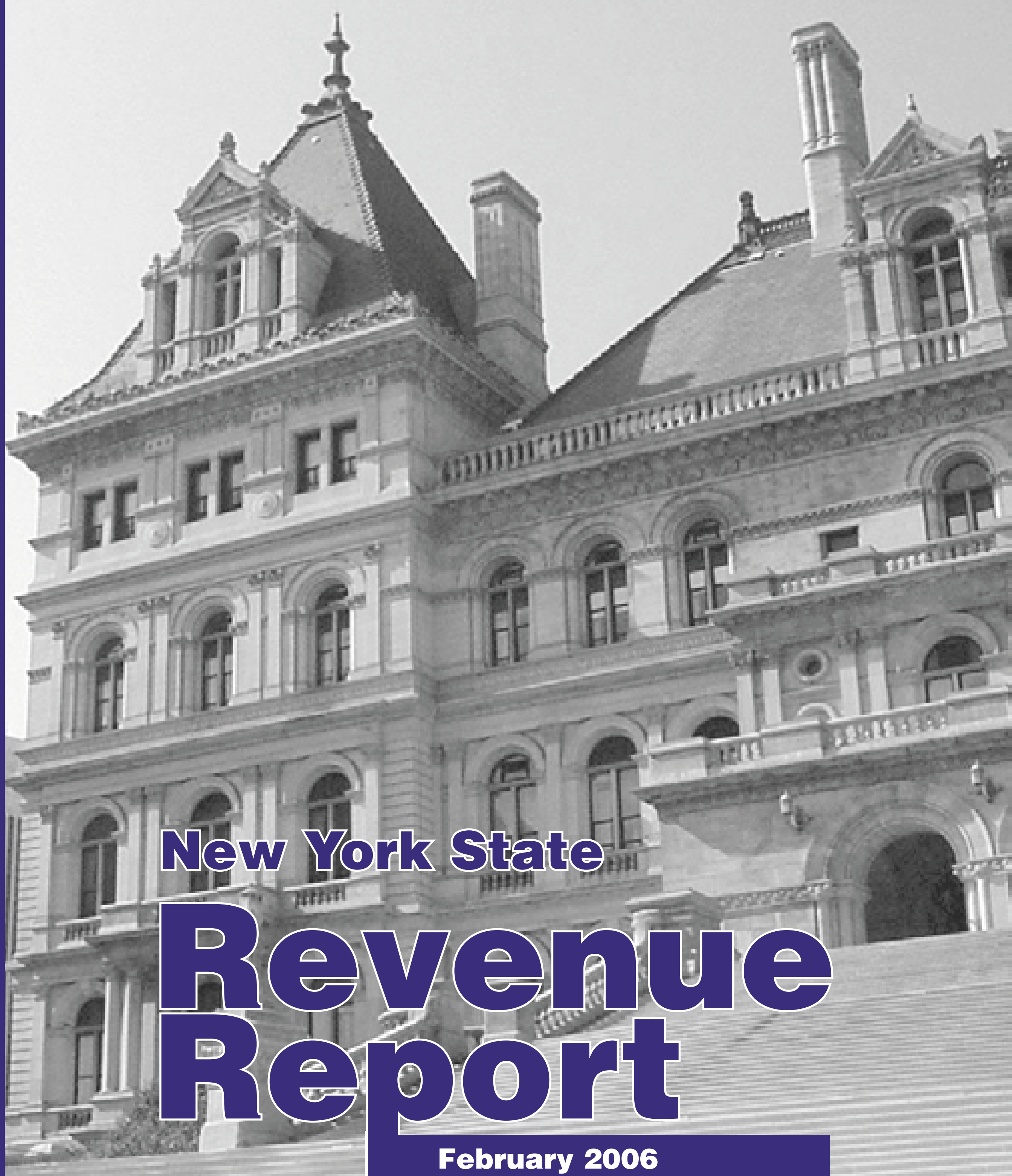

New York State Revenue Report

February 2006

Sheldon Silver
Speaker

Herman D. Farrell, Jr.
Chairman

New York State Assembly
Ways and Means Committee Staff

February, 2006

Dear Colleagues:

I am pleased to provide you with the NYS Assembly Ways and Means Committee *Revenue Report* for State Fiscal Year (SFY) 2005-06 and 2006-07. This report is part of our commitment to presenting clear and accurate information to the public. It provides an overview of the national and State economies, as well as an analysis of the Committee staff revenue forecast for SFY 2005-06 and 2006-07.

The Committee staff projects that tax receipts will total $53.877 billion in SFY 2005-06, which represents an increase of $5.280 billion, or 10.9 percent, over SFY 2004-05. The Committee staff estimate is $353 million higher than the Executive's estimate for SFY 2005-06. This difference is largely attributable to differences in economic projections and how this translates into receipts.

The Committee staff projects that tax receipts will total $57.995 billion in SFY 2006-07, an increase of $4.118 billion, or 7.6 percent, over SFY 2005-06. The Committee staff forecast is $974 million higher than the Executive's forecast for SFY 2006-07.

The Committee staff projections are reviewed by an independent panel of professional economists drawn from major financial corporation, prestigious universities, and private forecasters from across the State. Assembly Speaker Sheldon Silver and I would like to express our appreciation to all of the members of our Board of Economic Advisors. Their dedication and expert judgment have been invaluable in helping the Ways and Means Committee staff refine and improve this forecast. They have served to make the work of the staff the best in the State. Of course, they are not responsible for either the numbers or any of the views expressed in this document.

I wish to acknowledge the fine work done by the talented Ways and Means Committee staff. Their forecasts are integral to the budget process. The Speaker and I look forward to working with each of you to achieve a fair budget for all New Yorkers.

Sincerely

Herman D. Farrell, Jr.
Chairman

NEW YORK STATE REVENUE REPORT

FISCAL YEAR 2005-06 AND 2006-07

February 2006

SHELDON SILVER
Speaker
New York State Assembly

HERMAN D. FARRELL, JR.
Chairman
Assembly Ways and Means Committee

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REVENUE REPORT
2005-06 & 2006-07

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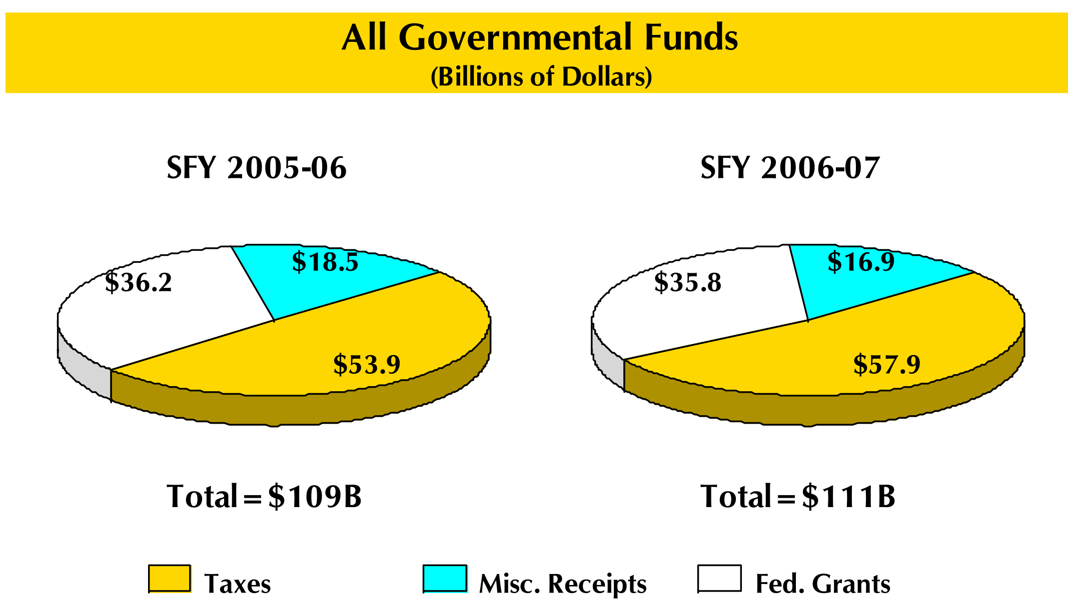
OVERVIEW

All Governmental Funds Receipts

All Governmental Fund receipts consist of all sources of revenue used to support the operation of the State budget and include state taxes, tuition and fees, miscellaneous receipts and Federal grants.

The Committee staff projects All Governmental Funds Receipts to total nearly $108.6 billion for State Fiscal Year (SFY) 2005-06, an increase of $7.9 billion from SFY 2004-05. The increase reflects strong growth in tax receipts of 10.1 percent, and an increase of 14.8 percent in miscellaneous receipts.

All Governmental Funds receipts are forecasted by the Committee staff to increase to $110.7 billion in SFY 2006-07. This is $2.5 billion, or 2.3 percent above the prior year receipt levels. This modest increase in receipts is the result of an 8.2 percent decline in miscellaneous receipts, which offsets growth of 7.6 percent in total tax collections. The decline in miscellaneous receipts is primarily related to proceeds from health care conversions, which the State uses to finance Health Care Reform Act (HCRA). Receipts from conversions are expected to decline from $2.7 billion in SFY 2005-06 to $500 million in SFY 2006-07. Figure 1 illustrates the share of All Governmental Funds receipts by major category.



Source: Ways and Means Committee staff

Figure No 1

Ways and Means Tax Receipts Estimates

The Committee staff estimates that total tax receipts will be $1.327 billion higher than the Executive estimate over the forecast period. The forecast period includes the Committee staff's estimate of collections for the remaining portion of SFY 2005-06 and the upcoming SFY 2006-07.

The difference from the Executive estimate is primarily in the staff's estimate of withholding collections over the two fiscal years. In addition, the Committee staff is predicting stronger underlying growth in sales taxes for the upcoming fiscal year.

SFY 2005-06 Estimate

The Committee staff estimates that tax receipts will grow by more than 10 percent for the second straight year. The strength in New York's collections largely mirrors the rebound in collections that is occurring in state governments across the country and at the federal level.

Year-to-date collections through January are 12.2 percent above collections at this point last year. The Committee staff projects that growth in tax collections will continue at its current pace for the remainder of the fiscal year totaling $53.9 billion, or 10.9 percent above SFY 2004-05 (See Table 1). This estimate is $353 million above the Executive estimate and $2.1 billion above the Enacted Budget Report published by the Executive in April 2005.

The growth in collections is primarily in three areas, the personal income tax, corporate franchise tax and the real estate transfer tax. Personal income tax (PIT) collections, bolstered by large increases in estimated payments and settlements on 2004 liability, have grown by 13.6 percent year to date. The Committee staff estimates that net PIT collections will total $31.211 billion, which represents growth of 11.1 percent.

Strength in personal income tax collections are also the result of strong growth in non-wage income, especially partnership income and capital gains. The Committee staff estimates that income from capital gains realizations has now exceeded its 2000 peak and are estimated to be more than $67 billion in 2005. In addition, compensation in the financial services sector, especially in the form of year-end bonuses, continues to drive increases in withholding. The Committee staff estimates that bonuses will increase by 21.7 percent in SFY 2005-06.

Table 1

Summary of Total Tax Collections
(Dollar Amounts in Millions)

	2004-05 Actual	2005-06 Estimate	Change	Percent Growth	Diff. Exec.
Personal Income Tax	$28,100	$31,211	$3,111	11.1%	$223
User Taxes	13,036	13,867	$830	6.4%	85
Business Taxes	5,806	6,940	$1,135	19.5%	11
Other	1,656	1,859	$203	12.3%	34
Total Tax Collections	**$48,598**	**$53,877**	**$5,279**	**10.9%**	**$353**

Year-to-date corporate franchise tax collections have increased by a record 46.5 percent, mainly due to a 68 percent increase in audit collections. Excluding the surge in audits, collections have grown by more than 40 percent through January. Growth in the last quarter is expected to moderate, largely reflecting the expiration of provisions that increased March pre-payments from 25 to 30 percent of the prior year's liability. However, collections are still expected to exceed the peak of SFY 2000-01, totaling $3.012 billion, representing growth of 42.7 percent.

The spike in New York corporate tax collections is consistent with collections growth at the federal level. According to the Congressional Budget Office, corporate tax collections in 2005 are more than twice the level recorded in 2003.[1] However, they expect this surge in collections to be temporary, with collections in future years dampened by changes in accounting rules that will require companies to contribute a larger share of revenues to support future pension liabilities.

Collections from the Real Estate Transfer Tax continue to exceed expectations, with year-to-date growth of 30.7 percent through January. Extraordinary growth over the past two years has fueled concerns of an overheated real estate market. Collections are estimated to reach a peak level of $954 million in SFY 2005-06.

SFY 2006-07 Forecast

The Committee staff forecast continued growth in revenues for the upcoming fiscal year, albeit at rates closer to historical averages for this stage of an economic expansion. Total tax collections are forecasted to be $57.995 billion, an increase of $4.1 billion or 7.6 percent. The forecast includes the Executive's revenue proposals, which are expected to increase tax revenues by $75 million in SFY 2006-07.

Personal Income Taxes

Total PIT collections are expected to total $34.306 billion, an increase of $3.095 billion, or 9.9 percent. The projected growth in personal income tax collections is largely the result of a substantial increase in 2005 liability which is expected to translate into another strong April settlement. On a fiscal year basis the growth in the April should offset the $1.4 billion impact from the expiration of the temporary personal income tax surcharge and the Executive's revenue proposals. However, the growth in settlements belies the modest growth in underlying personal income tax liability projected for 2006, which is only forecasted to grow 2.9 percent.

Aside from the effects of a slowing economy, growth in liability is further reduced by the expiration of the income tax surcharge and the Executive's revenue proposals. After adjusting for these changes, liability is forecasted to grow by less than 1 percent in 2006. The Executive's tax proposals will have an even greater impact on out year revenues, reducing PIT receipts by over $1.4 billion when fully effective.

User Taxes

SFY 2006-07 User Taxes are expected to grow by 7.9 percent in SFY 2006-07, totaling $14.959 billion. The Executive's

[1] Congressional Budget Office, Budget and Economic Outlook: Fiscal Years 2007 to 2016, January 2006.

proposed cigarette tax increase which is estimated to increase revenue by $390 million is offset by the full year impact of the expiration of the sales tax increase and the Executive's proposal to delay collection of taxes on cigarette and motor fuel sales on Indian reservations.

Business Taxes

After a year of record growth, Business Tax revenues are expected to return to more normal collection patterns. Modest growth in underlying liability is offset by a return to historical audit projections, as the Executive is forecasting corporate franchise tax audit collections to be $150 million below this year's peak level. Overall Business Tax revenues are forecasted to be $7.056 billion, an increase of 1.7 percent. The forecast for business tax revenues include the impact from the Executive's tax reduction proposals, which the Executive estimates will reduce revenues by $78 million in the upcoming fiscal year.

Other Taxes

Collections in Other taxes are expected to total $1.674 billion, a decline of 10 percent. The decline is the result of an expectation of a softening real estate market, which will lower real estate transfer tax.

While anecdotal evidence points to a softening of the housing market, with prices stabilizing and falling in some areas, the lag between the time a real estate transfer is recorded and when corresponding taxes are collected — which can be as long as six months — would indicate that growth rates should moderate slightly through the following fiscal year.

Current Law Forecast

For comparison purposes, the Committee staff forecast assumes that the revenue proposals submitted with the Executive Budget would be enacted. The Governor, also provides a forecast of revenues on a current law basis, which excludes the impact of proposed law changes. However, it should be noted that the Executive does not include the reinstatement of the exemption for clothing and footwear in its current law forecast, which is scheduled to be reinstated on April 1, 2006 and would reduce current law estimates by $584 million. The following table compares the Executive's proposed forecast with their forecast assuming no change in current law.

Table 2

Summary of Total Tax Collections
(Dollar Amounts in Millions)

	2005-06 Estimate	2006-07 Forecast	Change	Percent Growth	Diff. Exec.
Personal Income Tax	$31,211	$34,306	$3,095	9.9%	$643
User Taxes	13,867	14,959	$1,092	7.9%	265
Business Taxes	6,940	7,056	$115	1.7%	92
Other	1,859	1,674	($185)	-10.0%	(26)
Total Tax Collections	**$53,877**	**$57,995**	**$4,118**	**7.6%**	**$974**

Table 3

Revenue Forecast for SFY 2006-07 Current Law vs Proposed Law			
Category	2006-07 Current	2006-07 Proposed	Diff.
PIT	34,346	34,126	(220)
User Taxes	14,002	14,959	957
Sales Tax	*11,247*	*11,793*	546
Business	7,099	7,021	(78)
Other	1,674	1,674	0
Total Taxes	**57,120**	**57,780**	**659**

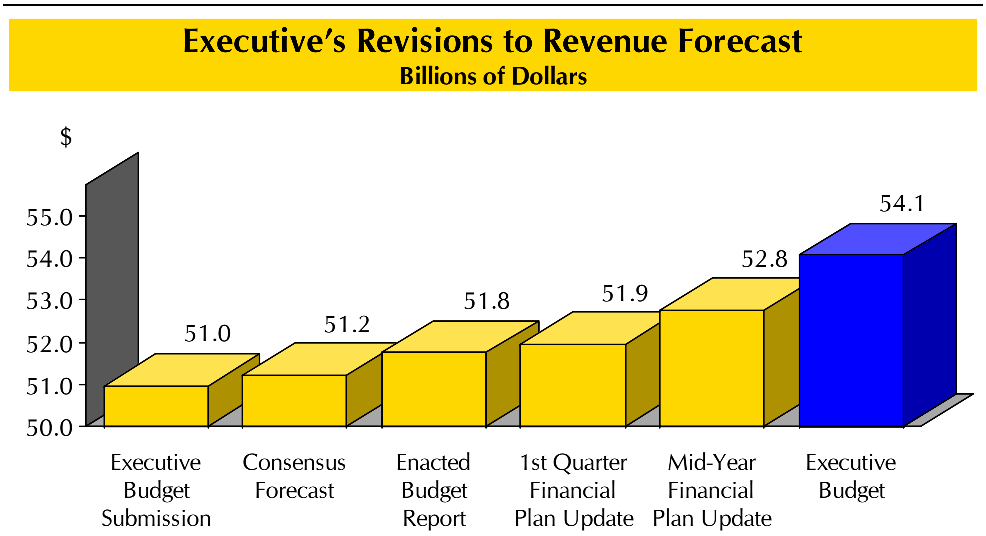
After adjusting for the Executive's proposed repeal of the year-round sales tax exemption on clothing and footwear, the Executive's proposed budget would increase total revenues by $659 million from SFY 2006-07.

<u>Review of the Executive Forecast</u>

Revenue collections have been significantly stronger than the Executive's earlier forecasts. The Executive predicts that total revenues will increase by $1.3 billion from the Mid-Year Update. More illustrative of the strength in revenues is the fact that the Executive's current estimate is $2.3 billion above the Enacted Budget estimate released last April and almost $3 billion from the March Consensus Forecast.

Forecast Accuracy

Statistical error should be expected when trying to gauge the relationship between a complex economic and revenue system. Still, the accuracy of the revenue estimates tend to follow a pattern depending on the stage in the business cycle and the growth of volatile economic variables such as capital gains and Wall Street bonuses. Non-economic factors such as temporary tax actions, acceleration of the collection of revenue that would otherwise be collected in future fiscal years, incorrect estimates of the value of law changes and unexpected economic shocks, such as the events of September 11, also contribute to forecast errors.



Source: Division of the Budget, Ways and Means Committee Staff

Figure No 2

An underlying concern in revenue forecasting is that even small percentage errors can result in large impacts to the financial plan. A one percent error on a $50 billion forecast would result in an under or over forecast of $500 million. For example, using the Executive Budget, the $2.9 billion error from the Consensus Forecast represents a 5.4 percent error. The size of the error in any given year has ranged from less than 2 percent to more than 6.5 percent. According to the Division of the Budget, the absolute average error in their revenue forecasts over the past 10 years has been 3.5 percent. So based on past history, the Executive's forecast for SFY 2006-07 could be roughly $2 billion too conservative if the economy continues to expand, or in the event of an economic slowdown, the forecast could be $2 billion too high.

Risks to the Revenue Forecast

Aside from statistical risks which are inherent in every revenue forecast, there are market and business cycle risks.

On the upside, the economy could grow at a rate faster than is assumed in the current forecast. Increases in corporate earnings and stronger than predicted growth in consumer spending would boost underlying corporate and sales tax revenues. Stronger economic growth would also have a positive effect on the stock market, which in turn would drive both higher wages on Wall Street and increased capital gains realizations. Furthermore, the strength of the real estate market in recent years has contributed to a large increase in capital gains realizations, as well as increased real estate transfer tax receipts. Should the real estate market outperform expectations, the result would be an increase in collections above what is forecasted here.

Conversely, there could be a slowdown in economic growth. The continued presence of a flattening yield curve continues to give economists reason for concern. The predicted slowdown could be exacerbated by political instability in the Middle East and other oil producing nations. Higher than predicted oil prices could take its toll on economic growth and consumer consumption, reducing disposable income a greater share of income goes to pay higher fuel bills. In addition, what is estimated to be a soft landing in the real estate market could turn out to be more dramatic, which would have a negative impact the economy through a negative wealth effect, a decline in capital gains realizations and lower than expected real estate tax collections.

Table 4

Total Tax Collections SFY 2005-06 (Dollar Amounts in Millions)					
	2004-05 Actual	2005-06 Estimate	Change	Percent Growth	Diff. Exec.
Personal Income Tax	**$28,100**	**$31,211**	**$3,111**	**11.1%**	**$223**
Gross Receipts	**32,768**	**36,890**	**4,122**	**12.6%**	**239**
Withholding	23,375	25,120	1,745	7.5%	233
Estimated Payments	7,062	9,173	2,111	29.9%	(34)
Vouchers	5,526	6,698	1,172	21.2%	(24)
IT 370s	1,536	2,475	939	61.1%	(10)
Final Payments	1,629	1,840	211	13.0%	23
Delinquencies	702	757	55	7.8%	17
Total Refunds	**4,668**	**5,679**	**1,011**	**21.7%**	**16**
Prior Year Refunds	3,107	3,475	368	11.8%	35
Current Refunds	960	1,512	552	57.5%	-
Previous Refunds	243	251	8	3.3%	(19)
State/City Offsets	357	441	84	23.5%	-
Collections	**28,100**	**31,211**	**3,111**	**11.1%**	**223**
User Taxes and Fees	**13,036**	**13,867**	**831**	**6.4%**	**85**
Sales and Use Tax	11,016	11,222	206	1.9%	41
Motor Fuel Tax	530	530	0	0.0%	7
Cigarette Tax	406	979	573	141.1%	4
Motor Vehicle Fees	666	697	31	4.7%	31
Highway Use	151	161	10	6.6%	2
Alcoholic Beverage Tax	185	189	4	2.2%	(0)
Alcoholic Beverage Fees	42	46	4	9.5%	(0)
Auto Rental Tax	40	43	3	7.5%	(0)
Business Taxes	**5,806**	**6,940**	**1,134**	**19.5%**	**11**
Corporate Franchise	2,110	3,012	902	42.7%	20
Utility Tax	827	764	(63)	-7.6%	(8)
Insurance Tax	1,108	1,147	39	3.5%	(3)
Bank Tax	675	876	201	29.8%	1
Petroleum Business Tax	1,085	1,142	57	5.3%	1
Other	**1,656**	**1,859**	**203**	**12.3%**	**34**
Real Property Gains	1	1	0	0.0%	-
Estate and Gift	899	880	(19)	-2.1%	10
Real Estate Transfer	730	954	224	30.7%	24
Pari Mutuel	26	23	(3)	-11.5%	-
Other	1	1	0	0.0%	-
Total Taxes	**$48,598**	**$53,877**	**$5,279**	**10.9%**	**$353**

Table 5

Total Tax Collections SFY 2006-07 (Dollar Amounts in Millions)					
	2005-06 Estimate	2006-07 Forecast	Change	Percent Growth	Diff. Exec.
Personal Income Tax	**$31,211**	**$34,306**	**$3,095**	**9.9%**	**$643**
Gross Receipts	**36,890**	**39,822**	**2,932**	**7.9%**	**658**
Withholding	25,120	26,181	1,061	4.2%	321
Estimated Payments	9,173	10,520	1,347	14.7%	240
Vouchers	6,698	7,320	622	9.3%	170
IT 370s	2,475	3,200	725	29.3%	70
Final Payments	1,840	2,317	477	25.9%	67
Delinquencies	757	804	47	6.2%	30
Total Refunds	**5,679**	**5,516**	**(163)**	**-2.9%**	**15**
Prior Year Refunds	3,475	3,311	(164)	-4.7%	20
Current Refunds	1,512	1,500	(12)	-0.8%	-
Previous Refunds	251	265	14	5.6%	(5)
State/City Offsets	441	440	(1)	-0.2%	-
Collections	**31,211**	**34,306**	**3,095**	**9.9%**	**643**
User Taxes and Fees	**13,867**	**14,959**	**1,092**	**7.9%**	**265**
Sales and Use Tax	11,222	11,793	571	5.1%	255
Motor Fuel Tax	530	536	6	1.1%	11
Cigarette Tax	979	1,359	380	38.8%	(16)
Motor Vehicle Fees	697	827	130	18.7%	13
Highway Use	161	164	3	1.9%	2
Alcoholic Beverage Tax	189	191	2	1.1%	0
Alcoholic Beverage Fees	46	44	(2)	-4.3%	(1)
Auto Rental Tax	43	45	2	4.7%	0
Business Taxes	**6,940**	**7,056**	**116**	**1.7%**	**92**
Corporate Franchise	3,012	3,055	43	1.4%	6
Utility Tax	764	795	31	4.1%	15
Insurance Tax	1,147	1,186	39	3.4%	20
Bank Tax	876	859	(17)	-1.9%	83
Petroleum Business Tax	1,142	1,161	19	1.7%	(31)
Other	**1,859**	**1,674**	**(185)**	**-10.0%**	**(26)**
Real Property Gains	1	-	(1)	-100.0%	-
Estate and Gift	880	833	(47)	-5.3%	(41)
Real Estate Transfer	954	815	(139)	-14.6%	15
Pari Mutuel	23	25	2	8.7%	-
Other	1	1	0	0.0%	0
Total Taxes	**$53,877**	**$57,995**	**$4,118**	**7.6%**	**$974**

Table 6

Total Tax Collections By Fund Type SFY 2005-06 (Dollar Amounts in Millions)	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
Personal Income Tax	**$20,994**	**$3,219**	**$6,998**	**$0**	**$31,211**
User Taxes and Fees	**8,660**	**1,473**	**2,610**	**1,124**	**13,867**
Sales and Use Tax	7,993	619	2,610	-	11,222
Motor Fuel Tax	-	111	-	419	530
Cigarette Tax	408	571	-	-	979
Motor Vehicle Fees	24	172	-	501	697
Highway Use	-	-	-	161	161
Alcoholic Beverage Tax	189	-	-	-	189
Alcoholic Beverage Fees	46	-	-	-	46
Auto Rental Tax	-	-	-	43	43
Business Taxes	**5,000**	**1,296**	**-**	**644**	**6,940**
Corporate Franchise	2,621	391	-	-	3,012
Utility Tax	581	167	-	16	764
Insurance Tax	1,049	98	-	-	1,147
Bank Tax	749	127	-	-	876
Petroleum Business Tax	-	514	-	628	1,142
Other	**905**	**-**	**842**	**112**	**1,859**
Real Property Gains	1	-	-	-	1
Estate and Gift	880	-	-	-	880
Real Estate Transfer	-	-	842	112	954
Pari Mutuel	23	-	-	-	23
Other	1	-	-	-	1
Total Taxes	**$35,559**	**$5,988**	**$10,450**	**$1,880**	**$53,877**

Table 7

Total Tax Collections By Fund Type SFY 2006-07 (Dollar Amounts in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
Personal Income Tax	**$23,204**	**$3,368**	**$7,735**	**$0**	**$34,306**
User Taxes and Fees	**8,941**	**1,987**	**2,769**	**1,262**	**14,959**
Sales and Use Tax	8,307	717	2,769	-	11,793
Motor Fuel Tax	-	113	-	423	536
Cigarette Tax	399	960	-	-	1,359
Motor Vehicle Fees	-	197	-	630	827
Highway Use	-	-	-	164	164
Alcoholic Beverage Tax	191	-	-	-	191
Alcoholic Beverage Fees	44	-	-	-	44
Auto Rental Tax	-	-	-	45	45
Business Taxes	**5,104**	**1,296**	**-**	**656**	**7,056**
Corporate Franchise	2,676	379	-	-	3,055
Utility Tax	604	174	-	18	795
Insurance Tax	1,086	100	-	-	1,186
Bank Tax	738	121	-	-	859
Petroleum Business Tax	-	522	-	639	1,161
Other	**859**	**-**	**668**	**147**	**1,674**
Real Property Gains	-	-	-	-	-
Estate and Gift	833	-	-	-	833
Real Estate Transfer	-	-	668	147	815
Pari Mutuel	25	-	-	-	25
Other	1	-	-	-	1
Total Taxes	**$38,107**	**$6,651**	**$11,172**	**$2,065**	**$57,995**

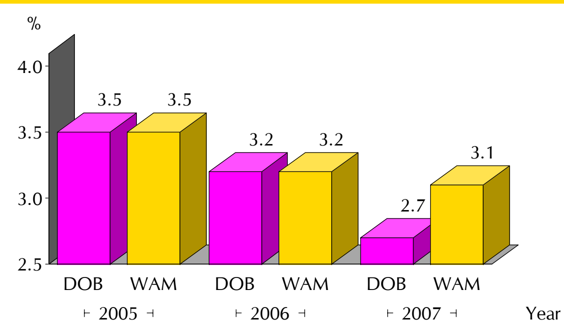
ECONOMIC OVERVIEW

US Forecast

Gross Domestic Product (GDP)

Despite the effects of Hurricanes Rita and Katrina, the Committee staff reports that the US economy experienced growth in 2005. After growing by 4.2 percent in 2004, the Committee staff estimates that Gross Domestic Product grew 3.5 percent in 2005 and will grow 3.2 percent in 2006. The Committee staff estimates that GDP will continue the trend of deceleration in 2007, growing 3.1 percent. Consumption, which accounts for approximately 70 percent of GDP, is estimated to have grown by 3.6 percent in 2005. The Committee staff expects consumption growth to be 3.0 percent in 2006 and 3.1 percent in 2007. GDP growth was supported by strong private domestic investment during 2005, which is estimated to have grown by 5.8 percent. Private domestic investment is forecast to grow in 2006 by 5.8 percent, furthering growth in GDP.

