New York State

Revenue Report

February 2005

Sheldon Silver
Speaker

Herman D. Farrell, Jr.
Chairman

New York State Assembly
Ways and Means Committee Staff

February, 2005

Dear Colleagues:

I am pleased to provide you with the NYS Assembly Ways and Means Committee *Revenue Report* for State Fiscal Year (SFY) 2004-05 and 2005-06. 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 2004-05 and 2005-06,

The Committee staff projects that tax receipts will total $48.612 billion in SFY 2004-05, which represents an increase of $6.359 billion, or 15.0 percent, over SFY 2003-04. The Committee staff estimate is $163 million higher than the Executive's estimate for SFY 2004-05. 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 $51.707 billion in SFY 2005-06, an increase of $3.095 billion, or 6.4 percent, over SFY 2005-06. The Committee staff forecast is $741 million higher than the Executive's forecast for SFY 2005-06.

The Committee staff projections are reviewed by an independent panel of professional economists drawn from major financial corporations, prestigious universities, and private forecasters from across that 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 view 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 2004-05 AND 2005-06

February 2005

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REVENUE REPORT
2004-05 & 2005-06

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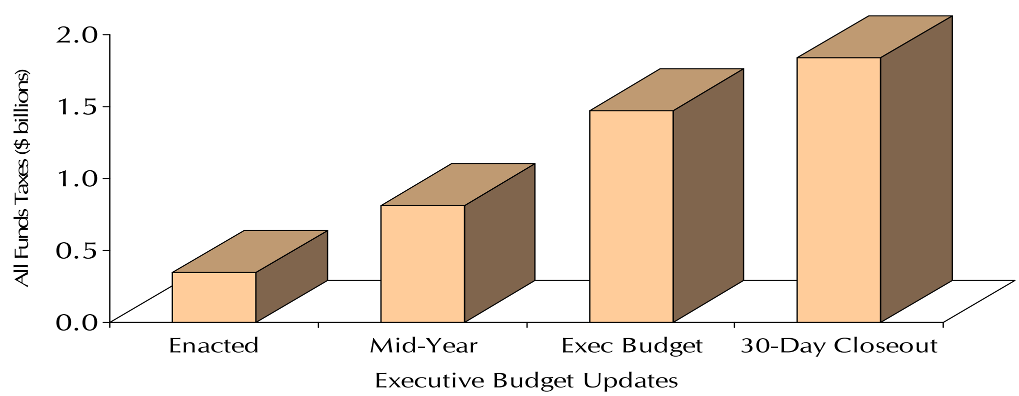
OVERVIEW

The Ways and Means Committee staff estimates that All Funds tax collections will total $48.612 billion in State Fiscal Year (SFY) 2004-05, representing growth of $6.4 billion or 15 percent over the prior year. The Committee estimate is $163 million above the Executive.

All Funds tax collections are forecasted to total $51.707 billion in SFY 2005-06, an increase of $3.095 billion from SFY 2004-05, representing growth of 6.4 percent. The forecast includes $626 million in net revenue actions proposed by the Executive and $554 million in HCRA cigarette tax receipts that were previously not included in the financial plan. After accounting for these actions, underlying revenue growth is forecasted at 3.9 percent. The Committee staff forecast is $741 million above the Executive.

Revisions to the Executive's SFY 2004-05 Revenue Forecast



Source: Executive Budget, Ways and Means Committee Staff

Figure 1

Economic Recovery Boosts SFY 2004-05 Receipts

According to recently developed State indicators the economic recovery for the State began in September 2003. The strength of the economy has produced revenue growth that has exceeded expectations. Consequently, the Executive has made numerous upward revisions to their initial forecast. Since the release of the forecast in January 2004, the Executive has raised their forecast for total revenues by a total of $1.5 billion.

Underlying growth in revenues for SFY 2004-05 is estimated to be 14.6 percent, which is extraordinary given the State's lackluster job creation performance. The Committee staff estimates that employment grew at a rather slow 0.6 percent rate in 2004. Fiscal year wage growth is estimated at 5.7 percent, reflecting growth in base wages of 4.5 percent, coupled with an expected growth in bonuses of 16.7 percent. Yet, economically sensitive taxes such as the sales tax and personal income tax show year to date underlying growth of 10.3 and 12.8 percent, respectively.

Table 1

Summary of Total Tax Collections
(Dollar Amounts in Millions)

	2003-04 Actual	2004-05 Estimate	Diff. From Exec.	2005-06 Forecast	Diff. From Exec.
Personal Income Tax	**$24,050**	**$28,330**	**$42**	**$30,421**	**$555**
User Taxes	**11,919**	**13,085**	**80**	**13,816**	**175**
Sales Tax	9,907	11,073	60	11,169	129
Motor Fuel Tax	516	534	3	558	25
Cigarette Tax	419	406	3	950	(12)
Motor Vehicle Tax	654	658	18	676	44
Highway Use Tax	147	150	(3)	156	(7)
Alcoholic Beverage Tax	191	185	1	219	(5)
Alcoholic Beverage Fees	46	40	(2)	46	0
Auto Rental	39	40	0	42	1
Business Taxes	**5,007**	**5,596**	**5**	**5,937**	**(5)**
Corporate Franchise Tax	1,700	2,029	7	2,071	(54)
Utility Tax	882	799	16	880	36
Insurance Tax	1,031	1,035	14	1,103	18
Bank Tax	341	632	(35)	771	29
Petroleum Business Tax	1,052	1,101	3	1,112	(33)
Other	**1,278**	**1,601**	**37**	**1,533**	**16**
Real Property Gains	4	1	0	1	1
Estate and Gift Tax	736	830	27	750	(2)
Real Estate Transfer	510	743	9	755	16
Pari-Mutuel	28	26	0	26	1
Other	1	1	0	1	0
Total Tax Collections	**$42,254**	**$48,612**	**$163**	**$51,707**	**$741**

The strong underlying growth in revenues can largely be explained by growth in bonus income and non-wage income such as capital gains and other business income. For example, capital gains are estimated to have increased by 33 percent to a level of $36.9 billion. Evidence of the growth in these income components is reflected in the extraordinary growth in quarterly estimated payments and in the April settlement. Growth in settlement payments from final returns and extensions was 52.2 percent in April and year-to-date growth in quarterly estimated payments is 27.7 percent. Growth in withholding collections, the largest component of the income tax, is a more modest 5.5 percent as of January. The Committee staff estimates that overall personal income tax collections will finish the year with growth of 17.6 percent above the prior fiscal year.

The Committee staff expects healthy growth in several other tax categories, including a strong recovery in the corporate franchise and bank taxes. The growth in these taxes reflects a combination of increased payments on current year liabilities, a decrease in the level of prior year refunds, and strong audit activity. Gross collections in corporate franchise taxes through December have grown by 19.6 percent while refunds have declined 14.8 percent from a comparable period in SFY 2003-04. Gross collections in the bank tax have grown 38.6 percent through December, while refunds have declined by 30.6 percent over that period.

The State's real estate market also shows no sign of cooling off. Thanks in part to low mortgage interest rates and, with the exception of Lower Manhattan, a record year for commercial real estate in Manhattan,[1] real estate transfer tax collections have surged, growing by 53.3 percent year to date.

Another factor influencing the strong growth in revenues are the revenue actions taken in 2003. Changes to the personal income tax and the sales tax are estimated to increase revenues by $2.9 billion in SFY 2004-05 and by $1.2 billion in SFY 2005-06.

SFY 2005-06 Tax Revenue Forecast Depends on Economic Expansion

All Funds tax revenue growth in the forecast period is expected to moderate from the growth rates of the previous year due to slower economic growth and the expiration of the temporary revenue enhancements in 2005.

New York's economic recovery is expected to continue through the upcoming fiscal year. Employment growth is expected to gain momentum, with growth of 1.2 percent, and wages are forecasted to increase by 5.6 percent. Furthermore, the Committee staff is forecasting another good year for Wall Street. Profits and wages in the securities industry are expected to benefit from a dramatic increase in merger and acquisition activity. Previously announced mergers, such as the merger of Proctor & Gamble and Gillette, and consolidation in the telecommunications industry are the most notable.

In addition, the strong growth in non-wage income in the 2004 tax year will have a positive impact on the April settlement, helping to push growth in personal income taxes to 8.9 percent.

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[1] "Manhattan Office Vacancy Approaches Three-Year Low", www.cushmanwakefield.com.

Growth in sales and use tax receipts are forecasted at 0.9 percent in SFY 2005-06. This estimate includes the elimination of the 0.25 percentage point increase in the sales tax rate, which is scheduled to expire on May 31, 2005, and the Executive's proposal to permanently repeal the clothing exemption, effective June 1, 2005. The expiration of the additional rate is expected to reduce revenues by $452 million in SFY 2005-06. The Executive's proposal to repeal the clothing exemption and replace it with two one-week sales tax holidays is estimated to increase revenues by $456 million. Absent the Executive proposal, sales taxes would instead be expected to decline by 3.3 percent.

The 2003 Multi-year Revenue Program

New York enjoyed substantial growth in tax revenue during the robust expansion of the 1990's. However, as the economy deteriorated due to the recession and shock of September 11th, taxes declined for two consecutive years, the only time since the Great Depression that this has occurred

Table 2

Impact of Revenue Increases 2003-04
(Dollar Amounts in Millions)

Provisions	2003-04	2004-05	2005-06
PIT Rates	**$1,301**	**$1,441**	**$1,290**
Total Sales Tax	**899**	**1,182**	**239**
Clothing	449	598	107
0.25% Rate Increase	450	584	132
Business	**216**	**350**	**250**
Total Increases	**2,416**	**2,973**	**1,779**

The loss of billions in tax revenue over those two fiscal years required extraordinary measures to balance the needs of the financial plan. The unprecedented revenue declines in the two fiscal years leading up to the 2003-04 fiscal year depleted much of the reserves that were built up from the boom years of the late 1990's. During the 2002-03 and 2003-04 fiscal years over $9 billion worth of one-time revenue actions were proposed to balance the budget. Therefore, when faced with dramatic cuts proposed in the SFY 2003-04 Executive Budget, the Legislature enacted a series of revenue actions intended to help restore cuts in vital services and close projected out-year budget gaps. These actions are estimated to have increased revenue by $7.1 billion over the life of the program.

The major components of the revenue program include:

- temporary personal income tax rate increase for high income taxpayers;
- temporary increase in the State sales tax rate;
- suspension of sales tax exemption on clothing purchases; and
- corporate tax restructuring and loophole closures.

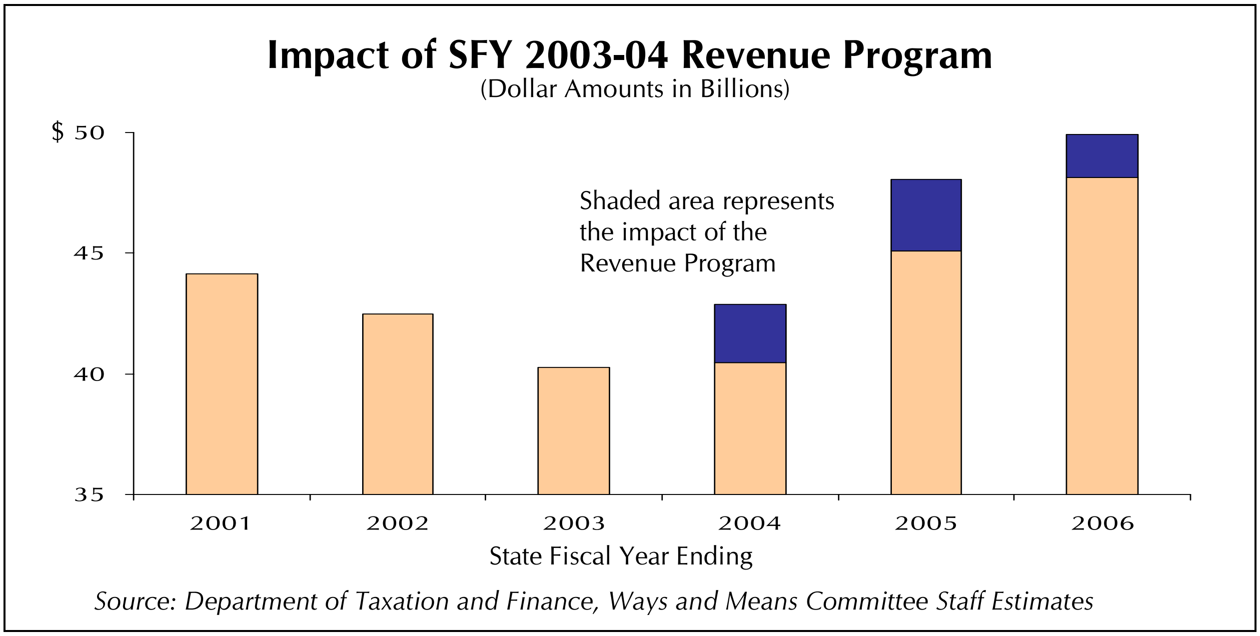

Figure 2

Absent the Legislative actions, revenue growth in SFY 2003-04 would have been relatively flat, with an underlying growth rate of just 1.9 percent (see Figure 2). Only after the impact of the current economic recovery, which has generated underlying revenue growth of nearly 15 percent, would tax revenues have exceeded their peak levels of SFY 2000-01. In 2005-06, underlying growth in revenues will exceed actual growth in revenues because of the scheduled phase-out of the temporary personal income tax rate increase, the expiration of the temporary sales tax increase and the reinstatement of the sales tax exemption on clothing and footwear, all of which are expected to lower revenue by $1.2 billion in the upcoming fiscal year.

Personal Income Tax

In the late 1900s the United States experienced an unprecedented economic expansion. Spurred by the financial sector, the growth in New York's personal income matched or exceeded the national average. By 2000 wages in New York had reached record highs, and components like capital gains were growing at an astounding rate. In fact, between 1996 and 2000 capital gains had averaged 30 percent annual growth. This economic expansion produced rapid growth in State tax revenue. Personal income tax liability increased by approximately $6 billion over a three year period culminating in large collection totals in 2000-01.

The bursting of the stock market bubble combined with the attacks on the World Trade Center sent the economy and State finances plummeting. In 2001 PIT liability shrank by nearly 10 percent off its 2000 peak level and by another 7.5 percent in 2002.

In an effort to turn State finances around, elected officials made the difficult decision to pass a temporary rate increase. The SFY 2003-04 Budget established a temporary rate increase of 7.5 percent in Tax Year 2003 for income of $100,000 or more for single taxpayers, $125,000 for head of household, and $150,000 for taxpayers whose filing status is married filing jointly. The temporary rate is reduced to 7.375 percent for those taxpayers in the 2004 Tax Year and to 7.25 percent in Tax Year 2005. The increase is phased out in the 2006 Tax Year. An additional rate was established at 7.7 percent for taxpayers with AGI above $500,000. This additional rate will remain in place for three years before being eliminated in 2006.

Table 3

Temporary PIT Rate Increase

Filing Status	Income (000's)	2003 Top Rate	2004 Top Rate	2005 Top Rate
Single	$100 to $500	7.50%	7.375%	7.25%
	> $500	7.70%	7.70%	7.70%
Head of Household	$125 to $500	7.50%	7.375%	7.25%
	> $500	7.70%	7.70%	7.70%
Married Filing Jointly	$150 to $500	7.50%	7.375%	7.25%
	> $500	7.70%	7.70%	7.70%

By 2003 the economy had improved slightly, though not nearly enough to offset the revenue losses of the prior two years, resulting in an increase of 5.5 percent in 2003 liability. The tax rate increase added $1.3 billion to liability in 2003, boosting growth to 11.8 percent. In the three years since the temporary rates have been in place a total of $3.8 billion has been added to State revenues. Absent the revenue actions, liability would not have exceeded its 2000 peak until 2005. The phase-out of the temporary rate increases will lower receipts by $189 million in SFY 2005-06. Fiscal Year 2006-07 will see a further reduction in revenues of $932 million due to expiration of the surcharge.

The imposition of the surcharge of high income taxpayers limited its impact to just 5.5 percent of all income tax filers. These taxpayers report roughly 39.9 percent of New York State Adjusted Gross Income. Therefore, the surcharge was applied to roughly 40 percent of income in the State.

Sales and Use Tax

The revenue support from the personal income tax was balanced with additional receipts in the State's sales tax as described below.

Temporary Rate Increase

The SFY 2003-04 Enacted Budget temporarily increased the State Sales and Use Tax rate from 4.0 percent to 4.25 percent. The increase went into effect on June 1, 2003 and is scheduled to expire on May 31, 2005. The additional rate is estimated to increase sales tax revenues by approximately $582 million in SFY 2004-05. Expiration of the rate increase will result in a revenue loss of $523 million in SFY 2005-06 on a year over year basis.

Temporary Suspension of Clothing Exemption

The SFY 2003-04 Enacted Budget temporarily suspended the sales and use tax exemption on purchases of articles of clothing under $110 for the period commencing June 1, 2003 through May 31, 2004. The SFY 2004-05 Enacted Budget extended this suspension through May 31, 2005. Both suspensions included weeklong sales tax holidays in September and January for purchases of clothing under $110. The net effect of suspending the clothing exemption is an increase in sales tax collections by $598 million in SFY 2004-05. Reinstating the exemption on June 1, 2005 will result in a $510 million revenue loss in SFY 2005-06, which represents the amount of revenue foregone over the last ten months of the fiscal year.

ECONOMIC OUTLOOK

Economic Summary

The Ways and Means Committee staff believes the economic forces that are driving the current economic expansion will continue throughout the next fiscal year.[2] National and State economies exhibited substantial activity in 2004, which exceeded the expectations of some forecasters. The economy has shown a certain resiliency to negative economic forces such as high oil prices. Although many economic risks still exist, there is enough good news to believe the economy will continue to expand in the next fiscal year.

For example, the decline in the value of the dollar has made New York a relatively inexpensive destination for foreign tourists. Consequently, New York City has seen an increase in international tourism by 10.2 percent in 2004 and a corresponding increase in hotel occupancy to 83 percent, to the highest level in four years.

The Federal Reserve has raised the federal fund rate 150 basis points to keep inflation in check and, so far, there is little evidence of upward pressure on core consumer prices. However, many companies may start to raise prices to cover increased production costs and increase profit margins.

Employment growth both in the U.S. and in New York is expected to continue. Increasing technology and productivity gains will likely keep unit labor costs down, allowing businesses to hire more workers. At some point greater demand for goods and services will outstrip the productive capacity supplied by increasing capital improvements forcing employers to hire more workers.

Gross Domestic Product (GDP)

Gross Domestic Product grew at a healthy 4.4 percent in 2004. The Committee staff forecasts that growth in GDP will return closer to its historical average, with growth of 3.5 percent in 2005. Consumption, which makes up 70 percent of GDP, is expected to increase by 3.3 percent in 2005, reflecting growth in consumer durables of 4.7 percent and non-durable consumption growth of 3.6 percent. Consumer spending will also be buoyed

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[2] For a more comprehensive discussion of the economy, please see The NYS Assembly *Ways and Means Committee, New York State Economic Report, February 2005.*

by an increase in household net worth brought on by an increase in disposable income, home values and corporate equity. With continued low mortgage rates the strength of the housing market should continue. The increase in employment and wages should continue the retail rally that started with a successful December Holiday season. Retail sales, excluding auto sales, are expected to increase by 6.7 percent.

Table 4

Forecast Comparisons
(Percent Change)

	Actual 2003	Estimate 2004	Forecast 2005
Real GDP			
Ways and Means	3.0	4.4	3.5
Division of the Budget	3.0	4.4	3.4
Pre-Tax Corporate Profits			
Ways and Means	15.4	11.8	27.0
Division of the Budget	15.4	11.6	26.7
S&P 500 Stock Price			
Ways and Means	(3.2)	17.3	11.7
Division of the Budget	(3.2)	17.3	9.8
NYS Employment (Nonfarm)			
Ways and Means	(0.6)	0.6	1.2
Division of the Budget	(0.6)	0.6	1.1
NYS Wages			
Ways and Means	1.4	6.2	5.3
Division of the Budget	1.4	6.2	4.9
NYS Personal Income			
Ways and Means	2.3	6.0	5.1
Division of the Budget	2.3	5.9	4.6
NYS Net Capital Gains			
Ways and Means	36.0	33.0	10.9
Division of the Budget	40.3	30.8	10.8

Sources: NYS Assembly Ways and Means Committee Staff;
New York State 2005-06 Executive Budget with 30-Day Changes

With increased economic activity, inventory replacement should drive increased industrial production. With low short term and long term interest rates, the credit markets seem able and willing to finance increased business investments. Increased corporate credit and the low cost of capital to finance business investments should improve corporate earnings.

New York State Wages

Estimating New York State wages is an integral part of the forecasting process, as New York wages are directly correlated with growth in personal income tax withholding, as shown below.

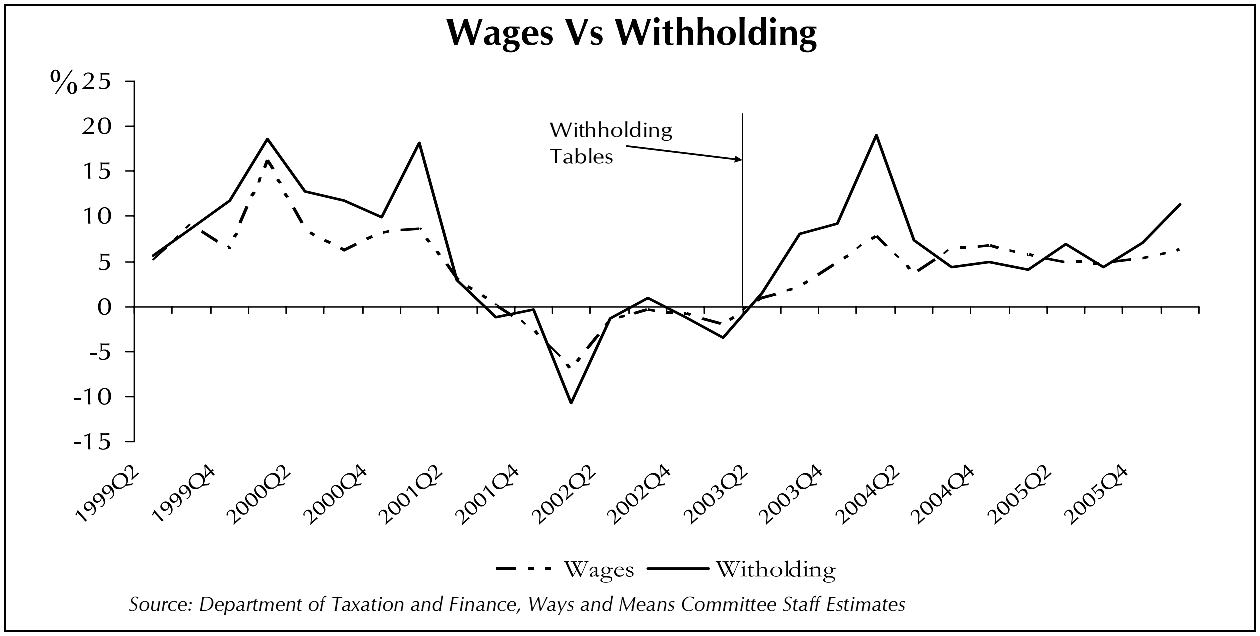
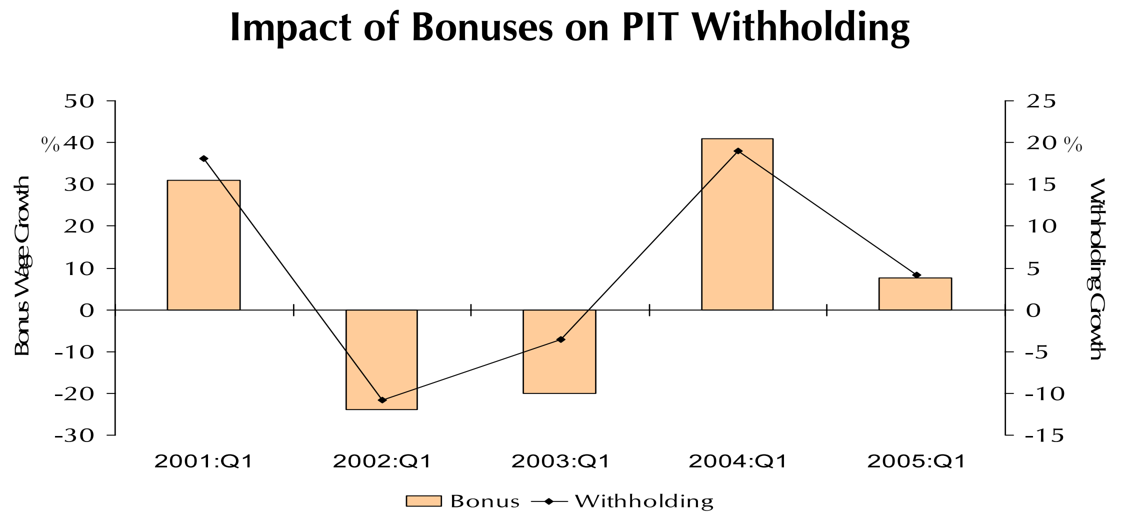


Figure 3

The responsiveness of withholding to wages was felt most acutely in the level of bonuses paid out by securities firms in the first quarters of 2002 and 2003. Securities industry bonuses are estimated to have declined by 32.1 percent and then again by an additional 21.9 percent in those respective quarters. The two-year decline in bonuses translated into an approximate loss of $900 million in personal income tax withholding revenues over that period.

