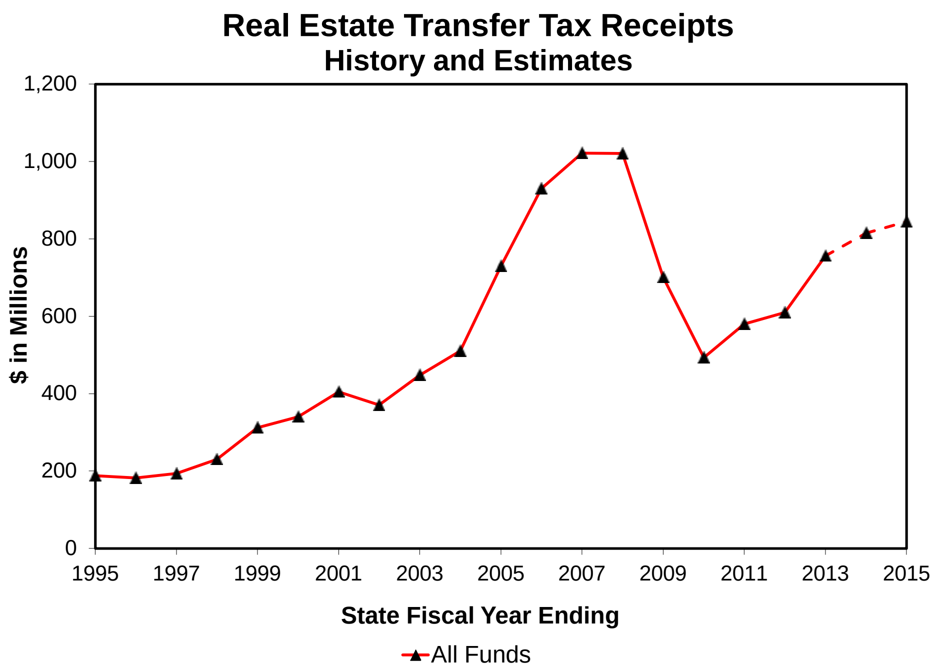
[4] Payment less than $0.5 million. (Small estates include all CARTS less all refunds.)

REAL ESTATE TRANSFER TAX

REAL ESTATE TRANSFER TAX
(millions of dollars)

	2012-13 Actual	2013-14 Estimated	Change	Percent Change	2014-15 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	756.4	815.0	58.6	7.7	855.0	40.0	4.9
All Funds	756.4	815.0	58.6	7.7	855.0	40.0	4.9

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
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
2012-13	119	637	0	637	756
Estimated					
2013-14	119	697	1	696	815
2014-15					
Current law	119	737	1	736	855
Proposed law	119	737	1	736	855

[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.

Significant Legislation

Significant statutory changes to the real estate transfer tax since 2000 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 2013		
START-UP NY	Established tax-free zones on or near qualifying university and college campuses. Qualifying businesses operating within such zones are exempt from taxation under the real estate transfer tax.	January 1, 2014

TAX LIABILITY

Real estate transfer tax receipts are a function of the number and type of conveyances and the consideration per conveyance. Conveyances and prices are largely determined by mortgage rates, vacancy rates and inflation. The Manhattan commercial real estate market, which has historically been subject to large swings in demand and capacity, can have a significant impact on receipts.

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

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2013-14 Estimates

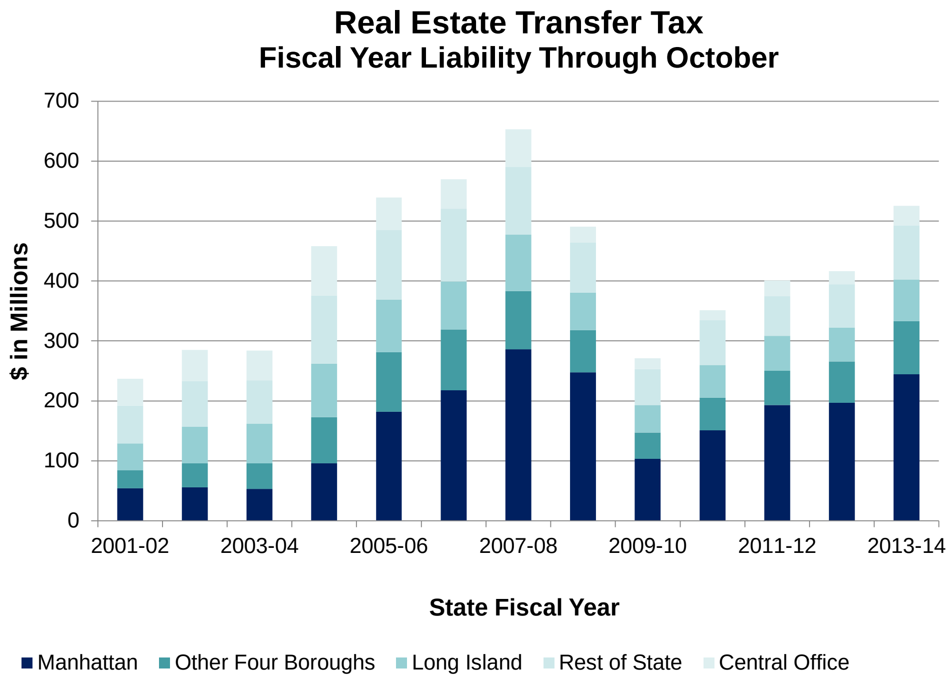
All Funds receipts through December are $682 million, an increase of $126 million (22.7 percent) from the comparable period in the prior fiscal year.

All Funds 2013-14 receipts are estimated to be $815 million, an increase of $58.6 million (7.7 percent) from 2012-13.

New York's recent residential real estate experience has largely followed nationwide trends, though at a more accelerated pace, driven by the New York City market. Through November 2013, both pending and closed sales have exhibited double digit growth compared to the same period in the prior year. Prices have risen throughout much of the state as the real estate market in New York State took tremendous strides in its recovery in 2013. New York City in particular has seen strong growth in housing prices. The combination of lower mortgage rates and near historically low inventory levels have caused transaction volumes and prices to skyrocket in New York City, and in some cases reach or exceed pre-recession levels. Statewide, the expectation for the remainder of the fiscal year is that market growth will moderate somewhat when compared to the same period in 2013.

The mansion tax has played an important role in the receipts growth that has characterized recent fiscal years. In 2007-08, mansion tax receipts were $316 million (31 percent of total receipts). In 2012-13, the mansion tax share of total receipts was 33.9 percent ($256.4 million) marking a partial recovery to pre-recession levels. Mansion tax receipts are expected to total $268 million (32.9 percent share) in 2013-14.

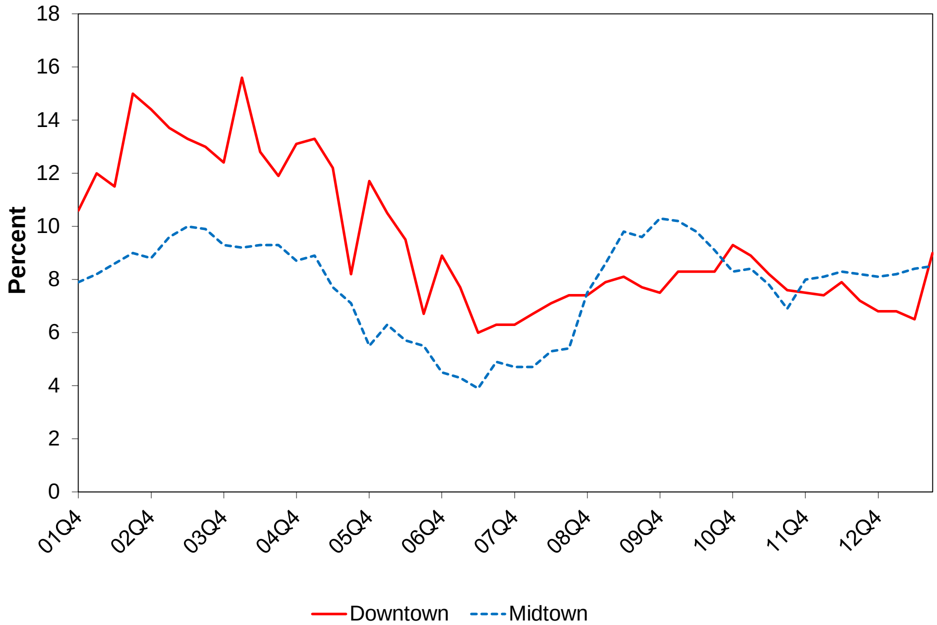
The following chart compares tax liability by location through October since 2001-02.



Nationally, the number of homes sold to foreign nationals declined following the 2008 recession. However, in a resurgence of foreign investment, residential sales to foreigners in NYC have increased dramatically in 2013, approaching pre-recession levels. New York real estate is currently viewed as a safe investment because despite soaring prices, it is still a relative bargain on a global scale. New York has long been a major attraction for foreign investment in commercial property and this trend is likely to continue.

In New York City, commercial RETT collections and transactions have increased year-over-year. Currently, the Manhattan commercial market has more vacancies when compared to the prior year, in large part due to businesses consolidating. Downtown's vacancy rate was 9 percent during the third quarter of 2013 compared to 7.2 percent during the same period in 2012. The Midtown rate increased from 8.2 percent to 8.5 percent during the same period. Still, Midtown and Downtown Manhattan currently have two of the five lowest Downtown office vacancy rates in the nation.

Vacancy Rates in Manhattan



Source: C.B. Richard Ellis

2014-15 Projections

All Funds 2014-15 receipts are projected to be $855 million, an increase of $40 million (4.9 percent) from 2013-14.

The short term outlook for the housing market is based upon a number of factors, including mortgage rates continuing to slowly rise, a re-examination of credit standards in the face of expected Federal Reserve "tapering," and continued slow and steady recovery of the overall economy. Average existing home prices are expected to grow, though more modestly compared to 2013.

In 2014-15 there should be a leveling off of REIT and other commercial activity following a substantial price increase and a record volume of sales during the summer months of 2013. The continuing diversification of the NYC economy is likely to positively impact the commercial market and demand for office space in the coming years.

General Fund

The General Fund will receive no direct deposit of real estate transfer tax receipts in 2013-14 or 2014-15. However, the balance of the Clean Water/Clean Air Fund, not needed for debt service, is transferred into the General Fund.

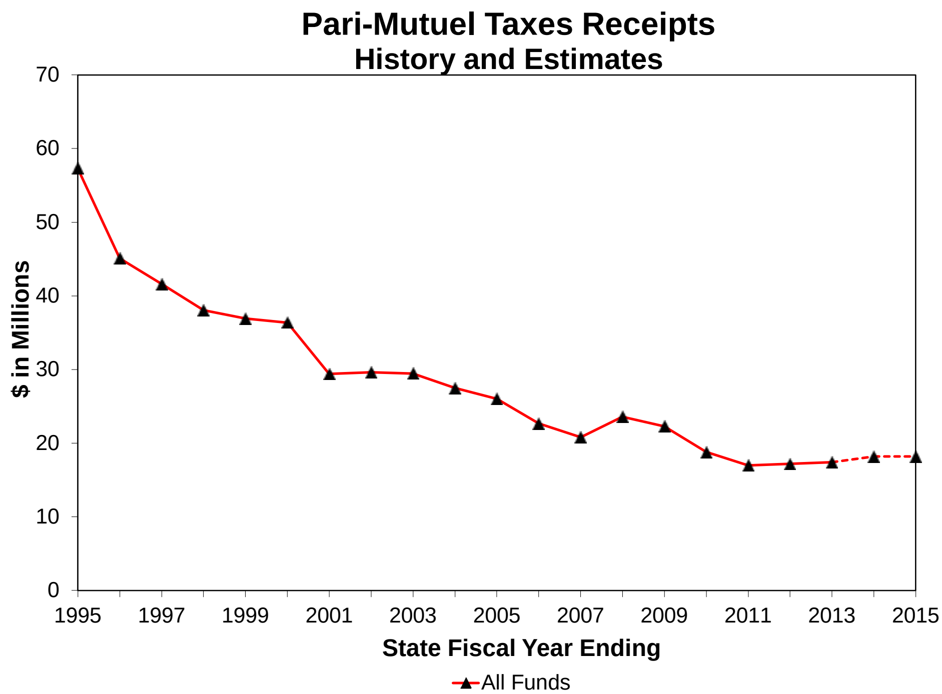
Other Funds

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)							
	2012-13 Actual	2013-14 Estimated	Change	Percent Change	2014-15 Projected	Change	Percent Change
General Fund	17.4	17.0	(0.4)	(2.3)	17.0	0.0	0.0
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	17.4	17.0	(0.4)	(2.3)	17.0	0.0	0.0

Note: Totals may differ due to rounding.



PARI-MUTUEL TAXES BY FUND (thousands of dollars)				
	General Fund			All Funds
	Flat	Harness	OTB	Receipts
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
2012-13	11,407	593	5,416	17,417
Estimated				
2013-14	11,100	600	5,300	17,000
2014-15				
Current Law	11,000	600	5,400	17,000
Proposed Law	11,000	600	5,400	17,000

PROPOSED LEGISLATION

Legislation proposed with this Budget would extend for one year certain tax rates.