US Real GDP Growth



Source: Ways and Means Committee staff, Division of the Budget

Figure No 3

International Trade

The Committee staff forecasts the national trade deficit will continue growing in 2006 and 2007, continuing a trend that began in 1995. The relative weakness of the dollar in recent years has helped to moderate growth in the trade deficit. The Committee staff forecasts the dollar will continue to lose value in 2006 and 2007, assuming that the trade deficit and federal budget deficits continue to grow.

Monetary Policy

To stave off fears of inflation, the Federal Reserve raised interest rates 14 times between June 2004 and January 2006. During this period, the federal funds rate increased from 1.0 percent to 4.5 percent. In 2005, the federal funds rate averaged 3.2 percent. The Committee Staff expects the federal funds rate to increase to 4.7 percent in 2006 and rise again in 2007 to an average rate of 4.7 percent.

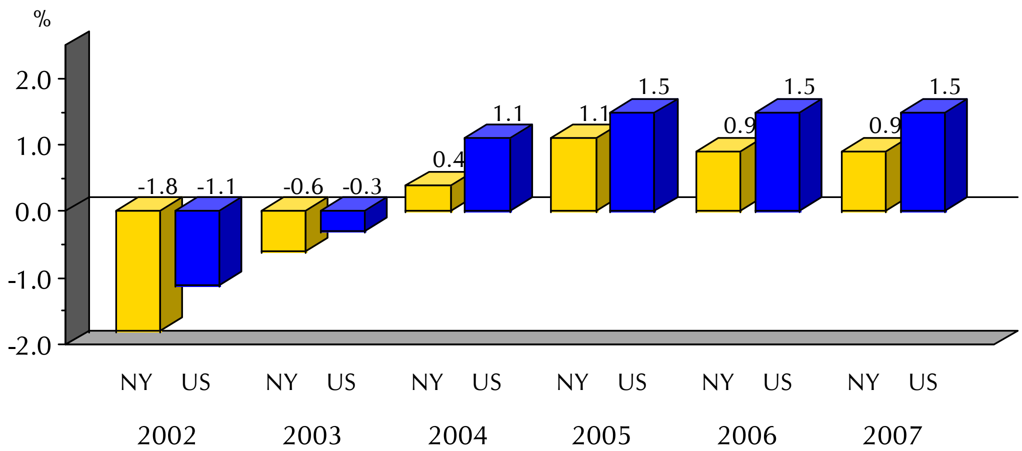
Corporate Profits

Since 2001, annual corporate profits have been growing. Despite the third quarter decrease in corporate profits caused by hurricanes Rita and Katrina, economic profits grew approximately 15.9 percent during 2005. Economic profits are expected to grow 9.1 percent in 2006 and 5.8 percent in 2007. Due to expiration of the 50 percent bonus depreciation deduction in 2005, accounting profits grew by 126 percent in the first quarter of 2005. Accounting profits are expected to grow 7.2 percent in 2006 and 5.5 percent in 2007.

New York

Employment

Employment Growth
New York State versus US



Source: Department of Labor, Ways and Means Committee staff

Figure No 4

Employment in New York State has continued to lag the rest of the nation. The Committee staff estimates that New York employment grew by 1.1 percent in 2005, lagging the national growth rate of 1.5 percent. According to staff estimates, employment will grow by 0.9 percent in 2006 and maintain this growth rate in 2007. The staff estimates that national employment will also maintain the same growth rate throughout the forecast period. However national employment is forecast to grow at a faster pace, 1.5 percent in both years.

Income

Despite faster growth in national employment, State wages are expected to grow at a faster pace than national wages in 2006. After growing 5.3 percent in 2005, wages are forecast to grow 6.1 percent in 2006 and 5.0 percent in 2007. A large share of this growth is attributable to variable compensation and non-wage compensation – most notably bonuses on Wall Street. Another significant source of income in New York, capital gains are forecast to continue growing in 2006 and 2007. After growing an estimated 32.3 percent in 2005, New York State capital gains are forecast to grow 5.4 percent in 2006 and 5.8 in 2007.

Variable compensation and capital gains, which are expected to experience continued growth in coming years, are received disproportionately by the wealthiest New Yorkers. As these sources of income are expected to grow faster than other income sources, the gap between New York's wealthiest and poorest is expected to expand. Currently, New York is estimated to have the largest gap between the richest 20 percent and poorest 20 percent in the nation. The difference in growth rates between wages and non-wage sources of income will exacerbate this gap.

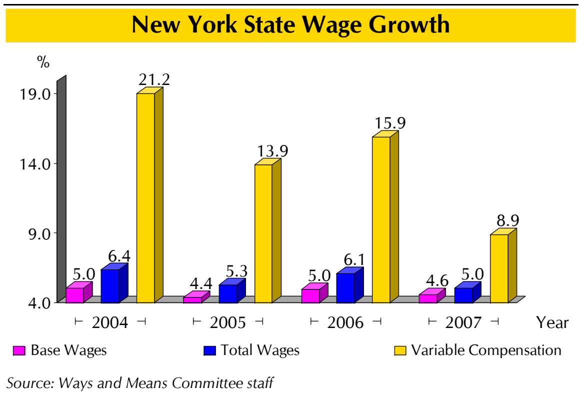


Figure No 5

Industry

In contrast to other sectors of the State's economy, manufacturing has been experiencing a steady decline since the 1994. During the ten year period ending in 2004, New York State manufacturing employment has decreased by an average of 3 percent per year. Nationally, the loss in manufacturing averaged 1.7 percent during the same period. The continued decrease in manufacturing within New York State will put downward pressure on Corporate Franchise Tax receipts, as manufacturing firms account for the second largest share of Corporate Franchise Tax receipts.

Real Estate

The State housing market remained strong in 2005. The strength in the housing markets is partially attributable to low mortgage rates. As mortgage rates remained at near-record lows for most of 2005, mortgages were easier to obtain and easier to repay. In continuing the current trend, the Committee staff forecasts that mortgages rates will climb in 2006 and 2007 to a maximum of 6.9 percent. As mortgage rates rise in 2006 and 2007, the housing market is expected to cool. Particularly in the New York City Metropolitan area, housing prices have risen rapidly in recent years. Rising house prices have buoyed the State economy, as individuals feel the wealth effect and cash out the income in house values by obtaining home equity loans. Both phenomena increase consumers' propensity to spend.

Consumers

Reflective of rapid fluctuations in energy prices, consumer consumption varied considerably throughout 2005. Although national consumption increased 3.6 percent in 2005, the quarterly growth rate slowed to 1.1 percent in the fourth quarter of 2005. However, national consumer consumption is expected to rebound in 2006 and 2007, growing by 3.0 percent and 3.1 percent respectively.

Table 8

Forecast Comparisons (Percent Change)				
	Actual 2004	Estimate 2005	Forecast 2006	Forecast 2007
US Real GDP				
Ways and Means	4.2	3.5	3.2	3.1
Division of the Budget	4.2	3.5	3.2	2.7
Economy.com	4.2	3.5	3.5	3.0
NYS Employment (Nonfarm)				
Ways and Means	0.4	1.1	0.9	0.9
Division of the Budget	0.6	0.9	0.7	0.7
Economy.com	0.5	0.9	0.8	0.5
NYS Wages				
Ways and Means	6.4	5.3	6.1	5.0
Division of the Budget	6.4	5.1	5.9	5.1
Economy.com	6.1	4.6	3.3	4.4

Sources: NYS Assembly Ways and Means Committee staff; New York State 2006-07 Executive Budget with 30 Day Changes ; Moody's Economy.com, February 2006.

PERSONAL INCOME TAX

Personal Income Tax Collections SFY 2005-06 (Dollar Amounts in Millions)					
	2004-05 Actual	2005-06 WAM Estimate	Percent Growth	2005-06 Executive Estimate	Diff. Exec.
Personal Income Tax	**$28,100**	**$31,211**	**11.1%**	**$30,988**	**$223**
Gross Receipts	**32,768**	**36,890**	**12.6%**	**36,651**	**239**
Withholding	23,375	25,120	7.5%	24,887	233
Estimated Payments	7,062	9,173	29.9%	9,207	(34)
Vouchers	5,526	6,698	21.2%	6,722	(24)
IT 370s	1,536	2,475	61.1%	2,485	(10)
Final Payments	1,629	1,840	12.9%	1,817	23
Delinquencies	702	757	7.8%	740	17
Total Refunds	**4,668**	**5,679**	**21.7%**	**5,663**	**16**
Prior Year Refunds	3,107	3,475	11.8%	3,440	35
Current Refunds	960	1,512	57.5%	1,512	-
Previous Refunds	243	251	3.3%	270	(19)
State/City Offsets	357	441	23.7%	441	-
Collections	**28,100**	**31,211**	**11.1%**	**30,988**	**223**
Transfers to STAR	(3,059)	(3,219)	5.2%	(3,219)	-
Transfers to DRRF/RBTF	(6,260)	(6,998)	11.8%	(6,942)	(56)
General Fund PIT Collections	**$18,781**	**$20,994**	**11.8%**	**$20,827**	**$167**

Table 9

New York State imposes a tax on individuals, estates, and trusts on income earned within the State. New York closely follows the Federal definition of income, which including wages and salaries, capital gains, unemployment compensation, and interest and dividend compensation. The New York standard deduction or itemized deductions, and dependent exemptions claimed on federal taxes are subtracted from this figure to arrive at New York taxable income. Certain credits are then subtracted from the calculated tax to arrive at net tax liability.

Personal Income Tax (PIT) receipts comprise over one-half of all tax collections. PIT receipts are received through employee withholdings, estimated tax payments, payments accompanying tax returns, late payments, and audits and assessments.

SFY 2005-06 Estimate

The Committee staff estimates All Funds personal income tax collections will total $31.211 billion in SFY 2005-06. This represents an increase of $3.111 billion or 11.1 percent over collections in SFY 2004-05. The growth in collections is driven by a large surge in estimated payments through the first half of the fiscal year.

The Committee's estimate is $223 million more than the Executive's current estimate.

Withholding

Through January 2006, withholding collections have increased by $1.373 billion or 7.5 percent over the comparable period in 2005. The Committee staff estimates that by the end of the current fiscal year withholding collections will total $25.120 billion. This represents an increase of $1.745 billion or 7.5 percent over collections during the 2004-05 fiscal year. The Committee staff anticipates that stronger growth in withholding collections during the second half of the fiscal year will be the result of another season of strong Wall Street bonuses, which are usually paid between December and March. The Committee staff's estimate is $233 million higher than the Executive's current estimate and $576 million higher than the Enacted Budget estimate.

The SFY 2005-06 PIT estimate reflects base wage growth of 4.5 percent and variable wage growth of 21.7 percent throughout the current fiscal year. Variable wage growth is particularly important to the Committee estimate, as variable wage growth reflects the expected increase in bonuses.

Estimated Payments

Estimated payment collections are quarterly tax payments made by taxpayers who expect that the amount of tax being withheld from their wages will fall short of their final tax liability. In general, estimated payments are paid by taxpayers who have a large portion of their income derived from non-wage sources like capital gains and dividend income.

The continued strength in estimated payment collections explains much of the growth in personal income tax collections. The Committee staff expects that estimated payment collections for SFY 2005-06 will be $9.173 billion, an increase of $2.111 billion or 29.9 percent over collections from SFY 2004-05. The Committee staff estimate is $34 million below the Executive estimate, yet $1.167 billion above the Executive's Enacted Budget estimate.

Current growth in estimated payments is impressive considering that such growth is on top of a record setting year. During the 2004-05 fiscal year, estimated payment collections grew by 36.9 percent. When combined with current expectations estimated payments will grow by more than 80.6 percent between the SFY 2003-04 and SFY 2005-06.

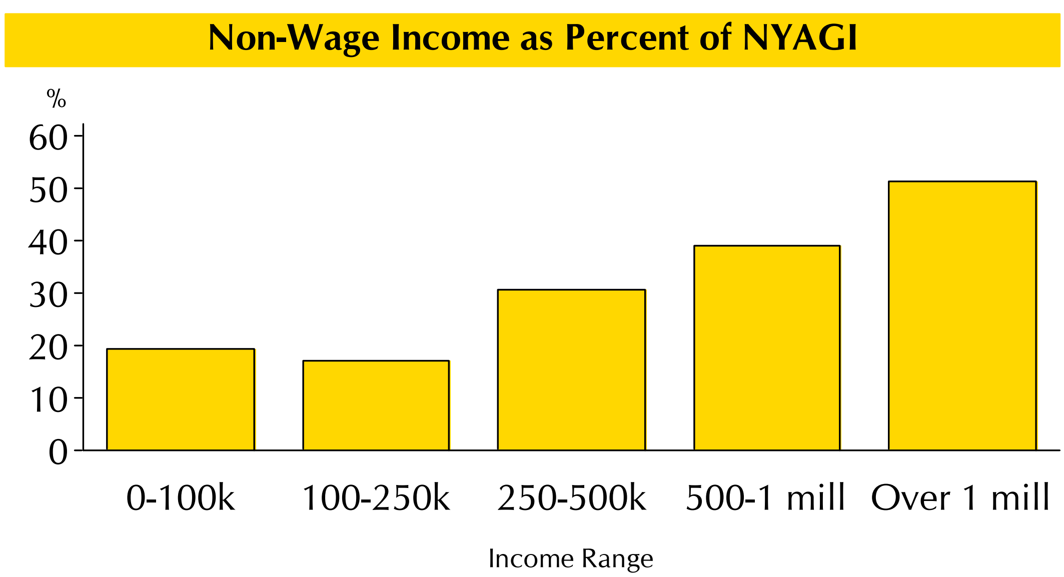
The dramatic increase in estimated payment collections is the direct result of increases in non-wage sources of income. Capital gains are typically a large and volatile source of non-wage income. In 2001, capital gains income shrank by more than 50 percent. In 2002, capital gains income declined by another 30 percent. However, capital gains have bounced back and are now estimated to be more than three times greater than those reported in 2002. Growth in other non-wage sources of income also increased estimated payments. For example, other income and proprietor income is estimated to have grown by 7.5 percent and 6.2 percent, respectively in 2005.

A Closer Look at Estimated Payments and Withholding Collections

Withholding and estimated payments are the engines that drive personal income tax collections. These two components typically account for nearly 90 percent of gross receipts. Withholding is simply the amount of money that employers withhold from employee paychecks during each pay period. Withholding is very closely related to wages: as wages increase the amount withheld increases.

Estimated payments are not as straight forward. Under State law taxpayers are required to make quarterly estimated payments when the amount of tax withheld from their wages fails to adequately cover their actual tax liability. Taxpayers that make estimated payments tend to receive a large portion of their income from non-wage sources such as capital gains, dividends, or self-employment. Therefore, estimated payment collections are related to income, but not necessarily wages and are more sensitive to changes in the economy.

Figure 6 highlights the relative importance of wage and non-wage income between income classes. Non-wage income includes capital gains income, dividend income, and other income. For individuals with incomes under $250,000, non-wage income is relatively unimportant, accounting for less than 20 percent of total adjusted gross income (AGI). However, as we move up the income ladder, non-wage income becomes increasingly important. Non-wage income makes up nearly 40 percent of AGI for taxpayers with incomes between $500 thousand and $1 million, and more than 45 percent for individuals who earn between $1 and $10 million. For taxpayers with incomes above $10 million, non-wage income is nearly 65 percent of AGI.



Source: NYS Department of Taxation and Finance, Ways and Means Committee Staff

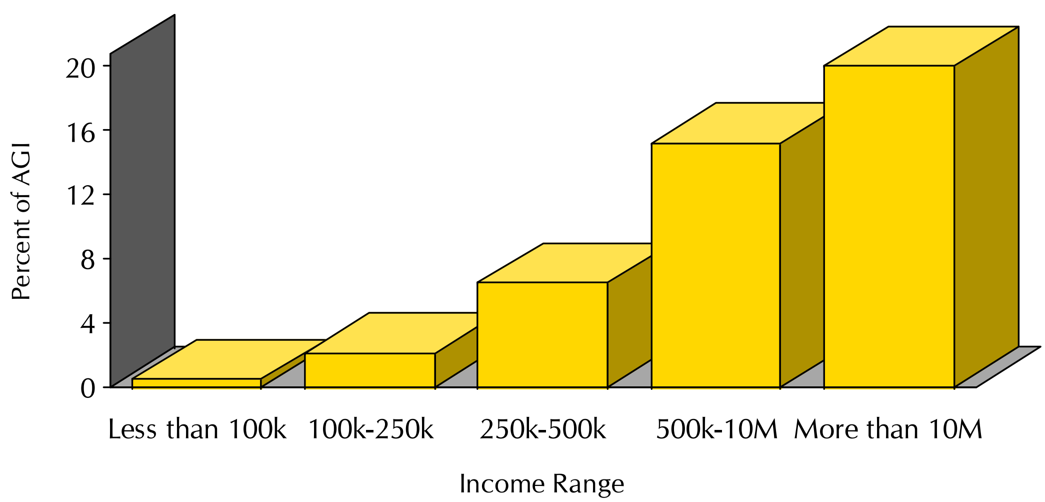
Figure No 6

The contrast is equally stark when looking at the capital gains component of non-wage income. As Figure 7 shows, capital gains make up less than 2 percent of overall income for taxpayers earning less than $250,000. In contrast, capital gains make up nearly 20 percent of income for taxpayers earning more than $10 million. This concentration combined with the volatility that makes capital gains so difficult to accurately forecast, has significant ramifications for forecasting personal income tax collections. Capital gains income is concentrated in taxpayers that fall into higher tax brackets. Therefore, a dollar of capital gains income lost will cost the State more revenue than the average dollar lost in wage income.

If we look at the growth rates of estimated payments and withholding, we see that, while withholding is growing at a healthy rate of just under 7 percent, estimated payments are growing at nearly 35 percent. This suggests that potential income growth in the State is dependent on non-wage segments. Given New York's progressive tax system this money gets taxed at a higher rate, making the state's revenue rather volatile.

Moreover, the growth in withholding collections cannot necessarily be attributed to growth in the wages of middle income New Yorkers. A large portion of growth in withholding can be attributed to growth in variable wages. Variable wages, such as Wall Street bonus payments, are typically paid to high income New Yorkers. During SFY 2003-04, withholding collections based on Wall Street bonus payments accounted for nearly 26 percent of all withholding collections. Throughout 2005 variable wages have grown 22.2 percent; while base wages, those wages earned by the typical middle class taxpayer have grown by only 4.3 percent

Capital Gains as Percent of AGI Based on Income for 2003



Source: NYS Department of Taxation and Finance, Ways and Means Committee Staff

Figure No 7

The conclusion we can draw from this analysis is that while personal income is growing rapidly in the State, most of the growth is concentrated in the hands of wealthy taxpayers. Middle-income New Yorkers, those who rely on wages as their primary source of income, are not faring as well.

Settlements

In April, taxpayers must file either an extension or a final return to settle their tax liability for the prior calendar year. These returns are accompanied by a corresponding payment if the taxpayer owes money or by a claim for a refund if they have paid too much over the course of the year. As a result, the month of April is usually large in terms of personal income tax collections. Due to the rules that dictate how extensions and final payments are made, the bulk of collections for these components are completed by the end of the second quarter of the fiscal year. More than 99 percent of extension deposits and nearly 90 percent of final payments are completed by September. As a result, there is a relatively higher degree of certainty surrounding the current year closeout totals being reported below for these two components.

Final Payments

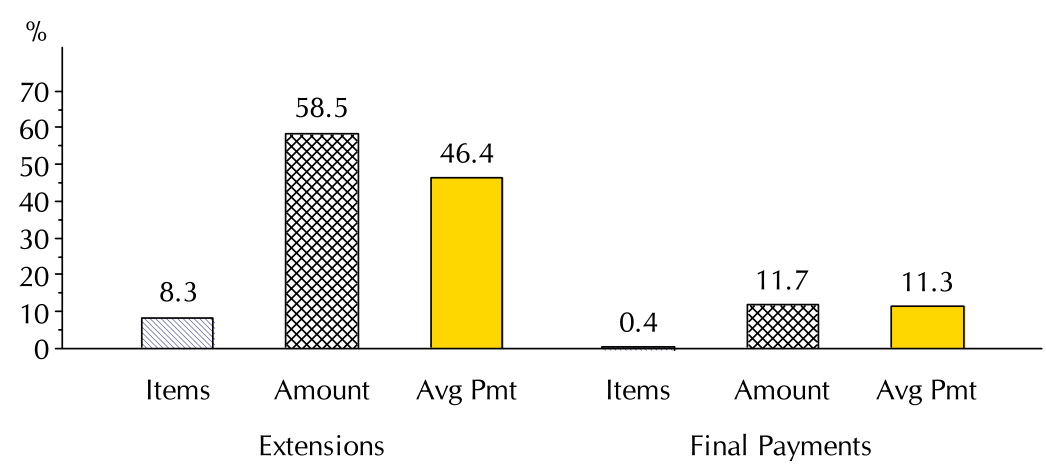
Final payments, which result from the timely filing of tax returns each April 15th, have increased by $200 million, or 13.4 percent through January 2006. The Committee staff estimates that final payments will total $1.840 billion in SFY 2005-06. This estimate is $23 million above the Executive current estimate.

Extensions

Taxpayers are allowed an automatic four-month extension for final payment on tax liability from the previous year. However, they are still required to accurately estimate liability and submit any corresponding payment with the extension. Generally, more than 90 percent of extension deposits are made in April.

PIT April Settlement - 2005

Growth over prior year



Source: NYS Department of Taxation and Finance

Figure No 8

In April 2005, extension deposits grew by $874 million or 58.8 percent over the previous year. The Committee staff estimates that extension deposits will total $2.475 billion in 2005-06, representing an increase of $939 million or 61.1 percent over the previous fiscal year. This estimate is $10 million below the Executive's current estimate and $381 million higher than the Enacted Budget estimate.

When final payments and extensions are considered jointly, the number of taxpayers filing for extensions is growing at a faster pace than growth in the number of taxpayers making traditional final payments (see Figure 8). In April 2005 the number of individuals requesting an extension grew by 8.3 percent, while the average payment submitted along with the extension request grew by 46 percent. In contrast, the number of individuals making final payments grew by less than 1.0 percent, and the average final payment amount grew by 11.4 percent.

Refunds

Refunds are issued to taxpayers that have paid more than their tax liability. The amount of refunds paid out between January and March is administratively determined by the Executive. The amount paid during this three month period in recent years has been $960 million. However, during the 2006 refund period (January-March) the tax department will pay out an additional $552 million in refunds, bringing the total paid out during that period to $1.512 billion. Beginning in April, the remaining refunds, known as prior year refunds, are paid to taxpayers as they are processed. Roughly two-thirds of prior year refunds are paid out in April and May of each year.

The Committee staff estimates that prior year refunds will total $3.475 billion in SFY 2005-06, representing an increase of $368 million or 11.8 percent over the previous fiscal year. This estimate is $35 million above the Executive's estimate. Refunds paid as part of the April 2005 settlement were higher than expected and as a result the current estimate now exceeds the Enacted Budget estimate by $195 million.