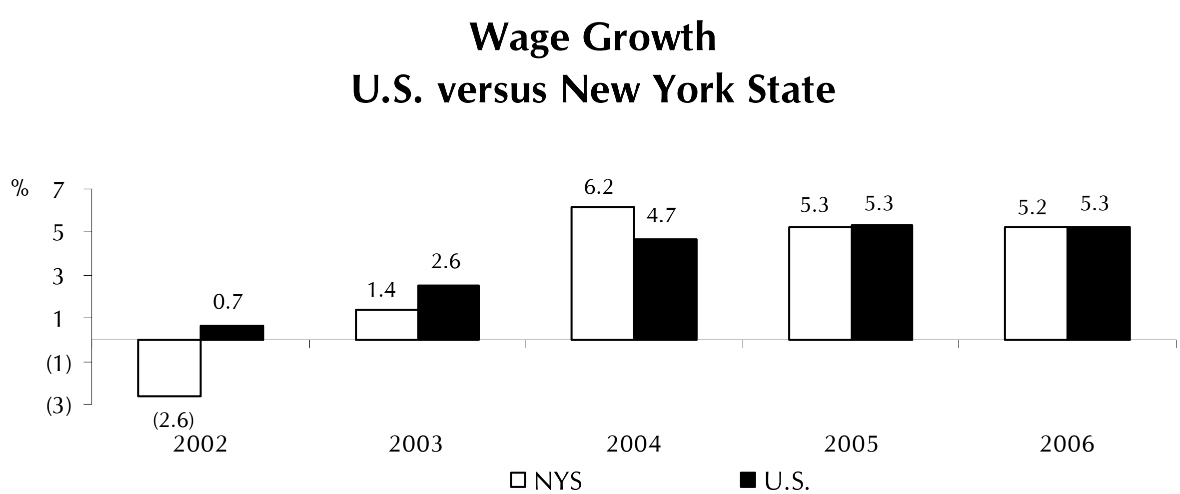
Strong growth in securities industry profits in 2003 helped to boost growth in total variable compensation by 40.3 percent in the first quarter of 2004. The Committee staff expects bonuses to moderate in the upcoming bonus period, and therefore the spike in withholding that was experienced at the end of the 2003-04 fiscal year is not expected to recur this fiscal year.



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

Figure 4

The Committee staff estimates that New York State wages grew by 6.2 percent in 2004 (5.7 percent in SFY 2004-05) the strongest growth in New York wages since the recession. The estimate reflects growth in base wages of 3.8 percent, coupled with growth in variable wages of 33.3 percent.



Note: 2004 is estimated; 2005 and 2006 are forecasts.

Sources: New York State Department of Labor; Bureau of Economic Analysis; NYS Assembly Ways and Means Committee Staff.

Figure 5

In 2005, New York State wages are forecast to grow 5.3 percent (5.4 percent in SFY 2005-06), reflecting growth in base wages of 4.8 percent coupled with growth in variable wages of 9.5 percent. Growth in wages is expected to benefit from strong growth in Wall Street profitability, driven by a major turnaround in mergers and acquisitions activity.

New York State Employment

Despite the resurgence in corporate profitability and wage growth in New York, the employment recovery has thus far been sluggish compared to earlier recoveries. Employment growth in 2004 is expected to be 0.6 percent, although job creation started gaining momentum during the latter part of the year.

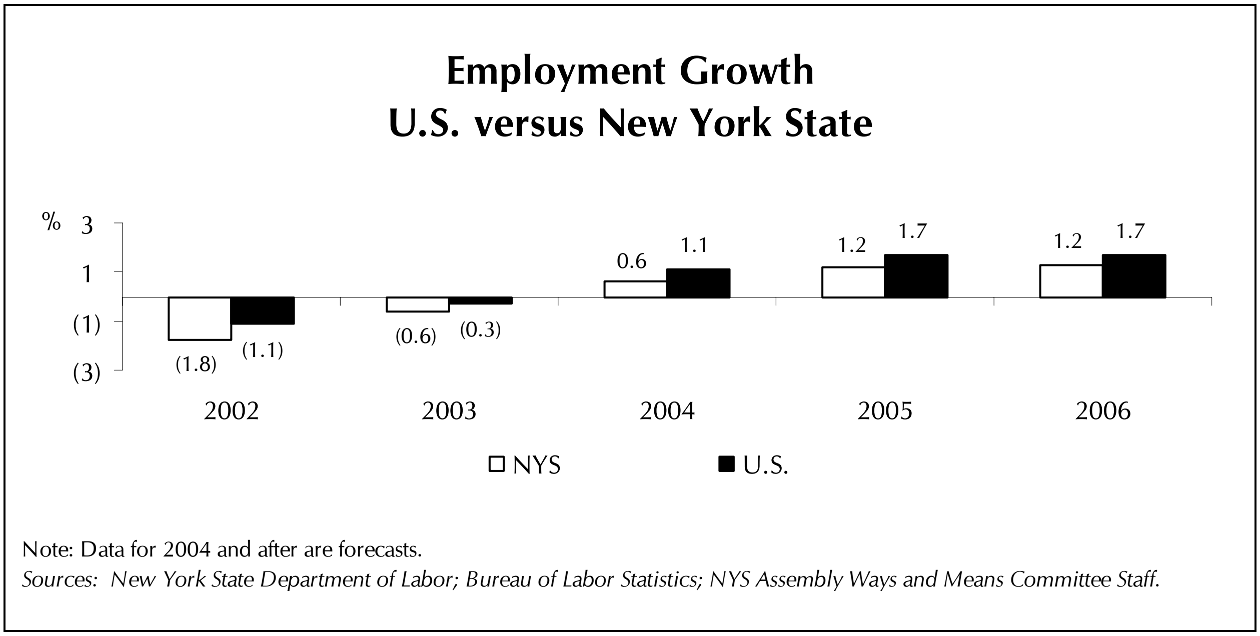


Figure 6

This momentum is expected to continue into 2005, producing employment growth at twice the rate of the prior year. The Committee forecast is for New York employment to grow at a rate of 1.2 percent, largely driven by growth in the education and health industries. Growth is also expected in retail and other service industries. While the growth in employment is welcome news for New York, these jobs tend to be in lower wage industries, making State wage growth weaker than it otherwise would be.

Personal Income

Growth in New York personal income is another important factor in the Committee staff's forecast, playing an important role in forecasting consumption taxes and income tax receipts, especially non-wage components. In 2004, New York personal income is estimated to have increased by 6.0 percent. In addition to strong growth in wages, personal income growth has been driven by strong growth in business proprietary income and other labor income.

In 2005, the Committee staff forecasts continued growth in personal income of 5.1 percent. Personal income will again be bolstered by growth in wages, proprietary income and other labor income.

Impact of the State Recession on New York State Revenues

The chart below illustrates that while the recession of 2001 was relatively mild when measured by the decline in GDP, its impact on New York State revenues was much more severe. The combined impact of the recession, the decline in the stock market and September 11th resulted in six straight quarters of State wage declines. During that period, New York ranked last in wage growth among the 50 states and the District of Columbia.

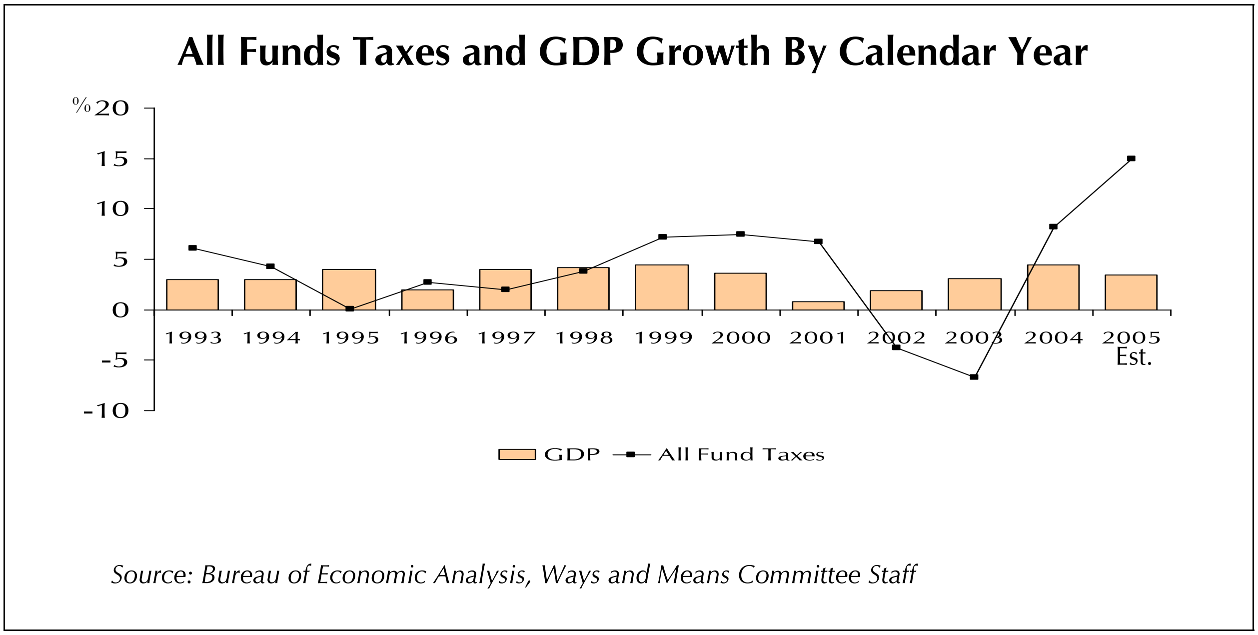


Figure 7

Since New York relies on the personal income tax for nearly 60 percent of all tax revenues, the decline in wages had a considerable impact on tax collections. New York State tax collections declined for two consecutive years, the only period in recent State history in which this has occurred. Much of that decline was due to even more dramatic declines in personal income taxes, which declined by 3.3 percent in SFY 2001-02 and 11.4 percent in SFY 2002-03.

One reason for the localized impact is the fact that New York State is home to the securities industry, which is heavily clustered in Lower Manhattan. The combination of the bursting of the stock market bubble in 2000 and the attacks of September 11th dramatically reduced employment and wages in the financial services industry. Total employment in the securities industry declined by 42,400 jobs or 19.5 percent between January 2001 and May 2003.

Risk to the Forecast

The major risks to the forecast concern the possibility of unforeseen major economic events, such as an oil price shock, which would reverberate through the economy in the form of increased prices. Although employment is showing signs of strength, it has not shown signs of sustained growth. Lower employment growth, as well as rising interest rates, could have an adverse impact on consumer spending.

In addition, the soaring Federal budget and trade deficits and low national savings rates have resulted in a large current account deficit. Should foreign investment shift away from the US, the result could be a dramatic collapse in the dollar, which would have dramatic economic repercussions both at home and abroad.

Housing price appreciation remains a concern for New York, especially in the downstate region. According to the Federal Reserve Bank of New York, regional housing prices have doubled since 1998. While the strong housing market has had positive benefits for the State in terms of tax revenues and for consumers, there is some concern that the housing market may be overvalued.

On the positive side, Wall Street compensation levels continue to grow, boosting State personal income tax receipts. The increase in merger and acquisition activity is likely to have a positive impact on Wall Street profitability, and therefore on wages generated from the financial services industry.

Employment growth in the State appears to be gaining momentum, and absent any unforeseen circumstances, should continue into the coming fiscal year.

Recently, states have been developing coincident indicators as an alternative approach to gauging the direction of the economy. In particular, the Federal Reserve Bank of New York has developed a New York State coincident index that indicates health of the State economy has been improving since August 2003, the trough of the last recession. The index shows the New York City economy is expanding while the State as a whole is less so. Even though the growth rate of the index slowed in December, the health of the index in the New York City region would indicate that there is an upside potential to the Committee staff's State economic and revenue forecasts.

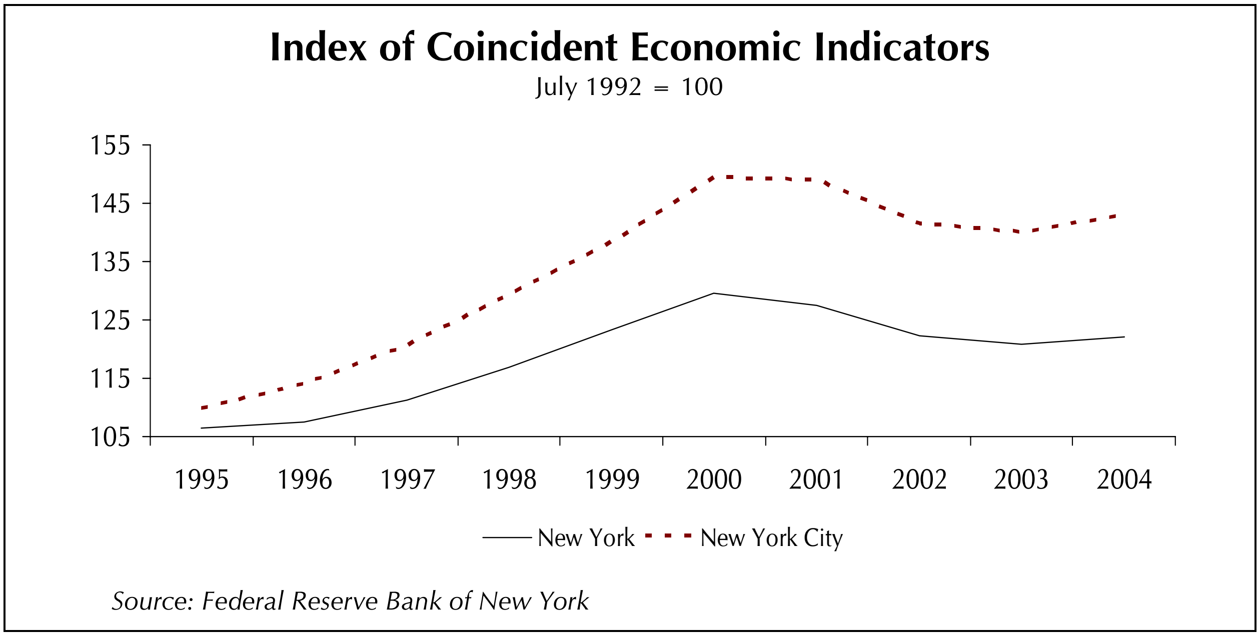

Index of Coincident Economic Indicators
July 1992 = 100
155
145
135
125
115
105
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
New York
New York City
Source: Federal Reserve Bank of New York

Figure 8

PERSONAL INCOME TAX

New York State imposes a tax on individuals, estates, and trusts for income earned within the State. New York's definition of income closely follows federal rules, which include wages and salaries, capital gains, unemployment compensation, and interest and dividend income. However, certain modifications are made to determine New York Adjusted Gross Income (NYAGI), which is further reduced by the standard deduction or itemized deductions to arrive at New York taxable income. Applicable credits are subtracted from the calculated tax to determine total tax liability.

The personal income tax (PIT) makes up the largest share of the State's tax revenue accounting for more than 50 percent of All Fund tax receipts.

State Fiscal Year 2004-05 Estimates

The Committee staff estimates that All Funds personal income tax collections will total $28.33 billion in SFY 2004-05. This represents a $4.28 billion increase, or a 17.8 percent increase over SFY 2003-04. All Funds collections include net collections and transfers from the refund reserve. The increase in personal income tax collections can be attributed to improving economic conditions within the State, as well as the temporary tax increase that was enacted in 2003, which is estimated to boost collections by $1.4 billion in the current fiscal year. These conditions sparked rapid growth in a number of personal income tax components. Estimated Payments and Final Payments have experienced the strongest growth, growing at 36.9 percent and 22 percent respectively. The growth in these component areas reflects growth in non-wage income, such as capital gains and business income.

General Fund personal income tax collections are expected to total $19.077 billion in SFY 2004-05, representing an increase of $3.303 billion, or a 20.9 percent increase over 2003-04. The difference in the General Fund estimate reflects the diversion of $3.07 billion to pay for the School Tax Relief Program (STAR) and $6.181 billion to support the Revenue Bond Tax Fund (RBTF). This estimate is $33 million above the Executive's estimate.

Table 5

Personal Income Tax Collections
SFY 2004-05
(Dollar Amounts in Millions)

	2003-04 Actual	2004-05 WAM Estimate	Percent Growth	2004-05 Executive Estimate	Diff. Exec.
Personal Income Tax	**$24,050**	**$28,330**	**17.8%**	**$28,288**	**$42**
Gross Receipts	**29,089**	**32,438**	**11.5%**	**32,400**	**38**
Withholding	21,986	23,095	5.0%	23,079	16
Estimated Payments	5,159	7,062	36.9%	7,053	9
Vouchers	4,325	5,518	27.6%	5,518	-
IT 370s	834	1,544	85.1%	1,535	9
Final Payments	1,313	1,602	22.0%	1,610	(8)
Delinquencies	631	679	7.5%	658	21
Total Refunds	**4,442**	**4,639**	**4.4%**	**4,643**	**(4)**
Prior Year Refunds	2,948	3,102	5.2%	3,110	(8)
Current Refunds	960	960	0.0%	960	-
Previous Refunds	272	234	-14.1%	227	7
State/City Offsets	261	343	31.3%	346	(3)
Collections	**24,647**	**27,799**	**12.8%**	**27,757**	**42**
Refund Reserve	(597)	531	-188.9%	531	-
All Funds PIT Collections	**24,050**	**28,330**	**17.8%**	**28,288**	**42**
Transfers to STAR	(2,820)	(3,072)	9.0%	(3,072)	-
Transfers to DRRF/RBTF	(5,457)	(6,181)	13.3%	(6,172)	(9)
General Fund PIT Collections	**$15,774**	**$19,077**	**20.9%**	**$19,044**	**$33**

State Fiscal Year 2005-06 Forecast

The Committee staff forecasts that All Funds collections will increase by $2.091 billion in SFY 2005-06. This represents a 7.4 percent growth over the previous year. The Committee forecast for All Funds collections is $555 million more than the Executive's budget forecast.

The Committee Staff forecast is based on expectations that the national and State economies will continue to expand throughout 2005, leading to continued growth in the State's revenue collections. The forecast accounts for the improving economic conditions as well as the accelerated phase-out of the temporary tax rate increases.

After dispersing dedicated funds to the STAR and RBTF accounts, the committee staff forecasts that General Fund personal income tax collections will total $20.448 billion. This represents a 7.2 percent increase over the SFY 2004-05 estimates. The General Fund personal income tax forecast is $479 million higher than the Executive's budget forecast.

Table 6

Personal Income Tax Collections
SFY 2005-06
(Dollar Amounts in Millions)

	2004-05 WAM Estimate	2005-06 WAM Forecast	Percent Growth	2005-06 Executive Forecast	Diff. Exec.
Personal Income Tax	**$28,330**	**$30,421**	**7.4%**	**$29,866**	**$555**
Gross Receipts	**32,438**	**35,226**	**8.6%**	**34,627**	**599**
Withholding	23,095	24,599	**6.5%**	24,274	325
Estimated Payments	7,062	7,907	**12.0%**	7,731	176
Vouchers	5,518	5,976	**8.3%**	5,825	151
IT 370s	1,544	1,931	**25.1%**	1,906	25
Final Payments	1,602	1,994	**24.5%**	1,947	47
Delinquencies	679	726	**6.9%**	675	51
Total Refunds	**4,639**	**4,939**	**6.5%**	**4,895**	**44**
Prior Year Refunds	3,102	3,378	**8.9%**	3,355	23
Current Refunds	960	960	**0.0%**	960	-
Previous Refunds	234	251	**7.3%**	230	21
State/City Offsets	343	350	**2.0%**	350	-
Collections	**27,799**	**30,287**	**8.9%**	**29,732**	**555**
Refund Reserve	531	134	**-74.8%**	134	-
All Funds PIT Collections	**28,330**	**30,421**	**7.4%**	**29,866**	**555**
Transfers to STAR	(3,072)	(3,202)	**4.2%**	(3,202)	**-**
Transfers to DRRF/RBTF	(6,181)	(6,709)	**8.5%**	(6,633)	(76)
General Fund PIT Collections	**$19,077**	**$20,510**	**7.5%**	**$20,031**	**$479**

Key Economic Variables and the Revenue Forecast

The Committee forecast reflects moderating growth in several key economic statistics. Total wage growth in 2005-06 is forecast to be 5.4 percent, reflecting strong growth in bonus wages, which are expected to grow by 11.5 percent. Wage growth excluding bonuses is expected to be 4.7 percent. The outlook is good for bonus wages to remain strong in 2005-06, due to early merger and acquisition developments in the current year. Large mergers like those that have already been announced in early 2005 generate tremendous Wall Street activity, which should translate into large bonus payments at the end of the year.

The Committee's forecast expects strong growth in non-wage components of income including capital gains, and proprietor income. In 2004 capital gains income is forecast to be $36.9 billion, which reflects a 33 percent increase over the previous year. In 2005 capital gains income is expected to total $40.9 billion, reflecting a 10.9 percent rate of growth. In fact, capital gains income has shown steady growth since 2001 when the economic downturn and the events of September 11th severely eroded capital gains income. Despite continued growth capital gains income is still well below its high point of $62.3 billion in 2000. The 2005 estimate is 35 percent less than the 2000 capital gains level.

Business income is also an important source for non-wage income, and it too has shown consistent growth since 2002. In 2005 proprietor income is expected to grow by 6.8 percent from $55.1 billion to $58.4 billion. Business income continued to grow even after the stock market bubble burst in 2000. In 2001 growth was slowed a bit but by 2003 growth rates were once again nearing double digits.

Interest and dividend income grew by 18.9 percent, from $45.9 billion in 2004 to $54.5 billion in 2005. In 2005 the staff expects interest and dividend payments to account for roughly 10 percent of NYAGI.

Although these non-wage components make up only a small share of NYAGI they are very important to the overall PIT tax revenue forecast because non-wage income is typically earned by wealthier taxpayers whose income is taxed at a higher rate. Therefore, income coming from non-wage sources is likely to have a higher effective tax rate than income from base wages.

PIT Components

There are several components that make up the personal income tax, ranging from withholdings, which is forwarded by employers to the Tax Department on behalf of their employees, to payments or refunds made by or to individuals upon settling up tax liability by the traditional April 15 deadline. All of the personal income tax components are included in the tables, and some of the more important ones are also discussed below.

<u>Withholding</u>

Through January 2005 withholding collections totaled $18.329 billion, which is an increase of 5.1 percent over the total collections through January 2004. The Committee staff estimates that fiscal year collections will total $23.095 billion, or a 5.0 percent increase over SFY 2003-04. Growth in withholding is the result of 5.7 percent growth in wages. Wage growth is expected to be strong because of significant growth in bonuses paid in the financial sector on Wall Street.

The Committee staff forecasts that withholding collections for SFY 2005-06 will total $24.599 billion, an increase of $1.504 billion, or 6.5 percent over SFY 2004-05. This forecast reflects expected fiscal year wage growth of 5.4 percent. Again wages will be bolstered by the Wall Street bonuses, which are expected to be strong in the last 2 quarters of the fiscal year.

Withholding collections will also be influenced by a withholding rate change that is set to take effect on January 1, 2006. The top rate is to be decreased from 8.2 percent to 7.5 percent. The rate change is estimated to decrease withholding collections by $189 million in the last quarter of SFY 2005-06.

Withholding collections make up the single largest component of personal income tax collections, accounting for roughly 70 percent of gross collections. Withholding taxes are remitted by employers on behalf of employees, and are collected throughout the year. However, because of the financial sector's bonus season, the first and fourth quarter withholding collections are typically the largest. The bonus season is a very important aspect of withholding collections.

The State's finances are critically dependant on the bonuses paid to high wage earners, such as those that work on Wall Street. The importance of the bonus season also highlights the growing importance of variable wages. Variable wages are mainly derived from bonus income and stock options. Estimating growth in variable wages is a crucial part of forecasting collections. Yet variable wages are more difficult to track than non-variable wages. At the same time variable wages have become a larger component in overall New York State taxable income.

To help aid in understanding the importance of the bonus season to forecasting withholding collections, the Committee staff has identified as a "bonus day" any business day where withholding collections are greater than $90 million. These days typically come in during the bonus season months of December, January, February and March. Even though large collection days are not necessarily a result of bonus payments, classifying them as such has been useful in estimating overall withholding collections. Though bonus days are few in number they are crucial to overall withholding collections. For example, during SFY 2003-04 there were only 31 "bonus days" for the entire year, and yet bonus days were responsible for nearly 26 percent of total withholding collections for the year. During the current bonus season months of December, January and February there have been 34 "bonus days". Together these 34 days have accounted for roughly 80 percent of all withholding collections during that three month stretch.

Estimated Payments

Estimated payments consist of quarterly estimated tax payments, or installments, made by taxpayers if their final liability is expected to be significantly higher than the amount of tax being withheld from their wages. In addition, estimated payments also include requests for extensions, which will be discussed later in this section as part of the settlement.

