February, 2007

Dear Colleagues:

I am pleased to provide you with the NYS Assembly Ways and Means Committee *Revenue Report* for State Fiscal Year (SFY) 2006-07 and 2007-08. 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 2006-07 and 2007-08.

The Committee staff projects that total receipts for purposes of the Consensus Revenue Forecast are $63.6 billion in SFY 2006-07, which represents an increase of $5.7 billion, or 9.9 percent, over SFY 2005-06. The Committee staff estimate is $129 million higher than the Executive's estimate for SFY 2006-07. 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 $67.3 billion in SFY 2007-08, an increase of $3.7 billion, or 5.9 percent, over SFY 2006-07. The Committee staff forecast is $705 million higher than the Executive's forecast for SFY 2007-08.

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

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

Sincerely

Herman D. Farrell, Jr.
Chairman

NEW YORK STATE REVENUE REPORT

FISCAL YEAR 2006-07 AND 2007-08

February 2007

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New York State Assembly

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State revenues are projected to grow significantly in the current fiscal year. However, consistent with a projected deceleration of the economy in 2007, the Committee staff is forecasting slower revenue growth in State Fiscal Year (SFY) 2007-08. All Fund receipts are expected to total $114 billion in SFY 2006-07 and $119 billion in SFY 2007-08. On an All Governmental Funds basis the Committee forecasts are $129 million and $705 million above the Executive's projections over the two respective fiscal years.

Table 1

All Governmental Fund Receipts
SFY 2007-08
(Dollar Amounts in Millions)

	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
Personal Income Tax	$22,650	$4,948	$9,199	$0	$36,797
User Taxes and Fees	8,585	1,753	2,628	1,304	14,270
Business Taxes	6,452	1,465	-	668	8,586
Other	1,108	-	683	212	2,003
Total Taxes	**$38,795**	**$8,167**	**$12,510**	**2,185**	**$61,656**
Miscellaneous Receipts	2,856	12,949	671	3,592	20,068
Federal Grants	59	35,256	-	1,996	37,311
All Governmental Funds	**$41,710**	**$56,372**	**$13,181**	**$7,773**	**$119,035**

SFY 2006-07 Estimate

The underlying strength in the economy has resulted in robust revenue growth for the fourth consecutive year, with year-to-date tax collections through December growing by 8.9 percent from State Fiscal Year (SFY) 2005-06. The Committee staff projects that total tax collections will be $58.4 billion, which is $4.8 billion or 8.9 percent above SFY 2005-06. As a result, the Committee staff projects total tax collections will exceed the Enacted Budget estimate by $1.5 billion. The Committee staff estimate is $101 million above the Executive Budget estimate.

The Committee staff estimates that the above average growth in collections in the first three quarters will continue in the last quarter of the fiscal year. The strong growth in the fourth quarter is largely due to expectations of a strong bonus season, which is estimated to drive growth of 14.5 percent in personal income tax withholding.

Underlying strength in quarterly corporate tax collections is expected to remain strong. However, overall collections in the last quarter are expected to decline from the prior year due to the absence of one-time audit collections received in March 2006. In addition, prior year tax law changes will continue to dampen growth in sales tax revenues for the remainder of the year.

Table 2

Summary of Total Tax Collections (Dollar Amounts in Millions)

	2005-06 Actual	2006-07 Estimate	Change	Percent Growth	Diff. Exec.
Personal Income Tax	$30,812	$34,516	$3,704	12.0%	$82
User Taxes	13,922	13,693	($229)	-1.6%	(32)
Business Taxes	7,088	8,152	$1,064	15.0%	29
Other	1,820	2,049	$229	12.6%	22
Total Tax Collections	**$53,643**	**$58,410**	**$4,767**	**8.9%**	**$101**

SFY 2007-08 Forecast

The Committee staff is forecasting that the U.S. and State economies will slow in 2007. Consequently, State tax collections are forecast to slow as well. Growth in Gross Domestic Product is forecast to slow from 3.3 percent in 2006 to 2.6 percent in 2007. Growth in wages, which accounts for approximately 70 percent of New York Adjusted Gross Income, is forecast to slow from 6.4 percent in SFY 2006-07 to 5.4 percent in SFY 2007-08. Growth in corporate profits are also forecast to slow from 21.0 percent to 5.1 percent in the upcoming calendar year. The combination of a slowing economy, a decline in audit collections and the impact of approximately $800 million in previously enacted tax reductions will limit growth in total tax revenues to just 5.6 percent. The Committee staff forecasts total tax collections in SFY 2007-08 to total $61.7 billion, an increase of $3.2 billion above SFY 2006-07. The forecast is $695 million above the Executive Budget forecast.

Table 3

Summary of Total Tax Collections (Dollar Amounts in Millions)

	2006-07 Estimate	2007-08 Forecast	Change	Percent Growth	Diff. Exec.
Personal Income Tax	$34,516	$36,797	$2,281	6.6%	$523
User Taxes	13,693	14,270	$577	4.2%	(7)
Business Taxes	8,152	8,586	$434	5.3%	136
Other	2,049	2,003	($46)	-2.2%	43
Total Tax Collections	**$58,410**	**$61,656**	**$3,246**	**5.6%**	**$695**

Economic Basis for Revenue Forecast

The economy remained strong in 2006 despite rising energy costs and a weakening housing market. Inflation, reflecting price pressures from high oil prices, was 3.2 percent. On the State level, growth in wages and personal income is expected to support strong underlying growth in personal income taxes in the current fiscal year. Much of the increase is the result of increased economic activity on Wall Street, resulting in another strong bonus season for financial sector employees.

The following section reviews the major economic indicators and drivers that impact and form the basis of the Committee staff's revenue forecast.

Gross Domestic Product

The broadest measure of the health of the national economy is the Gross Domestic Product (GDP), which is a measure of the size of the national output. GDP is now expected to have grown by 3.3 percent in 2006. The Ways and Means Committee staff projects that the national economy, as measured by GDP, will continue to grow, but weaken to 2.6 percent in 2007.

During economic expansions at both the state and National level state revenues usually exceed expectations typically resulting in budget surpluses that allow for additional reserves to be set aside for future financial plans. The economic conditions that existed in the later half of the 1990's demonstrate how a long economic expansion can support an aggressive financial plan of both tax cuts and service enhancements. Conversely, the economic shocks in 2001 and 2002 demonstrated how quickly those conditions can change, forcing temporary tax increases and other revenue enhancements to support the financial plan. The state and nation are in the fourth year of strong economic expansion. However, it is important to note that despite years of budget surpluses the amount of reserves available to stabilize the budget in the event of a downturn in the economy have not increased appreciably.

Corporate Profits

Corporate profits as a share of GDP are at record levels, reaching approximately 14 percent. In fact since 2002 corporate profits have been quite robust going from a little under $800 billion to over $1.8 trillion in 2006. The past year saw strong corporate performance, with profits estimated to have grown 21.0 percent.

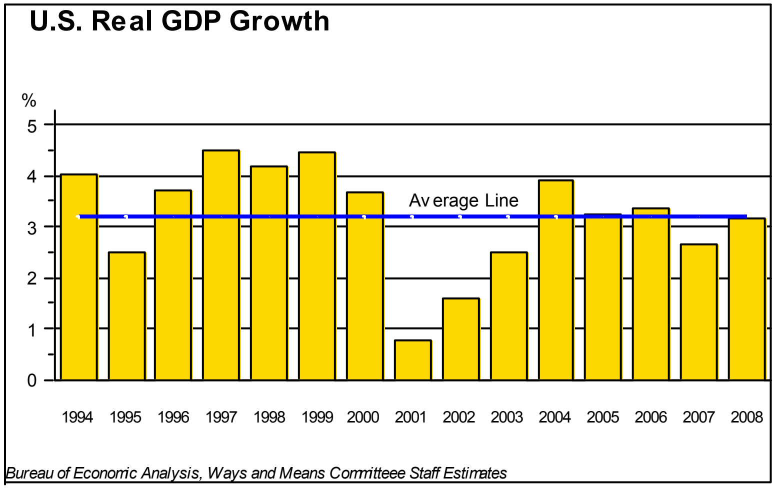
However, in 2007 growth in corporate profits are expected to moderate, growing at a rate of 5.1 percent. Pressure on total unit compensation costs and a slowdown in productivity should temper further increases in corporate earnings.

Interest Rates

The objective of the national monetary policy is to manage the supply of money given the level of aggregate demand for goods and services so as to contain any inflationary momentum. This is achieved primarily through adjustments to key interest rates through the market for U.S. Treasury bonds. The Committee staff believes that the threat of inflation has subsided, and therefore, forecasts no increase in the federal funds rate over the coming year.

Energy

Increases in energy prices can have a deleterious effect on the economy. The rapid increase in the price for gasoline and energy commodities early in 2006 resulted in a decline in consumer confidence, which in turn caused a mid-year slowdown in consumer spending. The high gas prices caused consumers to shy away from purchases of large SUV’s and toward more fuel efficient vehicles. This had a negative effect on the domestic auto industry and on auto sales generally, which are a major component of the state sales tax base. Fortunately, thanks to the absence of any major supply disruptions during 2006 from hurricanes or geopolitical events, energy prices have declined from their peak levels and seem to have stabilized. The Committee staff projects prices will remain at or near current levels, however, the risk of a major supply disruption is always present under the current geopolitical climate.



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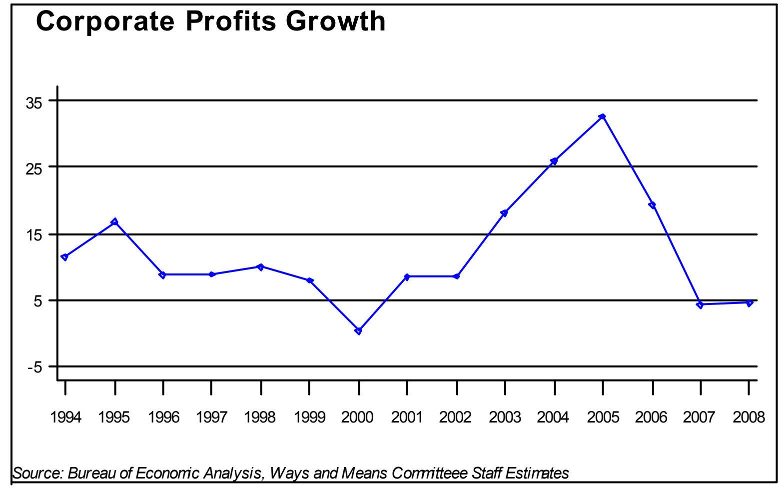

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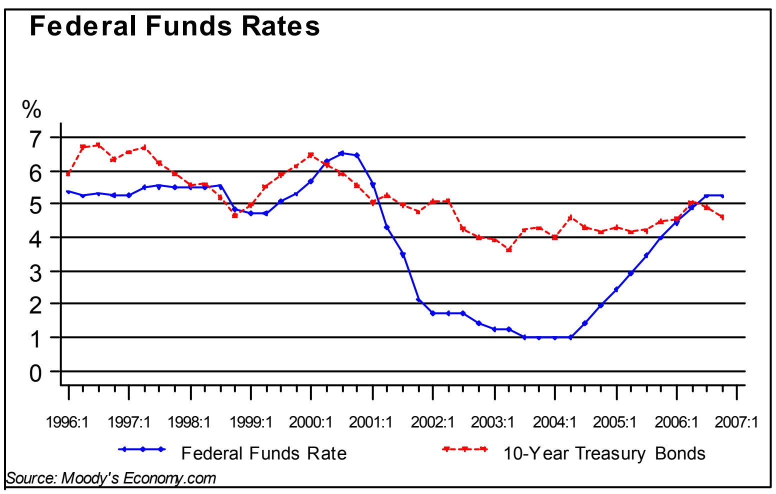

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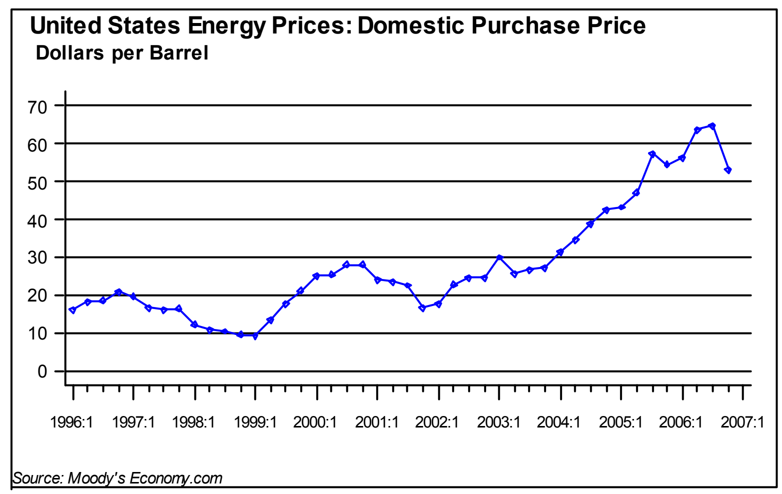

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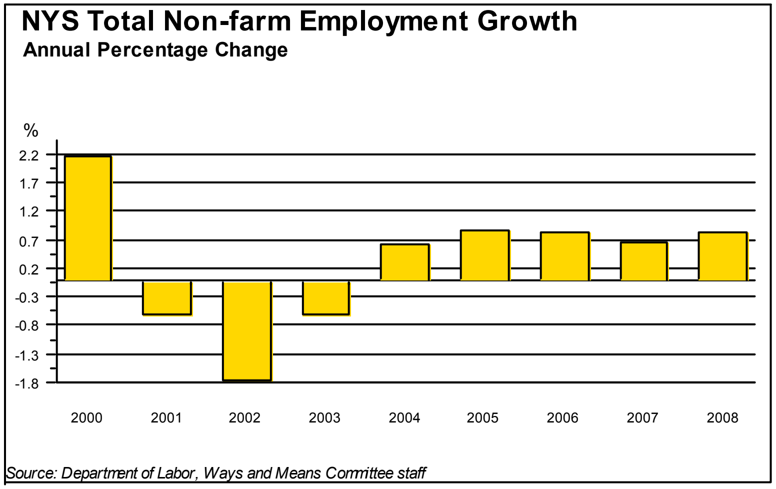

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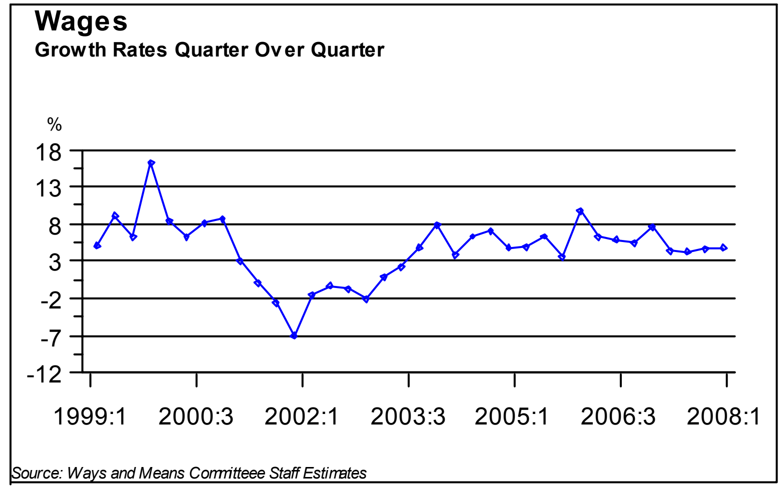

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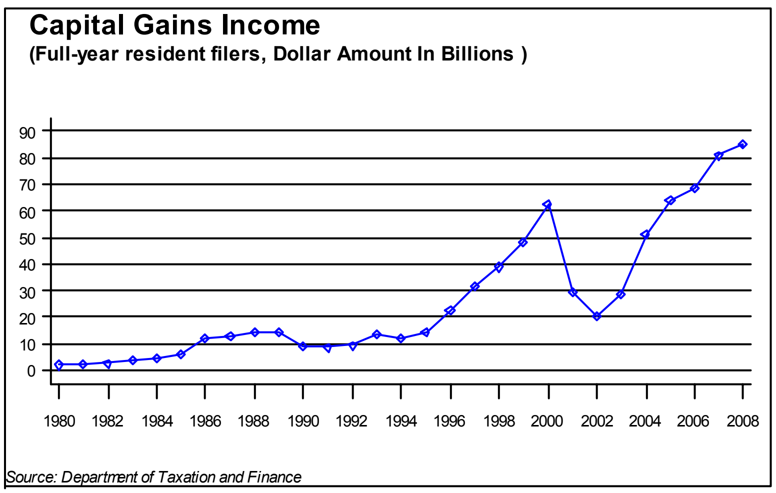

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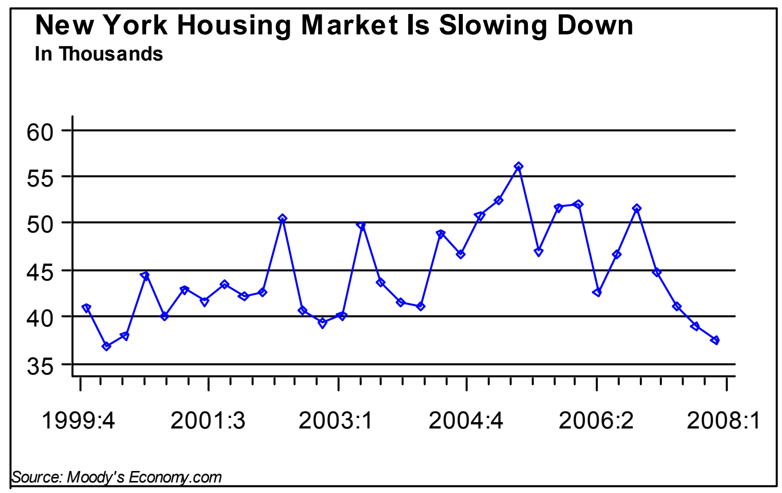


Figure 8

Employment

Employment is often seen as the best economic measure of the state's economy. New York will continue to lag the nation in terms of employment growth. Most of the job gains over the past year were in the New York City metropolitan area, as job growth in the rest of the State remained relatively flat.

In 2007, New York employment is projected to grow 0.7 percent, slightly lower than the 0.9 percent estimated for 2006. This reflects continued slow growth in government employment, decreases in manufacturing employment, and a significant decline in jobs related to residential construction. The largest job gains are expected to be in education and health.

Wages

As will be explained in more detail later in the report, wages and salaries are the backbone of the state's revenue program. Wages and salaries in New York are estimated to have grown by 7.9 percent in 2006 and are forecasted to increase at a slightly lower pace of 5.9 percent in 2007.

Wages and salary growth have two distinct components, the base wage growth and variable wage growth. Variable wage growth consists of bonuses that from year to year could be quite volatile. Base wages are more stable with growth coming from increased employment and salaries. In 2007 base wages are forecasted to increase by 4.6 percent and variable wages are expected to increase 15.0 percent. Variable compensation, which includes bonuses, stock options and other forms of compensation, is expected to increase by 21.6 percent in the fourth quarter of State Fiscal Year (SFY) 2006-07. Coupled with base wage growth of 5.7 percent, growth in wages is expected to be 6.4 percent for the fiscal year. For more discussion on variable wages see the *Economic Report*.

Capital Gains

The level of capital gains activity is a critical component in determining the state's personal income tax liability. Growth in capital gains is important, because as discussed more fully later in the report, payments from high income individuals that realize a significant amount of capital gains account for the lion's share of the increases in personal income tax collections.

Capital gains represent the increase in the value of an asset over time. Such gains usually occur from increases in the value of stocks, bonds or real estate. When taxpayers sell their assets and "realize" the gain it becomes a taxable event. Investor behavior is influenced by many things such as tax law changes and market expectations. Consequently, it is difficult to predict when investors will realize their gain. However, the continuation of a strong equity market provides a strong likelihood that there will be strong growth in capital gains in 2007. The Committee staff projects capital gains will grow 18.2 percent in 2007 reaching a high of $80.9 billion. This is after growth of a modest 7.3 percent in 2006.

Housing

Housing price appreciation has been a major contributor to wealth generation and consumer spending over the past few years. Increasing home prices have allowed homeowners to tap into the equity in their homes to finance major purchases and to pay down existing debt. The combination of increased prices and transactions has helped fuel a run-up in real estate transfer tax collections. In addition, the housing market boom contributed to the large increase in capital gains realizations in 2004 and 2005.

However, the residential real estate market has clearly weakened in 2006. The deterioration of housing market conditions has taken a toll on the pace of economic growth nationally. The decline in residential construction has lowered growth in GDP by three-quarters of a percentage point in 2006, after contributing approximately one-half one percent to GDP from 2003 to 2005[1].

By the middle of 2006, sales of new and existing homes had fallen by 15 percent compared to the prior year. The decline in home sales has resulted in an increase in inventories equal to nearly seven months supply, which is well above the average supply of four and one half months during 2004 and 2005. This has resulted in a marked decline in housing starts, which in the fourth quarter of 2006, were nearly 30 percent the average level of 2005[2]. The question of how much of an additional housing market correction will be seen in 2007 represents a risk to the forecast.

Financial Markets

The most significant industry for New York's economy and revenues is the Financial Services industry. Wall Street's substantial wealth generation fuels the New York City regional economy. The past year saw surprising strength in the equities market. Corporate profits, relative price stability and a steady interest rate environment should propel further gains in the equity indexes.

Making a comeback from the bear market of 2001, the S&P is estimated to have grown 8.6 percent in 2006, is forecast to grow 9.2 percent in 2007, and by 6.0 percent in 2008. The income gains and the household wealth effect from steady increases in the equity markets translates into increased collections in the state's two main tax components, the personal income tax and the sales tax.

[1] Federal Reserve Board, *Monetary Policy Report,* February 2007.
[2] Ibid.

Much of the profits earned by Wall Street firms are the result of income generated by mergers and acquisitions activity. Total M&A activity was near record levels in 2006 and is expected to continue to be extremely robust in 2007.

Table 4

Key Economic Forecast Variables (Percent Change)

	Actual 2005	Estimate 2006	Forecast 2007	Forecast 2008
US Variables				
Real GDP	3.2	3.3	2.6	3.1
Personal Income	5.2	6.4	5.4	5.5
Wages and Salaries	5.1	6.4	5.4	5.5
Corporate Profits	12.5	21.0	5.1	5.6
Employment	1.7	1.9	1.3	1.5
S&P 500 Stock Price	6.8	8.6	9.2	6.0
Treasury Bill Rate (3 month)*	3.1	4.7	4.9	5.0
Treasury Note Rate (10-year)*	4.3	4.8	4.8	5.1
NYS Variables				
Employment	0.9	0.9	0.7	0.8
Wages	4.9	7.9	5.9	5.4

* Annual Average Rate

Sources: NYS Assembly Ways and Means Committee staff

State Tax Collections

New York State revenues have grown steadily since the last recession in 2001. With the economy exhibiting a modest but sustainable growth, the Committee staff is forecasting steady, but slower growth in revenue for the upcoming year.

The Ways and Means staff estimate of $58.4 billion in tax collections is $4.8 billion or 8.9 percent above the prior year. This is slightly lower than the average growth of the last four years. As can be seen in figure 10, this continues a slowdown in growth from the peak growth of SFY 2004-2005. For SFY 2007-08, the Committee staff expects a further drop in the rate of growth to 5.6 percent, increasing tax collections by only $3.2 billion for a total of $61.7 billion.

The slowdown in growth is partially due to the fact that the Executive's revenue program is no longer supported by the temporary tax increases enacted in 2003. Furthermore revenue growth is constrained by tax reductions of $792 million from prior years that take effect this year and an enhanced STAR proposal that dedicates $1.5 billion in additional funds which otherwise would go the General Fund. Absent those additional funds, the Executive, through administrative action and Article VII legislation accompanying the budget, is proposing to increase revenue by $1.5 billion. This includes $200 million from the enforcement of existing law with regard to taxes on cigarettes and motor fuel. In addition, the budget contains $136 million in action to preserve existing revenue. Adjusted for previously enacted and proposed legislative changes growth would have been close to 7 percent, which is lower than the five year average growth rate of the previous economic expansion.

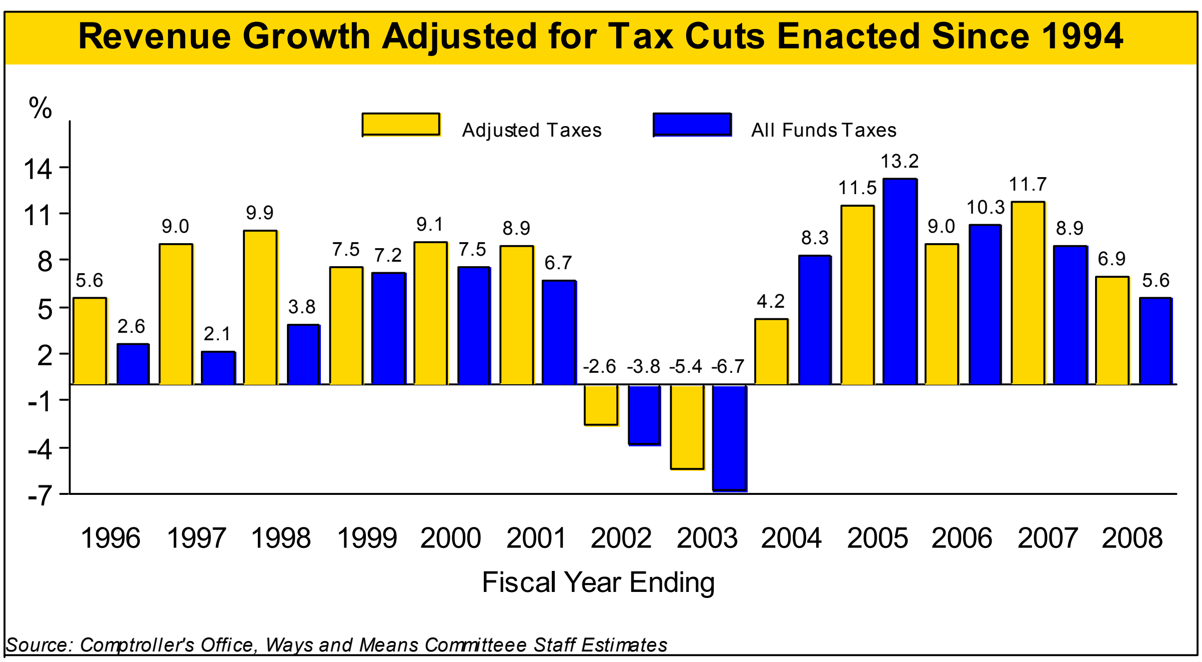


Figure 9

During the recent economic expansion, the State has benefited – in terms of increased tax revenue- from the rapid increase in wealth among high income taxpayers. As shown in subsequent chapters in the report, income trends among these taxpayers are extremely volatile. The increase in volatility has resulted in a revenue system where collections grow at a much faster rate than the increase in personal income during an economic expansion. Conversely, during an economic downturn, revenues can decline far more rapidly than the decline in total incomes. The latter situation is best illustrated by the decline in state revenues that occurred after the recessions of 2001 and the attacks of September 11th (see figure 9). In the aftermath of these economic disruptions, the state experienced two straight years of revenue declines, which is the first time in recent history that this had occurred.

Personal Income Tax Collections Are the Engine of Growth

The majority of growth in State taxes over the last four years has been from the personal income tax. After declining by 14.7 percent in the period between 2001 and 2003, personal income tax revenues have grown by an average of 12.2 percent over the last three years and that trend is expected to continue through SFY 2006-07.

Total personal income tax receipts in SFY 2006-07 are projected to increase by $3.7 billion or 12.0 percent over SFY 2005-06. Personal income taxes in the 2006-07 fiscal year have benefited from a 15.0 percent increase in final payments on 2005 tax liability, which is the last year of the temporary income tax surcharge. Quarterly estimated payments have also shown strength, increasing by 13.7 percent through the first three quarters of the fiscal year. On the other hand, withholding collections, which make up a majority of personal income tax payments, have grown by 8.3 percent through January.

Year-End Bonuses Benefit State Tax Coffers

Financial sector profits and compensation have increased dramatically since the recovery of the stock market from its 2001 low. A large increase in securities industry profits is expected to contribute to an increase in SFY 2006-07 total bonus compensation of 11.8 percent. As a result, personal income tax withholding is expected to increase by 14.5 percent in the fourth quarter, more than triple the growth rate of the first three quarters of the year.

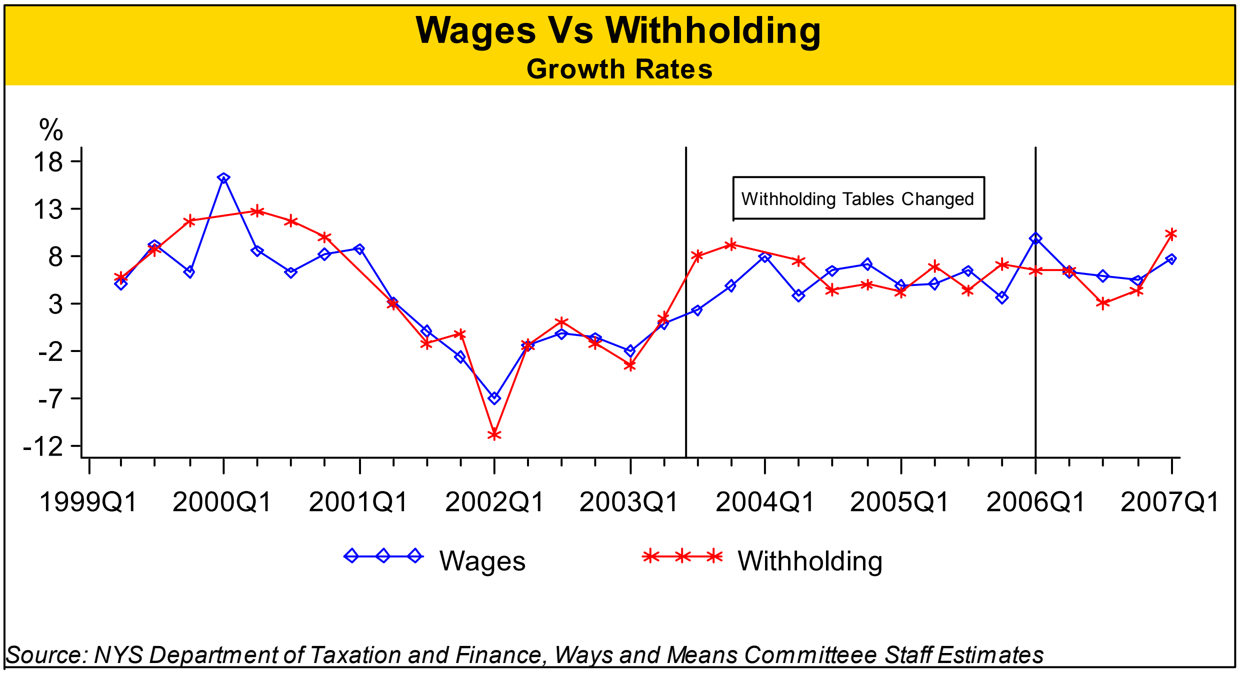


Figure 10

Corporate Tax Growth is Largely Due to Increases in Audit Payments

Strength in corporate profits combined with the settlement of several large audits has produced an increase in corporate franchise tax collections of 44.9 percent through December. The increase in corporate audits in SFY 2006-07 continues a trend of increased audit activity that began in SFY 2005-06 and was bolstered by the enactment of abusive tax shelter reporting requirements and a Voluntary Compliance Initiative. These two initiatives encouraged taxpayers to make payments on income earned from vehicles deemed by the IRS as abusive tax shelters without being subject to increased penalties and interest. Audit collections, which averaged $238 million between SFY 2002-03 and 2004-05, are now expected to exceed $1 billion in the current fiscal year.

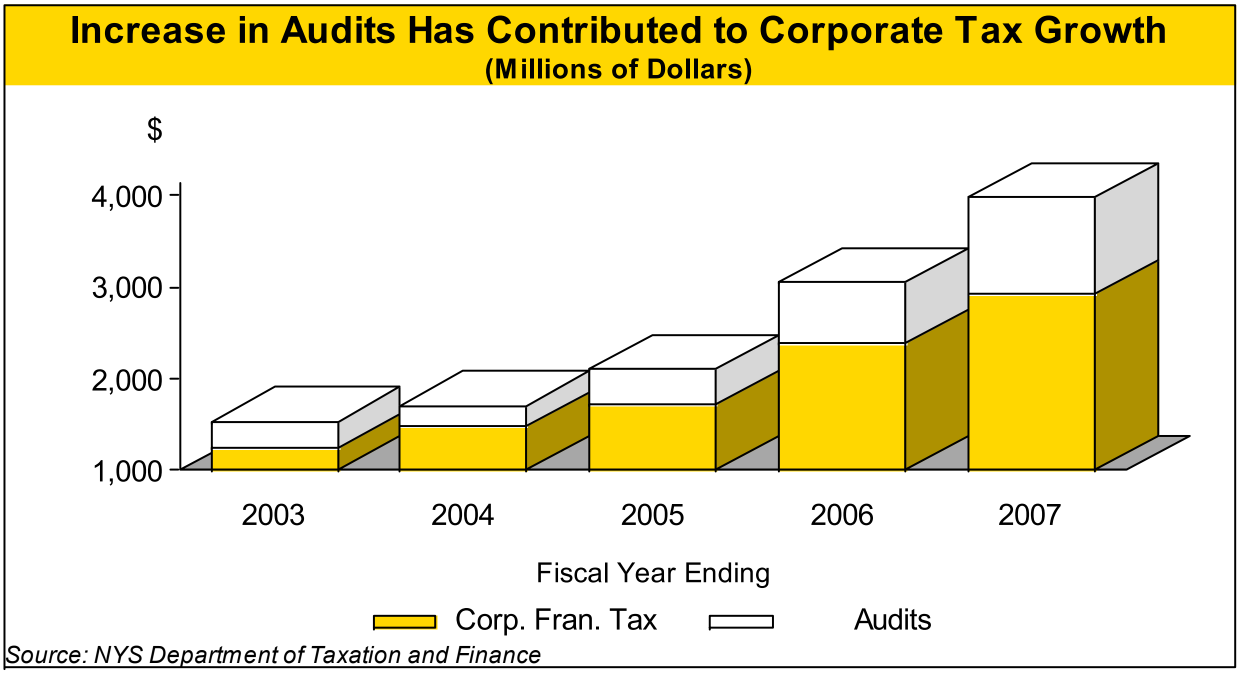


Figure 11

Legislative Actions and Economic Uncertainty Reduce Growth in Sales Tax

The strong growth in personal income and business taxes have helped to offset a significant decline in sales and use taxes. The decline is the result of two significant tax law changes enacted in SFY 2006-07. The most significant was the reinstatement of the sales tax exemption for clothing and footwear priced under $110, effective April 1, 2006. The other significant change in SFY 2006-07 was the implementation of a cent per gallon method for calculating the State sales tax on motor fuel. Effective June 1, 2006, the State sales tax on gasoline is imposed at a rate of eight cents per gallon, effectively capping the State sales tax at a retail price of $2.00 per gallon. These two changes are estimated to reduce tax receipts in SFY 2006-07 by $717 million.

In addition, economic uncertainty made consumers a bit more cautious in 2006. High gasoline prices in the first half of the year along with a decline in the housing market reduced consumer spending in the first half of 2006. The high gasoline prices contributed to a decline of nearly 5 percent in auto sales, which make up 13 percent of the sales tax base. The drop in gasoline prices after the summer driving season and warm winter weather bolstered consumer spending for the important holiday season. Consumers spent freely over the holiday season as growth in disposable income remained strong. For calendar year 2006, retail sales rose by 6.0 percent according to data recently released by the Commerce Department. Despite the rebound in consumer spending over the holiday season, the Committee staff still expects collections from the 4 percent sales tax to decline by 4.0 percent for the fiscal year. Absent the aforementioned Tax Law changes, however, growth in the sales tax base would be 4.1 percent.

Despite Weakening Housing Market Real Estate Transfer Tax Collections Stay Afloat

Fears of a housing market bubble were finally realized in most of the country during 2006. US Housing starts are expected to decline by 20.1 percent in the current fiscal year and by an additional 11.2 percent in the upcoming fiscal year. In addition, housing prices have declined by as much as 20 percent in parts of the country.

Yet despite the slowdown in the housing market, real estate transfer tax receipts have remained slightly above their historic SFY 2005-06 levels. The Committee staff estimates collections will total $957 million, which is 2 percent above the prior year. The stabilizing of transfer tax revenue is likely due to strength in the commercial real estate market, especially in Manhattan. Average commercial office rents for Class A Midtown buildings increased from $56.00 per square foot to $65.50 per square foot between July 1 and November 30.[3] According to the National Association of Realtors, commercial vacancy rates should continue their downward trend throughout 2007, going from 13.5 percent in the first quarter of 2006 down to 12.3 percent in the fourth quarter of 2007.

Outlook for Personal Income Taxes in SFY 2007-08

Personal income tax revenues are forecast to increase by 6.6 percent in SFY 2007-08, which is well below the growth rates of the last few fiscal years. The slowdown in personal income tax growth reflects a general slowdown in the economic variables that drive collections and the enactment of several new tax credits that are expected to reduce revenues by $720 million in the upcoming fiscal year. The expiration of the temporary tax surcharge is also expected to reduce growth in the upcoming April settlement, as high-income taxpayers' liability is decreased from 2005 levels.

SFY 2007-08 Growth in Corporate Taxes Boosted by Proposed Law Changes

Although collections resulting from audit activity are expected to decline from their return to historic levels, corporate tax collections are forecasted to increase by 5.8 percent in large part due to proposed corporate tax loophole closers. The tax changes are expected to increase business tax revenue by $398 million.

Sales Taxes Expected to Rebound in SFY 2007-08

Sales tax collections are forecasted to rebound in the upcoming fiscal year, with total collections predicted at $11.248 billion, which is $414 million or 3.8 percent above SFY 2006-07. Collections will continue to be impacted by the full year implementation of the cap on gasoline taxes and weaker consumer spending in SFY 2007-08. The Committee staff forecasts a slowdown in consumer spending as the uncertainties over short term interest rates, the housing market and a general economic slowdown

[3] NYCOMB. Monthly Report On Economic Conditions – December 15, 2006.

continue in 2007. The forecast for SFY 2007-08 predicts moderate growth of 3.3 percent for consumer expenditures for durable goods, 5.1 percent for disposable income and 0.9 percent for sales of automobiles and light trucks.

Further Weakening of Real Estate Market in SFY 2007-08

The Committee staff is forecasting a 6.5 percent decline in real estate transfer tax receipts, to $895 million in the upcoming fiscal year. The decline is attributed to a forecasted decline of 10.8 percent in housing starts, which is an indicator of the overall health of the housing market. The weakness of the housing market will be somewhat offset by the continued strength in non-residential construction. Commercial vacancy rates are forecasted to decline by 1.7 percent in 2007, which should help to maintain the commercial market in New York City.

Tax Law Changes Impacting 2006-07 and 2007-08 Collections

The State Budgets enacted in the previous two fiscal years contained significant tax reductions that will reduce revenue by $1.057 billion and $1.849 billion in 2006-07 and 2007-08, respectively (see Table 4).

For SFY 2007-08 the Executive is proposing a series of Tax Law changes that is expected to increase total revenue by $445 million. In addition, the Executive expects to realize approximately $200 million from the enforcement of existing law with regard to retail sales on Indian reservations. Furthermore, the Executive's Middle Class STAR proposal is expected to reduce General Fund revenue by an additional $885 million in the upcoming fiscal year. A summary of the Executive's proposals is contained in a subsequent section of the report.

Table 5

Tax Reductions Enacted in 2005 and 2006 (Dollar Amounts in Millions)			
Tax Reductions	**2006-07**	**2007-08**	**Incremental**
Child Tax Credit	($75)	($625)	($550)
Nursing Home Credit	(40)	(40)	-
Elimination of the Marriage Penalty	-	(50)	(50)
All Other	(11)	(50)	(39)
Total PIT	*(126)*	*(765)*	*(639)*
Clothing Exemption	(608)	(608)	-
Gas Tax	(108)	(127)	(19)
All Other	(49)	(78)	(29)
Sales Tax	*(765)*	*(813)*	*(48)*
Single Sales Factor	(26)	(80)	(54)
Film Tax Credit	(35)	(35)	-
Empire Zone Enhancements	(22)	(44)	(22)
S-Corp Diiferential	(40)	(40)	-
All Other	(38)	(69)	(31)
Total Business Tax	*(161)*	*(268)*	*(107)*
Other Taxes	*(5)*	*(3)*	*2*
Total Tax Reductions	**($1,057)**	**($1,849)**	**($792)**

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

Underlying Growth of Revenue

One of the tools that can be used to get a true understanding of the responsiveness of the state's revenue system to changes in the economy is to measure underlying growth of the revenue base. To measure underlying growth, one must adjust for tax law changes, administrative actions, and audits, all of which have an impact on growth in actual tax collections. The most obvious are tax law changes, which impact the level of collections directly by changing actual liability. Less obvious are increases and decreases in audit collections, which are generally stable, but fluctuate due to such factors as improvements in auditing technology and the enactment of tax amnesty programs. The Committee staff estimates that underlying growth in the revenue base for SFY 2006-07 will be 11.7 percent. In SFY 2007-08, underlying growth is forecasted to be 6.9 percent.

Personal Income Tax

Since 1994, the Legislature has enacted tax reductions totaling $15 billion annually. In nominal terms, a large portion of the tax reductions are in the personal income tax, which has been reduced by $9 billion on an annual basis since 1994. The majority of the decline was due to a reduction in the top income tax rate, beginning in tax year 1995 to its current rate of 6.85 percent. The income tax program enacted in 1995 alone accounts for nearly three-quarters of all personal income tax reductions enacted since 1994. An examination of figure 12, illustrates that growth in actual personal income tax collections was well below underlying growth in collections during the period 1995-96 to 1998-99, as would be expected during a period of such a large reduction in tax rates. In subsequent fiscal years, actual growth closely mirrors underlying growth in revenue, with the exception of 2003-04, the year in which the temporary income tax surcharge was enacted. In recent years, actual growth is again below underlying growth as a result of newly enacted tax reductions and the phase-out of the temporary income tax surcharges.

User Taxes and Fees

As with the PIT, significant divergence between actual and underlying growth in user taxes is the result of significant tax law changes. For example, the period from 1998-99 to 2001-02 represents a time where significant sales tax reductions, most notably the exemption for clothing and footwear, were enacted. The state enacted several 7-day sales tax holidays in the first two fiscal years and then a full year exemption in March of 2000. From 2002-03 through 2005-06, the Legislature enacted a temporary increase in the state sales tax and suspended the clothing exemption. Those temporary increases were eliminated as of 2006-07, thus the large decline in user taxes in the current fiscal year.