Delinquencies

Delinquency collections generally arise from taxpayer audits. Delinquency payments are estimated to total $757 million in SFY 2005-06, which is $55 million or 7.8 percent more than total delinquency collections from SFY 2004-05. The Committee's estimate is $17 million higher than the Executive's current estimate, and is $52 million more than the Enacted Budget estimate. The recently enacted tax shelter legislation was expected to bring in an additional $50 million in delinquency collections.

SFY 2006-07 Forecast

The Committee staff's revenue forecast for personal income tax during the 2006-07 fiscal year shows continued growth in nearly every component. All Funds collections are forecast to be $34.306 billion, which is $3.095 billion or 9.9 percent higher than the Committee's 2005-06 estimate. This estimate reflects collections that are based, in part, on 2005 liability. In 2005 the temporary surcharge was still in effect, resulting in strong liability growth. Part of 2005 liability will be realized in 2006-07 collections by way of a large April settlement. Growth in settlement components, like final payments and extensions, will help offset the losses during the year in withholding and estimated payment collections from the expiration of the temporary surcharge. Reverting back to 2002 Tax Law is expected to reduce collections by $1.454 billion during the forecast period.

Withholding

Withholding collections are forecast to total $26.181 billion in SFY 2006-07. This is $1,061 billion or 4.2 percent higher than the SFY 2005-06 withholding estimate. Withholding collections are significantly reduced by expiration of the temporary tax increase. The Committee estimates that by reverting back to 2002 Tax Law, withholding collections will be reduced by $516 million. However the reduction of the top rate is counterbalanced by strong growth in wages. Base wages during the forecast period are expected to grow 4.8 percent, while variable wages are expected to grow 10.5 percent.

Personal Income Tax Collections SFY 2006-07 (Dollar Amounts in Millions)					
	2005-06 WAM Estimate	2006-07 WAM Forecast	Change	Percent Growth	Diff. Exec.
Personal Income Tax	**$31,211**	**$34,306**	**$3,095**	**9.9%**	**$643**
Gross Receipts	**36,890**	**39,822**	**2,932**	**7.9%**	**658**
Withholding	25,120	26,181	1,061	4.2%	321
Estimated Payments	9,173	10,520	1,347	14.7%	240
Vouchers	6,698	7,320	622	9.3%	170
IT 370s	2,475	3,200	725	29.3%	70
Final Payments	1,840	2,317	477	25.9%	67
Delinquencies	757	804	47	6.2%	30
Total Refunds	**5,679**	**5,516**	**(163)**	**-2.9%**	**15**
Prior Year Refunds	3,475	3,311	(164)	-4.7%	20
Current Refunds	1,512	1,500	(12)	-0.8%	-
Previous Refunds	251	265	14	5.6%	(5)
State/City Offsets	441	440	(1)	-0.2%	-
Collections	**31,211**	**34,306**	**3,095**	**9.9%**	**643**
Transfers to STAR	(3,219)	(3,368)	(149)	4.6%	-
Transfers to DRRF/RBTF	(6,998)	(7,735)	(737)	10.5%	(160)
General Fund PIT Collections	**$20,994**	**$23,204**	**$2,210**	**10.5%**	**$483**

Table 10

Estimated Payments

In recent years, the State's revenue collections were increased due to exceptionally strong growth in estimated payments. This continues to be the case during the 2006-07 fiscal year. Currently, the staff forecasts that estimated payments will total $10.520 billon, which is $1.347 billion or 14.7 percent more than the staff's 2005-06 fiscal year estimate.

Net Capital Gains and Other Risks to the Forecast

Because estimated payments are based on income components that are typically more difficult to forecast, such as capital gains and other forms of non-wage income, they tend to be a more volatile component of personal income tax collections. At the same time, estimated payments are the second largest component of personal income tax receipts and the reliability of the staff's overall forecast depends on the accuracy of the estimated payment forecast.

Accurately forecasting estimated payments requires accurately forecasting capital gains income which is one of the more difficult income components to forecast. Capital gains realization can depend on the success of financial markets, as well as tax treatment of capital gains income. After falling sharply in 2001 and 2002, capital gains have bounced back. Buoyed by an expanding housing market and more favorable treatment of capital gains income at the federal level, capital gains have increased each year since 2002. In 2005 capital gains is forecast to be $68.8 billion, which is nearly $5 billion more than the all time high reached in 2000. In 2006 capital gains are expected to grow by 5.4 percent, to a level of $72.5 billion. Other non-wage components are also expected to grow throughout the forecast period. Interest and dividend income is expected to grow by 6.7 percent, while business income is expected to grow by 6.6 percent. These non-wage components of income are responsible for the increase in estimated payments.

However, downside risk exists with the estimated payments forecast due to the volatility of capital gains income. The real estate market, so important to capital gains realization, has begun showing signs of cooling. Appreciated home values and higher mortgage rates may finally begin to discourage buyers from purchasing homes. Moreover, if the Federal Reserve continues to slow the economic engine by increasing interest rates, the housing market may suffer. If there is a confluence of these factors in 2006, capital gains realization could decline and have a downward impact on quarterly estimated payments.

The other risk to capital gains is the continued practice of taxpayers carrying forward losses incurred during the 2000 and 2001 bear market. The losses incurred during that period were unprecedented and some believe that much of the losses have not been used to offset current gains. If taxpayers decide to utilize those losses to offset 2006 gains, then taxable gains will decline, further depressing expected collections.

Settlements

In April, taxpayers must file either an extension or final return to settle up their tax liability for the prior calendar year. These returns are accompanied by a corresponding payment if the taxpayer owes money or by a claim for a refund if the taxpayer has paid too much. As a result, the month of April is usually large in terms of personal income tax collections. The April 2005 "settlement" was dramatically improved as a result of a large increase in both the number and size of extensions and final payments.

The settlement includes final payments, extensions, refunds and the State-City offset. Combining final payments and extensions, the state will receive $5.501 billion in settlement payments. This is $219 million more than what is projected to be paid out in refunds. Positive settlements typically occur when the economy is expanding as it did through much of 2005. High-income taxpayers who benefit the most from expansion in the economy are caught off guard by their tax liability and are forced to make a final payment or request an extension.

Final Payments

Final payments, which result from the timely filing of tax returns, are forecast to total $2.317 billion in fiscal year 2006-07. This represents an increase of $477 million or 25.9 percent over the Committee's fiscal year 2005-06 estimate. Final payments made during the forecast period are based on 2005 liability which was determined based on strong growth in personal income and the temporary surcharge. The temporary surcharge is responsible for much of the growth in final payments.

Extensions

The Committee forecasts extensions (IT-370s) to total $3.200 billion in fiscal year 2006-07. This represents a $725 million or 29.3 percent growth from the staff's 2005-06 estimate. Again, extension requests and payment will be based on 2005 liability and will reflect the temporary surcharge.

Refunds

During the period January – March of 2007 the amount of refunds paid will be $1.500 billion. Beginning in April, the remaining refunds, known as prior year refunds, are paid to taxpayers as they are processed. Roughly two-thirds of prior year refunds are paid out in April and May of each year

The Committee staff forecasts that prior year refunds will total $3.311 billion in fiscal year 2006-07, representing a decline of $164 million or 4.7 percent less than estimated refunds during the 2005-06 fiscal year.

Delinquencies

Delinquency payments are estimated to total $804 million in SFY 2006-07, which is $47 million or 6.2 percent more than SFY 2005-06. Again, strong delinquency collections are due to the tax shelter legislation which is expected to increase collections by $25 million during the fiscal year.

The Importance of Personal Income Tax to State Revenue

Introduction

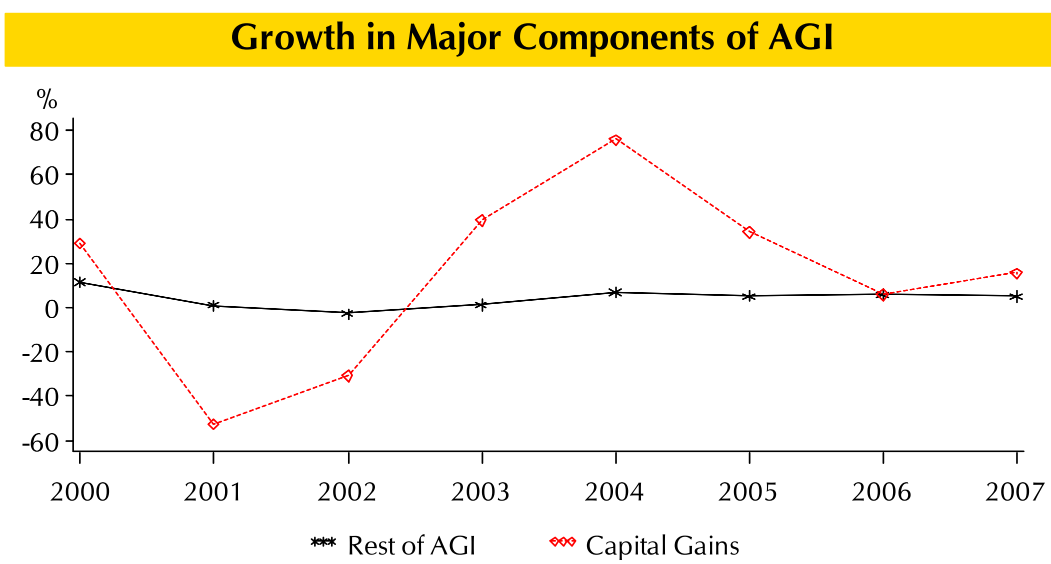
Personal income tax receipts account for more than half of all tax revenue generated in the State. The services that New York residents demand from State government are largely dependant on personal income tax collections. Funding for education, Medicare, and other public goods can be severely dampened based on down-swings in personal income tax collections.

Personal Income Tax Base

As a financial center of the world, New York has a large pool of wealthy taxpayers. New York's year over year changes in tax revenue has been quite volatile over the past ten years. The strength and accumulation of wealth in New York is part of the reason. Shifts in the economic fortunes of that pool of wealthy taxpayers or tax law changes that impact high income taxpayers can have a significant impact on overall personal income tax collections.

What makes personal income tax collection unpredictable is the volatility of major components of personal income. The components of income that account for the greatest wealth in the State, such as capital gains and other non-wage income, are also the most susceptible to ebbs and flows.

Figure 9 shows the volatility of major components of Adjusted Gross Income (AGI) over time. Though there are swings in every major component, capital gains income fluctuates more than any other. Because capital gains income is concentrated among the wealthy, capital gains income is typically taxed at the highest rates and is responsible for a significant portion of tax collections. A dollar decline in capital gains income reduces collections more than a dollar decline in wage income because capital gains are typically taxed at a higher rate.



Source: Department of Taxation and Finance, Ways and Means Committee Staff

Figure No 9

A decline in income among high income taxpayers significantly reduces collections more than a decline in income among low income earners. Consequently, tax cuts that target wealthy taxpayers reduce collections more significantly than if they had been targeted at lower income taxpayers.

Resident Tax Burden

Despite the importance to the revenue base, New York residents are not overly burdened by high personal income tax rates. When compared to the other 41 States that have an income tax, New York's top tax rate of 6.85 percent is only slightly above the national average of 6.4 percent. Moreover, 17 states have a higher top rate than New York.

In the last 20 years the State has twice undergone a major restructuring of the tax system. In both instances the restructuring significantly reduced the top rate and therefore had a major impact on collections. In 1987, when the first major restructuring was implemented the top tax rate was 8.75 percent and applied to married filers earning more than $23,300. Currently, the top rate is 6.85 percent and applies to married filers earning more than $40,000. This represents more than a 20 percent reduction in the top tax rate since 1986.

To put that in context of actual tax savings we can compare tax liability under both tax rates. In 1986, someone earning $25,000 would have been paying the top rate of 8.75 percent. In 2005 dollars that would translate into income of $44,500. Under current law someone making $44,500 would be paying 6.85 percent in taxes. That works out to be an $845 tax cut in today's dollars. For an individual making $50,000 in 1986 the top rate reduction works out to a tax savings of $1,693, and a $3,430 tax cut for an individual making $100,000 in 1986. Again those savings are in today's dollars.

The last significant reduction in the top rate was in 1994, with the cuts being fully phased in starting in 1996. In 1993 the top rate was 7.875 percent. The cuts that began in 1994 eventually brought the top rate down to its current level of 6.85 percent. Since 1994 the top rate has been reduced by 13 percent. The savings from this cut would be $350 for an individual earning $25,000 in 1994; $693 for someone earning $50,000; and $1,384 for someone earning $100,000. These savings are in today's dollars.

This analysis does not take account of the significant reduction in tax liability from new credits that have been implemented in the past two decades. Many credits have targeted lower income individuals, but others like the child care credit and the college tuition credit have further reduced the tax owed by everyone, although benefits tend to accrue to wealthy individuals

SALES AND USER TAXES

User Tax Collections Forecasts by State Fiscal Year (Dollar Amounts in Millions)						
	SFY 2005-06	Growth	Diff. Exec.	SFY 2006-07	Growth	Diff. Exec.
User Taxes and Fees	**$13,867**	**6.4%**	**$85**	**$14,959**	**7.9%**	**$265**
Sales and Use Tax	11,222	1.9%	41	11,793	5.1%	255
Motor Fuel Tax	530	0.0%	7	536	1.2%	11
Cigarette Tax	979	141.3%	4	1,359	38.8%	(16)
Motor Vehicle Fees	697	4.6%	31	827	18.7%	13
Highway Use	161	6.4%	2	164	1.9%	2
Alcoholic Beverage Tax	189	2.2%	(0)	191	1.1%	0
Alcoholic Beverage Fees	46	8.5%	(0)	44	-4.3%	(1)
Auto Rental Tax	43	8.0%	(0)	45	4.7%	0

Table 11

User Taxes and Fees consist of the Sales and Compensating Use Tax, which makes up the majority of collections in this category, as well as excise taxes and fees on cigarettes and tobacco, alcoholic beverages and motor vehicle and motor fuel taxes.

User taxes are estimated to increase by 6.4 percent in SFY 2005-06, largely as a result of the inclusion of previously off-budget accounting of cigarette tax revenues dedicated to HCRA in the All Funds budget. This accounting maneuver offset the lost revenue associated with the expiration of the temporary sales tax rate increase that expired June 1, 2005, which reduced user tax revenue by $480 million.

User taxes are forecast to grow by 7.9 percent in SFY 2006-07, which reflects the Executive's proposal to increase cigarette taxes and strong underlying growth in sales taxes.

Consumption taxes are inherently regressive. Low income households spend a larger portion of their income on sales and excise taxes than other households. According to research completed by the Institute on Taxation and Economic Policy on taxes in New York, sales and excise taxes consume 9.5 percent of the income of the poorest New Yorkers, middle income New Yorkers pay 5.7 percent of their income in sales and excise taxes and the wealthiest New Yorkers pay 1.2 percent of their income in sales and excise taxes.[2] Two of the Governor's budget proposals, the repeal of the permanent clothing and footwear exemption and the increase in the cigarette

[2] Casey Cabalquinto and Matthew Gardner, "Achieving Adequacy: Tax Options for New York in the Wake of the CFE Case." Institute of Taxation and Economic Policy, April 2005.

tax, will disproportionately affect low income households. These two proposals are described in detail below.

Sales Tax

The sales and compensating use tax, imposed by Article 28 of the Tax Law, is a 4 percent broad-based consumption tax levied on the sale of tangible personal property, excluding items such as food, medicine, products used in manufacturing and items purchased for resale. A limited number of services such as cleaning, parking and interior design are also subject to this tax. Certain non-profit and charitable organizations are exempt from paying sales tax on purchases. Sales tax is generally paid to and collected by the vendor at the time of purchase. Vendors remit sales tax collections annually, quarterly or monthly depending on their level of taxable sales. Depending on the amount of taxable sales, some vendors are also required to remit their sales tax liability electronically.

SFY 2005-06 Estimate

A portion of the sales tax collections are deposited in the Local Government Assistance Tax Fund (LGAC), and the Mass Transportation Operating Assistance Fund (MTAOF) with the remainder deposited into the General Fund. The Committee staff estimates that sales tax will generate $11.222 billion on an All Funds basis in SFY 2005-06, an increase of $206 million, or 1.9 percent from SFY 2004-05. This is $41 million above the Executive's estimate released in the SFY 2006-07 Executive Budget.

Effective June 1, 2005, the sales tax rate was reduced to 4 percent from 4.25 percent. The Committee staff estimates that the rate decrease will lower sales tax collections by $480 million in the current fiscal year. Adjusting for the change in the tax rate, growth is estimated to be 5.1 percent. This is consistent with the economic forecast for disposable income and consumer expenditures on durable goods. Growth in SFY 2005-06 for these two variables is 4.4 percent and 3.5 percent, respectively.

The underlying growth in sales tax receipts is the result of strong consumer spending driven by growth in disposable income and increased borrowing on appreciation in home equity values. The 2005 holiday season was rated a "B" by retailers based on a survey by the Retail Council of New York State.

Internet sales showed strong growth during the holiday season. Internet sales in the fourth quarter of 2005 increased 23 percent over the same period last year. This compares to only 6 percent for total retail sales. According to data from the Census Bureau, Internet sales are becoming a much larger portion of total retail sales. Internet sales have grown from less than 1.0 percent of retail sales in 2000 to 2.4 percent in the fourth quarter of 2005. Internet sales pose a challenge for the collection of tax. The burden to collect and remit the tax falls on the company if the web company has a physical presence (nexus) in the purchaser's place of residency. Where no nexus exists, the purchaser is liable to pay the tax directly to their state's taxing authority under use tax laws. However, nationwide few individuals remitted such liability or were even aware of their liability.

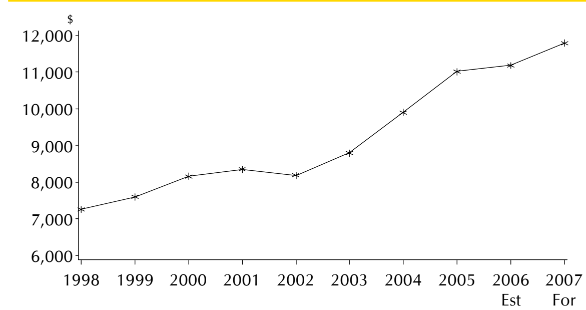
New York State addressed this problem in 2003 by including a line on the personal income tax return for individuals to remit their use tax liability. New York is one of the 21 states that provide for taxpayers to report use tax obligations on their personal income tax return. Connecticut, Massachusetts and New Jersey are neighboring states that collect use tax on the income tax return. Of these 21 states, 11 have added use tax lines since 1999, most likely in response to the tax base erosion from Internet sales. In 2003, the first year the use tax line was placed on the income tax return New York collected $23 million, with an average payment of $53. New York's average payment is consistent with the average of $47 across all States with a use tax line on the personal income tax return.[3]

Additionally, the 2004-05 Budget contained a provision requiring private companies and their affiliates to register as sales tax vendors in order to be eligible for State contracts. This requirement expanded the universe of companies collecting sales tax on behalf of New York State. If a company that registered as a sales tax vendor does not collect tax pursuant to their obligations, they will lose their vendor status and their eligibility for state contracts.

The Committee staff estimates General Fund sales tax receipts of $7.993 billion in SFY 2005-06, representing a decline of 0.6 percent from the prior year. This estimate is $20 million higher than the SFY 2006-07 Executive Budget. Adjusting for the change in the tax rate effective June 1, 2005, growth is expected to be 5.8 percent.

Receipts from one percentage point of the 4.0 percent State sales tax rate is dedicated to the Local Government Assistance Corporation (LGAC), which was created in 1990 to eliminate annual Spring borrowing. Once the LGAC debt service obligations are paid, excess revenues are transferred back to the General Fund along with certain other transfers. LGAC receipts are projected to be $2.611 billion in SFY 2005-06 representing growth of 6.1 percent over the prior year.

In 1981, the Metropolitan Transportation Operating Assistance Fund (MTAOF) was created to help finance the State's public transportation system. A portion of the revenue is derived from a separate sales tax imposed in the Metropolitan Commuter Transportation District. Effective June 1, 2005 the rate was increased to 0.375 percent from 0.25 percent. The forecast for SFY 2005-06 is $619 million.



Source: Comptroller's Office, Ways and Means Committee Staff

Figure No 10

SFY 2006-07 Forecast

The SFY 2006-07 forecast for gross collections is projected to be $11.793 billion, an increase of $571 million or 5.1 percent. This forecast is $255 million above the SFY 2006-07 Executive Budget. Adjusting for the May 31, 2005 expiration of the 0.25 percent tax rate increase, which is expected to lower collections by $138 million, and the increase in the MTAOF rate June 1, 2005 which is expected to increase collections $230 million, growth in the sales tax base is expected to be 5.8 percent. Economic growth is expected to be healthy in SFY 2006-07 with disposable income and consumer expenditures for durable goods growing 6.2

[3] Nina Manzi, "Use Tax Collection on Income Tax Returns". State Tax Notes, June 13, 2005.

and 2.5 percent respectively over the prior year.

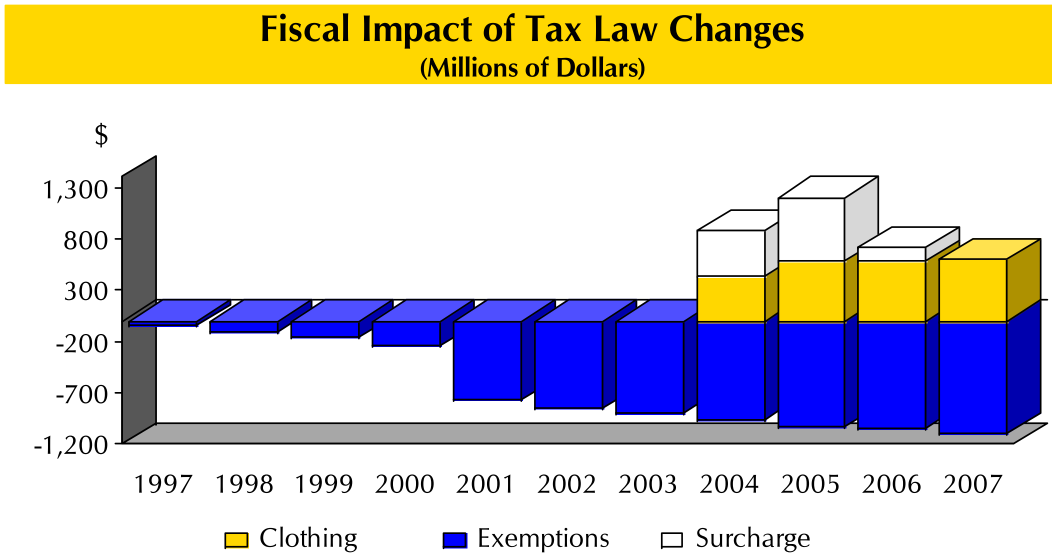
Included in the Executive Budget are several proposals that would reduce SFY 2006-07 revenue by $39 million. The Executive is proposing to repeal the permanent clothing and footwear exemption for items less than $110 and replace it with a permanent two week exemption for clothing and footwear less than $250 per item. If the threshold had remained at $110 per item the revenue enhancement would be $605 million in SFY 2006-07. The increase in the threshold to $250 per item results in additional revenue of $584 million. The increase in the threshold results in a loss of revenue in SFY 2006-07 of $21 million. Other proposals include a two week exemption for Energy Star appliances and other energy related items, an increase in the vendor credit allowance, exemptions for alternative fuels, a permanent exemption for amusement parks and cigarette excise tax increase. The reduction of these other proposals is approximately $19 million.

The Committee staff estimates General Fund sales tax receipts of $8.307 billion in SFY 2005-06, representing growth of 3.9 percent over the prior year. This estimate is $164 million above the SFY 2006-07 Executive Budget. Adjusting for the change in the tax rate effective June 1, 2005, growth is expected to be 5.8 percent.

Sales tax collections dedicated to LGAC are projected to be $2.769 billion in SFY 2006-07, representing growth of 6.1 percent over the prior year. Dedications to the Metropolitan Transportation Operating Assistance Fund (MTAOF) are forecasted to be $717 million, an increase of 15.8 percent. Adjusting for the change in the tax rate effective June 1, 2005, MTA collections are expected to grow 5.4 percent.

Historical Trend and Recent Legislation

Over the past 5 years, growth in gross collections has averaged 5.1 percent, adjusting for the tax rate increase growth over this same period is 4.7 percent. In the long run, sales tax receipts are a function of changes in the tax rate, the tax base and the State's economic performance in disposable income and employment. During this 10 year period, the Tax Law has changed many times with the majority of the changes resulting in exemptions from tax as seen in figure 11.



Source: Division of the Budget, Ways and Means Committee Staff

Figure No 11

As seen above, since 1997, exemptions and revenue reducing administrative actions (sales tax vendor credit) total nearly $1.2 billion. Most recently, legislation temporarily raised the State sales tax rate from 4.0 percent to 4.25 percent for the period June 1, 2003 through May 31, 2005. Additionally, the permanent exemption for clothing and footwear priced under $110 was suspended effective June 1, 2003 and replaced with two tax free weeks at the same $110 threshold. This suspension and inclusion of two tax free weeks was extended through March 31, 2006.

New York State's Clothing Exemption

Nationally, the first sales tax holiday was enacted in 1996 in New York. Clothing and footwear under $500 per item was exempt from New York State sales tax for a one week period in January 1997. Since then, many states have implemented sales tax holidays to encourage consumer spending during traditionally slow retail periods and to reduce the sales tax burden on families during such times as back-to-school shopping. Sales tax holidays thrive during economic booms and since they are temporary are easy to repeal if fiscal difficulties emerge. In 2005, twelve states enacted sales tax holidays. Most sales tax holidays include clothing and footwear, but more recently sales tax holidays have been expanded to include school supplies and computers for the traditional August "back to school" tax holiday as well as energy related products. Additionally, New York State localities that impose sales tax on clothing and footwear can "opt-in" to the tax holiday and waive their local sales tax as well. In SFY 2005-06 only five counties and six cities did not participate in the sales tax holiday for clothing and footwear.

Since New York's first sales tax holiday on clothing and footwear, sales tax holidays on apparel have become an annual event in the State. Legislation enacted in 1997 included a proposal to permanently exempt clothing and footwear less than $110 per item from the State sales tax beginning December 1, 1999. Many neighboring states have exemptions from clothing and footwear. Massachusetts, Vermont and Connecticut have partial exemptions of clothing and footwear, but New Jersey and Pennsylvania have full exemptions for clothing and footwear. Additionally, New Hampshire has no State sales tax. The taxation of clothing and footwear in New York State places retailers at a competitive disadvantage.