DESCRIPTION

Tax Base and Rate

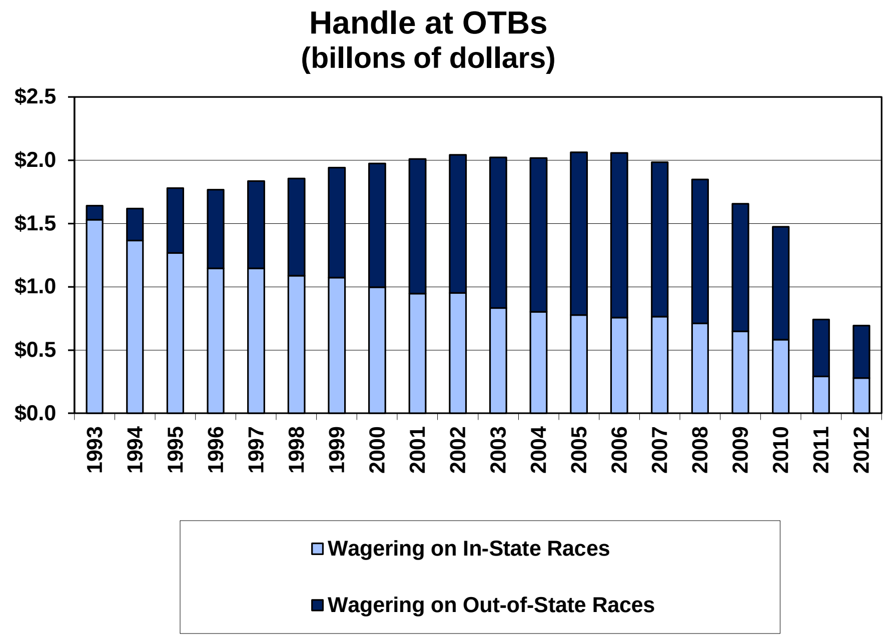
The State has levied taxes on pari-mutuel wagering activity conducted at horse racetracks since 1940. Off-track betting (OTB) parlors were first authorized in 1970 and simulcasting was first authorized in 1984. Each racing association or corporation and Off-track Betting Corporation pays the State a portion of the commission (the "takeout") withheld from wagering pools (the "handle") as a tax for the privilege of conducting pari-mutuel wagering on horse races. There are numerous tax rates imposed on wagering on horse races. The rates vary depending upon the type of racing (thoroughbred or harness), the type of wager (regular, multiple, or exotic) and location at which it is placed (at the track, or off-track through simulcasting or at an Off-track Betting Corporation). The average effective pari-mutuel tax rate was 1.1 percent of the handle in 2012.

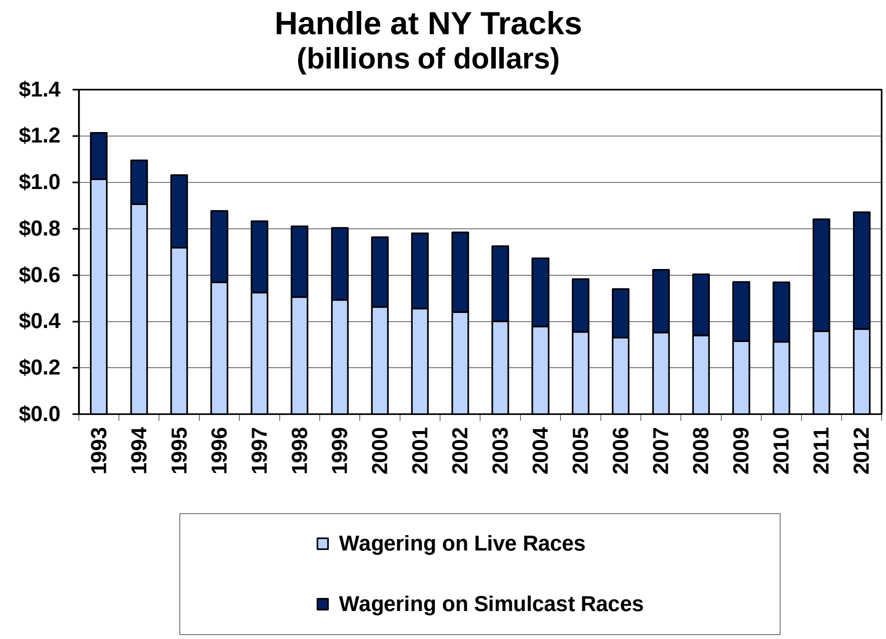
In an effort to support the New York agricultural and breeding industries, a portion of the takeout is allocated to the State's thoroughbred and standard bred (harness) horse breeding and development funds.

The expansion of OTBs has contributed, in part, to the corresponding decline in handle and attendance at racetracks. At its peak, off-track bets had grown to account for over 76 percent of the statewide handle. However, he statewide handle from OTBs declined to 44 percent of total handle in 2012 following the closure of New York City OTB.

To promote industry growth, the State has authorized higher takeouts to support capital improvements at non-New York Racing Association (NYRA) tracks and, more importantly, reduced its on-track tax rates by as much as 90 percent at thoroughbred and harness tracks, authorized the expansion of simulcasting at racetracks and OTB facilities, allowed in-home simulcasting experiments and telephone betting, lowered the tax rates on simulcast wagering, reduced tax rates on NYRA bets, and directed a portion of video lottery gaming receipts to be used for purse enhancements and for the breeder's funds.

In 2008, the State awarded a 25-year license to operate the Aqueduct, Belmont, and Saratoga Racetracks to the New York Racing Association. In December 2010, the New York City Off-track Betting Corporation ceased pari-mutuel wagering operations after the failure to reach an agreement on a restructuring plan to bring the corporation out of bankruptcy.


Handle at OTBs
(billons of dollars)
$2.5
$2.0
$1.5
$1.0
$0.5
$0.0
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
Wagering on In-State Races
Wagering on Out-of-State Races


Handle at NY Tracks
(billions of dollars)
$1.4
$1.2
$1.0
$0.8
$0.6
$0.4
$0.2
$0.0
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
Wagering on Live Races
Wagering on Simulcast Races

PARI-MUTUEL TAXES

Administration

The New York State Gaming Commission has general jurisdiction over all horse racing activities and all pari-mutuel betting activities, both on-track and off-track, in the State and over the corporations, associations, and persons engaged in gaming activities. Racetracks and OTBs calculate the pari-mutuel tax owed to the State based upon the handle, then remit the taxes to the Department of Taxation and Finance as prescribed by law.

Significant Legislation

Significant statutory changes to pari-mutuel taxes since 2000 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 2001		
Expanded Simulcasting	Lowered the takeout on NYRA races, decreased the percentage of takeout going to purses, allowed a "pick six" wager, provided two contemporaneous out-of-State simulcast signals during the Saratoga meeting, and provided a third out-of-State contemporaneous simulcast signal during the winter months and provided lower State tax rates for the additional simulcast racing.	June 12, 2001
Legislation Enacted in 2002		
Extended Expiring Laws	Extended to July 1, 2007 simulcasts for thoroughbred and harness racing, in-home simulcasts, telephone accounts and telephone wagering, simulcasts of out-of-State races, and current tax rates for off-track betting corporations.	June 17, 2002
	Extended the NYRA franchise to December 31, 2012, provided that Aqueduct racetrack commenced video lottery gaming on April 1, 2003.	January 28, 2002
Legislation Enacted in 2003		
NYRA Franchise	Extended franchise to December 31, 2013, provided that VLTs became operational at the Aqueduct raceway on or before March 1, 2004. If NYRA was unable to initiate VLT operation by that date, then the NYRA franchise would expire on December 31, 2007.	January 29, 2003
Regulatory Fee	Instituted a regulatory fee to directly fund the State's regulation of racing, authorized tracks to set their own takeout rates within a narrow range, allowed unlimited simulcasts, and eliminated mandatory fund balances for telephone betting accounts.	May 16, 2003
Legislation Enacted in 2005		
Regulatory Fee	Increased the amount of the fee from 0.39 percent to 0.5 percent of handle.	July 11, 2005
OTB Tax Credit	Allowed a credit equal to 45 percent of the pari-mutuel tax attributable to increased handle at regional off-track betting corporations for races which are conducted at tracks located within the State.	July 1, 2005
Legislation Enacted in 2006		
Rate Reduction	Lowered the tax rate on regular, multiple and exotic bets for wagering on NYRA races at OTBs and wagering on thoroughbred races at simulcast theaters by 0.2 percentage points. The tax rates on all regular, multiple and exotic bets on out-of-state simulcasts placed between April 1, 2006 and March 31, 2007 were lowered by 0.2 percentage points and the distribution from wagers on these races to the thoroughbred breeder's fund was increased by 0.2 percentage points.	April 1, 2006

Subject	Description	Effective Date
Legislation Enacted in 2008		
NYRA Franchise	Awarded the NYRA a 25-year franchise to operate the Aqueduct, Belmont, and Saratoga Racetracks.	February 19, 2008
NYC OTB	Provided for the State to take over the operations of New York City's Off-track Betting. Established a task force to study needed changes to the State's OTB structure.	June 17, 2008
Takeout	Increased the takeout on wagering on in-state thoroughbred races by one percentage point.	September 15, 2008
Takeout	Increased the takeout on wagering on out-of-state thoroughbred races by one percentage point.	March 15, 2009
Legislation Enacted in 2009		
Takeout	Repealed the one percentage point increase in takeout on wagering on out-of-state thoroughbred races.	March 13, 2009
Legislation Enacted in 2013		
Market Origin Fee	Provided for the regulation of out-of-state advanced deposit wagering (ADW) and imposed a Market Origin Fee equal to 5 percent of wagers taken by out-of-state ADWs from New York Residents. 5 percent of the Market Origin Fee is transferred to the Department of Taxation and Finance to be treated as pari-mutuel taxes.	January 1, 2014

TAX LIABILITY

The primary factors that affect pari-mutuel tax liability are: the handle and attendance at racetracks and OTB parlors, the number of simulcasts, and competition from other forms of gambling.

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

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2013-14 Estimates

All Funds receipts through December are $13.4 million, a decrease of $0.8 million (5.6 percent) from the comparable period in the prior fiscal year.

All Funds 2013-14 receipts are estimated to be $17 million, a decrease of $0.4 million (2.3 percent) from 2012-13.

Receipts from OTBs are estimated at $5.3 million for 2013-14, a decrease of $0.1 million (1.9 percent) below the prior fiscal year. This decline reflects trend declines in industry handle. Receipts through December from off-track betting are $4 million, a decrease of $0.3 million (7 percent) from 2012-13.

Receipts through December from thoroughbred on-track handle, including simulcasts, are $8.9 million, a decrease of $0.5 million (5.3 percent) from the same period last year. Receipts for the fiscal year are estimated at $11.1 million, a decrease of $0.3 million (2.6 percent).

Pari-mutuel tax receipts from on-track harness wagering are estimated to be $0.6 million in 2013-14, consistent with 2012-13 levels.

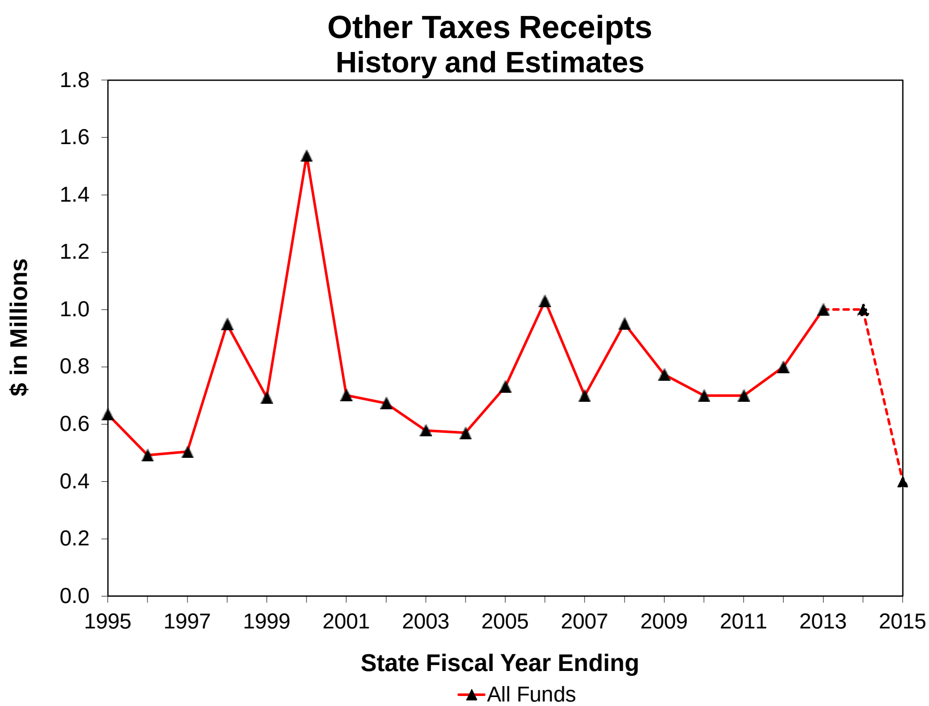
2014-15 Projections

All Funds 2014-15 receipts are projected to be $17 million, no change from 2013-14. On-track handle and OTB handle are estimated to continue to decline. These declines are expected to be offset by new revenue from the market origin fee.

OTHER TAXES

OTHER TAXES (millions of dollars)							
	2012-13 Actual	2013-14 Estimated	Change	Percent Change	2014-15 Projected	Change	Percent Change
General Fund	1.0	1.0	0.0	0.0	0.4	(0.6)	(60.0)
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	1.0	1.0	0.0	0.0	0.4	(0.6)	(60.0)

Note: Totals may differ due to rounding.