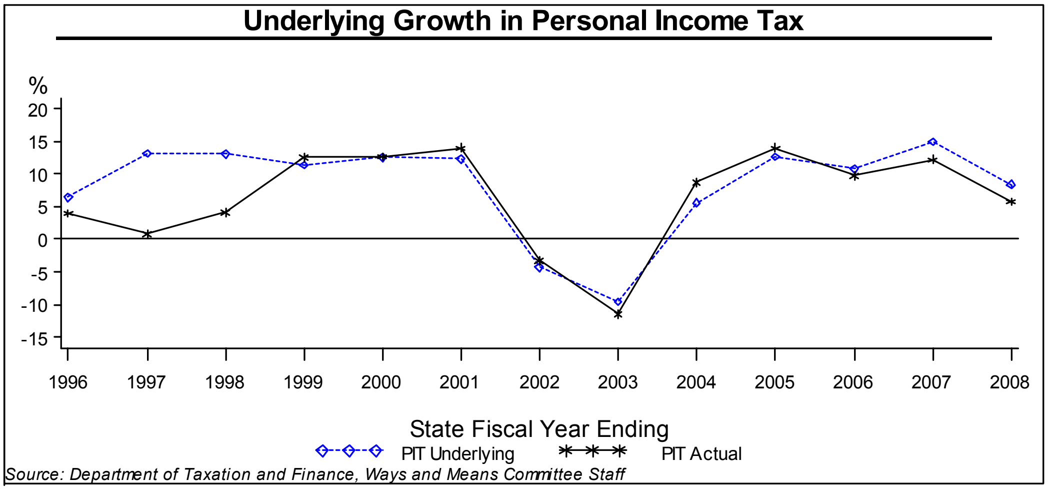


Figure 12

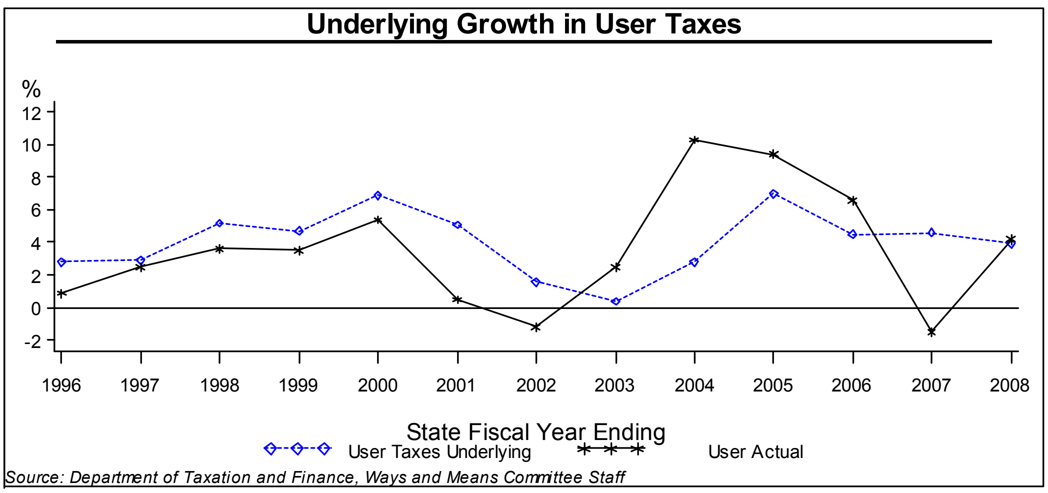


Figure 13

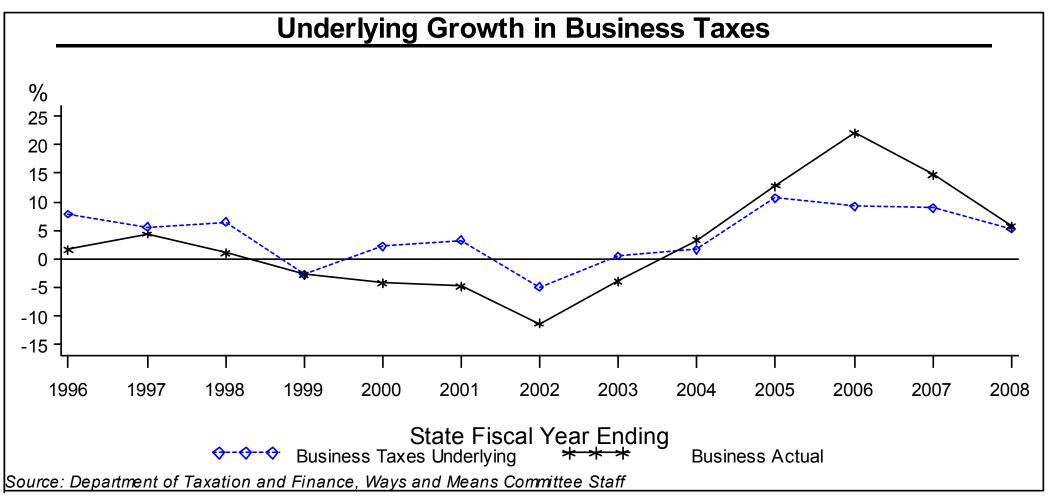


Figure 14

Business Taxes

During the period under examination, underlying growth in business taxes has generally been above growth in actual taxes, again due to significant tax reductions enacted in the late 1990's and in 2000-01. For example, the tax rate for the corporate franchise and bank tax were lowered from 9 percent to its current 7.5 percent rate. The ceiling on insurance taxes was lowered from 2.5 percent of premiums to 2 percent of premiums during this span and the gross receipts tax on utility companies was repealed beginning in 2000. In addition, several new tax credits were enacted, most significantly, the Empire Zone program was significantly enhanced in 2000. The increase in actual collections above the underlying growth trend is the result of a significant increase in corporate audit collections over the past two fiscal years.

Revenue Volatility

The variability in state revenues are a function of the nation's economic cycles. Yet depending on the mix of industries some states' economies are more stable than others. The New York State economy is more volatile than the nation as a whole as can be seen in figure 15.

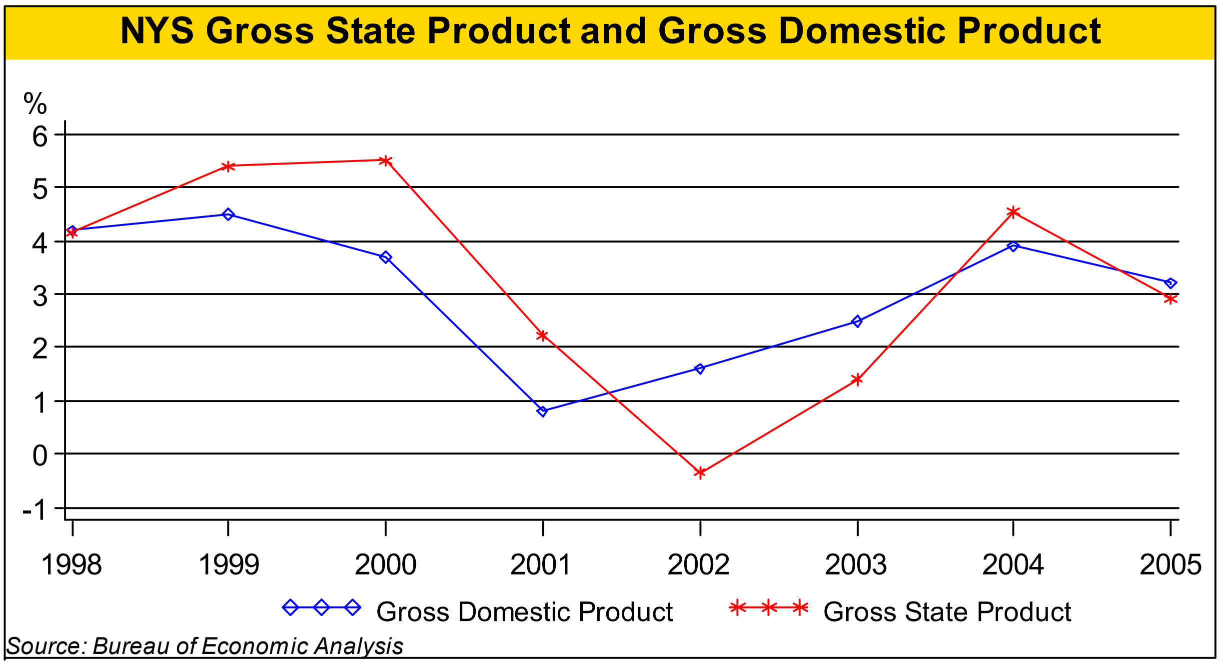


Figure 15

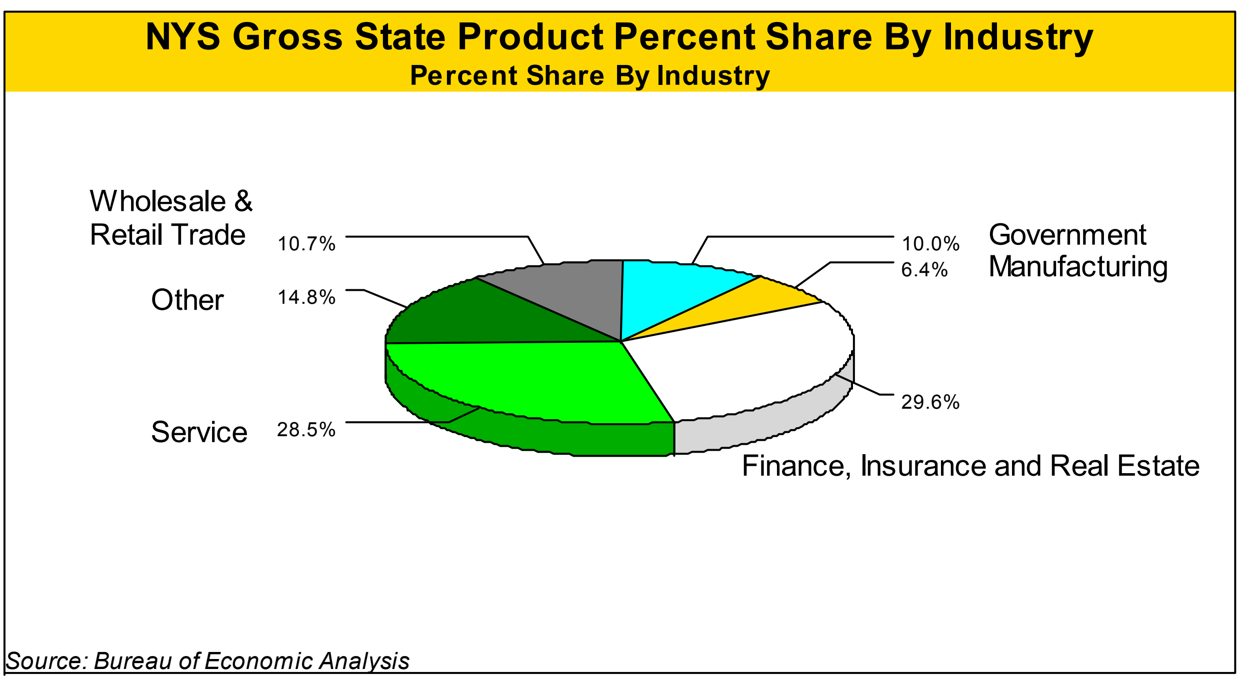


Figure 16

The pie chart presented in Figure 16 shows that the two largest contributors to the State's Gross Domestic Product is the Service industry and Finance, Insurance and Real Estate (FIRE) which typically show a good deal of sensitivity to changes in the business cycles. Any significant slowdown in these areas could significantly reduce State revenues since both the personal income tax and business taxes are significantly dependent on those industries.

State's Reliance on the PIT Increases Overall Revenue Volatility

As a share of total tax revenues, personal income tax collections have grown from 51.5 percent in SFY 1986-87 to 58.9 percent in SFY 2006-07. As the largest component of total tax revenues, the volatility of the personal income tax has resulted in a more volatile revenue system overall.

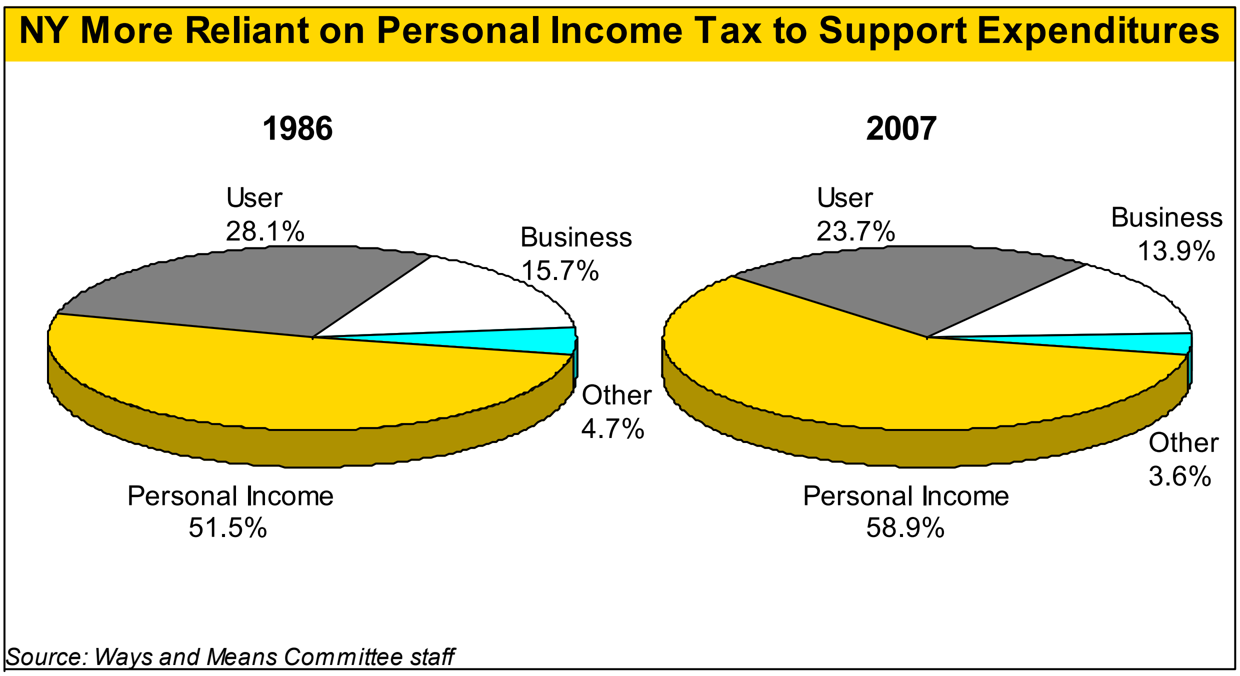
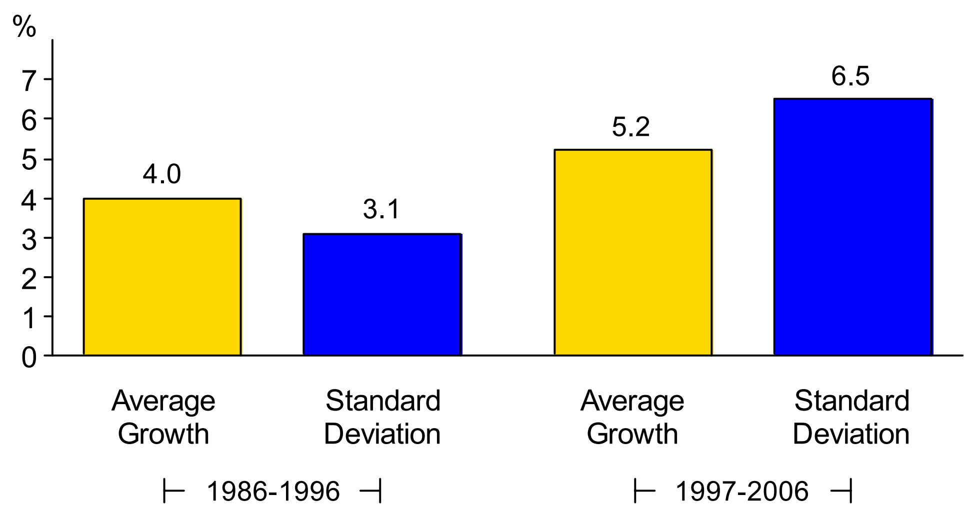


Figure 17

While the average growth in tax revenues has increased over the past decade, the increased growth has been accompanied by an increased volatility. During the ten year period from SFY 1985-86 to SFY 1995-96, tax collections grew at an average of 4.0 percent annually. The standard deviation of the growth was 3.1 percent during this period. Since SFY 1996-97, the average growth rate of state tax revenue has increased to 5.2 percent, however, the standard deviation in growth rates increased to 6.5 percent. The change in the pattern of revenue growth can be problematic for budget making purposes. While the increased volatility has led to stronger growth during economic expansions, it also leads to steeper declines during periods of economic contractions. Increased dependence on the PIT combined with increased volatility in PIT collections must be taken into account when assessing the risks associated with the Committee staff’s forecast, especially as the risk of an economic downturn increases.

Average Growth in Taxes Has Increased But Has Become More Volatile



Source: Ways and Means Committee staff

Figure 18

Detailed Consensus Tables

Table 6

Total Tax Collections SFY 2006-07 (Dollar Amounts in Millions)	2005-06 Actual	2006-07 Estimate	Change	Percent Growth	Diff. Exec.
Personal Income Tax	**$30,812**	**$34,516**	**$3,704**	**12.0%**	**$82**
Gross Receipts	**36,544**	**40,042**	**3,498**	**9.6%**	**78**
Withholding	24,761	26,713	1,952	7.9%	3
Estimated Payments	9,158	10,363	1,205	13.2%	11
Vouchers	6,684	7,578	894	13.4%	6
IT 370s	2,474	2,785	311	12.6%	5
Final Payments	1,849	2,127	278	15.0%	49
Delinquencies	776	839	63	8.1%	15
Total Refunds	**5,732**	**5,526**	**(206)**	**-3.6%**	**(4)**
Collections	**30,812**	**34,516**	**3,704**	**12.0%**	**82**
User Taxes and Fees	**13,922**	**13,693**	**(229)**	**-1.6%**	**(32)**
Sales and Use Tax	11,196	10,835	(361)	-3.2%	(45)
Motor Fuel Tax	531	521	(10)	-1.8%	2
Cigarette Tax	974	978	4	0.4%	9
Motor Vehicle Fees	785	903	118	15.0%	3
Highway Use	160	158	(2)	-1.4%	1
Alcoholic Beverage Tax	192	197	5	2.8%	1
Alcoholic Beverage Fees	42	56	14	32.3%	(2)
Auto Rental Tax	42	45	3	6.4%	(1)
Business Taxes	**7,088**	**8,152**	**1,064**	**15.0%**	**29**
Corporate Franchise	3,053	4,061	1,008	33.0%	(9)
Utility Tax	832	825	(7)	-0.9%	8
Insurance Tax	1,083	1,231	148	13.7%	5
Bank Tax	974	924	(50)	-5.2%	19
Petroleum Business Tax	1,146	1,111	(35)	-3.0%	6
Other	**1,820**	**2,049**	**229**	**12.6%**	**22**
Real Property Gains	1	1	0	0.0%	-
Estate and Gift	857	1,069	212	24.7%	14
Real Estate Transfer	938	957	19	2.0%	7
Pari Mutuel	23	21	(2)	-7.4%	1
Other	1	1	0	0.0%	-
Total Taxes	**$53,643**	**$58,410**	**$4,767**	**8.9%**	**$101**
General Fund Misc Receipts	2,028	2,845	817	40.3%	-
Lottery	2,179	2,325	146	6.7%	29
Total w/Misc Receipts and Lottery	**$57,851**	**$63,580**	**$5,730**	**9.9%**	**$129**

Table 7

Total Tax Collections SFY 2007-08 (Dollar Amounts in Millions)					
	2006-07 Estimate	2007-08 Forecast	Change	Percent Growth	Diff. Exec.
Personal Income Tax	**$34,516**	**$36,797**	**$2,281**	**6.6%**	**$523**
Gross Receipts	**40,042**	**43,079**	**3,037**	**7.6%**	**491**
Withholding	26,713	28,645	1,932	7.2%	269
Estimated Payments	10,363	11,345	982	9.5%	198
Vouchers	7,578	8,503	925	12.2%	231
IT 370s	2,785	2,842	57	2.0%	(33)
Final Payments	2,127	2,188	61	2.9%	32
Delinquencies	839	901	62	7.4%	(8)
Total Refunds	**5,526**	**6,283**	**757**	**13.7%**	**(31)**
Collections	**34,516**	**36,797**	**2,281**	**6.6%**	**523**
User Taxes and Fees	**13,693**	**14,270**	**577**	**4.2%**	**(7)**
Sales and Use Tax	10,835	11,248	413	3.8%	(58)
Motor Fuel Tax	521	551	30	5.8%	15
Cigarette Tax	978	1,103	125	12.8%	25
Motor Vehicle Fees	903	913	10	1.1%	13
Highway Use	158	159	1	0.6%	2
Alcoholic Beverage Tax	197	201	4	2.0%	1
Alcoholic Beverage Fees	56	48	(8)	-14.3%	(4)
Auto Rental Tax	45	47	2	4.4%	(1)
Business Taxes	**8,152**	**8,586**	**434**	**5.3%**	**136**
Corporate Franchise	4,061	4,295	234	5.8%	30
Utility Tax	825	863	38	4.6%	47
Insurance Tax	1,231	1,289	58	4.7%	30
Bank Tax	924	966	42	4.5%	40
Petroleum Business Tax	1,111	1,173	62	5.6%	(11)
Other	**2,049**	**2,003**	**(46)**	**-2.2%**	**43**
Real Property Gains	1	1	0	0.0%	1
Estate and Gift	1,069	1,085	16	1.5%	46
Real Estate Transfer	957	895	(62)	-6.5%	(5)
Pari Mutuel	21	21	0	0.0%	1
Other	1	1	0	0.0%	0
Total Taxes	**$58,410**	**$61,656**	**$3,246**	**5.6%**	**$695**
General Fund Misc Receipts	2,845	2,915	$70	2.5%	5
Lottery	2,325	2,730	$405	17.4%	5
Total w/Misc Receipts and Lottery	**$63,580**	**$67,300**	**$3,721**	**5.9%**	**$705**

Table 8

Total Tax Collections By Fund Type
SFY 2006-07
(Dollar Amounts in Millions)

	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
Personal Income Tax	**$22,890**	**$3,996**	**$7,630**	**-**	**$34,516**
User Taxes and Fees	**8,260**	**1,642**	**2,534**	**1,257**	**13,693**
Sales and Use Tax	7,601	700	2,534	-	10,835
Motor Fuel Tax	-	109	-	412	521
Cigarette Tax	406	572	-	-	978
Motor Vehicle Fees	-	261	-	642	903
Highway Use	-	-	-	158	158
Alcoholic Beverage Tax	197	-	-	-	197
Alcoholic Beverage Fees	56	-	-	-	56
Auto Rental Tax	-	-	-	45	45
Business Taxes	**6,056**	**1,467**	**-**	**629**	**8,152**
Corporate Franchise	3,548	513	-	-	4,061
Utility Tax	625	183	-	17	825
Insurance Tax	1,116	115	-	-	1,231
Bank Tax	767	157	-	-	924
Petroleum Business Tax	-	499	-	612	1,111
Other	**1,092**	**-**	**820**	**137**	**2,049**
Real Property Gains	1	-	-	-	1
Estate and Gift	1,069	-	-	-	1,069
Real Estate Transfer	-	-	820	137	957
Pari Mutuel	21	-	-	-	21
Other	1	-	-	-	1
Total Taxes	**$38,298**	**$7,105**	**$10,984**	**$2,023**	**$58,410**

Table 9

Total Tax Collections By Fund Type
SFY 2007-08
(Dollar Amounts in Millions)

	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
Personal Income Tax	**$22,650**	**$4,948**	**$9,199**	**$0**	**$36,797**
User Taxes and Fees	**8,585**	**1,753**	**2,628**	**1,304**	**14,270**
Sales and Use Tax	7,884	736	2,628	-	11,248
Motor Fuel Tax	-	115	-	436	551
Cigarette Tax	452	651	-	-	1,103
Motor Vehicle Fees	-	252	-	662	913
Highway Use	-	-	-	159	159
Alcoholic Beverage Tax	201	-	-	-	201
Alcoholic Beverage Fees	48	-	-	-	48
Auto Rental Tax	-	-	-	47	47
Business Taxes	**6,452**	**1,465**	**-**	**668**	**8,586**
Corporate Franchise	3,795	500	-	-	4,295
Utility Tax	655	190	-	18	863
Insurance Tax	1,170	118	-	-	1,289
Bank Tax	832	134	-	-	966
Petroleum Business Tax	-	523	-	650	1,173
Other	**1,108**	**-**	**683**	**212**	**2,003**
Real Property Gains	1	-	-	-	1
Estate and Gift	1,085	-	-	-	1,085
Real Estate Transfer	-	-	683	212	895
Pari Mutuel	21	-	-	-	21
Other	1	-	-	-	1
Total Taxes	**$38,795**	**$8,167**	**$12,510**	**$2,185**	**$61,656**

Personal Income Tax

Table 10

Personal Income Tax Collections SFY 2006-07 and SFY 2007-08 (Dollar Amounts in Millions)						
	2006-07 WAM Estimate	Percent Growth	Diff Exec	2007-08 WAM Forecast	Percent Growth	Diff. Exec.
Personal Income Tax	**$34,516**	**12.0%**	**$82**	**$36,797**	**6.6%**	**$523**
Gross Receipts	**40,042**	**9.6%**	**78**	**43,079**	**7.6%**	**491**
Withholding	26,713	7.9%	3	28,645	7.2%	269
Estimated Payments	10,363	13.2%	11	11,345	9.5%	198
Vouchers	7,578	13.4%	6	8,503	12.2%	231
IT 370s	2,785	12.6%	5	2,842	2.0%	(33)
Final Payments	2,127	15.0%	49	2,188	2.9%	32
Delinquencies	839	8.1%	15	901	7.4%	(8)
Total Refunds	**5,526**	**-3.6%**	**(4)**	**6,283**	**13.7%**	**(31)**
Prior Year Refunds	3,228	-7.3%	1	4,004	24.0%	(31)
Current Refunds	1,500	-0.8%	-	1,500	0.0%	-
Previous Refunds	264	-3.3%	(6)	270	2.1%	-
State/City Offsets	534	14.6%	1	509	-4.7%	-
Collections	**34,516**	**12.0%**	**82**	**36,797**	**6.6%**	**523**
Transfers to STAR	(3,996)	24.4%	-	(4,948)	23.8%	-
Transfers to DRRF/RBTF	(7,630)	10.6%	(21)	(9,199)	20.6%	(131)
General Fund PIT Collections	**$22,890**	**10.6%**	**$62**	**$22,650**	**-1.1%**	**$392**

General Description

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

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

SFY 2006-07 Estimate

Net Collections

The Committee staff estimates that All Funds personal income tax collections will total $34.516 billion in SFY 2006-07. This represents an increase of $3.704 billion or 12.0 percent over All Fund collections in SFY 2005-06. The significant growth in collections is the result of strong growth in a number of components, primarily estimated payments and the components of the April settlement. The Committee staff estimate is $82 million above the Executive's Budget estimate.

Withholding

Through December 2006, withholding collections increased by $751 million or 4.6 percent over the comparable period of 2005. The Committee staff estimates that by the end of the fiscal year withholding collections will total $26.713 billion. This represents an increase of $1.953 billion or 7.9 percent over total collections during the 2005-06 fiscal year. The Committee's estimate is $3 million above the Executive's Budget estimate.

The Committee staff estimate reflects wage growth of 6.4 percent throughout SFY 2006-07. However, strong wage growth is offset by the expiration of the tax surcharge enacted in 2003. The expiration of the surcharge is estimated to reduce withholding collections by $503 million. Therefore, underlying growth in withholding collections is estimated to be 9.9 percent.

Much of the withholding estimate and the overall PIT estimate is dependant on the Wall Street bonus season. Early indications are that it will be another strong bonus season, as collections through January 2007 were up 27.8 percent over the previous January.

Estimated Payments

Estimated payments, also known as vouchers, consist of quarterly estimated tax payments made by taxpayers who expect that the amount of tax being withheld from their wages will fall short of their final tax liability. In general, estimated payments are paid by taxpayers whose income is derived from non-wage sources, like capital gains, interest and dividend income.

Over the previous three fiscal years, estimated payment collections have grown by an average of 20.5 percent. Voucher payments are second only to withholding as a PIT revenue source.

The Committee staff expects that estimated payment collections for SFY 2006-07 will be $7.578 billion, which represents an increase of $894 million or 13.4 percent over collections from SFY 2005-06. The Committee staff estimate is $6 million above the Executive's estimate.

During the first two quarters of the fiscal year, growth in voucher collections was strong at 18.2 and 17.1 percent respectively. However, by the third quarter voucher collections shrank by 2.5 percent. One explanation for the decline in estimated payments is that taxpayers failed to adequately adjust for the January 1, 2006 expiration of the temporary tax surcharge. This presents a downside risk to the forecast, as there could be a fourth quarter adjustment that further dampens collections.

The recent growth in estimated payment collections can be explained by growth in non-wage sources of income. The largest source of non-wage income over recent years has been capital gains income. In calendar year 2001, capital gains income shrank by more than 50 percent. In 2002 capital gains income declined by another 30.7 percent. Since 2002 capital gains has surged as an income source; growing by 39.4 percent in 2003, 79.8 percent in 2004, and 24.8 percent in 2005. The increase in estimated payment collections over the past few fiscal years is directly linked to the growth in capital gains income. In 2006 the Committee staff expects capital gains income to grow by 5.0 percent, followed by growth of 18.3 percent in 2007.

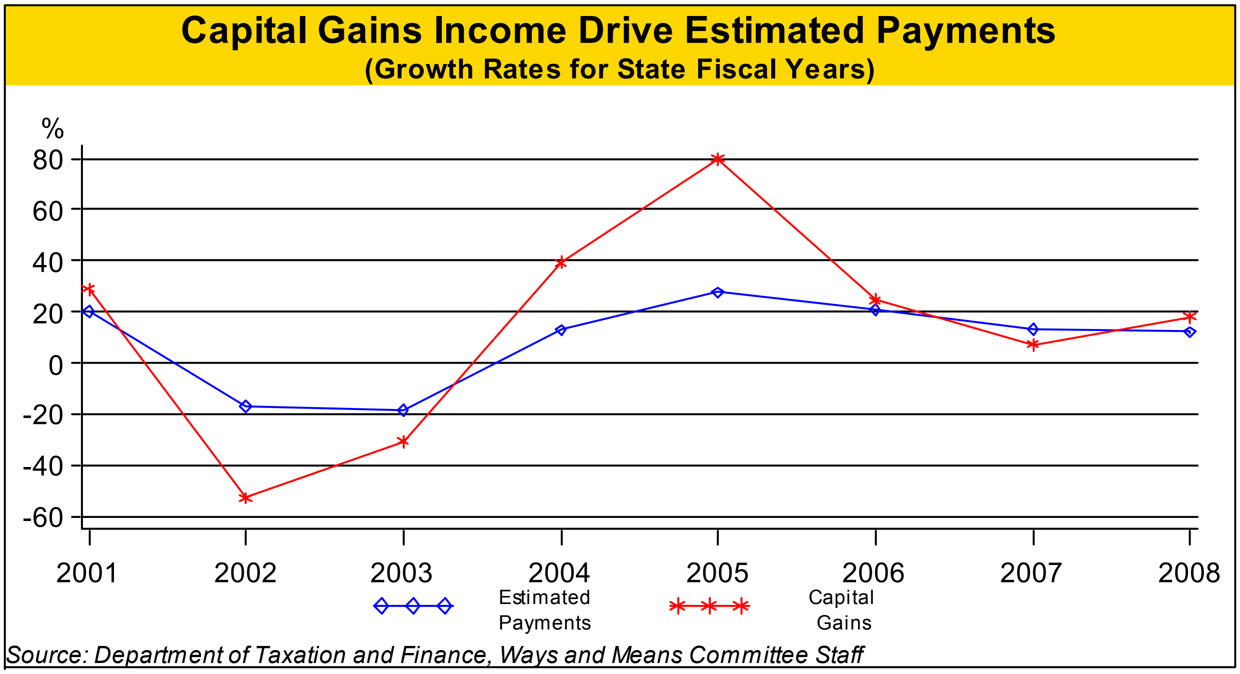


Figure 19

April Settlements

In April, taxpayers must file either an extension or final return to settle their tax liability for the prior fiscal year. These returns are accompanied by a corresponding payment, if the taxpayer owes money or by a claim for a refund if they have paid too much over the course of the year. As a result, April is usually large in terms of personal income tax collections.

Final Payments

Final payments, which result from the timely filing of tax returns each April 15th, increased by $257 million or 15.6 percent through December 2006. The Committee staff estimates that final payments will total $2.127 billion in SFY 2006-07. This estimate is $49 million above the Executive estimate.

For SFY 2006-07, the rules regarding final payments were altered so that all taxpayers were granted a 6 month period in which they could make final payments. In the past, taxpayers were automatically granted a 4 month extension. An additional two month extension could be requested by the taxpayer and was often granted by the Department of Taxation and Finance. The result was that August (the 4 month period) was marked by higher collections, followed by even larger collections in October.

However, due to the rule change, collections for August were well below historical averages. However, October collections were well above historical collections. Last year, the combined collections for August and October were $233 million; this year the combined total for the comparative months was $282 million, reflecting 21.3 percent growth.

Extensions

In April 2006, extension deposits (IT-370s) increased by $348 million or 14.7 percent over April 2005. The Committee staff estimates that extension deposits will total $2.785 billion in 2006-07, representing an increase of $311 million or 12.6 percent over the previous fiscal year. This estimate is $5 million above the Executive's estimate.

Refunds

Refunds are issued to taxpayers who have paid more than their tax liability. 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 in recent years has been $960 million. Starting in January of 2006 that amount was increased to $1.500 billion. Beginning in April the remaining refunds, known as prior year refunds, are paid to taxpayers as they are processed. Roughly two-thirds of prior year refunds are paid out in April and May of each year.

The Committee staff estimates that prior year refunds will total $3.228 billion in SFY 2006-07, representing a decrease of $253 million or 7.3 percent below the previous fiscal year. This estimate is $1 million above the Executive's estimate.

The 2006 April settlement provided a significant positive cash flow for the State. Final payments in April grew by 14.5 percent and totaled $1.496 billion. Extensions deposits grew by 14.7 percent and totaled $2.715 billion. Combined the two components contributed $4.211 billion in revenue. Refunds, on the other hand, declined by 28.5 percent and totaled just $1.170 billion in April. As a result the net revenue flow from the April settlement was $3,041 billion. This is a 49.3 percent increase over the April 2005 settlement.

Delinquencies

Delinquency collections arise from taxpayer audits. Delinquency payments are estimated to total $839 million in SFY 2006-07, which is $63 million or 8.1 percent more than collections from SFY 2005-06. The Committee staff estimate is $15 million above the Governor's Budget estimate.

SFY 2007-08 Forecast

The Committee staff's forecast for personal income tax collections during the 2007-08 fiscal year shows continued growth, but at a much slower pace. All Funds collections are forecast to be $36.797 billion, which is $2.281 billion or 6.6 percent higher than the Committee staff's SFY 2006-07 estimate. Growth has slowed due to the lingering effects of the expiration of the temporary tax surcharge, which will impact the 2007-08 settlement. More significantly, a number of large personal income tax credits were enacted during the prior 2006 legislative session, which will reduce revenues by $720 million in the 2007-08 fiscal year.

Withholding

Withholding collections are forecast to total $28.645 billion in SFY 2007-08. This is $1.932 billion or 7.2 percent higher than the 2006-07 withholding estimate. The Committee staff forecast is $269 million above the Executive's forecast. Growth in withholding is based on forecasted wage growth of 5.4 percent in SFY 2007-08. The wage-withholding elasticity for 2007-08 is 1.3, which is consistent with historical trends.

Estimated Payments

The Committee staff forecasts that voucher payments will total $8.503 billon. This represents an increase of $925 million or 12.2 percent growth over SFY 2006-07 collections. The forecast is $231 million above the Executive's forecast. The continued growth in collections is partially due to capital gains income, which is expected to grow by 18.3 percent during calendar year 2007. Other sources of non-wage income, such as interest and dividend income and other income, are forecast to grow by 6.7 percent and 4.6 percent respectively throughout the 2007 tax year.

Final Payments

Final payments are forecast to total $2.188 billion in fiscal year 2007-08. This represents an increase of just $61 million or 2.9 percent over the Committee staff's fiscal year 2006-07 estimate. The Committee staff's forecast is $32 million above the Executive's forecast. Final payment collections reflect an additional $30 million from the Governor's proposal to change the calculation of LLC filing fees. The Governor's proposal will generate the same amount of revenue as the 2006 fee structure, but it is counted as a revenue enhancement because the 2006 fee structure expired on January 1, 2007.

Extensions

The Committee staff's forecasts extensions (IT-370s) to total $2.842 billion in fiscal year 2007-08. This represents a increase of $57 million or 2.0 percent from the Committee staff's 2006-07 total. This forecast is $33 million below the Executive's estimate.

Refunds

The Committee staff forecasts that prior year refunds will total $4.004 billion in fiscal year 2007-08, representing an increase of $776 million or 24.0 percent over total estimated refunds during the 2006-07 fiscal year. The growth in refunds is explained by the newly enacted tax cuts that will take effect in 2007, and impact 2007-08 fiscal year collections. The Executive forecasts that prior year refunds will grow 25.0 percent in 2007-08. The Executive's forecast is $31 million above the Committee staff's forecast.

The significant increase in refunds paid out during the 2007-08 fiscal year is due to a number of new tax credits enacted during the 2006 legislative session. Most were small credits with either a minimal fiscal impact in 2007-08, or no impact until SFY 2008-09. These include a land conservation credit, a credit for volunteer firefighters, home heating system replacement credit and the historic homes rehabilitation credit. However, the newly created child credit is expected to reduce revenues by $625 million during the 2007-08 fiscal year. The child credit is a piggyback of the Federal child credit, which is $1,000 per child. The Federal credit is partially refundable above $11,000 and begins to be fully refundable for taxpayers whose incomes are above $17,000. The credit begins to be phased out for taxpayers with incomes above $110,000, and is completely phased out for taxpayers earning more than $170,000.

The state child credit is simply 33 percent of the federal credit. However, it only applies to children between the ages of 4 and 17, and is fully refundable to all taxpayers who claim the federal credit. Under the State child credit, a taxpayer could receive up to $330 for every child between the age of 4 and 17.

Together the newly enacted tax credits will reduce revenues $720 million during SFY 2007-08, resulting in a 24 percent increase in refunds during the fiscal year. Absent these credits, refunds would have grown by just 1.7 percent for the 2007-08 fiscal year.

Delinquencies

Delinquency payments are forecast to total $901 million in SFY 2007-08, which is $62 million or 7.4 percent above estimated collections from SFY 2006-07. Collections reflect the Governor's proposal to make permanent the tax shelter provisions enacted in 2005. The provisions were due to expire on July 1, 2007. By making the provisions permanent, collections are enhanced by an additional $6 million. The Committee staff's forecast is $8 million below the Executive's forecast.

Adjusted Gross Income

Table 10 below breaks out the components of Adjusted Gross Income. The trends for each component highlight the importance of non-wage income. Capital gains have become increasingly important, but other non-wage components such as business income has also grown in importance. The growth in these non-wage components is linked to the growth in wealthy taxpayers as non-wage income is typically earned by wealthier taxpayers.

Table 11

Components of AGI (Dollar Amounts in Millions)	Actual				Estimates		
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
NYSAGI							
Amount	$481,001	$459,919	$473,778	$525,989	$564,156	$608,955	$655,859
Percent Change	-5.5%	-4.4%	3.0%	11.0%	7.3%	7.9%	7.7%
Wages							
Amount	$376,158	$368,720	$373,313	$397,431	$416,944	$449,882	$476,425
Percent Change	2.2%	-2.0%	1.2%	6.5%	4.9%	7.9%	5.9%
Capital Gains							
Amount	$29,451	$20,398	$28,455	$51,162	$63,841	$68,501	$80,968
Percent Change	-52.7%	-30.7%	39.5%	79.8%	24.8%	7.3%	18.2%
Interest, Dividends and Pensions							
Amount	$49,671	$44,871	$45,544	$48,917	$50,359	$53,649	$56,767
Percent Change	-5.2%	-9.7%	1.5%	7.4%	2.9%	6.5%	5.8%
Business and Partnership Income							
Amount	$45,191	$46,763	$48,157	$53,686	$57,614	$61,374	$65,234
Percent Change	2.7%	3.5%	3.0%	11.5%	7.3%	6.5%	6.3%
Other Income							
Amount	($19,470)	($20,833)	($21,691)	($25,266)	($24,602)	($24,451)	($23,535)
Percent Change	8.4%	7.0%	4.1%	16.5%	-2.6%	-0.6%	-3.7%

Revenue Trends

Figure 20 shows revenue trends in personal income tax collections over the past decade. The robust growth since 2003 can be attributed to growth in AGI among wealthy residents. The following section will highlight how shifts in income trends over the past decade have affected personal income tax revenue.