In 1999 the effective date for the permanent exemption was moved to March 1, 2000. In the place of the permanent exemption, clothing and footwear less than $500 was exempt from State sales tax for 7 days in September 1999 and January 2000. The exemption for clothing and footwear less than $110 per item was in place from March 1, 2000 to June 1, 2003 when fiscal problems caused the State to suspend the exemption. In its place, two one week sales tax holidays were implemented at the same $110 threshold. Again in 2004, the exemption was suspended until May 31, 2005 with the inclusion of two tax free weeks at the same $110 threshold. Legislation enacted in 2005 extended the suspension of the clothing and footwear exemption once again until March 31, 2007 and replaced it with two sales tax holidays at the $110 threshold. An additional provision included in the 2005 legislation triggered the return of the permanent clothing and footwear exemption on April 1, 2006 if the 2006-07 Executive Budget proposed any tax cuts.

The 2006-07 Executive Budget includes a wide variety of tax cuts which trigger the return of the permanent clothing and footwear exemption on April 1, 2006, but the Budget contains a provision to repeal the permanent exemption thereby negating the 2005 legislation. The 2006-07 Executive Budget would repeal the permanent clothing and footwear exemption under $110 per item and replace it with two permanent sales tax holidays for clothing and footwear less than $250 per item. The repeal of the permanent exemption with two sales tax holidays at a threshold of $250 per item is expected to generate an additional $605 million in revenue when fully implemented. This equates to a $605 million tax increase that will disproportionately impact low income households.

In order to assess the impact of the repeal of the clothing and footwear exemption on taxpayers, data on apparel expenditures by income class was examined based on data from the annual Consumer Expenditure Survey. The annual Consumer Expenditure Survey contains questions related to annual expenditures for various goods and services. Within the apparel category data was obtained on the dollar amount of clothing expenditures at various thresholds. Based on the value of clothing expenditures under $250 approximately 50 percent of the tax increase created by Governor's proposal will impact households with income less than $40,000.

Streamlined Sales Tax Project Update

The Streamlined Sales Tax Project (SSTP) is an ambitious, multi-state project that hopes to simplify the sales and use tax system by adopting uniform rules, definitions and technologies for sales tax systems nationwide. The sales tax can be complex and burdensome, especially to businesses that operate in more than one jurisdiction. Over 7,600 state and local taxing jurisdictions have their own rules, definitions and tax rates. The states involved in the SSTP believe that a simplified sales tax system will reduce the administrative burden of collecting and remitting sales taxes. States hope that if sales tax systems are simplified and standardized, Congress might grant states the power to require remote sellers to collect sales tax and therefore reverse the erosion of the sales tax base due to Internet and mail order sales by remote sellers.

The Streamlined Sales Tax Project became a reality on October 1, 2005 when the Streamlined Sales Tax Agreement became effective. According to SSTP, the agreement became effective when 10 states representing at least 20 percent of the population of states that impose a sales tax brought their laws, rules, regulations and policies into compliance with the requirements of the agreement. Presently there are 13 full member states, 5 associate member states and 27 advisory states. New York is an advisory state. Representatives of the member states formed a Governing Board to administer the agreement. The mission of the Governing Board is to assist states as they administer the streamlined sales and use tax system. The Advisory Council advises the Board on matters pertaining to the administration of the agreement.

Now that the agreement is in place, member states will be able to utilize automated services to assist vendors with sales tax compliance. Vendors will have the option of using approved certified system providers to handle all sales and use tax functions or a certified automated system to perform liability calculations. The big question now is whether vendors will register and begin collecting sales tax under the streamlined sales tax system. Many of the advisory states will be watching the current group of member states to see how successful they are in getting vendors to register and participate in the agreement. New York State has not taken additional steps to conform to the SSTP beyond joining the advisory board during SFY 2005-06.

In order for New York State to become a member state, it would need to make significant changes to its sales tax law. The tax base must be the same for the State and localities. School district taxes, local options for clothing and empire zone exemptions would need to be eliminated and reformation of the New York City sales tax base would be required. For example, New York City taxes personal services such as barber shops and beauty salons and laundering, dry cleaning and shoe repairing. States are allowed one State rate and a second rate in limited circumstances. The additional sales tax in the MTA district may be prohibited under the streamlined sales tax. Each locality is allowed one local rate and rates are associated with zip codes, not county or city boundaries. In New York State, some zip codes cross municipal lines. This would result in a shift of local sales tax revenues from one locality to another. Caps and thresholds are not allowed under the streamlined sales tax. The clothing and footwear $110 threshold and the $600 threshold for garage sales are two examples. There is no longer a maximum local rate and State lawmakers lose control over local tax rates. Administration is centralized with the State losing the ability to manage vendor registration and vendor compensation (i.e.: vendor allowance credit).

The State and Local Advisory Council held a meeting in January 2006. At the meeting, it was announced that more than 300 businesses have registered to collect sales tax in full member states. Additionally, Vermont and Washington are expected to become member states in 2006. Some of the issues discussed by the State and Local

Advisory Council at the meeting was a discussion of the definition of digital goods and "bundled transactions". The next meeting of the advisory council is scheduled for March 2006.

Regional and Industry Shares of Taxable Sales

As can be seen in the Taxable Sales by Region chart, the majority of State sales tax collections are generated in the New York Metropolitan region – consisting of New York City, Long Island and Mid-Hudson. Western New York, the Finger Lakes and Capital Region follow with approximately 6 percent of State taxable sales.

Motor Fuel Taxes

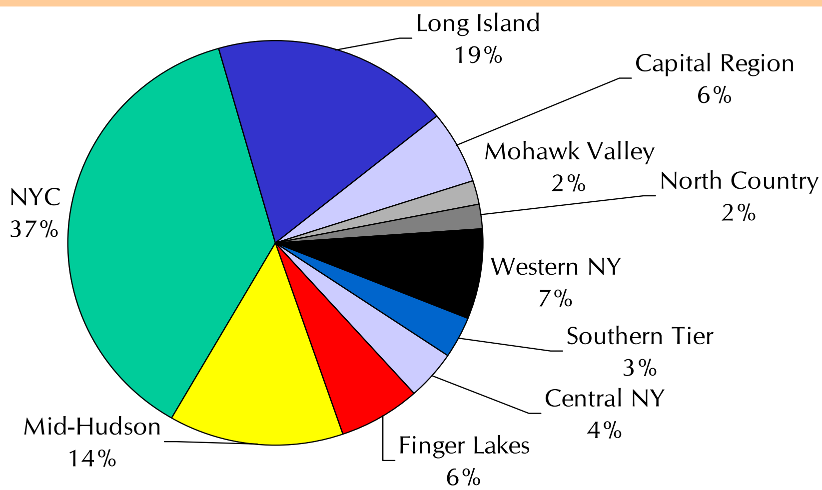
Article 12-A imposes an 8 cents per gallon tax on diesel motor fuel at the point of import or use in New York. The tax also applies to gasoline, upon first import into or production within New York. The tax has three components: regular tax (4 cents per gallon), additional tax (3 cents per gallon) and supplemental tax (1 cent per gallon).

Since 1993, motor fuel tax collections have been dedicated to the Emergency Highway Reconditioning and Preservation Fund and the Emergency Highway Construction and Reconstruction Fund. Beginning April 1, 2000, a portion of motor fuel taxes have been earmarked to the Dedicated Highway and Bridge Trust Fund and beginning April 1, 2001 to the Dedicated Mass Transportation Trust Fund.

Revenue from the motor fuel tax is dedicated based on the following schedule:

- Motor fuel receipts are earmarked to the Dedicated Highway and Bridge Trust Fund (81.5 percent) and the Dedicated Mass Transportation Trust Fund (18.5 percent).

Taxable Sales By Region
March 2001- February 2002



Source: Department of Taxation and Finance

Figure No 12

- Diesel motor fuel receipts are earmarked to the Dedicated Highway and Bridge Trust Fund (63 percent) and the Dedicated Mass Transportation Trust Fund (37 percent).

SFY 2005-06 Estimate

The Committee staff estimates that motor fuel taxes will total $530 million in SFY 2005-06 on an All Funds basis, this estimate represents no growth from the previous fiscal year. The Committee staff estimate is 1.3 percent or $7 million larger than the Executive estimate. Revenues collected from motor fuel taxes are not deposited into the General Fund, but instead are statutorily dedicated in the following manner:

- $111 million deposited in the Dedicated Mass Transportation Trust Fund (DMTTH); and,

- $419 million to the Dedicated Highway and Bridge Trust Fund (DHBTF).

Through December 2005, motor fuel collections are $402.3 million a decrease of $7.9 million, or 1.9 percent below the comparable period in the prior fiscal year. Gasoline net receipts are down 2.5 percent while diesel net receipts are up 2.3 percent despite the fact that gasoline and diesel motor fuel prices grew 15.0 and 18.5 percent respectively during the 12 months ending December 2005. Diesel tax receipts increased due to high demand for commercial transportation, while gasoline receipts were tempered by higher fuel prices.

SFY 2006-07 Forecast

The Committee staff forecast for motor fuel taxes in SFY 2006-07 is $536 million, a 1.2 percent or $6 million increase. Motor fuel taxes will be distributed as follows:

- $113 million to the Dedicated Mass Transportation Trust Fund; and,

- $403 million to the Dedicated Highway and Bridge Trust Fund.

Cigarette and Tobacco Taxes

Article 20 of the Tax Law imposes a cigarette excise tax of $1.50 per package of 20 cigarettes sold within the State. Of the total cigarette tax levied, 58.2 cents or 38.78 percent of the receipts are deposited into the General Fund. The remaining 91.8 cents or 61.22 percent are dedicated to fund the Health Care Reform Act (HCRA). Beginning in SFY 2005-06, cigarette tax collections that are dedicated to HCRA will be included in the State's All Governmental Funds as a Special Revenue Fund. Prior to SFY 2005-06, these monies were considered "off-budget" and therefore not included in All Funds collections.

The State also levies a tax on distributors of all other tobacco products equal to 37 percent of the wholesale price of such products. In addition, there is an annual license fee of $100 for all retail establishments and $25 for every vending machine that sells cigarette or tobacco products.

SFY 2005-06 Estimate

The Committee staff estimates that cigarette and tobacco receipts are expected to generate $979 million on an All Funds basis in SFY 2005-06, an increase of

$573 million or 141.3 percent from SFY 2004-05. This is due to the inclusion of HCRA receipts in the State's All Governmental Funds Budget. The Committee estimate is $4 million above the Executive's estimate. After adjusting for the change in the treatment of HCRA receipts, growth in collections is expected to be 0.5 percent in SFY 2005-06. Collections are expected to grow slightly in SFY 2005-06 as the decline in cigarette and tobacco sales is offset by increased audit activity.

The Committee staff estimates General Fund cigarette and tobacco tax receipts of $408 million in SFY 2005-06, representing growth of 0.5 percent over the prior year. Collections are growing slightly as the decline in cigarette and tobacco sales is offset by increased audit activity. This estimate is $3 million above the SFY 2006-07 Executive Budget.

SFY 2006-07 Forecast

All Funds cigarette and tobacco receipts are projected to be $1.359 billion in SFY 2006-07, an increase of $380 million from SFY 2005-06 or 38.8 percent. This forecast is $16 million less than the SFY 2006-07 Executive Budget estimate. Included in the SFY 2006-07 Executive Budget is a proposal to delay the implementation of the system to collect cigarette taxes from non-Native Americans and a proposal to increase the State cigarette excise tax. Under current law, effective March 1, 2006, Taxation and Finance was to implement a system to collect cigarette excise taxes on sales of cigarettes made to non-Native Americans on recognized reservations in New York State. Adjusting for the tax rate increase and legislation related to non-Native Americans growth in All Funds collections is expected to decline 1.0 percent. This is consistent with recent consumption trends.

The Committee staff estimates General Fund cigarette and tobacco tax receipts of $379 million in SFY 2006-07, representing a decline of 7.2 percent over the prior year. This estimate is $42 million below the SFY 2006-07 Executive Budget estimate. Receipts dedicated to HCRA are projected to be $980 million, an increase of 71.7 percent over the prior year. This increase is due to the change in the distribution of revenue described below.
Included in the Executive Budget is a proposal to increase the State cigarette excise tax by $1.00 per pack, from $1.50 per pack to $2.50 per pack.

The increase in the State cigarette tax will have a greater impact on households with income below $40,000. According to a 2002 survey conducted by the Office of Applied Studies, Substance Abuse and Mental Health Services Administration, 35 percent of persons 18 and older reported using cigarettes in households with income less than $9,000. Households with income between $9,000 and $19,999 reported 31 percent cigarette use and for households with income between $20,000 and $39,900 the figure was 29 percent. This compares to only 19 percent in households with income greater than or equal to $75,000.[4] For an individual that purchases one pack of cigarettes a day, the State tax increase is an additional expense of $365 per year.

In addition to the change in the State rate, the proposal includes a $0.50 reduction in the New York City cigarette excise tax. The combination of the reduction in the New York City rate and the increase in the State rate will result in a total cigarette tax in

[4] Office of Applied Studies, Substance Abuse and Mental Health Services Administration, *Tobacco Use, Income and Educational Level*, The NHSDA Report, May 3, 2002.

New York City of $3.50 per pack. Therefore, a net reimbursement to hold New York City harmless from the reduction in its rate and compensate New York State for lost cigarette revenue in New York City due to the higher combined rate will be determined by the Director of the Division of the Budget and an officer of the City of New York. The Committee staff estimates the increase in the State rate will raise $390 million based on expected consumption after the rate increase. Included in this estimate is $15 million in floor tax revenue due to the increase in the rate. In addition to changing the cigarette tax rate, the distribution of revenue between the General Fund and HCRA will be changed.

Table 12

Cigarette Tax Distribution

	Current Law	**Proposed Law**
General Fund	38.78%	25.17%
HCRA	61.22%	74.83%

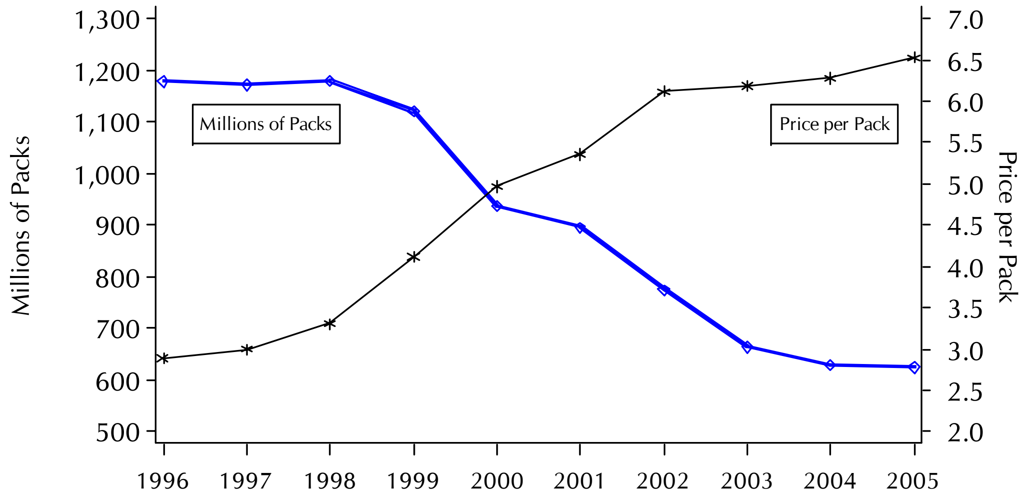
Historical Trend and Recent Legislation

Over the past 5 years, growth in cigarette and tobacco collections, adjusted for the tax rate increase in April 2002, has been flat or negative. The increase in enforcement efforts, which has reduced the incidence of cigarette tax evasion, has mitigated some of the decline in tax receipts due to a decrease in smoking. Cigarette use has fallen to an all-time low in New York State according to research conducted by RTI International. Smoking in New York State dropped to 18.1 percent in 2004 from 20.8 percent in 2003, outpacing the United States as a whole. Significant legislation over the past 5 years has increased the cigarette excise tax from $1.11 per pack to $1.50 per pack and increased the other tobacco products tax from 20 percent of the wholesale price to 37 percent.

As seen in figure 13 there is an inverse relationship between consumption and price. As price increases, consumption declines. Prior to the tax increases in 2000 and 2002, cigarette consumption was relatively flat. Consumption dropped dramatically in 2001, 2002 and 2003 as consumers reacted to the tax rate increases in the State and in New York City. In 2001, 896 million packs were stamped. This dropped to 775 million and 664 million in 2002 and 2003, respectively. Since that period, consumption has been relatively stable.

In 2000 and 2002 provisions that increased enforcement were enacted into law. In 2005, there were two significant developments to restrict the payment and supply operations of Internet cigarette sellers. The Attorney Generals of many states, including New York, obtained agreement by the major credit card companies to stop the processing of credit card payments for Internet cigarette sellers. Additionally, DHL and UPS agreed to stop shipping packages for Internet cigarette sellers. So far in 2006, the Attorney General's announced that Fed Ex agreed to strengthen its policies regarding Internet cigarette sellers and Phillip Morris will stop shipping cigarettes to Internet dealers.

Historical Cigarette Consumption and Price



Source: Department of Taxation and Finance, Ways and Means Committee Staff

Figure No 13

Motor Vehicle Fees

Revenue from Motor Vehicle Fees comes from over 50 different license, registration, service, and penalty receipts. Passenger and commercial vehicle registrations and licensing fees are the largest components.

Registration fees are weight based for passenger vehicles, commercial vehicles, trailers, and ambulances. Buses, taxis, livery vehicles, and rental cars are charged registration fees based upon their seating capacity. Other vehicles such as semi trailers, motorcycles, MOPEDS, farm vehicles, snowmobiles, and all terrain vehicles are charged a flat fee. Motorboat registration is based upon the length of the boat.

Other fees include in-transit permits, certificates of title; manufacturers, dealers and repairmen also pay fees for miscellaneous licenses and permits.

Resident drivers are required to obtain a New York driver license within 90 days of becoming a resident. This license is issued by the Department of Motor Vehicles with fees based on various classifications.

Other items included in motor vehicle receipts are: business permits for driving schools, repair shops, and car dealerships; special plate fees, penalty fees for driving without insurance or refusing a chemical test; and various sticker fees.

All registration fees are currently earmarked to Dedicated Funds, 63 percent goes to the Dedicated Highway and Bridge Trust Fund while 37 percent goes to the Dedicated Mass Transportation Trust Fund. Other fees including license fees, are also earmarked to Dedicated Funds, currently it is estimated that 94 percent goes to the Dedicated Highway and Bridge Trust Fund while 6 percent goes to the Dedicated Mass Transportation Trust Fund.

SFY 2005-06 Estimate

In SFY 2005-06, All Funds receipts are estimated to total $697 million, representing an increase of 4.6 percent over last year. The Committee staff's estimate is $31 million higher than the Executive. Through December 2005, motor vehicle collections are $508 million, an increase of $1 million, or 0.2 percent from the comparable period in the prior fiscal year. Motor vehicle fees for the remainder of the fiscal year must decrease by 0.9 percent to achieve the Committee staff's estimate.

Of the $697 million in motor vehicle fees, the Committee staff estimates that the Dedicated Mass Transportation Trust Fund will receive $172 million dollars, while the Dedicated Highway and Bridge Trust Fund will receive $501 million, the General Fund will receive $24 million from a one-time adjustment of International Registration fees from prior years.

SFY 2006-07 Forecast

In SFY 2006-07, All Funds receipts are estimated to total $827 million, a 18.7 percent increase.

The Committee staff estimates that for SFY 2006-07 the Dedicated Mass Transportation Trust Fund will receive $197 million and the Dedicated Highway and Bridge Trust Fund will receive $630 million. Several fee increases enacted during last fiscal year will produce an additional $138 million in revenues, while the eight-year cycle for license renewal will adversely affect motor vehicle receipts. In addition $107 million in fees previously classified as General Fund Miscellaneous Receipts have been earmarked for capital projects.

Highway Use Tax

The truck mileage tax is a weight-distance tax generally imposed on commercial vehicles having a loaded gross weight of more than 18,000 pounds. The tax is imposed at rates graduated according to the gross vehicle weight and miles traveled on public highways. In addition, a supplemental tax equal to the base truck mileage tax was imposed prior to January 1, 1999. Effective January 1, 1999, the supplemental tax was reduced by 50 percent, and effective April 1, 2001, the remaining supplemental tax was reduced by an additional 20 percent.

The fuel use tax applies to commercial vehicles that purchase fuel outside New York State, but is consumed while traveling on New York highways. It has two components: the motor fuel component and the sales tax component. The aggregate fuel use tax rate is the sum of the motor fuel tax rate and the sales tax rate. The statewide rate for the sales tax component is 7 percent of the average price of fuel — a cents-per-gallon equivalent is set quarterly. The fuel use tax rate for the third quarter of 2005 is set at 37.25 cents per gallon while the rate set for the third quarter of 2004 was 31.95 cents per gallon, an increase of 16.6 percent.

Highway use permits are issued triennially at a cost of $15 for an initial permit and $4 for a permit renewal. Additionally, 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.

All Highway Use Tax receipts are earmarked to the Dedicated Highway and Bridge Trust Fund.

SFY 2005-06 Estimate

The Committee staff estimates that receipts in SFY 2005-06 will total $161 million, an increase of $10 million. Continued demand for trucking services and the peak triennial renewal year for permit fees explain this growth. This estimate is $2 million higher than the Executive's.

SFY 2006-07 Forecast

The Committee staff's forecast for Highway Use Tax receipts is $164 million for SFY 2006-07, which represents 1.9 percent growth from SFY 2005-06.

Alcoholic Beverage Tax

Article 18 of the Tax Law imposes a tax on various alcoholic beverages, including beer, wine, and other spirits. The tax rate varies depending on the type of beverage. All of the receipts are deposited into the General Fund.

Table 13

New York State Alcoholic Beverage Tax Rates

Alcoholic Beverages	Rate Per Volume
Liquors (Over 24% Alcohol)	$1.70 per liter
Liquors (2% - 24% Alcohol)	$0.67 per liter
Liquors (Less than 2% Alcohol)	$0.01 per liter
Wine	$0.05 per liter
Beer	$0.11 per gallon
Cider (Over 3.2% Alcohol)	$0.01 per liter

Source: NYS Executive Budget - Financial Plan

SFY 2005-06 Estimate

The Committee staff estimate for SFY 2005-06 alcoholic beverage tax receipts is $189 million, representing a $4 million or 2.2 percent increase over SFY 2004-05. This estimate is the same as the SFY 2006-07 Executive Budget.

SFY 2006-07 Forecast

Alcoholic Beverage tax receipts are forecast to be $191 million in SFY 2006-07, representing growth of 1.1 percent over the prior year. This is an increase of $2 million over SFY 2005-06 and is the same as the Executive's forecast.

Recent Legislation

Changes to the Tax Law over the last several years have included a series of exemptions and tax rate decreases on beer. The beer tax has been reduced from 16 cents per gallon to 11 cents per gallon over the last 5 years. The tax exemption for small brewers increased from the first 100,000 barrels of domestically produced beer to 200,000 barrels effective January 1, 2000. Effective September 1, 2004, liquor and wine stores licensed for off premise consumption may remain open all seven days of the week. Legislation enacted in 2005, effective August 1, 2005, allows certain out-of-state wine manufacturers to ship limited quantities of wine directly to customers in New York State. The fiscal impact of the 2004 and 2005 legislation has had no noticeable impact on tax collections.

Alcoholic Beverage Fees

Distillers, brewers, retailers, wholesalers and others who sell alcoholic beverages in New York State are required by Articles 4, 4-A, 5, and 6 of the Alcoholic Beverage Control Law to be licensed by the State Liquor Authority (SLA). Approximately, 2,500 retail outlets, 18,500 grocery stores and 26,400 bars and restaurants are licensed. Licenses are issued triennially, biannually and annually, and fees are paid directly to the SLA.

SFY 2005-06 Estimate

The Committee staff estimates that receipts from alcoholic beverage fees will total $46 million in SFY 2005-06, a $4 million or 8.5 percent increase over SFY 2004-05. This estimate is the same as the Executive's SFY 2006-07 Budget. This estimate is based on an analysis of year-to-date collection trends and is consistent with the collection pattern change resulting from legislation enacted in 2002. Legislation enacted in 2002 eliminated the two-year installment option for two year licenses and resulted in a smaller number of two-year licensees renewing their licenses in odd years. This change resulted in higher tax collections in fiscal years that end in even numbered years and lower collections in fiscal years that end in odd numbered years. Additionally, in 2002 fees were increased for most licensees by 28 percent causing a spike in collections beginning in SFY 2002-03.

SFY 2006-07 Forecast

The Committee staff forecasts receipts will total $44 million in SFY 2006-07, a decrease of $2 million from SFY 2005-06 or a decline of 4.3 percent. This is $1 million lower than the SFY 2006-07 Executive Budget. Receipts are expected to be lower since SFY 2006-07 is an odd numbered fiscal year.

Auto Rental Tax

The auto rental tax, imposed by Article 28-A of the Tax Law, applies to the rental of any passenger car with a gross vehicle weight of 9,000 pounds or less that can seat a maximum of nine passengers. The auto rental tax is imposed at a rate of five percent on auto rental charges incurred for use in New York State. The tax does not apply to leases of one year or more. Since SFY 2002 all auto rental receipts are dedicated to the Highway and Bridge Trust Fund.

SFY 2005-06 Estimate

Based on collections to date Committee staff project receipts of $43 million for SFY 2005-06. This represents growth of 8.0 percent over SFY 2003-04. The Committee staff estimate is the same as the estimate in the SFY 2006-07 Executive Budget.

SFY 2006-07 Forecast

The Committee staff estimate for SFY 2006-07 is $45 million. This represents an increase of $2.0 million or 4.7 percent over SFY 2005-06.

BUSINESS TAXES

Business Taxes Forecasts by State Fiscal Year (Dollar Amounts in Millions)						
	SFY 2005-06	Growth	Diff. Exec.	SFY 2006-07	Growth	Diff. Exec.
Business Taxes	**$6,940**	**19.5%**	**$11**	**$7,056**	**1.7%**	**$92**
Corporate Franchise	3,012	42.7%	20	3,055	1.4%	6
Utility Tax	764	-7.6%	(8)	795	4.1%	15
Insurance Tax	1,147	3.5%	(3)	1,186	3.4%	20
Bank Tax	876	29.7%	1	859	-1.9%	83
Petroleum Business Tax	1,142	5.2%	1	1,161	1.6%	(31)

Table 14

Business Tax collections include taxes imposed on corporations and banks, a premiums based tax on insurance companies, a gross receipts tax levied on utility and telecommunications companies, and the excise tax imposed on petroleum businesses. Business taxes are expected to total $6.94 billion in SFY 2005-06, largely reflecting an increase in business profitability and a larger than expected increase in corporate audits. This is a 19.5 percent increase over SFY 2004-05. In SFY 2006-07 business taxes are forecasted to grow to $7.06 billion, reflecting a return to historical audit collections patterns and a modest increase in corporate profits. This is a 1.7 percent increase over SFY 2005-06.