OTHER TAXES BY FUND (thousands of dollars)			
	General Fund		All Funds
	Admissions	Exhibitions	Receipts
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
2012-13	371	658	1,029
Estimated			
2013-14	350	650	1,000
2014-15			
Current Law	400	400	800
Proposed Law	400	0	400

PROPOSED LEGISLATION

Legislation proposed with this Budget would repeal the Boxing and Wrestling Exhibitions Tax.

DESCRIPTION

Tax Base and Rate

Racing Admissions Tax – A tax is levied on the charge for admissions to racetracks and simulcast theaters throughout the State. The increase in simulcasts at off-track betting locations within New York, expanded interstate competition, and the growth of casino activity in close proximity to New York residents have led to declines in total paid attendance at tracks and in receipts from this source. In addition, the introduction of video lottery terminals at tracks has led many facilities to eliminate their admission charges.

Boxing and Wrestling Exhibitions Tax – A tax is levied on gross receipts from boxing and wrestling exhibitions, including receipts from broadcast and motion picture rights. A pay-per-view event with high spectator interest can impact the yield of the tax substantially, causing receipts to vary considerably from year to year. Legislation proposed with this Budget would repeal the Boxing and Wrestling Exhibitions Tax. Boxing and wrestling exhibitions would then be subject to the Sales Tax.

The racing admissions tax rate is 4 percent of the admissions charge and the boxing and wrestling exhibitions tax rate is 3 percent.

Administration

The Department of Taxation and Finance is responsible for collecting the receipts of the racing admissions tax and the boxing and wrestling exhibitions tax.

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

2013-14 Estimates

All Funds receipts through December are $873,827, an increase of $134,118 (18.1 percent) from the comparable period in the prior fiscal year. All Funds 2013-14 receipts are estimated to be $1,000,000, a decrease of $29,000 (2.8 percent) from 2012-13.

2014-15 Projections

All Funds 2014-15 receipts are projected to be $400,000, a decrease of $600,000 (60 percent) from 2013-14, due to proposed legislation repealing the Boxing and Wrestling Exhibitions Tax.

METROPOLITAN TRANSPORTATION AUTHORITY FINANCIAL ASSISTANCE FUND RECEIPTS

METROPOLITAN FINANCIAL ASSISTANCE FUND RECEIPTS (millions of dollars)							
	2012-13 Actual	2013-14 Estimated	Change	Percent Change	2014-15 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	1,508.9	1,527.0	18.1	1.2	1,609.0	82.0	5.4
All Funds	1,508.9	1,527.0	18.1	1.2	1,609.0	82.0	5.4

Note: Totals may differ due to rounding.

PROPOSED LEGISLATION

Legislation proposed with this Budget would align mobility and personal income tax filings for the self-employed.

DESCRIPTION

The Metropolitan Transportation Authority Financial Assistance Fund is under the joint custody of the Commissioner of Taxation and Finance and the State Comptroller. Monies in this special fund are to be kept separately from and not be commingled with any other monies in the joint or sole custody of the State Comptroller or the Commissioner of Taxation and Finance. The fund contains all monies collected, credited or transferred to it from any other fund, account or source, including the revenues derived from the following sources:

- The metropolitan commuter transportation mobility tax;
- 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 supplemental motor vehicle fees, the supplemental tax on car rentals, and the tax on taxicab rides are directed to the MTA Aid Trust Account of the MTA Financial Assistance Fund.

ALL FUNDS RECEIPTS BY TAX
(millions of dollars)

	2012-13 Actual	2013-14 Estimated	Change	Percent Change	2014-15 Projected	Change	Percent Change
Mobility Tax	1,204.6	1,222.0	17.4	1.4	1,283.0	61.0	5.0
Motor Vehicle Fees	180.4	176.0	(4.4)	(2.4)	181.0	5.0	2.8
Passenger Car Rentals Tax	41.0	43.0	2.0	4.9	45.0	2.0	4.7
Taxicab Surcharge	82.9	86.0	3.1	3.7	100.0	14.0	16.3
Total	1,508.9	1,527.0	18.1	1.2	1,609.0	82.0	5.4

METROPOLITAN COMMUTER TRANSPORTATION MOBILITY TAX

Tax Base and Rate

Article 23 of the Tax Law imposes the metropolitan commuter transportation mobility tax on certain employers and self-employed individuals engaging in business within the Metropolitan Commuter Transportation District. The MCTD consists of New York City (NYC) and the counties of Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk, and Westchester. Article 23 applies to:

- Employers (other than 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 $312,500 or less; individuals with net earnings from self-employment allocated to the MCTD of $50,000 or less; and the non-wage portion of S corporation member income. Employers with quarterly payroll greater than $312,500, but no greater than $375,000 are taxed at a reduced rate of 0.11 percent and employers with a quarterly payroll greater than $375,000 but no greater than $437,500 are taxed at a reduced rate of 0.23 percent.

Administration

Taxpayers who make electronic withholding tax payments must make their mobility tax payments at the same time. These payments are due within three days of the respective payroll date. Taxpayers who make quarterly withholding payments and those with self-employment income must make quarterly payments. 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

2013-14 Estimates and 2014-15 Projections

All Funds collections through December are \$817 million, a decrease of \$9 million (1.1 percent) from the comparable period in the prior fiscal year. All Funds 2013-14 receipts are estimated to be \$1,222 million, an increase of \$17.4 million (1.4 percent) from 2012-13, reflecting slow economic growth. All Funds 2014-15 receipts are projected to be \$1,283 million, an increase of \$61 million (5 percent) from 2013-14.

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.

2013-14 Estimates and 2014-15 Projections

All Funds collections through December are \$36 million, an increase of \$4 million (12.5 percent) from the comparable period in the prior fiscal year. All Funds 2013-14 receipts are estimated to be \$43 million, an increase of \$2 million (4.9 percent) from 2012-13. All Funds 2014-15 receipts are projected to be $45 million, an increase of $2 million (4.7 percent) from 2013-14.

TAX ON NEW YORK CITY TAXICAB AND HAIL VEHICLE TRIPS

Significant Legislation

Significant statutory changes to the tax on NYC taxicabs and Hail vehicle trips are summarized below:

Subject	Description	Effective Date
Legislation Enacted in 2009		
Tax Rate	A tax of 50 cents is imposed on taxicab rides that originate in NYC and end within the MCTD.	November 1, 2009
Legislation Enacted in 2010		
Tax Incidence	The tax incidence was statutorily shifted to medallion owners from taxicab vehicle owners.	July 1, 2010
HAIL Act	Authorized the sale of 2,000 wheelchair-accessible taxicab licenses and 18,000 Street Hail Livery licenses. The 50 cent tax is expanded to include Hail vehicle trips. The NYS Court of Appeals upheld the constitutionality of this Act on June 6, 2013.	June 1, 2012

Tax Base and Rate

A tax of 50 cents is now imposed on all NYC taxicab and Hail vehicle trips that originate in NYC and end in the MCTD. The quarterly period and filing due dates are:

Quarterly period	Due date for filing return
January through March	April 20
April through June	July 20
July through September	October 20
October through December	January 20

2013-14 Estimates and 2014-15 Projections

All Funds collections through December are the same as the comparable period in the prior fiscal year.

All Funds 2013-14 receipts are estimated to be $86 million, an increase of $3.1 million (3.7 percent) from 2012-13. The increase in 2013-14 receipts primarily reflects the impact of Superstorm Sandy on 2012-13 receipts.

All Funds 2014-15 receipts are projected to be $100 million, an increase of $14 million (16.3 percent) from 2013-14. The growth in 2014-15 is due to the anticipated increase in medallion and Street Hail Livery permit ownership.

SUPPLEMENTAL MOTOR VEHICLE FEES

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.

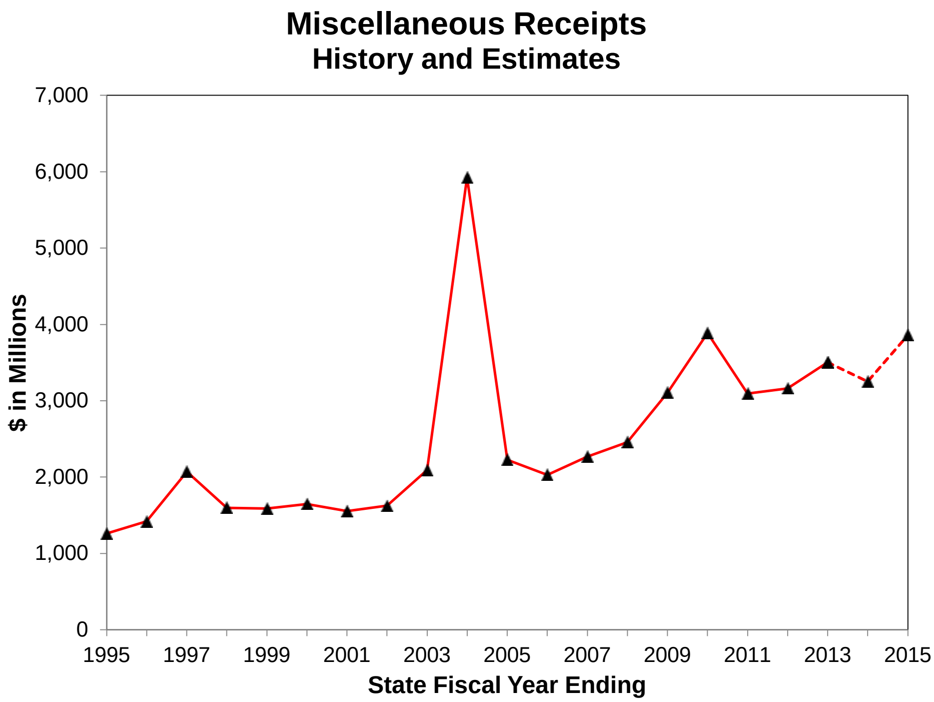
2013-14 Estimates and 2014-15 Projections

All Funds collections through December are $134 million, a decrease of $5 million (3.6 percent) from the comparable period in the prior fiscal year. All Funds 2013-14 receipts are estimated to be $176 million, a decrease of $4.4 million (2.4 percent) from 2012-13. All Funds 2014-15 receipts are projected to be $181 million, an increase of $5 million (2.8 percent) from 2013-14.

MISCELLANEOUS RECEIPTS
GENERAL FUND

MISCELLANEOUS RECEIPTS - GENERAL FUND (millions of dollars)							
	2012-13 Actual	2013-14 Estimated	Change	Percent Change	2014-15 Projected	Change	Percent Change
General Fund	3,504.1	3,251.1	(253.0)	(7.2)	3,857.5	606.4	18.7

Note: Totals may differ due to rounding.



MISCELLANEOUS RECEIPTS - GENERAL FUND (millions of dollars)					
	2010-11 Actual	2011-12 Actual	2012-13 Actual	2013-14 Estimated	2014-15 Projected
Licenses, Fees, Etc.	677.4	653.6	583.6	680.7	817.0
Abandoned Property	645.4	756.7	714.0	525.0	655.0
Reimbursements	270.3	238.7	231.2	222.0	218.7
Investment Income	5.7	5.3	1.7	2.0	30.0
ABC License Fees	47.9	59.1	61.2	63.0	56.0
Motor Vehicle Fees	33.8	110.8	129.3	26.3	155.0
Other Transactions	1,414.7	1,337.2	1,783.1	1,732.1	1,925.8
Total	3,095.2	3,161.4	3,504.1	3,251.1	3,857.5

Note: Totals may differ due to rounding.

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Eliminate the 18-a Temporary Assessment for industrial customers and accelerate the phase out for all others; and
- Simplify the methodology for distributing motor vehicle receipts.

DESCRIPTION

Miscellaneous receipts cover a broad range of unrelated revenue sources with significant recurring income derived from abandoned property, investment earnings, fees, licenses, fines, and various reimbursements to the State's General Fund. Each year, reported receipts may be significantly impacted by various nonrecurring transactions.