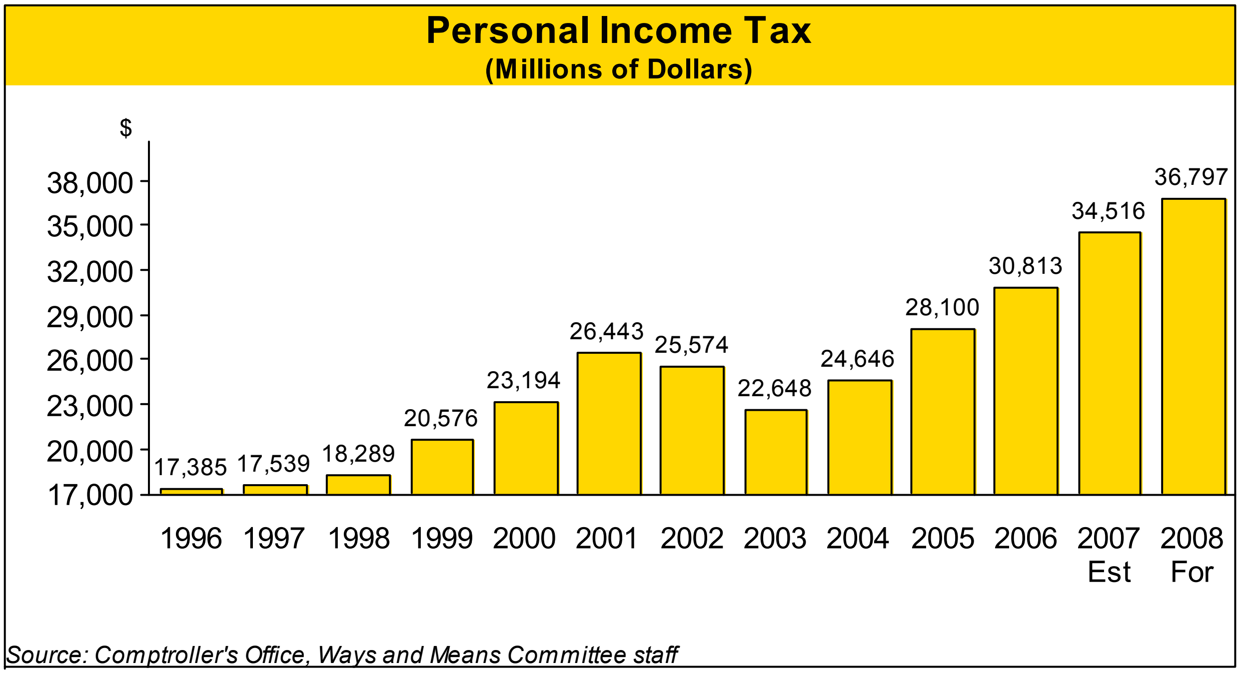


Figure 20

The Growing Income Gap

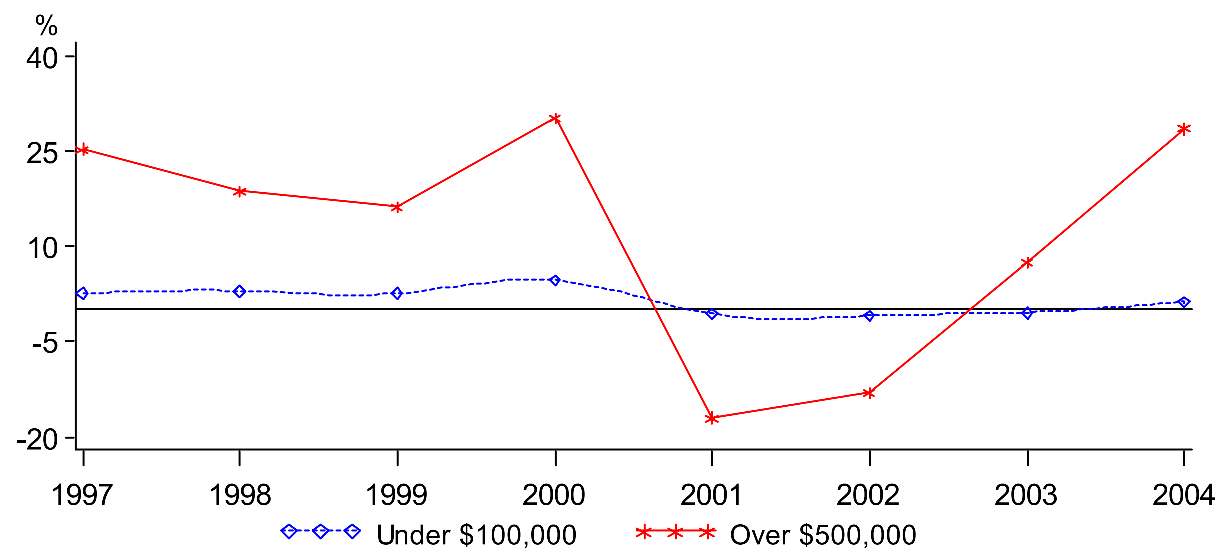
A great deal of attention has been paid over the past few years to the growing income gap. The divide between the wealthiest and the poorest Americans continues to grow.[4] Moving beyond a values discussion over whether such a divide is healthy, the divide has significant repercussions for personal income tax collections. State revenue collections are bolstered by having an increasingly wealthy population. However, reliance on a very small share of wealthy taxpayers can also place State revenue collections at greater risk.

The figure below shows the annual growth rates of income for those earning above $500,000 (approximately 2 percent of the population) and those earning less than $100,000 (approximately 90 percent of the population). Incomes for middle income New Yorkers have grown modestly for the past decade. Growth rates hovered around 3-4 percent during most of the period and actually shrank in the years following

[4] Bernstein, Jared, Elizabeth McNichol, and Karen Lyons "Pulling Apart: A State by State Analysis of Income Trends." *Center for Budget and Policy Priorities*. January 2006.

September 11, 2001. In many of the years over the past decade actual growth rates were below inflation.

Growth In Income by Income Class



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

Figure 21

On the other hand, between 1995 and 2000, the typical growth in income for those earning above $500,000 exceeded 20 percent. Although income for this group declined sharply in 2001 and 2002, by 2003 income recovered and by 2004 grew by nearly 30 percent.

As a result of this dramatic increase in income, upper income taxpayers now account for an increasing share of total income earned in New York. In 2004 those earning above $500,000 accounted for 35 percent of all New York Adjusted Gross Income (NYAGI). Ten years ago that same group accounted for just 19 percent of NYAGI. The average income for this group of wealthy New Yorkers in 2004 was $913,000. The average income for all other New Yorkers was just $38,900.

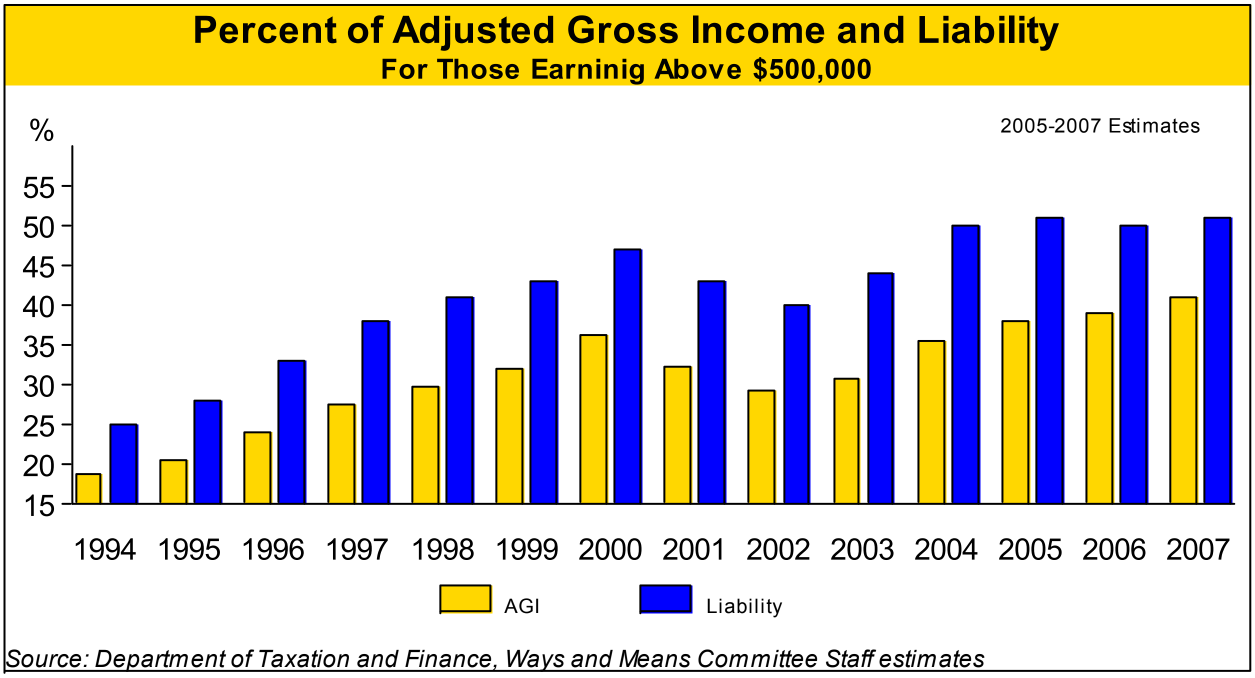


Figure 22

Shifts in Liability

During this ten year period the shift in income coincided with a shift in the share of tax liability borne by these two income groups. In 1994 those earning up to $100,000 were responsible for 55 percent of liability, while those earning more than $500,000 paid 25 percent of total liability. However, by 2004 the situation reversed with the wealthiest individuals paying 50 percent of the total, while those earning up to $100,000 paying 27 percent of the total.

Much of the shift in liability for those earning below $100,000 has been due to the increase in the number of refundable credits that have significantly reduced tax liability for the poorest residents. Figure 23 highlights that trend. In 1994 those earning less than $20,000 paid more than $300 million in tax liability. By 1997 their liability had turned negative, indicating that most were receiving a refund. The most important credit in this regard is the earned income tax credit that was enacted in 1994, and further increased in 1997. In 2007 the EITC is projected to provide $720 million in tax relief to the states working poor. Other credits such as the child and dependant care credit, the household credit and the newly enacted empire state child credit have done much to ease the tax burden for lower to middle income residents. By 2004 taxpayers earning below $20,000 received over $400 million in tax refunds, for an average of $127 per taxpayer.

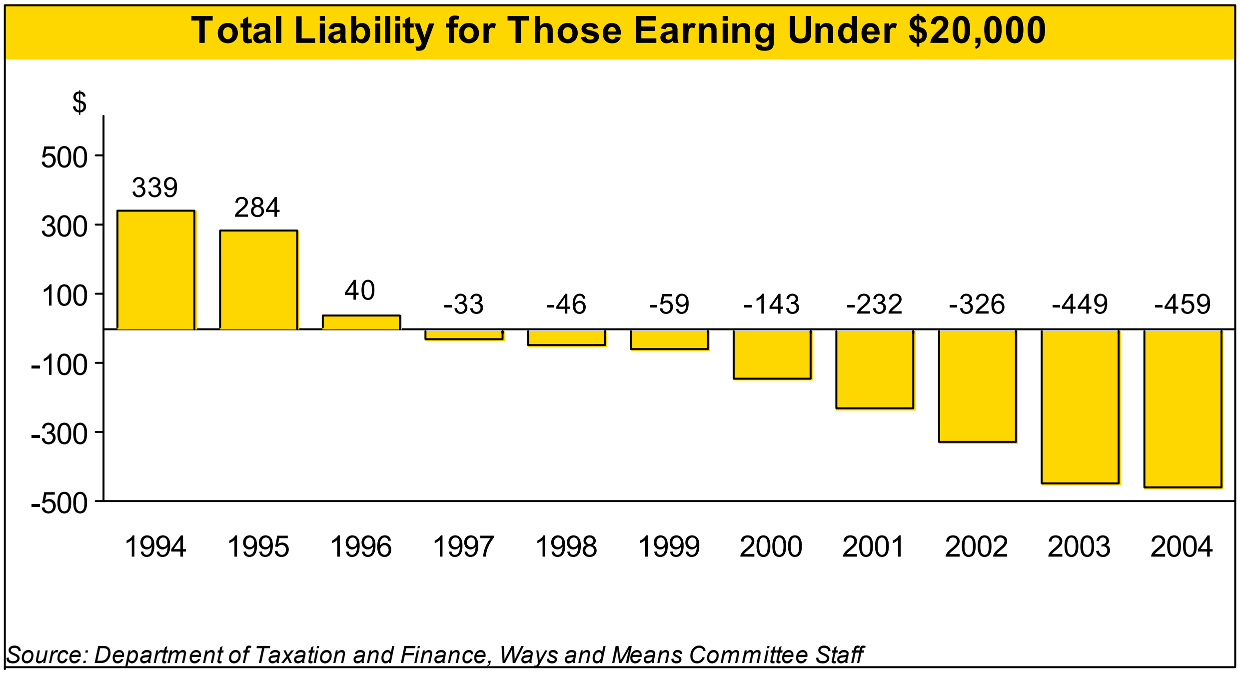


Figure 23

Another factor contributing to the shift in liability was the growing number of taxpayer earning above $500,000. Between 1994 and 2004 the number of individuals earning more than $500,000 grew by 152 percent. Over the same time period total population grew by just 13 percent.

The Personal Income Tax is Sensitive to Changes in the Economy

The progressive nature of the personal income tax and the volatility of income among upper income taxpayers has made the personal income tax more sensitive to fluctuations in the State economy. The following chart illustrates that during the most recent economic downturn, personal income tax revenues declined more rapidly than the decline in personal income. Conversely, since 2002-03 - a period of economic recovery and expansion - personal income tax revenue growth has consistently exceeded growth in personal income.[5]

[5] An additional explanation for the sensitivity in the personal income tax is related to the taxation of capital gains, which are not included in the definition of personal income. The contribution of capital gains to volatility will be discussed in a later section.

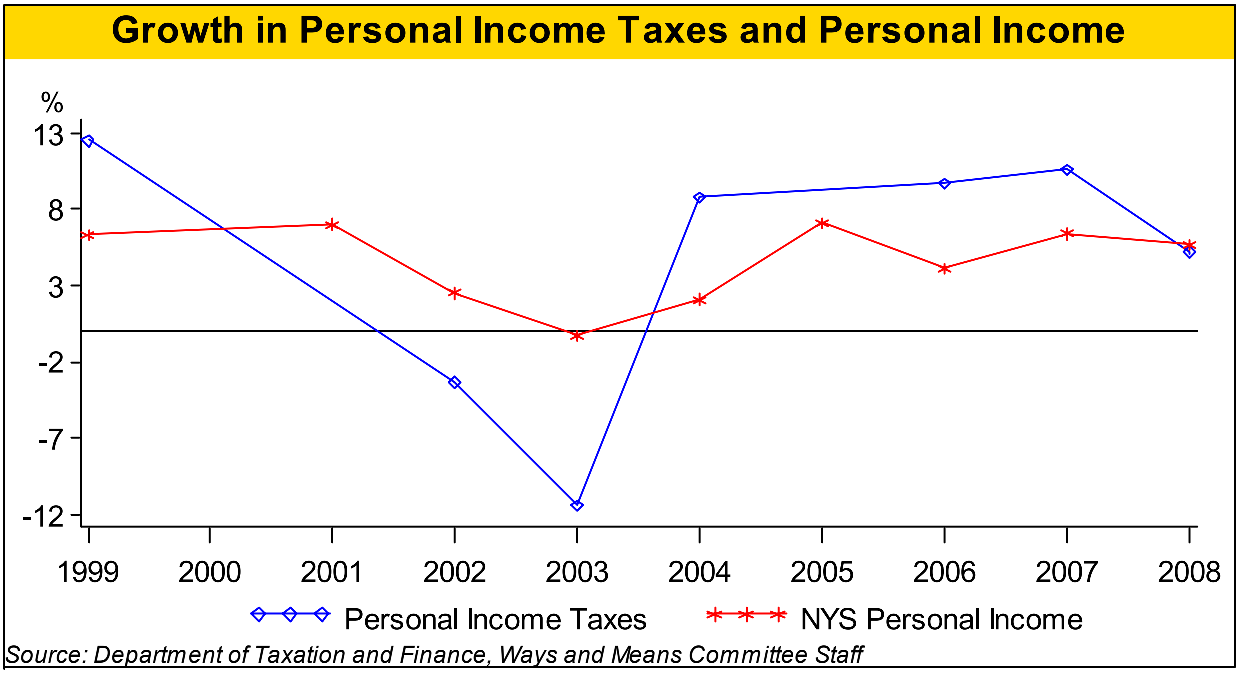


Figure 24

Personal Income Tax Revenues Have Become More Volatile

The influx of wealth generated in New York has resulted in an increase in the average rate of growth in personal income tax revenues, while simultaneously increasing its variability. From SFY 1985-86 until SFY 1995-96, growth in personal income tax receipts averaged 4.3 percent. In the following 10 year period, from SFY 1996-97 to SFY 2006-07, growth accelerated to 6.6 percent. However, volatility, as measured by the standard deviation of growth rates, has also increased from 4.6 percent to 8.0 percent.[6]

The increase in volatility can be attributed to the growing importance of non-wage income, such as income from capital gains and partnerships, to the share of total adjusted gross income. During the recent economic expansion, the non-wage share of total income has increased. In 2002 non-wage income made up approximately 20 percent of New York Adjusted Gross Income (NYAGI). By 2005, non-wage income had increased to nearly 30 percent of NYAGI, exceeding the peak reached at the height of the last economic expansion in 2000.

[6] Accounting for the impact of tax law changes does not radically alter the results, though volatility of the recent decade declines to 7.6%.

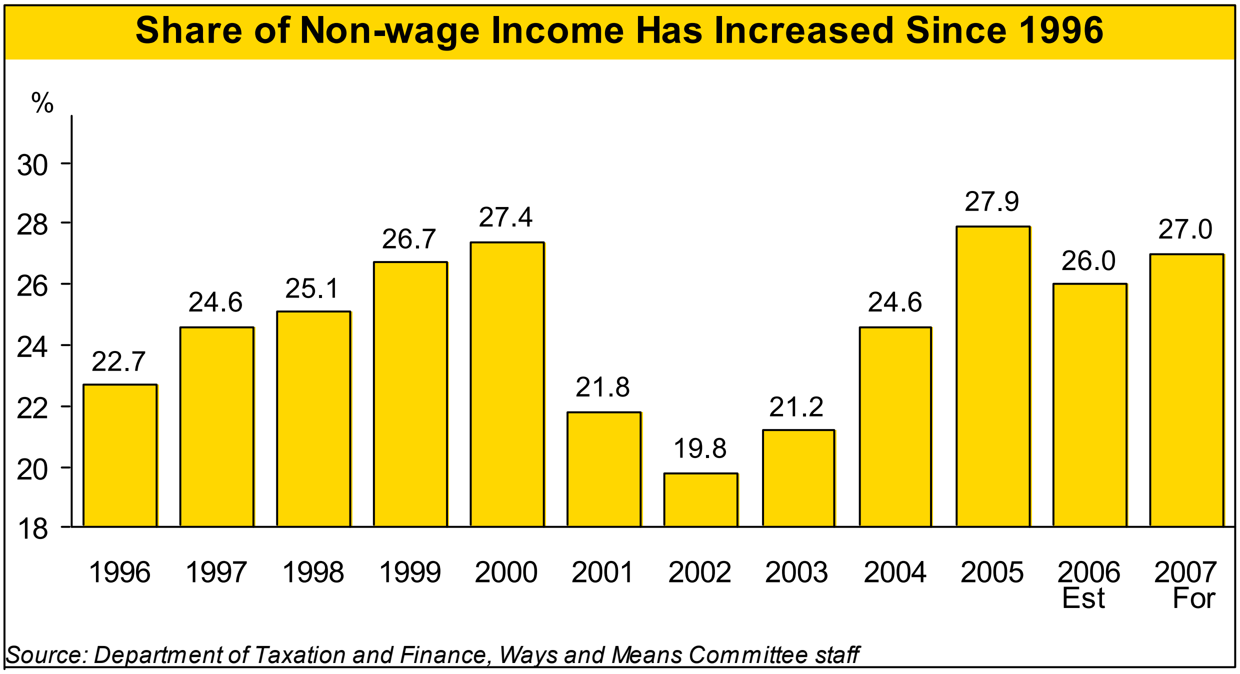


Figure 25

As noted earlier, the top two percent of taxpayers earn more than 50 percent of all reported income. Furthermore, nearly 50 percent of the income among the wealthiest New Yorkers is derived from non-wage sources of income, which is prone to relatively large fluctuations when compared to wage income. For example, capital gains income, which accounts for nearly 25 percent of total income for those earning above $500,000, is notably prone to variations. Furthermore, capital gains income is very concentrated as more than 85 percent is garnered by those earning more than $500,000.

Volatility in Capital Gains Income Explains Fluctuations in PIT Collections

The most volatile component of non-wage income is capital gains realizations. Nearly half of the fluctuation in personal income tax collections can be explained by changes in revenue from capital gains. For example, over the two year period from 2000 to 2002, capital gains realizations declined by over $40 billion or more than two-thirds from the 2000 level of $62.3 billion. As a result, tax revenue from capital gains declined by $2.4 billion over two years, accounting for more than half of the drop in personal income tax liability during that period. From 2003 to 2005, capital gains income grew by 124.6 percent or $35.3 billion. The increase produced approximately $2.2 billion in additional tax collections and accounted for almost half of the increase in liability over the period.[7] In 2000, capital gains income equaled 12.1 percent of NYAGI. By 2002, the share declined to just 4.4 percent of NYAGI. By 2005, capital gains has increased to 11.2 percent of NYAGI.

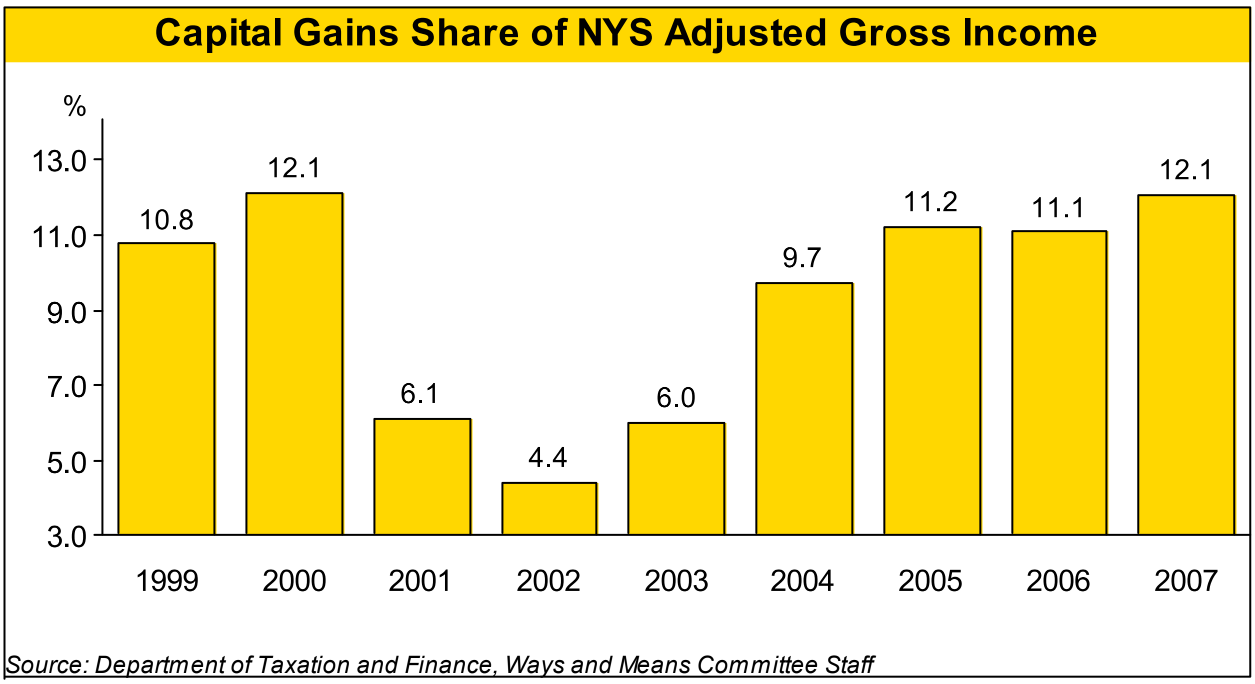


Figure 26

[7] This calculation assumes an effective tax rate of 7 percent since the time period under examination coincided with the implementation of the temporary income tax surcharge on high-income taxpayers.

Sales and User Taxes

Table 12

User Tax Collections Forecasts by State Fiscal Year (Dollar Amounts in Millions)						
	SFY 2006-07	Growth	Diff. Exec.	SFY 2007-08	Growth	Diff. Exec.
User Taxes and Fees	**$13,693**	**-1.6%**	**($32)**	**$14,270**	**4.2%**	**($7)**
Sales and Use Tax	10,835	-3.2%	(45)	11,248	3.8%	(58)
Motor Fuel Tax	521	-1.8%	2	551	5.8%	15
Cigarette Tax	978	0.4%	9	1,103	12.8%	25
Motor Vehicle Fees	903	15.0%	3	913	1.1%	13
Highway Use	158	-1.4%	1	159	0.6%	2
Alcoholic Beverage Tax	197	2.8%	1	201	2.0%	1
Alcoholic Beverage Fees	56	32.3%	(2)	48	-14.3%	(4)
Auto Rental Tax	$45	6.4%	($1)	$47	4.4%	($1)

Sales Tax

The sales and compensating use tax, imposed by Article 28 of the Tax Law, is a 4 percent broad-based consumption tax levied on the sale of tangible personal property, excluding items such as food, medicine, clothing and footwear under $110, products used in manufacturing and items purchased for resale. A limited number of services such as cleaning, parking and interior design are also subject to this tax. Certain non-profit and charitable organizations are exempt from paying sales tax on purchases. Sales tax is generally paid to and collected by the vendor at the time of purchase. Vendors remit sales tax collections annually, quarterly or monthly depending on their level of taxable sales. Depending on the amount of taxable sales, some vendors are also required to remit their sales tax liability electronically. All Funds sales tax collections are deposited into the General Fund, the Local Government Assistance Tax Fund (LGAC), and the Mass Transportation Operating Assistance Fund (MTOAF).

SFY 2006-07 Estimate

The sales tax is expected to generate $10.835 billion on an All Funds basis in SFY 2006-07, a decrease of $361 million or 3.2 percent from SFY 2005-06. This estimate is $45 million below the Executive's estimate released in the SFY 2007-08 Executive Budget. After adjusting for recent legislative changes, growth in the sales tax base is expected to be 4.4 percent in SFY 2006-07.

Sales tax collections in the first half of SFY 2006-07 were impacted by an overwhelmed consumer. Gasoline prices rose steadily throughout the spring and summer reaching a peak in mid-August. Interest rates continued to climb and the housing market began to soften. Automobile sales were weak as incentives were trimmed and high gasoline prices turned consumers away from larger vehicles that had been popular.

Consumers spent fairly freely this holiday season despite the uncertainty over energy costs and the weakened housing market. For calendar year 2006, retail sales rose by 6.0 percent according to data released by the Commerce Department. This was down from 6.9 percent in 2005, but very respectable considering the obstacles consumers faced in 2006. Sales tax receipts bounced back in the fourth quarter of 2006 with flat growth over the prior year. This was the first quarter of SFY 2006-07 to not post a decline from the prior year. Collections for the remainder of SFY 2006-07 are expected to grow at the year-to-date collection trend as consumers continue to spend in the first quarter of 2007.

Fund Distribution

The Committee staff estimates General Fund sales tax receipts of $7.601 billion in SFY 2006-07, representing a decline of 4.7 percent from the prior year. This estimate is $47 million lower than the SFY 2006-07 Executive Budget. Adjusting for tax law changes enacted in SFY 2006-07, growth is expected to be 4.1 percent.

Receipts from one percentage point of the 4.0 percent State sales tax rate is dedicated to the Local Government Assistance Corporation (LGAC), which was created in 1990 to eliminate annual Spring borrowing. Once the LGAC debt service obligations are paid, excess revenues are transferred back to the General Fund along with certain other transactions. LGAC receipts are projected to be $2.534 billion in SFY 2006-07, representing a decline of 3.1 percent from the prior year.

In 1981, the Metropolitan Transportation Operating Assistance Fund (MTOAF) was created to help finance the State's public transportation system. A portion of the revenue is derived from a separate sales tax rate that is imposed in the Metropolitan Commuter Transportation District. Effective June 1, 2005, the rate was increased to 0.375 percent from 0.25 percent. The forecast for SFY 2006-07 is $700 million. Adjusted for the tax rate increase, this estimate represents growth of 13.2 percent over the prior fiscal year. The downstate economy has experienced stronger economic growth than the rest of New York State, resulting in stronger sales tax collections in the MTA region than other areas of the State.

Impact of Recent Legislative Changes

In SFY 2006-07 there were a variety of legislative changes made to the sales tax, two of which were significant. The permanent exemption for clothing and footwear priced under $110 was reinstated effective April 1, 2006. This is expected to lower sales and use tax revenue by $605 million compared to the prior year. The other significant change in SFY 2006-07 was the implementation of a cents per gallon method for calculating the State sales tax on motor fuel. Effective June 1, 2006, the State sales tax on gasoline is imposed at a rate of eight cents per gallon, effectively capping the State sales tax at a retail price of $2.00 per gallon. This change is currently estimated to reduce revenue in SFY 2006-07 by $112 million. Other changes implemented in SFY 2006-07 include an increase in the sales tax vendor credit, a permanent sales tax exemption on the admission charge to amusement parks, and sales tax exemptions for alternative fuels and on the admission charge to cabarets.

SFY 2007-08 Forecast

The SFY 2007-08 forecast for sales tax collections is projected to be $11.248 billion, representing growth of 3.8 percent. This forecast is $58 million below the SFY 2007-08 Executive Budget. The forecast reflects Executive proposed tax law changes that are estimated to generate $44 million. Adjusting for recent legislative changes, growth in the sales tax base is expected to be 4.9 percent. As we move into 2007, challenges remain. Auto sales, which make up nearly 13 percent of the sales tax base, are expected to grow only 0.9 percent. Overall consumer spending is expected to weaken in 2007. The expectation is that consumers will finally slow down their spending as the uncertainties over short term interest rates, the housing market and a general economic slowdown continue in 2007. Healthy growth in disposable income supported consumer spending in

2006 and is the main driver for growth in the forecast period. If growth in disposable income weakens from the forecast, this will have a negative impact on sales tax receipts. The forecast for SFY 2007-08 predicts moderate growth of 3.3 percent for consumer expenditures for durable goods, 5.1 percent for disposable income and 0.9 percent for sales of automobiles and light trucks.

Fund Distribution

The Committee staff estimates General Fund sales tax receipts of $7.884 billion in SFY 2007-08, representing growth of 3.7 percent over the prior year. This estimate is $50 million below the SFY 2007-08 Executive Budget. Adjusting for tax law changes enacted in SFY 2006-07, growth is expected to be 5.0 percent.

Sales tax collections dedicated to LGAC are projected to be $2.628 billion in SFY 2007-08, representing growth of 3.7 percent over the prior year. Dedications to the Metropolitan Transportation Operating Assistance Fund (MTOAF) are forecast to be $736 million, an increase of 5.1 percent.

Revenue Trends

Over the last ten years growth in the sales tax has averaged 4.8 percent. Adjusted for tax law changes, growth was 4.7 percent. Over this same period the average growth for the economic variables (consumer expenditures for durable goods, disposable income and sales of automobiles and light trucks) that are highly correlated with the sales tax has been 4.8 percent. This highlights the fact that over time growth in the sales tax is mainly driven by the health of the economy. The effect of tax law changes has a short term impact, but over the long term their impact on growth is negligible. Sales tax collections are less volatile than overall tax collections. Over the last ten years, volatility in sales tax revenues, as measured by the standard deviation of growth rates, is 3.2 percent compared to 6.5 percent for total tax revenue.

There have been some significant tax law changes over the last 5 years that have affected short term growth. For the period June 1, 2003 through May 31, 2005, the state sales tax rate was increased 0.25 percent, from 4 percent to 4.25 percent. The impact of this action added approximately 5 percent to SFY 2003-04 collections and 2 percent to SFY 2004-05 collections. In SFY 2006-07, the State reinstated the clothing and footwear sales tax exemption for item less than $110 as well as implementing a cents per gallon method for calculated State sales tax on gasoline. The impact of these two changes is estimated to reduce sales tax revenue in SFY 2006-07 by $717 million.

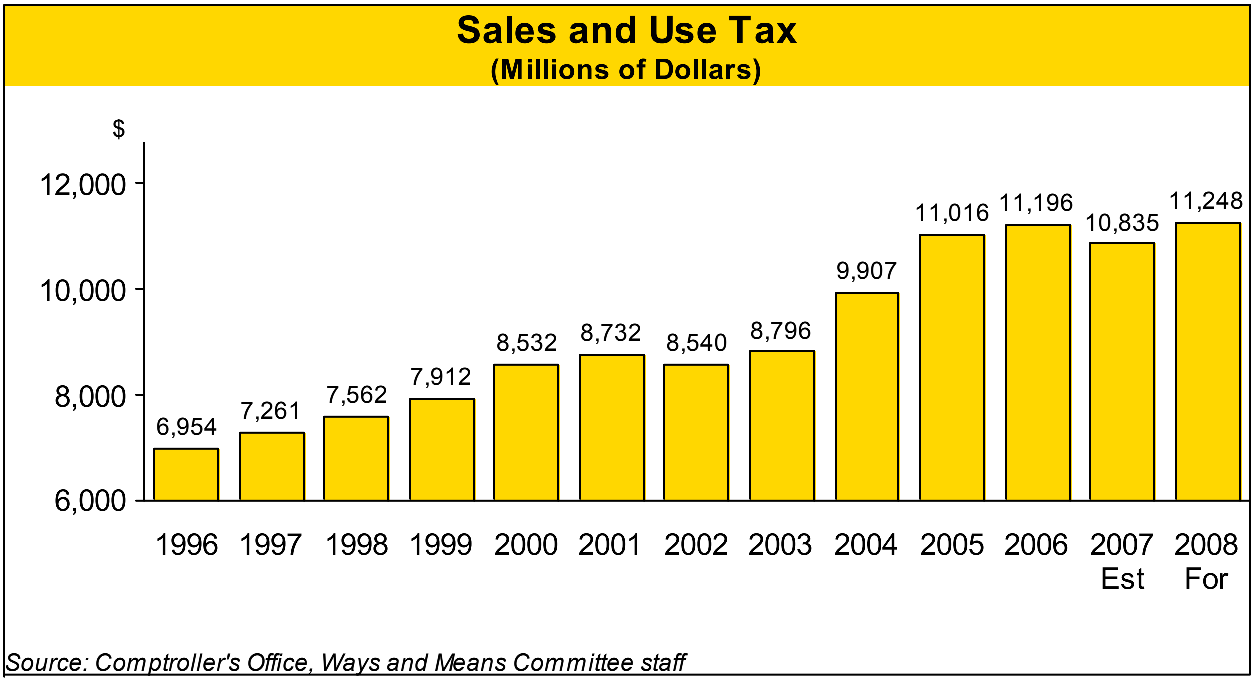


Figure 27

Streamlined Sales Tax Project Update

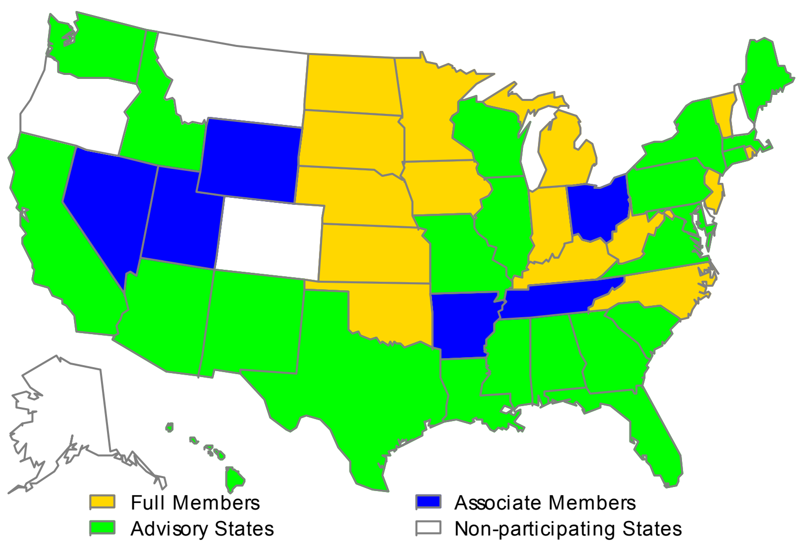
Background

In 2006, e-commerce retail sales continued to increase as a percentage of total retail sales. In 2006, national data from the Department of Commerce showed e-commerce sales represented 2.7 percent of total retail sales. This was up from 2.5 percent in 2005. Over the last few years, there has been as much attention paid to “Cyber Monday”, the first workday after the Thanksgiving holiday, as “Black Friday”, the Friday after Thanksgiving. The impact of the continued growth in e-commerce sales on state and local sales tax revenue has been pondered by policy makers for many years. The burden to collect and remit the tax falls on the company if the web or mail order company has a physical presence (nexus) in the purchaser’s place of residence. Where no nexus exists, the purchaser is liable to pay the tax directly to their state’s taxing authority under use tax laws. However, nationwide few individuals remitted such liability or were even aware of their liability. New York State addressed this problem in 2003 by including a line on the personal income tax return for individuals to remit their use tax liability. Additionally, the SFY 2004-05 Budget contained a provision requiring private companies and their affiliates to register as sales tax vendors in order to be eligible for state contracts. This requirement expanded the universe of companies collecting sales tax on behalf of New York State.

Summary of the Streamlined Sales Tax Project Initiative

On a national level, the Streamlined Sales Tax Project (SSTP) is identified as a partial solution to this problem. The SSTP is an ambitious, multi-state project that hopes to simplify the 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 tax jurisdictions have their own rules, definitions and tax rates. The states involved in the SSTP believe that a simplified sales tax system will reduce the administrative burden of collecting and remitting sales taxes. States hope that if sales tax systems are simplified and standardized, Congress might grant states the power to require remote sellers to collect sales tax and therefore reverse the erosion of the sales tax base due to internet and mail order sales. The streamlined sales tax project became effective on October 1, 2005. There are currently 15 full member states, with Vermont and Rhode Island becoming full member states in January 2007. Figure 28 shows the status of each state that currently participates at some level in the SSTP.

Streamlined Sales & Use Tax Agreement
2007 Status



Source: 2007 National Conference of State Legislatures

Figure 28

Full member states and associate member states participate on the Governing board. Advisory states advise the governing board on matters pertaining to the administration of the agreement. Full member states are those who are in full conformity with the agreement and therefore have exclusive authority to amend it. Participation by vendors is voluntary. However, a seller that registers under the agreement must collect tax for full member states. Associate member states fall into two categories. The first includes states that will automatically become full members once currently enacted full conformity legislation becomes effective. The second group includes those states that have not enacted full conformity yet. This group must enact the necessary changes and successfully re-petition for full membership by January 1, 2008 or forfeit their membership on the board. A seller that registers under the agreement may collect tax on sales to an associate member state, but is not required to do so. The last category of participation in the SSTP is as an advisory state. These states have enacted legislation authorizing them to enter into the agreement, but they have not enacted legislation that would give them a seat on the board. New York became an advisory state in SFY 2005-06 and has not taken further action to become a member state.

Summary of the Impact on New York State Sales Tax

In October 2006, the New York State Department of Taxation and Finance issued a comprehensive report that examined requirements for compliance with the streamlined sales and use tax agreement.[8] All full member states must adhere to the requirements set forth in the agreement. In order for New York State to become a full member state, it would need to make significant changes to its sales tax law. The following changes would need to be made to make New York's tax law consistent with the requirements of the streamlined sales and use tax agreement:

- Uniform state and local tax base – Currently, New York allows local options with respect to various exemptions such as clothing and footwear, residential solar energy systems and sales to qualified empire zone enterprises. New York City imposes a local tax on the services of beauty salons, barber shops and health salons and provides a local exemption for interior decorating and design services. Five cities within the State impose a sales tax on selected goods and services instead of imposing tax on the entire State tax base. In order to comply with the agreement the exceptions to a uniform tax base would need to be eliminated.

- Single rate – The agreement requires one single State sales tax rate and one local rate per jurisdiction. However New York State has various additional rates imposed on certain items at the state and city level, as well as the MTA rate imposed on the 12 counties of the Metropolitan Commuter Transportation District. For example, the State imposes a zero percent rate on residential energy sources and an additional rate of 5 percent on passenger car rentals. In New York City, the local portion of the sales tax on parking services is set at 6 percent rather than the 4 percent rate imposed on other goods and services. The City of New York also imposes an additional rate of 8 percent on parking services sold in Manhattan. To comply with the agreement these separate rates would have to be eliminated.

- Notice of tax changes – Local tax rate changes would have to occur on the first day of a calendar quarter and with a minimum of 60 days notice. The notice of requirement is extended to 120 days for retailers selling via printed catalogues. New

[8] New York State Department of Taxation and Finance, *Streamlining New York's Sales Tax,* October 2006.

York law provides for no less than 90 day notification of changes in sales tax rates, with discretion given to the Commissioner to waive the notice requirements down to 30 days. In addition, legislation providing for rate changes has frequently provided for notification to be given less than 30 days prior to the change.

- Exemptions – New York would need to abide by uniform product definitions outlined in the agreement. In some cases the New York sales tax law exempts broad categories of consumer products (food, medicine and clothing) or a specific good or service (such as a used mobile home or cable television service) or specific product uses (such as machinery used in production).

- Caps and thresholds – Sales tax caps and price thresholds are not allowed under the agreement. However, New York has a variety of sales tax thresholds, such as the exemption for purchases of clothing and footwear less than $110, hotel room rent of $2 or less per day and 75 percent of the admission charge to a qualified place of amusement that would not be allowed under the agreement.

- Library of Definitions – New York would need to comply with the library of definitions for tangible personal property, products and sales tax holidays. New York's Tax Law contains numerous definitions for purposes of sales tax imposition, exemption or exclusion, and administration. There are currently no constraints in structuring definitions.

In addition to the changes listed above there are administrative requirements that New York would be obligated to meet in order to become a full member State. Some of the administrative changes New York would need to implement is participation in the on-line streamlined registration system, use of a database based on zip code to determine the state and local sales tax rate and jurisdictional information, certification of its compliance with sourcing rules, adoption of a uniform policy with respect to exemption certificates and use of uniform rules for the remittance of funds, the recovery of bad debts and uniform customer refund provisions.

Conclusion

One of the driving forces of the streamlined sales tax project is to capture sales tax revenue on large multi-state businesses and remote sellers. The changes to the tax law that would be required to conform New York to the agreement effects everyone doing business in the state. In addition to the large multi-state retailers, New York has many locally owned and operated businesses that would need to adjust to the new rules and regulations. Many of these businesses are not involved with internet or mail-order selling, but would need to comply with the new requirements. According to data in the report, roughly one half of New York's registered vendors sell goods and services in only a limited number of New York's sales tax jurisdictions. Additionally, the Department of Taxation and Finance estimates that lost revenue from internet sales was approximately $290 million or less than three percent of SFY 2005-06 State sales tax revenue. Based on data reviewed by Taxation and Finance, they found that the vast majority of large retailers with both a physical presence and internet or catalog sales are already registered to collect sales tax in New York.

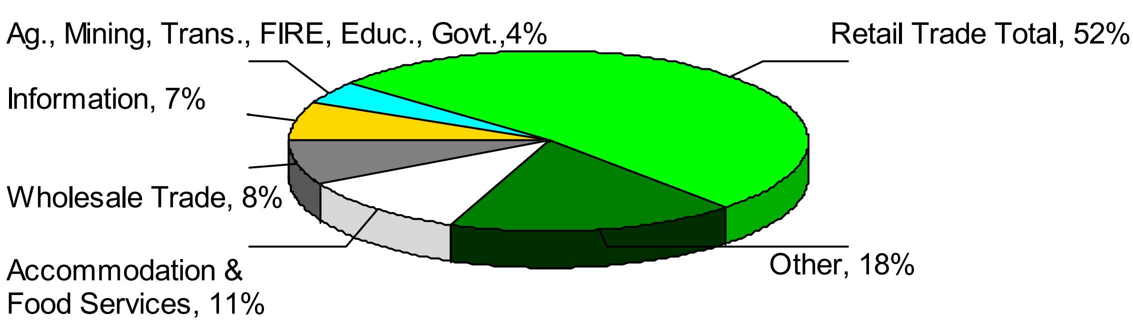
Lastly, the streamlined sales and use tax agreement is not a static document. Since its adoption in 2002, the agreement has been amended eight times, most recently in December 2006. Legislation would be required to amend the tax law to adopt any new definitions or procedures added to the agreement. The benefits of a simplified sales tax system must be weighed against the impact these changes would have on New York's many local governments and its business community.