Corporate Franchise Tax

Of the business taxes the corporate franchise tax is the largest and currently accounts for 43.4 percent of the total business tax liability. The Article 9-A corporate franchise tax is imposed on every domestic or foreign corporation "for the privilege of exercising its corporate franchise, or of doing business, or of employing capital, or of owning or leasing property ... in a corporate or organized capacity, or of maintaining an office in this state..." (Tax Law §209.1)

Overview of the Tax

The State uses a two-tiered method to tax corporations under the franchise tax. In order to add to the effectiveness of the tax and capture the complexity of today's multifaceted corporate entities, corporations pay the highest of the following alternative bases for the privilege of exercising their corporate franchise in the state.

Tax Base

1. 7.5 percent of entire net income (ENI) allocated to New York. ENI is a New York State measure of profits largely based on federal taxable income

allocated to the State with corresponding adjustments.

2. 0.178 percent of allocated capital, subject to a maximum of $350,000. The capital base attempts to approximate net worth. Assets or capital have a tangible economic benefit and can serve as leverage in a deal. So, even if revenues are offset by large expenses the net worth can be used to generate a tax.
3. 02.5 percent of minimum taxable income allocated to New York for tax years beginning on or after January 1995. Prior to 1987 New York State imposed a 30 percent tax on the sum of entire net income plus compensation paid to shareholders owning more than 5 percent of the issued capital stock of the taxpayer and corporate officers. In order to create a more meaningful minimum tax concept the income plus compensation base was eliminated in favor of the alternative minimum income base.

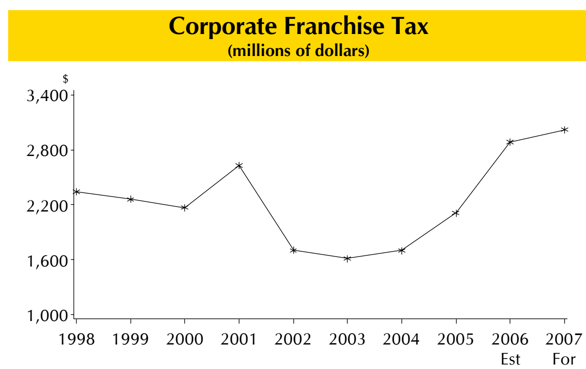
   Under this base the State calculated an income formula that disallowed many the tax preference items included under the entire net income base. These items include but are not limited to the net operating loss deductions, excess depletion and intangible mining costs, deductions attributed to long-term contracts, circulation expenses related to personal holding companies, and passive activity losses.

   Also, depreciation deductions are calculated under a slower method and there is an alternative calculation for the Net Operating Loss deduction. A minimum tax credit may be applied.
4. A fixed dollar minimum tax graduated according to gross payroll size (ranging from $100 to $10,000).

For corporations that own more than 50 percent of the voting stock of another corporation (a subsidiary), an additional tax of 0.09 percent of allocated subsidiary capital is levied.

As can be seen in figure 15, 65 percent of taxpayers pay some form of the fixed dollar minimum.

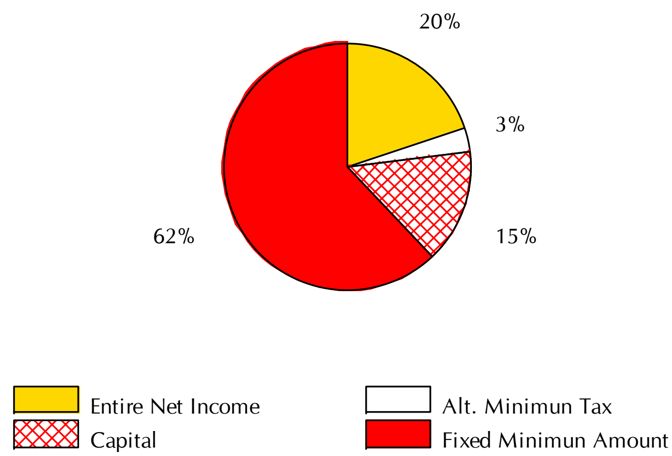
Prior to the 1944 changes in the corporation franchise tax, which unified several articles of the tax law, there were four separate tax schedules under the business tax, including one for corporations, holding companies, investment trusts, and real estate corporations. The tax code was specified to tax each particular type of business or industry. Today corporations are likely to have operations in many of these areas.



Source: Executive Budget, Ways and Means Committee Staff

Figure No 14

Percentage of Corporate Franchise Filers by Basis
(Includes Non-allocating Fixed Minimum Filers)



Source: Department of Taxation and Finance

Figure No 15

SFY 2005-06 Estimate

The corporate franchise tax, has seen an extraordinary increase in collections. During the recession that followed the events of September 11th, the State witnessed a significant decline in collections. The SFY 2002-03 corporate franchise tax collections declined by nearly 40 percent from their peak in 2000-01. However since that time collections have rebounded significantly, and are anticipated to grow by nearly 43 percent in SFY 2005-06, surpassing their pre-2000-01 levels. This growth reflects several factors, including strong underlying growth in liability and increased audits and settlements. Tax year 2002 liability by industry, as reported by the Department of Taxation and Finance is listed in Table 15.

The Finance, Insurance & Real Estate (FIRE) sector accounts for nearly one third of the liability.

Corporate franchise tax collections have increased by $684 million, or 47 percent, through January 2006. The Committee staff estimates that All Funds corporate franchise tax collections will total $3.012 billion in SFY 2005-06, representing an increase of $902 million, or 42.7 percent over SFY 2004-05. This estimate is $20 million higher than the Executive's 2006-07 Budget estimate. Of the total All Funds collections, General Fund collections are estimated to be $2.621 billion, while $391 million in collections are Special Revenues.

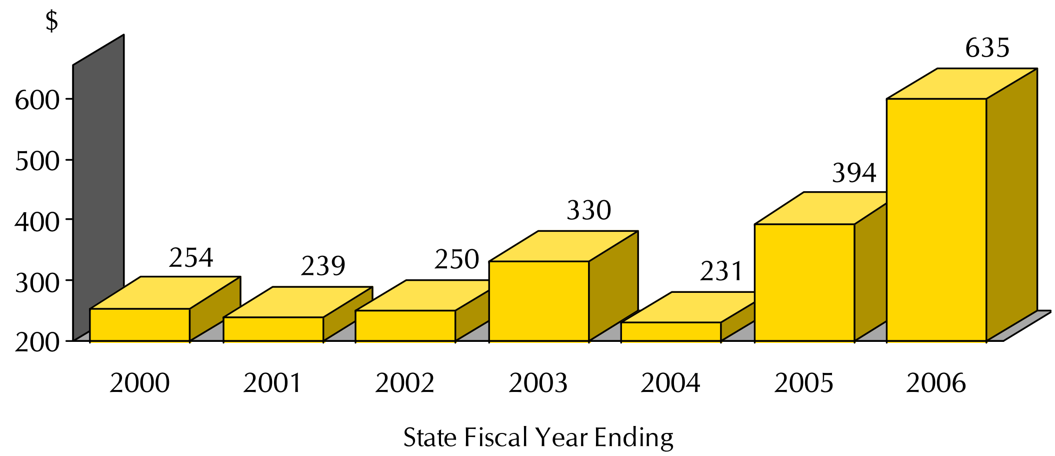
Table 15

INDUSTRY TAX LIABILITY 2002 (All Bases)			
Industry	Number	Tax Due ($ in 000)	% of Total
Agriculture, Forestry, Fishing and Hunting	766	1,421	0.1%
Mining	259	1,684	0.2%
Utilities	256	13,001	1.2%
Construction	8,963	32,095	3.0%
Manufacturing	10,335	167,535	15.5%
Wholesale Trade	13,910	112,778	10.5%
Retail Trade	13,125	101,662	9.4%
Transportation and Warehousing	4,763	27,981	2.6%
Finance and Insurance	9,918	258,480	24.0%
Real Estate, Rental and Leasing	22,770	94,533	8.8%
Professional, Scientific, & Tech. Services	13,100	94,030	8.7%
Management of Companies and Enterprises	2,104	102,571	9.5%
Admin./Support & Waste Man., Remediation Ser.	3,623	18,546	1.7%
Educational Ser.	466	2,222	0.2%
Health Care and Social Assistance	3,471	12,587	1.2%
Arts, Entertainment, and Recreation	2,300	9,518	0.9%
Accommodation and Food Services	3,957	15,865	1.5%
Other Services (except Public Admin.)	5,729	11,435	1.1%
Public Administration	10	10	0.0%
Total	**119,825**	**1,077,955**	**100.0%**

Strong Audits Growth Boosts Franchise Tax

The current fiscal year's Case and Resource Tracking System (CARTS) audit collections have given Article 9A collections a substantial boost for the second consecutive year. The year to date growth of 69 percent comes on the heels of 71 percent growth last year. Through January 2006, Franchise Tax audit collections have nearly eclipsed the Executive All Fund estimate of $584 million. There is an expected slow down in collections during the last quarter of the fiscal year resulting in $635 million in All Funds final collections for the entire fiscal year.

Audit Collections
(Millions of dollars)



Source: NYS Department of Taxation and Finance

Figure No 16

The unexpected growth in corporate franchise collections in the current fiscal year is similar to growth patterns at the federal level. Corporate profits have risen in recent years and are expected to grow by 15.9 percent in 2005; however, the spike in collections outweighs these changes. A possible explanation behind the recent spike in revenues may be the end of federal bonus depreciation for investments in equipment enacted in 2002 and 2003. Congress allowed companies to defer taxes by using a 50 percent first year depreciation schedule instead of the 30 percent normally allotted. As a result, net income and tax liability were artificially decreased in the first year. The spin-up in depreciation expenses effectively lowers net taxable income in the tax years in which they are claimed. However, this results in smaller levels of depreciation on the same equipment in the out years, artificially raising taxable income in the short term. Corporate franchise collections may be benefiting from such an effect, since New York decoupled from the federal provisions in 2003 after the first year.

Other legislative changes affecting current and out-year collections include revenue enhancements of $26 million from the increase in the capital base and revenue reductions of $5 million for the small business rate reduction and $2 million for the new emerging technology research and development credit.

SFY 2006-07 Forecast

In SFY 2006-07, corporate franchise tax receipts are forecasted to total $3.055 billion, an increase of $43 million, or 1.4 percent from SFY 2005-06. The General Fund collections are expected to be $2.676 billion, an increase of 2.1 percent. Special Revenue collections are expected to total $379 million in SFY 2006-07, a decrease of $12 million or 3.1 percent.

The Executive Budget includes several proposals to alter the corporate franchise tax base. The Governor is proposing elimination of the alternative minimum tax base, the capital base, and the additional tax on subsidiary capital, which would significantly alter the tax base.

The above changes are augmented by a proposed cut in the Entire Net Income (ENI) tax rate from 7.5 percent to 6.75 percent and the elimination of the S-Corporation differential rate. In addition, the Governor is proposing full expensing of New York assets that will allow corporations to further accelerate depreciation on capital purchases beginning in 2008.

In addition to the structural changes of the tax, there are several other proposals when fully implemented cost $36 million to the State. These initiatives include accelerating and expanding the Empire Zones Program, making the Empire State Film credit permanent and increasing the yearly allocation, an increase in the low income housing credit, and tax credits intended to encourage the purchase of alternative fuel vehicles and production of bio-fuels.

The Executive also proposes to extend the expansion of the fixed dollar minimum schedule for an additional three years. This initiative would increase revenues by $46 million annually beginning in 2006-07.

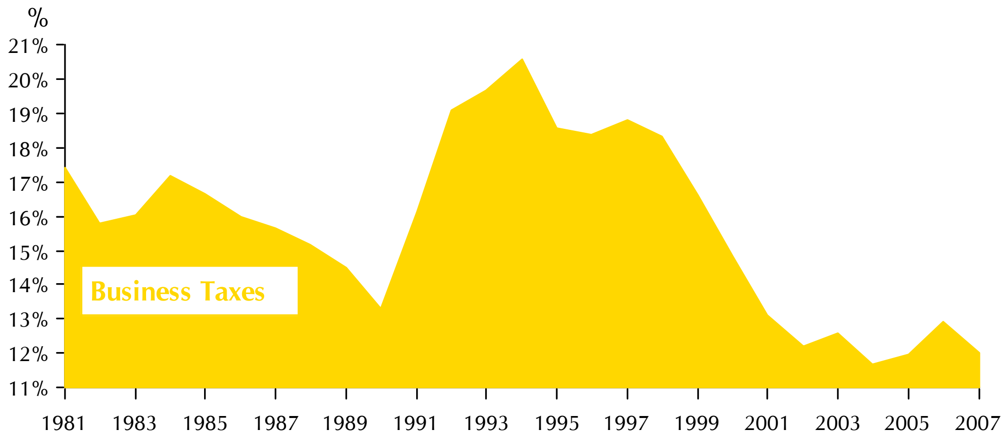
Trends

Until the catastrophic events of September 11th, corporate franchise tax collections mainly increased from 1990 to 2001. The 54 percent drop in collection seen in SFY 2001-02 decimated state revenues and resulted in large scale borrowing, federal assistance, and immediate legislative action. The shock seemed to bottom out in the following fiscal year and for the next two years collections increased moderately. In SFY 2004-05, corporate tax collections witnessed a 24.1 percent increase over prior year collections and this year's increase of 42.7 percent is even greater. The Committee staff does not expect similar increases in SFY 2006-07, as the State has yet to see the impact of the Single Sales Factor, and corporate profits will slow.

As states fight to keep and attract businesses, the use of tax expenditures for businesses has expanded. New York State is no exception. Business taxes have been declining as a percent of total tax collections over the last decade. Despite record increases in collections in the corporate franchise tax, business tax collections only make up 12.9 percent of total estimated collections for the current fiscal year. (see figure 17)

Business Taxes as a Percentage of Total Taxes

State Fiscal Years 1977 - 2008



Source: Executive Budget, Ways and Means Committee

Figure No 17

Bank Tax

In 1927, a franchise tax was imposed on banks and financial institutions. The current Article 32 was enacted in 1973. The Bank Reform Acts of 1985 and 1987 modified the tax to its current state described below.

Overview of the Tax

Tax Rates

The bank tax is imposed on all corporations doing a banking business in New York, and is similar in structure to the corporate franchise tax. Corporations subject to the bank tax will pay the highest of the following four alternative bases:

1. 7.5 percent of entire net income allocated to New York
2. 3 percent of alternative entire net income allocated to New York
3. 0.1, 0.04, or 0.02 mill of each dollar of taxable assets allocated to New York
4. $250.

Tax Base

The entire net income base uses federal taxable income before the net operating loss and other special deductions as a starting point. The federal base is then modified to arrive at the New York entire net income base.

The alternative minimum income base is a broader version of profits also similar to the federal version and has a lower tax rate of 3 percent.

However, banking corporations may qualify for lower tax rates if they meet certain criteria with respect to net worth or the ratio of mortgages to total assets.

The asset base is a net worth base. In the asset base, taxable assets are computed by deducting from the average total value of assets, any money property received from the FDIC or FSLIC, and inter-bank placements (not to exceed $500 million).

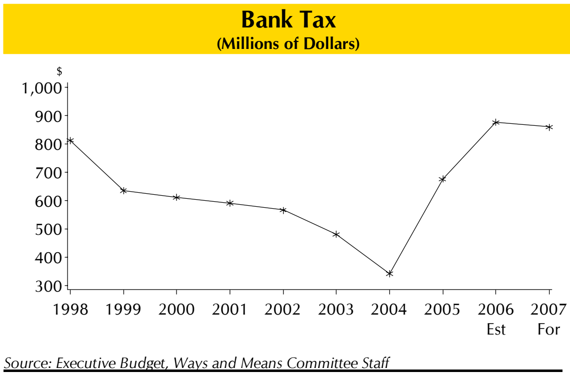


Figure No 18

SFY 2005-06 Estimate

Bank tax collections have increased by $170 million, or 34.6 percent, through January 2006. The Committee staff estimates that bank tax receipts will total $876 million in SFY 2005-06, representing an increase of $201 million, or 29.7 percent over SFY 2004-05 (see Figure 10). The growth in collections follows steep declines in 2003-04. This estimate is $1 million higher than the Executive's. Of All Funds collections, the General Fund is estimated to receive $749 million and the Special Revenue Fund is expected to receive $127 million.

The banking sector exhibited strong profits in 2005. Positive effects on profits include reduced expenses for bad loans and the absence of significant merger related costs. Mortgages demand remained strong and deposit growth outstripped loan growth. In recent years the banking sector has benefited from a substantial increase in mortgage loan origination, home price appreciation, and a slight recovery in employment, which has led to increasing income growth. The increase in income has helped improve New York's loan quality as measured by past-due rates and delinquency rates on sub prime mortgages. Other significant factors affecting year-to-date receipts are an enormous increase in audits by 616 percent combined with minimal growth in refunds.

SFY 2006-07 Forecast

In SFY 2006-07, bank tax collections are forecast to total $859 million, representing a decrease of $17 million or 1.9 percent over SFY 2005-06. A flattening yield curve means declining net interest margins and lower net interest income. A projected decrease in audit collections will have a substantial affect on the forecast period.

Proposals

The Executive Budget includes several proposals to amend the bank tax. There are several initiatives that change the current structure of the bank tax, including the elimination of the alternative minimum tax base and the asset base. These alterations do not have an affect on current year receipts, but in the 2006-07 they would reduce revenues by $54 million. Fully implemented these initiatives would decrease revenues by $161 million annually.

Like the corporate franchise tax the Executive has proposed a rate cut on Entire Net Income (ENI) from 7.5 percent to 6.75 percent for banks and would allow special expensing of New York assets in beginning in 2006.

The Executive also proposes to change the treatment of income from Real Estate Investment Trusts (REIT) and Regulated Investment Companies (RIC) subsidiaries with regards to holding certain assets. This initiative would increase revenues by $57 million in 2006-07.

Significant Tax Law Changes

The Governor has proposed making certain provisions of the bank tax permanent. This section summarizes these provisions, which have been extended periodically since their enactment.

<u>Business Tax Reform and Rate Reduction Act of 1987</u>

Federal tax reform changed the treatment of deductions for bad debt reserves in the Federal Tax Reform Act of 1986. Banks with assets over $500 million are now required to recapture their reserve for loan losses and are limited to the specific charge-off method for dealing with bad debts. Federal tax reform also changed the treatment of bad debt for thrifts. Their deduction for bad debt was reduced from 40 percent to 8 percent. New York did not allow these changes to pass through. The BTRRA of 1987 allowed banks and thrifts to continue with the pre-federal tax reform rules on bad debt deductions.

<u>Bank Tax Reform of 1985</u>

The Bank Tax Reform of 1985 included 25 percent rate reductions for the entire net income base. It also established uniform treatment of thrifts and commercial banks, and repealed alternative minimum tax provisions in relation to thrifts and commercial banks. Institutes that are thrifts and commercial banks are subject to two alternative bases which are 0.01 percent of assets or 3 percent of alternative entire net income. Thrifts which hold net worth certificates are excluded from the tax on assets. The New York taxable entire net income begins to be determined by an allocation formula. The reform required combined reporting of banking corporations or bank holding companies which own 30 percent or more voting stock of one or more banking corporations or bank holding companies. Combined return requirements were placed on banks that owned 65 percent of a corporation.

Insurance Tax

In 2003, the franchise tax on non-life insurance corporations was changed from one based on allocated Entire Net Income and an additional amount based on gross allocated premiums to one based on allocated premiums.

Insurance companies in New York State are taxed by two separate taxing bodies, the Tax Department and the Insurance Department. Pursuant to Article 33 of the Tax Law, the Tax Department imposes income and or premiums taxes on insurance companies. The Insurance Department imposes taxes on insurance companies pursuant to Articles 11 and 21 of the Insurance Law. Article 33 of the Tax Law imposes a tax on insurance companies for the privilege of operating in a corporate form in New York State. Life insurers pay the greater of five bases which includes a tax of 7.5 percent on allocated entire net income, 1.6 mills for each dollar of allocated business and investment capital, a tax of 9 percent on 30 percent of the sum of entire net income plus compensation paid to shareholders owning more than 5 percent of the issued capital stock of the taxpayer and corporate officers, 1.5 percent premiums, and a fixed minimum tax of $250. There is an additional tax of 0.8 mill for each dollar of allocated subsidiary capital. The final component, which is added to the highest of the four alternative bases is a 0.7 percent tax on premiums written on risks assigned to New York State. The current tax cap for life insurance companies is an amount computed on only net premiums at the rate of 2.0 percent. Currently, non-life insurance companies pay no more than 2.0 percent of net premiums.

Premiums Tax

Non-life insurers and Accident and Health companies are taxed at different rates than other insurance companies. The premium tax rates are applied as follows: Premiums written by insurers licensed as property and casualty underwriters are taxed at a rate of 2 percent, except for premiums on accident and health contracts which are taxed at the rate of 1.75 percent.

Tax Law Article 33-a: Tax on Independently Procured Insurance

Pursuant to Chapter 190 of the Laws of 1990, a direct writing insurance tax is imposed. This tax requires purchasers of insurance from insurance carriers not authorized to do business in New York pay a 3.6 percent tax on the premium attributed to risks located in New York State. This is the same tax that excess line brokers are already required to pay.

Insurance Law Articles 11 and 21

The Insurance Law imposes two taxes that are deposited into the general fund. These are the retaliatory tax and the tax on excess line brokers.

Retaliatory taxes are imposed on out of state insurance companies doing business in this state where the taxes, fines, penalties, fees, etc. imposed in their home state on New York insurance companies are greater than those imposed in this state.

Out-of-state foreign insurance companies subject to the retaliatory tax are required to make estimated tax payments. The payment, due by December 15, must be equal to the lesser of 90 percent of the amount finally determined to be due for second preceding calendar year, or 80 percent of the amount finally determined to be due for the calendar year.

Excess line brokers are taxed at the rate of 3.6 percent of gross premiums. Excess Line Brokers are licensed with the state and are authorized to procure insurance policies from insurers that are not authorized to transact business in this state. The excess line broker must file a statement showing that they were unable to procure the full amount of the insurance from an authorized insurer after a diligent effort has been made.

Returns and payments of tax involving independently procured insurance contracts are due within 60 days of the end of the calendar quarter during which a taxable insurance contract took effect or was renewed.

SFY 2005-06 Estimate

Insurance tax collections have decreased by $3 million, or 0.4 percent, through January 2006. Collections seemed to have settled as the companies have adjusted to recent legislative changes. During SFY 2003-04, premium growth continued to swell as a result of the increased risk climate following the events of September 11, 2001. Increasing interest rates and slightly higher returns on equity investments have led to more stable premiums as investment income becomes more reliable. New York State premiums, exclusive of life insurance grew 4.3 percent in 2004 and 2005 may see a minimal rise due to the effect of the destructive of the fall of 2005 hurricanes. Most analysts expect the effects of those catastrophic events to be absorbed in the region and have a minimal affect on the other regions and the nation as a whole. Inflation adjusted premiums rose 2.3 percent globally and there was positive underwriting in the non-life sector.

The Committee staff estimates that insurance tax receipts will total $1.147 billion in SFY 2005-06, representing an increase of $39 million, or 3.5 percent over SFY 2004-05. This estimate is $3 million lower than that of the Executive. Of the total All Funds collections, $1.049 billion is earmarked for the General Fund and $98 million is earmarked for the Special Revenue Fund.

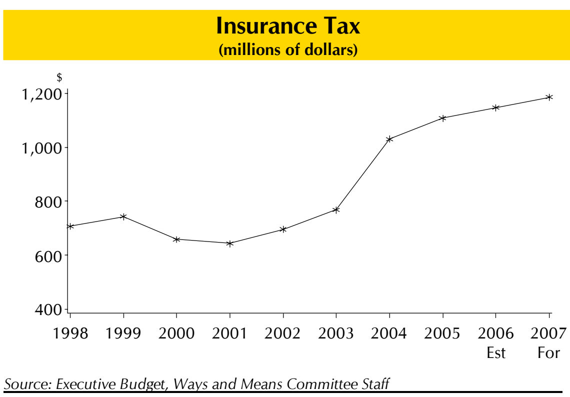


Figure No 19

SFY 2006-07 Forecast

Insurance tax receipts are forecast to total $1.186 billion in SFY 2006-07, representing a increase of $39 million or 3.4 percent from SFY 2005-06. The forecast reflects Committee staff expectations that rising interest rates in combination with increasing investment income will help to stabilize any premiums increases resulting from the impact of this year's hurricane season. Premiums are forecast to grow by less than 5 percent in 2006-07.

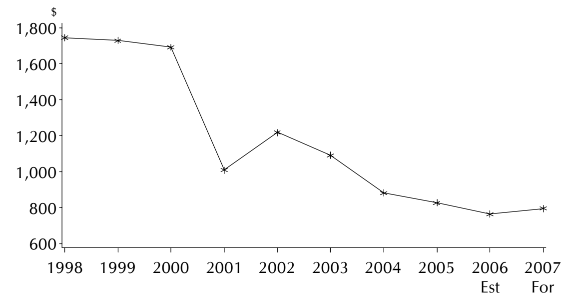
The Executive proposes two changes to the insurance tax. The first would lower the life insurance cap to 1.5 percent of taxable premiums. In addition the minimum tax would be lowered to 1.25 percent of premiums. The second proposal would only include annuities premiums about the current 95 percent threshold as part of the premiums base for life companies. These initiatives would reduce revenues by $18 million annually.

Utility Tax

Article 9 of the Tax Law imposes a gross receipts tax on public utilities, telecommunications companies regulated by the Public Service Commission, transportation and transmission companies, and agricultural cooperatives.

Applicable to taxable years ending before January 1, 2000, an annual tax consisting of two parts, a gross receipts tax and a tax on paid-in capital employed in New York also applies to every corporation principally engaged in, supplying water, steam, gas, or electricity. This tax is repealed and the taxpayers previously subject to these Article 9 taxes generally become subject instead to the corporate franchise tax imposed under Article 9-A (corporate franchise tax). The gross receipts tax imposed on energy consumption and on commercial distribution and transmission of energy was phased out beginning in 2000 and was fully phased-out in 2005. Fully implemented this initiative cost the State $409 million in SFY 2005-06.

Utility Tax
(millions of dollars)



Source: Executive Budget, Ways and Means Committee Staff

Figure No 20

SFY 2005-06 Estimate

Utility tax receipts have declined by approximately $47 million, or 6.2 percent, through January 2006. The Committee staff estimates that utility tax receipts will total $764 million in SFY 2005-06, representing a decline of $63 million, or 7.6 percent, from SFY 2004-05. This estimate is $8 million lower than the Executive's. Of All Funds collections, the General Fund is estimated to receive $581 million and the Special Revenue Fund will receive $183 million for SFY 2005-06.