Significant Legislation

Significant statutory changes to General Fund Miscellaneous Receipts since 2000 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 2000		
Assessments	Provided amnesty on interest and penalties for private health facilities that paid any outstanding assessments by March 31, 2001.	April 1, 2000
Legislation Enacted in 2001		
Mandatory Surcharge	Extended for two years the mandatory surcharges pertaining largely to standing or moving violations of the Vehicle and Traffic Law.	October 31, 2001
Legislation Enacted in 2002		
Supplemental Wireless Service Surcharge	Increased from $0.70 to $1.20 monthly the State wireless communication service surcharge.	August 1, 2002
Alcohol Beverage Control License Fees	Increased alcohol beverage license fees for most licensees by 28 percent.	September 1, 2002
Legislation Enacted in 2003		
Abandoned Property	Reduced the time period for collecting abandoned property related to the demutualization of insurance companies, from five years to two.	January 1, 2003
Assessments	Increased cost recovery assessments' cap from $20 million to $40 million.	April 1, 2003
Criminal Fines	Increased criminal fines deposited into the Justice Court Fund from between $100 and $1,500 to $150 and $2,250.	April 1, 2003
Lobbyist Fee	Increased annual lobbyist registration fees to $100 in 2004 and $200 in 2005.	April 1, 2003
Uncashed Checks	Reduced the dormancy period of uncashed checks from three years to one year.	April 1, 2003
Background Checks	Required holders of HAZMAT license endorsement to undergo criminal background check for a fee of $75.	May 15, 2003
Sex Offender Fee	Required sex offenders to pay a DNA databank fee of $50, a sex offender registration fee of $50, and a sex offender registration change fee of $10.	May 15, 2003

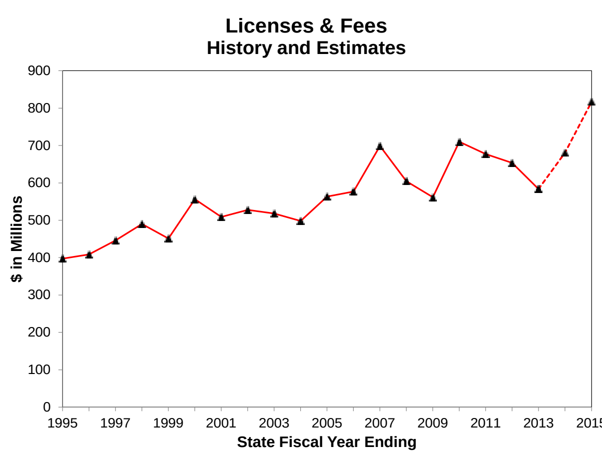
Subject	Description	Effective Date
Data Search Fee	Increased data search fee by $1.	July 1, 2003
Court Motion Fees	Imposed a $45 motion fee on Supreme/County and Appellate Courts, a stipulation of Discontinuance Fee of $35 and increased all Civil Court Fees by 25 percent.	July 14, 2003
Oil and Gas Depth Fees	Increased Oil and Gas Depth fees by 50 percent.	August 1, 2003
Penal Bonds	Increased fee on penal bonds from $1,000 to $2,500.	October 1, 2003
DWI or DWAI Surcharge	Imposed a $25 surcharge on DWI or DWAI convictions.	November 12, 2003
Parking 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

MISCELLANEOUS RECEIPTS - GENERAL FUND

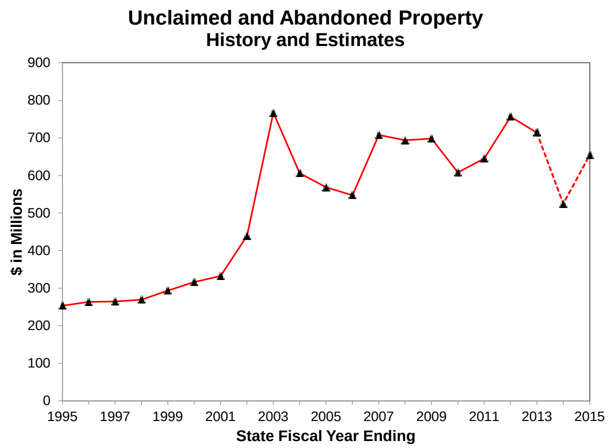
Subject	Description	Effective Date
Legislation Enacted in 2007		
Alcohol Beverage Control License Fees	Allowed auctions of distilled spirits and licensing of auctioneers.	October 15, 2007
Legislation Enacted in 2008		
Vendor Service Fee	Created a vendor service fee to capture a portion of the benefit of centralized contracting and low prices leveraged through state aggregate purchases.	April 1, 2008
Legislation Enacted in 2009		
DMV Surcharge Caps	Removed the cap on surcharges for DMV fines and penalties.	April 1, 2009
License Termination Fees	Increased driver's license termination fees.	April 1, 2009
Real Property Transfer Fees	Increased the real property transfer fee from $75 to $125 for residential properties, from $165 to $250 for commercial properties, and from $50 to $100 for co-ops.	April 1, 2009
18-A Utility Assessment	Increased the 18-A utility assessment.	April 1, 2009
Asbestos Project Notification Fees	Increased the notification fee for asbestos projects from $1,000 to $2,000.	April 1, 2009
Bottle Bill	Expanded the 5 cent minimum bottle deposit to water bottles, increased the handling fee to 3.5 cents, and allowed the state to collect 80 percent of unclaimed deposits.	October 31, 2009
Legislation Enacted in 2010		
Abandoned Property	Reduced dormancy periods on undelivered goods from five to three years, and on money orders from seven to five years.	August 3, 2010
Judiciary	Increased various civil court filing fees.	July 1, 2010
Legislation Enacted in 2011		
Abandoned Property	Reduced dormancy periods on various abandoned property items from 5 or 6 years to 3 years.	March 31, 2011
Legislation Enacted in 2012		
18-a Utility Assessment	Lowered and phased out the temporary PSL Article 18-a utility assessment.	March 29, 2013
Traffic Ticket Plea Bargaining	Established $25 State surcharge to a series of lesser violations that speeding tickets are frequently pled down to, and increased the State surcharge on most other vehicle and traffic violations by $8.	March 29, 2013
Legislation Enacted in 2013		
Extended 18-a Utility Assessment	Extended the temporary PSL Article 18-a utility assessment.	April 1, 2013

Components of Miscellaneous Receipts

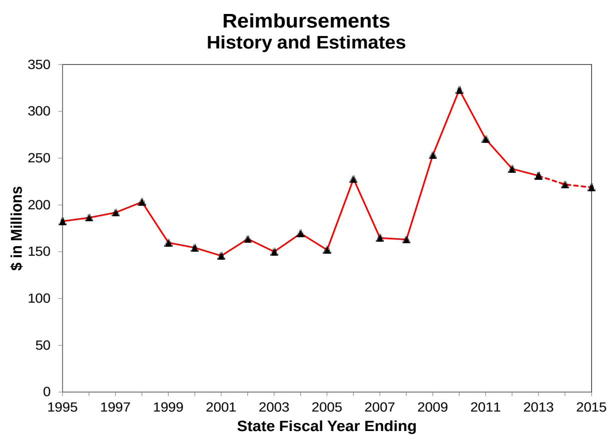
Historically, General Fund license and fee revenues have grown modestly and fairly consistently, aside from minimal peaks and troughs associated with law changes. In both 2013-14 and 2014-15, revenues are expected to increase from the prior years, reflecting in part, year-to-date collections.



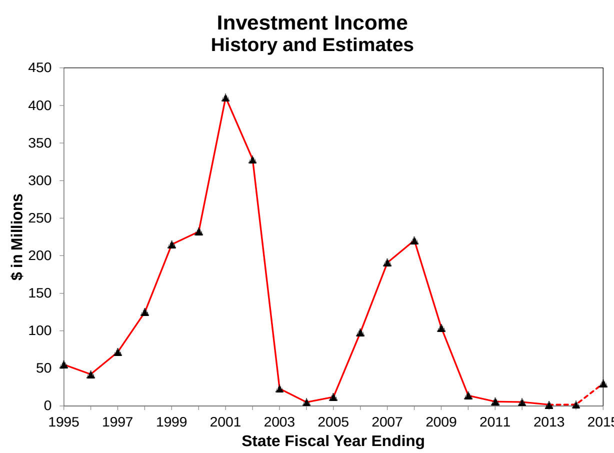
Historically, unclaimed and abandoned property revenue has remained relatively stable with minimal growth, aside from spikes in 2002-03 and 2003-04 resulting from a large amount of abandoned property released to the State of New York by the Office of the State Comptroller. This property was associated 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, then decreased slightly in 2012-13. It is expected to continue to decrease in 2013-14 as more claims are paid and then increase in 2014-15.



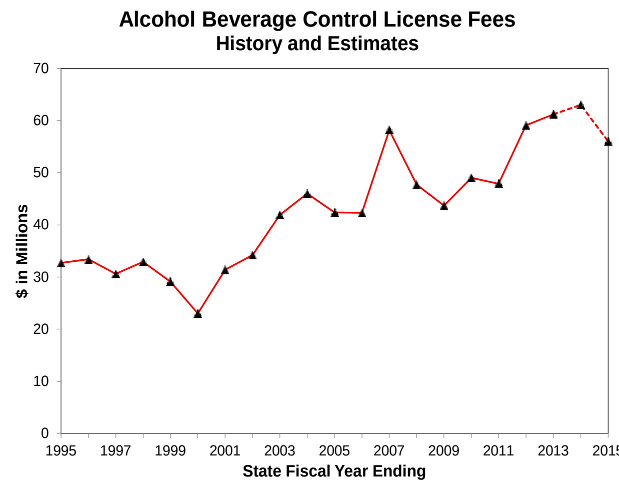
Historically, reimbursements of General Fund expenses and revenue advances have remained relatively constant with 2009-10 and 2010-11 being exceptions. In 2013-14 and 2014-15 receipts are expected to maintain historical trends. In 2006, a portion of General Fund Federal Grants was reclassified to this category.



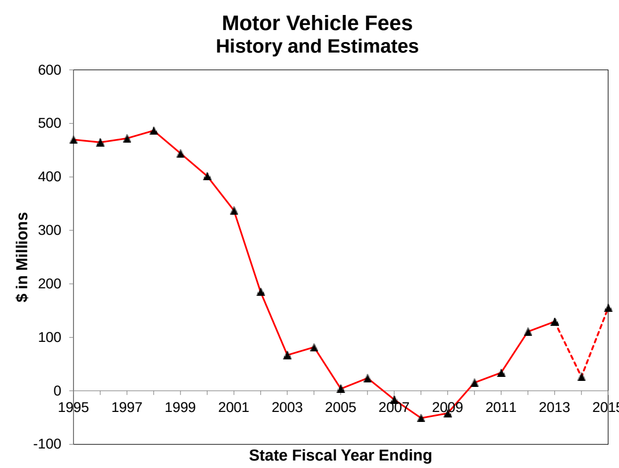
Trends in investment income are directly related to General Fund account balances and interest rates. For example, the large increases in 2000-01 and 2006-07 followed by the severe drops in 2002-03 and 2009-10 were the result of the impact of economic growth and subsequent recession on State finances; balances declined and interest rates declined sharply. The forecast for investment income is expected to remain relatively low in 2013-14 and improve somewhat in 2014-15 as both balances as interest rates rise.



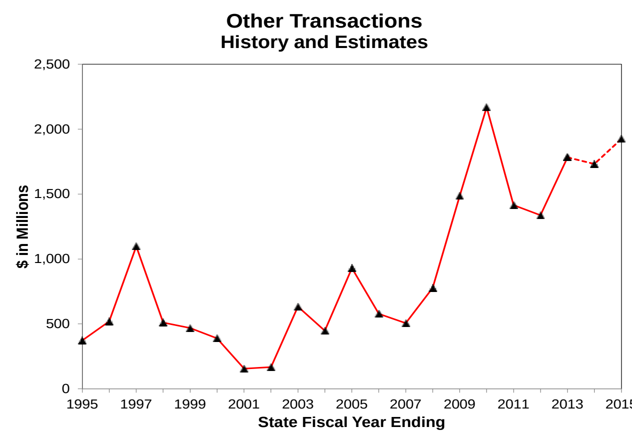
Historically, the number of alcoholic beverage control licenses has remained relatively constant. However, changes in license fees and length of licenses have caused variation in receipts. An accounting error uncovered in 2006-07 revealed that internet renewals hadn't been deposited properly. This caused a one-time payment of $13 million in 2006-07. Overall this revenue is cyclical based on license renewal patterns. In 2013-14 revenue is expected to increase slightly then decline in 2014-15.



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. The peak of the eight year license cycle explains the sharp increase in receipts leading up to 2012-13, and is responsible for the significant reduced projections for 2013-14. The projected increase in 2014-15 is the result of legislation proposed with this Budget that would simplify the distribution of motor vehicle receipts.



Other transactions are an unrelated grouping of transactions and payments, which do not fall under the other miscellaneous receipts categories. Differences in collections year-to-year are the result of large, unusual payments to the State of New York, including: bond issuance charges; a supplemental wireless surcharge; SONYMA, timing-of-payments pursuant to Section 18a of Public Service Law, and atypical fines.



2013-14 ESTIMATES

Miscellaneous receipts are estimated to be $3.251 billion for fiscal year 2013-14, a decrease of $253 million (7.2 percent) from 2012-13 collections. The estimate includes: $681 million in fees, licenses, fines, royalties, and rents; $525 million in unclaimed and abandoned property; $460 million in receipts from the temporary utility assessment; $380 million in atypical fines and civil recoveries; $271 million in released State Insurance Fund reserves; $222 million in reimbursements; $105 million in additional bond issuance charges and cost recovery assessments; $100 million in Bottle Bill proceeds; $100 million in payments from the State of New York Mortgage Authority; $86 million from the supplemental wireless surcharge; $81 million in medical provider assessments; $78 million in payments from the Manhattan DA; $63 million in receipts from alcohol beverage control license fees; $26 million in receipts from motor vehicle fees; $26 million from the New York State Energy Research and Development Authority; $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; and $2 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).

2014-15 PROJECTIONS

Miscellaneous receipts are projected to be $3.858 billion in fiscal year 2014-15, an increase of $606 million (18.7 percent) from 2013-14 estimates. The 2014-15 projection includes: $1 billion in released State Insurance Fund reserves; $817 million in fees, licenses, fines, royalties, and rents; $655 million in unclaimed and abandoned property; $275 million in payments from the Manhattan DA; $232 million in receipts from the temporary utility assessment; $219 million in reimbursements; $155 million in receipts from motor vehicle fees; $100 million in Bottle Bill proceeds; $91 million in additional bond issuance charges and cost recovery assessments; $86 million from the supplemental wireless surcharge; $81 million in medical provider assessments; $56 million in receipts from alcohol beverage control license fees; $30 million in atypical fines and civil recoveries; $30 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); $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; $5 million in payments from the New York Power Authority; and $1 million from the New York State Energy Research and Development Authority.