Through January 2005 estimated payments have increased by $1.170 billion or 27.4 percent over the collections through January 2004. The total for the fiscal year is expected to be $5.518 billion, which is a 27.4 percent increase over the collections from SFY 2003-04. The extraordinary growth in estimated payments can be attributed to the temporary tax increase enacted in 2003 and the growth of non-wage income, which primarily impacted higher income taxpayers that tend to have a higher share of non-wage income. Also, as non-wage income (such as capital gains and interest and dividend income) becomes a larger share of total income, a larger proportion of tax payments will necessarily come in the form of estimated payments.

In SFY 2005-06, estimated payments are forecast to total $5.976 billion, an increase of $458 million, or 8.3 percent over SFY 2004-05. The growth in estimated payments is driven by the continued growth in non-wage income, and the rate increase.

Net Capital Gains

Capital gains occur when an asset, is sold for more than its cost basis. Conversely, capital losses occur when the asset in question is sold for less than its cost basis. Gains and losses are not considered to be taxable until they are realized, which occurs when the asset is sold or otherwise disposed of in a manner equivalent to a sale.

One of the main forces behind estimated payments is capital gains, which are expected to have increased by 33 percent in calendar year 2004. Taxable capital gains reported by New York taxpayers are estimated to have declined by more than one-third to a level of approximately $36 billion in 2004, from a high of $62.3 billion in 2000.

The Committee staff projects that capital gains will total $40.904 billion in 2005, which represents a increase of 10.9 percent. The Committee's capital gains forecast is similar to the Executive's projections throughout the forecast period. The Committee staff and the Executive expect nearly 11 percent growth in 2005, which is coming off 2004 that had a base growth of more than 30 percent.

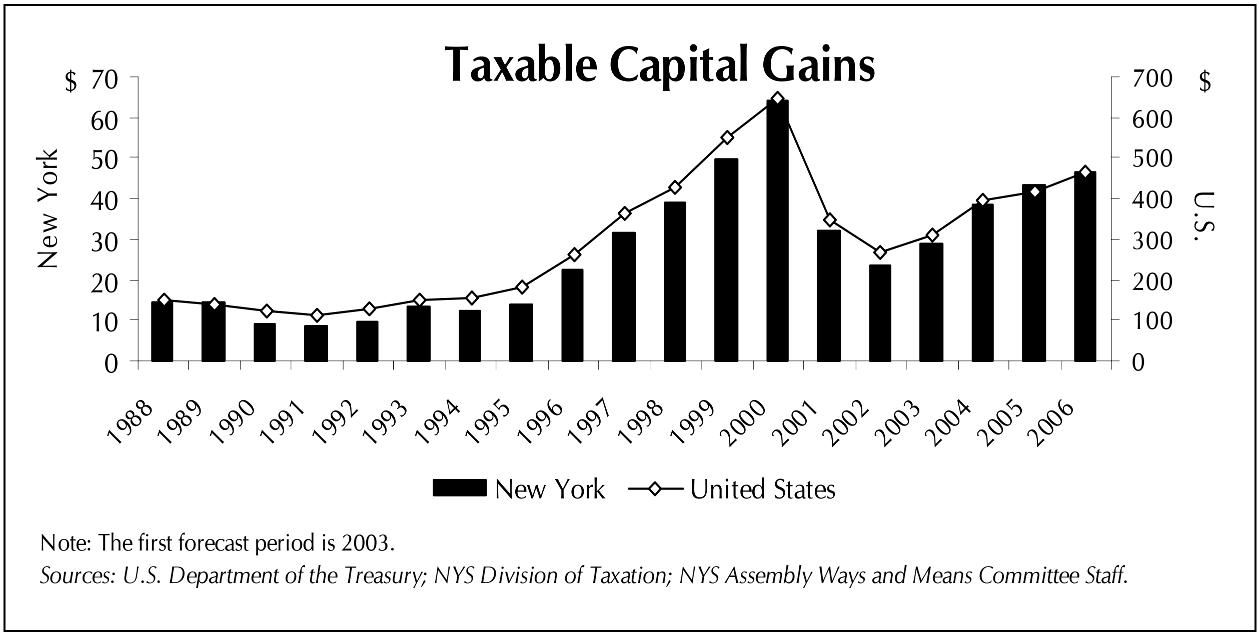


Figure 9

Net capital gains represent the amount of gains less any losses realized in the tax year in question. Federal tax law generally limits a taxpayer to using only $3,000 in net losses in any tax year to offset other income. For married taxpayers filing separately, this amount is $1,500. Any realized losses that exceed these amounts for the tax year may be used in future years, until exhausted.

In previous years, taxable capital gains accounted for as much as 12 percent of New York Adjusted Gross Income (NYAGI). Though not as large a component of NYAGI as it was in 2000, capital gains have increased in importance since 2002, and in 2005 will account for 7.3 percent of NYAGI. Since a disproportionate amount of taxable capital gains are realized by higher income individuals, the effective tax rate on these gains was also high. The Federal government taxes capital gains income at a lesser level than ordinary income. However, the State taxes capital gains at the same rate as ordinary income. So the State generally receives additional capital gains income when taxpayers take advantage of the preferred tax treatment at the Federal level. The boom of the late 1990's, therefore, translated into significant increases in receipts.

The most recent recession, in conjunction with the stock market correction at approximately the same time, resulted in a decline in capital gains. Taxable capital gains as a percentage of NYAGI declined by about half from calendar year 2000 to 2001. Although capital gains have shown improvement since 2001, the committee estimates that the 2004 and 2005 levels of capital gains are still 20 to 30 percent below its peak in 2000. However, because of the volatility of this income source, it is important to note that either an increase or decrease in the level of realized capital gains does have a major impact on the marginal growth in revenues, despite its decreased share of total taxable income.

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 over the course of the year. As a result, the month of April is usually large in terms of personal income tax collections. The April 2004 "settlement" was dramatically improved as a result of a large increase in both the number and size of extensions and final payments. In addition, the State's improved cash flow position allowed the Tax Department to issue refunds at a much brisker pace than in 2003.

The settlement includes final payments, extensions, refunds and the State-City offset. Typically the net settlement is negative – refunds issued on prior year liability are typically greater than payments made to settle liability.

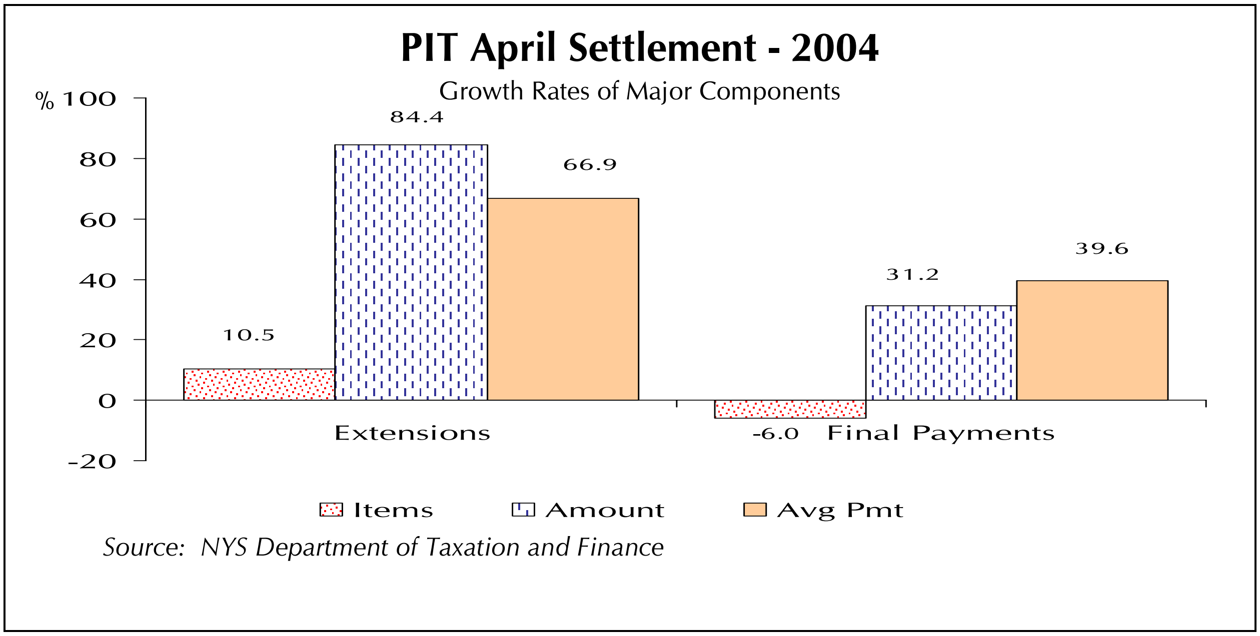


Figure 10

The Committee staff has made projections regarding the 2005 settlement. Combining final payments and extension payments the State is projected to receive $3.765 billion in settlement payments throughout 2005. However, combining refunds and State and City offsets total outlays will total $4.584 billion in 2005. The result is that the State will have a negative settlement of $819 million.

Final Payments

Final payments, which result from the timely filing of tax returns each April 15, have increased by $309 million, or 26.3 percent, through December 2004. The Committee staff estimates that final payments will total $1.602 billion in SFY 2004-05. This estimate is $8 million below the Executive's estimate. The growth in final payments is largely due to the temporary personal income tax rate increase enacted in 2003. Due to the timing of the increase and the adjustment of the withholding tables in July, it is likely that many taxpayers under-withheld on their 2003 Tax Year liability, and were forced to increase their level of final payments considerably when they filed their April 15th returns.

In SFY 2005-06, final payments are forecast to total $1.994 billion, an increase of $392 million, or 24.5 percent. The increase reflects the Committee staff's estimate that growth in non-wage income in 2004 will result in large April final payments. The Committee's forecast is $47 million more than the Executive.

The impact of the temporary tax increases is reflected in the increase in the number, level, and average amount of the final payments received in April. While the number of taxpayers who submitted a final payment along with their April 15th filing declined by 6.0 percent, the average payment increased by nearly 40 percent. This resulted in an increase in final payments of 31.2 percent. One may assume that the decline in the number of final payments is reflected in the increase in the number of extension requests filed.

Extensions

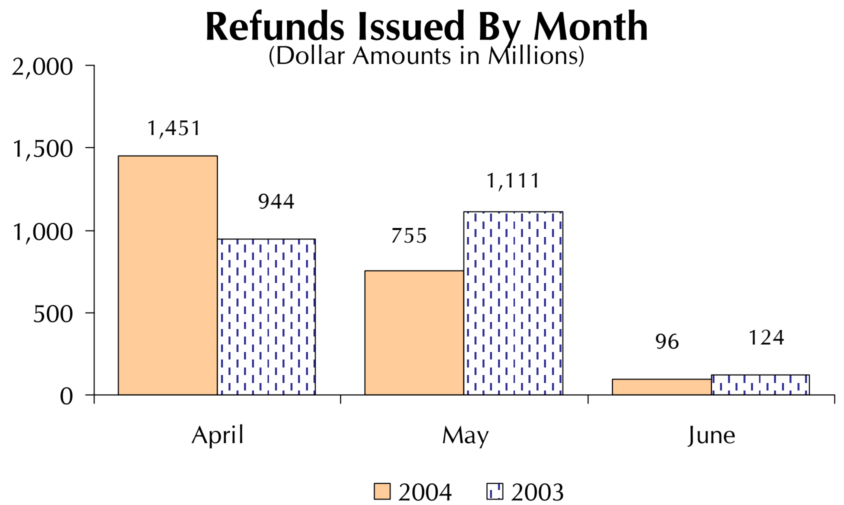
Taxpayers are allowed an automatic four-month extension for final payment on tax liability from the previous calendar year. However, they are still required to accurately estimate liability and submit any corresponding payment with the extension request (Form IT-370). Generally, more than 90 percent of these extension deposits are made in April.

In April 2004, extension deposits increased by $683 million, or 84.4 percent, over April 2003. The Committee staff estimates that extension deposits will total $1.544 billion in SFY 2004-05, representing an increase of $710 million, or 85.1 percent over last fiscal year. The number of taxpayers requesting an extension grew by 10.5 percent over April 2003. Moreover, the average payment submitted along with the request grew by 67 percent. In addition, final payments received in October increased by $53 million, or 54 percent, as these same taxpayers settled their 2003 liability. This estimate is $9 million above the Executive's estimate.

In SFY 2005-06, extension deposits are forecast to total $1.931 billion, an increase of $387 million, or 25.1 percent. The forecast is $25 million more than the Executive's forecast.

Refunds

Refunds are issued to taxpayers that have paid too much based on their tax liabilities. The dollar amount of refunds paid out between January and March of each year is administratively determined by the Executive. The amount paid during this three-month period over the past few years has been $960 million. Beginning in April, the rest of these 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.



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

Figure 11

The Committee staff estimates that prior year refunds will total $3.102 billion in SFY 2004-05, representing an increase of $154 million, or 5.2 percent over last fiscal year. This estimate is $8 million lower than that of the Executive.

The State's improved cash flow position enabled the Tax Department to issue refunds at a much brisker pace in 2004 than the previous year. The amount of refunds issued remained consistent through both years, but in 2004 the timing of refunds shifted. When compared against the total dollar amount of refunds issued in April 2003, the total dollar amount of refunds issued in the first month of the fiscal year was $500 million, or 53.7 percent higher. Moreover, the total number of refunds issued in April 2004 was nearly 900,000 more than were issued in April 2003. Finally, it appears as if the Department waited until the last moment to issue its largest refunds in 2003. The average refund in June of 2003 was over $800, significantly larger than the average refund issued in either April or May of that year.

In SFY 2005-06, prior year refunds are forecast to total $3.378 billion, an increase of $276 million, or 8.9 percent.

Understanding Personal Income Tax Collections

New York Adjusted Gross Income (NYAGI) provides the foundation of New York's taxable income. New York adjusted gross income is equal to federal adjusted gross income earned in a taxable year after certain modifications and before the subtraction of either the standardized deduction or itemized deductions, and dependent exemptions have been made. NYAGI includes wages, capital gains, interest and dividend income, pensions, rental income, farming and business income, as well as other sources of income such as alimony, and tax refunds.

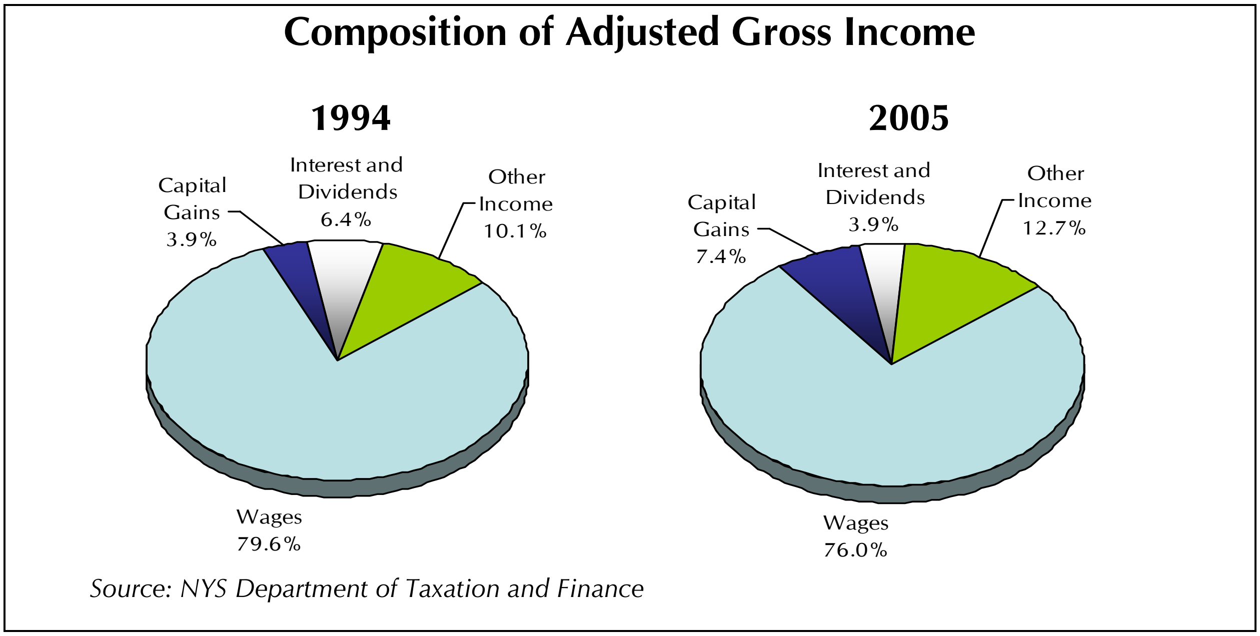


Figure12

Wages make up the largest portion of NYAGI, accounting for more than 76 percent of total collections in 2005. Wage levels are dependent on the State's overall economic health, such as employment and earnings. This relationship helps explain why State revenue is so closely tied to overall economic condition within the State. If wages are driven downward by poor economic conditions State revenues will certainly feel the effects.

Though wages continue to be the biggest segment of NYAGI, other non-wage income, such as capital gains, interest and dividend payments, and rental and partnership income are also important in determining NYAGI. In 2005 the staff expects capital gains income to account for 7.3 percent of AGI. The level of capital gains in 2005 is $40.9 billion, up 10.9 percent from the 2004 level of $36.8 billion.

Interest and dividend payments are expected to grow by 18.9 percent, from $45.9 billion in 2004 to $54.5 billion in 2005. In 2005 the staff expects interest and dividend payments to account for roughly 10 percent of NYAGI.

Rental and partnership income will account for 9 percent of NYAGI in 2005. Between 2004 and 2005 rental and partnership income is expected to grow by 6 percent, from $55.1 billion in 2004 to $58.4 billion in 2005.

Another way to understand the personal income tax is to examine how AGI and Liability are shared across income groups. Due to the progressive nature of the State's tax system, liability is concentrated toward individuals with higher incomes. For example, in 2005 high income taxpayers - those with incomes above $100,000 – are estimated to be responsible for more than 70 percent of liability. High income taxpayers also possess a large portion of the State's income, holding more than 55 percent of the State's AGI. Put even more starkly, roughly 0.4 percent of New York taxpayers (those with incomes greater than $1 million) account for roughly 20 percent of New York AGI, and they pay roughly 28 percent of the State's tax liability.

We can also examine the idea of distribution across income groups by looking at effective tax rates. Effective tax rates measure the actual amount of taxes paid as a percentage of AGI. The figure below show the effective tax rates by income class in 2005. Some of the rates for lower income individuals are actually negative. This is because the State offers refundable credits such as the EITC and the Child Care Credit, which are designed to aid low-income New Yorkers. For higher income New Yorkers the effective tax rate can be as high as 6 percent of their income.

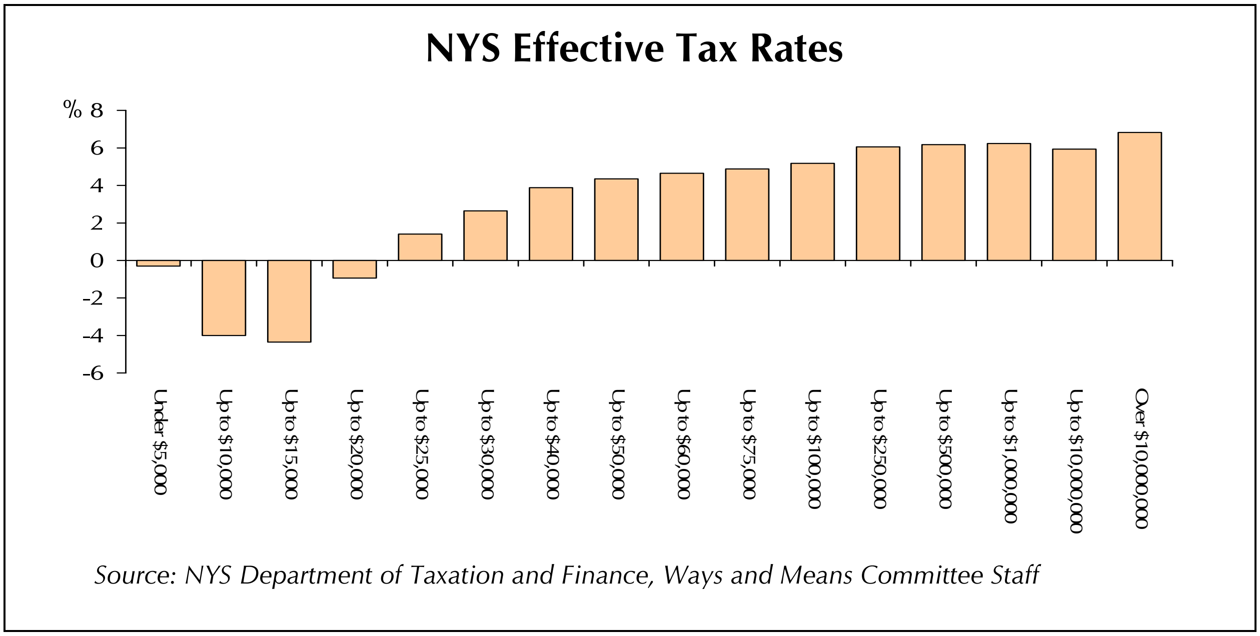
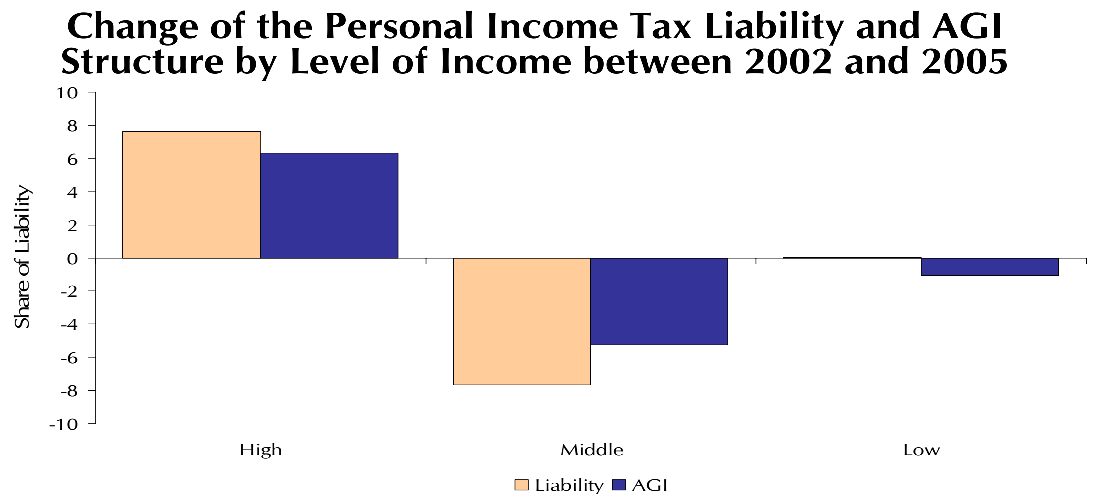


Figure 13

Growth in Income Tax Liability

Adjusted Gross Income is the starting point for calculating tax liability, but it is not the actual level of income that is taxed. Instead tax liability is based on taxable income. Taxable income is arrived at by applying applicable deductions to Adjusted Gross Income. In 2000 tax liability reached a peak of $24.733 billion. This peak was the culmination of continued growth in liability throughout the 1990s. However, with the economic downturn liability plummeted. The staff estimates that 2004 will be the first year that liability exceeds its 2000 peak.

To assess how the tax burden is distributed it is useful to examine tax liability by income class. For example we can examine how the tax burden shifted after the recent temporary rate increase of 2003. In 2002, the last year before the tax rate changes, middle class New Yorkers making between $20,000 and $100,000 paid roughly 35 percent of the tax burden, while earning roughly 45 percent of State AGI. In 2002, high income New Yorkers, those making more than $100,000, held roughly 50 percent of the State's income and carried 65 percent of tax burden. In 2005, after the tax increases, there was a dramatic shift. The graph below shows the change in liability share for high, middle, and low income earners between 2002 and 2005. In 2005 high income earners share of AGI grew by roughly 6 percent, while their share of liability grew by roughly 8 percent. Middle income earners saw their share of AGI drop by nearly 6 percent due to bad economic times, but because of the tax rate increases their share of liability dropped even more, by roughly 8 percent.

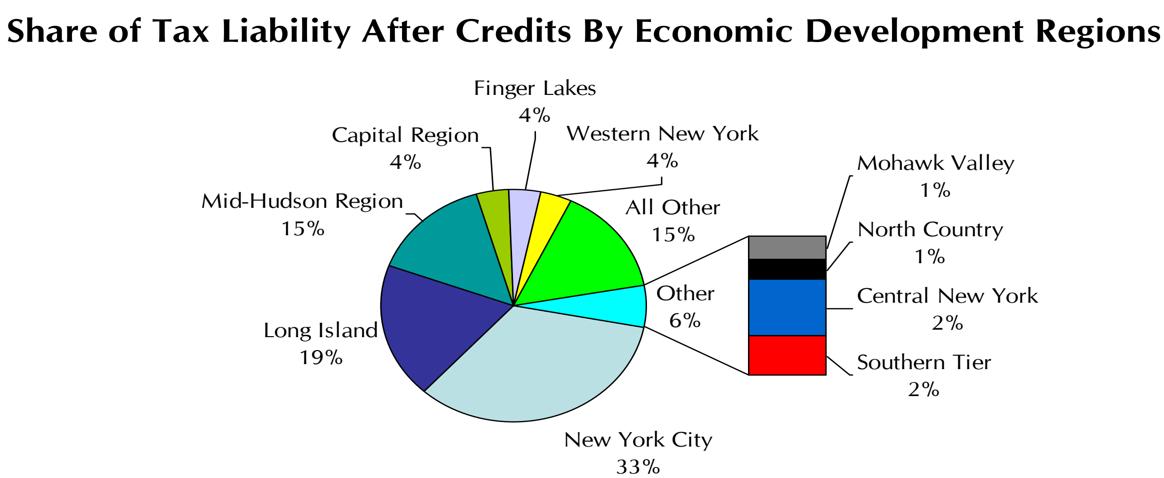


Source: Ways and Means Committee Staff

Figure 14

<u>Personal Income Tax Liability by Region</u>

The following graph illustrates personal income tax liability by region. The majority of liability is generated in the downstate region. For example two-thirds of all liability is paid by residents of New York City, Long Island and the Mid-Hudson region.