Taxable Sales and Purchases

As in years past, retail trade is the largest share of taxable sales. Retail trade includes furniture, automobiles, appliances and electronics, building materials and other items purchased in general merchandise stores. Accommodations and food service is the next largest category accounting for approximately 11 percent of taxable sales, which include meals and hotel stays. Other includes utilities, administrative/support services, manufacturing, professional, scientific and technical services, construction and arts and entertainment.

Taxable Sales By Industry

March 2003 – February 2004



Source: Department of Taxation and Finance

Figure 29

Focus on Retail Sales

Table 13

Components of Retail Trade

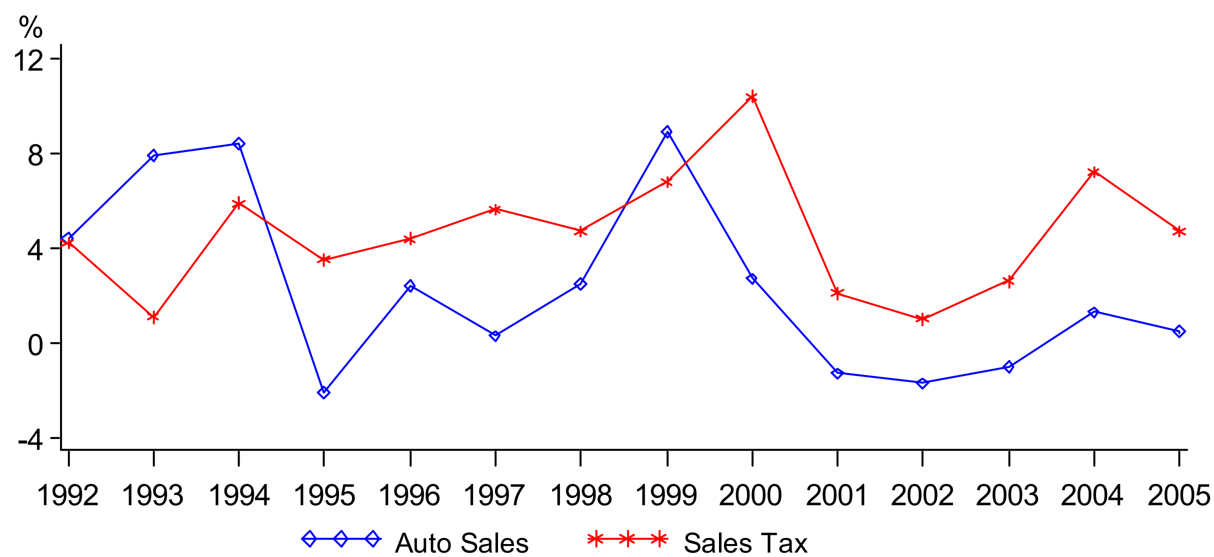
	Selling Period Percent of Total				
	3/99 - 2/00	3/00 - 2/01	3/01 - 2/02	3/02 - 2/03	3/03 - 2/04
Retail Trade Total as a Share of Taxable Sales	**49%**	**45%**	**47%**	**48%**	**52%**
Components					
Motor Vehicles and Parts	22%	26%	27%	27%	25%
General Merchandise	16%	12%	12%	12%	15%
Clothing	12%	6%	5%	5%	11%
Building Materials and Garden Equipment	9%	10%	10%	10%	9%
Food and Beverage	9%	10%	10%	10%	9%
Gasoline Stations	6%	8%	8%	8%	7%
Electronics and Appliances	5%	6%	6%	6%	4%
Miscellaneous Retail	5%	6%	6%	6%	5%
Sporting Goods, Hobby, Book and Music Stores	5%	5%	4%	4%	4%
Furniture and Home Furnishings	5%	5%	5%	5%	5%
Health and Personal Care	3%	4%	4%	4%	3%
Nonstore Retail	3%	3%	3%	3%	3%

Source: Department of Taxation and Finance

As shown in the table above, retail sales comprise the majority of taxable sales and purchases in New York State. Retail sales have been roughly half of total taxable sales and purchases over the last 5 years based on data available from the Department of Taxation and Finance.

Of particular interest are the components of the retail sales category. Motor vehicles and parts represent nearly one-quarter of the retail sales category. This highlights the significance of auto sales and the health of the auto industry in general to sales tax collections. As shown in figure 30 sales tax collections are highly correlated with auto sales. The correlation coefficient over the period 1991 through 2005 is 0.89. In particular over the last 5 years, the trend in sales tax collections and auto sales is virtually identical. Auto sales are more volatile than sales tax collections. This may partially explain the deviation in the two series prior to 2000. The standard deviation of the growth rate for auto sales is 3.5 percent compared to 2.6 percent for sales tax collections.

Auto Sales and Sales Tax Collections



Source: Bureau of Economic Analyis, Ways and Means Committeee Staff Estimates

Figure 30

General merchandise and clothing are the next largest categories. The share of clothing as a percent of total retail sales dropped for the period March 2000 through February 2003. This was directly attributable to the enactment of the exemption of clothing and footwear less than $110. The clothing and footwear exemption caused clothing as a share of total retail sales to drop from 12 percent of total retail sales to an average of 5 percent during the period the exemption was in effect. The clothing and footwear exemption expired on June 1, 2003 resulting in a rebound of clothing as a percentage of total retail sales. The share of total retail sales for the remaining categories is relatively consistent over time.

Auto Rental Tax

The auto rental tax, imposed by Article 28-A of the Tax Law, applies to the rental of any passenger car with a gross vehicle weight of 9,000 pounds or less that can seat a maximum of nine passengers. The auto rental tax is imposed at a rate of five percent on auto rental charges incurred for use in New York State. The tax does not apply to leases of one year or more. Since SFY 2002-03 all auto rental receipts are dedicated to the Highway and Bridge Trust Fund.

SFY 2006-07 Estimate

Collections to date are trending to $45 million for SFY 2006-07. This represents growth of 6.4 percent over SFY 2005-06. The Committee staff estimate is $1 million below the SFY 2007-08 Executive Budget.

SFY 2007-08 Forecast

The Committee staff estimate for SFY 2007-08 is $47 million. This represents an increase of $2 million or 4.4 percent over SFY 2006-07.

Revenue Trends

Collections from the auto rental tax show a steady upward trend. On average, collections increase $2-$3 million per year. Collections are primarily influenced by the overall health of the economy.

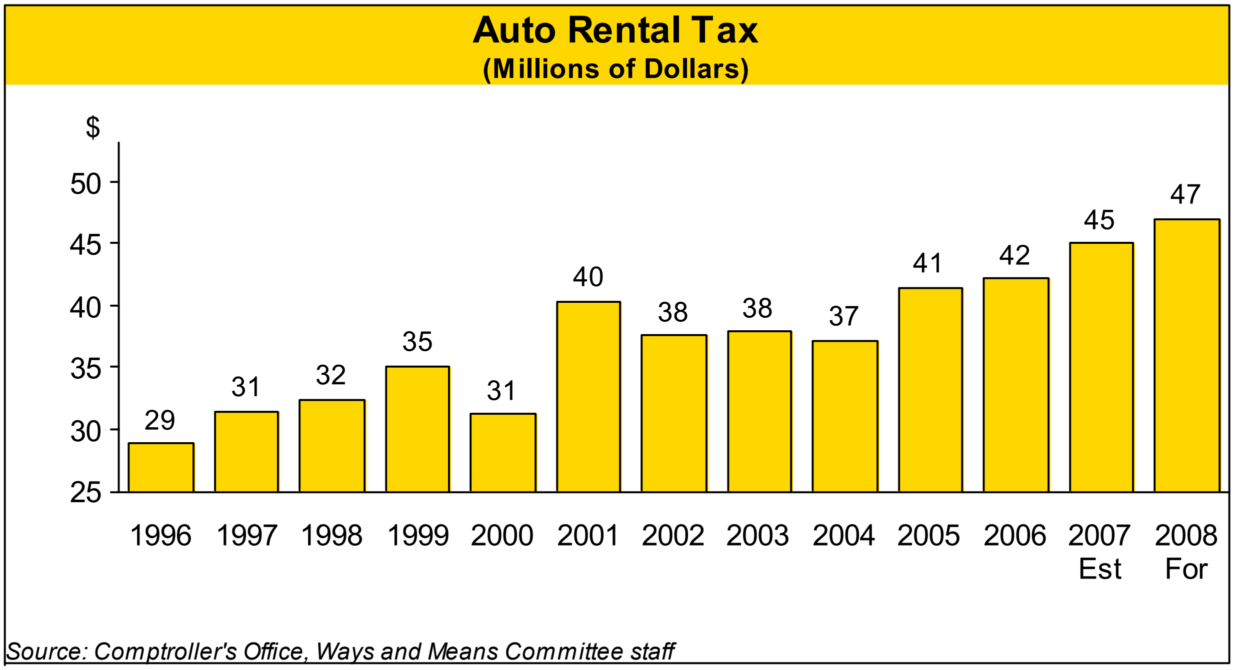

Auto Rental Tax
(Millions of Dollars)
$
50
45
40
35
30
25
29
31
32
35
31
40
38
38
37
41
42
45
47
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007 Est
2008 For
Source: Comptroller's Office, Ways and Means Committee staff

Figure 31

Motor Fuel Taxes

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

Motor fuel tax collections are dedicated based on the following schedule:

- Gasoline receipts are split between the Highway and Bridge Trust Fund (81.5 percent) and the Dedicated Mass Transportation Trust Fund (18.5 percent).
- Diesel receipts are split between the Dedicated Highway and Bridge Trust Fund (63 percent) and the Dedicated Mass Transportation Trust Fund (37 percent).

SFY 2006-07 Estimate

The Committee staff estimates that motor fuel taxes will total $521 million in SFY 2006-07, this estimate is 1.8 percent lower than the previous fiscal year. The Committee staff estimate is $2 million above the Executive estimate. Revenues collected from motor fuel taxes are not deposited into the General Fund, but instead are statutorily dedicated in the following manner:

- $109 million deposited in the Dedicated Mass Transportation Trust Fund (DMTTH); and,
- $412 million to the Dedicated Highway and Bridge Trust Fund (DHBTF).

Through December 2006, motor fuel collections are $393 million a decrease of $9 million or 2.3 percent below the comparable period in the prior fiscal year.

SFY 2007-08 Forecast

The Committee staff forecast for motor fuel taxes in SFY 2007-08 is $551 million, a 5.8 percent or $30 million increase. This growth is based on enforcement provisions related to taxation on Indian reservations The Executive estimates an additional $15 million in revenue from this enforcement. The Committee staff forecast is $15 million above the Executive forecast. Motor fuel taxes will be distributed as follows:

- $155 million to the Dedicated Mass Transportation Trust Fund; and,
- $436 million to the Dedicated Highway and Bridge Trust Fund.

Revenue Trends

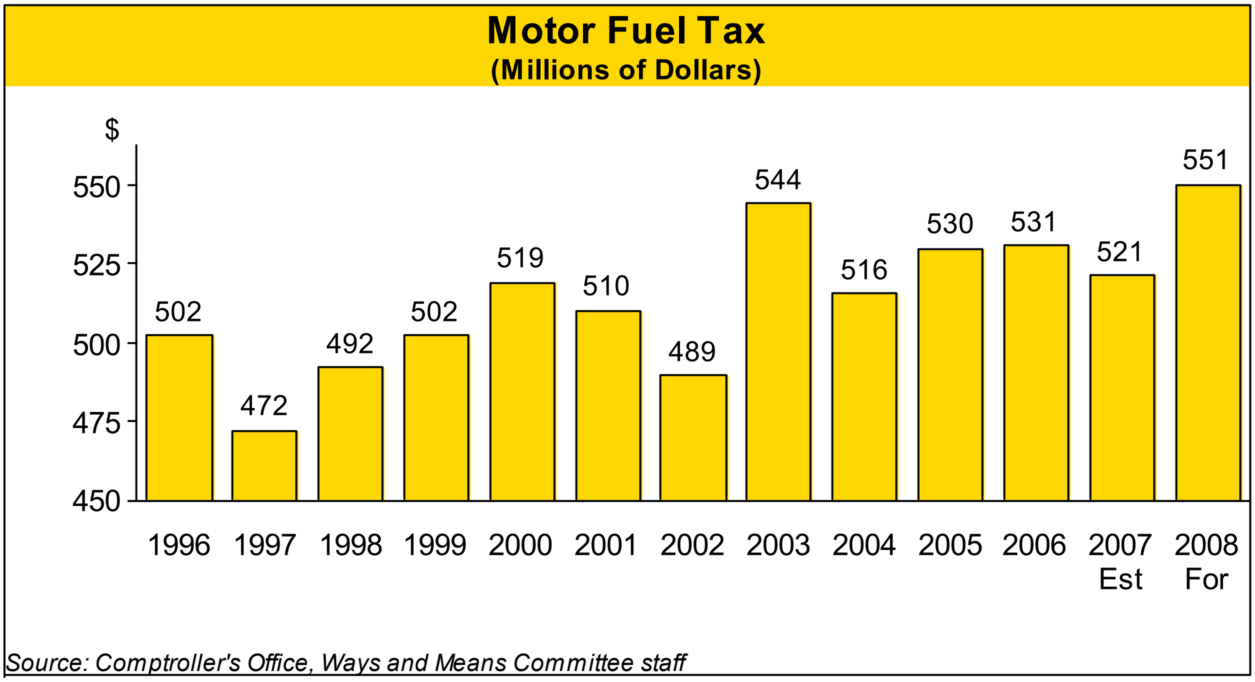


Figure 32

Motor Fuel taxes are generally very stable, having only increased by 10 percent over a 12 year period. Much of the fluctuations can be explained by changes in consumption in both gasoline and diesel fuel. Consumption of diesel fuel is largely a function of economic activity. As the economy expands the demand for shipping expands as well pushing consumption of diesel fuel higher. The recent decline in motor fuel taxes is largely explained by a decrease in consumption due to higher gasoline prices.

Motor Vehicle Fees

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

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

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

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

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

SFY 2006-07 Estimate

In SFY 2006-07, All Funds receipts are estimated to total $903 million, representing an increase of 15.0 percent from last year. The Committee staff's estimate is $3 million higher than the Executive. Through December 2006, motor vehicle collections are $625 million, an increase of $118 million or 23 percent from the comparable period in the prior fiscal year.

Of the $903 million in motor vehicle fees, the Committee staff estimates that the Dedicated Mass Transportation Trust Fund will receive $244 million, while the Dedicated Highway and Bridge Trust Fund will receive $659 million. Several fee increases enacted during fiscal year 2005-06 explain the growth in motor vehicle fees. However, the eight-year cycle for license renewal will adversely affect motor vehicle receipts.

SFY 2007-08 Forecast

In SFY 2007-08, All Funds receipts are forecast to total $913 million, a 1.1 percent increase. The Committee staff forecast is $13 million above the Executive forecast.

The Committee staff estimates that in SFY 2007-08 the Dedicated Mass Transportation Trust Fund will receive $246 million and the Dedicated Highway and Bridge Trust Fund will receive $666 million.

Revenue Trends

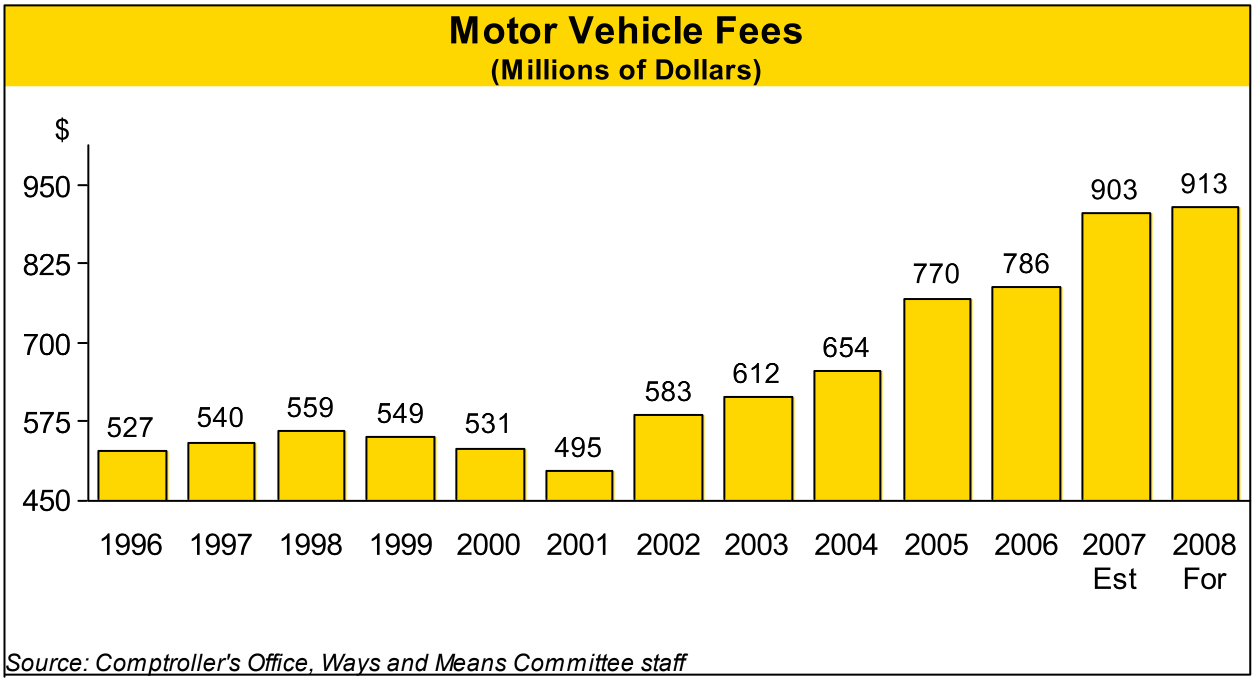


Figure 33

The large increase in motor vehicle fees is explained by recent increases in registration fees enacted in prior fiscal years and the transfer of fees previously classified as General Fund Miscellaneous Receipts into the dedicated transportation funds.

Highway Use Tax

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

The fuel use tax applies to commercial vehicles that purchase fuel outside New York State, but is consumed while traveling on New York highways. It has two components: the motor fuel component and the sales tax component. The aggregate fuel use tax rate is the sum of the motor fuel tax rate and the sales tax rate. The sales tax rate has two components, the state sales tax rate which is 4 percent and the lowest county sales tax rate at this time which is 3 percent. These rates are applied to the capped price of $2 per gallon. Currently, the fuel use tax is 36.15 cents per gallon for diesel and 37.9 cents per gallon for gasoline.

Highway use permits are issued triennially at a cost of $15 for an initial permit and $4 for a permit renewal. Additionally, special permits are issued for the transportation of motor vehicles, for automotive fuel carriers, and for trips into New York State not to exceed 72 hours.

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

SFY 2006-07 Estimate

The Committee staff estimates that receipts in SFY 2006-07 will total $158 million, a decrease of $2 million, which reflects a non-peak tri-annual renewal year for permits. This estimate is $1 million above the Executive’s.

SFY 2007-08 Forecast

The Committee staff’s forecast for Highway Use Tax receipts is $159 million for SFY 2007-08, which represents 0.6 percent growth from SFY 2006-07. This forecast is $2 million above the Executive’s. Continued demand for trucking services will increase the truck mileage tax. However the $2 gas cap will adversely affect the fuel use tax component.

Revenue Trends

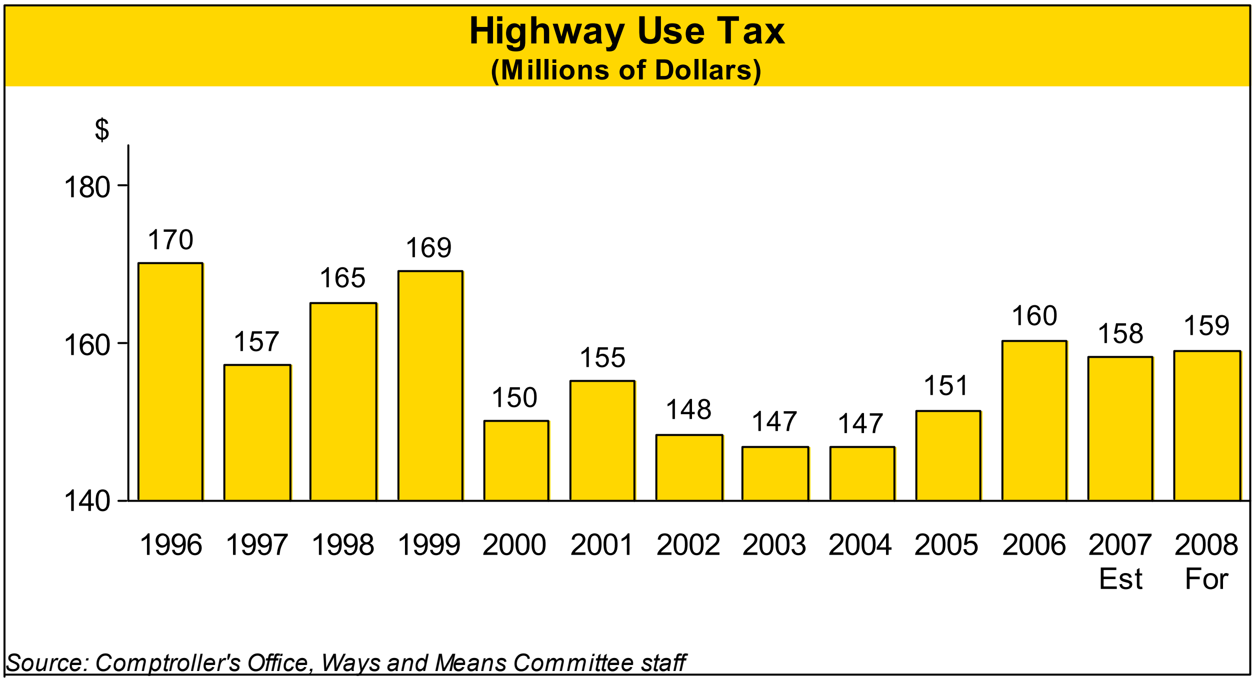


Figure 34

Highway use taxes are generally very stable from year to year. The decline in the level of collections since 2000 is largely due to tax reductions enacted in the late 1990's.

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.

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

SFY 2006-07 Estimate

The Committee staff estimates that cigarette and tobacco receipts will generate $978 million on an All Funds basis in SFY 2006-07, an increase of $4 million or 0.4 percent from SFY 2005-06. This is $9 million above the Executive's estimate released in the SFY 2007-08 Executive Budget. The SFY 2006-07 estimate is consistent with YTD collection patterns. Collections-to-date have grown 0.2 percent over the prior year.

The Committee staff estimates General Fund cigarette and tobacco tax receipts of $406 million in SFY 2006-07, representing growth of 0.6 percent over the prior year. This estimate is $2 million above the Executive's SFY 2007-08 Budget. Despite flat year-to-date cigarette consumption, cigarette and tobacco tax receipts will increase because of the success of enforcement efforts to curb tax evasion and a steady increase in the portion of collections from tobacco products. YTD collections from tobacco products have grown 10.4 percent over the prior year and have increased from 2.0 percent of collections in SFY 2000-01 to 4.1 percent in SFY 2005-06.

SFY 2007-08 Forecast

All Funds cigarette and tobacco receipts are projected to be $1.103 billion in SFY 2007-08, an increase of $125 million from SFY 2006-07 or growth of 12.8 percent. The Committee staff forecast is $25 million above the Executive forecast. The Executive Budget includes revenue from the collection of tax on sales by Native American retailers to non-Native Americans in the amount of $124 million.

Effective March 1, 2007 excise and sales taxes are to be collected from non-Native Americans who purchase cigarettes from qualified reservations and Native Americans who purchase cigarettes off their own reservations. Native Americans will pay no tax on the purchase of cigarettes for their own consumption from cigarette dealers on their own reservation. In order to ensure that Native Americans are not required to pay tax on cigarettes for their own consumption, each reservation will be issued Indian tax exemption coupons. The Department of Taxation and Finance will provide Indian tribes an adequate supply of tax exemption coupons based on anticipated demand. The Indian tribe cigarette dealer will provide the Indian tax exemption coupons to the wholesale dealer and will not be required to pay the cigarette tax on this quantity of cigarettes. Native Americans can then purchase these cigarettes tax-free on their own reservation. All others, non-Native Americans and Native Americans from other tribes, will have to pay tax on the purchase of cigarettes from reservation stores. A wholesale dealer may apply for a refund of cigarette taxes paid on the quantity of cigarettes that were purchased with Indian tax exemption coupons. If an Indian tribe(s) enter into a tax agreement with the State, such tribe(s) would not be required to collect the cigarette taxes on sales to non-Native Americans and Native Americans from other tribes. The SFY 2006-07 Executive Budget delayed the implementation of this legislation for one year. It was scheduled to start March 1, 2006.

Revenue Trends

Over the past 5 years, growth in cigarette and tobacco collections, adjusted for the tax rate increase in April 2002, has been flat or negative. Most recently, SFY 2005-06 tax collections declined 0.2 percent and SFY 2006-07 receipts are estimated to increase 0.4 percent. The forecast for SFY 2007-08 projects base growth of 0.1 percent. According to research conducted by RTI International, the percentage of adults smoking in New York State has remained stable over the last 2 years. The percentage of adults smoking in New York State was 20.8 percent in 2003 and dropped to 18.1 percent and 18.3 percent in 2004 and the first quarter of 2006, respectively.[9] A similar pattern was seen in national data. In addition to cigarette consumption trends, collections have been impacted by an increase in enforcement efforts. In 2005, there were two significant developments to restrict payment and supply operations of Internet cigarette sellers. The Attorney Generals of many states, including New York, obtained agreement by the major credit card companies to stop the processing of credit card payments for Internet cigarette sellers. Additionally, DHL and UPS agreed to stop shipping packages for Internet cigarette sellers. In 2006, Fed Ex agreed to strengthen its policies regarding Internet cigarette sellers and Phillip Morris stopped shipping cigarettes to Internet dealers. These two trends, stable cigarette consumption and increased enforcement efforts, explain recent tax collections and the forecast for SFY 2007-08.

[9] RTI International, "Third Annual Independent Evaluation of New York's Tobacco Control Program," September 2006, p. 2-3.

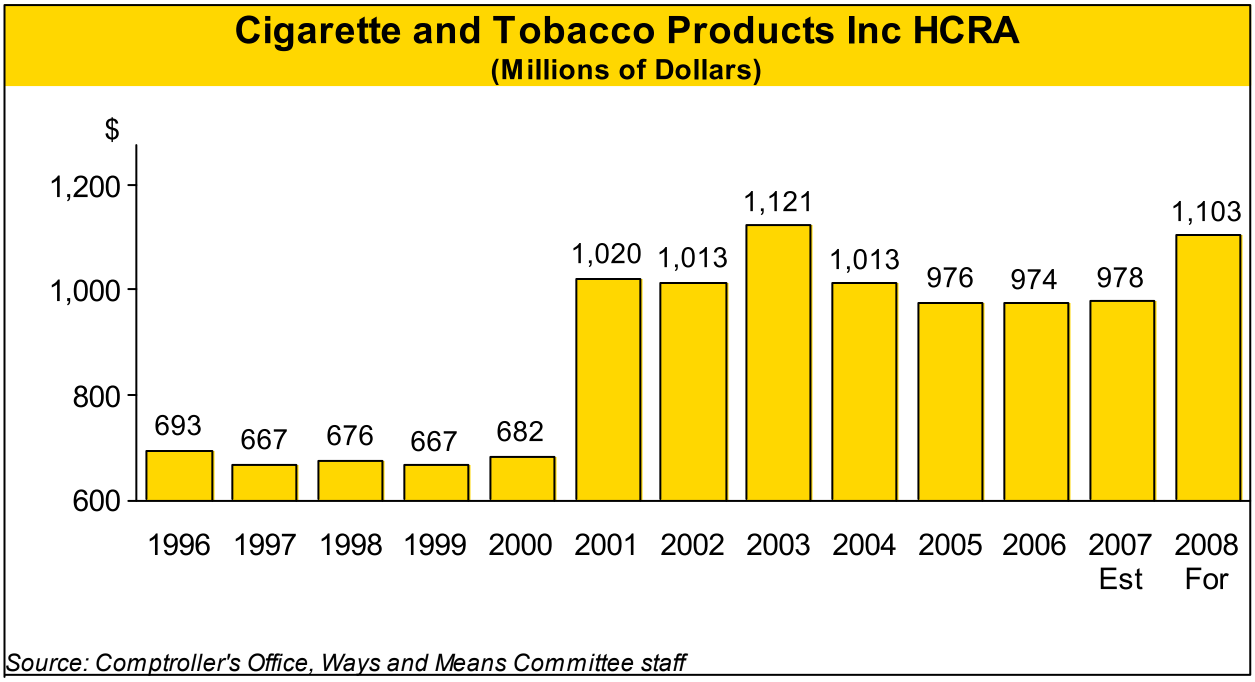

Cigarette and Tobacco Products Inc HCRA
(Millions of Dollars)
$
1,200
1,000
800
600
693
667
676
667
682
1,020
1,013
1,121
1,013
976
974
978
1,103
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007 Est
2008 For
Source: Comptroller's Office, Ways and Means Committee staff

Figure 35

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.

SFY 2006-07 Estimate

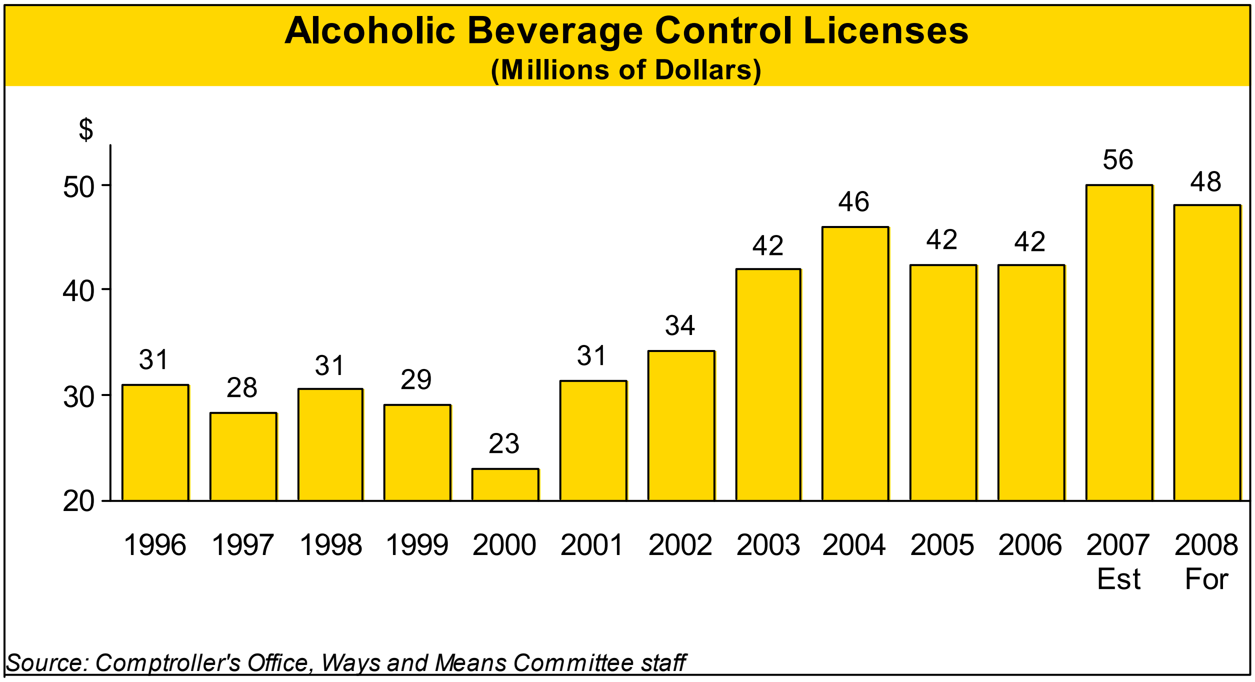
The Committee staff estimates that receipts from alcoholic beverage fees will total $56 million in SFY 2006-07, a $14 million or 32.4 percent increase over SFY 2005-06. This estimate includes a one-time accounting adjustment related to on-line license renewals. This estimate is $2 million lower than the Executive's SFY 2007-08 Budget. Adjusted for the one-time accounting adjustment, growth in SFY 2006-07 is expected to be 4.0 percent.

SFY 2007-08 Forecast

The Committee staff forecasts receipts will total $48 million in SFY 2007-08, a decrease of $8 million over SFY 2006-07. Adjusted for the one-time accounting adjustment in SFY 2006-07, growth in SFY 2007-08 is forecast to be 9.1 percent.

Revenue Trends

Since license fees were increased for most licensees effective September 1, 2002, alcoholic beverage license fee collections have been relatively stable. The strong collections in SFY 2006-07 is driven by the one-time accounting adjustment for on-line license renewals.


Alcoholic Beverage Control Licenses
(Millions of Dollars)
$
50
40
30
20
31
28
31
29
23
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34
42
46
42
42
56
48
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007 Est
2008 For
Source: Comptroller's Office, Ways and Means Committee staff

Figure 36

Alcoholic Beverage Tax

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

Table 14

New York State Alcoholic Beverage Tax Rates

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

Source: NYS Executive Budget - Financial Plan

SFY 2006-07 Estimate

The Committee staff estimate for SFY 2006-07 alcoholic beverage tax receipts is $197 million, representing an increase of $5 million or 2.8 percent growth over SFY 2005-06. This estimate is the $1 million above the SFY 2007-08 Executive Budget. YTD volume in liquor and wine sales is up approximately 5.0 percent and 3.0 percent, respectively, over the prior year.

SFY 2007-08 Forecast

Alcoholic beverage tax receipts are forecast to be $201 million in SFY 2007-08, representing an increase of 2.0 percent over the prior year. This forecast is $1 million above the SFY 2007-08 Executive Budget. The Executive Budget proposes the extension of enforcement actions set to sunset October 31, 2007 to October 31, 2009. This action preserves $2 million in revenue.

Revenue Trends

Alcoholic Beverage Tax collections are relatively constant over time. Tax collections are impacted by legislative changes and consumption and consumer preferences. Consumption of wine, beer and liquor has remained relatively flat over the last 8 years. Changes to the tax law in the late 1990’s and early 2000’s have included a series of exemptions and tax rate decreases on beer. The beer tax has been reduced from 21 cents per gallon to 11 cents per gallon over the period 1996 through 2003. The exemption for small brewers increased from the first 100,000 barrels of domestically produced beer to 200,000 barrels effective January 1, 2000. Effective

September 1, 2004, liquor and wine stores licensed for off premise consumption may remain open all seven days of the week. Legislation enacted in 2005, effective August 1, 2005, allows certain out-of-state wine manufacturers to ship limited quantities of wine directly to customers in New York State.

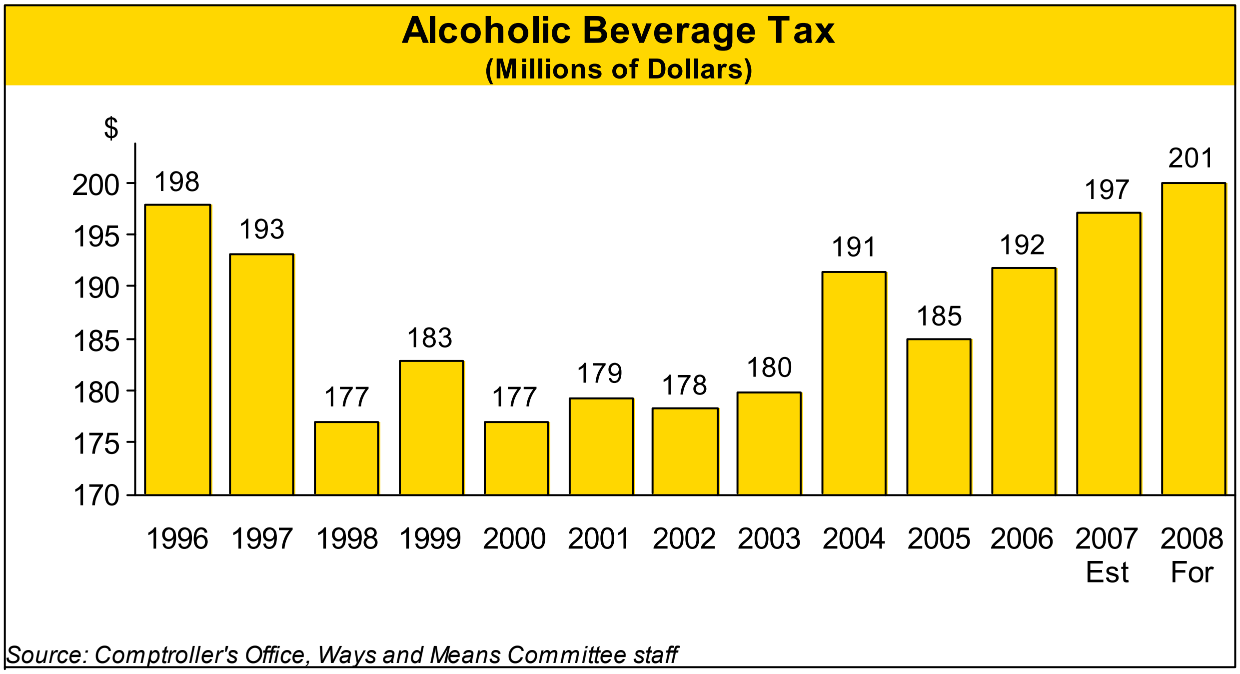


Figure 37

Business Taxes

Table 15

Business Taxes **Forecasts by State Fiscal Year** **(Dollar Amounts in Millions)**						
	SFY 2006-07	Growth	Diff. Exec.	SFY 2007-08	Growth	Diff. Exec.
Business Taxes	**$8,152**	**15.0%**	**$29**	**$8,586**	**5.3%**	**$136**
Corporate Franchise	4,061	33.0%	(9)	4,295	5.8%	30
Utility Tax	825	-0.9%	8	863	4.6%	47
Insurance Tax	1,231	13.7%	5	1,289	4.7%	30
Bank Tax	924	-5.2%	19	966	4.5%	40
Petroleum Business Tax	$1,111	-3.0%	$6	$1,173	5.6%	($11)

Corporate Franchise Tax

The Article 9-A corporate franchise tax is 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.

SFY 2006-07 Estimate

In the current State Fiscal Year, corporate franchise tax collections have increased by $947 million or 44.9 percent through December 2006 and are expected to reach a record high. The Committee staff estimates that All Funds corporate franchise tax collections will total $4.061 billion in SFY 2006-07, representing an increase of $1.008 billion or 33 percent over SFY 2005-06. This estimate is $9 million lower than the Executive's Budget estimate. Growth in SFY 2006-07 collections reflect several cooperating factors including increased payments on current year liability, increased audit collections, and a decline in refunds. Of the total All Funds collections, General Fund collections are estimated to be $3.543 billion, while $518 million in collections are projected for Special Revenue. All of the necessary conditions for historic corporate franchise collections were present in SFY 2006-07. Continued robust growth in corporate and financial sector profits in conjunction with record levels of audit collections and low refund disbursements fueled the current collections windfall. Audit collections were especially strong due to the settlement of some large corporate audits.

SFY 2007-08 Forecast

In SFY 2007-08, corporate franchise tax receipts under current law are forecast to total $4.013 billion, a decrease of $48 million or 1.2 percent from SFY 2006-07. Including Executive law proposals, receipts are forecast to total $4.295 billion, an increase of $234 million or 5.8 percent from SFY 2006-07.

In SFY 2006-07, corporate profits were estimated to grow by 16.2 percent due to strong economic conditions. However, SFY 2007-08 forecasts indicate a significant slow down in profits and audits while refunds are expected to increase. Unfortunately both corporate profits and financial sector profit growth are forecast to slow considerably to 3.8 and 1.2 percent, respectively representing a massive slow down of 76.8 and 93.7 percent from the prior year. While it is expected that the audit base will increase significantly most Voluntary Compliance Initiative (VCI) participants are accounted for and the total amount of audits should decline substantially. Refunds are also expected to return to historic levels. The major source of growth in the corporate franchise tax for SFY 2007-08 will come from Executive loophole closers. These proposals will have a significant effect on SFY 2007-08 revenues with an expected increase of $282 million or 7.0 percent on an All Funds basis.

Recent legislation impacting receipts includes a change to a single sales factor allocation which will decrease receipts $26 million and $80 million in SFY 2006-07 and SFY 2007-08, respectively. The Brownfield tax credit will decrease revenues by $54 million in SFY 2006-07 and $20 million in SFY 2007-08. The elimination of the S-corporation differential tax rate will also decrease revenues by $40 million annually. Economic development initiatives, such as regionally significant empire zone capital investment projects and the film and commercial production credits, are also substantial tax expenditures costing the state $35 million in the current fiscal year, $42 million in SFY 2007-08, and $63 million fully implemented. Proposed law includes several corporate tax initiatives which will increase receipts by $282 million in SFY 2007-08.

Revenue Trends

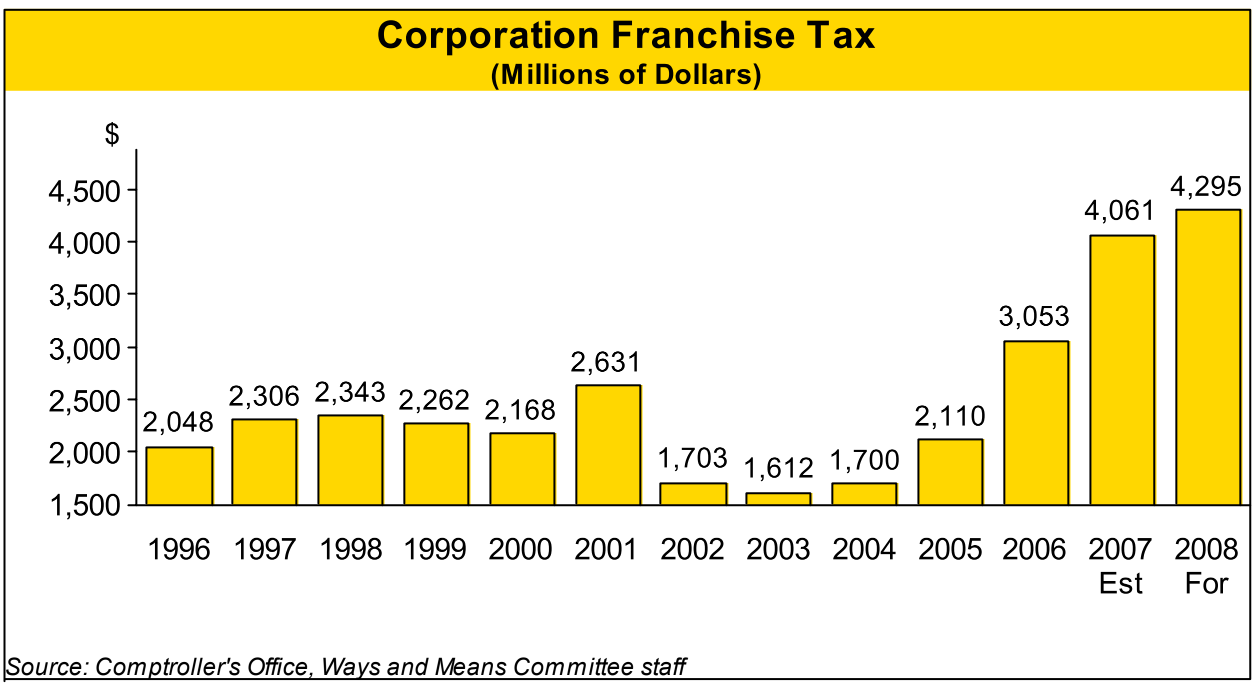


Figure 38

Corporate Franchise Tax Receipts Reach a Record High

Corporate franchise tax collections are estimated to reach record levels for SFY 2006-07 totaling over $4 billion dollars. This dramatic increase comes only four years after the corporate franchise tax hit a ten year low in SFY 2002-03. Current projections estimate that receipts will have increased $2.4 billion or 151.9 percent over a four year period.