The decline in utility tax collections is mainly due to Utility Tax Reform enacted in 2000 (see Figure 20). SFY 2005-06 is the final year of these changes and are expected to reduce utility tax receipts by $644 million.

SFY 2006-07 Forecast

All Funds utility tax receipts are forecast to total $795 million in SFY 2006-07, representing an increase of $31 million, or 4.1 percent, over SFY 2005-06. Despite relatively flat growth over the prior fiscal year, the recent trend in the corporation and utility taxes may reverse due to growth in the wireless telecommunications sector which now make up the majority of utility tax collections.

Petroleum Business Tax

Article 13-A of the Tax Law imposes the petroleum business tax (PBT) on every petroleum business for the privilege of engaging in business, employing capital, owning or leasing property, or maintaining an office in this state. It is based on the volume of fuel imported, produced, refined, manufactured or compounded in the state. Imposition of the tax occurs at different points in the distribution chain, depending upon the type of petroleum product. Gasoline is subject to tax at the time it is imported, while diesel is taxable upon the first sale.

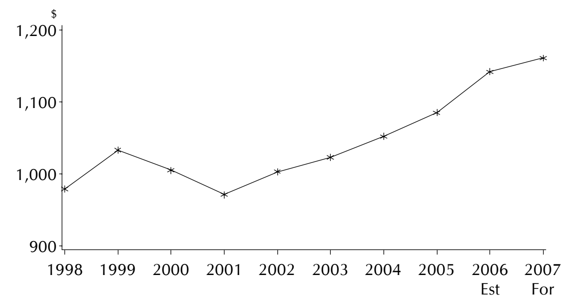
The Article 13-A tax also applies to the fuel motor carriers purchase outside New York State, but consume within the State. It is paid with the fuel use tax, at a rate equal to the rate for motor fuel or diesel. The tax is determined monthly and is the sum of a motor fuel component, an automotive-type diesel motor fuel component, a non-automotive type diesel motor fuel component, and a residual petroleum product component. On each January 1st, the tax rates are indexed based on the producer price index for refined petroleum products published by the Bureau of Labor Statistics, rounded to the nearest 1/10 of one cent.

All revenues from the basic tax are earmarked to dedicated funds (Dedicated Mass Transportation Trust Fund and Dedicated Highway and Bridge Trust Fund) and the Mass Transportation Operating Assistance Fund. The dedication is as follows: 19.7 percent to the Mass Transportation Operating Assistance Fund[5] and 80.3 percent to the Dedicated Mass

[5] This fund is comprised of the Public Transportation System Operating Assistance Account and the Metropolitan Mass Transportation Operating Assistance Account.

Transportation Trust Fund and the Dedicated Highway and Bridge Trust Fund[6]. The supplemental tax is totally earmarked to the dedicated funds.

Petroleum Business Tax
(millions of dollars)



Source: Executive Budget, Ways and Means Committee Staff

Figure No 21

SFY 2005-06 Estimate

The Committee staff anticipates All Funds receipts of $1.142 billion for SFY 2005-06, representing a 5.3 percent growth over SFY 2004-05 (see Figure 11). This estimate is $5 million higher than the Executive's.

Through January 2006 petroleum business tax collections are $955.5 million, an increase of $47.5 million or 5.2 percent above the comparable period in the prior fiscal year.

Crude oil prices rose to nearly $66 per barrel at the end of September. Hurricane Katrina impacted refineries at the end of August, which dramatically effected output and inventories. As a consequence, prices for gasoline, diesel and other petroleum products navigated uncharted waters, recording the highest levels in history: the record prices were passed on to consumers. However, record prices of petroleum products had have little effect on consumption. This is especially true of diesel motor fuel receipts, which showed growth of 3.2 percent during the first 10 months of the fiscal year, while motor fuel gasoline showed a decline of 3.4 percent during the same period. Diesel and motor fuel prices increased an average of 22.9 and 30.8 percent respectively, during the first 10 months of this fiscal year.

Revenues from this tax are split between various dedicated funds. Of the total expected in SFY 2005-06, $369 million will be deposited in the Dedicated Mass Transportation Trust Fund, and $145 million will be deposited into the Mass Transportation Operating Assistance Fund. The remaining $628 million is deposited into the Dedicated Highway and Bridge Trust Funds. The petroleum business tax rates will be increased by 5 percent in January 2006 as scheduled.
The combined tax rate of Article 12-A and 13-A on gasoline and diesel, currently is 23.9 cents per gallon.

SFY 2006-07 Forecast

In SFY 2006-07, All Funds receipts are estimated to total $1,161 million, a 1.7 percent increase from SFY 2005-06.

Of the total expected in SFY 2006-07, $375 million will be deposited in the Dedicated Mass Transportation Trust Fund, and $147 million will be deposited into the Mass Transportation Operating Assistance Fund. The remaining $639 million will be deposited into the Dedicated Highway and Bridge Trust Fund.

This forecast assumes that demand for gasoline and diesel will be soft. Even though petroleum prices did not noticeably effect petroleum business tax receipts because of the continued growth in the economy in SFY 2005-06, concern is focused on output, inventories, speculation,

[6] Receipts from the dedicated funds are split 37 percent and 63 percent respectively between the two funds.

and refining capacity. We assume that demand growth will be commensurate with capacity growth in the short term. This is reflected in the Committee staff assumptions that PBT rates will again rise by the maximum amount of 5 percent in 2007. As the market for petroleum products continue to show signs of uncertainty, receipts from these taxes will continue to show little effect from higher oil prices due to indexing petroleum rates and increased energy consumption with small signs of efficiency gains and structural shifts in the economy.

OTHER TAXES

Other Taxes Forecasts by State Fiscal Year (Dollar Amounts in Millions)						
	SFY 2005-06	Growth	Diff Exec	SFY 2006-07	Growth	Diff Exec
Other	**$1,859**	**12.3%**	**$34**	**$1,674**	**-10.0%**	**($26)**
Real Property Gains	1	42.9%	-	-	-100.0%	-
Estate and Gift	880	-2.1%	10	833	-5.3%	(41)
Real Estate Transfer	954	30.7%	24	815	-14.6%	15
Pari Mutuel	23	-11.5%	-	25	8.7%	-
Other	1	0.0%	-	1	0.0%	0

Table 16

Other taxes consist of collections from the Real Estate Transfer Tax and Estate Tax. Real Estate Transfer Tax collections have been bolstered by the surge in real estate prices and transactions. The real estate market has had a positive impact on estate tax collections, through the increase in the average value of taxable estates.

Estate Tax

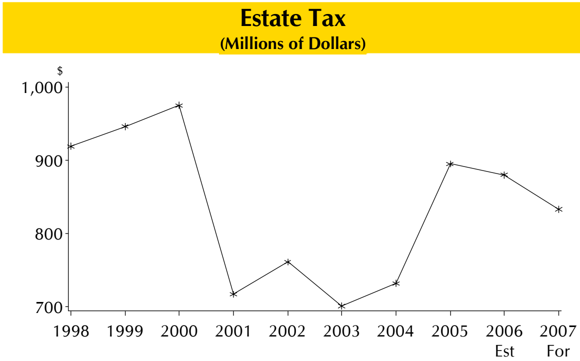
Transfers of assets upon death are taxed under the Estate Tax Law (Article 26). All of the receipts are deposited into the General Fund.

SFY 2005-06 Estimate

The Committee staff estimates that estate tax collections will total $880 million in SFY 2005-06. Collections are expected to decline by $19 million or 2.1 percent from SFY 2004-05. Collections growth in the prior fiscal year was driven by settlement of several very large estates, which boosted revenues by nearly $200 million. Overall, estate tax collections have benefited from a resurgence in the real estate and equities markets, which tend to comprise a large proportion of an estate's net worth.

SFY 2006-07 Forecast

Estate Tax collections are forecast to total $833 million in the upcoming fiscal year, a decline of 5.3 percent. The decline reflects expectations of a softening of the real estate market, which has driven up the value of taxable estates in recent years. The forecast assumes no receipts from the Gift Tax since it was repealed as of January 2000.



Source: Executive Budget, Ways and Means Committee Staff

Figure No 22

Proposed Elimination of the Estate Tax

The Governor has proposed the total elimination of the New York Estate Tax over a 3 year period beginning in 2007. The Executive achieves this by re-coupling the New York estate tax with the federal tax in 2007. Consequently, the New York exemption for estates would increase from its current level of $1 million to $2 million on January 1, 2007. The exemption levels would then be linked to the federal exemption levels, which are also $2.0 million and would increase to $3.5 million in 2009. The State tax would be fully eliminated in 2010, when under current Federal law all estates would be fully exempt from the federal tax. However, unlike the Federal law, which reinstates the estate tax as of 2011 at its 2005 rates, the New York estate tax would not "pop-up" in 2011, but would remain eliminated. The complete elimination would result in a reduction of nearly $1 billion annually when fully effective.

Recent History of the New York Estate Tax

In 1997, New York adopted what is commonly referred to as a "pickup tax". The legislation phased in the adoption of the federal thresholds and as of 2000, New York adopted the federal exemption threshold of $675,000. The State then set its tax equal to the maximum federal credit for state estate taxes, so that in essence, New York estates would be paying no more than they would if the state imposed no estate tax at all. However, instead of estate taxes flowing to the federal government, the state would collect an amount equal to the federal credit for state estate taxes. At the time of implementation, this change in the estate tax law reduced revenues by approximately $475 million.

Due to the volatile nature of federal tax policy, especially in recent years, New York elected to freeze its exemption threshold at $1 million in 1997. Since that time, the federal exemption level has increased to $2 million beginning in January 2006. In 2005 the federal government also reduced and then eliminated the credit for state death taxes paid. As a result, state taxes, which were in lieu of federal taxes, now are an additional tax on many estates.

According to the latest information from the Tax Department, roughly 6,300 estates filed an estate tax return in 2004-05. Of those, nearly 46 percent, or 2,885 had no estate tax liability, and had an average value of $767,000. Of the remaining estates, the average federal taxable value was approximately $2.7 million and the average New York liability was $192,000.

However, the average payment is skewed by the amount paid by large and super-large estates. For example, estates valued at between $1 million and $2 million had an estate tax liability of $107 million, with an average liability of approximately $49,000. In contrast, estates value over $5 million paid approximately $414 million in estate taxes and had an average liability of $1.3 million.

Additionally, the current estate tax is fairly progressive in nature. As shown in table 17, the effective tax rate for taxable estates valued between $1 million and $2 million is approximately 3.7 percent. For estates valued between $2 million and $5 million, the effective tax rate is 8.1 percent. For those estates valued above $5 million, the $5 million, the effective tax rate is 14.1 percent.

From an economic standpoint, the estate tax is essentially a tax on the transfer of wealth and among other things, serves to impose a tax on assets that have gone untaxed during the decedent's life. For example, the estate tax is imposed on the value of unrealized capital gains, such as stocks, bonds and real estate. Elimination of the estate tax would allow wealthy residents to shelter large portions of their income from taxes. Furthermore, charitable organizations rely to a great extent on charitable giving through bequests given upon the death of individuals. A large part of the reason that individuals bequeath assets to charities in their wills is to reduce the taxable value of their estates. Absent this incentive, charitable organizations may find it more difficult to raise operating funds.

Table 17

New York Taxable Estates
SFY 2004-05
(Dollars Amounts in 000's)

Category	# of Estates	Federal Taxable Estate Value	New York Liability	Avg Liability	Effective Tax Rate
< $1m	186	132,980	3,105	16,694	2.3%
$1m to $2m	2,154	2,927,189	107,091	49,717	3.7%
$2m to $5m	787	1,693,836	136,755	173,767	8.1%
Over $5m	314	2,962,955	413,756	1,317,694	14.0%

Real Estate Transfer Tax

Article 31 of the Tax Law levies a 0.4 percent tax on real property transfers in excess of $500. The tax also applies to transfers of economic interest such as shares in cooperatively owned apartments. An additional tax of one percent, sometimes referred to as the 'mansion tax', is levied on the transfer of one, two or three family residences over $1 million. Typically, the party conveying the property (grantor) is liable for the 0.4 percent tax and the party purchasing the property (grantee) is liable for the one percent tax when applicable.

SFY 2005-06 Estimate

In the first ten months of SFY 2005-06, Real Estate Transfer Tax (RETT) receipts increased 31 percent over the same period in the prior year. The Committee staff estimates that RETT receipts will total $954 million in SFY 2005-06. This represents an increase of $224 million or 31 percent over 2004-05 collections. Previous estimates of SFY 2005-06 RETT receipts were considerably lower than the Committee staff's current estimate.[7] The Executive currently estimates that RETT revenues will total $930 million in SFY 2005-06, approximately $24 million lower than the Committee staff estimate.

In SFY 2005-06, as in years past, $112 million in revenues from the RETT will be used for capital projects via the Environmental Protection Fund (EPF). Included in the SFY 2005-06 Budget, the Director of the Division of the Budget was granted authorization to dedicate an additional $25 million from the Real Estate Transfer Tax to the EPF. However the Director opted not to utilize this authorization. After revenues are transferred to the EPF, all remaining RETT revenues are dedicated to Debt Service on the Clean Water Bond Act. After payments to the Clean Water Bond Act, remaining RETT revenues are deposited in the State General Fund. Based on current expectations, approximately $729 million will be transferred back to the General Fund in SFY 2005-06.

Real Estate Transfer Tax receipts are a function of the number of sales and the dollar amount of each sale. In recent years, the frequency of real estate transactions and the value of real estate have increased considerably. Throughout most of this fiscal year, New York's housing market has remained very strong. New York housing starts experienced strong growth in the first half of the fiscal year compared to the prior year. However, as the fiscal year enters the fourth quarter, houses are remaining on the market longer – an indication that the housing market is slowing and RETT revenues will slow as well. But this slowdown should not affect SFY 2005-06 revenues, as there is a considerable lag between house sales and receipt of RETT revenues.

Within the last five years, housing prices have gone up in response to an increase in demand, especially in areas that are within commuting distance of NYC. Statewide, the median price for residential sales in the second quarter of 2005 grew 14.2 percent from the prior year. Growth in the median house value in the Albany-metro area, NYC and Long Island exceeded the statewide average; growing by 18.25, 17.5 and 17.2 percent respectively. Since NYC and Long Island account for two thirds of all RETT receipts, the health of the real estate market in this region is a driving force behind tax receipts. Another main factor influencing receipts is the demand for commercial real estate.

After lagging the residential real estate market, New York's commercial real estate market made a turn-around in 2004 and continued to strengthen in 2005. The recovery of Manhattan's financial services sector, combined with an influx of capital by real estate investment trusts and private investors have boosted demand for commercial real estate. The vacancy rates in Midtown and Downtown Manhattan have decreased considerably compared to the third quarter of last year – a clear signal

[7] In their Enacted Budget Report and Mid-year Update the Division of Budget forecasted $739 million in SFY 2005-06 RETT revenues.

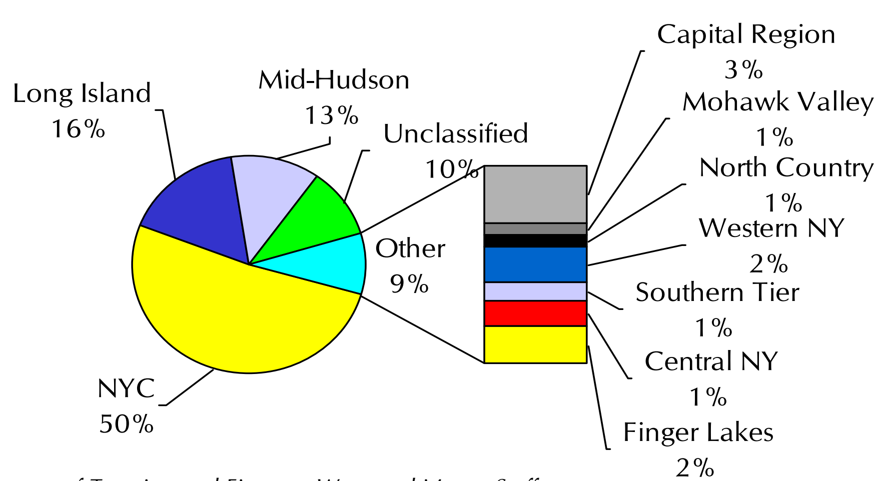
that demand is increasing. Foreign investors may be contributing to the demand for commercial real estate, as the weak U.S. dollar makes investing in the U.S. more attractive. According to the Federal Reserve Board, office vacancy rates in Manhattan fell to a four-year low in the third quarter of 2005.

SFY 2006-07 Forecast

The Committee staff's RETT forecast for SFY 2006-07 is $815 million, a decrease of $139 million or 15 percent from the SFY 2005-06 closeout. The decrease in receipts is based on the expectation that the housing market will weaken, triggered by higher interest rates and a decrease in demand. The Executive has forecast RETT receipts of $800 million, representing a decrease of 14 percent from their SFY 2005-06 closeout. In SFY 2006-07 $137 million in RETT receipts will be dedicated to the Environmental Protection Fund. Within the SFY 2006-07 Executive Budget is a provision to increase this dedication to $147 million in SFY 2006-07, $157 million in SFY 2007-08 and $167 million in SFY 2008-09. After revenues are transferred to the EPF, all remaining RETT revenues are dedicated to Debt Service on the Clean Water Bond Act. After payments to the Clean Water Bond Act, remaining RETT revenues are then deposited in the State General Fund. Based on current expectations, approximately $547 million from the CW/CA fund will be transferred back to the General Fund in SFY 2006-07.

The percent of total receipts varies greatly amongst the regions of the state. The following chart shows the vast differences among the regions of the state.

Regional Share of SFY 05-06 Through December

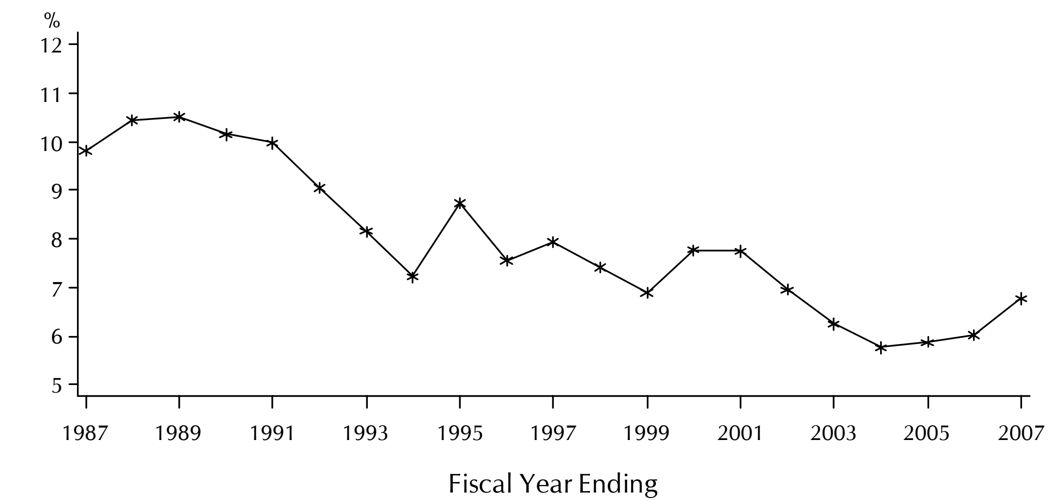


Source: Department of Taxation and Finance, Ways and Means Staff

Figure No 23

Rising long-term mortgage rates, which the Committee staff forecasts will increase 75 basis points between SFY 2005-06 and SFY 2006-07, will dampen demand for residential real estate in SFY 2006-07 (See Figure 24). In addition, housing prices, which have been growing at double digit rates since 2001, are expected to moderate according to the National Association of Realtors (NAR). NAR also predicts that the frequency of sales will decrease in SFY 2006-07. In addition to NAR's findings, research by Prudential Elliman reports that recent shifts have increased the relative market share of entry-level real estate purchases, such as one-bedroom apartments and small houses. Since more affordable homes are not subject to the additional 'mansion tax', the shift in home purchases will have a disproportionate effect on receipts. The combination of these factors should result in a decrease in RETT receipts.

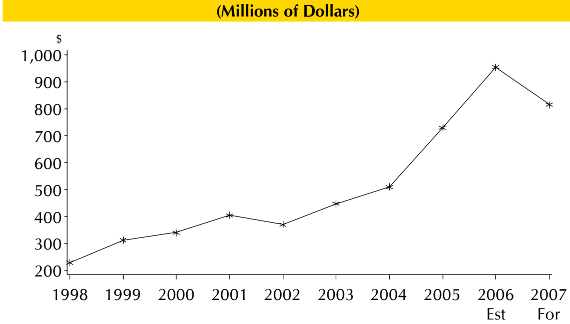
Mortgage Rate



Source: Ways and Means Committee Staff

Figure No 24

Real Estate Transfer Tax
(Millions of Dollars)



Source: Executive Budget, Ways and Means Committee Staff

Figure No 25

Due to strong growth in the real estate market in recent years, collections have grown strongly over the past 4 years. RETT revenues nearly doubled between SFY 2001-02 and SFY 2004-05, growing by 21, 14 and 43 percent in state fiscal years ending in 2003, 2004 and 2005 respectively (see Figure 25). Several factors are contributing to the strong growth in receipts. While the Federal Reserve Board has been steadily increasing interest rates recently, the effect on fixed rate mortgages has been negligible, yielding many eligible borrowers and large mortgages. RETT revenues have also been assisted by the expansion of sub prime mortgages in recent years, which increase the universe of eligible homeowners and the demand for residential real estate.[8] Also contributing to the substantial increase in receipts, as the cost of housing increases across the state more home buyers are required to pay the additional 1 percent 'mansion tax' on the transfer of homes in excess of $1 million. Between SFY 2002-03 and SFY 2004-05 the number of purchases subject to the mansion tax nearly doubled.

Pari-Mutuel

The Racing, Pari-mutuel Wagering and Breeding Law imposes a pari-mutuel tax on bets placed at racetracks, simulcast theaters and Off-Track Betting (OTB) facilities. For-profit and not-for-profit racing associations, as well as OTB Corporations, are taxed a percentage of their total betting pools for the privilege of conducting pari-mutuel wagering. All of the receipts are deposited in the General Fund.

The tax is to be paid on the last business day of each month for the period from the 16th day of the preceding month through the 15th day of the current month. Payments required to be made on March 31 must include all taxes due and accruing through the last full week of racing in March.

SFY 2005-06 Estimate

The Committee staff estimates that receipts will total $23 million in SFY 2005-06, a decline of 11.5 percent or $3 million compared to SFY 2004-05. This estimate is the same as the Executive.

SFY 2006-07 Forecast

The Committee staff forecast for SFY 2006-07 is $25 million, representing a slight increase from SFY 2005-06

[8] According to the Federal Reserve Board of Atlanta, a mortgage is considered subprime when the recipient of the mortgage has a low credit score or can only afford a small down payment. Banks are willing to offer these mortgages because interest rates are higher and the loans are often backed by the federal government, maximizing profit while limiting risk.

MISCELLANEOUS RECEIPTS – GENERAL FUND

Miscellaneous Receipts
SFY 2005-06 and 2006-07
(Dollar Amounts in Millions)

Category	2004-05 Actual	2005-06 Estimate	Change	2006-07 Forecast	Change
Licenses, Fees, Etc.	$563	$571	$8	$694	$123
Abandoned Property	569	805	236	735	(70)
Reimbursements	143	165	22	163	(2)
Investment Income	12	77	65	128	51
Other Transactions:	930	998	68	937	(61)
Miscellaneous Receipts	**2,217**	**2,616**	**399**	**2,657**	**41**
Federal Grants	9	9	-	9	-
Total Miscellaneous Receipts	**$2,226**	**$2,625**	**$399**	**$2,666**	**$41**

Table 18

General Fund miscellaneous receipts consists of income derived annually from abandoned property, investment earnings, fees, licenses, fines, surcharges, patient income, and reimbursement income. In addition, miscellaneous receipts typically include certain non-recurring revenue actions.

General Fund miscellaneous receipts are expected to total $2.625 billion in SFY 2005-06, $399 million higher than SFY 2004-05. The increase in estimated collections from SFY 2004-05 is primarily attributed to a redirection of cellular surcharge revenues to the General Fund to support Homeland Security and an increase in the receipts estimates for licenses and fees based on prior year law changes and collections to date. These increases are partially offset by the loss of several onetime receipts received in 2004 -05.

General Fund miscellaneous receipts are expected to total $2.666 billion in SFY 2006-07, $41 million higher than SFY 2005-06, due primarily to increased investment income (resulting from higher interest rates) and various proposed new charges and fees.

Licenses and fees are estimated to increase by $123 million from the actions taken in the previous year. Licenses and fees assessed to taxpayers are estimated to total $2.8 billion over a five year period, an increase of $700 million.

Highlights of license and fee increases include increases attributable to automated speed enforcements, asbestos handling license renewals, prepaid phones, ATV registrations and snowmobiles, and DMV title fees.

Table 19

Proposed Legislation (Dollar Amounts in Millions)		
Description	Change	Value in 2005-06
Streamlined Disciplinary Process at ABC	Various	9.0
Food Safety Inspection Penalty	From $300 to $500 $1,000 tp $2,000	1.1
Automated Speed Enforcement Fine	New: $100	41.9
Increase Banking Fines	Various	4.0
Increase Maximum Insurance Penalties	Various	0.8
New Annual PERB Registration Fee	New: $50	0.5
Reduce Dormancy Period on Unclaimed Property	Various	100.0

LOTTERY

Lottery 2005-06 Estimate and 2006-07 Forecast (Dollar Amounts in Millions)									
	2004-05 Actuals	WAM 2005-06	Change	Executive 2005-06	Diff.	WAM 2006-07	Change	Executive 2006-07	Diff.
Lotto Total	$137	$115	($22)	$118	($3)	$97	($18)	$104	($7)
Numbers	276	281	5	283	(3)	290	9	289	1
Win-4	218	226	8	228	(2)	236	10	239	(3)
Quick Draw	118	113	(5)	114	(1)	145	33	138	7
Pick10	12	11	(0)	11	0	11	(0)	11	0
Take 5	121	117	(4)	117	0	113	(4)	112	1
Mega	156	194	38	189	5	214	19	172	42
Instant Win	5	4	(0)	6	(1)	4	(1)	6	(2)
Instant	550	588	38	589	(1)	627	38	620	7
Promotional	0	10	10	10	-		(10)		
Non-VLT Total	**1,593**	**1660**	67	**1,664**	**(4)**	**1,737**	77	**1,691**	**46**
Admin. Surplus	296	329	33	329	0	344	15	335	9
Carry-Out		(43)		-47	(4)				
Carry-In	49		(49)		0	43	43	47	(4)
VLT'S	155	160	5	160	(0)	348	188	358	(10)
Total	**$2,093**	**$2,106**	**$13**	**$2,106**	**$0**	**$2,472**	**$366**	**$2,431**	**$41**

Table 20

The New York State Lottery was established via a Constitutional Amendment in 1966 for the express purpose of raising revenues for education. State education funding was to be held harmless from Lottery aid, ensuring that Lottery revenues were used to supplement and not supplant other state education aid. The Lottery is currently comprised of Instant Games, Daily Numbers, Win 4, Pick 10, Take 5, Quick Draw, Lotto, Mega millions, Instant Win and Video Lottery Terminals (VLTs).