Source: Personal Income Tax Study File Tax Year 2002, Department of Taxation and Finance

Figure 15

SALES AND USER TAXES

User taxes and fees include sales and compensating use, cigarette and tobacco, highway use, motor fuel, auto rental and alcohol beverage taxes, as well as motor vehicle fees.

For SFY 2004-05, the Committee staff estimates that All Funds user taxes and fees will total $13.085 billion, an increase of $1.2 billion, or 9.8 percent from SFY 2003-04. The Committee staff estimate is $80 million higher than the Executive.

Table 7

User Tax Collections By Fund Type
SFY 2004-05
(Dollar Amounts in Millions)

	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
User Taxes and Fees	**$8,796**	**$678**	**$2,504**	**$1,107**	**$13,085**
Sales and Use Tax	8,139	430	2,504	-	11,073
Motor Fuel Tax	-	111	-	423	534
Cigarette Tax	406	-	-	-	406
Motor Vehicle Fees	26	137	-	495	658
Highway Use	-	-	-	150	150
Alcoholic Beverage Tax	185	-	-	-	185
Alcoholic Beverage Fees	40	-	-	-	40
Auto Rental Tax	-	-	-	$40	$40

In SFY 2005-06, All Funds user taxes and fees are expected to total $13.816 billion, an increase of $731 million, or 5.6 percent. The growth in this category is largely due to accounting for HCRA cigarette receipts in Special Revenue. The growth in the forecast is dampened by the expiration of the temporary sales tax rate increase, which expires on May 31, 2005. The Committee forecast is $175 million above the Executive.

Table 8

User Tax Collections By Fund Type SFY 2005-06 (Dollar Amounts in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
User Taxes and Fees	**$8,734**	**$1,299**	**$2,639**	**$1,145**	**$13,816**
Sales and Use Tax	8,073	457	2,639	-	11,169
Motor Fuel Tax	-	117	-	442	558
Cigarette Tax	396	554	-	-	950
Motor Vehicle Fees	-	171	-	505	676
Highway Use Tax	-	-	-	156	156
Alcoholic Beverage Tax	219	-	-	-	219
Alcoholic Beverage Fees	46	-	-	-	46
Auto Rental Tax	-	-	-	$42	$42

Sales Tax

The sales and compensating use tax, imposed by Article 28 of the Tax Law, is a four and one-quarter 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 parking, cleaning 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 taxable sales. Also depending on the amount of taxable sales, some vendors are required to remit their sales tax liability electronically. The rate of tax is scheduled to decrease from four and one-quarter percent to four percent on June 1, 2005.

Table 9

Sales And Use Taxes (Dollar Amounts in Millions)	Closeout SFY 2004-05			Forecast SFY 2005-06		
	WAM	Executive	Diff. from Executive	WAM	Executive	Diff. from Executive
General Fund	$8,139	$8,097	$42	$8,073	$7,951	$122
Special Revenue	430	430	-	457	452	5
Debt Service	2,504	2,486	18	2,639	2,636	3
Capital Projects	-	-	-	-	-	-
All Funds	$11,073	$11,013	$60	$11,169	$11,040	$129

SFY 2004-05 Estimate

The sales tax is expected to generate $11.073 billion on an All Funds basis in State Fiscal Year (SFY) 2004-05, an increase of $1.116 billion, or 11.8 percent from SFY 2003-04. This estimate is $60 million above the Executive's estimate released with the SFY 2005-06 Executive Budget.

Through January, fiscal year-to-date gross receipts are $8.883 billion, an increase of 12.1 percent over the same period in the previous year. Current year growth in sales tax collections is attributable to substantial tax actions taken during the last two years combined with increased consumption levels.

Impact of Revenue Actions

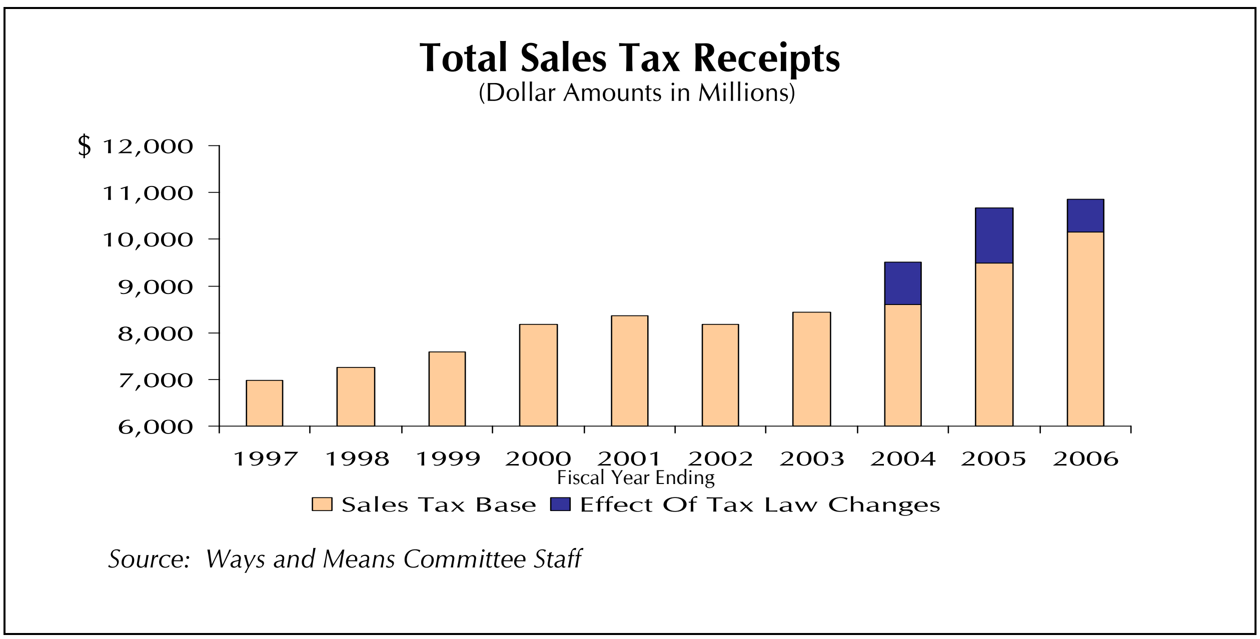


Figure 16

In 2004, the temporary suspension of the sales tax exemption on clothing and footwear costing less than $110 was extended through May 31, 2005, accompanied by two one-week sales tax holidays. This action is expected to generate additional revenues of $483 million in SFY 2004-05. Legislation enacted in 2003 temporarily increased the State sales tax rate from 4.0 percent to 4.25 percent until June 1, 2005. This action is expected to generate $584 million in additional tax collections in SFY 2004-05. The net impact of the additional rate and suspension of the clothing exemption is $1.182 billion in SFY 2004-05.

Economics

Growth in the sales tax base can be explained by improvement in the overall economic conditions in the State and the nation. The Committee staff estimates that growth in the sales tax base will be 8.2 percent in SFY 2004-05. National consumer confidence, which measures consumer's present and future expectations of general economic conditions, experienced healthy growth during SFY 2004-05. In the first half of SFY 2004-05, national consumer confidence rose above 100 for the first time in two years before returning to the 90's in August. Consumer confidence once again rose above 100 in December and January.

In addition, sales tax revenues are closely correlated with growth in employment and personal income. The Committee staff estimates that personal income and employment will increase by 5.7 percent and 0.8 percent respectively. Retail sales - the largest portion of taxable sales - experienced above average growth in SFY 2004-05. Retail sales were spurred on by healthy automobile sales and new home purchases. Tourism has also helped to spur sales tax revenues – with tourism in NYC growing by 4.6 percent in 2004 according to the Mayor's Office[3].

Sales Tax Fund Distribution

The current State sales tax rate is 4.25 percent. Of this rate, 3.25 percentage points is directly deposited into the General Fund. The Committee staff estimates that General Fund sales tax receipts in SFY 2004-05 will total $8.139 billion, representing a growth rate of 12.4 percent. This estimate is $42 million above the Executive's estimate.

General Fund sales tax receipts through January 2005 are $6.792 billion, representing a year to date growth of 12.6 percent over the comparable period in the prior year. After adjusting for tax law changes and accounting errors, year-to-date General Fund collections have grown by 8.4 percent. General Fund sales tax receipts for the remainder of the fiscal year must grow by 11.2 percent over the prior fiscal year to achieve the Committee staff's estimate.

[3] http://www.nycvisit.com. "Mayor Michael R. Bloomberg and NYC & COMPANY Announce City Tourism to Hit Record Levels in 2004," January 10, 2005.

Of the total sales tax rate, one percentage point 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. Ways and Means Committee staff estimates that LGAC collections will total $2.504 billion; this represents growth of 10.5 percent over last year and is $18 million more than the Executive's estimate. General Fund and LGAC growth rates differ due to the effect of the additional surcharge that increased the general fund rate from 3 percent to 3.25 percent. The Committee staff estimates that after $315 million of LGAC receipts are used for debt service, $2.189 billion will be transferred back to the General Fund.

In 1981, the Metropolitan Transportation Operating Assistance Fund (MTOAF) was created to help finance the State's public transportation system. Part of MTOAF's funding comes from a 0.25 percent sales tax surcharge that is imposed in the Metropolitan Commuter Transportation District, which includes New York City, Long Island and Westchester, Rockland, Dutchess, Orange, Ulster and Putnam Counties. MTOAF collections are buoyed by the temporary suspension of the clothing exemption. The Committee staff estimates that $430 million will be deposited into the MTOAF in SFY 2004-05, which represents growth of 7.6 percent and is equal to the Executive's estimate. The MTA growth rate is affected by the local option regarding clothing exemption weeks.

SFY 2005-06 Forecast

In SFY 2005-06, the Committee staff forecasts proposed law All Funds sales tax collections will total $11.169 billion, an increase of $96 million, or 0.9 percent from the Committee staff's estimate for SFY 2004-05. This is approximately $129 million above the Executive's estimate.

The growth in the sales tax base in SFY 2005-06 is partially dependent on the expectation that New York employment will increase in 2005 by 1.2 percent. Growth in New York personal income, another factor in forecasting sales tax collections, is forecast by Committee staff to grow 5.0 percent in SFY 2005-06.

General Fund collections are expected to total $8.073 billion, a decrease of $66 million, or 0.8 percent from SFY 2004-05.

Sales tax collections dedicated to LGAC are expected to total $2.639 billion, representing an increase of 5.4 percent after debt service is paid. Committee staff estimates that $2.303 billion will be transferred back to the General Fund. Dedications to the MTOAF are forecasted at $457 million, an increase of 6.3 percent. In contrast to the other sales tax funds, the sales tax collections in the General Fund are estimated to decrease marginally in 2005-06 because of the expiration of the additional 0.25 percent.

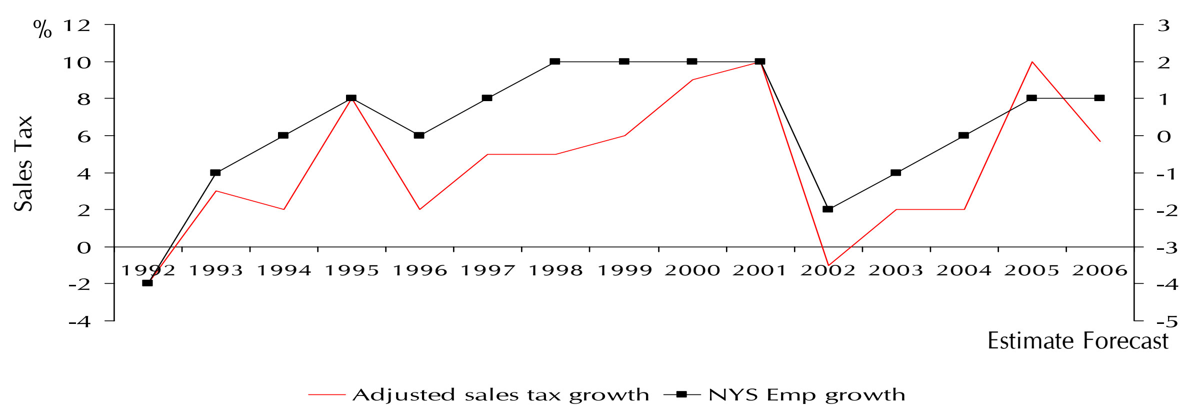
Executive Budget Proposals

The SFY 2005-06 forecast for total collections includes an estimated $132 million from the additional 0.25 percent sales tax in the months of April and May. Authorization for the additional 0.25 percent sales tax will expire on May 31, 2005 – decreasing sales tax revenues by $520 million.

Taxation on clothing and footwear costing less than $110 is expected to raise approximately $107 million worth of revenue in April and May. The sales tax exemption for clothing and footwear, which was in effect from March 1, 2000 to May 31, 2003, is scheduled to be reinstated on June 1, 2005. However, a proposal included in the Executive Budget calls for the permanent repeal of the clothing exemption replaced with two weeklong holidays for clothing costing less than $250. The Executive estimates that this proposal will increase sales tax revenue by $456 million in SFY 2005-06. Absent this proposal, the reinstatement of the exemption would reduce revenues by $523 million compared to SFY 2004-05. After accounting for the clothing exemption and the 0.25 percent increase in the sales tax rate, the sales tax base is forecast to grow by 6.7 percent in SFY 2005-06.

Adjusted Sales Tax Collections and Employment Growth

(Growth rates for State Fiscal Years Ending March 31)



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

Figure 17

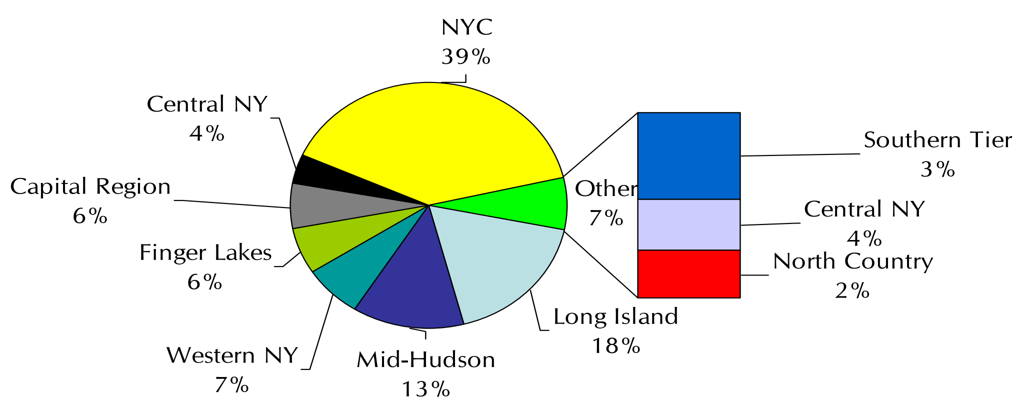
Risks to the Forecast

The Committee staff's SFY 2005-06 sales tax forecast is dependent on a number of factors, though it is most directly dependent on the Committee staff's NYS employment and personal income forecasts. As can be seen in the preceding graph, employment and sales tax collections are very correlated. Personal income and sales tax collections are similarly correlated. If personal income or employment grows slower than anticipated, revenues will suffer. Likewise, if these factors grow at a rate higher than predicted, revenues will likely exceed this forecast. In addition to personal income and employment, revenues will be affected by legislative changes, consumer confidence, inflation, the value of the dollar and other economic factors.

Regional and Industry Shares

As can be seen in the Taxable Sales by Region pie chart, the vast majority of state sales tax collections are generated within the New York City Metropolitan region – consisting of New York City, Long Island and the Mid-Hudson Valley. This area consists of approximately 70 percent of general sales tax collections and 68 percent of the state's population.

Taxable Sales By Region March 2000- February 2001



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

Figure 18

As in years past, retail trade is the largest share of taxable sales. Retail sales include furniture, automobiles, appliances and other pieces of tangible personal property. Retail sales as a percentage of total taxable sales decreased as a result of the clothing exemption that went into effect March 1, 2000. Accommodations and food service account for approximately 11 percent of taxable sales, which includes meals, hotel stays and other similar purchases.

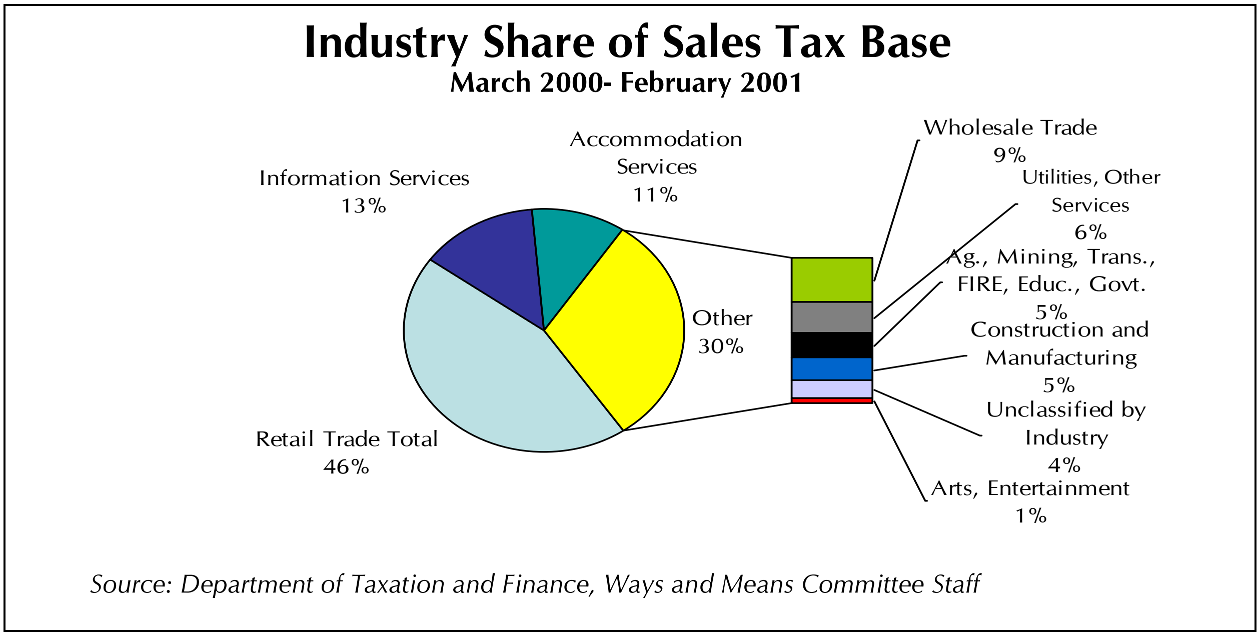


Figure 19

Streamlined Sales Tax Project

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 hope 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 consider granting 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.

To participate in the SSTP and have voting rights, states must pass model legislation indicating a willingness to enter multi-state discussions on the SSTP. As of April 2004, New York along with 41 other states and the District of Columbia have enacted legislation entitling them to be a participating state. Only three states that impose a sales tax have not become participating states.

One of the SSTP's first tasks was to develop a uniform set of rules, definitions and procedures known as the SSTP agreement. The provisions of the agreement are designed with the intention of allowing states the most flexibility possible, while still streamlining sales tax provisions nationally. For instance, states can still choose what types of items will be exempt or taxable, but states must make such determinations according to the definitions agreed upon by the SSTP. States must comply with these rules in order to qualify to become a SSTP governing state. On November 12, 2002, the SSTP participating states approved a tentative version of the SSTP Agreement. The SSTP agreement takes effect when at least 10 states, accounting for at least 20 percent of the population of states that impose a sales tax, have enacted the provisions of the agreement. Once this occurs, authority to administer the agreement is transferred from the SSTP participating states to a governing board comprised of representatives from each of the governing states.

As of July 2003, twenty states had passed legislation conforming their laws to the SSTP agreement. However, the three most populous states, New York, California, and Texas have not conformed. The next phase in the project will be the certification of each of the 20 states' laws and regulations to assess if they are in compliance with the agreement. Once inline with the agreement, 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. New York State did not take specific steps during the 2004-05 state fiscal year to conform to the SSTP.

The Internet and Sales Tax

The Internet Tax Freedom Act (Act), originally enacted by the Federal Government on October 1, 1998, provided a three year moratorium on state and local taxes on Internet access charges, with the exception of any such tax that was enacted and enforced prior to October 1, 1998. The moratorium also prohibited multiple or discriminatory taxes on e-commerce if a taxing jurisdiction did not levy the same tax on a good or service purchased through other means. In addition, if a comparable good or service is subject to tax, then the Act prohibited the taxing jurisdiction from imposing a higher tax on Internet purchases. Finally, the Act prohibited taxing jurisdictions from imposing a tax on the same or essentially the same electronic commerce that is also subject to another tax imposed by another taxing jurisdiction without a credit for taxes paid in the other jurisdictions.

In 2001, the Internet Tax Freedom Act was extended for an additional two years until it temporarily expired November 1, 2003. The Internet Tax Freedom Act was reinstated in the form of the Internet Tax Non-Discrimination Act in December of 2004. The new act bans taxation of internet access until November 1, 2007. It also extends, until November 1, 2007, authorization to levy a tax for jurisdictions that did so prior to October 1, 1998. For jurisdictions that began to levy a tax when the prohibition expired in 2003, the Internet Tax Non-Discrimination Act allows them to continue doing so until November 1, 2005. New York State does not impose a tax on internet access and pursuant to the Internet Tax Non-Discrimination Act cannot do so until 2007.

The Act preserved the rights of state and local taxing authorities to impose sales and use taxes on purchases made via the Internet, provided they meet the aforementioned requirements. The rules governing Internet purchases are the same as those for cross border purchases or mail-order purchases. The burden to collect and remit the tax falls on company if the Web companies that have 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 very few individuals remitted such liability or were even aware of their liability.

To address this problem in New York, the 2003-04 State Budget required the Department of Taxation and Finance to include a line in the personal income tax form for individuals to remit their use tax liability. This requirement is estimated to have produced approximately \$8 million in state revenues in 2004 and \$7.8 million for local governments.

In order to further the State's attempts to collect sales tax on purchases made from out-of-state vendors, 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 will expand the universe of companies collecting sales tax on behalf of New York State and therefore increase sales tax collections. If a company that registered as a sales tax vendor does not collect sales tax pursuant to their obligations, they will lose their vendor status and their eligibility for state contracts. According to the Executive, this provision will increase sales tax collections by \$25 million in SFY 2005-06. While the Legislature has taken specific actions to increase sales tax collections, certain technological advances have usurped these efforts, such as voice over internet protocol.

VoIP

Voice over Internet Protocol (VoIP) is the technology by which telephone calls are placed through the Internet instead of traditional phone lines. While the service experienced by consumers is virtually identical to traditional phone service, the technological manifestation of VoIP has rendered the service difficult to tax. Since tax is only applied to intrastate calls in New York, calls must be separated by destination in order to determine taxability. For traditional phone calls this is easy, however VoIP calls are virtually impossible to trace. New York and other states have challenged this ruling, but to no avail. Since the Internet is not limited to a set of wires and special switch boards monitored and regulated by the FCC, VoIP providers can move offshore to avoid paying taxes while still providing service. For consumers, VoIP is a cheap, relatively reliable alternative to traditional phone service. However, due to this emerging technology states and local governments are losing tax revenues.

Local Sales Tax

In New York, counties and cities are authorized to impose a local sales tax. Generally, the local sales tax base is identical to the state sales tax and is administered by the State Department of Taxation and Finance. Counties and cities are authorized to impose a sales tax of up to a total rate of three percent in the general sales tax law. However, most counties have received state authorization to impose additional rates of tax. As of December 1, 2004, only 10 counties did not have authorization to impose a county sales tax rate in excess of three percent. Additional rates of sales tax are generally authorized for a period of two years.

Cities are also granted authority to impose a sales tax. However, cities are generally only allowed to levy a sales tax that is one and one-half percent or less. In cities that choose to impose a sales tax, the county rate automatically decreases by the same rate – this process is known as preemption. The total rate experienced by a consumer is generally not affected by a city preempting. As New York City is actually made up of five different counties, the counties of New York City are not permitted to levy a sales tax. Instead, all five counties are subject to the New York City rate of sales tax, which is currently 4.125 percent. As of December 1, 2004, total local sales tax rates range from three percent to four and one-half percent.

Some local sales tax revenues are earmarked for very specific purposes. For instance, revenues may be earmarked for water protection, shared with towns and villages or may be retained by the county and used for general government purposes. As with many other areas of law, there are various exceptions to the general local sales tax parameters outlined above. One of the main reasons given by counties and New York City for requesting increases in the local sales tax rate is the local costs of Medicaid. In his 2005-06 proposed budget, the Executive proposed a program whereby counties would have a choice to cap local shares of Medicaid or sacrifice a set percent of sales tax revenues in exchange for no Medicaid liability.