The increase in revenue can be explained by several factors: robust growth in corporate and financial sector profits, record level audit collections, and lower than average refunds. SFY 2007-08 collections are not predicted to exhibit the same type of underlying strength as these major components will return to normal patterns.

From SFY 1995-96 through SFY 1999-2000 collections remained somewhat flat, ranging between $2.048 and $2.168 billion, representing an increase of just $120 million or 5.9 percent. This period is representative of the latter years of the dot com boom prior to the recession of 2001-02. In the next two fiscal years, collections increased and then decreased dramatically, increasing by 21.4 percent and then decreasing by 35.3 percent the following year. The dramatic decline has been attributed to the shocks to the economy from the September 11th attacks and a recession. Since SFY 2002-03, where collections were $1.6 billion, there has been strong, often double-digit growth.

Booming Corporate and Financial Profits

Corporate Franchise tax growth trends are strongly correlated with those of corporate profits. The robust growth in the corporate franchise tax collections can most readily be seen in the growth in corporate and financial sector profits. On the heels of the September 11th attacks corporate profits have grown in the range of 16.4 percent to 28.8 percent since SFY 2002-03.

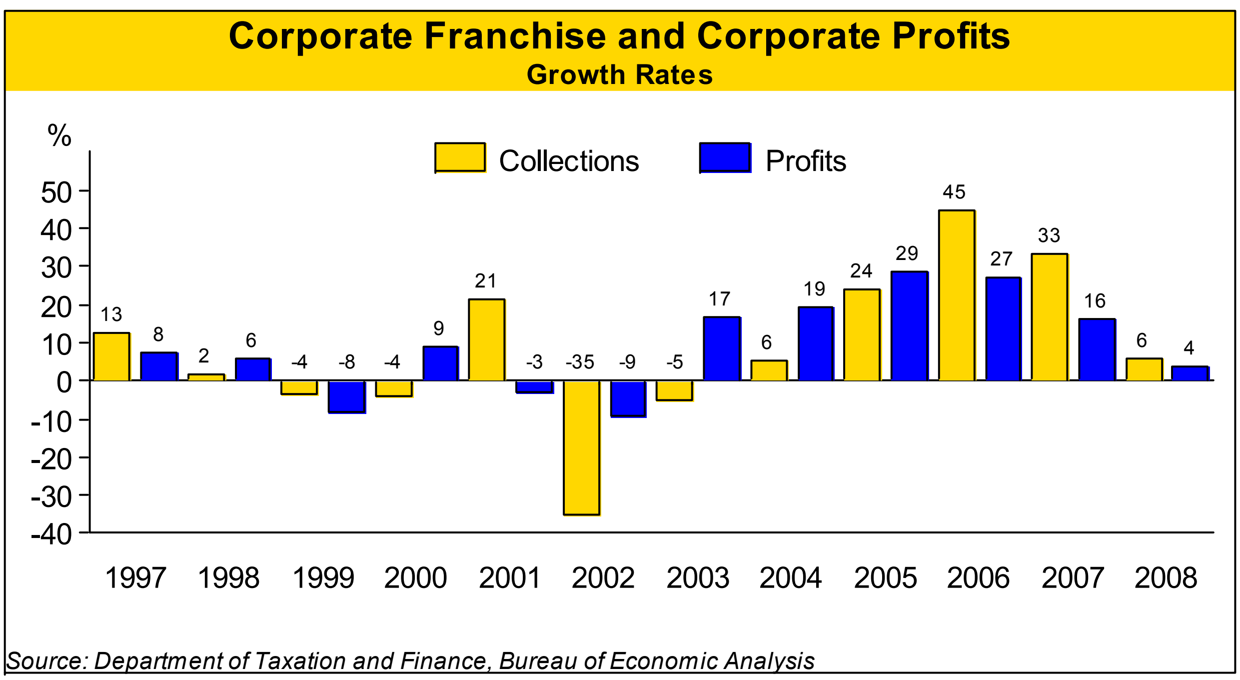


Figure 39

Recent Audit Collections

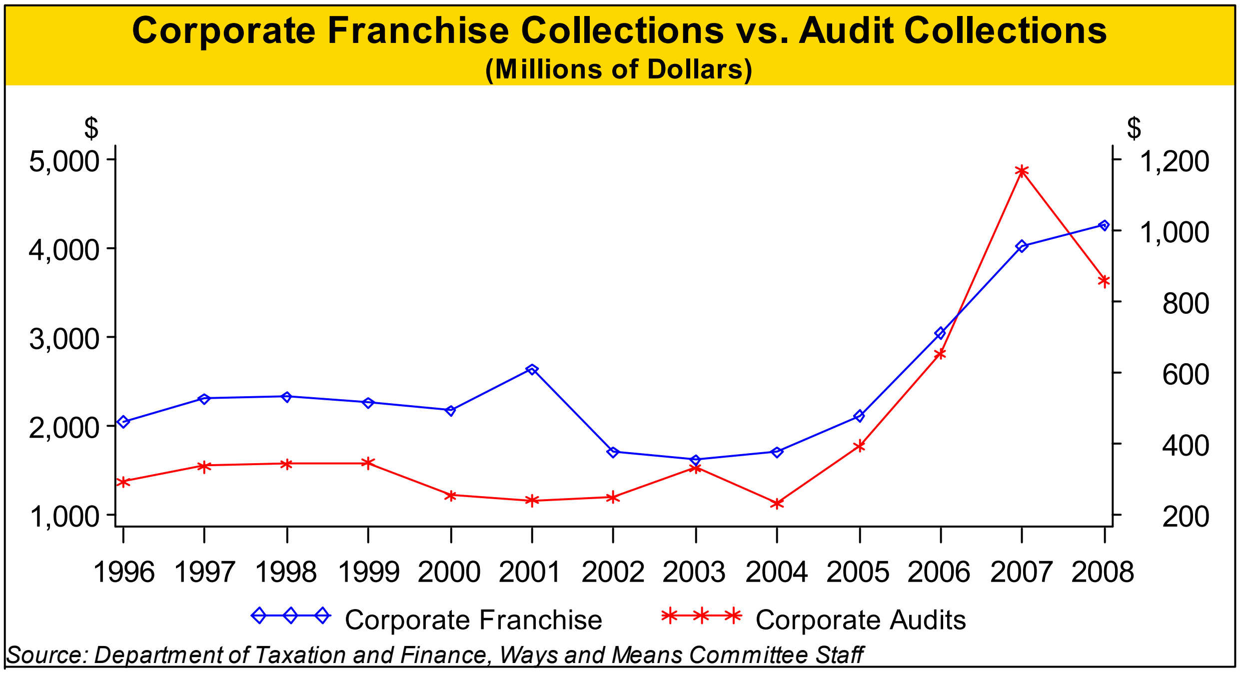


Figure 40

The Voluntary Compliance Initiative (VCI) along with general audits has been a major contributor to increased collections in the business taxes in general, and the corporate franchise tax in particular. Audit collections are expected to total almost $1.2 billion in the current fiscal year 2006-07, the second consecutive year of exceptionally high audit collections. In the 3 year period beginning in SFY 2005-06 audit collections are projected to be 196.8 percent above the ten year average over SFY 1996-2005. Over the same ten year period, audit collections as a percentage of All Funds collections averaged 14.4 percent. Beginning in 2005-06 audits as a percentage of All Funds collections average 23.5 percent, with 2006-07 estimated to be 29.0 percent.

Refunds generally reflect tax expenditures in the form of credits and adjustments to prior year returns. Over the period of SFY 1995-96 through SFY 2007-08 collections and refunds have a shown strong inverse relationship. While this pattern is generally expected, the current decline in refunds is greater than historic patterns. In comparison to the ten year average from SFY 1996-2005, the current year estimate shows disbursements declining by 45.1 percent. Refunds generally average 15.5 percent of gross collections and as collections have rapidly increased refunds have invariably decreased in a similar manner serving as only 6.1 percent of a proportion of gross collections.

Table 16

Corporate Franchise Audits and Refunds									
		Audits				Refunds			
SFY	All Funds	Total	Growth Over Prior Year	Compared to 1996-2005 Average	% of Total	Total Adj.	Growth Over Prior Year	Compared to 1996-2005 Average	% of Total
1996-2005 Avg.	*2,086*	*301*			*14.4%*	*479*			*18.7%*
2005-06	3,053	653	65.7%	116.9%	21.4%	412	-12.0%	-14.1%	11.9%
2006-07	4,026	1,169	79.0%	288.3%	29.0%	263	-36.1%	-45.1%	6.1%
2007-08	4,256	858	-26.6%	185.0%	20.2%	275	4.6%	-42.6%	6.1%

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 changed 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 were phased-down through 2005. As a result, many of the businesses that paid the utility tax now pay under the corporate franchise tax, reducing utility tax collections significantly.

SFY 2006-07 Estimate

Utility tax receipts increased by approximately $51 million or 9.7 percent through December 2006. The Committee staff estimates that utility tax receipts will total $825 million in SFY 2006-07, representing a decrease of $7 million or 0.9 percent from SFY 2005-06. This estimate is $8 million higher than that of the Executive. Of the total All Funds collections, the General Fund dedication is estimated to be $625 million and Special Revenue is estimated to be $200 million in SFY 2006-07. An increase in collections from the MTA surcharge in the telecom sector is largely responsible for the modest growth.

SFY 2007-08 Forecast

Current law utility tax receipts are forecast to total $863 million in SFY 2007-08, representing an increase of $38 million or 4.6 percent over SFY 2006-07. There are no Executive utility tax proposals in the current budget.

Revenue Trends

The recent volatility in utility tax collections is mainly due to two factors; the increase in telecom profits and the utility tax reforms enacted in 2000. The utility tax reform will be fully phased in during SFY 2006-07 and is expected to reduce utility tax receipts by $574 million from pre-2000 levels.

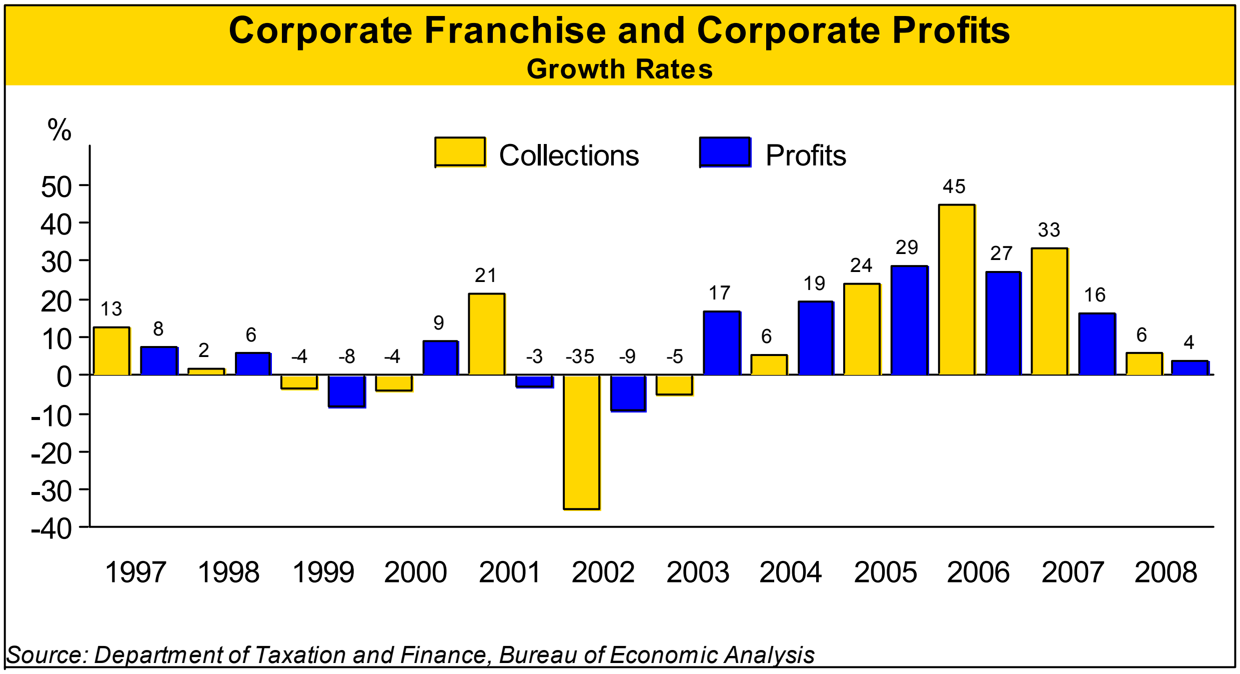


Figure 41

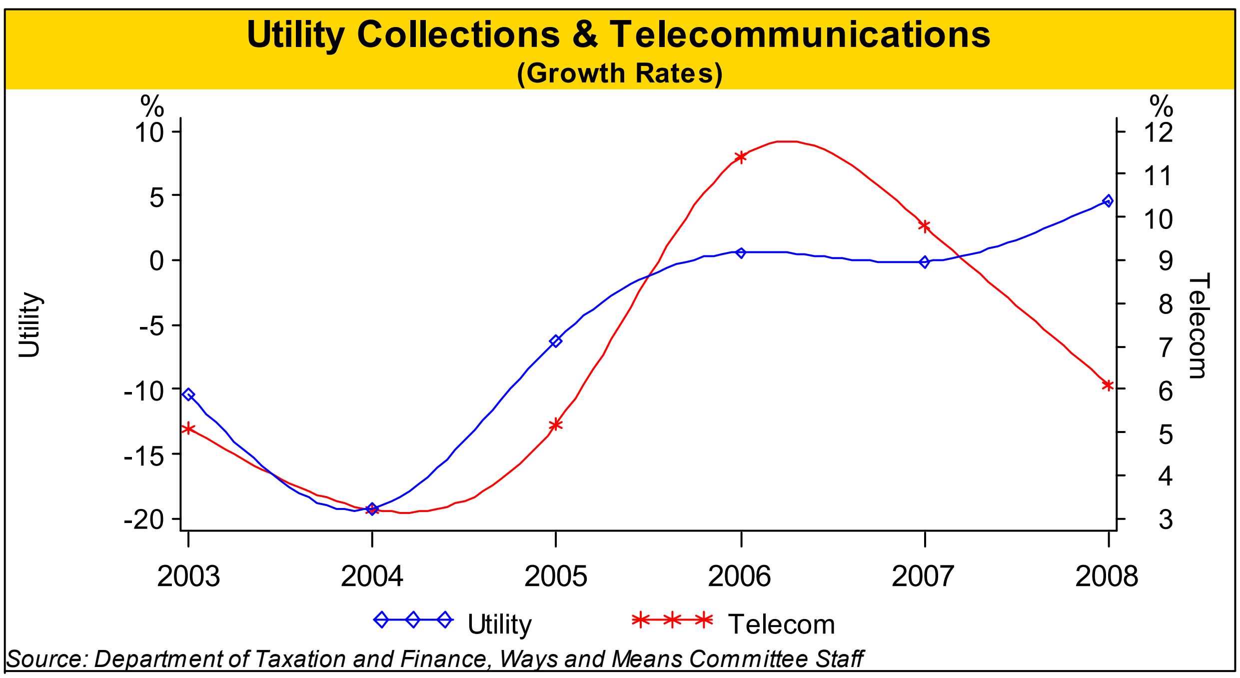


Figure 42

During the majority of the 1990s and prior to the 2000 Utility tax reform utility collections were generally stable and averaged approximately $1.7 billion. Fluctuations in collections since the Utility tax reform are mainly due to the legislative changes. Under current conditions All Funds collections are by and large a function of Sections 186-a and 186-e which impose a gross receipts tax on the transmission of electric and gas utility services and on telecommunication services. These sections combined accounted for as much as 69.2 percent of the total utility collections in SFY 2005-06. SFY 2006-07 taxes levied on electricity, gas, and telecommunications receipts will account for 64.0 percent. SFY 2007-08 collections are expected to remain relatively flat in response to moderate growth in telecom profits of 6.1 percent.

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 franchise tax on insurance corporations has generally changed from one based on allocated Entire Net Income (ENI) and gross allocated premiums to one based on 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.

SFY 2006-07 Estimate

Insurance tax collections have increased by $112 million or 15.3 percent through December 2006, due mostly to reduced refunds, increased audits, and steady premium growth.

The Committee staff estimates that insurance tax receipts will total $1.231 billion in SFY 2006-07, representing an increase of $148 million or 13.7 percent over SFY 2005-06. This estimate is $5 million higher than that of the Executive. Of the total All Funds collections, $1.116 billion is earmarked for the General Fund and $115 million for the Special Revenue Fund.

SFY 2007-08 Forecast

Insurance tax receipts are forecast to total $1.266 billion under current law in SFY 2007-08, representing an increase of $35 million or 2.8 percent over SFY 2006-07. This forecast takes into consideration modest growth in insurance premiums. Also, it assumes that audit and refund collections will return to historic patterns. Proposed law collections are forecast to total $1.289 billion, representing an increase of $58 million. The SFY 2007-08 forecast includes $23 million in Executive proposals.

The staff estimates SFY 2006-07 and 2007-08 insurance collections to grow by 13.7 percent and 4.7 percent respectively. The industry reports that 2006 Property/Casualty profitability was very strong with a growth of 50.1 percent through the first nine months, but growth in net written premiums representes only 3.8 percent through the same period.

Revenue Trends

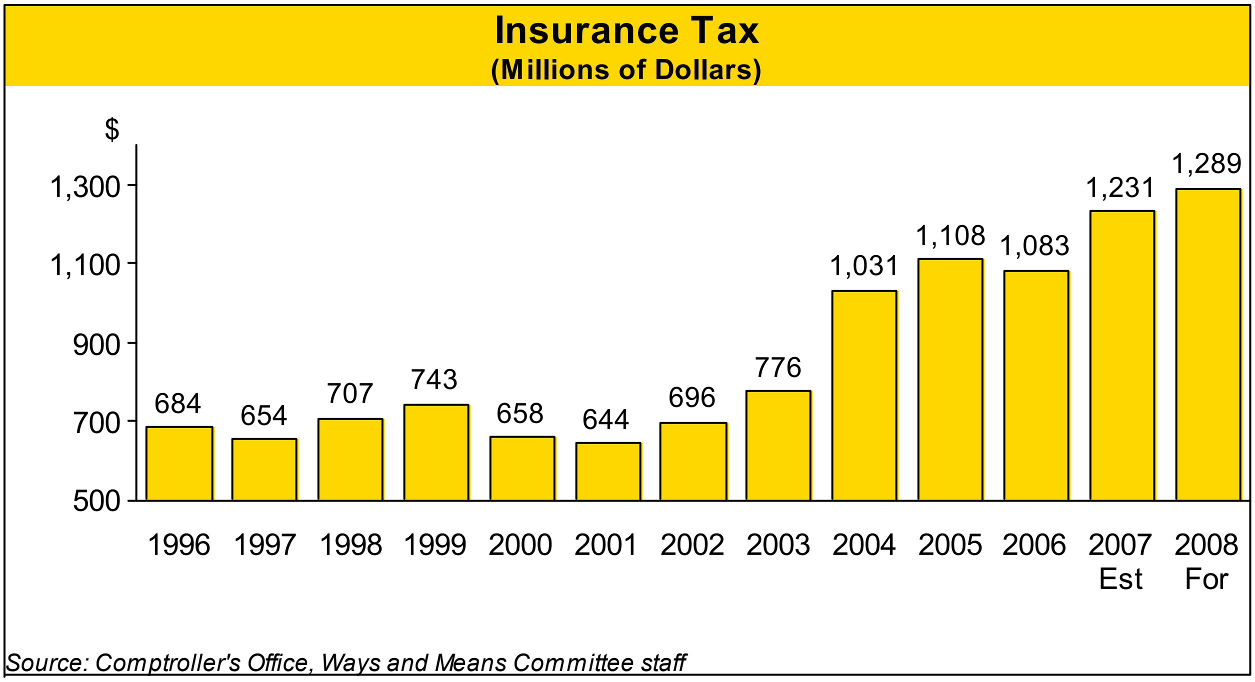


Figure 43

Recent legislation related to the insurance tax includes an additional allocation of tax credits for investments in certified capital companies, referred to as CAPCO IV and a lower marginal tax rate for annuity premiums. These initiatives will have a minimal effect on insurance collections. Collectively they are estimated to decrease revenues by $3 million in the current year and $5 million when fully implemented.

SFY 2003-04 restructuring of the insurance tax to an allocated premiums base coupled with robust premiums growth triggered a 32.9 percent increase in collections. Consistent growth in premiums is the most significant factor in the continued health of insurance collections. There has been strong growth in six of the last eight fiscal years. However industry reports indicate a continued slow down in premium growth nationwide. Audit collections have helped to spur collections in recent years. Audits increased by 69.9 percent in SFY 2005-06 and 6.2 percent SFY 2006-07. Out year collections will remain relatively flat as premiums are expected to slow.

Calendar year 2006 is anticipated to yield the third straight year of premiums growth under 5 percent. While these national trends do not translate to New York on a percentage to percentage basis, it is likely that a considerable portion of the national tendencies will be reflected in the New York markets.

Bank Tax

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

- entire net income allocated to New York;
- alternative entire net income allocated to New York;
- taxable assets allocated to New York;
- or a minimum of $250.

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

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

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

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

SFY 2006-07 Estimate

Bank tax collections have increased by $101 million or 15.1 percent through December 2006. The Committee staff estimates that bank tax receipts will total $924 million in SFY 2006-07, representing a decrease of $50 million or 5.2 percent from SFY 2005-06. The decline in collections over the second half of the fiscal year is due to a projected decrease in audit collections, which increased by 1,271.3 percent in 2005-06. This estimate is $19 million higher than that of the Executive. Of the total All Funds collections, the General Fund is estimated to receive $767 million and the Special Revenue Fund is expected to receive $157 million.

SFY 2007-08 Forecast

In SFY 2007-08, current law bank tax collections are forecast to total $802 million, representing a decrease of $122 million or 13.2 percent from SFY 2006-07. The decrease in collections reflects adjustments for a one time gain of almost $200 million in SFY 2006-07 related to the Voluntary Compliance Initiative (VCI) tax amnesty program and modest financial sector profits in 2007. Proposed law collections are estimated to generate $966 million in receipts, representing an increase of $42 million of 4.2 percent.

Commercial banks continue to make up the largest component of collections accounting for well over 90 percent of receipts in most fiscal years. Timing is essential with the bank tax and adds a considerable amount of difficultly in predicting the tax. This coupled with an ever changing business model and investment portfolio adds another layer of complexity to forecasting revenues. When compared to actual tax liability collections are often sporadic. Out year receipts are forecast to slow slightly, but Executive loophole closers will augment SFY 2007-08 collections by $164 million.

Revenue Trends

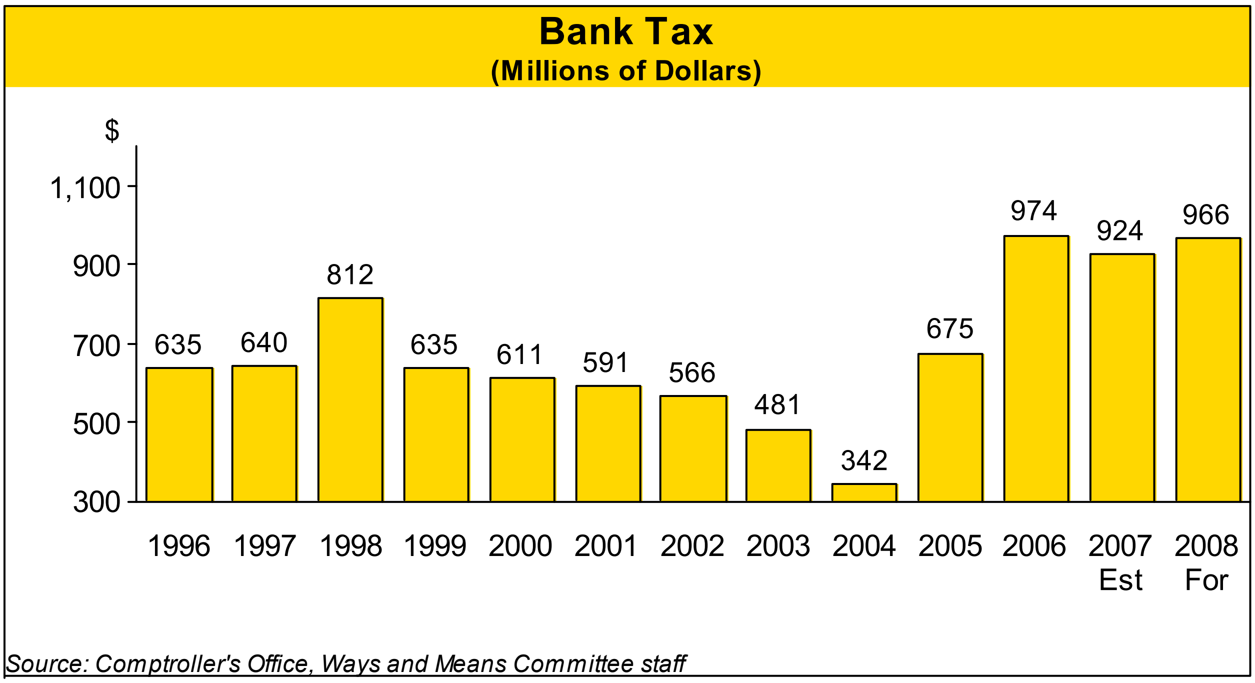


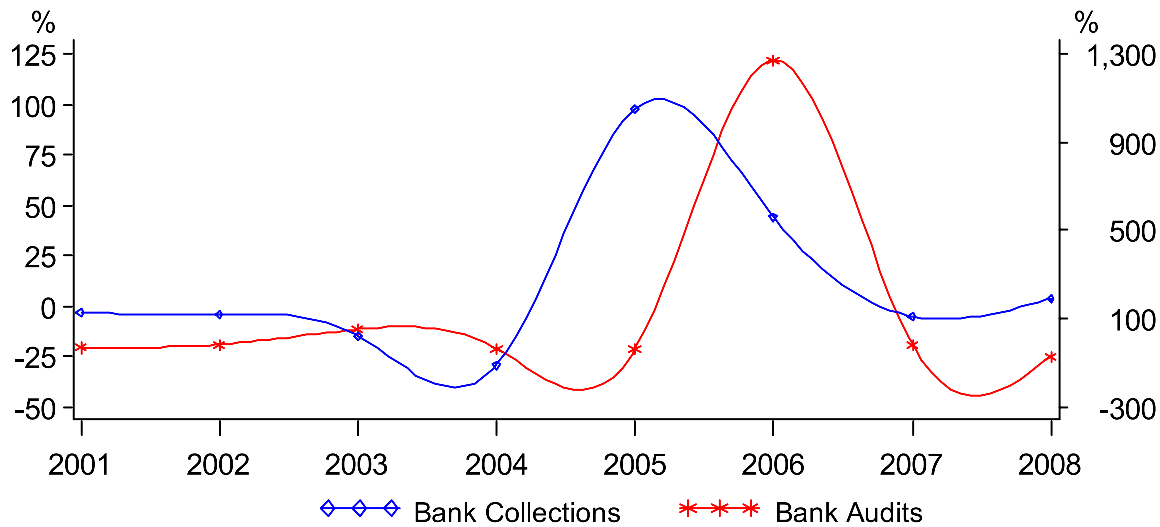
Figure 44

Bank receipts plummeted after the 2001 recession and the attacks of September 11th. Since the low point of SFY 2003-04 receipts have surged 184.8 percent through 2005-06 reaching a collection high of $974 million. This rebound is sustained in the current fiscal year and is expected to remain at this level over the forecast period.

Similar to the corporate franchise tax, bank tax collections have benefited from a mixture of contributing factors including a favorable economic and interest rate climate and substantial increases in audit collections due to the Voluntary Compliance Initiative.

Many banks prospered during the housing boom as mortgage demand remained high as a result of low interest rates. Increasing mortgage loan origination and home price appreciation led to positive effects on profits. Other contributing factors to bank profits include lower expenses in relation to bad debt delinquency and a significant slow down in merger and acquisition related expenses. In recent years banks have also expanded their investment portfolios to include private equity. The acquisition of private equity has become a growing part of banking operations and the health of the financial sector now plays an even greater role in bank profits.

Bank Collections & Audits
(Growth Rates)



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

Figure 45

Very high audit collections helped to augment the economic conditions in SFY 2005-06. Current year audit collections are expected to decline 15.8 percent, but this comes on the heels of a record breaking audit cycle in SFY 2005-06 where collections increased 1,271.3 percent. The average audit collections from SFY 1997 through 2005 totaled $62 million annually. Collections reached historic levels in SFY 2005-06 at $330 million or 432.3 percent above average and in SFY 2006-07 collections are estimated to total $278 million or 348.1 percent above the average. The strength in audit collections can most readily be seen in the ratio of audits to All Funds collections. Audits normally averaged around 10.4 percent of total collections in the period 1997-2005. In 2005-06 this ratio more than doubled to 33.9 percent and in the current year it is estimated to be 30.0 percent. The forecast for SFY 2007-08 has audits returning to lower levels. Despite an expected 72.7 percent increase over the average a substantial amount of the audit collection will be accounted for in the collections base.

Table 17

Bank Audits					
SFY	All Funds	Bank Audits	Growth Over Prior Year	Compared to 1997-2005 Average	% of Total
1997-2005 Avg.	**595**	**62**		0.0%	10.4%
2005-06	974	330	1271.3%	432.3%	33.9%
2006-07	924	278	-15.8%	348.1%	30.0%
2007-08	958	107	-61.5%	72.7%	11.2%

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. Gasoline is subject to tax at the time it is imported, while diesel is taxable upon the first sale.

The petroleum business tax also applies to the fuel that motor carriers purchase outside New York State, but consume within the State. On each January 1st, the tax rates are indexed based on the producer price index for refined petroleum products published by the Bureau of Labor Statistics, rounded to the nearest 1/10 of one cent.

All revenues from the basic tax are earmarked to dedicated funds (Dedicated Mass Transportation Trust Fund and Dedicated Highway and Bridge Trust Fund) and the Mass Transportation Operating Assistance Fund. The dedication is as follows: 19.7 percent to the Mass Transportation Operating Assistance Fund[10] and 80.3 percent to the Dedicated Mass Transportation Trust Fund and the Dedicated Highway and Bridge Trust Fund[11]. The supplemental tax as well as the tax on Carriers (section 301-h of the tax law) is totally earmarked to the dedicated funds.

SFY 2006-07 Estimate

The Committee staff anticipates All Funds receipts of $1.111 billion for SFY 2006-07, representing a 3.- percent decline from SFY 2005-06. This estimate is $6 million above the Executive's. Higher residual prices made utility companies switch to natural gas, as a result, available year-to-date taxable residual (thru October 2006) have decreased by 74 percent or 631 gallons with a fiscal impact of at least $46 million. However, a wave of cold weather during the month of February 2007 has produced an increased demand for heating oil which will have a positive effect on petroleum business tax receipts.

Through December 2006 petroleum business tax collections are $804 million, a decrease of $60 million or 6.9 percent below the comparable period in the prior fiscal year.

Revenues from this tax are split between various dedicated funds. Of the total expected in SFY 2006-07, $363 million will be deposited in the Dedicated Mass Transportation Trust Fund, and $136 million will be deposited into the Mass Transportation Operating Assistance Fund. The remaining $612 million is deposited into the Dedicated Highway and Bridge Trust Funds. The petroleum business tax rates were increased by 5 percent in January 2007 as scheduled.

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

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

SFY 2007-08 Forecast

In SFY 2007-08, All Funds receipts are forecast to total $1.173 billion, a 6.4 percent increase from SFY 2006-07. This forecast is $11 million below the Executive's forecast. Collection of this tax on Indian reservations will produce an additional $32 million.

Of the total expected in SFY 2007-08, $379 million will be deposited in the Dedicated Mass Transportation Trust Fund, and $144 million will be deposited into the Mass Transportation Operating Assistance Fund. The remaining $650 million will be deposited into the Dedicated Highway and Bridge Trust Fund.

Revenue Trends

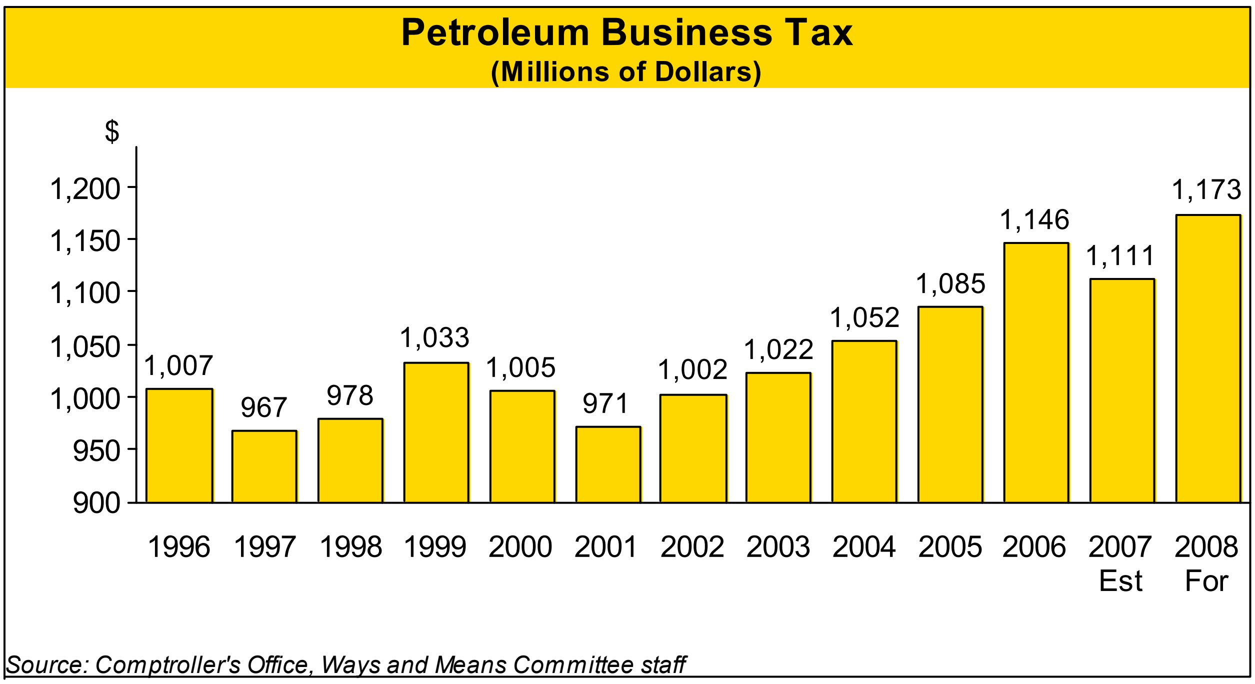

Figure 46

This forecast assumes that demand for gasoline and diesel will be soft. As the market for petroleum products continue to show signs of uncertainty, receipts from these taxes will continue to show little effect from higher oil prices due to the cap of 5 percent indexing of petroleum rates. However, it is expected that the rates will be adjusted downward on January 1, 2008. Despite the fairly stable market conditions, short-term volatility due to weather or security disruptions could threaten production and impose pressure on petroleum prices, which in turn could affect demand.

Other Taxes

Table 18

Other Taxes Forecasts by State Fiscal Year (Dollar Amounts in Millions)	SFY 2006-07	Growth	Diff. Exec.	SFY 2007-08	Growth	Diff. Exec.
Other	**$2,049**	**12.6%**	**$22**	**$2,003**	**-2.2%**	**$43**
Real Property Gains	1	0.0%	-	1	0.0%	1
Estate and Gift	1,069	24.7%	14	1,085	1.5%	46
Real Estate Transfer	957	2.0%	7	895	-6.5%	(5)
Pari Mutuel	21	-7.4%	1	21	0.0%	1
Other	$1	0.0%	-	$1	0.0%	$0

Estate Tax

Article 26 of the Tax Law imposes a tax on the transfer of property upon death. Commonly known as the estate tax, article 26 imposes a graduated rate structure on the value of estates in excess of one million dollars. All of the receipts from this tax are deposited into the General Fund.

In 1997, legislation was enacted which phased-in a reduction of New York's 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. However, the Federal "Economic Growth and Tax Relief Reconciliation Act of 2001" repealed the credit for state estate taxes over four years. [12] In order to avoid a massive loss of revenues at a time of fiscal pressure, New York amended State law such that New York's estate tax is equal to the Federal estate tax credit as it existed in 1998.

Subject to extensions, estate taxes must be filed and payments made within nine months of the decedent's death.

SFY 2006-07 Estimate

The Committee staff estimates that estate tax collections will total $1.069 billion in SFY 2006-07, which represents an increase of $212 million or 24.7 percent above the previous fiscal year. This estimate is $14 million more than the Executive's estimate. Estate tax collections have increased steadily over the past few fiscal years, as increases in the equity and real estate markets have contributed to increases in net worth and thus the taxable value of estates. After adjusting for an uncharacteristically large amount of revenues in December of 2006, the estate tax is estimated to grow by 13.1 percent in SFY 2006-07.

SFY 2007-08 Forecast

Estate Tax collections are forecast to total $1.085 billion in the upcoming fiscal year, an increase of 1.5 percent. The forecast is dependent upon an expectation of continued strength in the stock market and no extremely large estates. The Committee staff forecast is $46 million more than the Executive forecast.

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[12] "By the time the 2001 Act was passed, every one of the 50 states and the District of Columbia had in place a state death tax that reflected, largely or entirely, the federal credit." Lee, Carolyn Joy. "The Unfortunate State Tax Side Effects of Federal Death Tax 'Repeal.'" *State Tax Notes*. December 17, 2001. P. 935 – P. 949.

Revenue Trends

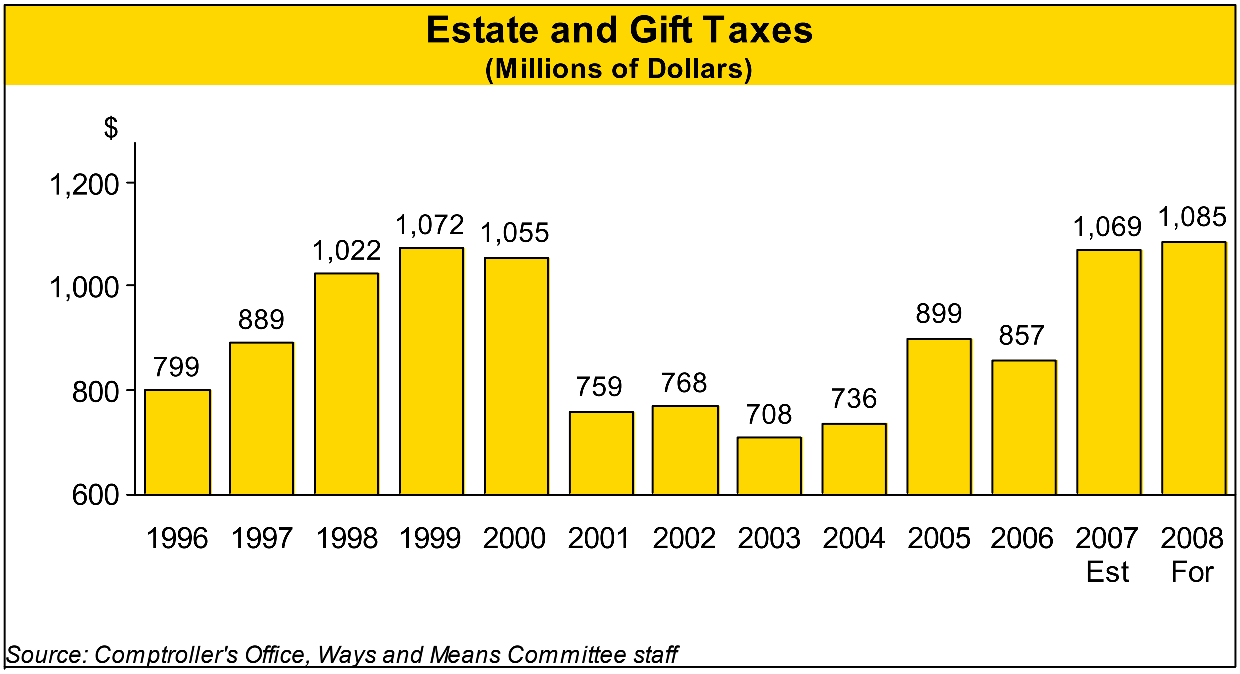

Figure 47

Generally, revenues attributable to the Estate tax are dependent upon the given number of taxable estates and the size of those estates in a given year. Therefore, revenues cannot be expected to increase or decrease based directly on economic fluctuations. However, estates, like other forms of wealth, are somewhat dependent on the general health of the economy. When the first one million dollars of an estate become exempt from taxation on February 1, 2000, estate tax collections fell off considerably. However, since that time, estate tax collections have seen an upward trend – continuing the previous pattern.

Real Estate Transfer Tax

Article 31 of the New York State Tax Law levies a 0.4 percent tax on real property transfers in excess of $500. The tax also applies to transfers of economic interests such as shares in cooperatively owned apartments. An additional tax of one percent, referred to as the 'mansion tax', is levied on the transfer of one, two or three family residences over one million dollars. Typically, the party conveying the property (grantor) is liable for the 0.4 percent tax and the party purchasing the property (grantee) is liable for the additional one percent mansion tax, when applicable. The tax is collected at the local level and sent to the State, with a lag of a few months or more.

SFY 2006-07 Estimate

Based on year-to-date collections, historical collection patterns and present economic forecasts, the Committee staff forecasts that RETT receipts will total $957 million in SFY 2006-07, representing a 2.0 percent increase from 2005-06. The Executive estimates that RETT revenues in 2006-07 will total $950 million, an increase of 1.3 percent or $12 million from 2005-06. Included in the 2006-07 Budget, $147 million from RETT revenues will be deposited into the Environmental Protection Fund (EPF). Based on Committee staff estimates, approximately $810 million will then be available to pay debt service on the Clean Water Bond Act – of which $120 million will be used. Approximately $690 million will then be transferred to the General Fund.