MISCELLANEOUS RECEIPTS
SPECIAL REVENUE FUNDS

MISCELLANEOUS RECEIPTS - SPECIAL REVENUE FUNDS (millions of dollars)							
	FY 2013 Results	FY 2014 Estimated	Change	Percent Change	FY 2015 Projected	FY 2015 Change	Percent Change
State Fund	15,584	15,428	(156)	(1.0)	15,696	268	1.7
Federal Funds	173	186	13	7.5	186	0	0.0
All Funds	15,757	15,614	(143)	(0.9)	15,882	268	1.7

Miscellaneous receipts deposited to special revenue funds represent approximately 23 percent of total special revenue receipts, excluding transfers from other funds. These receipts include: SUNY tuition, fees, and patient income; revenues from lottery ticket sales and Video Lottery Terminals (VLTs) for supplemental education aid; health care surcharges, assessments, and conversion proceeds used to finance Health Care Reform Act (HCRA) programs; assessments on regulated industries, and a variety of fees and licenses. All of these receipts are dedicated to support specific programs. The following table summarizes miscellaneous receipts for FY 2013 results through projected FY 2015.

MISCELLANEOUS RECEIPTS - SPECIAL REVENUE FUNDS (millions of dollars)			
		Estimated	
	FY 2013	FY 2014	FY 2015
HCRA	4,228	4,294	4,537
State University Income	4,143	4,267	4,383
Lottery and VLTs	3,214	3,322	3,325
Medicaid (non-HCRA)	783	785	788
Industry Assessments	723	778	786
Motor Vehicle Fees	453	469	411
All Other	2,213	1,699	1,652
Total	**15,757**	**15,614**	**15,882**

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, which 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 2014	FY 2015
Health	83	91
Environmental Conservation	190	186
Tribal State Compact	474	162
State Police	122	127
HESC	107	109
Education	120	120
CUNY	97	102
Children and Family Services	94	128
Homeland Security	119	119
All Other	293	508
Total Miscellaneous Receipts	**1,699**	**1,652**

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 all other miscellaneous receipts 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.

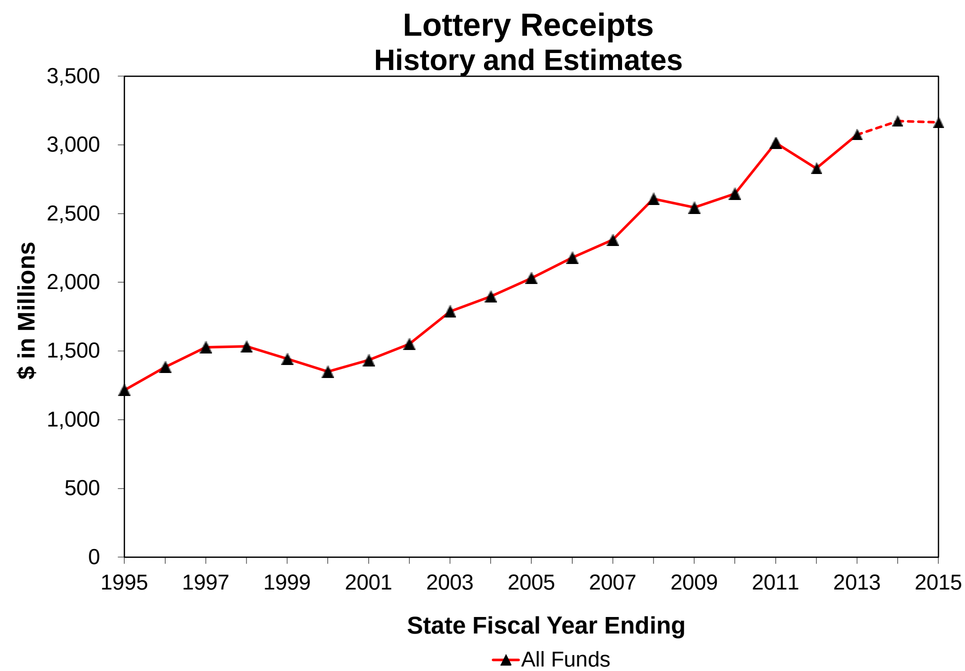
- Children and Family Services miscellaneous receipts primarily consist of reimbursements from social services districts for their youth in OCFS facilities made pursuant to Executive Law.

- 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)							
	2012-13 Actual	2013-14 Estimated	Change	Percent Change	2014-15 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	3,074.0	3,172.4	98.4	3.2	3,164.0	(8.4)	(0.3)
All Funds	3,074.0	3,172.4	98.4	3.2	3,164.0	(8.4)	(0.3)

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
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
2012-13	637.3	295.8	277.0	49.4	10.5	93.2	143.9	121.2	164.0	15.8	0.0	857.0	408.9	3,074.0
Estimated														
2013-14	632.0	304.0	290.0	44.0	10.0	89.0	165.0	124.0	166.0	15.0	0.6	937.4	395.4	3,172.4
2014-15														
Current Law	625.0	307.0	295.0	40.0	10.0	85.0	172.0	126.0	154.0	14.0	0.0	947.0	392.0	3,167.0
Proposed Law	625.0	307.0	295.0	40.0	10.0	85.0	172.0	126.0	154.0	14.0	0.0	944.0	392.0	3,164.0

** Other includes: King Kong (2005-06) and Raffle games (2006-07, 2007-08, 2008-09 , 2009-10, 2012-13).*

*** 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:

- Extend Monticello Video Lottery Terminal (VLT) commission rates for one year; and
- Extend the Video Lottery Gaming (VLG) vendor's capital awards program for one year.

DESCRIPTION

The Gaming Commission, as an independent agency within the Executive Department, manages the operation and sales of the State's Lottery games (The Lottery). There are five types of games authorized:

- Instant games, sold as scratch-off tickets in which most prizes are won immediately (approximately 45 games are currently being offered for sale with prices ranging from $1 to $30);
- Lotto games, which are games offering large pari-mutuel top prizes, with drawings conducted 15 times weekly: seven 5-of-39 draws (Take-5), two 6-of-59 draws (Lotto), two 6-of-40 draws (Sweet Million), and four multi-jurisdictional drawings (Mega Millions and Powerball). For the Lotto, Mega Millions and Powerball games, the value of any top prize not won is added to the top prize in the subsequent drawing;
- Daily numbers games, which are fixed payout games with twice daily drawings where players select either a three-digit number (Daily Numbers), or a four-digit number (Win 4). Instant Win and Lucky Sum are offered as add-on games to Daily Numbers and Win 4;
- Keno-like games, which offer prizes that are of a fixed amount with drawings conducted either daily (Pick 10) or every few minutes (Quick Draw). The Lottery Division currently pays base top prizes of $500,000 in Pick 10 and $100,000 in Quick Draw; and
- Video lottery games, which are lottery games played on VLTs, which are authorized only at selected thoroughbred and harness tracks.

The Lottery periodically offers short-run promotional lottery games. The latest were the Raffle to Riches game in both 2006-07 and 2007-08, the Turkey Raffle held in November 2008, and the Halloween Millions Raffle in October 2013.

The table below shows the statutory distribution of lottery sales among prizes, revenue for education and the allowance for expenses related to administration of the games. Any unused administration revenue is earmarked for education.

DISTRIBUTION OF LOTTERY SALES (Percent)			
	Prizes	Education	Admin. Allowance
Lotto	40	45	15
Sweet Million	40	45	15
Mega Millions*	55	30	15
Power Ball*	55	30	15
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 distribution of VLT receipts (after prizes) among revenue for education, administration, operator commission, and funds available for promotions and capital. Distributions to purses and breeders funds are made from the operator's commissions, and are not separately shown.

DISTRIBUTION OF VLT RECEIPTS AFTER PRIZES* IN 2014-15
(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 2013, the Division of the Lottery was merged with the Racing and Wagering Board to create the New York State Gaming Commission.

Significant Legislation

Significant lottery legislation enacted since 2000 is summarized below.

Subject	Description	Effective Date
Legislation Enacted in 2001		
Multi-jurisdictional	Allowed the Lottery Division to enter into agreements to conduct multi-jurisdictional lotto games with a 50 percent prize payout (Mega Millions).	October 29, 2001
Video Lottery Gaming	Allowed the Lottery Division to license video lottery gaming at selected New York State racetracks.	October 29, 2001
Legislation Enacted in 2002		
Instant Games	Authorized up to three 75 percent prize payout Instant ticket games to be offered during the fiscal year.	January 28, 2002
Legislation Enacted in 2003		
Quick Draw	Extended the operation of Quick Draw until May 31, 2004.	January 28, 2002
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	May 2, 2003

Subject	Description	Effective Date
	horsemen to reduce the percentage of the vendor fee allocated to purses. The program expires ten years after the start of the 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

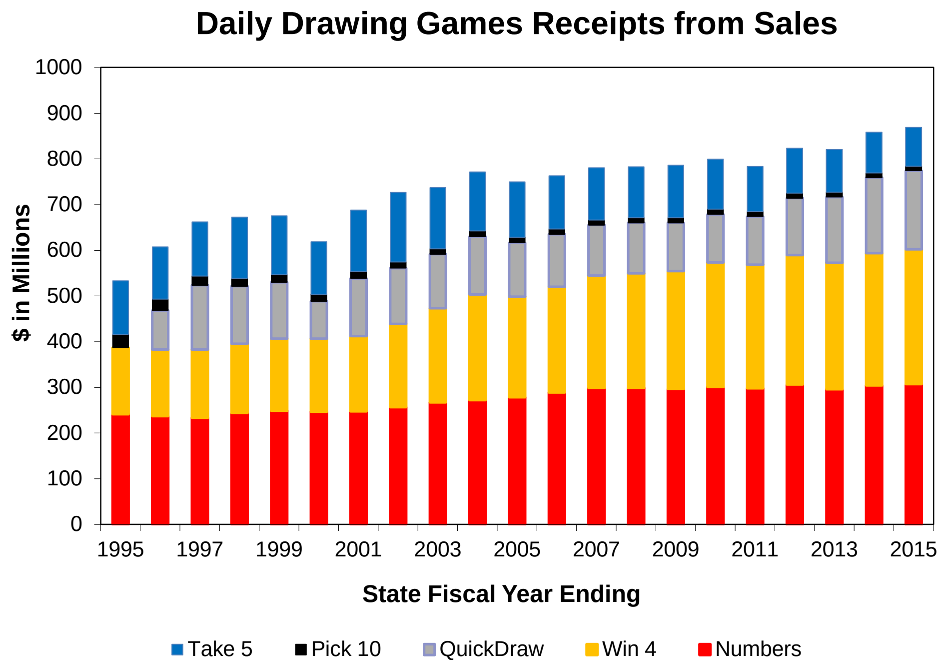
Subject	Description	Effective Date
Instant Games	Increased the number of 75 percent prize payout Instant ticket games to be offered during the fiscal year from three to five.	March 31, 2011
Video Lottery Gaming	Authorized the Lottery to participate in Multi-Jurisdictional progressive video lottery games.	March 31, 2011
	Provided a free-play allowance that excluded free-play credits up to 10 percent of net machine income at each track from the calculation of NMI.	
Legislation Enacted in 2012		
Gaming Commission	Established the Gaming Commission by merging the Division of the Lottery and the Racing and Wagering Board.	February 1, 2013
Quick Draw	Eliminated the restriction requiring minimum food sales at locations that have a license for on-premises liquor consumption.	March 30, 2012
Legislation Enacted in 2013		
Video Lottery Gaming	Authorized two video lottery facilities with up to 1,000 terminals each in Nassau and Suffolk Counties operated by Off-Track Betting Corporations.	January 1, 2014
Commercial Gaming	Authorized up to four resort destination gaming facilities.	January 1, 2014