Medicaid Proposal

Under the Executive's Medicaid proposal, a county's 2005 share of Medicaid expenses would be increased so that in the following years the amount of a county's Medicaid share would be:

- 2006: 2005 amount + 3.5%
- 2007: 2005 amount +6.75%
- 2008: 2005 amount +9.75%

In 2008, counties would be given an irrevocable option to choose between capping their Medicaid expenditures or allowing the State to take over the share of county Medicaid expenses, in exchange for allowing a portion of their sales tax receipts to be intercepted by the State.

Under the first option, a county's annual Medicaid expenditures would increase by an amount equal to 3 percent of the county's Medicaid share in 2005. This option would set exact, predictable Medicaid liabilities. For example, if a county chose the former option, then in 2009 and 2010, their Medicaid costs would be

- 2009: 2005 amount + 12.75%
- 2010: 2005 amount + 15.75%

If instead, the county chose the sales tax option, the amount of sales tax revenue intercepted in future years would be increased by the growth in the county's sales tax base. Under this option, local Medicaid liability would rise and fall with sales tax.

Therefore, in making this decision, counties will have to calculate whether their sales tax base will grow at a rate that is greater than 3 percent of their 2005 Medicaid expenses.

Counties that believe their sales tax base will grow at a rate that is greater than three percent of 2005 liability will choose option one and future liabilities will grow by three percent of 2005 Medicaid liability. In contrast, counties that believe their sales tax base will grow by less than three percent of 2005 Medicaid liability will chose option two, and their future Medicaid liabilities will be a set proportion of their taxable sales.

Auto Rental

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 less than 9,000 pounds and seats less than ten 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.

Table 10

Auto Rental Tax
(Dollar Amounts in Millions)

	Closeout SFY 2004-05			Forecast SFY 2005-06		
	WAM	Executive	Diff. from Executive	WAM	Executive	Diff. from Executive
General Fund	-	-	-	-	-	-
Special Revenue	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-
Capital Projects	$40	$40	-	$42	$41	$1
All Funds	$40	$40	-	$42	$41	$1

Legislation enacted in 2002 dedicated all auto rental tax receipts to the Highway and Bridge Trust Fund within the Capital Projects Fund.

Based on historical collection patterns, the Committee staff estimates that SFY 2004-05 receipts will total $40.2 million, representing a 4.1 percent increase from SFY 2003-04.

The Committee staff estimate for SFY 2005-06 is $42 million. This represents an increase of $2 million, or 4.1 percent from SFY 2004-05. This estimate is $1 million higher than the Executive's.

Motor Fuel Taxes

Article 12-A imposes an 8 cents per gallon tax on diesel motor fuel at the point of first taxable sale 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).

Table 11

Motor Fuel Tax (Dollar Amounts in Millions)						
	Closeout SFY 2004-05			Forecast SFY 2005-06		
	WAM	Executive	Diff. from Executive	WAM	Executive	Diff. from Executive
General Fund	-	-	-	-	-	-
Special Revenue	111	111	-	117	111	5
Debt Service	-	-	-	-	-	-
Capital Projects	423	420	3	442	422	20
All Funds	$534	$531	$3	$558	$533	$25

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. Also, beginning April 1, 2000, a portion of motor fuel taxes have been earmarked for the Dedicated Highway and Bridge Trust Fund and beginning April 1, 2001, to the Dedicated Mass Transportation Trust Fund.

Currently, 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).
- 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).

The Committee staff estimates that motor fuel taxes will total $534 million in SFY 2004-05 on an All Funds basis, an increase of 3.5 percent. The Committee staff estimate is $3 million higher than the Executive estimate on an All Funds basis. Revenues collected from motor fuel taxes are statutorily dedicated in the following manner:

- $111 million deposited in the Dedicated Mass Transportation Trust Fund (DMTTH); and,
- $423 million to the Dedicated Highway and Bridge Trust Fund (DHBTF).

Through December 2004 motor fuel collections are $410.1 million, an increase of $25.4 million, or 6.6 percent above the comparable period in the prior fiscal year. Gasoline net receipts are up 0.5 percent while diesel net receipts are up 82.2 percent due to a large negative correction for receipts during May and July 2003.

The Committee staff forecast for motor fuel taxes in SFY 2005-06 is $558 million, a 4.5 percent increase. The Committee staff estimate is $25 million higher than the Executive estimate on an All Funds basis. The increase is largely due to a forecast of moderating fuel prices in the coming year, which should provide an increase in fuel consumption. Motor fuel taxes will be distributed as follows:

- $117 million to the Dedicated Mass Transportation Trust Fund; and,
- $441 million to the Dedicated Highway and Bridge Trust Fund.

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 fees are based upon the length of the boat.

Other fees include in-transit permits and 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.

In SFY 2004-05, All Funds receipts are estimated to total $658 million, a 0.6 percent increase. This estimate is $18 million above the Executive's estimate. Through December 2004, motor vehicle collections are $506 million, an increase of $10 million, or 2.1 percent over the comparable period in the prior fiscal year. Motor vehicle fees for the remainder of the fiscal year are expected to decrease by 4.4 percent.

The Committee staff projects General Fund receipts in SFY 2004-05 will total $26 million. This estimate is equal to the Executive estimate.

Table 12

Motor Vehicle Fees
(Dollar Amounts in Millions)

	Closeout SFY 2004-05			Forecast SFY 2005-06		
	WAM	Executive	Diff. from Executive	WAM	Executive	Diff. from Executive
General Fund	$26	$26	$0	-	-	-
Special Revenue	137	133	4	171	160	11
Debt Service	-	-	-	-	-	-
Capital Projects	495	481	14	505	473	33
All Funds	$658	$640	$18	$676	$632	$44

All revenues from motor vehicle registrations are earmarked to the Dedicated Highway and Bridge Trust Fund and the Dedicated Mass Transportation Trust Fund according to a statutory formula: 63 percent is allocated to the former and 37 percent to the latter.

Of the $632 million in dedicated fees, the Committee staff estimates that the Dedicated Mass Transportation Trust Fund will receive $137 million dollars, while the Dedicated Highway and Bridge Trust Fund will receive $495 million dollars.

In SFY 2005-06, All Funds receipts are estimated to total $676 million, a 2.7 percent increase.

This forecast takes into account the adverse effect on revenues from the move to eight-year licenses in 2000 and the recommended increases in several categories of motor vehicle fees. These increases would be earmarked to the Dedicated Highway and Bridge Trust Fund, $41.5 million dollars, and to the Dedicated Mass Transportation Trust Fund, $24.4 million.

The Committee staff estimates that for SFY 2005-06, the Dedicated Mass Transportation Trust Fund will receive $171 million and the Dedicated Highway and Bridge Trust Fund will receive $505 million dollars.

Cigarette and Tobacco Taxes

Article 20 of the Tax Law imposes a cigarette excise tax at the rate 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) programs. Beginning in SFY 2005-06, cigarette tax collections that are dedicated to HCRA will be included in the State's All Governmental Funds Budget 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.

Table 13

Cigarette Tax
(Dollar Amounts in Millions)

	Closeout SFY 2004-05			Forecast SFY 2005-06		
	WAM	Executive	Diff. from Executive	WAM	Executive	Diff. from Executive
General Fund	$406	$403	$3	$396	$401	($5)
Special Revenue	-	-	-	554	561	(7)
Debt Service	-	-	-	-	-	-
Capital Projects	-	-	-	-	-	-
All Funds	$406	$403	$3	$950	$962	($12)

The Committee staff estimates that cigarette and tobacco tax receipts will total $974 million in SFY 2004-05, a decline of 3.8 percent or $39 million over SFY 2003-04. Of these receipts, $406 million is estimated to be deposited into the General Fund and $568 million into the HCRA Fund.

In SFY 2005-06, the Committee staff forecasts collections will total $950 million, a decline of 2.5 percent from the prior year. The decline in cigarette tax receipts is due to increased awareness of the health risks associated with smoking, which has contributed to a long-term decline in cigarette consumption, and increases in cigarette prices estimated at 2.6 percent in SFY 2004-05 and 3.7 percent in SFY 2005-06.

Other factors that could affect cigarette tax receipts are restrictions on smoking in public places and tax evasion. Tax evasion occurs when consumers purchase their cigarettes through the Internet, by mail, from Native American reservations or from neighboring states, and do not report these purchases to the Department of Taxation and Finance. The incentive to avoid paying taxes increases as tax rates raise. The following table shows the cigarette excise tax rate in selected states. As of January 1, 2005, Rhode Island has the highest state tax rate in the nation at $2.46, followed closely by New Jersey at $2.40. However, when New York State's and New York City's tax rates are combined, New York continues to have the highest combined state and local tax rate in the nation at $3.00 per pack.

Table 14

Cigarette Excise Taxes by Selected States

State	Per Pack
Rhode Island	$2.46
New Jersey	$2.40
Connecticut	$1.51
Massachusetts	$1.51
New York*	$1.50
Pennsylvania	$1.35
Vermont	$1.19
Maine	$1.00
New Hampshire	$0.52
U.S. Median	$0.70

Source: American Lung Cancer Association

*In addition to the State tax, NYC imposes a $1.50 per pack tax

Another risk to the Committee staff forecast is the affect of regulations requiring all cigarettes sold in New York to be self-extinguishing. Concerns that differences in the perceived taste of fire-safe cigarettes compared to regular cigarettes, combined with producers charging more for cigarettes sold in NY to capture the higher costs associated with the cigarette paper used in the fire-safe cigarettes, do not appear to have eventuated. However, since cigarette retailers were given several months to exhaust their existing supply of cigarettes before having to sell fire-safe cigarettes, and the regulations only came into effect June 28, 2004, it may simply be too soon to know the true impact of these regulations.

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 are paid directly to the SLA.

Table 15

Alcoholic Beverage Fees
(Dollar Amounts in Millions)

	Closeout SFY 2004-05			Forecast SFY 2005-06		
	WAM	Executive	Diff. from Executive	WAM	Executive	Diff. from Executive
General Fund	$40	$42	($2)	$46	$46	-
Special Revenue	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-
Capital Projects	-	-	-	-	-	-
All Funds	$40	$42	($2)	$46	$46	-

The Committee staff estimates that receipts from alcoholic beverage fees will total $40 million in SFY 2004-05, a $6 million or 13 percent decrease over SFY 2003-04. This estimate is $2 million below the Executive's estimate. Much of the decline in receipts may be attributed to legislation enacted in 2002 that 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.

The Committee staff forecasts receipts will total $46 million in SFY 2005-06, representing an increase of $6 million or 15 percent over the prior fiscal year.

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 and alcohol content of the beverage. All of the receipts are deposited in the General Fund.

The Committee staff estimate for SFY 2004-05 alcoholic beverage tax receipts is $185 million, representing a $6 million or 3 percent decrease over SFY 2003-04. After accounting for a late payment in SFY 2002-03, which artificially inflated SFY 2003-04 receipts, and the full year impact of the beer tax cut from 12.5 cents to 11 cents per gallon, underlying growth in tax receipts is mostly flat.

Table 16

Alcoholic Beverage Tax
(Dollar Amounts in Millions)

	Closeout SFY 2004-05			Forecast SFY 2005-06		
	WAM	Executive	Diff. from Executive	WAM	Executive	Diff. from Executive
General Fund	$185	$184	$1	$219	$224	($5)
Special Revenue	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-
Capital Projects	-	-	-	-	-	-
All Funds	$185	$184	$1	$219	$224	($5)

Alcoholic beverage tax receipts are forecast to total $181 million in SFY 2005-06, a decline of $4 million or 2.3 percent from the prior year. Liquor sales account for approximately 75 percent of these tax receipts, wine sales 5 percent and beer sales 20 percent. Included in the Executive Budget are proposals to increase the excise tax on wine from 5 cents to 28 cents per liter and to permit direct wine shipment by out-of-State wineries. If enacted, these tax law changes would raise the forecast to $219 million, and would increase wine sales contribution to alcohol tax receipts to 22 percent. This forecast is $5 million below the Executive's forecast.

Table 17

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
Sparkling Wine (Natural)	$0.05 per liter
Sparkling Wine (Carbonated)	$0.05 per liter
Still 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

BUSINESS TAXES

Business taxes include the corporate franchise, utility, insurance, bank and petroleum business taxes. The Committee staff estimates that business tax collections will total $5.596 billion in SFY 2004-05, representing an increase of $589 million, or 11.8 percent, over SFY 2003-04. This estimate is $5 million higher than that of the Executive estimate. All Funds business tax collections increased by $527 million, or 15.3 percent, through December 2004. Year-to-date bank and corporate franchise tax collections have increased substantially due to a recovering economy and an increase in corporate profits. Utility tax collections have declined sharply so far this fiscal year, continuing a trend following the tax reform enacted in 2000.

Table 18

Business Tax Collections By Fund Type
SFY 2004-05
(Dollar Amounts in Millions)

	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
Business Taxes	**$3,864**	**$1,110**	**$0**	**$622**	**$5,596**
Corporate Franchise	1,780	249	-	-	2,029
Utility Tax	612	172	-	15	799
Insurance Tax	924	111	-	-	1,035
Bank Tax	548	84	-	-	632
Petroleum Business Tax	-	$494	-	$607	$1,101

The Committee staff's forecast for All Funds business tax collections is $5.937 billion in SFY 2005-06, an increase of $341 million, or 6.1 percent, over SFY 2004-05. This estimate is $5 million below the Executive. This increase is based on an expected rise in corporate profits of 9.9 percent in 2005, and includes Executive proposals that would increase revenues by $84 million in the upcoming fiscal year.

Table 19

Business Tax Collections By Fund Type
SFY 2005-06
(Dollar Amounts in Millions)

	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
Business Taxes	**$4,136**	**$1,170**	**$18**	**$613**	**$5,937**
Corporate Franchise	1,821	250	-	-	2,071
Utility Tax	670	192	18	-	880
Insurance Tax	985	118	-	-	1,103
Bank Tax	660	111	-	-	771
Petroleum Business Tax	-	$499	-	$613	$1,112

All Funds collections for the business taxes are deposited into both the General Fund and several dedicated funds. Dedicated business tax receipts are estimated to total $1.801 billion in SFY 2004-05, while the remaining $4.136 billion will be deposited into the General Fund.

Corporate Franchise Tax

Article 9-A corporate franchise taxes are imposed on every domestic or foreign corporation for the privilege of exercising its corporate franchise, doing business, employing capital, or owning or leasing property in New York.

Corporations generally pay the higher of:

- entire net income allocated to New York;
- allocated capital;
- minimum taxable income allocated to New York; or
- a fixed dollar minimum tax.

The largest component of business taxes, the corporate franchise tax, has seen a recent increase in collections. While corporate franchise tax collections have declined significantly over several previous fiscal years, SFY 2004-05 collections are anticipated to grow by nearly 19.4 percent reflecting increased payments on current year liabilities and a decline in refunds on prior year returns.

Table 20

Corporate Franchise Tax (Dollar Amounts in Millions)						
	Closeout SFY 2004-05			Forecast SFY 2005-06		
	WAM	Executive	Diff. from Executive	WAM	Executive	Diff. from Executive
General Fund	$1,780	$1,774	$6	$1,821	$1,869	($48)
Special Revenue	249	248	1	250	257	(7)
Debt Service	-	-	-	-	-	-
Capital Projects	-	-	-	-	-	-
All Funds	$2,029	$2,022	$7	$2,071	$2,125	($54)

The Committee staff estimates that All Funds corporate franchise tax collections will total $2.029 billion in SFY 2004-05, representing an increase of $329 million, or 19.4 percent over SFY 2003-04. This estimate is $7 million higher than the Executive's Budget estimate. Of the total All Funds collections, General Fund collections are estimated to be $1.780 billion, while $249 million in collections are expected from the MTA surcharge.

In the current State fiscal year, corporate franchise tax collections have increased by $345 million, or 33 percent, for the first three quarters of the year due to an increase in gross collections of 20.8 percent and a decrease in refunds of 14.1 percent. Collections in the current fiscal year are boosted by provisions in the 2004-05 Enacted Budget that restructured the Fixed Dollar Minimum Tax. This provision is expected to increase revenues by $40 million.

Large Audits Augment Growth in Franchise Tax

The current fiscal year's Case and Resource Tracking System (CARTS) audit collections have given Article 9A collections a substantial boost. The growth in the 2004-05 estimated receipts can in part be attributed to the 86.2 percent growth in audit collections in comparison to this point last year. Through January, Franchise Tax collections have already eclipsed the Executive estimate of $300 million for 2004-05. The number of projected audits fell 35.3 percent from last year while the actual number of audits completed is already 23.7 percent above this year's projected amount. This has led to a large increase in collections over the prior year. Year to date audit collections are 39.6 percent of All Funds collections, which is the highest ratio of audit collections to total collections in twenty years by ten percentage points. The substantial increase in audits and an increase in corporate profits helped spur a double digit increase in the SFY 2004-05 Corporate Franchise tax estimate.

Table 21

Article 9A Audit Assessment and Collections SFY 2000-05
(Dollar Amounts in Millions)

Year	Total Collections	Number of Audits: Projected	Number of Audits: Actual	Number of Audits: % Actual to Projected	Increased Liability Collected: Projected	Increased Liability Collected: Actual	Increased Liability Collected: % Actual to Projected	Audit % of All Funds
2000	1,939	11,563	7,817	67.6%	470	404	85.9%	20.8%
2001	2,557	10,483	7,205	68.7%	457	422	92.4%	16.5%
2002	1,703	8,956	8,374	93.5%	485	387	79.8%	22.8%
2003	1,612	9,161	8,767	95.7%	488	401	82.1%	24.9%
2004	1,700	8,325	7,913	95.1%	517	487	94.1%	28.6%
2005	1,387	5,386	6,661	123.7%	452	549	121.5%	39.6%

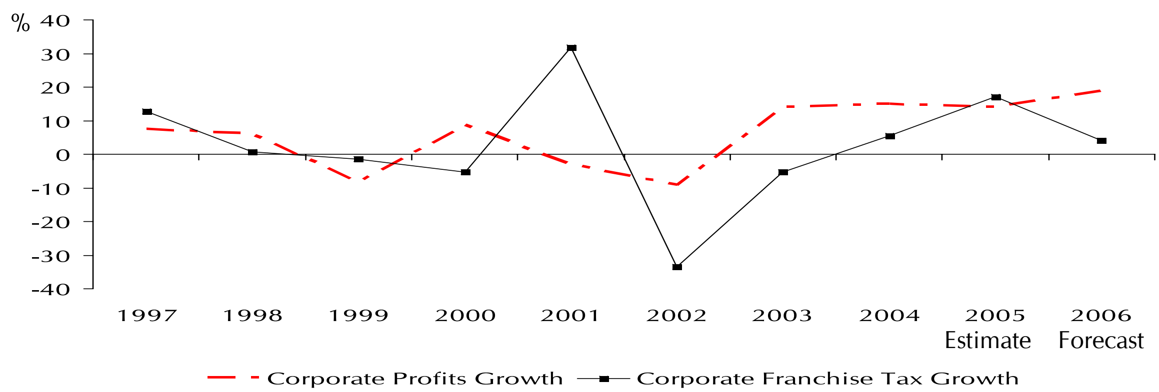
* 2005 Statistics reflect collections through December 31, 2004

Source: New York State Department of Tax and Finance Tax Audit Reports

In SFY 2005-06, corporate franchise tax receipts are forecasted to total $2.071 billion, an increase of $40 million, or 2.1 percent over estimated SFY 2004-05. The forecast reflects costs of $50.5 million which includes an increase of $10 million from revenue actions proposed by the Executive and a decrease of $61.5 million in Brownfield Credits from prior year legislation scheduled to take effect in SFY 2005-06.

Corporate Franchise Tax Revenues and Corporate Profits

(Growth rates for State Fiscal Years)



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

Figure 20

Multi-State Taxation: Closing Corporate Loopholes

Although corporate tax revenues are a relatively small share of a state's tax base, a disproportionate amount of time is spent developing corporate tax policy. Corporations can be formed and managed rather simply or they can be highly complex multilayered organizations with operations and affiliations that are at best difficult to understand. As a result, corporate tax law is just as complex, if not more so.

Multi-state corporations present another level of complexity and challenge for state tax policy. The State corporate tax code is formulated by following constitutional rules and lawmakers then deciding the appropriate policy to balance burden and revenue needs. Large multi-state companies bring in money for the local economy. They create jobs and provide the wages necessary to establish a sound quality of life. Corporations also pay property taxes to support the services of local government.

Taxing corporations requires decisions on the ability to tax, what to tax, how much to tax, and whom to tax including specifically the rate of tax, tax expenditures, which income to tax, and how to treat related or affiliated companies.

New York has long used the tax code to provide economic incentives for business retention and job creation. For example, New York was one of the first states to provide a double weighted sales factor to benefit in-state businesses, particularly manufacturers. However, in recent years, corporations have taken a much more aggressive approach in exploiting loopholes in state tax laws purely for the sake of tax avoidance. To combat these actions, in 2003 the Legislature enacted a law that would disallow certain royalty and interest deductions utilized by "passive investment companies." Those provisions are estimated to save the State approximately $100 million in the current fiscal year.

The Executive's Budget proposes significant changes to state corporate tax policy that will have an impact on domestic companies and multi-jurisdictional companies as well. Significant legislation is proposed to addressing tax shelters, Real Estate Investment Trusts (REITs) & Regulated Investment Company (RICs), and cooperative insurance companies.

Estimated to have a $50 million impact in SFY 2005-06, the REITs/RICs provisions will have the most significant impact on out year revenues. A broader definition of entire net income (ENI) is established by including subsidiary distributions paid by a REIT or RIC where this income, gain or loss would be normally excluded from the ENI calculation. In addition non-subsidiary dividends no longer fall under the fifty percent dividend exclusion.

The Executive also proposes to align New York with federal anti-tax shelter legislation. It requires stricter disclosure rules for reportable and listed transactions often affiliated with tax avoidance schemes. Other states such as California and Illinois have adopted similar legislation and have had significant revenue impacts. The Executive estimates that the tax shelter proposal will increase State revenues by $25 million in SFY 2005-06.

The Executive has proposed the restructuring of an exemption for certain co-operative insurance corporations that is estimated to generate $18 million in revenue. The proposal would allow an exemption only for those cooperatives that report direct written premiums of $25 million or less. Several of the cooperatives targeted by the original statute have grown beyond the intent of the exemption, and are purported to have a competitive advantage against other insurance companies.

Economic Development through Legislation

It is common for legislation to encourage economic development. Both houses of the legislature and the Executive often agree that the tax code may be altered to benefit a struggling industry or other classes of taxpayers. Some tax expenditures are tax credits that offset taxes paid and directly alter tax liability. Other expenditures come in the form of deductions or exemptions, which lowers the Entire Net Income base on which the tax liability is calculated. Theoretically economic development initiatives provide a logical method to address some of the State's most endemic problems.

The Empire Zones program has come under scrutiny in recent years because of its lack of accountability. There is also significant cost associated with the program. Empire Zones were originally estimated as a $40 million incentive but have now grown into a $435 million tax credit program according to the most recent Tax Expenditure Report.

While the Executive proposes to reform the Empire Zones program, he also proposes the SPUR (Strategic Partnership for Upstate Resurgence) initiative. This program is largely undefined and has the potential to exhibit many of the same accountability issues as the Empire Zones.

The success or failure of many economic development initiatives is not easily measured because of the complex nature of quantifying and qualifying the tangible results. With the exception of New York City and the surrounding Metropolitan Commuter Transportation District, the Executive creates several new programs for upstate New York including three new business tax breaks for qualified SPUR investors. The SPUR wage tax credit, refundable Net Operating Loss credit, and Single Sales Factor initiatives provide new opportunities for businesses to lower their tax burden.

In qualified SPUR areas, certain manufactures could elect to use a single sales factor business allocation formula under Article 9A of the Tax Law if they invested at least $25 million in a SPUR area. This proposal would also eliminate the alternative minimum tax for manufacturers. Single sales factor allocation gives a relative advantage to local corporations with large amounts of New York property and payroll. Other states such as Massachusetts have already adopted similar measures. This proposal is narrower in scope than the Executive's prior year proposal, which would have been statewide.

The second business tax incentive under the SPUR program is a refundable credit for Net Operating Losses, which is available for Article 9A taxpayers that are affiliated with a Center for Excellence and create 25 jobs or make a significant investment in one or more

SPUR areas in direct connection with the Center. The credit may not exceed $1 million for any taxpayer for any one year and is capped at $5 million for the duration of the program.

The final business incentive in the SPUR program involves a wage tax credit for businesses creating at least 50 new jobs. This credit is similar to the Empire Zone Wage Credit where taxpayers may receive a credit of $3,000 for targeted employees and $1,500 for other employees. An additional credit of $500 is available to taxpayers located in both SPUR areas and Empire Zones. The estimated total cost of these three initiatives is $35 million.