Through January, total RETT receipts are up 1.2 percent compared to last year. Through November, receipts are up 15.3 percent in New York City, which made up 53 percent of total RETT receipts in 2005-06. According to the New York City Office of Management and Budget, the increase in RETT receipts within NYC is attributable to a considerable rise in commercial activity offset by a mild slowdown in the residential sector.[13] Through November of 2006, asking commercial rents in Midtown Manhattan were up approximately 25 percent since November 2005. Likewise, the City's 2008 tentative assessment roll reports that the total market value of Class 4 properties (commercial properties) increased 22 percent since January of 2006. It is likely that the upshot in the commercial sector is the result of a lack of new commercial building during the residential upswing of recent years – with only 12 million square feet of new office space built in Midtown Manhattan over the last 10 years.[14]

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[13] Within NYC, receipts are up 24.5 percent in Manhattan and down 22.1 percent in Staten Island, while receipts were generally flat in the rest of the City through November. Manhattan made up 63 percent of NYC RETT receipts in 2005-06, while Brooklyn and Queens both yielded approximately 15 percent of receipts each and The Bronx and Staten Island both contributed approximately four percent each.

[14] NYC Office of Management and Budget. "Monthly Report of Current Economic Conditions" October 10, 2006.

Table 19

Regional Growth Rates of Real Transfer Tax		
Region	Percent Change from SFY 2005-06 Through November	Percentage Share of 2005-06
NYC	15.3%	53%
Long Island	-11.8%	17%
Mid-Hudson	1.1%	12%
Capital Region	-6.5%	3%
Mohawk Valley	-13.3%	1%
North Country	4.8%	1%
Western NY	-3.8%	2%
Southern Tier	0.9%	1%
Central NY	-6.5%	1%
Finger Lakes	-3.0%	2%
Unclassified	-15.7%	10%

Throughout most of the State, receipts are basically flat. However, unclassified collections and collections in the Mohawk Valley and on Long Island are down by double digits compared to the same period of last year. Confirmed by RETT year-to-date collections, the Federal Reserve Board reported that the housing markets in Upstate and Western New York have weakened while the market has remained strong in New York City.

SFY 2007-08 Forecast

In light of a slowing, but still strong real estate market, the Committee staff estimates that RETT receipts in SFY 2007-08 will be approximately $895 million, representing a decrease of $62 million or 6.5 percent from the SFY 2006-07 closeout. The Executive forecasts RETT receipts of $900 million, a decrease of $50 million of 5.3 percent from the Executive SFY 2006-07 estimate. According to Moody's, total real estate loans in SFY 2007-08 will continue to increase, but at a slower rate than previous years. Likewise, real estate loans increased 13.8 percent in 2005-06, 8.4 percent in 2006-07 and are forecast to grow 5.7 percent in SFY 2007-08 according to Moody's. Another factor which should assist a soft landing for the real estate market is the New York commercial rental vacancy rate, which is forecast to decrease by 2 percent in SFY 2007-08. When the rental vacancy rate is lower, commercial space is in higher demand and commercial building and sales will increase. According to Committee staff estimates, housing starts decreased by 21 percent in SFY 2006-07 and will decrease by an additional 11 percent in SFY 2007-08. Because of the delay between starts, sales and conveyance of revenues from localities to the state, the decrease in housing starts can be expected to result in a decrease in RETT revenues in SFY 2007-08 and future years.

Revenue Trends

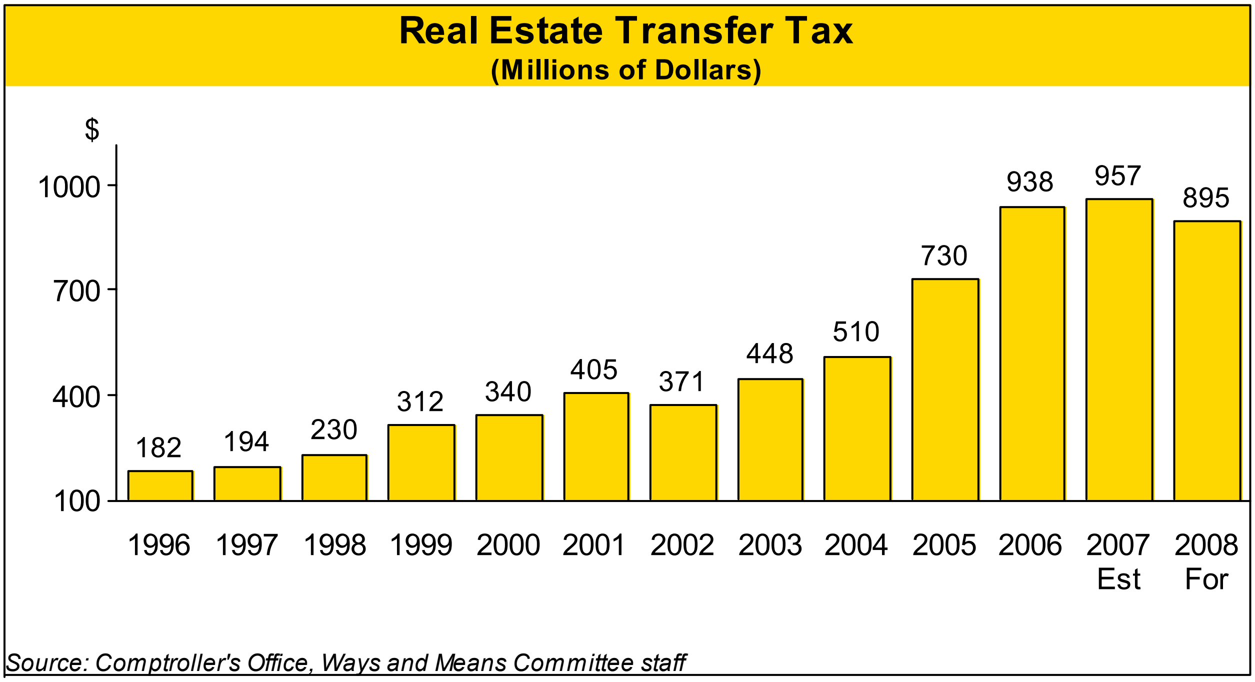

Figure 48

Real Estate Transfer Tax (RETT) receipts are a function of the number of real estate transactions and the dollar amount of each sale. In the last ten years, RETT receipts have grown fourfold (417 percent) from $182 million in SFY 1995-96 to $938 million in SFY 2005-06. Had receipts merely increased by the rate of inflation they would have increased by 24 percent during this same period. The bulk of this growth took place during SFY 2004-05 and SFY 2005-06, when receipts grew by more than $200 million each year. This drastic increase in RETT receipts is attributable to a surging real estate market in New York State, especially in New York City and the surrounding suburbs. The surging real estate market in and around New York City put many properties above the million dollar mark – subjecting many properties to the additional 'mansion tax.' Over the same period that total RETT receipts grew by $757 million, the share of RETT revenues attributable to the 'mansion tax' grew from 8 percent to 26 percent (see figure 49). Going forward, the Ways and Means Committee staff expects that RETT receipts in this fiscal year and the coming fiscal year will level out and then decrease slightly, based on current economic forecasts.

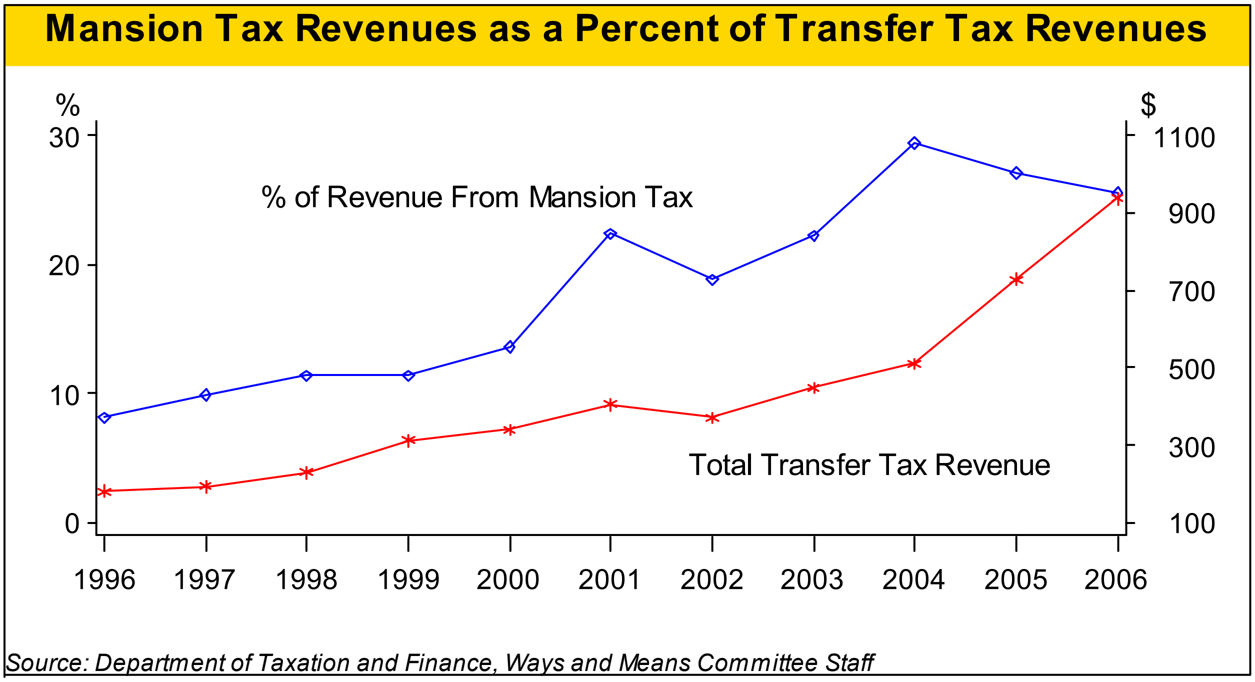

Figure 49

New York's Real Estate Market

It is often said that there is no national real estate market, only a series of local markets. This is no more evident than when looking at the real estate markets throughout New York State. More specifically, the New York City real estate market remained strong throughout 2006 – buoyed by an extremely strong commercial sector. In contrast to New York City, many upstate housing markets experienced sizeable increases in their housing inventory. Nationwide, the homeowner vacancy rate has increased every quarter since the second quarter of 2005, growing from 1.8 percent in the second quarter of 2005 to 2.5 percent in the third quarter of 2006.[15] While homeowner vacancy rates are increasing, the Northeastern US has the lowest in the nation – at only 1.7 percent in the third quarter of 2006.

Mortgage Rates

The Ways and Means Staff forecasts that mortgage rates will remain below 6.5 percent through 2007, rising to 6.55 percent in the first quarter of 2008. NAR forecasts similar rates and reports that mortgage purchase applications were up 11 percent in December since July, when seasonally adjusted. The increase in mortgages is a sign that people are beginning to re-enter the national housing market.

[15] United States Department of Commerce. "Census Bureau Reports Residential Vacancies and Homeownership." October 27, 2006.

New York City – Metro Market

New York City's real estate market, which provided more than half of all RETT receipts last year, is especially important to the future of RETT receipts. According to the Federal Reserve Board, New York City's condo and co-op markets have remained strong through the first half of SFY 2006-07 – although the available housing inventory for co-ops and condos have both risen according to Prudential Douglas Elliman.[16] In spite of the increase in inventory, the Federal Reserve Board reported that "the number of apartments sold and the price paid per square foot were up roughly 6 percent from a year earlier.[17]" In addition, the Federal Reserve Board also reported strength in the commercial real estate markets throughout the New York City metro area. Similarly, the Office of Federal Housing Enterprise Oversight reported that second quarter housing prices in the New York City-White Plains region grew by 12.1 percent over the same period last year. In Manhattan, office vacancy rates reached the lowest level since 2001 and asking rents increased 10 percent since last year.[18] So while the real estate market may have slowed in New York, it is still showing signs of continued health.

Looking Ahead

A major real estate market indicator, New York single-family home permits and multi-family home permits were both down in the second quarter of 2006 compared to the same quarter in the prior year, by 13.5 percent and 19.4 percent respectively.[19] However, these decreases in the real estate market should not have a impact on RETT receipts in SFY 2006-07 because of the lag between authorization to build, sale of a completed home, collection of the tax at the local level and the transfer of such funds to the State. On the national level, NAR predicts that existing home sales, new home sales and housing starts will all decline through the end of the SFY 2006-07. However, NAR does not believe that the decline in these housing parameters are cause for serious concern because they are the result of a small correction in the housing market and not the result of long-term economic down-turn. Previous housing market downturns have been preceded by job losses and forced sales or foreclosures. According to NAR chief economist David Lereah, "the worst is behind us as far as a market correction, this is likely the trough for sales.[20]" Once the existing inventory of real-estate is purchased, prices will begin to appreciate at normal rates.

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[16] The Federal Reserve Board. "The Beige Book: Second District—New York." October 12, 2006.
Prudential Douglas Elliman Real Estate, prepared by Miller Samuel Inc. "Manhattan Market Overview: A Quarterly Survey of Manhattan Co-op and Condo Sales 2Q 06. www.prudentialelliman.com

[17] The 2008 assessment roll provides that the total value of one, two and three unit homes increased by approximately 16 percent, even though the number of units only increased by less than one percent.

[18] The Federal Reserve Board. "The Beige Book: Second District—New York." October 12, 2006.

[19] Federal Deposit Insurance Corporation. "FDIC State Profiles: New York State Profile – Fall 2006." October 2, 2006.

[20] Crutsinger, Martin. "Sales of Existing Homes Fall." Associated Press. October 25, 2006. www.breitbart.com/news/2006/10/25/D8KVN3000.html

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

SFY 2006-07 Estimate

The Committee staff estimates that receipts will total $21 million in SFY 2006-07, a decline of 8.7 percent or $2 million compared to SFY 2005-06. This estimate is one million dollars above the Executive's.

SFY 2007-08 Forecast

The Committee staff forecast for SFY 2007-08 is $21 million, representing no growth from SFY 2006-07. This estimate is one million dollars more than the Executive's.

Revenue Trends

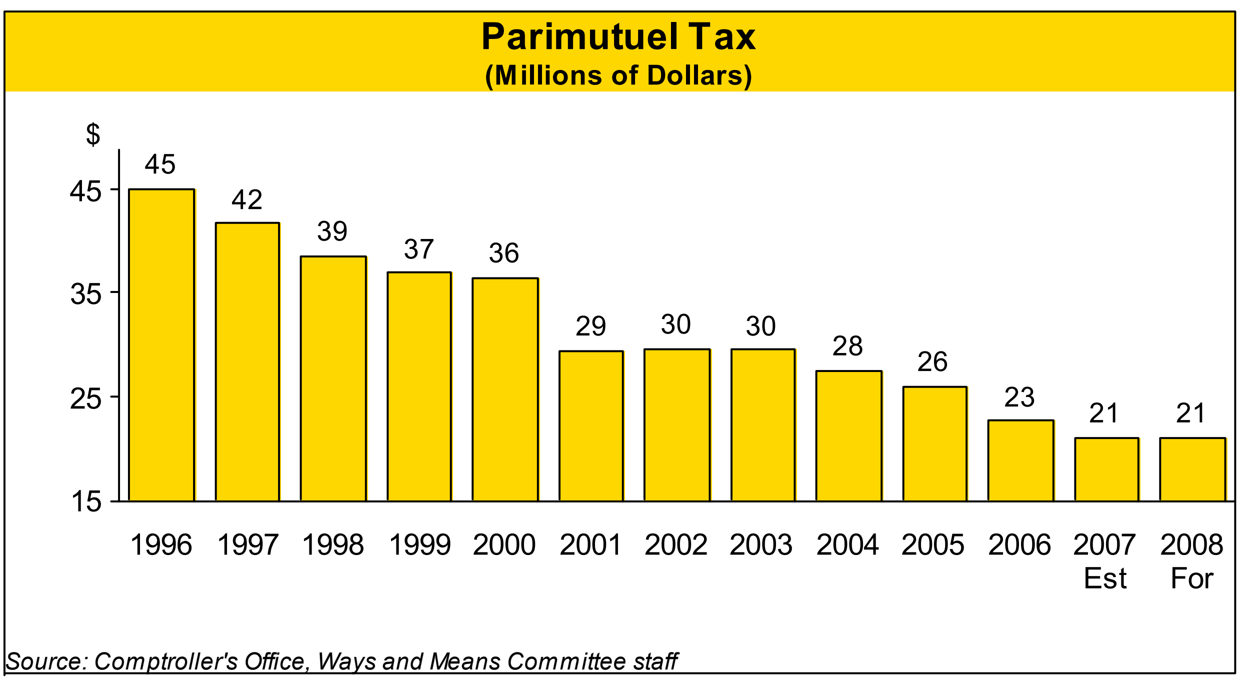


Figure 50

As horseracing has become less popular and the industry has benefited from various tax cuts, pari-mutuel receipts have steadily decreased over the last 20 years. Contributing to the decrease in revenues, the relative share of bets from Off-Track Betting (OTB) sites has increased compared to on-track bets. Since OTB's benefit from lower tax rates, pari-mutual tax revenues decrease.

Lottery

The New York State Lottery was established via a Constitutional Amendment in 1976 for the express purpose of raising revenues for education. The Lottery is currently comprised of Instant Games, Daily Numbers, Win 4, Pick 10, Take 5, Quick Draw, Lotto, Mega Millions, Instant Win and Video Lottery Terminals (VLTs). The Lottery's games are sold by approximately 16,000 licensed retailers throughout the State. A percentage of sales from each game are dedicated to fund education. Most games dedicate between 15 and 45 percent of sales to education, VLTs dedicate approximately 4 percent of net sales to education. Like the education dedications, the percentage of sales dedicated to prizes also vary considerably – from 40 percent of Lotto sales to 92 percent of VLT sales. Exempting VLTs, 15 percent of Lottery sales are placed into a special revenue account to cover the administrative expenses of the Lottery Division. Depending on individual facility revenues, between 3 and 4 percent of Video Lottery Terminal sales are used for administrative expenses, which include commissions paid to the host facility, marketing allowances 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 Division's administrative expenses are appropriated by the Legislature each year as part of the State Operating Budget, but are funded completely with revenues from Lottery sales. When the administrative allowance set aside from sales exceeds the administrative costs of the Division, the remaining funds are transferred to the general Lottery account and dedicated to education. The Lottery Aid Guarantee – which is the amount of revenue that will be dedicated to education from lottery sales - is established in the State Budget and is based on expected revenues. If revenues fall short of the Lottery Aid Guarantee, General Fund revenues compensate for the shortfall. However, when revenues exceed the Lottery Aid Guarantee, the excess revenues are applied to the following fiscal year – termed a carry-out.

According to the International Gaming and Wagering Business Journal, New York has led the nation in traditional Lottery sales for the last 3 years. According to the Journal, New York accounted for nearly 12 percent of national lottery sales between SFY 2003-04, and SFY2005-06.

SFY 2006-07 Estimate

The Ways and Means Committee staff expects State Fiscal Year (SFY) 2006-07 Lottery revenues will total $2.325 billion, which includes $330 million in administrative surplus and $299 million from Video Lottery Terminals (VLTs). The Executive forecast for SFY 2006-07 Lottery revenues is $2.296 billion, approximately $29 million less than the Committee staff estimate.

As of February 14, 2007, non-VLT year to date revenues have decreased by $9 million or 0.6 percent. This decrease can be attributed to a 16 percent or $16 million decrease in Lotto revenues combined with a $45 million or 28 percent decrease in Mega millions revenues. Part of the decrease in Mega Millions revenues is directly attributable to a higher than expected frequency of large jackpots last year. However, the decrease in Lotto and Mega Millions were offset by healthy growth in the Daily Numbers, Win-4 and Instant games, which have grown by 4.1 percent, 6.9 percent and 6.9 percent respectively. Year-to-date, Quick Draw, Pick 10, Take Five and Instant Win revenues have decreased slightly.

SFY 2007-08 Forecast

The Committee staff forecasts that SFY 2007-08 Lottery revenues will total $2.730 billion, representing an increase of $405 million or 17.4 percent over the Committee staff's estimate for SFY 2006-07. The SFY 2007-08 forecast includes approximately $573 million in VLT revenues and an administrative surplus of $375 million. The Executive's forecast for SFY 2007-08 is $2.725 billion – which is $5 million less than the Committee's estimate. The Executive's estimate includes $586 million in VLT revenues - $13 million more than the Committee staff's estimate. The majority of growth in both forecasts is from VLT revenues.

Revenue Trends

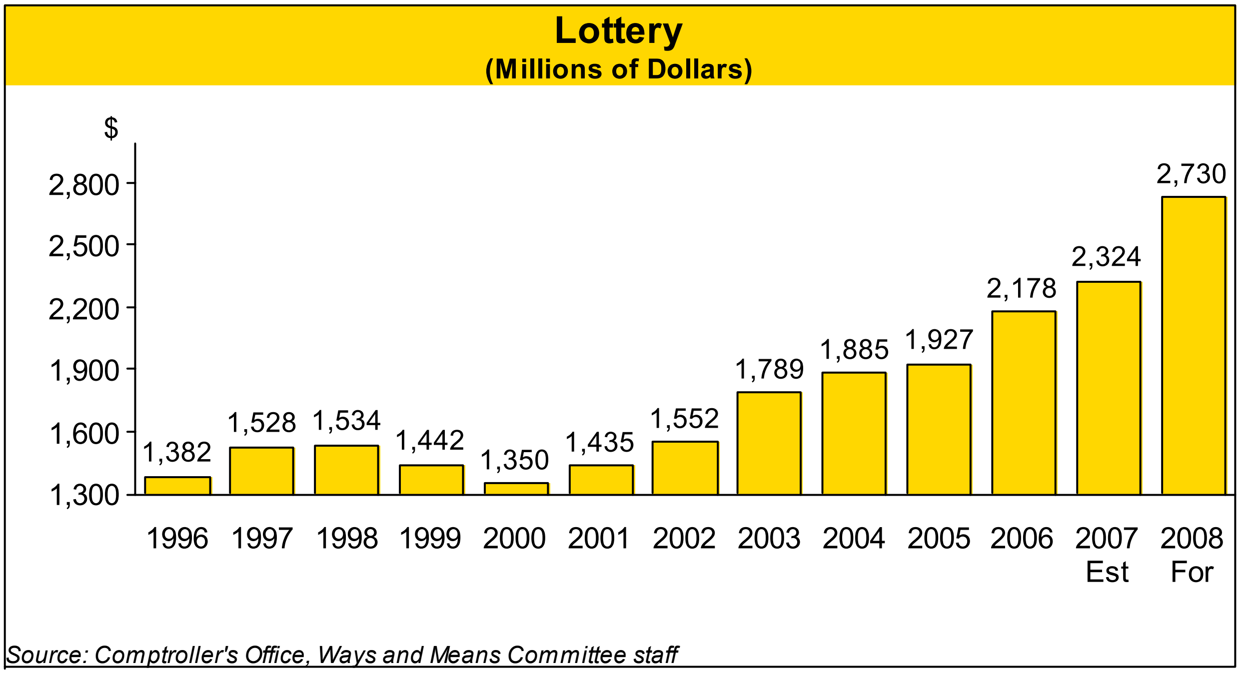


Figure 51

Lottery revenues have generally risen over the last decade. Driven by large gains in instant game sales, which more than doubled since SFY 1997-98, Lottery receipts have grown from $1.534 billion in SFY 1997-98 to $2.179 billion in SFY 2005-06. Beginning in SFY2004-05, Lottery revenues have substantially benefited from the introduction of Video Lottery Terminals (VLTs). VLTs are estimated to produce $299 million in SFY 2006-07 and $573 million in SFY 2007-08, accounting for 13 percent and 21 percent of lottery revenues, respectively.

Table 20

Lottery Revenues (Dollar Amounts in Millions)	2005-06 Actuals	WAM 2006-07	Change	Exec. 2006-07	Diff.	WAM 2007-08	Change	Exec. 2007-08	Diff.
Lotto Total	$114	$98	($16)	$94	$4	$85	($14)	$84	($1)
Numbers	287	301	14	295	$6	316	15	331	15
Win-4	229	248	19	243	$5	268	20	280	12
Quick Draw	115	112	(3)	110	$2	109	(3)	108	(1)
Pick10	11	11	(0)	11	$0	11	0	11	(0)
Take 5	117	117	(0)	113	$4	116	(0)	110	(6)
Mega	194	143	(51)	145	($2)	165	22	158	(7)
Instant Win	5	4	(0)	4	$0	4	0	4	0
Instant	605	648	44	663	($15)	695	47	665	(30)
Other		14	14	14	$0	14	0	14	0
Non-VLT Total	**1,676**	**1,696**	**20**	**1,692**	**4**	**1,782**	**87**	**1,765**	**(18)**
Admin. Surplus	342	330	(12)	330	$0	375	45	375	0
VLT'S	160	299	139	275	$24	573	274	586	13
Total	**$2,178**	**$2,324**	**$147**	**$2,296**	**$28**	**$2,730**	**$406**	**$2,725**	**($5)**

Video Lottery Terminals

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

In 2002 and 2003, several legislative enhancements were made to address concerns raised by tracks regarding revenue distribution. However, these changes were found to be inadequate, prompting the Legislature to make additional changes in the SFY 2005-06 Budget. In order to promote the operation of VLTs and increase funding for education, it was necessary to make operating VLTs more lucrative for vendors. Legislation was passed to provide a marketing allowance and give vendors a larger share of net revenues, providing VLT operators with more incentive to begin operating VLTs. While the education dedication decreased as a result of these changes, the increase in sales is expected to produce a net increase in revenues for education. The revenue distribution was altered as follows:

Table 21

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

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

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

The previous VLT distribution provided 61 percent of revenues to education and 10 percent of revenues to administration. The remaining revenue was split amongst the track, purses for races at that track and the breeder's fund for horses from that track. As detailed in the above chart, the distributions to the track, purses and breeders were to change over time, giving more and more money to purses and the breeders. The new distribution does not change over time and does not provide that a specific percentage of revenues are dedicated to purses or breeders. Instead, each track is responsible for negotiating agreements with the relevant entities. However, there has been evidence that the tracks, horsemen and breeders have had difficulty reaching agreement on mutually acceptable revenue disbursements. Also differing from the previous distribution, the percentage of revenues dedicated to education now increases as revenues at each track rise. In order to provide more incentive to advertise and market VLTs, the new distribution provides a marketing allowance to the tracks which can only be used for promotion and advertisement of VLTs[21].

Once touted as a quick source of needed revenue and economic stimuli after the September 11th attacks, it took considerably longer than anticipated for tracks to begin operating VLTs. However, VLT facilities have finally begun to produce substantial revenues in the second half of SFY 2006-07. After yielding only $153 million in 2004-05 and $160 million in 2005-06, Committee staff and DOB predict revenues approaching $300 million in SFY 2006-07. Highlighted by the opening of Yonkers in October with 1,870 VLTs, the Video Lottery Terminal program is finally starting to produce revenues. The Committee staff estimates that VLT revenues in SFY 2006-07 will total $299 million, whereas DOB estimates $275 million.

[21] The Division of Lottery must approve plans for marketing expenditures.

Table 22

Video Lottery Terminal 2006-07 and 2007-08 Estimate and Forecast (Dollar Amounts in Millions)				
Racino	SFY 2006-07 Education Revenue	SFY 2007-08 Education Revenue	# of VLTs on Nov. 1, 2006	# of VLTs on April 1, 2007
Saratoga	$67	$84	1,324	1,724
Finger Lakes	47	54	1,010	1,200
Buffalo	21	21	990	990
Monticello	40	40	1,778	1,778
Batavia	12	12	586	586
Tioga Downs	15	21	750	750
Yonkers*	90	321	1,870	5,468
Vernon Downs**	8	20	777	777
Aqueduct***	0	0	0	0
TOTAL	**$299**	**$573**	**9,085**	**13,273**

* Opened October 26th, 2006; adding machines in Nov., Dec. & Feb.
** Opened on November October 26, 2006
*** Should open in early SFY2008-09

Saratoga Racing and Gaming was the first VLT facility in the state, opening in January of 2004. Thus far, it has been the most successful operation and is expected to add another 400 VLTs before the end of SFY 2006-07. Finger Lakes and Buffalo began operating VLTs a few weeks after Saratoga. Based on current success, Finger Lakes will add 190 more machines in the near future. Monticello Raceway began operation in the summer of 2004 and Batavia began operation in May of 2005, neither facility has produced the revenues once expected. Tioga Downs[22] opened in July of 2006 and Yonkers opened in October. Yonkers is the largest VLT facility in the State, adding 498 machines in November of 2006 and 1,742 on December 28. It is expected to add another 1,380 machines in mid-February. Only opening in October, Yonkers is expected to produce approximately one-third of VLT revenues in SFY 2006-07. Albeit to less fanfare, Vernon Downs opened in October as well. In SFY 2007-08, the Committee staff forecasts VLT revenues of $573 million, with almost 60 percent of revenues coming from the Yonkers facility. The facility at Aqueduct is currently expected to open in the early part of SFY 2008-09 – but expectations have been dampened by NYRA's recent fiscal problems.

[22] The owners of Tioga Downs have made public complaints about the revenue distribution and are expected to ask for a change in the revenue distribution during this legislative session.

Looking Back and Ahead

Uncertainty concerning the continuation of the New York Racing Association's (NYRA) authority to operate racetracks in New York State may impede the opening of VLTs at Aqueduct Racetrack. If NYRA does not maintain its franchise and is not able to operate VLTs, the Division of Lottery would takeover if a successor organization is not immediately authorized.

In the future, VLT revenues will be affected by recent events in Pennsylvania, where 62,000 VLTs were approved to be placed at racetracks around the State. Many of these facilities will be located within driving distance of New York City, and can be expected to compete for New York's VLT players. The first of such facilities opened on November 14, 2006 at Pocono Downs near Wilkes-Barre with 1,083 machines. A second facility opened at Philadelphia Park on December 19, 2006 with 2,100 machines. On December 20, the Pennsylvania Gaming Control Board approved gaming at additional facilities – for a total authorization of 11 gaming sites. Six of these sites will be within a 100 miles of NYC. Additional competition can be expected from Native-American casinos in the Catskills and the proliferation of online gambling.

Miscellaneous Receipts

Miscellaneous Receipts – General Fund

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

General Fund miscellaneous receipts are expected to total $2.9 billion in SFY 2007-08, $191 million higher than SFY 2006-07, a result of $161 million increase in license and fee collections, $29 million increase in reimbursement and $121 million increase in other transactions offset by a $55 million decrease from investment income and $66 million decrease in abandoned property.

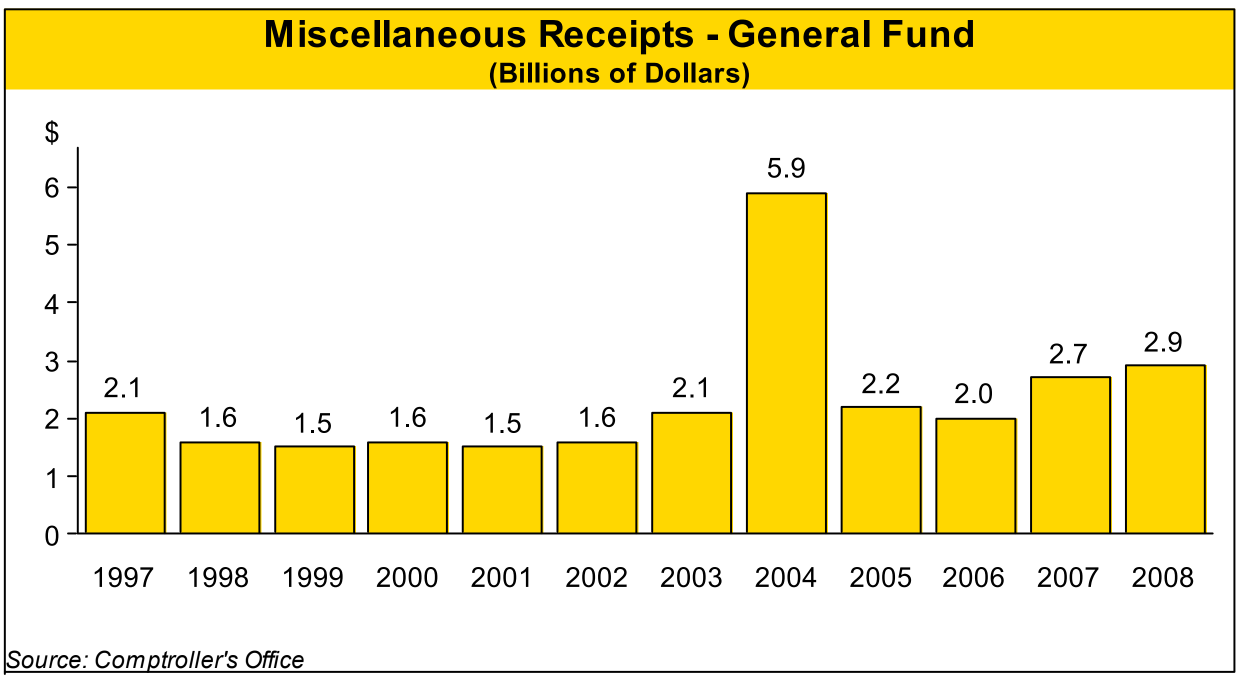


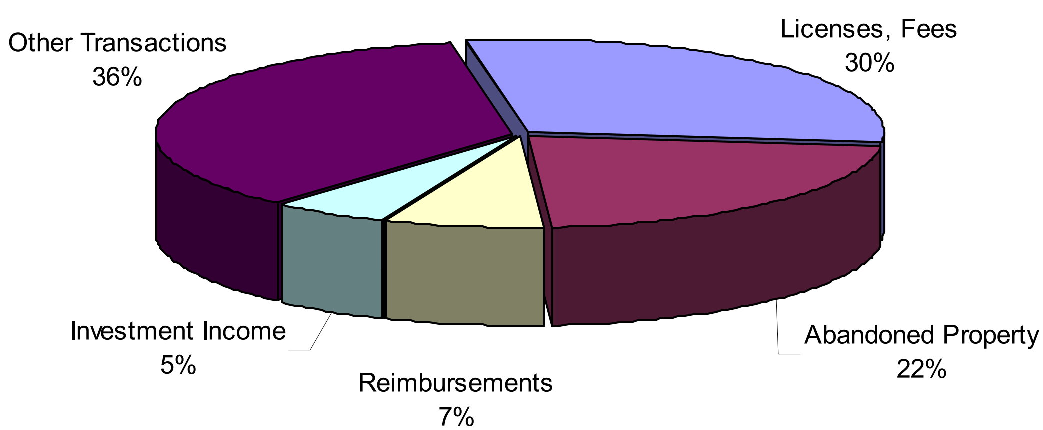
Figure 52

Miscellaneous receipts in the General Fund have been a steady source of revenue. The sizeable increase in 2004 receipts reflects the one time deposit of tobacco bond proceeds to fund the shortfall in the Health Care Fund.

Miscellaneous Receipts-General Funds (Dollars in Millions)

	2005-06 Actual	2006-07 Estimated	2007-08 Projected	Change	Percent Change
Licenses, Fees	$577.1	$683.7	$845.0	$161.3	23.6%
Abandoned Property	$547.4	$700.0	$634.0	($66.0)	-9.4%
Reimbursements	$227.8	$170.8	$200.0	$29.2	17.1%
Investment Income	$97.9	$210.0	$155.0	($55.0)	-26.2%
Other Transactions	$578.2	$900.2	$1,022.0	$121.8	13.5%
Total	**$2,028.4**	**$2,664.7**	**$2,856.0**	**$191.3**	**18.6%**

General Fund Miscellaneous Receipts SFY 2007-08



Source: Executive Budget and Assembly Ways & Means Committee Staff

Miscellaneous Receipts - Special Revenue Funds

State Funds miscellaneous receipts consists of moneys received from HCRA financing sources, SUNY tuition and patient income, lottery receipts for education, assessments on regulated industries, and a variety of fees and licenses.

The Executive estimates miscellaneous receipts in State Funds of $17.2 billion in SFY 2007-08, an increase of $1.3 billion from SFY 2006-07. The change in miscellaneous receipts is primarily related to increases in receipts from capital projects, including authority bond proceeds, of $1 billion, lottery revenues including the Video Lottery Terminal receipts $425 million, SUNY Income increase $173 million, and Industry Assessment $15 million offset by a decrease in HCRA $260 million, Medicaid $62 million and other revenue $29 million.

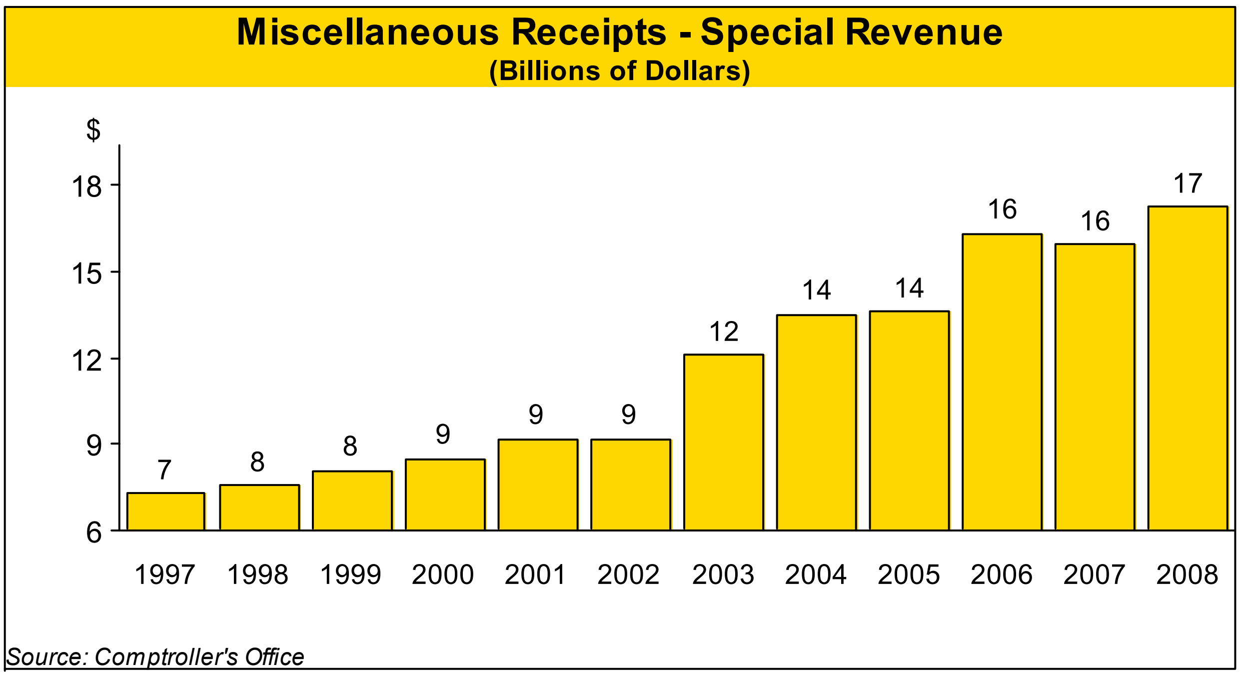


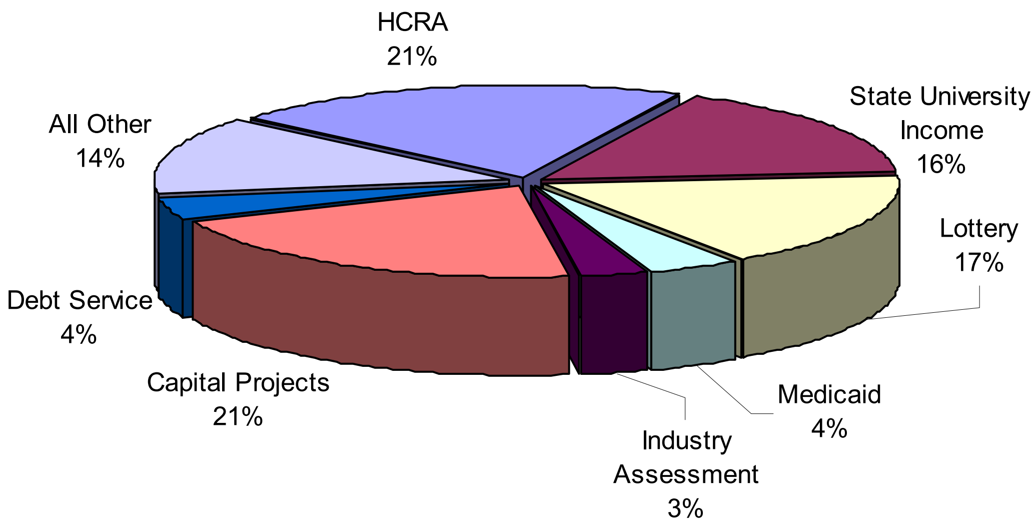
Figure 53

Special Revenue Miscellaneous receipts have grown by 143 percent since 1996-97. This is attributable to increased dedicated receipts for health care and STAR. In addition, miscellaneous receipts include health care insurance conversion proceeds.

Miscellaneous Receipts – Special Revenue Funds (Dollars in Millions)

	2005-06 Actual	2006-07 Estimated	2007-08 Projected	Change	Percent
HCRA	$5,608	$3,911	$3,651	($260)	-6.6%
State University Income	$2,439	$2,631	$2,804	$173	6.6%
Lottery	$2,364	$2,513	$2,938	$425	16.9%
Medicaid	$447	$759	$697	($62)	-8.2%
Industry Assessment	$497	$520	$535	$15	2.9%
Capital Projects	$1,714	$2,558	$3,592	$1,034	40.4%
Debt Service	$745	$664	$671	$7	1.1%
All Other	$2,411	$2,353	$2,324	($29)	-1.2%
Total	**$16,225**	**$15,909**	**$17,212**	**$1,303**	**8.2%**

Special Revenue Funds
Miscellaneous Receipts
SFY 2007-08



Source: Executive Budget and Assembly Ways and Means Committee Staff

Federal Funds

Federal grants consist of reimbursement from the Federal government for services performed by the State in accordance with Federal laws and regulations. The State is required to follow specific cash management practices regarding the timing of withdrawal for each grant award.

The Executive estimates total Federal grants receipts of $37.3 billion in SFY 2007-08, an increase of $1.1 billion above SFY 2006-07.

Federal grants in the Special Revenue fund support a multitude of programs of which Medicaid is the largest. The Executive estimates Federal grants for Medicaid will be $22.3 billion in SFY 2007-08. Other programs include Welfare, Food and Nutrition Services, and Supplementary Educational Services.

Federal grants in the Capital Projects fund support transportation planning, engineering, construction projects, housing programs, rehabilitation of state armories and other environmental purposes as well as local wastewater treatment project financed through the State's revolving loan fund. The Executive estimates Federal grants for Capital Project at $1.99 billion in SFY 2007-08.