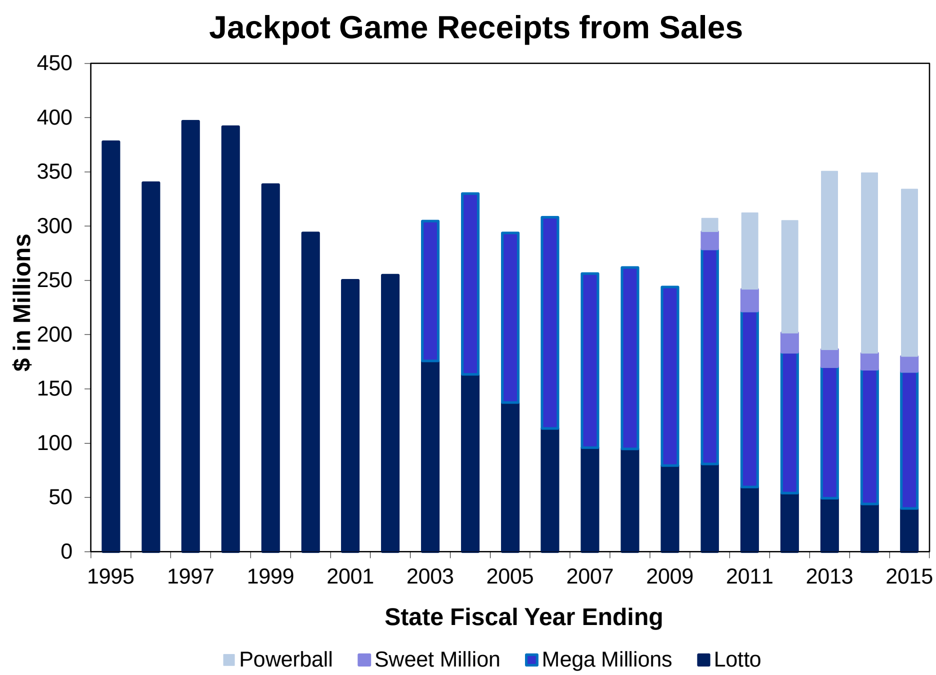
Lottery Demand

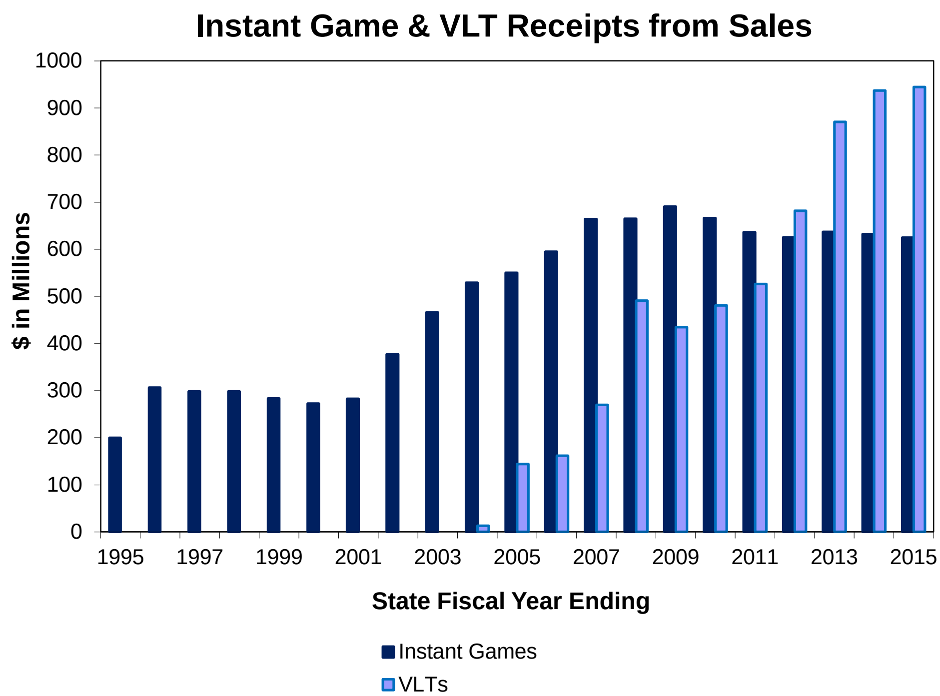
Factors that affect the demand for Lottery games include: the size of jackpots, the price of lottery tickets; the amount spent on advertising and marketing; the prize payout percentage; the development of new games that generate increased sales; the potential customers' attitudes towards Lottery games; and competition from other gambling venues.

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

The following graphs show the receipts history and projections for various games since 1995.


Daily Drawing Games Receipts from Sales
$ in Millions
State Fiscal Year Ending
Take 5
Pick 10
QuickDraw
Win 4
Numbers


Jackpot Game Receipts from Sales
$ in Millions
State Fiscal Year Ending
Powerball
Sweet Million
Mega Millions
Lotto



RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2013-14 Estimates

All Funds receipts through December are $2,100.6 million, an increase of $86.7 million (4.3 percent) from the comparable period in the prior fiscal year.

All Funds 2013-14 receipts are estimated to be $3,172.4 million, an increase of $98.4 million (3.2 percent) from 2012-13. Unspent administrative allowances and miscellaneous income account for $395 million of receipts. A game-by-game profile follows.

Instant Games and Video Lottery Gaming

Year-to-date, sales of both 65 percent prize-payout instant games 75 percent prize payout instant games have declined. Revenue to support education from the sale of Instant Games is estimated to be $632 million, a decrease of $5.3 million (0.8 percent) from 2012-13.

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 $937.4 million for 2013-14, an increase of $80.4 million (9.4 percent) from the prior year. This increase reflects continued growth at the Resorts World Casino at Aqueduct Racetrack and growth at the Yonkers Empire City Casino.

Jackpot Games

Mega Millions receipts from sales in 2013-14 are estimated to be $124 million, an increase of $2.8 million from 2013-14. In October 2013, Mega Millions implemented changes to the game matrix which decreased the overall odds of hitting the jackpot. These changes resulted in the jackpot running up to $636 million in December 2013.

Powerball receipts from sales are estimated to increase by $2.0 million (1.2 percent) to $166 million in 2013-14. To date, the Powerball jackpot has rolled-up to over $200 million on four occasions, including a $590.5 million jackpot. These roll-ups have been consistent with roll-ups that occurred 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 10.9 percent, while Sweet Millions sales are projected to drop by 5.1 percent.

Daily Drawing Games

Quick Draw is estimated to generate $165.0 million in receipts from sales, an increase of $21.1 million (14.7 percent). Quick Draw continues to benefit from 2012 legislation that removed the food sales requirement for establishments with a liquor license for on-premises consumption. This has resulted in growth the number of locations that offer the game.

Sales of Numbers and Win 4 have been positively impacted by increased promotion of these games in 2013-14. For the entire fiscal year, receipts from sales of Numbers and Win 4 are estimated to increase by $8.2 million (2.8 percent) and $13.0 million (4.7 percent) respectively.

2014-15 Projections

All Funds 2014-15 receipts are projected to be $3,164 million, a decrease of $8.4 million (0.3 percent) from 2013-14. Unspent administrative allowances and miscellaneous income account for $392 million of receipts.

Instant Games and Video Lottery Gaming

Receipts from Instant Games sales are projected to decrease by $7 million (1.1 percent) to $625 million. Recent trend declines in the instant games market are projected to continue in 2014-15.

Receipts from the State's VLT operations are projected to total $944 million in 2014-15, an increase of $6.6 million (0.7 percent). Growth is projected to continue at the Resorts World and Empire City Casinos, albeit at lower rates. 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 $12 million (7.2 percent), reflecting lower sales at higher jackpot levels. Sales of Mega Millions are expected to increase by $2 million (1.6 percent) as a result of higher roll-ups due to modifications made to the game in 2013.

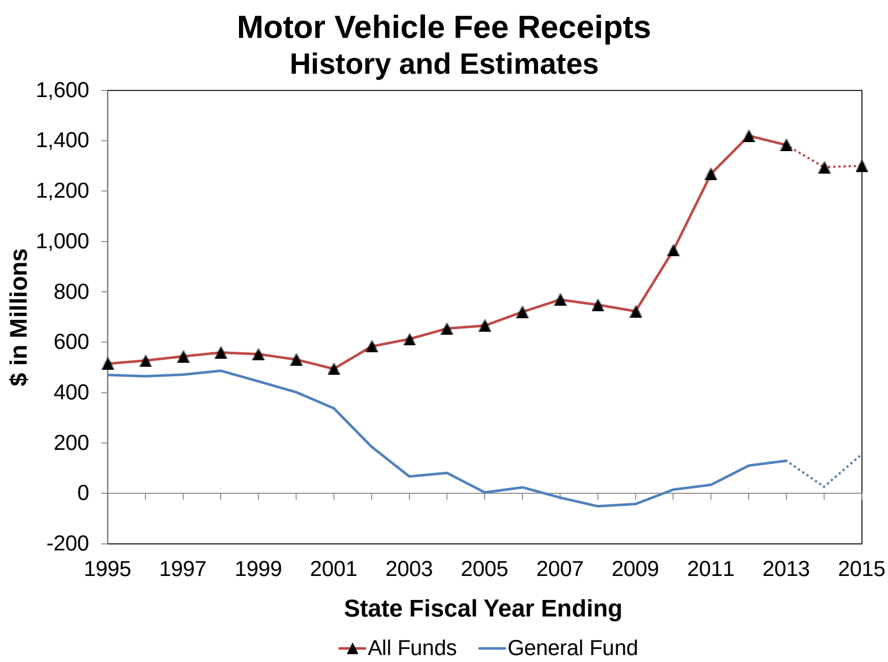
Daily Drawing Games

Receipts for education from Numbers and Win 4 are estimated to increase by $3.0 million (1.0 percent) and $5.0 million (1.7 percent) respectively as promotional support continues for these games. The rate of growth in Quick Draw is expected to decline as the expansion in retail locations is fully phased in during 2014-15, resulting in increased receipts of $7.0 million (4.2 percent). Take 5 receipts from sales are estimated to decline by $4 million (4.5 percent).

MOTOR VEHICLE FEES

MOTOR VEHICLE FEES (millions of dollars)							
	2012-13 Actual	2013-14 Estimated	Change	Percent Change	2014-15 Projected	Change	Percent Change
General Fund	129.3	26.3	(103.0)	(79.7)	155.0	128.7	489.4
Capital Funds	795.9	800.0	4.1	0.5	734.0	(66.0)	(8.3)
SR Funds	452.7	469.0	16.3	3.6	411.3	(57.7)	(12.3)
All Funds	1,377.9	1,295.3	(82.6)	(6.0)	1,300.3	5.0	0.4

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
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
2012-13	134	5	129	453	821	25	796	1,378
Estimated								
2013-14	31	5	26	469	836	25	800	1,295
2014-15								
Current Law	31	5	26	474	825	25	800	1,300
Proposed Law	160	5	155	411	759	25	734	1,300

[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

Legislation proposed with this Budget would simplify the methodology for distributing motor vehicle receipts.

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 2012, 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 $45.8 million in 2012-13.

Fee Exemptions

Certain vehicles registered in New York are exempt from registration fees. The exemptions include: vehicles owned by the State or municipalities; passenger vehicles owned by consular offices; and vehicles owned and used for the transportation of animals by societies for the prevention of cruelty to animals. Vehicles owned by nonresidents and registered with a political jurisdiction outside the State are not usually required to be registered in New York. The revenue loss from these exemptions is minimal.

Significant Legislation

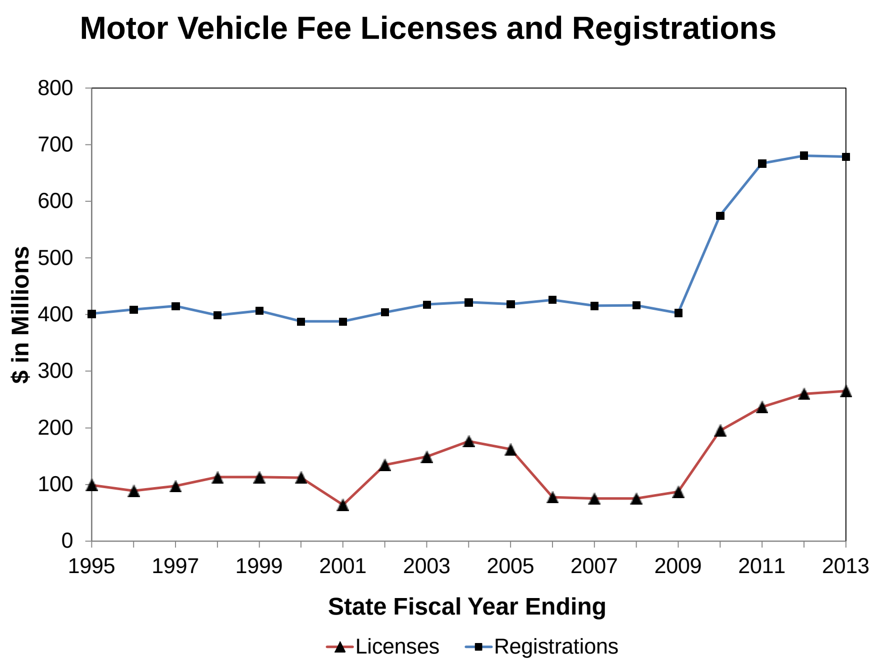
Significant statutory changes to motor vehicle fees since 2000 are summarized below.

Subject	Description	Effective Date
Administrative Changes in 2000		
License Plates	Reissuance (January 2001-January 2003).	January 1, 2001
Licenses	License renewal period extended to eight years.	April 1, 2000
Administrative Changes in 2003		
Photo Image Fee	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

MOTOR VEHICLE FEES

Subject	Description	Effective Date
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

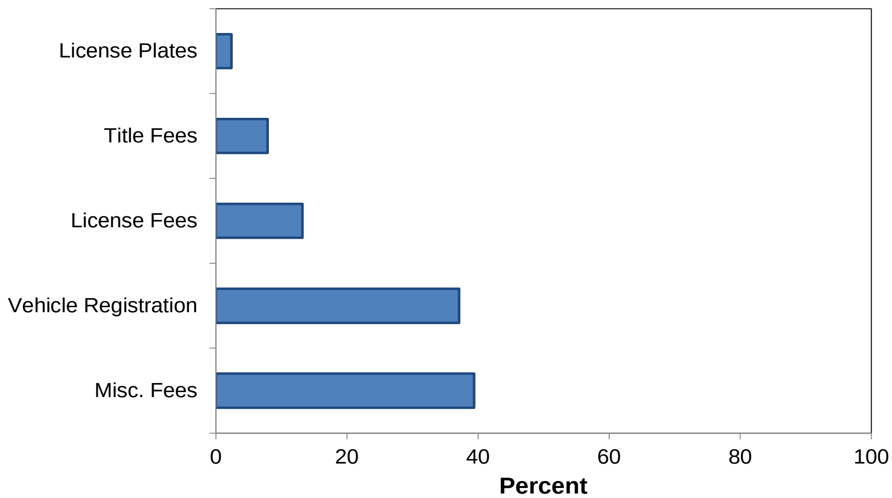
FEE LIABILITY



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 four 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.