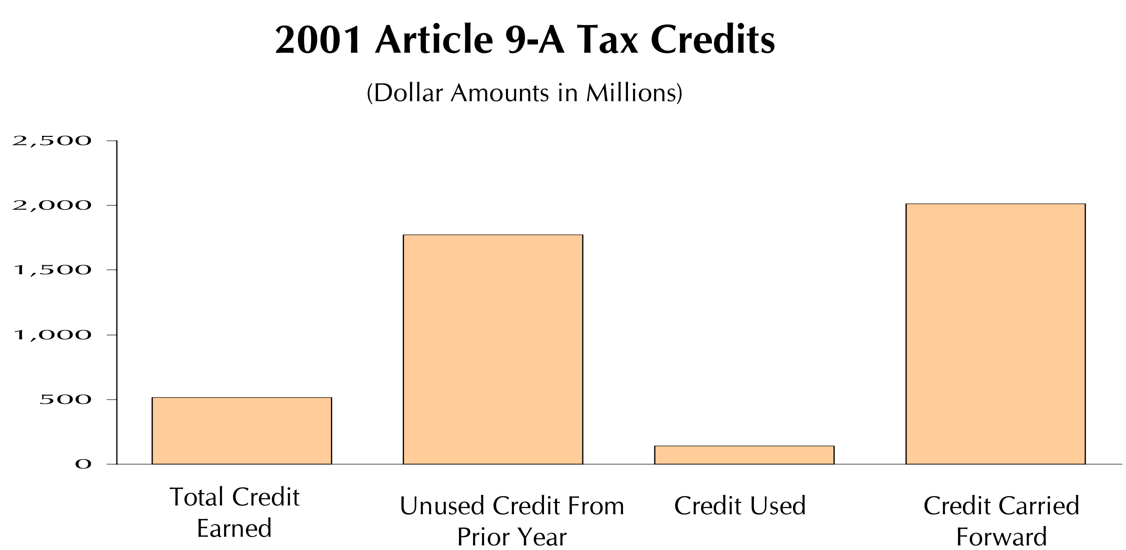
In conjunction with the Executive Budget, the Department of Tax and Finance publishes the New York State Tax Expenditure Report detailing the various expenditure programs and their estimated cost to the State. The table below outlines some of the tax expenditures found in the report covering SFY 2004-05.

Table 22

Selected 2005 Tax Expenditure Estimates (Dollar Amounts in Millions)

Tax	Item	Amount
Corporate Franchise Tax	Empire Zone and QEZE Credits	$196
Corporate Franchise Tax	Brownfields Tax Credits	62
Corporate Franchise Tax	Investment Tax Credit	93
Bank Tax	Deduction of 60 Percent of Dividend Income	93
Insurance Tax	Fire Insurance Tax Credits	40

Source: New York State Executive Budget - Tax Expenditure Report 2005-2006



Source: 2005-06 Executive Tax Expenditure Report

Figure 21

According to the 2005-06 Executive Tax Expenditure Report there were $513.8 million in credits earned in 2001. However, only $141 million, or 27.5 percent, of these credits were used. The unused portion of the credit is carried forward for potential use in future tax years. In 2001 there was $2.3 billion in available credits and that amount continues to grow year after year. The disparity between the amount of credits earned and used can easily be seen by the large amount of credits carried forward. This phenomenon draws attention to the original policy goal, the State's ability to effectively and efficiently address the goal with tax policy, and the relative need for incentives to entice companies to generate economic activity.

Utility Tax

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

Chapter 63 of the Laws of 2000 contained provisions that restructured the Utility Tax by changing the method of taxation for certain utility companies from a gross receipts base to a net income base. Under these provisions, certain portions of the gross receipts tax were eliminated while others are still being phased-down through 2005. As a result, many of the businesses now pay under the corporate franchise tax, reducing utility tax collections significantly.

All Funds utility tax receipts have declined by approximately $50 million, or 8 percent, through December 2004. The Committee staff estimates that utility tax receipts will total $799 million in SFY 2004-05, representing a decline of $83 million, or 9.4 percent, from SFY 2003-04. This estimate is $16 million above the Executive. Of the total All Funds collections the General Fund amount is estimated at $612 million and $188 million will be generated from the MTA surcharge for SFY 2004-05.

The decline in utility tax collections is mainly due to the Utility Tax Reform enacted in 2000, which is still being phased in. These changes are expected to reduce utility tax receipts by $110 million in SFY 2004-05.

Table 23
Utility Tax
(Dollar Amounts in Millions)

	Closeout SFY 2004-05			Forecast SFY 2005-06		
	WAM	Executive	Diff. from Executive	WAM	Executive	Diff. from Executive
General Fund	$612	$600	$12	$670	$643	$27
Special Revenue	172	168	4	192	184	8
Debt Service	-	-	-	18	-	18
Capital Projects	15	15	-	-	17	($17)
All Funds	$799	$783	$16	$880	$844	$36

Utility tax receipts are forecasted to total $880 million in SFY 2005-06, representing an increase of $80 million, or 10.0 percent, over SFY 2004-05. Collections are impacted by the final year of utility tax phase-out, reducing revenues by approximately $40 million.

Insurance Tax

Insurance taxes are authorized by Articles 33 and 33-a of the Tax Law, and Articles 11 and 12 of the Insurance Law. Article 33 of the Tax Law imposes a premium tax ranging from 1.5 to 2.2 percent on certain insurance companies for the privilege of operating in a corporate form in New York State. Article 33-a imposes a tax on independently procured insurance. Articles 11 and 12 impose retaliatory taxes and a tax on excess line brokers (brokers authorized to procure insurance from out-of-state carriers not authorized to do business in New York).

The Committee staff estimates that insurance tax receipts will total $1.035 billion in SFY 2004-05, representing an increase of $4 million, or 0.4 percent over SFY 2003-04. This estimate is $14 million higher than that of the Executive. Of the total All Funds collections $924 million are General Fund receipts and $111 million is earmarked for the Special Revenue Fund.

Insurance tax receipts are forecasted to total $1.103 billion, representing growth of 6.6 percent in SFY 2005-06. Modest growth in corporate profits and insurance premiums are the major drivers of this forecast. The staff anticipates collections will mimic historic patterns since the restructuring of the tax will have been fully phased in.

The franchise tax on insurance corporations was based on allocated Entire Net Income and gross allocated premiums. Non-life insurance companies moved to a premiums only tax, imposed at a rate of 1.75 percent on accident and health premiums and 2.0 percent on all other non-life premiums. Life insurers now pay the greater of 1.5 percent of premiums, or the old calculation of 7.5 percent on ENI plus 0.7 percent of premiums limited to a total liability of no more than 2.0 percent of premiums.

Insurance tax collections have increased by $17 million, or 2 percent, through December 2004, due mostly to the result of restructuring of the insurance tax in 2003, which caused a substantial spike in insurance collections during SFY 2003-04 and carried over into the beginning of SFY 2004-05. During SFY 2003-04, premium growth continued to swell as a result of the increased risk climate following the events of September 11, 2001.

Table 24

Insurance Tax
(Dollar Amounts in Millions)

	Closeout SFY 2004-05			Forecast SFY 2005-06		
	WAM	Executive	Diff. from Executive	WAM	Executive	Diff. from Executive
General Fund	$924	$912	$12	$985	$969	$16
Special Revenue	111	109	2	118	116	2
Debt Service	-	-	-	-	-	-
Capital Projects	-	-	-	-	-	-
All Funds	$1,035	$1,021	$14	$1,103	$1,085	$18

Bank Tax

In general, the bank tax is imposed on all corporations doing a banking business in New York. Corporations subject to the bank tax will pay the highest of the following four alternative bases:

1. entire net income allocated to New York;
2. alternative entire net income allocated to New York;
3. a tax on taxable assets allocated to New York;
4. or a fixed dollar minimum tax.

Bank tax collections have increased by $180 million, or 59 percent, through December 2004. The Committee staff estimates that bank tax receipts will total $632 million in SFY 2004-05, representing an increase of $291 million, or 85.1 percent over SFY 2003-04. The growth in collections follows on the heels of steep declines in collections in 2003-04. This estimate is $35 million lower than that of the Executive.

Table 25
Bank Tax
(Dollar Amounts in Millions)

	Closeout SFY 2004-05			Forecast SFY 2005-06		
	WAM	Executive	Diff. from Executive	WAM	Executive	Diff. from Executive
General Fund	$548	$578	($30)	$660	$635	$25
Special Revenue	84	89	-5	111	107	4
Debt Service	-	-	-	-	-	-
Capital Projects	-	-	-	-	-	-
All Funds	$632	$667	($35)	$771	$743	$29

In SFY 2005-06, bank tax collections are forecasted to total $771 million, representing an increase of $139 million or, 22.0 percent over SFY 2004-05. Of the total All Funds collections, the General Fund is estimated to receive $660 million and the Special Revenue Fund is expected to receive $111 million.

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 or 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.

Through December 2004 petroleum business tax collections are $818 million, an increase of $36.2 million, or 4.6 percent above the comparable period in the prior fiscal year. The Committee staff anticipates All Funds receipts of $1.101 billion for SFY 2004-05, representing a 4.7 percent growth over SFY 2003-04.

Revenues from this tax are split between various dedicated funds. Of the total expected in SFY 2004-05, $356.5 million will be deposited in the Dedicated Mass Transportation Trust Fund, and $137.5 million will be deposited into the Mass Transportation Operating Assistance Fund. The remaining $607 million is deposited into the Dedicated Highway and Bridge Trust Funds. The petroleum business tax rates were increased by 5 percent in January 2005 as scheduled.

In SFY 2005-06, All Funds receipts are estimated to total $1.112 billion, a 1.0 percent increase from SFY 2004-05.

Of the total expected in SFY 2005-06, $360 million will be deposited in the Dedicated Mass Transportation Trust Fund, and $139 million will be deposited into the Mass

Transportation Operating Assistance Fund. The remaining amount of $613 million is deposited into the Dedicated Highway and Bridge Trust Fund.

Table 26
Petroleum Business Tax
(Dollar Amounts in Millions)

	Closeout SFY 2004-05			Forecast SFY 2005-06		
	WAM	Executive	Diff. from Executive	WAM	Executive	Diff. from Executive
General Fund	-	-	-	-	-	-
Special Revenue	494	493	1	499	514	(15)
Debt Service	-	-	-	-	-	-
Capital Projects	607	605	2	613	631	(18)
All Funds	$1,101	$1,098	$3	$1,112	$1,145	($33)

All revenues from the basic tax are earmarked to the dedicated funds (Dedicated Mass Transportation Trust Fund and Dedicated Highway and Bridge Trust Fund) and to the Mass Transportation Operating Assistance Fund. The dedication is as follows: 19.7 percent to the Mass Transportation Operating Assistance Fund[4] and 80.3 percent to the Dedicated Mass Transportation Trust Fund and the Dedicated Highway and Bridge Trust Fund[5]. The supplemental tax is also totally earmarked to the dedicated funds.

The combined tax rate of Article 12-A and 13-A on gasoline, diesel and other petroleum products, is approximately 23.2 cents per gallon. 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.

Demand for gasoline and diesel has remained high despite the fact that prices have increased more than 30 and 40 percent this year respectively. This is consistent with collection patterns to date, which show that higher gasoline prices are having a negligible effect on gasoline consumption. However the concern is focused on inventories, surplus crude oil production, and refining capacity. We assume that demand growth will outpace capacity growth for the moment so in the short term our forecast calls for continued price strength and pressure not only from crude oil prices, but also from higher cost imports. This is reflected in the Committee staff assumptions that PBT rates will again rise by the maximum amount of 5 percent in 2006.

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

[5] The money is split 37 percent and 63 percent respectively between the two funds.

OTHER TAXES

Estate Tax

Articles 26 and 26-B of the Tax Law impose taxes on the transfer of property among individuals. Transfers of property upon death are taxed under the Estate Tax Law (Article 26). All of the receipts are deposited into the General Fund.

Table 27

Estate and Gift Tax
(Dollar Amounts in Millions)

	Closeout SFY 2004-05			Forecast SFY 2005-06		
	WAM	Executive	Diff. from Executive	WAM	Executive	Diff. from Executive
General Fund	$830	$804	$27	$750	$752	($2)
Special Revenue	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-
Capital Projects	-	-	-	-	-	-
All Funds	$830	$804	$27	$750	$752	($2)

In 1997, legislation was enacted which phased-in a reduction of the Estate Tax making the tax liability equal to the Federal credit for state estate taxes paid. New York automatically conformed State law to the unified credit provisions specified in Federal Law, but capped the maximum credit at $1 million. In addition, as of January 1, 2000, the Gift Tax was repealed.

The Committee staff estimates that SFY 2004-05 receipts will total $830 million, an increase of $94 million or 12.8 percent. The Committee staff estimate reflects a large estate settlement that was received in January.

The Committee staff forecast for SFY 2005-06 is $750 million, which represents a decrease of 9.6 percent in overall estate tax receipts. The forecast assumes no receipts from the Gift Tax since it was repealed as of January 2000.

Real Estate Transfer Tax (RETT)

Article 31 of the Tax Law levies a tax on real property transfers where the value of the interest in the property exceeds $500. The rate is $2 for each $500, or a fraction thereof, of net consideration. The tax also applies to transfers of economic interest such as shares in cooperatively owned apartments. An additional tax of one percent is levied on the transfer of one, two or three family residences where the consideration is over $1 million. Typically, the party conveying the property (grantor) is liable for the $2 tax and the party receiving the property (grantee) is liable for the one percent tax.

Table 28

Real Estate Transfer Tax
(Dollar Amounts in Millions)

	Closeout SFY 2004-05			Forecast SFY 2005-06		
	WAM	Executive	Diff. from Executive	WAM	Executive	Diff. from Executive
General Fund	-	-	-	-	-	-
Special Revenue	-	-	-	-	-	-
Debt Service	631	622	9	643	627	16
Capital Projects	112	112	-	112	112	-
All Funds	$743	$734	$9	$755	$739	$16

The Committee staff's estimate for total real estate transfer tax collections in SFY 2004-05 is $743 million, an increase of $233 million, or 46 percent, from the prior fiscal year. Existing home sales, which account for 85 percent of total home sales, declined slightly in December from the previous month’s sales. This softening of the market is expected to continue for the rest of the year, producing rest of year growth of 23 percent compared to year-to-date growth of 53 percent. This estimate is $9 million above the Executive's estimate.

Each year $112 million of real estate transfer tax receipts is statutorily dedicated to the Environmental Protection Fund (EPF), while the remainder is dedicated to the Clean Water Bond Act. Revenues that are not needed to pay debt service on the Clean Water Bond Act are transferred back to the General Fund. The Committee staff estimates that $529 million will be transferred back to the General Fund in SFY 2004-05.

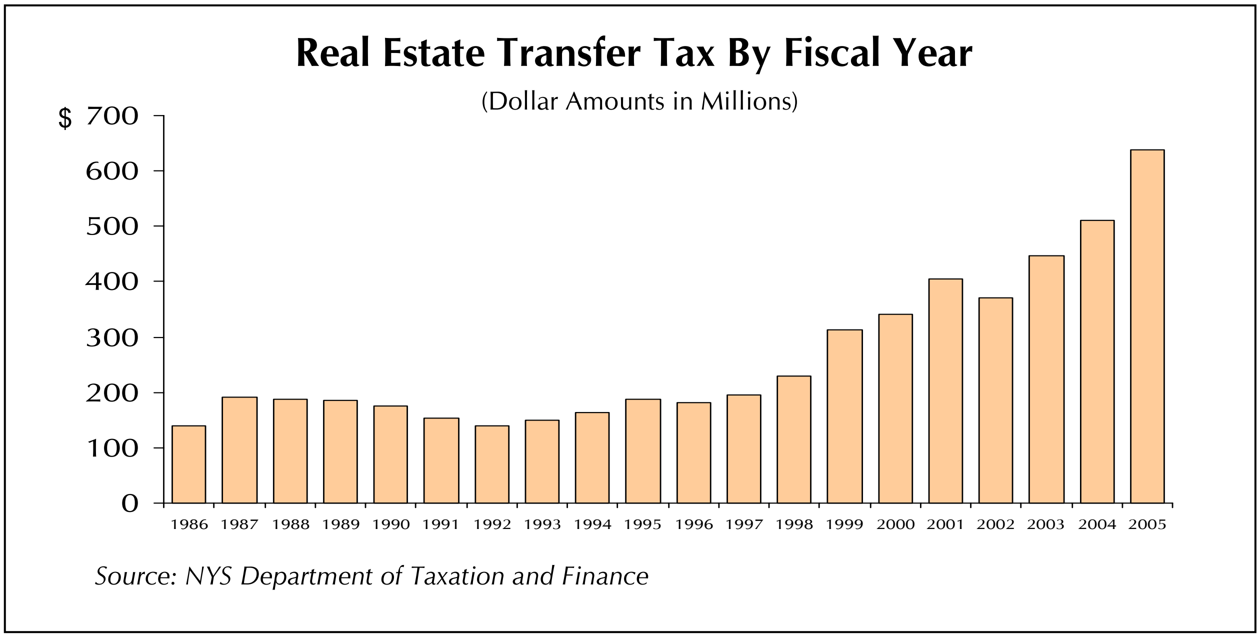


Figure 22

Due to strong growth in the real estate market the real estate transfer tax has almost doubled since SFY 1998-1999. Several factors may be contributing to the unprecedented growth in the real estate market. Fears that the Federal Reserve Bank's attempts to tighten monetary policy by raising short term interest rates would translate into higher long term mortgage rates did not materialize. Instead, long term mortgage rates continued to decline in 2004 to some of the lowest levels in 30 years. Low mortgage rates reduce the cost of borrowing money and expand the pool of people who can afford to purchase a home, thus driving up demand for housing. The purchase of second homes or rental properties as an alternative to investing in the stock market might also be contributing to the strength of the housing market.

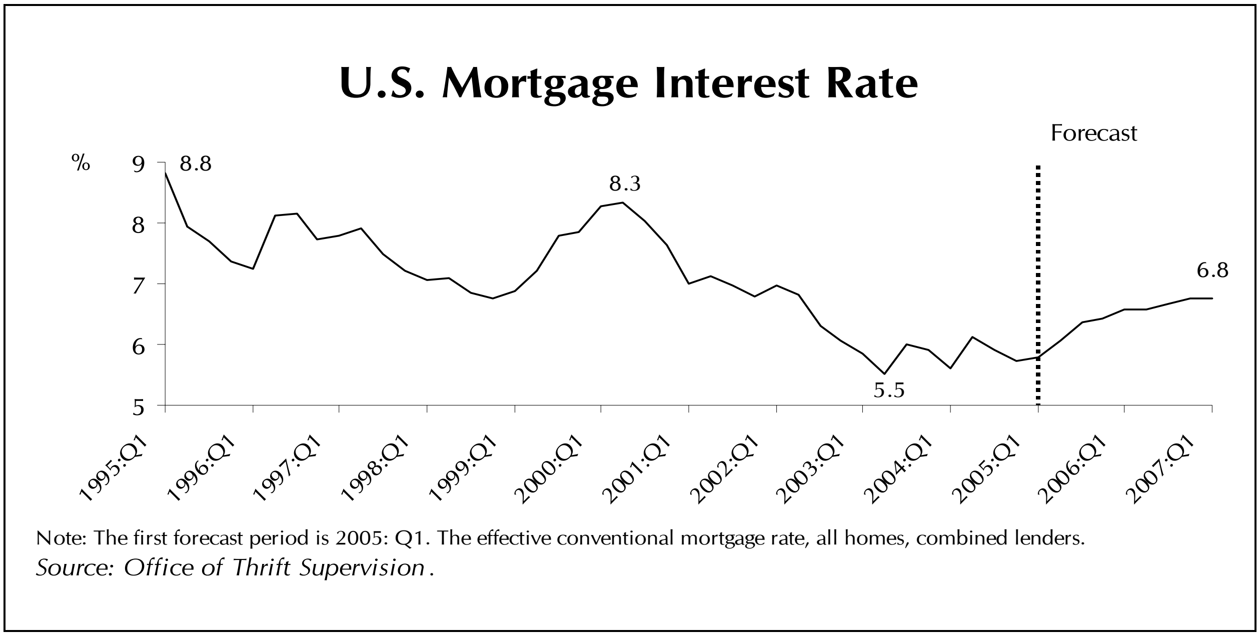


Figure 23

Real estate tax receipts are not only a function of the number of sales, but also the dollar amount of each sale. Housing prices have gone up in response to the increase in demand, especially in areas that are within commuting distance of NYC. Statewide the median price for residential sales in 2003 grew 11.5 percent from the prior year. Growth in the median house value in the NYC and Long Island regions exceeded the statewide average, growing by 17.1 and 16 percent respectively. Since NYC and Long Island account for two thirds of all real estate transfer tax receipts, a strong real estate market in these two regions is instrumental to strong State tax receipts.

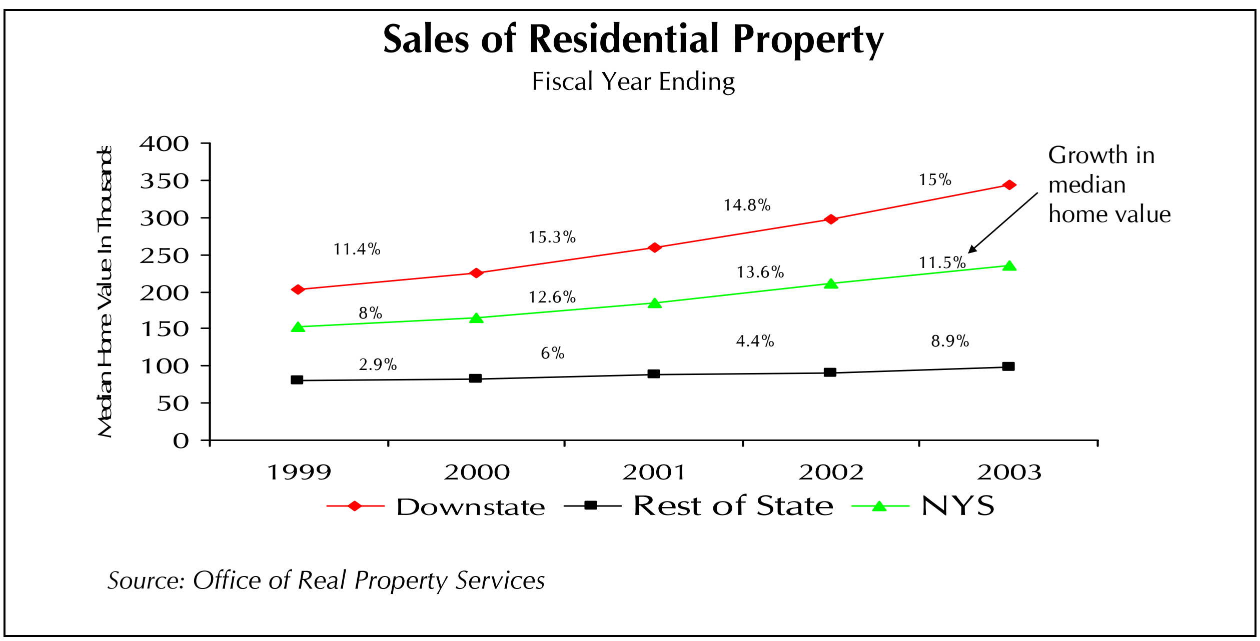


Figure 24

After lagging the residential real estate market, the commercial real estate market appears to have finally made a turn-around in 2004. According to Cushman and Wakefield, the total value of Manhattan building sales in 2004 hit a new record in New York at $14.3 billion dollars; up 19 percent from the previous record. The recovery of Manhattan's financial services sector, combined with an influx of capital by REITS and private investors has boosted demand for commercial real estate. Foreign investors may also be contributing to this increased demand for commercial real estate as the weak U.S. dollar compared to other currencies makes investing in the U.S. more attractive. This improvement in the commercial real estate market is evidenced by steady declines in NYC office vacancy rates, which began in the first quarter of 2004, after climbing non stop for three straight years.

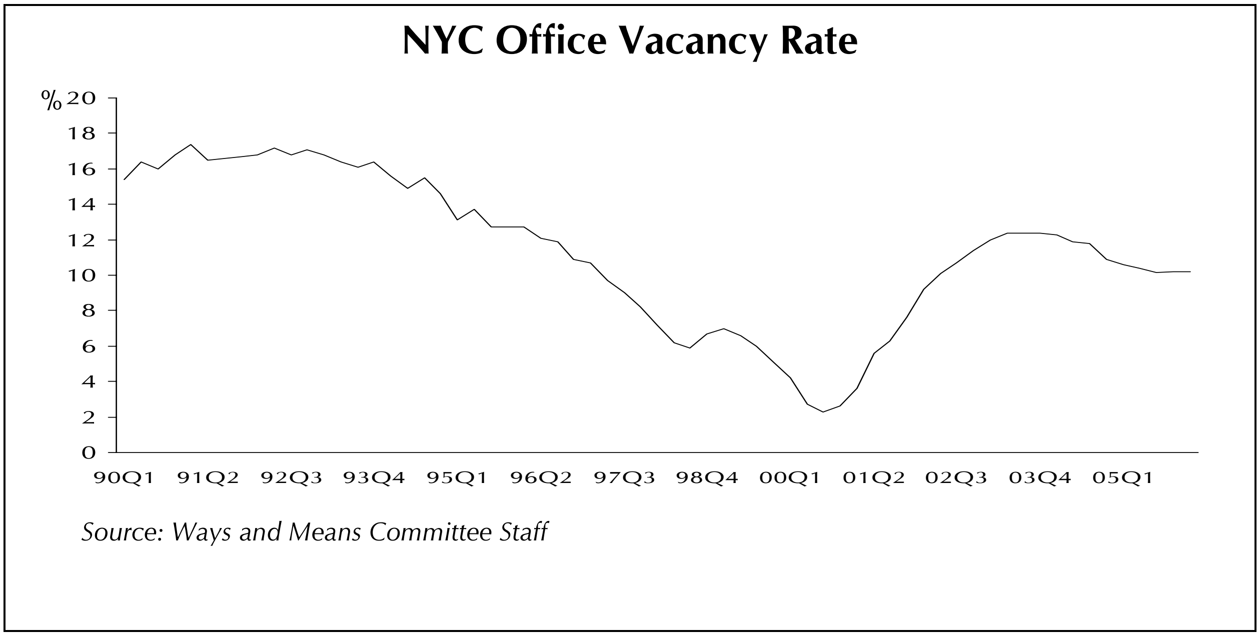


Figure 25

Rising long-term mortgage rates, which the Committee staff forecasts will increase 46 basis points between SFY 2004-05 and SFY 2005-06, will dampen demand for residential real estate in 2005. In addition, housing prices which have been growing at double digit rates since 2001 are expected to moderate in response to the slower demand for housing. The Committee staff's forecast for SFY 2005-06 is $755 million, an increase of $12 million, or 1.6 percent, from the prior fiscal year. Of this total, the Committee staff expects $526 million will be transferred back to the General Fund. This forecast is $16 million above the Executive's forecast.