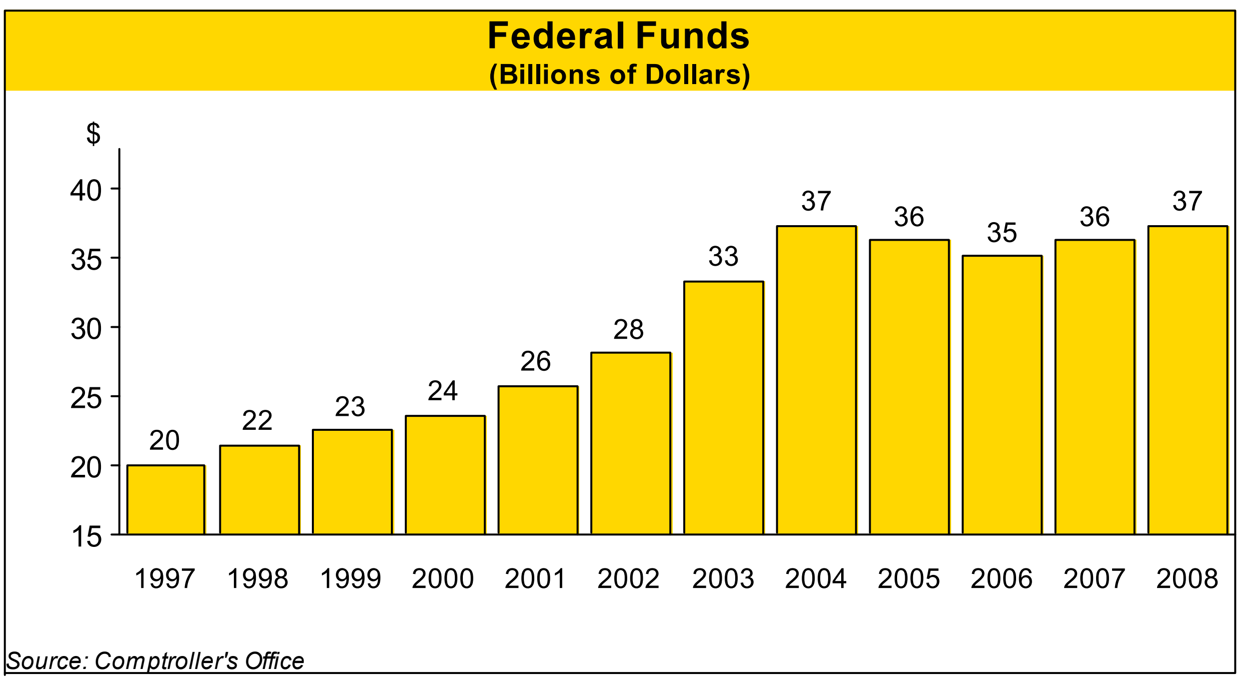
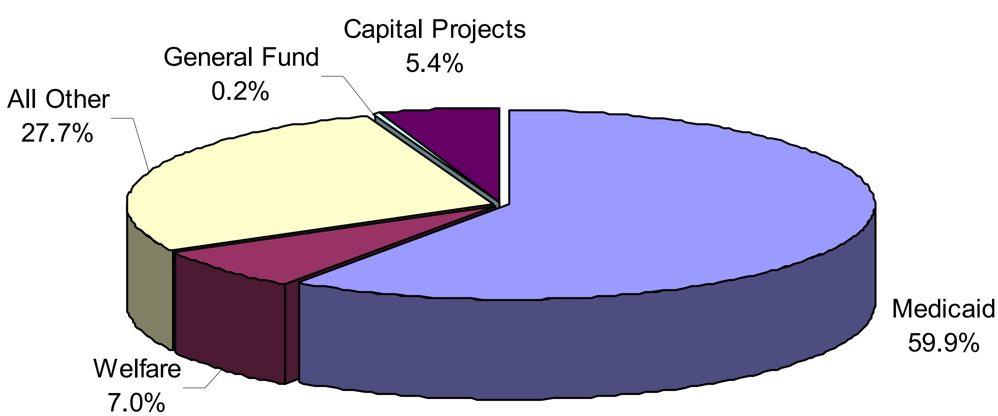


Figure 54

Federal Funds
(Dollars in Millions)

	2005-06 Actual	2006-07 Estimated	2007-08 Projected	Change	Percent Change
Special Revenue	**$33,363**	**$34,244**	**$35,257**	**$1,013**	**3%**
Medicaid	$21,979	$21,797	$22,335	$538	2%
Welfare	$2,500	$2,576	$2,600	$24	1%
All Other	$8,884	$9,871	$10,322	$451	5%
General Fund	**$0**	**$180**	**$59**	**($121)**	**-67%**
Capital Projects	**$1,766**	**$1,762**	**$1,997**	**$235**	**13%**
Total All Funds	**$35,129**	**$36,186**	**$37,313**	**$1,127**	**3%**

Federal Funds
SFY 2007-08



Source: Executive Budget

Executive Revenue Proposals

Executive's Tax Loophole Closers

Close Loophole Regarding Booking of Hotel Rooms On-Line – Part D

This proposal would close a current loophole regarding the booking of hotel rooms by internet travel companies. Under current law, the internet travel companies pay sales tax to the hotel when they reserve the room, but are not required to pay sales tax on the room rent charged to its customer. Therefore, the mark-up or service fee is not taxed and results in lost sales tax revenue. This proposal would charge sales tax on the room rate paid by the internet travel company to the hotel plus 120 percent, thereby seeking to capture the sales tax on the service fee charged by the internet travel company to its customer. Fiscal Impact: $15 million in SFY 2007-08.

Elimination of Real Estate Investment Trust (REIT) & Regulated Investment Company (RIC) Subsidiary Dividend Deduction Loophole – Part H

This proposal would close a loophole and conform to Federal rules by eliminating the deduction for certain subsidiary dividends received by a parent company from a real estate investment trust (REIT) or regulated investment company (RIC). This measure is to ensure that the shareholders of the REIT or RIC pay tax on the income earned by the REIT or RIC by requiring subsidiary REITs and RICs to file a combine report in NYS and NYC. The combined report will disallow certain deductions and exempts used to avoid taxation in New York State. Fiscal Impact: $104 million in 2007-08, $83 million annually.

Elimination of Bank Subsidiary Tax Shelter - Part I

This proposal would require certain corporations that elected to be taxable under the corporate franchise tax and the New York City general corporation tax to be taxed under the bank tax. An investment subsidiary of a bank or bank holding company shall be included in the definition of a banking corporation if the corporation is principally engaged in holding and managing investment assets and has 65 percent of its assets owned by a banking corporation. These measures are being taken to prevent banking corporations from shifting income to avoid taxation. Fiscal Impact: $22 million in 2007-08, $18 million annually.

Require Banks to Use "Direct Write-off Method" When Deducting for Bad Debt – Part J

This proposal contains provisions aligning the method of calculating the bad debt deduction to Federal standards by allowing the application of the "direct write-off method" as opposed to the "current reserve method" in calculating such deduction for certain banks under the bank tax. Allowing the "direct write-write off method" for bad debts in the bank tax will provide the advantage of Federal conformity for commercial banks and thrift institutions. Fiscal Impact: $15 million in 2007-08, $12 million annually.

Require Banks to Add Back Expenses Related to Subsidiary Capital and Eliminates Special Provisions Related in the Wage Factor Portion of the Apportionment Formula – Part L

This proposal requires that banks treat certain income normally exempt from tax in a manner similar to those taxed under the corporate franchise tax. It also eliminates the discounted (20 percent reduction) wage factor used in calculating the allocation formula. This is done to ensure the bank tax appropriately reflects a bank's presence in New York. Fiscal Impact: $40 million in 2007-08, $32 million annually.

Limits Certain Exemptions for Cooperative Insurance Corporations – Part M

This proposal would limit the exemption under the insurance tax for town or county cooperative insurance corporations. This measure promotes equity through increased competition by limiting the exemption from the franchise tax on insurance corporations for certain town or county cooperative insurance corporations direct written premiums over $25 million annually. Some of the corporations which come within the language of this exemption have significantly expanded their business beyond what was originally contemplated when the exemption was enacted. These companies are competing with other property/casualty companies doing business in New York State, but they have an unfair advantage because they pay no State franchise tax. Fiscal Impact: $23 million in 2007-08, $18 million annually.

Combined Reporting for Corporations – Part O

This proposal requires corporations with substantial inter-corporate transactions to file a combined report under the New York State and New York City franchise taxes on general business corporations and the New York State franchise tax on insurance corporations. Combined reports will be required regardless of the transfer price of inter-corporate transactions.

The Commissioner of Taxation and Finance is given the discretion to determine if there are substantial inter-corporate transactions by evaluating like activities such as manufacturing, the acquisition of goods or property, the performance of services, selling goods from related corporations, financing sales of related corporations, performing related customer services, using common facilities and employees, and transferring assets.

This proposal also requires royalty payments made to a related member be added back in the calculation of the corporate franchise, bank franchise, and insurance franchise tax. Fiscal Impact: $215 million annually.

Grants Commissioner of Tax and Finance Authority to End Practices Used by New York Corporations to Avoid New York Personal Income Tax – Part Q

This bill would allow the Commissioner of Tax and Finance to disregard a personal service corporation or an S corporation if it is determined that such an entity was formed for the purpose of avoiding New York State personal income tax. These entities are used to move income away from an individual partner or owner(s) (typically nonresidents) and into a corporate entity that will generally pay a smaller franchise tax than the owner would personal income tax. The new section being created would allow the Commissioner to reallocate all assets from a personal service or S corporation to the owner(s) of the corporation thereby forcing them to pay income tax on their partnership allocation. Fiscal: No impact in 2007-08, will increase revenue by $15.0 million annually beginning in 2008-09.

Require Federal S Corporations to File as New York S Corporations – Part R

This bill would require that Federal S corporations file as a New York S corporation if 25 percent of the corporations income is derived from investment income. Under current law Federal S corporations are not required to file as New York S corporations. Instead they file as New York C corporations which provide more favorable tax treatment of investment income. This bill would close that loophole. Fiscal: No impact in 2007-08, will increase revenue by $100.0 million annually beginning in 2008-09.

Other Revenue Enhancement Actions

Highway Use Certificate of Registration – Part G

Replaces the highway use tax permit requirements with a certificate of registration requirement to comply with federal law. Fiscal: None. Protects base of Highway Use Tax from potential tax avoidance.

Conform Treatment of Taxpayers that Itemize State and Local Sales Tax to Taxpayers who Itemize State and Local Income Taxes – Part S

This bill would require that taxpayers who itemize State and local sales tax on their federal return add that amount back to total income when calculating New York State Adjusted Gross Income. This would provide the same treatment to taxpayers who elect to itemize State and local sales taxes as to taxpayers who itemize State and local income taxes. Fiscal: No impact in 2007-08, will increase revenue by $30.0 million annually beginning in 2008-09.

Amend the Calculation of LLC Filling Fees to More Accurately Reflect New York Activity – Part T

This part would change the way LLC filling fees are calculated. Currently the fees are based on the number of members within the LLC. The amended calculation will be based on New York source income so to better reflect the Level of New York Activity. The minimum fee is $100 dollars and applies to Limited Liability Companies whose New York Source income is below $135,000. The maximum fee is $25,000 million and will be paid by Limited Liability Companies with New York source income that exceeds $10.0 million. The new computation method is expected to retain the same aggregate level of revenue as the method that was in place in 2006. In 2012 the fees are reduced so that the minimum fee is $60 and the maximum is $14,500. Fiscal: This part will increase revenue by $30.0 million annually beginning in 2007-08.

Decouple from the Federal American Jobs Creation Act of 2004 – Part V

This proposal disallows the federal qualified production activities deduction claimed under the Federal American Jobs Creation Act of 2004 by taxpayers in the calculation of income subject to tax under the State corporate franchise tax, tax on unrelated business income, personal income tax, bank tax, and insurance tax and the New York City general corporation, financial corporation, and personal income taxes. Corporations will be required to add back the qualified production activities deduction when calculating entire net income. Fiscal Impact: $29 million in 2007-08, $35 million annually.

Tax Reduction Proposals

Enhance STAR for Low and Middle Income Homeowners - Part D of Education, Labor and Family Assistance Article VII Legislation

This proposal would repeal the STAR Rebate and increase the basic STAR exemption according to an income-based sliding scale. The maximum increase of 80 percent would be enjoyed by taxpayers with incomes of less than $80,000 in the New York City Metropolitan Area and by 80 percent for taxpayers with incomes of less than $60,000 in the rest of the state. For taxpayers with incomes less than the aforementioned income standards, the basic exemptions in SFY 2008-09 will be 90 percent more than the exemption from SFY 2006-07 and in SFY 2009-10 the basic exemption will be twice the SFY 2006-07 exemption.

This part would also increase the SFY 2007-08 senior exemption by 30 percent over the SFY 2006-07 exemption amount and by another 10 percent in SFY 2008-09. In future years, the enhanced exemption would increase based on inflation. This part would also increase the New York City Personal Income Tax Credit for married filing jointly taxpayers from $230 to $300 in 2007, $320 in 2008 and $340 thereafter. The credit for single filers would increase at commensurate levels. Taxpayers with incomes greater than $235,000 would not receive an increase in the basic exemption or an increase in the New York City PIT credit. Fiscal: The Executive estimates this proposal will cost $1.5 billion in SFY 2007-08.

Provide a New Personal Income Tax Deduction for Tuition Costs – Part P

This part provides a new tax deduction for the costs associated with public or private school tuition for children in grades K-12. The deduction is equal to tuition paid but shall not exceed $1,000 per child. The $1,000 cap is allowed for taxpayers whose income does not exceed $116,000. The deduction cap is reduced in $100 increments for every $1,000 income exceeds $116,000. Taxpayers whose income is greater than $125,000 are not eligible for the deduction. Fiscal: No impact in 2007-08, will decrease revenue by $25 million annually beginning in 2008-09.

Increase the Aggregate Amount of Low Income Housing Tax Credit – Part U

This bill increases the aggregate amount of low income housing tax credits the Commissioner of Housing and Community Renewal may allocate by $4 million. Currently the total allocation is $12 million. The bill also makes the $4 million annual increase permanent. Fiscal: will reduce revenue by an additional $4 million annually beginning in 2007-08.

Tax Law Extenders

Extend Rules and Tax Rates Regarding Simulcasting Out-of-State Races – Part A

This part would extend provisions authorizing certain types of simulcasting, certain purse dedications, certain binding arbitration agreements and certain lower pari-mutuel tax rates for one year. This part would also provide technical corrections.

Extend Quick Draw for One Year – Part B

This part would extend authorization for the Division of Lottery to operate the game Quick Draw for one additional year, from May 31, 2007 to May 31, 2008.

Make Permanent Authorization to Collect Unpaid Child Support – Part C

Provides permanent authorization to the Department of Taxation and Finance to collect unpaid child support. Fiscal: None

Extend Enhanced Enforcement Provisions for Alcoholic Beverage Tax – Part E

The Executive Budget includes a proposal to extend the sunset date of enhanced enforcement provisions relating to liquor. Under current law, these enhanced enforcement provisions will expire October 31, 2007. The proposal is to extend the sunset date two years, to October 31, 2009. This proposal will preserve $2 million in revenue.

Reallocate Distribution of Dedicated Tax Revenues – Part F

Provides that, on and after April 21, 2007, 20 percent of revenues from Tax Law sections 183 and 184 shall be deposited to the Dedicated Highway and Bridge Trust Fund (current deposit is 20 percent) with the remainder deposited in the Mass Transportation Operating Assistance Fund with 53 percent to the credit of Metropolitan Mass Transportation Operating Assistance Account (current deposit is 80 percent) and 27 percent to the credit of the Public Transportation Systems Operating Assistance account (no current deposit). Fiscal: None

Extension of Transitional Provisions of the Federal Gramm-Leach-Bliley Act of 1999 – Part K

This proposal extends for two additional years, the provisions of the New York State and New York City bank taxes dealing with the taxation of commercial banks and the transitional provisions concerning the enactment and implementation of the Federal Gramm-Leach-Bliley Act (GLBA). Transitional provisions relating to the Federal GLBA, removed the prohibition against the affiliation of banks, securities firms and insurance companies, were added to both the Tax Law and the New York City Administrative Code. Fiscal Impact: None.

Extend Expiration of Tax Shelter Reporting Requirements – Part N

This proposal deters the use of tax shelters by making disclosure and penalty provisions relating to transactions that present the potential for tax avoidance permanent. These new reporting requirements are similar to the tax shelter disclosure requirements for Federal income tax purposes. Separate reporting requirements are imposed on those who utilize tax shelters and those who promote the use of tax shelters. The authority for the Tax Department to require the reporting and disclosure of Federal and New York reportable and listed transactions expires on July 1, 2007. Fiscal Impact: $17 million in 2007-08 annually.

RECOMMENDED ALL FUNDS LEGISLATION
(Dollar Amounts in Millions)

TAX REDUCTIONS

	2007-08	2008-09	2009-10
TAX	**(1,215)**	**(1,046)**	**(1,400)**
Expanded STAR Program	(1,211)	(1,688)	(2,038)
Eliminating the School Property Tax Credit	--	675	675
Non-public School Deduction	--	(25)	(25)
Low Income Housing - Permanent	(4)	(8)	(12)
TOTAL TAX REDUCTIONS	**(1,215)**	**(1,046)**	**(1,400)**

RECOMMENDED ALL FUNDS LEGISLATION
(Dollar Amounts in Millions)

REVENUE ENHANCEMENTS

	2006-07	2007-08	2008-09
PERSONAL INCOME TAX	**36**	**181**	**151**
Extend/Restructure Higher LLC Fees	30	30	30
Make Reporting of Tax Shelters Permanents	6	6	6
S Corporation Election	–	100	100
Sales Tax Itemized Deduction	–	30	–
Partnership Tax Abuse	–	15	15
USER TAXES AND FEES	**15**	**20**	**20**
Tax Full Cost of Hotel Sales Sold by Internet Travel Companies	–	–	–
Alcohol Tax Enforcement Extenders	15	20	20
BUSINESS TAXES	**398**	**366**	**366**
Make Reporting of Tax Shelters Permanent	10	10	10
Corporate Franchise Tax Combined Filing	185	185	185
Decouple from Federal Deduction for Qualified Production Activities	25	30	30
Real Estate Investment Trusts	88	70	70
Grandfathered Corporations	19	15	15
Conform to Federal Bad Debt Deduction	13	10	10
Require Add Back of Expenses of Subsidiary Capital & Eliminate Discount	35	28	28
Extend Gramm-Leach Bliley/Bank Tax Provision (2 years)	–	–	–
Cooperative Insurance Companies	23	18	18
OTHER TAXES & MISCELLANEOUS RECEIPTS	**–**	**–**	**–**
Pari-Mutuel Extender	–	–	–
Quick Draw Extender	–	–	–
Child Support Enforcement Extender	–	–	–
TOTAL REVENUE ENHANCEMENTS	**449**	**567**	**537**

A Review of the School Tax Relief (STAR) Proposal

The 2006-07 STAR Program has three main components:

- It provides residential home-owners with a partial exemption from school property taxes.
- It provides a rebate to homeowners based on their property tax rate.
- It provides personal income tax relief to NYC residents via a state-funded 6 percent decrease in the NYCPIT rate and a state-funded credit of $230 for married couples filing jointly.[23] The credit is $115 for taxpayers filing single returns.

The Exemption

Implementation of the STAR exemption is a State-Local collaboration. Local assessors provide the exemption to eligible homeowners and then local school districts are reimbursed by the State for the lost revenue. By exempting part of an individual's home from the school property tax, the resident's net cash benefit is determined by multiplying their exemption amount by their local school property tax rate. For example, a $30,000 exemption and a 2 percent tax rate would yield a net benefit of $600.

There are two different STAR exemptions, a basic benefit which is available to all homeowners and an enhanced exemption that is for seniors who meet certain income requirements. The basic STAR benefit provides owner-occupied homes with a $30,000 school property tax exemption. The enhanced exemption provides a $56,800[24] school property tax exemption to seniors with incomes less than the STAR income standard ($67,850 for 2007 assessment rolls).[25] However, to account for regional differences in housing costs, exemption amounts are adjusted by a sales price differential in counties where the median[26] sales price exceeds the State median sales price. The sales price differential is calculated by dividing the three-year average county median value by the three-year average state median value.[27] However, the sales price differential only applies in Counties with higher than State median sales price - the benefit is not decreased in counties where the median value is less than the state median value. Therefore, counties with high median values are normalized to the same percentage of exempt value — 18 percent for the basic exemption and 30 percent for the enhanced exemption.

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[23] The NYCPIT credit was increased from $125 for married couples filing jointly to $230 as part of the SFY2006-07 Budget.

[24] The enhanced exemption amount was increased from $50,000 to $56,800 for SFY2006-07 as part of the budget. If no action is taken, the exemption will revert to $50,000 in SFY2007-08.

[25] The STAR income standard is grown annually at the same rate used by the United State Commissioner of Social Security for determining social security benefit increases. Section 425 - 4(b)(i)(B) of RPTL.

[26] County median is value at which half of homes are more expensive and half of homes are less expensive.

[27] For instance, in 2005 the three-year average median value in Westchester County was $501,000 and the statewide average was $168,700. Consequently, the sales price differential in Westchester County was equal to 501,000 divided by 168,700 or 2.97. The basic exemption was therefore $30,000 times 2.97 or $89,100.

The STAR real property tax exemption is administered differently in New York's five cities with fiscally dependent school districts. Since these cities do not have separate property tax levies for schools, a predetermined percentage of the total property tax levy is attributed to schools. In NYC, 50 percent of the property tax levy is attributed to education and 67 percent of property taxes are attributed to education in Buffalo, Rochester, Yonkers and Syracuse.[28]

The Rebate

Included in the SFY 2006-07 Budget was a STAR property tax rebate. Like the other pieces of the STAR program, the rebate was designed to provide property tax relief. However, instead of receiving savings by exempting a certain portion of a homeowner's property, the rebate provided a check to the property owner. Individual rebates were calculated by multiplying $9,000 by the tax rate in 2004-05. This amount was then grown by the sales price differential factor, if one exists. Those eligible for the enhanced exemption had their rebates grown by 67 percent. As part of the enabling legislation, the STAR rebates were set according to the 2004-05 tax rates. If no appropriation is made for the STAR rebates, a corresponding PIT credit will automatically take effect.

New York City Personal Income Tax (NYCPIT) Credit and Rate Reduction

With the creation of the STAR exemption, a personal income tax credit and rate reduction was enacted to account for the NYCPIT that supplements the NYC property tax. The NYCPIT benefit provides personal income tax relief to NYC residents via a state-funded 6 percent decrease in the NYCPIT rate and a state-funded credit of $230 for married couples filing jointly.[29] The credit is $115 for taxpayers filing single returns. Although phased-in with an increased benefit for seniors, the current NYCPIT benefit is the same for all taxpayers regardless of age or income.

Costs

In SFY 2006-07, STAR is estimated to have cost $4 billion. The table on the following page details the breakout of exemptions at the state level:

[28] Approximately 61% of property taxes outside NYC were for to education for local fiscal years ending in 2004 - http://www.orps.state.ny.us/about/2005SMP/chart05.htm.
[29] The NYCPIT credit was increased from $125 for married couples filing jointly to $230 as part of the SFY2006-07 Budget.

Table 23

Cost of STAR (Dollar Amounts in Millions)		
	Number of Recipients	Cost
Basic STAR	2,693,581	$1,864
Enhanced STAR	624,593	$759
NYC PIT Benefits (eligible)	3,200,000	$692
STAR Rebates (T&F, as of Nov.)	3,325,698	$673
STAR Total		**$3,988**

The increase in the STAR PIT credit for NYC for SFY 2006-07 will not affect state revenues until SFY 2007-08, but will cost an additional $212 million annually. If included in the SFY 2006-07 cost estimate, the STAR program will cost $4.2 billion.

Proposal

Included in the SFY 2007-08 Executive Budget is a proposal to increase the basic STAR exemption based on income. It would also increase the enhanced exemption and the New York City Personal Income Tax Credit. In changing the STAR program, this proposal would also repeal the STAR Rebate.

Basic Exemption Increase

For taxpayers with incomes of less than $80,000 in NYC, Nassau, Suffolk, Westchester, Rockland and Putnam Counties or less than $60,000 in the rest of the State, this proposal would increase the SFY 2007-08 basic STAR exemption by 80 percent. The basic exemptions will increase by 90 percent in SFY 2008-09 (from 2006-07) and by 100 percent in 2009-10 (from 2006-07). Therefore, the basic exemption amounts for taxpayers with incomes of less than $60,000 ($80,000 in the NYC-Metro Area) will be $54,000 in SFY 2007-08, $57,000 in SFY 2008-09 and $60,000 in SFY 2009-10 (see tables below).

Taxpayers with incomes in excess of $80,000 or $60,000, depending on location, will receive a lesser exemption increase according to a sliding scale (see tables below). For example, a homeowner outside the NYC-Metro Area with income of $90,000 would see a 55 percent exemption increase. Taxpayers with incomes in excess of $235,000 will see no increase in their STAR exemptions. The income brackets used to determine exemptions will be adjusted every year to account for growth in wages. The following tables outline how the Executive's STAR proposal will effect basic exemptions.

Table 24

Outside the New York Metro-Area			
Adjusted Gross Income from Two Years Prior	SFY 2007-08 STAR Increase	SFY 2008-09 STAR Increase	SFY 2009-10 STAR Increase
Less than $60,000	80% ($54,000)	90% ($57,000)	100% ($60,000)
$60,001 - $80,000	67.5% ($50,250)	75% ($52,500)	82.5% ($54,750)
$80,001 - $100,000	55% ($46,500)	60% ($48,000)	65% ($44,250)
$100,001 - $120,000	42.5% ($42,750)	45% ($43,500)	47.5% ($44,250)
$120,001 - $235,000	30% ($39,000)	30% ($39,000)	30% ($39,000)
More than $235,000	--	--	--

Notes: Growth rates are in comparison to exemptions in SFY2006-07. New exemption amounts are listed in parentheses. Also, income scales will grow according to growth in the wages. These exemption amounts will be increased by the sales price differential factor, where applicable.

Table 25

New York City Metro Area			
Adjusted Gross Income from Two Years Prior	SFY 2007-08 STAR Increase	SFY 2008-09 STAR Increase	SFY 2009-10 STAR Increase
Less than $80,000	80% (54,000)	90% ($57,000)	100% ($60,000)
$80,001 - $120,000	63% ($48,000)	70% (51,000)	76.5% ($52,950)
$120,001 - $160,000	46% ($43,800)	50% ($45,000)	53% ($45,900)
$160,001 - $235,000	30% ($39,000)	30% ($39,000)	30% ($39,000)
More than $235,000	--	--	--

Note: Growth rates are in comparison to exemptions in SFY2006-07. New exemption amounts are listed in parentheses. These exemption amounts will be increased by the sales price differential factor, where applicable. Also, income scales will grow according to growth in the wages. This region includes NYC, Nassau, Suffolk, Westchester, Rockland and Putnam Counties.

Enhanced Exemption Increase

In SFY 2007-08, this proposal would increase the enhanced exemption by 30 percent, from $56,800 to $73,800. The enhanced exemption would increase to $79,500 in SFY 2008-09 (a 40 percent increase over 2006-07). Exemptions will be increased by the consumer price index beginning in SFY 2009-10.

<u>NYC Personal Income Tax Credit</u>

The New York City Personal Income Tax (NYCPIT) credit for married couples who file joint returns will be increased from $230 to $300 in 2007, to $320 in 2008 and $340 thereafter. The credit for single filers will increase proportionately. The credit will not increase for taxpayers with incomes of $235,000 or more. The following table details the change in the NYCPIT benefit:

Table 26

New York City Personal Income Tax Credit		
Year	Married Couples Filing Jointly	Single or Married Filing Separate
2006 (Current Law)	$230	$115
2007	$300	$150
2008	$320	$160
2009	$340	$170

Note: Taxpayers with incomes in excess of $235,000 will not receive an increase in their credit. However, like the income brackets for the Middle Class STAR property tax exemption, the $235,000 income eligibility will increase according to increases in wages.

Administration

The proposed application and verification procedure for Middle Class STAR is very similar to how eligibility for the enhanced exemption is currently determined. Eligibility will be determined by the Department of Taxation and Finance (T&F). To receive an increase in their STAR exemption in SFY2007-08, a homeowner will have to submit an application to T&F. Using personal income tax data from two years prior, T&F will determine eligibility for individual taxpayers. Depending on income, taxpayers will be assigned to a specific income bracket or category. A list of taxpayers with their income category will then be transferred to the Office of Real Property Services (ORPS). ORPS will make the classifications of individual property owners available to the appropriate assessors. Assessors would then match income brackets, and hence exemption increases, with individual properties. If a property owner disagrees with their income classification, they will be able to submit an application to T&F for re-consideration until February 1 of the following year. If the taxpayer is still unsatisfied with T&F's finding, they can utilize an Article 78 proceeding.

In order to protect taxpayer privacy, the middle class STAR exemption amounts and individual tax liability will not be disclosed on the property tax roll. However, individual property tax bills will display the owner's income classification code, enabling such taxpayer to determine their middle class STAR exemption.

In future years, individual taxpayers will only have to file an application with T&F if ownership has changed. For taxpayers whose situations have not changed, determination of eligibility will be performed automatically. To participate, Basic STAR recipients will need to file an application with T&F by May 15, 2007 (May 25, 2007 if filing electronically). Failure to file an application will result in no increase in the STAR exemption. To encourage participation in the program, future applications for regular

STAR, which are submitted to the local assessor, will instruct the applicant how the apply for middle class STAR.

Fiscal Impact

The Executive estimates that this proposal will provide $1.5 billion in property tax relief in SFY 2007-08. When accounting for the STAR rebate repeal ($675 million), the middle class STAR proposal will save taxpayers $825 million.

Focus on Business Tax Changes

The Executive Budget

The Executive budget contains a number of proposed tax actions with an estimated revenue impact of $449 million in State Fiscal Year 2007-08 and $567 million in State Fiscal Year 2008-09. These proposals impact the tax planning strategies of multi-state general business corporations, banks, insurance companies, non-resident partners and wealthy personal income taxpayers. The Executive here is furthering recent work by the Legislature in addressing tax planning strategies employed in regard to passive investment companies.

Some tax strategies, because they adhere to the law, can be closed by changing the law. Other tax avoidance schemes are more nebulous in form and require a different response. So, the Executive budget has also proposed extending the tax shelter reporting provisions enacted in 2005 and scheduled to expire on July 1, 2007. These provisions target tax avoidance schemes that in many cases take the form of a valid business transaction but lack "economic substance." The reporting provisions bring to the attention of the Tax Department transactions that are possibly sham transactions undertaken primarily, if not exclusively, for tax-related reasons.

Tax Planning

Over the last three decades taxpayers, especially at the state level, have engaged in increasingly aggressive tax planning. Partially, this growth in exploitation may be tied to the rise of multi-jurisdictional corporations operating in many states and many countries. As illustrated above, operating in more than one jurisdiction opens up a range of tax planning strategies. Another factor is the increase in the relative significance of state taxes due to the Reagan reductions in federal business taxes. State taxes became in many cases larger than federal taxes and, since federal rates had gone down, were no longer as valuable as federal tax deductions. Whatever the reasons, state tax planning has grown exponentially in recent years with a corresponding negative effect on the State fisc.

As Judge Learned Hand once noted, a taxpayer "may so arrange his affairs that his taxes shall be as low as possible." In fact, exploiting a tax provision requires rigorous adherence to the letter of the law. For example, one of the Executive's proposals involves revoking the favorable tax treatment enjoyed by real estate investment trusts (REITs) that are subsidiaries of general business corporations and banks. REITs, which are essentially mutual funds investing in real estate, were created with two purposes: 1) to provide the small investor the opportunity to invest in large real estate projects and 2) to provide investment capital for real estate development. A recent Wall Street Journal article dated February 1, 2007, entitled "Wal-Mart Cuts Taxes By Paying Rent To Itself" details how Wal-Mart established its own REIT to own its stores and thus create state tax deductions (rental expense) for its retail subsidiaries. Wal-Mart carefully crafted the REIT to meet the statutory requirement of at least 100 shareholders by enlisting 100 Wal-Mart executives to own, without voting rights, about 1 percent of the REIT's shares.

Combination

Modern corporations often do business in many states and many countries. In addition, for a variety of tax and non-tax reasons, they often operate, not as a single corporation with many divisions, but as holding companies with many subsidiaries. As the PIC and REIT strategies illustrate, numerous tax planning strategies become available to the multi-jurisdiction business structured as a holding company with subsidiaries. This is especially true in New York whose general business tax excludes all subsidiary income. The legal form in which a company operates should not, however, mean that its tax liabilities are less than a taxpayer operating in another form. Requiring all affiliated companies that are in substance operating as one unitary business to file a combined return is one way to level the playing field between a company operating through divisions and one operating through subsidiaries. New York has long had a rule requiring such combined filing when there was distortion of income. The Executive Budget proposes that combined filing be required whenever there are substantial inter-corporate transactions between corporations with common ownership engaged in the same business.

Tax Loophole Glossary

The Governor has proposed various loophole closers. The glossary shown below is intended to aid in understanding the proposals.

- Combination: A combination filing requires that all companies with common owners in the same general business file as one universal company in order to capture the appropriate level of New York income, which conducts business through subsidiaries and affiliates.

- REIT/RIC: These are abbreviated entity names for a *Real Estate Investment Trust* and a *Regulated Investment Company* respectively. Generally, both entities are formed to make investments of particular assets, real estate for REIT and securities for RIC (e.g., mutual funds), and are generally not taxed at entity level provided that the income generated is distributed to shareholders.

- REIT/RIC favorable tax treatment: Corporate, Banks, and Insurance taxpayers in New York State are allowed a deduction of the REIT/RIC income, varying from 50, 60 and 100% of such income, from being subject to tax.

- Income Exporting through another entity: Income generated in New York is transferred to another entity through which the income would be paid as wages to such an individual by the entity. As a result, the income generated in New York State would not be subject to tax all together, even though the income was derived from New York State.

- Income Assignment: Income earned, instead of being subject to taxation in a current year, may be shifted to a New York corporation being subject to corporate franchise tax that imposes a favorable-lower tax rate on its investment.

- Bad debt (uncollectible funds) deduction: New York State offers a favorable tax debt deduction by permitting an additional amount of bad debt deduction based on a historical percentage of such loss.

- Formulary apportionment: To measure the income generated from New York State, New York measures such income based on a ratio of certain factors (wages, deposits and receipts) within New York over such factors everywhere. With respect to banks, the percentage at which wages represent is less fully counted in measuring the factors that the other two measures.

- Grandfathered Bank subsidiaries: Certain bank subsidiaries that have been permitted to be taxed under the corporate franchise tax in the past, instead of being taxed under the bank tax, due partially to deregulation of financial industries which were permitted to practice previously prohibited financial services.

- Corporate Reorganization: Generally speaking, corporations are permitted tax free reorganization of its corporate structures for various business reasons under the Internal Revenue Code. Acquisition, merger, sales of stocks, assets, etc. are generally permitted practice. However, such practice may be manipulated to reduce the appropriate income in New York for certain taxpayers such as bank subsidiaries discussed immediately above at a State level.

- Expenses deduction for earning Interest, dividends and gains: New York allows expense deductions incurred to generate interests, dividends, and gains for bank taxpayers.

- Decoupling deductions permitted under the Internal Revenue Code: Since New York State's starting income is the federally adjusted income, treatment on deductions permitted under the Internal Revenue Code are already deducted and subsumed in the starting New York State income. The domestic production deduction, enacted in the American Jobs Act of 2004 permitting a certain income derived from eligible activities, would reduce the taxable income for New York State significantly.

Governmental Funds

Financial Plan

New York uses a cash basis Financial Plan to report the amount of money that is collected and spent during the State fiscal year. Each year the Division of Budget develops a plan that shows proposed receipts and disbursements for the coming fiscal year. The plan is then submitted as part of the Executive Budget. It is revised subsequent to enactment of the budget to show the effect of the changes made by the Legislature to the Executive's original budget proposal. The plan is then updated quarterly to reflect actual experience and revised estimates.

The Financial Plan divides receipts and disbursements into different fund types. The General Fund is the fund into which most State taxes are deposited and from which State Operations and the state share of local grants are disbursed. The General Fund provides for funding to programs that are not supported by dedicated fees and revenues.

Programs that are supported by dedicated fees and revenues are funded from Special Revenue Funds. These funds are used to insure that monies are used solely for the purpose for which they are raised, or to insure that individual programs are self-supporting. Examples of such dedicated funding streams include the Environmental Protection Fund and the Dedicated Highway and Bridge Trust Fund. When Non-Federal Special Revenue funds, Capital, and Debt Service Funds are combined with the General Fund the total is known as State Funds.

Special Revenue Funds also contains Federal funds. State Funds and Federal Funds combine to produce an All Funds figure. The All Funds amount is usually reported as the State Budget total.

All Funds

All Funds includes All Governmental Funds receipts plus receipts made from non-governmental (Proprietary and Fiduciary) fund types. All Governmental Funds is a term referring to all State government funds within the following fund types: General, Special Revenue, Capital Projects, Debt Service and Federal Funds. Receipts in the All Funds encompasses areas such as Federal, Miscellaneous Receipts, taxes and fees.

Receipts on an All Governmental Funds basis for SFY 2007-08 are projected to be $119 billion, an increase of $5.7 billion or 5.1 percent over SFY 2006-07 estimates. The All Funds receipts increase is the result of a $3.2 billion increase in tax receipts, an increase of $1.4 billion in Miscellaneous Receipts and a $1.1 million increase in federal grants.

All Funds receipts for health and mental health programs are projected to increase by $1.3 billion, of this amount, $538 million is related to increased Federal Medicaid receipts; special revenue health receipts are projected to increase by $3 million over SFY 2006-07.

Transportation receipts are anticipated to be $6.5 billion, an increase of $209 million or 3.3 percent above SFY 2006-07 levels. Receipts dedicated for transportation are deposited into the Mass Transportation Operating Assistance Fund, the Dedicated Mass Transportation Trust Fund, the Dedicated Highway and Bridge Trust Funds and the Revenue Bond Tax Fund

General Fund

The Ways and Means staff projects that General Fund receipts would total $53.3 billion, an increase of $1.7 billion or 3.2 percent above SFY 2006-07 estimates, the result of decreases in Personal Income Tax of $240 million, Consumption Taxes increase of $325 million, Business Taxes increase of $396 million, Other Taxes decrease of $16 million and increases in Miscellaneous Receipts of $191 million.

General Fund receipts for health and mental health programs are projected to increase by $779 million over SFY 2006-07. Medicaid receipts are projected to increase by $286 million. Higher education is projected to increase by $231 million and education is projected to increase by $1.3 billion.

Environmental programs are anticipated to remain at prior year level. General Fund support for transportation is expected to increase by $42 million or 64.8 percent.

Special Revenues

State Funds, in addition to the General Fund, include non-federal Special Revenue Funds, Debt Service Funds, and Capital Project Funds. State Fund receipts are projected to be $81.6 billion, an increase of $4.5 billion or 5.8 percent above SFY 2006-07 estimates, and is the result of a $3.2 billion increase in tax receipts and an increase of $1.4 billion in Miscellaneous Receipts.

State Funds support for health and mental health programs are projected to increase by $16 million. Health Care Reform Act (HCRA) receipts are projected to decrease $12 million. Support for education is anticipated to increase by $1.1 billion.

State Funds Environmental programs are projected to decrease by $75 million. State Funds support for Transportation is anticipated to increase by $116 million or 2.5 percent.

Debt Service Funds

Debt Service Funds consists of dedicated fund tax receipts and miscellaneous receipts. The dedicated fund tax receipts consist of: the Revenue Bond Tax Fund (RBTF), the Clean Water/Clean Air Fund (CWCAF), and the Local Government Assistance Tax Fund (LGAC). Miscellaneous receipts consist of mental hygiene patient receipts, SUNY dormitory fees, health patient receipts and other receipts. It is anticipated that the debt service funds will increase by $1.4 billion or 11.2 percent for SFY 2006-07 to SFY 2007-08.

A statutory provision was established for the dedicated fund tax receipts. The RBTF is the cash behind the Personal Income Tax Revenue Bonds (PIT). The Fund receives 25 percent of all State personal tax receipts and they are pledged to pay the debt service for PIT bonds. The CWCAF receives all real estate transfer taxes in excess of deposits to the Environmental Protection Fund. These receipts are used to pay for the 1996 Clean Water/Clean Air general obligation bonds. The LGAC Fund was established to pay the debt service on finance payments to local governments previously financed by the State. The Fund receives one percent of all State sales and compensating use taxes.

The miscellaneous receipts are earmarked as a pledge for the bonds issued for Mental Hygiene facilities, Department of Health facilities and SUNY dormitories and general obligation housing bonds.

Capital Projects Funds

Capital Projects Funds consists of dedicated tax funds, miscellaneous receipts and federal grants. The dedicated funds, established by statutory law, are: the Dedicated Highway and Bridge Trust Funds (DHBTF) and the Environmental Protection Fund (EPF). Miscellaneous receipts consist of authority bond proceeds, State park fees, environmental revenues and other receipts. Federal grants receipts are usually received (reimbursement) after the State spends money pursuant to Federal government regulations. It is projected that the Capital Projects Fund will increase by $1.40 billion or 18.0 percent from SFY 2006-07 to SFY 2007-08.

The DHBTF receipts support transportation (including reconstruction), replacement, reconditioning, restoration, rehabilitation and preservation of State, county, town, city and village roads and aviation projects, matches Federal highway grants, snow and ice removal, acquisition of real property, bus safety inspection, rail freight facilities, intercity rail passenger facilities, State, municipal and private ports, ferry lines and debt service on DHBTF bonds.

The EPF receipts support the solid waste account, parks, historic preservation, recreation, and designated open space projects. Miscellaneous receipts are used in the capital projects fund to reimburse from authority bond proceeds (as statutorily required), and for deposits into the State Parks Infrastructure Fund and the Miscellaneous Capital Projects Fund (both finance State park system facilities), Environmental Protection Fund, Natural Resources Damages Fund, to support capital projects at State facilities, and to reimburse the State for other miscellaneous spending for transportation and environmental projects on behalf of municipalities, public authorities and private corporations.

Federal Grants are used under the Capital Projects fund to finance transportation (planning, engineering and construction projects), to support local wastewater treatment projects (the State's Revolving Loan Fund), rehabilitation of State armories, eligible housing programs and other environmental purposes.