Motor Vehicle Fees Receipts by Source
SFY 2012-13



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

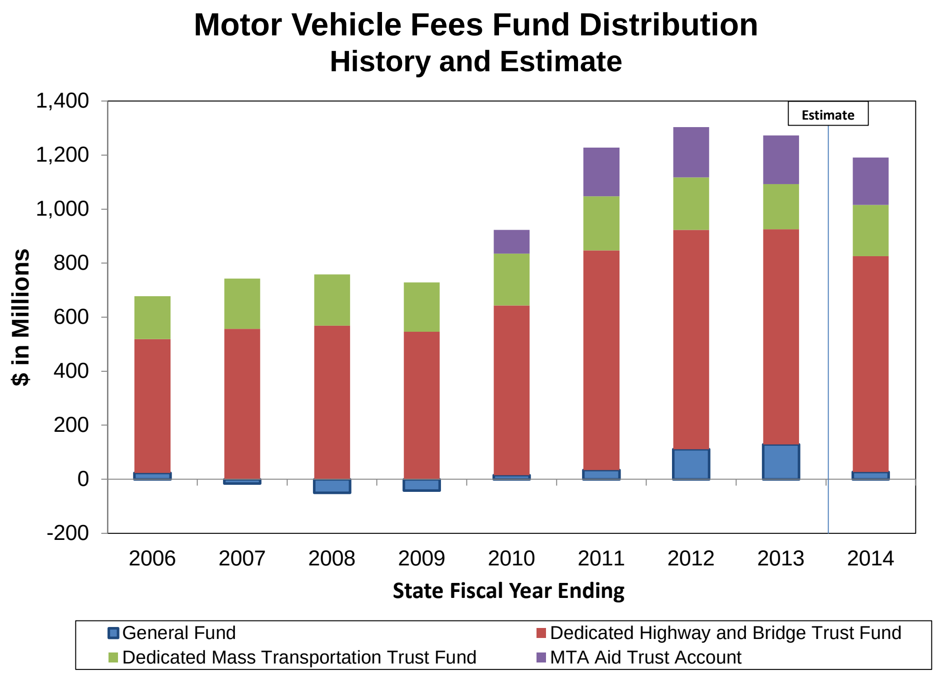
2013-14 Estimates

All Funds receipts through December are $954 million, a decrease of $59 million (5.8 percent) from the comparable period in the prior fiscal year.

All Funds 2013-14 receipts are estimated to be $1,295.3 million, a decrease of $82.6 million (6 percent) from 2012-13. General Fund receipts are estimated to be $26.3 million, a decrease of $103 million (79.7 percent) from 2012-13 due to 2013-14 being a non-peak year in the eight-year license renewal cycle.

2014-15 Projections

All Funds 2014-15 receipts are projected to be $1,300.3 million, an increase of $5 million (0.4 percent) from 2013-14.



General Fund

Current law requires an annual transfer of $169.4 million from the General Fund to certain Dedicated Funds ($106.7 million to the DHBTF and $62.7 million to the DMTTF). 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. General Fund motor vehicle fees in 2013-14 are estimated to receive $26.3 million.

An Executive Budget proposal would mitigate current OSC and DMV General Fund motor vehicle fee transfer accounting issues. All current General Fund transfers to the DMTTF and DHBTF that are specifically sourced from General Fund motor vehicle fee receipts would be replaced with generic General Fund transfers to these two funds. Also, the first $40.7 million in Driver Responsibility Act receipts that currently remain in the General Fund would instead flow directly to the DHBTF. This proposal would have no impact on the distribution of receipts to any fund. Absent this law change, General Fund motor vehicle fees in 2014-15 are projected to receive $26.3 million. With the law change, General Fund motor vehicle fees are estimated to receive $155 million.

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 is dedicated as follows: 80 percent to the DHBTF and 20 percent to the Dedicated Mass Transportation Trust Fund (DMTTF).

Since 2009, all receipts from the supplemental fee on registrations and licenses are dedicated to the MTA Aid Trust Account of the MTA Special Assistance Fund.

In 2013-14, the DHBTF will receive an estimated $800 million and the DMTTF will receive an estimated $189 million. The MTA Aid Trust Account is estimated to receive $176 million. Various other dedicated funds (Special Revenue Other) will receive a portion of the remaining $104 million.

In 2014-15, without law changes, the DHBTF will receive a projected $800 million and the DMTTF will receive a projected $189 million. With law changes, the DHBTF will receive $734 million, and the DMTTF will receive $126.3 million. The difference between current and proposed law dollar amounts will be compensated for by General Fund transfers that will maintain the same flow of funds to these Dedicated Funds as under current law. 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 $104 million.

MISCELLANEOUS RECEIPTS CAPITAL PROJECTS FUNDS

MISCELLANEOUS RECEIPTS - CAPITAL PROJECTS FUNDS (millions of dollars)							
	FY 2013 Actual	FY 2014 Estimated	Change	Percent Change	FY 2015 Projected	Change	Percent Change
State Funds	3,855	4,188	333	8.6%	4,761	573	13.7%
Federal Funds	2,126	2,246	120	5.6%	2,053	(193)	-8.6%
All Funds	5,981	6,434	453	7.6%	6,814	380	5.9%

Note: Totals may differ due to rounding.

MISCELLANEOUS RECEIPTS - CAPITAL PROJECTS FUNDS (millions of dollars)			
	FY 2013	FY 2014	FY 2015
Authority Bond Proceeds			
Transportation	944	1,370	1,155
Public Protection	264	230	330
Health and Social Welfare	139	300	331
Education	2,222	1,797	1,660
Mental Hygiene	214	325	296
Economic Development/ Government Oversight	324	590	841
General Government	0	57	155
Other	169	372	371
State Park Fees	37	25	25
Environmental Revenues	43	52	56
All Other	863	509	472
Total	5,219	5,627	5,692
Accounting Adjustment	(1,364)	(1,439)	(931)
Financial Plan Total	3,855	4,188	4,761

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 $25 million in FY 2014 and $25 million in FY 2015, 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)							
	FY 2013 Actual	FY 2014 Estimated	Change	Percent Change	FY 2015 Projected	Change	Percent Change
General Fund	0	0	0	0	0	0	0
Other Funds	913	797	(116)	(12.7)	814	17	2.1
All Funds	913	797	(116)	(12.7)	814	17	2.1

Note: Totals may differ due to rounding.

MISCELLANEOUS RECEIPTS - DEBT SERVICE FUNDS (millions of dollars)			
	FY 2013	FY 2014	FY 2015
Mental Hygiene Patient Receipts	311	334	345
SUNY Dormitory Fees	450	325	332
Health Patient Receipts	143	128	128
All Other	9	10	9
Total	913	797	814

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 13 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, previously, the State University of New York (SUNY) dormitories. In addition, the revenues are used by the State to pay debt service on general obligation housing bonds. After such requirements are satisfied, the balance of most miscellaneous receipts, together with other receipts and transfers, flow back to the General Fund or to Special Revenue funds to offset the cost of State operations.

MENTAL HYGIENE PATIENT RECEIPTS

Payments from patients and various third-party payers, including Medicare and insurance companies, for services provided by the mental hygiene agencies are deposited in the Mental Health Services Fund as miscellaneous receipts. The revenues received are used to make lease-purchase payments to the Dormitory Authority of the State of New York (DASNY) for debt service on mental health services bonds. Additionally, portions of State and local assistance and Federal Medicaid payments to not-for-profit community facilities are earmarked to pay their share of debt service. These are also deposited as miscellaneous receipts in the Mental Health Services Fund. DASNY makes loans to eligible not-for-profit agencies providing mental health services and, in return, the voluntary agencies make rental payments equal to the amount of debt service on bonds issued to finance their projects.

MISCELLANEOUS RECEIPTS - DEBT SERVICE FUNDS

DORMITORY FEES

Miscellaneous receipts in the SUNY Dormitory Fund are composed primarily of fees charged to SUNY students for dormitory room rentals and other associated fees. The receipts of the Fund were previously dedicated for debt service on bonds issued by DASNY for the construction and rehabilitation of SUNY dormitories. Consistent with legislation enacted in FY 2014 , these receipts are now deposited directly to a DASNY-held fund under a new bonding structure, with the excess revenues after debt service flowing into the SUNY Dormitory Fund.

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 $47.5 billion in FY 2014 and $45.8 billion in FY 2015. 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; however, beginning in FY 2014 the State will receive this payment through a different reimbursement mechanism.

SPECIAL REVENUE FUNDS

Federal grants account for nearly two-thirds of all special revenue receipts and are used to support a wide range of programs at the State and local government level. Medicaid is the single largest program supported by Federal funds, and helps finance health care, medical supplies, and professional services for eligible persons. The State receives funds from the Federal government to make payments to providers for both State-operated and non-State-operated facilities. The State-operated category includes facilities of the Offices of Mental Health and Mental Retardation and Developmental Disabilities. These facilities receive Medicaid funds for the delivery of eligible services to patients.

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. The State also receives Federal grants to support extraordinary costs associated with disaster assistance.

CAPITAL PROJECTS FUNDS

Federal grants in Capital Projects Funds finance transportation planning, engineering, and construction projects. Federal grants also support local wastewater treatment projects financed through the State’s Revolving Loan Fund. Other Federal grants are for the rehabilitation of State armories, eligible housing programs, and other environmental purposes.

DEBT SERVICE FUNDS

Federal grants in the Debt Service fund type reflect interest subsidies received on Build America Bonds (BABs), pursuant to a financing option provided to the State through the American Recovery and Reinvestment Act (ARRA).

FEDERAL GRANTS BY FUND
(millions of dollars)

	General Fund	Special Revenue Funds				Capital Projects Funds	Debt Service Funds	Total All Funds
		Medicaid	Welfare	All Other	Total			
FY 2003	6	17,297	2,542	11,847	31,686	1,567	0	33,259
FY 2004	654	21,435	2,018	11,668	35,121	1,548	0	37,323
FY 2005	9	22,666	1,998	9,828	34,492	1,721	0	36,222
FY 2006	0	21,524	2,097	9,741	33,362	1,767	0	35,129
FY 2007	151	22,906	2,243	8,540	33,689	1,738	0	35,578
FY 2008	69	22,417	2,184	8,494	33,095	1,745	0	34,909
FY 2009	45	24,844	2,597	9,466	36,907	1,882	0	38,834
FY 2010	71	30,054	2,721	10,605	43,380	2,061	13	45,525
FY 2011	55	31,423	2,674	12,596	46,693	2,499	57	49,304
FY 2012	60	28,195	2,520	11,640	42,355	2,115	80	44,610
FY 2013	62	27,043	2,583	10,950	40,576	2,126	79	42,843
Estimated								
FY 2014	2	27,388	2,827	14,968	45,185	2,246	72	47,505
FY 2015	0	29,283	2,627	11,756	43,666	2,053	73	45,792

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 2012-13 and estimated to be deposited in 2013-14 to 2017-18. The estimates reflect Executive Budget recommendations.

DEDICATED FUND TAX AND FEE RECEIPTS
($ in millions)

	2012-13 Actual	2013-14 Estimated	2014-15 Recommended
SPECIAL REVENUE FUNDS			
School Tax Relief Fund (STAR)			
Personal Income Tax	3,286	3,389	3,429
Dedicated Mass Transportation Trust Fund	644	680	613
Petroleum Business Tax	372	386	381
Motor Fuel Tax	103	105	105
Motor Vehicle Fees*	168	189	126
Metropolitan Transportation Authority Financial Assistance Fund	1,509	1,527	1,609
MCTD Payroll Tax	1,205	1,222	1,283
Motor Vehicle Fees	180	176	181
Auto Rental Tax	41	43	45
Taxicab Surcharge	83	86	100
Mass Trans. Operating Assistance Fund	1,948	1,953	2,028
Corporate Surcharges			
Corporation Franchise Tax	385	483	487
Corporation and Utilities Tax	135	115	119
Insurance Tax	163	158	166
Bank Tax	315	184	209
Other			
Sales and Use Tax	758	815	850
Petroleum Business Tax	134	140	139
Transmission Tax	59	58	58
HCRA Resources Fund	1,108	1,037	985
Cigarette Tax	1,108	1,037	985
Other Special Revenue Funds			
Motor Vehicle Fees	104	104	104
Total Tax Receipts: Special Revenue Funds-Other	8,599	8,691	8,768
DEBT SERVICE FUNDS			
Revenue Bond Tax Fund			
Personal Income Tax	10,057	10,712	11,033
Clean Water/Clean Air Fund			
Real Estate Transfer Tax	637	696	736
Local Government Assistance Tax Fund	2,809	5,890	6,069
Sales and Use Tax	2,809	2,945	3,035
Sales Tax Bond Fund	0	2,945	3,035
Total Tax Receipts: Debt Service Funds	13,503	17,298	17,838
CAPITAL PROJECTS FUNDS			
Dedicated Highway and Bridge Trust Fund	2,051	2,079	2,010
Petroleum Business Taxes	634	658	649
Motor Fuel Tax	389	395	397
Motor Vehicle Fees*	801	800	734
Highway Use Tax	145	140	141
Transmission Tax	15	15	15
Auto Rental Tax	68	71	74
Environmental Protection Fund			
Real Estate Transfer Tax	119	119	119
Total Tax Receipts: Capital Projects Funds	2,171	2,198	2,129
Total Tax Receipts: Other Funds	**24,272**	**28,187**	**28,735**

* Declines shown in out-years will be offset by a General Fund Transfer.