The Division's administrative expenses are appropriated by the Legislature each year as part of the State Operating Budget, but are funded completely with revenues from Lottery sales. When the administrative allowance exceeds the administrative costs of the Division, the remaining funds are transferred to the general Lottery account and dedicated to education. The Lottery Aid Guarantee – which is the amount of revenue that will be dedicated to education from lottery sales - is established in the State Budget and is based on expected revenues. If revenues fall short of the Lottery Aid Guarantee, General Fund revenues compensate for the shortfall. However, when revenues exceed the Lottery Aid Guarantee, the excess revenues are applied to the following fiscal year – termed a carry-out.

SFY 2005-06 Estimate

The Ways and Means Committee staff expects State Fiscal Year (SFY) 2005-06 Lottery revenues will total $2.106 billion, which includes a $329 million administrative surplus, a $43 million carry-out, $10 million from a promotional game linked to the King Kong movie and $160 million from VLTs at Saratoga, Finger Lakes, Buffalo, Monticello and Batavia racetracks. Because Lottery revenues from non-VLT games are expected to exceed the associated Lottery Aid Guarantee, the Committee staff estimates that there will be a $43 million carry-out from SFY 2005-06 into the next fiscal year. Excluding revenue transfers and VLT receipts, the Committee staff estimates that SFY 2005-06 lottery revenues will be 4.2 percent or $67 million higher than SFY 2004-05. The estimate is $4 million lower than the Executive estimate. The Committee staff and the Executive both estimate VLT revenues of $160 million.

SFY 2006-07 Forecast

Assuming that all the Executive Proposals are accepted, the Committee staff forecasts that SFY 2006-07 Lottery revenues will total $2.429 billion, representing an increase of $280 million or 13.1 percent over the Committee staff's estimate for SFY 2005-06. However, because Lottery revenues exceeded the lottery aid guarantee in SFY 2005-06, there will be an additional $43 million in SFY 2006-07 – bringing total Lottery Aid for Education to $2.472 billion in SFY 2006-07. The SFY 2006-07 forecast includes approximately $348 million in VLT revenues and an administrative surplus of $344 million. The Executive's proposed law forecast for SFY 2006-07 is $2.431 billion or $2.384 billion without the carry-in. The majority of growth in both forecasts is expected to come from VLT revenues, which are predicted to more than double in SFY 2006-07. However, the Executive has also proposed to reduce or eliminate a number of restrictions related to Quick Draw, which will increase revenues by $38 million in SFY 2006-07. Current law provides that authorization to operate Quick Draw will expire on May 31, 2006. If Quick Draw ceases to operate, revenues would be expected to decrease by $94 million in SFY 2006-07.

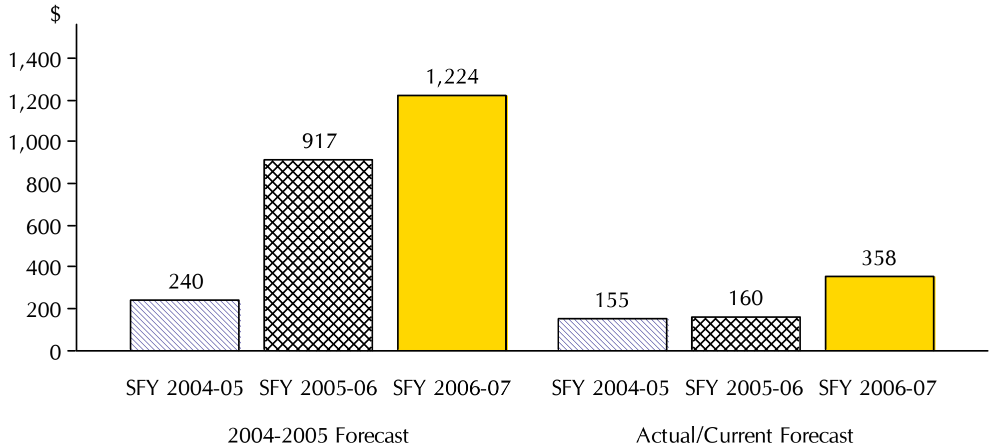
Video Lottery Terminals

Legislation enacted in 2001 authorized the Lottery Division to license the operation of video lottery gaming at Aqueduct, Monticello, Yonkers, Finger Lakes and Vernon Downs horse tracks. The legislation also allowed additional horse tracks to become VLT facilities pursuant to local authorization and Division of Lottery approval. The other tracks that have been authorized so far are Saratoga Raceway, Batavia Downs, Buffalo Fairgrounds and Tioga Downs. The authorizing legislation requires that VLTs pay at least 90 percent of wagers as prizes.

Once touted as a quick source of needed revenue and economic stimuli after the September 11th attacks, it has taken considerably longer than anticipated for tracks to begin operating VLTs. Equally troubling, revenues from certain operational facilities have been less than anticipated – most notably Buffalo, Monticello and Batavia. The VLT program has been ineffective in producing the revenues once promised by the Executive.

The following chart details the large variance between predicted and actual revenues, note the lack of actual revenues until SFY2004-05.

VLT Revenues - DoB Forecast vs. Actual
(Millions of Dollars)



Source: NYS Division of Budget

Figure No 26

As the graph shows, the Executive has consistently over-estimated VLT receipts.

In 2002 and 2003, several legislative enhancements were made to address concerns raised by the race tracks. However, these changes were found to be inadequate, prompting the Legislature to make additional changes in the SFY 2005-06 Budget (see Table 21). Legislation was passed to provide a marketing allowance and give vendors a larger share of net revenues, providing VLT operators with a greater incentive to get gaming online. While the percentage share to education decreased as a result of these changes, the anticipated increase in sales is expected to produce an increase in revenues for education. The new revenue distribution is detailed in Table 21.

Table 21

	Previous VLT Distribution			Current VLT Distribution (Dollar Amounts in Millions)			
	Years 1-3	Years 4-5	Years 6+	$0-50	$50-100	$100-150	$150+
Education	61.00%	61.00%	61.00%	50.00%	53.00%	56.00%	59.00%
Administration	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
Track Retains	20.24%	20.01%	17.48%	32.00%	29.00%	29.00%	26.00%
Purse Enhancement*	7.51%	7.74%	10.01%				
Breeders Fund*	1.25%	1.25%	1.51%				
Marketing**	0.00%	0.00%	0.00%	8.00%	8.00%	5.00%	5.00%

*The shares to purses and breeders funds are to be negotiated at each facility.

**Yonkers and Aqueduct are eligible for a 4% marketing allowance. Remainder of marketing allowance is dedicated to education.

The previous VLT distribution provided 61 percent of revenues to education and 10 percent of revenues to administration. The remaining revenue was split amongst the track, purses for races at that track and the breeder's fund for horses from that track. As detailed in the above chart, the distributions to the track, purses and breeders were to change over time, giving more and more money to purses and the breeders. The new distribution does not change over time and does not provide that a specific percentage of revenues are dedicated to purses or breeders. Instead, each track is responsible for negotiating agreements with the relevant entities. Also differing from the previous distribution, the percentage of revenues dedicated to education now increases as revenues at each track increase. In order to provide more incentive to advertise and market VLTs, the new distribution provides a marketing allowance to the tracks which can only be used for promotion and advertisement of VLTs.

The Committee staff and Executive both estimate that VLT revenues in SFY 2005-06 will total $160 million. Saratoga Racing and Gaming began operating VLTs in January of 2004 and has been the most successful operation thus far. Finger Lakes and Buffalo began operating VLTs a few weeks later, with Finger Lakes being more successful than Buffalo. Monticello Raceway began operation in the summer of 2004 and Batavia began operation in May of 2005, neither of which have produced the revenues once expected. Vernon Downs and Tioga Downs are expected to open in June of 2006 and Yonkers is expected to open in September of 2006.

While total revenues have been far below previous expectations, it has also taken far longer than expected for operations to begin at Yonkers and Aqueduct – which are expected to provide the vast majority of VLT revenues. The Committee estimates that VLT revenues in SFY 2006-07 will total $348 million. This estimate is contingent on Vernon Downs, Tioga Downs and Yonkers Raceway opening as currently planned. If Yonkers does not open in September of 2006 as described by the Executive, VLT revenues can be expected to decrease by as much as $144 million. Aqueduct is currently expected to open in the early part of SFY 2007-08.

Looking Back and Ahead

Uncertainty concerning the continuation of the New York Racing Association's (NYRA) authority to operate racetracks in New York State may impede the opening of Volts at Aqueduct Racetrack. This would be extremely problematic given the sizeable revenues predicted to be generated at this facility. NYRA has recently received public condemnation for fiscal mismanagement and illegal racing practices. Along with the SFY 2006-07 Proposed Budget, the Governor also proposed a $20 million deficiency appropriation for NYRA. The purpose of this deficiency is to provide NYRA with enough funds to continue operating until VLTs become operational at Aqueduct Racetrack. Once the VLTs become operational, NYRA would repay the deficiency appropriation with revenues from their share of VLT revenues. However, the loan would not be required to be paid back until the same day that NYRA's franchise expires - December 31, 2007. If NYRA does not maintain its franchise and is not able to operate VLTs, the Division of Lottery would operate the VLT's if a successor organization is not immediately authorized.

On July 7, 2004, the New York State Supreme Court, Appellate Division, ruled that video lottery terminals are Constitutional. However, the Court also ruled that a distribution dedicating portions of revenues to "breeding funds and enhanced purses violates the constitutional mandate that 'the net proceeds' of state-operated lotteries" go to education. However, the portion of the decision dealing with the distribution was overturned by the Court of Appeals in a May 3, 2005 ruling. The Court of Appeals ruled that the distribution was Constitutional and that "it is for the Legislature to determine the necessary expenses incurred in operation of the lottery and, thus, what remaining portion of the total lottery revenue will constitute net proceeds."

In the out-years, VLT revenues will be affected by recent events in Pennsylvania, where 62,000 VLTs were approved to be placed at racetracks around the State. In addition, a 5,000 VLT facility is being proposed at the Meadowlands in New Jersey. Not only will the additional VLT's compete for gamblers, the new facilities may also compete for investment.

Executive Proposals

Quick Draw – The SFY 2006-07 Executive Budget includes a proposal to permanently authorize the Division of Lottery to offer Quick Draw. The current authorization expires May 31, 2006. The proposal would also repeal the following restrictions:

- Drawings shall be held for no more than 13 consecutive hours, no more than 8 of which may be consecutive.

- Quick Draw shall be available only to licensed Lottery agents.

- Facilities licensed for the sale of alcoholic beverages for on-premises consumption must receive at least 25 percent of gross revenues from the sale of food in order to be eligible to offer the game.

This proposal would also decrease the minimum size of facilities not selling alcoholic beverages from 2,500 square feet to 1,200 square feet. Exemptions from the size minimums provided to bowling alleys and pari-mutuel establishments were removed as well, with the belief that such exemptions will no longer be necessary because of the decrease in size restrictions. The Executive has estimated that allowing Quick Draw's authorization to expire would cost the state $94 million in SFY 2006-07, while removal of the restrictions would increase revenues by $38 million in SFY 2006-07 and $57 million on an annual basis.

VLTs - The SFY 2006-07 Executive Budget includes a proposal to allow the Division of Lottery to license as many as three additional VLT facilities. Off-Track Betting Corporations, in addition to any other entity which proves its ability to operate such a facility, would be eligible for the license. The additional facilities would be subject to the following limitations:

- No new VLT facilities could be within 15-miles of existing video lottery terminal facilities.

- Within the City of New York, VLT facilities could only be built south of 59th Street in Manhattan or in Richmond and Kings Counties.

- No facilities could be located in Westchester, Rockland or Putnam Counties.

All licenses would require a one-time license fee to be paid to the lottery fund. One major difference between the proposed facilities and the existing facilities relates to the revenue distribution. Unlike current facilities, the proposed facilities would receive a maximum vendor fee of 20 percent of net income. The current facilities receive 32 percent of the first $50 million in revenues, going down to 26 percent of revenues above $150 million. In addition, currently authorized facilities receive eight percent of the first $100 million in track revenues and five percent of track revenues over $100 million for marketing.[9] The proposal contains no provisions regarding the number of VLTs at each facility.

The Executive forecasts that this proposal would yield $239 million in SFY 2008-09. However, given the State's history with VLTs and the lack of detail in the proposal regarding the size and location of the proposed facilities, it would be imprudent to assume revenues from these sources.

[9] Yonkers and Aqueduct which can only receive four percent of track revenues for marketing.

GENERAL FUND RECEIPTS

Special attention is given to the General Fund, since it is used to pay for most of the State's operations and local assistance. General Fund Receipts include all tax collections and Miscellaneous Receipts not dedicated to other funds, as well as transfers from other funds.

SFY 2005-06

The Committee staff estimates that General Fund Receipts will total $48.214 billion in SFY 2005-06, an increase of $4.4 billion, or 9.9 percent, over SFY 2004-05. Tax collections deposited into the General Fund are estimated to total $35.559 billion representing an increase of 9.4 percent, or 3.1 billion from SFY 2004-05. Transfers from other funds are expected to total $10.031 billion, increasing by $901 million or 9.9 percent from the prior year. Miscellaneous receipts are expected to total $2.625 billion, an increase of 17.9 percent over 2004-05. The Committee staff estimate is $233 million above the Executive Budget estimate.

SFY 2006-07

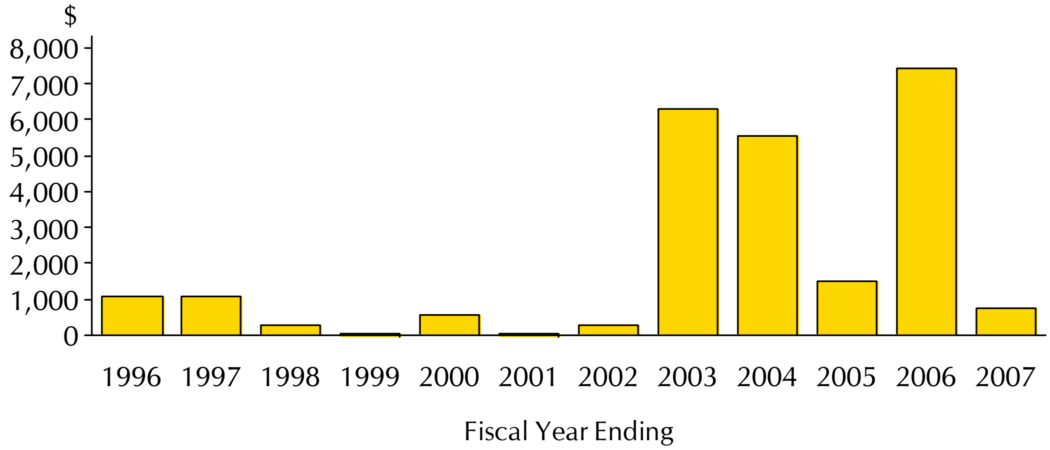
The Committee forecast for General Fund Receipts is $51.165 billion in SFY 2006-07, representing an increase of $3.0 billion or 6.1 percent from SFY 2005-06. Robust growth in receipts is dampened by the impact of the expiration the temporary personal income tax rate increase, the full year impact from the expiration of the temporary sales tax increase and the Executive's tax proposals.

Total tax collections are expected to grow by 7.2 percent, to a total of $38.107 billion. Miscellaneous receipts are projected to increase by 4.5 percent to a total of $2.743 billion. Transfers to the General Fund are expected to increase by 2.8 percent, to $10.315 billion.

Non-Recurring Receipts

The State has used large cash borrowings to maintain positive fund balances in the General Fund. Generally, in the spring months of the late 1980's and early 1990's, the State utilized tax anticipations notes (TANS's) to cover disbursements in the budget. The state created the Local Government Assistance Corporation (LGAC) that issued about $4.7 billion for General Fund spending such as education, aid to local governments and other spending and eliminate the annual spring borrowing as well as GAAP deficit. After the September 11th disaster, the state entered into financial shortfall, where the State delayed spending of $1.9 billion in SFY2002-03 until SFY 2003-04. The State securitized future tobacco receipts from the cigarette industry, and deposited into the General Fund $4.2 billion in SFY 2003-04 to pay for Education, and other State spending. Non-recurring revenues in SFY 2006-07 includes: Medicaid Drug Rebate Revenue ($72 million); TANF Surplus Performance Bonus ($69 million); Maximization of Federal Reimbursement ($30 million); Federal World Trade Center Reimbursement ($12 million); Higher Education Services Fund Balance ($20 million); Sale of Surplus Property ($20 million); HCRA Conversion Proceeds ($500 million); and All Other Non-recurring Resources ($4 million). In 2005-06 non-recurring revenues included $2.7 billion of HCRA Conversion Proceeds.

Non-recurring Resource Actions and Conversions
(Millions of Dollars)



Source: Office of the State Comptroller: Cash and Annual Enacted Budget

Figure No 27

Table 22

General Fund Receipts SFY 2005-06 (Dollar Amounts in Millions)	2004-05 Actual	2005-06 Estimate	Change	Percent Growth	Diff. Exec.
Personal Income Tax Collections	**$28,100**	**$31,211**	**$3,111**	**11.1%**	**$223**
Net STAR	(3,059)	(3,219)	(160)	5.2%	-
Revenue Bond Tax Fund	(6,260)	(6,998)	(738)	11.8%	(56)
Net General Fund PIT Collections	**18,781**	**20,994**	**2,213**	**11.8%**	**167**
User Taxes and Fees	**8,732**	**8,660**	**(72)**	**-0.8%**	**23**
Sales and Use Tax	8,095	7,993	(102)	-1.3%	20
Cigarette Tax	406	408	2	0.5%	3
Motor Vehicle Fees	4	24	20	500.0%	-
Alcoholic Beverage Tax	185	189	4	2.2%	(0)
Alcoholic Beverage Fees	42	46	4	9.5%	(0)
Business Taxes	**4,069**	**5,000**	**931**	**22.9%**	**(23)**
Corporate Franchise	1,858	2,621	763	41.1%	(21)
Utility Tax	617	581	(36)	-5.8%	(5)
Insurance Tax	1,007	1,049	42	4.2%	(6)
Bank Tax	587	749	162	27.6%	9
Other	**926**	**905**	**(21)**	**-2.3%**	**10**
Real Property Gains	1	1	-	0.0%	-
Estate and Gift	899	880	(19)	-2.1%	10
Pari Mutuel	26	23	(3)	-11.5%	-
Other	1	1	-	0.0%	-
General Fund Taxes	**32,507**	**35,559**	**3,052**	**9.4%**	**177**
Transfers From Other Funds	**9,130**	**10,031**	**901**	**9.9%**	**31**
Local Govt Assitance Corporation	2,176	2,275	99	4.5%	(10)
Real Estate Transfer Tax	516	729	213	41.3%	24
All Other Transfers	457	468	11	2.4%	0
Revenue Bond Tax Fund	5,981	6,558	577	9.6%	17
Total Miscellaneous Receipts	**2,226**	**2,625**	**399**	**17.9%**	**25**
Miscellaneous Receipts	2,217	2,616	399	18.0%	25
Federal Grants	9	9	-	0.0%	-
General Fund Receipts	**43,864**	**48,214**	**4,350**	**9.9%**	**233**
Lottery	2,093	2,106	13	0.6%	(1)
Total Receipts & Lottery	**$45,957**	**$50,320**	**$4,363**	**9.5%**	**$233**

Table 23

General Fund Receipts SFY 2006-07 (Dollar Amounts in Millions)	2005-06 Estimate	2006-07 Forecast	Change	Percent Growth	Diff. Exec.
Personal Income Tax Collections	**31,211**	**34,306**	**$3,095**	**9.9%**	**643**
Net STAR	(3,219)	(3,368)	(149)	4.6%	-
Revenue Bond Tax Fund	(6,998)	(7,735)	(737)	10.5%	(160)
Net General Fund PIT Collections	**20,994**	**23,204**	**2,210**	**10.5%**	**483**
User Taxes and Fees	**8,660**	**8,921**	**261**	**3.0%**	**122**
Sales and Use Tax	7,993	8,307	314	3.9%	164
Cigarette Tax	408	379	(29)	-7.1%	(42)
Motor Vehicle Fees	24	-	(24)	-100.0%	-
Alcoholic Beverage Tax	189	191	2	1.1%	0
Alcoholic Beverage Fees	46	44	(2)	-4.3%	(1)
Business Taxes	**5,000**	**5,104**	**104**	**2.1%**	**105**
Corporate Franchise	2,621	2,676	55	2.1%	5
Utility Tax	581	604	23	4.0%	11
Insurance Tax	1,049	1,086	37	3.5%	18
Bank Tax	749	738	(11)	-1.5%	71
Other	**905**	**859**	**(46)**	**-5.1%**	**(41)**
Real Property Gains	1	-	(1)	-100.0%	-
Estate and Gift	880	833	(47)	-5.3%	(41)
Pari Mutuel	23	25	2	8.7%	-
Other	1	1	0	0.0%	0
General Fund Taxes	**35,559**	**38,087**	**2,528**	**7.1%**	**669**
Transfers From Other Funds	**10,031**	**10,315**	**284**	**2.8%**	**229**
Local Govt Assitance Corporation	2,275	2,411	136	6.0%	55
Real Estate Transfer Tax	729	547	(182)	-25.0%	15
All Other Transfers	468	266	(202)	-43.2%	-
Revenue Bond Tax Fund	6,558	7,091	533	8.1%	160
Total Miscellaneous Receipts	**2,625**	**2,666**	**41**	**1.6%**	**26**
Miscellaneous Receipts	2,616	2,657	41	1.6%	26
Federal Grants	9	9	0	0.0%	-
General Fund Receipts	**48,214**	**51,068**	**2,854**	**5.9%**	**924**
Lottery	2,106	2,472	366	17.4%	42
Total Receipts & Lottery	**$50,320**	**$53,540**	**$3,220**	**6.4%**	**$966**

SUMMARY OF A. 9560/S.6460

Eliminate the Marriage Penalty – Part A

This part eliminates the marriage penalty by increasing the standard deduction and increasing the rate recapture threshold. The standard deduction for married couples filing jointly will be increased to $15,000. Beginning in 2007, this part would also change the income level at which married couples are subject to recapture to between $240,000 and $340,000. Fiscal: $400 million annually.

Reduction in Top Personal Income Rate - Part B

This part reduces the top personal income tax (PIT) rate from 6.85 to 6.75 and increases the income range to which the top rate applies. The top rate will apply to singles, head of household and married couples filing jointly at $30,000, $45,000, and $60,000, respectively. Fiscal: $950 million annually.

Income Exemption for National Guardsmen – Part C

This part exempts income earned by national guardsmen called to service by the federal government. Currently guardsmen who are called to service by the State can exempt the money earned. This corrects an oversight that prevents exemption of income earned when called into service by the federal government. Fiscal: $1 million.

Tax Credit for Tuition and Instructional Costs – Part D

This part provides a new refundable credit for primary and secondary education expenses, including tuition and tutoring costs for children in school districts that receive Title I funding or where 1 or more schools are failing "No Child Left Behind" standards. The credit is capped at $500 per child for taxpayers earning less than $75,000 and is then phased out for individuals earning up to $90,000. Fiscal: $400 million.

Eliminate the Estate Tax – Part E

The Executive proposes to eliminate the Estate Tax by 2010 by adopting the Federal exemption schedule as of 2007. Under current law, New York estates valued at $1 million or less are exempt from the Estate Tax. The proposal would adopt the Federal exemption amounts, which are set to increase to $2 million in 2006 and would be fully exempt in 2010. However, unlike the Federal estate tax, the Executive proposal is permanent. Fiscal: Over $800 million.

Expand Empire Zone Program – Part F

This part creates five (5) new Empire Zones in association with Centers of Excellence. It also creates a Statewide Clean Energy Research and Development Zone, and accelerates the designation of the twelve Zones authorized in the 2005-06 Budget. Fiscal: $20 million.

Elimination of the Additional Tax on Subsidiary Capital – Part G

This part phases out the tax over three years. Under current law a tax of 9/10 mill of a dollar is imposed on a parent corporation on the value of their allocated subsidiary capital. Fiscal: $15 million.

Elimination of the Corporate Alternative Minimum Tax – Part H

This part phases out the alternative minimum tax base over three years for corporate franchise and bank taxpayers. Fiscal: In combination with the elimination of the capital base, $172 million.

Immediate Expensing for New York Business Assets – Part I

Beginning in 2008, corporations, banks, and individual taxpayers would be able to elect to expense the full cost of capital assets placed in service in New York rather than use accelerated depreciation. Fiscal: $561 million.

Reduce Corporate and Bank Tax Rate from 7.5 percent to 6.75 percent - Part J

This part reduces the tax rate under Article 9A and 32 from 7.5 to 6.75 percent on Entire Net Income. The small business rate recapture thresholds will also conform to these provisions. Fiscal: $73 million.

Elimination of the Capital and Asset Tax Base – Part K

This part will phase out the tax on capital (Corporate Franchise) and assets (Banks) over three years. Fiscal: In combination with the elimination of the alternative minimum taxable income base $172 million.

Elimination of the S-Corporation Differential – Part L

This part would eliminate the requirement that New York S-Corporations pay the greater of the difference between the Article 9A and PIT rates on the fixed dollar minimum rates as its Article 9A tax liability. Taxpayers will only pay the fixed dollar minimum at the entity level. Fiscal: $40 million.

Annuity Premiums – Part M

Annuity premiums are excluded when calculating the premiums tax limitation. However if a company has more than 95% of all premiums from annuities, then all premiums count against the tax limitation. This part would change the rule so that only that portion over 95% is included. Fiscal: $3 million.

Tax Reduction for Life Insurance Companies - Part N

Under current law, life insurance companies are subject to both a floor and a cap on the amount of tax liability. Currently, taxes on life insurance companies are limited to no less than 1.5 percent of taxable premiums and no greater than 2 percent of taxable premiums. This part would reduce those thresholds to 1.25 percent and 1.75 percent respectively. Fiscal: $15 million.

Sales Tax Vendor Credit – Part O

The rate would be increased from 3.5 percent to 5.0 percent and the cap would be increased from $150 to $250. The credit calculation would be expanded to include State and local sales taxes paid. This proposal would be phased in over three years. Fiscal: $69 million.