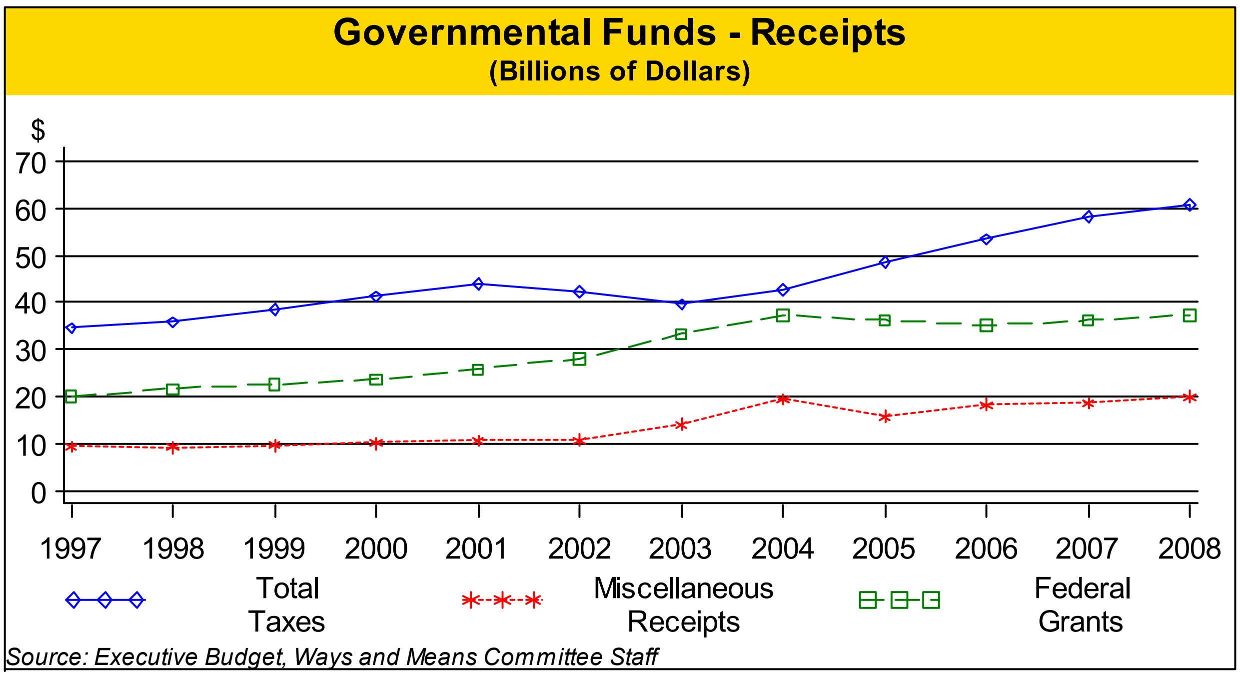
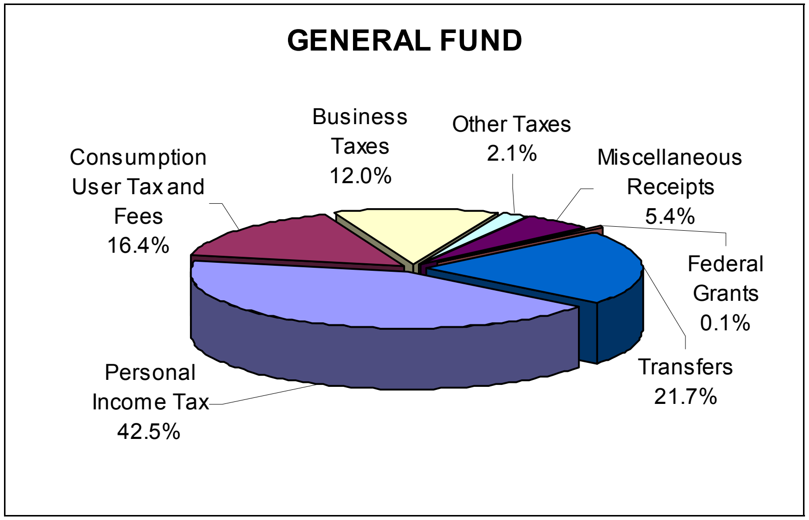


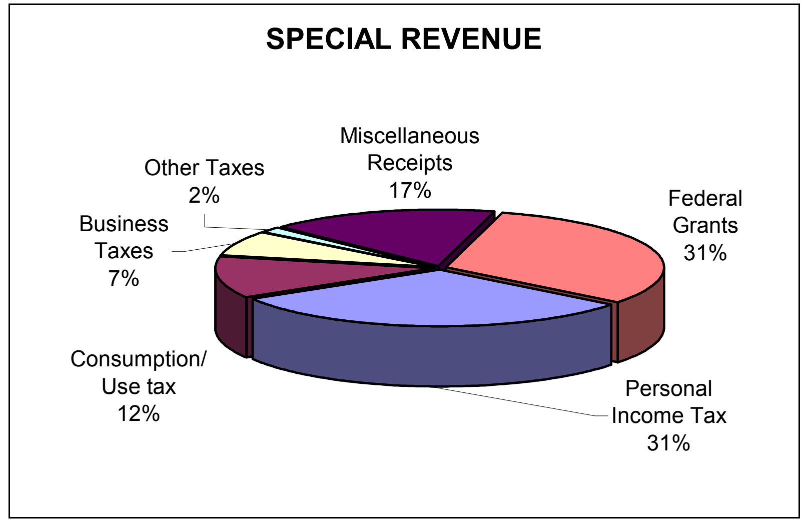
Figure 55

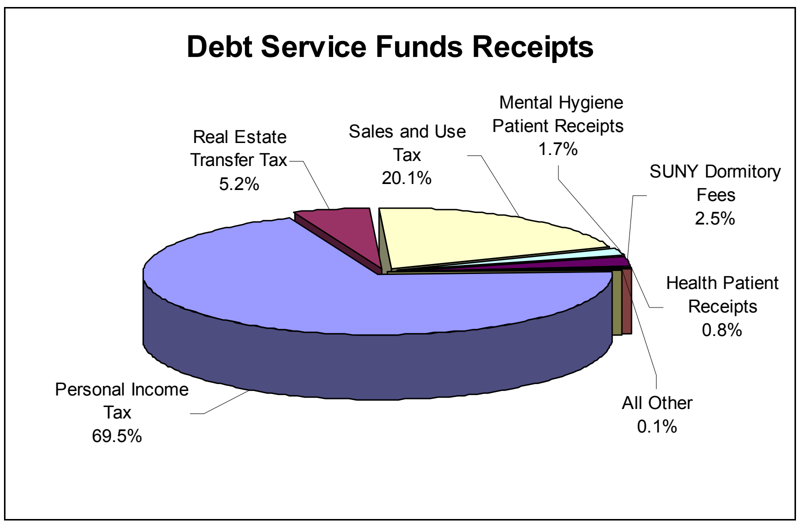
Table 27

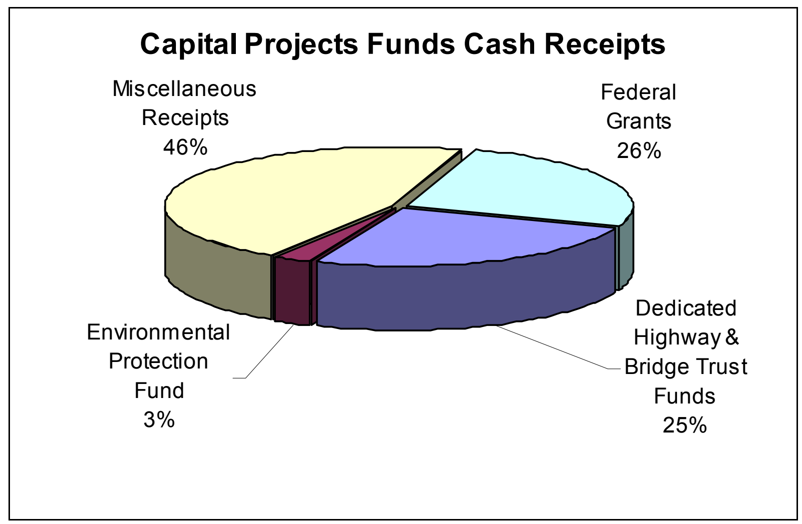
All Governmental Fund Receipts
SFY 2007-08
(Dollar Amounts in Millions)

	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
Personal Income Tax	**$ 22,650**	**$ 4,948**	**$ 9,199**	**$ -**	**$ 36,797**
User Taxes and Fees	**8,585**	**1,753**	**2,628**	**1,304**	**14,270**
Sales and Use Tax	7,884	736	2,628	-	11,248
Motor Fuel Tax	-	115	-	436	551
Cigarette Tax	452	651	-	-	1,103
Motor Vehicle Fees	-	252	-	662	913
Highway Use	-	-	-	159	159
Alcoholic Beverage Tax	201	-	-	-	201
Alcoholic Beverage Fees	48	-	-	-	48
Auto Rental Tax	-	-	-	47	47
Business Taxes	**6,452**	**1,465**	**-**	**668**	**8,586**
Corporate Franchise	3,795	500	-	-	4,295
Utility Tax	655	190	-	18	863
Insurance Tax	1,170	118	-	-	1,289
Bank Tax	832	134	-	-	966
Petroleum Business Tax	-	523	-	650	1,173
Other	**1,108**	**-**	**683**	**212**	**2,003**
Real Property Gains	1	-	-	-	1
Estate and Gift	1,085	-	-	-	1,085
Real Estate Transfer	-	-	683	212	895
Pari Mutuel	21	-	-	-	21
Other	1	-	-	-	1
Total Taxes	**$38,795**	**$8,167**	**$12,510**	**2,185**	**$61,656**
Miscellaneous Receipts	2,856	12,949	671	3,592	20,068
Federal Grants	59	35,256	0	1,996	37,311
All Governmental Funds	**$41,710**	**$56,372**	**$13,181**	**$7,773**	**$119,035**


GENERAL FUND
Business Taxes 12.0%
Other Taxes 2.1%
Consumption User Tax and Fees 16.4%
Miscellaneous Receipts 5.4%
Federal Grants 0.1%
Transfers 21.7%
Personal Income Tax 42.5%


SPECIAL REVENUE
Miscellaneous Receipts 17%
Other Taxes 2%
Federal Grants 31%
Business Taxes 7%
Consumption/ Use tax 12%
Personal Income Tax 31%


Debt Service Funds Receipts
Mental Hygiene Patient Receipts 1.7%
Sales and Use Tax 20.1%
Real Estate Transfer Tax 5.2%
SUNY Dormitory Fees 2.5%
Health Patient Receipts 0.8%
Personal Income Tax 69.5%
All Other 0.1%


Capital Projects Funds Cash Receipts
Miscellaneous Receipts 46%
Federal Grants 26%
Dedicated Highway & Bridge Trust Funds 25%
Environmental Protection Fund 3%

Source of Funds Analysis

Transportation Funds

Earmarked or dedicated revenues are an integral part of transportation financing. The long term nature of construction projects and the constant need for maintenance and safety repair require a long term commitment of funds.

There are four funds for dedicated transportation receipts to be deposited. They are the Mass Transportation Operating Assistance Fund, the Dedicated Mass Transportation Trust Fund, the Dedicated Highway and Bridge Trust Funds and the Revenue Bond Tax Fund.

The Department of Transportation (DOT) is responsible for the management of transportation program related to highways and bridges, transit, aviation, ports, rail and other modes. New York State currently plans to spend about $18.7 billion over the next five years in capital spending to operate, maintain and improve its highways and bridges, transit, aviation, ports, rail and other transportation system.

All Funds receipts dedicated for transportation are estimated at $6.3 billion in SFY 2006-07 and $6.5 billion in SFY 2007-08. Special Revenue Receipts dedicated for transportation purposes are $4.62 billion in SFY 2006-07 and $4.73 billion in SFY 2007-08. General Fund receipts estimated at $65 million in SFY 2006-07 and $107 million in SFY 2007-08.

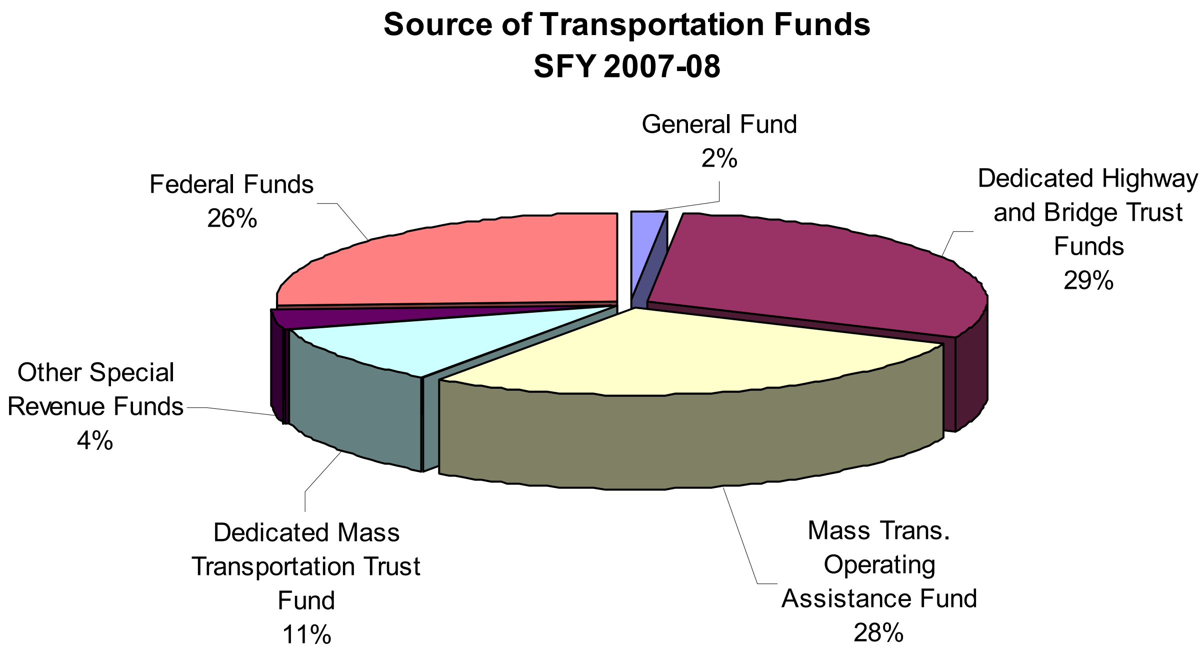
Mass Transportation Operating Assistance Fund

The Mass Transportation Operating Assistance Fund (MTOAF) was created by the Legislature in SFY 1981-82 to help finance State mass transportation operating systems, which at that time were experiencing operating deficits. Pursuant to section 88-a of the State Finance Law, the fund is subdivided into Public Transportation Systems and Metropolitan Mass Transportation Operating Assistance Accounts. The Mass Transportation Operating Assistance Account provides funding for the transit systems in the Metropolitan Transportation Commuter District (MCTD) and consists of revenues from the following taxes: the petroleum business tax (PBT); the MTA corporate tax surcharge; a 0.25 percent sales tax imposed in the counties that comprise the MCTD, and taxes imposed on corporation and utility companies. The Public Transportation Systems Operating Assistance Account is the funding source for all other transit systems, primarily upstate, and consists of receipts from a portion of the PBT and a portion of all transportation taxes and taxes imposed on corporation and utility companies.

The Executive estimates that $1.80 billion, in SFY 2006-07, and $1.82 billion in SFY 2007-08 will be dedicated to support the activities funded through the MTOAF.

Source of Transportation Funds
(Dollars in Millions)

	2005-06 Actual	2006-07 Estimated	2007-08 Projected	Change	Percent Change
General Fund	$152	$65	$107	$42	64.8%
Dedicated Highway and Bridge Trust Funds	$1,829	$1,886	$1,981	$95	5.0%
Mass Trans. Operating Assistance Fund	$1,586	$1,804	$1,822	$18	1.0%
Dedicated Mass Transportation Trust Fund	$645	$692	$696	$4	0.6%
Other Special Revenue Funds	$255	$244	$233	($11)	-4.5%
Federal Funds	$1,479	$1,644	$1,695	$51	3.1%
Total Transportation Receipts	**$5,945**	**$6,334**	**$6,533**	**$199**	**3.1%**



Source: Executive Budget and Assembly Ways and Means

Dedicated Mass Transportation Trust Fund (DMTTF)

The Dedicated Mass Transportation Trust Fund receives dedicated revenues from the PBT, motor fuel tax, and motor vehicle fees. Dedicated tax revenues deposited into the DMTTF are expected to total $692 million in SFY 2006-07, and $696 million in SFY 2007-08. The moneys of the DMTTF, pursuant to an appropriation, are used for the reconstruction, replacement, purchase, modernization, improvement, reconditioning, preservation and maintenance of mass transit facilities, vehicles, and rolling stock, or the payment of debt service or operating expenses incurred by mass transit operating agencies, and for rail projects.

Dedicated Highway and Bridge Trust Funds (DHBTF)

The DHBTF is the largest component of the State's Transportation Capital Program. The fund receives dedicated revenues from the PBT, motor fuel tax, highway use tax, motor vehicle fees, and the auto rental tax.

The moneys of the Fund are used to support transportation, including the reconstruction, replacement, reconditioning, restoration, rehabilitation and preservation of State, county, town, city and village roads, aviation projects, matching federal highway grants, snow and ice removal, acquisition of real property, bus safety inspection, rail freight facilities, intercity rail passenger facilities, state, municipal and private ports, ferry lines and a portion of operations cost. Payments from the Fund are also pledge to support the debt service on Dedicated Highway and Bridge Trust Fund Bonds with debt service coverage of two times the revenues to support debt service costs.

In SFY 2006-07 the fund is expected to receive $1.89 billion, and $1.98 billion in SFY 2007-08.

Education Funds

Education receipts include income received from the General Fund support, Lottery, other revenue streams and Federal grants. Total Education Receipts are estimated at $25.6 billion, an increase of $2.4 billion above SFY 2006-07

General Funds support for Education in SFY 2007-08 is estimated at $17.6 billion, an increase of $1.3 billion above SFY 2006-07.

Special Revenue Education receipts are estimated $4.3 billion, an increase of $1.1 billion above SFY 2006-07. The increase is attributed to $105 million increase in Lottery, $274 million increase in Other Education including VLT.

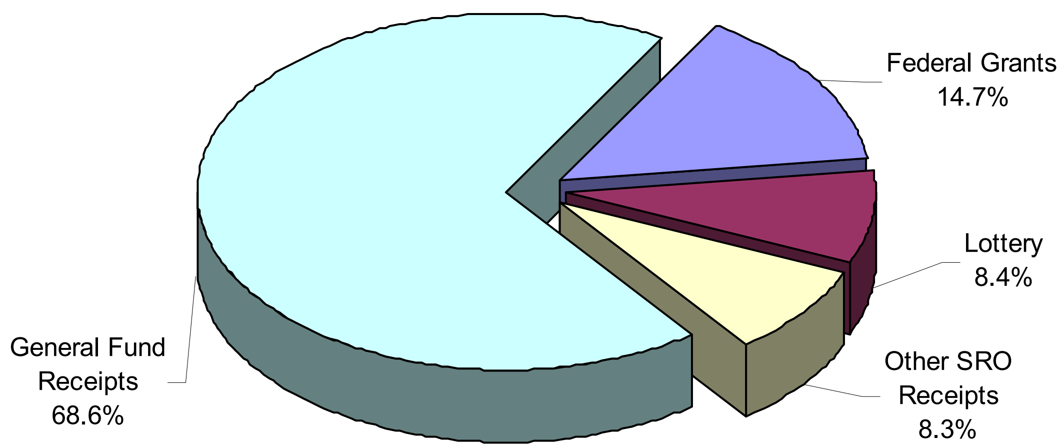
Capital Projects receipts are expected to be $1.5 billion, an increase of $672 million above the prior fiscal year. Debt Service is estimated at $58 million, $6 million above the previous fiscal year.

Federal grants are expected to be $3.8 billion, an increase of $53 million above 2006-07.

Source of Education Funds
(Dollars in Millions)

	2005-06 Actual	2006-07 Projected	2007-08 Estimated	Change	Percent Change
Federal Grants	$3,651	$3,720	$3,773	$53	1.4%
Lottery	$1,947	$2,035	$2,139	$105	5.1%
Other SRO Receipts	$217	$1,164	$2,115	$951	81.7%
General Fund Receipts	$15,004	$16,300	$17,559	$1,259	7.7%
Total Education Receipts	**$20,819**	**$23,218**	**$25,586**	**$2,368**	**10.2%**

Source of Education Funds
SFY 2007-08



Source: Executive Budget and Assembly Ways and Means

Health Care Funds

New York State Health Care All Funds receipts for SFY 2007-08 is estimated to total $43.2 billion, an increase of $1.3 billion above the previous fiscal year. Health care receipt support several programs of which Medicaid is the largest. The program coordinates the provision, quality and cost of care for its enrolled members.

The General fund support for Health care is estimated at $13.4 billion, an increase of $779 million above SFY 2006-07. Medicaid receipts in the General Fund is estimated at $8.9 billion, an increase of $286 million over SFY 2006-07; $171 million in Provider assessment, a decrease of $4 million below the previous fiscal year, $4.3 billion in other health receipts $498 million increase above the previous fiscal year.

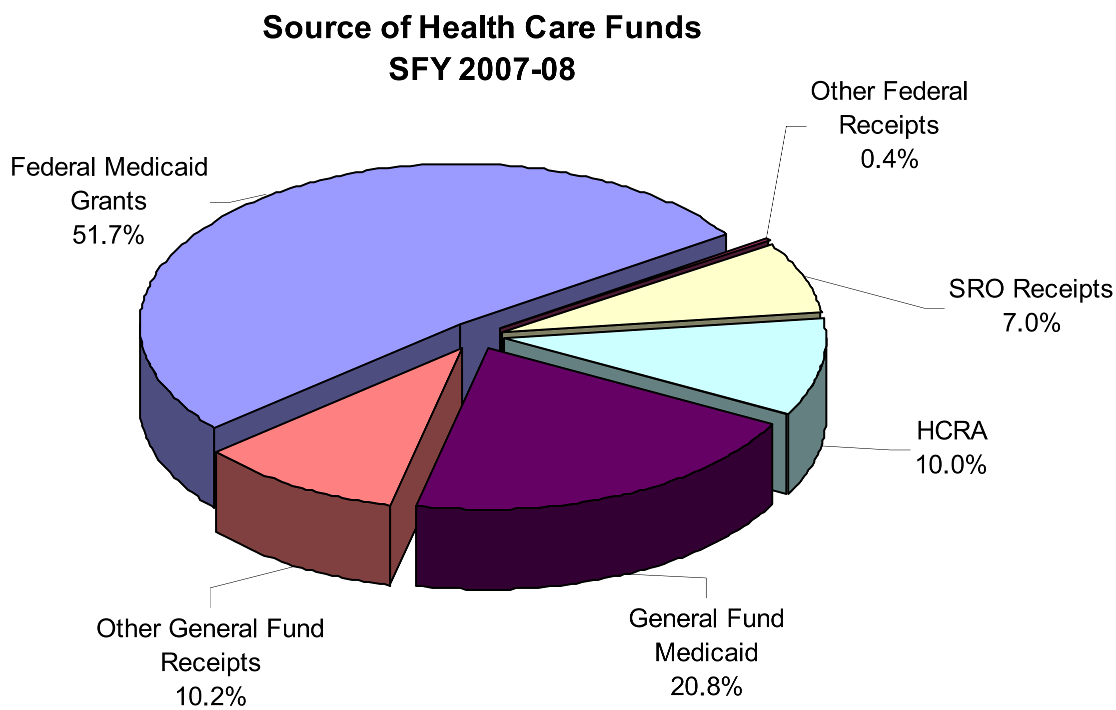
Special Revenue Health Care receipts in SFY 2007-08 are anticipated to increase $16 million above the previous fiscal year. HCRA is anticipated to receive $4.3 billion a decrease of $182 million below SFY 2006-07. Patient revenues are estimated to increase $58 million above the previous year.

Capital projects receipts are estimated to increase $169 above the SFY 2006-07 estimates. Debt service receipts remain at SFY 2006-07 levels.

Federal grants to the Health Care system are estimated at $22.5 billion, an increase of $540 million above SFY 2006-07. Federal Medicaid grants are estimated at $22.3 billion, an increase of $538 million above the prior fiscal year.

Source of Health Care Funds (Dollars in Millions)

	2005-06 Actual	2006-07 Estimated	2007-08 Projected	Change	Percent Change
Federal Medicaid Grants	$21,979	$21,797	$22,335	$538	2.5%
Other Federal Receipts	$170	$170	$172	$2	0.9%
SRO Receipts	$720	$2,818	$3,016	$198	7.0%
HCRA	$6,014	$4,484	$4,302	($182)	-4.1%
General Fund Medicaid	$8,291	$8,690	$8,976	$286	3.3%
Other General Fund Receipts	$3,422	$3,934	$4,428	$494	12.5%
Total Receipts	**$40,596**	**$41,893**	**$43,228**	**$1,335**	**3.2%**



Source: Executive Budget and Assembly Ways and Means

Health Care Reform Act (HCRA)

The State provides a variety of health care services such a Medicaid, Family Health Plus, Child Health Plus, Elderly Pharmaceutical Insurance Coverage, community based health care, and public health services like Early Intervention and General Public Health Works and Mental Hygiene.

Revenues to support HCRA includes surcharges and assessments on hospital revenues, proceeds from insurance company conversions, a “covered lives” assessment paid by Insurance carriers, a portion of cigarette tax revenues, and other revenues dedicated by statue.

The SFY 2007-08 Executive budget estimates HCRA receipts of $4.3 billion and projected fund balances of $887 million from SFY 2006-07 that will support $5.1 billion of HCRA expenditures.

Without the fund balances in SFY 2006-07, the HCRA program will not have sufficient receipts to fund estimated disbursements.

Conversion Proceeds

The projected HCRA fund balance from SFY 2006-07 is primarily due to receipts from conversions proceeds as a result of the merger of WellChoice and WellPoint. Under such merger, the state would have received $2.7 billion in cash and 27 million shares of WellPoint common stock. In SFY 2006-07 $1 billion, $500 in SFY 2007-08 million derived from conversion proceeds.

Surcharges

HCRA receipts for the surcharge on patient service revenues are $1.926 billion, an increase of $213 million.

Cigarette Taxes

Cigarette receipts are expected to be $651 million, an increase of $79 million above the SFY 2006-07 estimates.

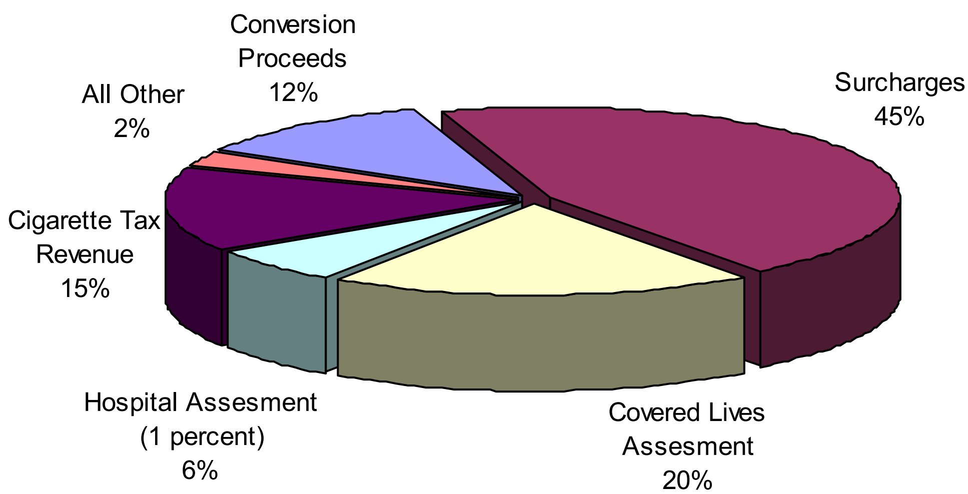
Covered Lives Assessments

HCRA receipts for the covered lives assessment on insurance companies and HMO’s are $850 million, an increase of $75 million.

Health Care Reform Act (HCRA) Receipts
(Dollars in Millions)

	2005-06 Actual	2006-07 Projected	2007-08 Estimated	Change	Percent Change
Conversion Proceeds	$2,743	$1,000	$500	($500)	-50.0%
Surcharges	$1,560	$1,713	$1,926	$213	12.4%
Covered Lives Assesment	$682	$775	$850	$75	9.7%
Hospital Assesment (1 percent)	$223	$248	$268	$20	8.1%
Cigarette Tax Revenue	$571	$572	$651	$79	13.8%
All Other	$235	$176	$107	($69)	-39.2%
Total Receipts	**$6,014**	**$4,484**	**$4,302**	**($182)**	**-4.1%**

Health Care Reform Act (HCRA) Receipts
SFY 2007-08



Source: Executive Budget and Assembly Ways and Means Committee Staff

Hospital Assessment (1 percent)

HCRA receipts for the one percent assessment on hospital inpatient revenues are $268 million, an increase of $20 million.

All Other

All Other HCRA receipts decline from $176 million to $107 million, a decrease of $69 million.

Future of HCRA Receipts

At the close of SFY 2007-08, HCRA will have a $52 million fund balance. It is anticipated that there will be an additional $850 million of Conversion proceeds deposited. The program remains financially solvent because HCRA receipts will be less than disbursements. Otherwise, HCRA will have operating deficits that would impair service obligations. HCRA expects a negative fund balance of $47 million in SFY 2008-09.

HCRA authority is set to expire June 30, 2007 unless renewed by the Legislature. Absent of Legislation to reauthorize HCRA, spending various programs such as Medicaid, public health care and mental health programs such as pharmacy costs, Family Health Plus, workforce recruitment and retention, Graduate Medical Education, hospital indigent care, Child Health Plus and Elderly Pharmaceutical Insurance Coverage, would be jeopardized.

Higher Education Receipts

Higher Education receipts include income received from tuition, fees, and patient revenues from the City and State University system, and the Higher Education Services Corporation. Total Higher Education Receipts are estimated at $8.5 billion, an increase of $676 million above SFY 2006-07

General Fund receipts for SFY 2007-08 are estimated at $3.7 billion, an increase of $231 million above SFY 2006-07. SUNY General Fund receipts of $1.8 billion, an increase $156 million above SFY 2006-07; $1 billion of CUNY receipts an increase of $58 million and $864 million HESC receipts an increase of $17 million above the previous fiscal year.

Higher Education Special Revenue receipts are estimated $4.6 billion, an increase of $424 million above SFY 2006-07. The change is attributed to $174 million increase in SUNY income which includes $95 million increase in tuition, $41 million increase in user fees, $58 million increase in patient revenues, $6 million increase in HESC $6 million, and $57 million increase in other receipts.

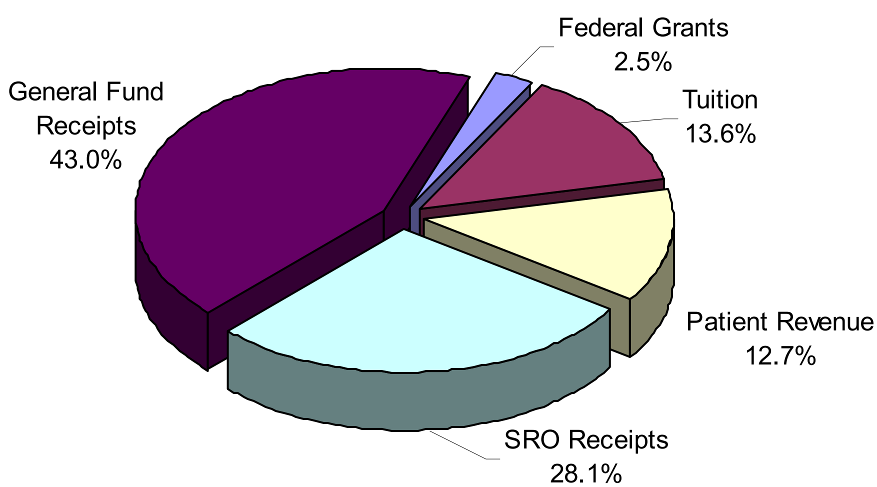
Capital Projects are estimated to be $1.1 billion, an increase of $171 million above the prior fiscal year. SUNY Dormitory fees which are pledge for debt service to the Dormitory Authority on bonds issued are estimated at $317 million, an increase of $9 million above SFY 2006-07, other Debt service receipts are estimated at $5 million, an increase of $1 million above the prior year.

Federal grants are expected to be $215 million, an increase of $21 million above 2006-07.

Source of Higher Education Funds (Dollars in Millions)

	2005-06 Actual	2006-07 Estimated	2007-08 Projected	Change	Percent Change
Federal Grants	$162	$194	$215	$21	10.8%
Tuition	$966	$1,066	$1,161	$95	8.9%
Patient Revenue	$957	$1,025	$1,083	$58	5.7%
SRO Receipts	$1,632	$2,128	$2,399	$271	12.7%
General Fund Receipts	$2,766	$3,442	$3,673	$231	6.7%
Total Receipts	**$6,483**	**$7,855**	**$8,531**	**$676**	**8.6%**

Source of Higher Education Funds
SFY 2007-08



Source: Executive Budget and Assembly Ways and Means Committee Staff

Environment Receipts

Environment receipts include income received from the General Fund, the Environmental Facilities Corporation and the Real Estate Transfer Tax Total Environment Receipts are estimated at $1.65 billion, a decrease of $75 million below SFY 2006-07.

General Funds receipts for SFY 2007-08 are estimated to remain at the same level as the previous year at $277 million.

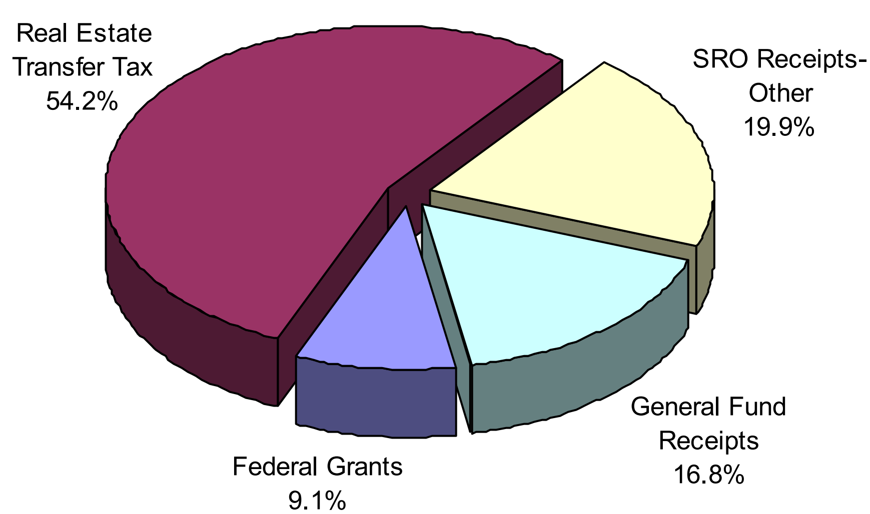
Environment Special Revenue receipts are estimated at $1.22 billion, a decrease of $75 million below SFY 2006-07. The Real Estate Transfer Tax receipts are anticipated to increase $65 million in the Capital Project Fund and decrease $137 million in the Debt Service Fund from the previous year.

Federal grants are estimated to be $150 million, an increase of $1 million above 2006-07.

Source of Environment Funds
(Dollars in Millions)

	2005-06 Actual	2006-07 Estimated	2007-08 Projected	Change	Percent Change
Federal Grants	$191	$149	$150	$1	0.5%
Real Estate Transfer Tax	$938	$967	$895	($72)	-7.4%
SRO Receipts-Other	$330	$332	$329	($3)	-1.0%
General Fund Receipts	$235	$277	$277	($0)	-0.2%
Total Receipts	**$1,694**	**$1,726**	**$1,651**	**($75)**	**-4.3%**

Source of Environment Funds
SFY 2007-08



Source: Executive Budget and Assembly Ways and Means Committee

Revenue Forecasting Methodology

Overview

The Ways and Means Committee revenue forecast is developed over the course of several months and is continuously revised as new information becomes available. First, a forecast of key national and State economic variables is produced by the Ways and Means Committee Economics staff. This forecast functions as an input for the Committee's econometric revenue forecasting models, which relate the economic data with the revenue collections data provided by the New York State Department of Taxation and Finance and the Office of the State Comptroller.

Once the forecast is complete, a draft report is presented before the Board of Economic Advisors and Ways and Means Committee members. The Board of Economic Advisors consists of a panel of experts in the field of economics and public finance. The committee staff revises its forecast to incorporate suggestions made by the panel and a final report is then prepared and presented to Members of the Assembly. This process is undertaken twice annually, six months into the State fiscal year and again in the last quarter of the State fiscal year. The forecast prepared in the last quarter of the fiscal year results in a publication, entitled, *New York State Revenue Report*, and serves as the Committee's review and analysis of the Executive's revenue forecasts that are released in conjunction with the Executive Budget.

The committee staff utilizes two distinct methods for forecasting revenues: 1) a current fiscal year "closeout", and 2) an econometric revenue forecast for the upcoming fiscal year.

Fiscal Year Closeout

The general closeout estimate uses a trending procedure, which compares the percentage of collections year-to-date to the percentage of collections through the same period of previous years, then projects year-to-date collections out to the end of the year. Closeout estimates are calculated using collection patterns for each of the last five years, and average collection patterns for the last three and five years. The trending procedure is supplemented with YTD collection analysis and actual collections are adjusted based on recent tax law changes and administrative changes to get an understanding of the underlying tax base.

Revenue Forecast:

The committee utilizes various econometric models to forecast revenues for the upcoming fiscal year. The models analyze the relationship between a range of economic variables and actual tax revenue collections over time and forecast that relationship going forward based on the Committee's economic forecast.

A brief description of revenue forecast methodologies for selected taxes is summarized below.

Personal Income Tax

Forecasting personal income tax receipts is a multi-step process that requires estimating personal income tax liability and the individual components of personal income tax collections. These components include withholding, estimated payments and settlements.

Tax liability is forecast from a stratified sample of the total number of tax returns. The most recent data is from 2004 and is a stratified sample of 242,485 tax returns. Forecasting the components of personal income tax is done econometrically. A maximum likelihood equation is used for withholding and estimated payments and a system of simultaneous equations is used to forecast settlements. The explanatory variables used in these equations are those which are strongly correlated with the component being forecast. Withholding is a function of wages and estimated payments are strongly correlated with capital gains income. The forecast for these components along with the forecast of personal income tax liability become inputs into the settlement model.

Sales and Use Tax

Forecasting sales tax receipts entails forecasting growth in the sales tax base and subsequently adjusting the forecast for legislative changes. Sales tax collections are forecast econometrically using three separate linear regression equations and averaging the results to produce a revenue forecast. Sales tax receipts are highly correlated with consumer expenditures on durable goods, disposable income and sales of automobiles and light trucks.

Cigarette and Tobacco Tax

Cigarette consumption for New York City and the rest of the State is the dependent variable in the cigarette tax model. The independent variables used in the model are seasonal dummies and the respective cigarette price in New York and the rest of the State. Forecasted consumption (the number of packs sold) is then multiplied by the New York State cigarette tax ($1.50 per pack) to estimate cigarette and tobacco tax collections. Tobacco tax collections are based on historical collection trends.

Corporate Franchise Tax

Corporate Franchise tax collections are forecast as a function of the profits from security firms, profits from non-finance corporations and corporate tax collections from one year prior. Corporate franchise tax collections are highly volatile from year to year due to the volatility in corporate profits and taxpayer behavior and most recently have been impacted by increased audit activity.

REVENUE ESTIMATING METHODS
REGRESSION ANALYSIS

Personal Income Tax

Withholding

Transformations

- Data are adjusted for tax law changes

Model (R^2=.997, DW=2.09)

Number of observations: 121

Dependent Variable: Log of withholding receipts

Independent Variables:

- Log of NY wages
- Dummies (bonus season, 1996 tax cut)
- Population
- AR correction

Estimated Payments

Transformations

- The data are adjusted for tax law changes

Model (R^2=.98, DW=1.89)

A maximum likelihood regression model is used with annual data.
Number of observations: 17

Dependent Variable: Level of estimated payments less extensions

Independent variables:

- NY capital gains
- Other Income
- Dummy for temporary tax increase years
- AR Correction

Corporate Franchise Tax

Transformations

- Data are adjusted for tax law changes

Gross Receipts Model Stats (R^2=0.89, DW=2.08)

Number of observations: 82

Dependent Variable: Log of Gross Receipts

Independent Variables:

- Log of security firm profits, lagged one quarter
- Log of non-finance firm profits, lagged one quarter
- Log of Gross Receipts, lagged one year
- Seasonal dummy
- Collection dummy for April-June 2005

MTA Receipts Model Stats (R^2=0.68, DW=1.82)

Number of observations: 66

Dependent Variable: Log of MTA Receipts

Independent Variables:

- Log of Gross
- ReceiptsSeasonal dummy

Bank Tax

Transformations

- Data are adjusted for tax law changes

Model Stats (R^2=0.57, DW=1.35)

Number of observations: 107

Dependent Variable: All Funds Net Receipts

Independent Variables:

- U.S. financial firm profits, lagged 1 quarter
- Dummies for recession and tax law changes

Insurance Tax

Transformations

- Data is adjusted for tax law changes

Model Stats (R^2=0.82, DW=1.94)

Number of observations: 80

Dependent Variable: All Funds Net Receipts

Independent Variables:

- NYS Insurance Premiums (from ARIMA Model)
- Various dummies (seasonal, tax law changes)

Corporation Utility Tax

Transformations

- Data is adjusted for tax law changes

Model Stats (R^2=0.97, DW=1.48)

Number of observations: 100

Dependent Variable: All Funds Net Receipts

Independent Variables:

- National personal consumption expenditures for telecommunications and electricity
- Utility tax collections. lagged one year
- Dummy variable for deregulation

Sales and Use Tax

Transformations

- Gross collections and MTA collections are adjusted for tax law changes
- MTA collections are seasonally adjusted

Models (Gross Collections)

- Number of observations: 61
- Output from the single equations are averaged

Consumption Eqn Model Stats (R^2=.998, DW=2.00)

Dependent Variable: Level of adjusted quarterly collections

Independent Variables: Level of consumer expenditures on durable goods (US); AR Terms

Income Eqn Model Stats (R^2=.998, DW=1.79)

Dependent Variable: Level of adjusted quarterly collections

Independent Variable: Level of disposable income (US); AR Terms

Auto Sales Model Stats(R2=.997, DW=2.09)

Dependent Variable: Level of adjusted quarterly collections

Independent Variable: Level of light vehicle auto sales (US); AR Terms

Models (MTA)

- Number of observations: 37
- Output from the single equations are averaged

Consumption Eqn Model Stats (R^2=.998, DW=2.14)

Dependent Variable: Level of adjusted quarterly collections

Independent Variable: Level of consumer expenditures on durable goods (US); AR Terms

Income Eqn Model Stats(R^2=.998, DW=2.10)

Dependent Variable: Level of adjusted quarterly collections
Independent Variable: Level of disposable Income (US); AR Terms

Cigarette And Tobacco Tax

- Separate models forecast State cigarette receipts from NYC and the rest of the State
- The forecast is combined to produce a State-wide forecast

Receipts in NYC (R^2=.91, DW=1.92)

Number of observations: 40

Dependent Variable: Log of Cigarette Consumption in NYC

Independent Variables:

- Log of average price of cigarette in NYC including tax
- Seasonal dummy
- AR Terms

Receipts for Rest of the State (R^2=.97, DW=2.17)

Number of observations: 40

Dependent Variable: Log of Cigarette Consumption in Rest of State

Independent Variables

- Log of average price of cigarette in rest of the State including tax
- Seasonal dummy
- AR Terms

Petroleum Business Tax

PBT Model Stats (R^2=.98, DW=2.1)

Dependent Variable: PBT collections

Independent Variables

- CPI fuel
- Dummy variables for rate increases, indexing, EFT collections, audits

Real Estate Transfer Tax

RETT Model Stats (R^2=.97, DW=1.9)

Dependent Variable: RETT collections

Independent Variables:

- Rental vacancy
- Real estate loans
- Housing starts
- Dummy variable for housing boom