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.

The Committee staff estimates that receipts will total $26 million in SFY 2004-05, a 3.7 percent decrease from SFY 2003-04. This estimate is the same as the Executive.

Table 29

Pari-Mutuel Tax
(Dollar Amounts in Millions)

	Closeout SFY 2004-05			Forecast SFY 2005-06		
	WAM	Executive	Diff. from Executive	WAM	Executive	Diff. from Executive
General Fund	$26	$26	-	$26	$25	$1
Special Revenue	-	-	-	-	-	-
Debt Service	-	-	-	-	-	-
Capital Projects	-	-	-	-	-	-
All Funds	$26	$26	-	$26	$25	$1

The Committee staff forecast for SFY 2005-06 is $26 million, representing no growth over SFY 2004-05.

Other Taxes

Article 19 of the Tax Law imposes a three percent tax on gross receipts from boxing and wrestling exhibitions, including receipts from broadcasting rights. Article 2 of the Racing, Pari-Mutuel Wagering and Breeding Law levies a State tax of four percent on admissions charges to racetracks and simulcast theaters. All of the receipts are deposited in the General Fund.

Collections from other taxes are typically $1 million or less. The Committee staff estimates for both SFY 2004-05 and SFY 2005-06 are $1 million. The estimates is the same as that of the Executive.

MISCELLANEOUS RECEIPTS

The Committee staff estimates that General Fund miscellaneous receipts will total $2.336 billion in SFY 2004-05, representing a decrease of 64.4 percent from SFY 2003-04. Absent the $4.2 billion in Tobacco Securitization Bonds and $645 million in one-time Federal grants, which boosted SFY 2003-04 miscellaneous receipts, miscellaneous receipts have increased by $591 million or 38 percent from the prior fiscal year. This estimate includes $590 million in license fees and fines, $575 million in abandoned property, $163 million in reimbursements, $30 million in interest income and $970 billion in other transactions. Other transactions include an acceleration of $225 million in SONYMA balances from SFY 2005-06 into SFY 2004-05, the transfer of $181 million in tobacco proceeds, $101 million in bond issuance charges, $73 million from the supplemental wireless surcharge, among other. The Committee staff's estimate is $35 million above the Executive's estimate.

The Committee staff forecast for SFY 2005-06 is $2.390 billion, an increase of $54 million from the prior fiscal year. The estimate includes $660 million in licenses and fees, $585 million in abandoned property, $165 million in general fund reimbursements, $30 million in interest income and $945 million other transactions. These include $175 million in medical provider assessments, $125 million from the New York Power Authority to cover the cost of the new Power For Jobs proposal, and $523 million from the local government revenue and disbursement program.

Table 30

Miscellaneous Receipts
SFY 2004-05 and 2005-06
(Dollar Amounts in Millions)

Category	2003-04 Actual	2004-05 Estimate	Change	2005-06 Forecast	Change
Licenses, Fees, Etc.	$498	$590	$97	$660	$70
Abandoned Property	606	575	(36)	585	10
Reimbursements	161	163	4	165	2
Investment Income	5	30	26	31	1
Other Transactions:	447	970	571	945	(25)
Miscellaneous Receipts	**1,717**	**2,328**	**662**	**2,386**	**58**
Federal Grants	654	8	(645)	4	(4)
Tobacco Securitization	4,200	-	(4,200)	-	-
Total Miscellaneous Receipts	**$6,571**	**$2,336**	**($4,183)**	**$2,390**	**$54**

LOTTERY

The New York State 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). A percentage of sales from each game, ranging from 4.9 to 45 percent, is dedicated to fund education. Like the education dedications, payouts for each game also vary considerably – from 40 percent of Lotto sales to 92 percent of VLT sales. In addition, 15 percent of all Lottery sales, with the exception of VLTs, are placed into a special revenue account to cover the administrative expenses of the Lottery. For VLT's, 39 percent of net revenues are kept for administration, which includes commissions paid to the host facility and other distributions designed to assist the ailing horse racing industry. For each game, administrative allowances, prizes and the education dedication account for the entirety of sales.

The Committee staff expects State Fiscal Year (SFY) 2004-05 Lottery revenues to total $2.084 billion, which includes a $49 million rollover from the prior year, a $290 million administrative surplus and $152 million dollars from Video Lottery Terminals (VLTs) at Saratoga, Finger Lakes, Buffalo and Monticello racetracks. Of the $152 million in VLT revenues, $12.6 million is from SFY 2003-04. The Executive SFY 2004-05 closeout is $2.074 billion. Excluding revenue transfers and VLT receipts, the Committee staff estimates that Lottery revenues, exclusive of VLTs and the administrative surplus, will decrease by 1.2 percent in SFY 2004-05 compared to SFY 2003-04. However, this decrease can be attributed to lottery revenues being calculated on a full-week basis, where 2003-04 contained 53 weeks and 2004-05 only has 52.

As of January 26, 2005, non-VLT year to date revenues have increased by $16 million, or 1.2 percent. This increase can be attributed to a $23 million or 5 percent increase in Instant Game revenues, Mega-Millions revenue growth of $7 million or 5 percent and Numbers revenue growth of $10 million or 4 percent. In contrast, Lotto revenues have decreased by $21 million or 15 percent, while Quick Draw revenues have decreased by $6 million or 6 percent. Pick 10, Take-Five and Instant Win revenues have remained relatively stable.

The Committee staff estimates that SFY 2005-06 total proposed law Lottery revenues will equal $2.310 billion for education, representing an increase of $226 million, or 10.8 percent over SFY 2004-05. Included in this estimate are revenues from the Executive's proposal to decrease restrictions on Quick Draw vendors to provide for permanent authorization of the game. In addition, the SFY 2005-06 forecast includes approximately $222 million in VLT revenues and $108 million resulting from a revenue distribution change proposed by the Executive, whereby tracks will no longer receive revenues directly from VLT revenues. While this increases VLT revenues, it does not represent an increase in VLT performance. Virtually all of the growth in total Lottery revenues is expected to come from the Executive's proposed law changes and an increase in Video Lottery Terminal revenues.

The Division's administrative expenses are appropriated by the Legislature each year as part of the State Operating Budget. In instances where administrative allowances exceed the administrative costs appropriated in the budget, the remaining funds are transferred to the general Lottery account and dedicated to education. Also in the budget, a Lottery Aid is established based on expected revenues. If revenues fall short of the Lottery Aid Guarantee they are made up out of the State's General Fund. However, when revenues exceed the Lottery Aid Guarantee, they are applied to revenues in the following fiscal year – termed a carry-out. In 2003-04, revenues exceeded the Lottery Aid Guarantee by $49.3 million and were applied to 2004-05. Even with this 'carry-in,' Lottery revenues for education will fall short of the Lottery Aid Guarantee because of the poor performance of Video Lottery Terminals.

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 an additional three horse tracks pursuant to local authorization – the three tracks that were authorized are Saratoga Raceway, Batavia Downs and Buffalo Fairgrounds. In 2002 and 2003, several legislative enhancements were made to address concerns that were raised by tracks regarding VLTs. However, it has taken longer than anticipated for the tracks to begin operating VLTs. Equally troubling, revenues from operational facilities are less than anticipated. Overall, the VLT program has been ineffective in producing the revenues once promised by the Executive.

The authorizing legislation requires that VLTs pay at least 90 percent of wagers as prizes. However, most facilities payout closer to 92 percent. The money remaining after paying out prizes is called the net machine income (NMI). The NMI is split between education, administration and the facility as follows:

Table 31

Current VLT Distribution

	Education	Administration	Track Retains	Purse Enhancement	Breeders Fund
Years 1-3	61%	10%	20.24%	7.51%	1.25%
Years 4-5	61%	10%	20.01%	7.74%	1.25%
Years 6+	61%	10%	17.48%	10.01%	1.51%

The SFY 2004-05 Committee staff closeout for VLT revenues is $152 million, which includes nearly $13 million from SFY 2003-04. The Executive's closeout is $155 million in VLT revenues for SFY 2004-05, also including $13 million from SFY 2003-04. The Committee estimates that VLT revenues in SFY 2005-06 will be $222 million. This estimate is contingent on Batavia Downs opening in June of 2005 and Yonkers Raceway opening in February 2006. If Batavia and Yonkers do not open in 2005-06, VLT revenues can be expected to decrease by $15.9 million and $29.5 million respectively. Vernon Downs, which was expected to open in April of 2005 at the start of SFY 2004-05, is currently not expected to open until after SFY 2005-06.

Table 32

VLT Revenue

(Dollar Amounts in Millions)

	Ways and Means (February 2005)	Executive (January 2005)	Executive (February 2004)
2004-05 Closeout	$152.40	$154.60	$239.60
2005-06 Forecast	$222.00	$227.50	$917.90

Uncertainty concerning the continuation of the New York Racing Association's (NYRA) authority to operate racetracks in New York State may impede investment in VLT facilities. Creating additional uncertainty regarding VLT revenues, a court ruling regarding the distribution of VLT revenues is currently being appealed. 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 the current distribution that dedicates portions of revenues to "breeding funds and enhanced purses violates the constitutional mandate that 'the net proceeds' of state-operated lotteries" go to education. The current distribution stands pending an appeal by the State.

Responding to the Appellate Division decision, the Executive proposes in the SFY 2005-06 Budget to alter the revenue distribution agreement. The new distribution would require that instead of receiving a share of VLT revenues, tracks will receive an annual appropriation out of the State General Fund equivalent to the current law share of revenues. The additional lottery revenues would go into the general Lottery Aid Fund. The

Executive estimates the value of this proposal at $108 million. Under this proposal, the Lottery Aid Guarantee would increase while the General Fund appropriation for Education would decrease by equivalent amounts. Assuming that the correct amounts are appropriated, all parties should receive the exact same proportion of revenues as provided under current law.

In out-years, VLT revenues will be affected by recent events in Pennsylvania, where 62,000 VLTs were approved 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 will compete for investment against New York facilities. Additional competition can be expected from Native-American casinos in the Catskills. However, the strongest source of competition to existing VLT facilities may come from the Executive's proposal to authorize eight additional VLT facilities throughout the state, five of which would be in New York City. This is the same proposal included in the 2004-05 Executive Budget. The revenue distribution after prize payouts for the new facilities is as follows:

- Education – at least 70 percent;
- Administration – 10 percent; and
- Facility – Less than 20 percent.

Table 33

Lottery 2004-05 Estimate and 2005-06 Forecast (Dollar Amounts in Millions)									
	2003-04 Actuals	WAM 2004-05	Change	Executive 2004-05	Diff	WAM 2005-06	Change	Executive 2005-06	Diff
Lotto Total	$163	$140	($23)	$141	($1)	$136	($4)	$140	($4)
Numbers	268.6	272.2	3.5	270.3	1.9	281.2	9.0	279.8	1.4
Win-4	210.3	216.2	5.9	213.1	3.1	227.1	10.8	224.2	2.9
Quick Draw	127.1	116.3	(10.7)	117.1	(0.8)	147.3	30.9	145.6	1.7
Pick10	12.1	11.8	(0.3)	11.9	(0.1)	11.7	(0.1)	11.9	(0.2)
Take 5	128.9	121.3	(7.6)	122.0	(0.7)	124.5	3.2	126.5	(2.0)
Mega	166.6	160.3	(6.2)	162.7	(2.4)	163.4	3.1	165.2	(1.8)
Instant Win	6.1	4.9	(1.2)	4.9	(0.0)	4.0	(0.9)	4.9	(0.9)
Instant	529.0	549.2	20.2	537.4	11.8	584.6	35.4	587.7	(3.1)
Non-VLT Total	1,612.2	1,592.2	(19.9)	1,580.0	12.2	1,680.0	87.8	1,685.7	(5.7)
Admin. Surplus	272.3	290.2	17.9	290.2	0.0	299.8	9.6	299.8	0.0
Carry-In	(49.3)	49.3	98.6	49.3	0.0	0.0	(49.3)	0.0	0.0
VLTs	0.0	152.4	152.4	154.6	(2.2)	222.0	69.6	227.5	(5.5)
VLT Transfer	0.0	0.0	0.0	0.0	0.0	108.0	108.0	108.0	0.0
Total	**$1,835.1**	**$2,084.1**	**$249.0**	**$2,074.1**	**$10.0**	**$2,310.0**	**$226.0**	**$2,321.0**	**($11.0)**

Executive numbers from 2005-06 Proposed Budget

EXECUTIVE REVENUE PROPOSALS

FOR STATE FISCAL YEAR 2005-2006

Revenue Enhancement Proposals

The Executive has proposed various tax increases that total approximately $936.4 million in SFY 2005-06 and $1.676 billion when fully implemented. These proposals include:

NY Power Authority Pilot Payments

This proposal would extend the Power for Jobs program until December 31, 2006, and authorize the Power Authority to provide voluntary contribution of $75 million in SFY 2005-06.

Ease Restrictions On Quick Draw And Make The Game Permanent.

The current authorization expires May 31, 2005. This proposal would eliminate the expiration date - providing permanent authorization. Fiscal impact in SFY 2005-06 $181 million.

This proposal would also remove 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 sales from the sale of food in order to be eligible to offer the game.

These provisions are expected to generate an additional $39 million in Lottery revenues for education.

Video Lottery Terminals (VLTs)

This proposal authorizes the Division of Lottery to license eight additional facilities to conduct video lottery gaming.

Licensure would be restricted as follows:

- Outside of New York City - VLT facilities cannot be located within 15 miles of racetrack VLT facilities. In addition, no facilities would be allowed in Westchester, Rockland or Putnam Counties.

- A maximum of five facilities may be located in the City of New York. However, facilities can only be located in New York County south of 59^{th} Street, Kings County and Richmond County.

However, restrictions provided to protect previously authorized VLT facilities can be overridden if such facilities do not begin VLT operations by April 1, 2006.

This proposal also alters the revenue distribution from the VLT facilities authorized in 2001. The previous distribution called for 29 percent of VLT revenues to be retained by the VLT facility and used to enhance purses, supplement the respective breeders' funds and provide a vendors fee to the track. This part calls for the 29 percent previously retained by the track to be given to the Division of Lottery. However, an amount equivalent to the previous dedications will be appropriated to the relevant entities out of the general fund, holding the purses, breeders' funds and tracks harmless.

The additional VLT facilities are not expected to produce any revenues in SFY 2005-06. The alteration to the revenue distribution will increase revenue to the Division of Lottery by approximately $108 million in SFY 2005-06. However, an equal amount will be appropriated from the State General Fund to enhance purses, support breeders funds and provide a vendor fee to the tracks equivalent to the amount each entity was expected to receive under the previous distribution.

Direct Shipment of Wine

This proposal would authorize the direct shipment of wine into New York State by licensed out-of-State wineries. To qualify for a license the out-of-State winery must be located in a state which affords New York wineries reciprocal shipping privileges, pay an annual license fee and agree to collect and remit all applicable New York taxes. Licensed wineries may ship up to two cases (18 liters) of wine per month to New York residents who are 21 years of age or older, for their personal consumption.

The Executive estimates that this proposal will generate $2.6 million in additional revenue for the State in SFY 2005-06, rising to $3.8 million in SFY 2007-08.

Allow Tax Department To Enter Into Reciprocal Offset Tax Agreements With New York City And Other States

This proposal would allow the Tax Department and the New York City Commissioner of Finance to arrange for city tax overpayments to be applied to outstanding tax debts owed to the State as represented by filed tax warrants. Currently any overpayment by the city must first be applied to debts owed to City agencies. The proposal also allows the Commissioner of Tax and Finance to enter into the same type of reciprocal agreements with other states. There is no projected revenue impact for SFY 2005-06. However, when fully implemented the bill is projected to increase revenue by $3 million a year.

Change How Nonresidents Compute The Credit For Long Term Care Insurance

This proposal would amend the computation of the long term care insurance credit for nonresident and part-year resident taxpayers. The provisions stipulate that the long term care credit should be adjusted by how much of the taxpayers AGI is derived from NY sources. Therefore, the credit is computed by multiplying the long-term care credit by the NY source fraction. The NY source fraction is simply the NY source income divided by the NY AGI from all sources. Currently a nonresident and a part-year resident are able to apply the full credit against their NY tax liability. According to the Executive this bill will increase tax revenue by $1.5 million in SFY 2005-06 and $6 million in SFY 2007-08.

Adopt Tax Shelter Provisions Based On Federal Provisions

This proposal would allow the Department of Tax and Finance to require submission of disclosure information needed to address tax avoidance methods associated with "tax shelters" similar to Federal tax shelter disclosure provisions. This proposal would give the Tax Department the authority to require disclosure on "reportable transactions" and "New York reportable transactions" that have potential for New York State avoidance transactions. Material Advisors (promoters of tax shelters) are also required to submit a copy of their Federal tax return to the Tax Department within 60 days of submission of a return to the IRS, first connection with New York State, or 90 days after the enactment of this bill. Additionally, this part requires enhanced record keeping methods and creates several new penalties for failing to follow the requirements of the bill.

A voluntary compliance initiative administered by the Tax Department would be created to allow taxpayers to report and pay underreported tax liabilities and interest attributable to tax avoidance transactions. The taxpayer may participate with the right to appeal or may waive that right. If the taxpayer waives that right they will be not be subject to certain penalties and fines.

These provisions are estimated to generate $25 million in new revenue in SFY 2005-06.

Make Permanent Limited Liability Company (LLC's) Filing Fees

This proposal would make the increases in limited liability Company filing fees permanent. The temporary increase was enacted in 2003, and set filing fees at $100 dollars per member, with a minimum fee of $500 and a maximum fee of $25,000. As of January 1, 2005 the fees reverted back to pre 2003 levels of $50 per member, with a minimum of $325 and a maximum of $10,000. These provisions are estimated to increase revenue by $22 million in SFY 2005-06.

Increase The Capital Base Cap Under the Corporate Franchise Tax

The maximum amount of the Article 9-A capital base is raised from $350,000 to $1,000,000 for all taxpayers except manufacturers. A manufacturer is defined as a taxpayer principally involved in the production of goods by manufacturing, processing, assembling, refining, mining, extracting, farming, agriculture, horticulture, floriculture, viticulture, or commercial fishing. Under current law a .178 percent tax rate is applied to a taxpayer's business and investment capital capped at $350,000. This initiative is estimated to increase revenue by $26 million SFY 2005-06.

Manhattan Parking Attendants. Fiscal Impact In SFY2005-06

This proposal would make permanent the reporting requirements of Manhattan parking vendors. The previous authorization expired November 30, 2004.

Alcoholic Excise Tax On Wines

The Executive Budget proposes to increase the excise tax on still wines, artificially carbonated sparkling wines and naturally sparking wines from 18.93 cents per gallon to $1.06 per gallon. A floor tax of 87.07 cents per gallon will be imposed on all wine inventories which were taxed at the lower rate, except for the first 264 gallons of wine within the inventory which will be exempt from this floor tax.

The Executive estimates that this proposal will increase tax receipts by $37.7 million in SFY 2005-06 and $43.7 million on a full year basis.

Remove The Premiums Tax Exclusion For Certain Insurance Companies

This proposal would partially eliminate the exemption from the franchise tax on insurance corporations for town or county co-operative insurance corporations. This proposal would allow corporations that report direct written premiums of $25 million or less to the Superintendent of Insurance to remain eligible for the exemption.

Clothing Exemption

This proposal would repeal the permanent clothing exemption, which is currently under temporary suspension. These provisions are estimated to generate $456 million in SFY 2005-06.

This proposal would provide two permanent clothing exemptions weeks for items of clothing and footwear costing less than $250. The first such exemption period begins the last Monday in January and ends on the first Sunday in February. The second period commences on the Tuesday immediately preceding the first Monday in September and ends on Labor Day.

Localities would have the option to provide the exemption.

Tax Clearance In Order To Obtain State Licenses And Contracts

The proposal would require persons seeking to obtain State contracts, or to obtain or maintain licenses to traffic in alcoholic beverages, to practice medicine, certified public accountancy or to practice law, to be current with respect to all tax liabilities. The proposal is not estimated to have any fiscal implications in SFY 2005-06.

Require Electronic Filing Of PIT Returns For Large Tax Preparer Firms

This proposal would require large tax preparers to file returns electronically. The intended purpose is to reduce processing and storage costs associated with traditional returns. Any firm that prepares more than 200 original income tax returns during calendar year 2005 (i.e. 2004 returns) and prepares at least one authorized return using tax software in calendar year 2006 would be required to file all returns in 2006 (and thereafter) electronically. Moreover, If a preparer prepares more than 100 returns beginning on or after Jan. 1, 2006, and if in succeeding years prepares at least one authorized return using tax software, then all returns in 2007 (and thereafter) must be filed electronically. The proposal is intended to apply to firms that have a high volume and are already using appropriate tax software. According to the Executive this proposal would save $2 million in administrative costs in SFY 2005-06.

Empire Zone Amendments And Extension

The Executive is proposing changes to the Empire Zones program that will impact the administration of the program and the benefit structure for Qualified Empire Zone Enterprises. Among the tax law changes are:

- Changes in the business tax benefit period, for businesses certified on or after April 1, 2004 the proposed period would eliminate the five year phase-out of benefits, reducing the benefit period from 15 years to 10-year period.

- Changes the employment test used in the determination of a taxpayer's Qualified Empire Zone Enterprise (QEZE) status for certain businesses certified after April 1, 2004. The proposed new test would not count any employees previously employed in New York State by an entity related to the taxpayer.

- The employment increase factor used in the calculation of certain tax credits would be changed for all but certain businesses certified before April 1, 2004. These businesses would calculate the factor as the number of new jobs in Empire Zones divided by 100.

- The definition of eligible real property taxes, used in the calculation of the Empire Zone Real Property Tax Credit, would be amended so that QEZEs that make direct payments of certified eligible Real Property Taxes or PILOTs as part of a lease agreement may receive benefits. The definition would be further amended so that the full amount of any PILOTs paid in excess of the estimated effective full value tax rate would be deemed ineligible.

The Executive estimates that the provisions would generate $25 million in additional revenue in SFY 2006-07 and thereafter.

<u>Increase The Income Level At Which The Filing Of Income Tax Returns Is Required</u>

This proposal would eliminate the requirement that an individual must file a New York State tax return if a taxpayer is required to file a federal return. The bill also changes the filing threshold to be the taxpayer's federal adjusted gross income increased by the modifications under tax law 612(b) and replaces the $4,000 income threshold for filing with the taxpayer's standard deduction.

<u>Mortgage Recording Tax Increase</u>

The Executive Budget proposes to increase the additional Mortgage Recording Tax, authorized by Subdivision 2 of Section 253 of the Tax Law, and imposed in the twelve county Metropolitan Commuter Transportation District, from 25 cents to 35 cents for each $100 of principal debt secured by a mortgage. In addition, the Executive Budget requires that beginning January 1, 2006, all revenues from this tax shall be deposited into the headquarters account of the metropolitan transportation authority special assistance fund for the payment of operating and capital costs of the MTA agencies.

The Executive estimates that this proposal will generate an additional $100 million for the MTA on a full year basis.

REIT/RIC Dividend Exclusion

This part closes a loophole in the corporate franchise, bank, and insurance tax laws by disallowing the exclusion of income received from real estate investment trusts (REITs) and regulated investment companies (RICs) which are subsidiaries of the taxpayer. Currently, the Tax Law allows corporations a 100 percent exclusion (banks are allowed a 60 percent exclusion) of dividends or income from capital gains received from subsidiaries. In addition, such corporations are allowed to exclude 50 percent of dividend income received from non-subsidiary corporations. Under this proposal, these exclusions would be eliminated when the dividend or capital gains income received was from investments in a REIT or RIC.

The part also denies the fifty percent dividend received deduction to all REIT dividends and to RIC dividends that represent capital gain income. The part further denies a deduction for rent paid to a subsidiary REIT, adjusts the calculation of the tax on subsidiary capital to exclude subsidiary REITs and RICs and likewise modifies the exclusion of subsidiary-related expenses to allow deduction of expenses related to subsidiary REITs and RICs.