Bank Tax Extenders – Part P

This part would make permanent provisions relating to 1985 Bank Tax Reform, which expired on December 31, 2005, and also extend the transitional provisions with respect to the federal Gramm-Leach Bliley Act for two years. Fiscal: None.

Sales Tax Holidays for Energy STAR Products – Part Q

This part would create two tax free weeks for Energy Star appliances and home weather stripping, caulking and insulation products. Fiscal: $6 million.

Home Heating Tax Credit for Seniors – Part R

This part would provide a refundable credit for residents over the age of 65 to offset rising home heating costs. Seniors whose income is less than $75,000 and who have heating costs that exceed 7.5 percent of their income are eligible for the credit. The credit is 25 percent of home heating costs, capped at $500. Fiscal: $100 million.

Tax Credit for Home Heating Systems – Part S

This part would provide a refundable credit for expenses associated with upgrading a home heating system to make if more energy efficient. The credit is equal to 50 percent of the cost of the upgrade but would not exceed $500. To qualify, the upgrade must meet energy star efficiency standards. Fiscal: $25 million.

Energy Tax Credit for Small Businesses and Farmers – Part T

This part would provide a refundable credit for small business owners and farmers to offset rising energy costs. For a small business to qualify their energy costs must exceed 10 percent of their overall operating costs. For a farmer to qualify their energy costs must exceed 5 percent of overall operating costs. The credit would be equal to 25 percent of energy costs, but not exceed $3,000. Fiscal: $60 million.

Alternative Fuel Vehicle Tax Credits – Part U

This part would provide a tax credit for the purchase of an alternative fuel vehicle and for the production of alternative fuels. The credit is for hybrid vehicles, clean-fuel refueling property, and for the production of biofuel. Fiscal: $10 million.

Exemption of Alternative Fuels from Motor Fuel and Sales Taxes – Part V

The alternative fuels E85, CNG and Hydrogen would receive either a full exemption or a partial exemption from motor fuel and sales taxes depending on the fuel. Fiscal impact is minimal.

Amendment to Brownfield Tax Credits – Part W

Would eliminate eligibility for Brownfield Tax Credits for parcels located south of 96th Street and north of Canal Street in Manhattan. Fiscal: None.

Historic Homes Tax Credit – Part X

This part would provide a credit for the costs associated with the restoration of a historic home. The credit would be equal to 15 percent of costs associated with restoring the exterior of a historic home, and 25 percent of the cost of restoring both the exterior and interior. The credit could not exceed $50,000 and would be refundable only if the taxpayer earns less than $100,000, otherwise the credit must be carried forward. Fiscal: $10 million.

Tax Credit for Real Property Taxes Associated with Conservation Easements – Part Y

This part would create a new credit for property taxes owed on land currently under a conservation easement. The credit would be equal to 25 percent of property tax owed on the land under easement, not to exceed $5,000. Fiscal: $1 million.

Clothing and Footwear - Part Z

This part would repeal the permanent full-year $110 exemption scheduled to take effect on April 1, 2006 and replace it with two one-week sales tax holidays. It would also raise the exemption amounts to $250. The 2005-06 bi-annual clothing and footwear exemption weeks are $110 per item. Fiscal: $605 million.

Extend LLC Fees – Part AA

Increased LLC Fees enacted in 2003 are set to expire for taxable years beginning in 2007. This part would extend the fee schedule for three years through December 31, 2009. Fiscal: $30 million.

Extends Fixed Dollar Minimum Brackets - Part BB

This part would extend the additional gross payroll brackets used to calculate the fixed dollar minimum tax for three years. These brackets are scheduled to sunset on December 31, 2006. This part would extend these provisions through 2009. Fiscal: $46 million.

Low Income Housing Tax Credit – Part CC

This part would increase the aggregate amount of low income housing tax credits the Commissioner of Housing and Community Renewal may allocate from $8 million to $10 million annually. This part would also provide for annual increases in credit allocations of $2 million thereafter. Fiscal: $2 million.

Sales Tax Exemption for Admission Charges to Amusement Parks – Part DD

This part would make permanent the 75 percent sales tax exemption for the admission charge to qualified amusement parks. The current Law sunsets October 1, 2006. This part eliminates the sunset. Fully implemented cost is $1 million.

Utility Tax Dedications to Dedicated Highway and Bridge Trust Fund (DHBTF) – Part EE

The Executive proposes to make permanent the current dedication of Corporation and Utility Tax revenues to the DHBTF. Currently approximately $20 million from this tax is dedicated to the trust fund; however, the dedication is set to expire on March 31, 2010. Also changes the distribution of funds. Fiscal: None.

Sales Tax Registration Program for State Contractors – Part FF

Under current law, state contractors are generally required to register as sales tax vendors in order to receive state contracts. This part would simplify compliance with the newly enacted registration requirements. Fiscal: None.

Three Additional Video Lottery Terminal (VLT) Facilities – Part GG

This part would allow three additional VLT facilities, with no requirement that such facilities be located at horse tracks. No facilities may be located within 15 miles of another facility or in Westchester, Rockland or Putnam counties, nor may any facility be located in Queens, the Bronx or north of 59th Street in Manhattan. Fiscal: $239 million in SFY 2008-09.

Reduce Dormancy Periods on Bank Checks and Money Orders – Part HH

This part would reduce the dormancy period for bank checks from five years to three years and reduce the dormancy period for money orders from seven years to five years. Fiscal: $100 million spin-up in SFY 2006-07.

Postpone Effective Date of Provisions Relating to the Collection of Excise Taxes on Indian Reservations – Part II

Would extend by one year the effective date of provisions scheduled to take effect on March 1, 2006. These provisions would require the enforcement of tax laws relating to the sales of cigarettes and motor fuels to non-Indians on Indian reservations. This part would also create an Indian export decal program to allow Indian nations or tribes to obtain cigarettes affixed with an export decal for sales to be made out-of-State. Fiscal: None.

Reimburse New York City from Reduction in their Cigarette Tax – Part JJ

This part creates a mechanism to hold New York City harmless for any revenue loss associated with the increase in the State Cigarette Tax to $2.50 per pack and the simultaneous decrease in the City tax from $1.50 to $1.00 per pack. Fiscal: $54 million.

Permanently Authorize Quick Draw – Part KK

This part would remove the current sunset on the Quick Draw Lottery game, which is scheduled to expire on May 31, 2006. In addition, this part would allow the game in smaller facilities and remove restrictions related to food sales and hours of operation. Fiscal: $167 million.

Empire State Film Tax Credit – Part LL

This part would make the Empire State Film Tax Credit, which sunsets in 2008, permanent, and would raise the cap on available tax credits from $25 million to $30 million annually beginning in 2009. Fiscal: $30 million.

Establish Maximum Bond Limit for Civil Judgments Against Tobacco Companies – Part MM

This part would establish a maximum aggregate undertaking of $100 million to stay the execution of a judgment against tobacco companies. Fiscal: None.

Change the Tax Treatment of REITS and RICS under the Bank Tax Law – Part NN

This part would disallow the exclusion of dividends from a real estate investment trust (REIT) or a regulated investment company (RIC) subsidiary. These provisions would apply to corporations that own or control over 50 percent of a REIT or RIC and that pay taxes under the Corporate Franchise and Bank Tax. Fiscal: $114 million fully implemented.

Joint Custody of the Abandoned Property Fund – Part OO

This part would change the Abandoned Property Fund to a joint custody account, adding the Commissioner of Taxation and Finance as a custodian to the account. Currently, the Abandoned Property Fund is in the sole custody of the Comptroller. The Abandoned Property Fund would also be brought on budget, with more transparency and more frequent reporting requirements.

Administration of the Tobacco Products Tax – Part PP

This part would make administrative changes to improve enforcement and compliance efforts. Among other provisions, the part would amend the definition of wholesale price; allow the Department to review the suitability of an applicant for a license to sell tobacco products and revises civil penalties for possession of contraband tobacco products. Fiscal: None.

Clarification of Income For Non-Residents – Part QQ

This part would require the commissioner of Tax and Finance to issue regulations which would clarify the treatment of stock options, restricted stock, and stock appreciation rights received by a non-resident or part year resident taxpayer.

Hold Harmless for Dedicated Transportation Funds – Part RR

This part would hold the Mass Transportation Operating Assistance Fund (MTOAF) harmless from negative revenue impacts associated with business tax reduction proposals contained in the Executive Budget.

Increase the Mark-ups Under the Cigarette Marketing Standards Act – Part SS

This part would increase the mark-ups that agents and wholesalers may charge in setting the state minimum price for cigarettes. Fiscal: Minimal increase in sales tax revenue

EITC Offset – Part TT

This part would make permanent the limitation that no more than 10 percent of a taxpayer's earned income tax credit can be used to offset a debt owed to the Office of Temporary and Disability Assistance.

Farmer's School Tax Credit Acreage and Income Adjustment – Part UU

This proposal would increase the eligible acreage for the farmer school tax credit from 250 to 350 acres. Moreover it would increase the income limitation. Currently the credit is phased down for taxpayers earning more than $100,000 so that a taxpayer earning more than $150,000 would receive no credit. Under this proposal, the income limit would be increased to $200,000 and would be phased down such that a taxpayer earning $300,000 would receive no credit.

Extend Real Estate Transfer Tax Rate Reduction for Real Estate Investment Trusts (REITs) – Part VV

Retroactively extend rate reduction on the State Real Estate Transfer Tax and the New York City Real Property Transfer Tax for existing REITs until September 1, 2008. Newly formed REITS benefit from a permanent rate reduction. Fiscal: Minimal decrease in State and City revenues.

Table 24

Recommended All Funds Legislation ($ In Millions)			
Tax Reductions			
	2006-07	**2007-08**	**2008-09**
Personal Income Tax	**(130)**	**(1,736)**	**(1,986)**
Cut Top Rate to 6.75%	–	(325)	(475)
Stretch Tax Brackets (tax brackets & rate recapture)	–	(325)	(475)
Eliminate Marriage Penalty (standard deduction & rate recapture)	(125)	(475)	(400)
Primary and Secondary Education Credit	–	(400)	(400)
Strengthening Families - Expanded EITC to Noncustodial Parents	(4)	(14)	(14)
National Guard Exemption	(1)	(1)	(1)
Farmers Land Conservation Credits	–	(1)	(1)
Special Expensing of NY Assets	–		(150)
Home Heating Credit for Elderly	–	(100)	–
Improve Home Energy Efficiency	–	(25)	–
Small Business and Farmer Energy Assistance	–	(60)	(60)
Historic Homes	–	(10)	(10)
STAR	**(602)**	**(671)**	**(737)**
STAR Plus Rebate	(530)	(580)	(625)
Enhanced STAR	(72)	(91)	(112)
User Taxes and Fees	**(20)**	**(51)**	**(76)**
Exemption for Admission Charges to Amusement Parks	(1)	(1)	(1)
Exemption for Energy Star Products	(6)	(6)	(6)
Sales Tax Vendor Credit	(13)	(44)	(69)
Exemption for Alternative Fuels	–	–	–
Business Taxes	**(176)**	**(363)**	**(926)**
Cut Entire Net Income Rate to 6.75%	–	(29)	(57)
Special Expensing of NY Assets for Corporations	–	–	(331)
Eliminate Subcapital Tax	(5)	(10)	(15)
Eliminates S-Corp Differential Rate	(40)	(40)	(40)
Eliminate AMT and Capital Base for Corporations	(57)	(115)	(172)
Empire Zones	–	(20)	(20)
Make Film Credits Permanent and Increase Annual Allocation	–	–	–
Low Income Housing	(2)	(4)	(6)
Encourage Purchase of Alternative Fuel Vehicles	–	(10)	(5)
Encourage Alternative Fuel Production - Biofuel	–	(1)	(5)
Cut Bank Tax Rate to 6.75%	–	(8)	(16)
Special Expensing of NY Assets for Banks	–	–	(80)
Eliminate AMT and Capital Base for Banks	(54)	(108)	(161)
Marginal Tax Rate for Annuity Premiums	(3)	(3)	(3)
Lower Life Insurance Tax Maximum	(15)	(15)	(15)
Exemption for Alternative Fuels	–	–	–
Other Taxes	**--**	**(152)**	**(329)**
Eliminate Estate Tax	–	(152)	(329)
Total Tax Reductions	**(928)**	**(2,973)**	**(4,054)**

Table 25

Recommended All Funds Legislation ($ In Millions)			
Revenue Enhancements			
	2006-07	**2007-08**	**2008-09**
Personal Income Tax	**-**	**31**	**31**
Higher LLC Fees Sunset 1/1/07 - 3-Year Extender	-	30	30
Stuckless Case - Non-Resident Income	-	1	1
Limitation on EITC Offset	-	-	-
User Taxes and Fees	**287**	**928**	**925**
Clothing Exemption - 2 weeks, permanent, $250	(21)	605	605
Increase Cigarette Tax to $2.50 per pack	308	323	320
Business Taxes	**103**	**132**	**160**
Article 9-A Fixed Dollar Minimum Tax - 3-year extension	46	46	46
Adjust Tax Treatment of REITS and RICS	57	86	114
All Other	**138**	**57**	**296**
Quick Draw Restrictions	38	57	57
VLT Expansion	-	-	239
Abandoned Property Dormancy Periods	100	-	-
Total Revenue Enhancements	**528**	**1,148**	**1,412**
Net Financial Plan Total	**(400)**	**(1,825)**	**(2,642)**

Table 26

Fee and Revenue Action List ($ in 000's)		
Description/Effective Date	**New Annual Revenue SFY 2006-07**	**New Full Annual Revenue SFY 2008-09**
Streamlined disciplinary process - 4/1/06	$9,000	$9,000
Sale of community residential homes - 10/17/06	$100	-
Sale of YOCS building - 4/1/06	$1,000	-
Youth facility chargeback - 4/1/06	$2,000	$1,000
Increase accident damage revenues - 4/1/06	$500	$750
PILOT payments - 4/1/06	$27,000	($100,000)
Real property sales proceeds - 4/1/06	$20,000	-
Parks user fees - 4/1/06	$1,000	$1,000
Food safety inspection penalty - 4/1/06	$1,100	$1,100
Increase investigation application fees and fines - 4/1/06	$8,000	$8,000
Increase child care fines - 4/1/06	$56	$75
Recoupment of administrative costs - 4/1/06	$150	$150
Automated speed enforcement fines - 4/1/06	$42,000	$84,000
Increase criminal history record fees - 60 days after enactment	$4,000	$8,000
Internet point insurance reduction program - 4/16/06	$675	$2,400
Increase Title V OPP Fees - 4/1/06	$6,100	$6,100
Wetlands permit fee - 4/1/06	$1,000	$1,000
Regulatory fees - 4/1/06	$3,700	$3,700
HCRA compliance delinquency billings - 4/1/06	$15,000	$40,000
Increase maximum penalties - 90 days after enactment	$800	$800
Increase asbestos handling license renewal fee - 4/1/06	$185	$185
Continue nursing home reimbursable assessment - 3/31/07	-	$258,300
Accelerate dormancy periods for abandoned property - 4/1/06	$100,000	-
New annual registration fee - 4/1/06	$525	$525
Prepaid phone fees - 9/1/06	$3,500	$8,500
Administrative and Statutory - Total	**$247,391**	**$334,585**

TAX EXPENDITURES

Section 181 of the Executive Law requires the Tax Department and the Division of the Budget to prepare a Tax Expenditure Report thirty days after the submission of the budget. Tax expenditures are defined as "features of the Tax Law that by exemption, exclusion, deduction, allowance, credit, preferential tax rate, deferral, or other statutory device reduce the amount of taxpayer's liabilities to the State by providing economic incentives or other tax relief to particular classes...to achieve a particular purpose".

The report shows that each year over $20 billion in tax expenditures are lost to the State. Given that some credits are earned and not used the exposure to the State for expenditures through the tax code is actually larger. Some of the credits are refundable, which means that the State must actually send a check from money that would have gone to the General Fund. The report does not identify the amount of refunds are due to excessive credits.

The State uses substantial amount of tax expenditures in the Personal Income Tax to reduce their overall liability to match their economic needs. Yet such exclusion and credits do not show up in a comparative State review of rates. In most of the studies on business tax burdens, the amount of tax expenditures and their impact on a developing business are rarely considered. In some cases the use of tax expenditures can actually reduce a company's tax liability substantially.

The year's Tax Expenditure Report provides some new charts and analysis designed to assist the reader in understanding, in the aggregate, the budgetary policy choices made with the use of discrete credit, exclusion, or exemption. The chart below provides tax expenditure by category which contains tax expenditure from different types of tax.

Table 27

Tax Expenditure Estimates by Tax
Millions of Dollars

Tax Category	2006 Estimate
Personal Income Tax	7,968
Corporate Franchise Tax	1,871
Bank Tax	193
Insurance Tax	724
Corporation Tax	129
Sales and Use Tax	9,112
Petroleum Business Tax	619
Real Estate Transfer Tax	15
TOTAL	**$20,630**

Source: NYS Taxation and Finance

	TAX EXPENDITURE BY CATEGORY	
Economic Development		
Tax	Description	Amount ($ in millions)
Corporate Franchise Tax	Exclusion of Interest, Dividends and Capital Gains from Subsidiary Capital	1,410.3
Bank Tax	Deduction of 60 Percent of Dividend Income and Excess Gains from Subsidiary Capital	83.1
Sales and Use Tax	Industrial Development Agencies	83
Corporation Franchise Tax	Investment and Retail Enterprise Tax Credit, Employment Incentive Credit	76.3
Personal Income Tax	Empire Zone and Zone Equivalent Areas Tax Credit	75
	Sub-Total	**1,727.7**
Business & Commerce		
Tax	Description	Amount ($ in millions)
Personal Income Tax	Miscellaneous Deductions Subject to 2 Percent of AGI Limitation	313.4
Sales and Use Tax	Interstate or International Telephone and Telegraph Service	300.0
Sales and Use Tax	Machinery and Equipment Used in Production	246.0
Sales and Use Tax	Fuel, Gas, Electric, Refrigeration and Steam Used in Research & Development and Production	243.0
Insurance Tax	Limitation on Tax Liability	143.5
	Sub-Total	**1,245.9**
Housing		
Tax	Description	Amount ($ in millions)
Personal Income Tax	Interest Deduction	783.6
Sales and Use Tax	Capital Improvement Installation Services	401.0
Sales and Use Tax	New Mobile Homes	2.0
	Sub-Total	**1,186.6**
Transportation		
Tax	Description	Amount ($ in millions)
Sales and Use Tax	Fuel Sold to Airlines	57.0
Petroleum Business Tax	Bunker Fuel	33.3
Sales and Use Tax	Commercial Aircraft	21.0
Sales and Use Tax	Tractor-Trailer Combinations	15.0
Sales and Use Tax	Food Sold to Airlines	6.0
	Sub-Total	**132.3**

Education & Training		
Tax	Description	Amount ($ in millions)
Sales and Use Tax	New York State Agencies and Political Subdivisions	310.5
Personal Income Tax	Taxes Paid Deduction	282.0
Personal Income Tax	College Tuition Credit	129.6
Sales and Use Tax	Food Sold at School Cafeterias	70.0
Personal Income Tax	Charitable Contribution Deduction	67.0
	Sub-Total	**859.1**
Social Services		
Tax	Description	Amount ($ in millions)
Personal Income Tax	Charitable Contribution Deduction	364.9
Personal Income Tax	Child and Dependent Care Credit	325.3
Sales and Use Tax	Charitable Organizations	126.4
Sales and Use Tax	Property Sold to Contractors for Capital Improvements or Repairs for Exempt Organizations	63.0
Personal Income Tax	Long-Term Care Insurance Credit	28.6
	Sub-Total	**908.2**
Health		
Tax	Description	Amount ($ in millions)
Sales and Use Tax	Drugs, Medicine and Medical Supplies	621
Sales and Use Tax	Charitable Organizations	205.8
Sales and Use Tax	Eyeglasses, Hearing Aids and Prosthetic Aids	89.0
Personal Income Tax	Medical/Dental Deduction	84.9
Personal Income Tax	Charitable Contribution Deduction	45.9
	Sub-Total	**1,046.6**
Income Security, Social Security & Railroad Retirement		
Tax	Description	Amount ($ in millions)
Personal Income Tax	Earned Income Credit	681.5
Sales and Use Tax	Energy Sources for Residential Purposes	556
Personal Income Tax	Exclusion of Pensions, Annuities, Interest and Lump Sum Payments	453.3
Personal Income Tax	Exclusion of Social Security and Tier I Railroad Retirement Benefits	384.6
	Sub-Total	**2075.4**
	GRAND TOTAL	**9,181.8**

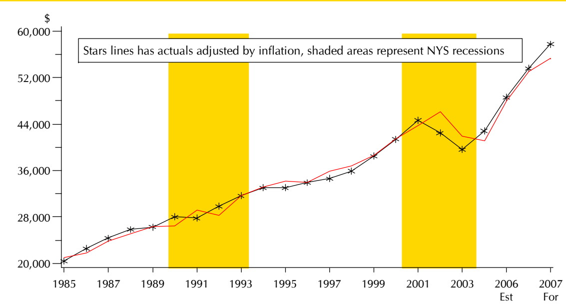
Table 28

STABILITY AND VARIABILITY IN NEW YORK RECEIPTS

More than ever before, the assets and services of state government are important to the economy. Although labor and business drive the economy, they rely on the infrastructure and services provided by state and local governments. From roads and bridges to an educated and well trained workforce, an affordable and efficient government is crucial to a healthy business environment.

The cornerstone of a healthy government is a sound budget and financial plan with a stable revenue base. A stable revenue base is contingent on several factors, including a diverse revenue base that can withstand surges in the business cycles and legislative demands to reduce the tax burden on constituents.

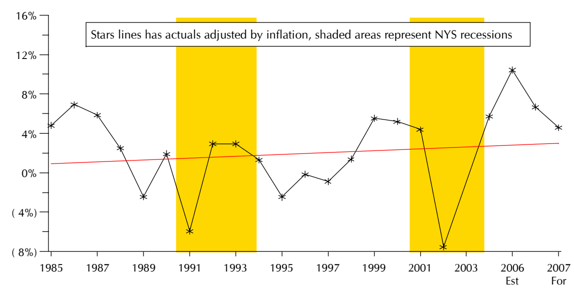
NYS All Funds Trend
State Fiscal Years 1985 - 2007



Source: Executive Budget, Ways and Means Committee Staff
Figure No 28

However, as can be seen from the second chart, year to year changes adjusted for inflation have been on quite a roller coaster. These fluctuations have been caused primarily by the issues mentioned earlier. The last substantial decline occurred in fiscal year 2002-03, where after several years of outstanding revenue growth an economic downturn and the events of 9/11 caused receipts to plummet. To forestall tax increases, $4 billion of Tobacco Securitization bonds were issued and over $5 billion in reserves were drawn down. Still, in order to promote fiscal stability, the legislature raised over $4 billion taxes on a temporary basis. All taxes temporarily raised in 2003 are set to expire in 2006. However, the Governor calls for continuation of the regressive tax on clothing.

All Funds Growth Rate Trend
State Fiscal Years 1985 - 2008



Source: Executive Budget, Ways and Means Committee Staff
Figure No 29

Many times the revenue base has been supported by use of revenues that are not expected to be received again. At times, the use of non-recurring revenues came from previous year's operating surpluses. Other times they were from a sale of assets, borrowed funds or receipt of federal funds. These one time funds help to smooth out the peaks and valleys and stabilize the revenue base.

Large upward revenue swings create State budget reserves which can be used to mitigate large downward swings. It is difficult to assess how much reserve funds are necessary to insulate a revenue base from substantial downward swings. In New York, record levels of reserves were depleted in two years after the crippling events of 9/11.

The Governor is required to submit with his budget a plan showing the impact on the current fiscal year and on the two following fiscal years. As presented in the Executive financial plan, the loss of receipts due to the proposed tax cuts are the main cause of a $5 billion structural deficit. A structural deficit occurs when baseline revenues are insufficient to meet baseline expenditures. The planned reduction in the Governor's budget is not enough to offset the loss of revenues. As such, the ability to put together a sound stable budget becomes difficult.

Revenue Diversification

New York's tax structure is very much based on economically sensitive taxes. Income, sales and corporate taxes are based on employment, wages, consumer purchasing activity and corporate profits. New York, being home to very wealthy individuals with substantial non-wage income, has a more volatile income tax structure then most states. Over fifty percent of the State's taxes are collected from a progressive Personal Income Tax (PIT), which is extremely sensitive to economic swings.

In SFY 1973-74 the personal income tax accounted for only 42 percent of State tax receipts collected. In SFY 2006-07 it is expected to be almost 60 percent. This large PIT contribution is beneficial to the state when times are good, with capital gains income and bonus income pushing the PIT share up. Conversely, the State's increasing reliance on PIT receipts means the State is relying on a tax source that is highly sensitive to the overall economy. Thus, the State is bound to experience significant revenue shortfalls during an economic recession.

Given the unpredictable and declining trend in business taxes and the volatility of the Personal Income Tax, the State's revenue structure will in all likelihood be more volatile then the economy itself.

Revenue Stability

Reviewing Table x shows the trend of All fund taxes for fiscal years ending between 1975 and 2005.

REVENUE VARIABILITY			
	Receipt Trend		
	1976-85	1986-95	1996-05
Average growth	9%	5%	4%
Standard deviation	4%	4%	6%
Hi growth	16%	11%	13%
Lo growth	1%	-1%	-7%

For over thirty years state taxes were growing, however, the last ten year period was half the growth rate of the first ten years. The increase in the standard deviation shows that the revenue base is getting more volatile. Moreover, the overall growth for the last ten years of 4 percent includes a reduction of 6.4 percent in receipts in SFY 2002-03 as well as an increase of 13.4 percent in SFY 2004-05. Clearly the fortunes of Wall Street, rising household wealth, and an expanding global economy brought record surpluses and reserves to the nineties. But those record reserves were no match for the economic recession and calamity of 9/11 that ushered in the new millennium

Statutory Changes

Nearly two years into the State's economic recovery the Executive Budget includes a tax reduction plan that exceeds $4.5 billion. This is on top of taxes that under current law would have tax reductions in Personal Income Tax, Sales tax and Business taxes. That would reduce revenues by 4.8 percent under today's collections.

The table below shows the impact of recently enacted and proposed tax actions.

CASH IMPACT OF SIGNIFICANT RECENT AND RECOMMENDED TAX ACTIONS ($ in millions)	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Income Tax Temporary Rate Increase	1,155	1,496	1,444	425	0	0
1/4 percent sales tax temporary increase	445	584	129	0	0	0
Sales tax on clothing (current law)	441	586	583	605	0	0
Sales tax on clothing (proposed)	441	586	583	584	605	605
Personal income tax net changes (proposed)	0	0	0	(732)	(2,376)	(2,692)
Business tax net changes (proposed)	0	0	0	(73)	(231)	(766)
Other net changes (proposed)	0	0	0	427	177	211

Table 29