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

DEDICATED FUND TAX RECEIPTS

DEDICATED FUND TAX AND FEE RECEIPTS ($ in millions)	2015-16 Recommended	2016-17 Recommended	2017-18 Recommended
SPECIAL REVENUE FUNDS			
School Tax Relief Fund (STAR)			
Personal Income Tax	3,473	3,568	3,605
Dedicated Mass Transportation Trust Fund	603	608	612
Petroleum Business Tax	371	375	378
Motor Fuel Tax	106	107	108
Motor Vehicle Fees*	126	126	126
Metropolitan Transportation Authority Financial Assistance Fund	1,680	1,752	1,831
MCTD Payroll Tax	1,351	1,422	1,498
Motor Vehicle Fees	181	181	181
Auto Rental Tax	47	48	51
Taxicab Surcharge	101	101	101
Mass Trans. Operating Assistance Fund	2,137	2,230	2,322
Corporate Surcharges			
Corporation Franchise Tax	523	546	571
Corporation and Utilities Tax	124	130	135
Insurance Tax	174	180	187
Bank Tax	233	250	264
Other			
Sales and Use Tax	890	930	970
Petroleum Business Tax	135	136	137
Transmission Tax	58	58	58
HCRA Resources Fund	949	911	873
Cigarette Tax	949	911	873
Other Special Revenue Funds			
Motor Vehicle Fees	104	104	104
Total Tax Receipts: Special Revenue Funds-Other	8,946	9,173	9,347
DEBT SERVICE FUNDS			
Revenue Bond Tax Fund			
Personal Income Tax	11,676	12,335	12,822
Clean Water/Clean Air Fund			
Real Estate Transfer Tax	776	831	901
Local Government Assistance Tax Fund	6,291	6,524	6,773
Sales and Use Tax	3,145	3,262	3,386
Sales Tax Bond Fund	3,145	3,262	3,386
Total Tax Receipts: Debt Service Funds	18,743	19,690	20,496
CAPITAL PROJECTS FUNDS			
Dedicated Highway and Bridge Trust Funds	2,006	2,015	2,031
Petroleum Business Taxes	632	638	643
Motor Fuel Tax	397	401	405
Motor Vehicle Fees*	734	734	734
Highway Use Tax	151	147	149
Transmission Tax	15	15	15
Auto Rental Tax	77	80	84
Environmental Protection Fund			
Real Estate Transfer Tax	119	119	119
Total Tax Receipts: Capital Projects Funds	2,126	2,135	2,150
Total Tax Receipts: Other Funds	**29,815**	**30,998**	**31,993**

* Declines shown in out-years will be offset by a General Fund Transfer.

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)

The Metropolitan Transportation Authority Financial Assistance Fund was established by Section 92-ff of the State Finance Law 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 the following sources:

- 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); and

- 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 for State fiscal year (SFY) 2012-13 through SFY 2017-18.

The MMTOA receives:

- 54 percent of the receipts collected from the taxes imposed on transportation and transmission companies by sections 183 and 184 of Article 9 of the Tax Law for SFY 2012-13 through SFY 2017-18;

- 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)

	2012-13 Actual	2013-14 Estimated	2014-15 Recommended	2014-15 Recommended	2015-16 Recommended	2016-17 Recommended
Lottery	2,217	2,235	2,220	2,252	2,210	2,200
VLTs	857	937	948	978	948	948
Total Lottery	3,074	3,172	3,168	3,230	3,158	3,148

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 dedicated to pay the debt service on State-supported Local Government Assistance Corporation Bonds originally issued in the early 1990s to finance payments to local governments previously financed by the State. The Comptroller is required to pay over to the General Fund all money in the LGATF in excess of the aggregate amount required to be set aside for debt service. In addition, local aid payments due to New York City and assigned by the City to the Sales Tax Asset Receivable Corporation (STARC) are appropriated from the LGATF.

Sales Tax Bond Fund ("STBF" Fund-311)

The Sales Tax Revenue Bond Fund was established by Section 92-h of the State Finance Law. The Fund receives moneys collected from the imposition of the State sales and compensating use taxes in an amount attributable to a one percent rate of taxation. This will increase to a two percent rate when LGAC bonds have been retired or defeased. Payments from the Fund are dedicated to pay the debt service on State Sales Tax Revenue Bonds which, along with State PIT Revenue Bonds, are used to finance various State capital purposes. The Comptroller is required to pay over to the General Fund all money in the STBF in excess of the aggregate amount required to be set aside for debt service.

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.

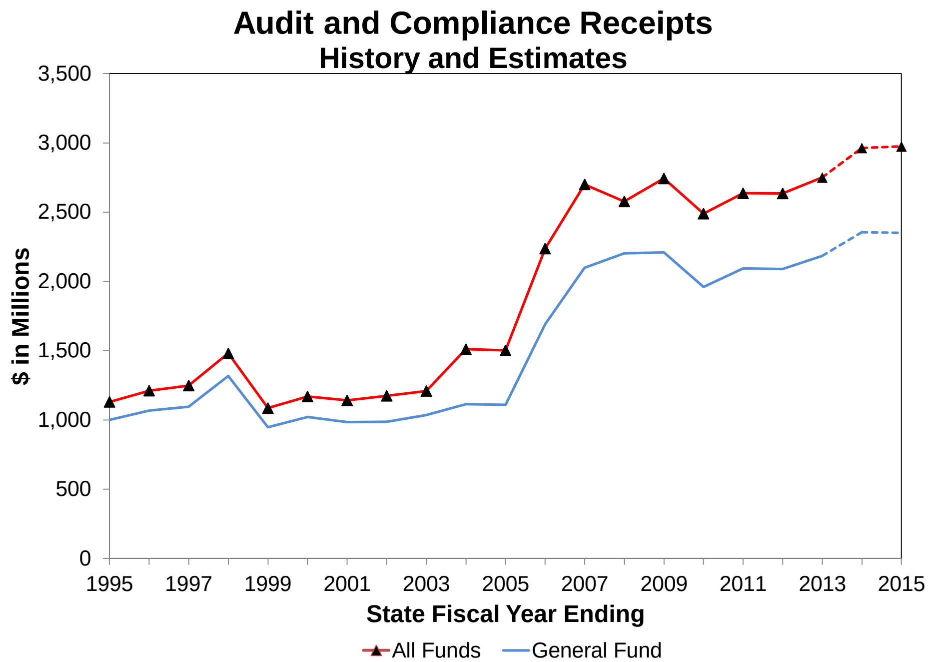
- The Parks, Recreation and Historic Preservation Account for any municipal park project, historic preservation project, urban cultural park project, waterfront revitalization program, or coastal rehabilitation project.

- 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)							
	2012-13 Actual	2013-14 Estimated	Change	Percent Change	2014-15 Projected	Change	Percent Change
General Fund	2,183	2,356	173	7.9	2,350	(6)	(0.3)
Other Funds	567	607	40	7.1	624	17	2.8
All Funds	2,750	2,963	213	7.7	2,974	11	0.4

Note: Totals may differ due to rounding.



PROPOSED LEGISLATION

Legislation proposed with this Budget would authorize a professional and business license tax clearance.

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
1996-97	1,480		
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
2012-13	2,750	115	4.4
Estimated			
2013-14	2,963	213	7.7
2014-15	2,974	11	0.4

Collectively, it is estimated that the portion of All Funds receipts attributable to enforcement activities and reflected in the estimates and projections of the individual taxes will be roughly $3 billion in both 2013-14 and 2014-15. 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 2013-14

TABLE 2 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	**1,027**	**1,097**	**70**	**6.8**
User Taxes and Fees	**377**	**387**	**10**	**2.7**
Business Taxes	**1,297**	**1,435**	**138**	**10.6**
Corporation and Utilities Taxes	100	72	(28)	(28.0)
Corporate Franchise Tax	752	1,181	429	57.0
Bank Tax	405	155	(250)	(61.7)
Insurance Tax	34	21	(13)	(38.2)
Petroleum Business Taxes	6	6	0	0.0
Other Taxes	**49**	**44**	**(5)**	**(10.2)**
Total	**2,750**	**2,963**	**213**	**7.7**

Audit and compliance receipts for 2013-14 are estimated to be $2,963 million, an increase of $213 million (7.7 percent) from 2012-13. The increase is composed of: $70 million (6.8 percent) from the personal income tax, $10 million (2.7 percent) from user taxes and fees, and $138 million (10.6 percent) from business taxes, partially offset by a $5 million (10.2 percent) decline in other taxes.

Estimated Receipts for 2014-15

TABLE 3 ALL FUNDS AUDIT AND COMPLIANCE COLLECTIONS BY TAX TYPE (millions of dollars)	2013-14	2014-15	Change from Prior Year	Percent Change from Prior Year
Personal Income Tax	**1,097**	**1,131**	**34**	**3.1**
User Taxes and Fees	**387**	**500**	**113**	**29.2**
Business Taxes	**1,435**	**1,299**	**(136)**	**(9.5)**
Corporation and Utilities Taxes	72	54	(18)	(25.0)
Corporate Franchise Tax	1,181	1,003	(178)	(15.1)
Bank Tax	155	215	60	38.7
Insurance Tax	21	21	0	0.0
Petroleum Business Taxes	6	6	0	0.0
Other Taxes	**44**	**44**	**0**	**0.0**
Total	**2,963**	**2,974**	**11**	**0.4**

Audit and compliance receipts for 2014-15 are projected to be $2,974 million, an increase of $11 million (0.4 percent) from 2013-14. The overall increase results from increases of $113 million from user taxes and fees, $34 million from the personal income tax, and offset by a $136 million (9.5 percent) decline in business taxes. Legislation proposed with this Budget that would authorize the State to withhold issuance of a business or professional license until delinquent taxes are paid is not expected to generate revenue until 2015-16.

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 both 2011-12 and 2012-13, audit and compliance receipts represented 4.2 percent of All Funds tax receipts. In both 2013-14 and 2014-15, audit and compliance receipts are expected to represent 4.3 percent of total All Funds tax receipts.

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
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
2012-13	2,750	65,095	4.2
Estimated			
2013-14	2,963	68,192	4.3
2014-15	2,974	69,513	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. As a result of significant audit collections in the bank and corporate franchise taxes discussed earlier, the percentage share of audit receipts from business taxes accounted for between 51 percent and 57 percent of total audit receipts, between 2005-06 and 2008-09. In 2009-10 through 2012-13, the percentage share of total audit receipts from business taxes fell to 44 percent to 48 percent. In contrast, business taxes accounted for between 12 to 15 percent of All Funds receipts during the 2005-06 to 2012-13 period. In 2013-14 and 2014-15, the share of audit receipts from the business taxes category is expected to remain below the 2005-06 to 2008-09 level at 48 percent and 44 percent, respectively. This percentage share reduction was mainly due to a decline in large case settlements and an increase in the user tax share.

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
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	48	1	15	36	12	3	23	62
2012-13	47	2	14	37	13	3	22	62
Estimated								
2013-14	48	2	13	37	12	3	22	63
2014-15	44	1	17	38	11	3	23	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. 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 fell, 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 2013-14 and 2014-15 audit and compliance share for the personal income tax is 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 2013-14 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. Corporate tax reform legislation included with this Budget is expected to improve voluntary tax compliance which would, in the long run, reduce audit collections.

Significant Legislation Impacting Historical Audit Receipts

Significant statutory changes that have had an impact on audit and compliance activities are summarized below.

Tax Amnesty – 2003

Taxpayers with outstanding liabilities were given a limited opportunity to settle those liabilities without penalties and with a reduction in the appropriate rate of interest. The tax amnesty applied to the personal income tax, sales and compensating use tax, corporate franchise taxes other than the bank and insurance taxes, and various excise taxes. The amnesty applied to taxable periods ending on or before December 31, 2000, or in the case of the sales tax or excise taxes with quarterly returns, periods ending on or before February 28, 2001. Under the estate tax, amnesty applied to estates of decedents dying on or before February 1, 2000.

Amnesty participants received a waiver of certain penalties and a two-percent reduction in the applicable interest rate relating to unpaid liabilities. Amnesty was not granted to taxpayers under criminal investigation, taxpayers who had been convicted of a tax-related crime, taxpayers who were parties to administrative proceedings with the Department of Taxation and Finance, or taxpayers with more than 500 employees.

Intangible Assets

Legislation enacted in 2003 required taxpayers (with some exceptions) who deduct interest or royalty expenses for amounts paid to a related member for the use of intangible assets to add those deductions back to their taxable income.

Temporary Tax-Shelter Disclosure and Voluntary Compliance Initiative

Legislation enacted in 2005 created a tax-shelter disclosure requirement for taxpayers or advisors engaging in abusive tax shelters to provide copies of their Federal reports to the Commissioner of Taxation and Finance. The legislation also allowed taxpayers a limited period of time (from October 1, 2005, through March 1, 2006) to avoid substantial new penalties by voluntarily disclosing participation in such a shelter by filing amended returns for the liability periods affected. The Voluntary Compliance Initiative was available for tax liabilities under Articles 9, 9-A, 22, 30, 32 and 33. The disclosure reporting requirements mirror the permanent Federal requirements and were to sunset in July 2007. Chapter 60, Laws of 2007, extended the provisions by two years, to July, 2009. Legislation enacted in 2008 extended these provisions by an additional two years and re-opened the Voluntary Compliance Initiative from November 1, 2008, through January 31, 2009.

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.