Revenue Reduction Proposals

In addition, the Executive has proposed measures that would reduce revenues by a total of approximately $245 million in SFY 2005-06 and $204 million when fully implemented.

Accelerated Phase-Out of the Temporary Rate Increase

The proposal accelerates the planned phase-out of the temporary tax increase enacted in 2003. The original phase-out involved resetting the tax tables to their 2002 rates on January 1, 2006. The Executive proposal would become effective immediately and reduces the top two rates of 7.25 percent and 7.7 percent to 7.0 percent and 7.6 percent for the 2005 calendar year. According to the Executive the accelerated phase-out would reduce personal income tax receipts by $190 million in SFY 2005-06. Collections in SFY 2006-07 would be reduced by $130 million due to a lower April settlement on 2005 tax liability.

Earned Income Tax Credit Enhancement For Non-Custodial Parents

This provision would enhance the State Earned Income Tax Credit (EITC) for non-custodial parents. The enhancements will provide up to 400 percent of the federal maximum EITC ($390) for qualified, non-custodial parents between the ages of 18-30, who have an order of child support and who have paid that child support during the taxable year. The maximum combined State and Federal credit could be as high as $1,950. The intent of these provisions, according to the Executive, is to encourage non-custodial parents to enter the work force and pay child support. These provisions are estimated to reduce revenue by $16 million in 2005-06, $3 million of which will go toward demonstration projects. The remainder will be the result of the additional credit.

Enhance Green Buildings Tax Cut

The Green Buildings Tax Credit Program is extended and allotted an additional $25 million in available credits. The Department of Environmental Conservation would have five years, from 2005 through 2009 to accept applications and issue certificates to claim the new credits. Qualifying taxpayers will be eligible to claim credits for tax years 2006-2014. Current law requires the Department of Environmental Conservation to amend various standards every two years. This proposal would allow the DEC to make amendments when necessary. This legislation will reduce revenues by $1 million in SFY 2006-07.

Enhance the Low-Income Housing Tax Credit

This proposal would allow the Commissioner of the Division of Housing and Community Renewal (DHCR) to allocate an additional $2 million of low-income housing tax credits. The additional money increases the total allocation allowed to $8 million annually. The increased allocation would be $ 2million a year for ten years, or an additional $20 million over ten years. This added allocation increases the overall cost of the program from $60 to $80 million over ten year period.

Restructure And Expand The Alternative Fuel Vehicles Credit

This proposal would amend the existing credit for electric vehicles to change the amount of the credit from 50 percent of the incremental cost of such a vehicle to 10 percent of the actual cost. The credit would be limited to $5,000 for vehicles with a vehicle weight rating less than 10,000 pounds, and $10,000 for all other vehicles. The proposal amends the credit for clean fuel refueling property to provide that such credit does not exceed $500,000. The credit for hybrid vehicles is amended by raising the credit to $4,000 for vehicles in service before December 31, 2006, and retains the $2,000 credit for vehicles that were in service before December 31, 2005. Finally, the bill adds a credit equal to 50 percent of the cost of producing (for sale) a minimum of 10,000 gallons of bio-fuel, with a maximum credit of $1 million. According to the Executive this proposal has no revenue impact in SFY 2005-06, but it will reduce tax revenue by $10 million in SFY 2006-07.

Wage Tax Credit

This proposal would create a new wage credit for creating jobs in SPUR designated areas modeled after the existing Empire Zone wage credit. Taxpayers that create fifty new jobs in a SPUR area would be eligible for the credit. To be qualified, the taxpayer must be engaged in manufacturing, aviation, railroad and trucking or be a registered securities broker/dealer. The amount of the credit would be equal to the existing Empire Zone wage credit - $3,000 for targeted employees, and $1,500 for all other employees. Eligible SPUR companies that create jobs in an Empire Zone would be eligible for an additional $500 wage credit. These provisions will reduce revenue by $25 million in SFY 2005-06.

Business Allocation Percentage

This proposal would allow manufacturers that are located in a SPUR area and which make a $25 million investment in such area to use a special single factor allocation formula when apportioning income to New York State. The taxpayer may use such allocation factor for ten consecutive taxable years provided the taxpayer maintains that level of investment over that period. In addition, taxpayers who create 100 jobs during the period beginning on or after January 1, 2005 and ending on the ninth succeeding taxable year, to use a single sales allocation factor in each succeeding taxable year provided that the business maintains its level of employment in each of those years. These provisions will reduce revenues by $4 million in SFY 2005-06.

Center of Excellence Tax Credit

Taxpayers that are affiliated with a Center of Excellence may be eligible for a new refundable credit. The credit would be equal to the product of the taxpayer's net operating loss, business allocation percentage and the Article 9-A tax rate for the given year. The amount of the credit allowed for any tax year shall not exceed $1 million and the aggregate amount of the credit allowed to any one taxpayer shall not exceed $5 million. In order to eligible for the credit a taxpayer must 1) be a new business as defined in the tax law, 2) taxpayer must conduct at least some of its operations in a designated SPUR area, 3) be affiliated with a university that has been designated a Center of Excellence, 4) have either created 25 new jobs in one or more SPUR designated areas or made significant investments in real or tangible personal property in such areas, and 6) the taxpayer must be paying tax under either the capital base or fixed dollar minimum tax. The credit is effective for tax years beginning on or after January 1, 2005 and will reduce revenues by $1 million in SFY 2005-06.

STAR PIT Credit (STAR PLUS)

The Executive Budget proposes a new personal income tax credit for all homeowners who qualify for STAR and reside in a school district which adheres to a new statutory spending cap of 4 percent or 120 percent of the increase in the consumer price index, which ever is lower. Eligible homeowners would receive a personal income tax credit equal to their STAR savings multiplied by the consumer price index adjustment as determined by the Bureau of Labor Statistics.

The Executive estimates that this proposal will save taxpayers $12 million in SFY 2005-06, increasing to $119 million in SFY 2007-08.

Provide Two Sales Tax Exemption Weeks For Certain New “Energy Star” Items

This proposal would exempt from the state sales and use tax the purchase of certain Energy Star appliances during two seven day periods. Qualifying appliances include certain non-commercial refrigerators, dishwashers, clothes washers, ceiling fans, ceiling fan light kits, or air room conditioners if such appliance qualifies for, and is labeled with the Energy Star label. The first such exemption period begins the last Monday in January and ends on the first Sunday in February. The second period commences on the Tuesday immediately preceding the first Monday in September and ends on Labor Day. Localities imposing a sales and use tax will have the option to exempt such items from the local sales and use tax. This part would reduce revenues by $4 million in SFY 2005-06.

Co-Star Tax Rebate Program

The Executive Budget proposes a new tax rebate program for all homeowners who qualify for STAR and reside in a county, including New York City, which has been Co-STAR verified. A county or NYC is deemed to be Co-STAR verified if it limits the growth in county or City expenditure from the prior year to 3.5 percent in SFY 2005-06, 3.25 percent in SFY 2006-07 and 3 percent thereafter. Excluded from the cap are capital expenditure and any expenditure supported by county or NYC user fees or funds from federal, state or private sources. For NYC, the cap also excludes expenditures in support of its school district.

Assuming full participation in the program, the Executive estimates that this program will save taxpayers $66.8 million in SFY 2006-07, $146.3 million in SFY 2007-08 and $308.9 million in SFY 2008-09.

Small Business Rate Reduction

This part would expand the special tax treatment afforded to small businesses by lowering the tax rate for businesses with ENI less than $290,000 from 6.85 percent to 6.5 percent. Income between $290,000 and $350,000 would be subject to a tax rate of 7.5 percent. Businesses with ENI above $350,000 would be subject to a recapture of the benefits of the lower rate so that at ENI of $390,000 and above, the tax rate would be 7.5 percent on all income. The Executive estimates that these provisions will reduce revenue by $5 million in SFY 2005-06 and when fully implemented.

Special Additional Mortgage Recording Tax Credit

This provision would extend the credit for the special additional mortgage recording tax to limited liability companies (LLC's), partnerships, and sole proprietors individuals under Article 22 of the Tax Law. Currently the credit is only available to banks under Article 32 and at the corporate entity level, under Article 9-A of the Tax Law. The Executive estimates that this provision will have a minimal impact on revenues.

EXECUTIVE REVENUE PROPOSALS
FOR STATE FISCAL YEAR 2005-06
($ amounts in millions)

REVENUE SOURCES	2005-2006 REVENUE IMPACT
Revenue Enhancement Proposals	**$861.4**
New York Power Authority PILOT Payments	75.0
Extend Quick Draw and Ease Restrictions	39.0
VLT Legislation	108.0
Direct Wine Shipments	2.6
Adopt Tax Shelter Provisions	25.0
Tax Department Reciprocal Offset Agreements W/Other States	0.0
Nonresident Long-Term Care Insurance Credit Computation	1.5
REITS and RICS	50.0
Extend Higher LLC Fees	22.0
Increase Capital Base Cap Under Article 9A	26.0
Maintain Manhattan Parking Reporting Requirements	0.7
Raise Wine Excise Tax	37.7
Certain Mutual Insurance Companies Premiums Tax Exclusion	18.0
Replace Permanent Clothing Exemption With Two $250 Weeks	455.9
Require Tax Clearance for Certain Licensers	0.0
SPUR Extend Empire Zones Program	0.0
Fee Increases	**$374.8**
Department of Agriculture and Markets	
First Violation Food Inspections	0.4
Subsequent Violations Food Inspections	0.7
Consumer Protection Board	
Unfair/Deceptive Business Practices Increase	0.6
Division of Criminal Justice System	
Work Zone Automated Speed Enforcement	18.0

REVENUE SOURCES	2005-2006 REVENUE IMPACT
Department of Environmental Conservation	
Title V Operational Permit Fee Increase	3.6
Department of Health	
Reestablish 0.7% Assessment on Hospital Receipts	194.3
Nursing Home Reimbursable Assessment Increase	69.2
Insurance Department	
Agent License Fee Increase	2.5
Service of Process Fee Increase	1.4
Reinsurance License Fee Increase	0.0
Department of Labor	
Asbestos Handling License Renewal Fee Increase	0.2
Department of Motor Vehicles	
ATV Registration Fee Increase	5.8
Data Search Fee Increase	3.8
Photo Image Fee Increase	2.4
Dealer Issued Temporary Registration Fee Increase	1.2
Dealer/Transporter Registration Fee Increase	0.6
Salvaged Vehicle Inspection Fee Increase	0.8
Title Fee Increase	31.3
Vehicle Registration Fee Increases	29.2
Parks and Historic Preservation	
Increase Camping Fees	1.4
Racing and Wagering Board	
Racing Fee Increase	2.8
State Labor Relations Board	
New Annual Registration Fee	1.1
Statewide Wireless Network	
Service Surcharge Clarifications	3.5

EXECUTIVE REVENUE PROPOSALS
FOR STATE FISCAL YEAR 2005-2006
($ amounts in millions)

REVENUE SOURCE	2005-2006 REVENUE	FULLY IMPLEMENTED
Revenue Reduction Proposals	**(250.5)**	**(188.7)**
Accelerated Income Tax Phase-Out	(190.0)	0.0
Enhance EITC	(4.0)	(22.0)
Green Buildings Tax Credit	0.0	(2.0)
Low-Income Housing	0.0	(2.0)
SPUR Centers of Excellence	(1.0)	(3.0)
SPUR Extension of Power for Jobs	0.0	0.0
Alternative Fuels Vehicle Credit Reform & Extension	0.0	(2.5)
SPUR Single Sales Factor for Manufacturers	(4.0)	(7.0)
SPUR Single Sales Eliminate AMT	(5.0)	(5.0)
SPUR Targeted Wage Credit	(25.0)	(35.0)
STAR Plus	(12.0)	(99.0)
Tax Free Week on Certain Energy Star Products	(4.0)	(4.2)
Nursing Home Assessment PIT Deduction	(0.5)	(2.0)
Small Business Rate Decrease	(5.0)	(5.0)

Table 34

Total Tax Collections SFY 2004-05
(Dollar Amounts in Millions)

	2003-04 Actual	2004-05 Estimate	Change	Percent Growth	Diff. Exec.
Personal Income Tax	**$24,050**	**$28,330**	**$4,280**	**17.8%**	**$42**
Gross Receipts	**29,089**	**32,438**	**3,349**	**11.5%**	**38**
Withholding	21,986	23,095	1,109	5.0%	16
Estimated Payments	5,159	7,062	1,903	36.9%	9
Vouchers	4,325	5,518	1,193	27.6%	-
IT 370s	834	1,544	710	85.1%	9
Final Payments	1,313	1,602	289	22.0%	(8)
Delinquencies	631	679	48	7.6%	21
Total Refunds	**4,442**	**4,639**	**197**	**4.4%**	**(4)**
Prior Year Refunds	2,948	3,102	$154	5.2%	(8)
Current Refunds	960	960	$0	0.0%	-
Previous Refunds	272	234	($38)	-14.0%	7
State/City Offsets	261	343	$82	31.4%	(3)
Collections	**24,647**	**27,799**	**3,152**	**12.8%**	**42**
Refund Reserve	(597)	531	1,128	-188.9%	-
All Funds PIT Collections	**24,050**	**28,330**	**4,280**	**17.8%**	**42**
User Taxes and Fees	**11,919**	**13,085**	**1,166**	**9.8%**	**80**
Sales and Use Tax	9,907	11,073	1,166	11.8%	60
Motor Fuel Tax	516	534	18	3.5%	3
Cigarette Tax	419	406	(13)	-3.1%	3
Motor Vehicle Fees	654	658	4	0.6%	18
Highway Use	147	150	3	2.0%	(3)
Alcoholic Beverage Tax	191	185	(6)	-3.1%	1
Alcoholic Beverage Fees	46	40	(6)	-13.0%	(2)
Auto Rental Tax	39	40	1	2.6%	-
Business Taxes	**5,007**	**5,596**	**589**	**11.8%**	**5**
Corporate Franchise	1,700	2,029	329	19.4%	7
Utility Tax	882	799	(83)	-9.4%	16
Insurance Tax	1,031	1,035	4	0.4%	14
Bank Tax	341	632	291	85.3%	(35)
Petroleum Business Tax	1,052	1,101	49	4.7%	3
Other	**1,278**	**1,601**	**323**	**25.3%**	**37**
Real Property Gains	4	1	(3)	-75.0%	0
Estate and Gift	736	830	94	12.8%	27
Real Estate Transfer	510	743	233	45.7%	9
Pari Mutuel	28	26	(2)	-7.1%	0
Other	1	1	0	0.0%	0
Total Taxes	**$42,254**	**$48,612**	**$6,358**	**15.0%**	**$163**

Table 35

Total Tax Collections SFY 2005-06
(Dollar Amounts in Millions)

	2004-05 Estimate	2005-06 Forecast	Change	Percent Growth	Diff. Exec.
Personal Income Tax	**$28,330**	**$30,421**	**$2,091**	**7.4%**	**$555**
Gross Receipts	**32,438**	**35,226**	**2,788**	**8.6%**	**599**
Withholding	23,095	24,599	1,504	6.5%	325
Estimated Payments	7,062	7,907	845	12.0%	176
Vouchers	5,518	5,976	458	8.3%	151
IT 370s	1,544	1,931	387	25.1%	25
Final Payments	1,602	1,994	392	24.5%	47
Delinquencies	679	726	47	6.9%	51
Total Refunds	**4,639**	**4,939**	**300**	**6.5%**	**44**
Prior Year Refunds	3,102	3,378	276	8.9%	23
Current Refunds	960	960	0	0.0%	0
Previous Refunds	234	251	17	7.3%	21
State/City Offsets	343	350	7	2.0%	0
Collections	**27,799**	**30,287**	**2,488**	**8.9%**	**555**
Refund Reserve	531	134	(397)	-74.8%	0
All Funds PIT Collections	**28,330**	**30,421**	**2,091**	**7.4%**	**555**
User Taxes and Fees	**13,085**	**13,816**	**731**	**5.6%**	**175**
Sales and Use Tax	11,073	11,169	96	0.9%	129
Motor Fuel Tax	534	558	24	4.5%	25
Cigarette Tax	406	950	544	134.0%	(12)
Motor Vehicle Fees	658	676	18	2.7%	44
Highway Use	150	156	6	4.0%	(7)
Alcoholic Beverage Tax	185	219	34	18.4%	(5)
Alcoholic Beverage Fees	40	46	6	15.0%	0
Auto Rental Tax	40	42	2	5.0%	1
Business Taxes	**5,596**	**5,937**	**341**	**6.1%**	**(5)**
Corporate Franchise	2,029	2,071	42	2.1%	(54)
Utility Tax	799	880	81	10.1%	36
Insurance Tax	1,035	1,103	68	6.6%	18
Bank Tax	632	771	139	22.0%	29
Petroleum Business Tax	1,101	1,112	11	1.0%	(33)
Other	**1,601**	**1,533**	**(68)**	**-4.2%**	**16**
Real Property Gains	1	1	0	0.0%	1
Estate and Gift	830	750	(80)	-9.6%	(2)
Real Estate Transfer	743	755	12	1.6%	16
Pari Mutuel	26	26	0	0.0%	1
Other	1	1	0	0.0%	0
Total Taxes	**$48,612**	**$51,707**	**$3,095**	**6.4%**	**$741**

Table 36

Total Tax Collections By Fund Type SFY 2004-05 (Dollar Amounts in Millions)	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
Personal Income Tax	**$19,077**	**$3,072**	**$6,181**	**$0**	**$28,330**
User Taxes and Fees	**8,796**	**678**	**2,504**	**1,107**	**13,085**
Sales and Use Tax	8,139	430	2,504	-	11,073
Motor Fuel Tax	-	111	-	423	534
Cigarette Tax	406	-	-	-	406
Motor Vehicle Fees	26	137	-	495	658
Highway Use	-	-	-	150	150
Alcoholic Beverage Tax	185	-	-	-	185
Alcoholic Beverage Fees	40	-	-	-	40
Auto Rental Tax	-	-	-	40	40
Business Taxes	**3,864**	**1,110**	**-**	**622**	**5,596**
Corporate Franchise	1,780	249	-	-	2,029
Utility Tax	612	172	-	15	799
Insurance Tax	924	111	-	-	1,035
Bank Tax	548	84	-	-	632
Petroleum Business Tax	-	494	-	607	1,101
Other	**858**	**-**	**631**	**112**	**1,601**
Real Property Gains	1	-	-	-	1
Estate and Gift	830	-	-	-	830
Real Estate Transfer	-	-	631	112	743
Pari Mutuel	26	-	-	-	26
Other	1	-	-	-	1
Total Taxes	**$32,595**	**$4,860**	**$9,316**	**$1,841**	**$48,612**

Table 37

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	**$20,510**	**$3,202**	**$6,709**	**$0**	**$30,421**
User Taxes and Fees	**8,734**	**1,299**	**2,639**	**1,145**	**13,816**
Sales and Use Tax	8,073	457	2,639	-	11,169
Motor Fuel Tax	-	117	-	442	558
Cigarette Tax	396	554	-	-	950
Motor Vehicle Fees	-	171	-	505	676
Highway Use	-	-	-	156	156
Alcoholic Beverage Tax	219	-	-	-	219
Alcoholic Beverage Fees	46	-	-	-	46
Auto Rental Tax	-	-	-	42	42
Business Taxes	**4,136**	**1,170**	**18**	**613**	**5,937**
Corporate Franchise	1,821	250	-	-	2,071
Utility Tax	670	192	18	-	880
Insurance Tax	985	118	-	-	1,103
Bank Tax	660	111	-	-	771
Petroleum Business Tax	-	499	-	613	1,112
Other	**778**	**-**	**643**	**112**	**1,533**
Real Property Gains	1	-	-	-	1
Estate and Gift	750	-	-	-	750
Real Estate Transfer	-	-	643	112	755
Pari Mutuel	26	-	-	-	26
Other	1	-	-	-	1
Total Taxes	**$34,158**	**$5,671**	**$10,009**	**$1,870**	**$51,707**

Table 38

General Fund Receipts SFY 2004-05 (Dollar Amounts in Millions)	2003-04 Actual	2004-05 Estimate	Change	Percent Growth	Diff. Exec.
Personal Income Tax	**$24,647**	**$27,799**	**$3,152**	**12.8%**	**$42**
Refund Reserve	(597)	531	1,128	-188.9%	-
Net STAR	(2,820)	(3,072)	(252)	8.9%	-
Revenue Bond Tax Fund	(5,457)	(6,181)	(724)	13.3%	(9)
Personal Income Tax Collections	**15,774**	**19,077**	**3,303**	**20.9%**	**33**
User Taxes and Fees	**7,979**	**8,796**	**817**	**10.2%**	**44**
Sales and Use Tax	7,241	8,139	898	12.4%	42
Cigarette Tax	419	406	(13)	-3.1%	3
Motor Vehicle Fees	82	26	(56)	-68.3%	0
Alcoholic Beverage Tax	191	185	(6)	-3.1%	1
Alcoholic Beverage Fees	46	40	(6)	-13.0%	(2)
Business Taxes	**3,413**	**3,864**	**451**	**13.2%**	**1**
Corporate Franchise	1,482	1,780	298	20.1%	6
Utility Tax	715	612	(103)	-14.4%	12
Insurance Tax	930	924	(6)	-0.6%	12
Bank Tax	286	548	262	91.6%	(30)
Other	**768**	**858**	**90**	**11.7%**	**28**
Real Property Gains	4	1	(3)	-75.0%	0
Estate and Gift	736	830	94	12.8%	27
Pari Mutuel	28	26	(2)	-7.1%	0
Other	1	1	-	0.0%	0
General Fund Taxes	**27,934**	**32,595**	**4,661**	**16.7%**	**105**
Transfers From Other Funds	**7,822**	**9,112**	**1,290**	**16.5%**	**36**
Local Govt Assitance Corporation	1,971	2,189	218	11.1%	18
Real Estate Transfer Tax	307	529	222	72.3%	9
All Other Transfers	300	504	204	68.0%	-
Revenue Bond Tax Fund	5,244	5,890	646	12.3%	9
Total Miscellaneous Receipts	**6,571**	**2,336**	**(4,235)**	**-64.4%**	**35**
Miscellaneous Receipts	1,717	2,328	611	35.6%	35
Federal Grants	654	8	(646)	-98.8%	-
Tobacco Securitization	4,200	-	(4,200)	-100.0%	-
General Fund Receipts	**42,327**	**44,042**	**1,715**	**4.1%**	**176**
Lottery	1,885	2,084	199	10.6%	10
Total Receipts & Lottery	**$44,212**	**$46,126**	**$1,914**	**4.3%**	**$186**

Table 39

General Fund Receipts SFY 2005-06
(Dollar Amounts in Millions)

	2004-05 Estimate	2005-06 Forecast	Change	Percent Growth	Diff. Exec.
Personal Income Tax	**$27,799**	**$30,287**	**$2,488**	**8.9%**	**$555**
Refund Reserve	531	134	(397)	-74.8%	-
Net STAR	(3,072)	(3,202)	(130)	4.2%	-
Revenue Bond Tax Fund	(6,181)	(6,709)	(528)	8.5%	(76)
Personal Income Tax Collections	**19,077**	**20,510**	**1,433**	**7.5%**	**479**
User Taxes and Fees	**8,796**	**8,734**	**(62)**	**-0.7%**	**112**
Sales and Use Tax	8,139	8,073	(66)	-0.8%	122
Cigarette Tax	406	396	(10)	-2.5%	(5)
Motor Vehicle Fees	26	-	(26)	-100.0%	-
Alcoholic Beverage Tax	185	219	34	18.4%	(5)
Alcoholic Beverage Fees	40	46	6	15.0%	-
Business Taxes	**3,864**	**4,136**	**272**	**7.0%**	**20**
Corporate Franchise	1,780	1,821	41	2.3%	(48)
Utility Tax	612	670	58	9.5%	27
Insurance Tax	924	985	61	6.6%	16
Bank Tax	548	660	112	20.4%	25
Other	**858**	**778**	**(80)**	**-9.3%**	**(0)**
Real Property Gains	1	1	0	0.0%	1
Estate and Gift	830	750	(80)	-9.6%	(2)
Pari Mutuel	26	26	0	0.0%	1
Other	1	1	0	0.0%	0
General Fund Taxes	**32,595**	**34,158**	**1,563**	**4.8%**	**611**
Transfers From Other Funds	**9,112**	**9,505**	**393**	**4.3%**	**95**
Local Govt Assitance Corporation	2,189	2,303	114	5.2%	3
Real Estate Transfer Tax	529	526	(3)	-0.6%	16
All Other Transfers	504	407	(97)	-19.2%	-
Revenue Bond Tax Fund	5,890	6,269	379	6.4%	76
Total Miscellaneous Receipts	**2,336**	**2,390**	**54**	**2.3%**	**35**
Miscellaneous Receipts	2,328	2,386	58	2.5%	35
Federal Grants	8	4	(4)	-50.0%	-
Tobacco Securitization	-	-	0		-
General Fund Receipts	**44,042**	**46,053**	**2,011**	**4.6%**	**741**
Lottery	2,084	2,310	226	10.8%	(11)
Total Receipts & Lottery	**$46,126**	**$48,363**	**$2,237**	**4.8%**	**$730**